ERSTE
Asset Management

Media release

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Capital market outlook for the second half of 2019: expansive central banks fuelling risk appetite among investors

- **Global economic growth is deteriorating, but the labour market remains robust**
- **Central banks have reacted early by announcing loosening measures**
- **Equities and bond categories with higher yields (e.g. emerging markets and US corporate and mortgage bonds) remain attractive**

The first half of 2019 is over. Many asset classes on the international financial markets recorded significant price increases. Important equity indices such as the Dow Jones, the S&P 500, and the US technology index Nasdaq set new historic highs at the beginning of July. Prices were being driven by the hope of an expansive central bank policy (especially in the USA) and by the solid company results.

Due to the increased risk appetite among investors, bond yields were down, and bonds across the board posted gains. Even government bonds recorded a surprisingly good development: for example, the yields of 10Y German government bonds fell to a record low of -0.4% at the beginning of July. In the so-called peripheral countries and the emerging markets, yields were down substantially. Thus, all asset classes recorded unexpectedly significant gains in the first half of 2019.

Looser monetary policy supports markets

Erste Asset Management, the investment company of Erste Bank und Sparkassen, expects growth to deteriorate in the second half of 2019. But: “From today’s perspective we do not envisage a slump; real global GDP growth should be in a bandwidth of +2.0 to +2.5% in 2019 after +3.0% in 2018,” explains CIO Gerold Permoser (source: “Global Economic Prospects“, World Bank).

Inflation in the developed economies is low. Important central banks have announced steps towards a looser monetary policy. For the USA, the markets have rate cuts of 1 percentage point priced in. “A rate cut of 0.25 percentage points at the end of July is very likely,” as Permoser points out. Only half a year ago, the market was expecting rate hikes.

Labour market as engine, trade conflict defused

The imminent reporting season should give an insight into the earnings development in the corporate sector. Thanks to the economic boom phase of recent years, the labour market is still strong in many parts of the world. The low unemployment rates are driving income and consumption growth. The political risk is on the decline as well. The fact that – as was announced on the sidelines of the G20 summit in Japan – the negotiations between China and the USA would be resumed has calmed the markets. This has done away with the risk of an imminent escalation in the trade and technology conflict.

Equities remain favourites among the investment classes

In an environment of low inflation and slightly weaker yet intact growth opportunities, the focus of Erste Asset Management in its asset allocation is on equities and emerging markets bonds as well as US corporate and mortgage bonds. “As long as the profit margins of companies do not come under more pressure and the political uncertainties do not escalate (e.g. the trade conflict between the USA and China, Brexit, or the conflict between the USA and Iran), equities will remain attractive,” says Permoser.

Active management in eventful markets

The line of mixed funds that Erste Asset Management offers, i.e. YOU INVEST (founded in 2013), is an attractive way of participating in the capital market. The assets under management of the currently five funds amount to EUR 1.07bn (as of 28 June 2019; source: Erste AM). The umbrella funds invest in a balanced mix of diverse asset classes, including government bonds, corporate bonds, and international equities. The composition and weightings of the asset classes in the various YOU INVEST funds depends on a clearly defined risk/return profile.

In the year to date, the funds have gained 3.7% to 9.7%*. Since their inception, they have all recorded a positive performance of 1.7% to 2.3% per year* (data as of 28 June 2019; source: Erste AM; calculated according to the OeKB method).

*Performance calculated according to the OeKB method. The performance accounts for the management fee. It does not allow for a one-time load of up to 4.00%, if applicable at the time of purchase, nor any other fees reducing return such as individual account or depositary fees. Historical performance data are not indicative of the future development of the fund.

Important legal notices:

Forecasts are no reliable indicator of future developments.

Warning notices in accordance with the Austrian Investment Fund Act of 2011

YOU INVEST *active, advanced, balanced, progressive,* and *solid* may invest significant amounts in the shares of other investment funds (UCITS, UCI) as defined by sec 71 of the Austrian Investment Fund Act of 2011.

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Erste Asset Management (Erste AM) coordinates and is responsible for the asset management activities within Erste Group. At our locations in Austria, Croatia, Czech Republic, Germany, Hungary, Romania, and Slovakia we manage assets of about EUR EUR 60,07 (as of 31 May 2019).

The prospectus for UCITS (including any amendments) is published in Amtsblatt zur Wiener Zeitung in accordance with the provisions of the InvFG 2011 in the currently amended version. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in connection with the InvFG 2011. The fund prospectus, Information for Investors pursuant to § 21 AIFMG, and the key investor document/KID can be viewed in their latest versions at the web site www.erste-am.com or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the key investor document is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com

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