

## Global Overview

### Most markets finish the week higher

It was a volatile week for markets as investors focus on the next move in US budgetary impasse. Markets moved higher as the week and talks progressed.

### US budget deadlock

The US budget deadlock continued last week, but there was optimism as President Barack Obama and House Republican leaders were seen as moving toward an agreement to extend the nation's borrowing authority, even as they remained at odds over the terms for ending the partial government shutdown.

### Federal Reserve

After months of speculation, it was announced last week that Janet Yellen would succeed Ben Bernanke as head of the Federal Reserve. Yellen is seen as a dove on monetary policy, favouring strategies that bring down unemployment even at the risk of driving inflation higher, therefore favouring the continuing quantitative easing approach.

### Currencies

Sterling weakened against the euro, falling to its weakest level in six weeks, after a report showed UK construction output unexpectedly dropped in August. Construction slipped 0.1% from July, compared with a 0.8% gain expected.

### Commodities

Oil prices finished the week lower, partly as a result of the International Energy Agency increasing its forecast for non-OPEC production, while also trimming its forecast for global oil demand in 2014. It finished the week at \$111 per barrel. Gold prices dropped to a three month low on the speculation that US lawmakers will reach an agreement. It finished the week 3% lower.

	Index	Year to Date Return 31.12.12 to 14.10.13		1 Week Return 07.10.13 to 14.10.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	19.2	13.9	1.0	1.0
US	S&P 500	19.4	16.3	0.8	0.9
US	NASDAQ	25.6	22.3	-0.4	-0.3
Europe	FT/S&P Europe Ex. U.K.	13.0	13.0	0.8	0.8
Ireland	ISEQ	25.2	25.2	-0.6	-0.6
UK	FTSE 100	10.5	5.2	0.5	0.3
Japan	Topix	39.2	19.4	2.9	1.8
Hong Kong	Hang Seng	2.5	-0.2	0.3	0.4
Australia	S&P/ASX 200	12.5	-0.2	0.4	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	1.2	1.2	0.0	0.0

## Global Equities



### United States

#### Overview

The S&P 500 Index had a strong finish to the week as investors grew more optimistic over the progress in the budgetary talks. The index finished the week at its highest level since September. Data released showed that consumer sentiment fell to a nine-month low as the shutdown and debt ceiling concerns caused outlooks to sour.

**Financials** – JP Morgan's swung to a loss in Q3, as legal and regulatory problems forced the bank to provision more than \$9 billion in litigation-related fees. Excluding legal costs, it earned \$1.42 a share, versus estimates of \$1.17 a share. Elsewhere in the sector, Wells Fargo sustained its trend of growing EPS in consecutive quarters despite a significant decline in mortgage revenues.



## Europe

### Overview

European stock markets returned to winning ways on US budgetary optimism and the nomination of Janet Yellen as the next Federal Reserve chair, which signals the continuation of stimulus.

**Royal Mail** – Shares in Britain's 360-year-old postal service soared 38% on its trading debut in London. The IPO was the UK's biggest sale of state assets since British Rail in the 1990s.



## Ireland

### Overview

The Irish market finished the week slightly lower, despite shares in CRH rising.

**Kenmare Resources** – Kenmare placed almost 10% of new shares at a discount of 10% as it raised €66m in order to strengthen its balance sheet in a period of weaker demand for ilmenite.



## Asia Pacific

### Overview

Asian markets rose by the most in three weeks amid US optimism. Japan's Topix Index rebounded from the previous week, rising almost 3%, while Hong Kong's Hang Seng Index finished the week marginally higher. Westpac Banking Corp contributed the most to the regional benchmark's advance after agreeing to buy Lloyds Banking Group's assets in Australia. Elsewhere, China's exports unexpectedly fell in September, signalling constraints from global demand. While overseas shipments dropped compared with a year earlier, this slowdown was attributed to a high basis of comparison with last year.

## Bonds

German 10-year bund prices fell for the second successive week as speculation US lawmakers would reach an agreement on raising the nation's debt limit curbed demand for the safest fixed-income assets. US Treasury prices also fell amid signs a US default would be averted. Overall, the Merrill Lynch over 5 year government bond index finished the week unchanged.

## Global Outlook

- The general economic backdrop has not changed materially of late. Investors are focussed on prospective changes to US Fed policy and the impact of the government shutdown on GDP growth outlook. 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 towards the Asian region and emerging markets has stabilised 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 had expected it would be instigated before year end on expectations of robust economic data. However, with the fiscal shutdown still unresolved, the lack of availability of data could lead to early 2014 being a more realistic timeframe for the initiation of any tapering. 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 and utility stocks and overweight consumer services and industrials. 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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