ZURICH

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The week gone by

Global **equities** were hit hard last week by the conflict between Russia and Ukraine over the semi-autonomous state of Crimea, with investors seeking safe-haven assets. Despite the set back, equities continue to be supported by the expectation of strong corporate earnings' growth and low interest rates. Valuations, however, are no-longer attractive while recent economic data has been more mixed.

The global index (in euro terms) fell by 2.8% last week giving a total return year-to-date of minus 2.1%. All of the major **markets** were in negative territory in local currency terms last week ranging from Japan (-5.8%) to the US (-2.0%); the global index fell below its 50-day moving average but stayed well above the key 200-day moving average. Defensive sectors, such as utilities, outperformed economically-sensitive sectors, such as industrials, last week.

Eurozone **bond** markets were up by 0.5% last week and are up an impressive 5.1% year-to-date led by Spain (+8.0%) and Italy (+6.1%). The core markets are also performing well. The German 10-year bond yield fell back from 1.66% to 1.55% last week; its 2013 low was around 1.2%. Irish yields are 1.5% higher than in Germany. The gold price was up again last week (+3.0%) and is now up over 13% 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 07.03.14 to 14.03.14		Year to Date Return 31.12.12 to 14.03.14	
		Local Currency %	Local Currency %	Euro %	Euro %
Global (euro)	FTSE World	-2.8	-2.8	-2.1	-2.1
US	S&P 500	-2.0	-2.1	-0.4	-1.2
US	NASDAQ	-2.1	-2.3	1.7	0.8
Europe	FT/S&P Europe Ex.	-3.1	-3.1	-1.9	-1.9
Ireland	ISEQ	-3.5	-3.5	7.4	7.4
UK	FTSE 100	-2.7	-3.5	-3.3	-3.7
Japan	Topix	-5.8	-4.2	-10.6	-7.9
Hong Kong	Hang Seng	-4.9	-5.2	-7.6	-8.5
Australia	S&P/ASX 200	-2.4	-3.1	-0.4	-0.1
Bonds	Merrill Lynch Euro over	0.5	0.5	5.1	5.1

The week ahead

- At the March FOMC meeting (Wednesday) it is expected that there will be no change in the federal funds rate target of 0-0.25% while the pace of assets purchases will be reduced by another $10bn to $55bn. It is forecast that February housing starts (Tuesday) rose to 915k.
- In Europe, at the EU Summit (Thursday) the EU's stance towards Russia will feature prominently.
- In the UK, it is expected that the minutes of the March MPC meeting (Wednesday) will show that the committee voted unanimously to maintain policy on hold with the Bank Rate at 0.5%. Chancellor Osborne will announce (Wednesday) the budget for fiscal year 2014-15.
- Events in Crimea will continue to take centre stage.

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 will below the 2% target rate. Despite recent inflation figures showing some acceleration, the ECB should remain accommodative and the possibility of QE remains 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, with a further $10bn in tapering expected to be announced at this weeks meeting (19th Mar). Chair 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. Expectations are also for the fed to move towards more qualitative criteria in assessing the trajectory for interest rates. Despite mixed economic data recently, the S&P continues to move higher. 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 still 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, the S&P 500 has reached record highs, the Euro Stoxx 600 continues its upward trajectory, persisting since early 2012. Fed tapering could eventually cause a pull back but appears so far to be well baked into expectations causing little reaction to date. 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 and Asia Pacific region, neutral in the US, Japan, Pacific region and Europe and overweight Ireland.

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