Zurich Life
Weekly Investment News

29th October 2013

ZURICH

Global Overview

Markets finish the week higher
Markets outside of Asia rose during the week after some disappointing US data increased expectations that monetary stimulus will remain, while earnings results also boosted sentiment.

US data disappoints
Data from the US last week disappointed, with consumer confidence taking a sharp knock. This has fuelled expectations the Fed will hold off tapering until at least March 2014.

UK growth accelerates
GDP growth in the UK for Q3 was strong, rising 0.8% compared with the previous quarter, its fastest rate in three years. Some of the key drivers of this were industrial production, construction and services rising 0.5%, 2.5% and 0.7% respectively.

Currencies
The US dollar had its first back-to-back weekly losses against the euro in a month, as weaker-than-forecast data increased expectations that the Fed will continue with stimulus to help the US economy. The €/$ rate finished the week at 1.38, a strengthening of 1%.

Commodities
Oil prices fell for yet another week on speculation that crude production will further bolster stockpiles. In the US, data releases showed that the country pumped crude oil at the fastest rate since 1989. Brent oil prices finished the week at $107 per barrel, a fall of almost 3% on the week. The gold price hit a one-month high on speculation the US will maintain economic stimulus. It gained almost 3% over the week.

	Index	Year to Date Return 31.12.12 to 25.10.13		1 Week Return 18.10.13 to 25.10.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	22.2	15.5	0.4	-0.2
US	S&P 500	23.4	18.0	0.9	0.1
US	NASDAQ	30.6	24.9	0.7	0.0
Europe	FT/S&P Europe Ex. U.K.	15.8	15.8	0.6	0.6
Ireland	ISEQ	27.5	27.5	-1.4	-1.4
UK	FTSE 100	14.0	8.4	1.5	0.7
Japan	Topix	37.0	16.7	-2.3	-2.6
Hong Kong	Hang Seng	0.2	-4.2	-2.7	-3.5
Australia	S&P/ASX 200	15.9	2.1	1.2	-0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	0.7	0.7

Global Equities

United States

Overview
Last week's disappointing economic data was enough to increase investor expectations that the Fed will need to keep its liquidity operations active for longer. The S&P 500 Index moved to a new record high, as investors priced in a continuation of the €85bn monthly asset purchase programme as far out as March of next year.

Earnings – Corporate earnings for Q3 have been relatively strong so far. With close to half of the S&P 500 companies having now reported, 69% of these firms have beaten expectations, which is close to the long-term average. Ford, UPS, Microsoft and Amazon have all reported results that exceeded expectations.

Europe

Overview

European stock markets were relatively flat over the week. Mixed corporate earnings in the region were not strong enough to push indices much higher.

Earnings – Akzo Nobel and Philips rose strongly after both companies announcing earnings for the last quarter beat expectations. Philips almost tripled net profit in Q3, pushing its shares to their highest since mid-2010. On the other hand, Ericsson and Volvo had disappointing updates.

Ireland

Overview

The Irish market bucked the European trend and fell over 1%. Key drivers were Ryanair finishing the week almost 5% lower and CRH, which lost 1% over the week.

Asia Pacific

Overview

Asian markets posted their biggest weekly decline since August after forecasts from a number of companies disappointed investors, while money-market rates in China surged. Japan's Topix Index and Hong Kong's Hang Seng Index both fell over 2%. Most of the Japanese fall happened on Friday, after its currency weakened below the 200-day moving average against the US dollar. Hong Kong's banks retreated after China's money-market rate posted the biggest weekly jump since June, after its central bank refrained from injecting funds through open-market operations.

Bonds

Italian bond prices retreated last week as a report showed consumer confidence in the country fell in October, dampening the demand for higher-yielding government securities. German business confidence unexpectedly worsened in October, and this, along with weak global data, helped German bunds rise during the week. 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 impact of the recent government shut-down on the 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 than it had been, with most recent indicators improving, and the relative stability in periphery bonds has also been helpful. European equity markets have been strong but there are some concerns as to whether earnings needed to justify the current multiples will materialise, given the most recent earnings season showed mixed results, causing sentiment to take a dip.
- 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 in the first half of 2013. Some signs of recovery were noted in Q3, with some weakening of the dollar helping. Investor sentiment towards the Asian region and emerging markets has stabilised. 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 general consensus is that 2014 is a more realistic timeframe for the initiation of US tapering, given near-term economic data will be somewhat skewed from the shut-down. Incoming head of the Fed, Janet Yellen, is perceived to weigh unemployment more heavily than inflation in the goals of the Fed, further underpinning the case for the Fed keeping the stimulus unchanged for longer, or until economic data appears robust enough to support a commencement of withdrawal. 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 at the top of that range. 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 continue to perform strongly. We view equity market weakness as an opportunity to add to positions. In general, equity markets are reacting favourably to the delay in tapering but 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, Europe and Japan, neutral in the US and Pacific region and neutral to slightly overweight in Ireland.

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