

Türkiye Hayat ve Emeklilik A.Ş.

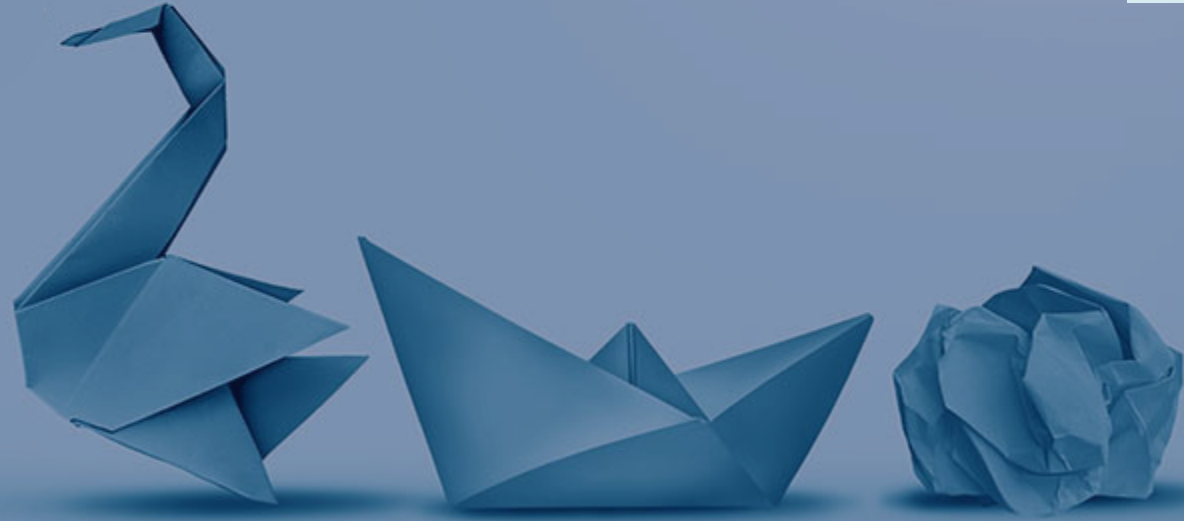
2025

Special Report

Transformation



**Economic
Research**



"We foresee that Türkiye's struggle with inflation in 2024 will continue in 2025, but the outlook for the following year will be relatively more optimistic. Regarding pension investment funds, we are not making any changes to our main strategy and continue to believe that TL-denominated assets will continue to stand out positively. "

The Organisation for Economic Co-operation and Development (OECD) forecasts that the global economy will grow by 3.2% this year. Despite geopolitical risks, the global economic performance in 2024 was truly a development worth appreciating. Even though global interest rates remain at historically high levels, it was particularly striking that the stock markets in the United States reached new peaks. While we share our view that the US economy is slowly moving into "park mode," we believe that despite the ongoing war right next door in the European region, it has fought well "for now" and will attract investors' attention in the upcoming period.

As a reminder, our global macro outlook for 2024 is "A Fork in the Road," where we have emphasized that both global and domestic stock markets are no longer without alternatives and that interest rate-based instruments should be included in portfolios. In 2025, a "transformation" process awaits us.

We believe it would be wrong to base this transformation solely on economic developments, as its effects will be much broader in scope.

The newly elected President of the United States, Donald Trump's new tariffs, his statements about leaving military alliances, and his stance against clean energy are emerging as the strongest factors in the transformation of the global economy. In the Eurozone, political uncertainty is increasing, and European industry is losing its competitiveness. Looking towards Asia, Japan's interest rate hikes are transforming "carry trade" positions in financial markets, while China's economic rebirth process seems likely to be a painful one.

While we believe it is still too early to label this transformation as either good or bad, we think it would be more appropriate to leave it to time. Despite the risks involved, we believe that the upcoming period will develop positively for our country.

We foresee that Türkiye's struggle with inflation in 2024 will continue in 2025, but the outlook for the following year will be relatively more optimistic. Regarding pension investment funds, we are not making any changes to our main strategy and continue to believe that TL-denominated assets will continue to stand out positively.

We wish 2025 to bring health and happiness to all of us.

We wish you an enjoyable read in advance.

The Resurgence of a Strong Dollar.

After growing concerns over a potential recession, strong macroeconomic data, discussions around the pace of interest rate cuts by the Federal Reserve (Fed), and uncertainties surrounding the elections, we have left behind a turbulent year. Following the elections, investor risk appetite increased, and the rise in both stock and cryptocurrency markets, buoyed by the Trump wave, was particularly noteworthy. Additionally, while global economic activity continues to slow down, the strong stance of the US economy, which supports "soft landing" scenarios, became one of the key factors strengthening the Fed's position.

Looking ahead, we can clearly state that with the new government, we will witness a "transformation" process in both domestic and foreign economic and political policies. We believe that the uncertainty regarding the policies to be implemented by the new US president may complicate asset pricing, and these policies could also influence the pace of the Fed's interest rate cuts. Depending on the size of the additional tariffs that Trump plans to impose on countries from which imports are sourced, we expect a period where US small businesses will attract more attention compared to large corporations.

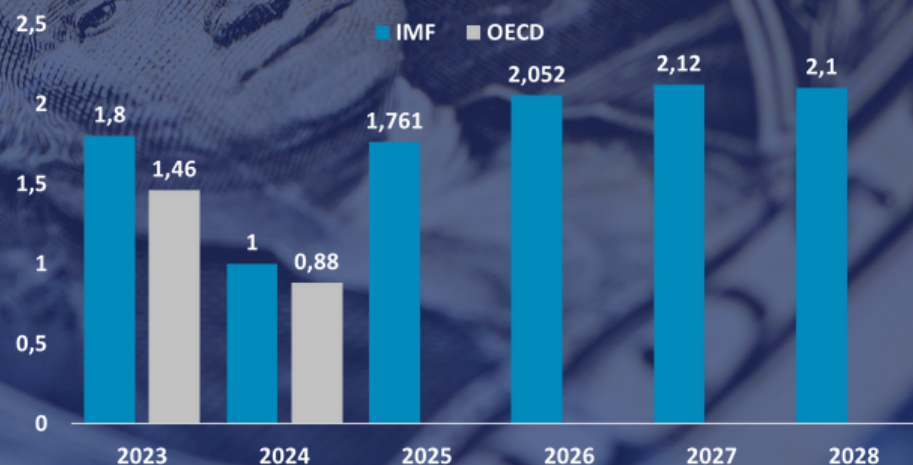
We believe that the gains made last year, particularly with the momentum from artificial intelligence and led by the technology sector, could be realized, and due to the appealing levels of US Treasury yields, there may be a shift in investor preferences during the first part of the year. Given the emphasis on a "strong dollar" by the country's new cabinet and president, we believe that other currencies and commodity prices may exhibit limited performance against the dollar.

Global Yield Matrix (%)

12.12.2024	United States	England	Germany	France	Japan
1Y	4,22	4,56	2,25	2,26	0,42
2Y	4,20	4,29	2,02	2,15	0,58
3Y	4,17	4,08	1,93	2,26	0,59
5Y	4,19	4,23	2,04	2,51	0,72
7Y	4,26	4,28	2,06	2,70	0,80
10Y	4,33	4,37	2,21	2,98	1,05
30Y	4,55	5,02	2,44	3,54	2,24

Source: EquityRT

Annual growth forecasts for the US economy, %



We think that US bond yields are at attractive points for trading.



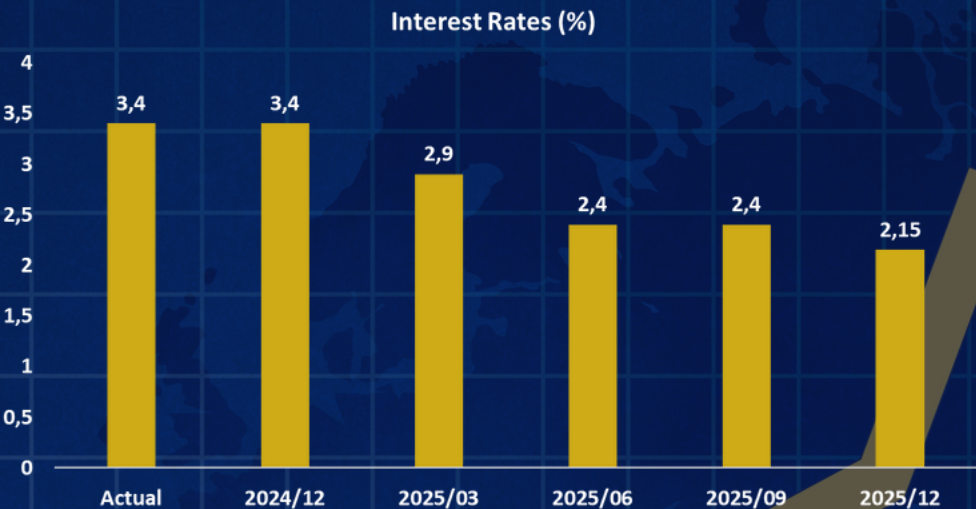
Uncertainty...

In Europe, where the dilemma between inflation and recession is most strongly felt, weak macroeconomic data, alongside election uncertainties, have been some of the prominent developments.

We would like to highlight that we believe political uncertainty in Europe will continue for some time. Last year, the rise of far-right parties dominated the European Parliament (EP) elections, and in Germany, the coalition government fell after disagreements over economic and industrial policies. Germany decided to hold early elections on February 23, and in France, the collapse of the government, which failed to gain a vote of confidence due to opposition from far-right lawmakers, deepened political uncertainty in the country.

On the other hand, the uncertainty regarding the additional tariffs that Trump plans to impose on European countries has exerted pressure on regional stock markets, and how the affected countries will respond to potential tariff increases in 2025 will be a key focus of the markets. We believe that in the upcoming period, Europe will witness not only political but also economic transformation. We would like to note that investments by regional governments in defense and technology sectors may increase, and shares of companies in these sectors could have higher return potential compared to businesses in other industries. Additionally, in a scenario where the Russia-Ukraine war is resolved, we believe European companies will play a significant role in the reconstruction of Ukraine.

On the central bank side, we expect that both the European Central Bank (ECB) and the Bank of England (BoE), which have entered a rate-cutting cycle, will gradually reduce the effects of tight monetary policy in 2025. It is also worth noting that if the Federal Reserve’s interest rate cuts slow down, while the ECB accelerates its own rate cuts, downward pressure on the Euro/Dollar exchange rate could increase.



Source: EquityRT (14.12.2024)

		Dec.2025	Dec.2024	Sep.2024	Jun.2024	Mar.2024
Manufacturing PMI	England	51,8	48	51,5	51,4	49,9
	Euro Area	52,3	45,4	44,8	45,6	45,7
	Germany	50	43,5	40,3	43,4	41,6
	France	50,6	44,4	44	45,3	45,8
	Italy	50,7	46,6	49	45,2	48,5
	Spain	51	52,9	50	53,7	52
	Netherlands	52,3	46,8	48	52	50,1

Source: EquityRT

We believe that in the upcoming period, Europe will witness not only political but also economic transformation.



Conditions are getting tougher.

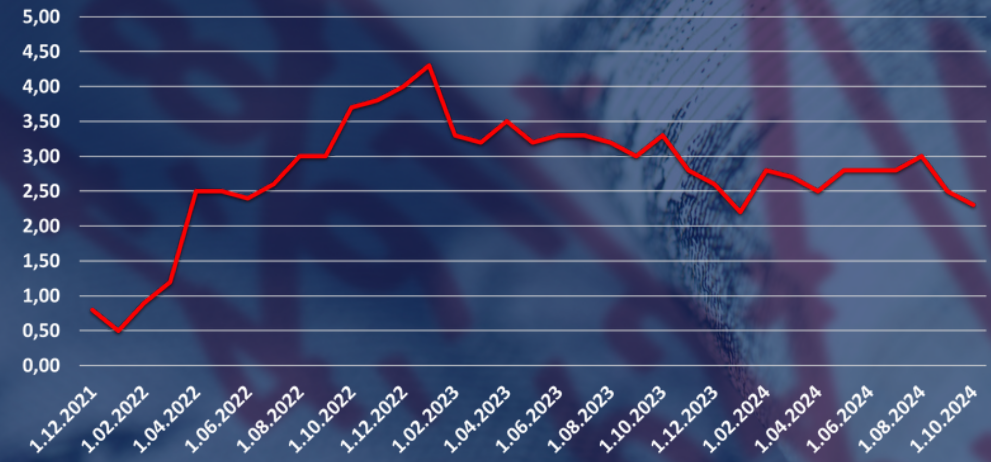
The Bank of Japan (BoJ) ended the era of negative interest rates globally by raising rates for the first time in 17 years in March, and then unexpectedly increased its policy rate to 0.25% during the July meeting. Following the decision, Japanese yen saw sharp gains against the dollar, leading to a wave of selling in global stock markets as "carry trade" investors were forced to close positions or meet margin calls. However, in the following days, market volatility eased after BoJ Governor Kazuo Ueda emphasized that they would not take any steps that could disrupt the markets.

On the other hand, in China, deflationary pressures persisted throughout the year, with economic data indicating that the slowdown in economic activity continued. While the government's successive stimulus packages were met with brief positive responses, they were insufficient to alleviate concerns about the country's economic stagnation.

Looking ahead, we believe that the level of additional tariffs Trump may impose on China and other countries, will be a key factor influencing investor decisions. Furthermore, we expect the Chinese government to continue with stimulus packages aimed at supporting economic activity. It is too early to assess whether these packages will be sufficient to revive economic vitality, but we do believe that China's focus on technology-driven growth will remain intact, and this process is likely to be difficult and challenging.

As for Japan, we think that the BoJ will continue raising interest rates depending on the trajectory of key macroeconomic indicators, including wage trends and currency movements. While the central bank may raise the policy rate to 0.75% by the end of 2025, it is important to note that this rate may evolve based on Trump's policies over time.

Japan Inflation (Annual,%)



Source: Ministry of Public Management (Japan)

CFETS RMB Index



Source: China Foreign Exchange Trade System (CFETS) and Economic Research Dep.

While Japan ended the negative interest rate period by raising interest rates for the first time in 17 years, the Chinese economy is hanging by a thread with the arrival of Trump.



The Pace of Stabilization is Accelerating.

Since the beginning of the year, tight monetary and fiscal policies have continued to be implemented, and inflation has remained a key agenda item throughout 2024. With the tightening measures, inflation peaked at 74.5% in May 2024, and we expect it to finish the year at around 45%. As a result of these tightening measures, economic growth has weakened, and we have witnessed a significant slowdown in domestic demand, but leading to a more balanced performance. The current account, however, began a rapid improvement process, particularly from the second half of 2024, with the current account deficit narrowing to \$7.7 billion by October.

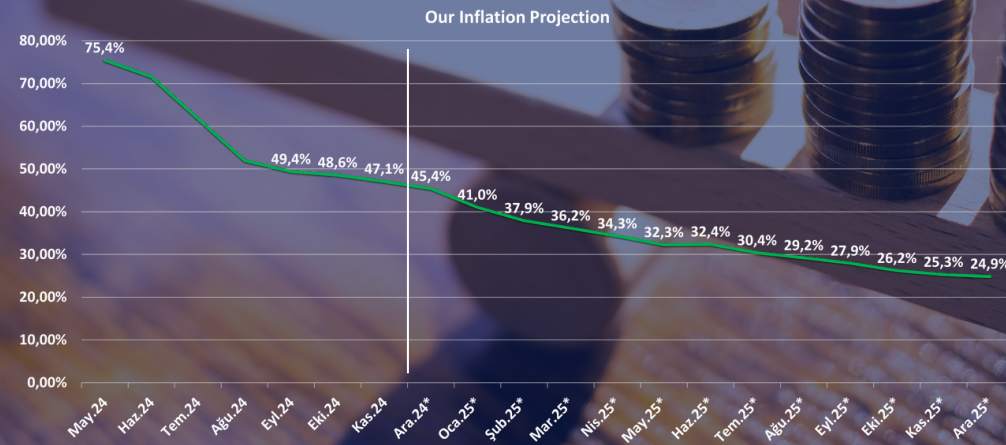
During this period, a series of positive reports from foreign investment institutions regarding the Turkish economy stood out, and the upward revision of the country's credit rating and outlook by international credit rating agencies was one of the key developments of the year. Türkiye was the only country to receive rating upgrades from three different credit rating agencies in a single year.

As a result, we expect that the tight monetary policy will gradually ease in the future. In this period, we foresee that interest in Turkish lira (TRY) assets will continue to increase. With the Central Bank of Türkiye (CBRT) beginning to take easing measures, fixed-income investment instruments such as money markets and debt instruments, which are based on interest rates, are expected to offer real returns to investors. Moreover, as interest rates gradually decline, we believe that Türkiye's 5-year credit default swap (CDS) will continue to decrease, leading to a stronger inflow of foreign investors into Turkish lira-denominated assets. In this context, we would like to emphasize that companies listed on the BIST 100 index offer higher return potential compared to other assets in terms of stock selection. Based on our expectation of a reduction in geopolitical risks, we also believe that Turkish companies involved in the reconstruction of Ukraine, Syria, and Lebanon will gain significant advantages in this field.

Historical Price/Earnings (P/E) Ratio of BIST100 Index

Period	Average P/E	Std Dev	Std Dev Range	Deviation	Valuation
	(μ)	(σ)	[$\mu - 2\sigma$ · $\mu - \sigma$, $\mu + \sigma$ · $\mu + 2\sigma$]	vs μ	
Last 1Y	6.09	1.20	[3.70 · 4.89 , 7.28 · 8.48]	-1.16 σ	Undervalued
Last 5Y	5.47	0.76	[3.94 · 4.71 , 6.24 · 7.00]	-1.02 σ	Undervalued
Last 10Y	6.52	1.18	[4.17 · 5.34 , 7.70 · 8.87]	-1.55 σ	Undervalued
Last 20Y	8.04	1.63	[4.78 · 6.41 , 9.67 · 11.30]	-2.05 σ	Cheap

Source: WorldPeRatio (16.12.2024)



Source: TURKSTAT

(*) Türkiye Hayat Emeklilik Economic Research forecasts.

Although the BIST 100 index exhibited limited performance in 2024, it has significant potential in parallel with the expected slowdown in inflation.



If you would be wealthy, think of saving as well as getting.

- Benjamin Franklin



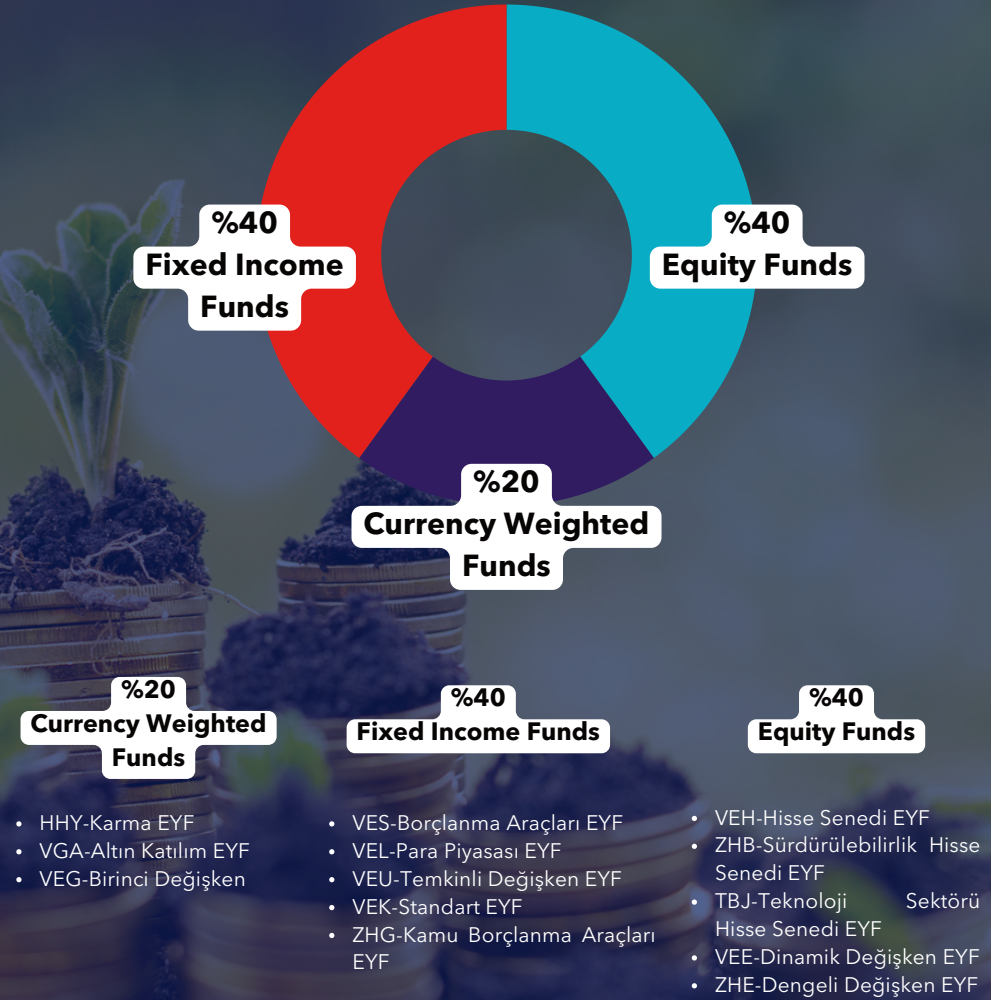
Fixed-Income Instruments Are Our Preference.

2024 was a year in which fixed-income instruments came to the forefront among asset groups due to the tightening policies in financial conditions. In both the securities and pension investment fund universe, fund types such as money market funds and debt instruments were predominantly favored by investors. Assuming that financial markets operate in cycles, this year, we recommended a TL-weighted fund distribution over currency-denominated funds to our participants. Looking ahead to 2025, we believe that with the loosening of financial conditions in both international and domestic markets, there may be a shift towards riskier assets.

With geopolitical and political risks reaching new highs, gold prices soared to new record levels throughout the year. Our expectation for 2025 is that gold may provide returns lower than other financial assets. Regarding the USD/TRY exchange rate, we expect that the early interest rate cuts by the Fed and the domestic monetary easing, which will be influenced by inflation trends, will result in positive real interest rates in Türkiye in 2025.

As a result, we foresee limited performance in the USD/TRY exchange rate's performance. In line with this, we believe that gold and external debt instrument funds can only be used for hedging purposes in portfolios during the year. In this context, our favored asset group for 2025 is fixed-income instruments, with a particular focus on debt instruments and money market funds, from which we expect strong performance. We also favor multi-asset-based variable funds and share high expectations for equity funds.

Base Scenario



For 2025, our favourite asset group continues to be fixed income instruments.





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