Zurich Life
Weekly Investment News

9th September 2013

ZURICH

Global Overview

Equities gain
Equity markets worldwide gained as upbeat economic data boosted investor sentiment. However, Syrian and stimulus measures concerns kept a lid on gains.

ECB cautiousness
European Central Bank president Mario Draghi struck a cautious note after the bank left interest rates unchanged at 0.5% as expected. “I'm very, very cautious about the recovery. I can't share enthusiasm, it's just the beginning. The shoots are still very, very green,” the ECB president said as he attempted to reassure investors that the low interest rate environment would be maintained.

US data
Nonfarm payrolls rose 169,000 in August, slightly behind estimates, but the unemployment rate still declined marginally to 7.3%. Separately, the pace of growth in the services sector rose to its highest since December 2005, according to the Institute for Supply Management, and weekly jobless claims fell to what was almost a five-year low.

US bonds
Benchmark US 10-year bond yields rose above 3% during the week as stronger-than-expected economic data reinforced views that the Federal Reserve could slow its bond buying programme soon, prompting a bond sell-off.

Currencies
Having weakened early in the week, the dollar gained against most currencies after strong economic data and fears the Fed will reduce bond purchases soon boosted demand for the currency. Overall, the €/$ rate finished the week at 1.32, unchanged on the week.

Commodities
Oil prices rose during the week due to the ongoing tensions in Syria. Brent prices finished at $116 per barrel, a rise of almost 2%.

	Index	Year to Date Return 31.12.12 to 06.09.13		1 Week Return 30.08.13 to 06.09.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	15.6	12.8	1.9	2.3
US	S&P 500	16.1	16.3	1.4	1.7
US	NASDAQ	21.2	21.5	2.0	2.3
Europe	FT/S&P Europe Ex. U.K.	8.8	8.8	2.5	2.5
Ireland	ISEQ	24.4	24.4	0.8	0.8
UK	FTSE 100	11.0	7.0	2.1	3.4
Japan	Topix	33.5	17.2	3.8	3.2
Hong Kong	Hang Seng	-0.2	0.0	4.1	4.4
Australia	S&P/ASX 200	10.7	-1.9	0.2	3.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.5	-0.5	-0.6	-0.6

Global Equities

United States

Overview

The S&P 500 Index rose as economic data, including good jobs news, overshadowed Syrian concerns and fears the Fed will reduce stimulus shortly.

Microsoft – Microsoft announced that it was buying Nokia's handset unit for $7.2 billion, in an attempt to gain ground on Apple and Google in the smartphone market.

Europe

Overview

European stock markets posted their best week since April on the back of strong economic data worldwide and renewed merger and acquisition activity.

Technology sector – Shares in Alcatel-Lucent rose 22%, its largest rally in 30 months, on speculation that Nokia could bid for Alcatel's wireless unit in the wake of the Microsoft deal. Nokia rose over 40% after agreeing to sell its handset business to Microsoft.

Ireland

Overview

The Irish market was one of the weaker performers as shares in Ryanair, one of its largest components, fell heavily during the week.

Ryanair – Shares in the low-cost airline slumped by almost 8% after it announced an unexpected profit warning. Management said that its full-year profit would be at the lower end of its forecast range of €570 to €600 million, due to weaker-than-expected yields for the winter season.

Asia Pacific

Overview

Asian stocks rose on the week, with the regional benchmark, MSCI Asia Pacific Index, posting its biggest weekly advance since April. Japan's Topix Index and Hong Kong's Hang Seng Index both rose roughly 4%. Exporters in Japan were one of the main gainers as the Yen weakened, whilst recent Chinese data continues to alleviate fears of a hard landing there. Elsewhere, Australia's economic growth edged up slightly in Q2, with GDP rising 2.6% year on year.

Bonds

German bund prices fell during the week, pushing the 10-year yield to a 17-month high, as the ECB President failed to convince investors that rates will remain low for an extended period of time, due to the economic growth worldwide. Austrian, French and Dutch bond yields also rose, hitting levels not seen in a year. Overall, the Merrill Lynch over 5 year government bond index finished the week 0.6% 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 focussed on the upcoming September Fed meeting as to when 'tapering' will commence and to what degree. 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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