

Global Overview

Equities gain

Equity markets rose for another week as the markets got a boost from the Federal Reserve's more subdued outlook on the economy, which deemed it too early to reduce its stimulus measures.

Stimulus measures remain unchanged

With the economy still stumbling towards recovery, the Federal Reserve defied market expectations on Wednesday when it said it will not begin pulling back on its monthly asset-purchasing program. The Fed said it was unsatisfied with the pace of economic growth and felt the timing was not right to make a change in quantitative easing.

US data

Weekly jobless claims rose to 309,000 last week, this, however, was well below the expected level of 330,000. US housing starts slipped to 891,000 in August which was also below analysts expectations.

Irish bond sale

The National Treasury Management Agency (NTMA) sold €500m short-term debt at an auction last week. The three-month treasury bills attracted bids of 3.6 times the amount on offer and were sold at a yield of 0.2 per cent.

Currencies

The US dollar fell to its lowest level versus the euro since February following the Fed's announcement. For the third-straight week, it also fell against a majority of its 16 most-traded peers. The €/€ rate closed the week at 1.35, a strengthening of almost 2%.

Commodities

Oil prices fell 3% over the week as Libya's oil production rose, increasing supply considerably. Libyan oil output is poised to increase to 800,000 barrels a day, having fallen to 150,000 a day earlier this month. The gold price finished the week 2.5% higher, on the back of the Fed's comments.

	Index	Year to Date Return 31.12.12 to 20.09.13		1 Week Return 13.09.13 to 20.09.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	19.5	14.5	1.4	0.1
US	S&P 500	19.9	16.9	1.3	-0.4
US	NASDAQ	25.0	21.9	1.4	-0.3
	FT/S&P Europe Ex. U.K.	13.1	13.1	1.9	1.9
Ireland	ISEQ	25.6	25.6	1.4	1.4
UK	FTSE 100	11.8	7.5	0.2	-0.7
Japan	Topix	41.8	20.7	2.8	1.0
Hong Kong	Hang Seng	3.7	1.1	2.6	0.8
Australia	S&P/ASX 200	13.5	0.2	1.1	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	0.2	0.2	0.7	0.7

Global Equities



United States

Overview

The US markets enjoyed another strong week, with the Dow and S&P 500 indices logging all-time highs, after the Fed surprised Wall Street by leaving its \$85bn-a-month bond-buying program unchanged.

BlackBerry – BlackBerry announced on Friday it will slash 4,500 jobs as part of a restructuring and that preliminary earnings and revenue fell far short of market estimates. Its shares slumped 17% following this announcement.



Europe

Overview

European stock markets rose for the third straight week after the Fed refrained from reducing its bond purchases.

H&M – Europe's second-largest clothing retailer said revenue at stores open at least a year rose 4% in August, compared with the same month last year. This helped shares in the company rally by their most in 15 months, rising 7% on the week.



Ireland

Overview

In Ireland, news of the economy's tentative move out of recession in the second quarter helped to underpin stocks. In stock news, Ryanair posted a gain of 2% on the week, as it slowly regains some of the heavy early-month losses. Smurfit Kappa held an upbeat investor day highlighting new return on capital employed targets of 13%, versus 10% previously.



Asia Pacific

Overview

Asian stocks had another strong week after good Japanese data and the Fed's unexpectedly refraining from cutting stimulus. The region's benchmark index, the MSCI Asia Pacific Index climbed 2.6% over the week. Japan's Topix Index rose to a two-month high after reports showing the nation's exports jumped the most since August 2010. The Reserve Bank of India governor shocked markets by hiking the benchmark interest rate at his first policy review on Friday, sending a clear signal of his goal to fight inflation in Asia's third largest economy.

Bonds

Italian bond prices rose last week, with the 10-year yield falling the most in a week, since April, as Europe's government securities advanced amid speculation that central banks will maintain stimulus, boosting demand for fixed-income assets. Spanish and Italian yield spread versus German 10-year bonds are close to two-year lows at present. Overall, the Merrill Lynch over 5 year government bond index finished the week 0.7% higher.

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.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

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