ZURICH

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The week gone by

Global **equities** pushed ahead again despite mixed economic data and continued geopolitical tensions. Markets were helped last week by reasonably good earnings' results and renewed mergers & acquisitions activity (e.g., Pfizer's unsolicited bid for AstraZeneca**).** Equities continue to be supported by the expectation of strong corporate earnings' growth and low interest rates. Valuations, however, are no-longer attractive.

The global index (in euro terms) rose by 1.0% last week giving a total return year-to-date of 2.0%. Most of the major **markets** were in positive territory in local currency terms last week led by the UK (+2.1%) and Japan (1.1%); the global index remained above its 50-day moving average and well above the key 200-day moving average.

Eurozone **bond** markets rose by 0.4% last week and are up an impressive 7.6% year-to-date led by Spain (+11.6%) and Italy (+9.7%). The German 10-year bond yield fell from 1.48% to 1.45% last week; its 2013 low was around 1.2%. Equivalent US yields are at 2.58%. Eurozone bond prices, although somewhat expensive, have benefited from deflationary concerns and speculation that the ECB may introduce some form of QE. Commodity prices were up by a further 1.2% last week.

	Index	1 Week Return 25.04.14 to 02.05.14		Year to Date Return 31.12.13 to 02.05.14	
		Local Currency %	Euro %	Local Currency %	Euro %
Global (euro)	FTSE World	1.0	1.0	2.0	2.0
US	S&P 500	1.0	0.7	1.8	0.9
Europe	FT/S&P Europe Ex. U.K.	0.9	0.9	3.0	3.0
Ireland	ISEQ	1.0	1.0	8.5	8.5
UK	FTSE 100	2.1	2.2	1.1	2.1
Japan	Topix	1.1	0.8	-9.2	-7.3
Hong Kong	Hang Seng	0.2	-0.1	-4.5	-5.3
Australia	S&P/ASX 200	-1.3	-1.6	2.0	5.1
Bonds	Merrill Lynch Euro over 5 year	0.4	-0.4	7.6	7.6

The week ahead

- Despite the US earnings season heading into its final stretch, there remain some important companies yet to report, with Energy names in focus.
- It is expected that the ECB (Thursday) will leave its policy rate unchanged at 0.25% although future policy easing cannot be ruled out.
- In the UK, it is likely that the Monetary Policy Committee (MPC) will (Thursday) maintain policy on hold, with the Bank Rate and asset purchases unchanged at 0.50% and £375bn, respectively.
- Russian/Ukrainian tensions remain on the radar screen.

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.
- 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, despite recent volatility, 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.
- Despite recent volatility seen in the US and Europe, the outlook for the US and Eurozone remains unchanged. Appetite for risk still remains. There are still some signs of style rotation – evident in the shift away from higher beta to lower beta stocks and sectors, despite fundamentals remaining unchanged.
- In the US, consensus expectations continue to be for the Fed to end over half a decade of QE by Sep 2014. 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. Although Yellen's suggestion of an initial rate hike in spring 2015 remains possible, 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. Acceleration from the low GDP growth rate seen in Q1 is anticipated. Aside from the low GDP figure in Q1, other data points are coming in favourably such as employment, ISM data and consumer spending. Inflation remains below target levels. Overall, confidence appears to remain in the US growth story, with GDP expected 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 Dow reached and all time high last week and the S&P 500 is only a few points off its all time high. Style shift has caused some volatility but overall equity indices are trading within a tight range. In the near term, market moves may continue to see the effects from investor positioning and style factor shifts. Geopolitical risk remains, with US/Russian tensions still an overhang; however, this is not weighted heavily by the market overall given the incentives present on both sides to not allow a material escalation.
- 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 and uncertainty around China. This may keep emerging market equities out of favour in the near term.
- The Japanese market remains volatile but somewhat range bound since early Feb. A stabilisation in the exchange rate is sought ahead of seeing Japan outperform. Monetary policy is expected to remain loose for some time to come and there are continued expectations that the Bank of Japan may announce further stimulus in 2014. The latest consumer tax hike doesn't appear to have had a significant impact on inflation in the region to date.
- 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. The trajectory of Eurozone inflation is of paramount importance. The ECB's unambiguous language in relation to forward guidance underlined 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 slight overweight in equities and close to neutral in bonds versus the manager average. The funds are underweight energy and tech stocks and overweight industrials and consumer goods. Geographically, the funds are underweight the UK, Asia Pacific and Lat Am region, neutral Japan, slightly overweight North America and overweight Europe and Ireland.

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