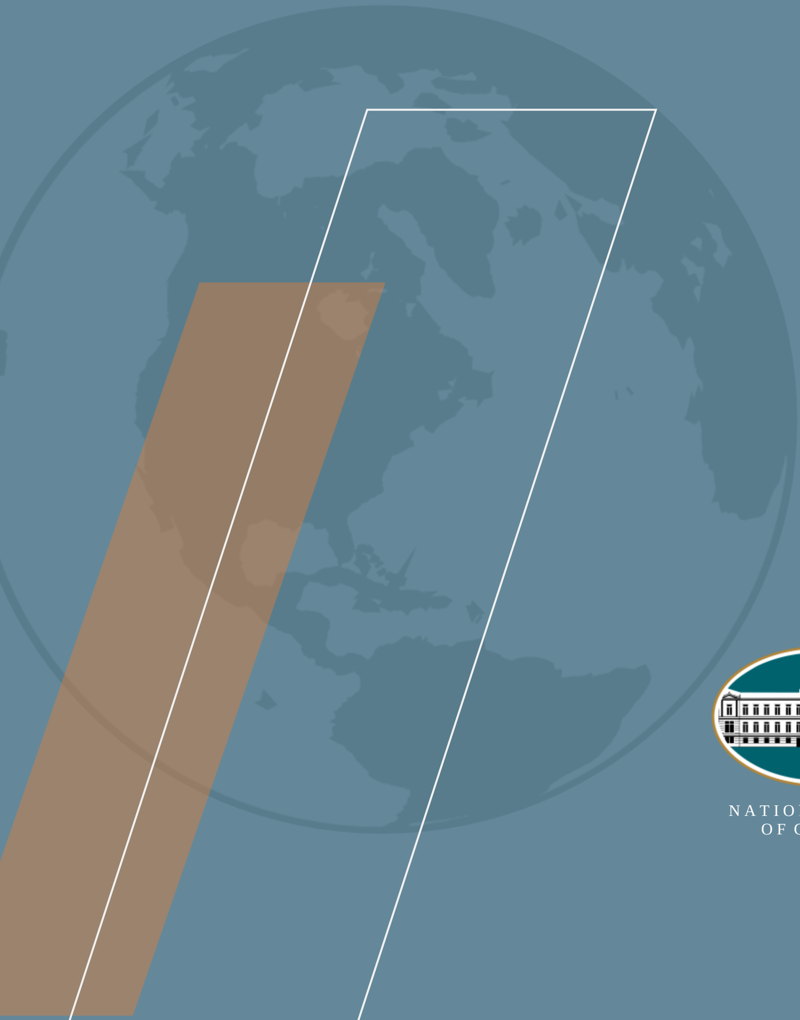
GLOBAL MARKETS OUTLOOK & STRATEGY

March 10, 2017 | National Bank of Greece | Economic Research Division



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Global Markets Outlook & Strategy

Global Economic Backdrop

- 2017 global GDP is expected to accelerate, albeit with high uncertainty regarding the policy stance of the US (fiscal, trade) and its consequences, particularly for emerging markets.

- The inflation outlook is clearer as inflation expectations are increasing, wage pressures are building, particularly in the US, and the annual rate of change of commodity prices is positive.

- Fiscal policy in advanced economies will be supportive of growth for a second consecutive year, albeit only slightly, but following several years of consolidation. The expected US package would support the economy towards Q4:17/ H1:18.

- Monetary policy remains accommodative, with central banks' balance sheets expanding significantly during the year. However, central bank liquidity has likely reached its peak.

- The Fed is expected to proceed with 2 or 3 rate hikes, while the BoJ will continue with yield-curve targeting. The ECB will likely signal in Q2/Q3 the gradual termination of its QE purchases.

- Risks are still skewed to the downside, in our view. The US fiscal package may be smaller than expected, while protectionist measures and trade tensions could derail global economic activity.

- Emerging market risks include high private sector debt levels and increased capital outflows.

- Adverse political (French elections, "Brexit" negotiations) and geopolitical risks, if materialized, could create significant economic and market turmoil in Europe.

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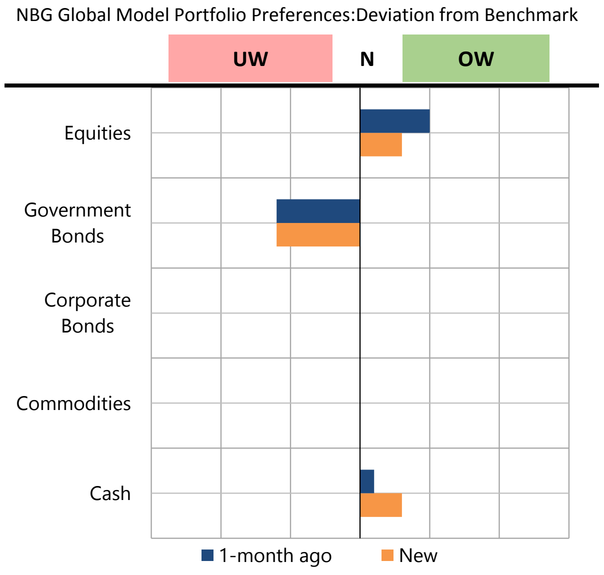
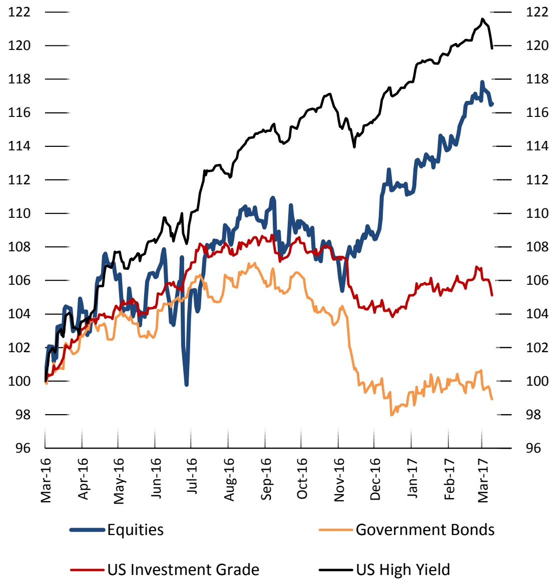
Global Asset Allocation – 12 month horizon



Asset Performance – 12 month returns



Portfolio Strategy & Global Asset Allocation

Our baseline asset allocation reflects the increasing probability of a shifting regime towards higher growth and higher rates amid US tax reform and gradually less accommodative central banks. Thus, we are Overweight Equities and Underweight Government Bonds. We have reduced our positive outlook on Corporate Credit, as spreads have tightened significantly.

We foresee low absolute positive equity returns in 2017 from current levels, with EPS growth required, but higher returns relative to Government and Corporate bonds. Valuations are expensive across asset classes and there is the risk that volatility will increase during the course of the year. Execution risks for the ambitious Trump agenda are high and political developments in Europe could hurt investor sentiment. The likelihood of rising protectionism and trade conflicts could cloud the outlook as well. **Thus, we are also Overweight Cash.**

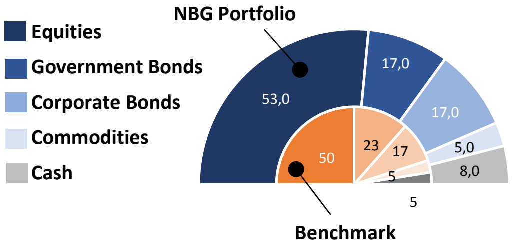
Equities will benefit from the revival of corporate profitability following 4 to 6 quarters of deceleration across main regions. Banks are a more clear-cut situations to take more risk (especially in view of low valuations). US Banks will find support from higher interest rates and higher loan volumes. NPLs remain low at large US banks and capital ratios are strong suggesting room for lending increase. We are also OW Euro area banks as steeper curves will translate into larger NIMs on their loan books. Valuations are supportive (0.9 P/BV vs 2.3 P/BV for the Stoxx600 ex-financials) and 2017 EPS growth expectations are 27% (vs 15.4% for the Stoxx600 ex-financials). Short-term uncertainty over euro area politics may create bouts of volatility for the banking sector.

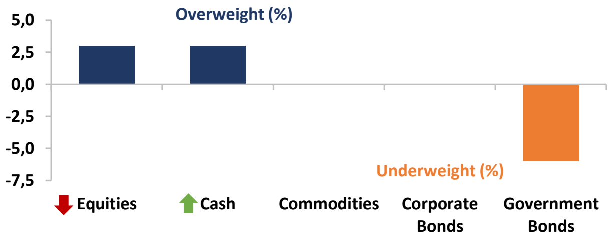
Regionally, we remain moderately OW US equities (funding via a UK underweight and neutral euro area). We acknowledge that Japan may see double-digit returns in a "risk-on" environment (from current levels – see our Dividend Discount Model sensitivity analysis) as the BoJ will remain ultra-accommodative relative to other CBs and earnings momentum is solid. We are more optimistic than consensus in EM equities (N vs consensus UW) as growth is accelerating, valuations are cheaper and investor positioning remains light. Our top picks are Brazil (growth revival, supportive monetary policy) and India (more insulated to trade disruptions).

Government bond values are expected to continue to decline due to better growth, expansionary fiscal policies and less central bank support. On a total return basis, we remain underweight. Intra-class, we favor US TIPs. Upside risks for bond prices stem from a delayed Fed tightening due to weaker-than-expected US growth and policy disappointment. Finally, EA Periphery bond spreads to remain above early-2015 lows due to political risks and a gradual end of the ECB's QE.

We do not expect major credit spread moves in our baseline scenario. Intra-class, we turn Overweight US IG credit vs EUR IG based on higher coupons. After the material rally ytd, we are neutral in High Yield spreads. **We remain neutral commodities.** Intra-class, rising US oil inventories broadly offset OPEC productions cuts. We are positive on Gold as a small hedge.

Total Portfolio Allocation





Detailed Portfolio Allocation

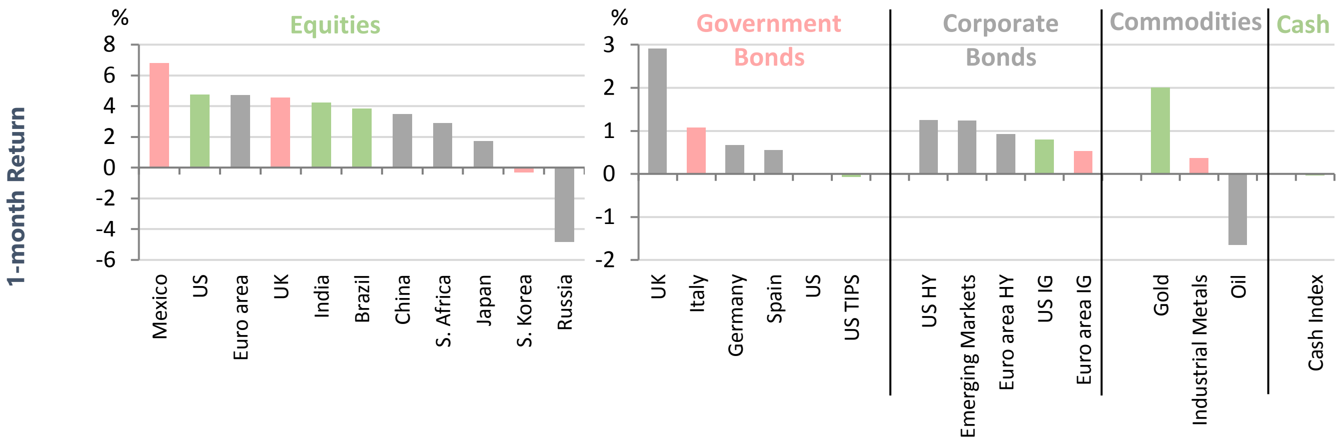
NBG Global Portfolio Allocation

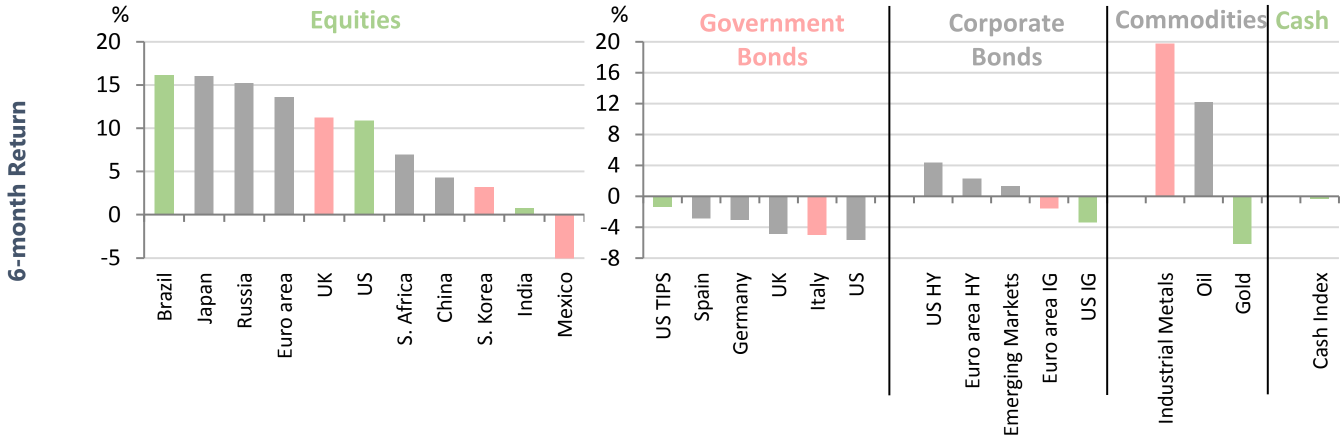
Asset Allocation	NBG Global Weight (%)	Benchmark Weight (%)	Deviation from Benchmark (%)
Equities	53,0	50,0	3,0
US	60,0	58,0	2,0
Euro area	12,0	12,0	0,0
UK	6,0	8,0	-2,0
Japan	8,0	8,0	0,0
China	5,0	5,0	0,0
S. Korea	2,2	2,8	-0,6
India	2,0	1,6	0,4
Brazil	2,0	1,4	0,6
Mexico	0,4	0,8	-0,4
Russia	1,0	1,0	0,0
S. Africa	1,4	1,4	0,0
Government Bonds	17,0	23,0	-6,0
US Treasuries ↓	59,2	59,2	0,0
US TIPS	9,8	7,8	2,0
German Bunds ↑	7,6	7,6	0,0
UK Gilts	10,1	10,1	0,0
Italian BTPs	7,7	9,7	-2,0
Spanish Bonos	5,6	5,6	0,0
Corporate Bonds	17,0	17,0	0,0
US Inv. Grade	58,0	55,0	3,0
US High Yield	17,0	17,0	0,0
EUR Inv. Grade	17,0	20,0	-3,0
EUR High Yield	3,0	3,0	0,0
Emerging Markets	5,0	5,0	0,0
Commodities	5,0	5,0	0,0
Oil	60,0	60,0	0,0
Gold	23,0	20,0	3,0
Base Metals	17,0	20,0	-3,0
Cash	8,0	5,0	3,0

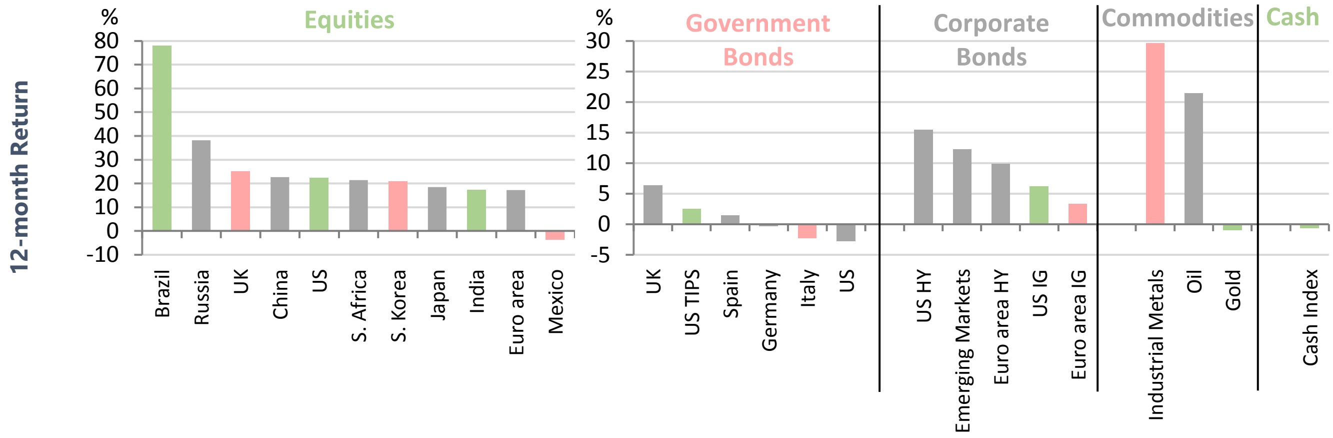
Source: NBG Research

Notes:
1. (1) The orange inner half-circle of the chart displays asset class weights for the benchmark portfolio. The blue-color representation (outside half-circle) shows asset class weights for NBG Global Markets model portfolio.
2. (2) All figures shown are in percentage points.
3. (3) Green (red) color arrow suggests an increase (decrease) in relative asset class weights (portfolio vs benchmark) over the last month.

- In this section we provide historical total returns of our NBGR Global Model Portfolio constituents over 1-month, 3-month and 12-month horizons. We compose our portfolio through Exchange-Traded Funds.
- These total returns are plotted against our 12-month horizon preferences, as of now (March 6, 2017). We are UnderWeight red-column assets, Neutral grey-column assets and OverWeight green-column assets.
- For example: We are OW US Equities (+4.7% return during the past month) and UW UK Equities (+4.6% return during the past month).







Source: NBG Research, UnderWeight are red-column assets, Neutral are grey-column assets and OverWeight are green-column assets

- **Global GDP is expected to accelerate slightly in 2017 to 3.4%, following growth of 3.1% in 2016**. Global manufacturing PMIs have reached multi-year highs, supporting this view (graph 1). **Deflation fears have disappeared, with headline prices rising.** US and euro area headline inflation rates have reached 2%, supported by recovering energy prices, though core prices in the euro area remain subdued, at below 1%. UK inflation is nearing 3% due to a depreciating British Pound. Elevated inflation in EM countries, such as Brazil and Russia, is expected to decline considerably.

- **Emerging market economies account for the bulk of the growth improvement.** GDP growth is expected to increase to 4.5% from 4.1%, albeit due to a milder recession in Brazil and Russia (graph 3). Chinese growth is expected to be strong at 6.5%, with excessive leverage and an overheating property market the main risks. Trade and geopolitical tensions with the US administration cloud the forecasted improvement for EM economies. Emerging markets, particularly those with sizeable external imbalances, could face a continuation of capital outflows, assuming UST yields rise and expectations for EM FX depreciation intensify. **Turkey, S. Africa and Colombia appear vulnerable** (graph 9).

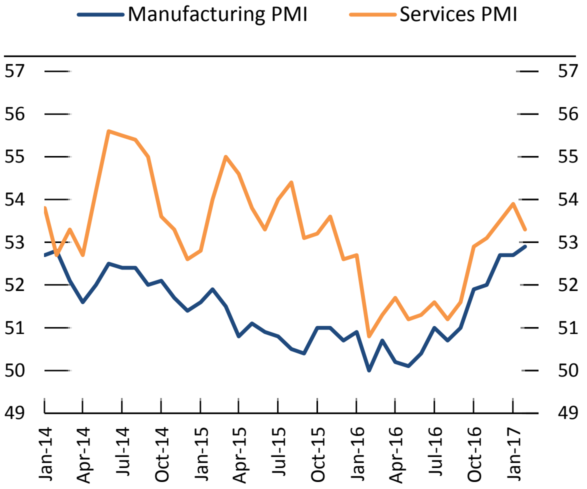
- **In developed economies, economic activity will accelerate (to 1.9% from 1.6%).** Fiscal policy will be supportive, albeit high levels of debt will likely constrain such policies (graph 5). Monetary policy will remain accommodative, albeit (i) to a less extent compared with previous years; and (ii) with large divergence across regions (see Monetary Policy Section).

- **The US accounts for the bulk of the improvement in developed economies growth.** Fiscal easing of c. 1% of GDP, comprising mainly of corporate and personal tax cuts, as well infrastructure spending, will contribute positively, but mainly to H1:18 growth.

- **Euro area business and consumer surveys have increased considerably and 2017 GDP consensus forecasts are improving.** Assuming no major political turmoil following the heavy political calendar, euro area GDP growth will move above trend (1-1.25%) for a third consecutive year at 1.6% in 2017 (from 1.7% in 2016). **UK growth has been stronger than expected following the Brexit vote.** A mild deceleration is expected for 2017 (1.5% vs 2.0%), albeit the economic performance is subject to downside risks if the Brexit process turns uncertain. Indeed, business investment declined in 2016 for the first time since 2009 suggesting that higher uncertainty is gradually feeding into the economy.

- **Japanese growth is expected to remain broadly stable at 1%.** Main risks will stem from a hard landing of the Chinese economy and high uncertainty regarding President Trump's trade and FX policies. Recall that the bilateral trade surplus with the US remains high at c. $70bn.

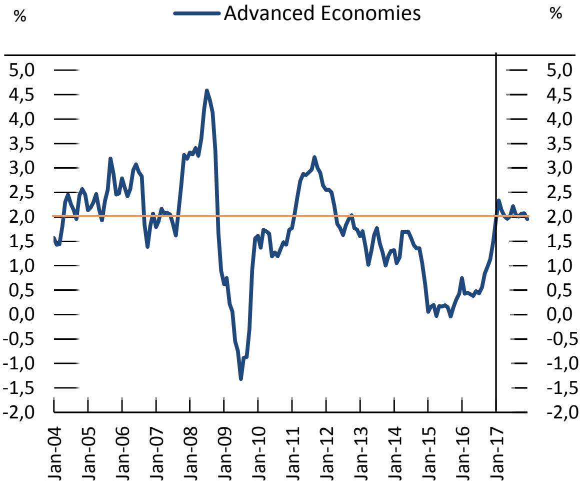
World PMIs



Source: NBG Research, Bloomberg

Graph 1.

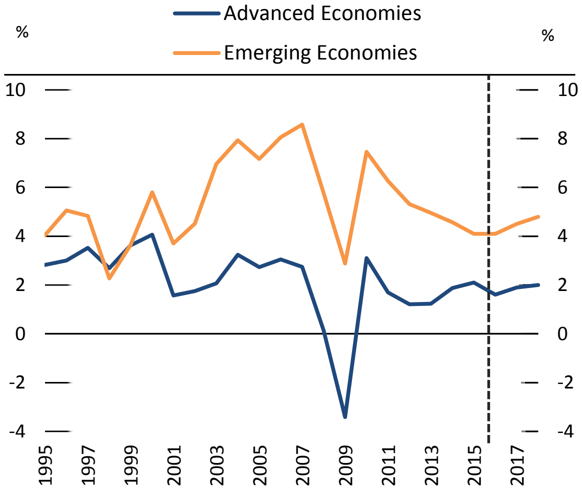
Inflation (YoY)



Source: NBG Research, Bloomberg, US, Euro area, Japan & UK

Graph 2.

Real GDP Growth

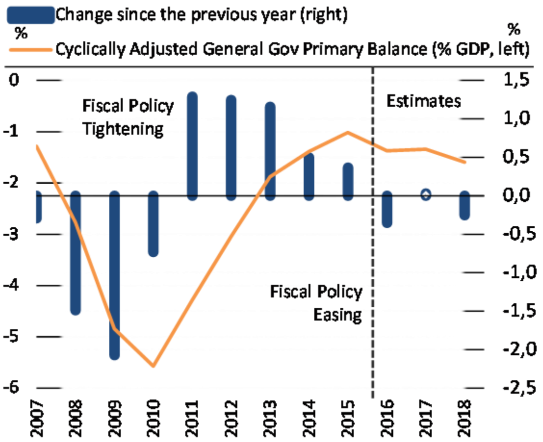


Source: NBG Research, IMF, World Economic Outlook, January 2017

Graph 3.

More expansionary fiscal policy in the US in 2018…

Cyclically Adjusted General Gov Primary Balance

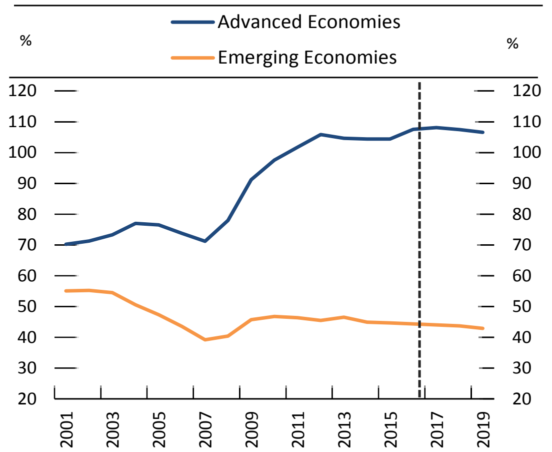


Source:NBG Research, IMF, Citi Research, G4 Includes US, UK, Japan, Euro Area, GDP Weighted data

Graph 4.

…albeit high levels of debt across advanced economies will likely constrain such policies

General Government Gross Debt (% of GDP)

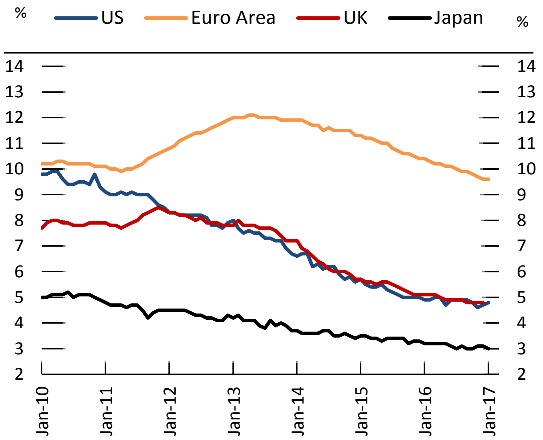


Source: NBG Research, IMF, World Economic Outlook, January 2017

Graph 5.

Unemployment rates are at multi year lows except in the euro area

Unemployment Rate

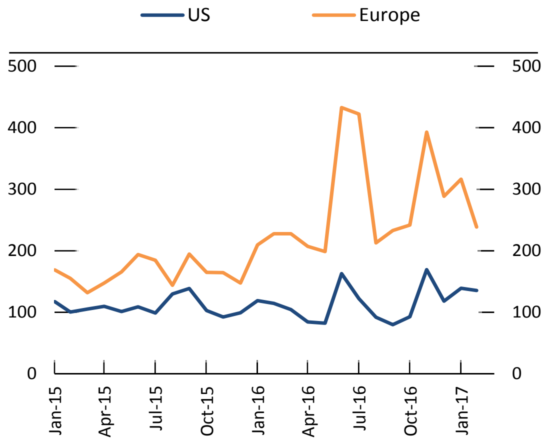


Source: NBG Research, Bloomberg

Graph 6.

Policy uncertainty remains elevated albeit decelerating

Policy Uncertainty Indices

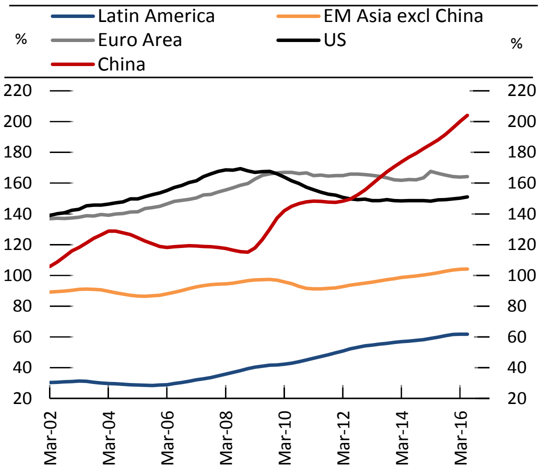


Source: NBG Research, policyuncertainty.com

Graph 7.

Private debt in China has increased to 210% of GDP

Private Debt as % of GDP



Source: NBG Research, Bank for International Settlements, IMF

Graph 8.

Current account imbalances are of major importance in an environment of higher USD rates

	GDP Growth (%)		Fiscal Balance (%)		Inflation* (%)		CA Balance (%)		External Debt** / GDP (%)	
	2017	Δ	2017	Δ	2017	Δ	2017	Δ	2017	
EM Asia	**6,3**	**-0,2**	**-3,7**	**-0,3**	**3,3**	**0,1**	**0,85**	**-0,8**	**N/A**	
China	6,5	-0,2	-3,2	-0,4	2,3	0,0	1,6	-0,8	3,9	↓
India	7,2	0,6	-6,6	0,1	5,3	0,0	-2,0	-0,6	20,5	↓
Indonesia	5,3	0,4	-2,6	-0,1	4,4	1,0	-2,3	-0,1	37,2	–
Korea	3,0	0,3	1,4	0,2	2,2	0,8	5,9	-1,3	27,9	↓
Malaysia	4,6	0,3	-2,9	0,6	3,0	0,9	1,5	0,3	64,3	↓
Philippines	6,7	0,3	-1,6	-1,1	3,2	0,3	1,4	-0,4	25,4	↓
Thailand	3,3	0,0	-0,3	-0,2	1,7	0,3	7,7	-2,0	33,6	↓
EM LatAm	**1,6**	**2,1**	**-7,0**	**0,6**	**3,9**	**-1,2**	**-2,3**	**0,0**	**N/A**	
Brazil	0,2	3,7	-7,8	1,1	5,0	-2,3	-1,3	-0,5	41,5	–
Mexico	1,7	-0,5	-2,6	1,6	3,1	0,0	-2,8	0,0	46,2	↓
Colombia	2,7	0,5	-1,6	0,4	3,7	-2,3	-4,2	1,0	45,9	↓
Chile	2,0	0,3	-1,8	0,7	3,0	-0,5	-2,4	-0,5	65,5	↑
EMEA	**3,1**	**-0,1**	**-2,2**	**0,1**	**3,7**	**-0,2**	**-2,9**	**-1,0**	**N/A**	
Russia	1,1	1,7	-1,9	1,4	4,9	-1,0	3,5	0,4	37,0	↓
Hungary	2,5	0,5	-2,5	-0,3	2,6	1,8	4,6	-0,3	86,4	↓
Poland	3,4	0,2	-2,9	0,4	1,5	1,3	-1,0	-0,9	76,1	↑
South Africa	0,8	0,5	-3,0	0,0	5,5	-1,2	-3,2	0,2	43,2	↓
Turkey	3,0	-0,3	-1,8	0,4	6,2	-2,9	-5,6	-1,2	57,1	↑

Source: IMF --- *End of period inflation, **External debt includes Private & Government Debt

Δ = difference from 2016

Graph 9.

- **We expect Fed rate hikes to probably resume in March as long as incoming data (nonfarm payrolls, inflation) continue to be consistent with the FOMC outlook.** The shift in the US policy mix towards higher spending and lower taxes from end-2017 could trigger more-aggressive-than-expected tightening. Currently, the Fed expects 3 hikes by end-2017 to 1.50%.

- The Fed will continue to reinvest maturing UST and MBSs (c. $400bn in 2017). Reinvestments (in full) will likely continue at least until end-2017, albeit some FOMC members have cautioned the possibility of discussions to end reinvestments. Note, however, that the balance sheet normalization process is also dependent at the speed of hikes. More interest rate increases will result in halting reinvestments/reducing securities holdings earlier-than-expected. Three vacant Governor positions (out of seven) can be filled in 2017, with Yellen's chairmanship ending in early 2018. The Trump administration's views on monetary policy remain unclear.

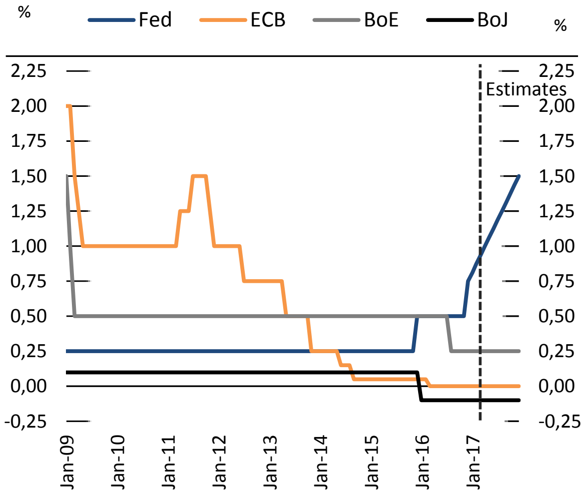
- **The ECB will gradually turn less dovish in the absence of political risks**. Asset purchases will continue at the pace of €60bn per month from April 2017 to December 2017. Assuming positive economic momentum and increasing inflation, the ECB could signal, in mid-2017, its intention to begin slowing further its asset purchases (January 2018) and ending them in mid-2018 (e.g. gradually reducing its bond purchases by €10bn per month). The 33% issuer limit (ECB holdings as % of an issuer's marketable government debt) remains a constraint in some jurisdictions (Portugal: 30%, Germany 29% and Ireland: 25%).

- Interest rates will remain unchanged (MRO:0.0%, DFR:-0.40%), albeit there is a small possibility for an increase in the DFR before the end of QE. The latter presupposes that the ECB will modify its commitment on interest rates "that are expected to remain at current/lower levels well past the horizon of our net asset purchases".

- **The Bank of Japan will remain vigilant regarding disinflationary pressures, maintaining the yield target at "around zero per cent"** for the 10Yr Japanese Government Bond, with the aim of controlling the JGB curve. Negative interest rates on banks' deposits (-0.10%) will remain in place, with limited risk for additional cuts. The BoJ will continue its JGB purchases, "more or less", at an annual pace of ¥80tn. However, the commitment to yield targeting could imply significant fluctuations from the purchases target, with BoJ assets already at c.100% of GDP (graph 11).

- **The BoE is expected to remain on hold, with the policy rate at 0.25%.** Gilt purchases under the expanded QE programme will conclude in February (£435bn) and GBP corporate bonds in February 2018 (£10bn). In the first year of negotiations between the Government and the EU and with policy uncertainty peaking, the BoE may prefer to adopt a "wait-and-see" approach. However, inflation risks are skewed to the upside, in view of the vulnerability of the Pound, with the CPI expected to exceed the target of 2.0% (+2.6% yoy in H2:17).

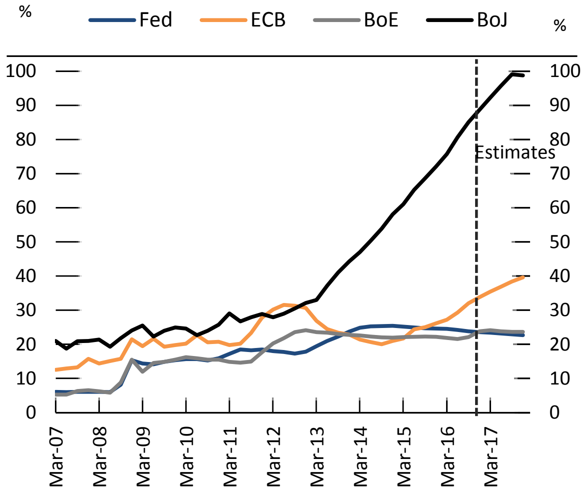
Central Banks Key Policy Rates



Source: NBG Research, National Central Banks, Bloomberg

Graph 10.

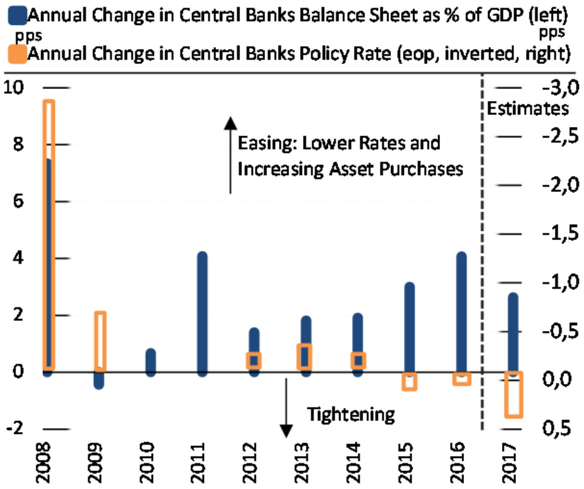
Central Bank Assets as % of GDP



Source: NBG Research, National Central Banks, Bloomberg

Graph 11.

G4 Central Banks



Source: NBG Research, National Central Banks, Bloomberg, GDP Weighted Data for Euro Area, Japan, UK, US

Graph 12.

- **Global equity markets have recorded satisfactory gains, so far, in 2017**, in anticipation of tax cuts, positive companies' earnings announcements and strong macro surprises (graph 13). **We are OW equities (53% NBG Global vs 50% Benchmark) over a 12-month horizon.** Following gains of circa 5% year-to-date, we still expect single-digit returns by end-year (see our Dividend Discount Model Section) from current levels in our baseline scenarios.

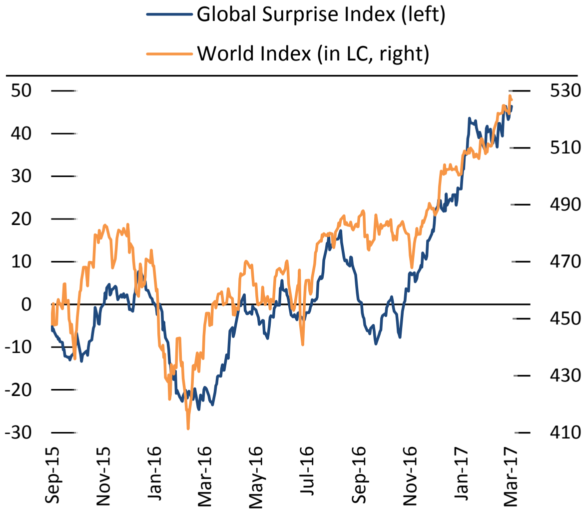
- Corporate earnings will be supported by stronger nominal GDP growth and lower taxes. **As a result, EPS growth will push up prices. We do not expect sizeable increases in P/E multiples.** Indeed, valuations are stretched and have exceeded their respective averages by over 1 sigma (graph 15) in most DMs (ex-Japan). The main risks comprise revisions to earnings expectations in line with the downward trend of 2015/2016 (graph 20) and increased tensions between the US and key trading partners leading to higher risk premia (and lower prices).

- **We expect the S&P500 to outperform** due to (eventually) stronger EPS growth and the ongoing support for the US market by share buybacks (the prospect of a repatriation tax holiday on overseas cash may boost buybacks further). On a negative note, delays on tax reform and deregulation may dent investors' sentiment towards US equities.

- We remain concerned about political risks, particularly in Europe. **A heavy political calendar keeps us benchmark-weighted on EuroStoxx** for now. However, an improving economic performance (GDP, PMIs, confidence indices), may create opportunities in Q2, assuming mainstream candidates prevail in The Netherlands and France. The strong performance in UK equities post-Brexit (in local currency terms – graph 26) was mainly due to GBP weakness, thus we do not see any significant upside going forward (12-months). **Under-weighted FTSE 100.**

- **Benchmark-weighted Nikkei225. Valuations are supportive for Japanese** equities and corporate profitability will benefit from the upturn in global economic activity. The BoJ will continue to purchase Equity ETFs. On the other hand, global trade protectionism concerns are market-negative. Nevertheless, Japan's equity market has been highly correlated with the JPY performance (despite some divergence year-to-date – see graph 27) with stocks gaining ground due to a weakening yen. Thus, an investor considering going long Japanese equities should hedge its currency exposure.

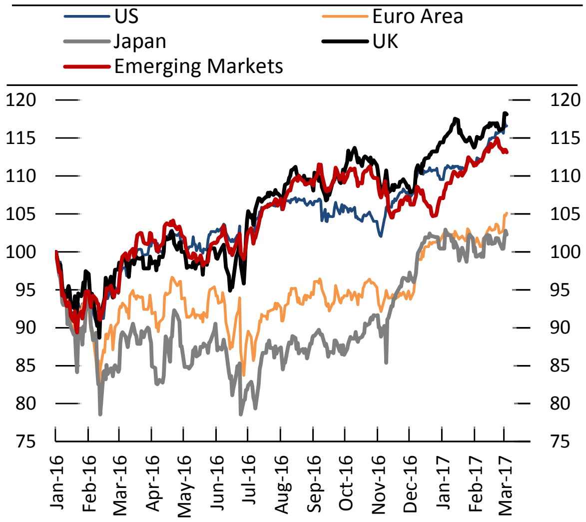
Global Economic Surprise & World Equities



Source: NBG Research, Bloomberg, Deutsche Bank

Graph 13.

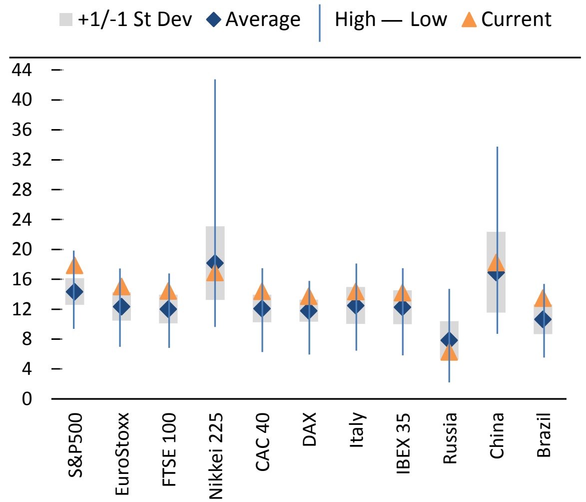
Equity Market Performance



Source: NBG Research, Bloomberg, January 2016 = 100

Graph 14.

Equity Market Valuations:12 Month frw Price to Earnings



Source: NBG Research, Factset, Sample period (2004-2017)

Graph 15.

- **We have adopted a more favorable view of EM equities (neutral vs consensus: Underweight)** as valuations are attractive, "trade-war" concerns appear exaggerated. The MSCI Emerging market has recouped its post-US election losses and equities trade at a discount relative to DMs.

- **However, increasing market expectations for a more aggressive-than-expected Fed may result in higher yields and a stronger USD, both negative for emerging market equities.** In the EM spectrum, Russia still appears cheap based on 12-month forward PE valuations (graph 37). We prefer Brazil where growth is expected to accelerate following two years of recession and monetary policy to ease further in 2017 and India (as more insulated to trade disruptions).

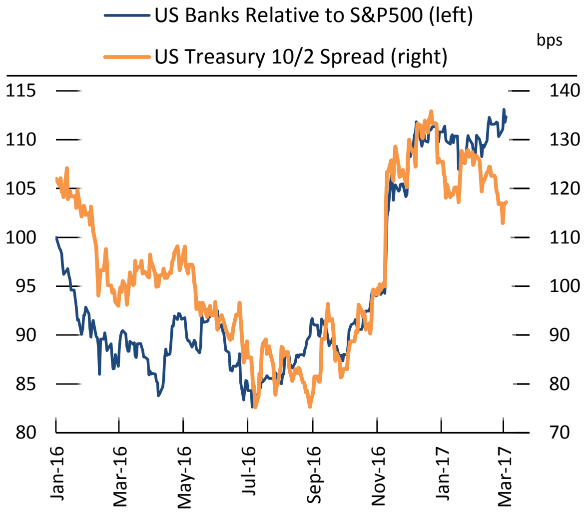
- **Our US sector allocation retains a cyclical tilt. The direction of US bond yields is crucial for Cyclicals/Defensives relative performance;** a move higher in yields that reflects buoyant economic activity will further support Cyclicals despite their significant over-performance since US elections. At the same time, relative valuations are not a huge constraint. Indeed, US Cyclicals/Defensives valuation gap has increased (from low levels) in favor of Cyclicals, albeit it remains broadly in line with the historical premium of relative PEs (circa 7% -- graph 32).

- **Intra-sector: We maintain a positive bias regarding Banks** (steeper yield curves, deregulation). US Banks will find support from higher interest rates and higher loan volumes. NPLs remain below 1% of total loans at large US banks and capital ratios are strong suggesting room for lending increase. UnderWeight Healthcare (particularly Pharma & Bio) as the sector may reverse its overperformance since 2009 (+170% vs +120% for the SPX) due to the partial repeal of Obamacare and drug-pricing concerns.

- **The relative overperformance of Euro area Defensives vs Cyclicals (+2% year-to-date) may hold as Euro area Defensives still offer a significant yield premium relative to Bunds (graph 18).** Moreover, euro area economic growth momentum is not likely to get significantly better. Intra-Defensives, we remain cautious in Consumer Staples as valuations remain expensive (P/E and P/BV ratios are near/above 1-standard deviation relative to the Eurostoxx). Moreover, Consumer Staples have the lowest correlation to Bund yields among sectors (based on our analysis of weekly returns during 1999-2016) and may underperform the market if Bund yields increase in the course of 2017.

- **Intra-Sector: Above-benchmark Banks**, as cheap valuations vs history on P/BV terms (0.9 P/BV vs 2.3 P/BV for the Stoxx600 ex-financials) and 2017 EPS growth expectations are 27% (vs 15.4% for the Stoxx600 ex-financials) and steeper curves will more than offset rising political risks and still sizeable NPEs in market segments (e.g. Italy).

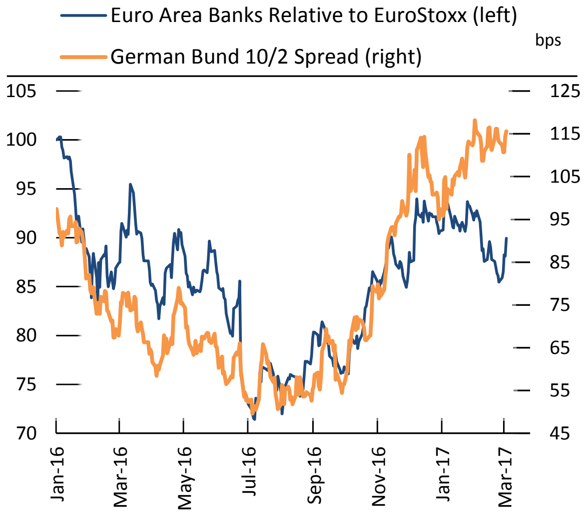
US Banks Relative to S&P500 & US 10/2 Spread



Source: NBG Research, Bloomberg

Graph 16.

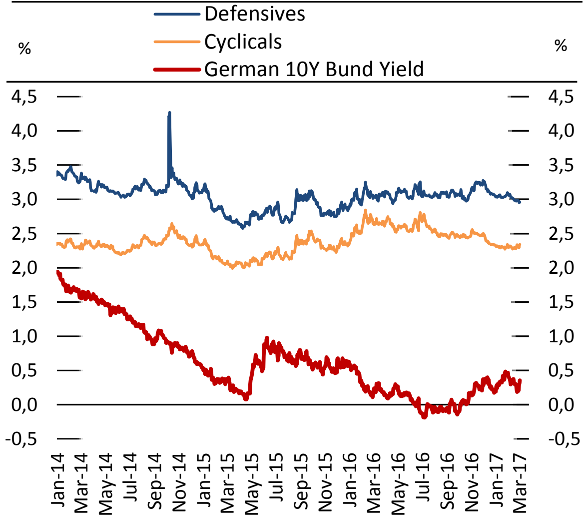
EA Banks Relative to EuroStoxx & EA 10/2 Spread



Source: NBG Research, Bloomberg

Graph 17.

Euro Area Equity Market Dividend Yield



Source: NBG Research, Bloomberg

Graph 18.

DDM Model Assumptions

- We expect the S&P500 to deliver single-digit returns in the range of 2%-6% (2450 from 2383 as of March 03). European stocks (+3% to +8%) could outperform their US peers in 2017 assuming political risk lessens as EPS prospects are relatively better (lower EUR, expanding profit margins) and the ECB remains supportive.
- The Japanese equity market has the biggest upside potential (+6% to + 14%) based on strong earnings growth expectations, inter alia, due to a weak currency, as well as an extra accommodative BoJ that aims to keep the risk free rate at around 0.10%.
- Dividends are projected by applying an expected dividend payout ratio (DPR) to forecasted earnings. We use the 3-year average of historical payout ratio (S&P500: 33%, Stoxx600:52% and Nikkei:31%), but the DPR increases gradually as it approaches the terminal-period.
- Earnings are forecasted by: i) combining consensus estimates (Factset) for t=1 (S&P500:+10%, Stoxx600:+14% and Nikkei:13%); ii) stable earnings growth for t=2…5 based on past 5-year average earnings growth as we assume that investors acknowledge the cyclical nature of earnings (S&P500: 7.2%, Stoxx600: 8.5%, Nikkei225: 4%); and iii) a perpetuity growth rate equivalent to long-term nominal GDP growth (S&P500: 4.5%, Stoxx600: 3.0%, Nikkei225: 1.5%).
- The Cost of Equity (Equity Risk Premium + Risk free rate) has demonstrated a stable pattern. In Table 1, we summarize our assumptions and DDM-based sensitivity results for main equity indices.

We use the following Dividend Discount Model:

$$Price_0 = \sum_{i=1}^{5} \frac{D_i}{(1+\ K_e)^i} + \frac{PE_{terminal} * EPS_{terminal}}{(1+\ K_e)^5}$$

$$\textbf{A)}\ Dividend\ in\ Year\ i =\ D_i = (Payout\ Ratio) * \ldots$$
$$\ldots (12m\ Forward\ EPS) * (1+\ 5yr\ Annualized\ EPS\ Growth\ Rate)^{i-1}$$

$$\textbf{B)}\ Cost\ of\ Equity =\ K_e = 10yr\ Nom. Bond\ Yield + Equity\ Risk\ Premium$$

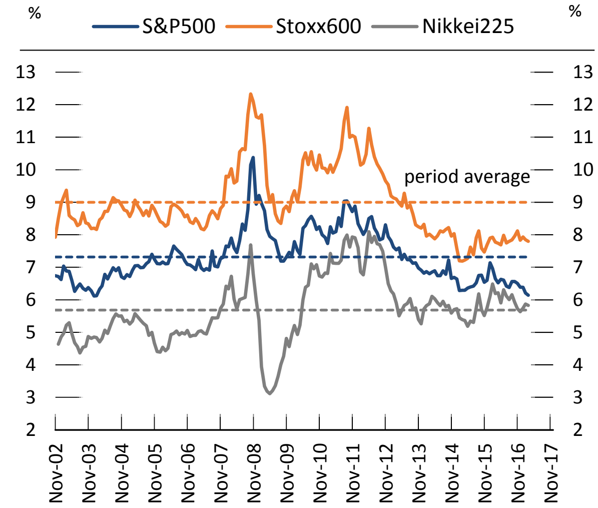
$$\textbf{C)}\ EPS_{terminal} = (12m\ Forward\ EPS) * \ldots$$
$$\ldots (1+\ 5yr\ Annualized\ EPS\ \ Growth\ Rate)^4 * (1+\ g_{terminal})$$

$$where\ g_{terminal} =\ Long\ term\ GDP\ growth + Inflation\ rate$$

$$\textbf{D)}\ PE_{terminal} = \frac{Payout\ Ratio_{terminal}}{(K_e -\ g_{terminal})}$$

$$where\ Payout\ Ratio_{terminal} =\ 1 - \frac{g_{terminal}}{K_e}$$

Cost of Equity = Risk Free Rate + Equity Risk Premium



Source: NBG Research

Graph 19.

Sensitivity Analysis: ERP and Risk-free rate changes' impact on Equity Prices

S&P500 - Equity Risk Premium

US - Nominal Risk-free rate	2,7%	3,0%	3,3%	3,6%	3,9%	4,2%	4,5%
1,8%	42,1%	32,0%	23,2%	15,3%	8,3%	2,0%	-3,7%
1,9%	38,6%	28,9%	20,4%	12,9%	6,1%	0,0%	-5,5%
2,0%	35,2%	26,0%	17,8%	10,5%	4,0%	-1,9%	-7,2%
2,1%	32,0%	23,2%	15,3%	8,3%	2,0%	-3,7%	-8,9%
2,2%	28,9%	20,4%	12,9%	6,1%	0,0%	-5,5%	-10,5%
2,3%	26,0%	17,8%	10,5%	4,0%	-1,9%	-7,2%	-12,1%
2,4%	23,2%	15,3%	8,3%	2,0%	-3,7%	-8,9%	-13,6%
2,500%	20,4%	12,9%	6,1%	2375	-5,5%	-10,5%	-15,1%
2,6%	17,8%	10,5%	4,0%	-1,9%	-7,2%	-12,1%	-16,5%
2,7%	15,3%	8,3%	2,0%	-3,7%	-8,9%	-13,6%	-17,9%
2,8%	12,9%	6,1%	0,0%	-5,5%	-10,5%	-15,1%	-19,3%
2,9%	10,5%	4,0%	-1,9%	-7,2%	-12,1%	-16,5%	-20,6%
3,0%	8,3%	2,0%	-3,7%	-8,9%	-13,6%	-17,9%	-21,9%

Stoxx600 - Equity Risk Premium

Europe - Nominal Risk-free rate	6,2%	6,5%	6,8%	7,1%	7,4%	7,7%	8,0%
0,0%	31,4%	24,5%	18,2%	12,5%	7,2%	2,4%	-2,1%
0,1%	29,0%	22,3%	16,2%	10,7%	5,6%	0,9%	-3,5%
0,2%	26,7%	20,2%	14,3%	8,9%	4,0%	-0,6%	-4,9%
0,3%	24,5%	18,2%	12,5%	7,2%	2,4%	-2,1%	-6,2%
0,4%	22,3%	16,2%	10,7%	5,6%	0,9%	-3,5%	-7,5%
0,5%	20,2%	14,3%	8,9%	4,0%	-0,6%	-4,9%	-8,8%
0,6%	18,2%	12,5%	7,2%	2,4%	-2,1%	-6,2%	-10,0%
0,690%	16,2%	10,7%	5,6%	373	-3,5%	-7,5%	-11,3%
0,8%	14,3%	8,9%	4,0%	-0,6%	-4,9%	-8,8%	-12,5%
0,9%	12,5%	7,2%	2,4%	-2,1%	-6,2%	-10,0%	-13,6%
1,0%	10,7%	5,6%	0,9%	-3,5%	-7,5%	-11,3%	-14,8%
1,1%	8,9%	4,0%	-0,6%	-4,9%	-8,8%	-12,5%	-15,9%
1,2%	7,2%	2,4%	-2,1%	-6,2%	-10,0%	-13,6%	-16,9%

Nikkei225 - Equity Risk Premium

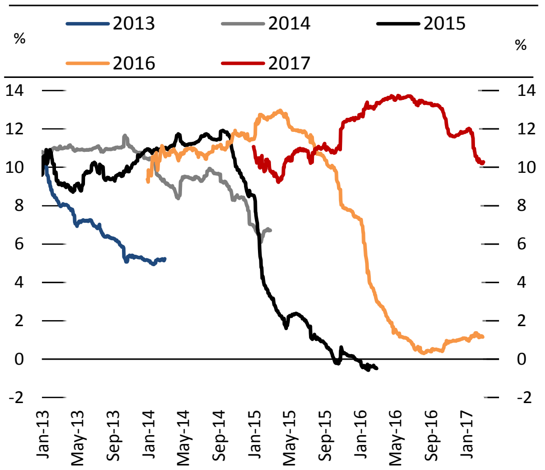
Japan - Nominal Risk-free rate	4,9%	5,2%	5,5%	5,8%	6,1%	6,4%	6,7%
-0,6%	45,0%	34,1%	24,5%	16,2%	8,7%	2,1%	-3,9%
-0,5%	41,2%	30,8%	21,6%	13,6%	6,4%	0,0%	-5,8%
-0,4%	37,5%	27,6%	18,8%	11,1%	4,2%	-2,0%	-7,6%
-0,3%	34,1%	24,5%	16,2%	8,7%	2,1%	-3,9%	-9,3%
-0,2%	30,8%	21,6%	13,6%	6,4%	0,0%	-5,8%	-11,0%
-0,1%	27,6%	18,8%	11,1%	4,2%	-2,0%	-7,6%	-12,6%
0,0%	24,5%	16,2%	8,7%	2,1%	-3,9%	-9,3%	-14,2%
0,074%	21,6%	13,6%	6,4%	19379	-5,8%	-11,0%	-15,7%
0,2%	18,8%	11,1%	4,2%	-2,0%	-7,6%	-12,6%	-17,2%
0,3%	16,2%	8,7%	2,1%	-3,9%	-9,3%	-14,2%	-18,6%
0,4%	13,6%	6,4%	0,0%	-5,8%	-11,0%	-15,7%	-20,0%
0,5%	11,1%	4,2%	-2,0%	-7,6%	-12,6%	-17,2%	-21,4%
0,6%	8,7%	2,1%	-3,9%	-9,3%	-14,2%	-18,6%	-22,7%

Note: Values at the centre of each table are equity index prices as of March 6

Table 1.

S&P500 2017 EPS do not incorporate tax cuts (yet)…

S&P500 EPS Growth YoY – Evolution of Forecasts

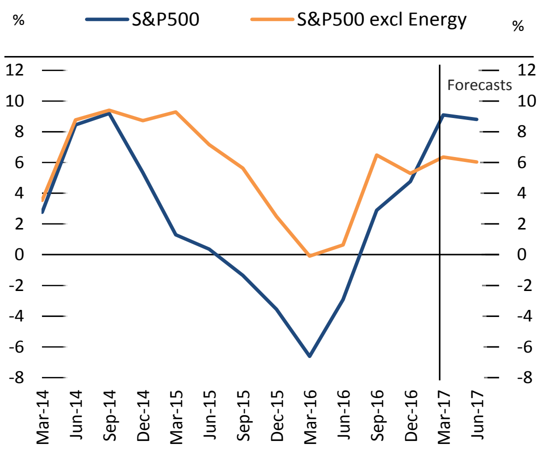


Source: NBG Research, Factset

Graph 20.

…albeit the recovery of S&P500 EPS is obvious following 5 quarters of deceleration

S&P 500 EPS Growth YoY

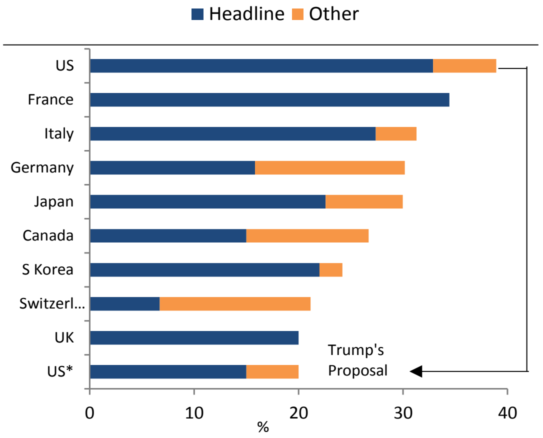


Source: NBG Research, Factset

Graph 21.

Trump Presidency aims to reduce taxes

Corporate Taxes



Source: NBG Research, OECD

Graph 22.

The impact of the proposed statutory tax rate cut could boost S&P500 EPS (ex-financial) earnings by 10% yoy

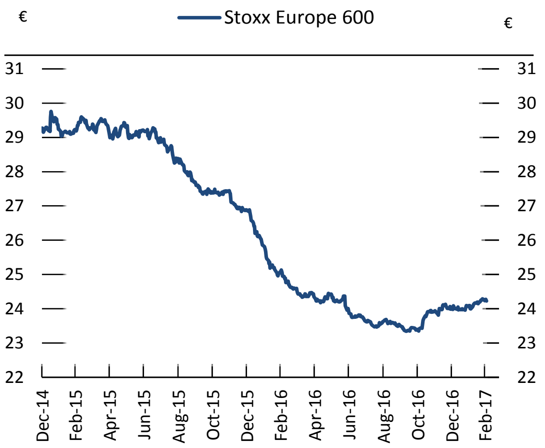
Tax Rate	Effective Tax Rate	S&P500 excl Financials Net Income ($bn)	S&P500 excl Financials Net Income Growth
15%	18%	721,5	14,0%
20%	21%	695,8	10,0%
25%	24%	670,1	6,0%
30%	27%	644,4	2,0%
35%	30%	630,2	-

Source: NBG Research, Factset, Current tax rate for Domestic Income:35%, for Foreign Income:20%

Graph 23.

2017 EPS in Europe has stabilized since October 2016…

2017 EPS

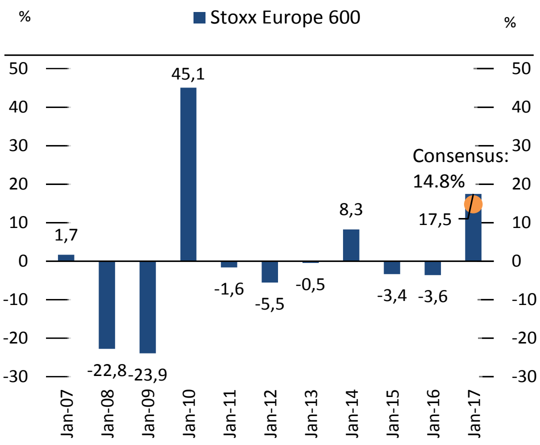


Source: NBG Research, Factset

Graph 24.

… and is expected at 14.8% y-o-y in 2017, the highest since 2010

Stoxx Europe 600 EPS Growth

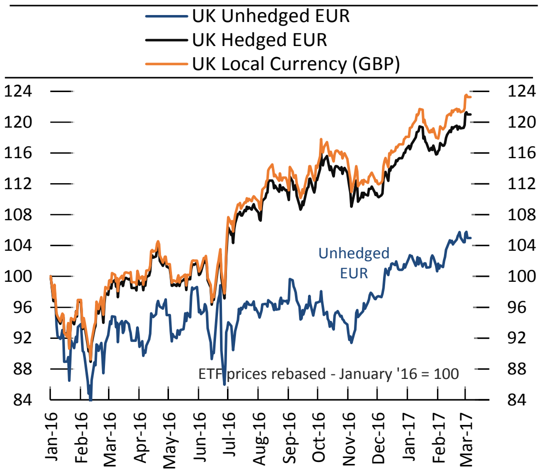


Source: NBG Research, Factset

Graph 25.

UK Equities have overperformed, mainly due to the weaker currency

MSCI UK Exchange-Traded Funds

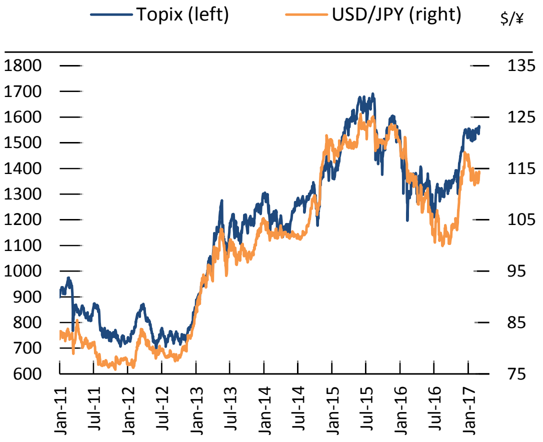


Source: NBG Research, Bloomberg, BlackRock, Amundi, UBS

Graph 26.

Japanese equities are highly influenced by JPY movements

Japanese Equities vs FX

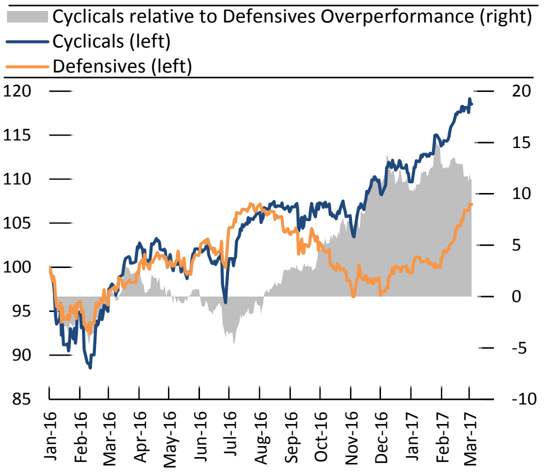


Source: NBG Research, Bloomberg

Graph 27.

US cyclicals have overperformed defensives significantly since the US Elections

S&P500 Cyclicals vs Defensives Performance

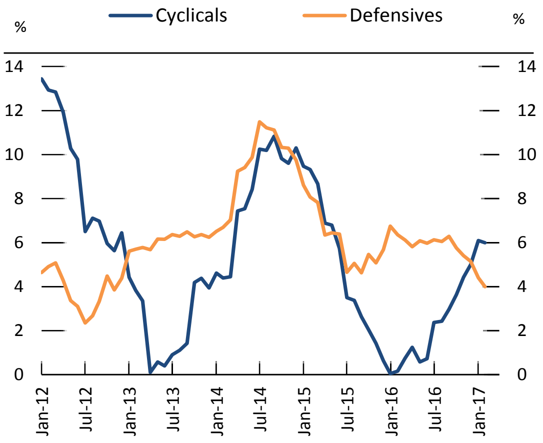


Source: NBG Research, Bloomberg, January 2016 = 100

Graph 28.

US Cyclicals 12-month forward EPS are increasing

S&P500 12-month Forward EPS YoY

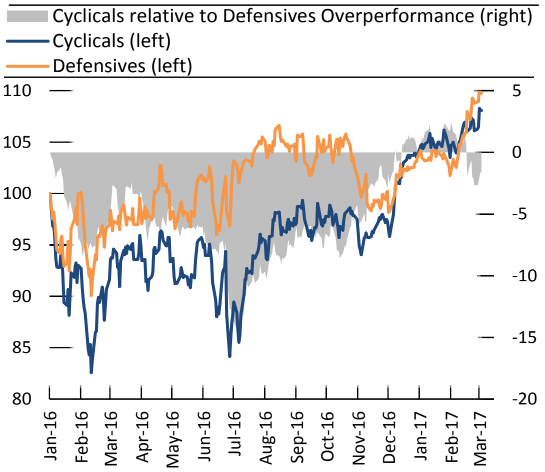


Source: NBG Research, Factset

Graph 29.

EA Cyclicals equities have recently returned some of their gains

EuroStoxx Cyclicals vs Defensives Performance

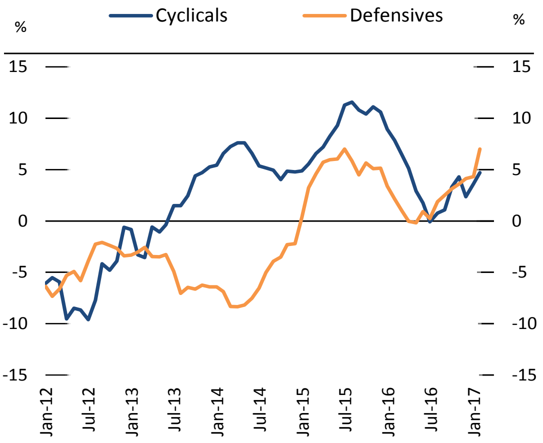


Source: NBG Research, Bloomberg, January 2016 = 100

Graph 30.

Cyclicals and Defensives 12-month forward EPS are moving higher

EuroStoxx 12-month Forward EPS YoY

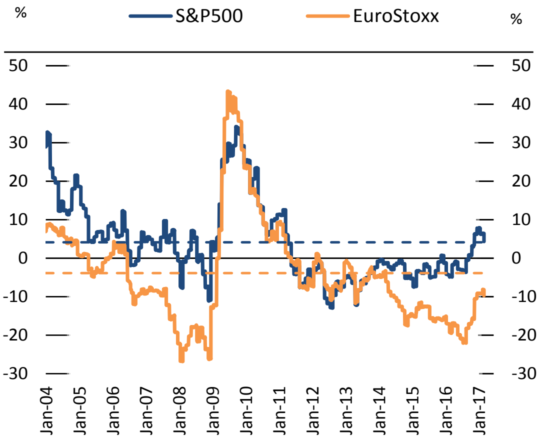


Source: NBG Research, Factset

Graph 31.

Cyclicals Relative to Defensives valuations are in line with historical averages in the US

12m forwPE:Cyclicals Discount Relative to Defensives

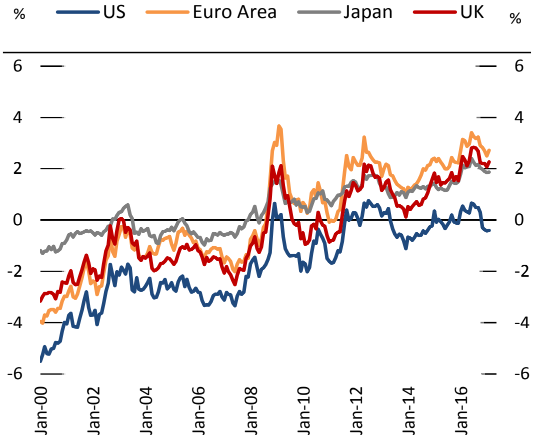


Source: NBG Research, Datastream

Graph 32.

High dividend yield equities remain attractive in the euro area and the UK

Equity Dividend Yield vs Bond Yield



Source: NBG Research, Bloomberg

Graph 33.

G4 earnings estimates are expected to be robust in 2017

2017 Consensus EPS Growth Estimates (%)

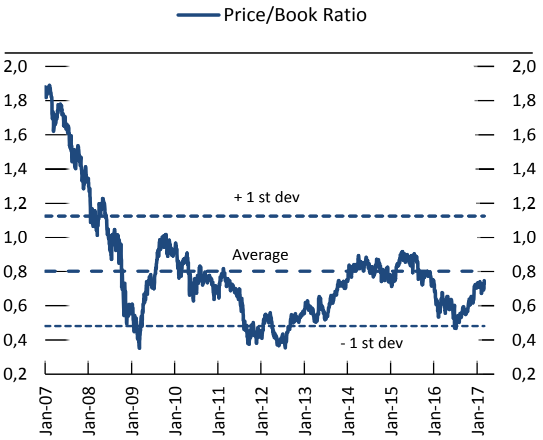
	S&P500	EuroStoxx	FTSE 100	Nikkei 225
Energy	308,0	9,3	118,8	141,1
Materials	12,1	16,9	10,6	13,4
Financials	12,1	32,4	24,1	2,3
Real Estate	2,2	7,5	-	-
Industrials	3,6	9,3	4,6	24,5
Consumer Discretionary	6,6	11,2	8,6	21,8
IT	8,3	12,8	0,0	4,5
Consumer Staples	5,3	9,3	16,4	55,7
Health Care	5,1	9,3	0,0	5,9
Telecom	0,8	25,7	1,9	9,5
Utilities	2,2	-5,4	1,2	-21,5
Market	10,1	18,5	28,4	15,4
Market ex-Financials	9,7	10,7	18,0	28,3
Market ex-Energy	7,7	11,0	7,5	12,9

Source: NBG Research, Factset

Graph 34.

Euro area banks: Still cheap valuations relative to history on P/BV terms

Euro Area Banks 12m Forw Price/Book Ratio

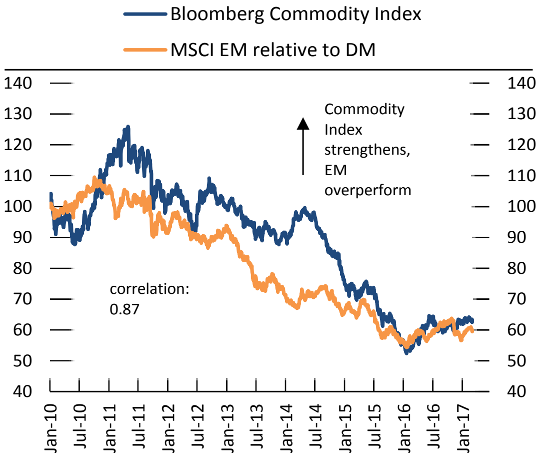


Source: NBG Research, Factset

Graph 35.

EM Equities performance is highly sensitive to commodities

Commodity Price Index vs Equity Market

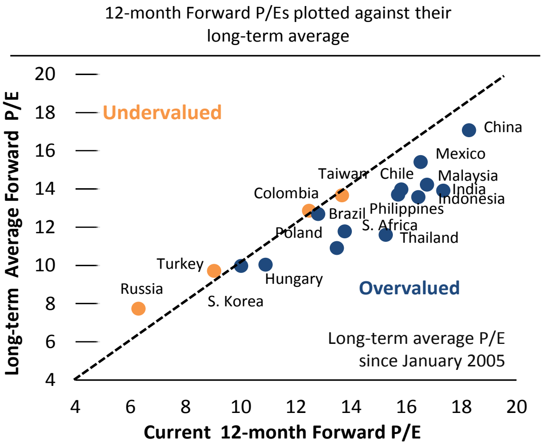


Source: NBG Research, Bloomberg, January 2010 = 100

Graph 36.

In EM, Russia & Turkey still appear cheap based on 12-month forward PE valuations

Emerging Markets Valuation Scatter Plot



Source: NBG Research, Factset

Graph 37.

- **We maintain our bearish view on government bonds.** Potentially easier fiscal policy, combined with tighter monetary policy (Fed tightening, ECB signals tapering in H2), will result in higher interest rates. Downside risks to yields remain due to a combination of increased global economic and political risks.

- **We expect markets to converge towards the Fed's guidance (3 hikes), thus the front-end of the UST curve remains vulnerable.** 2-year UST yields could end 2017 higher than forwards are pricing (2.05% for end-2017 vs 1.92% currently). Long-end yields will increase, however, foreign private sector buying of USTs (even after FX hedging costs, the yield pick-up remains significant) will hold back the increase in long-term rates. Break-even rates in CPI linkers have further upside given strong US inflation data (graph 39).

- **Bund rates should increase.** With German nominal GDP growth at 3%, the 10-Year Bund, at 0.30%, remains expensive relative to fundamentals. As short-term yields will remain in negative territory due to the ECB's bias to buy below the DFR (-0.40%), we expect the German curve to steepen during 2017. With increasing inflation and ECB tapering, 10-Year Bunds could reach 0.70% by end-2017. Bear in mind, however, that abrupt increases in yields could hurt Bunds more than US Treasuries.

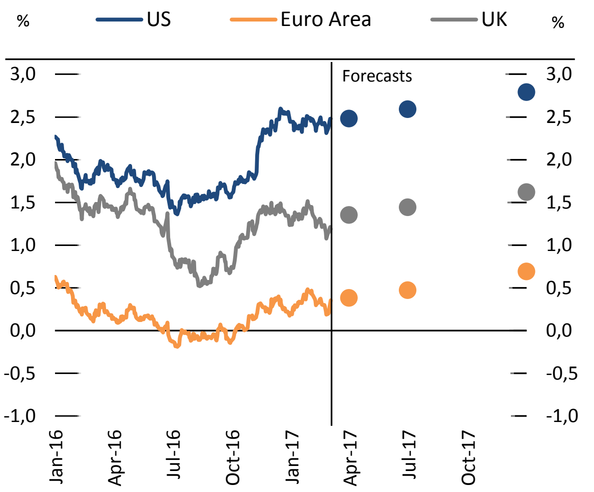
- **Intra euro-area periphery spreads have diverged.** Italian BTP spreads over Bunds have widened, reflecting banking sector woes and political uncertainty, whereas Spanish Bonos have remained resilient (graph 44). Tactically (until May/French elections), one should add to Bunds Overweight in order to hedge European political risk, even there are signs that the French political risk premium is subsidizing.

- Indeed uncertainty regarding the outcome of the French elections has weighed negatively on OATS bonds, with the spread over the German 10yr Bund up by 14 bps year-to-date to 62 bps, after peaking to 79 bps in February (the highest since November 2012). Uncertainty should persist until the elections take place (April/May).

- **Gilt yields will increase,** as inflation premia could rise further (10-BEI at 3% currently) and bond supply pick up due to fiscal easing. However, any significant deterioration in the growth/political uncertainty mix during "Brexit" negotiations could lead the Bank of England to monetary policy easing.

- **The ongoing QQE, with the yield curve control framework will continue,** with the BoJ demonstrating a preference for a steep curve (2s/10s spread has increased +15 bps ytd) and the 10-Yr JGB yield at around 0% (+/- 10bps). The Bank of Japan appears more comfortable with rising yields in the 10Yr plus sector. Thus, pressure from higher yields abroad and the re-building of the inflation term premium, is likely to impact JGBs yields with maturities of 20Yr+.

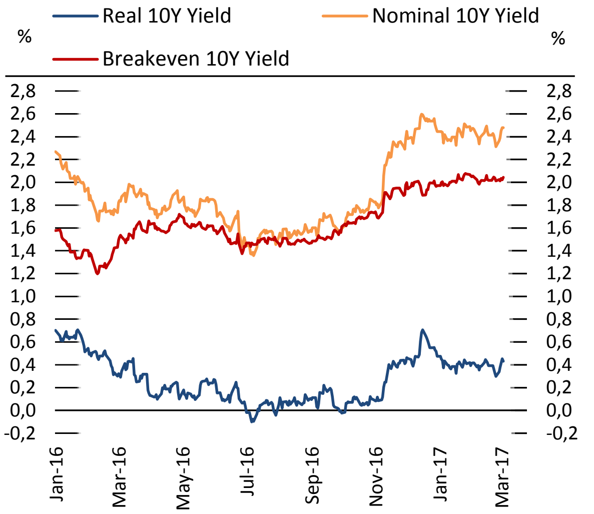
10-Year Government Bond Yields & Forecast



Source: NBG Research, Bloomberg

Graph 38.

US 10-Year Yields



Source: NBG Research, Bloomberg

Graph 39.

10-Year Government Bonds: Yield & Total Return Forecasts

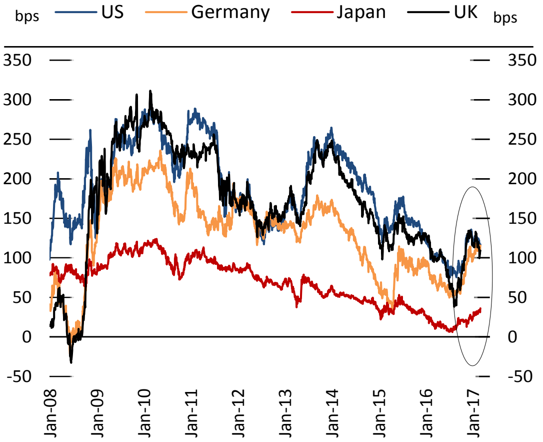
	Yield (%)			Total Return Forecasts* (%)	
	Current	3-month	12-month	3-month	12-month
Bund	0,32	0,40	0,70		
in LC				-0,7	-3,5
Euro Hedged				-0,7	-3,5
Euro Unhedged				-0,7	-3,5
USTs	2,52	2,65	2,90		
in LC				-0,6	-1,1
Euro Hedged				-1,0	-3,0
Euro Unhedged				-0,9	-0,4
Gilts	1,19	1,50	1,80		
in LC				-1,9	-2,2
Euro Hedged				-2,1	-3,0
Euro Unhedged				-2,4	-3,7
JGBs	0,07	0,10	0,15		
in LC				-0,3	-0,7
Euro Hedged				-0,3	-0,7
Euro Unhedged				-1,8	-5,1

Source: NBG Research, Bloomberg *Total return based on capital gain/losses and coupons based on yield forecasts

Graph 40.

10Y-2Y government bond spreads have increased since September 2016, albeit remaining low compared with their previous highs

10Y-2Y Government Bond Yield Spreads

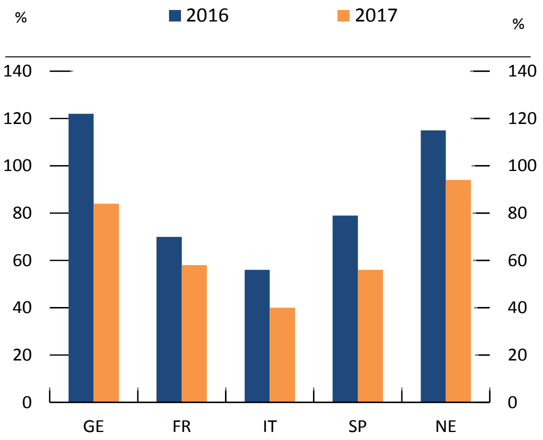


Source: NBG Research, Bloomberg

Graph 41.

ECB purchases will continue at a slower pace (€60bn) from April until December 2017

ECB PSPP Purchases as % of Gross Gov. Bonds Issuance

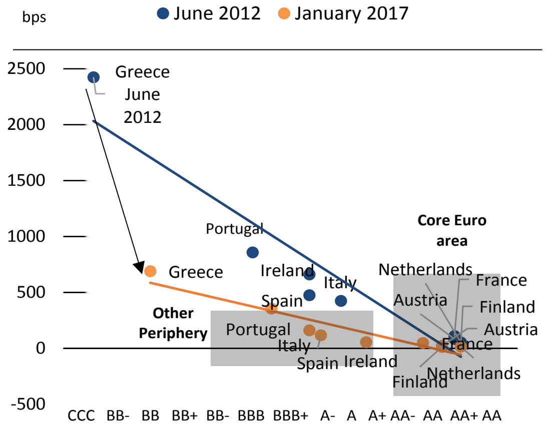


Source: NBG Research, Bloomberg

Graph 42.

The pre-QE rating/spread relationship suggests limited tightening for periphery government bond spreads

EA Countries Credit Ratings and 10Y Spreads over Germany

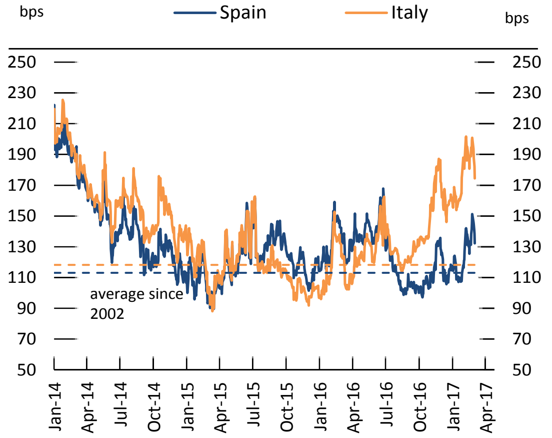


Source: NBG Research, Bloomberg, IMF Portugal Article IV

Graph 43.

Periphery 10-Year bond spreads have widened amid political risks

Periphery 10 Year Spreads

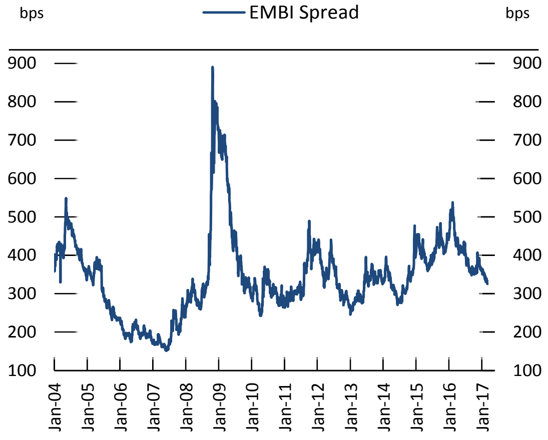


Source: NBG Research, Bloomberg

Graph 44.

EM positive macro economic data led to the decline of spreads

JPMorgan Emerging Markets Gov Bond Spread

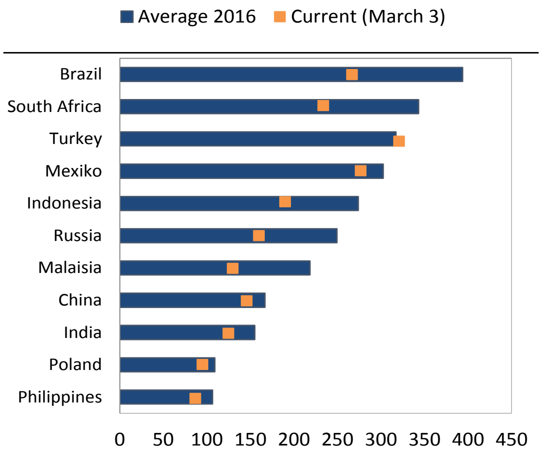


Source: NBG Research, JPMorgan

Graph 45.

Only Turkey sovereign spreads remain above their 2016 average

Emerging Markets Sovereign Bond Spreads



Source: NBG Research, JPMorgan

Graph 46.

- **In a rising interest rate environment, significant credit spread tightening is required for positive total returns.** As we are already near cycle lows, both in Investment Credit and High Yield spreads, **we turn neutral in credit, in a portfolio context.**

- **In Investment Grade, we expect spreads to remain tight.** Within Investment Grade, we remain positive on Banks vs non-Banks in the US due to the "reflation" regime (higher USTs, steeper yield curves, positive regulatory momentum).

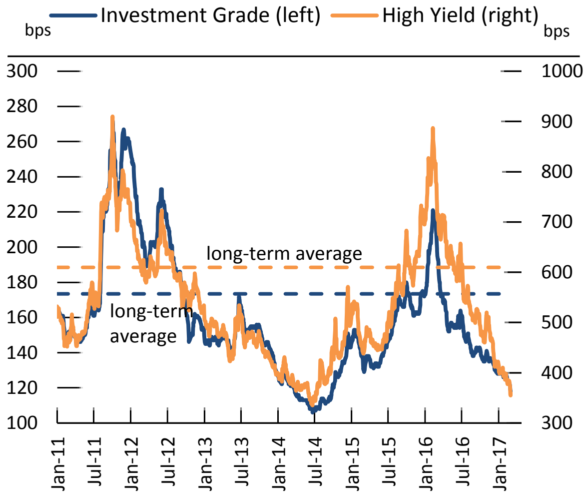
- **US Investment Credit spreads may benefit from lower net issuance** amid the prospective tax reform and, in particular, due to the prospect of the repatriation of US company earnings held abroad. However, increasing non-financial corporate leverage could be a headwind, particularly in a regime of higher interest rates. Moreover, US IG, the largest recipient of inflows during the previous three years (graph 52), could become more exposed to fund outflows in an increasing rate environment.

- **In a similar vein, EUR IG spreads have narrowed significantly, albeit the decline has stalled since mid-2016.** European company fundamentals remain more receptive to credit compared with their US counterparts. The ECB's CSPP programme may cap, to some extent, any spread widening caused by political uncertainty. However, we believe that corporate bond purchases by the ECB ($60bn – graph 53) have been fully reflected in valuations, thus we do not see scope for significant spread compression. **As we do not expect major spread moves on both sides of the Atlantic in our baseline scenario, for intra-class we turn Overweight US IG credit vs EUR IG to benefit in total return terms from higher coupons.**

- **We see more asymmetric risks in US High Yield (neutral), thus we do not apply the same judgement as above.** US High Yield outperformed last year both on an absolute (+15%) and a risk-adjusted return basis, with a Sharpe ratio of 2.6 due to fading US recession risks and the sharp rebound in commodities. Default rates (current: 5.6%, graph 50) may decline further amid an improving economic backdrop. However, valuations are tight and the expected USD strength is negative for High Yield. Moreover, the large share of Energy debt relative to the EUR index (15% vs 3%) amplifies the impact in a scenario where OPEC/non-OPEC production cuts do not materialize in full and oil prices decline towards $45/bl. In view of the uncertainty related to the European political calendar in the first half of 2016, **we remain neutral EUR High Yield.**

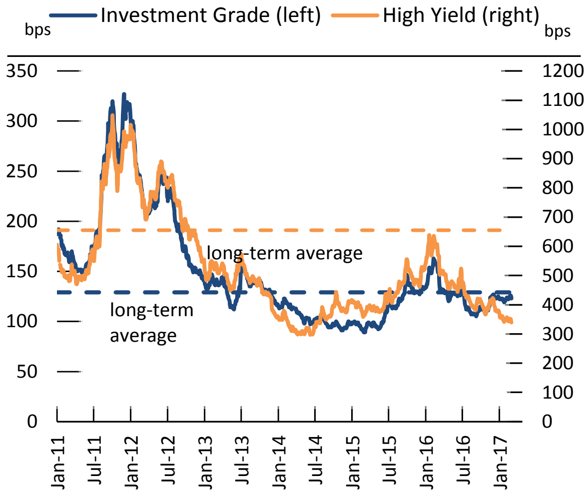
- **We are neutral for EM ($) credit, following the year-to-date rally that has pushed spreads lower by 50 bps since their peak post US Elections.** A renewal of the USD upside could hurt EM credit, especially regions with a high exposure to USD denominated debt (LatAm).

US Corporate Bond Spreads



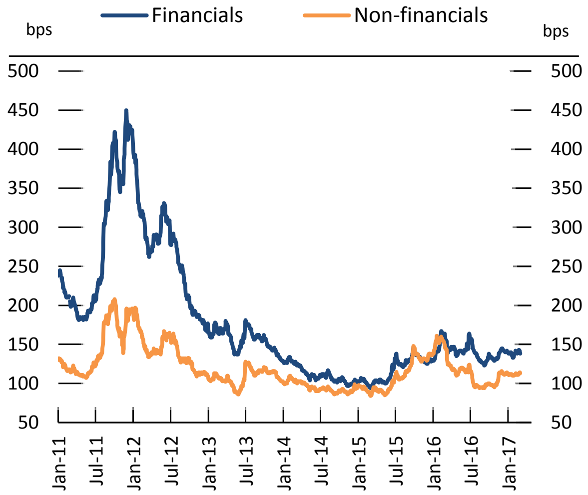
Source: NBG Research, Thomson Reuters, Merryll Lynch Indices Graph 47.

Euro Area Corporate Bond Spreads



Source: NBG Research, Thomson Reuters, Merryll Lynch Indices Graph 48.

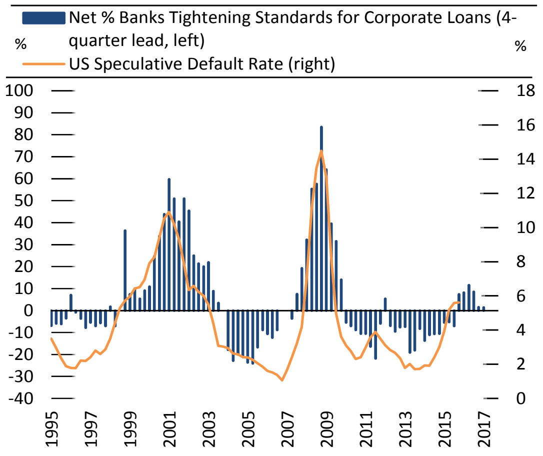
Euro Area Fin.-Non Fin. Corporate Bond Spreads



Source: NBG Research, Thomson Reuters, Merryll Lynch Indices Graph 49.

US bank lending standards stopped tightening in the past two quarters

US Default Rate & Tightening Standards for Corp Loans

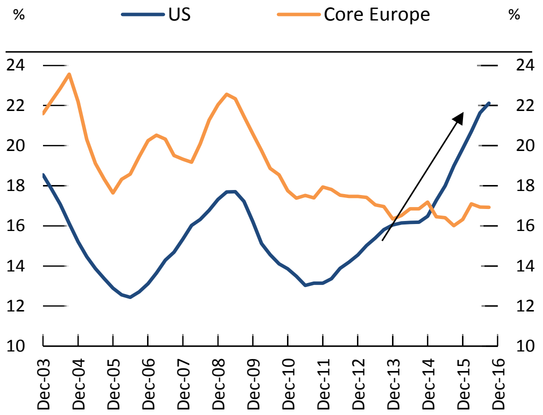


Source: NBG Research, Fed, Moody's

Graph 50.

Increasing company leverage could be a headwind for US IG spreads

US- Core Europe Firms:Net Debt to Total Assets Ratio

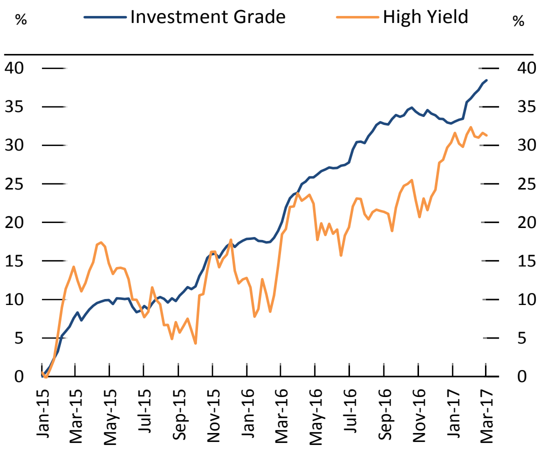


Source: NBG Research, Factset, Goldman Sachs Research, 4-quarter average, Ratio for median European and US Corporations with Marketable Debt

Graph 51.

Flows in Investment Credit and High Yield US companies remain strong

Credit ETF Flows as % of AUM

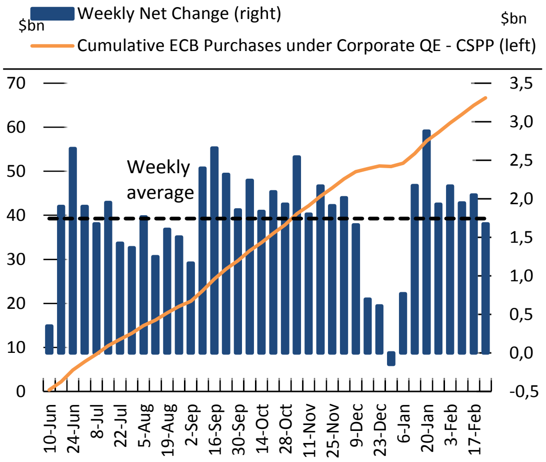


Source: NBG Research, Bloomberg

Graph 52.

The ECB has extended its QE to December 2017, albeit purchases will continue at a slower pace (€60bn) from April onwards

ECB CSPP Purchases

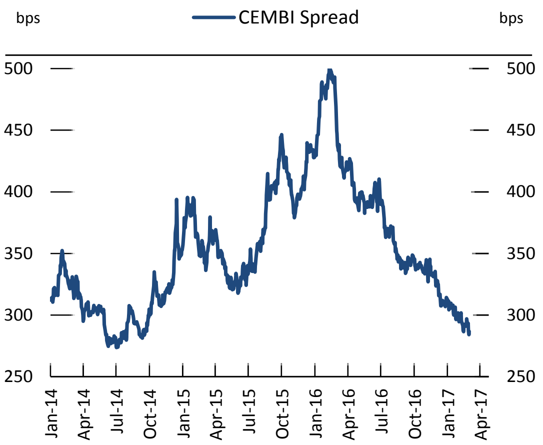


Source: NBG Research, Bloomberg

Graph 53.

Lower EM corporate spreads due to yield-hunting

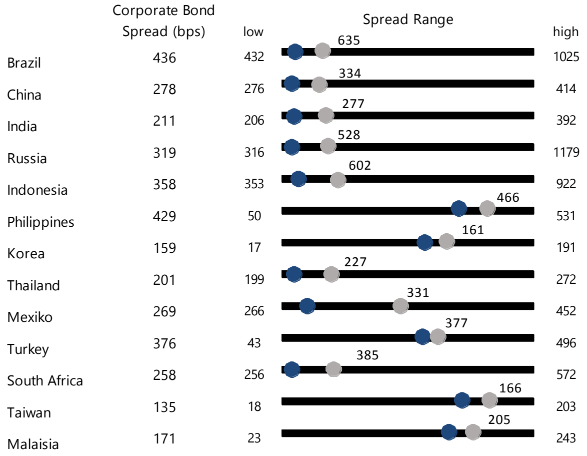
JPMorgan Emerging Markets Corporate Bond Spread



Source: NBG Research, JPMorgan

Graph 54.

Turkey is the only EM region where corporate spreads are close to average

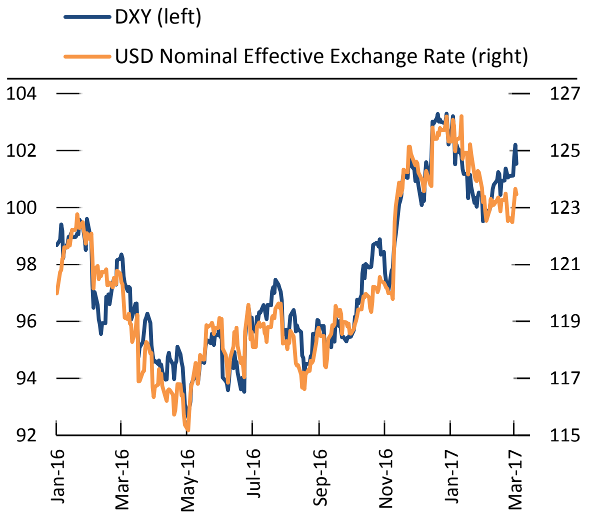


Source: NBG Research, JPMorgan, ● Blue dots are current spread levels, ● Grey dots are average spread levels, Data since December 2014

Graph 55.

- **USD strength is expected to continue (DXY index: +4% in 2016).** The near term pullback in the USD was due to stretched positioning and high uncertainty relative to Mr. Trump's trade priorities. Commentary by US officials, including President Trump, against German and Japanese trade policies suggests that the new Administration may adopt a weaker USD.
- However, US expansionary fiscal and tighter monetary policy will offset such "jawboning", providing additional support by year-end, particularly against EM FX (graph 56). The US Dollar could see significant gains assuming markets re-price higher (graph 57) their expectations for the Fed funds rate, as the USD is particularly vulnerable to US monetary policy expectations.
- **The prospect of a US border-adjustment tax (BAT)** could be very bullish for the USD. Note that the BAT appears to be a key instrument to fund any cut in the statutory corporate tax rate (as US imports more than it exports). In the US House Blueprint, 2/3 of the statutory tax rate cut to 20% (from 35%) is financed by the BAT (or $1.2tn out of $1.8tn). In theory, the USD would have to appreciate by 25% (20% / (1-20%) to offset the cost of BAT.
- **Much of the strengthening of the USD may have already taken place against the EUR** (current: $1.06), with the latter remaining vulnerable due to elevated political uncertainty. We look for the (EUR/USD) pair to score its lows, if any, in the first half of the year ($1.02-$1.05). However, we believe that mainstream parties will prevail in European elections and the ECB will "taper" its QE thereafter, both EUR positive. End 2017 target of $1.05.
- **We would use any USD/JPY appreciation/depreciation (-3% to ¥114 ytd) as buying opportunities.** We expect the USD to end 2017 at ¥120 against the Yen as interest rate differentials will continue to widen in favor of US rates. The BoJ will defend its yield-curve targeting as Japanese inflation (and inflation expectations) remain subdued.
- **We maintain our view** that Brexit risk premia, a "low-for-longer-than-peers" Bank of England and weak fundamentals (CA deficit at -6% of GDP), will drive down the British Pound both against the US Dollar ($1.20) and the euro (£0.90) during the course of the year.
- **Oil prices have upside potential towards $60/bbl,** assuming the agreed OPEC/non-OPEC production cuts proceed in the first half of the year, with the supply/demand balance turning negative from Q1/Q2 (graph 61). Risks are tilted to the downside, however, as compliance among members is not straightforward, while US shale production could accelerate sooner than later.
- **We are slightly positive on Gold (also as a small hedge in our portfolio),** as higher US real yields will be offset by periodic volatility spikes and safe-haven demand.
- **Industrial metals do not appear cheap** following a rally of 35% (graph 63) and positioning (net futures' contracts position of speculators according to CFTC data) is ultra-long, albeit increased US infrastructure and strong growth in China are positive factors. We rank industrial metals very low in our risk-adjusted return analysis, and thus we are underweight.

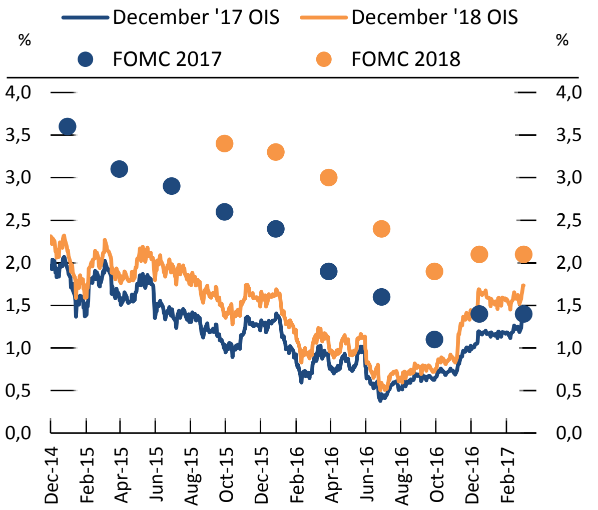
DXY Index & USD Nominal Effective Exchange Rate



Source: NBG Research, Bloomberg

Graph 56.

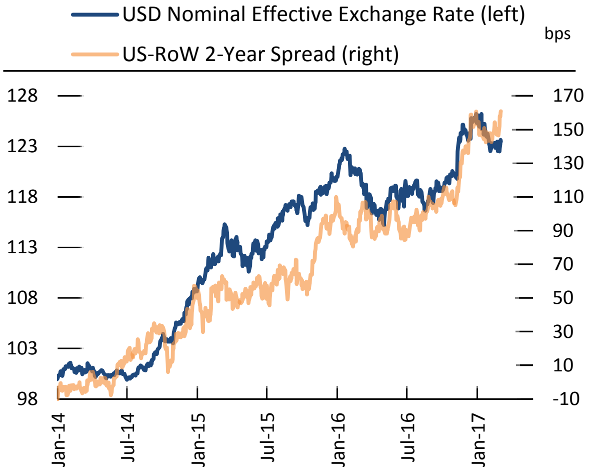
Fed Projections for Fed Funds rate and OIS rates



Source: NBG Research, Bloomberg, JPMorgan Research

Graph 57.

USD Nominal Effective Exchange Rate & US-Rest of the World Spread

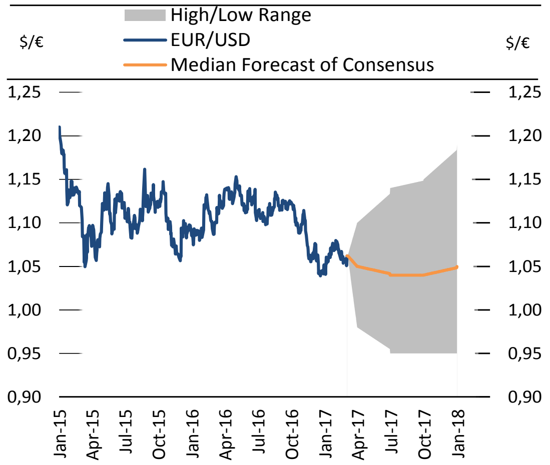


Source: NBG Research, Bloomberg

Graph 58.

Monetary policy divergence and increased political uncertainty call for a slightly stronger USD against the EUR (at least in H1-- before new ECB guidance)…

EUR/USD & Forecasts

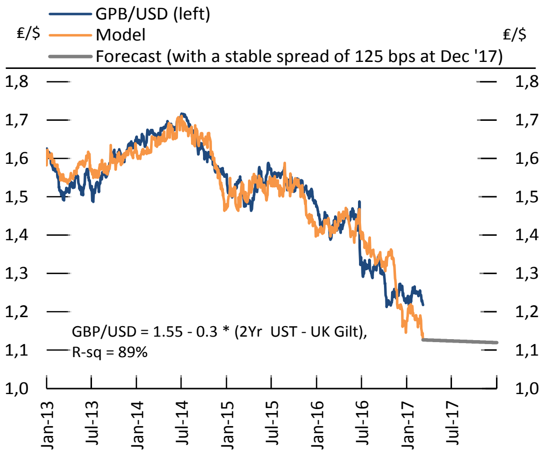


Source: NBG Research, Bloomberg

Graph 59.

… and against the GBP

GBP/USD & Model

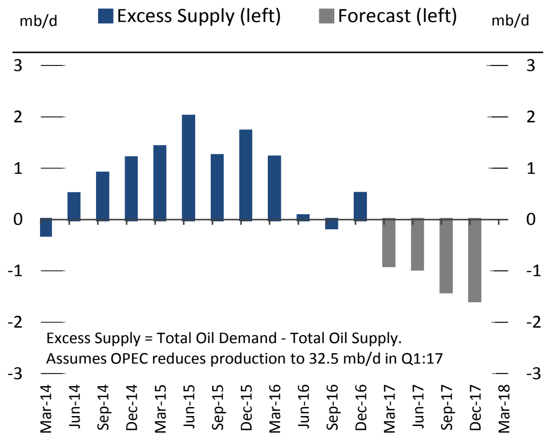


Source: NBG Research, Bloomberg - sample period Jan. 2013 – Jan. 2017

Graph 60.

Oil Supply/demand balance is expected to turn negative in Q1/Q2 2017

Oil Demand/Supply Balance

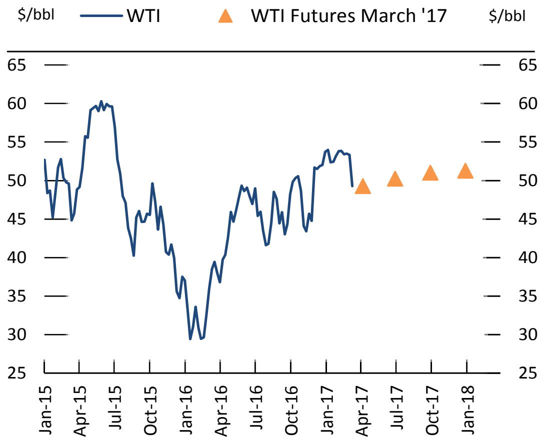


Source:NBG Research, International Energy Agency, Bloomberg

Graph 61.

Oil prices have upside potential towards $55-$60/bbl, assuming the agreed OPEC/non-OPEC production cuts proceed smoothly in the first half of the year

Oil Price & Futures

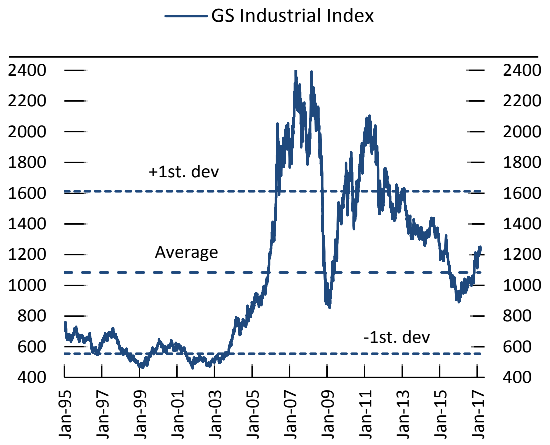


Source: NBG Research, Bloomberg

Graph 62.

Industrials have benefited from the strength of the Chinese manufacturing sector and prospects for infrastructure spending in the US

Industrial Index

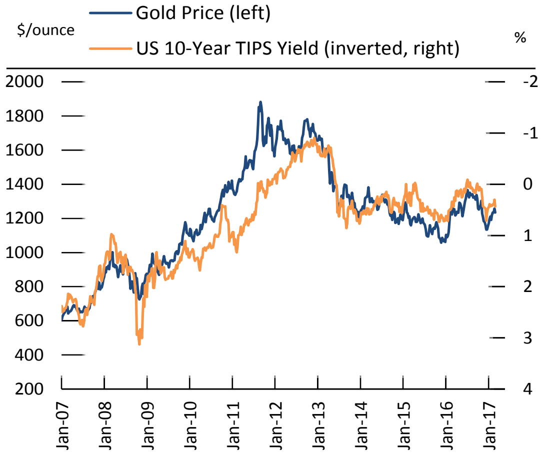


Source: NBG Research, Bloomberg

Graph 63.

Gold prices are influenced heavily by real US interest rates

Gold vs 10-Year TIPS Yield



Source: NBG Research, Bloomberg

Graph 64.

Interest Rates & Foreign Exchange Forecasts

10-Yr Gov. Bond Yield (%)	Mar. 3rd	3-month	6-month	12-month
Germany	0,36	0,40	0,50	0,70
US	2,48	2,65	2,75	2,90
UK	1,19	1,50	1,65	1,80
Japan	0,08	0,10	0,10	0,15

Official Rate (%)	Mar. 3rd	3-month	6-month	12-month
Euro area	0,00	0,00	0,00	0,00
US	0,75	1,00	1,25	1,50
UK	0,25	0,25	0,25	0,25
Japan	-0,10	-0,10	-0,10	-0,10

Currency	Mar. 3rd	3-month	6-month	12-month
EUR/USD	1,06	1,06	1,05	1,05
EUR/GBP	0,81	0,87	0,88	0,88
EUR/JPY	121	122	123	126

	Mar. 3rd	3-month	6-month	12-month
USD/JPY	114	115	118	120
GBP/USD	1,23	1,22	1,20	1,20

Forecasts at end of period

Economic Forecasts

United States	**2015a**	Q1:16a	Q2:16a	Q3:16a	Q4:16a	**2016a**	Q1:17f	Q2:17f	Q3:17f	Q4:17f	**2017f**
Real GDP Growth (YoY) (1)	2,6	1,6	1,3	1,7	1,9	1,6	2,2	2,4	2,2	2,2	2,2
Real GDP Growth (QoQ saar) (2)	-	0,8	1,4	3,5	1,9	-	2,2	2,2	2,3	2,2	-
Private Consumption	3,2	1,6	4,3	3,0	3,0	2,7	2,2	2,2	2,2	2,8	2,6
Government Consumption	1,8	1,6	-1,7	0,8	0,3	0,8	1,0	1,0	1,0	1,0	0,7
Investment	3,9	-1,1	-1,0	0,2	3,0	0,6	4,9	5,3	5,4	3,0	3,6
Residential	11,7	7,8	-7,8	-4,1	9,6	4,9	7,0	4,0	3,5	3,5	3,8
Non-residential	2,1	-3,4	1,0	1,4	1,3	-0,5	4,4	5,7	5,9	2,9	3,5
Inventories Contribution	0,2	-0,4	-1,2	0,4	0,9	-0,4	-0,1	0,1	0,1	0,0	0,1
Net Exports Contribution	-0,7	0,0	0,2	0,9	-1,8	-0,1	-0,2	-0,4	-0,4	-0,4	-0,4
Exports	0,1	-0,7	1,8	10,0	-4,0	0,4	4,8	4,2	3,8	4,3	3,2
Imports	4,6	-0,6	0,2	2,2	8,5	1,1	4,9	6,1	5,5	5,8	5,3
Inflation (3)	0,1	1,1	1,0	1,1	1,8	1,3	2,8	2,6	2,7	2,7	2,7

Euro Area	**2015a**	Q1:16a	Q2:16a	Q3:16a	Q4:16a	**2016a**	Q1:17f	Q2:17f	Q3:17f	Q4:17f	**2017f**
Real GDP Growth (YoY)	1,9	1,7	1,6	1,8	1,7	1,7	1,4	1,6	1,7	1,7	1,6
Real GDP Growth (QoQ saar)	-	2,1	1,3	1,7	1,6	-	1,4	1,9	1,7	1,8	-
Private Consumption	1,8	2,9	1,4	1,3	1,8	1,9	1,8	1,8	1,6	1,6	1,5
Government Consumption	1,3	2,7	1,3	0,5	1,8	1,8	1,0	1,2	1,5	1,5	1,2
Investment	3,0	1,4	5,0	-2,7	2,3	2,5	1,5	2,7	2,7	2,7	2,0
Inventories Contribution	-0,2	-0,9	-0,7	0,7	0,4	0,0	-0,2	-0,2	-0,2	-0,2	-0,1
Net Exports Contribution	0,2	0,5	0,0	0,7	-0,6	-0,2	0,1	0,3	0,1	0,2	0,2
Exports	6,3	0,7	5,2	1,4	6,1	2,7	2,5	3,0	3,0	3,0	2,7
Imports	6,3	-0,5	5,8	-0,2	8,0	3,4	2,5	2,5	3,0	3,0	2,5
Inflation	0,0	0,0	-0,1	0,3	0,7	0,2	1,9	1,7	1,7	1,6	1,7

a: Actual, f: Forecasts, 1. Seasonally adjusted YoY growth rate, 2. Seasonally adjusted annualized QoQ growth rate, 3. Year-to-year average % change

South Eastern Europe Economic Forecasts

Economic Indicators

	2012	2013	2014	2015	2016e	2017f
Real GDP Growth (%)						
Turkey	4,8	8,5	5,2	6,1	2,1	2,0
Romania	0,6	3,5	3,0	3,8	4,8	4,0
Bulgaria	0,0	0,9	1,3	3,6	3,4	3,7
Serbia	-1,0	2,6	-1,8	0,8	2,8	3,2
Headline Inflation (eop,%)						
Turkey	6,2	7,4	8,2	8,8	8,5	9,2
Romania	5,0	1,6	0,8	-0,9	-0,5	2,0
Bulgaria	4,2	-1,6	-0,9	-0,4	0,1	0,6
Serbia	12,2	2,2	1,7	1,5	1,6	2,8
Current Account Balance (% of GDP)						
Turkey	-5,6	-6,7	-4,7	-3,7	-3,8	-4,5
Romania	-4,8	-1,1	-0,7	-1,2	-2,5	-3,1
Bulgaria	-0,9	1,3	0,1	0,4	3,9	3,0
Serbia	-11,6	-6,1	-6,0	-4,7	-4,0	-4,2
Fiscal Balance (% of GDP)						
Turkey	-1,9	-1,0	-1,1	-1,0	-1,1	-2,0
Romania	-2,5	-2,5	-1,7	-1,5	-2,5	-3,8
Bulgaria	-0,4	-1,8	-3,7	-2,8	1,6	-1,0
Serbia	-6,8	-5,5	-6,6	-3,7	-1,4	-1,2

f: NBG forecasts

Stock Markets (in local currency)

Country - Index	6/3/2017	Last week return (%)	Year-to-Date change (%)	2-year change (%)
Turkey - ISE100	91.045	3,7	16,5	13,4
Romania - BET-BK	1.479	-0,3	10,1	8,6
Bulgaria - SOFIX	615	0,4	4,9	29,1
Serbia - BELEX15	726	1,3	1,2	8,0

Financial Markets

	6/3/2017	3-month forecast	6-month forecast	12-month forecast
1-m Money Market Rate (%)				
Turkey	11,5	11,2	10,5	10,0
Romania	0,6	0,9	1,2	1,5
Bulgaria	0,0	0,1	0,1	0,2
Serbia	3,4	3,4	3,5	3,8
Currency				
TRY/EUR	3,93	4,00	3,90	3,80
RON/EUR	4,53	4,49	4,49	4,50
BGN/EUR	1,96	1,96	1,96	1,96
RSD/EUR	123,7	123,2	124,0	125,0
Sovereign Eurobond Spread (in bps)				
Turkey (EUR 2019)	198	220	210	200
Romania (EUR 2024)	187	180	165	150
Bulgaria (EUR 2022)	131	120	116	110
Serbia (USD 2021)(*)	207	200	190	180

(*) Spread over US Treasuries

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