



Global Overview

Once again, data improves, markets fall

It was a weak period for equity markets as the better-than-expected economic data reported in the US, fuelled speculation that the Fed will start tapering and reduce bond purchases when it meets next week.

US budget agreement

The US House passed the first bipartisan federal budget in four years, which would ease €63 billion in automatic spending cuts and avert another government shutdown. The budget is now passed to the Senate to approve.

Strong US economic data

US retail sales jumped more-than-forecast, for the second-consecutive month. Sales rose 0.7% during the month. This follows data which confirmed the economic expansion beat expectations in Q3 and the unemployment rate fell to its lowest in five years.

Currencies

The yen rose from a five-year low versus the dollar amid speculation on the timing of a cut in the Fed's monthly bond purchases. The \notin 's rate finished the week relatively unchanged, as a comment from an ECB policymaker about the eurzone economy being 'fragile' offset the US stimulus worries.

Commodities

The brent oil price fell as stockpiles of gasoline and distillate fuels had their biggest weekly rose since January of this year. Fears the US will cut bond purchases next week also weighed on the price. Brent finished the week close to \$108 a barrel, a fall of almost 3%.

	Index	Year to Date Return 31.12.12 to 13.12.13		1 Week Return 06.12.13 to 13.12.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	21.9	14.6	-1.4	-1.8
US	S&P 500	24.5	19.7	-1.6	-1.8
US	NASDAQ	32.5	27.4	-1.5	-1.7
Europe	FT/S&P Europe Ex. U.K.	11.8	11.8	-2.0	-2.0
Ireland	ISEQ	27.6	27.6	-1.2	-1.2
UK	FTSE 100	9.2	5.3	-1.7	-2.2
Japan	Торіх	44.1	16.4	0.2	-0.3
Hong Kong	Hang Seng	2.6	-1.4	-2.1	-2.2
Australia	S&P/ASX 200	9.7	-9.1	-1.7	-3.4
Bonds	Merrill Lynch Euro over 5 year Govt.	3.0	3.0	0.5	0.5

Global Equities



United States

Overview

US markets declined during the week as improving economic data and a budget agreement spurred speculation the Fed will curb stimulus when it meets next week. The S&P 500 Index fell 1.6%, its worst week since August. The index is still on course for its biggest annual gain since 2003.

Adobe – Adobe Systems rose 13% on Friday, after quarterly results showed the company attracted more subscribers to its online software, in the last quarter, than analysts had expected.



Europe Overview

European markets fell over 2% as the recent strong US data fuelled speculation the Fed could slow the pace of bond purchases next week, which is sooner than had been expected.

RSA – Shares in the insurance group finished the week 9% lower after the company warned for the third time in six weeks that profit will be lower. This follows the announcement that it is injecting further capital into Ireland amid an accounting probe and the resignation of its CEO, Simon Lee.



Ireland Overview

The Irish market followed the rest of the world lower.

Airlines – The sector got a boost on Friday after the global airline body, lata, upgraded its financial outlook for the industry, suggesting airlines will return a net profit that will be better than it predicted in September's forecast.

Asia Pacific

Overview

It was a mixed week for Asian markets as investors feared the tapering of US stimulus may be sooner-than-expected amid a further strengthening of US data. Japan's Topix Index rose marginally, as the yen reached a fresh 5-year low against the dollar, while Hong Kong's Hang Seng Index fell over 2%. In stock news, shares in BHP Billiton fell after it announced plans to cut spending by 25% this year and focus on its flagship operations, as weak prices and extra supply squeeze resource firms.

Bonds

Spanish bond price rose pushing five-year yields to the lowest level since 2005, amid optimism the economic and fiscal outlook for the eurozone's higher-debt nations is improving. Italian bonds also rose as the nation held a buy-back auction, reducing its financing needs for the next two years. However, German bunds moved in the opposite direction on fears the US fed will cut its asset purchase program this month. Overall, the Merrill Lynch over 5 year bond index finished the week 0.5% higher.

Global Outlook

- The general economic backdrop has not changed materially of late. 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. European markets have remained robust despite concerns of deflation with expectations rising that the ECB may undertake quantitative easing (QE) in 2014. The ECB 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 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. The outlook for the US equity market for 2014 is broadly positive with expectations for Fed policy to remain accommodative, less fiscal drag on GDP, increased capital expenditures and the potential for accelerated global 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.
- 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 output and employment numbers. If tapering begins in Q1, its expected the Fed's balance sheet will reach its peak around Sept. Janet Yellen, incoming chairwoman of the Fed, is perceived to weigh unemployment more heavily than inflation in the goals of the Fed. Therefore expectations are for rates to remain low for an extended period beyond the end of QE. 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 are expected to 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 goods and industrials. Geographically, the funds are underweight the UK and Europe, neutral in the US, Japan and Pacific region and 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.

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