

**Private Banking
Investment Outlook**
August 2021



Private Banking Investment Outlook

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Private Banking Investment Outlook

Executive Summary

Dear Readers,

thanks to the progress made on vaccination and the opening-up of the services sector, the eurozone economy grew by +2% q/q in Q2. We expect the positive momentum to continue in 3Q. For 2021, we expect headline inflation of 1.8% in the eurozone, falling to 1.4% in 2022. In Europe and the USA, yields on government bonds have fallen in recent weeks. We expect yields to rise again in the coming months. According to an initial estimate, the US economy grew by 1.6% in 2Q compared with the previous quarter. The economy should remain strong. However, the US inflation rate rose again in June, reaching 5.4%. We expect inflation rates to remain just above 5% through the end of the year. Only in the course of the first half of 2022 should there be a decline. Both the US Fed and the ECB have shown no rush to scale back their monthly securities purchases and interest rate hikes remain years away in both economies, although the US Fed should start sooner. The global equity index rose +1.6% in EUR terms in July. The S&P 500 strengthened +2.2% in EUR terms and the Stoxx 600 gained +2.0% in EUR terms. We expect a moderate increase in the global equity market index in August. The gold price rose by +2.5% in USD terms in July. We expect the gold price to move sideways in August.

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

Segment	Asset Class	--	-	neutral	+	++
Bonds	Euro Money Market		●			
	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			●		

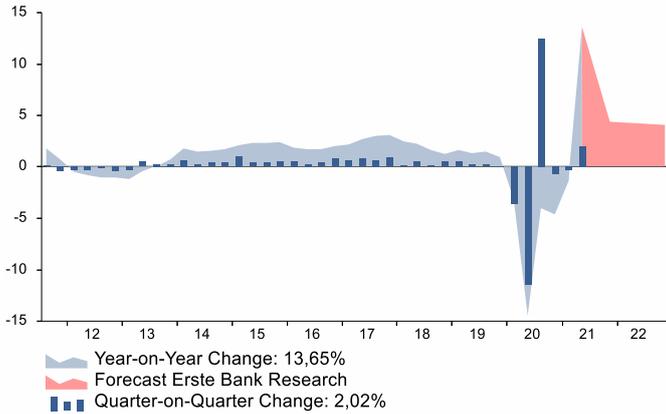
With reference to the chart „Asset Class Attractiveness“: please refer to the annex for the underlying index. Forecasts are no reliable indicator for future performance.

Eurozone Economics

Overview

Eurozone Real GDP Growth Rate*

as of Q3 21

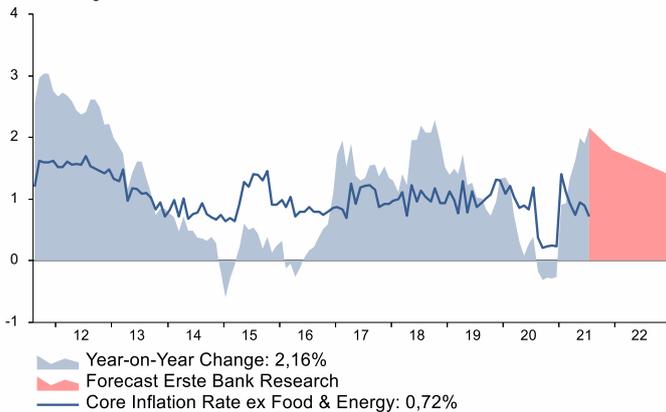


Quelle: Refinitiv Datastream

Thanks to rapid progress on vaccination and sustained opening steps in the services sector, the Eurozone economy grew by +2% q/q in 2Q and we expect the positive momentum to continue in 3Q. Tension in global supply chains is currently having a slightly dampening effect on the recovery in the manufacturing sector, but final demand in the services sector has picked up strongly. We expect the further recovery to be driven mainly by private consumption. In the second half of the year, the first funds from the EU reconstruction plan should provide additional support for growth momentum, especially in Spain and Italy.

Eurozone Inflation Rate*

as of Aug 21

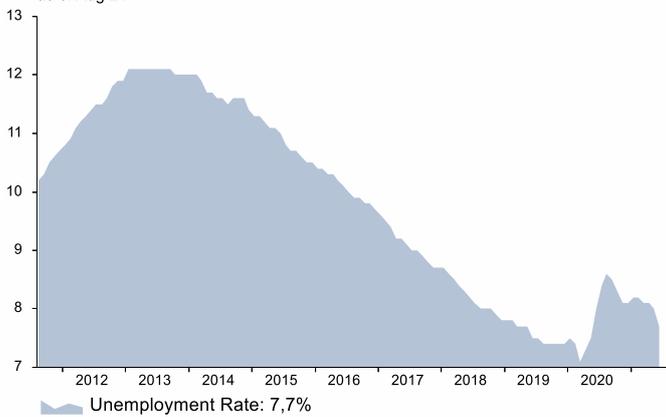


Quelle: Refinitiv Datastream

Inflation rose to 2.2% y/y in July, mainly due to base effects in energy prices and positive contributions from food prices. Core inflation, on the other hand, fell slightly to 0.7% y/y. In 2H, we continue to expect positive contributions from energy and food prices as well as pandemic related upward pressure from core inflation. However, this is temporary and we expect price pressures to normalize from January 2022 onwards. For 2021, we expect headline inflation to reach 1.8%, and for 2022 to fall to 1.4% as energy prices stabilize.

Unemployment Rate Eurozone

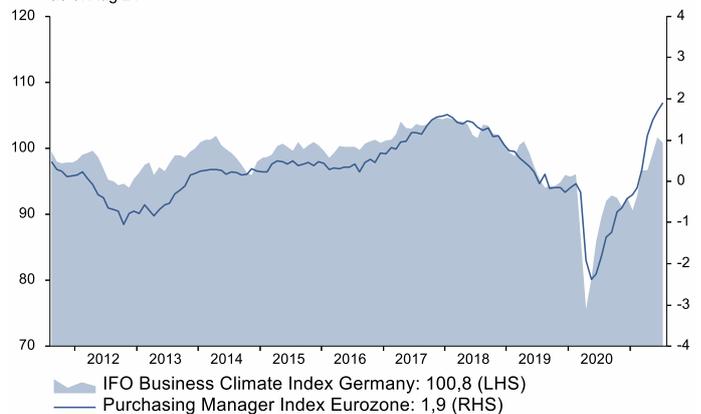
as of Aug 21



Quelle: Refinitiv Datastream

Eurozone Business Climate Indices

as of Aug 21



Quelle: Refinitiv Datastream

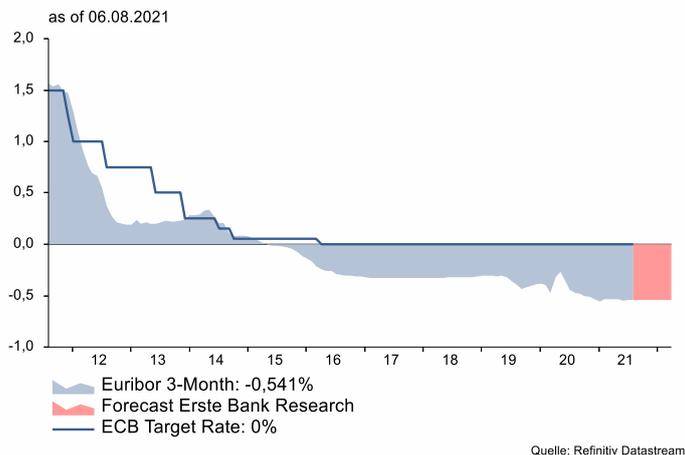
With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance.

* Forecasts are no reliable indicator for future performance.

Euro Fixed Income

Money Market and Government Bonds

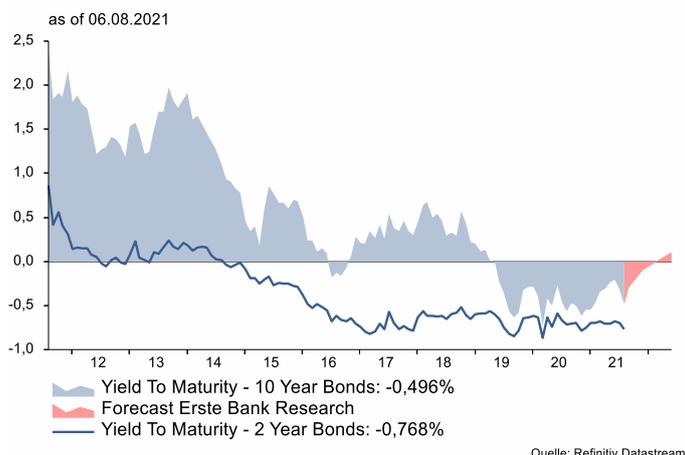
Money Market Euro*



At the July meeting of the ECB Governing Council, the forward guidance for setting the key interest rates was reformulated. Three conditions, all of which must be met, were set for a rate hike. Essentially, the ECB will only respond when it sees clear signs of achieving its inflation target on a sustainable basis in the foreseeable future. A rate hike, which was already quite a few years away before, is thus likely to be a little further into the future. As early as September, the ECB's Governing Council must decide on the level of securities purchases within the framework of PEPP. The central bank has been cagey about this. The recent sharp decline in yields on the bond market strengthens our view that purchases will be reduced in the fourth quarter.

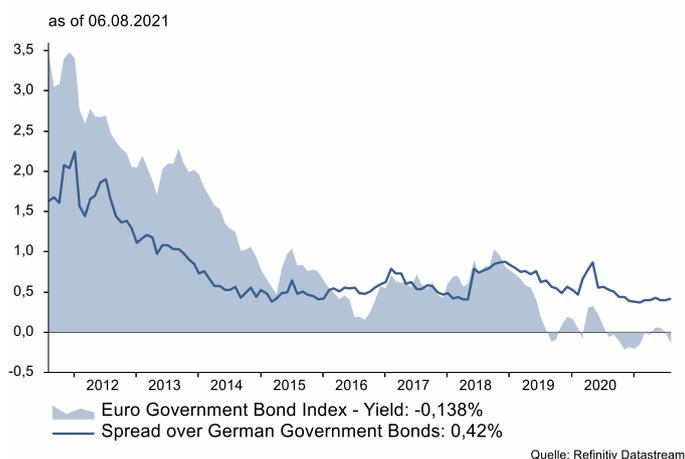
Forecast: somewhat negative

German Government Bonds*



Over the past few weeks, yields on German (and other) government bonds have fallen significantly. Rising infection rates and supply bottlenecks in individual sectors have dampened economic optimism. However, the movements on the bond market have been out of all proportion to the risks to the economy posed by these factors. A probable explanation for this is that the market had positioned itself one-sidedly for rising yields in the spring and that even a slight degree of uncertainty was therefore sufficient to trigger strong position liquidations. We therefore expect yields to remain at current levels only temporarily.

Euro Government Bonds



Since the beginning of the year, euro government bonds have suffered price losses. Since May, however, the price losses have shrunk significantly. This can be attributed to the decline in yields in the US and falling expectations for future key rate hikes in the eurozone. Country credit spreads have risen somewhat since February. In general, spreads are supported by two factors. 1) The European Commission's recovery programme. 2) The ECB's Pandemic Bond Purchase Program (PEPP). Going forward, ECB policy is key. The future inflation rates priced into bond prices are moving sideways (10Y Germany: currently 1.40%).

Forecast: somewhat negative

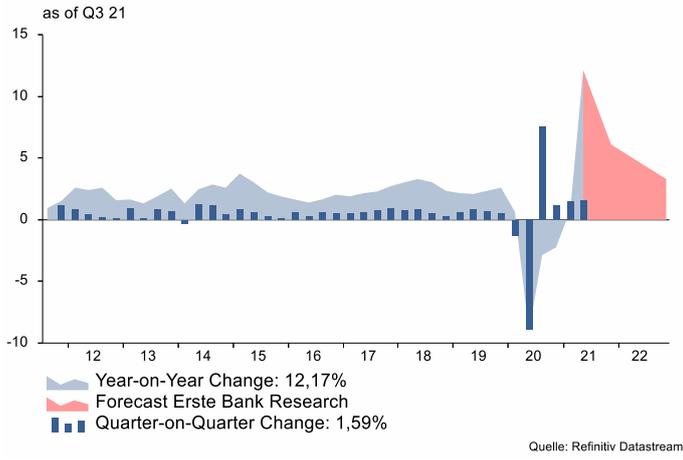
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US Economics

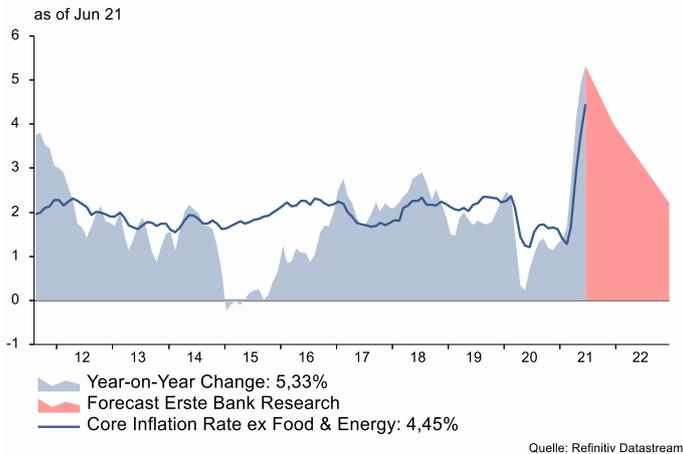
Overview

US Real GDP Growth Rate*



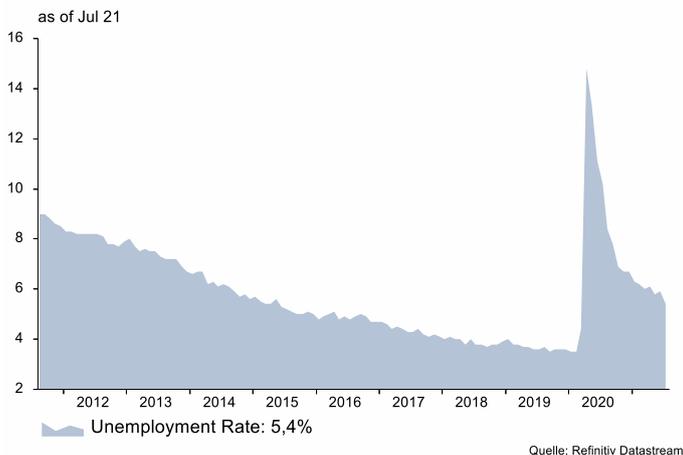
According to an initial estimate, the US economy grew by 1.6% in the second quarter compared with the previous quarter. This was below market expectations, but still represents very strong growth, just above that of the first quarter. Strong contributions came from private consumption and the business investment. Negative contributions came from inventory changes, foreign trade and household investment. The US economy should remain strong. However, growth rates as in the first half of the year, which were mainly due to opening steps and generous economic stimulus packages, should no longer be achieved. In the second half of the year, the strong rise in employment should be the growth driver.

US Inflation Rate*



In June, the US inflation rate rose again, reaching 5.4%. However, the markets hardly reacted, as the price jumps continued to come from a handful of product categories and were attributed to the economy ramping up. Thus, the high inflation rate should be temporary. The risks are not insignificant, however, as the US has not seen growth like that seen this year in decades. In addition, there is uncertainty about the speed of the recovery of the labor market. We expect inflation rates to remain just above 5% until the end of the year. Only in the course of the first half of 2022 should there be a drastic decline.

US Unemployment Rate



US ISM Purchasing Managers Index



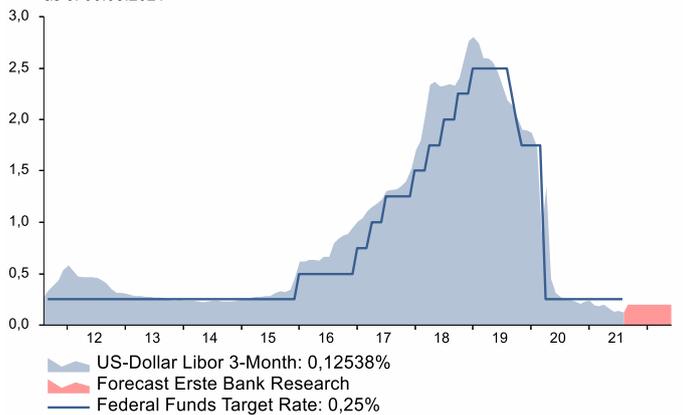
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US Fixed Income

Money Market and Government Bonds

Money Market US*

as of 06.08.2021

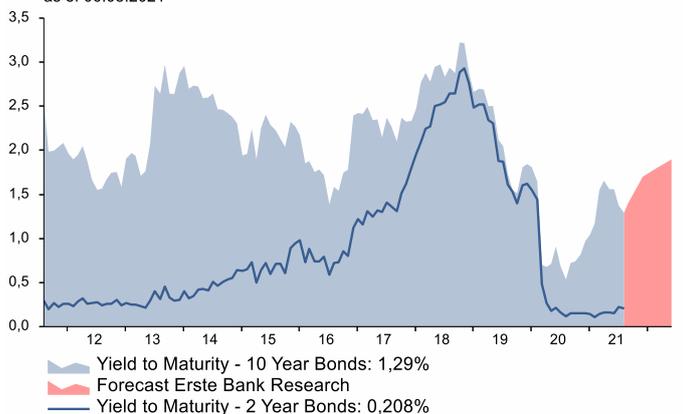


Quelle: Refinitiv Datastream

At its July meeting, the US Federal Reserve once again saw no reason to change its monetary policy. The progress in the economic recovery was apparently still not enough to decide on a reduction in monthly securities purchases. Although the nature, scope and timing of tapering were discussed, the intention is to wait for further signs of recovery, especially in the labor market. We expect the FOMC to determine that the preconditions for the start of tapering will be met in September, at the earliest. According to Fed Chairman Powell, there will be ample time until the actual implementation, which we expect to start in January 2022.

US Government Bonds*

as of 06.08.2021

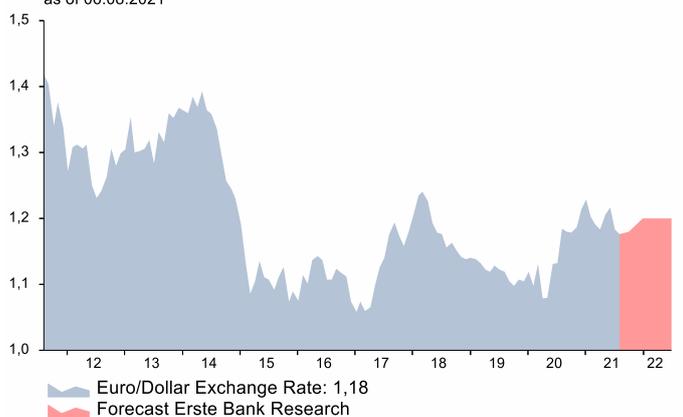


Quelle: Refinitiv Datastream

As in Europe, there have been sharp declines in government bond yields in the US over the past few weeks. Due to greater progress in the economic recovery and an inflation rate of more than 5% – albeit only temporarily – this movement is even more difficult to justify for the US than for Europe. However, speculative positions have also been built up heavily in the US over the spring, betting – we suspect – on rising yields. A relatively minor dampening of the economic outlook due to rising infection rates and supply shortages may have triggered a chain reaction of position liquidations in this situation. After the adjustment, we expect yields to rise again significantly during the coming months.

Euro-Dollar Exchange Rate*

as of 06.08.2021



Quelle: Refinitiv Datastream

There has been little movement in the EURUSD over the past few weeks. The exchange rate has hovered in a narrow range around 1.18. This reflected the outlook for a very slow change in monetary policy on both sides of the Atlantic. Both the ECB and the US Fed showed no rush to scale back their monthly securities purchases and rate hikes remain years away in both economies in any case, although the US Fed should start sooner. However, the uncertainty about the date is still too great to be relevant for the markets. There are no signs of any change in this environment, which is why we expect the exchange rate to continue to move sideways over our forecast horizon.

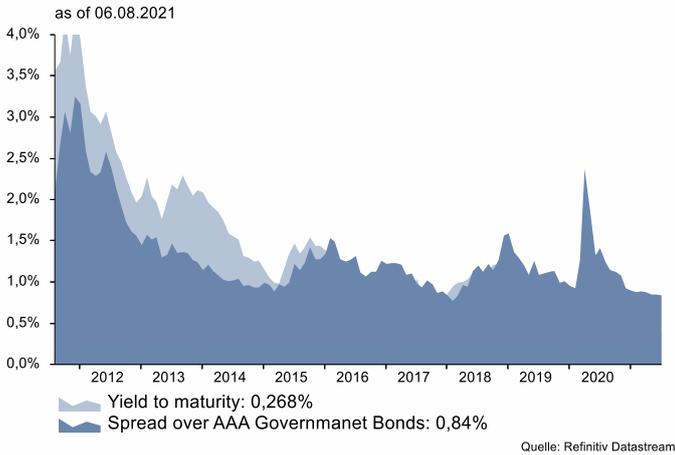
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* Forecasts are no reliable indicator for future performance..

Corporate Bonds

Investment Grade

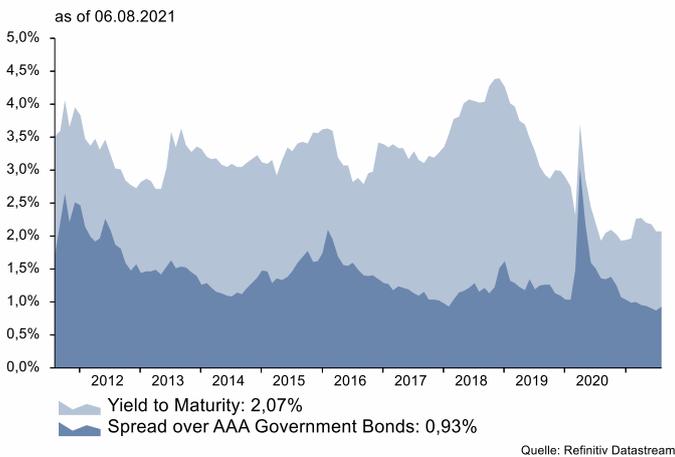
Euro Corporate Bonds: Yield & Spread



Declining government bond yields ensured positive performance for investment grade (IG) corporate bonds in July (+1.3%). Despite continued ECB net purchases and the economic recovery, IG credit spreads continued to trend sideways. In cyclical sectors, the consensus expects a much stronger recovery in credit metrics than in non-cyclical ones by year-end. We therefore continue to recommend hybrid bonds from cyclical sectors in the IG segment. Their higher yields compared to senior bonds compensate for their higher volatility. ESG-related IG issues should benefit from continued strong investor demand.

Forecast: neutral

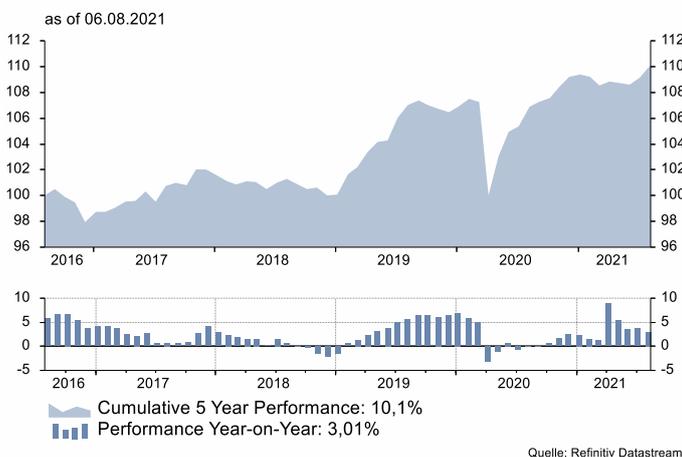
US Corporate Bonds: Yield & Spread



Price gains since the beginning of the year. Two driving factors are responsible for this. 1) The rise in US government bond yields in Q1 was followed by a fall in yields. 2) At the same time, credit spreads have fallen to near historic lows. Supporting factors are: 1) The guidance of market expectations on the part of the central bank (forward guidance) for future key rate hikes as well as for a reduction of the bond purchase programme remain on the (very) expansionary side despite improved growth prospects. 2) Large fiscal packages accelerate recovery. 3) Vaccination coverage rising rapidly. 4) Delta variant has little macroeconomic impact to date.

Forecast: neutral

Euro Corporate Bonds: Performance



US Corporate Bonds: Performance



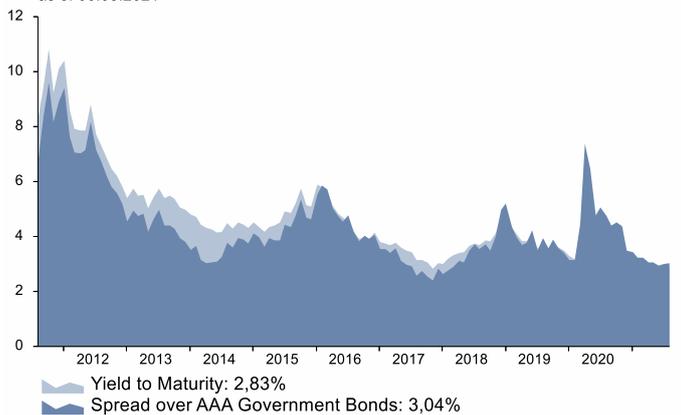
With reference to the performance graphs: past performance is not a reliable indicator of future performance. Please refer to the annex for the underlying index.

High Yield Bonds

Corporate Bonds with a Speculative Rating

Euro High Yield: Yield & Spread

as of 06.08.2021



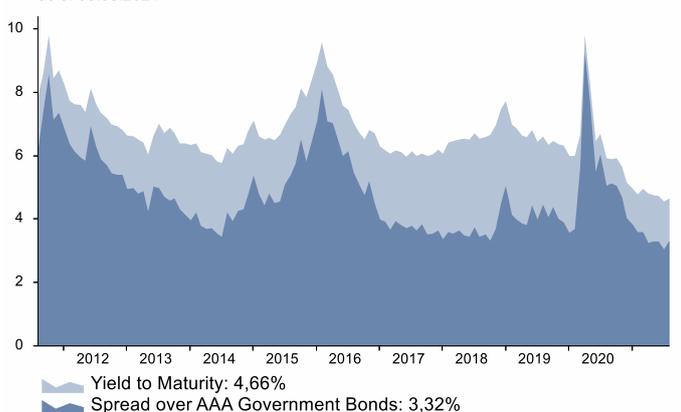
Quelle: Refinitiv Datastream

High-yield (HY) bonds (+0.3%) underperformed IG bonds (+1.3%) in July. HY spreads widened slightly. The IFO Business Climate Index for Germany and the EZ Purchasing Managers' Index for the manufacturing sector fell slightly in July. The services sector index continued to rise. Supply bottlenecks and the spread of the delta variant are causing uncertainty. But we expect the economic recovery to continue. Monetary policy remains supportive. The 2Q reporting season is going well. We prefer diversified investments in the HY segment with a focus on BB bonds. The latter slightly outperformed the broad HY market in July.

Forecast: neutral

US High Yield: Yield & Spread

as of 06.08.2021



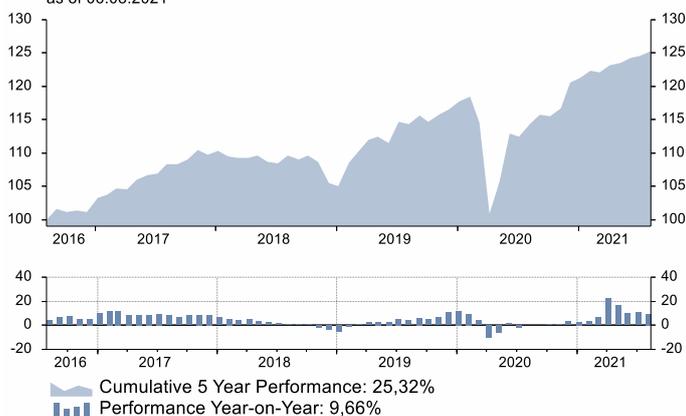
Quelle: Refinitiv Datastream

Price gains since the beginning of the year. General trend towards ever lower yield spreads for credit risk. In addition, yields on US government bonds have fallen since April. In addition, price gains since the beginning of the year have exceeded those of investment grade bonds. The reason: higher yield spreads for credit risk. Supporting factors: 1) Very expansive forward guidance by the Federal Reserve. 2) Large fiscal packages. 3) Vaccination pass-through rising rapidly. 4) Delta variant has little macroeconomic impact to date. Risks: 1) significant increases in government bond yields, 2) new virus variants, and 3) generally downside risks (above-average US equity market valuations and very low yield spreads).

Forecast: somewhat positive

Euro-High Yield: Performance

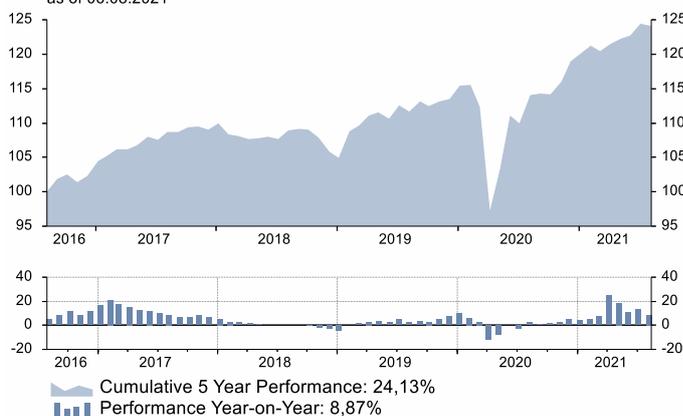
as of 06.08.2021



Quelle: Refinitiv Datastream

US High Yield: Performance

as of 06.08.2021



Quelle: Refinitiv Datastream

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

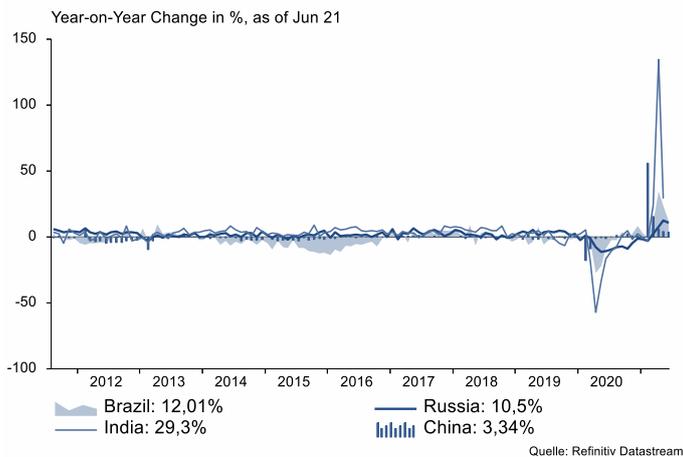
BRIC Economics

Brazil, Russia, India and China

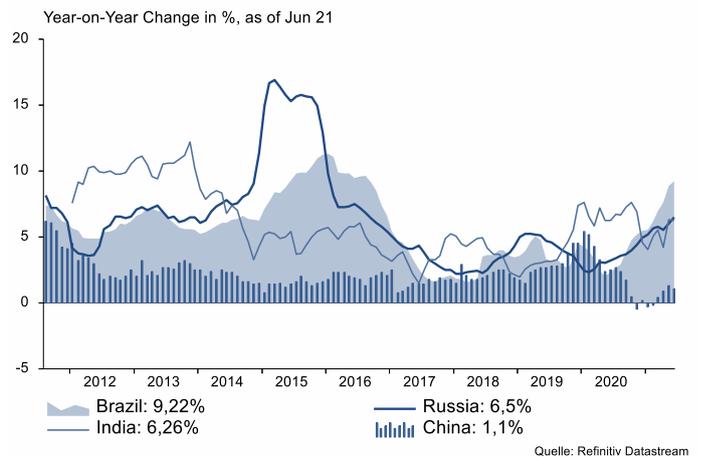
Brazil: Due to the high level of new infections, economic activity stagnated in the 2nd quarter. A recovery is expected for the third quarter. Overall, GDP will show a recovery in economic activity this year (2020: -4.1%; 2021; 5.5%;). Inflation is on the rise (June: 8.4% pa). Largely because of this, the central bank has raised the policy rate sharply by a total of 3.25 percentage points to 5.25% since March. Further hikes are likely. The already high budget deficit is rising markedly (2020: 13.4% of GDP). The currency is moving sideways with increased volatility. Local and hard currency bonds have shown price losses since the beginning of the year (recovery mode since April).

Russia: Renewed acceleration of new infections since July. Expectation for a recovery in economic activity (2020: -3.0%, 2021: 4.5%). Government budget surplus has disappeared (2020: -4.1% of GDP). Temporary rise in inflation (June: 6.5% pa). The central bank has responded earlier than expected by raising key rates by a total of 225 bps since March to 6.5%. The rouble is moving sideways with increased volatility. Positive: the rising oil price. The negative total return trend since the beginning of the year for both local currency and USD bonds has been significantly reduced since the beginning of April.

Industrial Production BRIC



Inflation Rates BRIC



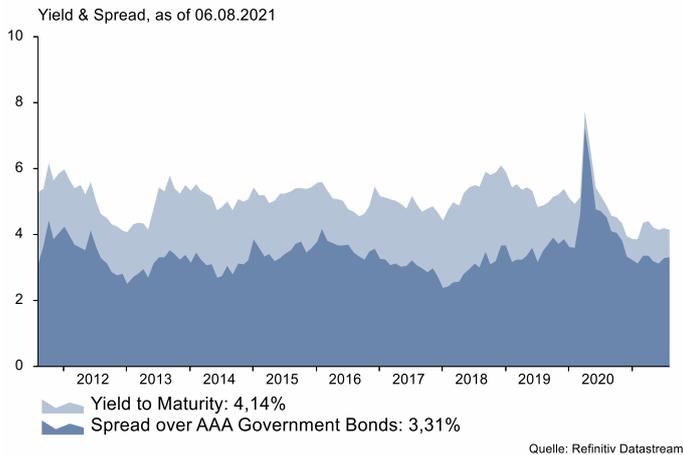
India: After the increase in new infections, a flattening of the curve has been evident since May. In line with this, GDP is expected to contract in Q2 and show a recovery in Q3. Overall, GDP will show a recovery in economic activity this year (2020: -7.3%; 2021: 9.0%;). Temporarily rising inflation (June: 6.3% pa). Budget deficit elevated at 12.3% of GDP (2020), limiting scope for fiscal countermeasures. The central bank lowered the policy rate to 4% in May 2020 and remains in a wait-and-see stance. 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 4Q 2020. Reason: Extensive fiscal and monetary policy measures to mitigate the after-effects of the slump (higher liquidity, higher budget deficit, higher credit growth). Strong projected annual average growth (2020: 2.3%, 2021: 9.1%). Nevertheless, a significant slowdown in growth can be seen since the beginning of the year as expansionary economic policies are scaled back. Indeed, credit growth is falling. In addition, regulatory tightening in several sectors (e-commerce, real estate) is becoming increasingly evident.

Emerging Market Bonds in Euro

Hedged in EUR

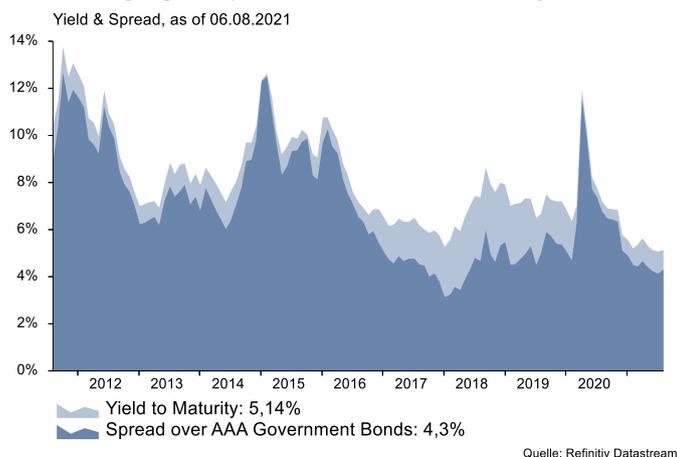
Emerging Market Bonds in Hard Currency



The positive vaccine news and the extremely expansionary monetary policies at the global level support the significant falling yield spreads for country credit risk (moderate widening recently). In addition, declines in US government bond yields since April have nearly offset the initial declines in EM bond prices. Risks: 1) Epidemiology: Many EM countries are lagging in vaccination coverage. 2) Inflation problem in some countries lead to key rate hikes (Brazil). 3) Less fiscal space than in developed economies. Structural problems could come 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



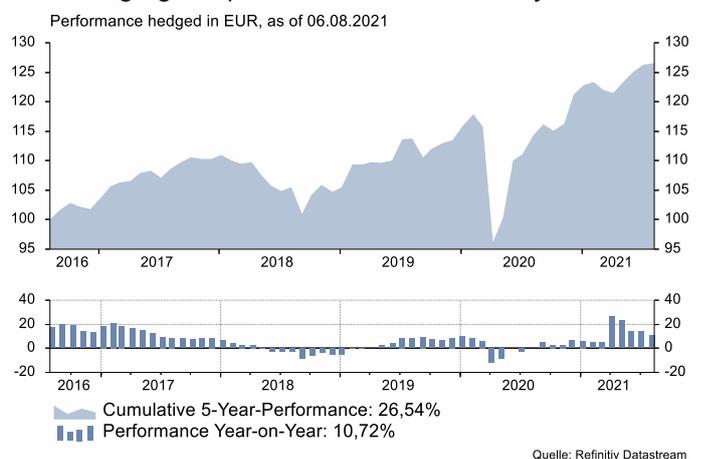
Credit spreads have almost fully recovered from the March 20 widening. The price losses at the beginning of the year have now been almost fully compensated due to the decline in yields on US government bonds. In general, politics is the decisive factor for country differences in economic development. This is because it determines above all 1) vaccination rates (emerging market economies are lagging far behind), 2) containment measures (stagnation in Brazil and GDP contraction in India in Q2), 3) monetary policies (key interest rates are already being raised in more and more emerging markets) and 4) fiscal policies (less capacity in the emerging markets).

Forecast: somewhat positive

Emerging Market Bonds in Hard Currency



Emerging Corporates in Hard Currency

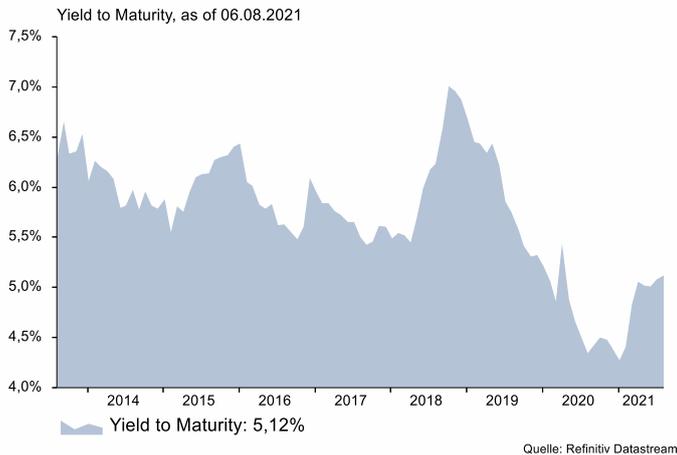


With reference to the performance graphs: past performance is not a reliable indicator of future performance. Please refer to the annex for the underlying index.

Emerging Market Bonds in Local Currency

Global and Central Europe

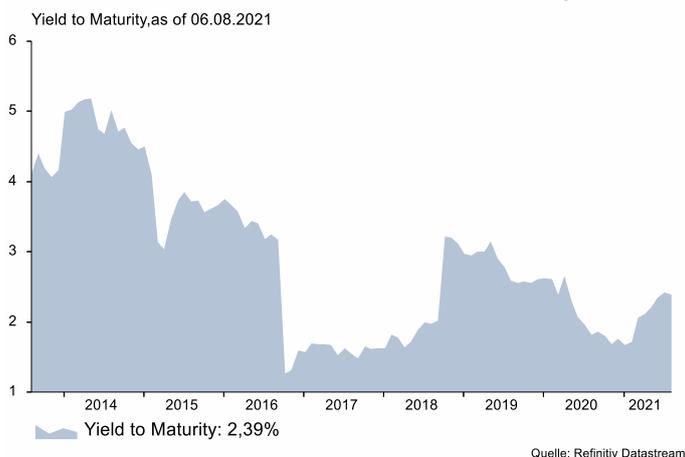
Emerging Market Bonds in Local Currency



In contrast to previous crises, many EM central banks were able to cut key interest rates last year in order to support the economy. However, since the beginning of the year, policy rates in the aggregate have risen somewhat (from 3% to 3.35%). Some central banks have raised key rates significantly (Russia, Brazil, Turkey, Mexico, Czech Republic, Hungary) due to increasing inflation risks. Nevertheless, the yield on local currency bonds has been moving sideways since the end of March after having risen at the beginning of the year. Support has come from the decline in yields on US government bonds. Of note: no trend strengthening of the EM currency basket against the US dollar.

Forecast: somewhat positive

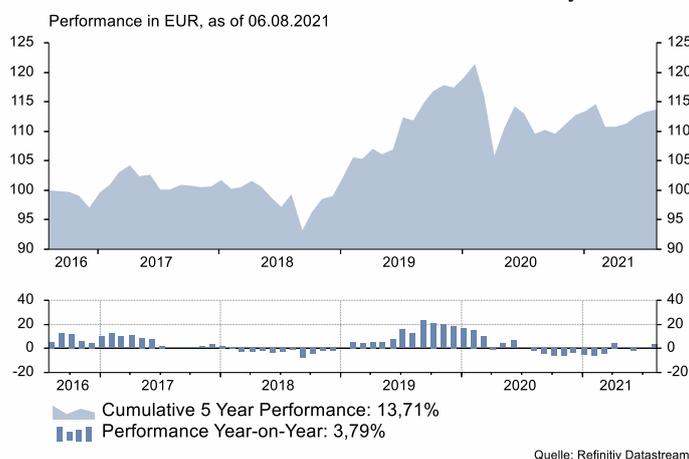
CEE Government Bonds in Local Currency



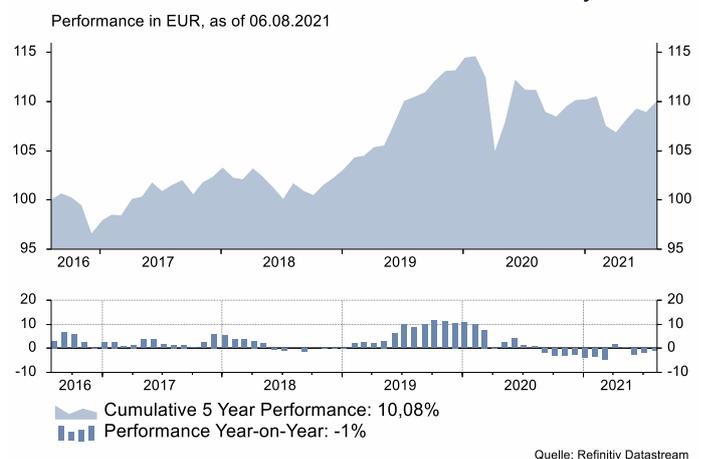
Negative impact of the pandemic on GDP lower than estimated. Overall, expectations for a recovery in economic activity from the second quarter onwards hold: CZ (2020: -5.6%, 2021: 3.5%), HU (2020: -5.0, 2021: 6.9%), PL (2020: -2.7%, 2021: 4.9%), RO (2020: -3.9%, 2021: 8.0%), TR (2020: +1.8%, 2021: 6.8%). More and more central banks are responding to the recovery with signals for, respectively, actual rate hikes. Hungary, the Czech Republic, Russia and Turkey have already raised key rates. The currencies are moving unevenly. TRY and RON are tending towards weakness, CZK is showing a strengthening trend.

Forecast: neutral

EM Government Bonds in Local Currency



CEE Government Bonds in Local Currency



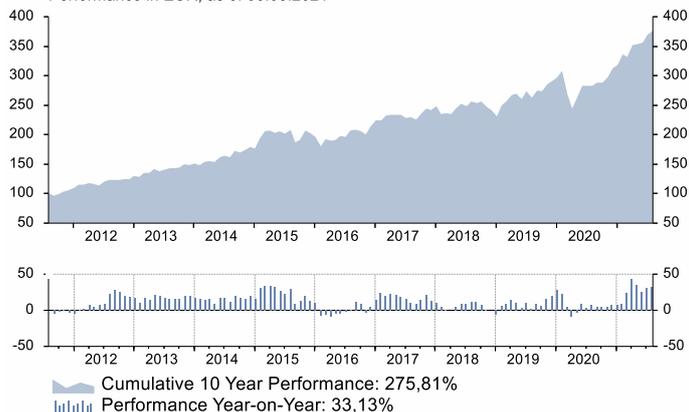
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Equities Developed Markets

Overview

Developed Markets

Performance in EUR, as of 06.08.2021



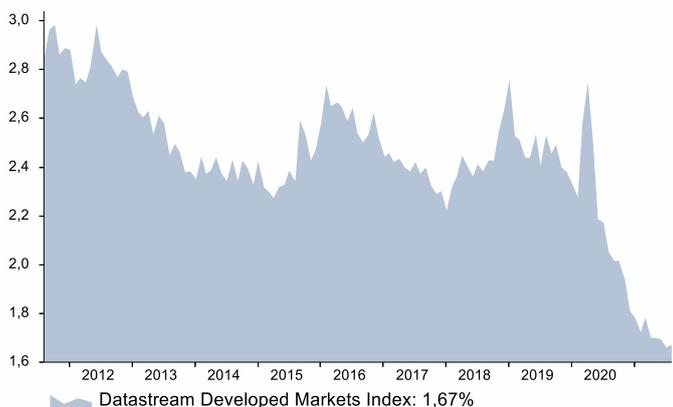
Quelle: Refinitiv Datastream

The global equity index rose +1.6% in EUR terms in July. The S&P 500 strengthened by +2.2% in EUR terms and the Stoxx 600 gained +2.0% in EUR terms. 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 +14.6% and profits by +43.2%. We expect the upward trend of the global equity market index to continue in August.

Forecast: somewhat positive

Dividend Yield

as of 06.08.2021



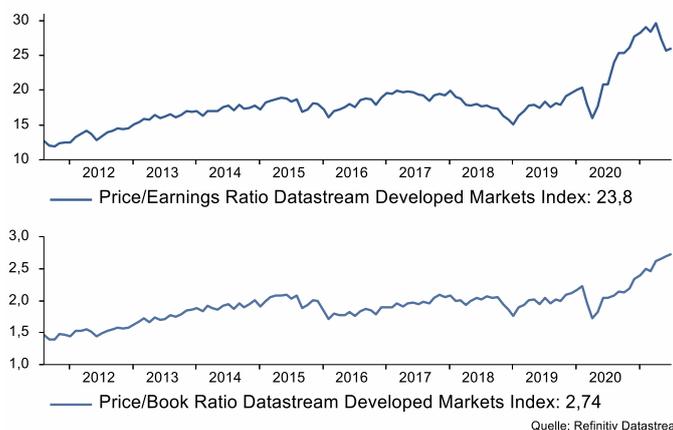
Quelle: Refinitiv Datastream

The vast majority of US companies published positive surprises in sales and earnings in the last quarter (2Q). The second quarter will see the highest increase in earnings this year (EPS 2Q 2021e: +85.1%). US corporate revenues should rise by around +23.1% in 2Q. 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 +21.5% in 2Q and earnings by about +120.8%. The expected dividend yield of European equities is 2.7%. We expect a moderate increase in the global equity market index in August.

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Key Indicators

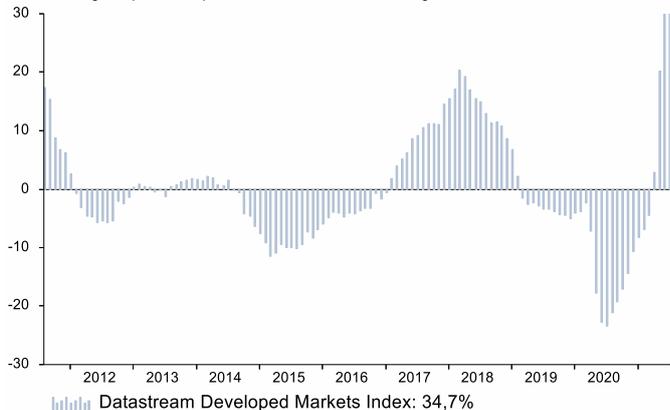
as of 06.08.2021



Quelle: Refinitiv Datastream

Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 06.08.2021



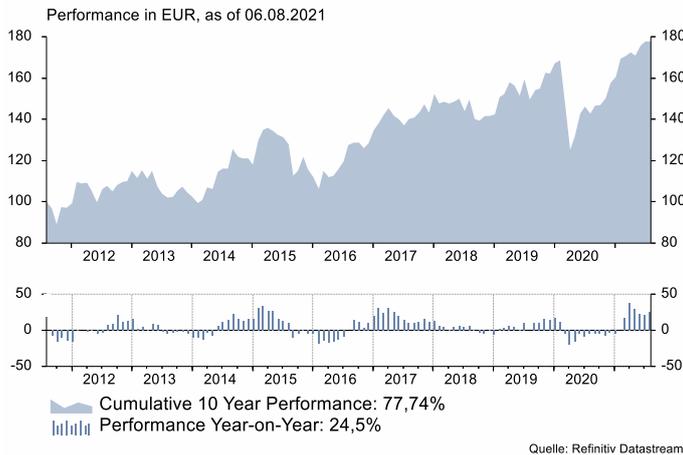
Quelle: Refinitiv Datastream

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Equities Emerging Markets

Overview

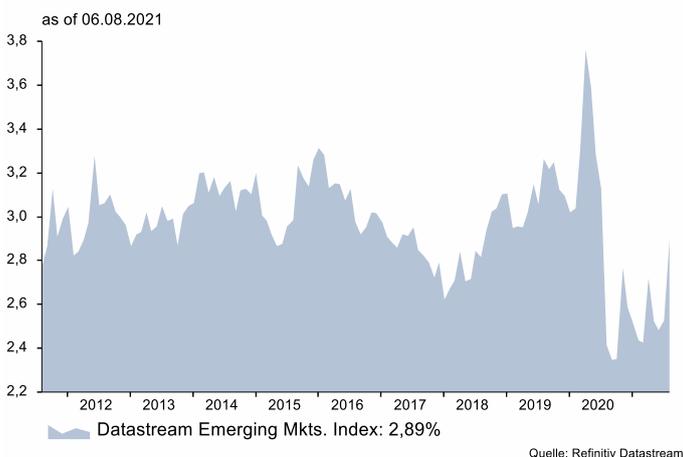
Emerging Markets



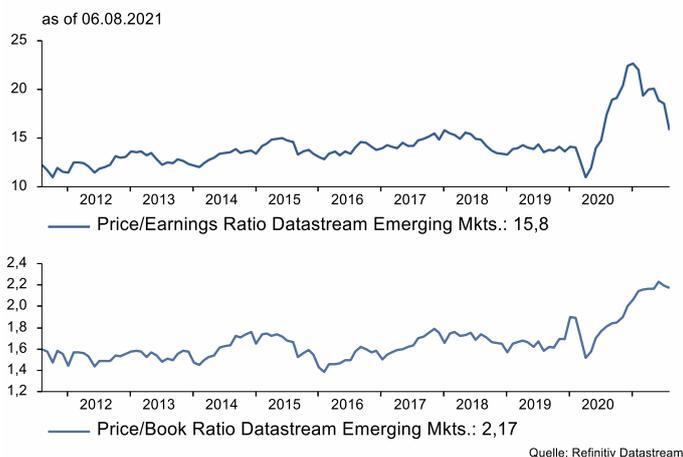
The global emerging markets index was -7.2% lower in EUR terms in July. The Chinese equity market, which is the most heavily weighted in the Emerging Markets Index, suffered in July from politically motivated interventions at numerous technology and services companies. The commodity-oriented markets of Brazil and Russia also weakened. Emerging markets are expected to post strong revenue growth of +18.3% and earnings growth of around +32.6% in 2021. The cheap valuation (P/E 2021e: 11.3x or dividend yield 2021e: 3.4%) argues for a positive market development in the medium term. We expect a moderate increase in the global emerging markets index in August

Forecast: somewhat positive

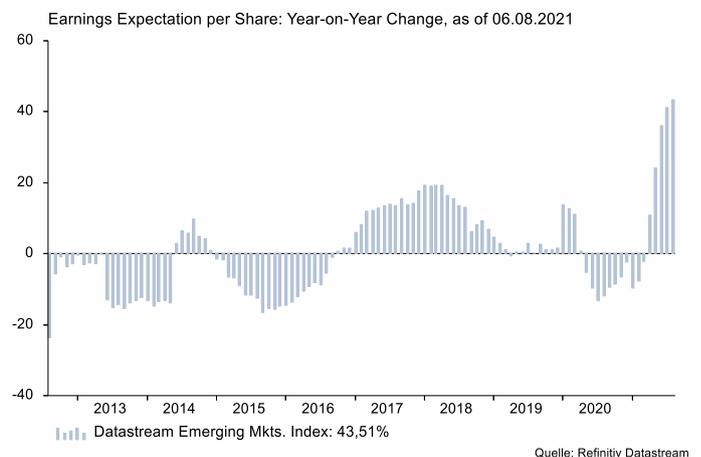
Dividend Yield



Key Indicators



Earnings Growth

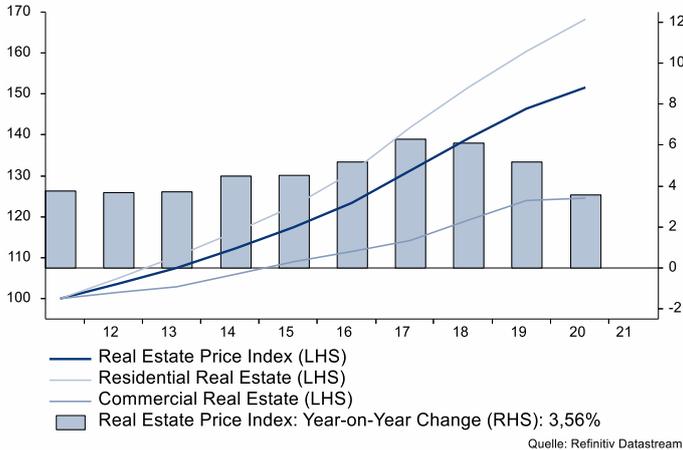


With reference to the performance graphs: past performance is not a reliable indicator of future performance. Please refer to the annex for the underlying index.

Alternative Investments

Real Estate, Gold and Commodities

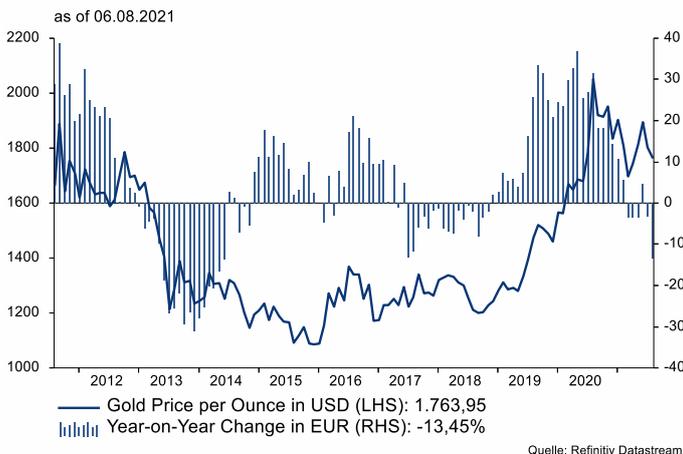
German Real Estate



The housing and logistics market continues to enjoy rising prices, although the likelihood of rising interest rates is likely to increase in the future and should therefore have a dampening effect on prices. Opening steps and the return to "normality" is also supporting the commercial sector. Jones Lang LaSalle even tends to expect excess demand for the office property market, as many development projects are likely to be completed with delays, if at all, and "home office" has not proved to be a panacea for modern working structures. The real estate market - so the expectation - should therefore continue to show a robust to positive development.

Forecast: neutral

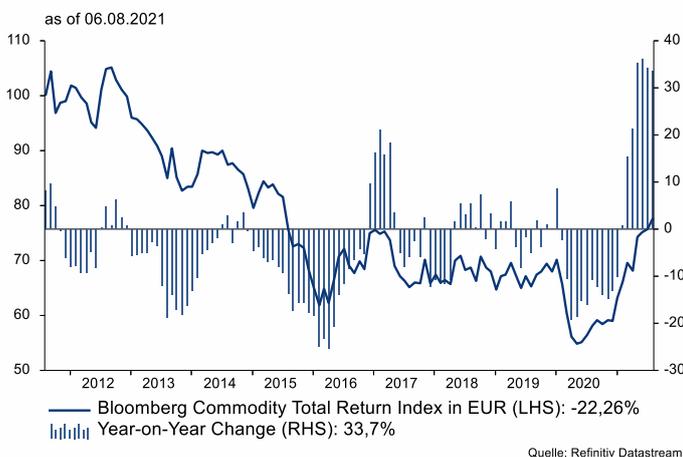
Gold



The gold price rose by +2.5% in USD terms in July. Following the Fed's FOMC meeting in mid-June, interest rate expectations in the US have shifted, in some cases significantly. Interest rate hikes of 0.5% are now expected for the first time in 2023. This weighs on the outlook with regard to a rise in the gold price. Investors' risk appetite is likely to remain high due to the strong rise in corporate profits. Equities therefore offer a better return in this environment. However, the ongoing expansion of central bank balance sheets (Fed and ECB) provides solid support for the gold price. We expect the gold price to move sideways in August.

Forecast: somewhat negative

Commodities



Global industrial production grew only moderately in the second quarter. The global purchasing managers' index for the manufacturing sector also fell for the second month in a row in July, but remained at a high level. On the positive side, the high ratio of new orders to inventories (low) points to good growth in the future as bottlenecks in the value chain ease (long lead times, high order backlogs). The rising price trend for industrial metals has not continued since May. Energy prices (crude oil), on the other hand, have continued to rise. Overall, the global economic recovery is supporting commodity prices, while the slowdown in China is weighing on them.

Forecast: neutral

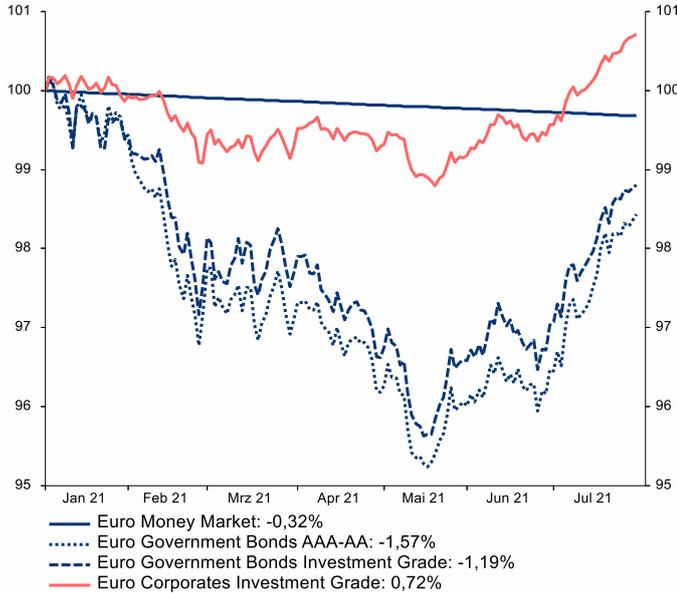
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Overview of Key Asset Classes

YTD Performance

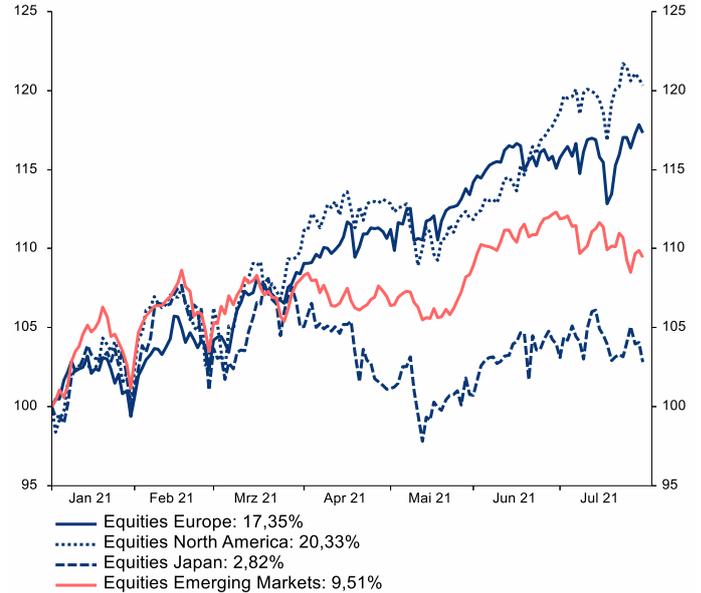
Fixed Income Investment Grade

Performance YTD as of 30.07.2021



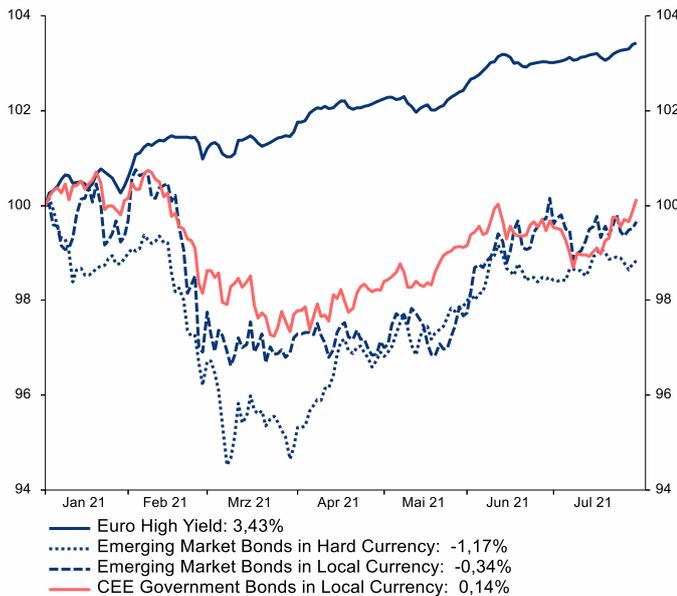
Equities

Performance YTD as of 30.07.2021



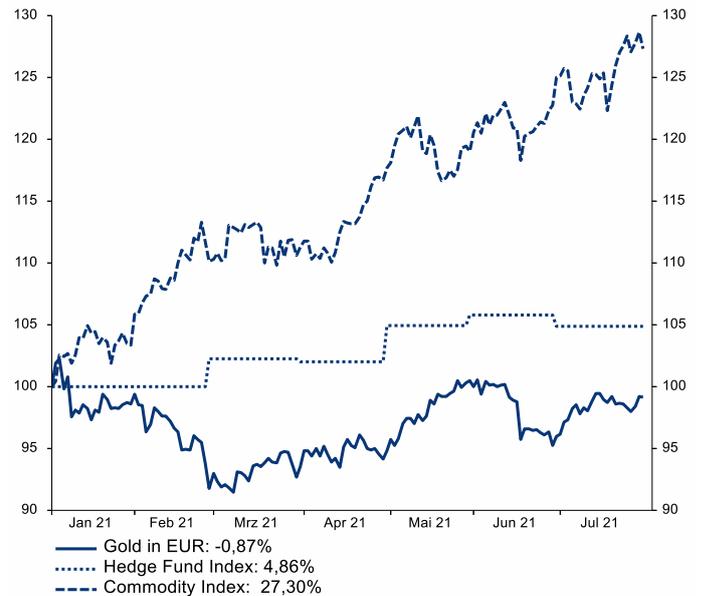
Fixed Income High Yield

Performance YTD as of 30.07.2021



Alternative Investments

Performance YTD as of 30.07.2021



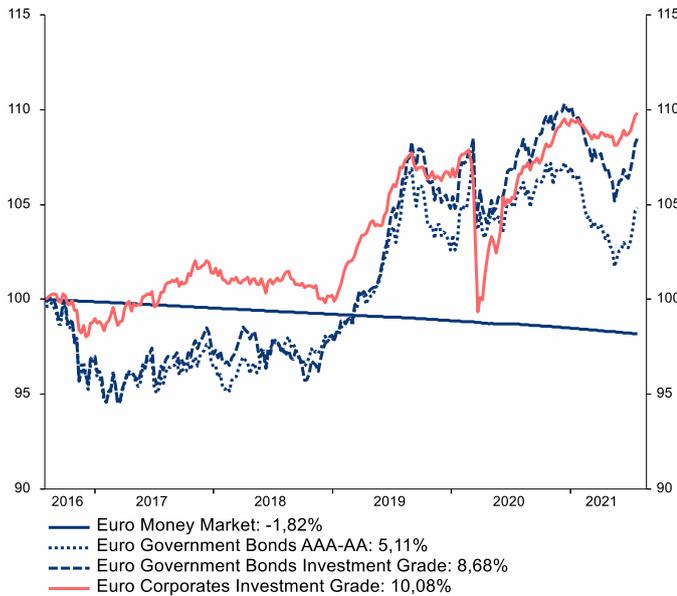
With reference to the performance graphs: past performance is not a reliable indicator of future performance. This performance representation has little validity due to its short duration. Please refer to the annex for the underlying index.

Overview of Key Asset Classes

5 Year Performance

Fixed Income Investment Grade

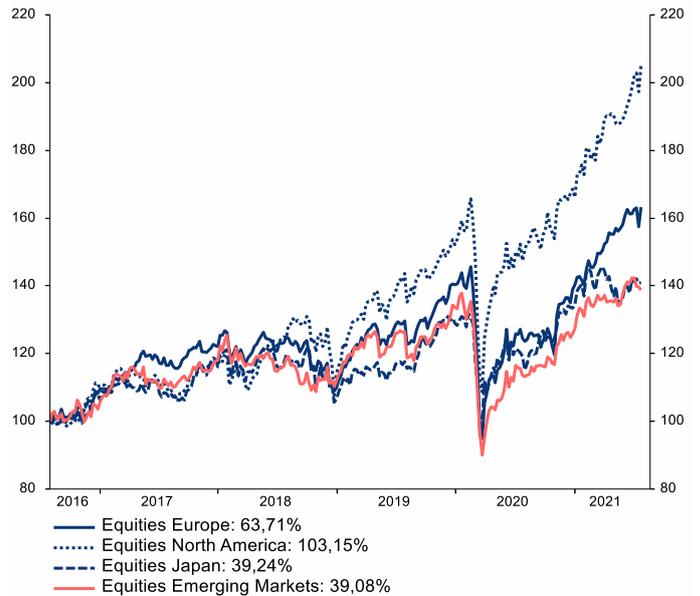
5 Year Performance as of 30.07.2021



Quelle: Refinitiv Datastream

Equities

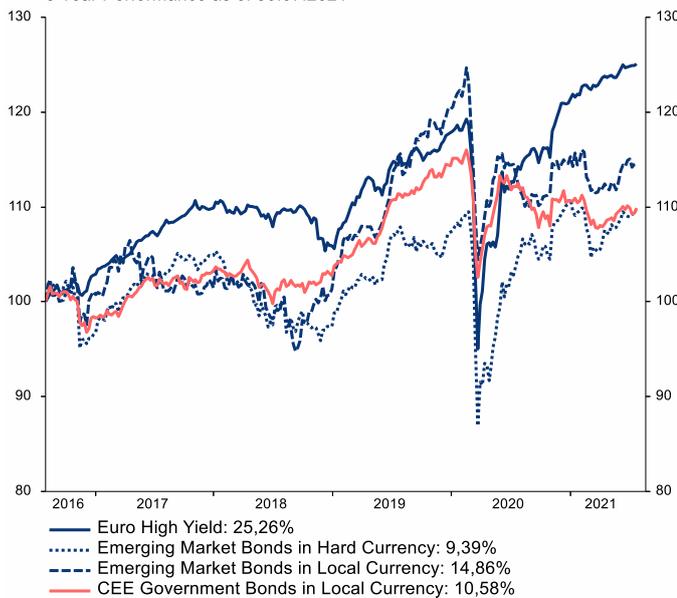
5 Year Performance as of 30.07.2021



Quelle: Refinitiv Datastream

Fixed Income High Yield

5 Year Performance as of 30.07.2021



Quelle: Refinitiv Datastream

Alternative Investments

5 Year Performance as of 30.07.2021



Quelle: Refinitiv Datastream

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

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