

# NESTOR Eastern Europe Quarterly Report 1/2021



## **Budapest, April 2021**

First quarter of 2021 was again quite prosperous for the Central European financial markets. On the back of the positive investment sentiment and the ongoing sector rotation, most of the local stock exchanges did a good job. Developed markets hit a new all time high, especially the US and the German markets performed well, mostly because, at the moment, it looks 2021 might bring a nearly never seen GDP growth in the global economy.

This growth will be supported by the recently approved new fiscal package in the US. Accordingly, 1900 billion will be spent by the US government to secure resources for the future spending of households. There were two moments which disturbed the optimism in the financial markets and influenced the regional stock exchanges as well. First, there is a general fear from the potentially growing inflation, and, due to this fear, long maturity bond yields rose significantly during this quarter. Second, it looks the new US administration might face more difficulties with many developing countries, especially with China and Russia. Growing geopolitical risks resulted in some profit taking and risk aversion on the Russian market by the end of March.

The good performance of financial markets were also supported by the very fast-growing number of vaccinated people. Despite the fact that fight against the third wave of the coronavirus takes much longer time than previously anticipated, economies did well and, at this moment, it looks expectations still on the upside about the future potential of economic recovery.

As Nestor Osteuropa Fonds' main investment country is Russia, the price of oil and other basic materials are essential for the Russian assets. We saw continuously rising prices in every single main material, but at the end of March the price of oil did a bigger correction when the price of Brent oil fell from 70 USD to 61-62 dollars. There were two commodities that really underperformed the general commodity market: the gold and the silver. Both continued their correction started last year.

Nestor Osteuropa Fonds increased its value by 5,4 percent. Thanks to the ongoing sector rotation, the best performing market in the first quarter of 2021 was the Russian market. In EUR term main Russian equities rose by 11% in average, the Czech market grew by 6,6%, the Hungarian by 6,3%, while the Polish market declined by 3,4%. The reason for the relative bad

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performance of the Polish market was the collapse of two main Polish equities, Allegro and CD Project.

Best performing equities were O&G companies and regional banks. Rosneft, Lukoil, Tatneft and Novatek lead the Russian market, while financial names like Moneta Bank, Bank Santander, Bank Pekao pulled Poland and the Czech Republic. Lagging equities were the gold producers in Russia such as Polyus Gold and Polymetal, and the previously mentioned Allegro and CD Project.

Nestor Osteuropa Fonds started the first quarter with a heavy overweight position in Poland, mainly in the banking sector. During the quarter we step by step cut back our bets on the Polish banks and more overweighted Russian names from the O&G and steel sector (Novolipetsk and Severstal). Most beloved equities were Lukoil and OTP Bank, while the most underweighted equities were Tinkoff Holding, Mail.ru and Phosagro. When we realised the growing Russian risk, which might cause introducing a new wave of sanctions against Russia, we cut back our bets in Russia, thus it has become the most underweighted country in our portfolio. Part of the fresh money was spent on a Romanian company, Fondul.

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.

Peter Elek, Dialog Investment Management Ltd.

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