

# OUTLOOK 2024

Perfect forecasts do not exist. However, it is possible to adopt an informed approach to forecasting relying on many years of experience.

With this in mind, in the first part of our 2024 investment forecast, which will focus on macroeconomic assessment, we discuss:

- how we look at the geopolitical context,
- how inflation processes will proceed,
- what central bank policies are expected by the markets.

In the next part of the document we present our attitude and detailed forecasts regarding debt, equity and commodity funds.

## **WHAT IS HAPPENING IN GEOPOLITICS?**

Geopolitical risk has been the highest for twenty years. The world is becoming polarized and division into two competing blocks is progressing. Armed conflicts, along with side conflicts derived from them, are on the rise. For the time being, everything indicates that this year will be a year in which increased geopolitical risk will persist. It will be a factor driving an increased level of uncertainty in economic policy. Declining inflation and improved macroeconomic data should be alleviating factors. The geopolitical environment has a significant impact on the global supply chain of goods and services. After supply chain certainty collapsed between 2020 and 2022, we saw it bounce back to normal in 2023. Unfortunately, the intensification of the war in Ukraine and the new conflict in the Middle East, coupled with the risk of the conflict spreading and its impact on major maritime trade routes, have caused the supply chain security index to fall below zero again.

## **HOW WILL PRICES IN POLAND EVOLVE AS WE MOVE FORWARD?**

In Poland, base effects will play a significant role in shaping the inflation level, which will also depend on the decisions which will be taken with respect to maintaining the current level of energy prices and reduced VAT rates on food. Maintaining a zero VAT rate on food until March 2024 and frozen electricity prices should result in an inflation trough being reached in March 2024. The unfreezing of electricity prices in the second quarter of 2024 is likely to increase inflation by around 2 percentage points to a new, stable level above the November projection, where it will remain until the end of the year. 2024 will therefore be a year of two inflation speeds and is likely to end with inflation of around 5-6%.

## **WHAT ABOUT THE REST OF THE WORLD?**

Major global economies should also continue to experience disinflationary processes. China may be an exception as it is currently being affected by deflation processes that are expected to decelerate somewhat in 2024, causing inflation levels to rise.

Falling inflation is expected to have a positive impact on consumer sentiment, with a long-expected rise in real income and a favorable effect on consumption (in Poland and the eurozone, with a slightly weaker effect in the US). The consumer stimulus should have a positive impact on the demand and sentiment of entrepreneurs (especially in Poland).

## **WHAT WILL ECONOMIC GROWTH LOOK LIKE?**

In 2024, as the economic environment normalizes, both the disadvantages and the strengths of individual economies should become more visible. In Poland, GDP growth dynamics is expected to improve quarterly to reach around 3% by the end of the year (the current NBP's forecast in the central scenario is 2.6%). In the eurozone, economic growth in 2024 should also be higher than in 2023. The US economy, on the other hand, is expected to decelerate after a series of surprising positive results in 2023, unlike those of other economies. However, this will be a diverse year for the US and the euro area. In the first half of the year, we expect macroeconomic data to deteriorate and, in the second half, the economic landscape to recover and improve.

## **HOW WILL CENTRAL BANKS RESPOND TO THIS SITUATION?**

Falling inflation levels have significantly impacted how markets perceive the interest rate path. A year ago, the market estimated that in January 2024 the reference rate in Poland should be around 7%. Meanwhile, we are already at the level of 5.75%. Currently, markets expect central banks to relax their monetary policies sooner or later as inflation rates fall and macro data turns out not to be overly optimistic. The Polish Monetary Policy Council, contrary to market expectations, is quite likely to maintain rates at higher levels than those valued by the market.

## **BONDS**

Domestic long-term bonds are highly correlated with bonds from underlying markets (Germany, USA). A positive attitude towards debt securities from developed markets translates into higher optimism with respect to Polish bonds. The spread between bunds and US ten-year sovereign bonds remains higher than before the pandemic, which signals to investors that Polish securities still have a high performance potential.

Analysts expect the Federal Reserve (Fed) to reduce US interest rates in the 2nd quarter of this year or at the turn of the 2nd and 3rd quarter. This will support the developed bond markets, and thus also the Polish market.

In the following months, the expected drop in inflation rates will also be beneficial for Polish bonds. As disinflation begins, there will be room for interest rate cuts. Even if the Monetary Policy Council decides

against them, markets will bet on a decrease, as it is highly likely to occur in the US. This will support the short end of the Polish yield curve.

## **EQUITIES**

Last year was very favorable in terms of equity fund performance, however, it should be stressed that valuations are currently only slightly higher than at the end of 2021. Therefore, we continue to see potential for growth. Our optimism is supported by three arguments related to the Polish stock market:

- attractive valuations (a very high discount compared to developing markets),
- expected higher inflows, mainly driven by the development of pension products,
- very good financial standing and low levels of corporate debt.

Similarly, we are optimistic about equities of companies from developed countries. Last year, many of them struggled due to the challenging economic conditions. In 2023, high interest rates, increased labor costs or consumption optimization were not very helpful. There is much to suggest that the most difficult months may be behind us and companies have already managed to adapt to the new reality. Supporting macroeconomic data may be an additional growth driver, but even stabilization at current levels should be sufficient to improve the performance of companies.

## **COMMODITIES**

We assume that 2024 will be a neutral year for the commodity market. Commodities may be treated as part of portfolio diversification, but we believe that bond or equity markets will be relatively more attractive in 2024.

## **RISKS INVESTORS SHOULD CONSIDER IN 2024**

Worldwide:

- stricter monetary policies,
- a stronger than expected economic slowdown (deeper recession),
- weakness of the eurozone, including Germany in particular,
- escalation of geopolitical conflicts (Russia/Ukraine, Middle East, China/USA),
- strong US dollar,
- second wave of inflation.

Poland:

- increasing political tension,
- more difficult financing of the government deficit than expected,
- postponing of interest rate reductions,
- upward inflation surprises,
- no inflow of EU funds.

Debt sub-funds	Investment targets
<b>SHORT-TERM DEBT AND CORPORATE BONDS</b> Generali Konserwatywny Generali Korona Dochodowy Generali Aktywny Dochodowy Generali Oszczędnościowy Generali Profit Plus	5% - 7%
<b>SHORT-TERM EUR</b> Generali Euro	3% - 4%
<b>SHORT-TERM USD</b> Generali Dolar	4% - 5%
<b>LONG-TERM BONDS</b> Generali Korona Obligacje Generali Obligacje Aktywny	5% - 8%
<b>EMERGING MARKETS BONDS</b> Generali Obligacje: Globalne Rynki Wschodzące	5% - 10%
Equity sub-funds	Investment targets
<b>POLISH EQUITIES</b> Generali Korona Akcje Generali Akcje Małych i Średnich Spółek <b>EMERGING MARKETS EQUITIES</b> Generali Akcji Rynków Wschodzących	5% - 15%
<b>DEVELOPED MARKETS EQUITIES</b> Generali Akcji Europejskich	5% - 10%
<b>THEME EQUITIES</b> Generali Akcji: Megatrendy Generali Akcje Value Generali Akcji Ekologicznych Europejski Generali Akcji Ekologicznych Globalny	10% - 15%
Commodity sub-funds	Investment targets
Generali Złota Generali Surowców	0% - 10%
Mixed sub-funds	Investment targets
Generali Stabilny Wzrost Generali Korona Zrównoważony	5% - 12%

## LEGAL NOTICE

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The information provided herein is for marketing, promotional, and general informational purposes only and it does not constitute an agreement or information required by law. The information provided herein is not sufficient to make an investment decision and assess risks associated with investing in mutual funds. Before making final investment decisions, please first read the Key Information Document (KID) or the Alternative Investment Fund Client Information Document, and the Prospectus to learn more about the investment policy, risk factors, investment fund unit disposal, unit holder rights, fund fees, and applicable taxes. You may find them in our office or on our website: [www.generali-investments.pl](http://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 Fundusze FIO and Generali Obligacje Aktywne, Generali Obligacje Globalne Rynki Wschodzące, Generali Złota, Generali

Euro, Generali Akcji Ekologicznych Globalny, Generali Akcji Europejskich, Generali Akcji Ekologicznych Europejski 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 Ekologicznych Globalny 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).

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This document was prepared as at 22 March 2024 and it shall be effective until updated.