

## Global Overview

### Equity markets modestly higher

Markets failed to make strong progress last week against a background of speculation as to the future actions of central banks on both sides of the Atlantic.

### Federal Reserve meeting

The Fed left its current level of asset purchases (\$85 billion per month) unchanged, but its much-watched accompanying statement was less dovish than many expected. In particular, it made no reference to the potential impact on the economy of the recent government shut-down. This has led to increased speculation about the date on which tapering will begin.

### Strong US manufacturing survey

The ISM manufacturing survey unexpectedly rose to a two-and-a-half year high of 56.4 in October, its fourth month of expansion after four months of declines. 50 marks the separation point between expansion and contraction.

### EU inflation and the euro

The euro experienced its biggest single-day drop in more than a year on Thursday, of 1.1%, after the eurozone consumer price index came in at an annualized rate of 0.7% in September, down from 1.1% in August. This represents a four-year low for eurozone inflation and has prompted speculation that a rate cut may be discussed at the upcoming ECB meeting. The €/£ rate closed the week below 1.35, falling from a rate above 1.38.

### Commodities

US oil prices fell to a four-month low, falling below the \$95 a barrel mark for the first time since the end of June. European oil prices, as measured by Brent, fell only fractionally to close at \$106.65.

	Index	Year to Date Return 31.12.12 to 01.11.13		1 Week Return 25.10.13 to 01.11.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	22.4	17.4	0.2	1.6
US	S&P 500	23.5	20.8	0.1	2.3
US	NASDAQ	29.9	27.0	-0.5	1.7
Europe	FT/S&P Europe Ex. U.K.	15.9	15.9	0.1	0.1
Ireland	ISEQ	29.3	29.3	1.4	1.4
UK	FTSE 100	14.2	9.4	0.2	0.9
Japan	Topix	37.6	18.1	0.4	1.3
Hong Kong	Hang Seng	2.6	0.3	2.4	4.7
Australia	S&P/ASX 200	16.4	3.3	0.5	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	3.0	3.0	0.7	0.7

## Global Equities



### United States

#### Overview

The S&P 500 index hit a record intraday high on Wednesday, before drifting a little towards the end of the week as the unexpected improvement in manufacturing added to speculation over the possible policy implications for the Fed.

**Earnings** – With approximately half of the S&P 500 companies having now reported, 69% have beaten expectations, which is close to the long-term average. Among big names, GM and Starbucks reported earnings that beat expectations, while Facebook also reported strong earnings but, interestingly, warned that it is losing popularity with teenagers.



## Europe

### Overview

European stock markets flatlined last week against a background of poor earnings generally. Eurozone companies' earnings have been restricted by the strong euro, emerging market weakness and weakness in the eurozone economy itself.

**Earnings** – Contrasting news for European carmakers last week saw Volkswagen, Europe's biggest carmaker, climb to its highest price since 1992 after posting better-than-expected Q3 earnings. On the other hand, Renault fell sharply on Friday after its Japanese partner Nissan cut its full-year forecast by 15%.



## Ireland

### Overview

Ryanair fell over 11% this morning after it cut its profit forecast for the year to March from €570 million to €510 million. This is the second profit warning in two months from the airline, which named stiffer competition, weak consumer spending and a fall in the value of sterling versus the euro as contributory factors.



## Asia Pacific

### Overview

Purchasing managers' reports in Asia have been good, with official data from China showing that the country's manufacturing sector expanded at its fastest pace for eighteen months. The Hong Kong market rose 2.4% on the week. In Japan, Sony fell almost 12% on Friday following a widening in its Q2 losses and a lowered full-year forecast. The overall Topix index was flat on the week. Elsewhere, India's equity market hit a record high and closed on Friday a full 14% above its start of September level. However, weakness in the Indian rupee still leaves the index down in euro terms in 2013.

## Bonds

Ratings agency Fitch raised its outlook on Spain's debt from negative to stable on Friday. This morning, the yield on the Spanish 10-year bond is below 4%, while the equivalent Irish yield is now about 3.5%, in advance of the State's exit from the bailout programme. German yields fell a little on the week, closing just below 1.7%. The Merrill Lynch over 5 year 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. Fiscal spending will remain a drag on growth into 2014 but to a lesser extent than in 2013. 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 were mixed, 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 H1 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, despite the less dovish tone of the Fed in their most recent statement. Near-term economic data will be somewhat skewed from the shut-down, but the latest data releases didn't indicate any major signs of weakness. 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. 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 market weakness as an opportunity to add to positions. In general, equities 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.

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](http://www.zurichlife.ie)

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