

Commentary on the Financial Markets

04/25

Stock markets fell again during March 2025

During March, the U.S. S&P 500 stock index fell 5.8%, and global and European markets did no better, falling by around 4%. This decline is mainly due to investors' growing concerns about a slowdown in the global economy and an increase in global inflation, due to new tariff barriers imposed by the US. The final form of the so-called reciprocal tariffs, which should be announced on 2 April 2025, remains unclear for the time being. In March, the energy sector was the best performer (+2.7%), while the worst performing sectors were durable goods (-8.6%), technology (-8.5%) and communications (-5.4%).

Investors continued to move their positions from the stock market to the bond market during March. As a result, the yield on the 10-year treasury fell from 4.3% p.a. to 4.2% p.a. At its meeting in March, the Fed left the key interest rate unchanged at 4.5% p.a. The ECB lowered the deposit rate from 2.75% p.a. to 2.50% p.a. and is expected to fall to 2% p.a. by the end of the year. The CNB is holding the repo rate at 3.75% p.a., while analysts expect it to be lowered further to around 3.5% p.a. during the year.

Changes in the portfolios of RIS funds

Growing nervousness associated with the US president's actions increased market uncertainty throughout March. Weakening stocks reflected the threat of trade wars and the growing likelihood of a recession in the US. On the other hand, rising yields on bonds (and thus a decline in their prices) indicated that states were planning to finance the arms industry on debt.

We know from historical experience that in an environment of high volatility, it is risky to make fundamental changes to the composition of the portfolio. Therefore, we have not made any substantial adjustments to the portfolios of RIS funds. The equity part of the portfolios has reduced its weight towards neutral levels due to the decline in share prices. Therefore, at the time of the peak of the declines, we made purchases across world indices in order to slightly overweight the equity components by approximately 2-3 percentage points, thus achieving a comparable level of representation of equities as in previous months.

In an environment of declining bond prices, we have included a new Raiffeisen-Mehrwert-Esg 2028 fund in selected portfolios. This bond fund in EUR with a fixed three-year maturity targets an annual performance of 3.2% p.a. Together with a yield on currency hedging of approximately 1.0% p.a., it brings another interesting yield and diversification element to the funds' portfolios.

If there are further declines in the markets in the coming weeks, we are ready to buy more equity components in the funds' portfolios.

Looking ahead

In the coming days and weeks, we expect increased volatility to continue in the markets, as it is unclear what the final form of reciprocal tariffs by the US administration will look like. Also, tense geopolitical factors (e.g. Iran – USA, Ukraine – Russia) have a rather negative effect on stock markets. In April 2025, the season for publishing corporate earnings for Q1 2025 begins. Analysts are gradually lowering their estimates for earnings and sales growth for companies in the S&P 500 index for the full year 2025. They now estimate an 11.5% increase in profits and a 5.4% increase in sales for this year (source: FactSet). Nevertheless, analysts and strategists' estimates for the S&P 500 index for 2025 remain rather positive.

Investment strategy

In terms of investment strategies, we continue to overweight stocks over bonds. Regionally, we overweight North America, while we slope Europe and Emerging Markets 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!

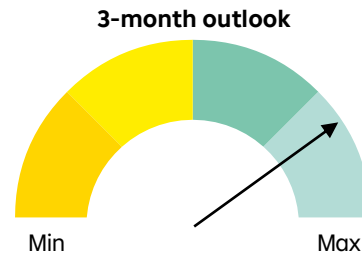
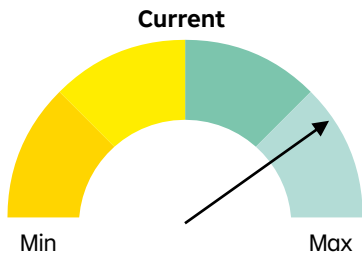


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Investment Strategy Summary

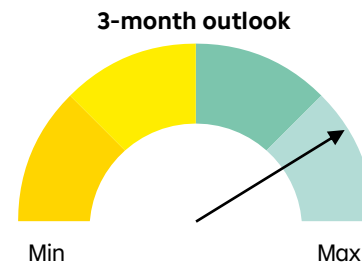
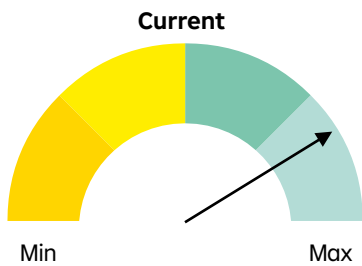
Tactical Allocation

Overweighting of stocks in portfolios



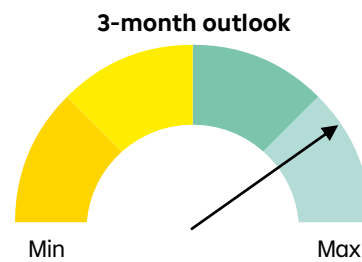
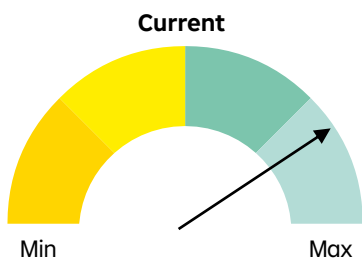
Interest Rate Risk

Average duration of bonds



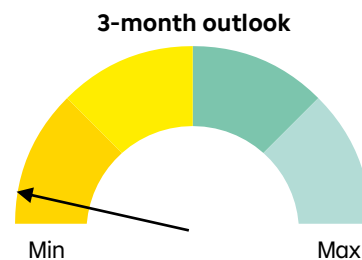
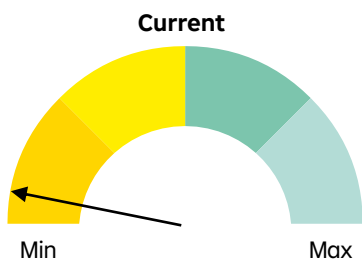
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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