

Positive outlook, but mindful of risks

Investment Outlook 2018





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Equities are still the most attractive asset class on relative valuation grounds. Valuations are not supportive of most European fixed income as a long-term investment.

<p>2017 Review</p> 	<ul style="list-style-type: none"> Markets saw a positive 2017 which was led by improving economic data, good corporate earnings growth and the potential for expansionary economic policy by the US administration. The current equity bull market, which began in March 2009, is now the second longest and second strongest in history. However, from a eurozone investor perspective, gains in international markets were eroded during 2017 by a strengthening euro currency. Synchronised growth was increasingly evident across the globe and future growth expectations were revised upwards. Monetary policy still remained accommodative globally, and credit conditions remained “easy”.
<p>Equities</p> 	<ul style="list-style-type: none"> On an absolute basis equity markets are more fully valued, and are above historical averages. A boost to earnings – in line with an improvement in global economic activity and perhaps a small lift to inflation from a low base – would be supportive. Relative to bonds – which remain on highly elevated valuations – equity markets are favourably valued. We still see equity markets having further upside despite the broad gains in global markets over the past number of years. Earnings growth is positive and supportive of the market.
<p>Fixed Income</p> 	<ul style="list-style-type: none"> ECB policy rates should remain low for an extended period of time due to low inflation. Although the perception of deflationary risks has diminished, a sustained pick-up in inflation remains elusive. The price action of global bond markets is consistent with the end of a multi-decade period of falling long-term interest rates. Although price action could be choppy, we feel that the risk / reward backdrop is now skewed towards the prospect of higher yields. Inflation, although still at historically low levels, has seen a pick-up due to rising commodity prices and some upside wage pressures in the US. The flattening of the US yield curve (the difference between 2 year and 10 year US yields) has become a focus for markets. We do not feel that it is yet a cause for investor concern.

<p>Upside Risks</p> 	<p>Global growth accelerates, building on the momentum from 2017.</p> <p>Monetary policies remain ultra-accommodative globally.</p> <p>Interest rate increases in the US are interpreted as a vote of confidence in the economy and a welcome return to normality.</p>
<p>Downside Risks</p> 	<p>Monetary policy tightens more than anticipated in the US; how will markets react?</p> <p>ECB policy action, including an end of the QE programme, could weigh on markets.</p> <p>Upcoming elections in Italy, and potentially in Germany, the UK and Ireland, pose some political risks for Europe for 2018. Structural risks also remain; most evident in the ongoing Brexit negotiations.</p>

Calendar Year Performance since 2007

The Benefits of Diversification



	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Prisma 2	0.3	1.6	1	3.3							
Prisma 3	2.2	4.1	2.6	7.1							
Prisma 4	5.7	8.5	4.9	14.2							
Prisma 5	7.7	11.3	6.2	16							
Prisma 6	8.7	9.8	7.9	7.4							
Active Asset Allocation	5.9	8.1	4.9	14.6	3.9	10.5	-1.8				
Balanced	6.3	6.7	10	15.3	16.1	13.1	-2	11.1	22.3	-30.4	0.8
Performance	8.3	6.9	10.9	16.1	17.2	12.6	-2.4	11.4	25.8	-35.2	-0.2
Dynamic	8.8	7.4	11.8	15.8	19	13.1	-3.4	12.9	28.1	-37.8	0.3
Cautiously Managed	3.9	5.1	6.3	18.6	6.7	12.3	3.6	5.3	12.7		
5★5 Americas	2.1	14.1	11.8	28.8	24.7	10.2	-0.9	14.7	11.1	-22.9	5.9
5★5 Asia Pacific	23.8	10.4	5.7	9.2	2.6	16.7	-8.5	6.9	47.3	-49.6	20.2
5★5 Europe	16.4	4.8	17.5	8.6	23.6	28.8	-8	6.4	28.7	-43.9	4.6
5★5 Global	11.6	4.5	13.3	13.3	17.6	16.2	-6.4	12.3	18	-35.8	3.2
Invesco Global Targeted Return	-0.1	2.1	1.6								
Active Fixed Income	-1.1	4.7	1	20.3	2.4	12.8	6.5	1	4.2	12.3	0.4
Asia Pacific Equity	21.8	11.4	0.8	10.5	1.6	19.6	-9.8				
Long Bond	-1.7	6.3	1.8	28.2	1.5	14.6	6.3	1.3	3.2	11.6	-2
Cash	-0.8	-0.8	-0.5	-0.3	-0.4	-0.5	0.4	-0.2	0.1	3.5	3.5
Irish Equity	8.7	-0.8	38.5	16	33.7	19.6	5.5	1.1	27.1	-63.8	-21.9
Dividend Growth	3.1	17.3	6	18	20.1	18.9	0	19.1	28	-39.7	-13.7
International Equity	9.3	10	10.7	17.7	20.6	13.5	-3.7	16.9	26	-36.1	3.7
Eurozone Equity	14.3	5	11.7	4.3	25.5	24	-12.9	7.7	32.3	-39.3	11.3
Fund of REITs	19.5	-11.2	27.4								
Indexed Australasia Property	3.5	11	2.4	26.1	-10.3	34.5	-14.9	28.2	68.1	-58.3	
Indexed Eurozone Ex UK Property	14.4	3.9	16.6	20.6	3.8	24.5	-13.2	20.9	36.5	-35.8	
Indexed Global Energy and Metals	-5.7	21.5	-20.2	-12.4	-5.3	-2.9	0.5	16.4	18	-48.9	19.5
Gold	-2.6	12.3	-2.3	12.8	-31.4	3.4	14	35.4			
Indexed Inflation Linked Bond	0.6	3.4	0.1	4.6	-4.4	10.3	-1.8				
Protected 70	4.7	1.4	6.4	10.4	13.1	7.5	-6.5				
Protected 80	2.2	-0.3	4.2	7.1	9.3	4.4	-5.6				
Protected 90	-1.1	-2	1.3	2.6	2.7	0.8	-3.9				
JP Morgan Global Corporate Bond	3.5	3.2	-0.7	7.2	-0.2						
JP Morgan Global Government Bond	0.1	1.3	0.6	8.1	-0.8						
JP Morgan Emerging Market Opp	28.6	17.1	-11.5	12.5							
Dynamic Diversified Growth	6.8	-2.5	-1.7	5.1	5.9	6.4					
Threadneedle American Select	6.3	17.5	9.9	21.3	24.5	15	5.3	20.6	31.7	-37.4	6.6
Threadneedle European Select	13.9	0.1	13.9	12.9	15.7	26.4	-1.1	26.1	29.9	-41.4	3
Threadneedle Global Select	14.1	9	12.1	17.1	20	13.8	-5.5	22	27.3	-38	5.8
Indexed TopTech 100	15.9	9.8	21.4	34.7	29.9	15.5	6.2	27.6	49.1	-39.2	6.9

Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

Source: Zurich Life as at 31/12/17.

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