

NESTOR Eastern Europe Quarterly Report 3/2021



Budapest, October 2021

In the third quarter of 2021 equity prices rose for the fourth consecutive quarter on the Central European financial markets. The general investment climate was great, although in September a smaller correction went through the developed markets, but this did not influence the regional stock exchanges. Energy prices hit new year high levels, in some cases, like natural gas and electricity, prices hit all time highs. This gave a very strong background for the Russian market, which market is still having the biggest proportion in Nestor Osteuropa Fonds. The continuously high inflation numbers and the rate hiking cycle by regional Central Banks supported the price of listed companies in the financial sector.

Despite the inflation fears remained strong during the quarter, and more and more highly educated central banker started speaking about the upcoming tapering (reducing the amount of quantitative easing) from the monetary policy side, a new potential economic problem appeared on the financial markets: a high possibility of bankruptcy of the biggest Chinese real estate developer, the company called Evergrande facing serious problems with meeting its debt obligations. At this point it is not clear whether this will be a local or a global issue, but the size of the potential bankruptcy (300 billion USD) looks too much to ignore.

What had the most serious effect on the regional stock markets was the extreme rise of the natural gas and electricity prices. Both had doubled in the third quarter of 2021, while on year to date basis they cost four times more. High market capitalization companies like Gazprom, Novatek, CEZ had a super performance, their price went up 40% in this period. At the moment one of the most important question for the Central European equities is how long energy prices remain at these high levels. Right now it looks that the "green revolution" has made a serious short term storm on the energy markets as there is a very serious shortage on energy supply.

Best performing market was the Czech market, which rose 15% in EUR term. The Russian market grew by 10,1%, Hungarian by 9,5%, while the Polish market was a lagging one with tis 2% performance. Nestor Osteuropa Fonds increased its value by 7,87 percent.

Best performing equities were regional O&G and electricity companies and regional banks, and thanks to the 2 year high oil prices O&G companies also had a great performance. Hungarian

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and the Polish Central Banks started a rate hiking cycle, this gave Polish and Hungarian banks a strong support. On single equity bases, best stocks were Gazprom, Novatek, Sberbank, OTP Bank, Komerčni Banka and CEZ and Russian O&G companies.

Nestor Osteuropa Fonds benefited from good single equity selection. During the quarter we increased bets on Russian steel makers, Rosneft and Tatneft, and mainly due to regulation limits decreased our position in Gazprom.

Investors investing into Central European Equities via Nestor Osteuropa Fonds still face high risk – high return potential. With increasing commodity prices, the potential of higher-than-average dividend yields should support current valuation of Central European financial markets.

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