

Global Overview

Equities hit a wall

Many equity markets suffered their first weekly decline in more than a month as a decidedly mixed batch of earnings results, combined with uncertainty about Chinese economic growth, gave markets pause for thought.

China's slowdown?

A preliminary survey of purchasing managers in China showed that manufacturing weakened by more than expected in July. If the figure is confirmed in the final report on 1st August, it would be the worst one for eleven months.

Eurozone recovery?

On the other hand, the eurozone flash PMI survey broke above the 50 boom/bust line for the first time in eighteen months. With Germany leading the way, this raised expectations that the eurozone as a whole will show economic growth in the current quarter.

Currencies

On currency markets, the euro gained against the dollar as it closed within sight of 1.33. The US dollar was generally weak, falling to its lowest level for a month against a basket of currencies.

Commodities

The gold price regained the \$1,300 per troy ounce level for the first time in a month and closed the week up almost 3%. Oil prices dropped, Brent falling below \$107 per barrel.

	Index	Year to Date Return 31.12.12 to 26.07.13		1 Week Return 19.07.13 to 26.07.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	16.0	12.4	-0.2	-0.7
US	S&P 500	18.6	17.8	0.0	-1.1
US	NASDAQ	19.7	18.9	0.7	-0.4
Europe	FT/S&P Europe Ex. U.K.	6.8	6.8	0.1	0.1
Ireland	ISEQ	20.1	20.1	0.0	0.0
UK	FTSE 100	11.1	4.5	-1.1	-1.5
Japan	Topix	35.7	19.3	-3.7	-2.6
Hong Kong	Hang Seng	-3.0	-3.8	2.8	1.8
Australia	S&P/ASX 200	8.5	-4.1	1.4	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	0.8	0.8	-0.4	-0.4

Global Equities



United States

Overview

Company earnings were the focal point for the week in the US, where the S&P 500 Index closed flat in local currency terms. The earnings season has been characterised by disappointing sales, but reasonable profits.

Results – Apple, the heaviest stock on the NASDAQ, surprised the market with strong sales of iPhones (31.2 million last quarter), producing earnings of \$6.9 billion on revenue of \$35.3 billion. The stock rose 5% in response, a much-needed boost, having lost 20% since January. Amazon reported a surprise net loss of \$7million (or 2c per share), citing rising expenses and currency issues. Analysts had been expecting a profit of 5c per share. The shares rose despite the loss as investors viewed the margin expansion achieved favourably.



Europe

Overview

European stocks followed the same broad pattern as the US, closing flat to slightly downwards.

Stock news – Belgacom, the Belgian telecoms group, was over 6% higher on the week after reporting second-quarter earnings of €430m. Staying with telecoms, KPN climbed over 18%, helped by a deal to sell its German mobile business to Telefónica Deutschland. Pearson, publisher of the Financial Times, rose over 6% on Friday after its half-year revenues beat forecasts.



Ireland

Overview

The Irish market was flat last week. This morning, Ryanair said that profits dropped in the first three months of its financial year, but that it is on track to make full-year profits of €600m. Revenue from January to March came in at €1.3billion, while profits were €78m. The share is down a little in trading this morning, but guidance for Q2 looks robust.



Asia Pacific

Overview

A run of five successive weekly gains came to an end in Japan as the Topix Index fell nearly 4%. The largest part of the fall came on Friday following the sudden appreciation of the yen, which hurts exporters. Hong Kong had a good week, rising nearly 3%, as authorities in Beijing announced some targeted stimulus measures. Australia also rose 1.4%. Samsung Electronics reported a 48% rise in operating profit to a record \$8.54 billion. However, profits at its mobile division, which generates two thirds of its total earnings, slipped 3.5% from the previous quarter.

Bonds

Bond yields on both sides of the Atlantic moved upwards. The yield on the 10-year US Treasury closed at 2.58%, a rise of about 10bps on the week. Core eurozone bonds, in the shape of the German 10-year bund, saw a slightly larger rise, the yield finishing the week at 1.67%, up 17bps on the week. The stronger PMI suggests that eurozone rates will remain unchanged at the next ECB meeting. Overall, the Merrill Lynch over 5 year government bond index closed down 0.4%.

Global Outlook

- The general economic backdrop has not changed materially of late. Investors are slightly nervous about the path for US Fed policy and the trajectory of Chinese growth. US growth is still 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 most recent indicators are slightly better and the relative stability in periphery bonds has also been helpful. Regarding China, most investors had thought that an economic slowdown 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 and emerging markets for now. Goods' and wage inflation globally is modest and recent readings for consumer prices in the US and Europe have been weak.
- A reasonably loose monetary policy continues to be a necessity in several of the major regions. Nonetheless, investors are now quite 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. The ECB has distanced itself from recent Fed rhetoric by emphasising that it will keep policy loose for a protracted period of time. We think that it will likely deliver further policy initiatives before this cycle is over.
- Fed 'tapering' commentary 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 still think that historically low long-term interest rates will persist in many countries as long as central banks sponsor low short-term rates. Recent panicky moves had 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 not cheap – with the US market now closer to the top of that recent range. Meanwhile, market strategists continue to overwhelmingly favour equities over bonds. Nonetheless, the Fed's dry run of liquidity removal – plus Chinese growth worries – has caused increased volatility and sharp price moves and we would not be surprised to see another modest market correction over coming weeks; weakness in Japan may offer an opportunity to add to positions. In general, equity markets should be able to cope with reduced liquidity as long as growth expectations are met. That will remain key for the outlook.
- 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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