INVESTMENT FORECASTS FOR 2025

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What will 2025 be like?

This year is globally expected to be a year of **two threes.**

3,1%
The growth rate of the global economy

3,2%
The global inflation level

The growth rate of the global economy, according to Generali Investments TFI S.A. forecasts, will be 3.1% in real terms, and the global inflation level will be at 3.2%. These estimates are based on high expectations, as we are entering the new year under the sign of ongoing global systemic conflicts and the inauguration of Donald Trump's second term as president.

The key factors that will affect the state of the world

- Geopolitical developments
- Political repercussions of the 2024 elections
- US trade policy
- Economic growth
- US domestic economic policy
- US valuations and market breadth
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- Investor sentiment

Will inflation dynamics give space for central banks to ease monetary policy?

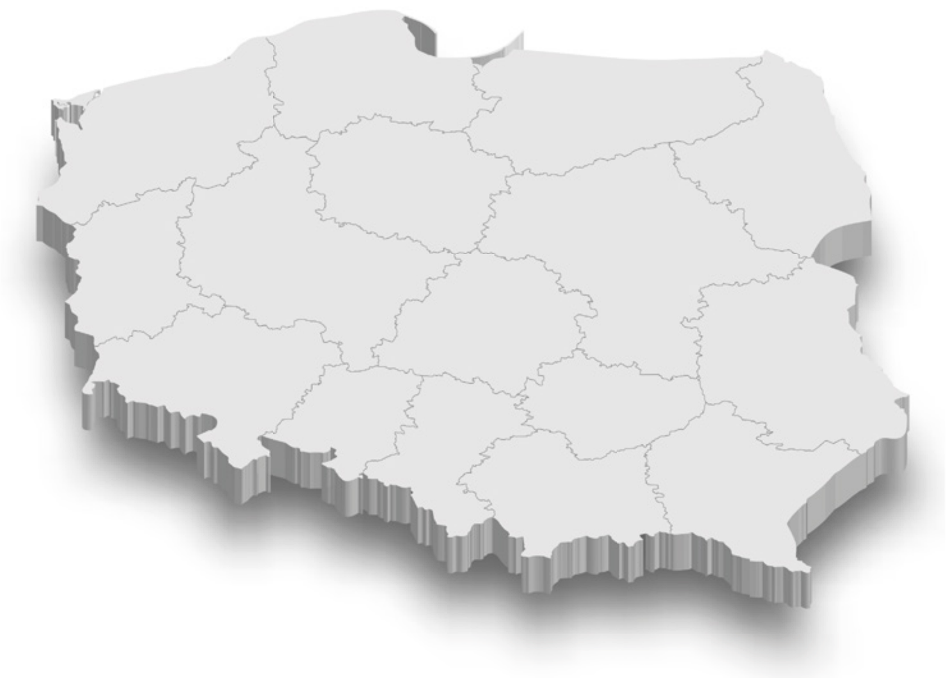
Over the next 12 months, the market values the decline in the level of interest rates in the eurozone at around 2.0% and in the US to around 4.0%. In Poland, due to the Monetary Policy Council's very fast-moving communications, estimates are much more difficult. Since the MPC's last meeting, market expectations for the level of interest rates have moved sharply upward. The market is currently valuing reductions at a total of 75 bps by the end of the year (up to 5%). We expect a cycle of interest rate cuts to begin in the middle of the year.

THE US

We start 2025 with high or even very high bond yields in major markets in the United States. They are close to historical maximums (since 2007). At the same time, the markets are valuing a very slight monetary policy easing in the US caused by expectations that the US economy will avoid a significant slowdown. In addition, we have a major uncertainty factor related to Donald Trump's economic policies, which could increase the rate of price increases in the U.S. economy.

THE EUROZONE

There is more room for interest rate cuts in the eurozone than in the US. The market's valuation of the reductions at this point is 1 pp. We expect that the scale of the reductions may even be slightly larger, in view of the relatively weaker condition of the European economy relative to the U.S. and the stronger slowdown in growth.



POLAND

Against the background of the underlying markets, Poland also has elevated interest rates. Yields on 10-year bonds are close to 6%, significantly higher than the benchmark rate. One reason for this is the high supply of government bonds in the new year, particularly in net terms, that is, after taking into account the reinvestment of redeemed bonds. We anticipate an increase in supply in the domestic wholesale bond market of more than 50%.

The State Treasury's borrowing needs will also be covered by foreign bond issues and Treasury bills. In our view, the increased supply of bonds is already factored into prices and will not affect their valuations, as we have known about the increased need for bond issuance since the first drafts of the 2025 budget law. Polish bond valuations, on the other hand, will be favourably influenced by the interest rate cuts we anticipate.

We are moderately optimistic about Polish equities in 2025. In our view, optimism in the approach to Polish shares and the belief that they will perform well is supported by several factors. First of all, strong support is provided by valuations, which are low in our opinion.

Current ratios below long-term averages

Current ratios are below long-term averages at this point, and given the predicted earnings growth in 2025, the expected P/E, or price-to-earnings ratio, could be slightly above the level of 8 for the broad WIG index, significantly below the levels the ratio has shown in the past. Valuations are attractive not only historically, but also relatively, that is, compared to other countries/markets. Currently, analysing the most popular P/E ratio, Polish shares are priced at about a 30 percent discount, so they are on average 30 percent cheaper than, for example, the shares of the other emerging markets aggregated in the MSCI Emerging Markets index.

Sentiment toward Polish equities deteriorated badly in the previous year, falling to the levels that had been previously reported basically during crises (the 2020 pandemic, the outbreak of the war in Ukraine in 2022). From this perspective, the potential for further weaker performance of Polish equities is limited.

Poland's strong GDP growth

Another important support for our thesis is Poland's strong GDP growth, which should obviously translate into the companies' results. The companies' foundations appear very solid. We expect a marked increase in corporate earnings in 2025. The market consensus is for as much as 28% EPS (or earnings per share) growth for companies in the broad WIG index. In almost all sectors, more or less improvement in performance is expected.

More and more arguments to return to Poland

Decisive for the picture of the Polish stock market, as it was the case in 2024, will be the attitude of foreign investors. After a disappointing 2024, when foreign investors tended to realize profits, rather, there seem to be more and more arguments to return to Poland, though, and to increase exposure. We believe that the balance of opportunities and risks for the Polish market looks favourable. The potential for further relative weakness is limited, and on the other hand, some positive developments are possible. One of them may be an unprecedented scale of the inflow of EU funds to Poland in 2025 (National Recovery Plan, cohesion funds). Sentiment toward Poland would certainly improve by leaps and bounds if geopolitical risks were reduced, i.e. a possible freeze or end to the war across our eastern border.

All in all, we see more opportunities and the risks are rather limited, as many are already factored into valuations, hence our moderate optimism.

At the end of 2024, after Donald Trump's election victory, within a short period of time US stock markets began to capitalize dynamically and intensely on the impact of his election promises on certain companies or even entire sectors. The implementation of the election agenda will, of course, continue to influence U.S. equities, but in our view it will also affect what happens in other developed markets, including Western European countries.

From our point of view, the announced deregulation process will be very interesting to follow and analyse, as well as the general topic of automation, including the simplification of certain bureaucratic processes. Investors who want to invest in the U.S. market in 2025 should, in our opinion, remain patient and calm. This is because every time we learn details about election promises and their implementation, the markets will try to capitalize on them very quickly, exactly as they did in 2024, which can cause quite a lot of volatility, both positive and negative, in the short term.

COMMODITIES

Looking at where we are in the cycle at the moment, it is fair to say that this is not an ideal time for broad commodity indices in general. This situation can be expected to improve by the end of 2025.

RISKS THAT INVESTORS SHOULD TAKE INTO ACCOUNT IN 2025

WORLDWIDE

- Escalation/continuation of geopolitical conflicts
- Slower rate cuts than valued
- Deterioration in the US economy
- No stimulus effect in China
- Weakness in the eurozone, including Germany in particular

POLAND

- Postponing interest rate cuts
- Harder-than-expected financing of budget deficit
- Poor or ineffective implementation of the NRP
- Excessive deficit procedure and fiscal tightening

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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.

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