

# **Commentary on the Financial Markets**

09/25

### Stock markets at highs again in August

The US S&P 500 index gained 1.9% in August 2025, while the global MSCI World rose by 2.4%, both reaching new record highs. Stock market volatility has decreased, with the VIX index below its long-term average at the end of August. The main impetus for the growth of stock markets was the strong corporate results for the second quarter of 2025, with 81% of S&P 500 companies beating analysts' expectations.

Of the sectors, the best performers in August were materials (5.2%) and the durable consumer goods sector (4.7%). On the other hand, the utilities (-1.6%) and technology (-0.1%) sectors did not do well.

Markets expect the Fed to cut interest rates by 0.50% by the end of the year, with the first cut coming as early as September 2025. However, the risk to this scenario is possible tariffs, which could increase inflation. The yield on 10-year US Treasury bonds remained around 4.2% p.a. at the end of August (source: Bloomberg).

The European Central Bank (ECB) has so far maintained the deposit rate at 2.0%, but is likely to cut it to 1.75% by the end of the year. The Czech National Bank (CNB) is holding the repo rate at 3.50%, but another cut is less likely.

Analysts have raised their estimates for growth in corporate aggregate profits and sales of companies in the S&P 500 index for this year. They now estimate earnings growth of 10.6% and sales growth of 6.0% (source: FactSet 29/08/2025). For next year, their estimates of the increase in profits and sales are even higher than for this year.

Earnings growth and an expected interest rate cut cycle could further support stock markets going forward, despite the possibility of greater volatility, which often comes in September, the statistically worst month of the year in terms of the S&P 500 index's performance.

The current valuation of the S&P 500, with a P/E ratio of around 22.4, is above both the five-year average of 19.9 and the ten-year average of 18.5, suggesting higher stock market valuations.

The main risks to further development include the possibility of introducing high tariff barriers against China, which could increase inflation and negatively affect future margins and corporate profits.

### Transactions in RIS Funds

The structure of the portfolios of RIS funds did not undergo any significant changes in the past month. With its August performance, the MSCI ACWI global stock index once again exceeded the appreciation of the bond markets we monitor and has already approached 15% this year's growth (measured in USD; it remains slightly negative when converted into CZK).

The decision to keep stocks in the portfolios that weigh by about 5 percentage points compared to the so-called neutral distributions has thus proven to be correct even now. Within the bond segments of the funds, investments were made primarily in corporate bonds with shorter maturities issued by creditworthy issuers (investment rating grade). At the end of the month, part of the temporarily free funds went to Czech government bonds maturing in 2031.

### Investment strategy

In terms of investment strategies, we continue to overweight stocks over bonds. Regionally, we overweight North America, we overweight Europe and emerging markets, and we slightly underweight the Pacific. In sectors, we overweight growth sectors such as technology, communications, industrials, financials 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!



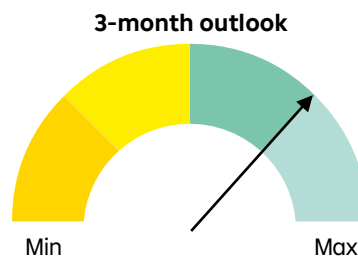
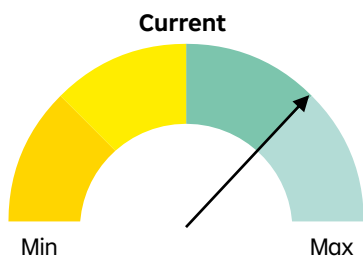
**Michal Ondruška**  
*CIO, Member of the Board*



## Investment Strategy Summary

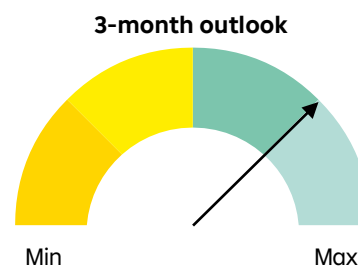
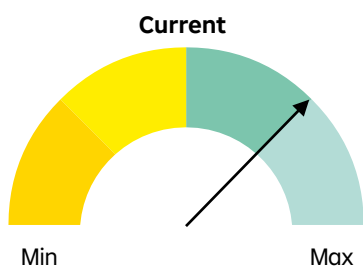
### Tactical Allocation

Overweighting of stocks in portfolios



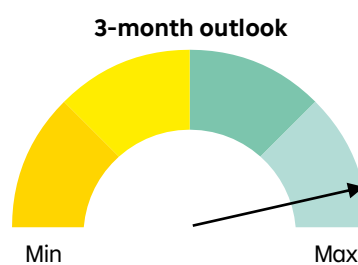
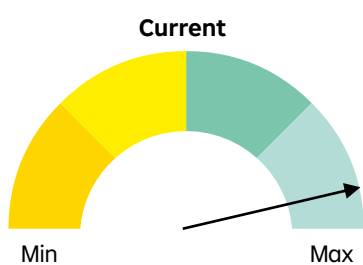
### Interest Rate Risk

Average duration of bonds



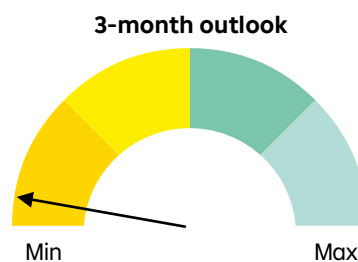
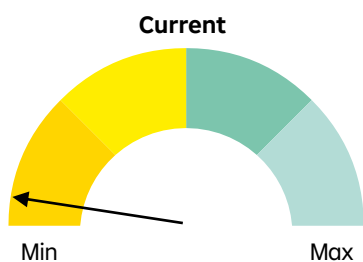
### Credit Risk

Share of corporate bonds



### Currency Risk

Unhedged positions in foreign currency



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