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Why Greece? Why GREK?

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Why Greece?

Western European Stability at Emerging Europe Prices

— **Deep Value:** Greek financials, which make up almost 60% of the MSCI Greece Index, still traded below book value (with a price-to-book value ratio of 0.6x) versus more than 1.0x for Western European peers as of September 17, 2024.[1] They are also set for their first dividend payouts since 2008, after the European Central Bank approved the reinstatement of distributions in March, 2024. The broader Greek equity market as measured by the MSCI Greece Index still traded at ~6.3x earnings (which we view as undemanding given the country's Investment Grade credit rating) and was coupled with a strong 8.3% dividend yield.[2] At the same time, Greek bank ROEs (return on equity) have recovered above 12% and appear to be moving back towards levels seen before the 2008 Financial Crisis.[3]

— **Favorable Growth Potential:** The latest Bank of Greece projections forecast gross domestic product (GDP) growth of 2.3% and 2.5% for 2024 and 2025, respectively, with inflation projected at 2.8% and 2.2%.[4] This compares positively to the Eurozone, which is forecast to grow only 0.7% and 1.3%, respectively, with inflation around 2.4% in both years.[5]

— **European Union Recovery Resilience Funds (RRF) Disbursements:** The country can access EUR36bn of grants and loans (~16.3% of 2023 GDP) from the EU RRF but so far has only received roughly half that amount from the European Commission.[6] An even smaller amount (~EUR6bn) has been disbursed to firms for projects, which implies significant runway for growth and disbursement ahead.[7]

— **Room to Go:** Prior to 2008, Greek investment-to-GDP fluctuated around 24%, but a decade of underinvestment from 2010-2020 saw investment-to-GDP average only 11.9%.[8] The combination of a recovery in Greece's macroeconomic outlook and RRF disbursements is expected to increase investment-to-GDP three percentage points by 2025 before gradually converging towards the EU average of ~23%.[9] This significant catch-up opportunity is the main reason why Greek GDP growth is expected to be ahead of EU peers in the short term.

Recovering Ahead of Expectations

— **One of the World's Best Turnarounds, While Nobody Was Looking:** Though Greece only represents roughly 0.30% of Emerging Markets and 0.05% of global equities, its economy has served as one of the best turnaround stories in the world.[10] Since the 2008 Financial Crisis, Greece received several bailout packages from the European Union, International Monetary Fund, and European Commission in exchange for implementing strict fiscal and economic reforms. Greece then took things a step further and elected a market friendly government, which has helped the country reach its fiscal targets and reduce public debt ahead of expectations. This has helped improve financial stability as well as the overall state of the Greek economy. Fiscal deficits are projected at around 1% of GDP for 2024-26 with primary surpluses above 2%, which would be ahead of targets outlined in Greece's Stability Programme.[11]

— **Upgrade Back to Investment Grade:** The improvement in the financial sector and government indicators led to an upgrade in Greece's credit rating back to Investment Grade in October 2023.[12] This has allowed the Hellenic Financial Stability Fund to begin divesting stakes in Greek banks, while credit spreads have tightened beyond many Western European peers, such as Italy.[13]

— **Banking Sector Improvement:** Non-performing loans declined 25%, to EUR9.9bn, in 2023 and represented ~6.5% of total gross loans, a significant improvement from their peak level around 46% in 2017.[14] The percentage is expected to move closer towards the EU-wide average of ~1.9% over the next 1-2 years.[15] ROAs (return on assets) and ROEs at Greek financial institutions have also recovered to 1.2% and 12%, respectively, as profitability has rebounded.[16]

— **The Story Doesn't Appear to Be Over – Continued Positive Reforms:** Political continuity has allowed the government to implement and commit to both strong fiscal prudence and reforms, which include improving tax collection efficiency, reducing tax avoidance, and reducing the value added tax (VAT) gap, in addition to digitalization initiatives, electronic invoicing, and real-time point of sale reporting. This has improved the country's revenue base and could lead to higher primary surpluses or a faster decline in government debt than the market currently expects.

— **Potential Catalysts:** In the shorter term, we expect the government to divest additional stakes in domestic banks, capital market activity to pick up, and banks to reintroduce dividend payments. Looking further out, we see potential for MSCI to reclassify Greece to Developed Market status within the next three years. Furthermore, any signs of incremental growth recovery from the EU could lead to positive momentum for Greek equity markets.

Why GREK?

— **Leadership:** The Global X MSCI Greece ETF (GREK) is the first and only ETF to directly target Greece.

— **A Client Friendly Structure:** GREK offers the liquidity and transparency of the ETF structure for a total expense ratio of 0.57%.

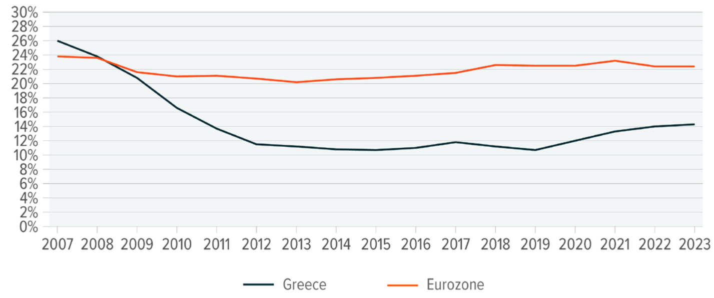
— **International Access:** GREK provides targeted exposure to a single country and securities that could be challenging for individual investors to access on their own.

— **Sector Diversification:** GREK offers exposure to nine sectors to reduce concentration risk.

— **Expertise:** While GREK is a passive product, Global X's active team of experienced Emerging Market investors provides research and client support.

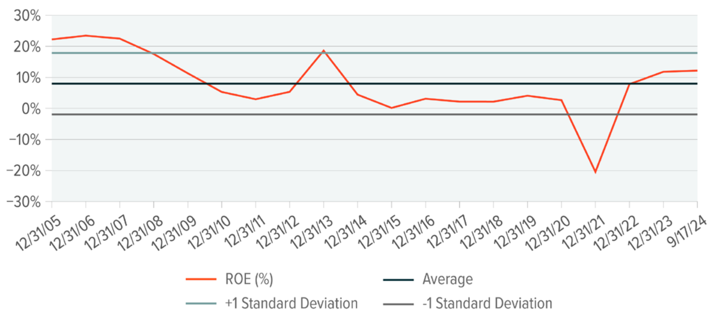
INVESTMENT TO GDP RATIO (%)

Source: Global X ETFs with information derived from: European Commission. (2024, Apr). Greece In-Depth Review 2024 Institutional Paper 281.



RECOVERY IN GREEK BANK ROES ABOVE 12% AFTER A DECADE NEAR 0%

Source: Global X ETFs with information derived from: Bloomberg LP. Based on companies classified as Financials in the MSCI Greece Index. Data as of September 17, 2024.



Related ETF

GREK – Global X MSCI Greece ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

FOOTNOTES

1. Bloomberg LP. Data as of September 17, 2024. Based on companies classified as Financials in the MSCI Greece Index versus those in the MSCI Europe Index. Countries represented in the MSCI Europe Index are Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the U.K.
2. Bloomberg LP. Data as of September 17, 2024.
3. Bloomberg LP. Based on companies classified as Financials in the MSCI Greece Index. Data as of September 17, 2024.
4. Bank of Greece. (2024, Apr). Financial Stability Review.
5. Ibid.
6. Moody's. (2024, Sep 13). Moody's Rating Changes Greece's Outlook to Positive From Stable, Affirms Ba1 Ratings.
7. Ibid.
8. European Commission. (2024, Apr). Greece In-Depth Review 2024 Institutional Paper 281.
9. Ibid.
10. Bloomberg LP. Data as of September 17, 2024. MSCI Greece Index and MSCI All Country World Index.
11. Moody's. (2024, Sep 13). Moody's Rating Changes Greece's Outlook to Positive From Stable, Affirms Ba1 Ratings.
12. S&P Global. (2023, Oct 20). Greece Upgraded To 'BBB-/A-3' On An Improved Budgetary Position; Outlook Stable.
13. Bloomberg LP. Data as of September 17, 2024.
14. Bank of Greece. (2024, Apr). Financial Stability Review.
15. Ibid.
16. Ibid.

GLOSSARY

MSCI Greece Index The MSCI Greece Index is designed to measure the performance of the large- and mid-cap segments of the Greek equity market.

Hellenic Financial Stability Fund
The Hellenic Financial Stability Fund is a special purpose vehicle designed to help maintain the stability of the Greek Banking System for the sake of public interest.

Price to Book Value A valuation metric equal to a stock's price divided by book value per share (total assets minus total liabilities).

Credit Rating An assessment of a country's (or company's) ability to repay its debts.

Dividend Yield 12 months of a stock's dividend payments divided by its price.

Non-Performing Loan A loan where the borrower has not made any scheduled payments for a period of time, typically 90 days.

Standard Deviation Standard deviation is a measure of how far individual data points are from the mean.

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Investing involves risk, including the possible loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Securities focusing on a single country may be subject to higher volatility. GREK is non-diversified.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Carefully consider the fund's investment objectives, risks, and charges and expenses before investing. This and other information can be found in the fund's full or summary prospectuses, which may be obtained at globalxetfs.com. Please read the prospectus carefully before investing.

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