

## Global Overview

### Equities retreat

Some calm was restored in equity markets last week after the previous week's losses, with all of the major markets returning to positive returns. The sense was that the market had got ahead of itself in predicting an imminent end to monetary stimulus and oversold.

### Federal Reserve Clarification

Members of the Federal Reserve added some clarification of Ben Bernanke's comments the previous week, reiterating that the Fed may prolong its asset purchase programme should the US economy fail to meet its forecasts and adding that "a rise in short-term rates is very likely to be a long way off".

### China

Fears of a credit crunch in China eased last week also as the People's Bank of China reiterated that it would ensure adequate liquidity for the financial system's needs.

### Currencies

The €/£ rate finished the week at 1.30, a weakening of 1%. The dollar was also strong against the yen, rising 1.4% against the Japanese currency. Sterling fell 1.4% against the dollar and many interested eyes will be on the Bank of England's Monetary Policy Committee meeting this week, its first under new Governor Mark Carney.

### Commodities

Oil prices rose a little on the week, while gold plunged a further 5.5%. The precious metal is down almost 30% on the year-to-date, a process which accelerated following Ben Bernanke's remarks the week before last.

|           | Index                                | Year to Date Return<br>31.12.12 to 28.06.13 |           | 1 Week Return<br>21.06.13 to 28.06.13 |           |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
|           |                                      | Local Currency<br>%                         | Euro<br>% | Local Currency<br>%                   | Euro<br>% |
| Global    | FTSE World                           | 10.7  | 8.7       | 1.6                                   | 2.3       |
| US        | S&P 500                              | 12.6  | 14.3      | 0.9                                   | 1.9       |
| US        | NASDAQ                               | 12.7  | 14.3      | 1.4                                   | 2.4       |
| Europe    | FT/S&P Europe Ex. U.K.               | 2.0   | 2.0       | 1.9                                   | 1.9       |
| Ireland   | ISEQ                                 | 16.7  | 16.7      | 2.0                                   | 2.0       |
| UK        | FTSE 100                             | 5.4   | -0.1      | 1.6                                   | 1.1       |
| Japan     | Topix                                | 31.9  | 16.9      | 3.1                                   | 2.6       |
| Hong Kong | Hang Seng                            | -8.2  | -6.9      | 2.7                                   | 3.8       |
| Australia | S&P/ASX 200                          | 3.3   | -8.0      | 1.3                                   | 1.2       |
| Bonds     | Merrill Lynch Euro over 5 year Govt. | -0.1  | -0.1      | 0.2                                   | 0.2       |

## Global Equities



### United States

#### Overview

US equities stabilised last week after the large losses of the previous week. In fact, the S&P 500 Index enjoyed its strongest three-day rally since January, before easing off late in the week, for an overall gain in the region of 1%.

**Accenture & Blackberry** – Shares in the world's second-largest technology consulting firm fell 10% on Friday after missing quarterly sales forecasts and cutting its outlook. Meanwhile, Blackberry plunged over 25% on Friday as it announced very weak sales numbers and an operating loss for the quarter.



## Europe

### Overview

Relative calm was also restored in European stock markets last week, which rose strongly during the early days of the week, before easing on Friday. On the half year, European markets recorded a positive return of just shy of 2%.

**Auto stocks** – Carmakers were among the best-performing stocks on the week. Daimler added over 7% as the sector recovered from recent losses. Peugeot, which has been the subject of speculation regarding a deeper tie-up with General Motors, rose almost 7%. The sector is viewed as a cheap cyclical play on an improving global economy.



## Ireland

### Overview

The Irish market finished the week with an advance of 2%, with cyclical stocks such as Smurfit Kappa and CRH recovering from the recent sell-off.



## Asia Pacific

### Overview

Asian stocks bounced, in common with other international markets, as some calm was restored. Calmer conditions in the Chinese money markets, following the People's Bank of China's statement that it would ensure adequate liquidity, helped to soothe nerves. Shares rose off lows in China and Hong Kong, the latter up nearly 3% on the week. Peripheral Asian markets such as Thailand, Indonesia and the Philippines also recovered well. Japanese stocks enjoyed a strong week too, as industrial output rose a surprisingly strong 2% in May and confidence continued that deflation is being meaningfully tackled.

## Bonds

Some calm was restored to bond markets last week, in line with the overall trend. The yield on the 10-year US Treasury settled at close 2.50%, still a big move from the levels of 1.60% seen at the start of May, but nonetheless a stop to the sharp rises in recent weeks. In Europe, the bond market also regained some poise, the Merrill Lynch over 5 year government bond index finishing the week virtually unchanged. The yield on the 10-year German bund is approximately 1.75% this morning.

## 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 concerned some investors, causing increased volatility. 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.

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