Private Banking Investment Outlook

April 2021

ERSTE Private Banking

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Private Banking Investment Outlook

Executive Summary

Dear Readers,

after a subdued start in Q1 due to the Corona restrictions (our estimate -1.3%), we forecast a significant economic recovery for the eurozone over the course of the year thanks to the progress made on vaccinations. For the year as a whole we expect GDP growth of 4.0%. The US economy should have already achieved solid growth in the first quarter, which should accelerate massively in the second quarter - supported by the USD 1.9 trillion stimulus package recently adopted. For the year as a whole we expect the US economy to grow by a substantial 5.9%. Inflation will rise significantly in the coming months in both Europe and the USA due to base effects - one year after the outbreak of the crisis and the associated fall in prices. In our view, however, the rise in inflation this year is temporary, as the weakness of the labour market should lead only to extremely moderate wage growth. Against this background equity markets continued to rise sharply in March, with the S&P 500 up 7.2% in EUR terms and the Stoxx 600 up 6.1%. In view of the recent unusually strong rise we expect global equity markets to move sideways in April. Somewhat more volatile equity markets should result in a stabilisation of the gold price.

Attractiveness of asset classes
Short-term estimates of Erste Bank (updated quarterly)

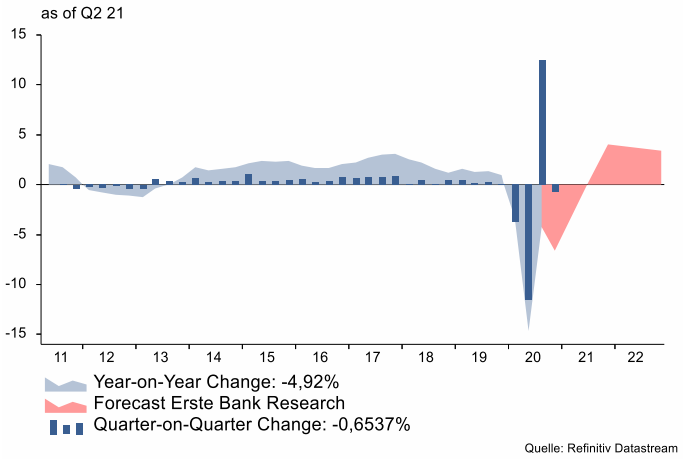
Segment	Asset Class	--	-	neutral	+	++
Bonds Investment Grade	Euro Money Market		●			
	Euro Government Bonds Investment Grade		●			
	Euro Corporate Bonds			●		
	US Corporate Bonds			●		
Bonds High Yield	Euro High Yield			●		
	US High Yield				●	
	Emerging Sovereigns Hard Currency				●	
	Emerging Corporates Hard Currency				●	
	CEE Sovereigns Local Currency			●		
	Emerging Sovereigns Local Currency				●	
Equities	Developed Markets				●	
	Emerging Markets				●	
Other	Gold		●	⇦		
	Real Estate			●		
	Commodities			●		
	Alternative Investments Low Vol			●		
	Alternative Investments High Vol			●		

With reference to the chart „Asset Class Attractiveness": please refer to the annex for the underlying index. Forecasts are no reliable indicator for future performance.

Eurozone Economics

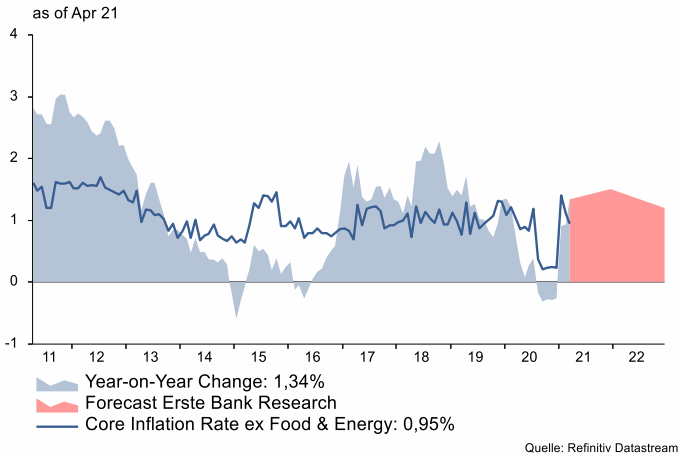
Overview

Eurozone Real GDP Growth Rate*



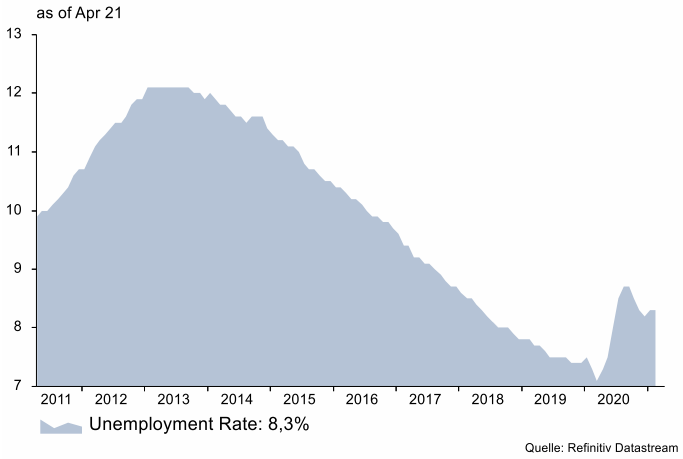
Due to the continued good sentiment in industry in February and March 2021, investment and foreign trade should have supported the eurozone economy in 1Q 2021 as well. Private consumption, on the other hand, should have weighed on eurozone growth in 1Q due to the ongoing restrictive measures. Against this backdrop, we expect GDP to contract slightly by 1.3% quarter-on-quarter. From 2Q onwards, we expect GDP to recover significantly thanks to further progress in vaccination, better rapid tests and warmer temperatures. For 2021 as a whole, we forecast GDP growth of 4.0%.

Eurozone Inflation Rate*

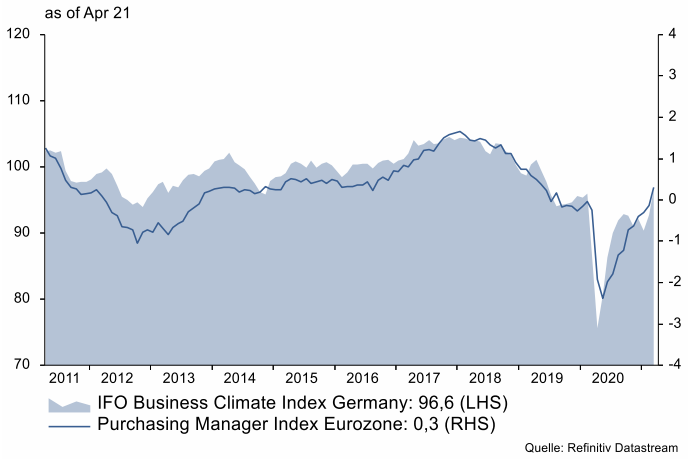


Eurozone inflation rose to +1.3% y/y in March, as expected. Due to base effects, energy prices made a positive contribution to overall inflation for the first time in 12 months. Core inflation has fluctuated since January due to distortions, but overall it is stable at a low level close to 1%. In April, base effects from energy prices should cause inflation to rise again, after which we expect upward pressure to stabilise. In H2, inflation should continue to gain a slight boost due to special effects (reduction of VAT in Germany in the previous year). At the beginning of 2022, however, the upward pressure from these effects should ease.

Unemployment Rate Eurozone



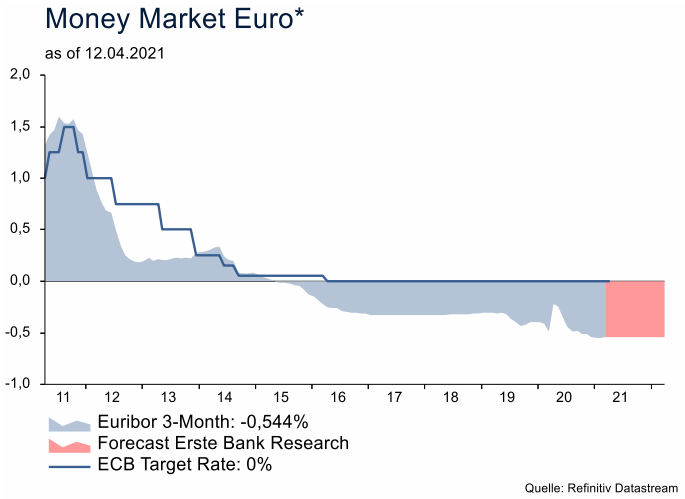
Eurozone Business Climate Indices



With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance.
* Forecasts are no reliable indicator for future performance.

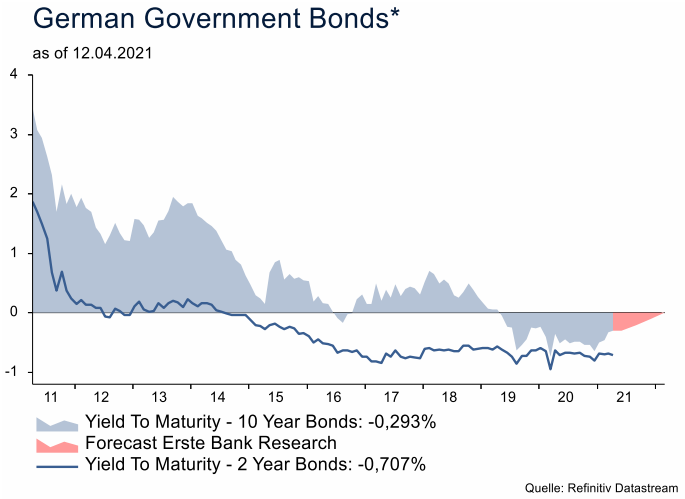
Euro Fixed Income

Money Market and Government Bonds

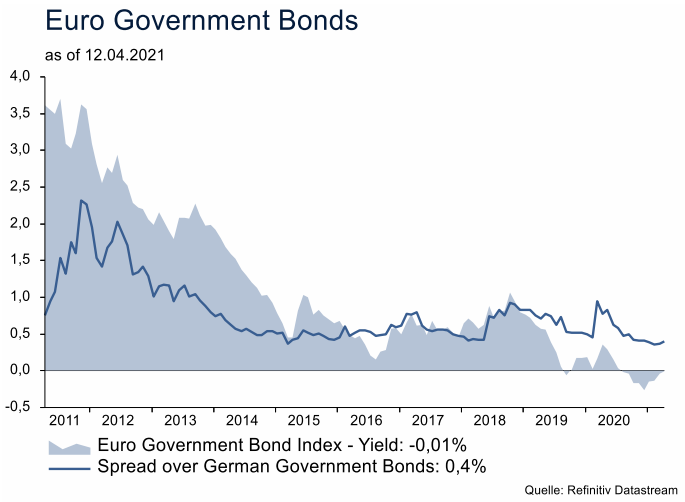


In response to the rise in yields on the bond market, a significant increase in the monthly purchases of securities was decided at the meeting of the ECB Governing Council in March. The measure was limited to the second quarter and is to be implemented under the PEPP program. According to figures available so far, this should mean purchases of around EUR 80bn per month. In January and February, the ECB bought an average of EUR 56bn. The ECB has thus sent a clear signal to the markets and defended its objective of ensuring favorable financing conditions. From a monetary policy perspective, managing the bond market will remain the ECB's main task for the rest of the year. This is because the selling pressure on the bond market should continue.

Forecast: somewhat negative



After a significant rise in yields on German Bunds in the course of February, the situation has since stabilized. This was due to verbal interventions by the ECB and the announcement that it would significantly increase its securities purchases during the second quarter. We assume that the ECB will continue to successfully manage the bond market in the months to come. However, the environment is becoming more difficult. Very strong economic data from the US and an improved economy in the Eurozone will put upward pressure on yields. We therefore expect a volatile market, but yield levels should ultimately hardly change until the middle of the year. Only in the second half of the year should yields rise slightly.



In general, yield spreads are supported by two factors. 1) The European Commission's recovery programme. 2) The European Central Bank's Pandemic Bond Purchase Program (PEPP). A significant expansion of purchases was announced for Q2 to keep the financial environment loose. Going forward, the shape of the central bank's exit strategy from ultra-expansionary policy will be key. Future inflation rates priced into bond prices have already significantly exceeded pre-pandemic levels (10Y Germany: currently 1.35%, pre-Covid: 1.08%) and are thus increasingly pricing in an economic recovery.

Forecast: somewhat negative

With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance. Please refer to the annex for the underlying index.
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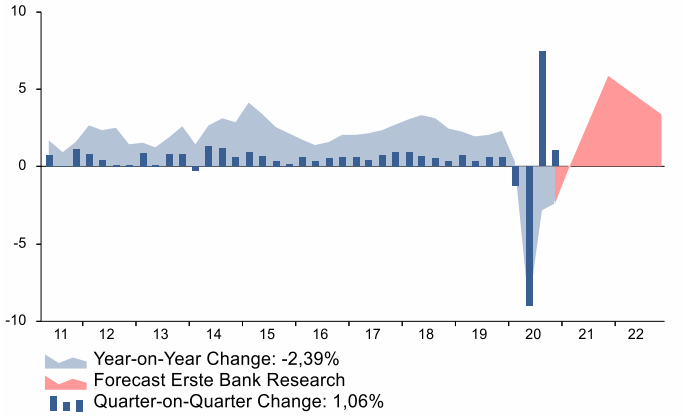
US Economics

Overview

US Real GDP Growth Rate*

as of Q2 21

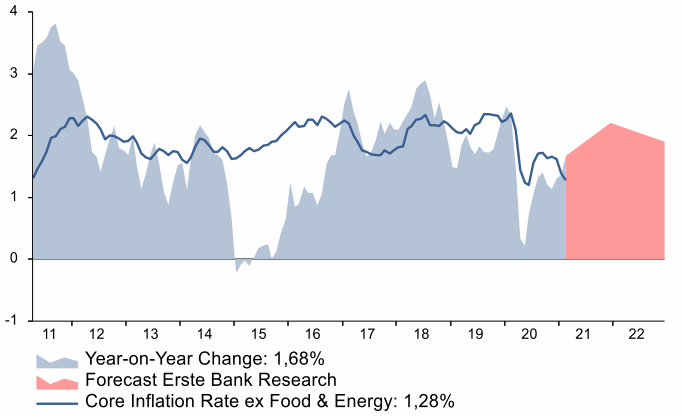


Quelle: Refinitiv Datastream

Data available to date suggest that the US economy will grow at a solid pace in Q1 2021, slightly above that of Q4 2020. This is largely due to the stimulus package passed at the end of December, which includes one-off payments of USD 600 to income earners up to a certain limit. The next much larger package, worth USD 1.9 trillion, was recently enacted and should also have some impact in Q1, but more importantly trigger a massive acceleration in growth in Q2. Overall, we expect the US economy to grow a very strong 5.9% this year, following a contraction of 3.5% in 2020.

US Inflation Rate*

as of Feb 21

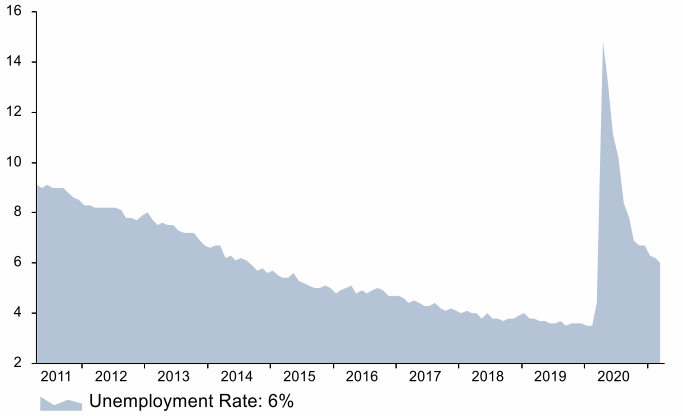


Quelle: Refinitiv Datastream

From March onwards, due to base effects (one year after the outbreak of the crisis and the price decline that it triggered), a temporary jump in the inflation rate should set in. This effect should continue into the summer. In the autumn, inflation rates should settle sligthly above 2%, assuming a moderate decline in oil prices in the course of the year. We assume that the ramp-up of the economy could at best lead to a limited, temporary rise in the inflation rate. In the medium term, we expect only subdued price pressures, as wage growth should be moderate in an economic environment that will be characterized by an elevated unemployment rate.

US Unemployment Rate

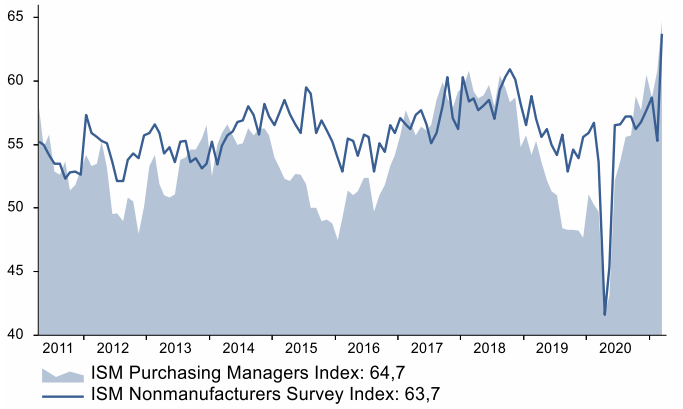
as of Mrz 21



Quelle: Refinitiv Datastream

US ISM Purchasing Managers Index

as of Mrz 21



Quelle: Refinitiv Datastream

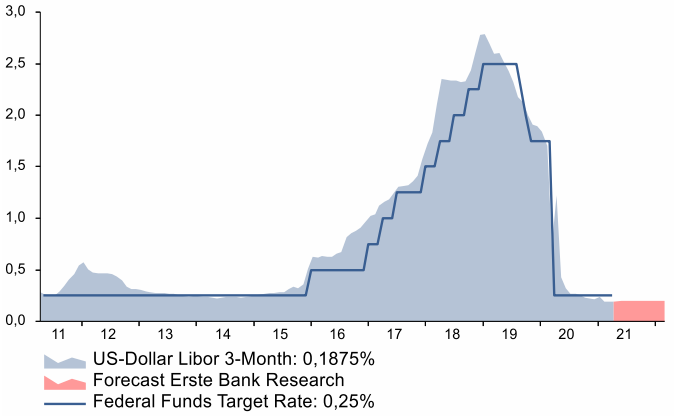
With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance.
* Forecasts are no reliable indicator for future performance.

US Fixed Income

Money Market and Government Bonds

Money Market US*

as of 12.04.2021

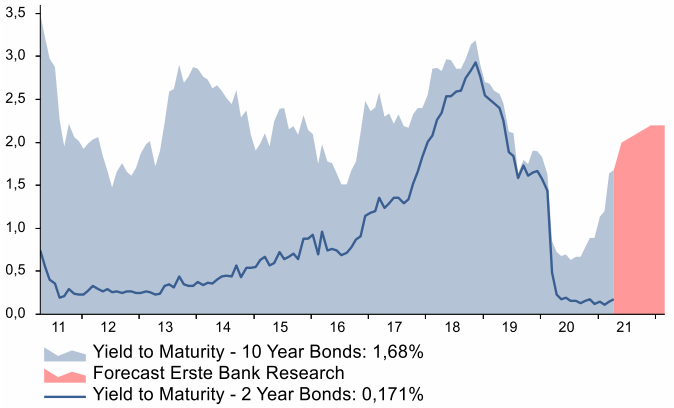


Quelle: Refinitiv Datastream

At the last meeting of the US Fed's FOMC in March, the current direction of monetary policy was confirmed, as expected. Fed Chairman Powell emphasized that there were set criteria for a change in monetary policy and that these had to be confirmed by corresponding data. For the end of securities purchases, the FOMC is waiting for significant progress in achieving its goals, i.e. inflation and employment. The strong economy during the coming months should bring this progress, so that a reduction in the monthly purchases of securities should be announced in the course of the summer. However, implementation should then only begin at the beginning of next year.

US Government Bonds*

as of 12.04.2021

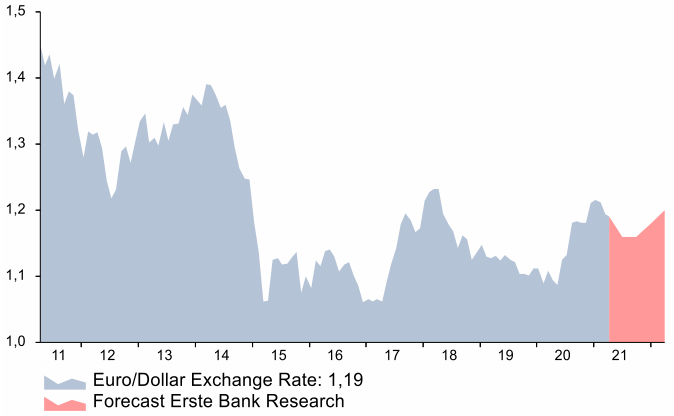


Quelle: Refinitiv Datastream

Due mainly to the impact of the latest stimulus package, the coming months will bring very strong economic data for the US. Even if this is already generally expected, the release should put additional pressure on the market and buyers will probably want to wait for the peak of the economic stimulus. In addition, speculation about the timing of the Federal Reserve's reduction in monthly securities purchases will have an effect. In this environment, the risk profile of US government bonds will deteriorate and be reflected in a noticeable rise in yields. In the second half of the year, the situation should calm down and we then expect yields to rise only slightly.

Euro-Dollar Exchange Rate*

as of 12.04.2021



Quelle: Refinitiv Datastream

Since the beginning of the year, the dollar has been able to steadily appreciate against the euro. The reasons for this were, on the one hand, the prospect of large public economic packages in the US and thus a rapid economic recovery, and on the other hand, the sluggish progress of vaccinations clouded the economic outlook for the Eurozone. Over the coming months, we expect strong economic data from both the US and the Eurozone. However, the decisive factor should be that the yield spread on the bond market will continue to rise in favour of the US. This should cause the dollar to rise further. We then expect a countermovement in the second half of the year.

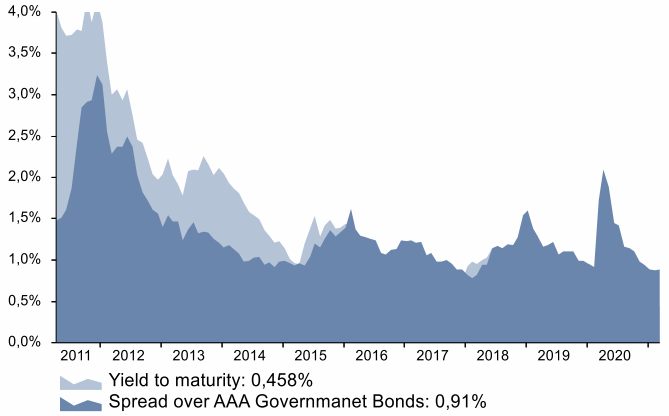
With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance. Please refer to the annex for the underlying index.
* Forecasts are no reliable indicator for future performance..

Corporate Bonds

Investment Grade

Euro Corporate Bonds: Yield & Spread

as of 12.04.2021



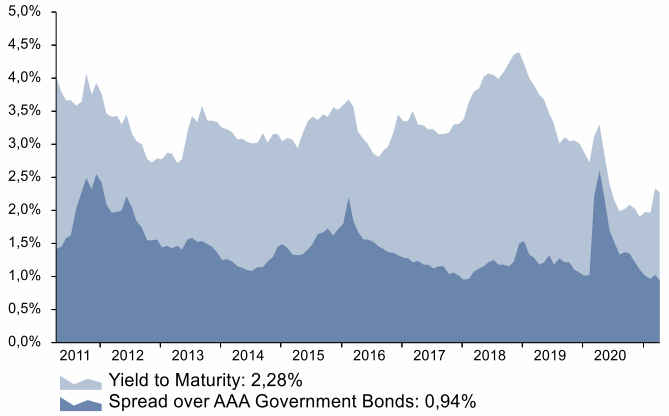
Quelle: Refinitiv Datastream

Bund yields fell slightly in March, helping investment grade (IG) corporate bonds to post a slightly positive performance (+0.1%). IG hybrid bonds even outperformed high-yield bonds in March (+1.0% vs. +0.5%). This was driven by good economic and sentiment indicators. Within the IG segment, we continue to favour hybrids. Their slightly lower duration compared to senior bonds argues in their favour. They should continue to benefit more from the forecast economic recovery. Bonds from cyclical sectors should outperform those from defensive sectors.

Forecast: neutral

US Corporate Bonds: Yield & Spread

as of 12.04.2021



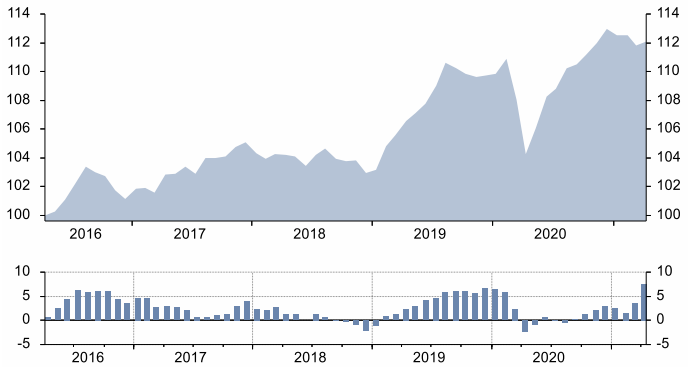
Quelle: Refinitiv Datastream

Yield spreads have now fallen below the pre-Covid level. In addition, yields on US government bonds have been trending upwards since August 2020. The latter has led to a negative yield trend since the beginning of the year. In the meantime, some key rate hikes for 2023 have already been priced in, while the Federal Reserve is indicating unchanged key rates. This has led to consolidation in corporate bonds since mid-March. Supportive factors include: 1) high central bank liquidity, 2) rapid progress on vaccination coverage, 3) large fiscal packages, 4) much better economic indicators than in other developed economies. On the negative side, new infections are on the rise again.

Forecast: neutral

Euro Corporate Bonds: Performance

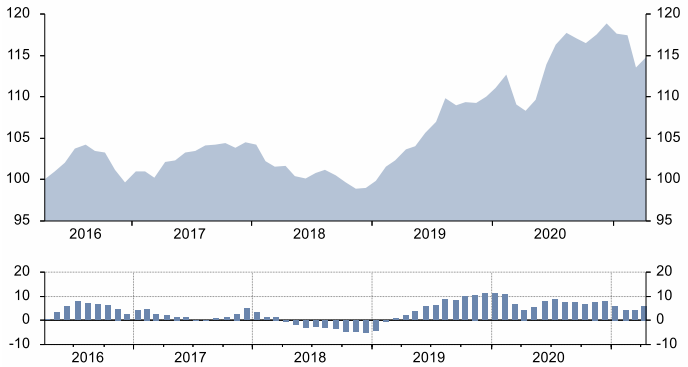
as of 12.04.2021



Quelle: Refinitiv Datastream

US Corporate Bonds: Performance

as of 12.04.2021



Quelle: Refinitiv Datastream

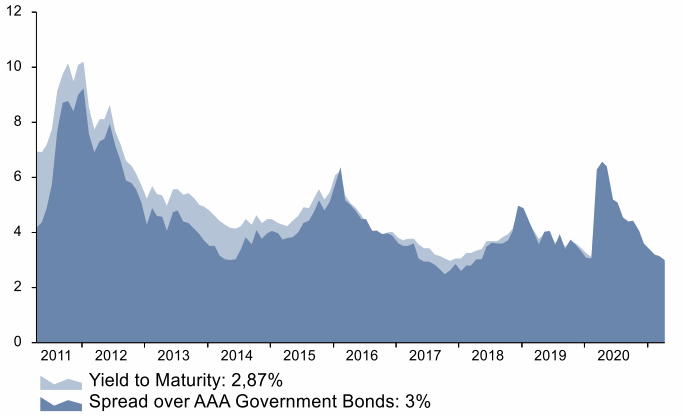
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

High Yield Bonds

Corporate Bonds with a Speculative Rating

Euro High Yield: Yield & Spread

as of 12.04.2021



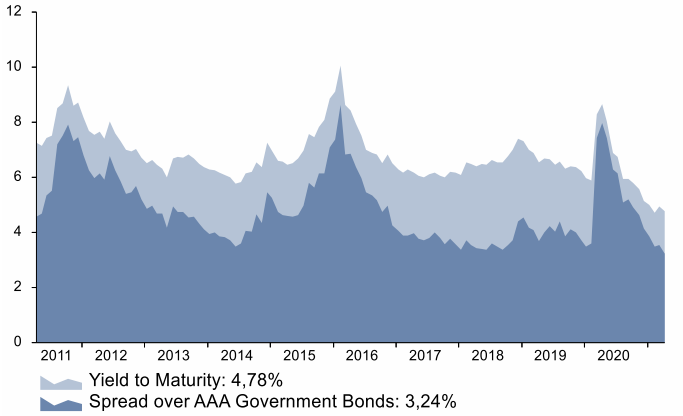
Quelle: Refinitiv Datastream

Despite the decline in Bund yields, high-yield (HY) bonds also outperformed IG bonds in March (+0.5% vs. +0.1%). Strong leading economic indicators justify this development. HY issuers have only limited refinancing needs this year. This should keep the number of defaults relatively low. Loose monetary policy is supporting interest coverage ratios. We no longer see much narrowing potential in spreads. Higher current yields, lower duration and a better economic outlook continue to argue for diversified investments in the HY segment. We prefer BB bonds. We consider weaker rating categories to be relatively expensive.

Forecast: neutral

US High Yield: Yield & Spread

as of 12.04.2021



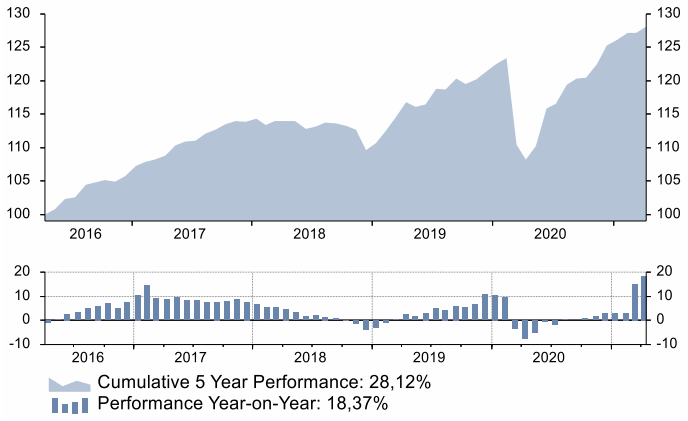
Quelle: Refinitiv Datastream

Below investment grade corporate bonds have now made up for the March 2020 increase in the credit spread. Supporting factors are: 1) high central bank liquidity, 2) rapid progress with vaccination, 3) large fiscal packages, 4) significantly better economic indicators than in other developed economies. Negative factors are: 1) rising government bond yields and 2) generally downside risks (above-average valuations in the US equity market). In contrast to IG bonds, HY bonds have so far been able to compensate for the rise in yields on US government bonds. Since the beginning of the year, the yield trend has been up.

Forecast: somewhat positive

Euro-High Yield: Performance

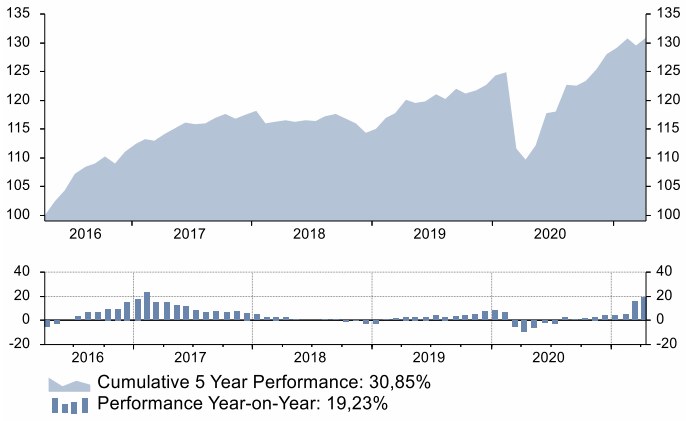
as of 12.04.2021



Quelle: Refinitiv Datastream

US High Yield: Performance

as of 12.04.2021



Quelle: Refinitiv Datastream

With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

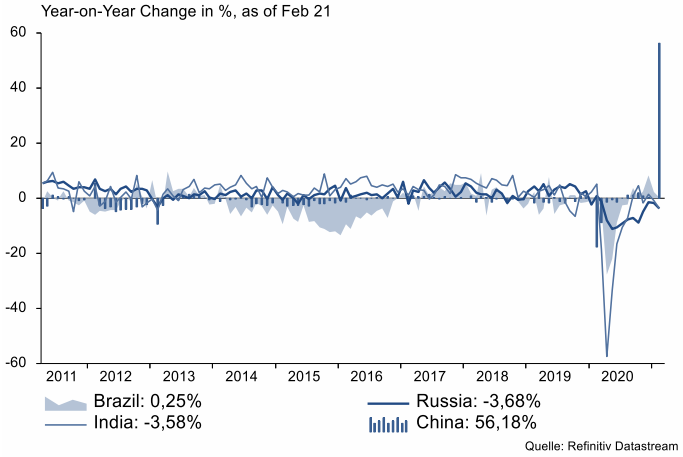
BRIC Economics

Brazil, Russia, India and China

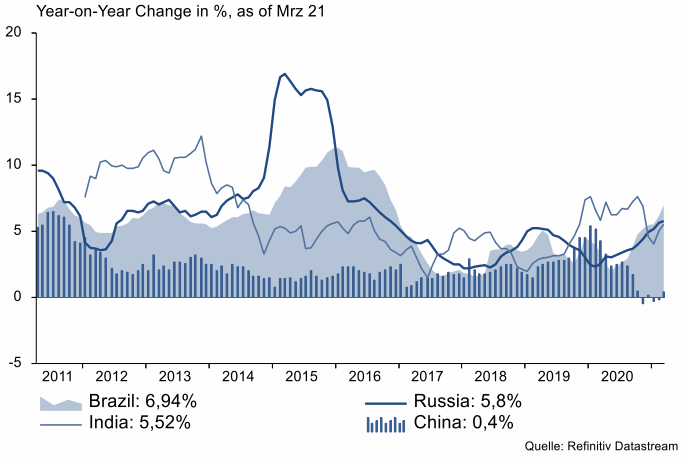
Brazil: No flattening of the curve for new infections discernible (poor health management). Expectations for only partial recovery in economic activity (2020: -4.3%; 2021; 3.2%;). Inflation is on the rise (March: 6.1% pa). Mainly because of this, the central bank raised the key interest rate in March by a surprisingly large 0.75 percentage points from the historical low of 2%. The already high budget deficit is rising sharply (2020: 13.4% of GDP). The currency has come under renewed pressure since the beginning of the year. Local and hard currency bonds have also seen price losses since the beginning of the year.

Russia: On the epidemiological side, a decline in new infections is discernible. Expectation for a partial recovery of economic activity (2020: -3.0%, 2021: 3.4%). Government budget surplus has disappeared (2020: -4.1% of GDP). Temporary rise in inflation (March: 5.8% pa). The central bank has responded earlier than expected by raising the key interest rate by 0.25 percentage points to 4.5%. The rouble is moving sideways with increased volatility. Positive: the rising oil price. Both local and USD bonds have shown a negative yield trend since the beginning of the year.

Industrial Production BRIC



Inflation Rates BRIC



India: On the epidemiological side, however, new infections have again increased significantly. Expectations for a significant recovery in economic activity are likely to be revised down (current; 2020: -8.0%, 2021: 13.2%). Increased but still falling inflation (Oct20: 7.6% pa, Feb: 5% pa). Budget deficit elevated at 12.3% of GDP (2020), limiting scope for fiscal countermeasures. The central bank has lowered the policy rate to 4% in May 2020. However, the elevated level of non-performing loans is hampering the transmission mechanism of monetary policy. In response to the rising caseload, the central bank has announced bond purchases of around $14 billion for Q2. The currency is exposed to weakening pressures.

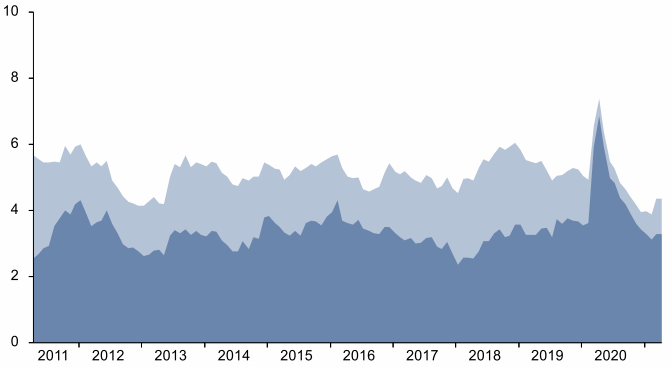
China was the only major country to almost complete its economic recovery from the slump in Q4 2020. Reason: Extensive fiscal and monetary policy measures to mitigate the knock-on effects of the slump (higher liquidity, higher budget deficit, higher credit growth). Strong average annual growth (2020: 2.3%, 2021: 9.5%). However, growth rates will fall in the course of the year as expansionary economic policies are scaled back. Indeed, officials are concerned about possible exaggerations in China's property market. The strengthening trend of the currency has turned into a slight weakening trend since March. In contrast to other markets, government bond yields are trending sideways.

Emerging Market Bonds in Euro

Hedged in EUR

Emerging Market Bonds in Hard Currency

Yield & Spread, as of 12.04.2021



Yield to Maturity: 4,35%
Spread over AAA Government Bonds: 3,28%

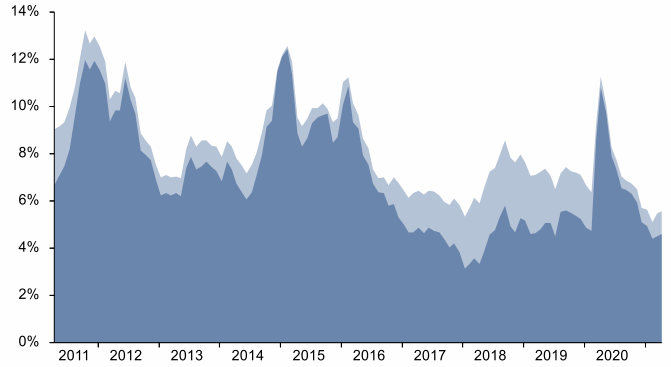
Quelle: Refinitiv Datastream

The yield spread for country credit risk is now below pre-Covid levels. The positive vaccine news and extremely expansionary monetary policies are supportive. On the other hand, the rise in US government bond yields has led to a negative return trend since the beginning of the year. There are also several risks: 1) Epidemiology: there is still no sign of the curve flattening in several countries. 2) Inflation problems in some countries are leading to interest rate hikes. 3) The US dollar has strengthened against an EM currency basket since the beginning of the year. This could bring structural risks to the fore once again: External imbalances (current account deficits, external debt) and internal imbalances (budget deficits, inflation).

Forecast: somewhat positive

Emerging Corporates in Hard Currency

Yield & Spread, as of 12.04.2021



Yield to Maturity: 5,57%
Spread over AAA Government Bonds: 4,59%

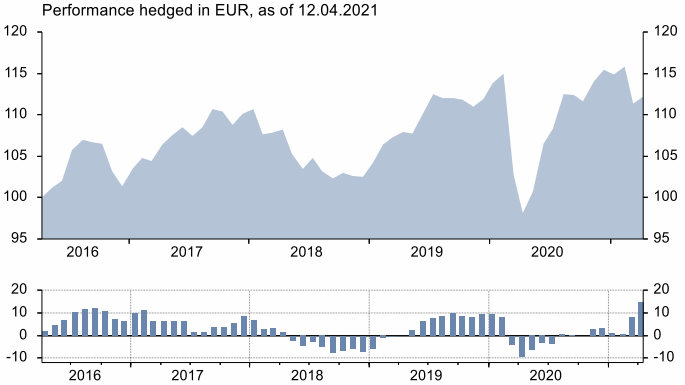
Quelle: Refinitiv Datastream

Credit spreads have now almost completely made up for the March 20 widening. In the past year, fiscal rescue packages have been put together in numerous countries and monetary policy has become more expansionary (more liquidity, lower interest rates). In addition, the comparatively rapid economic recovery in China, the ultra-expansive monetary policies of the major central banks and the prospect of a global recovery are helping. However, U.S. yield increases have led to negative earnings performance since the beginning of the year. Additionally weighing: Case rates are 1) rising in some countries, 2) inflation and 3) policy rates. Still negatively, productivity growth has been impacted and banks have become more restrictive in lending.

Forecast: somewhat positive

Emerging Market Bonds in Hard Currency

Performance hedged in EUR, as of 12.04.2021

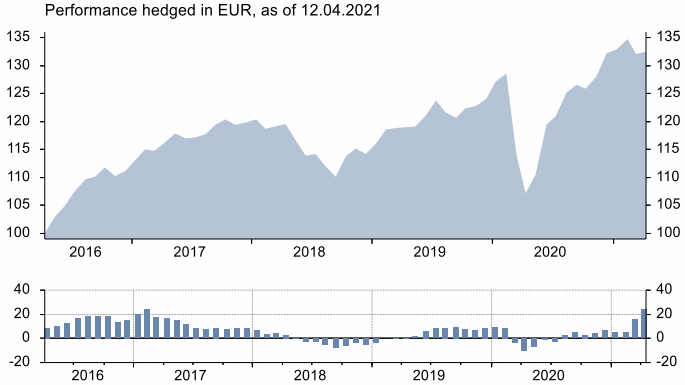


Cumulative 5 Year Performance: 12,23%
Performance Year-on-Year: 14,31%

Quelle: Refinitiv Datastream

Emerging Corporates in Hard Currency

Performance hedged in EUR, as of 12.04.2021



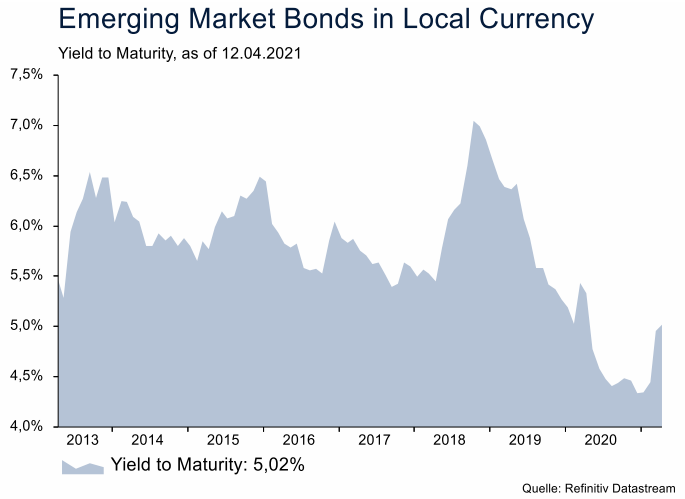
Cumulative 5-Year-Performance: 32,41%
Performance Year-on-Year: 23,55%

Quelle: Refinitiv Datastream

With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

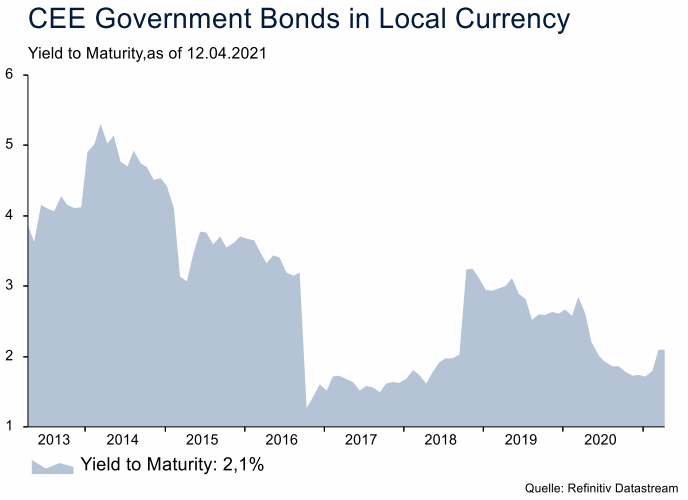
Emerging Market Bonds in Local Currency

Global and Central Europe



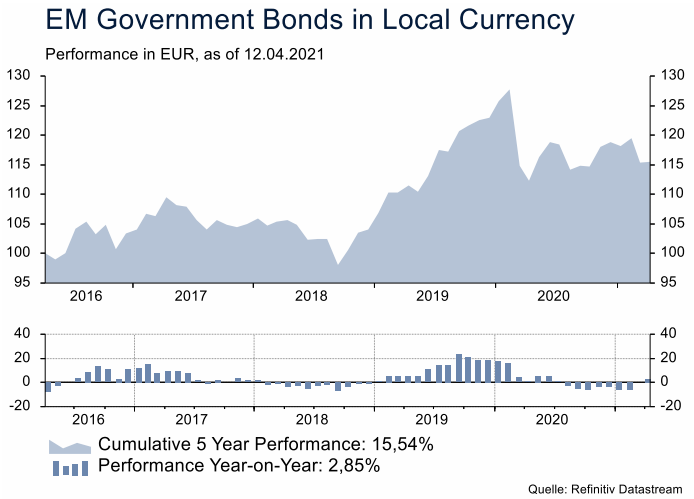
In contrast to previous crises, many EM central banks were able to cut key interest rates last year in order to support the economy (current aggregate: 3.1%). In addition, EM currencies have strengthened in the aggregate against the US dollar since the low in April 20. However, since the beginning of the year, yields have shown a moderate rising trend (from 4.24% to 5.0%) and EM currencies have weakened somewhat against the US dollar. Behind this is stronger economic development in the US (supporting the USD and leading to US yield rises) and inflation rises in some EM (has led to rate hikes).

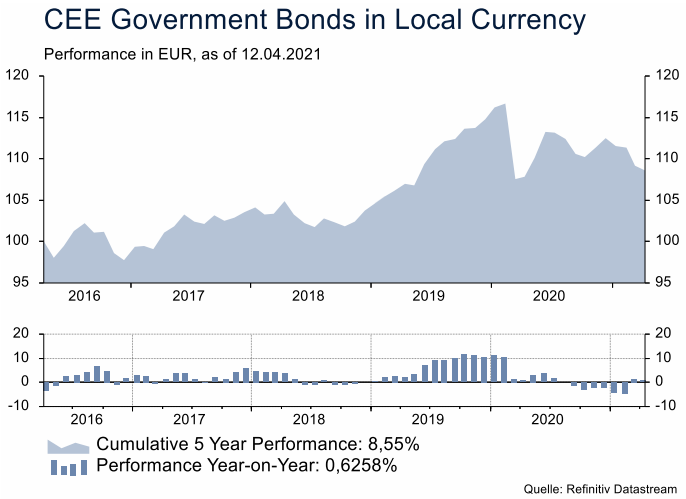
Forecast: somewhat positive



The new virus variants have a higher infection rate, morbidity and mortality. Therefore, the start of economic recovery is postponed. Overall, the expectation for a partial recovery of economic activity holds: CZ (2020: -5.7%, 2021: 3.5%), HU (2020: -5.0, 2021: 4.4%), PL (2020: -2.7%, 2021: 4.0%), RO (2020: -3.9%, 2021: 6.0%), TR (2020: +1.9%, 2021: 4.8%). Central banks have responded to the crisis by cutting policy rates. Some have also initiated bond purchase programs. Currencies are performing inconsistently amid heightened volatility. The Turkish lira has recently come under pressure again as inflation rates remain elevated and the head of the central bank has been ousted for what the government sees as an overly orthodox monetary policy.

Forecast: neutral





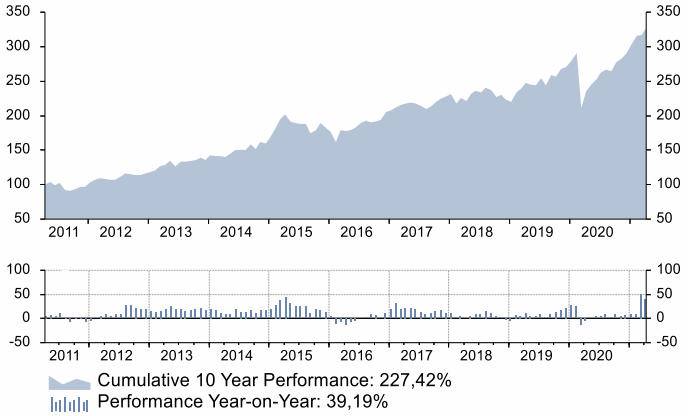
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Equities Developed Markets

Overview

Developed Markets

Performance in EUR, as of 12.04.2021



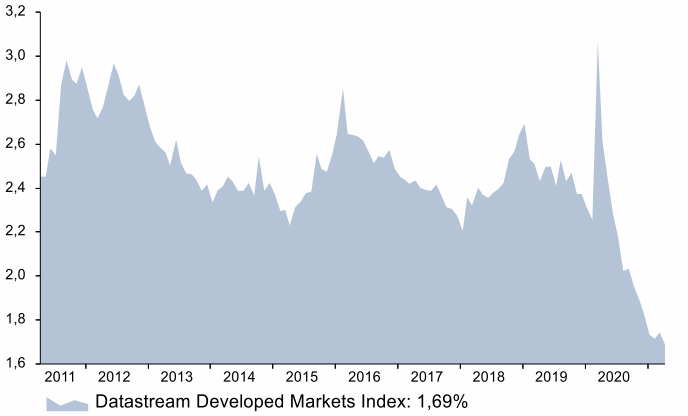
Quelle: Refinitiv Datastream

The global equity index rose by +6.0% in EUR terms in March. The S&P 500 was up +7.2% in EUR terms and the Stoxx 600 was +6.1% higher. The outlook for corporate sales and earnings growth is positive for 2021 in developed markets. The majority of Q4 corporate results were better than expected in both the US and Europe. This year, global corporate revenues should grow by about +11% and profits by +29%. We expect the global equity market index to move sideways in April due to the recent unusually strong rise.

Forecast: somewhat positive

Dividend Yield

as of 12.04.2021

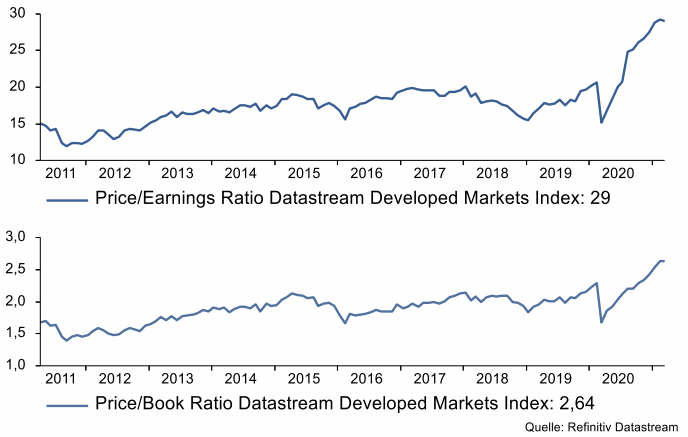


Quelle: Refinitiv Datastream

In recent weeks, earnings estimates for US companies for Q1 have been raised by +6%. This large increase should be viewed positively. US corporate revenues should rise by around +9.9% this year and profits by around +26%. The technology, healthcare, consumer, banking and industrial sectors are expected to show steady earnings growth. In Europe, according to the consensus forecast, corporate revenues should rise by +9.7% this year and profits by around +35%. The expected dividend yield of European equities is 2.7%. This is above the global average. We expect the leading indices to move sideways in April due to profit-taking.

Key Indicators

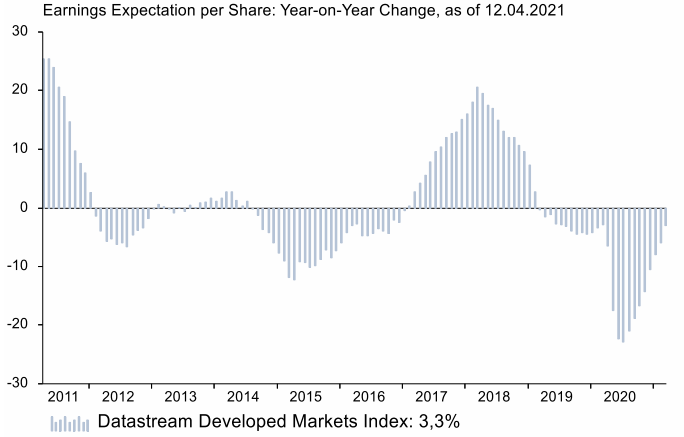
as of 12.04.2021



Quelle: Refinitiv Datastream

Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 12.04.2021



Quelle: Refinitiv Datastream

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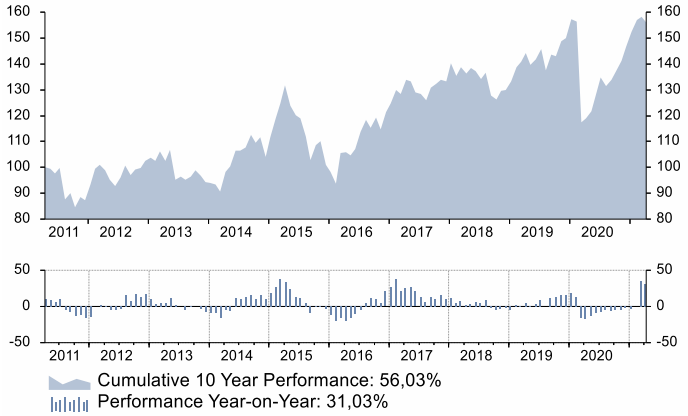
Equities Emerging Markets

Overview

Emerging Markets

Performance in EUR, as of 12.04.2021



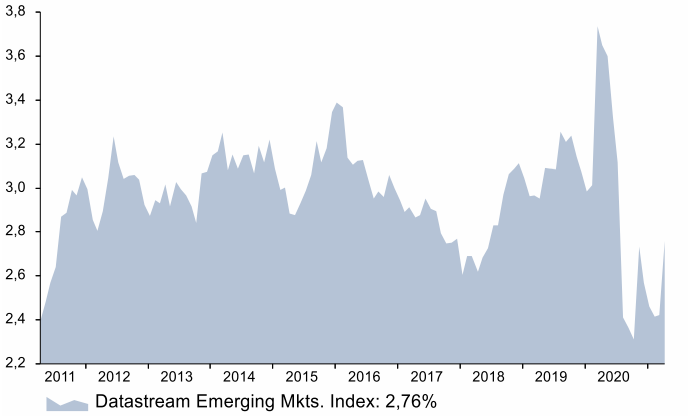
Quelle: Refinitiv Datastream

The global emerging markets index rose +1.1% in EUR terms in March. The return was lower than that of developed markets. The positive performance was boosted by expectations of an acceleration in global growth and the rise in commodity prices. Purchasing managers' indices indicate a strong expansion of the economy, especially in Asia. High revenue growth of +14.9% and earnings growth of around +27% are expected in emerging markets in 2021. The moderate valuation (P/E 2021e: 12.8x; dividend yield 2021e: 2.9%) argues for a positive market development in the medium term. In the short term, we expect volatility to increase and the global emerging markets index to move sideways.

Forecast: somewhat positive

Dividend Yield

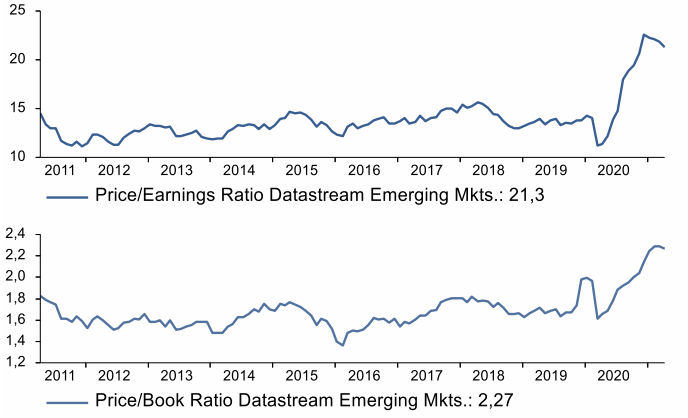
as of 12.04.2021



Quelle: Refinitiv Datastream

Key Indicators

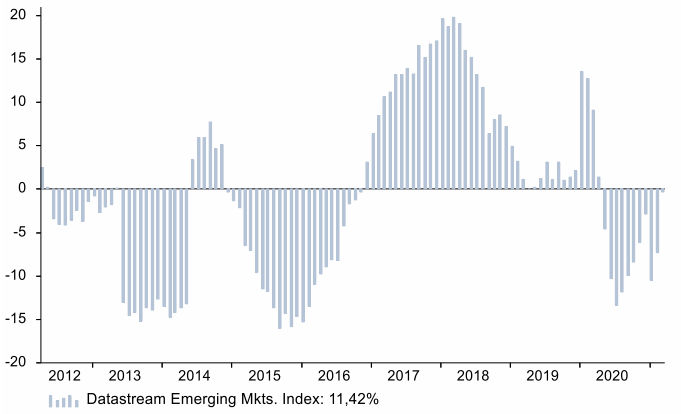
as of 12.04.2021



Quelle: Refinitiv Datastream

Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 12.04.2021



Quelle: Refinitiv Datastream

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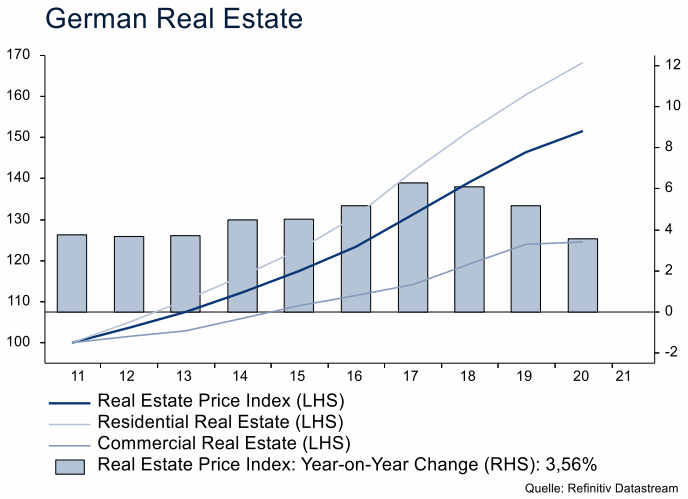
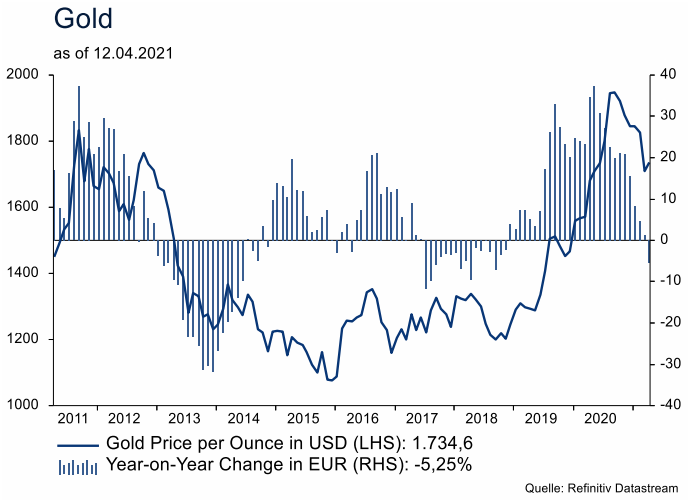
Alternative Investments

Real Estate, Gold and Commodities



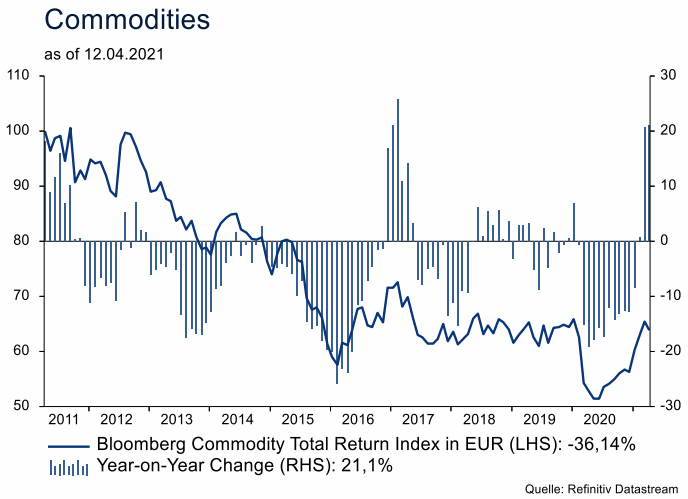
Residential and logistics real estate are among the winners of the pandemic. Demand and price trends show a robust upward trend: in 2020, for example, the logistics sector was able to make significant gains worldwide. In comparison, while the office property sector was able to show a stable performance in most locations, the trend suggests that this sector will have to deal with changes in demand in the coming years. This is also true for retail, which was already suffering from online retailers before the pandemic. Both office and retail sectors are only likely to face a more challenging market environment in the medium to long term.

Forecast: neutral



The gold price fell by -1.5% in USD terms in March. The positive trend on the stock markets, which reached new record highs at the end of the quarter, and the rise in yields on government bonds in the USA had a negative impact. A sharp rise in yields is unlikely, however, as global central banks are unlikely to raise their key rates for some years yet due to low inflation rates and are keeping yields low by purchasing government bonds. Gold is currently attractive mainly for diversification reasons. Somewhat more volatile equity markets in the coming months should result in a stabilisation of the gold price. We forecast a slight rise in the gold price in April.

Forecast: somewhat negative



The survey-based indicators of industrial production (purchasing managers' indices) rose significantly in the months from May 20 to March 21 following the sharp slump in April 20. Global industrial production and global trade in goods have already exceeded the pre-Covid level at the end of 2020. The rising price trend of industrial metals has continued in early 2021 with increasing volatility. The oil price has also continued to rise after the oil cartel (OPEC+) (still) did not reverse the previous production cuts.

Forecast: neutral

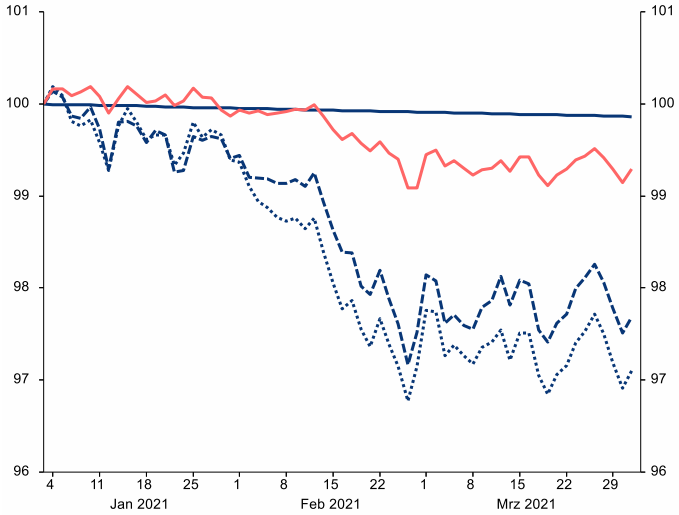
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Overview of Key Asset Classes

YTD Performance

Fixed Income Investment Grade

Performance YTD as of 31.03.2021

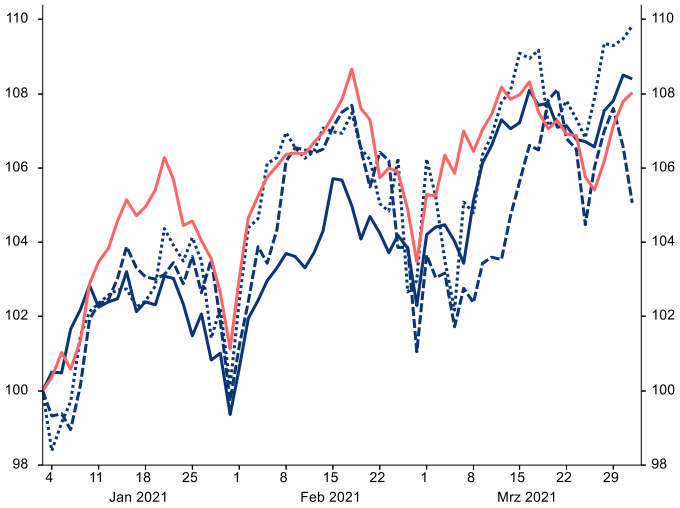


Euro Money Market: -0,14%
Euro Government Bonds AAA-AA: -2,90%
Euro Government Bonds Investment Grade: -2,31%
Euro Corporates Investment Grade: -0,71%

Quelle: Refinitiv Datastream

Equities

Performance YTD as of 31.03.2021

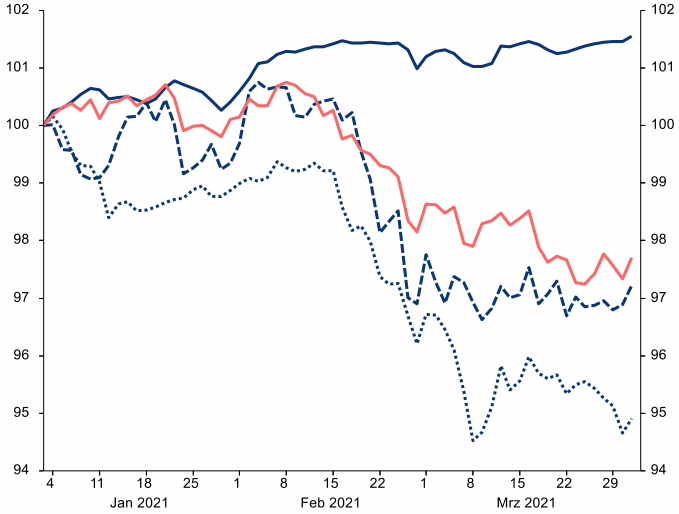


Equities Europe: 8,41%
Equities North America: 9,84%
Equities Japan: 5,07%
Equities Emerging Markets: 8,07%

Quelle: Refinitiv Datastream

Fixed Income High Yield

Performance YTD as of 31.03.2021

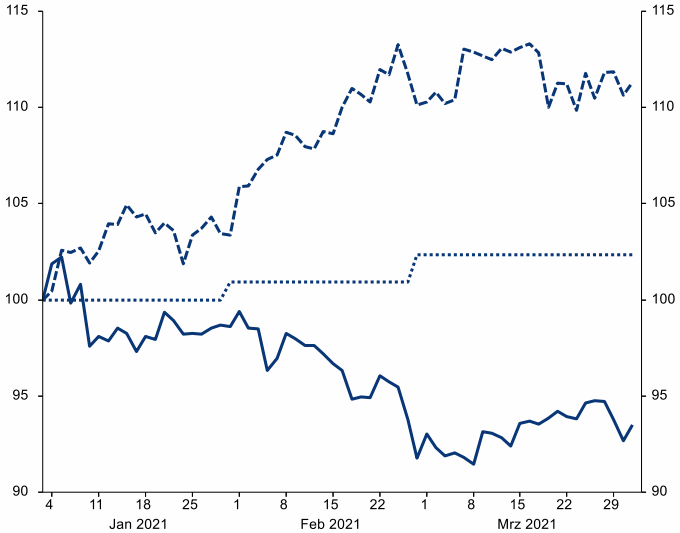


Euro High Yield: 1,55%
Emerging Market Bonds in Hard Currency: -5,09%
Emerging Market Bonds in Local Currency: -2,79%
CEE Government Bonds in Local Currency: -2,29%

Quelle: Refinitiv Datastream

Alternative Investments

Performance YTD as of 31.03.2021



Gold in EUR: -6,48%
Hedge Fund Index: 2,35%
Commodity Index: 11,31%

Quelle: Refinitiv Datastream

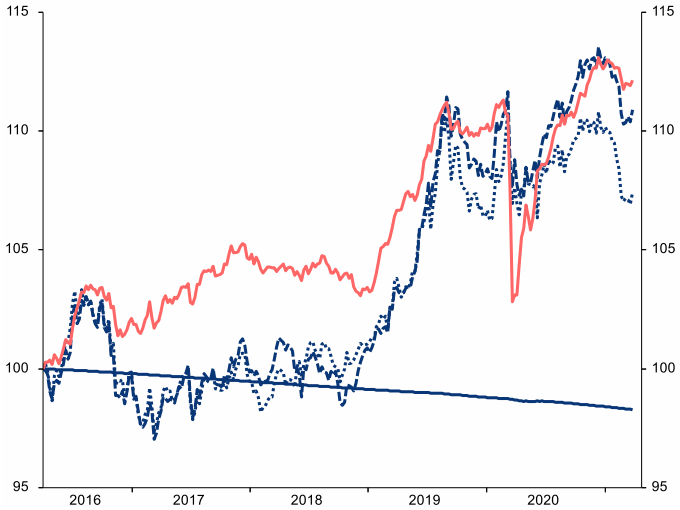
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. This performance representation has little validity due to its short duration. Please refer to the annex for the underlying index.

Overview of Key Asset Classes

5 Year Performance

Fixed Income Investment Grade

5 Year Performance as of 31.03.2021



Euro Money Market: -1,72%
Euro Government Bonds AAA-AA: 6,98%
Euro Government Bonds Investment Grade: 10,47%
Euro Corporates Investment Grade: 11,99%

Quelle: Refinitiv Datastream

Equities

5 Year Performance as of 31.03.2021

Equities Europe: 55,48%
Equities North America: 99,58%
Equities Japan: 61,70%
Equities Emerging Markets: 50,15%

Quelle: Refinitiv Datastream

Fixed Income High Yield

5 Year Performance as of 31.03.2021

Euro High Yield: 27,96%
Emerging Market Bonds in Hard Currency: 11,34%
Emerging Market Bonds in Local Currency: 16,27%
CEE Government Bonds in Local Currency: 8,07%

Quelle: Refinitiv Datastream

Alternative Investments

5 Year Performance as of 31.03.2021

Gold in EUR: 35,73%
Hedge Fund Index: 8,75%
Commodity Index: 9,41%

Quelle: Refinitiv Datastream

With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

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Euro Government Bonds Investment Grade	• The BofA Merrill Lynch Euro Government Index - Tot RI Val Hedged in Euro
Euro Government Bonds Inflation-Linked	• The BofA Merrill Lynch Euro Inflation-Linked Government Index - Tot RI Val Hedged in Euro
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Euro Corporates Investment Grade	• The BofA Merrill Lynch Euro Corporate Index - Tot RI Val Hedged in Euro
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Commodities	• Bloomberg- Commodity Ind TR - RETURN IND. (OFCL) in Euro

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