Zurich Life
Weekly Investment News

ZURICH

9th December 2013

Global Overview

Data improves, markets fall

It was a good week for economic data, with jobs and economic data in the US boosting optimism, and upbeat Chinese trade data, boosting the outlook for global growth. However, this brought tapering fears back to the market sooner-than-anticipated.

Eurozone inflation remains tame

The ECB left rates unchanged at its latest meeting and gave an outlook for weak inflation in the region's economy. Forecasts from the central bank showed inflation holding well under its 2% target, through 2015.

Strong US economic data

US employers added 203,000 jobs last month, well exceeding estimates of 185,000. This helped the unemployment rate fall to a five-year low of 7%. Elsewhere in the economy, data showed that Q3 GDP grew faster than previously expected, while separately, the ISM manufacturing index increased in November.

Currencies

The euro rallied for a fourth week against the dollar, the longest streak since June, as the ECB President, Mario Draghi, refrained from adding to monetary stimulus and reiterated that rates will stay low for an extended period of time. The euro also rose against the dollar, with the €/$ rate finishing the week almost a percent higher at 1.37.

Commodities

The brent oil price rose almost 2% on the back of strong economic data, which ultimately will be supportive of energy prices. Brent finished the week just over $111 a barrel. Gold prices fell 1.6% as the strong US data increased speculation the Fed will reduce stimulus earlier than previously expected.

	Index	Year to Date Return 31.12.12 to 06.12.13		1 Week Return 29.11.13 to 06.12.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	23.6	16.7	-1.1	-1.5
US	S&P 500	26.6	21.9	0.0	-0.8
US	NASDAQ	34.5	29.6	0.1	-0.7
Europe	FT/S&P Europe Ex. U.K.	14.1	14.1	-2.9	-2.9
Ireland	ISEQ	29.2	29.2	-2.7	-2.7
UK	FTSE 100	11.1	7.6	-1.5	-2.4
Japan	Topix	43.7	16.8	-1.8	-3.0
Hong Kong	Hang Seng	4.8	0.9	-0.6	-1.4
Australia	S&P/ASX 200	11.6	-5.9	-2.5	-3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	2.5	2.5	-0.8	-0.8

Global Equities

United States

Overview

US markets fell for four straight days, before bucking the trend on Friday following the strong US data. The S&P 500 Index had fallen early in the week as speculation of sooner-than-anticipated tapering of economic stimulus increased fear amongst investors.

JC Penny – Shares in the retailer slumped almost 20% after the company announced that the Securities and Exchange Commission requested 'information regarding the company's liquidity, cash position and debt and equity financing' in early October.

Europe

Overview

European markets fell in line with the US on speculation that the good economic data in the world's largest economy will result in the Fed cutting stimulus measures sooner-than-forecast.

ThyssenKrupp – Shares in the company fell 9%, as it raised €900 million through a share sale. It also announced an agreement to sell a US steel plant as it pulls back from its Americas division.

Ireland

Overview

The Irish market followed the rest of the world lower, paring its year-to-date gains to just below 30%. Bank of Ireland was one company to see shares move lower. However, this not unexpected given that it was issuing new shares, and encouraging point though was the high level of interest shown in the new shares from investors..

Asia Pacific

Overview

Most Asian markets moved lower over the week, with the regional index, MSCI Asia Pacific Index, posting its biggest weekly drop since August, on the back of the US tapering fears and renewed political protests in Thailand. Japan's Topix Index and Hong Kong's Hang Seng Index fell 1.8% and 0.6% respectively. China's exports rose more-than-expected in November, in a sign that global demand is helping sustain a recovery in the world's second-biggest economy.

Bonds

US 10-year treasury prices are at their lowest in three months as speculation that a tapering of bond purchases will happen soon after further strong economic data in the economy. Eurozone bond prices pared early week losses as attractive yields and speculation that central banks will keep interest rates low attracted investors. Overall, the Merrill Lynch over 5 year bond index finished the week almost 1% lower.

Global Outlook

- The general economic backdrop has not changed materially of late, but the latest economic data from the US is showing signs of strength. US growth is still sub-par by historic standards but, importantly, it is stable. 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 markets have remained robust despite concerns of deflation with expectations rising that the ECB may undertake quantitative easing in 2014. The ECB's appears to have a more bullish growth and inflation outlook, based on their most recent guidance, but some core softness, particularly in France could hold back growth. The Japanese market has shown strength recently on some signs of inflation and loan growth, and continued expectations that the Bank of Japan may announce further stimulus in early 2014.
- 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 focussed on low inflation and this underpins the ECB's communication that interest rates will be low for an extended period.
- The general consensus is that QE tapering in the US will commence in Q1 2014, underpinned by strong economic data releases recently showing strong manufacturing and strong employment numbers. Janet Yellen, incoming chairwoman of the Fed, is perceived to weigh unemployment more heavily than inflation in the goals of the Fed, further underpinning the case for the Fed keeping their policy stimulatory for longer. 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 as credit growth remains challenged.
- Equity markets have re-rated back towards more normal valuations; however, strategists continue in their 2014 outlooks to overwhelmingly favour equities over bonds. While the Fed's likely liquidity removal and US dollar strength versus emerging market currencies continue to contribute to market volatility, equity markets continue to perform strongly. We view market weakness as an opportunity to add to positions. In general, equities are performing well and this is expected to continue into 2014 as long as growth expectations continue to be met.
- Zurich Life funds are close to neutral in equities and bonds versus the manager average. The funds are underweight energy and utility stocks and overweight consumer services, consumer goods and industrials. Geographically, the funds are underweight the UK and Europe, neutral in the US, Japan and Pacific region and overweight in Ireland.

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie