ZURICH

27th January 2014

Global Overview

Equities fall

It was a negative week for equities worldwide, as Chinese growth slowed and investors speculated The Fed will reduce bond purchases in $10 billion increments over its next six meetings before announcing an end to the program no later than December.

UK data

Latest data released showed that the UK jobless rate fell to 7.1% at the end of November. It is now approaching the 7% threshold announced by Carney in August as the trigger for reviewing policy. There is speculation that the threshold could now be lowered to 6.5%.

Currencies

Asian currencies fell over the week, led by South Korea's won, as Chinese data missed estimates and a stronger US recovery added to speculation the Fed will cut its stimulus further.

Commodities

The brent oil price rose late in the week as a report showed supplies tumbled as cold weather bolstered heating demand. Overall, its price finished the week marginally higher. Declines in global equities spurred demand for the gold as an alternative investment. It finished the week 1% higher.

	Index	Year to Date Return 31.12.13 to 24.01.14		1 Week Return 17.01.14 to 24.01.14	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-2.4	-2.1	-2.5	-3.2
US	S&P 500	-3.1	-2.4	-2.6	-3.7
US	NASDAQ	-1.2	-0.4	-1.7	-2.7
Europe	FT/S&P Europe Ex. U.K.	-1.2	-1.2	-3.4	-3.4
Ireland	ISEQ	3.9	3.9	-2.4	-2.4
UK	FTSE 100	-1.3	-0.9	-2.4	-2.9
Japan	Topix	-2.9	0.7	-2.5	-1.7
Hong Kong	Hang Seng	-3.7	-3.0	-3.0	-4.1
Australia	S&P/ASX 200	-2.1	-3.6	-1.2	-2.9
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	0.2	0.2

Global Equities

United States

Overview

US equities finished the week lower as emerging-markets losses and volatility in currency markets led investors to seek some profit-taking. In earnings news, of the 122 S&P 500 index members that have released earnings so far this season, 74% have beaten estimates for profit while 67% have exceeded sales projections.

Microsoft – Customers flocked to game consoles and cloud software in the last quarter, helping Microsoft deliver results that topped projections. Revenue climbed 14%, to a record $24.5 billion.

Europe

European markets fell on expectations of further downgrades due to falling emerging market currencies.

Adidas – Adidas fell over 5%, its biggest drop since September 2011, after Deutsche Bank lowered its estimates for the company's per-share profits. It cut 2014 by 8% and 2015's by 6%, citing adverse effects of currency swings.

Ireland

Overview

The Irish market followed the rest of the world lower, paring its strong start to the year. Smurfit Kappa, Glanbia and CRH were among the heaviest fallers.

Asia Pacific

Overview

Asian stocks followed the rest of the world lower amid speculation cuts to US Federal Reserve stimulus will hurt developing economies. Further to this, a gauge of Chinese manufacturing unexpectedly showed contraction, to a six month low, and the nation's banking regulator ordered its regional offices to increase scrutiny of credit risks in the coal-mining industry. The Indian benchmark index hit a record high, but it saw gains pared late in the week as some investors bet the rally in the benchmark index has outpaced the outlook for earnings growth.

Bonds

Germany's government bonds advanced on the week, with 10-year yields falling to the lowest in more than five months, as concern growth in emerging markets is slowing boosted demand for the euro area's safest assets. Elsewhere, Spain was the latest country with an encouraging bond sale when it sold €10 billion of debt through its banks. Overall, the Merrill Lynch over 5 year bond index finished the week marginally 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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