Global Strategy Q2 2019

Trade disputes and country-specific issues dampen the global growth outlook and lead to elevated volatility in financial markets. Central banks have postponed their expected rate hikes and safe haven investments are moreover benefiting from the threat of a hard Brexit. Improving economic data should lend support to risk assets. We are favoring stocks in defensive sectors as well as BB-rated HY bonds and IG hybrid bonds.

Investment Strategy Q2 2019:

Govt. bond yields		June 2019
Germany (10Y)		0.40
USA (10Y)		2.80
Currencies		**June 2019**
EURUSD		1.15
CHF		1.14
Equity Performances		**June 2019**
Global	➚	0%/ +5%
Europe	➚	0%/ +5%
USA	➚	0%/ +5%

Source: Erste Group Research

Prices as of
29.03.2019, 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.

Economic Outlook

Recent US economic data were distorted by the government shutdown and the correction in the stock market in Q4. We continue to expect solid GDP growth of 2.3% in 2019 and do not anticipate an economic slump in the US. While a historically low unemployment rate and accelerating wage growth have so far failed to be reflected in a rising inflation rate, there continues to be a risk that this will happen. The outlook for the euro zone in 2019 has deteriorated further and we are forecasting GDP growth of +1.3%. Germany is struggling with structural issues in the automobile sector and Italy is suffering a mild recession. In the event of a hard Brexit, GDP growth in the euro zone would probably decline below 1% in 2019. Due to weak economic growth momentum and the expectation that oil prices will remain tame we expect euro zone headline inflation to recede somewhat to +1.4% (2018: +1.7%).

Bonds

The Federal Reserve has adopted a wait-and-see approach. We expect upcoming economic data to improve and are therefore forecasting a reversal in interest rate expectations in coming months. On account of this scenario we also expect yields on US treasuries to increase. The ECB's monetary policy decisions will depend on incoming data and the central bank has postponed its first rate hike to 2020 at the earliest. The economic slowdown and the prospect of additional liquidity injections (TLTRO3) combined with the uncertainty over Brexit have led to yields on German Bunds diving into negative territory again. An orderly exit of Great Britain from the EU should result in rising yields, in the event of a hard Brext the phase of extremely low yields should last longer. In corporate bonds the potential for a further tightening of spreads in the IG segment as well as in the HY and IG hybrid segments is probably largely exhausted: we recommend primarily IG hybrid and BB-rated HY bonds.

Currencies

We expect that EUR/USD will reach a low in the second quarter and that improving economic data will contribute to a slow appreciation of the euro. The Swiss franc should concurrently weaken slightly against the euro. Should a hard Brexit become inevitable, the dollar and the Swiss franc would rally against the euro; the gold price should be supported as well in this case.

Stocks

Ongoing uncertainty and declining earnings growth momentum have led to rising volatility. Thus we our recommendation is to avoid cyclical sectors and significantly overweight defensive sectors such as health care or consumer staples. We expect global stock market indexes to rise moderately in Q2 amid continuing volatility and deliver a performance at the lower end of a range from 0% to +5%.

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Investment Strategy Q2 2019

Yields			Estimates			
		current	Q2 19	Q3 19	Q4 19	Q1 20
10y. Govt. bonds	**Germany**	-0.05	**0.40**	0.60	0.60	0.60
	Austria	0.26	**0.60**	0.80	0.80	0.80
	US	2.44	**2.80**	2.90	3.10	3.10
	CEE					
	Czech Republic	1.87	**2.24**	2.29	2.34	2.44
	Hungary	2.89	**3.28**	3.35	3.41	3.45
	Poland	2.83	**2.85**	2.90	3.00	3.10
	Romania	4.78	**5.10**	5.10	5.20	5.30

Source: Erste Group Research estimates

Currencies			Estimates			
		current	Q2 19	Q3 19	Q4 19	Q1 20
Global	**EURUSD**	1.12	**1.15**	1.18	1.18	1.20
	CHF	1.12	**1.14**	1.14	1.15	1.16
	Gold (USD)	1,295	**1,310**	1,320	1,320	1,320
CEE	**CZK**	25.82	**25.3**	25.1	24.8	24.7
	HUF	321.20	**318**	320	320	320
	PLN	4.30	**4.31**	4.32	4.29	4.29
	RON	4,,76	**4.75**	4.75	4.77	4.78

Source: Erste Group Research estimates

Equities		Estimate Q2 2019	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

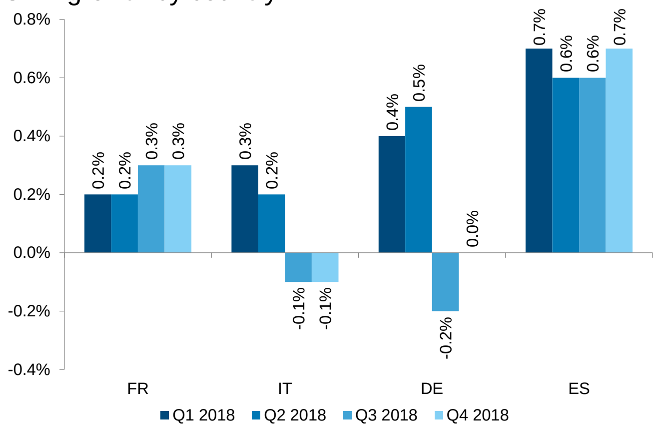
Euro Zone Economic Outlook

Brexit chaos and structural issues are weighing on growth

Germany and Italy weigh on euro zone economic growth

In Q4 2018 the euro zone economy grew by +0.2% q/q, slightly accelerating compared to the previous quarter. The decisive factor for this was the stabilization of Germany's economy in Q4 on the heels of a contraction in economic output in Q3. The German economy is currently struggling with structural issues concerning the automotive industry. At the end of February 2019 automobile production fell to a multi-year low, among other things due to new exhaust emission tests and a decline in demand. In addition to this, the Italian economy is currently officially in recession, inter alia due to the uncertainty triggered by the populist government. By contrast, economic growth in Spain (+0.7% q/q) and France (+0.3% q/q) remained largely stable in the 4th quarter.

DE and IT weigh on EZ growth
GDP growth by country



Source: Eurostat, Erste Group Research

German automobile production nosedives
German automobile production last 12 months

Source: VDA, Erste Group Research

Trade negotiations between the US and China in focus; possible hard Brexit harbors substantial downside risks

From a global perspective the ongoing negotiations between the US and China to resolve the trade dispute remain in focus. A rapprochement between the two opponents has actually become apparent since early March. The earlier an agreement can be reached, the better it will be for the global growth outlook, and hence also for the euro zone economy. From a European perspective, a possible hard Brexit after 12 April continues to hover over the economic outlook like the Sword of Damocles. In the event of a hard Brexit, we estimate that euro zone GDP growth could be pushed below 1% in 2019. At the moment we expect GDP growth in the euro zone to reach +1.3% in 2019, but this estimate is subject to downside risks.

Headline inflation should decline in 2019 (to around +1.4%)

As a result of weak economic momentum as well as muted expectations with respect to oil prices, we expect a slight decline in euro zone headline inflation to +1.4% (2018: +1.7%). On account of structural issues (fragmented labor market in the euro zone, declining influence of trade unions) we continue to expect only a gradual increase in core inflation (most recently at +1% in February), i.e., the inflation measure that is particularly important for the ECB's monetary policy stance.

US Economic Outlook

US economy in better shape than the markets are willing to believe

Concerns about a significant US economic slowdown continue to dominate market activity. At the same time it is not quite clear what causes these concerns. Economic data are mixed and are hardly conducive to definitive conclusions, not least as a number of data were negatively impacted by the unfavorable environment around the turn of the year.

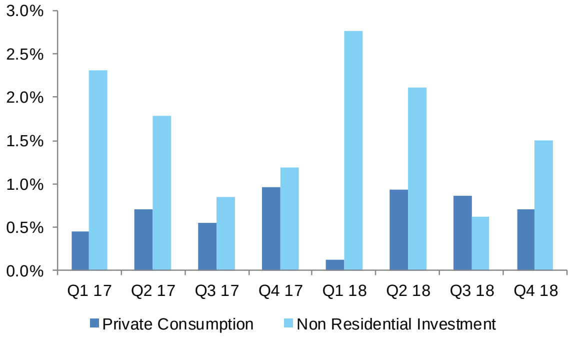
Government shutdown and stock market slump are distorting the picture

We do not expect a slump in the US economy and believe that the market's pessimistic outlook will dissipate as upcoming data will deliver positive surprises. Currently we see no indications pointing toward US economic growth coming to an abrupt halt. The labor market remains strong and wage growth has steadily accelerated in recent months. Growth in consumer spending has slowed in the fourth quarter, but this was coming off the very high levels of previous quarters, which were attributable to tax cuts. The growth rate has roughly returned to 2017 levels, which is still quite remarkable considering that December 2018 was characterized by a stock market slump and a looming government shutdown. Corporate investment spending growth in the fourth quarter exceeded that of the previous quarter, which was admittedly a very weak quarter. No negative trend is discernible in this context either. Why everything is supposed to just nosedive from here is not quite clear from our perspective. There are certainly risks. The trade dispute between the US and China and the possibility of a hard Brexit are weighing on sentiment. However, relatively speaking the US economy is not overly dependent on foreign trade. US economic growth will undoubtedly slow down compared to the previous year. We believe though that rather than signifying a beginning downturn, this is simply due to the fact that economic growth was so uncommonly strong last year on account of tax cuts and higher government spending that a slowdown was inevitable.

Inflation continues to be tame

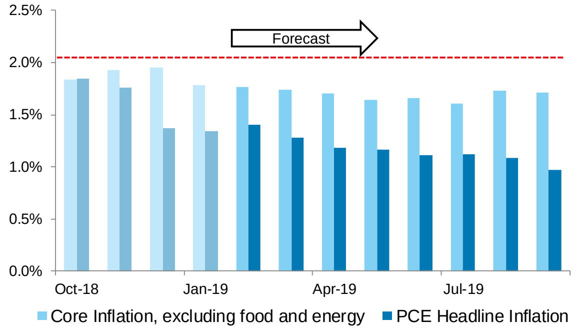
The historically low unemployment rate and the acceleration in wage growth still fail to be reflected in inflation rates. On the contrary, price inflation has actually weakened somewhat in recent months. From our perspective accelerating inflation remains a risk, albeit one the markets currently prefer to ignore. This display of confidence is not justified in our opinion.

No downtrend discernible
GDP growth, q/q in %



Source: Bureau of Economic Analysis, Erste Group Research

No signs of rising inflation
PCE, y/y, in %



Source: Bureau of Economic Analysis, Erste Group Research

CEE Economic Outlook

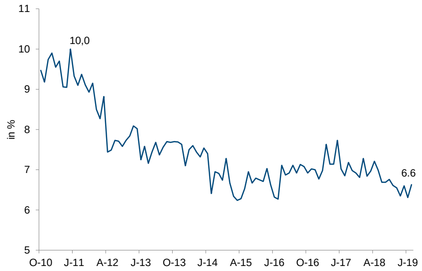
Despite the evident slowdown in the export prospects of CEE in recent months (especially concerning poor German manufacturing sentiment figures), the first monthly indicators of the year point to a relatively good start to 2019 for the region. Retail sales rebounded substantially in many CEE countries in January and industrial output also performed well. Domestic demand plays an important role that most manufacturing sentiment indicators likely fail to incorporate. While domestic demand was firing on all cylinders already last year, strong wage growth is expected to remain in CEE, while EU-funded investments (in most countries) should also help growth, partly compensating for the slowdown in export performance. Lending growth could also contribute to economic expansion this year. Overall, we see GDP growth in the region slowing to 3.5% this year, after the rather high 4.4% seen last year. This would likely still be well above that of the Eurozone.

Headline inflation mostly moderated, while core inflation typically stayed constant or increased, until the last few months. However, the decline of oil prices that had kept a lid on headline figures reversed at the start of 2019, while food prices also started to bite, pushing price dynamics up again. Tight labor markets would also warrant an increase in prices. Core inflation growth is the strongest in the Czech Republic and Hungary, and central banks in these countries are indeed expected to be the most active in tightening / taking back some of the monetary stimulus in these countries. The external environment, however, speaks against a quickening in price increases. Recently, the ECB slashed its inflation projections for the Euro Area, cutting inflation forecasts for the first time for the upcoming one-to-two years since 2016, and seeing the 2-year-ahead inflation at just 1.7%. Courtesy of the notable growth slowdown in the Euro Area and still muted external inflation prospects, we do not expect headline inflation figures to increase significantly this year. In fact, on average, we see CEE inflation moderating slightly this year compared to 2018; this includes the major decline in CPI in Romania, which brought above-5% peak values at around the middle of last year.

BRIC Economic Outlook

China

China Bloomberg GDP Indicator



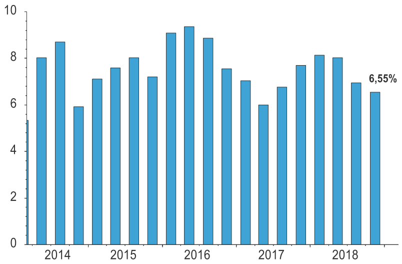
Source: Bloomberg, Erste Group Research

The intensification of trade negotiations between the US and China since early March is an important positive step for China's economic outlook. According to media reports both sides are working on detailed memorandums of understanding with respect to the most important structural reforms (inter alia ending government subsidies for industries, ending forced technology transfers, protection of intellectual property, government prosecution of hackers) which the US demands from China. A further key component of a possible agreement is a mechanism for the concrete measurement of China's progress in the implementation of pledged reforms. In the past China was often vague and evasive with respect to economic concessions. In Q4 the dispute has led to a further slowdown in China's GDP growth to 6.6% y/y (from 6.7% y/y previously). Leading indicators released so far this year suggest that growth will stabilize in Q1 2019. In order to limit the damage to the economy, the government continues to provide fiscal and monetary stimulus.

In the medium term the trade dispute will result in a relocation of production capacity from China to other Asian countries (e.g. Vietnam and Thailand). In our opinion Mexico as a country that has a valid trade treaty in place and is a direct neighbor of the US stands a good chance of benefiting from these developments as well. In order to improve its future growth prospects, China must take steps to boost its domestic economy – for instance through market reforms that foster competitiveness. However, we continue to believe that Xi will remain hesitant with respect to market reforms.

India

India: consistently strong GDP growth
GDP y/y %



Source: Datastream, Erste Group Research

India's GDP grew by 6.5% y/y in Q4 2018. For 2019 as a whole, the IMF expects GDP growth of +7.5% (2020: +7.7%). Thus India will become the world's sixth-largest economy in the course of this year, ahead of France and just behind Great Britain.

Economic data released in the first quarter are buttressing the forecast of accelerating growth. In February the manufacturing purchasing managers' index (PMI) rose to a 14-month high of 54.3 points. Growth in new orders was driven by a large number of international orders in particular. Indian exports rose by 10.5% y/y in February. Recent data from the services sector (62% of India's GDP; manufacturing 23%) were positive as well. The reading for the services PMI was 52.5 points. The new orders component reached the highest level in more than two years.

India's inflation rate stood at 2.6% in February, which is quite low for a fast growing emerging market economy. The main reasons for these low inflation readings were muted increases in food prices and the year-on-year decline in the oil price. India's reserve bank expects the base effect from oil prices to dissipate as the year progresses and therefore forecasts inflation to rise to a range from 3.2% to 3.4% in 2019. The repo rate remained unchanged at 6.5%. The markets expect two rate cuts of 25 bps each this year.

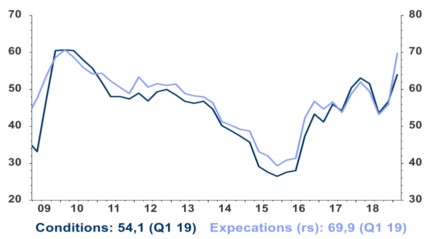
Brazil

Economic growth is currently expected to reach +2.2% (y/y) in 2019 and +2.5% (y/y) in 2020. The industrial entrepreneur confidence index continues to improve. Purchasing managers' indexes have increased further in recent months. A positive development is the fact that the component reflecting corporate expectations increased even more than the assessment of current conditions.

Industrial production has weakened in the final quarter of 2018. According to consensus estimates it should grow again from the second quarter of 2019 onward. For 2019 as a whole growth of +2.3% is expected. Consumer spending is developing positively. It is expected to increase by +2.7% this year. The unemployment rate stands at 11.6% and only a small decline to 11.5% is expected in 2019. With respect to government spending, estimates are calling for an increase of +0.3%. The budget deficit is expected to amount to -7.2% of GDP in 2019. The level of government debt is high compared to other emerging markets and stands at 87.3% of GDP.

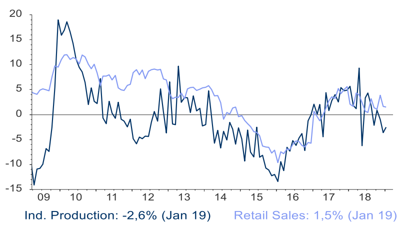
At the end of March the board of the central bank unanimously decided to leave the Selic rate unchanged at 6.5%. The base rate is likely to remain stable over the coming two quarters. Consensus forecasts are calling for a small rate hike to 6.6% by the end of the year.

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

According to consensus estimates economic growth in Russia will reach +1.5% (y/y) this year. Next year GDP is expected to grow by +1.7% (y/y). Thus growth estimates were slightly lowered compared to those of the previous quarter.

The unemployment rate stands at 4.8% and should remain stable this year. Consumer spending is expected to grow by +1.7% in 2019 and +2.3% next year. Industrial production is estimated to increase by approximately +2.1% (y/y) this year, which is slower than the pace still expected at the beginning of the year. Government consumption is expected to rise by a mere 0.7% in 2019.

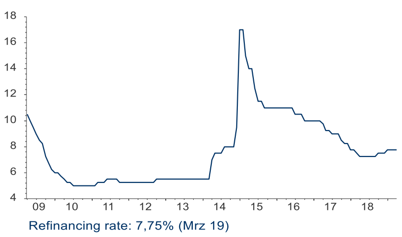
A budget surplus of +1.8% is expected in 2019, followed by +1.2% in 2020. The level of government debt is very low – it stands only at 15.4% of GDP. A positive development is that the trade surplus will likely reach a very large +5.6% in 2019 according to consensus estimates. On the other hand, the trend in consumer price inflation is negative. CPI is expected to surge to +5%, which is a far stronger pace than in the previous year (2018:+2.9%).

The country's comparatively strong fundamental data are underpinning the consensus forecast calling for a stable exchange rate this year. With respect to the main refinancing rate, the consensus expects a small rate hike to 7.85% from the current level of 7.75%.

Russia: both imports and exports have declined

Source: Datastream, Erste Group Research

Russia: Refinancing rate



Bonds	Yield Forecast Q2 2019
Euro Zone Main Refinancing Rate	0.00 %
German Bund	0.4 % (10Y)

How low can bond yields go?

We expect a correction in the bond market, while the ECB should largely stand pat.

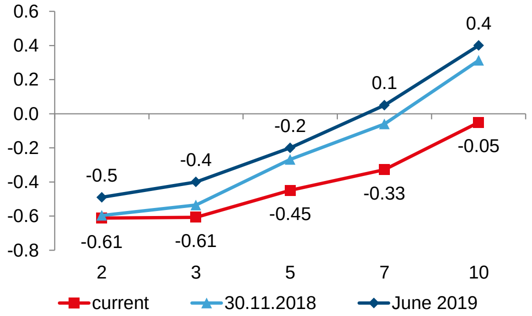
ECB holds out prospect of providing more liquidity

In March the ECB reacted to the deterioration in economic data by altering its interest rate guidance. The earliest possible date for a rate hike was postponed from "after the summer of 2019" to "after 2019". A greater surprise for the markets was the announcement of a further liquidity program (TLTRO-3), which was however only outlined in broad strokes. What is known is that banks will be offered liquidity with a term to maturity of two years on a quarterly basis between September 2019 and March 2021. According to initial statements the provision may be made more strictly contingent on banks granting loans. It is therefore open to question how much additional liquidity the ECB will ultimately provide. The interest rate outlook for the euro zone remains highly uncertain. Core inflation is still at levels that are far too low from the ECB's perspective. At the same time recent ECB statements indicated that the negative deposit rate will be reconsidered in view of its negative effect on bank profitability. It is not certain what time frames the ECB has in mind in this context, but it appears at least that something is beginning to be done about the issue. We expect that the interest rate on the deposit facility will be raised from -0.4% to -0.2% in March 2020.

Negative yields represent a lower bound even under current conditions

The economic slowdown, the prospect of additional liquidity from the ECB (TLTRO-3) and not least uncertainty over Brexit have led to yields on German government bonds slumping into negative territory on a broad front. These distorted valuation levels are due to the excess liquidity created by the ECB and the bond market is likely to remain in this valuation bubble for the foreseeable future. However, even in the current environment these yield levels appear to represent a lower bound. We expect that (global) economic data will improve somewhat in the course of the second quarter and that the possibility of a hard Brexit will be taken off the table. On the heels of that, yields should increase again. In the event of a hard Brexit, the phase of extremely low yields would probably last longer.

Who wants negative yields?
German sovereign bond yields by maturity, in %



Source: Bloomberg, Erste Group Research

US	Yield Forecast Q2 2019
Federal Funds Rate	2.25 – 2.5 %
US Treasury Notes	2.8 % (10Y)

US bond market driven by fears rather than data

We believe the markets are too pessimistic in their assessment of the US economy and interest rate expectations will therefore be corrected.

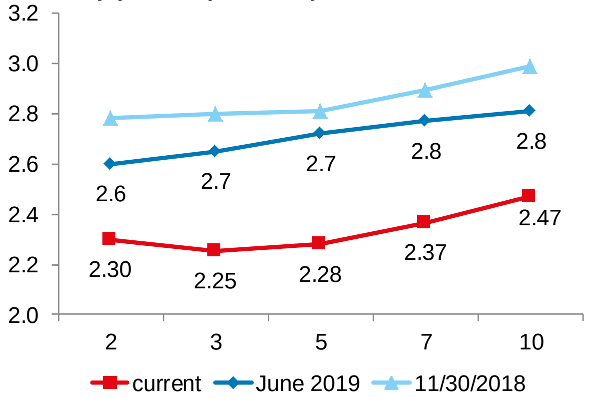
Interest rate expectations should reverse

The Federal Reserve recently confirmed that interest rates will remain unchanged until it becomes clearer in what direction the next steps should be taken. Strong labor market data in conjunction with a stable and moderate inflation rate indeed exert no pressure on the Fed to take immediate action. The markets were paying more attention to the latest projections of FOMC members - even though the Fed asserts that this survey is of lesser importance with respect to its market guidance. The median of member expectations suggested there would be no more rate hikes this year, after the prospect of two further rate hikes was still held out in December. This significant correction appears premature, as it is based on data that were negatively distorted by temporary events. The stock market slumped in December, and 800,000 civil servants did not receive their wages between 22 December and 25 January due to the government shutdown. The true state of the US economy will only be revealed by upcoming data, and should be significantly better. As a result, interest expectations should gradually reverse in coming months. We expect US GDP to grow by more than 2% this year. This suggests that there will be another rate hike. However, due to the hesitant attitude of the Fed and moderate inflation data, we expect that the next rate will not be implemented before the end of the year.

Bond market speculates on a major economic slump

Based on this scenario we believe that yields on US treasuries should increase as well. In our opinion the significant decline in yields over recent months is out of line with the economic data situation. The short end is already pricing in rate cuts, which would require a sustained and significant economic slowdown. The market is speculating that this will happen, but the data exhibit extremely meager evidence to this effect. A correction of market expectations and hence an upward shift in the yield curve appears therefore the most likely outcome.

Dramatic decline in yields not justified
Treasury yields by maturity, in %



Source: Bloomberg, Erste Group Research

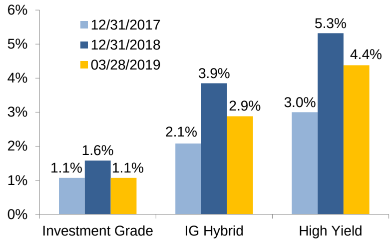
CEE Government Bonds	Yield Forecast Q2 2019
Czech Republic	2.24% (10Y)
Hungary	3.28% (10Y)
Poland	2.85% (10Y)
Romania	5.10% (10Y)

Currencies were rather mixed so far this year in CEE. While the Romanian leu suffered from the news on controversial taxes, the Hungarian forint benefited between mid-January and mid-March from a growing expectation that the central bank might start normalizing monetary conditions. As for the leu, we believe that the NBR could be in position to keep it relatively stable, although news around economic policy could put some pressure on the RON, so risks are towards somewhat weaker leu levels. As for the forint, some correction to the weaker side already occurred recently, as the central bank delivered a somewhat 'dovish' tightening message that the first step was not really the start of a normalization cycle. We continue to think that the normalization of monetary policy could be very slow, and therefore, we do not think that there is much room for the HUF to gain ground. The Czech koruna, on the other hand, should appreciate, in our view. Inflation is currently above the point target of the CNB, which (coupled with the very tight labor market and subsequent wage pressure) could trigger further tightening from the CNB, which could exert appreciation pressure on the CZK for the remainder of this year. The Polish zloty should continue to remain relatively stable, in our view.

Global rate expectations declined substantially in recent weeks. As a result, CEE bond yields have also fallen YTD. This came despite continued fiscal woes in Romania, an announcement of a substantial fiscal easing package in Poland in February (causing yields to go up 30bp in a few days) and the continuously flagged intention of the Czech central bank to hike rates further this year. The strongest decline in yields took place in Hungary, with the fall intensifying as of mid-March. While markets had been expecting a turn in monetary policy in January-February, these expectations abated recently too (especially after the rather dovish comments at the last rate-setting meeting from Governor Matolcsy) and yields collapsed, with the 2027/A bond falling by around 60bp YTD. Looking forward, yields could move more or less in accordance with Bund yield movements in CEE, as we do not see major changes in fundamentals that could affect the spreads too substantially.

EUR-Corporate Bonds
Investment Grade
High Yield

Yields declined in the first quarter
Average yields in %,
Average term to maturity*: ~5 years



Source: Erste Group Research
*for hybrid bonds: term to maturity until the first call date

BB spread relative to debt/EBITDA ratio continues to be reasonable
BB spread per unit of imputed debt repayment term (=debt/EBITDA) in basis points

Source: Erste Group Research
As of 28 March 2019

In the first quarter, progress in the US-China trade dispute and the decision of the Fed and the ECB to maintain their loose monetary policy were the key drivers of the corporate bond market. They outweighed the deterioration in the economic outlook: high yield (HY) and investment grade hybrid bonds delivered a particularly strong performance (+5.3% and +5.0%; investment grade (IG): +3.3%). The losses suffered in the fourth quarter of 2018 were more than made up. Downward revisions of expected economic growth by the EU Commission (07 February) and the ECB (07 March) generated setbacks, but ultimately failed to stop the rally. Due to the continued solid outlook for the credit quality of European companies we consider the trend of the first quarter to be fundamentally justified.

On 22 March investor expectations were disappointed by a further decline in the euro zone purchasing managers' index (PMI). Although the ifo Business Climate Index published on 25 March surprisingly improved, spreads have slightly widened overall since 22 March.

The Brexit threat has so far not weighed on the performance of EUR-denominated corporate bonds. Considering the weighting of UK-based issuers in the EUR corporate bond market, this makes sense. They represent just 8% of the benchmark-sized EUR-denominated corporate bond volume, 90% of which has an investment grade rating. Internationally diversified groups like BP or Vodafone are the dominant issuers. Their spreads move more or less in line with the overall EUR market. We would only expect to see Brexit-driven upward pressure on risk premiums if an exit without an agreement ("hard" Brexit) were to become inevitable.

In our opinion credit spreads currently reflect a lot of optimism that the US-China trade dispute will be resolved. We fear investors are overestimating the prospects of an imminent and sustainable resolution. In addition, the threat of punitive US tariffs on European car imports continues to loom. Italy's fiscal policy and high indebtedness have receded into the background for now. The outcome of the EU parliamentary elections at the end of May should only have a negative impact on the market if EU-skeptical parties gain more votes than expected.

Although investment in corporate bonds continues to appear attractive in light of the renewed decline in yields on safe government bonds, we believe that the potential for tightening spreads in the IG as well as in the HY and IG hybrid segments is exhausted for now. We expect credit spreads to remain relatively stable. The trade disputes remain unresolved and the economy is slowing down. Default rates are likely to increase, but remain at low levels. Investors should limit their return expectations for the upcoming twelve months to recent average yields.

We continue to recommend IG hybrid and BB-rated bonds of issuers from defensive sectors (telecom, utilities). Bonds in this category have the best credit quality among speculative-grade issues. They represent >60% of the outstanding HY benchmark volume and in recent months proved once again that their risk/reward profile is strong.

Currencies

	Forecast Q2 2019
US-Dollar	1.15

EURUSD trend reversal in Q2

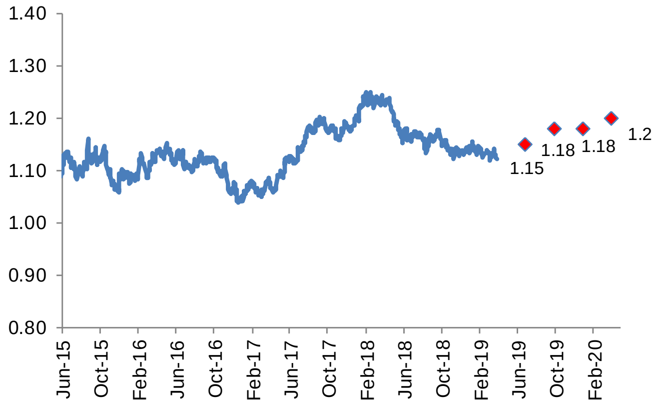
We expect that EURUSD will reach a low in the second quarter and that the euro will slowly begin to appreciate.

The euro should rise gradually

Since October of last year EURUSD has been trapped in a tight range between 1.12 and 1.15, with the pair recently trading close to the lower boundary of the range. Market concerns over economic growth in both economic areas were probably the reason why there were no stronger fluctuations. At its most recent meeting, the Federal Open Market Committee signaled to the markets that interest rates would remain unchanged for the foreseeable future. Even though we believe that this assessment will change, the next rate hike should only take place by the end of the year. However, in the meantime a number of political crises should be resolved (trade war, Brexit) and economic data in the euro zone should improve. In conjunction with the currently generally high valuation of the US dollar this should lead to an appreciation of the euro. This should be a gradual move though, as the markets are likely to be hesitant in considering an economic recovery in the euro zone credible.

In the event of a hard Brexit, the economic outlook for the euro zone would dim. The US would be affected as well, but to a significantly smaller extent. In this scenario we would initially expect the dollar to continue to rally. The dollar would likely stay stronger for longer in this case, as the euro zone economy would probably need 1 to 2 quarters to digest the shock of a hard Brexit.

Slight appreciation in the euro until the end of the year
EURUSD



Source: Bloomberg, Erste Group Research

	Forecast Q2 2019
Swiss Franc	1.14

The SNB continues to maintain its expansionary monetary policy and lowers its conditional inflation forecast

At its meeting on 21 March the Swiss National Bank left the target range for three month Libor between -1.25% and -0.25%, while the interest rate on sight deposits with the central bank was kept unchanged at a negative -0.75%. According to the SNB, the franc is overvalued and the situation in foreign exchange markets remains fragile. Negative interest rates and the SNB's willingness to intervene in currency markets as necessary therefore remain essential in order to lower the attractiveness of investments in Swiss francs and ease upward pressure on the currency. In view of weakening economic growth prospects abroad the SNB has lowered its conditional inflation forecast. For 2019 the forecast was lowered from +0.5% to +0.3% and for 2020 from +1.0% to 0.6%. The forecast is based on the assumption that three-month Libor remains at -0.75% over the entire forecast horizon. In the short term the SNB expects the global economy to grow in line with its potential. However, the SNB considers the balance of risks to be skewed to the downside.

In recent weeks there were at least tentative signs that a number of important global uncertainty factors (e.g. the US-China trade dispute) may be amenable to a resolution. By contrast, uncertainty due to the possibility of a disorderly Brexit recently increased significantly and the Swiss franc appreciated strongly against the euro to a level of 1.12. Should there be a disorderly Brexit after the extended deadline passes on April 12, we would expect the Swiss franc to rally further against the euro in the short term. Despite this uncertainty factor our base case scenario continues to proceed from the assumption that the United Kingdom will leave the EU in an orderly manner (in line with the wishes of the House of Commons), the timing notwithstanding. In our base case scenario we also expect a gradual acceleration in euro zone economic growth from Q2 2019 onward. That should support the euro and our forecast is therefore for the Swiss franc to weaken slightly as the year progresses. However, a minimum exchange rate is no longer enforced. Should certain risks materialize (e.g. geopolitical conflicts, escalation of global trade disputes, turmoil in the EU, a hard Brexit), the Swiss franc could appreciate rapidly and strongly.

	Forecast Q2 2019
Gold in USD	1,290 – 1,320

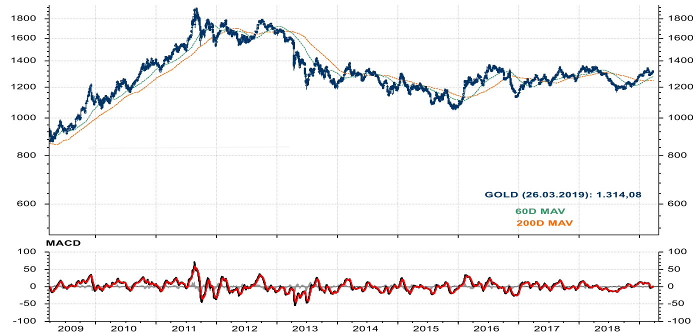
The gold price has gained +0.5% in USD terms since the beginning of the year. In EUR terms the advance amounted to +2.6%. According to the World Gold Council, gold demand has increased by +4% last year. Global central banks purchased 651 tons of gold, the largest amount in several decades. Sales of physical gold in the form of bars and coins rose by 4% to 1,092 tons last year. Investment demand recovered mainly in the fourth quarter of last year.

An argument in favor of a continuation of the slight uptrend in the gold price is the fact that global economic growth seems likely to weaken this year. The earnings growth momentum of listed US companies is expected to deteriorate as well. As a result of this, stock market volatility should increase compared to previous years. In this environment gold investments represent a sensible means of portfolio diversification for investors.

Increased uncertainty is an important driver of the moderate uptrend in the gold price. Economic and political risks such as the trade dispute between the US and China or the so far unresolved exit of Great Britain from the EU continue to loom large. In the event of a disorderly exit of Great Britain from the EU, heightened uncertainty would likely result in a short term boost to the gold price.

There are also factors that are likely to have a negative impact on the gold price in the second quarter. For one thing, we expect a moderate appreciation in the US dollar over the coming three months. For another thing, due to the strong US economy, US treasury yields – and hence real interest rates - are likely to increase again over the medium term after their recent slump. Both factors exert negative effects on the gold price.

Gold in USD terms



Source: Datastream, Erste Group Research

Outlook: Positive factors supporting the gold price currently outweigh negative factors only slightly. We therefore expect a very moderate increase in the gold price in the 2nd quarter. By the end of the quarter gold should trade within a range of USD 1,290 to USD 1,320. In the event of a hard Brexit, a stronger rally in the gold price should be expected.

Stocks

Forecast Q2 2019

Global

0% to +5%

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

Index	Sales		EPS	
USD	19e	20e	19e	20e
North America	4,9	5,4	5,5	9,3
Europe	-1,0	3,6	-2,1	8,9
Asia	4,6	3,8	-6,8	5,2
EM Asia	8,4	9,5	5,3	11,4
EM LatAm	1,7	4,2	9,7	3,2
EM Europe	-5,6	5,7	-2,5	9,4
World	**3,3**	**5,1**	**1,9**	**8,9**

Source: Erste Group Research Index, FactSet.

The global stock market rallied by +12% in EUR terms in the first quarter, recouping the losses of Q4 2018. All regions posted significant gains in Q1. With a gain of +14%, the US stock market displayed relative strength compared to Europe (+12%), Japan (+9%) and the emerging markets index (+12%).

According to consensus expectations the global outlook for revenue and earnings growth remains positive in 2019. However, these estimates are trending down. Revenue growth at the 1,000 largest global companies is expected to amount to +3.3%. Their earnings are forecast to grow by +1.9% this year. Expected earnings growth of 5.5% for US companies continues to exceed that for European and Asian companies. From this important perspective US-listed equities continue to be attractive compared to those of other regions.

Valuation
The valuation of global stocks is currently close to the historical average. The 2019 forward P/E ratio stands at approximately 14.9. The forward dividend yield amounts to 2.7%, which is above the long-term average. In view of moderately positive growth prospects these valuations appear reasonable.

Stocks continue to be attractive relative to bonds. Yields on government bonds have declined sharply in recent months. Thus the yield on a global developed markets government bond index currently stands at a mere 1.1%. In view of expectations for moderate earnings per share growth, not only should the benchmark index of global stocks rise slightly, but their dividends should be raised somewhat as well.

Outlook
The global stock market is benefiting from the expected moderate growth in corporate revenues and earnings. It remains very important to pick the most promising sectors. Defensive sectors (health care, consumer staples) should be over-weighted. Cyclical sectors by contrast should remain underweighted.

Currently extant risks are primarily of a political nature. The US-China trade dispute remains unresolved. Moreover, it remains uncertain how the exit of the United Kingdom from the EU will play out. In the event of a hard Brexit, above all European stock markets are likely to come under pressure. In this case the global stock market should experience heightened short term volatility.

We expect the global stock market indexes to post moderate gains in Q2, in a range from 0% to +5%.

Global Sectors (1)

Outlook: ↘	-5% to 0
PE 19e	12.7x
EPS 19e	-6.2%

Energy
Consensus estimates for earnings per share in this sector are negative this year (2019e: -6.2%). Operating earnings are likely to decline by -8% this year. The world's five largest companies in the sector, Exxon Mobil, Royal Dutch Shell, Chevron, BP and Total will suffer earnings declines this year. The situation should not improve before 2020. According to consensus estimates the revenues of energy companies will slightly decrease as well (2019e: -0.8%). The outlook for 2019 is dim. We expect the sector to post a negative performance ranging from -5% to 0%.

Outlook: ↘	-5% to 0
PE 19e	13.9x
EPS 19e	-8.3%

Chemicals
This sector has exhibited consistent weakness relative to the broad market for a long time. The sector's performance over the past 12 months was negative (-3%). Expectations regarding revenue and earnings growth continue to be below average this year. According to consensus estimates revenues are going to increase by just +1.8% this year. Earnings on the other hand are expected to decline by +8.3%. This highly cyclical sector is negatively affected by slowing global economic growth. The current dividend yield of 3.4% does not appear attractive under these circumstances. We expect the sector to deliver a negative performance in a range of -5% to 0%.

Outlook: ↗	0 to +5%
PE 19e	10.9x
EPS 19e	+8.9%

Commodity Producers
Consensus estimates for both revenue growth (2019e: +0.8%) and earnings per share growth (2019e: +8.9%) have increased. Among the largest companies in the sector, BHP Group, Vale, Glencore and MMC Norilsk Nickel are expected to post very strong earnings growth. We are forecasting that the sector will post a slightly positive performance in the 2nd quarter in a range from 0% to +5%.

Outlook: ↗	0 to +5%
PE 19e	17.7x
EPS 19e	+7.9%

Construction and Building Materials
Above average revenue growth of +6.1% is expected for this sector in 2019. According to consensus estimates earnings per share are likely to grow by +7.9% this year. Operating income is even expected to rise by +11%. The largest company in the sector, French construction company Vinci, will probably report stagnating revenues this year, but its earnings are expected to grow by +5.9%. We expect the sector achieve a positive performance in a range of 0% to +5% in the second quarter.

Outlook: ↗	0 to +5%
PE 19e	16.1x
EPS 19e	+2,0%

Industrial Goods and Services
Revenues of companies in this sector are expected to grow by +6.4% this year and earnings per share by +2%. However, operating earnings should exhibit a higher growth rate than net earnings in 2019. The biggest companies in the sector are based in the US (e.g. 3M, United Pacific). They are likely to post above average earnings growth this year. We expect the sector to generate a return in a range of 0% to +5% in Q2.

Global Sectors (2)

Outlook:	-5% to 0
PE 19e	8.8x
EPS 19e	+4.5%

Car Makers & Car Part Suppliers
The sector's performance over the past 12 months was strongly negative (-10%). The sector underperformed the World Stock Index in the first quarter as well. This year the sector's negative situation is unlikely to change much. Automobile sales in China fell by -6% last year. China's car manufacturing association is forecasting stagnating sales this year. According to consensus estimates global sales are expected to increase by just +1% in 2019, while expected earnings growth of +4.5% is below last quarter's estimate. We expect the sector to post a performance in a range of -5% to 0% in the second quarter.

Outlook:	0 to +5%
PE 19e	20.5x
EPS 19e	+3.8%

Food & Beverages
Since the beginning of the year the sector has rallied by +12.8% in EUR terms. The outlook for revenue growth has slightly improved. The analyst consensus expects revenue growth of +3.4% this year and earnings per share growth of +3.8%. Nestle, Coca Cola Ambev and Mondelez are going to post stronger earnings growth in 2019 than many other companies in the sector. We expect the sector index to advance between 0% to +5% in the second quarter.

Outlook:	0 to +5%
PE 19e	22x
EPS 19e	+3.3%

Household & Personal Care Products
The sector index has advanced by +15% this year. Procter&Gamble, Nike, LVMH and L'Oreal are expected to post far stronger earnings growth than their competitors in the sector. For the sector as a whole, earnings are expected to grow by +3.3%, while revenues are seen to rise by just +1.6%. The sector's relative strength was probably so persistent due to its defensive characteristics. We expect the sector to achieve a performance ranging from 0% to +5% in the second quarter.

Outlook:	0 to +5%
PE 19e	16.8x
EPS 19e	+12.2%

Health Care & Pharmaceuticals
Since the beginning of the year the sector has gained +7.9% in EUR terms. The outlook for earnings growth in 2019 has improved. Earnings growth is forecast to reach +12.2% in 2019, while revenues are expected to grow by around 10.4%. Above average earnings growth rates are likely to be posted by Johnson&Johnson, Pfizer, Roche Holding and United Health Group. As this is a non-cyclical sector, its volatility will probably be lower than that of the overall market. We expect the sector to advance from 0% to +5% in the second quarter.

Outlook:	0 to +5%
PE 19e	25.3x
EPS 19e	+21.9%

Retail Trade
This sector remains attractive due to the consistently high growth rates in online retail sales. Amazon, Alibaba and even Wal-Mart will likely achieve strong earnings growth this year. According to consensus estimates, revenue growth in the sector will amount to +7.4% in 2019. Earnings are expected to grow by +21.9%. We expect the sector to deliver a performance in a range of 0% to +5% in the second quarter.

Outlook:	-5% to 0
PE 19e	23.2x
EPS 19e	-1.9%

Media
The outlook for revenue growth in the sector is positive this year (2019e: +9.6%). However, the prospects for earnings growth are negative. Earnings per share are expected to decline by -1.9% in 2019. The earnings growth outlook for Vivendi, Netflix and Booking Holdings is above average though. The valuation of the sector is exceptionally high with a 2019 forward P/E ratio of 23.2x, while the forward dividend yield amounts to just 1.2%. The sector index should post a loss in a range of -5% to 0% in the second quarter.

Global Sectors (3)

Outlook:	0 to +5%
PE 19e	14.6x
EPS 19e	+2.1%

Travel & Leisure

The relative weakness of the sector compared to the broad market has continued this year as well. The analyst consensus expects earnings growth of +2.1% in 2019 and revenue growth of +4.3%. For the companies Expedia, Hilton Worldwide and Marriott International revenue and earnings per share growth rates are expected to exceed the sector average. The sector's valuation (2019 forward P/E ratio: 14.6x) is slightly below that of the World Stock Index. We expect the sector to post a performance in a range of 0% to +5% in the second quarter.

Outlook:	0 to +5%
PE 19e	19.7x
EPS 19e	+0.7%

Technology

The largest global sector achieved a performance of +18% in EUR terms in the first quarter. In 2019 revenue growth of +3.7% and earnings growth of just +0.7% are expected. These prospective growth rates are below those of the previous year. This is primarily due to the fact that several very large companies such as Apple, Facebook and Samsung Electronics are going to suffer earnings declines this year. On the other hand, Microsoft – currently the largest corporation in the world - is expected to post very strong earnings growth, as are Alphabet, Tencent, Mastercard and Visa. We expect the sector to rally 0% to 5% in the second quarter.

Outlook:	0 to +5%
PE 19e	17.4x
EPS 19e	+21.8%

Utilities

Consensus estimates of revenue and earnings growth for 2019 have significantly improved in recent months. Expected revenue growth amounts to 3.1% and growth in earnings per share is supposed to reach +21.8%. All constituent companies of the Global Utilities Index are likely to achieve higher earnings this year, and a number of European companies such as EDP, RWE and Veolia Environnement are even expected to post above average earnings growth. We expect that the sector index will gain 0% to 5% in the second quarter.

Outlook:	0 to +5%
PE 19e	13.4x
EPS 19e	+-2.6%

Telecommunication

The sector has gained +8% in EUR terms in the first quarter. Growth rates expected for 2019 are low. Revenues are estimated to grow by +1.8%, but earnings are expected to decline by -3%. For a number of European companies such as Deutsche Telekom, Teliasonera, KPN and Orange above average growth in earnings per share is seen. The sector's valuation is low: the 2019 forward P/E ratio stands at 13.4x, while the forward dividend yield amounts to 4.1%. We expect the sector to post a gain near the lower end of a range from 0% to +5%.

Outlook:	0 to +5%
PE 19e	9x
EPS 19e	-6.7%

Banks

The global banking index rallied by +7.6% in EUR terms in the first quarter. Earnings prospects for 2019 have deteriorated. Global earnings per share are expected to decline by -6.7% this year. Primarily European banks are likely to report declining earnings. By contrast, the largest US banks Bank of America, Citigroup and JP Morgan Chase should achieve moderate earnings growth. We expect a return at the lower end of a range from 0% to +5%. In the event of a hard Brexit, the performance of the sector is probably going to be negative.

Outlook:	0 to +5%
PE 19e	13x
EPS 19e	+23.1%

Insurance Companies

This sector is expected to post very strong earnings growth this year, which is largely attributable to improving earnings at a number of large insurers such as Berkshire Hathaway, China Life, Axa and AIG. Revenues on the other hand should barely grow this year (+0.3%). We expect the sector to post a performance at the lower end of a range from 0% to +5%.

Forecast Q2 2019

Europe

0% to +5%

Europe: Consensus expectations for earnings and revenue growth (y/y, %)

Index	Sales		EPS	
	19e	20e	19e	20e
UK	0,1	5,8	-3,1	8,5
Switzerland	-0,1	3,9	6,7	10,6
France	-1,6	1,7	0,9	9,1
Germany	-1,1	5,5	2,8	8,3
Spain	-0,8	2,1	-8,2	6,7
Europe	**-1,0**	**3,6**	**-2,1**	**8,9**

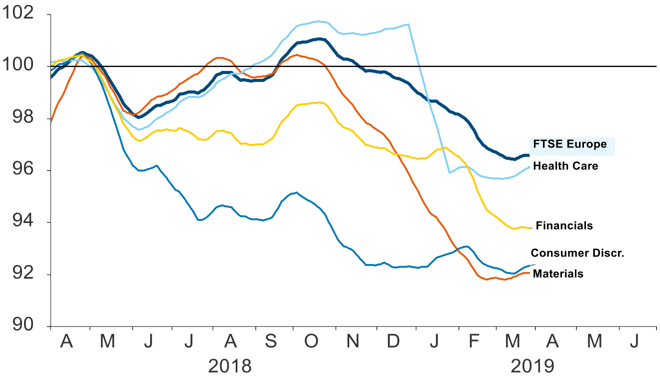
Source: Erste Group Research Index, FactSet.

The European stock market rose by +11.5% in EUR terms in the first quarter, surpassing our moderately positive expectations by a significant margin. The losses of the fourth quarter were recouped, even though the index continues to trade 3% below its year-ago level. The German stock market posted a gain of 7%, delivering the weakest performance among European benchmark indexes in the market recovery of Q1. The rally in the stock markets of France and Great Britain was almost twice as strong, as they posted gains of +13% each.

Recent consensus estimates for 2019 are calling for earnings to decline by -2.1%. Analyst estimates have deteriorated since last quarter. Revenues are expected to decline by -1%. The deterioration in earnings estimates for the coming 12 months was particularly pronounced in cyclical sectors. Estimates for the banking, commodities, chemicals and energy sectors exhibit the biggest earnings declines for 2019. By contrast, earnings are expected to grow in the technology (+17.8%), food & beverages (+11.5%), insurance (+9.8%), telecom (+9.8%) and building materials (+9.6%) sectors. The following chart shows the history of earnings estimates for Europe as a whole as well as those for selected sectors.

Earnings estimates for selected European sectors

12 month forward earnings per share, consensus estimates, indexed



Source: Datastream, Erste Group Research

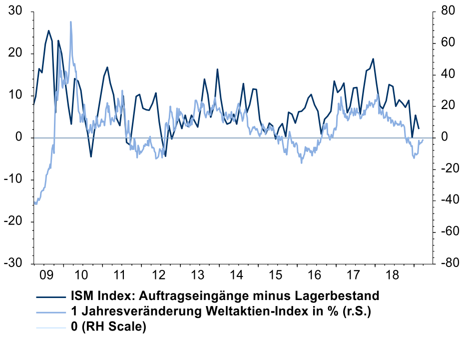
Due to the lack of growth momentum the valuation of the European stock market is moderate. The 2019 forward P/E ratio stands at 14.3, the forward dividend yield amounts to 3.9%. European equities remain attractive relative to German Bunds (10-year yield -0.07%).

Investors should expect higher volatility in European stocks in view of the heightened uncertainty surrounding Great Britain's exit from the EU. In an environment of slightly declining corporate earnings one should pick sectors with positive growth prospects and preferably avoid cyclical sectors. After the strong rally in the first quarter we expect a sideways move with a mildly positive bias in Q2 2019; the market should post a gain at the lower end of a range of 0% to +5%. However, in the event of a hard Brexit one would have to expect European stocks to deliver a negative performance, as in that case the financial sector - which has a large weighting in the European index - would come under greater pressure than other sectors.

Forecast Q2 2019

USA 0% to +5%

US new manufacturing orders minus inventories vs. the one-year rate of change of the World Stock Index



Source: Datastream, Erste Group Research

The US stock market rose by +13.6% in EUR terms in the first quarter. The technology index Nasdaq 100 gained +17.3% in EUR terms. The highly volatile semiconductor index rallied +21%. The banking sector advanced by +10%, generating a significantly lower return than the broad market. The decline in US treasury yields was an important factor in this, as was the expectation of market participants that the Fed's rate hike cycle will be on hold in the coming two quarters.

The purchasing managers' indexes show that both the manufacturing and services sectors continue to expand. Our leading indicator for the stock market measures the difference between new orders and inventories. The indicator is in positive territory. The current level of this metric and its rate of change suggest a moderately positive performance for the stock market over the coming quarter.

According to consensus estimates revenue growth of +4.9% and earnings per share growth (adjusted for non-recurring effects) of +5.6% is expected this year. Due to the very strong earnings growth rates recorded last year, a slight decline in earnings per share is expected in the first two quarters of 2019; thereafter earnings growth should resume. Next year earnings per share are estimated to grow more strongly than in 2019, with consensus estimates calling for an increase of +9.4% in 2020. Thus the earnings outlook for listed companies remains positive over the medium term.

The forward P/E ratio of the US stock market stands at 17.4x in 2019 followed by 15.9x in the coming year. The S&P 500 dividend yield amounts to 2%. In terms of the P/E ratio the market's valuation is only slightly above the historical average. The market's valuation metrics reflect the strong medium term outlook for US-based companies. Compared to equities, the attractiveness of US treasuries has decreased significantly over the past six months due to the sharp decline in yields (yield on the 10-year note: 2.4%).

US companies are benefiting from revenue and earnings growth over the medium term. In the current environment of slightly weakening US economic growth investors should pay close attention to sector selection. The sectors health care, food & beverages and technology offer better prospects than stocks in highly cyclical sectors such as commodities, chemicals, cars, energy and finance. Economic data will be closely scrutinized again in the second quarter.

The hitherto unresolved trade dispute between the US and China can lead to higher volatility, particularly in the technology sector. We expect the market to post a gain in a range of 0% to +5% in the second quarter.

Forecast Q2 2019

CEE ↗ 0% to +5%

After closing the year 2018 at quite low levels, the bottoming out arrived strongly in 2019, posting the strongest start to a year for the last ten years. Not only did volatility come down substantially, but risk attitude also improved notably. However, after shaping a trend since the beginning of the year, things went sour again recently and any trend seems to be broken, potentially proving the move since January to be short-lived, or at least more volatile going forward.

Firstly, patient central banks should have been a main supporter, bringing equity premia down, by postponing further normalization of monetary policy (US) or pushing the first steps in this direction into the more distant future (EU).
Central banks pausing or postponing normalization of monetary policy gives a weak indication for future growth. A continued risk rally creates high reliance on sentiment and the consensus view on yield outlook.

Secondly, flows, largely avoiding EM equity in 2018, have eventually returned to this asset class. This seems to have provided further support to EM equity markets. However, we feel that the recovery might not turn out to be lasting.

Finally, our main question for 2019 was not whether a slowdown in growth would happen, but how strong such a slowdown might be. Politics, such as trade tensions and Brexit, are hanging over growth and have the capacity to accelerate any slowdown quite tangibly. As much as such extra risk is being reduced, expectations of a slowdown in growth might finally turn out to be somewhat overdone. Sentiment appears to have not been good guidance and any improvement should be supportive. However, neither would we rely too much on this as a market driver. In CEE, weaker trade so far seems to find compensation in domestic demand.

Along with fiscal stimulus, we had reason to recently positively revise our outlook on Poland. However, we would still keep that market more towards neutral and continue to rather wait for 2H. Turkey might offer some speculative upside again, using up another political discount, but we would generally be cautious here. Romania is another speculative case, while much of any recovery potential that depends on news flow on sector taxes should have been used up already.

Defensive sectors still seem to be the better choice and the consensus seems to currently put some focus on telecom. However, banking, at least in CEE, is also showing positive earnings growth momentum. Utilities continue to be in favor among our analysts, but as soon as we amend the scoring with valuation, the case is gone. In turn, industrials might find it difficult in the current cyclical environment, but valuations are certainly inviting.

Forecast Q2 2019

India — 0% to +5%

India: Earnings growth of the 5 largest listed companies

Net Profit, USD Mio.	18	y/y	19e	y/y
EGR India Index	45905	-2%	55862	22%
Reliance Industries	5634	7%	6726	19%
Tata Consultancy	4391	9%	4903	12%
HDFC Bank	2585	15%	3465	34%
Hindustan Unilever	866	15%	1018	18%
ITC	1736	5%	1937	12%

Source: FactSet, EGR Indizes

The long-term uptrend in India's stock market continues. In the 1st quarter the stock market index gained +8% in EUR terms. Year-on-year the index posted a gain of +19%, significantly outperforming the Emerging Markets Index (+6%).

Our medium-term outlook for the Indian stock market remains positive. According to consensus estimates, 33 of the 34 stocks in the EGR India Index will achieve earnings growth in the current financial year. In USD terms earnings are expected to grow by 22% in 2019 and 19% in 2020. The high revenue growth rate of +18% expected next year is mainly due to strong growth in the energy sector. Reliance Industries, the most important Indian stock, posted revenue growth of more than 20% in 2018.

The forward P/E ratio stands at 19 for 2019 and at 16 for the coming year. The 2019 dividend yield is estimated to amount to 2%. The Indian stock market is characterized by strong earnings and revenue growth and numerous technology companies with high profitability. Hence the Indian stock market remains our preferred investment destination in emerging markets. We expect Indian stocks to deliver a positive performance in EUR terms in Q2 2019 at the upper end of a range from 0% to 5%.

Forecast Q2 2019

China | Hong Kong — 0% to +5%

China: Earnings growth of the 5 largest listed companies

Net Profit, USD Mio.	18	y/y	19e	y/y
EGR China Index	352949	9%	363482	3%
Alibaba	10517	15%	11779	12%
Tencent	9165	4%	13571	48%
ICBC	44737	6%	47763	7%
China Const. Bank	37765	-15%	40124	6%
China Mobile	17944	-2%	17841	-1%

Source: FactSet, EGR Indizes

The Chinese stock market including Hong Kong has rallied by 16% in EUR terms since the beginning of the year. This positive move in the stock market ran counter to the recent deterioration in China's economic data. However, these weaker data, such as declining exports (-21% y/y in February) were likely already priced in by the stock market correction in 2018 (-20%). Industrial production (+5%) and importantly, retail sales (+8%) posted stable growth last month.

China's manufacturing purchasing managers' index (PMI) stood at 49.9 points in February. After two months of declines the new orders component posted an increase again. The recent trend of domestic demand compensating for weaker global demand was also evident in this component. The PMI component inventories of finished goods exhibited a slight decline.

Consensus estimates are calling for revenue growth of +8% this year. Earnings are expected to grow by +3%. The two technology companies Alibaba and Tencent, which have a large index weighting (23% of the index) should achieve significantly higher growth rates. The 2019 forward P/E ratio stands at 10.9, while the forward dividend yield amounts to 3.1%.

Due to the expected growth in corporate revenues and a neutral valuation level close to the historical average the market's risk-reward ratio is positive. We expect that the Chinese stock market will post a positive performance in Q2 ranging from 0% to +5%.

Forecast Q2 2019

Brazil
0% bis 5%

Brazilian real vs. USD: Weakening again
BRL/USD:

Source: Datastream, Erste Group Research

The uptrend in the Brazilian stock market continued in the first quarter. In EUR terms it gained +2.7%. Expectations of pro-business reforms contributed to positive investor sentiment. Petrobras and Ambev, two index constituents with a very big weighting, provided the greatest contribution to the stock market rally.

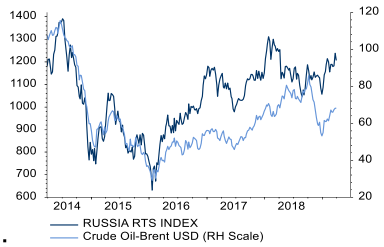
The prospects for corporate revenue growth have improved compared to the previous quarter. Consensus estimates are currently calling for revenue growth of +4.2% in 2019, while earnings are expected to grow by +3.9% this year. These growth estimates appear realistic in view of the recent improvement in corporate sentiment indicators.

With a 2019 forward P/E ratio of 11.6 and a forward dividend yield of 3.3% the valuation of the stock market is moderate. We expect that the benchmark index will achieve a moderately positive performance and post a gain near the lower end of a range from 0% to +5%.

Forecast Q2 2019

Russia
0% to +5%

Russia RTS Index vs. the price of oil:



Source: Datastream, Erste Group Research

The Russian stock market advanced by +12% in EUR terms in the first quarter. The positive trend was underpinned by a strong rally in the oil price over this time span. The energy, commodities and financial sectors were among the biggest gainers.

Consensus estimates of corporate revenue growth have deteriorated in recent months. A decrease in revenues of -6% is forecast for 2019. The largest revenue declines are expected among energy companies (particularly oil producers) and in the commodities sector (above all steel makers). Earnings of Russian companies are expected to decline by -2.8% in 2019. Consensus estimates of earnings have actually slightly improved in recent months.

Despite the strong rally in the first quarter the stock market's valuation remains favorable. The 2019 forward dividend yield stands at 7.1%, while the 2019 forward P/E ratio stands at 5.3. In the current situation of slightly weakening global economic growth the Russian benchmark index, which is almost exclusively composed of cyclical sectors, is likely to exhibit somewhat greater volatility than indexes that contain non-cyclical sectors as well.

Due to the likely slightly negative trend in corporate earnings combined with very favorable valuations, a sideways move in the stock market appears a realistic prospect in coming months. We expect the index to deliver a return at the lower end of a range from 0% to +5%.

Tables & Appendix

Economic indicators

		GDP (% yoy)		Inflation (% yoy)		Un- employ. (%)		CA Balance (% GDP)		Fiscal Balance (% GDP)		Gross Debt (% GDP)	
		18e	19e	18e	19e	18e	19e	18e	19e	18e	19e	18e	19e
Europe	**Eurozone**	**1.8**	1.3	1.7	1.4	8.3	8.0	3.0	2.9	-0.6	-0.6	84.4	82.0
	Germany	**1.6**	1.0	1.8	1.8	3.5	3.4	8.1	7.9	1.5	1.5	59.8	56.0
	France	**1.5**	1.1	1.9	1.8	8.8	8.5	-0.9	-0.7	-2.6	-2.8	96.7	96.5
	Spain	**2.5**	2.2	1.8	1.8	15.6	14.7	1.2	1.2	-2.7	-2.3	97.2	95.8
	Italy	**1.0**	0.7	1.3	1.4	10.8	10.5	2.0	1.6	-1.7	-1.7	130.3	128.7
	Austria	**2.7**	1.7	2.1	1.7	4.9	4.8	2.0	1.9	0.1	0.1	73.8	70.5
	UK	**1.4**	1.5	2.5	2.2	4.1	4.2	-3.5	-3.2	-2.0	-1.7	87.4	87.2
	Switzerland	**2.5**	1.5	1.0	0.8	2.6	2.5	10.2	9.8	0.6	0.4	40.2	38.6
Eastern Europe	**Russia**	**1.7**	1.6	2.8	5.1	5.5	5.3	6.2	5.2	1.6	1.8	15.3	15.4
	Poland	**5.1**	4.2	1.6	1.7	6.1	6.3	-0.4	-0.5	-0.4	-2.2	49.9	50.1
	Turkey	**3.5**	0.4	15.0	16.7	11.0	12.3	-5.7	-1.4	-4.0	-5.1	32.3	33.6
	Czech Rep.	**3.0**	2.5	2.2	2.3	2.4	2.5	0.6	0.5	1.5	1.1	33.2	32.1
	Romania	**4.1**	3.1	4.6	3.6	4.2	3.8	-4.7	-5.0	-3.0	-3.0	35.1	35.9
	Hungary	**4.9**	3.8	2.8	2.8	3.7	3.8	1.2	0.3	-2.0	-1.8	70.9	68.8
	Slovakia	**4.1**	3.4	2.5	2.5	6.5	6.3	-1.5	-0.9	-0.8	-0.7	49.1	48.3
Americas	**USA**	**2.9**	2.3	2.4	1.8	3.8	3.5	-2.5	-3.0	-4.7	-5.0	106.1	107.8
	Canada	**2.1**	1.9	2.6	2.2	6.1	6.2	-3.0	-2.5	-1.2	-1.1	87.3	84.7
	Brazil	**1.3**	2.5	3.7	4.2	11.8	10.7	-1.3	-1.6	-8.6	-8.0	88.4	90.5
	Chile	**4.0**	3.4	2.4	3.0	6.9	6.5	-2.5	-2.7	-1.6	-1.9	24.8	26.0
	Mexico	**2.1**	2.1	4.8	3.6	3.5	3.5	-1.3	-1.3	-2.5	-2.5	53.8	53.7
	Argentina	**-2.6**	-1.6	31.8	31.7	8.9	9.4	-3.7	-3.2	-5.4	-2.6	62.7	58.2
	Colombia	**2.8**	3.6	3.2	3.4	9.2	9.1	-2.4	-2.4	-2.7	-2.1	48.7	47.8
Asia	**China**	**6.6**	6.2	2.2	2.4	4.0	4.0	0.7	0.7	-4.1	-4.4	50.1	53.9
	Japan	**0.9**	1.1	1.2	1.3	2.9	2.9	3.6	3.8	-3.7	-2.8	238.2	236.6
	India	**7.3**	7.5	4.7	4.9	na	na	-3.0	-2.5	-6.6	-6.5	69.6	68.1
	Indonesia	**5.1**	5.1	3.4	3.8	5.2	5.0	-2.4	-2.4	-2.2	-1.8	29.8	29.9
	South Korea	**2.8**	2.6	1.5	1.8	3.7	3.7	5.0	4.7	2.3	1.5	40.4	40.4
	Thailand	**4.6**	3.9	0.9	0.9	0.7	0.7	9.1	8.1	-0.6	-0.5	41.9	41.3
	Australia	**3.2**	2.8	2.2	2.3	5.3	5.0	-2.8	-3.1	-1.4	-1.1	40.5	40.7
	South Africa	**0.8**	1.4	4.8	5.3	27.9	28.3	-3.2	-3.5	-4.6	-4.5	55.7	57.3
	World	**3.7**	3.5										

Source: IMF, EU Commission, Erste Group Research estimates

Forecasts[1]

GDP	2017	2018	2019	2020
Eurozone	2.4	1.8	1.3	1.4
US	2.3	2.9	2.3	2.1

Inflation	2017	2018	2019	2020
Eurozone	1.5	1.7	1.4	1.6
US	2.2	2.4	1.8	1.9

Currency	current	Jun/19	Sep/19	Dec/19	Mar/20
EURUSD	1.12	1.15	1.18	1.18	1.20
EURCHF	1.12	1.14	1.14	1.15	1.16

Interest rates	current	Jun/19	Sep/19	Dec/19	Mar/20
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.31	-0.30	-0.30	-0.30	-0.10
Germany Govt. 10Y	-0.05	0.40	0.60	0.60	0.60
Swap 10Y	0.49	0.70	0.90	0.90	0.90

Interest rates	current	Jun/19	Sep/19	Dec/19	Mar/20
Fed Funds Target Rate*	2.41	2.38	2.38	2.68	2.68
3M Libor	2.60	2.70	2.70	3.00	3.00
US Govt. 10Y	2.44	2.80	2.90	3.10	3.10
EURUSD	1.12	1.15	1.18	1.18	1.20

*Mid of target range

Interest rates	current	Jun/19	Sep/19	Dec/19	Mar/20
Austria 10Y	0.27	0.60	0.80	0.80	0.80
Spread AT - DE	0.31	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**

		Number of Companies	Market Cap. (bn EUR)	Weight (%) World	Performance (%) EUR 1M	3M	12M	QTD	YTD	Growth (%, y/y) Sales 19e	Sales 20e	Earnings 19e	Earnings 20e	P/E 19e	P/E 20e	DY 19e
	World	**990**	**41,673**	**100.0**	**0.8**	**13.9**	**10.7**	**12.4**	**12.4**	**3.3**	**5.1**	**1.9**	**8.9**	**14.9**	**13.7**	**2.9**
	Developed Markets	828	35,409	85.0	0.9	14.2	11.6	12.5	12.5	3.0	4.5	1.3	8.6	15.8	14.6	2.8
	Emerging Markets	162	6,264	15.0	-0.1	12.7	5.6	11.7	11.7	5.6	8.4	4.1	10.2	11.4	10.4	3.4
Entwickelte Märkte	**North America**	**426**	**22,418**	**53.8**	**1.0**	**15.2**	**18.0**	**13.6**	**13.6**	**4.9**	**5.4**	**5.5**	**9.3**	**17.3**	**15.8**	**2.2**
	Canada	38	1,075	2.6	-0.7	18.5	11.9	15.0	15.0	5.1	2.5	4.5	7.4	15.8	14.7	3.2
	USA	388	21,343	51.2	1.1	15.1	18.4	13.6	13.6	4.9	5.5	5.6	9.4	17.4	15.9	2.2
	Europe	**238**	**8,408**	**20.2**	**1.6**	**12.3**	**2.7**	**11.5**	**11.5**	**-1.0**	**3.6**	**-2.1**	**8.9**	**14.3**	**13.1**	**3.9**
	Austria	2	30	0.1	4.8	21.7	-10.0	19.6	19.6	13.8	5.2	-9.6	5.9	9.3	8.8	4.6
	Belgium	5	208	0.5	7.3	20.5	-14.5	21.2	21.2	-6.0	3.1	14.0	7.4	16.1	15.0	3.1
	Denmark	9	253	0.6	3.7	13.1	8.3	13.5	13.5	3.6	4.0	-10.4	13.0	20.9	18.5	2.7
	Finland	6	127	0.3	-0.2	11.3	10.8	11.1	11.1	-5.4	-0.1	-1.5	13.2	16.7	14.7	4.8
	France	51	1,837	4.4	1.8	15.4	5.4	12.7	12.7	-1.6	1.7	0.9	9.1	15.0	13.7	3.5
	Germany	34	1,129	2.7	-0.9	5.8	-8.9	6.9	6.9	-1.1	5.5	2.8	8.3	11.5	10.7	4.0
	Ireland	6	141	0.3	2.5	14.6	6.0	13.2	13.2	3.1	3.8	-7.9	8.7	13.4	12.3	1.9
	Italy	11	320	0.8	3.8	13.3	-4.1	14.0	14.0	-3.0	0.8	-13.4	7.0	11.1	10.4	5.3
	Netherlands	17	774	1.9	1.4	13.0	5.5	10.9	10.9	-4.9	2.9	-14.4	10.2	14.9	13.5	4.2
	Norway	4	183	0.4	0.4	6.9	10.7	7.2	7.2	21.9	8.6	-6.6	11.3	13.0	11.7	5.1
	Portugal	2	25	0.1	3.0	10.8	3.1	8.6	8.6	-3.0	1.2	26.2	11.7	15.1	13.5	5.1
	Spain	13	439	1.1	1.1	10.1	-1.4	9.7	9.7	-0.8	2.1	-8.2	6.7	12.6	11.8	5.1
	Sweden	14	320	0.8	-	7.5	1.8	7.4	7.4	-4.0	0.3	7.8	5.3	16.2	15.4	3.8
	Switzerland	21	1,110	2.7	1.6	13.3	13.1	12.8	12.8	-0.1	3.9	6.7	10.6	17.7	16.0	3.5
	United Kingdom	43	1,512	3.6	2.2	13.3	4.2	12.8	12.8	0.1	5.8	-3.1	8.5	13.9	12.8	4.1
	Asia/Pacific	**164**	**4,583**	**11.0**	**-0.6**	**12.6**	**1.1**	**9.3**	**9.3**	**4.6**	**3.8**	**-6.8**	**5.2**	**12.8**	**12.2**	**3.4**
	Japan	104	2,673	6.4	0.1	13.3	1.3	9.4	9.4	8.4	3.9	-2.8	2.5	12.9	12.6	2.8
	Singapore	5	145	0.3	-1.6	6.7	-2.8	4.4	4.4	5.8	5.7	4.0	7.8	11.1	10.3	5.0
	Australia	20	776	1.9	-1.0	14.5	12.0	11.8	11.8	-3.8	0.8	-0.6	-1.4	13.3	13.5	5.2
	South Korea	23	596	1.4	-4.3	9.1	-8.9	7.9	7.9	-3.5	4.6	-26.5	19.2	11.2	9.4	2.8
	Taiwan	12	393	0.9	1.6	11.5	-2.0	7.3	7.3	-2.5	3.9	-3.9	12.1	15.7	14.0	4.4
Emerging Markets	**Emerging Asia/Pacific**	**116**	**4,940**	**11.9**	**1.0**	**13.7**	**6.9**	**13.0**	**13.0**	**8.4**	**9.5**	**5.3**	**11.4**	**12.3**	**11.1**	**3.1**
	China	25	2,114	5.1	-1.7	17.5	2.1	17.5	17.5	7.4	8.8	4.9	10.8	9.0	8.1	4.0
	Hong Kong	33	1,410	3.4	1.1	13.6	8.3	12.6	12.6	5.9	10.3	-1.8	9.1	16.0	14.7	2.5
	India	34	934	2.2	9.2	9.5	18.6	8.1	8.1	18.5	12.3	21.7	19.3	18.8	15.8	2.0
	Indonesia	8	198	0.5	-1.0	6.5	11.1	6.7	6.7	9.7	8.2	16.3	11.2	17.4	15.6	3.1
	Malaysia	5	84	0.2	-4.9	-0.9	-7.4	-2.4	-2.4	-0.9	8.0	-1.7	6.9	16.3	15.2	3.8
	Philippines	3	48	0.1	-0.9	8.9	15.8	7.0	7.0	16.0	9.1	14.8	10.7	24.4	22.1	1.2
	Thailand	8	152	0.4	-1.3	10.3	0.3	9.3	9.3	-1.2	5.5	3.5	7.6	16.4	15.3	3.1
	Emerging Europe	**17**	**440**	**1.1**	**0.5**	**10.9**	**10.7**	**9.9**	**9.9**	**-5.6**	**5.7**	**-2.5**	**9.4**	**5.7**	**5.2**	**7.3**
	Czech Republic	1	11	-	-2.3	0.5	4.2	1.2	1.2	9.3	2.2	56.8	24.8	16.8	13.5	6.0
	Hungary	1	11	-	4.5	10.1	8.0	10.8	10.8	0.2	8.2	-1.7	7.6	10.5	9.7	2.4
	Poland	4	38	0.1	-4.0	-3.4	3.4	-4.1	-4.1	-2.3	3.0	1.0	5.8	10.5	9.9	3.8
	Russia	10	375	0.9	1.2	13.3	13.3	12.0	12.0	-6.0	5.9	-2.8	9.1	5.3	4.8	8.0
	Turkey	1	5	-	-14.1	-5.3	-41.8	-3.8	-3.8	-19.6	13.1	-15.1	34.9	5.0	3.7	-
	Emerging Americas	**22**	**706**	**1.7**	**-6.5**	**9.1**	**-0.5**	**6.3**	**6.3**	**1.7**	**4.2**	**9.7**	**3.2**	**12.0**	**11.6**	**3.3**
	Brazil	11	419	1.0	-10.9	7.0	-7.0	2.7	2.7	1.0	2.7	14.5	0.7	9.2	9.1	4.0
	Chile	4	67	0.2	-5.2	1.3	2.2	0.7	0.7	11.5	6.9	2.9	11.8	16.7	15.0	3.1
	Mexico	4	124	0.3	-2.4	7.1	-0.5	6.1	6.1	5.4	5.6	25.8	10.6	15.3	13.9	3.3
	Emerging Africa	**7**	**177**	**0.4**	**-3.6**	**6.0**	**-12.2**	**4.3**	**4.3**	**2.1**	**3.0**	**-16.6**	**11.0**	**16.4**	**14.7**	**2.9**
	South Africa	7	177	0.4	-3.6	6.0	-12.2	4.3	4.3	2.1	3.0	-16.6	11.0	16.4	14.7	2.9
	Global Sectors															
Erste Sektor Klassifikation	Automobiles	35	960	2.3	-3.7	6.5	-10.1	5.6	5.6	1.0	2.4	4.5	7.2	8.8	8.2	3.7
	Banks	109	4,819	11.6	-2.9	9.3	-4.4	7.6	7.6	3.2	5.0	-6.7	7.7	9.0	8.3	4.7
	Basic Resources	37	877	2.1	-0.1	13.4	4.3	12.4	12.4	0.8	1.5	8.9	-1.4	10.9	11.0	4.2
	Chemicals	37	935	2.2	-1.7	8.1	-3.1	6.5	6.5	1.8	3.6	-8.3	9.4	13.9	12.7	3.6
	Construction & Mat.	15	319	0.8	2.8	14.2	6.2	12.4	12.4	6.1	4.3	7.9	11.9	17.7	15.8	2.4
	Real Estate	44	1,058	2.5	4.9	17.8	21.1	17.5	17.5	12.9	9.8	-0.6	8.2	16.5	15.3	3.8
	Financial Services	43	1,091	2.6	-1.6	12.5	2.7	10.4	10.4	-1.9	3.8	-0.9	6.5	14.2	13.4	3.0
	Food & Beverage	40	1,936	4.6	4.6	13.4	10.1	12.8	12.8	3.4	3.8	3.8	7.6	20.5	19.1	2.9
	Health Care	74	4,127	9.9	0.1	9.9	22.2	7.9	7.9	10.4	6.3	12.2	9.2	16.8	15.4	2.1
	Industrials	110	3,546	8.5	-0.8	17.7	9.5	15.2	15.2	6.4	5.2	2.0	8.2	16.1	14.9	2.4
	Insurance	55	2,100	5.0	-0.6	12.6	6.3	10.5	10.5	0.3	3.6	23.1	6.3	13.0	12.3	2.9
	Media	17	783	1.9	-2.2	15.4	17.0	14.2	14.2	9.6	5.5	-1.9	14.9	23.2	20.2	1.3
	Energy	72	3,173	7.6	1.2	15.1	13.0	14.1	14.1	-0.8	6.0	-6.2	14.1	12.7	11.1	4.5
	Personal & HH Goods	46	2,000	4.8	2.8	17.3	11.2	15.0	15.0	1.6	4.7	3.3	8.0	22.0	20.4	2.5
	Retail	44	2,805	6.7	2.4	16.6	20.0	15.1	15.1	7.4	6.4	21.9	13.1	25.3	22.3	1.4
	Technology	95	7,389	17.7	3.2	19.3	19.9	18.2	18.2	3.7	7.8	0.7	12.6	19.7	17.5	1.5
	Telecom	35	1,654	4.0	1.3	9.5	8.6	7.9	7.9	1.8	1.4	-2.6	1.7	13.4	13.1	4.3
	Travel & Leisure	31	806	1.9	-1.5	11.9	5.9	9.4	9.4	4.3	5.3	2.1	7.1	14.6	13.6	2.0
	Utilities	51	1,295	3.1	3.8	10.9	19.3	10.7	10.7	3.1	8.1	21.8	10.7	17.4	15.7	4.1

Source: FactSet, Erste Group Research Calculations.

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