

## Global Overview

### Equities rally

Good economic data, corporate earnings and monetary policy moves by central banks helped markets worldwide to strong gains over the week. Many markets remain close to, or currently at, new record highs.

### US jobs data

Following on from recent upbeat jobs data in the US, last week it was reported that jobless claims unexpectedly fell by another 4,000, to 323,000, beating analyst expectations. This is the lowest level in five years.

### Central Bank action

The Reserve Bank of Australia cut its benchmark interest rate by 0.25%, to a record low of 2.75%, in an attempt to boost struggling economic growth. South Korea's central bank unexpectedly cut rates, for the first time in seven months, as weak industrial growth suggests the economy is not recovering as quickly as expected.

### Currencies

The US dollar rose against most major counterparts following positive data in the country during the week. The euro also suffered slightly due to the disappointing industrial production data in Italy. The €/£ rate finished the week at 1.30, a weakening of 1%.

### Commodities

Brent crude oil prices fell last week, to \$102 a barrel, as rising US WTI supplies and a strengthening dollar dampened appeal for the commodity. The Brent crude oil premium versus West Texas Intermediate has reduced to \$8 a barrel, having been as high as \$25 towards the end of 2012. Rising risk appetite hurt gold's price, which fell over 2% during the week.

	Index	Year to Date Return 31.12.12 to 10.05.13		1 Week Return 03.05.13 to 10.05.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	14.6	13.6	1.8	2.1
US	S&P 500	14.5	16.5	1.2	2.2
US	NASDAQ	13.8	15.8	1.7	2.8
Europe	FT/S&P Europe Ex. U.K.	9.0	9.0	1.3	1.3
Ireland	ISEQ	16.7	16.7	0.6	0.6
UK	FTSE 100	12.3	8.0	1.6	1.2
Japan	Topix	40.8	22.1	5.0	3.4
Hong Kong	Hang Seng	2.9	4.6	2.8	3.8
Australia	S&P/ASX 200	12.0	9.8	1.5	-0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	3.5	3.5	-0.9	-0.9

## Global Equities



### United States

#### Overview

US indices rallied during the week, pushing the S&P 500 Index and Dow Jones Industrial Average to new record closing highs. Upbeat data, corporate earnings and monetary policy action in Asia were the key drivers over the week. In earnings news, 72% of the 452 S&P 500 companies that have released results for Q1 have exceeded profit projections.

**Earnings** – Gap led the S&P 500 gainers over the week, rising 6% overall, after the clothing retailer posted a 7% gain in April same-store sales. This was thanks to a surge at its Old Navy chain, while it also reported a profit forecast that was above expectations. Groupon's share price rose over 5% after it reported better-than-expected revenues.



## Europe

### Overview

European stock markets rose for the third successive week after good corporate earnings releases in the region, while better-than-expected economic data worldwide also supported markets.

**Earnings** – BT surged 13% after the telecommunications operator proposed paying a full-year dividend which is 14% higher than it paid a year earlier. Germany's biggest builder, Hochtief, rose over 7% after it announced strong pre-tax profits, which were ahead of analyst expectations, and the disposal of its airports unit at a better-than-expected price.



## Ireland

### Overview

The Irish market was one of the weaker performers during the week, rising 0.6% overall.

**CRH** – Shares in CRH finished the week over 3% lower after a management statement said that, so far in 2013, a weak economic backdrop and bad weather have hit its European sales, but that the rate of decline moderated in April. The company is expecting performance to improve in the second half of the year.

## Asia Pacific



### Overview

Asian stock markets had another positive week with healthy earnings driving momentum, while economic data also supported markets. Australia's S&P/ASX 200 and Japan's Nikkei 225 indices both hit their highest levels since June 2008. Japan's exporters performed strongly as the yen weakened against the dollar, reaching its lowest level since April 2009. The Australian dollar also weakened 2% in response to the unexpected 0.25% rate cut. China's annual consumer inflation quickened to 2.4% in April, up from March's 2.1%. This was above the market consensus and fanned worries over rising inflationary pressures in Q2.

## Bonds

Eurozone bond prices fell last week as equities worldwide rose, some to new record highs, boosting sentiment towards risk-assets. Spanish 10-year government bond prices rose for the first time in six weeks after the nation sold €4.5 billion of securities at an auction, which had been oversubscribed. Portuguese bond prices also moved higher, following its first 10-year bond sale since 2011, which was also oversubscribed. Overall, 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 the recent 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 remain close to their historic lows. 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 attaining another 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 14% 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.

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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