

Commentary on the Financial Markets

03/25

The S&P 500 stock index weakened during February

The US S&P 500 stock index fell by 1.4% in February. Investors began to worry that the newly announced US tariffs on China, Europe, Canada and Mexico would lead to a rise in US inflation and a slowdown in the economy. Tariffs on the European Union should reach 25%, while on China overall 20%. The stock market was not helped by better-than-expected corporate earnings, with 75% of S&P 500 companies reporting higher earnings-per-share for the last quarter of last year. During February, European stock markets outperformed U.S. stocks, with arms firms in the spotlight for investors.

Sector performance

In February, the defensive sectors performed best. The consumer goods sector strengthened by 5.2%, utilities by 1.7% and real estate by 4.2%. On the other hand, the worst performing sectors were durable goods (-7.0%), technology (-2.3%) and industry (-1.5%).

Investment shift and interest rates

In February, investors shifted part of their investments from the stock market to bonds, which led to a drop in the yield on the 10-year "treasury" below about 4.3% p.a. from the previous 4.55% p.a. The US core PCE index, which the US Federal Reserve tracks to measure inflation, rose 2.6% in January 2025. This figure was in line with market expectations, which partially reassured investors. The FED's goal is to bring the PCE index to 2% p.a. The next FED meeting is scheduled for March, and the key interest rate is expected to remain at 4.5% p.a. The ECB has set the deposit rate at 2.75% p.a., which is expected to fall to around 2% p.a. by the end of the year. The CNB has cut the repo rate from 4.0% p.a. to 3.75% p.a. and analysts expect a further decline to about 3.5% p.a. this year.

Expected volatility and geopolitical risks

In the coming days, we expect increased volatility in the markets, as it is uncertain whether and when tariffs on the European Union will come into force. The tariffs on China should come into force as early as March 4, 2025. Markets may also be affected by a possible political dispute between the US and Ukraine. The ability to buy cryptocurrencies for the FED's reserves can also affect the capital markets.

Analysts' estimates

Analysts lowered their estimates for growth in profits and sales of companies in the S&P 500 index. They now estimate 12.1% aggregate earnings growth and 5.5% revenue growth for the S&P 500 in 2025 (source: FactSet). Nevertheless, analysts and strategists' estimates for the S&P 500 index for this year remain mostly positive. Risks for the further development of stock markets include the introduction of

high tariff barriers, subsequent higher inflation and interest rates, which could slow down economic growth in real terms. Geopolitical risks (Ukraine-Russia) also play a significant role.

Changes in the portfolios of RIS funds

There were no significant changes in the structure of the portfolios of RIS funds during February 2025. It is worth mentioning the slight increase in the share of European stocks, which are once again coming to investors' attention with the prospect of the end of the war in Ukraine (although there is still a long way to go). On the other hand, there was a reduction in the share of US stocks, especially in the information technology sector, whose growth potential is gradually being exhausted due to high valuations. At the beginning of the month, the purchase of shares in the domestic manufacturer of steam turbines Doosan Škoda Power proved to be a very successful investment, which appreciated by more than 40% by the end of February. Within the bond segments of the funds, investments were made in Czech government bonds of medium to longer maturities and corporate bonds in the USA.

Investment strategy

In terms of investment strategies, we continue to outweigh stocks over bonds. Regionally, we overweight North America and emerging markets, while we slope Europe and slightly underweight the Pacific. In the sectors, we continue to prefer technology, industry and the dividend stock segment. In bond strategies, we maintain a slightly overweighted duration on CZK bonds, a pre-weighted duration on EUR bonds and an underweighted duration on US dollars. We expect higher volatility in the financial markets, which can create interesting investment opportunities.

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

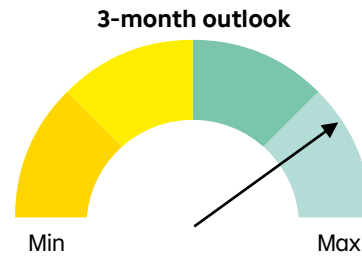
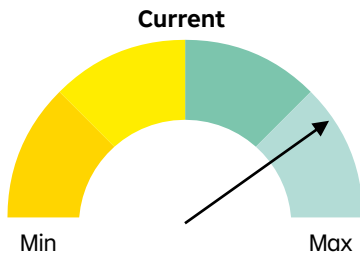


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Investment Strategy Summary

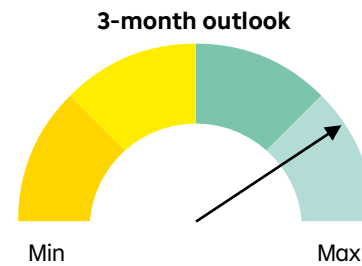
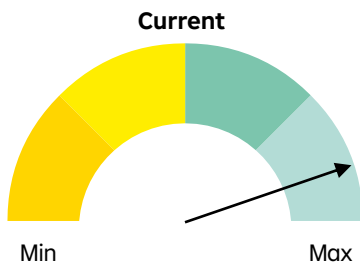
Tactical Allocation

Overweighting of stocks in portfolios



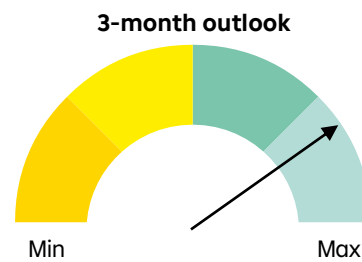
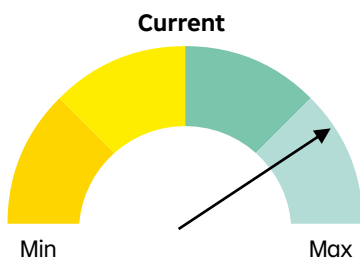
Interest Rate Risk

Average duration of bonds



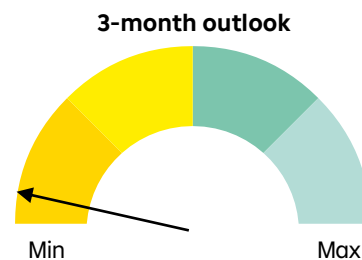
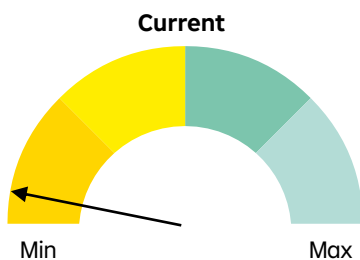
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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