Raiffeisen
Investiční společnost

Commentary on the Financial Markets

02/25

The S&P 500 stock index strengthened at the start of the new year 2025.

During January 2025, the US S&P 500 stock index rose by 2.7%, while the more diversified MSCI World index gained as much as 3.5%. This market growth was mainly driven by favorable corporate results for the last quarter of 2024, with 77% of companies beating expectations for earnings per share and 63% for revenue. Banks in particular showed excellent results, benefiting from higher net interest rates and increased activity on capital markets.

In January 2025, the healthcare (+6.8%), finance (+6.5%) and communications (+5.8%) sectors were the best performers. On the other hand, the technology sector was the worst performer (-0.7%), with chip manufacturers (Nvidia, Broadcom) in particular weakening after the news emerged that the Chinese application DeepSeek can compete with OpenAI with a much lower total cost.

The core PCE index in the US, which the Fed uses to measure inflation, rose 2.8% year-on-year in December, which is the same as November 2024 and in line with market expectations. The Fed's goal is to reduce the PCE index to 2% p.a., but due to the new tariffs that the US has already announced to some countries (e.g. Canada, Mexico, China), it will probably not be easy to achieve this goal in the near future.

The Fed met on January 31 and, in line with market expectations (source: Bloomberg), left the base interest rate at 4.50% p.a. The market estimates that it will not be cut again until the summer of 2025 at the earliest. The ECB has cut the deposit rate by 0.25% from 3.0% to 2.75% p.a. The CNB has set the repo rate at 4.00% p.a. and is expected to lower this rate to 3.75% p.a. at its next meeting on 6 February.

In the coming days, we may see higher volatility in the markets if the 25% tariffs for Canada and Mexico and the 10% tariffs for China, which the US will introduce from February 4, 2025, really come into force. Reciprocal measures are also expected from the affected countries. It is possible that new tariffs will also be introduced for EU countries.

Analysts estimate that 2025 will see aggregate earnings growth of 14.3% and revenue growth of 5.7% for the S&P 500 index (source: FactSet), which could support stock markets throughout the year. Analysts and strategists' estimates for the S&P 500 remain mostly positive for this year and expect it to rise further. Risks that may affect the further development of stock markets include the introduction of further high tariff barriers, which could lead to higher inflation, rate hikes and cooling economies. Geopolitical risks, such as the conflicts between Ukraine and Russia or the situation in the Middle East, are also still present in the markets.

In an environment of increased volatility on financial markets, we took a rather conservative approach to new investments in the first month of the year. For the bond parts of the RIS funds' portfolios, we purchased a government bond with a maturity in 2031 in the primary auction. We also participated in the issuance of four-year euro bonds of the Slovenian New Ljubljana Bank. Euro investments continued with purchases of bond ETFs, with a focus on shorter corporate bonds and bonds of the largest European companies.

We took advantage of the uncertainty and significant movements on stock markets not only to buy broad stock indices with a predominance of North American and complementary European markets, but we also invested in a relatively unconventional region of South America. Investments were made through the purchase of a stock index, where countries such as Brazil and Mexico have the largest representation

As part of our investment strategies, we prefer stocks to bonds. <u>In the event of a stock market decline, we actively take advantage of the opportunity to buy at lower prices.</u> Regionally, we overweight North America and emerging markets, while underweighting Europe and the Pacific. Among the sectors, we prefer technology, industry and the dividend stock segment. Within the framework of bond strategies, we maintain a slightly overweighted duration on one-crown bonds, a weighted duration on euro bonds and a weighted duration on dollar bonds. We continue to expect higher volatility in financial markets, which may create interesting investment opportunities

We wish you a lot of success in the next period!

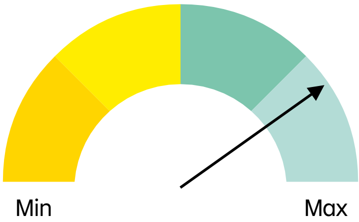
Michal Ondruška
CIO, Member of the Board

Investment Strategy Summary

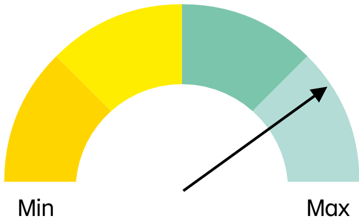
Tactical Allocation

Overweighting of stocks in portfolios

Current



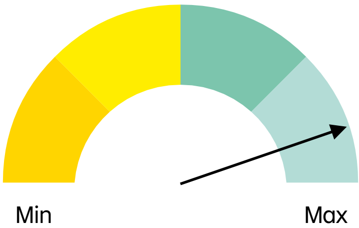
3-month outlook



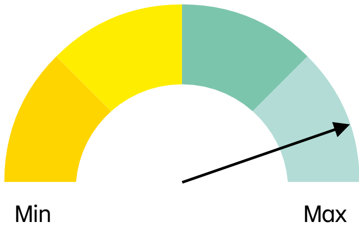
Interest Rate Risk

Average duration of bonds

Current



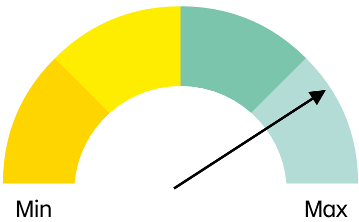
3-month outlook



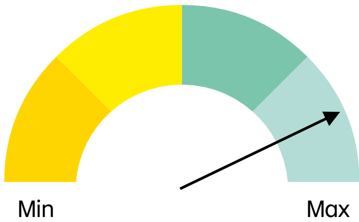
Credit Risk

Share of corporate bonds

Current



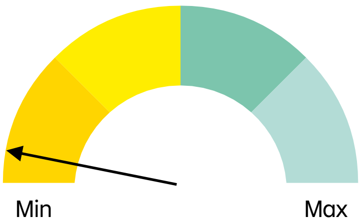
3-month outlook



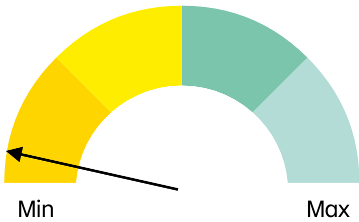
Currency Risk

Unhedged positions in foreign currency

Current



3-month outlook



source: Raiffeisen investiční společnost, a. s., as of February 3rd, 2025

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