

Government financial problems in some European countries, especially the revealed fiscal chaos in Greece, have recently overshadowed an improved market climate with many positive macroeconomic signals. Although the outlook for risk assets appears good in a slightly longer perspective, by all indications the debt problems of the industrialised countries will influence market risk perception. In our view fundamental assessment of the Ukraine as well as global equity market are still positive, though as a result of increased volatility investment horizon will have to be increased.

The government bond crisis appears to be spiralling out of control due to the European Union's hesitant stance. If the aid package had been passed earlier, a smaller sum may have been enough to calm the markets. Now, however, not even a EUR 110 bn bailout for Greece was enough to get things back to normal.

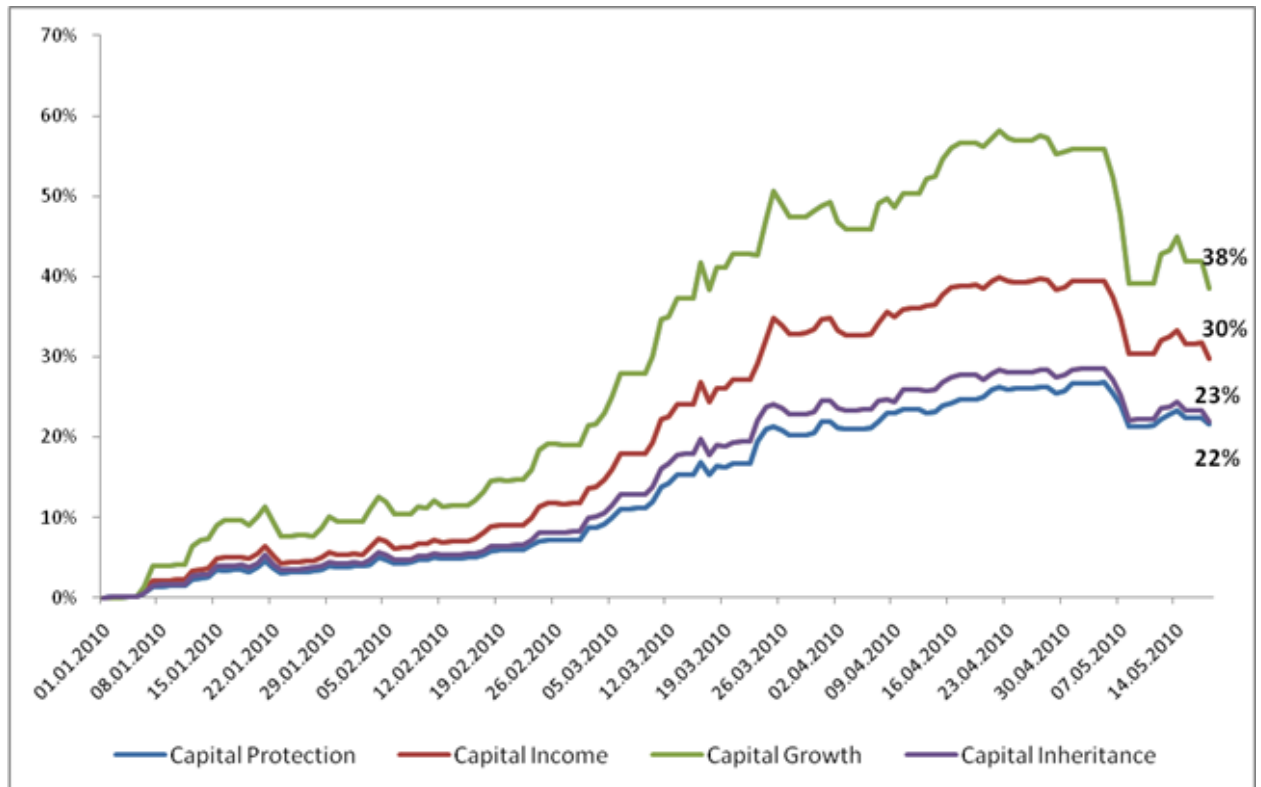
Amidst these conditions, equities are not developing in line with the latest newsflow, as quarterly earnings reports have been largely positive. Any estimations about the direction the markets will take are ultimately dependent on future developments in the government bond segment: If things calm down, a strong upward trend is very likely based on the good fundamental data. Alternatively, fundamental data could continue to be overshadowed, which would pose the threat of another wave of risk aversion.

Despite growing public sector imbalances and economic burdens, the world upturn actually strengthened this spring. In the United States, Asia and Europe key macroeconomic indicators have improved and countries such as China, Singapore and India have reported accelerating GDP growth. In fact, Ukraine has been one of the fastest growers in the region in Q12010 with GDP growth rate of 4.8% (GDP yoy growth rates in Russia, Czech Republic and Hungary constituted 2.9%, 1.2% and 0.1% respectively) after registering the largest drop in the output (except Latvia) last year. Therefore, on the one side, impressive output recovery should be attributed to the extremely low statistical base of Q12009. However, the robust performance of export-oriented industries (boosted by competitiveness gain following massive nominal depreciation in 2008-2009) has also played the important role in growth rebound. The latest growth figures clearly reveal that Ukraine is emerging out of recession.

Ukrainian stock market, being heavily dependent on foreign markets (mainly Russia, Europe and US stock markets) showed increased volatility recent months. Short-mid-term direction of the market will depend on future development in the European government bond sector, though in a long-term perspective, we still believe that the underlying strength of the country's recovery will persist.

In current volatile environment, we consider down-side movement of the stock market as a good opportunity to acquire cheaper assets and remain asset allocation in our portfolios, as it is defined by Tactical Asset Allocation Committee.

Model portfolios (2010, %)



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