Erste Group Research
Global Strategy | All Assets | Global
September 2020

Global Strategy Q4 2020

After a solid economic and stock market recovery in Q3, uncertainty is growing again in Q4. Mounting concerns over the economic recovery in the face of an increase in new COVID-19 infections in some countries and political risks are leading to rising volatility in financial markets. Overall, we expect a sideways move in both safe assets and stock markets in Q4. Careful sector and stock selection is particularly important in this phase.

Investment Strategy Q4 2020:

Govt. bond yields		Dec. 2020
Germany (10Y)		-0.40
USA (10Y)		0.80
Currencies		**Dec. 2020**
EURUSD		1.18
CHF		1.09
Equity Performances		**Dec. 2020**
Global	↗	0%/ +5%
Europe	↗	0%/ +5%
USA	↗	0%/ +5%

Source: Erste Group Research

Prices as of
18.09.2020, 22:00

Report Created
22.09.2020, 12:00

Report published
22.09.2019, 12:30

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

Economic Outlook

Political issues such as the U.S. presidential election, the approaching Brexit, and an increase in new COVID-19 infections should weigh on sentiment and the economy in the 4th quarter. The base case scenario for our forecasts is that the pandemic remains under control, and entire economies will therefore not have to be shut down, and that the above mentioned issues do not develop into permanent problems. In principle, after the massive economic slump in the 2nd quarter, economic data for the 3rd quarter released to date essentially point to strong growth. The recovery should continue in the 4th quarter, albeit at a much slower pace. In the US we expect GDP to fall by -4.3% this year, and in the euro zone by -7.6%. In view of the tense situation in the labor market and moderate energy prices, inflation should remain low.

Bonds

After both the US Federal Reserve and the ECB have provided comprehensive, targeted liquidity programs, we expect no change in monetary policy for the foreseeable future. Should economic conditions deteriorate, both central banks would respond with additional measures. The ECB could expand the PEPP purchasing program if the economy weakens, or cut interest rates in the event of a continued rapid appreciation of the euro. The Fed would react with larger securities purchases. Amid the conflicting interplay between political risks and central bank purchases on the one hand, and the continuation of the economic recovery on the other, government bond markets will tend to move sideways. In corporate bonds we continue to recommend hybrid bonds from the IG segment as well as BB-rated issues from defensive sectors with relatively stable cash flows.

Currencies

Foreign exchange markets are currently waiting to see how political risks (US presidential election, Brexit) and economic uncertainty due to rising new COVID-19 infections evolve. As a result sideways moves in EURUSD and EURCHF should be expected for the time being. Gold is a beneficiary of uncertainty, higher stock market volatility and low government bond yields. We expect a moderate gain in the gold price in the 4th quarter.

Equities

We expect the global stock market to move sideways in the 4th quarter and post only a small positive return in a range from 0% to +5%. In the near term the correction in technology stocks, which is not fully completed yet, should lead to increased volatility, which could subsequently be sustained by possibly long-lasting uncertainty over the outcome of the US presidential election. The risk to this forecast would consist of weaker economic growth momentum and lower earnings expectations due to a significant tightening of COVID-19-related restrictions.

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Investment Strategy Q4 2020

Yields			Estimates			
		current	**Q4 20**	Q1 21	Q2 21	Q3 21
10y. Govt. bonds	**Germany**	-0.39	**-0.40**	-0.10	0.00	0.00
	Austria	-0.14	**-0.20**	0.10	0.20	0.20
	US	0.72	**0.80**	1.10	1.20	1.20
	CEE					
	Czech Republic	0.90	**1.16**	1.26	1.35	1.44
	Hungary	2.40	**2.40**	2.42	2.45	2.50
	Poland	1.30	**1.45**	1.50	1.55	1.60
	Romania	3.60	**3.65**	3.50	3.60	3.70

Source: Erste Group Research estimates

Currencies			Estimates			
		current	**Q4 20**	Q1 21	Q2 21	Q3 21
Global	**EURUSD**	1.12	**1.18**	1.18	1.20	1.22
	CHF	1.07	**1.09**	1.10	1.12	1.13
	Gold (USD)	1,922	**2,010**	2,040	2,040	2,060
CEE	**CZK**	26.75	**25.9**	25.7	25.6	25.5
	HUF	360.45	**355**	355	355	355
	PLN	4.46	**4.42**	4.43	4.45	4.45
	RON	4.86	**4.90**	4.92	4.94	4.95

Source: Erste Group Research estimates

Equities		**Estimate**			
		Q4 2020	min	max	FX
Global		↗	0%	+5%	USD
	Europe	↗	0%	+5%	EUR
	USA	↗	0%	+5%	USD
Emerging Mkts.	**CEE**	↗	0%	+5%	EUR
	BRICs				
	Brazil	↗	-5%	0%	BRL
	Russia	↗	-5%	0%	RUB
	India	↗	0%	+5%	INR
	China	↗	0%	+5%	CNY
Sectors	Technology	↗	0%	+5%	USD
	Consumer Discretionary	↗	0%	+5%	USD
	Financials	↗	0%	+5%	USD
	Health Care	↗	0%	+5%	USD
	Industrials	↗	0%	+5%	USD
	Consumer Staples	↗	0%	+5%	USD
	Utilities	↘	-5%	0%	USD
	Telecom	↘	-5%	0%	USD
	Energy	↘	-5%	0%	USD
	Basic Resources	↘	-5%	0%	USD

Source: Erste Group Research estimates

Euro Zone Economic Outlook

Strong recovery expected in the 3rd quarter

Rising infections represent a risk factor

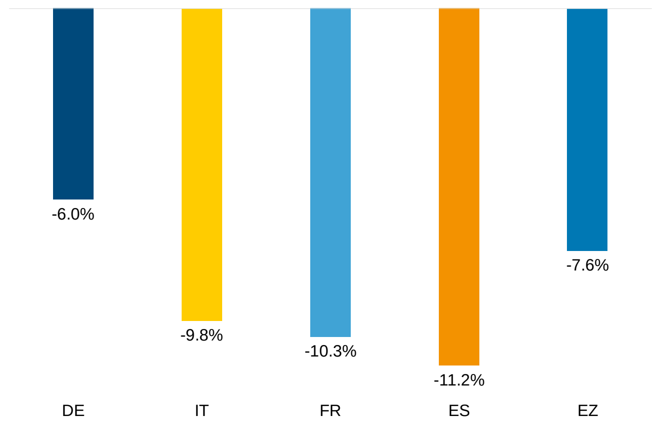
In the 2nd quarter euro zone GDP slumped by 11.8% quarter-on-quarter as a result of the imposition of comprehensive restriction measures. On the country level, Spain (-19% q/q) and France (-14% q/q) faced the most significant downturns, triggered by comparatively long-lasting and very far-reaching restrictions. By contrast, thanks to its prudent crisis management, Germany posted a markedly better performance in the 2nd quarter (-10% q/q). Due to the substantial easing of restriction measures by the end of August, economic data released to date suggest that a strong recovery in euro zone GDP growth should be expected in the 3rd quarter. However, the increase in new cases of COVID-19 infections that has recently emerged - particularly in Spain and France - represents a risk factor for the outlook. We believe that this will lead to restriction measures being tightened on a regional level. This may temporarily hamper the ongoing recovery. However, unlike in the spring we do not expect that entire economies will be shut down completely.

For 2020 as a whole we expect a 7.6% slump in euro zone GDP, followed by a recovery in 2021 (+5.4%). In light of the differentiated situation in the first half of the year, we expect GDP growth for 2020 as a whole to differ markedly between individual countries.

Strengthening of growth prospects in focus

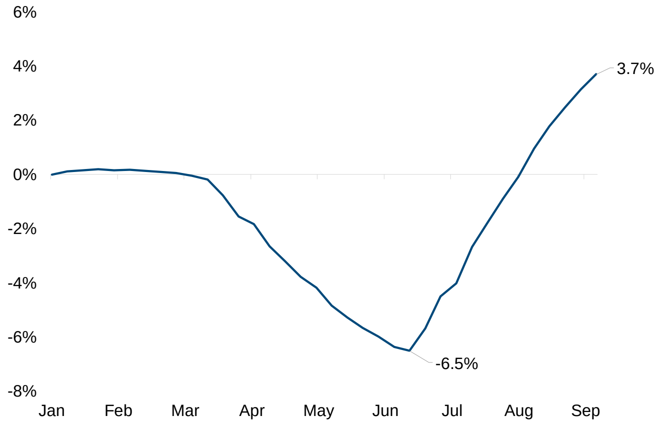
After the initial phase of providing crisis-related support, the focus of fiscal policy in euro zone member countries is now shifting to strengthening medium-term growth prospects. France and Germany have already submitted comprehensive plans in the amount of EUR 100bn and EUR 130bn, respectively. These also include a focus on ecological aspects. France aims to become the first carbon-free economy in Europe by 2050. Strengthening medium-term growth prospects is intended to support the creditworthiness of euro zone member countries despite sizable increases in government debt.

Countries affected to different extents
2020 GDP forecast



Source: Erste Group Research

Strong recovery expected in 3Q
German economy, weekly activity index



Source: German Bundesbank, Erste Group Research

US Economic Outlook

Significant slowdown in the fourth quarter

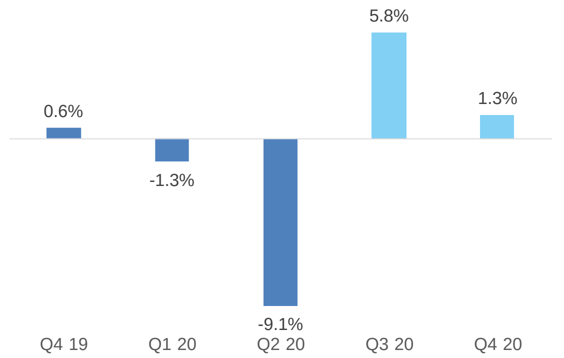
Slowdown arrives after strong 3Q

In the wake of a massive economic slump in the second quarter, economic data for the third quarter released to date suggest that a strong countermove is to be expected. While a sizable increase in infection cases in July slowed the recovery down, a decline in new infections in August allowed the economy to pick up speed again. The recovery should continue in the fourth quarter, albeit at a much slower pace. One of the reasons for this will be the normal slowdown in the countermove after a shock. However, the second reason consists of a self-inflicted problem. Chances that the US Congress will soon agree on a new fiscal package are currently slim. This concerns numerous measures. Congress is pressed for time, particularly in light of the fact that the increased unemployment benefit of USD 600 per week has expired at the end of July. At the moment unemployed persons receive about half of the original additional amount. However, the disaster relief fund that is used for this purpose will soon be exhausted, therefore unemployed persons will face a further reduction in their income as early as September or from October onward at the latest if there is no agreement. This will affect almost 30 million unemployed persons, thus the reduction in income will be noticeable in the economy at large even if employment continues to increase. The effects will primarily depend on when a compromise is reached. At present it looks as though there will be no agreement before the elections on 03 November. This suggests that the economy will come under significant pressure in the fourth quarter. By contrast, we expect no direct impact on the economy from the presidential elections unless the domestic political conflict (e.g. over the outcome of the elections) were to lead to a stock market slump, which we are currently not forecasting.

Agreement on US fiscal package unlikely before elections

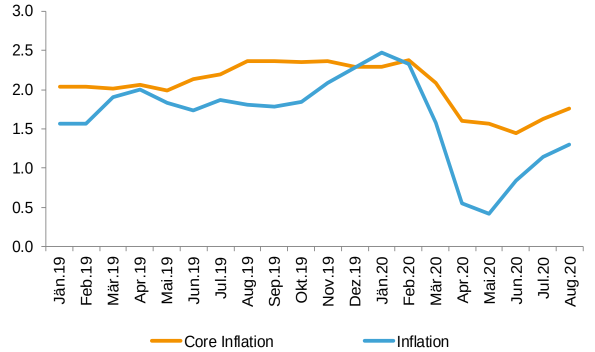
Core inflation (excl, food and energy) has declined sharply at the beginning of the crisis, but has recently slightly increased again. We expect inflationary pressures in the US to remain weak on account of the high unemployment rate. However, we believe a renewed decline is unlikely, and we expect core inflation to remain stable around current levels. With respect to headline inflation, oil price-related base effects will trigger fluctuations.

Significant slowdown in economic growth in Q4
q/q in %



Source: Bureau of Economic Analysis, Erste Group Research

Core inflation should stabilize
y/y in %



Source: Bureau of Labor Statistics, Erste Group Research

CEE Economic Outlook

We revised our 2020 growth forecasts up in Slovakia (to -6.3%, from -7.5%), Slovenia (to -6.9%, from -7.7%), Serbia (to -1.0%, from -2.3%) and Poland (to -3.2%, from -3.7%). In Czechia, the revision was rather marginal to -6.8%, from -7.0% previously. The upward revision is mostly driven by the better performance of the economies in 2Q as well as the solid pace of recovery since the April bottom. In Croatia and Romania, we see the risks as balanced and stick to our call of -9.0% and -4.7%, respectively. In Croatia, the performance of the tourism sector in 3Q will be crucial for the full-year growth. Hungary is the only country for which we currently expect a deeper recession (GDP at -5.8% vs. -4.6% previously). Such a revision is mostly driven by lower than expected growth in 2Q, where the delayed government response compared to the peers could have played a role as well.

In the third quarter, we already see an ongoing recovery of retail sales and industrial output growth. Retail sales growth dynamics returned to positive territory in July in all countries except for Croatia and Slovenia, where lower tourist spending has likely been weighing on the figure. Industry seems to be taking a bit more time to recover, but the upward trend is visible. Further, the CEE Recovery Index shows that 90% if the gap compared to pre-pandemic level has been already closed. Mobility in grocery and retail categories are already above the pre-pandemic level, while capacity utilization in the automotive sector returned to pre-pandemic levels as factories work full-capacity.

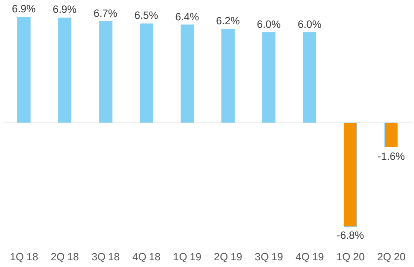
Risks to our forecasts are related to the pandemic development in the autumn. Rising cases across countries may bring local restrictions, mostly impacting the service sector and slowing the pace of the recovery. The other issue is the labor market development. So far, the unemployment rate has not increased significantly, as government programs were often conditional on sustaining employment Once the government schemes come to an end, the unemployment rate may be prone to further increases. At this point, we do not expect a broad-based lockdown. In such a case, downward revision of growth would be very likely.

For next year, we expect GDP growth to rebound and land between 4% and 6% across the region. Such dynamics should ensure the level of output coming back to the pre-pandemic level at the end of 2021. Beyond that year, the positive impact of new EU funds (Recovery Plan) on the growth should facilitate further recovery and mitigate, at least partially, the output loss caused by the pandemic.

BRIC Economic Outlook

China

China: GDP growth recovers in 2Q



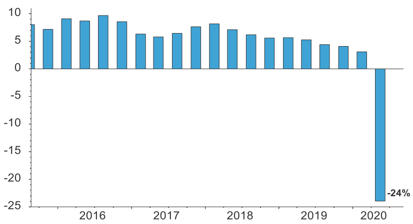
Source: Statistics China, Erste Group Research

China's economy recovered substantially in the 2nd quarter, with output only 1.6% below last year's level. As China continues to have the infection situation under control, the outlook for a continued economic recovery is favorable. The recovery in industrial production is progressing at an above-average rate, with August already 6.5% above last year's level. Retail sales grew by +0.5% in August and also exceeded the level of the previous year for the first time since the breakout of the corona crisis.

In view of the unexpectedly strong recovery, the OECD has raised its 2020 GDP forecast for China significantly, to +1.8% from -2.6% previously. We expect that the IMF will raise its growth forecast for China from the current level of +1.0% at the beginning of October as well. One risk factor remains the lingering trade dispute with the US, which has recently engulfed the technology sector (e.g. the forced sale of the US business of Chinese video platform "TikTok"). Until the breakout of corona pandemic, the measures taken by the US administration actually did bring about a substantial reduction in the trade deficit with China. However, since April of this year the monthly deficit has steadily widened again. This may have been caused by the rapid recovery of China's manufacturing sector, while the US had to struggle with COVID-19. US pressure on China will therefore remain high, even under Joe Biden if he wins the presidential election.

Indien

India: Slowdown in growth already underway before COVID-19 crisis
GDP y/y, %



Source: Datastream, Erste Group Research

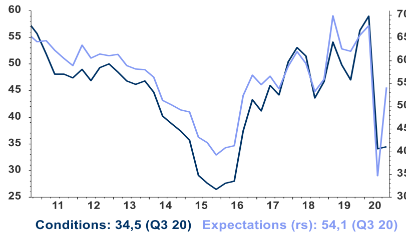
India has officially reported approximately 5.1 million cases of COVID-19 infections to date. With a population of 1.4 billion people, this corresponds to around 3,700 cases per one million inhabitants. This is significantly below the figures reported by other developing countries such as Brazil and Russia. The number of new infections in India amounts to around 100,000 per day.

The economic slump has been significant so far. India's economy contracted 23.9% year-on-year in the second quarter, which was much worse than the -18.3% slump suggested by consensus forecasts. In July industrial production plunged 10% year-on-year. However, in August the manufacturing purchasing managers' index improved markedly from 46 to 52 points. This is a strong indication that the worst part of the economic downturn is over.

In order to support the economy, India's central bank has eased monetary policy by cutting its repo rate to 4%. In addition, liquidity was made available through long-term repo operations. Regulatory requirements for banks were also eased in order to free up liquidity for lending. The government has announced an economic stimulus package in the amount of USD 265bn (10% of GDP). The size of this stimulus package is above average compared to other emerging markets with similar GDP per capita levels.

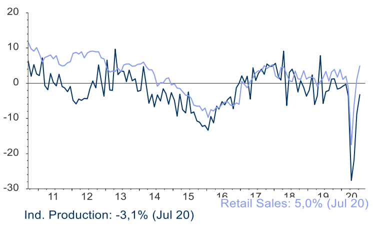
The Indian rupee remained stable in the third quarter at around INR 74 vs. the USD. The yield on 10-year government bonds stands at approximately 6.1%. Since the outbreak of the COVID-19 pandemic, 10-year yields have traded in a range from 5.8% to 6.2%. The inflation rate was at 6.7% in July and August.

Brazil: Industrial Entrepreneur Confidence Index



Source: Datastream, Erste Group Research

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



Source: Datastream, Erste Group Research

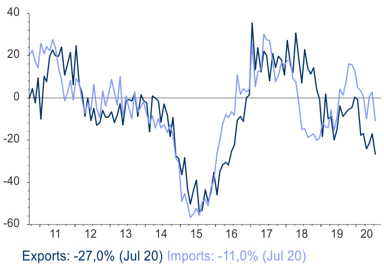
Brazil

The spread of the corona-virus infection had a particularly pronounced impact on the economy of Brazil. With respect to economic growth, Brazil is the most negatively affected country among the BRIC nations. GDP is estimated to contract by -5.5% (y/y) in 2020. A recovery is not expected before 2021, when GDP is forecast to grow by +3.5%.

Industrial production is expected to decline by -8.5% (y/y) this year. However, the current conditions component of the Industrial Entrepreneur Confidence Index has recently stabilized. Expectations regarding the future performance of industrial production have improved significantly. Consensus estimates are calling for industrial production growth of 4.5% (y/y) next year.

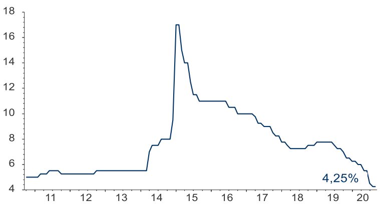
The unemployment rate has increased due to the spread of the COVID-19 infection. It is expected to amount to 16.1% in Q4 2020, and should decrease moderately in the course of the coming year. The current tense situation in the labor market also weighs on consumer spending, which is estimated to decline by -6% (y/y) in 2020. Growth in consumer spending is seen turning up again in 2021, when it is forecast to reach +3.5%. Consumer prices are currently rising very slowly. Headline inflation is forecast to stand at 1.9% (y/y) by the end of the year. The expected budget deficit is quite large. It is estimated to reach -15.7% of GDP this year. In order to support the economy, the central bank has lowered the SELIC rate to 2% in the third quarter. According to consensus estimates it is set to decline below the 2% level by the end of the year.

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



Source: Datastream, Erste Group Research

Russia: Refinancing rate



Source: Datastream, Erste Group Research

Russia

In the wake of the spread of the corona-virus infection, Russia has suffered a sizable slump in economic output. Consensus estimates are calling for a contraction in GDP of -4.8% (y/y) this year. Next year GDP is expected to grow again (2021e: +3.3%).

Lower oil prices are weighing on exports, which have declined sharply year-on-year (-27%). Imports have declined significantly as well. The GDP contraction is also reflected in declining industrial production. The latter is expected to decrease by -4.2% (y/y) this year and rise by +4.5% (y/y) next year. The adverse economic conditions have also led to a decline in investment spending, which is expected to fall by -9.8% (y/y) this year. An improvement is not expected before 2021, when investment spending is forecast to grow by +5.5% (y/y). Consumer spending is estimated to decline by -4.8% this year; renewed growth in consumer spending is also not expected before next year.

The budget deficit (2020e: -4.4% of GDP) is deteriorating, primarily due to falling oil revenues. The expected current account surplus is +1% of GDP.

The main refinancing rate should decline below 4% by the end of the year. Consensus estimates are calling for a slight appreciation of the ruble against the USD next year.

Euro Zone	Yield Forecast Q4 2020
ECB Main Refinancing Rate	0.00 %
German Bund	-0.4 % (10-yr.)

More volatility in the autumn

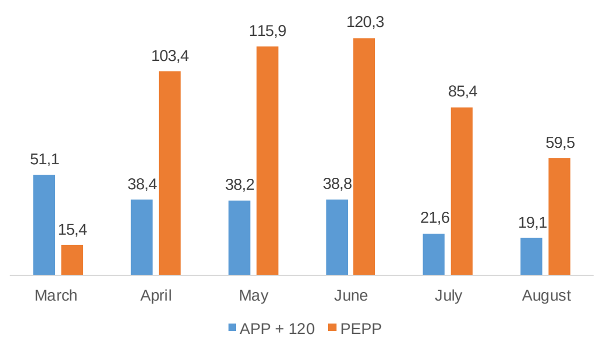
Easing of monetary policy possible, but unlikely

We expect no change in monetary policy in the foreseeable future. However, there are risks that could trigger further easing measures. This could happen if COVID-19 infections spread to such an extent that the economic recovery is brought to a halt or slows down significantly. In that case, the ECB's instrument of choice would most likely be the PEPP purchase program, which could be enlarged and extended. Otherwise, the already approved amounts should be sufficient. Of the total volume of EUR 1,350bn more than EUR 800bn remain currently available, which at the recent pace of purchases should easily suffice for the program's minimum duration until June 2021. Apart from the issue of how the COVID-19 pandemic will play out from here, the ECB has recently also highlighted the threat the exchange rate of the euro poses to achieving its inflation objective. The background to this is the appreciation of the common currency over the summer months, with the ECB mainly concerned over how rapidly it happened. We do not expect the euro to strengthen further in coming months. However, if it were to strengthen noticeably, the ECB would - based on its recent statements - have to respond, in our view most likely with a rate cut.

Uncertainty in the bond market poised to increase

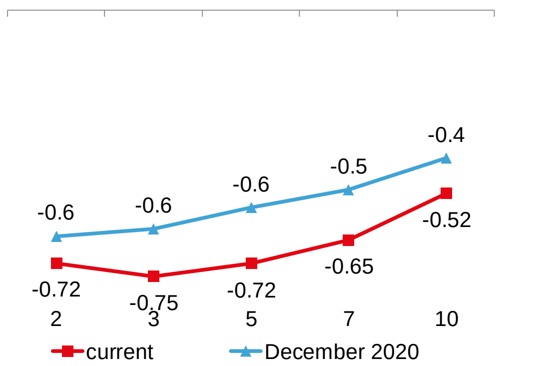
There could be movement in the bond market in coming months. COVID-19 continues to harbor risks for the economy. Moreover, there are political risks from the US presidential elections (see next page) and the progression of Brexit. The negotiations are only part of the uncertainty. In addition to this there are unavoidable risks. From 01 January 2021 onward there will be a customs border between the EU and the United Kingdom under any circumstances. At the end of the year it will therefore not yet be possible to assess the quality of the preparations for this event. Uncertainty will continue to persist until year-end, which will support German government bonds. However, at the same time there should also be factors putting pressure on bonds around the end of the year. The economic recovery should be more advanced and the potential early availability of a vaccine will probably determine the market outlook. All in all, this should result in a moderate increase in yields by the end of the year.

Necessity of ECB asset purchases subsides
Monthly volume of securities purchases, in EUR billion



Source: ECB, Erste Group Research

Moderate increase in yields until year-end
Yields on German government bonds by maturity, in %



Source: Market information systems, Erste Group Research

US	Yield Forecast Q4 2020
Federal Funds Rate	0.0 – 0.25 %
US Treasuries	0.8 % (10yr.)

Calming down at year-end

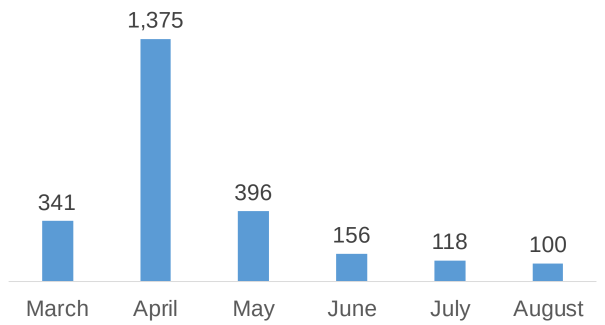
Fed lays out monetary policy strategy

At the end of August Fed Chairman Jerome Powell announced what the new interpretation of the Fed's dual mandate will entail. In the future, achieving a certain unemployment rate will not trigger a rate hike by itself, unless it is associated with rising inflation. The inflation target remains at 2%. However, after the recent phase of under-shooting the inflation target, a limited phase of moderately overshooting the target will be tolerated. These decisions have no immediate effect on monetary policy, but will eventually result in rate hikes being delayed. The Fed's future approach was specified further with the decision to tie rate hikes to three conditions. Maximum employment, an inflation rate of 2% and "an inflation rate on the way to moderately exceed the 2% target for a certain period of time" have to be fulfilled simultaneously. We do not expect a rate hike before 2025. A monetary policy decision has yet to be taken. The central bank is currently purchasing securities as necessary. The only stipulation is that net purchases in coming months will be continued at least at the same monthly pace as recently. We believe that a conversion into a program with a fixed monthly purchase volume and indications of its probable duration may still be announced this year.

Economy and elections take center stage

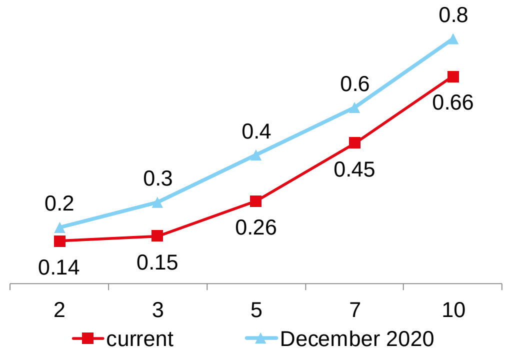
The decisive drivers for the bond market will be the economy and the presidential elections. A new fiscal stimulus package could be delayed until after the elections in early November. This suggests that consumer spending will be weak in coming months. The presidential elections represent a risk factor as well. The large number of mail-in ballots - 50% according to estimates - could result in the outcome of the election not being known for weeks. This inter alia increases the risk that President Trump will not accept the result if it turns out to his disadvantage. However, the situation should be cleared up by the end of the year. At that point there should also be a clear perspective regarding a vaccine, which should boost confidence in financial markets. We therefore expect volatility in the bond market during the quarter, but by the end of the year yields should only slightly exceed current levels.

Fed currently conducts purchases as necessary
Securities purchases (treasuries, MBS) in USD billion



Source: Federal Reserve, ECB, Erste Group Research

Volatile sideways move in US treasuries
Yields on US treasuries by maturity, in %



Source: Market data providers, Erste Group Research

CEE Government Bonds	Yield Forecast Q4 2020
Czech Republic	1.16% (10Y)
Hungary	2.40% (10Y)
Poland	1.45% (10Y)
Romania	3.65% (10Y)

After the onset of the coronavirus crisis, regional governments started borrowing heavily to fund stimulus programs and fill the gap caused by the loss in tax revenue. The issuance of government paper met significant demand already in spring, which made it possible to sell most of the required amount already by roughly mid-year. Hungary, and to a certain extent Romania, are outliers from this, as both countries are still frequent issuers. Fortunately for them, abundant global liquidity, coupled with local central bank support (and hefty demand for retail securities in Hungary), help to keep demand adequate. It is usual for both countries to sell more than planned at auctions. The large supply did not cause yield increases in Romania – in fact, some yield declines were observable in August. In Hungary, this was different: without the sizable central bank support, yields would probably have risen much more than the small increase observed in the last few months.

Central bankers in the region could generally take a more relaxed position during the summer compared to spring. However, the central bank of Hungary again demonstrated that it is tilted towards a dovish policy, as it cut the main rate by a combined 30bp in June and July to 0.6%. Then came August, with a higher than expected inflation reading and a lower than forecast 2Q20 GDP development, while debt managers also upped their issuance plans considerably. The MNB found itself between a rock and a hard place, but still announced plans to increase its weekly bond purchases to HUF40bn, while reiterating that it will not reduce short-term rates further. In Romania, the NBR also cut the rate by 25bp in early August to 1.5%, after a similar step in late May. The amplitude and timing of the further easing is likely to be correlated with the size and pace of the upcoming fiscal consolidation in Romania. The NBR also again underlined that currency stability is a very important factor in their decisions.

Currencies in the region were affected by developments in the EURUSD in August, but local specifics came to the forefront as well in late summer and early autumn. First, the Hungarian forint decoupled visibly from regional peers, as the above-mentioned factors started to weigh on the currency. The central bank then announced an FX-providing currency swap tool to help the balance sheet adjustment of commercial banks. This stabilized the HUF, although it is uncertain if this move alone will be enough to keep the forint stable in the longer run. More recently, the Czech koruna started to weaken more visibly. We think it is mostly the sharp rise in coronavirus infections that is behind this development. Virus cases are proportionately the highest in Czechia in the region, and showed excessive growth recently. Hungary is not far behind, however. Although the probability of another lockdown has increased recently, it is not our baseline scenario and we currently see it as a last resort solution.

EUR-Corporate Bonds
Investment Grade
High Yield

Volatility of credit spreads may increase in 4Q

To date risk premiums have moved sideways in the third quarter, amid slight fluctuations. Generally around two thirds of the previous widening of spreads has been taken back since the far-reaching easing of restrictions related to the corona pandemic. The negative performance of the first quarter was thus almost offset. The riskier asset classes once again generated stronger total returns in the third quarter (to date) than IG-rated bonds. The risk appetite of investors was reflected in declining yields in the HY segment for short maturities and a tightening of HY yield spreads relative to IG bonds.

Support was inter alia provided by the reporting season for the second quarter. There were no negative surprises: aggregate earnings actually exceeded analyst estimates noticeably. However, the European STOXX 600 constituent companies continue to be significantly impacted by the pandemic. Revenues and earnings declined by approx. 22% and 20% in 2Q compared with the same period of the previous year. The debt repayment period (net debt / EBITDA ratio) is expected to increase from 3.2 years in 2019 to 3.7 years in 2020.

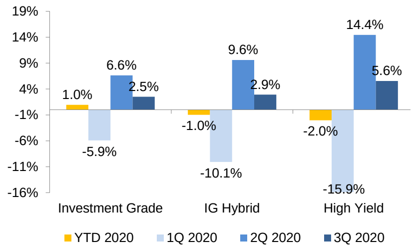
Ultra-loose monetary policy remains an important driver for credit markets. The ECB held around EUR 231bn of IG corporate bonds in its portfolio as of 11 September 2020 via the CSPP. Since the beginning of 2020, its holdings have increased by around EUR 47bn. At its last meeting on 10 September 2020, the ECB Governing Council left monetary policy unchanged. However, there is still uncertainty (risks: COVID-19 and Brexit) over the robustness and sustainability of the economic recovery. Should the economic outlook deteriorate in coming months, the ECB could respond by expanding its PEPP purchasing program. Recently, important economic indicators such as the German ifo Business Climate Index and the EZ purchasing managers' index have painted a mixed picture.

The increase in new cases of COVID-19 infections in many countries of the euro zone as well as Brexit and the US presidential elections currently represent risk factors for the trend in credit spreads. This is already reflected in a marked weakening of the momentum of spread tightening in 3Q. Should restriction measures which hamper the economic recovery be tightened significantly, upward pressure on spreads would increase, particularly in weaker rating categories (i.e., in high yield bonds). According to Moody's, the default rate of EMEA HY issuers will increase from 3.4% in August 2020 to 5.2% at the end of 2020.

It is precisely in a phase such as the present one that differentiation by creditworthiness is of crucial importance. We continue to recommend hybrid bonds from the IG segment as well as BB-rated bonds, preferably from defensive sectors. Provided the economic recovery continues bonds of companies from cyclical sectors that were until recently IG-rated (fallen angels) offer potential as well.

Negative performance of 1Q almost offset

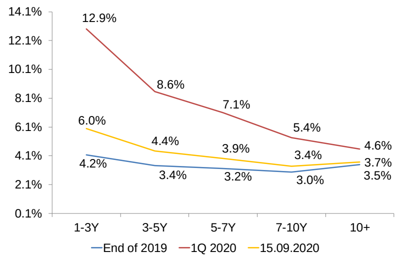
Total returns by rating classes



Source: Erste Group Research (author's calculations)
As of 15 September 2020

Short maturity segment in high yield bonds normalizes

HY spreads by maturities, in bps



Source: Erste Group Research (author's calculations)
As of 15 September 2020

Currencies

	Forecast Q4 2020
US-Dollar	1.18

Markets unlikely to adopt a clear-cut preference

US dollar has stabilized after losing ground in the summer

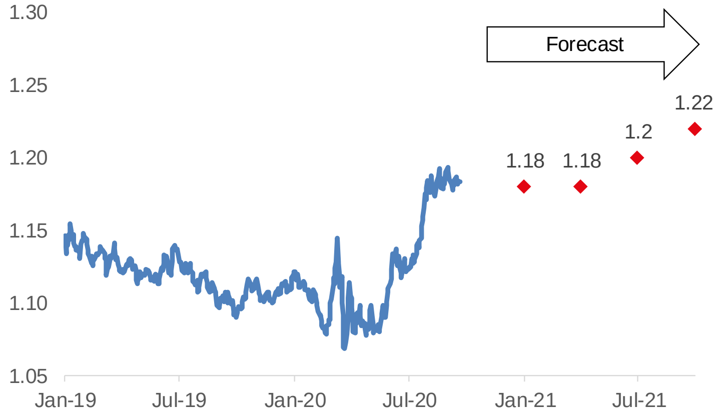
The US dollar weakened markedly against the euro in the course of June and July, before entering a narrow trading range from around the beginning of August. In the initial phase, the dollar's losses were attributable to the relatively rapid recovery of the economy and financial markets. This reduced demand for the US dollar as a safe haven asset. An increase in cases of new infections in the US, the breakdown of negotiations on a new US fiscal package as well as statements by President Trump indicating that he may possibly not accept the election result then put additional pressure on the dollar in July.

The coming months are characterized by many imponderables

The stability of the exchange rate in August was somewhat surprising, as the spread of COVID-19 infections changed compared to July. In the US the number of cases declined significantly, while it rose strongly in Europe. Evidently the future trajectory of the pandemic in the two economic areas has receded into the background for the markets. Instead market participants have probably adopted a wait-and-see stance in the face of upcoming risks. With Brexit, or the negotiations over Brexit, and the presidential elections in the US, major political events lie ahead in the autumn, the outcome and impact of which are almost impossible to foresee. In conjunction with the generally uncertain course of the economy, there is therefore a plethora of possible combinations and uncertainty is accordingly high. In addition, there are the latest statements by the ECB, which indicate that a continued strengthening of the euro may possibly pose a threat to achieving its inflation target in the medium-term. Thus the ECB would probably take countermeasures if the euro were to appreciate further.

All of these factors together suggest to us that the sideways move in the exchange rate is likely to continue. Meanwhile, the evolving political risks mentioned above should lead to an increase in volatility.

Volatile sideways trend currently most likely
EURUSD



Source: Market data providers, Erste Group Research

Forecast Q4 2020

Swiss Franc 1.09

BREXIT and COVID-19 are major risk factors

At its last meeting in June, the Swiss National Bank has kept the interest rate on sight deposits at the central bank at -0.75%. The expansionary monetary policy of the central bank remains necessary to ensure appropriate monetary conditions in Switzerland. In view of the high valuation of the Swiss franc, the SNB continues to be willing to intervene more strongly in foreign exchange markets.

Economic recovery lends strength to the euro

Since mid-May the Swiss franc has depreciated to its current level of approximately 1.075 in volatile trading. In our opinion, this is mainly due to the gradual opening of the euro zone economy after the extensive restrictions imposed in the spring. In addition, coordinated measures at EU level (including the EU recovery fund) with the aim of securing the economic and political stability of the EU (and with it the euro zone) have calmed financial markets. However, the rapid increase in cases of COVID-19 infections in Spain and France over the past several weeks poses a risk to the economic outlook for the euro zone. Nevertheless, we currently believe that thanks to regionally limited measures no further lockdown of entire euro zone member countries will be necessary. The gradual recovery of the euro zone should therefore continue in coming months. In this environment, we expect a gradual weakening of the Swiss franc against the euro.

Purchasing power parity suggests a firmer euro

Based on purchasing power parity a gradual weakening of the Swiss franc against the euro would be justified as well. In our assessment, the Swiss franc's value against the euro based on purchasing power parity currently ranges from 1.14 to 1.16. However, due to persistently lower inflation rates in Switzerland we expect this level to continuously decrease in the long term. Inflation in Switzerland on average stood 1.3% below the euro zone inflation rate in 2020 to date.

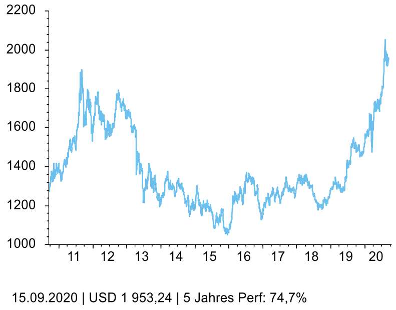
Risks that could trigger a strengthening of the Swiss franc

However, we believe there are also a few risk factors that could lead to an appreciation of the Swiss franc in coming months. If the increase in cases of COVID-19 infections in the euro zone were to cause a renewed lockdown of entire countries, CHF could gain significant ground against the euro, just as happened at the outbreak of the pandemic. An additional risk factor is the looming end of the transitional period between the UK and the EU at the end of December (until 31 December EU law continues to apply in the UK). Since a trade agreement can at best be expected to be concluded shortly before the deadline, growing uncertainty toward the end of the year may trigger safe haven flows in financial markets. The Swiss franc would at least benefit temporarily from this. Moreover, the Swiss franc could also appreciate against the euro at any time in the event of an escalation of geopolitical crises.

Forecast Q4 2020

Gold in USD 1,970 – 2,050

Gold priced in USD



Source: Datastream, Erste Group Research

The gold price gained +4.0% in EUR terms in the third quarter. Since the beginning of the year it has advanced by +22.0% in EUR terms.

An important driver of the rally in the gold price this year is primarily the strong increase in investment demand for gold. Exchange-traded gold funds (ETFs) have seen a steady increase in demand over the past nine months. According to the World Gold Council, year-to-date net inflows into gold ETFs amounted to 938 tons (or USD 51.3bn). As a result, the bullion holdings of gold ETFs have surged to a historic record high of 3,824 tons.

The increase in investment demand is inter alia attributable to the low level of government bond yields around the world. The most important central banks have expanded their asset purchase programs significantly in recent months. As a result, bond yields have declined sharply. Many bonds are already trading at negative yields. In addition, the most important central banks have cut their policy rates to zero or close to zero. Moreover, the Fed recently announced that it will not hike rates preemptively in order to counter potential inflationary threats. It can be concluded from this that policy rates will remain quite low for several years. As the US headline inflation rate exceeds both the federal funds rate and the yield on treasury bonds, an environment of negative real interest rates prevails at present. This factor is likely to support rising gold prices in the long run.

Recent stock market action was characterized by rising volatility in benchmark indexes. Gold has historically proven to be a highly effective portfolio diversifier in such situations. This aspect is likely to come more strongly to the forefront again in the fourth quarter and boost demand for gold.

Outlook

The environment of negative real interest rates lends support to the uptrend in gold prices, as does the above-average volatility in stock markets. We expect a moderate increase in the price of gold in the fourth quarter. Gold should trade in a range from approximately USD 1,970 to USD 2,050.

Stocks

Forecast Q4 2020

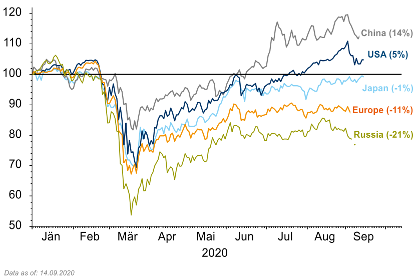
Global 0% to +5%

Consensus estimates, revenue and earnings growth (y/y, %)

	Sales		Net Profit	
USD	20e	21e	20e	21e
North America	-2.5	8.1	-17.5	25.1
Europe	-11.0	13.0	-35.1	50.3
Asia	-4.3	7.7	-9.5	26.5
EM Asia	-0.3	12.8	-8.8	20.6
EM LatAm	-12.5	6.2	-36.1	34.7
EM Europe	-29.2	8.3	-56.4	51.9
World	**-5.3**	**9.8**	**-20.4**	**29.3**

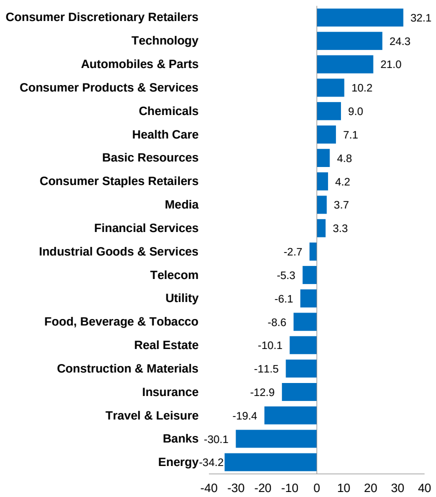
Source: Erste Group Research Index, FactSet.

Global benchmark indexes ytd
In USD terms, indexed



Source: Datastream

Global stock market sectors, performance ytd
Erste Global 1000 Index, EUR



Source: Erste Group Research Index, FactSet.

The global stock market index gained +1.9% in EUR terms in 3Q. The US stock market reached new record highs during the quarter. The largest stocks in the Nasdaq 100 Index posted particularly strong gains. European stocks rose by +1.7% in EUR terms in 3Q. As technology stocks became heavily overbought, a correction in the sector ensued in early September which does not seem fully completed yet.

Earnings results reported last quarter (for 2Q 2020) significantly exceeded consensus estimates. 84% of companies reported earnings per share that beat expectations for 2Q. A positive development is that estimates for corporate revenues and earnings in 2020 were revised up in the course of the third quarter.

From the third quarter onward, the rate of earnings declines in the US and Europe is expected to decrease. Companies in the US and Europe are expected to post growing earnings again as soon as in the 1st quarter of 2021. Revenue and earnings growth rates should continue to increase in 2Q 2021. Global earnings growth is expected to reach +29% in 2021.

The major differences in the prospects for individual sectors necessitate an appropriate selection of industries for investment purposes. The adjacent chart shows that the stocks in the most profitable sectors also exhibited above-average performance. Industries posting large earnings declines also suffered pronounced declines of their sector indexes.

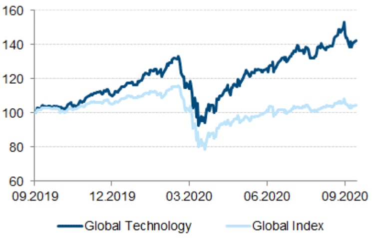
Stock market valuations increased last quarter. The US stock market reached new record highs in early September, as did its trailing P/E ratio. Taking into account expected earnings growth, the 2021 forward P/E ratio is 21.3x for the US and 16.8x for Europe. The 2021 forward P/E ratio for global equities stands at 17.9x. These levels appear reasonable in view of the low level of interest rates prevailing globally. The forward dividend yield of global stocks amounts to 2.1% in 2020 and 2.3% next year. In many developed markets government bond yields trade at significantly lower levels. Real interest rates are actually negative in most cases. This situation is unlikely to change in the long term. The policy rates of the most important central banks are expected to remain close to zero as well. Shares of companies in profitable and growing sectors are therefore more attractive than government bonds over the medium and long term.

Outlook

We expect the global stock market to move sideways in the fourth quarter and deliver only a moderate positive return ranging from 0% to +5%. The correction in technology stocks, which is not fully completed yet, is likely to lead to increased volatility in the beginning of the quarter. Subsequently, uncertainty over the outcome of the US presidential election may keep volatility elevated. The main risk to this forecast consists of a slowdown in the recent momentum of earnings expectations and/or a renewed significant tightening of COVID-19-related restrictions.

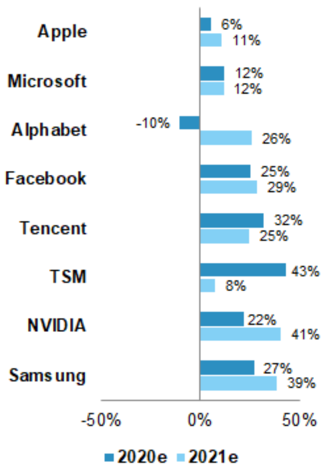
Outlook Q4	↗ 0% to +5%
World Index Weight	21,6%
YTD Perf. EUR	17,7%
P/E 21e	24,1x
Net Profit y/y 21e	20,5%
Top 3 Companies (Market Cap.)	
Apple	
Microsoft	
Alphabet	

Technology Index, 1 year
EUR, indexed



Quelle: Erste Research Index, FactSet

Earnings growth of the 8 largest companies
USD % y/y



Source: Erste Research Index, FactSet.

Global Sectors - Positive Outlook

Technology

At 22%, the global technology index has the largest weighting in the global stock market index. Year-to-date it has achieved a return of 18% in EUR terms, which was the best performance of all sectors. The Nasdaq 100 Index rose to new record highs in the third quarter. After technology stocks became strongly overbought, a technical correction ensued from the beginning of September.

The above-average increase in the value of the sector index this year was attributable to the very strong revenue and earnings performance of its constituent companies. In Q2 technology companies posted the highest percentage of positive revenue and earnings surprises of all sectors. 94% of technology companies reported higher than expected earnings per share, while 84% reported better than expected revenues. The trend toward digitalization has accelerated noticeably in recent months. Without the strong gains in the five largest technology stocks the S&P 500 Index would have delivered a slightly negative return since the beginning of the year. The performance contribution of the largest technology stocks in the S&P 500 Index this year currently stands at +6.7%. This illustrates the very important role appropriate sector selection plays in investment success.

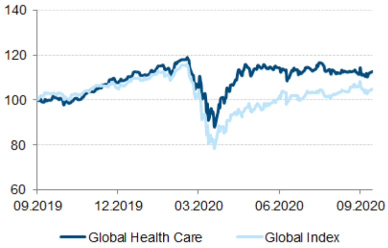
The technology sector is among the winners of the COVID-19 crisis. It comprises the hardware and software segments, both of which are benefiting from the current environment. Software products from Microsoft, Zoom Video Communications, Adobe and numerous other companies inter alia enable video conferencing. Large corporations such as Microsoft offer cloud services as well. These services were also in high demand as the COVID-19 infection was spreading. Powerful software also requires very powerful hardware. The latter is produced by numerous semiconductor manufacturers, such as e.g. Taiwan Semiconductor Manufacturing, NVIDIA, Intel and Advanced Micro Devices. Apple and the semiconductor equipment companies, such as ASML or Applied Materials, are successful technology hardware companies as well. A steady stream of new, more energy-efficient and more powerful products characterizes this dynamic sector. The recently announced acquisition of Arm Holding by NVIDIA shows that the sector is continually in motion.

The prospects for technology companies to achieve revenue and earnings growth have improved further. This year revenues are forecast to grow by +3.8% and earnings by +5%. Growth is expected to accelerate next year. For 2021, the consensus forecasts a large increase in revenues (2021e: +11.4%) as well as significant earnings growth (2021e: +20%). The medium-term outlook for the sector is positive.

The short-term outlook is marred by the technical correction of the recent overbought condition in technology stocks, which does not appear to be fully completed yet. It seems that profit-taking is still underway in the wake of recent record highs. As a result of this we expect the performance of the technology index to turn moderately positive by the end of Q4 at the earliest. It should generate a return ranging from 0% to +5%.

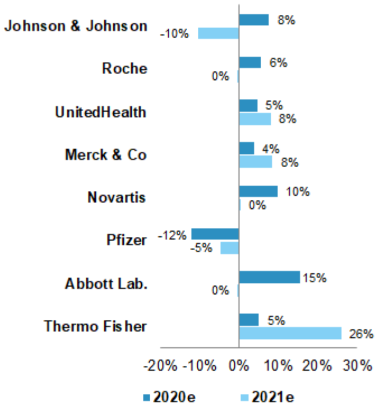
Outlook Q4	0% to +5%
World Index Weight	11,5%
YTD Perf. EUR	1,4%
P/E 21e	17,2x
Net Profit y/y 21e	14,2%
Top 3 Companies (Market Cap.)	
Johnson & Johnson	
Roche Holding	
UnitedHealth Group	

Health care index, 1 year
EUR, indexed



Source: Erste Research Index, FactSet.

Earnings growth of the 8 largest companies
USD % y/y



Source: Erste Research Index, FactSet.

Health Care

The fourth largest global sector by market capitalization has taken a breather in the third quarter. The sector index was unchanged in EUR terms. Year-to-date the return in EUR terms was +1.7%. Companies in the sector have outperformed the global stock market index by +5.2 percentage points in EUR terms since the beginning of the year.

Revenue and earnings growth should be positive this year despite the economic slowdown. Consensus estimates are calling for revenue growth of +7.3% in 2020. Earnings are expected to grow by +4.6% this year. In 2021, revenue growth is estimated to be somewhat stronger (2021e: +7.7%), while earnings are expected to grow by +14%.

Within the healthcare sector the sub-segment with the highest growth rate next year is that of medical device manufacturers. The most important companies in this segment are Thermo Fisher Scientific, Danaher, Medtronic, Stryker and Intuitive Surgical.

Due to the COVID-19 pandemic, medical device manufacturers will see a slight decline in revenues this year (2020e: -1.0%) as well as a decline in earnings (2020e: -6.3%). The reason for these setbacks is the partial closure of hospitals, which led to limited access for the sales staff of these companies to decision makers at hospitals. The situation should improve markedly in 2021. According to consensus estimates revenues of medical device manufacturers should grow by +11% next year, while earnings are expected to grow by +26.5%.

The largest sub-segment of the sector consists of pharmaceutical and biotechnology companies. A characteristic feature of these companies is that their revenue growth is largely independent of economic cycles. This is the case this year and will likely be the case next year as well. Revenues are expected to grow by +5.9% in 2020 and by +6.6% in 2021. The earnings performance of companies in this sector is extraordinarily good. This year earnings growth of +6.6% is expected. Next year earnings growth is estimated to accelerate strongly (2021e: +11.2%).

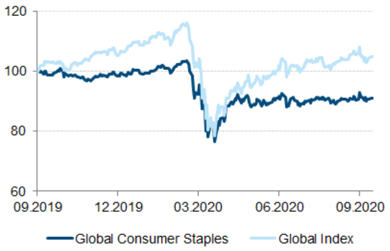
Pharmaceutical and biotechnology companies are also among the beneficiaries of the COVID-19 pandemic. Their approved products are simply always needed. Due to their very high spending on research and development, companies in this sector also generate numerous product innovations. As a result their growth prospects are better than those of companies in many other sectors.

With respect to growth prospects, many investors are currently focused on manufacturers of potential vaccines against COVID-19, such as Sanofi, Astra Zeneca, Glaxo Smith Kline, Pfizer, etc. Since a great many companies and institutions are conducting research on a vaccine, future competition should be fierce.

With a 2021 forward P/E ratio of 17.2x the sector index trades at a lower valuation than the world stock index. The 2021 forward dividend yield is 1.8%. We expect the Healthcare Sector Index to generate a return in a range of 0% to +5% in the fourth quarter.

Outlook Q4	0% to +5%
World Index Weight	7,2%
YTD Perf. EUR	-9,5%
P/E 21e	18,6x
Net Profit y/y 21e	12,6%
Top 3 Companies (Market Cap.)	
Walmart	
Nestle	
Coca Cola	

Global sector index, 1 year
EUR, indexed



Source: Erste Research Index, FactSet.

Consumer Staples

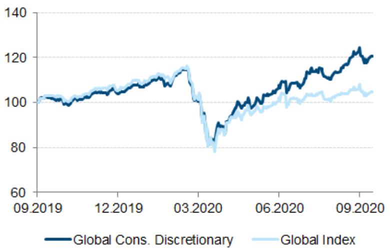
The sector index gained +0.5% in EUR terms last quarter. Year-to-date the return stands at -9,5% in EUR terms. It is below that of the world share index. The sector is composed of the sub-indexes for the producers of food, beverages and tobacco.

The closure of restaurants during the COVID-19 pandemic led to a sharp drop in revenues for beverage companies in particular. The reason for this was that companies such as e.g. Coca-Cola, Anheuser-Busch InBev or Diageo generated a significant proportion of their revenues by selling their products in restaurants before the lockdowns. However, revenues have improved, as most restaurants have reopened. This year the shares of beverage companies exhibited pronounced relative weakness compared to the consumer staples sector index. According to consensus forecasts, revenues and earnings growth rates of the beverages segment will turn positive again next year. The expected revenue growth rate in 2021 is +9.2%, while earnings are expected to grow by +29%.

The sector index of food manufacturers posted a gain of +1.6% in EUR terms last quarter. Since the beginning of the year it has underperformed the global stock market. Revenue and earnings growth will strengthen again next year (earnings 2021e: +8%). For the consumer staples sector as a whole, earnings growth of +12.7% is expected in 2021. The forecast earnings growth rate is below that of the global stock market. We expect a moderately positive performance in Q4 in a range of 0% to +5%.

Outlook Q4	0% to +5%
World Index Weight	16,2%
YTD Perf. EUR	10,1%
P/E 21e	27,6x
Net Profit y/y 21e	99,1%
Top 3 Companies (Market Cap.)	
Amazon.Com	
Alibaba	
Tesla Motors	

Global sector index, 1 year
EUR, indexed



Source: Erste Research Index, FactSet.

Consumer Cyclicals

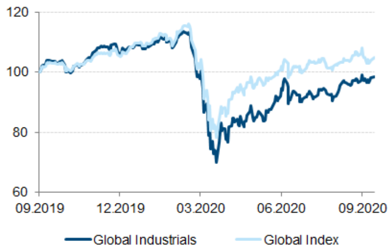
This sector is the third largest global sector after technology and finance. The sector index posted a gain of +8.8% in EUR terms last quarter. The return achieved since the beginning of the year is +10.1% in EUR terms, which exceeds that of the global stock market index significantly. This was primarily due to the fact that numerous large companies in the sector were able to post sizable revenue and earnings growth, which subsequently led to strong rallies in their stock prices. Especially online retailers such as Amazon.com, Alibaba, JD.com, etc. benefited greatly from the COVID-19 pandemic. Amazon.com is now globally the third largest company by market capitalization, with Chinese competitor Alibaba in fifth place.

Consumer cyclicals include the stocks of car makers as well. In this segment the stock of Tesla achieved very strong price gains after the company reached the profitability threshold (+95% in EUR terms in Q3). As a result the company attained a market capitalization of approximately USD 400bn. By now its market value exceeds that of all German car makers combined. The outlook for further revenue and earnings growth in the automotive sector is now also strongly intertwined with Tesla's prospects. Next year the sector's revenues are expected to grow by +14.1% while earnings growth is seen at +189%.

The sector as a whole should post revenue growth of +14% next year and earnings growth of +98%. Given this highly favorable outlook, the sector index should generate a return ranging from 0% to +5% in the fourth quarter.

Outlook Q4	0% to +5%
World Index Weight	9,4%
YTD Perf. EUR	-8,6%
P/E 21e	19,9x
Net Profit y/y 21e	44%
Top 3 Companies (Market Cap.)	
Union Pacific	
UPS	
Honeywell	

Industrials Index, 1 year
EUR, indexed



Source: Erste Research Index, FactSet.

Industrial Goods and Services

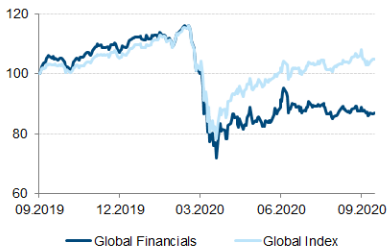
The industrial sector index gained +7% in EUR terms in the third quarter. Despite this strong rally, the sector has generated a negative return of -9% in EUR terms since the beginning of the year.

The strongest advance with a gain of +15.2% in EUR terms was posted by the transportation sub-sector. This highly cyclical sector comprises primarily railroad companies and logistics companies such as United Parcel Service, FedEx or Deutsche Post. All stocks in the global transportation index achieved an above-average performance last quarter, as they benefited from the improving outlook for global economic growth. Consensus estimates are calling for an earnings decline of -36% in 2020. In 2021 strong growth is expected to resume in the transportation sector. The sector's revenues are expected to grow by +10.8% next year, while earnings are estimated to grow by 47.5%.

The entire industrial sector should benefit from the expected acceleration in global economic growth next year. Manufacturing sentiment indicators have improved in all major countries. The relevant PMI indicators point to an economic expansion in the US, the euro zone, China, India, Brazil and Russia. Expectations for next year's earnings growth were therefore revised up in recent weeks. Currently consensus forecasts are calling for earnings growth of +44% in 2021. Revenues are expected to increase by +8.9%. In view of these favorable prospects, the sector index should post a gain in the coming quarter. We expect a return ranging from 0% to +5%.

Outlook Q4	0% to +5%
World Index Weight	16,5%
YTD Perf. EUR	-23,1%
P/E 21e	11,1x
Net Profit y/y 21e	21,5%
Top 3 Companies (Market Cap.)	
Berkshire Hathaway	
Visa	
JP Morgan	

Financials index, 1 year
EUR, indexed



Source: Erste Research Index, FactSet.

Financials

The global financial sector posted a moderately negative return of -2,5% (in EUR terms) in Q3. Year-to-date its performance is -23% in EUR terms. The largest segment of this sector is represented by the bank index. This is the only sub-index of the financial sector that posted a negative return in Q3 as well. Chinese banks exhibited relative strength within the banking index. Other segments, such as financial service providers, investment firms, insurance companies and REITS recorded a positive performance.

The banks suffered from having to set aside additional loan loss provisions. However, after a sharp decline in earnings forecast for this year (2020e: -32.3%), earnings growth should resume next year with an expected increase of +31.4%.

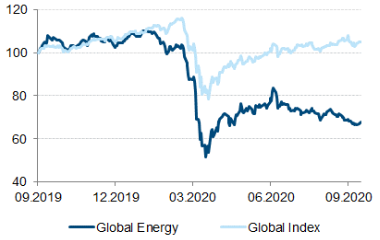
Financial service providers are the second largest segment of the financial sector. This includes companies such as Visa, Mastercard and Paypal. Their weighting in the financials index has increased significantly due to the strong gains in their share prices, and earnings in the segment are expected to grow by +11.7% in 2021. After a decline in earnings this year, insurance companies are expected to achieve earnings growth of +19.5% in 2021.

Revenue and earnings growth forecasts for the financial sector as a whole remained unchanged in recent weeks. The prospects for an improvement in fundamental conditions next year should eventually exert a positive effect on the sector index. In Q4 we expect a return at the lower end of a range from 0% to +5%.

Global Sectors - Negative Outlook

Outlook Q4	-5% to 0%
World Index Weight	4,2%
YTD Perf. EUR	-37,7%
P/E 21e	14,1x
Net Profit y/y 21e	133,3%
Top 3 Companies (Market Cap.)	
Reliance Industries	
Exxon Mobil	
Chevron	

EGR Global Sector
EUR, 1 year, indexed



Source: Erste Group Research, FactSet

Energy

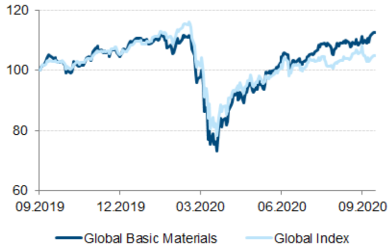
Oil prices have traded in a range from USD 40 to USD 45 in Q3. These prices testify to the persistence of significant overcapacity in the sector, which was already in evidence before the COVID-19 pandemic. For comparison: last year, Brent crude traded between USD 60 and USD 70 per barrel. The IEA and OPEC once again drew attention to the overcapacity issue in their most recent forecasts in mid-September. Both agencies expect global oil supply to exceed the levels of 2019 until at least the end of 2021. The drop in oil prices of approximately -35% this year is also reflected in the expected decline in revenues and earnings of -26% and -72% across the sector as a whole. Only four of the 66 companies in the Erste Global Energy Index will post revenue growth this year. Revenue growth of +16% is forecast for next year. Nevertheless, at USD 3.6 trillion revenues will remain -13% below 2019 levels in absolute terms.

The most favorable trends in the sector are displayed by companies with sizable exposure to renewable energy: E.g. Danish Vestas Wind Systems (Buy), with an earnings decline of just -12% this year and realistic expected earnings of EUR 970mn (+60%) in 2021e. In Q2 new orders reached a new record high of 4.1 GW (Q1: 3.3 GW).

The sector offers the highest dividend yield of 5.2%. However, we regard this level as too high and unsustainable under current market conditions. As in Q3, we expect the sector to post a negative performance between -5% and 0% in Q4 2020.

Outlook Q4	-5% to 0%
World Index Weight	3,3%
YTD Perf. EUR	1,2%
P/E 21e	15,6x
Net Profit y/y 21e	31,5%
Top 3 Companies (Market Cap.)	
Linde	
BHP Group	
Rio Tinto	

EGR Global Sector
EUR, 1 year, indexed



Source: Erste Group Research, FactSet

Commodity Producers

With a gain of +8% in the past three months, the global commodities sector outperformed the broad market significantly. The sub-index of chemical stocks in particular was in demand and rose by +10%.

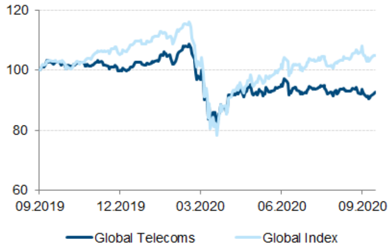
The world's largest commodity producers such as Linde, BHP Group and Rio Tinto exhibit favorable fundamental trends. The consensus expects Linde's earnings to grow by +2% to EUR 3.6bn in 2020 despite a 4% decline in revenues. The world's largest industrial gas group, created after last year's merger with Praxair is benefiting from strong demand in emerging markets in Asia and should achieve earnings growth of +12% next year.

By contrast, commodity producers Rio Tinto and BHP Group are suffering from muted industrial demand. However, a positive factor for these companies remains the significant increase in copper prices in recent months due to the solid economic recovery in China. The sub-segment of gold mining companies is benefiting from the higher gold price. They should achieve revenue and earnings growth of +18% and +24% respectively in 2020. The NYSE Arca Gold Bug Index should therefore rise moderately this quarter.

In light of the strong performance of the sector index in recent months, we expect profit-taking and therefore a moderately negative performance of -5 to 0% in Q4:

Outlook Q4	-5% to 0%
World Index Weight	4,5%
YTD Perf. EUR	-10,4%
P/E 21e	14x
Net Profit y/y 21e	12,2%
Top 3 Companies (Market Cap.)	
Verizon	
Comcast	
AT&T	

EGR Global Sector
EUR, 1 year, indexed



Source: Erste Group Research, FactSet

Telecoms

The earnings performance of the telecom sector was slightly negative in the third quarter (in EUR: -0.6%). Since the beginning of the year, the sector has been one of the biggest losers with a decline of -9%. Expected revenue growth in 2020 is slightly positive at +1%, while earnings are estimated to contract slightly by -1.5%. Both revenue and earnings growth are expected to turn positive again next year. Revenues are estimated to grow by +5% and earnings by +13%.

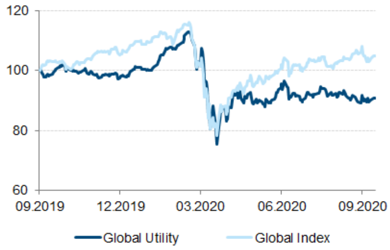
One of the best long-term performances in the sector was delivered by Deutsche Telekom's US subsidiary T-Mobile US (Buy). To date the merger with Sprint completed in April can be considered a success. T-Mobile achieved significantly faster customer and revenue growth in Q2 2020 than both AT&T and Verizon. It also maintained its leadership in the 5G segment.

Prospects for the sector are worst in Europe. The shares of Telefonica, Vodafone and BT Group in particular have performed very poorly since the beginning of the year, posting declines of -32% to -48%, respectively. The recession has reinforced the long-term trend of declining revenues at these companies. Excluding Deutsche Telekom, revenues in Europe will decline by -3% to EUR 264 billion in 2020.

The long-term outlook for the global sector is not very attractive due to the intense competition in the sector. For the fourth quarter, we expect a moderately negative performance at the upper end of a range from -5% to 0%.

Outlook Q4	-5% to 0%
World Index Weight	3%
YTD Perf. EUR	-11,1%
P/E 21e	16,2x
Net Profit y/y 21e	12,2%
Top 3 Companies (Market Cap.)	
NextEra Energy	
ENEL	
Iberdrola	

EGR Global Sector
EUR, 1 year, indexed



Source: Erste Group Research, FactSet

Utilities

The global utilities index remained almost unchanged in Q3 in EUR terms (-0.5%). This sector is not as strongly impacted by the effects of the COVID-19 pandemic as other sectors. Revenues are actually expected to remain unchanged this year. Earnings are estimated to decline by -4%. Next year, both revenues (2021e: +6%) and earnings (2021e: +12%) are expected to grow again.

Shares of utilities with a high proportion of renewable energy generation - such as Verbund (+16%), Danish utility Orsted (+15%) and Portuguese utility EDP (+3%) - outperformed the competition in Q3 as well. We expect the trend toward investment in shares with above-average favorable ESG ratings to continue.

Due to its relatively stable earnings performance, the sector index is less volatile than other sectors. In the medium term, the sector benefits from low interest rates due to its high debt levels.

However, we consider the global growth potential of this sector to be limited in the long run. The high dividend yields of numerous companies are not sustainable. In Q4 the utilities sector index should post a loss in a range of -5% to 0%.

Erste Group Research
Global Strategy | All Assets | Global
September 2020

Forecast Q4 2020

Europe

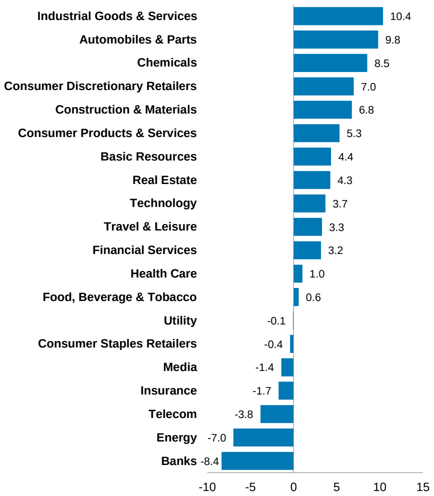
↗ 0% to +5%

Earnings and revenue growth
(y/y, %)

	Sales		Net Profit	
EUR	20e	21e	20e	21e
France	-14.5	8.5	-50.7	70.0
Germany	-4.0	6.8	-23.4	40.3
Switzerland	-10.0	6.1	-4.0	13.9
UK	-13.7	4.7	-45.3	55.9
Netherlands	-21.7	8.5	-37.9	33.2
Europe	**-11.2**	**6.9**	**-35.3**	**42.4**

Source: Erste Group Research Index, FactSet.

Performance of sectors, Europe Q3 2020
EUR, %



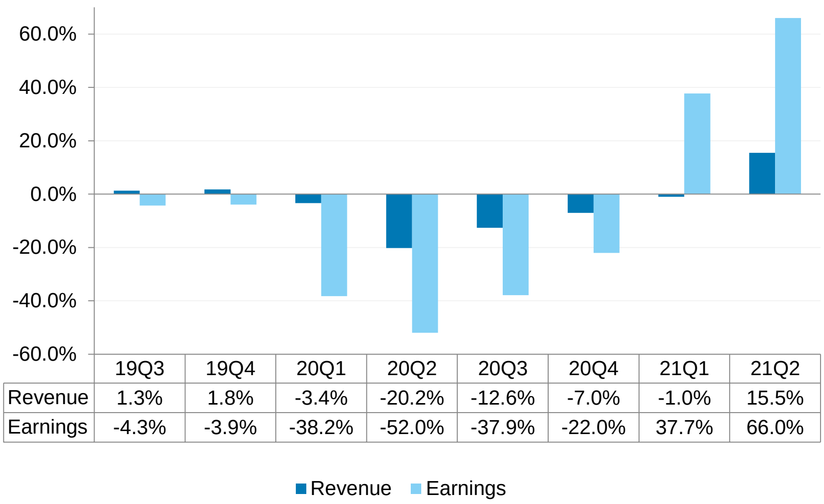
Source: Erste Group Research Index, FactSet.

The European stock market exhibited a moderate upward trend in Q3, delivering a performance of +1.7%. The expansionary fiscal policy of European countries and the PEPP program of the ECB had a positive effect. Consumer cyclical and industrial stocks in particular performed well, posting gains of +10%. By contrast, bank and energy stocks fell by more than -7%.

Revenue and earnings estimates for 2020 were in a stable sideways trend in Q3. This year earnings are expected to decline by -35%. Around 74% of the 243 companies in the index should report a decrease in earnings. However, "only" 10% of European companies will post a loss in absolute terms in 2020. Especially Renault and BP will have to cope with large losses of about EUR 7bn and 4bn respectively.

Revenues of listed European companies will decline by -11% overall. The median decline in revenues will be just -4.1%. The recession will hit the energy sector particularly hard, with a slump in revenues of -30%.

Revenue and earnings estimates Europe
Consensus forecasts



	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2
Revenue	1.3%	1.8%	-3.4%	-20.2%	-12.6%	-7.0%	-1.0%	15.5%
Earnings	-4.3%	-3.9%	-38.2%	-52.0%	-37.9%	-22.0%	37.7%	66.0%

Source: Refinitiv, Erste Group Research

The valuation of the European stock market was already below average before the COVID-19 crisis due to its low growth momentum by global standards. The 2020 forward P/E ratio currently stands at 26x. The forward dividend yield amounts to 2.7% after numerous dividend cuts by cyclical companies.

Outlook: We expect European stocks to post a slight gain in Q4 in a range of 0% to +5%. Investors should continue to pay attention to quality criteria and appropriate sector selection when picking stocks.

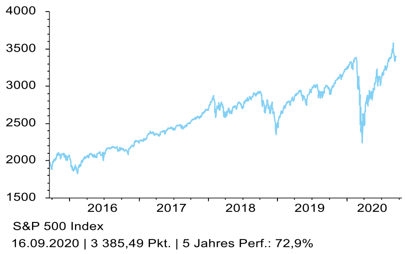
Forecast Q4 2020

USA — 0% to +5%

USA

USD	2020e	2021e
Sales	-2,2%	8,3%
EBIT	-5,8%	20,1%
Net Profit adj.	-17%	24,9%
PE	26x	20,8x
Div. Yield	1,7%	1,7%

S&P 500 Index



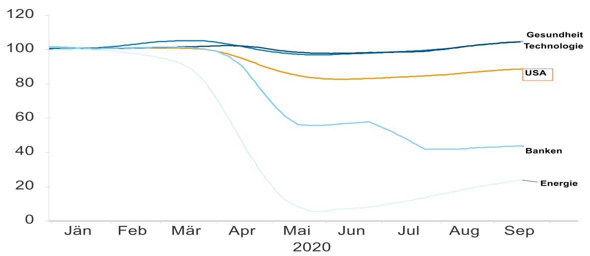
Source: Datastream, Erste Group Research

The S&P 500 Index gained +1.9% in EUR terms in the third quarter. The technology index Nasdaq 100 rose by +5.5% in EUR terms. Both indexes reached new record highs. Most sectors exhibited positive returns. Only the sector indexes for energy and telecoms declined. At the beginning of September, severely overbought conditions in technology stocks led to a technical market correction due to their very large weighting in the benchmark indexes, which has not been fully completed yet.

Prospects for economic growth have improved again. The ISM manufacturing index recently rose to a level of 56 points. A positive development is inter alia that new orders have increased strongly. The relevant ISM index has risen to the highest level in 15 years. The ISM non-manufacturing index, which represents the services sector, also signals an expansion at its current level of 56.9 points.

84% of companies posted positive earnings surprises in the recent reporting season. Most positive earnings surprises were reported by technology, commodity and healthcare companies. Starting in Q1 2021, companies should begin to achieve revenue and earnings growth again. For 2021, consensus estimates in the US are calling for revenue growth of +8.3%. Earnings are expected to grow by +25.1%. Differences between individual sectors are significant. The most stable trends should be displayed by the health care and technology sectors. The chart below shows the expected earnings growth trends for selected sectors.

US sectors: 12-month forward earnings



Source: Datastream, Erste Group Research

The valuation of the stock market stands at 21.1x in terms of the 2021 forward P/E ratio. The 2021 forward dividend yield amounts to 1.7%. It is significantly higher than yields on US treasury bonds. Thus US equities are more attractive than treasury bonds from this perspective as well.

Outlook

We expect the stock market to move sideways once its technical correction concludes. Volatility should remain elevated due to uncertainty over the outcome of the US presidential election. We are forecasting a moderately positive return at the lower end of a range from 0% to 5%. The main risks to this forecast would consist of a slowdown in the recent momentum of earnings expectations and/or a renewed significant tightening of COVID-19-related containment measures.

Forecast Q4 2020

CEE 0% to +5%

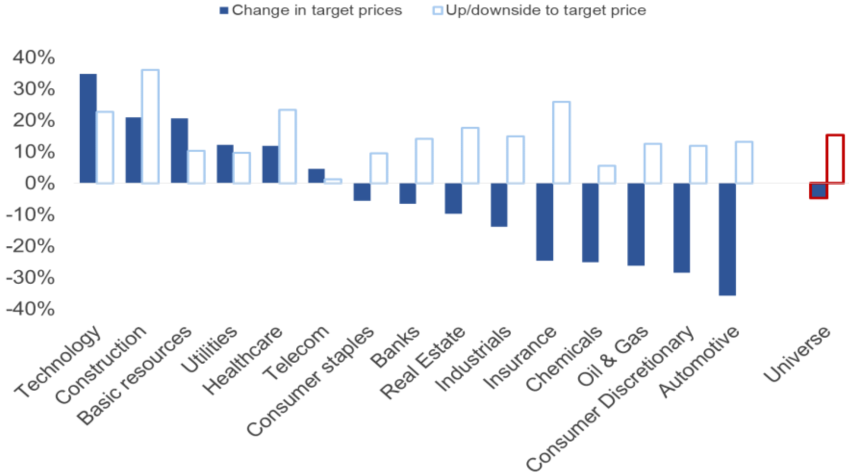
While we were, or rather are, concerned about quite euphoric valuations and the risk that they will be difficult to justify from a fundamental perspective, the recent correction has confirmed our concerns. Although excessive valuations in the region have never been as pronounced as in developed markets, a global correction always tends to hit a region like ours with relatively poor liquidity a little harder.

Apart from this, the markets in the region have been robust and just as we have found reasons to revise our macroeconomic estimates slightly upward corporate earnings estimates are also exhibiting a continued positive trend. The momentum of earnings forecasts for the coming 12 months is currently even somewhat stronger in the region than in other emerging or even developed markets. However, it appears as if this momentum has already reached a peak and may weaken somewhat going forward.

Poland currently exhibits the strongest momentum in terms of corporate earnings growth in the region, followed by Hungary, which boasts of even stronger growth in absolute terms than Poland or any other market in the region. Romania, which brings up the rear, gives reason for some concern. Consensus estimates there are currently still in a rather negative trend.

With the better part of the year behind us, we have tried to quantify the impact of the pandemic on our coverage by summarizing the changes to our price targets over the year. Overall, we have revised our price targets down by 5%. The pandemic was not the only driver of this, but it was the most significant. Consumer goods and automobiles are the clear losers of the situation in our region as well.

Revisions of price targets in 2020



Up/Downside to target price at the time the recommendation was changed / Source: Erste Group Research

Forecast Q4 2020

Real Estate Europe ↗ 0% to +5%

Real estate sector hit by COVID-19 in varying degrees

COVID-19 has hit real estate companies in different ways, largely depending on asset classes and location of assets, but also on company balance sheets.

Upward pressure on yield

The supply and demand situation on both levels, real estate investments/transactions as well as letting area (occupancy ratios), has always been the key parameter of the yield development. The COVID-19 pandemic, however, brought other factors to the fore:

- Increasing bank margins with adjusted LTV requirements,
- Rent collections in the short term and sustainability of income in the long run,
- The letting situation in connection with the location of the asset, and finally
- The industry sector(s) of the tenant(s)

Residential not impacted by crisis

The residential sector has not been impacted by the crisis at all; yields are stable or even falling in the markets Austria and Germany. Although the strongly developed trend to urbanization might weaken in the future as a result of the crisis, it seems rather unlikely that supply will meet demand soon. A shortage of land available for construction and sometimes complex regulation make it difficult for supply to meet even diminishing demand. The residential sector is seen as a safe haven for the time being.

Office presents mixed picture

The office segment has to be looked at in a few ways. On one hand, prime offices in Germany's top cities, which are generally characterized by relatively low vacancy rates, are still on the radar of investors, which led to a further decline of prime yields. In secondary locations, however, yield compression has already stopped and a trend reversal seems to have started. While vacancy rates have slightly increased, most cities in the CEE region have observed stable yields. Warsaw is now one of the first cities where the crisis, in combination with excessive supply, led to an increase of yields.

The future for the office segment is open. Companies have learned that home office could be an attractive alternative with the advantage of saving costs in the long term. The operational advantages of office work seem to abate, given the many platforms enabling virtual meetings. However, the social factor can certainly not be compensated for. Flexibility is expected to become the key issue in the future, as different room concepts with more space per employee will probably partly offset the reduction of required space due to home office. Flexibility and location will probably define the office market in the future.

Retail under pressure

E-commerce had already started to change consumer behavior long before COVID-19, but the pandemic accelerated the trend, which is reflected in the prime yield development of the single retail asset classes. Those assets with a high proportion of fashion suffer the most. It is likely that momentum will continue to gain for smaller to mid-sized retail parks, which provide customers with a new kind of convenient – because simple – shopping. Stable yields in this asset class confirm this thesis. Shopping centers will probably have to reinvent themselves, especially those with high operating costs and a big proportion of entertainment and gastronomy.

Hotels hit hardest

COVID-19 is testing the hotel industry on a scale which has not been seen before. Domestic demand can only in rare cases compensate for the lack of international tourism, business trips and utilization caused by trade fairs and congresses. Hotels in the cities suffered the most during the summer season, and a recovery is said to perhaps take years. Effective vaccines could of course change this, which is what the industry is hoping for.

Forecast Q4 2020

India

0% to +5%

EGR India Index

USD	2020e	2021e
Sales	-9,7%	12,3%
EBIT	-1,2%	17,5%
Net Profit adj.	-1,5%	25,4%
PE	25,5x	20,3x
Div. Yield	1,5%	1,8%

Source: Erste Group Research Indizes, FactSet.

The Indian stock market gained +8% in EUR terms in Q3. India therefore markedly outperformed the emerging market average (+1%). After the steep economic slump in the second quarter, recent economic data such as the purchasing managers' index show that the situation has improved significantly.

In the course of the quarter, earnings estimates for 2020 have been revised up from -3% to -1.5%. A significant decline in revenues of -10% is expected in 2020. This is attributable to the strong income losses suffered by the country's major oil companies such as Reliance Industries, Indian Oil and Bharat Petroleum. The median of the 37 companies in the index actually exhibits a slight increase in expected revenues of +1%.

The valuation of the stock market is higher than the emerging market average. This is due to the above-average expected growth rates in revenues and earnings in recent years. The Indian market's 2020 forward P/E ratio stands at 26x (emerging market index: 15x).

We expect a positive performance from Indian stocks in the fourth quarter amid high volatility. The biggest downside risk to our positive outlook is posed by a pronounced spread of COVID-19 infections in India's densely populated major cities.

Forecast Q4 2020

China | Hong Kong

0% to +5%

EGR China Index

USD	2020e	2021e
Sales	2,6%	13,1%
EBIT	3,2%	15,3%
Net Profit adj.	-7,8%	19,5%
PE	13,6x	11,4x
Div. Yield	2,7%	3%

Source: Erste Group Research Indizes, FactSet

The Chinese stock market including Hong Kong rose by +1% in EUR terms last quarter. Since the beginning of the year, the index has declined by -4%, which is less than the broad emerging market index (-12%). Particularly stocks in the healthcare, online retail and technology sectors outperformed the market last quarter. By contrast, banks, utilities and real estate stocks performed significantly below average.

Leading economic indicators exhibited a moderately positive trend in Q3. The manufacturing purchasing managers' index rose to 53.1 points in August (July: 52.8 points). An increase in new orders led to an expansion of production. The services index remained unchanged at 54 points in August.

Consensus estimates of revenue growth are calling for a slight increase of +2.6% this year. Earnings are expected to decline by -8% this year. Earnings growth of +20% is forecast for 2021. The stock market's valuation stands below the global average. The 2020 forward P/E ratio stands at 13.6x and the 2020 forward dividend yield amounts to 2.7%.

Due to the market's low valuation, the strong improvement in economic conditions and the favorable trend in leading economic indicators, we expect a positive return of 0% to +5% in the fourth quarter.

Forecast Q4 2020

Brazil

0% to +5%

USD	2020e	2021e
Sales	-13,3%	1,9%
EBIT	4,5%	1,1%
Net Profit adj.	-31,2%	23,2%
PE	12,3x	10x
Div. Yield	3,1%	5,3%

Brazilian real vs. USD:
BRL/USD:

Source: Datastream, Erste Group Research

The Brazilian stock market gained +2.1% in EUR terms in the third quarter. The positive performance was partly attributable to the appreciation of the Brazilian real over the past few weeks.

The best performing sectors were commodities, consumer cyclical stocks, as well as industrial and technology stocks. By contrast, financial stocks, utilities and numerous non-cyclical consumer stocks posted negative returns.

The outlook for corporate revenue and earnings growth has remained stable in recent weeks. According to consensus estimates, revenues are expected to decline by -13.3% and earnings by -31.2% this year. However, a turnaround in revenue and earnings growth is expected next year. In 2021 revenues are estimated to grow by +1.6% and earnings by +20%.

The valuation of the stock market stands at 12.3x in terms of the 2020 forward P/E ratio. For next year, the forward P/E ratio stands at 10x and the forward dividend yield at 5.3%. The Brazilian stock market trades at a more favorable valuation than the global stock market both in terms of its P/E ratio and its dividend yield. However, it has less dynamic growth prospects.

We expect only a moderate advance in the Brazilian index in the fourth quarter. It should be at the lower end of a range from 0% to +5%.

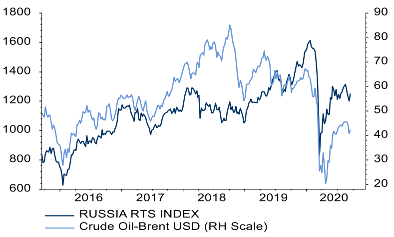
Forecast Q4 2020

Russia

0% to +5%

USD	2020e	2021e
Sales	-29,4%	8,4%
EBIT	-43,8%	33,2%
Net Profit adj.	-56,8%	52,6%
PE	10,8x	7,1x
Div. Yield	5%	7,4%

Russia RTS Index vs. crude oil price:



Source: Datastream, Erste Group Research

The Russian benchmark index posted a -7.8% loss in EUR terms in the third quarter. Most of the negative performance was attributable to the weakening of the ruble against the euro. Most of the shares in the benchmark index achieved a positive performance in local currency terms. The best performing stocks were those in the commodities sector, as well as bank stocks and stocks in the consumer staples sector. Only a number of stocks in the energy sector (Gazprom, Lukoil, Tatneft) suffered losses.

The outlook for corporate revenue growth in 2020 has changed very little in recent weeks. According to consensus estimates revenues are expected to decline by -29.3%, while earnings are expected to decline by -55.2%. The situation for Russian companies is expected to improve next year. In 2021 revenues are estimated to grow by +8.1% and earnings by +44%.

The valuation of the stock market in terms of the P/E ratio has increased as a result of the decline in earnings. The 2020 forward P/E ratio currently stands at 10.8x (2021e: 7.1x). The 2020 forward dividend yield stands at 5%. We expect the Russian stock market to remain in a tight range in the fourth quarter due to a lack of positive drivers. It should post a gain at the lower end of a range from 0% to +5%.

Tables & Appendix

Economic indicators

		GDP (% yoy)		Inflation (% yoy)		Un-employ. (%)		CA Balance (% GDP)		Fiscal Balance (% GDP)		Gross Debt (% GDP)	
		20e	21e	20e	21e	20e	21e	20e	21e	20e	21e	20e	21e
Europe	**Eurozone**	**-7.6**	5.4	0.4	1.2	10.4	8.9	2.6	2.7	-8.5	-3.5	102.7	98.8
	Germany	**-6.7**	5.1	0.3	1.2	3.9	3.5	6.6	6.7	-7.0	-1.5	75.6	71.8
	France	**-7.2**	5.7	0.3	0.7	10.4	10.4	-0.7	-0.6	-9.9	-4.0	116.5	111.9
	Spain	**-12.8**	6.3	-0.3	0.7	20.8	17.5	2.2	2.4	-10.1	-6.7	115.6	113.7
	Italy	**-9.7**	6.0	0.2	0.7	12.7	10.5	3.1	3.1	-11.1	-5.6	158.9	153.6
	Austria	**-6.2**	4.3	1.2	1.6	5.8	5.4	0.2	1.0	-8.1	-4.3	87.5	85.1
	UK	**-10.2**	6.3	1.2	1.5	4.8	4.4	-4.4	-4.5	-8.3	-5.5	84.8	84.6
	Switzerland	**-6.0**	3.8	-0.4	0.6	2.7	0.0	7.2	8.8	-5.1	-1.9	37.3	36.0
Eastern Europe	**Russia**	**-6.6**	4.1	3.1	3.0	4.9	4.8	0.7	0.6	-4.8	-3.0	17.7	18.3
	Poland	**-3.2**	3.9	3.3	1.4	6.3	6.2	1.6	0.9	-9.7	-5.5	61.0	59.0
	Turkey	**-5.0**	5.0	12.0	12.0	17.2	15.6	0.4	-0.2	-7.5	-6.7	30.8	31.7
	Czechia	**-6.8**	4.8	3.3	2.1	2.8	4.4	-0.2	0.3	-1.3	-0.3	33.9	32.3
	Romania	**-4.7**	3.9	2.8	3.4	5.9	8.5	-4.1	-3.4	-8.6	-5.5	43.8	46.9
	Hungary	**-5.8**	4.7	3.5	3.1	4.6	4.8	-2.3	-1.4	-7.2	-4.2	76.0	72.3
	Slovakia	**-6.3**	6.0	2.0	1.1	7.1	7.4	-2.6	-1.3	-8.5	-4.3	59.3	59.6
Americas	**USA**	**-4.3**	3.8	1.0	1.5	10.4	9.1	-2.6	-2.8	-15.4	-8.6	108.0	110.0
	Canada	**-8.4**	4.9	0.6	1.3	7.5	7.2	-3.7	-2.3	-11.8	-3.8	85.0	82.4
	Brazil	**-9.1**	3.6	3.6	3.3	14.7	13.5	-1.8	-2.3	-9.3	-6.1	93.9	94.5
	Chile	**-4.5**	5.3	3.4	2.9	9.7	8.9	-0.9	-1.8	-6.3	-3.5	29.2	30.0
	Mexico	**-10.5**	3.3	2.7	2.8	5.3	3.5	-0.3	-0.4	-4.2	-2.2	54.6	54.7
	Colombia	**-2.4**	3.7	3.5	3.2	12.2	11.9	-4.7	-4.2	-2.5	-1.3	49.0	46.7
Asia	**China**	**1.0**	8.2	3.0	2.6	4.3	3.8	0.5	1.0	-11.2	-9.6	60.9	65.4
	Japan	**-5.8**	2.4	0.2	0.4	3.0	2.3	1.7	1.9	-7.1	-2.1	237.6	238.4
	India	**-4.5**	6.0	3.3	3.6	na	na	-0.6	-1.4	-7.4	-7.3	68.5	67.7
	Indonesia	**-0.3**	6.1	2.9	2.9	7.5	6.0	-3.2	-2.7	-5.0	-4.0	30.0	29.9
	South Korea	**-2.1**	3.0	0.3	0.4	4.5	4.5	4.9	4.8	-1.8	-1.6	43.4	46.4
	Thailand	**-7.7**	5.0	-1.1	0.6	1.1	1.1	5.2	5.6	-3.4	-1.7	43.0	43.8
	Australia	**-4.5**	4.0	1.4	1.8	7.6	8.9	-0.6	-1.8	-9.7	-7.3	42.3	41.3
	South Africa	**-8.0**	3.5	2.4	3.2	35.3	34.1	0.2	-1.3	-13.3	-12.7	64.2	67.9
	World	**-4.9**	5.4										

Source: IMF, EU Commission, Erste Group Research estimates

Forecasts[1]

GDP	2018	2019	2020	2021
Eurozone	1.8	1.3	-7.6	5.4
US	2.9	2.3	-4.3	3.8

Inflation	2018	2019	2020	2021
Eurozone	1.7	1.2	0.4	1.2
US	2.4	1.8	1.2	1.9

Currency	current	Dec.20	Mar.21	Jun.21	Sep.21
EURUSD	1.18	1.18	1.18	1.20	1.22
EURCHF	1.08	1.09	1.10	1.12	1.13

Interest rates	current	Dec.20	Mar.21	Jun.21	Sep.21
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.51	-0.50	-0.50	-0.50	-0.50
Germany Govt. 10Y	-0.51	-0.40	-0.10	0.00	0.00
Swap 10Y	-0.24	-0.10	0.20	0.30	0.30

Interest rates	current	Dec.20	Mar.21	Jun.21	Sep.21
Fed Funds Target Rate*	0.09	0.13	0.13	0.13	0.13
3M Libor	0.23	0.30	0.30	0.30	0.30
US Govt. 10Y	0.66	0.80	1.10	1.20	1.20
EURUSD	1.18	1.18	1.18	1.20	1.22

*Mid of target range

Interest rates	current	Dec.20	Mar.21	Jun.21	Sep.21
Austria 10Y	-0.36	-0.20	0.10	0.20	0.20
Spread AT - DE	0.17	0.20	0.20	0.20	0.20

Source: Bloomberg, Erste Group Research

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

Equities- Erste Global 1000 Index

	Erste Global 1000 Index		No. of Comp.	Mkt. Cap. EUR bn	Weight (%) World	Performance (%) EUR 1M	3M	12M	YTD	Growth (%, y/y) Sales 20e	Sales 21e	Net Profit Adj. 20e	Net Profit Adj. 21e	P/E 20e	P/E 21e	DY 20e
	World	**USD**	**1.052**	**45.140**	**100**	**-0,7**	**1,0**	**-0,1**	**-5,2**	**-5,3**	**9,8**	**-20,4**	**29,3**	**22,4**	**17,3**	**2,2**
	Developed Markets	USD	873	38.940	86,3	-0,7	1,4	1,1	-4,0	-5,4	9,4	-20,9	30,5	24,3	18,6	2,1
	Emerging Markets	USD	179	6.200	13,7	-0,9	-1,4	-7,2	-12,2	-5,1	11,8	-18,6	24,4	15,0	12,0	2,6
Developed Markets	**North America**	**USD**	**464**	**25.929**	**57,4**	**-1,3**	**1,4**	**4,2**	**-1,4**	**-2,5**	**8,1**	**-17,5**	**25,1**	**25,6**	**20,4**	**1,8**
	Canada	USD	38	1.032	2,3	-3,1	-0,4	-13,4	-13,7	-5,9	4,7	-24,9	27,7	18,1	14,1	3,8
	USA	USD	426	24.897	55,2	-1,2	1,5	5,0	-0,8	-2,2	8,3	-17,0	24,9	26,0	20,8	1,7
	Europe	**EUR**	**241**	**8.226**	**18,2**	**0,0**	**0,4**	**-7,3**	**-11,7**	**-11,2**	**6,9**	**-35,3**	**42,4**	**23,3**	**16,4**	**2,7**
	Austria	EUR	3	33	0,1	-2,0	-2,0	-31,8	-29,4	-19,5	12,5	-47,9	52,3	17,0	11,1	3,2
	Denmark	EUR	10	363	0,8	1,6	6,2	28,2	16,4	0,4	4,5	2,1	21,3	30,4	25,1	1,5
	France	EUR	44	1.606	3,6	0,7	1,0	-10,0	-14,6	-14,5	8,5	-50,7	70,0	28,3	16,6	2,5
	Germany	EUR	36	1.446	3,2	0,6	6,0	4,8	-1,9	-4,0	6,8	-23,4	40,3	21,8	15,5	2,5
	Italy	EUR	12	270	0,6	-5,1	-3,9	-17,3	-20,9	-10,3	6,4	-57,6	86,5	22,9	12,3	4,1
	Netherlands	EUR	16	689	1,5	-1,5	-3,9	-12,8	-14,4	-21,7	8,5	-37,9	33,2	24,1	18,1	2,6
	Spain	EUR	14	353	0,8	-0,9	-5,9	-23,0	-25,1	-13,8	6,8	-47,2	35,5	20,3	15,0	3,7
	Sweden	EUR	14	361	0,8	2,9	11,8	11,9	3,5	-9,9	9,0	-21,8	34,3	24,5	18,2	2,3
	Switzerland	EUR	26	1.326	2,9	2,3	1,4	6,0	-0,2	-9,9	6,1	-3,9	13,9	20,9	18,4	2,8
	United Kingdom	EUR	42	1.163	2,6	-3,7	-8,1	-22,3	-26,7	-13,7	4,7	-45,3	55,9	21,0	13,5	3,2
	Asia/Pacific	**USD**	**168**	**4.785**	**10,6**	**1,5**	**2,8**	**0,9**	**-3,5**	**-4,3**	**7,7**	**-9,5**	**26,5**	**18,9**	**14,9**	**2,7**
	Japan	USD	101	2.721	6,0	2,5	0,3	-1,7	-4,3	-5,3	6,0	-16,1	29,3	20,1	15,6	2,4
	Australia	USD	23	709	1,6	-4,0	0,8	-11,0	-11,3	-0,4	4,6	-10,1	7,3	16,9	15,7	4,0
	South Korea	USD	23	661	1,5	3,3	9,0	16,3	5,1	-4,4	14,3	14,1	46,6	17,0	11,6	1,9
	Taiwan	USD	15	571	1,3	3,0	14,4	28,0	10,3	1,8	12,0	11,8	15,5	20,7	17,9	2,9
Emerging Markets	**Emerging Asia/Pacific**	**USD**	**136**	**5.254**	**11,6**	**-0,3**	**0,1**	**-1,9**	**-7,4**	**-0,3**	**12,8**	**-8,8**	**20,6**	**15,3**	**12,6**	**2,5**
	China (incl. HK)	USD	73	3.954	8,8	-0,6	-0,7	2,8	-4,0	2,6	13,1	-7,8	19,5	13,6	11,4	2,7
	India	USD	37	947	2,1	3,1	9,1	-6,7	-10,4	-9,7	12,3	-1,5	25,4	25,5	20,3	1,5
	Indonesia	USD	7	118	0,3	-8,9	-10,5	-30,1	-31,8	-11,9	10,4	-30,9	30,2	18,8	14,5	3,3
	Emerging Europe	**USD**	**13**	**354**	**0,8**	**-7,6**	**-12,5**	**-26,9**	**-32,8**	**-29,2**	**8,3**	**-56,4**	**51,9**	**10,8**	**7,1**	**4,9**
	Russia	USD	12	347	0,8	-7,6	-12,4	-26,2	-32,6	-29,4	8,4	-56,8	52,6	10,8	7,1	5,0
	Emerging Americas	**USD**	**24**	**472**	**1,0**	**-3,4**	**-7,5**	**-31,5**	**-33,6**	**-12,5**	**6,2**	**-36,1**	**34,7**	**15,9**	**11,8**	**2,8**
	Brazil	USD	13	277	0,6	0,3	-5,3	-35,8	-40,6	-13,3	1,9	-31,2	23,2	12,3	10,0	3,1
	Emerging Africa (S.A.)	**USD**	**6**	**120**	**0,3**	**2,8**	**-2,7**	**-21,9**	**-21,2**	**-5,7**	**10,8**	**-21,5**	**41,0**	**18,2**	**12,9**	**1,7**
	Global Sectors															
Erste Global Sectors	**Basic Materials**	**USD**	**54**	**1.510**	**3,3**	**2,0**	**8,4**	**6,9**	**1,2**	**-7,7**	**9,5**	**-12,1**	**31,5**	**20,0**	**15,2**	**3,4**
	Basic Resources	USD	28	712	1,6	-0,4	8,4	6,8	-0,9	-8,8	8,5	-6,3	33,8	15,5	11,6	4,2
	Chemicals	USD	26	798	1,8	4,3	8,4	6,5	3,1	-6,4	10,6	-19,8	28,0	26,9	21,0	2,6
	Consumer Discretionary	**USD**	**145**	**7.331**	**16,2**	**0,7**	**8,4**	**15,6**	**10,1**	**-7,6**	**14,8**	**-46,3**	**99,1**	**51,3**	**25,8**	**0,9**
	Automobiles & Parts	USD	31	1.141	2,5	6,8	25,6	19,5	14,4	-13,7	14,5	-66,3	191,0	41,2	14,2	1,4
	Cons. Discretionary Retail	USD	32	3.144	7,0	-2,7	6,9	30,5	25,0	11,8	12,3	12,7	36,2	43,2	31,7	0,5
	Cons. Products & Services	USD	42	1.956	4,3	2,0	5,7	10,3	4,3	-3,5	10,4	-11,8	26,8	32,6	25,7	1,3
	Media	USD	11	546	1,2	-0,5	1,7	6,4	-1,9	-2,2	11,7	-28,1	37,9	45,9	33,3	0,8
	Travel & Leisure	USD	29	545	1,2	5,7	4,0	-21,5	-23,8	-49,5	56,1	nan	nan	0,0	43,6	0,7
	Consumer Staples	**USD**	**83**	**3.262**	**7,2**	**-0,8**	**-1,6**	**-9,5**	**-9,5**	**1,0**	**4,5**	**-7,3**	**12,6**	**20,6**	**18,3**	**2,8**
	Food, Beverage & Tobacco	USD	54	2.071	4,6	-1,4	-3,3	-13,5	-13,5	-2,8	6,3	-10,8	14,1	20,1	17,6	3,3
	Cons. Staples Retail	USD	29	1.192	2,6	0,2	1,6	-1,6	-1,4	3,2	3,5	0,3	9,9	21,7	19,8	2,0
	Energy	**USD**	**66**	**1.897**	**4,2**	**-6,1**	**-12,5**	**-37,6**	**-37,7**	**-25,6**	**16,4**	**-72,0**	**133,3**	**32,3**	**13,9**	**5,2**
	Financials	**USD**	**201**	**7.429**	**16,5**	**-2,1**	**-4,5**	**-18,7**	**-23,1**	**-1,0**	**5,5**	**-23,4**	**21,5**	**13,4**	**11,0**	**3,2**
	Banks	USD	97	3.472	7,7	-3,9	-10,0	-29,4	-33,8	-1,6	3,0	-30,0	24,8	10,5	8,4	4,3
	Financial Services	USD	48	2.042	4,5	-1,7	-0,7	3,7	-2,3	-3,2	5,1	-7,3	11,6	23,7	21,2	1,5
	Insurance	USD	56	1.915	4,2	0,8	2,7	-14,7	-17,6	0,0	8,0	-13,2	19,8	14,1	11,8	3,0
	Health Care	**USD**	**99**	**5.208**	**11,5**	**0,0**	**-1,5**	**10,7**	**1,4**	**7,4**	**7,8**	**4,8**	**14,2**	**19,6**	**17,2**	**1,8**
	Industrials	**USD**	**142**	**4.254**	**9,4**	**2,6**	**5,9**	**-4,9**	**-8,6**	**-8,8**	**9,1**	**-31,5**	**44,0**	**28,0**	**19,4**	**1,8**
	Construction & Materials	USD	17	305	0,7	-0,7	3,3	-13,2	-16,3	-7,9	11,0	-21,6	33,1	22,2	16,7	2,2
	Ind. Goods & Services	USD	125	3.949	8,7	2,9	6,1	-4,2	-8,0	-8,9	8,9	-32,4	45,1	28,5	19,7	1,8
	Real Estate	**USD**	**53**	**1.083**	**2,4**	**-0,3**	**-5,4**	**-13,6**	**-14,9**	**9,0**	**14,3**	**-7,1**	**12,6**	**20,0**	**17,8**	**3,4**
	Technology	**USD**	**105**	**9.754**	**21,6**	**-1,4**	**4,8**	**32,1**	**17,7**	**4,0**	**12,2**	**5,1**	**20,5**	**28,4**	**23,6**	**1,0**
	Telecom	**USD**	**45**	**2.047**	**4,5**	**-2,1**	**-3,2**	**-11,4**	**-10,4**	**1,0**	**5,6**	**-1,2**	**12,2**	**15,0**	**13,4**	**3,6**
	Utility	**USD**	**59**	**1.363**	**3,0**	**-1,9**	**-2,8**	**-11,0**	**-11,1**	**0,0**	**7,2**	**-4,1**	**12,2**	**18,2**	**16,3**	**3,7**

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

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