



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, fund performance

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Stocks, capital preservation models

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Stocks, stock models

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Asset Allocation

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1. Summary

1.1. Review

Last year was a tough one for stock investors. The year got off to a weak start with the US Fed tightening its monetary policy. The incomprehensible invasion of Ukraine by Putin's armed forces on 24/02/2022 kicked off moves on global capital markets. The sanctions and counter-sanctions that followed and resulting inflation expectations became dominant factors for markets. Soaring energy prices and great uncertainty about energy supply security in Europe also dampened the mood, which was reflected in the marked underperformance of European stocks. The July/August recovery on international stock markets proved to be short-lived. In this environment, value stocks significantly outperformed growth stocks. Traditional energy suppliers and utility companies were the winners in this environment, while communication services providers, technology stocks and consumer discretionary ended up as the big losers.

In the fixed-income segment, the biggest 2022 losers were European government bonds, with some of them heading into the year in negative territory. German government bonds suffered the biggest decline on record with an average loss of 17.8% over the year. US government bonds lost 12.46% with euro investors benefitting from the strong US-dollar which translated into a hit of merely 6.7% for those investors. Inflation-linked bonds also lost ground in 2022, as the real rate of return – while lower – had risen, as had the nominal rate. Against this background, the US-dollar was able to continue its upward movement against other major currencies. The US Fed started its rate hike regime in March and in 7 consecutive rate measures increased its benchmark interest rate from 0.25% to 4.5% at year-end. The Fed's decisive actions supported the US-dollar, making it the strongest currency within the G10 countries.

1.2. Forecast

While current inflation would justify higher yields, markets are already looking ahead to next year with expectations for a soft landing with a significant decline in prices. However, 2023 is unlikely to provide bond market investors grounds for relief, as this scenario may be too optimistic. Inflation persistence and the resulting interest rate hikes will not go away anytime soon. Valuations have nevertheless improved significantly and should cover a majority of the 2023 risks appropriately. Our baseline scenario assumes a mild recession for 2023. The majority of economists on Bloomberg forecast the following: after coming in at 3.2% in 2022, global growth will decline to 2.1% before rising to 2.9% in 2024. In the coming year, this growth will be driven largely by emerging markets such as India (+6.9%) or China (+4.8%).

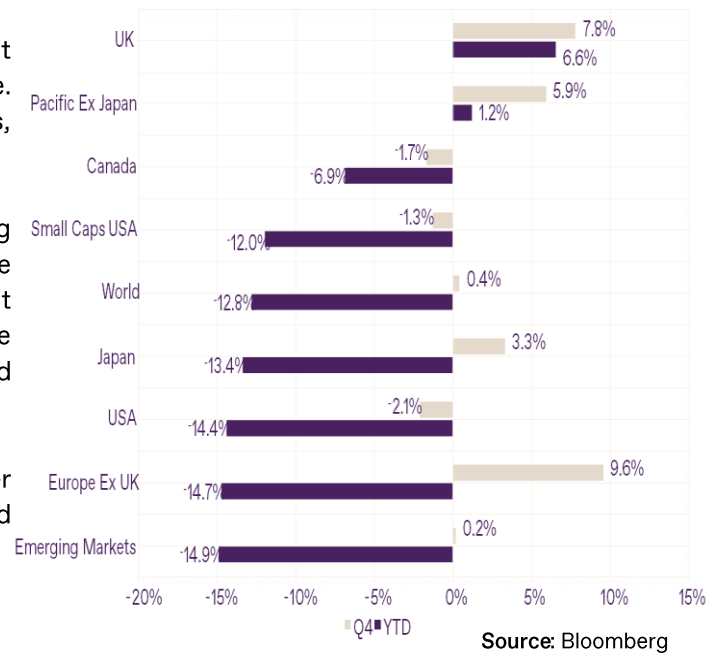
2. Capital market review

Overall, the 4th quarter was positive for investors, yet could not really offset the negative annual performance. The MSCI World recorded a loss of 12.8%, in euro terms, the worst performance in a calendar year since 2008.

Geographically, losses were greatest in emerging markets, in Europe ex UK, and in the United States. The United Kingdom (UK) was the only developed market able to end the year with slim gains due to a favorable sectoral composition. Asia-Pacific ex Japan also stood out in a good way.

US small caps outperformed large caps. For the quarter and the year overall, growth stocks underperformed value stocks by a big margin.

Stock performance in EUR

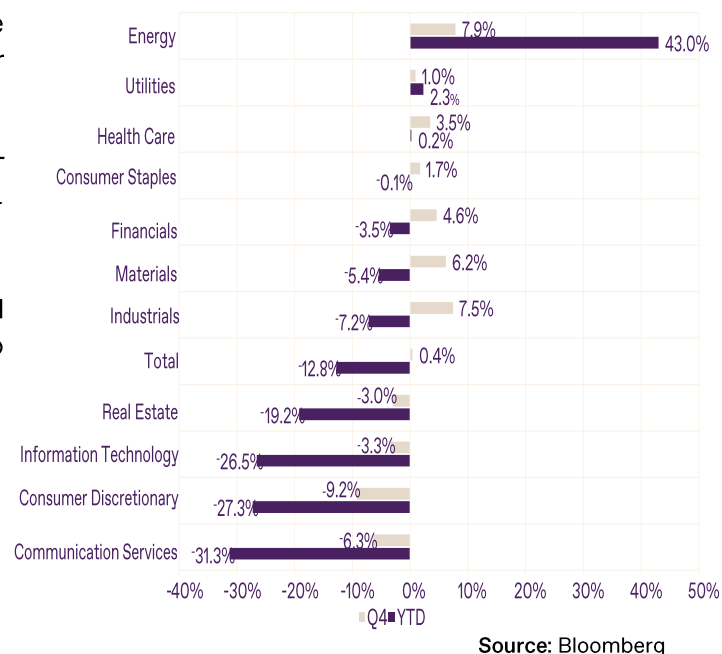


With the exception of the energy sector and the defensive sectors (utilities, healthcare, and consumer staples), all other sectors were down in 2022.

Telecommunication stocks, consumer discretionary, IT stocks, and the real estate sector all experienced double-digit drops.

Good performance of financials, commodities, and industrials during the 4th quarter translated to outperformance of those sectors on an annual basis.

Sector performance in EUR



USD government bonds, USD high-yield bonds, and EM bonds in local currency were the best performing bond categories in 2022 despite all posting negative results. During Q4, euro inflation-linked bonds, euro high-yield bonds, and euro corporate bonds generated positive yields. All other categories continued their trend and lost ground during the quarter.

The biggest losers in 2022 were European government bonds, with some of them heading into the year in negative territory.

Inflation-linked bonds also lost ground in 2022, as real rates of return had risen, as had nominal rates.

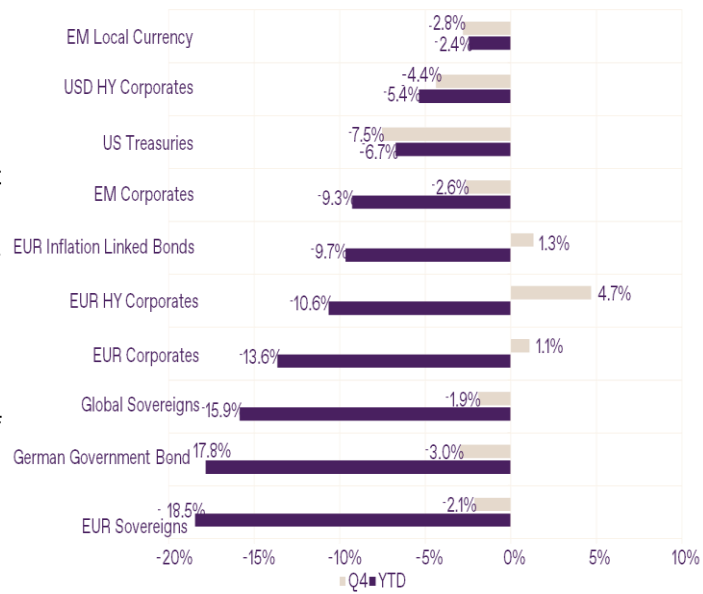
Euro government bonds had lost 18.5% since the start of the year, as this segment also has the highest duration. This makes 2022 the worst year since the 1980s.

On the currency side, the euro was consistently firmer during the fourth quarter. The USD (-8.4%), Swiss franc (-2.2%), EM currencies (-4.7%), British pound (-0.9%), Australian dollar (-2.5%), and Canadian dollar (-6.5%) all lost ground against the euro. Emerging market currencies suffered from the weak US dollar and declining commodity prices.

Commodities dropped slightly by -5.4% during the 4th quarter. In 2022, they were up 27.1%, fueling inflation worldwide.

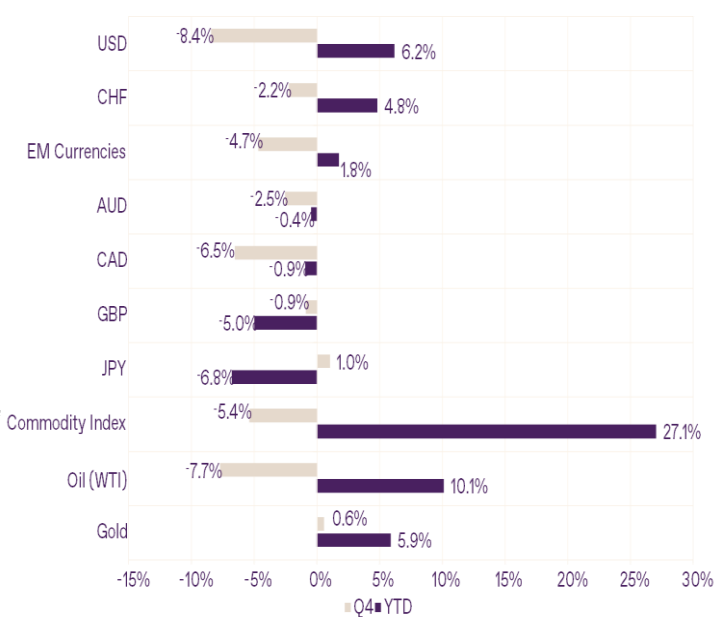
Gold posted only slight gains despite inflation data and ended the year up 5.9%. Rising key interest rates were the reason, making gold slightly less attractive as an asset class.

Bond performance in EUR



Source: Bloomberg

FX performance in EUR



Source: Bloomberg

3. Capital market forecast

- Cautiously overweighting stocks
- Staying with a value investing approach
- Inflation has probably peaked
- FED: Peak interest rate expected at 5% in June
- ECB: Peak interest rate expected at 3.3% in July

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.

After a historically bad year in 2022, everyone is asking the question: What does 2023 hold in store? Usually markets rebound after a bad year. This is what history has taught us, but there is no guarantee it will happen. The course of inflation in 2023 will no doubt play a significant role, and it seems to be moving in the right direction currently. However, the economic outlook for Europe and the US is bleak. The good news: much of this has probably already been priced into the markets.



Stock and bond price declines last year were mostly driven by high inflation, prompting global central banks to take jumbo interest rate measures. High energy costs and inflation will most likely continue to slow growth significantly in 2023.

Source: Pixabay.com

In the coming year, this growth will largely be driven by emerging markets such as India (+6.9%) or China (+4.8%). Neither the eurozone nor the US can contribute, as no growth is forecast on either side of the Atlantic. Taking a closer look reveals that two quarters of negative performance are expected for the eurozone at the beginning of the year, and two negative quarters for the US as well. Each scenario means a recession. These are currently the forecasts and expectations in the markets. If this happens, stock markets are prepared. They have already anticipated this scenario and adjusted prices downward. The weak economy should also have a dampening effect on demand and lower the rate of inflation significantly. It would also confirm that the central banks have fulfilled their role and could ideally even bring interest rates back down a bit at the end of 2023 or beginning of 2024 to give the sluggish economy a boost. This outlook reflects the baseline scenario most economists foresee: the so-called "soft landing".

How we position ourselves

Bonds have the potential to achieve real returns again. Most economists forecast inflation in the eurozone and in the US at about 3.5% for the end of 2023. For the bond market, the question is what real interest rate 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 3.5%, this would translate to 10-year German bond yields in the range of 2.8% and 4.1%. At year-end, yields were at 2.5%. 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 substantial 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 yielding about 7.5% is an interesting addition to the fixed income portfolio. Total yield for the Kathrein portfolio at year-end was 4.5%, well above the anticipated 3.5% 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% p.a.

4. Kathrein funds review

4.1. Kathrein Sustainable Global Equity

T: AT0000A0V6J7

MARKET EXPECTATIONS



The way back into the stock market: core stock investments

After shutting the door on a brutal 2022, we now have to shift focus to our positions for the year that has just begun. Since the risk factors that are circulating could bring higher volatility, there is a need for balance between opportunities and risks. The motto is: broad diversification, sustainability considerations, and a preference for healthy and established companies.

Kathrein Sustainable Global Equity is a global equity fund that is broadly diversified across countries, currencies, and sectors. The investment universe covers developed countries, and the focus is on companies with strong capitalization. The fund invests in roughly 180 different shares. Companies doing business in certain sectors (e.g. coal mining and production) or that engage in certain controversial business practices are excluded during the selection process to comply with our sustainability standards. Furthermore, economic risks are reassessed daily against the probability of default in order to be able to react quickly in the event of an incident. The companies posing the biggest risk within the investment universe are excluded automatically. The use of derivatives and security lending are not allowed.

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.

Sustainable practices are attractive criteria for 2023. After the good run for traditional equities last year, mostly due to "one-off" effects in energy and defense stocks, the sentiment for sustainable investments is growing. The risk factors on the horizon are a good argument for investments in healthy companies in the coming months. Our proprietary risk model can provide the necessary support. China's departure from its strict zero-covid policy is also favorable since it promises far less disruption in global economic activity. Stocks are also benefiting from more attractive valuations compared to previous years and a possible end to monetary tightening. The pace of interest rate measures seems to have slowed, and the increases are mostly over. A deep recession would be a "game changer" but is unlikely given the current situation.

[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. 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. Derivative instruments are neither used as part of the investment strategy nor for hedging purposes.

4.1. Kathrein Sustainable EM Local Currency Bond

T: AT0000A2HU83

A: AT0000A2HUA9

MARKET EXPECTATIONS



Attractive return expectations coupled with high credit quality

While central banks from developed countries triggered painful bond price declines last year by abandoning their accommodating monetary policies, emerging market central banks had already started their monetary tightening measures in the year prior. This resulted in a good relative performance against European and US government bonds. The positive outlook will continue for the coming months.

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 mutual fund combines exceedingly high credit quality with attractive return expectations (at around 6.3% as of December 30, 2022) from emerging markets. 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. A slowing pace of monetary tightening measures by central banks from developed countries coupled with a possible end to the rate hike cycle could prove beneficial for engaging in emerging market investments in local currencies. It would be possible to sustain capital flows toward emerging economies. Brazil and Mexico are two examples showing this advantage: Both countries already have interest rates above the rate of inflation. Brazil's key interest rate is 13.75% with an inflation rate of 5.79% (local high of about 12%). At 10.5%, Mexico's key interest rate is also above the local rate of inflation of 7.9% (local high of about 9%).

[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 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: 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.

5. Kathrein's investment strategy

5.1. Asset allocation

- Tactical overweight in stocks
- Overweight in value stocks
- Defensive bond portfolio with reduced duration

On December 1, we moved to a tactical overweight of stocks in the Mandatum Funds and in the asset management mandates after several technical indicators provided positive signals again at the end of November along with signs that inflation rates had peaked. The natural gas and energy markets in Europe have also calmed down again somewhat, and the worst fears regarding an acute gas shortage impacting industrial production have not materialized. For 2023, we expect inflation rates to fall, albeit remaining above the central banks' long-term target. As a result, interest rate hikes should slow compared to their pace in 2022, and markets have even priced in a slight rate decline for the second half of the year. Due to the historically high valuation differences between value and growth stocks we will keep our overweight in value stocks for now. We continue to exclude Chinese stocks from our portfolio due to increasing state and party influence on private companies and the risk of a geopolitical confrontation between China and the West.

Despite the tactical increase of our stock allocation we are keeping a more defensive portfolio of bonds with lower target volatility. In December, we switched US inflation-linked bonds and euro inflation-linked bonds into euro corporate bonds, euro high-yield bonds, EM local currency bonds, and euro government bonds, as we expect inflation rates to drop while remaining elevated. Duration in the euro bond portfolio remains at the lower end of the range.

At 25%, US 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%, and euro high-yield bonds at 1.5%. Currently, we no longer carry USD high-yield bonds in the portfolio.

Euro high-yield bonds currently have the highest yields in our bond portfolio at 7.37%, excluding anticipated credit losses. This is followed by USD high-yield bonds with yields of 7.04% before hedging costs and potential credit defaults. Emerging market corporate bonds yield 6.55%, also before credit defaults. EM local currency bonds yield 6.16% at historically favorable currency valuations but also very high inflation rates in some cases. Euro corporate bonds yield 3.86%, and USD government bonds yield 3.61% before currency hedging costs; floating-rate bonds yield 3.29%, and euro government bonds are back to posting positive yields at 2.32%.

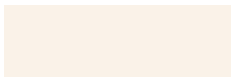
Each individual client portfolio is optimized, taking into account the investor's earnings objective, risk tolerance and investment horizon. In line with the client profile, the portfolio includes different weightings of stocks, bonds, multi-asset funds and alternatives. Within the bond segment, the 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 crucial 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 stock weighting. Alternative investments seek to achieve equity-like returns with low correlation and outperform in cycles of stock market corrections.

Overview (Target Asset Allocation as of 30. December 2022)	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	0	0	0	0	0
Bonds - Government - USA	29	20	11	4	0
Bonds - Corporate - EUR	30	21	12	5	0
Equity	-	24	50	71	83
Equity - Europe	0	2	5	7	8
Equity - USA	0	12	25	36	41
Equity - Canada	0	1	1	2	2
Equity - Japan	0	1	2	3	3
Equity - Pacific ex-Japan	0	1	1	2	2
Equity - Emerging Markets	0	3	6	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					
2022	-10.3	-11.8	-13.1	-14.4	-15.4
2022 Q4	-0.8	-1.1	-1.2	-1.2	-2.8
Risk					
Portfolio	2.4	4.8	8.8	12.0	14.8
Fixed Income	NA	0.0	0.0	0.0	0.0
Equities	2.3	1.1	0.3	0.1	NA
Alternatives	NA	3.6	8.2	11.6	14.5

Data in %, source: Kathrein Privatbank

Reallocations

September 21	Switched out of defensive value stocks (-5% of the stock allocation) and sustainable global stocks (-2.5% of the stock allocation) into sustainable company stocks from megatrend sectors (+7.5% of the stock allocation).
October 21	Reduced USD currency risk hedge to 25%.
December 21	Switched out of euro government bonds (-3%) into US government bonds (+2 %), and variable rate bonds (+1 %).
February 22	Tactically reduced stock allocation by 30% of the strategic allocation.
February 22	Switched out of sustainable global equities (-2.5% of stock allocation) and stocks of environmentally conscious companies from 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%), switched 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% of the stock allocation) into sustainable company stocks from megatrend sectors (+2.5% of the stock allocation).
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%).

6. Key Kathrein models

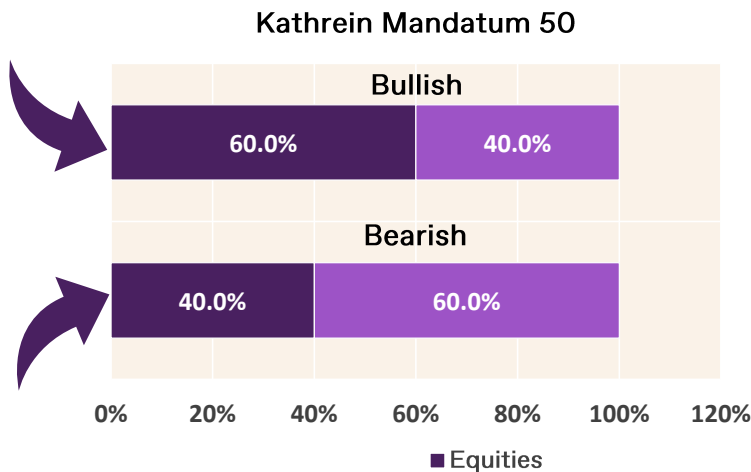
6.1. Market timing stock weighting (bull/bear model)

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 for many years now. It delivers stable results and has already received several awards. It recognizes upheavals and trends in the market.

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.



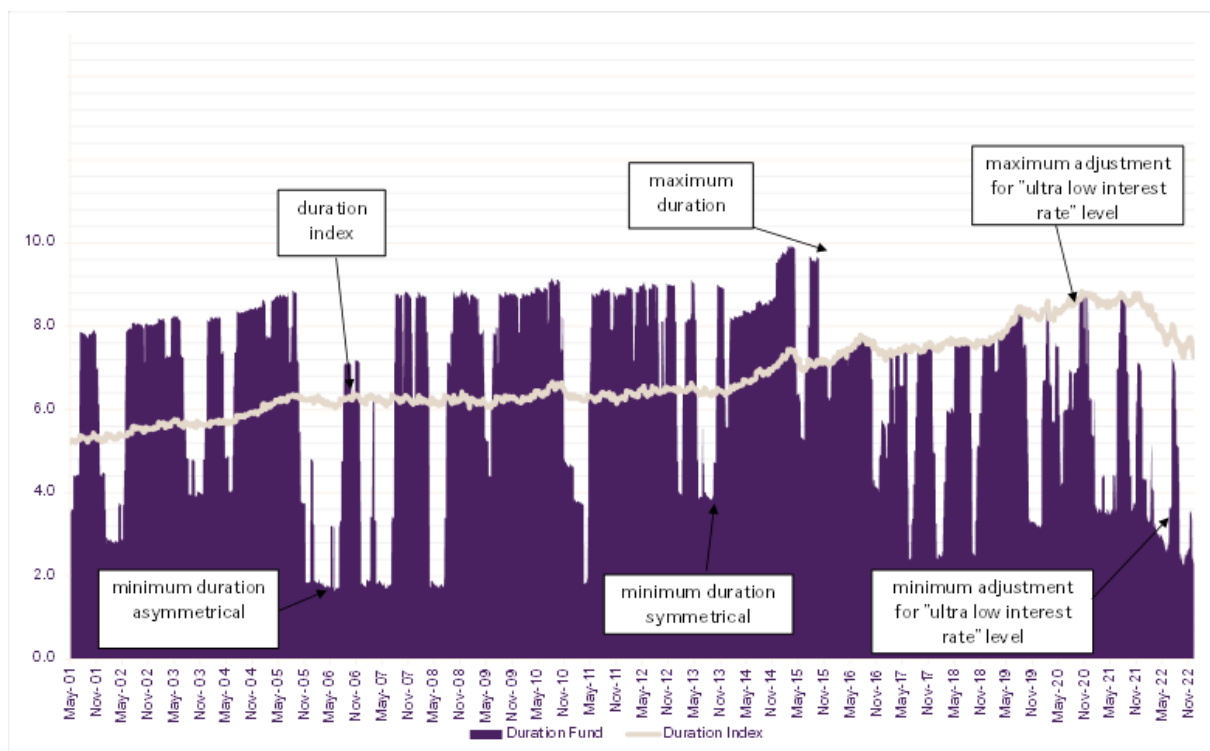
Example Kathrein Mandatum 50
 The Kathrein Mandatum 50 has a strategic stock weighting of 50%. When the model indicates an overweight in stocks we are "bullish" and increase the tactical stock allocation to around 60%. When the model indicates an underweight in stocks we are "bearish" and reduce the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



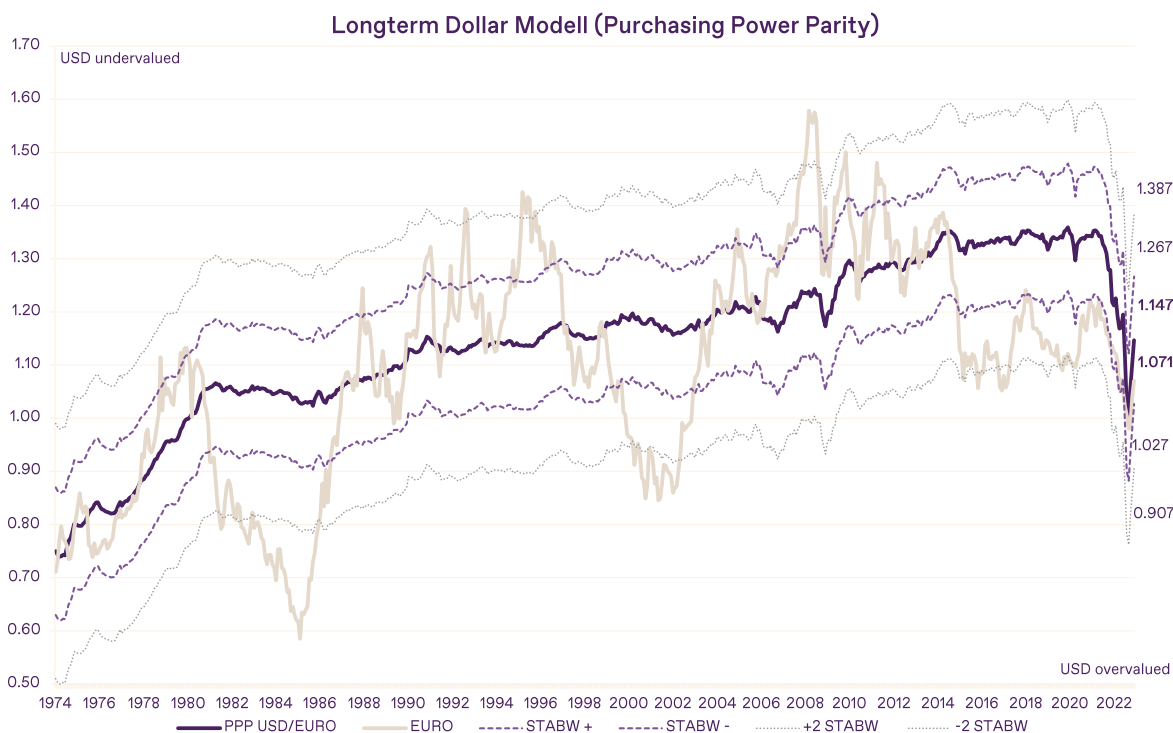
Source: Kathrein Privatbank

At the beginning of the quarter, the Schatz model (two-year duration), the Bobl model (five-year duration), and the Bund model (ten-year duration) were short. With a brief exception in early to mid-December, the signals to short were maintained. However, all three models were short again from mid-December to quarter end.

6.3. Long-term USD model

(Purchasing Power Parity = PPP = 1.226)

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

On December 30, the nominal exchange rate was at 1.147 USD for 1 EUR 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 0.907. 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 1.35.

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

For the US, growth is forecast at 1.9% in 2022 and 0.3% in 2023, with negative growth expected in the second half of the year.

Inflation is now expected to fall to 3% at year-end and 4% p.a. for 2023, following an 8% price increase in 2022. The labor market remains in very good shape, and unemployment is expected to decline once more in the course of 2022, perhaps even falling below 4% to 3.7%. By the US Fed's definition, this constitutes maximum employment, also referred to as full employment. The tight labor market will therefore not lead to any easing in inflation rates. The high budget deficits from 2020 and 2021, two particularly challenging years, are history for the time being, and with a deficit forecast of 4.4%, we are well below previous years.



USA	2017	2018	2019	2020	2021	2022	2023
GDP	2.2	2.9	2.3	-2.8	5.9	1.9	0.3
Inflation	2.1	2.5	1.8	1.2	4.7	8.0	4.0
Unemployment	4.4	3.9	3.7	8.1	5.4	3.7	4.4
Curr. Acct. (%GDP)	-1.9	-2.1	-2.1	-2.9	-3.6	-3.9	-3.5
Budget (%GDP)	-3.4	-4.2	-4.7	-15.6	-10.8	-4.4	-4.4
Debt (%GDP)	103.0	105.5	106.9	127.8	121.6	114.5	114.0
Central Bank Rate	1.5	2.5	1.8	0.3	0.3	4.5	4.7
3-Month Rate	1.7	2.8	1.9	0.2	0.2	4.3	4.4
10 Year Yield	2.4	2.7	1.9	0.9	1.5	3.6	3.5
EURO/USD	1.20	1.15	1.12	1.22	1.14	1.00	1.08

Forecasts for 2022 and 2023
Source: Bloomberg

We see a comparable situation in the eurozone. At 3.2%, growth forecasts are even slightly higher than for the US, and so are inflation predictions. Growth in the eurozone is forecast to drop to -0.1% and inflation to 6.1% in 2023. Here, too, figures have been revised downward for growth and upward for inflation in recent weeks. Deficit numbers for 2022 are similar to those of the US, although since 2015, the deficits for the eurozone as a whole have always been below those of the US. 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	3.2	-0.1
Inflation	1.5	1.8	1.2	0.3	2.6	8.5	6.1
Unemployment	9.1	8.2	7.6	8.0	7.7	6.7	7.1
Curr. Acct. (%GDP)	3.2	2.8	2.3	1.7	2.4	-0.2	0.6
Budget (%GDP)	-0.9	-0.4	-0.6	-7.0	-5.1	-3.8	-3.7
Debt (%GDP)	87.9	86.0	83.9	97.0	95.4	88.6	87.1
Central Bank Rate	0.0	0.0	0.0	0.0	0.0	2.5	3.1
3-Month Rate	-0.3	-0.3	-0.4	-0.5	-0.6	2.2	2.6
10 Year Yield	0.4	0.2	-0.2	-0.6	-0.2	2.1	1.9
EURO/USD	1.2	1.1	1.1	1.2	1.1	1.0	1.1

Forecasts for 2022 and 2023
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. In the US, Treasury yields moved from 1.48% to 3.9%. This increase was only temporarily interrupted by the start of the war in Ukraine and the summer rally in July.

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

	Analysts Forecasts				
	Spot	1Q 2023	2Q 2023	3Q 2023	4Q 2023
Germany	2.5	2.3	2.2	2.1	1.9
France	3.1	3.0	2.9	2.8	2.5
Italy	4.7	4.4	4.3	4.2	3.9
USA	3.9	3.9	3.8	3.7	3.5
UK	3.7	3.5	3.4	3.3	3.2
Japan	0.4	0.4	0.3	0.2	0.2

Figures in %
Source: Bloomberg

In general, most analysts see yields falling slightly over the coming twelve months in Europe as well as in the US.

7.3. Short-term interest rates

Declining inflation, albeit still elevated, has taken the pressure off the US Fed to raise interest rates at a faster pace and in jumbo steps.

	Forecast 3 Month Investments				
	current	1Q 2023	2Q 2023	3Q 2023	4Q 2023
EURO	2.1	2.7	2.7	2.7	2.6
USA	4.6	4.9	4.9	4.8	4.4
UK	3.7	4.0	4.0	3.8	3.7
Japan	0.0	0.0	0.0	0.1	0.1
Swiss	1.0	1.3	1.4	1.4	1.4

Figures in %
Source: Bloomberg

In the US, the 3-months Libor rates for the 4th quarter of 2023 are expected at 4.4%. The peak is expected to be around 4.9% in the first half.

In Europe, 3-month Euribor rates are forecast to increase to 2.7% in the first half of the year.

Both ECB President Lagarde and US Fed Chair Powell noted in their respective press conferences that the markets might underestimate future measures.

The monetary watchdogs of the Bank of England around chief Andrew Bailey have raised the key interest rate several times already.

In Japan, the Bank of Japan (BOJ) surprised by expanding the tolerance band on 10-year government bond yields from 25 to 50 bp, benefitting the Japanese yen but bringing pressure to bear on stocks and bonds.

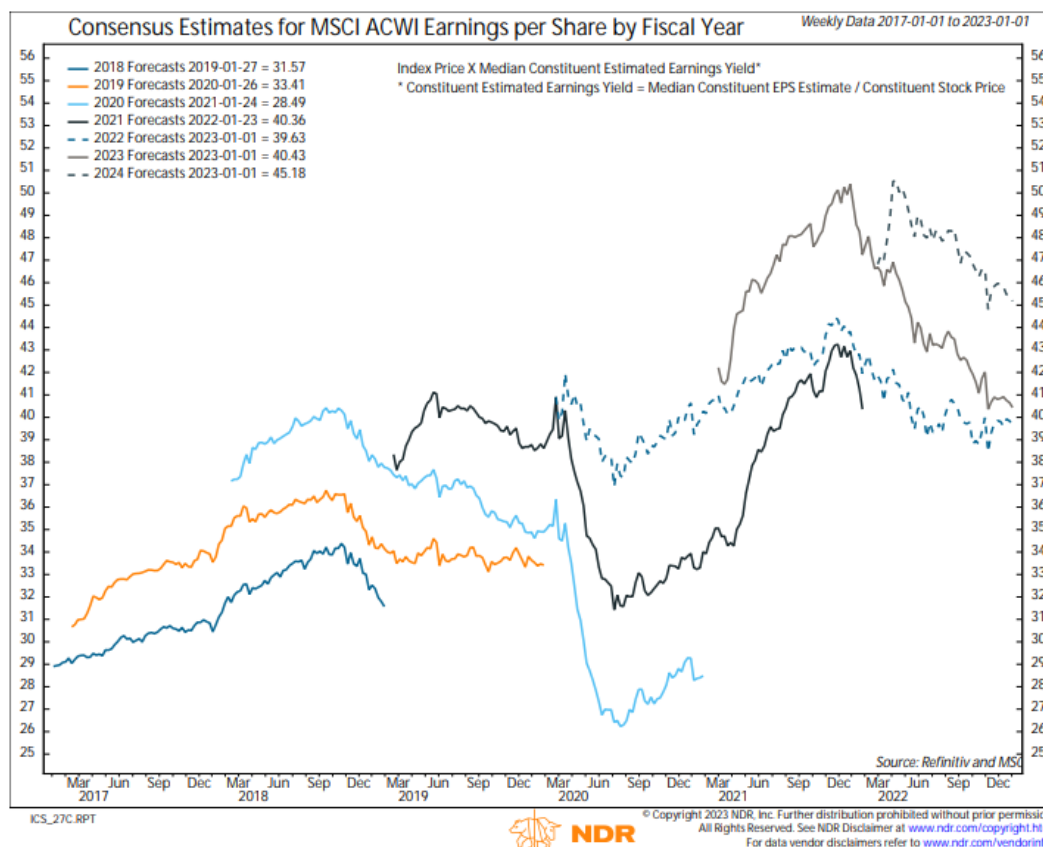
7.4. Stock indicators

The graph 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. Whether earnings revisions have bottomed out or expectations are still too high in view of the looming recession will have a bearing on stock market performance going forward.

The graphs depict earnings expectations of analysts for the biggest global players over time. Analysts' earnings expectations for the past year (2022 = blue dotted line) declined by about 10% since peaking at the end of December 2021. At USD 40.36, expectations for 2023 (gray line) are roughly the same as earnings estimates for 2022 but are below previous year's figures. Globally, earnings are expected to rise again in the coming year (2024 = gray dotted line). At USD 45.18, earnings should then again be significantly higher than this year.



Source: NED DAVIS Research

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

Fundamental valuations

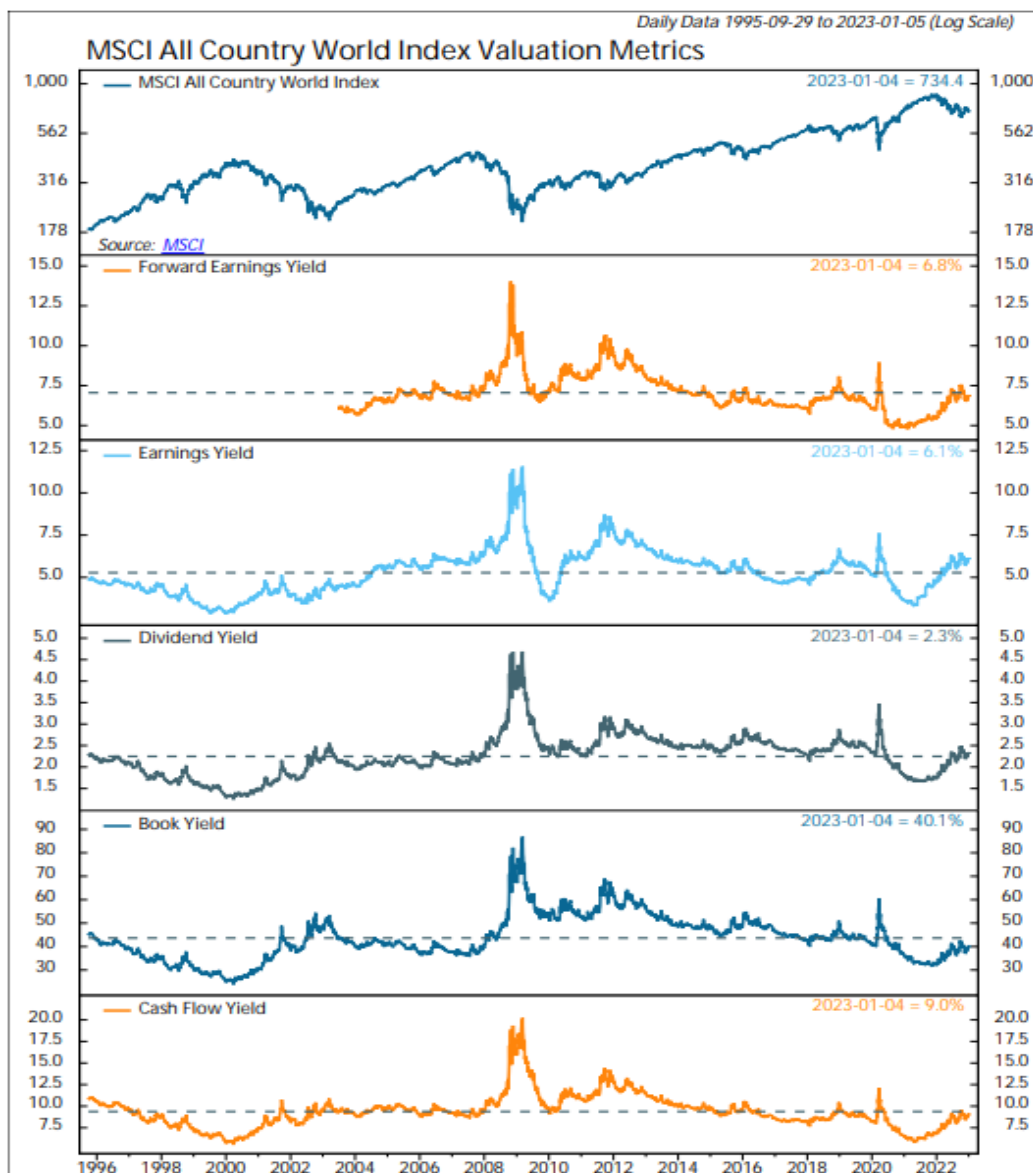
At 6.8% the forward earnings yield (the inverse of the P/E ratio) for 2023 is again below the long-term average. The price-earnings ratio based on consensus estimates is thus 14.7.

Current earnings yield (light blue line) has risen to 6.1%. This corresponds to a current P/E ratio of 16.4.

The dividend yield is currently 2.3%, which is in line with the long-term average.

Book value yield is far below average, reflecting a price-to-book ratio of 2.5. The book value is also below average.

The cash flow yield has improved slightly and now stands at 9%.



Source: NED DAVIS Research

Past results are not a reliable indicator for future performance.

Summary

- For the fourth quarter, negative quarter-on-quarter (QoQ) growth of -0.4% is expected in the eurozone. Nevertheless, at 3.2%, growth for 2022 will be as high as was last seen in 2007. While negative growth is still expected for the first quarter of 2023, momentum should pick up again leading to positive growth for the year. In the US, negative growth is not expected before the third and fourth quarters of 2023, with growth rates of 1.9% for 2022 and 0.3% for 2023. Global growth is expected at 2.1% in 2023, down from 3.2% in 2022.
- At the beginning of December, we ended our underweight in stocks, as our technical indicators in particular generated a buy signal, while economic indicators are still painting a mixed picture. We are betting on the upcoming end to the tight interest rate policy and taking advantage of low valuations.
- While current inflation level would justify higher yields, markets are already looking ahead to next year, expecting a soft landing with a significant decline in prices. As a result, bond yields are not keeping pace with money market rates and are below those in the US and to some extent also in Europe. In other words, the yield curves are inverted. We therefore keep duration in our bond funds short and weight corporate bonds more heavily. High-yield bonds are also added gradually.
- Declining inflation, albeit still elevated, has taken the pressure off the US Fed to raise interest rates at a faster pace and in jumbo steps. Currently, the peak is predicted at 4.95% in Q2 2023, with interest rate cuts possible as early as by the end of 2023. In the eurozone, the key interest rate could even rise to 3.5% by the end of 2023 due to higher inflation in Europe.
- Our baseline scenario for currencies is a stable euro moving towards 1.1 EUR/USD. The peak of the interest rate cycle in the US is approaching, marking a turning point for the US dollar beforehand. While the interest rate differential is in favor of the USD, the ECB will sustain its rate measures longer than the US Fed, providing support for the undervalued euro.

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