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

OCTOBER 2024

WHAT HAPPENED **IN THE LAST MONTH?**

IN FOCUS: INTEREST RATE COMPETITION

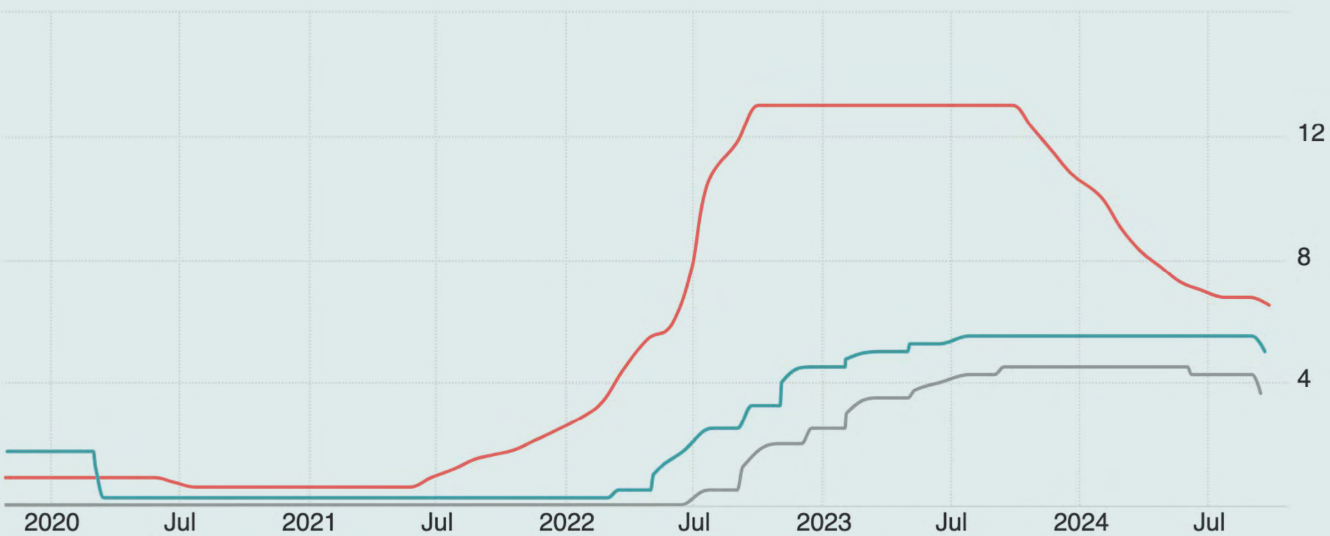
The world

The Federal Open Market Committee (FOMC) of the Federal Reserve (Fed), which plays the role of the US central bank, reduced key interest rates by 50 basis points at its September meeting. Through this, for the first time in four years, the bank effectively eased interest rates on both investments and loans. The aim of the move was to support the growth of the US economy and shore up a weakening jobs market. What it essentially means is that the Fed has changed the position it has held for the past few years: the recent slowdown in the labour market (with a jobless rate now above 4%) is more important in its eyes than inflation. Until now, interest rates have been high to curb the latter (after all, more expensive credit has a braking effect and thus can keep prices under control), whereas the aim of the current and likely future interest rate cuts is to support economic growth. The European Central Bank also lowered interest rates in September (after already having done so in June) in order to stay competitive with America. Another 5 or 6 rounds of interest rate cuts are likely to come in the euro area, and up to 8 in the US.

Hungary

The National Bank of Hungary (MNB) has also reduced its benchmark rate (which is now 6.5%), though the pace of "easing" has fallen in recent months, and the reduction in the interest rate advantage relative to the rest of the world may result in a significant weakening of the forint.

Hungarian, US and European base rates



Source: Trading Economics

WHAT HAPPENED **IN THE LAST MONTH?**

EQUITY MARKET NEWS

The Federal Reserve's 50 basis point rate cut and China's more aggressive stimulus measures have pushed major stock markets to new all-time highs. The **S&P 500 index, which tracks the average price changes in the 500 largest stocks on the New York Stock Exchange, has increased by 20% since the start of the year** to reach an all-time high, chiefly thanks to the performance of the interest-sensitive and cyclical sectors (with the latter having been left out of the earlier tech rallies). The Shanghai stock index has also risen 20%, with the entire increase taking place in the space of just one week at the end of September. The **pivot in monetary policy in Beijing** resulted in a historically significant stock market rise: as a combined result of the monetary easing announced in the last days of September 2024, regulatory adjustments and fiscal incentives, huge amounts of capital poured into the Chinese equity market, increasing the stock market value of companies by around 1.8 trillion dollars. Investors' optimism is at a record level, and is perhaps excessive: companies may not be able to meet these high expectations due to the slowly deteriorating macro indicators. The US stock market, especially utilities, consumer staples and financials, could be among the winners if things work out. As could the Central European equity market, which is notably cheap given the high earnings of its listed companies, with Poland, which is anyway opening up to the West, potentially being a big winner in any upcoming reconstruction of Ukraine.

WHAT HAPPENED **IN THE LAST MONTH?**

BOND MARKET NEWS

The bond markets of developed countries are looking up, no doubt about it: the already mentioned US and European central bank rate cuts are increasing the value of bonds previously issued at even higher yields. **At the same time, the presidential elections** in the US in November are adding nuance to the situation: if Kamala Harris, who's currently leading in the polls, wins, further rate cuts can be expected. If Trump wins, however, the tariff hikes he's promising could have an inflationary effect, which may put a stop to the rate cuts, and ensure that interest rates remain high. Therefore, being slightly overweighted in eurozone bonds over US treasuries may be wise. **Also set to perform well is the Hungarian bond market**, with around HUF 400 billion in government bonds set to expire in October, creating significant demand and potentially triggering an upswing in bond prices.

ALTERNATIVE INVESTMENTS NEWS

The increase in the price of gold seems unstoppable: the world market price of the precious metal per ounce (1 ounce = 31.1 grams) has risen to an unprecedented level, nearly 2,700 dollars. **That's an almost 30% gain since the start of this year – in dollars!** Demand from central banks is strong: gold, which is independent of states and can therefore not be influenced by governments, complements foreign exchange reserves even under "normal conditions", but in today's uncertain financial and geopolitical environment it could prove a genuine safe haven. On 30 September, the MBN also announced that it would be buying 15.5 tons of gold, which would increase the total domestic gold reserve by 16.4%, to 110 tons. As a result of the purchase, Hungary will have the highest per capita gold reserves in Central and Eastern Europe. The prevailing macro economic and political environment may continue to favour gold investments. And we don't see any significant obstacles to a further rise in its price either. **The prospects for oil and copper are also improving**, as the global economy may gain strength following the interest rate cuts by central banks in developed regions.

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

INVESTMENT CLOCK: RECESSION

Despite the uncertainty and the rapid and hectic changes in macro data, by the end of September VIG AM's Global Investment Clock was giving signals that economic recovery may be round the corner. This was primarily due to **developments in the US and the EU**, as China's economy is still in recession. In the US, the central bank had already begun emphasising the cooling of the economy in its communications, and in September – in line with investors' expectations – it implemented a growth-supporting interest rate cut of 50 basis points. At the same time, the upcoming US presidential elections present a significant risk. The eurozone is also showing signs of possible recovery: inflation (now 1.8%) is falling and interest rates are also declining (-0.25%). And the latter is necessary: German industry is weakening and sales of electric vehicles are falling, which, according to some forecasts, may result in a technical recession in the third quarter.
At the same time, the Chinese central bank presented **its biggest economic stimulus package since the pandemic**, which promises a larger volume of financing and lower interest rates than before.

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

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

TACTICAL ASSET ALLOCATION

- The improving Investment Clock, the Fed's 50-point interest rate cut in response to concerns over a slowing American economy, and its statement suggesting there will be more interest rate cuts to come, as well as China's economic slowdown, may combine to produce a market environment in which investors are more willing to take on added risk.
- We plan to increase our underweight in stocks and commodities to neutral, while the usual safe-haven money-market and bond instruments may be set to underperform in this period, and for this reason we have downgraded them to neutral.

MONTHLY ASSET ALLOCATION (OCTOBER 2024)

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				■				

Changes – change compare to the the previous month

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

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

FOCUS FUNDS

VIG PANORAMA ABSOLUTE RETURN INVESTMENT FUND

The purpose of the fund is to respond to changes in the inflationary environment. The portfolio managers pursue an inflation-based asset allocation strategy, which enables the fund to perform well in periods of both rising and falling inflation. This flexibility is particularly important in the global inflationary environment of 2024, where monetary policies are prone to pivot at any moment. The Fund is also engaged in raw material and commodity market investments, which can pay off well in countries where the economy generates significant revenues from these sources.

The probability of a soft landing increased following the Fed's 50 basis point rate cut and the announcement of the Chinese stimulus package, and so we saw it as timely to increase the weight of commodity market instruments, which has so far been low in the Fund: this asset class has priced in a recession with a fairly high probability. In addition to the purchase of passive assets, we opened soybean and oil longs. In addition, we also increased the equities weight, primarily by increasing the weight of beta-type exposures. In terms of currency weightings, the Fund continues to hold a HUF short position.

The Fund benefits in particular if inflation rises, as commodity market performance also tends to strengthen in countries where inflation is high. Where the **Federal Reserve** and other central banks are in their rate-cutting cycle invariably affects the investment environment. The VIG Panorama Fund dynamically manages assets affected by interest rate cuts and is able to react to changes in yields, which enables it to achieve a stable return even in different market conditions. The Fund's active asset allocation strategy allows the portfolio to diversify risk and find growth opportunities in different markets. Investment decisions are constantly adjusted to the global economic environment, which is particularly important in 2024 in the uncertain geopolitical and economic situation.

ESG THEME OF THE MONTH

ALL THINGS "GREEN"

Commitment to sustainability is becoming increasingly important for companies today, but it comes with many new challenges. Companies must not only strive to reduce their environmental impact but also to communicate these efforts convincingly, as otherwise they could run into regulatory fines and the company's reputation may suffer. However, it is also the case that companies' green marketing campaigns and sustainability pledges often mask consciously hidden strategies that are designed to mislead external stakeholders. The spread of these strategies has introduced a complex vocabulary, the understanding of which can greatly help in assessing companies. Therefore, it may be worth looking at the precise meaning and nuances of greenwashing, greenhushing, greenwishing and other such terms. We've already seen many examples of companies deceptively claiming that their products or services are green, while actually taking no meaningful steps towards ensuring sustainability. This phenomenon is called **greenwashing**[1] and usually occurs when companies focus on green marketing that exaggerates or misrepresents the company's sustainability efforts while glossing over the negative impact of their operations on the environment or presenting them as being less severe than they actually are in order to appear more palatable to environmentally conscious consumers.

In contrast to greenwashing, **greenhushing**[2] means when a company keeps quiet about its environmental efforts, if any, and refuses to publish much information on its ESG activities. This hush-hush approach is often rooted in a fear of accusations of greenwashing. While greenhushing protects companies from potential criticism and regulatory fines, it also has a significant negative impact on ESG efforts. It prevents the company concerned from contributing to public debates about climate action, and at the same time, other market participants cannot utilise the company's knowledge or seek inspiration in its ESG efforts, and this can ultimately slow any broader adoption of sustainability measures.

[1] https://www.wearefuterra.com/blog/what-is-greenhushing-and-is-it-worse-than-greenwashing
[2] https://www.esgvoices.com/post/green-claims-terms-greenwashing-greenshifting-and-more-explained

ESG THEME OF THE MONTH

Companies that want to be more sustainable not in response to external pressures but purely of their own volition can be said to be – initially at least – genuine and positive in their ambitions. However, it's all too easy for such companies to fall into the trap of **greenwashing**[3]. Under the pressure of setting ambitious sustainability goals, companies may commit themselves to unrealistic goals that they cannot achieve due to financial, technological or organisational constraints, and so their well-meaning actions may ultimately lead to problems akin to greenwashing.

There are also companies that consciously choose an ESG strategy that highlights their green attributes or initiatives in order to divert attention away from their less environmentally friendly practices. **Greenlighting**[4] is a tactic whereby a company emphasises ("spotlights") its green features, while its non-green traits, i.e. its potentially harmful environmental impacts or areas of its operation where sustainability principles have not been applied, remain hidden in an attempt to improve the public's perception of the company.

In addition, businesses sometimes subtly shift the responsibility for environmental sustainability onto consumers, with a kind of blame-redirection. This strategy, **greenshifting**[5], emphasises the role of consumer decisions in determining ESG outcomes, diverting attention away from the company's own environmental responsibility and sustainability strategies, or lack thereof.

In the **greenrising**[6] strategy, companies often change or update their sustainability goals and commitments without showing real progress in achieving them, in order to mislead their consumers and investors and give the impression that they are committed to continuous improvement and to meeting environmental challenges.

However, of all the strategies, **greencrowding** is probably the most influential[7]. Here, several companies are organised into groups, or coalitions, so that the individual companies can avoid scrutiny or criticism by being part of a collective effort, where the emphasis, and the responsibility, is distributed among the members. In this context, the principle of "safety in numbers" applies, i.e. the principle that more will do better, which allows companies to benefit from the positive perception of group-wide sustainability initiatives without necessarily improving their own practices, which, similarly to greenhushing, can act as a brake on the positive impact of sustainability measures.

Overall, sustainability efforts and the corporate communication that accompanies it is a complex and often controversial field. Greenwashing, greenhushing, greenshifting and similar phenomena are a warning that companies should align not only their intentions, but also their actions, with sustainability goals. Consumers, investors and society as a whole are becoming more aware and able to detect manipulation, which can lead to a loss of credibility. It is therefore essential that companies not only pledge to implement green initiatives, but that they show real, measurable results. The future of sustainability is built on trust between companies and consumers, and so the pursuit of authentic, transparent and responsible business practices is key to achieving real change.

[3] https://kpmg.com/us/en/media/news/greenwashing-esg-traps-2023.html
[4] https://www.esgvoices.com/post/green-claims-terms-greenwashing-greenshifting-and-more-explained
[5] https://www.esgvoices.com/post/green-claims-terms-greenwashing-greenshifting-and-more-explained
[6] https://www.esgvoices.com/post/green-claims-terms-greenwashing-greenshifting-and-more-explained
[7] https://www.esgvoices.com/post/green-claims-terms-greenwashing-greenshifting-and-more-explained

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