Erste Group Research
Global Strategy | All Assets | Global
July 2021

Global Strategy 3Q 2021

Central banks and economic stimulus programs are supporting the economic recovery, with the expansion exhibiting much stronger momentum in the US than in the euro zone. Higher inflation rates are considered to be transitory and the monetary policies of the ECB and the Fed remain expansionary. Investment classes with higher risk appear attractive in this environment. We continue to favor investments in equities and corporate bonds from the BB-rated segment as well as BB-rated hybrid bonds issued by IG-rated corporations.

Investment Strategy 3Q 2021:

Govt. bond yields	Sept. 2021
Germany (10Y)	-0.10
USA (10Y)	2.00

Currencies	Sept. 2021
EURUSD	1.18
CHF	1.11

Equity Performances		Sept. 2021
Global	➚	0%/ +5%
Europe	➚	0%/ +5%
USA	➚	0%/ +5%

Source: Erste Group Research

Economic Outlook

Sustained steps toward opening up the economy support the expansion in the services sector and thus the dynamic economic recovery. In the 2nd half of the year the euro zone economy should benefit from the first injection of funds from the EU recovery plan. Despite expected growth rates of 4.4% for 2021 and 4.1% for 2022, we estimate that the euro zone economy will not approach its potential before the end of 2022 at the earliest. This means that price pressures will remain low over the medium term, even though inflation will rise significantly this year due to base effects and special factors. In the US stimulus packages are heating up the economy and effects from the restart of the economy are pushing inflation rates up. However, the rise in inflation rates over the course of this year should be transitory. The reason is that after initial teething problems, the supply side should realign itself with demand again.

Bonds

The ECB is not yet satisfied with the expected pace of inflation rates in the medium term and maintains its expansionary monetary policy. In the autumn its new monetary policy strategy will be published and we expect indications regarding the continuation of the PEPP program after March 2022. Due to a muted inflation outlook coupled with securities purchases, we expect yields on 10-year German Bunds to increase only moderately. The Fed classifies currently elevated inflation data as transitory, but acknowledges progress in the labor market. Interest rate expectations have shifted slightly forward. As the US economy is already operating close to is potential, inflation risks are higher than in the euro zone as well. We expect tapering of securities purchases in the US from January 2022 onward. Given the data and risks, we therefore regard yields on US treasuries with medium and long term maturities as too low and expect a significant increase in coming months.

Currencies

Economic optimism combined with expansionary central bank policy is leading to a sideways move in the gold price, particularly as stock market investments appear much more attractive. The economic recovery and purchasing power parities suggest that the Swiss franc will weaken against the euro. Interest rate differentials justify a EURUSD exchange rate of 1.2 in coming months.

Stocks

The uptrend in the global stock market index is likely to continue due to expectations for strong revenue and earnings growth and we anticipate developed markets to outperform emerging markets in 3Q. We continue to view potential setbacks in the benchmark indexes as buying opportunities. The global stock market index should achieve a gain in a range of 0% to +5% in 3Q.

Prices as of
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Note:
Our estimates are in absolute and not in relative terms. Bond yields and equity market returns in local currencies. Past performance is not a reliable indicator of future performance.

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Investment Strategy 3Q 2021

Yields			Estimates			
		current	3Q21	4Q21	1Q22	2Q22
10y. Govt. bonds	**Germany**	-0.23	**-0.10**	0.00	0.00	0.10
	Austria	-0.03	**0.10**	0.20	0.20	0.30
	US	1.43	**2.00**	2.10	2.10	2.20
	CEE					
	Czech Republic	1.72	**1.81**	1.91	2.02	2.12
	Hungary	2.86	**2.88**	2.95	3.00	3.09
	Poland	1.72	**1.80**	1.90	2.00	2.10
	Romania	3.45	**3.45**	3.45	3.50	3.55

Source: Erste Group Research estimates

Currencies			Estimates			
		current	3Q21	4Q21	1Q22	2Q22
Global	**EURUSD**	1.19	**1.18**	1.20	1.20	1.20
	CHF	1.09	**1.11**	1.12	1.13	1.14
	Gold (USD)	1,730	**1,760**	1,780	1,820	1,820
CEE	**CZK**	25.6	**25.4**	25.3	25.1	25.0
	HUF	351	**350**	350	350	350
	PLN	4.51	**4.48**	4.45	4.42	4.38
	RON	4.93	**4.94**	4.98	4.99	5.03

Source: Erste Group Research estimates

Equities		Estimate 3Q 2021	min	max	FX
Global *		↗	0%	+5%	USD
	Europe	↗	0%	+5%	EUR
	USA	↗	0%	+5%	USD
Emerging Mkts.	**CEE**	↗	0%	+5%	EUR
	BRICs				
	Brazil	↗	0%	+5%	BRL
	Russia	↗	0%	+5%	RUB
	India	↗	0%	+5%	INR
	China	↗	0%	+5%	CNY
Sectors	Technology	↗	0%	+5%	USD
	Consumer Discretionary	↗	0%	+5%	USD
	Financials	↗	0%	+5%	USD
	Health Care	↗	0%	+5%	USD
	Industrials	↗	0%	+5%	USD
	Consumer Staples	↗	0%	+5%	USD
	Utilities	↘	-5%	0%	USD
	Telecom	↘	-5%	0%	USD
	Energy	↗	0%	+5%	USD
	Basic Resources	↗	0%	+5%	USD

Source Market data provider, Erste Group Research estimates

Euro Zone Economic Outlook

Focus of recovery shifts toward services

At present the euro zone economy is benefiting from sustained steps toward reopening the services sector. This is made possible by a rapid decline in COVID-19 case numbers, which are mainly the result of rapid progress in vaccination campaigns in all countries and positive seasonal effects. Sentiment indicators and mobility data point to dynamic growth in 2Q after the slight decline in GDP in 1Q. Since we do not expect any further significant restrictions to be imposed from 3Q, the momentum of growth should be maintained this quarter. However, the focus of the recovery will shift from manufacturing to the services sector. This shift should contribute to a general easing of bottlenecks in global supply chains.

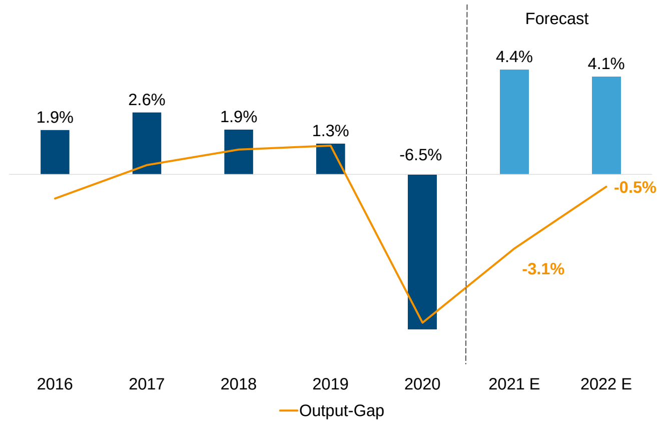
GDP growth 2021: +4.4%

On the component level, primarily consumer spending should be able to benefit from the reopening of the services sector. In the 2nd half of the year, the euro zone economy should be supported by the distribution of the first funds from the EU recovery plan. Relative to their economic output, particularly countries such as Greece, Portugal, Spain and Italy will benefit quite significantly from these grants. The targeted use of these funds in sustainable public investment projects should boost the longer-term growth prospects of these countries as well. In our opinion this will improve the economic and political stability of the euro zone.

Temporary increase in core inflation in the 2nd half

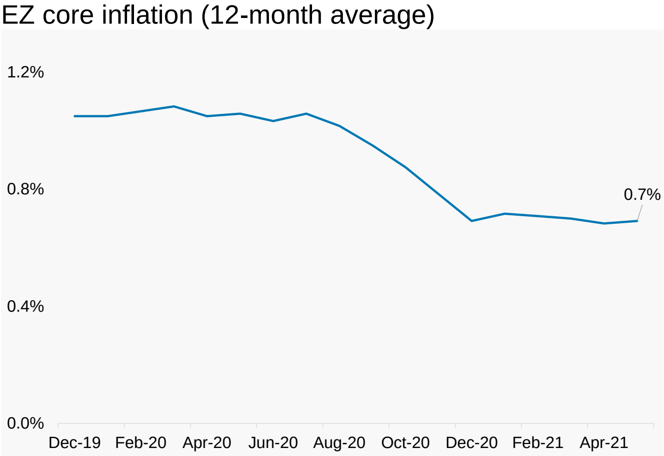
Despite expected dynamic growth rates of 4.4% for 2021 and 4.1% for 2022, we believe the euro zone economy will not approach its potential until the end of 2022 at the earliest. Hence the under-utilization of resources in the economy will remain substantial, and we do not expect sustained upward pressure on wages and prices before 2023. However, we do expect a strong transitory increase in core inflation rates in the 2nd half of this year due to base effects (triggered by the pandemic). At the beginning of 2022, core inflation should level out just above the 1% mark again.

Underutilization remains until 2022
EZ GDP growth vs. Output-Gap



Source: Eurostat, EC, Erste Group Research

Increase expected in the 2nd half of year
EZ core inflation (12-month average)



Source: Eurostat, Erste Group Research

US Economic Outlook

Economic boom in the US

Economic expansion continues

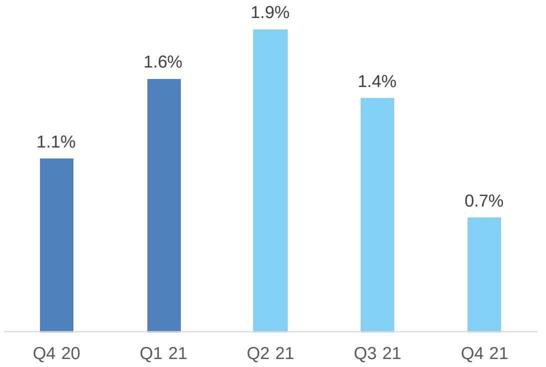
As expected, strong economic growth was posted in the first quarter on the back of two economic stimulus programs. The second stimulus package, in combination with further steps to open up the economy, at a minimum suggests that economic growth will accelerate again in the second quarter. The outlook for the third quarter, which has just begun, is positive as well. The US economy is in a phase in which it is massively boosted by stimulus programs and steps toward reopening economic activity. While the associated effects could weaken somewhat, the third quarter is still expected to exhibit strong growth. However, from the perspective of market participants the decisive issue is not economic growth, but rather inflation.

Increase in inflation rates strong, but transitory

A significant rise in inflation rates in the spring was foreseeable for a long time, as price levels - particularly in the energy sector - had temporarily collapsed after the outbreak of the crisis in 2020. However, surprisingly the increase in inflation rates in April and May was fueled by enormous price increases in other product categories as well. Prices of used cars e.g. rose by more than 16% in these two months, airline tickets by almost 27%, and overnight accommodations by 7%. The fact that price increases were concentrated in relatively few areas which can be attributed to the ramp-up of the economy argues against a sustained strong upturn in prices. At the same time, the recovery phase in the US has not ended yet, so it is not clear what bottlenecks will remain for how long on the supply side, and how strong an increase in demand is yet to come. US consumers have accumulated a large amount of savings in the course of the crisis. For us, the most likely scenario remains that the surge in inflation rates in the course of this year will be transitory. The reason is that the supply side - after initial teething problems - should realign itself with demand again. With respect to demand, we do not expect any major catch-up effects, as this is unlikely in services, which represented the bulk of foregone consumption during the crisis. However, our estimates are subject to a great deal of uncertainty. This is because there is no experience with such a strong upturn in an economy that is already operating close to its potential.

Peak in economic growth in the 2nd quarter

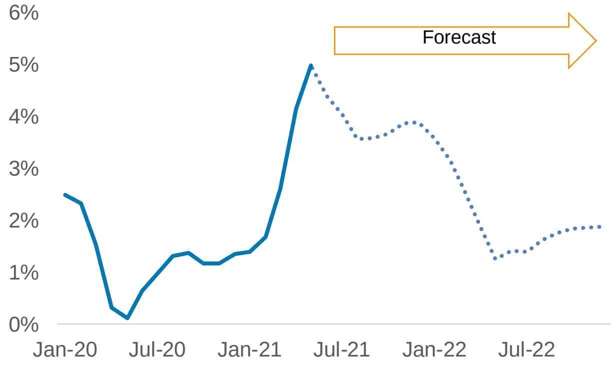
Real GDP growth, q/q in %



Source: Bureau of Economic Analysis, Erste Group Research

Base effects and opening up of economy trigger massive surge in inflation

Inflation y/y in %



Source: Bureau of Labor Statistics, Erste Group Research

CEE Economic Outlook

Given better than expected 1Q21 GDP data, stronger global economic outlook and the brisk reopening of CEE economies stemming from improved epidemiological situation, we have raised our 2021 GDP growth forecast to 5.1% from 3.8% a quarter ago. So far, the recovery has been mostly driven by industrial output, exports of goods and government consumption, while household consumption was depressed by restrictive measures and uncertainty. This is going to change in the coming quarters, as we expect a strong recovery in household spending. Moreover, some countries have been receiving a strong boost from public investments. In our view, CEE economies could reach their pre-COVID GDP levels in the next few quarters, with most of them achieving that in the second half of the year.

Although there are still risks associated with another pandemic wave, this time may be different. Two key indicators may help in assessing the necessity of restrictive measures and may render them regional rather than nationwide: the number of hospitalizations and the vaccine uptake. The larger the latter, the more contained may be the former. Progress in vaccination should significantly reduce both health and economic costs compared to previous waves. We assume that the Recovery and Resilience Facility will only have a limited impact on growth in 2021; more visible impact can be expected from 2022 onwards. The most tangible risk to our forecasts at this moment is seen on the supply side, where industrial production can be limited by shortages of intermediary products (i.e. semiconductors) and increases in input prices.

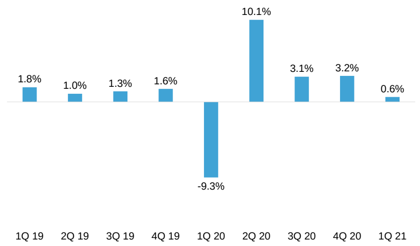
Many of the current high readings have been strongly determined by the base effect and well-anticipated. Moreover, we can see that the supply side needs more time to adjust in order to satisfy the abrupt increase of demand. In the meantime, price inelastic pent-up demand will allow some spillover of higher producer prices into consumer prices. Once the supply side adjusts, pent-up demand is met and governments start to phase out their fiscal support, the economic environment should be less inflationary. We expect inflation to remain above its target in many CEE countries both this year and next.

BRIC Economic Outlook

China

In Q1, GDP growth momentum slowed to +0.6% quarter-on-quarter. Previously, China's economy recorded significantly above-average growth rates in 2H 2021 in the course of the catch-up process. We expect the momentum of quarterly growth in coming quarters to level out at around +1.5%, close to the long-term average. This corresponds to an annualized growth rate of around +6%.

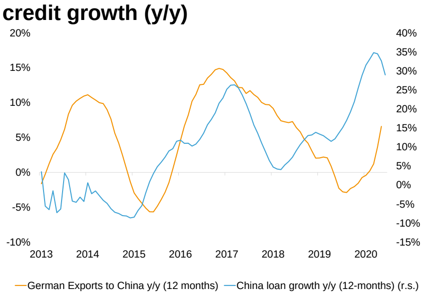
China: GDP growth, q/q



Source: Statistics China, Erste Group Research

In the short term, a slowdown in credit growth suggests a slight decline in the momentum of economic growth in coming months. According to the assessment of China's central bank (PBoC for short), the economy is already close to its potential growth rate again. The stable development of the economy is a top priority for the PBoC. In order to achieve this goal it is therefore prepared to adapt its monetary policy measures at any time. Should the dampening effect on economic growth from the decline in credit growth turn out to be too strong, we would therefore expect the PBoC to ease monetary policy accordingly. However, at present the strong increase in German exports to China shows that the cyclical upswing remains in full swing.

GER growth of exports to China vs. China credit growth (y/y)

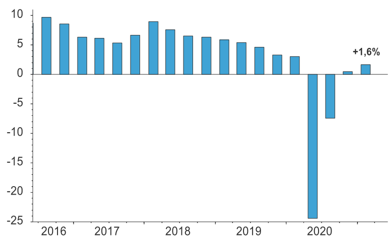


Source: PBoC, Statistics Gerrmany, Erste Group Research

In the medium term, China's economy is in a transition phase. In the future, the focus of growth will shift from quantity to quality. For example, China wants to be a CO2-neutral economy by 2060. The aging population poses a challenge and is regarded as a future inflation-dampening factor by the PBoC.

India

India: GDP y/y %

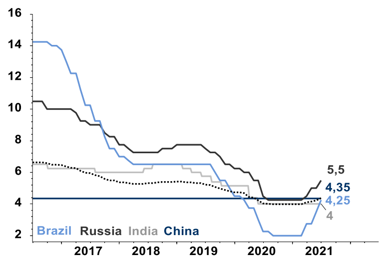


Source: Datastream, Erste Group Research

After an improvement in the economic situation in 1Q (GDP: +1.6% y/y), there was a significant economic slump in 2Q due to the Corona crisis in the country. The June purchasing managers' index declined to 48.1 points (May: 50.8). The decline was moderate compared to the first half of 2020, but put an end to a 10-months long growth phase. However, a significant decrease in the number of infections and the gradual lifting of lockdowns since early June show that the situation is improving. In the current fiscal year to March 2022, the Reserve Bank of India (RBI) expects GDP growth of +9.5%.

At its last meeting in early June, the RBI continued to leave the repo rate unchanged at an all-time low of 4%, in line with expectations. At the same time, the intention to maintain an accommodative policy stance for as long as necessary was reiterated. In view of COVID-19-related risks, the RBI is expected to postpone a rate hike until mid-2022. Furthermore, additional purchases of government bonds in the amount of EUR 13bn were announced for 3Q.

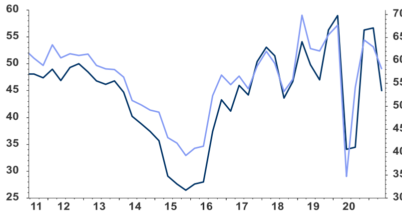
BRICs policy rates



Source: Datastream, Erste Group Research

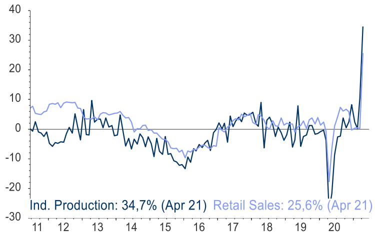
The inflation rate increased to 6.3% in May. The increase in the price level slightly exceeds the central bank's target range of 2% to 6%. For the fiscal year 21/22 as a whole, the RBI expects inflation to reach 5.1%. The Indian rupee traded slightly lower (-1.8%) against the USD in the second quarter at a level of around INR 74.4. Yields on 10-year Indian government bonds moved sideways in the past three months and remain at approximately 6.0%. 2-year government bonds currently yield 4.3%.

Brazil: Industrial Entrepreneur Confidence Index



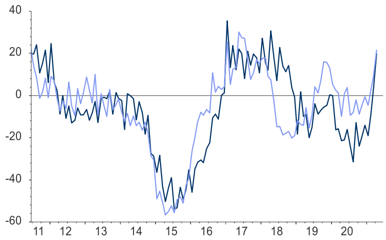
Source: Datastream, Erste Group Research

Brazil: Industrial production and retail sales year-on-year



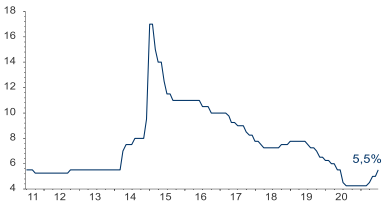
Source: Datastream, Erste Group Research

Russia: Both imports and exports grow (y/y)



Source: Datastream, Erste Group Research

Russia: Refinancing rate



Source: Datastream, Erste Group Research

Brazil

The continued proliferation of COVID-19 cases is weighing heavily on Brazil. As a result, economic growth estimates have improved only moderately in recent months. GDP growth of +4% is expected in 2021 (y/y). Next year, the growth rate is estimated to slow to +2.3% (y/y).

According to consensus forecasts, industrial production is expected to grow by +5.1% (y/y) this year. Next year the expansion is estimated to slow to +2.5%. Purchasing managers' indexes have recently declined. Both the assessment of current economic conditions and expectations for future business prospects have deteriorated.

Due to the COVID-19 pandemic, the unemployment rate remains high. Most recently it stood at 14.1%. A decrease is not expected before 2022. It is estimated to decline to 12.9% by then. Consumer spending is estimated to grow by a mere +3.8% this year. The recent very strong recovery (y/y) in retail sales reported in April is not sustainable.

The budget deficit will be very large this year. It is forecast to reach -7.9% of GDP. By contrast, the current account should be almost in balance this year. A level of -0.2% of GDP is expected. The SELIC rate has already been hiked three times since March. It currently stands at 4.25%. The consensus is calling for further increases to 5.7% by the end of the year.

Russia

A GDP growth rate of +3.3% (y/y) is expected for this year. Thus Russia exhibits the lowest GDP growth rate among the BRIC nations this year. Industrial production is expected to grow by +3.8% (y/y) this year, making up for the moderate decline in the previous year.

The unemployment rate is expected to decline this year as well. It should drop to 5.2% and to 4.7% next year. Consumer spending is expected to grow strongly this year. For 2021, a growth rate of +6.3% (y/y) is anticipated. Consumer price inflation is expected to reach +5.3% (y/y) in 2021. A downtrend is expected to take hold over the next few quarters. By the end of next year, consumer price inflation should reach +5.0% (y/y).

Government consumption is growing very slowly. It is expected to increase by +1% (y/y) in 2021. The current account is benefiting from higher energy and commodity prices. A surplus of +3.8% of GDP is therefore expected this year. The budget deficit is forecast to be low this year at just -1.1% of GDP. According to consensus estimates, the refinancing rate will be hiked to 5.65% by the end of the year. The ruble is expected to strengthen slightly against the USD in the course of the year as a result of the improvement in the economy's performance.

Euro Zone	Yield Forecast 3Q 2021
ECB Main Refinancing Rate	0.00 %
German Bund	-0.1 % (10-yr.)

Important ECB decisions due in the autumn

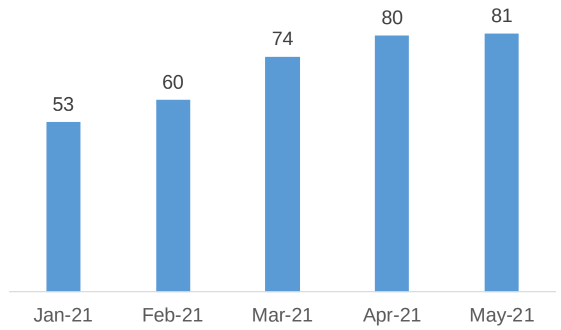
ECB should gradually taper asset purchases

The next major ECB decision is scheduled for September. On that occasion the ECB Council will decide on the level of asset purchases under the PEPP program for the fourth quarter. If our forecast that there will only be a marginal increase in yields materializes by then, we expect the pace of monthly securities purchases to be reduced to the level prevailing at the beginning of the year, i.e., from around EUR 80bn to EUR 55bn. The inflation outlook of the ECB, which is not quantified, should have improved to such an extent by then that the ECB Council regards favorable financing conditions (which are not quantified either) as safeguarded. This is the condition for tapering securities purchases. We also expect concrete indications in the autumn as to how the PEPP purchase program will continue after March 2022, its specified minimum duration. The PEPP program, which after all is defined as a response to the COVID-19 crisis, should end in March, but the APP purchase program should be enlarged concurrently. All in all, this should result in a reduction in monthly securities purchases. Before the end of the year, the ECB Council will also present the outcome of the Strategy Review. One of the results will most likely be a new inflation target of 2% aiming for moderate overshooting, after a phase of undershooting. This change implies a slower monetary policy response to a future increase in inflation. However, as inflation at present remains far below the current target level, the new inflation objective of the ECB should have no immediate impact on the interest rate outlook.

Uncertainty in bond markets

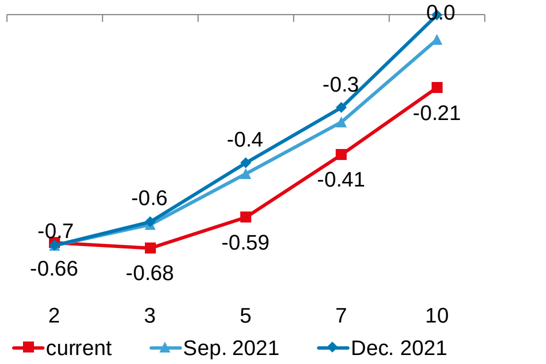
On the one hand the bond markets will be driven by a central bank that will scale back its highly expansive monetary policy only very slowly and on the other hand by a strong economy and rising inflation rates. In addition to this, negative signals could emanate from the US as well. All of this suggests a volatile market. However, ultimately the view that inflation will once again decline next year and should thereafter rise only very slowly is likely to prevail. Coupled with continued, albeit smaller, securities purchases by the ECB, yields on medium and long term maturities in the bond market should at most increase moderately.

ECB should reduce securities purchases again
Securities purchases under PEPP, in EUR billion



Source: ECB, Erste Group Research

Slight increase in yields until the end of the year
German government bond yields by maturity, in %



Source: Market information systems, Erste Group Research

US	Yield Forecast 3Q 2021
Federal Funds Rate	0.0 – 0.25 %
US Treasuries	2.0 % (10yr.)

Substantial risks for US interest rate markets

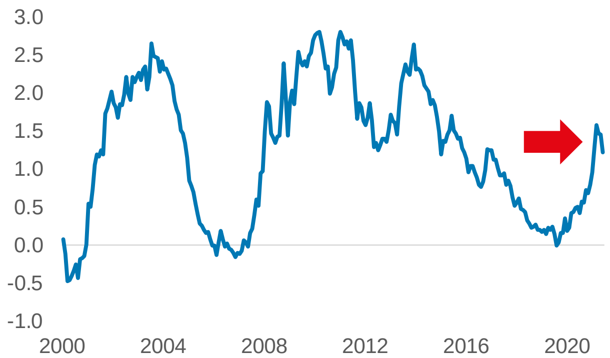
Rising inflation poses risks

Despite very strong economic growth, which had generally been expected and a strong rise in inflation, the extent of which came as a surprise, there has been no change in the Fed's monetary policy over the past few months. The central bank regards elevated inflation, which reached 5% in May, as transitory. This is obvious with respect to the contributions from the comparatively low base of the previous year. However, inflation was also fueled by massive spikes in prices in April and May of this year. These were for the most part confined to a few areas and were attributed to the ramping up of the economy - and the central bank therefore classified them as transitory as well. Accordingly, there was no reason for the Fed to tighten monetary policy. From the central bank's perspective economic data have improved just enough to begin a discussion about tapering its monthly securities purchases. We concur with the view of the central bank and expect inflation rates to ease significantly next year. At the same time there nevertheless remains a high degree of uncertainty, as indicated by the surprisingly strong price increases in April and May. For an economic upswing like the one we are currently experiencing, there is a lack of empirical data. We expect tapering to begin in January 2022, but additional releases of surprisingly high inflation data could bring this date forward. We expect interest rate hikes from mid-2023 onward, but there is certainly a risk of an earlier change in policy (end of 2022) in this context as well.

Bond market yields too low

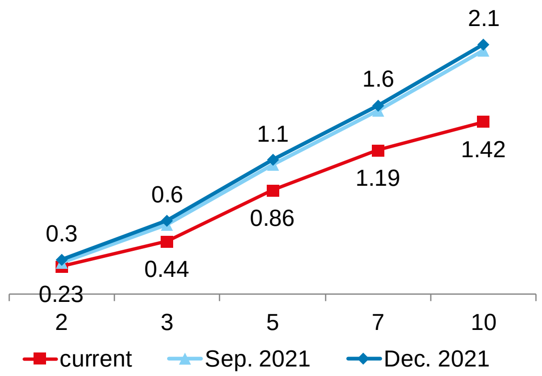
The bond market has followed the lead of the central bank surprisingly closely so far. Despite the above-mentioned data, yields have for the most part declined over the past few months, albeit on the heels of a strong preceding increase. A relatively flat slope of the yield curve by historical standards indicates to us that yields on medium to long term maturities are too low. In our view, the currently extant high risks would justify an appropriate maturity premium and a very steep yield curve. We therefore regard yields on US treasuries with medium to long tenors as too low and expect a significant increase over coming months.

Environment argues for steeper yield curve
Yield spread 10Y - 2Y, in %.



Source: Market data providers, Erste Group Research

Risks priced too low
US government bond yields by maturity, in %



Source: Market data providers, Erste Group Research

CEE Government Bonds	Yield Forecast 3Q 2021
Czech Republic	1.81% (10Y)
Hungary	2.88% (10Y)
Poland	1.80% (10Y)
Romania	3.45% (10Y)

The Czech and Hungarian central banks have already delivered their first rate hikes to 0.5% and 0.9%, respectively, in June and are expected to continue on the path of monetary tightening. The CNB could enact 1-2 more hikes this year, with further increases next year, thus bringing the key rate up to 1.75% by end-2022. The MNB should increase its key rate in several steps towards 1.35% by end-September via carrying out hikes of 15bp at each rate-setting meeting and push the rate to 1.5% by the end of this year. The Polish central bank will try to delay its first 15bp rate hike to 4Q21 and raise the key rate to 0.5% by June 2022.

While global yield increases and surging inflation pushed LCY yields visibly up in 1Q21 across CEE region, the upward move was less pronounced in the second quarter. Curves flattened further in Czechia, Hungary and Poland, as monetary tightening has been priced in. In other CEE countries we could observe the curve steepening.

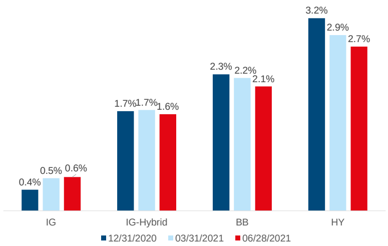
Beginning of monetary tightening was positive for the Czech koruna and Hungarian forint. In our view, space for further strong appreciation of the koruna in 2H21 is limited. Thus, we expect EURCZK to move toward 25.20 until the year-end. We believe that the Hungarian central bank will tolerate a stronger forint amid inflation risks pointing to the upside. We see the EURHUF hovering around 350 until the end of the year. The Polish zloty should benefit from expected tightening as well and move toward 4.40 vs. the EUR by year-end.

While the CZK, HUF and PLN are to remain stable or to get stronger by the end of the year, the Romanian leu will likely weaken due to the widening of the CA deficit. Given strong presence of the National Bank of Serbia on the FX market, we expect the Serbian dinar to remain unchanged. In Croatia, two dates of euro adoption are being discussed – 2023 and 2024. The ongoing suspension of fiscal rules until 2022 also provides more maneuvering space, as Croatia has not been put under the EDP and thus formally has not breached the fiscal criteria on euro adoption.

EUR-Corporate Bonds
Investment Grade
High Yield

IG bond yields continued to increase slightly in 2Q

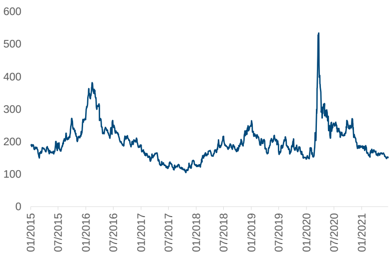
Average yields in %



Source: Market data providers, Erste Group Research (internal calculations)
As of 28 June 2021

By hist. standards BB- bonds are not overpriced vs. BBB-rated bonds

Credit spreads on BB- minus credit spreads on BBB bonds, in bps



Diversified investments in the HY segment remain top choice

In 2Q 2021, high-yield (HY) bonds (+1.4%) once again generated higher returns than investment grade (IG) hybrid (+0.9%) and senior IG corporate bonds (0.3%). Thanks to the favorable growth outlook, as reflected in further increases in leading economic indicators, credit spreads in the HY and IG hybrid segments tightened. Recently the services sector was one of the major drivers, as it benefited from lockdowns coming to an end. Bonds from the travel & leisure sector are recovering. The consensus expects the net debt/EBITDA ratio in this sector to decrease almost to end-2019 levels by the end of 2022.

In contrast to HY bond yields, IG corporate bond yields have been rising slightly since the beginning of the year. This is driven by rising German Bund yields, which reflect the economic recovery. Credit spreads in the IG segment are stagnating despite net purchases by the ECB, which holds more than 25% of its defined IG target market by now.

While HY spreads are close to their early 2018 lows, they were already lower relative to IG spreads in the past (see the chart on the spread differential between BB and BBB-rated bonds). The broad, earnings-driven improvement in credit quality suggests continued out-performance of HY bonds. Within the HY segment, there are currently more rating upgrades than downgrades. The consensus expects a more pronounced improvement in credit metrics for cyclical than for non-cyclical sectors. While this reflects the trend in spreads since the beginning of the year, issues from cyclical sectors are poised to once again outperform in the third quarter. The second quarter reporting season should provide a tailwind. The shorter remaining terms to maturity of HY bonds compared to IG bonds offer protection against rising Bund yields. Financing conditions for HY issuers remain attractive. Through more favorable refinancing terms in capital markets they are able to reduce interest expenses. Their short-term refinancing needs are low in any event, which contributes to the consistently low number of defaults.

Since the ECB is maintaining an elevated pace of purchases under the PEPP in the third quarter the monetary policy tailwind for HY bonds remains in place for the time being. It could begin to wane in the autumn. As the economic recovery progresses the time for tapering purchase volumes is approaching. A decrease in monetary policy support could dampen risk appetites. At the same time, the prospect of additional improvements in credit quality will gradually diminish. Due to strong demand from institutional investors ESG-related bonds should then display lower volatility. The return of financial covenants is unlikely to pose problems for any but the weakest credit ratings. This and the expiration of government aid should not impact the performance of diversified HY portfolios negatively, due to the size and diversification of most HY issuers. BB-rated hybrid bonds issued by IG-rated groups remain interesting. The possible spread of new, more dangerous corona-virus mutations poses a risk, particularly for the services sector.

Currencies

	Forecast 3Q 2021
US-Dollar	1.18

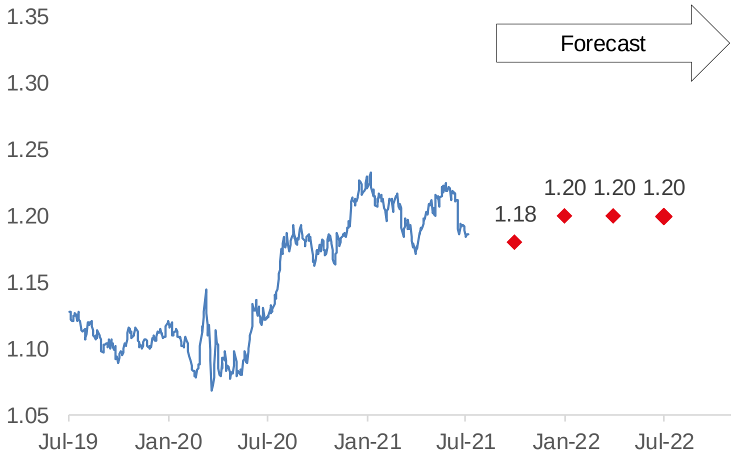
EURUSD around 1.2

US dollar strengthens after FOMC meeting

In the course of the second quarter the euro appreciated against the US dollar again, reaching levels around the $1.22 mark. After the most recent meeting of the Fed's policy-setting Federal Open Market Committee, the dollar began to gain ground and the euro dropped almost to $1.18. This was due to the prospect being held out that the Fed could implement rate hikes as early as 2023, i.e., they would be brought forward. We believe that the recent market reaction was justified. In view of strong economic data in conjunction with elevated inflation rates the risks consist of the central bank taking action earlier than planned. Naturally a time period that continues to comprise several years at the same time implies a high degree of uncertainty, especially in an environment such as the current one. We therefore consider the dollar's appreciation potential to be limited. In our view current interest rate differentials justify EURUSD exchange rates around 1.2. We believe that a more pronounced deviation from this level would require the odds for rate hikes in the US to become much more concrete, which we do not expect. These risks nevertheless exist. The coming evolution of inflation rates could make it necessary for the Fed to intervene sooner than is currently expected. For our EURUSD forecast, this means that the risks are tilted towards a stronger dollar.

Risks for a firmer US dollar exist

US Dollar firmer
EURUSD



Source: Market information systems, Erste Group Research

Forecast 3Q 2021

Swiss Franc 1.11

Economic recovery should strengthen the euro

At its recent meeting in June, the Swiss National Bank decided to keep the interest rate on sight deposits at the central bank at -0.75%. In the assessment of the SNB the Swiss franc remains highly valued. Thus the SNB continues to be willing to intervene in foreign exchange markets if necessary, while taking the overall currency situation into consideration. In addition, the SNB continues to provide generous amounts of liquidity to the banking system. The conditional inflation forecast was recently slightly increased to +0.4% for 2021 and + 0.6% for 2022. Thus it remains well below our inflation forecasts for the euro zone.

Purchasing power parities suggest a stronger euro

In 2Q the Swiss franc once again appreciated to a level of 1.09 against the euro. A pronounced surge in inflation in the euro zone and particularly in the US boosted the franc. We expect the increase in inflation in both currency areas to be transitory. Furthermore, yields in both the euro zone and the US should gradually rise in coming months, supported by the dynamic economic recovery. In this environment, we expect the Swiss franc to once again lose ground against the euro. This should lead to a gradual move toward our estimated fair value level of approximately 1.15 based on purchasing power parities.

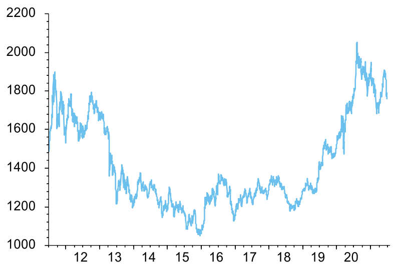
Global inflation concerns pose a risk to our forecast

However, concerns over a prolonged period of higher global inflation rates pose a risk to our forecast. In phases of rising global inflation expectations, the Swiss franc with its comparatively substantially lower inflation rates is an attractive investment helping to reduce expected losses in the purchasing power of capital. If these fears are nourished further in coming months due to persistently elevated global inflation rates, they could trigger additional upward pressure on the Swiss franc against the euro. Should political risks come to a head in the EU or at the global level, the Swiss franc could also appreciate strongly against the euro at any time.

Forecast 3Q 2021

Gold in USD	1,760

Gold priced in USD

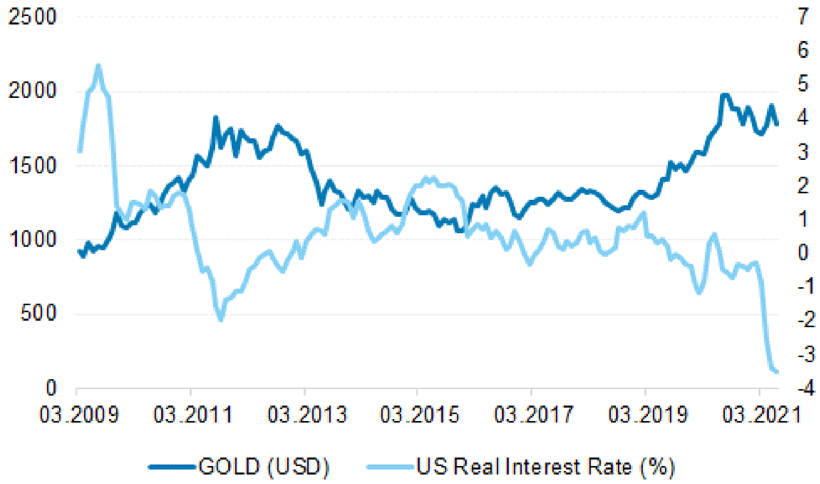


Source: Datastream, Erste Group Research

The gold price gained +1.7% in EUR terms in the second quarter. The performance since the beginning of the year is -4.9% in EUR terms. The slight strengthening of the gold price in 2Q was supported by strongly negative and further declining real yields on government bonds.

The chart below shows that the gold price is negatively correlated with real yields most of the time.

Gold price (USD) and US real interest rates



Source: Market data providers, Erste Group Research

However, real interest rates are likely to rise again in coming months. Thus an important factor favorable for the uptrend in gold prices will become less supportive in coming months. US yields should increase moderately due to the foreseeable tapering of securities purchases and the Fed's very slow monetary policy response to the economic upswing. This currently argues against a rally in the gold price in the coming quarter.

Due to the strong recovery in corporate earnings, equities currently represent an attractive alternative to gold. This should remain the case next year as well, as corporate earnings growth is expected to continue in 2022. Investors' continued risk appetite also stands in the way of a quick recovery in the gold price.

However, a positive factor is that the Fed and the ECB will continue to purchase securities for a long time, thus increasing the money supply in coming years. The positive correlation between money supply expansion and the gold price suggests a moderate price increase in the long term.

Outlook
In the course of 3Q, slightly rising yields and the associated moderate strengthening of the USD are likely to weigh on the gold price. Gold is less attractive than equities due to strongly rising corporate profits. On the other hand, the ongoing expansion of the money supply by central banks will continue to exert a supportive effect on the gold price. We expect a sideways move in the gold price in 3Q.

Stocks

Forecast 3Q 2021

Global

0% to +5%

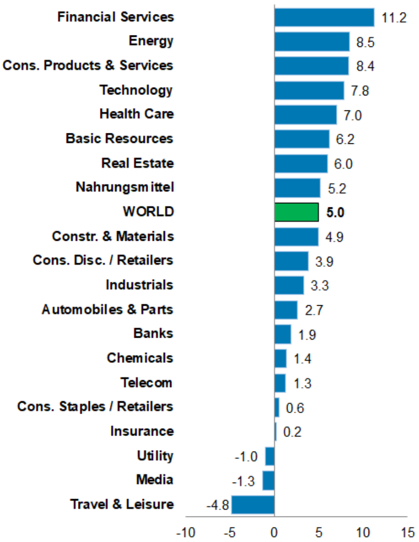
Earnings and revenue growth (y/y, %)

	Sales		Net Profit	
USD	21e	22e	21e	22e
North America	12.3	6.3	35.8	9.8
Europe	19.3	3.5	55.3	9.0
Asia	6.4	3.6	32.8	3.4
EM Asia	16.1	10.5	18.1	12.2
EM LatAm	13.0	9.8	79.4	7.4
EM Europe	33.0	5.1	111.5	4.6
World	13.7	5.7	37.7	9.0

Source: Erste Group Research Indexes, FactSet.

The global stock market index gained +5% in EUR terms in the second quarter. In the process, the index reached new record highs. The willingness of investors to take on risk resulted from confidence in a continued global economic recovery, an above-average reporting season for the first quarter, and companies' improved revenue and earnings guidance for 2021 as a whole. Another important factor is that the world's largest central banks (Fed, ECB, and Bank of Japan) will continue to provide the financial markets with very large liquidity injections in coming quarters. Stock markets should continue to benefit from this as well.

Global stock market sectors, perf. 2Q 3021
Erste Global 1000 Index, EUR



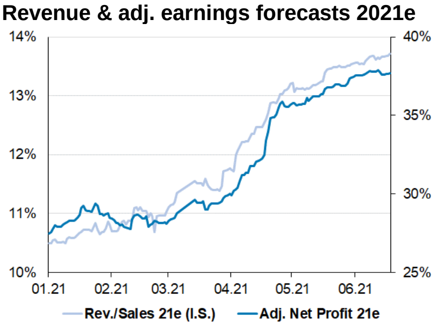
Source: Erste Group Research Indexes, FactSet.

Market breadth in the global index remains intact. 17 of the 20 sectors achieved a positive performance in the second quarter. Particularly shares in the financial, energy and consumer discretionary sectors were in strong demand and outperformed the overall market with price increases ranging from +8.4% to +11.2%. Only the travel & leisure sector (-4.8%) declined after the strong gains posted in previous quarters.

The reporting season for the first quarter went very well in both the US and Europe. E.g. 73% of European companies reported earnings above consensus estimates. In an average quarter (since 2011), only 51% are beating estimates. Significant earnings growth is expected for the second quarter as well (US: +61%, Europe: +104%). Earnings growth is forecast for subsequent quarters as well, but not to the extent of 2Q.

Forecast revenue growth for the Erste Global 1000 Index for this year currently stands at +13.7%. Next year, an increase of +5.7% is expected. Three months ago, the consensus forecasts stood at +11.4% and +5.3%, respectively. For adjusted net earnings, the trend for 2021e is also clearly positive. This year, an increase of +37.7% is forecast. However, due to base effects, estimates for 2022 recently declined slightly to +9.0%.

Global 1000 Index
Revenue & adj. earnings forecasts 2021e



Source: Erste Group Research Index, FactSet.

The valuation level of the global stock market has improved significantly in 2Q. At the beginning of 2Q, the forward P/E ratio still stood at 19.7x. As a result of the improved earnings outlook, the forward P/E ratio has in the meantime decreased to 18.9x. The forward dividend yield amounts to 2.0%. The valuation of the stock market appears reasonable considering current earnings growth projections.

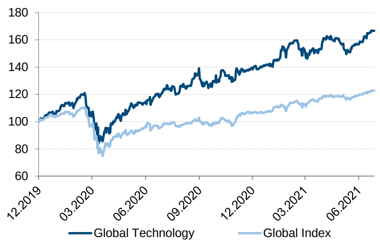
Outlook

In the current economic environment, stocks are a very attractive asset class. The upward trend of the global stock market index should continue due to strong earnings growth and the uptrend in revenue and earnings estimates. We expect developed markets to outperform emerging markets in 3Q on account of greater earnings growth momentum in the US and Europe. We continue to view potential setbacks in the benchmark indexes as buying opportunities. The global stock market index should generate a return in a range of 0% to 5% in 3Q.

Global Sectors - Positive Outlook

Outlook 3Q	↗	0% to +5%
World Index Weight		22.9%
YTD Perf. EUR		17.1%
P/E 21e		26.6x
Net Profit y/y 21e		32.0%
Top 3 Companies (Market Cap.)		
Apple		
Microsoft		
Alphabet		

Technology Index vs Global Index
Rebased to 100, EUR



Source: Erste Research Index, FactSet.

Technology

The global technology index gained +7.8% in EUR terms in the second quarter. The year-to-date return in EUR terms amounts to +17.1%. A new historical record high was achieved at the end of June. Last quarter the index for software companies once again rose more strongly in EUR terms than the index for global hardware companies (+9.6% vs. +4.7%).

A very important area in hardware is the semiconductor segment. The semiconductor index advanced +6.1% last quarter. To remain competitive in the semiconductor industry, companies must continuously invest a significant part of their revenues in research and development as well as new equipment. Companies in the sector have to spend around 30% of their revenue annually on research and capital expenditures. The pace of technological change in the industry requires companies to use state-of-the-art manufacturing equipment that can produce components of extremely small structural size.

The most important European semiconductor equipment manufacturer for the chip industry with very good prospects in coming years is ASML (Buy). The most important global semiconductor producer is Taiwan Semiconductor Manufacturing (Buy). The company has full order books and strong growth potential in coming years.

According to SIA (Semiconductor Industry Association), the current chip shortage was mainly caused by the exceptionally strong recovery in demand from the automotive sector in recent quarters. Chip capacities have already been greatly expanded. As an average lead time of 26 weeks is required to produce a chip, the supply backlog can be expected to ease from around 4Q 2021.

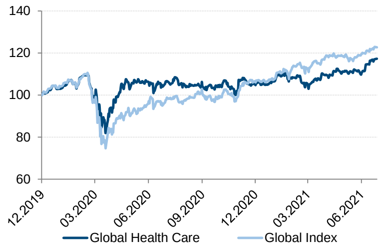
Many technology companies have issued positive guidance for 2021 revenues and earnings. The quarterly results expected over the next few weeks are therefore likely to be quite strong. Consensus estimates for the global technology sector this year are calling for revenue growth of +18.3% and earnings growth of +32%. The expected growth rate for revenues in 2022 is +9.7%. Earnings should grow by +10.6% next year.

The sector's valuation in terms of the 2021 forward P/E ratio is 26.6x, which exceeds the global average. Due to the strong growth and high profitability of technology companies, this valuation seems reasonable. We are forecasting that the sector index will deliver a return in a range of 0% to +5% in 3Q.

Health Care

Outlook 3Q	↗	0% to +5%
World Index Weight		10.6%
YTD Perf. EUR		9.9%
P/E 21e		19.3x
Net Profit y/y 21e		14.1%
Top 3 Companies (Market Cap.)		
Johnson & Johnson		
UnitedHealth Group		
Roche Holding		

Health Care Index
Rebased to 100, EUR



Source: Erste Research Index, FactSet.

The health care sector index gained +7% in EUR terms in the second quarter. The return posted last quarter exceeded that of the global stock market. However, the performance of the sector since the beginning of the year is lower at +9.9%. This is mainly due to the fact that companies in this sector are not cyclical and therefore benefited less from the global economic recovery than cyclical companies, especially at the beginning of the year.

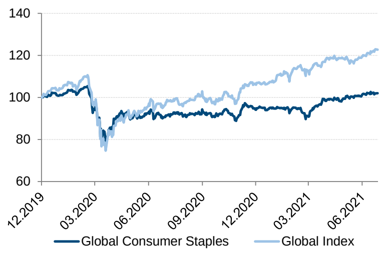
In the US, 81% of the companies in this sector reported better-than-expected earnings last quarter. In terms of revenues, this applied to 71% of the companies. Looking ahead to the upcoming quarterly results (2Q 2021), 64% of US health care companies have issued positive guidance. The largest global health care company, Johnson & Johnson (Hold), is expected to achieve double-digit revenue and earnings growth this year due to sales of COVID-19 vaccines. Next year, growth is expected to slow significantly again. The majority of European companies in the sector also reported better-than-expected earnings and revenues last quarter.

The conditions for a further advance in the sector index are favorable. Revenue growth of +9.7% and earnings growth of +14.1% are expected for this year. Earnings estimates for 2021 have improved slightly in the course of the last few months. This is to be seen as a positive factor. However, next year growth is likely to be lower than this year. Revenues (2022e: +4.4%) and earnings (2022e: +6.6%) should increase at a lower rate than the global average. The sector's valuation based on the 2021 forward P/E ratio is 19.3x. It is only slightly above the global stock index average. We expect a moderately positive performance for 3Q in a range of 0% to +5%.

Consumer Staples

Outlook 3Q	↗	0% to +5%
World Index Weight		6.6%
YTD Perf. EUR		7.2%
P/E 21e		21.2x
Net Profit y/y 21e		12.3%
Top 3 Companies (Market Cap.)		
Walmart		
Nestle		
Coca Cola		

Consumer Staples Index
Rebased to 100, EUR



Source: Erste Research Index, FactSet.

The sector index gained +3.5% in EUR terms last quarter. Thus this defensive sector has continued to display relative weakness compared to the global stock market index since the beginning of the year. The weaker performance is the result of an increase in investor risk appetites for several quarters in the wake of the cyclical economic expansion.

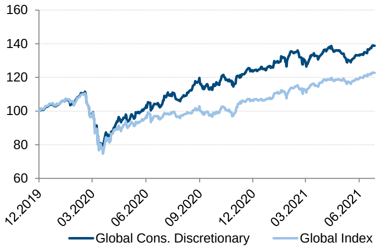
Nearly 78% of US-listed consumer staples companies reported better-than-expected earnings and revenues in 1Q. On average, earnings grew by +12% compared to the same quarter of the previous year. Second quarter earnings are currently expected to grow by +6.5%. In Europe, 88% of listed companies reported better-than-expected earnings in the first quarter. In this case the outlook for the upcoming 2Q reporting season is quite positive for a defensive sector as well, with expected earnings growth of +9.1% year-on-year.

Revenue growth for the sector this year is estimated to come in at +6.4% and earnings growth at +12.3%. Companies that benefit the most from the opening up of the economy after the lockdowns have the best prospects for strong earnings growth. These include e.g. McDonalds (Buy) and beverage companies such as Diageo (Buy). For the sector as a whole, we expect a gain at the lower end of a range from 0% to +5% in 3Q.

Consumer Discretionary

Outlook 3Q	↗	0% to +5%
World Index Weight		15.9%
YTD Perf. EUR		9.5%
P/E 21e		31.7x
Net Profit y/y 21e		85.9%
Top 3 Companies (Market Cap.)		
Amazon.Com		
Tesla Motors		
Alibaba		

Consumer Discretionary Index
Rebased to 100, EUR



Source: Erste Research Index, FactSet.

The sector index rallied +3.7% in EUR terms in 2Q. In particular, Amazon.com - which is heavily weighted in the index - outperformed the global index by gaining +7.9%. Within the cyclical consumer sector, manufacturers of consumer products (including LVMH, Nike, L'Oreal) outperformed with an advance of +8%, while shares in sub-sectors with low weightings such as Media (-1%) and Travel & Leisure (-4.8%) posted losses.

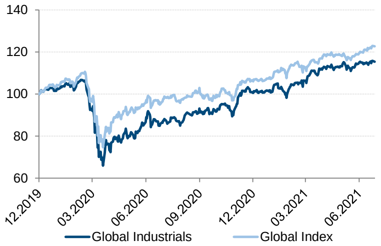
These companies are benefiting particularly strongly from the acceleration of global growth this year. In the US, key stocks like Amazon.com and Tesla exhibit an uptrend in 2021 earnings estimates over the past three months. The largest European companies in the sector, LVMH and L'Oreal, are also forecast to post strong revenue and earnings growth this year.

For the cyclical consumer sector as a whole, revenues are expected to grow by +16.5% in 2021 and earnings by around +86%. In 2022, revenues and earnings are estimated to grow significantly faster than the global average as well. The relatively high valuation of the sector (2021 forward P/E ratio: 31.7x) reflects these highly favorable prospects. We expect the sector index to deliver a gain ranging from 0% to +5% in the third quarter.

Industrials

Outlook 3Q	↗	0% to +5%
World Index Weight		9.3%
YTD Perf. EUR		13.4%
P/E 21e		21.7x
Net Profit y/y 21e		53.9%
Top 3 Companies (Market Cap.)		
Honeywell		
Union Pacific		
UPS		

Industrials Index
Rebased to 100, EUR



Source: Erste Research Index, FactSet.

The industrial sector index gained +3.4% in EUR terms in 2Q. Recently its return was slightly lower than that of the global stock market index. Companies in the sector are benefiting from the current recovery of the global economy. The order books of US companies are at historically very high levels. This also applies to numerous European companies. The global manufacturing PMI has reached a record high as well.

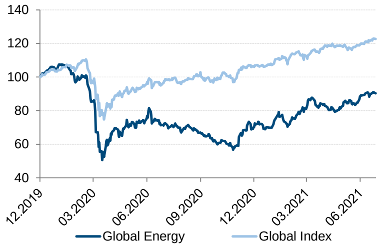
The outlook for revenue and earnings growth for the largest US-based industrial companies is very favorable this year (Honeywell, Union Pacific and UPS). European groups such as Siemens, Schneider Electric and Deutsche Post are also expected to report significantly stronger earnings growth this year. Earnings growth at European industrial companies is actually estimated to be stronger this year (2021e: +79.9%) than at US companies (2021e: +47%). By contrast, next year earnings growth for US industrials is expected to be stronger than for European ones.

Consensus forecasts are calling for +53.9% earnings growth for the global sector this year. The valuation of the sector in terms of the 2021 forward P/E ratio stands at 21.7x. This is slightly above the global average. We expect the uptrend in the sector to be maintained in view of the positive outlook. In 3Q we expect a return in a range of 0% to +5%.

Energy

Outlook 3Q	↗	0% to +5%
World Index Weight		4.6%
YTD Perf. EUR		29.4%
P/E 21e		11.8x
Net Profit y/y 21e		269.9%
Top 3 Companies (Market Cap.)		
Exxon Mobil		
Chevron		
Reliance Industries		

Energy Index
Rebased to 100, EUR



Source: Erste Group Research, FactSet

The sector index gained +8.5% last quarter. The performance of this cyclical sector exceeded that of the global stock market index. The advance is driven by expectations of rising revenues and strong earnings growth at energy companies this year.

Demand for energy has risen substantially in the course of the economic recovery. The fact that the COVID-19 pandemic is waning in numerous countries has also contributed to increasing energy consumption. Thus the rally in oil prices continued last quarter with a +18% advance in USD terms. Global oil production should increase in coming months due to the decision of OPEC+ to boost production quotas. According to the Energy Information Agency oil prices should average around USD 68 in 3Q.

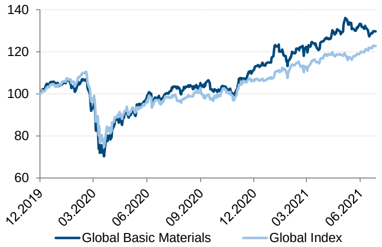
According to consensus forecasts companies in the sector should post revenue growth of +35.5% and earnings growth of around +270%. A positive development is that consensus earnings forecasts for 2021 have increased in recent months. Next year, growth momentum is bound to slow. Revenue growth is expected to be around +3.8% in 2021 and earnings growth +9.3%.

Companies in the sector have low valuations. The 2021 forward P/E ratio stands at 11.8x. This is well below the global average. The forward dividend yield for this year amounts to 4.9%. We expect the sector index to achieve a gain in a range from 0% to +5% next quarter.

Basic Materials

Outlook 3Q	↗	0% to +5%
World Index Weight		3.2%
YTD Perf. EUR		12.9%
P/E 21e		10.7x
Net Profit y/y 21e		96.5%
Top 3 Companies (Market Cap.)		
Linde		
BHP Group		
Rio Tinto		

EGR Global Sector
EUR, indexed, 1 year



Source: Erste Group Research, FactSet

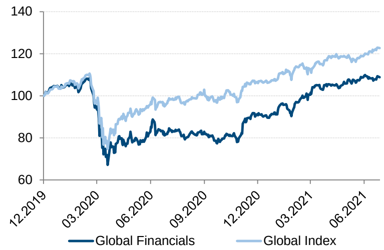
The global basic materials sector index rose +3.8% in EUR terms last quarter. Since the beginning of the year it has gained +12.9% in EUR terms. This sector is benefiting from the global economic recovery, which has led to a strong increase in commodity prices. The main beneficiaries of this were base metal mining companies. By contrast, the small segment of precious metals mining companies significantly underperformed the global sector index.

Companies in the basic materials sector will achieve above-average revenue and earnings growth this year. According to consensus estimates revenues should grow by +22.7% in 2021. Earnings are expected to grow by +96.5%. In recent months, earnings growth forecasts for this year have been raised continuously. However, next year revenues are expected to stagnate (2022e: -0.4%) while earnings are expected to decline by around -11.3%.

The sector has a low valuation by global standards (2021 forward P/E ratio: 10.7x), which probably already reflects the expected weakening of earnings next year. The dividend yield is also above average (2021e: 4.7%). We expect the sector index to move in line with the world equity index in the next quarter. It should therefore generate a return in a range from 0% to +5%.

Outlook 3Q	↗	0% to +5%
World Index Weight		17.7%
YTD Perf. EUR		18.2%
P/E 21e		12.4x
Net Profit y/y 21e		26.7%
Top 3 Companies (Market Cap.)		
Berkshire Hathaway		
Visa		
JP Morgan		

Financials Index
Rebased to 100, EUR



Source: Erste Research Index, FactSet.

Financials

The global financials index gained +4.1% in EUR terms in 2Q. US companies generated stronger returns than their European counterparts. The financial services segment performed particularly strongly, led by investment banks. In contrast, the global insurance index moved sideways (in EUR terms: +0.2%).

Companies in the sector are benefiting from the continuing global economic expansion. Banks require fewer loan loss provisions as a result. Rising asset prices in financial markets are boosting trading and commission income at many companies in the sector as well.

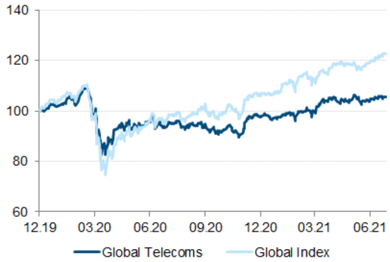
Earnings estimates for US-based financial firms are positive. Earnings estimates have been revised upward for 78% of the companies in the sector. Their earnings growth should be stronger than that of the global financial sector this year, at around +37%. 87% of European companies beat earnings expectations last quarter. European financial companies should achieve earnings growth of around +33% this year. Earnings growth at European banks is expected to exceed that of insurance companies.

According to consensus forecasts global financial sector earnings should increase +26.7% in 2021. Within the global sector, banks will achieve stronger earnings growth (2021e: +31.5%) than insurance companies (2021e: +20.5%). The sector has a low valuation by global standards. The 2021 forward P/E ratio stands at 12.4x, and the 2021 forward dividend yield amounts to 2.6%. We expect the sector index to generate a return ranging from 0% and +5% in 3Q.

Global Sectors - Negative Outlook

Outlook 3Q		-5% to 0%
World Index Weight		4.3%
YTD Perf. EUR		8.4%
P/E 21e		15.6x
Net Profit y/y 21e		0.3%
Top 3 Companies (Market Cap.)		
Comcast		
Verizon		
AT&T		

Telecoms Index
Rebased to 100, EUR



Source: Erste Group Research, FactSet

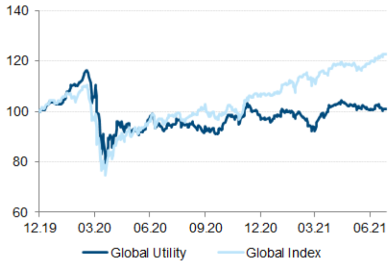
Telecommunication

The sector index achieved a gain of +1.3% in EUR terms in 2Q. Telecom companies are expected to report revenue growth of +5.4% in 2021. Thus revenue growth at these companies stands significantly below the global average. Earnings in the sector are expected to stagnate this year (2021e: +0.3%). In short, companies in the sector are barely benefiting from the current global economic expansion. The biggest revenue increases this year should be posted by Cellnex Telecom, Xiaomi, T-Mobile US and Telus. With respect to earnings, particularly the US-based companies T-Mobile USD, Charter Communication, and Comcast are expected to report strong above-average growth.

The sector is offering investors a below-average growth outlook next year as well. Revenue growth is expected to decline to +2.8% in 2022. Earnings are expected to grow only moderately by +2%. The trend in consensus earnings estimates for the sector for this year is stable at slightly above 0%. Earnings estimates for next year have already been trending downward for months. Also weighing on the sector is that telecom companies are on average more indebted than companies in other sectors. With slightly rising yields, their financing costs are increasing. This exerts additional pressure on their earnings. The valuation of the sector in terms of the 2021 forward P/E ratio stands at 15.6x. It is lower than the global average on account of the sector's below-average growth prospects. We expect a negative performance ranging from -5% to 0% for the third quarter.

Outlook 3Q		-5% to 0%
World Index Weight		2.7%
YTD Perf. EUR		02.1%
P/E 21e		18.3x
Net Profit y/y 21e		5.5%
Top 3 Companies (Market Cap.)		
NextEra Energy		
ENEL		
Iberdrola		

Utilities Index
EUR, 1 year, indexed



Source: Erste Group Research, FactSet

Utilities

The global utilities index lost a little ground last quarter. It delivered a performance of -1% in EUR terms. Revenues in the sector are expected to increase by +9.8% this year. Earnings estimates for this year have been subject to repeated downward revisions in recent months. Currently consensus estimates are calling for +5.5% earnings growth this year. The strongest earnings growth is expected to be achieved by the French companies Veolia Environment, Engie and ETF.

Next year, revenue growth is expected to be lower than this year at +2.3%. By contrast, earnings are expected to grow more strongly again next year compared to this year. Earnings growth in 2022 is estimated to reach +8.6%. Revenue and earnings growth in this sector are therefore significantly below the global average. The sector also has a worse debt situation than other sectors. Rising bond yields raise financing costs and weigh on earnings in the sector. The sector's valuation in terms of the 2021 forward P/E ratio is 18.4x, while the forward dividend yield amounts to 3.6%. It is above the global average. We expect a negative return in a range from -5% to 0% in 3Q due to the below-average growth prospects of the sector.

Forecast 3Q 2021

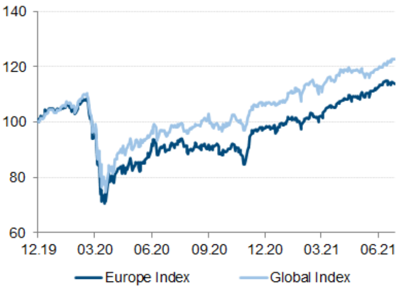
Europe
0% to +5%

Earnings and revenue growth
(y/y, %)

	Sales		Net Profit	
EUR	21e	22e	21e	22e
France	10.1	4.5	73.1	12.0
Germany	7.5	4.3	43.1	8.0
Switzerland	12.4	3.5	10.2	8.5
UK	15.9	5.1	73.9	12.4
Netherlands	18.6	6.2	60.4	10.2
Europe	13.0	4.5	47.0	10.1

Source: Erste Group Research Indexes, FactSet.

Europe Index vs Global Index
Indexed to 100, EUR



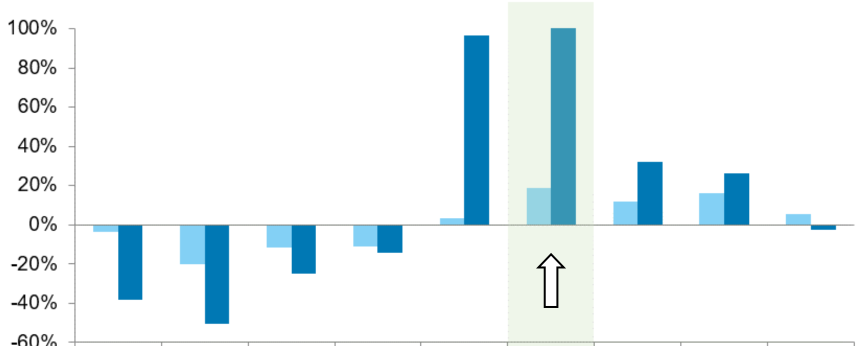
Source: Erste Group Research Indexes, FactSet.

The European stock market remained in an uptrend in 2Q, achieving a performance of +6.6%. Better than expected corporate earnings, expansionary fiscal policy by governments and the progress of COVID-19 vaccination campaigns had a positive impact. Particularly cyclical sectors (industrials, consumer cyclicals), health care and technology outperformed markedly.

The results of the European reporting season for 1Q 2021 were significantly better than expected. Thus, earnings posted by 72% of companies beat estimates. In an average quarter, just 51% of listed companies achieve better-than-expected earnings. The bottom line was that aggregate earnings growth of +96.4% was reported. Energy and consumer cyclical companies in particular exhibited significant growth in earnings. Nine out of ten sectors posted earnings growth. Only the healthcare sector had to report a slight decline in earnings. Revenue growth reached +3.3% last quarter.

Significant earnings growth of +104% and +32% is forecast for the second and third quarters of 2021, respectively. For 2021 as a whole, expected earnings growth currently stands at +47%. In 2022, earnings are estimated to increase by +10%.

Revenue and earnings estimates Europe
Consensus forecasts



	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Revenue	-3.4%	-20.1%	-11.6%	-11.2%	3.3%	18.6%	11.8%	16.1%	5.6%
Earnings	-38.2%	-50.8%	-24.7%	-14.5%	96.4%	104.3%	32.0%	26.3%	-2.3%

Source: Refinitiv, Erste Group Research

The valuation of the European stock market was already below average by global standards before the COVID-19 pandemic on account of its low growth momentum. The forward P/E ratio currently stands at 17.6x for 2021 and 16.0x for 2022. The 2021 forward dividend yield currently amounts to 2.7% after a large number of dividend cuts by cyclical companies. It is forecast to increase slightly to 2.8% next year.

Outlook: We expect European stocks to rally between 0 and +5% in 3Q 2021 due to strong growth prospects and below-average valuations compared to global peers. Investors should continue to pay attention to quality criteria as well as the sector selections discussed in the global equities section when picking stocks.

Forecast 3Q 2021

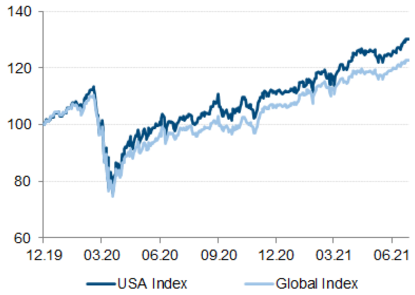
USA
0% to +5%

US Index

USD	2021e	2022e
Sales	12.7%	6.3%
EBIT	31.6%	11.1%
Net Profit adj.	35.1%	10.1%
PE	23.1x	21.0x
Div. Yield	1.4%	1.5%

Source: Erste Group Research Index, FactSet.

US Index vs. Global Index
Indexed to 100, EUR



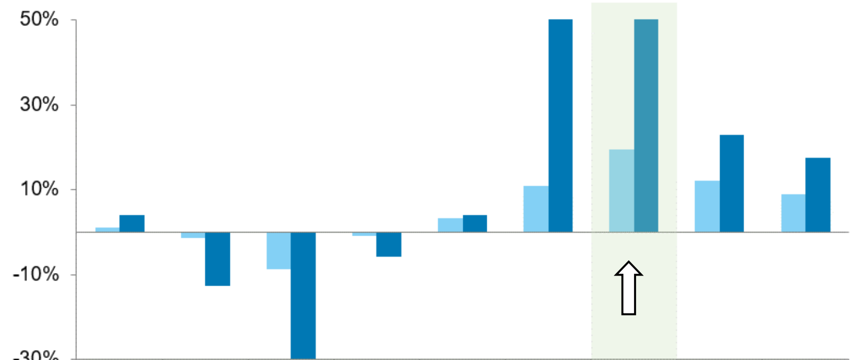
Source: Erste Group Research Index, FactSet.

The prospect of rising corporate profits supported a continued rally in the stock market. The US stock market index rose by +6.2% in EUR terms in the second quarter. The Nasdaq 100 Index rose by 7.8%. Like the S&P 500, it set a new record high. Shares from the consumer finance, steel, internet media, medical technology, energy and logistics sectors posted the largest gains.

Purchasing managers continue to exhibit quite positive sentiment. The ISM Manufacturing Index stood at 61.2 points. Thus a very strong expansion in the US manufacturing sector is currently underway. This is supported by very healthy order books at US companies. The index for new orders was recently quoted at 67 points, close to its historical highs. The economic expansion in the services sector is very strong as well. Listed companies are benefiting from this favorable environment. In the most recently reported quarter (1Q 2021), 86% of companies posted positive earnings surprises, while 77% beat consensus estimates on revenues. In terms of 2Q results, 64% of S&P 500 companies have issued positive guidance so far (the highest percentage since 2006).

Annualized growth in corporate earnings will reach its peak in 2Q. The expected growth rate has been raised in recent months. This applies to the full-year earnings forecast as well (2021: +35.1%). Forecast earnings growth for 2022 is also strong at around +10%.

US: expected revenues and earnings by quarter



	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Revenue	1.0%	-1.4%	-8.7%	-0.9%	3.2%	10.9%	19.4%	12.0%	8.9%
Earnings	4.0%	-12.8%	-30.6%	-5.7%	3.9%	52.5%	61.9%	23.0%	17.4%

Revenue Earnings

Source: Datastream, Erste Group Research

The valuation of the stock market in terms of the 2021 forward P/E ratio stands at 23.4x. The 2021 forward dividend yield amounts to 1.4%. The market's valuation exceeds the long-term average. Due to strong earnings growth stocks are currently far more attractive than US treasuries.

Outlook

We expect the US benchmark indexes to respond positively to the quarterly results for 2Q. The prospect of additional earnings growth as the year progresses should push the stock market higher. In 3Q we are forecasting the market to generate a return ranging from 0% to +5%.

CEE	Forecast 3Q 2021 ↗ 0% to +5%

The recovery in corporate earnings in Central and Eastern Europe has become exceedingly obvious and is definitely on a par with the growth reported in other regions, including developed markets. Consensus growth sees earnings growth of 72.6% expected for 2021, documenting the sound recovery. Over a 12-month horizon, the consensus estimate for aggregate earnings growth currently stands at almost 48%, exceeded only by estimates for Latin America, where commodities are probably a key driver.

However, if growth has exhibited strong momentum and accelerated until now, this very momentum is now weaker, while the numbers remain at high levels. This could be an indication that we have already seen the peak of the recovery. In conjunction with generous central bank policies, which have been very supportive to date but have probably peaked in the meantime as well, there is a risk that profit taking and sideways moves in the markets will be seen more frequently. Risk appetites have weakened somewhat.

After the first central banks in the CEE region in particular have begun to become more restrictive (TR, RU, HU, CZ), growth is still sufficient to offset potentially rising bond yields, but the journey is becoming more arduous. Especially Croatia stands out, now that a significant recovery - which has to actually happen now - is already priced in. Another case is Turkey, after high inflation has already made rate hikes necessary early on, but the central bank finds itself in a fragile political situation. We continue to favor the stock markets of Poland, Hungary/Czech Republic and Austria.

Apart from inflation, the main risks include disrupted supply chains, but also the possibility of a renewed wave of infections in the fall with a resumption of containment measures. The market is currently taking this quite calmly, but it remains a race between progress in vaccination rates and the delta variant of the virus. Particularly Hungary stands out positively in terms of vaccination rates, and overall, vaccination campaigns in the region are progressing quite well.

Valuations in the region continue to be not overly suspicious, at least relative to expected growth. Nevertheless, the question remains as to what can possibly drive a further expansion in valuation metrics now, assuming that growth is leveling out, at least across the broad market.

We continue to favor a mix of cyclical stocks, hedged by an admixture of defensive stocks. Financial shares remain interesting given that pressure on balance sheets seems to be reasonably contained, while the outlook for bond yields raises hopes for an expansion of margins. As a next step, this theme should also reach insurance companies, which have suffered heavily in the investment area to date.

Forecast 3Q 2021

Real Estate Europe

↗ 0% to +5%

Sentiment steadily improving

The sentiment towards real estate stocks improved substantially in 2Q21. The STOXX Europe 600 Real Estate price index gained 9% and therefore clearly outperformed the market (STOXX 600), which increased by 5.4% in the same period of time. Investors continue to look at logistics stocks; SAGAX led the performance list with a plus of 34.6% within just three months, while Segro and WDP stocks climbed by 16.7% and 14.3%, respectively.

M&A activity continues, as the bid of Vonovia for Deutsche Wohnen shows. Vonovia was one of a few shares to end up in negative territory, while Deutsche Wohnen shareholders rejoiced over a 29.7% rise of the share price. In Austria, Immofinanz failed to cancel the voting right restriction of S Immo at the extraordinary general meeting of the latter, with Immofinanz consequently declaring the takeover plans terminated.

In its Global Investor Intentions Survey, CBRE paints a broadly positive picture, which makes us optimistic that the recovery of the real estate sector will continue in 3Q. The global real estate investment volume is expected to grow by 15-20% in 2021 compared to 2020, with some topics gaining in importance as follows.

Discussions about the needs of companies in terms of office space are ongoing, and remote work will be part of many concepts in the future. As a result, investors are now looking for assets with high levels of health, safety and flex space offerings.

Not surprisingly, investors are directing their capital more and more into assets with the highest ESG standards. Certifications (such as BREEAM) are becoming a must for future investment and will certainly play a decisive role in terms of valuation in the future.

Finally, investors are carefully looking at lifestyle and consumer habits. The logistics sector experienced a boom in the recent past, and now a trend towards data centers, healthcare facilities and senior housing assets can be observed.

Forecast 3Q 2021

India — 0% to +5%

EGR India Index

USD	2021e	2022e
Sales	11.9%	13.2%
EBIT	15.6%	16.1%
Net Profit adj.	21.4%	19.5%
PE	24.3x	20.3x
Div. Yield	1.5%	1.7%

Source: Erste Group Research Indizes, FactSet.

High net inflows from foreign stock market investors in India since 2H 2020
Foreign Net Investment - Equity, USD Mio.

Source: Securities and Exchange Board of India.

The Indian stock market gained +4.3% in EUR terms in 2Q. Thus India significantly outperformed the emerging market average (+0.6%). At the same time, the breadth of the uptrend remains intact. Last quarter 33 of the 37 stocks in the Indian index exhibited a positive performance, while 97% of the stocks in the index are currently trading above their 200-day moving average.

The uptrend has also been supported by large net foreign capital inflows into India since mid-2020. The stock market in particular has attracted significant foreign portfolio flows, inter alia due to a strongly positive corporate earnings performance. Earnings expectations for 2021 in USD terms decreased slightly during the quarter from +25.0% to +21.4%. The decline was especially noticeable in April and May due to the worsening of the COVID-19 pandemic. However, since the beginning of June a favorable trend reversal has been evident. The valuation of the stock market is higher than the emerging market average, with a 2021 forward P/E ratio of 24.3x. This is due to the above-average expected growth rates in revenues and earnings in recent years.

We expect a positive return from Indian equities ranging from 0% to +5% in the third quarter. The biggest downside risks to our positive outlook consist of continued bottlenecks in Indian supply chains due to the COVID-19 crisis.

Forecast 3Q 2021

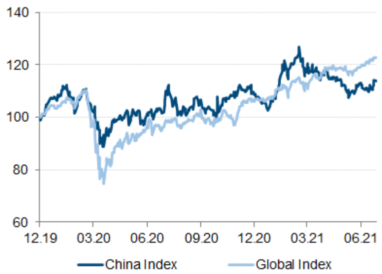
China | Hong Kong — 0% to +5%

EGR China Index

USD	2021e	2022e
Sales	17.0%	10.3%
EBIT	15.9%	10.9%
Net Profit adj.	16.6%	10.8%
PE	11.6x	10.5x
Div. Yield	2.8%	3.0%

Source: Erste Group Research Indexes, FactSet

China Index vs Global Index
Rebased to 100, EUR



Source: Erste Group Research Indizes, FactSet

Contrary to the positive global trend, the Chinese stock market declined by -2.1% in EUR terms last quarter. This marks the end of China's outperformance since the beginning of the COVID-19 pandemic. Especially insurance companies, real estate companies and banks came under pressure over the past three months. Shares of major consumer and technology companies such as Tencent, Meituan and Alibaba also fell more than average. The reasons for this were weaker-than-expected retail sales in May as well as increasing government regulation in the technology sector. Among other things, China is planning antitrust legislation – similar to the US - to take action against the de facto monopoly positions of large technology companies.

Leading economic indicators weakened slightly from their strong 1Q readings, but they clearly continue to expand. For example, the manufacturing purchasing managers' index continued to signal significant growth in June at 51.3 points (May: 52 pts). Consensus estimates for revenue growth at listed Chinese companies are calling for an increase of +17% this year. The stock market's valuation is well below the global average with a forward P/E ratio of 11.6x.

Due to the low valuation of the market and the economic upswing, we expect a positive return of 0% to +5% for Chinese stocks in the third quarter. Stocks from the technology and online retail sectors should underperform due to regulatory uncertainty.

Forecast 3Q 2021

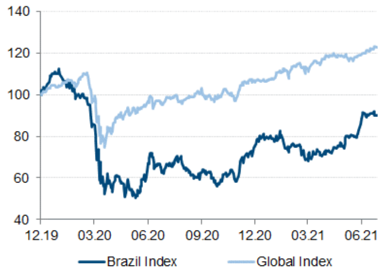
Brazil 0% to +5%

EGR Brazil Index

USD	2021e	2022e
Sales	13.6%	11.3%
EBIT	28.4%	5.5%
Net Profit adj.	83.4%	5.5%
PE	10.8x	10.3x
Div. Yield	4.8%	5.4%

Source: FactSet, Erste Group Research

Brazil Index vs Global Index
Rebased to 100, EUR



Source: FactSet, Erste Group Research

The stock market gained +23.3% in EUR terms in the second quarter. Financials and commodity stocks were among the biggest winners last quarter. Non-cyclical sectors also achieved gains. For example, the stock of beverage producer AmBev benefited from expectations of strong earnings growth both this year and next.

In recent months the outlook for revenue and earnings growth in 2021 has improved significantly. Consensus estimates call for +12.9% revenue growth and +85.4% earnings growth. Commodity companies, banks and consumer stocks should see the largest increases in earnings. This year the largest earnings growth is expected for commodity companies and banks.

Consensus estimates for revenue and earnings growth in 2022 have improved substantially as well. Three months ago both revenues and earnings were still expected to decline. Currently, companies are expected to achieve a +9.9% increase in revenues and a small +3.2% increase in earnings in 2022.

The valuation of the stock market is low by global standards as well. The 2021 forward P/E ratio stands at 10.8x. The 2021 forward dividend yield amounts to 4.8%. The stock market should rally moderately due to the improvement in medium-term earnings estimates. We expect a gain in a range from 0% to +5% in 3Q.

Forecast 3Q 2021

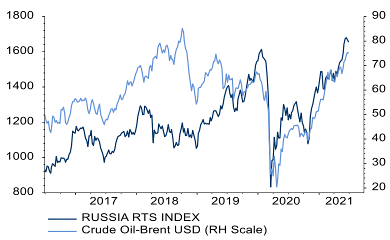
Russia 0% to +5%

EGR Russia Index

USD	2021e	2022e
Sales	33.2%	5.0%
EBIT	78.1%	3.6%
Net Profit adj.	113.1%	4.6%
PE	6.5x	6.2x
Div. Yield	8.6%	8.5%

Source: FactSet, Erste Group Research

Russia RTS Index vs. the oil price:



Source: Datastream, Erste Group Research

The Russian benchmark index gained +9.6% in EUR terms in the second quarter. Energy and commodity stocks generated the strongest gains. Shares of Gazprom posted the biggest advance. This was driven by rising energy prices as well as by the prospect that there will probably be no further sanctions against shareholders of the Nord Stream 2 pipeline.

Consensus estimates for revenue and earnings growth in 2021 are positive, after improving significantly in recent months. Corporate revenues should grow by about +33% this year and earnings by +111%. However, next year growth will be much lower than this year. The current consensus forecast for 2022 calls for revenue growth of +4% and earnings growth of +4.2%.

The valuation of the stock market in terms of the forward P/E ratio is very low by global standards. The 2021 forward P/E ratio stands at 6.5x. The forward dividend yield amounts to 8.6%. Due to the low valuation and because of the moderately positive outlook for earnings growth next year, we expect a slight gain in the Russian stock market. It should generate a return in a range of 0 to +5% next quarter.

Tables & Appendix

Economic indicators

		GDP (% yoy)		Inflation (% yoy)		Un-employ. (%)		CA Balance (% GDP)		Fiscal Balance (% GDP)		Gross Debt (% GDP)	
		21	22e	21	22e	21	22e	21	22e	21	22e	21	22e
Europe	**Eurozone**	**4.4**	4.1	1.8	1.4	8.7	8.5	2.8	2.7	-6.7	-3.3	98.2	96.5
	Germany	**3.4**	4.0	2.2	1.1	4.4	3.7	7.6	7.0	-5.5	-0.4	70.3	67.3
	France	**5.3**	3.7	1.1	1.2	9.1	9.2	-2.1	-1.8	-7.2	-4.4	115.2	114.3
	Spain	**6.4**	4.7	1.0	1.3	16.8	15.8	1.0	1.9	-9.0	-5.8	118.4	117.3
	Italy	**4.2**	4.6	0.8	0.9	10.3	11.6	3.5	3.4	-8.8	-5.5	157.1	155.5
	Austria	**3.8**	4.3	2.0	1.7	5.6	5.0	1.3	2.1	-7.4	-3.0	86.7	84.9
	UK	**5.3**	5.1	1.5	1.9	6.1	6.1	-3.9	-4.0	-11.8	-6.2	107.1	109.1
	Switzerland	**3.5**	2.8	0.1	0.3	3.5	0.0	6.7	7.5	-3.4	-0.7	44.8	44.1
Eastern Europe	**Russia**	**3.8**	3.8	4.5	3.4	5.4	5.0	3.9	3.3	-0.8	-0.3	18.1	17.7
	Poland	**4.8**	5.4	4.0	3.5	6.2	5.9	2.1	1.2	-4.5	-3.2	57.0	55.0
	Turkey	**6.0**	3.5	13.6	11.8	12.4	11.0	-3.4	-2.2	-5.7	-6.1	37.1	38.8
	Czechia	**3.7**	4.3	3.1	2.4	3.3	2.7	0.7	0.3	-7.2	-3.5	44.4	46.8
	Romania	**6.7**	4.5	3.7	3.0	5.9	6.1	-5.9	-5.4	-7.8	-5.4	49.6	50.8
	Hungary	**6.9**	4.1	4.3	3.2	4.2	3.8	-0.1	0.1	-7.1	-5.5	77.7	76.0
	Slovakia	**4.0**	4.8	1.6	1.8	7.0	6.0	-1.6	-0.9	-6.0	-4.0	63.5	63.5
Americas	**USA**	**6.1**	3.3	3.3	2.1	5.8	4.2	-3.9	-3.1	-15.0	-6.1	132.8	132.1
	Canada	**5.0**	4.7	1.7	2.0	8.0	6.5	-0.8	-1.3	-7.8	-3.9	116.3	112.8
	Brazil	**3.7**	2.6	4.6	4.0	14.5	13.2	-0.6	-0.8	-8.3	-7.2	98.4	98.8
	Chile	**6.2**	3.8	3.1	3.0	9.0	8.2	0.3	-0.6	-2.3	-2.9	33.6	36.8
	Mexico	**5.0**	3.0	3.5	3.1	3.6	3.3	1.8	1.0	-3.4	-2.6	60.5	60.5
	Colombia	**5.2**	3.6	2.1	2.6	12.8	12.3	-3.8	-3.9	-8.3	-3.6	64.2	64.3
Asia	**China**	**8.4**	5.6	1.2	1.9	3.6	3.6	1.6	1.3	-9.6	-8.7	69.6	73.7
	Japan	**3.3**	2.5	0.1	0.7	2.8	2.4	3.6	3.2	-9.4	-3.8	256.5	253.6
	India	**12.5**	6.9	4.9	4.1	na	na	-1.2	-1.6	-10.0	-9.1	86.6	86.3
	Indonesia	**4.3**	5.8	2.0	3.1	6.5	5.8	-1.3	-1.4	-6.1	-4.4	41.4	42.8
	South Korea	**3.6**	2.8	1.4	0.9	4.6	4.1	4.2	4.0	-2.9	-2.4	53.2	57.2
	Thailand	**2.6**	5.6	1.3	1.0	1.5	1.0	0.5	2.6	-4.9	-1.5	55.9	54.7
	Australia	**4.5**	2.8	1.7	1.6	6.0	5.5	2.4	1.0	-10.4	-6.8	72.1	77.0
	South Africa	**3.1**	2.0	4.3	4.5	29.7	30.8	-0.4	-1.5	-10.6	-8.3	80.8	84.4
	World	**6.0**	4.4										

Source: IMF, EU Commission, Erste Group Research estimates

Forecasts[1]

GDP	2019	2020	2021	2022
Eurozone	1.3	-6.5	4.4	4.1
US	2.3	-3.5	6.1	3.3

Inflation	2019	2020	2021	2022
Eurozone	1.2	0.3	1.8	1.4
US	1.8	1.2	3.3	2.1

Currency	current	Sep.21	Dec.21	Mar.22	Jun.22
EURUSD	1.19	1.18	1.20	1.20	1.20
EURCHF	1.09	1.13	1.14	1.15	1.14

Interest rates	current	Sep.21	Dec.21	Mar.22	Jun.22
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.55	-0.54	-0.54	-0.54	-0.54
Germany Govt. 10Y	-0.23	-0.10	0.00	0.00	0.10
Swap 10Y	0.09	0.20	0.30	0.30	0.40

Interest rates	current	Sep.21	Dec.21	Mar.22	Jun.22
Fed Funds Target Rate*	0.10	0.13	0.13	0.13	0.13
3M Libor	0.14	0.20	0.20	0.20	0.20
US Govt. 10Y	1.42	2.00	2.10	2.10	2.20
EURUSD	1.19	1.18	1.20	1.20	1.20

*Mid of target range

Interest rates	current	Sep.21	Dec.21	Mar.22	Jun.22
Austria 10Y	-0.02	0.10	0.20	0.20	0.30
Spread AT - DE	0.20	0.20	0.20	0.20	0.20

Source: Market data provider, Erste Group Research

[1] By regulations we are obliged to issue the following statement: Forecasts are no reliable indicators for future performance

Equities- Erste Global 1000 Index

					Weight	Performance (%)				Growth (%, y/y)				P/E		DY
			No. of	Mkt. Cap.	(%)	EUR				Sales		Net Profit Adj.				
	Erste Global 1000 Index		Comp.	EUR bn	World	1M	3M	12M	YTD	21e	22e	21e	22e	21e	22e	21e
	World	**USD**	**1,054**	**56,424**	**100**	**3.6**	**5.1**	**28.8**	**13.7**	**13.7**	**5.7**	**37.7**	**9.0**	**18.7**	**17.2**	**2.0**
	Developed Markets	USD	874	49,224	87.3	3.7	5.7	30.5	14.4	13.0	5.0	39.5	8.6	20.2	18.6	1.8
	Emerging Markets	USD	180	7,200	12.7	2.8	0.7	18.4	8.9	17.6	9.8	30.5	10.8	12.5	11.2	3.0
Developed Markets	**North America**	**USD**	**464**	**33,205**	**58.9**	**4.2**	**6.5**	**31.9**	**15.5**	**12.3**	**6.3**	**35.8**	**9.8**	**22.7**	**20.7**	**1.4**
	Canada	USD	37	1,372	2.4	2.8	9.8	36.6	24.2	4.7	6.7	47.9	4.6	17.1	16.3	2.9
	USA	USD	427	31,833	56.5	4.3	6.3	31.7	15.2	12.7	6.3	35.1	10.1	23.1	21.0	1.4
	Europe	**EUR**	**242**	**10,108**	**17.9**	**2.1**	**7.0**	**26.7**	**15.1**	**13.0**	**4.5**	**47.0**	**10.1**	**17.4**	**15.8**	**2.7**
	Austria	EUR	3	56	0.1	1.3	19.0	76.3	24.1	43.5	-0.5	86.5	14.4	15.3	13.4	2.7
	Denmark	EUR	10	415	0.7	4.8	13.6	31.5	12.5	15.4	0.7	41.3	-15.8	19.5	23.2	2.0
	France	EUR	45	2,215	3.9	2.3	10.3	36.8	19.1	10.1	4.5	73.1	12.0	20.4	18.3	2.2
	Germany	EUR	36	1,673	3.0	1.9	4.2	25.4	13.8	7.5	4.3	43.1	8.0	14.7	13.6	2.7
	Italy	EUR	12	333	0.6	-0.9	-0.5	20.0	9.0	30.7	4.2	82.2	15.5	11.6	10.0	4.7
	Netherlands	EUR	16	912	1.6	3.8	6.0	31.9	18.9	18.6	6.2	60.4	10.2	19.2	17.4	2.2
	Spain	EUR	15	462	0.8	-2.6	5.8	19.8	10.3	11.1	6.2	17.3	28.7	18.9	14.7	3.4
	Sweden	EUR	14	371	0.7	0.5	1.7	34.4	17.3	9.8	5.7	15.0	10.0	14.9	13.5	3.3
	Switzerland	EUR	26	1,490	2.6	5.6	10.1	18.4	13.5	12.4	3.5	10.2	8.5	20.0	18.5	2.6
	United Kingdom	EUR	42	1,501	2.7	0.2	5.1	19.6	14.8	15.9	5.1	73.9	12.4	15.4	13.7	2.9
	Asia/Pacific	**USD**	**168**	**5,912**	**10.5**	**3.4**	**-0.3**	**29.7**	**7.7**	**6.4**	**3.6**	**32.8**	**3.4**	**15.0**	**14.5**	**2.6**
	Japan	USD	101	3,154	5.6	4.2	-2.4	19.1	4.4	1.0	3.0	12.7	7.9	16.8	15.6	2.0
	Australia	USD	23	913	1.6	0.6	4.9	33.8	13.2	13.7	-1.4	42.7	-9.9	12.9	14.3	5.3
	South Korea	USD	23	903	1.6	4.7	1.8	51.8	6.0	20.0	7.2	100.3	1.5	11.1	11.0	1.6
	Taiwan	USD	15	782	1.4	3.5	0.8	56.4	16.9	19.0	5.1	36.2	7.8	18.8	17.5	2.8
Emerging Markets	**Emerging Asia/Pacific**	**USD**	**136**	**5,874**	**10.4**	**2.0**	**-1.2**	**16.1**	**7.4**	**16.1**	**10.5**	**18.1**	**12.2**	**13.4**	**12.0**	**2.5**
	China (incl. HK)	USD	73	4,228	7.5	1.7	-2.5	11.9	6.9	17.0	10.3	16.6	10.8	11.6	10.5	2.8
	India	USD	37	1,253	2.2	3.5	5.2	41.2	13.3	11.9	13.2	21.4	19.5	24.3	20.3	1.5
	Indonesia	USD	7	135	0.2	-3.4	-12.9	-6.0	-12.4	11.3	7.5	28.4	19.1	16.2	13.6	3.4
	Emerging Europe	**USD**	**13**	**493**	**0.9**	**6.0**	**10.5**	**26.5**	**26.3**	**33.0**	**5.0**	**111.5**	**4.6**	**6.5**	**6.2**	**8.4**
	Russia	USD	12	480	0.8	6.0	10.1	26.1	26.2	33.2	5.0	113.1	4.6	6.5	6.2	8.6
	Emerging Americas	**USD**	**25**	**684**	**1.2**	**9.0**	**15.8**	**33.2**	**10.7**	**13.0**	**9.8**	**79.4**	**7.4**	**13.4**	**12.5**	**3.6**
	Brazil	USD	14	421	0.7	10.5	27.7	41.2	13.9	13.6	11.3	83.4	5.5	10.8	10.3	4.8
	Emerging Africa (S.A.)	**USD**	**6**	**149**	**0.3**	**-3.6**	**-10.5**	**24.5**	**9.6**	**32.2**	**10.2**	**70.6**	**14.4**	**11.3**	**9.9**	**3.2**
	Global Sectors															
Erste Sectors	**Basic Materials**	**USD**	**54**	**1,793**	**3.2**	**-0.9**	**4.1**	**32.9**	**12.9**	**22.7**	**-0.4**	**96.5**	**-11.3**	**10.5**	**11.9**	**4.7**
	Basic Resources	USD	28	934	1.7	-2.3	6.9	42.8	16.4	26.3	-3.1	121.1	-16.2	7.8	9.3	6.6
	Chemicals	USD	26	859	1.5	0.7	1.2	23.7	9.3	18.5	2.9	54.6	0.7	17.3	17.2	2.5
	Consumer Discretionary	**USD**	**145**	**8,989**	**15.9**	**4.5**	**4.7**	**35.6**	**9.5**	**16.5**	**11.4**	**85.9**	**29.6**	**30.0**	**23.1**	**0.9**
	Automobiles & Parts	USD	31	1,690	3.0	6.1	6.7	87.3	13.1	14.9	7.2	110.0	17.2	15.6	13.3	1.5
	Consumer Discretionary Retailers	USD	32	3,463	6.1	5.7	4.0	19.3	7.3	18.6	12.7	47.2	16.5	33.8	29.0	0.5
	Consumer Products & Services	USD	42	2,472	4.4	4.3	8.7	37.7	13.3	13.1	7.8	27.4	11.0	29.2	26.3	1.2
	Media	USD	11	686	1.2	3.5	-0.9	30.5	1.7	11.2	13.2	46.2	35.1	40.5	30.0	0.6
	Travel & Leisure	USD	29	678	1.2	-2.5	-4.2	34.5	7.8	32.2	50.2	nan	nan	0.0	26.2	0.3
	Consumer Staples	**USD**	**84**	**3,703**	**6.6**	**1.3**	**2.7**	**12.9**	**7.2**	**6.4**	**3.5**	**12.3**	**7.8**	**21.0**	**19.5**	**2.6**
	Food, Beverage & Tobacco	USD	55	2,391	4.2	1.5	4.0	14.5	8.6	7.4	4.1	12.6	8.4	20.6	19.0	2.9
	Consumer Staples Retailers	USD	29	1,312	2.3	1.1	0.4	10.1	4.7	5.9	3.2	11.8	6.8	21.7	20.3	2.0
	Energy	**USD**	**65**	**2,585**	**4.6**	**7.2**	**7.3**	**26.4**	**29.4**	**35.5**	**3.8**	**269.9**	**9.3**	**11.7**	**10.7**	**4.9**
	Financials	**USD**	**203**	**9,989**	**17.7**	**0.5**	**3.7**	**33.8**	**18.2**	**5.5**	**4.3**	**26.7**	**5.8**	**12.5**	**11.8**	**2.8**
	Banks	USD	97	4,794	8.5	-1.4	1.8	34.3	19.9	6.2	4.7	31.5	5.2	9.5	9.0	3.8
	Financial Services	USD	50	2,955	5.2	5.9	10.6	39.0	20.8	8.4	2.9	17.4	8.9	24.4	22.4	1.2
	Insurance	USD	56	2,240	4.0	-2.1	-0.6	26.5	11.5	4.3	4.3	20.5	5.2	12.8	12.2	2.8
	Health Care	**USD**	**98**	**5,968**	**10.6**	**5.4**	**6.3**	**12.7**	**9.9**	**9.7**	**4.4**	**14.1**	**6.6**	**19.3**	**18.1**	**1.7**
	Industrials	**USD**	**142**	**5,250**	**9.3**	**1.3**	**3.4**	**34.5**	**13.4**	**10.8**	**5.0**	**53.9**	**13.4**	**21.5**	**18.9**	**1.6**
	Construction & Materials	USD	18	425	0.8	0.9	5.3	25.3	9.3	12.5	4.7	38.2	13.1	20.1	17.8	2.0
	Industrial Goods & Services	USD	124	4,826	8.6	1.3	3.3	35.3	13.7	10.6	5.1	55.6	13.4	21.6	19.0	1.6
	Real Estate	**USD**	**54**	**1,304**	**2.3**	**4.6**	**4.9**	**15.5**	**16.6**	**14.0**	**9.3**	**10.9**	**9.6**	**21.9**	**20.0**	**2.8**
	Technology	**USD**	**105**	**12,909**	**22.9**	**6.9**	**8.7**	**40.7**	**17.1**	**18.3**	**9.7**	**31.9**	**10.6**	**26.2**	**23.7**	**0.8**
	Telecom	**USD**	**45**	**2,419**	**4.3**	**1.5**	**0.6**	**13.2**	**8.4**	**5.4**	**2.8**	**0.3**	**2.0**	**15.1**	**14.8**	**3.0**
	Utility	**USD**	**59**	**1,512**	**2.7**	**-0.1**	**-1.3**	**8.8**	**2.1**	**9.8**	**2.3**	**5.5**	**8.6**	**18.3**	**16.8**	**3.6**

Source: Erste Group Research, FactSet. Closing Prices as of: 28.6.2021.

CEE Indices

Erste CEE Index		No. of Comp.	Mkt. Cap. EUR bn	Weight (%) CEE	Performance (%) EUR 1M	3M	12M	YTD	Growth (%, y/y) Sales 21e	22e	Net Profit Adj. 21e	22e	P/E 21e	22e	DY 21e
CEE Coverage	**EUR**	**157**	**358**	**100,0**	**1,8**	**13,8**	**35,1**	**19,5**	**10,6**	**5,2**	**72,6**	**13,1**	**13,4**	**11,9**	**2,9**
CEE Austria	EUR	36	125	35,0	0,8	12,0	55,0	21,4	14,0	4,4	78,6	17,6	13,8	11,8	3,0
CEE Czech Republic	EUR	8	32	9,0	0,9	11,0	26,2	15,3	1,4	1,0	0,8	9,6	16,5	15,1	5,9
CEE Croatia	EUR	11	6	1,7	3,4	6,1	21,5	11,4	9,4	6,6	107,9	29,5	31,3	24,1	2,1
CEE Hungary	EUR	4	24	6,8	4,2	14,1	35,6	21,0	9,6	4,0	32,5	18,0	10,8	9,1	2,4
CEE Poland	EUR	78	135	37,8	2,2	19,5	31,0	23,7	9,7	7,5	124,2	7,5	13,4	12,5	1,6
CEE Romania	EUR	9	20	5,5	5,4	6,0	28,2	16,3	6,6	3,3	17,2	16,7	15,2	13,0	4,2
CEE Serbia	EUR	2	1	0,4	0,1	4,8	25,8	4,7	33,6	-1,0	nan	21,5	8,9	7,3	2,0
CEE Slovenia	EUR	2	3	1,0	-1,0	9,5	26,5	13,8	4,3	4,7	7,3	4,5	10,9	10,5	5,0
CEE Turkey	EUR	6	10	2,8	1,3	-1,3	-22,7	-16,8	4,1	-1,8	81,8	17,1	7,2	6,1	7,1

Source: Erste Group Research, FactSet. Closing Prices as of: 28.6.2021.

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