Erste Group Research
Global Strategy | All Assets | Global
October 2022

Global Strategy 4Q 2022

Persistently high inflation rates and a significant increase in interest rates are weighing on economic momentum and pushing up volatility on the financial markets. In addition, geopolitical tensions are in place that favour safe-haven flows. We regard the medium and longer maturities of US Treasury bonds as attractively valued but advise to pursue a diversified investment strategy for riskier assets. We envisage a volatile sideways movement for the equity market and recommend overweighting defensive sectors.

Investment Strategy 4Q 2022:

Govt. bond yields		Dec. 2022
Germany (10Y)		1.80
USA (10Y)		3.20
Currencies		**Dec. 2022**
EURUSD		1.03
CHF		0.98
Equity Performances		**Dec. 2022**
Global	➔	0%
Europe	➘	-5%/ 0%
USA	➚	0%/ +5%

Source: Erste Group Research

Prices as of
03.10.2022, 22:00

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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.

Economy

The persistently high US inflation is eroding real household income, and the drastic increase in interest rates has a negative effect on investments, in particular on the real estate market. The US labour market remains robust with low unemployment and high demand for labour. US inflation may have peaked, but we expect a more substantial decline only from spring of 2023 onwards. The Eurozone economy is also suffering from the high inflation, albeit amid a different set of driving forces. In particular, the rapid increase in natural gas and electricity prices since 2021 is now reaching households and companies with a time lag, a growing number of which rely on governmental support to mitigate the rise in costs. In view of the challenging environment, we forecast a significantly lower momentum of growth for the Eurozone GDP in 2023. Inflation dynamics should abate in the coming year, and our base-case scenario is grounded on the assumption of lower average energy prices.

Bonds

The US Fed is continuing to tighten its monetary policy at a high pace, not the least as persistently high inflation and a robust labour market justify rapid action. While the cycle of interest rates is not yet over, questions are emerging as to when rates will peak. The yield curve has been inverted for a while now, reflecting expectations of interest rates falling again. The US bond market has been very volatile in recent months, looking for guidance. The valuation of medium and longer maturities is currently attractive. In view of the still supportive level of interest rates, the ECB has initiated a quick tightening of its monetary policy. The development of the energy crisis will be a decisive factor for the extent by which interest rates will be raised. The bond markets will remain volatile due to downside risks for the economy and upside risks for inflation. We are unlikely to see stabilisation setting in before the end of the rate hikes becomes predictable.

Currencies

The uncertain geopolitical environment and the energy crisis are weighing on the euro in particular, both against the US dollar and the Swiss franc. The latter are considered safe haven currencies. A calmer European energy markets would support the euro. Real negative yields continue to support the gold price.

Equities

The global equity market should trend sideways in 4Q, with high volatility. We expect a positive performance of the US equity market and a negative performance in Europe. Defensive sectors such as healthcare or non-cyclical consumer should be overweighted in the current environment. Quality stocks with high dividend yields are also attractive.

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Investment Strategy 4Q 2022

Yields				Estimates		
		current	**4Q22**	1Q23	2Q23	3Q23
10y. Govt. bonds	**Germany**	1.82	**1.80**	1.80	1.80	1.80
	Austria	2.50	**2.20**	2.10	2.00	2.00
	US	3.58	**3.20**	2.90	2.80	2.80
	CEE					
	Czech Republic	5.30	**4.37**	4.16	3.89	3.67
	Hungary	9.80	**8.18**	8.08	7.35	6.94
	Poland	7.10	**6.00**	6.10	5.90	5.80
	Romania	8.60	**8.50**	8.25	8.00	7.75

Source: Erste Group Research estimates

Currencies				Estimates		
		current	**4Q22**	1Q23	2Q23	3Q23
Global	**EURUSD**	0.99	**1.03**	1.05	1.06	1.08
	CHF	0.97	**0.98**	0.99	1.00	1.01
	Gold (USD)	1,708	**1,700**	1,720	1,740	1,740
CEE	**CZK**	24.6	**24.5**	24.4	24.3	24.2
	HUF	423	**390**	385	380	380
	PLN	4.86	**4.75**	4.70	4.66	4.65
	RON	4.95	**5.00**	5.02	5.05	5.07

Source: Erste Group Research estimates

Equities		Estimate			
		4Q 2022	min	max	FX
Global *		➡	**0%**		USD
Regions	**Europe**	↘	**-5%**	**0%**	EUR
	USA	↗	**0%**	**+5%**	USD
	CEE	↗	**0%**	**+5%**	EUR
	Emerging Markets				
	Brazil	↗	0%	+5%	BRL
	India	↗	0%	+5%	INR
	China	↘	-5%	0%	CNY
Sectors	Technology	↗	0%	+5%	USD
	Health Care	↗	0%	+5%	USD
	Consumer Staples	↗	0%	+5%	USD
	Energy	↗	0%	+5%	USD
	Utility	↘	-5%	0%	USD
	Telecom	↘	-5%	0%	USD
	Basic Materials	↘	-5%	0%	USD
	Industrials	↘	-5%	0%	USD
	Consumer Discretionary	↘	-5%	0%	USD
	Financials	↘	-5%	0%	USD

Source, Erste Group Research estimates

Eurozone Economic Outlook

Historic energy crisis burdens growth outlook

Economy expected to stagnate in the second half of 2022

Since the beginning of 2021, European gas and electricity prices have recorded a rapid increase, which, with a slight delay, has now been affecting households and businesses since summer 2022. We are at a point where the situation is so dramatic that small and medium-sized enterprises, in particular, could fall into insolvency without government support. Private households are also dependent on state aid given that electricity and gas costs have been exploding. In this environment, the growth outlook has therefore deteriorated considerably, not the least on the back of the current slump in sentiment data. In this environment, we forecast stagnation in the Eurozone economy for the second half of the year, with currently substantial downside risks to this outlook.

2022 GDP growth of 2.7%

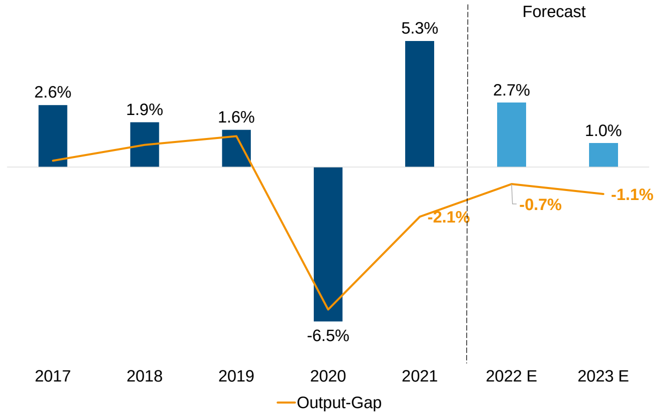
With global growth prospects currently also in a cooling phase, exports will not be a supporting factor for the Eurozone economy in the coming months. In addition to high inflation, rising interest rates also pose a downside risk to the economy. The real estate sector, in particular, having been an important pillar of the economy in some countries in recent years, will probably suffer from the rapid rise in interest rates.

Thanks to the first period of complete freedom of travel within the EU in two years, Spain and Italy in particular recorded an above-average economic performance in the first half of 2022. In addition, both countries have already benefited considerably from EU recovery funding in the current year. Thanks to this robust development in the first half, we expect Eurozone GDP growth of 2.7% for 2022. For 2023, we forecast a significantly lower GDP growth momentum of 1.0%, given the challenging environment.

2022 inflation: 8.3%

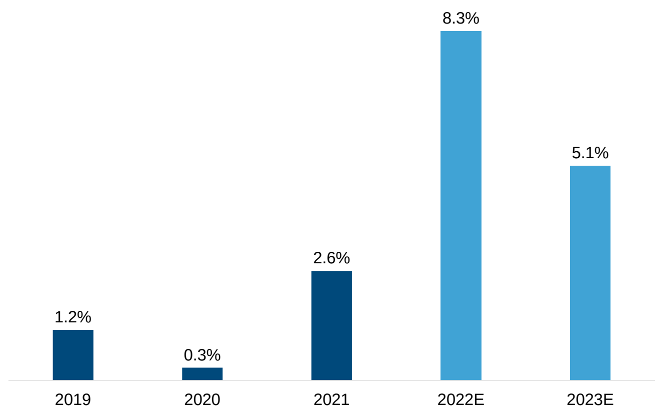
Due to the strong increase in energy and food prices, we have raised our 2022 inflation forecast to 8.3%. Assuming a gradual easing of European energy prices, we expect inflation to recede to 5.1% in 2023.

Energy crisis dampens growth outlook
Eurozone GDP growth vs. output gap



Sources: Eurostat, Erste Group Research

Significant increase in inflation expected for 2022
Eurozone inflation 2019 – 2023e



Sources: Eurostat, Erste Group Research

US Economic Outlook

Hardly any change in US economy expected for 4Q

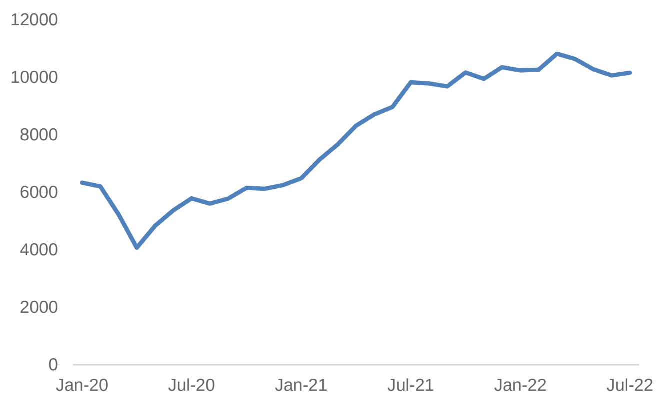
Economy to remain sluggish

We expect weak growth rates in the US for the third quarter. Persistently high inflation continued to erode households' real incomes. Sharply rising interest rates and volatile stock markets weighed on sentiment, creating a negative effect on investments especially in the housing market. The robust labour market was supportive of the economy, on the other hand. The unemployment rate remained very low and demand for labour high. This environment is unlikely to change in the fourth quarter. We expect only a slight weakening of the labour market, because an economy that has been stagnating for more or less four quarters should have some effect. However, the effects of any downturn of the labour market are expected to have a minor impact on the economy. This is because the number of job openings is so high that a decline would have little or no impact on household spending. On the whole, the setting in the fourth quarter indicates a quarter-on-quarter growth rate of 0% for the US economy.

Slow decline of inflation until end of year

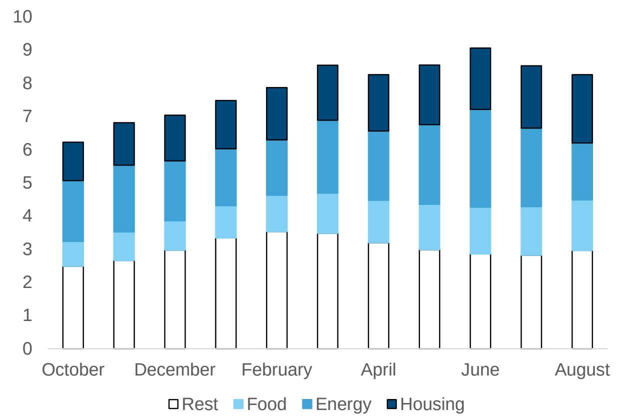
The primary topic for financial markets will continue to be inflation. Currently, there are three segments that account for almost two-thirds of the US inflation rate, all of which are set to decrease. Oil prices are now far below the peak of spring 2022, and the contribution to inflation from this factor will initially decline and then turn negative. As regards food, globally declining or stabilizing wholesale prices means we may also expect food prices at supermarkets to flatten. The third price driver at present are housing costs, which are now exhibiting the delayed effects of the earlier boom on the US housing market. Due to the sharp rise in interest rates, the real estate market collapsed in the course of this year. However, prices have only started to decline recently and to a relatively small extent. Therefore, any effects on inflation will take some time to show, probably not until the spring of next year. For the inflation rate trend, this means a slight decline (as of October) to 7.4% by the end of the year. In the first half of 2023, inflation is expected to decrease substantially, and we expect it at around 3% by mid-2023.

Demand for labour remains high
Open (private) jobs, in thousands



Source: Bureau of Labor Statistics, Erste Group Research

Three main drivers of US inflation
Inflation y/y in %



Source: Bureau of Labor Statistics, Erste Group Research

CEE Economic Outlook

Recent economic developments (weakening external environment, market sentiment pointing to contraction in the industry sector, plummeting consumer confidence to levels last seen during the 2012 recession) forced a major downward revision of 2023 GDP growth forecasts across the region, with the CEE8 average growth dropping to 1.3% next year, from the previously expected 3%. Distress over the gas supply during the coming winter only adds to the already high level of uncertainty and concern.

The growth of private consumption and investment has slowed across the region. It suffered the most in Czechia (growth dynamics dropped from 8.0% y/y in 1Q to a meager 0.2% y/y in 2Q), reflecting households' pessimism about the current and future situations. In the case of investments, the growth was stronger compared to the beginning of the year in Poland, Romania and Serbia. Monetary tightening and surging inflation, which have pushed the growth of real wages into negative territory, are yet to take a toll in other countries, as we expect private consumption growth to drop visibly in the second half of the year and in 2023.

So far, the labor market has not shown any major deterioration, as CEE economies began to slow in the second quarter. The unemployment rates show the first signs of worsening in some of the CEE countries, however. In Hungary and Croatia, the unemployment rate increased in July, while in Poland and Slovakia, the unemployment rate remained flat. Furthermore, the number of job vacancies went down in the second quarter in Czechia, Croatia and Romania.

Inflation keeps surging. Compared to the beginning of the year, the inflation rate is up 5 percentage points in Serbia and as much as 7 percentage points or more in Romania, Czechia and Hungary. The peak of inflation is still ahead in many CEE countries, however, as costs of housing are expected to rise substantially, with higher electricity prices fully reaching households and businesses only over the coming months. Next year, external factors such as oil and food prices favor easing inflationary pressure. However, headline CPI will remain elevated next year and well above the central bank's target, as underlying demand pressure is high as evidenced by constantly increasing core inflation.

Emerging Markets Economic Outlook

China

Export growth of developed economies with China vs. China credit growth (y/y)

Sources: PBoC, statistics Germany, Erste Group Research

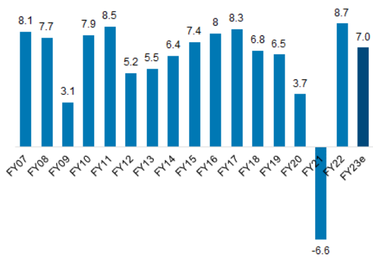
China's economy continues to suffer from corona-related lockdowns and a slowdown in the real estate sector. As a consequence, the Chinese economy shrank by 2.6% in 2Q 2022 as compared to the previous quarter. However, leading indicators for 3Q have slightly recovered, especially in the service sector. Therefore, stabilisation or limited growth can realistically be expected for 3Q. For the full year of 2022, the IMF expects historically low GDP growth of 3.3% given the challenging environment.

Xi should be confirmed as head of state for another five years at the 20th Party Congress in October. This probably means a continuation of Xi's strongly ideological, nationalistic course, where economic considerations play a subordinate role. It will increase the pressure on European companies to reduce dependencies on China in order to better diversify value chains, from a geopolitical perspective. However, the confirmation of another term in office for Xi should remove existing uncertainties that currently still hinder investment at the local level. This increases the probability of a short-term recovery of the economy. An end to the zero-covid policy would also be very helpful for growth prospects, but this is likely to happen in the first half of 2023 at the earliest.

The momentum of credit growth suggests a bottom may have been found. Although credit growth has picked up thanks to the central bank's easing measures, the reaction of the real economy remains subdued. The difficult situation is also reflected in the declining momentum of German exports to China.

India

India: GDP
y/y, %



Sources: Central Statistical Org. India, RBI Estimate

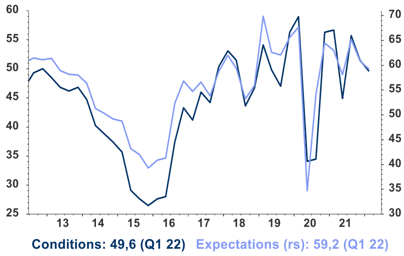
The Indian GDP increased by +13.5% in 2Q, thus achieving its highest growth rate since 2Q 2021 (+20.1%). The robust domestic demand of Asia's third-biggest economy supported GDP growth. The large service sector in particular benefited from the loosening of COVID-19 mobility restrictions. Investment rose by 20.1% y/y, and private consumption increased by 25.9%. Government spending rose by 1.3%. The latest economic data confirm the positive growth prospects for India. In August, the important purchasing managers' index for the service industry improved to 57.2 points.

In its latest forecasts of 30 September, the Indian central bank (Reserve Bank of India; RBI) expects economic growth of +7.0% y/y (previously: +7.3%) in the coming fiscal year (until the end of March 2023) at an inflation rate of 6.7% (unchanged). Due to sustainably high inflation (August: 7.0%), the RBI has raised key-lending rates by 190bps since May to now 5.9%. With inflation above the target range of 2 to 6%, the central bank aims to further dampen inflation expectations to counter second-round effects. However, the RBI expects the rate hikes to now bring inflation close to the 4% target within two years.

The market consensus therefore expects another interest rate increase by the end of the year to then 6.1%. The Indian rupee has depreciated recently against the US dollar, much like most of the other currencies worldwide. In the year to date, the Indian currency has shed 9% relative to the USD but has gained 5% vs. the EUR. 10Y government bonds are currently traded at a yield of 7.4%, after 6.4% at the beginning of the year.

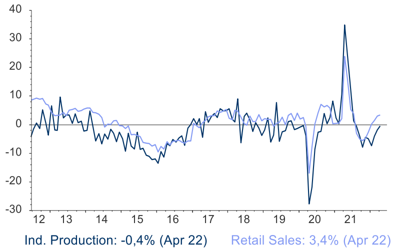
Brazil

Brazil: sentiment of industrial indices



Sources: Datastream, Erste Group Research

Brazil: industrial production and retail sales y/y



Sources: Datastream, Erste Group Research

GDP is expected to grow by 2.5% (y/y) in 2022 and by 0.9% (y/y) in 2023. Industrial production should decrease by 0.2% (y/y) this year. Private consumption is expected to increase by 3.5% (y/y) in 2022. However, consumption growth is forecast to slow to 0.9% (y/y) next year. Public consumption should rise by 0.9% (y/y) this year and by 0.2% (y/y) in 2023.

The purchasing managers' sentiment in the industrial sector has improved slightly in recent months. This goes for the assessment of the current situation as well as for the expected future development.

The unemployment rate in 2022 has fallen sharply compared to the previous year. It should come out at 9.8% for 2022 and remain at about the same level next year. The inflation rate is expected to fall significantly from 9.3% (y/y) this year to 5.1% (y/y) next year. Exports will increase by about 2.1% (y/y) in 2022, while imports should decline slightly by 1.4% (y/y). The expected current account deficit will narrow slightly to -1.2% in terms of GDP this year. The fiscal deficit remains strongly negative in 2022 at about -7.4% in terms of GDP.

The key-lending rate has been raised twelve times since March 2021 and is now at 13.75%. By the end of 2023, it should fall to 10.85%. The Brazil real was one of the most stable currencies relative to the US dollar last quarter. According to the consensus forecast, the Real should appreciate slightly against the US dollar until the end of the year.

Euro Zone	Yield Forecast 4Q 2022
ECB Main Refinancing Rate	2.50 %
German Bund	1.8 % (10-yr.)

Impact of the energy crisis

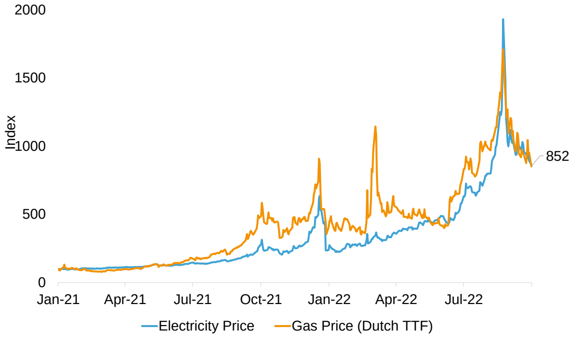
Interest rate outlook clearer at end of quarter

In the fourth quarter, bond investors will again focus on the extent to which the ECB will raise interest rates. This is more difficult to assess for the euro area than for the US. Interest rates in the US are already high, and therefore, the upwards potential is limited. A much more significant difference, however, is that Europe is in the midst of an energy crisis with effects that cannot yet be estimated. The risks created by the crisis involve varying factors. On the one hand, it is not clear how many companies will be able to pass on the higher energy costs to customers, and therefore, how much more inflationary pressure will heighten. On the other hand, no one knows the extent of the damage the higher energy costs will cause to the economy, regardless of whether due to weaker demand or higher insolvency rates. The current focus of the ECB is on raising interest rates quickly. This is because interest rates still have a stimulating effect and are not at all appropriate for the current situation. Therefore, we expect a rate hike of 75 basis points (bp) at the October meeting. However, the divergent factors described above make the outlook after this meeting all the more uncertain. By the December meeting of the Governing Council, we expect European wholesale energy prices to have dropped to levels that will give the ECB reason to anticipate decreasing inflationary pressure. In conjunction with a weak economy, this indicates a smaller interest rate hike of 50 bp. These trends should continue and we expect to see a further slowdown of the ECB's pace and a rate hike by 25 bp at the beginning of February. As price pressures should continue to ease, interest rates are expected to remain unchanged after February.

Volatility on bond markets to continue

Bond markets are expected to remain volatile, reflecting the high degree of uncertainty regarding the economy and inflation. Stabilization should set in once the further development of key interest rate hikes becomes clearer, which is something we expect before the end of the year. We also expect a further flattening of the yield curve which should even become inverse. The yield spreads of other countries versus Germany are also expected to remain volatile. However, we do not see any continued widening ahead, as the ECB's available tools should prevent this.

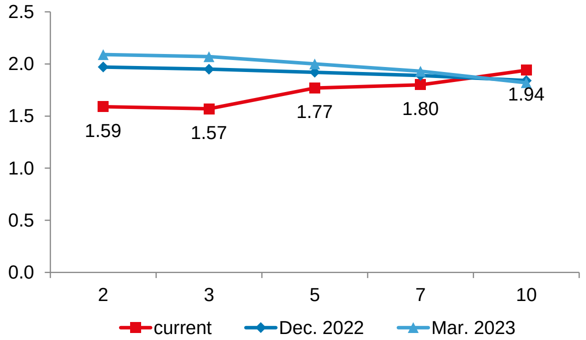
Energy prices expected to decrease further
European wholesale prices, indexed



Source: Refinitv, Erste Group Research

Curve expected to flatten

Yields on German government bonds by maturity, in %



Source: Market data provider, Erste Group Research

US	Yield Forecast 4Q 2022
Federal Funds Rate	4.00 – 4.25 %
US Treasuries	3.2 % (10yr.)

How high will US interest rates rise?

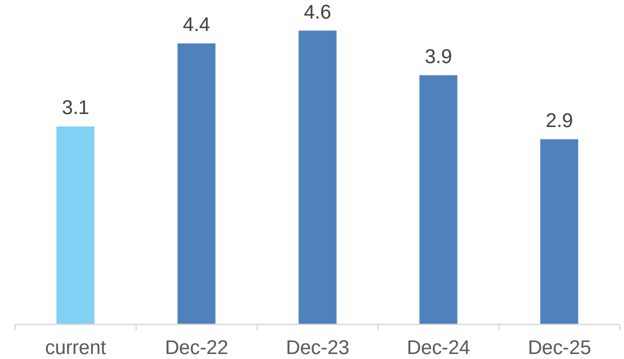
End of rate hikes to become clearer later in quarter

At the September meeting of the interest rate-setting body of the US Fed (FOMC) rates were raised by 75 basis points (bp) with an outlook of continued steeply rising interest rates for now. Although the quarterly survey of meeting attendees is in no way binding for future interest rate decisions, in the current environment it serves as a good indication, because the next few months are decisive. The median of the survey of participants estimates Fed funds rate to rise by a further 125 bp by the end of the year. In 2023, only an additional 25 bp are projected. We expect a 75 bp rate hike at the November meeting. The inflation figure for September that will be published by then is not expected to signal any easing, and neither will the upcoming figures from the labour market. By the time of the December FOMC meeting, however, there should be at least a slight easing in these areas, and together with the interest rate levels reached by then, interest rate hikes should become smaller. Therefore, we expect interest rate hikes of only 25 bp for December and January, respectively. The recent developments on financial markets indicate the risk of a smaller rate hike already in November. However, we would be surprised if sluggish stock markets and rising yields on bond markets were to impress the FOMC. Because the Committee is prepared for "economic pain" and it implied continued higher interest rates at the last meeting.

Bond market expected to react with lower yields

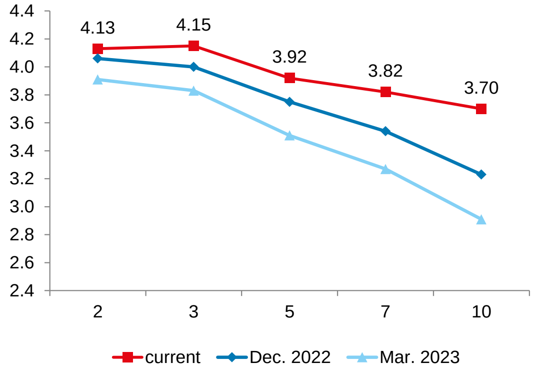
The bond market has been extremely volatile over the past few months, and thus reflected the environment. Surprisingly minor declines in inflation and statements by central bank representatives drove interest rate expectations higher in the past few weeks. For some time now, the inverse yield curve has been pointing to expectations that key lending rates will rise to levels that will be only temporary. The unanswered question has been "only" at precisely which level. Slower rate hikes should make it easier for markets to estimate the peak of the key rate. This should considerably reduce a major factor of uncertainty for the market. The result should be lower yields on medium and long maturities, whose valuations we are currently classifying as attractive.

Key Interest Rate Projections of FOMC Members
Median of September survey, rounded in %



Source: Federal Reserve, Erste Group Research

US yield curve to become more inverse
US government bond yields by maturity, in %



Source: Market data provider, Erste Group Research

CEE Government Bonds	Yield Forecast 4Q 2022
Czech Republic	4.37% (10Y)
Hungary	8.18% (10Y)
Poland	6.00% (10Y)
Romania	8.50% (10Y)

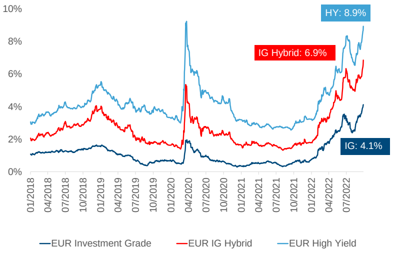
Skyrocketing inflation, with its risks of wider second-round effects and concerns around de-anchored inflation expectations, have led local central banks to tighten their monetary stances at a brisk pace. Yet, they are now walking a finer line, as the attempt to tame soaring inflation needs to be weighed against an expected slowdown in economic activity in the quarters ahead. It seems that monetary tightening has come to an end in Czechia and Poland. In Romania, tightening will likely continue at a reduced speed, while in Hungary and Serbia, the central banks stepped up the pace of interest rate increases. On top of that, the Hungarian central bank decided to introduce additional measures in order to reduce interbank liquidity and increase the effectiveness of its transmission mechanism.

Volatility has been the name of the game for free-floating CEE currencies in 3Q22 as well. Although the movements were not as pronounced as earlier in the year when the war in Ukraine broke out, the forint and zloty have weakened. The underlying weakness of the Hungarian currency is predominantly due to the dispute with the EU over rule of law issues and the threat of cuts or freezes of EU funds, as well as the high dependence of the country on Russian gas. On the other hand, the koruna and leu have seen mild appreciation – though both have benefitted from central bank interventions, especially the former. Going forward, external developments will likely dominate and weigh on CEE currencies in the near term. However, as these subside, the fundamentals point to a gradual appreciation of most of them.

Although government bond yields on major markets continued to head north during the summer, on rising expectations of earlier and bolder actions needed from both the FED and ECB, yields on LCY bonds corrected in all CEE countries except for Hungary. The main reason behind the correction was that the bulk of monetary tightening had already been completed in CEE, while downward risks to the growth outlook and the appearance of the first cracks in domestic demand started to weigh on considerations of whether further tightening is needed at all. As a result, yields declined and the spread on 10Y government bonds in Czechia, Poland and Romania while Hungarian bonds have moved in the opposite direction.

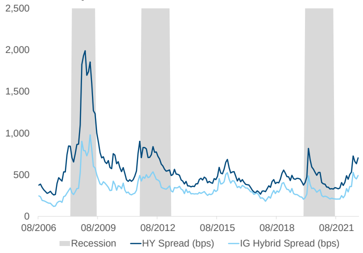
EUR-Corporate Bonds
Investment Grade
High Yield

Corporate bond yields rose sharply in 3Q
Yields* in % over time



Source: Erste Group Research
As of 28 September 2022
*Month-end data (except for Sept. 2022)
Average tenor of bond indices: 4-6 years

HY & IG hybrid bonds price in recession*
HY & IG hybrid credit spreads
in basis points



Source: Erste Group Research
As of 28 September 2022
*gray: recessions in the euro area

High-yield spreads already pricing in recession scenario

In 3Q, HY (+0.3%) outperformed IG corporate bonds (-3.3%). Until mid-August, credit spreads tightened significantly. Since then, they have widened again in all rating categories. The main reason for this is the Ukraine war and, as a consequence, distortions on the energy market.

High energy prices are increasingly reducing the competitiveness of European industry. Energy price hedges are expiring. High inflation rates are impacting private consumption. Leading economic indicators weakened further in 3Q. To combat inflation, the ECB will raise key interest rates further. Rising German Bund yields are weighing on fixed-income securities. Supply chain and logistics problems persist. In September, Russia halted gas deliveries through Nord Stream I. The partial mobilization makes an end to the Ukraine war a distant prospect. The details of the new Italian government's policies are not yet known, but they are a risk factor for the capital market.

The EU and national governments will provide relief for energy-intensive companies and households. In the medium term, EU electricity market reform could dampen energy prices. EU-wide well-filled gas storage facilities (88%; AGSI) should largely prevent gas rationing. The gas price declined in September. Issuers' credit metrics are relatively strong. Their interest coverage ratios remained relatively stable in 1H 2022 across all sectors in both the IG and HY segments. More expensive refinancing will weaken them only slowly. Low short-term refinancing needs should keep defaults in the HY segment low, at least in 4Q.

Decreasing net debt/EBITDA ratios are expected in the oil & gas and utilities sectors. For utilities, a distinction has to be made between those producing electricity mainly from (expensive) gas and those producing it cheaply from renewable sources. The former suffer, the latter benefit. Excess profit taxes should not significantly burden the credit profiles of highly profitable oil & gas groups. Within the HY segment, the net debt/EBITDA ratio in 1H 2022 actually decreased slightly in the telecom sector. It is not completely spared from high energy costs, but is a safe haven due to stable cash flows. The situation is challenging for many energy-intensive issuers (e.g. paper, chemicals, steel industries). However, it is necessary to differentiate. German fertilizer producer K+S, for example, reported in August that the effect of higher selling prices is outweighing cost increases for energy, materials and logistics. Even in a scenario with gas availability reduced by 25% in 4Q, K+S forecasts a strong EBITDA increase compared to 2021. At the Austrian chemical group Borealis, price increases for plant nutrients also overcompensated for high natural gas prices (at least in 1H 2022).

HY bonds are already pricing in a recession. We see them fairly valued on average and recommend diversified investments in HY and IG hybrid bonds. Since the beginning of October, the ECB has given preference to bonds from more climate-friendly issuers when reinvesting from its IG corporate bond portfolio (EUR 344 bn). Bonds from issuers with good ESG profiles should benefit slightly from this.

Currencies

	Forecast 4Q 2022
US-Dollar	1.03

When will the Europe risk be priced out?

The outlook for the US dollar for the coming months is particularly difficult in the current environment. The exchange rate is not only determined by expectations for the development of key-lending rates in the two currency areas. The risks for Europe arising from the energy crisis and a further escalation of the conflict between the West and Russia are certainly a determinant of the currently very strong US dollar.

We expect a weaker US dollar

At the moment, the euro is traded below one US dollar, which was last the case about 20 years ago. The interest rate differential alone would tend to support a euro exchange rate slightly above one US dollar. Our underlying assumption is that energy prices in Europe will be declining in the course of the fourth quarter, basically because the gas storage levels that have already been reached do not suggest any shortages. With regard to the war in Ukraine, we expect conventional warfare to continue and not to exceed the current scale. As a whole, it should thus be possible to avoid an energy crisis and the escalation of the war. This should price out risks for Europe that we currently see priced in, which should cause the euro to appreciate. However, the path there will probably be very volatile. After that, the development of the interest rate differential between the two economic areas will again be the decisive factor for our forecast. Said differential should narrow slightly for the time being, lending support to the euro. Assuming that we are correct, speculation on an interest rate cut in the USA should start in the spring of 2023, which would suggest a further gradual depreciation of the US dollar.

US dollar should weaken
EURUSD

Sources: market information systems, Erste Group Research

Swiss Franc	Forecast 4Q 2022
	0.98

SNB increased key-lending rates significantly by 0.5% in September

The SNB continued to tighten its monetary policy in September, raising the SNB key-lending rate and the interest rate on sight deposits by a drastic 75bps to 0.5%. This is intended to counteract the increased inflationary pressure in Switzerland and prevent the broad spread of inflation to goods and services. The necessity of further interest rate hikes in the foreseeable future in order to stabilise inflation within the range of price stability in the medium term cannot be ruled out, according to the SNB. In order to ensure appropriate monetary conditions, the SNB is also prepared to intervene on the foreign exchange market.

SNB sees increasing risk of second-round effects

The SNB currently sees increased risks of inflation spilling over to broader segments of goods and services (second-round effects). Given this assessment by the central bank, we believe there is increased risk of another interest rate hike in December. However, the SNB regards the recent appreciation of the franc as monetary tightening. This should have a dampening effect on future rate hikes. Taking all these aspects into consideration, we currently expect a further rate hike of 50 or 75bps at the next SNB meeting. The development of inflation data as well as the exchange rate development of the franc in the coming months will decide on the size of the step.

The SNB has raised its conditional inflation forecast for 2022 to 3.0% (previously 2.8%) and for 2023 to 2.4% (previously 1.9%). For 2024, the SNB now envisages an inflation rate of 1.7%. This would be equivalent to achieving the SNB's price stability target. The inflation forecast for Switzerland thus remains significantly below the inflation expectations for the Eurozone.

High geopolitical risks favouring the franc

The current, challenging environment of sustainable inflationary pressure at the global level and high geopolitical risks continues to favour the franc as a safe haven currency. The shift to the right in Italy after the parliamentary elections poses additional risk of a weaker euro. However, we currently assume that the situation on the energy markets in Europe should ease from the end of October onwards, because Europe's gas storage facilities will be almost fully stocked before the beginning of winter. In this environment, the euro should be able to appreciate slightly against the franc. However, should the Ukraine war come to a head, the franc could strengthen strongly against the euro at any time. Even Putin's announcement of a partial mobilisation of Russian armed forces triggered a short-term spike of the franc against the euro on the morning of 21 September.

Forecast 4Q 2022

Gold in USD 1,700

Gold in USD

29.09.2022 | USD 1.657,45 | 5 Year Perf: 29,1%

Sources: Datastream, Erste Group Research

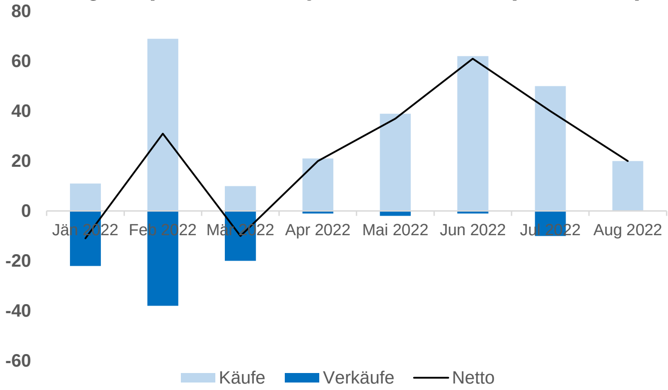
The gold price decreased by 8.3% (in USD) in 3Q, extending the year-to-date loss to -9.0%. In EUR, gold edged lower by 1.8%, curbing the aggregate gain to +5.9% in the year to date.

The Fed's recent rate hikes and the rise in US yields have caused negative real yields to increase. At the same time, the USD has also appreciated substantially against most currencies. Opportunity costs from increased US yields and from the firm USD reduced private demand for gold last quarter. In line with the weakened demand, the gold price decreased.

Global exchange-traded ETFs incurred outflows of USD 51 tonnes (USD 2.9bn) in August. This was the fourth consecutive month of outflows. US ETFs recorded the majority of such outflows from gold funds at 40 tonnes. In Europe, the decline was the smallest at 4 tonnes. In the year to date, the gold holdings of ETFs have increased by 102 tonnes. Despite the recent outflows, inflows also outweigh outflows globally in a 12M comparison. The increase amounts to 3.6% (y/y).

Global central banks have been net buyers of gold in the past five months. That being said, net purchases have fallen in recent months (from net 60 tonnes in June to net 20 tonnes in August).

Global gold purchases by central banks (in tonnes)



Sources: Erste Group Research, World Gold Council

The strong USD and the rising US Fed funds rate and yields are a negative factor for the gold price performance. However, the global slowdown in economic growth and the falling earnings growth among companies should support demand for gold in the medium term. The high geopolitical risks remain an important factor as well, facilitating a positive performance.

Outlook: the currently uncertain economic environment and the persistently negative real interest rates support the gold price. We expect the price to increase to about USD 1,700 in 4Q.

Stocks

Forecast 4Q 2022

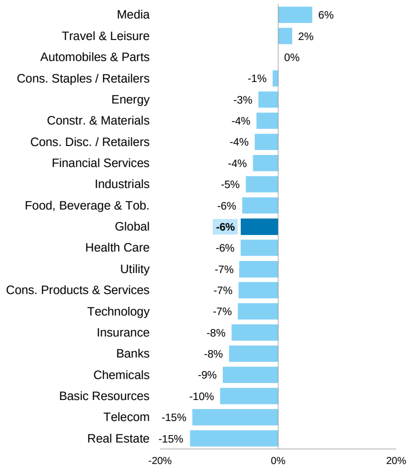
Global 0%

Earnings and sales growth (y/y, %)

USD	Sales 22e	Sales 23e	Net Profit 22e	Net Profit 23e
North America	10.5%	4.3%	8.5%	5.8%
Europe	8.3%	-8.8%	9.3%	-11.6%
Asia	-0.9%	-7.0%	1.4%	-9.3%
EM Asia	3.6%	5.8%	-2.2%	10.3%
EM LatAm	15.9%	-1.7%	19.7%	-15.0%
World	**1.7%**	**-0.4%**	**6.6%**	**0.4%**

Sources: Erste Group Research Index, FactSet.

Global equity sector performance 3Q 2022
Erste Global 1000 index, EUR



Sources: Erste Group Research Index, FactSet

The global equity index gained 0.2% in 3Q. Consumer goods (cyclical and non-cyclical), energy, the industrial sector, and healthcare showed relative strength vis-à-vis the overall market in 3Q. The sector indices of real estate, telecoms, and commodities closed the quarter at the bottom of the list.

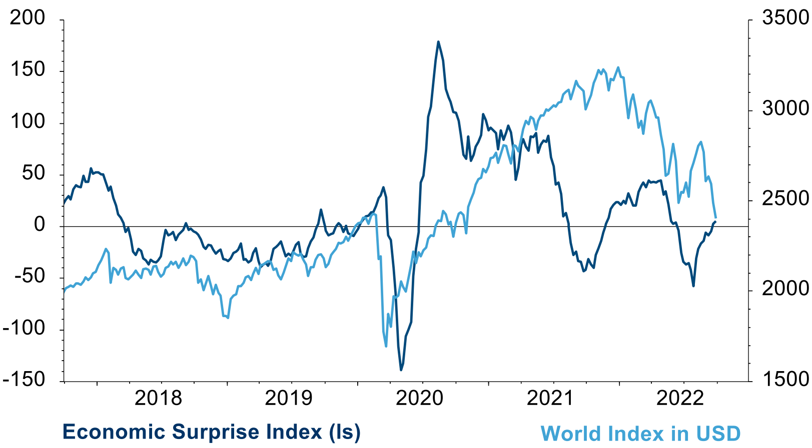
The US Federal Reserve raised the Fed funds rate three times in 3Q to combat high inflation rates and continued to reduce its balance sheet. Rising yields and Fed funds rates, energy price increases, and the weakening of the global GDP growth outlook led to a risk-off mode among investors and increased levels of volatility in the global equity market index in 3Q.

The 2Q reporting season turned out very well in both the US and Europe. Positive earnings surprises clearly outweighed negative ones in both regions.

The overall company outlook for 3Q was less positive. 61% of the US companies issuing earnings guidance communicated negative expectations. The share of negative earnings outlooks was highest in the commodities and non-cyclical consumer goods sectors and lowest in technology and healthcare.

On a global scale, positive surprises in economic data currently slightly outweigh negative ones. The global Economic Surprise index is therefore back in positive territory by a narrow margin.

Improved global economic data
Global Economic Surprise index

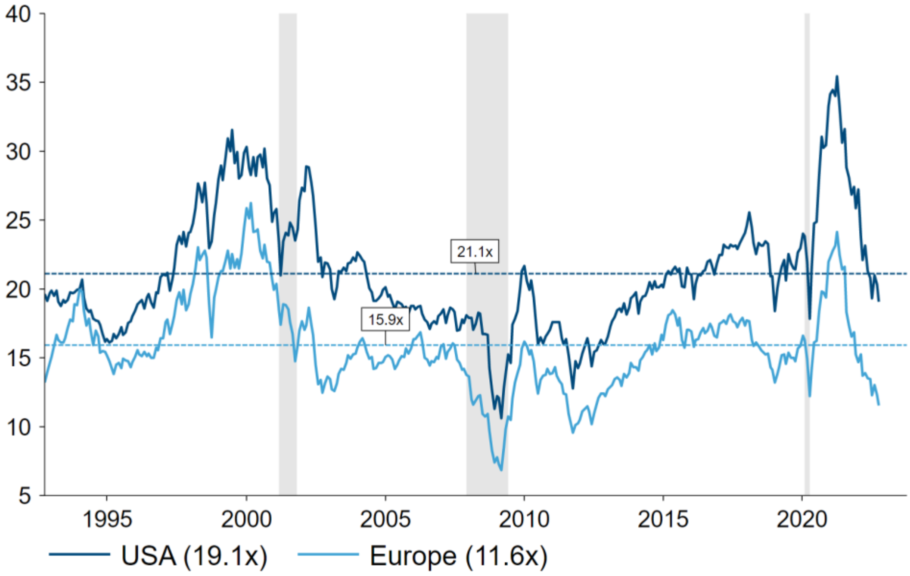


Sources: Refinitiv, Erste Group Research

Global corporate sales and earnings growth in the coming quarters will fall short of last year's referential figures. For the world equity index, the consensus expects 7.4% sales growth and 6.6% earnings growth for 2022. Corporate operating margins should be at 17.2%.

Forecasts for 2023 have weakened due to the slowdown in global economic growth. For 2023, the consensus currently expects a slight decline in sales of -0.4% and an increase in profits of +0.4%. The aggregate operating margin of companies should be 17.3%. US companies should see increases in sales and earnings in 2023, whereas European companies are expected to experience declines in sales and earnings.

P/E: USA and Europe
Expected 12M forward, US recessions (grey)



Sources: Refinitiv, Erste Group Research

The valuation of the global equity market index has decreased. The 2023 forward P/E is at 13.4x, while the expected 2022 dividend yield is 2.6%. In both the US and Europe, the forward P/E has fallen below historical averages. Higher government bond yields and lower earnings growth (US) next year or, indeed, earnings declines (Europe) are the main reasons for this situation.

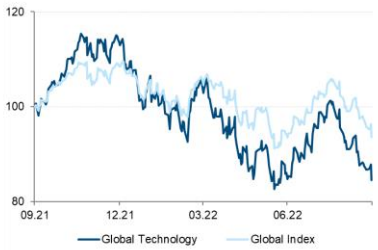
Outlook:
We expect the global equity market to move sideways in 4Q. Volatility should remain high. Defensive sectors such as healthcare or non-cyclical consumer goods should be overweighted in the current environment. Quality shares with high dividend yields are also attractive.

Global Sectors - Positive Outlook

Technology

Estimate 4Q	➚ 0% to +5%
World Index Weight	24.3%
2022 Perf. EUR	-25.2%
P/E 22e	20.6x
Net Profit y/y 22e	-0.1%
Top 3 Companies (Market Cap.)	
Apple	
Microsoft	
Alphabet	

EGR global sector
EUR, indexed at 100 for 1Y



Sources: Erste Research index, FactSet.

The technology index lost 0.3% (in EUR) in 3Q. This means that it slightly underperformed the overall market. The sector index for hardware companies rose by 3.6% (in EUR), whereas the software index fell by 3.8%. The US technology sector recorded an increase of 2.0% (in EUR), significantly outperforming the European sector, which lost 7.5% (in EUR) in 3Q.

In 2Q, 87% of US technology companies reported better-than-expected earnings. Only in the energy sector was the share of positive earnings surprises higher at 90%. 13% of tech companies reported 2Q results that fell short of expectations. For the third quarter, the positive earnings guidance of companies remained unchanged from 2Q. However, the number of negative earnings guidances outweighed the number of positive earnings outlooks communicated by companies.

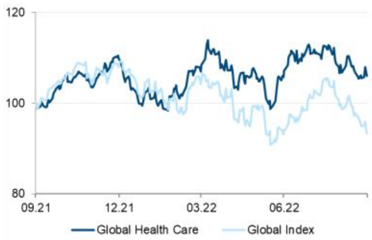
After an expected stagnation of earnings this year (2022: -0.1%), the consensus forecasts a profit increase of 9.7% for 2023. This is based on positive sales growth (2023: +5.7%) and a slight expansion of the operating margin.

The expected P/E ratio of the sector fell to 20.6x in 3Q, which puts it above that of the global equity market. Given the presumably positive development of sales, margins, and earnings next year, we expect the sector index to post gains within the range of 0% to +5% in 4Q.

Healthcare

Estimate 4Q	➚ 0% to +5%
World Index Weight	12.2%
2022 Perf. EUR	-3.5%
P/E 22e	16.2x
Net Profit y/y 22e	+5.9%
Top 3 Companies (Market Cap.)	
Johnson & Johnson	
UnitedHealth Group	
Eli Lilly	

EGR global sector
EUR, indexed at 100 for 1Y



Sources: Erste Research index, FactSet.

The healthcare sector index edged 0.2% higher (in EUR) in 3Q, improving the YTD performance slightly to -3.5%. This puts it significantly above the performance recorded by the global equity market (YTD in EUR: -13.6%). The shares of Danher Corp., Eli Lilly (Buy), Roche Holding (Hold), and UnitedHealth Group (Buy) topped the performance list.

This sector is little affected by the slowdown in global economic growth. An above-average number of companies (80%) reported higher-than-expected earnings in 2Q. The prospects for 3Q are also positive. The number of positive earnings guidances remained unchanged from 2Q.

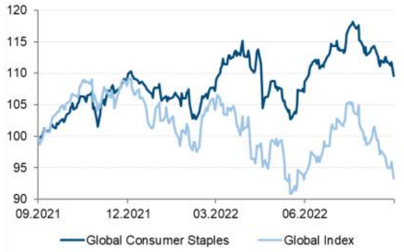
Both company sales and earnings should increase by 5.9% this year. Next year, global sales should rise by 0.8%, while earnings are expected to fall by 1.2%. In 2023, sales and earnings growth rates in Europe (sales +5.6%, earnings +9.9%) should outperform US corporate sales and earnings growth rates (sales +2%, earnings -2%).

At a 2022 forward P/E of 16.5x, the valuation of the sector is fair. We expect the sector index to record gains within a range of 0% to 5% in 4Q.

Consumer Staples

Estimate 4Q	↗	0% to +5%
World Index Weight		7.2%
2022 Perf. EUR		+0.4%
P/E 22e		18.5x
Net Profit y/y 22e		+0.5%
Top 3 Companies (Market Cap.)		
Walmart		
Nestle		
Coca Cola		

EGR global sector
EUR, indexed at 100 for 1Y



Sources: Erste Research index, FactSet.

The sector index increased by 2.4% (in EUR) in 3Q. In the year to date, the sector has shown relative strength vis-à-vis the overall market, with the index gaining a moderate 0.4%. In the USA, the sector index fell slightly by 2% (in USD), but showed relative strength to the market. In Europe, the prices of the market heavyweights Diageo (+7%) and Unilever (+3%) recorded substantial gains. Nestlé, on the other hand, lost 1% (in EUR). All three companies generate less than a quarter of their sales in Europe.

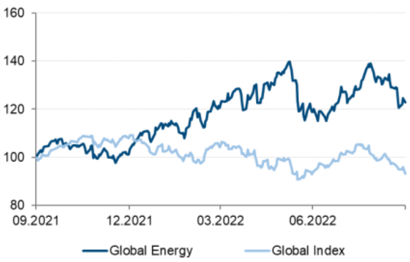
In the reporting season for 2Q, 73% of US companies reported earnings that exceeded expectations. Earnings grew by 2.2.% (y/y). Sales were up 8.5% (y/y), i.e. roughly in line with US inflation. The consensus expects sales growth of 5.6% for 3Q 2022.

Globally, sales in the consumer staples sector are expected to grow by 6.3% in 2022 and by 1.4% in 2023. The sector should generate earnings growth of 0.5% this year and 3% next year. While the sector's valuation is not cheap by global standards in terms of P/E, its sales and earnings stability with a dividend yield of 2.7% offers a relatively safe haven for risk-averse investors. The 2022 forward P/E is 18.5x. The expected dividend yield for this year is 2.7% with a slight increase next year to 2.9%. We expect a positive return in the range of 0% to +5% in 4Q.

Energy

Estimate 4Q	↗	0% to +5%
World Index Weight		5.9%
2022 Perf. EUR		+21.4%
P/E 22e		5.8x
Net Profit y/y 22e		+103.7%
Top 3 Companies (Market Cap.)		
Exxon Mobil		
Chevron		
Shell		

EGR global sector
EUR, indexed at 100 for 1Y



Sources: Erste Group Research, FactSet

The energy sector index increased by 3.4% (in EUR) in 3Q. In the year to date, it has gained 21.4% (in EUR). The shares of ConocoPhillips, Petrobras, and BP recorded the biggest gains.

In 2022, global production of crude oil exceeds demand at 100.09 million barrels/day (MB/D). Demand is estimated at 99.53 MBD. According to the EIA, global demand should increase to 101.5 MB/D next year. However, production should fall just short of that volume at 101.28 MBD. In 1Q 2023, the supply gap should be at its biggest. Therefore, the oil price should already start to rise again in the coming months. The risk of a price increase should increase if OPEC+ were to decide on a planned production cut of about 1 million barrels per day at the beginning of October.

The high prices for refined products (petrol, diesel, kerosene) should ensure stable refining margins for energy companies on the back of low global inventories, limited refinery capacities, and increased demand. Natural gas prices also remain high due to strong demand. The shares of European energy companies are less attractive than those of their US peers due to the taxation of surplus profits.

From our point of view, at -8.9% and -20.4% respectively, the consensus sales and earnings estimates for 2023 are overly pessimistic. We therefore expect positive surprises. The sector 2023 forward P/E is 7.4x, and the dividend yield expected for 2023 is 5.3%. We envisage gains for the sector within a range of 0% to 5% in 4Q.

Global Sectors - Negative Outlook

Telecoms

Estimate 4Q	-5% to 0%
World Index Weight	3.4%
2022 Perf. EUR	-10.3%
P/E 22e	12.3x
Net Profit y/y 22e	-4.8%
Top 3 Companies (Market Cap.)	
T-Mobile US	
Verizon	
Comcast	

EGR global sector
EUR, indexed 1Y

Sources: Erste Group Research, FactSet

The sector index fell by 8.5% in 2Q, extending the negative YTD performance to -10.3% (in EUR) while significantly underperforming the global equity market. The majority of the shares it contains are locked into a profound downward trend. Only 7% of the companies were traded above their 200-day average at the end of the quarter.

The US network operators Charter Communication, Verizon, AT&T, and Comcast suffered the biggest share price losses. The shares of the wireless providers T-Mobile US, China Mobile, and Nippon Telegraph & Telephone, on the other hand, posted gains. This outperformance was due to the significant improvement in revenues and earnings forecasts for the coming year.

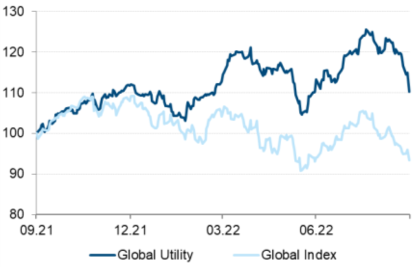
The global telecoms sector will see a decline in revenues this year (-5.4%) and in 2023 (-1.4%). Earnings should fall by 4.8% this year but rebound by 9.3% in 2023.

The 2022 and 2023 forward P/E valuations of the sector are 12.3x and 11.2x, respectively. The sector P/E is slightly below that of the global equity market (global P/E ratio 2022e: 13.5x). The dividend yield expected for this year is 3.5%. We expect a negative performance for the fourth quarter in a range of -5% and 0%.

Utilities

Estimate 4Q	-5% to 0%
World Index Weight	3.0%
2022 Perf. EUR	-1.4%
P/E 22e	18.8x
Net Profit y/y 22e	-8.8%
Top 3 Companies (Market Cap.)	
NextEra Energy	
Adani Green Energy	
Duke Energy	

EGR global sector
EUR, indexed 1Y



Sources: Erste Group Research, FactSet

The global utility index increased by 0.1% (in EUR) in 3Q. The YTD performance is -1.4% (in EUR). The top 3Q performers were the US companies NextEra Energy, Southern (both also generate power from nuclear power plants), and Sempra Energy, which also operates liquid natural gas plants and one facility of natural gas infrastructure in North America.

Dominion Resources and Duke Energy came in at the bottom of the list in 3Q. Their interest coverage is low, which is a disadvantageous factor in an environment of rising yields.

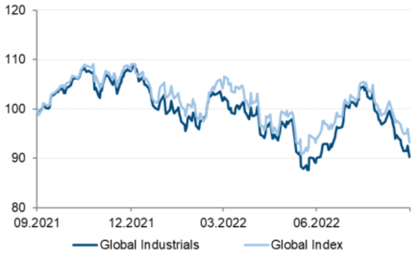
US companies are in a much better economic position than European companies. European companies are dealing with strong political interference. Price caps and surplus profit taxes restrict their sales and profits. This is not the case for US companies. Their already higher profitability should maintain the relative strength of the US utility sector relative to its European peer.

Globally, earnings are expected to decline by 8.8% in 2022 and increase by 14.8% in 2023. At 18.8x, the sector's 2022 forward P/E is very high. We expect the sector index to post a loss of -5% to 0% in 4Q.

Industrials

Estimate 4Q	-5% to 0%
World Index Weight	9.5%
2022 Perf. EUR	-16.2%
P/E 22e	13.1x
Net Profit y/y 22e	+13.7%
Top 3 Companies (Market Cap.)	
UPS	
Union Pacific	
Raytheon Technologies	

EGR global sector
EUR, indexed 1Y



Sources: Erste Group Research, FactSet

The index of the industrial sector gained 1.2% (in EUR) in 3Q. In the year to date the sector has lost 16.1% though. Shares in the defence sector, such as Raytheon Technologies and Lockheed Martin, suffered the greatest losses in the wake of profit-taking. The agricultural and forestry machinery manufacturer Deere (Buy) impressed with good profit development and achieved the best performance in the industrial sector in 3Q.

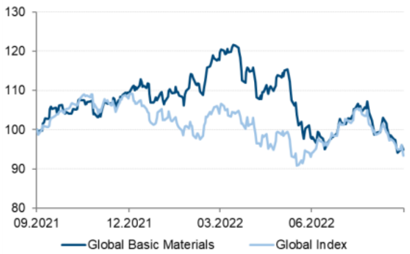
A crucial reason for the negative performance in Europe is the significantly higher energy costs in Europe vs. the USA. Higher economic and political risks due to the war in Ukraine were also factors driving the underperformance of the European industrial sector. The outlook for sales and earnings growth next year is positive for US companies (sales: 2023: 5.6%, earnings 2023: 11.3%), but negative for the European sector (sales 2023: -0.6%, earnings 2023: -22.3%). Possible production shutdowns in Europe due to energy shortages affect the profitability of companies and their market share development. Global competitors, on the other hand, benefit from this situation.

Sector sales should increase by 4.6% (y/y) in 2022 and fall by 2.8% in 2023. Earnings growth is expected to reach 13.7% this year and be negative at -9.6% in 2023. The valuation based on the 2022 forward P/E is 13.7x. We expect the index of this highly cyclical sector to decline within a range of -5% to 0% in 4Q.

Commodities

Estimate 4Q	-5% to 0%
World Index Weight	3.1%
2022 Perf. EUR	-13.4%
P/E 22e	8.2x
Net Profit y/y 22e	-6.6%
Top 3 Companies (Market Cap.)	
Linde	
BHP Group	
Rio Tinto	

EGR global sector
EUR, indexed 1Y



Sources: Erste Group Research, FactSet

The global commodity index lost 3.2% (in EUR) in 3Q. Only a few shares recorded a positive performance. Among them were the fertiliser producer Nutrien (Buy), as well as industrial gas producers Linde (Buy) and Air Products & Chemicals. Bayer (Hold) and Air Liquide suffered the biggest losses.

The commodity sector has been hit by the weakening global economy. The rising yields are slowing demand in some important sectors such as industry (especially construction) and automotive. These sectors use a particularly large amount of raw materials. Among them, for example, metals such as iron, aluminium, copper; nickel or also cement, plastics, adhesives, etc. Only a few segments in the commodities sector are benefiting from the situation of rising inflation rates or high demand. These include, for example, North American fertiliser producers, which are gaining market share over European producers due to lower energy prices. Profitable producers of lithium, such as Albemarle (Buy), are also catering to the strong demand for the light metal needed for powerful car batteries.

This sector should achieve sales growth of 5.0% this year, whereas earnings should fall by 6.6% in 2022. In 2023, sales should decline by 9.4%, and earnings by 22.0%. Due to the negative growth outlook, the 2022 forward P/E is only 8.2x. The dividend yield is above global average. We forecast a decline within a range of -5% to 0% for 4Q.

Consumer Discretionary

Estimate 4Q	-5% to 0%
World Index Weight	12.6%
2022 Perf. EUR	-19.9%
P/E 22e	18.5x
Net Profit y/y 22e	+12.1%
Top 3 Companies (Market Cap.)	
Tesla	
Procter & Gamble	
LVMH	

EGR global sector
EUR, indexed 1Y

Sources: Erste Group Research, FactSet

The sector index increased by 4.2% (in EUR) in 3Q. The outperformance was due in particular to the substantial gains recorded by the heavyweight Tesla (+23%). Other important companies in the sector, however, showed significant weakness, such as Alibaba (-27%), Toyota (-10%), and Nike (-13%).

The sub-sector of media companies outperformed the broad market in 3Q yet again. The index rose by +13% (in EUR), with Walt Disney (+4%) and Netflix (+38%) recording the biggest gains. The travel & leisure sub-index also performed strongly at +10%. As mentioned earlier, the automotive sub-sector index deviated from the pattern. In general, car manufacturers are negatively affected by rising interest rates because customer financing also becomes more expensive. The shares of manufacturers with a high exposure to Asia offer a relatively better perspective in the current cycle of interest rate hikes in the USA and Europe.

The high inflation rates in the USA and Europe and rising interest rates are having a negative impact on this important consumer group. In the USA, the University of Michigan Consumer Sentiment index remains at a historically low 58.6 points. The EU Consumer Sentiment index fell to -29.9 points, the lowest level since measurements began in 1985. Among other things, the trend in sales and earnings estimates in the sector is therefore negative. The P/E ratio has fallen as a result of the price losses. The 2022 forward P/E is now 18.5x. According to this ratio, this sector is priced more expensively than the global equity market. We expect the sector index to decline in a range between -5% to 0% in 4Q.

Financials

Estimate 4Q	-5% to 0%
World Index Weight	16.8%
2022 Perf. EUR	-10.1%
P/E 22e	9.6x
Net Profit y/y 22e	-9.9%
Top 3 Companies (Market Cap.)	
Berkshire Hathaway	
Visa	
JP Morgan	

EGR global sector
EUR, indexed 1Y

Sources: Erste Group Research, FactSet

The sector index of the second-largest sectors lost 0.6% (in EUR) in 3Q. The US sector index actually increased by 3.1% (in EUR), but its European peer incurred a loss of 4.9%. Insurance companies outperformed banks in the USA (in EUR: 4.0% vs. 1.8%), and in Europe they lost less than banks (in EUR: -2.2% vs. -6.2%).

The significant rise in US yields should contribute to an increase in US banks' net interest income in the coming quarters. US financial companies' revenues should increase by a significantly higher rate than the revenues of their European peers in 2023. For 2023, the consensus forecasts revenue growth of 10.4% and earnings growth of 9.2%. For European financial companies, the expected revenue growth of 3.8% in 2023 is below the inflation rate of 4.1% expected for the same year.

The global sector should post negative earnings growth of -9.9% in 2022. In 2023, earnings should be up by 7.5%. At a 2023 forward P/E of 9.6x, the sector is valued below global average. US companies should continue to outperform their European peers. We expect a slightly negative sector performance within a range of -5% to 0% for 4Q.

Forecast 4Q 2022

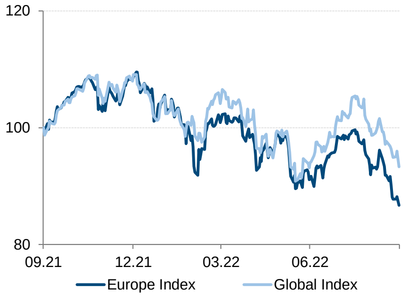
Europe — -5% to 0%

Earnings and sales growth
EUR, y/y, %

	Sales		Net Profit	
EUR	22e	23e	22e	23e
France	19.5%	0.7%	21.0%	-5.7%
Germany	9.1%	3.3%	9.9%	-5.2%
Switzerland	24.9%	1.0%	16.5%	3.2%
UK	26.4%	-1.8%	22.8%	-1.9%
Netherlands	39.8%	1.0%	42.9%	-0.8%
Europe	**20.4%**	**-0.8%**	**21.6%**	**-3.9%**

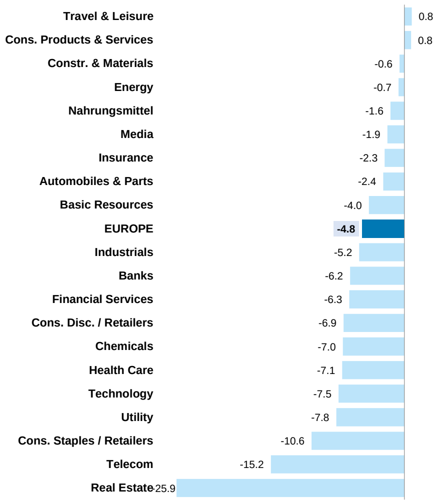
Sources: Erste Group Research Index, FactSet.

Europe index vs. global index
Indexed at 100, EUR



Sources: Erste Group Research Index, FactSet.

Europe sector performance 3Q 2022
Erste Europe index, EUR



Sources: Erste Group Research Index, FactSet.

The European equity market lost 4.8% in 3Q and thus achieved a performance at the lower end of the range we had forecast. Energy (+2%) was the only sector to post gains, whereas the share prices of all other 19 sectors were down on the quarter. The decline was particularly significant in real estate (-27%), commodities (-23%), and the industrial sector (-19%).

The European reporting season for 2Q 2022 went well. Earnings increased by 30% (y/y) and sales by 28% (y/y). All sectors reported positive sales growth in 2Q and exceeded earlier expectations of +16%, a growth rate envisaged back in March. 66% of companies reported results that were higher than anticipated. The cyclical sectors of oil & gas (72%), financials (71%), and industrials (62%) accounted for the largest shares of positive earnings surprises.

Earnings growth is expected to slow to +15% (y/y) in 3Q 2022. However, the outlook for the coming quarters shows a significant deterioration in sales and earnings growth in Europe. In 1Q and 2Q 2023, earnings are expected to decline by 3% and 8%, respectively. For the full year of 2023, the expected earnings growth in Europe excluding the energy sector is only 1.4%.

2023e: Growth and margin forecast
Erste Group Research Europe index

					2023e						
	Nb	MCap.	Wgt.	Perf.	Sales	EBIT	Net profit	PE	Div.Yield	Net margin	
Sector	Comp.	EUR bn	Index	YTD	j/j, %	j/j, %	j/j, %	x	%	22e	23e
Basic Materials	*16*	*497*	*5.4*	*-20.0*	-3.3	-12.8	-15.7	10.9	3.8	12.2	10.6
Consumer Discr.	*33*	*1,445*	*15.7*	*-24.2*	5.7	3.9	-0.6	12.6	3.2	12.8	9.0
Consumer Staples	*20*	*1,042*	*11.3*	*-10.6*	4.6	7.1	8.1	17.0	3.2	15.5	10.4
Energy	*13*	*748*	*8.1*	*13.2*	-9.2	-21.1	-23.3	5.5	5.8	18.9	8.8
Financials	*49*	*1,366*	*14.9*	*-19.3*	3.8	13.1	11.1	7.5	6.2	22.6	14.6
Health Care	*28*	*1,518*	*16.5*	*-14.5*	5.6	9.0	9.9	15.3	2.7	25.4	19.5
Industrials	*49*	*1,239*	*13.5*	*-30.5*	-0.6	-15.5	-22.4	12.4	3.5	15.7	9.4
Real Estate	*3*	*33*	*0.4*	*-54.1*	2.8	7.4	-70.8	44.2	5.5	67.8	14.9
Technology	*12*	*588*	*6.4*	*-35.9*	10.7	17.9	19.1	17.4	1.0	21.6	21.5
Telecom	*12*	*306*	*3.3*	*-14.7*	0.7	10.1	7.1	11.9	4.7	15.1	8.1
Utility	*17*	*411*	*4.5*	*-21.0*	-10.1	19.1	33.2	12.3	5.7	7.3	5.2
Europe	**252**	**9,193**	**100**	**-19.9**	**-0.8**	**-1.8**	**-3.9**	**11.0**	**3.9**	**17.0**	**10.7**
Europe ex Energy	***239***	***8,445***	***91.9***	***-21.1****	**1.5**	**4.3**	**1.1**	**13.1**	**3.7**	**16.5**	**11.2**

Sources: FactSet, Erste Group Research

Outlook: High inflation is currently causing a decline in sales and profit forecasts for European companies. The sharp rise in energy prices, especially in Europe, due to the Russian war and the weak euro are putting pressure on margins and reducing global competitiveness. This is particularly true for cyclical sectors such as industry, chemicals, and consumer cyclicals. The market currently expects profit margins to decline from 16.5% to 11.2% in the coming year, excluding the energy sector. In this environment, we recommend shares from defensive sectors such as consumer staples and healthcare. In both sectors, many listed companies also generate more than 50% of their sales outside Europe and thus benefit from higher economic growth in these regions in 2023. We expect European equities to drop within a range of -5 to 0% in 4Q.

Forecast 4Q 2022

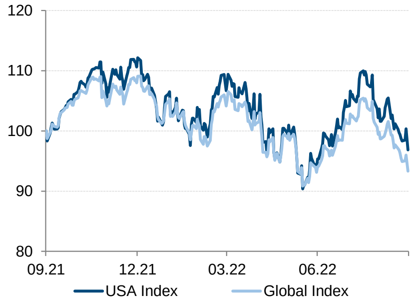
USA — 0% to +5%

USA index

USD	2022e	2023e
Sales	+10.9%	+4.6%
EBIT	+15.0%	+6.6%
Net Profit adj.	+7.5%	+6.7%
PE	16.8x	15.8x
Div. Yield	1.7%	1.8%

Sources: Erste Group Research Index, FactSet.

USA Index vs. Global Index
Indexed to 100, EUR



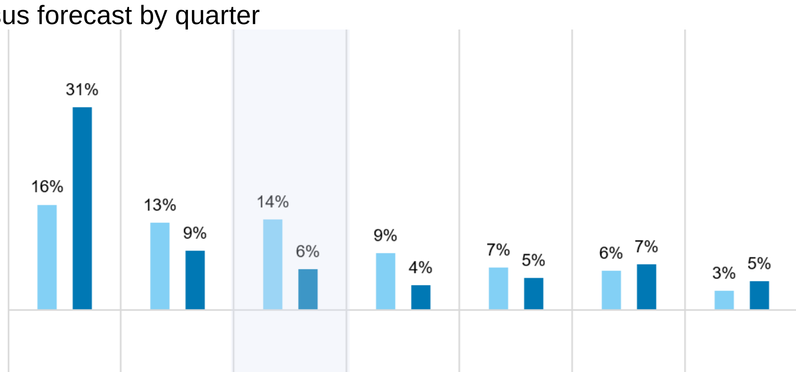
Sources: Erste Group Research Index, FactSet.

The S&P 500 index gained 2.9% in EUR but lost 3.8% in USD in 3Q. The interest rate hikes by the Fed, the continued increase in core inflation, and rising Treasury yields were burdening investor sentiment. From the middle of the quarter, selling pressure started to increase on equities in cyclical sectors.

The ISM Index of the US industrial sector weakened slightly in September. It now stands at 50.9 points after 52.8 points in August. The index thus signals only a slight expansion in this segment of the US economy. Prices paid by companies have declined, which is positive. Fewer new employees are being hired.

US corporations reported a 14.0% (y/y) increase in sales and a 6.0% (y/y) increase in earnings for 2Q. The share of positive earnings surprises was 75%. Earnings estimates for 3Q and subsequent quarters have been revised downwards in recent months. The telecom, technology, consumer cyclicals, and commodity sectors experienced the most significant downward revisions for 3Q. The energy sector, on the other hand, recorded a strong improvement in earnings expectations.

Expected sales and earnings
Consensus forecast by quarter



	4Q21	1Q22	2Q22e	3Q22e	4Q22e	1Q23e	2Q23e
Revenue	16%	13%	14%	9%	7%	6%	3%
Earnings	31%	9%	6%	4%	5%	7%	5%

Sources: FactSet, Erste Group Research

This year, sales should grow by 10.9% (y/y), and in 2023 by 4.6% (y/y). The consensus expects earnings to increase by 7.5% (y/y) in 2022 and by 6.7% (y/y) in 2023.The equity market is valued at 16.8x in terms of 2022 forward P/E, which is only slightly below the historical average. The dividend yield expected for 2022 is 1.7%.

Outlook: US earnings growth slows moderately but remains positive. In the current situation of high inflation rates and sharply rising yields, defensive shares with high dividend yields have better earnings prospects than cyclical shares. Growth shares with high valuations, on the other hand, are coming under pressure in this market situation. We expect the leading US indices to edge slightly higher in 4Q.

Forecast 4Q 2022

CEE

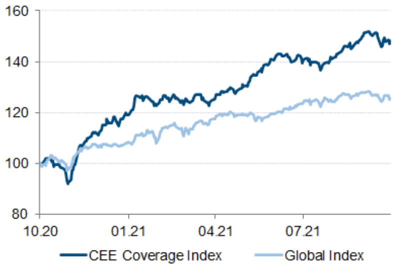
0% to +5%

CEE coverage index

EUR	2022e	2023e
Sales	18.6%	13.3%
EBIT	49.4%	-10.7%
Net Profit adj.	38.1%	-10.3%
PE	6.1x	6.8x
Div. Yield	5.6%	5.7%

Sources: Erste Group Research Estimates.

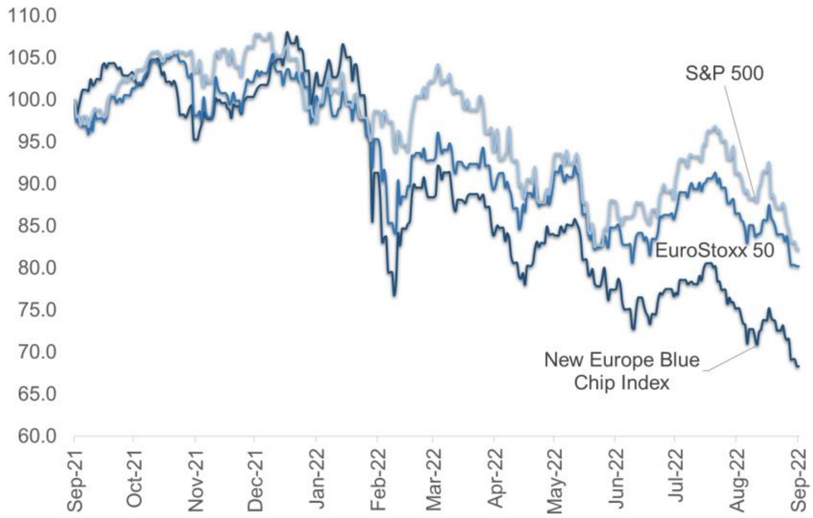
CEE coverage index vs. global index
Indexed at 100, EUR



Sources: Erste Group Research indices, FactSet

The markets in the Central and Eastern Europe region also seem to be preparing for the worst, or at least that is what one should be able to conclude from markedly low valuations. Overall, the outlook for the region is just as subdued as everywhere else. However, a possible stabilization at low levels seems quite possible, but is unlikely to be the basis for an immediate recovery.

Relative Performance 52W



Source: Factset

The immediate proximity to the conflict in Ukraine, but probably also an earlier and more decisive intervention by regional central banks, should be the explanation for the fact that regional stock markets have weakened even somewhat more than international, larger markets. After all, the Czech central bank should have ended its rate hike cycle by now, and the Polish central bank should be close to that point.

If growth in both GDP and corporate profits was still quite positive in 2022, the full impact of economic weakness will be felt in 2023. Our reduced estimates for regional GDP growth are reflected in the expected corporate profits.

While cyclical companies are still showing robust trends in consensus estimates for corporate earnings in the region at present, it is largely companies in the energy sector that are driving here. If the consensus sees more or less all sectors moving sideways in lockstep for 2023, banks still stand out slightly and should benefit from rising interest rates. However, uncertainties such as possible sector taxes in Poland should initially continue to weigh on this sector.

We maintain a cautiously positive view on the Czech Republic and regard valuations in Poland in particular as attractive. Even though the Turkish stock market has performed well due to local demand, the market remains highly speculative in our view. Hungary is also bearing increasingly heavy political risk.

Forecast 4Q 2022

Real Estate Europe -5% to 0%

The mixture of worries about the war in Ukraine, inflation, rising interest rates, the pandemic and its consequences as well as the increasing probability of recession is hitting real estate markets. Some companies call this scenario a “perfect storm”. A look at the industry reveals the problems, developers are currently confronted with. These include: (1) supply issues including a lack of permit deliveries burdening 1H22 results, (2) cost inflation and challenges to validate the increase of sales prices, (3) rising financing costs and limited access to capital leading to delays in construction and launches of new projects, and (4) rising interest rates resulting in a substantial decline in demand. Real estate owners are confronted with a diminishing spread of rental yields and finance costs which could cause pressure on the valuation of assets in the second half of 2022.

In view of these facts, it is no surprise that the real estate sector was the worst performing one in 3rd quarter if this year. The Stoxx Europe Real Estate sub-index declined by 17.5% (vs. the Stoxx Europe performance of -4.8%). M&A activity is in some cases the only chance to keep stock prices stable. In Austria, the additional acceptance period for CPI’s offer to S Immo shareholders ends on 18 November, 5pm Vienna local time. A substantial decline of S Immo’s share price can be expected after the end of this period.

Forecast 4Q 2022

China

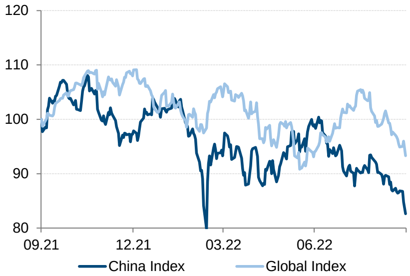
5% to 0%

EGR China index

USD	2022e	2023e
Sales	-0.2%	+6.2%
EBIT	+0.3%	+8.5%
Net Profit adj.	-6.0%	+10.1%
PE	7.5x	6.8x
Div. Yield	4.6%	4.8%

Sources: Erste Group Research indices, FactSet

China index vs global index
Indexed at 100, EUR



Source: Erste Group Research indices, FactSet

The Erste China index, containing 68 shares, lost 16% last quarter (in EUR). So far in 2022, China remains the negative exception in the Asia-Pacific region, having shed 15% to date. Country indices such as India (+5%), Indonesia (+18%), and Thailand (+14%) have shown significant strength relative to the global equity market, in line with their strong economic data. The strongly weighted Chinese technology shares such as Tencent and Alibaba fell by 20% and 27%, respectively, while the shares of the large Chinese banks lost more than 10% in 3Q.

One of the main triggers of the sell-off on the equity market was the persistently weak leading economic indicators, such as the purchasing managers' index for the industrial sector. This index decreased from 49.5 to 48.1 points in September. A main factor driving the index down was the rapid decline in new orders taken. Export sales also fell further, and lower demand for inputs also put pressure on prices. Prices were cut and input costs fell at the fastest pace since 2016. Companies also frequently tried to pass on cost savings, which also led to the fastest decline in sales prices since 2015.

The trend of the consensus estimates for 2022 and 2023 sales and earnings was clearly negative in 3Q. At a forward P/E of 7.5x for 2022, the Chinese equity market continues to command very low valuations. Due to the economic, political, and geopolitical uncertainties in China, we regard the discount as justified and expect a slightly negative performance within a range of -5% to 0% for 4Q.

Forecast 4Q 2022

India

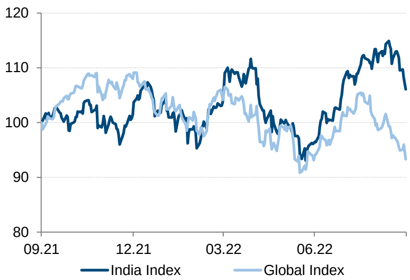
0% to +5%

EGR India index

USD	2022e	2023e
Sales	+21.9%	+6.9%
EBIT	+10.6%	+10.3%
Net Profit adj.	+18.3%	+11.7%
PE	22.3x	19.9x
Div. Yield	1.5%	1.7%

Sources: Erste Group Research indices, FactSet.

India index vs. global index
Indexed at 100, EUR



Sources: Erste Group Research indices, FactSet

The Indian equity market gained 10% (in EUR) in 3Q. As a result, it is up 5% (in EUR) in the year to date. In particular, energy, consumer staples, and bank shares contributed to the strong 3Q performance.

Sales growth expectations (in USD) for 2022 and 2023 improved to 22% and 7% in 3Q. Earnings forecasts suggest growth of 18% in 2022. Only 17% of the 42 companies in the Indian index are expected to report a decline in earnings for 2022. Among them are, in particular, Tata Steel and JSW Steel, whereas large caps such as Reliance Industries (+30%) and Infosys (+15%) are estimated to post significantly higher earnings this year.

At a forward P/E of 22.3x for 2022 and 19.9x for 2023, the valuation of the equity market is considerably higher than the average of the emerging markets. This is due to the above-average expected sales and earnings growth rates in the past years and the high level of profitability among Indian companies. For example, the ROE is at an average of 15%, and the operating margin should reach 19% this year. We expect a positive return on Indian equities of 0% to 5% in 4Q, given that the long-term positive growth prospects remain above average by global comparison.

Forecast 4Q 2022

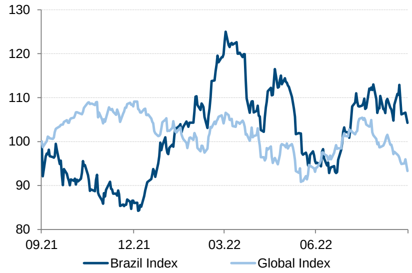
Brazil
0% to +5%

EGR Brazil index

USD	2022e	2023e
Sales	+17.9%	-5.9%
EBIT	+14.6%	-15.4%
Net Profit adj.	+20.1%	-19.4%
PE	4.9x	6.0x
Div. Yield	15.2%	12.2%

Source: FactSet, Erste Group Research

Brazil index vs. global index
Indexed at 100, EUR



Sources: Erste Group Research indices, FactSet

The Brazilian equity index gained 9.1% (in EUR) in 3Q. At a YTD performance of +20.5% (in EUR) this equity market has topped the performance rankings so far in 2022. Banks and energy companies were among the highest winners in 3Q.

The outlook for sales and earnings growth in 2022 is positive. Expected sales growth for this year is 17.9% (y/y) and expected earnings growth is 20.1% (y/y). The consensus expects sales to fall by 5.9% in 2023, while profits should decline by 19.4%. The expected growth rates for sales and profits in 2023 have been subject to downward revisions in recent weeks.

The valuation of the equity market is very low. The 2022 forward P/E is 4.9x, while the 2023 forward P/E amounts to 6.0x. At 15.2%, the dividend yield expected for 2022 is very high. The low valuation reflects the expected weakening of earnings next year and the current risk aversion of investors. We expect the equity market to post moderate gains at the lower end of the bandwidth of 0% to 5% in 4Q.

Tables & Appendix

Economic indicators

Region	Country	GDP (% yoy) 22e	GDP (% yoy) 23e	Inflation (% yoy) 22e	Inflation (% yoy) 23e	Un-employ. (%) 22e	Un-employ. (%) 23e	CA Balance (% GDP) 22e	CA Balance (% GDP) 23e	Fiscal Balance (% GDP) 22e	Fiscal Balance (% GDP) 23e	Gross Debt (% GDP) 22e	Gross Debt (% GDP) 23e
Europe	**Eurozone**	**2.7**	1.0	8.3	5.1	7.3	7.1	1.8	2.2	-4.3	-2.5	95.2	93.4
	Germany	**1.4**	0.8	7.1	4.5	3.2	3.2	5.9	6.9	-3.3	-0.7	70.9	67.7
	France	**2.4**	0.7	5.6	2.7	7.8	7.6	-1.8	-1.7	-5.6	-3.8	112.6	112.9
	Spain	**4.0**	2.0	7.2	2.6	13.4	13.1	0.3	0.4	-5.3	-4.3	116.4	115.9
	Italy	**2.4**	1.1	7.8	4.0	9.3	9.4	1.8	2.4	-6.0	-3.9	150.6	148.7
	Austria	**4.1**	1.3	8.1	5.2	4.6	4.4	-1.0	-1.2	-3.6	-2.1	77.5	75.2
	UK	**3.2**	0.5	7.4	5.3	4.2	4.6	-5.5	-4.8	-4.3	-2.3	87.8	82.7
	Switzerland	**2.2**	1.4	2.5	1.6	2.6	0.0	6.3	7.0	-0.9	-0.3	41.5	40.6
Eastern Europe	**Poland**	**3.9**	0.7	13.9	10.2	5.1	5.5	-1.3	-0.3	-4.5	-4.4	52.5	51.9
	Turkey	**4.0**	3.5	60.5	37.2	11.3	10.6	-5.7	-2.0	-6.9	-7.5	43.7	45.0
	Czechia	**2.3**	0.9	15.8	7.0	2.6	3.3	-2.8	0.3	-4.7	-3.7	43.3	44.0
	Romania	**6.0**	2.7	13.4	10.2	5.6	5.8	-9.3	-7.5	-6.2	-4.4	48.3	49.1
	Hungary	**5.0**	0.9	14.3	13.3	3.5	3.7	-9.0	-5.6	-6.0	-4.5	74.1	72.8
	Slovakia	**1.8**	1.5	12.2	9.5	6.3	6.5	-3.2	-2.0	-5.5	-4.0	62.4	62.0
Americas	**USA**	**1.7**	0.8	8.1	3.4	3.5	3.5	-3.5	-3.2	-4.8	-4.0	125.6	123.7
	Canada	**3.4**	1.8	5.6	2.4	5.9	5.0	1.1	-0.1	-2.2	-0.8	101.8	98.5
	Brazil	**1.7**	1.1	8.2	5.1	13.7	12.9	-1.5	-1.6	-7.6	-7.4	91.9	92.8
	Chile	**1.5**	0.5	7.5	4.5	7.0	6.9	-4.5	-3.4	-1.5	-0.6	38.3	38.4
	Mexico	**2.4**	1.2	6.8	3.9	4.1	3.9	-0.6	-0.7	-3.2	-3.2	58.4	58.9
	Colombia	**5.8**	3.6	7.7	4.2	11.9	10.6	-3.3	-3.4	-4.6	-2.2	60.6	59.2
Asia	**China**	**3.3**	4.6	2.1	1.8	3.7	3.6	1.1	1.0	-7.7	-7.1	77.8	81.8
	Japan	**1.7**	1.7	1.0	0.8	2.6	2.4	2.4	2.7	-7.8	-3.5	262.5	258.3
	India	**7.4**	6.1	6.1	4.8	na	na	-3.1	-2.7	-9.9	-9.1	86.9	86.6
	Indonesia	**5.3**	5.2	3.3	3.3	6.0	5.6	4.5	0.5	-4.0	-2.9	42.7	42.7
	South Korea	**2.3**	2.1	4.0	2.4	3.6	3.5	2.2	3.2	-1.6	-1.1	52.0	53.3
	Thailand	**2.8**	4.0	3.5	2.8	1.0	1.0	-0.1	2.0	-6.1	-3.0	62.7	61.4
	Australia	**3.8**	2.2	3.9	2.7	4.0	4.3	3.0	0.5	-5.2	-3.4	60.1	62.6
	South Africa	**2.3**	1.4	5.7	4.6	35.2	37.0	1.3	-1.0	-5.8	-6.1	70.2	73.4
	World	**3.2**	2.9										

Source: IMF, EU Commission, Erste Group Research estimates

Forecasts[1]

GDP	2020	2021	2022	2023
Eurozone	-6.5	5.3	2.7	1.0
US	-3.5	5.7	1.6	1.4

Inflation	2020	2021	2022	2023
Eurozone	0.3	2.6	7.9	4.1
US	1.2	4.7	8.0	3.0

Currency	current	Dec.22	Mar.23	Jun.23	Sep.23
EURUSD	0.99	1.03	1.06	1.07	1.09
EURCHF	0.98	0.98	0.99	1	1.01

Interest rates	current	Dec.22	Mar.23	Jun.23	Sep.23
ECB MRR	1.25	2.50	2.50	2.50	2.50
ECB Deposit Rate	0.75	2.00	2.25	2.25	2.25
3M Euribor	1.19	2.14	2.22	2.22	2.22
Germany Govt. 10Y	1.82	1.80	1.80	1.80	1.80
Swap 10Y	2.80	2.80	2.70	2.60	2.50

Interest rates	current	Dec.22	Mar.23	Jun.23	Sep.23
Fed Funds Target Rate*	3.08	4.13	4.38	4.38	4.38
3M Libor	3.75	4.38	4.46	4.46	4.46
US Govt. 10Y	3.58	3.20	2.90	2.80	2.80
EURUSD	0.99	1.03	1.06	1.07	1.09

*Mid of target range

Interest rates	current	Dec.22	Mar.23	Jun.23	Sep.23
Austria 10Y	2.53	2.35	2.30	2.25	2.20
Spread AT - DE	0.71	0.55	0.50	0.45	0.40

Source: Market data provider, 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 22e	Sales 23e	Net Profit Adj. 22e	Net Profit Adj. 23e	P/E 22e	P/E 23e	DY 22e
	World	**USD**	**1,095**	**56,084**	**100**	**-7.3**	**0.2**	**-6.3**	**-13.6**	**7.4**	**-0.4**	**6.6**	**0.4**	**13.2**	**13.2**	**3.5**
	Developed Markets	USD	938	49,773	88.7	-7.2	1.0	-5.8	-14.2	7.8	-1.3	7.7	-0.8	13.8	13.9	3.4
	Emerging Markets	USD	157	6,312	11.3	-8.0	-5.5	-10.0	-8.2	4.9	4.9	0.6	7.0	9.9	9.3	4.1
Developed Markets	**North America**	**USD**	**531**	**35,589**	**63.4**	**-6.6**	**3.1**	**-1.7**	**-12.0**	**10.5**	**4.3**	**8.5**	**5.8**	**16.4**	**15.5**	**1.8**
	Canada	USD	40	1,493	2.7	-7.3	-1.9	9.9	-0.2	4.9	0.1	23.4	-6.6	10.1	10.8	3.7
	USA	USD	491	34,096	60.8	-6.6	3.3	-2.2	-12.5	10.9	4.6	7.5	6.7	16.8	15.8	1.7
	Europe	**EUR**	**252**	**9,193**	**16.4**	**-8.4**	**-4.8**	**-13.5**	**-19.9**	**20.4**	**-0.8**	**21.6**	**-3.9**	**10.6**	**11.0**	**3.9**
	Denmark	EUR	10	436	0.8	-10.5	-6.6	-7.0	-16.0	31.9	-13.0	60.4	-47.7	9.6	18.3	4.5
	France	EUR	37	1,854	3.3	-8.4	-1.9	-11.8	-20.3	19.5	0.7	21.0	-5.7	10.4	11.0	3.4
	Germany	EUR	40	1,286	2.3	-8.9	-7.3	-25.4	-28.7	9.1	3.3	9.9	-5.2	8.9	9.4	4.6
	Italy	EUR	15	316	0.6	-6.5	-6.0	-17.0	-22.9	14.6	-2.0	27.6	-2.3	8.9	9.1	5.3
	Netherlands	EUR	19	978	1.7	-8.1	-3.7	-17.5	-20.2	39.8	1.0	42.9	-0.8	11.7	11.8	2.7
	Spain	EUR	14	384	0.7	-7.9	-8.5	-17.3	-16.4	18.7	-2.4	19.7	0.4	11.1	11.1	4.3
	Sweden	EUR	19	399	0.7	-9.6	-4.7	-29.4	-33.1	10.7	1.5	-22.0	18.6	14.3	12.1	4.2
	Switzerland	EUR	27	1,451	2.6	-5.5	-1.8	-2.9	-15.0	24.8	1.0	16.5	3.2	14.5	14.0	3.7
	United Kingdom	EUR	39	1,358	2.4	-10.2	-8.7	-4.5	-11.3	26.4	-1.8	22.8	-1.9	9.2	9.4	4.1
	Asia/Pacific	**USD**	**155**	**4,990**	**8.9**	**-8.9**	**-2.0**	**-17.1**	**-18.4**	**-0.9**	**-7.0**	**1.4**	**-9.3**	**10.3**	**11.3**	**3.5**
	Japan	USD	88	2,570	4.6	-7.2	0.1	-17.1	-16.2	-4.7	-6.8	-0.5	-2.0	11.7	11.9	2.4
	Australia	USD	23	953	1.7	-7.6	1.8	-3.6	-7.3	0.4	-6.6	-2.2	-16.6	11.1	13.3	4.6
	South Korea	USD	21	601	1.1	-13.6	-8.2	-31.6	-32.7	6.1	-8.4	-1.6	-15.8	7.6	9.0	2.2
	Taiwan	USD	18	689	1.2	-13.4	-10.8	-22.6	-28.8	6.8	-7.8	12.7	-18.9	8.2	10.1	5.8
Emerging Markets	**Emerging Asia/Pacific**	**USD**	**125**	**5,139**	**9.2**	**-8.7**	**-7.5**	**-9.2**	**-7.8**	**3.6**	**5.8**	**-2.2**	**10.3**	**10.1**	**9.1**	**3.5**
	China (incl. HK)	USD	68	3,092	5.5	-10.5	-16.3	-17.7	-15.0	-0.2	6.2	-6.0	10.1	7.5	6.8	4.6
	India	USD	42	1,664	3.0	-6.4	10.3	5.6	4.6	21.9	6.9	18.3	11.7	22.3	19.9	1.5
	Indonesia	USD	6	197	0.4	1.4	14.9	29.6	18.4	9.6	2.4	27.7	6.8	15.9	14.9	3.0
	Thailand	USD	4	99	0.2	-2.1	7.2	16.7	13.7	31.1	-4.9	12.8	25.3	21.2	16.9	2.8
	Emerging Americas	**USD**	**15**	**574**	**1.0**	**-2.3**	**8.4**	**0.1**	**8.3**	**15.9**	**-1.7**	**19.7**	**-15.0**	**6.8**	**8.0**	**10.3**
	Brazil	USD	9	357	0.6	-4.9	9.1	4.5	20.5	17.9	-5.9	20.1	-19.3	4.9	6.0	15.2
	Mexico	USD	5	174	0.3	3.4	1.4	10.5	0.1	8.7	7.4	14.1	12.0	16.1	14.4	2.9
	Emerging Afrika & ME	**USD**	**17**	**599**	**1.1**	**-7.2**	**0.8**	**6.1**	**4.1**	**8.2**	**1.2**	**2.8**	**10.2**	**15.0**	**13.6**	**2.9**
Erste Sectors	**Basic Materials**	USD	57	1,720	3.1	-7.3	-3.2	-5.5	-13.4	5.0	-9.4	-6.6	-22.0	8.1	10.4	5.9
	Consumer Discretionary	USD	152	7,082	12.6	-6.5	4.2	-12.6	-19.8	7.1	3.3	12.0	11.2	17.9	16.1	1.5
	Consumer Staples	USD	77	4,039	7.2	-4.2	2.4	9.3	0.4	6.3	1.4	0.5	3.3	18.2	17.7	2.7
	Energy	USD	57	3,301	5.9	-9.1	3.4	24.3	21.4	38.2	-8.9	103.7	-20.4	5.8	7.3	5.8
	Financials	USD	196	9,442	16.8	-6.4	-0.6	-7.3	-10.1	-3.8	4.0	-9.9	7.5	9.5	8.8	3.6
	Health Care	USD	109	6,821	12.2	-1.8	0.2	5.6	-3.5	5.9	0.8	5.9	-1.2	16.2	16.4	1.8
	Industrials	USD	164	5,327	9.5	-9.0	1.2	-9.6	-16.1	4.6	-2.8	13.7	-9.6	12.9	14.2	2.8
	Real Estate	USD	47	1,149	2.0	-11.9	-9.0	-10.7	-19.7	-2.7	3.4	-3.4	0.2	19.1	19.0	3.6
	Technology	USD	142	13,627	24.3	-9.7	-0.3	-15.5	-25.2	7.9	5.7	-0.1	9.7	19.4	17.7	1.0
	Telecom	USD	41	1,878	3.3	-8.1	-8.5	-13.8	-10.3	-5.4	-1.4	-4.8	9.3	12.0	10.9	3.6
	Utility	USD	53	1,699	3.0	-9.2	0.1	10.8	-1.4	-3.9	-9.2	-8.8	14.8	18.4	16.1	3.4

Source: Erste Group Research, FactSet. Closing Prices as of: 29.9.2022.

CEE Indices

Erste CEE Index		No. of Comp.	Mkt. Cap. EUR bn	Weight (%) CEE	Performance (%) EUR 1M	3M	12M	YTD	Growth (%, y/y) Sales 22e	Sales 23e	Net Profit Adj. 22e	Net Profit Adj. 23e	P/E 22e	P/E 23e	DY 22e
CEE Coverage	**EUR**	**157**	**283**	**100**	**-10.0**	**-11.9**	**-24.3**	**-26.7**	**18.6**	**13.3**	**38.1**	**-10.3**	**6.1**	**6.8**	**5.6**
CEE Austria	EUR	36	105	36.8	-8.3	-8.2	-22.3	-25.7	8.4	-3.2	19.0	1.3	6.9	6.8	5.1
CEE Czech Republic	EUR	8	37	13.5	-7.1	-11.8	3.3	-7.7	38.6	33.4	100.5	18.5	11.3	9.5	7.5
CEE Croatia	EUR	11	5	1.7	-5.6	-12.5	-16.5	-17.5	6.6	7.4	7.7	4.5	17.1	16.3	3.4
CEE Hungary	EUR	4	14	4.8	-15.9	-12.6	-46.1	-41.5	25.9	-5.9	11.1	-17.6	3.7	4.5	3.6
CEE Poland	EUR	78	92	32.3	-11.1	-18.0	-33.7	-35.6	22.3	33.0	52.2	-22.9	5.2	6.8	3.7
CEE Romania	EUR	9	16	5.5	-16.9	-13.5	-13.4	-16.0	40.7	-10.3	70.6	7.1	5.2	4.8	18.5
CEE Serbia	EUR	2	2	0.5	-0.7	2.1	8.9	4.1	5.4	-12.2	285.0	-70.1	2.2	7.4	11.1
CEE Slovenia	EUR	2	3	1.0	-13.0	-8.7	-22.9	-27.1	4.3	4.0	10.6	-11.9	8.2	9.4	6.7
CEE Turkey	EUR	6	11	3.8	-11.2	16.3	1.3	18.3	34.4	-10.5	29.1	-26.8	4.4	6.1	3.3

Source: Erste Group Research, FactSet. Closing Prices as of: 29.9.2022.

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