Zurich Life
Weekly Investment News

15th April 2013

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Global Overview

Equities rebound

It was another strong week for equities as job data gave the market some comfort after disappointing recently, while monetary policy measures and corporate earnings also supported the market.

US economic data

Initial jobless claims dropped 42,000, to a seasonally adjusted 346,000, the Labour Department said on Thursday. This was better than analysts had forecast, easing fears of a marked deterioration in labour market conditions after the disappointing job growth in March. Elsewhere, retail sales fell 0.4% in March, the steepest decline in nine months.

European Central Bank support

Eurozone industrial production expanded more than economists forecast in February. The ECB has confirmed that monetary policy will remain loose for 'as long as needed', according to its latest bulletin.

Commodities

Brent crude oil finished the week lower on the back of weak economic data in the US and Asian growth figures. It finished the week at $103 per barrel, almost 2% lower on the week. Brent's premium to West Texas shrunk to it lowest level in 14 months as European demand is forecast to slump by 340,000 barrels a day to 14.1 million.

Currencies

Comments from the ECB, committing to loose monetary policy, offset weak economic data in the US, to leave the €/$ rate relatively unchanged on the week. The €/$ rate finished at 1.31, a rise of almost 1% on the week.

	Index	Year to Date Return 31.12.12 to 12.04.13		1 Week Return 05.04.13 to 12.04.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	10.4	9.2	2.5	2.0
US	S&P 500	11.4	12.3	2.3	1.6
US	NASDAQ	9.1	10.0	2.8	2.2
Europe	FT/S&P Europe Ex. U.K.	4.7	4.7	1.8	1.8
Ireland	ISEQ	14.2	14.2	1.9	1.9
UK	FTSE 100	8.3	3.2	2.2	1.7
Japan	Topix	33.6	17.8	7.7	5.1
Hong Kong	Hang Seng	-2.5	-1.9	1.7	1.1
Australia	S&P/ASX 200	7.8	9.9	2.5	3.0
Bonds	Merrill Lynch Euro over 5 year Govt.	2.1	2.1	-0.2	-0.2

Global Equities

United States

Overview

The S&P 500 Index rose to a fresh new high, amid optimism that global stimulus efforts and corporate earnings growth will help strengthen the world's largest economy further.

Earnings – Alcoa kicked off earnings season with expectations-beating results. Wells Fargo and JP Morgan both reported quarterly earnings that topped analyst earnings expectations, but revenue fell slightly short of estimates.

Europe

Overview

European stock markets had their biggest weekly advance in more than a month amid speculation that central banks will continue to provide monetary stimulus, overshadowing some poor US economic data.

Banking sector – Barclays and Banco Santander rose 7% and almost 10% respectively as European banking shares posted their biggest advance in three months. The banking sector was partially recovering from recent weakness, due to Cyprus.

Ireland

Overview

The Irish market followed the rest of the world higher, adding another 2% to its strong start to the year. CRH finished the week higher, after rising over 1% late in the week, after US president Barack Obama proposed a budget worth nearly $4 trillion, in what is seen as a boost to investment in infrastructure.

Asia Pacific

Overview

Asian markets rose over the week, with the regional benchmark index, the MSCI Asia Pacific Index, recording its biggest weekly gain in seven months. Slower-than-estimated Chinese inflation, which eased concern about monetary policy tightening, and imports, which rose by a better-than-expected 14% in March, were contributory factors to the rise. Elsewhere, in economic news, Singapore's economy contracted in the first quarter, missing expectations of growth, while stockwise, Infosys, India's second-largest software services exporter, fell over 20% after forecasting annual sales growth as slow as half the pace analysts estimated.

Bonds

Irish 10-year bond prices rallied after euro-region finance ministers agreed a seven-year extension on the country's bailout loans. As a result of this action, the 10-year yield hit its lowest level since December 2006. Portuguese two-year bond prices followed Ireland, and rose, after its loans were also lengthened. German bunds fell marginally, for the first week in five. The Merrill Lynch over 5 year government bond index finished the week marginally lower.

Global Outlook

- Some of the more recent economic data – notably in the US, but also elsewhere - has been slightly weaker than forecast but the economic backdrop is still reasonably supportive for risk assets. For example, the US is expected to grow by around 2% again this year, hampered a little by fiscal measures but a stabilising housing market may help consumer confidence. Eurozone growth will likely stay in mildly negative territory in 2013 but most economists expect positive growth to resume thereafter. 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.
- US and European economies continue to require loose monetary policies and therefore short rates are likely to stay at ultra-low levels for a protracted period to come. Barring a major policy reversal, the Fed will keep policy easy until the labour market has improved considerably further. Other central banks are neutral in their stance or will ease further. As regards the ECB, most analysts expect that it will stay highly accommodative during 2013 as it continues to try to heal the peripheral debt crisis and support economic growth in the region. Speculation remains that the ECB may cut rates again or put additional measures in place to support the supply of credit to firms.
- As long as central banks continue to 'sponsor' a low interest rate structure the so-called 'bond bubble' in Germany and the US is unlikely to burst. Interestingly, German bond yields have approached their historic lows again in recent days, having risen sharply at the start of the year. Meanwhile, within EU periphery markets, to-date investors have absorbed negative developments in Italian politics and the Cyprus debacle with very limited impact. Positive investor sentiment on the periphery is now quite high and this always makes such situations more vulnerable to bad news flow; setbacks would not be unusual.
- Equity market valuations remain within historic ranges and investors are still disposed towards risk assets in general, as evidenced by the broad S&P US equity index recently attaining a new high. The current US corporate earnings season is a good test of where investors' profit expectations are positioned for this year. Most market strategists see 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 9% so far this year. This is a strong return, albeit the upward momentum in most markets – except Japan – has faded more recently. We had seen any market setbacks as a buying opportunity, a theory which will likely be tested in the next few weeks.
- Zurich Life funds are close to neutral in equities and have modest positions in bonds versus the manager average. The funds are underweight energy and basic materials stocks and overweight consumer services. Geographically, the funds are underweight the UK and Europe, slightly overweight Japan, the US and Ireland and neutral in the Pacific region.

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