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, economics

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Corporate bonds, bonds

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Stocks, capital preservation models

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Stocks, stock models

Mag. Josef Stadler

Asset Allocation

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1. Summary

1.1. Review

The past fiscal year was a historic year for central bank activities and rate hikes. After a challenging 2022 with record-high inflation and significant losses on the equity and bond markets, 2023 began with strong price gains. Investors' hopes for a "soft landing" grew amidst positive economic data and declining inflation on both sides of the Atlantic. The bullish sentiment in the markets was only briefly disrupted in March, when Silicon Valley Bank's liquidity problems triggered a global financial emergency. At Credit Suisse, the difficult environment, the loss of confidence, and the large losses in the previous quarters were indeed the straws that broke the camel's back, and after its 167-year history, Credit Suisse was taken over by UBS in an emergency rescue deal. Price gains were supported by the hype around artificial intelligence (AI), which is expected to make companies more efficient and also spark innovation for new product development. So far, however, only the large US technology corporations and a few European chip makers have been able to benefit from this trend. After the summer, market sentiment reversed as investors repriced the central banks' "higher-for-longer" strategy on interest rates. In September, the ECB raised the deposit rate to 4% and the US Fed held its policy rate in the 5.25% to 5.50% range. Then came the brutal attack of Hamas on Israel in October. A new geopolitical crisis unfolded leading to uncertainty and volatility in the markets. Driven by the increasing probability of interest rate cuts in 2024, both bond and equity markets rose sharply. After a quiet Thanksgiving week, financial markets positioned themselves for a strong finish. For example, the DAX rose by more than 9% in November, recording its best monthly performance since the economic recovery from the Covid-19 pandemic. At the very end of the month, the Dow Jones Industrial Average set a new annual high for 2023. The S&P 500 Index also reached a new annual high in total return. From the euro investor's perspective, US dollar weakness impacted US dollar indices. Global indices were most affected by it.
The US dollar depreciated slightly against the euro during the reporting period from January to November and closed the year at 1.1039 EUR/USD.
December saw a rally. The bond market, in particular, experienced a rally that is rarely seen. Based on the last central bank decisions of the year in the US and in the eurozone, but also in the UK and Switzerland, market participants helped prolong skyrocketing price gains that started in the last days of November, and bond prices rose sharply.
The bond market was not the only segment celebrating a year-end rally; most equity markets also posted strong gains at the end of the year.

1.2. Forecast

In 2024, geopolitical conflicts and various elections - US presidential elections, EU parliamentary elections, and general elections in Austria, to name a few - will shape the political environment. These events could impact economic development and create uncertainty for forecasts. After a robust 2023, some economic slowdown is expected in the US in particular, but current consensus among analysts sees a soft landing, accompanied by declining inflationary trends and positive growth rates.

The International Monetary Fund's (IMF) current growth forecasts for 2024 show a slowdown in global growth. Global economic growth is expected to slow from 3.5% in 2022 to 3.0% in 2023 declining to 2.9% in 2024. This growth is well below the historical average of 3.8% between 2000 and 2019. Economically more developed countries are particularly affected, with a slowdown from 2.6% in 2022 to 1.5% in 2023, and anticipated 1.4% in 2024, mainly due to tighter monetary policy.

The current forecast for emerging and developing economies is a moderate decline in growth from 4.1% in 2022 to 4.0% in 2023 and 2024. Tighter monetary policy and lower international commodity prices will ease inflation from 8.7% in 2022 to 6.9% in 2023 and 5.8% in 2024.

The global economy is forecast to remain resilient, but expansion will slow down, especially compared to global average growth rates before the COVID-19 pandemic. This suggests that further policy measures and reforms are needed to boost productivity growth and strengthen the global economy.

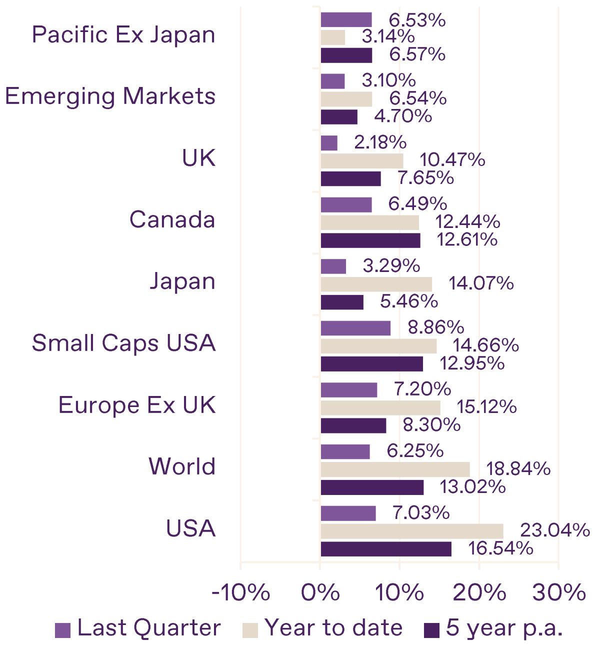
2. Capital market review

A strong fourth-quarter rally in the markets made for a very pleasant 2023 overall despite the many uncertainties and political trouble spots. A broadly diversified global equity portfolio delivered double-digit gains. The weighty US equity market outperformed the overall market by around 23%. All other regions were, however, unable to outperform the market. It is worth noting that the most significant contributions to performance came from a small number of mega-cap stocks.

The strong fourth quarter in the Europe ex UK region was also remarkable. The Dutch and Swedish stock markets stood out with their double-digit returns.

The laggards in the 2023 stock market ranking were the Pacific countries ex Japan. Shares from emerging countries also underperformed in 2023.

Stock performance in EUR



Source: Bloomberg, Last quarter = Q4 23, 5Y 29/12/18-29/12/23, Year-to-Date = 30/12/22-29/12/23

This past year, three sectors excelled and posted above-average price gains. The IT sector, dominated by US technology giants, and the telecommunications sector both benefited from the sharp rise in share prices of some companies with very large market capitalization (mega-caps).

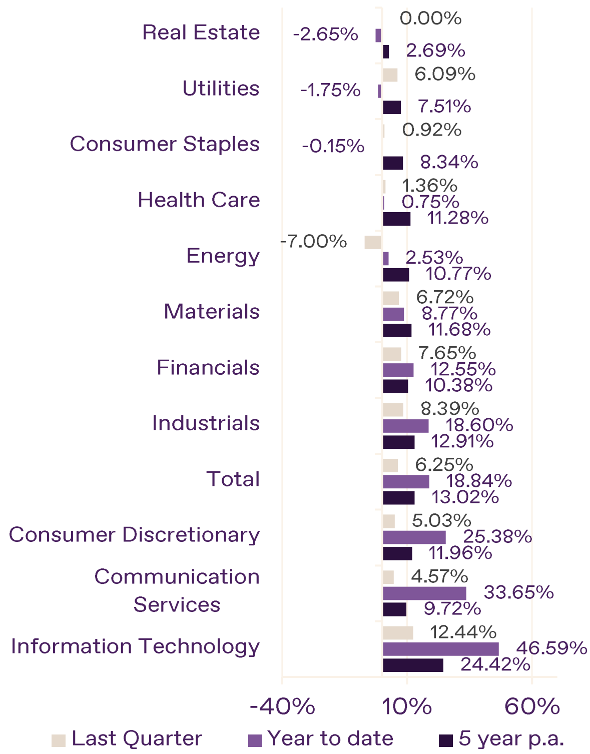
The more cyclical discretionary consumer sector also outperformed the overall market by more than 25 %.

Performance was very weak in real estate and utilities. Last year also saw weak demand for consumer staples.

The financial sector was disappointing, as it should have benefited significantly from the very favorable interest rate environment and lower risk provisions.

Despite global geopolitical flashpoints, crude oil prices fell, leading to a significant decline in the energy sector in the fourth quarter. For most oil and gas multinationals the year as a whole was less than satisfactory.

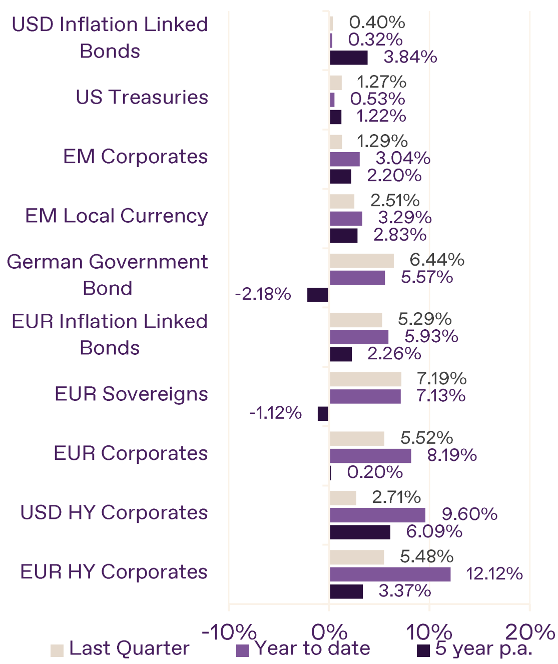
Sector performance Global equities in EUR



Source: Bloomberg, Last quarter = Q4 23, 5Y 29/12/18-29/12/23, Year-to-Date = 30/12/22-29/12/23

Bond market performance was strong in the fourth quarter of 2023, accounting for most of the year's performance for some asset classes. Among the best classes year-to-date and for the quarter are euro and USD high-yield bonds. Followed by corporate bonds, which also benefited from a significant narrowing of spreads over government bonds, as no or only a very mild recession is now expected and therefore expected defaults are estimated to be lower. Euro government bonds benefited from a significant decline in inflation and a weak European economy, while inflation-linked bonds slightly underperformed nominal bonds.

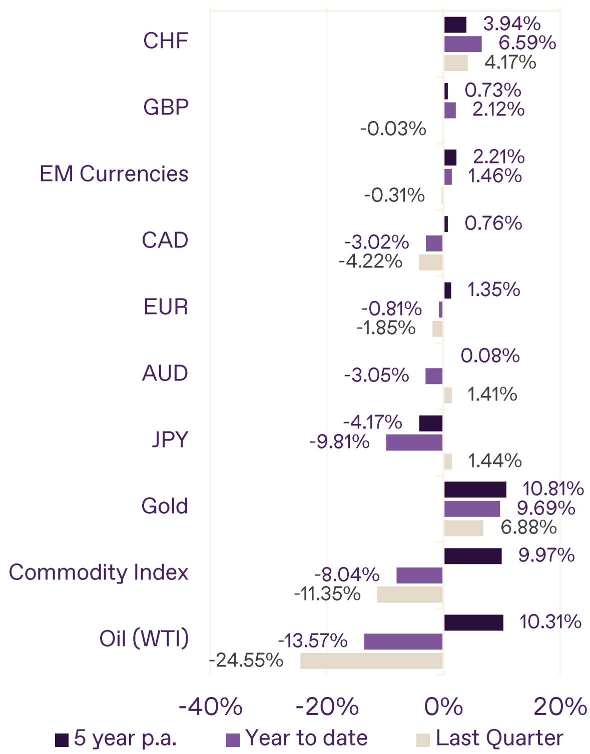
Bond performance in EUR



Source: Bloomberg, Last quarter = Q4 23, 5Y 29/12/18-29/12/23, Year-to-Date = 30/12/22-29/12/23

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 USD1.125 in July. Thereafter, the picture changed, with the USD losing only 0.81% against the Euro over the course of the year. 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 = Q4 23, 5Y 29/12/18-29/12/23, Year-to-Date = 30/12/22-29/12/23

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

The market reaction to anticipated interest rate cuts was strong at the end of 2023 and has the potential for setbacks, particularly in the first quarter. Geopolitical threats and trade barriers are permanent risk factors for the disinflation process. ECB's data-based approach in the first quarter allows for only a few signals of easing, although the credit market is slowing down and GDP growth is stagnant, generating little inflationary pressure.
There are signs of a slowdown in economic growth in the US, but hopes of fiscal stimuli before the presidential election in November 2024 could prevent a sharp fall in yields. Nevertheless, due to the higher starting level, the more responsive central bank and the widening of USD/EUR yield spreads, yields are expected to fall more than in the eurozone.

Source: Pixabay.com

From a historical point of view, the current environment is very favorable for equity markets. Between the last interest rate hike and the first interest rate cut, the S&P rose 21.36% p.a. on average (based on the average annualized equity returns in the interest rate cycles since 1990). The last rate increase was on July 26, 2023, in the US, and since then the S&P 500 has already gained 12.6%. In theory this means there is still some room for improvement.

Analysts' earnings estimates are also positive, as they anticipate corporate earnings growth of 4.5% in 2024.
The upcoming elections in the US, the UK, and in India are significant political events whose outcome has the potential for significantly impacting market momentum. Uncertainty remains around China's economic development going forward. The ongoing conflict in Israel/Gaza could impact oil prices and disrupt global trade routes. The war in Ukraine has no end in sight. Careful analysis and a strategic approach will be crucial in this complex environment to successfully address the challenges of 2024.

How we position ourselves

The Kathrein bond portfolio is well diversified and positioned to deliver an interesting yield significantly above that of Austrian government bonds. As short maturities are preferred with an inverted yield curve (short maturities offer a higher return than longer maturities), a considerable proportion is invested in short-term or floating-rate euro bonds. Our long-term euro bonds were extended in the 4th quarter and reached their maximum term-to-maturity and duration at the turn of the year. 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 4.5%, well above the anticipated 2.5% rate of inflation for the eurozone.

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 7.5% p.a., but keep in mind that it is hard to foresee changes in the political landscape.

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 Sustainable EM Local Currency Bond

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Attractive yield expectations coupled with high credit quality

As it has become increasingly certain in recent weeks that both the US and European central banks have hit peak rates and will both probably turn to interest rate cuts in 2024, emerging market bonds have become increasingly attractive, as the rate hike cycle began there earlier, and visions of interest rate cuts will take hold there more quickly. Some countries' central banks, e.g. Brazil, Peru, and Poland, already cut their main interest rates a few months ago. This means there is a potential for bond yields to come back, and investors may be able to realize price gains on top of the already higher yields relative to the euro and the US dollar.

Source: Pixabay.com

The Kathrein Sustainable EM Local Currency Bond is a fixed-income fund focused on supranational issuers, such as development banks issuing bonds in currencies of emerging countries. The fund universe comprises about 20 currencies. Currency allocation is the primary focus of the investment approach. Allocation decisions involve assessments of fundamentals for the respective country as well as its financial system. Weighting decisions are primarily based on price development of all currency pairs in relation to one other, purchasing power parity, absolute yield of the respective government bonds and liquidity.

The fund is a sustainability fund within the meaning of Article 8 of EU Regulation 2019/2088. The fund promotes social, ethical, and environmental features. Stock selection in the fund is driven by exclusion and quality criteria (negative and positive screening criteria). The commitment is also reflected in the award of the Austrian Eco-Label and the FNG seal.

The investment fund offers the benefit of combining extremely high credit quality with an attractive average yield of over nine percent at the end of 2023. Investing in bonds issued by development banks, backed by potent sovereigns, allows participation in emerging market currencies without adding unwanted credit risk to the portfolio. A high interest rate level and/or positive currency outlook make for attractive return potential. Tactical allocation allows the fund to react promptly to a downturn in the respective country and to switch capital to more attractive currencies.

Fund information acc. to Section 128 InvFG

According to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, the investment fund classifies as an Investment Fund within the meaning of Article 8. For a detailed description of the environmental and/or social characteristics of the investment fund (sustainability / ESG investment approach) as well as the sustainability risks please visit www.masterinvest.at, access the FUND SELECTOR (Fondsselektor), filter by Sustainability (Nachhaltigkeit), and click on the respective fund, or go to www.kathrein.at/kcm.

Derivative financial instruments may be used as part of the investment strategy and for hedging purposes.
In accordance with the investment strategy, the management company may enter into transactions with derivatives on behalf of the investment fund. Such transactions could partially increase the risk of loss of assets in the investment fund.

The fund regulations of the investment fund have been approved by the Financial Market Authority. If necessary, the investment fund portfolio may also include a higher issuer concentration, subject to the following provisions: The fund may invest 35% or more of its assets in securities or money market instruments issued or guaranteed by one of the following issuers, provided the investment is made in at least six different issues, whereby the investment in one and the same issue may not exceed 30% of the fund assets: - European Bank of Reconstruction & Development - European Investment Bank - International Bank for Reconstruction & Development - International Finance Corp.

Due to the use of investment instruments satisfying the eligibility requirements set forth in the fund regulations, the fund experiences a higher level of volatility. This means that the share value can be exposed to significant upward and downward movements even within a brief period.
Such transactions can partially increase the risk of loss of assets in the investment fund.
The fund regulations of the investment fund have been approved by the Financial Market Authority.

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

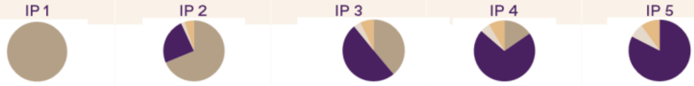
5.1. Asset allocation

- Overweight in equities since November
- Overweight in value stocks
- Duration increased again

We began the fourth quarter with a tactical overweight in equities but reduced the equity allocation at the beginning of October to remove some risk from the portfolios resulting from a deteriorating economic outlook and heightened geopolitical tensions. At the end of November, our model for controlling equity allocation signaled an overweight in equities, as all technical indicators turned positive, and fundamental indicators were neutral. We therefore increased our equity weighting again in November, allowing our portfolios to participate disproportionately well in the strong year-end rally. Please note that past performance is not indicative of future results. 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 increased the hedge of our USD risk in the equity portfolio to 50%.

On the bond side, we increased the target volatility of the portfolio slightly in September and have left it unchanged during the fourth quarter. We increased the duration of the bond portfolio in several steps in the 4th quarter, both in US dollars and in euros now that interest rates seemingly have peaked on both sides of the Atlantic, and we anticipate interest rate cuts during 2024 by the US Fed and the ECB. The technical signals to extend duration were reinforced by the strong bond market rally in December. 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 key 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 (Taget Asset Allocation as of 29. December 2023	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	1	1	0	0	0
Bonds - Government - USA	26	18	10	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	25	36	41
Equity - Cananda	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	8	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					
2023	4.2	6.9	9.3	11.3	14.2
2023 Q4	4.2	4.6	5.1	5.6	6.3
Risk					
Portfolio	4.6	4.9	6.5	8.5	10.4
Fixed Income	-	0.0	0.0	0.0	0.0
Equities	4.4	3.2	0.9	0.2	-
Alternatives	-	1.7	5.3	8.1	10.3
Multi Assets	-	-	-	-	-

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

Reallocations

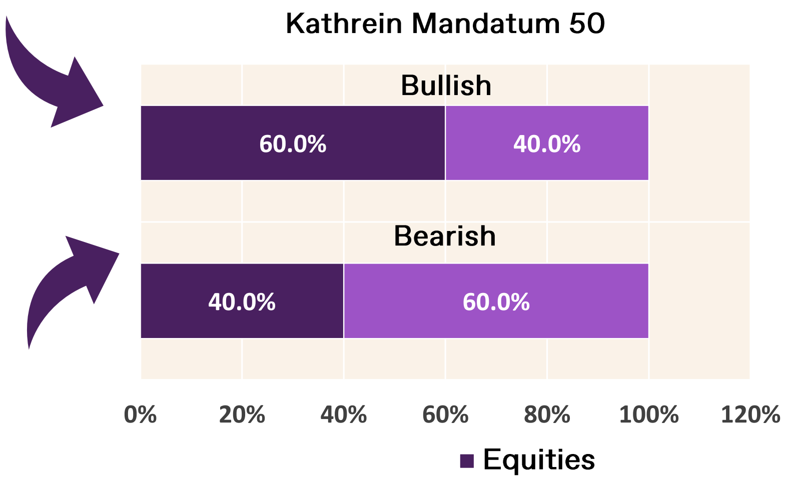
April 22	Switched out of euro government bonds (-3%) into euro inflation-linked bonds (+1%), and EUR corporate bonds (+2%).
April 22	Switched out of European equities (-2.5%) into US equities (+2.5%).
April 22	Switched out of sustainable global stocks (-2.5%) into stocks of sustainable companies in megatrend 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%).
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.

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.

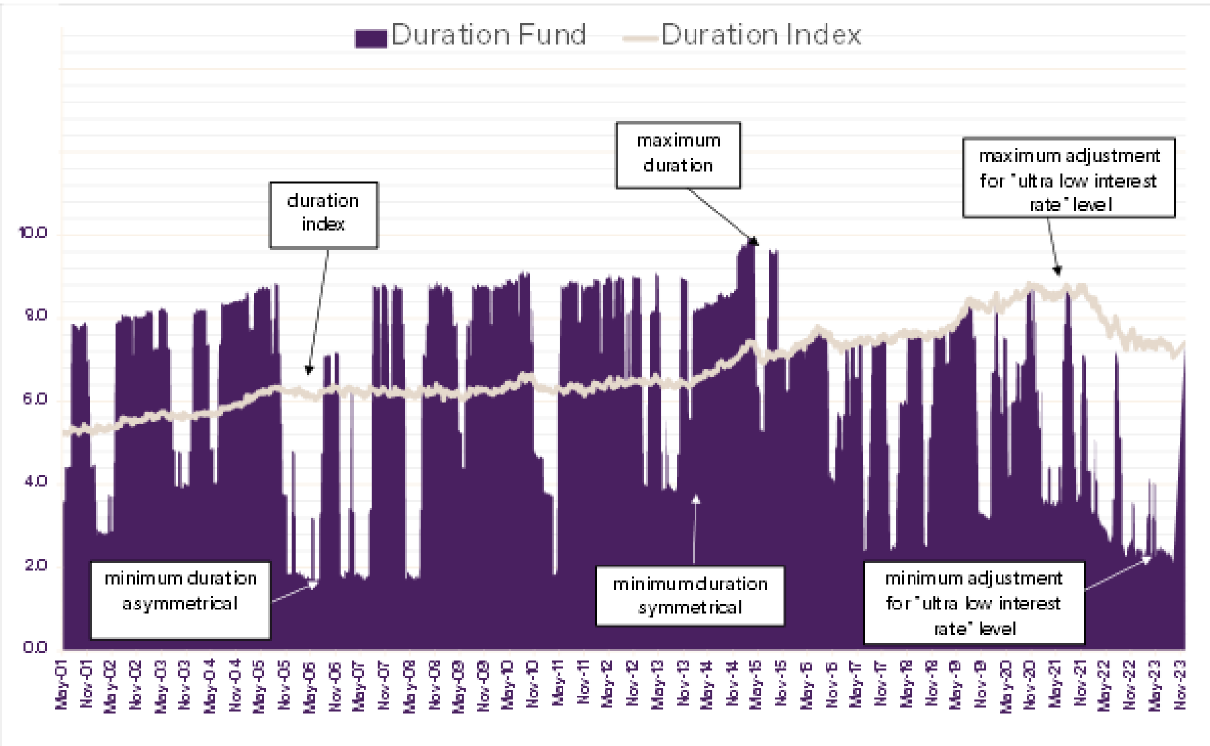


Example Kathrein Mandatum 50:
The Kathrein Mandatum 50 has a strategic stock weighting of 50%. When the model indicates an overweight in stocks we are "bullish" and increase the tactical stock allocation to around 60%. When the model indicates an underweight in stocks we are "bearish" and reduce the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

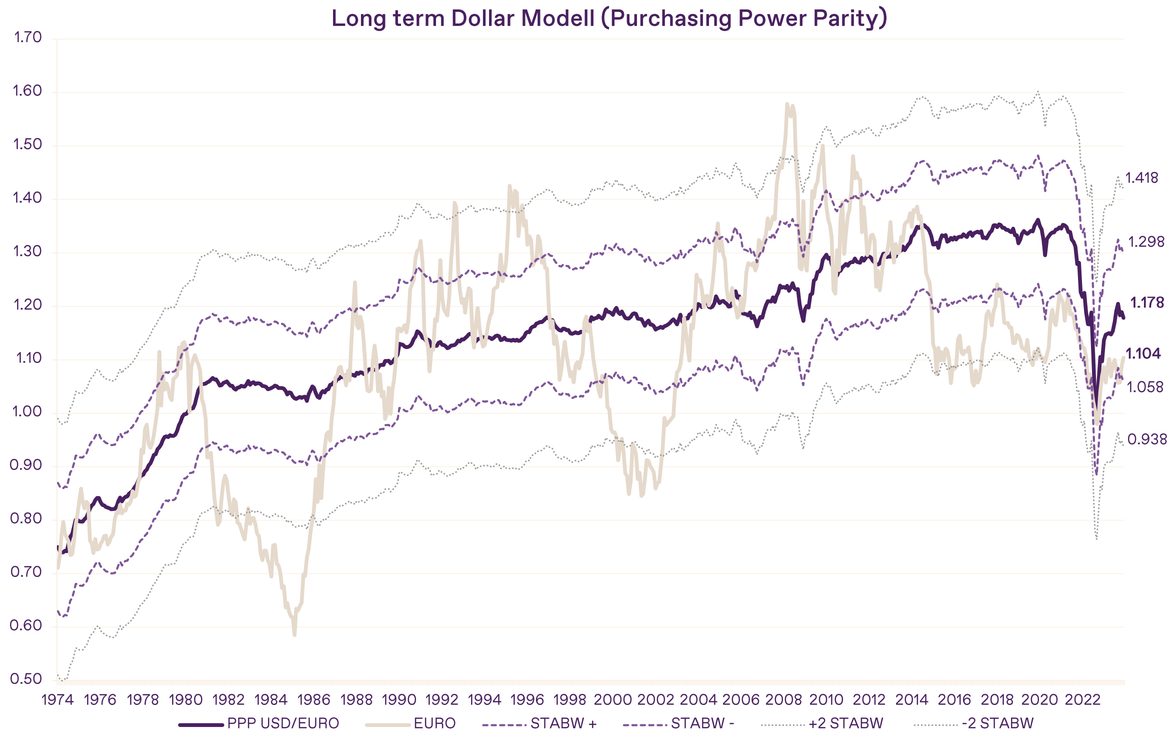


Source: Kathrein Privatbank

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. The model reacted to positive market developments and closed all short positions in the course of the 4th quarter. At year-end we are long in all three maturity ranges and have thus reached maximum duration.

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 the quarter, the theoretical exchange rate was at USD 1.178 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 0.938. 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 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 2.4%, US economic growth in 2023 was above expectations. Growth of 1.3% is forecast for 2024 as a whole. Regarding inflation, most economists now anticipate a decline to 2.6% in 2024. Which is almost at the 2.0 target rate set by the US Federal Reserve. This forecast represents a significant improvement compared with 4.1% inflation in 2023. For 2025, a decline to 2.3% is anticipated.

USA	2020	2021	2022	2023	2024	2025
GDP	-2.2	5.8	1.9	2.4	1.3	1.7
Inflation	1.2	4.7	8.0	4.1	2.6	2.3
Unemployment	8.1	5.4	3.6	3.6	4.2	4.3
Curr. Acct. (%GDP)	-2.8	-3.5	-3.8	-3.1	-3.1	-3.1
Budget (%GDP)	-15.4	-10.6	-5.4	-6.2	-6.0	-6.1
Debt (%GDP)	126.0	120.1	119.0	117.4	118.8	120.0
Central Bank Rate	0.3	0.3	4.5	5.5	4.3	3.3
3-Month Rate	0.2	0.2	4.8	5.4	4.3	3.3
10 Year Yield	0.9	1.5	3.9	4.1	3.8	3.6
EURO/USD	1.22	1.14	1.07	1.07	1.12	1.14

Forecasts for 24/25
Source: Bloomberg

The US labor market remains tight, and the unemployment rate might increase to 4.2% by the end of 2024. In 2025, unemployment is expected to rise slightly to 4.3%. The US labor market remains robust despite recent interest rate hikes but has faced a number of challenges over the past two years. During the pandemic, around 10 million people quit their jobs, a decision that was facilitated by the government's generous COVID-19 stimulus program, which also benefited the unemployed. This wave of voluntary terminations during the pandemic became known as the "Great Resignation" and strengthened the bargaining power of many employees.

The high budget deficits following two years of massive spending in 2020 and 2021 fade into the background, at least for now. However, the deficit is expected to be 6 percent, the same as last year.
At 0.5%, 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 1.4 %.
For 2024, inflation in the eurozone is expected to fall to 2.5%, 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	0.5	0.5	1.4
Inflation	0.3	2.6	8.4	5.5	2.5	2.1
Unemployment	8.0	7.7	6.7	6.5	6.8	6.7
Curr. Acct. (%GDP)	1.6	2.3	-0.6	1.6	1.7	1.7
Budget (%GDP)	-7.1	-5.3	-3.6	-3.3	-3.0	-2.7
Debt (%GDP)	97.2	95.5	91.0	89.0	89.3	88.8
Central Bank Rate	0.0	0.0	2.5	4.5	3.7	2.9
3-Month Rate	-0.5	-0.6	2.1	4.0	3.4	2.7
10 Year Yield	-0.6	-0.2	2.6	2.6	2.2	2.0
EURO/USD	1.2	1.1	1.07	1.07	1.12	1.14

Forecasts for 24/25
Source: Bloomberg

According to the purchasing managers' indices, the economy in the eurozone continues to show signs of weakness. Production in the manufacturing sector remains on the decline, and growth in the service sector is slowing. Lackluster demand from abroad and stricter financing terms continue to put pressure on investment and consumer spending.

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. Many economists have not yet adjusted their estimates, which assumed a straight-line decline in yields until the end of the year.
All positive expectations have already been priced into current market rates, making revisions likely in the event of less favorable data. This points to a volatile year 2024 with yield expectations at current levels.

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

	Analysts Forecasts				
	Spot	1Q 2024	2Q 2024	3Q 2024	4Q 2024
Germany	2.0	2.5	2.4	2.3	2.2
France	2.6	3.1	2.9	2.8	2.7
Italy	3.7	4.4	4.4	4.3	4.2
USA	3.9	4.1	3.9	3.8	3.8
UK	3.5	4.2	4.0	3.9	3.8
Japan	0.6	0.9	0.9	1.0	1.0

Figures in %
Source: Bloomberg

In general, most analysts see yields fluctuating in a very narrow range, with a slight decline in yields in 2024. Current levels at the beginning of 2024 seem too optimistic.

7.3. Short-term interest rates

In 2023, the US Federal Reserve (Fed) raised the target range for the federal funds rate in four steps by a total of 100 basis points to a new level of 5.25% to 5.50%. After halting rates in June, the Fed raised rates for a last time in July by 25 bps, followed by three decisions to leave interest rates unchanged. In his press conference, the Fed chairman hinted that this latest decision was accompanied by considerations of possible interest rate cuts. Since October, money market curves have flattened almost in synch in the US and in the eurozone, with the US declining only slightly more than the eurozone.

Forecast 3 Month Investments	current	4Q 2023	1Q 2024	2Q 2024	3Q 2024
EURO	3.9	3.9	3.8	3.7	3.4
USA	5.3	5.3	5.0	4.6	4.3
UK	5.2	5.2	5.1	4.9	4.6
Japan	0.1	0.1	0.1	0.2	0.2
Swiss	1.7	1.6	1.5	1.5	1.4

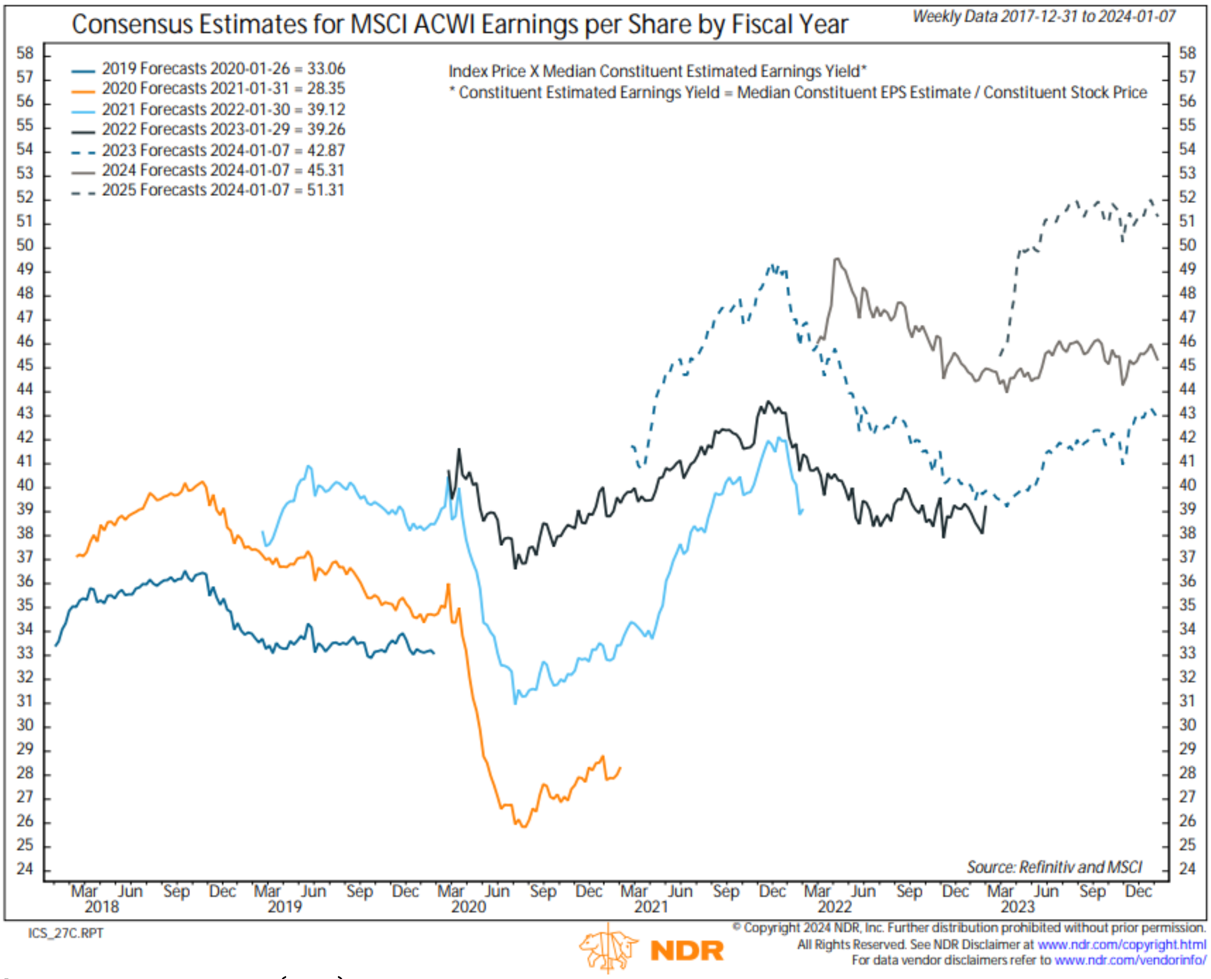
Figures in %
Source: Bloomberg

Given the moderation in inflationary trends that has already begun and is expected to continue in the coming quarters, both the Federal Reserve (FED) and the European Central Bank (ECB) are planning to ease their restrictive monetary policies by lowering key interest rates to more neutral levels. Given that this slow-down in inflation is expected to be very gradual, neither central bank is going to rush into action. The Fed could take the first step with a rate cut in June, followed by the ECB in September. Nevertheless, both central banks will probably continue to reduce their bond holdings. The ECB will even accelerate this reduction, as the reinvestment of the Pandemic Emergency Purchase Program (PEPP) will only continue in full until mid-year. However, this shrinking of the balance sheet will be done with caution, as active divestments continue to be avoided.

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)

Fourth-quarter 2023 reporting season for public 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 new fiscal year are about 2.5 USD above last fiscal year levels (see chart - light gray line = 2024 forecast). Significantly higher earnings gains are expected for next year (2025 forecast). Historically, these expectations have usually been revised downward over the course of the year.

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.

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

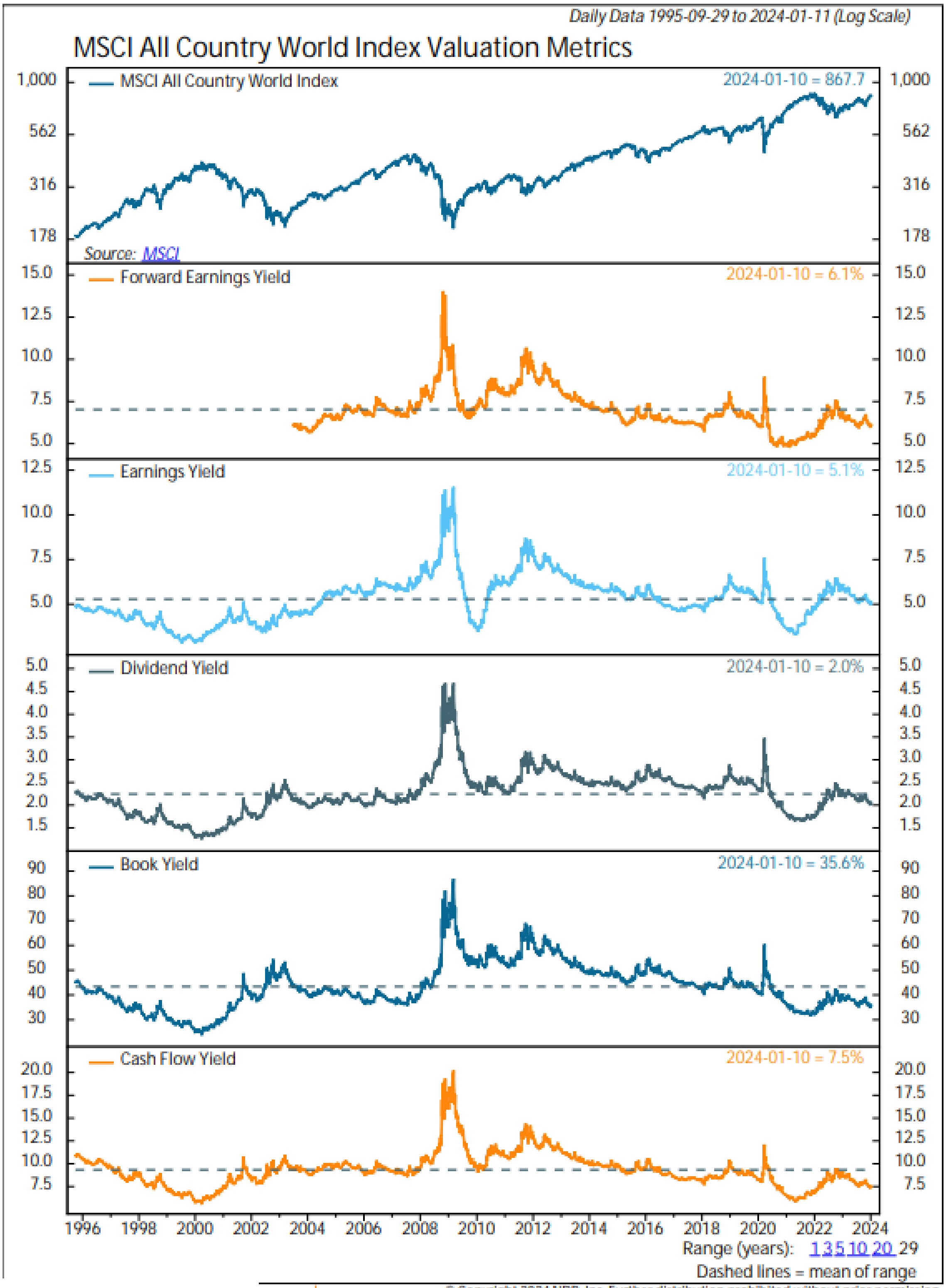
Fundamental valuations

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

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. This figure has hardly changed since the end of September 2023.

Due to the strong year-end price rally, current earnings yield (light blue line) has declined to 5.0%, which corresponds to a P/E ratio of 20.
The dividend yield has also declined slightly and is still below the long-term average at 2%.

The same applies to the price-to-book ratio and the cash flow yield on an index basis.



Source: NED DAVIS

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

Summary

- Last fiscal year, historic interest rate hikes by central banks and a decline in inflation in the second half of the year were the catalysts for a market rally. After initial losses, stock and bond markets rallied sharply, driven by hopes of a soft landing for the economy and a boom in artificial intelligence. Bolstered by expectations of interest rate cuts and a global year-end rally, both bond and equity markets rose sharply towards the end of the year.

- In 2024, geopolitical conflicts and various elections - US presidential elections, EU parliamentary elections, and general elections in Austria, to name a few - will shape the political environment. These events could affect economic performance and create uncertainty in forecasts. The International Monetary Fund's (IMF) current growth forecasts for 2024 show a slowdown in global growth. Global economic growth is expected to slow from 3.5% in 2022 to 3.0% in 2023, declining to 2.9% in 2024. This growth is well below the historical average of 3.8% between 2000 and 2019.

- 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 7.5% p.a.

- Given the moderation in inflationary trends that has already begun and is expected to continue in the coming quarters, both the Federal Reserve (FED) and the European Central Bank (ECB) are planning to ease their restrictive monetary policies by lowering key interest rates to more neutral levels. The Fed could take the first step with a rate cut in June, followed by the ECB in September.

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