

Financial Markets Global Strategy

1st quarter 2017

Politics gets heavily involved

- More expansive fiscal policy on the horizon
- Inflation set to surge
- Equity markets: Trump results in winners & losers
- Equities still a better choice than bonds



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RESEARCH**

Financial Markets Global Strategy

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Explanation:

e	estimate	CPI	Consumer Price Index	FI	Finland
f	forecast	MSCI	Morgan Stanley Composite Index	FR	France
r.h.s.	right hand scale	OAS	Option Adjusted Spread	GB	Great Britain
n.v.	no value	QE	Quantitative Easing	GR	Greece
ABS	Asset backed securities	WTI	West Texas Intermediate	IE	Ireland
BM	Benchmark			IT	Italy
CB	Covered Bonds	CEE	Central and Eastern Europe	LT	Lithuania
ETF	Exchange Traded Funds	EM	Emerging Markets	LV	Latvia
BM	Benchmark	AT	Austria	PT	Portugal
AI	Alternative Investments (Hedge funds & real estate)	BE	Belgium	SI	Slovenia
IL	Inflation Linked bonds	BG	Bulgaria	SK	Slovakia
IG	Investmentgrade	CH	Schweizterland	US	United States of America
HY	High-Yield	CY	Cyprus		
bp	basis points	DE	Germany		
pp	percentage points	EA	Euro area		
ASW	Asset Swap Spread	EE	Estonia		
		ES	Spain		

Political events and their implications for the capital market

- Donald Trump launches expansive fiscal policy
- Less fiscal discipline in Europe due to elections?
- Inflation expectations twist the yield curve

Political changes were a major factor in 2016. Along with Brexit and the surprising result of the US election, the capital markets were also impacted by the failure of the constitutional reform in Italy.

Several important elections are scheduled in Europe in 2017, as voters will be going to the polls in the Netherlands, France and Germany, and probably also in Italy. And with regard to the last of these, the risk of deep-reaching changes is clearly the highest. Furthermore, the capital shortfalls at Italian banks have weighed on the investment climate. In relation to the extension of the ECB's asset purchase programme (quantitative easing), the fragile situation in Italy had an influence in stabilising the euro area. Expansive monetary policy is still in place in many parts of the world.

But the shift in the USA towards a very expansive fiscal policy with a significant increase in budget deficits will lead to a new dynamic in the markets. One of the first measures of Donald Trump as president will be to launch a massive tax reduction programme (for both companies and private households). In addition to this, an infrastructure programme will be started, and this was quickly anticipated by the equity markets. The situation is very similar to what happened when Ronald Reagan took office. Whether or not similar plans will be launched in Europe remains to be seen. But the likelihood of looser fiscal policy in the EU is also increasing. Italy may play a prominent role in this regard.

Inflation expectations are beginning to rise, because in the meantime commodity and energy prices have turned significantly higher. In parallel with this, long-term capital market rates have moved sharply upwards since the election of Donald Trump. In the USA, the increase in yields amounted to 90 basis points, while a rise of 55 basis points was seen in Germany, and more than 100 basis points in some of the emerging markets. As a result, the yield curve has grown steeper. This development will probably be typical for 2017.

How will monetary policy react to this? The trend in interest rates will head higher in the USA, even though it will not proceed very quickly by historical standards. The deviation between market expectations and the Fed's forward guidance on interest rates has narrowed considerably since the US elections. The quicker the changes in interest rates occur, the smaller the increase in long-term yields will be. And this is also relevant for the long-end of the European bond market.

Impact on the currency markets

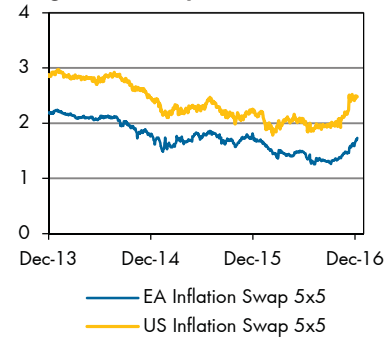
The widening interest rate differential between the USA and the euro area should mainly benefit USD during the first half of 2017. By contrast, we expect little movement by CHF versus EUR.

Impact on the capital markets

The earning expectations for 2017 are ambitious, but in the case of the USA significant tax cuts are realistic. The moderate economic recovery and ample supply of liquidity by the central banks will continue, leaving positive factors in place for the equity markets. The global linkage of yields on longer maturities will lead to falling prices for bonds, but the short end should avoid this thanks to the QE programme in Europe, both in relation to government bonds and corporate bonds.

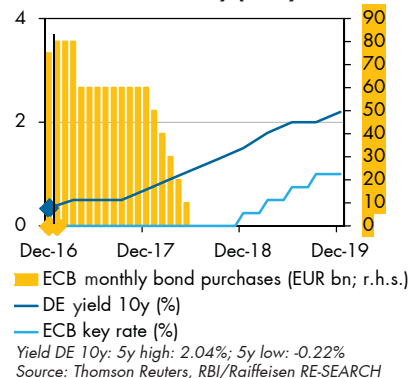
Financial analyst: Peter Brezinschek

Rising inflation expectations



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Euro area: monetary policy & bonds



Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Recommendations*

Stock markets:	
Buy	DAX, Euro STOXX 50, SMI, S&P 500, Nasdaq Comp., Nikkei 225
Hold	Dow Jones Industrials, HSCEI
Industries:	
Over-weight	Financials, Materials, Energy, Consumer discretionary, IT, Telecommunication, Industrials
Under-weight	Healthcare, Consumer staples, Utilities
Government bond markets:	
Sell	DE2Jy, DE5y, DE10y
Hold	US2y, US10y
Spread:	
Buy	AT-DE10y, FR-DE10y, IE-DE10y
Hold	IT-DE10y, ES-DE10y, PT-DE10y
Corporate bond markets:	
Hold	Non-Financials, Financials
FX markets:	
Buy	EUR/GBP
Hold	EUR/USD

* horizon: end of 1st quarter 2017
Source: RBI/Raiffeisen RESEARCH

GDP (real % yoy)

Countries	2015	2016e	2017f	2018f
Austria	1.0	1.4	1.3	1.5
Germany	1.5	1.8	1.7	1.5
France	1.2	1.2	1.4	1.5
Belgium ¹	1.5	1.3	1.3	1.4
Netherlands ¹	2.0	1.7	1.6	1.7
Finland ¹	0.2	0.9	1.0	1.4
Ireland ¹	26.3	4.4	3.1	3.1
Italy	0.6	0.9	0.6	1.0
Spain	3.2	3.3	2.5	1.9
Portugal ¹	1.6	1.0	1.2	1.3
Greece ¹	-0.3	-0.4	1.3	1.7
Euro area	2.0	1.6	1.5	1.7
GB ¹	2.2	1.9	1.0	1.2
Switzerland	0.8	1.5	1.7	1.7
USA	2.6	1.6	2.4	2.2
China	6.9	6.7	6.5	6.0

¹⁾ Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;

Consumer price index (% yoy)

Countries	2015	2016e	2017f	2018f
Austria	0.8	1.0	2.0	2.1
Germany	0.1	0.7	1.9	2.2
France	0.1	0.3	1.4	1.3
Belgium ¹	0.6	1.8	1.8	1.9
Netherlands ¹	0.2	0.2	1.1	1.4
Finland ¹	-0.2	0.4	1.2	1.8
Ireland ¹	0.0	0.3	1.4	1.4
Italy	0.1	0.0	1.3	1.4
Spain	-0.6	-0.4	1.7	1.6
Portugal ¹	0.5	0.6	1.2	1.4
Greece ¹	-1.1	0.1	0.9	1.1
Euro area	0.0	0.2	1.5	1.5
GB ¹	0.0	0.7	2.5	2.6
Switzerland	-1.1	-0.3	0.5	0.7
USA	0.1	1.4	2.2	2.5
China	1.4	2.0	2.5	2.7

¹⁾ Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;

Current account balance (% of GDP)

Countries	2015	2016e	2017f	2018f
Austria	1.8	1.9	1.5	1.7
Germany	8.3	9.0	8.5	8.0
France	-0.2	-1.6	-1.5	-1.5
Belgium ¹	0.4	0.9	0.9	1.0
Netherlands ¹	8.7	8.9	8.6	7.9
Finland ¹	-0.4	-0.4	-0.1	0.0
Ireland ¹	10.2	6.5	5.9	5.8
Italy	1.6	2.7	2.8	2.6
Spain	1.4	1.9	1.5	1.4
Portugal ¹	0.4	0.3	0.3	0.3
Greece ¹	0.1	0.4	0.5	0.5
Euro area	3.1	3.3	3.3	3.1
GB ¹	-5.4	-5.6	-4.9	-3.3
Switzerland	11.1	8.9	9.8	8.8
USA	-2.6	-3.2	-3.5	-3.5
China	3.1	2.5	1.8	1.5

¹⁾ Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH;

General budget balance (% of GDP)

Countries	2015	2016e	2017f	2018f
Austria	-1.2	-1.3	-1.2	-1.1
Germany	0.7	0.2	0.1	0.0
France	-3.5	-3.3	-2.9	-3.1
Belgium	-2.5	-3.0	-2.3	-2.4
Netherlands	-1.9	-0.8	-0.3	-0.1
Finland	-2.8	-2.4	-2.5	-2.0
Ireland	-1.9	-1.1	-0.7	-0.3
Italy	-2.6	-2.3	-2.6	-2.5
Spain	-5.1	-4.4	-3.4	-3.2
Portugal	-4.4	-2.7	-2.2	-2.4
Greece	-7.5	-2.5	-1.0	0.9
Euro area	-2.1	-1.8	-1.5	-1.5
GB	-4.3	-3.5	-2.8	-2.3
Switzerland	-0.2	1.5	-0.2	0.0
USA	-2.4	-3.2	-3.5	-2.6
China	-3.4	-3.0	-3.5	-3.7

Source: Thomson Reuters, EU Commission, IMF, national governments, RBI/Raiffeisen RESEARCH

Public debt (% of GDP)

Countries	2015	2016e	2017f	2018f
Austria	86.2	83.4	81.1	79.5
Germany	71.2	68.6	66.3	64.0
France	96.2	96.4	96.8	97.1
Belgium	105.8	107.0	107.1	106.4
Netherlands	65.1	63.0	61.3	59.3
Finland	63.6	65.4	67.1	68.1
Ireland	78.6	85.0	82.1	78.7
Italy	132.3	132.7	133.5	132.5
Spain	99.8	99.2	99.0	99.5
Portugal	129.0	130.3	129.5	127.8
Greece	177.4	181.6	179.1	172.4
Euro area	90.4	89.4	88.5	87.4
GB	89.1	89.2	88.9	87.5
Switzerland	46.4	43.1	46.0	45.5
USA	101.9	105.5	105.6	104.9
China	16.7	17.3	18.0	18.5

Source: Thomson Reuters, EU Commission, IMF, national governments, RBI/Raiffeisen RESEARCH

Ratings

	Moody's	S&P	Fitch
Austria	Aa1 (s)	AA+ (s)	AA+ (s)
Germany	Aaa (s)	AAA (s)	AAA (s)
France	Aa2 (s)	AA (n)	AA (s)
Belgium	Aa3 (s)	AA (s)	AA (n)
Netherlands	Aaa (s)	AAA (s)	AAA (s)
Finland	Aa1 (s)	AA+ (n)	AA+ (s)
Ireland	A3 (p)	A+ (s)	A (s)
Italy	Baa2 (s)	BBB- (s)	BBB+ (s)
Spain	Baa2 (s)	BBB+ (s)	BBB+ (s)
Portugal	Ba1 (s)	BB+ (s)	BB+ (s)
Greece	Caa3 (s)	B- (s)	CCC (n.a.)
GB	Aa1 (n)	AA (n)	AA (n)
Switzerland	Aaa (s)	AAA (s)	AAA (s)
USA	Aaa (s)	AA+ (s)	AAA (s)
Japan	A1 (s)	A+ (s)	A (n)
China	Aa3 (n)	AA- (n)	A+ (s)

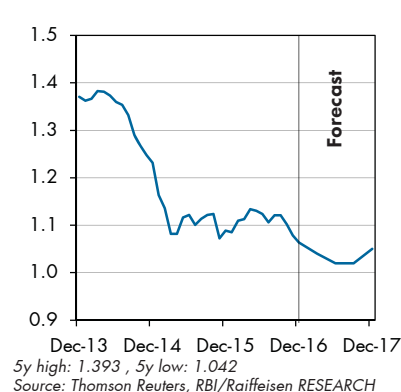
Outlook: p = positive, n = negative, s = stable
Source: Bloomberg, RBI/Raiffeisen RESEARCH

Currencies: FX per Euro

Countries	current		Forecast		
	15-Dec 16 ¹	Mar-17	Jun-17	Sep-17	Dec-17
USA	1.05	1.04	1.02	1.02	1.05
Switzerland	1.07	1.10	1.10	1.12	1.12
GB	0.84	0.86	0.86	0.86	0.86
China	7.27	7.23	7.14	7.19	7.46
Sweden ²	9.74	9.40	9.31	9.21	9.13
Norway ²	9.03	8.92	8.88	8.84	8.80

¹⁾ 9:00 a.m. CET
²⁾ Consensus estimates
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

EUR/USD



Money market rates 3M (%)

Countries	current	Forecast			
	15-Dec 2016 ¹	Mar-17	Jun-17	Sep-17	Dec-17
Euro area	-0.32	-0.30	-0.30	-0.30	-0.30
GB ²	0.38	0.40	0.40	0.40	0.40
Switzerland	-0.74	-0.75	-0.75	-0.75	-0.75
USA	0.97	1.15	1.40	1.40	1.65

¹ 9:00 a.m. CET; ² Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 2y (%)

Countries	current		Forecast		
	Mar-17	Jun-17	Sep-17	Dec-17	
DE	-0.76	-0.7	-0.7	-0.7	-0.6
CH	-0.87	-0.9	-0.8	-0.8	-0.7
USA	1.29	1.3	1.4	1.4	1.5

¹ 9:00 a.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 5y (%)

Countries	current		Forecast		
	Mar-17	Jun-17	Sep-17	Dec-17	
DE	-0.44	-0.3	-0.3	-0.2	0.0
CH	-0.62	-0.7	-0.6	-0.4	-0.3
USA	2.09	2.1	2.0	2.1	2.2

¹ 9:00 a.m. CET
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Government bond yields 10y (%)

Countries	current	Forecast			
	15-Dec 2016 ¹	Mar-17	Jun-17	Sep-17	Dec-17
Austria	0.64	0.7	0.7	0.8	1.0
Germany	0.38	0.5	0.5	0.5	0.7
France	0.85	0.9	1.0	1.0	1.2
Italy	1.89	2.0	2.1	2.3	2.6
Spain	1.52	1.7	1.8	2.1	2.4
GB ²	1.38	1.5	1.6	1.6	1.7
Switzerland	-0.06	-0.2	-0.2	0.0	0.2
USA	2.61	2.7	2.5	2.7	2.9

¹ 9:00 a.m. CET; ² Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Credit markets*

	current	Forecasts			
	15-Dec 2016 ¹	Mar-17	Jun-17	Sep-17	Dec-17
IG Non-Fin	113	105	100	110	130
High-Yield	371	350	345	385	480
Financials Senior	106	100	95	105	120
Financials Subord.	244	230	225	245	280

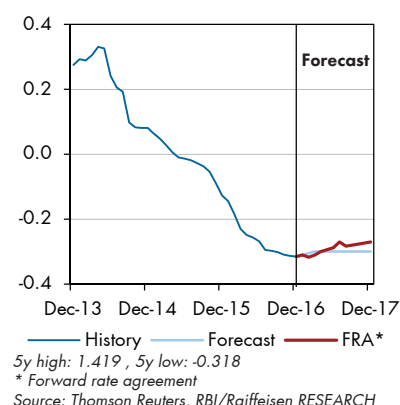
¹ 11:59 p.m. CET closing prices
* Option Adjusted Spread over Bund (in bp)
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Stock markets

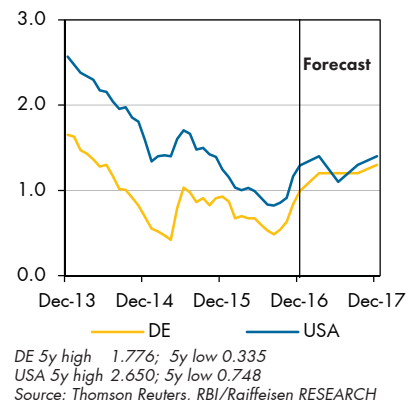
	current	Forecasts			
	15-Dec 2016 ¹	Mar-17	Jun-17	Sep-17	Dec-17
Euro STOXX 50	3,250	3,350	3,470	3,250	3,450
DAX 30	11,366	11,900	12,100	11,500	12,000
SMI	8,214	8,500	8,650	8,250	8,450
DJIA	19,852	20,400	21,100	20,200	21,000
S&P 500	2,262	2,350	2,400	2,300	2,400
Nasdaq Comp.	5,457	5,650	5,800	5,500	5,700
Nikkei 225	19,274	20,000	20,900	19,600	20,700
Hang Seng CE	9,479	9,700	9,800	9,350	9,500

¹ 11:59 p.m. CET closing prices on the respective main stock exchange
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

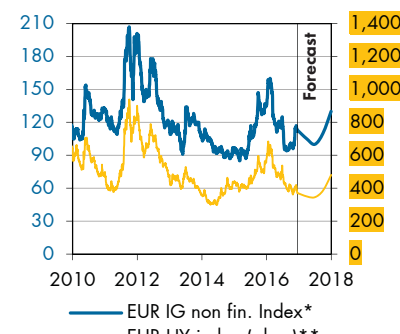
Euribor 3m (%)



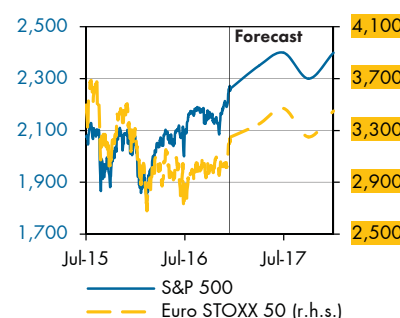
Yield spread 10y - 2y (pp)



Spread history IG vs HY***



S&P 500 and Euro STOXX 50



Risk notifications and explanations

Warnings

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

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Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: www.raiffeisenresearch.com/sensitivity_analysis

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Investment recommendation	Column A Basis: All recommendations for all financial instruments (last 12 months)	Column B Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	46.6%	61.5%
Hold recommendations	35.9%	38.5%
Sell recommendations	17.5%	0.0%

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Disclosure Single stocks

E.ON			
Start of Coverage 29/11/2002			
ISIN	Date of past recommendations	Company	Recommendation
DE000ENAG999	12.10.2016	E.ON	Hold
DE000ENAG999	29.08.2016	E.ON	Hold
DE000ENAG999	06.07.2016	E.ON	Hold
DE000ENAG999	23.03.2016	E.ON	Hold
DE000ENAG999	21.12.2015	E.ON	Hold
DE000ENAG999	01.10.2015	E.ON	Sell

RWE			
Start of Coverage 19/03/2004			
ISIN	Date of past recommendations	Company	Recommendation
DE0007037129	17.10.2016	RWE	Sell
DE0007037129	22.08.2016	RWE	Sell
DE0007037129	24.03.2016	RWE	Hold
DE0007037129	15.12.2015	RWE	Hold

Government bonds

Outright: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication with a recommendation horizon of 1-4 months

Issuer	DE			US	
	2Y	5Y	10Y	2Y	10Y
Maturity segment					
17/12/2015	Sell	Hold	Sell	Sell	Sell
31/12/2015					
21/01/2016		Sell			
26/02/2016	Sell		Sell	Sell	Sell
11/03/2016		n.v.	n.v.		
18/03/2016		Sell	Hold		
01/04/2016					
29/04/2016			Sell		
27/05/2016	Sell		Sell	Sell	Sell
09/06/2016		Sell			
01/07/2016	Sell		Sell	Sell	Sell
08/07/2016		Sell			
22/07/2016			Hold		
28/07/2016			Sell		
05/09/2016	Sell	Sell	Sell	Sell	Sell
16/09/2016	Sell	Sell	Sell		
23/09/2016				Sell	Sell
28/10/2016		Hold	Hold		
11/11/2016			Buy		Hold
18/11/2016				Hold	
25/11/2016	Sell	Sell	Hold	Hold	Hold
16/12/2016	Sell	Sell	Sell	Hold	Hold

| ... no change

Spread: Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication with a recommendation horizon of 1-4 months

Issuer	AT-DE	FR-DE	IT-DE	ES-DE	IE-DE	PT-DE	DE-DE
	10Y-10Y	10Y-10Y	10Y-10Y	10Y-10Y	10Y-10Y	10Y-10Y	10Y-2Y
Maturity segment							
18/12/2015	Buy	Buy	Buy	Buy	Buy	Buy	Sell
11/01/2016							
26/02/2016	Buy	Buy	Buy	Buy	Buy	Buy	Sell
11/03/2016							n.v.
18/03/2016							Hold
01/04/2016			Buy	Buy	Buy	Buy	
27/05/2016	Buy	Buy	Buy	Buy	Buy	Buy	Sell
06/06/2016							
29/06/2016	Hold	Hold	Hold	Hold	Hold	Hold	
01/07/2016							Sell
15/07/2016							Hold
03/08/2016	Hold	Hold	Hold	Hold	Hold	Hold	
05/09/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold
16/09/2016							Sell
23/09/2016	Hold	Hold	Hold	Hold	Hold	Hold	
10/10/2016							
28/10/2016	Hold	Hold	Hold	Hold	Hold	Hold	Hold
04/11/2016							
18/11/2016	Buy	Buy			Buy		
25/11/2016	Buy	Buy	Hold	Hold	Buy	Hold	Hold
16/12/2016	Buy	Buy	Hold	Hold	Buy	Hold	Sell

| ... no change

Technical analysis

Recommendations concerning financial instruments or issuers (disseminated during a period of 12 month prior to this publication), which differ from recommendations made in this publication with a recommendation horizon of 1-4 months

Datum	EUR Bund Future	U.S. T.-Note Future	Nasdaq 100 Future	DAX 30 Future	DJIA Future
17/12/2015	Bullish	Neutral	Bullish	Neutral	Bullish
25/03/2016	Neutral	Neutral	Neutral	Neutral	Neutral
30/03/2016	Neutral	Neutral	Neutral	Neutral	Neutral
22/09/2016	Bearish	Neutral	Neutral	Neutral	Neutral
14/12/2016	BEARISH	BEARISH	BULLISH	BULLISH	BULLISH

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