Zurich Life
Weekly Investment News

6th August 2013

ZURICH

Global Overview

Equities rise
Equity markets rose on the back of upbeat data worldwide, while central bank actions and earnings results also supported equities.

US to continue stimulus?
U.S. gross domestic product rose 1.7% in Q2, compared with the 0.9% that economists had forecast. This was relatively similar to the growth in Q1. Separately, a report showed that US employers increased payroll numbers by 162,000 in July, the smallest increase in four months. Both of these increased expectations that the Fed will continue with its stimulus measures.

Eurozone recovery
Figures released on Thursday showed eurozone manufacturing activity grew for the first time in two years in July. The purchasing manager's index (PMI) rose to 50.3 in July, above initial estimates. A figure above the 50-mark signals an expanding economy.

Central banks
The Fed, Bank of England and ECB all held rates at record lows when they met last week. The Fed said it will maintain its bond-buying policy in its ongoing effort to bolster the economy, while the ECB also supported markets by stating that the economic indicators 'provide support to a gradual recovery in economic activity in the remaining part of the year and in 2014'.

Currencies
The dollar strengthened towards the end of the week, erasing an early-week decline, as the weaker-than-expected jobs data failed to ease speculation that the Fed will begin winding down stimulus measures before year-end. The €/$ finished the week unchanged at 1.33.

Commodities
Oil prices rose on the back of the upbeat economic data worldwide. Brent rose above $109 per barrel, a gain of 2% on the week. The gold price finished the week slightly lower, but still above the $1,300 per troy ounce level.

	Index	Year to Date Return 31.12.12 to 02.08.13		1 Week Return 26.07.13 to 02.08.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	17.6	13.5	1.4	1.0
US	S&P 500	19.9	19.1	1.1	1.1
US	NASDAQ	22.2	21.4	2.1	2.1
Europe	FT/S&P Europe Ex. U.K.	9.0	9.0	2.1	2.1
Ireland	ISEQ	23.7	23.7	3.0	3.0
UK	FTSE 100	12.7	5.3	1.4	0.8
Japan	Topix	39.1	21.2	2.5	1.6
Hong Kong	Hang Seng	-2.1	-2.8	1.0	1.0
Australia	S&P/ASX 200	10.1	-6.2	1.5	-2.2
Bonds	Merrill Lynch Euro over 5 year Govt.	1.4	1.4	0.6	0.6

Global Equities

United States

Overview

US shares finished the week higher as company earnings and economic releases supported stocks worldwide. The Fed remains a focal point for investors as we approach Q4, when it may move to unwind its stimulus measures.

AIG – Shares in the insurance group rose 3% after it said that it is paying its first dividend since 2008, this year. It also announced a share buyback programme of as much as $1 billion.

Europe

Overview

European stocks rose over the week, following upbeat economic data and expectations-beating earnings results.

Stock news – Anheuser-Busch InBev jumped 11% after the company announced that profits rose almost 6%, versus the 4% which analysts had forecast. Alcatel-Lucent also gained strongly, 17% overall, after the maker of networking equipment reported Q2 sales and operating profit which also beat analysts' estimates.

Ireland

Overview

The Irish market rose 3% on the week, hitting highs not seen since 2008.

CRH – The largest stock on the ISEQ index, CRH, rose strongly after promising construction data in the UK, which showed the sector's growth rate is at a three-year high.

Asia Pacific

Overview

Asian shares rebounded from their first fall in six weeks, as manufacturing reports worldwide beat expectations and central banks vowed to maintain stimulus. Japan's Topix Index rose over 2%, while Hong Kong's Hang Seng Index rose 1%. Government data showed China's manufacturing sector managed to stay in an expansion phase in July. While the reading of 50.3 only indicates marginal expansion, it defied forecasts of a contraction. Markets were also helped by Japan's yen weakening which should help profits for the country's exporters.

Bonds

Italian and Spanish bond prices rose for the third-successive week after reports showed that manufacturing activity in the euro area increased. In addition to this, comments from the ECB about interest rates remaining unchanged and economic indicators showing improvement also supported bonds in the region. Its governing council also said it "expects key interest rates to remain at present or lower levels for an extended period of time." German bunds finished the week relatively unchanged but, overall, the Merrill Lynch over 5 year government bond index finished the week 0.6% higher.

Global Outlook

- The general economic backdrop has not changed materially of late. Investors are focussed on prospective changes to 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 subdued.

- 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. Bond markets, while quite oversold, remain vulnerable to upside growth surprises. 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. While the Fed's likely liquidity removal – plus Chinese growth worries – continue to contribute to market volatility and sharp price moves, equity markets have performed strongly as recent quarterly corporate earnings reports and incoming economic data have been received positively. We view equity market weakness as 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 in the UK, neutral in Europe and the Pacific region and neutral to slightly overweight in the US, Ireland and Japan.

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®