Raiffeisen
Investiční společnost

Commentary on the Financial Markets

SPECIAL

Turbulence on World Markets

April 11th, 2025

This week's key moments

1. President Donald Trump has surprisingly changed his stance on tariffs by announcing a 90-day postponement (except in China)
2. This led to a significant recovery on Wall Street, where major stock indices recorded historic growth and bond yields fell from local highs
3. High volatility continues on all types of instruments, from stocks, bonds, commodities and currencies

Sharp movements in the bond and stock markets

President Donald Trump surprisingly changed his stance on tariffs, following significant turmoil in the global bond market. The sharp rise in bond yields raised concerns about a domino effect of problems in financial markets, which would primarily lead to higher funding costs and a subsequent slowdown in economic growth. The bond market is worth $140 trillion, of which $47 trillion is accounted for by US Treasuries. The bond market is significantly larger than the stock market.

Stock markets rose significantly on Wednesday, April 9, 2025, with the US technology index Nasdaq gaining more than 10% for the day. Indices around the world saw similar increases, from Asia, Europe and emerging markets. Stocks erased some of their gains on Thursday, with stock futures indicating an opening of the US market by about 0.5% higher on Friday.

An interesting moment today

An interesting moment comes today, when China introduces retaliatory tariffs on American goods at the rate of 125%. Stock futures reacted with an immediate decline, but then returned to positive values. This moment indicates that the stock markets no longer react to the level of tariffs if they exceed a certain value, in other words, it does not matter whether the amount of the tariff is 100% or 125%, the material impact on the real trade is the same in both cases.

How we react when managing funds

1. We are not changing the current Tactical Allocation, we remain slightly outweighted in equities compared to bonds
2. We are buying shares on the current declines in order to maintain the currently set Tactical Allocation
3. We spread out purchases over time, similar to regular investments
4. We leave room for further purchases of shares at possible lower prices

In an environment of high volatility, it is risky to make fundamental changes to the composition of the portfolio. Investors should remain calm and focus on long-term goals, while portfolio diversification and quality investments can help smooth out market fluctuations.

Benefits of regular investing

I would also like to mention the advantages of regular investing. Regular investments significantly reduce the average purchase price in such significant market declines. An interesting solution may also be a temporary increase in the amounts for regular investments, and thus stronger averaging of prices at lower values.

Further developments

The real impact on global economic growth will be key for the period ahead. If the tariffs were introduced (now postponed by 90 days), we expect the impact on global GDP to be around minus 1%. This would still mean that the world economy will grow at a rate of around 2% in 2025. Over the coming weeks, we will certainly see a refinement of these estimates.

We expect markets to continue to be more volatile. A possible scenario is also so-called Range Trading, where markets move in a certain range, without a clear trend.

History shows that declines in stock markets of more than 10% or 20% are quite common. Market declines can also be viewed from the other side, as an interesting investment opportunity. Although further declines cannot be ruled out, the current situation is, in our opinion, an interesting entry point for building long-term positions.

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

Michal Ondruška
CIO, Member of the Board

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