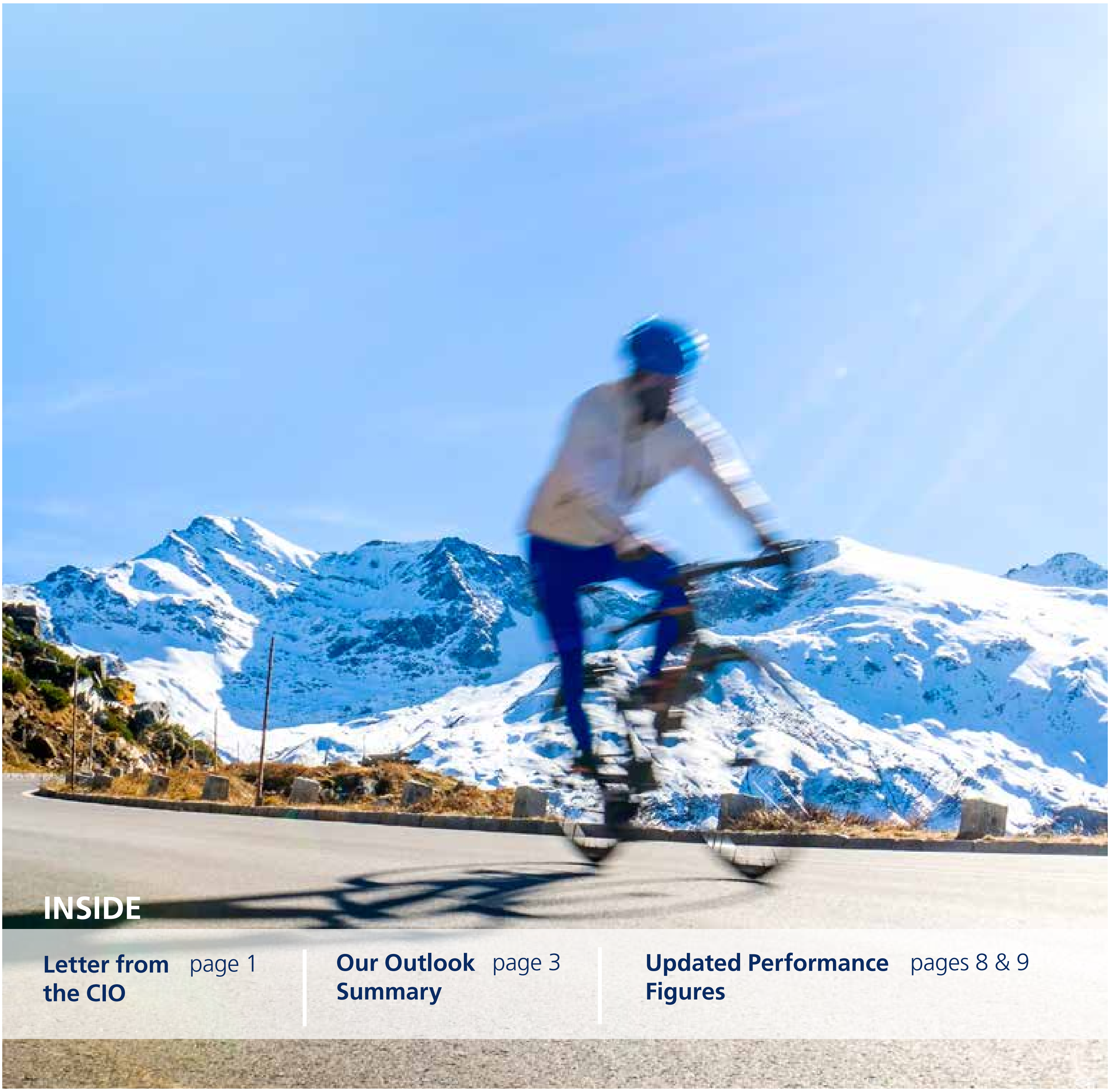
Zurich Investments

ZURICH

Is the cycle turning?

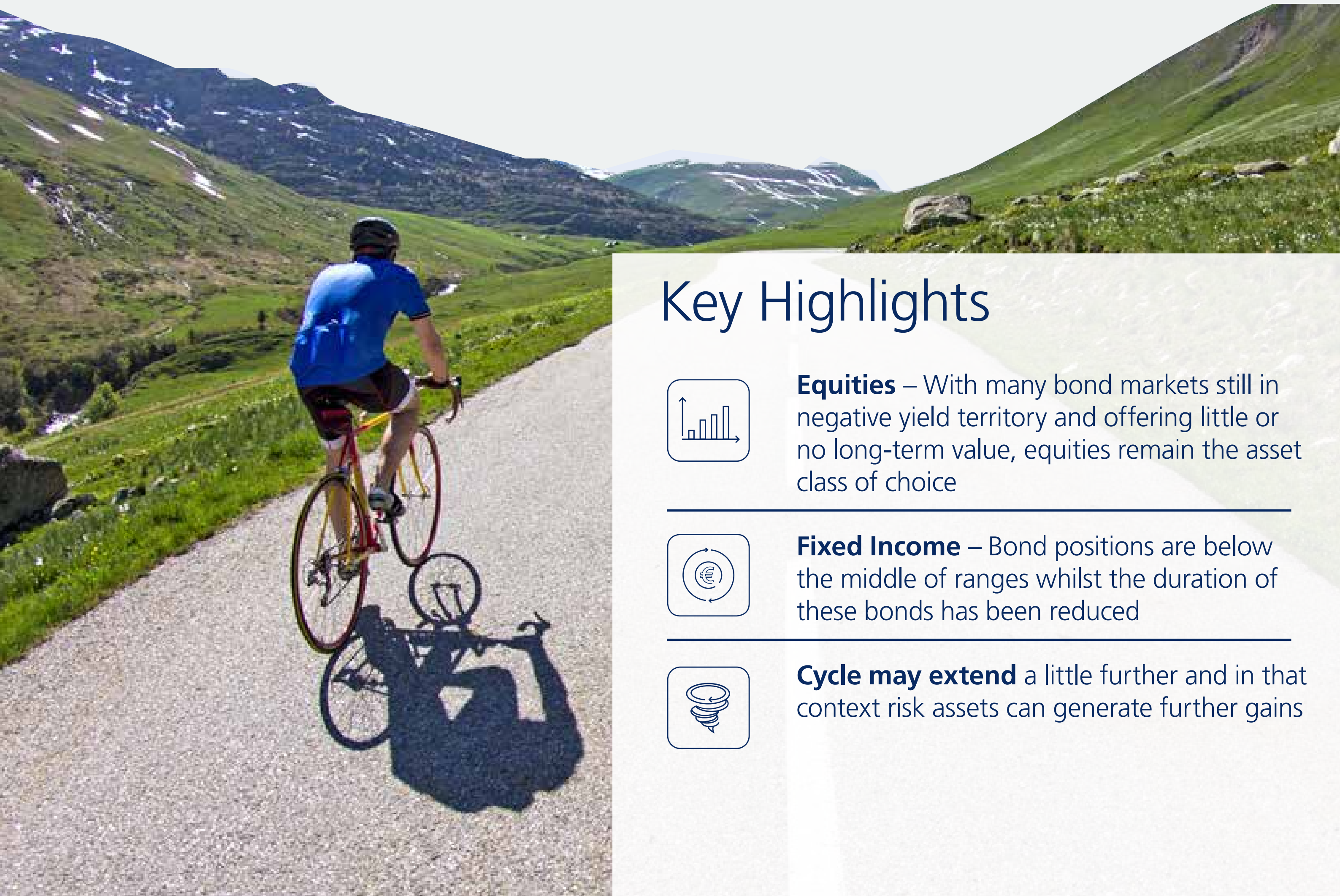
Investment Outlook 2020



INSIDE

World Review of 2019

Source: Zurich Life International Equity Fund



Key Highlights

Equities – With many bond markets still in negative yield territory and offering little or no long-term value, equities remain the asset class of choice

Fixed Income – Bond positions are below the middle of ranges whilst the duration of these bonds has been reduced

Cycle may extend a little further and in that context risk assets can generate further gains

Markets at a fascinating juncture with the main consideration for 2020 being whether the cycle will turn

Dear Investor,

As the title of this outlook suggests we are grappling with whether the economic cycle is turning. Not turning down, as you might think, but in fact turning up after a late cycle move lower, that we experienced during 2019. The economic cycle to date has been quite long but not particularly strong and was hurt by the negative trade developments in the past year. Any easing of these tensions – which we are seeing some signs of – is a positive. Furthermore longevity is not the factor that kills economic and asset cycles - typically it's driven by economies reaching over-capacity or policy settings becoming too tight and we don't really see those factors at play at the moment. So our bias is to think that the cycle can extend a little further and that in this context risk assets can generate further gains.

Whether we are right or not is one of the reasons we say that markets are at a fascinating juncture. The gains to all assets, especially to equities, outpaced most expectations in 2019, but as we enter 2020 investors still appear slightly cautious. Signs of exuberance are scant and as we said in previous outlooks this still feels like a pretty 'unloved' equity bull market as investors climb the so-called 'wall of worry'.

For us this is actually a positive and one of the factors that keeps us with a bias to risk assets. When we step back from sentiment and just look at the market trends themselves it seems to us that global, and especially U.S. equities, remain in a medium term bull market despite the risks that are present.

Some of those risks are new – the political landscape has changed materially in recent years and the consensus regarding global climate change is that risks are significant, and are ultimately being addressed too slowly. But many of the risks have been present for the past decade, emerging post the global financial crisis and are still being worked through without any neat solutions. High debt levels, the lack of a steady-state within the Eurozone, the extraordinary actions of central banks, and the issues of economic inequality are factors that continue to make many people concerned about the backdrop and how these risks might ultimately impact on economic growth, corporate profits and appetite for risk assets.

Some investors also worry that the extraordinary policy action has produced valuation extremes or even asset bubbles. In our assessment there are challenges in the valuations of sovereign bonds in the Eurozone and certain areas of the credit universe but regarding equities there is not a lot of evidence of extremes. Our starting point is to look at absolute valuations – and these are not excessive. And clearly when we look on a relative basis equities remain the most attractive substantial asset by far.

Risks are always present; our approach is be cognisant but not being in thrall to risks. We try to navigate rather than predict the markets, grounded in a strong assessment of the market backdrop and the stage of the economic cycle. That approach aims to keep us informed investors – not price followers – and able to adjust and respond to risks in a timely fashion.

As we enter a new decade, new risks may also emerge or existing risks become larger or attain a greater weight in investors' minds. Climate change is one of these and this has brought a spotlight on how investors can achieve impacts from the assets they manage. We have been working with Responsible Investment principles for several years now – incorporating them into our standard approach to managing equities – and you can read more about this in documents we have recently published. This is an area the Zurich Group feels strongly about and there are practical things that investors can do which – in collaboration with other stakeholders – can drive new behaviours and better outcomes.

But also as we enter this new decade there is a new technological revolution occurring, like nothing any of us have seen before. It can make us excited as consumers but uncertain as workers. It complicates the political environment and the job of central banks. It poses challenges but also opportunities for a whole host of companies that we invest in. It may ultimately help to address some of the climate risks we have carried forward from the last decade. It's going to be a fascinating journey.

David Warren
Chief Investment Officer

2019 – The Year in Review

Equities enjoyed a stellar start to 2019 and by Easter, had recouped nearly all the losses from the last quarter of 2018, justifying our decision to maintain a higher equity weighting in our funds as we entered 2019. Bond markets also enjoyed a strong positive year, as downward shifting interest rate expectations helped lift prices in the fixed income market. Easing monetary policy from both the Federal Reserve and the European Central Bank (ECB) had been a key theme in markets throughout the year, and helped spur U.S. equities to record highs in the last quarter of 2019. Slowing economic growth, trade tensions, and Brexit worries remain but the economy and equities have been generally on an upward trajectory over the last 12 months.

Equities had been lifted by reduced trade tensions, satisfactory economic growth, and lower interest rates globally, which saw some investors move into equities in search of higher returns. Geographically, in 2019, markets were led higher by the influential U.S. stock market, which is the largest in the world. The U.K. was the worst performing of the major markets for the year, albeit still in positive territory. The U.K. has been negatively affected by Brexit woes, which so far have not affected wider global markets. From a sector perspective, technology was the stand-out performer last year, up an impressive 48.9% in 2019. All other sectors are up over 20% bar energy, which suffered due to the lacklustre price of oil in the second half of the year.

Eurozone bonds underperformed equities in 2019, but had still shown strong positive returns of nearly 6.8% for the year. Fixed income markets were lifted by the marked turnaround in interest rate expectations. The ECB cut its benchmark rate from -0.4% to -0.5% in September and the eurozone looks set for a protracted period of negative rates with the reintroduction of Quantitative Easing. Additional monthly bond purchases in the ECB's programme, which had ceased at the end of 2018, were re-instated in November 2019 at a rate of €20 billion per month.

In June, the Federal Reserve in the U.S. cut rates for the first time in over 10 years, with further cuts also seen in September and October. Overall, interest rate rises do not appear to be on the agenda currently for any of the major central banks.

Commodities in general enjoyed a positive twelve months, as oil recovered alongside equity markets. Gold also enjoyed strong returns as investors utilised its status as a safe haven. Euro weakness improved returns for euro-based investors from holdings in virtually all other major markets; while Sterling was subject to heightened volatility due to Brexit uncertainty and the General Election held in mid-December.

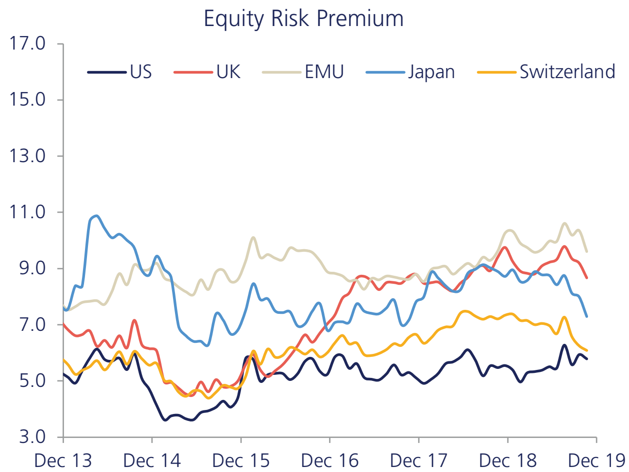
2020 – Our Outlook Summary

Equities continue to be our preferred asset class versus government bonds, corporate credit and cash. Most economic forecasts for 2020 foresee global GDP growth being much the same as 2019, which is likely to be slightly below long term averages. However, central bank action, combined with the ultra-low risk free rates, supports the case for favouring risk assets. There was weakness in 2019 in some leading economic indicators, most notably apparent in Manufacturing PMIs. However, these may have bottomed out and the case for continued economic expansion remains broadly intact. This could help to put a floor under corporate earnings and support further corporate capital expenditure, which in turn could lead to positive returns for equities. Employment markets, and therefore consumer expenditure, remains positive and provide a solid foundation for further economic growth.

We remain cautious in our outlook on eurozone sovereign debt. The low level of rates continue to make the long term return prospects unattractive. A path of tighter monetary policy was almost completely reversed in 2019 and the majority of global central banks are on a path of looser monetary policy, or a neutral stance at best. This is most notably apparent from the Federal Reserve and the European Central Bank, but it is a theme evident across the globe in a large number of smaller monetary jurisdictions.

As always, concerns remain in the global economy. Trade talks between the US and China will continue throughout 2020 and have the ability to move market prices and investor sentiment significantly in the short term. Trade disagreements between the US and the Eurozone could also emerge throughout the year. The US Presidential Election (and key Senate elections) will be held late in the year and are likely to dominate the newswires at various junctures.

We remain in a structural bull market for equities and have a broadly pro-risk stance as a result, but continue to emphasise a flexible approach to investment as volatility remains. We continue to have a preference for risk assets despite the fact that economic growth rates have been less robust than in previous cycles. We have reduced our equity holdings on a tactical basis at various points throughout the cycle, and will remain ready to do so in 2020. This has been a long, but relatively muted economic cycle without the consumer excesses of the past. We think that this could enable the current cycle to persist longer than many think. We are content to remain with the trend and hold a higher weighting of risk assets, as long as we believe we are being adequately rewarded.



Source: Thomson Reuters Datastream

For the Bulls:

- Positive resolutions to global trade disputes
- Economic growth surprises to the upside and returns to above trend levels
- Fiscal spending globally boosts spending and consumption
- Orderly Brexit resolution

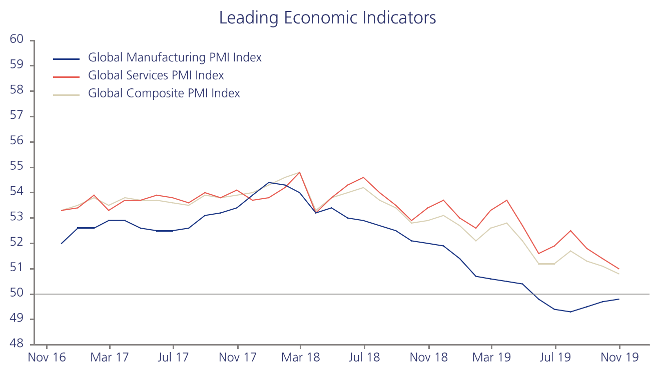
For the Bears:

- Trade disputes escalate and broaden, causing economic weakness
- Brexit falters and contagion spreads
- A negative reaction to the US election results
- Deterioration in corporate credit quality and corporate profit levels

Equities Outlook

Global Equities are not cheap by historical standards, and are currently trading on a multiple of 16 times versus a long term average of 15.5. However economic momentum has stabilised and while growth rates are below their mean, expectations for 2020 are for positive GDP growth (roughly 3%), whilst corporate earnings growth is currently forecast at roughly 9% for next year. Monetary policy remains accommodative globally and the concept of government stimulus in the form of expansive fiscal policy is being discussed. With bond yields still at ultra-low levels, relative valuations continue to favour equities over other asset classes.

As we enter 2020, our preferred geographical regions are Europe and the U.K. Eurozone equities continue to trade at a reasonable discount when compared with the US and monetary policy backdrop remains attractive. The potential earnings yield between equities and sovereign bonds makes eurozone equities an attractive proposition. A market friendly resolution to Brexit negotiations and a move towards fiscal stimulus could also help growth in the region. In the U.K., the victory for Boris Johnson and the Conservative Party helps the outlook for a Brexit resolution. Their 'pro-business' ethos has the potential to help businesses, and large UK domiciled names with domestic exposure liable to benefit.



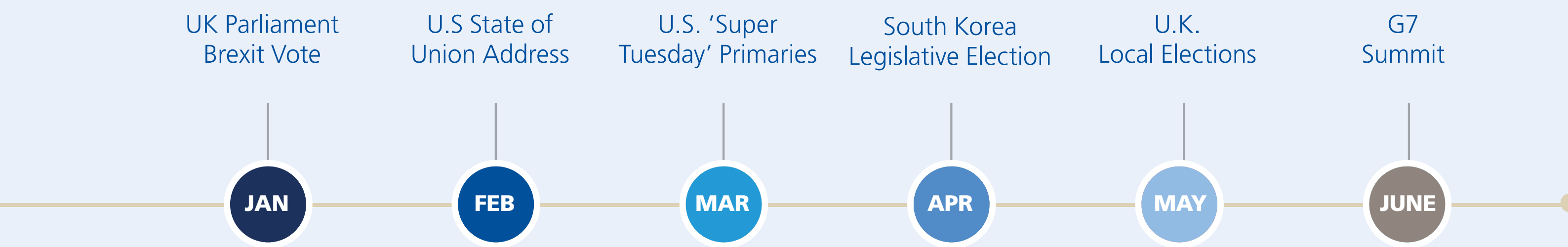
Source: Zurich, National Sources, Bloomberg

Our North America exposure includes an underweight allocation to the resource and bank heavy Canadian market, whilst our US exposure is neutral. The US election is an important event for 2020, and the US remains the most expensive market on a P/E ratio basis. To date this has been in part justified by the structural make-up of the market, which has a large exposure to the technology sector. Share buybacks are also a strong supportive feature of the US equity market.

Asia lagged global markets somewhat in 2019 as concerns regarding the unrest in Hong Kong and the US-China trade talks weighed on sentiment. A shift in the political climate in Hong Kong and a more optimistic outlook for China (via a trade resolution and the implementation of additional fiscal stimulus) could help equities in the region. Chinese growth prospects are likely lower than they have been previously in the cycle as the Chinese economy matures. We currently hold a relatively neutral allocation to Asian equities across our funds.

As with our geographical biases, our sector weightings are subject to change in the short term, but in general our bias continues to be more towards economically sensitive and structural growth areas. This would include technology and consumer discretionary goods. We also hold a bias towards healthcare stocks which could benefit from a more favourable political climate in the US. We would be more cautious towards defensive sectors, such as utilities, telecoms, and real estate.

Preview of 2020



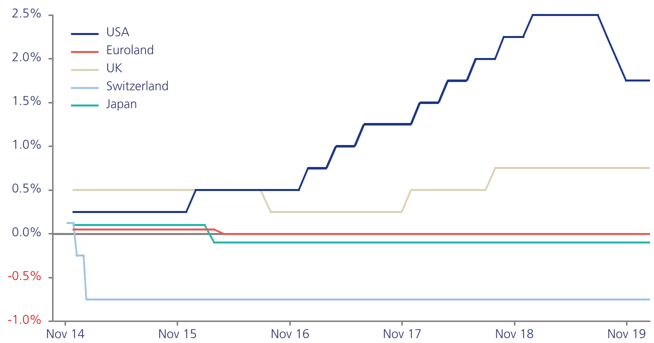
Fixed Income Outlook

The appointment of Christine Lagarde as the new President of the European Central Bank is likely to be seen as a continuation of the policies of Mario Draghi. In the final meeting of 2019 there was no change in policy, with rates kept on hold at a record low of -0.5%. Whilst the suggestion of positive rates is still not forecast in the short term, Lagarde has signalled that she is open to discussions on how the ECB shapes the monetary policy in the single currency bloc into the future. Calls for fiscal stimulus, or government spending, in Europe are also growing but any such developments are in their infancy. Any fiscal expansion in Europe, including Germany, is likely to be implemented on the back of climate change and green agendas.

US interest rate expectations remain subdued going into 2020, as the Federal Reserve completed a remarkable U-turn during 2019. Having opened the year with the prospect of raising interest rates, the Fed went on to cut rates a number of times and reiterated at their December meeting that it would need to see a material change in the outlook to adjust rates from here. The three cuts seen in 2019 from the Federal Reserve are broadly being viewed as a 'mid-cycle adjustment' rather than anything more serious. Whilst the formal Quantitative Easing programme has concluded, the world's most powerful Central Bank was active in the overnight 'repo' market in the second half of 2019, and remains a key influence on interest rate expectations, and therefore the price of fixed income instruments into 2020. Central Banks remain sensitive to financial market and risk asset developments.

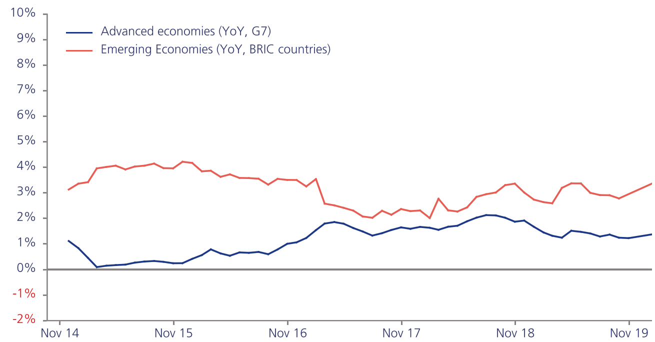
Overall, monetary policy globally remains accommodative given the perceived fragile nature of the global economy. With this backdrop the prospect of a significant and sustained rise in sovereign bond yields (and therefore falling bond prices) remains unlikely. However, valuations remain unsupportive of most European fixed income as a long-term investment. Although price action was positive in 2019, we maintain that the risk / reward backdrop is now skewed towards a cautious outlook for bond markets.

Central Bank Rates - Advanced Economies

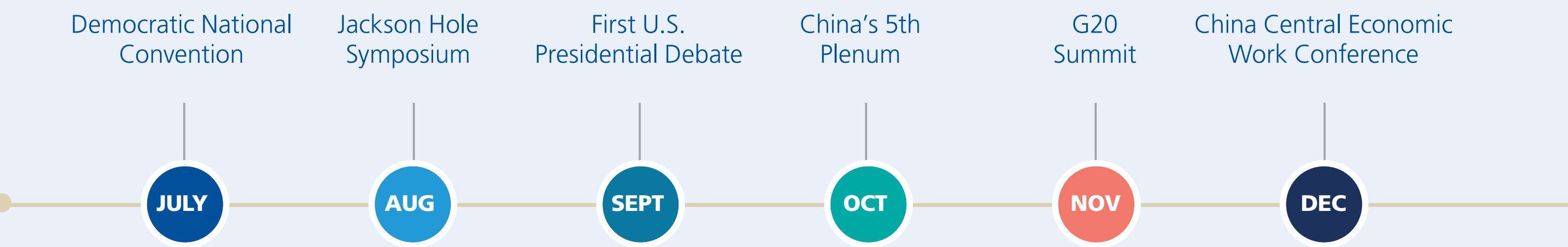


Source: Various Central Banks, Datastream

Headline Inflation



Source: Zurich, National Sources, Datastream



Commodities and Currencies

The U.S. dollar strengthened further against the euro in 2019, moving from 1.14 at the start of the year to 1.12 at the end of December. This has served as a tailwind for euro investors with holdings in U.S. assets. A positive interest rate differential for the U.S. over Europe has supported the USD move. This interest rate differential could continue to drive USD performance in 2020. Sterling has fluctuated strongly throughout the year with both the euro and U.S. dollar as the outlook for Brexit, and therefore the U.K. economy, shifted considerably. The Pound rose significantly against both currencies during the last quarter of the year on the expectation and ultimately the delivery of a strong Conservative majority in Westminster. There may be pent up demand for domestic U.K. assets, provided the Brexit negotiations come to a satisfactory conclusion.

2019 was a volatile but ultimately range-bound year for oil prices. Early optimism eroded as demand faltered. OPEC and partners extended production cuts into a fourth year and non-OPEC supply growth came through in earnest with the ramp up of Brazil and Norway, with the debate continuing on U.S. shale. Geopolitical risk re-emerged but ultimately had a short-lived impact on prices, and balances are pointing once again to a small oversupply in 2020. There are concerns about the longer term structural demand for oil given the development of Electric vehicles and ESG themed investment. In the shorter term developing economies such as India and China are increasing their consumption of oil.

Gold, in euro terms, was broadly flat for the first few months of the year before enjoying a significant spike in price over the summer. The precious metal's status as an uncorrelated safe haven has proved attractive during this period of geopolitical uncertainty. In addition, negative yielding bonds continue to drive demand for alternative investments, such as gold. Overall returns in commodities benefitted from the weakening euro currency.

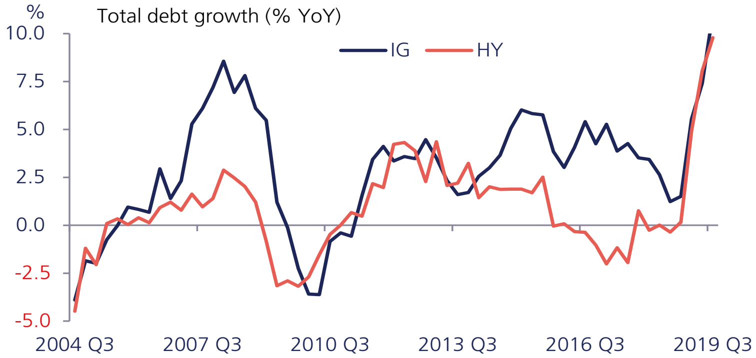
Credit Outlook

Driven by the dramatic shift in the global monetary policy stance led by the US Federal Reserve, credit had a strong performance in 2019. Performance was front loaded to the early part of the year. Credit returns are likely to be more muted in 2020 and evolving fundamentals combined with rich valuations could lead to a shift towards capital preservation. Corporate debt levels are extended, as cheap borrowing costs has led to the erosion of balance sheet quality, even as equity investors are rewarded through buybacks, M&A activity and dividends.

The proportion of earnings used to service debt interest has been rising, despite low interest rates globally. A higher interest burden could have profound impacts on investment grade quality debt, and early signs of this have been seen in lower quality segments of the market. Default rates have the potential to pick up throughout 2020, particularly if corporate earnings fail to meet expectations.

Credit has the propensity to underperform later in the economic cycle, as tighter spreads provide less protection for credit investors. We are cautious of longer duration corporate debt and weaker segments of the credit universe, particularly as the 'search for yield' extends lower in terms of credit quality. However, we remain broadly constructive towards investment grade, shorter duration credit particularly as an alternative to sovereign bonds.

Corporates are on a debt binge



Source: ZIG, Bloomberg Note: Average of US and European median non-financial corporate debt growth, excluding commodity sectors.

Responsible Investment with Zurich Life

Zurich Insurance Group is committed to investing responsibly and is a signatory to the United Nations Principles for Responsible Investment. As an investment manager, Zurich Life in Ireland is conscious of the need to ensure that we invest policyholder and shareholder funds responsibly. For us, responsible investment is grounded in an economic approach and is all about 'doing well and doing good'.

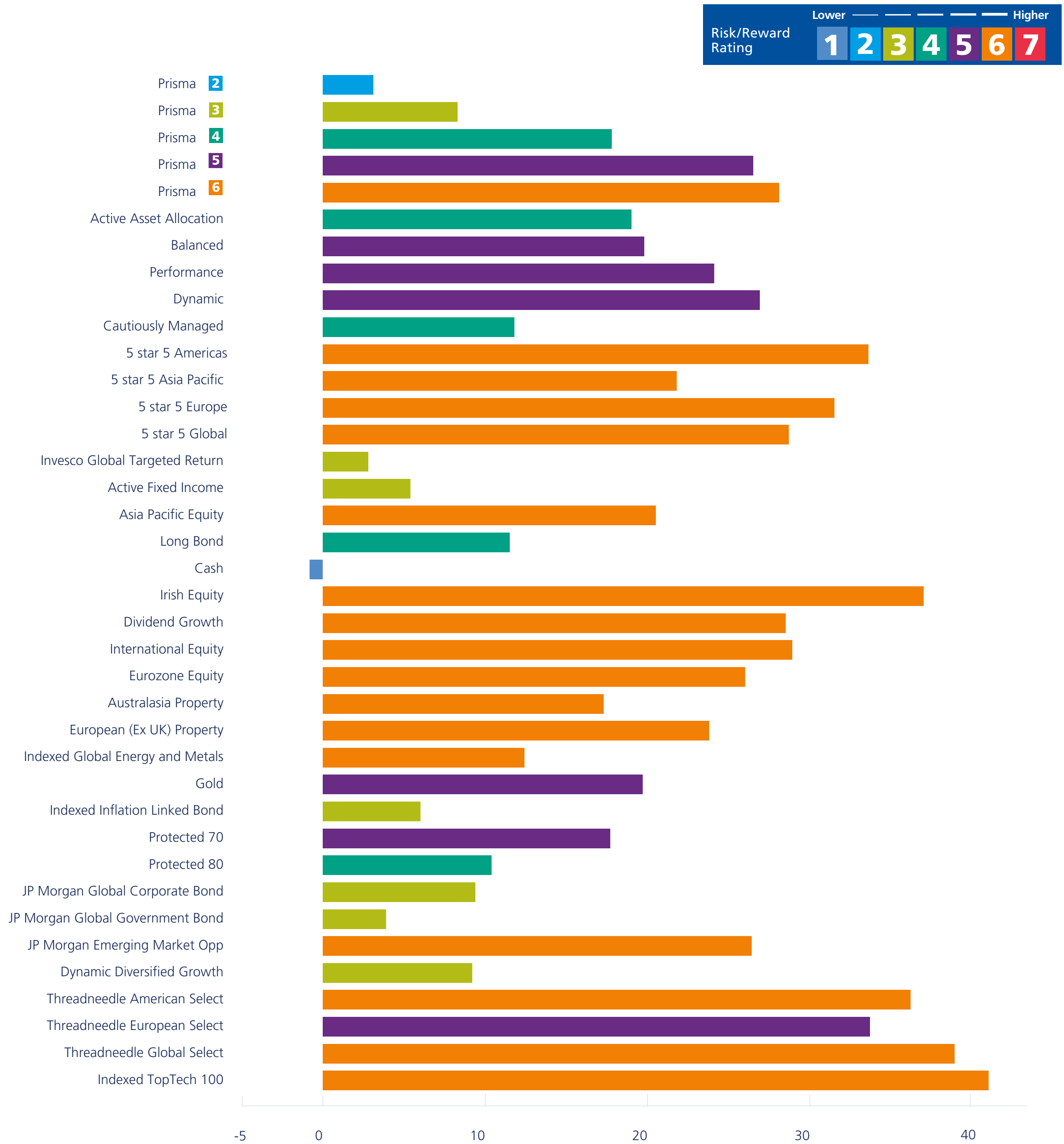
'Doing well' reflects a belief that being a responsible investor through integrating Environmental, Social and Governance (ESG) factors into our investment process can also create financial value, i.e. better investment returns. On a day-to-day basis, these are issues that we explore when we meet with investee company representatives. We also engage with the companies we invest in by voting on key management resolutions which we view as an important part of being an active, rather than passive, owner of assets. This should help to promote sustainable investment and longer term investment returns to the benefit of all stakeholders.

'Doing good' means that through our investments we can have a positive impact on society and the environment. We consider that positive impact as non- financial value; value that cannot be directly or immediately translated in dollars and cents. Active ownership helps to make it clear that non-financial metrics are part of our assessment of a company's performance and allows us to encourage those companies.

For more information on Responsible Investment with Zurich Life please do not hesitate to get in touch or log on to www.zurich.ie/responsibleinvestment

2019 Performance

Delivering Positive Returns



Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund. ESMA Ratings as at 30/09/19.

Source: Zurich Life as at 31/12/19.

Warning: Past performance is not a reliable guide to future performance.
Warning: The value of your investment may go down as well as up.
Warning: Benefits may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

Calendar Year Performance since 2009

The Benefits of Diversification

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Prisma 2	3.1	-1.3	0.3	1.6	1.0	3.3					
Prisma 3	8.3	-2.4	2.2	4.1	2.6	7.1					
Prisma 4	17.8	-4.6	5.7	8.5	4.9	14.2					
Prisma 5	26.5	-6.2	7.7	11.3	6.2	16.0					
Prisma 6	28.1	-5.4	8.7	9.8	7.9	7.4					
Active Asset Allocation	19.0	-4.9	5.9	8.1	4.9	14.6	3.9	10.5	-1.8		
Balanced	19.8	-3.6	6.3	6.7	10.0	15.3	16.1	13.1	-2.0	11.1	22.3
Performance	24.1	-4.3	8.3	6.9	10.9	16.1	17.2	12.6	-2.4	11.4	25.8
Dynamic	26.9	-4.9	8.8	7.4	11.8	15.8	19.0	13.1	-3.4	12.9	28.1
Cautiously Managed	11.8	-2.6	3.9	5.1	6.3	18.6	6.7	12.3	3.6	5.3	12.7
5★5 Americas	33.6	1.5	2.1	14.1	11.8	28.8	24.7	10.2	-0.9	14.7	11.1
5★5 Asia Pacific	21.8	-10.8	23.8	10.4	5.7	9.2	2.6	16.7	-8.5	6.9	47.3
5★5 Europe	31.5	-12.2	16.4	4.8	17.5	8.6	23.6	28.8	-8.0	6.4	28.7
5★5 Global	28.7	-6.3	11.6	4.5	13.3	13.3	17.6	16.2	-6.4	12.3	18.0
Invesco Global Targeted Return	2.8	-5.2	-0.1	2.1	1.6						
Active Fixed Income	5.4	0.4	-1.1	4.7	1.0	20.3	2.4	12.8	6.5	1.0	4.2
Asia Pacific Equity	20.5	-8.7	21.8	11.4	0.8	10.5	1.6	19.6	-9.8		
Long Bond	11.5	1.3	-1.7	6.3	1.8	28.2	1.5	14.6	6.3	1.3	3.2
Cash	-0.8	-0.9	-0.8	-0.8	-0.5	-0.3	-0.4	-0.5	0.4	-0.2	0.1
Irish Equity	37.0	-19.2	8.7	-0.8	38.5	16.0	33.7	19.6	5.5	1.1	27.1
Dividend Growth	28.5	-10.8	3.1	17.3	6.0	18.0	20.1	18.9	0.0	19.1	28.0
International Equity	28.9	-5.5	9.3	10.0	10.7	17.7	20.6	13.5	-3.7	16.9	26.0
Eurozone Equity	26.0	-12.1	14.3	5.0	11.7	4.3	25.5	24.0	-12.9	7.7	32.3
Australasia Property	17.3	2.7	3.5	11.0	2.4	26.1	-10.3	34.5	-14.9	28.2	68.1
European (Ex UK) Property	23.8	-6.6	14.4	3.9	16.6	20.6	3.8	24.5	-13.2	20.9	36.5
Indexed Global Energy and Metals	12.4	-4.1	-5.7	21.5	-20.2	-12.4	-5.3	-2.9	0.5	16.4	18.0
Gold	19.7	3.0	-2.6	12.3	-2.3	12.8	-31.4	3.4	14.0	35.4	
Indexed Inflation Linked Bond	6.0	-2.2	0.6	3.4	0.1	4.6	-4.4	10.3	-1.8		
Protected 70	17.7	-6.1	4.7	1.4	6.4	10.4	13.1	7.5	-6.5		
Protected 80	10.4	-5.1	2.2	-0.3	4.2	7.1	9.3	4.4	-5.6		
JP Morgan Global Corporate Bond	9.4	-5.2	3.5	3.2	-0.7	7.2	-0.2				
JP Morgan Global Government Bond*	3.9	-1.0	0.1	1.3	0.6	8.1	-0.8				
JP Morgan Emerging Market Opp	27.6	-9.7	28.6	17.1	-11.5	12.5					
Dynamic Diversified Growth	9.2	-4.4	6.8	-2.5	-1.7	5.1	5.9	6.4			
Threadneedle American Select	36.2	-1.3	6.3	17.5	9.9	21.3	24.5	15.0	5.3	20.6	31.7
Threadneedle European Select	33.7	-11.0	13.9	0.1	13.9	12.9	15.7	26.4	-1.1	26.1	29.9
Threadneedle Global Select	38.9	-7.5	14.1	9.0	12.1	17.1	20.0	13.8	-5.5	22	27.3
Indexed TopTech 100	41.0	3.9	15.9	9.8	21.4	34.7	29.9	15.5	6.2	27.6	49.1

Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

Source: Zurich Life as at 31/12/19.

* Performance using the most recent data.

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Create tailored portfolios

Zurich has a range of **tools and supports** to help you on your investment journey.

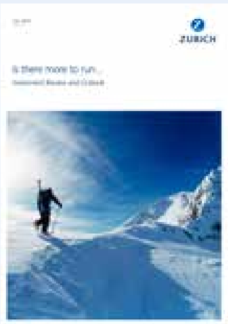
Our Risk Profiler tool is designed to assist you in understanding your attitude to risk. This is an important step before making an investment decision.

Zurich's Portfolio Builder helps you work with your financial broker to create an investment portfolio that is tailored to your individual risk profile and financial needs.

Keep track of your investments and pensions with the secure dashboard.

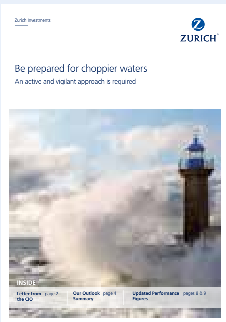
The Zurich Investment Outlook is produced twice yearly by the team at Zurich Investments, based in Dublin, Ireland. This publication provides an in-depth insight into our current thinking and positioning, and expands on the reasons behind our economic views to our clients and customers.

TALK TO YOUR FINANCIAL BROKER OR VISIT OUR WEBSITE AT ZURICH.IE

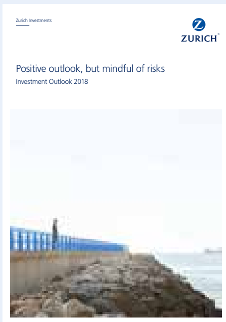


H2 2019

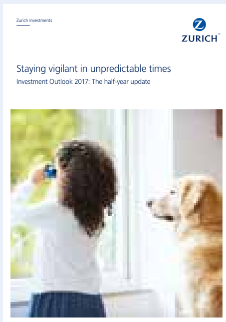
H1 2019



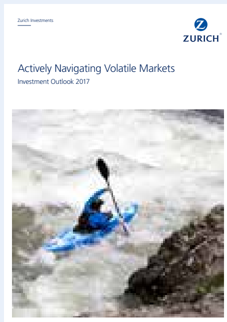
H2 2018



H1 2018



H2 2017



H1 2017

Zurich Life Assurance plc
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