Private Banking Department

Economic Developments in 2024 and Expectations for 2025

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Executive Summary

- **The downward trend in global inflation continued in 2024.** US consumer inflation (CPI) peaked at 9.1 percent in 2022, declined to 3.4 percent by the end of 2023 and further to 2.9 percent by the end of 2024. In the Eurozone, inflation dropped from 2.9 percent at the end of 2023 to 2.4 percent by the end of 2024.

- **Central banks initiated interest rate cuts in 2024.** The Fed lowered its policy rate by a total of 100 basis points, bringing it down to the 4.25–4.50 percent range. The European Central Bank (ECB) adopted a more aggressive rate-cutting strategy than the Fed, reducing its refinancing rate to 2.90 percent by January 2025.

- **U.S. nonfarm payroll data indicated a stable economic recovery.** The unemployment rate rose to 4.3 percent in July, then declined to 4.1 percent by December. This decline signaled a strengthening labor market and job growth. Both the decline in unemployment rate and wage increases were key indicators of the U.S. economy's steady growth trajectory.

- **The Eurozone experienced weak economic activity in 2024.** The downturn in the manufacturing sector, similar to 2023, persisted throughout the year. The contraction in manufacturing and the slowdown in services sector growth led to a loss of momentum in the regional economy. The Eurozone's export volume remained under pressure, struggling to compete with major economies like the U.S. and China.

- **China achieved its 5 percent growth target for 2024.** However, despite government stimulus measures, domestic demand remained weak. Consumer inflation declined to 0.1 percent year-on-year in December, raising concerns about the possibility of a deflation.

- **Turkey adopted a tightening monetary policy throughout 2024.** The Central Bank of the Republic of Turkey (CBRT) gradually raised its policy rate from 42.5 percent to 50.0 percent in the first quarter and maintained it at this level until December. With the onset of a rate cutting cycle in December, the policy rate was reduced to 45.0 percent, and it is expected to gradually decline to 30.0 percent by the end of 2025.

- **Turkey entered a disinflationary phase in the second half of 2024**. Consumer inflation, which remained persistent in the first half of the year, lost momentum in the second half and ended the year at 44.4 percent. This slowdown has marked the transition to a disinflationary path.

- **Economic activity in Turkey began to cool down.** The Turkish economy grew by 5.3 percent, 2.4 percent, and 2.1 percent year-on-year in the first three quarters of 2024, respectively. While growth in the first quarter exceeded expectations, the second and third quarters remained below expectations. The economy is expected to grow by 3.0 percent for the full year.

- **The CBRT's net reserves, excluding swaps, saw a rapid recovery in 2024.** The decline in domestic dollarization and the increase in foreign investors' carry trade positions contributed to the CBRT's net reserves, which surged from negative $45 billion to approximately positive $33 billion. This marked a return to positive territory after a long period. As of January 2025, net reserves continue to increase.

- **The unwinding of foreign exchange-protected deposit accounts (KKM) accelerated in 2024.** Due to macroprudential measures taken by the CBRT to phase out KKM accounts and the real appreciation of the Turkish lira, a significant decline was observed in these deposits. As of early 2025, the KKM balance has fallen below $30 billion.

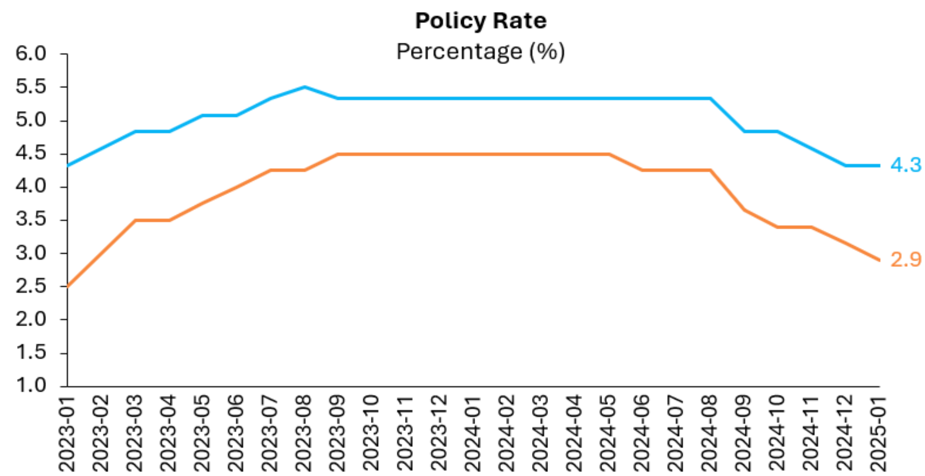
Global Economic Outlook for 2024

Normalization in Central Banks' Tightening Policies and Inflation Outlook

One of the key indicators of the global economic theme in 2024 was the steps taken by central banks to balance the effects of the monetary tightening policies implemented in 2022 and 2023. In particular, central banks in developed economies began gradually reassessing the high-interest rate policies they had used to control inflationary pressures. To mitigate the risk of economic stagnation, various measures were introduced to limit the adverse effects on growth. While efforts were made to maintain economic stability through stimulus packages and liquidity adjustments, a patient and gradual approach was adopted in interest rate cuts to avoid reigniting inflationary pressures.

In 2024, central banks initiated a gradual easing process.

Following two years of tight monetary policies, the normalization process that began in 2024 had significant impacts on global economic balances. Inflation rates generally exhibited a downward trend, yet high price levels in the services sector remained a key risk factor in the fight against inflation. Although economic growth slowed compared to previous years, the global economy largely maintained a stable outlook, staying clear of recession risks.

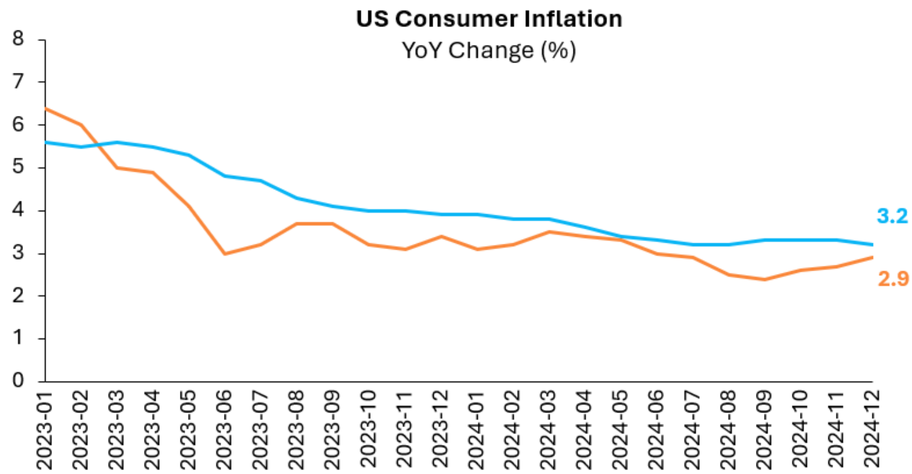


Source: Bloomberg

U.S. Economic Outlook and the Federal Reserve's Monetary Policy

The U.S. Federal Reserve (Fed), after maintaining a tight monetary policy throughout 2023, adopted a more cautious approach in 2024 to balance inflation and economic growth. With the decline in inflation and the slowdown in the labor market, the Fed eased its monetary policy to support economic growth.

Until September 2024, the Fed made no changes to its policy rate, keeping it steady in the 5.25–5.50 percent range, the highest level since 2001. As confidence grew that inflation was moving toward the 2 percent target, the easing cycle began in September. The Fed implemented its first rate cut in approximately four and a half years, lowering the policy rate by 50 basis points to the 4.75–5 percent range. Following the first rate cut, additional 25 basis point reductions were made in November and December, bringing the policy rate to the 4.25–4.50 percent range by the end of 2024.



Source: Bloomberg

The Fed lowered its policy rate to the 4.25-4.50 percent range. Core inflation declined to 3.2 percent at the end of the year.

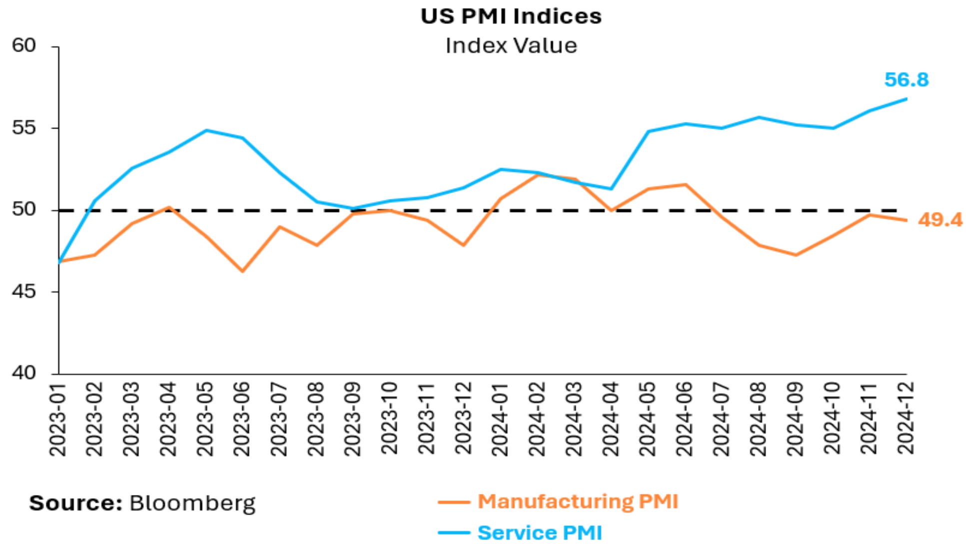
Consumer inflation, which had declined from its peak of 9.1 percent in June 2022 to 3.4 percent by the end of 2023, rose to 3.5 percent in March 2024. The persistence of service inflation indicated that reaching the 2 percent target would be challenging unless there was a significant weakening in the labor market. By September, consumer inflation had fallen to 2.4 percent but increased again in the remaining months of the year, ending 2024 at 2.9 percent. The primary driver of inflation in the last quarter of 2024 was the rise in energy prices. Meanwhile, core inflation, which excludes volatile energy and food prices, followed a downward trend throughout the year, declining from 3.9 percent to 3.2 percent. This decline in core inflation particularly reinforced confidence that inflation was on track to approach the 2 percent target.

Despite the annual slowdown in inflation, the Fed's decision to keep interest rates at high levels raised concerns about economic deceleration. The U.S. economy grew by 1.4 percent in the first quarter, falling short of expectations. This 1.4 percent growth marked the lowest rate since the second quarter of 2022. In the second quarter, growth reached 3 percent, primarily driven by consumer spending, private inventory investments, and increases in non-residential fixed investments. In the third quarter, the U.S. economy exceeded forecasts, expanding by 3.1 percent. However, in the fourth quarter, growth slowed to 2.3 percent, coming in below expectations.

The 2024 nonfarm payroll data indicated that the U.S. economy was undergoing a steady recovery. The unemployment rate, which had risen to 4.3 percent in July, declined to 4.1 percent by December. This decrease signaled a strengthening labor market and an increase in employment. Additionally, employee earnings showed a positive trend. In 2024, average hourly earnings increased by 3.9 percent. When considered alongside inflationary pressures and interest rate policies, this rise reflected an improvement in household incomes. Both the decline in the unemployment rate and wage increases are important indicators that the US economy is on a steady growth path.

2024 was more favorable for the U.S. service sector activities compared to 2023. The Services Purchasing Managers' Index (PMI) remained in the expansion zone throughout all 12 months.

However, the manufacturing sector experienced another weak year compared to the service sector. The Manufacturing PMI stayed in the contraction zone during the second half of the year.



- **Eurozone Economic Outlook and Activities**

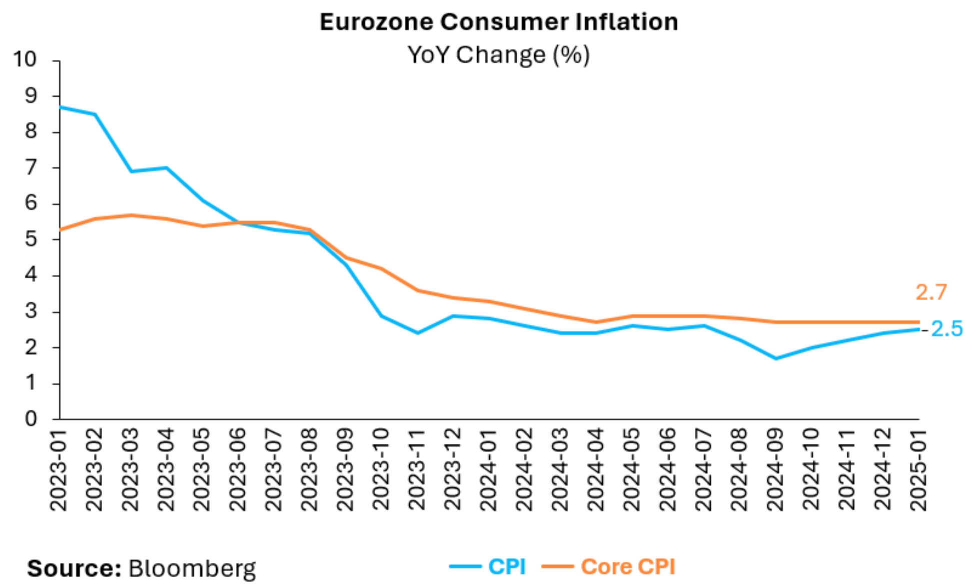
The ECB eased its tight monetary policy by implementing four rate cuts in 2024. Inflation in the Eurozone remained under control.

In Europe, the European Central Bank (ECB) began easing its tight monetary policy in the second half of 2024 as inflation showed progress toward target levels. Despite the moderate inflation trend, the weak economic growth outlook prompted the ECB to implement rate cuts. The negative outlook in the manufacturing sector persisted throughout the year, similar to 2023. Eurozone Manufacturing PMI remained below the 50 threshold, indicating contraction. The downturn in the manufacturing sector, coupled with a lack of service sector growth, led to a weakness in the regional economy. Germany, the region's economic powerhouse, delivered a weak performance in 2024, negatively impacting overall economic activity in the Eurozone. The region's export volume remained under pressure as it struggled to compete with major economies such as the U.S. and China. The Eurozone recorded annual growth of 0.9 percent in the fourth quarter of the year.

Throughout 2024, the ECB implemented four rate cuts in response to the weakening economy. Keeping inflation under control, maintaining a strong labor market, and the unemployment rate reaching record-low levels have provided the ECB with room for interest rate cuts. In June, the ECB initiated a 25-basis point rate cut, bringing the refinancing rate down to 4.25 percent. The central bank continued with additional cuts in September, October, December, and January 2025, ultimately lowering the refinancing rate to 2.90 percent.

In the Eurozone, inflation followed a moderate trend in 2024 after declining to 2.9 percent in 2023. Although it dropped to 1.7 percent in September, rising energy prices led to an increase, bringing it to 2.4 percent by the end of the year and 2.5 percent in January 2025.

Core inflation, which excludes energy and food prices, exhibited a downward trend throughout 2024, decreasing from 3.4 percent to 2.7 percent. In January 2025, it remained stable at 2.7 percent.



Asian Economic Outlook

China's growth exceeded the 5 percent target.

China successfully met its 5 percent growth target for 2024. While growth remained below 5 percent in the second and third quarters, the implementation of stimulus packages in the final months of the year helped push the annual growth rate to 5.4 percent. Although the growth target was achieved with the support of government incentives, domestic demand remained weak. In December, consumer inflation fell to 0.1 percent year-on-year, raising concerns about the possibility of a deflation. Meanwhile, the downward trend in producer prices persisted.

The services sector in China remained strong throughout 2024, with the Services PMI staying in the expansion zone. Retail sales grew by 3.7 percent in 2024, following a 7.2 percent increase in 2023. Meanwhile, industrial production exceeded expectations, expanding by 6.2 percent. Data from December showed the strongest increase since April. The Manufacturing PMI, a key indicator of manufacturing activity, exhibited a mixed trend throughout the year. It remained in the contraction zone for seven out of twelve months, and during expansionary months, it barely surpassed the 50 threshold. However, the Manufacturing PMI declined to 49.1 in January 2025 after staying in the expansion zone during the last three months of 2024.

The real estate sector continued to put pressure on economic growth in 2024. After declining by 9.6 percent in 2023, real estate investments fell by another 10.6 percent in 2024, extending their downward trend. Amid ongoing debt issues and reduced investments, housing prices continued to decline. Measures taken to stimulate the market failed to produce the expected impact.

Source: Bloomberg

The Bank of Japan ended its negative interest rate policy.

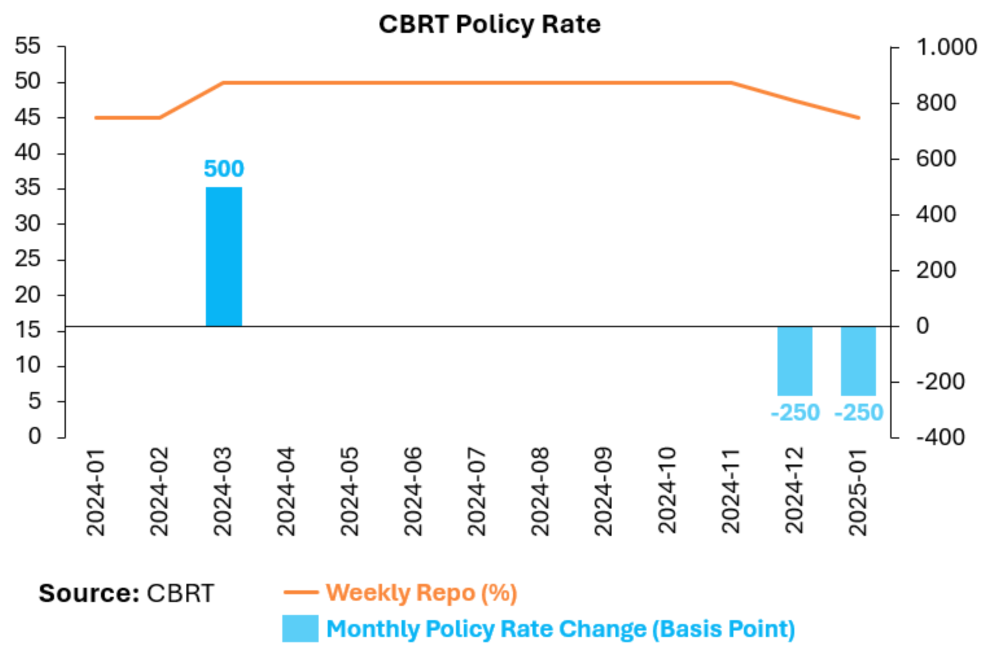
One of the most significant turning points for the Japanese economy in 2024 was the Bank of Japan's (BoJ) decision to end its negative interest rate policy by raising interest rates for the first time in 17 years. Rising wages and increasing inflation were key factors behind this historic move. In July, the BoJ raised its policy rate to 0.25 percent. As of 2025, the central bank continued its rate hikes, increasing the rate to 0.5 percent in January. BoJ Governor Kazuo Ueda emphasized that wage and price increases were broadening and stated that if these trends persisted, interest rates could be raised gradually. The pace and timing of future rate hikes will depend on economic and inflationary developments.

Turkey's Economic Outlook for 2024

Monetary Policy

The CBRT maintained its tight monetary policy throughout 2024, and real interest rates moved into positive territory.

2024 was marked by the economic administration's strong commitment to combating inflation and the implementation of a tightening monetary policy. In the first quarter of 2024, the Central Bank of the Republic of Turkey (CBRT) resumed its rate hikes, gradually increasing the policy rate from 42.5 percent to 50.0 percent. In addition to interest rate hikes, macroprudential measures introduced throughout the year contributed to simplification of regulations and significant progress in inflation control. The determined policy stance, combined with base effects, led to improvements in the inflation outlook and a cooling in the economic activity. This paved the way for the CBRT to initiate a rate-cutting cycle in December. As a result, in the final month of 2024, the CBRT implemented a 250 basis point rate cut, lowering the policy rate from 50.0 percent to 47.5 percent. Despite the beginning of a rate-cutting cycle, the central bank remained focused on controlling inflation. By maintaining fiscal tightness and positive real interest rates, the CBRT continued to prioritize price stability.

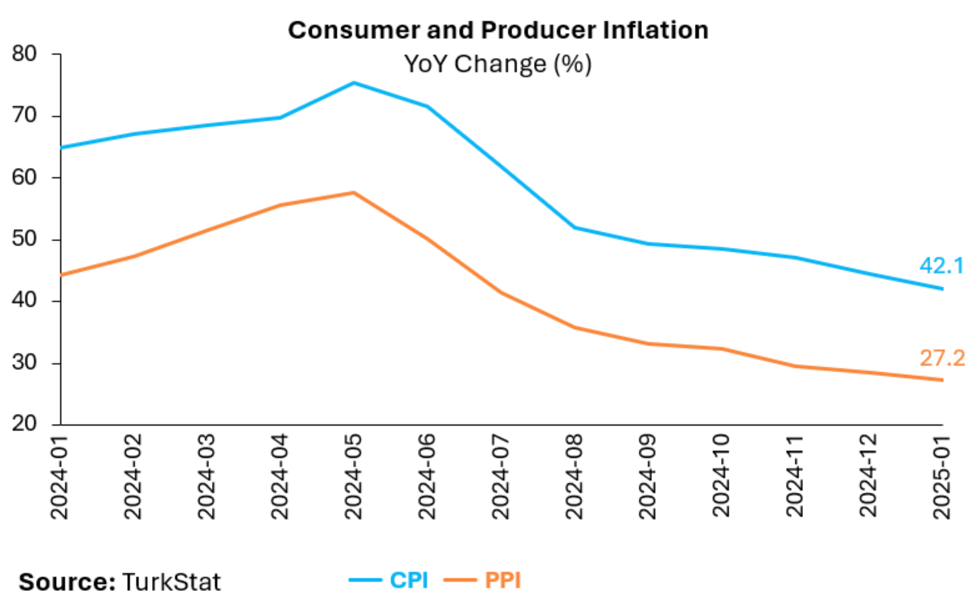


Inflation Indicators

With the contribution of the tight monetary policy, the economy transitioned to a disinflationary path.

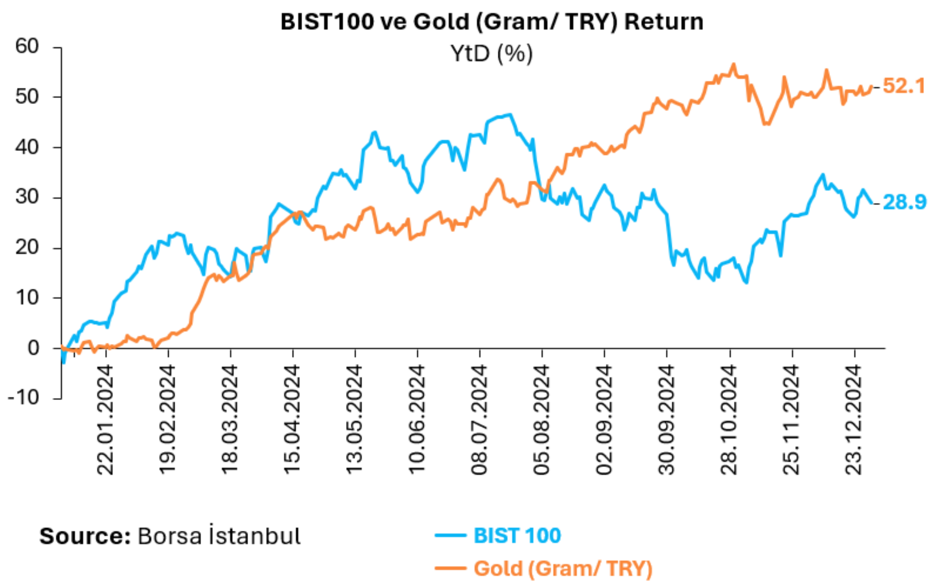
In the first half of 2024, consumer inflation remained persistent. However, from the second half of the year onward, a loss of momentum in consumer prices was observed, marking the transition to a disinflation path. According to data from the Turkish Statistical Institute (TÜİK), annual inflation for 2024 was recorded at 44.4 percent. The year-end inflation target was revised to 44.0 percent in November following the CBRT's inflation report. With this revision, the actual year-end inflation slightly exceeded expectations. Breaking down the data, inflation in the transportation sector stood at 25.9 percent, making it the main group with the lowest increase. In contrast, the highest inflation increases were recorded in education at 91.6 percent, housing at 69.0 percent, and lastly with restaurants and hotels at 57.1 percent. Despite high policy rates, the delayed effects of monetary policy, deteriorating inflation expectations, inflation inertia, administered price hikes, and rising prices in the services sector—particularly in the housing group, which monetary policy has limited influence over—contributed to the slower-than-expected disinflation in the second half of the year. In January 2025, monthly inflation was reported at 5.0 percent, exceeding expectations, while annual inflation declined to 42.1 percent due to the high base effect from the previous year.

During this period, a similar decline was observed in core inflation. According to data published by TÜİK, the core inflation indicators CPI (B) and CPI (C) increased by 43.9 percent and 45.3 percent year-on-year, respectively. Meanwhile, producer price inflation (PPI) recorded an annual increase of 28.5 percent. The slowdown in producer prices also supported the decline in consumer inflation. In January 2025, PPI maintained its downward trend, recording an annual increase of 27.2 percent.



In 2024, while the BIST 100 index provided a return of 31.6 percent, the BIST Participation 50 index had an annual return of 23.2 percent.

As Turkey closed another inflationary year, an analysis of asset class returns shows that Borsa Istanbul's BIST 100 index ended 2024 with a 31.6 percent increase, closing at 9,830.6 points. Meanwhile, gold per gram closed the year at 2,984.4 TL, recording a 52.1 percent annual increase, outperforming inflation. Silver per gram also saw a significant rise, increasing by 45.2 percent year-on-year and closing at 32.9 TL.

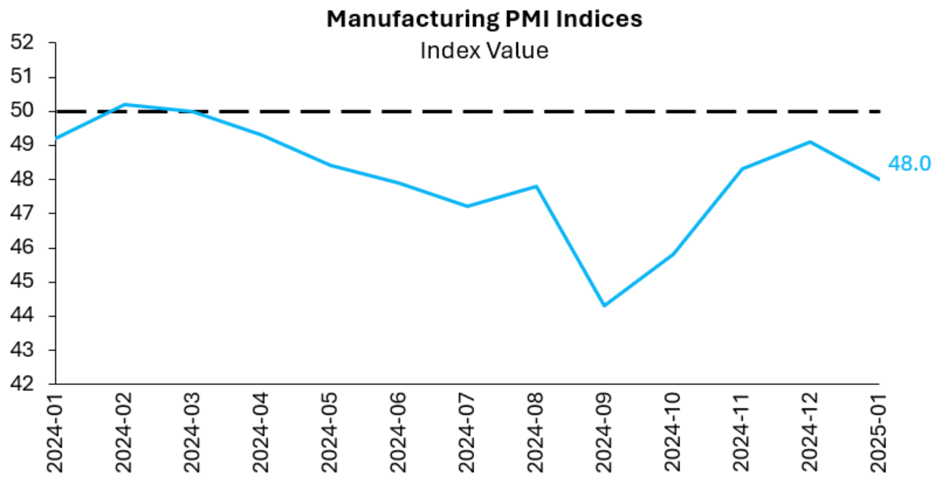


- ### Economic Activity and Growth Indicators

The Turkish economy grew in line with expectations in the first quarter of 2024 but showed weaker growth in the second and third quarters, falling below expectations. The underperformance in the second and third quarters of 2024 was mainly driven by the contraction in the industrial sector. The Medium-Term Program (OVP) set the 2024 year-end growth target at 3.5 percent, while the IMF's year-end growth expectation for 2024 was 3.0 percent.

Since the second quarter of the year, the negative impact of high interest rates on operating conditions became more pronounced in industrial production. The Manufacturing PMI, which was reported at 49.2 in January, remained below the threshold of 50.0 throughout the year, indicating a contraction in the manufacturing sector. The most recent Manufacturing PMI data for January 2025 was recorded at 48.0. In contrast, the service sector demonstrated overall resilience and supported growth throughout the year.

In 2024, a somewhat more positive trend was observed in the labor market. As of November 2024, the seasonally adjusted unemployment rate was recorded at 8.6 percent. At the beginning of the year, the unemployment rate stood at 9.0 percent, with the lowest rate of the year reported in May at 8.5 percent.



Source: İstanbul Chamber of Industry

Economic Outlook for 2025

Our Expectations for Global Markets in 2025

Global economy in 2025 will see both growth opportunities as well as geopolitical and trade risks.

2024 marked significant achievements in central banks' battle against inflation, with increased confidence in reaching the 2 percent inflation target. However, 2025 signals the onset of a more challenging period, both economically and politically. The rise in political and geopolitical uncertainties, the direction of fiscal policies, and their potential impacts on economic growth are creating a more uncertain economic environment for 2025. According to projections from international organizations like the OECD and IMF, the global economy is expected to grow by 3.3 percent in 2025, a slight increase compared to the 3.2 percent growth in 2024. While stronger growth is expected for most countries compared to 2024, slower growth is anticipated in both the U.S. and China.

In 2025, the continuation of interest rate cuts by central banks will be one of the key factors supporting economic growth. While the monetary policies of advanced economies will continue to play a decisive role in global markets, this positive outlook could be overshadowed by geopolitical tensions and trade risks. The election of Donald Trump as the U.S. President and his potential reintroduction of protectionist trade policies and tariffs could negatively impact global trade flows. This situation is contributing to an increase in economic uncertainty for 2025.

- ### U.S. Outlook for 2025

2025 marks the beginning of a new political era for the U.S. economy. With Donald Trump assuming the presidency for a second term, significant changes in the country's economic policies are expected. The new administration's priorities include tax cuts, protectionist trade policies, and immigration regulations. The way these policies are shaped and implemented will be key factors in determining the overall trajectory of the U.S. economy in 2025.

In 2025, Trump's policies and the Fed's cautious steps will have impacts on the economy.

Despite high interest rates, the U.S. economy has shown strong resilience in recent years. For 2025, the Fed projects real economic growth to reach 2.1 percent. It has also revised its inflation expectation for the Personal Consumption Expenditures Price Index (PCE) to 2.5 percent. Potential tightening of immigration policies could create a labor supply shortage, pushing wages up and adding additional pressure on inflation.

The Fed closed 2024 with a total of 100 basis points in rate cuts. Projections for 2025 suggest that the Fed will adopt a more hawkish stance, keeping rate cuts limited. Despite calls from President Trump to lower interest rates, the Fed is likely to follow a wait-and-see approach due to inflationary pressures. Interest rate cuts in 2025 may be limited to 50 basis points, with the first cut potentially occurring in June or July. Additionally, Trump's potentially inflationary trade policies could delay rate cuts into 2026.

- ### Eurozone Outlook for 2025

The challenges in the European economy will continue in 2025.

The year 2025 stands out as a period in the European economy marked by continued political uncertainties and macroeconomic risks. The European Central Bank (ECB) adopted a more aggressive interest rate cutting policy in 2024 compared to the Fed, due to the slowdown in inflation and weakening economic activity. In 2025, further interest rate cuts are expected due to weak growth and cooling inflation. However, the pace and scope of these cuts will depend on the balance struck between controlling inflation and supporting growth.

ECB President Lagarde has stated that the European economy has lost momentum due to the contraction in the manufacturing sector and the lack of significant growth in the services sector, while also pointing out potential risks in global trade. In Europe, which has lost competitiveness against major economies like the U.S. and China, exports may continue to remain weak. Political uncertainties in key economies such as Germany and France also limit growth expectations. Furthermore, the ongoing Russia-Ukraine war or disruptions in energy supply are developments that could place additional pressures on the region's economy.

- ### China Outlook for 2025

China's record-high trade surplus makes its economic growth more vulnerable to global trade wars in 2025.

2025 is shaping up to be a period for the Asian economy marked by growth challenges and global trade risks. China, the region's largest economy, will face difficulties dealing with weak domestic demand and vulnerabilities in the real estate sector. In 2024, China's trade surplus reached a record high of 992.1 billion dollars, but weak domestic demand and consumer confidence have made the economy's reliance on exports even more apparent. This situation could make the Chinese economy vulnerable to adverse developments in foreign trade, such as potential increases in tariffs. The pressure on exports could increase, making economic recovery more challenging and making it harder to achieve sustainable growth without domestic market support.

Although China's economy grew by 5.4 percent in 2024, driven by the impact of stimulus packages introduced in the final months of the year, growth is expected to remain below 5 percent in 2025. On the other hand, the Chinese government is likely to continue announcing new stimulus measures in 2025 to promote consumption and keep economic growth alive. It will be important to monitor the effects of a potential trade war, and any announcements related to comprehensive stimulus packages on the Chinese economy.

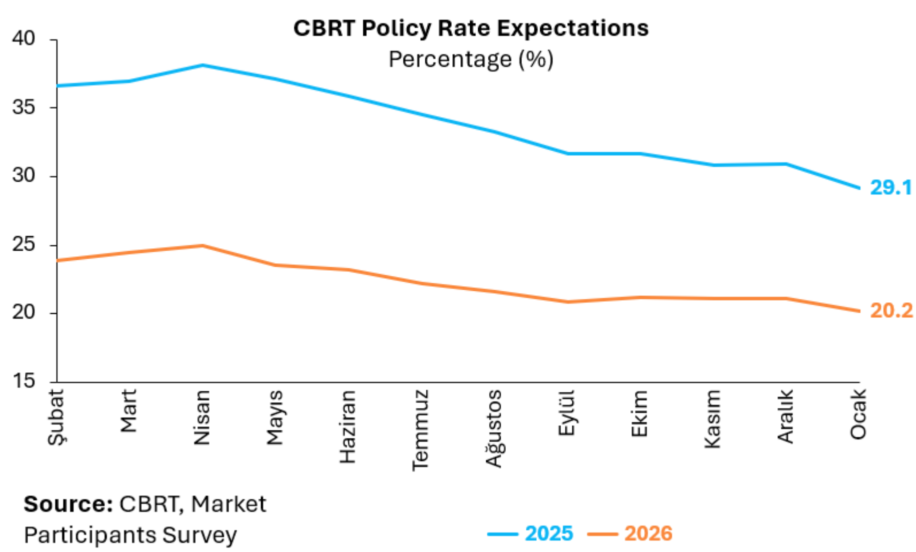
Our Expectations for Turkey in 2025

- ### Monetary Policy and Central Bank Decisions

We expect the policy rate in Turkey to continue to decrease gradually in 2025 and close the year at 30.0 percent.

We expect easing interest rate cycle, which began in December 2024, to continue gradually in 2025. We believe that financial and monetary tightness will be maintained, with the policy rate kept in line with expected and actual inflation to ensure that real interest rates remain in positive territory. Based on this projection, we expect the Central Bank of the Republic of Turkey (CBRT) to gradually reduce the policy rate, which was lowered to 45.0 percent in January 2025 by 250 basis points, to 30.0 percent by the end of the year. The CBRT's continued prioritization of price stability in its monetary policy strengthens expectations for inflation reduction and helps reduce macroeconomic uncertainties.

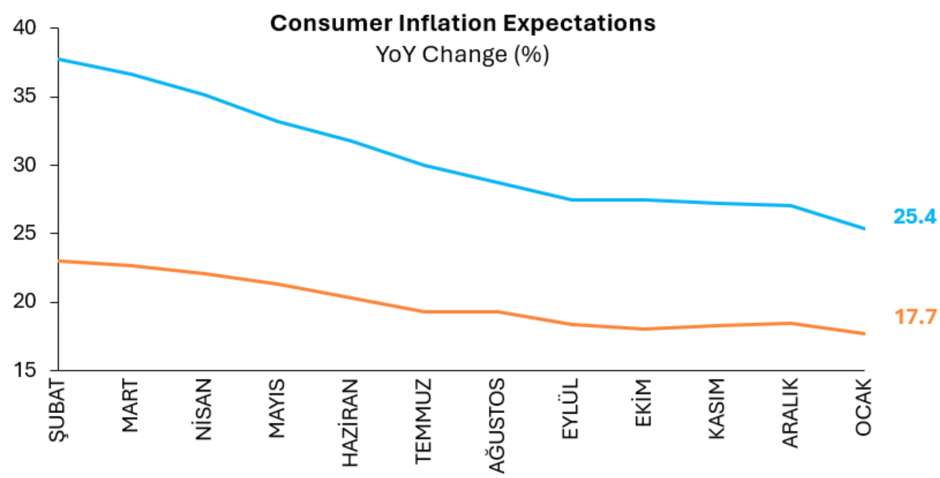
With decreasing uncertainties, foreign investors' appetite for portfolio investments in Turkey is increasing. In fact, in 2024, foreign investors showed strong interest in Turkish lira-denominated assets through carry trade and domestic government debt instruments. If the disinflationary period is completed and price stability is achieved with tight monetary policies, foreign investors' appetite for Turkish lira-denominated risky assets, particularly stocks, may increase.



Inflation Outlook

We believe that the disinflation process will continue.

Domestic demand slowed down while price increases lost momentum as a result of the tight monetary policy implemented in 2024. Although the economic slowdown and the loss of momentum in price increases deviated from the government's initial targets at the beginning of the year, they eventually fell within the revised range towards the end of the year, marking the beginning of the disinflation process. The alignment of minimum wage increases with expected inflation, the commitment to considering inflation trends in administered and regulated price adjustments, and expectations of a tighter fiscal policy than the previous year indicate continued improvement in inflation expectations for 2025. In this context, we expect annual inflation to decrease below 40 percent by the end of the first quarter and continue to decline through the rest of the year, ending at 27.5 percent. Upward risks to the inflation outlook include food and energy prices, inertia caused by deteriorating expectations, and currency developments.



Source: CBRT, Market Participants Survey

Current Account Balance

We anticipate that the positive outlook in the current account balance will continue in 2025.

The risks arising from Trump's policies in global trade, the weak trend in external demand due to the slowdown of economic activity in export markets, changes in energy prices, dollarization trends, and the performance of the tourism sector will play a decisive role on the current account balance in the upcoming period. As of the first half of 2024, the current account deficit reached 20.1 billion dollars on an annualized basis, but it declined to 7.4 billion dollars by November. We expect the current account deficit to be around 17.0 billion dollars by the end of 2025. Maintaining the quality of financing is crucial for the continuation of the normalization trend in the current account balance. In this context, maintaining consistent and predictable policies could increase interest in Turkish lira-denominated assets, potentially offering a positive outlook in terms of portfolio investments and reserve accumulation.

Credit Rating Outlook

In 2024, expectations leaned towards an improvement in Turkey's credit rating. Indeed, with a significant reduction in macroeconomic vulnerabilities, credit rating agencies raised

Turkey's credit rating by two notches. Despite this improvement in credit ratings, Turkey's rating still remains three to four notches below investment-grade status, classified in the high-risk category. In the coming period, for the credit rating to rise above the investment-grade level, key factors will include further improvements in the current account balance, the recovery of central bank reserves, and the effectiveness of the economic policies implemented, particularly in achieving price stability. We believe that, if tight monetary policy is maintained and fiscal policy works in coordination with monetary policy, the positive trend in the credit rating will continue in 2025. Although we have a positive outlook on credit rating assessments, it may take more time than expected for Turkey's credit rating to reach investment-grade status.

Asset Allocation Strategies

The strong Turkish Lira outlook continues domestically.

The slowdown in economic activity, the pressure of high interest rates on corporate profitability, and the continued returns of fixed-income assets exceeding expected inflation are key factors suppressing risk appetite. Low risk appetite is also dampening expectations for Turkish equities.

Despite the weak outlook in the short term, CBRT's initiation of the interest rate cut cycle, improvements in inflation expectations, and potential reductions in country credit risk are factors that are expected to support the stock market in the medium to long term. Additionally, with Turkey maintaining its discount among emerging markets, we expect foreign investors to accelerate their entry into Turkey, particularly in the second half of the year.

We believe that it is necessary to evaluate the first and second halves of 2025 separately. In the first half, due to the strong Turkish Lira outlook and the weakness in external demand, we do not expect a positive differentiation in export-oriented sectors. However, sectors that provide sustainable cash flow, will benefit from the interest rate cuts, have strong consumer demand, and are able to play an active role in the rebuilding processes of Syria and Ukraine, while not being negatively affected by geopolitical tensions, could remain prominent. Investors looking to invest heavily in Turkish equities may consider Kuveyt Türk Asset Management Equity Participation Fund (Fund Code: KPC) within this framework of dynamics.

We expect CBRT to continue its interest rate cuts in line with the decline in annual inflation. While the easing process will continue, both the realized and expected inflation rates will provide opportunities for real returns on Turkish lira-denominated fixed-income assets. The expectation that the USD/TL exchange rate will remain below 45 TL by the end of 2025 further enhances the attractiveness of Turkish lira-denominated fixed-income assets. Investors looking to invest in TL-based fixed returns may consider Kuveyt Türk Asset Management Money Market Participation Fund (Fund Code: KLU). Qualified investors may evaluate Kuveyt Türk Asset Management Short Term Participation Hedge Fund (Fund Code: KSV).

Global markets will face uncertainty in 2025 due to President Trump's economic policies and the Fed's monetary policy decisions. However, we do not expect this uncertainty to have a significant negative impact on U.S. stock markets. The continued growth of the U.S. economy and the upward trend in corporate earnings will continue to support the foreign stock market. In this context, we highlight two of our funds that invest in international equities. Kuveyt Türk Asset Management Sustainability Participation Fund (Fund Code: KSR), which invests in foreign company stocks with strong performance in environmental, social, and governance areas, and Kuveyt Türk Asset Management Technology Participation Fund

(Fund Code: KTJ), which invests in foreign company stocks in fields such as artificial intelligence, software, chip technology, and other technological developments, can be preferred.

Precious metals exhibited weak performance in November and December 2024, impacted by the strengthening of the dollar and rising bond yields. However, they experienced a sharp rise in January. While the increase in tariffs and rising geopolitical risks support gold, the continuation of high interest rates for a period may put downward pressure on gold prices.

While we do not expect a strong upward trend for precious metals, we believe that given the current risks and uncertainties, they should be included in portfolios with a limited allocation. With this perspective, Kuveyt Türk Asset Management Precious Metals Participation Fund (Fund Code: KUT) may be preferred. Those who wish to invest solely in gold can consider the KZL fund (the only fund in Turkey that allows entry with gram gold) or the KZU fund.

General Investment Recommendations for Risk Groups

General investment advice is provided based on investors' risk tolerance. Risk tolerance encompasses both an investor's willingness to take risks and their ability to do so (having sufficient savings and ongoing income in case of a loss).

Investors with a low-risk tolerance do not want to experience any loss on their principal. Those in the medium-risk group may accept small losses in exchange for potentially higher returns. High-risk investors, on the other hand, are willing to risk a significant portion of their principal for the possibility of high returns. Within this classification, our portfolio recommendations for three different risk profiles are as follows.

Low Risk:

- 90% KLU (Kuveyt Türk Asset Management Money Market Participation Fund)
- 5% KPC (Kuveyt Türk Asset Management Equity Participation Fund)
- 2,5% KUT (Kuveyt Türk Asset Management Precious Metals Participation Fund)
- 2,5% KTJ (Kuveyt Türk Asset Management Technology Participation Fund)

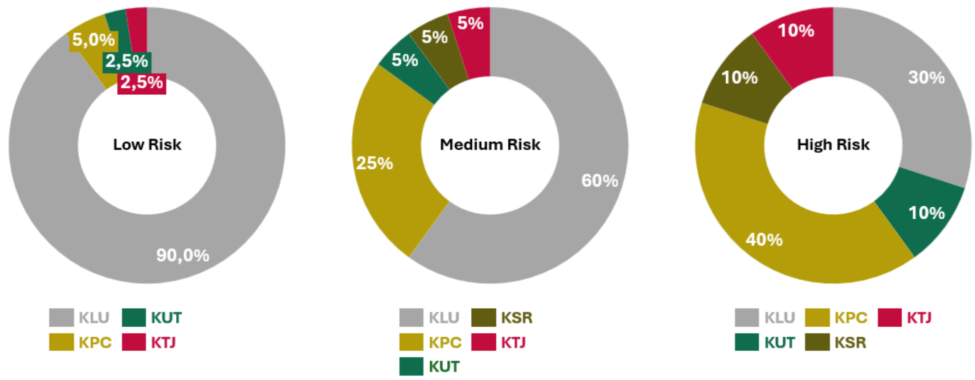
Medium Risk:

- 60% KLU (Kuveyt Türk Asset Management Money Market Participation Fund)
- 25% KPC (Kuveyt Türk Asset Management Equity Participation Fund)
- 5% KUT (Kuveyt Türk Asset Management Precious Metals Participation Fund)
- 5% KTJ (Kuveyt Türk Asset Management Technology Participation Fund)
- 5% KSR (Kuveyt Türk Asset Management Sustainability Participation Fund)

High Risk:

- 30% KLU (Kuveyt Türk Asset Management Money Market Participation Fund)
- 40% KPC (Kuveyt Türk Asset Management Equity Participation Fund)
- 10% KUT (Kuveyt Türk Asset Management Precious Metals Participation Fund)
- 10% KTJ (Kuveyt Türk Asset Management Technology Participation Fund)
- 10% KSR (Kuveyt Türk Asset Management Sustainability Participation Fund)

Figure-1: Fund Allocation Recommendations



As of January 31, 2025, the withholding tax rate on investment fund returns has been set at 15% (For equity-intensive funds, the withholding tax rate remains 0%).

From a tax management perspective, it is important to preserve funds acquired in the past with a lower withholding tax rate (or zero tax rate). When a sale is made in investment funds, the first-in, first-out (FIFO) method is applied, meaning that previously acquired funds with lower withholding tax are sold first. To preserve older funds, new fund purchases can be made through different fund types.

For example, an investor holding KLU fund can choose to purchase KTV or KSV funds for new investments. When selling funds, the investor can prioritize selling the newly acquired funds instead of KLU, thereby protecting the tax-exempt fund shares.

With this approach, an investor who previously purchased KSR can now opt for KTJ fund for new acquisitions.

Historical Withholding Tax Rates:

Before April 30, 2024: 0% withholding tax

Until October 31, 2024: 7.5% withholding tax

Until January 31, 2025: 10% withholding tax

After January 31, 2025: 15% withholding tax

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