

Global Overview

Markets rise on optimism

Optimism about upcoming corporate earnings and speculation that the Federal Reserve will not accelerate the pace of its withdrawal of stimulus helped most markets push higher over the week.

US employment data

Payrolls in the US rose 74,000 last month, a lot less than analysts had expected. The coldest December in a number of years probably contributed to this, as the gain was the weakest since January 2011.

European Central Bank

The ECB left rates unchanged, as expected, but its President, Mario Draghi, reiterated that it is ready to act if needed. The ECB has remained committed to keeping rates low for a prolonged period to support the recovery.

Currencies

The US dollar had its biggest weekly drop against the yen in almost three months, after the weak jobs data fuelled concern that the Fed will slow its reduction in bond-buying. It also weakened against the euro, with the €/£ rate finishing the week at almost 1.37, a weakening of 0.6% on the week.

Commodities

The Brent oil price rose following the optimism that stimulus cuts will not accelerate in the US and as the North Sea Buzzard field halted oil production a few times during the week. Brent finished the week at \$107 a barrel. Gold also rose as concerns eased that stimulus cuts would accelerate.

	Index	Year to Date Return 31.12.13 to 10.01.14		1 Week Return 03.01.14 to 10.01.14	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-0.3	0.3	0.5	0.0
US	S&P 500	-0.3	0.6	0.6	0.2
US	NASDAQ	0.0	0.9	1.0	0.6
Europe	FT/S&P Europe Ex. U.K.	0.5	0.5	1.0	1.0
Ireland	ISEQ	4.3	4.3	3.3	3.3
UK	FTSE 100	-0.1	0.2	0.1	0.0
Japan	Topix	-0.3	1.8	-0.3	-0.3
Hong Kong	Hang Seng	-2.0	-1.1	0.1	-0.3
Australia	S&P/ASX 200	-0.7	0.9	-0.7	-1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	1.0	1.0	0.5	0.5

Global Equities



United States

Overview

US markets rose on the week, as optimism over economic growth and corporate earnings overshadowed the weaker-than-forecast jobs report. While payrolls were weak, the overall unemployment rate declined to 6.7%, its lowest in over five years. The lower unemployment rate is being partially driven by people leaving the workforce.

Macys – The retailer forecast earnings for its next fiscal year ahead of analysts' expectations. The company is looking to cut costs, which will result in a cut to its workforce of 2,500. Its shares rose 4% over the week.



Europe

Overview

European markets rose during the week, as unemployment rates in the US and Germany fell, while sentiment was also boosted by Ireland's return to the bond market.

Lufthansa – The airline soared the most since November 2008 after saying fuel and unit costs will fall this year. It is expecting costs per passenger to fall 2% this year, with a larger decline expected in 2015. Its shares rose 9% on the week. .



Ireland

Overview

The Irish market rose strongly after the country returned to the bond market after completing its bailout last month. €3.75 billion was raised in 10-year bonds, with offers of €14 billion coming in. This helped push European borrowing costs lower, helping lenders in the region. Domestically, Bank of Ireland soared 19%.



Asia Pacific

Overview

Asian stocks fell during the week, as data from China added to concerns about a slowdown in the world's second-largest economy. Data released showed that China's services industries grew at a slower-than-expected rate in December. The regional benchmark, the MSCI Asia Pacific Index, fell 0.5% on the week. The index is trading at about 13.1 times estimated earnings, closed to its lowest level since September. Games console companies, including Nintendo, had a strong week though, after Chinese lawmakers lifted a 13-year ban on the sale of gaming consoles.

Bonds

German bund prices rose after the weak US jobs figures and comments from the ECB regarding interest rates being held low for a prolonged period of time. Italian bonds were also supported by these comments from the central bank. Overall, the Merrill Lynch over 5 year bond index finished the week 0.5% higher.

Global Outlook

- The general economic backdrop for 2014 still continues to necessitate a reasonably loose monetary policy in several of the major regions. Central Banks are generally neutral in their stance. Expectations are for more stable debt markets across the EU, given the ECB's credible commitment to preserving the Euro by buying periphery bonds. Focus is therefore on growth and inflation expectations, which remain low. ECB should remain accommodative and may implement more QE if growth comes in below expectations of 1.1% or if deflation concerns mount. Expectations for inflation remain well below the 2% long-term target.
- In the US, consensus expectations are for the Fed to end over half a decade of QE by Sep 2014, pending economic data remaining robust. Incoming chairwoman of the Fed, Yellen, is perceived to weigh unemployment more heavily than inflation in the Fed goals. Therefore expectations are for rates to remain low for an extended period beyond the end of QE. US growth is still sub-par by historic standards but, importantly, it is stable with signs of improvement.
- Strategists continue in their 2014 outlooks to overwhelmingly favour equities over bonds, based on relative valuation. Equity markets valuations are at more normal levels and are expected to continue to perform strongly into 2014 as long as growth expectations continue to be met. The broadly positive equity market outlook for 2014 is driven largely by expectations for earnings growth. We view market weakness as an opportunity to add to positions.
- There is some caution built into estimates given market valuations appear to be fair and fed tapering could potentially cause a pull back. 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. Sub par emerging market growth rates, US dollar strength, political wrangling over the debt ceiling and the fed taper are likely contributors to market volatility.
- 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. In particular the trajectory of Eurozone inflation is of paramount importance to the ECB.
- 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 Pacific region, neutral in the US, Japan and Europe 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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