

## THE EDITORIAL TEAM

(07.2024)

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, economy

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

The second quarter of 2024 was marked by political uncertainties and sizeable swings in the markets. Inflation and geopolitical events were the other topics dominating the headlines.

In April, high inflation in the US led to significant stock market losses. The S&P 500, NASDAQ 100, and the DAX, all posted significant declines. Markets recovered in May, driven by strong earnings reports, particularly in the Big Tech sector. NVIDIA exceeded expectations once again and boosted the AI segment. In June, political uncertainties on the heels of the EU elections and the new elections in France brought mixed results. The French CAC 40 lost its positive annual performance and bond markets fluctuated. Yields rose in April on the back of inflation but fell in June due to political uncertainties. The France-Germany 10-year yield spread was at its highest since 2017.

The elections in India and Mexico had a negative impact on emerging markets. In Mexico, Claudia Sheinbaum of the ruling Morena party won a landslide victory. This was unexpected. Investors worry that Morena's strong majority could ease the path to constitutional amendments, jeopardizing the stability of the legal framework and creating economic policy uncertainties. Investors are particularly concerned about possible interference in the judiciary and controversial economic proposals. In India, Prime Minister Modi's BJP missed its target of achieving absolute majority, increasing political uncertainty and triggering volatility in the markets.

The economy alternated between concerns and hopes for interest rate cuts. The ECB left interest rates unchanged in May and lowered them in June for the first time since 2016. US inflation remained high, and the Fed listened to data reports and held rates steady. The Bank of England and the Bank of Japan also left their interest rates unchanged.

During the second quarter, the euro consistently lost ground against the US dollar. The price for oil fluctuated, while gold benefited from the uncertainties and remained stable.





#### 1.2. Forecast

Suspense and excitement promise to continue in the second half of 2024. The political landscape remains an important factor in this super-election year. In France, President Emmanuel Macron dissolved the National Assembly and called snap elections after his party was handed a big defeat in the EU elections followed by a no-confidence vote. The first round of the election brought the expected shift to the right. Marine Le Pen's National Rally scored an emphatic victory in the first round of the election, winning about one third of the votes. The parliamentary elections resulted in a surprising victory for the left-wing coalition, led by left-wing populist Jean-Luc Melechon. The far-right populist alliance only came in third behind the Macron camp. What comes next in France remains to be seen. The wildly differing platforms of the parties make forming a grand coalition impossible. The ball is now back in President Macron's court.

In the second half of the year, the US presidential election is likely to become an even greater focus for international investors. Alarm bells started ringing for many Democratic supporters after Joe Biden's weak performance in the first debate. More and more Democrats have come forward calling for the president to step aside. The final confirmation of whether Joe Biden is the right person at the top of the Democratic ticket will not come before the Democratic National Convention toward the end of August. Until then, there will be much speculation surrounding this crucial question.

The economic outlook for 2024 and 2025 continues to be marked by opportunities and risks. US economic growth is forecast at between 2% and 3% for the current year. For the eurozone, the estimates come in a at less than 1%.

Inflation figures are more persistent in the USA than in the eurozone. Nevertheless, inflation is expected to fall to 2.1% in the eurozone and 2.3% in the US over the next 12 months.

# 2. Capital market review

During the second quarter, a globally diversified equity portfolio once again was a good option for outperforming bonds. The broad market gained about 3.7%. A major contributor to this strong performance was the US equity market. With a gain of 4.82%, US equities clearly outperformed other developed regions. Only the UK market, at 4.4%, came close to matching US stock performance. Europe ex UK, on the other hand, recorded a 1.12% decline. The Japanese market lost significantly in both yen and euro terms. By contrast, the Pacific region ex Japan rose 3.2%. Emerging market stocks surprisingly strong gains. disappointing performance in the first quarter, emerging market share prices rose 5.73%.

In contrast, US small caps did not benefit from the otherwise positive sentiment on the US stock markets. Once again, large US growth stocks were the winners.

Keeping with the first quarter rhythm, technology and telecommunications sectors also set the tone on the exchanges in the second quarter. The IT sector posted double-digit gains, further extending its outperformance year-to-date. Telecommunications stocks also outperformed the broader market. In addition to traditional telecommunications providers, this sector also includes companies such as Alphabet, Meta Platforms (parent company of Facebook, Instagram, etc.), and Netflix.

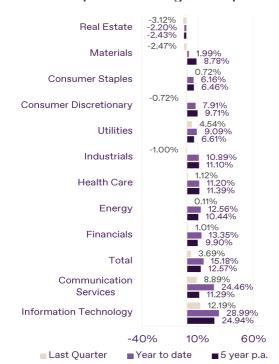
The important financial sector posted a meager 1% performance. The healthcare segment underperformed as well. The real estate sector was down by more than 3%, followed by the commodities sector, which fell around 2.4%. Industrials were down 1%. By contrast, the energy and consumer staples sectors inched into positive territory.

#### Stock performance in EUR



**Source:** Bloomberg, Last quarter = Q2 24, 5Y 28/06/19-28/06/24, Year-to-Date = 30/12/23-28/06/24

#### Sector performance global equities



**Source**: Bloomberg, Last quarter = Q2 24, 5Y 28/06/19-28/06/24, Year-to-Date = 30/12/23-28/06/24 The first half of 2024 saw a correction after a period of exaggerated performance at the end of last year, when positive returns were already anticipated for the end of 2024. This correction was particularly pronounced for euro-denominated government bonds. Among the best classes year-to-date are US dollar-and euro-denominated high-yield bonds. Emerging market corporate bonds delivered excellent returns. USD-denominated inflation-linked bonds benefited from uncertainties about the outlook for inflation and perhaps exaggerated expectations. USD-denominated government bonds benefited from higher yields in the US.

The dollar's performance during the quarter was a tale of contrasts. Initially, expectations of a weaker economy in the eurozone, falling inflation, and imminent interest rate cuts by the ECB made the USD stronger. Thereafter, the picture changed, with the USD gaining only 0.89% against the euro over the course of the quarter despite strong fluctuations. The Japanese yen remains in trouble with a 5.25% decline during the quarter. Elections in India and Mexico also weighed on the currencies, but the EMs managed to gain 3.13% during the quarter.

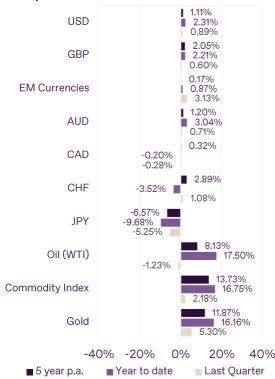
Year-to-date, oil prices have risen by 17.5%, not least due to OPEC's production cuts. Other commodities also rose significantly.

#### Bond performance in EUR



**Source**: Bloomberg, Last quarter = Q2 24, 5Y 28/06/19-28/06/24, Year-to-Date = 30/12/23-28/06/24

#### FX performance vs. EUR



**Source:** Bloomberg, Last quarter = Q2 24, 5Y 28/06/19-28/06/24, Year-to-Date = 30/12/23-28/06/24

# 3. Capital market forecast

- No immediate US dollar appreciation in sight
- Expected FED and ECB rate cuts before year-end
- Economy supported by the service sector

The capital market forecast reflects Kathrein's opinion and does not contain any direct or indirect recommendations for an investment strategy or the

Third-quarter capital markets could be impacted by several factors, among them in particular the central banks' interest rate policy and inflation trends. Investors should keep a close eye on the decisions of the Federal Reserve and the European Central Bank as well as macroeconomic data such as labor market figures and GDP growth. Inflation has become stubborn but is under control. Although inflation has cooled significantly, it remains above 2%. A 2% target inflation remains key to the central banks' vision on both sides of the Atlantic and is vehemently pursued by both.

Consequently, both the Fed and the ECB have decided to cut interest rates, or to cut them further, only once price data and all other factors in the US and in the eurozone support such a move.

Even though the ECB was the first to lower interest rates, it will also pursue a policy with a steady hand and not take any hasty steps. Both the ECB and the Fed want to avoid a repeat of the mistakes of the 1970s. At that time, hasty monetary easing led to runaway prices.



Source: Pixabay.com

In this environment, we do not expect the USD to change much in value against the euro due to the interest rate differential, which will hardly change.





International stock markets continue to hit new highs, driven by the ongoing AI rally and renewed optimism regarding interest rates. Surprise interest rate measures, such as the second round of cuts taken by the Swiss central bank, are adding to this optimism. The US economy is still showing signs of growth. The primary driver of this growth is the service sector. This trend can also be observed in Europe, although European industry is showing significantly more signs of weakness than in the US. The US labor market is also in much better shape than its European counterpart. It is particularly noteworthy that the United States has not slipped into a recession during this cycle of interest rate hikes, with all the negative effects on the stock market that were so often felt in the past.

#### How we position ourselves

The Kathrein bond portfolio remains well positioned, delivering interesting yields due to its broad diversification. As short maturities are preferred with an inverted yield curve (short maturities offer a higher return than longer maturities), a large proportion is invested in short-term or floating-rate euro bonds. We continue to remain short in longer-dated euro bonds. Significant exposure to emerging market bonds in local currency, with government bonds yielding about 7.5%, and a close to 8% weighting in high-yield corporate bonds, is an interesting addition to the fixed income portfolio. Total yield for the Kathrein portfolio at the beginning of the quarter was 4.8%, well above the anticipated 2.1% rate of inflation for the eurozone.

An end to rate hikes and possible central bank rate cuts, along with lower policy rates, will provide support for equities through the end of 2025. Based on our expectations, the second half of 2024 could turn out to be another very good year for most stocks. We expect the average stock market return over a 10-year investment horizon to be 8.8% p.a., which is a long-term average with significant variation in any given year.

Investing in securities involves exposure to price fluctuations due to sudden changes in market conditions. Past performance is no guarantee for future results. Returns may be higher or lower depending on currency fluctuations.

### 4. Kathrein funds review

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MARKET EXPECTATIONS

**4.1. Kathrein Sustainable US Dollar Bond** T: AT0000A0C8Z2 A: AT0000A0C8Y5

# Attractive yield expectations combined with high credit quality



The Kathrein Sustainable US Dollar Bond invests in bonds of investment-grade international borrowers quoted in USD. Particularly noteworthy is the duration management developed by Kathrein, which is based on the fact that capital market interest rates are geared to economic cycles and follow trends. This is a sustainable fund within the meaning of Article 8 of Regulation (EU) No. 2019/2088. The fund promotes social,



Source: Adobe.Stock.com

ethical, and environmental features. Stock selection in the fund is driven by exclusion and quality criteria (negative and positive screening criteria). The fund does not seek sustainable investments within the meaning of the EU taxonomy or pursue sustainable investment objectives.

The first half of the year was marked by a seesaw movement in interest rates. Overall, yields on USD government bonds rose across all maturities. Overall, the fund therefore

posted a loss for this period. For a bond fund, how does this work? When prices fall, yields on the underlying bonds rise. As a result, investors' return expectations for future periods increase. This is the first piece of good news. Another argument in favor of a USD bond fund is that it offers significantly higher returns than a EUR government bond fund, with the best credit rating to boot. There is also no need to worry about a new debt crisis in the EUR countries. The fund does not invest in those kinds of issuers.

For all those reasons, any client who thinks in USD should include this fund in its core investments. For a traditional EUR investor, this fund has the appeal of an interesting blend with significantly higher earnings prospects, especially at a time when key interest rates are no longer being raised and the next key interest rate cut is more likely ahead than behind us. Then we enter another cycle of falling yields, ultimately resulting in additional price gains in the fund.





# PRIVATBANK

Fund information acc. to Section 128 InvFG

The fund currency is the USD.

Share class R denominated in: USD Share class I denominated in: USD

The managing company may engage in derivative transactions in accordance with the investment strategy of the Kathrein Sustainable US-Dollar 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.

#### Prospectus and key information documents

The published current German fund prospectus and/or the key investor information document in accordance with Article 21 AIFMG, as well as the key information documents for the fund can be requested in print from Kathrein Privatbank or accessed at www.kathrein.at under "Investment Solutions/Our Funds (in German).



# 5. Kathrein's investment strategy

#### 5.1. Asset allocation

- Continued overweight in stocks
- US dollar duration increased
- Euro duration remains at low level

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.

We were tactically overweight stocks throughout the second quarter, allowing our portfolios to participate in the strong stock market performance during this period, although past performance is no indicator of future developments. The technical indicators of our tactical equity allocation model were mostly positive at the end of the quarter. Fundamental indicators were also positive. Given the positive stock market outlook, we have kept the proportion of defensive holdings in the stock portfolio low. 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. In response to technical signals, we increased the hedge of our USD risk in the equity portfolio to 37.5%.

On the bond side, we slightly raised the portfolio's target volatility again in March, increasing the proportion of high-yield bonds in the portfolio. We sold US dollar government and euro corporate bond positions and bought US dollar and euro high-yield bonds as part of our rebalancing efforts. We increased the duration of the bond portfolio in the US dollar in several steps in the second quarter, while keeping it at a low level in the euro segment. At 19.5%, USD 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 9.5%, inflation-linked euro government bonds at 5.5%, EM corporate bonds at 5%, inflation-linked US government bonds at 4%, euro high-yield bonds at 4.5%, and US dollar high-yield bonds at 3.5%.

Warning: Bond yields may be higher or lower depending on interest rate changes and currency fluctuations.

Each individual client portfolio is optimized, taking into account the investor's earnings objective, risk tolerance, and investment horizon.

Warning: 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 which is however not guaranteed. 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 a 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.

VV					
Overview (Taget Asset Allocation as of 30. June 2024)	IP1	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	4	2	1	1	0
Bonds - Government - USA	24	16	9	4	0
Bonds - Corporate - EUR	32	22	12	5	0
Equity	-	24	50	71	83
Equity - Europe	0	2	5	7	8
Equity - USA	0	13	26	37	43
Equity - Cananda	0	1	1	2	2
Equity - Japan	0	1	2	3	3
Equity - Pacific ex-Japan	0	0	1	1	2
Equity - Emerging Markets	0	3	5	7	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					
2024	-1.0	2.8	6.1	9.0	13.1
2024 Q2	-0.4	0.4	1.1	1.7	2.8

Data in %, source: Kathrein Privatbank

### Reallocations

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.
May 23	Tactically increased stock allocation by 30% of the strategic stock allocation.
September 23	Switched out of USD government bonds (-1%), EUR corporate bonds (-1%), and variable rate bonds (-1%) into EUR high-yield bonds (+2%) and USD high-yield bonds (+1%).
October 23	Tactically reduced stock allocation by 30% of the strategic allocation.
November 23	Tactically increased stock allocation by 30% of the strategic stock allocation.
March 2024	Switched out of defensive value stocks (-5% of the stock allocation) into sustainable global stocks (+5% of the stock allocation), switched out of USD government bonds (-2.5%) into USD HY bonds (+2.5%) and from EUR corporate bonds (-1%) into EUR HY bonds (+1%)

# 6. Key Kathrein models

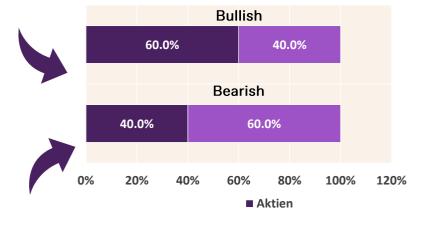
## 6.1. Market timing stock weighting (bull/bear model)

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.

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.

## Kathrein Mandatum 50



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 %.

**Equities** 

Source: Kathrein Privatbank

Fund information pursuant to Section 128 InvFG:

#### Prospectus and key information documents

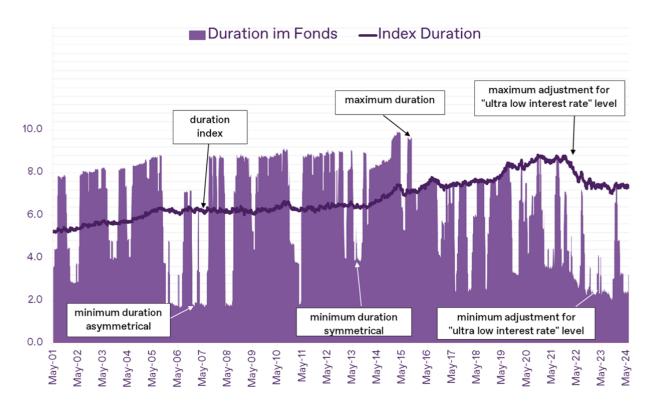
The published current German fund prospectus and/or the key investor information document in accordance with Article 21 AIFMG, as well as the key information documents for the fund can be requested in print from Kathrein Privatbank or accessed at www.kathrein.at under "Investment Solutions/Our Funds (in German).

### 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).



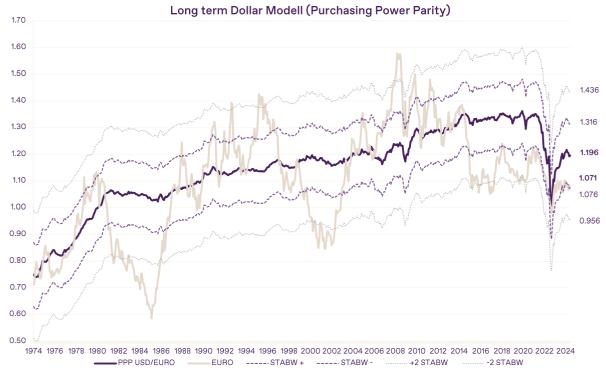
Source: Kathrein Privatbank

At the beginning of the quarter, both the Schatz model (two-year duration) and the Bobl model (five-year duration) were short, while the Bund model (ten-year duration) was neutral. During the quarter, the Bund model also went short and the Bobl model went neutral in mid-June. This was also the situation at quarter-end, meaning we remain shorter than the average duration in the overall market.

### 6.3. Long-term USD model

(Purchasing Power Parity = PPP = 1.196 EUR as of 28/06/2024)

Purchasing power parity (PPP) 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 baskets of goods, different rates of inflation would ultimately affect the exchange rates. For better comparison of international baskets of goods we use the producer price index for our computations. 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 for identical baskets of goods. 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 the quarter, the theoretical exchange rate is at USD 1.1960 for EUR 1 with a standard deviation of 12 cents. Taking the value of two standard deviations, the US dollar would be significantly overvalued at USD 0.956. Historically, this value has normally not exceeded or fallen below this level for more than one or two years. After very high producer prices in the EU significantly influenced the Purchasing Power Parity in favor of the USD in 2022, this trend has reversed since the fourth quarter of 2022 and has led to higher values. Falling energy prices, especially gas prices in Europe, which are coming back down to prewar levels, are making the needle move in the other direction again. This could push the fair value toward 1.30.

Warning: Returns may be higher or lower depending on currency fluctuations.



# 7. Economic Data, Interest Rates, and Stock Indicators

### 7. 1. Economy

At 2.5%, US economic growth in 2023 was above expectations. Moderate growth of 2.3% is now forecast for 2024 as a whole. Regarding inflation, most economists now anticipate a decline to 3.1% in 2024. This forecast represents a significant improvement compared with 4.1% inflation in 2023. For 2025, a decline to 2.4% is forecast.

USA	2020	2021	2022	2023	2024	2025
GDP	-2.2	5.8	1.9	2.5	2.3	1.8
Inflation	1.2	4.7	8.0	4.1	3.1	2.4
Unemployment	8.1	5.4	3.6	3.6	4.0	4.1
Curr. Acct. (%GDP)	-2.8	-3.5	-3.9	-3.3	-3.1	-3.1
Budget (%GDP)	-15.4	-10.6	-5.4	-6.5	-6.0	-6.0
Debt (%GDP)	126.0	120.1	119.0	121.6	121.0	121.8
Central Bank Rate	0.3	0.3	4.5	5.5	5.1	4.0
3-Month Rate	0.2	0.2	4.8	5.6	4.8	3.8
10 Year Yield	0.9	1.5	3.9	3.9	4.1	3.9
EURO/USD	1.22	1.14	1.07	1.11	1.09	1.12

Forecasts for 24/25 **Source**: Bloomberg

The US labor market remains tight, and the unemployment rate might increase to 4.0% by the end of 2024. In 2025, unemployment is expected to rise slightly to 4.1%. The US labor market remains robust despite interest rate hikes but has faced a number of challenges over the past two years.

The budget deficit in the US remains a key issue, especially after the high deficits of the crisis years 2020 and 2021 resulting from extensive government aid programs during the COVID-19 pandemic. Despite massive deficit reductions in recent years, deficit forecasts for the current year at 6.1% GDP remain at a relatively high level. Large federal spending and the challenges of reducing the national debt continue to drive these persistently high deficits. For the long-term financial stability of the US, it will be crucial to develop a sustainable deficit reduction plan that balances spending and revenues.

At 0.5%, 2023 economic growth in the eurozone was at a slightly lower level than was most recently expected and was achieved in 2022. 2024 growth forecasts have now been adjusted to 0.7% and thus remain at a low level. We see signs of a weak recovery in 2025, with growth forecast at 1.4 %.

For 2024, inflation in the eurozone is expected to fall to 2.4%, while the forecast for 2025 is around 2.1%.

The budget deficit figures for 2023 and 2024 are now approaching the 3% target again required by the Maastricht criteria. Federal spending since the pandemic has been much higher in the US than in Europe. Since 2015, deficits for the entire euro area have consistently been smaller than those of the United States. The eurozone's debt-to-GDP ratio is significantly better than that of the US. However, economic momentum in the eurozone was less dynamic than in the US and employment was less robust.

EUROZONE	2020	2021	2022	2023	2024	2025
GDP	-6.1	5.6	3.4	0.5	0.7	1.4
Inflation	0.3	2.6	8.4	5.5	2.4	2.1
Unemployment	8.0	7.7	6.8	6.6	6.5	6.5
Curr. Acct. (%GDP)	1.6	2.3	-0.6	1.7	2.3	2.3
Budget (%GDP)	-7.1	-5.3	-3.7	-3.6	-3.1	-2.7
Debt (%GDP)	97.2	95.5	90.8	88.6	88.9	88.5
Central Bank Rate	0.0	0.0	2.5	4.5	3.4	2.6
3-Month Rate	-0.5	-0.6	2.1	3.9	3.2	2.3
10 Year Yield	-0.6	-0.2	2.6	2.0	2.2	2.1
EURO/USD	1.2	1.1	1.07	1.11	1.09	1.12

Forecasts for 24/25 **Source**: Bloomberg

Purchasing managers' indices point to a recovery in the eurozone economy compared to the second half of 2023, although it remains in recessionary territory. Expansion seems to be on the horizon. The bottom of economic cycle seems to have passed.

The challenge for the eurozone lies in increasing economic momentum while maintaining fiscal stability. It requires structural reforms, investments in innovation and infrastructure as well as measures to improve the situation in the labor market. Improving the employment rate and increasing economic productivity will be crucial to increasing the eurozone's growth potential and ensuring a sustainable economic recovery.

#### 7.2. 10-year yields

Economists' current estimates once again point to anticipated falling yields in the medium term. A reflection of this trend are the short durations, as market participants expect interest rates to fall. The Federal Reserve and other central banks could lower their key interest rates due to the moderate outlook on inflation, leading to a flattening of the inverted yield curve.

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

	Analysts Forecasts					
	Spot	3Q 2024	4Q 2024	1Q 2025	2Q 2025	
Germany	2.50	2.31	2.26	2.25	2.24	
France	3.30	2.95	2.93	2.91	2.90	
Italy	4.07	3.81	3.77	3.82	3.85	
USA	4.40	4.25	4.13	4.06	4.01	
UK	4.17	3.92	3.78	3.71	3.62	
Japan	1.06	1.07	1.13	1.16	1.23	

Figures in % Source: Bloomberg

In general, most analysts expect yields to fluctuate within a narrow range, with yields falling slightly until the end of 2024.

The direction of yield movements on longer-dated fixed-income securities remains uncertain. The deeply inverted yield curve currently observed indicates that market expectations for the long-term interest rate trend are mixed. Expectations of a sustained economic slowdown and moderate inflation suggest lower long-term yields. But factors such as the risk of higher future inflation, rising government debt, and a possible normalization of monetary policy could lead to higher yields at the long end of the yield curve.

In Japan, yields could rise slightly as the Bank of Japan may consider further interest rate hikes due to consumer inflation above the target 2% and current key interest rates of 0%. Japan's latest rate hike was in March 2024, when the Bank of Japan raised short-term interest rate from -0.1% to 0-0.1%. This was the first rate hike in Japan in 17 years, after eight years of negative interest rates.

#### 7.3. Short-term interest rates

As was expected, the ECB cut its key interest rates by 25 basis points on June 6. At the earliest, another rate measure is expected in September 2024, depending on how inflation and economic data continue to evolve. Inflation must continue to stabilize, and all eyes are on signs that wage growth is normalizing. The ECB begins this cycle of rate cuts ahead of the Fed, which could weigh on the euro.

	Forecast 3 Month Investments						
	current	3Q 2024	4Q 2024	1Q 2025	2Q 2025		
EURO	3.71	3.42	3.19	2.93	2.67		
USA	5.32	5.10	4.83	4.52	4.19		
UK	5.13	4.82	4.42	4.17	3.80		
Japan	0.31	0.34	0.41	0.45	0.55		
Swiss	1.18	1.30	1.28	1.17	1.25		

Figures in % Source: Bloomberg

The Fed held rates steady during the quarter and has not been forthcoming about the timing of the first rate cut. The Fed has signaled that a rate cut is a possibility at the end of 2024 at the earliest, depending how inflation and the labor market continue to evolve. The focus is on sustainably reducing inflation to the 2% target rate.

After much speculation, the Swiss National Bank (SNB) lowered interest rates by 25 basis points to 1.5% on March 21, marking the beginning of a cycle of interest rate cuts. This decision was also influenced by a stronger Swiss franc. This was followed on June 20 by a further rate measure of 25 basis points to 1.25%. Depending on how inflation and the economy continue to evolve, additional rate adjustments could follow.

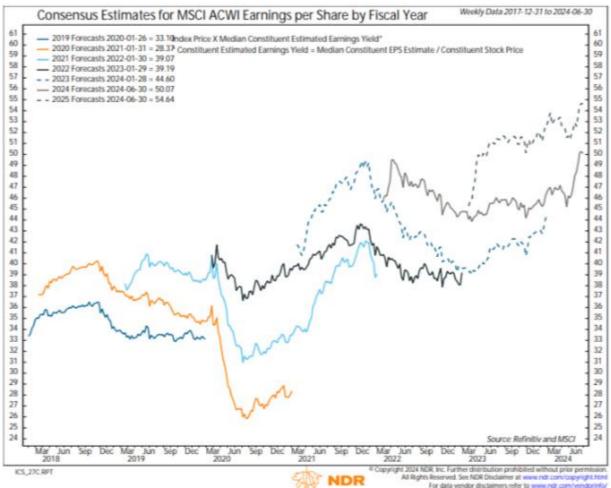
On March 19, Governor Kazuo Ueda led the Bank of Japan (BoJ) into a new era by ending negative interest rates and yield curve control policies introduced by his predecessor. This action symbolizes a new policy framework. The BoJ is sticking to its ultra-accommodative monetary policy and is unlikely to cut interest rates, as it is maintaining its expansionary policy to boost inflation and support the economy. The BoJ set its new short-term interest rate just above zero and will continue to buy Japanese government bonds to keep conditions flexible.

The Bank of England has changed its tone from the beginning of 2024. In February, it dropped its tightening bias and signaled possible easing in March despite a restrictive monetary policy. The BoE is expected to cut interest rates in the fourth quarter of 2024, depending on whether inflation expectations stabilize and economic growth slows down.

#### 7.4. Stock indicators

#### **Earnings growth**

The graph below depicts the analyst forecasts for the world equity market (MSCI All Country World Index) in various years (2019 to 2025) over time.



Source: Ned Davis Research (NDR)

Past results are not a reliable indicator for the future performance of stocks and corporate earnings.

Second quarter 2024 reporting season for listed companies begins in the second week of July. Analysts' expectations are now much more optimistic than at the beginning of the year. Financial analysts believe that US stocks in particular will enjoy strong momentum. Positive earnings surprises have barely been "rewarded" recently, while negative surprises have been "punished" more than in the past. The bar is set high, especially for the recent sharp rise in the share prices of Al technology winners.

Consensus estimates for all stocks in the MSCI All Country World Index for the current fiscal





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year are slightly above USD 50.0 (see chart – light-gray line = 2024 forecast). This is an increase of 6.67% compared to the March estimate. Analysts also trust that globally listed companies could see an increase of almost 10% next year (dotted gray line = 2025 forecast).

#### Important note:

Ned Davis Research calculates the 12-month index EPS (USD 46.94) by combining an index level with its underlying price to earnings ratios, thereby creating a new theoretical per share figure at an index level that reflects the evolution of the EPS for an index. (EPS = earnings per share) - the derived formula can be seen at the top right of the chart, next to the forecasts for the various years.

#### **Fundamental valuations**

The chart from Ned Davis Research on the next page shows the historical valuation of the world equity index since September 1995 based on various key fundamentals.

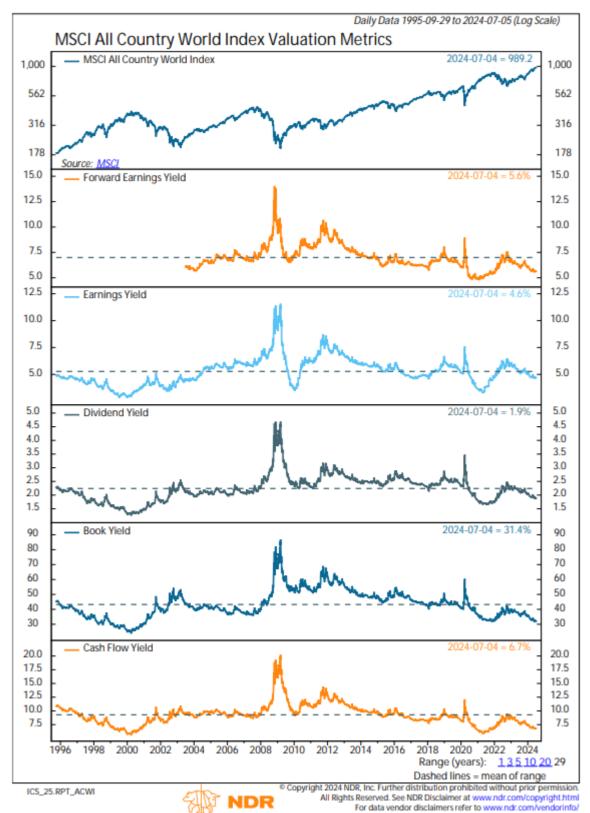
The price-earnings ratio (P/E) based on expectations (analysts' consensus estimates) is currently 17.85. At 5.6%, earnings yield (the inverse of the P/E ratio) for 2024 remains significantly below the long-term average. This value has deteriorated further from the end of 2023 due to soaring stock prices during the first quarter of 2024.

Current earnings yield (light blue line) is at 4.6%, corresponding to a P/E ratio of 21.7, which is a slight increase.

Dividend yield is only at 1.9% despite record distributions. It is now well below the long-term average (around 2.25%).

Valuation based on the price-to-book (PB) ratio has fallen below mid-2022 valuations. The cash flow yield has been falling steadily since the beginning of 2023 and currently is only 6.7% (at the end of Q1 it was 7%).

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



Source: Ned Davis Research (NDR)

### Summary

- The bond market reflected expectations of impending rate cuts, although market
  expectations for 2024 were scaled back from extensive interest rate cuts to
  moderate rate adjustments. Performance of fixed income asset classes was mixed in
  the first quarter of 2024, with riskier asset classes achieving positive results. Demand
  for fixed income should remain strong and support spreads in the near term as
  interest rate cuts loom on the horizon.
- The current bull market run continues for now. Historically, the market still has a remaining upward potential of around 10%. If this bull market has an average-length run, the upward movement will continue until August 2025. Continuously rising profits (on an index basis: +12% this year and +10% next year = consensus expectation) should also provide support.
- Large-cap growth stocks should remain the preferred category. We remain selective in the emerging equity markets and exclude China due to its ongoing weak governance.
- The Kathrein bond portfolio remains well positioned, delivering interesting yields significantly above those of Austrian government bonds due to its broad diversification. Total yield for the Kathrein portfolio at the beginning of the quarter was 4.8%, well above the anticipated 2.1% rate of inflation for the eurozone.

# Glossary

Bond and Equity Indices: Bond and equity indices are capitalization-weighted benchmarks used to measure the performance of a particular investment or asset category. A capitalization-weighted index is calculated from the total value of the market capitalization of the securities included in the index, with each security in the index weighted relative to its total market capitalization.

Alternative Investments: Alternative investments encompass investments in assets such as hedge funds, private equity, commodities, or real estate, which differ from traditional investments such as stocks and bonds.

Asset Allocation: Asset allocation is the distribution of investments in a portfolio across different asset classes (such as stocks, bonds, real estate) to diversify risk and optimize returns.

Basis points (BP): Basis points are a unit of measure used to describe changes in interest rates or differences in yields.

One basis point corresponds to 0.01% or 0.0001 in decimal notation. This unit is used to represent small changes in interest rates or yields.

**Bearish:** "Bearish" is expecting a downward trend in the markets. Bearish investors expect prices to go down in the future.

**Bullish:** "Bullish" is expecting an upward trend in the markets. Bullish investors expect prices to rise in the future.

Cash Flow Yield: The cash flow yield is a key figure that compares the free cash flow per share a company is expected to earn against its market value per share. It indicates how much cash a company generates relative to its market capitalization.

**Defensive Value Stocks:** Defensive value stocks are shares in companies with more stable earnings and less price volatility, often in sectors that are less affected by the economic environment.

**Dividend Yield:** The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price. It indicates the percentage of the sock price an investor receives as a dividend.

**Duration**: The duration of a bond indicates how long it takes for the investment to be recouped by the cash flows (interest and repayment). It is a measure of the interest rate sensitivity of a fixed-income security. A higher duration means the price is more sensitive to changes in interest rates.

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EM (Emerging Markets): An emerging market refers to an economy that is experiencing rapid growth and industrial development, often with growing integration into the global economy.

European Central Bank (ECB): The European Central Bank (ECB) is the central bank for the monetary union of the eurozone and sets the monetary policy for the euro countries. Its main task is maintaining price stability in order to preserve the euro's purchasing power. To this end, the ECB uses various monetary policy instruments, such as setting key interest rates.

**Futures Contracts**: Futures are standardized exchange-traded contracts regulating the purchase or sale of an asset at a predetermined price at a specified time in the future. Often, they are used as a hedging instrument to offset the risk of adverse price movements.

Federal Reserve (Fed): The Federal Reserve, or Fed, is the central bank of the United States and implements national monetary policy. Its main tasks are promoting maximum employment, stabilizing prices, and moderating long-term interest rates.

**High-Yield Bonds:** High-yield bonds have a higher risk and therefore higher interest rates than investment-grade bonds. The issuers of those bonds have a lower credit rating.

**Inflation-linked Bonds:** These securities are designed to protect investors from inflation by linking the interest payments and the redemption amount to an inflation index. Thus investors' real yields are protected from loss due to inflation.

**Price-earnings Ratio (P/E ratio):** The price-earnings ratio measures the current share price of a company relative to its per-share earnings. It helps to assess whether a share is over- or undervalued.

Magnificent 7 (including FAANG): The "Magnificent 7" often refers to a group of high-performing US technology companies that dominate the market. The acronym FAANG represents Facebook (now Meta), Amazon, Apple, Netflix, and Google (Alphabet) which are considered the core companies of this group.

MSCI All Country World Index (ACWI): The MSCI ACWI is a global stock index published by MSCI Inc (Morgan Stanley Capital International), a provider of financial instruments and services. The index comprises companies from both developed and emerging markets and is a benchmark for global stock market performance.

**Multi Asset:** Multi-asset portfolios contain a combination of different asset classes including stocks, bonds, and alternative investments to create a more diversified portfolio and spread the risk.

PPP (Purchasing Power Parity): Purchasing power parity (PPP) is an economic concept that determines two different currencies being at par when a basket of goods is priced the same in both countries, taking into account the exchange rates. It allows economists to

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compare productivity and standard of living between countries.

Bond Yield: A bond's yield is the return an investor realizes on a bond held to maturity. It includes interest payments and changes in the price of the bond.

**S&P 500**: The S&P 500 is a stock market index of the 500 leading publicly traded companies in the US. It is a primary indicator of stock market performance in the US.

**Corporate Bonds:** Corporate bonds are fixed-income securities issued by companies to raise capital. They generally offer higher yields than government bonds, but also carry a higher risk.

Value at Risk (VaR): The value at risk indicates the maximum loss an investment or portfolio could sustain with a given probability given normal market conditions over a target horizon.

**Volatility:** Volatility measures how much and how quickly the price of a security or market moves. High volatility means greater price changes in short periods of time, indicating higher risk.

Yield curve (normal and inverted): The yield curve represents the relationship between interest rates and the maturities of fixed-interest securities. A normal yield curve shows rising interest rates for longer maturities indicating expected economic growth. An inverted yield curve, on the other hand, shows falling interest rates for longer maturities and often forebodes economic uncertainty or an impending recession.

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