

## Global Overview

### Mixed week for equities

It was a mixed week for equity markets, as economic data, with the exception of German data, failed to give markets direction, while worries surrounding comments from the Fed regarding asset purchases hurt sentiment for equities.

### Federal Reserve comments

US policy makers should be ready to vary the pace of the existing \$85 billion a month of debt buying, according to minutes of the latest Fed meeting held in late January. These fears that the Fed won't extend monetary easing hurt sentiment on equity markets.

### Mixed eurozone data

A measure of Germany's business confidence rose more-than-forecast last week. The IFO index is now at a 10-month high, adding to signs that Europe's largest economy is gathering strength. Despite this, the European Commission downgraded its outlook for the euro area. It expects the region to contract 0.3% this year, compared with the 0.1% previously announced.

### UK's rating cut

Moody's Investors Service cut the UK's credit rating by one notch, resulting in it losing its prized AAA rating. Moody's cited continued weakness in the nation's growth and rising debt levels as the main reasons behind the cut.

### Currencies

Sterling weakened for another week after Bank of England policymaker, David Miles, said the central bank should increase stimulus and look at new measures to boost Britain's economy, while the Moody's ratings cut also hurt demand for the asset.

### Commodities

Brent crude oil finished the week lower, but pared some of its losses following the better-than-expected German data late in the week. Gold prices fell to a seven-month low as signs of economic recovery eroded demand for the metal that is seen as a safe haven.

	Index	Year to Date Return 31.12.12 to 22.02.13		1 Week Return 15.02.13 to 22.02.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.9	4.7	0.1	1.1
US	S&P 500	6.3	6.3	-0.3	1.0
US	NASDAQ	4.7	4.8	-0.9	0.3
Europe	FT/S&P Europe Ex. U.K.	3.6	3.6	0.6	0.6
Ireland	ISEQ	8.8	8.8	0.8	0.8
UK	FTSE 100	7.4	1.0	0.1	-0.4
Japan	Topix	12.1	3.9	2.2	3.6
Hong Kong	Hang Seng	0.6	0.5	-2.8	-1.6
Australia	S&P/ASX 200	7.9	7.3	-0.3	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.7	-0.7	0.2	0.2

## Global Equities



### United States

#### Overview

The S&P 500 Index had its first weekly decline of 2013 amid increasing concern the Fed will curtail its stimulus program, following comments released in the minutes of its latest meeting.

**Earnings** – Two of the largest US stocks announced expectations-beating results last week. Hewlett Packard rallied 12%, its biggest gain since 2008, after its forecast for fiscal second-quarter profit exceeded estimates and its CEO reaffirmed a prediction that the company will resume growth next year. AIG rose 3% after it unexpectedly reported an operating profit.



## Europe

### Overview

European stocks rose after better-than-expected company earnings and eurozone data outweighed worries surrounding the Fed's commitment to its asset purchase programme.

**Stocks** – Rexam, the largest maker of beverage cans, said its profit before tax for 2012 exceeded analysts' estimates, pushing its shares over 7% higher.



## Ireland

### Overview

The Irish market performed well over the week to finish almost 1% higher overall.

**Elan** – The drugmaker saw its shares rally over 4% after it announced it will buy back \$1 billion of stock after selling its stake in the Tysabri multiple sclerosis treatment to Biogen Idec.



## Asia Pacific

### Overview

Asian markets, outside of Japan, gave back some of the previous week's gains amid concern the world's two largest economies may tighten monetary policy. Japan's stock market rallied as the yen weakened, which boosts overseas income of Japanese companies. China's government told local authorities to curb real estate speculation. As a result, mining stocks worldwide experienced large falls, with BHP Billiton, Rio Tinto and Anglo American all finishing the week sharply lower.

## Bonds

German bund prices rose, pushing two-year yields to a five-week low, after the ECB said financial institutions will repay less emergency loans than forecast, suggesting they remain wary of lending to each other. Italian bond prices came under pressure amid speculation that elections will result in a hung parliament, derailing economic reforms in Europe's biggest debt market. The Merrill Lynch over 5 year government bond index rose 0.2% over the week.

## Global Outlook

- Not much change to the general global growth backdrop, which remains reasonably supportive for risk assets, with forecasters seeing a small improvement in global activity in 2013, albeit one that it is still below trend rates of growth. The US is expected to grow by a couple of percent again this year, with many commentators pointing to the potential for higher than that. Within the eurozone, analysts see growth remaining in mildly negative territory for the coming year, but this again masks strong divergences among countries. China, which dominates the Asian growth picture, is expected to grow around 8% in 2013, similar to last year's rate. Inflation is seen to be a non-issue for investors again this year with stable low rates expected in the major regions.
- Short rates are expected to remain at ultra-low levels in the major economies for a protracted period to come. In the US the continuation of extraordinary policy measures is conditional on trends in the unemployment and inflation rates but, barring a major policy reversal, overall policy is expected to remain very supportive. Other central banks are either neutral in their stance or will ease policy further. For the ECB, the key issue remains how peripheral economies develop over the year. Most analysts expect that the ECB will stay highly accommodative during 2013 as it continues to try to heal the peripheral debt crisis and support economic growth in the region.
- The historic low level of long-term interest rates in many developed countries remains a focus for forecasters. Many commentators speak of a 'bubble' in the bond market, albeit one that won't burst yet. Indeed most commentators still see rates rising gently over the next year. The main reason for this is that it is expected that central banks will continue to 'sponsor' a low interest rate structure until economic recovery is more durable.
- On an absolute basis investors think that equity market valuations are within historic ranges and, hence, are reasonably valued. Earnings growth expectations are reasonably strong for 2013, although most investors are probably already discounting a slower earnings scenario than published consensus estimates. On a relative basis, most market strategists view equities as being much better value than bonds and, additionally, the general view is that equities are also being supported by central bank liquidity and that any falls will be short-lived and will be bought by investors. Global equities in euro terms have gained just over 4.5% in euro terms so far this year, although this was mainly achieved in the first couple of trading days. Currently any setbacks would be seen as buying opportunities by most investors and we are still of that view ourselves.
- Zurich Life funds are close to neutral in equities and are running only modest positions in bonds versus the manager average. Within equity sectors, the funds are underweight energy and basic materials and overweight consumer services. Geographically, the funds are underweight in Ireland and the US, slightly overweight in the Pacific region and Europe and neutral elsewhere.

This outlook 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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