

Commentary on the Financial Markets

06/24

Stock markets strengthened again in May

The most-watched S&P 500 gained 4.8% during May. The main reason for the positive mood in the stock markets was the better-than-expected financial results of companies for Q2 2024. In the second quarter, 78% of S&P 500 companies had better-than-expected earnings-per-share and 61% better-than-expected revenue.

Among the sectors, utilities were the best performers last month, gaining 8.9%, technology by 7.1% and communications by 6.9%. On the other hand, the energy sector had the worst performer, writing off 0.3%. At the end of May, the closely watched Nvidia reported better-than-expected quarterly results, which also supported the technology sector.

The growth rate of the US PCE (Personal Consumption Expenditures) index excluding energy and food for April remained at 2.8% y/y, which was within market expectations. This index is closely monitored by the US FED. The Fed is expected to cut its benchmark interest rate by 0.25% to 0.50% this year. Similarly, the ECB is expected to cut the deposit rate from 4.0% to 3.50-3.25% this year (source: Bloomberg). In line with market expectations, the CNB set the 14-day repo rate at 5.25%.

In April, bond yields stagnated in the US and rose slightly in Germany. The yield on Germany's ten-year government bond is now around 2.6% p.a. and the yield of the US Treasury with the same maturity of around 4.5% p.a. The yield on the Czech government bond with a ten-year maturity is around 4.3% p.a., which is still lower than its US counterpart (source: Bloomberg).

The expected P/E of 20.3 (source: Factset) for the next 12 months for the S&P 500 is slightly higher than its five-year average of 19.2 and also higher than its ten-year average of 17.8 (source: FactSet), indicating that stock markets are slightly overvalued. Therefore, it will be important in the future how inflation develops, whether interest rates fall, and especially how the profits of individual companies grow. Analysts estimate an 11.3% aggregate increase in corporate earnings from the S&P 500 index for the full year, which could support stock markets along with expected declining inflation.

Last month, RIS funds again participated in the growth of the markets to an increased extent thanks to the continued strategy of overweighting stocks at the expense of bonds. In the portfolios, there was a slight increase in equities from the Emerging Markets region, while European equities hit sales the hardest. On the bond side, profits were withdrawn, or the share of risky corporate bonds (high-yield) was reduced, and the duration (simply: average time

to maturity) was cautiously extended near local price lows, both in the segment of one-crown bonds and foreign currency bonds. In the case of long-term government bonds of the Czech Republic, the auction managed to purchase an issue due in 2035 for the lowest satisfied auction price, which also represents the lowest price in the last month. However, a significant part of the funds (in some cases even more than 10% of the value of the fund's assets) remains appreciated in the form of short-term bank deposits at rates close to the CNB's key interest rate (currently 5.25% p.a.).

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 wish you success in the upcoming period!

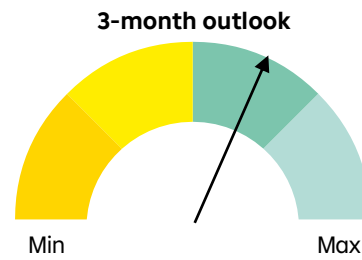
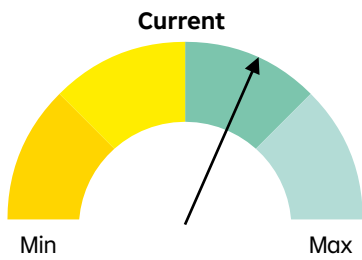


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Investment Strategy Summary

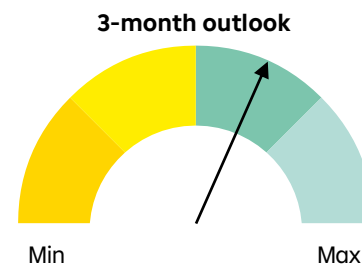
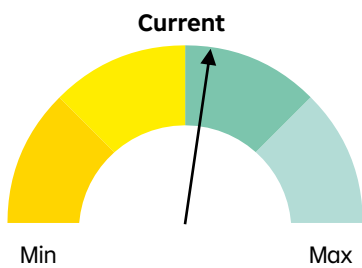
Tactical Allocation

Overweighting of stocks in portfolios



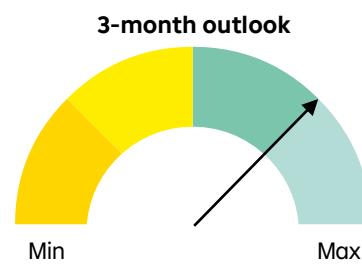
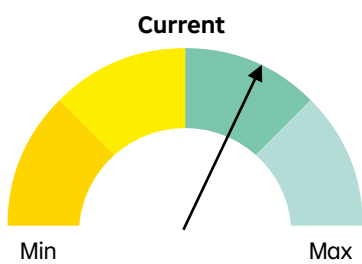
Interest Rate Risk

Average duration of bonds



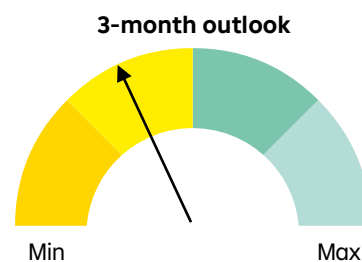
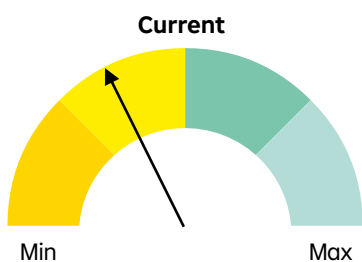
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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