MARKET PERSPECTIVE
KATHREIN
PRIVATBANK

THE EDITORIAL TEAM

(10.2023)

The purpose of this marketing bulletin within the meaning of the Austrian Securities Supervision Act (Wertpapieraufsichtsgesetz) is to provide a general overview of current market data. It does not contain direct or indirect recommendations for a particular investment strategy as would a financial analysis. Please also read the respective disclaimer at the end.

Government bonds, bonds, economics

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Corporate bonds, bonds

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Stocks, capital preservation models

Mag. Mario Krismer

Stocks, stock models

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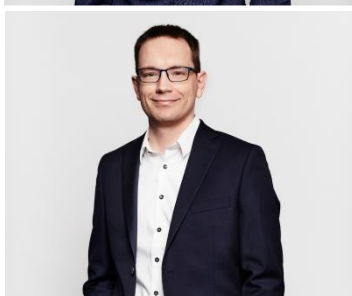

Asset Allocation

Mag. Markus Böcklinger

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1. Summary

1.1. Review

The beginning of the quarter saw more price gains that ended abruptly in mid-September, the month in which the S&P 500 posted its steepest monthly decline since December 2022. The markets repriced the "higher-for-longer" narrative, sending bond yields higher and causing stock prices to fall.
Overall though, 2023 third quarter stock market performance was only slightly negative. Year-to-date, the global equity index continues to post double-digit gains.
The main driver behind the positive performance was a small group of large-caps, which in aggregate make up 20% of the index.

Over the summer, the economy was supported by strong economic data and positive earnings reports. In July, both the European Central Bank (ECB) and the US Federal Reserve (Fed) raised the federal funds rate by 25 basis points. These rate measures were in response to a continued upbeat economic outlook. August, historically a month of uncertainty, saw the downgrading of the US credit rating by Fitch and weak economic data from China. The Federal Reserve's Jackson Hole Economic Symposium failed to generate clear momentum. Against this backdrop, US bond yields rose, while German yields fell slightly In September, the focus shifted back to central bank meetings. The Bank of England (BoE) paused its rate hikes in response to low inflation, while the Fed held rates steady, and the ECB raised rates by 25 basis points. In the wake of these measures, yields rose and equity markets fell. Fundamentals were mixed, with weak purchasing managers' indices and a decline in the German IFO business climate index. In September, US and German government bond yields continued to rise, equity markets declined, and the euro weakened against the US dollar. Oil prices rose on the back of production cuts by OPEC, while the price of gold fell due to the strength of the US dollar. Toward quarter end, a looming government shutdown in the United States created uncertainty in the markets.

1.2. Forecast

The global economy is entering a challenging period, both in terms of inflation and economic growth. The US Federal Reserve and the European Central Bank are nearing the end of an aggressive cycle of rate hikes that has been unparalleled in recent decades. It is expected that this will have a noticeable impact in the months to come.

Global growth is expected to slow from an estimated 3.5 percent in 2022 to 3.0 percent in 2023 and 2024, according to the International Monetary Fund (IMF). Interest rate hikes to combat inflation continue to dampen economic activity. Global headline inflation is projected to decline from 8.7 percent in 2022 to 6.8 percent in 2023, and 5.2 percent in 2024. However, the pace of decline in underlying (core) inflation is likely to be slower, and forecasts for inflation in 2024 have recently been revised upwards. Global inflation has peaked, but returning to central bank targets is difficult. The US is experiencing a robust labor market which makes bringing inflation down more quickly a challenge. Rising oil prices also support inflation.

In the advanced economies, inflation is expected to fall to 2.1% by the end of 2024, according to Bloomberg forecasts. However, at 3.5% by the end of 2023, it will still be too high. Additionally, short-term factors such as strikes, a possible budget impasse, and student loan repayments point to a slowdown in the US economy.

The Federal Reserve is expected to keep rates higher for longer, with the possibility of another hike towards the end of 2023.

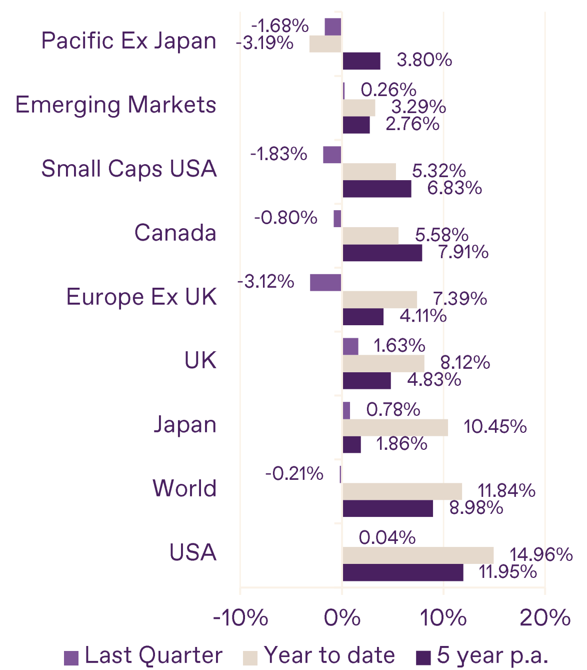
The eurozone has shown remarkable resilience, first to the energy-induced inflation shock and then to the accompanying interest rate hikes. The economy grew in nine out of ten quarters through the second quarter of 2023, with a minimal contraction in the fourth quarter of 2022. However, forecasts suggest that the European economy will largely stagnate in the second half of 2023.

2. Capital market review

After a very positive first half, the third quarter (June 30th - September 29th, 2023) saw a slightly negative trend. Markets in the Pacific Rim (excluding Japan) and Europe (excluding the UK) declined to a greater extent. The major US stock market has only posted marginal gains but has outperformed the overall market by nearly 15% year-to-date. The UK market performed well, rising nearly 1.6%.

There was also a slight increase in stock prices in Japan. US small caps once again showed weak performance. Emerging markets' underperformance did not continue in the third quarter. Nevertheless, in relative terms, performance of emerging market equities has remained very weak year-to-date.

Stock performance in EUR



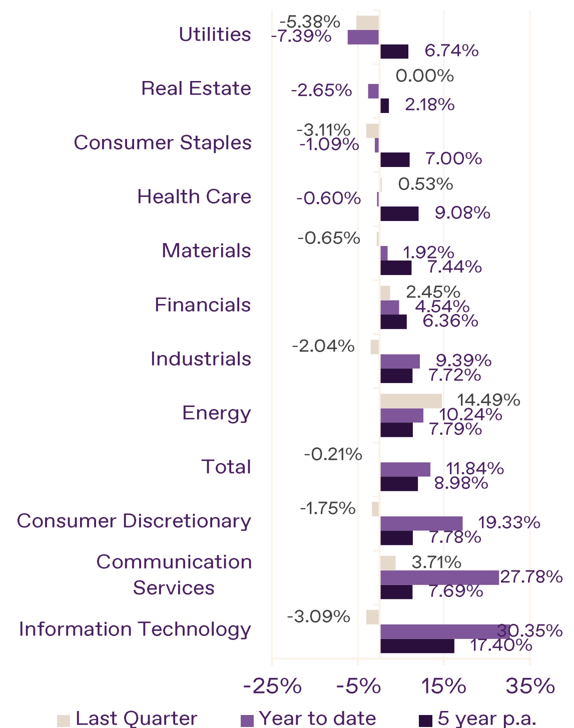
Source: Bloomberg, Last quarter = Q3 23, 5Y 28/09/18-29/09/23, Year-to-Date = 30/12/22-29/09/23

While the IT sector, a heavyweight in the global equity index, posted negative performance for the quarter just ended, energy stocks made a comeback on the back of rising crude oil prices. Communications and financials also performed well.

Utilities were very weak. Defensive consumer stocks (consumer staples) also greatly underperformed.

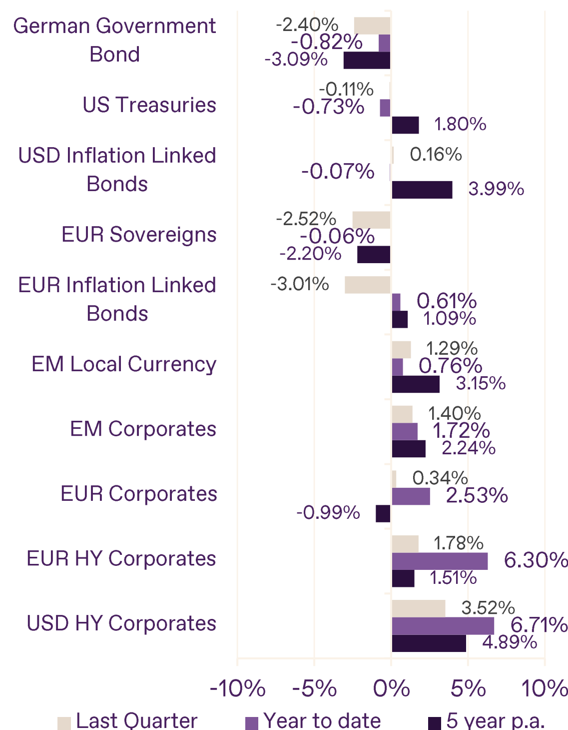
Underperformance of the real estate sector came to a halt during the quarter.

Sector performance in EUR



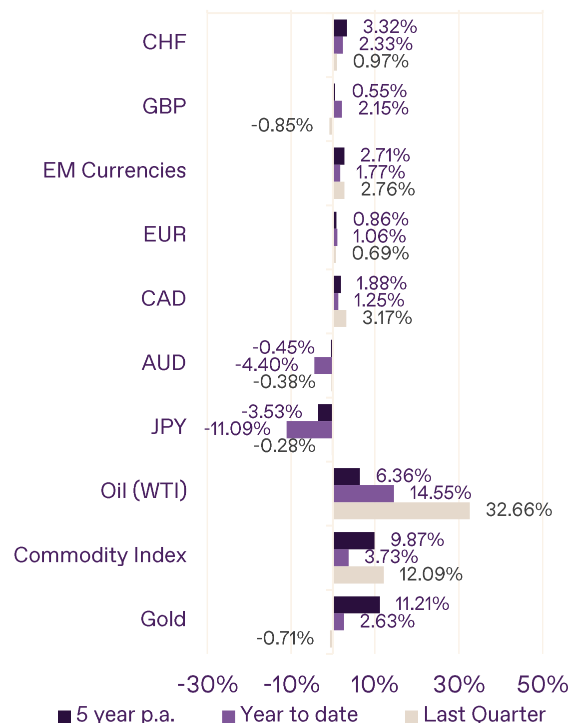
Source: Bloomberg, Last quarter = Q3 23, 5Y 28/09/18-29/09/23, Year-to-Date = 30/12/22-29/09/23

Bond market performance during the third quarter of 2023 and year-to-date has been mixed. While government bonds and inflation-linked bonds posted losses or showed little change, corporate bonds, especially high-yield bonds, showed a positive performance.
The losses in inflation-linked bonds last month were mainly due to sharply lower inflation figures. During the third quarter, USD high-yield bonds gained 3.52%, EUR high-yield bonds were up 1.78%, EUR corporate bonds returned 0.34%, and emerging market corporate bonds gained 1.40%.
On the other hand, euro inflation-linked bonds (-3.01%), EUR government bonds (-2.52%), USD inflation-linked bonds (0.16%), US government bonds (-0.11%), and German government bonds (-2.40%) declined.



Source: Bloomberg, Last quarter = Q3 23, 5Y 28/09/18-29/09/23, Year-to-Date = 30/12/22-29/09/23

The dollar's performance in 2023 has been a tale of contrasts. Expectations of an economic slowdown in the US, slowing inflation, and an impending reduction in interest rates by the Fed initially boosted the euro, peaking at USD1.125 in July. The picture has since changed as the U.S. economy has outperformed and inflation has eased. At the same time, the notion of higher US interest rates for an extended period of time became more prevalent. This also strengthened the US dollar. Consequently, the year has been rather volatile, with only minor changes year-to-date and in the third quarter. Only the Australian dollar and the Japanese yen depreciated significantly.
In recent weeks, the oil price has shown a steady upward trend due to production cuts.



Source: Bloomberg, Last quarter = Q3 23, 5Y 28/09/18-29/09/23, Year-to-Date = 30/12/22-29/09/23

3. Capital market forecast

- **Duration sharply reduced**
- **Inflation target below 3%**
- **Fed and ECB not expected to raise interest rates**
- **Gas storage target reached ahead of schedule**

The capital market forecast reflects Kathrein's opinion and does not contain any direct or indirect recommendations for an investment strategy or the sale or purchase of financial instruments.

The European Central Bank (ECB), like other institutions, has lowered its GDP growth forecasts for 2023 and 2024. This is mainly due to weaker momentum in 2023. The ECB expects inflation to hover around 3% before returning to the ECB's targeted range of 2% to 2.5% in the second half of 2024.
The US central bank, the Federal Reserve (Fed), has published its projections for the federal funds rate. The median is 5.6% at the end of 2023. For the end of 2024 it is forecast at 5.1%. It is likely that government budgets will be increasingly forced to take on debt, which would lead to a further increase in yields. Eurozone corporate bond spreads may tend to widen as economic activity and uncertainties persist.

Source: Pixabay.com

Looking ahead to 2024, we see that energy market developments are more stable than in 2022 and that gas inventories are well stocked. Although crude oil prices have risen in recent weeks on the back of production cuts, the base effect for eurozone inflation may be slightly reduced.
Equity markets are currently being influenced by a number of factors. On the one hand, yields are rising, economic concerns are weighing on prices, and oil price volatility is creating

uncertainty. On the other hand, positive developments in earnings forecasts and hopes for a soft landing of the economy as well as early interest rate cuts are supporting the markets. Although global equity prices declined towards the end of the third quarter, all but three markets (China, Hong Kong, and South Africa) remain in positive territory for the year. This shows that despite recent turbulences, markets continue to move upwards.
In summary, the development of the USD against the EUR remains stable for the time being. Its interest rate advantage over the EUR is only likely to diminish once the Fed implements monetary policy easing. The USD's role as a reserve currency and safe haven contributes to stability, while geopolitical risks could impact the USD more than the EUR.

How we position ourselves

Bonds are once again offering some interesting yields. For the bond market, the question is what real interest rate (or rates) investors will accept for German 10-year bonds. Since 1999, they have received an average of 0.6% above inflation. However, they have settled for -0.6% since the 2008 financial crisis. At an inflation rate of about 3.0% this would translate to 10-year German bond yields in the range of 2.4% and 3.6%. At quarter-end yields were at 2.8%. Therefore, yields in the eurozone could continue to go up in 2023.
The Kathrein bond portfolio is well positioned. The current environment is beneficial since a large portion is invested in floating-rate euro bonds. We continue to hedge longer-duration euro bonds. Significant exposure to emerging market bonds in local currency, with government bonds yielding about 7.2% and about 8% for corporate bonds, is an interesting addition to the fixed income portfolio. Total yield for the Kathrein portfolio at the beginning of the quarter was 5.1%, well above the anticipated 3.0% rate of inflation.
An end to interest rate measures by central banks and lower benchmark rates could support stocks until the end of 2024, but if the US slips into a recession, equities could come under pressure. Based on our expectations, 2024 could turn out to be a very good year for most stocks. Our average return expectations for stocks held for 10 years are now at 8.0% p.a.

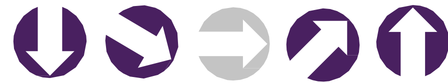
Investing in securities involves exposure to price fluctuations due to sudden changes in market conditions. Past performance is no guarantee for future results. Returns may be higher or lower depending on currency fluctuations.

4. Kathrein funds review

4.1. Kathrein Yield+

T: AT0000A1DJV9
A: AT0000A1DJW7

MARKET EXPECTATIONS



Short durations currently offer particularly attractive yields.

The inverted yield curve, an unusual situation in which shorter-dated bonds pay higher interest than longer-dated ones, makes investing in the short segment very attractive. Central banks, which have raised interest rates in several steps, are responsible for this situation. However, if inflation declines, interest rates are expected to fall again in the future. Moreover, both the ECB and the FED could lower interest rates again if the economy weakens. As a result, interest rates for longer maturities are either lower or at the same level, depending on the country.

The Kathrein Yield+ invests primarily in short-term corporate bonds and floating rate notes (variable rate bonds). The fund's special feature is its overlay management, which has been specially tailored to meet the safety requirements of this asset class. The fund can take small long and short positions in bond, currency and equity markets, i.e. bet on rising or falling prices. This flexibility allows the fund to generate additional income in both rising and falling markets. The fund thus combines different sources of income (interest rates, currencies, equities, and volatility) with low correlation. Selection and weighting of the models seek to achieve a return-to-risk ratio that remains stable over time.

Source: Pixabay.com

We may have already seen most of the rise in yields. A stock market downturn or fears of recession could even send yields lower again. However, upward pressure on yields could resume if, contrary to current forecasts, inflation stubbornly remains at current levels. Regardless of market trends, the overlay in the fund tends to benefit from longer-term trends in both rising and falling bond, currency, and equity markets.

Fund information acc. to Section 128 InvFG

The fund currency is the euro. The fund regulations of the Kathrein Yield + have been approved by the Austrian Financial Market Authority. The Kathrein Yield+ may invest more than 35% of the fund assets in securities or money market instruments issued or guaranteed by Austria, Australia, Canada, Germany, France, Italy, Japan, Mexico, New Zealand, Sweden, Switzerland, Spain, South Korea, the United States of North America or the United Kingdom

of Great Britain and Northern Ireland through individual investments and/or investments in other investment funds, while investments in a single issue may not exceed 30% of total fund assets. In accordance with the investment strategy, the management company may enter into transactions with derivatives on behalf of the Kathrein Yield +. Such transactions could temporarily increase the risk of loss for fund assets. The fund may acquire derivate financial instruments that are not used for hedging purposes. The fund may primarily (relative to the associated risk) invest in derivatives while not exceeding the exposure limit of a maximum of 7% of the net asset value of the fund (absolute VaR), the maximum set for all fund investments.

The latest published prospectus or investor information in accordance with § 21 AIFMG as well as the key investor information documents (KIID) of the funds managed by Kathrein are available in German free of charge at https://www.rcm.at/at-de/global/fondsdokumente/.

5. Kathrein's investment strategy

The Kathrein investment strategy reflects Kathrein's opinion and does not contain any direct or indirect recommendations for an investment strategy or the sale or purchase of financial instruments.

5.1. Asset allocation

- Tactical overweight in equities during Q3
- Overweight in value stocks
- High-yield bonds more attractive again

The equity quota was tactically overweight throughout the third quarter in the Mandatum funds (asset allocation funds managed by Kathrein) and in the asset management mandates. This was due to both technical and fundamental indicators largely sending positive signals. The market turbulence following the collapse of Silicon Valley Bank was short-lived, and fears of a new banking crisis at the beginning of the year did not materialize. Given the historically wide valuation gap between value and growth stocks, we will maintain our overweight in value stocks for the time being. We continue to exclude Chinese stocks from our portfolio due to increasing government and party influence on private companies and the risk of a geopolitical confrontation between China and the West. In response to technical signals, we gradually reduced the hedge of our USD risk in the equity portfolio to 25%.

On the bond side, we increased the target volatility of the portfolio slightly in the month of September. There was a slight increase in high-yield bonds, which once again offer a very attractive return due to the rise in yields. We reduced the portfolio's exposure to US dollar government bonds, euro corporate bonds, and floating rate notes by 1 percentage point each, and we increased our exposure to euro high-yield bonds by 2 percentage points and US dollar high-yield bonds by 1 percentage point. We kept duration in the bond portfolio very short in both euro and US dollar throughout the quarter, as the cycle of central bank rate measures was not yet over and the absence of the US recession, feared at the beginning of the year, pushed any rate cuts further into the future. At 22%, USD government bonds currently account for the largest share of the bond weighting. This is followed by variable-rate bonds at 18%, EM local currency government bonds at 16%, euro government bonds at 14.5%, investment-grade euro corporate bonds at 10.5%, inflation-linked euro government bonds at 5.5%, EM corporate bonds at 5%, inflation-linked US government bonds at 4%, euro high-yield bonds at 3.5%, and US dollar high-yield bonds at 1%.

Each individual client portfolio is optimized, taking into account the investor's earnings objective, risk tolerance, and investment horizon.

Note about currencies: Returns may be higher or lower depending on currency fluctuations. In line with the client profile, the portfolio includes different weightings of stocks, bonds, multi-asset funds and alternatives. Within the bond segment, the portfolio seeks to achieve returns above the inflation rate to ensure real capital preservation. The volatility of the bond portfolio should be similar to that of safe German government bonds. Credit, interest rate, and currency risks are important factors in portfolio optimization. For the stock portion of the portfolio, a broad global equity index that includes emerging markets serves as benchmark and guidance for the regional weightings. In addition, we maintain a tactical allocation to defensive, sustainable or megatrend stocks. Multi-asset investments serve the purpose of tactical allocations between stocks, bonds, and cash as well as geographical stock weighting. Alternative investments should achieve equity-like returns with low correlation and outperform in cycles of stock market corrections.

Overview (Taget Asset Allocation as of 30. September 202	IP 1	IP 2	IP 3	IP 4	IP 5
Bonds	100	76	54	36	15
Bonds - Eurozone - Government	20	15	11	7	3
Bonds - Government - Global	0	0	0	0	0
Bonds - Emerging Market - Government	16	12	9	6	2
Bonds - Emerging Market - Corporate	5	4	3	2	1
Bonds - Corporate - USA	1	1	1	0	0
Bonds - Government - USA	26	20	14	9	4
Bonds - Corporate - EUR	32	24	17	12	5
Equity	-	17	35	50	68
Equity - Europe	0	2	4	5	7
Equity - USA	0	8	18	25	34
Equity - Cananda	0	0	1	1	2
Equity - Japan	0	1	1	2	3
Equity - Pacific ex-Japan	0	0	1	1	2
Equity - Emerging Markets	0	2	4	5	7
Equity - Global	0	3	7	10	14
Alternatives	-	2	4	5	8
Alternatives - Managed Futures	0	1	1	2	3
Alternatives - Private Equity	0	1	3	4	5
Multi Asset	-	5	7	8	10
Multi Asset	0	5	7	8	10
Performance in EUR % after fees before tax					
2023	0.0	2.2	4.0	5.4	7.4
2023 Q3	-0.9	-0.5	-0.4	-0.4	-0.4

Data in %, **source:** Kathrein Privatbank

Reallocations

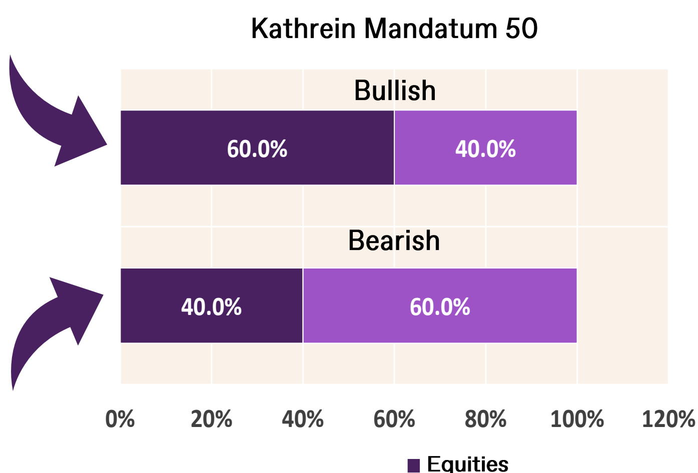
Date	Reallocation
April 22	Switched out of euro government bonds (-3%) into euro inflation-linked bonds (+1%), and EUR corporate bonds (+2%).
April 22	Switched out of European equities (-2.5%) into US equities (+2.5%).
April 22	Switched out of sustainable global stocks (-2.5%) into stocks of sustainable companies in megatrend sectors (+2.5%).
April 22	Sold all Chinese stocks and reinvested proceeds into stocks from the other emerging markets.
September 22	Switched out of US inflation-linked bonds (-5%) into USD government bonds (+5%) and switched out of euro government bonds (-2%) and euro inflation-linked bonds (-2%) into emerging markets local currency bonds (+4%).
December 22	Tactically increased stock allocation by 30% of the strategic stock allocation.
December 22	Switched out of US inflation-linked bonds (-3%) and euro inflation-linked bonds (-1.5%) into EUR corporate bonds (+1.5%), EUR HY bonds (+1.5%), emerging markets local currency bonds (+1.5%), and euro government bonds (+0.5%).
March 23	Switched out of USD government bonds (-2%) into EUR corporate bonds (+1 %), and variable rate bonds (+1 %).
March 23	Tactically reduced stock allocation by 30% of the strategic allocation.
May 23	Tactically increased stock allocation by 30% of the strategic stock allocation.
September 23	Switched out of USD government bonds (-1%), EUR corporate bonds (-1%), and variable rate bonds (-1%) into EUR high-yield bonds (+2%) and USD high-yield bonds (+1%).

6. Key Kathrein models

6.1. Market timing stock weighting (bull/bear model)

Tactical stock and bond weightings are managed with the help of the Kathrein bull & bear model. For this model, we draw on data from Ned Davis Research, Kathrein's long-standing research partner. The model uses proven macroeconomic indicators in combination with sentiment and technical indicators. Based on this model, we structure our tactical overweighting or underweighting in stocks.
Kathrein has been using this model successfully for many years and it has already received several awards.

The model is composed of internal and external indicators (equally weighted) and is added as a relative assessment in an optimization, which determines the over- or underweighting.



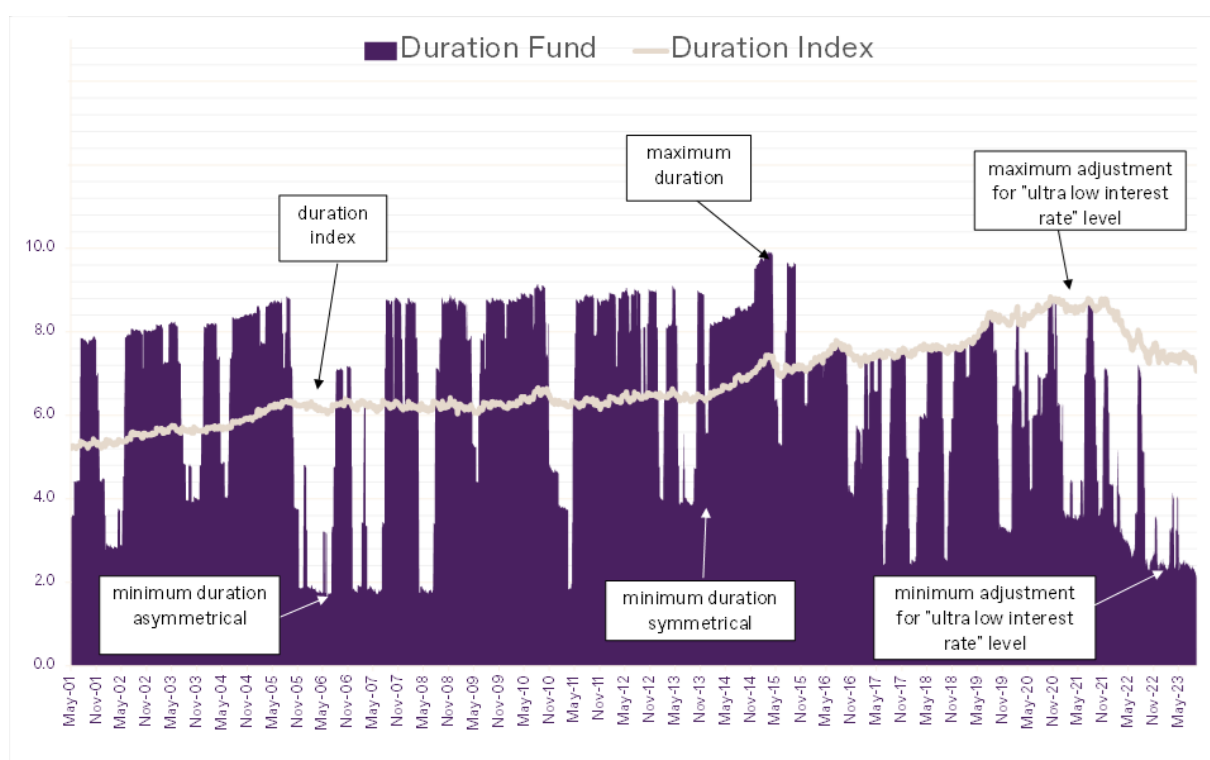
Example Kathrein Mandatum 50

The Kathrein Mandatum 50 has a strategic stock weighting of 50%. When the model indicates an overweight in stocks we are "bullish" and increase the tactical stock allocation to around 60%. When the model indicates an underweight in stocks we are "bearish" and reduce the tactical stock allocation to around 40 %.

Source: Kathrein Privatbank

6.2. Duration adjustment (duration model)

The Kathrein bond funds attempt to add value by identifying upward and downward trends in interest rates and adjusting the average maturity accordingly (longer-dated bonds, when yields decline and prices rise and vice versa). This is achieved across three models within the 2-year (Schatz - short-term German government bond), 5-year (Bobl - medium-term German government bond) and 10-year (Bund - long-term German government bond) duration universe. With rising interest rates, average duration is gradually reduced in three stages; with falling rates, it is increased in three stages.
The theory behind the duration model is the assumption that interest rate developments follow trends. The objective of the duration model is to identify trends and reversals in time to adjust the duration accordingly.
The chart shows the duration management in our fixed-income funds using the Kathrein Euro Bond Fund as an example. The light-colored line depicts market duration and the purple surface shows fund duration. This very active management enables us to profit disproportionately from price increases in the bond sector and to cushion price losses (with rising yields).

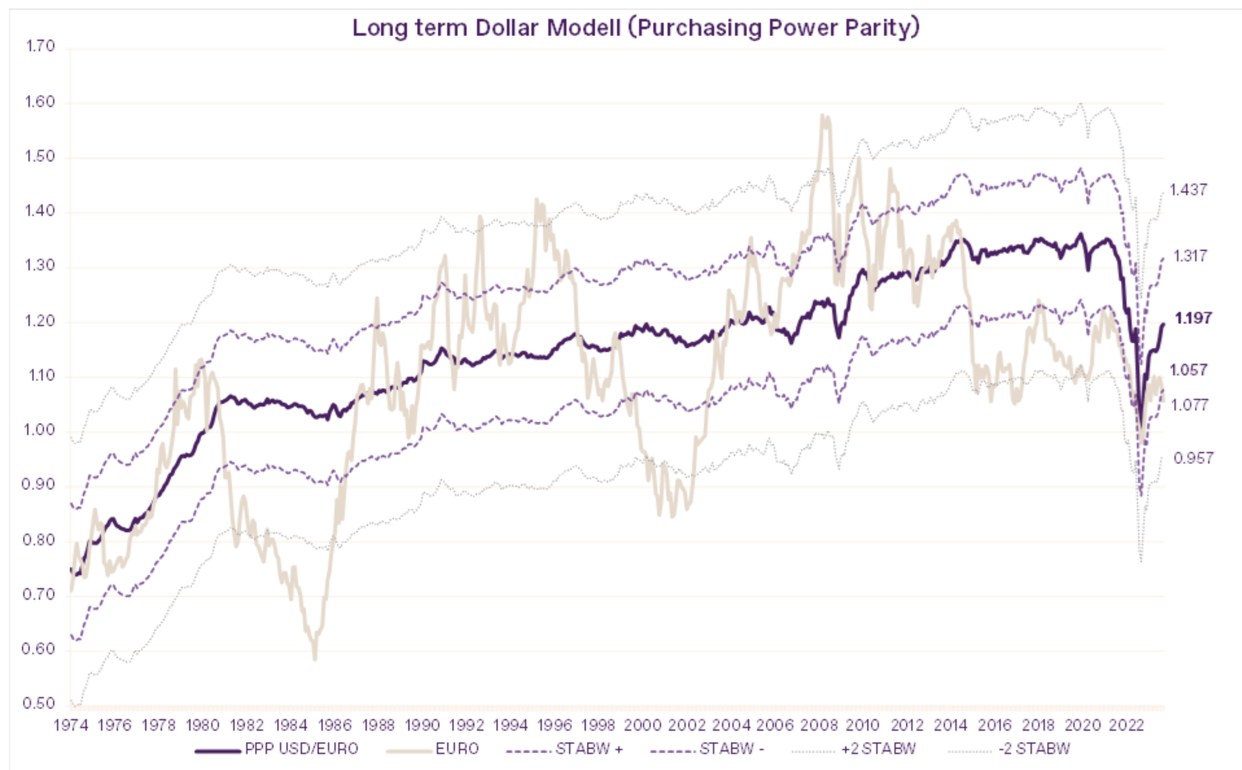


Source: Kathrein Privatbank

At the beginning of the quarter, the Schatz model (two-year duration), the Bund model (ten-year duration) and the Bobl model (five-year duration) were short. This approach continued our assessment of taking significantly less duration risk (or interest rate risk) in bond funds. We retained the short positioning until the end of the quarter.

6.3. Long-term USD model

(Purchasing Power Parity = PPP = EUR1.16)
Purchasing power parity (PPP) states that the same goods must have the same price in various currencies, because otherwise market forces would equalize prices and exchange rates. With identical baskets of goods, different rates of inflation would ultimately affect the exchange rates. For better comparison of international baskets of goods we use the producer price index for our computations. A country with a sustained 10% higher inflation rate would have to depreciate its currency by 10% for its traded goods to regain equal purchasing power for identical baskets of goods. Reality is not as exact as the purchasing power parity theory assumes, but extreme deviations from the nominal exchange rate provide good signals for a period of about two to three years.



Source: Kathrein Privatbank

At the beginning of Q3, the nominal exchange rate was at USD1.197 for EUR 1 with a standard deviation of 12 cents. Taking the value of two standard deviations, the US dollar would be significantly overvalued at USD 0.957. Historically, this value has normally not been exceeded or fallen below this level for more than one or two years. After very high producer prices in the EU significantly influenced the Purchasing Power Parity in favor of the USD in 2022, this trend reversed in the fourth quarter of 2022 and led to higher values. Falling energy prices, especially gas prices in Europe, which are coming back down to pre-war levels, are making the needle move in the other direction again. This could push the fair value toward 1.30.

Note about currencies: Returns may be higher or lower depending on currency fluctuations.

7. Economic Data, Interest Rates, and Stock Indicators

7. 1. Economy

At 1.9% US economic growth in 2022 was slightly below expectations. For 2023, expected growth is 2.1%. The 3rd quarter of 2024 is expected to be the low point of the business cycle at +0.6%. Growth of 1% is forecast for 2024 as a whole. Regarding inflation, most economists now anticipate a decline to 4.1%. Optimism was still higher three months ago, and inflation was projected to decline to 3.3% by the end of the year. This forecast nevertheless represents a significant improvement compared with 8% inflation in 2022. For 2024, a decline to 2.7% is anticipated.

USA	2017	2018	2019	2020	2021	2022	2023	2024
GDP	2.5	3.0	2.5	-2.2	5.8	1.9	2.1	1.0
Inflation	2.1	2.5	1.8	1.2	4.7	8.0	4.1	2.7
Unemployment	4.4	3.9	3.7	8.1	5.4	3.6	3.7	4.3
Curr. Acct. (%GDP)	-1.9	-2.1	-2.1	-2.8	-3.5	-3.8	-3.2	-3.1
Budget (%GDP)	-3.4	-4.2	-4.7	-15.4	-10.6	-5.4	-5.9	-5.9
Debt (%GDP)	102.3	105.0	105.9	126.0	120.1	119.0	117.5	119.0
Central Bank Rate	1.5	2.5	1.8	0.3	0.3	4.5	5.6	4.3
3-Month Rate	1.7	2.8	1.9	0.2	0.2	4.8	5.4	4.3
10 Year Yield	2.4	2.7	1.9	0.9	1.5	3.9	4.1	3.6
EURO/USD	1.20	1.15	1.12	1.22	1.14	1.07	1.07	1.12

Forecasts for 23/24
Source: Bloomberg

The US labor market remains tight, and the unemployment rate might increase to 3.7% by the end of 2023. On average, a 4.1% growth is anticipated for 2024. Despite the stable labor market, this is unlikely to ease core inflation. The high budget deficits following two years of massive spending in 2020 and 2021 fade into the background, at least for now. Although the deficit is significantly smaller than in previous years, at a forecasted 5.9%, it remains at an expansionary level.

At 3.3%, 2022 economic growth in the eurozone was at a slightly lower level than most recently expected. Growth forecasts for 2023 have been revised to 0.5%. Very weak growth of only 0.8% is forecast for 2024.
For 2023, inflation in the eurozone is expected to fall to 5.1%, while the forecast for 2024 is 2.7%.
Eurozone budget deficit for the year 2022 is similar to that in the US, although the US has been utilizing the federal budget for financing at a much higher rate than Europe since the pandemic. Since 2015, however, deficits for the euro area as a whole have consistently been smaller than those of the United States. The eurozone's debt-to-GDP ratio is significantly better than that of the US.
However, economic momentum in the eurozone was less dynamic than in the US, and the employment situation was less robust.

EUROZONE	2017	2018	2019	2020	2021	2022	2023	2024
GDP	2.6	1.8	1.6	-6.1	5.6	3.3	0.5	0.8
Inflation	1.5	1.8	1.2	0.3	2.6	8.4	5.6	2.7
Unemployment	9.2	8.2	7.6	8.0	7.7	6.7	6.5	6.7
Curr. Acct. (%GDP)	3.1	2.8	2.2	1.6	2.3	-0.7	1.3	1.7
Budget (%GDP)	-0.9	-0.4	-0.6	-7.1	-5.3	-3.6	-3.5	-2.9
Debt (%GDP)	88.1	86.1	84.0	97.2	95.5	91.6	89.6	89.3
Central Bank Rate	0.0	0.0	0.0	0.0	0.0	2.5	4.4	3.6
3-Month Rate	-0.3	-0.3	-0.4	-0.5	-0.6	2.1	3.9	3.2
10 Year Yield	0.4	0.2	-0.2	-0.6	-0.2	2.6	2.4	2.3
EURO/USD	1.2	1.1	1.1	1.2	1.1	1.07	1.07	1.12

Forecasts for 23/24
Source: Bloomberg

7.2. 10-year yields

Globally, yields rose significantly during 2022. In Germany, 10-year German government bond yields climbed from -0.17% at the beginning of the year to 2.5% by the end of December. Since the beginning of 2023, yields have been range-bound between 2% and 2.9%, with the upward trend only briefly interrupted by the banking crisis in the US and in Switzerland. In the US, comparable yields for US government bonds rose from 3.3% in April to 4.6% at the end of the quarter.
The following table depicts current government bond yields with a time-to-maturity of 10 years and their estimated yields.

	Analysts Forecasts				
	Spot	4Q 2023	1Q 2024	2Q 2024	3Q 2024
Germany	2.8	2.5	2.4	2.3	2.3
France	3.4	3.3	3.3	3.2	3.1
Italy	4.8	4.0	3.9	3.9	3.9
USA	4.6	4.1	3.9	3.7	3.6
UK	4.4	4.1	4.0	3.8	3.7
Japan	0.8	0.8	0.8	0.8	0.8

Figures in %
Source: Bloomberg

In general, most analysts see yields fluctuating in a very narrow range, with a slight decline in yields in 2024. Only in Japan yields will remain unchanged.

7.3. Short-term interest rates

The European Central Bank (ECB) has raised interest rates by 25 basis points at each of its last three meetings. However, no further moves are expected at the remaining two meetings before the end of the year. As underlying inflation has stabilized and growth has slowed significantly, this may mark the peak of interest rates in the eurozone. Since the introduction of the euro, the key interest rate has never been this high.

	Forecast 3 Month Investments				
	current	4Q 2023	1Q 2024	2Q 2024	3Q 2024
EURO	4.0	3.9	3.8	3.7	3.5
USA	5.4	5.4	5.2	5.0	4.7
UK	5.3	5.3	5.3	5.2	4.8
Japan	0.1	0.1	0.1	0.1	0.1
Swiss	1.7	1.9	1.8	1.8	1.6

Figures in %
Source: Bloomberg

On July 27, the Federal Reserve raised interest rates by 0.25 percentage points to 5.5%. This eleventh consecutive increase brought the federal funds rate to its highest level in 22 years and may have been the last move. No further increases are currently priced into the markets. The European Central Bank (ECB) last raised interest rates on September 14. The key

interest rate was raised by 0.25 percentage points. Since summer 2022, the ECB has now raised the key interest rate from zero to 4.5%. This is the highest level since the introduction of the euro. However, no further interest rate measures are expected at the two remaining meetings before the end of the year.
The Bank of Japan (BoJ) last changed its key interest rate on February 1, 2016. At that time, the key interest rate was lowered to -0.10 percent, and there has been no rate change since then.
On August 3, 2023, the Bank of England raised its policy interest rate to 5.25%.

7.4. Stock indicators

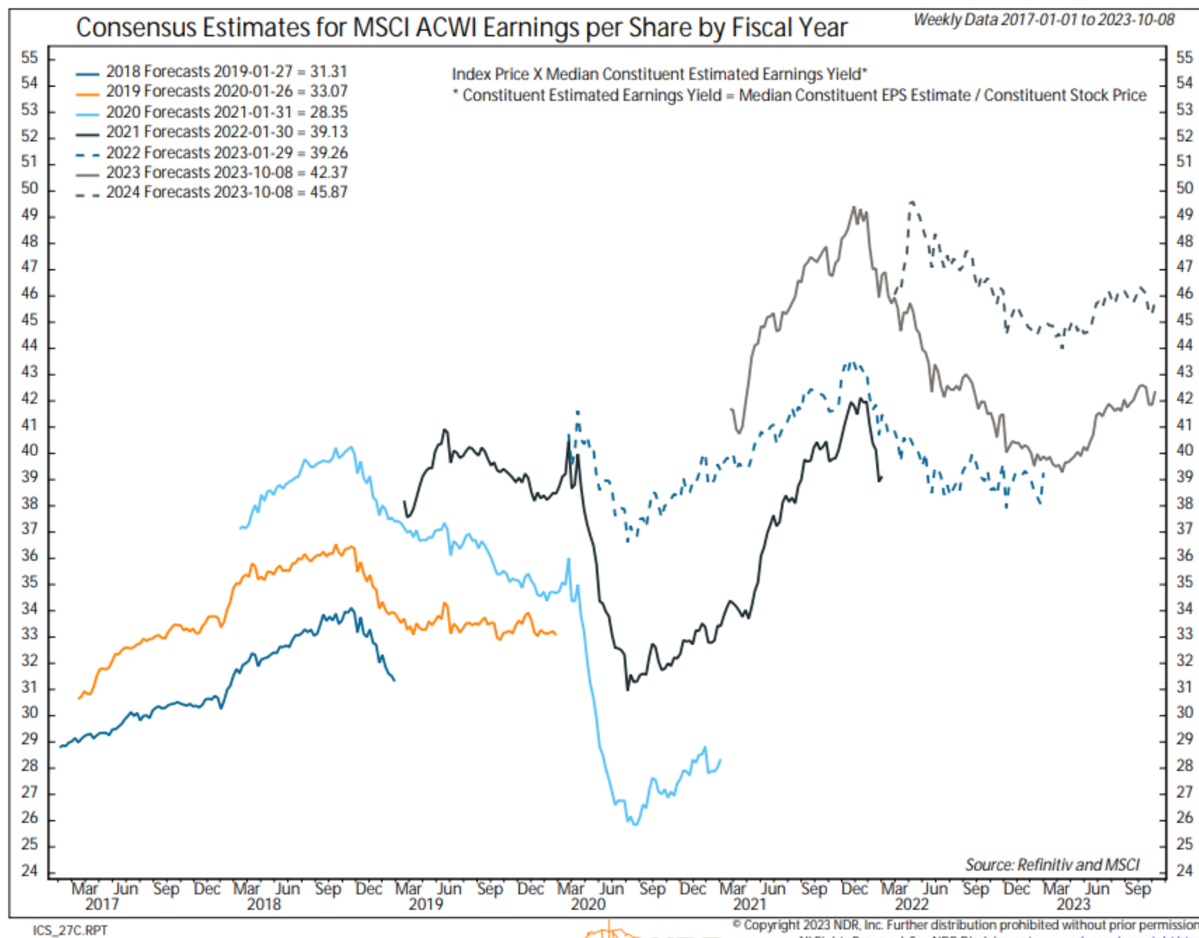
Earnings growth

The graph below depicts the analyst forecasts for the world equity market (MSCI All Country World Index) in various years (2018 to 2023) over time.

Third-quarter 2023 reporting season for public companies has just begun. Approximately 80% of S&P 500 companies will have reported by November 3. Based on current analyst estimates, zero growth is expected compared to Q3 2022.

Ned Davis Research calculates the 12-month index EPS (USD42.37) by combining an index level with its underlying price to earnings ratios, thereby creating a new theoretical per share figure at an index level that reflects the evolution of the EPS for an index. (EPS = earnings per share) - the derived formula can be seen at the top right of the chart, next to the forecasts for the various years.

Consensus estimates for the current fiscal year were revised downward in the third quarter (see chart - light gray line = 2023 Forecast). This was followed by a slight increase at the beginning of October.
Earnings expectations for the next calendar year are also slightly lower. (2024 = dark gray dotted line). Accordingly, earnings per share should increase to USD45.87 (+8.2% vs. the forecast for 2023). The expected increase has been reduced by about 1.1% compared to the previous quarter.

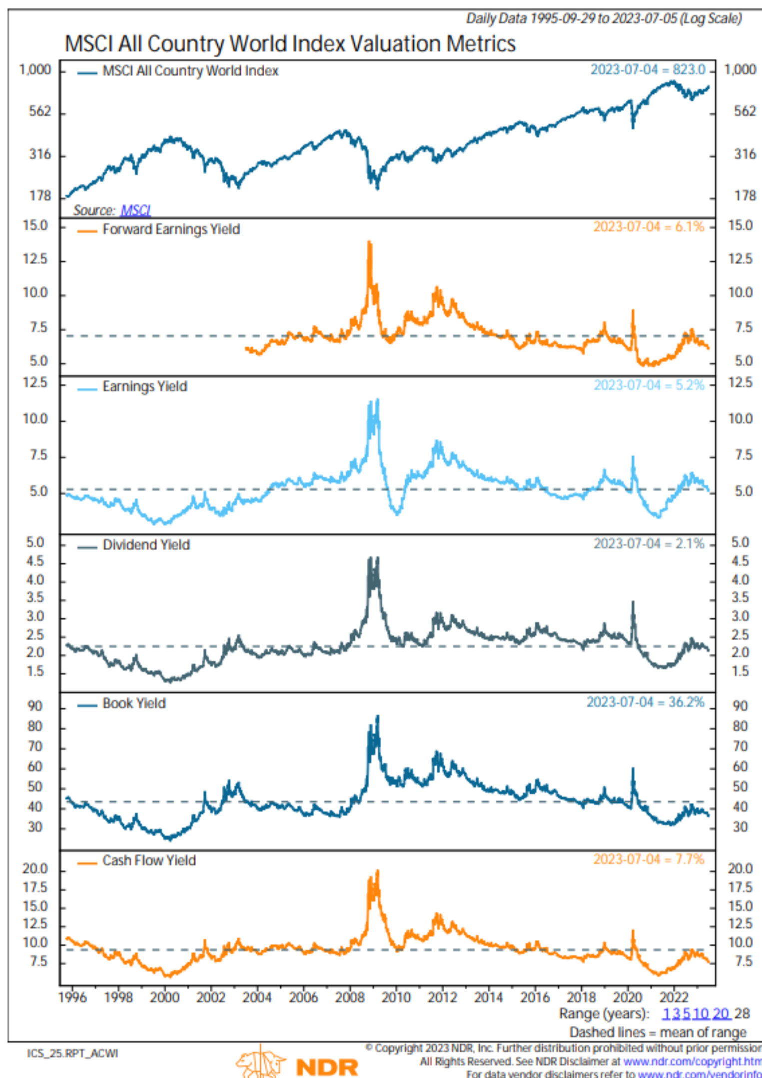


Source: Ned Davis Research(NDR)

Past results are not a reliable indicator for the future performance of financial instruments.

Fundamental valuations

The P/E ratio based on consensus estimates is currently 16.4. At 6.1%, earnings yield (the inverse of the P/E ratio) for 2023 remains significantly below the long-term average.
Due to strong share price performance, current earnings yield (light blue line) has also declined to 5.2%, which corresponds to a P/E ratio of 19.2.
Dividend yield is currently 2.1%, which is below the long-term average.
The same applies to other important key figures for assessing company valuations.



Source: NED DAVIS Research

Past results are not a reliable indicator for the future performance of financial instruments.

Summary

- So far, the global economy has coped remarkably well with the challenges of stubborn high inflation and the global rise in interest rates, even though the eurozone is technically in a "mini recession." In the US, there are currently no signs of a recession, With the latest move by the Fed and the ECB, we may have already seen the end of the rate hikes. Equity investors remain optimistic and hope that central banks will manage to control inflation while keeping a recession at bay.

- We have been in the bull camp since the beginning of May. However, this perspective may change in early October, and we may be inclined to reduce our stock holdings. Our technical indicators as well as the majority of fundamental indicators, such as the "Kathrein/Ned Davis Research Bull/Bear Model", are pointing up at the end of the quarter. Although the price momentum in the so-called FATMAN* and GRANOLAS** stocks seems to be slowing down, we now expect a "technical" correction.

- We expect the US dollar (USD) to continue to show strength in Q4. Some of the reasons supporting the dollar's upward potential are stronger economic growth, higher yields, and global political tensions. These factors may continue to strengthen the USD in 2024. Long-term, we currently see a fair PPP value parity at USD1.197.

- The earnings estimate for the current calendar year was lowered. The P/E ratio based on consensus estimates is currently 16.4. At 6.1%, earnings yield (the inverse of the P/E ratio) for 2023 remains significantly below the long-term average.

- Market participants do not expect further rate hikes from either the Fed or the ECB. There are signs that the restrictive measures are starting to take effect. Consumer price inflation is slowing significantly, although core inflation remains robust. At the same time, economic activity is slowing significantly.

* Shares of Facebook/Apple/Tesla/Microsoft/Amazon/Netflix
** Shares of Glaxo/Roche/Asml/Nestle, Novartis, Novo Nordisk/L`Oreal/LVMH/Astrazeneca/Sanofi, SAP

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