

## Erste AM financial markets outlook: equities and high-yield bonds remain first choice

- **Economy expected to recover substantially in 2021 and 2022**
- **Company earnings with positive surprises, driving equity markets**
- **European Green Deal highlights trend towards a more sustainable economy and opportunities for green technologies**

On top of the corona situation, two additional developments have been crucial for the development of the financial markets. The central banks have been pursuing a very expansive regime on a global scale, and at the same massive stimulus packages have been passed in an effort to get the economy up to speed again

### **Support for the markets**

*“From a global perspective, the economic and monetary policies are ultra-expansive. With the interest rate policy having lost its effectiveness, central bank liquidity is now of crucial importance. The central banks are massively widening their balance sheet totals in support of the markets,”* as Alexander Lechner, Head of Multi Asset Management with Erste Asset Management (Erste AM), points out. The government also tries to contain the worst consequences of the pandemic by implementing reduced working hour schemes, tax cuts, and other forms of support.

### **Company earnings with positive surprises**

The experts of Erste Asset Management currently expect the economy to recover in 2021 and 2022. There is therefore no way around equities / equity funds or progressive mixed funds, where the upward potential is intact.

The development on the stock exchanges gives reason to be optimistic; the US equity index S&P 500 is up 2.3% in the year to date (as of 5 August 2020), having bounced back sharply from its March lows. This is also how the corona crisis differs from earlier crises, where the recovery phases took significantly longer.

*“The expansive monetary policy, the low interest rates, and the surprisingly good company results have been the driving factors for the equity markets in Q2 2020. In the USA, more than half of the companies have reported their results, with 85% exceeding analyst estimates and only 13% falling short,”* as Alexander Lechner explains.

In Europe, about a third of companies have reported their results so far, with earnings 18% below last year's. While the sector composition in the USA and Europe differs, the pattern is similar: oil & gas (with stronger weightings in Europe) is the weakest sector this year, whereas technology (the biggest heavyweight in the USA), consumer goods, and the healthcare industry are among the strongest sectors.

### **Intact opportunities in the corporate bond segment**

In July, high-yield corporate bonds from the USA recorded their best month in almost nine years. This market is in part driven by the search for higher yields by many market participants. The support measures by the central banks, especially the Fed, have caused the yields for bonds with good ratings to remain at extremely low levels. For example: according to ICE (Intercontinental Exchange), corporate bonds with investment grade rating in the USA are traded at only 1.92%, while 10Y US Treasury bonds currently pay an annualised yield of 0.54% (as of 3 August 2020).

*“Therefore, high-yield bonds returning an average yield of 5.45% seem attractive to many investors. The worries over a possible wave of defaults have subsided”, as Lechner points out.*

In addition to equities, we favour high-yield corporate bonds and emerging markets government bonds for our Erste AM mixed funds. Overall, the environment should remain constructive for the markets.

### **Climate change remains the biggest challenge**

According to Global Risk Map 2020 of the World Economic Forum, the economic impact of climate change does not only dwarf the current corona pandemic. *“Therefore, we have to be able to contain the damage, otherwise we are going to face a never-ending climate lockdown,”* as Walter Hatak, Head of Responsible Investment Erste AM, explains. The EU Green Deal which is meant to turn Europe into the first climate-neutral continent by 2050, is coming at the right time. The EUR 1,800bn budget and financial package of the EU will also support green investments. At least 30% of the funds of the regular EU budget have been earmarked for climate protection measures in the coming seven years.

According to the financial service provider MSCI, sustainably governed companies have shown more resilience during the corona crisis, with environmental companies outperforming comparable, traditional companies. *“Sustainability is far more than a fad. It is a driving factor of investments,”* says Hatak.

### **About us:**

Erste Asset Management (Erste AM) coordinates, and is responsible for, all asset management activities within Erste Group. At our offices in Austria, Germany, Croatia, Romania, Slovakia, the Czech Republic, and Hungary we manage assets worth EUR 60.4bn (June 2020).

Erste Asset Management was awarded the title of Best Investment Company of the Year by the trade magazine “Börsianer” in 2019.

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