VIG HOUSE VIEW

VIG ASSET MANAGEMENT HUNGARY

What happened in the last month?

What can we expect in the coming period?

- Investment Clock
- Tactical asset allocation
- Focus funds
- ESG theme of the month

MARCH 2025

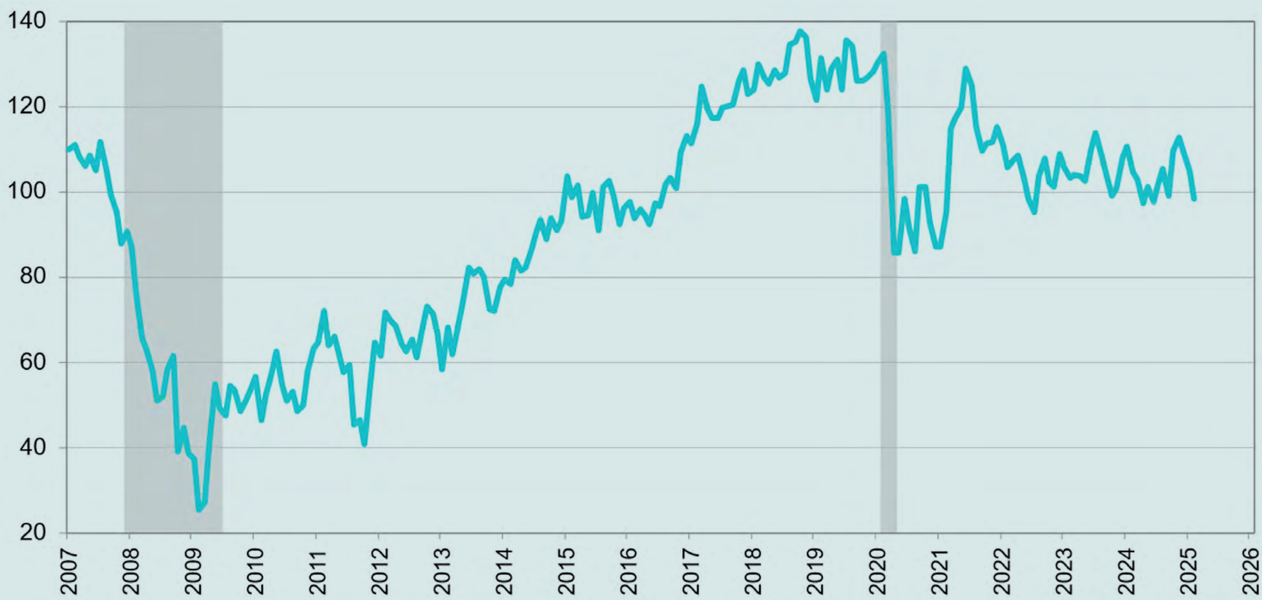
WHAT HAPPENED **IN THE LAST MONTH?**

IN FOCUS: BOND MARKET UPTURN

The US economy and business life almost stalled in February amid mounting fears of import tariffs and the radical cuts in federal government spending. Consumer confidence deteriorated at its sharpest rate in three and a half years in February, while 12-month inflation expectations also jumped. Americans are increasingly concerned about the possible negative economic impact of President Donald Trump's policies.

Comments on the new administration and its policies dominated the latest survey from the Conference Board research institute. Import tariffs, imposed one day and suspended the next, prevent businesses and investors from planning ahead (the New York Stock Exchange has been in negative territory since Trump's inauguration), and the unprecedented layoffs of federal government workers are putting pressure on the consumer psyche. This in turn could dampen consumer spending, which is the main driver of the economy. The Conference Board's Consumer Confidence Index fell by 7 points to 98.3, the biggest drop since August 2021, with the third consecutive monthly decline pushing the index to its lowest level since June 2024. Although economists do not expect a recession for the time being, they expect very slow economic growth and high inflation for a long time. Average 12-month consumer inflation expectations jumped to 6%, the highest since May 2023.

US Consumer Confidence



Index, 1985 = 100

Shaded areas represent periods of recession

Source: Conference Board

WHAT HAPPENED **IN THE LAST MONTH?**

EQUITY MARKET NEWS

The Central European region remains the favourite. Stock markets in the region remain cheap: while domestic and neighbouring stock prices are typically 6-7 times the estimated 2025 P/E, the average for emerging markets is above 12 (in the euro area this average multiple is close to 15 times and in the US it is more than 20 times). At the same time, the performance of Hungarian and Polish listed companies is improving, and the geopolitical outlook is also better, with peace talks finally starting and German elections perhaps on the horizon. And the improving outlook justifies a higher P/E multiple.

However, the outlook for the global equity market is more modest, with the MSCI World index covering most of the world's equity markets broadly flat in the first two months of the year. Increased volatility on US stock markets and uncertainties surrounding US policy are prompting caution. By sector, communications services, industry, finance and healthcare could all perform above average, so money could continue to flow out of artificial intelligence, last year's favourite, and into traditional value-based investments. Europe's economies have been performing relatively poorly in recent times, which might be offset somewhat by European Commission President Ursula von der Leyen's announcement of an EUR 800 billion military development programme to cover increased defence spending.

BOND MARKET NEWS

Tailwinds are strengthening: in the developed world, there is a growing argument for bond appreciation. In the US, President Trump seems committed to lowering inflation as oil prices fall: one of his key election slogans was "drill, baby, drill", i.e. increasing domestic production, together with increasing supply from the OPEC oil cartel, would moderate price rises through lower transport costs, paving the way for lower interest rates. And Treasury Secretary Scott Bessent would cut budget spending (he is committed to achieving a 3% deficit) and would therefore like to see a lower 10-year yield level, for which the administration and the Fed could introduce additional measures. Thanks also to government determination, long yields fell from 4.8% in January to 4.3%.

In Europe, the continuing cycle of interest rate cuts could appreciate bonds that previously offered even higher yields. With the recent imposition of a 25% tariff in the US, the economic outlook for the eurozone remains gloomy and inflation low (2025 average inflation rate is expected to be close to the ECB's 2% inflation target), so the ECB could support the recovery of the 'old continent' with a further 3x25 basis point cut in 2025. Central European government bonds, whose yield spreads have risen recently and are now cheaper, also have good prospects.

ALTERNATIVE INVESTMENTS NEWS

Last year's positive performance was mainly attributable to the volatile rally in natural gas and gold. However, the former, which doubled last year due to the price shock of the Russia-Ukraine war, could also fall with the improvement in the geopolitical situation just as quickly as it rose. A similar thing could happen to gold, which has hit an all-time high (1 ounce cost USD 2,910 in early March), if there is no need for a safe haven. Global oil prices are also falling and are now below $ 70 per barrel (159 litres), a consequence of OPEC+'s production increase in April and the new US administration's efforts to cut fuel prices, but a peace deal between Russia and Ukraine could also put downward pressure on the price of "black gold".

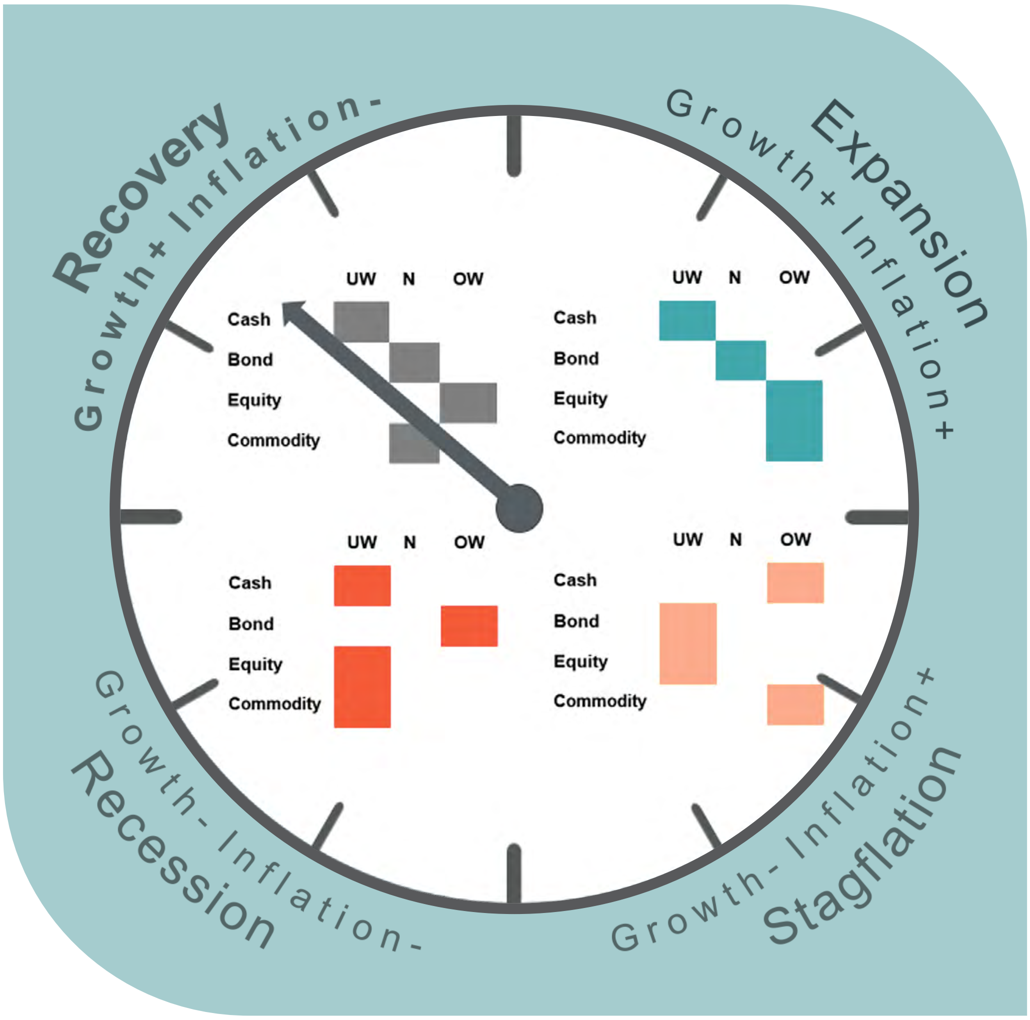
WHAT CAN WE EXPECT **IN THE COMING PERIOD?**

INVESTMENT CLOCK: RECOVERY

The Global Investment Clock remained in the Recovery phase. Although economic environments in key regions have changed significantly, since Donald Trump's inauguration in January, the global economic picture has been driven by one thing, INSECURITY. With the new US president's tariff policies taking effect, the global growth outlook has started to deteriorate and inflation fears have come to the fore again.

Consumer price inflation has become a global phenomenon and was also supported by the usual January price rises. The real problem, however, is the sharp rise in inflation expectations in response to the tariffs being introduced. Fears of tariffs could send the wrong signal to the central bank about monetary policy and ultimately stall interest rate cuts.

Europe continues to face persistent growth challenges, which the European Central Bank (ECB) is countering with ongoing interest rate cuts. But China keeps showing signs of improvement with economic growth expected to be around 5% this year, the issuing of USD 179 billion in bonds to finance stimulus measures and the creation of 12 million urban jobs.



OW: Assets expected to perform well in the given period.

N: Assets expected to perfom less well in the given period.

UW: Assets expected to perform poorly in the given period.

Source: VIG Asset Management

TACTICAL ASSET ALLOCATION

In March, we revised our bond valuation. Within this, we overweight developed market bonds and Central European local currency government bonds. We are confident about the region, including equities, but we give the latter a slightly lower weight than in the previous month.

We are neutral in other markets: the global economy is showing signs of weakening, and there is less positive economic data from the US. Donald Trump's actions, sometimes seemingly in a hurry, are increasing uncertainty for economic decision-makers and investors. It is no wonder that stock market indices have fallen since the President's inauguration, so we are taking a neutral stance.

Bond market opportunity: targeting regional government bonds

We have given a slight overweight to bonds issued in Central European local currencies. The reason for this is the declining/vanishing "war discount", i.e. that the end of the war between Russia and Ukraine could lead to a significant appreciation of Hungarian, Polish and Czech bonds. Regional currencies (forint, zloty, koruna) have strengthened a lot in recent weeks, and this is likely to be followed by a bond market rally.

Central European stock markets after a rally – what could this mean for investors?

The Budapest, Prague and Warsaw stock exchanges remain good investment opportunities, but caution is advised. As previously predicted, the "war discount" has fallen in recent months, with regional stock markets strengthening by an average of around 25% this year until mid-March. However, a significant appreciation could increase the risk of a correction, but we continue to overweight this segment, even if to a lesser extent.

MONTHLY ASSET ALLOCATION (MARCH 2025)

Asset class	H UW	UW	S UW	N	S OW	OW	H OW	Change
Cash (Money market)			■					↓
Fixed income					■			↑
Core market fixed income					■			
EM local currency bonds				■				
EM hard currency bonds				■				
CEE government bonds					■			↑
Commodities				■				
Gold				■				
Equities				■				
DM Equities				■				
US Equities				■				
EU Equities				■				
EM ex China Equities			■					
CEE Equities					■			↓

The table was prepared based on our investment clock and quadrant model.

Weights:

The weights indicate the evaluation of the respective country, region, and asset class, providing a basis for portfolio managers in structuring portfolios and establishing positions, thus helping to capitalize on market opportunities.

- Strongly underweight
- Underweight
- Slightly underweight
- Neutral
- Slightly overweight
- Overweight
- Strongly overweight
- Changes – change compare to the the previous month

WHAT CAN WE EXPECT **IN THE COMING PERIOD?**

FUND OF THE MONTH:

VIG EUROPEAN EQUITY SUB-FUND OF FUNDS

The Sub-Fund offers a good opportunity for investors. The Sub-Fund aims to create a well-diversified equity portfolio that can benefit from the equity market performance of companies listed on stock exchanges in developed European countries. Euro area stock exchanges could benefit from the global capital market rotation: vast capital flows from Wall Street to the “old continent”, with the Frankfurt stock exchange up 15% and the Paris stock exchange up nearly 10% this year until mid-March, while Wall Street prices have fallen. Indeed, euro area equity markets are much cheaper (the P/E ratio is around 14, compared to over 21 in the US), there are few overpriced technology companies and the recently announced European military reform, alongside the future reconstruction of Ukraine, could provide a boost to the continental economy.

ESG THEME OF THE MONTH

GROWTH TRENDS IN IMPACT INVESTMENT

Tackling global social and environmental problems is one of the most important challenges of our time, and the financial sector is increasingly contributing to this. Impact investing, which aims to achieve measurable positive social and environmental impacts[1] alongside financial returns, has grown dynamically in recent years and has become a key player in investment strategies focused on sustainability and social responsibility. According to Amit Bouri, CEO of GIIN (Global Impact Investing Network), the impact investing market still has significant growth potential for 2025 and will increasingly become part of mainstream investment strategies.[2]

Impact investments can be made in both developed and emerging markets, but it is important to stress that the returns on impact investments can be lower than on traditional investments. The reason is very simple: Companies can achieve high profits more easily if investors do not have to bear the cost of the damage they cause.[3] The expanding impact investing market provides the resources to tackle the world's most pressing problems in areas such as sustainable agriculture, renewable energy, nature conservation, and accessible and affordable basic services such as housing, healthcare and education. Impact investors aim to solve problems and address opportunities.

Impact investing is most often captured by the SDGs. The SDGs (Sustainable Development Goals) are 17 global goals set by the UN to eradicate poverty, promote equality and protect the environment for a sustainable future. Although voluntary, the SDGs apply to companies of all sizes, locations and sectors. Most impact investors are investing in SDG 8, "Decent Work and Economic Growth",[4] as it is directly linked to financial growth and achieving long-term economic stability. SDG 8 targets productivity, innovation, workforce development and the creation of accountable enterprises, among others. Furthermore, according to BofA's analysis, SDG 8 is the second most important goal to which European companies are aligned, after SDG 13 ("Climate action").[5]

Around 93% of EU companies in the MSCI World Index report on Sustainable Development Goals, with Asia slightly below the European rate at 92.5% and North America somewhat behind at 65%.[6]

This reporting captures a true/false value for each of the 17 SDGs, which is used to answer whether the company supports the goal. According to the GIIN Impact Investors Survey, total assets managed in impact investments grew by a 14% compound annual growth rate (CAGR) from 2019 ($129 billion) to 2024 ($249 billion). The largest share of this was allocated to energy, housing and financial services.[7]

In addition to impact investing, bonds issued to help solve social problems serve a similar purpose, as they have become a key financing tool for tackling social challenges. Funds are specifically earmarked for projects that have a measurable social impact, such as affordable housing, healthcare, education and job creation in disadvantaged communities. The issuers of these bonds must use all proceeds from the bonds for social purposes. BofA found this type of bond to be the third most common bond instrument after green bonds and sustainable bonds. In 2024, around 14% of the bonds issued were aimed at solving social problems, totalling USD 140 billion.[8]

The growth and development of the impact investing and "social bond" market is therefore a clear sign of the growing recognition of the importance of social and environmental sustainability in the financial sector. In the future, impact investing and social bonds will continue to proliferate as a way to help achieve the SDGs.

[1] https://thegiin.org/publication/post/about-impact-investing/#what-is-impact-investing
[2] https://impact-investor.com/2025-outlook-whats-ahead-for-impact-investing/
[3] https://blog.dorsum.eu/2021/03/18/a-penzugyek-fenntarthatobba-valasa-ii-az-esg-es-az-impact-investing-problemai/
[4-8] Bank of America Corporation [2025]: The evolution of ESG: Energy transition, impact investing, and governance in focus · Retrieved/Letöltve: 2025. 01. 20.

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