

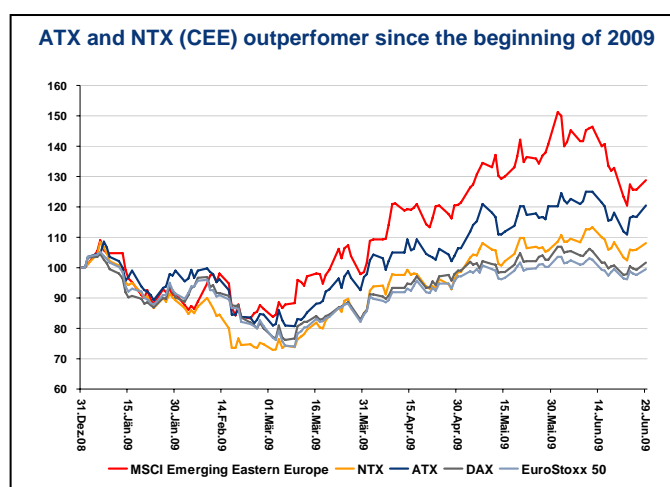
Press release

15 July 2009

# Bear market rally on stock markets over, ATX valuation: neutral

- **ATX, leading index of the Vienna Stock Exchange:**
  - Clear outperformer in 2009 to date
  - Correction phase in summer, price recovery only around year-end with a target value of 2,100 points
  - Top picks: Intercell, OMV, RHI, Verbund, Vienna Insurance Group, BWT, conwert, Kapsch, Semperit
- **Central and Eastern Europe: economy to improve in 2010 (+1.7%) more than in the Western European part of the EU (+0.3%)**

*“Having reached 12% since the start of the year, the leading Vienna Stock Exchange index, ATX, was among the top performers in European comparison. This shows that the pressure to which the Vienna Stock Exchange was exposed due to the nearly hysterical international assessments has been proven exaggerated,”* said Fritz Mostböck, Head of Group Research. International organizations and investors had apparently interpreted economic growth in Central and Eastern Europe achieved to date as equal to risk – both the ATX as well as the NTX (CEE) dropped in 2008 by around 60%, which is twice as deep as the Dow Jones (-30.8%). Subsequently, the market corrected the exaggerated false assessments and closed the valuation gap. *“After a correction phase over the summer months, we expect a friendlier environment around year-end, which would be October/November,”* said Mostböck.



## International stock markets and the Vienna Stock Exchange: Long-term downtrends still intact

After the earnings revisions, stock markets generally now have relatively neutral valuations. Within the equity allocation, the markets of Japan and the emerging markets are given preference over other markets for fundamental reasons. Erste Group analysts view Europe as neutral – from the standpoint of earnings yields (vs. yields on 10-year government bonds), while the US is still underweighted. Overall, in 2009 prices are expected to recover only around year-end (Oct/Nov). *“The bear market rally underway since March 2009 has come to an end following a period of sustained consolidation. For tactical reasons, there are some indications that a price correction is likely, because trading volumes tend to be weaker in the summer months. We recommend temporarily underweighting global equities again in Q3”*, said Fritz Mostböck, Head of Group Research.

## CEE: A differentiated view

The economy in Central and Eastern Europe is contracting sharply – just like in the euro area – this year. Overall, economic output in the markets monitored by Erste Group Research (CEE8)<sup>1</sup> is decreasing by -3.5% (euro zone -3.6%). After a long phase of growth, it is essentially weaker global demand (lower exports) and slower capital expenditure that are behind the abrupt need for consolidation. *“Central and Eastern Europe should not be viewed as a homogenous mass. The economic development in the CEE will weaken in line with the global economy in 2009, but still, the countries have to be viewed carefully in a differentiated manner,”* Mostböck continued. Erste Group Research expects real GDP growth for CEE8 to reach +1.7% (vs. +0.3% euro zone) in 2010.

Real GDP growth (%)	2007	2008	2009f	2010f
Czech Republic	6.1	2.8	-3.5	1.7
Croatia	5.5	2.4	-4.5	1.0
Hungary	1.2	0.6	-6.1	0.3
Poland	6.5	4.8	1.2	2.6
Romania	6.2	7.1	-4.9	0.2
Serbia	7.1	5.4	-5.1	1.0
Slovakia	10.4	6.4	-5.5	2.6
Ukraine	7.6	2.1	-12.0	2.0
CEE8 weighted average	6.2	4.0	-3.7	1.7

## Sentiment in Q4 is slightly positive

Regarding the timing, there will not be any further factors to drive up prices in the short term due to the end of the bear market rally and the overall unspectacular valuations achieved. The analysts of Erste Group expect sentiment to improve especially in the months of October and November after the price-consolidation/correction of the summer months. *“After a phase of sluggishness, it is quite possible that we will see the ATX regain the 2,100 point mark around year-end,”* according to Fritz Mostböck.

## Asset Allocation Q3 2009

Neutral Portfolio	Allocation Erste Group	
Cash	Overweight	↗
Bonds	Underweight	↘
Aktien	Underweight	↘
<b>International Bond-Portfolio <sup>1)</sup></b>		
Europe	Neutral	↔
USA	Underweight	↘
Japan	Neutral	↔
Emerging Markets	Overweight	↗
<b>International Equity-Portfolio <sup>1)</sup></b>		
Europe	Neutral	↔
USA	Underweight	↘
Japan	Slightly overweight	↗
Emerging Markets	Overweight	↗
<b>FX-Allocation</b>		
Dollar-Block	Underweight	↘

1) stated in local currency, without consideration of exchange rate movements

## Recommendation: Stock-picking

*“As an investment strategy in harsh times for the economy and industries, we would recommend focusing again on stock-picking,”* said Günther Artner, Co-Head of CEE Equity Research. Due to the persistently adverse overall conditions, Erste Group recommends investing selectively:

- **Defensive stocks** that report stable cash flows (Verbund) and relatively high dividend yields (OMV)
- **Growth stocks** that develop completely (Intercell, Kapsch TrafficCom) or in part (Semperit) independently of the business cycle
- **Other stocks** that have been excessively punished on stock markets (RHI, Vienna Insurance Group) or niche stocks (BWT, conwert)

<sup>1</sup> Czech Republic, Croatia, Hungary, Romania, Serbia, Slovakia, Ukraine, Poland.

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