VIG HOUSE VIEW

VIG ASSET MANAGEMENT HUNGARY

What happened in the last month?

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MAY 2025

WHAT HAPPENED **IN THE LAST MONTH?**

FOCUS ON: THE US ECONOMY HAS HIT THE BRAKES

The first effects of the tariff increase are already visible: the US Department of Commerce reports that US GDP fell by 0.3% in Q1 this year. This is a sharp negative turn compared to the 2.4% growth recorded in Q4 last year. True, the US economy has actually done a bit better than that: the data are distorted by a sudden surge in imports (41%), which reduces GDP: US companies tried to pre-empt President Donald Trump's tariff increases by bringing significant stocks into the country and stockpiling them before the introduction of the tariffs.

However, the report also noted a significant slowdown in consumer spending and a decline in government spending. The latter comes largely from Elon Musk's DOGE programme, which aims to save a total of $2 trillion by streamlining what they see as over-spending public administration. Personal consumption expenditure grew by only 1.8% (people are becoming increasingly cautious), which is the slowest quarterly growth rate since Q2 2023 and a significant turnaround from the 4% growth rate recorded in the previous quarter.

Change in US GDP

https://tradingeconomics.com/united-states/gdp-growth
Source: TradingEconomics

EQUITY MARKET NEWS

Trump's sweeping "reciprocal" tariff announcement on April 2 caused a plunge on Wall Street. The S&P 500 index, which tracks the average price change of the largest companies listed on the New York Stock Exchange, fell more than 11% for the month and was nearly 20% below its February record. From there, the market managed to recover when Trump temporarily lifted the stricter tariffs, and investor confidence returned. Nevertheless, the leading stock market indices closed the month with smaller losses overall (the Dow Jones Industrial Average, for example, was down 3.2%).

European stock markets performed better, with the German DAX index, for example, showing a 15% gain since the beginning of the year despite the slump in early April. Shares are cheaper on continental stock exchanges (with a P/E ratio of 14, compared to 20.6 in the US), and corporate profits could benefit from the nearly €1 trillion arms and defence programme. Overseas, however, the macroeconomic environment has deteriorated significantly: capital markets are stagnating and the escalating trade war has significantly increased the risk of recession. The weaker growth outlook is also beginning to show in corporate profit forecasts: Berkshire Hathaway, the company owned by legendary investor Warren Buffett, one of the world's richest men, reported a sharp decline in operating income for Q1. The conglomerate, with a market capitalisation of $1100 billion, owns numerous insurance, shipping, energy, retail, and other businesses—and whose 94-year-old CEO just stepped down from the company's leadership—warns that tariffs could reduce profits in many sectors in the coming quarters.

BOND MARKET NEWS

In mid-April, the ECB implemented a further interest rate cut of 25 basis points. The global tariff turmoil has caused widespread uncertainty and fears about economic growth in the euro area, which the ECB is trying to counteract with lower (lending) interest rates. This increased uncertainty is likely to reduce confidence among households and businesses, while adverse and volatile market reactions to trade tensions are likely to tighten financing conditions. With this move, the benchmark interest rate is reduced to 2.25%, down from 4% in mid-2023.

Negative growth in the US may also prompt the Federal Reserve, acting as the central bank, to consider lowering interest rates, which have been between 4.25% and 4.5% since December. The unexpected contraction of the economy may be a valid reason to moderate the reference rate. However, the jump in the indicator of inflation expectations, which is monitored by the central bank, from 2.4% to 3.6% may suggest self-restraint. A weaker dollar could make imported products and dollar-priced goods more expensive, which could potentially fuel inflation. However, a weaker US currency, combined with falling commodity prices and global interest rate cuts, could boost the value of fix-rate assets denominated in local currencies in emerging markets, and huge amounts of capital flowed into such bond funds in April. Investors are increasingly investing in emerging market bonds, as US government bonds have long been regarded as a safe haven, but this reputation has been shaken by US President Donald Trump's "reciprocal" tariffs.

ALTERNATIVE INVESTMENTS NEWS

Apart from gold, which is approaching historic highs, the commodities market does not offer much hope. Global oil prices fell to their lowest level in more than four years in early May after the OPEC+ cartel, which includes the largest producers, decided to increase production. Fears of growing global supply hit the market at a time when demand prospects are uncertain. As a result, Brent crude oil futures fell to around $60 per barrel, while US West Texas Intermediate fell to $57. Both are at their lowest since February 2021, but January 2026 futures contracts already offer a good risk-reward ratio. If the downward trend continues, prices for the first few months will fall first, but if the trend reverses, the part of the curve starting with January contracts will rise much more sharply.

WHAT CAN WE EXPECT **IN THE COMING PERIOD?**

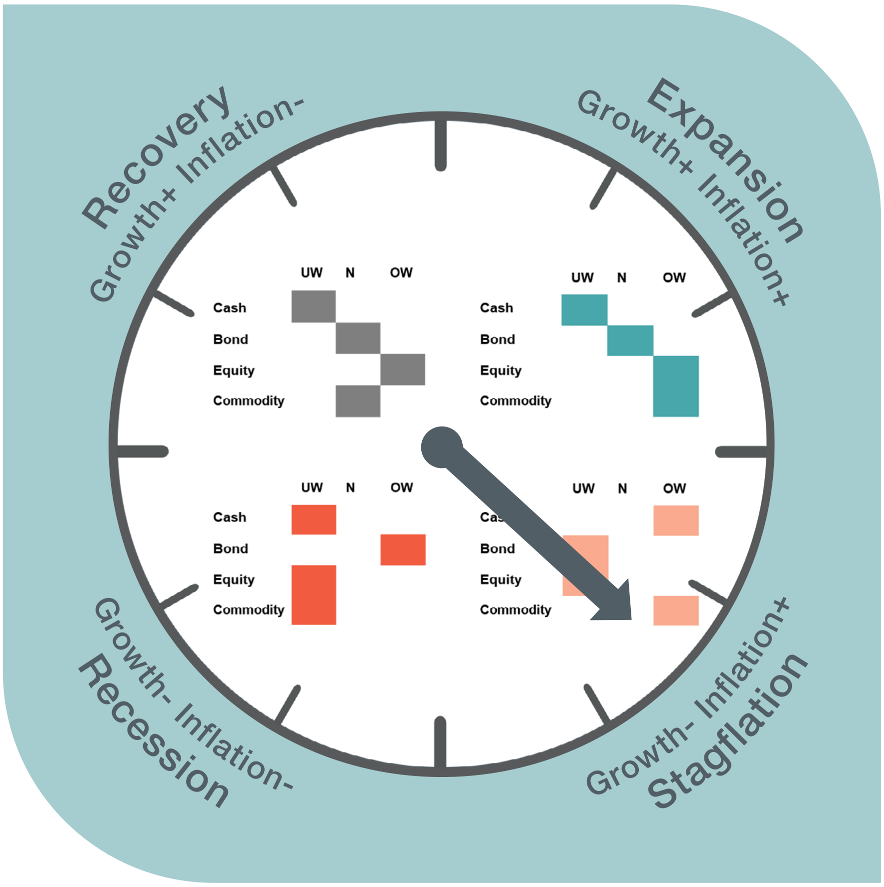
INVESTMENT CLOCK

Following the previous recessionary phase, the global economic cycle has shifted towards stagflation (low growth and high inflation). The slowdown in growth and rising inflation reflect the impact of “Liberation Day”, i.e., tariff increases. However, VIG Asset Management’s forecasting model shows that regional indicators continue to diverge widely.

Although the US economy is still showing signs of resilience, some expectations regarding the labour market and inflation have begun to deteriorate. The Trump administration’s trade war is causing considerable uncertainty on the capital markets, with more and more investors believing that a “hard landing”, i.e., a recession, is inevitable in the near future.

The trade war has also left its mark on the European economy. Deflation continued in the eurozone, but concerns about growth returned: tariffs are not good for such a highly open economy. The European Central Bank is expected to cut its base rate from the current 2.25% to as low as 1.5% this year in order to help kick-start the economy of the “old continent”.

In China, however, the latest economic statistics show improvement. Of course, the one-off spike in exports before the US tariff hike, which helped stockpile inventories, may have played a big part in this, but the Chinese investment clock is now ticking toward a rebound. However, in the coming months, the 145% US tariffs will cast a shadow over the picture.



OW: Assets expected to perform well in the given period.

N: Assets expected to perfom less well in the given period.

UW: Assets expected to perform poorly in the given period.

Source: VIG Asset Management

TACTICAL ASSET ALLOCATION

In April, we increased the share of risk-free assets (cash, money market instruments). This is because, from an investor's perspective, the global business environment is becoming increasingly uncertain: Donald Trump's economic policy (primarily due to high tariffs) is becoming increasingly unpredictable. Therefore, it may still be worthwhile to park some of your money in a safe place and keep it for a later date when better and safer investment opportunities arise.

A good opportunity for risk takers – emerging market stocks

While caution may be warranted in developed markets due to the unpredictable effects of the trade war, and reducing the weight of stocks, especially US stocks, may be justified (the recent rebound offered an opportunity to exit at high prices), emerging market stocks may perform better, mainly due to the weakness of the dollar. Historically, a weak dollar has a positive impact on emerging markets: their raw materials become more expensive, and their dollar-denominated debt often becomes less painful to repay. Experience shows that for every 1% depreciation of the dollar, emerging market assets appreciate by around 4%. The WIG index, the benchmark index for the Polish equity market, rose by more than 20% in the first four months of the year, partly as a result of this.

Developed market government bonds remain in focus

This month, we continue to allocate a higher weighting to government bonds from developed countries. Both the US and Europe are facing weak economic prospects, so the US Federal Reserve and the Frankfurt-based European Central Bank (ECB) will most likely keep cutting interest rates to help the economy get back on its feet by making loans cheaper. This could appreciate safe US and European government bonds, which previously had higher yields. Thanks to significant real yields, Central European government bonds issued in local currencies may also become more expensive, and some of the huge capital outflows from the US due to growing uncertainty may end up here.

Monthly asset allocation (May 2025)

Asset class	H UW	UW	S UW	N	S OW	OW	H OW	Since April
Cash (Money market)					■			↑
Fixed income					■			
Core market fixed income					■			
EM local currency bonds					■			↑
EM hard currency bonds				■				↑
CEE government bonds					■			
Commodities			■					
Gold			■					↓
Equities			■					↓
DM Equities			■					↓
US Equities			■					↓
EU Equities				■				
EM ex China Equities				■				↑
CEE Equities				■				

The table was prepared based on our investment clock and quadrant model.

Weights:

The weights indicate the evaluation of the respective country, region, and asset class, providing a basis for portfolio managers in structuring portfolios and establishing positions, thus helping to capitalize on market opportunities.

- Strongly underweight
- Underweight
- Slightly underweight
- Neutral
- Slightly overweight
- Overweight
- Strongly overweight
- Changes – change compare to the the previous month

FUND OF THE MONTH
AT VIG ASSET MANAGEMENT:

VIG HUNGARIAN BOND INVESTMENT FUND

The current fundamental and technical environment is favourable for the Hungarian bond market. Relative valuations, support from falling global yields, the turnaround in domestic inflation and the stable forint all contribute to the positive outlook. Although it is important to monitor fiscal risks in the medium term, we believe that there is still room for yield declines in the short term. Following surprises at the beginning of the year, Hungary's inflation rate began to moderate, partly as a result of government measures. We are likely past this year's peak, which may also contribute to lower bond yields. The latest GDP growth figures fell short of expectations, which is also positive from a bond market perspective. The stability of the forint is supported by the weakening of the dollar, which, by keeping import prices in check, may also contribute to a decline in long-term yields. The Hungarian bond market may be attractive in relative terms: it offers attractive premiums compared to regional competitors and even to developed markets such as Germany.

ESG THEME OF THE MONTH

WHO WILL SOUND THE ALARM FIRST?

When the Intergovernmental Panel on Climate Change (IPCC) released its sixth assessment report in 2021, UN Secretary-General António Guterres said, “This report must sound a death knell for coal and fossil fuels, before they destroy our planet”. [1] In the Oxford Open Climate Change journal published on 31 March 2025, 11 scientists[1] drew attention to the harmful effects of fossil fuels, backed up by facts and offering solutions for immediate action, which clearly shows that it really does matter who sounds the alarm first – us or fossil fuels. The study reviewed scientific evidence showing that fossil fuels and related industries are the main culprits behind the climate crisis and other negative impacts. The study also presented science-based solutions that take environmental justice into account and are already available today.

The use of fossil fuels is the main cause of the global climate crisis. The extraction and combustion of petroleum, natural gas and coal are responsible for nearly 90% of human-caused carbon dioxide (CO_2) emissions and approximately 79% of total greenhouse gas emissions. [2] The extraction and combustion of fossil fuels accelerates global warming, acidifies the oceans, and causes increasingly frequent climate disasters such as hurricanes, heat waves, droughts, and floods. Climate change is estimated to cause millions of premature deaths, threaten ecosystems, result in billions of dollars in economic damage, lead to mass displacement and migration, threaten economic, food, and energy security, and increase overall deprivation in the United States and around the world. In 2024, the warmest year in human history, for example, there were 27 severe weather and climate disasters in the United States alone, killing at least 568 people and causing at least $183 billion in damage. [3] The Paris Agreement, signed in 2015, aims to keep global warming below 1.5°C above pre-industrial levels. The agreement states that in order to achieve this goal, emissions from fossil fuels should peak by 2025 and then be reduced by half by 2030. However, governments and fossil fuel companies continue to approve new extraction projects, making it impossible to achieve this goal, while current and planned capacities alone already exceed safe carbon emission limits. There is a lack of political will worldwide, and the fossil fuel sector continues to wield considerable influence. The United States, for example, has broken historical records in crude oil and methane gas output in recent years and has become the world’s largest exporter of petroleum products. Although the Biden administration rejoined the Paris Agreement and supported the expansion of renewable energy, it also approved several new fossil fuel projects, making the country’s climate policy inconsistent and often contradictory in recent years. Currently, the second Trump administration, which took office in January 2025, is directing federal agencies to aggressively expand fossil fuel production, roll back regulations on the fossil fuel industry, and roll back climate policy, while continuing to deny the reality of climate change and withdrawing the United States from the Paris Agreement. Largely in response to calls from civil society and countries in the Global South, world leaders first agreed on the need to transition away from fossil fuels at the COP28 global climate summit in December 2023. However, history shows that commitments on paper are not enough, as they are rarely followed by real, comprehensive measures. [4]

Fossil fuels also cause significant public health damage, both directly, through pollution generated during extraction and use, and indirectly, through the health effects of climate change. Air pollution from burning them is responsible for 8.7 million premature deaths worldwide each year, or one in five people, and 350,000 in the US alone. [5] In addition, healthcare costs caused by air pollution from fossil fuels amount to $820 billion annually. [6] Air pollution from oil and gas extraction in the US can also aggravate the asthma of 410,000 people and

[1] The 11 co-authors: : Shaye Wolf, Ph.D. (Center for Biological Diversity), Robert Bullard, Ph.D. (Texas Southern University), Jonathan J. Buonocore, Ph.D. (Boston University), Nathan Donley, Ph.D. (Center for Biological Diversity),Trisia Farrelly, Ph.D. (Cawthron Institute), John Fleming, Ph.D. (Center for Biological Diversity), David J.X. González, Ph.D. (University of California Berkeley), Naomi Oreskes, Ph.D. (Harvard University), William Ripple, Ph.D. (Oregon State University), Robin Saha, Ph.D. (University of Montana, Missoula), and Mary D. Willis, Ph.D. (Boston University).

cause 2200 new cases of childhood asthma in a single year. [7] People living near coal ash disposal sites are also exposed to serious airborne dust and heavy metal pollution, as approximately 140 million tons of coal are deposited at these sites each year in the US. Estimates suggest that 9 million Californians live near plugged and abandoned oil and gas wells that emit carcinogenic air pollutants and methane [8], exposing them to increased levels of air and water pollution, as well as noise and light pollution. In the United States, 17.6 million people live within a mile of active oil and gas wells, which is associated with a higher risk of adverse health effects for all age groups, including premature birth, impaired foetal growth, childhood asthma, mental disorders, high blood pressure during pregnancy, migraine headaches, and even death. [9]

Biodiversity, i.e. biological diversity, is the basis of life on Earth and one of its most important pillars. However, fossil fuels also pose a serious existential threat to them. The loss of biodiversity caused by fossil fuels has a direct and serious impact on food security, water quality and availability, health, carbon storage and sequestration, climate resilience, and all of nature's vital contributions. Estimates suggest that around 1 million animal and plant species are under threat of extinction worldwide, primarily due to climate change. [10] Half of the world's coral reefs have already been destroyed, and according to estimates, a 2 °C rise in temperature could lead to the almost complete destruction of global coral reefs. [11] Various estimates have led to the conclusion that 1.6% of species will become extinct even at current levels of temperature rise, and many studies predict catastrophic species extinction as a result of continued pollution from fossil fuels, such as the climate-related extinction of 14-32% of animal and plant species, which means the possible loss of 3-6 million species over the next 50 years. [12]

The study says that to tackle the negative impacts, we need to stop approving new fossil fuel projects right away and phase out existing infrastructure. This requires replacing fossil fuels with renewable energy sources such as solar and wind power, which are not only cost-effective but also widely applicable thanks to advances in renewable technologies. In addition, regulatory frameworks would need to be introduced, such as systems based on the "polluter pays" principle, and subsidies for fossil fuels would need to be phased out so that market conditions also shift towards clean energy. Richer countries should take the lead in the transition, while providing financial and technological assistance to developing countries, ensuring global fairness. Ultimately, pressure from civil society will be crucial in ensuring that governments formulate science-based climate policies and take swift and effective action to secure a sustainable future. Another important step would be to establish protective zones between polluting infrastructure and people, for example by maintaining safety distances around residential buildings, schools, and hospitals. In addition, the extinction of endangered species must be halted, the restoration of their populations must be supported, and nature conservation laws must be enforced more strictly. It is important that the deployment of renewable energy also takes into account the protection of wildlife and habitats, for example by locating solar panels and wind turbines primarily in built-up or degraded areas. [13]

Although the facts detailed above are alarming enough on their own, the problems presented in this article unfortunately do not cover all of the issues related to fossil fuels. Next month, we will attempt to introduce readers to further aspects of this topic.

Source:
[1] – [13] https://academic.oup.com/oocc/article/5/1/kgaf011/8099165

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