

Global Overview

Equities slump

Equity markets had one of their worst weeks in almost six months, as disappointing macro data and earnings results caused markets to pare their strong start to the year.

Chinese GDP

China's GDP rose 7.7% in the first quarter, compared with a year earlier, missing analysts' estimates of 8% and also showing a slowing of growth in the past quarter. A contributor to this was industrial production in March which rose less-than-expected.

UK credit rating

The UK lost its AAA rating from Fitch, after the ratings agency cut the country's growth prediction and forecast that debt would peak at 101% of GDP in 2015/16. Its rating now stands at AA+.

Commodities

China's weakening economic expansion and disappointing earnings results in most regions caused commodities to slump during the week. US copper went into a bear market, while gold had its biggest drop in a year and a half. Brent crude oil finished the week 4% lower, at almost \$100 per barrel.

Currencies

Comments from the ECB and weak economic data supported buying of the US dollar. The €/£ rate finished just below 1.31, having pared most of its losses late in the week.

	Index	Year to Date Return 31.12.12 to 19.04.13		1 Week Return 12.04.13 to 19.04.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	7.5	6.2	-2.7	-2.7
US	S&P 500	8.1	9.0	-3.0	-2.8
US	NASDAQ	4.9	5.7	-3.9	-3.7
Europe	FT/S&P Europe Ex. U.K.	1.4	1.4	-3.2	-3.2
Ireland	ISEQ	12.5	12.5	-1.5	-1.5
UK	FTSE 100	6.5	1.5	-1.6	-1.4
Japan	Topix	31.0	15.3	-1.9	-2.6
Hong Kong	Hang Seng	-2.8	-2.8	-0.3	-0.2
Australia	S&P/ASX 200	6.1	6.5	-1.6	-3.0
Bonds	Merrill Lynch Euro over 5 year Govt.	2.5	2.5	0.4	0.4

Global Equities



United States

Overview

The S&P 500 Index rose on Friday, but this only pared the week's losses as poor economic data and disappointing earnings hurt investor sentiment. Of the companies to have announced results so far, 72% have beaten expectations but only 50% have beaten revenue forecasts.

Earnings – IBM slid over 8% on Friday, the most in over eight years, after the computer-services provider posted profit that trailed projections for the first time since 2005. Elsewhere in the sector, however, Google and Microsoft announced expectations-beating results.



Europe

Overview

European stock markets had their biggest weekly decline since November, with the FT/S&P European UK Index falling over 3% on the week. Commodity stocks were the weakest following the disappointing Chinese GDP data.

Earnings – L’Oreal climbed 4% late in the week, after revenue exceeded analysts’ estimates, while SAP lost 3% of its value after the company reported sales that missed forecasts.



Ireland

Overview

The Irish market finished the week slightly better off than its peers, but still fell 1.5% overall. The poor economic data caused weakness in cyclical stocks such as CRH and Kingspan.



Asia Pacific

Overview

Asian markets retreated over the week, but finished off their lows after advancing on Friday. Mining companies were some of the weakest performers after reports showed recovery in China may be stalling. Gold and copper slumped following the Chinese data, resulting in BHP Billiton, the world’s biggest miner, falling almost 6% on the week, while Rio Tinto lost over 4% of its value. The Japanese Yen weakened again when the G20 meeting made no formal comment on its sharp fall recently.

Bonds

Germany’s 10-year government bond yields fell slightly after a report on German business confidence declined for a second month in March. Comments from the ECB that the region had not seen any improvement since the ECB’s last meeting also supported bond prices. The Merrill Lynch over 5 year government bond index finished the week marginally higher.

Global Outlook

- Certain recent economic data – notably in the US, but also elsewhere - has been weaker than forecast; nonetheless, the economic backdrop remains ‘ok’ for risk assets. 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 and corporate investment has room to grow. 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, should still grow strongly but probably less than the 8% initially forecast. Goods’ inflation globally remains modest.
- The major economies continue to require very 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.
- Historically low long-term interest rates in many countries will likely remain for as long as central banks continue to sponsor a low interest rate structure. For instance, German bond yields have approached their historic lows again recently, having risen sharply at the start of the year. Meanwhile, within EU peripheral 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.
- Equities remain within historic valuation 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. The upward momentum in most equity markets has slipped of late but, overall, equities have still gained 7% in euro terms so far this year. 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, neutral in the Pacific region, neutral to slightly overweight in the US and Ireland and overweight Japan.

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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