Zurich Life
Weekly Investment News

2nd September 2013

Global Overview

Equities retreat

Stock markets worldwide retreated during the week, as the concerns that the US will reduce its bond purchases this month were joined by heightened worries that a military strike on Syria from the US was likely. This also resulted in the oil price jumping.

Further eurozone data improvement

Economic confidence in the region rose to a two-year high in August. It is the fourth-consecutive month that the index of executive and consumer sentiment has risen.

US data

US GDP rose by 2.5% in Q2, up from 1.7% the previous quarter. Economists had only been expecting a 2.2% rise. In separate reports, weekly jobless claims fell more-than-expected, while the consumer confidence index for August also showed improvement.

Currencies

The dollar strengthened against a majority of its 16 most-traded currencies as the Fed reiterated its plan to start reducing bond purchases as soon as this month. The €/$ rate finished the week at 1.32, a weakening of 1.3%.

Commodities

Oil prices rose during the week on the possibility that western involvement in Syria could spark a wider conflict and destabilise the Middle East. Brent prices finished at $114 per barrel, a rise of almost 3%. The gold price didn't react to the Middle-East or stimulus concerns, remaining unchanged on the week.

	Index	Year to Date Return 31.12.12 to 30.08.13		1 Week Return 23.08.13 to 30.08.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	13.5	10.2	-1.8	-0.6
US	S&P 500	14.5	14.4	-1.8	-0.5
US	NASDAQ	18.9	18.8	-1.9	-0.5
Europe	FT/S&P Europe Ex. U.K.	6.2	6.2	-3.3	-3.3
Ireland	ISEQ	23.4	23.4	-0.8	-0.8
UK	FTSE 100	8.7	3.5	-1.2	-0.4
Japan	Topix	28.6	13.5	-3.1	-1.3
Hong Kong	Hang Seng	-4.1	-4.2	-0.6	0.8
Australia	S&P/ASX 200	10.5	-5.5	0.2	0.2
Bonds	Merrill Lynch Euro over 5 year Govt.	0.1	0.1	0.1	0.1

Global Equities

United States

Overview

The S&P 500 Index fell for the third week in four, this left the index 3% down for the month of August. This week's fall was on the back of fears of a military strike in Syria, while investors also looked at economic data to gauge the Fed's next move.

Verizon – Vodafone have confirmed that they are in talks with Verizon Communications to sell its stake in Verizon Wireless in a deal speculated to be worth $130bn.

Europe

Overview

European stock markets followed the rest of the world lower on the concerns surrounding stimulus measures in the US and unrest in the Middle East. Data also showed that unemployment in the region remained at a record high in August.

Energy sector – The sector outperformed the market last week as a result of the oil price rising.

Ireland

Overview

The Irish market finished the week lower, but it was better off than other European markets after a number of positive earnings announcements.

Stocks – FBD Holdings announced pre-tax profits of €19m for H1, down from €22m for the same period in 2012. However, it said that the fall was due to reduced returns in global investment markets and a number of above average claims early in the reporting period. Grafton Group saw its shares rise after it announced better-than-expected results.

Asia Pacific

Overview

It was a mixed week across Asian markets overall, with the fears of an attack on Syria by the US overshadowing some upbeat economic data. Japan’s Topix Index fell 3% over the week, while Hong Kong and Australia were marginally lower and higher respectively. Japan's core consumer inflation rose to its highest in almost five years in July, industrial output posted a strong rebound and the jobless rate fell to its lowest level since 2008. This compounds signs that a recovery in the world's third-largest economy is taking hold.

Bonds

Ireland’s 10-year bond yields rose to their highest level in ten weeks after a measure of consumer confidence declined for a second month in succession. Other indebted nations, including Spain and Italy, also saw prices fall as unemployment in the eurozone remained at a record-high in August. German bunds benefited from these sell-offs, resulting in the Merrill Lynch over 5 year government bond index finishing the week relatively unchanged.

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 and US dollar strength versus emerging market currencies – 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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