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## HOT OFF THE PRESS

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### Markets shrug off Cyprus Improglio

by Stewart Robertson, Senior Economist Aviva Investors

*Stewart Robertson explains why events in Cyprus are unlikely to trigger a major financial crisis elsewhere. [Click here](#) for full article.*

The rebound in the world economy, having gained momentum during the first quarter of 2013, appears poised to get incrementally stronger as the year progresses. While it would be unwise to entirely ignore the threat of events taking a turn for the worse, especially in the euro zone – as was recently underlined by events in Cyprus – at this stage we remain optimistic that policymakers are capable of averting a fresh disaster. Signs of improvement in the US, the world's biggest economy, are now fairly widespread, as evidenced by the fact both private sector service employment and retail sales are higher than their pre-recession peaks. Furthermore, the Institute for Supply Management's March data pointed to a GDP growth rate of around 2.5 per cent. Jobless claims are at the lowest level since early 2008, while a range of data suggests activity in the housing market will boost growth over the next few years.

Indeed, if there had been a deal to offset the short-term impact of a package of spending cuts – worth \$1 trillion – which is set to take effect, we would have been revising our growth forecasts up. As it is, the strength of the improvement in the private sector should enable the economy to expand this year by around two per cent.

Turning to China, although data in the first two months of the year has been a touch disappointing, the new government is expected to take steps to underpin growth by focusing on a further rebalancing of activity in favour of higher wages and increased consumption. As a result, the economy is still expected to grow at an annualized pace of eight per cent or just above in first half of 2013, buoyed by strengthening private consumption and public construction, although rapid credit growth and an inflated property market present risks.

Elsewhere in Asia we are witnessing a pickup in activity. This is being led by domestic demand and as manifested in strong intraregional trade, while the US recovery is simultaneously boosting external demand. Furthermore, monetary policy is likely to remain highly supportive throughout the region in 2013, though admittedly China may start to tighten policy in coming months.

In Europe, the steps taken last year by the European Central Bank (ECB) under the stewardship of Mario Draghi have greatly lengthened the odds of the euro zone breaking up. While this does not guarantee a return to robust economic growth, what is encouraging is that both European officials and the International Monetary Fund appear to agree that licking European budgets into shape should be a long-term project rather than the fiscal equivalent of scaling the north face of the Eiger. This finally gives growth a chance in Europe at a time when the global economic backdrop is increasingly supportive. Certainly the bounce in US economic activity which appears to be underway should help support European exports. We do not expect a stunning turnaround in the region's fortunes in 2013. In fact our 2013 forecasts are not dissimilar to those for 2012, with a number of countries such as Germany and Ireland poised for weak growth and others expected to shrink. The key difference is that unlike in 2012 we can expect things to get incrementally better as the year unfolds.

While events in Cyprus have grabbed headlines in recent weeks, they are unlikely to trigger a major financial crisis elsewhere. Undoubtedly some damage has been done with the taboo against depositors being forced to share the pain of a banking system bail-out having been broken. Depositors in other countries with frail banking systems are likely to have taken note. But ultimately we believe that were signs of systemic contagion to emerge the ECB would probably intervene.

Equity markets have performed very well since the beginning of the year and the latest fears about the potential contagion from the bailout of Cyprus have so far caused a limited response. The case for investing in equities remains compelling and they are still far from being a 'loved' asset class, especially when compared to their fixed income cousins. As long as economic data stays resilient across the world, as long as central banks maintain their aggressive easing stances and as long as policymakers continue to work together to reach a 'manageable' solution to the fiscal problems around the world, the outlook for equities remains relatively benign. At this juncture, all three conditions still appear to hold, although the risks have admittedly increased.

As for bond markets, we are broadly neutral. In terms of sovereign markets, while more highly-rated debt such as US Treasuries and UK gilts are unattractively priced, central banks have made it clear

quantitative easing will persist for a while longer yet which should continue to suppress yields. And while 'peripheral' European markets likewise offer poor value given the greater accompanying risk, the threat of ECB intervention, coupled with investors' quest for incremental yield, is likely to offer support. While corporate debt offers value, equities appear more attractive at current levels.

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## MARKETS END Q1 ON A HIGH NOTE

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### S&P 500 Index up 135% since March 2009

by Karen Deenihan

*Global stockmarkets have enjoyed a strong run since the start of the year. The broad MSCI World Index rose by 7.2% over the quarter and 2.1% over March. The S&P 500 finished March at 1,569.19 eclipsing its last record close of 1,565.15 set in October 2007.*

Global stockmarkets have enjoyed a strong run since the start of the year. The broad MSCI World Index rose by 7.2% over the quarter and 2.1% over March. The S&P 500 finished March at 1,569.19 eclipsing its last record close of 1,565.15 set in October 2007. The S&P 500 rose by 3.8% over March and 10.6% over the first quarter. Driven by aggressive monetary easing and record profits from the index's constituents, the S&P 500 has risen by 135% since its record low of 666.79 reached in March 2009. The Nikkei has also had a bumper quarter rising by 18.7% over the quarter and 6.7% over the month.

Source of all statistics: The FT and State Street.

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## MARCH FUND PERFORMANCE UPDATE

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### Funds higher up the risk scale produce strong returns

[Click here](#) to download our fund performance scorecard.

*The Aviva Irl Dynamic Multi Asset Fund rose by 3.22% over the month. The Aviva Irl High Yield Equity Fund rose by 4.22% in March.*

[Click here](#) to download our fund performance scorecard.

Funds higher up the risk scale performed particularly well in March. The Aviva Irl Dynamic Multi Asset Fund rose by 3.22% over the month. The Aviva Irl High Yield Equity Fund was up by 4.22% in March and 9.87% over the quarter. The fund has posted a strong return of 9.15% per annum over the last ten years, despite being through two significant market corrections over this time period.

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### High Yield's outperformance vs. peer group

*The Aviva Irl High Yield Equity Fund has generated strong returns vs. its peers.*

The following reports from Moneymate show the strong performance of the Aviva Irl High Yield Equity Fund vs. its peers.

#### Performance of the Aviva Irl High Yield Equity Fund vs. Peers (from date first priced of peer funds to 08 April 2013)

	Aviva Irl High Yield Equity Fund	Competitor Fund	Download Moneymate comparison
Canada Life*	+126.7%	+106.1%	<a href="#">Link</a>
Zurich Life Dividend Growth**	+49.0%	+44.8%	<a href="#">Link</a>
Davy High Yield Equity***	+105.9%	+81%	<a href="#">Link</a>
Irish Life Davy High Yield Fund****	+30.92%	+6.8%	<a href="#">Link</a>

\* Performance from the date the Canada Life fund first priced on Moneymate 04/03/2003 to 08/04/2013.

\*\* Performance from the date the Zurich fund first priced on Moneymate 01/07/2005 - 08/04/2013.

\*\*\* Performance from the date Davy Fund first priced on Moneymate 15/10/2002 - 08/04/2013.

\*\*\*\* Performance from the date the Irish Life Fund first priced on Moneymate 29/07/2006 - 08/04/2013

Source: Moneymate 09 April 2013.

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