Identify opportunities of home and emerging markets instead of analysing problems in US, say Erste Bank analysts

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US financial stocks and capital-intensive sectors (technology stocks, esp. semi-conductors, etc) should be avoided

After the plunging prices of the past few months, many stock investors are asking themselves what the best mode of procedure would be for their positioning in the coming months. Erste Bank analysts say it is recommendable to underweight stocks. In regard to regional weighting, they recommend Europe, Latin America and Asia which are, in their view, in a much better condition that the US:

“The liquidity crisis is affecting mainly the highly indebted United States, where inflation is rising and unemployment is having a heavily dampening effect on private consumption”, says Hans Engel, International Equities Analyst at Erste Bank. "In Germany, which is the largest European economy, unem-ployment is declining and businesses are generally not having any problems borrowing funds. Investors should substantially underweight US stocks and overweight their portfolios with emerging markets (especially Latin America, Eastern Europe and selected Asian countries such as India and Thailand) and Europe”, Engel ads.

Erste Bank analysts say current and expected growth rates are stronger in these regions, they offer attractive valuations, especially vs. US, while their currencies are more stable over the long term. “Gen-erally, investors should not spend all their time analysing problems in distant places (e.g., US), but should also recognize the numerous opportunities of their home markets and of the emerging markets,” says Hans Engel.

Erste Bank analysts say currency developments will have a greater influence on the performance of stock investments in the coming months. As long as the Fed's monetary policy is primarily aimed at stimulating the US economy and apparently attaches less significance to monetary stability, the weakness of the USD is predictable, they say. In their view, European stocks are a better choice over US stocks over the long term, even though at present it does not seem realistic that European stock markets will completely decouple from developments in the US.

With regard to those investors worrying about rising energy prices, Erste Bank analysts point out that Austria, Switzerland, Germany, France, Italy and most European countries are much less dependent on energy costs per unit of GDP than the US. On the average of the EU-25, only 16% energy input is re-quired to produce one GDP value unit. The figure of comparison for the US is 22%. Even countries like Mexico, Brazil, India and Turkey have a more attractive ratio and are below or close to the EU average regarding their energy efficiency. China, which has a high level of resource consumption, is just slightly above the US at 23% energy input per GDP unit.

Regarding sector strategy, Erste Bank analysts say profitable growth companies have an advantage due to their higher self-financing capabilities over value stocks with usually higher levels of indebtedness and they favour the following sectors:

- Commodities which offer good buy opportunities in phases of weakness
- Gold mining stocks which will probably continue to develop well
- The stocks of industrial companies of high quality and with low indebtedness which will probably offer good buy opportunities in phases of weakness
- Defensive stocks with good fundamentals and high dividend yields
- European financial stocks, especially stocks without sub-prime exposure and with growth prospects offer good entry opportunities for long-term investors

On the negative valuation side:

- Most US financial stocks still have a strongly negative risk/return ratio and should be avoided over the medium term
- Capital-intensive sectors (e.g. technology stocks, esp. semi-conductors) are at a disadvantage in an environment of rising inflation versus the less capital-intensive sectors (e.g. pharma, bio-tech, machine engineering).

International Equity Markets: EPS-Growth and Valuation

	EPS-Growth %			**Price/Cashflow**		
	2007e	**2008e**	**2009e**	**2007e**	**2008e**	**2009e**
USA	-1,7%	16,6%	13,5%	10,7	9,4	8,5
Euroland	5,0%	9,1%	9,7%	6,9	6,4	6,0

Germany	13,7%	8,5%	11,5%	6,7	6,2	5,6
France	1,4%	13,9%	9,8%	7,4	6,8	6,3
Netherlands	5,8%	-2,1%	5,5%	7,5	7,1	6,6
Switzerland	-13,3%	26,7%	10,4%	10,9	11,2	10,2
Japan	5,0%	6,1%	8,0%	6,5	6,1	5,8
Hungary	-9,7%	10,7%	9,3%	6,2	5,6	5,5
Poland	19,0%	8,1%	15,5%	7,6	7,0	6,7
Czech Republic	37,3%	19,9%	14,4%	9,0	8,0	7,4
Russia	25,5%	9,6%	6,8%	8,2	8,3	7,4
Average	**18,0%**	**12,1%**	**11,5%**	**7,7**	**7,2**	**6,8**