Zurich Life
Weekly Investment News

7th May 2013

ZURICH

Global Overview

Equities rally

Good economic data and monetary policy moves by central banks, most notably in the eurozone, helped western markets to strong gains over the week. Asian markets fell slightly, partly as a result of being closed prior to strong US jobs data on Friday.

US jobs data

US jobless claims fell to their lowest level since January 2008, dropping by 18,000 to 324,000. Elsewhere, non-farm payrolls rose more than expected and the unemployment rate dropped to 7.5%. All these reports beat analysts' expectations.

European Central Bank action

The ECB moved to support the economy further by reducing its key interest rate by 0.25%. The rate is now at an all-time low of 0.5%.

Upbeat UK data

In the UK, the Purchasing Managers Indices gave markets a boost, as the manufacturing sector and construction sector rose marginally, while the services sector was rather positive. The rate of expansion of the UK services sector has increased for the fourth straight month.

Currencies

The €/$ rate finished the week at 1.31, a strengthening of almost 1%. The euro had risen before the ECB meeting, but pared some of these gains as the ECB disappointed hopes of more aggressive action.

Commodities

There was strength in commodity markets as a result of the upbeat economic data and improving sentiment toward risk assets. Oil, copper and agricultural commodities all gained over the week. Gold regained some of its recent sharp losses, with a rise of over 1% overall.

	Index	Year to Date Return 31.12.12 to 03.05.13		1 Week Return 26.04.13 to 03.05.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	11.7	10.7	0.8	0.6
US	S&P 500	13.4	13.9	2.2	1.3
US	NASDAQ	12.1	12.6	3.2	2.3
Europe	FT/S&P Europe Ex. U.K.	6.4	6.4	1.0	1.0
Ireland	ISEQ	15.7	15.7	1.7	1.7
UK	FTSE 100	10.7	6.7	1.6	1.4
Japan	Topix	34.1	17.8	-0.7	-2.7
Hong Kong	Hang Seng	0.1	0.5	0.6	-0.2
Australia	S&P/ASX 200	10.3	10.1	0.6	0.0
Bonds	Merrill Lynch Euro over 5 year Govt.	4.4	4.4	0.8	0.8

Global Equities

United States

Overview

The S&P 500 Index reached a new all-time high, as the Fed maintained its accommodative policy and payroll data surprised on the upside. While the Fed maintained stimulus, it did warn that it may increase or reduce the pace of QE as appropriate.

Earnings – On Friday, AIG rallied almost 6%, the most this year, after operating earnings surpassed projections. LinkedIn, however, saw shares slump 13% after forecasting second-quarter sales that missed analysts' predictions.

Europe

Overview

European stock markets rose as the ECB delivered a rate cut of 0.25%, which was in line with market expectations. The ECB's president, Mario Draghi, also talked of consulting other institutions to promote corporate lending.

Earnings – Shares in Adidas rose to their highest price ever as Q1 profit topped analysts' estimates. Vallourec, a producer of steel pipes for the oil and gas industry, reported Q1 results which beat forecasts and management confirmed the group's goal of increasing sales and improving the core operating margin in 2013. Its shares rose over 10% following this.

Ireland

Overview

The Irish market performed in line with the rest of the world, as earnings season kicked off for Irish companies.

Kerry Group – Shares in Kerry Group rose after it reported higher margins in Q1 and said it was on track to hit its profit forecasts for 2013. The company is forecasting 7% to 11% growth in adjusted earnings per share this year, despite "significant" inflation in the cost of raw materials.

Asia Pacific

Overview

Asian markets were mixed overall. In what was a shortened holiday week in Japan, its market finished the week slightly lower, while in Hong Kong, the Hang Seng Index finished the week higher. Economic data in the region was also mixed, with Japanese manufacturing PMI showing its fourth consecutive monthly rise. China, however, saw its PMI show slow expansion due to weaker overseas demand.

Bonds

German bund yields fell further over the week, as the ECB cut interest rates by 0.25%, while the Federal Reserve indicating that the pace of asset purchases could be altered in either direction, depending on inflation and unemployment, also supported bond prices. Meanwhile, peripheral debt in the eurozone remains in favour, with spreads versus German bunds coming down further. The Merrill Lynch over 5 year government bond index finished the week 0.8% higher.

Global Outlook

- The broad economic backdrop in the main economies remains 'ok' for risk assets. The US is still 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 is likely to 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 and recent readings for consumer prices in the US and Europe have been weak.
- Most 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, after last week's rate reduction, analysts expect that it will stay highly accommodative during 2013 and, as previously discussed, it will likely deliver further policy initiatives.
- 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, investors have absorbed potentially negative developments (e.g. Italian politics and the Cyprus debacle) with very limited impact either directly or indirectly. Confidence in the ECB and policymakers remains very high but, nonetheless, we wouldn't be surprised to see some setbacks over the course of the year.
- Equity markets are 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 uninspiring but hasn't deterred investors' appetite. 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 almost 12% in euro terms so far this year. Setbacks have been modest to date and we currently still see any as a buying opportunity.
- 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.

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