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Erste Asset Management regards economic recovery as driver of the capital markets in 2021

Erste AM Communications



- Technology and environmental equity funds were the top performers in 2020
- Optimism on the stock exchanges boosted by hopes of vaccine and in the wake of the US elections
- Market environment remains positive for risky investments – inflation no issue (yet)
- Changes in our preferred sectors: focus on European and Asian equities as well as defensive banks, energy, and industrial companies with potential of closing the performance gap

We are looking back on a turbulent investment year. After the slump in February and March, we saw a strong recovery on the markets almost across all asset classes, but in particular in the technology and environmental sectors. Investors used the lower market prices to increase their existing holdings or to invest in new ones on the fund market, benefiting from the positive market performance on the global stock exchanges.

In the fixed income segment, government and corporate bonds benefited among other things from the monetary measures, especially the bond purchase programmes of the central banks. Emerging markets corporate bonds have also recorded above-average gains in the year to date.

Assets under management of Erste Asset Management above 2019 levels

The result of the US elections and the hope of a foreseeable end of the pandemic on the back of a vaccine have boosted the optimism further. Thanks to the highly positive development of almost all asset classes and sizeable inflows throughout the year, assets under Erste AM's management now amount to EUR 66.0bn (as of 30 November 2020), i.e. 2.7% above year-end of 2019 (EUR 64.2bn as of 31 December 2019). The segment of sustainable investment funds has grown in importance yet again and now commands a volume of more than EUR 14.0bn.

Fund investors profited from the stock exchange performance

"We did not expect the market to rebound so quickly and to that extent after the slump in spring. This is good news in particular for those who invest their money in funds and who have stepped up their holdings in recent months," explains Heinz Bednar, CEO of Erste Asset Management. We are optimistic about the outlook for 2021, which will still suggest a favourable environment for investing in funds."

Recessions triggered by external shocks are usually short-lived

Chief Investment Officer Gerold Permoser was particularly impressed with the speed of the market recovery. "The markets bounced back more quickly and massively than during the Lehman crisis." Recessions triggered by external shocks are usually short-lived because the economy as such is healthy. And in this case, the economy behaved exemplarily. The stimulus package in the USA was the turning point. Governments and central banks reacted much faster than in 2008/2009. Therefore, the focus of the coming months will be on the interplay between fiscal and monetary policy. Real interest rates are extremely low at the moment, but even in the event of a slight increase in inflation, real yields would continue to fall in 2021. This stimulates the economy and provides the governments with room for manoeuvre.

Permoser: 2021 will be a "year of recovery"

The November rally gave us a short preview of 2021, the Year of the Taurus, i.e. a year of recovery with improving political stability, no tax hikes, and a more effective fight against the pandemic. There should be at least three safe vaccines by the beginning of 2021. The UK has already started to roll out its vaccination programme. Permoser: "The burden of COVID is on the decline, the political situation is more favourable than a year ago, and the economic recovery is taking hold," says Permoser.

Erste AM: equities remain top of the list – "laggards" may catch up

Phases of economic recovery are good for the equity markets. This asset class therefore remains on top of the list for Erste AM in 2021. We might see sector rotation on the market: cyclical may outperform other sectors. The focus of mixed funds is on European equities and sectors with a performance gap to close, i.e. banks, energy, and the industrial sector. Here, Europe is in a better position than the USA. If cyclical were to end up outperforming the market, this would also be good news for Austrian equities, as the ATX index contains numerous of those companies, explains Permoser. In addition to Europe, the Asian stock exchanges (including Japan) also offer good investment opportunities.

In the fixed income sector, Erste AM relies on European and US corporate bonds and emerging markets government and corporate bonds, which have also seen a good performance this year. Euro government bonds and US Treasuries, on the other hand, have largely been taken out of the mixed funds as they are currently not attractive.

In addition to cyclical, Erste AM regards funds that focus on megatrends and sustainable investment funds as attractive due to the result of the US election and upcoming regulations to fight climate change.

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