PFI Monthly

Delivering Knowledge That Matters.

7 May 2025

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Financial markets monthly dashboard

Source: Bloomberg; Michal Stupavský, CFA

	April	YTD change	12 months change	Last value
Dollar index DXY	-4.6%	-8.3%	-6.4%	99.47
EUR/USD	4.7%	9.4%	6.2%	1.133
EUR/CZK	-0.1%	-1.0%	-0.9%	24.93
USD/CZK	-5.1%	-9.6%	-6.6%	21.91
Global stock markets (MSCI All Country World)	0.8%	-0.9%	10.2%	
Developed stock markets (MSCI World)	0.7%	-1.4%	10.6%	
Emerging stock markets (MSCI Emerging Markets)	1.0%	3.5%	6.4%	
Frontier markets (MSCI Frontier Markets)	0.4%	6.4%	7.4%	
Global stock markets - Value (MSCI All Country World Value)	-1.4%	2.7%	8.1%	
Global stock markets - Growth (MSCI All Country World Growth)	3.0%	-4.2%	12.2%	
Global stock markets - Large Cap (MSCI All Country World Large Cap)	0.7%	-1.3%	10.7%	
Global stock markets - Mid Cap (MSCI All Country World Mid Cap)	1.3%	0.9%	7.3%	
Global stock markets - Small Cap (MSCI All Country World Small Cap)	0.8%	-3.6%	3.1%	
US (S&P 500)	-0.8%	-5.3%	10.6%	5569
US (Magnificent 7)	0.6%	-15.6%	23.2%	
US (S&P 500 Equal Weighted)	-2.4%	-3.4%	4.9%	
US (NASDAQ)	0.9%	-9.7%	11.4%	
Non-US stocks (MSCI All Country World ex-US)	3.3%	8.0%	9.1%	
Europe (STOXX Europe 600)	-1.2%	3.9%	4.5%	
Japan (MSCI Japan)	0.4%	-5.1%	-3.8%	
Emerging Asia (MSCI Asia ex-Japan)	0.5%	2.0%	8.4%	
China (MSCI China)	-4.9%	9.3%	21.2%	
India (MSCI India)	3.6%	0.2%	5.4%	
Latin America (MSCI Latin America)	6.3%	18.4%	-9.8%	
Central Europe (CECEEUR)	-0.8%	19.5%	20.7%	
Czech Republic (PX)	-4.1%	14.7%	30.4%	2019
Global bond markets (Bloomberg Global-Aggregate)	2.9%	5.7%	8.8%	
Global government bonds (ICE BofA Global Government index)	3.6%	6.3%	8.6%	
US Treasuries (Bloomberg US Treasury index)	0.6%	3.6%	7.7%	
US Treasuries with maturity over 20 years (Bloomberg US Treasury 20+ Year index)	-1.4%	3.2%	5.7%	
Global investment grade corporate bonds	1.9%	4.8%	9.2%	
Global speculative grade corporate bonds (high-yield)	0.9%	2.7%	10.8%	
EUR investment grade corporate bonds	0.9%	1.1%	6.2%	
EUR speculative grade corporate bonds (high-yield)	0.3%	0.9%	7.9%	
Czech government bonds (Bloomberg Czech Govt All > 1 Yr Bond)	1.5%	2.5%	6.6%	
Average global bond yield (Bloomberg Global-Aggregate Yield To Worst)	-0.16%	-0.22%	-0.60%	3.46%
US 10 year government bond yield	-0.04%	-0.41%	-0.52%	4.16%
US 2 year government bond yield	-0.28%	-0.64%	-1.43%	3.60%
Germany 10 year government bond yield	-0.29%	0.08%	-0.14%	2.44%
Germany 2 year government bond yield	-0.36%	-0.40%	-1.35%	1.69%
Czech Republic 10 year government bond yield	-0.22%	-0.15%	-0.31%	4.07%
Czech Republic 2 year government bond yield	-0.07%	-0.05%	-0.85%	3.40%
Average global investment-grade credit spread	0.13%	0.21%	0.12%	1.10%
Average global high-yield credit spread	0.34%	0.83%	0.33%	4.11%
Global commodity markets (Bloomberg Commodity Total Return)	-4.8%	3.6%	4.1%	
Crude oil Brent	-15.5%	-15.4%	-28.2%	63
Copper	-5.6%	5.4%	-7.7%	9142
Gold	6.3%	25.7%	44.1%	3319
Silver	-6.0%	11.2%	23.3%	32.5

Interview

Jana Přílučíková

Vice Dean for Study at the Faculty of Management and Economics, Tomas Bata University in Zlín & PFI Analyst

The interview was conducted by
Michal Stupavský, PFI Head of Research.

To kick off our interview, I would like to ask when and how you started being seriously interested in behavioral economics?

Thank you—that's a great place to start. My interest in behavioral economics began during my university studies, when I sensed something missing from traditional finance: the psychological side of decision-making. Rational models often failed to capture how people actually behave. That disconnect stayed with me and led me to behavioral finance as a bridge between theory and real-world choices.

As I moved into both professional and academic work, I became increasingly drawn to behavioral finance as a bridge between theory and actual human behavior. Over time, I saw how even experienced individuals including investors are prone to be influenced by emotions, heuristics, and related biases—shaping their financial choices.

A turning point was encountering the famous *selective attention test* by Chabris and Simons they initially presented in 1999. I failed it—and it left a lasting impression. It showed me how limited our perception can be, especially under cognitive load. Since then, I have ve been giving that same test to my college students every year in my Behavioral Finance class since 2021, and the results remain remarkably consistent- most of them miss what is right in front of their eyes (*attention bias*). That recurring pattern continues to remind me how much of our behavior is shaped by factors outside conscious awareness. Since then, I have been convinced that understanding decision-making requires looking beyond rationality and into human psychology.

Motivated to deepen my understanding after exploring a wide range of books and academic research in behavioral economics and finance, I went on to complete a certified course in *Behavioral Finance* at Duke University.

I believe behavioral economics is essential—not only to improve financial literacy, but for building real financial capability. In the Czech Republic, financial literacy remains a persistent challenge- only 55 percent of people rate their knowledge as average (*Prosperity and financial health index*, 2024) and the *Financial literacy index* of the Czech banking association has stalled at 56 points for the third consecutive year.

That is also why I have advocated the inclusion of behavioral finance in university curricula - and developed one in my alma mater. Before 2020, such courses were rare—thankfully, this is starting to change. Understanding behavior is not optional; it is what makes financial education truly effective and impactful. Because recognizing and understanding these underlying psychological drivers is essential to making more rational and disciplined choices.

Could you please briefly elaborate what behavioral economics and behavioral finance are actually about and how they differ from the classic economic theory?

Traditional economic theory assumes that people make rational decisions- they aim to maximize utility, their preferences are stable, and their choices remain consistent regardless of how options are presented. This model works well in theory—but it often fails to explain how people actually behave in real-life financial situations.

Behavioral economics challenges this by asking not how people should decide, but how they really do. Behavioral economics helps us understand why we are prone to make irrational choices and how we might avoid them. It does not reject the rational model, but complements it—offering a more realistic, more human picture of economic and financial behavior. It shows that our decisions are shaped by cognitive shortcuts and related biases, emotions, and context.

Behavioral finance takes these insights into the financial world, explaining phenomena like panic selling, overconfidence, herding, or loss aversion—none of which fit neatly into traditional financial models.

The founders of behavioral economics, Daniel Kahneman and Amos Tversky, published their most important academic papers during 1970s. First, Judgment under Uncertainty: Heuristics and Biases in 1974, and second, Prospect Theory: An Analysis of Decision under Risk. What are the key highlights of these two brilliant papers?

Daniel Kahneman and Amos Tversky helped bring humanity back into economics—and that is in my opinion what makes their work truly timeless. These papers gave us more than theories—they gave us a mirror. They explained why smart people make puzzling choices, why markets swing, and why public policy often misses the mark unless it takes real human behavior into account.

In their 1974 paper Judgment under Uncertainty, Kahneman and Tversky showed that people often rely on mental shortcuts—heuristics—to make sense of complex situations. These include *availability* (judging likelihood based on what easily comes to mind), *representativeness* (matching patterns even where they may not belong), and *anchoring* (relying too heavily on initial information). These shortcuts help us cope with complexity, but they also lead to predictable errors in judgment. The beauty of their insight was this: human irrationality is not random noise—it follows patterns we can study and understand.

In 1979, they went further with *Prospect Theory*, reframing how we think about value and risk. People do not make decisions based on final outcomes, as classical theory suggests, but based on perceived gains or losses relative to a reference point. And importantly, losses hurt more than equivalent gains feel good. This simple truth—known as loss aversion—helps explain why we cling to bad investments or avoid risks even when they make sense. They also uncovered how we misjudge probabilities: we tend to overreact to small chances (like winning the lottery or a rare disaster) and tend to underreact to more moderate ones.

In my opinion the most important behavioral bias discovered by Kahneman and Tversky is the framing bias? What does it mean and what are the key implications for investors?

Absolutely—*framing* is one of the most powerful insights Kahneman and Tversky uncovered. Framing is one of the behavioral finance cornerstones and refers to the idea that the way information is presented—or framed—can significantly influence decisions, even when the underlying facts remain the same. People react differently depending on whether a choice is framed as a potential gain or a potential loss.

For example, most individuals prefer a sure gain over a risky one when the outcome is framed positively—but the same people might choose a risky loss over a sure loss when the exact same outcome is framed negatively.

For investors, the implications are profound. How we perceive market news, portfolio performance, or financial advice can be distorted by framing. Even quarterly results or risk disclosures can lead to very different decisions depending on how they are worded.

To mention at least another one - I find *anchoring* particularly consequential. Originally defined by Amos Tversky and Daniel Kahneman in 1974 as *anchoring and adjustment*, this phenomenon describes our tendency to rely too heavily on the first piece of information we receive—the anchor—when making judgments, even when that anchor is arbitrary or irrelevant.

In finance and corporate negotiations, anchoring can profoundly distort outcomes. For example, the initial price in a negotiation often serves as a reference point that subtly shapes expectations and final agreements. Similarly, investors may anchor to past (commonly buying or stock´s past high) stock prices or prior valuations and base their decisions on these outdated benchmarks, rather than on current fundamentals.

Hersh Shefrin and Meir Statman published another very important paper The Disposition to Sell Winners Too Early and Ride Losers Too Long: Theory and Evidence in 1985. What are the disposition effect and the mental accounting about and what are the major implications for investors?

Absolutely. This paper is a classic. Shefrin and Statman identified a pattern that many investors intuitively follow, even if they rarely acknowledge it: the tendency to sell winning stocks too early while holding on to losing ones for too long. This is known as the *disposition effect*—a behavioral bias rooted not only in flawed reasoning, but also in emotion. Investors are quick to realize gains because it feels rewarding; it validates their decision-making. However, they tend to delay realizing losses because doing so forces them to confront deeper emotions such as regret or even shame over having made an investment decision that did not turn out well. It feels like admitting failure. Behavioral finance teaches us that beneath many financial decisions lies this emotional layer. For investors, these patterns can quietly erode performance.

Mental accounting bias describes our tendency to categorize money based on its source or purpose. Instead of viewing our finances holistically - we mentally assign funds to different emotional "accounts"—like vacation money, bonus money, or long-term savings—regardless of economic logic. For investors, this can lead to inconsistent decisions. We may take more risks with "extra" money or hesitate to use savings to pay off debt. These habits can quietly erode performance.

But once we recognize them, we can shift toward more deliberate, integrated financial choices.

Richard Thaler published a very important book Nudge in 2008. What does the term nudge actually mean and how can it improve public policy measures?

A *nudge* is a subtle change in how choices are presented—one that encourages people to make better decisions without restricting their freedom. The term reflects the idea that small adjustments in design or context can gently steer behavior. For example, placing fruit at eye level in a canteen leads to healthier food choices—not by eliminating less healthy options, but by making the better one easier to choose.

Thaler showed that we often make poor decisions not because we lack intelligence, but because we are busy, distracted, or overwhelmed by complexity. Nudges work by reshaping the choice architecture—the environment in which decisions are made—so that desirable choices are more intuitive or frictionless.

In public policy, the potential is significant. One widely cited example is automatic enrollment in retirement savings plans, where employees are included by default but can opt out. Most stay enrolled—not because they are forced to, but because the default nudges them toward a beneficial

outcome. To mention at least one more visual example, painted footprints on sidewalks leading to public waste bins. These simple cues have been shown to reduce littering by making the desired behavior more obvious and accessible.

In your view, what are the major implications of behavioral finance for the field of corporate finance? In my opinion the two most important facts are that, first, sunk costs do matter a lot in the real world, and second, overoptimism and overconfidence biases tend to lead to value destructive acquisitions, due to the fact that buyers have a strong tendency to overpay for their targets.

Your observation is spot on—and well supported by evidence. Behavioral finance has prompted corporate finance to confront a simple but important reality: executives are human. Like all of us, they are subject to emotional and cognitive biases, and these can have material consequences for firm value. Acknowledging this helps boards, CFOs, and investors design better decision processes and build more resilient organizations

Two implications stand out. First, although classical theory tells us to ignore *sunk costs*, behavioral research shows they often drive real-world decisions. Managers may continue with failing projects simply because *"we've already invested too much to quit."* This escalation of commitment often leads to inefficient capital allocation and delayed corrective action. And this bias extends beyond firms—individuals do the same in everyday life, staying in unfulfilling jobs and relationships or holding onto poor investments, because walking away feels like failure. But rationally, it reflects a misjudgment of future value.

Second, *overconfidence*—especially among CEOs—plays a major role in mergers and acquisitions. Behavioral studies consistently show that acquiring firms overestimate synergies and overpay for their targets. The belief that "this time will be different" is deeply human, but often value-destructive. Building a degree of overoptimism into models or decision frameworks is not only realistic—it is a clear advantage that encourages more grounded, disciplined thinking.

There are many excellent papers and books on this topic I would be happy to recommend—though covering them all might be too much for a single interview.

What have been the major developments in the field of behavioral economics during the last several years?

Behavioral economics has evolved remarkably in recent years. It has moved beyond simply identifying cognitive biases to designing real-world solutions across finance, healthcare, and public policy. The field is increasingly focused on how personal experiences—such as inflation, war, or economic hardship—can shape behavior for years, even decades. These insights are particularly valuable as we navigate uncertain and emotionally charged environments.

There has also been greater integration with neuroscience and health sciences, helping us understand how factors like stress, trauma, or mental fatigue influence judgment and decision-making. Meanwhile, the rise of AI and big data has opened new frontiers. Today's systems can deliver highly personalized nudges in real time—encouraging long-term thinking or better risk management. For example, language models can analyze investor communication, flag emotional cues, and support more reflective financial behavior.

At the same time, we must remain mindful of the ethical dimensions. These tools are only as fair and effective as the data and assumptions that power them. Transparency, accountability, and human oversight are essential—especially in high-stakes domains like finance. By understanding how people truly think and choose, more effective systems and policies can be designed—better suited to the realities of everyday life.

You published a book about behavioral finance in 2024 which is predominantly focused on behavioral biases (link). Could you please mention and elaborate on three major behavioral biases we have not mentioned in our interview yet?

Absolutely. Let me briefly highlight three important behavioral biases we have not yet discussed.

First, *confirmation bias*—our tendency to seek out and favor information that supports what we already believe, while discounting evidence that challenges it. This can lead to overconfidence and poor decision-making, particularly in fast-moving or complex environments.

Second, *recency bias*, which causes us to overweight recent events and trends when making judgments. In investing, this often leads individuals to chase short-term performance and

neglect long-term fundamentals or historical patterns.

Third, *familiarity bias*, including its well-known form, home bias—the preference for local or familiar assets. While it may feel safer, it often results in under-diversified portfolios and missed global opportunities.

Of course, these are just a few examples. My book explores more behavioral patterns in greater depth. An English edition is currently in preparation and will be available later this year.

I explore these and other behavioral patterns in greater depth in my book - English edition is currently in preparation and will be available later this year.

In conclusion, Thank you very much for the opportunity to take part in this interview —it was a real pleasure to reflect on the field and share a few ideas that matter to me.

BIO

Jana is the Vice Dean for Study at the Faculty of Management and Economics, Tomas Bata University in Zlín (UTB), where she earned her PhD in Economic Policy and Administration with a specialization in Finance. She has a decade of experience in academic teaching and curriculum development in the areas of financial markets, international finance, valuation, and behavioral finance. In 2021, she launched the UTB's first accredited Behavioral Finance course, which was later recognized by the Society for the Advancement of Behavioral Economics (SABE). She delivers guest lectures on behavioral finance, financial literacy and sustainable finance at foreign universities, including institutions in Germany, Greece, Spain, and Cyprus.

Her background also includes six years of full-time experience in the financial sector, with a focus on asset management, investment advisory, and operational roles connected to the Czech stock exchange and Central Securities Depository. She holds full broker certification, including derivatives.

She has published extensively in peer-reviewed journals indexed in Web of Science and is active in several EU- and nationally funded research projects in finance and education. Alongside other grant projects, Jana currently leads a British–Brazilian research team- a pioneering projects that integrates microfinancing, financial inclusion and artificial intelligence (AI).

She is the author of "Behavioral Finance: Why Do We Make Decisions About Money the Way We Do", the first peer-reviewed book on behavioral finance published in Czechia. The book combines insights from finance, psychology, and epigenetics to explore the key mental shortcuts and related biases behind everyday financial decisions.

Jana is an active member of the Society for the Advancement of Behavioral Economics (SABE) and has served as Faculty Advisor for the CFA Institute Research Challenge for over ten years. She is also a member of UTB's behavioral lab (UTB Behavio Team). She was awarded the Atlas Copco Service Prize for her contributions.

At Prague Finance Institute, she contributes behavioral content as the author of the Behavioral Insight of the Month in the PFI Monthly Journal.

Global macro insights of the month

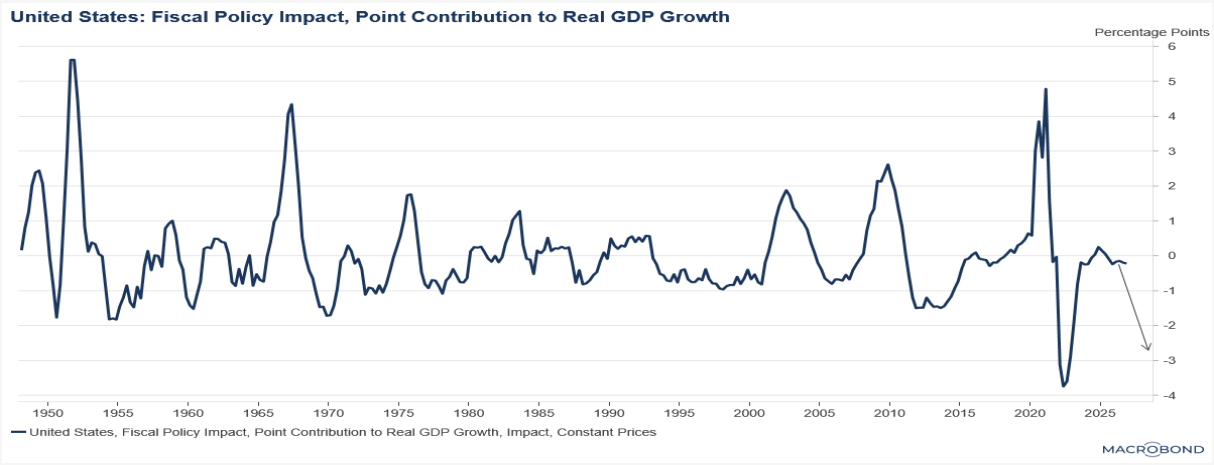
Trump's contradictions are no longer theoretical

Andre Chelhot, CFA
Chief Economist

In November 2024, we outlined a series of structural contradictions embedded in Donald Trump's proposed economic agenda in a LinkedIn post. At the time, these tensions seemed like campaign rhetoric. Today, with Trump back in the White House and policy actions already reshaping global economic dynamics, those contradictions have become operational. Their macroeconomic and geopolitical consequences are now unfolding in real time.

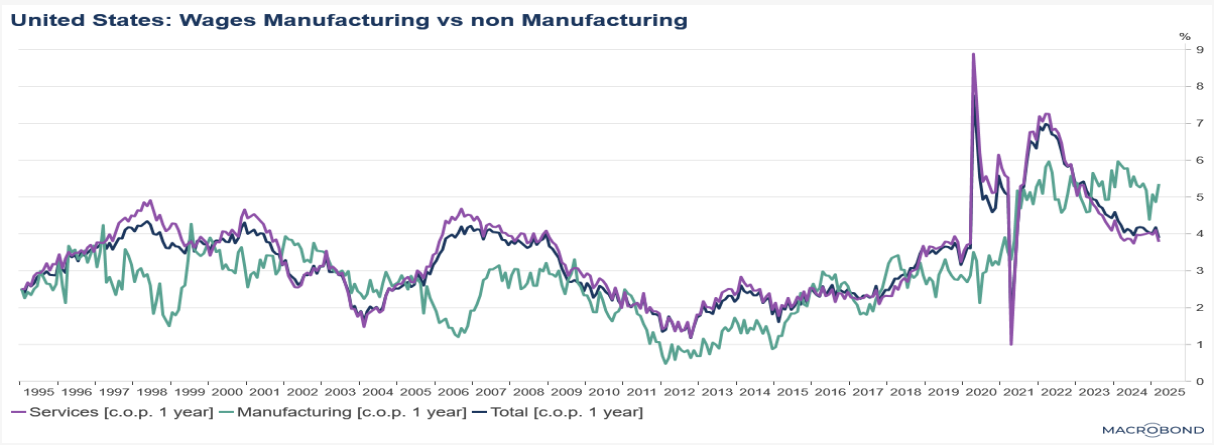
Cutting the deficit means an outright recession.

One of the most pressing contradictions lies in fiscal policy. The administration has pledged to cut the federal deficit from 6.5% to 3% of GDP while targeting 3% real growth. **But reducing the deficit by that magnitude requires a sharp swing in the primary balance**—essentially a rise in public savings. Under the sectoral balances framework, this implies that either private savings must fall or foreign savings (i.e., the current account deficit) must shrink. In a highly indebted, consumption-driven economy, neither outcome is likely without a contraction in domestic demand. **As a result, fiscal tightening on that scale would almost certainly trigger a recession.**



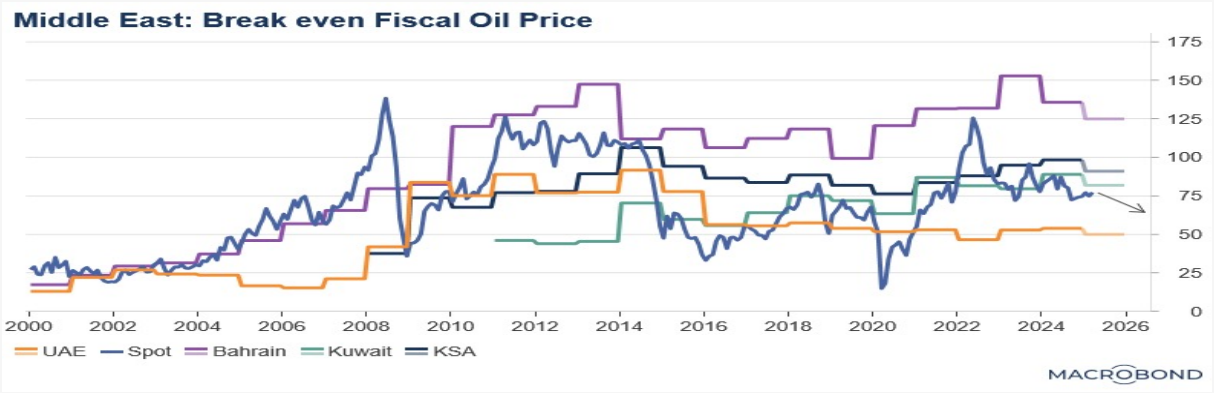
Deportation policy means persistent wage inflation

On labor, the administration's plan to deport millions of undocumented workers is aimed at domestic political goals, but it reduces the labor supply in an already tight market. This directly conflicts with the assumption that wage inflation will continue to moderate. **Due to a lack of labor supply, wage inflation in the manufacturing sector is still hovering around 5% on a YoY basis,** despite the slowdown in manufacturing activity witnessed over the last few months.



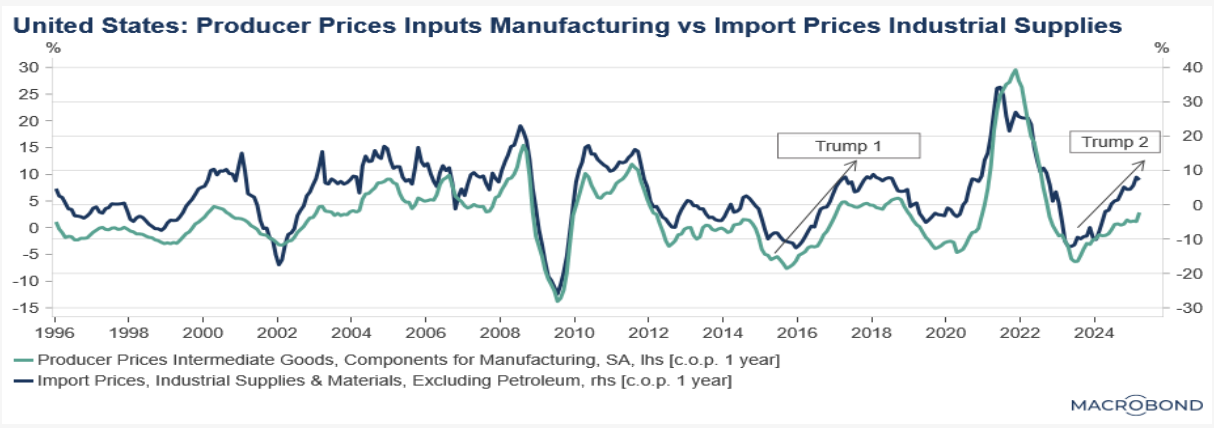
Lowering oil prices could be disastrous to GCC countries

Energy policy, too, is sending mixed signals. Trump has called for an increase in U.S. oil production by 3 million barrels per day. **Global crude prices are now near $65, well below the fiscal breakeven points of most Middle Eastern producers.** **The low prices could destabilize key U.S. defense clients and regional allies.** This undercuts parallel export goals and raises questions about the strategic consistency of U.S. foreign economic policy.



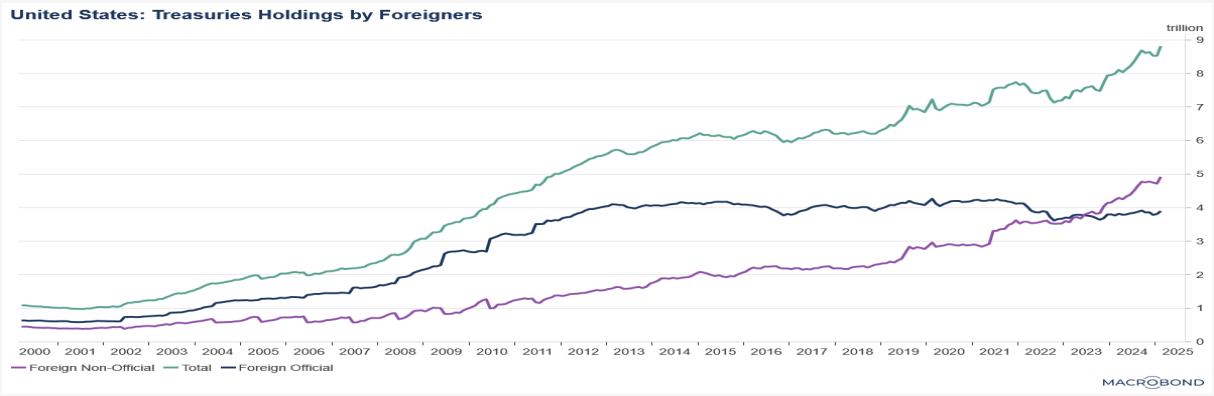
Trade tariffs and disruptions lead to a rise in producer price inflation

Nowhere are the contradictions more visible than in trade policy. The administration has implemented a universal 10% tariff on all imports and imposed a punitive 145% tariff on Chinese goods. At the same time, tariffs on the developed and other emerging economies have been paused, pending further review. This fragmented and volatile framework has created confusion among global exporters and investors. **The current tariff policy is not only inflationary but also chaotic and unstable, with frequent reversals, exemptions, and threats that undermine supply chain planning and global investment.**



Trade Flows are the mirror image of Capital Flows

A deeper macroeconomic contradiction lies in the relationship between the current account deficit and interest rates. The administration explicitly aims to reduce the U.S. trade deficit by reshoring supply chains and compressing imports through tariffs. However, the U.S. has historically relied on foreign central banks and sovereign investors recycling their dollar surpluses into Treasury markets, helping suppress long-term rates. A shrinking current account deficit implies fewer recycled dollars, less demand for Treasuries, and upward pressure on long-term interest rates. Thus, the administration's twin goals of lower trade deficits and stable, low borrowing costs are structurally incompatible. Adding to the instability, the administration has threatened BRICS countries with further trade penalties if they reduce their reliance on the U.S. dollar. Such actions directly undermine reserve currency credibility, which depends on trust, openness, and the free flow of capital. Weaponizing dollar access and market entry weakens the very system the U.S. relies on to finance its deficits cheaply.

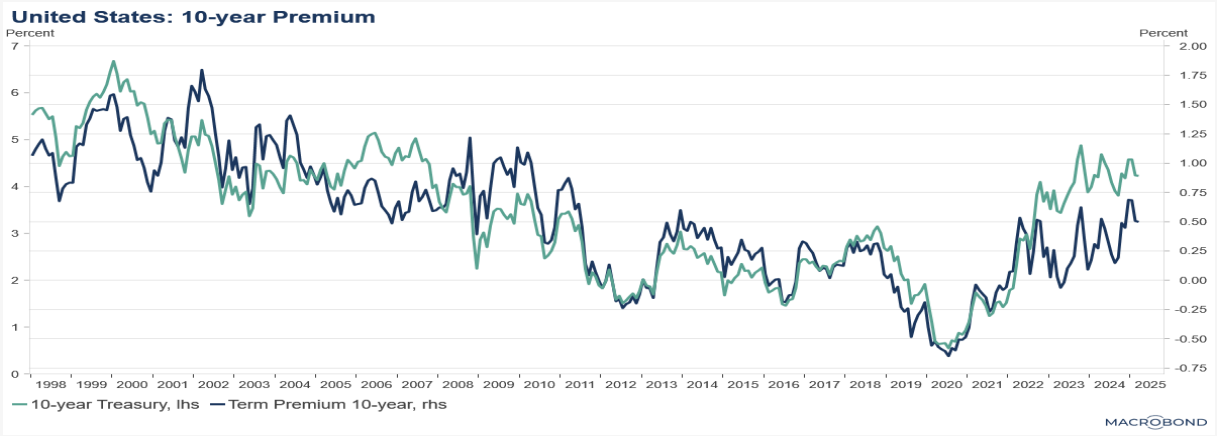


Attack on the Federal Reserve

Finally, monetary policy independence is again under pressure. The administration has openly criticized the Federal Reserve for keeping rates too high, urging immediate cuts to stimulate growth. These interventions risk eroding confidence in the Fed's autonomy, potentially pushing long-term rates even higher and tightening financial conditions, contrary to the administration's stated goals. Over the last few months, the short end of the curve has been pricing a continued easing in monetary policy, with the Fed Funds rate projected to drop to 3.5% by the end of the year, but long-term rates have remained stable around 4.5%.

What links all of these contradictions—fiscal, trade, labor, energy, and monetary—is one structural fact: **the U.S. debt-financing model has become unsustainable**. For years, high deficits were accommodated by low inflation, global dollar demand, and foreign savings recycled into Treasuries. That world is fading. As the U.S. runs larger deficits while alienating its creditors and tightening global dollar flows, **long-term interest rates have become the release valve**.

Every contradiction in the administration's economic strategy ultimately manifests through the bond market, where term premia are rising in response to the erosion of the underlying funding model. These contradictions reflect a deeper structural problem: **the U.S. economy is on an unsustainable fiscal path, and policy choices are compounding, not correcting, the imbalance**. As a result, volatility in policy will continue, feeding through to markets and macro data.



Global macro insights of the month

The path is not the destination – No administration is fully immune to the judgment of financial markets

Lukáš Štieber

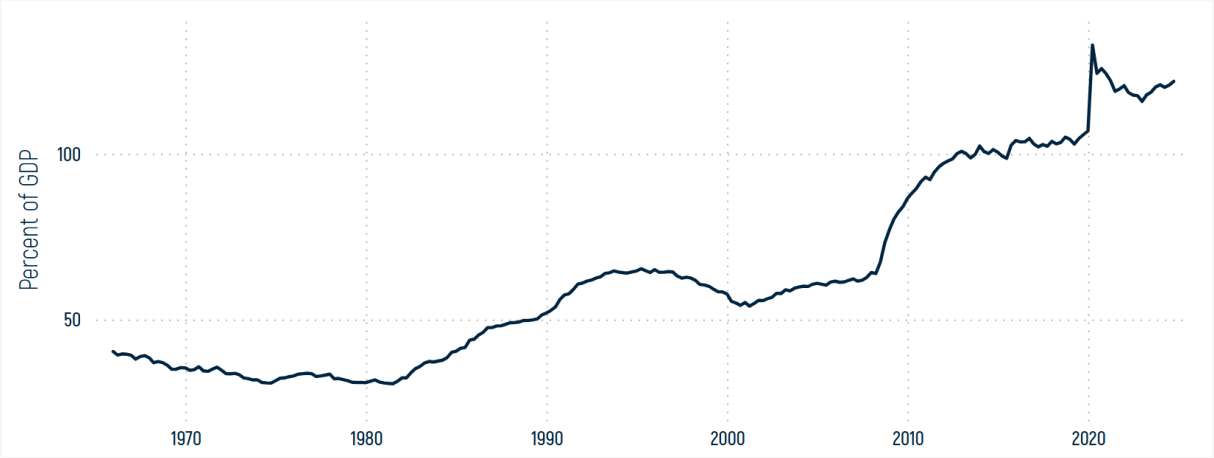
Analyst

The recent surge in macroeconomic volatility — and, by extension, asset price fluctuations — resembles a wild gorilla rampaging through the jungle, veering toward bananas one moment and water the next. Market perceptions of the Trump administration have followed a similarly erratic course, shifting between viewing tariffs as a mere negotiation tool and fearing the implementation of economically disruptive trade policies. At times, the rhetoric — particularly surrounding the scale of announced tariffs — has appeared irrational, triggering panic even among otherwise level-headed observers, only to revert to a more economically grounded narrative. While the path certainly matters, it is the destination that should remain the central focus for investors. We argue that nominal growth is the administration's core objective — even if the path toward it remains bumpy and unpredictable.

April's bout of volatility reignited concerns about the durability of the current market regime, as investors reassessed the trajectory of trade policy and economic growth. The narrative has evolved from using tariffs as tactical leverage to raising concerns about a long-term restructuring of global trade — with recession risks in the U.S. rising meaningfully. Markets were caught off guard by both the magnitude and the logic behind the new tariff proposals. The S&P 500's drop to around 4,835 reflected a moment of panic, but a sharp rebound followed, with the index gaining 15% by the end of April. Despite the noise, we believe the administration's strategic objective remains unchanged — to "Make America Great Again" — a goal that, in our view, is incompatible with intentionally triggering a recession. That said, the pursuit of American exceptionalism — particularly via expansionary fiscal policy — brings the issue of debt sustainability to the forefront (see Chart 1). Debt must be addressed and should be viewed as a structural anchor around which both economic narratives and policy paths evolve. The most viable path forward — economically and politically — lies in a combination of growth and inflation: in short, sustained higher nominal growth. As market noise intensifies, identifying signals that truly matter becomes increasingly important. For long-term investors, those signals are most relevant when they align with enduring strategic priorities — and for this administration, that means growth.

The Trump's administration response to market turbulence — rising bond yields, a weakening dollar, and falling equities — underscores a timeless truth: no administration, regardless of intent or ideology, is fully immune to the judgment of financial markets. By the same token, Europe appears to be gaining modest positive momentum, albeit from a relatively weak base. While recent monthly performance of risk assets has not lived up to the more dramatic headlines, the broader takeaway is clear: we are now operating in a higher-volatility environment, in the new market regime. In this setting, long-term investment decisions must be anchored in structural realities — quite notably, the level and trajectory of public debt (see Chart 1).

Chart 1. Total Public Debt as Percent of GDP (USA, Q4 2024 = 122%, how to deal with this?)



Source: Fred

Global macro insights of the month

Rethinking the trade deficit: Why it's not a threat to the U.S. economy

Štěpán Drábek

Analyst

U.S. President Donald Trump has made no secret of his concern over the United States' trade deficit. This concern was one of the main justifications for his decision to arbitrarily launch a trade war with the rest of the world. The protectionist philosophy that Trump promotes is, at its core, a philosophy of conflict. As history teaches us, such policies tend to lead to what Thomas Hobbes famously described as bellum omnium contra omnes—a war of all against all. What makes this situation more tragic is that Trump's approach is based on several economic myths, chief among them the supposed danger of trade deficits.

The U.S. runs a trade deficit with most countries, meaning it imports more goods than it exports (i.e., net exports are negative). In 2024, the U.S. trade deficit with the European Union reached nearly €200 billion, while the deficit with China was $295 billion.

United States: Trade Balance Goods. Source: Macrobond

There is a widespread belief—among both the public and the Trump administration—that the United States' substantial trade deficit is an urgent problem that requires immediate action. This belief fuels the inclination toward imposing tariffs as a corrective measure. In reality, however, the trade deficit reflects a deeper, long-standing issue: a chronic lack of domestic savings—across U.S. households, businesses, and the government alike.

There has been a decline in domestic savings in the United States since the 1980s. This is mainly due to rising government deficits; to a lesser extent, it is also a result of a decline in private savings. These lower savings are pushing up the real interest rate. Relatively higher interest rates in the US then attract investment from abroad, which pushes up demand for the dollar, which appreciates. A stronger dollar leads to lower exports and, in turn, higher imports. This creates a discrepancy between the volume of imports and exports.

The U.S. trade deficit is thus an inevitable result of low national savings. Since domestic investment has not declined proportionately, net exports have to fall. To balance the trade deficit under conditions of low national savings, a reduction in foreign investment would be required. However, this would hinder productivity growth—and, by extension, real wage growth. From this perspective, the trade deficit itself should not be viewed as a problem.

Another important factor is the dominance of the U.S. dollar as the world's reserve currency. According to the International Monetary Fund, by the end of 2023, 58% of global foreign exchange reserves were held in dollars—even though the U.S. accounts for only about 4% of the world's population. The dollar's central role in global trade creates strong demand for dollar-denominated assets, allowing the U.S. to tap into foreign savings to compensate for its own domestic shortfall. However, numerous economic studies suggest that while the dollar's privileged status plays a role, it is not the decisive factor behind the trade deficit.

Whatever the case, it remains true that the U.S. trade deficit with individual countries became a key variable in the comically simplistic and entirely arbitrary formula used by the Trump administration to determine "reciprocal tariffs." According to this flawed formula, the tariff burden was calculated as half the ratio between the U.S. trade deficit with a particular country and the total value of that country's exports to the U.S.

A fundamental fact that is often neglected is that trade deficits are omnipresent and, far from affecting just countries, they concern all economic actors. Everyone who has ever shopped in a supermarket has a trade deficit (except perhaps for those who work in them). Don't you believe that? Then be aware that if you are buying more goods from that supermarket than it is getting from trade with you, your trade balance is indeed negative.

But this "deficit" is offset by your surpluses elsewhere. If you work as a programmer, for example, you run a trade surplus with clients who pay for your services. It is precisely because your clients have a trade deficit with you that you can afford to have a deficit with the supermarket. Suddenly, the idea of a trade deficit doesn't seem so threatening. However, with international trade, the situation is exactly the same. Therefore, the fact that a country has a trade deficit at some point in time should not be surprising, because it is not a problem in itself.

The sheer simple-mindedness of the resistance to trade deficits was already striking to Adam Smith, who wrote: *"Nothing, however, can be more absurd than this whole doctrine of the balance of trade, upon which [...] almost all the other regulations of commerce, are founded."*

Financial markets insights of the month

Defensive portfolio positioning remains justified

Michal Stupavský, CFA
Head of Research

At the beginning of the year, we communicated to the broader professional public that the world is gradually entering a new global macro regime. In our view, this new global macro regime is characterized by three key attributes. First, a record-high level of total debt in the global economy, which, according to the latest data from the Institute of International Finance, reached USD 318 trillion at the end of 2024, equivalent to 328% of global GDP on the relative basis. This figure includes the debt of all economic agents – governments, corporations, and households.

Second, structurally higher interest rates due to still elevated and persistent inflation, alongside generally higher overall macroeconomic volatility. Third, significantly increased geopolitical and economic uncertainty, particularly in the form of substantial military conflicts and, currently, very intense trade wars. In this context, we believe that investors will need to be much more flexible in the coming years compared to the previous period and will have to adopt more active investment approaches, as traditional investment rules and principles that were successful in previous market cycles may not necessarily hold in the current one.

The new global macro regime has materialized in recent weeks, among other things, through significant broad-based sell-off of U.S. investment assets, with a major surprise for most investors being the simultaneous sharp declines in the U.S. dollar, U.S. government bonds, and U.S. equities. It thus appears that the investment mantra of recent years – U.S. exceptionalism – has now passed its peak.

The performance of global stock markets since the beginning of this year fully reflects the new global macro regime, with the MSCI All Country World Index rising only very modestly by 0.9% year-to-date. We have also witnessed considerable dispersion in the performance across individual equity sectors. The Information Technology sector fell by 7.0%, and the Consumer Discretionary sector declined by 5.6%. On the other hand, defensive sectors performed remarkably well, with the Utilities sector gaining 10.0% and the Consumer Staples sector rising by 9.0%.

Among other notable statistics, there was a significant relative outperformance of non-U.S. equities (MSCI All Country World ex-US +9.6% versus S&P 500 -3.3%) and a marked relative outperformance of value stocks (MSCI All Country World Value +3.8% versus MSCI All Country World Growth -1.7%). Furthermore, among the equity indices we monitor, the Central European CECEEUR index has been the best performer so far, rising by 21.7%, while the Magnificent 7 index has been the worst, declining by as much as 12.0%.

We believe that maintaining a defensive positioning of investment portfolios remains justified, as the significant deterioration in the global economic outlook has not yet been fully reflected in consensus EPS estimates. Moreover, given the enormous increase in global economic uncertainty, we believe that risk assets deserve an additional increase in their risk premium, as our global equity risk premium indicator currently stands at 1.9%, which remains well below the long-term average of 4.3% based on data since 2007. In other words, equity valuations should, according to our base case scenario, continue trending lower on average, and this primarily concerns U.S. large-caps and stocks in the Information Technology sector. Therefore, we also believe that the ongoing rotation from U.S. assets to non-U.S. assets is likely to continue over the coming quarters.

For these reasons, we also continue to recommend maximum diversification of investment portfolios – across major asset classes (equities, government bonds, corporate bonds, real estate, private equity, cash, etc.) as well as regional and sector diversification.

Note: Data from Bloomberg as of 2 May 2025.

Financial markets insights of the month

Fears about the loss of the US economic hegemony are largely overblown

Tomáš Pfeiler, CFA

Analyst

This April was by all means tumultuous – even by Donald Trump's standards. Tariffs' announcement and their subsequent postponement or antics with the possible removal of Jerome Powell from his position triggered tremendous volatility. While equities recouped earlier losses, long UST yields remain elevated and the dollar is still suffering. It seems like some investors have become scared that the US is on the verge of losing its economic hegemony. Are such concerns justified?

Heavy sell-offs in the stock market shocked traders, but Trump barely noticed. It was a turmoil in the Treasuries market that forced the president to change his tone and delay reciprocal tariffs. Abrupt rise in yields of over 50 bps in one week, or the highest weekly increase since 2001, stressed investors and even policymakers. As a haven asset, US govies should thrive well amid broader panic. The fact that money managers abandoned them on a massive scale brough back reminiscences of the covid era, when tremors in the UST market sparked fears of serious financial accident. The Fed had had to step in and restore market confidence.

This time there were no dislocations or signs of market malfunctioning. Liquidity was ample. Obviously, technical factors contributed to the rise in yields. Levered hedge funds liquidated their basis trade positions due to the spike in the Treasuries volatility. There are, however, some rather disturbing factors: foreign investors have started to be more careful and they are probably contemplating to trim their exposure to the US government bonds.

Similarly, the dollar, the ultimate haven asset, has also behaved strangely during the recent period of anxiety. Asset managers are normally piling into American currency if markets suffer from the bout of volatility. This time, quite the opposite happened. The euro strengthened to 1.15 against the dollar, or to the highest level since the end of 2021. While fundamentals do not correspond with the greenback's weakness, positioning have become much more bearish.

The slump in the dollar can be partially explained by the fact that businesses were stockpiling prior to the tariffs – purchasing large volumes of foreign goods. They are effectively selling the USD and buying foreign currencies, therefore contributing to the greenback's depreciation. On the other hand, there is a reason to believe that investors' exodus took place (to at least certain extent) as they started to price risk premia into the dollar assets.

Donald Trump's erratic way of governing erodes American institutions. When the White House started to openly discuss the possibility to fire Jerome Powell from the office, asset managers panicked. Doubts about the central banks' independence are anathema to markets. President's team finally realised that and Trump announced he had never intended expelling Powell.

Nonetheless, some damage to the credibility of US assets has already been done. Furthermore, it sends signal that when Powell's mandate ends (May 2026), Trump will probably pick the candidate who favours loser monetary policy. Investors might therefore further question central bank's willingness to combat inflation.

There are reasons for at least some optimism. The recent history shows that Trump's tolerance for financial market pain is low. Some far-reaching and farfetched ideas such as Mar-A-Lago Accord, which would precipitate a significant shift in the current global financial order are therefore rather unlikely. On, the other hand, chaotic decision making and unpredictable steps of US administration means that foreign investors start to de-risk and trim their exposure to dollar assets.

Doomsayers, who predict a collapse of the US haven status are wrong at this stage. There is no alternative to dollar assets and their dominance in global markets will not abate anytime soon. Donald Trump's tariffs might trigger a recession or kill once powerful stock market narrative of US exceptionalism. However, the longer-term US financial and economic hegemony remains uncontested and fears of its demise are largely overblown.

Financial markets insights of the month

April shock: Global markets rattled by U.S. tariff measures

Ondřej Koňák

Analyst

April 2025 will be remembered as a month of extreme volatility in global markets, triggered by unexpected trade moves from the United States. On April 2nd, President Donald Trump declared a so-called "Liberation Day," announcing a blanket 10% tariff on all imports into the U.S., with a few sectoral exceptions.

Markets reacted sharply — the S&P 500 dropped more than 10% over just two trading days, marking the steepest two-day decline since 2020. The move was followed by retaliatory tariffs from China, escalating fears of a full-scale trade war and deepening investor uncertainty.

While markets experienced a modest rebound after a partial suspension of some tariff measures, volatility remained elevated. Investors stayed cautious in the face of unpredictable U.S. trade policy.

In Europe and other regions, major indices also posted significant losses. Central banks — including the Federal Reserve — came under pressure to respond, but concerns over inflation and economic fragility complicated monetary policy decisions.

April 2025 reminded investors how swiftly political decisions can shake global markets — and how crucial it is to remain adaptable in an environment shaped by fast-moving geopolitical and macroeconomic shifts.

Investor takeaway
Geographic and sector diversification remains essential in times of geopolitical uncertainty. With volatility likely to persist, investors should stay focused on fundamentals and consider increasing exposure selectively during market pullbacks.

Banking sector insight of the month

Preparing for the unthinkable: The challenge of capturing geopolitical and macroeconomic shifts in stress testing

Michal Mesík

Analyst

Banks in the European Union conduct annual - or more frequent – internal bank-wide stress tests and bi-annual regulatory EBA stress tests to assess their resilience under adverse economic conditions. The former aim to identify and assess the impact of main risks and vulnerabilities on the financial ratios of the bank. The latter, coordinated by the European Banking Authority (EBA) and the European Central Bank (ECB), aim to ensure financial stability by evaluating how banks would fare in hypothetical crisis scenarios.

Such stress tests typically rely on historical data and known risk factors, making them effective in assessing financial vulnerabilities based on the past crises. However, this approach has a fundamental weakness: it struggles to capture the impact of shifts in the underlying patterns and disruptions that are not in line with historical developments. Events such as wars, sudden regulatory or geopolitical changes, and to a certain extent also financial crises, often emerge unpredictably, leaving conventional stress testing with partly blind.

The EBA stress tests, focus on shifts in specific macro variables such as GDP, inflation rate, and interest rates. While these indicators provide valuable insights, the root causes of financial instability - such as geopolitical tensions, trade wars, impact of regulation or technological disruptions – remain described by somewhat generic narratives, without examining in detail the channels leading from the root causes to the impacts on macro variables.

In addition, the EBA guidelines emphasise that stress scenarios should be severe but plausible. However, agreeing on what is plausible is not always straight-forward - what may seem improbable today could become the reality of tomorrow. The COVID-19 pandemic, the Russia-Ukraine war, and the extreme US policy shifts under Trump 2025 illustrate how unforeseen events can reshape global financial markets or economy.

Can AI improve Stress Testing? Only to a certain extent. Artificial intelligence offers some promising improvements given that AI-driven models can analyse vast datasets, identify hidden correlations, and generate dynamic stress scenarios that adapt to real-time geopolitical and economic developments. By leveraging machine learning techniques, banks can improve their ability to anticipate low-probability, high-impact events. Nevertheless, any AI model depends on the historical data it is fed with. So, no immediate solution to the dependency on historical data.

Another limitation of traditional stress testing is its focus on first-round impacts - the immediate effects of a crisis on financial institutions. However, second-round impacts, such as contagion effects, shifts in investor sentiment, and responses by the financial sector, are often overlooked. In the last years, the Bank of England came up with an interesting approach. Within the so-called system-wide exploratory scenario (SWES), banks, insurers and funds are first asked to model the impact of a given set of shocks, as well as the actions they would take in response. In a second round, the participants are asked to adapt their responses in reaction to any stress amplifications based on the responses provided by the participants in the first round. This way, second-round impacts and system-wide linkages within the financial system can be uncovered.

Consequently, banks need to develop adaptive stress testing frameworks that consider severe but plausible scenarios and focus on understanding the scenario evolution and the transmission channels, i.e. the way the stress triggers translate into stress impacts. In other words, stress tests need to tell a story. By framing stress scenarios through storyboarding techniques, risk managers could enhance the communication of key insights within their organizations, making stress testing more engaging, accessible, and potentially also forward-looking. The story-boarding process was first used by Walt Disney in the 1930s. The film studio understood that audiences would not watch a film unless they see for themselves a compelling story behind, making them to care about the characters.

There is certainly a parallel to banks' management boards reading stress testing reports. Senior management in banks may be willing to accept stress scenarios that go beyond conventional assumptions. It takes a truly skilful and courageous risk manager - or rather communicator - to sell to the members of a management board an annual stress test scenario built around an event that is perceived as highly unlikely. Many institutions thus remain risk-averse even in stress testing, preferring to model crises within familiar parameters. Adding to that, over the past decade, banks have heavily invested in automating stress testing calculations, hence risk managers find a certain comfort in applying sophisticated quantitative methods. Scenario creation is often seen as something comparatively less important and only a fraction of the time spent on the bank-wide stress test is devoted to it.

In summary, encouraging a culture of forward-thinking risk management based on understanding the transmission channels and reaction mechanisms by market participants is essential to improving stress testing going forward. The development focus should shift from quantifications and methods to understanding how stress cuts through the financial system and your own institution and to finding compelling ways of communicating the insights to senior management. Once there is a clear understanding, stress tests can tell a highly relevant story to the boards of financial institutions. After all, a well-told story holds far more power than a well-done calculation.

Global M&A insight of the month

Boeing to sell parts of aviation software unit to Thoma Bravo for $10.55bn

Martin Bosák

Analyst

In a major strategic move to strengthen its financial position and refocus on core operations, Boeing has agreed to sell a large portion of its Digital Aviation Solutions unit to U.S.-based private equity firm Thoma Bravo for $10.55 billion in an all-cash transaction. The deal, expected to close by the end of 2025 pending regulatory approval, represents one of the largest software carve-outs in aerospace history.

The assets included in the transaction are Jeppesen, a long-standing provider of navigation and flight planning tools; ForeFlight, a widely used aviation navigation app; as well as AerData and OzRunways. These businesses form the backbone of Boeing's commercial aviation software offerings and together employ approximately 3,900 people worldwide. All employees associated with the divested units are expected to transition to Thoma Bravo.

Boeing, which has faced years of turbulence due to safety scandals, production challenges, and financial strain, sees the divestiture as part of a broader turnaround plan. Since taking over as CEO in August 2024, Kelly Ortberg has been aggressively working to repair the company's balance sheet and restore investor confidence. This deal follows a $24 billion stock sale in late 2024 and the securing of a $10 billion credit facility. Boeing is also still managing the aftermath of a high-profile mid-air incident involving a 737 Max aircraft earlier this year, which led to tighter regulatory scrutiny and a cap on aircraft production by the U.S. Federal Aviation Administration.

Ortberg emphasized that the sale will allow Boeing to concentrate on its primary mission—aircraft production and fleet services—while preserving critical digital capabilities related to diagnostics, maintenance, and repair for both its commercial and defense customers. These remaining services are considered essential to Boeing's long-term strategy and will continue to be developed in-house.

For Thoma Bravo, a firm known for its specialization in enterprise software and with $179 billion in assets under management, the acquisition marks a significant expansion into the aerospace sector. The private equity group plans to run the acquired business as a standalone entity. Managing Partner Holden Spaht described the platform as "an important technology asset in the broader aerospace and defense industry," while fellow Managing Partner Scott Crabill highlighted the firm's intention to accelerate the unit's growth through strategic investments and operational improvements.

The sale price valued Jeppesen at roughly 16 times its 2025 earnings before interest, taxes, depreciation, and amortization, according to a person familiar with the matter (Reuters). Financing for the deal includes $6 billion in equity from Thoma Bravo and $4 billion in debt led by Apollo Global Management through a private credit partnership with Citigroup. This financing structure allowed Thoma Bravo to outmaneuver several competing bidders, including Advent International, TPG, Veritas Capital, and Francisco Partners.

As Boeing works to regain its investment-grade credit rating and rebuild after a difficult period, this deal is being seen as a significant step toward stabilizing its finances and returning focus to its manufacturing roots (also Boeing share price reacted positively to this announcement). For Thoma Bravo, the acquisition offers a compelling opportunity to build on a legacy aviation software business with steady, predictable revenues and global importance.

This transaction appears to be a smart, strategic move for both parties. For Boeing, offloading a non-core yet valuable digital asset allows it to shore up its balance sheet at a time when financial discipline is critical. For Thoma Bravo, the acquisition provides a unique entry point into the aerospace sector through a well-established, revenue-generating software platform with strong growth potential. The deal underscores how private equity can play a constructive role in unlocking value from legacy industrial players navigating structural change.

Czech M&A market insight of the monthacquisitions

M&A in Czech construction: The shift towards strategic acquisitions

Tamara Lorencová

Analyst

While the construction sector in the Czech Republic continues to operate in a challenging environment - with rising material costs, high interest rates and slow approval processes - there's a clear shift underway. Against this backdrop, capability-driven acquisitions are emerging as a proactive way for companies to adapt, add value, diversify services and improve resilience.

A recent example is the acquisition of 100% of Instalace Praha by STRABAG Property and Facility Services (STRABAG PFS), a subsidiary of Austria-based STRABAG. Instalace Praha, a Czech construction company with annual revenues of around CZK 1.8 billion, is known for its technical installations, facility management and projects aimed at reducing the carbon footprint of buildings. Instalace Praha has successfully completed several complex decarbonisation projects and brings valuable expertise in the design of energy-efficient building systems, skills that directly complement and enhance Strabag's sustainable service offering.

It also fits well with Strabag's broader strategy in the Czech Republic. Over the past 15 years, the Group has steadily built up a portfolio of acquisitions to strengthen its construction value chain - from raw materials and transport infrastructure to real estate and facility services. These include B2 Assets, PORREAL Česko, ECM Facility, Viamont DSP, Štěrkovny Dolní Benešov and JHP. Taken together, it's clear that Strabag is building a more integrated and independent platform on the Czech market.

Another recent acquisition in the construction industry took place in Q1 2025, when Czech-based Geosan Group acquired Hutní Montáže, an Ostrava-based company specialising in steel structures and industrial equipment. While the company struggled financially in 2023, with revenues of CZK 1.2 billion and negative EBITDA of CZK -212 million following the cancellation of a major Finnish contract, Geosan sees long-term value in strengthening its position in the energy and industrial sectors.

In addition to broadening the services and becoming more independent, the shortage of skilled labour is also a key motivator. As of December 2024, the vacancy rate in the Czech construction industry was 6.2%, more than double the EU average of 2.9% (Eurostat). For many companies, hiring experienced teams is more efficient than trying to fill positions organically. At the same time, more and more companies are bundling services – integrating design, construction and maintenance under one roof - to reduce their dependence on subcontractors and better control project delivery.

In short, Czech construction companies, whether foreign or domestic, are increasingly focused on acquiring the technical expertise and capabilities needed to deliver complex, sustainable projects. It's no longer just about expanding their footprint, it's about becoming more integrated, more skilled and better equipped for the challenges ahead.

Private equity insights of the month

Liquidity without exits: The growth of NAV-based lending

Diana Hricišáková

Analyst

In a market environment where exit activity remains muted and distributions to limited partners (LPs) are slow, private equity managers are increasingly turning to alternative ways to generate liquidity. One solution gaining popularity is net asset value (NAV)-based lending—a form of fund-level financing secured by the fund's shareholdings in its portfolio companies, rather than by the specific assets those companies hold. While not a new concept, the use of NAV-based facilities has accelerated in recent years, becoming a strategic tool for general partners (GPs) navigating prolonged hold periods and a challenging exit landscape.

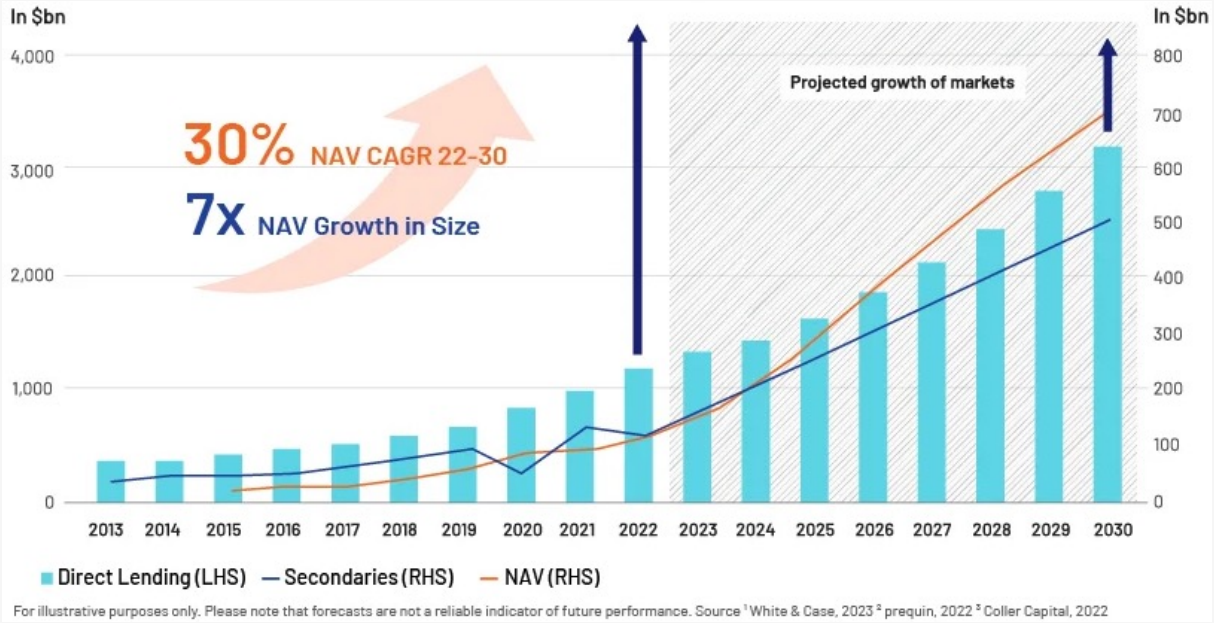
NAV-based loans provide flexibility. They allow managers to access liquidity without selling portfolio companies at unfavorable valuations or disrupting long-term value creation plans. GPs use these loans for a variety of purposes—supporting portfolio companies with follow-on capital, funding LP distributions, or even bridging financing gaps for continuation vehicles and secondary processes. In today's environment, where traditional exit routes like IPOs and strategic sales are often delayed, NAV lending can serve as a critical bridge.

The structure and terms of NAV-based facilities can vary widely depending on the size and quality of the underlying portfolio. Lenders typically provide financing at a loan-to-value (LTV) ratio of 10–30%, often with a short to medium duration and floating interest rates. As with any form of leverage, risk management is key, especially in assessing future cash flows and valuation volatility.

For LPs, the growing use of NAV-based lending presents both opportunities and concerns. On one hand, these facilities can generate distributions and support portfolio health without forcing premature exits. On the other hand, these loans can raise concerns among LPs, as they add leverage at the fund level and may affect the timing and amount of distributions. This makes transparency and clear communication from GPs even more important to ensure alignment with investor expectations.

This market is expanding quickly, with new lenders, including asset managers and private credit funds, stepping in to meet demand. NAV lending has shifted from a niche strategy to a mainstream financing option.

NAV-based lending market growth



Source: Acuity Knowledge Partners

As the chart above illustrates, the NAV lending market has grown significantly—from an estimated $80–100 billion in 2020 to a projected $700 billion by 2030, representing an annual growth rate of approximately 30%.

In summary, NAV-based loans are reshaping the liquidity landscape in private equity. For GPs seeking flexibility and LPs expecting distributions, this tool offers a practical, though not risk-free solution in a slower exit environment.

Private equity insights of the month

Are traditional VC funds dead?

Lukáš Baloga
Analyst

Just a few days ago, the private markets were abuzz with news that a well-known Silicon Valley venture capital (VC) firm Lightspeed Venture Partners had formally registered as a Registered Investment Advisor (RIA)[1]. While this might seem like a bureaucratic footnote, it marks a broader and accelerating trend among top-tier VC funds in recent years. Why are some of the most successful and storied names in venture capital making this shift? What does this say about the evolution of the VC industry—and what's driving it?

From traditional VCs to RIAs

At its core, the traditional VC model is bound by a set of constraints: no more than 20% of fund capital[2] can be invested in "non-qualifying" assets, active management of portfolio companies is restricted, and liquidity is almost exclusively tied to IPOs or M&A exits. The model, on average, is built around making 25 early bets, holding for up to a decade, and hoping two of those bets become unicorns.

By becoming RIAs, VC firms are unlocking a much broader strategic options. RIA are free to invest across a wider spectrum of assets, from public equities to private equity-style buyouts, roll-up strategies, and secondaries. This structural flexibility enables funds to evolve from passive minority investors into active builders and consolidators—much more akin to private equity funds than traditional venture firms.

Driving this shift is the explosive rise of AI, which is not just powering new startups but also reshaping old industries. Many VC-RIAs are now buying undervalued "old school" businesses, rewiring them with AI, and internalizing their operations to scale them more efficiently. Some are pursuing vertical roll-up strategies where AI acts as a compounding force—modernizing fragmented sectors and accelerating integration.

At the same time, a deep and increasingly liquid secondary market offers another lever for value creation. By acquiring attractive stakes in existing startups or funds at discounts, these firms can build long-term positions and develop platform portfolios with greater control and visibility over outcomes.

Lightspeed's story

Lightspeed Venture Partners, which manages $31 billion in assets, is a clear example of this evolution. With the number of active VC firms dropping from 8,315 in 2021 to 6,175 in 2024[3], the market is consolidating, maturing—and placing a premium on strategic flexibility. For Lightspeed, the limitations of the traditional VC model became increasingly restrictive. As an RIA, the firm now actively invests across public markets, secondaries, and even crypto assets.

Big names are transforming

Lightspeed is just a drop in the blue ocean. **Andreessen Horowitz (a16z)** made headlines by registering as an RIA back in 2019. This structural pivot enabled it to back unconventional deals like Twitter (pre-Musk), make bold bets in crypto, and evolve into a full-stack wealth and investment platform with PE-style governance. **Sequoia Capital** transitioned to an evergreen structure, focusing on longer holding periods. **Thrive Capital** now manages over $1B AUM with a build-and-buy model shaped by AI. **General Catalyst** has even rebranded itself from a VC firm to a "global investment and transformation company," reflecting a fundamental rethinking of the role VC firms play in company building[4].

Does future of VCs mean back to basics?

We may be entering a phase of strategic consolidation—where only firms with clear differentiation (sectoral depth, operational capability, brand strength, or contrarian investment theses) continue to thrive. In a sense, this evolution may lead the industry back to its original essence: funding bold, non-obvious innovation early and with discipline—rather than chasing trends.

In the context of AI, especially, the boundaries between VC and PE are blurring fast. Many firms are now building AI-native companies from scratch—developing operational capabilities historically associated with private equity rather than venture capital. It's no longer just about spotting the next founder; it's about assembling the team, designing the product, and creating the company itself.

[1] https://www.bloomberg.com/news/articles/2025-05-01/lightspeed-is-latest-firm-to-shift-away-from-classic-vc-model?embedded-checkout=true

[2] https://thefundlawyer.cooley.com/becoming-a-registered-investment-adviser-worth-the-costs/

[3] https://www.finalis.com/blog/trends-in-private-equity-and-venture-capital-for-2025

[4] https://www.techinasia.com/news/lightspeed-gains-new-status-to-invest-in-public-shares-crypto

Energy sector insight of the month

A strategic move for energy and geopolitical security as the Netherlands boosts North Sea gas production

Radek Jirků

Analyst

In April 2025, the Dutch government signed a new agreement with state-owned energy company Energie Beheer Nederland (EBN) and industry group Element NL to expand natural gas production in the Dutch sector of the North Sea. The move aims to enhance national energy independence, reduce reliance on imported liquefied natural gas (LNG), and lower the carbon footprint associated with long-distance energy imports.

The deal focuses on streamlining permitting procedures and tapping into an estimated 100 billion cubic meters of remaining gas reserves in the North Sea. To de-risk investment and accelerate development, EBN is increasing its stake in new offshore projects to as much as 85%.

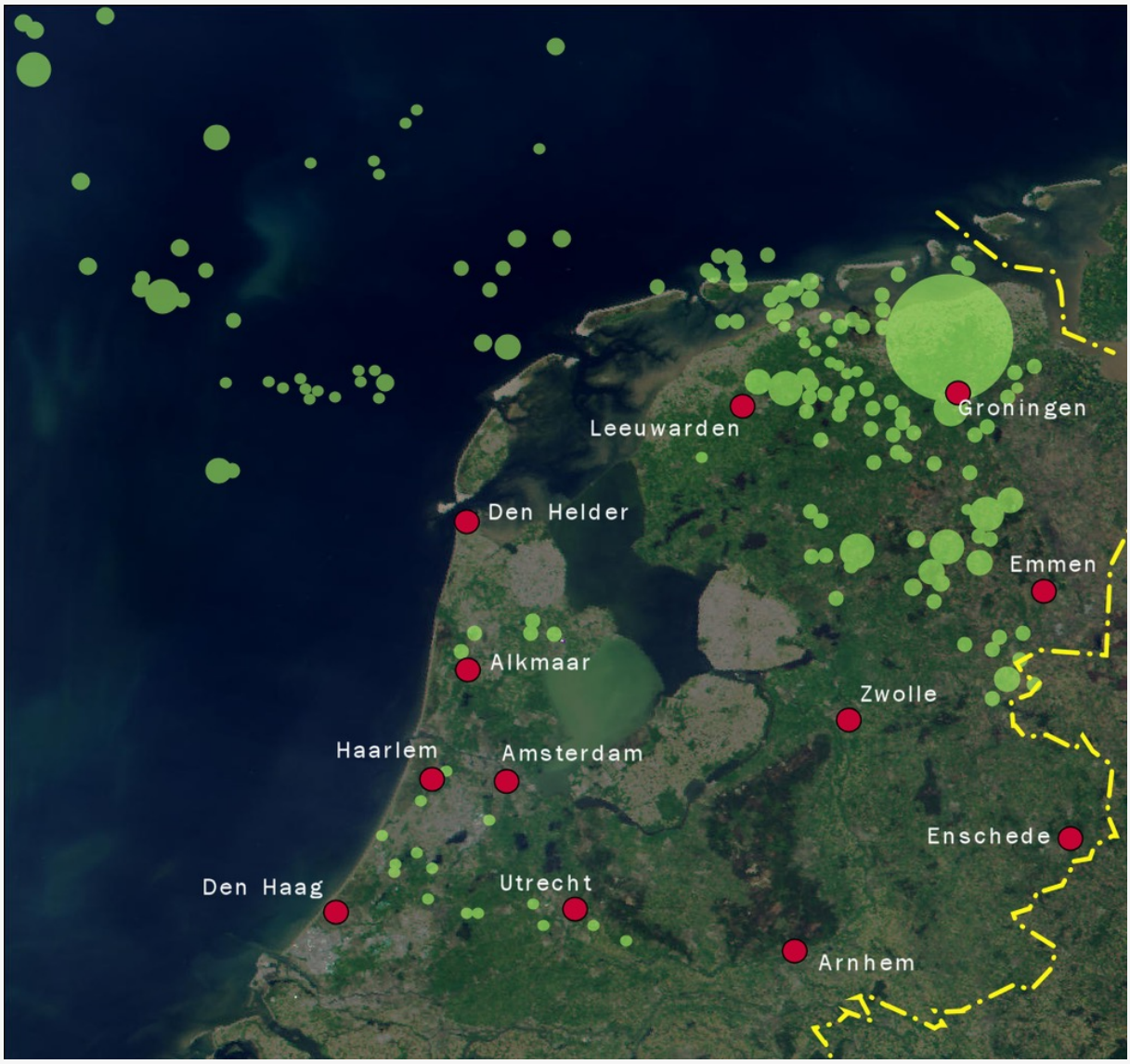
From an environmental perspective, domestically produced gas has a clear advantage. Studies show that imported LNG, particularly from the U.S., carries a carbon footprint up to 30% higher than gas extracted from the Dutch continental shelf—mainly due to emissions from liquefaction, shipping, and regasification.

The Dutch coalition government formed in 2024 has placed energy security at the forefront of its agenda. Alongside increased gas extraction, it plans to invest in nuclear power to diversify its energy mix and reduce dependence on "unreliable countries." While reaffirming its commitment to international climate targets, the government has ruled out additional national restrictions.

This strategic pivot reflects the Netherlands' broader ambition to secure a resilient, lower-carbon energy future while reinforcing its role as a stable energy partner within the European Union.

Source: Ocean Energy Resources, S&P Global, PBL Netherlands Environmental Assessment Agency, Reuters

Figure 1 Natural gas fields in the Netherlands in 2008 with concession for NAM.



Source: MJSmit (talk)Satellite_image_of_the_Netherlands_in_May_2000.jpg: created by NASA - Satellite_image_of_the_Netherlands_in_May_2000.jpg, CC BY-SA 3.0, https://commons.wikimedia.org/w/index.php?curid=4254271

Behavioral finance insight of the month

Fast and slow thinking in finance – Why investors must balance instinct and reason

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Have you ever made a quick investment decision, only to regret it shortly afterward? Or spent several days analyzing a trade, only to miss the window of opportunity? These seemingly opposite experiences reflect a core psychological mechanism in financial decision-making: the tension between fast, intuitive responses and slow, deliberate reasoning.

This concept, known as dual process theory, is central to behavioral science. Daniel Kahneman, in Thinking, Fast and Slow, describes two modes of thinking. System 1 is rapid, automatic, and emotionally charged—our instinctive response system. System 2 is slower, more effortful, and logical. In the context of financial markets, knowing how and when these systems guide decisions is essential to navigating uncertainty, risk, and volatility.

System 1 evolved to help humans respond quickly in situations where speed matters—avoiding danger, reading social cues, or forming snap judgments. In modern financial settings, this translates into gut reactions to headlines, price fluctuations, or media hype. It is powered by heuristics—mental shortcuts that simplify complexity. However, this efficiency comes at a cost. Investors may overreact to news, chase performance, or follow the crowd, especially under stress.

System 2, in contrast, is activated when individuals encounter complex or unfamiliar problems. It is used when building a portfolio, estimating probabilities, or comparing risk-adjusted returns. However, because System 2 demands effort, it often takes a backseat unless deliberately engaged. Many investment mistakes occur when individuals allow System 1 to dominate without recognizing its limitations.

A helpful metaphor is choosing between two chocolate bars—one with elegant packaging, the other with an image of a spider. Most people instinctively prefer the attractive design. That is System 1 responding to visual cues. However, only closer inspection might reveal that the less appealing bar has higher quality ingredients. Engaging System 2—pausing to evaluate—can lead to better choices. Investing works similarly - a well-marketed stock may appear attractive at first glance, but thorough analysis often tells a different story.

Dual process theory explains why investors are prone to behavioral errors. During periods of volatility or market stress, System 1 frequently drives decisions, resulting in panic selling or herd behavior. It also contributes to well-documented cognitive biases such as the availability heuristic and the representativeness heuristic.

Experienced investors learn to recognize these dynamics and create processes that give System 2 greater influence. They rely on structured analysis, establish clear investment rules, and allow time between market signals and actions. They also understand that intuition is not inherently flawed. In familiar situations, experienced investors may develop reliable instincts. Nevertheless, intuition should be examined critically rather than followed unconditionally. Recording the reasoning behind investment decisions increases awareness of emotional influences. Pre-committing to rules for asset allocation or rebalancing reduces the influence of market noise. Training cognitive reflection through probabilistic thinking and critical analysis can further strengthen analytical habits.

Recognizing whether one is relying on fast or slow thinking can significantly improve how financial information is interpreted and how risks are managed. By achieving a better balance between instinct and reason, a conscious balance between instinct and reason enhances the quality and consistency of investment decisions, particularly under conditions of uncertainty and volatility - especially in uncertain or high-pressure environments.

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