

Commentary on the Financial Markets

07/25

Stock markets strengthened during June

June was a month of positive growth for stock markets. The U.S. S&P 500 stock index posted a strong gain of 5.0%, while the more diversified MSCI World rose 4.2%. Market volatility gradually eased, with the VIX index hovering below its long-term average at the end of the month. This positive trend was supported by the rapid end of the conflict between Israel and Iran and the expectation of a reduction in the FED's base rate in the second half of the year.

So far, the Fed has maintained its key interest rate at 4.5% p.a. The next meeting is scheduled for July 30, 2025, but the market expects the Fed to cut interest rates in September. The market also expects this interest rate to be reduced to around 4.0% p.a. this year, with further reductions in 2026 (source: Bloomberg). At the end of June, the yield on the 10-year "treasury" was below 4.3% p.a. and headed towards 4.2% p.a.

It is worth mentioning the weakening of the USD against CZK (or EUR) by more than 13% since the beginning of this year, which is associated with political pressure for the independence of the Fed and the possible replacement of its chairman Jerome Powell. Other reasons are the growing US debt, uncertain trade policy (tariffs) and the "undermining" of the importance of the USD as a reserve currency (moving to other currencies, gold and possibly cryptocurrencies). The weak USD negatively affects the performance of koruna unsecured investments, for example in US stocks.

As part of market expectations, the ECB cut its deposit rate from 2.25% p.a. to 2.0% p.a. in June and is expected to cut the rate once more by the end of the year. The Czech National Bank (CNB) has set the repo rate at 3.50% p.a., and its further reduction by the end of the year is uncertain. Rather, the CNB is expected to cut the rate next year.

Analysts continue to estimate a 9.1% increase in earnings and a 4.9% increase in sales for S&P 500 companies for 2025 (source: FactSet). Earnings growth and the expected interest rate cutting cycle should further support stock markets. At the same time, the earnings season for the second quarter of this year begins in July 2025, so higher volatility on stock markets cannot be ruled out. From our point of view, any higher volatility of the markets can be an interesting investment opportunity.

Among the risks for the further development of stock markets remains the possibility of introducing high tariff barriers not only by the USA, but also by other countries, and the subsequent higher inflation, cooling of economies

and a possible decline in future corporate margins. The level of tariffs for Europe is to be decided by 9 July 2025. Geopolitical risks (e.g. Ukraine-Russia) also remain present in the markets.

Transactions in RIS Funds

The continued growth of stock markets has had a positive effect on the growth in the value of most mixed RIS funds. Therefore, there was no need to make major adjustments to the equity parts of RIS funds. We can mention the position buying of an exchange-traded ETF linked to oil drillers and distributors, which may experience price fluctuations due to political instability around the Persian Gulf.

On the bond side of portfolios, there was room for interesting purchases after the publication of May inflation in the Czech Republic, which increased to 2.4% year-on-year from the previous 1.8%. Due to these data, among other things, the prices of CZK bonds fell mainly in the first half of the month. In the primary auction, Czech government bonds maturing in 2033 were purchased from selected funds at this time. We can also mention the new issue of bonds of the insurance company Direct with maturity in 2029, which have been included in the funds' portfolios in the amount of tens of millions of crowns.

Investment strategy

Although stock indices are close to their all-time highs, we continue to pursue a strategy of slightly overweighting stocks, as we believe that stock markets have not yet said the last word in the current growth cycle. Regionally, we overweight North America, we are neutral on Europe and Emerging markets, and we slightly underweight the Pacific. In sectors, we overweight cyclical sectors such as technology, communications, industrials, and the dividend stock segment. In bond strategies, we maintain a slightly overweighted duration on koruna and euro bonds and an underweighted duration on US dollars.

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

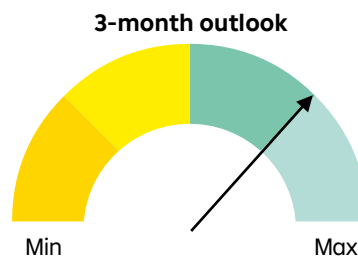
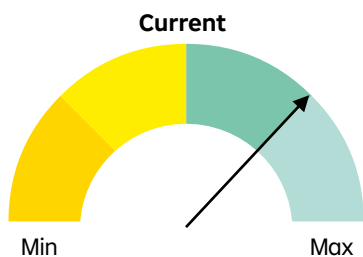


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Investment Strategy Summary

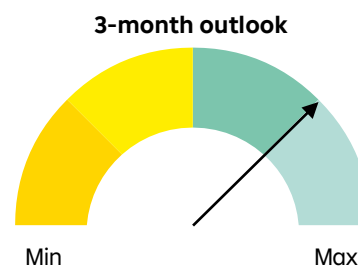
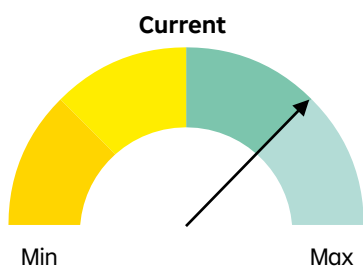
Tactical Allocation

Overweighting of stocks in portfolios



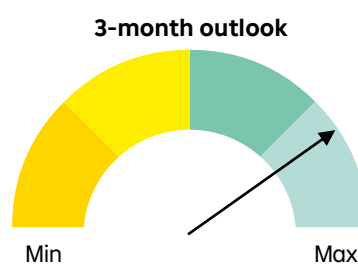
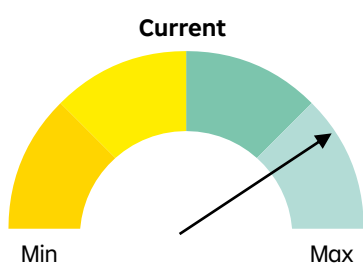
Interest Rate Risk

Average duration of bonds



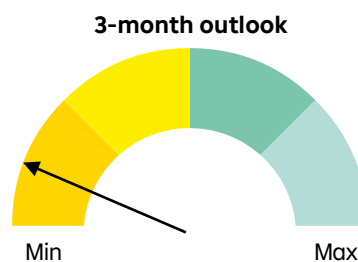
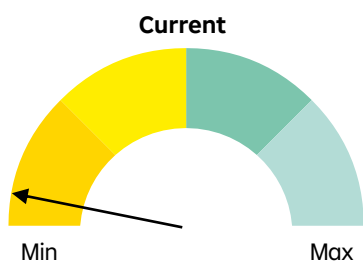
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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