

# Monthly Investment Review


**ZURICH**®


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The resilience of global equity markets, and especially the US, in response to the news that the US would impose tariffs of 10% on \$200bn of Chinese goods suggests that investors are more focussed on fundamentals such as the global macro and earnings outlook. In addition, there is no significant price pressure with well anchored inflation expectations. These factors are still supportive for risk assets. For example, US weekly jobless claims are at a 48-year low whilst small business confidence is at an all-time high. The S&P500 index has gained 9.0% so far this year in local currency terms (more in euro terms) and reached an all-time high during September. Rising US interest rates, with an eighth move in the Fed Funds rate since the cycle turned and the US 10-year Treasury yield moving above 3%, are, however, becoming more of a concern. Further volatility in equities should not be ruled out.

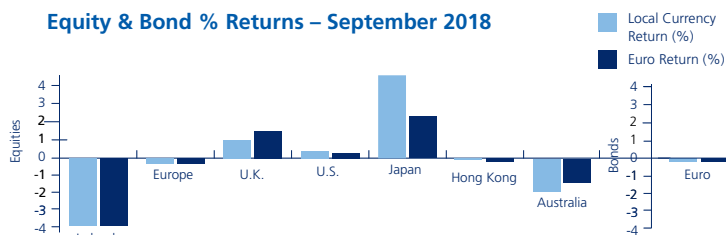
## Equity Markets

- World equities (in euro terms) rose by 0.8% in September and have given a total return of 8.4% during the first nine months of 2018, with almost all of the gains driven by the US which represents 56% of the global equity market. International returns for eurozone investors have been enhanced during 2018 by some euro currency weakness. Local currency returns in September for the major markets ranged from plus 4.7% in Japan to minus 3.7% in Ireland. Year-to-date, the best performing markets have been the US (+9.0%) and Australia (+2.3%); the worst being Ireland (-7.3%) as well as the various Chinese markets, including Hong Kong (-7.2%), on the back of the trade tensions.
- Regarding sectors in the US, there was no clear distinction between economically-sensitive cyclical areas and defensive areas over the month with the exception of the newly created Communications Services sector which rose by 4.3%. This sector includes some of the star performers of recent times - Netflix, Google and Facebook. Year-to-date, however, cyclical stocks have by and large outperformed led by technology (+19.5%) and consumer discretionary (+19.5%), whilst consumer staples (-5.5%) are at the bottom of the league table. These large divergences give active managers, like Zurich, the opportunity to outperform.

## Bonds & Interest Rates

- The Over Five Year Euro Government Bond Index fell by 0.2% in September, giving a return for the first nine months of the year of minus 0.2%. Italian bonds rebounded somewhat during September (+2.3%) following its battering the previous month. Year-to-date, most eurozone bond markets are in positive territory with the major exception of Italy (-5.8%).

### Equity & Bond % Returns – September 2018



This graph shows the performance of the major equity markets over the month of September. The returns are shown in both local and euro currencies. The bond index is the Merrill Lynch Over Five Year Euro Government Bond Index. Source: Bloomberg, October 2018.

- The German ten-year bond yield rose during September, moving from 0.33% to 0.47%. The yield began the year at 0.43%. Equivalent US rates moved from 2.86% to 3.06%, having begun the year at 2.41%.
- The Federal Reserve, as expected, increased short rates to a range of 2% to 2.25% at its meeting on 26th September, the eighth rise since the cycle turned. The Fed dropped language saying that 'the stance of monetary policy remains accommodative'. One more rate rise is projected for December with three more in 2019. Eurozone rates are likely to remain at current ultra-low levels for at least 12 months. The Bank of England increased UK rates on 2nd August from 0.50% to 0.75%, the second move since its cycle turned in November 2017. Rates are not expected to increase again until Q2 2019.

## Commodities & Currencies

- Commodity prices were mixed in September with energy commodities rising 5% and non-energy commodities falling 1.9%. Agricultural prices remained weak (down 2.7%), led by a 5.3% drop in grains. Precious and base metals fell around 1%. The overall commodity index is up 1.1% in dollar terms year-to-date.
- The oil price rose again during the month and is now up over 22% so far this year. The price has been particularly strong for the last twelve months on the back of strengthening demand and the recent re-imposition over sanctions on Iran. The gold price fell almost 1% during the month finishing at \$1,191 per troy ounce. Copper rose by 5.9% during September but is down 15% year-to-date.
- The euro currency was virtually unchanged against the US dollar during the month with the EUR/USD rate steady at 1.16. It began the year at 1.20.

## Activity

Equity positions are towards the upper end of ranges in all of the multi-asset portfolios. Despite some increased levels of risk, Zurich remains constructive on equities in general although some profits may be taken before the end of the year. With regards to geographic positions, the main bias is towards Asia-Pacific and Japanese equities. The US and Europe are now close to neutral whilst an underweight position is held in the UK. Sector positions were broadly maintained during the month. The funds are positively biased towards technology and healthcare stocks and negatively biased towards financials, industrials and real estate. Bond positions are towards the bottom of ranges whilst the duration of the remaining bonds is low. Towards the bottom of ranges whilst the duration of the remaining bonds is low.

Asset Class		Positive	Neutral	Negative
Equities	North America			✓
	Europe		✓	
	Japan	✓		
	UK			✓
	Asia-Ex Japan	✓		
Fixed Income	Eurozone			✓
	US		✓	
	UK		✓	
Currencies	USD		✓	
	GBP		✓	
	YEN		✓	
Alternatives	Oil		✓	
	Gold	✓		
	Copper	✓		
	Global Property		✓	
	Soft Commodities	✓		

		Annualised						
	Year to Date	1 Year	3 Years	5 Years	10 Years	15 Years	20 years	Fund Size (Euros)
Prisma Multi-Asset Funds								
Prisma <b>2</b>	0.1%	0.6%	0.8%	N/S	N/S	N/S	N/S	190,566,603
Prisma <b>3</b>	1.3%	2.7%	2.9%	N/S	N/S	N/S	N/S	842,360,806
Prisma <b>4</b>	3.2%	6.5%	6.7%	N/S	N/S	N/S	N/S	1,014,236,062
Prisma <b>5</b>	4.3%	8.9%	9.3%	N/S	N/S	N/S	N/S	427,930,625
Prisma <b>6</b>	6.8%	11.0%	11.2%	N/S	N/S	N/S	N/S	41,725,640
Managed Funds								
Cautiously Managed	3.0%	4.9%	5.0%	7.8%	7.3%	N/S	N/S	459,233,918
Sector Average	0.0%	1.7%	3.6%	4.0%	4.2%	3.7%	3.6%	
Balanced	5.3%	7.7%	7.9%	9.7%	8.6%	7.8%	6.1%	1,744,824,402
Sector Average	1.3%	4.1%	5.7%	6.8%	6.4%	5.3%	4.5%	
Performance	6.8%	9.9%	9.6%	10.9%	9.2%	8.3%	6.3%	1,408,159,347
Dynamic	7.5%	10.9%	10.5%	11.5%	9.6%	8.7%	6.4%	1,634,430,839
FinEx Sector Average	2.7%	5.8%	7.4%	7.7%	7.0%	5.6%	4.9%	
Protected Funds								
Protected 70	4.1%	6.3%	4.8%	6.3%	N/S	N/S	N/S	20,697,100
Protected 80	2.0%	3.2%	2.2%	3.7%	N/S	N/S	N/S	34,663,805
Protected 90	-1.4%	-1.6%	-1.2%	0.1%	N/S	N/S	N/S	10,225,658
Cash								
Secure	0.0%	0.0%	0.0%	0.0%	0.3%	1.1%	1.7%	226,353,528
Cash Fund	-0.7%	-0.9%	-0.8%	-0.7%	-0.3%	N/S	N/S	623,639,629
FinEx Sector Average	-0.5%	-0.6%	-0.3%	-0.1%	0.4%	1.0%	1.5%	
Bond								
Global Corporate Bond (JP Morgan)	-3.7%	-3.0%	1.1%	2.1%	N/S	N/S	N/S	10,045,318
Global Government Bond (JP Morgan)	-2.0%	-1.7%	-0.3%	1.6%	N/S	N/S	N/S	988,268
Indexed Eurozone Government Bond (BlackRock)*	-1.0%	-0.7%	0.4%	3.2%	N/S	N/S	N/S	6,296,178
Active Fixed Income	-0.3%	-0.1%	1.2%	5.0%	5.8%	5.2%	5.5%	162,305,200
Inflation-Linked Bond	-1.3%	0.4%	1.1%	1.3%	N/S	N/S	N/S	7,592,624
Long Bond	0.0%	0.8%	1.5%	6.7%	6.7%	5.9%	N/S	52,892,108
FinEx Sector Average	-1.1%	-0.2%	1.5%	3.5%	4.3%	3.8%	4.2%	
Absolute Return/Diversified Assets Funds								
Global Targeted Returns Fund (Invesco)	-2.4%	-3.1%	-0.1%	N/S	N/S	N/S	N/S	86,770,330
Dynamic Diversified Growth (BlackRock)	0.7%	1.7%	2.0%	2.2%	N/S	N/S	N/S	15,608,721
Active Asset Allocation	3.7%	7.3%	6.9%	7.8%	N/S	N/S	N/S	370,019,575
Commodity Funds								
Gold	-5.6%	-6.3%	0.2%	0.1%	N/S	N/S	N/S	125,071,955
Indexed Global Energy and Metals	2.8%	7.7%	1.8%	-4.0%	-6.4%	N/S	N/S	13,440,296
Equity Funds (Global)								
5 Star 5	7.4%	13.0%	10.8%	11.2%	7.8%	8.2%	N/S	215,554,232
International Equity	7.4%	11.6%	11.8%	12.4%	10.2%	9.0%	7.7%	1,834,399,626
Global Select (Threadneedle)	8.6%	14.1%	13.4%	13.9%	11.2%	9.7%	N/S	6,709,506
Indexed Global Equity (BlackRock)*	8.3%	12.3%	11.8%	12.5%	N/S	N/S	N/S	102,948,203
FinEx Sector Average	5.4%	9.7%	10.1%	9.6%	8.9%	7.0%	5.2%	
Equity Funds (European)								
5 Star 5 Europe	0.1%	2.1%	9.3%	11.2%	9.1%	N/S	N/S	114,823,498
European Select (Threadneedle)	3.2%	3.1%	6.8%	9.6%	11.5%	10.0%	N/S	10,675,286
FinEx Sector Average	0.9%	1.6%	6.7%	7.6%	7.7%	7.6%	6.5%	

Source: Financial Express as at 1/10/2018

Annual management charges (AMC) apply. The fund returns shown are net of the AMC deducted by each provider in their unit prices. This will vary for each provider, and any difference will impact the relative performance of the funds shown. The fund returns are based on an investment in the funds and do not represent the returns achieved by individual policies linked to the funds. These fund returns may be before the full AMC is applied to a policy. The actual returns on policies linked to the specified fund will be lower because of the effects of charges and in some cases a higher management charge.

\* Performance using most recent data available.  
N/S = Not Started.

Figures highlighted in blue indicate where the Zurich Life fund has outperformed the sector average.

<b>Equity Funds (Euro)</b>								
Eurozone Equity	0.5%	0.4%	8.8%	8.8%	8.4%	9.6%	N/S	88,458,799
Indexed Eurozone Equity (BlackRock)*	-0.2%	-0.5%	8.2%	7.6%	N/S	N/S	N/S	8,203,140
Sector Average	-0.2%	-0.1%	7.5%	7.3%	6.6%	6.1%	4.6%	
<b>Equity Funds (Irish)</b>								
Irish Equity	-4.0%	-2.3%	5.1%	11.7%	9.3%	N/S	N/S	16,115,655
FinEx Sector Average	-5.4%	-4.1%	2.3%	8.9%	7.5%	3.9%	3.7%	
<b>Equity Fund (American)</b>								
5 Star 5 Americas	14.5%	19.8%	12.9%	15.8%	11.1%	N/S	N/S	68,369,767
American Select (Threadneedle)	15.2%	18.4%	15.2%	15.9%	14.1%	10.0%	N/S	11,963,212
FinEx Sector Average	10.9%	16.1%	14.3%	14.5%	12.8%	8.5%	5.8%	
<b>Equity Funds (Far East Asia)</b>								
5 Star 5 Asia Pacific	0.3%	6.1%	15.0%	9.9%	7.7%	N/S	N/S	80,375,943
Asia Pacific Equity	1.1%	7.8%	14.2%	8.9%	N/S	N/S	N/S	10,959,956
FinEx Sector Average	-0.7%	4.9%	10.7%	6.3%	8.2%	7.9%	8.5%	
<b>Equity Funds (High Yield)</b>								
Dividend Growth	1.5%	4.2%	9.3%	10.1%	10.0%	N/S	N/S	220,899,872
FinEx Sector Average	5.4%	9.7%	10.1%	9.6%	8.9%	7.0%	5.2%	
<b>Equity Funds (Emerging Market)</b>								
Emerging Markets Opportunities (JP Morgan)	-4.7%	1.5%	13.4%	N/S	N/S	N/S	N/S	6,835,150
FinEx Sector Average	-6.5%	-0.8%	9.2%	6.1%	5.7%	8.9%	Not Started	
<b>Equity Funds (Specialist)</b>								
Indexed Top Tech 100	23.5%	30.2%	21.1%	23.0%	19.7%	12.6%	Not Started	63,266,599
FinEx Sector Average	2.2%	4.9%	5.7%	4.6%	3.5%	3.8%	3.1%	
<b>Property Funds</b>								
Fund of REITs	-2.0%	0.0%	3.9%	N/S	N/S	N/S	N/S	20,794,007
Indexed European (Ex-UK) Property	1.6%	6.8%	8.4%	11.6%	9.2%	N/S	N/S	77,486,049
Australasia Property Fund	1.4%	5.1%	7.3%	6.8%	8.8%	N/S	N/S	55,525,165
FinEx Sector Average	2.3%	4.7%	4.7%	7.1%	1.2%	2.5%	5.2%	
<b>Funds Closed to New Business</b>								
Indexed Eurozone Property	2.7%	8.3%	9.1%	11.9%	8.2%	N/S	N/S	20,197,371
Indexed India Equity	-7.9%	1.3%	3.8%	10.9%	6.5%	N/S	N/S	9,742,168
Income Opportunity (JP Morgan)	-0.2%	-0.6%	1.8%	0.7%	N/S	N/S	N/S	6,438,516
Diversified Assets	2.9%	6.3%	5.4%	5.6%	5.1%	N/S	N/S	11,921,437
Earth Resources	4.8%	10.2%	1.8%	-3.6%	-3.8%	N/S	N/S	4,548,526
Green Resources	1.9%	7.5%	7.3%	2.4%	-3.1%	N/S	N/S	3,766,775
Small Cap Europe (Pictet)	-1.6%	0.5%	8.1%	N/S	N/S	N/S	N/S	2,160,170

**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 fund you may lose some or all of the money you invest.**



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