Private Banking Investment Outlook

June 2021

ERSTE Private Banking

Private Banking Investment Outlook

Index of Contents

Private Banking Investment Outlook

Executive Summary

Dear Readers,

After strong growth in the first quarter, we expect a further slight acceleration in the US economy in the second quarter. The determining factors are public-sector stimulus programmes and the opening up of the economy as the pandemic subsides. Economic growth rates should then slowly decline in the second half of the year. For 2021 as a whole, we expect US growth of 6.1%, which would be the highest since 1984. The trajectory of the recovery is uncertain, however, as there is no empirical data on how the economy ramps up after a pandemic. The global equity index was little changed in May (-0.3% in EUR). The S&P 500 was down -1.0% in EUR terms, while the Stoxx 600 was +2.1% higher. The outlook for corporate sales and earnings growth is positive for 2021 and 2022 in developed markets. Expectations for increases in corporate earnings for the current fiscal year have continued to improve in recent months. This year, global corporate revenues should rise by about +13.5% and profits by +37%. After the strong gains since the beginning of the year, we expect global equity markets to move sideways in June. The rise of the euro, which began at the end of March, has recently turned into a sideways movement. Over the summer we expect a change of direction and slight gains for the dollar.

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

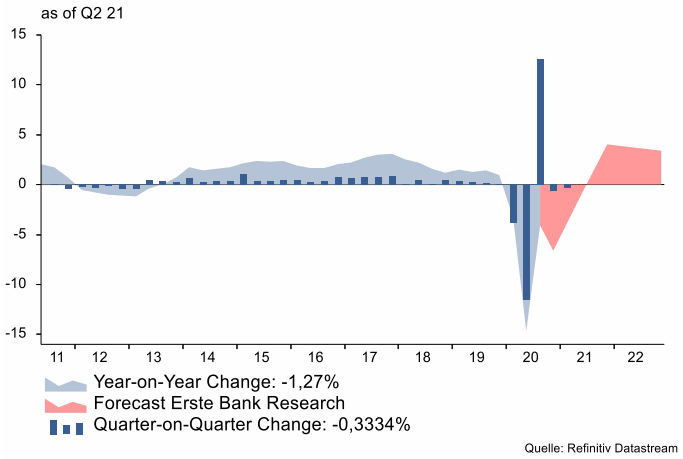
Segment	Asset Class	--	-	neutral	+	++
Bonds Investment Grade	Euro Money Market		●			
	Euro Government Bonds Investment Grade		●			
	Euro Corporate Bonds			●		
	US Corporate Bonds			●		
Bonds High Yield	Euro High Yield			●		
	US High Yield				●	
	Emerging Sovereigns Hard Currency				●	
	Emerging Corporates 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

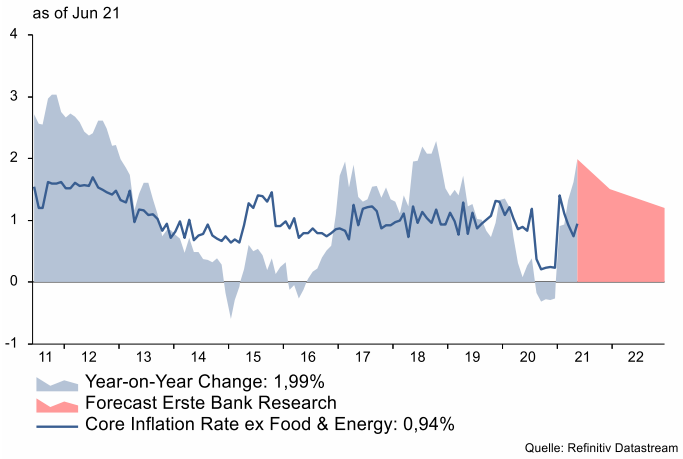
Overview

Eurozone Real GDP Growth Rate*



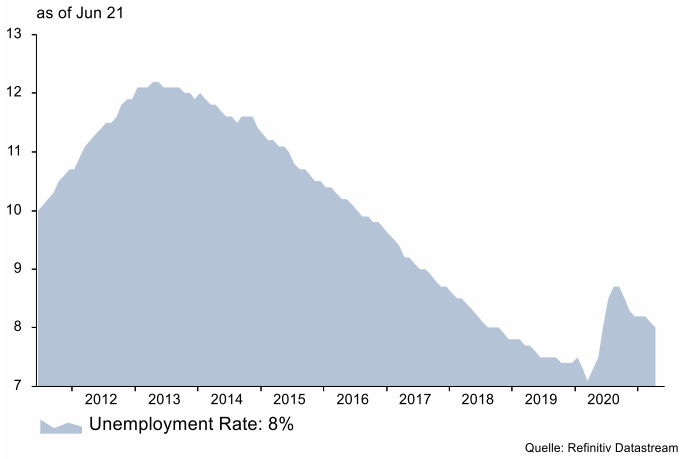
Thanks to a significant acceleration in the pace of vaccination, 40% of the Euro Area population had already received at least one vaccination dose by the end of May. Against this backdrop, continuous and sustainable opening steps in the services sector have been possible in all Eurozone countries since the beginning of May. This is also reflected in significant rises in sentiment indicators in May. We therefore expect the economy to recover dynamically from the second quarter onwards. In the second half of the year, the first funds from the EU recovery plan should provide additional support for growth momentum, especially in Spain and Italy.

Eurozone Inflation Rate*

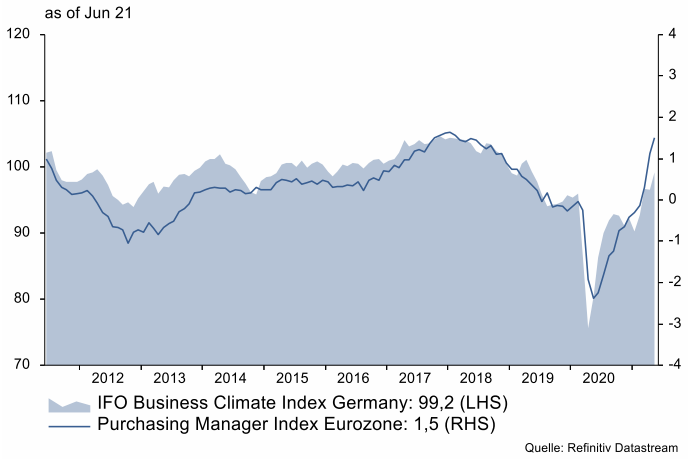


Eurozone inflation continued to rise in May to 2.0% y/y. Due to base effects, energy prices made a significant contribution to the rise in headline inflation. However, the base effects should gradually fade from June onwards. Core inflation has been fluctuating since January, due to distortions, but overall it is stable at a low level close to 1%. In 2H, there could be slight upward pressure, due to temporary effects. For 2021, we expect headline inflation of 1.5%. In 2022, we expect it to fall to 1.2%, as energy prices stabilize.

Unemployment Rate Eurozone



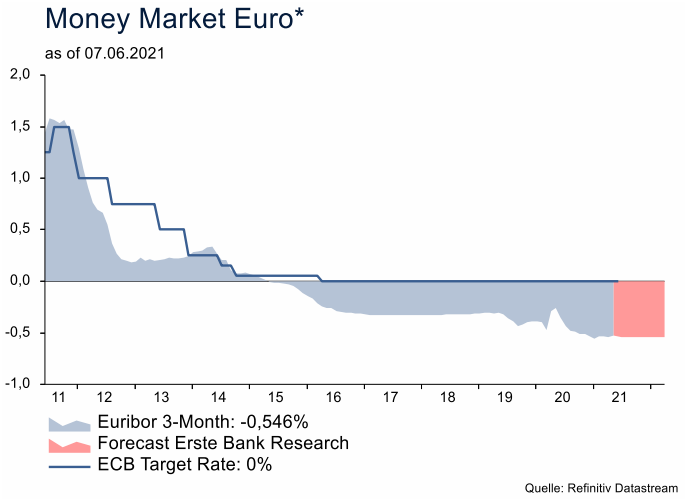
Eurozone Business Climate Indices



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

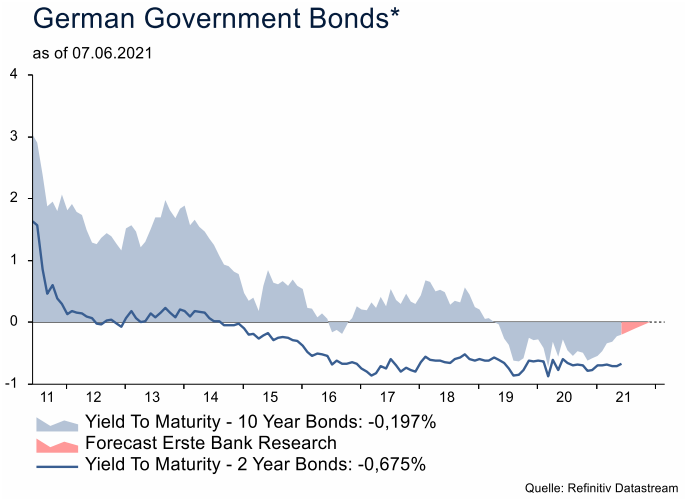
Euro Fixed Income

Money Market and Government Bonds

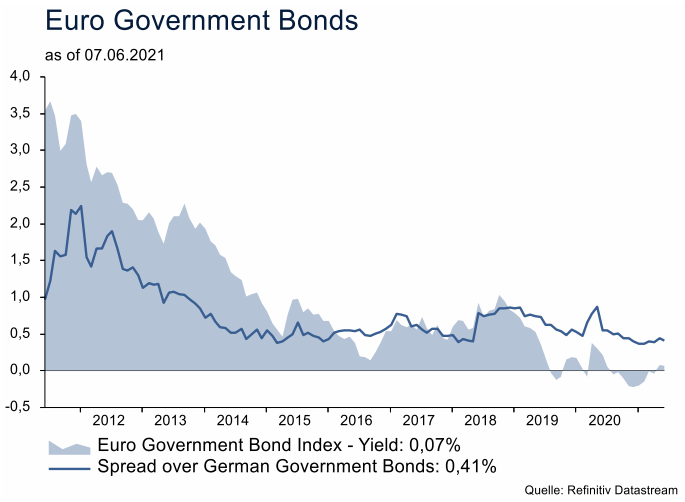


At its June meeting, the Governing Council will decide on the level of securities purchases under the PEPP program in the third quarter. In March, the body had decided on an increase compared to the beginning of the year for the second quarter. Most recently, conflicting statements have come from ECB officials, making the outcome of the upcoming decision difficult to predict. For us, a continuation of purchases at second-quarter levels is the most likely outcome, as any other decision would be hard to argue after yields have risen over the past few weeks. This would also mean that the ECB would not expose itself to the risk of triggering a further sell-off in the bond market.

Forecast: somewhat negative



After significant increases in yields, verbal interventions by ECB representatives began in mid-May and led to a countermovement. The outlook for the coming months depends crucially on the ECB Governing Council. If the ECB decides to continue its purchases of securities at an increased level in June, which we assume will be the case, this suggests that yields will rise only very slightly. If, on the other hand, securities purchases are reduced, we expect a noticeable rise. Until the end of the year, the environment for the bond market will remain difficult as a result of strong economic data and higher inflation rates in the autumn. The ECB will be challenged to credibly communicate the temporary nature of these developments to the markets.



Since the beginning of the year, euro government bonds have been falling in price. This can be attributed to the rise in yields in the US and the pricing in of a key rate hike for the end of 2023 (Euribor futures at -0.3%). In addition, country credit spreads have risen somewhat since February. In general, yield spreads are supported by two factors. 1) The European Commission's recovery program. 2) The ECB's Pandemic Bond Purchase Programme (PEPP). Among other factors, the shape of the ECB's policy will be decisive for further developments. The future inflation rates priced into bond prices have risen further (10Y Germany: currently 1.41%, pre-Covid: 1.08%) and are thus increasingly pricing in an economic recovery.

Forecast: somewhat negative

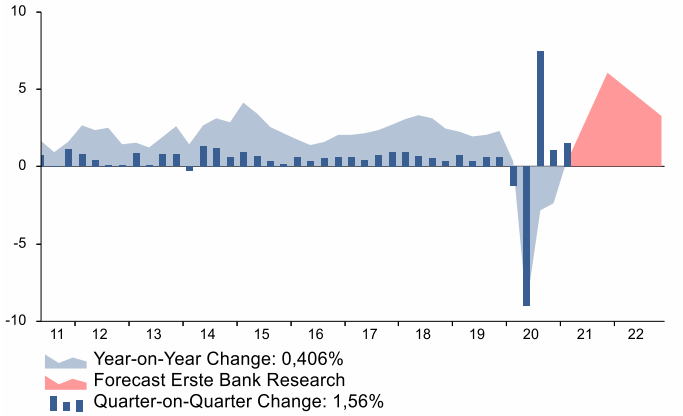
With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance. Please refer to the annex for the underlying index.
* Forecasts are no reliable indicator for future performance.

US Economics

Overview

US Real GDP Growth Rate*

as of Q2 21

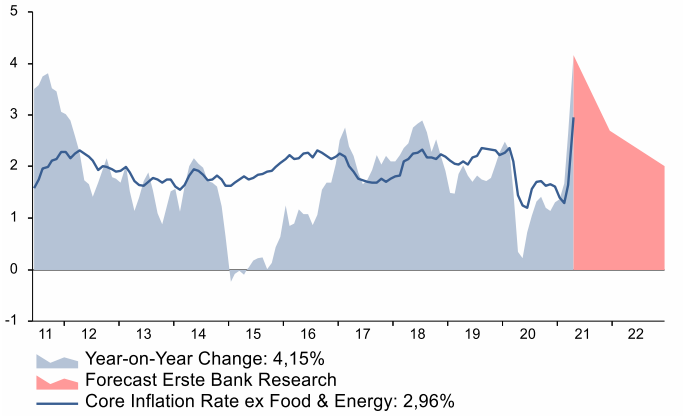


Quelle: Refinitiv Datastream

After strong growth in the first quarter, we expect a further slight acceleration in the US economy in the second quarter. The determining factors are public-sector stimulus programs and the opening up of the economy as the pandemic subsides. In the second half of the year, economic growth rates should then slowly decline. For 2021 as a whole, we expect growth of 6.1%, which would be the highest since 1984. The course of the recovery is uncertain, however, as there is no empirical data on the ramp-up of the economy after a pandemic. This was confirmed by a series of US data for April that surprised. This is likely to continue, which suggests volatile markets.

US Inflation Rate*

as of Apr 21

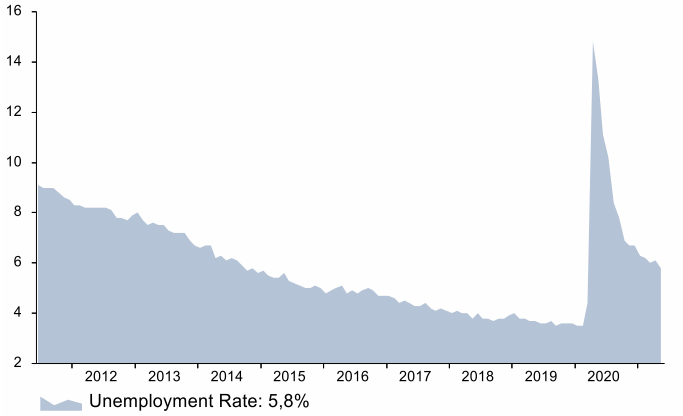


Quelle: Refinitiv Datastream

The inflation rate for April rose significantly more than the market had expected. The surprises came from jumps in prices within a month. Prices for used cars, for example, rose by 10% from March to April. The higher than expected inflation rate is likely to have been driven largely by factors related to the ramping up of the economy. Future inflation data may also be driven by this, making it more difficult to read. We believe that the rise in inflation in 2021 will be temporary. However, it will be several months before this is certain and the markets will pay close attention to inflation data.

US Unemployment Rate

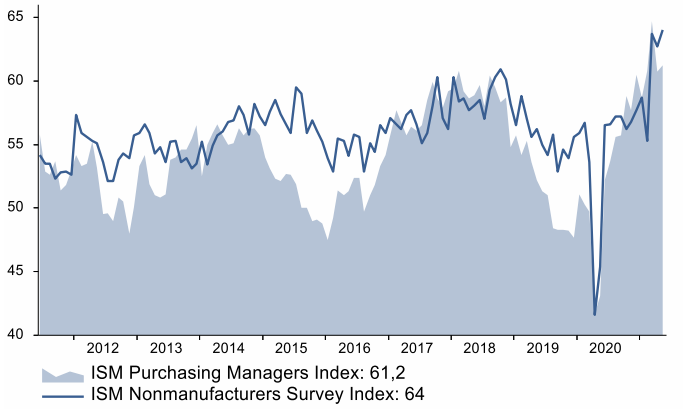
as of Mai 21



Quelle: Refinitiv Datastream

US ISM Purchasing Managers Index

as of Mai 21



Quelle: Refinitiv Datastream

With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance.
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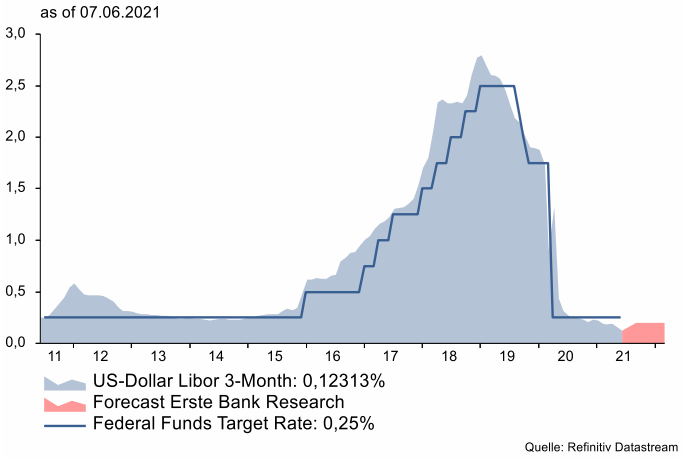
US Fixed Income

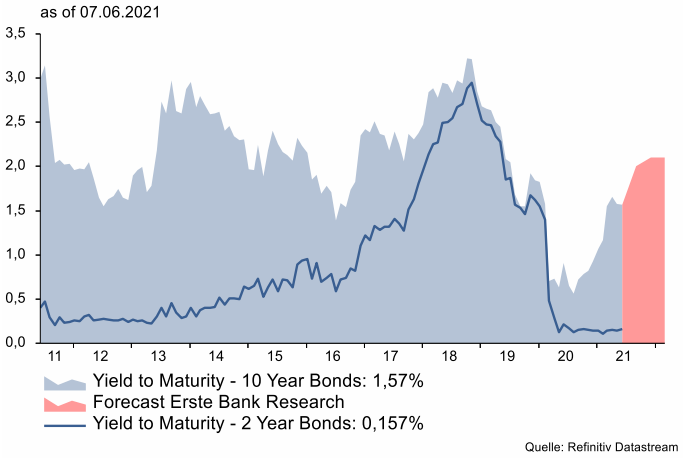
Money Market and Government Bonds

Money Market US*



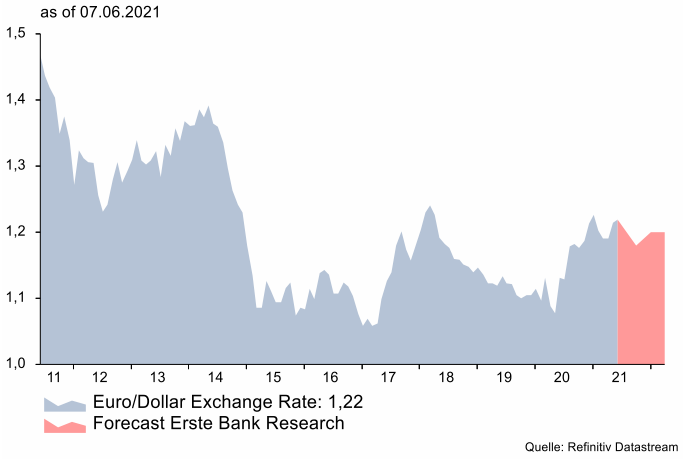
The US Federal Reserve is currently in a wait-and-see mode. As a precondition for a reduction in its monthly securities purchases, it has cited a series of data that shows substantial progress in achieving its monetary policy goals. So far, these have been sporadic. However, the strong economy should provide the Fed with the reassurance it seeks over the coming months. We expect the desired progress to be noted at the July or September meeting. However, it will then be some time before the reduction in monthly securities purchases (tapering) is implemented, which we expect from January 2022.

US Government Bonds*



Due to the mixed US economic data, the US bond market remained in a sideways movement during the last few weeks. However, this should change. As the economic recovery progresses, a reassessment of risks should set in. This should be triggered by both the foreseeable reduction in bond purchases by the US Federal Reserve and the generally very slow monetary policy reaction of the central bank to the economic upswing. Moreover, the US yield curve is not yet particularly steep compared with other economic upswings. All in all, we therefore expect yields on medium and longer maturities to rise, while short maturities should remain largely unchanged.

Euro-Dollar Exchange Rate*



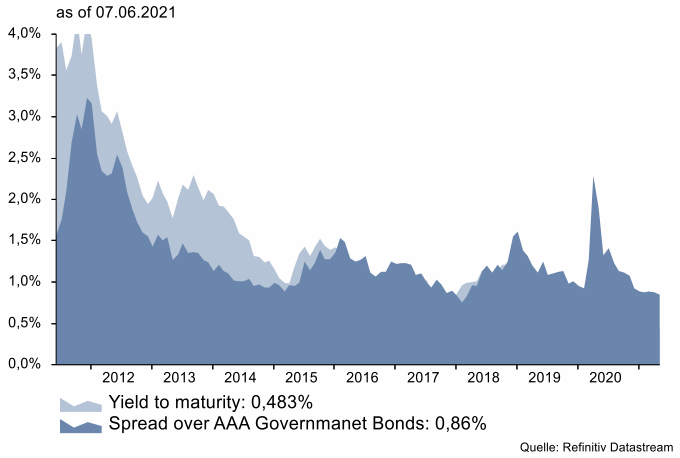
The EURUSD has been hovering around the 1.22 level for weeks. A rise in the euro that began at the end of March has thus turned into a sideways movement. Over the summer, we expect a change in direction and anticipate slight gains for the dollar. The reason for this is that we expect a stronger rise in yields on the US bond market than on the Eurozone bond market. The yield spread will thus make the dollar more attractive. In the medium term, however, we see the currency pair moving sideways. This is because the yield spread will stabilize, and we also do not see any other factors at present that should sustainably favor one of the two currencies over the other.

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

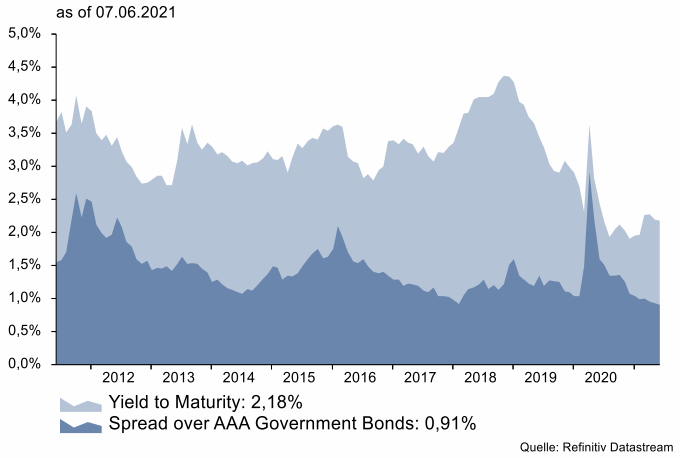
Euro Corporate Bonds: Yield & Spread



Government bond yields continued their upward trend in May. As expected, this weighed on the performance of investment grade (IG) corporate bonds (-0.2%). Risk premiums are already reflecting the economic recovery and are no longer tightening. Better-than-expected 1Q corporate earnings had no positive impact. In a sector comparison, bonds issued by energy companies have on average the most attractive ratio of risk premiums to debt repayment period. We recommend hybrid bonds from cyclical sectors (such as energy) in the IG segment. ESG-related IG issues have slightly lower yields, but their spreads should remain more stable in crises.

Forecast: neutral

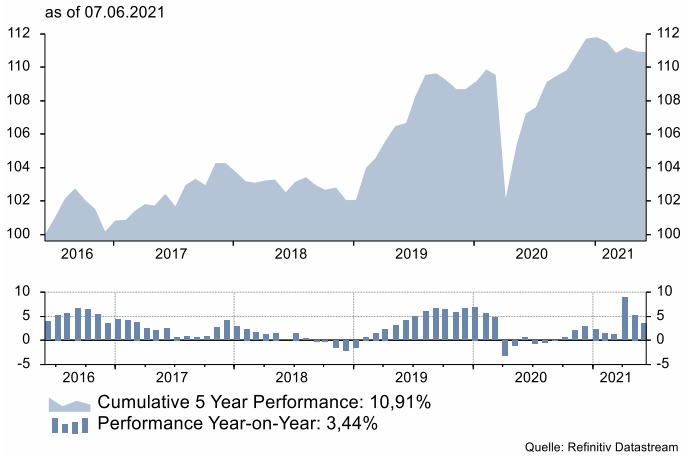
US Corporate Bonds: Yield & Spread



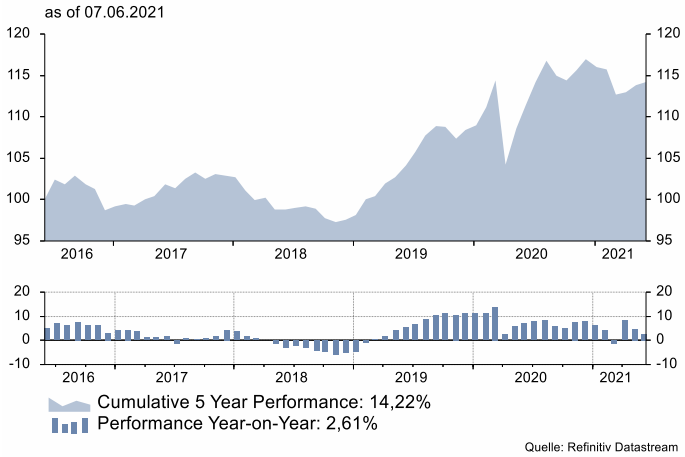
Since the beginning of the year, US corporate bonds have shown price losses. This can be attributed to the rise in yields on US government bonds. At the same time, credit spreads are at their lowest level since 2018. Supporting factors: 1) Market guidance from the Federal Reserve (forward guidance) for future rate hikes as well as for a reduction in the bond-buying programme remain on the (very) expansionary side despite improved growth prospects. 2) Large fiscal package (American Rescue Plan) accelerates recovery. 3) Rapid progress on vaccination coverage. 4) Economic indicators point to rapid economic recovery.

Forecast: neutral

Euro Corporate Bonds: Performance



US Corporate Bonds: Performance

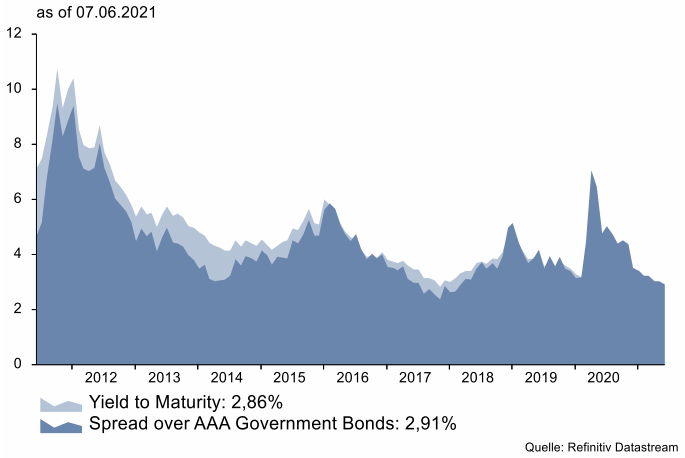


With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

High Yield Bonds

Corporate Bonds with a Speculative Rating

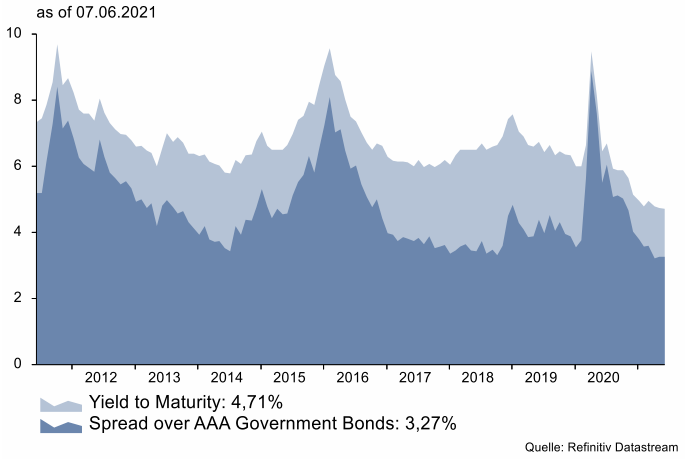
Euro High Yield: Yield & Spread



High-yield (HY) bonds (+0.2%) again outperformed IG bonds (-0.2%) in May. It is true that risk premiums did not tighten any further in the HY segment either. However, thanks to their higher credit spreads in absolute terms and lower average residual maturity, HY bonds suffer less from the rise in Bund yields than IG bonds. The rating trend within the HY segment is positive. Monetary policy remains supportive. In our opinion, there is still no way around broadly diversified investments in the HY segment with a focus on BB bonds in the corporate bond market. The share of HY issues with an ESG focus is rising.

Forecast: neutral

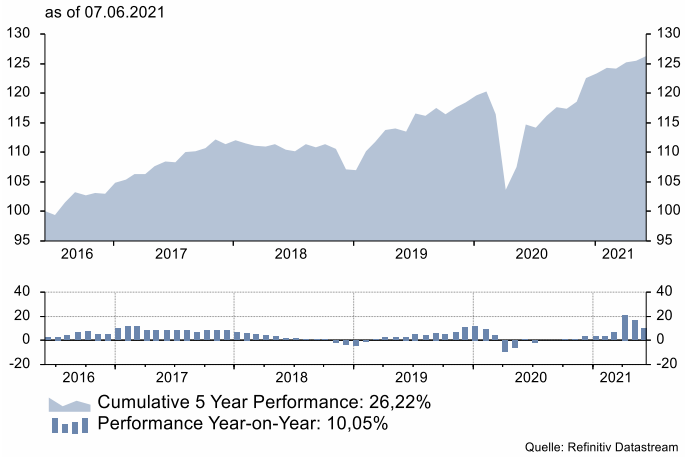
US High Yield: Yield & Spread



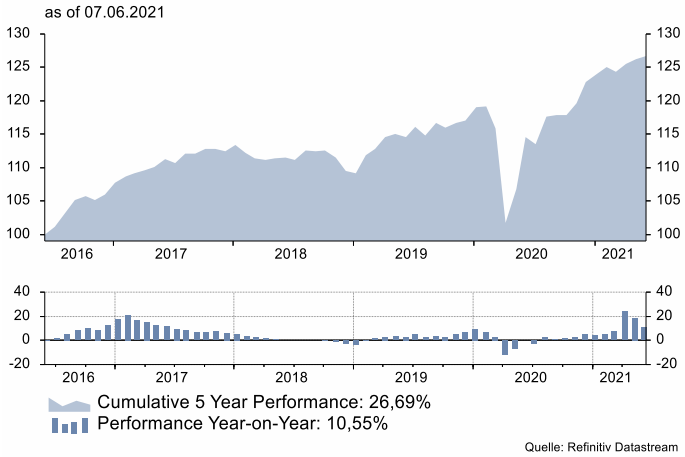
Due to the higher yield level compared to investment grade bonds, high yield bonds have been able to record price gains since the beginning of the year despite the rise in yields on US government bonds. Meanwhile, the yield spread for credit risk is only slightly above pre-Covid levels. Supporting factors are: 1) Very expansionary forward guidance from the Federal Reserve. 2) Large fiscal package (American Rescue Plan). 3) Rapid progress on vaccination coverage. 4) Economic indicators point to rapid economic recovery. Risks: 1) significant increases in government bond yields and 2) generally downside risks (above average valuations in the US equity market).

Forecast: somewhat positive

Euro-High Yield: Performance



US High Yield: Performance



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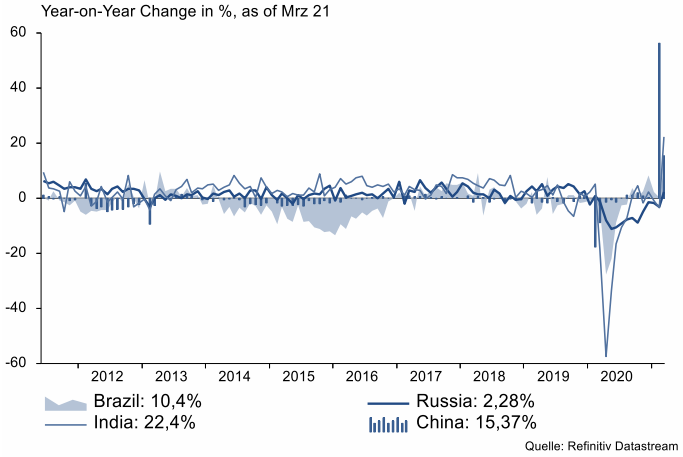
BRIC Economics

Brazil, Russia, India and China

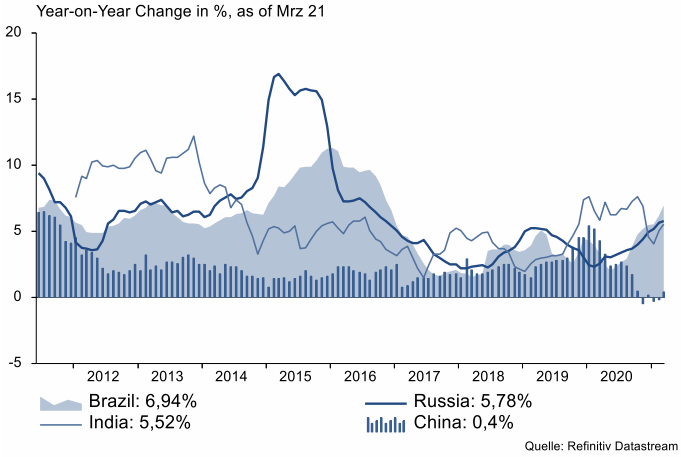
Brazil: Only slight flattening of the curve for new infections discernible (poor health management). Unlike many other countries, GDP could contract in Q2. Expectations for only partial recovery in economic activity (2020: -4.1%; 2021; 4.1%;). Inflation is on the rise (April: 6.8% pa). Mainly because of this, the central bank raised the key interest rate sharply in March and May by a total of 1.5 percentage points to 3.5%. Further hikes are likely. The already high budget deficit is rising significantly (2020: 13.4% of GDP). The currency is moving sideways with increased volatility (recently firming). Local and hard currency bonds have shown price losses since the beginning of the year (recovery mode since April).

Russia: On the epidemiological side, a decline in new infections is discernible. Expectation for a partial recovery of economic activity (2020: -3.0%, 2021: 4.2%). Government budget surplus has disappeared (2020: -4.1% of GDP). Temporary rise in inflation (April: 5.5% pa). The central bank reacted to this earlier than expected by raising key interest rates in March and April by a total of 0.75 percentage points to 5%. The rouble is moving sideways with increased volatility (recently firming). Positive: the rising oil price. The negative yield trend since the beginning of the year for both local currency and USD bonds has eased somewhat since the beginning of April.

Industrial Production BRIC



Inflation Rates BRIC



India: GDP is likely to contract in the second quarter due to the sharp rise in new infections. Meanwhile, new infections are declining. Expectations for a sharp rebound in economic activity have been pushed out into the future (2020: -8.0%, 2021: 9.0%). Declining inflation (Oct20: 7.6% pa, Apr: 4.3% pa). Budget deficit is 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 and remains in a wait-and-see mode. The currency is showing increased volatility. In contrast to other countries, local currency bonds have been up since the beginning of the year.

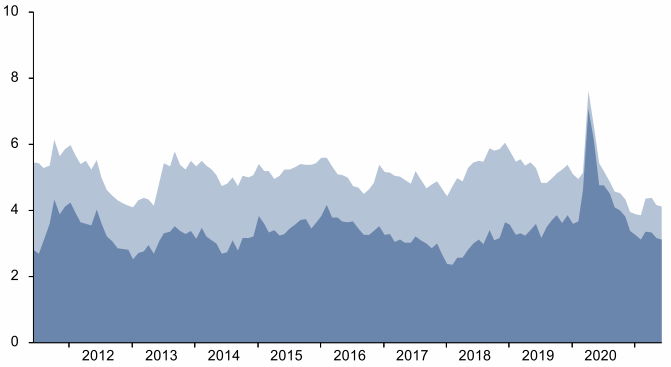
China was the only major country to almost complete its economic recovery from the slump in Q4 2020. Reason: Extensive fiscal and monetary policy measures to mitigate the knock-on effects of the slump (higher liquidity, higher budget deficit, higher credit growth). Strong annual average growth (2020: 2.3%, 2021: 9.0%). Nevertheless, a slowdown in growth can be observed since the beginning of the year as expansionary economic policies are being scaled back. In fact, tightening measures are set in the e-commerce sector and credit growth is falling. Officials are unhappy with the strengthening trend of the currency. Unlike other markets, government bond yields are falling (prices are rising).

Emerging Market Bonds in Euro

Hedged in EUR

Emerging Market Bonds in Hard Currency

Yield & Spread, as of 07.06.2021



Yield to Maturity: 4,13%
Spread over AAA Government Bonds: 3,12%

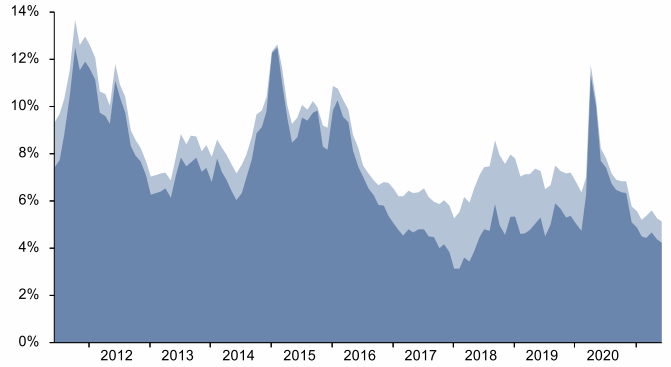
Quelle: Refinitiv Datastream

The positive vaccine news and the extremely expansionary monetary policies at the global level support the significant falling yield premiums for country credit risk. However, US government bond yield increases have led to negative yield performance since the beginning of the year. Risks: 1) Epidemiology: many EM countries lag in vaccination coverage. 2) Inflation problems in some countries lead to key rate hikes (Brazil). 3) No trend US dollar weakening since the beginning of the year against an EM currency basket, despite general USD weakness. This could bring structural risks to the fore 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 07.06.2021



Yield to Maturity: 5,14%
Spread over AAA Government Bonds: 4,22%

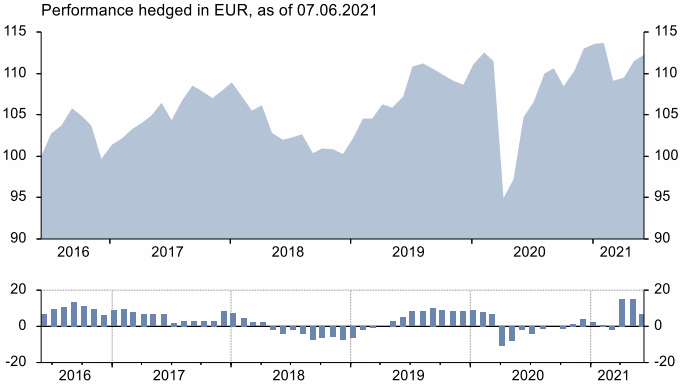
Quelle: Refinitiv Datastream

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, US yield rises have led to negative earnings performance since the beginning of the year. Additionally weighing: 1) Vaccination coverage lags. 2) Increased inflation and policy rate hikes in some countries. Still negative: productivity growth is impaired.

Forecast: somewhat positive

Emerging Market Bonds in Hard Currency

Performance hedged in EUR, as of 07.06.2021

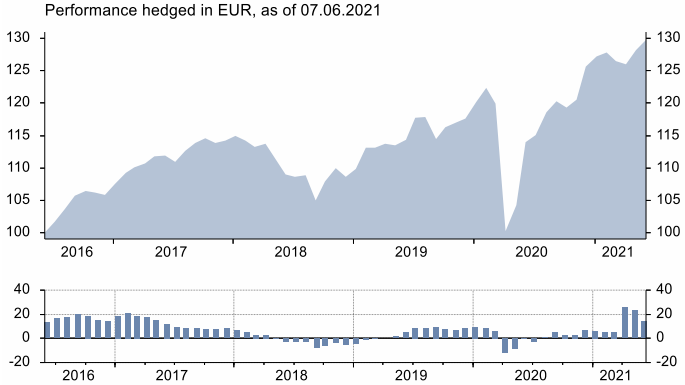


Cumulative 5 Year Performance: 12,25%
Performance Year-on-Year: 7,16%

Quelle: Refinitiv Datastream

Emerging Corporates in Hard Currency

Performance hedged in EUR, as of 07.06.2021



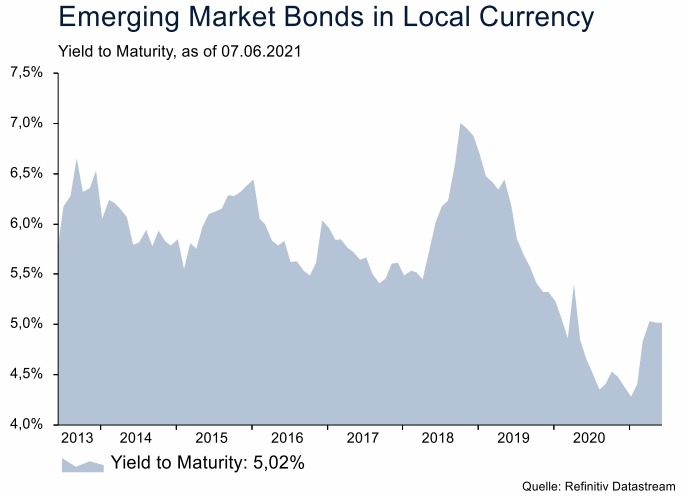
Cumulative 5-Year-Performance: 29,76%
Performance Year-on-Year: 13,81%

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.

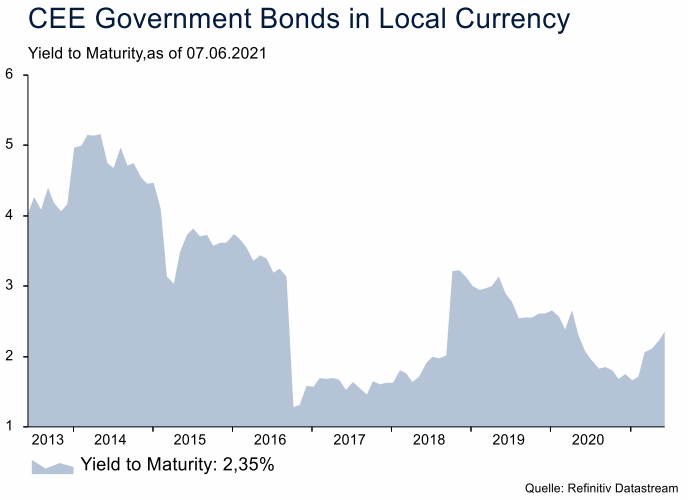
Emerging Market Bonds in Local Currency

Global and Central Europe



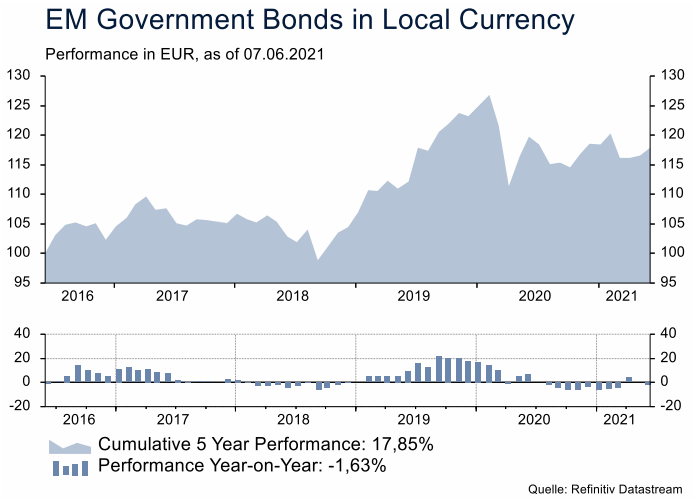
In contrast to previous crises, many EM central banks were able to cut key interest rates last year in order to support the economy. Since the beginning of the year, however, key rates in the aggregate have risen somewhat (from 3% to 3.20%). Some central banks have raised key rates due to increasing inflation risks (Russia, Brazil, Turkey). For this reason, and because US government bond yields have also risen, local currency bond yields have shown an upward trend since the beginning of the year (consolidation since April). Of note: No trend strengthening of the EM currency basket against the US dollar, despite the general USD weakness.

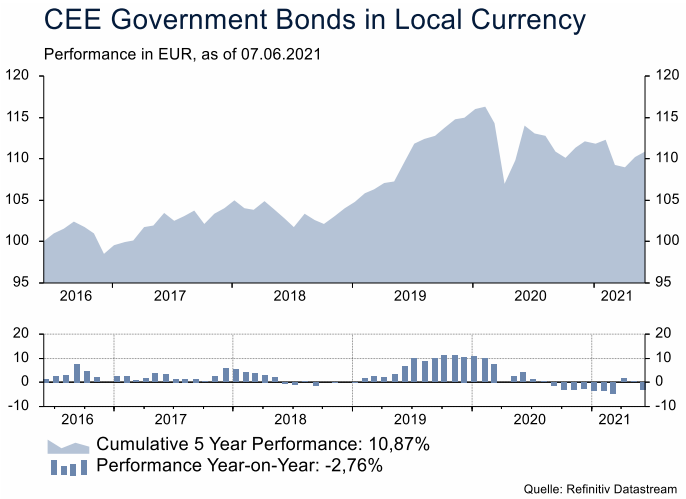
Forecast: somewhat positive



Negative impact of the pandemic on 1Q GDP in some countries lower than estimated, especially in Romania. Overall, expectations for a recovery in economic activity from Q2 onwards hold: CZ (2020: -5.6%, 2021: 4.0%), HU (2020: -5.0, 2021: 6.9%), PL (2020: -2.7%, 2021: 4.6%), RO (2020: -3.9%, 2021: 8.0%), TR (2020: +1.8%, 2021: 4.8%). More and more central banks are responding to the recovery with signals to raise policy rates (Hungary, Czech Republic). Russia and Turkey have already raised key rates. The currencies are performing unevenly. The Turkish lira has weakened again because of pressure from the government to cut key rates.

Forecast: neutral





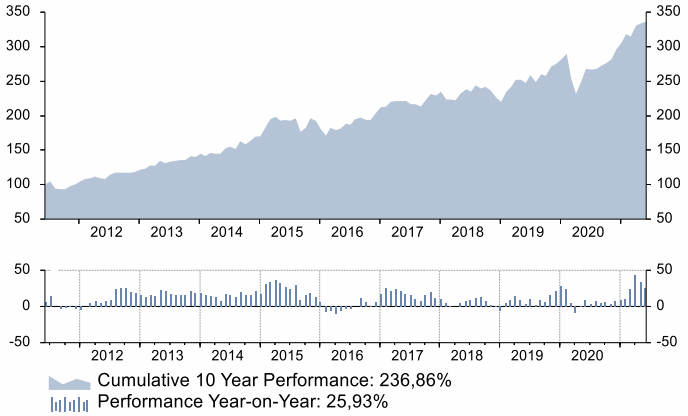
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Equities Developed Markets

Overview

Developed Markets

Performance in EUR, as of 07.06.2021



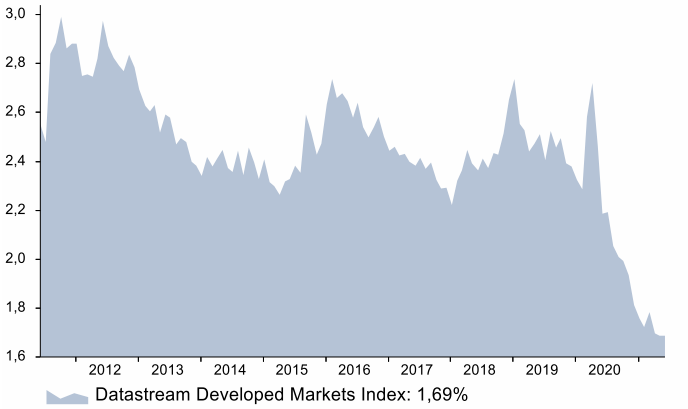
Quelle: Refinitiv Datastream

The global equity index was little changed in May (-0.3% in EUR). The S&P 500 was down -1.0% in EUR terms, while the Stoxx 600 was +2.1% higher. The outlook for corporate sales and earnings growth is positive for 2021 and 2022 in developed markets. Expectations for increases in corporate earnings for the current fiscal year have continued to improve in recent months. This year, global corporate revenues should rise by about +13.5% and profits by +37%. After the strong gains since the beginning of the year, we expect the global equity market index to move sideways in June.

Forecast: somewhat positive

Dividend Yield

as of 07.06.2021

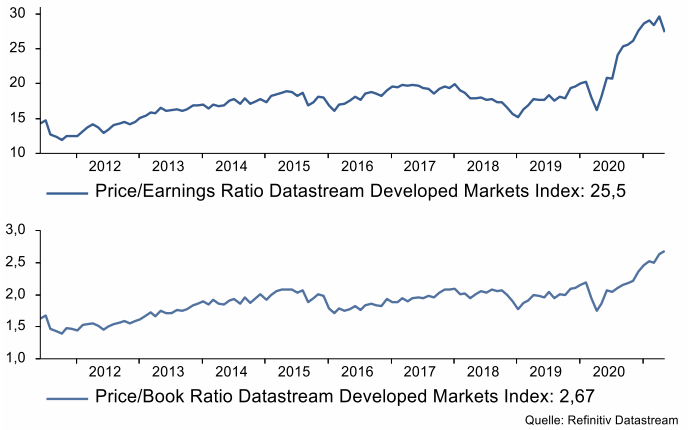


Quelle: Refinitiv Datastream

Most US companies reported positive surprises in revenues and earnings in the last reported quarter (Q1). The current quarter will see the highest increase in earnings this year (EPS Q2 2021e: +59.9%). US corporate revenues should rise by around +18.9% in Q2. The technology, healthcare, consumer cyclical, banking and industrial sectors are showing steady earnings growth. In Europe, according to the consensus forecast, corporate revenues should rise by +18.8% in Q2 and earnings by around +93.2%. The expected dividend yield of European equities is 2.7%. This is above the global average of 2%. We expect the leading indices to trend sideways in June.

Key Indicators

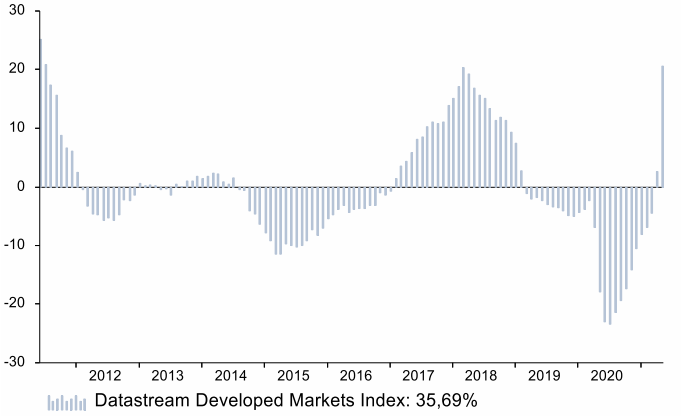
as of 07.06.2021



Quelle: Refinitiv Datastream

Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 07.06.2021



Quelle: Refinitiv Datastream

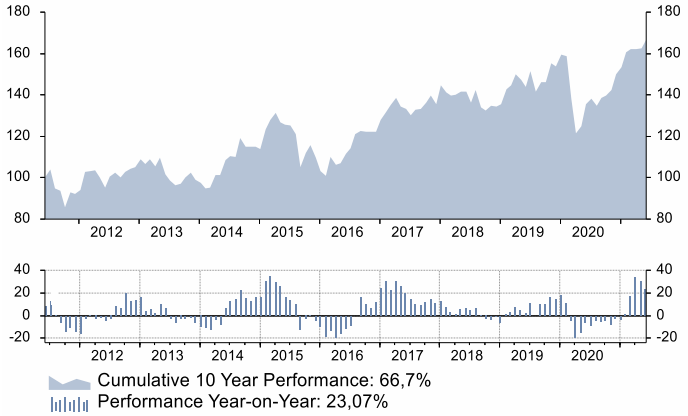
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Equities Emerging Markets

Overview

Emerging Markets

Performance in EUR, as of 07.06.2021



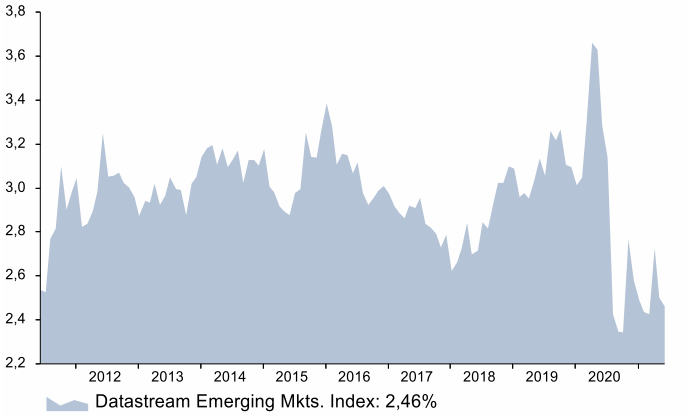
Quelle: Refinitiv Datastream

The global emerging markets index was +0.5% higher in EUR terms in May. The year-to-date return in EUR terms is +6.7%. The positive development this year has been boosted by the acceleration of 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 +17.4% and earnings growth of around +29.2% are expected in emerging markets in 2021. The moderate valuation (P/E 2021e: 12.7x or dividend yield 2021e: 3%) argues for a positive market development in the medium term. We expect a moderate increase in the global emerging markets index in June.

Forecast: somewhat positive

Dividend Yield

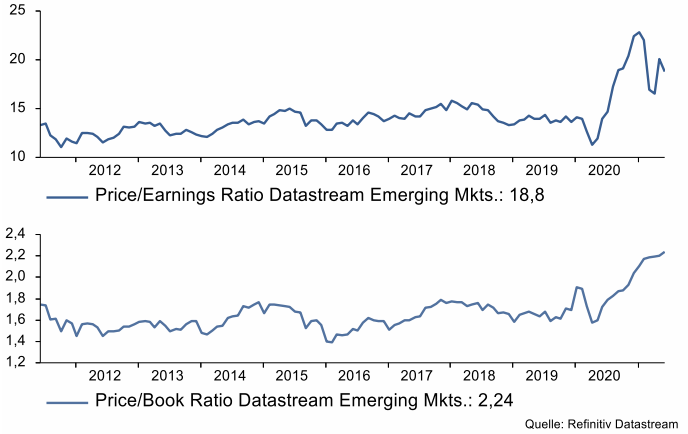
as of 07.06.2021



Quelle: Refinitiv Datastream

Key Indicators

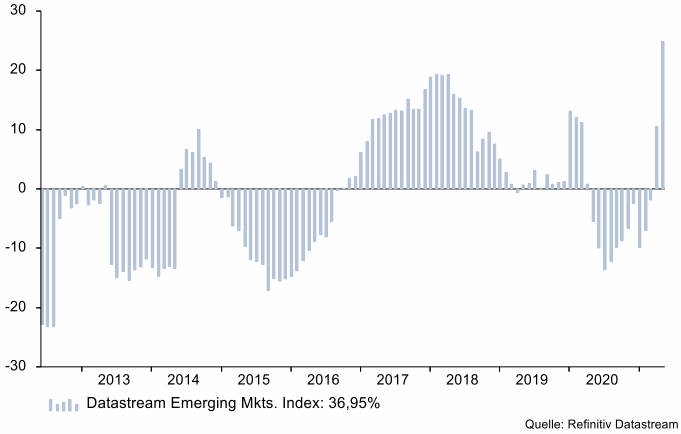
as of 07.06.2021



Quelle: Refinitiv Datastream

Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 07.06.2021



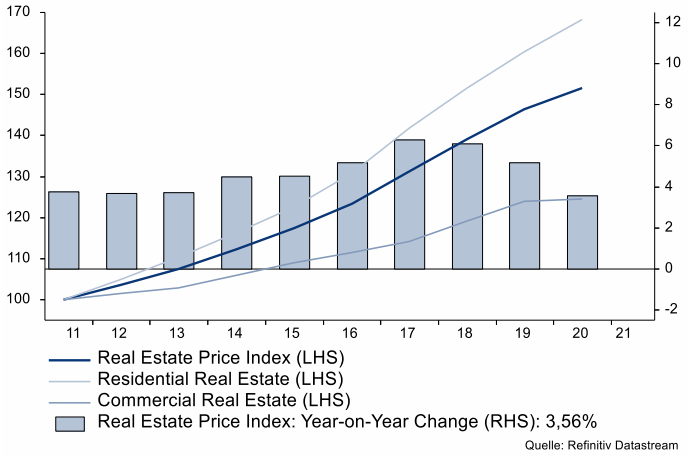
Quelle: Refinitiv Datastream

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.

Alternative Investments

Real Estate, Gold and Commodities

German Real Estate



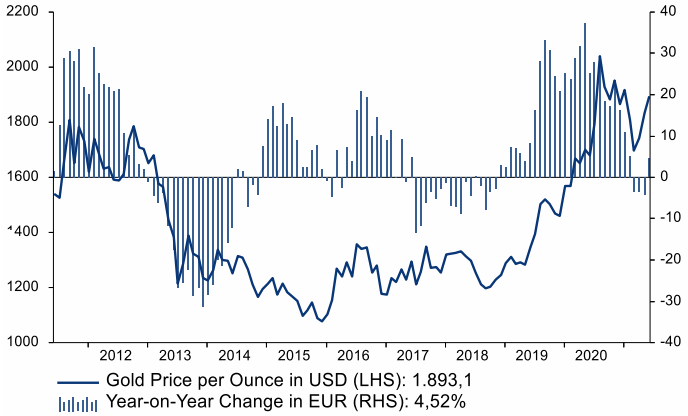
Quelle: Refinitiv Datastream

The real estate market is largely robust - rising prices (especially in the residential and logistics segments) and a stable situation on the office market are creating a good mood among investors. Re-emerging inflation fears should also tend to support the real estate market - although real estate is not a perfect hedge against inflation risks, the prospect of rising rental income in the event of rising inflation rates also makes commercial real estate attractive; even if the rental situation is currently likely to be subject to greater uncertainty in the medium term due to the pandemic - especially among commercial tenants.

Forecast: neutral

Gold

as of 07.06.2021



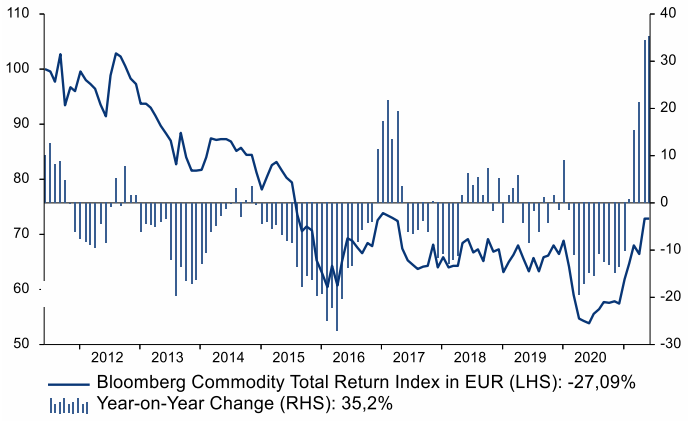
Quelle: Refinitiv Datastream

The gold price rose by +7.7% in USD terms in May. Sideways trending yields of US government bonds and a slightly weaker USD favoured the positive gold price development. Global central banks are not expected to raise their key interest rates for several years and will keep yields low through government bond purchases. Low opportunity costs thus favour a stable gold price trend. Gold is currently attractive primarily for diversification reasons. Somewhat more volatile equity markets in the coming months should result in a slight rise in the price of gold.

Forecast: somewhat negative

Commodities

as of 07.06.2021



Quelle: Refinitiv Datastream

The survey-based indicators of industrial production (purchasing managers' indices) show a strong upward trend. In addition, supply bottlenecks are evident (long delivery times, high order backlog). Global industrial production and global trade in goods have meanwhile already clearly exceeded the pre-Covid level. The rising price trend for industrial metals has continued. Energy prices (crude oil) have also risen. Overall, the global economic recovery is supporting commodity prices. On the negative side, the underlying slowdown in economic growth in China stands out in particular (falling credit impulse).

Forecast: neutral

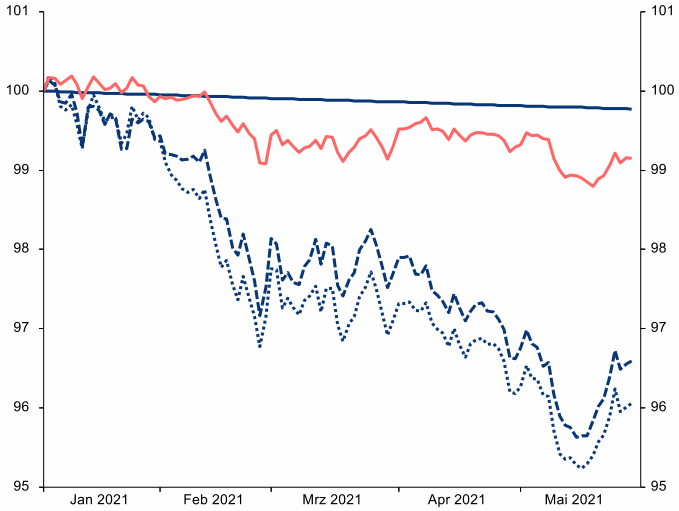
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Overview of Key Asset Classes

YTD Performance

Fixed Income Investment Grade

Performance YTD as of 31.05.2021

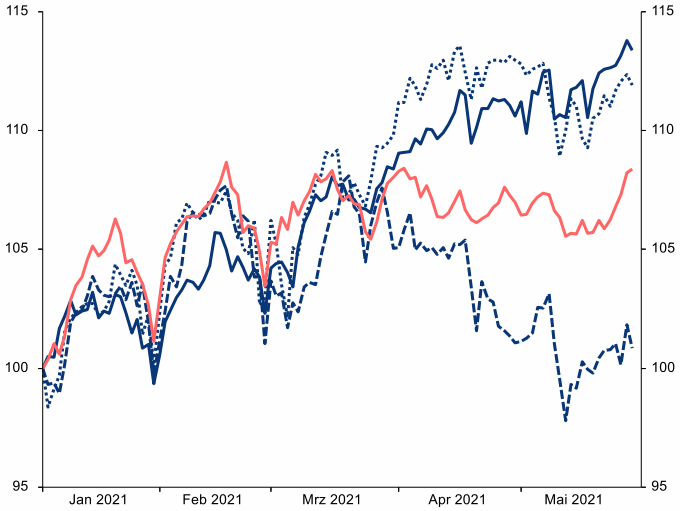


Euro Money Market: -0,23%
Euro Government Bonds AAA-AA: -3,94%
Euro Government Bonds Investment Grade: -3,41%
Euro Corporates Investment Grade: -0,85%

Quelle: Refinitiv Datastream

Equities

Performance YTD as of 31.05.2021

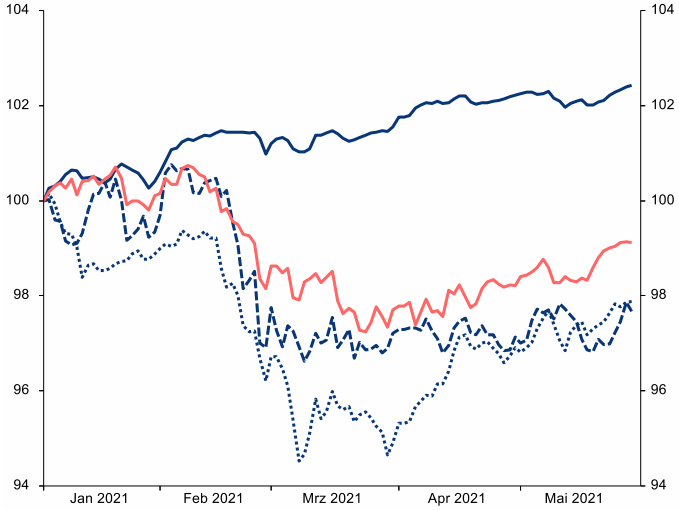


Equities Europe: 13,40%
Equities North America: 11,92%
Equities Japan: 0,86%
Equities Emerging Markets: 8,43%

Quelle: Refinitiv Datastream

Fixed Income High Yield

Performance YTD as of 31.05.2021

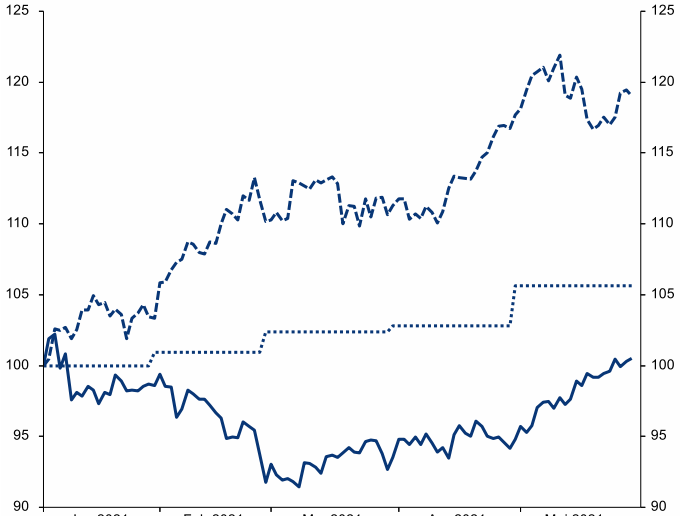


Euro High Yield: 2,42%
Emerging Market Bonds in Hard Currency: -2,13%
Emerging Market Bonds in Local Currency: -2,33%
CEE Government Bonds in Local Currency: -0,88%

Quelle: Refinitiv Datastream

Alternative Investments

Performance YTD as of 31.05.2021



Gold in EUR: 0,51%
Hedge Fund Index: 5,61%
Commodity Index: 19,03%

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

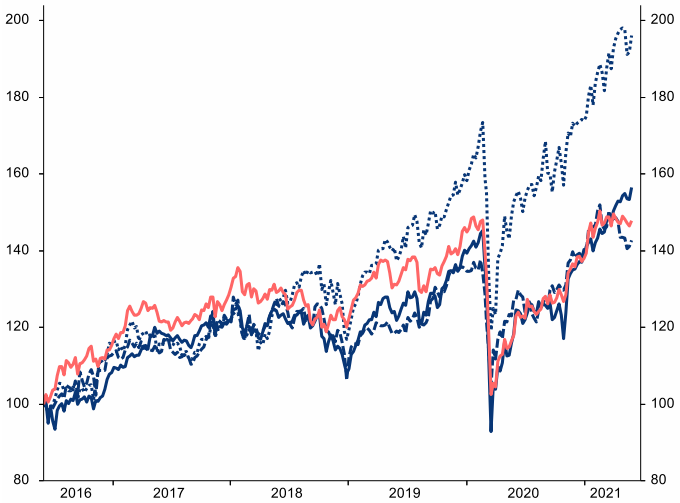
5 Year Performance as of 31.05.2021

Euro Money Market: -1,77%
Euro Government Bonds AAA-AA: 5,81%
Euro Government Bonds Investment Grade: 9,42%
Euro Corporates Investment Grade: 11,15%

Quelle: Refinitiv Datastream

Equities

5 Year Performance as of 31.05.2021



Equities Europe: 57,25%
Equities North America: 96,40%
Equities Japan: 42,36%
Equities Emerging Markets: 50,08%

Quelle: Refinitiv Datastream

Fixed Income High Yield

5 Year Performance as of 31.05.2021

Euro High Yield: 26,50%
Emerging Market Bonds in Hard Currency: 13,47%
Emerging Market Bonds in Local Currency: 17,98%
CEE Government Bonds in Local Currency: 11,45%

Quelle: Refinitiv Datastream

Alternative Investments

5 Year Performance as of 31.05.2021

Gold in EUR: 43,93%
Hedge Fund Index: 12,71%
Commodity Index: 4,49%

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.

Index-Guide

Overview

Euro Money Market	• The BofA Merrill Lynch Euro Currency 3-Month LIBOR Constant Maturity Ind - Total Rtn Idx Val
Euro Government Bonds AAA-AA	• The BofA Merrill Lynch AAA-AA Euro Government Index - Total Rtn Idx Val
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
US Mortgage-Backed Securities	• The BofA Merrill Lynch US Mortgage Backed Securities Index - Tot RI Val Hedged in Euro
Euro Corporates Investment Grade	• The BofA Merrill Lynch Euro Corporate Index - Tot RI Val Hedged in Euro
US Corporates	• The BofA Merrill Lynch US Corporate Index - Tot RI Val Hedged in Euro
Euro High Yield	• The BofA Merrill Lynch Euro High Yield Index - Tot RI Val Hedged in Euro
US High Yield	• The BofA Merrill Lynch US High Yield Index - Tot RI Val Hedged in Euro
Emerging Market Bonds in Hard Currency	• The BofA Merrill Lynch Global Emerging Markets Sovereign Plus Index - Tot RI Val Hedged in Euro
Emerging Corporates in Hard Currency	• The BofA Merrill Lynch Global Emerging Markets Credit Index - Tot RI Val Hedged in Euro
Emerging Market Bonds in Local Currency	• The BofA Merrill Lynch Local Debt Markets Plus Index - Total Rtn Idx Val - TOT RETURN IND in Euro
CEE Governmnet Bonds in Local Currency	• The BofA Merrill Lynch Eastern Europe Government Index - Total Rtn Idx Val in Euro
Equites Developed Markets	• Developed Markets Datastream Market - TOT RETURN IND in Euro
Equities Europe	• Europe Datastream Market - TOT RETURN IND in Euro
Equities North America	• North America Datastream Market - TOT RETURN IND in Euro
Equities Japan	• Japan Datastream Market - TOT RETURN IND in Euro
Equities Emerging Markets	• Emerging Markets Datastream Market - TOT RETURN IND in Euro
Real Estate	• REAL INVEST AUSTRIA T - TOT RETURN IND
Gold	• Gold Bullion LBM U$/Troy Ounce in Euro
Hedge Funds	• Credit Suisse All Hedge Euro
Commodities	• Bloomberg- Commodity Ind TR - RETURN IND. (OFCL) in Euro

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