

Global Overview

Stocks fall on US concerns

Almost all stock markets finished the week lower as the US budget impasse continued, increasing speculation that it could result in a federal default.

US budget deadlock

The US Senate rejected a bill passed by the House of Representatives to fund the government, while also delaying elements of Obamacare, which resulted in a government shutdown from the 1st October. With the shutdown now entering its second week, the question of how to raise the \$16.7 trillion US debt limit remains unanswered.

European Central Bank meeting

The ECB left interest rates unchanged at its latest meeting, but said that it will 'act if needed' on the rise in money-market rates. It added that it has asked an ECB panel to study options for new bank funding measures, as policymakers try to figure out how to deal with any future liquidity shortages.

Currencies

On Tuesday, the US dollar fell against most of its most-traded peers, after the US government entered a shutdown following the failure of lawmakers to break a budget impasse. Having hitting an eight-month low against the euro, it recovered on Friday to finish the week relatively unchanged. The €/ \$ rate finished the week just below 1.32.

Commodities

Oil prices rose during the week as tropical storm Karen moved through the Gulf of Mexico, threatening crude production in the region. Brent Oil prices rose 1% during the week. Gold finished the week lower, but still recorded its first quarterly gain in a year.

	Index	Year to Date Return 31.12.12 to 04.10.13		1 Week Return 27.09.13 to 04.10.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	18.0	12.8	-0.6	-0.8
US	S&P 500	18.4	15.4	-0.1	-0.3
US	NASDAQ	26.1	22.8	0.7	0.5
Europe	FT/S&P Europe Ex. U.K.	12.0	12.0	-0.3	-0.3
Ireland	ISEQ	26.0	26.0	0.9	0.9
UK	FTSE 100	9.4	5.1	-0.9	-1.6
Japan	Topix	35.4	17.4	-4.4	-3.6
Hong Kong	Hang Seng	2.1	-0.6	-0.3	-0.5
Australia	S&P/ASX 200	12.0	-1.0	-1.9	-0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	1.1	1.1	0.3	0.3

Global Equities



United States

Overview

The S&P 500 Index endured its first weekly drop in four, as debt and budget negotiations in Washington took centre stage. Despite the budget stalemate, the S&P pared losses on Friday, resulting in it finishing the week almost unchanged, while the NASDAQ closed in positive territory for the fifth-consecutive week.

Facebook – Shares in the social network company rose almost 4% on Friday, after it announced it will sell advertising space on Instagram, in its first effort to make money from its biggest ever acquisition. The stock has now rallied 34% since its IPO.



Europe

Overview

European stock markets posted a second-consecutive weekly loss due to the concerns over the US. Italian markets rallied after the government won a key confidence vote, due to Silvio Berlusconi reversing his position to try to bring down the government.

Unilever – Shares in the company fell after it announced a surprise profit-warning for Q3 2013. The company announced it expects underlying sales growth of between 3% to 3.5%, compared with 5% in the first two quarters.



Ireland

Overview

The Irish market bucked the worldwide trend and rose 1% over the week.

Stock news – Arysza reported results which were better-than-expected and management indicated that it expects the benefits of the group restructuring to start to reap rewards, and help improve future returns.



Asia Pacific

Overview

Asian markets fell during the week, with the regional benchmark index, MSCI Asia Pacific, declining for the first time in five weeks. Japan's Topix Index fell 4%, while Hong Kong's Hang Seng Index finished relatively unchanged on the week. Business sentiment among Japanese manufacturers improved in Q3, a closely watched survey showed. Elsewhere, China's manufacturing activity sped up in September from the previous month, but still fell short of forecasts. The official Purchasing Managers' Index rose to 51.1 in September, where a reading above 50 indicates expansion. However, in contrast the services PMI accelerated to a reading of 55.4, which is an encouraging sign for rebalancing of the Chinese economy.

Bonds

Italian government bond prices rose during the week, with the two-year yield reaching a two-month low on optimism the nation's political situation has stabilised following its Prime Minister, Enrico Letta, winning a confidence vote in parliament. Elsewhere, Portuguese 10-year yields dropped after the nation passed the latest reviews of its aid plan, while German yields rose after the ECB failed to signal that additional measures were needed to boost the region's recovery. Overall, the Merrill Lynch over 5 year government bond index finished the week marginally 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 are 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. Bond markets 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 the shut-down of government on GDP growth is not expected to weigh too heavily as the shut-down should 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.

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.

Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

Zurich Life Assurance plc is regulated by the Central Bank of Ireland.

Intended for distribution within the Republic of Ireland.



ZURICH[®]