MARKET PERSPECTIVE

KATHREIN PRIVATBANK

THE EDITORIAL TEAM

(04.2023)

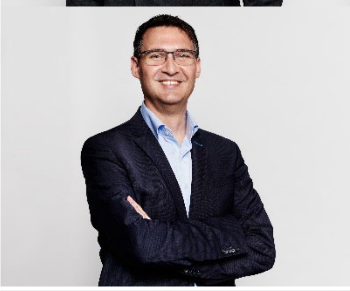
The purpose of this marketing bulletin within the meaning of the Austrian Securities Supervision Act (Wertpapieraufsichtsgesetz) is to provide a general overview of current market data. It does not contain direct or indirect recommendations for a particular investment strategy as would a financial analysis. Please also read the respective disclaimer at the end.

Government bonds, bonds, economics

Mag. Harald Besser
(Editor)

Corporate bonds, bonds

Mag. Andreas Weidinger



Stocks, capital preservation models

Mag. Mario Krismer

Stocks, stock models

Mag. Josef Stadler

Asset Allocation

Mag. Markus Böcklinger

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1. Summary

1.1. Review

Overall, the year started out extremely well with a joint stock-bond rally. Stock markets on this side of the Atlantic and overseas sizzled and posted exceptional, hard to come by gains. This was due to positive economic data but also new investor risk budgets. Against this backdrop, growth stocks managed to outperform value stocks, which was not the case a year ago. In the US, Silicon Valley Bank – a financial institution with major focus on the startup scene and also being the 16th largest bank in the US – slid into a liquidity crisis in early March. Customers began withdrawing money in waves and, as a result of this bank run, remaining assets had to be sold off quickly at a discount. US regulators sprang into action, shut down the bank, and took control of its customer deposits. The demise of a New York based crypto-focused financial institution rounded out the series of unnerving developments in the US banking sector.
Things got much worse in Europe, however, when Crédit Suisse – which had already been under particular scrutiny for the last few months following a string of losses – after receiving a liquidity lifeline had to be taken over by UBS Bank over the course of one weekend. The takeover was made possible with heavy support from other Swiss institutions. This string of events sent shockwaves across global financial markets and briefly sparked fears among some market participants of a repeat 2008 financial crisis, especially when Deutsche Bank stocks plunged temporarily. In the end, stock prices recovered, and overall, for many stock investors, the quarter ended on a very positive note.

The demise of three regional US banks and the subsequent Crédit Suisse crisis that culminated in the takeover by UBS, led to strong increases in money market volatility in March. Nevertheless, the ECB stood its course and, on March 16, it realized the previously announced rate hike of 50 basis points to 3.5%. Shortly after, the US Federal Reserve increased its rate by 25 basis points (to a range of 4.75%-5.00% on March 22). On March 23, the Swiss Bank increased its policy rate by 50 basis points to 1.5%, and the same day the Bank of England raised its rate by 25 basis points to 4.25%. The banking sector turmoil – the preferred term versus calling it a banking crisis, which allows for too many however unjustified associations with the situation in 2008 – is the reason additional interest rate hikes are now being delayed or halted altogether.

Judging by the final figures of stock and bond market performance, the first quarter was not that bad. Both markets ended the first three months of 2023 with single-digit gains. But it was a bumpy ride, and the path forward remains uncertain as investors grapple with sticky inflation and the unknowns of the regional bank crisis.

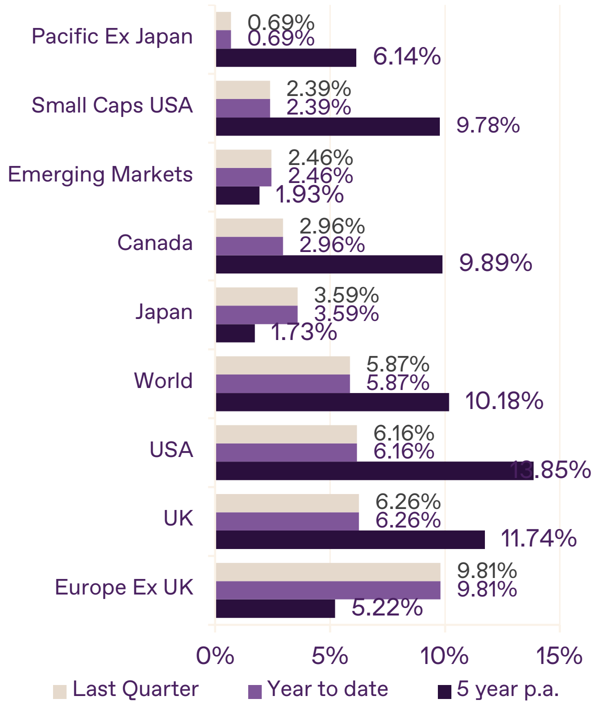
1.2. Forecast

2023 global economic growth is slated to be below its long-term average of 3.3%. The IMF's optimistic forecast for 2023 is 2.8%, and for 2024 it projects 3.0% growth. By contrast, economists at major banks forecast 2.4% for 2023 and 2.8% for 2024. We anticipate a slight or no recession for the US and Europe. For the time being, inflation will remain higher than expected, with (core) inflation less energy in particular remaining high. In the US and in Europe key interest rates could peak as early as this summer. For the US, most economists on Bloomberg see the peak policy rate at 5% to 5.5%, while in Europe rates could level off at 3.7% by summer. The euro traded lowest against the US dollar at 0.96 back in September 2022. We see more potential upward movement for the euro during the second half of the year and assume 2022 lows will not return. While the US dollar tends to gain strength during periods of financial stress, the medium-term outlook should favor the euro. With no additional significant rate hikes by the US Fed on the horizon, a sustained euro movement above USD 1.10 is increasingly likely.

2. Capital market review

The first quarter of 2023 reflects burgeoning investor optimism for stocks. The MSCI All Country World Index recorded a 5.87% increase (in euros). In geographical terms, stock prices had the biggest gains in Europe ex UK, continuing the previous quarter's trend. However, this geographic region was down significantly more than the world equity index in all of 2022. During the first quarter, the important US stock market outperformed slightly, as did the UK. Asia Pacific (ex Japan) on the other hand, posted very slight gains and emerging countries as a whole underperformed. The Canadian stock market which is overweight in commodities and financials, failed to impress, unlike in 2022. At a 3.59% increase, Japan also underperformed the overall market. Performance of US small caps significantly lagged behind their large cap counterparts. On the other hand, growth stocks had a comeback and outperformed value stocks by a wide margin.

Stock performance in EUR



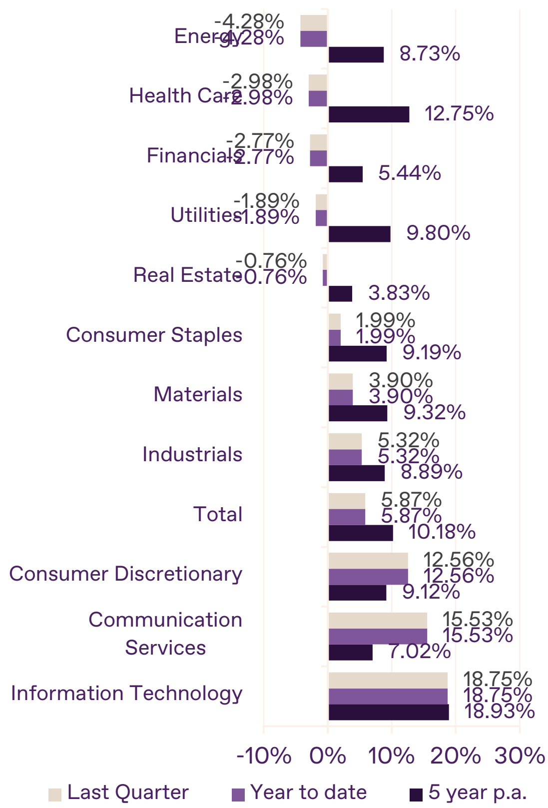
Source: Bloomberg

Sectors with the weakest performance last year led the list of top performers in the first quarter of 2023. With an 18.75% gain, the important technology sector posted the biggest lead. Telecoms and consumer discretionaries also achieved double-digit gains.

The energy sector, which had been a top performer in 2022, lagged far behind in last place during the first three months of 2023. Healthcare stocks, and not surprisingly, financials were also down.

Utilities and commodities underperformed.

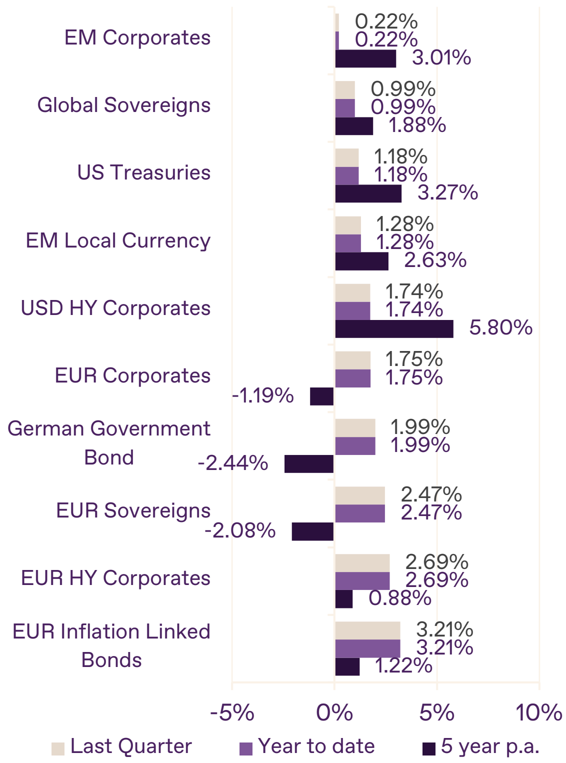
Sector performance in EUR



Source: Bloomberg

During the first quarter, all bonds posted positive yields. EURO bonds led the way, with inflation-linked bonds yielding 3.21%, high-yield bonds 2.69% and government bonds 2.47%. USD government bonds, USD high-yield bonds, and EM bonds denominated in local currency were the top performing bond categories in 2022 but have now been lagging since the beginning of the year.

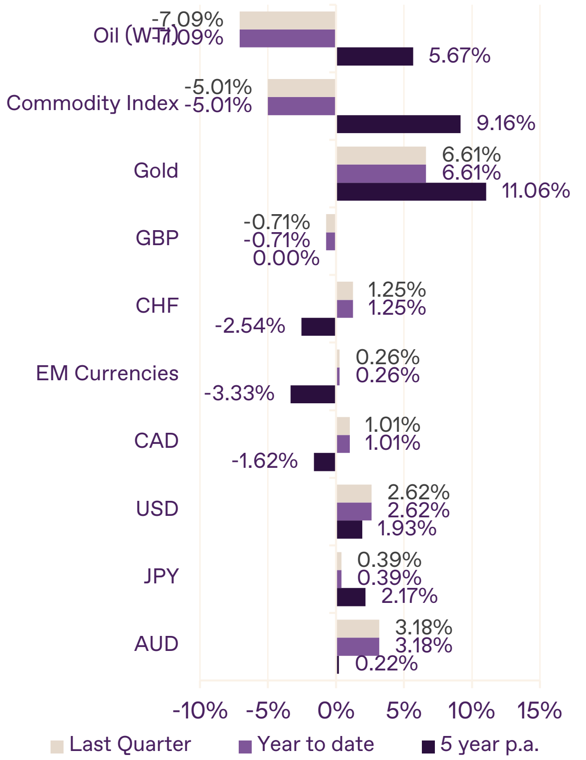
Bond performance in EUR



Source: Bloomberg

As for currencies, the euro was consistently firm during the fourth quarter. It gained against the US dollar (2.6%), the Japanese yen (0.39%), the Canadian dollar (1%), the Australian dollar (3.18%), and EM currencies (0.26%).
Emerging market currencies were held back by the weak US dollar and declining commodity prices.
Commodities had a minor slide of -5.0% during the quarter. During 2022, they increased 27.1% fueling inflation worldwide.
Gold posted significant gains, rising 6.6% during the quarter. The reason for this movement was the banking sector turmoil and a weaker US dollar. The significant 7.1% drop in crude oil prices had a positive effect on inflation expectations.

FX performance in EUR



Source: Bloomberg

3. Capital market forecast

The capital market forecast 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.

- **Slight underweight in stocks**
- **Growth slows in 2023**
- **Inflation has peaked**
- **Fed: Peak interest rate expected at 5% to 5.25% in summer**
- **ECB: Peak interest rate expected at 3.75% in July**

The International Monetary Fund predicts global growth to fall from 3.4% in 2022 to 2.8% in 2023 before leveling out at 3.0% in 2024. For developed economies it expects a sharp slowdown of 2.7% in 2022 to 1.3% in 2023. In an alternative scenario with further stress in the banking sector, global growth falls to around 2.5% in 2023, with growth in the developed economies falling below 1%. In the baseline scenario, headline global inflation is projected to fall from 8.7% in 2022 to 7.0% in 2023, but underlying core inflation is likely to decline at a slower pace. A return to target inflation before 2025 is unlikely in most cases.

Source: Pixabay.com

In the coming year, this growth will largely be driven by emerging markets such as India (+6.1%) or China (+4.0%). The US is expected to grow by 1.5% in 2023 and 0.9% next year. 2023 US unemployment is projected to remain unchanged at 4.5% during 2023 and to edge up to 4.6% in 2024. The markets and the Fed have their eyes on the labor market, as labor shortages fuel higher payroll cost and thus inflation and are a sign that the economy remains robust.

How we position ourselves

Bonds have regained the potential for yields that can be of interest to investors. Most economists forecast inflation in the eurozone and in the US at about 3.3% by the end of 2023. For the bond market, the question is what real interest rate (or rates) investors will accept for German 10-year bonds. Since the introduction of the euro, they have received an average of 0.6% above inflation. Since the financial crisis however they have been settling for -0.6%. At an inflation rate of 3.3% this would translate to 10-year German bond yields in the range of 2.7% and 3.9%. At quarter-end yields were at 2.3%. Therefore, yields in the euro zone could continue to go up in 2023.

The Kathrein bond portfolio is well positioned. The current environment is beneficial since a large portion is invested in floating-rate euro bonds. We continue to hedge longer-duration euro bonds. Significant exposure to emerging market bonds in local currency with government bonds yielding about 7.1% and about 7.8% 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 4.4%, well above the anticipated 3.3% rate of inflation.

An end to interest rate measures by central banks and lower key interest rates could support stocks until the end of 2023; on the other hand, a recession in the US extending into the second half of the year 2023 could bring pressure to bear. Based on our expectations, 2023 could be a very good year for stocks. Our average return expectations for stocks held for 10 years have improved to 8.3% p.a.

4. Kathrein funds review

4.1. Kathrein Sustainable Euro Bond

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A: AT0000779764

MARKET EXPECTATIONS

Portfolio success with duration management and inflation-linked bonds

2022 was not a good year for bonds, but this could change in 2023. Let’s take a closer look at whether investors should bet on German government bonds again.

Inflation is likely to have peaked, and central banks are close to implementing their last or penultimate interest rate measure. For government bond yields this means that last week's sharp drops, triggered by the crisis at one US bank, may well be a precursor of yield development in the second half of the year. At present, European government bonds already offer attractive yields, depending on issuer and duration. Bonds with a 1-year duration yield between 3% and 3.4%, those with a 5-year duration between 2.5% and 3.75%, and with a duration of 10 years between 2.5% and 4.3%. At the beginning of the quarter, the European government bond index yielded about 3%.

At Kathrein we monitor government bond duration closely and have fine-tuned our duration management approach over the years. This practice has allowed us to fare much better during 2022 compared to major competitors. We are therefore very pleased that our Euro government bond fund Kathrein Euro Bond was awarded the Refinitiv Lipper Fund Awards Austria 2023 recognizing it as the fund with the best five-year performance.

The Kathrein Sustainable Euro Bond invests in government bonds, inflation-linked government bonds, agencies, and supranational issuers, excluding corporate bonds. Duration is managed with a six-tier model across the entire yield curve. Disciplined over- and underweighting of countries also helps to improve the fund’s risk profile. Inflation-linked bonds supported income in 2022 and are weighted in the fund according to how attractive they are.

The Kathrein Sustainable Euro Bond is sustainable in accordance with Article 8 of the EU Sustainable Finance Disclosure Regulation. From a sustainability perspective, some countries are not suitable for investment. These countries are largely replaced by supranational bonds, local bodies, and agencies.

The fund was launched in 1999 and has since repeatedly received awards from Lipper, Feri, and Morningstar.

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.kathrein.at.

The fund currency is the euro. The fund regulations of the Kathrein Sustainable Euro Bond Fund have been approved by the Financial Market Authority. The Kathrein Sustainable Euro Bond may invest more than 35% of the fund assets in securities or money market instruments issued and guaranteed by Austria, Germany, Belgium, Finland, France, the Netherlands, Spain, or Italy through individual investments and/or investments in other investment funds. Investments in one individual issuer may not exceed 30% of total fund assets. The managing company may engage in derivative transactions in accordance with the investment strategy of the Kathrein Sustainable Euro Bond. Such transactions could temporarily increase the risk of loss for fund assets. The fund may acquire derivate 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.

Note about prospectus:

The latest published prospectus and key investor information document (KIID) or information in accordance with § 21 of the Kathrein managed funds can be accessed free of charge in German at www.kathrein.at, or are available from Kathrein upon request. The latest published prospectus and key investor information document (KIID) or information in accordance with § 21 of the funds managed by Kathrein Capital Management GmbH as amended, including any amendments

since they were first published, are available free of charge in German at www.masterinvest.at as well as at the respective paying and information agents.

4.2. Kathrein Sustainable Global Megatrends

T: AT0000A2SWT2
A: AT0000A2SWU0

MARKET EXPECTATIONS

Diversified and sustainable investment in emerging markets

Kathrein Sustainable Global Megatrends is a global equity fund that is broadly diversified across countries, currencies, and sectors. The investment universe comprises developed countries as well as emerging markets. In addition to large-cap companies, investments include smaller businesses with potential for growth. The assets are spread over 140 different stocks that tend to be weighted equally. The investment process applies a proprietary model which helps to exclude companies that pose the biggest risk within the investment universe, Thematic focus is on urbanization, healthcare, natural resource scarcity, and technology.
The fund returned +4.91% during the first quarter. The megatrend “technology” performed very well (approx. +12.7%). Companies from the "urbanization" segment also outperformed the overall market (approx. +6.7%) (MSCI ACWI Net Total Return in EUR +5.75%). Both megatrends have more exposure to growth, which has significantly outperformed so far this year.
The megatrend "resource scarcity" (approx. +2.5%) lagged behind the overall market. For the time being, companies in the "renewable energies" subcategory are unable to replicate last year’s very favorable performance. The same applies to "commodities" and "water & recycling". The megatrend "healthcare" underperformed the overall market during the quarter (approximately -0.4% total return). This is mainly due to their more defensive characteristics compared to growth stocks, which are benefiting from falling interest rate expectations this year.
Interest rates reaching their peak is positive for stocks, in particular for stocks in the growth segment. We have refrained from investing in Chinese stocks since fund inception. Political risks outweigh the positive outlook. No changes were made to the megatrends (urbanization, healthcare, resource scarcity, and technology). The pandemic, supply chain disruptions, and the Russian invasion of Ukraine are seen as catalysts of current trends (the increasing importance of alternative energy, the need for advanced technologies, the importance of increasing efficiency, the awareness around cybersecurity). The variety of megatrends benefits diversification. Broad portfolio diversification (more than 140 different companies) and stock selection across multiple megatrends and subcategories becomes even more attractive in the current environment.
Periodic reallocations demand even more stringent performance requirements. Profitable companies are favored over unprofitable companies. Although upward pressure on interest rate expectations has decreased considerably, the environment is thought to be more challenging for newer and smaller companies. The DEFEX (Default Expectation) model remains an important support tool. The proprietary risk model routinely checks companies for their probability of default and subjects them to stress tests. Stocks that no longer meet the sustainability requirements are also sold off.

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.

The fund currency is the euro. The Kathrein Sustainable Global Megatrends shall not invest in derivative financial instruments. 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.

Note about prospectus:

The latest published prospectus and key investor information document (KIID) or information in accordance with § 21 of the Kathrein managed funds can be accessed free of charge in German at www.kathrein.at, or are available from Kathrein upon request. The latest published prospectus and key investor information document (KIID) or information in accordance with § 21 of the funds managed by Kathrein Capital Management GmbH as amended, including any amendments since they were first published, are available free of charge in German at www.masterinvest.at as well as at the respective paying and information agents.

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

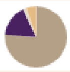
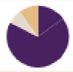
- Tactical underweight in stocks
- Overweight in value stocks
- Defensive bond portfolio

In March, we initiated tactical underweighting of stocks in the Mandatum funds and in the asset management mandates as, following the market turmoil after the collapse of Silicon Valley Bank, both technical and fundamental indicators sent mostly negative signals. Due to the historically high valuation differences between value and growth stocks we will maintain our overweight in value stocks for now. 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. We increased the USD risk hedge in the equity portfolio to 62.5% as the purchasing power parity shifted back in favor of the euro due to the decline in European gas prices.

For bonds, we maintained a defensive portfolio with lower target volatility. In March, we shifted from USD government bonds into EUR corporate bonds and floating-rate bonds. Duration in the euro portion of the bond portfolio remains short, while we have increased USD duration as we foresee the US Fed rate hike cycle coming to an end. At 23%, USD government bonds currently account for the largest share of the bond weighting. This is followed by variable-rate bonds at 19%, EM local currency government bonds at 16%, euro government bonds at 14.5%, investment-grade euro corporate bonds at 11.5%, inflation-linked euro government bonds at 5.5%, EM corporate bonds at 5%, inflation-linked US government bonds at 4%, and euro high-yield bonds at 1.5%. Currently, we do not carry USD high-yield bonds in the portfolio.

Euro high-yield bonds currently have the highest yields in our bond portfolio at 7.42%, excluding anticipated credit losses. This is followed by USD high-yield bonds at 7.38% before hedging costs and potential credit defaults. Emerging market corporate bonds yield 5.46%, also before credit defaults. EM local currency bonds yield 6.38% at historically favorable currency valuations but also very high inflation rates in some cases. Euro corporate bonds yield 4.13% and USD government bonds yield 3.65% before currency hedging costs; floating-rate bonds yield 3.37%, and euro government bonds are back to posting positive returns at 2.46%.

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 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 31. March 2023)	IP 1	IP 2	IP 3	IP 4	IP 5
					
Bonds	100	76	54	36	15
Bonds - Eurozone - Government	20	15	11	7	3
Bonds - Government - Global	0	0	0	0	0
Bonds - Emerging Market - Government	16	12	9	6	2
Bonds - Emerging Market - Corporate	5	4	3	2	1
Bonds - Corporate - USA	0	0	0	0	0
Bonds - Government - USA	27	21	15	10	4
Bonds - Corporate - EUR	32	24	17	12	5
Equity	-	17	35	50	68
Equity - Europe	0	2	3	5	7
Equity - USA	0	8	18	25	34
Equity - Cananda	0	0	1	1	2
Equity - Japan	0	1	1	2	3
Equity - Pacific ex-Japan	0	0	1	1	2
Equity - Emerging Markets	0	2	4	6	8
Equity - Global	0	3	7	10	14
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	0.8	1.2	1.6	1.9	2.4
2023 Q1	0.8	1.2	1.6	1.9	2.4
Risk					
Portfolio	3.0	4.2	6.7	8.7	13.9
Fixed Income	-	0.0	0.0	0.0	0.0
Equities	2.9	1.5	0.8	0.3	-
Alternatives	-	2.4	5.8	8.2	13.8
Multi Assets	-	-	-	-	-

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

Reallocations

February 22	Switched out of sustainable global equities (-2.5% of stock allocation) and stocks of sustainable companies in megatrend sectors (-2.5% of stock allocation) into defensive value stocks (+5% of stock allocation).
February 22	Reduced EUR HY bonds (-2%) and US HY bonds (-2%), switch out of US inflation-linked bonds (-2%), EM local currency bonds (-1%), and EM corporate bonds (-1%) into USD government bonds (+3%), floating-rate bonds (+2%), EUR government bonds (+1%), EUR inflation-linked bonds (+1%), and EUR corporate bonds (+1%).
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.

6. Key Kathrein models

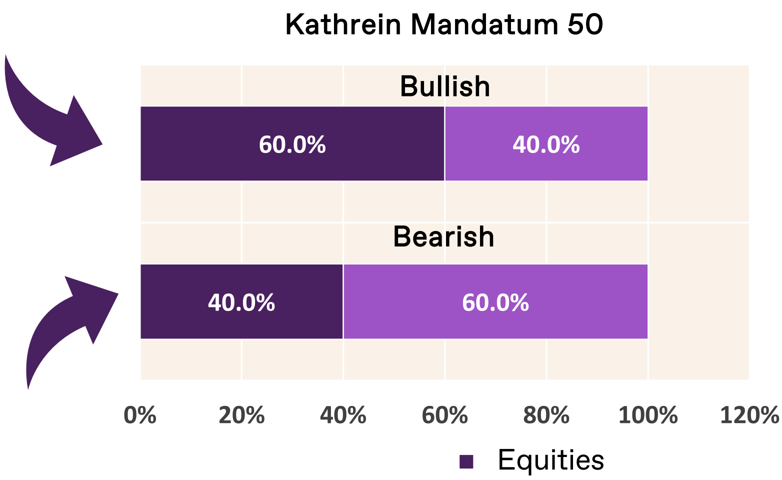
6.1. Market timing stock weighting (bull/bear model)

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.

Stock / Bond Allocation			
50 % internal factors		50 % external factors	
Global Stock Price 5-Day Momentum	daily	DAVIS265 Sentiment Composite	daily
Percent of MSCI ACWI Markets Above 50-Day Moving Average	daily	Earnings Estimate Revision Breadth	daily
Stock Price Overbought/Oversold Indicator	daily	ACWI SHUT Index Relative Strength	daily
Stock/Bond Relative Strength Moving Average Cross	daily	Global High Yield Index Option Adjusted Spread	daily
Rolling Drawdown of Stocks and Bonds	daily	MSCI Earnings Growth Breadth	monthly
Equal-Weighted vs. Cap-Weighted ACWI	daily	Global PMI Manufacturing	monthly
		NDR Global Recession Probability Model	monthly

Source: Kathrein Privatbank

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.

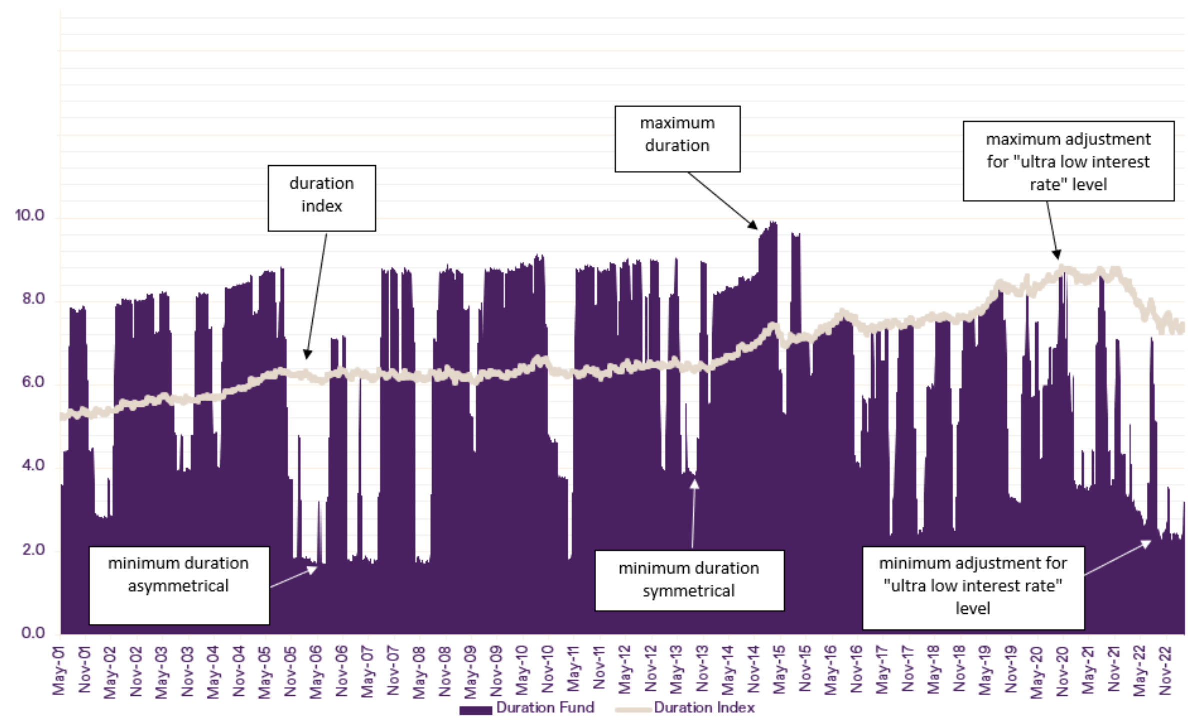


Example Kathrein Mandatum 50
The Kathrein Mandatum 50 has a strategic stock weighting of 50%. When the model indicates an overweight in stocks we are "bullish" and increase the tactical stock allocation to around 60%. When the model indicates an underweight in stocks we are "bearish" and reduce the tactical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

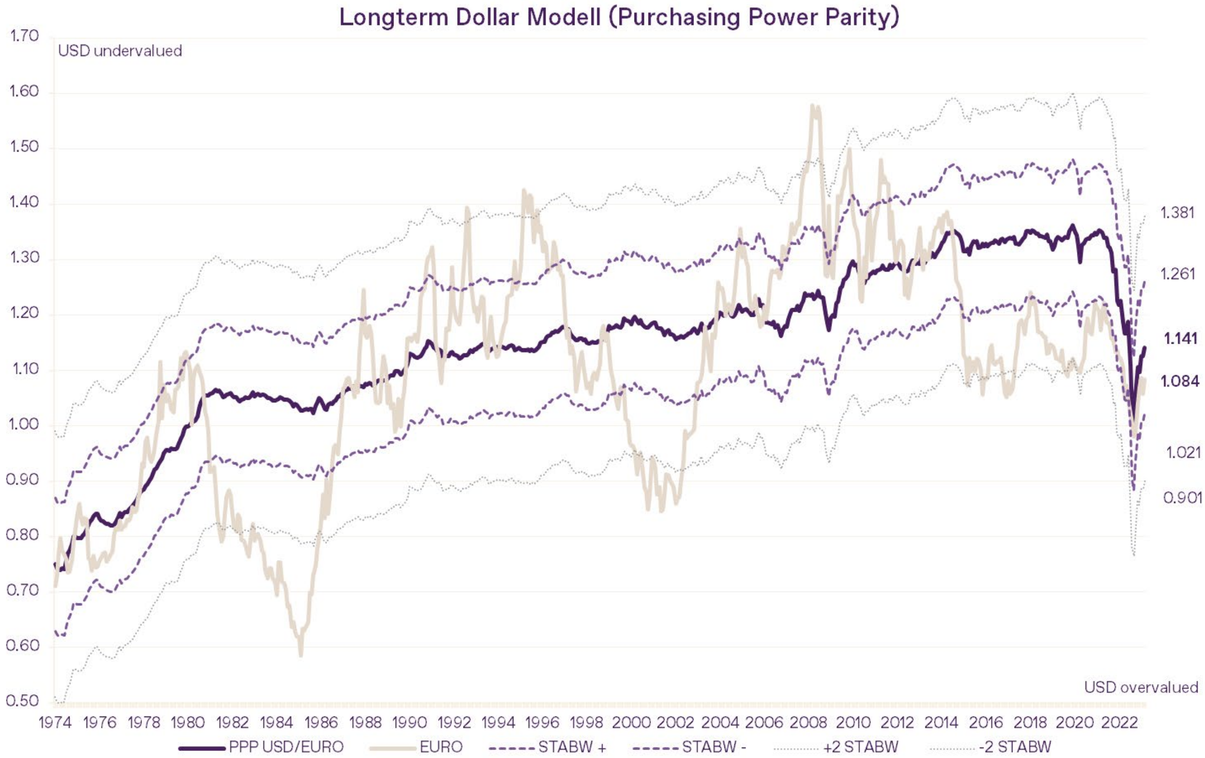


Source: Kathrein Privatbank

At the beginning of the year, the Schatz model (two-year duration), the Bobl model (five-year duration), and the Bund model (ten-year duration) were short. We maintained this positioning until the second half of March, after which we were neutral in the five-year model. This weighting remained unchanged at quarter-end.

6.3. Long-term USD model

(Purchasing Power Parity = PPP = EUR1.226)
Purchasing power parity 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 bundles of goods, different rates of inflation would ultimately affect the exchange rates. 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. 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 Q2, the nominal exchange rate was at USD 1.141 for EUR 1 with a standard deviation of 12 cents. More conclusive is the value of two standard deviations; currently the US dollar would be overvalued at USD 0.9. Historically this value has not been exceeded or fallen below this level for more than one or two years. Only in 1985, at the end of the high interest rate cycle in the US, did it take three years for the USD to dip to parity levels–at that point very drastically, from 0.6 to 1.2 within only three years. During recent months, the extremely high producer prices in the EU caused Purchasing Power Parity versus the USD to fall significantly. Now that gas prices in Europe are coming back down to pre-war levels, the needle is starting to 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

To gain insight into how market participants gauge major economic data, interest rate and currency developments, the following tables summarize the estimates of major investment banks. Bloomberg collected the underlying data. The surveyed institutions can vary from quarter to quarter. The following financial institutions are usually surveyed: Bank of America Merrill Lynch, Citigroup, Goldman Sachs, JP Morgan, Bank of Tokyo, Bayerische Landesbank, Société Générale, Commerzbank, Crédit Lyonnais, Deutsche Bank, HSBC, Barclays, BNP Paribas, Royal Bank of Scotland, Credit Swiss, RBI, Danske Bank, UBS, Nomura, and others.

7. 1. Economy

In the US, 2022 growth at 1.9% was slightly weaker than expected, but at 1%, growth in 2023 is now seen as significantly better than last quarter's forecast of 0.3%. For the 3rd quarter, negative growth is expected.
Most economists expect inflation to fall to 3.3% at year-end and 4.3% p.a. for 2023, following an 8% price increase in 2022. The labor market remains in very good shape, and unemployment is expected to rise at a moderate rate to 4.4% and average 3.9% in 2023 overall. The solid labor market will therefore not allow any easing in inflation rates. The high budget deficits carried over from the crisis years 2020 and 2021 are a thing of the past, at least for now. With a projected 5.2% deficit, we are well below previous years but still at an expansionary level.

USA	2017	2018	2019	2020	2021	2022	2023
GDP	2.2	2.9	2.3	-2.8	5.9	2.1	1.0
Inflation	2.1	2.5	1.8	1.2	4.7	8.0	4.3
Unemployment	4.4	3.9	3.7	8.1	5.4	3.6	3.9
Curr. Acct. (%GDP)	-1.9	-2.1	-2.1	-2.9	-3.6	-3.7	-3.2
Budget (%GDP)	-3.4	-4.2	-4.7	-15.6	-10.8	-5.5	-5.2
Debt (%GDP)	103.0	105.5	106.9	127.8	121.6	120.2	119.0
Central Bank Rate	1.5	2.5	1.8	0.3	0.3	4.5	5.1
3-Month Rate	1.7	2.8	1.9	0.2	0.2	4.8	4.9
10 Year Yield	2.4	2.7	1.9	0.9	1.5	3.9	3.5
EURO/USD	1.20	1.15	1.12	1.22	1.14	1.07	1.12

2023 Forecast
Source: Bloomberg

At 3.5%, 2022 growth in the eurozone was ultimately slightly higher than most recently expected. At 0.5%, growth projections have also been adjusted upward compared with the latest forecasts of -0.1%.

For 2023, eurozone inflation is forecast to drop to 3.1%, and the annual rate to 5.6%.

Budget deficit for 2022 is similar between the eurozone and the US, although since the pandemic, the US has been utilizing the federal budget for financing at a much higher rate than Europe. Since 2015, deficits for the entire euro area have always been below US levels. The ratio of government debt to economic output is also significantly better for the eurozone as a whole than for the US. On the other hand, economic momentum and employment were lower than in the US.

EUROZONE	2017	2018	2019	2020	2021	2022	2023
GDP	2.6	1.8	1.6	-6.1	5.3	3.5	0.5
Inflation	1.5	1.8	1.2	0.3	2.6	8.4	5.6
Unemployment	9.1	8.2	7.6	8.0	7.7	6.7	6.9
Curr. Acct. (%GDP)	3.1	2.8	2.3	1.6	2.3	-0.7	0.9
Budget (%GDP)	-0.9	-0.4	-0.6	-7.0	-5.1	-5.1	-3.7
Debt (%GDP)	87.9	86.0	83.9	97.0	95.4	95.4	93.3
Central Bank Rate	0.0	0.0	0.0	0.0	0.0	2.5	4.1
3-Month Rate	-0.3	-0.3	-0.4	-0.5	-0.6	2.1	3.5
10 Year Yield	0.4	0.2	-0.2	-0.6	-0.2	2.6	2.3
EURO/USD	1.2	1.1	1.1	1.2	1.1	1.07	1.12

2023 Forecast
Source: Bloomberg

7.2. 10-year yields

Globally, yields rose significantly during 2022. In Germany, 10-year German government bond yields climbed from -0.17% at the beginning of the year to 2.5% by the end of December. Since the beginning of the year, yields have been range-bound between 2% and 2.75%. The most recent upward movement ended with the banking crisis in the US and Switzerland. In the US, comparable yields on US Treasuries fell from 3.8% at the turn of the year to 3.5% at the end of the quarter.

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

	Analysts Forecasts				
	Spot	2Q 2023	3Q 2023	4Q 2023	1Q 2024
Germany	2.2	2.7	2.5	2.3	2.3
France	2.7	3.0	2.7	2.5	2.3
Italy	4.1	4.5	4.3	4.1	3.9
USA	3.3	3.7	3.6	3.5	3.4
UK	3.5	3.5	3.3	3.2	3.1
Japan	0.5	0.6	0.7	0.7	0.7

Figures in %
Source: Bloomberg

In general, most analysts see yields fluctuating in a very narrow range. Only Japan is showing a slight upward trend, albeit at a consistently very low level.

7.3. Short-term interest rates

Despite the bank failures in the US and the ensuing turmoil in the capital markets, as well as the subsequent bailout of Credit Suisse by UBS, central banks held steady course. Thus the ECB was not dissuaded from implementing the 50 basis point interest rate hike it had already announced, followed shortly after by the US Fed (+25 bp), the Swiss National Bank (+50 bp), and the Bank of England (+25 bp).

	Forecast 3 Month Investments				
	current	2Q 2023	3Q 2023	4Q 2023	1Q 2024
EURO	3.1	3.5	3.5	3.5	3.3
USA	4.9	5.1	5.2	5.1	4.7
UK	4.3	4.3	4.3	4.2	4.0
Japan	0.0	0.0	0.0	0.0	0.0
Swiss	1.5	1.8	1.8	1.8	1.9

Figures in %
Source: Bloomberg

In the US, one more rate hike of 25 bp is expected in the 2nd quarter. It is anticipated to be the last. As long as the economy remains this robust, the Fed is in no rush to lower rates.
In Europe, 3-month Euribor rates are forecast to increase to 3.5% in the first half of the year. This translates to two more rate hikes of 25 bps each. Both, ECB President Lagarde and US Fed Chair Powell, indicated in their respective press conferences that the strains on the banking sector will factor into their overall assessment. As a result, interest rate expectations declined significantly, and yield curves flattened.

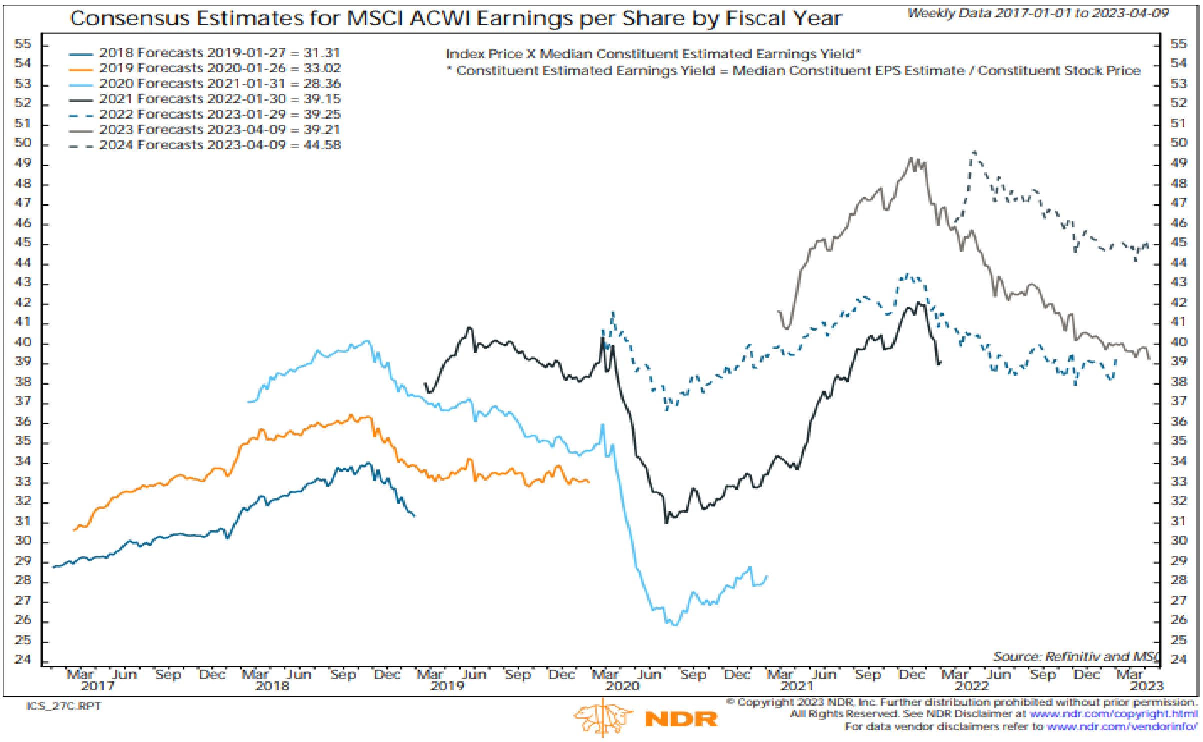
The Bank of England's monetary watchdogs around central bank governor Andrew Bailey raised the key interest rate by 25 basis points to 4.25% on March 23.

7.4. Stock indicators

The graph below depicts the analyst forecasts for the world equity market (MSCI All Country World Index) in various years (2018 to 2023) over time.

Earnings growth

In the coming days, publicly traded companies are expected to release their much-anticipated earnings reports for the first quarter of 2023. For investors, all eyes will be on the performance of financial securities.
The graphs depict earnings expectations of analysts for the biggest global players over time. Analysts' earnings expectations for 2023 (gray line) have currently reached a new low and are even below last year's earnings (dashed blue line). Globally, earnings are expected to rise again in the coming year (2024 = dark gray dotted line). At USD 44.58, earnings should then again be significantly higher (+13,7%) than during the current year.

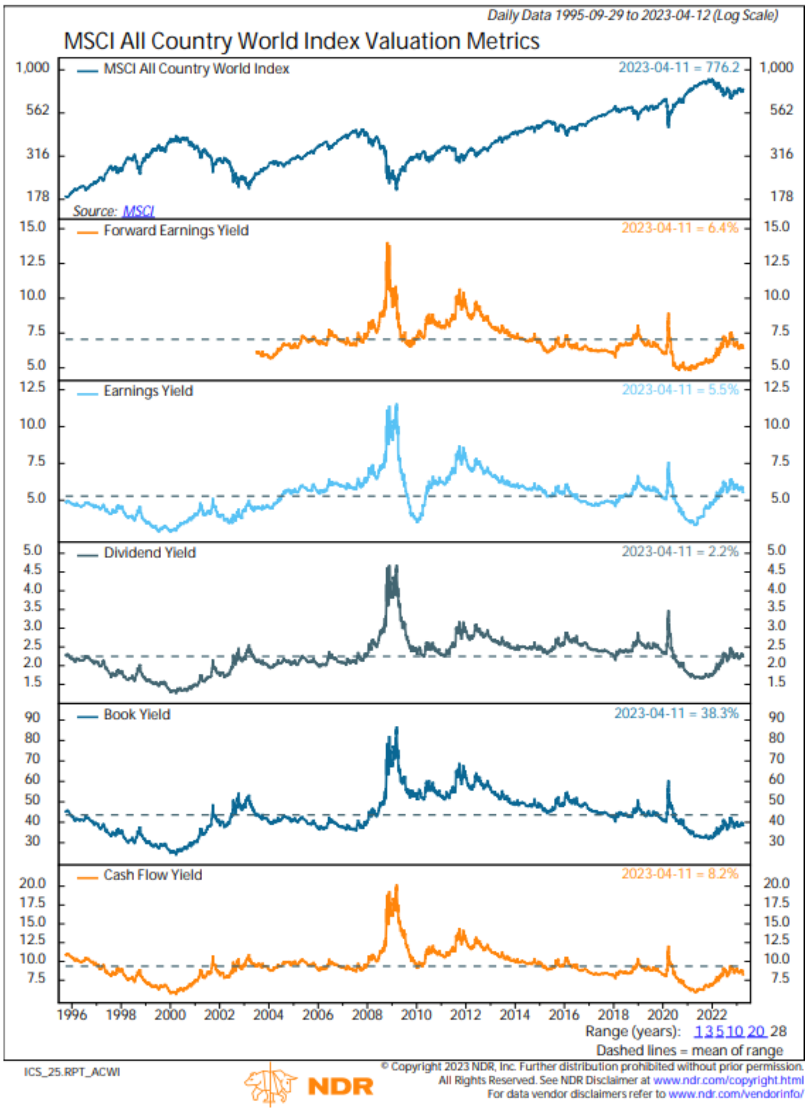


Source: NED DAVIS Research

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

Fundamental valuations

At 6.4%, forward earnings yield (the inverse of the P/E ratio) for 2023 is significantly below the long-term average. The price-earnings ratio based on consensus estimates is thus 15.6. The current earnings yield (light blue line) has leveled off at 5.5%, corresponding to a P/E ratio of 18.2.
The dividend yield is currently 2.2%, which is in line with the long-term average.
Book value yield is far below average, reflecting a price-to-book ratio of 2.6. The book value is also below average.
The cash flow yield has decreased slightly compared to the end of 2022 and now stands at 8.2%.



Source: NED DAVIS Research

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

Summary

- The International Monetary Fund predicts global growth to fall from 3.4% in 2022 to 2.8% in 2023 before leveling out at 3.0% in 2024. For developed economies it expects a sharp slowdown of 2.7% in 2022 to 1.3% in 2023.

- We started 2023 with an overweight in stocks. We maintained this overweight until March. At the end of the quarter, we ended our overweighting of stocks, due to the banking sector turmoil, as our technical indicators generated a sell signal, while economic indicators were still painting a mixed picture.

- We see more potential upward movement for the euro during the second half of the year and assume 2022 lows will not return. During periods of financial stress, the US dollar tends to get stronger, but medium-term, the odds are in favor of the euro. With no additional significant rate hikes by the US Fed on the horizon, a sustained euro movement above USD 1.10 is increasingly likely.

- Analysts' earnings expectations for 2023 reached a new low at the beginning of the quarter and are even below last year's earnings. Globally, earnings are expected to rise again in the coming year. Then earnings should be significantly higher (+13,7%) than during the current year.

- In the US, one more rate hike of 25 bp is expected in the 2nd quarter. It could be the last increase by the US Fed. As long as the economy remains this robust, the Fed is in no rush to lower rates. Both, ECB President Lagarde and US Fed Chair Powell, indicated in their respective press conferences that the strains on the banking sector will factor into their overall assessment. As a result, interest rate expectations declined significantly, and yield curves flattened.

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