Interview: What to expect from equity markets

Paul Severin

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We have met with Peter Szopo, Chief Equity Strategist with Erste Asset Management, to ask him about the current situation on the capital markets and the positioning of the flagship products ERSTE STOCK GLOBAL and ERSTE FUTURE INVEST.

The stock exchanges have clearly bounced back from their lows on 23 March. Should investors wait for a correction and then buy, or is it advisable to largely stay away from equities altogether for the time being?

It is impossible to forecast short-term market cycles systematically, i.e. with any significant degree of certainty. The index of the US technology stock exchange Nasdaq for example is back at its beginning-of-the-year level, which one would not have necessarily expected.

The current uncertainties about the further development of the covid pandemic and about the way companies and consumers are going to react to the loosening of restrictions are significant. The smartest strategy is still to stick to regular investments in the equity market via fund savings plans. This approach spreads the purchase price across a diverse set of market phases and allows the investor to benefit from rising prices in the long term.

At what point will the markets have stabilised enough for cautious and conservative investors to be able to enter the stock market?

The volatility in the stock market is still high and will remain elevated in the coming months. The optimal moment to invest is hard to pinpoint without the proverbial crystal ball, but regular investments in the equity market ensure that the investor benefits from rising prices.

In the medium term, once the economy is recovering from the shock and company earnings are on the rise again, the outlook for equities remains positive. Given the currently low interest rates, we expect equities to remain the most attractive asset class over the coming three to five years.

Investors are not the only ones to wait for a vaccine against the corona virus What sort of weighting do pharmaceutical shares command in the portfolio?

US equities in general as well as pharmaceutical companies from the USA and other markets account for a significant portion of the assets that we hold in our global portfolios.

In the Erste Stock Global fund for example, i.e. our most important global equity product, pharmaceutical and medtech companies account for about a fifth of assets under management. Our positions include industry giants such as Abbott Laboratories and Thermo Fisher Scientific.

However, I do not want to highlight individual companies here. The crucial issue is to follow a strategy of diversification by therapy field and between mature pharmaceutical companies with a broad drug portfolio and specialized research companies such as Novo Nordisk, which are involved in R&D in specific, promising pharmaceutical fields. Companies in the medtech space complement the portfolio.

How important is the US stock exchange in a global equity portfolio?

The US stock exchange is of course an important market for any global equity fund. The Erste Stock Global fund, which has been successfully managed for years by Andreas Rieger, the EAM specialist for global equity portfolios, currently holds more than 60% of its assets in the USA. The focus is on quality stocks with above-average growth prospects. Among the companies held are technology companies like Alphabet and Microsoft, online retailers such as Amazon and Alibaba Group as well as well-known and amazing consumer goods manufacturers such as Nike.

Diversification is key in every equity portfolio. That is diversification across sectors and regions, and between large companies and medium-sized, sometimes less well-known companies that have successfully claimed a niche market. Particularly among the latter, one can find companies that are also attractive from an ESG perspective, i.e. that do well in an environmental, social, and governance context.

We often see the advice to buy companies that pay large dividends. However, given the current crisis, many companies have stopped paying out dividends altogether.

The ability and willingness of companies to let the shareholders participate in their profits by distributing dividends will remain an important criterion. The current, politically motivated turbulences should not be overstated.

It is important to hold companies in the portfolio whose business model is not based on permanent governmental intervention or subsidies. Dividends that have been generated by a company’s operating business will continue to exist, and they will, like before, play a certain role in the selection process for our funds.

I have noticed that the equity funds of Erste Asset Management have been on the decline largely in line with the big equity indices due to the corona crisis. Why did the fund managers not react in time and switch investments?

Particularly during volatile market periods, the correlation between stocks tends to increase significantly. This means that the massive price moves pretty much affect all stocks and sub-segments. It is impossible to fully escape the market turbulences. That being said, the focus on quality stocks, i.e. on companies with solid balance sheet structure and good profitability has so far had positive impact, especially during this crisis.

Despite all the market turmoil, the Erste Stock Techno fund has been positive in the year to date and has outperformed the equity segment in which it invests. Erste Stock Global and Erste Future Invest have lost significantly less than the overall market would have suggested in the year to date as well. This is quite a solid achievement in such a turbulent phase, and it confirms that the right selection of stocks and the portfolio construction support the active management of risk.

Legal note:

Prognoses are no reliable indicator for future performance.

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