Private Banking Investment Outlook

March 2024

ERSTE
Private Banking

Private Banking Investment Outlook

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Private Banking Investment Outlook

Executive Summary

Dear Readers,

the economic outlook for the eurozone remains cautious. We forecast a slight acceleration in GDP growth to 0.7% in 2024. In February, inflation fell to 2.6% y/y (previously 2.8% y/y). We have lowered our inflation forecast for 2024 to 2.5% (previously 2.7%). If the ECB Governing Council receives further confirmation that inflation is on a sustained downward path, we expect a first cut in key interest rates in the eurozone in June. The US inflation data for January brought a negative surprise and the inflation rate rose more strongly than expected. We expect price pressure to ease further, not least because we expect the US economy to weaken. We currently expect the first US interest rate cut to take place at the beginning of May, but the uncertainty surrounding this is high. EURUSD has recently remained in a narrow range just below 1.10. This sideways movement could continue, but ultimately we expect the dollar to weaken somewhat. The global equity market index rose by +4.6% in EUR terms in February. The positive trend in global equities is supported by the prospect of rising corporate sales and profits. We expect the global equity market index to rise slightly in March. The gold price rose by +0.7% in EUR terms in February. We expect the gold price to rise moderately in March.

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

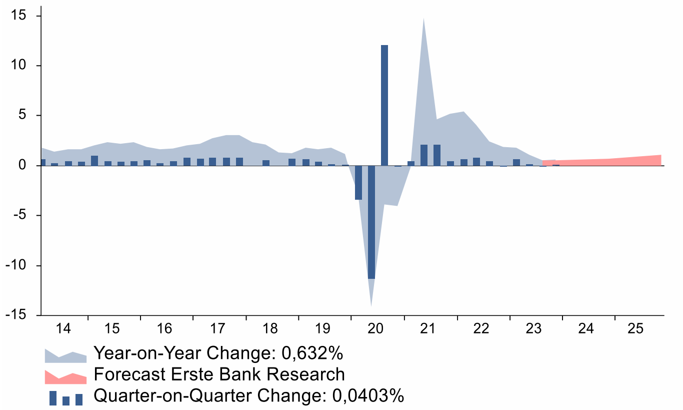
Segment	Asset Class	--	-	neutral	+	++
Bonds Investment Grade	Euro Money Market		●			
	Euro Government Bonds Investment Grade		●			
	Euro Corporate Bonds			●		
	US Corporate Bonds			⇨	●	
Bonds High Yield	Euro High Yield			●		
	US High Yield				●	
	Emerging Sovereigns Hard Currency				●	
	Emerging Corporates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

as of Q1 24

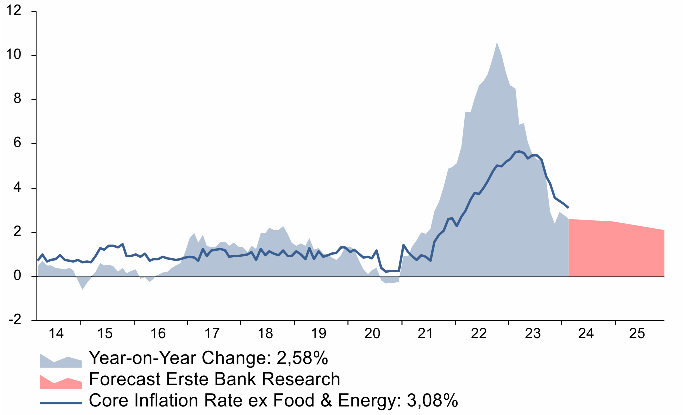


Quelle: LSEG Datastream

While the mood in industry stabilized at a low level in February, the mood among service providers brightened surprisingly strongly. Overall, the economic outlook remains cautious. However, thanks to the sharp fall in inflation, we expect real wage growth for employees, which should benefit consumption in 2024. Furthermore, industry should also gradually recover over the course of 2024. Regionally, growth momentum is likely to remain the highest in Spain. We are therefore forecasting a slight acceleration in GDP growth to 0.7% in 2024.

Eurozone Inflation Rate*

as of Mär 24



Quelle: LSEG Datastream

In February, inflation fell to 2.6% y/y (previously 2.8% y/y). This was due to a sharp fall in food price momentum and a slight decline in core inflation momentum. In contrast, the downward pressure of energy price inflation eased further, as expected. Unfortunately, service provider inflation fell only slightly, from 4.0% y/y to 3.9% y/y. However, as service provider inflation is an indicator of price pressure in the domestic economy, the ECB is keeping a close eye on it. Due to the sharp decline in electricity prices, we have lowered our inflation forecast for 2024 to 2.5% (previously 2.7%).

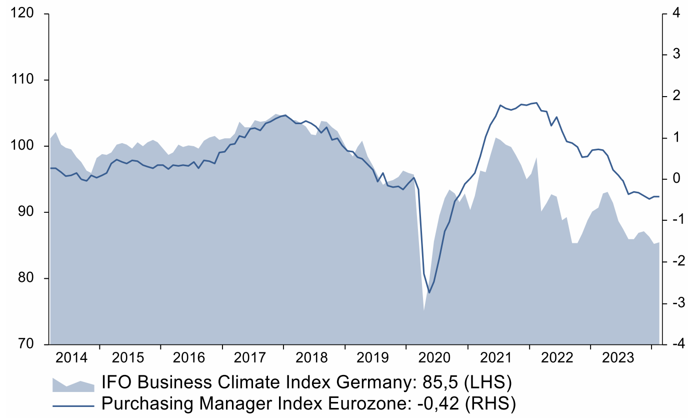
Unemployment Rate Eurozone

as of Mär 24

Quelle: LSEG Datastream

Eurozone Business Climate Indices

as of Mär 24



Quelle: LSEG Datastream

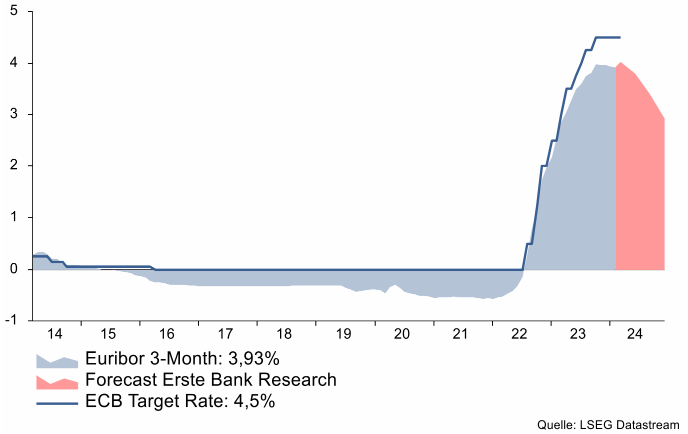
With reference to the graphs (pictured above): forecasts are not a reliable indicator for future performance.
* Forecasts are no reliable indicator for future performance.

Euro Fixed Income

Money Market and Government Bonds

Money Market Euro*

as of 05.03.2024

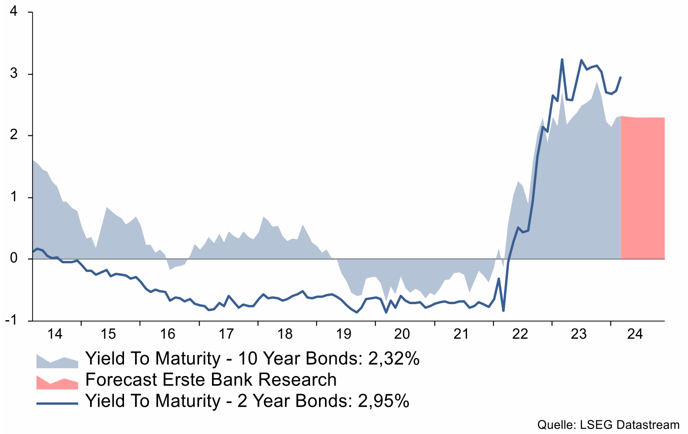


At the January meeting, the ECB Governing Council left the key interest rates unchanged. The outlook, which points to stable interest rates, also remained the same as at previous meetings. In the subsequent press conference, President Lagarde made it clear that it was too early to think about lowering interest rates. The ECB Governing Council wanted further confirmation that inflation was on a sustained downward path. Particular attention will be paid to the development of wages and profit margins. We assume that the data situation will only be sufficient at the March meeting of the ECB Governing Council to open the door verbally for interest rate cuts, which should be implemented from June. We expect interest rate cuts totaling 100 basis points in 2024

Forecast: neutral

German Government Bonds*

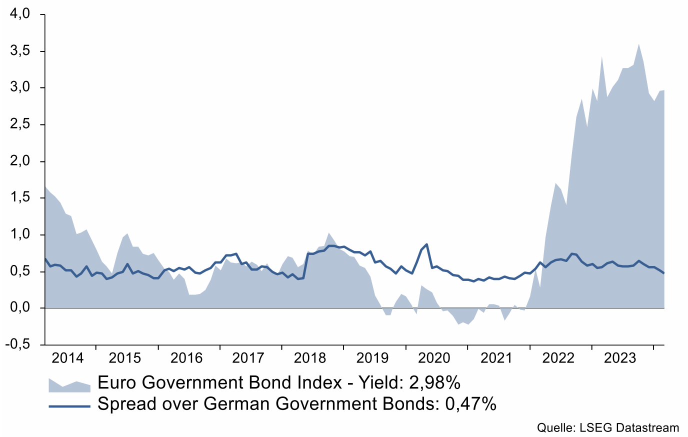
as of 05.03.2024



The cues from the US have played an important role for the German bond market in recent weeks. As a result, yields rose here too, albeit also starting from very low levels. The markets' expectations for the speed of interest rate cuts in the Eurozone also declined, which was probably also due to inflation figures that showed persistent upward price pressure in services. The US market will continue to play an important role for German government bonds. However, we expect a much smaller decline in German yields, as economic data in the Eurozone should brighten somewhat, while the US economy should cool down.

Euro Government Bonds

as of 05.03.2024



In the last two months of the previous year, an increasing number of early and significant key interest rate cuts were expected. At the beginning of the year, for example, a reduction in the key interest rate of 1.64 percentage points was still being priced in for the coming December. This figure has since shrunk to 0.88 percentage points. This can be attributed to the constant inflation-fighting tones of the European Central Bank and the slow fall in inflation in the services sector. In line with this, government bonds in the eurozone have seen yields rise and prices fall slightly since the beginning of the year. It is worth noting that in this environment of rising yields, the yield premiums for country credit risk have fallen further.

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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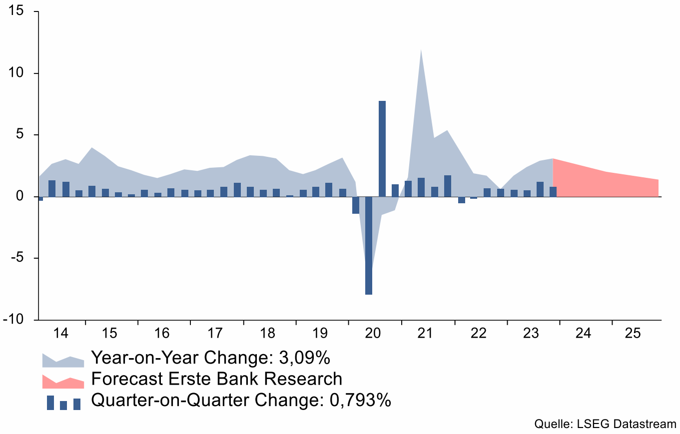
US Economics

Overview

US Real GDP Growth Rate*

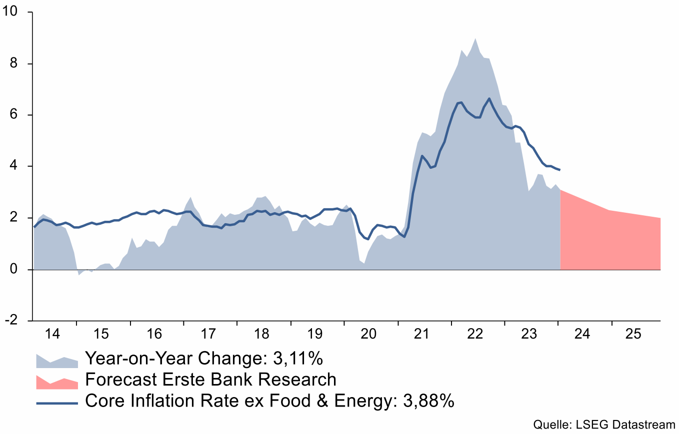
as of Q1 24



The US economy surprised on the upside once again and, according to an initial estimate, reported strong growth for the fourth quarter of 2023. Data to-date also suggests solid, albeit weaker, growth for the first quarter. Despite the resilience to high inflation and high interest rates to-date, we expect a noticeable slowdown in the US economy this year. The main reason for this is that high consumer spending has been financed largely by higher debt and, above all, by earlier savings, but this is not sustainable.

US Inflation Rate*

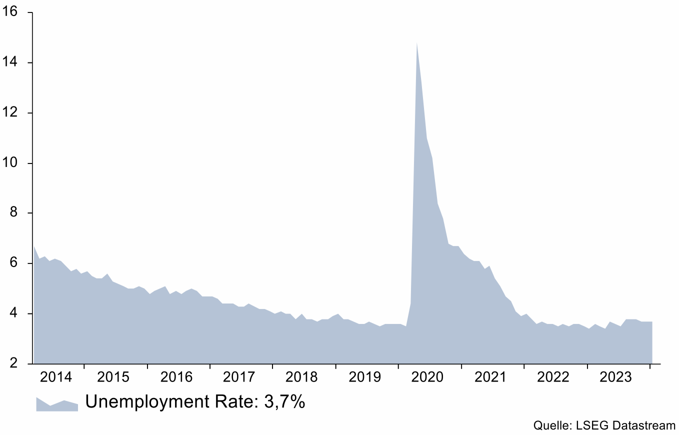
as of Jän 24



The US inflation data for January brought a negative surprise and the inflation rate rose more sharply than expected. This was due to the prices of services, including housing costs. The prices of goods, on the other hand, continued to fall. This development was also later confirmed by the PCE inflation indicator relevant to the central bank. However, this setback came after a series of very favorable inflation data and we do not expect a sustained trend reversal. However, as long as the US economy remains firm, it is indeed uncertain how quickly US inflation will return. We believe it is likely that price pressure will continue to ease, not least because we expect the US economy to weaken.

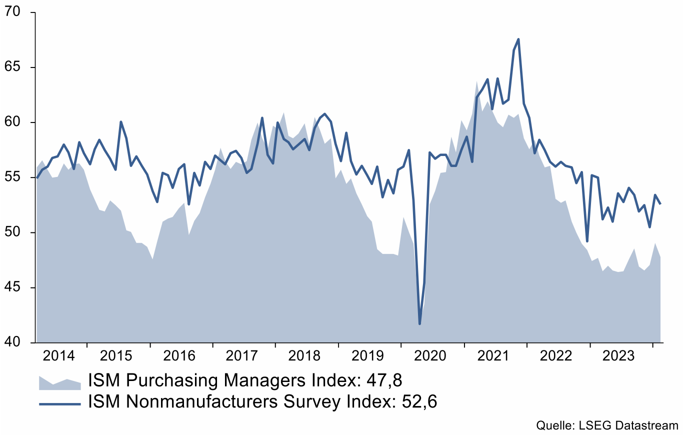
US Unemployment Rate

as of Jän 24



US ISM Purchasing Managers Index

as of Feb 24



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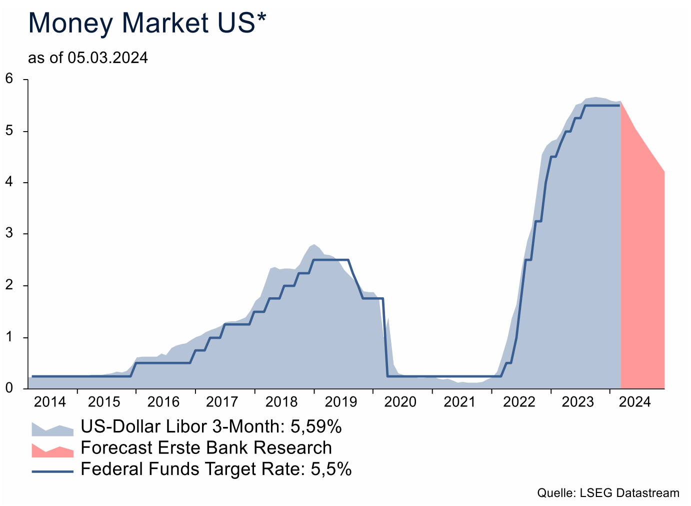
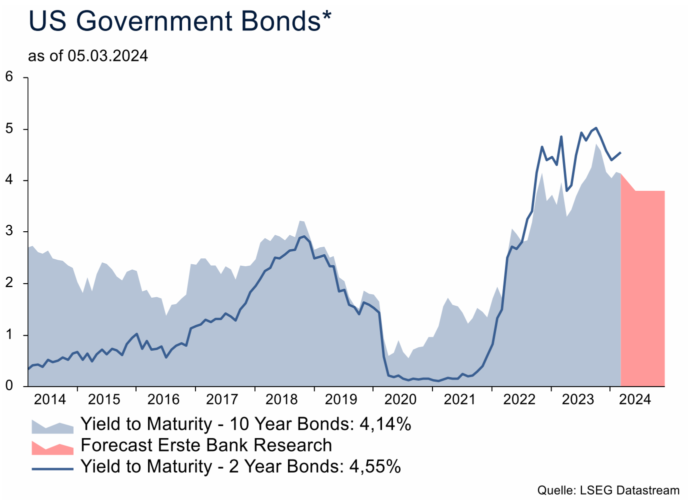
US Fixed Income

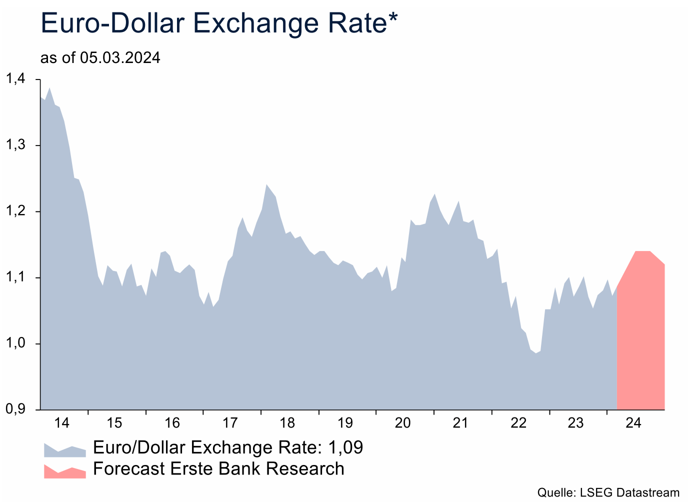
Money Market and Government Bonds



At the January meeting of the FOMC, the US Fed's interest rate-setting body, key interest rates were left unchanged, as expected. However, there were a number of new formulations in the statement that signaled a move towards lowering interest rates. According to Fed Chairman Powell, however, further confirmation of the sustainability of the months of lower price pressure should be awaited for the time being. The inflation figures for January published since then have been disappointing in this respect, meaning that upcoming inflation figures will be very important. We assume that price pressure will ease again, but uncertainty is high. This also applies to the timing of the first interest rate cut, which we currently expect at the beginning of May.



After a sharp fall in yields from October to the end of the year, yields have since risen considerably. The reason was US economic data, which dampened expectations for the speed of future interest rate cuts. Inflation figures for January in particular had a strong influence on the markets. However, a continuing solid economy certainly also made a contribution. The sharp swings on the bond market reflected the high level of uncertainty about the further development of US economic data, which is unlikely to change for the time being. However, we expect weaker US economic data in the end, which argues for a decline in yields.



The EURUSD has remained in a narrow range just below 1.10 over the past few weeks. As the market scaled back interest rate expectations for both economic areas, there was no reason for significant changes in the exchange rate. The general uncertainty about the extent and speed of future interest rate cuts by both central banks is also likely to have played a role in the market's reluctance to place long-term bets on either currency. This sideways movement could continue, but ultimately we expect the dollar to weaken somewhat. The reason for this should be a slowdown in the US economy, which will dampen US interest rate expectations.

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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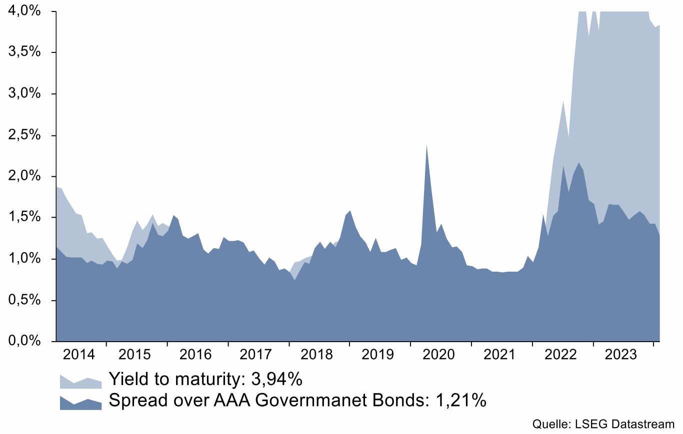
Corporate Bonds
Investment Grade

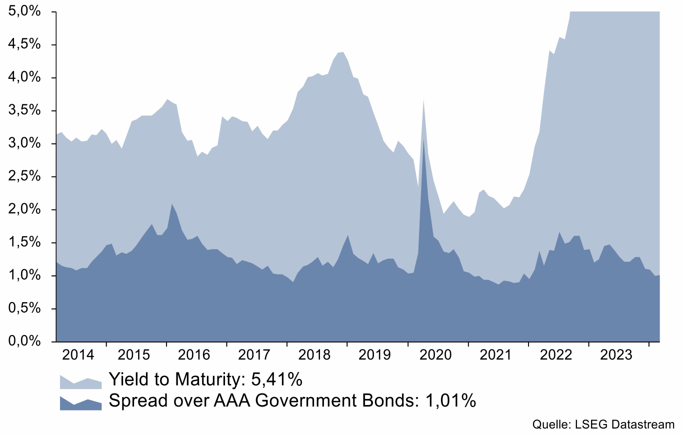
Euro Corporate Bonds: Yield & Spread
as of 05.03.2024



In February, the further rise in government bond yields again weighed on IG Corporate Bond performance (-1.1%). Spread tightening by an average of 5 basis points (bps) did not offset the rise in the 5-year German Bund yield by around 50 bps. Once again, subordinated IG corporate bonds (hybrids) fared better (performance: -0.3%). 4Q corporate results have so far slightly exceeded consensus expectations. Leading economic indicators pointed only slightly upwards in February. We consider the rally in the HY segment to be exaggerated. The spread between HY and IG bonds is exceptionally low. We recommend "BBB"-rated corporate bonds and IG hybrids.

Forecast: neutral

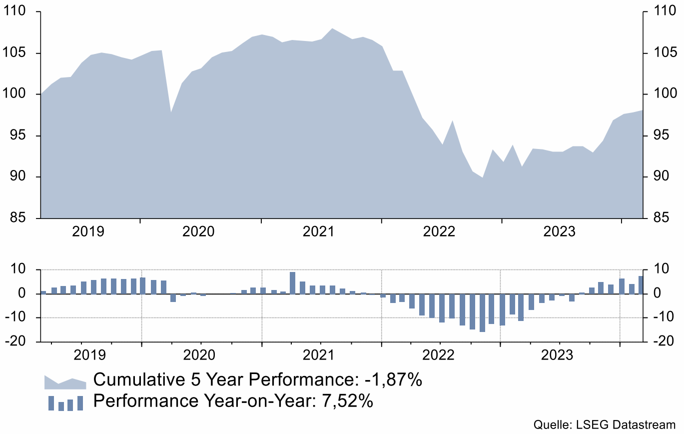
US Corporate Bonds: Yield & Spread
as of 05.03.2024



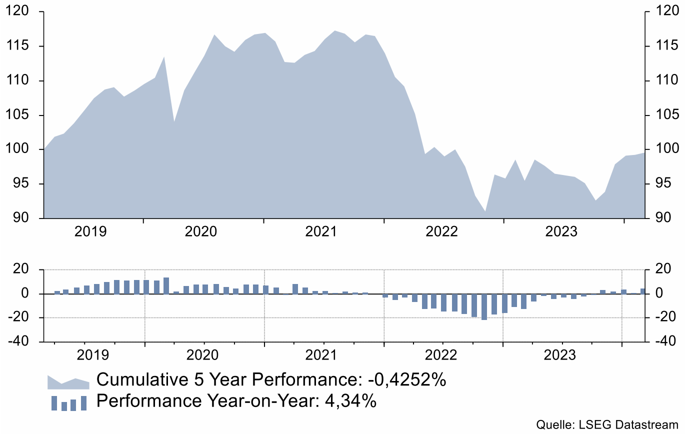
Since the beginning of the year, expectations for early and substantial Fed rate cuts have fallen. This can be attributed to the increasing emphasis on the part of Fed members on achieving the inflation target on a sustained basis and higher than expected inflation increases for the month of January. In line with this, government bonds have seen yields rise and prices fall since the beginning of the year. It is worth noting that in this environment of rising yields, the yield premiums for corporate credit risk have fallen further. This means that corporate bonds have suffered smaller price losses than government bonds.

Forecast: neutral

Euro Corporate Bonds: Performance
as of 05.03.2024



US Corporate Bonds: Performance
as of 05.03.2024



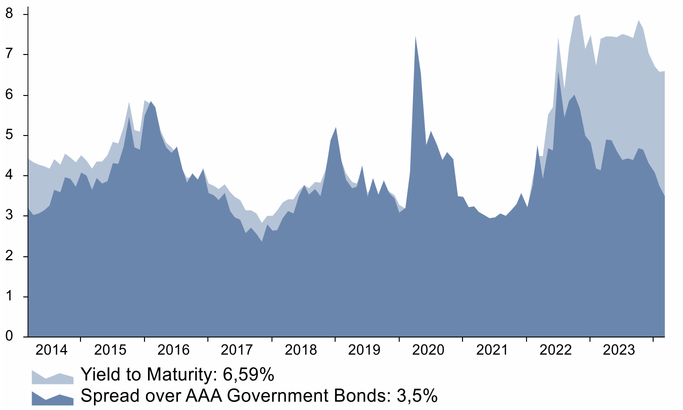
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

High Yield Bonds

Corporate Bonds with a Speculative Rating

Euro High Yield: Yield & Spread

as of 05.03.2024



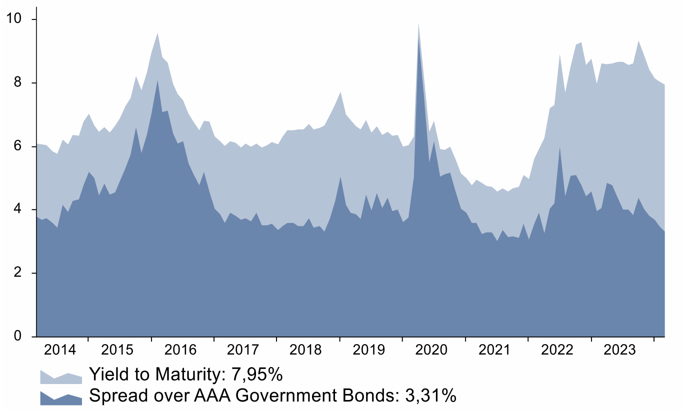
Quelle: LSEG Datastream

HY spreads tightened in February for the fourth month in a row. Spread drivers are still likely to be the prospect of falling key interest rates. HY bonds delivered a total return of +0.4% in February (IG: -1.1%). Economic indicators recovered slightly, but remained weak. Moody's registered a rising default rate. We see increasing refinancing risks for weakly rated issuers. Refinancing will clearly become more expensive despite possible ECB interest rate cuts. HY spreads are now historically tight in relation to IG spreads. We believe this is excessive given the subdued economic outlook. We prefer IG bonds. In the HY segment, BB bonds remain the instrument of choice.

Forecast: neutral

US High Yield: Yield & Spread

as of 05.03.2024



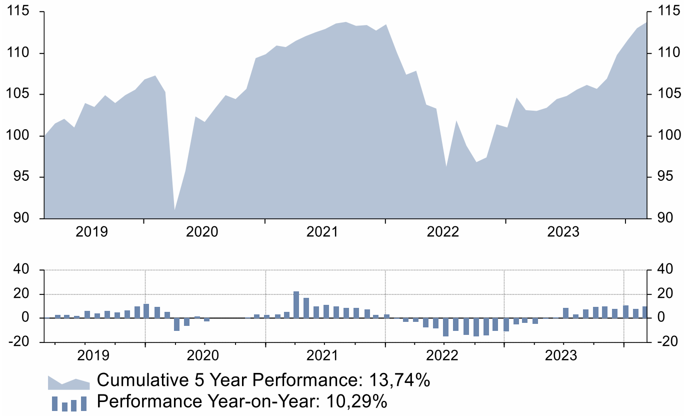
Quelle: LSEG Datastream

In contrast to investment grade bonds, corporate bonds with a low credit rating have recorded slight price increases since the beginning of the year. Government bonds have seen yields rise and prices fall due to the reduction in key interest rate cuts priced into the market. In this environment, yields on HY corporate bonds have essentially moved sideways. This has led to a further narrowing of yield premiums for corporate credit risk to low levels. Demand for yield was therefore particularly high. At the macroeconomic level, the narrowing of spreads is supported by the good growth data.

Forecast: somewhat positive

Euro-High Yield: Performance

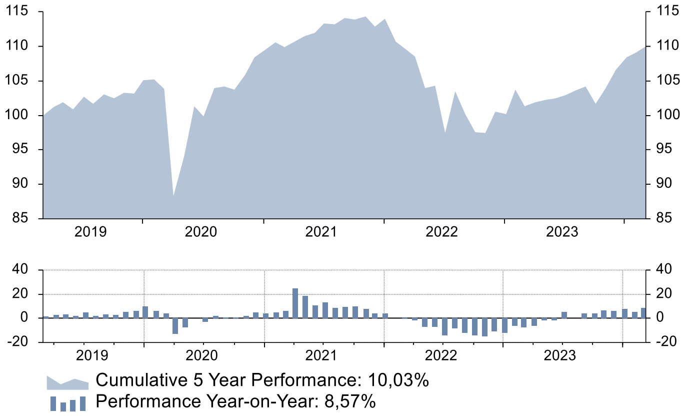
as of 05.03.2024



Quelle: LSEG Datastream

US High Yield: Performance

as of 05.03.2024



Quelle: LSEG Datastream

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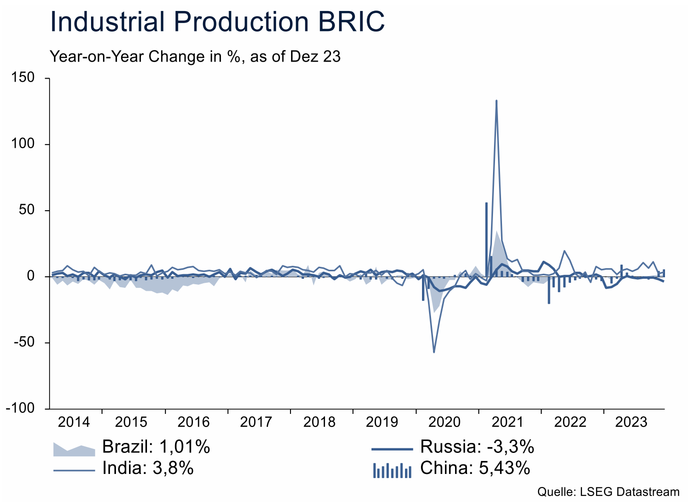
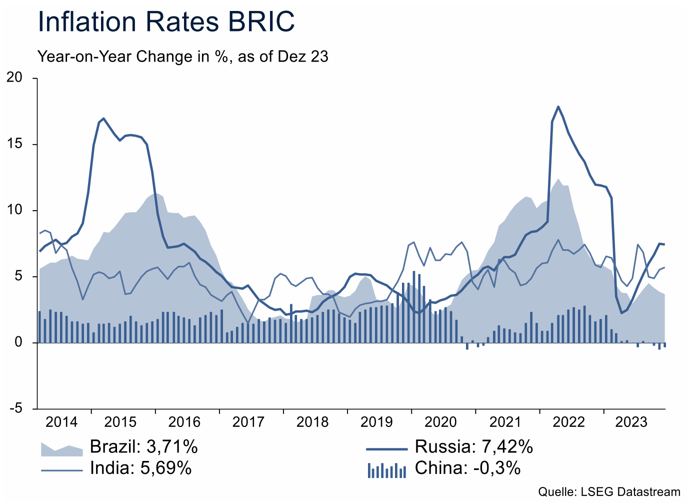
BRIC Economics

Brazil, Russia, India and China

After a strong first half of the year, real GDP stagnated in the second half. Excluding the fluctuations in the agricultural sector, which made a particularly strong contribution to growth in the first quarter and then contracted, underlying growth was strong throughout the year (around 0.5% quarter-on-quarter). GDP growth of 2.2% is expected for this year (2023: 2.9%). The inflation rate has now fallen significantly (February: 4.5% p.a.). In line with this, the central bank has already lowered the key interest rate five times by a total of 2.5 percentage points to 11.25% since the summer. Currency: slight weakening trend, further price increases for local currency bonds, slight price losses for hard currency bonds.

Expectation of only a moderate slowdown in real GDP growth (2023: 3.3% p.a., 2024: 2.0% p.a.). Among other things, the switch to a war economy is supporting growth. Inflation has been trending upwards since the most recent low in April 2023 (2.3%) (January: 7.4% p.a.). The rouble has been trending sideways against the US dollar since July 2023. Among other things, this can be attributed to the sharp key interest rate hikes since last summer (from 7.5% to currently 16%). Geopolitics: The relationship between the West and Russia has deteriorated. The further development of the war of attrition in Ukraine will be influenced by the economic resources of both sides, among other things.



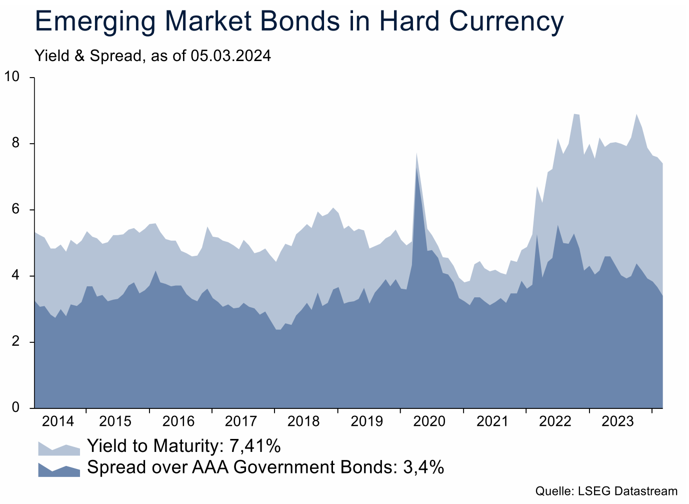


Strong real economic growth in India (2023: 7.5%, 2024: 6.4%). In contrast to many other countries, demographic development remains the most important long-term growth driver. Inflation has been trending sideways since 2020 (Jan: 5.1% pa). The key interest rate has probably peaked at 6.5%. Expectation for first rate cut around mid-year. Currency: Slight strengthening trend since December following the weakening in the first three quarters of 2023. Local currency bonds have risen significantly since the beginning of 2023.

Last year, the GDP growth target of 5.2% was achieved. The numerous support measures were sufficient to stabilize growth. Achieving the growth target of 5% this year is ambitious. China continues to face several problems: 1) The real estate crisis. 2) The intensification of tensions between China and the USA. 3) Weak global demand for goods. 4) Falling prices (deflation). Government bond prices have been firmer since the beginning of 2023, while the currency has been trending sideways against the US dollar since last July following the previous weakening. The downward trend in share prices was halted in January with interventions.

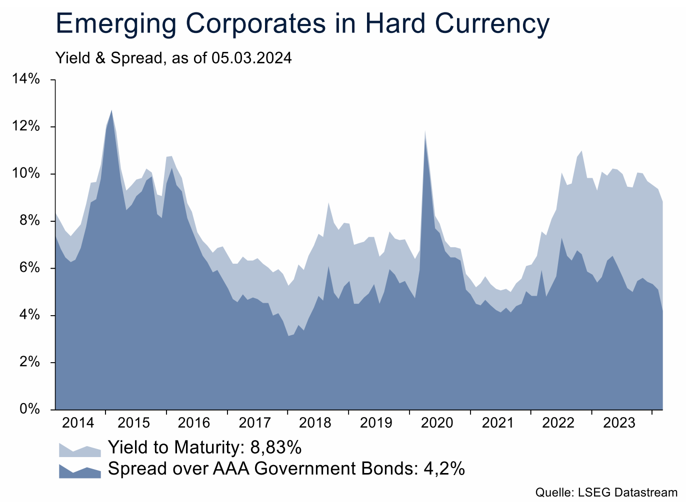
Emerging Market Bonds in Euro

Hedged in EUR



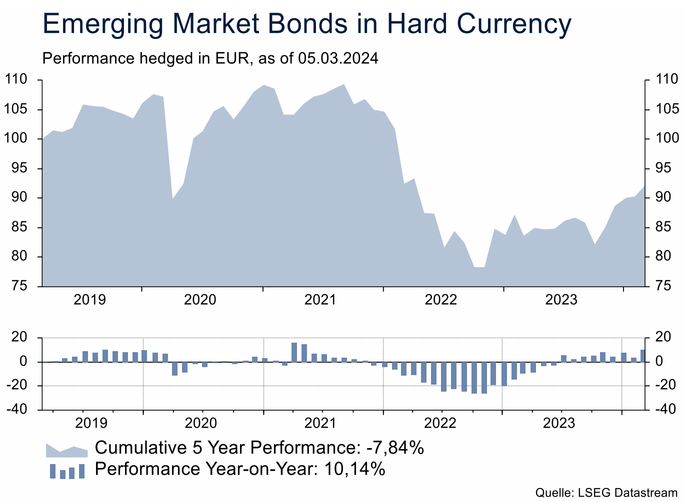
Slight price losses since the beginning of the year. Significant outperformance compared to US government bonds. In the environment of rising yields on US government bonds, yields on EM bonds have essentially moved sideways after initial increases. This has led to a further narrowing of spreads for country credit risk to low levels. Demand for yields was therefore particularly high. Overall, the strong EM economic growth and the key interest rate cuts in the EM are providing support. However, the weakening of the EM currency basket against the US dollar is a burden. Uncertainty remains high. This relates to the delayed effects of restrictive monetary policies, the structural problems in China and the increasing geopolitical risks.

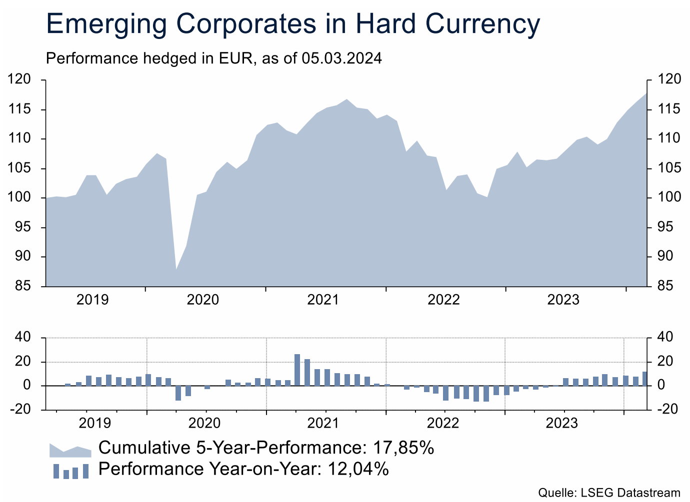
Forecast: somewhat positive



Slight price increases since the beginning of the year. Significant outperformance compared to US government bonds. In an environment of rising US government bond yields, EM bond yields have essentially moved sideways. This has led to a further narrowing of the yield premiums for corporate credit risk. The comparatively low interest rate sensitivity (duration) also helps. Demand for yield was therefore particularly high. Overall, the strong EM economic growth and the key interest rate cuts in EM are providing support. However, the weakening of the EM currency basket against the US dollar is a burden. Uncertainty remains high. This relates to the delayed effects of restrictive monetary policies, the structural problems in China and the increasing geopolitical risks.

Forecast: somewhat positive

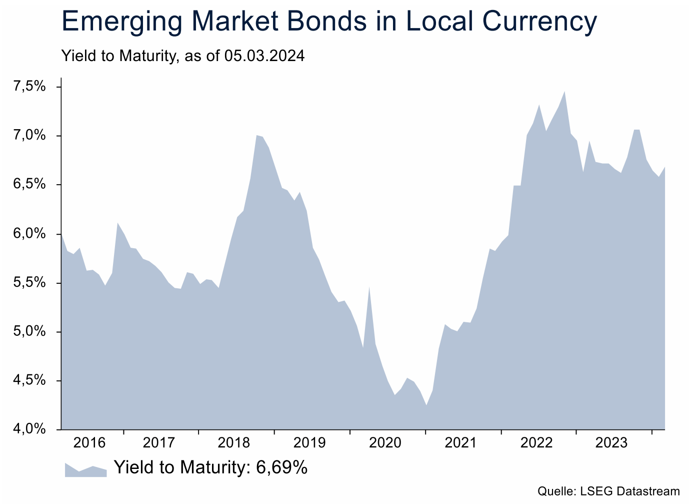




With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

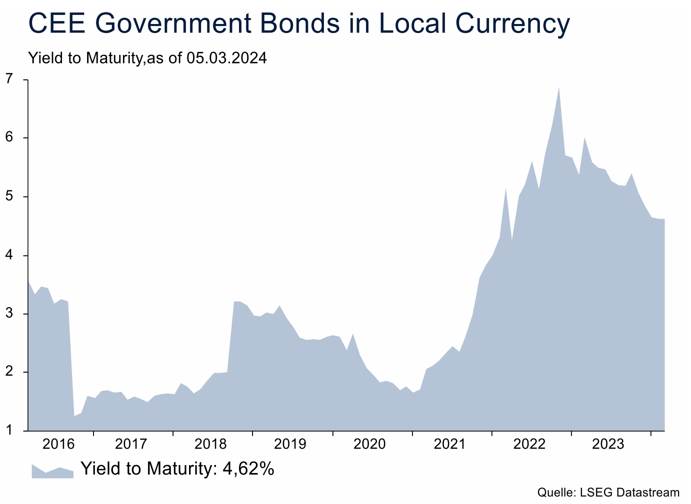
Emerging Market Bonds in Local Currency

Global and Central Europe



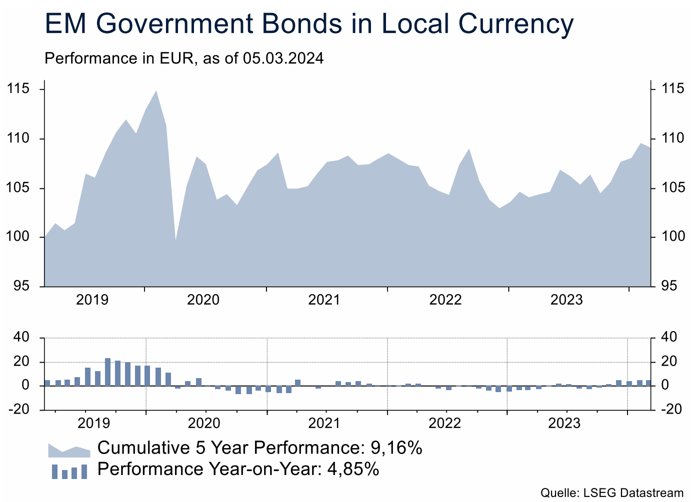
Numerous central banks have raised key interest rates since the beginning of 2021 due to increasing inflation risks (in aggregate: from 3% to 6.2%). For this reason, yields on local currency bonds trended upwards between the beginning of 2021 and October 2022. In the meantime, central banks in more and more countries have started to cut key interest rates. Overall, yields have been on a downward trend since November 2022. The bond class has been showing price gains (in local currency) since the start of the second half of 2022. Negative: The EM FX currency basket against the US dollar tends to weaken.

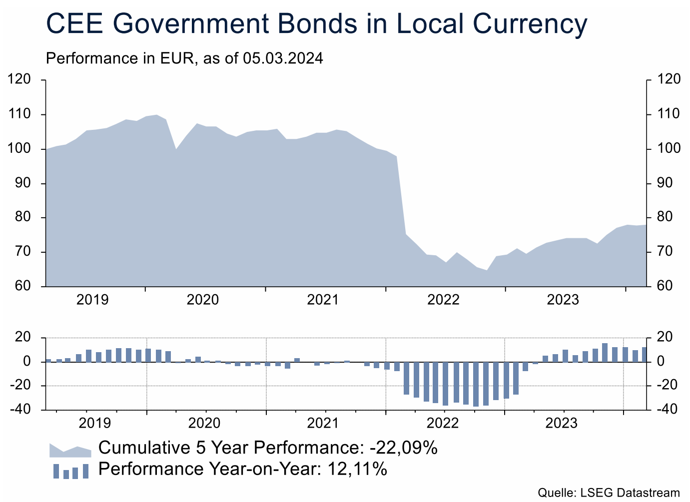
Forecast: neutral



Economic activity is dampened by several factors. 1) High inflation rates. 2) Sharp increases in key interest rates. 3) Tightening of lending guidelines. Nevertheless, some growth indicators point to a recovery. The downward trend in inflation rates is also positive. This increases the scope for key interest rate cuts (Czech Republic: -0.25 bp to 6.75%, Hungary: cut from 13% to 9%, Romania: 7.0%, Poland: cut from 6.75% to 5.75%). TRY has shown a weakening trend since President Erdogan's election victory. The sharp key interest rate hikes in Turkey (currently: 45%) are only helping to a limited extent, as inflation remains high (February: 67% pa).

Forecast: neutral





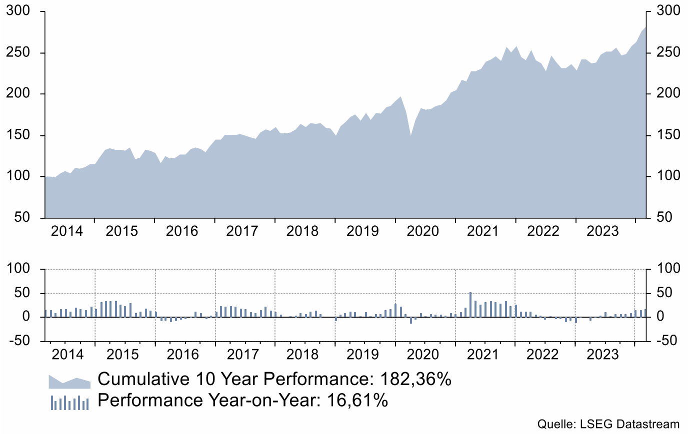
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Equities Developed Markets

Overview

Developed Markets

Performance in EUR, as of 05.03.2024

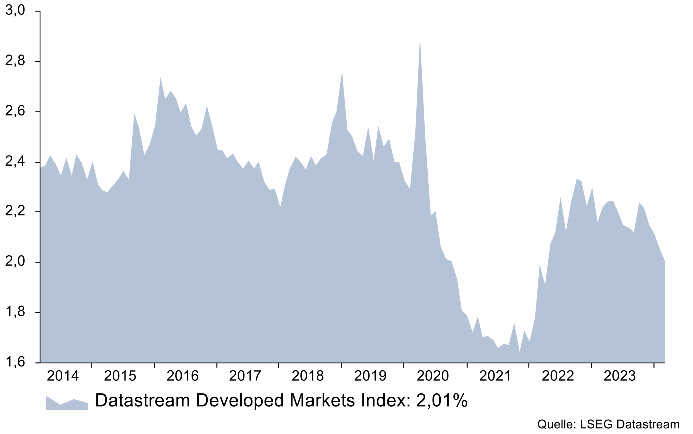


The global equity market index rose by +4.6% in EUR terms in February, continuing its upward trend. The positive trend in global equities is supported by the prospect of rising corporate sales and profits this year. According to the consensus forecast, sales and profits are also expected to grow more strongly in 2024 than in the previous year. Turnover should therefore increase by +4.3% (y/y) this year. The profit growth forecast for 2024 is +7.0% (y/y). The expected P/E ratio for 2024 is 18.2x and the global dividend yield is 2.0%. We expect the global equity market index to rise slightly in March due to the positive growth outlook.

Forecast: somewhat positive

Dividend Yield

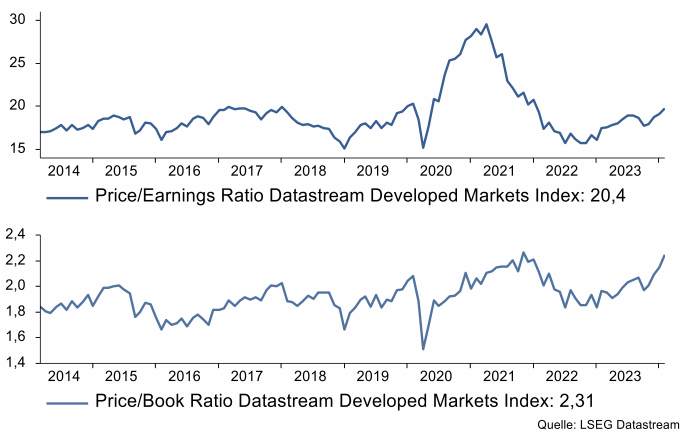
as of 05.03.2024



In the reporting season for the 4th quarter, almost all companies in the S&P 500 have already published their results. In the process, 73% of companies have reported higher profits than expected. US earnings growth for the 4Q amounted to +4.0% (Y/Y). Earnings growth of +3.6% (y/y) is forecast for 1Q 2024. The earnings growth rate should subsequently rise to +9.2% (Y/Y) in 2Q 2024. The expected earnings growth rate for 2024 in the USA is +8.5%. In Europe, only a third of companies have reported results for the 4Q so far. In contrast to the US, profits have fallen in Europe. Overall, a decline in profits of -6.5% (y/y) is expected for the 4Q. A decline in profits of -9.4% is also expected for 1Q 2024. Profits should only increase slightly in 2Q (2Q 2024e: +1.6%). The forecast increase in profits this year in Europe is only +0.4%.

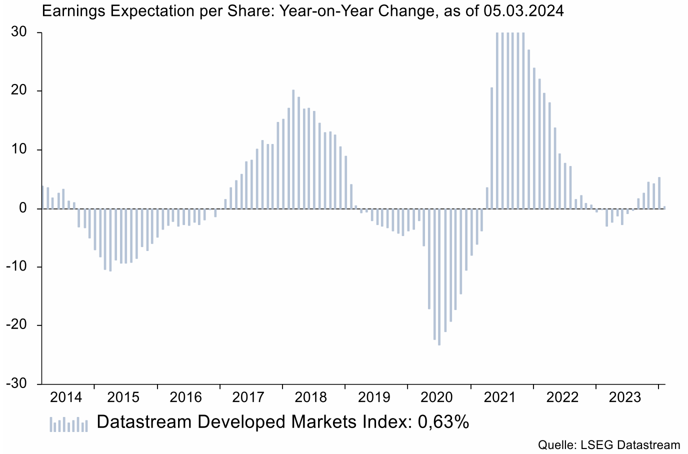
Key Indicators

as of 05.03.2024



Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 05.03.2024



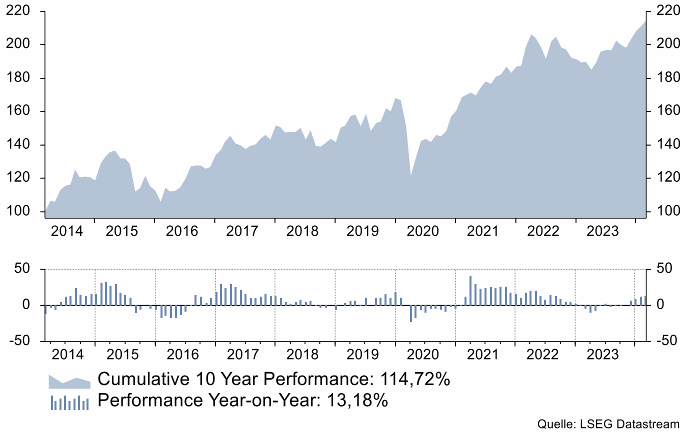
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Equities Emerging Markets

Overview

Emerging Markets

Performance in EUR, as of 05.03.2024

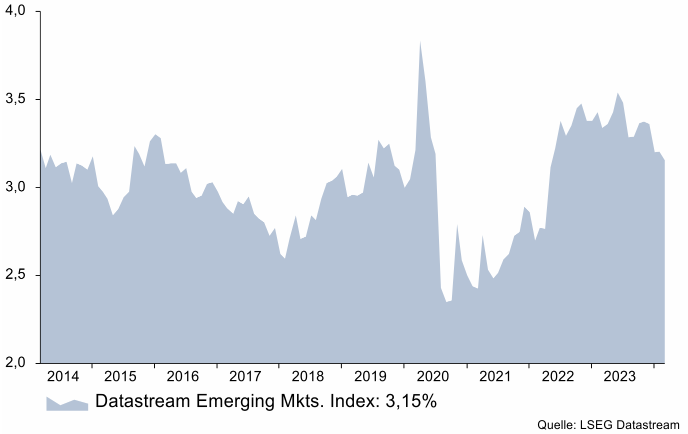


With a performance of +4.2% in EUR terms, the emerging markets' equity markets recorded their strongest monthly rise in over a year in February. Chinese equities in particular showed a countermovement of +6.6% after the sharp declines of still -18% in the last twelve months. In the longer term, however, we continue to see the better risk/reward profile for investors in the other major emerging markets such as India and Brazil. This assessment is based, among other things, on the higher expected earnings growth in these countries. Earnings growth this year will be higher in India (+13.8%) and Brazil (+9.6%) than in China (+8.4%). We expect the global emerging market index to move sideways in March.

Forecast: neutral

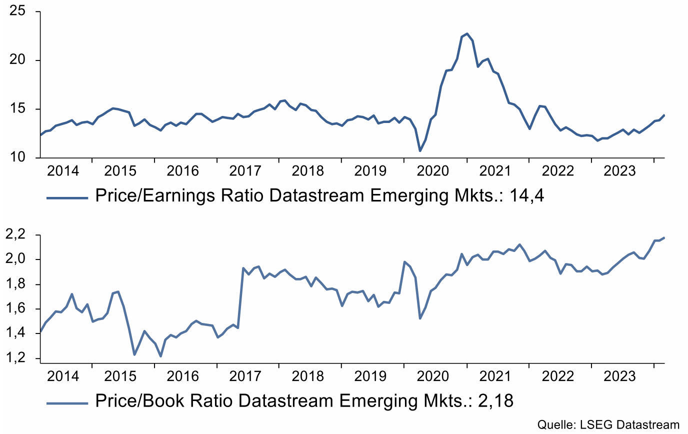
Dividend Yield

as of 05.03.2024



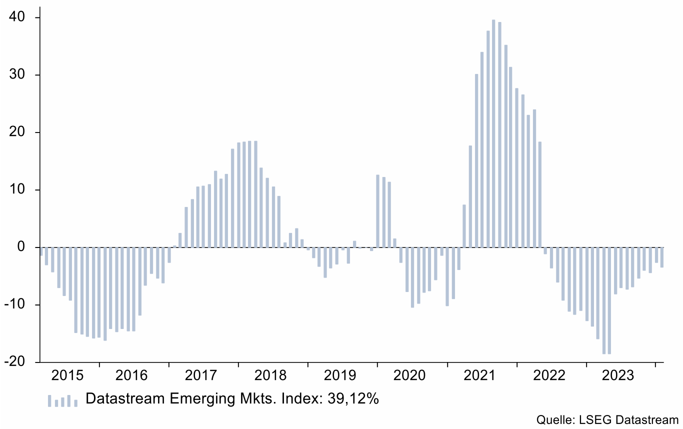
Key Indicators

as of 05.03.2024



Earnings Growth

Earnings Expectation per Share: Year-on-Year Change, as of 05.03.2024



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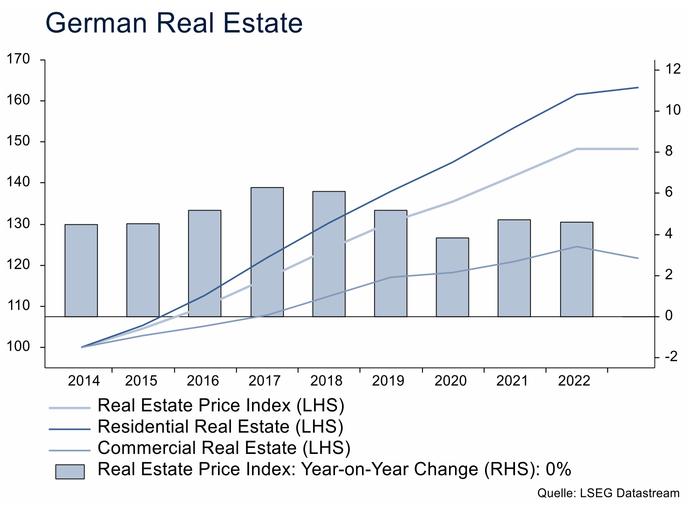
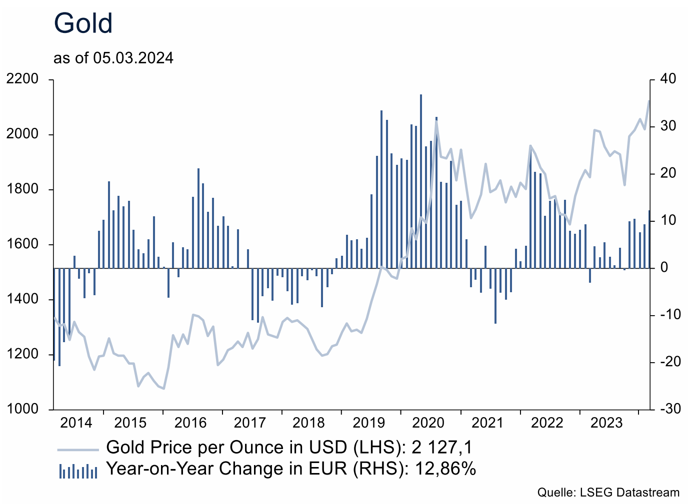
Alternative Investments

Real Estate, Gold and Commodities



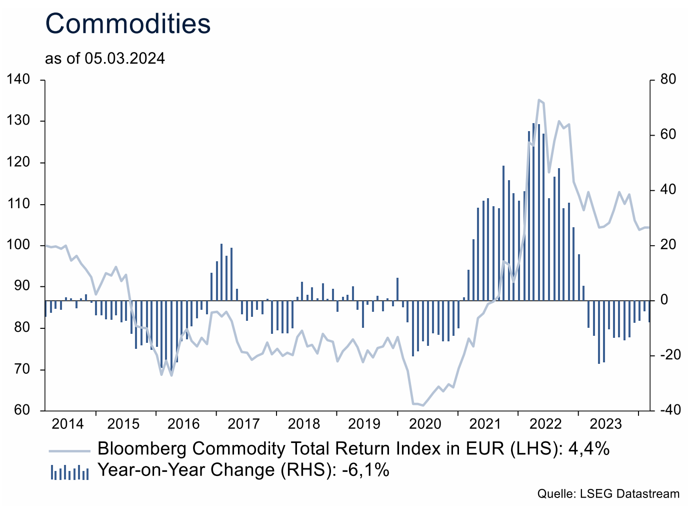
The real estate markets are showing signs of stabilization: a relatively robust economic development meets a stable interest rate level, which is conducive to planning and supports the expectation that falling interest rates - especially in the second half of 2024 - should boost investment activity again. In the medium and long term, demand is unlikely to be met by the current supply, according to real estate consultants Jones Lang LaSalle. The first positive signs are coming from the office market: in the fourth quarter of 2023, there was already a significant increase in global volume of around 13% compared to the previous quarter.

Forecast: neutral



The gold price rose by +0.7% in EUR terms in February. Demand for gold has continued to develop unevenly of late. Monthly investment demand from gold-backed ETFs has fallen eight times in a row. Global central banks, on the other hand, are a key factor in determining the gold price. They were also among the net buyers of gold in the last quarter and increased their gold holdings by 229 tons in the fourth quarter. Central banks are likely to remain net buyers of gold, as they have been for the past 14 years. The prospect of interest rate cuts offers gold investors a positive medium-term outlook for future price trends. The continuing geopolitical risks support this forecast. We expect the price of gold to rise moderately in March.

Forecast: neutral



The price of crude oil has been on the rise since the beginning of the year. This can be explained by the intensification of the crisis in the Middle East (Red Sea) and the attempt by OPEC+ to keep production low. Overall, energy prices have been trending sideways at a global level since the beginning of the year. Prices for industrial metals have fallen slightly since the beginning of the year. This can be explained by the continued weak production on a global level. Manufacturing in the OECD region has stagnated since the end of 2021, and there are only weak signs of a return to a growth environment to date. For example, the global purchasing managers' index for the manufacturing sector rose above the 50 mark in February, which theoretically distinguishes expansion from contraction.

Forecast: somewhat negative

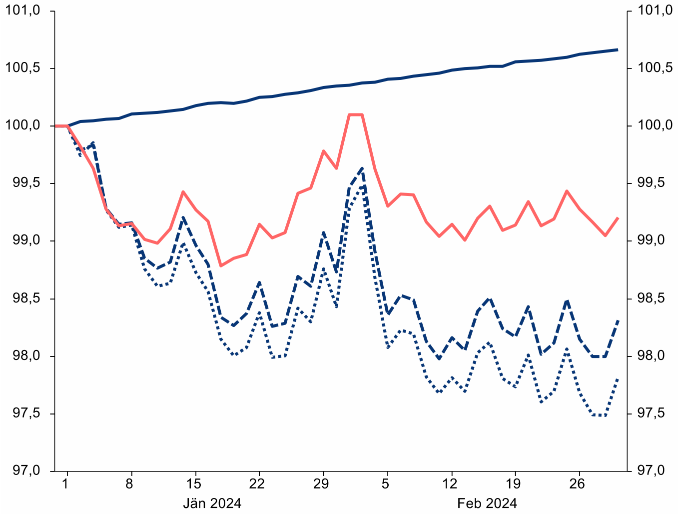
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. Please refer to the annex for the underlying index.

Overview of Key Asset Classes

YTD Performance

Fixed Income Investment Grade

Performance YTD as of 29.02.2024

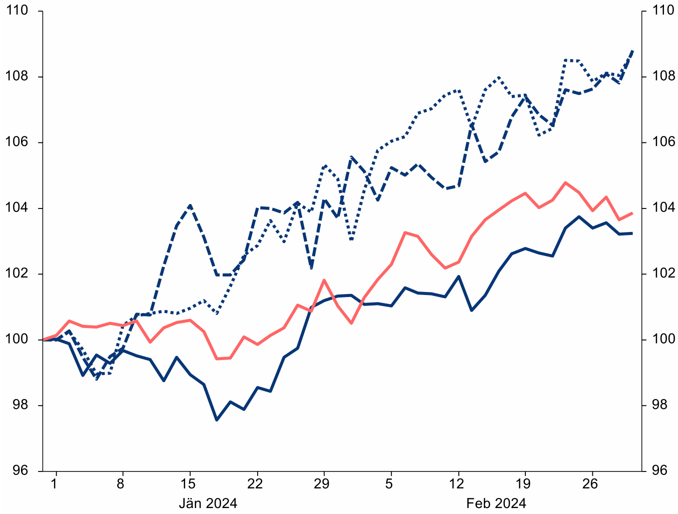


Euro Money Market: 0,66%
Euro Government Bonds AAA-AA: -2,18%
Euro Government Bonds Investment Grade: -1,69%
Euro Corporates Investment Grade: -0,79%

Quelle: LSEG Datastream

Equities

Performance YTD as of 29.02.2024

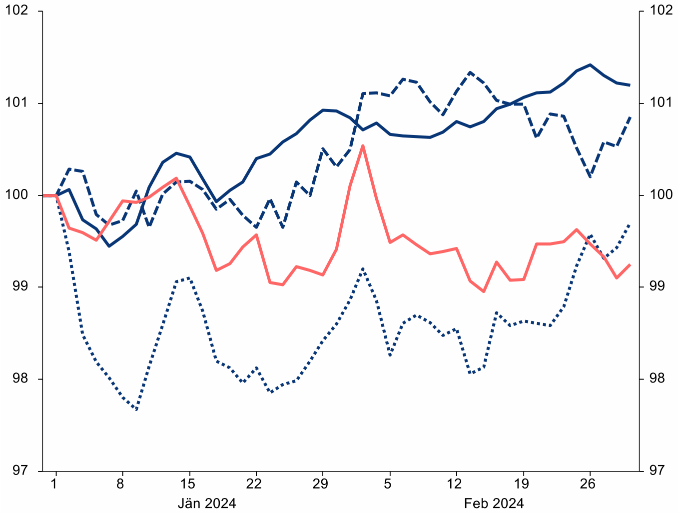


Equities Europe: 3,24%
Equities North America: 8,76%
Equities Japan: 8,81%
Equities Emerging Markets: 3,87%

Quelle: LSEG Datastream

Fixed Income High Yield

Performance YTD as of 29.02.2024

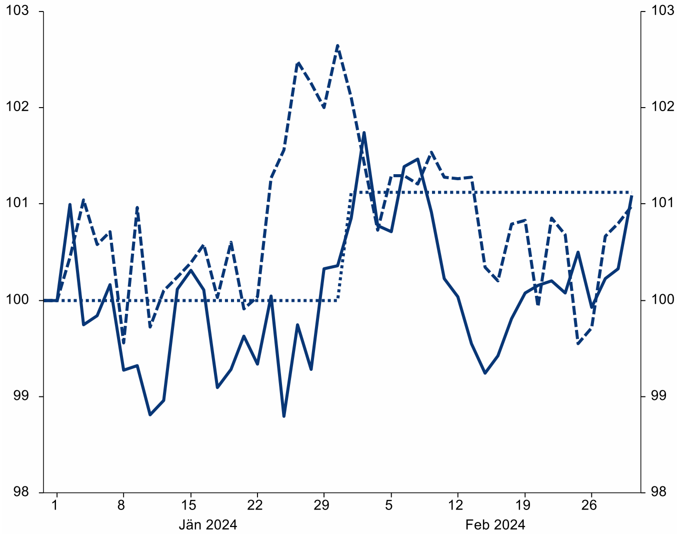


Euro High Yield: 1,20%
Emerging Market Bonds in Hard Currency: -0,30%
Emerging Market Bonds in Local Currency: 0,85%
CEE Government Bonds in Local Currency: -0,75%

Quelle: LSEG Datastream

Alternative Investments

Performance YTD as of 29.02.2024



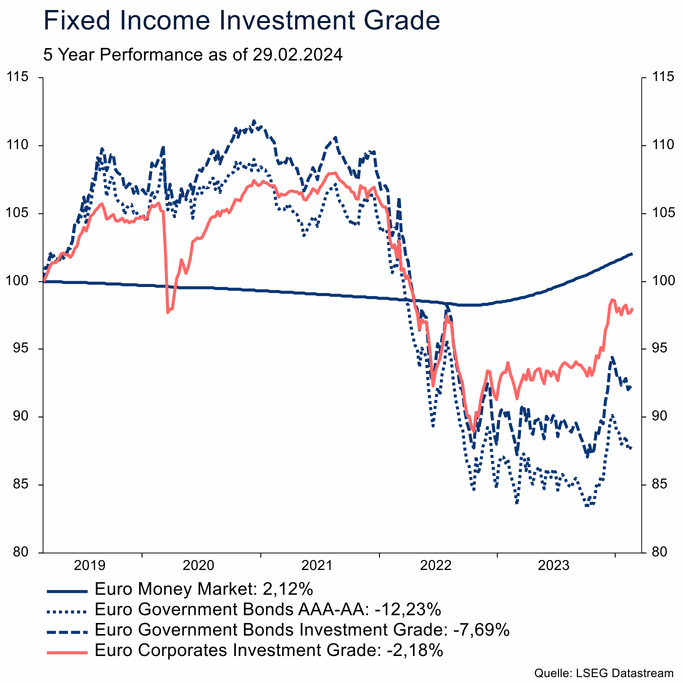
Gold in EUR: 1,09%
Hedge Fund Index: 1,12%
Commodity Index: 0,98%

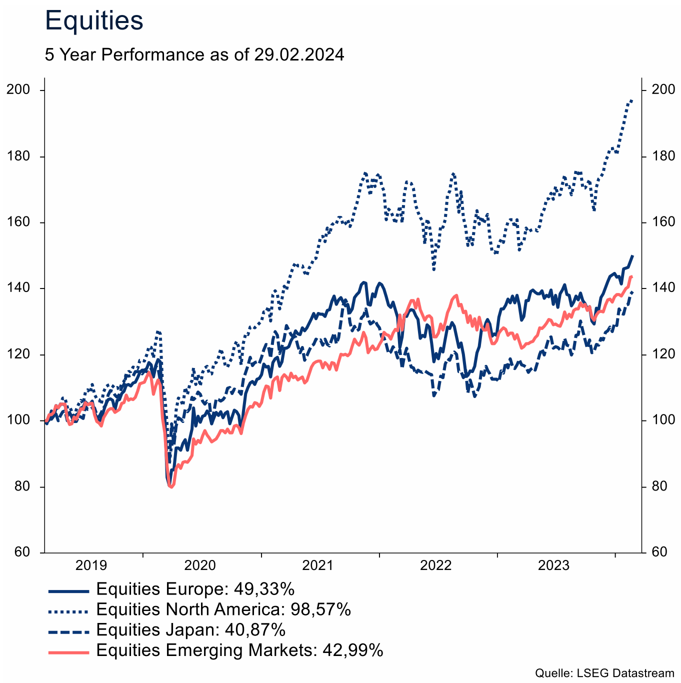
Quelle: LSEG Datastream

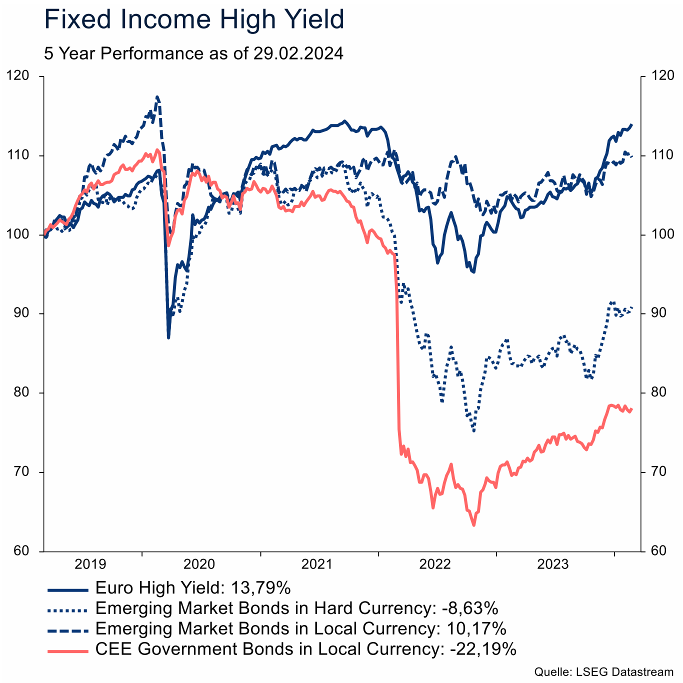
With reference to the performance graphs: past performance is not a reliable indicator of future peformance. This performance representation has little validity due to its short duration. Please refer to the annex for the underlying index.

Overview of Key Asset Classes

5 Year Performance







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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Gold	• Gold Bullion LBM U$/Troy Ounce in Euro
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Commodities	• Bloomberg- Commodity Ind TR - RETURN IND. (OFCL) in Euro

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