

Commentary on the Financial Markets

02/26

Global stock markets strengthened in January

The U.S. stock index S&P 500 gained 1.4% in January, while the more diversified MSCI World rose by 2.9%. Equity market volatility, measured by the VIX index, increased towards its long-term average by the end of January.

In December, the best-performing sectors were Energy (+14.1%), Materials (+8.6%), and Industrials (+6.7%). Conversely, the Financials (-2.4%) and Healthcare (0.1%) sectors declined the most. In the U.S., the corporate earnings season for the last quarter of last year is underway. So far, 33% of S&P 500 companies have reported results, with 75% beating market expectations (source: FactSet). For example, Apple and Meta posted better-than-expected profits. Microsoft (MSFT) reported higher revenues and earnings, but its investments exceeded market expectations, leading to a decline in its share price after the earnings release.

At the end of January, President Donald Trump appointed Kevin Warsh as the head of the Federal Reserve. Warsh has a past reputation as a "hawk," which led markets to react with a drop in gold and bitcoin prices, a strengthening of the USD against the EUR and other currencies, and a decline in stock markets. The Fed currently holds its base interest rate at 3.75% p.a., but further rate cuts to around 3.25% p.a. are expected this year (source: Bloomberg). The mandate of the current Fed Chair, J. Powell, ends in May this year.

The ECB maintains its deposit rate at 2.0% p.a., while the Czech National Bank (ČNB) has set its repo rate at 3.50% p.a. The ECB is not expected to cut rates this year. The ČNB will meet on February 5, but analysts also expect the rate to remain stable. The main risk for a change in the ČNB repo rate this year is more likely a decrease, given favorable inflation and a strong CZK. On the other hand, interest rates are set with regard to expected inflation development next year, which may not be as favorable.

The yield on the 10-year German government bond oscillated slightly above 2.8% p.a. during January. The yield on a comparable Czech government bond fell from 4.6% p.a. to about 4.3% p.a. in January.

Expected corporate earnings growth and the cycle of interest rate cuts in the U.S. should support anticipated stock market growth in 2026.

Analysts estimate a 14.3% aggregate earnings increase and a 7.3% revenue growth for S&P 500 companies in 2026 (source: FactSet, January 30, 2026).

The S&P 500 trades at a P/E of 22.2, which is above both the five-year average of 20.0 and the ten-year average of 18.8 (source: FactSet).

Risks to further stock market development include possible inflation increases and higher interest rates that could weaken future economic growth, the AI sector if investments in AI do not deliver expected profits, and geopolitical risks.

Transactions in RIS funds

Despite rising prices of Czech government bonds in January, RIS selected funds purchased issues maturing in 2029, 2030 and 2033, due to the attractiveness of these bonds compared to their corporate or foreign currency peers. Some RIS funds participated in the primary bond issuance of Accolade. Investments were also made in emerging market bonds denominated in local currencies, while longer-dated euro-denominated government bonds were sold.

High volatility in ČEZ shares was used for repeated purchases at prices around CZK 1,150 per share, followed by sales at around CZK 1,200. The equity position in the Pacific region was reduced, while investments were made in Indian companies. An ETF fund focused on the growing interest in quantum computing was added to the portfolios. Ongoing adjustments were made in other sectors as well, with investments in industrials and gold miners, while

positions in the energy and basic materials sectors were reduced.

Investment strategy

In our strategies, we continue to overweight equities relative to bonds. Regionally, we overweight North America, maintain a slight overweight in Europe, align emerging markets equity positions with the structure of the global MSCI ACWI index, and keep a slightly lower allocation to the Pacific region. Sector-wise, we maintain overweight positions in growth sectors, particularly technology, communication services, industrials, financials, and dividend-paying stocks. In bond strategies, we hold a slight overweight duration in Czech koruna and euro bonds, while underweighting duration in U.S. dollar bonds.

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

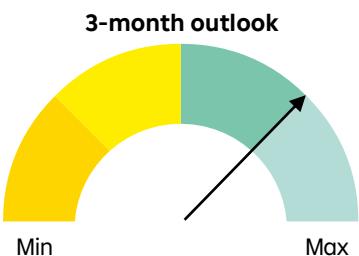
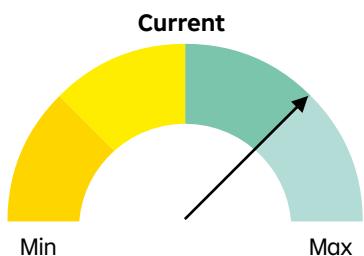


Martin Zezula
Portfolio Manager

Investment Strategy Summary

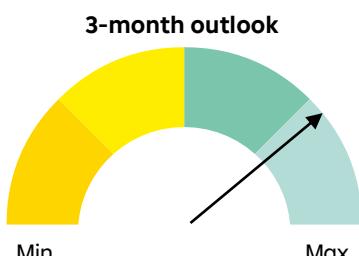
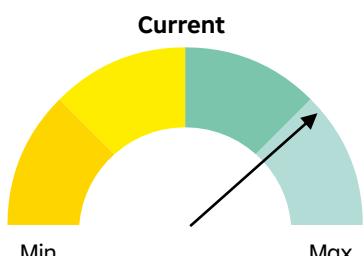
Tactical Allocation

Overweighting of stocks in portfolios



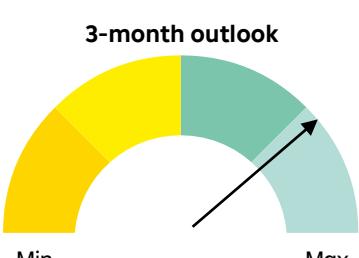
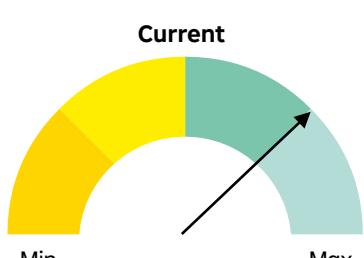
Interest Rate Risk

Average duration of bonds



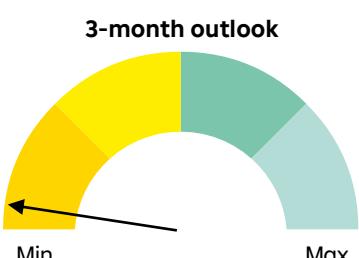
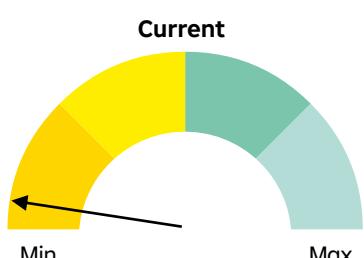
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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