MAIN POLITICAL AND ECONOMIC EVENTS WITH SIGNIFICANT IMPACT ON THE ACTIVITY OF THE COMPANY AND THE FUNDS IT MANAGED IN 2024

30 LAT | GENERALI INVESTMENTS

2024 was a year of heightened geopolitical risk, with levels reaching their highest in twenty years. The polarisation of the world and its division into two rival blocs continued. In January, the ‚BRICS' bloc of countries expanded. Conflicts increased in number and intensity. Hybrid activities also contributed to elevated risk. Another risk factor was local elections, which generally indicated a more polarised society. The most important of these elections was the US presidential election and the victory of Donald Trump. These events led to a significant increase in uncertainty surrounding the conduct of economic policy. The political and economic consequences of these developments will continue at least throughout 2025.

We entered 2024 assuming a declining inflation rate and expecting interest rate cuts by major central banks such as the ECB and the FED, as well as by the Monetary Policy Council. In the developed economies, the scenario of falling inflation rates materialised somewhat more slowly than expected, mainly due to price pressures in services. As a result, the rhetoric of the ECB and the FED remained relatively hawkish at the beginning of the year and interest rate cuts by the FED and the ECB were delayed. In Poland, CPI inflation fell to 2.0% y/y in March, but VAT on food was reintroduced from April. The government also announced the removal of the remaining anti-inflation shields introduced after the pandemic. As a result, uncertainty about the path of inflation crept in, compounded by rising energy prices, and a change in MPC rhetoric reduced the likelihood of rate cuts, which were eventually postponed to around 2025. The weaker economy and stronger disinflationary processes in the euro area relative to the US led to the ECB starting a cycle of rate cuts in June 2024, as expected, with the first US cut anticipated in September. The temperature of the debate on the possibility of rapid and deep cuts by the Fed was raised by the US labour market data for August, which was interpreted by some as a signal of an incipient recession in the US. Stock and bond market volatility rose sharply.

The decision did not disappoint. The FED decided to proceed with an initial normalisation of monetary policy, cutting the rates by 50 bps and indicating a total of 100 bps as the sum of the reductions planned by the end of 2024. The neutral interest rate was raised. New economic projections pointed to a slight rise in unemployment and a weaker inflationary pressure, while the risk balance has swung towards higher unemployment rather than higher inflation.

The ECB cut the deposit rate by a total of 100 bps in 2024, and, as announced in September, the FED also proceeded with a 100 bps cut. As the year drew to a close with better US economic data, sentiment about the depth of further US cuts cooled slightly.

In terms of economic growth, 2024 was expected to be a two-speed year, with some slowdown in the euro area and the US, amid fears of a possible recession and with the prospect of a recovery in the second half of the year. Indeed, the US economy slowed somewhat in the first quarter of 2024, and the euro area performed poorly. This was followed by a robust acceleration in the US in the second quarter, which lasted until the end of the year. One of the main drivers of the US economy was the consumer. By contrast, growth in the euro area was much slower than in the US and very uneven. In Germany, the economy contracted slightly reflecting a weak consumer and industrial sector, with leading indicators showing no sign of improvement in the near future. Economic growth in France and Italy was positive, but highly volatile from quarter to quarter. In this context, the Spanish economy was a positive exception, with solid growth. The superiority of the US economy over the European economy was also confirmed by leading indicators such as the PMI. The leading indicators for European industry pointed to a downturn for most of the year. The overall economy was saved by the services sector. The situation was better in the US and the emerging markets.

Global sentiment was heavily influenced by the problems facing the Chinese economy, which struggled with a balance-sheet recession caused by past over-expansion. There were many doubts as to whether GDP growth rates above 4% y/y were sustainable. At the end of the third quarter, the PBOC (People's Bank of China) launched a comprehensive easing using monetary policy tools (interest rate cuts) and announced further measures in the fourth quarter. Furthermore, measures were launched to stabilise the real estate market, such as a reduction in own contribution to the second property, a reduction in mortgage interest rates and a very interesting tool in the form of allowing institutions to swap shares for bonds and cash bills. The market was looking forward to another move (October-November) to use fiscal policy to broadly stimulate consumer demand. After the initial euphoria of the markets, there was a bit of a reality check as the market realised that the measures were not having that positive effect.

In the fourth quarter of 2024, the issues surrounding Donald Trump's victory in the US presidential election (who won by a significant margin despite the polls indicating otherwise) added to the risks associated with global tensions. The Republican candidate's victory was further bolstered by a takeover of both the Senate and the House of Representatives. This balance of power, at least in theory, provides the opportunity to implement all the economic and political changes that have been announced. Following the announcement of various measures, the level of economic policy uncertainty increased and the market went into a state of anxious waiting for the inauguration of the US president on 20 January 2025.

During this period, the Polish economy was also experiencing a recovery. Consumer spending was encouraged by a robust labour market and wage growth, however, this growth was tempered by a slight decline in consumer sentiment due to the persistently high inflation rate compared to other countries and the announcements of further removal of anti-inflation shields. The sales structure was skewed towards necessities and non-durables. Higher consumption could have been achieved if it had not been for the constraints imposed by low lending and the absence of interest rate cuts. Industrial production performance was volatile, reflecting weak industrial sentiment. Given the major problems in Germany, the Polish manufacturing sector performed relatively well. Due to low demand and capacity utilisation, investments and construction and assembly output fell sharply year-on-year, providing a good basis for a potential recovery. Sentiment in the finance and insurance sector was good. Sectors such as transport and storage, retail trade and repair of motor vehicles were slightly more pessimistic. As a result, the overall economic growth rate was quite volatile. Up to the third quarter, GDP growth picked up and surprised to the upside. However, the third quarter revealed a weaker performance than anticipated, with GDP growth slowing to 2.7% y/y.

2024 was a positive year for the stock market, with the MSCI index showing a nominal growth of 18.7% after accounting for dividends. However, this analysis does not provide a complete picture, as the returns of the individual indices varied alongside the differing rates of economic growth. For instance, the key global market, the US, yielded a return of almost 25%, the MSCI Emerging Markets Index returned 7.7%, and the WIG returned 1.4%.

The global economic situation and the apparent outperformance of the US economy continued to have a positive impact on the US stock market, which was a driver for the rest of the world. The absence of a worse-case scenario for the US economy fuelled the rise in share prices.However, this growth was diversified by both sector and capitalisation. The Magnificent 7 companies continued to perform strongly, returning 67%, predominantly in the technology sector (36%). The large-cap index (S&P 500) was up 23% during this period. The return would have been 16% if the Magnificent seven were excluded from the index. The small-cap and mid-cap indices showed a worse performance, with gains of 9% and 14% respectively. For GROWTH and VALUE, the return after dividends for the S&P Growth was much better than for the S&P Value: 36% versus 12.3%.

The European indices behaved similarly to the US mid-cap indices (they do not have such a strong new technology component). Given the state of German industry and the recession in the German economy, the DAX performed well and closed the year with a return of around 19%.

As for Polish stocks, the Polish broad equity WIG index increased by 1.4%. throughout 2024, while the WIG20 large companies index, was down by about 1.3% after dividends. The situation on the Polish stock market was much better when viewed through the prism of small and medium-sized companies. The value of the mWIG40 index rose by almost 10% after dividends and the small companies index, sWIG80, was up by 6.7%. With large company returns so different from small company performance, it is not surprising that sector diversification is also strong. Four out of 11 sectors of the Polish stock market finished 2024 on the plus side; those included WIG Food (+22.3%), WIG IT (+22.9%), WIG Real Estate (17%) and WIG Banks (+11.6%). The remaining sectors yielded returns ranging from -10.6% (WIG Games) to -26.8% (WIG Chemicals).

Stabilising inflation levels, strong US economic data and the prospect of an economic slowdown and FED rate cuts supported valuations in selected US equity segments. In the US, the best performing segment was technology stocks. The value of the NASDAQ COMPOSITE index increased by 43.4% and of the narrower NASDAQ 100 by 53.8%. The slightly broader S&P 500 GROWTH index was up 28.4%. The S&P 500 VALUE index increased by 19.7%. Shares from major European stock exchanges also reported satisfactory results. Germany's DAX grew by 24.3% and CAC40 by 16.5%.

For stock exchanges from the Emerging Markets group, 2024 was a year of positive returns, but not as successful as for stock exchanges from developed markets. At the end of 2024, the MSCI Emerging Markets Index was 7.7% higher than at the beginning of the year (after dividends). Latin American stock markets were the worst performers (MSCI Emerging Markets Latin America -26%). The European market (MSCI Emerging Markets Europe) returned 5.7%. Asia performed well, driven mainly by China, with the MSCI Emerging Markets Asia returning 10.1% (MSCI Emerging Markets China: 19%). All returns are net of dividends.

As in 2023, in 2024 **commodity prices** were affected by geopolitical events. Despite the ongoing war caused by Russia's aggression against Ukraine, tensions in the global supply chain were balanced despite an increase in the price of maritime transport on some routes. The Bloomberg Commodity Index fluctuated during the year, closing the year with a return of around 0%. The precious metals complex outperformed the index. Gold rose by around 27% and silver by around 19%. Among the other commodity market segments, agricultural prices were the worst performers (around -8%). Energy commodities and industrial metals also posted slightly negative returns.

GOLD

The **gold** market enjoyed a very good year. Bullion prices rose rapidly on a wave of high geopolitical risk, central bank buying and weaker investment demand. Following a brief period of consolidation in the initial months of the year, we had a remarkable six-month period, with record highs being achieved on a monthly basis. Since the end of October, bullion prices have consolidated. As a result of this momentum, the price of gold rose 27% in 2024.

LEGAL INFORMATION

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Depending on the adopted investment policy, sub-funds may invest assets in securities, money market instruments, and other investment categories; additionally, given the composition of the portfolio and the adopted management strategy, the unit value may be subject to high volatility. High volatility of the net asset value of: Generali Akcje Małych i Średnich Spółek, Generali Akcje Value, Generali Akcji Rynków Wschodzących, Generali Korona Akcje, Generali Korona Zrównoważony, Generali Stabilny Wzrost, Generali Surowców, Generali Akcji: Megatrendy w Generali Fundusze FIO.

There is a possibility to invest more than 35% of the asset value of Generali Korona Obligacji Uniwersalny, Generali Korona Obligacje, Generali Stabilny Wzrost, Generali Korona Zrównoważony, Generali Konserwatywny, Generali Akcji: Megatrendy, Generali Surowców, Generali Obligacji Krótkoterminowy in securities issued, backed or guaranteed by the Polish Treasury or the National Bank of Poland, and in the case of Generali Konserwatywny, Generali Surowców, Generali Akcji: Megatrendy, and Generali Obligacji Krótkoterminowy also in securities issued, backed or guaranteed by: Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Ireland, Iceland, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United States of America, and the European Investment Bank and the World Bank (the International Bank for Reconstruction and Development).

This material has been prepared as at 20.03.2025 and is valid until updated.