

Commentary on the Financial Markets

09/24

Stock markets strengthened in August, despite higher nervousness

The most-watched stock index, the S&P 500, gained 2.4% during August. There was more nervousness in the markets, as the media speculated about a possible coming recession in the US. However, the strong earnings growth of S&P 500 companies in the second quarter tends to refute these speculations. It also turned out that the updated US GDP grew by 3% in the second quarter of this year, which shows very solid growth.

In August, the non-durable sector (6.0%) and the utilities sector (4.8%) were the best performers, while energy did not fare well with a decline of -2.1%. Attention was drawn to Nvidia, which posted better-than-estimated revenue and earnings for the second quarter of this year, but provided a slightly weaker outlook for the next period, and the stock subsequently reacted with a sharp decline.

The FED is scheduled to meet on September 17 and 18, 2024. The rate is expected to be cut by 0.25% to 5.25%. Similarly, the ECB is expected to cut its deposit rate from 3.75% to 3.50% at its next meeting on 12 September 2024.

The CNB cut the 14day repo rate by 0.25% to 4.50% in August, which was in line with the expectations of most analysts. The CNB also indicated that the further development of rates would depend on the data that would come in gradually. The next CNB meeting is scheduled for 25 September 2024, when the repo rate is likely to be cut by 0.25% to 4.25%.

Analysts for the full year estimate a 10.1% increase in aggregate corporate earnings and a 5.1% increase in aggregate sales from the S&P 500 index (source: FactSet), which could support stock markets, along with expected falling inflation and interest rate cuts. In September, the S&P 500 index is statistically the worst performer. Higher volatility on the financial markets cannot be ruled out in the period ahead.

The decline in stock markets at the beginning of the month brought a number of opportunities for RIS funds to increase the weight of shares at attractive prices as well as to actively trade in the short term with the aim of achieving trading profits. For the purpose of long-term holding, American, European and Japanese equities were added to the portfolios, sectorally mainly in the field of information technology. The increased volatility of the markets was used to buy, followed by rapid withdrawals of several percent profits, for example, on the shares of Erste Bank, the Danish producer of anti-diabetes drugs Novo Nordisk, the American processor manufacturer Intel (here even repeatedly) or the exchange-traded fund (ETF) of mining

companies iShares STOXX Europe 600 Basic Resources. On the bond side, the weight of US government bonds of medium and longer maturities has been increased in view of the growing likelihood of a US Fed interest rate cut. At the end of the month, after a previous price drop of many days, Czech government bonds maturing in 2035 were also purchased for the portfolios of selected funds.

As part of our investment strategies, we outweigh stocks over bonds. Regionally, we dominate North America and Emerging Markets, slightly underweighting Europe and the Pacific. Of the sectors, technology, industry and dividend stocks predominate. As part of our bond strategies, we maintain a neutral to slightly overweighted duration on CZK bonds and an overweight duration on dollar and euro bonds. We expect higher volatility in financial markets, which may also create interesting investment opportunities.

We wish you success in the upcoming period!

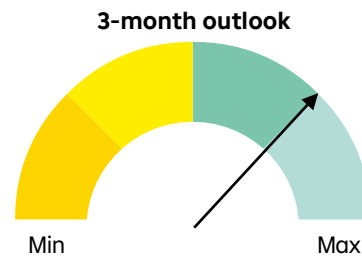
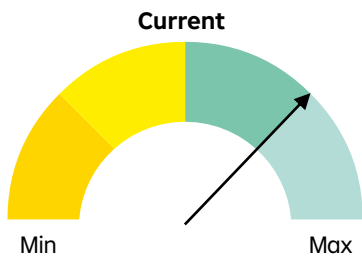


Michal Ondruška
CIO, Member of the Board

Investment Strategy Summary

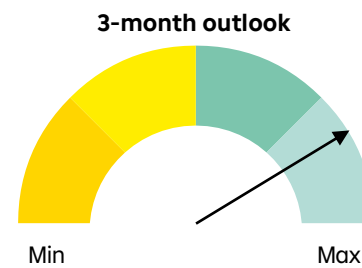
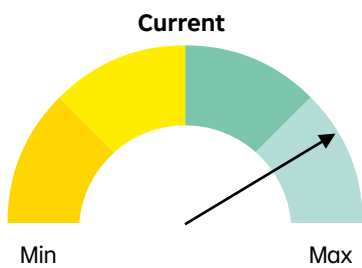
Tactical Allocation

Overweighting of stocks in portfolios



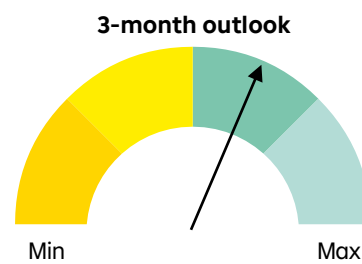
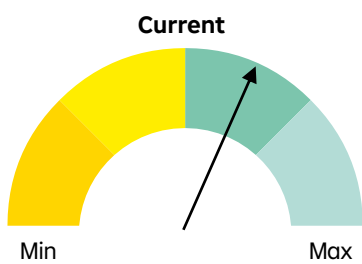
Interest Rate Risk

Average duration of bonds



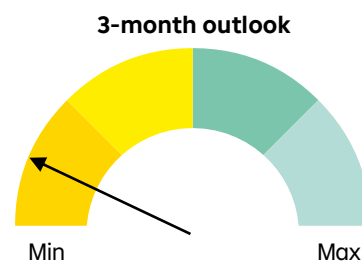
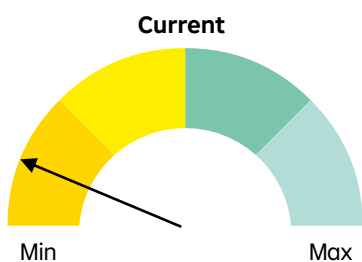
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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