

VIG HOUSE VIEW

VIG
ASSET MANAGEMENT
HUNGARY

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NOVEMBER 2025



WHAT HAPPENED IN THE LAST MONTH?

IN FOCUS: BULL MARKET WITH A QUESTION MARK

The artificial intelligence (AI) frenzy appears to be reaching its peak – at least temporarily. Despite the undeniable, revolutionary changes driven by this technology, concerns have started to surface about the companies riding the AI wave. Many investors now believe that valuations of AI-focused firms have become excessively high.

While the average P/E (price-to-earnings) ratio on Wall Street is already elevated at over 23, technology companies are trading at nearly 40 times earnings. In other words, based purely on their current profitability, investors would have to wait around 40 years for their investment to pay off. For comparison, AI chipmaker Nvidia trades at a P/E ratio above 50, and Tesla exceeds a staggering 200.

True, these figures still fall far short of the levels seen during the early 2000s dot-com bubble – when the

seven largest tech companies at the time (Microsoft, Amazon, Cisco, Intel, Oracle, AOL, and Yahoo!) had an average unweighted P/E ratio of 276. Yet, the question remains whether today's tech giants can deliver on the lofty expectations priced into their stocks.

The so-called "Magnificent 7" group – representing roughly one-third of Wall Street's total market capitalization – is expected to post around 27% year-on-year profit growth in the third quarter of 2024. However, investors were somewhat disappointed by the results of Microsoft and Meta, the parent company of Facebook. Although the overall market uptrend remains strong, supported by solid corporate earnings and expectations of interest rate cuts, investors should stay alert. The heads of major investment banks – Morgan Stanley, Goldman Sachs, and JP Morgan Chase – have all recently cautioned about a potential market correction ahead.

The 'Magnificent 7' Tech Index



Source: CNBC

EQUITY MARKET NEWS

In the United States, corporate earnings reports have generally painted a positive picture, with technology companies in particular driving the major indices to new all-time highs. However, the first clouds have appeared on the horizon of the AI frenzy: despite reporting 25% revenue growth, Meta, the parent company of Facebook, saw its share price decline, as investors expressed concern over the company's heavy spending on projects with uncertain returns.

In Europe, the standout performer was the Spanish stock market. The IBEX 35 Index – which tracks the 35 largest and most liquid companies listed on the Madrid

Stock Exchange – climbed 38% in the first ten months of the year, reaching an 18-year high, largely driven by banking stocks. Spanish banks with major exposure to Argentina, such as Banco Santander and BBVA, saw their share prices surge by more than 80%, making them the two largest EU-based banks by market capitalization. (The political and economic backdrop of this development was discussed in the bond market section.) Meanwhile, Indra Sistemas SA, a key player in the defense industry, recorded an impressive 183% share price increase, fueled by Europe's expanding defense spending plans.

BOND MARKET NEWS

In October, the U.S. Federal Reserve cut the dollar interest rate by another 25 basis points, as inflation concerns continued to fade while worries over a stagnating labor market gained traction. Despite this, the U.S. economy remains resilient – third-quarter earnings reports show that companies in the S&P 500 Index (representing the leading U.S. corporates) achieved an average profit growth of around 15%, while the large technology firms, which now carry increasing market weight, posted gains of about 25%. With no signs of recession and limited pressure to further stimulate the economy, the probability of an additional rate cut in December – which would typically boost bond valuations – has dropped by nearly half. As a result, there is currently no urgent need for further monetary easing. The Fed's more hawkish stance has somewhat weakened the outlook for Central and

Eastern European bonds. In Hungary, foreign investors have gradually started to take profits on forint-denominated government bonds, given that no rate cuts are expected before the April 2026 parliamentary elections as part of efforts to keep inflation under control.

At the same time, the anticipated fiscal easing ahead of next spring's elections could push long-term yields higher, while foreign ownership of Hungarian government bonds remains at multi-year highs – a sign of stretched market positioning. Among emerging markets, Argentine dollar-denominated bonds stood out in October, topping performance charts after the United States announced a USD 40 billion support package for the country. The victory of the reformist Javier Milei's party in the midterm elections further bolstered investor sentiment.

ALTERNATIVE INVESTMENTS NEWS

In October, gold reached new all-time highs, before falling by more than 10% after touching the USD 4,400 per ounce level. The factors that had driven this year's more than 50% surge in the gold price – including geopolitical uncertainties, clouded global growth prospects linked mainly to U.S. tariff hikes, and central banks' diversification purchases – remain in place. As such, the recent pull-back is likely just a healthy correction within a broader bull market. Meanwhile, aluminum and copper prices have

been rising, fueled by surging demand from the construction of AI data centers, where these metals are essential materials. In contrast, oil and most other commodities have remained under pressure. The price of the so-called "black gold" continues to soften amid weak global growth and a rising supply surplus. The OPEC+ oil cartel, which accounts for half of global output and 80% of reserves, is set to increase production by 137,000 barrels per day in December – a move that could further weigh on prices.

WHAT CAN WE EXPECT IN THE COMING PERIOD?

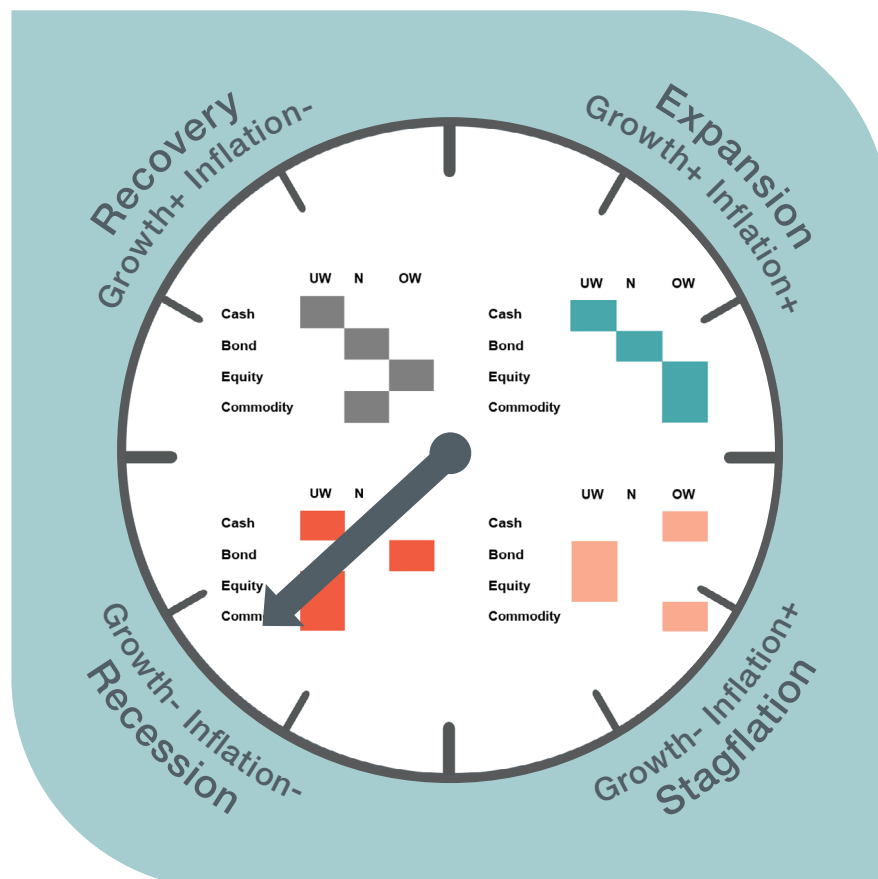
INVESTMENT CLOCK

According to the VIG Asset Management Global Investment Clock, a forward-looking model that estimates short-term economic cycles based on leading indicators, the latest reading remains unchanged. This is due to incomplete data releases caused by the recent U.S. government shutdown. However, once the shutdown ends, a wave of delayed data is expected to flood the markets, which could trigger heightened short-term volatility.

The impact of tariffs on U.S. inflation remains limited. In September, consumer prices rose by 3% year-on-year, coming in lower than expected. Meanwhile, the labor market continues to show strength, as weekly jobless

claims have declined. The Federal Reserve cut its benchmark interest rate by 25 basis points, providing additional stimulus to both the economy and the stock market. In the Eurozone, inflation eased further in October to 2.1%, while the European Central Bank (ECB) left its key rate unchanged at its latest meeting. Consumer and business confidence have both improved, offering a glimpse of renewed optimism.

In contrast, China's GDP growth slowed to 4.8% year-on-year in the third quarter, down from 5.2% in the previous quarter, signaling a modest loss of momentum in the world's second-largest economy.



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

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

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

Source: VIG Asset Management

TACTICAL ASSET ALLOCATION

In line with the latest macroeconomic and capital market trends, we have made adjustments to our asset allocation. Central European equities continue to show solid momentum, while the return potential of regional bonds has decreased - mainly due to expectations of smaller-than-anticipated U.S. rate cuts, which in turn narrow the yield advantage of our region.

A Promising Opportunity for Risk-Tolerant Investors – Central European Equities

Regional equities remain among our preferred assets, as their valuations appear attractive compared with corporate earnings potential in other regions. The average P/E ratio in Poland stands at 11.4, and in Hungary at just 8.5, compared with around 14 for emerging markets overall and well above 20 for the U.S. market. Most regional stock exchanges reached new highs in October, indicating strong buying pressure and sending a positive signal to investors. In general, emerging market equities remain

attractive globally – from both a technical and fundamental perspective, and in terms of valuation as well.

Caution Advised on Regional Bonds

Yields on Central European bonds have declined, making their valuations less compelling. As a result, we have reduced our exposure to a neutral weighting. The Federal Reserve's more restrictive policy shift – along with reduced expectations for U.S. rate cuts – has weakened the relative appeal and outlook of Eastern and Central European sovereign bonds. Investors have gradually started to take profits on Hungarian government bonds, anticipating limited room for rate cuts ahead of the April 2026 parliamentary elections. The Hungarian government is expected to favor a strong forint as part of its inflation-control strategy, which could support short- and medium-term yields. However, fiscal easing ahead of the elections may push long-term yields higher, posing a significant risk – particularly as foreign ownership of Hungarian government bonds has recently reached a multi-year high.

Monthly asset allocation (November 2025)

Asset class	H UW	UW	S UW	N	S OW	OW	H OW	Since Oct
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.

Source: VIG Asset Management

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 SMART MONEY FUND OF FUNDS

The Fund primarily invests indirectly through investment funds managed by VIG Asset Management, providing exposure to virtually the entire known investment universe – including bond and money markets, equities, real estate, private equity, derivatives (both regulated and OTC), commodities, and currencies. This broad diversification offers strong return potential in the current trending market environment.

Global equity markets continue to move upward, supported by robust corporate earnings, moderating inflation,

and expectations of interest rate cuts. The strongest performers have been developed market equities, AI-related stocks, and emerging markets, particularly South Korea and Taiwan, driven by their technology and industrial sectors.

At the same time, risks within the technology sector are becoming more visible. The Fund is therefore well positioned to benefit from the ongoing upward trend, while maintaining a high level of risk management to help mitigate potential losses in the event of a market correction.



ESG THEME OF THE MONTH

IT'S NOT JUST THE FLU SEASON WE NEED TO WORRY ABOUT...

How does climate change affect our health? Although climate change does not cause disease on its own, it has a huge indirect impact on our well-being and health, as rising temperatures, humidity, and precipitation greatly influence the spread of pathogens. In the case of malaria, a study by the World Health Organization confirms that changes in the weather phenomena listed above – even in an optimistic scenario – will cause 60,000 more cases by 2030, despite the fact that numerous measures targeting the disease are already in place.

Climate change and the resulting increase in heat waves can also be dangerous. Those born in 2014 will experience 36 times more heat waves in their lifetime than those born in 1960. This is not only stressful for the body, but also has social repercussions, meaning that certain groups are much more vulnerable than others: for example, the elderly, women, children, pregnant women, and members of poor communities. What's more, heat waves can exacerbate pre-existing conditions unrelated to climate change, such as cardiovascular disease, diabetes, and asthma ([WHO](#)).

Heat-related deaths are now ranked fifth among annual mortality risk factors worldwide, ahead of drug use, ozone pollution, and leukemia-related deaths. Among the top four factors, the number of road accidents and malaria cases can also be linked to heat, and climate change-induced temperature changes have a negative impact on these as well.

Reducing emissions would not only reduce the number of deaths, but also the number of people requiring hospital care, which would bring financial benefits and be a long-term investment in society. In addition, prevention has benefits in other areas: the positive effects of exerci-

se and a healthy diet are measurable, and we could save or prolong the lives of many people if we shifted towards a plant-based diet and placed greater emphasis on physical activity, even as an alternative to transportation (e.g., cycling), which would also reduce air pollution.

We have already mentioned the increased number of malaria cases, but the above also applies to other vector-borne diseases (diseases spread by various animals). Similar to malaria, dengue and chikungunya fever, Zika virus, yellow fever, and many other diseases of this type are affected by climate change, with more and more places becoming suitable for mosquitoes that spread these diseases. This is evidenced by the prediction that by 2070, 3.6 billion more people will be at direct risk of malaria and dengue fever than in the period 1990-1999. Before we think that this does not affect us, climate change will also greatly alter the affected areas, and these tropical diseases may spread to France, Bulgaria, Germany, the eastern part of the United States, and Hungary.

It is also worth mentioning antibiotic resistance, which is also linked to climate and temperature change. As temperatures rise, bacteria become increasingly resistant to antibiotics and spread more rapidly to other parts of the world where they were not previously found. Here, too, ominous speculation is likely: by the middle of the 21st century, millions of people worldwide will die each year as a result of antibiotic resistance.

Overall, climate change is not only an environmental challenge, but also an increasingly serious health challenge. Its effects are already being felt, and unless decisive action is taken, future generations will face even greater risks.

Sources:

- This article was written using Greta Thunberg's book *Climate Book* (pages 173-190).
- WHO – <https://www.who.int/news-room/fact-sheets/detail/climate-change-heat-and-health>

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The Asset Management's license number for managing alternative investment funds (AIFM) is: H-EN-III-6/2015. The Fund Manager's license number for UCITS fund management (collective portfolio management) is: H-EN-III-101/2016.

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