



Erste Bank Analysts: Stock markets to remain volatile – Insecurity not yet over

17.04.2008

Global Strategy Q2 2008: Outlook International Financial markets

“The effects of the US housing crisis have spread to further areas in 1Q 2008,” said Fritz Mostböck, Chief Analyst of Erste Bank, at a press conference on the development of bond, currency and stock markets in the past few months. “This contagion led to some very painful and hefty write-offs, also at prominent financial institutions some of which were even at risk of collapsing (e.g. Bear Stearns). This as of yet unseen extreme situation understandably gave way to a worldwide rise in risk aversion. The insecurity prevailing on the markets and the resultant higher risk premiums will therefore continue to weigh on financial sentiment in the second quarter of 2008,” stated Fritz Mostböck. “For this reason, we recommend the following asset allocation for 2Q 2008: **Overweight cash, neutral in bonds, underweight stocks.**”



[Download Foto \[jpg; 508, KB\]](#)

Neutral portfolio

Cash	Overweight
Bonds	Neutral
Stocks	Underweight

International bond portfolio

Europe	Overweight
US	Neutral
Japan	Underweight
High Yield/Emerging Markets	Neutral

International stock portfolio

Europe	Slightly overweight
US	Underweight
Japan	Neutral
Emerging Markets (CEE, SOA, Latin America)	Overweight

FX Allocation

US: The economy is expected to bottom out after another interest rate cut by 50 bps in 2Q

"The decline in overall demand in the economy has tended to be driven by sentiment up to now. However, there is a risk that this could create a downwards spiral in which lower consumption and higher unemployment would feed on each other," stated Rainer Singer, Head of CEE Macro-/Fixed Income Research. Nonetheless, Erste Bank expects the economy to bottom out soon and to see a subsequent gradual recovery in the second half of the year. The arguments backing these expectations include the assured factor of the tax refunds that will amount to 0.6% of GDP as of May and the uncertain assumption that financial markets will calm. The analysts of Erste Bank expect the US Fed to cut interest rates again by 50 bps at the end of April. By the time of the next meeting at the end of June, the situation should have calmed to allow the key lending rate of 1.75% to be left unchanged. In an environment of recovering markets, the bond market will shed only a minor portion of the price gains made in the past few months. "We expect a slight recovery for the USD," said Rainer Singer.

US stock market: Risks outweigh opportunities

"On the horizon of the next few weeks, a recovery of US stocks at the start of 2Q seems probable. However, we expect estimated earnings per share for the S&P 500 to be much too high due to the sluggish economy in the US. There will be room for further downwards revisions of earnings expectations in the months to come and this will consequently weigh on the stock market," said Hans Engel, Market Strategist for International Equities about the US stock market.

The analysts at Erste Bank assess growth stocks as still attractive, especially the stocks of companies with international activities. Thus, investors should give preference to stocks with low levels of indebtedness and stable cash flows. "In the current environment, it is probably a good idea to underweight US stocks, considering that the ratio of risk-to-expected return renders stocks from other regions more attractive," is Hans Engel's recommendation.

Euroland: Economy to cool off moderately

Euroland's economy has managed to hold up quite well, with Germany and France posting satisfactory growth rates, and Spain and Italy leaning towards weakness. At the same time, inflation is on the rise and the ECB is still in a tight spot between a slowing economy and a financial market crisis, on the one hand, and high inflation on the other. Ultimately, the scales should tilt towards lower interest rates, because decreasing commodity prices will ease inflationary pressure and thus give the ECB the leeway it needs to give more support to the economic recovery. In the second quarter, government bonds are expected to continue to benefit from prevailing insecurity and the just gradual recovery of trading in the asset-backed markets. Over the long term, the analysts of Erste Bank assess government bonds as overvalued, and therefore recommend short maturities to long-term investors. Versus US bonds, EUR government bonds should perform better though.

The Stock Market in Europe: Sideways movement in 2Q, but relatively stable development compared to other regions

Overall, the positive and negative factors in Europe are in balance and for this reason, Erste Bank expects to see European stock markets trend sideways in the coming quarter. Earnings growth for the current financial year 2008 has already been revised downwards for the companies in the DJ EuroStoxx from 11.8% to only 7.6%.

Most companies succeeded in keeping order intake and industrial output at a high level despite the firming euro and the higher commodity prices. From a fundamental perspective, Europe is better positioned than the US, but it will still not be able to decouple completely due to the overall market risk should the bad newsflows from the US persist. However, even in the case of possible price setbacks, Erste Bank expects stock markets in Europe to develop relatively more stably than in other regions. "Therefore, we recommend overweighting European securities in the asset class of stocks," said Hans Engel.

Japan: Economy expected to be able to survive short US crisis; firmer yen vs. euro over medium term

"The downswing in the US poses a considerable risk in the coming months, even more so considering that the Japanese economy has proven in the past how susceptible it is. However, the core message of our forecast for Japan is that the situation in the US is expected to stabilise in 2Q, and thus, the crisis will be relatively short-lived. We believe the Japanese economy has enough momentum to survive this phase," said Rainer Singer confidently. It will not pass completely without effect on economic growth though, but the Japanese economy should nonetheless stay on an expansion course. The most important determinant in the coming months for the yen exchange rate will be the subdued risk tolerance in the markets. Carry trades are expected to be reduced further in this environment. The much narrower interest rate spread to the US and the upcoming interest rate cuts by the ECB are also indications of this trend. "We believe that the yen will continue to firm versus the euro over the medium term," stated Singer.

The Stock Market in Japan: Attractive market with potential

"We assess the Japanese stock market as still attractive. In our opinion, there is no need for any exaggerated pessimism, but the market is currently pricing in the worst-case scenario. The valuation level is at an all-time low compared to its own history, and the PERs have meanwhile reached the same level as that of European and US competitors," according to Hans Engel. As it seems unlikely at present that Japan will decouple from other major stock markets, Erste Bank analysts assess the Japanese stock market as neutral in the current international allocation.

Global Strategy Q2 2008

Ausblick

Internationale Finanzmärkte

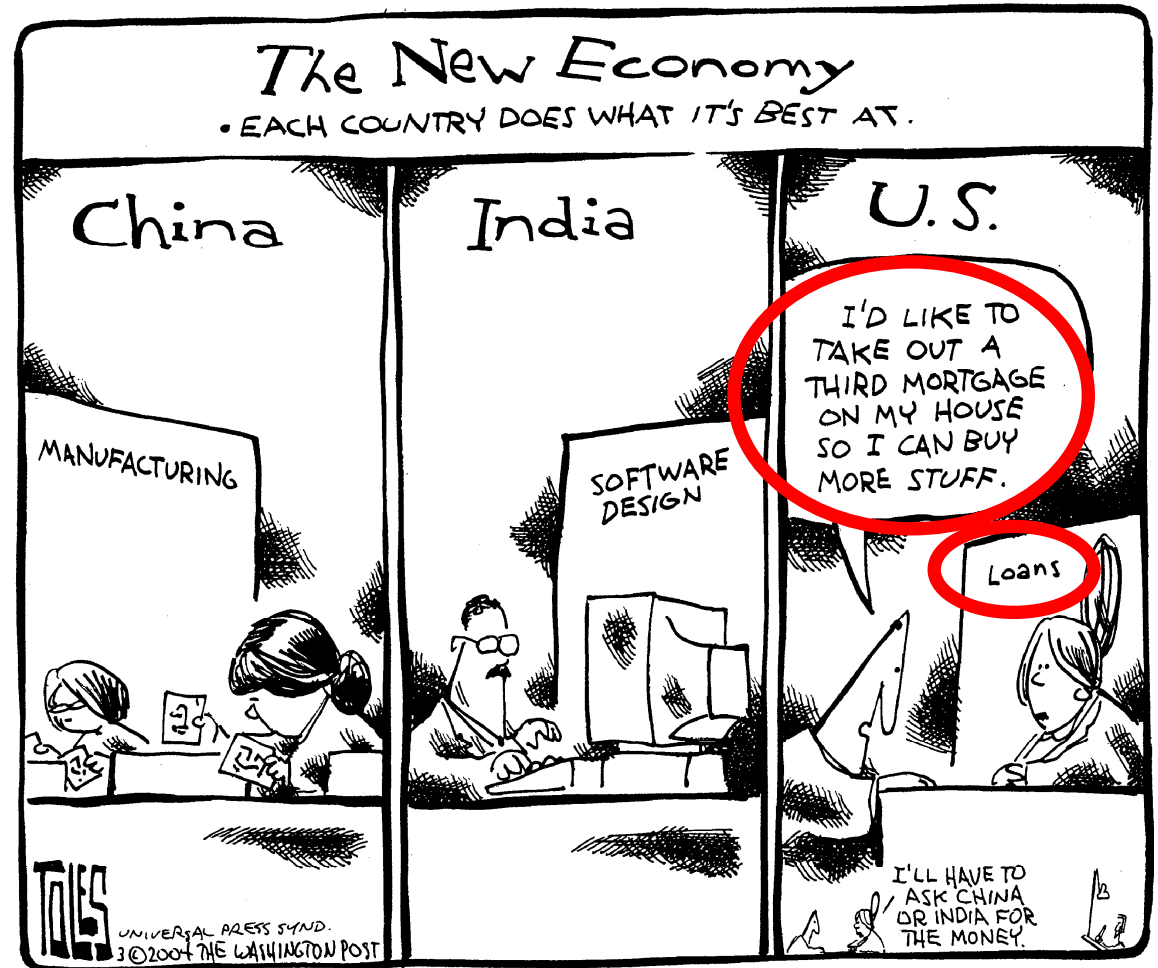
Fritz Mostböck, CEFA
Head of Group Research

Rainer Singer
Head of CEE Macro/FI Research

Hans Engel
Market Strategist, International Equities

Pressekonferenz
10. April 2008, Wien

Aktueller denn je...

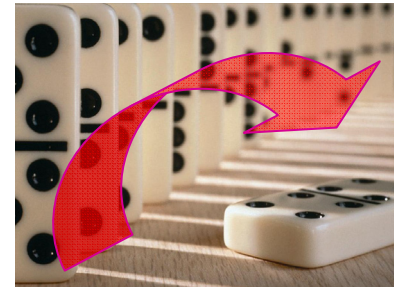


Quelle: The Washington Post 2004

„Aber: leider wurde aus Spaß ernst...



...der Domino-Effekt nahm seinen Lauf!“



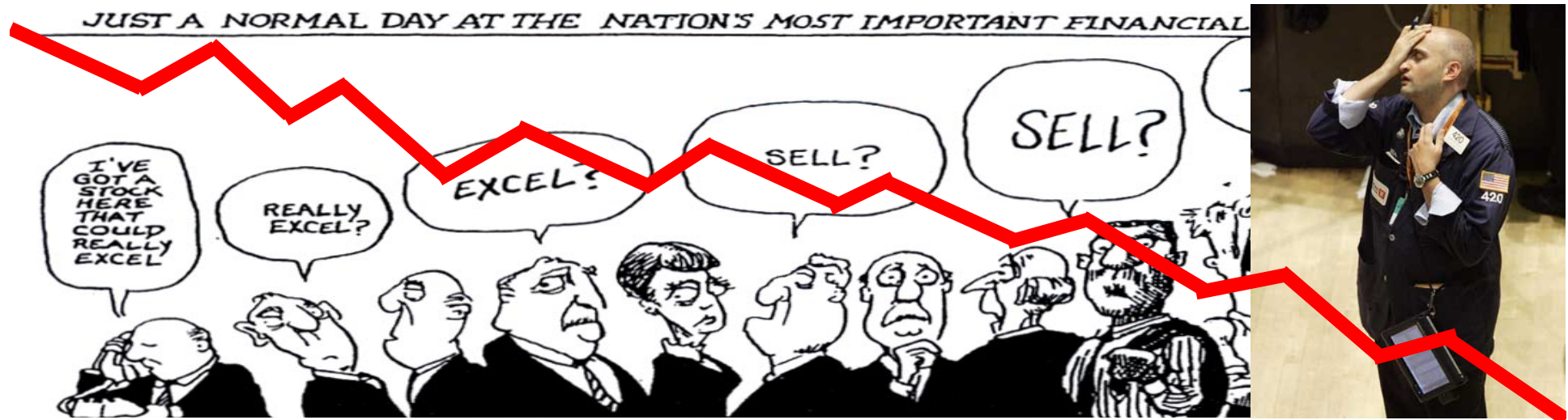
Eine globale Vertrauenskrise



Das Platzen des Subprime-Segments in den USA versetzte die Märkte „massiv unter Druck“!



Notenbanken stellten erhebliche Liquidität zur Verfügung. **Von einer nachhaltigen, länger anhaltenden Weltwirtschaftskrise ist aber - unserer Meinung nach - nicht auszugehen.**



Wien
April 2008

Pressekonferenz

Global Strategy - Summary

Volkswirtschaft/ Rentenmärkte

- USA: Bodenbildung in Q2,
- Euroland: moderate Konjunkturabkühlung am wahrscheinlichsten,
- Japan: sollte kurze US-Krise durchtauchen können.

Aktienmärkte

- USA: Risiken größer als Chancen,
- Euroland: Börsen im Sog der internationalen Entwicklungen,
- Japan: attraktiver Markt mit mittelfristigem Potenzial.

Performance-Tabelle (in EUR)

Performance ¹⁾	2007	2008 Ytd
Globale Aktien	-3,4%	-16,4%
Technologieaktien	+7,1%	-21,2%
Globale Renten	-0,3%	+0,9%

Globale Aktien = MSCI World-Index
 Globale Renten = JPMorgan Global Government Bond Index
 Technologieaktien = Nasdaq 100

Performance ²⁾	2008 Ytd
Dow Jones	-5,2%
S&P 500	-7,0%
Nikkei 225	-14,3%
DAX	-16,7%
FTSE 100	-7,3%
CAC 40	-13,1%
AEX	-10,5%
SMI	-12,1%
ATX	-12,3%

1) auf Euro-Basis, 31.3.2008, 2) bis aktuell

Quelle: Bloomberg

Aktien, Anleihen oder Cash?

Pro

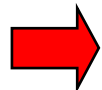


- Konjunktur wächst großteils, aber sehr differenziert
- Gewinnwachstum intakt, aber...
- Bewertungen sehr attraktiv
- Höhere Verzinsung Aktien
- Liquidität in Aktien hoch

Kontra

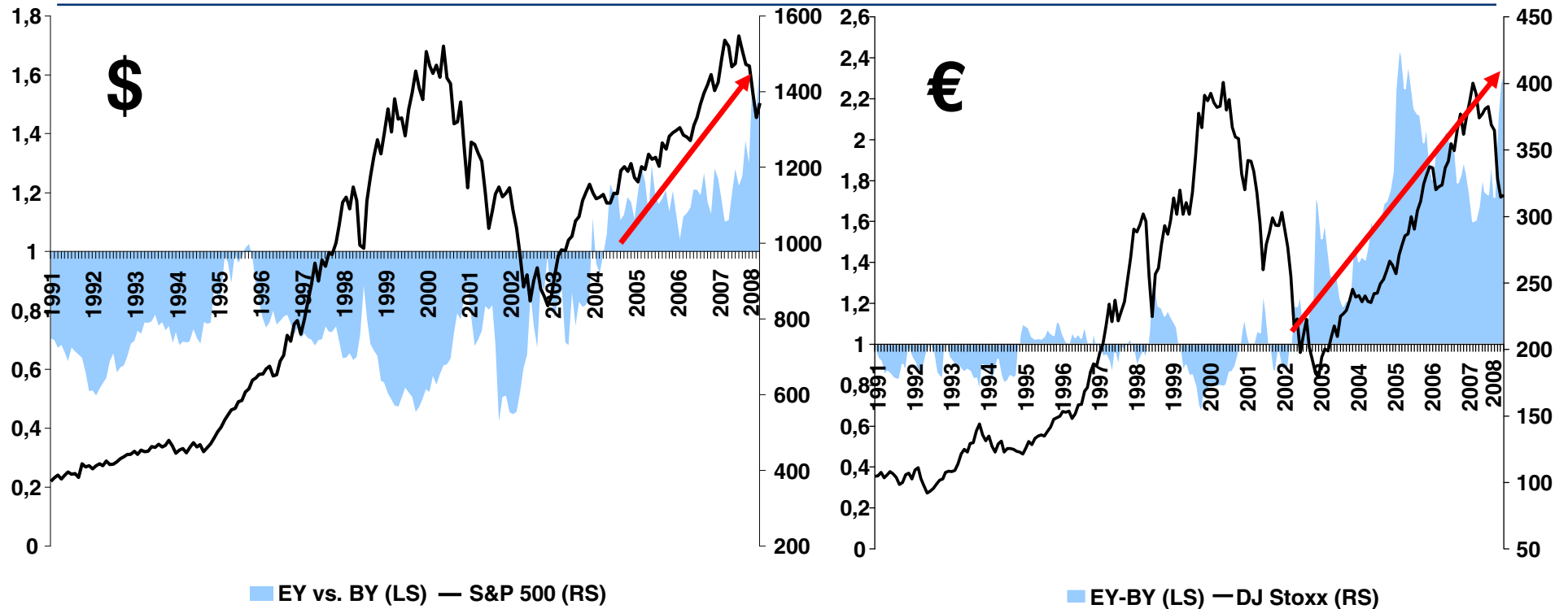


- Sentiment teilweise sehr skeptisch, volatil
- Gewinnrevisionen rückläufig
- Weitere Auswirkungen -> Zahlen Q2 08?
- Liquiditätsreduktion infolge Unsicherheit
- Nachhaltige US-Rezession?






Vom Timing her ist für Aktien im Q2 2008 noch abzuwarten.

Gewinn- vs Bondrendite



- USA: 164 BP-Spread zugunsten von Aktien (links),
- Euroland: 233 BP-Spread zugunsten von Aktien (rechts),
- Aktien sind gegenüber Renten unter Renditegesichtspunkten als fundamental attraktiver einzustufen.

Asset Allocation Q2 2008

Neutrales Portfolio	Gewichtung Erste Bank	
Cash	<i>Übergewichten</i>	
Aktien	<i>Untergewichten</i>	
Bonds	<i>Neutral</i>	
Internationales Bond-Portfolio ¹⁾		
Europa	<i>Übergewichten</i>	
USA	<i>Neutral</i>	
Japan	<i>Untergewichten</i>	
High Yield/ Emerging Markets	<i>Neutral</i>	
Internationales Aktien-Portfolio ¹⁾		
Europa	<i>Leicht übergewichten</i>	
USA	<i>Untergewichten</i>	
Japan	<i>Neutral</i>	
Emerging Markets (Osteuropa, Asien)	<i>Übergewichten</i>	
FX-Allocation		
Dollar-Block	<i>Neutral</i>	

1) ohne Berücksichtigung von Währungsprognosen/ Märkte absolut.



Ausblick Volkswirtschaft, Zinsen, Währungen USA, Euroland und Japan

Rainer Singer
Head of CEE Macro/FI Research

Pressekonferenz
10. April 2008, Wien

Rezession ???

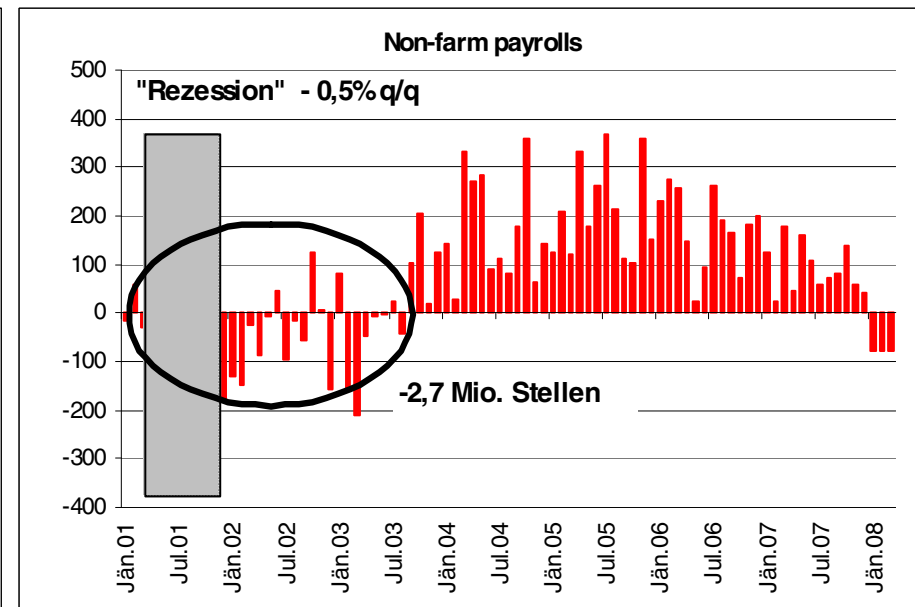
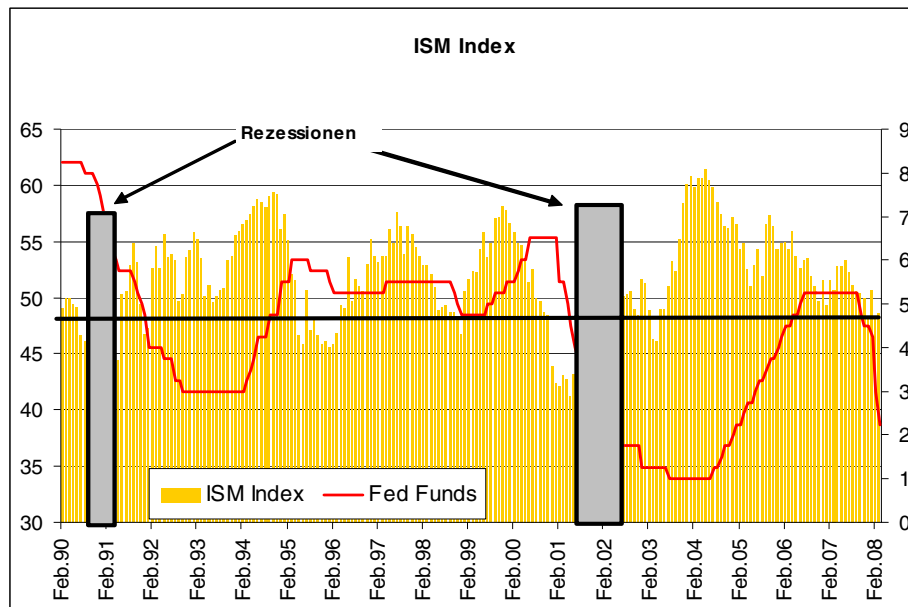
- **Belastende Faktoren für die US-Wirtschaft werden vorerst anhalten, bisherige Auswirkungen der „Krise“ aber relativ moderat.**
- **Entscheidende Frage wird sein, wann der Höhepunkt der Wertberichtigungen erreicht sein wird.**

Argumente für 1. Halbjahr:

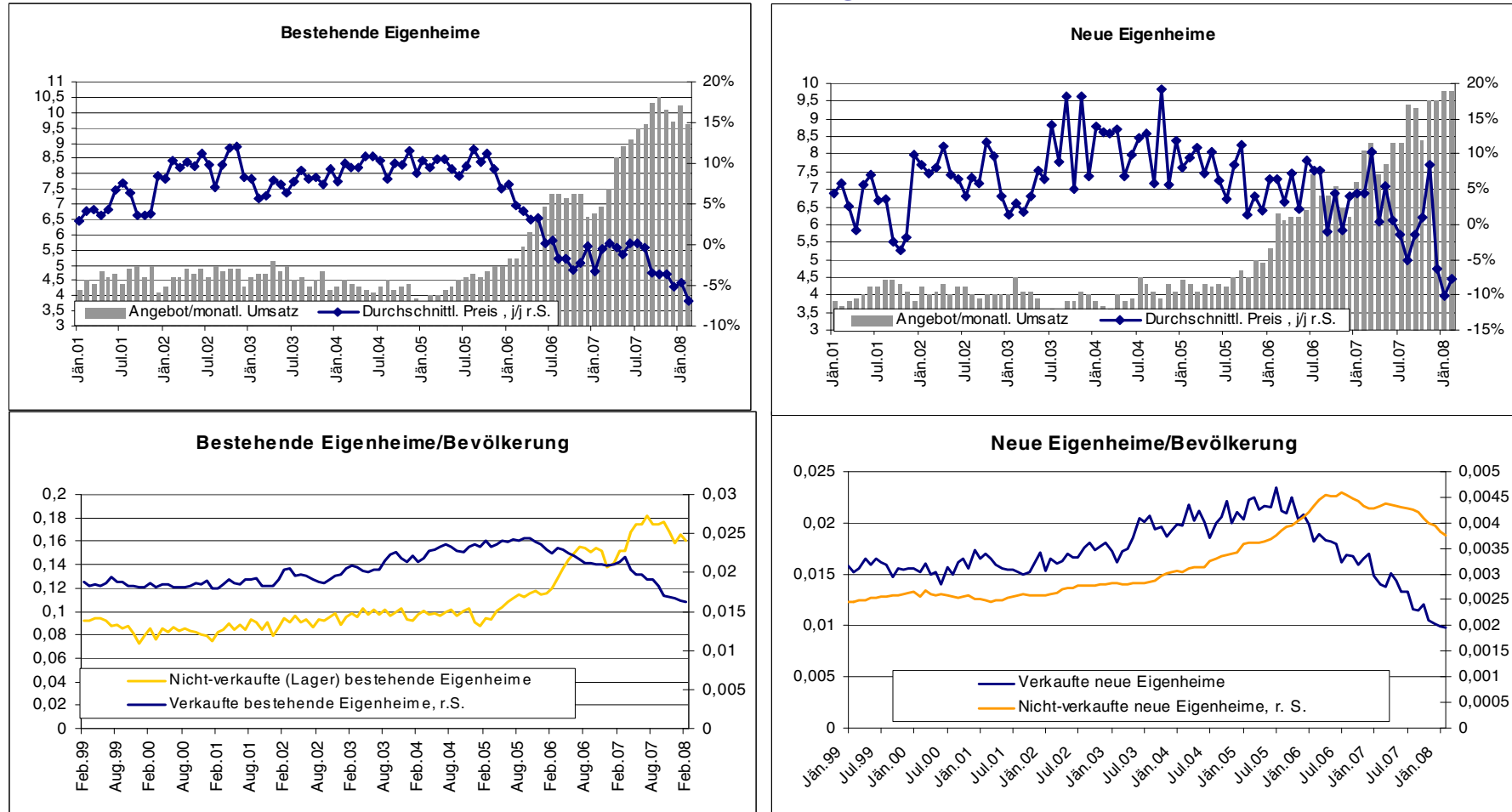
- **Finanzmärkte „funktionieren“ schon seit Ende letzten Jahres nicht mehr (Verschlimmerung der Situation in dieser Hinsicht nicht möglich).**
- **Diverse Hinweise auf den Höhepunkt der „Resets“ bei Hypothekendarlehen in diesem Zeitraum.**
- **Wir rechnen mit keiner weiteren Ausweitung der Spreads.**

Rezession ??

Monatliche Indikatoren schwächer, aber noch fern von Rezessionsniveaus.



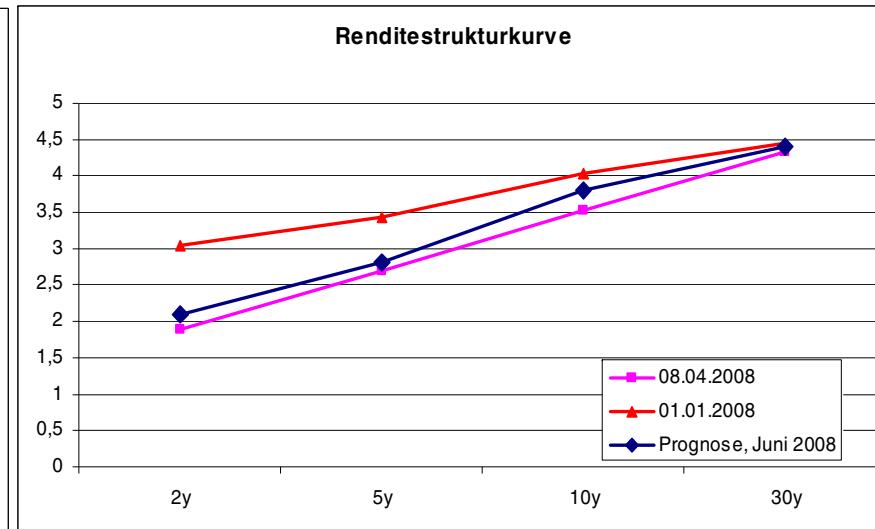
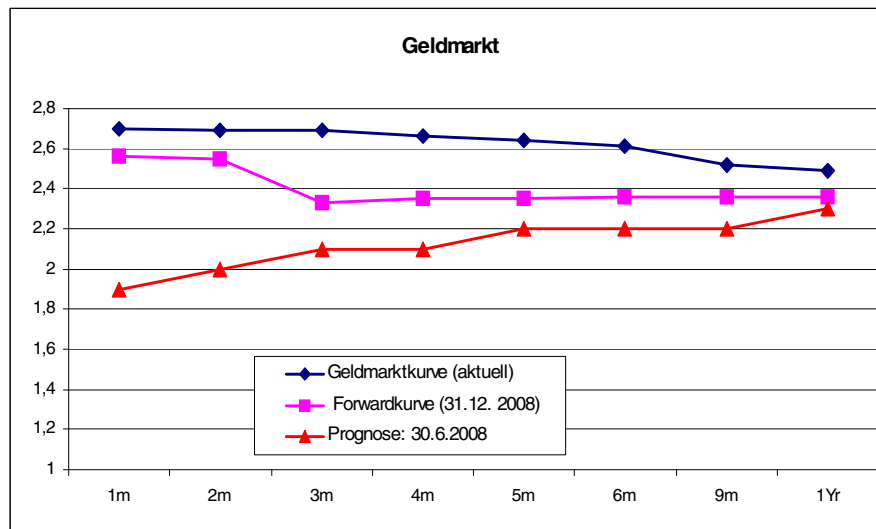
Abbau der Lagerbestände wird sich bis in zweite Halbjahr fortsetzen und für anhaltenden Abwärtsdruck auf die Preise sorgen.



- Für das Q1 erwarten eine schwarze Null für das BIP-Wachstum.
- Das zweite Quartal sollte aufgrund der Steuerrückvergütungen eine etwas höhere Wachstumsrate ausweisen.
- Finanzmärkte sollten sich im Verlauf von Q2 stabilisieren.
- Langsam einsetzende Erholung aber erst in der 2. Jahreshälfte. Größtes Risiko ist eine weitere Verschärfung der Kreditvergabe.
- Kontinuierlicher Rückgang der Inflationsrate im Jahresverlauf.

	2007	2008f
•BIP	2,2	1,7
•Inflation	2,8	2,7

- Wir erwarten den Boden des Leitzinssatzes bei 1,75% nach einer Zinssenkung Ende April um 50Bp.
- Liquiditätsprämie sollte sich deutlich zurückbilden.
- Entspannung der Situation sollte zu einer „Parallelverschiebung“ der Renditestrukturkurve führen.



- EUR/USD: Stabilisierung an den Finanzmärkten und Zinssenkung der EZB sprechen für eine Trendwende bei EUR/USD.

Prognosen

	aktuell	Jun.08	Sept.08	Dez.08
3m Libor	2,7	2,1	2,2	2,3
10y Rendite	3,52	3,8	4,2	4,4
EUR/USD	1,57	1,52	1,47	1,4

Euroland Konjunkturausblick

Schwächeres Wachstum aber kein Einbruch

Jährliche Veränderung	Anteil am BIP	2005	2006	2007e	2008f	2009f
Privater Konsum	57,0%	1,6%	1,9%	1,4%	1,3%	2,2%
Öffentlicher Konsum	19,6%	1,4%	1,9%	2,0%	1,7%	1,5%
Anlageinvestitionen	21,4%	2,8%	5,2%	4,8%	2,3%	2,8%
Lagerveränderung in Mrd. Euro		13,9	12,0	16,5	6,0	7,0
Inländische Nachfrage	98,2%	1,9%	2,6%	2,4%	1,4%	2,4%
Exporte	41,1%	4,7%	7,9%	6,1%	5,1%	5,1%
Importe	39,3%	5,5%	7,6%	5,4%	5,3%	5,4%
Außenbeitrag in Mrd. Euro	1,8%	131,8	150,9	178,8	182,2	183,7
BIP real	100,0%	1,6%	2,9%	2,6%	1,8%	2,3%

Wachstumsprognose wurde von 2,1% auf 1,8% für 2008 nach unten genommen. Risiken weisen nach unten.

Trotzdem hat sich Euroland Volkswirtschaft relativ gut gehalten und sollte auch für den Rest des Jahres einem massiven Abschwung entgehen können.

Inflationsprognose wurde von 2,6% auf 2,8% nach oben genommen. Risiken weisen hier klar nach oben, bzw. scheint dieser Wert bereits wieder zu niedrig.

Euroland Konjunktur

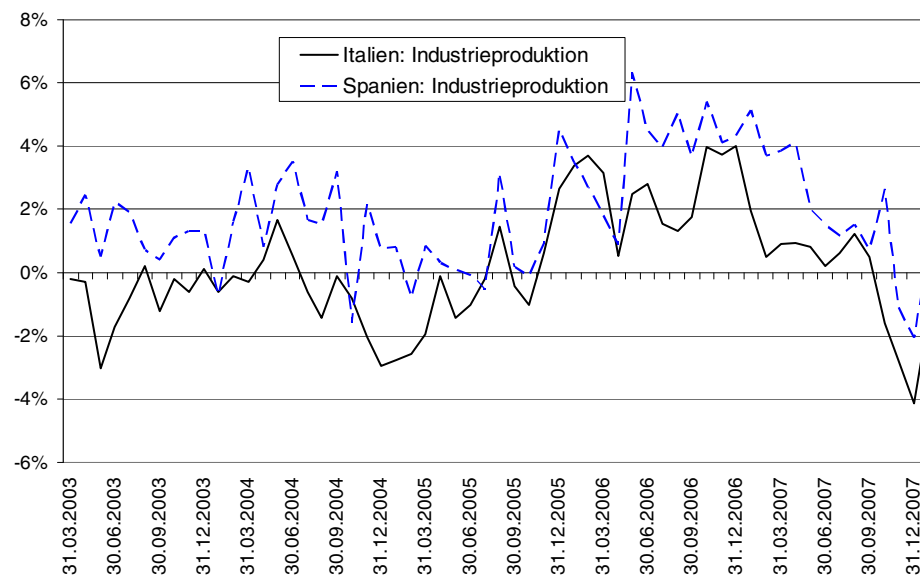
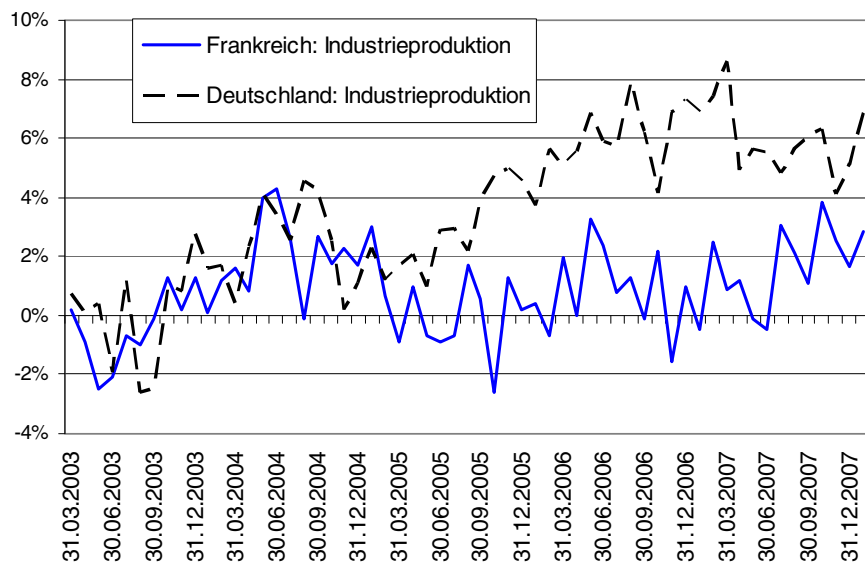
relativ robust

Industrieproduktion und Außenhandel haben sich nach einem kurzen Einbruch im November wieder erholt.

Deutschland und Frankreich weisen viel besseren Daten auf als Spanien und Italien.

Spanien leidet unter dem Platzen der Blase am Immobilienmarkt und dürfte in den nächsten Jahren eher unterdurchschnittlich wachsen.

Italien leidet offiziell unter dem starken Euro – wohl aber auch unter der politischen Unsicherheit.



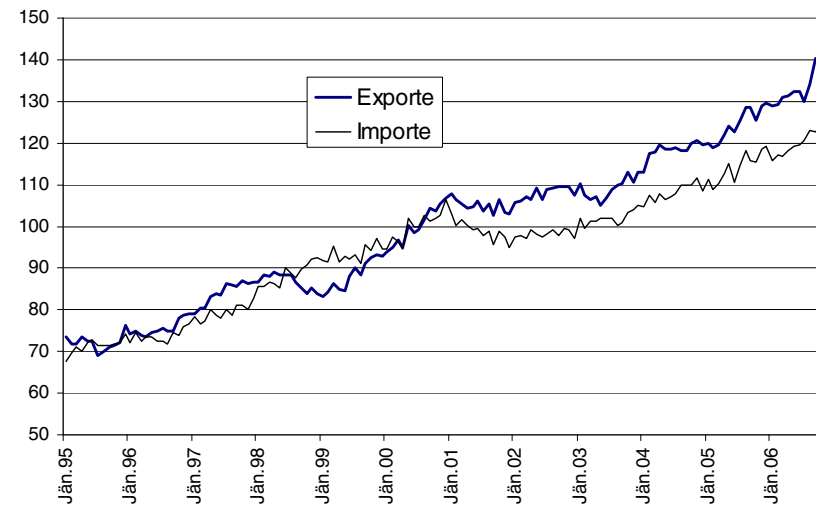
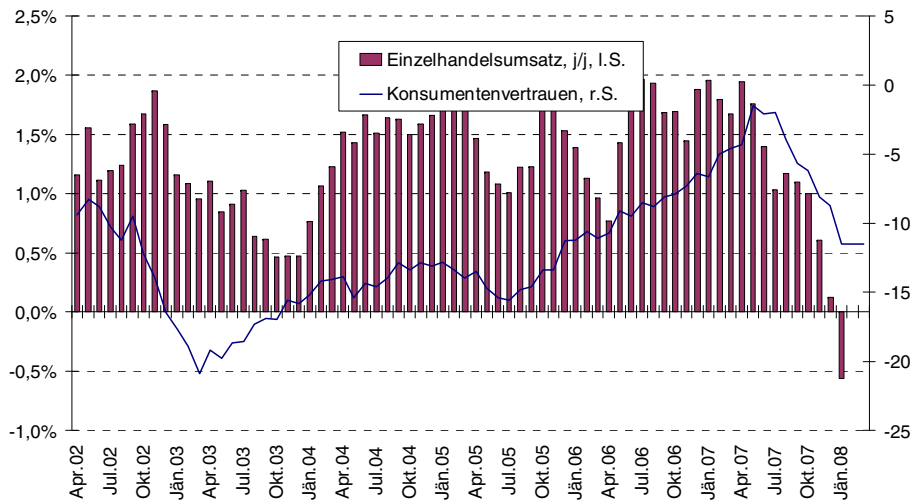
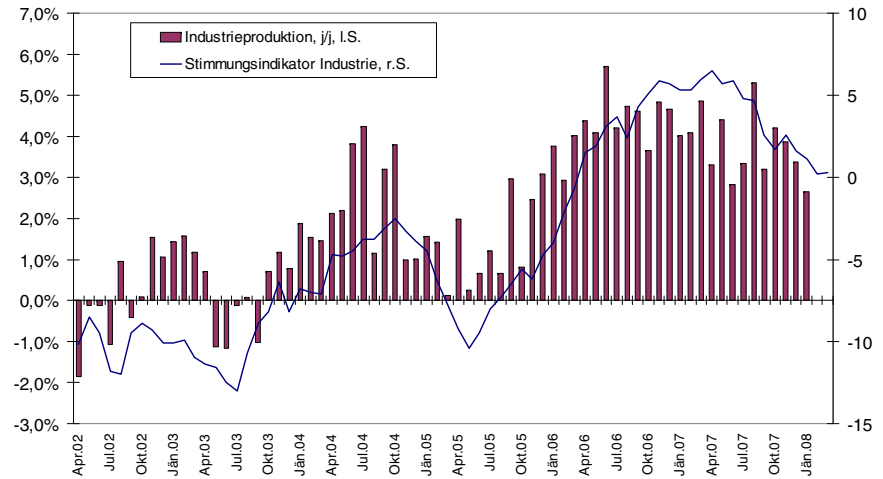
Euroland Konjunktur

Privater Konsum ist weiterhin größtes Problem

Der Ausblick bleibt durch die Ängste rund um den Bankenmarkt überschattet.

Diese Ängste und die überraschend starke Teuerung belasten die Stimmung der Konsumenten.

Privater Konsum wird entscheiden, ob längerfristige Wachstumsverlangsamung oder Wachstumspause in 2008.



Euroland Inflationsausblick

Inflationsgefahr weiter angestiegen

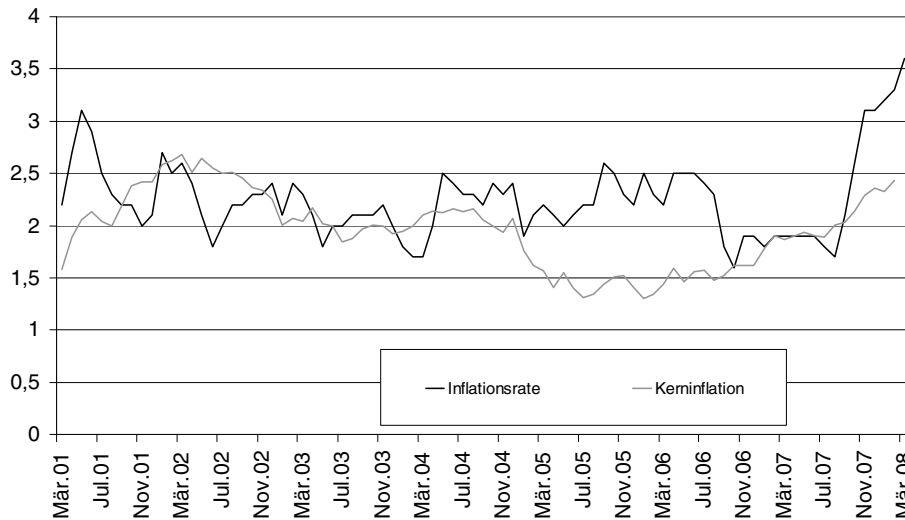
Rohstoffpreise sind auf breiter Front weiter angestiegen, ohne dass dies zu einem Rückgang der Nachfrage geführt hätte.

Lohnerhöhungen in Deutschland gerade noch im tolerierbaren Bereich.

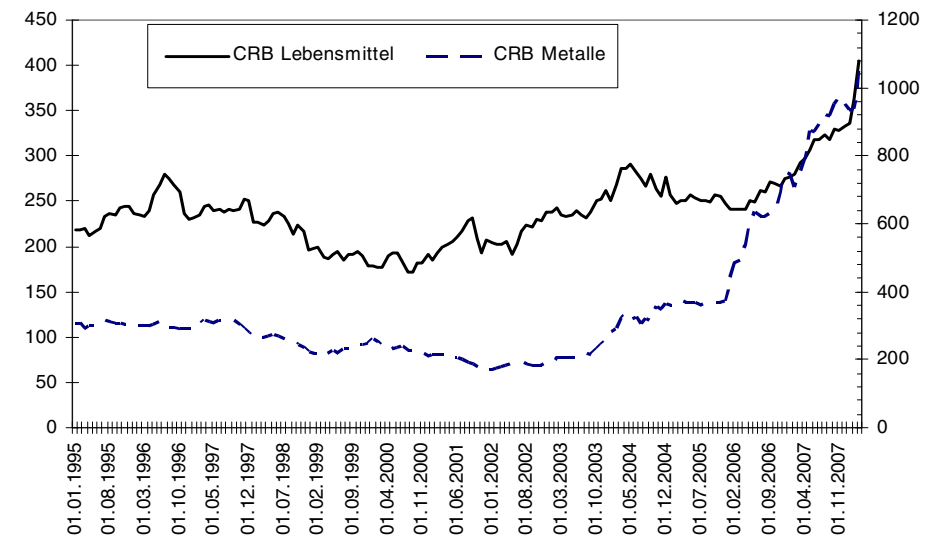
Deflationäre Effekte aus Globalisierung laufen aus.

Gewinnmargen kommen von Kostenseite unter Druck.

Inflationsentwicklung



Lebensmittel und Metalle



Euroland Geldpolitik

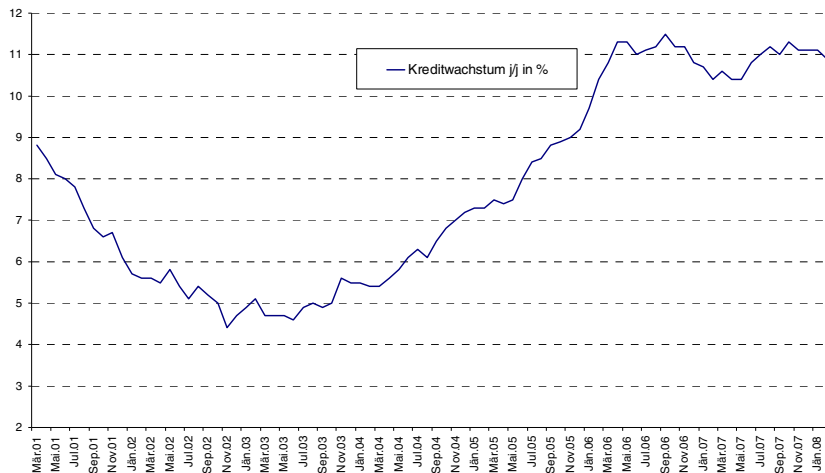
EZB in der Zwickmühle

Gefährdung des Bankensystems contra Inflationsgefahr

Da man sich für die Konjunktursteuerung nicht zuständig fühlt, ist die schwächere Konjunktur nur ein Einflussfaktor auf die Inflation. Dieser wirkt im Moment aber nicht ausreichend dämpfend.

Die Konjunktur schwächt sich beispielsweise in Deutschland nur graduell ab und außerdem stehen externe Faktoren und Nachholeffekte bei der Lohnpolitik im Vordergrund der Inflationsentwicklung.

Kreditwachstum weiterhin hoch



Man versucht das Bankenproblem mit Liquiditätszufuhr und die Inflation mit unveränderten Zinsen zu bekämpfen.

Sollte die Fed den Markt bald stabilisieren können, sinkt die Wahrscheinlichkeit von Zinssenkungen in Euroland.

Die anhaltende Verspannung am Geldmarkt spricht aber dafür, dass man die Zinsen zur Marktberuhigung vorübergehend senkt.

Euroland Rentenmarkt

Staatsanleihen überteuert

Staatsanleihen gelten nach wie vor als sicherer Hafen in Punkto Bonität und Liquidität und werden von diesen Eigenschaften noch einige Zeit profitieren können.

Mittelfristig scheinen Staatsanleihen aber massiv überteuert. Die Realverzinsung von 10jährigen Euroanleihen ist nur noch leicht positiv.

Inflationsgefahr ist so hoch wie seit vielen Jahren nicht mehr.

Die Spreads von Corporate Bonds sind attraktiv, was durch die starke Nachfrage nach den Emissionen im Investmentgrade Bereich der letzten Zeit bestätigt wird.

Im zweiten Quartal sollten Spreads auf hohem Niveau seitwärts tendieren, für das 3. Quartal erwarten wir eine Einengung.

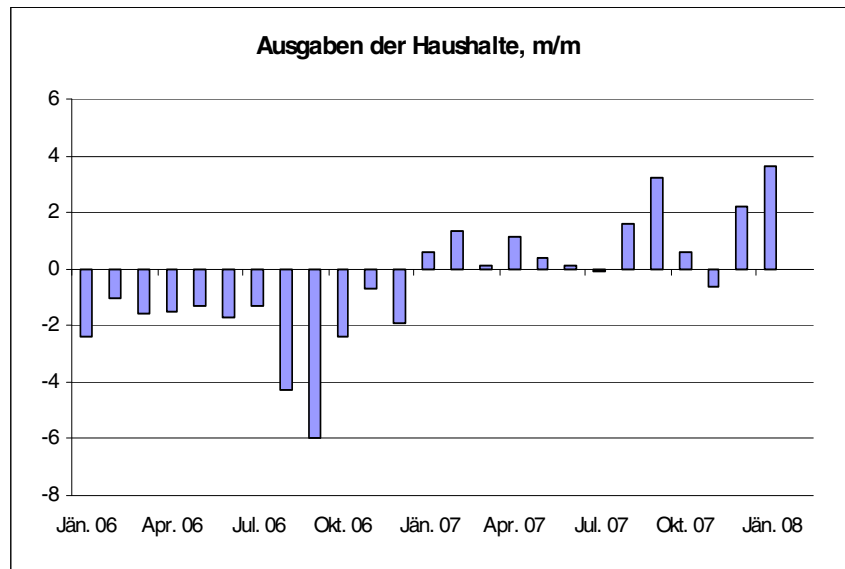
Prognose:

	aktuell	Jun 2008	Sep 2008	Dez 2008
3M Euribor:	4,81	4,00	3,75	3,70
10Y Rendite:	4,01	4,00	4,30	4,50

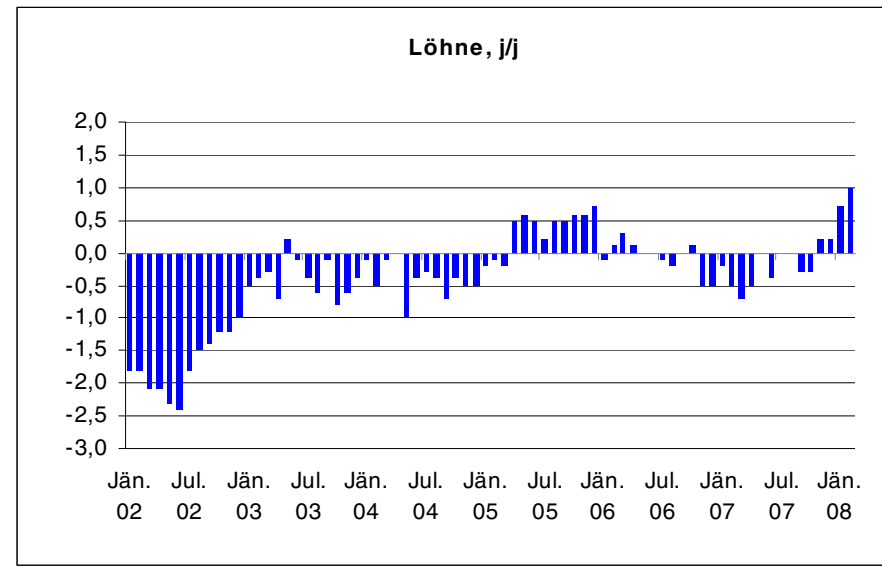
Keine Hinweise für eine Rezession zu erkennen.

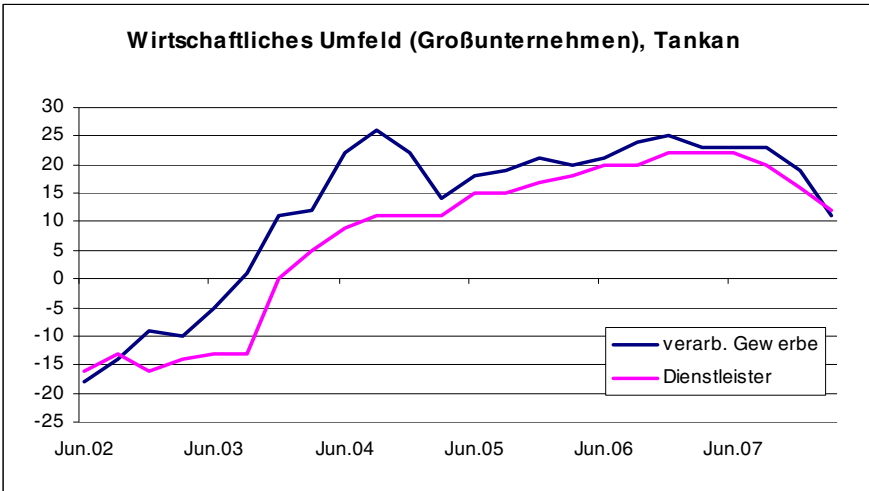
Risiko bleibt die US-Konjunktur, umso mehr als japanische Inlandsnachfrage in der Vergangenheit ihre Fragilität gezeigt hat.

Privater Konsum befindet sich in einem langsamen Aufschwung.



Löhne reagieren (endlich) auf die steigende Beschäftigung.

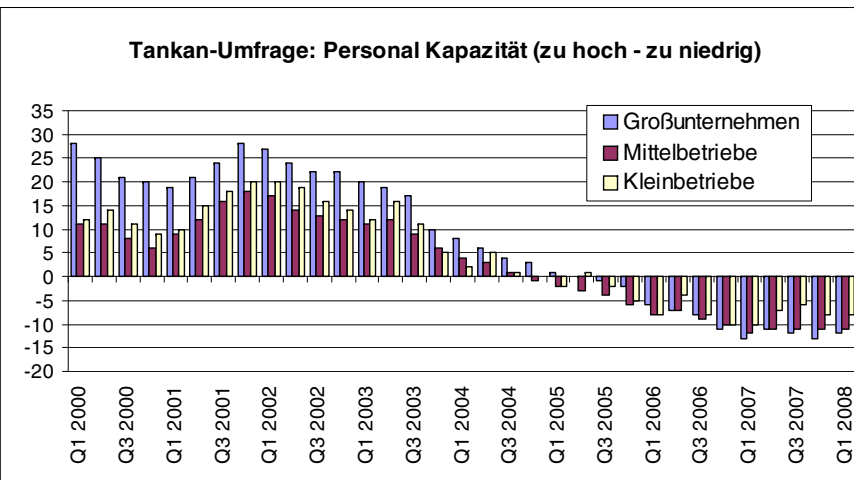
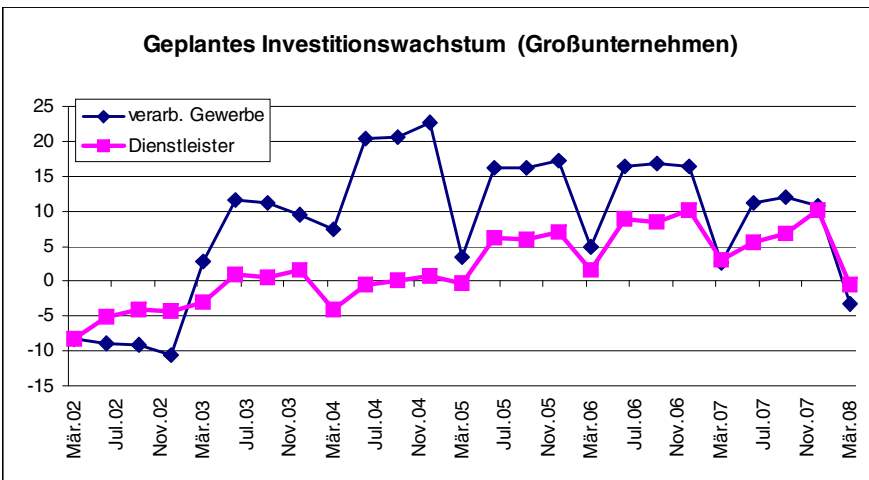




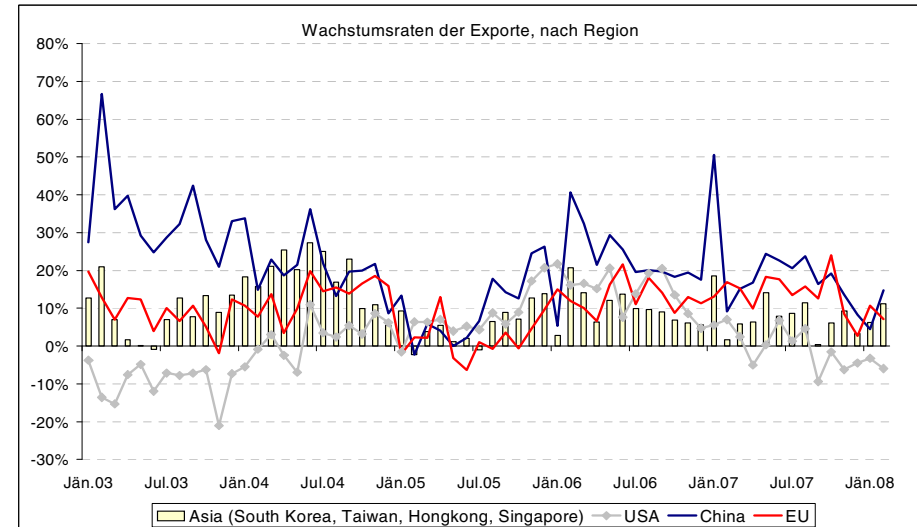
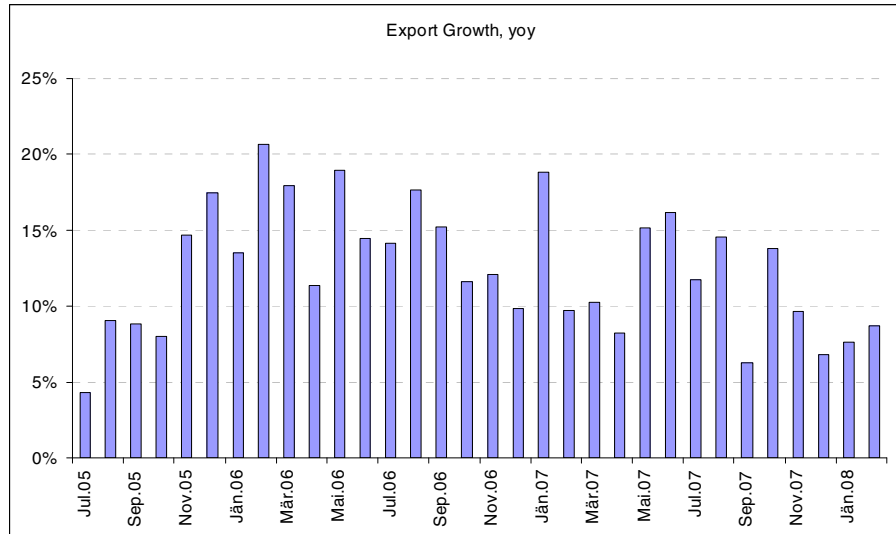
Stimmung unter den Unternehmen durch das globale Umfeld belastet.

„Saisonale“ Effekte spielen allerdings auch eine Rolle.

Personalkapazitäten werden weiter als zu gering gesehen.



Exporte weisen stabiles Wachstum aus, da andere Märkte Abschwächung in den USA überwiegend abfangen.



Masaaki Shirakawa wurde kürzlich zum neuen Gouverneur der Bank of Japan bestellt. Derzeit macht nichts anderes Sinn als die Zinsen unverändert zu belassen.

Gegen Ende des Jahres sollten aber die Zinsanpassungen fortgesetzt werden.

Yen sollte weiter von globaler Risikoaversion profitieren.

Prognosen

	aktuell	Jun.08	Sept.08	Dez.08
3m Libor	0,9	1,0	1,0	1,2
EUR/JPY	1,61	155	144	140

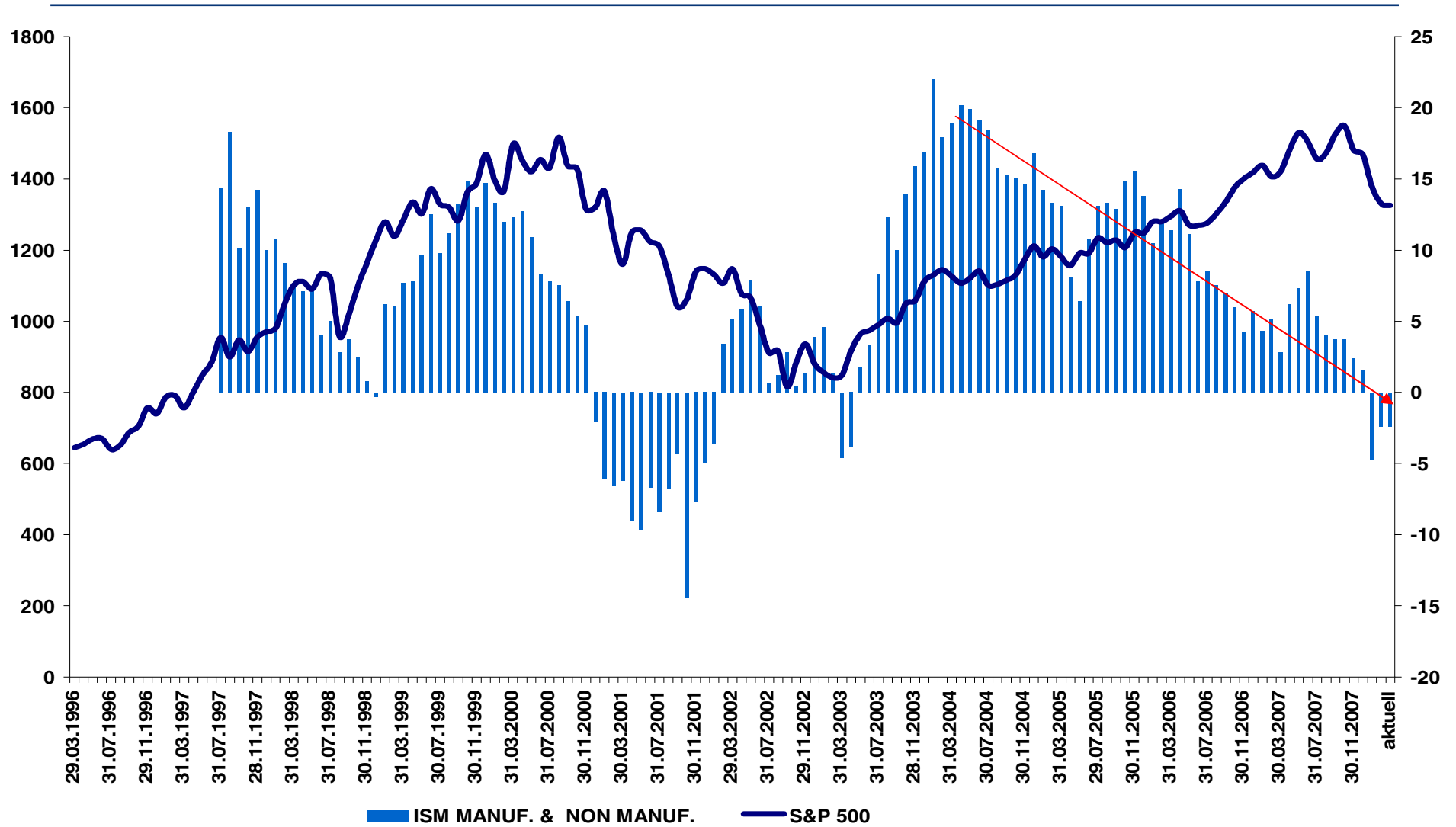


Ausblick Internationale Aktienmärkte USA, Euroland und Japan

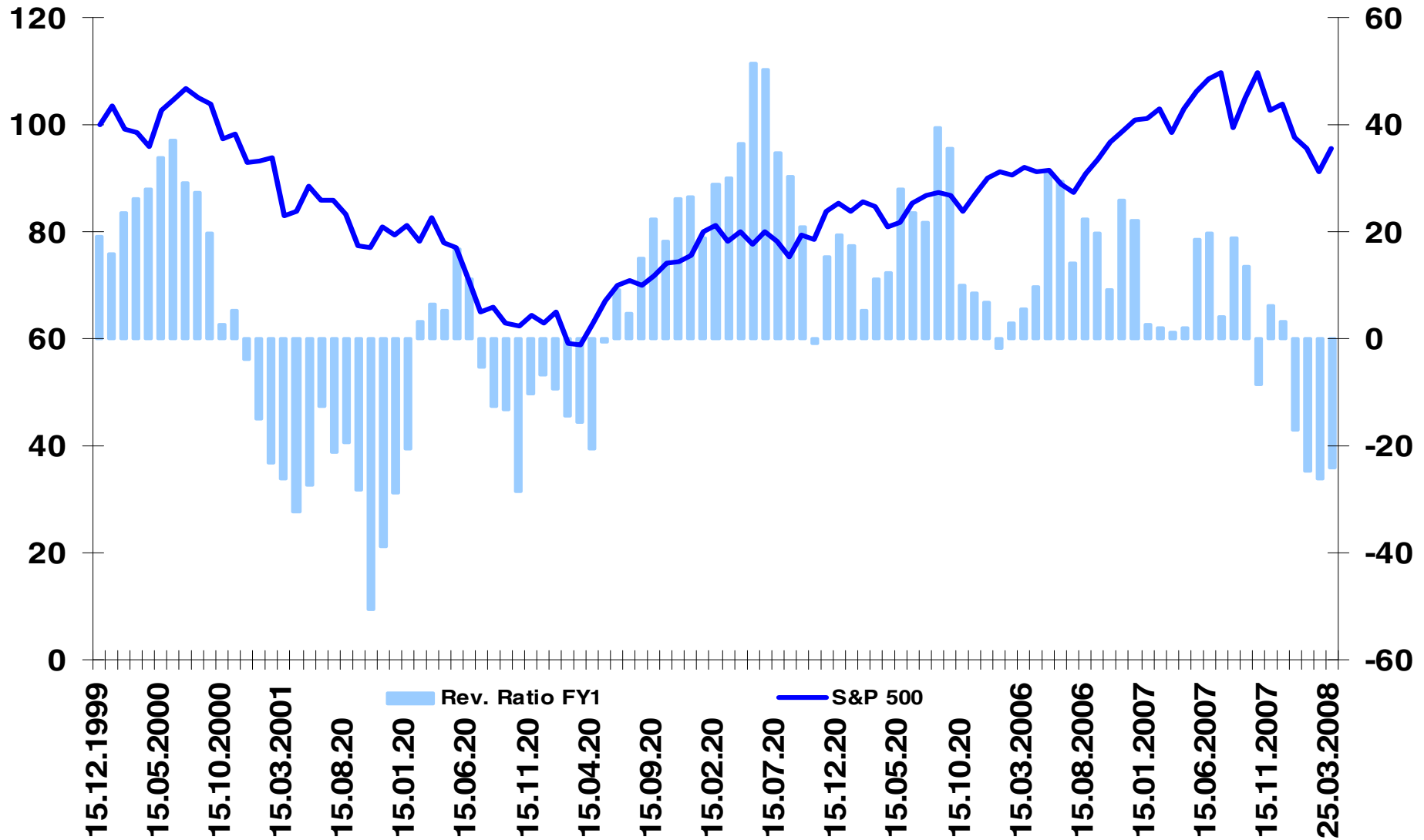
Hans Engel
Market Strategist, International Equities

Pressekonferenz
10. April 2008, Wien

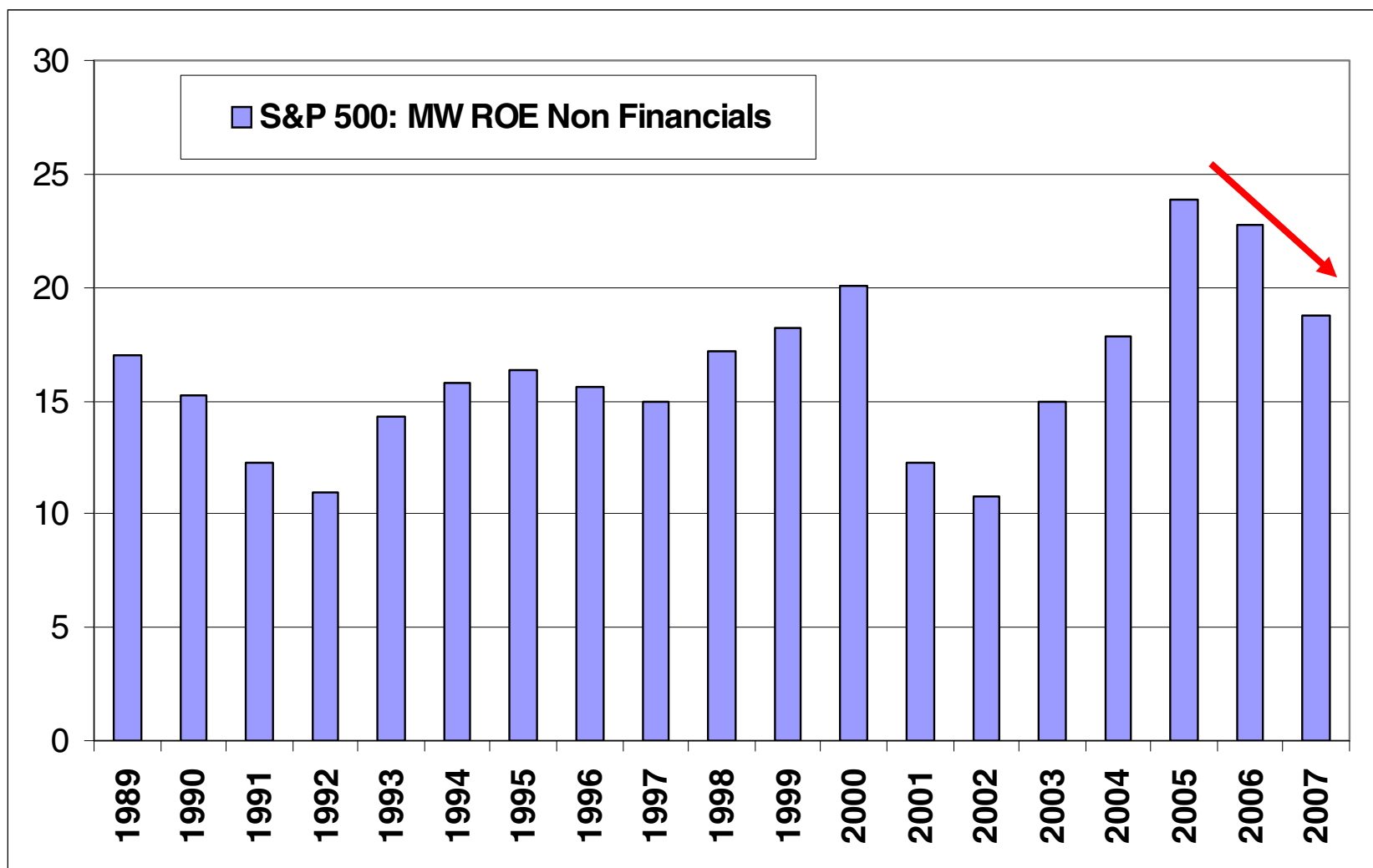
USA: ISM Indizes vs. Aktienmarkt



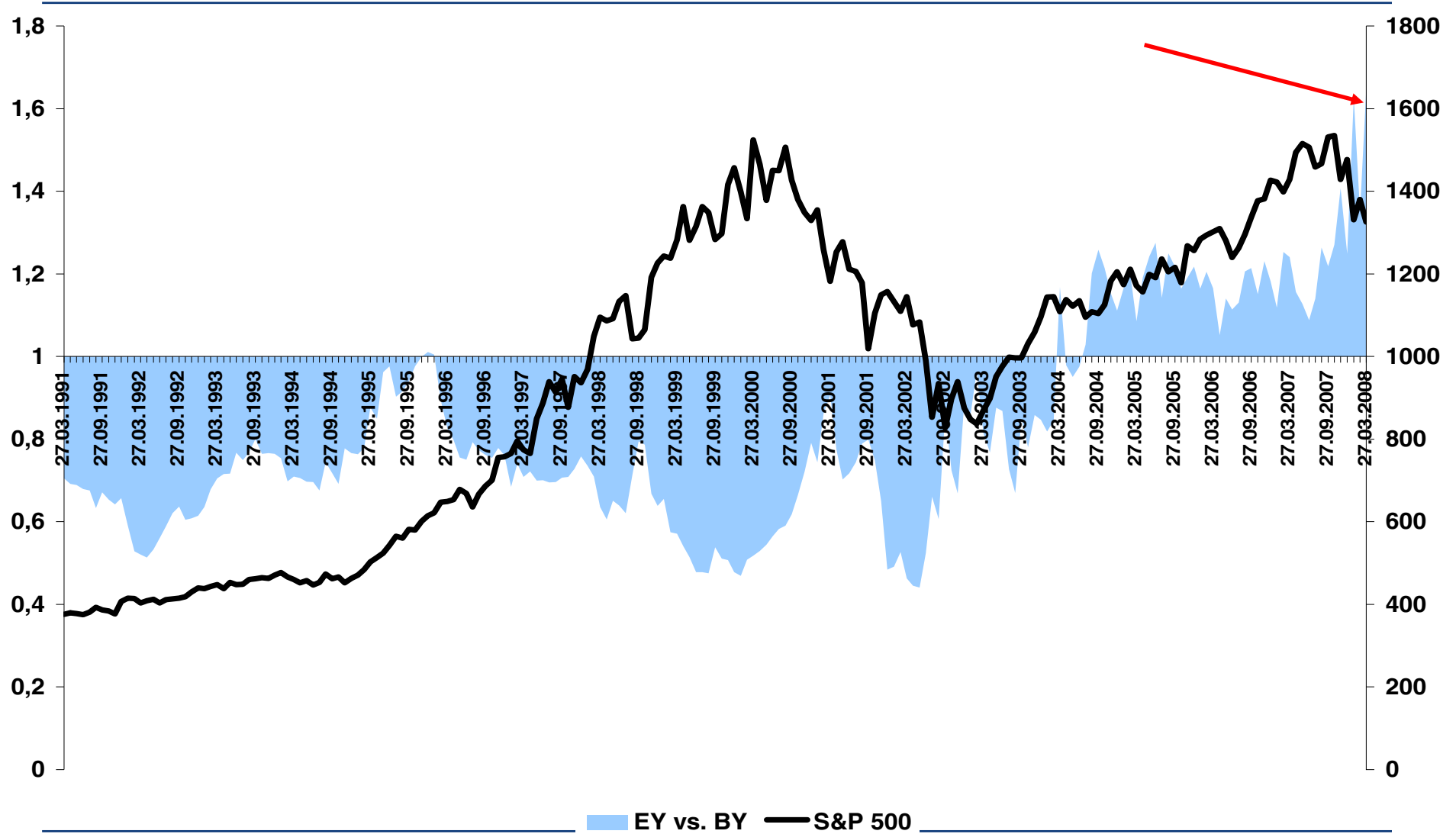
S&P 500: Revision Ratio EPS



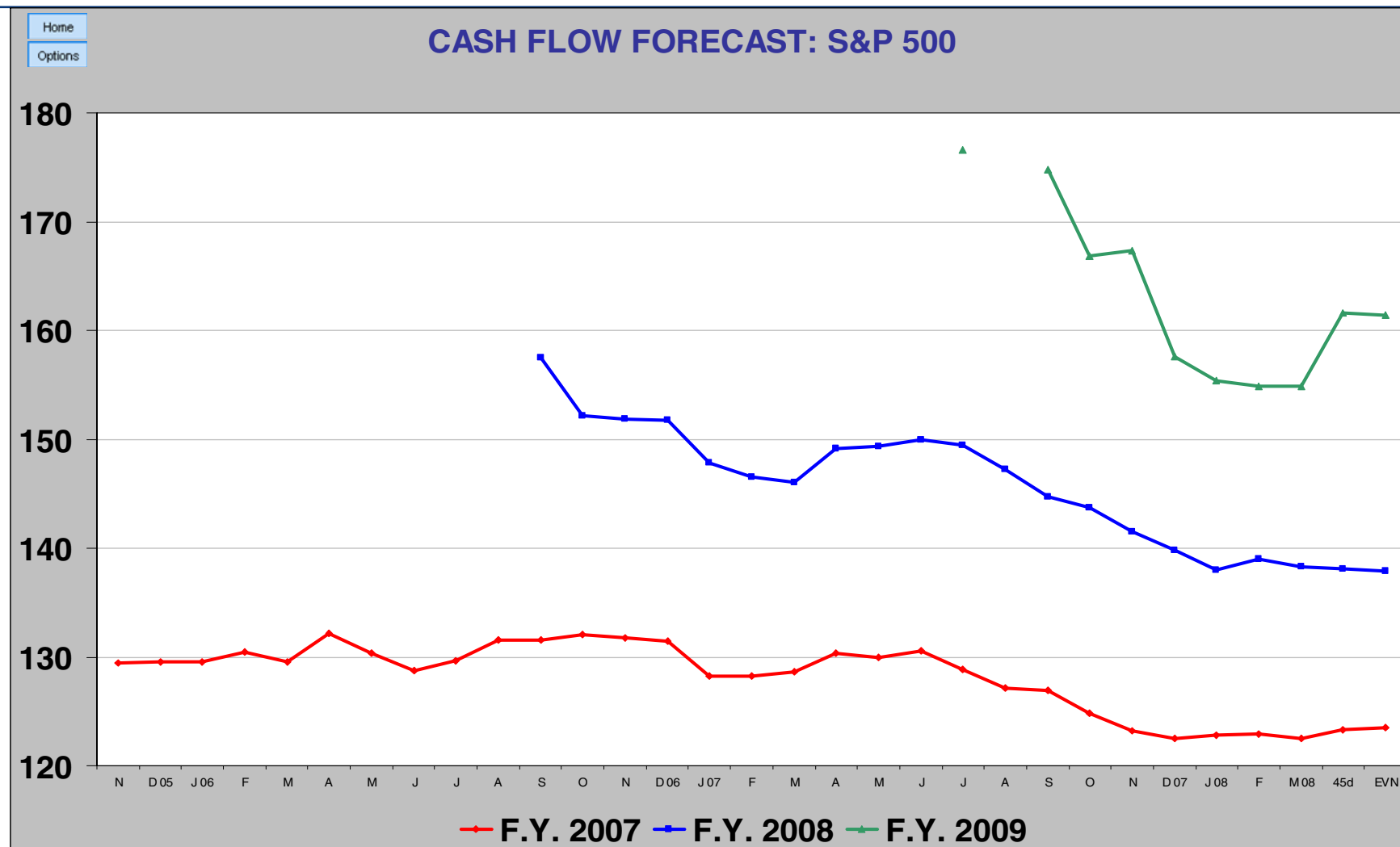
S&P Non Financials: ROE



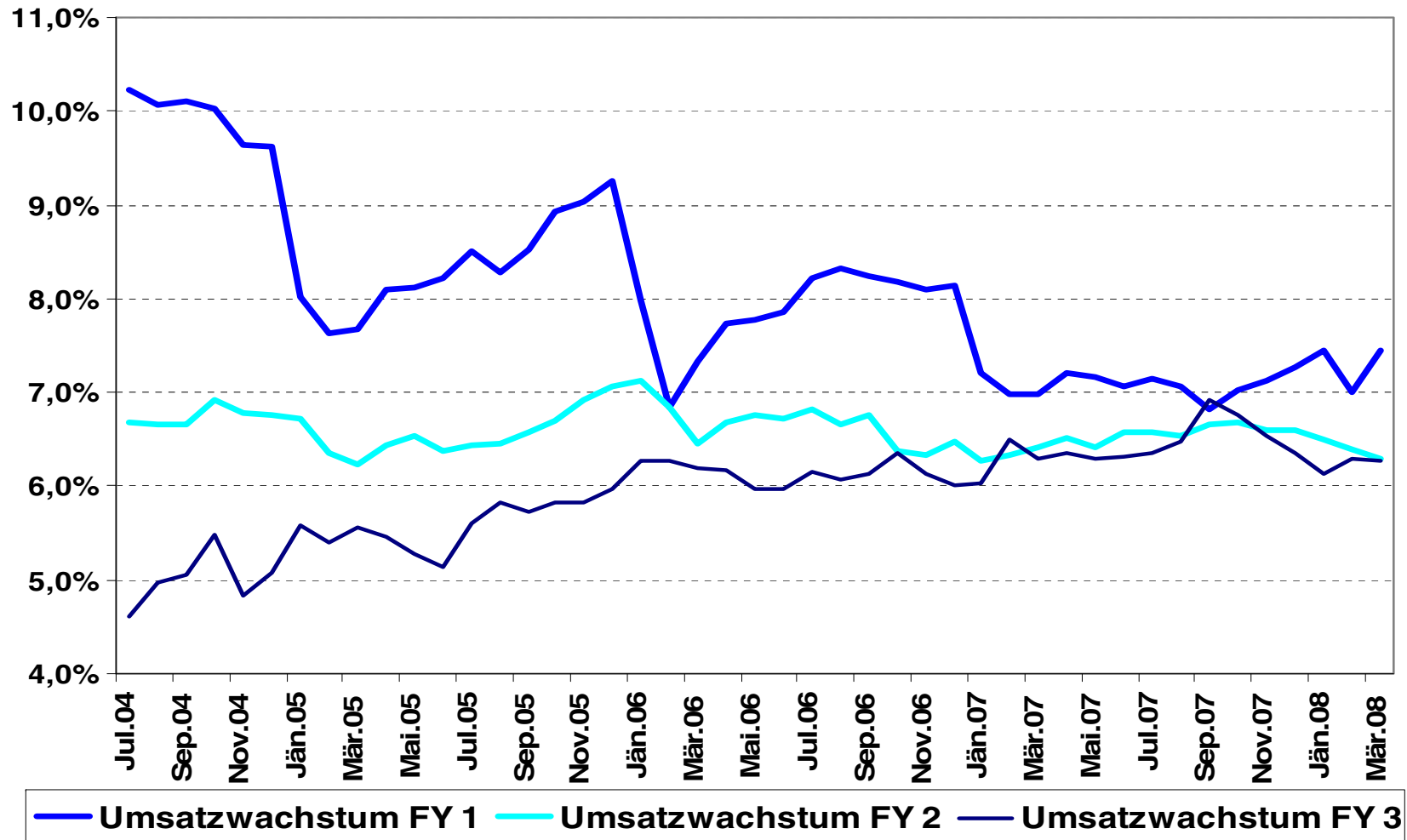
USA: Gewinnrenditen vs. Bondrenditen

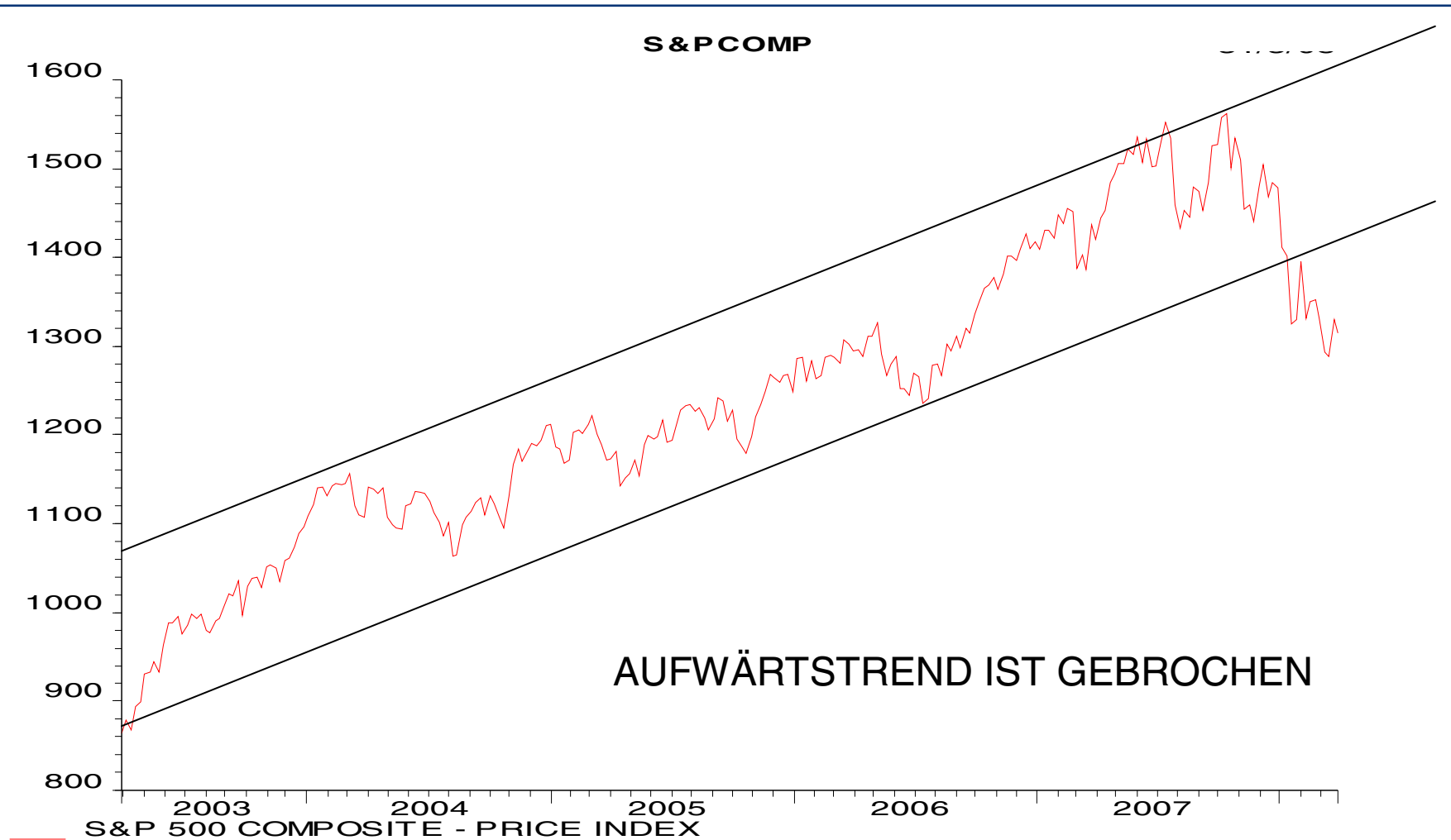


USA: FORECAST Cash Flow



S&P 500: FORECAST UMSATZ- WACHSTUM





Source: Thomson Datastream

Positiv:

- Verhältnis Gewinnrendite/Bondrenditen positiv
- geschätztes Umsatzwachstum ist positiv
- Wachstumsaktien sind noch im Aufwärtstrend

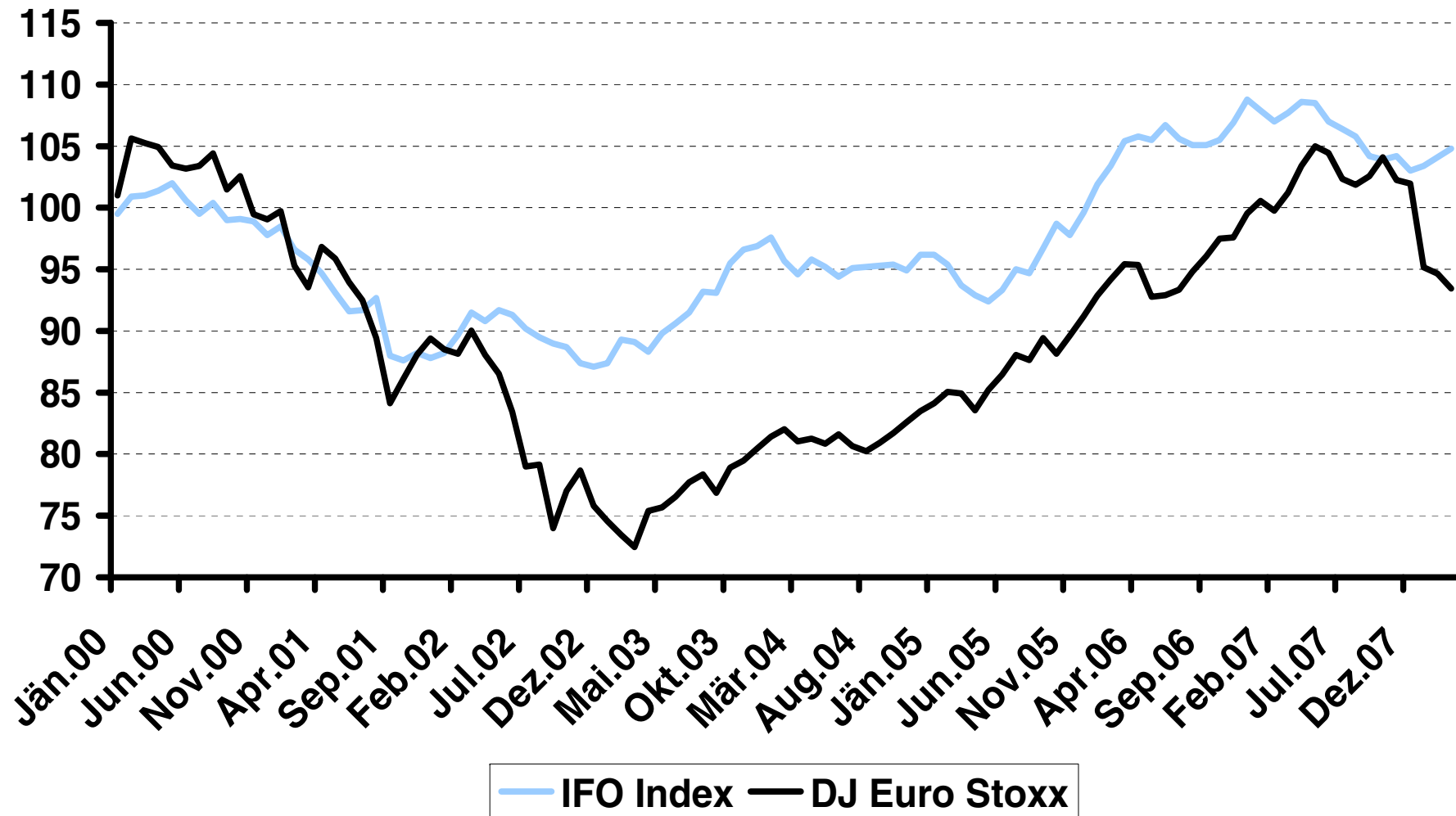
Negativ:

- Liquiditätskrise hält an
- ISM Indices sind im negativen Bereich
- Überhang an Abwärtsrevisionen bei den erwarteten Gewinnen je Aktie, Gewinneinbruch bei Finanztiteln
- wichtige Marktsegmente sind in einem Bären-Markt: Finanzwerte, frühzyklische Aktien (z.B. Einzelhandel), Halbleiter
- Langfristiger Aufwärtstrend beim S&P 500 ist klar gebrochen
- Markt ist teuer (KGV 20,7; Dividendenrendite nur 2,2 %)

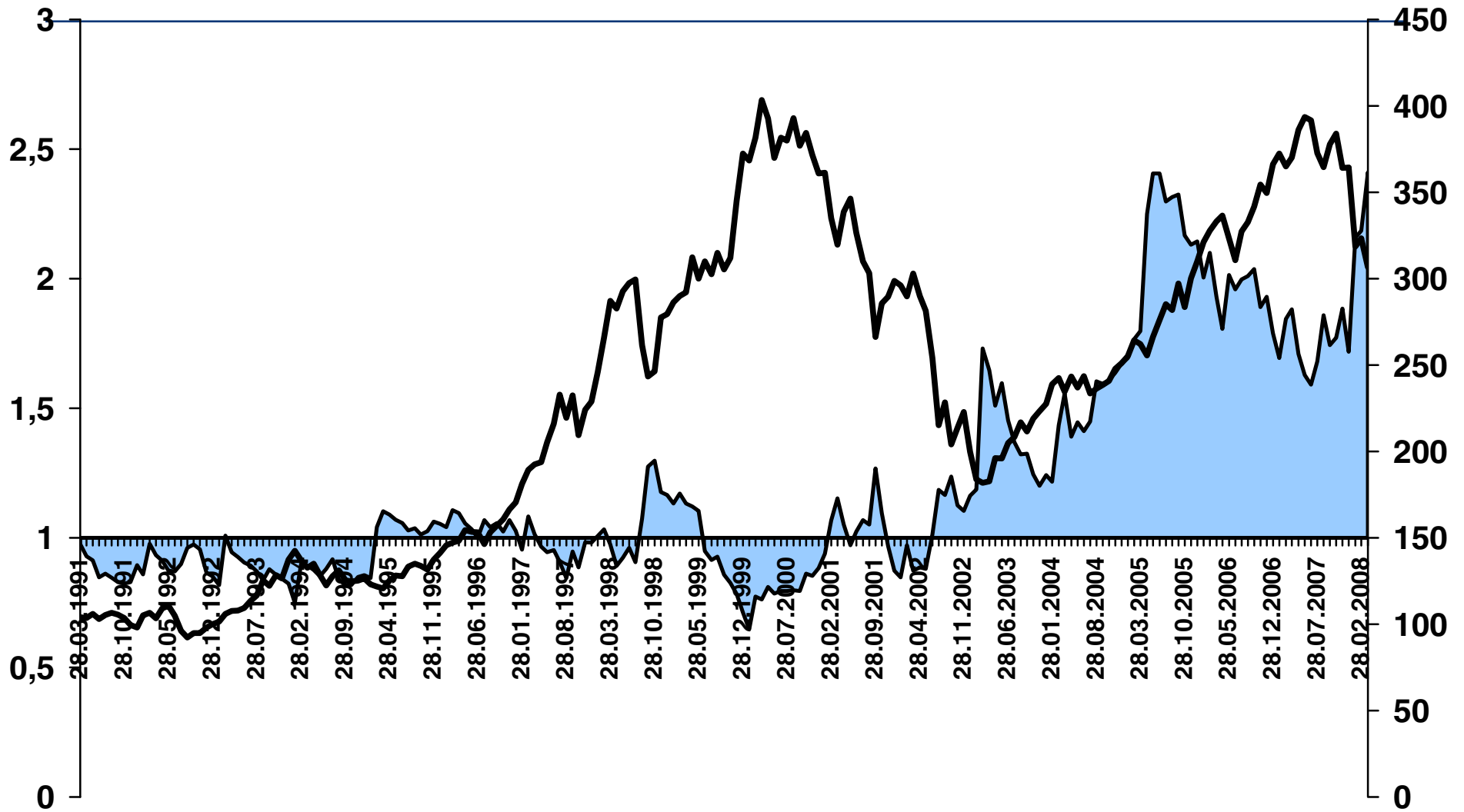
Fazit:

- Risiken sind höher als die Chancen
- Untergewichten aufgrund geringer Wachstumsperspektiven

IFO Index vs. DJ Euro Stoxx

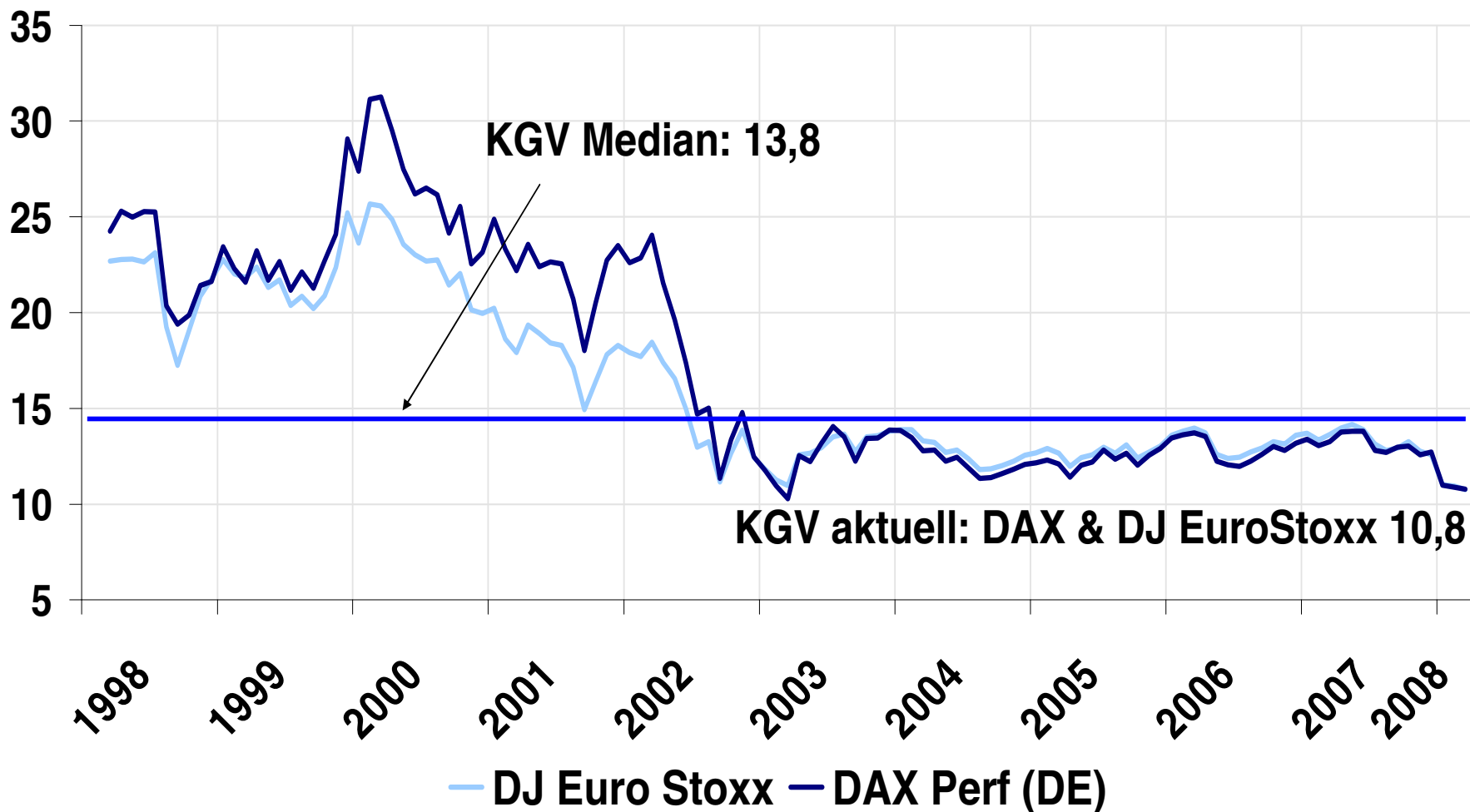


Europa: Aktien vs. Bonds

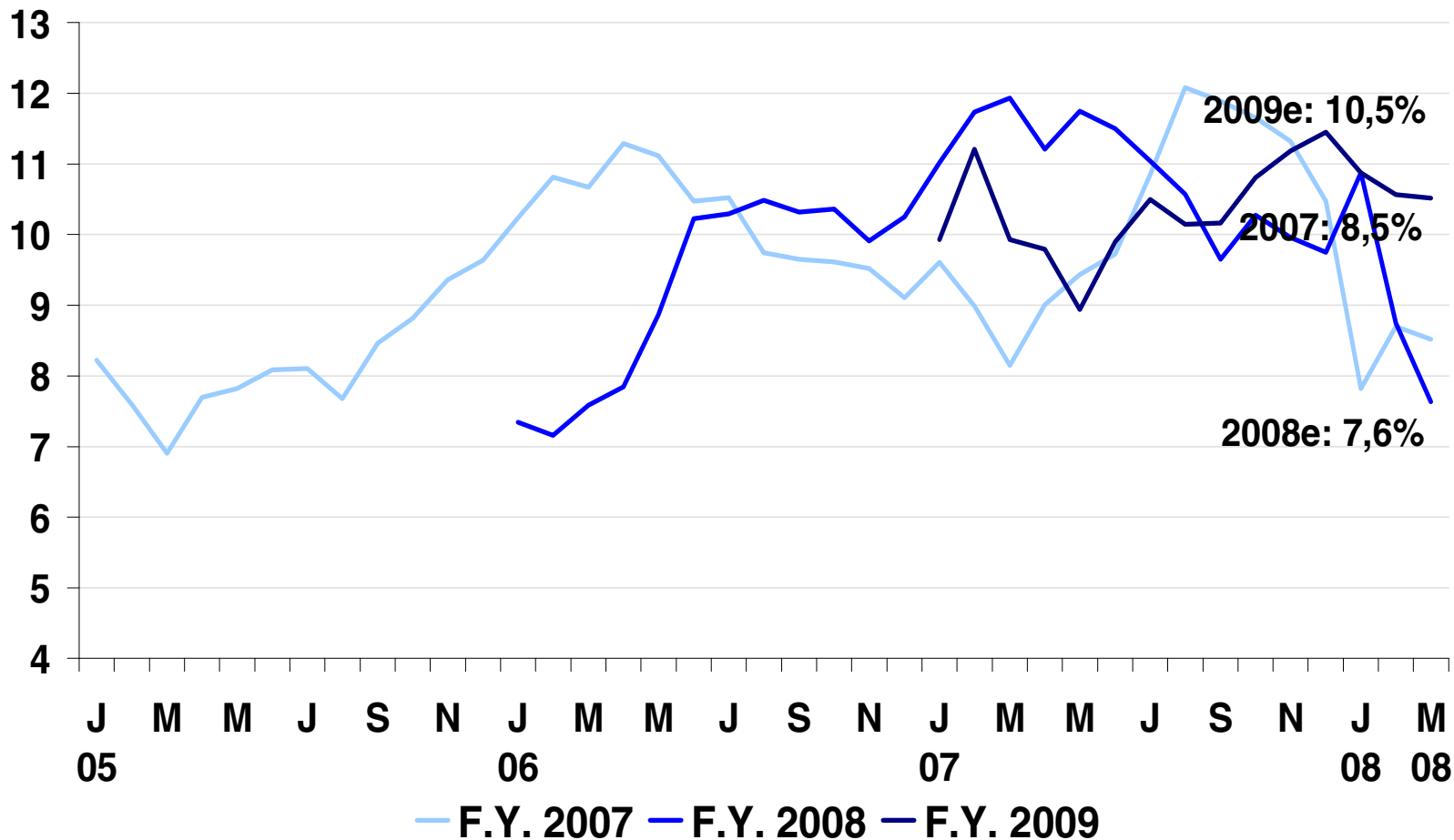


Europa: Bewertung

Forward 12M P/E for DJ Euro Stoxx (EUL) in EUR as of 27/03/08



EPS Grth for DJ Euro Stoxx (EUL) in EUR as of 27/03/08



Europa: Fazit

– Positiv:

- - Sentimentindikatoren verbessert
- - noch günstigere Bewertung
- - Gewinnrenditen weiter über Anleihenrenditen
- - Wachstumsmärkte in Asien federn Ausfälle in USA ab

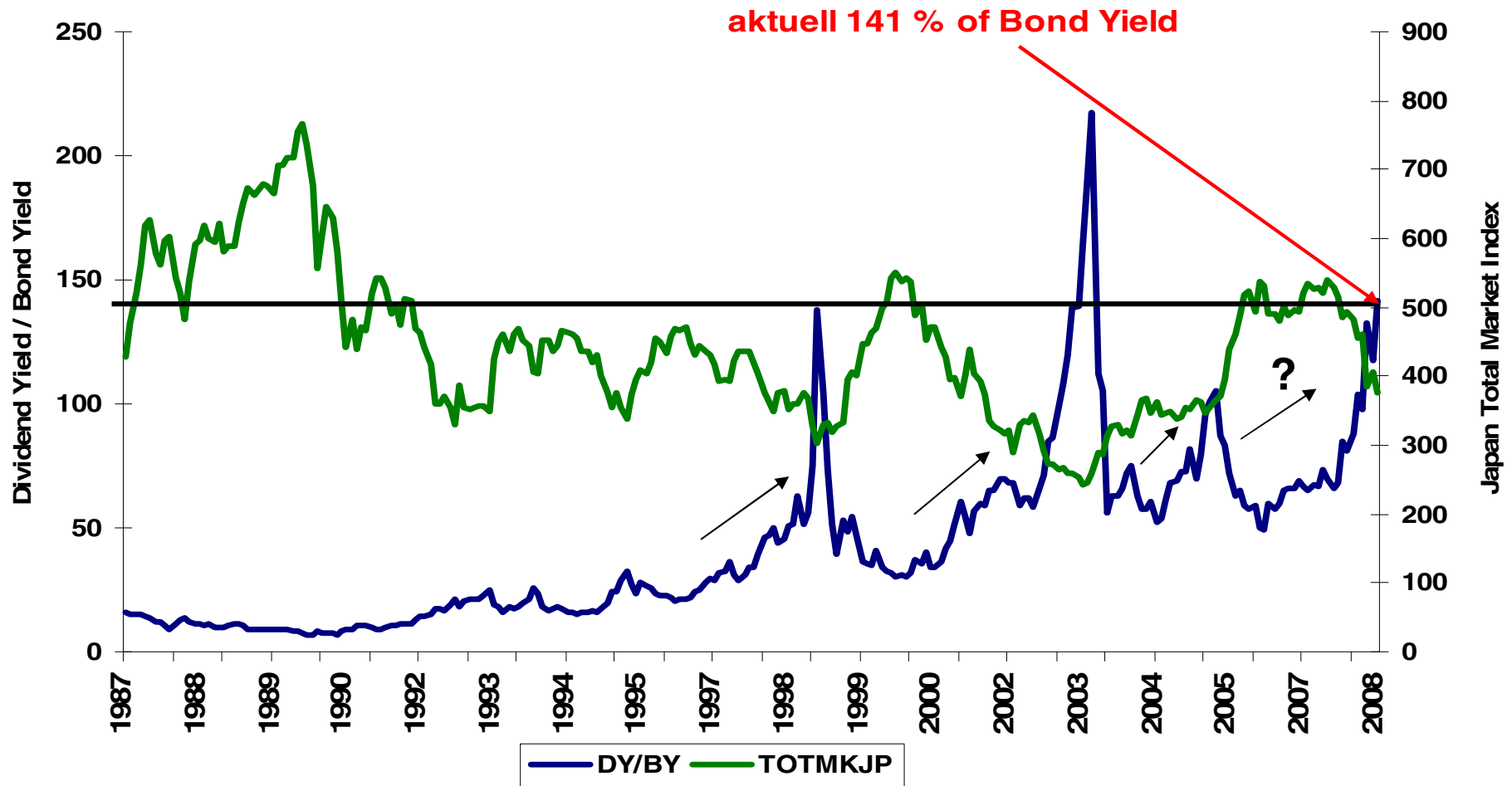
– Negativ:

- - schlechte Vorgaben aus USA werden sich auswirken
- - starker Euro schwächt Exporte ab und verringert Gewinne
- - Energiepreise schwächen Binnenkonsum
- - BIP-Wachstumserwartungen reduziert
- - Gewinnrevisionen und Prognosen weisen abwärts
- - schwierige charttechnische Situation

– Fazit:

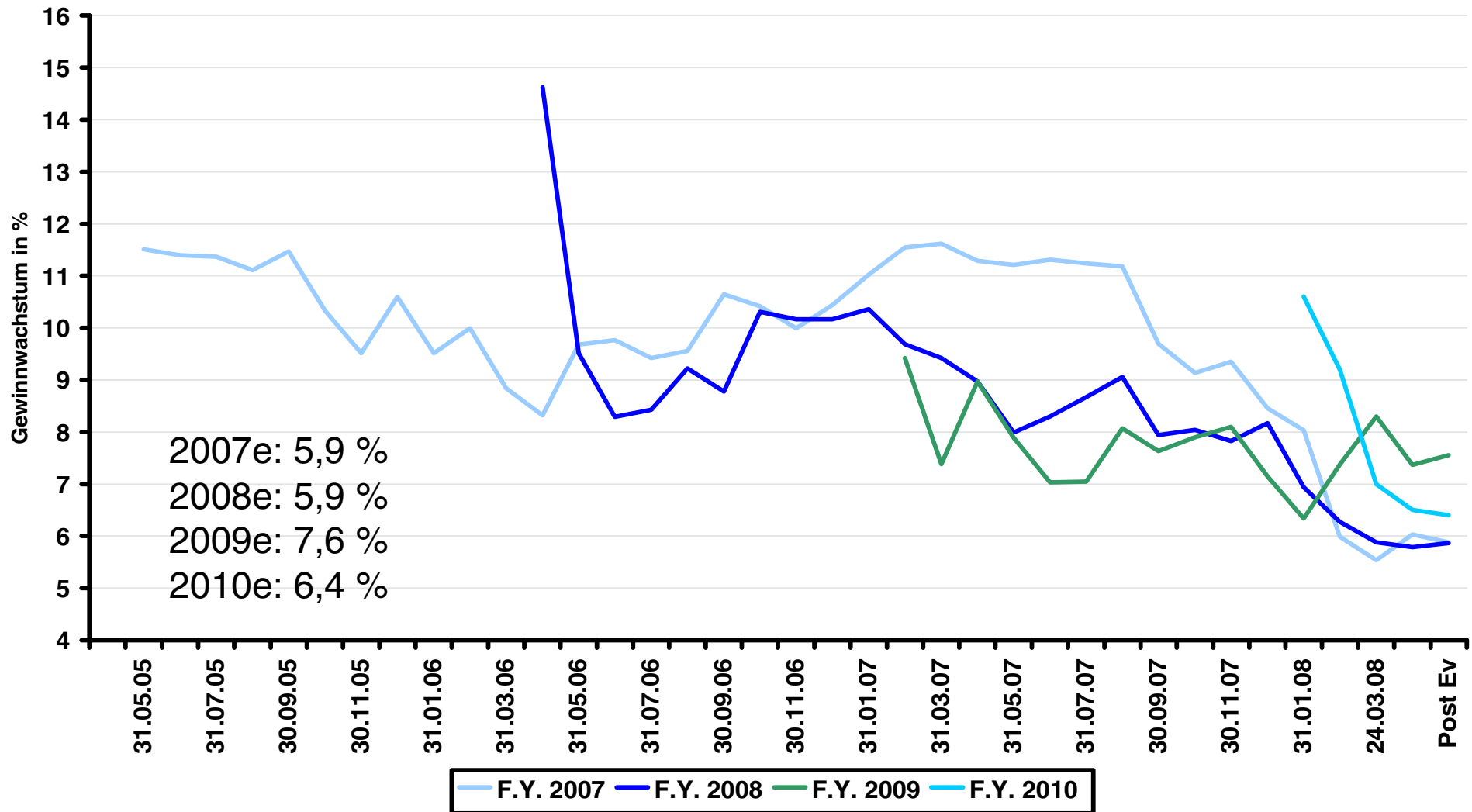
- - Fundamentale Situation deutlich besser als in den USA
- - Europa bei Aktien Übergewichten

Japan: Dividend Yield / Bond Yield



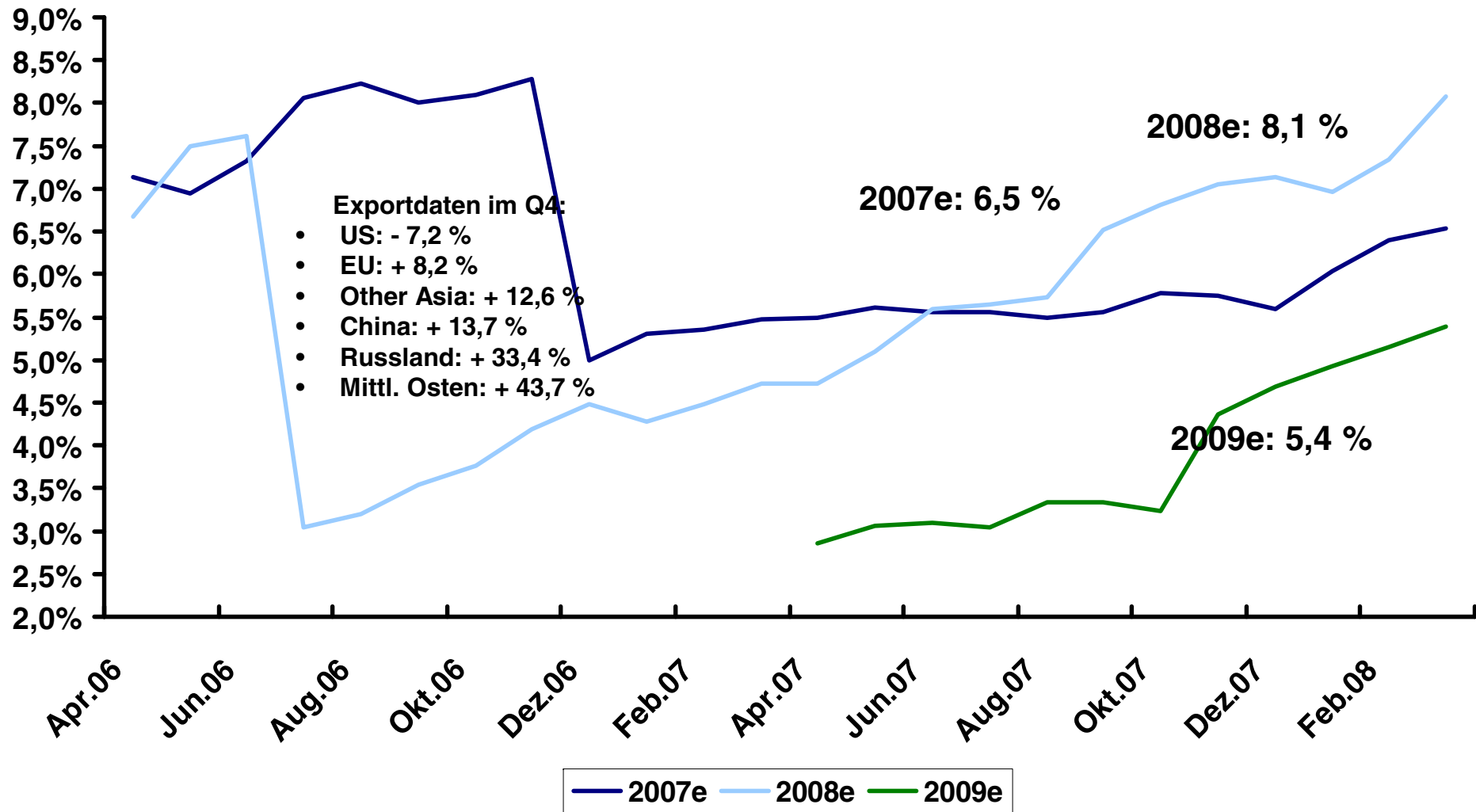
Japan: Gewinnwachstum

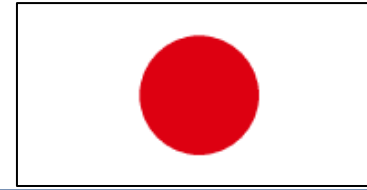
EPS Wachstum Nikkei225



Japan: Umsatzwachstum

Umsatzwachstum Nikkei





Positiv:

- anziehender Binnenkonsum
- Nach wie vor solides Gewinn- und Umsatzwachstum
- historisch extrem günstige Bewertung
- Institutionelle und private Investoren sind massiv untergewichtet

Negativ:

- Weitere Yen-Stärke würde Risiko f. Exportsektor bergen
- TANKAN-Index deutlich abgeschwächt
- Technischer Aufwärtstrend gebrochen

Fazit:

- Grundsätzlich positives Szenario – „Catch-up Rallye“ scheint möglich ⇒ neutrale Gewichtung
- Branchen-Fokus auf Pharma, Banken, Broker, Midcaps (Tech)

Emerging Markets: Bewertung, Gewinnwachstum

Emerging Markets: Gewinnwachstum und Bewertung						
	Gewinnwachstum in %			Kurs/Cashflow		
	2007e	2008e	2009e	2007e	2008e	2009e
Brasilien	13,5%	14,0%	24,0%	8,1	7,7	6,6
Argentinien	-14,1%	19,6%	19,4%	7,5	n.a	n.a.
Mexico	17,6%	5,8%	12,4%	9,1	8,0	7,8
	5,7%	13,1%	18,6%	8,2	7,9	7,2
Indien	22,5%	19,9%	16,4%	15,0	12,6	10,9
Malaysia	29,2%	13,9%	8,6%	8,9	9,2	8,5
Thailand	-9,0%	20,1%	13,7%	8,3	7,5	6,9
Korea	11,1%	17,2%	13,3%	8,2	7,5	6,9
Hs China Enterprise	40,0%	20,2%	10,6%	9,5	8,2	7,0
Hong Kong	33,5%	12,0%	11,3%	10,4	9,3	7,8
	21,2%	17,2%	12,3%	10,0	9,1	8,0
Ungarn	-11,2%	10,7%	10,2%	5,9	5,6	5,3
Polen	20,7%	5,9%	8,9%	7,7	7,3	6,8
Tschechien	34,9%	21,6%	10,1%	9,9	8,5	7,8
Russland	21,8%	15,6%	5,6%	8,1	8,4	7,6
	16,5%	13,5%	8,7%	7,9	7,5	6,9

**Empfehlung: AKTIEN UNTERGEWICHTEN,
AUSGEWÄHLTE EMERGING MARKETS UND EUROPA
ÜBERGEWICHTEN**

**Vielen Dank für Ihre
Aufmerksamkeit!**

Global Strategy Q2 2008

Ausblick

Internationale Finanzmärkte

Fritz Mostböck, CEFA
Head of Group Research

Rainer Singer
Head of CEE Macro/FI Research

Hans Engel
Market Strategist, International Equities

Pressekonferenz
10. April 2008, Wien

Global Strategy

Outlook International Financial markets

Insecurity still a threat

■ USA

Stocks: Risks outweigh opportunities

Economy: Bottoming out in Q2

■ Europe

Stocks: Stock markets decline in wake of international developments

Economy: Moderate cooling off most-likely scenario

■ Japan

Stocks: Attractive market with potential

Economy: Should survive short-lived US crisis

USA

Stock market

Crisis extended in first quarter

In the past few months, the stock markets have been dominated by a sustained crisis of confidence and the liquidity crisis among the most important US financial organizations. With the steady decline of real estate prices in the US, the need to massively write-off loans increased further.

Additionally, it became more and more clear that many derivative financial instruments were not finding buyers and therefore had to be partly written off as well. This impact of this problem will probably increase even more in the coming months and clearly reveal to market participants that the current liquidity crisis is the most relevant side effect of the immense credit widening in the US in the past years.

The current crisis peaked in mid-March when the well-known investment firm Bear Stearns collapsed. Only the concerted action of the US Fed and JP Morgan Chase was able to ward off the insolvency of Bear Stearns. For Bear Stearns' shareholders, the collapse of the company was a financial disaster, as JP Morgan had to pay only a low price for the takeover of its competitor.

The uniqueness of this rescue mission was highlighted by the fact that the US Fed and JP Morgan Chase had negotiated a takeover contract containing details that for all practical purposes prevented any competing bids. In the course of the heavy turbulence that shook the financial markets, the Fed lowered key lending rates last quarter to now only 2.25% and started offering brokers direct access to the urgently needed liquid funds - and not only to commercial banks as up to then.

In this environment, it is not surprising that most US stock indices tended to be very weak in the first quarter. The S&P 500 declined by almost 10%, while the Nasdaq 100 Index lost 14.5%. What was remarkably positive by contrast was the development of the Amex Gold Bugs Index, which gained 7% when the gold price hit historic highs in the course of March.

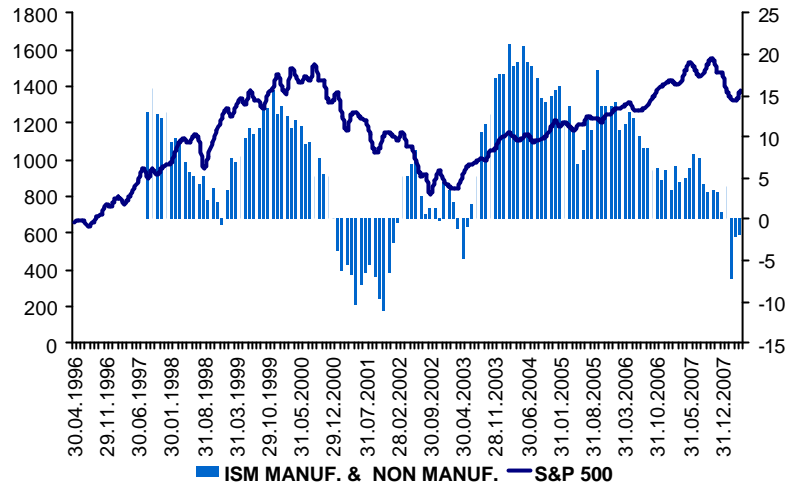
Sentiment indicators

Purchasing manager Index

ISM-Indices negative

We use a combined sentiment indicator as a measure of sentiment among US purchasing managers. This indicator combines the assessments of the managers from the manufacturing and the service sectors. The chart below shows the current level of the indicator. It illustrates that the assessment of future developments has clearly dropped into the negative range, and that currently, there are no signs of improvement worth mentioning. In our view, this reflects the very negative sentiment among the management in a setting of an already significantly cooled off US economy. In the coming months, hardly any improvement can be expected from this front, as the labour market is also clearly showing a weakening tendency.

ISM Sentiment Index



Source: Bloomberg

Earnings revisions

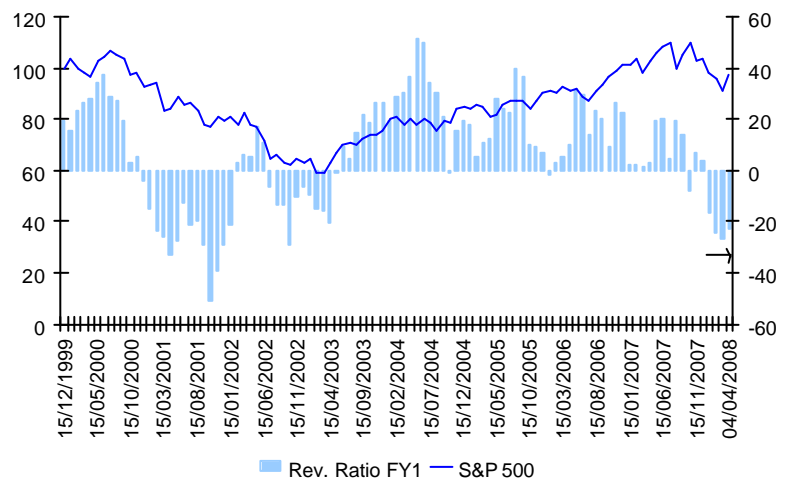
Revision Ratio stabilizes

Earnings revisions painted a similar picture as the sentiment indicators of the purchasing managers. In this context as well, the revisions of expected corporate earnings have been continuously lowered.

The revision ratio, which is a ratio that compares the number of negative earnings revisions to positive ones, is still very negative. However, there are some first signs of stabilization at a low level. The marginal increase of this sentiment indicator is probably not enough to trigger a trend reversal in the medium term. On the horizon of a few weeks though, considering the basic negative sentiment on the markets in the past few months, the revision ratio might stabilize in tandem with a short-lived recovery of the US key indices.

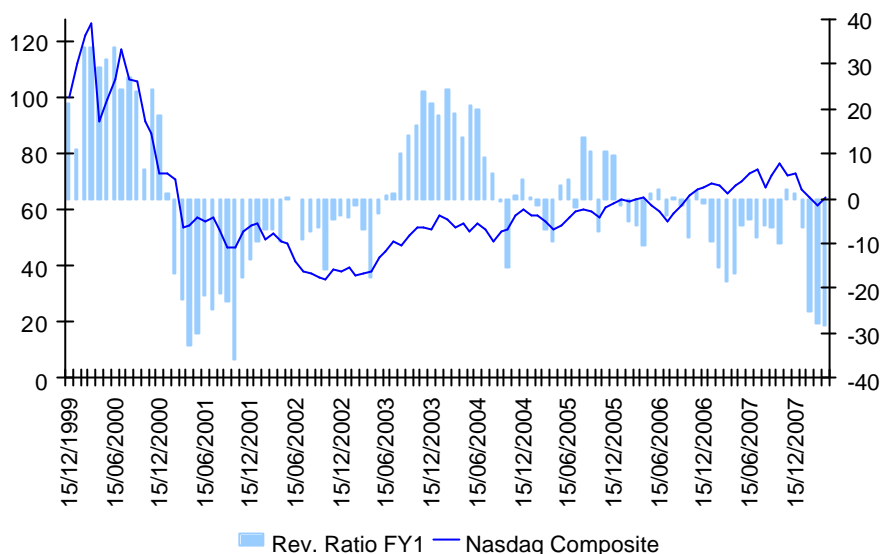
The chart below illustrates this situation based on an analysis of all stocks in the S&P 500 stock index:

Revision Ratio S&P 500



Source: JCF, Erste Bank estimates

Revision Ratio NASDAQ

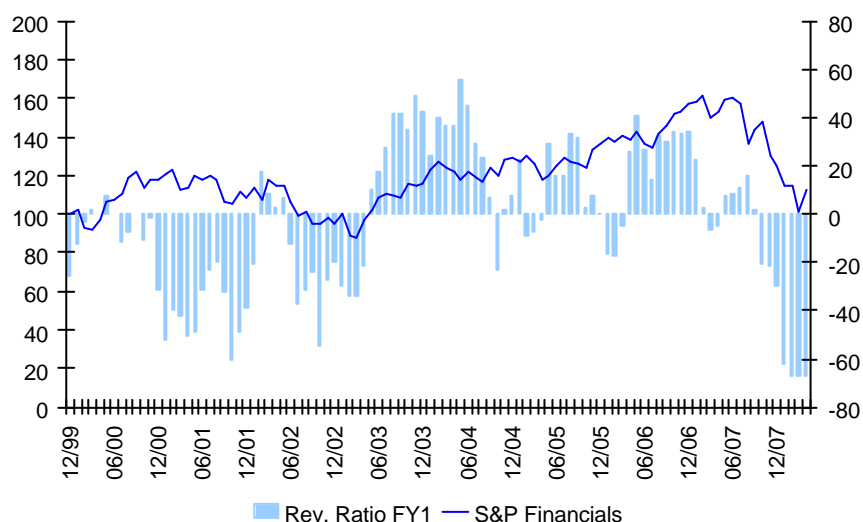


Source: JCF, Erste Bank Estimates

Financials remain weak

Based on the tense situation on US stock markets, it is not surprising that the revision ratio for stocks listed on the Nasdaq paints a similarly gloomy picture of sentiment. Due to the high weighting of financial stocks in the US stock indices, we regularly analyse this sector intensely as well. The fundamental situation is still poor and is not likely to improve much any time soon. The side effects of the excessive lending in the past and the creative product design that did not consider pay enough attention to sufficient liquidity and marketability of the related products will probably be felt for some quarters to come. Thus, the revision ratio is accordingly poor for this sector as shown by the chart below.

Revision Ratio S&P Financial Stocks



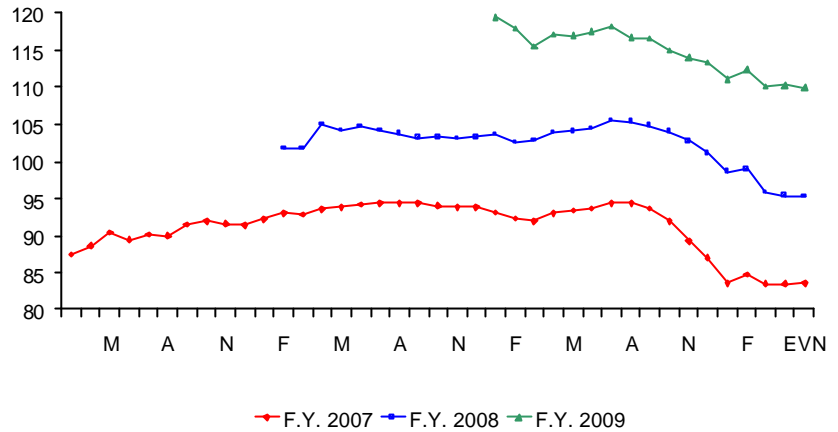
Source: JCF, Erste Bank Estimates

The development of earnings estimates per share for the S&P 500 permits one to expect increases in the coming two years. However, the tendency of the estimates is pointing downwards. This is not surprising, because the current forecasts for earnings in the years 2008 and 2009 still seem too high in the light of the current economic situation in the US.

Global Strategy

The chart below shows the development of the consensus forecast for earnings per share in the S&P 500 Index:

EPS Forecast: S&P 500



Source: JCF

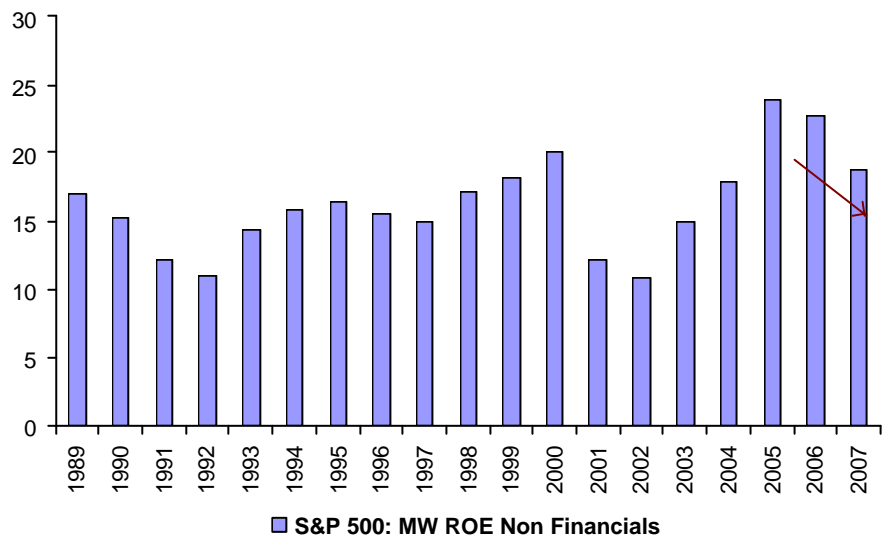
Expected EPS-growth too optimistic

As the rates of increase implied by these charts are much too optimistic in our view, we expect the earnings reports during this year to bring further disappointments.

In our opinion, the consensus estimates revised downwards in the past months are only a reflection of the already lower profitability of US firms of the past few years.

The chart below shows that even among stocks that do not belong to the financial sector, the return-on-equity has decreased significantly in 2007.

RoE Non-Financials



Source: Bloomberg, Erste Bank estimates

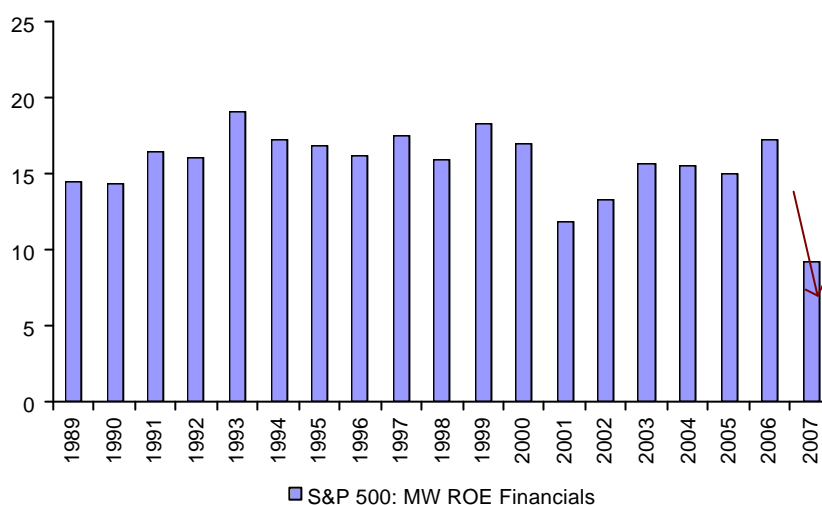
Global Strategy

Declining return on equity

What is not surprising is the much steeper decline of return-on-equity among financial stocks. In this sector, another drop is probable for this year that will be even sharper than in 2007. The measures taken by the Fed will very likely not be sufficient to compensate the negative effects of the current liquidity crisis. To achieve the previous levels of return-on-equity, US financial institutions would have to return their practice of easy lending soon. But this assumption is unrealistic from today's perspective in our opinion.

As many US financial stocks are hardly showing any signs of improvement right now, we believe there is little reason to invest in this sector. The risks are higher than the recognizable opportunities. Moreover, there are other much better investment opportunities especially in stocks in the S&P 100 Index such as the attractively valued and internationally active multinational industrial and service corporations (Disney, IBM, Hewlett Packard, Mc Donalds, etc.)

RoE Financials

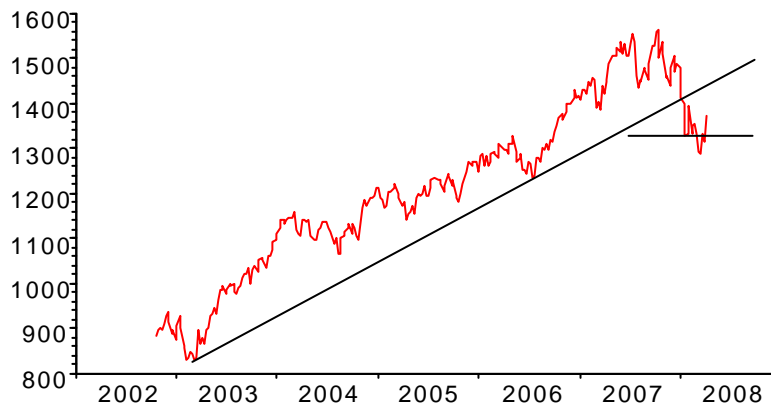


Source: Bloomberg, Erste Bank estimates

Technical constellation:

The S&P 500 departed from its medium-term uptrend in the past months, but the index bottomed out at the significant long-term support line of 1,330 index points. The chart below illustrates this situation.

S&P500:



Source: Datastream

Outlook

On the horizon of the next few weeks, a recovery of US stocks at the start of 2Q seems probable. There are two key reasons for this assumption:

- The S&P 500 has hit the trough
- The stabilization of revision ratios, albeit at a low level

However, we do not expect any newsflows in a few weeks capable of creating the positive impulses that would be necessary to support a medium-term recovery of the US key indices. Many market participants will probably tend to fast profit-taking after brief increases. Additionally, the estimated earnings per share for the S&P 500 are much too high considering the sluggish economy in the US. There is room for further downwards revisions in the coming months, probably with negative consequences for US key indices over the medium term.

In our opinion, growth stocks are still attractive, especially of those companies with international activities. In the light of the greater significance of the liquidity factor for the assessment of companies, investors should give preference to stocks with low levels of debt and stable cash flows. In the current environment, it is probably a good idea to continue to underweight US stocks, considering that the relation of risk-to-expected return renders stocks from other regions more attractive.

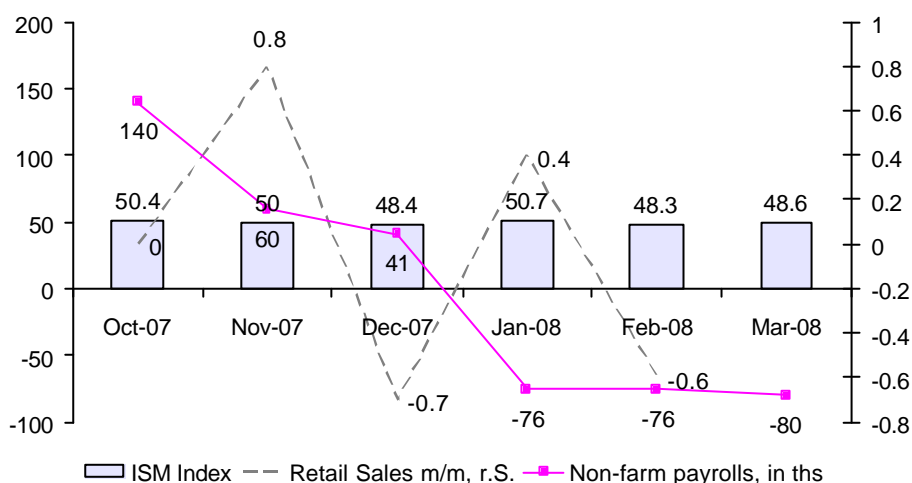
Especially compared to Europe and the emerging markets, US stocks currently do not have much appeal. The advantageous combination of stable growth rates at simultaneously more attractive valuations and lower levels of indebtedness indicate that one should continue overweighting investments from outside the US. In our opinion, as things stand today it is generally recommendable to underweight stocks in favour of a sufficient cash ratio for the medium-term horizon.

Economy, bond market and currency

Tax refunds expected to bolster growth in 2Q

There is no doubt that the US economy is currently in a difficult phase even though until recently, the effects of the mortgage and financial market crisis on other sectors of the economy were still limited. Nonetheless, the data for the quarter just ended will show a sharp deterioration of domestic demand versus the previous quarter. Overall, economic growth will probably be reported at around zero. The markets have already given up on the first quarter. Much more important is the extent and duration of the economic downswing. To date, the diverse monthly indicators (labour market, ISM) permit expectations of an only temporary dip of the economy, because they have not weakened to levels consistent with a recession. The decline in demand has been driven mostly by sentiment up to now. However, the risk is the formation of a downwards spiral in which lower consumption and higher unemployment feed on each other. However, we expect a recovery of sentiment from the current very low levels to set in soon. This expectation depends, on the one hand, on the certain factor of the tax refunds amounting to 0.6% of GDP as of May, and on the other, on the uncertain assumption that the financial markets will calm. We believe that the climax of adjustments to interest rates on mortgage loans and thus also of defaults on payment will soon be reached. Naturally, many more financial securities are affected by the crisis than mortgage loans. However, just as the crisis originated here, a recovery should start from this front as well in the coming months. Declining default rates on mortgage loans should ease the fears of losses from derivatives on such loans and therefore confidence should return to the financial sector. This will be the decisive issue for financial markets even if the economic data remain subdued in the coming quarters.

US Indicators



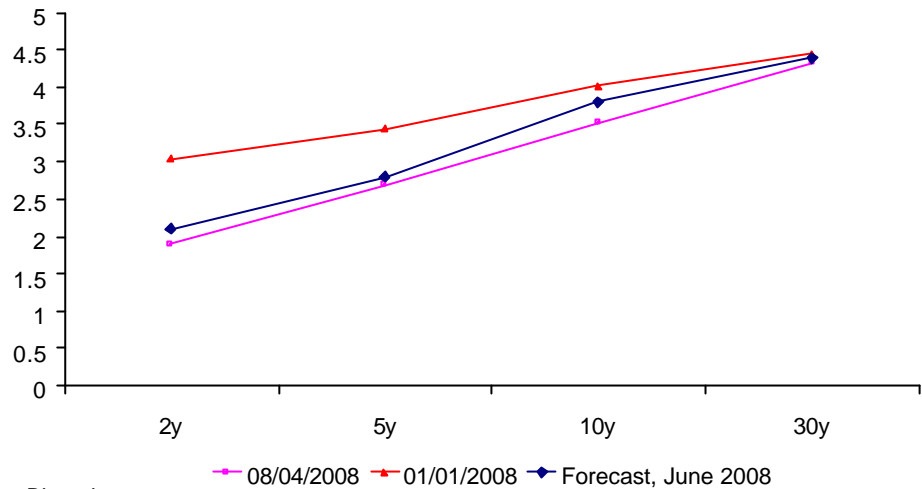
Source: Bloomberg

Last interest rate cut at the end of April

We expect the US Fed to make another interest rate cut by 50 bps at the end April. By the time of the next meeting at the end of June, the situation is expected to calm by then to an extent that will allow the key lending rate of 1.75% to be left unchanged. An only gradually recovering economy is not expected to give rise to any need to change key lending rates until year-end. Government bonds were the beneficiaries of the insecurity of recent months. In an environment of recovering markets, some of the prices gains will probably be shed. As money market rates are expected to remain low and any signals from the economy will be at best modest, one may expect only moderate increases in yields. The risk in this context - apart from the assumption that the financial markets will recover - is the degree to which financial markets will anticipate a recovery of the real economy. As the real estate market will have a burdening effect in the second half of the year as well, in 2Q no fast recovery of the economy is expected to be priced in.

Global Strategy

Yield Curve



Source: Bloomberg

US dollar to firm slightly

The US dollar is expected to start a slight recovery already in the coming months. The stabilization of financial markets should have the same effect on US money market rates and expectations of interest rate cuts in Euroland should increase. This setting in conjunction with the historically low valuation level of the US currency leads us to expect an initially slight firming of the USD.

Euroland

Stock market

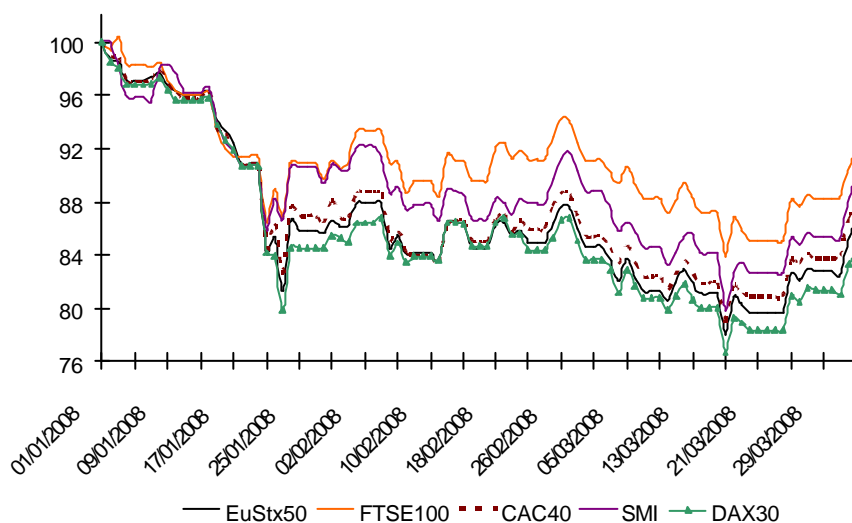
Plunge on all fronts in new year

The plunge in prices of January 2008 on European stock markets has been the most dramatic one since September 2001. The principal factor triggering this development was the mutation of the US mortgage loan crisis into a major worldwide financial crisis. After more and more banks were forced to announce write-offs in the billions, fears started to spread that a global liquidity crisis could weaken the economies of the Western industrialized countries even to the point of a recession. Only the constant injections of liquidity by the Fed and the ECB totalling several hundred billion US dollars since the autumn of 2007 have been able to stave off the collapse of many financial institutions. In Great Britain, Northern Rock had to be nationalized, and in Germany, credit institutions such as SachsenLB, WestLB and IKB were saved only by mergers or massive tax funds pumped into rescue missions. Renowned major banks such as UBS and Societe Generale lost double-digit amounts in the billions after closing out positions having gone bad. At the same time, the EUR/USD exchange rate galloped away and the oil price soared to unseen heights. While the Fed attempted to stabilise stock markets in the US with the help of generous interest rate cuts, the ECB refrained from similar moves to stimulate European markets, stating inflationary fears as the reason for leaving the key lending rate at 4%.

The sectors that fared the best in 1Q in this environment were basic resources and food & beverages with a minus of 2% and 11%, respectively. Even though some individual stocks from the banking sector posted record losses, the sector index stayed in centerfield with a minus of 18%. The worst development was reported by the media, telecom and technology sectors with a minus of over 20%.

Even though none of the West European indices has been able to improve since 1 January, there were regional differences in development. While the British FTSE100 and the SMI fared the best, posting declines of minus 8.4% and minus 10.5%, the EuroStoxx50 and the DAX30 dropped by 13.7% and 16.0%, respectively, hitting the worst performance level among the West European indices.

Comparison of European indices



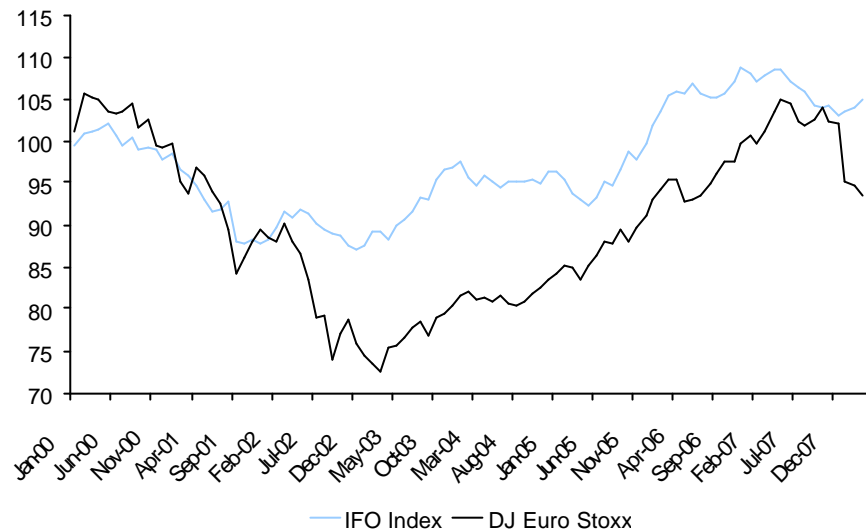
Source: Bloomberg, Erste Bank estimates

Global Strategy

Sustained stable economic environment

The most recently released economic indicators point to the stable condition of the European economy. Even though gross domestic product in the euro zone was revised downwards from 2.5% to 1.8% and internal consumption posted a slight decline in retail sales, overall, the ratios paint a positive picture of the economy. The most recent releases showed industrial order intake up by 7.3% and the recovery of industrial production with a plus of 6.9%, which was far better than expected. The most important sentiment indicators also underwent a trend reversal. After the ZEW index improved from -39.5 points to -32 points despite the forecast of a further deterioration, the IFO index also advanced from 104.1 to 104.8 points. As the IFO business climate index reflects the opinion of the managers working at the companies, we view this indicator as highly indicative. This also implies that the biggest price correction is probably over.

IFO Index vs. DJ Euro Stoxx

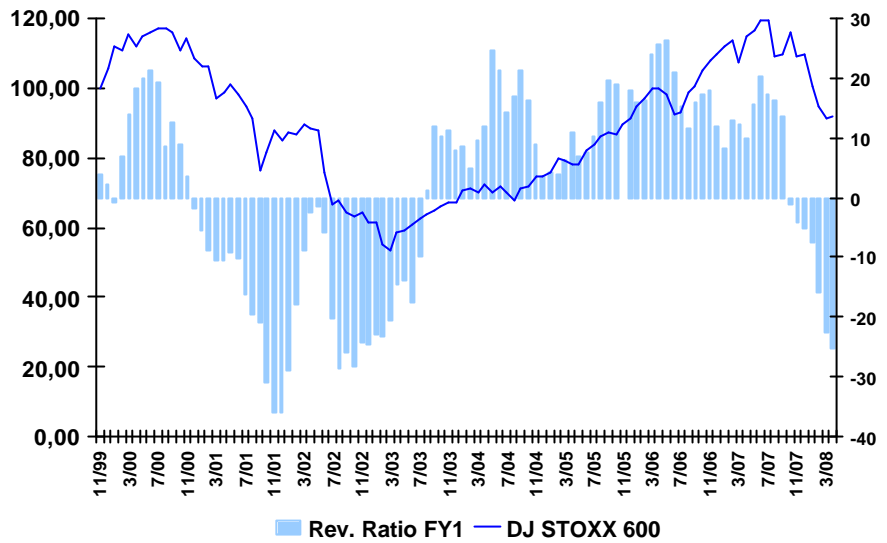


Source: JCF

Revision activity growing worse

The picture painted by revision activity is one of a dramatically gloomier outlook for corporate earnings. After the negative overhang in revisions at the end of 2007, sentiment dimmed even further. Thus, most analysts no longer believe that companies in Europe will be able to report positive surprises in their future earnings reports. Moreover, the strong convergence of revision activity with the trend of the DJ Euro Stoxx is remarkable. And this is happening even though most companies presented positive surprises in their last quarterly reports. Although banks were forced to announce more and more write-offs caused by the mortgage crisis, the other sectors developed divergently. Even if there were to be a slight improvement in 2Q, we expect this pessimistic basic sentiment to persist.

Earnings revisions

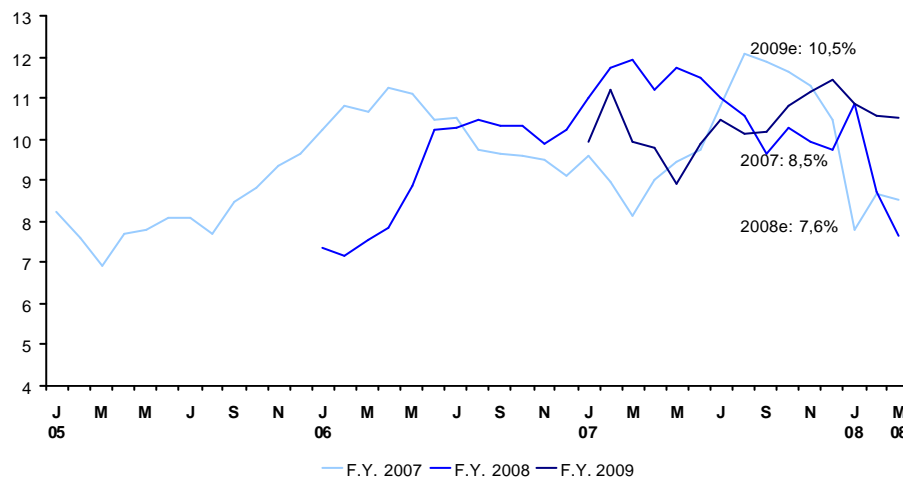


Source: JCF

Lower earnings growth for 2008

After fears of a possible recession in the US and the entailing weakening of the economy Europe, the earnings expectations for the year 2008 for the companies in the DJ EuroStoxx did not remain untouched. With an initial delay, earnings growth among companies in Europe was revised downwards by more than 4-percentage points from 11.8% to 7.6%. The simultaneous lowering of sales revenues growth to only just over 3% is not surprising in this context. This trend is expected to continue for the following reasons: Companies such as Deutsche Bank and Siemens announced their profit warnings for the current business year 2008 only after presenting a positive surprise in their figures for 4Q 2007. These lower earnings are not always due to the slowing economy as shown in the case of Siemens. The technology group will not be able to complete many contracts on time in the area of power plants due to capacity bottlenecks. Even though growth in Europe is still doing much better than in the US, we expect further declines in 2Q of this year.

EPS growth for DJ Euro Stoxx (EUL) in EUR as of 27/03/08



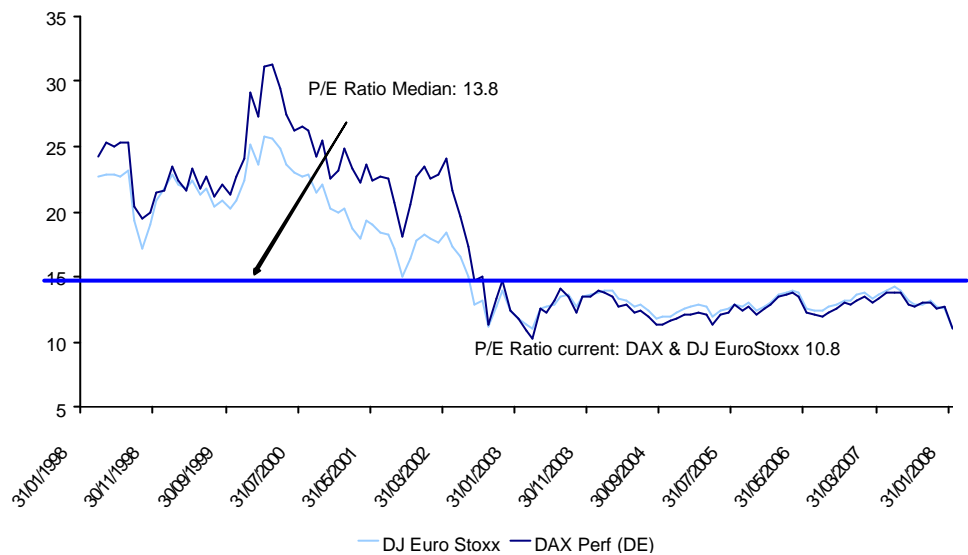
Source: JCF

Global Strategy

Valuation level drops again

Just like in previous quarters, price-to-earnings ratios in Europe are still at a historically very low level. These ratios improved again after the last price drops, as earnings expectations have not yet been lowered to the same extent. After the average PERs of DJ EuroStoxx stocks was already just above 14 in 2007 and for DAX30 stocks at 13.7, PERs have become much less expensive again since the sharp price consolidation in January of this year. At a very good return on equity of 15%, DJ EuroStoxx companies as well as DAX companies are less expensive than ever before right now at an average PER of 10.8 in a long-term comparison. This is also reflected in the valuation of equity. At a ratio of 1.7 price-to-book value, both indices are also far below the long-term average in this case. Despite this low valuation, at present it is hard to assess whether the currently attractive entry prices will be taken advantage of by investors or if the market has meanwhile become accustomed to such inexpensive levels.

Valuation P/E



Source: JCF

EuroStoxx50 stabilises after plunge

After the dramatic plunge in January, the DJ EuroStoxx50 moved sideways within a price bandwidth of 3465 to 3900 points. Trading volumes increased steeply as well as volatility. The breakout from the long-term trend and the clear drop below the 200-day line do not indicate any larger price gains in the near future. Even if technical indicators such as the MACD and DMI are sending buy signals in the short-term range, there are not many signs for a sustained trend reversal. The downwards-pointing ADX line and the slower dynamic are supportive of the assumption that no breakout going north from the sideways channel is about to happen. Going south as well, there is some space downwards to the support line at 3465 points for now. However, we expect the index to test this mark in 2Q again before further price gains become possible. A drop below this support line would even open the way to new downside potential up to 3222. Nonetheless, we expect a sideways movement in the second quarter.

DJ EuroStoxx50



Source: Bloomberg

Conclusions

Overall, the positive and negative factors in Europe are in balance and for this reason, Erste Bank expects to see European stock markets on sideways trends in the next quarter. On the one hand, the earnings outlook for the current financial year 2008 of the companies in the DJ EuroStoxx was revised from 11.8% to only 7.6%, and on the other, the gross domestic product forecast was revised from 2.5% to only 1.8%. Therefore, the correctness of the very attractive valuation at first glance of an average PER of 11 and a price-to-book value of 2.1 is more than doubtful should earnings be revised further downwards. This is particularly clear in the banking sector where the dividend yields of banks are higher than their PERs in some cases. On the other hand, it is precisely in Germany that important sentiment indicators such as the ZEW index and the IFO business climate index recorded surprisingly improved figures of -32 and 104.8 points, which does give rise hope. Additionally, most companies succeeded in retaining high levels of order intake and industrial output despite the firming euro and the higher commodity prices. From a fundamental perspective, Europe is better positioned than the US, but it will still not be able to decouple completely due to the overall market risk should the bad newsflows from the US persist. However, even in the case of possible price setbacks, Erste Bank expects stock markets in Europe to develop the most stably versus other regions. Therefore, we recommend overweighting European securities in the asset class of stocks.

Economy, bond market and currency

Weaker growth, but growth nonetheless

Even though the economic indicators for Euroland have deteriorated over the past few months, by no means can one speak of a contraction. We expect the economy to grow by 1.8% this year following the substantial rise of 2.6% in 2007. Thus, Euroland's economy has managed to fare quite well despite the massive crisis on the financial markets and stagnation in the US. The reasons are, first, the soundness of the balance sheets of companies and of private household budgets on the average in Euroland, and second, the sustained strong demand from the emerging markets, which are profiting in part from the steep rise in commodity prices.

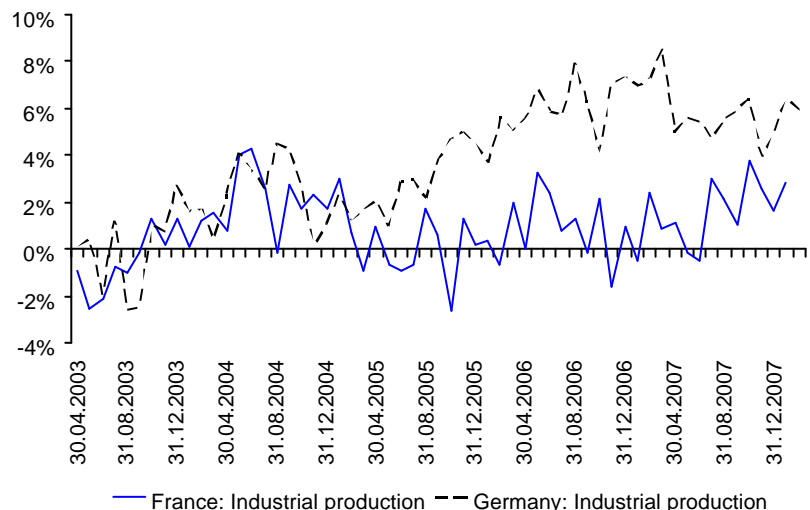
Differentiated growth within Euroland

However, this year growth trends are much more differentiated than in 2007. Thus, Germany and France are reporting rising industrial production, with investment activity still going strong in both economies and foreign trade balances improving. By contrast, in Italy and Spain a marked contraction is starting to show. Especially Spain is struggling with the bursting of the real estate bubble and will probably attain only low growth rates for a longer period. During the real estate boom, massive overcapacities were built up in the sector that now need to be corrected. In Italy, the strong external value of euro is a burdening factor. Another risk is the plunge of consumption in Germany following steeply rising prices and the negative newsflows from financial markets.

2Q overshadowed by low point hit by US housing market and the banking crisis

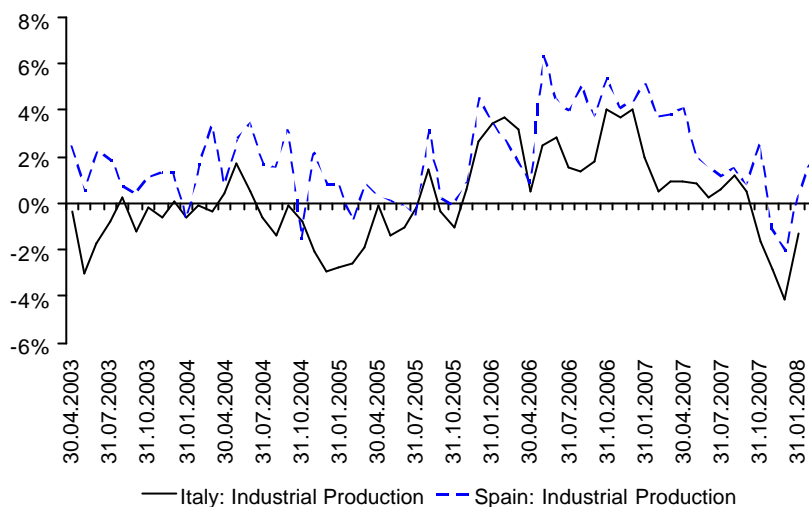
The economic outlook is overshadowed by the banking crisis and its effects on consumer and business sentiment as well as by the reduced willingness of banks to grant loans. The question of whether the current cooling off phase is just a dip or the start of a longer-lasting period of economic weakness depends on whether German consumers will start to spend more after several years of thriftiness. The relatively high collective wage agreements of last month should also be viewed in this light.

Industrial production, Germany and France y/y



Source: Bloomberg

Industrial production, Italy and Spain y/y



Source: Bloomberg

Inflationary risk is higher

The inflation rate hit 3.5% in March - and thus a new high since the introduction of the euro. This was triggered primarily by rising commodity prices in the food segment and the renewed rise of the oil price. However, second-round effects are also becoming apparent now such as higher prices at restaurants and for public transport. The strikes in Germany show that the willingness to accept any further erosion of purchasing power is diminishing. Still, one should be aware that the wage settlements reached up to now of 3.5% to 4.5% after adjustments for one-time payments are within a tolerable range following several years of stagnating wages. However, they are a signal that could spread to other sectors as well as to neighbouring countries.

Monetary policy still in a tight spot

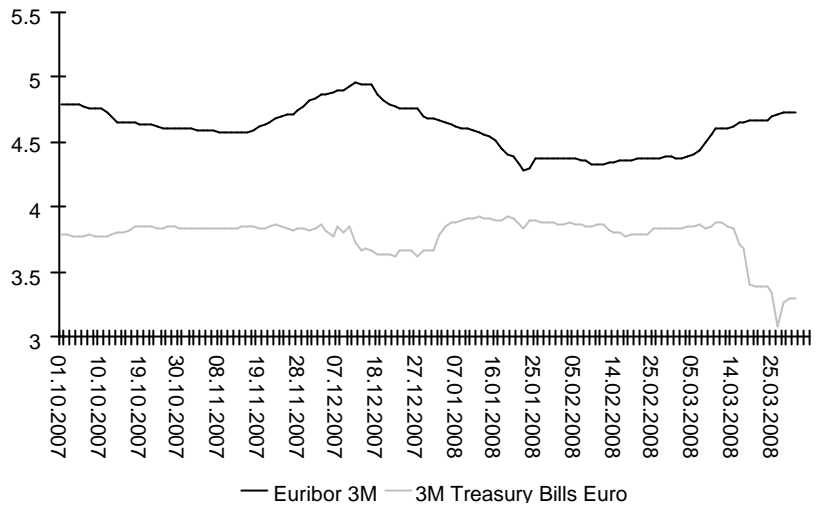
It is no wonder that ECB Council members are becoming nervous and some hints of possible interest rate hikes have been heard from Germany. However, an interest rate hike this year is in our opinion very improbable. The question is rather whether key lending rates will be kept unchanged or if one may expect an interest rate cut. Should the US Fed and the US government succeed in stabilising financial markets and reviving trading in the dried out markets by lowering interest rates, opening up additional sources of liquidity and by the planned tax incentives, then the ECB will be able to afford to leave interest rates unchanged and only make additional liquidity available temporarily. Should this fail, additional supportive measures will have to be taken by Europe to help stabilise markets. We believe that the ECB will cut interest rates temporarily around mid-year to help ease the pressure on the financial system.

Government bonds benefit from risk aversion

In the second quarter, government bonds are expected to continue to benefit from the still prevailing insecurity and the only gradually recovering trade in the asset-backed markets. Over the long term, we assess government bonds as overvalued and therefore recommend short maturities to long-term investors. Versus US bonds, the euro government bonds should perform better though. Corporate bond funds seem attractive due to the high yield premiums in the investment-grade segment. It is quite possible that bonds with credit ratings lower than investment grade could come under pressure and therefore these should be avoided.

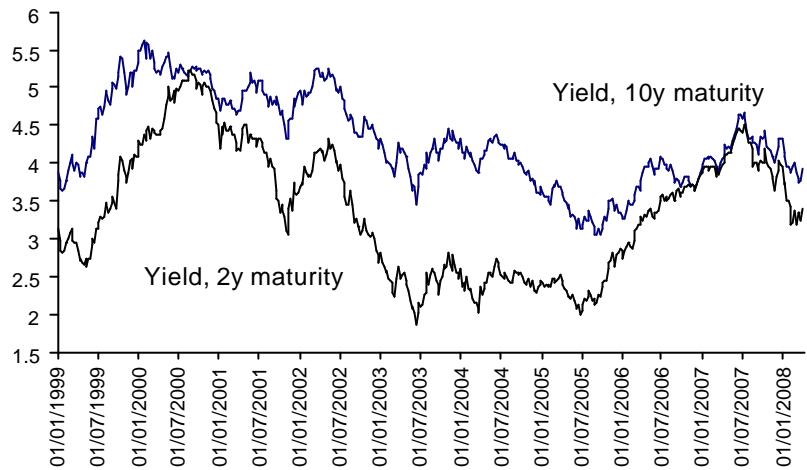
Global Strategy

Interest rates, Euribor and govt. bill in %



Source: Datastream

Yields, German gvt. bonds in %



Source: Datastream

Switzerland

Economy, bond market and currency

Robust growth and inflation on the rise

Economic growth in Switzerland remained at a high level in the fourth quarter. The current indicators paint a picture of only slightly slowing growth rates. Thus, business sentiment indicators have been pointing downwards since 4Q 2007, but consumer sentiment is still high. The unemployment rate is declining, but private consumption is hardly gaining any ground. The Swiss National Bank expects the economy to grow at a rate of almost 2% this year and perceives high downside risks in the light of the crisis on the financial markets. The inflation rate has risen in Switzerland as well and climbed to the highest level since 1993 in March hitting 2.6%.

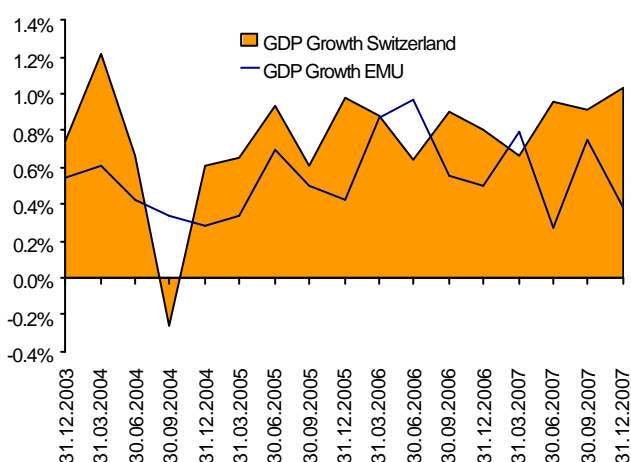
Franc still has more potential

The market is still pricing the Swiss franc as a carry trade currency and therefore, the correlation of movements on the stock market and movements of EURCHF is very high. When international stock markets rally, the euro also goes up versus the franc. Likewise, the Swiss franc reacts to sliding prices on stock markets with a firming exchange rate. This close correlation will dissipate as some point, but for now, it is still fully applicable. As stock markets still seem to be at risk in 2Q, we expect volatility to remain high for the franc and even believe that a drop below our target value of 1,55 EURCHF in the course of the current quarter is possible. Over the medium term, we expect the franc to fluctuate within a range of 1.50 to 1.60 vs. the euro.

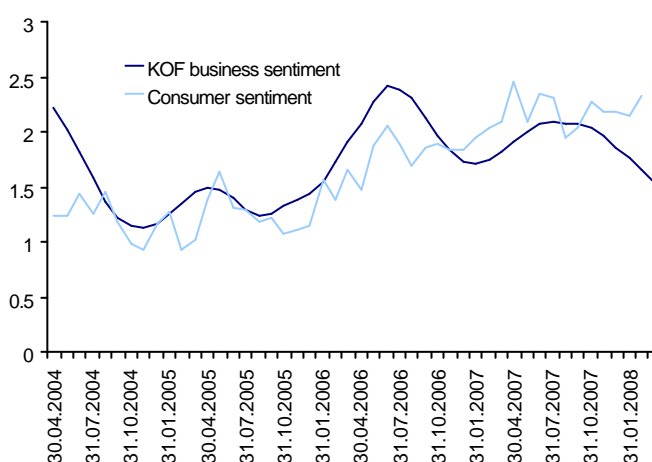
Interest rate cut probable at mid-year

Money market interest rates have risen slightly in the past few weeks, and just like in Euroland, liquidity bottlenecks were observed again. Over the medium term, we expect interest rates to decline in line with our forecasts for Euroland. The Swiss National Bank views exchange rate developments as a strong factor of influence on inflationary trends, and therefore, a firm franc could very well open the way for lower interest rates. Just like the weakness of the franc was also a major reason for the hike in interest rates. We expect two interest rate cuts of 25 bps each by 3Q. The interest rate spread to Euroland is even expected to shrink a bit, as money market rates in Euroland are extremely high due to the credit crisis.

GDP growth, y/y



Sentiment indicators



Source: Bloomberg

Japan

Stock market

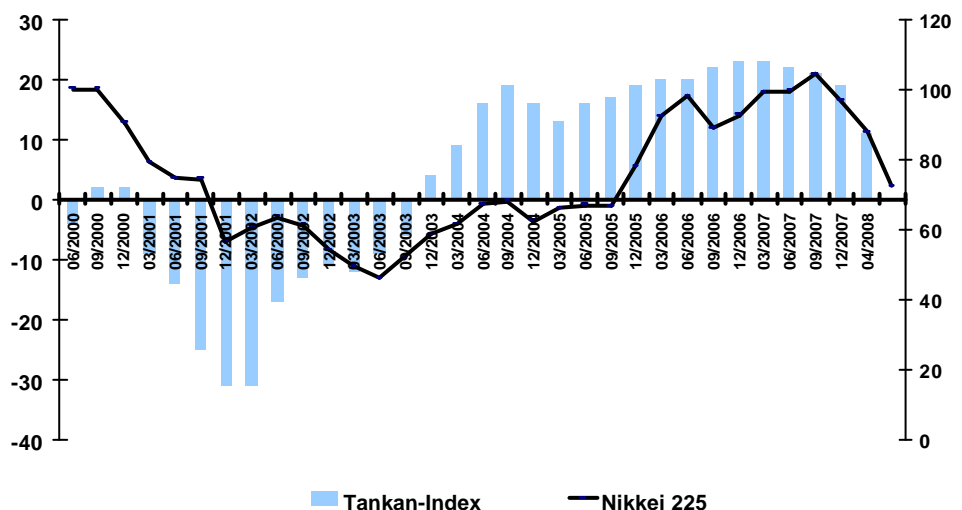
Very poor performance in first quarter 2008

The Japanese stock market trended clearly negative in 1Q of 2008. Quarterly performance is at -18% of the Nikkei225 similarly negative to that of the US and Europe, but in EUR, the result was much better at minus 12%. This was the market's response to the mostly disappointing economic data and to recessionary fears in the US and their effects on the Japanese economy. Higher risk aversion among international investors motivated them to close out carry trades faster, resulting in a jump of the Yen vs. US dollar and Euro. The Yen broke through the mark of USD 100 for the first time since 1995. The firm Yen is a considerable burden for the traditionally exporting economy of Japan, of course. Nonetheless, the panic seems to be exaggerated, as the Japanese exporting economy has diversified into the Asian region over the past years and the dependence on the US economy is much lower. The sell-off panic reaction in the financial sector is also probably exaggerated. Japanese financial institutions have been tightly regulated since the banking crisis of the 1990s and for this reason they are hardly invested in the US mortgage market. Thus, the write-offs in Japan have only amounted to USD 5.5bn, which is a negligible amount compared to the European and US counterparts.

Tankan Index confirms slowing momentum

The Tankan Index, which is the most important sentiment barometer for Japan, confirmed the slowing momentum of the Japanese economy. The overall index dropped from 19 (December) to 11 points, while consensus estimates had stated an index level of 13. The greatest problem of companies has turned out to be the massive pressure on margins. The firm Yen and the much higher commodity and transport costs are eroding the financial leeway of companies. In the light of the much weaker sentiment indicators and the numerous negative factors of influence (US crisis, weaker consumer confidence, rise of Yen, all-time high of crude oil prices), markets had feared a much steeper plunge in sentiment, and reacted with relief to the presentation of the Tankan Report.

Tankan vs. Nikkei225

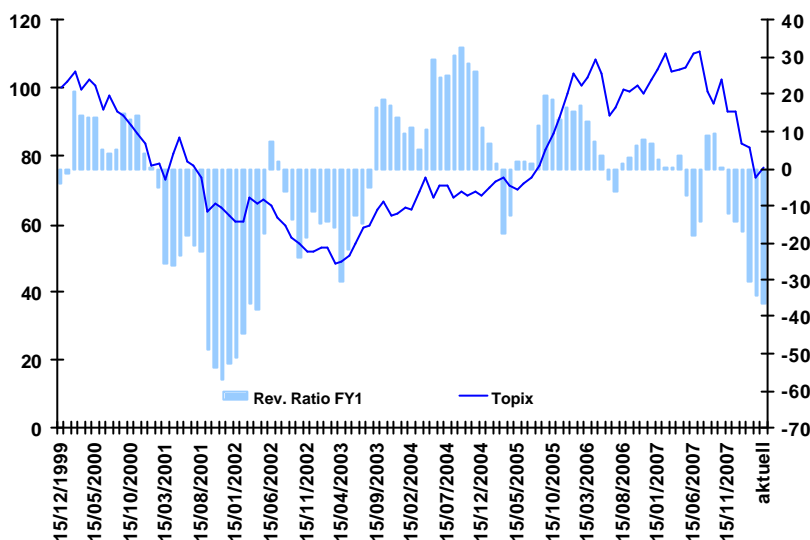


Source: JCF, Bloomberg, Erste Bank estimates

Negative earnings revisions, positive sales revisions

Earnings revisions are still in negative territory. This means that there were more earnings estimates of analysts revised downwards than upwards. Decisive for this development seems to have been the continued firmness of the Yen that is weighing heavily on profit margins. The presentation of the quarterly results for 3Q very impressively showed that Japanese companies have been able to compensate the external burdening factors very well. Once again, the booming economies of Asia have been proven an increasingly important factor for Japanese exports. However, the predominantly positive quarterly figures were largely ignored due to the weak environment. Operationally, Japanese companies are doing very well, and this is proven by the successive upwards revisions of sales revenues estimates. This discrepancy should trigger some very positive earnings revisions should the Yen weaken.

Revision Ratio Topic

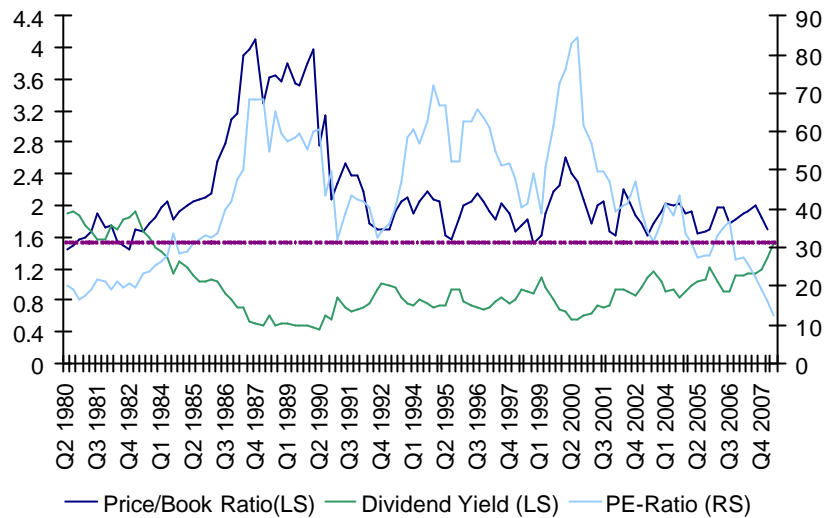


Source: JCF, Erste Bank estimates

Valuation levels are increasingly adjusting to the US and Europe; compared to their history, valuations are extremely attractive

The fundamental valuation of Japanese stocks is at a historically very attractive level. Thus, the dividend yields of 90% of the companies listed in Tokyo have already surpassed bond yields. Earnings yields also exceeded the yields on government bonds by a factor of 3.4 and this highlights the fact that stocks are clearly the most attractive asset class in Japan. Return-on-equity at 9.17% in the Nikkei index is also much higher than the long-year average of 4.5%. Moreover, more than 65% of all 4000 companies on the Tokyo Stock Exchange are trading below book value, and the price-to-book value ratio of the Nikkei has dropped to the lowest level since 1983, while the PER is the lowest since 1976. This is confirmed by the extremely attractive valuation in historic comparison as well as by the skepticism exhibited vis-à-vis Japanese stocks.

Longterm valuation level Japan



Source: Datastream

Technical analysis paints bright picture

The outlook for Japanese stocks has improved again enormously according to the charts. After the Nikkei vigorously broke through the massive support line at 14,000 points, it went on a fast downtrend that pushed it to below the mark of 12,000 points. However, there seems to be a Panic Low at 11,791 points, as the index has since recovered substantially. This was also confirmed by the Fibonacci Retracement, and furthermore, the individual technical indicators have perked up considerably ever since. The trend indicator MACD and momentum are pointing to rising prices again, and the short-term overbought/oversold indicators RSI and Stochastic are also pointing upwards. Thus, from a technical standpoint, we expect further upside potential, and for now, we believe the market has bottomed out.

Conclusion: Generally, the scenario is positive, but the weighting of Japanese stocks remains nonetheless neutral

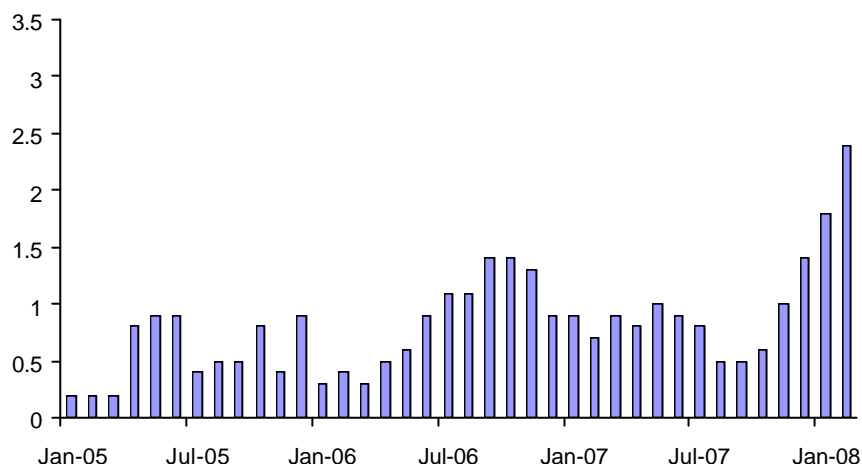
We assess the Japanese stock market as still very attractive. In our opinion, there is no need for any exaggerated pessimism, but the market is currently pricing in the worst-case scenario. The fact that Japanese stocks are massively underweighted in institutional and private portfolios as well as the enormous liquidity of Japanese investors could turn out to be the ingredients for a quick recovery of the Japanese stock market. Furthermore, the valuation level is at an all-time low compared to its own history, and the PERs have meanwhile reached the same level as those of European and US peers. Sales revenues and earnings growth rates are still attractive - despite some downwards revisions. The most important determinant will remain the further course of the Japanese Yen. As it seems unlikely at present that Japan will decouple from other major stock markets, Erste Bank analysts thus assess the Japanese stock market as neutral in the current international allocation. As regards sector allocation, we would recommend concentrating on the financial sector, which has been punished exaggeratedly harshly. Additionally, we expect the classical defensive sectors of pharmaceuticals and non-cyclical consumption to show relative strength.

Economy, bond market and currency

Effects of US crisis minor up to now

The events in the US have hardly had any effect on the Japanese economy up to now. Even though exports to the US posted losses, other sales markets were able to compensate a major portion of the losses, thus helping exports to continue to achieve solid growth rates. The domestic economy even improved in some areas in the past few months. Fulltime employment rates were up, for example, as well as wages. Consumption spending showed erratic fluctuations m/m, but after smoothing, the trend is clearly moving upwards. The downswing in the US poses a considerable risk in the coming months, even more so considering that the Japanese economy has proven how susceptible it can be in the past. The most recent Tankan Report, which is a quarterly survey of 10,000 companies, is already showing dimming sentiment. At the same time, the optimists among the persons interviewed still outweighed and the level of the respective index remained high in a multi-year comparison. Overall, the data of the past few months show that the Japanese economy is well prepared to cope with the negative factors from the US. The core assumption of our forecast for Japan is that the situation in the US is expected to stabilize in 2Q and the crisis will therefore be relatively short-lived. We believe that the Japanese economy has enough momentum to survive this phase. Even though it will not pass completely without effect on economic growth though, the Japanese economy should stay on the growth path.

Fulltime employment, y/y



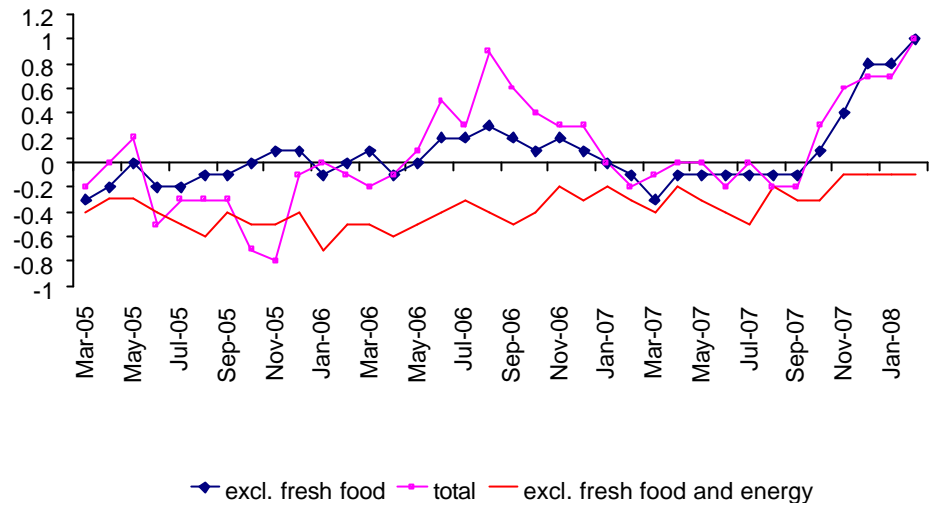
Source: Bloomberg

No pressure to act on the new Governor of the Bank of Japan

After lengthy political squabbles, Masaaki Shirakawa was appointed the new Bank of Japan Governor by Parliament. Shirakawa worked for the Bank of Japan for 34 years before he assumed a position teaching economics at the University of Kyoto a few years ago. The news of the appointment did not cause any reactions on the market, probably because of the limited scope for action for monetary policy in the current environment. The inflation rate rose in the past few months, but this was due exclusively to energy prices, i.e., external factors. Exclusive of energy, prices are decreasing albeit only marginally. Therefore, there is no reason for the central bank to raise interest rates further for now. Even if the economic data were to worsen, there would not be any reason in our view to tighten the screw in the other direction. Lower key lending rates starting out from 0.5% would hardly serve to stimulate the economy. If at all, there would be negative effects, because interest on savings deposits would decline. We therefore expect an unchanged key lending interest until into the second half of the year.

Global Strategy

Inflation, y/y



Source: Bloomberg

Gradual, further firming of yen

The most important determining factor for the yen exchange rate in the coming months will be the subdued risk tolerance in the markets. Carry trades are expected to be reduced further in this environment. The already much narrower interest rate spread to the US and the upcoming interest rate cuts by the ECB are also indications of this trend. We expect the downwards trend of the EUR/JPY exchange rate to continue, but as usual, the fluctuations around this movement will be considerable.

Economic Indicators

<i>GDP growth</i>	2006	2007e	2008f	2009f
Austria	3.3	3.4	2.1	1.7
Germany	3.1	2.7	1.8	2.3
France	2.2	1.9	1.9	2.2
Italy	1.9	1.9	1.1	1.8
Spain	3.9	3.8	2.5	2.5
Netherlands	3.0	3.4	2.8	2.7
Euroland	2.9	2.6	1.8	2.3
USA	3.3	2.2	1.8	2.4
Japan	2.2	2.0	2.2	2.4
Switzerland	2.7	2.5	2.3	2.2
Croatia	4.8	5.7	4.6	4.8
Czech Republic	6.4	6.6	4.3	5.4
Hungary	3.9	1.3	2.2	3.2
Poland	6.1	6.5	5.5	5.7
Romania	7.9	6.0	6.1	6.0
Slovakia	8.5	10.4	6.7	5.0

<i>Inflation</i>	2006	2007e	2008f	2009f
Austria*	1.5	2.2	2.9	2.3
Germany	1.8	2.3	2.4	2.0
France	1.8	1.6	2.3	1.9
Italy	2.4	2.0	2.6	2.2
Spain	3.1	2.8	3.3	3.0
Netherlands	2.6	1.6	2.6	2.6
Euroland	2.2	2.1	2.8	2.3
USA	3.2	2.8	2.7	2.2
Japan	0.3	0.0	0.5	1.0
Switzerland	1.1	1.6	1.8	2.0
Croatia	3.2	2.9	5.2	3.2
Czech Republic	2.5	2.9	6.1	4.3
Hungary	3.9	8.0	6.2	3.6
Poland	1.3	2.6	3.8	3.2
Romania	6.6	4.8	7.6	4.8
Slovakia	4.5	2.8	3.9	3.8

*national statistics

Source: Erste Bank estimates

Capital Market Forecasts

Exchange Rates

End of month	current	Jun-08	Sep-08	Dec-08	Mar-09
EUR/USD	1.570	1.52	1.47	1.40	1.38
EUR/JPY	160.7	155	144	140	138
USD/JPY	102.4	102	98	100	100
EUR/CHF	1.592	1.55	1.55	1.55	1.55
USD/CHF	1.014	1.02	1.05	1.11	1.12
EUR/HRK	7.273	7.20	7.25	7.30	7.25
EUR/PLN	3.460	3.55	3.60	3.55	3.51
EUR/SKK	32.40	32.5	32.5	32.5	-
EUR/RON	3.670	3.65	3.60	3.50	3.50
EUR/CZK	24.98	25.1	26.1	26.4	25.9
EUR/HUF	253.8	258	256	256	255

Money Market (3m)

End of the month	current	Jun-08	Sep-08	Dec-08	Mar-09
EURO	4.74	4.00	3.75	3.70	4.00
Japan	0.92	1.00	1.00	1.20	1.30
USA	2.71	2.00	2.10	2.20	2.30
Switzerland	2.87	2.50	2.25	2.25	2.50
Czech Republic	4.02	4.00	4.05	4.10	4.15
Hungary	8.29	8.20	7.70	7.40	7.20
Poland	6.28	6.00	5.95	5.95	5.90
Romania	10.49	10.50	10.10	9.50	8.50
Slovakia	3.97	3.85	3.70	3.70	4.00

Govt. Bond Yields (10Y)

End of the month	current	Jun-08	Sep-08	Dec-08	Mar-09
Germany	4.01	4.00	4.30	4.50	4.60
Austria	4.29	4.05	4.35	4.55	4.65
Spread to GE	0.28	0.05	0.05	0.05	0.05
USA	3.52	3.80	4.20	4.40	4.60
Croatia	5.80	5.60	5.40	5.30	5.20
Czech Republic	4.84	4.70	4.60	4.70	4.80
Hungary	7.88	7.60	7.00	6.70	6.50
Poland	6.03	5.95	5.80	5.80	5.55
Romania	10,2*	10.10	9.60	9.30	8.55
Slovakia	4.57	4.65	4.65	4.65	4.70

* 5Y Primary market

Source: Erste Bank estimates

International Equity Markets: EPS Growth and Valuation

	EPS Growth %			Price/Cashflow		
	2007e	2008e	2009e	2007e	2008e	2009e
USA	-3.1%	13.9%	15.8%	11.2	10.0	8.9
Euroland	3.7%	8.6%	9.6%	6.6	6.5	6.1
Germany	12.6%	7.2%	12.6%	6.7	6.1	5.6
France	0.8%	13.7%	9.5%	7.5	7.0	6.5
Netherlands	6.3%	-3.4%	5.5%	7.4	7.2	6.8
Switzerland	-13.3%	6.0%	26.9%	11.1	11.4	10.5
Japan	4.5%	5.5%	7.0%	6.6	6.3	6.0

Source: JCF

Emerging Markets: EPS Growth and Valuation

	EPS Growth %			Price/Cashflow		
	2007e	2008e	2009e	2007e	2008e	2009e
Brazil	14.1%	15.2%	20.9%	8.5	8.2	6.6
Argentina	-12.4%	19.2%	20.9%	7.8	n.a.	n.a.
Mexico	17.4%	5.8%	11.7%	9.5	8.3	8.0
	6.3%	13.4%	17.8%	8.6	8.2	7.3
India	22.4%	19.9%	15.9%	14.2	11.8	10.1
Malaysia	30.0%	12.6%	8.8%	8.2	9.1	8.4
Thailand	-9.2%	20.2%	14.0%	8.2	7.6	6.8
Korea	10.3%	17.3%	14.4%	8.5	7.8	7.2
Hs China Enterprise	40.2%	20.4%	10.9%	10.1	8.7	7.4
Hong Kong	32.5%	12.0%	11.8%	11.0	9.7	8.3
	21.1%	17.1%	12.6%	10.0	9.1	8.0
Hungary	-11.5%	10.6%	9.9%	6.0	5.8	5.5
Poland	20.2%	10.3%	9.3%	8.4	7.5	7.0
Czech Republic	38.1%	18.1%	10.9%	9.7	8.4	7.7
Russia	23.3%	15.2%	8.0%	8.4	8.3	7.4
	17.5%	13.6%	9.5%	8.1	7.5	6.9

Source: JCF

Global Strategy

Core-Investments: Strategic stock recommendations

Company	Exchange	Sector
AGNICO-EAGLE MINES	CN	Gold-Mining
BOMBARDIER INC 'B'	CN	Industrial
HUDBAY MINERALS	CN	Basic Materials
NORTHGATE MINERALS	CN	Gold Mining
OSISKO EXPLORATION	CN	Gold-Mining
ABERCROMBIE & FITCH CO-CL A	US	Consumer, Cyclical
BURLINGTON NORTHERN SANTA FE	US	Rail-Transport
JOHNSON & JOHNSON	US	Healthcare
MANITOWOC COMPANY INC	US	Industrial
MEMC ELECTRONIC MATERIALS	US	Technology
ORACLE CORP.	US	Software
PRECISION CASTPARTS CORP	US	Industrial
WRIGLEY	US	Food-Confectionery
UMICORE	BE	Basic Materials
ROCHE HOLDING GENUSSCHEIN	CH	Medical Drugs
PORSCHE AUTOMOBIL HOLDING	DE	Consumer Cyclical
RWE AG	DE	Utility
SIEMENS AG	DE	Industrial
SOLARWORLD AG	DE	Energy, Alternative
WARTSILA OYJ-B SHARES	FI	Industrial
VEOLIA ENVIRONNEMENT	FR	Utility
ALLIANZ SE-REG	GE	Financial
SGL CARBON AG	GE	Basic Materials
GAMESA CORP TECNOLOGICA SA	SP	Industrial
HENNES & MAURITZ AB-B	SW	Retail-Apparel
ALUMINUM CORP OF CHINA LTD-H	CH	Basic Materials
CHINA CONSTRUCTION BANK	HK	Financial
CHINA MOBILE LTD	HK	Communications
COSCO PACIFIC LIMITED	HK	Transportation
ESPRIT HOLDINGS LTD	HK	Consumer, Cyclical
LENOVO GROUP LTD	HK	Computer
ZIJIN MINING GROUP	HK	Gold-Mining
INFOSYS TECHNOLOGIES	IN	Software
JFE HOLDINGS INC	JN	Basic Materials
TOYOTA MOTOR CORP	JN	Consumer, Cyclical
SANYO ELECTRIC	JP	Electric Products
SONY CORP	JP	Consumer, Cyclical
HANMI PHARM CO LTD	SK	Consumer, Non-cyclical
PTT PLC	TH	Oil Integrated

Asset Allocation Q2 2008

Portfolio	Weightings Erste Bank
Cash	Overweight
Bonds	Neutral
Stocks	Underweight
International Bond-Portfolio ¹⁾	
Europe	Overweight
USA	Neutral
Japan	Underweight
High Yield/Emerging Markets	Neutral
International Equity-Portfolio ¹⁾	
Europe	Slightly overweight
USA	Underweight
Japan	Neutral
Emerging Markets	Overweight
FX-Allocation	
Dollar-Bloc	Neutral

¹⁾ Without consideration of currencies / markets in absolute terms

Published by Erste Bank der oesterreichischen Sparkassen AG Neutorgasse 17, OE 543
A-1010 Vienna, Austria. Tel. +43 (0)50100-ext.



Erste Bank Homepage: www.erstebank.at On Bloomberg please type: **ERBK <GO>**.

This research report was prepared by Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") or its affiliate named herein. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgement on the date of this report and are subject to change without notice. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, Erste Bank or its affiliates or the principals or employees of Erste Bank or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Erste Bank or its affiliates or the principals or employees of Erste Bank or its affiliates may from time to time provide investment banking or consulting services to or serve as a director of a company being reported on herein. Further information on the securities referred to herein may be obtained from Erste Bank upon request. Past performance is not necessarily indicative for future results and transactions in securities, options or futures can be considered risky. Not all transaction are suitable for every investor. Investors should consult their advisor, to make sure that the planned investment fits into their needs and preferences and that the involved risks are fully understood. This document may not be reproduced, distributed or published without the prior consent of Erste Bank. Erste Bank der oesterreichischen Sparkassen AG confirms that it has approved any investment advertisements contained in this material. Erste Bank der oesterreichischen Sparkassen AG is regulated by the Financial Services Authority for the conduct of investment business in the UK.

Please refer to www.erstebank.at for the current list of specific disclosures and the breakdown of Erste Bank's investment recommendations.

Contacts

Group Research

Head of Group Research

Friedrich Mostböck, CEFA +43 (0)5 0100 - 11902

CEE Equity Research

Co-Head: Günther Artner, CFA +43 (0)5 0100 - 11523

Co-Head: Henning Eßkuchen +43 (0)5 0100 - 19634

Günter Hohberger (*Banks*) +43 (0)5 0100 - 17354

Franz Hörl, CFA (*Steel, Construction*) +43 (0)5 0100 - 18506

Gernot Jany, CFA (*Banks, Real Estate*) +43 (0)5 0100 - 11903

Daniel Lion (*IT*) +43 (0)5 0100 - 17420

Martina Valenta, MBA (*Transp., Paper*) +43 (0)5 0100 - 11913

Christoph Schultes (*Insurance, Utilities*) +43 (0)5 0100 - 16314

Vera Sutedja, CFA (*Telecom*) +43 (0)5 0100 - 11905

Vladimira Urbankova (*Pharma*) +43 (0)5 0100 - 17343

Gerald Walek, CFA (*Machinery*) +43 (0)5 0100 - 16360

International Equities

Hans Engel (*Market strategist*) +43 (0)5 0100 - 19835

Ronald Stöferle (*Asia*) +43 (0)5 0100 - 11723

Jürgen Rene Ulamec, CEFA (*Europe*) +43 (0)5 0100 - 16574

Macro/Fixed Income Research

Head: Veronika Lammer (*Euroland, SW*) +43 (0)5 0100 - 11909

Alihan Karadagoglu (*Corporates*) +43 (0)5 0100 - 19633

Rainer Singer (*US, Japan*) +43 (0)5 0100 - 11185

Elena Stelov, CIIA (*Corporates*) +43 (0)5 0100 - 19641

Macro/Fixed Income Research CEE

Co-Head CEE: Juraj Kotian (*Macro/FI*) +43 (0)5 0100 - 17357

Co-Head CEE: Rainer Singer (*Macro/FI*) +43 (0)5 0100 - 11185

Editor Research CEE

Brett Aarons +420 2 24995 - 904

Research, Croatia/Serbia

Head: Mladen Dodig +38 1 112200 - 866

Damir Cukman (*Equity*) +38 5 6237 - 2820

Ivan Gojnic (*Equity*) +38 1 112200 - 852

Alen Kovac (*Fixed income*) +38 5 6237 - 1383

Uros Mladenovic (*Equity*) +38 1 112200 - 872

Davor Spoljar (*Equity*) +38 5 6237 - 2825

Research, Czech Republic

Head: David Navratil (*Fixed income*) +420 2 24995 - 439

Petr Bartek (*Equity*) +420 2 24995 - 227

Maria Hermanova (*Fixed income*) +420 2 24995 - 232

Lenka Slamova (*Equity*) +420 2 24995 - 289

Radim Kramule (*Equity*) +420 2 24995 - 213

Martin Lobotka (*Fixed income*) +420 2 24995 - 192

Lubos Mokras (*Fixed income*) +420 2 24995 - 456

Jakub Zidon (*Equity*) +420 2 24995 - 340

Research, Hungary

Head: József Miró (*Equity*) +36 1 235 - 5131

Zoltan Arokszállasi (*Equity*) +36 1 235 - 5135

Mihaly Tatar (*Equity*) +36 1 235 - 5134

Orsolya Nyeste (*Fixed income*) +36 1 373 - 2830

Research, Poland

Head: Artur Iwanski (*Equity*) +48 2 23306 - 253

Magda Jagodzinska (*Equity*) +48 2 23306 - 250

Marcelina Hawryluk (*Equity*) +48 2 23306 - 255

Tomasz Kasowicz (*Equity*) +48 2 23306 - 251

Piotr Lopaciuk (*Equity*) +48 2 23306 - 252

Marek Czachor (*Equity*) +48 2 23306 - 254

Research, Romania

Head: Lucian Claudiu Anghel +40 2 1312 - 6773

Mihai Caruntu (*Equity*) +40 2 1311 - 2754

Dumitru Dulgheru (*Fixed income*) +40 2 1312 6773 - 1028

Cristian Mladin (*Fixed income*) +40 2 1312 6773 - 1028

Loredana Oancea (*Equity*) +40 2 1311 - 2754

Raluca Ungureanu (*Equity*) +40 2 1311 - 2754

Research, Slovakia

Head: Juraj Barta (*Fixed income*) +42 1 25957 - 4166

Michal Musak (*Fixed income*) +42 1 25957 - 4512

Maria Valachyova (*Fixed income*) +42 1 25957 - 4185

Research, Ukraine

Viktor Stefanyszyn (*Fixed income*) +38 044 593 - 1784

Roman Oliynyk (*Fixed income*) +38 044 593 - 9188

Institutional Sales

Head of Sales Equities & Derivatives

Michal Rizek +44 207 623 - 4154

Brigitte Zeitlberger-Schmid +43 (0)5 0100 - 83123

Equity Sales Vienna XETRA & CEE

Hind Al Jassani +43 (0)5 0100 - 83111

Werner Fuerst +43 (0)5 0100 - 83114

Josef Kerekes +43 (0)5 0100 - 83125

Cormac Lyden +43 (0)5 0100 - 83127

Stefan Raidl +43 (0)5 0100 - 83113

Simone Rentschler +43 (0)5 0100 - 83124

Sales Derivatives

Christian Luig +43 (0)5 0100 - 83181

Manuel Kessler +43 (0)5 0100 - 83182

Sabine Kircher +43 (0)5 0100 - 83161

Christian Klikovich +43 (0)5 0100 - 83162

Armin Pfingstl +43 (0)5 0100 - 83171

Roman Rafeiner +43 (0)5 0100 - 83172

Equity Sales, London

Dieter Benesch +44 207 623 - 4154

Tatyana Dachyshyn +44 207 623 - 4154

Jarek Dudko, CFA +44 207 623 - 4154

Federica Gessi-Castelli +44 207 623 - 4154

Declan Wooloughan +44 207 623 - 4154

Sales, Croatia

Zeljka Kajkut (*Equity*) +38 5 6237 - 2811

Damir Eror (*Equity*) +38 5 6237 - 2813

Sales, Czech Republic

Michal Brezna (*Equity*) +420 2 24995 - 523

Ondrej Cech (*Fixed income*) +420 2 24995 - 577

Michal Rizek +420 2 24995 - 537

Jiri Smehlik (*Equity*) +420 2 24995 - 510

Pavel Zdichynec (*Fixed income*) +420 2 24995 - 590

Sales, Hungary

Gregor Glatzer (*Equity*) +36 1 235 - 5144

Krisztián Kandik (*Equity*) +36 1 235 - 5140

Istvan Kovacs (*Fixed income*) +36 1 235 - 5846

Sales, Poland

Head: Andrzej Tabor +48 2 23306 - 203

Pawel Czuprynski (*Equity*) +48 2 23306 - 212

Lukasz Mitan (*Equity*) +48 2 23306 - 213

Jacek Krynski (*Equity*) +48 2 23306 - 218

Sales, Slovakia

Head: Dusan Svitek +42 1 25050 - 5620

Rado Stopiak (*Derivatives*) +42 1 25050 - 5601

Andrea Slesarova (*Client sales*) +42 1 25050 - 5629

Treasury - Erste Bank Vienna

Sales Retail & Sparkassen

Head: Manfred Neuwirth +43 (0)5 0100 - 84250

Equity Retail Sales

Head: Kurt Gerhold +43 (0)5 0100 - 84232

Domestic Sales Fixed Income

Head: Thomas Schaufler +43 (0)5 0100 - 84225

Treasury Domestic Sales

Head: Gottfried Huscava +43 (0)5 0100 - 84130

Corporate Desk

Head: Leopold Sokolicek +43 (0)5 0100 - 84601

Alexandra Blach +43 (0)5 0100 - 84141

Roman Friesacher +43 (0)5 0100 - 84143

Helmut Kirchner +43 (0)5 0100 - 84144

Christian Skopek +43 (0)5 0100 - 84146

Fixed Income Institutional Desk

Head: Thomas Almen +43 (0)5 0100 - 84323

Martina Fux +43 (0)5 0100 - 84113

Michael Konczer +43 (0)5 0100 - 84121

Ingo Lusch +43 (0)5 0100 - 84111

Ulrich Inhofner +43 (0)5 0100 - 84324

Karin Rauscher +43 (0)5 0100 - 84112

Michael Schmotz +43 (0)5 0100 - 84114