VIG HOUSE VIEW

VIG ASSET MANAGEMENT HUNGARY

What happened in the last month?

What can we expect in the coming period?

- Investment Clock
- Tactical asset allocation
- Focus funds
- ESG theme of the month

APRIL 2025

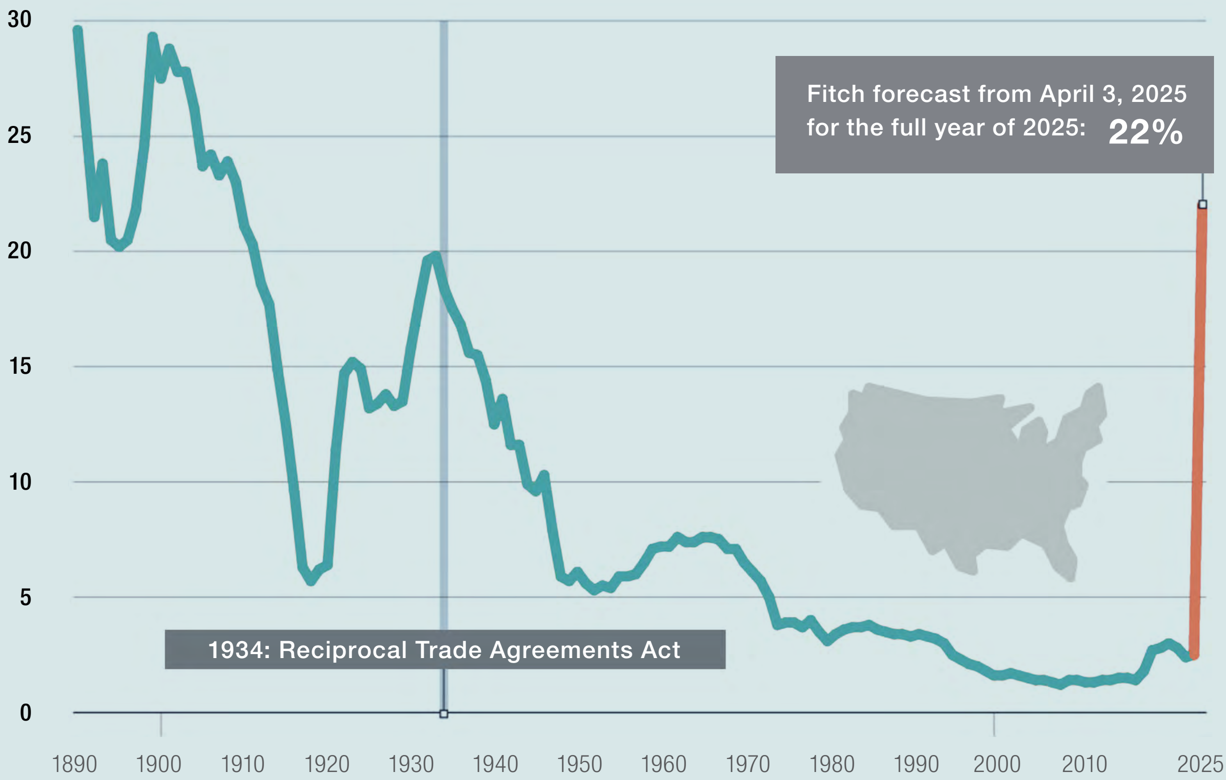
WHAT HAPPENED **IN THE LAST MONTH?**

FOCUS ON: DONALD TRUMP, THE TARIFF VAMPIRE

He strengthens himself by weakening his supporters, rivals and ultimately the United States, so he is a bit like a mythical vampire, as many compare Donald Trump, the old/new US president, to the blood-drinking mythical figure. Many believe he has done something similar now, when he signed an aggressive and large-scale "reciprocal tariff policy" measure in the White House in early April. Trump's plan sets a basic tariff of 10%, but imposes higher tariffs on many countries: For example, 34% for China, 20% for the European Union, 46% for Vietnam and 32% for Taiwan.

The US president says the measure is a response to tariffs he says other countries impose on the United States – although neither economists nor business people really know how Trump came up with this. He says the EU, for example, imposes a 39% tariff on imports from the US. Polish Prime Minister Donald Tusk has called the "punitive tariffs" a serious and unpleasant blow because they come from his closest ally and could cost up to 0.4% of GDP. In Thailand, economic growth could fall by even more, by 1 percentage point to an estimated 2.6% this year. In any case, stock markets reacted immediately to the worse-than-expected news with a significant drop.[1]

The average tariff rate on US imports has risen to a level not seen since 1910



Source: ITC, Fitch, Statista

[1] https://www.cnbc.com/2025/04/02/trump-tariffs-live-updates.html

EQUITY MARKET NEWS

Of the stock market investments with a rather neutral outlook, the Central European region continues to offer the best prospects. Hungarian or even Polish stocks are still cheap: the average price of a company in the region is 7 times the P/E, while the average for emerging markets is 12 times, 14 times in the euro area and more than 20 times on Wall Street. Since the beginning of the year, however, a levelling off has taken place: in the first three months, the US S&P 500 index fell by 10%, while the Frankfurt stock exchange rose by almost the same percentage. The Warsaw and Budapest stock indices are up more than that, while regional companies' profits are improving, and the geopolitical outlook is also better.

However, the outlook for the global equity market is not so rosy: if reciprocal tariff measures become a reality, a bear market could easily emerge. The macroeconomic environment is no longer supportive for stock markets (both retail and business confidence indices show a deteriorating outlook, foreshadowing a fall in corporate earnings and hence share prices). Although it is true that excessive pessimism could lead to a temporary bounce in exchange rates in the short term. Overvalued US tech giants are correcting (Tesla, for example, has fallen by a third since the start of the year, in part because of Elon Musk's controversial political involvement), while large-cap value stocks are outperforming – the latter supporting non-US equity markets.

BOND MARKET NEWS

Uncertainty caused by the US administration is expected to negatively affect the performance of the US and global economies, which could eventually lead the world's leading central banks to cut benchmark interest rates. This is good for bond market investments. In the US, President Donald Trump has sent a clear message to the Federal Reserve chairman that he would be "much better off cutting interest rates". However, Fed Chairman Jerome Powell (just like the new chairman of the MNB, Mihály Varga) took a wait-and-see approach and did not touch interest rates in March. According to the Fed chairman, the Trump administration's initial policies, including extensive import tariffs, seem to have tilted the US economy towards slower growth and, at least temporarily, higher inflation. And the central bank will only boost the economy by making credit cheaper if it sees no danger of rising price levels. At the same time, investors are expecting two further interest rate cuts this year: the government is likely to support the economy with cheaper loans.

The eurozone is better off in this respect, with inflation falling more than expected to 2.4% in March (in France, prices rose by just 0.9% in a year), fuelling market speculation that the European Central Bank (ECB) could resume cutting interest rates as early as April. The regional bond market in Central-Eastern Europe could also be an attractive target, with yield spreads rising relative to the West, while a possible ceasefire between Russia and Ukraine and lower commodity prices could boost local government securities.

ALTERNATIVE INVESTMENTS NEWS

The price of gold soared to an all-time high as the global economy is reacting to US President Donald Trump's newly announced tariff measures. Trade tensions and greater volatility in the financial markets have pushed up the price of the precious metal, considered a safe haven, to $3,200 an ounce (31.1 g). This is a 20% appreciation since the beginning of the year, while copper, a raw material for electricity grids, has appreciated even more, by 25% in dollar terms.

However, prices of other major commodities fell as recession fears intensified (oil, for example, the most important, fell 10% in Q1). It remains unclear whether the tariff measures will cause a major economic downturn in the US. If this happens, the commodities sector could suffer further downgrading.

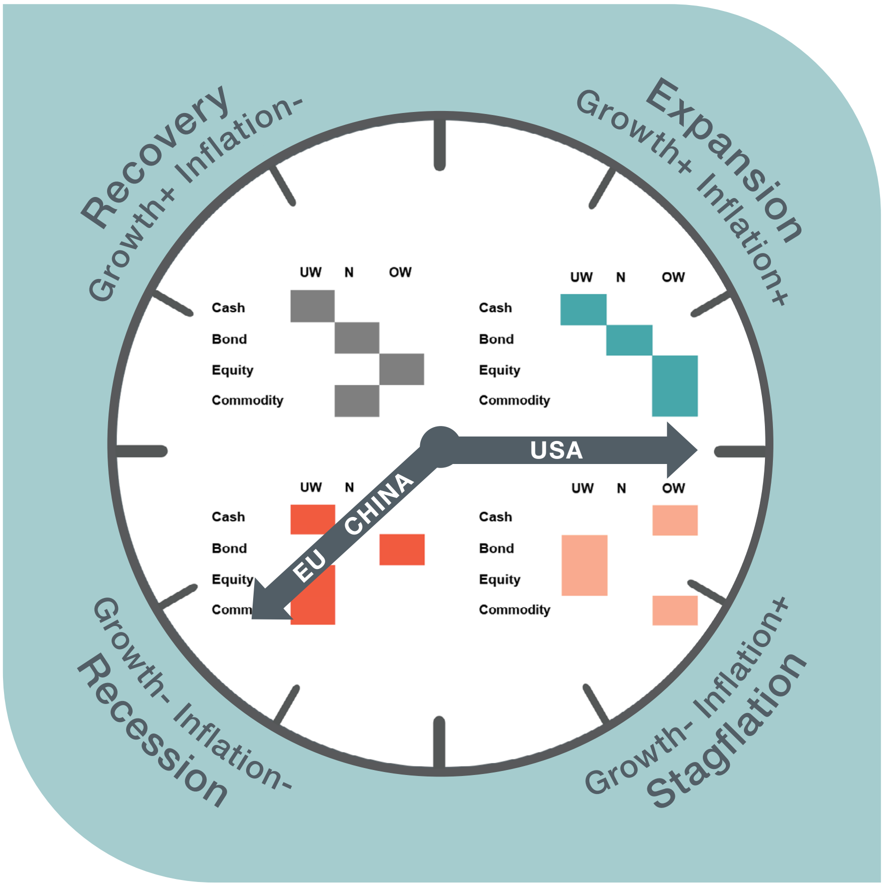
WHAT CAN WE EXPECT **IN THE COMING PERIOD?**

INVESTMENT CLOCK

The global investment cycle has moved away from the previous boom towards a recession, which could be promising primarily for bond investments. However, VIG Asset Management's forecasting model shows that regional indicators continue to diverge widely.

The economic state of the US is having a greater impact on capital markets than ever before. Trade war risks remain strong, while increased political uncertainty continues to be a decisive factor. US macroeconomic indicators are already reflecting this: consumer and business confidence are both weakening, with consumer expectations hitting a 12-year low at the end of March.[2] These weak figures will inevitably be reflected in other economic statistics over time. Stagflation is looming: tariff increases could lead to higher-than-expected inflation as well as to lower economic growth.

In Europe, the situation should be better, but it is not: more supportive fiscal policy (i.e. a greater willingness to cut central bank interest rates, which helps boost the economy with cheaper credit) would give investors optimism if the traditionally strong automotive industry were not threatened by new US tariffs. Looming recession is a major challenge for European equity markets, which have performed much better in recent months than those overseas. And China is indisputably the main target in the US president's trade war: the world's second largest economy is already struggling. Growth has slowed dramatically in recent years, with very high youth unemployment and many low-paid workers.[3]



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

[2] https://www.conference-board.org/topics/consumer-confidence
[3] https://www.reuters.com/world/china/chinas-youth-jobless-rate-rises-169-february-2025-03-20/

TACTICAL ASSET ALLOCATION

In March, we increased the cash position from underweight to neutral. This is because, from an investor's perspective, the period ahead looks increasingly uncertain: the global economic environment is unpredictable (or predictably bad) in the short term, mainly due to Donald Trump's tariff policies. In times like these, it's a good idea to leave money in a safe place and keep it for promising investments later.

Bond market opportunity: targeting developed market government bonds

We continue to give more weight to the government securities of the world's leading countries. The economic outlook is weak in both the US and Europe. The world's leading central banks (the US Federal Reserve and the Frankfurt-based European Central Bank) are therefore likely to continue with the interest rate cuts they started earlier, to breathe life into the faltering economy. Lower interest rates could raise the value of previously higher-yielding euro and dollar government bonds, which could also result in exchange rate gains from the possible weakening of the forint. We also see Central European bonds as a good investment target: the "war discount" is falling and the region is appreciating.

Recession - what could this mean for investors?

The global economy is decelerating sharply: growth prospects are deteriorating. Fewer customers, less investment, lower production than in the past – all this requires fewer raw materials, so we have reduced our exposure in this area to neutral. We are neutral on equity markets as well. Stock markets are expensive relative to their outlook and global economic growth is slowing. We are reducing even the promising Central European equity exposure. In the first three months of the year, the Warsaw Stock Exchange's WIG 30 index rose by more than 20% as the prospect of peace (or at least a ceasefire) emerged in the Russia-Ukraine war. The Hungarian BUX is not far behind, and we are now pocketing part of the profits realised in the last period.

Monthly asset allocation (April 2025)

Asset class	H UW	UW	S UW	N	S OW	OW	H OW	Since March
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 DEVELOPED MARKETS GOVERNMENT BOND INVESTMENT FUND

Looming recession in developed economies may offer a good alternative for those who buy investment units in the VIG Developed Markets Government Bond Investment Fund.

The objective of the Fund is to create a low-risk investment portfolio that invests typically in developed market government bonds and related transactions in order to maximise returns. The new US tariffs are hitting virtually the whole world, and economic growth is slowing significantly, which central banks will probably try to offset by cutting interest rates (i.e. making credit cheaper). This could appreciate government securities with longer maturities. As the Fund mainly holds bonds denominated in euro and US dollar, it can also realise exchange rate gains if the Hungarian forint weakens. This is while the Hungarian currency appears overvalued relative to the country's outlook: in addition to the tariffs, frictions with the EU and uncertainty over the Russian-Ukrainian war could also weaken its currency.

ESG THEME OF THE MONTH

CORPORATE GOVERNANCE AS A CATALYST FOR VALUE CREATION

In the global financial and economic environment, ESG (environmental, social and governance) considerations are getting more and more attention, as these factors have a significant impact not only on the way companies operate, but also on their share prices and bond issuance. Controversial ESG cases in recent years have had serious financial consequences for companies. By implementing strong corporate governance practices, companies can effectively reduce ESG-related disputes, maintain their reputation and increase the resilience of their operations.

According to an analysis by BofA (Bank of America), between 2018 and 2023, the main sources of controversy included restrictions on free competition, business and ethical risks, privacy, customer health and safety, and environmental disputes. [4] The analysis included companies whose share price fluctuated by more than 10% on the day the controversial situation came to light. The immediate reaction in stock prices was in most cases quite severe. And if the immediate reaction in stock prices was more than 10% on the first day, relative stock price declines were also observed over the next 10 days, averaging 9.1% in Europe and 6.0% in the US, followed by a slight temporary rebound as rationality emerged. [5] After 12 months, share prices did not return to normal in most cases, which may indicate that confidence failed to recover and investor interest in the shares in question fell significantly. It was also found that the decline in stock prices was more pronounced in Europe than in the US, which can be explained by the greater emphasis on ESG considerations in the European Union. [6]

In addition, controversial ESG cases of large companies were accompanied by a surge in the spreads of their bonds, as bondholders demanded a higher risk premium from companies involved in such disputes. As in the case of equities, a larger spike in the spreads of European corporate bonds was observed than for US companies. And European bond prices took almost twice as many days to recover from the event as US bond prices. [7]

Breaking down the types of disputed cases into sectors can help to understand where the risks are located and which sub-sectors are more exposed. For example, real estate is potentially a sector where the risk of disputes is lower, while the financial sector may be more exposed. In almost all sectors, business ethics and operational performance are a primary risk in ESG debates. [8]

In the long term, companies with strong ESG practices and proactive measures may be able to turn controversial situations into future growth opportunities and restore their reputation. [9] Ignoring ESG controversies, as discussed above, can have serious consequences for financial performance, as well as jeopardising a company's reputation and investor confidence. Therefore, efficient corporate governance plays a crucial role in reducing ESG-related risks.

Sources:

[4]-[8] Bank of America Corporation [2025]: The evolution of ESG: Energy transition, impact investing, and governance in focus
Retrieved: 20. 01. 2025.
[9] https://www.dpaminvestments.com/professional-end-investor/ch/en/angle/costly-controversies-the-negative-financial-impact-of-esg-fallouts

DISCLAIMER

This is a distribution announcement. In order to make well-founded investment decisions, please inform yourself thoroughly regarding the Fund's investment policy, potential investment risks and distribution in the Fund's key investment information, official prospectus and management regulations available at the Fund's distribution outlets and on the Fund Manager's website (www.vigam.hu). Past returns do not predict future performance. The future performance that can be achieved by investing may be subject to tax, and the tax and duty information relating to specific financial instruments and transactions can only be accurately assessed on the basis of the individual circumstances of each investor and may change in the future. It is the responsibility of the investor to inform himself about the tax liability and to make the decision within the limits of the law. The information contained in this leaflet is for informational purposes only and does not constitute an investment recommendation, an offer or investment advice. VIG Asset Management Hungary Closed Company Limited by Shares accepts no liability for any investment decision made on the basis of this information and its consequences.

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