Raiffeisen
Investiční společnost

Commentary on the Financial Markets

01/25

Stock indices have had a successful 2024

Although the US S&P 500 stock index corrected its previous growth during the last month of 2024 and weakened by 2.5%, it nevertheless strengthened by a significant 23.3% p.a. in dollar terms for the whole of last year.

Among the sectors, the best performers in December 2024 were the durable consumer goods (+0.9%) and technology (-0.5%) sectors. The worst performers were the materials (-11.2%), energy (-10.3%) and real estate (-9.6%) sectors. One of the reasons for the weakening of the index at the end of 2024 was greater investor nervousness about possible higher inflation in the US, but also in Europe.

The FED will meet on January 28-29, 2025, and the market expects to leave the rate unchanged at 4.50% p.a. and that the next cut will occur in March or May 2025 at the earliest (source: Bloomberg). The next ECB meeting is scheduled for 30 January 2025. The market expects the ECB to lower its current deposit rate. The CNB has set the repo rate at 4.0% p.a. and at its last meeting in December last year, the CNB did not cut the rate. Nevertheless, the CNB is expected to lower the rate to 3.50% p.a. during 2025.

The yield on the ten-year German government bond has risen from about 2.2% p.a. to about 2.35% p.a. over the past month, and the yield on the US "treasury" has also risen from 4.20% p.a. to about 4.55% p.a. A similar Czech government bond traded with a yield of over 4.1% p.a.

Analysts estimate a 9.4% increase in aggregate corporate earnings and a 5.1% increase in aggregate corporate sales from the S&P 500 index for the whole of last year, which has supported stock markets to grow so far (source: FactSet). Now investors will focus on this year. Analysts estimate up to 14.8% aggregate earnings growth for the S&P 500 index in 2025 (source: FactSet).

Analysts and strategists' estimates for the S&P 500 index are generally positive for 2025 and, on average, suggest further growth (source: Bloomberg). Risks to the future development of stock markets include the possible introduction of high tariff barriers and subsequent higher inflation, higher rates and cooling of economies. Geopolitical risks (Ukraine-Russia, Middle East) are also present in the markets. On the other hand, a possible faster decline in inflation and interest rates combined with growth in profits (lower taxes) may support stock markets even more.

At the end of 2024, we could see a continuation of the decline in bond prices and thus a rise in bond yields.This applied to bonds in local currency as well as foreign bonds in EUR and USD. Therefore, part of the new investments went into purchases of government and corporate bonds in these currencies. At the same time, this has also achieved a slight extension of the duration (average yield to maturity) on the bond parts of the portfolios, which may be an interesting opportunity in 2025, given the continued reduction in interest rates. However, a rebound in higher inflation could be a potential negative scenario. The equity parts of the portfolios were subject to minor adjustments. As an example, we can mention the purchases of sector ETFs focused on the US region, mainly in the areas of energy, IT, industry and finance.

In terms of investment strategies, we overweight stocks over bonds. Regionally, we overweight North America and Emerging Markets, underweight Europe and the Pacific. The sectors are dominated by technology, industry and the dividend stock segment. Within the framework of bond strategies, we maintain an overweighted duration on koruna bonds, an overweighted duration on euro bonds and a weighted duration on dollar bonds. We continue to expect higher volatility in financial markets, which may also create interesting investment opportunities.

2024 was a successful year in many ways. In cooperation with you, we have reached new historical highs in the assets under management, which now exceed CZK 63 billion. At the same time, we achieved exceptional results in the area of fund appreciation. Most of the strategies we manage recorded significantly positive performance last year, and many funds even recorded double-digit gains.

I would like to thank you sincerely for your favor and trust in us so far. Your support is extremely valuable to us and motivates us to continue to grow and improve our services.

We look forward to working with you and to the new challenges that await us in 2025.

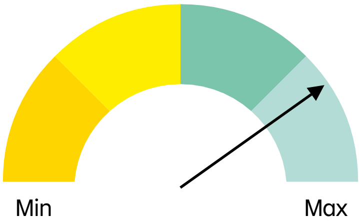
Yours sincerely,

Michal Ondruška
CIO, Member of the Board

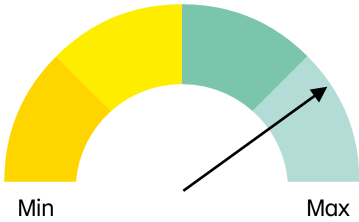
Investment Strategy Summary

Tactical Allocation
Overweighting of stocks in portfolios

Current

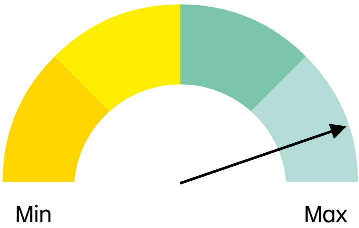


3-month outlook

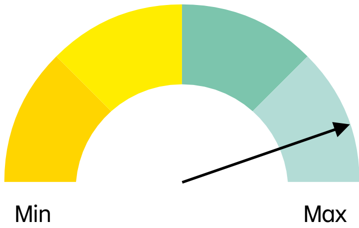


Interest Rate Risk
Average duration of bonds

Current

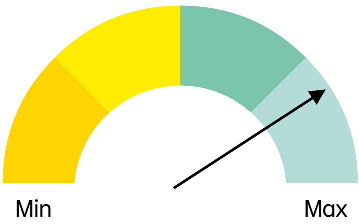


3-month outlook

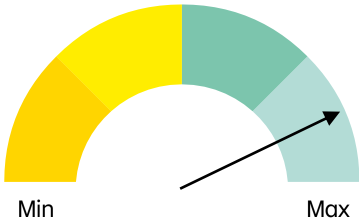


Credit Risk
Share of corporate bonds

Current

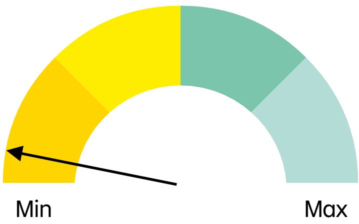


3-month outlook

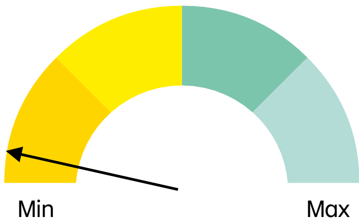


Currency Risk
Unhedged positions in foreign currency

Current



3-month outlook



source: Raiffeisen investiční společnost, a. s., as of January 2nd, 2025

Disclaimer:

All opinions, information, and any other data contained in this document are for informational purposes only, non-binding, and represent the opinion of Raiffeisen Investment Company a.s. ("RIS"). Unless otherwise stated, the source of information is the Bloomberg system or RIS.

The information in this document is based on publicly available sources that RIS considers reliable, but the information has not been verified by independent third parties. Despite taking all due care to ensure the accuracy of the information provided, impartiality, and appropriateness of the statements, RIS does not guarantee or assume responsibility for the timeliness, completeness, and accuracy of the content of this document.

References to documents of other entities do not imply that RIS endorses, recommends, or approves of these documents. The statements in this document are the author's opinion as of the date of issuance of this document, may not necessarily reflect the views of RIS, and may be changed without prior notice.

RIS is not responsible for any losses or damages that may arise in connection with the use of this publication. This document does not constitute an offer to buy or sell any financial asset or other financial instrument.

Before making any investment decision, it is the responsibility of each investor to obtain detailed information about the intended investment or trade. RIS is not responsible for any damages or lost profits caused by any third parties' use of the information and data contained in this document.

RIS points out that providing of the investment service Asset Management of RIS funds, is associated with a number of risk factors that may affect the profitability or loss of the investment. Investments are not bank deposits and are not insured under the deposit insurance fund. The higher the expected return, the higher the potential risk. The duration of the investment also affects the level of risk. The return also fluctuates due to fluctuations in exchange rates and interest rates.

The value of the invested amount and the return on it may increase or decrease, and the return of the originally invested amount is not guaranteed. Past or expected performance does not guarantee future performance. Due to unpredictable fluctuations and events in financial markets and the risk of investment instruments, the achievement of the client's investment goal may not be guaranteed.

The returns from investments must be reduced by the remuneration and costs of RIS agreed upon in the contractual documentation, or by the remuneration and fees specified in the RIS remuneration and fees schedule. The taxation of client's assets always depends on the client's personal circumstances and may change. RIS does not provide tax advice, and therefore, the responsibility associated with the tax consequences of investments remains fully with the client. The offer of investment services may not be presented to a client defined as a US person.

Information about Raiffeisen investiční společnost a.s.

Raiffeisen investiční společnost a.s. is an investment company based at Hvězdova 1716/2b, Prague 4, with registration number (IČO) 29146739. It is registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File No. 18837. The supervisory authority overseeing Raiffeisen investiční společnost a.s. is the Czech National Bank.

The information provided in the document is accurate as of January 2nd, 2025. However, please note that this information may change in the future, and Raiffeisen investiční společnost a.s. is not obligated to inform the recipients of the document about such changes.

Raiffeisen investiční společnost a.s. reserves the right to act based on the information or conclusions contained in this publication even before the publication is distributed to others.