

# Commentary on the Financial Markets

11/24

## Financial markets are waiting for the outcome of the US presidential election

Stock markets corrected their previous gains at the end of October and eventually fell for a month. The most-watched stock index, the S&P 500, lost almost 1% during October, while the more diversified MSCI World fell by 2.3%. Stock markets are going through a more nervous period as the company's third-quarter earnings season is underway and the US presidential election is approaching.

During October, the best performing equity sectors were the financials (+2.6%) and communications (+1.8%) sectors. On the other hand, the worst performing sector was the healthcare sector (-4.6%) and the non-durable sector (-3.5%). Virtually all major U.S. banks reported better-than-expected results in Q3 this year, with banks benefiting from higher interest rates and M&A transactions. The performance of the communications sector was helped by Netflix and Google, which also beat analysts' estimates. On the other hand, in the healthcare sector, the worse outlook for Eli Lilly, which focuses mainly on sales of anti-obesity drugs, was a negative surprise.

The Fed cut the benchmark interest rate to 5.00% at its meeting on September 18, and the market expects the Fed to cut the rate to 4.50% by the end of this year. The next FED meeting is scheduled for November 7, where an interest rate cut of 0.25% is expected. Similarly, the ECB is expected to cut its deposit rate from the current 3.25% to 3.0% p.a. by the end of this year (source: Bloomberg). The next ECB meeting is scheduled for 12 December. The yield on Germany's ten-year government bond rose from 2.0% to 2.40% p.a. in a month, and the similar yield on the US treasury jumped from 3.75% to more than 4.30% p.a. The increased yields are due to uncertainty about the future development of inflation (for example, higher tariffs are imminent after the US elections) and an increase in government debts.

In September, the CNB cut the 14-day repo rate by 0.25% to 4.25% p.a., and another rate cut is expected at the next meeting on 7 November. However, the CNB has indicated that the further development of rates will depend on the data that will gradually come in, and it is not certain whether rates will be cut. Analysts expect the repo rate to fall to 4.0 - 3.75% p.a. by the end of this year.

Analysts estimate a 9.3% increase in aggregate corporate earnings and a 5.0% increase in aggregate S&P 500 sales for the full year (source: FactSet), which could support stock markets. For next year, analysts even estimate a 15.2% aggregate increase in earnings for the S&P 500 index. However, the risks to the further development of stock markets include the possible introduction of new tariff barriers or higher taxes after the US presidential election.

The polls for the winner of the election are still quite balanced and it is not certain who will win the election.

In October, we saw a rise in yields on the bond markets, and thus a decline in bond prices across world regions. This situation was used for further purchases across RIS funds, with a total of over one and a half billion crowns invested in bonds. The change compared to September was that a larger part of the invested funds went into the purchase of corporate debt. The largest investment of CZK 400 million was made in the RBI variable coupon bond with maturity in 2029. Another larger transaction in the amount of CZK 250 million took place again on a five-year bond with a variable coupon, this time from the issuer Oberbank. In addition, hundreds of millions were invested in longer Czech government bonds with maturities between 2032 and 2035. CZK-denominated investments were complemented not only by purchases of foreign-currency, mostly dollar-denominated bonds, but also by active trading in bond ETFs in order to take advantage of increased volatility.

The adjustments to the equity parts of the funds were rather minor; For example, Japanese and European stocks were sold, and the representation of the technology sector was also slightly reduced. It is worth mentioning the partial sale of Nvidia shares at an all-time high and the purchases of the pharmaceutical company Novo Nordisk.

**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 expect higher volatility in financial markets, which may also create interesting investment opportunities.**

We wish you success in the upcoming period!

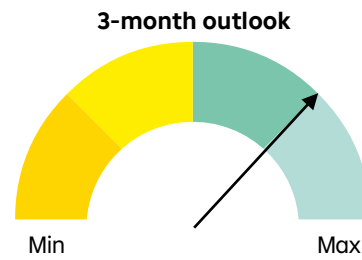
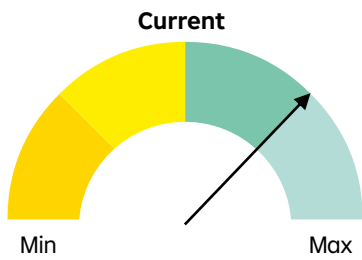


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## Investment Strategy Summary

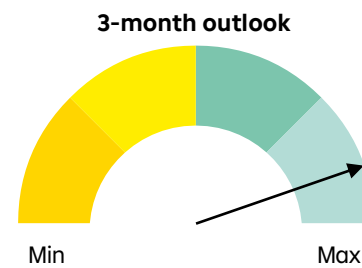
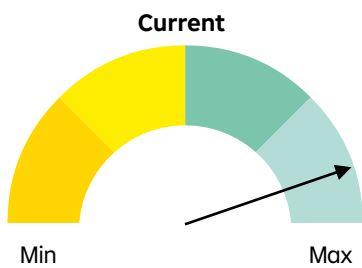
### Tactical Allocation

Overweighting of stocks in portfolios



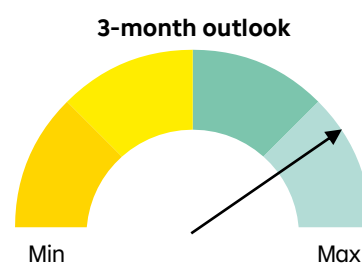
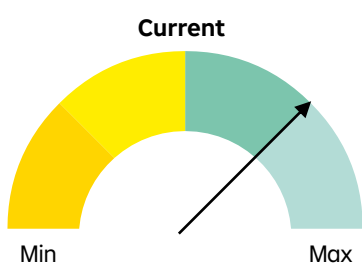
### Interest Rate Risk

Average duration of bonds



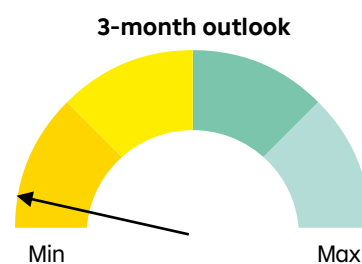
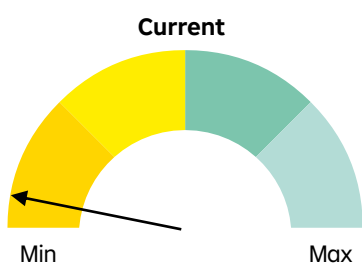
### Credit Risk

Share of corporate bonds



### Currency Risk

Unhedged positions in foreign currency



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