



MARKET PERSPECTIVE

KATHREIN
PRIVATBANK

THE EDITORIAL TEAM

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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, economies

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Corporate bonds, bonds

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1. Summary

1.1. Review

After an impressive end to 2023 with soaring stocks and roaring bonds, financial markets had a noticeably slower start into the new year with rising volatility. Overall, stock market direction remained positive but performance was more mixed than previously. In particular, the Magnificent 7, who were dominant last year, were unable to continue their outstanding performance in January. The fixed income markets saw significant movement with yields rising. This was a reflection of the gradual pricing in of interest rate cuts by central banks, with particular focus on the US Federal Reserve (Fed) and the European Central Bank (ECB). Central bankers have been reluctant to make concrete statements about possible rate cuts, despite these market expectations. Both, ECB president Christine Lagarde and Fed Chairman Jerome Powell, were cautious in their remarks and dampened expectations of a rapid adjustment in key interest rates. Those signals became even more pronounced in February. Equity markets continued their upward trend reaching new highs. They were supported by robust economic data from the US and general confidence, boosted also by the ongoing boom of AI technologies. Concurrently, bond market yields continued to rise, driven by inflation expectations and hopes for upcoming monetary easing. The month of March brought another turnaround in bond markets, as yields fell in response to somewhat weaker economic and sentiment data coming out of the US. Speculations about an impending interest rate cut regained momentum, giving rise to hopes of easing in the monetary policy stance. Stock markets remained more or less unaffected by the volatility seen in fixed income. Optimism remained strong and, compared to previous months, a broader range of stocks benefited from the positive market trend—not just the previously leading “Magnificent 7”.

The first quarter of 2024 was characterized by opposing forces. On the one hand, stock markets reached record highs, while bond markets anticipated a turnaround in interest rates. Central banks’ reluctance to move rates and the ongoing geopolitical uncertainty, fueled predominantly by the war in Ukraine, remained major challenges. The remainder of the year will heavily depend on central banks’ monetary policy stance and how markets react to it. In these times of continued volatility and both geopolitical and inflationary uncertainty, investors face the challenge of navigating a rapidly changing environment. Capital market performance over the coming months will largely be influenced by monetary policy decisions and geopolitical developments, promising a year full of challenges and opportunities.

1.2. Forecast

In a geopolitical context, 2024 is shaping up to be an interesting year. Although regional conflicts such as those in Ukraine and Israel continue, equity markets have learned to cope and have barely reacted to the latest developments. The political landscape will be closely watched in a year with high-stakes elections, although our baseline scenario does not foresee an escalation of conflicts. Elections in major democracies such as India and the European Union are happening soon and could influence the markets, while the US presidential election historically offers little cause for alarm despite potential concerns from both political camps. Statistically speaking, the S&P 500 has had a positive performance in almost every election year over the past several decades. Nevertheless, any uncertainty in the run-up to the elections could lead to increased volatility, especially in the US. Because of its dependence on US trade policy, China could also come under pressure.

Despite the political uncertainties, fundamentals remain the dominant driver for stock market performance. While the US was able to avert a recession and is showing economic resilience, Europe is entering a phase of moderate post-recession recovery. The rate cuts anticipated by markets will continue to have an impact on stock markets, but medium-term interest rates and bond yields are trending down. Supported by a positive economic and earnings outlook, overall market sentiment is strong.

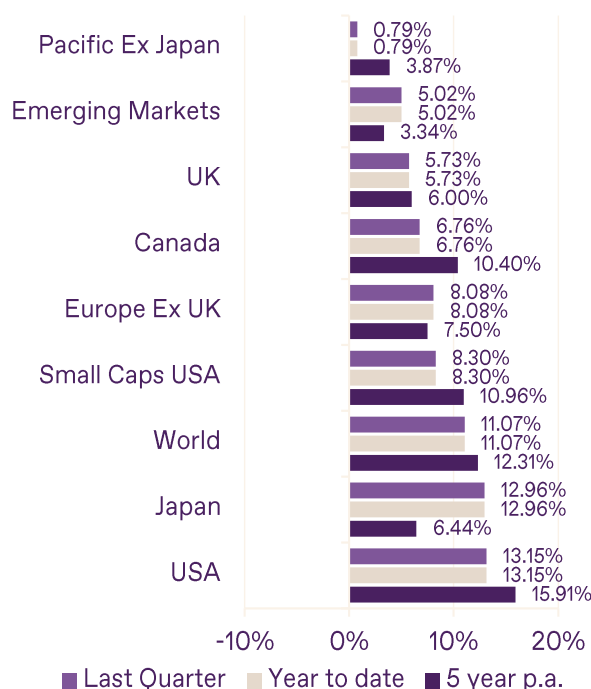
The bond market reflected expectations of imminent rate cuts, although market expectations for 2024 were scaled back from extensive interest rate cuts to moderate rate adjustments. Performance of fixed income asset classes was mixed in the first quarter of 2024, with riskier asset classes achieving positive results. Demand for fixed income should remain strong and support spreads in the near term as interest rate cuts loom on the horizon.

2. Capital market review

The year got off to a somewhat bumpy start. But initial uncertainty quickly gave way to cautious optimism. The US stock market once again significantly outperformed the overall market, rising more than 13%.

Close on its heels was the Japanese stock market, surpassing its all-time high of 1989 for the first time during the first quarter of 2024. At 8%, Europa also posted a satisfying performance, despite lagging well behind global equity markets. At 5.73% in the first quarter, the United Kingdom was close to matching its annualized performance over the past five years (6.0%). Emerging markets came in at around 5% once again lagging well behind developed market performance (11.07%). The Pacific region ex Japan was the weakest region at 0.82%.

Stock performance in EUR



Source: Bloomberg, Last quarter = Q1 24, 5Y = 29/03/19-28/03/24, Year-to-date = 30/12/23-28/03/24

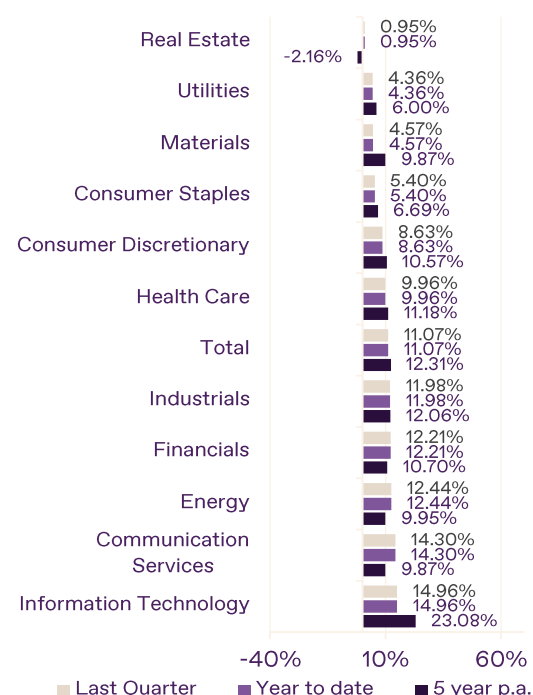
Five sectors outperformed the overall market in the first quarter. The important technology sector once again led the way. Telecommunications companies were a close second.

Crude oil prices rose on the back of ongoing tensions in the Middle East which in turn was the catalyst for a sharp rise in share prices of energy giants. The broad financial sector also managed to outperform. Ultimately, many industrial companies benefited from the strong US economy.

Although slightly positive, the real estate sector was very weak. At 4.36, defensive utilities were almost on par with consumer discretionaries from the commodities sector.

Consumer discretionaries performed significantly better than consumer staples and healthcare companies just missed a double-digit performance.

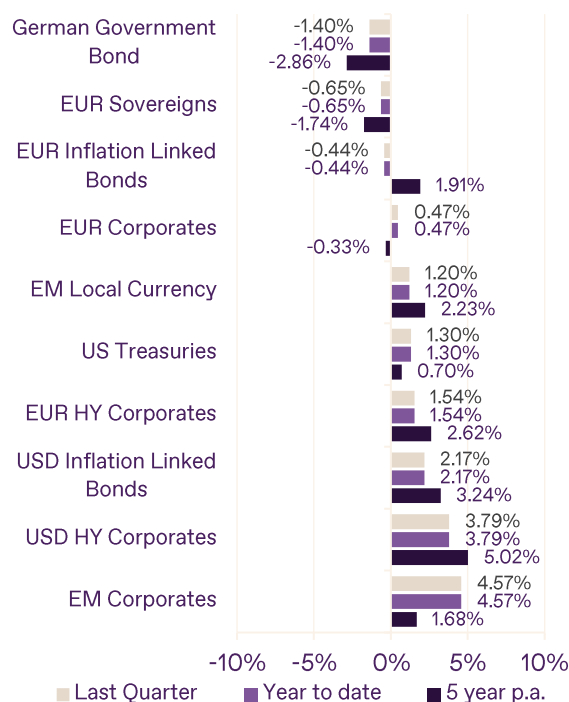
Sector performance global equities



Source: Bloomberg, Last quarter = Q1 24, 5Y = 29/03/19-28/03/24, Year-to-date = 30/12/23-28/03/24

The first quarter of 2024 saw a correction after a period of exaggerated performance at the end of last year, when positive returns were already anticipated for the end of 2024. This correction was particularly pronounced for euro-denominated government bonds. Among the best classes year-to-date are US dollar-and euro-denominated high-yield bonds. Emerging market corporate bonds delivered excellent returns. USD-denominated inflation-linked bonds benefited from uncertainties about the outlook for inflation and perhaps exaggerated expectations. USD-denominated government bonds benefited from higher yields in the US.

Bond performance in EUR

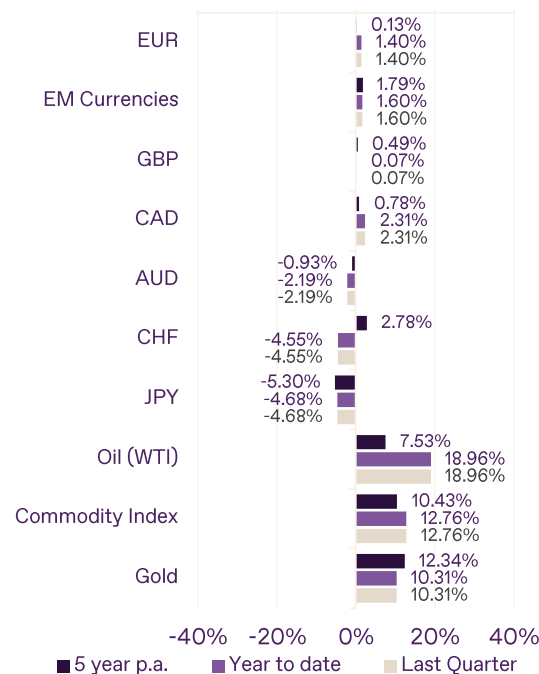


Source: Bloomberg, Last quarter = Q1 24, 5Y = 29/03/19-28/03/24, Year-to-date = 30/12/23-28/03/24

The dollar's performance in 2023 was 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 USD 1.125 in July. Thereafter, the picture changed, with the USD losing only 0.81% against the euro over the course of the year despite strong fluctuations. The Japanese yen remains in trouble with an annual decline of 9.8%.

In the 4th quarter, oil prices reacted strongly to the weakening economy and fell by 24.55%. Other commodities followed suit.

FX performance vs. EUR



Source: Bloomberg, Last quarter = Q1 24, 5Y = 29/03/19-28/03/24, Year-to-date = 30/12/23-28/03/24

3. Capital market forecast

- US dollar could strengthen against euro
- Fed and ECB interest rate cuts expected from June
- Prices for crude oil and gold rising
- Longer durations on the horizon

The capital market forecast reflects Kathrein's opinion and does not contain any direct or indirect recommendations for an investment strategy or the

The current state of the economy and the political measures in place point to interesting developments in the financial markets. In this environment, the dollar could strengthen against the euro on the back of diverging economic outlooks for the US and the eurozone. This trend will be reinforced by the anticipated interest rate cuts by the Federal Reserve and the European Central Bank starting in June, which could boost the dollar's appeal.

At the same time, crude oil and gold prices could continue to rise. The price of gold can be explained by an increased risk aversion among investors in times of macroeconomic uncertainty. Gold is traditionally seen as a safe haven in times of crisis, while rising oil prices are often associated with geopolitical tensions and increased demand during economic recovery. These developments have a dampening effect on prospects for a decline in inflation.



Source: Pixabay.com

International stock markets continue to hit new highs, driven by the ongoing AI rally and renewed optimism regarding interest rates. Surprise interest rate cuts, such as those recently implemented by the Swiss central bank, are adding to this optimism. However, there are challenges to this momentum, for example from the upcoming economic data, such as the US inflation data, which could have a significant impact.

When central banks cut rates, bond yields typically fall while bond prices rise. This is because of the inverse relationship between bond yields and prices: Lower interest rates increase the value of bonds with fixed, higher yields, causing the prices of those bonds to rise. In particular, bonds with longer maturities or higher duration benefit from this mechanism because their future cash flows are discounted at a higher rate and are therefore more sensitive to changes in interest rates.

Caution is warranted in 2024, however, as markets have already priced in rate cuts and the exceptionally low interest rate levels of the past distort the perception of "normal" interest rate levels.

How we position ourselves

The Kathrein bond portfolio remains well positioned, currently offering attractive yields due to its broad diversification. Given the preference for short maturities due to the inverted yield curve (short maturities offer a higher yield than longer maturities), a large proportion is invested in short or floating-rate euro bonds. In January, we reduced our holdings of longer-duration euro-denominated fixed income securities. Significant exposure to emerging market bonds in local currency, with government bonds yielding about 7.0% 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 4.75%, well above the anticipated 2.4% rate of inflation for the eurozone.

An end to rate hikes and possible central bank rate cuts, along with lower policy rates, could provide support for equities through the end of 2024. Based on our expectations, 2024 could turn out to be a good year for most stocks. We expect the average stock market return over a 10-year investment horizon to be 7.5% p.a., which is a long-term average with significant variation in any given year.

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

MARKET EXPECTATIONS



4.1. Kathrein US-Equity

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Attractive yield expectations coupled with high credit quality



The US stock market continued its leadership role in the first quarter of 2024. All other regions underperformed the global equity market, with the exception of the Japanese market. US stocks dominate the market capitalization share in the developed world (World Developed Markets) more than ever before. The US market weighting was 70.9% at the end of the first quarter of 2024. Not one of the top 10 companies by market capitalization (World Developed Markets) is from outside the United States. 7 of the 10 largest stocks are from the IT and communication services sector. The performance



Source: Pixabay.com

of the "Magnificent Seven" has been very mixed this year (Nvidia + 82.5%, Tesla - 29.3%). However, the impact on the performance of the US market has been very strong due to the high weighting of a dozen stocks.

If we look at the US market in isolation, the top 10 stocks by market capitalization account for more than 30% of the weight of the index. By sector, IT dominates (about 30%). With the addition of the communications sector (incl. Alphabet, Meta, Netflix, etc.), 39% of the market is tracked. Next in size is the financial sector with around 13% of market capitalization, followed by healthcare with 12%.

It is all the more difficult for active managers to generate outperformance in this type of market environment. During the first quarter of 2024, we were able to significantly outperform the S&P 500 benchmark index with our proprietary Kathrein stock selection model. By maintaining a well-diversified portfolio, the Kathrein US Equity fund manager was able to generate higher returns for its shareholders than through passive investing in an index. While sector weighting was neither a contributor to nor a detractor from performance, stock selection contributed to the fund's outperformance.

Fund information acc. to Section 128 InvFG

The fund currency is the euro. Share class R denominated in USD: USD (not hedged against the fund currency) Share class I denominated in USD: USD (not hedged against the fund currency)

The managing company may engage in derivative transactions in accordance with the investment strategy of the Kathrein US Equity Fund. Such transactions could temporarily increase the risk of loss for fund assets. The fund may acquire derivative 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 twice the overall risk of the reference portfolio (relative VaR), the maximum set for all fund investments. Due to the composition of the fund or the management techniques, the fund has an increased level of volatility. This means that share value can be exposed to significant upward and downward movements even within a short timeframe and loss of capital cannot be ruled out.

Prospectus and key information documents

The published current German fund prospectus and/or the key investor information document in accordance with Article 21 AIFMG, as well as the key information documents for the fund can be requested in print from Kathrein Privatbank or accessed at www.kathrein.at under "Investment Solutions/Our Funds (in German)".

5. Kathrein's investment strategy

5.1. Asset allocation

- Continued overweight in stocks
- Increased high-yield bonds
- Reduced duration again

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.

We were tactically overweight stocks throughout the first quarter, allowing our portfolios to participate in the strong stock market performance during this period, although past performance is no indicator of future developments. The technical indicators in our model for tactical management of the stock allocation remain very positive. The fundamental indicators have also turned slightly positive as the probability of recession in the US has declined. Given the positive stock market outlook, we have reduced the proportion of defensive holdings in the stock portfolio and switched to a global equity fund with a focus on sustainability. 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 stock portfolio to 25%.

On the bond side, we slightly raised the portfolio's target volatility again in March, increasing the proportion of high-yield bonds in the portfolio. We sold US dollar government and euro corporate bond positions and bought US dollar and euro high-yield bonds as part of our rebalancing efforts. With the pace of inflation slowing less rapidly than anticipated, especially in the US, and interest rates expected to remain high, we reduced the duration of the bond portfolio in several steps in the first quarter, both in US dollars and in euros. At 19.5%, 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 9.5%, 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 4.5%, and US dollar high-yield bonds at 3.5%.

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

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 a 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 (Target Asset Allocation as of 29. March 2024)	IP 1	IP 2	IP 3	IP 4	IP 5
Bonds	100	69	39	15	0
Bonds - Eurozone - Government	20	14	8	3	0
Bonds - Government - Global	0	0	0	0	0
Bonds - Emerging Market - Government	16	11	6	2	0
Bonds - Emerging Market - Corporate	5	3	2	1	0
Bonds - Corporate - USA	4	2	1	1	0
Bonds - Government - USA	24	16	9	4	0
Bonds - Corporate - EUR	32	22	12	5	0
Equity	-	24	50	71	83
Equity - Europe	0	2	5	7	8
Equity - USA	0	12	26	36	42
Equity - Canada	0	1	1	2	2
Equity - Japan	0	1	2	3	4
Equity - Pacific ex-Japan	0	1	1	2	2
Equity - Emerging Markets	0	3	5	7	9
Equity - Global	0	5	10	14	17
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					
2024	-0.6	2.4	5.0	7.1	10.1
2024 Q1	-0.6	2.4	5.0	7.1	10.1

Data in %, source: Kathrein Privatbank

Reallocations

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%).
October 23	Tactically reduced stock allocation by 30% of the strategic allocation.
November 23	Tactically increased stock allocation by 30% of the strategic stock allocation.
March 24	Switched out of defensive value stocks (-5% of the stock allocation) into sustainable global stocks (+5% of the stock allocation), switched out of USD government bonds (-2.5%) into USD HY bonds (+2.5%) and from EUR corporate bonds (-1%) into EUR HY bonds (+1%)

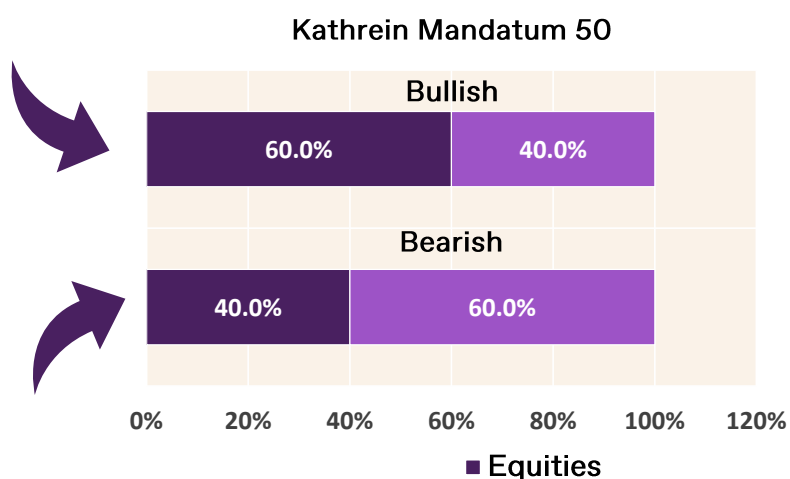
6. Key Kathrein models

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

Fund information pursuant to Section 128 InvFG:

Prospectus and key information documents

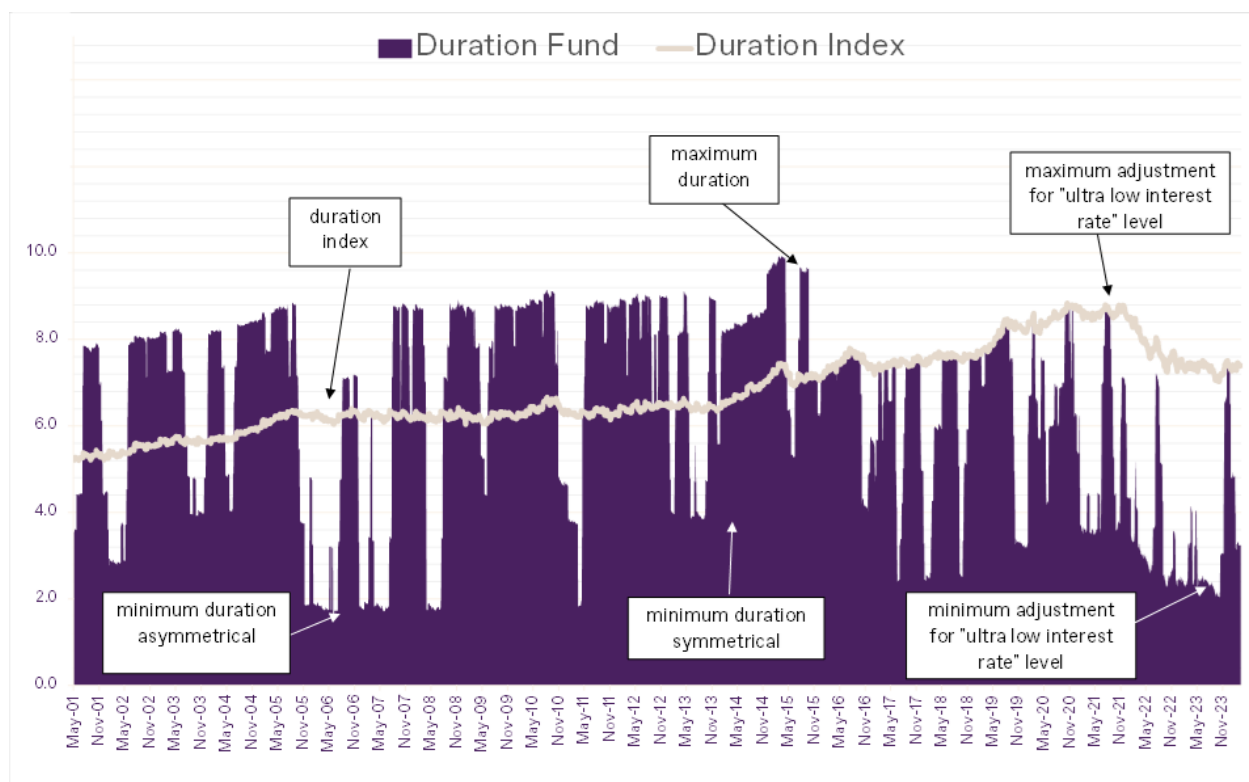
The published current German fund prospectus and/or the key investor information document in accordance with Article 21 AIFMG, as well as the key information documents for the fund can be requested in print from Kathrein Privatbank or accessed at www.kathrein.at under "Investment Solutions/Our Funds (in German).

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).



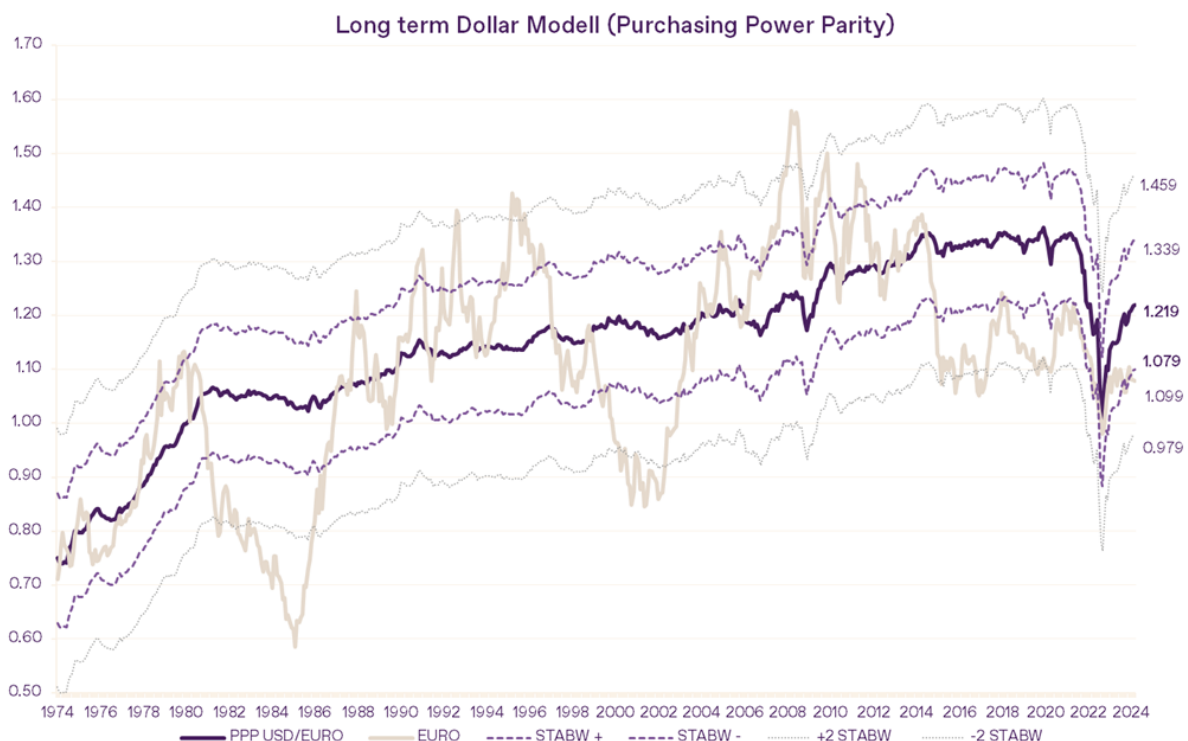
Source: Kathrein Privatbank

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 long. The model's reaction to the correction in January was a neutral signal. In February, Schatz and Bobl also turned short. We retained this positioning until the end of the quarter.

6.3. Long-term USD model

(Purchasing Power Parity = PPP = 1.219 EUR as of 28/03/2024)

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 the quarter, the theoretical exchange rate was at about USD 1.22 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 0.979. Historically, this value has normally not 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 has reversed since the fourth quarter of 2022 and has 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 2.5%, US economic growth in 2023 was above expectations. Significantly higher growth of 2.2% is now forecast for 2024 as a whole. Regarding inflation, most economists now anticipate a decline to 2.9% in 2024. This forecast represents a significant improvement compared with 4.1% inflation in 2023. For 2025, a decline to 2.4% is anticipated.

	USA	2020	2021	2022	2023	2024	2025
GDP		-2.2	5.8	1.9	2.5	2.2	1.7
Inflation		1.2	4.7	8.0	4.1	2.9	2.4
Unemployment		8.1	5.4	3.6	3.6	4.0	4.1
Curr. Acct. (%GDP)		-2.8	-3.5	-3.8	-3.0	-3.0	-3.0
Budget (%GDP)		-15.4	-10.6	-5.4	-6.5	-6.1	-6.0
Debt (%GDP)		126.0	120.1	119.0	121.6	121.4	122.4
Central Bank Rate		0.3	0.3	4.5	5.5	4.6	3.5
3-Month Rate		0.2	0.2	4.8	5.6	4.4	3.4
10 Year Yield		0.9	1.5	3.9	3.9	3.9	3.7
EURO/USD		1.22	1.14	1.07	1.11	1.10	1.14

Forecasts for 24/25
Source: Bloomberg

The US labor market remains tight, and the unemployment rate might increase to 4.0% by the end of 2024. In 2025, unemployment is expected to rise slightly to 4.1%. The US labor market remains robust despite recent interest rate hikes but has faced a number of challenges over the past two years.

The high budget deficits from the crisis years 2020 and 2021 have been left behind for the time being, although forecast at 6.1% the deficit will be at last year's level.

At 0.4%, 2023 economic growth in the eurozone was at a slightly lower level than was most recently expected and was achieved in 2022. 2024 growth forecasts have now been adjusted to 0.5% and thus remain at a low level. We see signs of a weak recovery in 2025, with growth forecast at 1.3 %.

For 2024, inflation in the eurozone is expected to fall to 2.4%, while the forecast for 2025 is around 2.1%.

The budget deficit figures for 2023 and 2024 are now approaching the 3% target again required by the Maastricht criteria. Federal spending since the pandemic has been much higher in the US than in Europe. Since 2015, deficits for the entire euro area 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 employment was less robust.

EUROZONE	2020	2021	2022	2023	2024	2025
GDP	-6.1	5.6	3.4	0.4	0.5	1.3
Inflation	0.3	2.6	8.4	5.5	2.4	2.1
Unemployment	8.0	7.7	6.7	6.5	6.6	6.6
Curr. Acct. (%GDP)	1.6	2.3	-0.6	1.9	2.0	2.0
Budget (%GDP)	-7.1	-5.3	-3.6	-3.6	-2.9	-2.7
Debt (%GDP)	97.2	95.5	91.0	91.0	91.2	90.8
Central Bank Rate	0.0	0.0	2.5	4.5	3.2	2.6
3-Month Rate	-0.5	-0.6	2.1	3.9	3.0	2.3
10 Year Yield	-0.6	-0.2	2.6	2.0	2.1	2.0
EURO/USD	1.2	1.1	1.07	1.11	1.10	1.14

Forecasts for 24/25
Source: Bloomberg

Purchasing managers' indices point to a recovery in the eurozone economy compared to the second half of 2023, although it remains in recessionary territory. The transition from a near contraction to an expansion is close and is expected to occur in the second quarter. The lowest level of economic activity seems to have passed.

7.2. 10-year yields

Due to the sharp decline at the end of 2023 yields have already fallen below the yield forecast for the end of 2024. In the first quarter, the needle has been moving in the other direction again, and economists' estimates are now in line with the medium-term expectation of lower yields. Only Italy is expected to have higher yield spreads versus Germany. In Japan, where the central bank is still expected to raise interest rates, with inflation above 2% and the policy rate at 0%, bond yields are expected to rise slightly.

The following table depicts current government bond yields with a time-to-maturity of 10 years and their estimated yields.

	Analysts Forecasts				
	Spot	2Q 2024	3Q 2024	4Q 2024	1Q 2025
Germany	2.30	2.18	2.10	2.11	2.09
France	2.81	2.73	2.69	2.69	2.70
Italy	3.68	4.44	4.40	4.28	4.21
USA	4.20	4.03	3.93	3.87	3.82
UK	3.93	3.82	3.70	3.61	3.56
Japan	0.71	0.86	0.91	0.94	0.95

Figures in %
Source: Bloomberg

In general, most analysts see yields fluctuating in a very narrow range, with a slight decline in yields in 2024.

7.3. Short-term interest rates

The ECB will leave key interest rates unchanged in April. At its next meeting in June, however, everything will be in place to begin the cycle of rate cuts. The ECB will begin this cycle of rate cuts ahead of the Fed, which could weigh on the euro.

	Forecast 3 Month Investments				
	current	2Q 2024	3Q 2024	4Q 2024	1Q 2025
EURO	3.89	3.65	3.34	3.03	2.81
USA	5.30	5.08	4.82	4.44	4.12
UK	5.18	4.87	4.55	4.22	3.73
Japan	0.24	0.15	0.19	0.20	0.22
Swiss	1.42	1.61	1.54	1.43	1.29

Figures in %
Source: Bloomberg

The Fed held rates steady during the first quarter and has not been forthcoming about the timing of the first rate cut. Higher-than-expected inflation rates in the first two months are not seen as a turning point, but rather as part of the challenging path to achieving target inflation. A rate move at the Fed's next meeting in May is therefore unlikely.

After much speculation, the Swiss National Bank (SNB) lowered interest rates by 25 basis points to 1.5% on March 21, marking the beginning of a cycle of interest rate cuts. This decision was also influenced by a stronger Swiss franc.

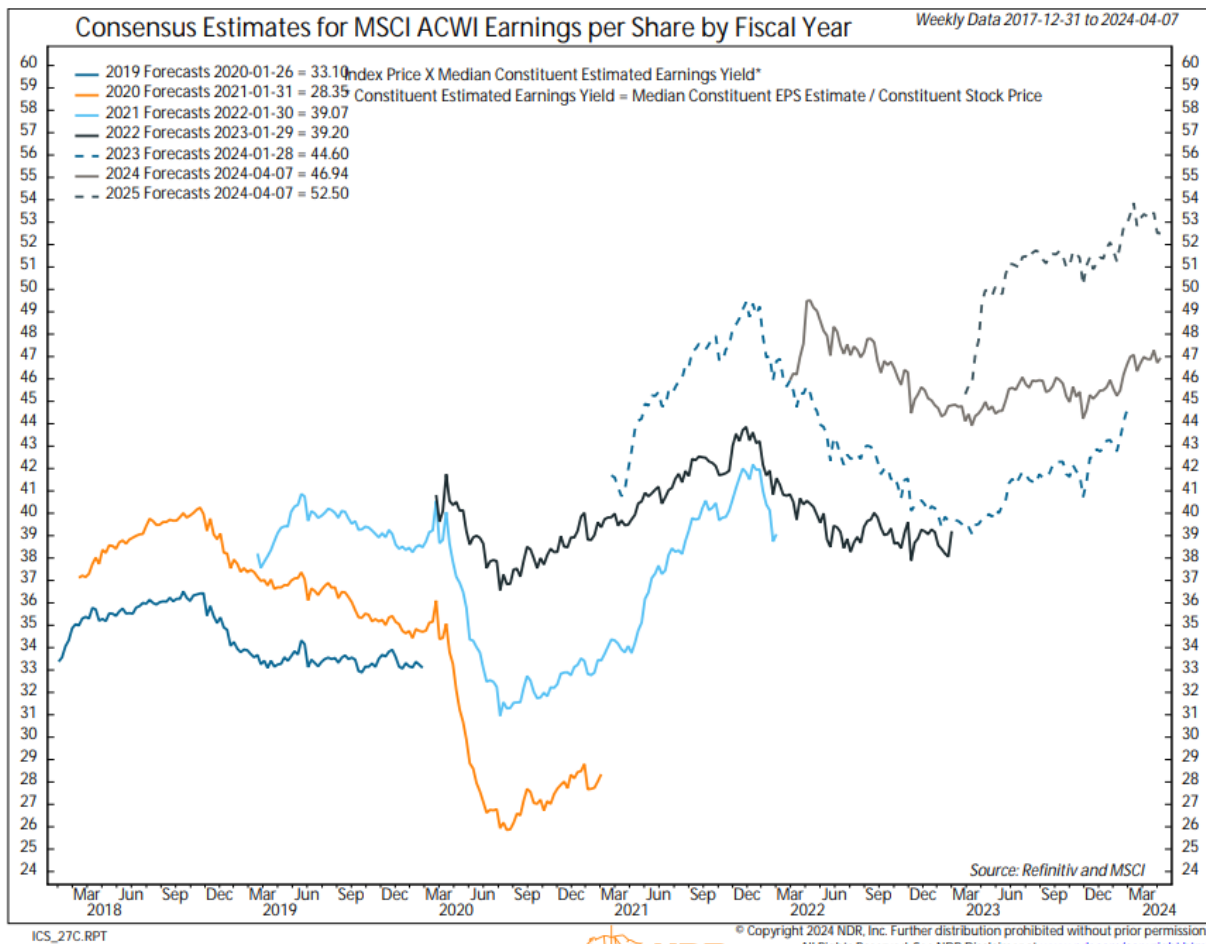
On March 19, Governor Kazuo Ueda led the Bank of Japan (BoJ) into a new era by ending negative interest rates and yield curve control policies introduced by his predecessor. This action symbolizes a new policy framework. The BoJ set its new short-term interest rate just above zero and will continue to buy Japanese government bonds to keep conditions flexible.

The Bank of England has changed its tone from the beginning of 2024. In February, it dropped its tightening bias and signaled possible easing in March despite a restrictive monetary policy. A rate cut is expected for May, but the BoE's cautious stance points to June as the more likely date for the first rate measure.

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 (2019 to 2025) over time.



Source: Ned Davis Research(NDR)

First-quarter 2024 reporting season for publicly traded companies has just begun. Analysts' expectations have been rather muted of late, i.e. the bar for a positive surprise has not been set very high.

Consensus estimates for the current fiscal year are at USD 46.94 (see chart - light gray line = 2024 forecast). Significant earnings gains are expected for next year (dotted gray line = 2025 forecast). Naturally, these are subject to even greater uncertainties than those for the current year.

Important note:

Ned Davis Research calculates the 12-month index EPS (USD 46.94) 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.

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

Fundamental valuations

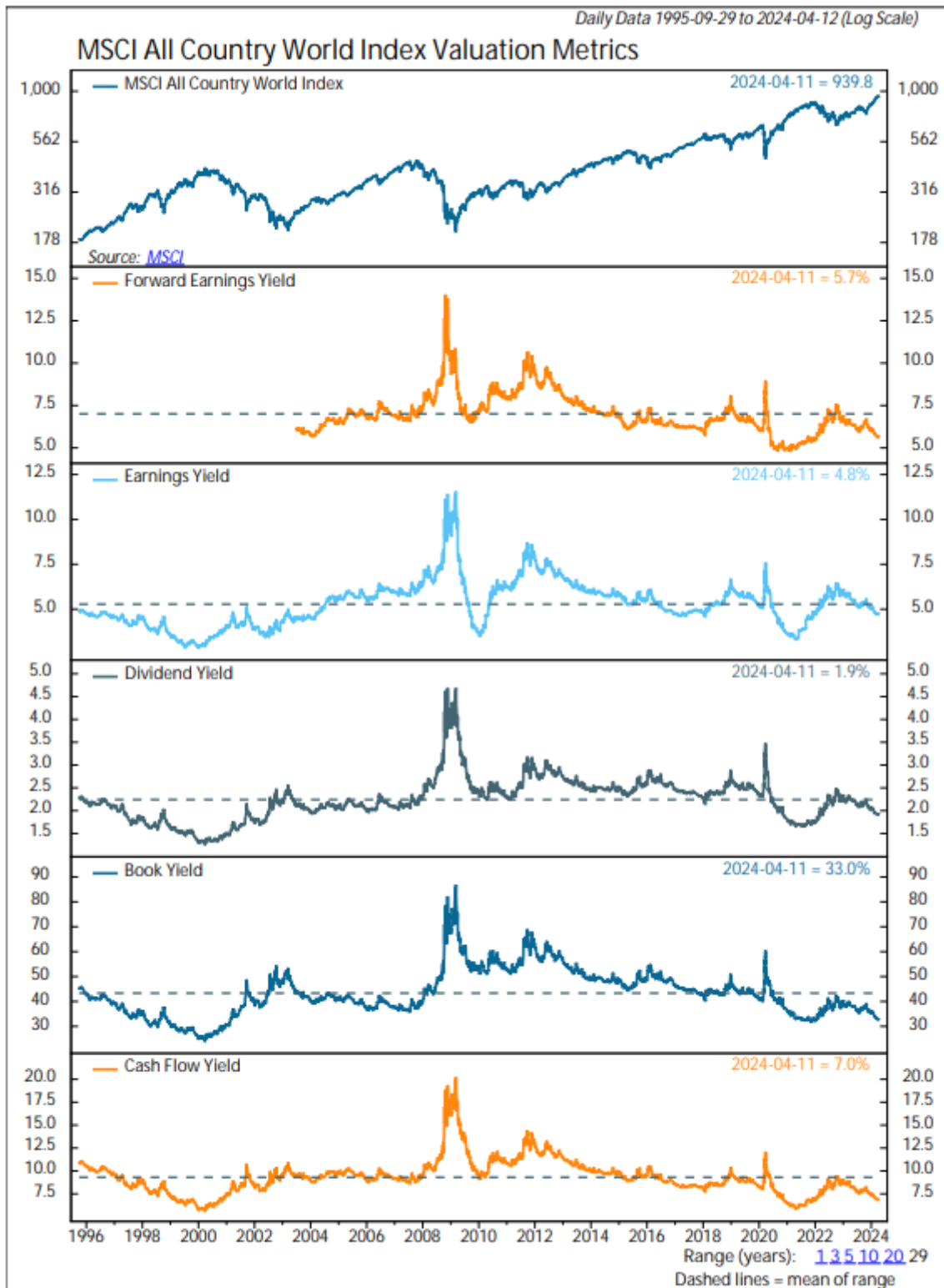
The chart from Ned Davis Research on the next page shows the historical valuation of the world equity index based on various key fundamentals.

The price-earnings ratio (P/E) based on expectations (analysts' consensus estimates) is currently 17.5. At 5.7%, earnings yield (the inverse of the P/E ratio) for 2024 remains significantly below the long-term average. This value has deteriorated further from the end of 2023 due to soaring stock prices during the first quarter of 2024.

The earnings yield (light blue line) is currently below 5.0% and in its wake the P/E ratio has climbed to over 20.

Despite record distributions, the dividend yield fell slightly again last year to 1.9%, well below the long-term average (around 2.2%).

Valuation based on the price-to-book (PB) ratio is approaching mid-2022 valuations. The cash flow yield has been falling steadily since the beginning of 2023 and currently stands at just 7%.



Source: NED DAVIS



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

Summary

- The bond market reflected expectations of imminent rate cuts, although market expectations for 2024 were scaled back from extensive interest rate cuts to moderate rate adjustments. Performance of fixed income asset classes was mixed in the first quarter of 2024, with riskier asset classes achieving positive results. Demand for fixed income should remain strong and support spreads in the near term as interest rate cuts loom on the horizon.
- An end to rate hikes and possible rate cuts by major central banks and consequently a lower key interest rate environment, could provide support for equities through the end of 2024. Based on our expectations, 2024 could turn out to be another very good year for most stocks. We expect the average stock market return over a 10-year investment horizon to be 7.5% p.a., which is a long-term average with significant variation in any given year.
- Consensus estimates for the current fiscal year are at USD 46.94. Significant earnings gains are expected for next year. Naturally, these are subject to even greater uncertainties than those for the current year.
- The Kathrein bond portfolio remains well positioned, delivering interesting yields significantly above those of Austrian government bonds due to its broad diversification. Total yield for the Kathrein portfolio at the beginning of the quarter was 4.75%, well above the anticipated 2.4% rate of inflation for the eurozone.

Glossary

Bond and Equity Indices: Bond and equity indices are capitalization-weighted benchmarks used to measure the performance of a particular investment or asset category. A capitalization-weighted index is calculated from the total value of the market capitalization of the securities included in the index, with each security in the index weighted relative to its total market capitalization.

Alternative Investments: Alternative investments encompass investments in assets such as hedge funds, private equity, commodities, or real estate, which differ from traditional investments such as stocks and bonds.

Asset Allocation: Asset allocation is the distribution of investments in a portfolio across different asset classes (such as stocks, bonds, real estate) to diversify risk and optimize returns.

Bearish: “Bearish” is expecting a downward trend in the markets. Bearish investors expect prices to go down in the future.

Bullish: “Bullish” is expecting an upward trend in the markets. Bullish investors expect prices to rise in the future.

Cash Flow Yield: The cash flow yield is a key figure that compares the free cash flow per share a company is expected to earn against its market value per share. It indicates how much cash a company generates relative to its market capitalization.

Defensive Value Stocks: Defensive value stocks are shares in companies with more stable earnings and less price volatility, often in sectors that are less affected by the economic environment.

Dividend Yield: The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price. It indicates the percentage of the stock price an investor receives as a dividend.

Duration: The duration of a bond indicates how long it takes for the investment to be recouped by the cash flows (interest and repayment). It is a measure of the interest rate sensitivity of a fixed-income security. A higher duration means the price is more sensitive to changes in interest rates.

EM (Emerging Markets): An emerging market refers to an economy that is experiencing rapid growth and industrial development, often with growing integration into the global economy.

Futures Contracts: Futures are standardized exchange-traded contracts regulating the

purchase or sale of an asset at a predetermined price at a specified time in the future. Often, they are used as a hedging instrument to offset the risk of adverse price movements.

High-Yield Bonds: High-yield bonds have a higher risk and therefore higher interest rates than investment-grade bonds. The issuers of those bonds have a lower credit rating.

Inflation-linked Bonds: These securities are designed to protect investors from inflation by linking the interest payments and the redemption amount to an inflation index. Thus investors' real yields are protected from loss due to inflation.

Price-earnings Ratio (P/E ratio): The price-earnings ratio measures the current share price of a company relative to its per-share earnings. It helps to assess whether a share is over- or undervalued.

Magnificent 7 (including FAANG): The "Magnificent 7" often refers to a group of high-performing US technology companies that dominate the market. The acronym FAANG represents Facebook (now Meta), Amazon, Apple, Netflix, and Google (Alphabet) which are considered the core companies of this group.

MSCI All Country World Index (ACWI): The MSCI ACWI is a global stock index published by MSCI Inc (Morgan Stanley Capital International), a provider of financial instruments and services. The index comprises companies from both developed and emerging markets and is a benchmark for global stock market performance.

Multi Asset: Multi-asset portfolios contain a combination of different asset classes including stocks, bonds, and alternative investments to create a more diversified portfolio and spread the risk.

PPP (Purchasing Power Parity): Purchasing power parity (PPP) is an economic concept that determines two different currencies being at par when a basket of goods is priced the same in both countries, taking into account the exchange rates. It allows economists to compare productivity and standard of living between countries.

Bond Yield: A bond's yield is the return an investor realizes on a bond held to maturity. It includes interest payments and changes in the price of the bond.

S&P 500: The S&P 500 is a stock market index of the 500 leading publicly traded companies in the US. It is a primary indicator of stock market performance in the US.

Corporate Bonds: Corporate bonds are fixed-income securities issued by companies to raise capital. They generally offer higher yields than government bonds, but also carry a higher risk.

Value at Risk (VaR): The value at risk indicates the maximum loss an investment or portfolio could sustain with a given probability given normal market conditions over a target horizon.

Volatility: Volatility measures how much and how quickly the price of a security or market moves. High volatility means greater price changes in short periods of time, indicating higher risk.

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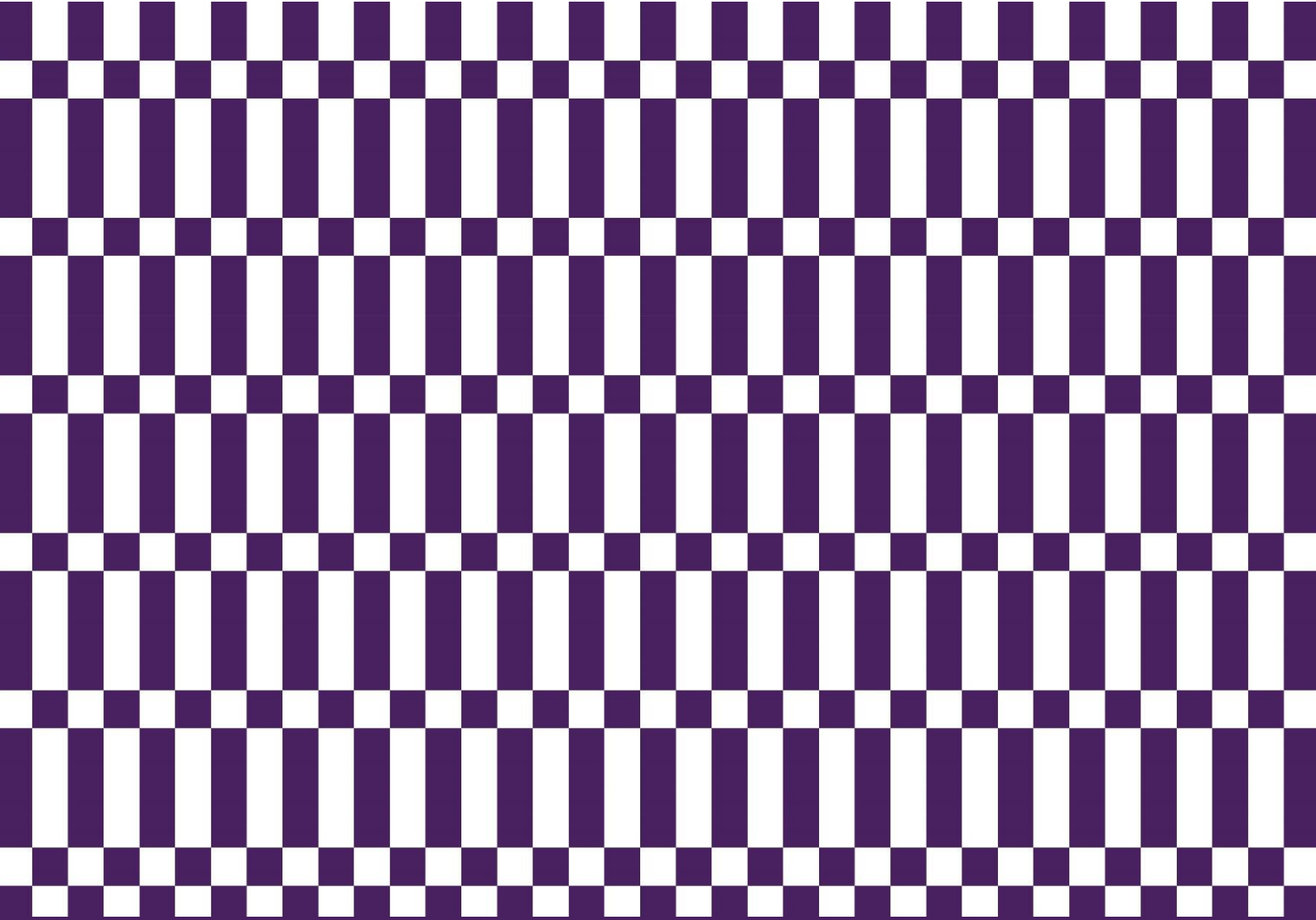
The information provided by the product providers regarding sustainability risks and the expected impact on return is made available to the investor and explained in greater detail

during the consultation. Overall, Kathrein considers the impact of sustainability risks to be lower for financial products that integrate environmental or social characteristics than for financial products that do not incorporate these criteria in the course of the investment process. Factoring in sustainability risks can have a positive impact on returns, at least over the longer term, as establishing a lower or zero portfolio weighting in securities from issuers with sustainability risks in the investment portfolio can potentially mitigate or completely eliminate disproportionately poor results due to the occurrence of a sustainability risk. Kathrein's policy for factoring in sustainability risks can be accessed at www.kathrein.at.

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