

## Global Overview

### Equities retreat

Most equity markets retreated for another week, as fears that the Federal Reserve will reduce stimulus increased following some good economic releases during the week.

### US economy

Latest jobs data showed higher-than-forecast employment growth in May, increasing speculation further that the Federal Reserve will taper its bond-buying program. Payrolls increased by 175,000, but as more people joined the workforce, the unemployment rate rose from 7.5% to 7.6%.

### Eurozone growth forecasts

The ECB lowered its forecast for the eurozone's economy for 2013, from a contraction of 0.5% to 0.6%, while marginally increasing the growth it expected in 2014, from 1% to 1.1%.

### UK economy

The pound sterling had its biggest weekly gain versus the dollar in more than three years as UK manufacturing, services and home-price data beat economists forecasts, boosting confidence in the economy's recovery.

### Currencies

Sterling strengthened against most of its major peers on the back of the good economic releases. As well as rallying against the US dollar, it strengthened against the euro for the first week in six. The €/£ finished the week at 0.85, while the €/¥ rate was 1.32, a sharp strengthening of almost 2%.

### Commodities

Oil prices rallied strongly on the back of good jobs data in the US. Brent crude oil closed just above \$104 per barrel, a rise of almost 5% on the week. Gold prices finished the week fractionally lower.

	Index	Year to Date Return 31.12.12 to 07.05.13		1 Week Return 31.05.13 to 07.05.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	12.2	9.5	-1.2	-2.2
US	S&P 500	15.2	15.0	0.8	-1.1
US	NASDAQ	14.9	14.7	0.4	-1.5
Europe	FT/S&P Europe Ex. U.K.	5.8	5.8	-1.8	-1.8
Ireland	ISEQ	17.2	17.2	-0.8	-0.8
UK	FTSE 100	8.7	3.9	-2.6	-2.0
Japan	Topix	22.9	9.1	-6.9	-5.6
Hong Kong	Hang Seng	-4.8	-5.1	-3.6	-5.4
Australia	S&P/ASX 200	1.9	-7.1	-3.8	-6.6
Bonds	Merrill Lynch Euro over 5 year Govt.	1.7	1.7	-0.4	-0.4

## Global Equities



### United States

#### Overview

US indices rose on the week, with the S&P 500 Index experiencing its biggest two-day gain since January, after the better-than-expected jobs data which pointed to continued growth in the economy.

**Wal-Mart Stores** – Shares in the company rose over the week after it approved a new €15 billion share buyback program.



## Europe

### Overview

European stock markets fell for the third week, with fears that the Fed will reduce its bond purchase program still hurting optimism, while the ECB refrained from announcing new stimulus measures.

**Hochtief** – Germany's largest construction company fell 7% after Berenberg Bank cut its recommendation on its shares to hold, from buy, citing a worsening outlook for Australian construction and mining.



## Ireland

### Overview

The Irish market finished the week almost 1% lower overall.

**Aryzta** – The food group reported a 'satisfactory' increase in food revenues of 3.6% over the last quarter, which was broadly in line with expectations. In Europe, food grew by over 4%, despite 'weak macro consumer dynamics in the region and widening government austerity measures'.



## Asia Pacific

### Overview

Asian stocks fell for the third week running, with the regional benchmark index, the MSCI Asia Pacific Index, posting its biggest drop in a year. Japan's Topix Index continued its retreat as Japan's Prime Minister's, Shinzo Abe, growth strategy failed to impress investors. There are fears that the recovery will stall if there is a premature withdrawal of stimulus in the US. Chinese export growth tumbled to a 10-month low in May, as a crackdown on fake trade shipments exposed weakness in global demand. The government are trying to root out illegal capital inflows designed as trade, which had inflated trade figures and caused the yuan to appreciate.

## Bonds

German bund prices fell for the third week running, as ECB President, Mario Draghi, said the region's economy should return to growth later this year, damping demand for fixed-income assets. Spanish and Italian bonds also saw prices fall as a result of the ECB, after the bank said it saw 'no reason for any immediate additional measures to lower borrowing costs'. Overall, the Merrill Lynch over 5 year government bond index finished the week 0.4% lower.

## Global Outlook

- The broad economic backdrop in the main economies remains 'ok' for risk assets and the view is that any weaker economic data would produce a policy response. Growth in the US is sub-par 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 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 for the ECB, analysts expect that it will stay highly accommodative during 2013 and as previously discussed it will likely deliver further policy initiatives, albeit that the hurdle for these may be higher than initially thought.
- 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 recent dramatic volatility in Japanese equities 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.

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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