Erste Group Research
Global Strategy | All Assets | Global
December 2019

Global Strategy Q1 2020

Political uncertainty appears to be subsiding somewhat and a moderate economic recovery should take hold in 2020. Central banks will maintain the course they have adopted and keep an easy monetary policy in place. In this environment we prefer risk assets to safe haven assets. Growth in corporate earnings should underpin further stock market gains. In the corporate bond market we continue to recommend IG hybrid bonds as well as BB-rated HY bonds.

Investment Strategy Q1 2020:

Govt. bond yields		Mar. 2020
Germany (10Y)		-0.20
USA (10Y)		2.00
Currencies		**Mar. 2020**
EURUSD		1.15
CHF		1.12
Equity Performances		**Mar. 2020**
Global	➚	0%/ +5%
Europe	➚	0%/ +5%
USA	➚	0%/ +5%

Source: Erste Group Research

Prices as of
13.12.2019, 22:00

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17.12.2019, 14:00

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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

While a sustainable resolution of the US-China trade dispute does not appear to be within imminent reach, we expect at least no renewed escalation. The US economy should post a solid performance in the coming year, primarily driven by consumer spending. While the labor market is in strong shape, there are nevertheless no indications of a build-up of inflation risks. The inflation rate should fluctuate between 1.5% and 2.0%. The unfavorable global environment weighed on export growth in the euro zone and pushed GDP growth in 2019 markedly below the level of 2018. We expect the pace of economic growth to improve slightly in 2020 and are forecasting GDP growth of 1.2%. While the exit of Great Britain from the EU is now actually materializing, growth could be dampened by political upheaval in Italy and/or Spain. Core inflation should slightly increase, but not to an extent sufficient to push headline inflation close to the ECB's target in the foreseeable future.

Bonds

Both the Fed and the ECB will maintain their policy bias in 2020 and implement loose monetary policy. In the US we are forecasting an unchanged federal funds rate and a slight rise in yields across the entire yield curve. However, a renewed emergence of political risks (e.g. a further escalation of the trade war) could unsettle the markets and put downward pressure on yields. The ECB will leave short term interest rates unchanged. A moderate improvement in economic data should weigh on the bond market, while the ECB's asset purchase program should concurrently provide support. All in all this is likely to result in just a slight increase in yields. In the corporate bond market we continue to recommend IG hybrid bonds and bonds of the rating category BB, the highest credit quality level within the HY segment.

Currencies

Provided political problems do not escalate, the euro should benefit from an improving economic outlook in 2020. Thus we expect a moderate appreciation of the euro against both the US dollar and the Swiss franc. We are forecasting a sideways move for gold in a trading range from USD 1,450 to USD 1,500.

Stocks

Diminishing political risks and improving growth prospects are leading to a slight increase in investors' risk appetites. The prospects for corporate earnings growth in 2020 are strong and the valuation of stocks continues to be attractive in comparison to government bonds. We expect the global stock indexes to post gains ranging from 0% to +5% in the first quarter. Among sectors we specifically favor the technology, health care, industrial, retail trade and consumer goods sectors.

Contents

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Investment Strategy Q1 2020

Yields			Estimates			
		current	Q1 20	Q2 20	Q3 20	Q4 20
10y. Govt. bonds	**Germany**	-0.30	**-0.20**	-0.20	-0.10	-0.10
	Austria	-0.10	**0,00**	0.00	0,10	0.10
	US	1.84	**2.00**	2.00	2.10	2.20
	CEE					
	Czech Republic	1.44	**1.66**	1.71	1.77	1.87
	Hungary	1.79	**2.09**	2.15	2.20	2.25
	Poland	2.01	**2.05**	2.05	2.10	2.10
	Romania	4.60	**4.50**	4.50	4.60	4.60

Source: Erste Group Research estimates

Currencies			Estimates			
		current	Q1 20	Q2 20	Q3 20	Q4 20
Global	**EURUSD**	1.11	**1.15**	1.15	1.15	1.15
	CHF	1.09	**1.12**	1.13	1.14	1.14
	Gold (USD)	1,477	**1,480**	1,490	1,490	1,490
CEE	**CZK**	25.50	**25.3**	25.0	24.9	24.7
	HUF	329.20	**335**	335	335	335
	PLN	4.26	**4.31**	4.31	4.32	4.32
	RON	4.78	**4.79**	4.82	4.85	4.87

Source: Erste Group Research estimates

Equities		Estimate Q1 2020	min	max	FX
Global		↗	0%	+5%	USD
	Europe	↗	0%	+5%	EUR
	USA	↗	0%	+5%	USD
Emerging Mkts.	**CEE**	↗	0%	+5%	EUR
	BRICs				
	Brazil	↗	0%	+5%	BRL
	Russia	↗	0%	+5%	RUB
	India	↗	0%	+5%	INR
	China	↗	0%	+5%	CNY

Source: Erste Group Research estimates

Euro Zone Economic Outlook

Stable Growth Expected in 2020

Germany and Italy weigh on economic growth in 2019

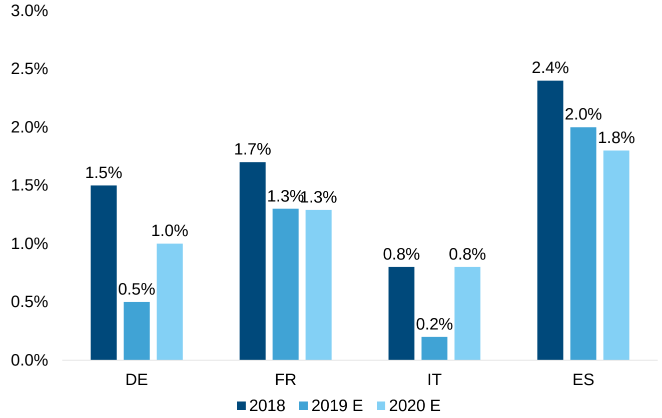
Particularly the German manufacturing sector weighed on economic growth in the euro zone in 2019, as it slid into a severe recession. As a result of the unfavorable global environment, euro zone exports lost a great deal of momentum, and exacerbated by weakness in inventories, GDP growth was pushed below potential growth. By contrast, the growth momentum of consumer spending remained by and large stable. Investment spending benefited considerably from favorable one-off effects (transfer of assets to Ireland for tax reasons). From a regional perspective, Germany and Italy weighed on growth, while France and Spain reported solid growth momentum despite the slowdown.

We are forecasting GDP growth in the euro zone to stabilize at +1.2% in 2020. We expect the downward pressure exerted by foreign trade and inventory effects to abate. However, we believe that this will be offset by a significant deterioration in the pace of investment spending (as a result of substantial volatility in Irish data) as well as by slightly weaker growth in consumer spending. After GDP growth was boosted by 0.2% in 2019 due to fiscal expansion, we expect fiscal effects on growth to be neutral in 2020 (based on budget projections of the European Commission).

Uncertainty factors in 2020: Trade dispute, unstable political situation in Southern Europe

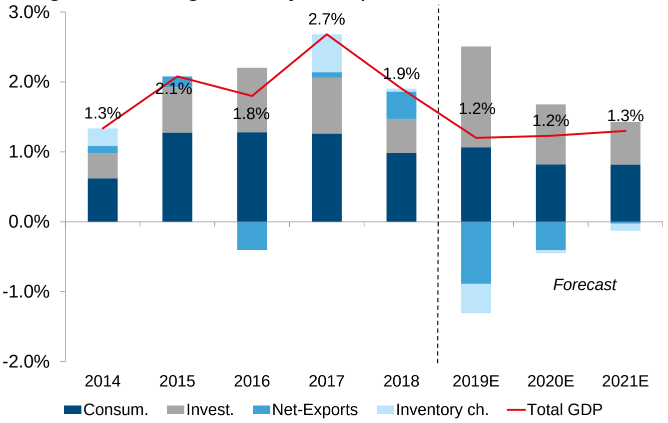
The global trade dispute remains a major uncertainty factor in 2020. For instance, the US administration has not yet definitively abandoned the possible imposition of tariffs on car imports from the EU. Moreover, political trouble spots in the euro zone may also generate uncertainty and as a result hamper economic growth. For example, the possibility that the far-left civic movement Podemos might join a government coalition in Spain has already triggered slight jitters in financial markets. Italy remains politically unstable as well and could cause fresh uncertainty in financial markets at any time. Lega, the strongest party according to polls, has been out of government since May and is therefore actively working toward early elections in Italy.

Strong growth momentum in ES and FR
GDP growth in %, y/y



Source: Eurostat, Erste Group Research

Foreign trade and inventories weigh on growth
Weighted GDP growth by components



Source: Eurostat, Erste Group Research

US Economic Outlook

US Economic Growth Remains on Track

No economic trend reversal discernible

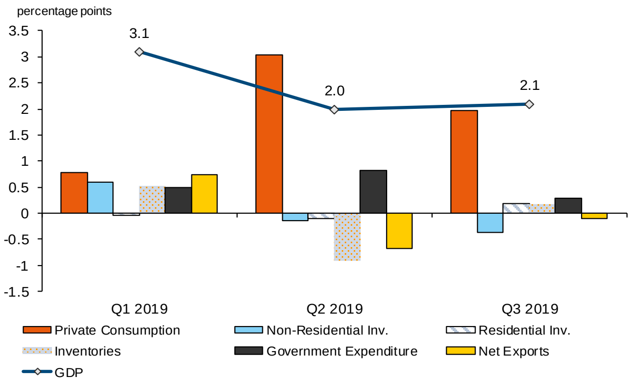
Year-to-date US economic growth has held up well in the face of a difficult environment. 2nd and 3rd quarter growth rates were in line with the US economy's growth potential and economic data released to date suggest that a similar growth rate will be posted in the fourth quarter. Economic growth was mainly driven by consumer spending and to a significantly lesser extent by government expenditures. Not surprisingly, corporate investment and net exports suffered most from the escalation in the trade dispute with China as the year progressed. We expect US economic growth to remain stable. As we expect at a minimum no renewed intensification of the trade dispute with China, no additional pressure should emanate from this front in the coming year. In our opinion there are no signs of imbalances of the US economy the correction of which could trigger an economic downturn. A robust labor market suggests continued growth in consumer spending. There is some hope for corporate investment, as the downturn has already lasted a long time by historical standards. However, indications for a turnaround remain weak for the time being. All in all, we expect economic growth of just below 2% next year.

Inflation slightly below 2%

The labor market continues to be characterized by strong jobs growth and the unemployment rate stands at a 50-year low. Nevertheless, the labor market still shows no signs of overheating. On the contrary, wage growth has barely changed for quite a long time and thus provides no evidence of a build-up of inflationary risks. The underlying trend of inflation is determined by the core inflation rate. Monthly change rates were volatile in the course of 2019, resulting in annual inflation rates ranging from 1.8% to 1.5%. This should not change in the coming year. Our expectation for economic growth in conjunction with no signs pointing to accelerating wage growth suggests that core inflation should remain range-bound below 2%. Fluctuations in energy and food prices should lead to occasional spikes in headline inflation.

US economic growth has held up well in a difficult environment

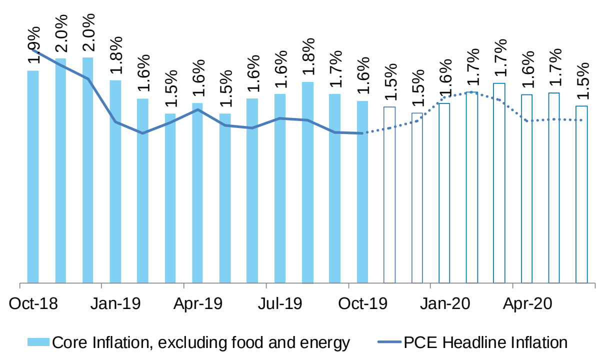
GDP growth q/q annualized, contribution of components



Source: Bureau of Economic Analysis, Erste Group Research

Inflation rates should remain range-bound

PCE, y/y in %



Source: Bureau of Economic Analysis, Erste Group Research

CEE Economic Outlook

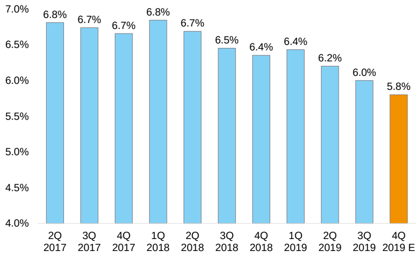
Throughout the year, CEE economies have been among the growth leaders in Europe. We expect them to remain so next year, despite external headwinds that are behind the slowdown. So far, strong domestic demand has been shielding the region from the external slowdown. However, the weak global outlook, protectionism and possible structural changes in the car sector are weighing more and more on CEE's performance. The anemic development of the manufacturing sector has left the most visible mark on this year's growth in Romania and Slovakia. In both countries, GDP dynamics fell visibly short of expectations and the growth is set to slide further in 2020 toward 3.5% and 2%, respectively. The outlook for the peers is not too different - economic growth is likely to lose steam in all countries except for Serbia, where acceleration to 4% is expected. In Hungary and Poland, growth is likely to land around 3.5%, while in Croatia, Czechia and Slovenia, dynamics around 2.5% should be expected. On average, the CEE8 should slow to 3.2% in 2020 (from 3.7% in 2019), mirroring the mostly sluggish external environment.

Backed by strong private consumption, domestic demand should shield the CEE economies from a major slowdown. The tight labor market, dynamic growth of wages and solid credit growth support consumer confidence and a high level of spending. All in all, next year, consumption expenditure growth should only be slightly lower in most of the countries, while in Serbia and Slovakia we even expect an increase. Investment activity has been benefiting from the ongoing flow of EU funds. In Czechia, Serbia and Slovakia, the 2019 investment growth dynamics should be maintained. In Croatia and Poland, the investment outlook is weaker, while in Hungary and Romania, we expect a major slowdown from the current double-digit dynamics, also the major factor behind next year's lower growth dynamics. The external balance should contribute positively to growth in Czechia, Hungary and Slovakia, with weak imports mitigating the effects of lower export growth.

BRIC Economic Outlook

China

China: growth expected to slow further in Q4
GDP y/y in %



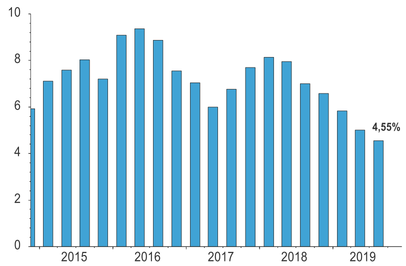
Source: Statistics China, Erste Group Research

As a result of the trade war, the pace of China's GDP growth continued to falter in Q3 2019. Based on leading indicators we expect economic growth in Q4 2019 to slow further to 5.8% y/y. However, thanks to comprehensive fiscal (tax cuts) and monetary policy support measures China's economic growth should stabilize in 2020. Developments in the trade war with the US will be important in this respect. Any rapprochement in the trade dispute should improve China's growth prospects, which would be to the benefit of the euro zone economy as well, as export growth would accelerate.

As a result of demographic trends (the working-age population is shrinking since 2010) as well as the rapidly rising degree of economic development (rising importance of the services sector) we expect a steady decrease in China's GDP growth momentum in the long term. In the medium term China has to forge ahead with market reforms in order to prevent a rapid decline in the pace of economic growth.

India

India: slowdown in economic growth
GDP y/y in %



Source: Datastream, Erste Group Research

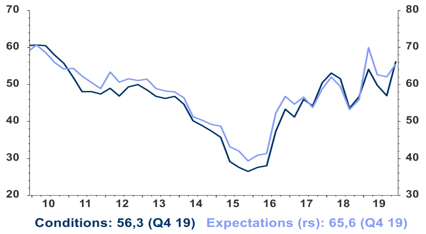
India's GDP growth slowed further in the 3rd quarter, to an increase of just +4.5% y/y. For 2019 as a whole, the IMF now expects GDP growth of just +6.1% (previous estimate: +7.0%). In the coming year, growth is expected to accelerate to 7.0%. Thanks to a rapidly growing working-age population India will enjoy above-average growth momentum for the foreseeable future.

In order to improve the economy’s short term growth prospects, the Indian government has already announced a surprise cut in corporate taxes totaling around EUR 20bn in September. The effective corporate tax rate will decrease from 30% to around 25%, bringing it into line with India's competitors in Asia. The measure applies retroactively from 01 April.

The manufacturing purchasing managers' index (PMI) for November rose slightly to 51.2 points. The moderate increase was inter alia attributable to a slight improvement in export orders. The services PMI for November rose significantly to 52.7 points, indicating a moderate expansion.

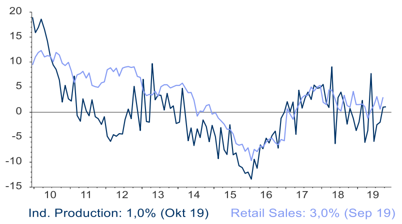
Inflation has in the meantime entered an uptrend and increased to +4.6% in October. In light of this backdrop it will no longer be easy for the Reserve Bank of India to cut interest rates further. The last rate cut by 35 basis points to 5.15% was implemented in early October. It was the fifth rate cut this year. Since the beginning of the year the Indian rupee has traded in a stable trading range between 72 and 68.

Brazil: Industrial Entrepreneur Confidence Index



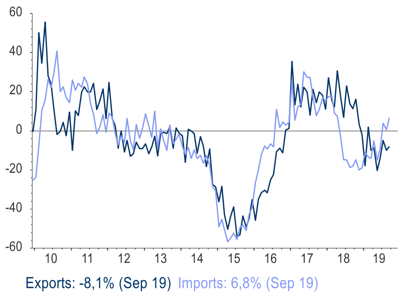
Source: Datastream, Erste Group Research

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



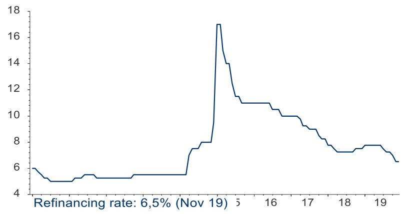
Source: Datastream, Erste Group Research

Russia: Both imports and exports have increased again



Source: Datastream, Erste Group Research

Russia: Refinancing rate



Source: Datastream, Erste Group Research

Brazil

Economic growth is expected to reach +2.1% (y/y) in 2020. Thus the Brazilian economy seems set to grow more rapidly next year than in 2019, for which a growth rate of +1% (y/y) is expected. The GDP growth estimate nevertheless stands below the emerging market average.

Industrial production is expected to grow by +2.3% in 2020. The industrial entrepreneur confidence index has increased in recent months. Both the assessment of current conditions by companies and their expectations of future business conditions have improved.

Despite the moderately positive growth outlook, the unemployment rate is expected to amount to 11.3% in 2020 and is declining very slowly. A slight decrease to 10.8% is forecast for 2021. As a result, growth in consumer spending is likely to be quite moderate as well. It is estimated to increase by approximately +2.4% in 2020. At an estimated +3.6%, the rise in consumer prices will be quite low by long-term standards.

The country has a large budget deficit. Despite declining in comparison to the previous year, it is expected to amount to -5.5% of GDP in 2020. A budget deficit of -4.4% of GDP is expected in 2021. At -2.3% of GDP, the current account balance is estimated to be negative in 2020 as well.

Brazil's central bank has recently cut the SELIC rate again, which currently stands at 5%. The consensus is calling for a further reduction to 4.7% in 2020.

Russia

The Russian economy has likely grown by +1.2% (y/y) in 2019. The consensus estimate for GDP growth in 2020 is +1.7% (y/y). Despite this acceleration in economic growth, the estimated Russian GDP growth rate is the lowest among the BRIC nations.

After growing by approximately +1.6% in 2019, consumer spending is expected to grow by around +2.1% in 2020. Following an increase of +4.5% in 2019, consumer prices are seen to rise more slowly in 2020 (2020e: +3.5%). Growth in industrial production will probably change only slightly. The estimated growth rate of +2.4% in 2019 is expected to be followed by an increase to +2.5% (y/y) in the coming year.

Growth in government spending is quite muted. The consensus estimate for 2020 calls for an increase of just +1%. The government will probably post a budget surplus of +1.2% of GDP in 2020. In addition, there will once again be a current account surplus of around +4% of GDP in 2020.

Russia's central bank has cut its main refinancing rate to 6.5% in October. The consensus estimate for 2020 calls for a further reduction to 5.95%. 10-year government bonds are currently yielding 6.4%. According to consensus forecasts the downtrend in yields will probably end in 2020.

Bonds	Yield Forecast Q1 2020
Euro Zone Main Refinancing Rate	0.00 %
German Bund	-0.2 % (10Y)

Little Movement in Interest Rate Markets

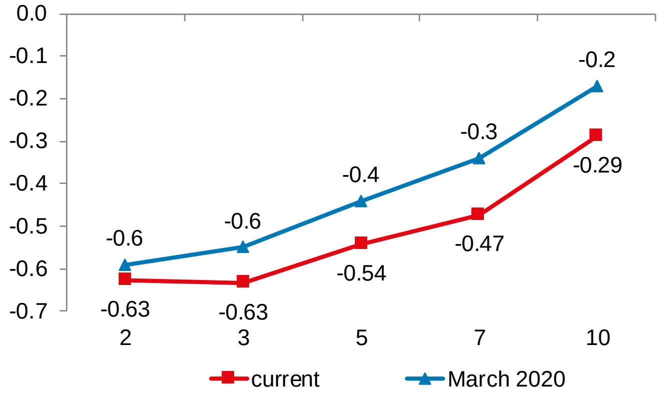
ECB will debate, but won't act

ECB monetary policy is unlikely to change in the foreseeable future. While the economy should recover after a difficult 2019, the pace of growth will remain modest. Thus significant progress in the inflation rate toward the ECB's target is highly unlikely, providing the ECB with no reason to take back the measures it has implemented. At the same time the ECB has announced a strategy review for next year, i.e., an internal discussion process. An official agenda hasn't been set out yet, but a few statements on the process have been made by central bank officials. One of the issues to be discussed is the definition of the medium term price stability mandate. Currently it is defined as an inflation rate target of below, but close to 2 percent. Both the target level as such and what precisely the “medium term” entails will probably be up for debate. Additional topics will include a “greener” ECB and unintended side effects of the current monetary policy regime. The outcome of these discussions cannot be forecasted. However, we currently do not expect any impact on either our or the market's interest rate expectations.

Yields on German Bunds to rise marginally

We expect little movement in German Bunds. While a moderate improvement in economic data should weigh on the market, the ECB's asset purchase program should concurrently provide support. Overall, this leads us to expect a marginal rise in yields. There are some risks to our forecast, but we do not consider these to be particularly high. Downside risks to yields emanate from political trouble spots. After the recent elections in the UK a hard Brexit can be ruled in the course of next year. Only, if by the end of 2020 neither a trade agreement nor an extension of the deadline is agreed upon this risk would reemerge. Regarding the trade dispute between China and the US, we expect harsh rhetoric to be maintained in an election year, but a renewed escalation seems unlikely given the impact on economic growth. Upside risks to yields are associated with a more pronounced improvement in the economic outlook. However, excess liquidity in global markets should sustain strong demand for securities and therefore limit any increase in yields.

Slight movement in longer-dated maturities
German sovereign yield curve, in %



Source: Market information systems, Erste Group Research

US	Yield Forecast Q1 2020
Federal Funds Rate	1.5 – 1.75 %
US Treasury Notes	2.00 % (10Y)

Moderate Increase in Yields

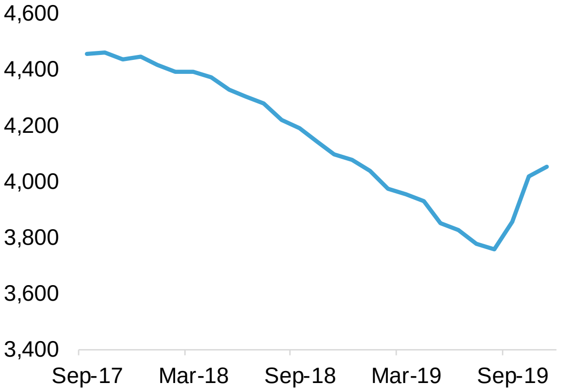
We expect no change in monetary policy

We expect no change in US monetary policy for all of 2020. The current policy stance of the Fed as communicated by Fed chair Jerome Powell envisages interventions by the central bank solely in the event of material changes to the economic outlook, for which we see no indications at present. We expect the US economy to roughly maintain its current pace of growth and the inflation rate to remain slightly below the Fed's target. By contrast, the market currently expects one rate cut. We believe these expectations will recede, which should be reflected in the bond market. The Fed will continue to provide the markets with liquidity as needed. Its balance sheet has grown by USD 300bn in the past three months alone, reversing almost half of the previous reduction.

Change in market expectations should cause yields to rise slightly

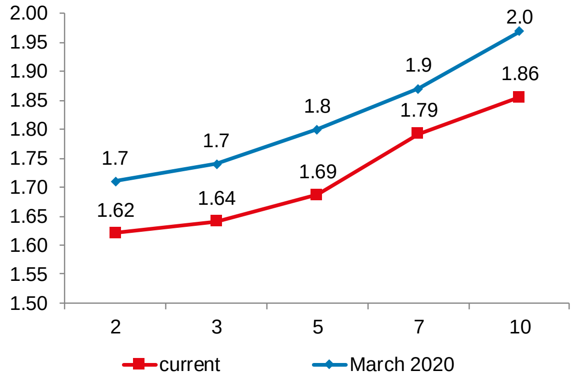
Receding market expectations for further rate cuts should be the main driver of the bond market next year. The result should be a moderate rise in yields across the entire yield curve. Risks appear to be limited at present. An escalation in the trade war with China would generate uncertainty in the markets and lead to a decline in yields, but that seems unlikely to happen. While we expect US President Trump to persist with his brash rhetoric in the coming election year, he will probably refrain from erecting fresh trade barriers in order to avoid damaging the economy. We also believe that the looming impeachment proceedings against President Trump are unlikely to have much impact on the bond market. An impeachment trial will very likely be held in the Senate in January. However, it can be almost certainly ruled out that there will be a majority in favor of removing the President from office. This would require at least 20 Republican senators to vote for his removal. In the event that President Trump is in fact removed from office, we would expect market sentiment to improve. The reason for this is that under his successor, the current Vice President Pence, the trade dispute with China would probably be suspended for the time being.

Markets need more liquidity than previously assumed
Total assets held by the Fed, USD billion



Source: Federal Reserve, Erste Group Research

US yield curve should shift slightly upward
Yields on US treasuries by maturity, in %



Source: Market information systems, Erste Group Research

CEE Government Bonds	Yield Forecast Q1 2020
Czech Republic	1.66% (10Y)
Hungary	2.09% (10Y)
Poland	2.05% (10Y)
Romania	4.50% (10Y)

The expected easing of inflation and external uncertainties supports stability of rates across CEE next year. While inflationary pressures in Czechia would be a sufficient reason to raise the interest rate, the central bank remains cautious, due to risks stemming from the global outlook. In Romania, the inflation rate sitting above the target prevents monetary easing amid dovish major central banks. A rate hike is also unlikely, as the National Bank of Romania would like to avoid speculative capital inflows and leu appreciation triggered by the interest rate differential. The Polish central bank feels comfortable with the current level of interest rates and the outlook favors stability. The Hungarian central bank is expected to preserve its accommodative stance alongside the ECB's dovish tones.

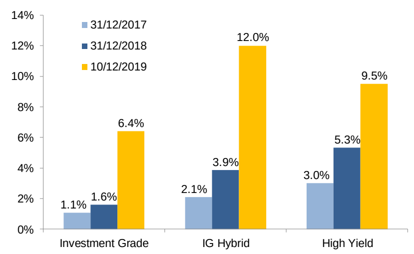
Spreads of 10Y local currency government bonds over German Bunds have been falling in the region in the fourth quarter this year. The major outlier is, unsurprisingly, Romania, where spreads widened on fiscal woes. As aggressive increase of pensions still seems the most likely scenario, the high spread level is justified. The latest change of the outlook to negative by S&P highlight the risk. Excessive Deficit Procedure seems more than likely as well. Romania is the only country with a budget deficit above the fiscal limit of 3% of GDP, while some CEE countries are even sitting on budget surpluses. Further tightening of spreads also seems unlikely in Czechia, Poland and Hungary. Ongoing fiscal expansion may create some upside movement in Czech yields. As for Hungary, where spreads tightened the most in 4Q19 vs. German Bunds, we also see no further room to decline. However, current spread levels seem more or less justified by the need for lower wholesale issuance amid the large amount of sales of retail bonds.

Currency markets in the region, albeit capable of large swings, do not show marked mispricing in our opinion. The largest potential for appreciation against the euro is in the Czech koruna. This is especially so as the outcome British elections is perceived positively by markets. With this outcome, fears of a hard Brexit can finally get out of the way. Elsewhere, however, not much movement is expected. Romanian fiscal problems could warrant a steady, two percent annual depreciation in the leu. The recent strengthening of the Polish zloty does not imply further appreciation. The forint is also likely to be kept weak by the central bank of Hungary.

EUR-Corporate Bonds
Investment Grade
High Yield

2019: a strong year for corporate bonds

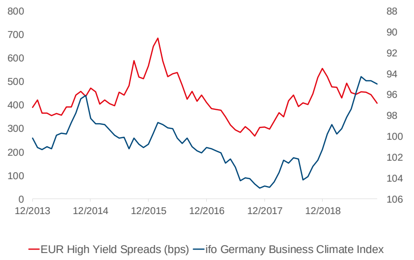
Performance in %



Source: Erste Group Research (author's calculations)

Credit spreads tighten, ifo improves slightly

HY spreads in basis points (lhs)



Source: Erste Group Research (author's calculation)
As of 10 December 2019

What Comes After the Strong Performance in 2019?

2019 is likely to become the best year of the past five in the market for EUR-denominated corporate bonds, despite numerous event risks. Credit spreads tightened in the course of 2019, but the widening of spreads experienced in 2018 could not be offset in its entirety. Since the beginning of 2019 bonds of all rating classes have outperformed government bonds. Topping the list are IG hybrid bonds with a return of 12.0%, followed by HY bonds with 9.5% and IG bonds with 6.4%. The EUR primary market was very strong as well and set a new record high this year with issuance volume totaling EUR 440bn.

The trade war will remains one of the most important factors for corporate bond markets next year. The Brexit should be implemented by the end of January, but other political trouble spots in the euro zone will remain with us in 2020. According to Moody's, these are likely to hamper economic growth in the euro zone and affect credit conditions negatively. Based on this, the rating agency revised its 2020 outlook for EMEA non-financial corporate bonds from stable to negative. However, important leading economic indicators such as the German ifo business climate index and euro zone manufacturing purchasing managers' indexes stabilized in the fourth quarter. These indicators are likely to improve further in the course of next year and should have a positive impact on credit spreads.

Corporate bonds will continue to be supported by the ECB's new securities purchase program (CSPP). We expect an average of net new corporate bond purchases of EUR 2bn monthly (excl. reinvestment). However, the ECB was quite active in EUR corporate bond markets after the start of the CSPP in November 2019 and purchased EUR 6.3bn worth of bonds until 06 December, around one third thereof in the primary market. Currently the ECB holds corporate bonds valued at around EUR 183.6bn.

Moody's is forecasting rising default rates in the speculative rating segment, albeit from a very low base. After a low of 1.2% in 2019 the average default rate is estimated to increase to 3.6% until the end of November 2020. This is inter alia attributable to the strong increase in the number of companies with a speculative rating, which has in the meantime reached a new record high (612 companies in 2019 vs. 200 in 2009).

We are maintaining our forecast and continue to favor IG hybrid bonds in the first quarter of 2020 as well as the highest rated securities in the HY segment, namely BB-rated bonds. 99% of the issuers rated by Moody's in this segment have adequate liquidity positions. However, in the event of an escalation in the trade war, strong price volatility is to be expected in these two segments as well. In view of persisting elevated uncertainty on the geopolitical front we continue to favor defensive sectors.

Currencies

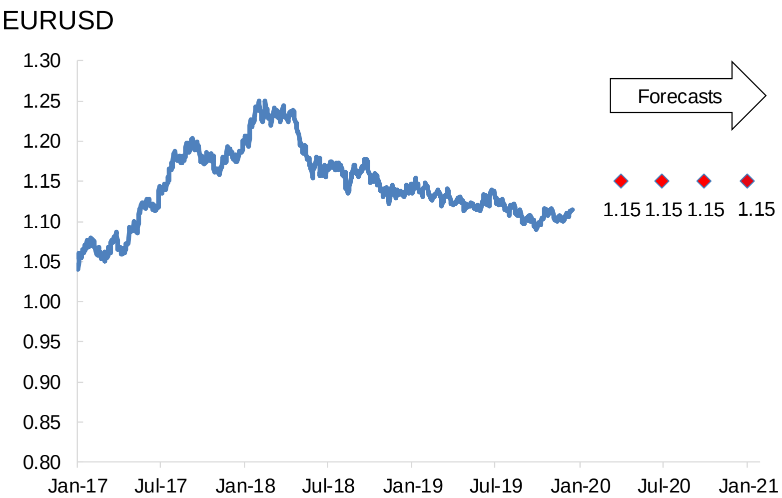
	Forecast Q1 2020
US-Dollar	1.15

We Expect a Trend Reversal

Improving global environment argues in favor of the euro

We expect a gradual appreciation of the euro against the US dollar in coming months. With little prospect for a change of interest rates on both sides of the Atlantic, the currency pair lacks strong directional pointers, but there should nevertheless be some movement. We expect that the negative effects of political conflicts on the global economy will subside (trade war US/China, Brexit). After a difficult 2019, economic growth should therefore pick up again next year, for which initial signs are already in evidence. We see greater potential for an improving outlook in the euro zone than in the US, as the negative impact of these political issues was more pronounced in the euro zone. In combination with an already highly valued US dollar this suggests a trend reversal in EURUSD. This forecast is contingent on the trade dispute between the US and China not re-escalating and triggering a renewed economic downturn, which currently looks unlikely. After the general elections in the United Kingdom have concluded with a clear Tory victory, a Brexit by 31 January at the latest is all but certain; the hard Brexit scenario is therefore off the table for now. Negotiations over a future trade agreement between the EU and the United Kingdom will follow next year.

The euro should gain some ground



Source: Erste Group Research, market information systems

	Forecast Q1 2020
Swiss Franc	1.12

SNB maintains expansionary monetary policy

At its December meeting, the Swiss National Bank kept the interest rate on sight deposits at the central bank at -0.75%. It remains willing to intervene in foreign exchange markets as necessary, while taking the overall currency situation into consideration. The SNB's expansionary monetary policy continues to be necessary in view of the outlook for inflation in Switzerland. According to the SNB's assessment, the Swiss franc continues to be highly valued and the situation in foreign exchange markets remains fragile. The SNB’s new conditional inflation forecast is slightly lower than the one it published in September. It was lowered to +0.1% for 2020 (previously +0.2%) and to +0.5% for 2021 (previously +0.6%). The SNB maintains its existing baseline scenario for the global economy and expects economic growth to remain muted in the short term. The easing of monetary policy is likely to contribute to a recovery in economic output and thus also inflation in the medium term.

In line with the moderate easing of tensions in the most important political crisis situations (no hard Brexit, rapprochement in the trade dispute) the Swiss franc has already weakened slightly against the euro since September, from around 1.08 to a level of 1.095. Based on a currency model we have developed on the basis of wealth and inflation differentials, we estimate that the Swiss franc's fair value relative to the euro stands at around 1.14. In light of the fact that a global economic upswing is taking hold in 2020 we expect that investors’ risk appetites should increase. As a result, demand for safe haven investments such as the Swiss franc should continue to wane. In this environment we expect a continued gradual weakening of the Swiss franc against the euro in the course of 2020 toward our modeled value of approximately 1.14. Since a minimum exchange rate is no longer enforced, the Swiss franc could appreciate strongly against the euro at any time if other risks were to materialize (e.g. geopolitical conflicts, escalation of the trade war or turmoil in Italy).

	Forecast Q1 2020
Gold in USD	1,450 – 1,500

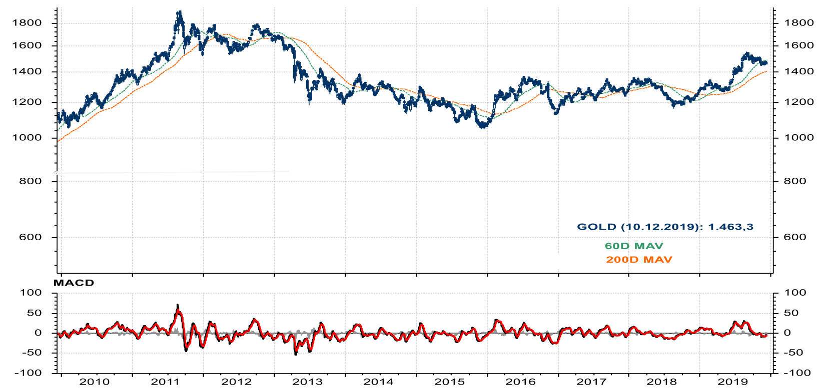
The gold price declined by -0.4% in USD terms or -2% in EUR terms in the fourth quarter. Since the beginning of the year it has advanced by +18% in EUR terms.

The moderate decline in the gold price last quarter was primarily attributable to an increase in supply and an overall decrease in demand. Despite almost unchanged mine production (878 tons), the gold supply grew by +4% year-on-year in the third quarter due to a strong increase in the supply of recycled gold (354 tons). By contrast, demand decreased (from nearly 1,200 tons in Q3 2018 to 1,108 tons in Q3 2019), mainly as a result of the price increase in previous quarters.

Demand for coins and bars decreased by fifty percent year-on-year to 150 tons in the third quarter. Investors partly took advantage of the large price increase in the first half of the year to take profits. Jewelry demand declined by -16% year-on-year to 461 tons as a result of the higher gold price. Global central banks also purchased less gold in the third quarter than in the comparable quarter of the previous year. Although their demand decreased in the third quarter, their purchases have risen by +12% in the course of 2019 compared to the previous year.

Strong growth in gold demand was recorded in the gold ETF segment. ETF demand rose to 409 tons in Q3 2019. That represents an increase of +110% compared to Q3 2018. Rate cuts by the Federal Reserve and the globally low level of yields underpinned this development.

Gold priced in USD



Source: Datastream, Erste Group Research

Outlook:
A likely slight increase in yields on US treasuries in coming months is a negative factor with respect to the prospects for gold prices. Moreover, there is growing willingness on the part of mining companies to hedge future production at current prices. This affects the gold price negatively. On the other hand, the expected moderate depreciation of the US dollar should have a positive effect. Overall, the potential for a further price increase seems limited at present. We expect a sideways move in coming quarters in a range from approximately USD 1,450 to USD 1,500.

Stocks

Forecast Q1 2020

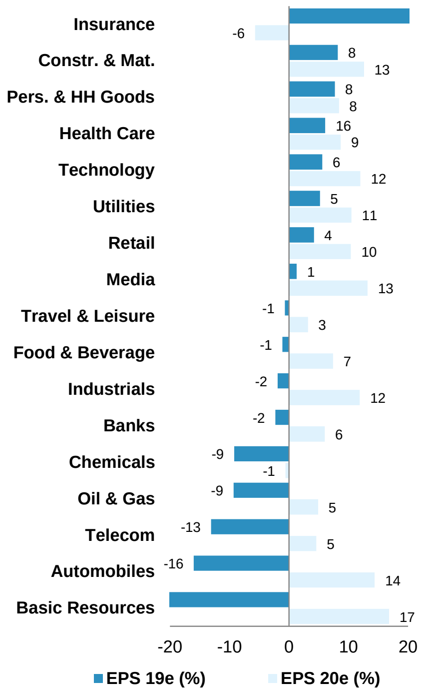
Global — 0% to +5%

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

Index	Sales		EPS	
USD	19e	20e	19e	20e
North America	5.3	4.9	4.8	6.4
Europe	2.5	3.7	-3.5	11.3
Asia	4.2	3.7	-11.1	7.4
EM Asia	4.5	8.2	7.0	9.1
EM LatAm	0.6	2.2	2.6	13.7
EM Europe	-5.0	0.1	-4.0	-4.0
World	**2.6**	**4.3**	**-0.2**	**7.5**

Source: Erste Group Research Index, FactSet.

Global sectors 2019e and 2020e



Source: Erste Group Research Index, FactSet

The World Stock Index advanced +3.5% in EUR terms in the 4th quarter. The index gained +25.8% in EUR terms in 2019 as a whole. The US stock market and the global emerging markets index outperformed the World Stock Index slightly (US: +3.7%, EM: +3.9%). The European stock market posted a gain of +3.3%, slightly underperforming the World Stock Index.

Most companies are likely to post earnings growth in 2019. Aggregate earnings of companies on the global level are nevertheless likely to remain almost unchanged year-on-year (2019e: -0.2%). The reason for this is that a few companies, particularly in the semiconductor industry, will report large losses in 2019. These companies are expected to return to profitability in 2020.

According to consensus estimates, the largest companies in the world will post earnings growth of +7.5% in 2020. Revenue growth is expected to accelerate from +2.6% in 2019 to +4.3% in 2020.

Technology is the largest global sector. It should once again achieve above-average earnings growth in 2020. Consensus estimates call for earnings to grow by +12.4%. The health care, industrial, retail trade and consumer products sectors are also likely to post earnings growth rates exceeding the global average.

The valuation of global stocks is currently moderate. The 2020 forward P/E ratio stands at approximately 15.7x. The forward dividend yield amounts to 2.5% for 2019 and 2.6% for 2020. Stocks are attractively valued in comparison to government bonds. According to consensus estimates, the US stock market, the largest market in the world, has a 2020 forward dividend yield of 1.9%. Yields on 10-year US treasury notes currently stand at a roughly similar level of 1.89%.

Positive outlook for global stocks in Q1 2020
The prospects for a further advance in the World Stock Index in the first quarter of 2020 are favorable. Companies are likely to report stronger earnings and revenue growth than in 2019. We expect the global indexes to post a gain in a range of 0% to +5% in the first quarter.

Global Sectors (1)

Outlook:	↘ -5% to 0
PE 20e	11.5x
EPS 20e	+4.9%

Energy
According to consensus estimates this sector is likely to post below-average revenue and earnings growth rates in 2020 compared to other global sectors. Revenue growth in 2020 is expected +2.6%, while earnings are estimated to grow by +4.9%. The valuation of the sector is low as a result of its meager growth prospects. The 2020 forward P/E ratio stands at 11.5x and the forward dividend yield is 5.2%. We expect a negative performance in the first quarter in a range of -5% to 0%.

Outlook:	↘ -5% to 0
PE 20e	16.1x
EPS 20e	-0.6%

Chemicals
Expected growth rates for this sector for 2020 are also below the global average. According to consensus estimates revenues will grow by +4%. After an expected decline in profits of -9.2% in 2019, earnings are expected to stagnate in 2020 (2020e: -0.6%). Due to its below-average prospects the sector's valuation is comparatively favorable. The 2020 forward dividend yield amounts to 3.1%. We expect a moderately negative performance in the first quarter ranging from -5% to 0%.

Outlook:	↗ 0 to +5%
PE 20e	11.4x
EPS 20e	+16.8%

Commodity Producers
After the sector probably posted declines in both revenues (2019e: -1.8%) and earnings (2019e: -22%) in 2019, the situation is expected to improve in 2020. Consensus estimates are calling for moderate revenue growth (2020e: +0.5%) and earnings growth of +16.8%. The valuation of the sector is very low. The 2020 forward P/E ratio stands at 11.4x and the 2020 forward dividend yield amounts to 4.4%. We expect the sector to post a gain in a range of 0% to +5% in the first quarter.

Outlook:	↗ 0 to +5%
PE 20e	18.1x
EPS 20e	+12.6%

Construction & Building Materials
This sector should see slightly stronger revenue growth in 2020 (+2.9%) than in the previous year (2019e: +2.1%). With respect to earnings, consensus estimates are calling for growth to accelerate (2020e: +12.6%). All companies of the sector that are constituents of the Erste Global Index are forecast to post rising earnings. We expect the sector index to generate a return between 0% and +5% in the first quarter.

Outlook:	↗ 0 to +5%
PE 20e	17.9x
EPS 20e	+11.9%

Industrial Goods & Services
This sector is expected to achieve above-average revenue and earnings growth in 2020. Consensus estimates are calling for revenue growth of +5.8%, while earnings are expected to grow by +11.9%. European companies are also likely to benefit from the improvement in the outlook and are estimated to achieve earnings growth of +9.7% in 2020. We expect the sector to post a positive performance at the upper end of a range from 0% to +5%.

Outlook:	↗ 0 to +5%
PE 20e	9.4x
EPS 20e	+14.4%

Car Makers & Car Part Suppliers
In 2019, car makers are likely to have suffered a strong decline in earnings (2019e: -16%) and a moderate decline in revenues. Numerous companies have reacted to this by restructuring their operations and reorienting their product line-ups toward e-mobility. In 2020 the situation is expected to improve. Revenues are seen to slightly increase again (2020e: +1.8%), while earnings are expected to grow by +14.4%. A decline in earnings is forecast for just one company in the sector (Nissan). We expect a performance in a range of 0% to +5% in the first quarter.

Global Sectors (2)

Outlook:	➚	0 to +5%
PE 20e		21.9x
EPS 20e		+7.4%

Food & Beverages

This defensive sector is expected to post stronger revenue and earnings growth in 2020 than in the previous year. According to consensus estimates, revenue growth will reach +3.8% in 2020 and earnings growth +7.4%. The valuation of the sector in terms of its 2020 forward P/E ratio stands at 21.9x, which is above the global average. The 2020 forward dividend yield amounts to 2.5%. We expect the sector to gain between 0% and +5% in the first quarter.

Outlook:	➚	0 to +5%
PE 20e		20.4x
EPS 20e		+8.4%

Household Appliances & Personal Care Products

The sector index advanced +4.4% in EUR terms last quarter. The largest companies in this industry are Procter & Gamble, LVMH, L'Oreal and Nike. The outlook for the sector is positive. Consensus estimates for 2020 are calling for revenue growth of +4.9% and earnings growth of +8.4%. We expect the uptrend of the sector index to continue. It should achieve a return ranging from 0% to +5% in the first quarter.

Outlook:	➚	0 to +5%
PE 20e		17x
EPS 20e		+8.7%

Health Care & Pharmaceuticals

Revenue growth for both 2019 and 2020 is likely to be above the global average. In 2019 revenue growth is expected to amount to +11.4%, followed by +7.3% in 2020. Earnings growth in 2020 is expected to amount to +8.7%. Earnings growth at European companies is seen to be slightly slower (2020e: +6.6%). As a result of the stable earnings growth trend of companies in this sector, it is less volatile than other sectors. We are forecasting an advance in a range from 0% to +5% in the first quarter.

Outlook:	➚	0 to +5%
PE 20e		26.6x
EPS 20e		+10.4%

Retail Trade

The sector has delivered an above-average return since the beginning of the year (+30% in EUR terms). The uptrend of the sector is primarily attributable to favorable fundamental developments. Above-average growth rates compared to other sectors are forecast for 2020 as well. According to consensus estimates, revenues are expected to grow by +6.1% in 2020, while earnings are estimated to grow by +10.4%. The two largest constituents of the index are Amazon.com and Alibaba. Their forecast growth rates for 2020 exceed the sector average significantly. We expect the favorable trend to continue in the first quarter as well and are forecasting a performance ranging from 0% to +5%.

Outlook:	➚	0 to +5%
PE 20e		20.6x
EPS 20e		+13.2%

Media

Earnings in the media sector are expected to increase by +13.2% in 2020. The sector's growth momentum exceeds that of the World Stock Index. For the three largest companies in the sector, Comcast, Netflix and Charter Communications, the consensus expects high earnings growth rates in 2020 well above the sector average. The sector has an above-average valuation, as the 2020 forward P/E ratio stands at 20.6x. The main reason for this are the high expected and comparatively stable growth rates of the sector. We expect the sector index to post a gain in the first quarter in a range of 0% to +5%.

Global Sectors (3)

Outlook:	0 to +5%
PE 20e	16.9x
EPS 20e	+3.2%

Travel & Leisure
According to consensus estimates, revenue growth will reach +5.6% in 2019, followed by +6.2% in 2020. Earnings are seen to decrease by -0.7% in 2019, while moderate earnings growth of +3.2% is expected in 2020. This growth rate is markedly lower than that of the broad World Stock Index. The sector's valuation in terms of its forward P/E ratio (2020e: 16.9x) is currently higher than that of the World Stock Index (2020e: 15.7x), while the forward dividend yield is lower (2020e: 1.8% vs. 2.6% for the global index). We expect a performance at the lower end of a range from 0% to +5%.

Outlook:	0 to +5%
PE 20e	20.9x
EPS 20e	+12%

Technology
The largest global sector by market capitalization delivered a return of +39% in EUR terms this year. Revenue and earnings growth is expected to improve in 2020 compared to the previous year. According to consensus estimates, revenues will grow by +7.7%, while earnings growth will reach +12%. We are forecasting a performance between 0% and +5% in the first quarter.

Outlook:	-5% to 0
PE 20e	16.3x
EPS 20e	+10.5%

Utilities
The utilities sector posted a loss of -0.3% in EUR terms last quarter. Thus its return was below that of the World Stock Index (+3.5% in EUR terms). Consensus estimates are calling for revenue growth of +6.1% in 2020 and earnings growth of +10.5%. The 2020 forward dividend yield of the sector amounts to 3.9%. We expect a moderately negative performance for the sector index in the first quarter in a range of -5% to 0%.

Outlook:	-5% to 0
PE 20e	13.8x
EPS 20e	+4.6%

Telecommunication
Telecommunication companies are growing very slowly. After a slight decrease in revenues in 2019 by -0.4%, revenues are expected to grow by +1.6% in 2020. The earnings situation of the sector is expected to improve again in 2020 after earnings declined by approximately -13.1% in 2019. The consensus estimate calls for earnings growth of +5% next year. Due to its low growth the sector's valuation is low as well. The 2020 forward P/E ratio stands at 13.8x, while the 2020 forward dividend yield amounts to 4.2%. We expect a slightly negative performance in a range from -5% to 0% in the first quarter.

Outlook:	-5% to 0
PE 20e	9.6x
EPS 20e	+6.0%

Banks
The banking sector generated a return of +3.8% last quarter. After an expected earnings decline of -2.3% in 2019, consensus estimates are calling for earnings growth to resume in 2020. The expected growth rate is +6%. European banks are expected to achieve earnings growth of +4.3% in 2020. The valuation of the sector is low. The 2020 forward P/E ratio stands at 9.6x, while the 2020 forward dividend yield amounts to 4.4%. We expect a moderately negative performance in a range from -5% to 0%.

Outlook:	0 to +5%
PE 20e	12.9x
EPS 20e	-5.7%

Insurance Companies
The global insurance industry is likely report weakening revenue growth in 2020. At +1.5% expected revenue growth will be below average. According to consensus estimates the earnings situation of insurance companies is set to deteriorate as well. Earnings are expected to decline by -5.7% in 2020. The sector's valuation in terms of the 2020 forward P/E ratio stands at 12.9x, the 2020 forward dividend yield amounts to 2.8%. We expect a slightly negative performance in a range from -5% to 0% in the first quarter.

Forecast Q1 2020

Europe — 0% to +5%

Europe: Earnings and revenue growth
(y/y, %)

Index	Sales			EPS	
EUR	19e	20e		19e	20e
UK	1.0	5.2	0.6	0.6	10.3
Switzerland	3.5	3.7	0.0	0.0	11.8
France	1.7	2.5	-4.6	-4.6	12.0
Germany	4.2	5.1	-8.5	-8.5	13.3
Spain	1.4	2.1	-10.2	-10.2	14.9
	2.5	**3.7**	**-3.5**	**-3.5**	**11.3**

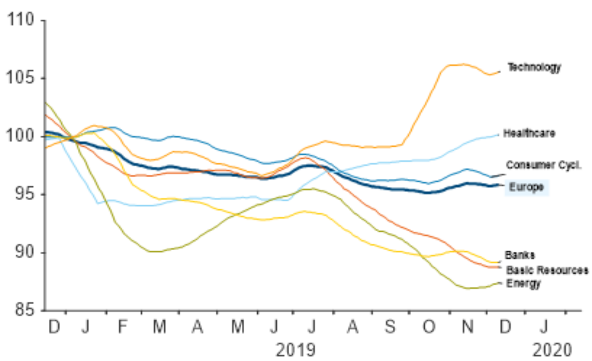
Source: Erste Group Research Index, FactSet.

The Erste Research Europe Index advanced +2.6% in EUR terms in the fourth quarter. Since the beginning of the year the index has gained +19%. With the exception of the telecommunications sector (-2.7%) all sectors posted gains. Among the 10 largest European stocks the performance of LVMH (+57%), SAP (+41%) and Nestle (+33%) stood out.

On the regional level Germany (+7%) and France (+3%) achieved the strongest performance in Q4 among the countries with a large index weighting. The moderate improvement in economic data and the de-escalation in the US/China trade war had a positive effect on cyclical sectors such as the industrial (+10%), automotive and technology sectors (+7% each). Overall, 14 of the 19 sectors achieved a positive performance in the quarter. The food and beverages sector (-6%) consolidated in the wake of the strong gains achieved until the end of Q3.

Expectations for revenue and earnings growth in 2020 vary widely by sector. Earnings for the European stock market as whole are expected to grow by +11% in the coming year, while revenues are estimated to grow by +3.7%. Earnings growth estimates diverge greatly between individual sectors. The largest increase in earnings is expected for the technology sector (+22%).

Earnings expectations for selected European sectors
Consensus estimates for 12-m fwd. earnings/share, indexed



Source: Datastream, Erste Group Research

As a result of exhibiting low earnings growth momentum by international standards, the European stock market trades at an average valuation. The 2019 forward P/E ratio stands at 16.5x (global: 16.9x), the forward dividend yield amounts to 3.5%. European stocks are attractive compared to German Bunds (yield on 10-year maturity: -0.3%).

Outlook

As current earnings estimates indicate, sector allocation remains crucial for investors. Thus we recommend stocks in growth sectors such as technology, consumer cyclicals, consumer staples as well as health care. For the European stock market as a whole we expect a gain ranging from 0% to +5% in Q1 2020.

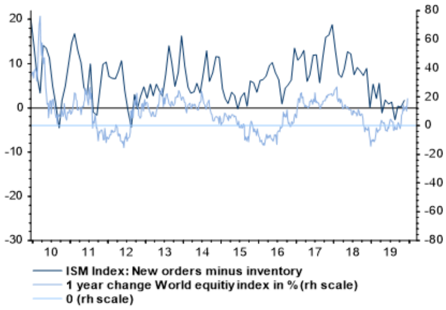
Forecast Q1 2020

USA 0% to +5%

S&P 500 Index

Source: Datastream, Erste Group Research

New manufacturing orders minus inventories vs. 1-year rate of change of World Stock Index
ISM Index



Source: Datastream, Erste Group Research

The S&P 500 Index gained +3.5% in EUR terms in the fourth quarter (+5.3% in USD terms). In 2019 the US benchmark index achieved a performance of +29% in EUR terms. Last quarter the technology and banking sectors outperformed the broad market. The bank index rose by +8.3% in EUR terms. The technology-heavy Nasdaq 100 Index gained +6.2% in EUR terms.

The US economy is likely to continue to grow in 2020. Growth momentum has decreased somewhat, which is particularly noticeable in the manufacturing sector. The ISM manufacturing index has declined to 48.1 points. On the other hand, the difference between new orders and inventories has risen slightly above the neutral threshold again. This represents a first indication of improving conditions in the manufacturing sector. Usually the stock market responds positively to such changes over the medium term.

The ISM index for the services sector most recently stood at 53.9 points. It has declined as well. The current level of the indicator signals a solidly growing services sector with somewhat diminished growth momentum.

The outlook for listed US corporations remains positive. Consensus estimates are calling for revenue growth of +5.2% in 2020 and earnings growth of +7.1%. Current earnings estimates are signaling accelerating growth momentum in comparison to the previous year.

The 2020 forward P/E ratio of the US stock market stands at 18.7x, the dividend yield amounts to 1.9%. In view of the low level of yields on US treasuries (1.81% on the 10-year note) and the positive economic growth outlook, the valuation of stocks appears favorable.

Based on our expectation for a moderately weaker US dollar, the stocks of export-oriented companies should exhibit relative strength next year. These companies can primarily be found in the technology sector, but also in the health care and consumer products sectors. In light of this, US telecom companies, banks, insurers and utilities appear less attractive.

Outlook

In view of the favorable growth prospects for US companies we expect the stock market to rally in the first quarter. It should post a gain in a range from 0% to +5%.

Forecast Q1 2020

CEE ↗ 0% to +5%

Fueled by the current debate over climate change, ESG is rightly becoming an increasingly important issue in emerging markets as well. ESG-themed investment assets have rapidly captured a share of just over 20% of emerging market investments. Moreover, ESG factors will presumably be increasingly incorporated into capital market regulations and thus also affect the eastern part of the EU.

Overall, the quality of reporting in Central and Eastern Europe remains below the level of Western markets, although the ESG disclosures of established reporting companies in the region are only slightly less comprehensive than those found in the rest of the EU. Of course the size of companies also plays an important role in this context. The highest quality is found in the utility, commodity, energy and financial sectors. Turkey surprisingly stands out with what it has already achieved, while Poland and Romania are regional laggards. Particularly Poland with its currently unfavorable energy mix (around 78% of electricity generation is coal-based) still has considerable potential for improvement. In fact, the share of renewable energy increased by 23% y/y in H1 2019, more than in any other country in the region.

The impact of political uncertainty – for better or worse – remains pronounced in the region. Indeed, it trumps even local political factors. A possible easing of tensions exposes the region to the risk that as risk appetites grow, regional markets will be driven to valuation levels which are at odds with current growth prospects. Said prospects are certainly not as bad as has been assumed, neither in terms of GDP growth nor in terms of corporate earnings, but there is at the very least evidence of a cyclical slowdown. The good news is that leading indicators in the region seem to be bottoming out, which may possibly be followed by a recovery. However, the latter has to actually happen; and while Central and Eastern Europe definitely still has an advantage over other regions in terms of valuations, this may be partly due to the recently muted momentum in corporate earnings growth.

As a result we continue to be cautious with respect to cyclical sectors. Our favorite sector in this segment would be technology. We would definitely continue to add defensive elements, primarily in the form of high dividend stocks. The real estate sector stands out in this respect (also in Poland), although it is otherwise quite ambitiously valued.

We currently see strong earnings momentum in the pharmaceutical sector, as well as in Hungary and Turkey on the country level. Of course, the latter remains a decidedly speculative proposition and continues to harbor substantial political risk. The Russian market should rally further, as growth remains coupled with the potential for further rate cuts there. As an aside, the same also applies to Turkey. Poland remains on standby for now, but in the course of 2020 it should finally receive the expected boost on the back of improving local liquidity due to the new retirement system. The Czech market continues to be interesting, but on Romania and Croatia we are considerably more cautious than previously.

Forecast Q1 2020

India

0% to +5%

EGR India Index

USD	2019e	2020e
Sales	10.4%	9.2%
EBIT Adj.	17.2%	17.0%
Gewinn Adj.	24.5%	25.5%
PE	22,4x	17,9x
Div. Yield	1.8%	1.9%

Source: Erste Group Research Indexes, FactSet.

India's stock market rose by 4.3% in EUR terms in the fourth quarter. It delivered a performance of +12% in EUR terms for 2019 as a whole. This was slightly below the return of the emerging markets average (+13%).

The medium term outlook for India's stock market remains positive. The recent corporate tax reform supports further earnings growth. According to consensus estimates, earnings are expected to post a strong increase of +25.5% in 2020. Expected revenue growth stands significantly above the emerging markets average. With respect to revenues, a growth rate of +9.2% is expected in 2020.

The valuation of the Indian stock market is higher than the emerging markets average. This is attributable to its strong expected revenue and earnings growth rates. The market's forward P/E ratio stands at 22.4x for 2019 and 17.9x for 2020. The forward dividend yield amounts to 1.8% this year and 1.9% in 2020.

The Indian stock market remains our favorite destination for emerging market investments in 2020. We expect Indian stocks to deliver a positive performance in the first quarter. The market should post a gain at the upper end of a range from 0% to +5% in EUR terms.

Forecast Q1 2020

China | Hong Kong

0% to +5%

EGR China Index

USD	2019e	2020e
Sales	3.6%	8.3%
EBIT Adj.	5.0%	8.4%
Gewinn Adj.	5.2%	6.8%
PE	11,2x	10,4x
Div. Yield	3.2%	3.3%

Source: Erste Group Research Indexes, FactSet

The Chinese stock market including Hong Kong moved sideways last quarter (+0.6%). Stocks in the retail trade, technology, consumer goods and real estate sectors achieved the strongest returns. The energy (oil & gas), telecom and banking sectors exhibited relative weakness compared to the broad market.

The confidence of manufacturing purchasing managers improved in November. The relevant purchasing managers' index (PMI) rose to 50.2 points in November (October: 49.3). Thus the situation in the manufacturing sector appears to be picking up.

According to consensus estimates revenue growth will reach +8.3% in 2020 (vs. 2019e: +3.6%). This represents a significant improvement for the top-line growth prospects of Chinese companies compared to the previous year. Corporate earnings are expected to grow by +6.8% in 2020. Risk factors for investors include the trade war with the US and political unrest in Hong Kong. The valuation of the stock market stands below the global average. The 2020 forward P/E ratio stands at 10.4x, while the 2020 forward dividend yield amounts to 3.3%.

In view of the low valuation of China's stock market and the favorable outlook for corporate earnings, the market should achieve a positive return in the first quarter. We expect it to post a gain in a range of 0% to +5%.

Forecast Q1 2020

Brazil

0% bis 5%

Brazilian real vs. USD:
BRL/USD

Source: Datastream, Erste Group Research

The Brazilian stock market rose by +5% in EUR terms in the fourth quarter. The strongest performance was achieved by stocks in the insurance, energy and financial services sectors. By contrast, bank stocks and consumer staples stocks weakened.

The outlook for earnings growth at Brazilian companies has improved. In 2020 earnings are expected to grow by +10% (in USD terms). However, according to consensus estimates, revenues are seen to decline by -1.3% in 2020 (in USD terms). The highest revenue growth rates are expected for Brazilian banks.

Revenue growth at the largest listed companies is below average compared to other BRIC nations. As result, valuations are low by global standards. The 2020 forward P/E ratio stands at 10.2x (vs. 15.7x for the World Stock Index). The forward dividend yield for 2020 amounts to 3.6% (vs. 2.6% for the World Stock Index).

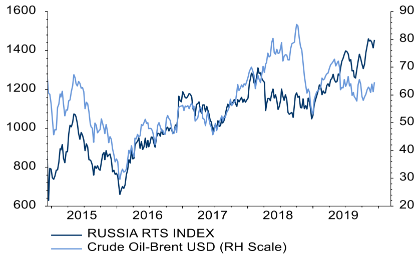
We expect a rally in the Brazilian index in the first quarter of 2020. It should post a gain in a range of 0% to +5%.

Forecast Q1 2020

Russia

0% to +5%

Russia RTS Index vs. the oil price:



Source: Datastream, Erste Group Research

The Russian stock market rose by +8.5% in EUR terms in the fourth quarter. Its return of +42% (in EUR terms) since the beginning of 2019 is very large by global standards. As in the previous quarter, the energy sector was among the best performers. Only stocks in the steel sector lost ground in the fourth quarter.

According to consensus forecasts corporate revenues should stagnate next year (2020e: -0.2%). After a decline in 2019, earnings are expected to grow moderately again (2020e: +3.7%). The largest earnings growth rates are expected for Sberbank, Novatec PJSC, Rosneft Oil and MMC Norilsk Nickel.

The valuation of Russia's stock market remains low, despite the rally in the benchmark index. The 2020 forward P/E ratio stands at 6.2x, while the 2020 forward price/sales ratio stands at 1.0x. The Russian companies included in the Erste 1000 Index have a 2020 forward dividend yield of 8.3%. Thus the most important valuation metrics of the stock market remain well below the global average even after the strong advance in the index in 2019.

We expect the Russian stock market to post a moderately positive return next quarter. Its performance should be in a range of 0% to +5%.

Tables & Appendix

Economic indicators

		GDP (% yoy)		Inflation (% yoy)		Un- employ. (%)		CA Balance (% GDP)		Fiscal Balance (% GDP)		Gross Debt (% GDP)	
		19	20e	19	20e	19	20e	19	20e	19	20e	19	20e
Europe	**Eurozone**	**1.2**	1.2	1.2	1.3	7.7	7.5	2.8	2.7	-0.9	-0.9	83.9	82.3
	Germany	**0.5**	1.0	1.5	1.7	3.2	3.3	7.0	6.6	1.1	1.0	58.6	55.7
	France	**1.3**	1.3	1.2	1.3	8.6	8.4	-0.5	-0.5	-3.3	-2.4	99.3	99.2
	Spain	**2.2**	1.8	0.7	1.0	13.9	13.2	0.9	1.0	-2.2	-1.9	96.4	95.2
	Italy	**0.2**	0.8	0.7	1.0	10.3	10.3	2.9	2.9	-2.0	-2.5	133.2	133.7
	Austria	**1.6**	1.4	1.5	1.7	4.7	4.7	2.5	2.3	0.3	0.2	69.6	66.5
	UK	**1.2**	1.4	1.8	1.9	3.8	3.8	-3.5	-3.7	-1.4	-1.5	85.6	84.8
	Switzerland	**0.8**	1.3	0.6	0.6	2.8	2.8	9.6	9.9	1.0	0.4	38.6	37.3
Eastern Europe	**Russia**	**1.1**	1.9	4.7	3.5	4.6	4.8	5.7	3.9	1.0	0.1	16.5	17.7
	Poland	**4.2**	3.4	2.2	2.1	5.6	5.8	-0.5	-0.7	-0.7	-0.8	46.5	45.0
	Turkey	**0.2**	3.0	15.7	12.6	13.8	13.7	-0.6	-0.9	-4.6	-4.7	30.1	30.8
	Czechia	**2.6**	2.5	2.7	2.4	2.1	2.3	0.7	0.3	0.6	0.3	30.8	30.0
	Romania	**4.0**	3.5	3.9	3.3	3.9	4.0	-4.9	-5.3	-4.3	-4.0	36.1	37.5
	Hungary	**4.9**	3.5	3.3	3.3	3.4	3.4	-0.2	0.1	-1.8	-1.4	66.9	64.6
	Slovakia	**2.3**	2.0	2.6	2.2	5.8	5.9	-2.9	-1.7	-1.1	-1.2	48.4	48.1
Americas	**USA**	**2.2**	1.9	1.9	2.1	3.7	3.5	-2.5	-2.6	-5.6	-5.5	106.2	108.0
	Canada	**1.5**	1.8	2.0	2.0	5.8	6.0	-1.9	-1.7	-0.7	-0.7	87.5	85.0
	Brazil	**0.9**	2.0	3.8	3.5	11.8	10.8	-1.2	-1.0	-7.5	-6.9	91.6	93.9
	Chile	**2.5**	3.0	2.2	2.8	6.9	6.9	-3.5	-2.9	-2.2	-2.1	27.5	29.2
	Mexico	**0.4**	1.3	3.8	3.1	3.4	3.4	-1.2	-1.6	-2.8	-2.6	53.8	54.6
	Argentina	**-3.1**	-1.3	54.4	51.0	10.6	10.1	-1.2	0.3	-4.0	-2.7	93.3	80.8
	Colombia	**3.4**	3.6	3.6	3.7	9.7	9.5	-4.2	-4.0	-1.7	-0.9	51.0	49.0
Asia	**China**	**6.1**	5.8	2.3	2.4	3.8	3.8	1.0	0.9	-6.1	-6.3	55.6	60.9
	Japan	**0.9**	0.5	1.0	1.3	2.4	2.4	3.3	3.3	-3.0	-2.2	237.7	237.6
	India	**6.1**	7.0	3.4	4.1	na	na	-2.0	-2.3	-7.5	-7.2	69.0	68.5
	Indonesia	**5.0**	5.1	3.2	3.3	5.2	5.0	-2.9	-2.7	-1.9	-1.8	30.3	30.0
	South Korea	**2.0**	2.2	0.5	0.9	4.0	4.2	3.2	2.9	0.7	-0.8	40.1	43.4
	Thailand	**2.9**	3.0	0.9	0.9	1.2	1.2	6.0	5.4	-0.2	-0.2	42.4	43.0
	Australia	**1.7**	2.3	1.6	1.8	5.1	5.1	-0.3	-1.7	-0.7	-0.7	41.8	42.3
	South Africa	**0.7**	1.1	4.4	5.2	27.9	28.4	-3.1	-3.6	-6.2	-6.7	59.9	64.2
	World	**3.0**	3.4										

Source: IMF, EU Commission, Erste Group Research estimates

Forecasts[1]

GDP	2018	2019	2020	2021
Eurozone	1.9	1.2	1.2	1.3
US	2.9	2.2	1.9	2.2

Inflation	2018	2019	2020	2021
Eurozone	1.7	1.2	1.3	1.5
US	2.4	1.9	2.1	2.1

Currency	current	Mar.20	Jun.20	Sep.20	Dec.20
EURUSD	1.11	1.15	1.15	1.15	1.15
EURCHF	1.09	1.12	1.13	1.14	1.14

Interest rates	current	Mar.20	Jun.20	Sep.20	Dec.20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.40	-0.40	-0.40	-0.40	-0.40
Germany Govt. 10Y	-0.30	-0.20	-0.20	-0.10	-0.10
Swap 10Y	0.09	0.10	0.10	0.20	0.20

Interest rates	current	Mar.20	Jun.20	Sep.20	Dec.20
Fed Funds Target Rate*	1.55	1.63	1.63	1.63	1.63
3M Libor	1.90	1.90	1.90	1.90	2.10
US Govt. 10Y	1.84	2.00	2.00	2.10	2.20
EURUSD	1.11	1.15	1.15	1.15	1.15

*Mid of target range

Interest rates	current	Mar.20	Jun.20	Sep.20	Dec.20
Austria 10Y	-0.08	0.00	0.00	0.10	0.10
Spread AT - DE	0.22	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**

					Weight	Performance (%)				Growth (%, y/y)				P/E		DY
			No. of	Mkt. Cap.	(%)	EUR				Sales		Net Profit Adj.				
	Erste Global 1000 Index		Companies	EUR bn	World	1M	3M	12M	YTD	19e	20e	19e	20e	19e	20e	19e
	World	***USD***	**1,014**	**46,095**	**100,0**	**0,6**	**3,5**	**17,1**	**22,9**	**2,6**	**4,3**	**-0,2**	**7,5**	**16,9**	**15,7**	**2,5**
	Developed Markets	*USD*	843	39,608	85,9	0,8	3,9	18,6	25,1	2,6	4,0	-1,3	7,5	18,1	16,8	2,4
	Emerging Markets	*USD*	171	6,487	14,1	-0,3	1,3	8,7	11,0	2,7	6,5	4,8	7,4	11,9	11,1	3,2
Developed Markets	**North America**	***USD***	**448**	**25,814**	**56,0**	**1,3**	**3,7**	**20,9**	**28,6**	**5,3**	**4,9**	**4,8**	**6,4**	**19,6**	**18,4**	**1,8**
	Canada	*USD*	36	1,126	2,4	-1,3	0,8	14,4	21,8	8,9	-0,1	2,3	3,3	14,3	13,8	3,3
	USA	*USD*	412	24,687	53,6	1,4	3,8	21,2	28,9	5,1	5,2	4,9	6,6	19,9	18,7	1,8
	Europe	***EUR***	**230**	**8,875**	**19,3**	**-0,3**	**3,7**	**14,7**	**19,4**	**2,5**	**3,7**	**-3,5**	**11,3**	**16,5**	**14,8**	**3,5**
	Austria	*EUR*	3	46	0,1	-3,6	-0,7	9,5	21,3	4,6	1,1	5,0	5,9	11,8	11,1	3,4
	Belgium	*EUR*	5	206	0,4	-0,1	-9,8	10,2	19,9	-6,7	3,0	11,8	1,9	16,8	16,5	3,1
	Czech Republic	*EUR*	1	11	0,0	-4,1	-3,0	-6,2	-5,6	13,4	8,8	69,7	22,8	15,4	12,6	5,6
	Denmark	*EUR*	9	295	0,6	2,1	8,7	24,2	29,7	8,8	8,1	-5,1	15,2	25,5	22,2	2,0
	Finland	*EUR*	6	124	0,3	-2,6	-3,1	2,3	6,1	5,3	0,1	-4,4	14,6	18,2	15,9	3,6
	France	*EUR*	46	1,882	4,1	-0,7	4,0	18,2	22,3	1,7	2,5	-4,6	12,0	16,9	15,1	3,0
	Germany	*EUR*	32	1,309	2,8	-0,8	7,1	14,1	18,7	4,2	5,1	-8,5	13,3	15,7	13,8	3,0
	Ireland	*EUR*	7	183	0,4	2,7	11,3	30,8	37,9	8,1	0,4	0,3	5,8	16,4	15,5	1,6
	Italy	*EUR*	11	321	0,7	-2,7	3,6	16,9	20,7	-0,8	2,5	1,7	4,5	11,6	11,1	5,1
	Netherlands	*EUR*	16	805	1,7	-0,9	2,3	13,1	17,3	-0,1	2,0	-6,3	7,9	17,2	15,9	3,8
	Norway	*EUR*	4	167	0,4	-6,5	-5,4	-7,7	-1,6	23,5	7,1	3,4	19,6	13,8	11,5	5,5
	Portugal	*EUR*	2	25	0,1	-1,7	8,4	9,4	12,5	1,0	4,6	12,0	23,6	18,5	15,0	4,9
	Spain	*EUR*	14	460	1,0	0,3	2,5	6,8	11,2	1,4	2,1	-10,2	14,9	14,6	12,7	4,7
	Sweden	*EUR*	14	341	0,7	0,8	6,9	11,1	17,5	3,5	1,0	-9,7	16,1	19,3	16,6	3,6
	Switzerland	*EUR*	24	1,261	2,7	1,1	2,9	20,7	26,7	3,5	3,7	0,0	11,8	19,8	17,7	3,2
	United Kingdom	*EUR*	37	1,448	3,1	0,3	3,6	11,6	15,0	1,0	5,2	0,6	10,3	14,9	13,6	4,1
	Asia/Pacific	***USD***	**165**	**4,920**	**10,7**	**-0,1**	**5,1**	**14,2**	**18,7**	**4,2**	**3,7**	**-11,1**	**7,4**	**15,2**	**14,1**	**3,1**
	Japan	*USD*	103	2,949	6,4	0,2	5,1	14,1	20,2	8,3	3,5	-1,8	3,9	14,9	14,3	2,5
	Singapore	*USD*	5	156	0,3	-2,5	1,3	10,0	11,3	1,0	6,6	2,1	1,5	11,9	11,7	4,7
	Australia	*USD*	21	758	1,6	-0,5	0,2	14,7	17,1	-3,1	0,5	-2,7	0,7	15,6	15,5	5,0
	South Korea	*USD*	22	567	1,2	-2,7	5,1	6,8	9,3	-6,3	3,3	-46,9	30,7	15,0	11,5	2,4
	Taiwan	*USD*	14	489	1,1	2,7	14,7	26,1	26,4	-2,5	7,9	-7,7	16,0	18,8	16,2	3,5
Emerging Markets	**Emerging Asia/Pacific**	***USD***	**127**	**5,174**	**11,2**	**0,0**	**1,6**	**7,9**	**10,2**	**4,5**	**8,2**	**7,0**	**9,1**	**12,9**	**11,8**	**2,9**
	China (incl. HK)	*USD*	59	3,594	7,8	0,5	0,7	6,6	10,8	3,6	8,3	5,2	6,8	11,2	10,4	3,2
	India	*USD*	38	1,043	2,3	-0,3	7,8	15,8	12,1	10,4	9,2	24,5	25,5	22,4	17,9	1,8
	Indonesia	*USD*	8	194	0,4	0,8	-4,6	5,1	4,6	6,5	8,1	9,8	11,1	17,7	15,9	2,9
	Malaysia	*USD*	7	94	0,2	-5,4	-4,1	-10,7	-11,5	-1,6	4,9	-6,6	4,8	14,0	13,4	4,1
	Philippines	*USD*	4	69	0,1	1,6	9,3	23,5	24,4	10,3	13,0	19,6	14,3	25,5	22,3	1,0
	Thailand	*USD*	11	180	0,4	-5,2	-7,3	1,0	4,3	-0,1	2,8	1,6	4,5	15,1	14,5	3,2
	Emerging Europe	***USD***	**16**	**522**	**1,1**	**-2,6**	**6,0**	**26,3**	**33,2**	**-5,0**	**0,1**	**-4,0**	**-4,0**	**6,2**	**6,5**	**6,7**
	Hungary	*USD*	1	13	0,0	9,9	19,7	25,7	29,7	8,6	9,7	9,9	4,1	10,9	10,5	1,7
	Poland	*USD*	3	23	0,1	-19,0	-16,1	-26,1	-25,8	-4,9	-1,1	-0,0	0,8	8,6	8,5	4,4
	Russia	*USD*	11	475	1,0	-1,9	7,3	31,5	40,1	-5,2	0,0	-4,7	-4,5	6,0	6,3	7,0
	Emerging Americas	***USD***	**21**	**655**	**1,4**	**0,5**	**-1,1**	**7,2**	**7,8**	**0,6**	**2,2**	**2,6**	**13,7**	**13,5**	**11,9**	**3,2**
	Brazil	*USD*	11	429	0,9	0,9	0,3	6,9	7,8	-3,6	-0,7	1,9	14,6	11,7	10,2	3,4
	Chile	*USD*	4	53	0,1	-3,9	-14,8	-20,4	-19,3	18,8	4,5	-12,2	7,6	17,0	15,8	3,4
	Mexico	*USD*	4	132	0,3	-1,3	0,9	18,0	14,3	1,5	6,3	15,0	11,0	17,4	15,6	3,0
	Emerging Africa (S.A.)	***USD***	**7**	**137**	**0,3**	**-6,8**	**-11,0**	**-8,7**	**-8,2**	**1,8**	**6,7**	**9,8**	**8,6**	**13,5**	**12,4**	**3,3**
	Global Sectors															
Erste Sector Classification	Automobiles	*USD*	30	987	2,1	-3,5	3,6	9,1	14,4	-1,6	1,8	-16,0	14,4	10,7	9,4	3,1
	Banks	*USD*	105	5,165	11,2	-1,2	3,8	10,9	14,1	-0,3	3,4	-2,3	6,0	10,2	9,6	4,2
	Basic Resources	*USD*	32	749	1,6	2,4	3,9	6,8	8,3	-1,8	0,5	-22,0	16,8	13,4	11,4	4,6
	Chemicals	*USD*	32	829	1,8	-1,5	2,2	12,2	15,3	-1,4	4,0	-9,2	-0,6	16,0	16,1	2,9
	Construction & Mat.	*USD*	16	369	0,8	-0,3	5,1	28,9	30,3	2,1	2,9	8,2	12,6	20,3	18,1	2,1
	Real Estate	*USD*	47	1,153	2,5	0,6	0,2	12,7	18,2	9,1	11,0	3,2	9,4	18,0	16,4	3,2
	Financial Services	*USD*	41	1,314	2,9	2,5	6,1	28,4	33,9	2,9	4,1	0,9	4,0	17,3	16,7	2,0
	Food & Beverage	*USD*	48	2,225	4,8	1,2	-3,6	15,2	22,0	1,6	3,8	-1,1	7,4	23,6	21,9	2,4
	Health Care	*USD*	80	4,692	10,2	3,7	9,0	12,8	19,6	11,4	7,3	6,1	8,7	18,5	17,0	1,9
	Industrials	*USD*	119	4,207	9,1	0,2	4,3	21,9	28,0	4,7	5,8	-1,9	11,9	20,0	17,9	2,0
	Insurance	*USD*	55	2,293	5,0	-0,6	1,9	18,2	20,3	8,3	1,5	25,5	-5,7	12,1	12,9	2,7
	Media	*USD*	18	774	1,7	-2,1	-3,5	12,6	19,9	6,1	5,3	1,3	13,2	23,3	20,6	1,1
	Energy	*USD*	68	2,927	6,4	-2,6	-0,4	0,0	7,3	-3,1	2,6	-9,3	4,9	12,1	11,5	4,8
	Personal & HH Goods	*USD*	49	2,310	5,0	2,2	4,4	22,3	28,0	5,5	4,9	7,7	8,4	22,1	20,4	2,4
	Retail	*USD*	48	3,232	7,0	0,7	2,3	20,8	30,2	7,6	6,1	4,2	10,4	29,3	26,6	1,1
	Technology	*USD*	98	8,735	19,0	2,0	6,9	31,4	39,3	3,3	7,7	5,6	12,0	23,4	20,9	1,0
	Telecom	*USD*	35	1,699	3,7	-1,9	-1,6	6,8	11,1	-0,4	1,6	-13,1	4,6	14,5	13,8	4,1
	Travel & Leisure	*USD*	32	943	2,0	1,7	1,4	17,5	22,2	5,6	6,2	-0,7	3,2	17,4	16,9	2,0
	Utilities	*EUR*	19	488	1,1	1,4	2,4	15,3	17,3	-0,2	9,5	5,7	10,2	16,3	14,8	4,3

Source: Erste Group Research, FactSet Consensus Estimates. Price data as of: 11.12.2019.

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