# VIG HOUSE VIEW

VIG
ASSET MANAGEMENT
HUNGARY

What happened in the last month?

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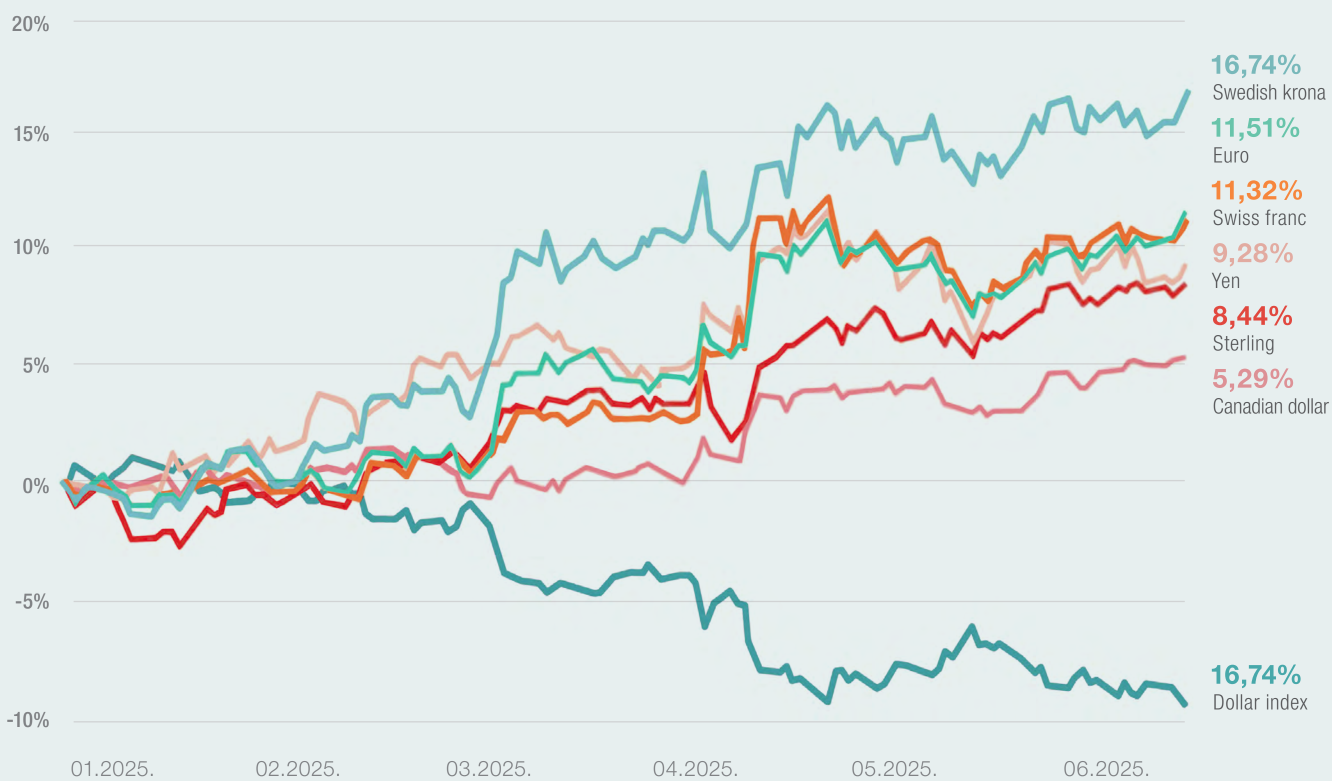
**JULY 2025**

# WHAT HAPPENED **IN THE LAST MONTH?**

## IN FOCUS: THE DECLINING DOLLAR

The US dollar is under increasing pressure as global confidence in the American economy wanes. Since President Donald Trump took office, the dollar has weakened by more than 10% against major currencies. Recently, it hit a three-year low and is on track for its worst first-half performance in decades.
A toxic mix of tariffs, sweeping tax cuts, and mounting political pressure on the Federal Reserve – a central bank long known for its independence – is eroding investors' faith in the world's primary reserve currency.
This growing unease is clearly reflected in an unusual divergence: while US government bond yields are rising, the dollar continues to fall. Typically, higher yields attract capital and strengthen a currency. The opposite trend now suggests that investors are redirecting their funds abroad.
A recent analysis by Bank of America revealed that global fund managers are currently underweighting the dollar more heavily than at any point in the last two decades. Instead, they are turning to other perceived safe havens, such as the Swiss franc, Japanese yen, and gold. The price of the latter has soared by 30% in the first half of this year, reaching an all-time high. Gold has even overtaken the euro to become the second-largest global reserve asset after the dollar, which still accounts for 58% of international currency reserves.

### Major currencies strengthen against the U.S. Dollar in 2025*




*The Dollar index indicator shows the value of the dollar against major currencies

*Source: LSEG*

# EQUITY MARKETS: RECORD HIGHS AMID RISING UNCERTAINTY

At the end of June, the benchmark S&P 500 index closed at an all-time high – a remarkable rebound from its early-April lows, where it had been down nearly 18% year-to-date. This strong comeback followed a period of high volatility driven by ongoing trade tensions emanating from the White House.
Recent developments include negotiations with China and the United Kingdom, as well as ongoing talks with other key trading partners like Canada, the European Union, Taiwan, Japan, and India. The market's swings have mirrored the ups and downs of these negotiations. However, analysts warn that investors may be overly optimistic about the trade landscape. There is growing concern that some of these talks may drag on or even break down entirely. The combination of slowing economic growth, deteriorating corporate earnings forecasts, and record-high stock valuations presents a clear contradiction. Under these conditions, the likelihood of a market correction is increasing – and caution is warranted.

# BOND MARKET NEWS

## Fixed Income Update: Weak Data Strengthens Bonds

June finally brought the long-anticipated signs of economic slowdown to developed markets — and for fixed income investors, this was welcome news.
In the United States, the Department of Commerce reported a 0.1% drop in consumer spending for May, driven in large part by a pullback in auto purchases. With household incomes declining and tariff-related price concerns rising, consumer sentiment has taken a hit.
Although labor market figures have so far remained stable, most analysts expect deterioration in the coming months, which could prompt the Federal Reserve to begin cutting rates later this year. Markets are already pricing in a significantly lower Fed Funds rate by year-end. In fact, most forecasts – including from investment giant Goldman Sachs – now expect three separate 25-basis-point cuts in September, October, and December, compared to just one projected earlier this year. These expected rate reductions aim to cushion the effects of tariffs and a weakening job market.

## Emerging Markets: A Different Rate Path

While the Fed moves to stimulate the US economy, emerging market central banks are largely stepping back from their previous aggressive easing cycles. Following widespread rate cuts last year, many have now slowed or halted cuts altogether due to changing inflation dynamics and renewed market uncertainty.
A key example is Hungary, where the National Bank (MNB) has held its policy rate steady at 6.5% since last autumn, citing inflation risks. Compared to developed economies, higher yield differentials and solid economic fundamentals continue to provide strong support for emerging market assets – particularly for bond investors seeking both income and relative stability.

# ALTERNATIVE INVESTMENTS NEWS

## Commodities: Little Relief Despite Rising Tensions

Recessionary conditions continue to weigh heavily on commodity markets. With the exception of oil, most major raw materials have struggled to gain traction in recent months.
In early June, crude oil prices spiked on optimism that U.S.-China trade negotiations might boost global economic prospects – and with them, demand for the world's most important energy source. Later in the month, escalating military tensions between Israel and Iran sent further shockwaves through the market, as nearly half of the world's oil reserves are located in the Middle East. However, as geopolitical tensions began to ease, oil prices quickly corrected downward, despite continued support from a weaker US dollar, which typically pushes commodity prices higher.

## Gold: Safe Haven Appeal Fades

Surprisingly, gold – traditionally seen as a safe haven and a hedge against uncertainty – failed to reach new highs, even in the face of ongoing geopolitical instability. This suggests that investor demand for gold may be weakening, with many already heavily positioned in the metal. In short, gold didn't live up to its usual reputation during times of global tension.

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

## GLOBAL INVESTMENT CLOCK: STILL IN RECESSION MODE

The global investment cycle remains in a recessionary phase. While inflation appears to be easing worldwide – providing some relief – economic growth prospects are weak across most major economies. If Middle East tensions and the resulting surge in oil prices (which peaked at $75 per barrel in June) persist, the world economy could slide into **stagflation** – a toxic combination of stagnant growth and elevated inflation. However, oil price shocks are typically short-lived.

### DIVERGING ECONOMIC TRENDS BY REGION

### United States: Stagflation Risk Rises

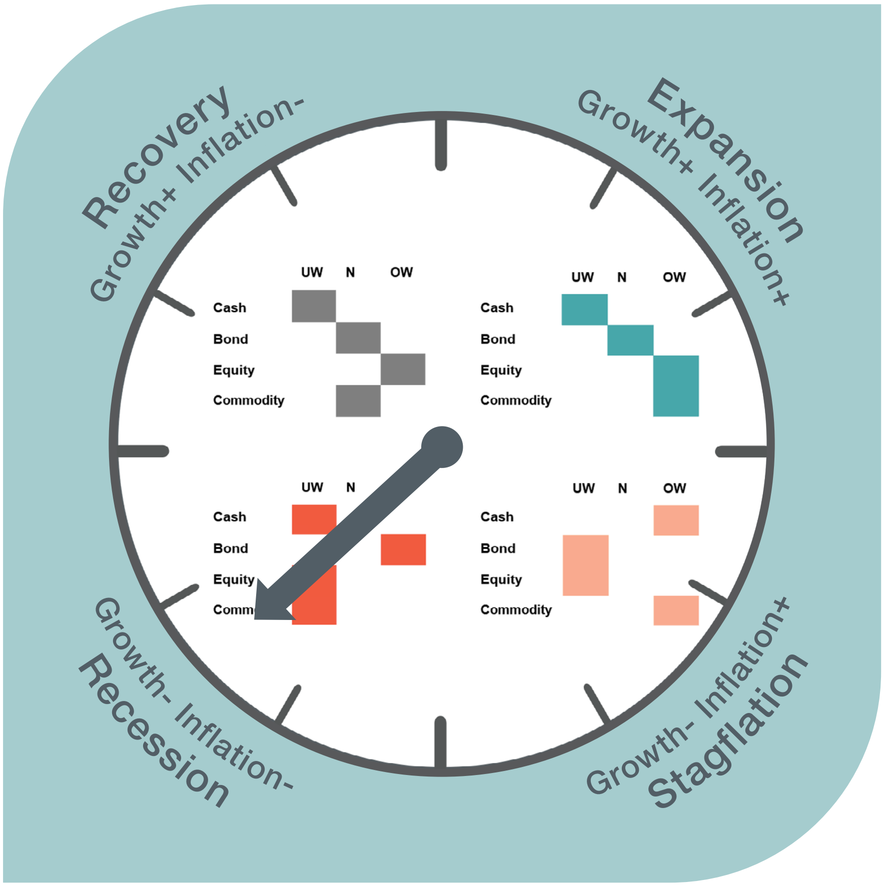
The U.S. economy is clearly slowing. The latest GDP figures show a 0.5% decline, the housing market is under pressure, and both the industrial and retail sectors show little strength. The labor market is softening, and in the coming months, consumers may begin to feel the pinch from higher tariff-related costs.

### Eurozone: A Recession Masked by Exports

The investment clock has been signaling a recessionary phase in the euro area for some time. While GDP growth was surprisingly strong in Q1, this was largely driven by exporters rushing to beat new tariffs. The manufacturing sector – which accounts for a quarter of the eurozone economy – is suffering from surging oil prices due to geopolitical tensions. However, inflation no longer poses a major threat: the labor market remains robust, with Eurostat reporting unemployment at historic lows (below 6%).

### China: Industrial Weakness Despite Stronger Spending

In China, also in a recessionary phase, the manufacturing sector has slowed under the weight of U.S. trade tariffs. That said, household consumption has held up better than expected. Still, corporate profits are falling fast: according to the National Bureau of Statistics, industrial company earnings dropped 9.1% year-on-year in May – the sharpest monthly decline since October last year. This suggests that Beijing's stimulus efforts have so far failed to meaningfully boost business profitability.




**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

## VIG Global Investment Clock: A Time for Caution, Not Panic

This month, our proprietary forecasting model – the VIG Global Investment Clock – signaled no major shifts in the economic cycle. As a result, we made no broad asset class changes in our portfolios. However, we introduced tactical adjustments within asset classes. We continue to maintain a high allocation to risk-free instruments such as cash and money market assets. Going forward, we expect bonds to outperform, while commodities and equities may underperform in the current environment.

## Emerging Markets: A Bright Spot for Risk-Tolerant Investors

As we discussed earlier, the weakening US dollar creates tailwinds for emerging market assets through three primary channels:

**1. Capital Inflows** – As the dollar weakens, investors seek higher yields in alternative markets, driving funds toward emerging economies.

**2. Dollar-Denominated Debt Relief** – Many emerging nations (from China to Poland) have issued sovereign and corporate bonds in US dollars. A falling dollar lightens their debt burden, improving macroeconomic outlook and lifting asset prices.

**3. Commodity Boost** – Emerging economies that rely heavily on commodities tend to benefit from rising raw material prices – a common effect when the dollar weakens globally.

These factors together create an attractive entry point for investors with a higher risk appetite looking for long-term opportunities.

## Fixed Income in Recession: When Bad News Can Be Good

In a recessionary environment, central banks often cut interest rates to stimulate growth. This generally boosts the value of existing bonds that offer higher yields than newly issued ones.

Leading Wall Street investment banks now expect the US Federal Reserve to cut rates three times this year – in September, October, and December, each by 25 basis points. Just a few months ago, the consensus was for only one single rate cut in 2025. This change in outlook is positive for bondholders, as lower future rates increase the market value of existing fixed income investments – a silver lining in an otherwise cloudy economy.

## Monthly asset allocation (July 2025)

| Asset class | H UW | UW | S UW | N | S OW | OW | H OW | Since June |
|---|---|---|---|---|---|---|---|---|
| **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 compare to the the previous month

# FUND OF THE MONTH
# AT VIG ASSET MANAGEMENT:

## VIG MONEYMAXX ABSOLUTE RETURN INVESTMENT FUND

The VIG Moneymaxx Absolute Return Investment Fund primarily seeks opportunities in emerging markets – a region with significant revaluation potential under current macroeconomic and capital market conditions.

Despite trade tensions and uncertainty stemming from the Trump administration's tariff policies, emerging markets are broadly on track for a strong year. This trend is further supported by the gradual divestment of investors from U.S. markets, as they seek better opportunities elsewhere.

A weaker U.S. dollar is another tailwind for emerging economies. Many of these countries – across both public and corporate sectors – hold significant dollar-denominated debt. As the dollar weakens, debt burdens ease, and import costs decline, which helps to curb dollar-based imported inflation.

The VIG Moneymaxx Fund is well-positioned to benefit from these dynamics. Its current portfolio allocation consists of:

- 25% emerging market equities (a share that is currently increasing)
- 75% bonds, which help to manage risk and provide income stability

Thanks to this composition, the fund stands to gain meaningfully from the recovery and revaluation of emerging market assets – making it an attractive option for investors seeking long-term growth in a cautiously optimistic global environment.

# ESG THEME OF THE MONTH

## THE OTHER SIDE OF SHEIN

Shein has become the world's leading fast fashion company, expanding its range with thousands of new products every day and producing outstanding growth rates. Despite this (or perhaps because of it), questions are increasingly being raised about the company's environmental footprint, the protection of its employees' rights, and its management practices. Although the company emphasizes its sustainability initiatives and social responsibility, the fast fashion model is fundamentally at odds with environmental goals, and significant problems regarding workers' working conditions appear to persist.

In April 2025, Chinese YouTuber, Christina Lin visited the city of Nancun in southern China, known locally as the "Shein village", where more than 500 manufacturers working for Shein operate. The purpose of her trip was to assess the effectiveness of statements made by Shein in 2022, in which the company responded to allegations of labor rights violations by promising to introduce ethical practices and improve the well-being of its workers. [1]

At the beginning of her trip, she noticed a job board, advertising job openings at Shein, about which a passerby working in the industrial sector said that, contrary to the advertised pay ranges, in practice, workers were almost always paid the lower end of the range or even less. [2] According to a BBC article from January 2025, the basic wage without overtime for many workers is 2,400 yuan (approximately $327), which is significantly below the 6,512 yuan required for a living wage as determined by the Asia Floor Wage Alliance. Workers can increase this extremely low wage to between 4,000 and 10,000 yuan by working overtime, which is sufficient to make a living. [3]

We could have read from several sources earlier that in order to earn the above-mentioned living wage, working hours generally range from 8 am to 10 pm, including voluntary or mandatory overtime, which Christina confirmed in her video. According to Christina's report, during these 14 hours, employees only get one hour each for lunch and dinner breaks, but since they are paid based on the number of garments they produce, many eat their lunch in 20 minutes and hurry back to their sewing machines. According to Chinese labor laws, the average weekly working time cannot exceed 44 hours, and employers must ensure that their workers have at least one day off per week. [4] In contrast, according to Christina's report, workers in Shein Village work an average of 12 hours a day, except on Sundays, when they work three hours less, which far exceeds the 44-hour weekly limit and violates the obligation to provide one day off per week, which also constitutes a violation of basic labor and human rights. [5]

Shein outsources its manufacturing to external partners who produce the goods on their own premises, and Shein pays them for the manufactured products on the basis of an agreement. [6] Christina also interviewed a factory owner who had previously been approached by Shein, who revealed that in order to maintain its competitive advantage, the company only pays manufacturers a profit of $0.41-0.68 (approximately 144.23-239.21 HUF) per garment. This practice is based on strict cost minimization so that products can be sold at the lowest possible price to remain competitive in the market. According to the manufacturer's statement, this is very little to live on, which is why he rejected Shein's offer. Unfortunately, not everyone can do this if they want to continue working in the industry. [7]

[1]-[2]; [6]-[7]: https://www.youtube.com/watch?v=fd228YQPn-0
[3]; [5]: https://www.bbc.com/news/articles/cdrylgvr77jo
[4]: https://english.www.gov.cn/archive/laws_regulations/2014/08/23/content_281474983042473.htm

In addition to maintaining poor working conditions for its employees, Shein's environmental impact is also extremely harmful. This is primarily due to the fact that Shein uses air transport for both shipping and returns, which leads to extremely high emissions, and the vast amount of plastic used in packaging results in significant waste production. In its latest sustainability report, Shein revealed that its emissions increased by 9.7% in 2024, reaching the level of entire countries' emissions. [8] Fast fashion companies are responsible for approximately 10% of global carbon dioxide emissions, which is currently on the same level as the total emissions of the European Union and exceeds the combined emissions of air and sea transport. [9] What's more, the fast fashion industry consumes significant amounts of water and causes pollution, generating around 92 million tons of textile waste annually. [10] According to a report published earlier this month by the environmental organization Stand.earth, Shein is among the worst-performing fast fashion companies in terms of emissions reduction and sustainability, and is listed as the largest polluter in the sector. According to the report, if Shein were a country, it would be the world's 100th largest emitter, causing nearly as much pollution as the entire country of Lebanon. [11]

The story of Shein clearly illustrates that behind the convenience and apparent benefits of the fast fashion world lie serious sacrifices: both the environment and people pay the price for fast, cheap fashion, which we must not turn a blind eye to.

[8]: https://www.sheingroup.com/wp-content/uploads/2025/06/SHEIN-2024-Sustainability-and-Social-Impact-Report-Final-14-June.pdf
[9]-[10]: https://earth.org/statistics-about-fast-fashion-waste/
[11]: https://earth.org/fast-fashion-giant-sheins-emissions-balloon-in-2024/

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Contact information:
**VIG Asset Management Hungary**
+36 1 477 4814
alapkezelo@am.vig
Üllői Street 1.
1091 Budapest, Hungary
vigam.hu