



## WILL THE EQUITY BULL MARKET CONTINUE INTO 2014?

Equities remain supported by liquidity conditions although valuations are now more in line with long-term averages. Of course in 2014, markets will have to deal with the continued tapering of US QE. Economic performance will determine the strength of earnings and will result in some price volatility. Short-term interest rates are likely to remain low for an extended period.

### UPSIDE RISKS TO OUTLOOK:

- ECB policy becomes more accommodative.
- US corporate spending accelerates and boosts growth.
- Abenomics in Japan shows concrete progress.
- Economic data and earnings surprise on the upside.

### DOWNSIDE RISKS TO OUTLOOK:

- US bond yields have a material rise hampering growth.
- Economic momentum wanes leading to earnings disappointments.
- Deflationary worries emerge in Europe.
- Middle Eastern tensions resurface.

### HOW STRONG WILL THE ECONOMIC RECOVERY BE?

- Global economic growth is likely to pick up in 2014 with the Eurozone, Japan and Asia all trying to export their way to stronger growth.
- We expect stronger US economic growth as fiscal headwinds lessen.
- Inflationary pressures are likely to be contained in 2014.
- But deleveraging effects are still in place for peripheral European countries.

### EQUITIES REMAIN THE MOST ATTRACTIVE ASSET CLASS ON RELATIVE VALUATION GROUNDS

- On a price earnings basis, equity markets offer fair value albeit not as attractive as before.
- Consensus expectations are for 12% earnings' growth in 2014, which could lead to similar market returns for equities.
- Central bank policies continue to entice investors into risk assets.
- Japan could outperform on valuation and earnings grounds. The UK is hindered by its defensive make-up. Economically sensitive stocks should outperform.

### BOND YIELDS TO RISE MARGINALLY IN CORE EUROZONE

- Core Eurozone bond yields could increase by 50 bps in 2014. Many bond markets still look expensive.
- Measures to tackle the European sovereign debt crisis have seen peripheral bond yields move significantly lower during 2013. Similar reductions in yield spreads are less likely.
- Eurozone rates should remain low for an extended period.
- US and UK short-term rates are expected to remain at current emergency levels until at least 2015.

### NO COUNTRY WANTS A STRONG CURRENCY

- Expect no change in this stance during 2014.
- The Euro has been strong against the dollar due in part to a current account surplus. 2014 may see a stronger dollar.
- Increased supply from the US, and the Middle East will keep oil prices under pressure.
- Global economic conditions may add support to industrial commodity prices.

This outlook of potential investment market developments in 2014 does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

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