Zurich Life
Weekly Investment News

12th August 2013

ZURICH

Global Overview

Equities under pressure

Speculation that the recent strong data will result in the Federal Reserve tapering the stimulus measures in the US weighed on most markets during the week. European markets were the exception, recording gains after good data in the region itself.

US economic data

Data released for July showed that jobless claims fell to their lowest monthly rate since before the recession. Weekly claims for jobless benefits totalled 333,000 last week, beating analysts' expectations of 335,000.

Eurozone data

An index of activity in the eurozone's service industry rose in July, with the latest figure showing something to expansion overall. Elsewhere, the latest German factory orders data showed an improvement in June.

UK exports boost outlook

UK exports rose to a record in Q2, boosting the outlook for the economy which has seen data improve recently. The Bank of England also said it plans to keep policy loose to encourage the recovery.

Currencies

The dollar weakened amid signs that economic recoveries in many economies, including Germany and the UK, are strengthening. The €/$ finished the week just below 1.34, gaining 0.5% over the week.

Commodities

Oil prices fell on fears that stimulus in the US will be cut by year-end. Brent finished just above $108 per barrel, a fall of 1% on the week. The gold price finished the week relatively unchanged, at $1,313 per troy ounce.

	Index	Year to Date Return 31.12.12 to 09.08.13		1 Week Return 02.08.13 to 09.08.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	16.4	12.5	-1.0	-0.9
US	S&P 500	18.6	17.3	-1.1	-1.6
US	NASDAQ	21.2	19.9	-0.8	-1.3
Europe	FT/S&P Europe Ex. U.K.	9.9	9.9	0.7	0.7
Ireland	ISEQ	25.6	25.6	1.5	1.5
UK	FTSE 100	11.6	5.4	-1.0	0.1
Japan	Topix	32.7	18.1	-4.6	-2.6
Hong Kong	Hang Seng	-3.7	-4.9	-1.7	-2.2
Australia	S&P/ASX 200	8.7	-4.8	-1.2	1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	1.5	1.5	0.1	0.1

Global Equities

United States

Overview

It was a quiet news week, but US shares fell, with the S&P 500 Index experiencing its biggest loss since June, as fears the Fed will cut stimulus this year weighed on equity markets.

Apple – Apple fell over 2% after data showed that its share of China's smartphone market was cut by almost half in the second quarter. Consumers are opting for lower-priced handsets from domestic suppliers.

Europe

Overview

European stocks bucked the trend and finished the week higher. Better-than-expected data in the region, and from China, overshadowed the fears surrounding the US stimulus measures.

KPN – The Dutch phone operator soared 16% over the week as America Movil offered to take the company over. The offer is at a 20% premium to KPN's closing share price of 8th August.

Ireland

Overview

The Irish market followed Europe higher, rising over 1% on the week.

Kerry Group – The food group announced it was confident of achieving its full-year growth targets after it reported a 1.1% increase in revenues for the six months to the end of June. The company said results across its core ingredients & flavours and consumer foods business segments were "very encouraging", given the relatively sluggish overall market environment.

Asia Pacific

Overview

Asian shares fell during the week as the yen's gain weighed heavily on Japanese shares, while earnings disappointed investors, with HSBC and Nikon two notable companies that reported poor earnings results and outlooks. Japan's Topix Index and Hong Kong's Hang Seng Index fell almost 5% and 2% respectively. There was more upbeat data from China, as it posted stronger-than-expected trade figures, raising hopes that the world's second-biggest economy may be stabilising. The Bank of Japan kept monetary policy steady at its latest meeting, and held off on revising upwards its assessment on the economy, opting to wait for more clues on whether companies are increasing their capital expenditure.

Bonds

Italian and Spanish bond prices rose for a fourth week, the longest run since May, after an improvement in euro-area services output and German factory orders. German bunds suffered as a result, as signs that the eurozone is recovering are boosting the demand for bonds from the higher-yielding countries. Overall, the Merrill Lynch over 5 year government bond index finished the week 0.1% 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 the UK, neutral in Europe and the Pacific region and neutral to slightly overweight in the US, Ireland and Japan.

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