

Global Overview

Equities retreat

Equity markets continued the recent run of losses as the Fed spooked markets with comments regarding the withdrawing of financial stimulus, by easing back on the level of bond purchases, which could start as early as September.

Federal Reserve

At its latest meeting, the Fed forecasted strong enough growth to allow policymakers to stop buying bonds. Its Chairman, Ben Bernanke, said the central bank may begin dialling down quantitative easing this year, and end it in mid-2014. It is forecasting growth of as much as 2.6% this year and 3.5% in 2014. It did add, however, that it could change its stance if incoming economic data reports fail to justify such action.

Greece

The IMF said Greece is assured of its next aid payment, as long as it presses ahead with an economic-overhaul program. The comments came amid political fallout from the decision to shut down its public broadcaster, with the loss of 2,600 jobs.

Currencies

The dollar strengthened over the week, especially against the yen, after the Fed commented on the improving economy. The €/€ rate finished the week at 1.31, a weakening of almost 2%.

Commodities

Oil prices retreated on the week, on the back of expectations that the Fed will trim its monthly bond purchases as early as September. Brent crude oil closed at \$101 per barrel, a fall of almost 5%. Gold prices rebounded at the end of the week, having hit their cheapest level since 2010. However, the price finished the week 7% lower.

	Index	Year to Date Return 31.12.12 to 21.06.13		1 Week Return 14.06.13 to 21.06.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.9	6.3	-1.9	-1.6
US	S&P 500	11.7	12.3	-2.1	-0.4
US	NASDAQ	11.2	11.8	-1.9	-0.3
Europe	FT/S&P Europe Ex. U.K.	0.1	0.1	-4.1	-4.1
Ireland	ISEQ	14.3	14.3	-0.8	-0.8
UK	FTSE 100	3.7	-1.0	-3.0	-3.2
Japan	Topix	27.9	13.9	4.1	1.8
Hong Kong	Hang Seng	-10.6	-10.2	-3.4	-1.7
Australia	S&P/ASX 200	1.9	-9.1	-1.1	-3.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.2	-0.2	-1.9	-1.9

Global Equities



United States

Overview

The S&P 500 Index fell heavily during the week, notably falling 2.5% on Thursday, following the Fed's indication that it may start paring stimulus measures as soon as September, by easing back on the level of bond purchases.

Oracle – Shares in the largest maker of database software fell to a seven-month low after sales missed estimates for the second-straight quarter. The company blamed Asian sales being very weak and currency headwinds. Its shares fell over 9% following the announcement.



Europe

Overview

European stocks posted their biggest weekly fall in 13 months on the back of the Fed's comments about the timing of the US quantitative easing policy, concerns about increased interbank interest rates in China and concerns surrounding Greece's bailout package.

Mining stocks – BHP Billiton and Rio Tinto led a gauge of mining companies to the lowest in almost four years. The world's two biggest mining companies retreated over 6% and 4% respectively.



Ireland

Overview

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

Ryanair – At an investor day, management detailed plans to return at least €1 billion to shareholders over the next two years. It also stepped up its expected growth rate from 5% to 7% over the coming years, highlighting its circa 50% ex-fuel cost advantage relative to its peers.



Asia Pacific

Overview

Asian stocks, outside of Japan, experienced their worst weekly run since 2011. The regional benchmark, the MSCI Asia Pacific excluding Japan index, slumped to its longest losing streak in two years, amid fears that US stimulus is nearing an end and that a credit crunch is worsening in China. A squeeze on credit in China is causing concern for future global economic growth, should the government get its policies wrong. The government's aim is to reduce the reliance on non-bank credit and aim to deliver economic expansion closer to 7%, rather than the higher rates seen in recent years.

Bonds

German bund yields reached a 14-month high on the back of the Fed's comments regarding economic growth and the scope to reduce financial stimulus. For the same reasons, US 10-year treasuries hit their highest yield in just under two years. Italian and Spanish bond prices fell for the seventh week as demand for higher-yielding assets was hardest hit. Overall, the Merrill Lynch over 5 year government bond index finished the week almost 2% lower.

Global Outlook

- Investors have become nervous recently about the path for US Fed policy and the trajectory of Chinese growth. Growth in the US is sub-par by historic standards but, importantly, it is stable, which has emboldened the Fed to talk further about removing some of its stimulus. Eurozone growth is more problematic but the relative stability in periphery bonds has been an important offset to a weaker economic backdrop. Regarding China, most investors had thought that an economic slowing would produce a policy response but this view has been re-assessed lately and caused Chinese shares to fall further. Investors continue to be cautious regarding the Asian region as a whole for now. Goods' and wage inflation globally is modest and recent readings for consumer prices in the US and Europe have been weak.
- Monetary policies remain very loose and this still looks a necessity in 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 very sensitive to comments from the Fed that it will 'taper' the extent of its policy generosity. Other central banks are generally neutral in their stance. As for the ECB, analysts still expect that it will stay highly accommodative during 2013 and, as previously discussed, it will likely deliver further policy initiatives, albeit the hurdle for these may be higher than initially thought.
- Fed 'tapering' commentary has sent US and European bond yields higher by 0.5% to 0.75% in recent weeks with many again talking of the bond bubble bursting. We had been of the view that historically low long-term interest rates in many countries would likely remain as long as central banks sponsor a low interest rate structure. The recent panicky moves have caused bond markets to be heavily oversold and prices generally stabilise for a period after such moves. Meanwhile, confidence in the ability of the ECB and policymakers to manage the peripheral debt situation currently remains very high but somewhat complacent in our view. Peripheral spreads have also risen as US and German yields have increased, breaking a pattern seen previously.
- Equity markets are within historic valuation ranges – albeit now closer to the top of that recent range in the US. Most market strategists remain of the view that equities are much better value than bonds. Nonetheless, the threat of liquidity being removed from the system by the Fed – plus Chinese worries – has panicked some investors, causing increased volatility and relatively sharp price falls. We had thought that markets might correct further and this remains the case for now. We expect that bond markets will settle first and equity markets thereafter as long as US and other economies' growth numbers remain within expectations.
- 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 and 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.

Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

Zurich Life Assurance plc is regulated by the Central Bank of Ireland.

Intended for distribution within the Republic of Ireland.

