Zurich Life
Weekly Investment News

16th September 2013

ZURICH

Global Overview

Equities gain

Following a week of decent gains on most stock markets, equities were buoyed on Monday morning by the news that Lawrence Summers has withdrawn from the race to replace Ben Bernanke as Federal Reserve Chairman, when the latter steps down from that post in January.

US data

In a soft week for US economic data, retail sales rose 0.2% in August, below analysts' expectations of 0.4%, while the Michigan index of consumer confidence fell to its lowest level since April.

Chinese data

Chinese industrial output, retail sales and investment all strengthened in August, adding to evidence of an upswing in growth in the world's second-largest economy. Industrial output grew 10.4% year-on-year in August, while retail sales were up 13.4% year-on-year, which should contribute towards the government achieving its target of 7.5% economic growth for the year.

Currencies

Sterling continued its recent rise, hitting its highest levels since the start of the year against a basket of currencies. A run of strong economic indicators has thrown doubt over the continuing low level of UK interest rates. The €/£ rate closed the week at 0.837.

Commodities

The gold price finished the week down 5% as concerns about a US military strike on Syria faded and investors looked ahead to this week's Federal Reserve meeting. The Fed is expected to announce a start to its tapering policy, the beginning of a move to lessen the ultra-loose monetary policy which has supported gold as a hedge against inflation.

	Index	Year to Date Return 31.12.12 to 13.09.13		1 Week Return 06.09.13 to 13.09.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	17.8	14.4	1.9	1.4
US	S&P 500	18.4	17.5	2.0	1.0
US	NASDAQ	23.3	22.4	1.7	0.7
Europe	FT/S&P Europe Ex. U.K.	11.1	11.1	2.0	2.0
Ireland	ISEQ	23.9	23.9	-0.4	-0.4
UK	FTSE 100	11.6	8.2	0.6	1.1
Japan	Topix	37.9	19.6	3.3	2.0
Hong Kong	Hang Seng	1.1	0.4	1.3	0.4
Australia	S&P/ASX 200	12.3	-0.9	1.5	1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.5	-0.5	0.0	0.0

Global Equities

United States

Overview

The US markets enjoyed another strong week, with defensive stocks to the fore. In index news, Nike, Visa and Goldman Sachs were boosted by the news that they would replace Alcoa, Bank of America and Hewlett-Packard in the Dow Jones Industrial Average.

Safeway – US grocery giant Safeway saw a share price jump of over 6% on Friday after Credit Suisse raised its rating on the share. The stock is up 25% since early June, when it announced that it had accepted a $5.7bn offer for its Canadian stores.

Europe

Overview

European stock markets continued their strong rise which has seen European indices outperform their American equivalents since the end of June.

Fresenius – Fresenius rose 5% on the week, following an announcement that it would buy forty-three hospitals and fifteen outpatient clinics from Rhoen-Klinikum, becoming one of Europe's largest private hospital operators.

Ireland

Overview

The Irish market was pretty flat on the week.

Aer Lingus – Aer Lingus became the second Irish airline in as many weeks to issue a revised profit forecast. As with rival Ryanair, the good summer weather received some of the blame, keeping Irish holidaymakers at home. Operating profit is expected to be about €60m this year, down from an earlier estimate of €69m.

Asia Pacific

Overview

Asian stocks enjoyed a good week, with the regional benchmark MSCI Asia Pacific Index, posting a 2.5% advance. The selection of Tokyo to host the 2020 Olympic Games gave another boost to the Japanese market, with construction stocks the main beneficiaries, up 9.2% on the week. Elsewhere, stronger economic data in China underpinned good gains in both domestic and Hong Kong shares. The Australian market rose 1.5% as Tony Abbott came to power as the new Liberal Party Prime Minister, having defeated Kevin Rudd's Labour Party in the general election. The new government is expected to cut both carbon taxes and other taxes specific to the mining industry. This should encourage investment.

Bonds

Core bond markets were reasonably quiet last week with most of the action in the eurozone happening on the periphery. The yield on the 10-year Spanish bond moved below its Italian equivalent for the first time in eighteen months. Some concerns over the stability of the Italian government were at play, as was more positive Spanish data, pointing to a faster recovery there than in Italy. Overall, the Merrill Lynch over 5 year government bond index finished the week flat.

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 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 high. However, there are still many challenges to be negotiated in peripheral countries.

- 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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