Raiffeisen
Investiční společnost

Commentary on the Financial Markets

11/26

Technology under pressure, in the spotlight return on investment in AI. Expectations of the US election.

U.S. stocks ended October with a decline that mainly hit technology stocks. The S&P 500 fell 0.94% for the month, while the tech-oriented Nasdaq Composite fell 5.30%. In addition to the Fed's monetary policy, the earnings season and growing concerns about the high costs of developing artificial intelligence and the return on these investments determined the mood on the markets.

The macroeconomic picture remains mixed. Durable consumption and investment support economic growth, but at the same time, more expensive commodities and energy complicate the return of inflation to central bank targets. In its October outlook, S&P Global raised its estimate for this year's global economic growth to 2.6%, but downgraded its outlook for 2027. Stronger current activity does not automatically mean more favourable conditions for the period ahead.

Artificial intelligence and the construction of related infrastructure remain a prominent topic in the stock markets. The earnings season brings more information about the demand for chips, cloud services and data centers. However, in addition to revenue growth, investors are also increasingly looking at the costs, financing and return on large-scale investments. Therefore, the differences between individual companies may be more important than the mere affiliation with the technology sector.

Results released in the last week of October confirmed these differences. **Microsoft** increased revenue by 19% year-over-year to $92.3 billion, beating expectations; its shares rose about 4% in the first reaction in over-the-counter trading, but closed the next regular session 0.16% lower. **Alphabet** reported revenue growth of 25% to $127.6 billion, but fell short of expectations and investors were concerned about negative free cash flow amid high AI spending; its shares fell 12.6% in the following session. **Amazon** increased revenue by 12% to $201.9 billion and AWS cloud business grew by 39%, but high capital expenditures and negative free cash flow over the past twelve months overshadowed strong operating growth. Its shares erased most of the initial losses on Friday, October 30, closing the regular session down 1.41%. **Intel**, despite a 21% year-over-year increase in revenue to $16.5 billion, disappointed with a fourth-quarter outlook due to weaker demand for personal computers and production cuts; its shares fell a strong 26% after the results were released. Xerox also suffered a significant sell-off**:** a reduction in the full-year outlook for operating profit and free cash flow due to higher costs and weaker demand triggered a sharp decline in the stock, which lost almost half of its value in two days.

The results showed that the growth in demand for AI alone is no longer enough: investors also demand compelling cash generation and sustainable investment financing.

At its meeting on 28 October, the Fed left the base rate in the range of 3.75–4.00%. Two members of the committee voted in favour of a 0.25 percentage point increase. The central bank assesses economic activity as strong and inflation as still elevated, so the pause should not be confused with the end of the risk of further tightening. In the euro area, the deposit rate is 2.50% before the ECB's October decision, while in the Czech Republic the two-week repo rate remains at 3.75%. The CNB's next monetary policy meeting is scheduled for 5 November.

In the bond market, price sensitivity to the outlook for rates and inflation remains crucial. The yield on ten-year US Treasury bonds was around 5% after the Fed's October meeting. Higher yields increase the ongoing yield potential of new investments, but at the same time, further rate rises may bring price losses, especially for longer maturities. In addition to monetary policy, the volume of government financing and energy price developments also play an important role.

Elections in the USA

An important event in November will be the US elections to Congress, the so-called midterms, which will take place on November 3. The entire House of Representatives and part of the Senate are being replaced. For financial markets, it will be essential how the new balance of power will affect the approval of budgets, taxes and other laws. The separation of powers may limit the scope of legislative changes, and at the same time complicate budget negotiations. On the other hand, an agreement between Congress and Donald Trump's executive may facilitate the enforcement of economic measures.

Three scenarios can be distinguished for the markets.

1. If Donald Trump's executive loses the support of one chamber of Congress, the scope for sweeping changes in taxes and spending will narrow. Lower legislative uncertainty may support stocks, and a reduction in additional fiscal stimulus may ease pressure on long-term bond yields.
2. If both chambers are in opposition to the executive, this effect may be more pronounced, but the risk of stalemates in approving state financing will also increase.
3. On the contrary, maintaining the support of both chambers will make it easier to enforce the economic measures of the current executive. Possible tax breaks may support corporate profits, but their financing by a higher deficit could further increase government bond yields and weigh on the valuation of rate-sensitive stocks.

The dollar's response will not be clear in any scenario: higher relative US rates may support it, while concerns about fiscal sustainability may have the opposite effect.

A close or long-term unclear outcome may increase volatility across markets in the short term. Surprises/deviations from market expectations may be equally important. **However, inflation, Fed policy and corporate**

profits will continue to be crucial for the long-term development of the markets.

Therefore, these scenarios do not justify a change in the long-term investment strategy.

Transactions in RIS funds

October activity in the bond part of the portfolio focused on taking advantage of market opportunities. We took advantage of the increased volatility on the Czech government bond curve and purchased a medium-term issue of Czech government bonds with a maturity in 2032 and a long-term issue with a maturity in 2037. On the primary corporate bond market, we participated in the subscription of the Austrian real estate developer UBM Development, where an issue with a coupon of 7% and maturity in 2031 was purchased (UBSAV 7/31).

The equity component underwent a slight rotation with the aim of strengthening the weight of the US technology sector at the expense of European companies. The capital raised was directed to the US, e.g. by buying a position in shares of Micron Technology, the world's leading manufacturer of memory chips. To ensure broad technology exposure, two US index funds, the Invesco QQQ Trust (QQQ) and the Vanguard Information Technology ETF (VGT), were purchased. The QQQ fund physically copies the Nasdaq-100 index and holds shares of the hundred largest US non-financial companies – in layman's terms, providing a massive reach into dominant technology and innovation corporations. VGT complements this strategy as a specialized sectoral fund that covers the entire US information technology market from software to hardware.

On the domestic market, Doosan Škoda Power shares were purchased. The transaction took place as part of the October accelerated subscription. The purchase at a subscription price of CZK 405 per share provided the portfolios with moderate exposure to the interesting domestic energy engineering industry.

Investment Strategy

We continue to overweight stocks over bonds. Regionally, we overweight North America, the Pacific and Emerging Markets, and Europe underweight. In sectors, we overweight growth sectors such as technology, communications, industrials and finance.

We continue to see long-term growth potential in technology that goes beyond the current wave of interest in artificial intelligence. AI, automation and digitization can help companies across the economy increase productivity, reduce costs and develop new products and services. **In our opinion, the current price fluctuations, coupled with the issues of return on high investment in AI, do not change this long-term outlook.**

Equally important is the selection of companies that can turn technological innovations into sustainable results. **Portfolio diversification is key: a positive outlook on technology does not mean relying on only one segment or several of its largest companies. The distribution of investments among different regions, companies, industries, or subsectors limits the portfolio's dependence on the success of a single topic or the return on specific investments in AI.** Opportunities can arise not only for technology suppliers, but also for companies that use them to improve their business. Diversification thus allows you to participate in the wider potential of technological development and at the same time can mitigate the impact of fluctuations in individual titles.

We place great emphasis on risk distribution in our strategies. We use widely diversified instruments such as ETFs (exchange-traded funds), which combine both a wide distribution of investments and low trading costs. In addition to diversification, we also pay attention to the cost-effectiveness of investing.

We are entering the next period with cautious optimism. Short-term fluctuations do not change our long-term outlook, with a focus on quality investments and balanced risk distribution.

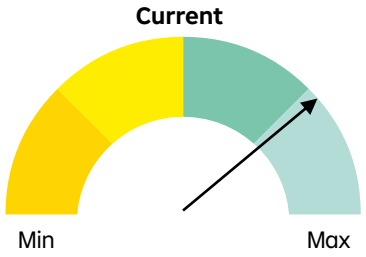
Thank you for your trust and we wish you successful and peaceful future days!

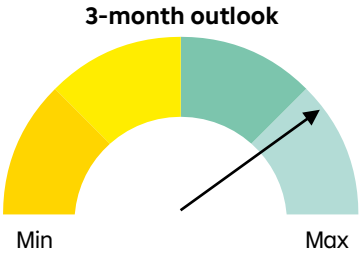


Michal Ondruška
CIO, Member of the Board

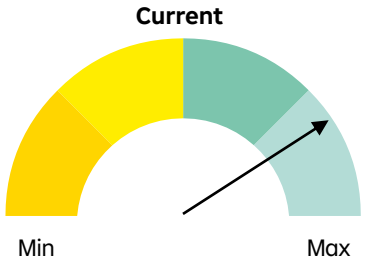
Investment Strategy Summary

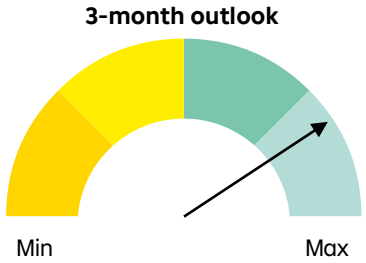
Tactical Allocation
Overweighting of stocks in portfolios



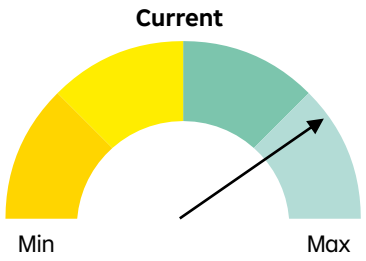


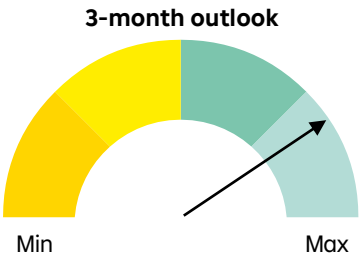
Interest Rate Risk
Average duration of bonds



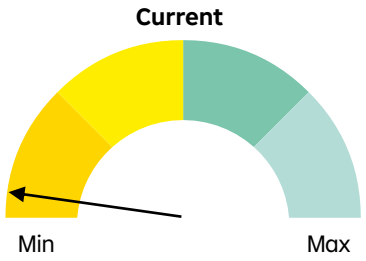


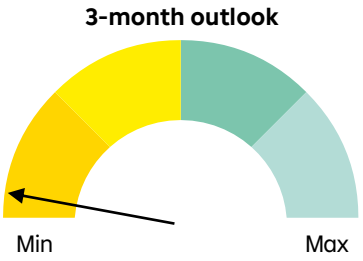
Credit Risk
Share of corporate bonds





Currency Risk
Unhedged positions in foreign currency





source: Raiffeisen investiční společnost, a. s., as of November 2nd, 2026

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