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

FEBRUARY 2025

WHAT HAPPENED **IN THE LAST MONTH?**

FOCUS ON: CENTRAL EUROPE AND THE "INVESTMENT IN PEACE"

According to insiders, US President-reelect Donald Trump and Russian President Vladimir Putin are talking more and more. A swift end to the war between Russia and Ukraine, which is taking a heavy toll on both the European and the overseas economies, was a cornerstone of Trump's election platform, and all parties involved increasingly seem to be inclined to reach some kind of resolution. The rapprochement is well illustrated by the Russian President's positive words about Trump (calling him smart and pragmatic), despite the latter threatening Russia with new sanctions.

The fact that the end of the war, which has now been ongoing for three years, is now within reach has brought considerable optimism to the stock markets in Central Europe, especially in Poland. Increased political uncertainty, geographic proximity and the consequences of sanctions against Russia have put significant pressure on the region's economy and the share prices of listed companies in recent years.

The end of the war could bring huge economic – and investment – opportunities.

Because of the "war discount", Polish stocks, for example, are on average trading at 6-7 times their corporate earnings, while the P/E ratio, or price/earnings ratio, of comparably developed Spain, for example, is almost double. This valuation gap may now narrow significantly: in the first month of the year, the WIG20 index – which measures the average change in the share price of the largest companies listed on the Warsaw Stock Exchange – has already recorded double-digit returns.

Performance of the Polish stock market

Source: Google Finance

WHAT HAPPENED **IN THE LAST MONTH?**

EQUITY MARKET NEWS

The time of the Central European stock market has arrived: as we have reported before, the end of the Russian-Ukrainian war edging closer offers significant appreciation potential for Central European stock markets. In particular in Poland, which has strong relevance in the region due to its geographical proximity and its millions of citizens of Ukrainian origin. The share price of banks, retail chains and infrastructure developers (such as Budimex, a leader in road, rail and bridge construction) listed on the Warsaw exchange could rise not only through the disappearance of the "war discount" but also through profit growth. Richter and OTP Bank, which are active in the Ukrainian market, as well as Vienna-based Raiffeisen, could emerge winners from the resolution of the situation. However, the over-valued, big US tech companies, which have been the darlings of investors, are having a hard time. The IPO of Chinese AI company DeepSeek, a cheap competitor to ChatGPT, could potentially pose a risk to the sector's valuation, with US-based NVidia, the flagship of the artificial intelligence craze, down 17% in a single day. There has been a rotation towards more traditional industries and markets with a higher weighting of these (e.g. Europe), which has led to a rise in the price of these stocks.

BOND MARKET NEWS

Developed market bonds could perform well, as the economies of developed countries do not seem to be hit as hard as previously thought by the trade war outlined by Donald Trump. Import tariffs are functioning as more of a negotiating tool than a permanent economic barrier: after announcing tariff hikes for Mexico, Canada and China, he swiftly suspended these. Inflationary pressure may, therefore, be lower than expected, increasing the chances that the Federal Reserve (Fed) can continue its stimulus interest rate cuts. In addition, the Trump administration's preference for lower oil prices could put downward pressure on key inflation metrics (CPI). Even in economically-weakening Europe, the cycle of interest rate cuts may continue, which will appreciate bonds previously bought at higher yields. If the US tariff measures do not have a particularly negative impact in Central Europe and the US 10-year bond yields drop below 4.5% in the long-term, the regional bond market (including Hungary) could offer a good risk/return investment opportunity.

ALTERNATIVE INVESTMENTS NEWS

January started with a rise in the Bloomberg Commodity Index, which tracks a wide range of commodities, mainly driven by the energy sector: global natural gas prices rose temporarily in response to the cold snap in the US and crude oil temporarily rose in response to possible tariffs by President Trump. Gold, on the other hand, which has been a buy for some time, reached a new all-time high of nearly USD 2,900 an ounce (31.1 grammes), and was up nearly 10% in early February in USD terms compared to 1 January, and 40% for the year. Rising inflationary expectations and geopolitical uncertainty, combined with a resurgence in jewellery demand, have led to an appreciation of the precious metal: in 2024, central banks diversifying their reserves bought about 1,000 tonnes in addition to investment funds.

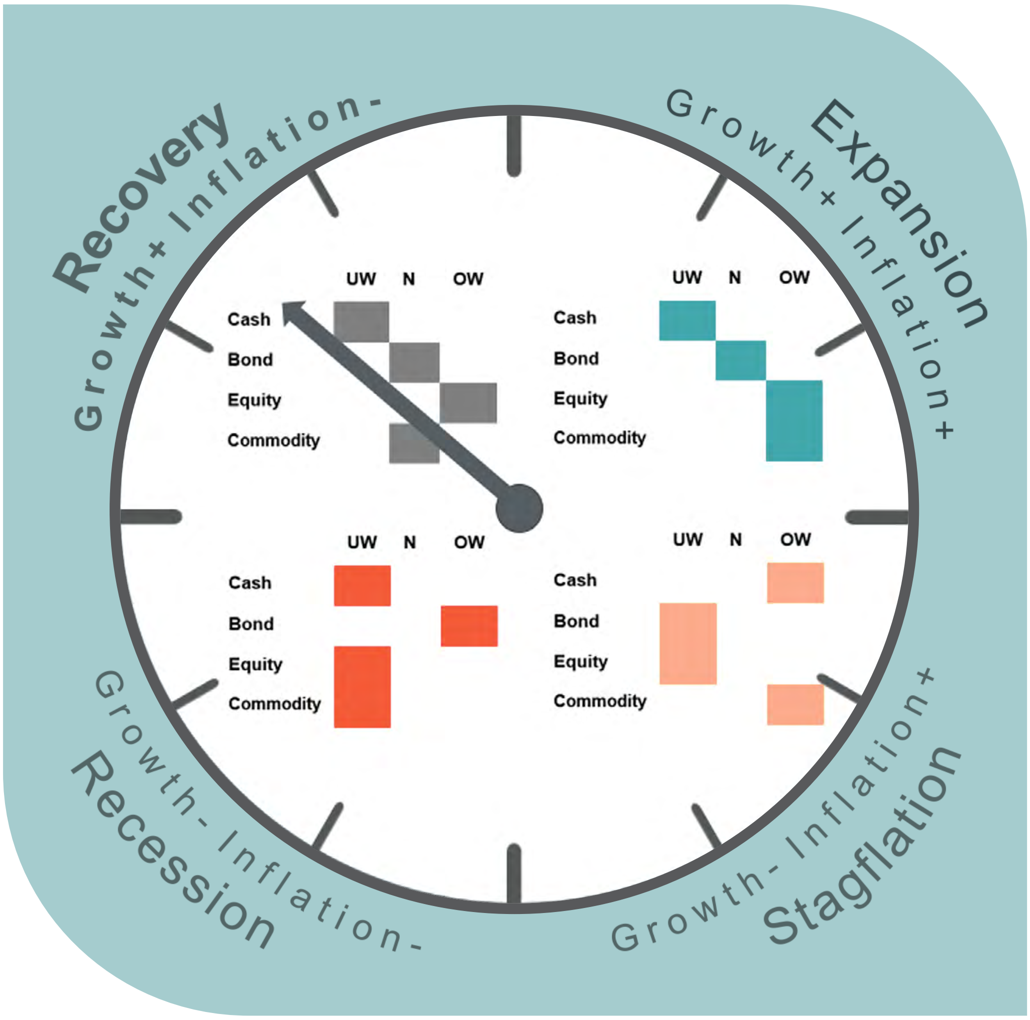
WHAT CAN WE EXPECT **IN THE COMING PERIOD?**

INVESTMENT CLOCK: RECOVERY

The Global Investment Clock remained in the Recovery phase, but there were significant changes in the economic environment in key regions. The US has entered an expansionary phase: inflationary pressure is rising due to Donald Trump's plans to raise tariffs, the economy is strong (GDP grew by 2.8% in 2024) and unemployment is relatively low (down to 4.1% in December).

At the same time, Europe is facing persistent growth challenges: inflation is low – approaching the European Central Bank (ECB) target – but economic growth remains stagnant, mainly due to structural problems in the German economy. In order to stimulate growth, the ECB cut interest rates by 25 basis points in January and is expected to make two further rate cuts by the summer to support economic activity.

China, however, is showing signs of recovery. This positive turnaround was mainly driven by the improving growth outlook and targeted economic policy measures. In addition, inflationary pressure has declined to more manageable levels, further strengthening the economy's momentum.



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

We have improved the valuation of Central European equities (CEE region equities) and developed market bonds, while the underweight in emerging market bonds has been removed.

The roller-coaster ride in equity and bond markets since the second half of December last year foreshadows higher volatility in the period ahead, due to heightened political risks and high US equity market positioning and pricing. Nevertheless, we believe that developed market bonds, and in particular CEE region equities, can offer a good investment opportunity in the short term.

Good buying opportunity: targeting developed market bonds

Our analysts calculate that the technical outlook could be favourable for entry in the US, with what is known as a “head-and-shoulders” pattern forming, indicating a positive change in trends. The fundamentals are also supportive: the planned import tariffs are functioning more as a bargaining tool than a lasting economic obstacle. The cycle of interest rate cuts could continue as inflationary pressures fall.

Turn in the Russian-Ukrainian war – what could this mean for investors?

The stock market in our region is in a unique situation. Many global investors have stayed away from Central European stock markets in recent years because of the armed conflict that has been unfolding nearby for years. Caution is evident in both pricing and the business outlook for companies in the region. Now, however, this “war discount” may be eliminated, which could boost the value of these stock markets.

MONTHLY ASSET ALLOCATION (FEBRUARY 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 MARATHON ESG ABSOLUTE RETURN INVESTMENT FUND

The aim of the Fund is to create an investment portfolio that achieves annualised capital growth for investors higher than the benchmark over a 3-year time horizon. Its flexible investment strategy makes it an ideal choice for those looking for investment opportunities in the coming months, as the Fund's investment strategy is not exclusively linked to any one asset class or market. The Fund's objective is to fully exploit market opportunities with active portfolio management and thus provide investors with higher returns. Its portfolio also includes developed market bonds and Central European equities, among others, which have the highest return potential.

DISCLAIMER

This is a distribution announcement. In order to make well-founded investment decisions, please inform yourself thoroughly regarding the Fund's investment policy, potential investment risks and distribution in the Fund's key investment information, official prospectus and management regulations available at the Fund's distribution outlets and on the Fund Manager's website (www.vigam.hu). Past returns do not predict future performance. The future performance that can be achieved by investing may be subject to tax, and the tax and duty information relating to specific financial instruments and transactions can only be accurately assessed on the basis of the individual circumstances of each investor and may change in the future. It is the responsibility of the investor to inform himself about the tax liability and to make the decision within the limits of the law. The information contained in this leaflet is for informational purposes only and does not constitute an investment recommendation, an offer or investment advice. VIG Asset Management Hungary Closed Company Limited by Shares accepts no liability for any investment decision made on the basis of this information and its consequences.

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