Zurich Life
Weekly Investment News

30th September 2013

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Global Overview

Soft week for equities

Equity markets struggled to make progress last week as the focus began to shift from US monetary policy to the fiscal stand-off in Washington, which threatens to trigger a partial government shut-down this week.

European political affairs

Following her impressive victory in the German election last weekend, Angela Merkel has started negotiations with possible coalition partners, with most of Europe watching the outcome closely. Meanwhile, in Italy, concerns grew about the stability of its fragile coalition government with Silvio Berlusconi's Forza Italia party pulling five cabinet ministers out of government over the weekend.

US data

US households spent 0.3% more in August than the month before as incomes were buoyed by solid wage gains. Inflation (excluding food and energy) also picked up a little in August. However, US consumer sentiment slid to its lowest level in five months.

Currencies

Unsettled by the political manoeuvrings in Washington, the US dollar index, a measure of the currency's strength against a basket of currencies, ended the week 0.3% lower. Against the euro, the dollar closed at 1.3540, a small decline on the week.

Commodities

Oil prices fell a little on the week as tensions in the Middle East appeared to ease slightly with international opinion coming together on a policy of removing Syria's chemical weapons. The gold price edged up a little on the week.

	Index	Year to Date Return 31.12.12 to 27.09.13		1 Week Return 20.09.13 to 27.09.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	18.8	13.7	-0.6	-0.7
US	S&P 500	18.6	15.7	-1.1	-1.0
US	NASDAQ	25.2	22.2	0.2	0.2
Europe	FT/S&P Europe Ex. U.K.	12.4	12.4	-0.7	-0.7
Ireland	ISEQ	24.9	24.9	-0.6	-0.6
UK	FTSE 100	10.4	6.9	-1.3	-0.6
Japan	Topix	41.6	21.8	-0.1	1.0
Hong Kong	Hang Seng	2.4	-0.1	-1.3	-1.2
Australia	S&P/ASX 200	14.2	-0.2	0.6	-0.4
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	0.7	0.7

Global Equities

United States

Overview

The S&P 500 and the Dow Jones both endured their first weekly drop in four, as debt and budget negotiations in Washington took centre stage.

Contrasting stock news – Nike, the world's largest sporting goods company, posted Q1 profits that comfortably beat analysts' expectations, with EPS coming in at 86c, compared to estimates of 78c. Meanwhile, giant US retailer JC Penney fell nearly 9% on Friday after it announced plans to sell 84 million common shares in an effort to raise nearly $1bn in cash.

Europe

Overview

European stock markets were affected by the general malaise, losing ground on the week. Italy underperformed by a margin, with political concerns growing and a lukewarm reception for a bond auction.

Royal Mail – In the biggest privatisation in the UK since John Major broke up British Rail in the 1990s, the initial public offering of the Royal Mail was fully subscribed within hours, valuing the 360-year-old UK postal service at approximately £3.3 billion.

Ireland

Overview

The Irish market eased lower last week, in common with its European peers. Food company Aryzta announced this morning that, for the first time, revenues in the year to July topped €3 billion. The company, whose brands include Cuisine de France, saw earnings grow by 8.5% to €406.7m, slightly better than the market forecast.

Asia Pacific

Overview

The Japanese market hung in well last week, before falling sharply this morning, in common with other Asian markets. In stock news, in one of the biggest ever foreign take-overs of a Japanese company, US semiconductor company Applied Materials announced that it is merging with Tokyo Electron to create a new company with a market value of $29bn. Hong Kong prices fell on the week, in advance of this week's Golden Week holiday, while Australia hit a five-year high on Friday, before some profit-taking this morning.

Bonds

The nervous tone in equity markets translated, unsurprisingly, to steady demand for US and German bonds. Yields in both countries fell on the week, with the German 10-year yield moving sharply down from 1.95 at the end of the previous week to 1.78. Italian yields, on the other hand, moved upwards by 15bps as political in-fighting resurfaced and rose sharply this morning following the resignation of five ministers over the weekend. 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 with central banks 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.

- The Fed's decision not to commence tapering the rate of asset purchases in September caused bond yields to fall and lifted equity markets, despite the consensus view that this is merely a postponement of the taper. The market expects that it will still be instigated before year end on expectations of robust economic data. 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. The US government debt ceiling negotiations are being watched but the impact of a possible shut-down of government on GDP growth is not expected to weigh too heavily as the shut-down would likely be short-lived. 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, technology and utility stocks and overweight consumer services and consumer goods. 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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