Financial Markets Global Strategy

2nd quarter 2014

Economic upswing vs. geopolitics

- Recovery prevails over crisis
- Corporate bonds enjoy technical support
- Stock markets borne by optimism about the economy
- Mid-range performance for EM equity markets

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Financial Markets Global Strategy

Explanation:
e ... estimate
f ... forecast
FRA ... Forward Rate Agreement
r.h.s. ... right hand scale
EU27 ... GDP weighted average (without Croatia)
n.v. ... no value
BM ... benchmark
EM ... Emerging Markets
UAE ... United Arab Emirates
WTI ... West Texas Intermediate
AI ... alternative investments (Hedge funds & real estate)
IL ... inflation linked bonds
IG ... investment grade
HY ... High-Yield
bp ... basis points
ASW ... Asset Swap Spread
CPI ... Consumer Price Index
MSCI ... Morgan Stanley Composite Index
QE ... Quantitative Easing

Please note the risk notifications and explanations at the end of this document

Will geopolitics spoil the economic upswing?

- **Geopolitical tensions as a risk to the European economic recovery**
- **Baseline scenario does not include any further major escalation in the Ukraine/Russia conflict**
- **Temporary setbacks for risky assets represent a long-term buying opportunity**

In terms of the economy, the year got off to a good start, although risk factors have appeared such as the severe winter weather in the USA, worries about weak performance in the Emerging Markets (especially China) and, first and foremost, the conflict which has developed between Ukraine and Russia. The last two points in particular are factors which investors will continue to focus on in the second quarter as well, along with factors providing positive economic momentum. In our baseline scenario for the Russia-Ukraine conflict, we project further sanctions up to and including ones on Russia's financial market activities in the West, but we do not envisage harsh reciprocal economic embargoes. This implies the continued territorial integrity of Ukraine (without Crimea). In this environment, we see good support from the leading indicators for our expectations of accelerating economic dynamics in the Euro area and the USA during 2014. Consequently, we have left our GDP forecasts for 2014 and 2015 unchanged for all of the major developed economies.

It must, however, be clearly noted that an escalation of the Ukraine/Russia conflict with severe economic sanctions would weigh heavily on sentiment for private fixed investment in the Euro area and, in conjunction with lower net exports, could lead to slower growth or stagnation from the second half of 2014. This could cost the Euro area up to 1 pp of GDP growth cumulatively in 2014 and 2015, with corresponding negative ramifications for the capital markets. The USA, on the other hand, would be less affected.

We have lowered our inflation forecasts, as the mild increase in services prices will be offset by stagnating or slightly declining prices of goods and energy. Consumer prices in the Euro area should remain well under 2% in 2015 as well.

Impact on monetary policy

The European Central Bank (ECB) thus has no need to urgently change its very expansive monetary policy. It appears likely that this policy will be continued until mid-2015. By contrast, the Federal Reserve will move forward with its gradual withdrawal of the expansive supply of central bank money (tapering).

Impact on the currency markets

The geopolitical tensions are good for the euro, yen and the Swiss franc. However, a positive yield differential should help support USD somewhat until mid-year.

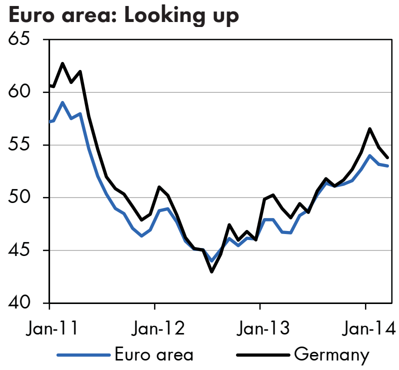
Impact on the capital markets

Worries about the Emerging Markets and Ukraine have reactivated the safe-haven function of German government bonds. At the same time, the economic improvement has also caused narrowing of spreads for the Euro area peripheral countries. While the flight to quality may continue at times during the second quarter, as the year progresses yields are expected to rise across the board for government bonds and corporate bonds, as economic factors come more into focus.

For equities, geopolitical tensions may be a possible trigger for temporary periods of weakness. We would view these periods of correction as a good buying opportunity for a longer investment horizon. We chose equities with a cyclical element as our favourite sector.

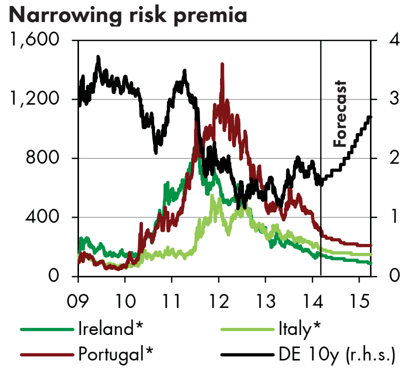
Financial analyst: Peter Brezinschek

Euro area: Looking up



**Purchasing Manager Index - manufacturing*
Source: Thomson Reuters, Raiffeisen RESEARCH

Narrowing risk premia



**Difference government bond yield (10Y) to DE*
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendations*

Stock markets:	
Buy	Euro STOXX 50, DAX, SMI, Nasdaq Comp., Nikkei 225, HSCEI
Sektoren:	
Overweight	Financials, Consumer Discretionary, Materials, Energy, Industrials, IT
Underweight	Consumer Staples, Health care, Telecommunication, Utilities
Corporate bonds::	
Neutral	Non financials, financials

** horizon: end of 2nd quarter 2014*
Source: Raiffeisen RESEARCH

GDP (real % yoy)

Countries	2012	2013	2014e	2015f
Austria	0.9	0.4	1.5	2.3
Germany	0.9	0.5	1.8	2.5
France	0.0	0.3	1.0	1.8
Belgium	-0.1	0.2	1.7	2.3
Netherlands	-1.3	-0.8	1.7	2.1
Finland	-1.0	-1.4	0.8	2.2
Irland	0.2	-0.3	2.0	3.0
Italy	-2.4	-1.8	0.7	1.5
Spain	-1.6	-1.2	1.5	2.0
Portugal	-3.2	-1.4	2.0	2.2
Greece	-7.0	-3.9	0.0	2.0
Euro area	**-0.6**	**-0.4**	**1.5**	**2.0**
GB	0.2	1.8	2.8	2.4
Switzerland	1.1	2.0	2.0	2.0
USA	**2.8**	**1.9**	**2.5**	**3.2**
Japan	2.0	1.5	1.4	1.1
China	7.8	7.7	7.0	7.3

Source: Thomson Reuters, Raiffeisen RESEARCH

Consumer price index (% yoy)

Countries	2012	2013	2014e	2015f
Austria	2.6	2.1	1.8	1.8
Germany	2.1	1.6	1.5	2.0
France	2.2	1.0	1.4	1.6
Belgium	2.6	1.2	1.3	1.9
Netherlands	2.8	2.6	0.6	1.4
Finland	3.2	2.2	1.3	1.8
Irland	1.9	0.5	0.8	1.5
Italy	3.3	1.3	0.8	1.2
Spain	2.4	1.5	0.5	1.1
Portugal	2.8	0.4	0.7	1.2
Greece	1.0	-0.9	-0.8	0.3
Euro area	**2.5**	**1.4**	**1.1**	**1.5**
GB	2.8	2.6	2.4	2.8
Switzerland	-0.7	-0.2	0.4	1.1
USA	**2.1**	**1.5**	**1.5**	**2.2**
Japan	0.0	0.4	1.5	0.9
China	2.7	2.6	3.0	3.2

Source: Thomson Reuters, Raiffeisen RESEARCH

Current account balance (% of GDP)

Countries	2012	2013	2014e	2015f
Austria	1.6	2.6	2.5	2.3
Germany	7.4	7.5	7.0	6.5
France	-2.2	-1.6	-1.7	-1.9
Belgium	-2.0	-2.0	-2.2	-2.3
Netherlands	9.5	10.4	9.5	8.0
Finland	-1.4	-1.1	-0.5	-0.5
Irland	4.4	6.6	7.0	7.2
Italy	-0.5	0.8	1.1	1.2
Spain	-1.1	0.7	0.9	1.0
Portugal	-2.0	0.5	0.9	1.0
Greece	-3.4	0.7	1.0	1.2
Euro area	**1.3**	**2.3**	**1.9**	**1.5**
GB	-3.7	-3.2	-2.8	-3.0
Switzerland	11.2	12.0	13.0	11.0
USA	**-2.7**	**-2.4**	**-2.4**	**-2.6**
Japan	1.1	1.0	2.1	2.0
China	2.8	2.1	2.0	1.5

Source: Thomson Reuters, Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2012	2013	2014e	2015f
Austria	-2.5	-1.6	-2.6	-0.9
Germany	0.1	-0.1	0.0	0.0
France	-4.8	-4.2	-3.8	-3.3
Belgium	-4.0	-2.7	-2.6	-2.7
Netherlands	-4.1	-3.1	-3.2	-2.9
Finland	-1.8	-2.4	-2.5	-2.3
Irland	-8.2	-7.2	-4.8	-3.0
Italy	-3.0	-3.0	-2.9	-2.5
Spain	-10.6	-7.1	-5.5	-5.0
Portugal	-6.4	-4.9	-4.0	-2.5
Greece	-10.0	-13.5	-5.7	-1.1
Euro area	**-3.7**	**-3.1**	**-2.6**	**-2.5**
GB	-6.3	-6.2	-5.5	-4.5
Switzerland	0.7	0.1	0.5	0.7
USA	**-7.0**	**-4.1**	**-3.0**	**-2.6**
Japan	-10.2	-9.8	-6.9	-5.8
China	-1.6	-1.9	-2.0	-1.8

Source: Thomson Reuters, EU-Comission, National governments, IMF, Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2012	2013	2014e	2015f
Austria	74.0	74.4	79.4	77.3
Germany	81.0	79.6	77.3	74.5
France	90.2	93.9	95.9	96.4
Belgium	99.8	99.8	100.5	100.0
Netherlands	71.3	74.3	75.3	75.6
Finland	53.6	57.2	60.4	62.0
Irland	117.4	122.6	119.6	117.2
Italy	127.0	132.5	134.6	134.1
Spain	86.0	93.9	97.4	99.7
Portugal	124.1	128.0	123.7	122.0
Greece	156.9	176.2	177.3	173.8
Euro area	**90.6**	**93.2**	**93.6**	**93.2**
GB	90.0	91.4	93.0	95.0
Switzerland	43.8	42.3	42.0	41.0
USA	**103.2**	**100.5**	**102.4**	**101.4**
Japan	237.9	241.1	244.6	244.0
China	14.9	15.3	14.8	13.0

Source: Thomson Reuters, EU-Comission, Nationale governments, IMF, Raiffeisen RESEARCH

Ratings

	Moody's	S&P	Fitch
Austria	Aaa (s)	AA+ (s)	AAA (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa1 (n)	AA (s)	AA+ (s)
Belgium	Aa3 (s)	AA (s)	AA (s)
Netherlands	Aaa (s)	AA+ (s)	AAA (n)
Finland	Aaa (s)	AAA (s)	AAA (s)
Irland	Baa3 (p)	BBB+ (p)	BBB+ (s)
Italy	Baa2 (s)	BBB (n)	BBB+ (n)
Spain	Baa2 (p)	BBB- (s)	BBB (s)
Portugal	Ba3 (s)	BB (n)	BB+ (n)
Greece	Caa3 (s)	B- (s)	B- (s)
GB	Aa1 (s)	AAA (n)	AA+ (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA
Japan	Aa3 (s)	AA- (n)	A+ (n)
China	Aa3 (s)	AA- (s)	A+ (s)

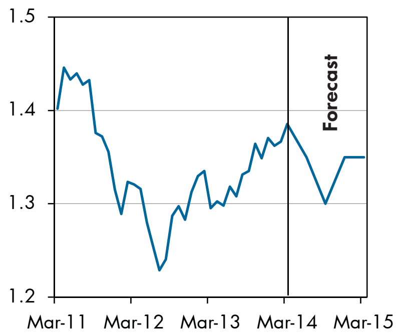
Outlook: p = positive, n = negative, s = stable
Source: Bloomberg

Currencies: FX per Euro

	current	Forecast			
Countries	19-Mar 14[1]	Jun-14	Sep-14	Dec-14	Mar-15
GB	0.83	0.81	0.80	0.80	0.79
Switzerland	1.22	1.22	1.25	1.28	1.28
Japan	141	142	140	149	149
Sweden*	8.85	8.78	8.72	8.65	8.59
Norway*	8.34	8.21	8.13	8.05	7.98
USA	1.38	1.35	1.30	1.35	1.35
China	8.59	8.48	8.00	8.17	8.10
Brazil*	3.24	3.27	3.16	3.28	3.28
India*	84.84	84.28	81.30	84.56	84.70

[1] 5:00 p.m. CET
** Consensus estimates*
Source: Thomson Reuters, Raiffeisen RESEARCH

EUR/USD



5y high: 1.509 , 5y low: 1.193
Source: Thomson Reuters, Raiffeisen RESEARCH

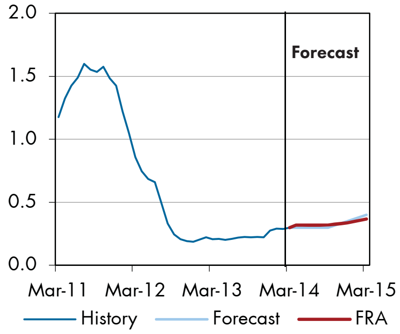
Please note the risk notifications and explanations at the end of this document

Money market rates 3M (%)

Countries	current 19-Mar 2014[1]	Forecast Jun-14	Sep-14	Dec-14	Mar-15
Euro area	0.31	0.30	0.30	0.35	0.40
GB	0.52	0.50	0.60	0.70	0.80
Switzerland	0.02	0.00	0.00	0.00	0.00
Japan	0.14	0.10	0.10	0.20	0.20
USA	0.23	0.30	0.30	0.45	0.70

[1] 5:00 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Euribor 3M (%)



5y high: 1.615 , 5y low: 0.181
Source: Thomson Reuters, Raiffeisen RESEARCH

Government bond yields 2Y (%)

Countries	current 19-Mar[1]	Forecast Jun-14	Sep-14	Dec-14	Mar-15
DE	0.21	0.2	0.2	0.5	1.0
Switzer-land	-0.08	0.0	0.0	0.2	0.5
Japan	0.08	0.1	0.1	0.2	0.3
USA	0.42	0.5	0.6	0.8	1.2

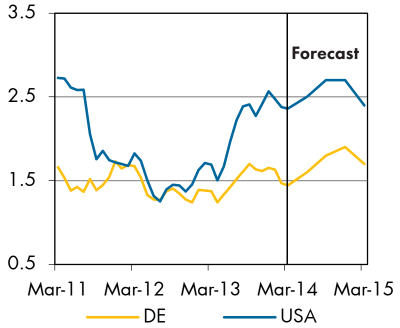
[1] 5:00 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Government bond yields 5Y (%)

Countries	current 19-Mar[1]	Forecast Jun-14	Sep-14	Dec-14	Mar-15
DE	0.69	0.8	1.1	1.5	1.9
Switzer-land	0.24	0.2	0.3	0.5	0.7
Japan	0.19	0.2	0.3	0.3	0.5
USA	1.70	1.9	2.1	2.3	2.5

[1] 5:00 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Yield spread 10Y - 2Y



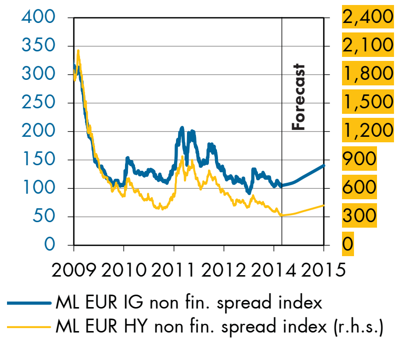
DE: 5y high: 2.440 , 5y low: 1.067
USA: 5y high: 2.907, 5y low: 1.180
Source: Thomson Reuters, Raiffeisen RESEARCH

Government bond yields 10Y (%)

Countries	current 19-Mar 2014[1]	Forecast Jun-14	Sep-14	Dec-14	Mar-15
Austria	1.92	2.1	2.2	2.6	2.9
Germany	1.65	1.8	2.0	2.4	2.7
France	2.21	2.3	2.5	2.9	3.2
Italy	3.43	3.4	3.6	3.9	4.2
Spain	3.37	3.4	3.5	3.8	4.0
GB	2.76	2.9	3.2	3.6	3.7
Switzerland	1.01	1.0	1.2	1.4	1.5
Japan	0.60	0.7	0.7	0.8	1.0
USA	2.76	3.0	3.3	3.5	3.6

[1] 5:00 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Spread history IG vs HY bonds



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

Credit markets*

	current 19-Mar[1]	Forecasts Jun-14	Sep-14	Dec-14	Mar-15
IG Non-Fin	105	110	120	130	140
High-Yield	315	330	360	390	420
Financials Senior	98	105	110	120	130
Financials Subord.	210	220	240	260	280

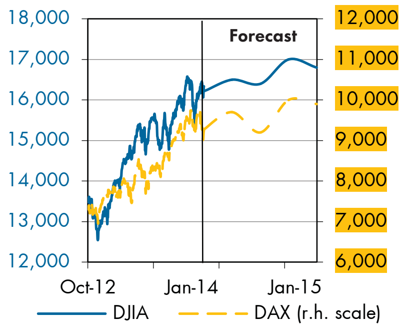
[1] 11:59 p.m. CET closing prices
* Option Adjusted Spread over Bund (in bp)
Source: Thomson Reuters, Raiffeisen RESEARCH

Stock markets

	current 19-Mar 2014[1]	Forecasts Jun-14	Sep-14	Dec-14	Mar-15
Euro STOXX 50	3,076	3,200	3,050	3,300	3,250
DAX 30	9,277	9,700	9,200	10,000	9,900
FTSE 100	6,573	6,750	6,700	7,000	6,900
SMI	8,227	8,550	8,400	8,900	8,800
DJIA	16,222	16,500	16,400	17,000	16,800
S&P 500	1,861	1,910	1,870	1,970	1,940
Nasdaq Comp.	4,308	4,510	4,300	4,650	4,550
Nikkei 225	14,463	15,200	15,000	16,300	15,900
Hang Seng CE	9,361	9,650	10,200	10,500	10,800
Bovespa	46,567	48,200	49,800	51,500	52,000

[1] 11:59 p.m. CET closing prices on the respective main stock exchange
Source: Thomson Reuters, Raiffeisen RESEARCH

Dow Jones Industrials and DAX

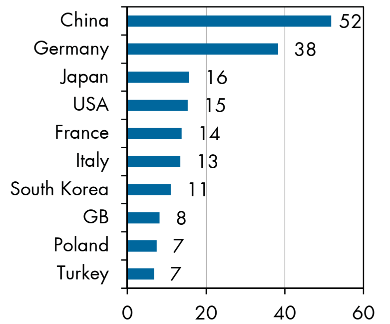


DJIA: 5y high: 16,577, 5y low: 7,278
DAX: 5y high: 9,743 , 5y low: 3,989
Source: Thomson Reuters, Raiffeisen RESEARCH

Crimean crisis: Hopes for stabilisation

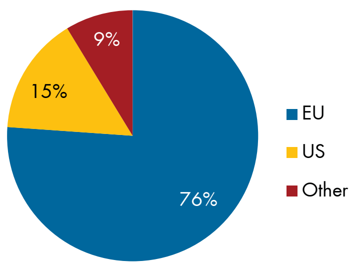
- **Baseline scenario: Continued tensions, but neither military escalation nor harsh economic sanctions**
- **Nonetheless, predominantly downside risks**
- **Financial markets impacted temporarily**

Top-10 export countries* (USD bn)



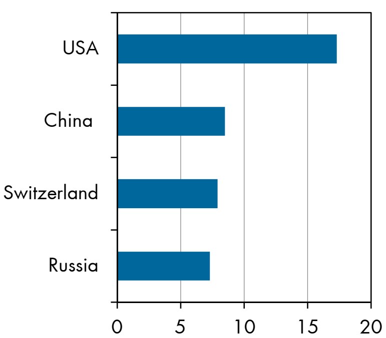
Data as of 2012; Top-10 cover 64% of all goods exports
Souce: Rosstat

Cross-border claims on Russia*



** BIS reporting banks, as of September 2013*
Source: BIS, Raiffeisen RESEARCH

Largest EU export markets



**in % of total exports 2012*
Source: Eurostat

As the situation between Russia and Ukraine, and thus by extension with the West as well, continues to be fluid, it remains uncertain what impacts will be felt in the Euro area economy, which is affected by the conflict more than any of the other large economic regions. Our baseline scenario (Scenario 1) involves more political sanctions and targeted individual measures, such as freezing bank accounts, along with more "sabre-rattling" and disputes in eastern Ukraine, but without military intervention. Accordingly, at this juncture one can say that the **current state of affairs does not suggest the need to make significant changes to our economic scenario for the Euro area**. At the same time, it is possible that certain sentiment indicators will deteriorate temporarily, as has already been seen for the ZEW index for example. Even in the baseline scenario, Ukraine will face a severe recession this year, but this country is not a major trading partner (accounting for 1.5% of EU exports and 0.2% of GDP). We also expect to see a slowdown in economic activity in Russia (real GDP to fall from 1.7% to 1.0%), which is an important trading partner (appr. 7% of Euro area exports and around 0.9% of GDP), but the impact from this should be manageable. Nevertheless, significant risks remain: as the economy recovery in the **Euro area** is at an early stage of shifting from external to internal demand, the **upswing is still very fragile right now**. The more intense the conflict between the East and the West is, the lower the anticipated economic dynamics will be in the Euro area.

For example, **in the event of substantial reciprocal sanctions on capital flows** (e.g. sanctions on foreign financing) or even **harsh economic sanctions** (Scenario 2, risk scenario), the investment climate in the Euro area would suffer greatly, at least temporarily. Together with lower net exports, another slump in investment activity would lead to a slowdown in economic growth or perhaps stagnation starting from the second half of 2014. This could cost the Euro area up to 1 pp of GDP growth (cumulatively in 2014 and 2015), with corresponding ramifications for the capital markets. Risky asset classes such as equities and high-yield (HY) bonds would suffer sharp declines as a result. Nevertheless, this would not represent a new medium-term trend.

While the economic upturn would certainly be delayed in this case, **a further escalation involving even severe trade restrictions (incl. oil and gas supplies) would send the Euro area back into recession** (Scenario 3, risk scenario). This effect would unfold not only because of increases in energy prices and bottlenecks in natural gas supply (the EU receives around 30% of its natural gas from Russia) and due to the severe deterioration in the investment climate, but also because the Russian economy would also plunge into a deep recession and this economy is an important export market for the EU, ranking fourth after the USA, China and Switzerland.

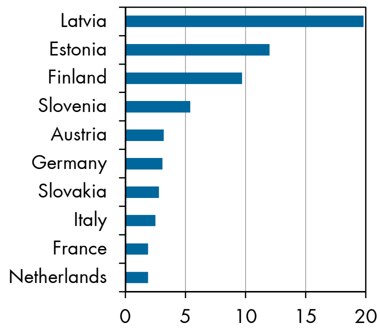
As a result, the **ECB** would have to significantly ease its monetary policy in both of these risk scenarios. The key rate and Euribor rates would fall, and some of the additional **easing measures** which are still only being discussed would then have to be implemented (especially in Scenario 3). Due to these effects, along with and reinforced by the sharp spike in risk aversion on the financial markets triggered by Scenarios 2 and 3, the level of yields on German (and on US and other) government bonds would fall considerably during the phase of escalation. Conversely, double-digit losses could be expected for equities and riskier (HY) corporate bonds. Europe and the Emerging Markets would be the regions most strongly affected. In this case, the long-term uptrend for European equities in particular would be in jeopardy.

A further escalation of the tensions would have a **much less intense impact on the USA**, since the direct economic ties between the USA and Russia are much weaker: for example, US exports of goods to Russia amount to just 0.07% of US GDP (compared to around 1.2% in Germany), and Russia essentially plays no role at all for the USA when it comes to energy trade. Accordingly, the main economic impact for the USA would appear indirectly via the Euro area (as exports of US goods to the Euro area amount to 1.6% of US GDP). In Scenario 2 (Euro area stagnation), US growth would likely also weaken by 0.3 to 0.5 percentage points, whilst in Scenario 3 (Euro area recession) growth would fall by an estimated 0.75 to 1%, as US investment sentiment would also be undermined in addition to exports. Still, this would not be enough to result in a recession in the USA. In Scenario 3, US tapering would likely be suspended and an initial rate hike would probably be delayed by several quarters. The USA would also be impacted in the event of an increase in the global price of oil as a result of trade sanctions against Russia (thanks to fracking, the USA is almost self-sufficient in natural gas and already now natural gas prices are far lower than in Europe). Even in Scenario 3, however, the **increase in the price of oil may not turn out to be very much.** If Russia only stops oil supplies through Ukraine, then at most only 0.4% of global oil supply would be affected. Furthermore, a recession in Europe resulting from the trade sanctions would be an additional counterweight against significant increases in the oil price. Undoubtedly, a complete ban on exports of crude oil would be a hard hit for Russia's economy. In the unlikely case that this occurs, we project the price of oil exceeding the peaks from the last five years at around USD 125 per barrel of Brent, despite the likelihood of a recession in Europe. On the other hand, the impact on European gas prices would be far greater. Even if deliveries through Ukraine alone are stopped this would impact around 14% of European gas consumption, with this figure rising to around 30% in the event of a complete suspension of Russian gas exports.

One of the **main losers** in the event of intense escalation would probably be the **EUR exchange rate:** even in Scenario 2, the rate would likely weaken much more versus USD than it would in the baseline scenario, as the ECB would have to ease conditions much more than the Fed. In Scenario 3, we would project rates well below EUR/USD 1.30, because USD would also benefit from safe-haven flows, in addition to the recession in the Euro area and a more expansive monetary policy by the ECB. While there are some fears that Russia might part with its USD reserves in the event that the conflict escalates, we think this kind of development is very unlikely as there are limited alternatives to USD and other Western currencies.

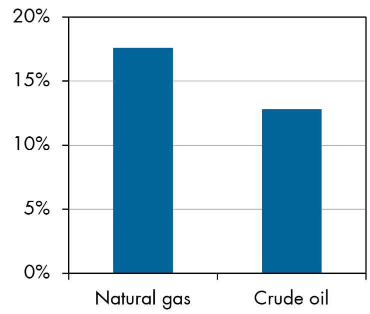
Financial analyst: Valentin Hofstätter

Euro area: exports to Russia*



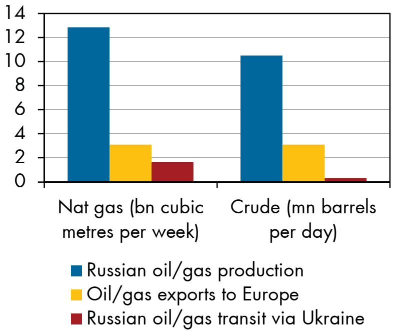
*in % of total exports 2012
Source: IMF, Raiffeisen RESEARCH

Share of world production



Source: BP (statistical review of world energy full report 2013)

Russia - oil&gas facts

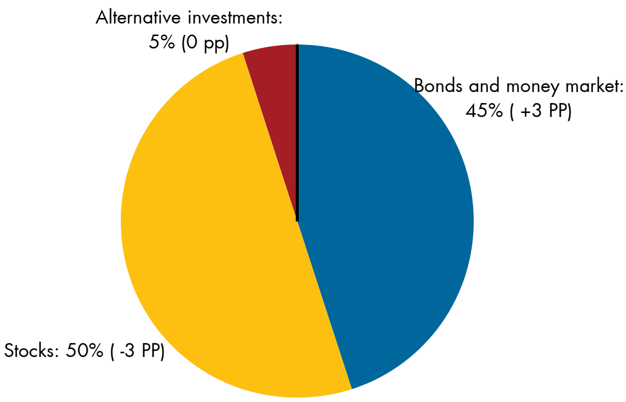


Source: Norwegian energy, UBS, Morgan Stanley

Balanced equity vs. bond weighting in Q2

- **Volatility due to geopolitical factors suggests caution is in order**
- **Equity investments held at neutral during this phase of elevated uncertainty**
- **Increase in yields on "risk-free" bonds will be restrained**

Portfolio weighting: overview



(+/-) change to last publication
Source: Raiffeisen RESEARCH

The **Crimean conflict is dampening** the otherwise good mood on the developed markets. Although the reaction of these markets to the geopolitical conflict in Crimea has only been modestly negative so far, there is an elevated sense of uncertainty, which means that a cautious approach is called for. At the same time, the fundamental data continue to look good: the economic recovery in the euro area is progressing and there will probably finally be a turnaround in unemployment figures. In the USA, the agreement in the budget dispute is having a positive effect and a robust economic upswing has taken root. Despite the tensions with Russia, the price of oil is stuck on a sideways path at a moderate level. Consequently, we expect solid growth rates in corporate earnings.

By contrast, there is less good news from the Emerging Markets outside of Europe. China's economic restructuring is weighing on economic growth and Brazil is struggling with supply bottlenecks. While some countries in Eastern Europe stands to profit from the economic upturn in Western Europe, political uncertainty could hamper the markets.

Performance asset allocation*

** since inception on 1 January 2013*
Source: Raiffeisen RESEARCH

Additionally, safe haven bonds could enjoy more support if the Crimean conflict drags on. On the whole, however, the **performance outlook in the bond segment looks gloomy,** not least due to the gradual normalisation of US monetary policy. Furthermore, we view bonds in the high-yield segment as being overvalued.

For the coming quarter, we leave the equity segment **neutral** at 50 pp. The weighting of the bond segment is 45 pp. At 5 pp, we still hold alternative investments (real estate).

Financial analyst: Stefan Theußl

Portfolio weighting in detail

Bonds and money market 45% (+3 pp)*			Stocks 50% (-3 pp)*			Alternative investments 5% (0 pp)*	
EMU-bonds	24.4%	↑	Europe	33.0%	↑	Real Estates	100.0%
USA	24.4%	↓	USA	33.0%	↑	Hedge Funds	0.0%
Rest of Europe	0.0%	↔	Asia	12.0%	↑		
Eastern Europe	11.1%	↓	Eastern Europe	8.0%	↓		
Eurobonds	6.7%	↓	Emerging Markets	14.0%	↑		
Euro-corporate bonds	11.1%	↓					
Asia	0.0%	↔					
Money Market	22.2%	↑					
Sum	**100.0%**		**Sum**	**100.0%**		**Sum**	**100%**

** compared to last publication, ↑: higher weight, ↓: lower weight, ↔ : unchanged weight*
Source: Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Conditions remain difficult for bonds

- **USD may sustain hopes of exchange rate gains**
- **Yield spreads on corporate bonds remain steady**
- **Eastern European currencies exhibit higher volatility**

Yields on "safe havens" declined again during the first quarter, amidst political and economic uncertainties, and now hardly even compensate for inflation. Consequently, we anticipate slightly higher yields again on German and US government bonds in the second quarter. As a result, the hunt for returns remains difficult and may have the consequence that **yield premia** on the various alternatives continue to fall or **do not show sustained increases**. Accordingly, for Euro area peripheral government bonds we expect to see a more mild narrowing of yields and for investment grade corporates we project stable yield premia compared to German sovereigns.

In our opinion, the block of euro bonds should account for around 42% of the portfolio, with about 18% allocated to corporate bonds and Eurobonds.

Historical Performance

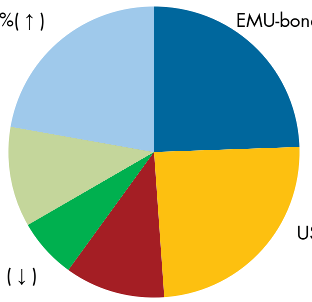
	Q1 until 19-Mar 14	5y yoy*
Euro area	3.5%	4.8%
US-Treasuries	0.4%	2.4%
Japan	3.5%	0.3%
CEE-Bonds	-4.5%	8.0%
EB-CEE USD	-0.6%	11.1%
EB-CEE EUR	1.5%	10.0%
IG Non-Fin	2.4%	7.2%
IG Fin	2.0%	8.9%
HY Non-Fin	2.7%	22.4%

** five-year annual return*
Source: Thomson Reuters, Raiffeisen RESEARCH

In terms of currencies, we expect **USD to make a positive contribution** to performance, whereas Eastern European currencies should move sideways with higher volatility. Consequently, we have a high weighting of almost 25% for USD bonds in the portfolio. Eastern European government bonds account for around 11% of the portfolio, as they continue to offer interesting yield premiums and also since exchange rates should tend to firm up again once the Crimean crisis calms down. The money market ratio continues to be high, accounting for 22% of the portfolio.

Financial analyst: Veronika Lammer

Bond portfolio Q2 2014



** compared to last publication, ↑: higher weight, ↓: lower weight, ↔ : unchanged weight*
Source: Raiffeisen RESEARCH

Correlations*

	DE government bond	Euro corporate bonds IG Non-Fin	Euro corporate bonds IG Fin	Euro corporate bonds HY	US Treasuries	CEE-Bonds
DE government bond	1.00	0.88	0.78	0.12	0.56	0.49
Euro corporate bonds IG Non-Fin		1.00	0.96	0.49	0.46	0.64
Euro corporate bonds IG Fin			1.00	0.64	0.40	0.69
Euro corporate bonds HY				1.00	0.04	0.53
US-Treasuries					1.00	0.31
CEE-Bonds						1.00

** historical, last 12 months; IG … Investment Grade, HY … High Yield*
Source: Thomson Reuters, Raiffeisen RESEARCH

Expected bond market performance (%)*

	3M		6M		9M		12M	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
DE government bond	-1.1	-1.1	-2.5	-2.5	-5.5	-5.5	-7.4	-7.4
Euro corporate bonds IG Non-Fin	-0.3	-0.3	-2.2	-2.2	-4.7	-4.7	-7.1	-7.1
Euro corporate bonds IG Fin	-0.3	-0.3	-1.6	-1.6	-3.6	-3.6	-5.6	-5.6
Euro corporate bonds HY	-0.1	-0.1	-2.3	-2.3	-4.9	-4.9	-7.5	-7.5
US-Treasuries	0.6	-1.5	2.3	-3.4	-2.4	-4.4	-2.4	-4.4
CEE-Bonds	-0.9	-1.5	0.7	-0.8	0.5	-1.7	1.3	-1.4

** not annualised; IG … Investment Grade, HY … High-Yield, LW…lokale Währung*
Source: Raiffeisen RESEARCH

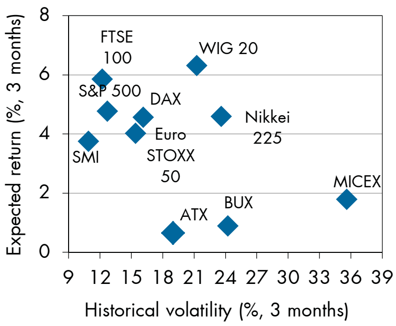
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

Even weighting for USA and Europe

- **US equity market looks attractive with steady earnings prospects and lower volatility**
- **European equity markets should be able to catch up**
- **Emerging Markets remain underperformers for the time being**

Risk-return (%)



**in EUR*
Source: Thomson Reuters, Raiffeisen RESEARCH

Correlations

	S&P 500	Euro STOXX 50	Nikkei 225
ATX	0.42	0.76	0.26
DAX	0.58	0.92	0.38
FTSE 100	0.74	0.82	0.56
Nikkei 225	0.51	0.33	1.00
Euro STOXX 50	0.61	1.00	0.33
S&P 500	1.00	0.61	0.51
SMI	0.61	0.75	0.55
MICEX	0.42	0.59	0.34
WIG 20	0.21	0.55	0.16
BUX	0.30	0.36	0.25
Emerging Markets	0.61	0.64	0.52

Correlation (= reciprocal dependance) based on weekly performance figures 1 year, in EUR
Source: Thomson Reuters, Raiffeisen RESEARCH

At the moment, it is necessary to take into consideration geopolitical uncertainties, in addition to the factors which traditionally affect the equity markets, such as liquidity, economic performance, earnings growth and valuations. In the event of escalation of the tensions in the Crimean crisis, these geopolitical aspects could weigh on the European stock markets.

Factors which are supportive for the **European stock markets** include valuations which still look favourable and the **emerging economic recovery** which could pave the way for sustained earnings growth over several years. At present, market participants average 2014e earnings growth forecasts for the broad EURO STOXX 600 are at roughly 10%. Fundamentals are positive for **US equities** as well, in an environment marked by a **strong, self-sustaining economic upswing** and a stronger USD, which should also support performance.

We weight European and US equities at one third of the portfolio each.

The **Japanese equity market** continues to be marked by strong volatility. We thus recommend holding only 12% Japanese equities, despite the **high earnings growth expectations**. We keep a **low allocation** of 22% **in Emerging Market equity markets** for the time being, because on the one hand, the conflict between Ukraine and Russia could dampen the CEE market outlook and on the other hand, the major EM economies outside of Europe will continue to struggle with structural problems. Performance in the Emerging Markets will probably be considerably better in the second half of the year.

Financial analyst: Veronika Lammer

Expected stock market performance (%)*

	3M		6M		9M		12M	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Euro STOXX 50	4.0	4.0	-0.9	-0.9	7.3	7.3	5.6	5.6
Germany	4.6	4.6	-0.8	-0.8	7.8	7.8	6.7	6.7
GB	5.8	2.7	6.4	1.9	11.1	6.5	10.9	5.0
Switzerland	3.7	3.9	-0.5	2.1	2.9	8.2	1.8	7.0
Japan	4.6	5.1	4.2	3.7	7.1	12.7	4.4	9.9
S&P 500	4.8	2.6	6.5	0.5	8.1	5.9	6.4	4.3
Russia	1.8	2.4	3.3	0.8	8.1	6.1	5.3	4.6
Poland	6.3	5.9	2.8	1.7	12.7	10.1	13.2	9.3
Czech Republic	5.1	4.1	4.8	3.1	13.5	9.2	12.3	7.2
Hungary	0.9	2.0	-0.9	0.3	6.2	9.1	4.4	7.3
Brazil	7.2	3.5	16.5	6.9	13.6	10.6	11.8	11.7
China	4.8	3.1	17.5	9.0	18.4	12.2	22.8	15.4

LCY...local currency
** not annualised*
Source: Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Cyclical positioning is retained, due to positive outlook for equities

- **Cyclical stance preferred for Q2 as well**
- **Above-average performance anticipated for energy, materials, industrials, IT, consumer discretionary and financials**
- **Consumer staples, health care, telecoms and utilities are underweighted**

The **RBI sector portfolio** was unable to beat the benchmark in Q1 2014. All in all, the portfolio came in 13.8bp behind the benchmark. This poor performance can be traced back to two bets that did not work out: the underweighting of the health care sector cost us 10bp, and the underweighting of utilities lowered the portfolio's performance by 8.1bp. This poor performance was compensated to some degree by the underweighting on telecoms and on consumer staples.

Overweighting/underweighting

In the months ahead, the positive economic prospects in both Europe and the USA should support more positive sentiment on the markets. Although performance may be overshadowed somewhat by the uncertainty stemming from the Russia-Ukraine conflict, good sentiment should prevail over the quarter.

A rather cyclical stance is taken once again in the portfolio for the second quarter, with the total deviation from the benchmark amounting to 1,360bp.
The strongest overweighting is still on the financial sector, at 150bp. The sharp correction early in the year suggests that this sector has better-than-average potential for a rebound. Consumer discretionary is just as strongly overweighted, as this sector stands to profit from the anticipated acceleration in economic activity next quarter. Materials and industrials should also post better-than-average performance and are overweighted by 130bp and 120bp, respectively. We opt for a mild overweighting on the sectors energy (+60bp) and IT (+70bp). For the second quarter, the strongest underweighting is on consumer staples, with this sector at -210bp due to its defensive qualities. The health care sector will probably also limp badly behind the market average in Q2 and is underweighted by -180bp. The sectors telecommunications and utilities tend to be sub-average during upbeat periods on the equity markets are are each weighted at -120bp.

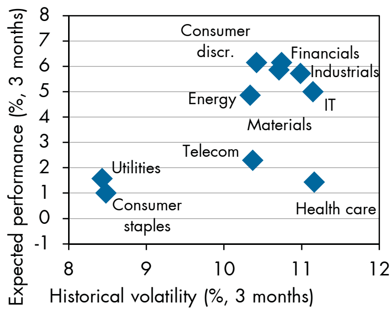
Financial analyst: Nina Neubauer-Kukic

Top 10 industry performance Q1 2014 (in %)

		Q1 until 19-Mar 14	5y yoy*
1	Pharma, biotech	8.7%	20.8%
2	Utilities	7.6%	8.9%
3	Health care equipment	6.7%	21.4%
4	Semiconductors	6.3%	18.2%
5	Software	6.0%	22.9%
6	Consumer services	3.9%	23.4%
7	Banks	3.2%	17.1%
8	Materials	2.8%	11.9%
9	Media	2.1%	30.4%
10	Transportation	1.9%	20.3%

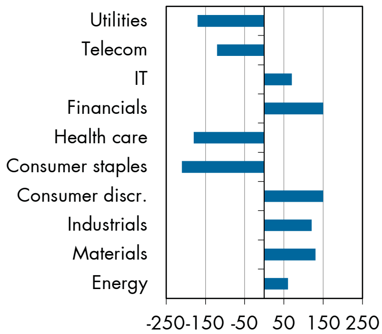
** five-year annual return*
Source: Thomson Reuters, Raiffeisen RESEARCH

Risk-return (in %)



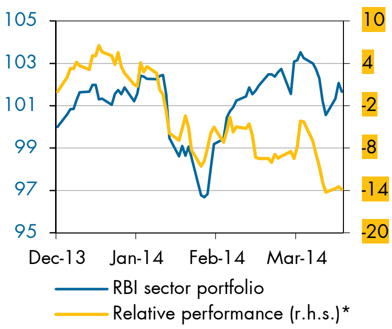
Source: Thomson Reuters, Raiffeisen RESEARCH

Over-/underweight sectors (in bp)



Source: Thomson Reuters, Raiffeisen RESEARCH

RBI sector portfolio



** in basis points*
Source: Thomson Reuters, Raiffeisen RESEARCH

RBI sector portfolio

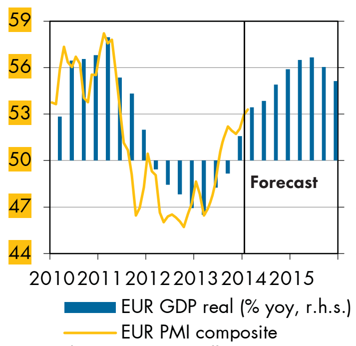
	2012	2013	since 20-Dec 13
Benchmark	16.0%	26.5%	1.8%
Portfolio	15.2%	26.7%	1.7%
Relative Performance	-0.8%	0.2%	-0.1%

Source: Thomson Reuters, Raiffeisen RESEARCH

Investment activity decisive for a sustainable recovery

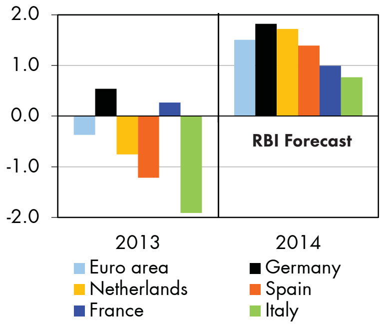
- **Exports encourage investments**
- **Sluggish recovery on the labour market**
- **Elevated uncertainty due to the conflict between the West and Russia**

Economic dynamics accelerating



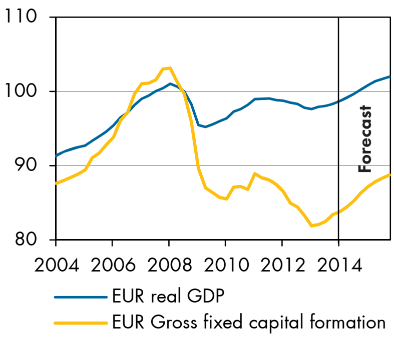
Source: Thomson Reuters, Raiffeisen RESEARCH

Diminished growth differentials*



**GDP real, % yoy*
Source: Thomson Reuters, Raiffeisen RESEARCH

Pent up investment demand*



**2008=100*
Source: Thomson Reuters, Raiffeisen RESEARCH

As in the final quarter of the previous year, also the start to the first quarter was a bit unfortunate. However, the slowdown in industrial activity in January can be ascribed in full to the slump in energy sector performance due to the mild winter weather. By contrast, production in manufacturing was robust, along with construction industry output, which benefited from the unusually warm temperatures. Furthermore, leading indicators continue to point to a sustained acceleration in economic activity. For example, manufacturing orders are steadily on the rise, and sentiment in the services sector has also continued to improve.

Along with soft indicators, there have also been some significant **improvements** in some of the important overall **economic conditions.** In particular, the serious economic imbalances in the crisis-stricken countries have declined substantially. In Southern Europe, all of the countries were able to reduce their sometimes significant current account deficits and are now reporting broadly balanced accounts. One of the reasons for this is an improvement in competitiveness in most countries, suggesting that this development may be lasting. In countries which were suffering from real estate price bubbles, the process of correction is probably over (Ireland) or will come to an end this year (Spain, Netherlands). In the recent past, the level of private sector debt has also dropped. Yet, in some cases it still remains elevated. The level of public debt is generally still disappointingly high, but at least the negative economic impact from reducing budget deficits is beginning to fade.

Detailed data on the development of real GDP (2013: -0.4% yoy) confirm that the upswing in exports (2013: 1.3% yoy) is being reflected more and more in rising private investment activity (2013: -2.7% yoy; Q4: 1.1% qoq/0.1% yoy). Thanks to better filled orders books, pent-up demand and the cheap financing conditions in the core countries, this trend should continue unabated in the coming quarters. Along with investment in plant and equipment, the anticipated recovery in the construction industry in many countries this year will be another supportive factor. The smallest contribution to the economic rebound will come from private consumption. Consumption demand has only accumulated in a few countries (Germany). In most countries, however, improvement in private consumption is only expected to emerge when employment and real wages begin to grow. The **situation on the labour market** varies strongly from country to country. Looking at the overall aggregate, however, the situation has already **stabilised**. Job losses have come to an end and the rate of unemployment should tend to decline as the year progresses.

At the same time, it must be noted that an escalation of the conflict between the West and Russia constitutes a **significant downside risk**. Insecure surroundings have a strongly negative impact on corporate investments in particular. As the economic recovery is just now shifting into second gear (from exports to investments, which then in turn lead to more employment, income and consumption), the upturn continues to be very vulnerable.

Financial analysts: Gottfried Steindl, Eva Bauer

Into spring with renewed vigour

- **Winter dip in growth appears to be ending, as expected**
- **Economy picks up pace again in spring, rate of unemployment continues to fall**
- **Inflationary pressure remains low in 2014 (but does not keep falling)**

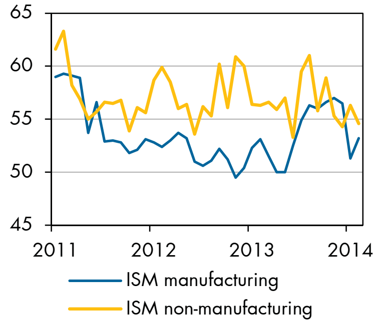
Following the exceptionally strong real GDP growth in the third quarter (annualised 4.1%, which was distorted upwards to a great degree by the strong build-up of inventories), GDP growth in Q4 then receded quickly again (to an annualised rate of 2.4%), as projected. All in all, growth in the second half of 2013 thus accelerated strongly, and the **outlook for 2014 also looks very promising**. Nor does the smattering of weaker economic data at the start of the year change this assessment: although the monthly increase in payrolls slipped considerably around the turn of the year (from 274K in November to a low of just 84K in December), and the manufacturing ISM declined steeply from 57 to 51.3 points in January, these **temporarily weaker figures** are mostly the result of the unusually intense winter in much of the USA on the one hand, and the knock-on effect of the build-up of inventories in the second half of the year. Both of these **factors are temporary** and should be overcome quickly in the months ahead. In this regard, it is good reassuring news that both of the above mentioned indicators have already started to rise again: in February, the pace of job gains increased to 175K and the manufacturing ISM at least improved to 53.2 points. We expect to see further gains for both of these indicators in the coming months. Because practically all of the fundamental factors point to more acceleration in US growth this year: along with the still very low level of interest rates, real incomes are rising as a result of increasing wages and low inflation rates, and the real estate market (where prices are still modest) will continue to recover this year. Most of the negative impact from fiscal policy occurred in 2013 and thus will not be a major factor hindering GDP growth anymore this year. After what will probably be a weaker start in Q1, we forecast substantially **stronger annualised growth rates for the second to the fourth quarters**.

Could a conflict with **Russia smother growth** in the event of a further escalation? The direct economic ties between the USA and Russia are too weak for that to happen: for example, US exports of goods to Russia amount to just 0.07% of US GDP (compared to around 1.2% in Germany), and Russia essentially plays no role at all for the USA when it comes to energy trade. Even if the conflict does lead to drastic trade and energy sanctions and the Euro area plunges into recession as a result, this would only indirectly impact US economic growth (as US exports of goods to the Euro area account for 1.6% of US GDP), and thus US growth could be as much as one percentage point lower, as the investment climate would also suffer. Still, this would probably not be enough to result in a recession in the USA.

The **rate of inflation** is very low in the USA right now (latest CPI reading: +1.1% yoy) and will remain close to these historical lows in the quarters ahead. Over a one-year horizon, however, inflation should rise mildly, as a result of mounting wage pressure.

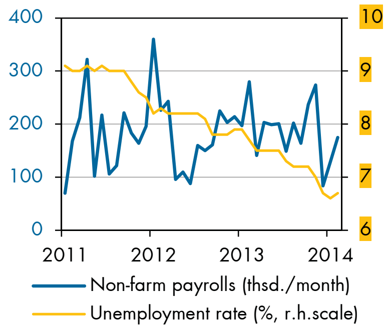
Financial analyst: Valentin Hofstätter

ISM starts rebound



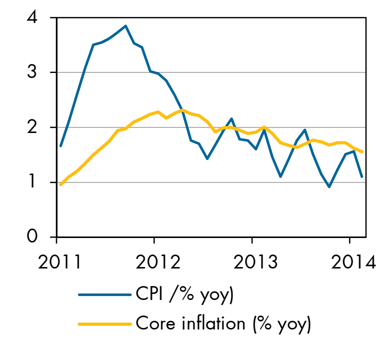
Source: Thomson Reuters, Raiffeisen RESEARCH

Labor market still improving



Source: Thomson Reuters, Raiffeisen RESEARCH

No inflation pressure



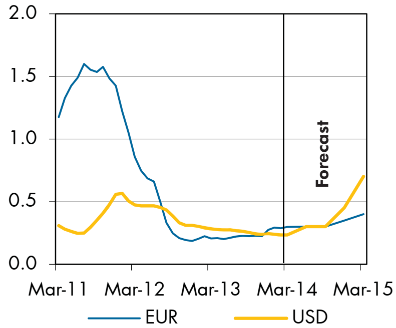
Source: Thomson Reuters, Raiffeisen RESEARCH

Raiffeisen RESEARCH

Central banks stay the course

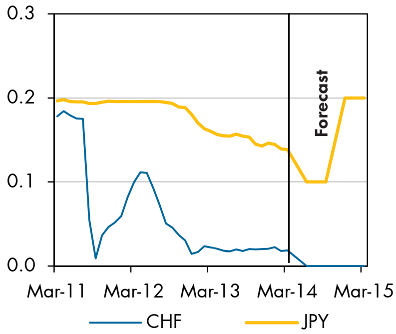
- US: tapering continues
- US: rate hike(s) in 2015
- Euro area: Central bank maintains low money market rates

Money market rate 3M (%)



EUR: 5y high: 1.615, 5y low: 0.181
USD: 5y high: 1.288, 5y low: 0.233
Source: Thomson Reuters, Raiffeisen RESEARCH

Money market rate 3M (%)



CHF: 5y high: 0.410, 5y low: 0.003
JPY: 5y high: 0.618, 5y low: 0.137
Source: Thomson Reuters, Raiffeisen RESEARCH

Money market rate 3M (%)

	curr	Forecast					
	19-Mar[1]	Jun-14		Sep-14		Mar-15	
		Forc	Fwd*	Forc	Fwd*	Forc	Fwd*
EUR	0.31	0.30	0.31	0.30	0.31	0.40	0.35
CHF	0.02	0.00	-0.02	0.00	-0.03	0.00	0.01
USD	0.23	0.30	0.24	0.30	0.27	0.70	0.46
GBP	0.52	0.50	0.54	0.60	0.62	0.80	0.94
JPY	0.14	0.10	0.13	0.10	0.12	0.20	0.13

*[1] 5:00 p.m. CET; * xx*
Source: Thomson Reuters, Raiffeisen RESEARCH

Key interest rate (%)

Countries	19-Mar[1]	Jun-14	Sep-14	Mar-15
Euro area	0.25	0.25	0.25	0.25
GB	0.50	0.50	0.50	0.75
Switzerland	0.02	0.00	0.00	0.00
Japan	0.10	0.10	0.10	0.10
USA	0.25	0.25	0.25	0.50

[1] 5:00 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

The latest phase of weaker US economic data (ISM, labour market report) has not resulted in any change to the monetary policy stance of the **US central bank (Fed)** announced under Ben Bernanke, even under the new Chair Janet Yellen. Both we and the central bank expect that the economy and the labour market will remain on track for recovery. The latest improvement in these two data series appear to support the Fed's assumptions. In line with this, the US central bank continued to reduce its purchases of bonds. The monthly volume of purchases has now fallen to just USD 55 bn (down from the peak of 85 bn). A step-by-step reduction of USD 10 bn has been announced for each Fed meeting. As we expect a significant improvement in the US labour market in the months to come, it is possible that the pace of tapering will ultimately even be increased. We also expect to see the first increase in interest rates in early 2015, which is earlier than currently postulated by the Fed.

The **European Central Bank (ECB)** continues to signal an easing bias. The ECB may be prompted to take further monetary policy measures, mainly in the event of a further decline in inflationary pressure and tightening in financing conditions. Broadly speaking, however, we share the ECB's views and believe that the risk of deflation is low in the Euro area. Even if the rate of inflation falls again in March, which appears realistic in light of the current oil price and the EUR/USD exchange rate, there are no signs of a persistent downward spiral in price - wages - economic activity. Furthermore, we do not expect any new tensions in the financial system. Accordingly, in our view, there will be no additional significant monetary policy measures such as extensive purchases of securities (quantitative easing) or lowering the deposit rate to below 0%. If necessary, it is more likely that there will be fine-tuning measures, in order to prevent an upward drift in money market rates. Along with a reduction in the main refinancing rate to 0.1%, other liquidity measures that would be suited to this end include lowering the minimum reserve requirement to 0% (ties down around EUR 100 bn) or ceasing the sterilisation of bond purchase volumes from the completed Securities Market Programme (currently still EUR 175 bn). In light of the persistently expansive monetary policy, money market rates should remain at low levels for many months to come. At the end of this year, we believe that the economic recovery will be strong enough for the ECB to officially depart from its easing bias and allow some upward drift in money market rates.

Financial analysts: Valentin Hofstätter, Gottfried Steindl

Please note the risk notifications and explanations at the end of this document

Euro area: Moderate price pressure, but no danger of deflation

- **Inflation rate to remain below ECB target until 2016**
- **Deflation risks negligible for the Euro area, but not for Greece and Portugal**
- **Regaining price competitiveness as one of the reasons for moderate price pressure**

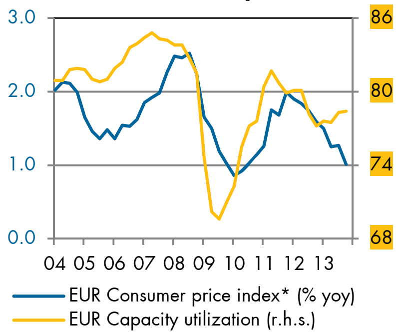
Back in the autumn, the European Central Bank (ECB) reacted to the drop in inflation with a rate cut. Subsequently, due to the modest level of inflationary pressure at the beginning of the year, many market participants expected the ECB to take further easing measures. There was widespread disappointment when the "easing bias" was confirmed, but no additional measures were announced. Even though the current rate of inflation is undoubtedly low at 0.7% yoy, we believe that worries about deflation – which have also been fuelled by official institutions – are unfounded.

One main reason why it is possible to essentially rule out the Euro area slipping into deflation is the situation in Germany. Although it has almost always been a low-inflation country, thanks to the extremely good economic prospects in the coming years price pressures in Germany should actually increase and be higher than 2% yoy from 2015 on. As long as the German economy – which is by far the largest in the Euro area – is growing faster than its potential and has a rate of inflation of around 2% yoy, there is practically no way that the Euro area as a whole can slip into deflation. Another reason we identify is the high relevance of temporary factors. On the one hand, these include falling **energy** and, owing to the strong Euro, moderate **import prices**. On the other hand, the modest inflationary pressure for many groups of goods is partly the result of the extremely **weak economic performance**. At the same time, the current phase of disinflation also has positive causes. In countries such as Spain and Ireland this development is part of the process of **regaining price competitiveness** and thus mainly the result of falling unit labour costs. As soon as this process of adjustment is completed, there should be no obstacles to inflation rates returning to their "normal" levels. In Italy and France, though, this adjustment has not yet occurred. In conjunction with the relatively sluggish recovery, this points to low rates of inflation over the medium term. Nevertheless, thanks to the fundamental situation (no burst bubble on the real estate market, relatively low level of private debt), we believe that a downward spiral there is not very likely. Only in Greece and to a lesser degree in Portugal and Cyprus there are tangible risks of deflation, due to falling wages. In Greece especially, expectations of further price declines have become anchored in many areas. In general, the **inflation expectations** of the private sector are not particularly low in the Euro area. Indeed, most recently, companies' expectations have actually started to rise slightly. The expectations reflected by particular **financial market products** (inflation swaps, inflation-linked bonds) also currently **do not display any prospects of deflation**.

Looking at the various factors, it appears that **inflationary pressure will remain low** over the next two to three years. It should however be noted that low rates of inflation are completely normal at the beginning of a period of economic recovery, and this currently applies to the Euro area. In line with increasing capacity utilisation and demand, prices and inflation expectations should begin to rise again in most countries sooner or later. For the current year, we project inflation at 1.1% yoy and for 2015 we forecast a mild increase to 1.5% yoy.

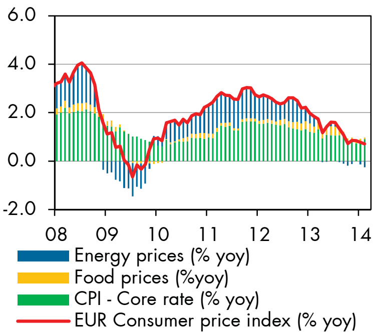
Financial analysts: Gottfried Steindl, Eva Bauer

Disinflation: economic dynamics...



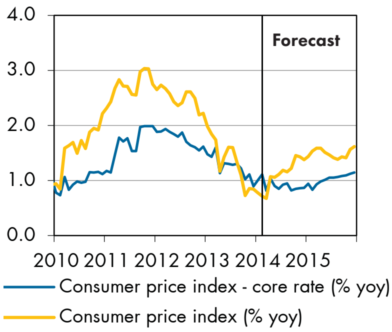
** core rate*
Source: Thomson Reuters, Raiffeisen RESEARCH

... and temporary developments



Source: Thomson Reuters, Raiffeisen RESEARCH

EUR: inflation rate moving upwards



Source: Thomson Reuters, Raiffeisen RESEARCH

Underperformance of German bunds over a one-year horizon

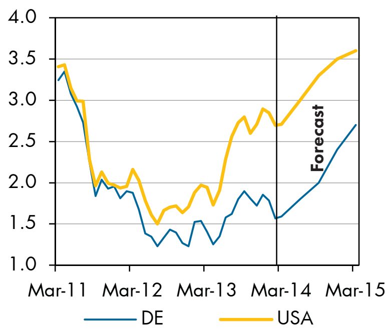
- **Euro area: steeper yield curve merely a question of time**
- **US: gradual increase in yields only delayed due to geopolitical developments**
- **Better economic prospects dominate over the medium-term**

Value matrix bonds

Markets	DE		US		JP	
GDP growth	4	(4)	4	(3)	4	(3)
Inflation	1	(1)	2	(2)	2	(2)
Budget	1	(2)	2	(2)	2	(4)
Currency	3	(3)	2	(2)	2	(3)
Politics	1	(3)	2	(2)	2	(2)
Short rates	1	(1)	2	(1)	2	(1)
Technical	4	(4)	3	(3)	3	(3)
Average	2,1	(2,6)	2,4	(2,1)	2,4	(2,6)

Explanation: 1 (4) denotes highly positive (negative) influence on the market. All factors are weighted equally. Assessments refer to a 3-month period. Values in brackets refer to the previous quarter.
Source: Raiffeisen RESEARCH

Yields 10Y (%)



DE: 5y high: 3.673, 5y low: 1.076
USA: 5y high: 3.989, 5y low: 1.404
Source: Thomson Reuters, Raiffeisen RESEARCH

Range yields 10Y (%)

Countries	Jun-14	Sep-14	Mar-15
DE	1.3 - 2.0	1.5 - 2.2	2.4 - 3.0
USA	2.6 - 3.2	2.9 - 3.5	3.0 - 3.8
GB	2.6 - 3.4	2.7 - 3.6	2.9 - 3.9
Japan	0.5 - 0.9	0.5 - 1.0	0.7 - 1.2

Source: Raiffeisen RESEARCH

The steadily expansive monetary policy should leave yields on short-dated **German government bonds** at low levels for some time to come. By contrast, given the current economic environment we see German bonds in the medium and long term maturity segment as being quite expensive. We believe that on the one hand the current economic recovery is being underestimated, while at the other hand the risk of deflation is being overplayed. As a result, even minor additional monetary policy easing measures should result in **no further declines in yields**. Consequently, the difference between two- and ten-year bond yields should widen significantly in the coming quarters. Moreover, we expect to see the **decline in risk premia** on government bonds from Southern Europe to continue. Over a one-year horizon, we project the strongest narrowing for Portugal and Ireland, followed by Spain and Italy. As a result of this, the yield increases anticipated for the German benchmark should be mostly well compensated for in the aforementioned countries. On the other hand, there is little to none potential for narrowing in France and Austria, which will probably see the increases in long-term yields matched in full.

Instead of rising mildly, **yields of US government bonds** actually declined somewhat in the first quarter. In part, this had to do with external factors, which spurred demand for "safe haven" assets (such as turbulence in EM countries, worries about growth in China, Crimean crisis) and in part the decline stemmed from some of the weakness temporarily seen in US economic indicators. Even if the level of yields may be held low for some time by the global risk aversion (especially in the case of further escalation of the conflict between Ukraine and Russia), over the medium term we believe that the economic upturn in the USA will gain the upper hand and that US bond yields will be pushed higher in the months to come. Yields on ten-year bonds should be well above 3% by the end of 2014, as the approaching interest rate hikes in 2015 are priced in.

Financial analysts: Valentin Hofstätter, Gottfried Steindl

Yields 10Y (%)

	19-Mar 2014[1]	Jun-14		Sep-14		Dec-14		Mar-15	
Countries		Forecast	Cons*	Forecast	Cons*	Forecast	Cons*	Forecast	Cons*
Austria	1.92	2.1	n.v.	2.2	n.v.	2.6	n.v.	2.9	n.v.
Germany	1.65	1.8	1.9	2.0	2.1	2.4	2.2	2.7	2.3
France	2.21	2.3	2.4	2.5	2.6	2.9	2.6	3.2	2.7
Italy	3.43	3.4	4.2	3.6	4.3	3.9	4.2	4.2	4.3
Spain	3.37	3.4	4.3	3.5	4.3	3.8	4.3	4.0	4.4
GB	2.76	2.9	3.0	3.2	3.1	3.6	3.3	3.7	3.4
Switzerland	1.01	1.0	1.1	1.2	1.3	1.4	1.3	1.5	1.5
Japan	0.60	0.7	0.7	0.7	0.8	0.8	0.8	1.0	0.9
USA	2.76	3.0	3.0	3.3	3.1	3.5	3.2	3.6	3.4

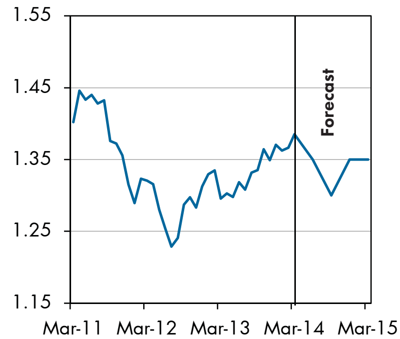
[1] 5:00 p.m. CET Cons... Consensus estimates*
Source: Thomson Reuters, Bloomberg, Raiffeisen RESEARCH

EUR/USD: plenty of room for USD appreciation

- **USD too weak versus EUR right now, but Q2 should see a reversal of this situation**
- **EUR/USD probably to remain stuck on a range around 1.35 for the entire year**
- **GBP still has some room to appreciate**

Nothing has changed with regard to our principle expectation of a **sideways movement in EUR/USD** for this year within a historically rather narrow range around 1.35, even though we were surprised by the weakness of USD during the first quarter. The temporarily weaker US economic data were probably only partially behind this, as no significant strengthening of USD has been seen even after their recent improvement. Nor have the geopolitical tensions – which usually bolster USD as a global reserve currency – in relation to the Crimean conflict provided much support for USD. It is possible that this is related to worries that Russia could part with its USD reserves in the event that the conflict escalates, which would generate short-term selling pressure on USD. We think this kind of development is very unlikely, however, as the alternatives to USD and other Western currencies are still too limited. What remains is the expectation that USD should bounce back from its currently too weak level as a result of the anticipated improvement in US economic data, especially as the ECB maintains its easing bias until the autumn. If there are brief peaks of over 1.40 in the EUR/USD rate, we should see stronger verbal intervention by the ECB.

EUR/USD



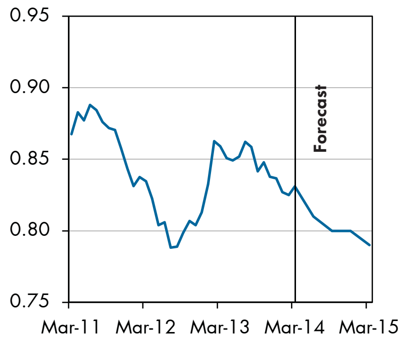
5y high: 1.509, 5y low: 1.193
Source: Thomson Reuters, Raiffeisen RESEARCH

GBP appreciation still enjoys good support

The **British pound** has tended to be weaker against the euro since March again. An initial explanation for this may be found in technical factors. Firstly, GBP is trading weaker against USD, and thus it is losing even more versus the stronger EUR. Secondly, there is an opinion spreading on the market that the stronger economic indicators and an initial rate hike have already been priced in. More so, however, it appears that the Ukraine effect is currently the dominant topic. When this begins to fade, we think GBP may begin to appreciate again. Accordingly, our position is contrary to the market and, as in the past, we expect that **better economic growth compared to the Euro area** and the interest rate aspect will result in the pound strengthening once again.

Financial analysts: Valentin Hofstätter, Lydia Kranner

EUR/GBP



5y high: 0.941, 5y low: 0.778
Source: Thomson Reuters, Raiffeisen RESEARCH

Currencies: FX per EUR

	19-Mar 2014[1]	Jun-14		Sep-14		Dec-14		Mar-15	
Countries		Forcast	Fwd*	Forecast	Fwd*	Forecast	Fwd*	Forecast	Fwd*
USA	1.38	1.35	1.38	1.30	1.38	1.35	1.38	1.35	1.38
Switzerland	1.22	1.22	1.22	1.25	1.22	1.28	1.22	1.28	1.21
Japan	141	142	141	140	141	149	141	149	141
GB	0.83	0.81	0.83	0.80	0.83	0.80	0.84	0.79	0.84
Norway**	8.34	8.21	8.37	8.13	8.40	8.05	8.43	7.98	8.45
Sweden**	8.85	8.78	8.86	8.72	8.87	8.65	8.88	8.59	8.89

*[1] 5:00 p.m. CET   * Fwd...forward rates   ** Consensus estimates*
Source: Thomson Reuters, Raiffeisen RESEARCH

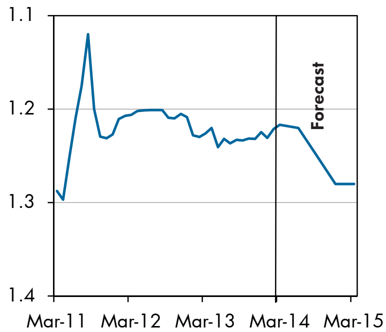
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

CHF: Safe haven JPY: High volatility

- **SNB more committed than ever to the intervention limit**
- **Japan's economy heading for a setback**
- **JPY depreciation continues to be a topic**

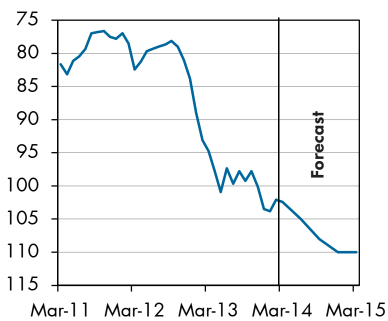
EUR/CHF*



** inverted scale*
5y high: 1.536, 5y low: 1.032
Source: Thomson Reuters, Raiffeisen RESEARCH

During the first quarter of this year, the Swiss currency remained in range of 1.235 to 1.212 to the euro. During March in particular, demand for **Swiss franc** increased during the Ukraine crisis, and CHF consequently appreciated again. Market-relevant fundamental data are currently taking a back seat. In terms of the data, the economy has been treading water: the combined producer and importer price index, which functions as a guidepost for developments in inflation, once again slipped into negative territory in February, dropping to -0.8% yoy, which marked the sharpest decline since the summer of 2012. Along with the GDP data, which were lower than expectations and also fell short of potential growth, this results in a fundamental picture that does not suggest any change in the Swiss National Bank's monetary policy stance. In our view, the SNB will stick to its intervention limit of EUR/CHF 1.20 more insistently than ever, due to the prevailing uncertainty. If risks related to Ukraine settle down again, the Swiss franc should then weaken in our view. Aside from the lack of any other event risks which cannot be forecast, there would also have to be a widening of the interest rate/yield differential to the Euro area for this to occur.

USD/JPY*



** inverted scale*
5y high: 105.1, 5y low: 75.76
Source: Thomson Reuters, Raiffeisen RESEARCH

The global uncertainties are also reflected in the yen exchange rate. The **Japanese yen** has appreciated tangibly versus USD, via the stronger EUR/USD exchange rate. Disregarding global crisis scenarios, the differing monetary policy stance between the USA and Japan should be the main factor dominating the course for JPY. If Japan is faced with an acute deterioration in economic conditions, the Bank of Japan (BoJ) will spare no efforts to prevent a slowdown in the economy. The effects of consumption being drawn forward prior to the planned increase of VAT in April are already being seen in the economic data released so far. For Q1, the rates of GDP growth may reach up to 1.0% qoq, according to estimates. The ensuing slowdown afterwards is also being underlined by a number of survey indicators. On the other hand, the US Fed will probably stick with its outlined schedule for reducing bond purchases. An initial US rate hike may already come as early as Q1 2015. Therefore, there are ample arguments for the weakness of the yen to continue for the entire year.

Financial analyst: Lydia Kranner

Historical volatility FX

Countries	90 days	180 days
USA	5.36%	6.31%
GB	6.03%	6.13%
Switzerland	2.58%	2.78%
Japan	8.00%	8.54%
Norway	6.24%	7.60%
Sweden	5.55%	6.24%
Czech Republic	3.04%	6.30%

Explanation: annualised standard deviation
Source: Thomson Reuters, Raiffeisen RESEARCH

Markets	USD		CHF		GBP		JPY	
GDP growth	1	(2)	2	(2)	1	(1)	3	(3)
Short rates	2	(4)	4	(4)	3	(3)	4	(4)
Long rates	2	(2)	3	(4)	2	(2)	4	(4)
Credibility	2	(2)	1	(1)	2	(2)	3	(3)
PPP	1	(2)	3	(3)	2	(2)	2	(2)
Current acc.	3	(3)	1	(1)	3	(3)	3	(2)
Technical	3	(3)	2	(2)	3	(3)	4	(4)
Average	2.0	(2.6)	1.9	(2.4)	2.3	(2.3)	3.3	(3.1)

Explanation: 1(4) denotes appreciation (depreciation) pressure on the currency. All factors are weighted equally. Assessments refer to a 3-month period. Values in brackets refer to the previous quarter.
Source: Raiffeisen RESEARCH

European banking union: An ambitious project advances well

- **Focus on the ECB balance sheet review and the single resolution mechanism**
- **Crisis management directive will be checked closely for its for the practicability of a bank resolution**
- **Topic of "bail-in" gradually coming to the forefront**

The current **review of European banks' balance sheets by the ECB** and the final form of the proposed **bank resolution mechanism are** two related topics which will probably have the most influence on the bank bond market in the months to come.
The review of European banks and the subsequent stress test presents a unique opportunity to identify and rectify shortcomings in the financial system. A precise estimate of the additional capital needs of the participating banks is not really possible due to the lack of details. A simple comparison of the current capitalization with regard to the quality of assets, however, shows that banks in core European countries and the large Spanish banks are generally in a solid position. Regardless of the results, which will be subject to various assumptions (e.g. in relation to the stress tests), **the ECB will** probably **obtain a precise overview** of the banks' situation. This will **ease the process of decision-making** in the event that a bank runs into trouble in the future.

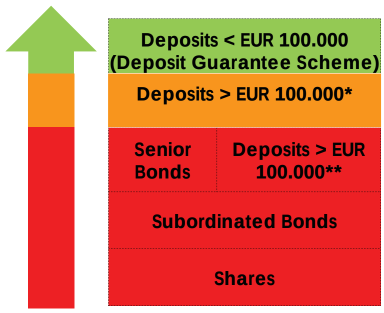
In this respect, the final form of the single resolution mechanism is very important. A provisional agreement was reached on 20 March 2014. In our opinion, the **final text** of the proposed crisis management directive will be **closely inspected** by market participants for its for the **practicability of a bank resolution**. The competencies and number of decision-makers, and the available resources will all make a huge difference as to whether holders of bank bonds will actually have to accept **losses**, and consequently how the **issuing activity** of **unsecured bank bonds** will look in the future. The current figures show that the volume of issues of these bank bonds is at a multi-annual low. The pressure to refinance is eased also by the low cost refinancing programmes provided by the ECB. Furthermore, implementation of Basel III in Europe (CRR/CRD IV) results in additional pressure to limit lending (deleveraging).

The situation on the subordinated bond market is much more **upbeat**. The new Basel III requirements are leading to increased issuance activity, particularly in the **segment of additional Tier 1 capital (AT1).** Above and beyond this, the crisis management directive is also prompting banks to increase their issuance of subordinated bonds. In the new bail-in environment, senior bonds are protected by subordinated bonds, in other words: the subordinated bonds are held as a buffer, in order to be able to issue senior bonds as cheaply as possible in the bail-in environment.

Our general recommendation with a horizon of the next three and twelve months is Neutral for both segments (subordinated, senior). We mainly see buying opportunities for bank bonds from the stable core Europe banks. In relation to these banks, we prefer subordinated bonds compared to senior instruments, as we no longer assume that senior bonds are untouchable in Europe on the basis of the future legal norms. In the months ahead, the rating reviews which have been announced by the individual rating agencies will sharpen the focus on the subject of bail-in.

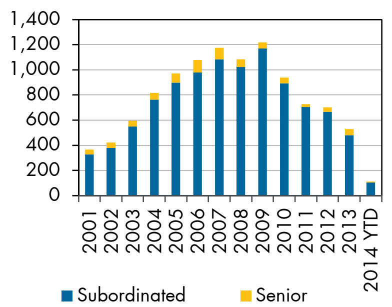
Financial analyst: Peter Onofrej

Bail-In scheme



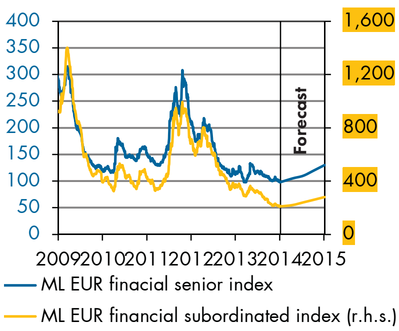
** Deposits of private persons or SME companies*
*** Deposits of big companies*
Source: Ecofin; Raiffeisen Research

Issuance volumes*



** in USD mn*
Source: Moody's

Spreadhistory Senior vs Subordinated



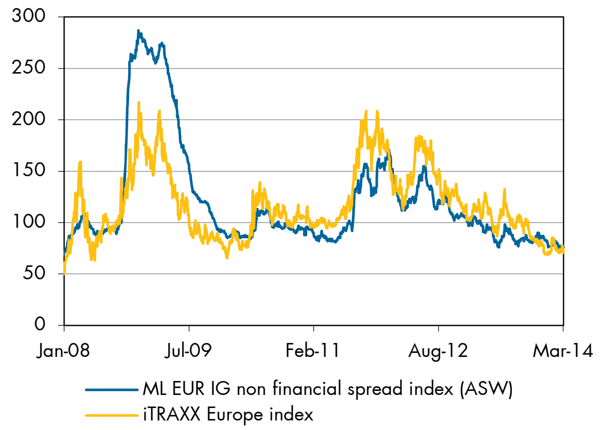
Source: BofA Merrill Lynch, Bloomberg, Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Technical factors provide a support for corporate bonds

- **Global default rates register yet another decrease (to 2.4%)**
- **Repayments of corporate bonds exceed new issues**
- **A total liquidity of EUR 3.6 bn was channelled into the High Yield segment**

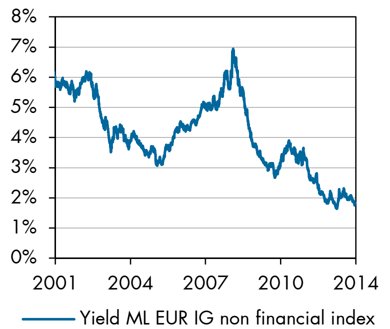
IG cash vs iTRAXX Europe (in bp)



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

The credit markets had a very solid performance during the first quarter of 2014. A total return of 2.43% in the Investment Grade segment and of 2.27% in the High Yield segment was gained at index level in the first two and a half months of the year. The reason why the Investment Grade index outperformed the High-Yield one can be traced back to the fact that its duration is longer by two years. The Investment Grade index (duration five years) benefitted mostly from the plummeting benchmark yields, while the High Yield index relied heavily on the shrunk risk premiums. Overall, European corporate bonds, with a lower volatility, have been beating the comparable equity markets since the beginning of the year. **However, we regard the performance of the past few months as a reason to exercise caution during the upcoming months.** As we already described in detail within our Annual Outlook, we are of the opinion that corporate bonds are expensively priced. This argument is yet to become crucial, but we opine that it is still valid. Additional factors have turned out to be more relevant until the present moment, particularly technicalities.

EUR IG non financial (in %)



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

The **decreasing global default rates** of the past twelve months are providing a strong fundamental support particularly to High Yield bonds. A drop from January's revised figure of 2.6% to 2.4% in February 2014 was registered. While the default rate in the USA amounts to a mere 1.6% (1.9% in January), it recently decreased to 3.5% in Europe (4.3% in January). Interestingly enough, Moody's forecasts a slightly increasing default rate for the USA by the end of the year, reaching a level of 2.3%, and a strongly decreasing default rate in Europe, dropping to 1.6%. We anticipate somewhat higher default rates at the end of the year, therefore we see a certain potential for disappointment in this regard.

Credit spreads

	19-Mar[1]	Yield	Duration
Corp. Bonds (IG)	105	1.8 %	5.0
AAA	61	2.1 %	9.3
AA	61	1.5 %	5.7
A	80	1.6 %	5.3
BBB	131	2.0 %	4.6
Corp. Bonds (HY)	315	3.7 %	2.9

	19-Mar[2]	Jun-14	Sep-14
Swapspreads (10J)			
EUR	29	25	25
US	12	15	20

[1] 11:59 p.m. CET closing prices, Option Adjusted Spread (OAS) in basis points
[2] closing prices
Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

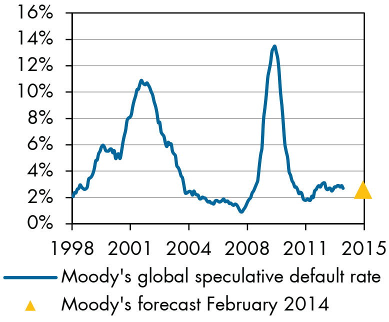
Year on year, the annual volume of non-financial bonds during the first three months of the present year has remained more or less unchanged. From January until the end of March 2013, a total of EUR 65 bn were placed, while the issuance figure to date in 2014 amounts to EUR 57 bn. However, one significant difference to the previous year is the higher redemption volume. In the first quarter of 2013, EUR 60 bn were repayed, whereas a total of about EUR 70 bn are due for repayments during the same period of time in the present year. **So far, the redemptions are exceeding the new issuances during 2014**. Since the amount of money which has to be invested in the asset class tops the recent issues on the market, the logical result is an excess demand which has a positive effect on the credit markets. Unusually high reflows, above EUR 20 bn, will occur in July this year, which could prove to be a further boost for the market, because it is often the case that issuance activity is low during the summer months. In our opinion, the primary market issues will remain in demand until the end of the year, in particular in the Investment Grade segment, despite the presently low yield of 1.79%.

In addition to money originating from repayments, further liquidity is flowing into corporate bonds from other asset classes as well. In particular, the High Yield segment has been eagerly sought after for months. According to data gathered by JPMorgan, a constant fund influx has been present in the last 26 weeks. **Since the turn of the year, approximately EUR 3.6 bn have flown into the High Yield segment**. This figure amounts to an increase of about 7.7% of the total assets under management. Due to the low rates of government bonds, corporate bonds, their yield being presently rather modest (3.72% at index level) both from a historical perspective and creditworthiness-wise, are still very attractive to investors at the present point in time. However, a change in sentiment could occur swiftly here. It is a well-known fact that capital is fleeing and would be withdrawn in case of a rising risk aversion. This sector involves, in contrast to the Investment Grade bonds, investors which are less inclined towards long-term planning. There are several burgeoning geopolitical trouble spots which could lead to setbacks at the equity markets and in turn trigger corrections as regards High Yield bonds.

Together with the aforementioned three factors, we deem that **a positive economy development on the established markets has already been priced in by the corporate bond market**. The economy revival was initially driven by exports and should be increasingly supported by a sturdier private consumption during the second half of the year. We regard this as a reason that government and corporate bonds originating from the periphery will be able to continue to perform extremely well. Fundamentally, the higher risk premiums of companies in Southern Europe are to be attributed to the lesser creditworthiness. We perceive the so-called "periphery risk" as priced out. Nevertheless, numerous investors cannot resist the temptation of the higher yields of corporate bonds coming from the periphery and continue purchasing them. This can only be justified if the consumption development does indeed pan out as positively as expected and is reflected in lower unemployment rates. From our point of view, the pricing of corporate bonds presently appears asymmetric. The expectations are very lofty and would be very difficult to exceed. By contrast, the potential for disappointment and a subsequent correction as regards corporate bonds is distinctively present and will remain present until the end of the year. On a **quarterly basis**, we give a **neutral recommendation** for both Investment Grade and High Yield non-financial **corporate bonds**. On an **annual basis**, we consider that **the credit cycle is coming to an end**, therefore we retain our **recommendation to sell**.

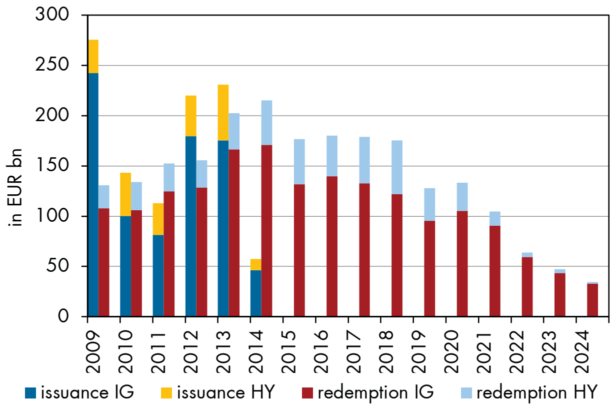
Financial analyst: Manuel Schreiber

Global default rates*



** in % of issuer*
Source: Moody's, Raiffeisen RESEARCH

Redemptions vs issuances*



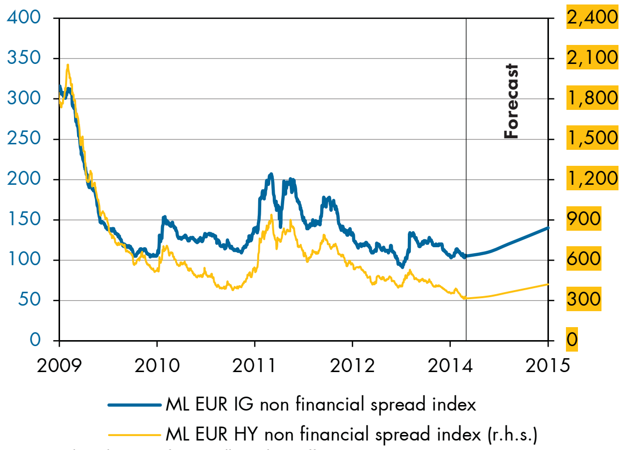
** Issues till 19th of March 2014*
as of 19th March 2014
Source: Bloomberg, Dealogic, Raiffeisen RESEARCH

Credit forecasts*

	curr	Forecast			
	19-Mar[1]	Jun-14	Sep-14	Dec-14	Mar-15
IG Non-Fin	105	110	120	130	140
High-Yield	315	330	360	390	420
Financials Senior	98	105	110	120	130
Financials Subord.	210	220	240	260	280

*[1] 11:59 p.m. CET closing prices ; * Option Adjusted Spread over Bund (in bp)*
Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

Spread history IG vs HY



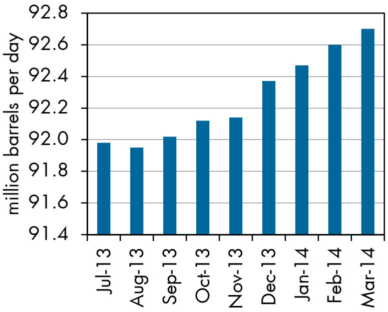
Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

Raiffeisen RESEARCH

Is the oil market ignoring geopolitics?

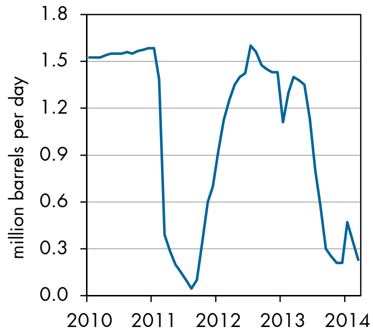
- **Oil price does not adequately reflect geopolitical factors**
- **IEA raises global oil demand for 2014 for the seventh time in a row**
- **Projected average price of oil for Q2 2014: USD 110 per barrel of Brent**

IEA - 2014 oil demand revisions



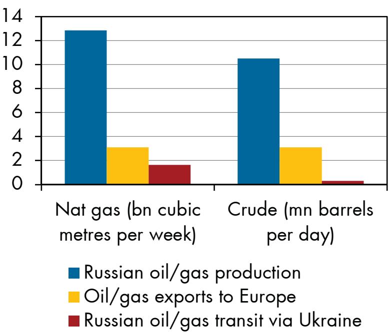
Source: IEA, Raiffeisen RESEARCH

Libyan oil production



Source: Bloomberg, NOC

Russia - oil&gas facts



Source: Norwegian energy, UBS, Morgan Stanley

For roughly the last six months, the **volatility of the oil price** has been **extremely low.** This historically low level of volatility cannot, however, be explained by any lack of news specifically involving the oil market. On the contrary, there has actually been an increase in the number of significant factors influencing the oil market in the recent past. While the consensus among analysts is that the price of oil will be lower than the current sideways trend, we are one of the few research institutions which takes an opposite position.

Our opinion is founded both on demand and supply factors. For instance, **for the seventh time in a row** the International Energy Agency (IEA) **raised its forecast for global oil consumption** in 2014 which is published in its monthly oil market report.
The supply side, on the other hand, continues to be marked by a rapid expansion of production in the USA (thanks to shale oil). In our opinion, however, **several geopolitical factors are not adequately reflected in the price of crude at the moment.** For example, **Iran** is still far away from being able to lift the import ban on oil deliveries to Europe. Due to the many attacks and unrest, the development of infrastructure in **Iraq** is progressing slowly. In **Libya**, oil production remains well lower than the possible level of production due to extremely tough negotiations with various rebel and tribal groups. **Nigeria** continues to suffer from the fact that around 15% of its daily production is lost to illegal pipeline taps. And in **Venezuela**, the government has not been able to put an end to protests by the opposition. Last but not least, the annexation of Crimea by Russia has triggered significant tensions between **Russia and Ukraine**, as well as with numerous other Western countries. This last conflict, however, will indeed probably only have a limited impact on the price of oil. Because of the daily exports of 3 million barrels of crude, only just over 10% is transported through Ukraine. In a global context, this represents just 0.4% of total global oil supply. Clearly, an export ban on crude oil by Russia would have more serious implications for Europe (cf. pages 6+7). However, due to the strong mutual dependence between Russia and Europe (around 70% of Russian export revenue stem from oil and gas sales), we do not think that such a scenario is very likely.

The latest data on **OECD oil inventories** have drawn little attention, but in our view they are certainly worth mentioning. During the fourth quarter, the **steepest drop since 1999** was registered in inventories. At the end of last year oil stocks were approximately 100 million barrels below the last five years average.

On the whole, we expect that the oil price will average **USD 110 per barrel of Brent in Q2 2014.**

Financial analyst: Hannes Loacker

Gold price: Optimism? Yes. Euphoria? No.

- **Geopolitical risks and uncertainty in the Emerging Markets driving the gold price**
- **Potential exhausted over the short run, and hardly any gains anticipated over a one-year horizon**
- **Over the long run, demand from EM countries is supportive**

Since the beginning of the year, the **price of gold** has essentially been moving in one direction: higher. Many investors are preparing for a sustained rally, after a gain of around 10.6% since 1 January 2014, together with a break-through of the 200-day line and immediate prospects of an increase past the last high of USD 1,417 per troy ounce from early September 2013. The **optimism of professional investors** is reflected by the increase in speculative net long positions on the US Comex, which recently rose to 152,300 futures contracts. By way of comparison: towards year-end 2013 there were 58,300 contracts with the gold price at USD 1,213 per troy ounce. At the same time, there has been **a trend reversal for global holdings of gold ETFs**, which also signals investors' expectations of a sustained upward move in the price of gold. With an increase of 1.2 tons to a total of 1,763.8 tons, the increase in holdings was only small, but for the same period of last year an outflow of 160.8 tons was registered. If one only looks at the period February-March 2014, there was quite a tangible increase of 24.8 tons.

With regard to the **immediate outlook for the price of gold**, however, **caution is in order** as the first quarter increase in the price has mainly been driven by the geopolitical risks in Ukraine and uncertainty about the economic situation in China, and these factors have now been broadly priced in. As for Ukraine, the assumption of more increases in the price of gold would only be justified in the event of further escalation of the conflict with Russia, with tangible negative consequences on the economic situation in the Eurozone (e.g. due to broad-ranging economic sanctions). In that scenario, gold should profit from a relative gain in value compared to economically sensitive equities and a subdued development of yields on long-term bonds. Gold's higher attraction as a crisis-proof currency would then result in more support for prices too. On the other hand, if the conflict remains limited to a regional scope (in whatever form), which appears to be the most likely scenario, then investors' focus will probably very quickly return to the global economic data. From a **fundamental point of view**, this would result **in tight limitations** on possible gains and a move to retake the last price level would be unlikely. This rests on the assumption of business cycle induced increases in ten year government bond yields in the US and the Eurozone as well as a partial strengthening in the (trade-weighted) USD exchange rate during the year. Still, the economic uncertainty about the Emerging Markets, especially China, will result in the need for sustained diversification and thus lead to purchases on the gold market.

Volatility is likely to remain high during this period. For Q1 2015 we expect a more pronounced decline in the gold price owing to a stronger performance on the Western equity markets and a sustained rise in bond yields. It should be noted, however, that this forecast involves greater uncertainty than in the past and that the before mentioned risk factors may trigger a new rise in the price of gold.

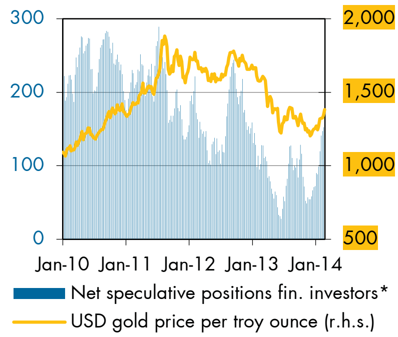
Financial analyst: Manuel Schuster

Forecast gold price

	19-Mar[1]	Jun-14	Sep-14	Mar-15
USD**	1,330	1,320	1,350	1,250
EUR**	961	978	1.038	926
EUR/USD	1.38	1.35	1.30	1,.35

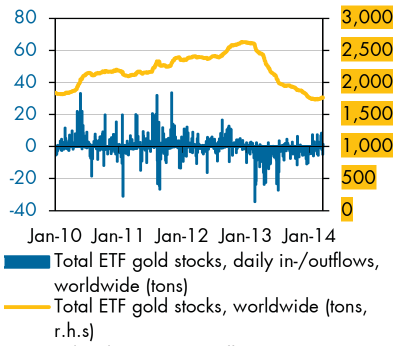
[1] data as of 19 March 2014 11:59 p.m. CET.
*** per troy ounce*
Source: Thomson Reuters, Raiffeisen RESEARCH

Speculative positions gold market



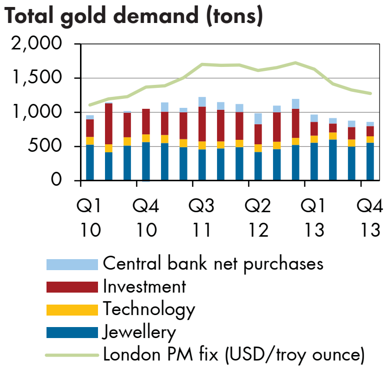
** Net-long position gold Futures&Options US Comex. Speculative investors: Hedge funds and large speculators (tsd. contracts)*
Source: Bloomberg Reuters, Raiffeisen RESEARCH

Gold ETFs stabilise



Source: Bloomberg Reuters, Raiffeisen RESEARCH

Total gold demand (tons)



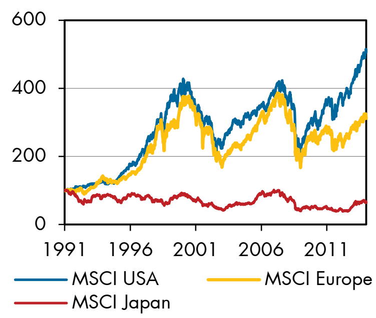
Source: World Gold Council, Raiffeisen RESEARCH

Raiffeisen RESEARCH

Bull market reaches a mature phase

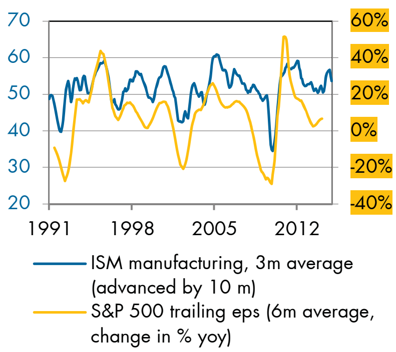
- US equity market only marginally impacted by tensions with Russia
- Economic indicators suggest further economic improvement in the USA
- Valuations and looming withdrawal of liquidity as negative factors

US stocks pretty far ahead*



** all indices rebased to 100*
Source: Thomson Reuters, Raiffeisen RESEARCH

US profit cycle not yet ended



Source: Bloomberg, Raiffeisen RESEARCH

During the first quarter, the US equity indices were not really bothered by the geographically remote Crimean crisis and the disappointing weak economic leading indicators from China. Not even the soft patch in economic indicators in the USA, due mostly to the extremely harsh winter, was able to make a lasting impact on prices, and consequently the major US equity indices remained roughly near their highs from around the turn of the year. Furthermore, at the moment there is really no way to ignore equities as an asset class, in light of the steadily good earnings of major US companies, the still abundant liquidity and the lack of alternative investments offering real returns (in the USA as well). Thanks to these factors, we are quite optimistic about the outlook for performance through to mid-year.

In our updated matrix of influencing factors, with regard to the USA we continue to rate the factor **Politics** at "2". At the same time, the current tensions with Russia must be closely monitored. Nevertheless, in our baseline scenario we assume that while there may be repeated flare-ups in tensions, the situation will calm down by mid-year thanks to diplomatic efforts.

As in the past quarters, we also leave the factor **Economy** at "2". The most closely watched economic indicators slumped during the winter due to the weather, but the ISM manufacturing index in particular has bounced back strongly from this and now points to a solid stabilisation of economic growth. The rate of unemployment is slowly, but surely winding down towards 6.5% and even the euro area, which is an important export region for the USA, emerged from recession in 2013. Consequently, we expect to see more improvement in business sentiment on the whole.

With regard to **Interest Trend** and monetary policy, we have left our assessment in the matrix of factors unchanged at the below-average level of "3". The US capital market reacted quite quickly to the reduction of the bond purchase programme by the Fed and no tangible impact on the liquidity situation was felt as a result of this measure. Nevertheless, the Fed is now sharpening its tone about the timing and extent of upcoming interest rate hikes. Even though we had certainly been expecting this, it may lead to some jitters on the market from time to time. In combination with the improving economic growth dynamics, all of this should also ultimately tend to result in further rises in yields on long-dated US government bonds. Government bond prices will fall as a result, possibly providing support to the **relative attractiveness of equities** over the short run. Over the longer

Value matrix stock markets

	Euro		Non-Euro		USA		Japan	
Policy	2	(2)	2	(2)	2	(2)	2	(2)
Economy	2	(2)	2	(2)	2	(2)	2	(1)
Interest rate trends	2	(2)	2	(2)	3	(3)	2	(2)
Earnings outlook	2	(2)	2	(2)	3	(3)	2	(1)
Key sectors	2	(2)	2	(2)	2	(2)	2	(2)
Valuation/PER	2	(2)	3	(3)	3	(3)	2	(3)
Liquidity	2	(2)	2	(2)	3	(2)	2	(2)
Technicals	3	(2)	4	(2)	2	(3)	4	(4)
Average	2.1	(2.1)	2.4	(2.1)	2.5	(2.5)	2.3	(2.4)

Explanation: 1 (4) denotes a highly positive (negative) influence on the market. Assessment refers to a 3 to 6-month period. Previous assessment in parentheses
Source: Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

run, however, government bonds will increasingly generate stronger returns than the pure dividend yields of US shares.

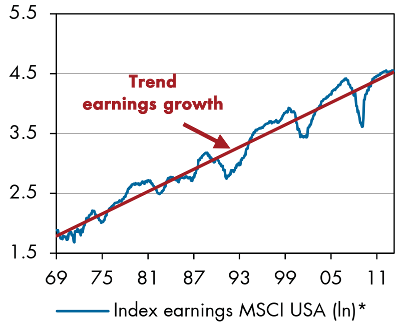
The sales and **earnings performance of listed companies** continues to be very robust. Since early 2009, analysts' pre-reporting season forecasts (which have often been lowered significantly over the short term) have more or less been beaten by the corporate results, quarter after quarter. This was clearly proven to be the case again during 2013 Q4, and not only in relation to earnings, but also for sales. According to latest estimates, the companies in the S&P 500 are projected to earn around eight per cent more in 2014 than in 2013. While this may not sound (overly) optimistic in light of the already very high margins and earnings, no slump in earnings is expected to materialise, thanks to the good economic situation. We thus leave the assessment of the factor "**Earnings development**" at the slightly sub-average level of "3".

While the **valuation** of the broader US equity market certainly does not look exaggerated, especially compared to other asset classes, it is considerably higher than the valuation on the European equity markets. For instance, the 2014e PER is almost 16 for the S&P 500. This reflects how much more prices increased compared to earnings last year. In combination with the figures for price/book value ratios and/or cyclically adjusted PERs (which are relevant for the longer term), we still see the fair valuation of this factor at just "3".

Summary: The economic dynamics and the resulting support for corporate earnings are factors which suggest that the uptrend will continue on the equity markets in general and thus on the US stock markets as well. The recent rise in geopolitical tensions will add an additional element of uncertainty on the markets, however, and the prospects of a gradual decline in liquidity will do nothing to improve the mood of stock market investors as well. Furthermore, valuations have become much more of an issue in recent quarters, especially on the US equity market. For lack of any investment alternatives (offering real returns), however, we expect the stock indices to reach new record highs again in 2014. We shift our recommendation for the S&P 500 and the Dow Jones to **"Hold"** and only leave the recommendation for the Nasdaq at **"Buy"**.

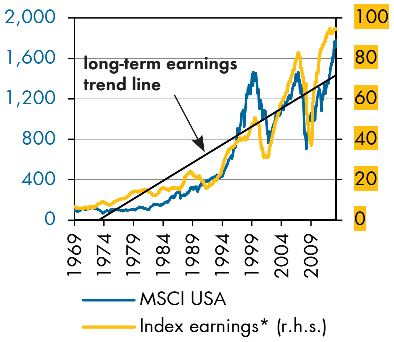
Financial analyst: Helge Rechberger

US corporate earnings above trend



** Earnings of the past twelve months (logarithmical)*
Source: Thomson Reuters, Raiffeisen RESEARCH

Earnings level higher than index level



** of the respective past 12 months*
Source: Thomson Reuters, Raiffeisen RESEARCH

Valuations

	PER 13	PER 14e	Growth 14e	Div. yield.
Euro STOXX 50	14.1	13.2	7.4%	3.6%
DAX	13.8	12.9	6.7%	3.0%
CAC 40	13.9	12.2	14.1%	3.6%
AEX	15.1	12.4	22.6%	3.0%
FTSE 100	15.0	13.3	12.5%	3.7%
SMI	16.5	15.6	6.1%	3.4%
DJIA	14.0	13.1	7.5%	2.8%
S&P 500	17.2	15.9	8.5%	2.0%
Nasdaq 100	19.6	18.1	7.9%	1.3%
Nikkei 225	14.9	12.6	18.4%	1.9%

PER ... Price to earnings ratio; Growth ... Earnings growth 2013e; Div. yield ... Dividend yield
Source: Thomson Reuters, Raiffeisen RESEARCH

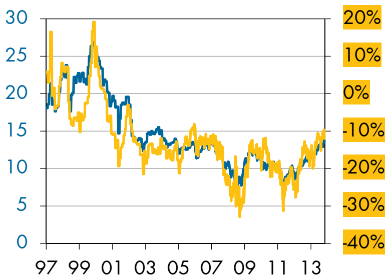
	19-Mar[1]	Jun-14	Sep-14	Dec-14	Mar-15	Recommendation*	Favourite sectors
DJIA	16,222,2	16,500	16,400	17,000	16,800	**Hold**	Industrials
Performance		1.7%	1.1%	4.8%	3.6%		Energy
Range		15,300-16,900	15,300-16,900	15,800-17,500	15,800-17,500		Financials
S&P 500	1,860,8	1,910	1,870	1,970	1,940	**Hold**	IT
Performance		2.6%	0.5%	5.9%	4.3%		Energy
Range		1,740-1,940	1,740-1,950	1,780-2,020	1,780-2,020		Materials
Nasdaq Comp.	4,307,6	4,510	4,300	4,650	4,550	**Buy**	Semiconductors
Performance		4.7%	-0.2%	7.9%	5.6%		
Range		4,100-4,600	4,200-4,650	4,200-4,750	4,400-4,750		

[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 2nd quarter 2014*
Source: Thomson Reuters, Raiffeisen RESEARCH

Is geopolitics raining on the parade for equities?

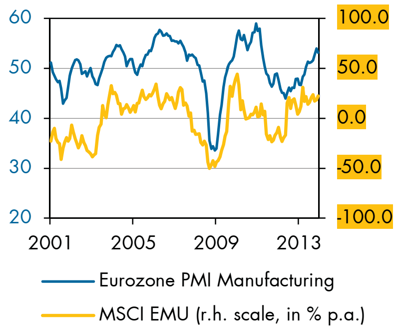
- **Geopolitical tensions will stay with equity markets for quite a while**
- **One key factor this year will be the development of earnings**
- **"Buy" recommendation for the DAX and for the Euro STOXX 50**

Valuation Euroland



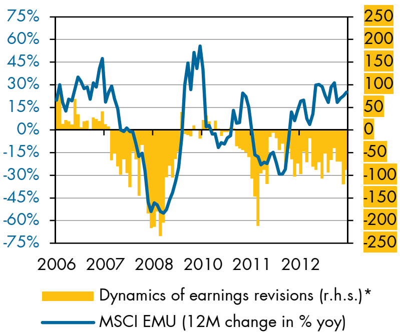
** 12 months forward price to earnings ratio*
*** valuation discount MSCI EMU vs. S&P 500*
Source: Thomson Reuters, Raiffeisen RESEARCH

Indicators still point to improvement



Source: Thomson Reuters, Raiffeisen RESEARCH

Earnings revisions still negative



** balance of the number of positive and negative earnings revisions for the upcoming 12 months*
Source: Thomson Reuters, Raiffeisen RESEARCH

The first couple months of the year actually featured hopes for more positive performance on the Euro area equity markets. The main reasons for this were falling risk premiums in the main peripheral countries, improvements in leading economic indicators and generally more optimistic investor sentiment on European stocks. How quickly things can change was then highlighted by the **geopolitical tensions from the Ukraine/Russia conflict** and the simultaneous publication of a string of poor results for the Chinese economy. These developments rapidly erased the gains that had been built up since the beginning of the year.

Basically, we do not expect that the situation in Ukraine will escalate any further. Accordingly, our **baseline scenario** continues to call for an **economic recovery in the Euro area**. This is also suggested by the purchasing managers' indices as well. It should be clear, however, that any escalation of the situation in Ukraine and the possibility of sharper sanctions being implemented by both sides have the ability to undermine economic activity during the rest of the year. There will be less focus this time on the measures of central banks, whose past actions generated important momentum for the equity markets for quite some time. The influence from the central banks will be substantially lower in the future, with the reduction in bond purchases by the US Fed and the outlook for no more major steps by the ECB.
One **key factor** this year will continue to be the **development of earnings**. As we recently noted, in recent months valuations have increased on the equity markets in the Euro area and this can mostly be explained by the increases in stock prices which were seen. Up to now, however, the dynamics in **earnings revisions have remained negative.** Accordingly, **companies will now have to stand up and deliver** when it comes to earnings. Fundamentally, we still expect that at the aggregate level companies will earn more on balance in 2014, as this is suggested by the sub-components of the purchasing managers' surveys in particular. Similar to the situation in the fourth quarter, however, earnings will face some headwinds from currency developments (emanating from the Emerging Markets).

Summary: The recent rise in geopolitical tensions is currently causing investors to take a cautious approach on the Euro area equity markets. Both the DAX and the Euro STOXX 50 have now lost considerable ground as a result of this. From a purely fundamental perspective, we believe that the arguments for a positive development for the most important equity indices remain intact. For us, the main specific arguments for a clearly positive performance by the Euro area equity markets in Q2 2014 are the prospects of gains in earnings, further stabilisation of economic conditions in the Euro area, and the persistent lack of alternative investments which offer tangible returns. Nevertheless, the situation remains tense, especially in eastern Ukraine, and it is impossible to rule out a quick solution or a further escalation of the conflict right now. Accordingly, we believe the upside for share prices will be somewhat dampened in the second quarter, but in our opinion it is still adequate to issue a **"Buy" recommendation for the DAX and for the Euro STOXX 50.**

Financial analyst: Johannes Mattner

No euphoria due to geopolitical tensions

- **GB: economic recovery continues**
- **Switzerland: stronger upturn in domestic demand**
- **Stock market performance projected to be mildly positive**

Equity markets in the **GB and Switzerland** were also hit by the developments in the Russia-Ukraine conflict. Furthermore, the weak economic data from China also weighed on the mood. Despite the repeated bad news, the data on economic developments in the GB and Switzerland should offer at least some real support. The **good performance of the GB economy** was once again confirmed **(GDP growth of 2.8% for 2014).** Although this will help shore up the development of earnings for British companies to some degree, by and large GB firms are also dependent on the Emerging Markets, due to their strong presence abroad. Whilst the aggregate earnings estimates for 2014 have repeatedly been downgraded since the beginning of the year, we still expect to see earnings growth in the low double digits. At the same time, one must keep in mind that weak currencies, slack demand in end consumer markets and price declines for certain important commodities may result in further need to revise earnings forecasts.

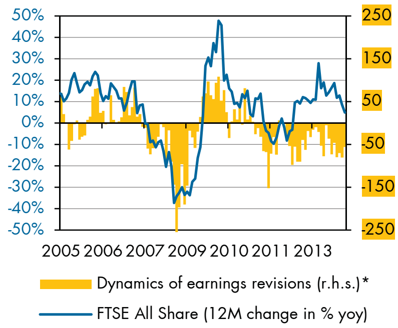
Economic data **in Switzerland** also present an impressive picture, even though the upswing is still only borne by domestic economic activity. As long as the rebound in the European economy continues, there should also be broad support from this factor, as most of the indicators are still well off their earlier record levels. We see the best potential for earnings growth for the companies in the SMI in the sectors materials, consumer staples and financials.

Due to the setback, **valuations have become more attractive again**, but they do not really look very cheap. Nevertheless, the relative attractiveness of equities compared to other asset classes remains intact, as the high dividend yields make a considerable difference.

In summary, one can say that from an economic point of view all signs are pointing to a positive performance by the non-Euro area equity markets, provided that the sanctions on Russia are not too severe. Still, as long as tensions remain and the geopolitical situation is uncertain, developments on the equity markets will continue to depend on this situation. From a quarterly perspective, however, we project slightly higher index levels and believe that the Swiss equity market has more upside potential.

Financial analyst: Christine Nowak

Pressure keeps on



** balance of the number of positive and negative earnings revisions for the upcoming 12 months*
Source: IBES, Thomson Reuters, Raiffeisen RESEARCH

Sector performance

STOXX Europe	Q1 until 19-Mar 14	5y yoy*
Utilities	8.5%	2.4%
Health care	3.9%	17.4%
Financials	0.6%	13.0%
STOXX Europe 600	-0.2%	13.8%
Industrials	-0.3%	19.1%
Telekom	-1.6%	6.9%
Dienstleistungen	-1.6%	14.2%
Konsumgüter	-2.0%	20.8%
Energy	-2.2%	5.3%
Technologie	-2.7%	13.7%
Materials	-3.7%	15.3%

** five-year annual return of STOXX Europe 600 sectors*
Source: Thomson Reuters, Raiffeisen RESEARCH

	19-Mar 2014[1]	Jun-14	Sep-14	Dec-14	Mar-15	Recommendation*	Favourite sectors
Euro STOXX 50	3,076,4	3,200	3,050	3,300	3,250	**Buy**	IT
Performance		4.0%	-0.9%	7.3%	5.6%		Cons. discretionary
Range		2,750-3,350	2,850-3,300	2,900-3,500	3,000-3,400		
DAX 30	9,277,1	9,700	9,200	10,000	9,900	**Buy**	Materials
Performance		4.6%	-0.8%	7.8%	6.7%		IT
Range		8,400-9,900	8,600-9,600	8,900-10,300	9,400-10,200		
FTSE 100	6,573,1	6,750	6,700	7,000	6,900	**Hold**	Financials
Performance		2.7%	1.9%	6.5%	5.0%		Energy
Range		6,200-6,900	6,000-6,800	6,300-7,200	6,200-7,100		
SMI	8,226,6	8,550	8,400	8,900	8,800	**Buy**	Cons. staples
Performance		3.9%	2.1%	8.2%	7.0%		Financials
Range		7,900-8,800	7,800-8,700	8,000-9,000	8,000-9,000		

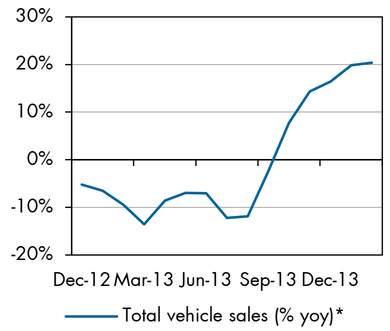
[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 2nd quarter 2014*
Source: Thomson Reuters, Raiffeisen RESEARCH

Raiffeisen RESEARCH

Shift in VAT already priced in

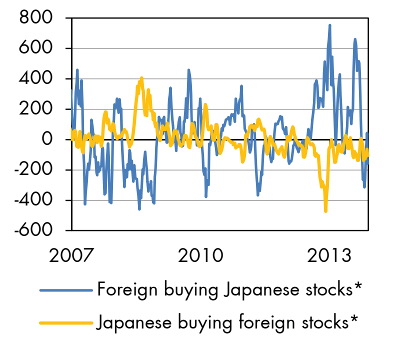
- **VAT hike should only temporarily burden the economy**
- **Yen depreciation and solid earnings growth point to rising stock prices**
- **Signs of market overheating faded in Q1**

Advance purchases due to tax hike



** three months moving average*
Source: Bloomberg, Raiffeisen RESEARCH

Market cooled down



** net, in billion Yen (4 week average)*
Source: Ministry of Finance, Bloomberg, Raiffeisen RESEARCH

Nikkei 225

Recommen-dation:*:	19-Mar[1]	Favourite sectors
Buy	14,463	Cons. discretionary IT

Forecasts

Jun-14	Sep-14	Dec-14	Mar-15
15,200	15,000	16,300	15,900
5.1%	3.7%	12.7%	9.9%

Range

Jun-14	Sep-14	Dec-14	Mar-15
13,800-15,600	14,500-15,800	14,500-16,700	15,000-16,500

[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 2nd quarter 2014*
Source: Raiffeisen RESEARCH

So far, the performance of the **Japanese equity market** has been poor this year. Due to the combination of appreciation for the yen, worries about economic slowdown in China, the upcoming VAT hike and the simmering geopolitical conflict between Ukraine and Russia, the Nikkei 225 has been one of the weakest performing developed market equity indices.

As for **economic developments**, Japan is now approaching a **tricky phase**. Because during the first year of the economic reform agenda the main focus was on less painful and more popular measures (economic stimulus packages, ultraexpansive monetary policy), but now policymakers have to get down to brass tacks, by increasing VAT. In view of the ratio of public debt to GDP of almost 240%, this measure is absolutely necessary in order for the country to get back on a sound budget path. However, there will also have to be further structural reforms going forward, for Japan to be able to permanently boost its level of potential growth. The increase in the consumption tax from 5% to 8% will occur in April and has led to positive economic effects from demand drawn forward (e.g. vehicle sales up by around 20% yoy on a three-month average). Nonetheless, going forward we expect to see clear signs of slowing, even though we **only forecast a temporary dip in demand.** If our expectations prove incorrect and there is significant damage to the economy, the central bank would likely react with another expansion of its monetary policy. Compared to the other major central banks, the monetary authorities in Japan will already be pursuing a much more expansive liquidity policy in 2014. In our view, this monetary policy approach will also function as the main driver for further depreciation of the yen during the year and is thus supportive for the performance of the equity market. The **earnings development** of the companies listed in the Nikkei 225 for 2013/2014 is impressive, as consensus is currently estimating growth of more than 60%. Due to the base effect, the performance will not be so overwhelming next year. Moreover, at the aggregate level, we already view margins as being quite high. In this regard, the mild acceleration of the wage-price spiral which is necessary to overcome deflation over the long run may limit the potential for further increases. Large industrial enterprises in particular appear to be accommodating the government and employees in spring wage negotiations, which have reached quite an advanced state. This notwithstanding, we still think that the overall market will manage **double-digit growth in earnings** against the backdrop of a weak yen. In terms of **valuations**, the Japanese equity market looks cheap compared to its own history, but compared to the MSCI World the market is trading at similar levels on the basis of a broad set of valuation multiples. Investor surveys show that Japanese equities have recently lost some appeal for portfolio managers. This **fading signs of overheating** is confirmed by the fact that non-resident investors were selling Japanese equities recently. With regard to the rest of the year, we believe that the Nikkei 225 will return to last year's upward trend, thanks to the ultraexpansive monetary policy, the related depreciation of the yen and further increases in corporate earnings. It should be noted, however, that our scenario does not envision any substantial escalation in the geopolitical conflict between Russia and Ukraine.

Financial analyst: Christian Hinterwallner

Clear focus on cyclical positioning

- **Consumer discretionary and financials are seen as strongest outperformer**
- **Energy and materials equally favored**
- **We see no room for outperformance for defensive sectors**

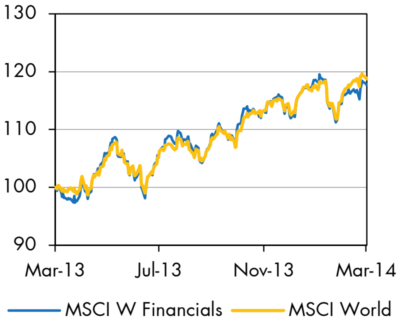
Taking a longer-term perspective, we maintain our reserved fundamental stance on **financials**. The challenges that have been often discussed (including the regulatory and interest rate environment) will continue to be issues in 2014. Nevertheless, as we do not expect to see any worsening of these problems in the coming weeks at least, we tend to have a positive view of the financial sector over the short-term, in the wake of the correction since mid-January, which was quite severe especially compared to the broader market. **Overweight**.
While the **consumer discretionary sector** was the strongest of all sectors last year in terms of price performance, it has been amongst the weakest this year so far, due to the growth worries in some of the Emerging Markets. Nevertheless, we expect to see outperformance by this sector again in the quarter ahead. This outlook is supported by our expectations of an acceleration in global economic performance, which should lead to further increases in earnings for these companies, which are already posting very robust profit figures. The only fly in the soup is the quite pricey looking valuations in some parts of the sector (e.g. cyclical retail, consumer services).**Overweight**.
The **materials sector** has recently been suffering because of the poor economic data coming out of China. Still, we believe that this sector now has the worst behind it. The efficiency enhancing measures which have been launched are starting to bear fruit and are also leading to improvements in profitability. Even though there continues to be oversupply for some commodities and this presents an obstacle to significant increases in prices, the market will likely have already discounted these kinds of negative effects. All in all, we thus expect to see above-average performance, thanks to the anticipated recovery in economic activity as 2014 progresses. **Overweight**.
The **energy sector** (oil and gas) continues to be shunned by investors. Various surveys of fund managers show that many are underweighted in this sector. It is possible, however, that better times are around the corner. Because companies have finally reacted to their badly inadequate cashflow generation, by scaling back investments, reducing operating costs, accelerating sales of assets and improving their allocation of capital (to use it in a more focused manner). **Overweight**.
Global **IT stocks** have been very strong in recent weeks. Equities from the field of social media in particular (especially Facebook) have reached staggering heights, which are no longer fundamentally justified in our view (bubble). The semi-conductor business, which we tend to favour, is doing very well these days, as a strong resurgence in demand is being felt after a couple of rather lacklustre quarters. The subsectors automotive and mobile (tablets, smartphones) continue to do well, and the industrial business – which has seen weak performance for quite some time – may generate some momentum in the months ahead. Conditions remain tepid in the hardware sector: while orders have improved a bit, this does not really look like a real bona-fide upturn (macro-economic recovery). In general, the sector's valuation has increased recently and is now just a bit higher than its historical average. However, given our positive market assumptions we expect further upside for this sector. **Overweight**.
For several months now, leading economic indicators in the major industrialised countries have been suggesting an improvement in economic conditions and

Sector performance

MSCI World	Q1 until 19-Mar 14	5y yoy*
Health care	5.9%	17.8%
Utilities	5.2%	3.9%
IT	1.5%	18.1%
Materials	0.2%	9.3%
MSCI World	0.0%	14.6%
Financials	-0.8%	14.4%
Energy	-1.3%	8.7%
Cons. Dicretionary	-1.5%	22.6%
Industrials	-1.8%	18.2%
Consumer Staples	-1.9%	14.4%
Telecom	-3.6%	8.4%

** five-year annual return of MSCI World sectors*
Source: Thomson Reuters, Raiffeisen RESEARCH

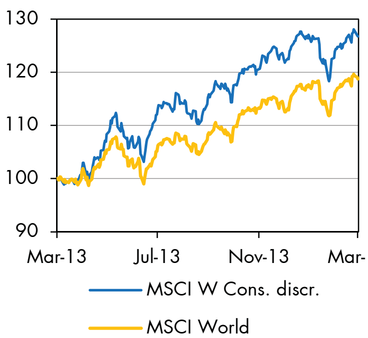
MSCI World Financials



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Financials	15/01/2014	95.09
MSCI World	06/03/2014	1,198.90
5y low	**Date**	**Price**
MSCI W Financials	11/03/2009	40.80
MSCI World	11/03/2009	556.95

MSCI World Consumer Discretionary



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
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5y low	**Date**	**Price**
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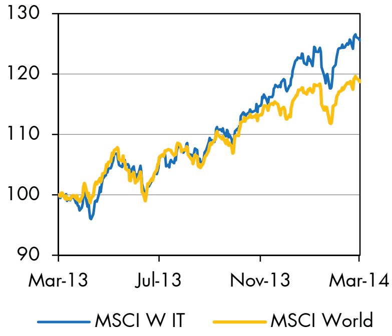
MSCI World	11/03/2009	556.95

Raiffeisen RESEARCH

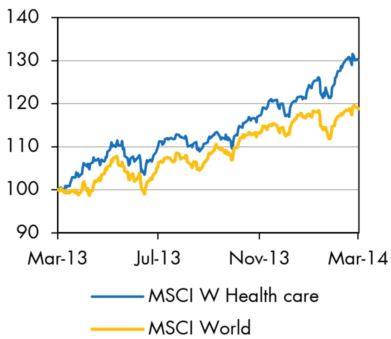
MSCI World IT



Source: *Thomson Reuters, Raiffeisen RESEARCH*

5y high	Date	Price
MSCI W IT	06/03/2014	119.69
MSCI World	06/03/2014	1,198.90
5y low	**Date**	**Price**
MSCI W IT	11/03/2009	48.29
MSCI World	11/03/2009	556.95

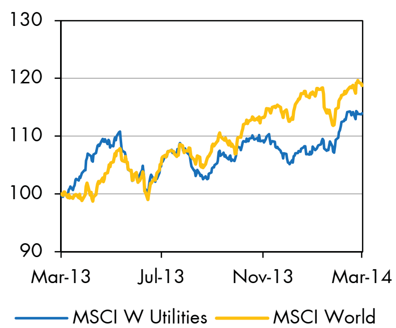
MSCI World Health care



Source: *Thomson Reuters, Raiffeisen RESEARCH*

5y high	Date	Price
MSCI W Health care	04/03/2014	173.22
MSCI World	06/03/2014	1,198.90
5y low	**Date**	**Price**
MSCI W Health care	11/03/2009	71.86
MSCI World	11/03/2009	556.95

MSCI World Utilities



Source: *Thomson Reuters, Raiffeisen RESEARCH*

5y high	Date	Price
MSCI W Utilities	29/12/2009	109.51
MSCI World	06/03/2014	1,198.90
5y low	**Date**	**Price**
MSCI W Utilities	11/03/2009	85.21
MSCI World	11/03/2009	556.95

the overall environment for **industrials**. Only China is a striking exception in this regard. Corporate spending may pick up again in the quarters ahead, thanks to the outlook for rising corporate earnings and improvement in financing conditions. The current low interest rate environment acts as an additional incentive. **Overweight**.

Due to the high penetration rate, we expect competition to remain intense in the **telecommunications sector,** and the development of sales should continue to stagnate as a result. Furthermore, there is a new push to abolish roaming fees in the EU: the industrial committee of the European Parliament passed the package of legislation in Brussels. In April, the package may be approved at the plenary session of parliament in Strasbourg. Nonetheless, an agreement has yet to be reached with the Council of Ministers, according to which roaming fees would then be abolished from 15 December 2015. The M&A merry-go-round continues to spin (e.g. takeover of the Spanish firm Ono by Vodafone). New investments also weigh on performance (e.g. expansion of the LTE network, frequencies, etc.). **Underweight**.

The relative strength of **utilities** early in the year was more a result of the low cyclicality of this sector, rather than any fundamental factors. Due to surplus capacities and market distortions resulting from preference for renewable energies, the earnings prospects still look bleak. Moreover, the more profitable futures contracts from previous years are no longer in place and new supply contracts are being concluded at far lower prices. While balance sheet cleaning has progressed quite a bit (writedowns of power plants without adequate utilisation), this process still continues. Dividend cuts are still the order of the day. **Underweight**.

The results of the **health care** sector for Q4 were mixed. The negative performance in currencies in the Emerging Markets had a severe impact on the major pharmaceutical groups. Nevertheless, the outlook was very conservative for most companies. For some companies this immediately resulted in lower share prices. On the whole, however, the sector performed quite well again. In light of the relatively high valuation levels, we have become cautious and consequently we expect sub-average performance. **Underweight**.

In retrospect, the reporting season for stocks in the **consumer staples sector** for the fourth quarter can be seen as average. Still, companies in this sector are not saying much about the outlook and are sceptical about the occurrence of a sustainable economic recovery. Due to the steadily high pressure from competition, the loss of support from price components and the sluggish improvement in the Emerging Markets, only minor progress is expected in organic sales growth. Improvements in gross profit margins (declines in material costs, cost-cutting programmes) are contrasted with higher expenses on advertising, which suggests that the increase in operating profit margins will only be marginal. We are also very sceptical about the currency developments in some countries, as these may seriously undermine sales performance for some companies. Thus, we continue to expect that this sector's performance will fall short of the average, based on the above factors. **Underweight**.

Financial analysts: Christian Hinterwallner, Christine Nowak

China: Bound or no bound to the growth target?

- **Economy continues to slow**
- **Weaker currency in its new, old role as economic support**
- **Stock market performance projected to be mildly positive**

During the first two months of the year, the pace of activity in the **Chinese economy was considerably more subdued than expected**. Industrial production expanded at a rate of 8.6% yoy (consensus: 9.5% yoy), retail sales grew by 11.8% yoy (consensus: 13.5% yoy) and fixed asset investment increased by 17.9% yoy (projection: 19.4% yoy). Weak performance was seen throughout the economy, with heavy industry suffering from the reduction of surplus capacities and light industry from the sluggish consumption, despite rising incomes. Another persistently negative factor is the government's savings campaign, which is not expected to change in the near future.

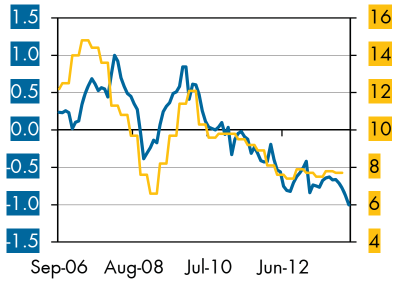
Early in the month, this year's economic growth target was again set at **"around 7.5% yoy"**, with the government stressing that it is also willing to accept a somewhat slower pace of growth. In the meantime, the central bank has announced that it intends to lower the minimum reserve requirements for banks in the event that growth trended below 7.5% yoy towards 7% yoy. In our opinion, this was probably mainly aimed at calming down the markets following the publication of some poor economic data. Thus, only if the economic situation continues to deteriorate seriously, one can expect to see some easing of monetary policy. Curbing credit growth and transactions in the shadow banking sector continue to be the government's priorities. Consequently, the **pace of deceleration in Q2 should ease somewhat, but the Chinese economy will likely continue to slow down**, in our view.

In this regard, however, **the currency may play a new or rather an old role**. After having been on a trend of appreciation for quite some time, the Chinese central bank deliberately depreciates the CNY, originally with the goal of preventing inflows of speculative capital and, hence, to alleviate appreciation pressure prior to further reforms. However, the continuous strengthening of the CNY had also reduced China's international competitiveness somewhat. Thus, a weaker currency will also be **beneficial for exports**. According to the official line, market forces are at play and the currency shows volatility in both directions. But along with the intraday chart, which shows weakening of 0.10%-0.20% almost every day at the beginning of trading, the low money market rates also suggest massive liquidity from non-sterilised FX interventions. As a side effect of sorts, the **tighter monetary policy conditions are thus being eased to a certain degree**. We do not think that the central bank will change its new course so quickly, even though the appreciation pressure on CNY is significant due to fundamental aspects (positive current account and capital account balances).

The **Chinese stock market** was hindered significantly by the economic slowdown in the past quarter. Despite the still low valuation (in comparison to its own history and the equity markets in the developed markets) with a PER of 7 and the projected earnings growth of 9.2% yoy, sentiment will probably remain muted, due to the sluggish economy. With an eye to the low level of the HSCE index, we expect to see a **mildly positive performance**.

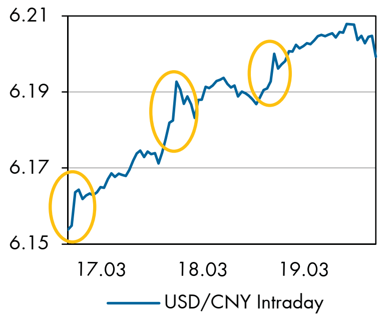
Financial analyst: Judith Galter

Weak economy to continue



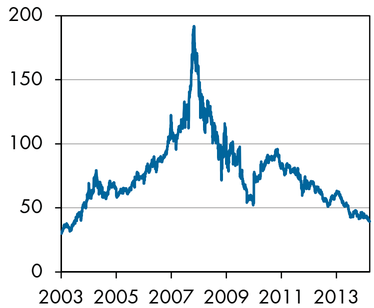
**scaled between +1 and -1; detailed description in "China Economic Indicator" from February 20, 2014.*
Source: Thomson Reuters, Raiffeisen RESEARCH

Targeted depreciation at trading start



5y high: 6.04 , 5y low: 6.84; Source: Bloomberg

Equities historically cheap*



** PER HSCE Index to PER MSCI World*
Source: Bloomberg

Forecasts

China	2012	2013	2014e	2015f
GDP	7.8	7.7	7.0	7.3
CPI	2.7	2.6	3.0	3.2
	24-Mar[1]	Jun-14	Sep-14	Mar-15
USD/CNY	6.19	6.28	6.15	6.00
Key rate	6.00	6.00	6.00	6.00
HSCE	9,361	9,650	10,200	10,800

[1] 11:59 p.m. CET closing prices on the respective main stock exchange
Source: Thomson Reuters, Raiffeisen RESEARCH

India leads against Brazil

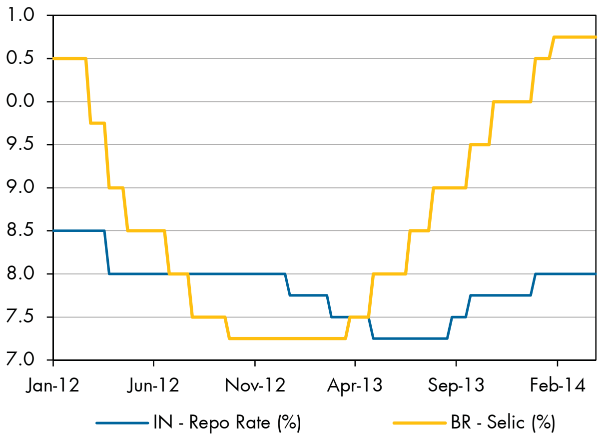
- **India: Q2 to be dominated by elections**
- **Brazil: World Cup to bring mild positive impetus**
- **Positive performance in Q2; India still showing better performance**

Forecast

	current	Jun-14	Sep-14	Dec-14	Mär.14
Sensex	21,832.86	23,000	23,500	24,000	24,500
Bovespa	46,567.23	48,200	49,800	51,500	52,000

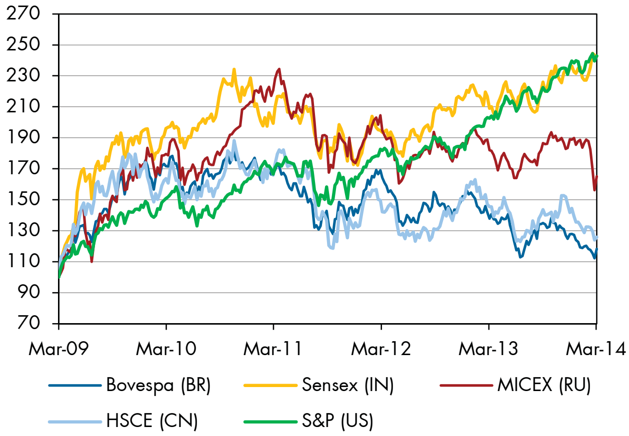
Source: Raiffeisen RESEARCH

Interest rate hikes higher in Brazil



Source: Thomson Reuters

India a clear outperformer*



** 20 March 2009 = 100*
Price indices in LCY
Source: Thomson Reuters

While the **Brazilian stock market** continued to struggle with losses in Q1 2014, the **Sensex** was able to build on and consolidate its good performance from 2013. India's efforts to address its structural problems (e.g. current account deficit) seem to have put investors in a good mood. In Brazil, on the other hand, one gets the impression that while the structural problems have been recognised, there is little inclination on behalf of economic policymakers to do anything about them. Furthermore, in order to check the rise in inflation interest rates were increased significantly in Brazil (+325bp), which hinders investment activity and thus also the performance of the stock market. The Indian central bank also attempted to get a grip on inflation by raising interest rates, but did so much less aggressively (+75bp). Another aspect is that there are efforts to liberalise the economy in India, which are also having a benign effect on the stock market and are able partially to compensate for the higher interest rates.

Indian companies did quite a bit better in 2013 compared to their Brazilian counterparts. On the whole, **earnings** in India increased by 6.4%, with sales up 12.4% on the previous year. With these results, Indian firms beat the expectations by a small margin. While the companies listed in the Bovespa recorded an increase of 6.0% in sales, their earnings fell by 9.0% and thus disappointed the expectations.

For the coming quarter, India should continue to post better performance than Brazil. The difference, however, will probably be smaller than it was recently. In India, the main focus in the weeks ahead will be on the general elections, with the results scheduled to be released on 16 May. While uncertainty about the outcome might unsettle market developments a bit, the upbeat global economic situation is more likely to have a stronger impact.

According to opinion polls, the largest opposition party (BJP) is currently in the lead. Surveys also indicate that in order to form a stable government the largest party in Parliament will need the support of many smaller regional parties. If the elections lead to a government which is more unstable than the current one, brief setbacks might occur. In the event of a positive surprise, increases in prices will not be all that pronounced.

The performance of the Brazilian stock market will continue to depend in part on the Chinese stock market and commodity prices, and towards the end of the second quarter, the mood will probably be positive thanks to the World Cup.

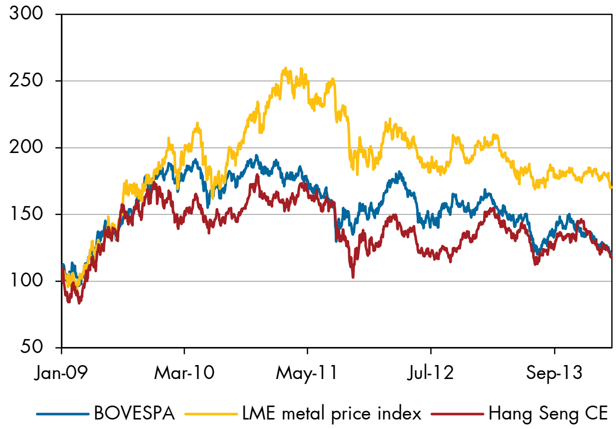
In terms of technical valuations, the numbers currently tend to favour Brazil. For 2014, the Bovespa shows a PER of 9.4, whereas the Indian PER is 16.3. Corporate earnings should come in at 7.5% in India this year, compared to 11.5% in Brazil. While the Bovespa looks attractive compared to its own historical track record, the valuation of the Indian market is average.

There is a risk, however, that the positive impact of the World Cup has been overestimated in Brazil and that earnings will be revised lower as a result, and thus we expect the Bovespa to put in a slightly weaker performance than the Sensex for the second quarter. All in all, we recommend a Buy for both of these equity markets, with any eye to the expected performance of +3.5% for the Bovespa and +5.0% for the Sensex. However, escalation of the geopolitical risks (cf. Russia-Ukraine) could lead to a deterioration in sentiment and thus trigger brief declines in prices. Over the medium term though, we see the negative implications as being relatively mild.

In general, India would be more strongly impacted by tough sanctions on Russia. An increase in the oil price would push the current account deficit up, leading to higher inflation and a weaker currency. In that kind of scenario, India's equity market would suffer much more than Brazil's. While the currency and rate of inflation in Brazil would also be affected by a higher oil price, the ramifications would not be as strong.

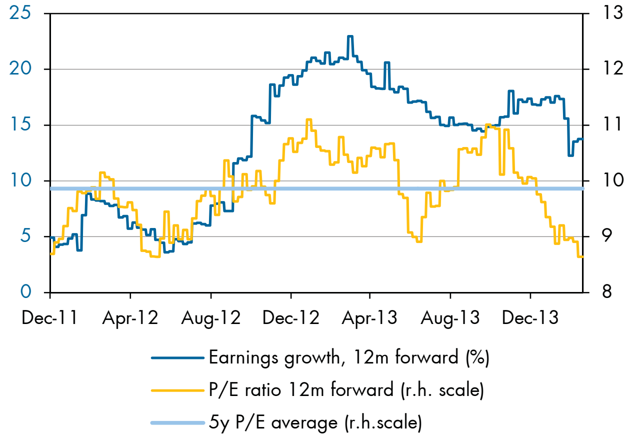
Financial analyst: Nina Neubauer-Kukic

Brazil depends heavily from China and commodities



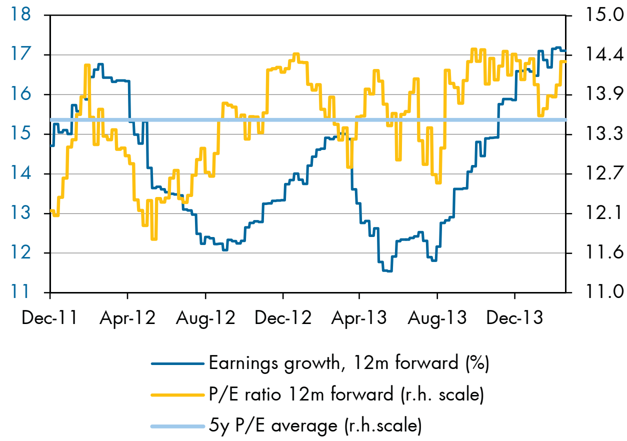
** 1 January .2009 = 100*
Price indices in LCY
Quelle: Thomson Reuters

Brazil with cheap valuation



Source: Thomson Reuters

India with average to expensive valuation



Source: Thomson Reuters

Raiffeisen RESEARCH

Bond- markets: leg Down Ahead

EUR/USD

Last: 1.3832

As long as the upward-trend at 1.3420 is intact bullish confirmation at the trend-high 1.3967 followed by an increase towards 1.4000 and 1.4400 and is expectable. The current correction might allow for the downward-potential to unfold towards 1.3600 – 1.3560. A bearish signal at the Rectangle (yellow-blue) at 1.3325 would indicate a further decline towards 1.3000 if not 1.2300.

Long -> 1.4000 – 1.4300
Stop 1.3315 -> 1.3070 – 1.2300

Data as of 19 March 2014, 7:15 p.m. CET

EUR/USD

5y high: 1.6038, 5y low: 1.1875
AR ... arithmetic scale
Source: Thomson Reuters, Raiffeisen RESEARCH

US T-Note Future

Last: 124-24

The rolling-gap will again be about two points of width and thus the price is not tending to leave the neutral range, e.g. 123-10 – 127-04. This range is well usable for swing trading, but with regard to the per se bearish hint the gap gives we pay attention to its lower barrier being 122-18. The upper one, i.e. 122-18, still should be kept an eye on anyhow.

Sell 122-18 -> 120-00 – 118-00
Buy 128-20 -> 131-02

Data as of 19 March 2014, 6:12 p.m. CET

US. T-Note Future

5y high: 135-29 , 5y low: 111-12
AR ... arithmetic scale
Source: Thomson Reuters, Raiffeisen RESEARCH

EUR Bund Future

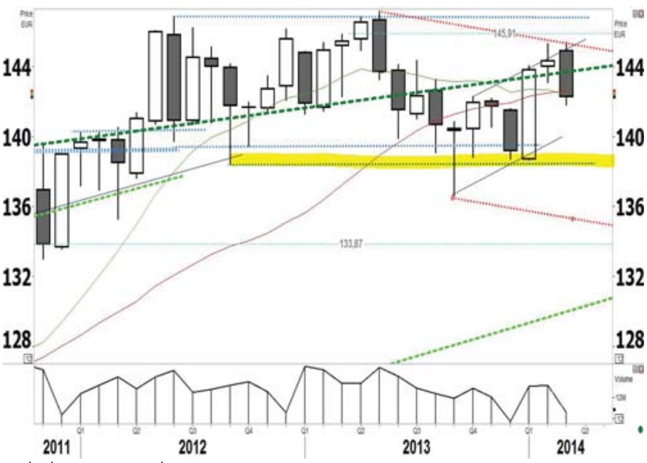
Last: 142.96

The T-Note's gap will take its toll on the Bund and to in below of the moving averages, e.g. 140.25. In case this support fails to provide just that a drop towards 138.00 and maybe even 136.60, the current consolidation pattern's low would follow suit. With the latter a plunge to 130.00 would get indicated, but in else: in case 140.25 would prove firm, a buy with targets 145.45 – 148.00 should be recommendable instead.

Sell 139.75 -> 136.60 – 130.00
Buy 144.05 -> 145.45 – 148.00

Data as of 19 March 2014, 7:57 CET

EUR Bund Future



5y high: 147.20 , 5y low: 109.65
AR ... arithmetic scale
Source: Thomson Reuters, Raiffeisen RESEARCH

Financial analyst: Robert Schittler

Please note the risk notifications and explanations at the end of this document

Stock Markets: Topping patterns or congestion areas?

Dow Jones Industrial Future

5y high: 16,535, 5y low: 6,464
AR ... arithmetic scale
Source: Bloomberg, Raiffeisen RESEARCH

Dow Jones Industrial Future

Last 16,204 Position: long
Target 16,740 – 17,000

The support area between 15,100 and 15,200 has held the last test in February, but the upcoming weakness close to the trend high at 16,400 points to the establishment of a Double-Top. In addition, the divergence to the RSI indicates bearishness; hence, chances for a decrease through 15,100 to 14,570 are enhanced. However, for now, long positions should be kept due to the fact that only a break of 15,200 would provide a bearish confirmation.

Data as of 20 March 2014, 2:38 p.m. CET

DAX 30 Future

5y high: 9,802.50, 5y low: 3,588.50
AR ... arithmetic scale
Source: Bloomberg, Raiffeisen RESEARCH

DAX 30 Future

Last 9.195 Position: neutral

The bounce back at the resistance line of the bullish trend channel has led to the establishment of a sideways pattern which resembles a Double Top. According to this, for the next two months a decrease towards the uptrend-line at 8,200 is expectable. Though, the support at 9,000 has held, but a bearish scenario would be more likely due to the strong downside momentum.

Data as of 20 March 2014, 3:18 p.m. CET

NASDAQ 100 Future

5y high: 3,740.25, 5y low: 797.00
AR ... arithmetic scale
Source: Bloomberg, Raiffeisen RESEARCH

NASDAQ 100 Future

Last 3,690 Position: long
Target 3,870– 3,950

The breakout from the trend channel and the valid supports point to the increase's continuation for the long run. Although, the possibility of a setback to the support area at 3,480 is not off the table, the lower panel depicts increasing trend strength. As a consequence, such a pullback should solely compensate the strong upside extension of the past months, thus it would provide an opportunity to add to long positions.

Data as of 20 March 2014, 2:40 p.m. CET

Financial analyst: Stefan Memmer

Risk notifications and explanationsen

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator of the future results and development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for the future results and development of a financial instrument, a financial index or a securities service.

Technical analyse

Methodological notes

- The analyses and recommendations in this publication are based on principles and methods which are derived from technical analysis. In this respect, the future course of a time series is mainly derived from its past development, which does not necessarily reflect a cause and effect relationship, and does not take into consideration aspects from fundamental analysis and may be contrary to such aspects.
- The “long-term analysis” pertains to a horizon of 3 months, whereas the “short-term analysis” pertain to the development of the time series until the next publication date, usually a period of one week.
- The analysis included for each chart includes a description of the so-called “technical” situation of the time series in question. This should be taken as a purely discretionary interpretation of the analyst, which is based on publications from the professional literature on technical analysis. Accordingly, a probable scenario is postulated from the pattern of the time series analysed, using the technical indicators derived from such pattern. This scenario is purely hypothetical and the recommendation which is “based” on the occurrence of this scenario is expressed by the “Buy” or “Sell” recommendation in the bar to the left of the description. Thus, Buy and Sell recommendations are based on hypothetical conclusions. To a certain extent, a Stop level indicates the non-occurrence of the outlined scenario and can thus be understood as an alternative scenario.

A description of the concepts and methods which are used in the preparation of financial analyses can be found at:

www.raiffeisenresearch.at/conceptsandmethods

Detailed information on sensitivity analyses (procedure for checking the stability of the assumptions made in this document) can be found at: *www.raiffeisenresearch.at/sensitivityanalysis*

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Stock market indices

Financial instruments	Date of the first publication
Euro STOXX 50	26/02/1998
DAX 30	01/04/1993
FTSE 100	01/04/1993
SMI	01/04/1993
S&P 500	01/04/1993
Nasdaq Comp.	01/07/1998
DJIA	01/04/1993
Nikkei 225	01/04/1993
HSCEI	01/01/2007
Sensex 30	30/06/2008
BOVESPA	30/06/2008

Distribution of recommendations of the past three months	
Recommendation	Base: all analysed stock market indices
Buy	66%
Hold	28%
Sell	6%

Recommendation history (12m)

Date	Euro STOXX 50	DAX 30	FTSE 100	SMI	S&P 500	Nasdaq Comp.	DJIA	Nikkei 225	HSCEI	Sensex 30	BOVESPA
22/03/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Sell	Buy	Buy	Buy
10/05/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I	I	I
07/06/2013	I	I	I	I	I	I	I	Buy	I	I	I
20/06/2013	I	I	I	I	I	I	I	I	Buy	Sell	Sell
08/08/2013	I	I	I	I	I	I	I	I	I	I	Buy
13/09/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I	I	Buy	I
08/11/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	I	I	I	I
07/11/2013	I	I	I	I	I	I	I	I	I	Sell	I
15/11/2013	I	I	I	I	I	I	I	Hold	I	I	I
13/12/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I	I	I
20/12/2013	I	I	I	Hold	I	I	Hold	Hold	I	Buy	Sell
17/01/2014	Hold	Hold	Hold	I	Hold	Hold	I	I	I	I	I
14/02/2014	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	I	I	I

Financial instruments	Date of the first publication
MSCI Sektoren	01/01/2004

Distribution of recommendations of the past three months	
Recommendation	Base: all analysed stock market indices
Overweight	60%
Underweight	40%

Date	MSCI World Energy	MSCI World Materials	MSCI World Industrials	MSCI World Cons. discretionary	MSCI World Cons. Staples	MSCI World Health care	MSCI World Financials	MSCI World IT	MSCI World Telecommunication	MSCI World Utilities
22.03.2013	↑	↑	↑	↑	↑	↓	↑	↑	↓	↓
14.05.2013	↑	↑	↑	↑	↓	↑	↓	↑	↓	↓
21.06.2013	↑	↓	↑	↑	↓	↓	↓	↑	↓	↑
18.09.2013	↑	↑	↑	↑	↓	↓	↓	↑	↓	↓
12.11.2013	↑	↓	↑	↑	↓	↑	↑	↑	↓	↓
20.12.2013	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓

Overweight ↑ *Underweight* ↓

Credit

Financial instruments	Date of the first publication
EN00 (Eur Corp. Bonds IG)	2003
HEAF (Eur Corp. Bonds HY)	2003
EBXS (Eur Fin. Senior)	2003
EBSU (Eur Fin. Sub.)	2003

Distribution of recommendations of the past three months	
Recommendation	Base: all analysed credit market indices
Buy	0%
Hold	50%
Sell	50%

Recommendation history (12m)

Date	EN00	HEAF	EBSX	EBSU
21/3/2013	Buy	Buy	Sell	Sell
20/6/2013	Neutral	Neutral	no change	no change
17/9/2013	Sell	Sell	no change	no change
19/12/2013	no change	no change	no change	no change
20/3/2014	Neutral	Neutral	Neutral	Neutral

Technical analyse

Financial instruments	Date of the first publication
EUR Bund Future	01/05/1995
U.S.T.-Note Future	01/05/1995
Nasday 100 Future	07/04/2000
DAX 30 Future	07/04/2000
DJIA Future	07/04/2000
Eurostoxx Future	07/04/2000

Distribution of recommendations of the past three months	
Recommendation	Base: all analysed financial market indices
Bullish	50%
Neutral	39%
Bearish	11%

Recommendation history (12m)

Date	EUR Bund Future	U.S.T.-Note Future	Nasdaq 100 Future	DAX 30 Future	DJI Future	Eurostoxx Future
17/03/2014	NEUTRAL	I	I	BULLISH	I	I
07/03/2014	BEARISH	I	I	NEUTRAL	I	I
10/02/2014	I	NEUTRAL	I	I	I	I
31/01/2013	BULLISH	I	I	I	I	I
17/01/2014	I	BULLISH	I	I	I	I
14/01/2014	NEUTRAL	I	I	I	I	I
10/01/2014	I	BEARISH	I	I	I	I
23/12/2013	BEARISH	I	I	I	I	I
06/12/2013	I	NEUTRAL	I	I	I	I
29/11/2013	I	BULLISH	I	I	I	I
13/09/2013	I	I	I	I	I	I
16/08/2013	I	I	I	I	I	NEUTRAL
02/08/2013	I	I	I	I	I	BULLISH
28/06/2013	I	I	BULLISH	BULLISH	BULLISH	I
21/06/2013	I	I	NEUTRAL	NEUTRAL	NEUTRAL	I
10/05/2013	I	I	BULLISH	I	I	I
28/03/2013	I	I	NEUTRAL	I	I	NEUTRAL
21/03/2013	I	I	BULLISH	BULLISH	BULLISH	BULLISH

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