Zurich Life
Weekly Investment News

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ZURICH

Global Overview

Mixed week for equities
It was a mixed week for equities as generally good economic data raised speculation that the Federal Reserve will taper its stimulus measures when it next meets, despite the concern of some officials, as shown in the Fed's meeting minutes.

Federal Reserve minutes
Minutes from the latest Fed meeting showed that officials may be getting closer to tapering the central bank's bond-buying programme, but concerns about the future direction of the economy are live; therefore, some hesitation remains.

China's improvement
HSBC's preliminary reading of Chinese PMI for August crossed the key 50-level for the first time in four months, with new orders being the key driver of this improvement. A reading above 50 indicates expansion. This data is the latest sign of stabilisation in China.

US data
A preliminary reading of US Manufacturing PMI showed further improvement in August, rising to 54, which brings it to a five-month high.

Currencies
The dollar weakened against the euro, after purchases of new US homes in July unexpectedly fell by the most in three years. The euro was also supported by upbeat data in the region over the week, which resulted in the €/$ rate finishing the week at 1.34.

Commodities
Oil prices rose marginally on the week, following some good economic data worldwide. Brent finished at $111 per barrel, a rise of 1%. The gold price also gained, hitting the $1,400 per troy ounce level, after some poor housing data that increased speculation the Fed will need to maintain economic stimulus.

	Index	Year to Date Return 31.12.12 to 23.08.13		1 Week Return 16.08.13 to 23.08.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	15.6	10.8	0.0	-0.7
US	S&P 500	16.6	15.0	0.5	0.1
US	NASDAQ	21.1	19.4	1.5	1.1
Europe	FT/S&P Europe Ex. U.K.	9.8	9.8	-0.6	-0.6
Ireland	ISEQ	24.4	24.4	1.1	1.1
UK	FTSE 100	10.1	4.0	-0.1	-0.9
Japan	Topix	32.8	15.0	-0.1	-1.7
Hong Kong	Hang Seng	-3.5	-4.9	-2.9	-3.3
Australia	S&P/ASX 200	10.2	-5.6	0.2	-1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	-0.7	-0.7

Global Equities

United States

Overview
US stocks gained over the week, with the S&P 500 Index posting its first back-to-back positive days in three weeks. Upbeat economic data, including PMI activity rising to a five-month high, overshadowed the concern surrounding the Fed's move to curb its monthly bond purchases soon.

Microsoft – The tech company, which has struggled to adapt to the decline in personal computers, saw its shares rally 7% after the announcement that its CEO would retire within 12 months.

Europe

Overview

After a number of positive weeks, European stocks bucked the trend and fell marginally on the week. Speculation that the Fed will scale back its stimulus measures imminently outweighed upbeat data in the region itself.

Construction sector – Holcim, the world's largest cement maker, was downgraded by UBS, with the brokerage citing lower earnings on the back of increased costs from currency fluctuations and downward pressure on its profit margins. Its shares fell 5% over the week. Lafarge and HeidelbergCement also fell as a result.

Ireland

Overview

The Irish market recovered some of last week's fall, rising over 1% during the week.

Stocks – CRH reported half-year results in which it downgraded full-year guidance on weather conditions and a challenging environment in Europe. Glanbia reported a strong set of results which were driven by the performance of its global performance nutrition division.

Asia Pacific

Overview

It was a mixed week for Asian markets overall. Japan's Topix Index finished the week unchanged, having rallied late in the week following data worldwide and a weakening of the yen against the dollar. Hong Kong's Hang Seng Index fell sharply on concerns of higher interest rates when the US tapers its stimulus measures. Improving PMI data in China, however, gave the markets some grounds for optimism.

Bonds

German government bond prices fell on the week following the release of further upbeat economic data in the eurozone. The German economy recorded expansion in Q2, which dampened the demand for the region's safest asset. The yield on the 10-year bund rose to 1.93%, its highest level in 17 months. Italian and Spanish bond prices also finished the week marginally lower. Overall, the Merrill Lynch over 5 year government bond index finished the week 0.7% lower.

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 less problematic with most recent indicators improving 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 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 underweight positions in bonds versus the manager average. The funds are underweight energy and utility stocks and overweight consumer services. Geographically, the funds are underweight the UK and Japan, neutral in the US and Pacific region and neutral to slightly overweight in Europe and Ireland.

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