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Erste Asset Management financial markets outlook for the second half of 2021

Erste AM Communications



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- **Equity funds yet again with high gains in the first half**
- **Quick recovery and chart analysis support risky assets**
- **Inflation pressure only temporary; monetary policy remains expansive**
- **As of 30 June 2021, Erste AM manages assets worth EUR 72.8bn and has expanded its market share in Austria to 22%**
- **Erste AM celebrates 20 years of sustainability and expands its range of products with the social impact fund ERSTE FAIR INVEST**

Equities and high-yield bonds with gains, government bonds down

According to Alexander Lechner, Head of Multi Asset at Austrian fund company Erste Asset Management, the quick recovery of the economy – which is not yet fully finished – has supported in particular risky asset classes in the year to date. Global equity markets recorded a solid 14% increase prior to currency effects in the first half of 2021 (as of 30 June 2021; source: Bloomberg). The bond markets went down two different routes: risky assets such as high-yield corporate bonds in Europe and the USA gained about 3%; on the other side of the coin, fixed-income instruments offered low yields (especially credit-safe government bonds), and the capital is also tied up for longer periods (i.e. longer duration) in such products.

The re-opening of the economy after the lockdown came as tailwind especially for cyclical equities such as energy and financial companies. The fixed-income market in the USA and Europe was driven by the rising interest rates, as reflected in the performance of the 10Y government bonds. The increase in yields could be explained by the rise in inflation, which Lechner regards as transient. The price pressure is mainly due to the higher energy, food, and commodity prices and to a smaller output gap and will recede again in the coming years.

Outlook: growth to peak in Q2

“Due to the positive input we expect global economic growth to remain strong in 2021 and 2022,” says Lechner. The recovery has been a significant one: “We expect growth in the USA to peak in Q2. After that, the economy should continue to grow, but at lower rates.” The monetary policies of the central banks, the fiscal policies, and the stimulus programmes such as the one in the USA, which directly prop up the disposable income of consumers, are the factors supporting the financial markets. In addition, infrastructure programmes are in the making as well. According to estimates by the International Monetary Fund (IMF), these expenditures would push up the budget deficit substantially. This situation would support the equity markets, whose valuations are already “at the upper end of the historical bandwidth”.

In relative terms and taking into account the low interest rates, valuations are attractive, says Lechner. Also, analysts expect global equities to post strong profit growth in the coming years. The forecast for 2021 is +46%. If prices remained level, the P/E ratio would fall to about 17x by 2023, explains Lechner. In addition to the support from the economic cycle, the charts are also giving buy signals for risky assets at the moment. “Our in-house indicators are currently positive for equities, high-yield bonds, and emerging markets bonds. Also, money market funds in Europe have seen significant inflow in recent years while offering only very low or even negative yields. Some of this capital may be re-allocated to risky assets.

The central banks remain expansive

As far as the interest rate policy is concerned, central banks will keep the money tap open. “The central bank balance sheets have expanded enormously,” says Lechner. Still, some central banks – above all the Fed – are considering cautious exit strategies. The USA is becoming gradually more likely to taper their bond purchase programme once significant progress has been made on the labour market and with regard to inflation. Announcements to this effect could be made in

summer or autumn. The expectations by members of the Fed with respect to initial interest rate hikes in the USA have shifted in recent weeks; more specifically, they have increased. In Europe, this will still take a while. "We do not envisage any increase in 2022 or 2023," explains Lechner.

Either way, government bond yields will remain low in the medium term, according to forecasts made by Erste AM, and this is unlikely to change in the second half. However, slight yield increases might lead to falling bond prices again.

As of 30 June 2021, Erste AM manages assets worth EUR 72.8bn and has expanded its market share in Austria further

Assets managed by Erste Asset Management increased in the first half of 2021 by EUR 4.6bn to EUR 72.8bn. In Austria, Erste AM expanded its market share to 22% on the back of assets under management of EUR 45.8bn. Retail clients make up an increasing share of the demand for funds (alongside institutional investors); as Heinz Bednar, CEO, points out: "Last year started off well, and the trend continues in 2021."

Erste Asset Management is particularly pleased about the growth of sustainable investments (ESG funds), and in particular of so-called impact funds. Impact investments aim to provide not only financial return, but also positive social and environmental effects.

The global discussion about climate and environmental protection has moved the topic of sustainability to centre stage across all areas – and this includes investments. About a fifth of all assets managed by Erste AM (i.e. EUR 13bn) are made up by funds that comply with special standards in the environmental, social, and/or governance area.

Erste Asset Management celebrates 20 years of sustainability

Erste AM launched its first environmental equity fund 20 years ago and thus triggered a wave of green investments on the domestic fund market. We set up an alliance with WWF Austria 15 years ago. Numerous milestones were to follow: the ban of controversial weapons in 2021, the bundling and exercise of voting rights for all our equity funds in 2015, the measuring of CO₂ risks in 2019, the expansion of our coal policy across all mutual funds and the corporate integration of ESG criteria in 2020. For more details about the recent 20 years of sustainability and what we expect for the next 20 years, please visit www.erste-am.at/de/thenext20years.

New impact fund ERSTE FAIR INVEST focuses on labour, equality, and welfare

Erste Asset Management focuses not only on future and environmental technologies, but also on the social aspects of companies. ERSTE FAIR INVEST (ISIN accumulating AT0000A2RUD2, ISIN AT0000A2RUC4 distributing) covers all areas of life. The fund invests in companies whose products create a fair impact towards a life worth living, for example by funnelling investments towards the sectors of healthcare, education, nutrition, and financial inclusion. At the same time, the fund – which has been available for subscription at Erste Bank and Sparkassen in Austria since 19 July – also addresses the well-being of people in their jobs. In this field, we select companies that have proven particularly fair in the way they treat their employees. The fund will be officially launched after the subscription period on 16 August.

ERSTE FAIR INVEST is classified as so-called ESG impact fund according to article 9 of the EU Regulation on sustainability-related disclosures in the financial services sector. Crucial parameters for stock selection are financial yield and positive social impact. "We invest in companies whose solutions, products, and services have a direct impact. In doing so, we go beyond our acknowledged Responsible Standard and look for companies that either stand out on the back of their social products and services or that are among the best in the area of fair workplace conditions. "In addition, this addresses the [Sustainable Development Goals of the Agenda 2030 by the United Nations](#)," says Erste AM CEO Heinz Bednar.

ERSTE FAIR INVEST contains 75 shares from companies that mainly operate in the areas of equal job opportunities, inclusion, diversity, financial welfare, education for all, healthcare, and well-being. Among them are, in the initial portfolio, the biotech company Gilead, the food producer Hello Fresh, the insurance groups AXA and Allianz, the training technology company Chegg, and the Taiwanese semiconductor producer TSMC.

For more information, please visit (website in GERMAN) www.erste-am.at/de/erste-fair-invest.

Risk notes according to 2011 Austrian Investment Fund Act

ERSTE FAIR INVEST may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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The prospectus for UCITS (including any amendments) is published in Amtsblatt zur Wiener Zeitung in accordance with the provisions of the InvFG 2011 in the currently amended version. 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 connection with the InvFG 2011. The fund prospectus, Information for Investors pursuant to § 21 AIFMG, and the key investor document/KID can be viewed in their latest versions at the web site www.erste-am.com or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the key investor document is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com.

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