ZURICH

20th January 2014

Global Overview

Mixed week for equities
It was a mixed week for equities as disappointing corporate earnings data overshadowed investors' upbeat outlook for global economic growth.

US inflation
Consumer prices rose 0.3% in December, which was in line with expectations and the biggest monthly increase since June. Producer prices, however, recorded the smallest annual increase in 2013 in five years.

UK data
A government report showed that UK retail sales grew at a record pace for a December, adding to optimism the recovery is gaining momentum. Sterling posted its fourth weekly gain in five weeks versus the euro partly as a result of this data and a separate report which showed that inflation slowed, slowing the Bank of England to keep interest rates at a record low.

Currencies
The US dollar recovered some of its previous weeks' losses as it rose to a four-month high against the euro. The €/$ rate rose almost 1% during the week, to finish the week a 1.35.

Commodities
The brent oil price rose was supported by recent job and manufacturing data which increased speculation that the US economy will sustain its economic growth, boosting the demand for oil. Brent finished the week at $107 a barrel. Gold posted its first weekly loss in a month on concerns about the US stimulus policy.

	Index	Year to Date Return 31.12.13 to 17.01.14		1 Week Return 10.01.14 to 17.01.14	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	0.1	1.2	0.4	1.0
US	S&P 500	-0.5	1.4	-0.2	0.8
US	NASDAQ	0.5	2.4	0.5	1.5
Europe	FT/S&P Europe Ex. U.K.	2.3	2.3	1.7	1.7
Ireland	ISEQ	6.4	6.4	2.0	2.0
UK	FTSE 100	1.2	2.1	1.3	1.9
Japan	Topix	-0.4	2.4	-0.1	0.6
Hong Kong	Hang Seng	-0.7	1.1	1.3	2.2
Australia	S&P/ASX 200	-0.9	-0.8	-0.1	-1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	2.0	2.0	1.0	1.0

Global Equities

United States

Overview
US markets were relatively unchanged despite amid some mixed corporate earnings. Treasuries benefited in return as the yield on 10-year treasuries dropped to the lowest since early December.

Corporate results – US quarterly results met expectations, although some trends within GE's power business were weaker than hoped for. Elsewhere, UPS and Intel reported slightly weaker December quarterly trends; their share prices were relatively unchanged, however.

Europe

European markets rose to their highest level in six years as mining stocks rallied and a US report showed that builders in the US started work on more houses in the last month than economists had forecast.

Mining – Europe's mining sector rallied 7% on the week, following an upgrade of the sector by Citibank. This followed improving growth in the US and Europe, increased cost-cutting within the companies and increased prospects of cash returns to shareholders.

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

Asia's benchmark stock index, the MSCI Asia Pacific Index, was little changed on the week as investors weighed signs of a stronger global economy against concern about equity valuations. The benchmark measure ended 2013 trading at 14 times estimated earnings, compared with a three-year average of 13 times. In stock news, after getting a boost from a Chinese legislation change last week, shares in Nintendo fell after it issued a profit warning due to sales of new games consoles proving disappointing.

Bonds

Portugal's government bond prices rose as Standard & Poor's said it no longer sees an imminent risk of a credit downgrade for the nation. Bonds of peripheral countries in the eurozone continued their rally as the region most indebted countries recover from the sovereign-debt crisis. German bund prices also rose, reaching the lowest level since the start of December. Overall, the Merrill Lynch over 5 year bond index finished the week 1% 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.

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