KATHREIN PRIVATBANK

Investment Report

1 / 2025

EDITORIAL

PREMIERE: OUR NEW KATHREIN INVESTMENT REPORT

With the Kathrein Privatbank Investment Report, we would like to provide you with a regular, concise overview of the key developments in the financial markets. Our goal is to present the most important events, market trends and future opportunities to you as an investor in a clear and precise manner.

In addition to analyzing the current capital market situation, we will also discuss the latest adjustments in our asset management. We look forward to supporting you in your investment strategy with this new format!

Wilhelm Celeda
CEO

TOPICS

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Synopsis

Stock Market News

Despite the uncertainties, the global stock markets rose

2024 was characterized by a global interest rate cut cycle and the US elections. Equity markets delivered impressive returns, while bond strategies required skill. The euro weakened sharply against the US dollar in the fourth quarter, gold shone as a commodity, and cryptocurrencies saw huge increases.

Global equity markets had a remarkable year in 2024, but there were significant differences between regions. In the US, the S&P 500 reached new highs* with a gain of 25%, strongly driven by the "Magnificent 7" such as Nvidia (developer of graphics processing units and chip cards), which once again outperformed the market by far. By contrast, the trend in Europe was more moderate: the EuroStoxx 50 gained 8%, almost all of which was generated in the first quarter, followed by sideways volatility.

In Japan, the Nikkei 225 rose by more than 20% by the end of March. However, an unexpected interest rate hike by the Bank of Japan in August led to a sharp decline of -7%, before the market quickly recovered and closed the year with a 6.3% gain. The Chinese stock market, symbolized by the CSI 300, stagnated within narrow ranges in the first nine months. It was only the economic stimulus package announced in September that triggered a spectacular rally, leading to a year-end gain of 15 %.

Bond markets experienced a volatile year. After a yield high of 2.7 % for German government bonds in May, yields fell to 2 % in June after the first interest rate cut by the ECB. By year-end, ten-year yields had settled at 2.4 %. The trend in the US was similar, albeit at a higher level: the ten-year yield closed at 4.5%, the two-year yield at 4.2%. Both the ECB and the Fed lowered their key rates by 100 basis points, with the ECB taking the first step in June. Overall, 2024 was a very positive year for investors.

* all performance data: Bloomberg, 31.12.2024

CAPITAL MARKETS

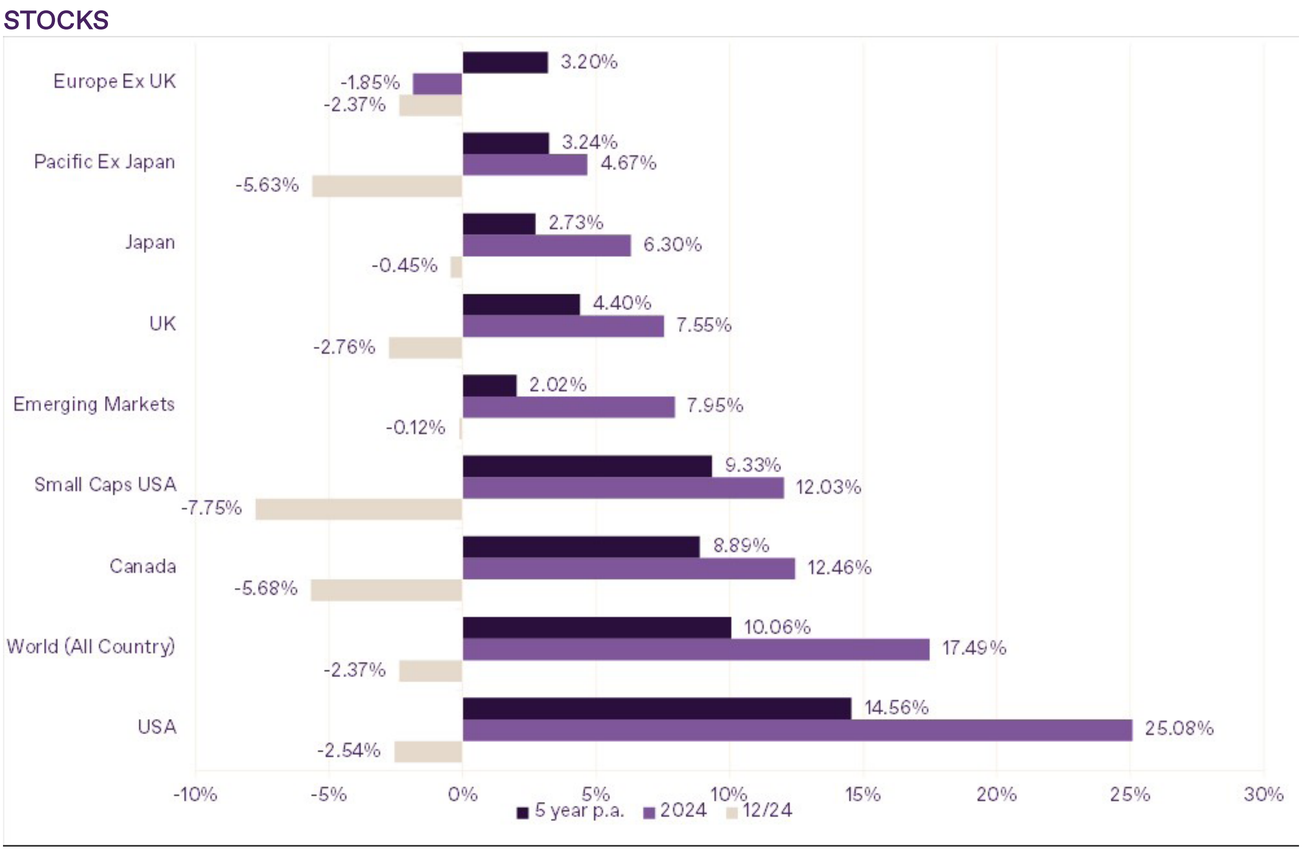
Markets in Detail

STOCK MARKETS

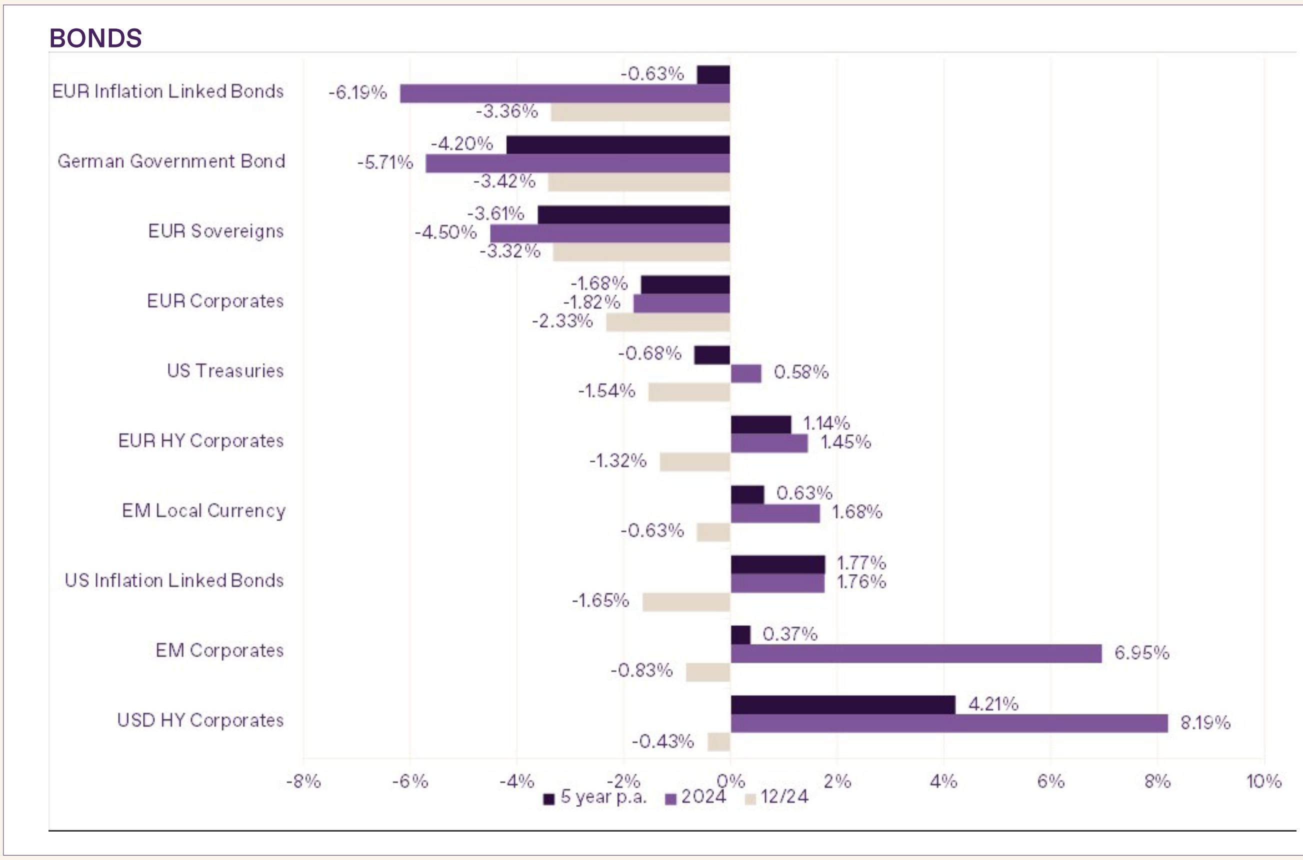
In 2024, the global stock markets presented a mixed picture with significant regional differences. The clear winner was the USA, which led the way with an impressive 25.08%* growth. The strong performance was driven by a robust economy and the Fed's policy of interest rate cuts. Small caps also benefited, with a solid 12.03% increase, underlining the breadth of the rally.

The global equity market achieved a solid performance of 17.49% over the course of the year, but lagged behind the US. Europe ex UK showed a disappointing result of -1.85%, weighed down by economic uncertainties. The last quarter was particularly weak, with a decline of -10.75%, which highlighted the structural challenges in the region.

The emerging markets were also unable to convince. Despite an increase of 7.94%, losses of -7.86% in the last quarter weighed on the overall picture. The Pacific region (excl. Japan) experienced a similar situation: it achieved 4.67%, but lost -9.11% in the fourth quarter. Japan recorded with 6,30 % a moderate increase, but also fell short of expectations.



Past performance is not a reliable indicator of the future performance of financial instruments
* all values on US-Dollar basis



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The UK market achieved 7.55 %, but was unable to stand out more due to political uncertainties and weak global demand. The growth markets also only achieved a plus of 7.94% and were thus unable to keep up with the US markets.

BOND MARKETS

The year 2024 presented major challenges for global bond markets, particularly in Europe. Here, the markets suffered greatly from the consequences of rising yields and a weakening economy. USD high-yield bonds led the way with an impressive 8.19% gain. They benefited from a high risk appetite among investors and a stable economic environment in the US.
Emerging market corporate bonds also performed solidly, up 6.95%, driven by strong demand for higher yielding assets. In contrast, European bond markets were disappointing. EUR government bonds lost -4.50%, while German government bonds performed even weaker at -5.71%.
Inflation-protected bonds were hit particularly hard, losing -6.19 %. The strong increase in yields at the long end of the market and the persistent economic weakness in the eurozone weighed heavily on these markets.

EUR corporate bonds were also unable to escape the downward trend and recorded a minus of -1.82 %, due to uncertainty and weak demand. By comparison, the US bond markets were much more robust. US government bonds achieved a moderate plus of 0.58%, which underscores the relative stability of the economic environment and the effects of the interest rate cuts by the US Federal Reserve.

KATHREIN INVESTMENT STRATEGY

Retrospective and Outlook

2024 was characterized by a consistent overweight in equities, as our technical and fundamental indicators were positive throughout the year. Even when the indicators weakened at times, we maintained the overweight, which proved to be extremely rewarding, particularly in the US. In currencies, we remained mostly positive on the US dollar for most of 2024.

The US dollar benefited both from relatively higher interest rates in the US and from its position as a safe haven in times of geopolitical uncertainty. This enabled us to keep the costs of currency fluctuations for US dollar investments low. In managing the maturities of our bond portfolios, we took a shorter position than the market as a whole in both the US and Europe.

Our bond portfolio is therefore less interest-rate sensitive than German government bonds or the European bond market.

We were able to increase returns significantly by adding a targeted mix of emerging market bonds, hedged USD bonds and high-yield bonds in euros and USD. For the future, we expect yields on longer maturities to rise again and yield curves to normalize, i.e. bonds with longer maturities will yield higher returns. Our investment strategy is continuously adapted to changing market conditions in order to take advantage of opportunities and actively manage risks. With our positioning, which is overweight in equities, we look optimistically but vigilantly at the challenges and opportunities of 2025.

MARKET OUTLOOK 2025

Trump´s Policies Shape the Markets

The return of Donald Trump to the White House and his “America First” agenda is likely to have a significant impact on global markets in 2025. Possible higher tariffs and an aggressive trade policy will affect both equity and bond markets: while US markets could benefit from his pro-business policies, Europe and emerging markets face major challenges. Trump‘s policy of tax cuts and deregulation should support US stock markets. In particular, sectors such as oil, gas, coal and private health insurers could benefit. At the same time, the reversal of climate policy measures will have a negative impact on companies in the renewable energies sector. Overall, the reindustrialization of the US and a robust domestic economy could initially keep US markets stable.

Trump‘s protectionist policy poses significant challenges for European exporters. Planned tariffs of up to 20% on US imports (and 60% on Chinese goods) could reduce the competitiveness of European companies, particularly in cyclical sectors. This would further burden the already weak European economy. Emerging markets that depend heavily on exports and a stable US dollar could suffer from additional financing costs and currency devaluations. In Europe, tariff policy and weak growth could force the ECB to pursue an expansive monetary policy for longer, while demand for safe government bonds such as German Bunds could increase as valuations have been too low in the past and yields rise despite interest rate cuts.

CONCLUSION: CHANCES AND RISKS

Trump‘s policies offer opportunities for US markets, but pose significant risks for Europe and emerging markets. An escalating trade war could dampen global growth, fuel inflation and put pressure on markets. However, if the conflicts can be contained, moderate interest rates and stable growth could support the markets. 2025 will be a turbulent year for investors. We are constantly monitoring developments and adjusting our strategy accordingly.

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