



7th April 2014

The week gone by

Global **equities** pushed higher again last week as international inflows continued to move into this asset class at the expense of cash. However, there has been a significant amount of rotation with equities (such as internet stocks) that had performed well last year being sold down and those stocks that had underperformed being bought. Equities continue to be supported by the expectation of reasonably strong corporate earnings' growth and low interest rates. Valuations, however, are no-longer good value.

The global index (in euro terms) rose by 1.5% last week giving a total return year-to-date of 2.2%. All of the major **markets** were in positive territory in local currency terms last week led by Japan (+2.5%), Hong Kong (2.0%) and Europe (1.9%). The US market was the weakest for the second week in-a-row.

Eurozone **bond** markets overall rose by 0.3% last week and are up an impressive 6.1% year-to-date led by Spain (+9.8%) and Italy (+8.3%). The core markets have also performed well. The German 10-year bond yield remained constant at 1.55% last week; its 2013 low was around 1.2%. Equivalent US bond prices are up 2.0% so far this year. Commodity prices in general were virtually flat last week; commodities remain one of the best performing asset classes so far this year (+8.8%).

| | Index | 1 Week Return 28.03.14 to 04.04.14 | | Year to Date Return 31.12.13 to 04.04.14 | |
|---------------|-------------------------|---------------------------------------|-----------|---|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| Global (euro) | FTSE World | 1.5 | 1.5 | 2.2 | 2.2 |
| US | S&P 500 | 0.4 | 0.8 | 0.9 | 1.2 |
| Europe | FT/S&P Europe Ex. | 1.9 | 1.9 | 4.9 | 4.9 |
| Ireland | ISEQ | 2.5 | 2.5 | 12.7 | 12.7 |
| UK | FTSE 100 | 1.2 | 1.2 | -0.8 | -0.4 |
| Japan | Topix | 2.5 | 2.4 | -6.6 | -4.5 |
| Hong Kong | Hang Seng | 2.0 | 2.4 | -3.4 | -3.2 |
| Australia | S&P/ASX 200 | 1.0 | 1.9 | 1.3 | 5.9 |
| Bonds | Merrill Lynch Euro over | 0.3 | 0.3 | 6.1 | 6.1 |

The week ahead

- US Q1 corporate earnings season kicks off towards the end of the week with the likes of Alcoa and J.P.Morgan. The minutes of the March FOMC meeting (Wednesday) will show further discussion surrounding a likely increase in rates next year and whether it was prompted by a faster than expected decline in the unemployment rate.
- It is expected that February German Industrial Production (Monday) was up 0.3% over the month (last: 0.8%).
- In the UK, it is expected that the MPC (Thursday) will maintain policy on hold, with the Bank Rate and asset purchases unchanged at 0.50% and £375bn, respectively.
- In Japan, at the BOJ monetary policy meeting (Tuesday) it is forecast that there will be no change to policy or the headline economic assessment.

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.
- 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 announcements supported this view. 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. However, Yellen's suggestion of an initial rate hike in spring 2015 is possible but the Fed is still likely to remain data dependant ahead of taking any action. These comments should provide US\$ strength. US growth is still sub-par by historic standards but, importantly, it is stable with signs of improvement. Inflation remains below target levels and core CPI (ex energy and food) is still relatively benign. However, confidence appears to remain in the US growth story, with GDP to be buoyed by accelerated consumer spending and capital expenditures.
- There is some caution built into estimates given market valuations appear to be fair, the S&P 500 has reached record highs and 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.
- Export led Emerging markets may see some benefit from an accelerating US economy; however, this will be overshadowed by the headwinds facing Emerging markets, including rising US interest rates, a stronger US\$ and negative sentiment around China. This may keep emerging market equities out of favour in the near term.
- 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 and many markets are relatively high. We view market weakness as an opportunity to add to positions
- The Japanese market remains volatile with some weakness in recent weeks. A stabilisation in the exchange rate is sought ahead of seeing Japan outperform. There are continued expectations that the Bank of Japan may announce further stimulus in 2014, but the impact of the increase in domestic consumption tax may need to be assessed by the BoJ ahead of taking any action.
- 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. Bond markets remain vulnerable to upside growth surprises. Confidence in the ability of the ECB and policymakers to manage the peripheral debt situation remains high. In particular the trajectory of Eurozone inflation is of paramount importance. The ECB has reiterated their commitment to managing inflation through use of unconventional policy tools if necessary. Their unambiguous language in relation to forward guidance also reiterated their intentions to maintain accommodative monetary policy going forward. However, there are still many challenges to be negotiated in peripheral countries as credit growth remains challenged.
- 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 tech stocks and overweight industrials and consumer services. Geographically, the funds are underweight the UK region and Asia Pacific region, neutral in the US, Japan 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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