KATHREIN PRIVATBANK

Investment Report

2 / 2025

EDITORIAL

THE EUPHORIA HAS EBBED

As euphoric as the markets were at the beginning of the year, this enthusiasm quickly evaporated. Hopes of tax relief and deregulation were dashed by the tariff barriers that US President Trump began to erect – and capital market gains turned into a bear market, i.e. a decline of more than 20% from the last peak. The only positive aspect of the realignment of the world: the emancipation of Europe. Whether the project will succeed politically remains to be seen. At least the old continent has caught up on the stock markets, and the euro has also gained against the US dollar. In this issue, we report in detail on the changes to our investment strategy that we have made in response to all these developments.

The values in the quarterly overview are based on data as of March 31, 2025. Due to developments on the international stock markets after this date, the quarterly report also includes an overview of the performance of the current indices since the beginning of the year, with a cut-off date of April 8, 2025.

Wilhelm Celeda
CEO

TOPICS

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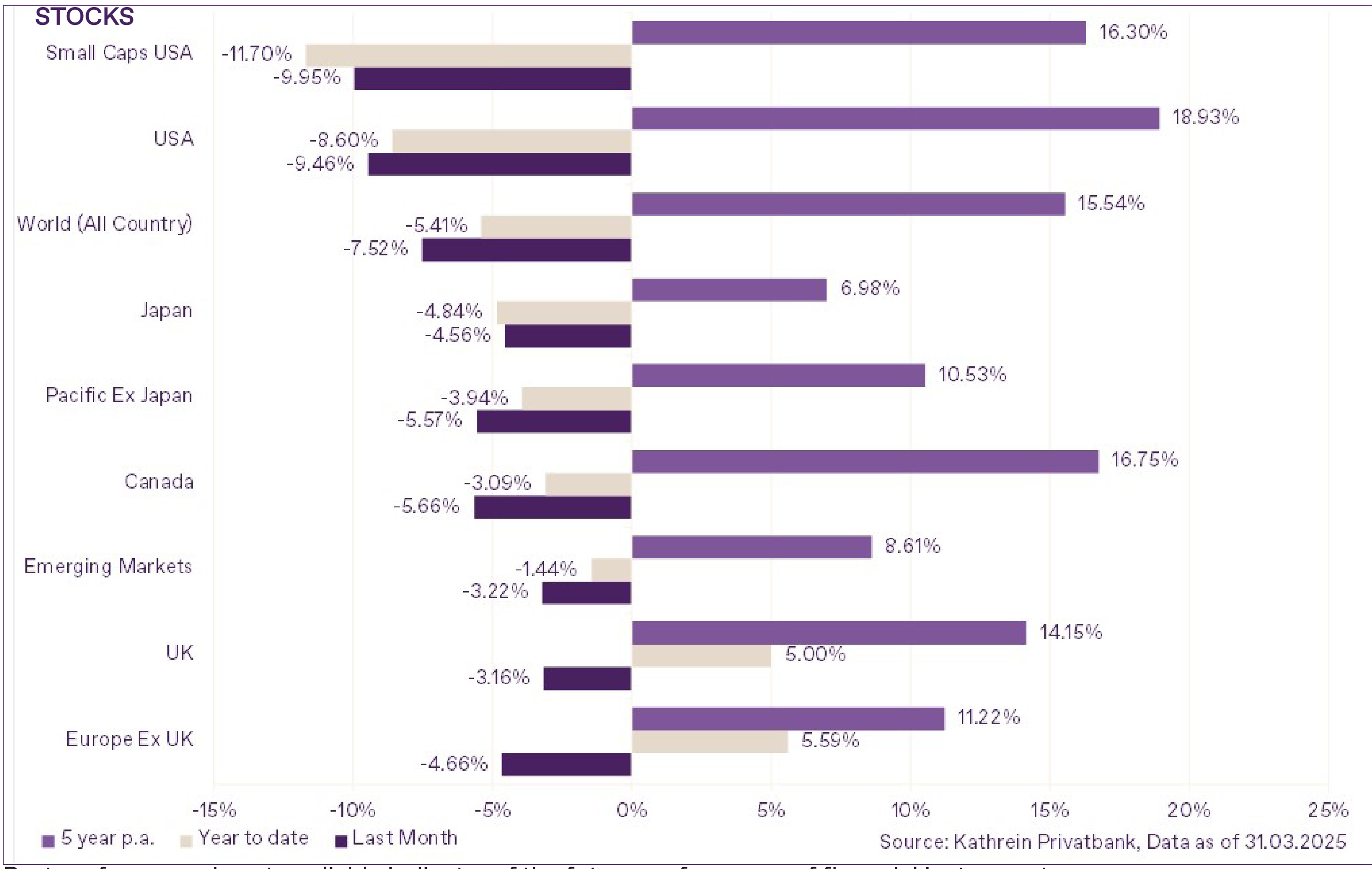
SYNOPSIS

Stock Market News

Trump Trade gone bad

After Donald Trump's election, no one wanted to miss out on the “Trump rally” on the stock markets. Hopes were high that the new president would provide extensive economic stimulus, deregulation and tax breaks to boost growth in the US. But after his swearing-in, it quickly became apparent that Trump would impose tariffs faster, higher and on more countries than initially assumed. This realization caused disillusionment and weighed heavily on market sentiment – especially in the US.



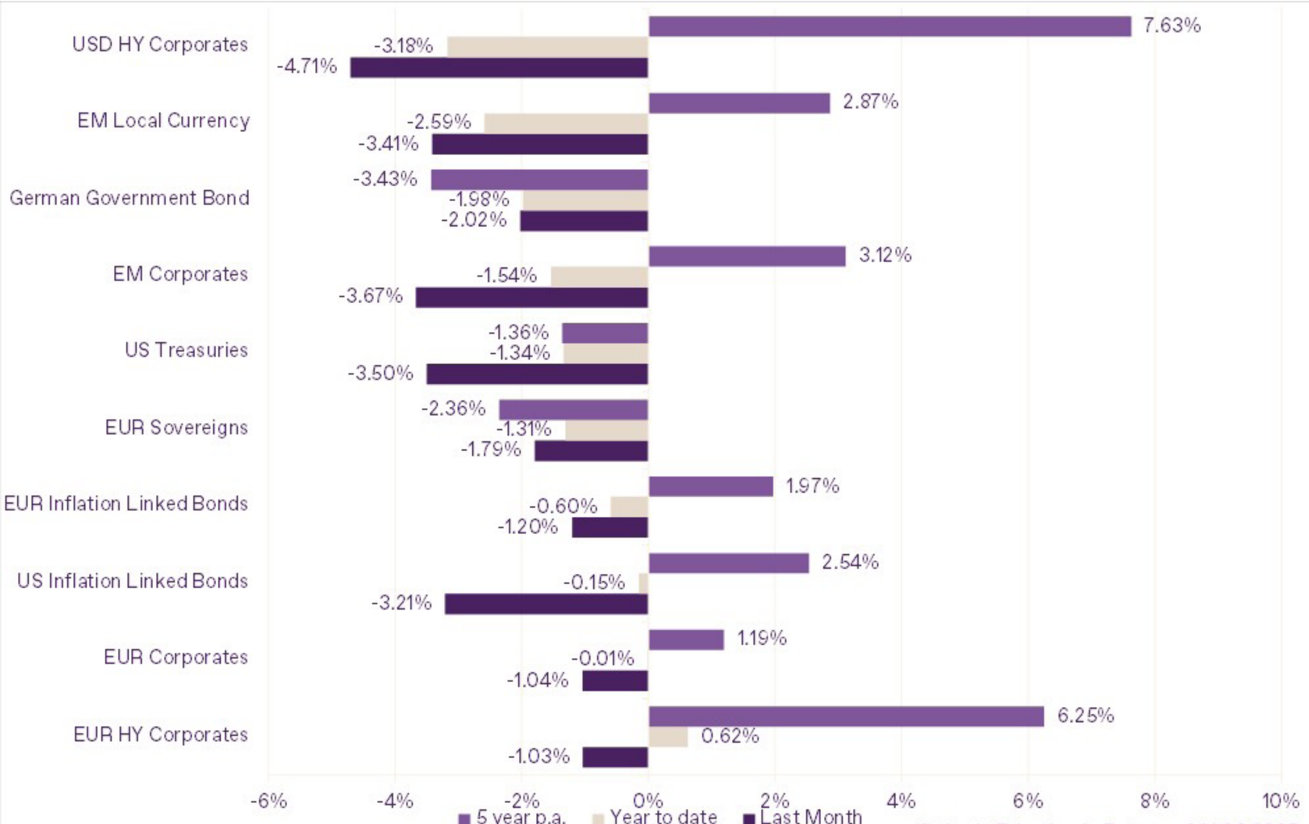
Past performance is not a reliable indicator of the future performance of financial instruments.

* all performances: Bloomberg, 31.3.2025; all performances are on a Euro basis.

The US market, for example, lost around –8.6 %*, weighed down by rising tariffs and weaker economic data. Some commentators are even talking about a possible recession. The higher risk aversion was also clearly evident among small caps in the US. They recorded a minus of –11.7%, as smaller companies are more sensitive to economic downturns. Europe, on the other hand, which had already reached an economic low in the last few quarters, benefited from lower valuations and hopes of a future economic recovery. This was reflected in solid price gains: Europe ex UK rose by +5.6 %, and the UK also posted a gain of +5.0 %. By contrast, Japan and the Pacific region ex Japan suffered noticeable losses of –4.8 % and –3.9 % respectively. The emerging markets held up relatively well, with a decline of just –1.4 %. 2 and a 2017. However, the fear of higher inflation was enough to unsettle bond investors. Euro government bonds lost –1.31% in the quarter, US government bonds fell by –1.34%, and German government bonds even recorded a minus of –1.98%.

In the case of corporate bonds, future economic developments also play an important role. In Europe, hopes are pinned on an improvement in the economic situation; as a result, demand for EUR high-yield bonds increased and they achieved a plus of +0.62 %. The situation in the USA is quite different. There, the assumption is that the economy will continue to deteriorate, which pushed USD high-yield bonds down to –3.18 %.

BONDS



Source: Kathrein Privatbank, Data as of 31.03.2025

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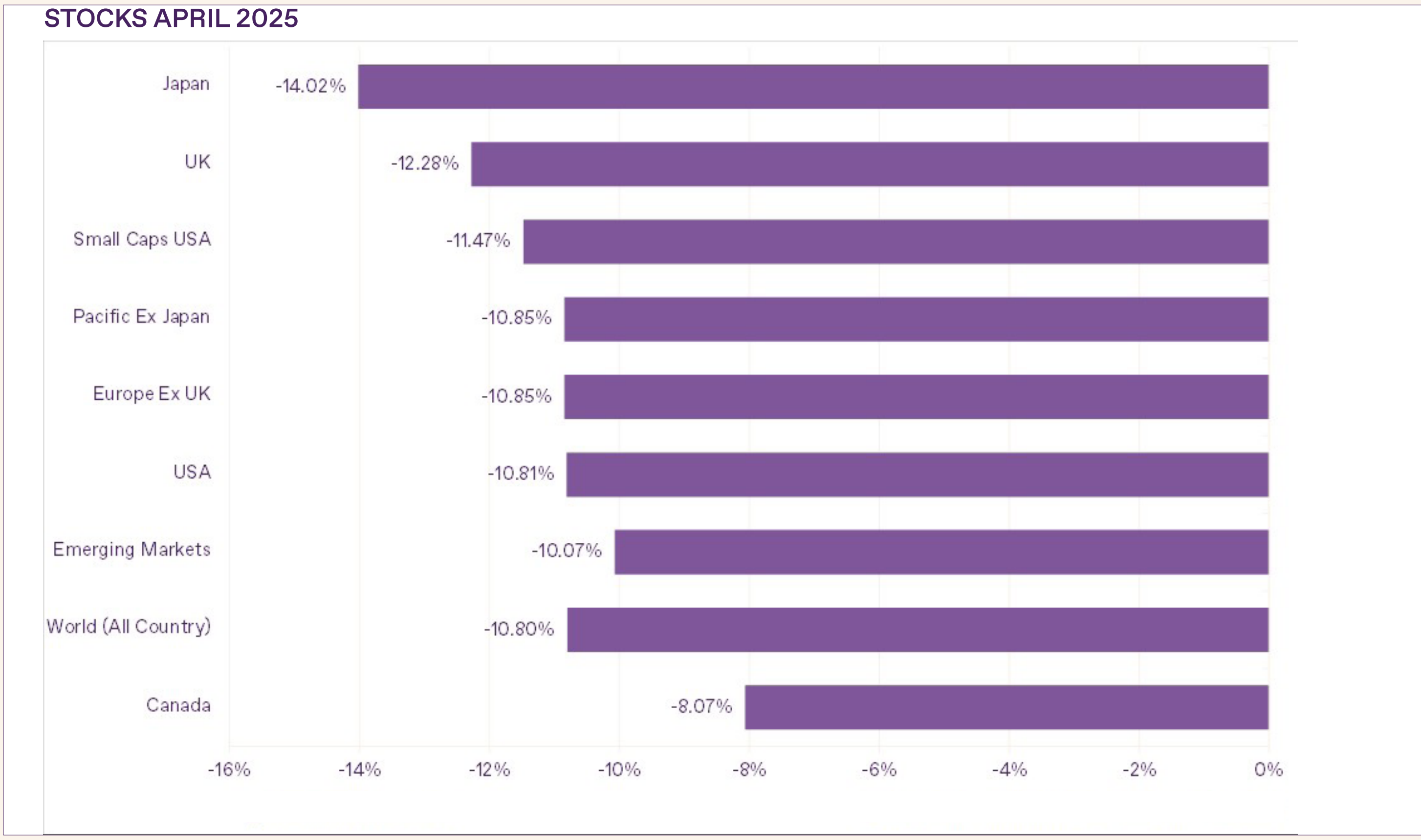
All performances are on a Euro basis.

Overall, it is clear that the initial Trump euphoria on the stock markets has noticeably subsided. Rising trade barriers, geopolitical uncertainties and the associated economic risks have triggered a significant correction. It remains to be seen whether extensive fiscal programs in Europe and possible economic countermeasures in the US will be able to sustainably lift sentiment.

We have shown the distortions on the stock markets since the end of March 2025 here.



Past performance is not a reliable indicator of the future performance of financial instruments.
All performances are on a Euro basis. Source: Kathrein Privatbank, 8 April 2025

KATHREIN INVESTMENT STRATEGY

Europe in focus

STOCK MARKETS

The most significant change in our equity allocation is the overweight in European equities. We have increased the proportion of European stocks by about 5 percentage points, while at the same time reducing US and Japanese equities. This decision is based on the expectation of stronger earnings growth in Europe, supported by increased defense spending, which is excluded from the Maastricht deficit rules. This spending should promote growth over the next ten years.

VALUATION DIFFERENCES COULD CLOSE

US equities are valued much higher than their European counterparts. This record valuation gap, measured by relative price-earnings ratios and book value, was caused by much stronger earnings growth in the US.

Until recently, the relative P/E ratio of European equities was only 50% of that of US equities. Such differences were last observed about 25 years ago. Now the tables could turn. Analysts are forecasting stronger earnings growth for Europe (source: Bloomberg, 13/03/2025). Even if earnings growth does not materialize as forecast by analysts, Europe's more favorable valuation should offer room for growth.

	Before	After		
	Port. Weight	Port. Weight	Weighting of the Benchmark*	Over-, Underweight
Communication Services	7,93	7,12	7,54	-0,42
Consumer Discretionary	9,41	8,64	10,92	-2,28
Consumer Staples	6,50	6,41	6,17	0,23
Energy	3,18	3,46	4,02	-0,56
Financials	15,76	16,25	15,79	0,45
Health Care	10,67	11,19	10,16	1,02
Industrials	11,00	11,89	10,26	1,63
Information Technology	26,25	25,91	26,78	-0,87
Materials	5,20	4,89	3,73	1,16
Real Estate	1,68	1,72	2,05	-0,33
Utilities	2,42	2,53	2,58	-0,05
Total	100,00	100,00	100,00	9,01

*Benchmark is the index MSCI ACWI, 50% of which hedged, Source: Kathrein Privatbank, 13. 3. 2025

The MSCI All Country World Index (short: MSCI ACWI) is an international stock index that tracks the performance of companies from 23 industrialized and 24 emerging market countries.

CHANGES IN OUR SECTOR ALLOCATION

Our sector allocation has also changed. We have increased our weighting in the financial, healthcare and industrial sectors. Particularly noteworthy within the industrial sector is the defense and aerospace industry, which is benefiting from increased defense spending. Energy companies have also been strengthened, while other sectors such as communications and consumer discretionary have been reduced.

"MAG 7" LIGHT

Before the change in the portfolio, we held all seven shares of the 'Magnificent 7', i.e. the most highly valued US companies. After the optimization, the weight of these stocks was reduced by about one percentage point. We are now more underweight in these stocks than before, as we believe the risk of underperformance is higher than the chance of outperformance.

OUR TOP ALLOCATIONS

There were no significant changes to the top 10 positions, except that their weight was reduced. With the exception of Taiwan Semiconductor Manufacturing Company (TSMC), all are American companies. The three largest European companies, each with a weight of around 0.5%, are Heidelberg Materials, 3i and Munich Re.

BULL MARKET: IS IT OVER YET?

Historically, an average bull market lasts a little over five years. The current bull market would have reached this statistically significant point in the summer of 2025. So the second 10% correction since the February 2020 coronavirus lows has marked the end of the bull market. Historical data shows that bull markets have experienced two 10% corrections a total of seven times since 1974. In two cases, we saw new highs afterwards, but in three cases, the corrections turned into a bear market. Now we are experiencing the fourth case of a bear market, caused by Trump's tariff mania.

	Name	Kathrein Mandatum 100	MSCI World Index
Magnificent 7	Apple Inc.	2,85%	4,67%
	Alphabet Inc.	1,47%	2,62%
	Amazon.com, Inc.	1,87%	2,72%
	NVIDIA Corporation	3,12%	4,19%
	Meta Platforms, Inc.	1,47%	1,91%
	Tesla, Inc.	0,45%	1,03%
	Microsoft Corporation	2,59%	3,96%
	Total	**13,82%**	**21,10%**

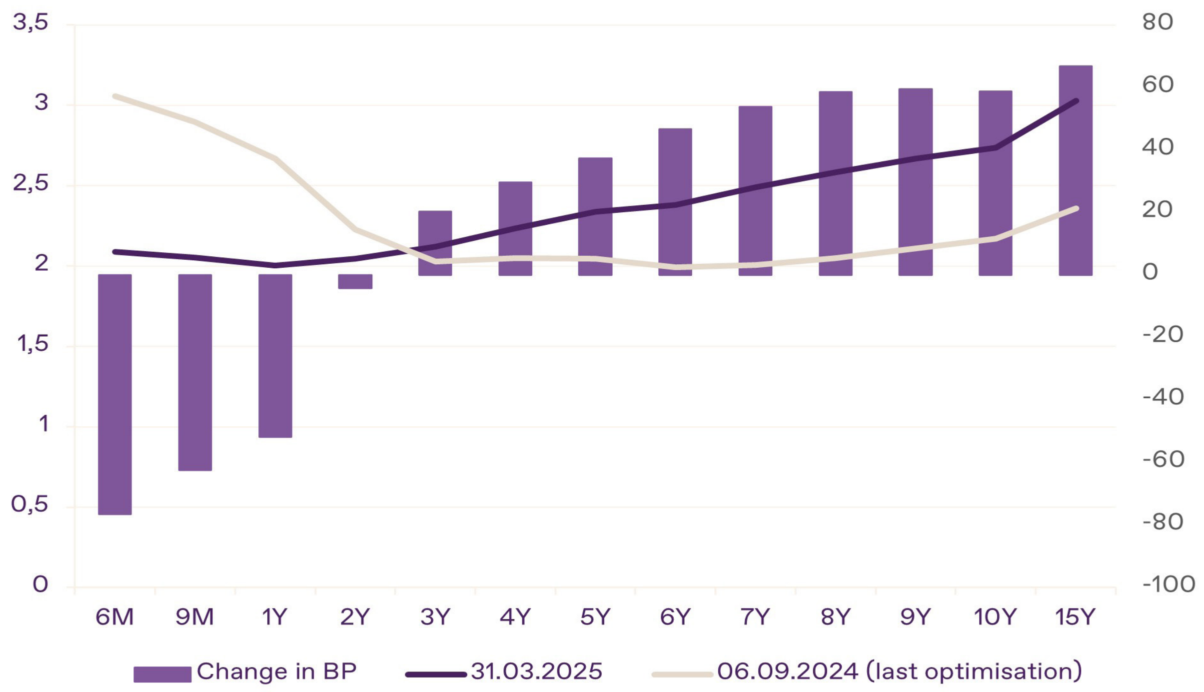
Source: Kathrein Privatbank, 13. 3. 2025

FIXED-INCOME STRATEGY

A key change was made to the fixed-income strategy to take advantage of a steeper yield curve and avoid falling money market rates. Yields on 10-year German government bonds rose faster than 3-month money market rates, which fell. (Source: Bloomberg, 13/03/2025). Although the shift is currently only reflected in a slightly longer average maturity, we remain cautious about the interest rate level of 10-year German bonds. We now have tactical flexibility to lock in higher long-term euro government bond yields as and when they are attractive enough. Currently, we are hedged against falling bond prices/rising yields, but this can change quickly and dramatically should bond market dynamics turn.

Exposure to US Treasuries, both nominal and inflation-protected, remains significant. The driver behind this high allocation is the historical yield premium of US Treasuries over German Bunds. Given the recent developments in terms of deficit spending to finance defense and infrastructure in Germany and the EU, combined with a weakening US economy, especially in Q1 2025, the risk-return ratio for US government bonds is favorable compared to EUR government bonds. Most of the exposure is hedged against the EUR, as the US dollar is vulnerable in this changed environment.

YIELDS OF OUR BOND PORTFOLIO BEFORE AND AFTER THE LAST OPTIMIZATION



Source: Kathrein Privatbank, 31. 3. 2025, all performances are on a Euro basis.

MARKET OUTLOOK

Fears of recession in the USA and a weak economy in Europe

Trump's erratic trade policy is a burden for companies and consumers alike. The promised deregulation and tax cuts in the US are a silver lining on the horizon, but the ever-escalating trade war is stifling many investment plans in the bud. The US Federal Reserve is keeping its key interest rate on hold for the time being and slowing the pace of balance sheet reduction, but Fed models suggest that more extensive tariffs could slow US economic growth by up to 4% within two to three years and fuel inflation by 2.5%. Interest rate cuts in 2025 are therefore not out of the question. In Europe, the economy has been weak for quite some time. In addition to the war in Ukraine, political impasses in Berlin and Paris and the ongoing crisis in industry are creating headwinds. The ECB is fighting against the downturn by lowering interest rates (most recently by 25 basis points to 2.50%) and could take further steps. Germany is trying to counteract this with a large infrastructure package that has the potential to cushion at least some of the negative developments. Nevertheless, geopolitical uncertainties and US tariffs are having a negative impact on sentiment in Europe's economy – there is little sign of any lasting impetus so far.

A BAD IDEA, BADLY EXECUTED

The idea of boosting the national treasury and pushing domestic companies with high tariffs sounds tempting at first. But as soon as counter-tariffs come into play, important export industries get into trouble. In the country, however, the prices of raw materials and consumer goods rise – and the consumer foots the bill. What the government collects in customs duties quickly disappears into spending on rescue packages and subsidies. The bottom line is a scenario that threatens to harm growth and the national budget in equal measure. The back and forth in Trump's announcements regarding his plans does the rest. The outlook remains uncomfortable – especially for the US. Unless Donald Trump completely overhauls his trade policy at the last minute, markets and consumers will have to brace themselves for further escalations and higher inflation. There may be small deals or surprising U-turns from time to time, but so far there is little to suggest this. Protectionism could thus prove to be an expensive own goal – with costs significantly higher than the hoped-for short-term benefits.

UNCERTAINTIES PREVAIL

We are keeping a close eye on developments. Trump's tariff policy has deeply unsettled the markets, and it remains to be seen whether the trade barriers will remain in place permanently. Our adjustments in sector allocation are designed to be less affected by these developments. The overweight in Europe is also proving advantageous. However, the negative effects of US tariff policy will be felt in all markets. With a flexible and cautious bond strategy, we are well positioned to achieve attractive returns even in the face of possible interest rate changes. Overall, we are confident that our balanced and diversified investment strategy will minimize risks and exploit opportunities even in these uncertain times.

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