

<https://blog.en.erste-am.com/2016-a-capital-markets-year-in-review/>

2016 – a capital markets year in review

Paul Severin



© © iStock.com

2016 was full of surprises on the stock exchanges. At the beginning of the year, economic concerns in China, the second-biggest economy in the world, triggered drastic losses on the stock exchanges. Over the year, cautious optimism gradually returned: the oil price recovered, and the stock exchanges in the emerging markets rebounded. Brexit and Donald Trump failed to affect the sentiment of market players. Instead, the global equity barometer rose particularly in the second half of the year by a large degree (see the chart below). With the help of cyclical companies and financials, which often command heavy weightings, especially US-stock markets set new highs. The development of European and Asian exchanges was relatively disappointing.

Global equities setting new highs (as of 28 December 2016)

Historical performance data are not indicative of the future performance. The chart is based on referential indices, no fees or taxes are considered; Source: Thomson Reuters Datastream (28 December 2016)

ECB stuck to its controversial, expansive monetary policy in 2016

The European Central Bank (ECB) maintained its expansive monetary course in 2016. Due to the comparatively weak economic growth in Europe and the low inflation rate, the ECB cut its key-lending rate to zero per cent at the beginning of March 2016 and has recently extended its controversial bond purchase programme until December 2017. This sort of monetary policy was supportive to risky asset classes such as corporate bonds, emerging market bonds or high yield bonds.

Interest rate increases in the USA having an effect

The global economic environment has improved, which was not the least reflected in an increase in commodity prices. In the USA, the economy has recently picked up speed, and the economic programme of the new US President should come with a stimulatory effect on inflation. The interest rate increase of 25 Basis Points to a new corridor of 0.50% to 0.75% in the USA in the middle of December 2016, which had been expected by market participants, represented a step towards normality, so was very well appreciated. The yields of 10Y US Treasury bonds have risen to about 2.6% in the past weeks, as a result of which the interest rate differential to European government bonds has widened massively, which the chart below illustrates.

Yield comparison US vs. Germany and Austria (10-year Government bonds) as of 28.12.2016

Historical performance data are not indicative of the future performance. The chart is based on referential indices. Source: Thomson Reuters Datastream (19 December 2016). Presentation before fees and taxes.

Currencies reflect the first effects of the Brexit vote in the UK: the British pound lost considerably relative to the euro in 2016. The US dollar, on the other hand, was edging higher, gaining relatively to the euro. Commodity exchanges (esp. oil and gold) were up as well: maybe early indicators for a sound global economy in 2017?

I wish you all the best for 2017 and continued success with your investments!

Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website www.erste-am.com under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website www.erste-am.com. A summary of the investor rights is available in German and English on the website www.erste-am.com/investor-rights and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

Note: You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at www.erste-am.com.

N.B.: The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

Please note: Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.



Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.

Paul Severin is also on Twitter: @paulseverin