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Erste Asset Management regards moderate growth as the driver of capital markets in 2020

- **Erste AM assets under management increased by 8.9% in 2019**
- **Sustainable investment volume rose twice as much**
- **Escalation risks have fallen in trade conflict**
- **Equities (and equity funds) remain our most attractive form of investment in 2020**

An above-average year is coming to its end for Erste Asset Management (Erste AM), the investment company of Erste Bank und Sparkasse. Thanks to the positive development across almost all asset classes and very positive inflows, assets under management increased from EUR 58.5bn on 31 December 2018 to EUR 63.7bn as of 31 October 2019. This is equal to an increase of 8.9% – and the year has not ended yet.

Assets under management held in sustainable funds have grown by double-digit rate
The increase was even more pronounced for assets held in sustainable funds: assets invested according to ESG (Environmental, Social, Governance) criteria rose from EUR 5.4bn at the beginning of the year to EUR 6.2bn as of 31 October 2019, i.e. by 16.8%. With its total of 15 sustainable mutual funds and numerous special funds, Erste AM is the market leader in the field of sustainability in Austria.

“We are pioneers in the areas of ethics and sustainability: as early as 2001, we launched the first sustainable mutual fund. To us, sustainability is not just a buzzword. Rather, it conveys our conviction that environmental and social factors yield a better long-term performance for our clients,” as Heinz Bednar, CEO of Erste AM, points out.

Mild recovery of global economic growth
“The global economy has become more likely to go through a period of mild recovery in 2020,” says Chief Investment Officer Gerold Permoser. There has been discussion about a possible weakening of the global economy for months. “Some economic indicators suggest that the global economy is not running as flawlessly as it used to do, but we are far from a recession,” explains Permoser. Private consumption and the low unemployment are supporting the global economy. Inflation remains low and “under control”.

Stock exchanges are usually seen as leading indicator of economic developments, and they are currently close to their all-time highs or indeed have passed them. By contrast, the prices of credit-safe bonds have fallen after their all-time high at the beginning of September. The international central banks loosened their monetary and interest rate policy in order to prevent the economy from weakening. Permoser: “The stock exchanges reflect the optimism about the future course of the economy. Optimism outweighs uncertainties, and that is good for the capital markets.”

De-escalation in the trade conflict between the USA and China
The perceived likelihood of an agreement in the trade conflict between the USA and China has increased. While this will probably not cover all areas of conflict (trade, technology, finance, currency, patent protection), the two countries might at least agree on a truce. Erste Asset Management regards the weak automotive sector and the resulting subdued business in the manufacturing sector as negative for the economy. Both are due to the cyclical development of the economic activity.

Bull markets tend to end in a firework
In 2020, the biggest challenge to investors will yet again be the generation of positive yields in an environment of low interest rates. The outlook on a recovery of the global economy and the moderate valuation in terms of company earnings continue to make a case for equities as attractive investment in 2020. The return potential (dividend included) spans a bandwidth of 6 to 8%. The alternatives to equities and equity funds are "limited", according to Heinz Bednar.

The fact that the bull market has lasted for more than a decade on the stock exchanges has provided the investors with above-average returns throughout the years. "*Despite more than ten years of bull market, we are optimistic about its continuation in 2020. The positive signals outweigh the negative ones,"* says Bednar.

Asian equities with particularly high potential
In the equity segment, the Erste Asset Management fund managers regard Asian equities as particularly promising, while also expecting good performances from the stock exchanges in the USA, Europe, Japan, and the CEE emerging markets. As far as sectors are concerned, the focus is on raw materials, industrials, consumer goods, and financials. In addition to equites, the experts of Erste Asset Management also regard corporate bonds from the euro area and the USA with higher yields and emerging markets hard and local currency bonds as attractive investment classes.

Products that work around the phase of low interest rates
"*Erste Bank und Sparkassen and their advisers have reacted excellently to the persistent phase of low interest rates and alerted customers to alternatives such as fund savings plans*," explains Bednar. In terms of marketing efforts, the focus was on funds and fund savings plans, which are available for a cash deposit of as little as EUR 50 per month.

New forms such as s Fondsparplan Mix (s fund savings plan "Mix") facilitate the combination of various funds in only savings one plan. The focus is in particular on the sustainable s Fonds Plan Mix and on ERSTE WWF STOCK ENVIRONMENT, one of the best performing funds in Austria in 2019, which invests globally in environmental companies.

On the fixed income front, ERSTE FIXED INCOME PLUS, which invests flexibly for example in domestic and international government and corporate bonds and ERSTE RESPONSIBLE BOND EMERGING CORPORATE, which invests in emerging markets corporate bonds, are popular.

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⚠ Risk notes according to 2011 Austrian Investment Fund Act

ERSTE WWF STOCK ENVIRONMENT may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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ERSTE FIXED INCOME PLUS may make significant investments in investment funds (UCITS, UCI) pursuant to section 71 of the 2011 Austrian Investment Fund Act.