Zurich Life
Weekly Investment News

4th June 2013

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Global Overview

Equities retreat

Equity markets retreated for another week, as fears that the Federal Reserve will reduce stimulus by tapering off bond purchases overshadowed some encouraging economic data worldwide.

US economy

House prices rising by 11% over the past year was seen as a key contributor to the University of Michigan's index of sentiment jumping, and beating expectations, in May. However, though, there was some disappointment for investors after a modest increase in initial jobless claims.

Eurozone budgets

As expected, the European Commission delivered its deliberations on the budget and reform plans of those countries not currently in the programme. It agreed to push back the time frame for France and Spain to meet the 3% deficit target. Both countries were given an extra two years to meet the target.

UK economy showing improvement?

Sterling increased versus most of its major peers after the British Chamber of Commerce revised upwards its forecasts for UK growth through to 2015. Like the US, house prices showed a marked improvement, after they increased the most in 18 months in May.

Commodities

Oil lost ground during the week, as US crude oil production continued to climb, as did inventories, while OPEC decided to maintain its supply output. Brent crude oil closed just below $100 per barrel. Gold had a volatile week, but prices finished the week unchanged.

Currencies

Late in the week, the euro dropped from its highest level in three weeks versus the dollar, as demand for eurozone stocks fell after German retail sales disappointed and the region's unemployment rate rose to a new record. The €/$ rate finished the week at 1.30.

	Index	Year to Date Return 31.12.12 to 31.05.13		1 Week Return 24.05.13 to 31.05.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	13.6	12.0	-1.2	-1.6
US	S&P 500	14.3	16.0	-1.1	-1.7
US	NASDAQ	14.5	16.2	-0.1	-0.6
Europe	FT/S&P Europe Ex. U.K.	7.7	7.7	-0.7	-0.7
Ireland	ISEQ	18.1	18.1	-0.8	-0.8
UK	FTSE 100	11.6	6.0	-1.1	-1.1
Japan	Topix	32.1	15.7	-4.9	-4.6
Hong Kong	Hang Seng	-1.2	0.1	-1.0	-1.5
Australia	S&P/ASX 200	6.0	-1.0	6.0	-1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	2.0	2.0	-0.8	-0.8

Global Equities

United States

Overview

US indices fell for another week, paring the seventh monthly gain for the S&P 500 Index, The better-than-expected data on business activity and sentiment bolstered concern that the Federal Reserve will scale back stimulus.

American International Group – AIG lost 4% of its value after it said that it has yet to receive a deposit that was called for under the deal to sell its plane-leasing unit to a Chinese investor. This presented another challenge to divesting the business, which disappointed investors.

Europe

Overview

European stock markets fell slightly, but, overall, the region still posted its 12th consecutive month of gains. The week's retreat was partly as a result of good economic data in the US, increasing speculation the Fed will pare its bond purchases.

Telecom Italia – Shares in the company fell by 6%, after UBS said the company's plan to spin-off its network unit may be a lengthy process. The drop in value was its biggest decline in three months.

Ireland

Overview

The Irish market broadly followed Europe and fell almost 1% over the week.

Origin Enterprises – Origin reported solid Q3 results despite adverse weather conditions, and said its agri-sources business is now seeing more normal patterns in May. Management reiterated guidance and the stock reacted positively, finishing the week 10% higher.

Asia Pacific

Overview

Asian shares were the heaviest fallers during the week. Japan suffered further falls, losing almost 5% of value during the week. Investors no longer see it as a one way bet, following its sharp rally over 80%, at its peak, since November. It was a mixed week for Chinese data. While a business survey confirmed a negative outlook for the coming months, with production and new component orders falling, the Chinese PMI beat expectations overall. The IMF and OECD reduced their real GDP growth forecast to 7.8%, in line with forecasts, and Premier Li said he believed a 7% average growth target until 2020 is a reasonable target.

Bonds

German bonds prices fell for the second consecutive week, pushing the 10-year yield to a three month high, as the attractiveness of fixed-income asset took a hit on speculation that Fed will begin reducing its stimulus measures. Italian bond prices also fell, not as much as its German equivalent though, after the nation sold almost €6 billion of debt maturing in 5 and 10 years. Overall, the Merrill Lynch over 5 year government bond index finished the week 0.8% lower.

Global Outlook

- The broad economic backdrop in the main economies remains 'ok' for risk assets and any weaker economic data is quickly dismissed by bullish equity investors. Growth in the US is low by historic standards but importantly it is stable, which has reassured investors considerably. Brighter spots such as the housing market have also helped in this regard. Eurozone growth is more problematic but the relative stability in the periphery has been an important offset to a weaker economic backdrop. Expectations for Chinese growth, which dominates the Asian growth picture, have been pared back somewhat and investors are reasonably cautious of the region for now. Goods' and wage inflation globally remain modest and recent readings for consumer prices in the US and Europe have been weak.
- Given the growth and employment backdrop a very loose monetary policies is regarded as essential for several of the major regions. Therefore short rates are likely to stay at ultra-low levels for a protracted period to come. Nonetheless investors are becoming more sensitive to any indicators that the Fed will 'taper' the extent of its policy generosity. Other central banks are generally neutral in their stance. As regards the ECB, after the most recent rate reduction, analysts expect that it will stay highly accommodative during 2013 and again 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. Low inflation globally reinforces the likelihood that this situation persists. Thus the recent modest rise in long term US and German interest rates is not likely to be the start of an immediate large scale rise in rates. Meanwhile investors' confidence in the ability of the ECB and policymakers to manage the peripheral debt situation currently remains very high. Some might argue that this confidence borders on complacency but to date the turn around in investors' attitudes has been impressive.
- Equity markets are within historic valuation ranges – albeit now closer to the top of that recent range. Investors are still well disposed towards risk assets in general as evidenced by the broad S&P US equity index recently attaining a new high. The recent US corporate earnings season was 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 10% drop in Japanese equities over the past few days illustrates how corrections can easily occur in strongly trending markets. Currently most investors remain inclined to buy any setbacks that may happen there or in other markets. We wouldn't be shocked to see such a correction.
- Zurich Life funds are close to neutral in equities and are 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, Ireland and Japan.

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