# Zurich Life
# Weekly Investment News

19th August 2013

ZURICH

## Global Overview

### Equities under pressure

Many major indices posted their first back-to-back weekly losses since late June, as speculation that the recent strong data will result in the Federal Reserve tapering its stimulus measures continued to weigh on sentiment.

### US economic data

Housing starts beat analysts' expectations in July, after climbing almost 6% compared with June. Retail sales also showed improvement, with sales rising half a percent in July, the fastest pace in seven months. However, New York's manufacturing activity was unchanged in July as a decline in manufacturing output and utilities counteracted an uptick in mining activity.

### Eurozone data

Eurozone GDP expanded marginally, 0.3%, in Q2, counteracting a contraction of the same extent in Q1. Further to this, the German ZEW investor confidence survey rose more-than-expected in August. It showed investors are positive about both domestic demand and improvements in the eurozone.

### Currencies

The dollar strengthened against a majority of its 16 most-traded peers on the back of the tapering speculation. The euro was supported by upbeat data in the region, which resulted in the €/$ rate finishing the week relatively unchanged at 1.33.

### Commodities

Oil prices rose on fears that the political unrest in Egypt might result in Middle East supply being affected. Brent finished at $110 per barrel, a 2% increase on the week. The gold price finished the week 4% higher on signs of higher physical demand for precious metals.

| | Index | Year to Date Return 31.12.12 to 16.08.13 | | 1 Week Return 09.08.13 to 16.08.13 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| Global | FTSE World | 11.5 | 11.5 | -0.8 | -0.9 |
| US | S&P 500 | 16.1 | 15.0 | -2.1 | -1.9 |
| US | NASDAQ | 19.3 | 18.2 | -1.6 | -1.4 |
| Europe | FT/S&P Europe Ex. U.K. | 10.4 | 10.4 | 0.5 | 0.5 |
| Ireland | ISEQ | 23.1 | 23.1 | -2.0 | -2.0 |
| UK | FTSE 100 | 10.2 | 4.9 | -1.3 | -0.4 |
| Japan | Topix | 32.9 | 17.0 | 0.2 | -0.9 |
| Hong Kong | Hang Seng | -0.6 | -1.6 | 3.3 | 3.5 |
| Australia | S&P/ASX 200 | 10.0 | -3.8 | 1.2 | 1.1 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 0.6 | 0.6 | -0.9 | -0.9 |

## Global Equities

### United States

**Overview**

US stocks fell for another week as mixed economic data and fears the Fed will move in September to scale back its quantitative easing measures pushed the S&P 500 Index to its biggest weekly drop in almost two months.

**Stocks** – Eight out of the ten sectors on the index fell over the week, with dividend-paying stocks affected the worst as the 10-year Treasury yield rose to a two-year high. Cisco Systems and Wal-Mart Stores also weighed on the market following disappointing forecasts.

## Europe

### Overview

European stocks bucked the trend for another week as data showing growth in the region, helping it emerge from its longest recession on record, outweighed speculation that the Fed will scale back its stimulus measures.

**Banking stocks** – Italian banks posted the biggest gains over the week as the extra yield investors demand to hold the nation's 10-year bonds, over the German benchmark rate, shrank to its lowest in two years. Monte Paschi led the way with a 14% rise.

## Ireland

### Overview

The Irish market fell heavily, its first retreat in eight week.

**Ryanair** – The airline, which is the second largest stock on the ISEQ index, fell 8%, as investors took profits in the airline sector globally.

## Asia Pacific

### Overview

It was a good week for Asian markets as data in the region drove markets higher, although fears surrounding the Fed's next move pared gains over the week. Japan's Topix Index finished the week unchanged, while good Chinese growth data pushed Hong Kong's Hang Seng Index to a rise of over 3%. Japan's economy grew 2.6% on an annualized basis in Q2, lower than the 3.6% forecast. Following a marginal expansion in Q1, Hong Kong's economy grew a further 0.8% in Q2, prompting the government to raise its forecast for the year.

# Bonds

US 10-year Treasury yields rose the most in a week since early July as investors bet the Fed may reduce its debt-purchase programme next month, amid further signs the economy is strengthening. Spanish bond prices rose for another week on the back of further positive economic data in the eurozone region. Along with Italy, the yield spread of its 10-year bonds versus German bunds fell to its lowest in over two years. Demand for German bunds, however, slumped as investors continued to look for the higher-yielding economies. This hurt the Merrill Lynch over 5 year government bond index, which finished the week 0.8% lower overall.

# 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.



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 Life Assurance plc is regulated by the Central Bank of Ireland.
Intended for distribution within the Republic of Ireland.

ZURICH®