Financial Markets Global Strategy

3rd quarter 2014

Monetary policy at the crossroads

- Fed on the brakes, ECB hits the gas
- Sustained demand for corporate bonds
- Equity markets still look the better choice
- EM equity markets close the gap

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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 ... investmentgrade
HY ... High-Yield
bp ... basis points
pp ... percentage 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

Euro area economy uneven, new ECB monetary easing cycle

- **Mixed performances early in the year reveal strengths and weaknesses in the Euro area**
- **No Stage 3 sanctions assumed to be imposed in the Russia-Ukraine conflict**
- **Risk appetite driving equity and bond prices**

All in all, GDP growth for the Euro area during the first quarter was disappointing, with a rate of +0.2% qoq. While positive trends continued in Germany and Spain, there was weakness in France and Italy. After a recovery in the spring, we continue to project a modest acceleration of economic growth during the second half of the year, with the high point coming in 2015. Surveys of companies and consumers support this assumption. Nevertheless, due to the poor start to the year, we have decided to revise our 2014 GDP projections for the Euro area down from 1.5% to 1.2% yoy. Germany on the other hand has good chances of seeing growth stronger than our forecast figure, and will continue to be an economic engine, thanks to robust domestic demand. Economic activity in the USA has bounced back from the weather-induced setback in Q1, and the emerging markets should also exhibit more momentum again during the second half of the year. By the end of 2014, it should become clear that the worries about deflation in the Euro area were exaggerated. Nevertheless, declining prices for food and energy have resulted in the headline rate of inflation (0.5% yoy) falling below the core rate of inflation (0.8% yoy). Despite rates slowly starting to rise again, inflation will remain well below the ECB's target until 2016. By contrast, inflationary pressure has picked up tangibly in the USA since the spring, and the rate of consumer price increases has advanced past 2% yoy since May, as a result of the robust labour market conditions.

Impact on monetary policy

Even though the Federal Reserve was only grudgingly willing to talk about inflaationary pressure at its last meeting in June, the US monetary authorities will not be able to ignore this subject going forward. When the bond purchase programme ends in the autumn at the latest, there will start to be discussions about increases in the key interest rates in the United States. In order to prevent a negative impact on inflation expectations, the Fed will have to set out its position. It will be difficult for it to avoid raising interest rates during the first half of 2015 if GDP growth rates are ranging at more than 3% by then. In contrast to this, for the foreseeable future the European Central Bank (ECB) will remain on a path of historically low interest rates of around 0%, accompanied by additional extraordinary measures to boost liquidity.

Impact on the currency markets

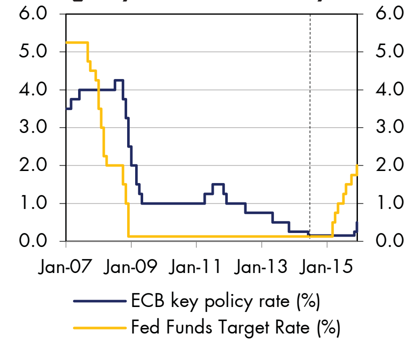
Starting from the second half of the year, the widening (interest rate) divergence between the US and the European central bank will start to benefit the US dollar. Weakening of the euro will result in a persistently strong CHF at the current level.

Impact on the capital markets

The second half of the year should be characterised by mildly increasing yields in the USA and broadly steady yields in Europe. In the emerging markets, the reversal of the trend in the direction of falling yields should be finished. Corporate bonds are trading at historical highs and are overvalued from a medium-term perspective. Investments in equities should be carried out very selectively during the summer months, which are traditionally a risky time for corrections. Taking a longer-term investment horizon, in addition to the European markets, the EM stock markets may also become attractive again. Our cyclical sector stance remains broadly unchanged.

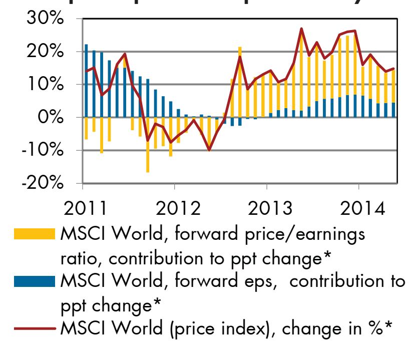
Financial analyst: Peter Brezinschek

Divergency US-Fed & ECB key rates



Source: Fed, ECB, Raiffeisen RESEARCH

Multiple expansion a price catalyst



** yoy*
Source: Thomson Reuters, Raiffeisen RESEARCH

Recommendations*

Stock markets:	
Buy	Euro STOXX 50, DAX, Nikkei 225, HSCEI, Bovespa, SENSEX
Hold	SMI, Nasdaq Comp., Dow Jones Industrial, FTSE 100, S&P 500
Sektoren:	
Overweight	Materials, Consumer Staples, Industrials, Energy, Consumer Discretionary
Underweight	Health care, Utilities, Telecommunication, Financials, IT
Corporate bonds:	
Neutral	Non financials, financials

** horizon: end of 3rd quarter 2014*
Source: Raiffeisen RESEARCH

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

GDP (real % yoy)

Countries	2012	2013	2014e	2015f
Austria	0.9	0.3	1.3	2.1
Germany	0.9	0.5	1.8	2.5
France	0.4	0.4	0.7	1.8
Belgium	-0.1	0.2	1.5	2.3
Netherlands	-1.3	-0.8	0.7	2.1
Finland	-1.0	-1.2	0.1	1.5
Ireland	0.2	-0.3	2.0	3.0
Italy	-2.4	-1.8	0.5	1.5
Spain	-1.6	-1.2	1.5	2.0
Portugal	-3.2	-1.4	0.9	2.0
Greece	-7.0	-3.9	0.0	2.0
Euro area	**-0.6**	**-0.4**	**1.2**	**2.0**
GB	0.2	1.8	3.1	2.6
Switzerland	1.1	2.0	2.0	2.0
USA	**2.8**	**1.9**	**2.5**	**3.2**
Japan	1.4	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	1.5	1.8
Germany	2.1	1.6	1.0	2.0
France	2.2	1.0	1.0	1.3
Belgium	2.6	1.2	0.9	1.5
Netherlands	2.8	2.6	0.5	1.2
Finland	3.2	2.2	1.0	0.7
Ireland	1.9	0.5	0.6	1.3
Italy	3.3	1.3	0.5	1.0
Spain	2.4	1.5	0.3	0.9
Portugal	2.8	0.4	-0.1	0.8
Greece	1.0	-0.9	-1.5	-0.5
Euro area	**2.5**	**1.4**	**0.8**	**1.3**
GB	2.8	2.6	2.1	2.8
Switzerland	-0.7	-0.2	0.4	1.1
USA	**2.1**	**1.5**	**1.9**	**2.2**
Japan	0.0	0.4	2.6	1.2
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	2.4	2.7	2.9	2.4
Germany	7.4	7.5	7.0	6.5
France	-2.1	-1.3	-1.5	-1.7
Belgium	-1.9	-1.6	-1.7	-2.0
Netherlands	9.5	10.9	11.0	10.0
Finland	-1.4	-1.1	-1.2	-0.8
Ireland	4.4	6.6	7.0	7.2
Italy	-0.4	0.8	1.5	1.4
Spain	-1.2	0.8	0.7	0.6
Portugal	-2.0	0.5	0.4	0.3
Greece	-3.4	0.7	1.3	1.2
Euro area	**1.4**	**2.4**	**2.5**	**2.0**
GB	-3.7	-4.4	-3.5	-3.0
Switzerland	9.6	13.0	13.0	11.0
USA	**-2.7**	**-2.3**	**-2.6**	**-2.9**
Japan	1.1	0.7	0.5	1.5
China	2.2	2.3	2.1	1.6

Source: Thomson Reuters, Raiffeisen RESEARCH

General budget balance (% of GDP)

Countries	2012	2013	2014e	2015f
Austria	-2.6	-1.5	-2.6	-1.2
Germany	0.1	0.0	0.0	0.0
France	-4.9	-4.3	-3.8	-3.3
Belgium	-4.1	-2.6	-2.6	-2.8
Netherlands	-4.1	-2.5	-2.8	-1.8
Finland	-1.8	-2.1	-2.3	-1.3
Ireland	-8.2	-7.2	-4.4	-3.0
Italy	-3.0	-3.0	-2.5	-2.0
Spain	-10.6	-7.1	-5.4	-5.0
Portugal	-6.4	-4.9	-4.6	-2.5
Greece	-8.9	-12.7	-1.6	-1.0
Euro area	**-3.7**	**-3.0**	**-2.5**	**-2.3**
GB	-6.1	-5.8	-5.5	-4.5
Switzerland	-0.2	0.1	0.3	0.5
USA	**-7.0**	**-4.1**	**-3.0**	**-2.6**
Japan	-8.7	-9.3	-8.4	-7.4
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	74.4	74.5	80.5	78.8
Germany	81.0	78.4	77.3	74.5
France	88.7	91.0	93.1	93.5
Belgium	101.1	101.5	101.7	101.5
Netherlands	71.3	73.5	73.8	73.4
Finland	53.6	57.0	59.9	61.2
Ireland	117.4	123.7	121.1	119.3
Italy	127.0	132.6	135.2	133.3
Spain	86.0	93.9	99.7	102.2
Portugal	124.1	129.0	129.6	126.8
Greece	157.2	175.1	177.2	174.0
Euro area	**90.7**	**92.6**	**93.7**	**93.1**
GB	89.1	90.6	91.8	93.0
Switzerland	46.5	46.2	46.0	45.8
USA	**103.2**	**100.5**	**102.4**	**101.4**
Japan	216.5	224.6	229.6	231.8
China	14.9	15.4	14.8	14.0

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 (n)	AAA (s)
Ireland	Baa1 (s)	A- (p)	BBB+ (s)
Italy	Baa2 (s)	BBB (n)	BBB+ (s)
Spain	Baa2 (p)	BBB (s)	BBB+ (s)
Portugal	Ba2 (p)	BB (s)	BB+ (p)
Greece	Caa3 (s)	B- (s)	B (s)
GB	Aa1 (s)	AAA (s)	AA+ (s)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	Aa3 (s)	AA- (n)	A+ (n)
China	Aa3 (s)	AA- (s)	A+ (s)

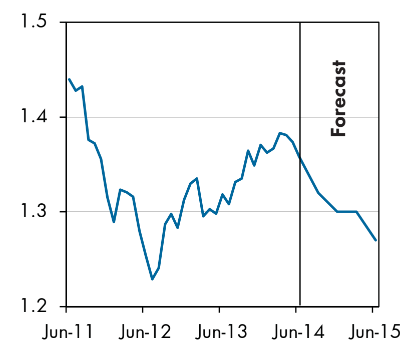
Outlook: p = positive, n = negative, s = stable
Source: Bloomberg

Currencies: FX per Euro

	current	Forecast			
Countries	20-Jun 14[1]	Sep-14	Dec-14	Mar-15	Jun-15
GB	0.80	0.79	0.78	0.77	0.76
Switzerland	1.22	1.22	1.22	1.23	1.25
Japan	139	135	134	138	137
Sweden*	9.15	8.92	8.85	8.77	8.70
Norway*	8.33	8.11	8.06	8.02	7.97
USA	1.36	1.32	1.30	1.30	1.27
China	8.45	8.22	8.00	7.87	7.62

[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

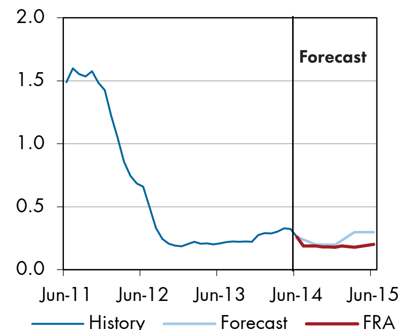
Please note the risk notifications and explanations at the end of this document

Money market rates 3M (%)

Countries	current 20-Jun 2014[1]	Forecast Sep-14	Dec-14	Mar-15	Jun-15
Euro area	0.21	0.20	0.20	0.30	0.30
GB	0.55	0.60	0.90	1.20	1.50
Switzerland	0.01	0.00	0.00	0.00	0.00
Japan	0.13	0.10	0.10	0.20	0.20
USA	0.23	0.30	0.45	0.70	1.20

[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 20-Jun[1]	Forecast Sep-14	Dec-14	Mar-15	Jun-15
DE	0.04	0.1	0.1	0.2	0.4
Switzer-land	-0.05	-0.1	0.0	0.0	0.1
Japan	0.09	0.1	0.1	0.1	0.2
USA	0.47	0.6	0.8	1.2	1.6

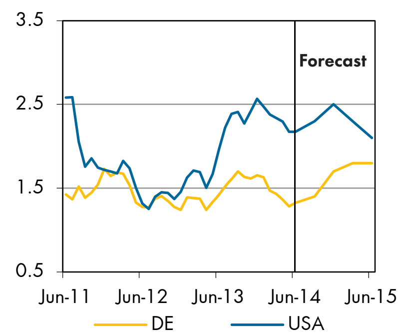
[1] 5:00 p.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

Government bond yields 5Y (%)

Countries	current 20-Jun[1]	Forecast Sep-14	Dec-14	Mar-15	Jun-15
DE	0.40	0.5	0.7	0.9	1.2
Switzer-land	0.16	0.2	0.3	0.5	0.7
Japan	0.18	0.2	0.2	0.3	0.3
USA	1.71	1.9	2.3	2.5	2.8

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

Yield spread 10Y - 2Y



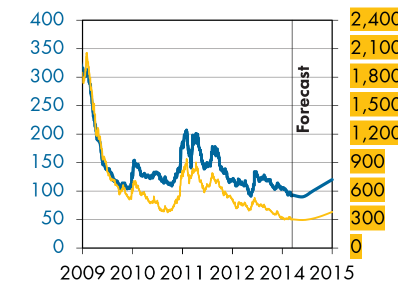
DE: 5y high: 2.440 , 5y low: 1.067
USA: 5y high: 2.907, 5y low: 1.180
Source: Thomson Reuters, Raiffeisen RESEARCH

Government bond yields 10Y (%)

Countries	current 20-Jun 2014[1]	Forecast Sep-14	Dec-14	Mar-15	Jun-15
Austria	1.66	1.8	2.0	2.2	2.4
Germany	1.35	1.5	1.8	2.0	2.2
France	1.69	1.8	2.1	2.2	2.4
Italy	2.84	2.6	2.7	2.8	3.0
Spain	2.74	2.5	2.6	2.7	2.8
GB	2.77	2.9	3.2	3.6	3.8
Switzerland	0.71	0.8	0.9	1.1	1.2
Japan	0.58	0.6	0.7	0.8	0.8
USA	2.63	2.9	3.3	3.5	3.7

[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 20-Jun[1]	Forecasts Sep-14	Dec-14	Mar-15	Jun-15
IG Non-Fin	92	90	100	110	120
High-Yield	299	295	310	340	380
Financials Senior	82	80	100	110	120
Financials Subord.	183	180	210	230	250

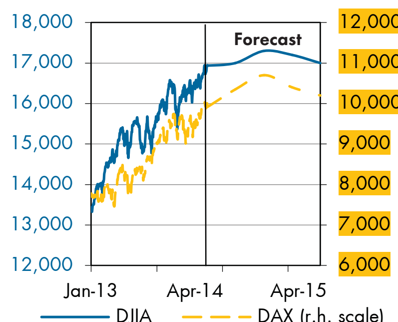
[1] 11:59 p.m. CET closing prices
** Option Adjusted Spread over Bund (in bp)*
Source: Thomson Reuters, Raiffeisen RESEARCH

Stock markets

	current 20-Jun 2014[1]	Forecasts Sep-14	Dec-14	Mar-15	Jun-15
Euro STOXX 50	3,302	3,430	3,550	3,450	3,400
DAX 30	9,987	10,350	10,700	10,400	10,200
FTSE 100	6,825	7,000	7,200	7,100	7,000
SMI	8,702	8,900	9,200	9,100	9,000
DJIA	16,947	17,000	17,300	17,200	17,000
S&P 500	1,963	1,990	2,030	2,030	1,980
Nasdaq Comp.	4,368	4,480	4,650	4,630	4,500
Nikkei 225	15,349	16,000	16,500	16,700	15,900
Hang Seng CE	10,395	10,800	11,200	10,900	11,100
Bovespa	54,638	58,000	59,500	57,200	60,000

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

Dow Jones Industrials and DAX

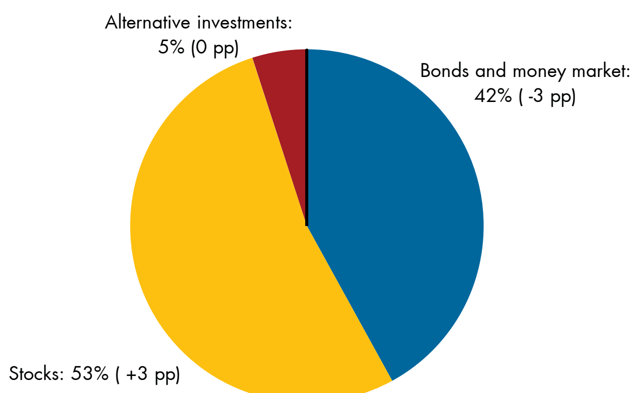


DJIA: 5y high: 16,947, 5y low: 8,147
DAX: 5y high: 10,029, 5y low: 4,573
Source: Thomson Reuters, Raiffeisen RESEARCH

Equities moderately overweighted

- **Monetary policy continues to support asset prices**
- **Yields on "risk-free" bonds expected to increase**
- **Geopolitical hotspots as risk factors**

Portfolio weighting: overview



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

The economic upswing in the USA and the fledgling recovery in much of Europe were not the only reasons for the **stronger demand for risky assets** such as equities in the past few months. Another key factor was the accommodating monetary policy of some central banks, with the ECB recently announcing further easing measures for example (see our Special focus). We expect that these measures will continue to support asset prices over the medium term.
Despite the ongoing conflicts, for instance in Ukraine and in the Middle East (Iraq, Syria), volatility on the established equity markets is at very low levels in historical terms.

Nevertheless, one must keep in mind that **the most important US and European indices have advanced quite far already** and that one important source of liquidity is being scaled back (tapering by the US Fed). Furthermore, some valuations are now higher than the long-term average. Consequently, for the third quarter, we only expect to see mild gains for the equity markets on the whole.

Performance asset allocation*

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

Turning to the **bond segment**, we project that yields will begin to rise towards the end of the year, in particular for "safe-haven" securities such as 10-year Bunds and Treasuries, provided that there is no escalation of the geopolitical conflicts.

All in all, based on risk-reward considerations, we rank **equities higher than bonds over a horizon of six to twelve months**. This is reflected in our decision to weight the equity segment at 53 pp and the bond segment at 42 pp. The position in alternative investments (real estate) remains unchanged at 5 pp.

Financial analyst: Stefan Theußl

Portfolio weighting in detail

Bonds and money market 42% (-3 pp)*			Stocks 53% (+3 pp)*			Alternative investments 5% (0 pp)*	
EMU-bonds	26.2%	↑	Europe	31.1%	↓	Real Estates	100.0%
USA	26.2%	↑	USA	28.3%	↓	Hedge Funds	0.0%
Rest of Europe	0.0%	↔	Asia	14.2%	↑		
Eastern Europe	14.3%	↑	Eastern Europe	7.5%	↓		
Eurobonds	7.1%	↑	Emerging Markets	18.9%	↑		
Euro-corporate bonds	9.5%	↓					
Asia	0.0%	↔					
Money Market	16.7%	↓					
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

ECB's monetary policy supports carry trades

- **CEE bonds look interesting for carry trades**
- **Corporate bonds feature narrow spreads and pricey valuations**
- **Cash holdings will remain high, due to the medium-term outlook for rising yields**

Due to monetary easing in the euro area, we believe that **carry trades** will remain **interesting** for a longer period of time. As we expect stable currencies in the CEE region and CEE bonds offer attractive remuneration, we have increased the share of CEE in our portfolio's bond segment to 14.3%. The diversification effect is also increased by the weak correlation of CEE currencies with the USD/EUR exchange rate. We finance this position with a lower weighting in euro corporate bonds, which offer lower spreads than government bonds from the CEE region. Furthermore, we do not anticipate any more strong performance by corporates, due to the high valuations. As a result, we weight them at just 9.5%.

As one of the main global currencies, we leave the weighting of USD unchanged at 26.2%. Nevertheless, due to the combination with corporate bonds and Eurobonds, the **focus continues to be on the euro area** (euro area/Raiffeisen bonds: also 26.2%). In this regard, spreads in the euro area periphery are expected to continue narrowing. Eurobonds continue to offer slightly higher interest levels and are thus suited for carry trades as well. Furthermore, diversification is supported by the low correlation to the bond markets in the main currencies. We weight them at 7.1%. Due to the expectations of **an increase in yields over the medium term,** we leave the money market share at the relatively high level of almost 17%.

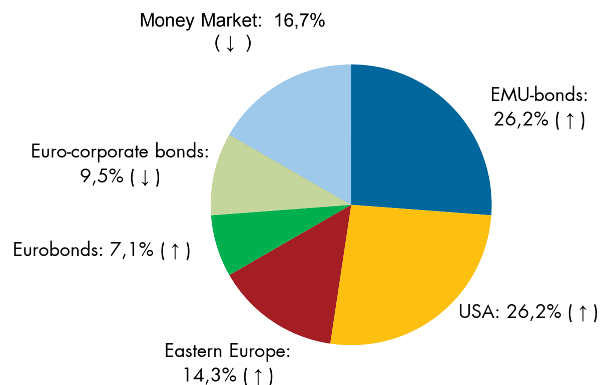
Financial analyst: Judith Galter

Historical Performance

	01-Jan until 20-Jun 14	5y yoy*
Euro area	6.6%	18.1%
US-Treasuries	4.2%	17.4%
Japan	5.8%	15.9%
CEE-Bonds	3.7%	19.6%
EB-CEE USD	8.0%	21.5%
EB-CEE EUR	4.9%	20.7%
IG Non-Fin	4.9%	19.0%
IG Fin	4.3%	19.4%
HY Non-Fin	5.7%	25.6%

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

Bond portfolio Q3 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	0.91	0.84	0.13	0.57	0.45
Euro corporate bonds IG Non-Fin		1.00	0.98	0.44	0.49	0.57
Euro corporate bonds IG Fin			1.00	0.56	0.45	0.62
Euro corporate bonds HY				1.00	0.05	0.45
US-Treasuries					1.00	0.32
CEE-Bonds						1.00

** historical, last 12 months; IG … Investmentgrade, 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	-1.2	-1.2	-3.5	-3.5	-4.9	-4.9	-6.1	-6.1
Euro corporate bonds IG Non-Fin	-0.1	-0.1	-1.7	-1.7	-3.2	-3.2	-5.2	-5.2
Euro corporate bonds IG Fin	0.0	0.0	-1.7	-1.7	-2.9	-2.9	-4.5	-4.5
Euro corporate bonds HY	0.6	0.6	-0.7	-0.7	-2.6	-2.6	-5.2	-5.2
US-Treasuries	0.8	-2.1	-0.6	-5.0	-1.6	-5.9	-0.1	-6.7
CEE-Bonds	0.8	0.6	-0.6	-1.0	-1.9	-2.8	-2.4	-3.2

** not annualised; IG … Investmentgrade, HY … High Yield, LCY…local currency*
Source: Raiffeisen RESEARCH

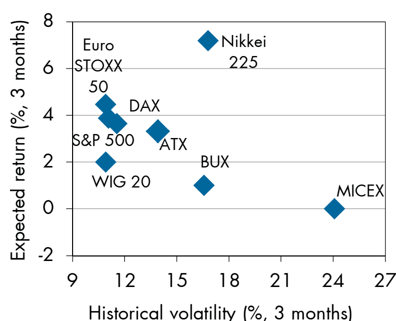
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

Focus on Europe

- **From the developed markets, European stocks are preferred**
- **US performance only expected to be modest, as valuations build up**
- **Stabilisation in the emerging markets (EM) following a longer period of underperformance**

Risk-return (%)



*in EUR
Source: Thomson Reuters, Raiffeisen RESEARCH

Correlations

	S&P 500	Euro STOXX 50	Nikkei 225
ATX	0.39	0.70	0.30
DAX	0.58	0.91	0.38
FTSE 100	0.70	0.74	0.52
Nikkei 225	0.63	0.43	1.00
Euro STOXX 50	0.62	1.00	0.43
S&P 500	1.00	0.62	0.63
SMI	0.63	0.79	0.38
MICEX	0.46	0.57	0.37
WIG 20	0.23	0.53	0.18
BUX	0.26	0.41	0.25
Emerging Markets	0.41	0.54	0.42

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

In the equity segment, our **strongest weighting** in the developed markets is reserved for **European equities**. The ECB's easing measures should provide additional impetus for the economic recovery, and valuations are still slightly more modest than in the USA. As a European investor, we have thus weighted the domestic market at 31.1% in our portfolio. We weight the somewhat less volatile US equities at 28.3%. as we only expect mildly positive performance by these assets in the quarter ahead, due to the rise in valuations in recent weeks.

The performance of the Japanese stock market depends strongly on country-specific fundamental factors and only shows weak correlation to the other developed markets, as a result of which it is particularly suited for diversification. This market continues to enjoy support from the robust rates of earnings growth and prospects that pension funds may increase their holdings of equities. Consequently, we weight Asia at 14.2% in our portfolio.

EM are profiting from signs of stabilising economic activity in China and hopes of structural improvements in India and Brazil. This has led to solid performance recently, and this trend should continue. In particular, the valuations of Chinese stocks look attractive. We thus weight the EM region at 18.9%. Stocks in the **CEE region** should profit from the acceleration of economic activity in the euro area, but there is a **risk of elevated volatility**, following the strong rebound as the Ukraine crisis was priced out. We weight CEE at 7.5%.

Financial analyst: Judith Galter

Expected stock market performance (%)*

	3M		6M		9M		12M	
	EUR	LCY	EUR	LCY	EUR	LCY	EUR	LCY
Euro STOXX 50	3.9	3.9	7.5	7.5	4.5	4.5	3.0	3.0
Germany	3.6	3.6	7.1	7.1	4.1	4.1	2.1	2.1
GB	3.8	2.6	8.1	5.5	8.0	4.0	7.9	2.6
Switzerland	2.1	2.3	5.5	5.7	3.5	4.6	0.7	3.4
Japan	7.2	4.2	11.4	7.5	9.4	8.8	5.0	3.6
S&P 500	4.5	1.4	8.2	3.4	8.2	3.4	8.0	0.9
Russia	0.0	2.3	3.5	6.3	5.5	9.7	5.6	9.0
Poland	2.0	1.5	7.4	5.6	12.0	8.8	10.0	6.8
Czech Republic	2.2	1.7	7.5	6.5	10.4	9.4	8.4	7.5
Hungary	1.0	2.4	5.0	8.2	5.5	8.7	2.9	7.6
Brazil	4.0	6.2	7.2	8.9	1.7	4.7	8.0	9.8
China	6.8	3.9	13.9	7.7	12.7	4.9	18.4	6.8

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

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

Economic recovery continues to suggest a cyclical stance

- **Cyclical stance preferred for Q3 as well**
- **Materials, consumer discretionary, industrials, energy and consumer staples should see above-average performance**
- **Health care, utilities, telecommunications, financials and IT are underweighted**

In the period since 20 March 2014, the **RBI sector portfolio** posted an underperformance of 3.0bp compared to the benchmark. On the one hand, this was due to the underweighting of consumer staples (-5.7bp), utilities (-4,4bp) and consumer discretionary (-3.9bp). On the other hand, the overweighting of IT did not generate the desired contribution (-0.8bp). This poor performance was compensated to some degree by the overweighting of the energy sector and the underweighting of the pharmaceuticals industry.

Overweighting/underweighting

Due to the ongoing economic recovery in combination with the very low interest level we expect more positive support for the equity markets.

The portfolio has a predominantly **cyclical stance** again for the third quarter, with the total deviation from the benchmark amounting to 1,280bp.

The strongest overweighting is still on the materials sector, at 230bp. This is supported by the economic rebound in the USA and the stabilisation of economic activity in China on the one hand, and the sector's recent sub-average performance on the other. Consumer discretionary should also profit from the acceleration in economic activity, and we thus weight this sector strongly at 180bp. We weight the sectors industrial and energy somewhat stronger, at 120bp and 90bp, respectively. We opt for a mild overweighting of consumer staples on the order of 20bp. The positions most strongly underweighted for the third quarter are health care (-200bp) and utilities (-190bp). While the utilities sector is suffering from the falling earnings posted by European index constituents, health care has little potential for price gains over the short run, due to a lack of earnings momentum. With regard to financials, we maintain our reserved position and opt for a significant underweighting this time, at -100bp. The telecom sector (-130bp) is also expected to produce sub-average performance.

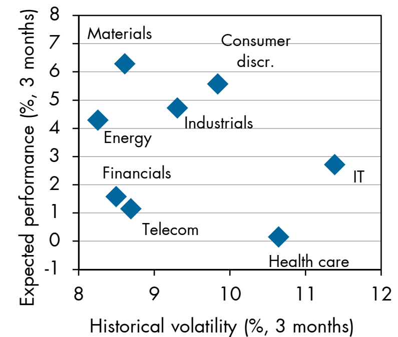
Financial analyst: Manuel Schuster

Top 10 industry performance Q1 2014 (in %)

		Q1 until 20-Jun 14	5y yoy*
1	Energy	15.5%	23.0%
2	Hardware	12.1%	24.1%
3	Semiconductors	12.0%	26.6%
4	Food, beverage & tobacco	11.7%	27.3%
5	Real estate	9.9%	25.7%
6	Utilities	8.6%	20.2%
7	Transportation	8.3%	26.8%
8	Automobiles	8.0%	26.7%
9	Insurance	6.5%	25.2%
10	Household products	6.5%	25.7%

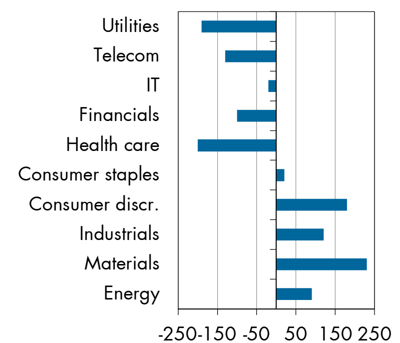
** five-year annual return*
Source: Thomson Reuters, Raiffeisen RESEARCH

Risk-return (in %)



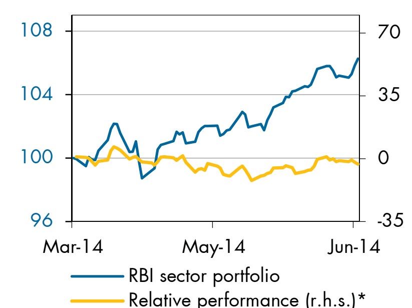
Source: Thomson Reuters, Raiffeisen RESEARCH

Over-/underweight sectors (in bp)



Source: Thomson Reuters, Raiffeisen RESEARCH

RBI sector portfolio



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

RBI sector portfolio

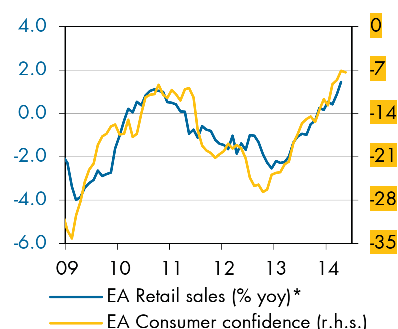
	2012	2013	since 20-Mar 14
Benchmark	16.0%	26.5%	6.3%
Portfolio	15.2%	26.7%	6.3%
Relative Performance	-0.8%	0.2%	-0.03%

Source: Thomson Reuters, Raiffeisen RESEARCH

Low inflation – No deflation

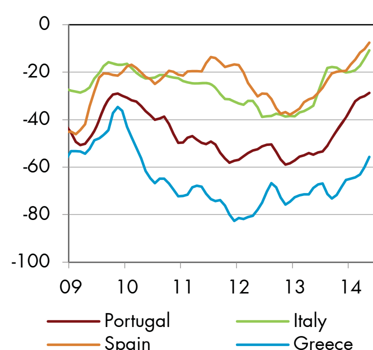
- **Recovery on track, despite a soft patch in Q1**
- **Unemployment falling in most countries**
- **Low rates of inflation are bolstering purchasing power – no postponement of consumption**

Noticeable improvement...



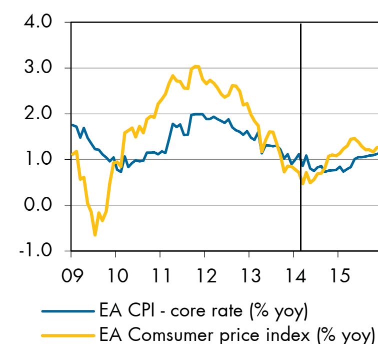
*3-month moving average
Source: Thomson Reuters, Raiffeisen RESEARCH

... also in Southern Europe*



*Consumer confidence, 3-month-moving average
Source: Thomson Reuters, Raiffeisen RESEARCH

Inflation rates remain low



Source: Thomson Reuters, Raiffeisen RESEARCH

On the whole, the data on real GDP were disappointing for the Euro area in Q1 2014. Although performances were quite strongly varied and were also influenced by weather-induced factors, the **economic recovery in the euro area** appears to be proceeding more sluggishly than had been anticipated. The modest gain of 0.2% qoq was based on positive developments in Germany and Spain and disappointing performances in the Netherlands, Portugal, Finland, Italy and France. Nevertheless, with the exception of Germany, it appears that there will be a substantial acceleration of economic dynamics in Q2. For 2014 as a whole, we now expect euro area GDP to expand by 1.2% in real terms. We remain optimistic about the prospects for 2015 and project a growth rate of 2.0%. Although hopes for growth are to a great degree still pinned on the export sector, there are also more and more factors pointing to the emergence of significant, broad-based momentum from domestic demand. Stronger business confidence and record-low interest rates are supporting a steady recovery in private investment activity. Furthermore, **consumer confidence has improved** a great deal recently. On the one hand, this is due to the developments in the **labour market** in Southern Europe, where rates of unemployment are now (slowly) falling. On the other hand, consumers are benefitting from the **rise in purchasing power** stemming from the low inflation.

Thus, there is a positive side to the extremely low or non-existent price pressures in many countries. To a great degree, this lack of inflationary pressure is due to **low energy and food prices** at the global level, both of which are positive factors for consumers. Furthermore, consumers in the euro area are profiting from the recent strength of the euro, which results in **falling import prices**. Additionally, in Southern Europe, the near-zero rates of inflation are also the result of a **return of price competitiveness**, i.e. "internal devaluation" due to falling unit labour costs (with the exception of Italy). Even though prices are declining for a large number of product groups in Southern Europe due to the aforementioned effects, according to the latest surveys consumers are not tending to postpone their purchases. Furthermore, there are no countries in which indicators such as wage growth and inflation expectations are pointing to a long-term deflationary environment. For example, there are no signs of declining wages in Italy. In Portugal, wages have probably now managed to turn around, and furthermore inflation expectations are also on the rise. In Greece, where the risk of deflation continues to be the most acute, has slowed noticeably the decline of wages and prices in the service sector. The data coming out of Spain in the months ahead should be followed a bit more closely, as inflation expectations are again declining and wages are stagnating.

Until 2016, the annual rate of **increase in the consumer price index** (CPI) for the euro area will be lower than the ECB's target of **just below 2%**, but will remain **well higher than 0%**. For the current year, we project inflation at 0.8% yoy and for 2015 we forecast a mild increase to 1.3% yoy.

Financial analyst: Eva Bauer

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

Weak start to year is forgotten

- **Economic activity speeds up quickly in the spring**
- **Good conditions on the labour market, unemployment rate at 6% by year-end**
- **Rising inflationary pressures, inflation rate well over 2% yoy in the course of 2015**

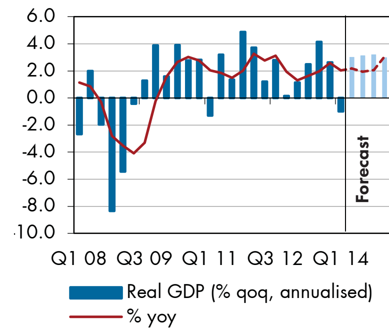
During the spring, the ISM index for manufacturing managed to almost completely bounce back from the weather-induced slump seen in January. The index was at 55.4 in May, clearly higher than the long-term average of 51.5 points. Sentiment in the service sector also improved recently, with this indicator climbing to 56.3 points in May. All in all, both of these indicators are currently signalling annualised real GDP growth of about 3% qoq. This roughly corresponds to the actual pace of economic growth which we expect to see for the rest of the year. **Tangible improvement also in labour market conditions.** May was the fourth month in a row with net job creation of more than 200K. The pace of the recovery on the labour market appears to have increased this year. The long-term upward trend in employment remains intact, and in the coming months net job creation should continue to average around 200K per month. Another positive point is the rate of unemployment, as there was no countermove following the steep drop registered in April. The rate remained stable at 6.3% in May. By year-end we expect a decline to 6%.

In its second estimate, the Bureau of Economic Analysis (BEA) announced that the annualised decline in real GDP for the first quarter had amounted to 1.0% qoq (flash estimate: +0.1% qoq). This poor result was mainly due to the combination of falling inventory investment (growth contribution of -1.6 pp) and the negative impact of net exports (growth contribution of -0.9 pp). The situation was exacerbated by the sharp drop in construction investment (growth contribution of -0.4 pp), due to the adverse weather. For the current quarter, the negative effects in inventory investment and foreign trade will not be repeated, and construction investment should see a strong gain as it bounces back. Along with another pronounced increase in private consumption expenditures, this should result in a strong increase in economic output. Our annual forecast of 2.5% for 2014, which was lower than the consensus estimate for a long time, may no longer be within reach due to the dismal start to the year. Based on our quarterly forecasts, we now estimate that economic growth will amount to just 2.1%, despite the **robust pick-up in business activity expected for the rest of the year**. Nevertheless, we are still waiting before making a downward revision. We think that it is highly likely that the growth rates for the previous quarters will be revised upwards overall, as a part of the annual benchmark revision by the BEA at the end of July. This is mainly suggested by the fact that for several quarters the development of labour market has been pointing to better economic performance than is reflected in the GDP data.

The rate of inflation rose to 2.1% yoy in May. In February, it was still at 1.1% yoy. All in all, **inflation accelerated more strongly in the spring** compared to what we had originally projected. By year-end, inflation will be around 2% yoy, before rising to well over 2% yoy in 2015. Consequently, we raise our 2014 inflation forecast to 1.9% yoy (from 1.5%).

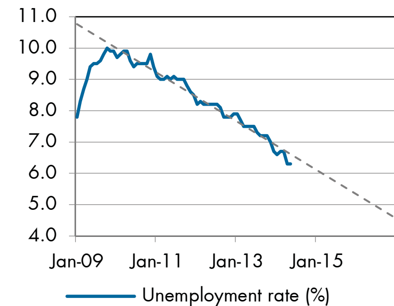
Financial analyst: Jörg Angelé

Business cycle



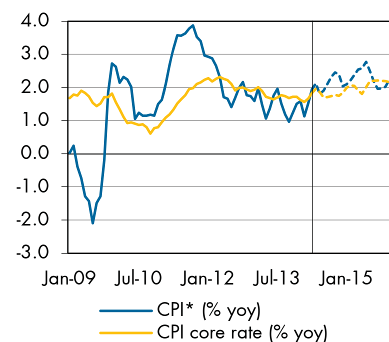
Source: Thomson Reuters, Raiffeisen RESEARCH

Unemployment rate declines



Source: Thomson Reuters, Raiffeisen RESEARCH

Inflationary pressures intensify



** Consumer price index*
Source: Thomson Reuters, Raiffeisen RESEARCH

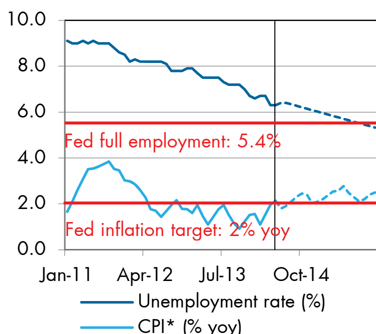
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

Central banks stay the course

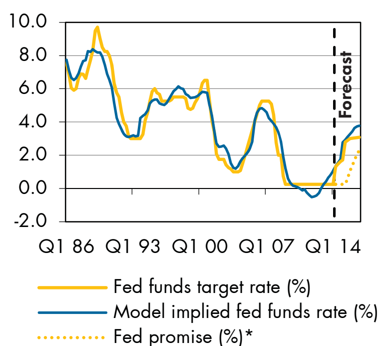
- USA: Fed reduces bond purchases in June by another USD 10 bn and end the programme altogether by autumn
- USA: Unemployment declining rapidly, inflationary pressure on the rise
- USA: Fed will probably hike rates before mid-2015, surprising the markets

Both Fed objectives met in 2015



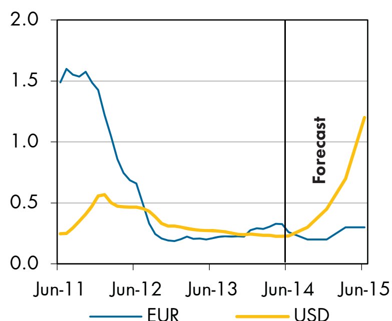
*Consumer price index
Source: Thomson Reuters, Raiffeisen RESEARCH

Fed already behind the curve



*first rate hike at mid-2015 the earliest
Source: Thomson Reuters, CBO, Raiffeisen RESEARCH

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

Key interest rate (%)

Countries	20-Jun[1]	Sep-14	Dec-14	Jun-15
Euro area	0.15	0.15	0.15	0.15
GB	0.50	0.50	0.75	1.25
Switzerland	0.01	0.00	0.00	0.00
Japan	0.10	0.10	0.10	0.10
USA	0.25	0.25	0.25	1.00

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

At its meeting of 18 June, the US central bank announced that from July it would reduce the volume of bond purchases by another USD 10 bn to a monthly amount of USD 35 bn. At the subsequent press conference, Chairwoman Janet Yellen confirmed that the plan was to completely end the bond purchases by the autumn. Furthermore, she once again stated that the key rate is to be left unchanged at the level of just over 0% until at least the middle of 2015.

We still have serious doubts that the Fed will be able to wait that long before actually increasing the key rate.

For a long time, the US central bankers justified the need for a long period of ultra-expansive monetary policy with the high level of unemployment. Back in June 2013, members of the monetary policy council (FOMC) assumed that the rate of unemployment would be around 6.7% towards the end of 2014. In actual fact, the rate had already fallen to 6.3% by April of this year. By mid-2015, we project the rate to be 5.7%. This would essentially represent full employment, which the FOMC members equate with a rate of around 5.5%.

As the argument of high unemployment has lost validity, the low rate of inflation and the minimal inflationary risks were recently cited more and more as the reasons for needing an extended period of ultra-expansive monetary policy. These arguments are also crumbling away now. For example, inflation has picked up tangibly in recent months, rising back to around 2% yoy, which corresponds to the central bank's target. Since this inflation is broad based and wages are likely to increase strongly thanks to the steep decline in the rate of unemployment in the quarters ahead, inflation is projected to rise well higher than 2% by mid-2015.

The **sustained improvement on the labour market and the mounting inflationary risks are resulting in more and more pressure on US central bankers** to at least distance themselves from their recent statements of no increases in key rate until at least mid-2015. It appears that some of the first members from the moderate wing of the FOMC are starting to warm to the idea that interest rates may have to be increased earlier than has been communicated up to now. In this regard, a presentation in early June by the President of the Federal Reserve Bank of St. Louis, James Bullard, deserves to be mentioned: Bullard demonstrated that the Fed was already very close to achieving its macro-economic goals of full employment and an inflation rate of 2% yoy, but that its monetary stance was still far from normal. From this, he draws the conclusion that interest rate hikes could occur sooner than recently postulated by the Fed. Bullard is seen as one of the moderate "doves" in the FOMC, and this makes his statements all the more interesting. It is possible that the council is in the process of rethinking its position and that the risks of continuing ultra-expansive monetary policy for too long are now no longer considered to be acceptable, in light of the rapid movement towards the Fed's macro targets.

Consequently, we stick to our assessment that key rates in the USA will be raised before mid-2015.

Financial analysts: Jörg Angelé

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

dt: beschleunigt expansive Maßnahmen

European Central Bank presses forward

- **Key rates reach the lower limit**
- **Negative interest rate on surplus liquidity pushes down money market rates**
- **Central bank in principle willing to try quantitative easing**

The direction of monetary policy of the European Central Bank (ECB) differs significantly from that of the US Fed. While the latter is now attempting to exit its ultra-expansive monetary policy, the ECB recently decided on a substantial set of additional measures. Moreover we expect that **a programme for purchasing asset-backed securities** will be added in the autumn. In principle, the central bank is even willing to move ahead with a wide-ranging general programme for the purchase of securities (**quantitative easing**). Nevertheless, we do not anticipate any further monetary policy easing using QE as we see a low probability of deflation in the Euro area.

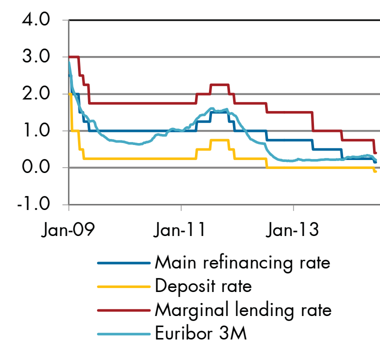
The interaction of liquidity and key interest rates is one of the determinants of the course of money market rates (Euribor). The lower boundary has essentially be reached for **key interest rates**. A new cycle of interest rate increases should start by the end of 2015. According to our models, the rate of inflation will still only be just over 1% yoy at that point, but the negative real interest rates will then no longer be adequate, in light of the robust economic activity which is projected. There will probably be a considerable delay between the first increase in interest rates by the ECB and the initial rate hikes of central banks in other developed markets. But in the past it has also been the case that central banks such as the US Fed or the Bank of England started their tightening cycles much earlier than the ECB.

Depending on the liquidity conditions in the banking sector, money market rates tend to be oriented to the deposit rate (high liquidity surplus), the main refinancing rate (balanced conditions) or the marginal lending rate (tight liquidity). With the end of weekly sterilisation operations, the recent surplus liquidity of around EUR 100 bn should rise to around EUR 265 bn again. A **negative rate of interest** on these unutilised funds **pushes money market rates lower along the entire maturity curve**.

With the three-year long-term refinancing operations (3Y LTRO) maturing in Q1 2015, banks will increasingly need to cover their short-term financing from other banks which are flush with liquidity. But of course, there is no pressure to exclusively use the money market for short term financing. With the extension of full allotment for refinancing operations and based on the new **targeted long-term refinancing operations**, which can replace the funds from the 3Y LTRO, access to central bank liquidity will remain easy until at least the end of 2016. As a result, **money market rates will be strongly oriented to the key interest rates** (= price of liquidity from the central bank). By Q1 2015, the impact of the negative interest rate on money market rates will fade as surplus liquidity is reduced. Lending on the interbank market will then be oriented more strongly to the main refinancing rate. All in all, we project **another small decline in money market rates during the coming weeks**. During the first quarter of 2015 money market rates should drift upwards slightly. A more tangible, sustained increase can only be expected when speculation about rate hikes emerges or when key rates are actually raised.

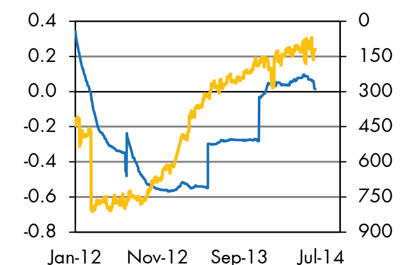
Financial analyst: Gottfried Steindl

Key rates vs. money market rate



Source: Thomson Reuters, Raiffeisen RESEARCH

Liquidity influences rates



** in percentage points*
Source: ECB, Thomson Reuters, Raiffeisen Research

Money market rate 3M (%)

	curr	Forecast					
	20-Jun[1]	Sep-14		Dec-14		Jun-15	
		Forc	Fwd	Forc	Fwd	Forc	Fwd
EUR	0.21	0.20	0.17	0.20	0.16	0.30	0.18
CHF	0.01	0.00	-0.03	0.00	-0.05	0.00	-0.04
USD	0.23	0.30	0.22	0.45	0.27	1.20	0.56
GBP	0.55	0.60	0.68	0.90	0.91	1.50	1.39
JPY	0.13	0.10	0.12	0.10	0.11	0.20	0.11

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

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

Increasing yields overdue on long-dated bonds

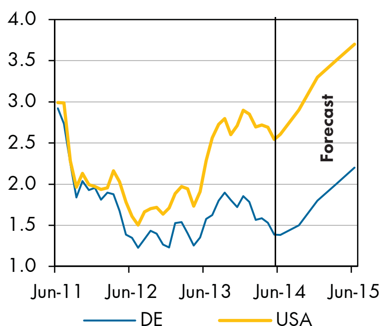
- **Euro area: Government bonds profiting from monetary policy**
- **Euro area: Spreads continue on a downtrend**
- **USA: Rising yields delayed for now, but sure to come**

Value matrix bonds

Markets	DE		US		JP	
GDP growth	3	(4)	4	(4)	4	(4)
Inflation	1	(1)	3	(2)	3	(2)
Budget	1	(1)	2	(2)	2	(2)
Currency	3	(3)	2	(2)	2	(2)
Politics	2	(1)	2	(2)	2	(2)
Short rates	1	(1)	2	(2)	2	(2)
Technical	2	(4)	4	(3)	2	(3)
Average	1.9	(2.1)	2.7	(2.4)	2.4	(2.4)

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	Sep-14	Dec-14	Jun-15
DE	1.2 - 1.7	1.4 - 2.0	1.8 - 2.7
USA	2.6 - 3.2	2.9 - 3.6	3.2 - 4.2
GB	2.6 - 3.4	2.7 - 3.6	3.1 - 4.0
Japan	0.5 - 0.9	0.5 - 1.0	0.6 - 1.2

Source: Raiffeisen RESEARCH

The **Euro area government bond market is being strongly influenced by monetary policy measures**. Surplus liquidity in the banking system and the generous access to central bank funds is **fostering strong investment in short-dated government bonds in particular**. As a result, the yield on 2-year German government bonds should remain stuck at their current level of just over 0% in the coming months. In addition, the prevailing speculation about quantitative easing (QE) by the European Central Bank (ECB) is helping to push down yields on government bonds with medium to long-term maturities. As soon as the hopes for QE begin to fade, we there should be a significant increase in yields for these segments of the maturity curve though. **Spreads** versus German bonds **should continue to decline**, especially for the previously crisis-stricken countries. Besides monetary policy, budgetary and economic improvements, rating upgrades and for Portugal and Ireland high liquidity buffers support this trend. Even though government bonds in former crisis countries will enjoy supportive conditions on the whole, there is a clear ranking on the basis of fundamental considerations: Ireland before Spain, Portugal and Italy, with Greece clearly bringing up the rear and still requiring international financial assistance (+ debt-reducing measures which may also impact private bondholders).

Yields on 10-year US government bonds have fallen by around 40bp since the beginning of the year. This is difficult to understand, especially considering the positive performance seen on the labour market in recent months. Furthermore, economic data have also been quite good on the whole since the spring. In addition to the above, inflationary pressure has increased since the spring as well. The latest annual inflation reading was 2.1% yoy, up from 1.1% yoy in February. As a result, there will be mounting pressure on the US central bank to cut back its ultra-expansive monetary policy more quickly. Against this backdrop, we stick to our forecast of rising yields. While it must be admitted that this prognosis was not correct for the first half of the year, we are convinced that the economic realities will eventually sink in on the bond markets. **An adjustment in market expectations about the monetary policy outlook of the US central bank could function as a trigger for some stronger increases in yields.** In our opinion, most market participants are currently underestimating the starting point and scope of interest rate normalisation.

Financial analysts: Jörg Angelé, Gottfried Steindl

Yields 10Y (%)

Countries	20-Jun 2014[1]	Sep-14 Forecast	Sep-14 Cons*	Dec-14 Forecast	Dec-14 Cons*	Mar-15 Forecast	Mar-15 Cons*	Jun-15 Forecast	Jun-15 Cons*
Austria	1.66	1.8	n.a.	2.0	n.a.	2.2	n.a.	2.4	n.a.
Germany	1.35	1.5	1.6	1.8	1.7	2.0	1.9	2.2	2.0
France	1.69	1.8	2.0	2.1	2.1	2.2	2.3	2.4	2.4
Italy	2.84	2.6	3.2	2.7	3.2	2.8	3.4	3.0	3.3
Spain	2.74	2.5	3.3	2.6	3.3	2.7	3.4	2.8	3.4
GB	2.77	2.9	3.0	3.2	3.2	3.6	3.4	3.8	3.5
Switzerland	0.71	0.8	1.1	0.9	1.2	1.1	1.3	1.2	1.4
Japan	0.58	0.6	0.7	0.7	0.8	0.8	0.9	0.8	0.9
USA	2.63	2.9	2.9	3.3	3.1	3.5	3.2	3.7	3.4

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

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

EUR/USD: Euro comes under pressure

- **Increasing divergence in the monetary policies of the Fed and ECB weighs on EUR**
- **EUR/USD 1.30 forecast for year-end**
- **GBP to enjoy stronger appreciation**

We started the year forecasting a **sideways movement in EUR/USD** within a historically rather narrow range around 1.35 in 2014 and so far this projection has been correct. Between January and June, the exchange rate fluctuated between EUR/USD 1.349 and 1.393. The yield differential between German and US 2-year government bonds continues to be the main determinant of the development of the exchange rate. In recent weeks, yields on 2-year US government bonds have increased to just about 0.5%, thanks to good economic data and a higher rate of inflation. Yields on their German counterparts actually sank slightly by contrast. The resulting widening in the yield differential has pushed the euro from EUR/USD 1.39 to 1.35. In the months to come, this yield differential should continue to widen: in light of the recent moves by the ECB, there is essentially no upward pressure on German yields, whereas an upward drift has continued in the USA. The euro will probably come under pressure, in particular when there is more intensive speculation about earlier rate hikes by the US central bank starting from this autumn. **For end-2014, we expect an exchange rate of EUR/USD 1.30.**

EUR/USD

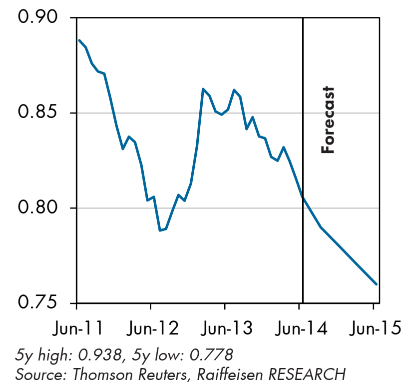
5y high: 1.509, 5y low: 1.193
Source: Thomson Reuters, Raiffeisen RESEARCH

GBP appreciation speeds up

During the last forecast period until June, the **British pound** moved in line with our forecast, trading around 81 pence to the euro. In recent days, the pace of appreciation picked up strongly. This was driven by the comments of central bank governor Carney, who made three important points: First, he acknowledged the pace of economic activity and the strong labour market, and said that the growth forecasts of the MPC may prove to be too low. Second, he stated that an initial rate increase could come more quickly than currently expected by the market, and third, he focused on the real estate market, expressing his worries about lending growth and a potential deterioration in balance sheets. We have no need to change our long-standing views (GBP strengthening due to expectations of rising interest rates), but we have increased the forecasts. We now expect to see an initial rate hike at the end of the year. The pound will profit even more strongly versus the euro, due to the widening spreads.

Financial analysts: Jörg Angelé, Lydia Kranner

EUR/GBP



5y high: 0.938, 5y low: 0.778
Source: Thomson Reuters, Raiffeisen RESEARCH

Currencies: FX per EUR

	20-Jun 2014[1]	Sep-14		Dec-14		Mar-15		Jun-15	
Countries		Forcast	Fwd*	Forecast	Fwd*	Forecast	Fwd*	Forecast	Fwd*
USA	1.36	1.32	1.36	1.30	1.36	1.30	1.36	1.27	1.36
Switzerland	1.22	1.22	1.22	1.22	1.22	1.23	1.21	1.25	1.21
Japan	139	135	139	134	139	138	139	137	138
GB	0.80	0.79	0.80	0.78	0.80	0.77	0.80	0.76	0.80
Norway**	8.33	8.11	8.37	8.06	8.40	8.02	8.42	7.97	8.45
Sweden**	9.15	8.92	9.16	8.85	9.17	8.77	9.18	8.70	9.19

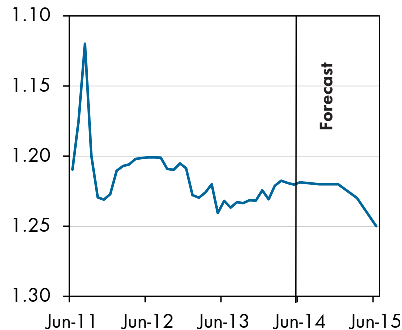
*[1] 5:00 p.m. CET   * Fwd...forward rates   ** Consensus estimates*
Source: Thomson Reuters, Raiffeisen RESEARCH

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

CHF still strong, JPY sideways for now

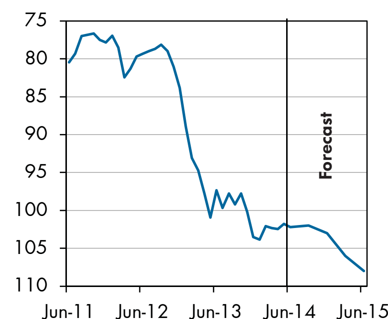
- **CHF determined by spreads**
- **Japan's economy heading for a setback**
- **JPY depreciation continues to be a topic**

EUR/CHF*



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

USD/JPY*



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

During the second quarter of this year, the Swiss currency once again remained in tight range of 1.225 to 1.213 to the euro.

While Ukraine risk is gradually fading, the **monetary policy easing by the ECB contributed to maintaining a strong Swiss franc**. While the SNB (Swiss National Bank) does not rule out negative interest rates to defend the intervention limit of 1.20 CHF to the EUR, we do not believe that it will actually take such a step. First of all, there is abundant liquidity in the market. Secondly, a significant growth differential to the Euro area has been building up (Swiss GDP in Q1: +2.0% yoy, +0.5% qoq); thirdly, some interest rates are already in negative territory in nominal terms.

The outlook for the Swiss franc will thus mainly be determined by the yield differential to German benchmark bonds. And due to the SNB's reserved approach, these will mainly be influenced by interest rate conditions in the Euro area. The more expansive the ECB is, the longer the turnaround in interest rates will be delayed, and thus the smaller the potential scope for the franc to weaken. As we have adjusted our forecasts for German yields downwards, we also alter our **EUR/CHF forecasts, which now call for sideways movement over the next 6 months and a substantially less significant weakening of the franc versus the euro over a one-year horizon**.

According to our analyses in the past, the **development of JPY versus USD** is mainly determined by the different monetary policy stance of the US Fed and the BoJ (Bank of Japan). The Japanese central bank continues to take an optimistic view of the economy, despite a deterioration in the economic data (VAT hike). Accordingly, we do not expect the BoJ to press forward with more QE before the fourth quarter, if this indeed turns out to be necessary. As a result, there should not be many issues which can function as a catalyst for the yen in the months to come. **Further weakening** will probably only be triggered by **a rate hike in the USA**, which however we do not expect to see prior to Q1 2015.

As a result, we adjust our JPY forecasts. Following a **decidedly flat movement** in the next few months, JPY depreciation versus USD should be considerably less pronounced over the medium term, compared to what was originally expected. There may even be **some mild appreciation versus the euro, due to our forecast of a weaker EUR/USD rate**.

Financial analyst: Lydia Kranner

Historical volatility FX

Countries	90 days	180 days
USA	4.39%	5.51%
GB	4.52%	5.58%
Switzerland	1.95%	2.33%
Japan	5.85%	6.89%
Norway	6.05%	6.50%
Sweden	5.82%	5.85%
Czech Republic	1.36%	5.90%

Annualised standard deviation
Source: Thomson Reuters, Raiffeisen RESEARCH

Value matrix FX

Markets	USD		CHF		GBP		JPY	
GDP growth	1	(1)	2	(2)	1	(1)	4	(3)
Short rates	2	(2)	4	(4)	2	(3)	4	(4)
Long rates	2	(2)	3	(3)	2	(2)	4	(4)
Credibility	2	(2)	1	(1)	3	(2)	3	(3)
PPP	2	(1)	3	(3)	1	(2)	2	(2)
Current acc.	3	(3)	1	(1)	3	(3)	3	(3)
Technical	3	(3)	2	(2)	2	(3)	3	(4)
Average	2.1	(2,0)	2.3	(2,3)	1.9	(2,3)	2.9	(3,3)

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

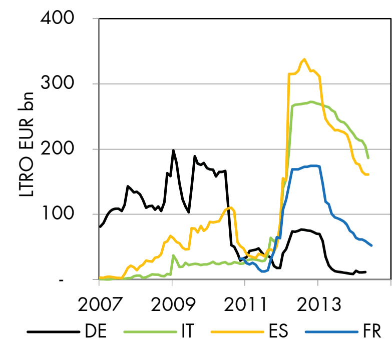
Please note the risk notifications and explanations at the end of this document

European banking system grows more resilient

- **New package of measures taken by the ECB may only have limited advantages for banks in Southern Europe**
- **New bank resolution rules benefit banks which have a solid position on a stand-alone basis**
- **ECB's assessment of banks' balance sheets should only play a minimal role in the pricing of senior bonds**

The individual components of the new package of **ECB measures** will have varying degrees of impact on the European banking sector. The negative deposit rate may bring additional advantages for peripheral banks. This is the case, because punitive interest rates generate more downward pressure on money market rates and on deposit and lending rates in core European countries, which ultimately brings the surplus liquidity in these markets to the crisis countries. The impact of the targeted long-term refinancing operation (TLTRO) is somewhat more difficult to assess. With full utilisation of the TLTRO it would be possible to tap into about EUR 400 bn to boost new net lending, but only about one third of this amount will be available to the banks in southern Europe. It is also questionable to what extent some of the Southern European banks will actually be able to extend new loans, with an eye to their capital position (in light of Basel III). Some of these banks currently have also their hands tied when it comes to lending, due to the ongoing balance sheet assessment being carried out by the ECB. Consequently, there could be a limited effect in terms of strengthening the banks in Southern Europe.

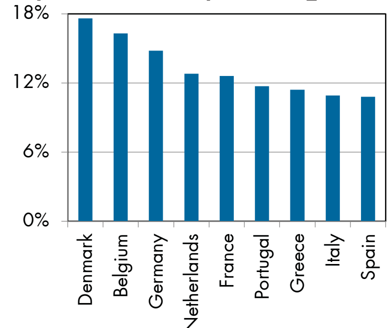
Long term refinancing operations*



** EUR bn, programs with 3 months to 3 years*
Source: Thomson Reuters, Raiffeisen RESEARCH

In our opinion, another important aspect is the **regulations on bank resolution** which were adopted in the second quarter. The Crisis Management Directive was published in the official journal of the European Union on 12 June 2014. A minimum of 8% of the total liabilities must be subject to the bail-in, before the banks can be assisted with funds from the resolution fund. As a result, factors such as the likelihood of support by the state and the central bank will become less important in assessing the risk profile of bank bonds. Naturally, the new bail-in conditions tend to have a weaker impact for bank bonds from countries which have had strict insolvency legislation up to now. Other differences result for example from the different encumbrance of balance sheets owing to the issue of covered bonds. The current reviews of ratings bring the subject of bail-in to the forefront.

Capitalisation Europ. banking land- scapes*

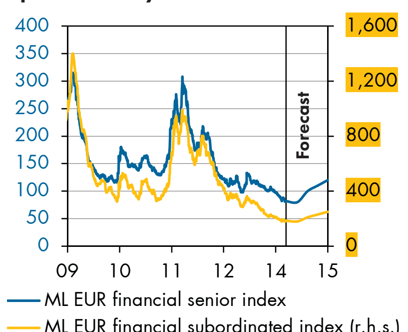


**Tier 1 Ratio 2013*
Source: Bloomberg

Last but not least, there is the topic of the "**assessment of European bank balance sheets**": While the ECB will only present the results of its review in October 2014, we expect that banks will identify potential deficits at an early stage in consultation with the ECB and may already take corrective measures. We presume that in the event there is a need to recapitalise banks if capital shortfalls are discovered, the EU rules on state aid will be applied. The bail-in rules and the participation of senior creditors in losses will only be applied later.

With a horizon of the next three months, our **general recommendation** for both segments (subordinated, senior bank bonds) is **Hold**. Taking a horizon of the next 12 months, our recommendation is **Sell**. Nevertheless, we still see selective buying opportunities for bank bonds from stable banks in peripheral European countries. These will probably profit the most from the pricing of bank bonds being more strongly oriented to the banks' fundamental data in the future.

Spread history



Source: BofA Merrill Lynch, Bloomberg, Raiffeisen RESEARCH

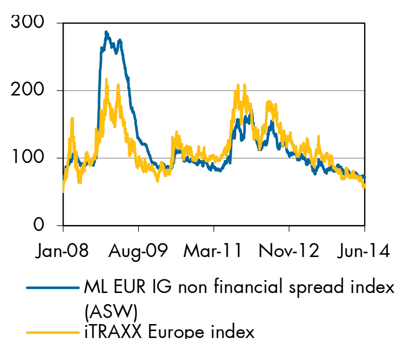
Financial analyst: Peter Onofrej

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

Sustained demand for corporate bonds

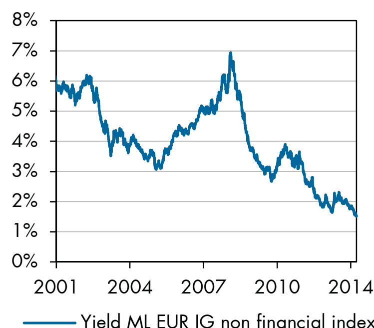
- **Mechanism for risk pricing temporarily neutralised**
- **Default rates to remain at the current low level over a one-year horizon**
- **Expensive valuations are not justified by the partial improvement in fundamentals**

IG cash vs iTRAXX Europe (in bp)



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

EUR IG non financial (in %)



Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

Credit spreads

	20-Jun[1]	Yield	Duration
Corp. Bonds (IG)	92	1.5 %	5.1
AAA	58	1.9 %	9.1
AA	54	1.3 %	5.9
A	73	1.4 %	5.5
BBB	114	1.7 %	4.7
Corp. Bonds (HY)	299	3.6 %	3.1

	20-Jun[2]	Sep-14	Dec-14
Swapspreads (10J)			
EUR	18	15	20
US	9	10	10

[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

On 5 June, the ECB made it clear that it was willing to maintain its ultra-expansive monetary policy, by lowering the refinancing rate (to 0.15%) and cutting the deposit rate (to -0.10%), as well as with its other measures (TLTRO, end to sterilisation purchases, etc.). Furthermore, ECB President Mario Draghi openly stated that this was not the end of the road yet. This may be one of the main factors which will allow the good development of returns on EUR corporate bonds to continue in the months to come. With its flood of liquidity, the ECB has essentially neutralised the mechanism for risk pricing on the credit market as well, in our opinion.
Non-financial corporate bonds currently feature a nominal yield of 1.52%. In order to achieve the yield targets, during the last two and a half years there has been an increase in the average maturity of outstanding investment grade corporate bonds from five to six years, a figure which was last seen in 2007. In the current conditions, even companies with weaker credit profiles are having no difficulties accessing long-term refinancing. In addition to the longer maturity, there continues to be strong demand for the high yield credit segment. At 3.57% (for an average BB- rating and 4-year maturity), yields in this segment are at historical lows, and the segment is still booming. Since the end of 2011, the outstanding volume on the EUR high yield market has more than doubled.
High yield investors will probably see their position confirmed by the forecasts of the rating agency Moody's, which released its prognoses for default rates for the coming year on 9 June, along with the current statistics on defaults. At the moment, the **global default rate** for high yield corporate bonds is **2.3%** and is thus well lower than the long-term average. By the end of the year, Moody's projects a rate of 2.1%. Over a one-year horizon, Moody's forecasts a rate of 2.4%. In the past, it was mainly companies with ratings of CCC and worse which were frequently confronted with default. For this rating segment, Moody's expect a decline of more than 50% in the default rates compared to the long-term average. The combination of abundant liquidity and a "no default" environment has turned the credit market into an asset class which is in great demand, even though risk premiums are so small.
We are also of the opinion that **no significant rise in default rates can be expected, at least over the short term**. This indicator probably also bears less information content than it did in previous years. Because more and more high yield companies have been able to successfully refinance on the European corporate bond market in the recent past and have thus extended their maturity profile. As a result, the outstanding volume on the EUR high yield market has not only more than doubled since the end of 2011, the share of the total outstanding HY volume in the corporate bond market as a whole (IG and HY) has also increased. Even if some corporate heavyweights suffer a default, their share in the overall volume is now so small that this does not result in any substantial increase in the default indicator.
But if one takes the average downgrade and default probabilities for the last three decades as a baseline scenario, it would be a bad idea for hold-to-maturity investors (who have an investment horizon of several years) in particular to invest in non-financial corporate bonds with weak ratings of B- and lower, as the antici-

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

pated return on these instruments is negative due to the current yield levels. This leads to the conclusion that the majority of market participants are either acting irrationally and are initially hoping to participate in the good performance and then exit at the right time, or are expecting a significantly more optimistic risk scenario as compared to previous decades.

The situation for credit investors can be described as being fragile, and in our opinion it is only a matter of time before there is a correction. One indication of the fragile state of the market is the broadly undifferentiated pricing by rating class. The quality spreads (risk premiums of weaker-rated BB corporate bonds relative to better-rated A corporate bonds) is at a multi-year low. Since the 1990s, **credit risk has only been priced in such an undifferentiated manner in June 2007 and January 2011**. A significant correction always ensued.

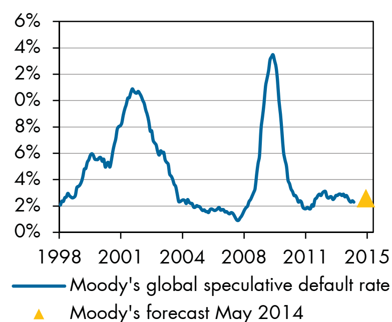
The share of so-called "distressed bonds", i.e. bonds with a risk premium of 1,000bp and more, is less than 2%, and in contrast to the current risk premiums it is at the lowest level since the autumn of 2007. Along with the expensive valuations, this is another sign of the high risk tolerance being shown by many investors. It is essentially impossible for this indicator to decline any further, and any increase would be an important warning sign for the credit segment as a whole.

Since the beginning of the year, the debt situation of many issuers has improved slightly. In December 2013, there were (just barely) **more upgrades than downgrades** on the EUR corporate bond market. This positive situation has continued up to now. But in our opinion, it is also important to keep an eye on the ratio of bond issues which occur within the framework of leveraged buyouts (LBO). Early in the year, these issues accounted for a ratio of less than 20%, but this figure has now settled in at around 50%, while the ratio of bonds issued for debt refinancing has been steadily falling.

Against the backdrop of positive momentum for corporate bonds along with expensive and less differentiated valuations, **our recommendation for both investment grade and high yield non-financial corporate bonds is Neutral for a one-quarter horizon**. On the whole, there are numerous factors that remind us of 2007, with the difference that the central banks may sustain the positive momentum on the credit market for a longer period than is fundamentally justified. Taking a one-year (12-month) horizon, we project that risk premiums for corporate bonds will be significantly higher and maintain our Sell recommendation.

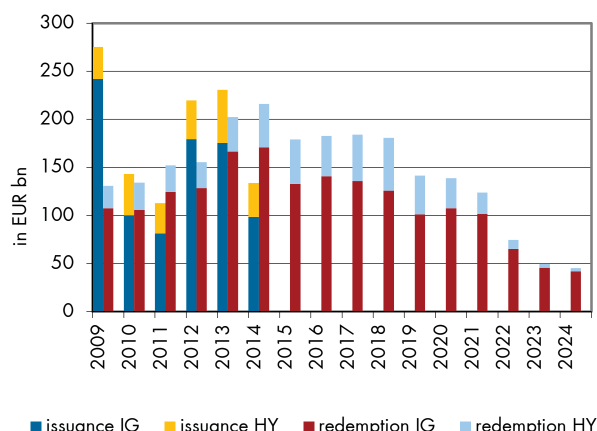
Financial analyst: Christoph Klaper, CFA

Global default rates*



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

Redemptions vs issuances*



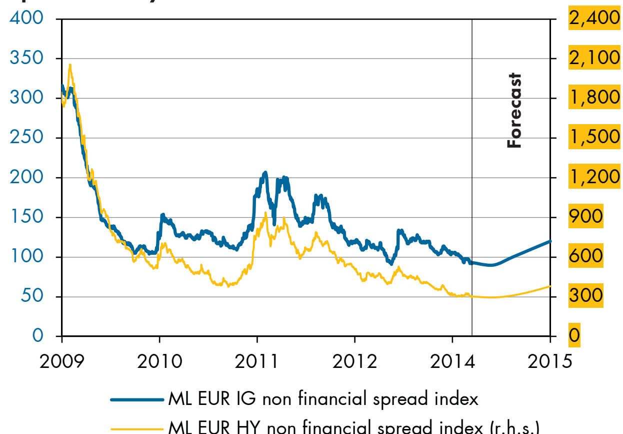
** Issues till 20th of June 2014*
as of 20th June 2014
Source: Bloomberg, Dealogic, Raiffeisen RESEARCH

Credit forecasts*

	curr	Forecast			
	20-Jun[1]	Sep-14	Dec-14	Mar-14	Jun-14
IG Non-Fin	92	90	100	110	120
High-Yield	299	295	310	340	380
Financials Senior	82	80	100	110	120
Financials Subord.	183	180	210	230	250

*[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

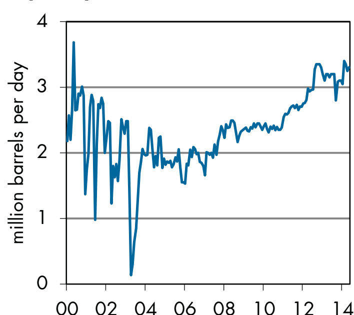


Source: Bloomberg, BofA Merrill Lynch, Raiffeisen RESEARCH

Oil price rises to a 9-month high

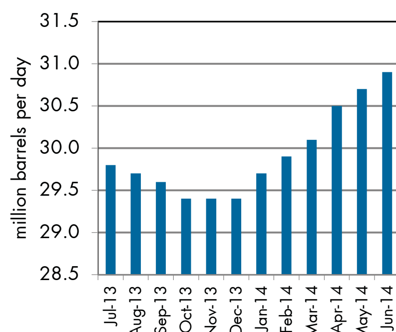
- **Geopolitical tensions dominating events on the oil market**
- **IEA revises demand for OPEC oil in H2 2014 upwards once again**
- **Projected average price of oil for Q3 2014: USD 115 per barrel of Brent**

Iraq - oil production



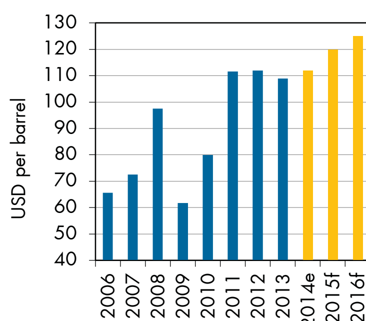
Source: Bloomberg

H2 2014 Call on OPEC



Source: IEA, Bloomberg

Oil price forecast - Brent



Source: Thomson Reuters, Raiffeisen RESEARCH

Geopolitical tensions continue to be the main factor determining conditions on the oil market. Amongst other things, there has been a stream of bad news on Libya. In May, oil production in this country which was previously ruled by Muammar al-Gaddafi fell amid a shutdown of an oil port by rebel groups to its lowest level since his death in October 2011. Considering that Libya's oil production has not represented a significant production volume at the global level for the last nine months anyway, the oil market barely showed any reaction to these latest unfavourable developments.

By contrast, the **recent spread of fighting in Iraq** has resulted in an increase in the oil price, even though it has been a moderate rise for the time being at least. There are clear-cut reasons for this. At this juncture, it does not appear that the majority of Iraq's oil production, which is mainly located in the south of the country, is under threat. Nevertheless, the latest advances by the terrorist organisation ISIS may have long-term implications for the oil market. Iraq is the world's eight largest oil producer and, according to estimates by the oil company BP, it has the fifth largest oil reserves. Within OPEC, Iraq easily has the largest amount of potential to expand its oil production in the coming years. By 2020, the Iraqi government wishes to nearly triple its oil production (despite the fact that production targets have been revised lower on several occasions), supported by Western oil companies and in conjunction with the continuous expansion of its infrastructure. If the country now slips into civil war, the already far too ambitious production targets will remain a fantasy. It must also be expected that the price of oil could increase sharply to more than USD 130 per barrel of Brent, in the unlikely event that the southern parts of the country are also affected by the conflict and a large part of oil production is (temporarily) suspended. In such a scenario, most of these missing production volumes would have to be replaced by the existing reserve capacities of other OPEC countries. A steep decline in reserve capacities, which are already at a relatively low level by historical standards, would clearly be a good argument for higher oil prices.

Even without the unrest in Iraq, conditions are good for an increase in the price of oil. Right now, the oil market is still in a state of equilibrium. Members are currently producing around 30 million barrel per day, almost precisely in line with their production targets. At the current price level, there is no incentive for most OPEC countries to raise or lower their production quotas. Consequently, no changes were made to the members' production targets at the OPEC's semi-annual meeting in Vienna. Nonetheless, **conditions on the oil market will become tighter again in the months ahead**, assuming that much of Libya's production remains offstream and that Iran will only be allowed to increase its oil exports in the fourth quarter at the earliest. Because for the second half of the year, the International Energy Agency (IEA) projects demand for OPEC oil ("call on OPEC") to be 30.9 million barrel per days, which is just about 1 million barrels more than the OPEC countries are currently producing.

On the whole, we expect that the **oil price will average USD 115 per barrel of Brent in Q3 2014.**

Financial analyst: Hannes Loacker

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

Gold price: Not for the faint-hearted...

- **Gold price continues to trend cyclically lower**
- **Episodes of negative risk sentiment triggering brief countermoves**
- **Anticipated turnaround in US interest rates results in medium-term selling pressure to below USD 1,200 per troy ounce**

In H2 2014, the **gold price** will most likely follow a pattern similar to what was seen in the past half year. Overall, the **downward trend** will probably continue, with repeated episodes of negative risk sentiment triggering **temporary countermoves**. A stronger break in the trend will probably occur as a result of a tangible turnaround in US interest rates, which will result in a significant increase in the US yield curve. This will likely occur by the fourth quarter at the latest, in the form of interest rate increases both in short-term US money market rates and in yields on long-dated 10-year government bonds. At the same time, the USD exchange rate is expected to appreciate in relative terms (based on a trade-weighted USD index). As a result, the existing **line of resistance** for the gold price at USD 1,180-1,200 per troy ounce will be **seriously tested**.

The same is suggested by the steady decline in **speculative gold market positions** (combined options and futures) on the US Comex exchange, where a strong downward trend has been seen in net long positions during several months (= long minus short). The current level of net 94,700 contracts represents just 56% of the average level of 168.400 contracts observed since 2010. The decline in the gold volume invested globally in **gold ETFs** paints a similar picture: since the beginning of the year, a decline of 49.9 tonnes has been registered, with total holdings now only amounting to just 1,713 tonnes. At the end of December 2012, this figure hit its all-time high of 2,632.3 tonnes.

Weaker demand for gold can also be seen in the figures for **gold coin sales**: the most recent number of US American Eagle bullion coins sold was 32,500, marking the lowest level since September 2013 and reaching just 26.4% of the average level for the last five years. Gold demand from the emerging markets is partially countering this trend, but due to the high growth rates in recent years, a slight slowdown in dynamics has also been observed here. In Q1 2014, consumer demand for gold (jewellery, coin and bars) from China and India dropped by 26% yoy and 18% yoy, respectively.

All in all, there is really no way around a falling gold price, in particular taking into account the US economic and interest rate conditions. Stronger upward pressure on the price could mainly be expected in the event of a significant escalation of tensions in the global geopolitical hotspots, but so far these have not been sufficient to trigger any lasting turnaround in the trend. At the moment, however, there are an increasing number of active conflicts, and along with the simmering crisis in Ukraine the situation in Iraq has also escalated. There also continue to be significant geopolitical tensions from the international maritime disputes between China and its Asian neighbours. However, without any tangible inflationary pressure (consumer price inflation is currently at 2.1% yoy in the USA and 0.5% yoy in the Euro area), **no lasting turnaround** in the price of gold is expected to occur.

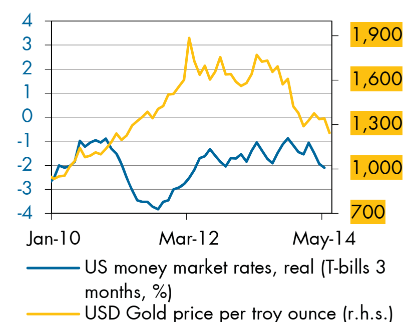
Financial analyst: Manuel Schuster

Forecast gold price

	20-Jun[1]	Sep-14	Dec-14	Jun-15
USD*	1,316	1,300	1,250	1,150
EUR*	958	985	962	906
EUR/USD	1.36	1.32	1.30	1.27

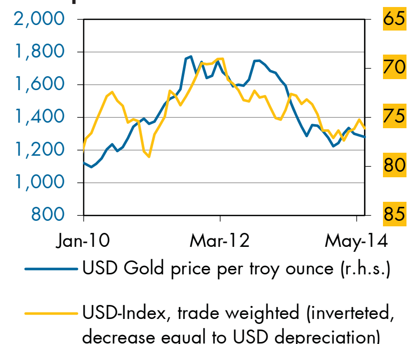
[1] data as of 20 June 2014 11:59 p.m. CET.
** per troy ounce*
Source: Thomson Reuters, Raiffeisen RESEARCH

Gold price vs. money market rate USA



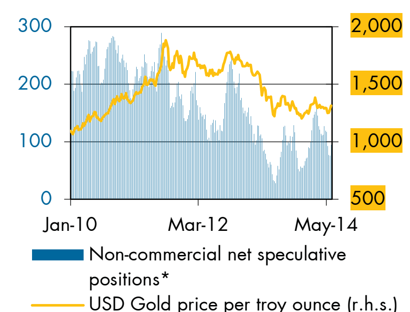
Source: Thomson Reuters, Raiffeisen RESEARCH

Gold price vs. FX



Source: Thomson Reuters, Raiffeisen RESEARCH

Speculative positions on low levels



** Futures and Options, US Comex (tsd. contracts); Speculative investors: hedge funds and large speculators*
Source: Thomson Reuters, Raiffeisen RESEARCH

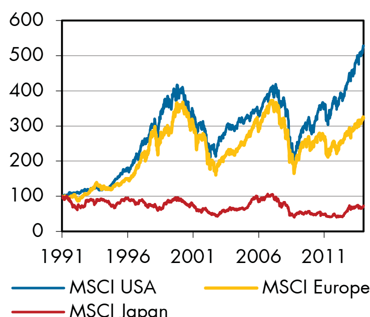
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

It doesn't get (much) better...

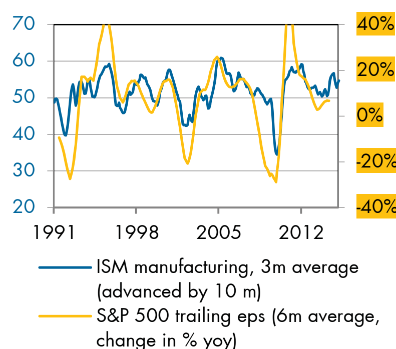
- **US equity market (still) resistant to geopolitical crises**
- **Economic indicators pointing to further acceleration in the USA**
- **Valuation indicators and looming withdrawal of liquidity as negative factors**

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 second quarter, **US stock market indices** repeatedly advanced to new all-time or multi-annual highs. The distant crisis in Ukraine and Russia was only able to undercut these performances for a short period, and the tensions in Iraq which triggered some movement in the oil price, also did not have much effect. Furthermore, compared to the previous quarter there was more support from the path of economic indicators in China, which continued to fuel hopes for an economic recovery at the global level. Moreover, 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 abundant liquidity and the increasing lack of alternative investments offering real returns (in the USA as well). Thanks to these factors, we are basically optimistic about the outlook for performance through to the end of the year.

In our updated matrix of influencing factors, with regard to the USA we continue to rate the factor **Politics** at "2". The superficial tensions with Russia and the looming threat of geopolitical tensions from Iraq must also be closely monitored. In our baseline scenario, however, we assume that these conflicts will mainly be restricted to the regional level and will also not have a significant negative impact on the global supply of oil and gas.

We also leave the factor **Economy** at "2". Although the mostly closely watched economic indicators slumped during the winter due to the weather, the ISM manufacturing index and its regional counterparts recently bounced back strongly and are thus pointing to a lasting stabilisation of economic growth. The rate of unemployment also recently dropped more strongly than even the optimistic expectations. There are signs of growth returning to the Euro area, which is an important export market, and China also recently released somewhat more upbeat economic data. Consequently, we expect to see further improvement in economic sentiment on the whole.

With regard to **Interest Trend** and monetary policy, however, our assessment of the matrix of factors only allows for a sub-average rating of "3". The US capital market reacted quite quickly to the Fed tapering its bond purchase programme and no tangible negative impact on the liquidity situation was felt as a result of this measure. Moreover, the ECB has also ramped up the level of monetary policy stimulus with its rate cut and accompanying measures. Nevertheless, we do not believe that the Fed will be able to maintain its wording about the timing and extent of prospective interest rate increases for very much longer. In this regard, we think that there will be a change in direction similar to what was recently indicated

Value matrix stock markets

	Euro		Non-Euro		USA		Japan	
Policy	2	(2)	3	(2)	2	(2)	2	(2)
Economy	2	(2)	2	(2)	2	(2)	2	(2)
Interest rate trends	1	(2)	2	(2)	3	(3)	2	(2)
Earnings outlook	3	(2)	3	(2)	3	(3)	2	(2)
Key sectors	2	(2)	3	(2)	2	(2)	2	(2)
Valuation/PER	3	(2)	3	(3)	3	(3)	2	(2)
Liquidity	1	(2)	2	(2)	3	(3)	1	(2)
Technicals	2	(3)	4	(2)	2	(3)	3	(4)
Average	2.0	(2.1)	2.8	(2.1)	2.5	(2.5)	2.0	(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

by the Bank of England. This has the potential to catch many market participants on the wrong foot, if it turns out that the Fed will also have to start tightening its policy before mid-2015. In combination with the improving economic growth dynamics, all of this should also ultimately 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 run, however, government bonds will increasingly generate stronger returns than the pure dividend yields of US shares.

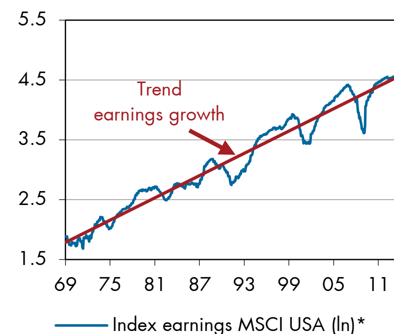
The sales and **earnings performance of listed US companies** continues to be very robust. Since early 2009, analysts' forecasts (which have often already been lowered significantly beforehand) have more or less been clearly beaten by the corporate results in almost every quarter. This was once again demonstrated impressively in the first quarter of 2014, and not only in relation to earnings, but also for sales to a great extent. According to latest estimates, the companies in the S&P 500 are expected to earn almost nine per cent more in 2014 than in 2013. Although this may sound somewhat optimistic in light of the already very high margins and earnings, it certainly cannot be ruled out, thanks to the good economic conditions. On the whole, however, we opt to leave the assessment of the factor "**Earnings development**" at the 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 example. After all, the 2014e PER for the S&P 500 is almost 15. 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 level of this factor at "3".

Summary: The current economic dynamics and the resulting support for corporate earnings are factors which fundamentally 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 also do nothing to improve the mood of stock market investors. Furthermore, valuations on the US equity market can no longer be deemed cheap. Consequently, at the currently high price levels, our recommendation for US equities is "Hold".

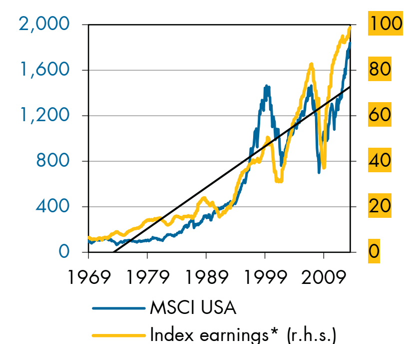
Financial analyst: Helge Rechberger

US corporate earnings above trend



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

Earnings high causes index high



** Trailing EPS*
Source: Thomson Reuters, Raiffeisen RESEARCH

Valuations

	PER 14e	PER 15f	Growth 14e	Div. yield
Euro STOXX 50	14.6	12.8	6.4%	3.5%
DAX	13.9	12.3	3.3%	2.9%
CAC 40	14.9	13.1	4.8%	3.2%
AEX	14.7	12.9	15.2%	3.1%
FTSE 100	14.3	13.2	9.0%	3.5%
SMI	16.8	15.1	2.6%	3.2%
DJIA	14.8	13.9	6.7%	2.8%
S&P 500	16.6	14.9	8.8%	2.0%
Nasdaq 100	18.0	15.8	10.8%	1.1%
Nikkei 225	13.9	12.6	15.5%	2.1%

PER ... Price to earnings ratio; Growth ... Earnings growth 2014e; Div. yield ... Dividend yield
Source: Thomson Reuters, Raiffeisen RESEARCH

	20-Jun[1]	Sep-14	Dec-14	Mar-15	Jun-15	Recommendation*	Favourite sectors
DJIA	16947	17000	17300	17200	17000	**Hold**	Industrials
Performance		0.3%	2.1%	1.5%	0.3%	YTD 2014	Energy
Range		16.350-17.400	16.600-17.600	16.600-17.600	16.350-17.600	2.2%	
S&P 500	1963	1990	2030	2030	1980	**Hold**	Consumer staples
Performance		1.4%	3.4%	3.4%	0.9%	YTD 2014	Energy
Range		1.880-2050	1.900-2.100	1.900-2.100	1.880-2.100	6.2%	Materials
Nasdaq Comp.	4368	4480	4650	4630	4500	**Hold**	Consumer discretionary
Performance		2.6%	6.5%	6.0%	3.0%	YTD 2014	Hardware
Range		4250-4600	4350-4700	4500-4730	4400-4800	4.6%	

[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 3rd quarter 2014*
Source: Thomson Reuters, Raiffeisen RESEARCH

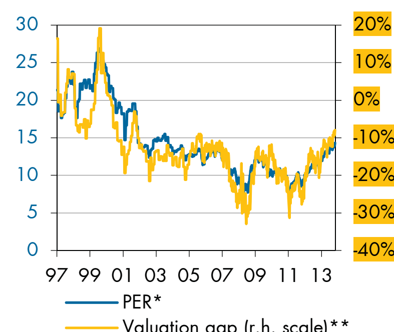
Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

Liquidity conditions remain favourable for equities

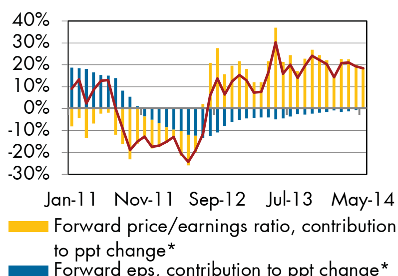
- **Liquidity supply still strong**
- **Valuations no longer cheap, but alternatives are not attractive**
- **Positive trend expected in Q3**

Valuation euro area



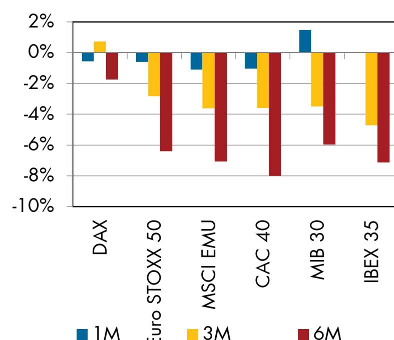
** 12 months forward price to earnings ratio*
*** valuation discount MSCI EMU vs. S&P 500*
Source: Thomson Reuters, Raiffeisen RESEARCH

Valuation expansion continues



**based on 12 month consensus forward earnings estimates,in percentage points*
Source: Thomson Reuters, Raiffeisen RESEARCH

Earnings revisions less negative*



**based on consensus earnings expectations for 2014*
Source: Thomson Reuters, Raiffeisen RESEARCH

The **equity markets in the euro area** posted clear gains in the period under review. Although the crisis in Ukraine initially weighed heavily on sentiment, the situation ultimately calmed down somewhat on the global equity markets after the presidential elections. As a result, the focus quickly shifted back to the generally good economic data from the USA and the prospects for even more expansive measures by the European Central Bank, helping to push the DAX to a new all-time high for example.

The **European economic data**, however, **dampened the mood slightly**. In particular, these included the GDP figures published for the first quarter and also the last round of leading indicators, which only pointed to **moderate economic growth**. Although we believe that the economic recovery in the Euro area is still on track, it will probably proceed more slowly than originally expected. At the same time, we expect **support from the ECB**. While the US Federal Reserve is working to reduce its expansive measures step by step, the liquidity flow will actually be increased in the Euro area in the months to come. Thanks to the measures taken, the equity markets in the Euro area should continue to enjoy support.

In line with the development of economic indicators, **expectations of earnings** have also **weakened recently**. Amongst other things, this is because companies' business results have not been all convincing in the past quarters. Taking a look at the dynamics of earnings revisions, one should note that the biggest negative revisions are now apparently behind us. With anticipated growth rates of 3.3% and 6.4% for the DAX and for the Euro STOXX 50, the targets are now not all that high anymore. The difficulties caused for many companies due to currency developments in past quarters should begin to play a less significant role as the base effect fades.

Naturally, the lower earnings estimates and the increases in prices since the beginning of the year have resulted in steep increases in valuations. This is a worrisome development for many market participants. Although we can **no longer** say that the valuation levels **look attractive**, the situation looks a little bit different when one takes into account the valuations of government bonds and corporate bonds as well. Due to the prospects for a more expansive policy approach by the ECB, these assets have become even less attractive. Consequently, we are not really worried about the equity markets running into hard times all that soon.

Summary: After the European stock indices reached new all-time or multi-annual highs following the recovery seen in recent weeks, they have been lacking some momentum recently. Nevertheless, we still expect a mildly positive performance by the equity markets in the third quarter. On the one hand, there are prospects for even more **abundant liquidity supply from the ECB**. In this regard, the valuations do not even look all that ambitious, considering that possible **investment alternatives** have become even **more expensive** recently. On the other hand, we believe that despite progressing slowly, the economic recovery in the euro area will enable the necessary gains in earnings. "Buy".

Financial analyst: Johannes Mattner

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

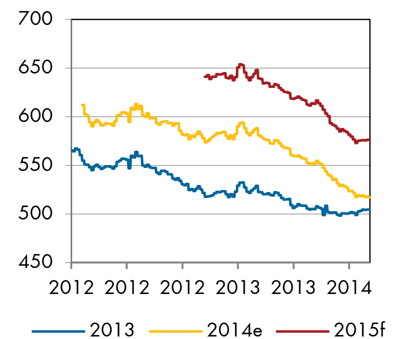
Lack of significant impulses for Q3

- **Companies' earning performance comes more into focus**
- **Valuations only play a secondary role, due to the lack of investment alternatives**
- **Geopolitical tensions will result in bouts of uncertainty**

Despite all of the geopolitical and economic uncertainties which hung over the international stock markets like the Sword of Damocles in the second quarter, the **non-Euro area stock markets** were able to advance to new highs for the year and are now just a few percentage points away from their all-time highs.
Good economic data in both Switzerland and Great Britain turned out to be the most supportive factor. As no changes in interest rates are expected which would have an impact on the markets for the time being, we see the **development of corporate earnings as the most important factor** for stock market performance going forward. Corporate earnings in these two countries is not very impressive, however, as downward earnings revision dynamics have intensified recently and the outlook for higher rates of earnings growth discussed in our last publication now seems to be disappearing quickly. First and foremost, this has affected the sectors financials, materials, health care and consumer staples, which are strongly weighted in both the Swiss stock market and the FTSE 100. Weak currencies and slack demand in the final consumer markets are also not conducive for a turnaround in this trend. Within the FTSE 100, one exception was the energy sector, where earnings expectations for 2014 were recently lifted higher again. In general, however, we wish to point out that many of the companies are in better shape both structurally and financially.
Although the **M&A merry-go-round** will keep spinning, it remains to be seen whether this will be sufficient to generate any broader-based momentum, especially because this factor is generally temporary in nature and only affects certain sectors. **Valuations** are also already cause for concern, as they **have increased** again with the recent strong rise in stock prices. Nevertheless, the relative attractiveness compared to other investment alternatives is still intact, as the high dividend yields make a considerable difference.
Summary: Geopolitical tensions will continue to trigger some episodes of uncertainty on the equity markets. Even though the mood is still positive, we currently see a lack of catalysts which would justify a "Buy" recommendation for the two equity markets beyond the summer months. We expect the index levels to be considerably higher than the current levels by the end of the year.

Financial analyst: Christine Nowak

Subdued earnings expectations



** SMI index earnings estimates*
Source: IBES, Thomson Reuters, Raiffeisen RESEARCH

Sector performance (%)

STOXX Europe	Q2 until 20-Jun 14	5y p.a.*
Oil & gas	12.3	5.1
Health care	8.3	16.3
Utilities	6.1	1.2
Consumer goods	6.0	18.6
STOXX Europe 600	4.1	10.8
Basic materials	4.1	11.7
Telecommunications	2.9	6.8
Financials	1.5	6.2
Industrials	0.9	15.4
Consumer services	0.5	12.0
Technology	-0.5	10.9

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

	20-Jun 2014[1]	Sep-14	Dec-14	Mar-15	Jun-15	Recommendation*	Favourite sectors
Euro STOXX 50	3302	3430	3550	3450	3400	**Buy**	Consumer discretionary
Performance		3.9%	7.5%	4.5%	3.0%	YTD 2014	
Range		2.850-3.300	2.900-3.500	3.000-3.400	3.000-3.400	6.2%	
DAX 30	9987	10350	10700	10400	10200	**Buy**	Consumer discretionary
Performance		3.6%	7.1%	4.1%	2.1%	YTD 2014	Materials
Range		8.600-9.600	8.900-10.300	9.400-10.200	9.400-10.200	4.6%	
FTSE 100	6825	7000	7200	7100	7000	**Hold**	Energy
Performance		2.6%	5.5%	4.0%	2.6%	YTD 2014	Materials
Range		6.500-7.300	6.700-7.500	6.600-7.400	6.500-7.200	1.1%	
SMI	8702	8900	9200	9100	9000	**Hold**	Consumer staples
Performance		2.3%	5.7%	4.6%	3.4%	YTD 2014	
Range		8.500-9.200	8.700-9.500	8.600-9.400	8.500-9.200	6.1%	

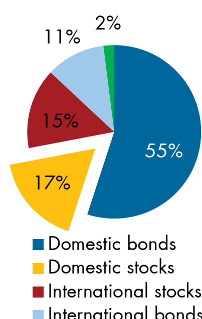
[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 3rd quarter 2014*
Source: Thomson Reuters, Raiffeisen RESEARCH

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

Land of the rising equity allocation

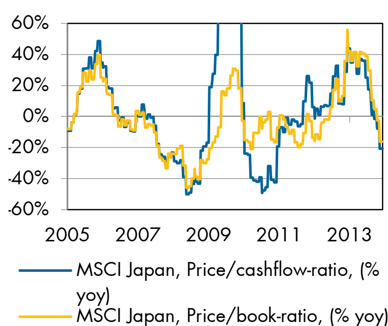
- **Economy should digest the VAT hike quite easily**
- **Double-digit earnings growth and attractive valuations driving prices**
- **Increase in equity holdings by major Japanese institutional investors**

Domestic stock allocation should rise



Asset allocation of the Japanese government pension fund GPIF as of December 2013
Source: Bloomberg, GPIF, Raiffeisen RESEARCH

Valuations attractive again



Source: Thomson Reuters, Raiffeisen RESEARCH

Nikkei 225

Recommen-dation:*:	20-Jun[1]	Favourite sectors
Buy	15349	Consumer discretionary
		Materials

Forecasts

Sep-14	Dec-14	Mar-15	Jun-15
16000	16500	16700	15900
4.2%	7.5%	8.8%	3.6%

Range

Sep-14	Dec-14	Mar-15	Jun-15
14700-16500	15500-16700	16000-17200	15500-17300

[1] 11:59 p.m. CET closing price on the respective main stock exchange
** Horizon: End of 3rd quarter 2014*
Source: Raiffeisen RESEARCH

In terms of Japan's **economic performance**, we still think that the downturn in demand due to the VAT hike will only be a temporary phenomenon. As a result, the economy should return to its previous growth dynamics as the year progresses and this will generate positive conditions for the stock market.
The anticipated stabilisation in economic performance is the reason that the central bank did not specifically react to the soft patch in economic growth by easing its monetary policy again. However, if the damage to the economy turned out to be significant, the monetary authorities would most likely take action again. One must also keep in mind that the Bank of Japan is also leaving the liquidity floodgates wide open in 2014. On the whole, the pace of the yen depreciation is slowing down and accordingly we only expect to see modest weakening versus the US dollar towards year-end 2015. Thanks to the other circumstances though, the factor "**liquidity**" should still have a positive impact on equities. This is the case because the giant Japanese state pension fund GPIF is about to implement a new five-year plan which features a significant increase in the ratio of equity holdings, in light of the demographic outlook and the related need for higher returns. As of end-2013, GPIF managed a fund volume of USD 1.25 trillion, with an overall equity allocation of 33%. According to comments by official investment committee members, the fund may lift the target allocation for domestic shares from 12% (over- and underweighting of 6 percentage points is allowed, and this is currently almost fully utilised at 17%) to a level of around 20%. Just an increase to this new possible target range (+3 pp) would result in net inflows of USD 37.5 bn. And because of the ranges, even more is conceivable, and one should also not underestimate the example-setting effect on other Japanese pension funds.
The **earnings performance** of the Nikkei 225 companies for 2013/2014 was massive, with aggregate growth of more than 60%. Due to the base effect, a smaller increase can be expected for the current business year. As a result, the recent spate of analysts' negative revisions for companies' earnings estimates should taper off. Hand in hand with the improvement in the global economy which we expect to see, **double-digit rates of earnings growth** should be possible for the market as a whole. Looking at a variety of relevant valuation indicators, the **valuation** of the Japanese equity market (in terms of the MSCI Japan) looks favourable. Compared to its own history, the valuation is 36% below the average and 8% below the MSCI World. Surveys of international institutional investors confirm this. Right now, the market is viewed as being undervalued to a similar extent as at the end of 2012.
In our opinion, progress in economic performance, double-digit earnings growth rates, attractive valuations and structural demand factors from major Japanese institutional investors should form the basis for positive performance during the second half of the year, and propel the Japanese stock market towards outperformance.

Financial analyst: Christian Hinterwallner

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

Equities still the better option

- **From a historical perspective, the global equity market is valued slightly higher than average**
- **Risk-reward profile for many equity markets is still more attractive compared to fixed-income alternatives**
- **European equities offer more "value"**

The upward trend which started for the MSCI World in March 2009 has now come quite a long way in terms of its duration and the increase in prices (+172% on a total return basis). In order to determine whether the price still corresponds to the value, it is a good idea to take a look at the valuation metrics. On the basis of our "**valuation check**"[1] based on eleven variables with high forecasting quality, for the period since 1969 the MSCI World currently exhibits a mildly above-average valuation of 5% compared to its historical average. At the "high point" of the financial crisis at the end of February 2009, the traded at a huge discount of 42% compared to its long-term average. This undervaluation then gradually disappeared. Around three quarters of the increases in this widely monitored global equity benchmark since then consisted of fundamental factors (earnings growth, dividend income) and around one quarter was due to increases in valuations. However, it can also be seen that at the end of the four bull markets[2] since 1970, the index was marked by much higher overvaluations (from 18% in 1989 to 93% in 2000). We view this as a sign that the current cycle is not going to end abruptly.

Taking a long-term perspective, average nominal returns of 9% were recorded (over 10 years, in yoy terms) at the current valuation levels. In a very simplified estimation of returns, we still believe that a long-term real return potential of 5% yoy, before levies and taxes, is realistic, taking into account an annual rate of inflation of 2% and an annual discount of 2 percentage points to reflect the overall lower potential economic and earnings growth rates. Bearing this in mind, the **risk-reward profile** for **global equities** thus still looks **attractive**, in light of the recent further decline in the performance outlook for alternative risk-free fixed-interest investment products. This is even more so the case, as we project a recovery in global economic activity in the foreseeable future and thus the earnings growth of almost 9% assumed by the consensus for this year seems quite plausible for the MSCI World.

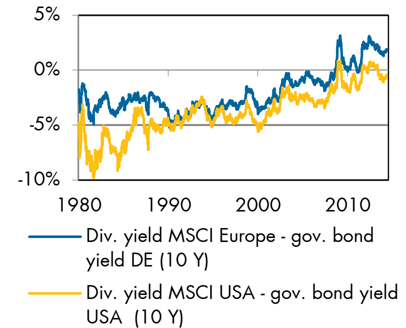
From a regional perspective, the MCSI USA stands out in a negative light, as its valuation looks high compared both to its own historical track record as well as to its global counterparts. For this index, the long-term return prospects are much leaner than outlined above, due to the possible reduction in valuations and lower medium-term earnings growth prospects. Based on this assessment, however, more performance is indicated for strategic investors in the case of European equities, especially since there is also potential for earnings to catch up in our opinion. As a result, we are also more optimistic for this region. Even more interesting relationships can be found in various EM equity markets such as China or the Eastern European region, where increasing valuations can also be a benefit for investors. The same holds true for the Austrian equity market, where we currently see a combination of favourable valuations and strong prospects for earnings growth.

Financial analyst: Christian Hinterwallner

1 *Based on eleven statistically explanatory valuation variables (equally weighted), with the longest time series covering the period from the end of 1969 to end-May 2014. In order to ensure a uniform dataset, all of the statements in the text on valuations pertain to the MSCI family of indices.*

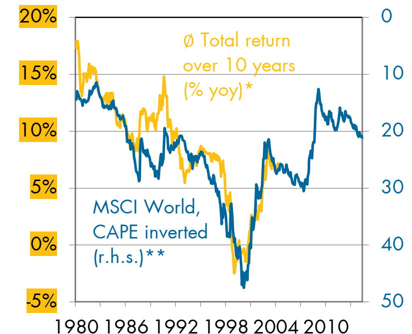
2 *Defined as an upward move following a correction of at least 20%, which leads to a new all-time high for the MSCI World price index.*

Stocks vs. bonds



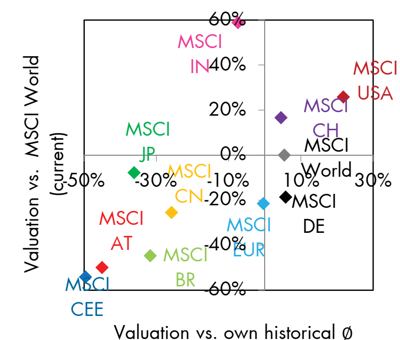
Source: Thomson Reuters, Raiffeisen RESEARCH

Valuation signaling decent returns



** Ø Total return (yoy) over the next 10 years*
*** Cyclically adjusted price/earnings ratio based on rolling 10 year trailing index eps*
Source: Thomson Reuters, Raiffeisen RESEARCH

Immense valuation dispersion



Source: Thomson Reuters, Raiffeisen RESEARCH

Positioning no longer simply cyclical

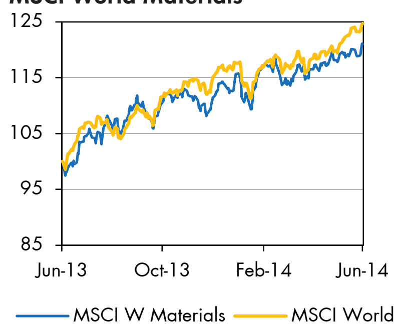
- **Global economic improvement should have a benign impact on cyclical sectors**
- **Despite high valuations, we see some upside potential for consumer staples over the short run**
- **Financial sector lacks catalysts for above-average performance**

Sector performance

MSCI World	Q2 until 20-Jun 14	5y yoy*
Energy	11.4	9.6
Cons. staples	5.3	13.5
Utilities	4.8	3.6
Health care	4.4	16.3
IT	4.4	14.6
MSCI World	4.3	12.1
Industrials	3.8	14.9
Materials	3.5	6.6
Financials	2.6	8.8
Telecoms	2.3	9.0
Cons. discr.	2.0	18.7

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

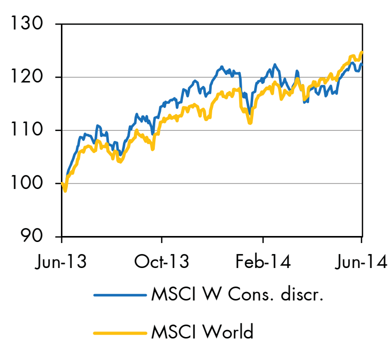
MSCI World Materials



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Materials	14/02/2011	237.45
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Materials	10/07/2009	145.80
MSCI World	10/07/2009	667.98

MSCI World Consumer Discretionary



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Cons. discr.	06/03/2014	166.18
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Cons. discr.	10/07/2009	67.00
MSCI World	10/07/2009	667.98

During the past period, the global **materials sector** posted sub-average performance. To a great extent, the reason for this was that prices of commodities, for iron ore for example, slumped. Recovery is only progressing slowly in the steel industry. While the situation remains difficult in Europe due to surplus capacities, conditions in the USA are better, even though the threat of cheaper imports has also increased in this market, due to the higher sales prices. In the chemicals industry, sales growth has not been spectacular, but one can certainly say that these companies have seen some of the best performance in the past and as a result the basis for comparison is generally higher now. The future course of events in China is interesting for this sector in particular. After mostly gloomy economic data in the past quarters, there are now signs that the situation is improving again. Consequently, demand for commodities should get a boost. **Overweight.**

While the **consumer discretionary sector** was the strongest sector last year in terms of price performance, it has been amongst the weakest this year so far. Nevertheless, we expect to see outperformance by this sector again in the quarter ahead. This outlook is supported by our expectations of acceleration in global economic performance, leading to further increases in earnings for these companies, which are already posting very robust profit figures. The automotive industry should do well, with the ongoing recoveries in the two main markets of China and the USA. In May, new registrations were up 16.4% and 11.2%, respectively, compared to the same period of the previous year. The European car market also saw an improvement in annual terms for the ninth time in a row. In terms of the major markets, declines were only registered in Brazil, Japan (due to purchases drawn forward because of the VAT hike) and Russia. The only fly in the soup is the quite expensive valuations in some parts of this sector (e.g. cyclical retail, consumer services). **Overweight.**

For several months now, leading economic indicators in the major industrialised countries have been suggesting an improvement in economic conditions and this is now also being reflected in the "hard" economic data. This offers generally good overall conditions for the global **industrials sector**. Demand is expected to be solid and this will have a positive effect on the path of corporate earnings, in addition to excellent financing conditions thanks to the extremely low interest rate levels. This may result in a re-acceleration of corporate spending in the quarters ahead. Although the company's guidances were rather subdued, there is clearly a sense of optimism as reflected by the interest in M&A activity. These are all reasons for us to take a positive view of the sector in the third quarter. **Overweight.**

After a dry spell of around two years, the **energy sector** (oil and gas) was able to perform significantly better than the market as a whole in Q2. There were many reasons for this performance and many of these should continue to affect performance in the third quarter as well. For instance, companies are finally focusing on the badly inadequate cashflow generation by scaling back investments, reducing operating costs, accelerating sales of assets and improving their

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

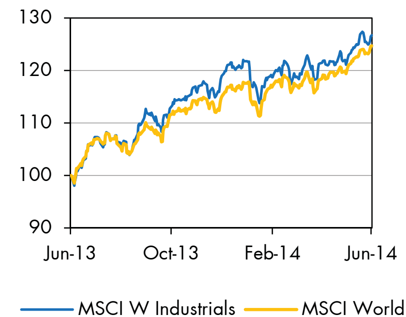
allocation of capital (to use it in a more focused manner). Some of the first positive effects have already been seen in the figures for the first quarter. M&A is also a topic in the oil and gas sector. But in this sector, companies are less interested in full-scale takeovers and are more focused on acquiring certain assets that fit in with their particular portfolios. Last but not least, most of the oil and gas companies are profiting from the rising price of oil due to the various geopolitical tensions (see page 20). **Overweight.**

Companies from the **consumer staples sector** were the subject of brisk M&A activity recently, or were driven by speculation about possible M&A developments. As a result, absolute valuations in the sector have increased sharply again. The companies' sales markets continue to be marked by strong competition, requiring additional spending for product launches and traditional brand promotion. Sales remain slack, despite growth in volumes due to falling or low inflation in raw materials, which hardly leaves any room for price hikes. Consequently, it is hard to imagine that there will be any expansion of margins in operating business. Thus, the only way to generally improve gross profit margins is to focus on disciplined portfolio management, concentrating on the expansion of profitable business areas and spinning off product groups that exhibit weaker profit generation. Despite the difficult conditions, we still have a positive view of consumer staples for the short term. **Overweight.**

Global IT stocks have managed quite robust performance in recent weeks, despite some signs of weakness at the macro-economic level. Following the sizeable setback for some social media and cloud stocks, the market has turned its attention more to higher cap companies again, even though growth rates for some of these companies are quite muted. The semi-conductors industry is still looking very dynamic, as the Philadelphia Semiconductor Index has just advanced to a 14-year high. Some interesting developments are now slowly beginning to materialise with the "Internet of Things". Companies which stand to profit early on from this development (sensor producers in particular), have shown clear outperformance. Performance in the hardware business also remains robust. Despite more declines in PC sales, growth is being driven by product segments such as smart phones and tablets. The overall picture of the software business is mixed, however. Results posted in the reporting season also tended to look a bit weak for this area. **Underweight.**

Taking a longer-term perspective, we maintain our reserved fundamental stance on **financials**. The challenges that have been often discussed will continue to be issues in 2014. Regulatory and interest rate conditions remain tense, and intense competition continues in some segments (incl. property and re-insurance and trade financing). Political and legal authorities are stepping up their efforts against financial institutions in terms of dealing with errors from the past (see the current developments with Credit Suisse and BNP Paribas). Above and beyond this, the balance sheet review by the ECB and the ensuing stress tests in the EU are approaching a critical phase. Additional capital measures may burden the sector in this regard. Since the valuation of financial sector stocks looks high in relation to their currently rather weak profitability, we do not see any factors in the coming weeks that could drive better-than-average performance. **Underweight.**

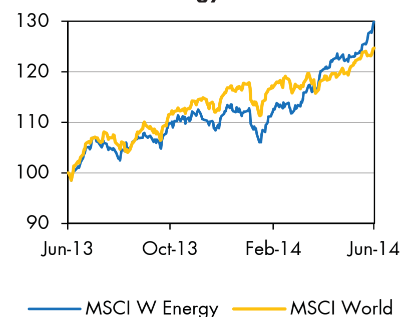
MSCI World Industrials



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Industrials	09/06/2014	193.17
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Industrials	10/07/2009	90.31
MSCI World	10/07/2009	667.98

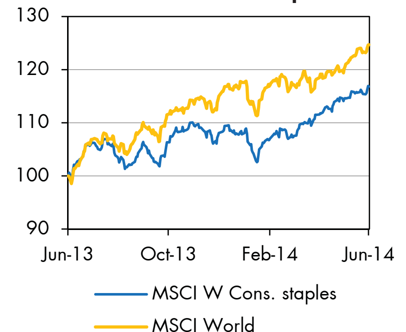
MSCI World Energy



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Energy	19/06/2014	291.78
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Energy	08/07/2009	169.72
MSCI World	10/07/2009	667.98

MSCI World Consumer staples



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Cons. staples	19/06/2014	185.07
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Cons. staples	22/06/2009	97.36
MSCI World	10/07/2009	667.98

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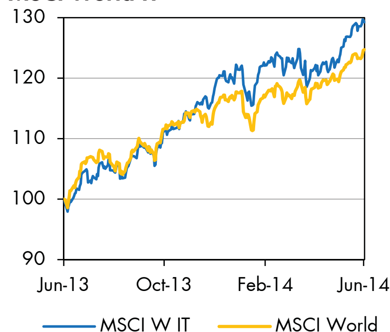
Due to the already very high penetration rates, competition in the **telecom sector** remains intense, and in Europe in particular sales will probably merely stagnate and margins will remain under pressure. In relation to the abolition of roaming fees, the EU Parliament has now agreed on the date of 15 December 2015 and at the same time it came out strongly in favour of network neutrality. In respect of this last aspect, however, there has been somewhat of a change in the USA, as the US telecommunications authority FCC approved a fee-based fast lane for the Internet, despite massive criticism. Otherwise, the wave of M&A is proceeding, resulting in consolidation both within the sector (mainly fixed network providers) and across sectors (TV and cable providers). New investments also continue to weigh on performance (e.g. expansion of the LTE network, frequencies, etc.). **Underweight.**

Performance in the **utilities sector** is moving on a dual track: while US utilities were able to boost earnings by 22% in Q1 2014 compared to the previous year and thus beat market expectations by 7% on average, their European counterparts reported declines of 20% in earnings (3% worse than consensus). Clearly, the massive difference in winter weather conditions was one of the main reasons for this divergent performance in earnings. Nevertheless, structural differences are also coming to the forefront more and more: in the USA we are seeing electricity production which increasingly environmentally friendly thanks to shale gas, and this is leading to low consumer prices and facilitates the process of reindustrialisation in the USA. In Europe, we are seeing some lopsided support for renewable energy sources, resulting in massive price increases for households in particular (prices are three times as high in Germany as they are in the USA). Furthermore, the lower capacity utilisation of the gas power plants necessary for restructuring Europe's energy landscape is resulting in the plants being mothballed, while increased use of coal in electricity production results in higher CO_2 emissions. **Underweight.**

Despite plenty of headlines about takeovers, the **health care sector** has not been able to keep up with the performance of the leading index in recent months. The much lower tax rates in the UK (and Ireland) are tempting for US companies. Nevertheless, resistance by the companies domiciled there (AstraZeneca, Smith & Nephew…) and the reservations of politicians have put a lid on these transactions. Moreover, the number of possible "targets" is limited. Results from the latest reporting season were very mixed. Pfizer, for example, released very disappointing sales figures. The underlying drivers (research productivity and approvals by the FDA/EMA) remain intact, but this sector has already done very well in recent years and valuations are relatively high. Consequently, our recommendation remains **underweight.**

Financial analysts: Christine Nowak, Christoph Vahs

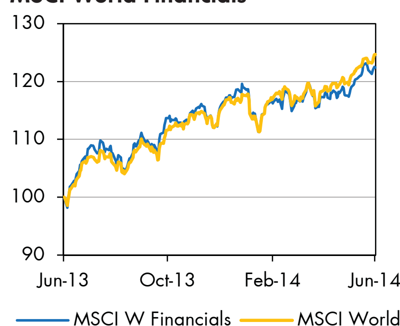
MSCI World IT



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W IT	18/06/2014	124.22
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W IT	08/07/2009	60.01
MSCI World	10/07/2009	667.98

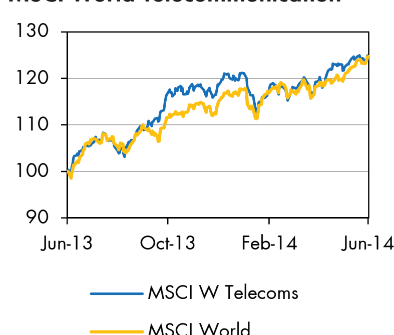
MSCI World Financials



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Financials	09/06/2014	96.45
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Financials	24/11/2011	53.84
MSCI World	10/07/2009	667.98

MSCI World Telecommunication



Source: Thomson Reuters, Raiffeisen RESEARCH

5y high	Date	Price
MSCI W Telecoms	09/06/2014	68.57
MSCI World	19/06/2014	1241.40
5Y Low	**Date**	**Price**
MSCI W Telecoms	10/07/2009	43.15
MSCI World	10/07/2009	667.98

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

Diving trough economic downturn and reforms with mini stimulus

- **Economy stabilising thanks to targeted mini stimulus measures**
- **Stock market still looks relatively cheap and positive performance is expected**
- **CNY to move sideways with elevated volatility**

Economic figures for May confirm some initial stabilisation. Industrial production (+8.8% yoy) and retail sales (+12.1% yoy) posted gains compared to the previous month (8.7% yoy and 11.9% yoy, respectively), whereas fixed asset investment continued to decelerate during the first five months of the year with an increase of 17.2% yoy. This trend should continue in Q3, with the real estate sector continuing to be a negative factor in our view. By contrast, there should be some support from exports, as the effects of distortions stemming from last year's false accounting should fade and the global economy should pick up. All in all, however, the acceleration in economic activity next quarter will be limited. On the one hand, Q3 2013 represents a higher basis than Q2 2013 and on the other hand, the current stabilisation is not a self-sustaining development. It is the result of **mini stimulus measures** by the government, covering the following points:

- lowering of the minimum reserve requirement by 200bp for rural commercial banks and by 50bp for rural cooperative banks, and by 50bp for banks which lend to an appropriate degree to small and rural enterprises;
- another increase in the investment target for railway projects from CNY 730 bn (originally CNY 630 bn) to CNY 800 bn and early implementation of various water management projects;
- reinstitution of the "re-lending programme" (project-specific lending) by the People's Bank of China (PBoC), including for example CNY 100 bn for upgrading shanty towns, and another CNY 200 bn was announced;
- starting roughly 80 infrastructure projects for private investment in the fields of clean energy, IT, oil and gas, and petrochemicals;
- a call to ease access to mortgages for first-time property buyers and announcement of a reduction in minimum loan-to-deposit ratio.

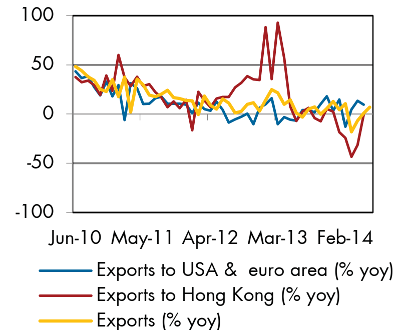
Official sources constantly emphasise that these mini stimulus measures are suitable for stabilising growth without jeopardising reform efforts. Consequently, we foresee **no further major monetary easing measures** for now, even though inflation is currently not a threat (May CPI: 2.4% yoy; official inflation target for 2014: 3.5% yoy).

The **Chinese stock market** profited in recent weeks from the fledgling signs of economic stabilisation. In particular, the HSCE index has posted a gain of 7.6% since 7 May, and this market still features an attractive valuation compared to the developed and other emerging markets (PER: 7.6). At the same time, the projected earnings growth of 4.6% yoy for 2014 is also far lower than in past years. Nevertheless, for the third quarter we expect to see more positive performance, but there is the risk of elevated volatility, in the event that worries about the real estate or financial market come to the forefront again.

After the PBoC's devaluation of CNY versus USD, **CNY** exhibited relatively significant volatility in the second quarter, at least judging by its own standards. We think that the central bank is happy with the current level and will be somewhat more active in pushing the volatility in both directions. Consequently, we project a sideways movement between 6.20 and 6.25, even though there are fundamental appreciation pressures.

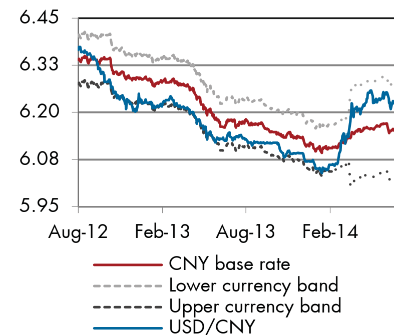
Financial analyst: Judith Galter

Weakening base effect



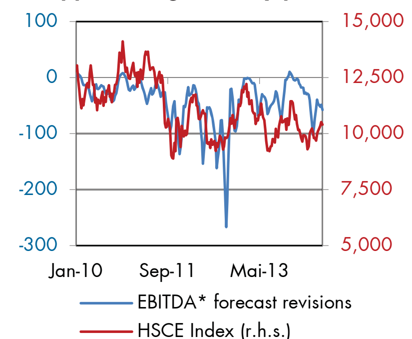
Source: Thomson Reuters, Raiffeisen RESEARCH

CNY: sideways on weak level



CNY 5J high: 6.039; 5y low: 6.835
Source: Thomson Reuters, Raiffeisen RESEARCH

Disapp. earnings already priced in



**Earnings bevor taxes, interests and depreciation; Number of 12M estimates up minus estimates down; Stock market 5y high 14,204; 5y low: 8,102; Source: Thomson Reuters, Raiffeisen RESEARCH*

Forecasts

China	2012	2013	2014e	2015f
GDP	7.8	7.7	7.0	7.3
CPI	2.7	2.6	3.0	3.2
	20-Jun[1]	Sep-14	Dec-14	Jun-15
USD/CNY	6.2	6.2	6.2	6.0
Key rate	6.0	6.0	6.0	6.0
HSCE	10,395	10,800	11,200	11,100

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

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

Raiffeisen RESEARCH

India – High hopes pinned on the new government

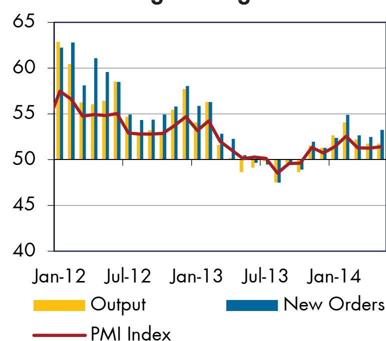
- **Soft economic recovery observable**
- **For the first time legitimate hopes for sustainable reforms under new prime minister N.Modi**
- **Slightly decelerating momentum expected for the SENSEX in second half of 2014 after stunning performance**

Forecast

	20.06.*	Sep-14	Dec-14	Jun-15
SENSEX	25,106	26,000	26,400	26,700

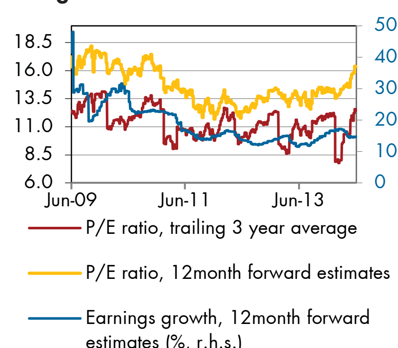
[1] 11:59 p.m. CET closing prices on the main stock exchange
Source: Thomson Reuters, Raiffeisen RESEARCH

Manufacturing PMI higher



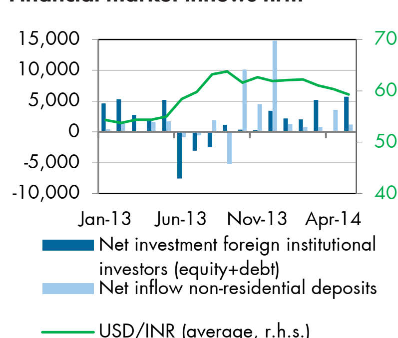
Source:HSBC Markit, Raiffeisen RESEARCH

Rising valuation stock market*



* *MSCI India based; Source: IBES, Thomson Reuters, Raiffeisen RESEARCH*

Financial market inflows firm*



* *USD mn, monthly; INR 5y high: 65.70; 5y low: 44.20*
Source: Bloomberg, Raiffeisen RESEARCH

The Indian **SENSEX** stock market has been one of the clear-cut winners in terms of performance this year. With a gain of 21% since the beginning of the year and 14% of this since early April alone, the market has surged higher. Furthermore, the previous record high of around 21,000 points from October 2010 was clearly broken.

On the one hand, this extraordinary trend is based on **a mild improvement in the economic situation**: during Q1 2014, year-on-year economic growth amounted to 6.1%, edging past the 6% yoy mark for the first time since Q4 2011. At the same time, the short-term outlook also improved, as indicated by the relatively strong reading of 51.2 points for the manufacturing purchasing managers' index. Moreover, the services purchasing managers' index, which is very important due to the dominance of the service sector, advanced to 50.2 points in May, breaking through the 50-point mark for the first time in the last 11 months.

To an overwhelming degree, however, the sense of euphoria on the stock market is based on the **hopes of an economic turnaround** under the new government of Prime Minister N. Modi. Inactivity by the previous government resulted in a backlog of work to be done in almost all areas of the economy. There are immediate needs for reforms in the fields of infrastructure (transportation, energy, water), taxes (uniformity, transparency), labour law (market rigidities) and the clarification of ownership rights in land. Furthermore, competition and productivity need to be boosted by opening previously protected markets, reducing subsidies and improving the quality of education. Another goal of the Indian government will be to increase the efficiency and depth of the Indian capital market.

In our view, there are good chances that the most urgent reforms will be addressed by **the new Modi government**, because the BJP has been able to form the first single-party government in India since 1984. Above and beyond this, Prime Minister Modi has the necessary experience to implement a wide-ranging programme of reforms. At the same, the outstanding economist R. Rajan is active at the Indian central bank, and thus flanking measures can be expected. Over the short run, two factors will likely prove to be critical for the long-term success of the new government: 1) The pace of reform measures: as the new government has to rely on inefficient bureaucracy, it is possible that there will be significant delays. It is important, however, for the momentum from the landslide election victory to be quickly translated into tangible results. 2) In order to implement key reforms in the field of infrastructure and fundamental rights, Modi will need the cooperation of the provincial governors: building a consensus here has often proven to be a difficult task in the past.

All in all, however, significant progress can be expected of the new government and this will benefit Indian companies in the form of lower costs and higher earnings growth. With a PER of 18.9, **valuations have clearly risen** significantly, but the PER is still close to the long-term average. This is contrasted against anticipated earnings growth of 26.3% for 2014 as a whole. In 2015, the projected earnings growth of 16.6% is also at the upper end of the range for the emerging markets.

Financial analyst: Manuel Schuster

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

Brazil – Bovespa back in the spotlight

- **Economic activity still below average**
- **Falling presidential poll approval values for president Rousseff nurture hopes for reforms**
- **Upside expected for BOVESPA in second half of the year**

The Brazilian stock index **Bovespa** has recently surprised investors. The main reason for this was the strong gain of around 21.5% since the last low of just under 45,000 points in mid-March. The index has thus managed **an increase** of 6% ytd. From a macro-economic perspective, there is little support for this clear upward trend, as sub-average developments are being registered both on the supply side and on the demand side. The decline in industrial production in April was particularly disappointing, as this indicator dropped by 5.8% yoy, and capacity utilisation in the manufacturing sector was at 81.1%, falling short of the average for recent years. Contraction was also seen on the demand side, with weak performance in retail sales, which shrank by 0.4% mom in April.

Thus, it does not appear that the **economy** gained much momentum during the Q2. In Q1, growth amounted to 1.9% yoy. This is the direction also suggested by the manufacturing sector PMI with a current reading of 48.8 points. By contrast, a sharp rise was recorded in consumer price inflation in May, with the rate advancing to 6.4% yoy and thus essentially reaching the upper end of the Brazilian central bank's target range of 4.5% (+/- 2 percentage points). At its last rate-setting meeting, the Brazilian central bank stressed its willingness to increase rates further, but it currently views the key interest rate level (11% yoy) as adequate for the time being.

There are several indications that the strong performance of the Bovespa has to do with the **upcoming presidential elections** slated for 5 October (congressional and gubernatorial elections will also be taking place at the same time). First and foremost, this is suggested by the fact that the increases in the Bovespa are moving in parallel with the declines in the opinion polls on incumbent president D. Rousseff. Although Rousseff holds the undisputed top ranking in the opinion polls (Datafolha) at 34%, she has already lost 13 pp of her advantage in this poll since December 2013. Similar to India, Brazil is suffering from lack of progress in reforms, which have not been addressed to an adequate degree so far by the current government. This is reflected in the lack of competition, falling productivity, excessive bureaucracy and corruption and shortcomings in infrastructure. It is thought that one of the two opposition candidates might result in a change in direction, but at the moment it appears that Rousseff would win the second round of voting. In that case, we also expect to see a correction in the economic policy course, albeit a much smaller one, with some mildly positive effects for the economy.

The increase in the Bovespa index has led to a pronounced **run-up in valuations**, as reflected by the currently somewhat higher PER of 17.0. Nevertheless, by year-end the anticipated earnings growth of 16.8% for 2014 should result in the valuations moving back towards the long-term average. The Bovespa should also remain attractive next year, with projected earnings growth of 13.6%. In this regard, special attention should be paid to the state-owned index heavyweights, including first and foremost the state oil company Petrobras. Reform-driven increases in efficiency may lead to increasing attractiveness, in the form of higher profits.

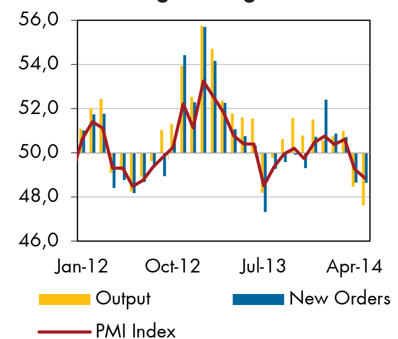
Financial analyst: Manuel Schuster

Forecast

	20.06.*	Sep-14	Dec-14	Jun-15
BOVESPA	54,638	58,000	59,500	60,000

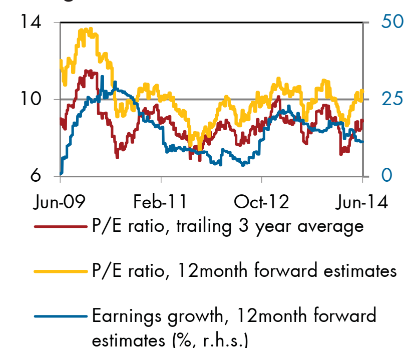
[1] 11:59 p.m. CET closing prices on the main stock exchange
Source: Thomson Reuters, Raiffeisen RESEARCH

Manufacturing PMI higher



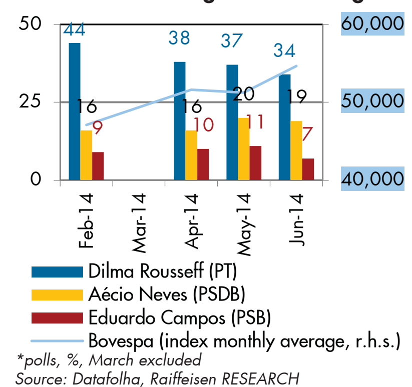
Source: HSBC Markit, Raiffeisen RESEARCH

Rising valuation stock market*



** MSCI Brazil based*
Source: IBES, Thomson Reuters, Raiffeisen RESEARCH

Rousseffs advantage diminuishing



**polls, %, March excluded*
Source: Datafolha, Raiffeisen RESEARCH

Bounded within neutral patterns

EUR/USD

Last 1.3613 Position: neutral

Chances for a long-term decrease towards 1.3340 are not that bad due to the bearish Wedge pattern, but the upward trend-line move to 1.3450 seems to prove firm for now. Beyond of this, downside momentum looks strongly extended, as it is shown on the lower panel. Hence, a recovery that might continue to the resistances at 1.3770, respectively, 1.4000 might follow next. Thus, the technical picture is rather neutral for the long run.

EUR/USD

EUR Curncy, 20.06.2014, 10:24 a.m. CET
5Y-High: 1.5094; 5Y-Low: 1.1953
Source: Bloomberg

US T-Note Future

Last 124-09 Position: neutral

The congestion area that is being established since September 2013 resembles a bullish Wedge, moreover, the support area close to 122-20 is likely to hold firm the test of the next weeks. With regard to the Wedge pattern the potential for an increase to 127-16 is rather limited, instead a reliable bearish confirmation, i.e. a long-term decline which would be indicated after a break of 122-00 -> 120-06 –118-18, is lacking.

US. T-Note Future

TY1 Comdty, 20.06.2014, 10:51 a.m. CET
5Y-High: 135.65; 5Y-Low: 114.93
Source: Bloomberg

EUR Bund Future

Last 146.10 Position: short
Target 142.46 – 140.80

The long lower shadows of the past two candles indicate that the bullish trend line might hold another test; consequently, an increase to the resistance area at 147.00 might result. On the contrary, the bearish Wedge pattern and the divergence to momentum on the lower panel point to a failure to cross this resistance area. Therefore, a decrease through the uptrend line would be likely and a break of the level 144.50 would provide a bearish confirmation. Hence, sell 144.30 -> 142.46 – 140.80, stop 147.70.

Financial analyst: Stefan Memmer

EUR Bund Future

RX1 Comdty, 20.06.2014, 10:41 a.m. CET
5Y-High: 147.16; 5Y-Low: 119.90
Source: Bloomberg

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

Continuation of the bullish cycle conceivable

Dow Jones Industrial Future

DM1 Index, 20.06.2014 11:23 a.m. CET
5Y-High: 16,942; 5Y-Low: 8,085
Source: Bloomberg

Dow Jones Industrial Future

Last 16,923 Position: long
Target 17,600

The upward trend is in place; in addition to this, the last setback was not able to penetrate deeply into the former sideways pattern (blue arrow). This reflects the bullish cycle's strength, thus after a phase of low volatility more upside pressure is likely to follow. According to such an expectation the resistances of the trend channel would represent the next targets. To shirk the risks associated with a reversal the stop should be trailed to 16,000.

DAX 30 Future

GX1 Index, 20.06.2014 11:20 a.m. CET
5Y-High: 10,022; 5Y-Low: 4,565
Source: Bloomberg

DAX 30 Future

Last: 10,017 Position: long
Target 10,430 – 10,600

Since the beginning of the year a sideways pattern had been established from which an upside breakout succeeded. In addition, the upward support has proven firm the last test as it gets depicted by the blue arrows. Thus, the continuation of the uptrend towards 10,430, respectively, 10,600 seems to be likely. However, the velocity of this movement is rather weak with regard to the lower plot. But this might get attributed to the bullish trend channel's resistance that repeatedly leads to setbacks (red arrows). Hence, the protective stop should be put to 9,000.

NASDAQ 100 Future

ND1 Index, 20.06.2014 11:26 a.m. CET
5Y-High: 3,803; 5Y-Low: 1,407
Source: Bloomberg

NASDAQ 100 Future

Last 3,789 Position: long
Target 4,035 – 4,200

The breakout from the sideways pattern resembles another bullish confirmation, furthermore, the long-term resistance at 3,700 has breached. Consequently, the next targets of the uptrend would be 4,035 and 4,200, but due to the weak momentum a pullback into the former congestion area is not completely off the table, stop 3,360.

Financial analyst: Stefan Memmer

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Risk notifications and explanationsen

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- 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.
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Technical analyse

Methodological notes

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- 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.

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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

Recommendation history (12m)

Date	ATX	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	Buy	Sell	Buy	Buy	Buy
10/05/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	l	l	l
07/06/2013	l	l	l	l	l	l	l	l	Buy	l	l	l
20/06/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Buy	Buy	Sell	Sell
08/08/2013	l	l	l	l	l	l	l	l	l	l	l	Buy
13/08/2013	Sell	l	l	l	l	l	l	l	l	l	l	l
13/09/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	l	l	Buy	l
07/11/2013	l	l	l	l	l	l	l	l	l	l	Sell	l
08/11/2013	Hold	Hold	Hold	Hold	Hold	Hold	Hold	Hold	l	l	l	l
15/11/2013	l	l	l	l	l	l	l	l	Hold	l	l	l
13/12/2013	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	l	l	l
20/12/2013	l	l	l	l	Hold	l	l	Hold	Hold	l	Buy	Sell
17/01/2014	Hold	Hold	Hold	Hold	l	Hold	Hold	l	l	l	l	l
14/02/2014	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	Buy	l	l	l
19/03/2014	l	l	l	Hold	l	Hold	l	Hold	l	l	l	Buy
18/04/2014	l	l	l	l	l	Buy	l	l	l	l	l	l
02/05/2014	Hold	Hold	Hold	l	Hold	Hold	l	l	l	l	l	l
16/05/2014	Buy	l	l	l	l	l	l	l	l	l	l	l
20/06/2014	l	Buy	Buy	l	l	l	Hold	l	l	l	Buy	Buy

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

Date	MSCI World Energy	MSCI World Materials	MSCI World Industrials	MSCI World Cons. discre-tionary	MSCI World Cons. Staples	MSCI World Health care	MSCI World Financials	MSCI World IT	MSCI World Telecommu-nication	MSCI World Utilities
22.03.2013	Overweight	Overweight	Overweight	Overweight	Overweight	Underweight	Overweight	Overweight	Underweight	Underweight
14.05.2013	Overweight	Overweight	Overweight	Overweight	Underweight	Overweight	Underweight	Overweight	Underweight	Underweight
21.06.2013	Overweight	Underweight	Overweight	Overweight	Underweight	Underweight	Underweight	Overweight	Underweight	Overweight
18.09.2013	Overweight	Overweight	Overweight	Overweight	Underweight	Underweight	Underweight	Overweight	Underweight	Underweight
12.11.2013	Overweight	Underweight	Overweight	Overweight	Underweight	Overweight	Overweight	Overweight	Underweight	Underweight
20.12.2013	Overweight	Overweight	Overweight	Overweight	Underweight	Underweight	Overweight	Overweight	Underweight	Underweight
20.03.2014	Overweight	Overweight	Overweight	Overweight	Underweight	Underweight	Overweight	Overweight	Underweight	Underweight
20.06.2014	Overweight	Overweight	Overweight	Overweight	Overweight	Underweight	Underweight	Underweight	Underweight	Underweight

Credit

Recommendation history (12m)

Date	EN00	HEAF	EBSX	EBSU
21.3.2013	Buy	Buy	Sell	Sell
20.6.2013	Hold	Hold	|	|
17.9.2013	Sell	Sell	|	|
19.12.2013	|	|	|	|
20.3.2014	Hold	Hold	Hold	Hold
15.5.2014	|	|	|	|
23.6.2014	|	|	|	|

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

Technical analysis

Financial instruments	Date of the first publication
EUR Bund Future	01/05/1995
U.S.T.-Note Future	01/05/1995
Nasdaq 100 Future	07/04/2000
DAX 30 Future	07/04/2000
DJIA Future	07/04/2000
Euro STOXX 50 Future	07/04/2000

Recommendation history (12m)

Date	EUR Bund Future	U.S.T.-Note Future	Nasdaq 100 Future	DAX 30 Future	DJI Future
21/03/2013	|	|	BULLISH	BULLISH	BULLISH
28/03/2013	|	|	NEUTRAL	|	|
10/05/2013	|	|	BULLISH	|	|
21/06/2013	|	|	NEUTRAL	NEUTRAL	NEUTRAL
28/06/2013	|	|	BULLISH	BULLISH	BULLISH
02/08/2013	|	|	|	|	|
16/08/2013	|	|	|	|	|
13/09/2013	|	|	|	|	|
29/11/2013	|	BULLISH	|	|	|
06/12/2013	|	NEUTRAL	|	|	|
23/12/2013	BEARISH	|	|	|	|
10/01/2014	|	BEARISH	|	|	|
14/01/2014	NEUTRAL	|	|	|	|
17/01/2014	|	BULLISH	|	|	|
10/02/2014	|	NEUTRAL	|	|	|
07/03/2014	BEARISH	|	|	NEUTRAL	|
17/03/2014	NEUTRAL	|	|	BULLISH	|
20/06/2014	BEARISH	|	|	|	|

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- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the Eurozone and Central and Eastern Europe under consideration of the global markets.

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