Global Strategy Q1 2018

The global economic environment remains favorable. The Fed will shrink its balance sheet in 2018 and gradually raise interest rates. The ECB is likely to continue with its asset purchases at a reduced pace until September and discontinue them by the end of the year. In this environment we continue to favor stocks, as well as IG hybrid and HY corporate bonds. Safe government bonds should suffer price declines as the year progresses, we expect a moderate increase in yields.

Investment Strategy Q1 2018:

Govt. bond yields		Mar. 2018
Germany (10Y)		0.50
USA (10Y)		2.60
Currencies		**Mar. 2018**
EURUSD		1.13
CHF		1.16
Equity Performances		**Mar. 2018**
Global	➚	0%/ +5%
Europe	➚	0%/ +5%
USA	➚	0%/ +5%

Source: Erste Group Research

Prices as of
18.12.2017, 22:00

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

Economy

US economic growth has accelerated significantly after a weak Q1 and this strong economic performance should continue. Although the unemployment rate is already very low, no signs of overheating are detectable so far, as wage growth remains stable at a moderate level. We are forecasting GDP growth of +2.4% y/y in 2018. The euro zone economy benefits from strong foreign trade and solid domestic economic activity. Industrial capacity utilization is likely to boost investment spending in the coming year. Overall we expect the strong momentum of economic growth to be maintained in 2018 with GDP growing at +2.4% y/y. However, the improvement in headline inflation proves quite protracted in view of moderate wage growth. We expect headline inflation to increase slightly in 2018 and reach +1.6%.

Bonds

The ECB continues to regard an ample degree of monetary stimulus as necessary and has set a predictable monetary policy course until September 2018. We expect that it will only take steady increases in the pace of inflation for the ECB to taper off its asset purchase program by the end of the year. Currently the bond market shows little reaction to this. We believe yields on German Bunds will remain at low levels for now. Yields should begin to rise in the course of the year though, once wage growth accelerates and triggers a surge in inflation expectations. The Federal Reserve should maintain its policy of gradual rate hikes in the coming year end we expect three more rate hikes. This prospect is not fully priced in yet by the short end of the market. Strong economic data, a potential stimulus from tax cuts, a further decline in the unemployment rate and a possible acceleration in wage growth should exert a negative impact on government bond prices.

Currencies

The markets should place more weight on rate hikes in the US than the prospective end of the ECB's bond purchases, hence we expect the US dollar to appreciate against the euro. In the current favorable economic environment, demand for safe havens is waning, and we expect the Swiss franc to weaken moderately against the euro as the year progresses, as well as a mild decline in the gold price in the first quarter.

Stocks

The global economic upswing is reflected in rising revenue and earnings estimates for listed corporations. In view of expected earnings growth, partly higher valuations (i.e., P/E ratios) do not appear excessive yet. Accordingly we expect global stock markets to post another slight gain in the 1st quarter of 2018, in a range from 0% to +5%.

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Investment Strategy Q1 2018

Yields				Estimates		
		current	**Q1 18**	Q2 18	Q3 18	Q4 18
10y. Govt. bonds	**Germany**	0.30	**0.50**	0.70	0.90	1.10
	Austria	0.46	**0.70**	0.90	1.10	1.30
	US	2.37	**2.60**	2.70	2.80	3.00
	CEE					
	Czech Republic	1.62	**1.86**	1.89	1.92	1.93
	Hungary	2.11	**2.00**	2.00	2.00	2.00
	Poland	3.21	**3.55**	3.67	3.91	3.91
	Romania	4.52	**4.60**	4.80	5.10	5.20

Source: Erste Group Research estimates

Currencies				Estimates		
		current	**Q1 18**	Q2 18	Q3 18	Q4 18
Global	**EURUSD**	1.18	**1.13**	1.11	1.10	1.12
	CHF	1.17	**1.16**	1.17	1.18	1.18
	Gold (USD)	1,258	**1,250**	1,250	1,300	1,300
CEE	**CZK**	25.68	**25.4**	25.3	25.1	25.0
	HUF	313.60	**315**	315	315	315
	PLN	4.22	**4.25**	4.23	4.21	4.20
	RON	4.63	**4.65**	4.65	4.70	4.73

Source: Erste Group Research estimates

Equities *FTSE Indices*		**Estimate Q1 2018**	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

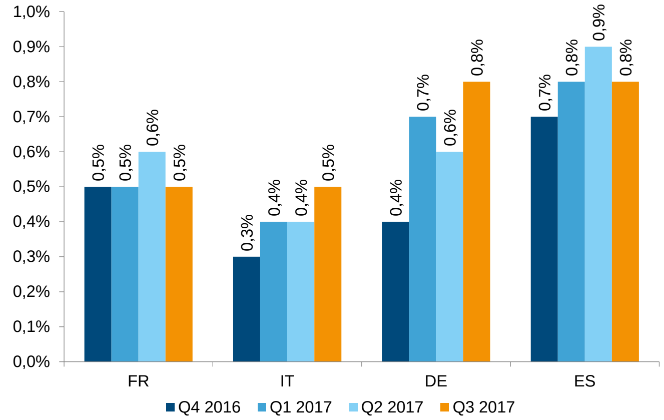
Euro Zone Economic Outlook

Strong growth momentum should persist in 2018

Euro zone economy benefits from strength in foreign trade and solid domestic activity

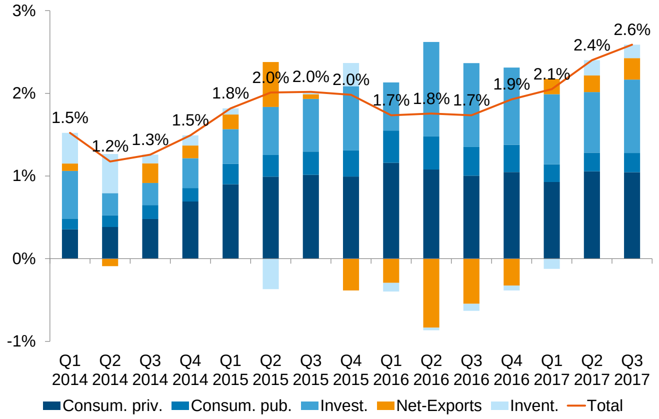
Based on very strong leading indicators, we expect economic growth momentum in the euro zone to remain robust at +2.6% y/y in Q1 2018. The economy of the euro zone continues to benefit from strength in foreign trade; export growth accelerated to +5.2% y/y in Q3 2017. On the country level, France and Italy, which used to cause a great deal of concern, were the main contributors to the acceleration in growth. The need to implement reform nevertheless remains urgent in Italy, and to a lesser degree in France as well. Under the Macron administration a number of tangible reform measures with respect to the labor market and taxation are coming into view though, which should provide a sustainable boost to economic growth. In the current strong economic environment the unemployment rate should continue to decrease as well and consumer demand should benefit accordingly.

GDP growth (q/q) by region
Italy and France are catching up



Source: Eurostat, Erste Group Research

Euro zone GDP growth
Trade surplus strengthens growth in the euro zone



Source: Bloomberg, Erste Group Research

Global economic environment remains strong – acceleration in investment activity expected in 2018

The global economic environment remains strong. Growth in emerging markets continues to benefit from capital inflows and stable commodity prices. Moreover, the structural reforms implemented in France should already provide an initial boost to economic growth in 2018. Furthermore, historical highs in manufacturing capacity utilization coupled with rapidly growing order books should stimulate investment activity in the coming year. All in all we therefore expect **strong momentum in euro zone GDP growth to be maintained and reach +2.4% in 2018**.

Headline inflation should rise to around +1.6% in 2018

With respect to headline inflation we anticipate a slight increase to an average rate of +1.6% in 2018. This should primarily be driven by a gradual rise in core inflation (from an average rate of +1.0% in 2017 to an average rate of +1.2% in 2018). It remains uncertain to what extent expected economic strength will manage to invigorate core inflation in 2018. While the pace of core inflation was to date within the expected range, it was nevertheless slightly disappointing considering recent strength in economic growth.

US Economic Outlook

Strong performance of the economy should continue

There are currently no indications pointing to a slowdown of the US economy. After a weak first quarter in 2017, growth accelerated significantly and strong growth rates were reported in the second and third quarter. Monthly data released in the fourth quarter so far provide grounds for continued optimism. The US economy is in a very advanced stage of the business cycle, which not least the extremely low unemployment rate of 4.1% is testament to. At the same time there are no signs of overheating in evidence yet. Wage growth remains stable at a moderate level.

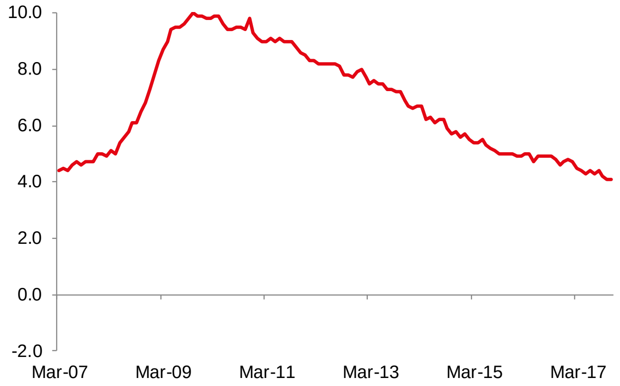
Tax cuts will provide an additional boost to a strong US economy

The upcoming tax cuts are going to provide additional momentum to the US economy next year. Even as a final vote in both chambers of Congress is still outstanding, the probability that tax relief will indeed be implemented is high. A cut in corporate taxes appears certain at this stage. An income tax cut seems already assured for next year. Based on the proposals forwarded so far, a large part of the tax cut will benefit the upper 20% of income earners, but lower income groups will enjoy some relief as well, which should boost growth in consumer spending. Tax incentives suggest an increase in investment spending as well. As long as no package has been passed, only rough estimates of the effects are possible. Our expectations remain cautious and we are forecasting GDP growth to accelerate to +2.4% y/y in the coming year, up from +2.2% this year.

So far no signs of inflationary pressures, but risks continue to increase

This acceleration is about to happen in an environment in which the labor market already has little room to improve further. The risk that upward pressure on wages and hence ultimately on inflation will emerge is rising accordingly. However, nothing of the sort has happened so far. Apart from the already very tight labor market, the tax cuts nevertheless add a further risk factor that may help trigger a wage-price spiral. While we consider this threat to be negligible in Q1 2018, it should become more pronounced as the year progresses.

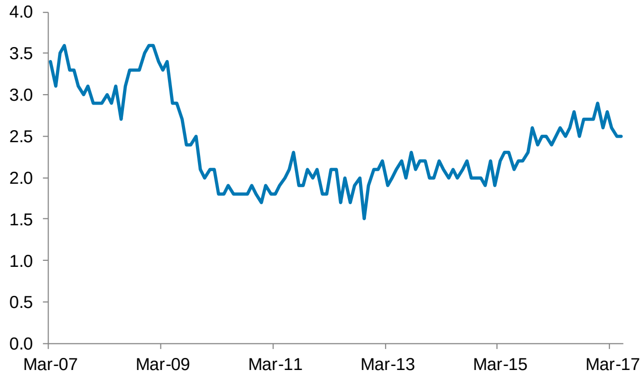
US unemployment rate has already declined below pre-crisis levels
Unemployment rate in %



Source: Bloomberg, Erste Group Research

Wage growth remains subdued so far

Average hourly wages, y/y in %



Source: Bloomberg, Erste Group Research

CEE Economic Outlook

This year was marked by a series of upside surprises to GDP growth in the region, and consequently upward revisions. The most recent and most notable was in Romania, with 3Q17 GDP growth reaching outstanding dynamics of 8.8% y/y. The Czech Republic and Poland also expanded at a solid pace as well, as the rate of growth was close to 5% y/y. Domestic demand was the driving force behind growth in all CEE countries and consumption proved to be particularly strong (12.5% y/y growth in Romania in 3Q17), yet net exports delivered a strong footprint, particularly in Poland.

Next year, CEE economies are expected to sustain solid, yet somewhat lower growth dynamics. Most countries are expected to grow between 3.5% and 4%, i.e. above their potential. The risks remain to the upside though, especially if the rebound of investment proves stronger than expected, as the drawing of EU funds has been gradually speeding up.

Domestic demand will remain the pillar of growth everywhere. Solid growth in consumption is the outcome of tight labor market conditions. Continuous (even double-digit for Hungary and Romania) increases in employment and accelerating wage growth supports high levels of household spending. However, the key to a sustainable pace of growth lies in increasing investment activity. As EU fund payments have lately been increasing, more vivid investment performance is broadly expected. While in Hungary, which has, as of December, already had 74% of EU funds allocated to specific projects (with 37% of the money already paid to beneficiaries by the government before the EU funds are actually transferred) investments already grew rapidly in 2017, in other countries, with allocation rates of between 30-40%, investment growth is likely to rebound more visibly only in the years to come.

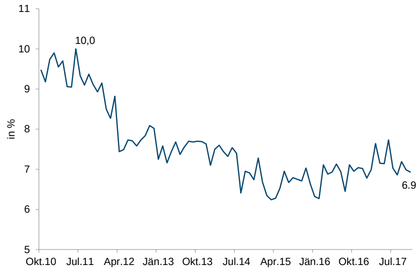
As labor market conditions have tightened and wage growth has accelerated across all CEE countries, inflationary pressure has been continuously building up. Headline inflation throughout the year went up the most in Romania (from 0.1% to 3.2%). In the Czech Republic, the inflation rate was already above the central bank target for the whole of 2017, leading the CNB to hike rates. While headline inflation was pushed up by growing food or energy prices in many countries, demand pressure has also been building up as a result of rapid wage growth. Core inflation is close to 3% in Hungary, while it still remains subdued (below 1%) in Poland and Romania.

Next year, we expect further increases in inflationary pressure and for the inflation rate to be above the central bank target in the Czech Republic, Hungary and Romania. As the unemployment rate keeps dropping and wage pressure continues to rise due to labor shortages on the market, core inflation is likely to remain on an upward trend in the quarters to come.

BRIC Economic Outlook

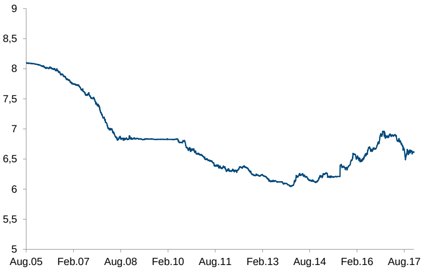
China

China: Bloomberg GDP indicator



Source: Bloomberg, Erste Group Research

RMB-USD exchange rate



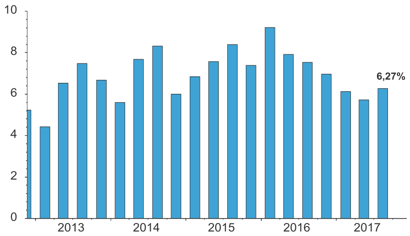
Source: Bloomberg, Erste Group Research

Leading indicators suggest that GDP growth will be slightly below 7% in Q4. The Bloomberg GDP indicator currently points to a growth rate of around 6.9%. The biggest risk factor for China's economic growth remains the rapid accumulation of debt. This is partly offset by the stabilizing effect of China's positive net foreign investment position, as well as the comparatively low proportion of foreign currency-denominated debt.

As expected, incumbent president Xi Jinping continued to consolidate his power in the course of the 19th National Party Congress. One should therefore assume that government control over the Chinese economy will remain substantial and may possibly be expanded even further. This has the advantage that there is now a high probability of achieving the envisaged growth targets of around 6.5% per year until 2020. On the other hand, important structural reforms are likely to fall by the wayside, which in our opinion is going to hamper the country's long-term growth prospects. Thus investors will have to gradually rethink their strategies in their approach to China, as it currently does not appear as though the country will be opened further to market forces. Rather the opposite seems to be the case at present; for instance, mounting pressure to expand the influence of the CP over enterprises is a growing concern for foreign investors. The restructuring of China's economy toward emphasizing the importance of services and consumption nevertheless continues unabated.

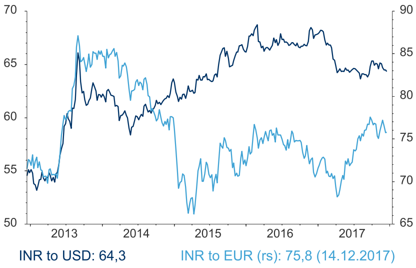
India

India: GDP growth in % y/y



Source: Datastream

India: INR vs, USD & EUR



Source: Datastream

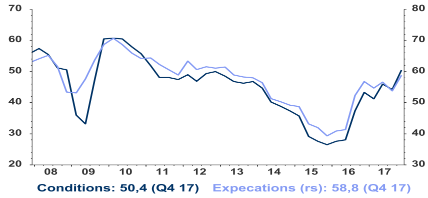
India's GDP rose by 6.3% y/y in Q3. This was a significant increase over the previous quarter (+5.7%). The consensus calls for another acceleration in growth to +7.4% in the first quarter of 2018. For 2017 as a whole the IMF expects growth to reach 7.2%. GDP growth is expected to accelerate further to 7.7% in 2018.

The manufacturing purchasing managers index increased to 52.6 points in November, the strongest reading in a year. The new job creation component rose to the highest level since 2012. The services purchasing managers index for November by contrast indicated an upcoming slight contraction in the sector. The index fell to 48.5 points, the lowest level in 3 months. The main reason for the deterioration was weakness in the new orders component. Companies blamed primarily the effects of the new goods and services tax which is in force since July.

The Reserve Bank of India left its repo rate unchanged at 6% in Q4. The analyst consensus expects benchmark interest rates to remain unchanged next year as well. Inflation has increased significantly from 3.6% to 4.9% in November. This was the first reading above the central bank's target rate of 4% this year. The Indian rupee has strengthened noticeably against the US dollar since the beginning of the year, rallying by +4%. In Q4 the currency remained essentially unchanged vs. the USD.

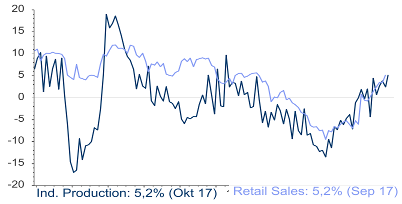
Brazil

Brazil: Industrial Entrepreneur Confidence Index



Source: Datastream, Erste Group Research

Brazil: Industrial production y/y, retail sales y/y



Source: Datastream, Erste Group Research

The Brazilian economy should grow by +0.8% y/y in 2017. GDP growth is expected to increase significantly to +2.5% in 2018 and 2019. In the course of the improving economic situation purchasing manager indexes have strengthened markedly. Expectations regarding future economic developments have improved further as well.

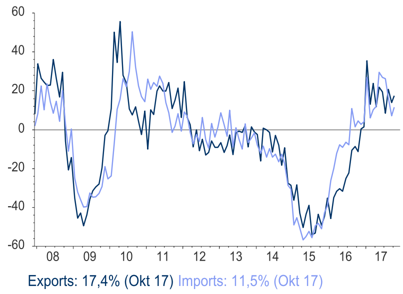
The unemployment rate has decreased slightly and currently stands at 12.6%. It should decline to 12% in the 4th quarter and according to consensus estimates decline further to 11% in the course of next year. Thus labor market conditions are improving more rapidly than was assumed just one quarter earlier.

Forecasts for industrial production growth were recently revised upward as well. An increase by 1.8% y/y is expected in 2017. In the coming year the growth rate is seen as accelerating to 2.6%, followed by a further increase to 2.9% in 2019. Consumer prices are estimated to rise by 3.5% this year and by 3.9% in 2018. Due to the decrease in previously very high inflation rates (2015: 9% and 2016: 8.8%) the central bank was able to continue its rate cutting cycle.

The central bank has cut the Selic rate 6 times in the course of the year. It currently stands at 7%. The consensus estimate calls for the base rate to decline to 7.35% by the end of 2018. Long term bond yield increased from 9.5% to 10.1% in the course of the last quarter.

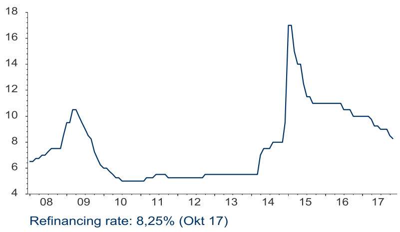
Russia

Russia: export growth currently exceeds growth in imports



Source: Datastream, Erste Group Research

Russland: refinancing rate



Source: Datastream, Erste Group Research

According to consensus estimates the Russian economy will likely grow by 1.8% y/y this year. GDP growth is expected to reach 1.8% y/y in 2018 as well. Thus growth estimates were recently slightly raised.

Industrial production is likely to make an important contribution to economic growth. According to consensus estimates is is going to increase by 1.8% in 2018, followed by an acceleration to 2.1% in 2019. Private consumption with also make a significant contribution to GDP growth both this year and in 2018 (+2.8% y/y in each year). Government spending is set to remain stable in 2017 (+0.2% year-on-year) and should remain little changed in 2018 as well, for which a slight decline by -0.1% y/y is expected.

Consumer price inflation continues to slow down. In 2017 inflation is expected to rise by +3.7%, followed by an increase of around +3.9% in 2018. The unemployment rate is currently stagnating. Forecasts for 2017 and 2018 call for a level of 5.2% in both years.

The central bank has lowered its refinancing rate to 8.25%. Consensus estimates are calling for a further reduction to 6.95% until the end of 2018. The yield on long-term government bonds remained unchanged quarter-on-quarter, and currently stands at 7.6%.

Bonds

Bonds	Yield Forecast Q1 2018
Euro Zone Main Refinancing Rate	0.00 %
German Bund	0.5 % (10Y)

Yields should only rise moderately in the first quarter

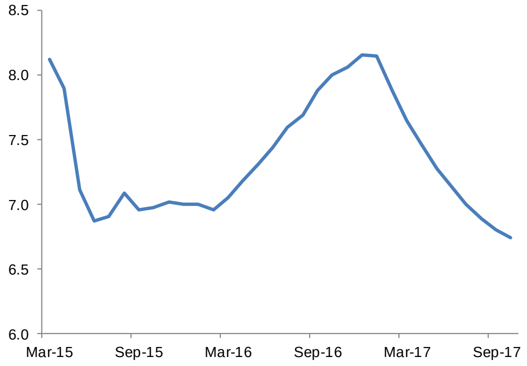
ECB to halve asset purchases from January onward

The ECB has already committed itself to a monetary policy course well into 2018 at its October meeting. From January 2018 onward, the central bank's monthly asset purchases are to be scaled back from EUR 60bn to EUR 30bn. This pace of monthly purchases is to be maintained until at least the end of September, and in any case until a sustained adjustment in the path of inflation consistent with the ECB's inflation aim is detectable. We expect a decision regarding the course of monetary policy after September 2018 to be announced in the summer. In our view, trend-setting decisions are highly unlikely until then. At most there might be an adjustment in the composition of asset purchases prior to this point in time. Since the purchase program has been underway for quite some time – in March of 2018 it will have lasted three years - supply shortages at certain issuers could conceivably emerge. Particularly the Bundesbank could find it increasingly difficult to fulfill its required quota of purchases of German government debt securities. The most important issue for the markets nevertheless remains what the ECB has in store after September. We believe a slow increase in inflation will suffice for the ECB to let the purchase program taper off until the end of the year. In the final months of the year we expect the purchases to be halved to EUR 15bn per month.

Clear uptrend in bond yields depends on developments in economic data

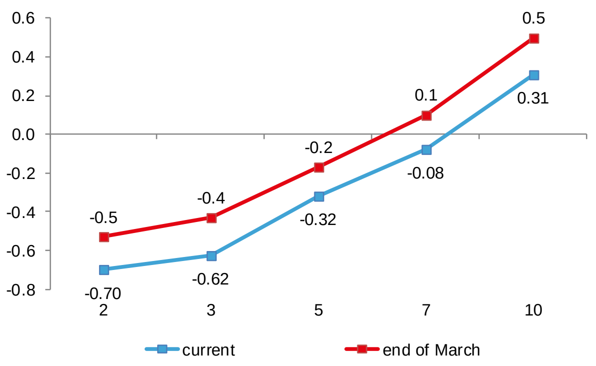
Bond markets have barely reacted to the ECB's announcement that its purchases will be cut in half from January onward. This (non-) reaction is a surprise, as it indicates that the markets deem a EUR 30bn decrease in monthly demand to be inconsequential. Ultimately the effects will likely only be felt once the slower pace of purchases has begun. However, the market's tepid response suggests that only a moderate increase in yields should be expected for now. We have adjusted our expectations for the first quarter accordingly. The excess liquidity created by the ECB is likely to keep bond yields generally at low levels. Government bond yields should only enter an uptrend once economic data point to stronger wage growth and hence rising inflation risks. We expect that such data will eventually emerge, this development is likely to be slow in coming though.

Declining term to maturity of Bundesbank portfolio hints at increasingly tight market conditions
TTM of German debt securities purchased, in years



Source: Bloomberg, Erste Group Research

German government debt yield curve should slightly shift upwards until the end of March
Yields by maturity, in %



Source: Bloomberg, Erste Group Research

US	Yield Forecast Q1 2018
Federal Funds Rate	1.50 – 1.75 %
US Treasury Notes	2.6 % (10Y)

More of the same next year?

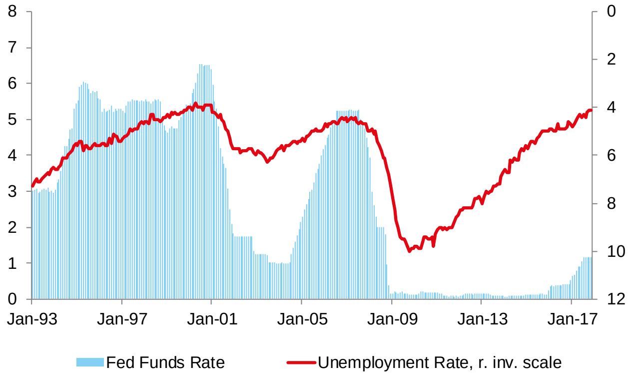
Fed should maintain the pace of rate hikes

The broadly positive macroeconomic environment should continue into next year and we expect the Fed to hike interest rates three times. On the one hand, there are currently no signs of a slowdown in economic growth, while on the other hand, there are no signs of an acceleration in inflation either. However, the risks for both remain skewed to the upside. While the tax reform package is still debated in Congress, it appears already certain that tax cuts and investment incentives will pass, which should provide a boost to US economic growth next year. Inflation has hitherto barely responded to the economic upswing though. Our base case scenario calls for this situation to essentially remain unchanged, leaving aside technical factors which should lead to a mild increase in inflation in the spring. This is a major condition of our forecast that the Fed will deem the currently envisaged three rate hikes sufficient, with the first one to be announced in March. At the same time the inflation outlook remains uncertain. The assumption of the Fed that a structural break has led to very high resource utilization without triggering inflationary pressures appears to have been confirmed so far, but this notion can turn out to be erroneous at any moment. In that case, the situation would change markedly and more rate hikes would ultimately be required.

Persistently moderate inflation expectations are the key to bond market valuations

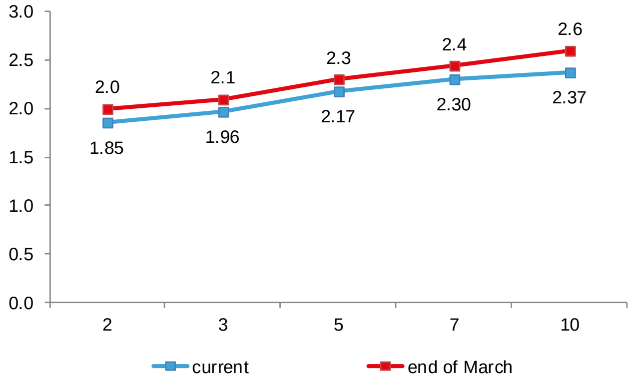
The bond market is currently not pricing these risks in. Short maturities fail to fully reflect the three rate hikes expected in the coming year. In longer maturities it is implicitly held that a federal funds rate of slightly more than 2% will ultimately suffice to keep inflation permanently in check, which requires giving credence to an even more pronounced structural break than the one the Fed is assuming to prevail. Little about this situation should change in the coming quarter, but a moderate increase in yields appears likely anyway. The reason for this is the current economic environment, which should lead to a slightly more cautious assessment of risk. Strong economic data and the prospect of more of the same as a result of the tax cuts, a further decline in the unemployment rate and a possible acceleration in wage growth should all have a negative impact on the market.

US monetary policy based on assumption of a structural break
in %



Source: Bloomberg, Erste Group Research

Environment in the first quarter suggests a moderate increase in yields
Treasury yields by term to maturity, in %



Source: Bloomberg, Erste Group Research

CEE Government Bonds	Yield Forecast Q1 2018
Czech Republic	1.62% (10Y)
Hungary	2.11% (10Y)
Poland	3.21% (10Y)
Romania	4.52% (10Y)

Tightening of labor markets and higher inflation this year already triggered some central banks to tighten monetary conditions in the region. The CNB increased the 2W repo rate by 20bp in August and by another 25bp in November. As pro-inflationary risks still prevail in the Czech economy, we expect the CNB to increase interest rates by 25bp either on 21 December or in February. In Romania, the NBR narrowed the symmetrical corridor around the key rate for the deposit and lending facilities to ±100bp in two steps in the autumn. We foresee four hikes in the key rate in 2018, with the first one already being delivered in 1Q18. In Hungary, however, monetary policy is expected to preserve its extra dovish stance. The central bank will buy mortgage bonds and offer 5-year and 10-year IRSs from 2018. As a result, rates and yields should remain depressed and real interest rates could sink to even deeper levels, as inflation rates slowly increase. Any normalization of rates seems unlikely before 2020 in Hungary. In Poland, we see a possibility of a rate hike in 4Q18, but only if the inflationary expectations significantly increase and the threat of overshooting the target is substantial.

As for bond markets, the mild increase in major market yields could also exert upward pressure on CEE yields. However, spreads over German bunds could remain more or less stable, or even shrink further (especially helped by the MNB for Hungarian bonds). Although fundamentals are still a supportive factor for bond spreads in most cases, we cannot rule out that Romanian spreads widen a bit due to fiscal risks. Romania's structural balance has now become one the worst in the whole EU, expected at 4.3% of GDP by the European Commission for next year. The government has so far unveiled a series of soft measures for keeping the budget deficit below 3% of GDP in 2018, but the associated cost savings seem modest. The government has a deadline of until April 2018 to report to the EC on the specific measures taken to correct the fiscal deviation, so the issue remains open and new fiscal measures are not being ruled out.

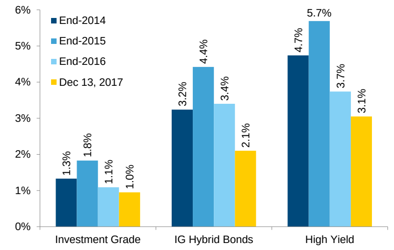
Central banks in the region were to a great extent kept at bay by the low inflationary pressure imported from the euro area. This picture somewhat changed this year, however, which is making currency developments increasingly divergent in the region as well. In the Czech Republic, where monetary tightening will very likely continue, the currency could benefit, while the Polish zloty is also enjoying the support of a relatively high policy rate, besides hefty GDP growth. The volatility of the Romanian leu, on the other hand, is being increased both by fiscal risks and the central bank's new goal to keep interest rates more stable, at the possible expense of currency stability. As for Hungary, the central bank's super-accommodative policy could keep the forint at its current, relatively weak levels next year.

EUR-Corporate Bonds
Investment Grade
High Yield

Significant declines in yields were confined to the IG hybrid and HY segments this year

average yields in %,

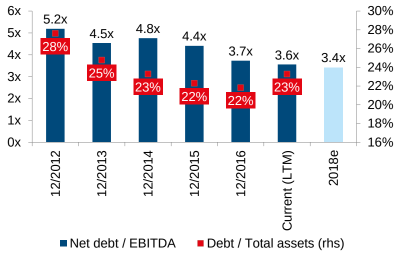
avg. term to maturity*: ~5 years



Source: Markit, Erste Group Research
as of: 13. December 2017
*in the case of hybrid bonds: remaining term to the first call date

A slight decline in aggregate imputed debt repayment terms is expected in 2018

Net debt/ EBITDA ratio and financial liabilities relative to balance sheet totals at Stoxx 600 companies



Source: Bloomberg, Erste Group Research
As of: 13. December 2017
LTM (=last twelve months): metric based on the most recent 12 month figures available

The environment for corporate bonds was almost perfect this year: the ECB continued its corporate sector purchase program. Mr. Macron's election victory in France abruptly removed political risk as a factor weighing on the markets. The pace of economic growth continued to accelerate. Germany's IFO business climate index reached a new all time high in November. This is reflected in corporate credit profiles: imputed debt repayment terms in the Stoxx 600 Index decreased slightly. Ratings and earnings outlooks improved in almost all sectors.

IG hybrid bonds delivered the best performance, returning +9.8%: ECB purchases have distorted risk premiums of senior IG bonds since 2016. In 2017 investors corrected the resulting relative mispricing of subordinated IG hybrid bonds. The performance of the HY (+5.5%) and IG segments (+2.5%) was strong, but weaker than in 2016 (+10% and +5.4%, respectively).

By autumn of 2017, the hunt for yield had pushed the spreads offered by HY over IG corporate bonds to the tightest levels in years. At the same time, the debt/EBITDA ratio of first time HY issuers with an initial Moody's rating (B to Caa) reached the highest level since 2011. This contributed to a normalization of relative spreads in December: IG spreads remained stable, while HY spreads widened. We regard this as a “healthy” correction. We don't expect a sizable sell-off in HY bonds. Due to the favorable environment Moody's expects another reduction in default rates among issuers with speculative ratings in 2018. The bulk of HY issuance proceeds continues to be used to refinance existing liabilities (at favorable conditions).

Monetary policy remains supportive. The ECB's asset purchase program will continue until at least the end of September 2018. The monthly volume of purchases will be reduced from EUR 60bn to EUR 30bn from January onward, but the proportion of corporate bond purchases should increase. The ECB will reinvest proceeds from maturing bonds.

If the economic upswing in Europe continues as expected in 2018 and inflation rates rise, the ECB could signal the phase-out of its securities purchases from June onward. This should exert upward pressure on spreads, but this pressure should be offset by the credit-positive effects of the continuing economic expansion. Consensus estimates call for a further decrease in the net debt/EBITDA ratios of European companies in 2018.

Once the ECB withdraws as a buyer in 2018, sector allocation will gain in importance: in the IG segment the raw materials sector is worth a look. Risk premiums in the sector have declined significantly in 2017. Yields nevertheless remain relatively high in absolute terms. The consensus expects the sector-wide net debt/EBITDA ratio to remain stable.

Valuations in the corporate debt market already reflect a plethora of good news. However, in view of the fact that all the credit-positive factors we have discussed (ECB, macroeconomic conditions, strong earnings growth) will continue to exert their effects, we still favor HY and IG hybrid bonds, as these segments are the greatest beneficiaries of the current environment.
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Currencies

	Forecast Q1 2018
US-Dollar	1.13

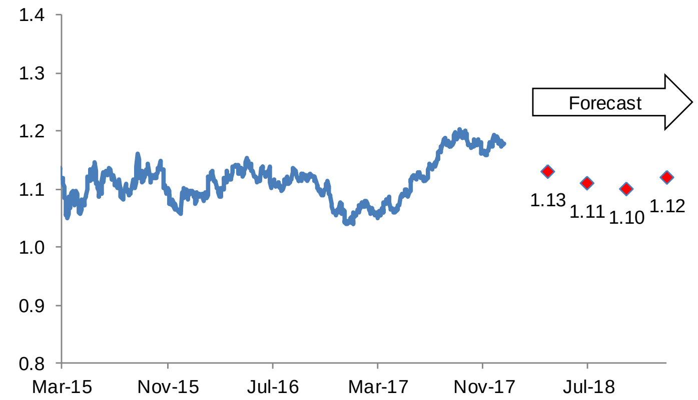
We expect the US dollar to strengthen

The decisive issue determining the exchange rate of the US dollar vs. the euro in the coming year will be which of the two central banks the financial markets will decide to focus on. Both are highly likely to implement a more restrictive monetary policy next year. The ECB should reduce its asset purchase program further from October onward and let it taper off entirely by the end of the year. We expect the Fed to maintain the monetary policy course adopted in 2017 and therefore implement further rate hikes.

US rate hikes should weigh more heavily on FX markets than the prospective end of the ECB's asset purchases

We expect that rate hikes by the Fed will be the decisive variable and are therefore looking for the dollar to appreciate. This is all the more likely in view of a slight increase in market-based interest rate expectations. Moreover, we expect that the ECB will signal the new course of monetary policy following the September deadline in the middle of the year at the earliest, by which time the Fed should already have implemented two further rate hikes. A comparison of the respective risks also favors the US dollar in our opinion. We see very little potential for the ECB to surprise the markets with a more stringent approach. That would require inflation to surge to an extent that is currently nigh unimaginable. The situation is quite different in the US, where inflation risks are significantly higher. The reason is the already very low unemployment rate amid continuing strong economic growth, which is likely to be boosted further by the tax reform package. Therefore there is a risk that the Fed may be forced to hike rates more rapidly than both we and the markets currently expect, which would undoubtedly buoy the dollar. An additional argument in favor of a stronger dollar, albeit one that is probably not relevant beyond the first quarter, are the upcoming parliamentary elections in Italy. These have to be held until May 20 at the latest, and there are currently indications that they will actually be scheduled for March. The election campaign could be marred by anti-EU/ anti-euro rhetoric, which would probably unsettle the markets.

Interest rate expectations favor the US dollar
EURUSD exchange rate



Source: Bloomberg, Erste Group Research

Forecast Q1 2018

Swiss Franc 1.16

At its meeting on December 14 the Swiss National Bank left the target range for three month Libor between -1.25% and -0.25%, and interest on sight deposits with the central bank at a negative rate of -0.75%. The SNB acknowledges that the reduction in the Swiss franc's overvaluation continues (recently also vs. the USD), but in the opinion of the SNB its valuation nevertheless remains high. According to the assessment of the SNB, the situation remains fragile; hence it is deemed essential to leave negative deposit interest rates in place and for the central bank to remain prepared to intervene in foreign exchange markets as necessary.

The SNB has raised its conditional inflation forecast significantly compared to September. In 2017 the SNB expects an average inflation rate of +0.5% (previously +0.4%). The inflation forecast for 2018 increased markedly from +0.4% to +0.7%. The forecast is based on the assumption that three month Libor remains at -0.75% over the entire forecast horizon.

The SNB expects that the favorable trend in the global economy will continue in coming quarters. However, over the medium term the SNB still sees downside risks for the global economy. It points to international political tensions, as well as potential uncertainties in relation to the expected exit from expansionary monetary policies in the large currency areas. In 2018 the SNB expects GDP-growth in Switzerland to reach +2%.

The Swiss franc has weakened significantly against the euro since Mr. Macron's victory in the French presidential election at the beginning of May, which in conjunction with strong economic momentum in the euro zone greatly improved investor sentiment toward the euro area. This development reflects the fact that safe havens are less sought after. Accordingly, sight deposits at Swiss banks have steadily declined since September. In the short term the Swiss franc remains in a trading range between 1.16 and 1.17 vs. the euro. In line with moderate increases in yields on German Bunds, we continue to expect the Swiss franc to gradually weaken further against the euro, to around 1.18 by Q3 2018. However, a minimum exchange rate is no longer enforced. Should certain risks emerge (e.g. geopolitical conflicts, turmoil in the EU), the Swiss franc could once again appreciate rapidly and strongly.

	Forecast Q1 2018
Gold in USD	1.200 – 1.250

Gold prices declined by -3% in USD terms in the fourth quarter, and by -2.6% in EUR terms. The price change since the beginning of the year was +8.2% in USD terms and -3.2% in EUR terms.

Strong decline in investment demand, particularly from ETFs

Gold demand has decreased by 9% y/y in the third quarter to 915 tons. According to the World Gold Council demand has fallen by 12% since the beginning of the year.

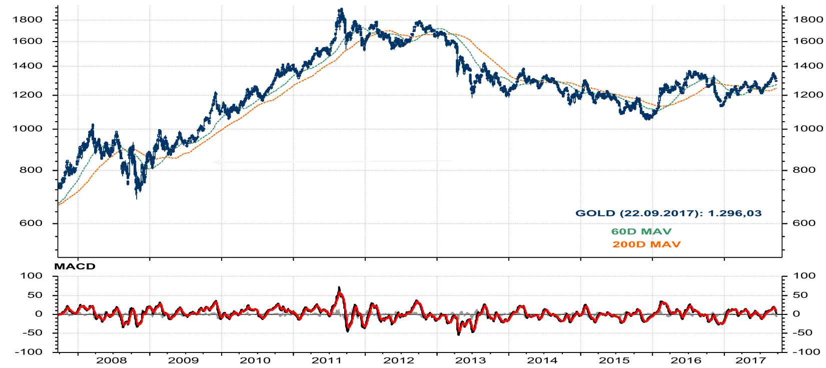
The trend in investment demand for gold was very weak. As was already the case in the first half of the year, sales of gold-based ETFs continued to slow down. This important segment experienced a strong decline in sales by 87% y/y. By contrast, sales of bars and coins increased by 17% y/y in the third quarter. Interest in acquiring physical bullion therefore shows no signs of diminishing. Total investment demand for gold in the third quarter nevertheless declined by 28% year-on-year.

Sales of bars and coins continue to increase

An important driver of the weakness in the gold price was among other things the fact that global economic data have largely exceeded expectations in recent months. This has boosted investor risk appetites. Global stock markets remain in an uptrend in view of positive earnings prospects. Stocks as an asset class therefore represent an attractive investment alternative to gold at the current juncture. The recent strong surge in crypto currency prices may also have contributed to slackening investment demand for gold.

Rate hikes by the Fed have had little effect on the trend in the gold price so far. That may be about to change, as the most recent rate hike by the Fed indicates that the rate hike cycle is probably going to continue. Yields on US treasuries are also likely to increase moderately in coming months. In assessing the risks for the gold price, investors should focus more closely on the possibility of rising real interest rates than in recent years.

Gold priced in USD



Source: Datastream, Erste Group Research

Outlook

We expect the gold price to weaken moderately in the first quarter. Our forecast calls for gold to trade in a range from USD 1,200 to USD 1,250.

Stocks

Forecast Q1 2018

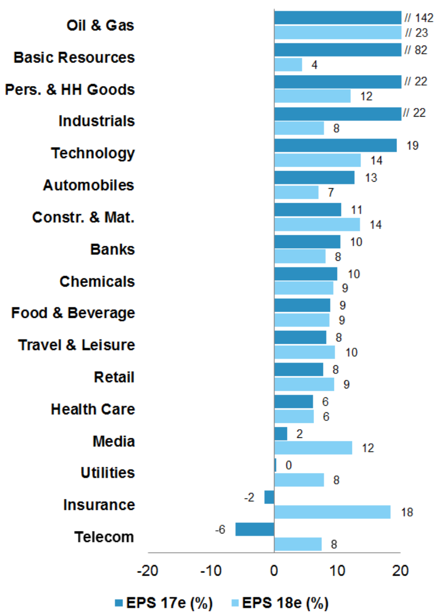
Global — 0% to +5%

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

Indices	Sales		EPS	
	17e	18e	17e	18e
North America	6.1	5.5	11.2	11.7
Europe	6.4	3.7	12.3	9.1
Asia	5.8	3.6	23.6	6.9
EM Asia	16.3	10.2	16.6	16.0
EM LatAm	13.2	6.6	60.7	11.1
EM Europe	34.0	8.0	27.9	6.7
World	**6.0**	**4.5**	**11.2**	**11.7**

Source: Datastream

Global sectors
Expected earnings growth (y/y, %)



Source: Datastream

Global stock markets rose by 4.1% in EUR terms in the fourth quarter. The US benchmark indexes S&P 500 (+6.2% in EUR terms), Nasdaq Composite and Dow Jones Industrial Average rallied to new record highs. The US indexes were displaying substantial relative strength vs. European stocks. Japan's Nikkei 225 Index posted a particularly strong gain of +11.1%. Almost all sector indexes posted gains. A conspicuous phenomenon was the continuing outperformance of big cap stocks over small caps.

Revenue and earnings growth in 2017 and 2018

The outlook for revenue and earnings growth of listed companies remains positive. Consensus estimates call for +6% revenue growth in 2017, followed by +4.5% in 2018. Expected earnings growth amounts to +11.2% in 2017 and 11.7% in 2018. Moreover, earnings growth estimates for 2018 were revised upward in the course of the past quarter. Earnings growth in the US technology sector is particularly stable from already elevated levels. This is for instance demonstrated by the two largest technology companies in the world. Apple reported earnings growth of 13% this year, while Alphabet (Google) is expected to post earnings growth of +17% in 2017.

Valuations slightly exceed historical average

The 2017 forward P/E ratio of the global stock market index stands at approx. 19.2x. Due to expected earnings growth this metric should to decline to 17.2x in 2018. Taking into account strong earnings growth prospects, stock market's valuation appears reasonable. The valuation gap between the US stock market (2018 fwd. P/E: 19.5x) vs. the European market (2018 fwd. P/E: 14.7x) is justified by the stronger growth momentum of listed US companies. European stocks are currently getting a tailwind from the strong economic upswing and rising oil prices.

Stocks are attractive compared to bonds

The low level of interest rates is an important factor lending support to stocks. Yields on German government bonds are trading in negative territory up to maturities of 7 years (5 yr. yield -0.3%). By contrast, European stocks offer an average dividend yield of 3.4%. The S&P 500 has a dividend yield of 1.9%, with the potential of being boosted further.

The charts look strong from a technical perspective

In December the S&P 500 Index reached a new record high of 2,670 points. The low-volatility uptrend remains intact. Quantitative analysis of trading volume confirms the sound technical picture as well.

Outlook

We expect that positive revenue and earnings estimates will continue to support the uptrend in global stock markets. We are therefore forecasting an advance in the global stock market index in the first quarter of 2018 in a range from 0% to +5%.

Global Sectors (1)

Outlook:	↗ 0 to +5%
PE 17e	24,7x
EPS 17e	+142.4%

Oil & Gas
Seasonal trends suggest oil prices will strengthen moderately in the first quarter. The outlook for the sector has improved. Consensus estimates are calling for revenue growth of +20.1% in 2017 followed by a further gain of +5.8% in 2018. Earnings per share are expected to grow by 142% in 2017, and another +22.9% in 2018. We therefore expect the sector index to deliver a positive performance in the first quarter. It should post a gain in a range of 0% to +5%.

Outlook:	↗ 0 to +5%
PE 17e	17,7x
EPS 17e	+10%

Chemicals
Consensus estimates for earnings per share have improved last quarter. Earnings growth of +10% is expected in 2017, followed by +9.3% in 2018. Estimates of revenue growth in the sector have slightly deteriorated though. According to consensus estimates sales should grow by +5.6% this year and by +4% in the coming year. We expect the chemical sector to perform in line with the broad market and are forecasting that it will post a gain ranging from 0% to +5%.

Outlook:	↗ 0 to +5%
PE 17e	13,8x
EPS 17e	+81.9%

Commodity producers
Commodity prices have increased moderately last quarter. Consensus estimates for the sector's earnings per share have therefore slightly improved. There were major revisions with respect to the outlook for earnings growth in 2018. While in the previous quarter 2018 earnings were still expected to decline slightly, the revised consensus estimate is calling for earnings growth of +4.4%. Expected revenue growth stands at +17.5% in 2017 and +1.8% in 2018. We expect the sector to advance between 0% to +5% in the first quarter.

Outlook:	↗ 0 to +5%
PE 17e	18,5x
EPS 17e	+10.6%

Construction & Building Materials
This sector has underperformed the overall market in the course of 2017. Consensus estimates have barely changed in recent months. The forecast for revenue growth currently stands at +5.5% in 2017 and +4.6% in 2018. Earnings growth is estimated to reach +10.6% in 2017 and accelerate to +13.5% in 2018. We expect the sector to post a gain at the lower end of a range of 0% to +5% in the first quarter.

Outlook:	↗ 0 to +5%
PE 17e	19,7x
EPS 17e	+21.5%

Industrial Goods & Services
This sector has rallied by 13.7% in 2017, delivering a significantly stronger performance than the broad global stock market index. Consensus estimates for revenue growth are calling for an increase in sales by +3.9% in 2017 followed by 4.6% growth in 2018. Earnings are expected to jump by +21.5% this year and grow by another +7.9% in 2018. Based on the positive outlook for the sector, we expect it to post a gain in a range of 0% to +5% in the first quarter.

Outlook:	↗ 0 to +5%
PE 17e	10,4x
EPS 17e	+12.8%

Car Manufacturers & Car Parts Suppliers
Sales in this sector should rise by +3.6% this year and +4% next year. Many companies in the sector are faced with innovative competition from Tesla Motors and Geely Automobile, which are already reporting very strong growth rates (revenues, 2017e: Tesla +68%, Geely +75%). Earnings of the sector as a whole are estimated to grow by +13% globally in 2017. Next year earnings growth is expected to slow to +7%. We expect the sector to generate a moderate return in a range of 0% to +5% in the first quarter.

Global Sectors (2)

Outlook:	↗ 0 to +5%
PE 17e	23x
EPS 17e	+8.9%

Food & Beverages

The slow momentum of sales growth of companies in this industry proved detrimental to the performance of the sector. Its return in 2017 was only half that of the global stock market indexes. This is trend is not expected to change much in 2018. The consensus expects revenue growth of +3.3% and earnings growth of +8.8%. The expected growth rates are lower than those achieved in 2017. We therefore believe that the sector's performance is likely to come in at the lower end of a 0% to +5% range in the first quarter.

Outlook:	↗ 0 to +5%
PE 17e	19,6.0x
EPS 17e	+21.8%

Household & Personal Care Products

Consensus expectations for revenue and earnings growth in the sector are above those for the FTSE World Index. Sales are expected to grow by +8.9% in 2017. In the coming year revenues are estimated to grow by 7.3%. Consensus estimates for earnings in 2017 are calling for growth of +21.8%, followed by +12.1% in 2018. In view of these strong growth prospects, the sector should continue to generate above average returns. In the first quarter we expect an advance ranging from 0% to +5%.

Outlook:	↗ 0 to +5%
PE 17e	17,8x
EPS 17e	+6.1%

Health Care & Pharmaceuticals

Revenue and earnings growth in this sector in 2018 will likely exhibit below average momentum compared to the global stock index. Earnings are estimated to increase by +6.2% in the coming year. The expected growth rate is quite weak compared to the long term average. Moreover, estimates have declined in recent months. The revised consensus forecast calls for the sector to generate sales growth of +4.8% in 2017, followed by +4.9% in 2018. We expect the sector index to deliver a performance at the lower end of a 0% to +5% range in the first quarter.

Outlook:	↗ 0 to +5%
PE 17e	25,2x
EPS 17e	+7.8%

Retail Trade

According to consensus estimates, sales in the sector are expected to grow by +5% in 2017 and +6% in 2018. Earnings growth estimates for 2017 currently stand at +7.8%. In 2018 the expected earnings growth rate is +9.4%. The sector's earnings growth is therefore likely to come in below that of the broad market in both 2017 and 2018. Moreover, earnings estimates for 2018 were revised slightly downward in recent months as well. We expect the sector to post a gain at the lower end of a range from 0% to +5% in the first quarter.

Outlook:	↘ -5% to 0
PE 17e	20.5x
EPS 17e	+2%

Media

The momentum of top-line growth expected in this sector is below average compared to that of other sectors. In 2017 a mere +2.5% in revenue growth and +2.0% in earnings growth are expected. However, the performance of companies in this sector varies widely. Advertising companies such as WPP and Publicis are losing market share to internet companies such as Alphabet, Tencent and Facebook. Netflix by contrast manages to impress by maintaining strong growth rates (revenue growth 2017e: 32%, 2018e: +28%). We are forecasting that the sector as a whole will post a negative return ranging from -5% to 0% in the first quarter.

Outlook:	↗ 0 to +5%
PE 17e	20,6x
EPS 17e	+8.2%

Travel & Leisure

According to consensus estimates revenues in the sector should grow by 5.5% in 2017, followed by 4.3% in 2018. Earnings growth is expected to accelerate to +9.6% in 2018. Expected revenue and earnings growth rates for both 2017 and 2018 are slightly below the broad market averages. We expect the sector to rally between 0% to +5% in the first quarter.

Global Sectors (3)

Outlook:	0 to +5%
PE 17e	20x
EPS 17e	+19.4%

Technology

The sector with the largest weighting of 13% in the world stock index posted a gain of +10% in the fourth quarter. Expectations for revenue and earnings growth improved in the course of quarter. The consensus estimate for revenue growth stands at +9% this year, followed by +8% in 2018. Earnings growth is expected to reach +19% this year, and +14% next year. The improved outlook underpins our expectation that the uptrend in the sector will continue (ytd +24% in EUR terms). In the first quarter we are expecting the sector to deliver a performance in a range of 0% to +5%.

Outlook:	-5% to 0
PE 17e	17x
EPS 17e	+0.3%

Utilities

According to consensus estimates revenues are expected to grow by +2.7% in 2017. In the coming year revenue growth is seen at +2.6%. Earnings are likely to stagnate in 2017 (2017e: +0.3%). The earnings situation is expected to improve in 2018 (+7.9%). The expected revenue and earnings growth rates of the sector continue to stand significantly below those of the world stock index. We expect the sector to post a loss ranging from -5% to 0% in the first quarter.

Outlook:	-5% to 0
PE 17e	15x
EPS 17e	-6.2%

Telecommunication

This sector has underperformed the global stock index significantly since the beginning of the year (-4.7% in EUR terms). The main reason for this are stagnating revenues. The consensus estimate for revenue growth in 2017 stands at just +0.8%, followed by a negligible acceleration to +1.8% in 2018. Moreover, earnings are expected to decline by -6% in 2017 and grow by +7.5% in 2018. The sector's comparatively high dividend yield of 4.4% was not enough to offset the price declines it suffered in 2017. In view of the sector's lack of positive prospects, we expect it to post a negative return ranging from -5% to 0%.

Outlook:	0 to +5%
PE 17e	13x
EPS 17e	+10.5%

Banks

The consensus forecast for 2017 indicates that the banking sector will achieve revenue growth of +1.3% and earnings growth of +10.5% this year. In the coming year revenues should increase by 3.3% and earnings growth should amount to +8.1%. Earnings growth forecasts for 2018 were slightly lowered in recent months. The valuation of the sector is quite low (2017 forward dividend yield: 3.3%, 2017 forward P/E ratio: 13x). We expect the global sector to rally between 0% to +5% in the first quarter.

Outlook:	0 to +5%
PE 17e	19.7x
EPS 17e	-1.6%

Insurance Companies

According to consensus estimates the revenues of insurance companies will grow at a significantly slower pace than those of other companies in the world stock Index. In 2017 revenue growth is expected to amount to +3%, to be followed by a slowdown to just +1.9% in 2018. Consensus estimates for 2017 earnings were reduced significantly further. Thus earnings are now expected to decline by -1.6%. In 2018 the negative trend in earnings results is expected to come to an end. According to consensus estimates, quite pronounced earnings growth of +18.4% is expected next year. We expect the sector to generate a return in a range of 0% to +5% in the first quarter.

Forecast Q1 2018

Europe

0% to +5%

Europe, consensus estimates
Earnings and revenue growth (y/y, %)

	Sales		EPS	
	17e	18e	17e	18e
UK	12.5	3.6	20.1	6.6
Switzerland	0.2	4.0	2.8	15.3
France	5.2	5.1	6.4	8.1
Germany	2.7	3.1	9.9	10.1
Spain	6.9	2.9	13.2	9.1
Europe	**6.4**	**3.7**	**12.3**	**9.1**

Source: Datastream

The European stock market gained 2.3% in EUR terms in Q4. Especially countries with large index weightings such as Germany (+5%) and Great Britain (+4%) were driving the rally. Since the beginning of the year, European stocks were able to generate a total return (incl. dividends) of 11.2% in EUR terms. Looking at individual sectors in Europe, particularly the stocks of commodity and chemicals producers delivered an above average performance in Q4 (+9% and +11%, respectively).

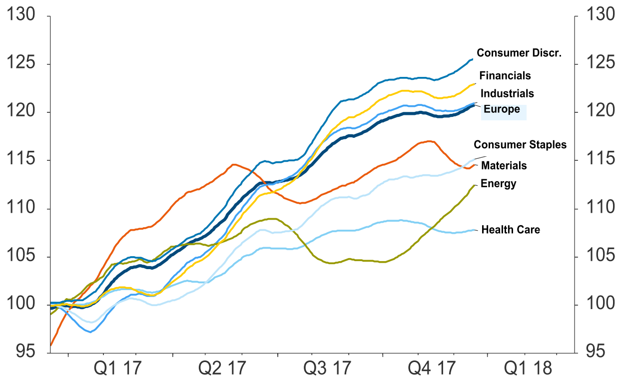
Consensus forecasts call for earnings growth of +12.3% in Europe in 2017. Particularly the oil & gas sector and the commodity sector are contributing to earnings growth in 2017. Corporate revenues in Europe are estimated to grow by 6.4% this year. (2018e: +3.7%). Revenue estimates have increased by 2% since the beginning of the year. The oil & gas sector continues to benefit from a slightly rising oil price (+11% in USD terms since early 2017) and as a result should be able to pose revenue growth of more than 20%.

The valuation of European stocks based on forward P/E ratios stands at 16x in 2017. As a result of strong expected earnings growth rates, the forward P/E ratio for next year currently stands at just 14.7x. The dividend yield amounts to 3.4%, which significantly exceeds the global average of 2.0%. The price/book ratio currently stands at 1.8x. For the first time since 2012, the return on equity has moved slightly above 10% again. Improving profitability therefore supports the higher valuations attained by European stocks.

Outlook

We expect European stocks to advance between 0 to +5% in the first quarter of 2018. Both earnings and sales growth remain in a sustained uptrend. In this context is has become evident that particularly multinational European companies are benefiting strongly from the acceleration in global economic growth.

Earnings expectations in Europe by sector
Earnings per share since Dec. 2016, indexed



Source: Datastream, Erste Group Research

Top 12 companies by market capitalization
Sales and earnings growth, USD bn

		Sales/Tot. Income			Net Profit		
Company		**16**	**17e**	**%**	**16**	**17e**	**%**
Royal Dutch Shell	UK	233.6	286.7	*22.7*	4.6	15.0	*227.2*
Nestle	CH	91.1	91.4	*0.3*	8.7	10.1	*17.0*
Anheuser Busch Inbev	BE	45.5	54.4	*19.4*	1.2	8.1	*548.8*
Novartis	CH	48.5	49.3	*1.5*	6.7	11.3	*68.9*
Roche Holding	CH	51.3	54.0	*5.1*	9.7	10.7	*9.7*
HSBC	UK	51.9	49.7	*-4.3*	1.3	11.4	*780.8*
Unilever	NL	58.3	60.5	*3.8*	5.7	6.6	*15.5*
British American Tobacco	UK	19.9	26.4	*32.4*	6.3	7.5	*20.1*
LVMH	FR	41.6	47.6	*14.4*	4.4	5.5	*25.5*
Total	FR	141.5	142.2	*0.5*	6.9	10.0	*46.6*
SAP	DE	24.4	26.5	*8.4*	4.0	5.7	*40.1*
BP	UK	183.0	223.9	*22.4*	0.1	5.7	*4855*

Source: FactSet, Erste Group Research

Forecast Q1 2018

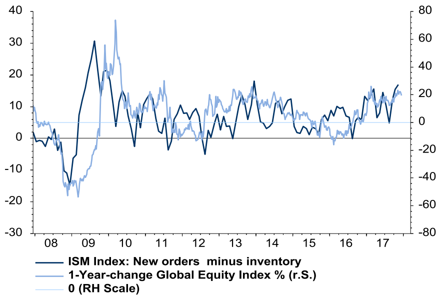
USA — 0% to +5%

The rally in US benchmark indexes continued in the fourth quarter. The S&P 500 Index, the Nasdaq Composite and the Dow Jones Industrial Average all achieved new record highs. The S&P 500 Index posted a well above average gain of +18.5% in 2017.

Almost all sectors continued to advance in the fourth quarter. Only a few sector indexes lost ground, among them insurance stocks, oil & gas service companies, as well as gold mining stocks.

The economic situation continues to be favorable. Confidence indicators remained at high levels last quarter. The ISM manufacturing index most recently stood at 58.2 points. Thus the expansion in the US manufacturing sector continues. A particularly positive development is the fact that the difference between new orders and inventories in the US has reached a high level. The performance of the economy therefore should currently not be expected to weaken anytime soon. The services sector is expanding as well, as evidenced by the ISM services index, which recently reached a level of 57.4 points, well above the neutral level of 50 points. These positive framework conditions support a continuation of the uptrend in major US stock market indexes.

New orders minus inventories in the US manufacturing sector vs. annual rate of change in the global stock index



Source: Datastream, Erste Group Research

Expectations for corporate sales and earnings growth remain positive as well. According to consensus estimates revenues are expected to grow by +5.6% in 2018 and earnings by +14.6%. Earnings revisions are also in an upward trend. Thus important preconditions for a moderate advance in the US benchmark indexes remain intact.

In view of the above-average profitability of listed US companies, the US stock market's 2018 forward P/E ratio of 19.5x appears appropriate. The dividend yield of the S&P 500 Index amounts to 1.9%. Yields on long-term treasuries are only moderately higher, with the 10-year note currently yielding approximately 2.4%. Considering the positive earnings growth prospects for companies, stocks continue to be attractive relative to bonds.

Outlook:
Based on the positive framework conditions in the US, we expect the advance in the S&P 500 Index to continue in the first quarter of 2018. We are forecasting a gain in a range from 0% to +5%.

Forecast Q1 2018

CEE — ↗ 0% to +5%

The economic outlook for the CEE region remains positive. However, we should not expect that the trees will keep growing to the sky. This is inter alia indicated by purchasing managers index readings (manufacturing PMI). While they remain at high levels, they have recently tended to move sideways in the region. From a cyclical rotation perspective, the markets in the region have clearly reached a late cyclical stage.

Cyclical trends rather appear to favor developed markets, and the US market specifically. The traditional tendency of emerging markets to respond negatively to rising yields may be playing a role in this as well. Portfolio flows clearly indicate as much at present. Since the end of November these liquidity flows have been negative for emerging markets.

The regional New Europe Blue Chip Index has posted a gain of approximately 24% since the beginning of 2017, a decidedly strong performance. It is increasingly difficult to come up with a rationale for a showing of similar magnitude in 2018. We expect the markets to follow earnings momentum rather than permitting multiples to expand further. It seems likely that this is precisely the region's Achilles heel. Earnings growth is currently rather meager, mainly due to base effects (around 2% in 12 months) and earnings growth momentum remains negative as well (as is the case in many other regions). Since this situation has largely prevented a year-end rally, relatively favorable valuations in the region (12m forward P/E ratio of 11.6x) may well be indicative of a good start into 2018, but positive movement in corporate earnings growth remains a precondition.

Poland remains our favorite investment destination in the region. In terms of growth the situation could be better there as well, but in view of a P/E ratio of 11.2x, 9% below the historical average, valuations are quite attractive. The Czech Republic currently exhibits the most decisive monetary policy trend, which makes at least bank stocks an interesting proposition. In Hungary monetary policy clearly remains on a supportive path. While this is good for stocks, it also harbors the risk of abrupt change. Turkey appears interesting from a growth perspective. Inflation and the currency in conjunction with high political risk weigh quite heavily though, and cause us to remain cautious for now.

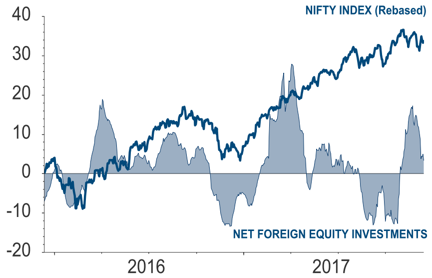
Further developments in wage growth should be an important issue in 2018. Particularly in Poland, retailers as well as construction companies are in focus in this respect. While we definitely still see selected opportunities in the consumer sector, we would avoid the construction sector in Poland entirely.

The banking sector merits attention not only in Poland. The outlook for inflation and interest rates provides a sound basis for future expansion of margins. The sector is our top pick in the Czech Republic and Hungary as well.

Forecast Q1 2018

India — 0% to +5%

India:
Net foreign buying of Indian stocks
vs. Nifty Stock Index



Source: Datastream

The Indian stock market rose by +3% in EUR terms in the 4th quarter. The banking, utilities, and oil & gas sectors delivered the best performance in Q4. Since the beginning of the year India's stock market has gained 21% in EUR terms. Particularly oil and gas company Reliance Industries was a stand-out, with an annual performance of +70% in EUR terms. With a market capitalization of EUR 78bn, the group is the largest listed company in India.

There were significant inflows of foreign capital into India's stock market in Q4. In the past such inflows tended to have a positive effect on the performance of Indian stocks

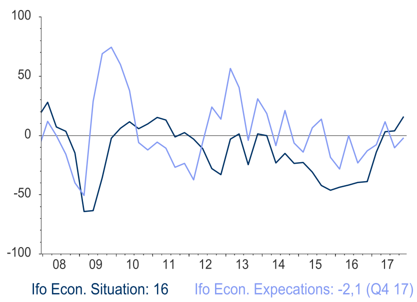
Consensus estimates for revenue and earnings growth of Indian companies are clearly positive. In 2017 revenues are expected to grow by +10.8%. In 2018 an acceleration to +11.9% is expected. Earnings growth forecasts remain positive as well. In 2017 earnings are estimated to grow by +15.8% followed by +25% next year. The 2017 forward P/E ratio stands at 22x, while the 2018 forward P/E ratio is 18x. The valuation of the Indian Index is relatively high compared to other emerging market indexes. However, in view strong earnings growth momentum and above average profitability (ROE: 19%) these valuation levels appear reasonable.

Outlook
We expect that India's stock market will rally moderately in Q1 2018. We are forecasting a gain in a range from 0% to +5%.

Forecast Q1 2018

China | Hong Kong — 0% to +5%

China:
IFO Indexes



Source: Datastream

The Chinese stock market rose by +6% in EUR terms in the 4th quarter. Since the beginning of 2017 the index has gained +28%, making it the clear outperformer among large emerging market indexes. Moreover, the trend in economic data remains positive as well. Currently China's IFO indexes are giving clearly positive signals. The most recent IFO index release shows that the assessment of current economic conditions has improved, while the expectations component is close to neutral territory.

Expected earnings growth in 2017 stands at +22%, followed by +17% in 2018. A positive factor for the future performance of the stock market is the fact that earnings estimate revisions were skewed to the upside in recent months. Revenues are also forecast to rise strongly. In the coming year, sales are expected to rise by +13%. The forward P/E ratio of the market stands at 16x for 2017, and 14x for 2018.

Outlook
Our forecast for the Chinese stock market calls for a positive performance in Q1 2018. We expect the market to post a gain in a range from 0% to +5%.

Forecast Q1 2018

Brazil 0% to +5%

Brazilian real vs. USD: Moderate decline
BRL/USD:

Source: Datastream, Erste Group Research

After posting strong gains in the third quarter, the Brazilian stock market weakened slightly in the fourth quarter. In local currency terms the decline amounted to approx. 2.5%. Due to the appreciation of the EUR vs. the Brazilian real, the performance in EUR terms was significantly worse with a loss of -7.6%. Only the sector indexes for financial stocks and commodity producers achieved minor gains.

The outlook for listed companies is mildly positive. According to consensus estimates revenue growth of +7.3% is expected in 2018. Revenue estimates were moderately reduced in the fourth quarter. Earnings growth at Brazilian companies is expected to reach 5.5%. However, in this respect, consensus estimates have declined sharply. Previously, earnings growth of +18% was expected.

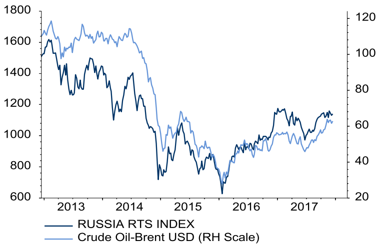
In view of the significant decline in earnings growth estimates, the valuation of the stock market does not appear favorable. The dividend yield stands at 2.7%, while the yield on long-term Brazilian government bonds currently amounts to more than 10%. The market's 2018 forward P/E ratio stands at 15.3x.

As a result of the significantly weakening in corporate earnings growth prospects we expect the Brazilian stock market to enter a sideways trend. In the first quarter it should post a gain at the lower end of a range from 0% to +5%.

Forecast Q1 2018

Russia 0% to +5%

Russia RTS Index vs. the oil price:



Source: Datastream, Erste Group Research

The Russian benchmark index RTS rose by 2.9% in EUR terms in the fourth quarter. Just as in the previous quarter, a moderate advance in crude oil prices supported the continuing recovery in the stock market.

Stocks in the energy sector rallied on average by 8.4%. Sberbank, one of the most important financial stocks in the Russian market rose by 19% in the course of the quarter. The telecom and utilities sectors weakened as expected. As the Russian economy is currently recovering from a downturn, these non-cyclical sectors seem likely to continue to exhibit relative weakness vs. the broader market.

Consensus estimates for corporate revenue and earnings growth in 2018 remain positive as well. Revenues are expected to grow by 7.7% and earnings by 8.5%. Companies are therefore likely to continue to experience growth, but the momentum will slow down compared to 2017. Valuations of listed companies remain very low. The 2018 forward P/E ratio stands at 5.5x, while the dividend yield amounts to approx. 5.1%.

Current conditions support a moderately positive trend in the stock market. In the first quarter we expect the market to post a gain in 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)	
		17e	18e	17e	18e	17e	18e	17e	18e	17e	18e	17e	18e
Europe	**Eurozone**	**2.4**	2.4	1.5	1.6	9.7	9.3	3.1	2.9	-1.7	-1.4	91.0	89.8
	Germany	**2.5**	2.6	1.5	1.7	4.5	4.6	8.1	7.7	0.1	0.2	65.9	63.6
	France	**1.9**	2.0	1.0	1.1	9.6	9.3	-0.4	-0.3	-3.0	-2.7	97.8	97.9
	Spain	**2.3**	2.1	1.0	1.1	18.0	17.0	1.7	1.7	-3.1	-2.7	100.2	100.0
	Italy	**1.6**	1.9	0.5	0.8	11.2	10.8	1.9	1.5	-2.2	-1.3	133.4	132.0
	Austria	**3.0**	2.5	2.2	2.1	5.5	5.4	2.7	2.9	-1.0	-0.8	80.8	78.5
	UK	**1.5**	1.4	2.5	2.6	5.2	5.4	-4.3	-3.9	-2.7	-2.2	88.8	88.6
	Switzerland	**1.0**	2.0	0.1	0.5	3.2	3.1	9.0	8.9	-0.3	-0.2	43.7	42.6
Eastern Europe	**Russia**	**1.1**	1.2	5.0	4.5	5.9	5.5	3.5	3.9	-1.5	-0.8	17.9	18.6
	Poland	**4.4**	3.7	2.0	2.2	7.4	7.2	-0.2	-0.5	-2.1	-2.5	54.9	54.1
	Turkey	**3.0**	3.2	8.2	6.8	10.2	10.0	-5.6	-5.6	-1.6	-1.5	30.8	30.1
	Czech Rep.	**4.4**	3.4	2.5	2.2	3.0	2.8	0.9	0.7	0.2	0.1	34.9	32.8
	Romania	**7.1**	4.1	1.3	4.0	5.4	5.5	-3.1	-3.7	-3.0	-3.4	36.9	37.0
	Hungary	**3.9**	3.5	2.3	3.2	4.2	4.0	4.1	3.7	-2.7	-2.5	72.0	70.7
	Slovakia	**3.3**	3.9	1.3	2.0	8.2	7.5	0.0	0.8	-1.5	-1.0	51.2	50.1
Americas	**USA**	**2.2**	2.4	2.2	2.2	4.8	4.7	-2.7	-2.8	-3.7	-3.3	108.4	107.9
	Canada	**1.9**	2.0	2.1	2.1	7.1	6.9	-3.1	-2.8	-2.3	-2.0	90.5	88.7
	Brazil	**0.2**	1.5	5.4	4.8	11.5	11.1	-1.3	-1.5	-9.1	-8.0	82.4	85.2
	Chile	**2.0**	2.7	3.0	3.0	7.6	7.2	-2.4	-2.6	-2.9	-2.0	23.3	25.0
	Mexico	**1.7**	2.0	3.3	3.0	3.9	3.8	-2.8	-3.0	-3.0	-2.5	56.1	55.8
	Argentina	**2.7**	2.8	23.2	19.0	8.5	8.3	-3.2	-3.6	-7.4	-6.6	50.7	51.2
	Colombia	**2.7**	3.8	4.1	3.0	9.6	9.0	-4.2	-3.9	-2.1	-1.6	47.0	45.7
Asia	**China**	**6.5**	6.0	2.3	2.4	4.1	4.1	1.6	1.4	-3.3	-3.0	49.9	52.6
	Japan	**0.8**	0.5	0.5	0.6	3.2	3.2	3.3	3.3	-5.1	-4.4	253.0	254.9
	India	**7.2**	7.7	5.2	5.3	na	na	-2.0	-2.2	-6.6	-6.2	67.2	65.6
	Indonesia	**5.3**	5.5	4.2	4.4	5.7	5.6	-2.3	-2.4	-2.6	-2.8	28.2	29.2
	South Korea	**3.0**	3.1	1.9	2.0	3.3	3.3	5.9	5.6	1.1	1.6	39.2	38.8
	Thailand	**3.3**	3.1	1.6	1.9	0.7	0.7	7.7	5.9	-0.4	-0.5	44.3	45.1
	Australia	**2.7**	2.9	2.1	2.4	5.7	5.6	-3.9	-4.1	-2.5	-1.7	43.2	43.5
	South Africa	**0.8**	1.6	6.0	5.5	27.0	27.4	-3.2	-3.5	-3.9	-3.7	53.3	54.6
	World	**3.4**	3.6										

Source: IMF, EU Commission, Erste Group Research estimates

Forecasts[1]

GDP	2015	2016	2017	2018	2019
Eurozone	2.0	1.8	2.4	2.4	2.2
US	2.9	1.5	2.2	2.4	1.9

Inflation	2015	2016	2017	2018	2019
Eurozone	0.1	0.2	1.5	1.6	1.7
US	0.1	1.2	2.2	2.2	1.9

Currency	current	Mar.18	Jun.18	Sep.18	Dec.18
EURUSD	1.18	1.13	1.11	1.10	1.12
EURCHF	1.17	1.16	1.17	1.18	1.18

Interest rates	current	Mar.18	Jun.18	Sep.18	Dec.18
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.33	-0.30	-0.30	-0.30	-0.30
Germany Govt. 10Y	0.30	0.50	0.70	0.90	1.10
Swap 10Y	0.78	0.80	1.00	1.20	1.40

Interest rates	current	Mar.18	Jun.18	Sep.18	Dec.18
Fed Funds Target Rate*	1.41	1.63	1.88	2.13	2.13
3M Libor	1.61	1.90	2.20	2.40	2.40
US Govt. 10Y	2.37	2.60	2.70	2.80	3.00
EURUSD	1.18	1.13	1.11	1.10	1.12

*Mid of target range

Interest rates	current	Mar.18	Jun.18	Sep.18	Dec.18
Austria 10Y	0.46	0.70	0.90	1.10	1.30
Spread AT - DE	0.16	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 indicator for future performance

Consensus estimates

		Market Cap.		Weight (%)	Tot. Return in EUR (%)					Tot. Return local (%)			DY (%)	P/CF (x)	P/B (x)	PE (x)		Sales (y/y, %)		EPS (y/y, %)	
		(mn EUR)	(bn EUR)	World	1M	3M	6M	12M	YTD	1M	3M	YTD	17e	17e	17e	17e	18e	17e	18e	17e	18e
	World	**36,428,225**	**36,428**	**100.0**	**2.2**	**6.0**	**4.2**	**9.9**	**9.5**	**2.0**	**5.8**	**18.6**	**2.0**	**11.5**	**2.1**	**19.2**	**17.2**	**6.0**	**4.5**	**11.2**	**11.7**
Advanced Markets	**North America**	**21,034,293**	**21,034**	**57.7**	**2.7**	**7.3**	**5.3**	**8.4**	**8.0**	**2.9**	**6.7**	**20.3**	**1.5**	**13.6**	**2.5**	**22.1**	**19.3**	**6.1**	**5.5**	**7.0**	**14.2**
	Canada	1,094,157	1,094	3.0	0.2	2.8	6.4	0.2	0.9	1.0	7.4	7.9	2.8	8.9	1.8	16.8	15.6	9.1	3.7	22.4	7.8
	USA	**19,940,146**	**19,940**	**54.7**	**2.9**	**7.6**	**5.2**	**8.9**	**8.4**	**3.0**	**6.7**	**21.0**	**1.4**	**14.0**	**2.5**	**22.4**	**19.5**	**5.9**	**5.6**	**6.2**	**14.6**
	Europe	**8,208,034**	**8,208**	**22.5**	**1.5**	**2.3**	**1.4**	**13.0**	**11.2**	**0.9**	**2.4**	**13.7**	**3.4**	**9.9**	**1.8**	**16.0**	**14.7**	**6.4**	**3.7**	**12.3**	**9.1**
	Austria	32,246	32	0.1	-1.0	2.9	11.4	37.7	36.7	-1.0	2.9	36.7	2.8	6.2	1.3	12.0	12.2	5.9	2.0	26.2	-2.1
	Belgium	145,617	146	0.4	-1.3	-2.0	-0.4	8.2	6.0	-1.3	-2.0	6.0	3.2	10.1	1.8	15.9	15.6	1.1	3.5	8.1	2.1
	Denmark	221,694	222	0.6	2.7	-0.1	0.8	21.6	17.9	2.8	0.0	18.0	2.4	15.7	3.7	20.8	18.5	-1.1	7.2	3.9	12.2
	Finland	125,832	126	0.3	-1.6	-3.2	-7.7	10.0	8.3	-1.6	-3.2	8.3	4.2	15.5	2.1	15.9	16.1	2.3	0.5	14.6	-1.6
	France	1,280,974	1,281	3.5	1.0	2.8	3.0	17.6	15.1	1.0	2.8	15.1	3.0	10.2	1.7	16.5	15.2	5.2	5.1	6.4	8.1
	Germany	1,236,819	1,237	3.4	0.6	4.7	2.9	17.4	15.0	0.6	4.7	15.0	2.7	10.1	1.8	15.2	13.8	2.7	3.1	9.9	10.1
	Greece	15,584	16	0.0	13.8	-1.1	-8.1	15.5	11.6	13.8	-1.0	11.6	4.2	7.7	2.0	14.3	13.5	11.4	4.3	0.3	5.7
	Ireland	33,561	34	0.1	6.9	8.8	9.9	25.1	21.1	6.9	8.8	21.1	1.3	13.5	1.9	17.6	17.2	-6.9	3.3	-15.3	2.9
	Italy	330,155	330	0.9	0.1	-0.1	5.9	21.3	17.2	0.1	-0.1	17.2	4.1	6.0	1.2	14.2	12.4	5.8	3.0	44.1	15.1
	Netherlands	435,245	435	1.2	1.2	1.6	3.1	19.9	17.2	1.2	1.6	17.2	3.6	9.5	1.6	16.2	14.5	10.8	2.1	9.8	12.2
	Norway	81,256	81	0.2	-2.2	2.5	11.4	12.7	13.1	-1.2	6.5	21.6	3.9	7.3	1.7	16.0	14.8	14.1	10.6	31.3	8.2
	Portugal	19,483	19	0.1	-2.2	-2.2	0.6	11.8	11.2	-2.2	-2.2	11.2	4.7	6.4	1.5	16.0	15.2	5.0	2.3	-3.5	5.2
	Spain	418,910	419	1.1	1.5	-1.2	-4.0	15.0	12.7	1.5	-1.2	12.7	3.9	5.1	1.2	13.7	12.6	6.9	2.9	13.2	9.1
	Sweden	353,079	353	1.0	-1.5	-2.4	-3.2	8.6	7.9	-1.3	1.7	11.9	3.8	12.9	2.3	16.8	15.4	-1.1	2.7	-1.5	9.1
	Switzerland	1,048,477	1,048	2.9	2.6	2.1	-0.5	11.1	9.6	2.6	3.7	19.2	3.1	14.5	2.6	20.1	17.5	0.2	4.0	2.8	15.3
	United Kingdom	2,299,986	2,300	6.3	2.9	4.1	1.7	6.3	5.3	0.8	2.7	8.2	4.1	9.7	1.9	15.0	14.1	12.5	3.6	20.1	6.6
	Pacific	**6,367,905**	**6,368**	**17.5**	**1.2**	**7.6**	**5.1**	**11.5**	**13.2**	**0.4**	**7.8**	**20.4**	**2.5**	**8.7**	**1.5**	**14.6**	**13.6**	**5.8**	**3.6**	**23.6**	**6.9**
	Japan	3,324,988	3,325	9.1	2.1	10.7	6.0	9.8	11.6	1.5	11.8	20.3	1.9	9.0	1.4	15.2	14.5	5.3	2.5	22.0	4.7
	Hong Kong	494,453	494	1.4	-1.5	4.1	4.9	17.1	18.8	-1.3	3.1	33.5	3.0	12.6	1.2	17.4	15.6	6.5	6.4	8.9	11.0
	Singapore	172,667	173	0.5	3.3	10.6	7.9	17.1	21.3	2.4	9.5	26.2	3.4	12.1	1.4	15.8	14.4	4.8	5.0	9.9	9.9
	Australia	903,740	904	2.5	1.1	1.9	1.4	3.8	5.1	0.6	5.2	10.8	4.4	11.3	1.9	16.3	15.6	5.6	2.1	6.6	4.5
	Korea	683,808	684	1.9	-0.3	10.2	6.4	27.2	28.6	-2.7	5.0	29.5	1.5	5.6	1.2	11.2	9.8	7.4	6.3	68.9	14.5
Emerging Markets	**Emerging Markets**	**3,670,476**	**3,670.5**	**10.1**	**0.6**	**1.8**	**6.4**	**15.0**	**14.3**	**-0.2**	**2.1**	**23.9**	**2.5**	**10.4**	**1.9**	**16.3**	**14.1**	**17.4**	**9.4**	**24.9**	**14.3**
	EM Asia	**2,452,617**	**2,452.6**	**6.7**	**0.0**	**4.2**	**8.3**	**19.5**	**20.1**	**-0.5**	**3.1**	**29.7**	**2.2**	**11.2**	**2.0**	**16.7**	**14.2**	**16.3**	**10.2**	**16.6**	**16.0**
	China	1,091,140	1,091	3.0	-1.2	6.3	15.1	27.0	27.6	-0.9	5.4	43.4	1.8	12.0	1.9	16.2	13.9	26.0	12.6	22.0	17.1
	India	446,113	446	1.2	2.2	2.6	4.2	20.8	20.8	0.7	2.1	27.8	1.4	13.9	2.9	22.5	18.0	10.8	11.9	15.8	25.2
	Indonesia	92,895	93	0.3	3.9	4.6	-0.7	10.0	8.4	4.3	6.3	21.9	2.2	14.4	2.8	19.3	17.0	11.2	10.0	17.7	13.5
	Malaysia	119,824	120	0.3	3.8	2.6	-1.8	7.8	8.0	1.3	-1.1	9.8	3.2	11.0	1.5	16.3	14.8	6.3	5.5	2.5	10.1
	Taiwan	501,624	502	1.4	-2.2	0.5	3.9	11.2	13.6	-2.6	-0.7	18.1	3.9	9.6	1.9	15.4	13.8	6.4	7.2	14.7	11.0
	Thailand	137,177	137	0.4	4.2	6.7	11.8	19.0	16.4	2.5	3.8	17.9	2.9	10.2	2.0	17.2	15.5	11.8	8.4	6.5	11.2
	EM Europe	**307,374**	**307**	**0.8**	**1.7**	**1.3**	**7.7**	**7.5**	**5.3**	**1.7**	**2.3**	**14.1**	**4.2**	**4.7**	**1.0**	**8.3**	**7.9**	**34.0**	**8.0**	**27.9**	**6.7**
	Czech Republic	7,795	8	0.0	1.5	4.6	7.7	23.2	20.1	1.8	3.1	14.3	6.1	6.2	1.4	11.7	15.0	5.5	0.7	11.8	-21.5
	Hungary	15,792	16	0.0	-1.5	-2.4	3.4	21.7	17.5	-1.0	-0.9	19.3	2.8	4.5	1.4	10.0	9.8	12.4	7.7	7.7	2.0
	Poland	59,830	60	0.2	-1.2	-1.4	6.1	33.5	31.8	-1.9	-3.0	26.2	2.4	6.3	1.3	12.7	12.0	8.5	6.0	17.7	6.1
	Russia	162,675	163	0.4	2.8	6.3	15.7	-3.2	-5.5	2.9	5.5	5.5	5.1	3.6	0.7	6.0	5.5	49.9	7.7	29.4	8.5
	Turkey	45,698	46	0.1	-0.4	-9.4	-6.3	17.5	16.7	-0.7	1.2	43.8	3.5	6.3	1.3	9.6	8.9	23.0	12.9	45.7	7.9
	EM Latin America	**534,892**	**535**	**1.5**	**0.5**	**-7.7**	**2.2**	**8.3**	**5.0**	**1.1**	**-2.9**	**15.7**	**2.9**	**9.9**	**2.0**	**18.9**	**16.9**	**13.2**	**6.6**	**60.7**	**11.1**
	Brazil	307,606	308	0.8	0.9	-8.3	9.8	11.4	4.4	1.9	-3.3	19.3	2.7	9.4	2.1	16.1	15.3	9.4	7.3	19.1	5.5
	Chile	51,292	51	0.1	-4.0	-1.4	3.5	12.2	15.2	-2.7	-0.3	22.8	1.6	18.8	3.3	17.7	16.5	11.1	5.5	40.8	7.1
	Colombia	19,383	19	0.1	5.0	-4.0	-6.0	1.7	-0.5	4.4	-1.6	11.0	3.6	8.5	1.6	24.7	20.1	20.4	5.8	142.4	22.9
	Mexico	143,303	143	0.4	1.1	-9.2	-10.7	1.4	3.4	0.9	-3.0	7.0	3.6	7.9	1.5	23.1	19.2	20.3	5.9	144.9	20.5
	Peru	13,307	13	0.0	-4.1	-3.6	7.5	17.9	14.7	-3.9	-4.2	23.9	3.3	13.5	1.7	33.8	24.9	20.3	4.5	72.5	35.6
	Sectors																				
ICB Sectors	Oil & Gas	2,107,437	2,107	5.8	1.2	6.7	5.5	-7.7	-8.5	1.0	6.7	-1.0	3.6	8.5	1.6	24.7	20.1	20.4	5.8	142.4	22.9
	Chemicals	1,087,395	1,087	3.0	0.7	6.3	6.7	15.2	14.6	0.5	6.2	21.4	2.4	11.6	2.2	17.7	16.2	5.6	4.0	10.0	9.3
	Basic Resources	686,918	687	1.9	1.8	2.0	11.5	8.4	10.5	1.0	3.0	16.8	2.9	7.1	1.5	13.8	13.2	17.5	1.8	81.9	4.4
	Construction & Mat.	509,661	510	1.4	1.1	4.5	-0.6	8.2	7.9	0.7	4.9	13.9	2.2	10.7	2.0	18.5	16.3	5.5	4.6	10.6	13.5
	Industrials	4,261,205	4,261	11.7	2.0	6.1	5.8	13.9	13.7	1.8	6.0	23.1	2.0	13.8	3.5	19.7	18.3	3.9	4.6	21.5	7.9
	Automobiles & Parts	960,840	961	2.6	1.7	7.9	7.9	8.2	8.6	1.4	7.9	15.0	2.7	6.3	1.3	10.4	9.7	3.6	4.0	12.8	7.0
	Food & Beverage	1,533,143	1,533	4.2	1.7	3.5	-0.5	6.8	5.2	1.6	3.7	14.1	2.4	16.7	3.9	23.0	21.2	4.2	3.3	8.9	8.8
	Pers. & HH Goods	2,308,244	2,308	6.3	1.6	3.9	0.0	15.5	15.0	1.0	3.0	22.6	2.2	15.7	5.0	19.6	17.6	8.9	7.3	21.8	12.1
	Health Care	3,835,758	3,836	10.5	2.5	1.0	0.7	9.5	8.0	2.4	0.7	18.0	1.9	15.6	3.7	17.8	16.8	4.8	4.9	6.1	6.2
	Retail	2,046,229	2,046	5.6	5.9	10.1	5.0	8.6	9.8	5.8	9.9	20.6	1.7	14.7	4.9	25.2	23.0	5.0	6.0	7.8	9.4
	Media	939,226	939	2.6	5.4	5.1	-2.3	1.8	1.0	4.6	4.7	10.2	1.6	12.0	3.0	20.5	18.2	2.5	4.3	2.0	12.3
	Travel & Leisure	944,684	945	2.6	3.9	7.4	1.7	13.3	14.1	3.7	7.0	24.5	1.8	12.2	3.8	20.6	18.8	5.5	4.3	8.2	9.6
	Telecom	1,047,623	1,048	2.9	6.7	4.4	-2.4	-2.8	-4.7	6.3	4.5	2.2	4.4	5.4	2.1	15.0	14.0	0.8	1.8	-6.2	7.5
	Utilities	624,666	625	1.7	10.0	4.2	-3.5	-8.6	-11.6	9.9	-0.1	13.7	3.7	7.0	1.7	17.0	15.8	2.7	2.6	0.3	7.9
	Banks	3,739,540	3,740	10.3	4.3	6.8	6.3	8.5	8.6	4.0	7.4	16.0	3.3	8.9	1.2	13.0	12.1	1.3	3.3	10.5	8.1
	Insurance	1,752,880	1,753	4.8	1.4	5.7	3.5	6.8	6.6	1.3	5.5	14.1	1.1	11.8	1.2	19.7	15.8	3.0	1.9	-1.6	18.4
	Technology	4,897,870	4,898	13.4	-0.3	10.2	10.7	23.4	23.8	-0.3	9.4	36.4	1.4	14.8	4.3	20.0	17.6	8.8	8.0	19.4	13.6

Source: Datastream, FTSE, IBES, Erste Group Research Calculations.

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