

## Global Overview

### Equities make progress

Equities were very strong last week, fired with enthusiasm about Ben Bernanke's midweek comments (see below). The S&P 500 Index in the US hit a new record high, while the FTSE 100 in the UK had its best week in six months. European and Japanese stocks were also very strong.

### Fed Chairman's dovish comments

Ben Bernanke, in a question and answer session midweek, was keen to make the point that a tapering or easing off in the Fed's bond-buying programme was not the same thing as monetary tightening. He said that monetary policy would remain "highly accommodative" for the foreseeable future and that the Fed would push back against a tightening in financial conditions. His comments were construed as being highly dovish.

### Eurozone unease

Portugal experienced another uneasy week. The yield on its 10-year bond rose 40bps over the week, to 7.5%, as continuing political unrest prompted the government to postpone the next financial review with the troika.

### Currencies

It was the turn of the US dollar to be weaker in the wake of Mr. Bernanke's comments. The euro held comfortably above the 1.30 level, having closed the previous week at close to 1.28. The euro also gained against sterling, closing at over 0.86.

### Commodities

Gold enjoyed a very strong week, rising by almost 5% in the wake of Ben Bernanke's comments on the continuing need for accommodative policy in the US and the related weakening in the dollar.

	Index	Year to Date Return 31.12.12 to 12.07.13		1 Week Return 05.07.13 to 12.07.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	13.8	12.5	1.4	1.4
US	S&P 500	15.9	17.0	1.3	-0.5
US	NASDAQ	16.6	17.8	1.2	-0.6
Europe	FT/S&P Europe Ex. U.K.	4.9	4.9	2.2	2.2
Ireland	ISEQ	19.1	19.1	1.1	1.1
UK	FTSE 100	11.0	4.4	2.7	2.5
Japan	Topix	39.0	22.6	0.5	0.6
Hong Kong	Hang Seng	-5.4	-4.5	2.8	0.9
Australia	S&P/ASX 200	6.8	-4.4	2.6	2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	0.5	0.5

## Global Equities



### United States

#### Overview

The S&P 500 Index closed at a record high on Thursday, buoyed by the dovish Fed comments. We are moving into second-quarter results season, which will be the focus of attention for the next little while.

**Early results** – Leading financials JP Morgan and Wells Fargo both reported strong earnings. Wells Fargo rose almost 2% after reporting earnings per share of 98 cents, well above forecast of 82 cents. JP Morgan, meanwhile, reported a 31% jump in quarterly profits, in line with expectations.



## Europe

### Overview

European markets were very strong, closing just short of a five-week high, while the UK market had its best week in six months.

**Stock news** – Daimler jumped over 6% on strong second-quarter profits that beat expectations. Earnings before interest and taxes came to €5.2 billion. On the other hand, Reckitt Benckiser, fell over 5% as doubts emerged about the heroin substitute that makes up 20% of its operating profit.



## Ireland

### Overview

The Irish market rose, in common with its European counterparts, adding 1.1% on the week. Builders merchanting and DIY group Grafton saw growth in its Irish merchanting business (H1 2013) for the first time since 2007. Its UK merchanting business saw growth of 1.7% over the same period.



## Asia Pacific

### Overview

Japanese equities rose again, the Nikkei 225 Index closing at a seven-week high. The yen was slightly weaker against the dollar, and figures released last week showed that Japanese investors invested money overseas for the first time since May. Elsewhere, Hong Kong and Australia enjoyed strong weeks, carried along by the rise in global sentiment on the back of Ben Bernanke's comments. The Australian dollar continued its recent weakness, going to a fresh 2013 low versus the US dollar. Slowing mining investment, promoting interest rate cuts, is undermining the attraction of the currency.

## Bonds

The yield on the 10-year US Treasury eased somewhat during last week after the dovish comments from Ben Bernanke. It closed at 2.60%, a fall of 10bps on the week. Core eurozone bonds, in the shape of the German 10-year bund, saw a fall in yield of 17bps to 1.55%. On the periphery, political developments in Portugal were not so positive, as outlined above, though Irish yields remained steady enough after S&P upgraded its outlook for Irish bonds. Overall, the Merrill Lynch over 5 year government bond index closed up 0.5%.

## 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 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 this year and caused Chinese shares to be quite weak. 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. 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. Meanwhile, the ECB has just emphasised that it will keep policy loose for a protracted period of time. It will likely deliver further policy initiatives before this cycle is over.
- 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 remain of the view that historically low long-term interest rates will persist in many countries as long as central banks sponsor low short-term rates. The recent panicky moves have caused bond markets to be oversold and we expect US and German bond prices to stabilise, and likely move higher, in coming weeks. 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, given the variety of risks that are still present and not fully incorporated into market pricing.
- Equity markets are within historic valuation ranges – albeit now somewhat 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 Fed's dry run of liquidity removal – plus Chinese growth worries – has caused increased volatility and sharp price moves. We had thought that markets might correct - which they did - and that equity markets could likely cope with reduced liquidity as long as growth expectations are met. For now, though, investor sensitivity to economic data and Fed commentary will remain very high.
- 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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