MARKET COMMENTARY

MAIN POLITICAL AND ECONOMIC EVENTS WITH SIGNIFICANT IMPACT ON THE ACTIVITY OF THE COMPANY AND THE FUNDS IT MANAGED IN 2022

EQUITY MARKET

2022 was a challenging year full of uncertainty for equity market investors, both globally and in Poland. The first month of the year was marked by increasing geopolitical tensions related to Russia's activity and military potential being amassed along the border with Ukraine, which eventually led to a full-scale invasion. This set off a cascade of market disturbances and determined the situation throughout 2022. While still recovering from the pandemic, the economies were hit by yet another shock in the form of spiking prices of energy carriers, which was one of the main causes for the rapid increase in inflation. Spiking inflation prompted central banks, including the NBP, to tighten monetary policy by hiking interest rates. This in turn sparked questions about the prospects for economic growth, and increased the likelihood of recession. Those events shook investor sentiment. Throughout 2022, the broad Polish stock market index – the WIG – dropped 17.08%, with maximum losses posted in October, when the index was down by 34.16%. This was caused by both large companies and those with smaller stock market capitalisation. Only two sectors of the Polish stock market finished 2022 on the plus side; those included chemical companies in the WIG-CHEMIA index (+10.85%), and construction companies in the WIG-BUDOW index (+8.47%). The WIG-SPOZYW food index posted the worst results (-55.03%). At that time, all segments of the Polish market were strongly correlated, with the sWIG80 performing relatively well (-12.76%). The mWIG and WIG20 indices lost -21.49% and -20.95%, respectively. Most of the losses took place by October. The last two months of the year brought dynamic gains, with the WIG gaining 13.95%, the WIG20 at +16.65%, the sWIG80 at +5.64%, and the mWIG40 at +8.64%.

Rising inflation and good economic data induced the Fed to tighten its monetary policy. Other central banks followed suit. This led to losses on global stock exchanges. In the US, the VALUE index performed the best but did not avoid losses either, with the Dow Jones down by 8.94%. The growth stocks segment (GROWTH), which also includes tech companies, posted significant losses, with the NASDAQ closing the year 33.51% down. The situation was similar on European markets: the French CAC40 finished the year 9.75% lower than the year before, with the German DAX losing 12.35%.

For the group of emerging markets, 2022 was not a good year either. An additional negative factor that affected that segment, apart from the high inflation and pressure on economic growth, was the significant strengthening of the US dollar. At the end of 2022, the MSCI Emerging Markets index was down by 21.78%, with Latin American markets the best performers, closing the year at almost unchanged values (MSCI Emerging Markets Latin America at +0.05%). For other regions performance was relatively consistent, with return rates fluctuating around -22.0%.

COMMODITY MARKET

Geopolitical events had a significant impact on the prices of many groups of commodities, with energy carriers, food, and industrial metals (initially) affected the most. The first two groups posted their highs towards the end of Q2 2022. Then, with the global economic forecasts revised downwards, they started to normalise. As a result of all those events, the Bloomberg Commodity Index gained 13.45% throughout the year.

GOLD MARKET

After Russia invaded Ukraine last year, the price of gold started to go up and reached its maximum in March at USD 2029 per ounce. Also the US dollar strengthened at that time, which resulted in a period of positive correlation (historically, the price of gold falls when the US dollar appreciates). Since March, the price of gold continued to fall to reach its low for the year at USD 1629 per ounce. The US dollar continued to appreciate over that period. With lower inflation expectations for the US and the expected lower pace of interest rate hikes from the Fed, the dollar weakened again and the historical negative correlation returned. Additionally, gold prices were supported by increased buying from central banks. As a result, the price of gold at the end of the year amounted to USD 1824 per ounce and was only slightly lower than at the end of 2021, when it stood at USD 1829 per ounce.

DEBT MARKET

In Poland, inflation continued to grow throughout the year, following the greatest surprise in a decade posted in 2021. Starting the year with inflation readings at 8.6% y/y, we went to 16.6% y/y by the end of 2022, with the annual high noted in October at 17.9%. Similarly to other central banks worldwide, the Monetary Policy Council (MPC) tightened its monetary policy and continued hiking interest rates from the level of 1.75% in December 2021 to 6.75% in December 2022, with the last hike introduced in September. Since October, the MPC adopted the strategy of wait and see, and inflation forecasts started to predict its peak in Q1 2023.

Market indices reacted quickly to all those developments:
– the WIBOR 6M rate increased from 2.84% to 7.14%,
– with the expectations being for continued interest rate hikes, the 2-year interest rate swap (IRS) rates increased from 3.91% to 8.27%, going back to 6.92% later on,
– 2-year Treasury bond yields increased (prices dropped) from levels close to 3.36% to 8.59%, and then dropped to 6.67%;
– the prices of floating rate Treasury notes also continued to drop until October/November due to the higher discount margin (i.e. the expected rate of return on the floating rate security obtained with respect to the underlying index) and then partly recovered the losses in the last two months of the year.

As a result, the relatively peaceful January was followed by a period of intensive sellout for Polish bonds. Bond prices dropped by several to over a dozen percent, and the year was the worst in their history. The two last months of the year brought a recovery, and bond prices began to rise again.

For almost an entire year, domestic corporate bonds remained under high pressure. The main reasons for the negative investor sentiment in that market included the rapid growth of uncertainty across the region due to the Russian aggression on Ukraine, the deteriorating prospects for Polish economy and especially fears about the condition of the consumer and the ability for enterprises to generate revenues, the unprecedented scale of interest rate hikes by the MPC, and the growing costs of financing for enterprise debt. All those factors made credit spreads significantly broader, which was reflected in bond prices. Additionally, price drops were made worse by the massive redemptions by debt funds and the strongly limited liquidity on the market. The situation improved visibly only in Q4, i.e. after the MPC ended the cycle of interest rate hikes and the inflation peak was determined. In the last months of the year, improved market sentiment combined with debt portfolio yields at the highest levels in years allowed for recovering most of the losses and contributed to a positive outlook for the coming months.

The fast accelerating inflation trends were something the entire global economy had to grapple with. Yield increases and bond price drops gained pace. Thus the bear market for bonds, paired with changes in monetary policy from central banks in developed markets also affected markets such as the US, the United Kingdom, or the eurozone.

The growing inflation and large-scale monetary tightening, rising interest rates in the US, and appreciation of the dollar all contributed to the higher cost of servicing debt for many emerging markets and a greater pressure on economic growth. Emerging market bond yields increased together with the bond yields in the underlying markets, going up by 190 bp on average (GBI Diversified) by October, and then recovering some of the losses by the end of the year (-100 bp). Local emerging market currencies were not helpful either – the emerging market index (EMCI) continued to drop and finished the year 5.78% lower than at the end of 2021. This also affected investors who had invested in emerging market bonds, especially in the period following the Russian invasion of Ukraine. Since the end of October the prices started to grow and recovered most of the losses of the first three quarters of 2022.

Similar processes could be seen in eurobond markets – higher yields caused by the higher yields in the underlying markets, with credit spreads broadening until October, followed by recovering the losses until the end of the year.

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fund fees, and applicable taxes. You may find them in our office or on our website: www.generali-investments.pl. Navigate to “documents”:https://www.generali-investments.pl/contents/pl/klient-indywidualny/dokumenty, and then go to one of the following tabs: “Funds’ Prospectuses,” “KID,” “Documents and Terms and Conditions.” All documents are in Polish.

Individual sub-funds’ investment risks are described in sections “Description of risks associated with investing in Sub-fund Units, including risks pertaining to the adopted investment policy of the Sub-fund,” and “Description of investment risks associated with holding units in a Sub-fund.” Unit holders’ rights are specified in the Prospectus in section “Concise description of Unit Holders’ rights.”

Neither the Company nor the investment funds guarantee that investment goals will be achieved. By investing in mutual funds, you purchase units (shares in these investment funds) and not the underlying assets invested by the fund. No investment is risk-free. Unit holders need to be prepared for a possible decrease in or a loss of money invested.The individual return on investment is not the same as the sub-fund’s investment performance and it depends on the value of the unit at the time of its sale and repurchase by the fund, as well as on fund fees and taxes applicable to the income earned on the investment. Taxation depends on the client’s situation and it may change in the future.

The presented financial information relates to a specific past period and the results achieved in the past do not guarantee returns on future investments. The result will differ depending on the market situation and period for which the investment is held. The presented results are exclusive of a given sub-fund’s fees and taxes.

The information provided herein does not represent an offer as defined in Article 66 of the Polish Civil Code, an investment advisory service or a recommendation on financial instruments, and it does not constitute information recommending or suggesting an investment strategy or an investment recommendation referred to in Articles 3(1)(34) and 3(1)(35) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse.

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 moderate, high or very 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 in Generali FunduszeFIO and Generali Obligacje Aktywny, Generali Obligacje Globalne Rynki Wschodzące, Generali Złota, Generali Euro, Generali Akcji Amerykańskich, Generali Akcji Europejskich, Generali Akcji Ekologicznych in Generali FunduszeSFIO.

There is a possibility to invest more than 35% of the asset value of Generali Korona Dochodowy, Generali Akcji: Megatrendy, Generali Korona Obligacje, Generali Stabilny Wzrost, Generali Korona Zrównoważony, Generali Złota, Generali Aktywny Dochodowy, SGB Dłużny, Generali Akcji Europejskich, Generali Akcji Amerykańskich in securities issued, backed or guaranteed by the Polish Treasury or the National Bank of Poland, and in the case of Generali Dolar, Generali Konserwatywny, Generali Surowców, Generali Akcji: Megatrendy and Generali Oszczędnościowy 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 document was prepared as at 31 March 2023 and it shall be effective until updated.