



3rd March 2014

## The week gone by

Global **equities** overall continued to grind ahead over the week. Although valuations are no-longer attractive, equities continue to be driven by the expectation of strong corporate earnings' growth, better developed market economic data and low interest rates. International money flows continue to favour European equities although flows are now positive again in non-Japan Asia.

The global index (in euro terms) rose by 0.5% last week giving a total return year-to-date of 0.6%. There was a mixed bag of returns across the major **markets** in local currency terms last week ranging from 1.3% in the US to minus 0.9% in Japan. The Irish market (+3.8%) continued its strong run (+12% year-to-date) on the recovery story.

Eurozone **bonds** were up by 0.7% last week and are up an impressive 4.4% year-to-date led by Spain (+6.6%) and Italy (+5.4%). The core markets are also performing well. The German 10-year bond yield fell back from 1.66% to 1.62% last week; its 2013 low was around 1.2%. Irish yields are now only 1.5% higher than in Germany. The gold price treaded water last week but is up almost 10% year-to-date. The metal had collapsed by 28% during 2013. Short-term interest rates are likely to remain low for an extended period.

	Index	1 Week Return 21.02.14 to 28.02.14	
		Local Currency %	Euro Currency %
Global (euro)	FTSE World	0.5	0.5
US	S&P 500	1.3	0.7
US	NASDAQ	1.1	0.5
Europe	FT/S&P Europe Ex.	0.6	0.6
Ireland	ISEQ	3.8	3.8
UK	FTSE 100	-0.4	-0.4
Japan	Topix	-0.9	-0.8
Hong Kong	Hang Seng	1.2	0.6
Australia	S&P/ASX 200	-0.6	-1.6
Bonds	Merrill Lynch Euro over	0.7	0.7

## The week ahead

- The US February employment report (Friday) is expected to show that non-farm payrolls rose by 150k. Unemployment is projected to remain constant at 6.6%. February's manufacturing ISM (Monday) is expected to come in at 52, up from the previous 51.3. The 4Q earnings seasons beings to wind down, with a handful of reports scattered throughout the week, predominately in the consumer sector.
- At the ECB meeting (Thursday), a decision will be made as to whether to cut rates one final time. There is a 30% chance that rates will be cut to 0.10% or 0.15% from the current 0.25%. It is expected that euro area Q4 GDP (Wednesday) will remain unrevised at 0.3% quarter-on-quarter in its second release.
- In the UK, it is expected (Thursday) that the Monetary Policy Committee (MPC) will maintain policy on hold with the Bank Rate unchanged at 0.5%. February manufacturing PMI (Monday) is likely to rise slightly to 56.9.
- All eyes in the marketplace will be on events in Crimea.

# 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 remains on growth and inflation expectations, which remain low. Expectations for inflation remain below the 2% target rate. Despite recent inflation figures showing some acceleration, the ECB should remain accommodative and the possibility remains for more QE if growth comes in below expectations of 1.1% or if deflation concerns mount.
- In the US, consensus expectations continue to be for the Fed to end over half a decade of QE by Sep 2014. The most recent Fed meeting reflected a hawkish tone indicating continued tapering, despite weaker data readings in Q1. The Fed continues to monitor economic data and views unemployment levels as guide, not a trigger rate, given some structural factors skewing the headline number. Despite recent macro, retail and jobless data softness, the S&P continued to move higher in Feb with optimism remaining high for the second half of 2014. 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. Inflation remains below target levels. However, confidence appears to remain in the US growth story, with growth expected to be back half loaded for 2014. Emerging Markets (EM) may not drag equity performance too heavily in 2014, given the S&P company exposures to these markets are not high on aggregate. An acceleration in US GDP would have a feed through effect for export led EM's, stimulating growth.
- Strategists continue to 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, as valuation multiples in many sectors are relatively high. 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, with some volatility as the currency strengthens. A stabilisation in the exchange rate is sought ahead of seeing Japan outperform. There is an expectation for strong company earnings at current exchange rates. There are 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 bonds versus the manager average with a slight overweight in equities. The funds are underweight energy and utility stocks and overweight consumer goods and industrials. Geographically, the funds are underweight the UK region, neutral in the US, Japan, Pacific region and Europe and overweight 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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