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Content

Financial markets monthly dashboard

Source: Bloomberg; Michal Stupavský, CFA

	June	YTD change	12 months change	Last value
Dollar index DXY	-2.5%	-10.7%	-8.5%	96.9
EUR/USD	3.9%	13.9%	10.0%	1.179
EUR/CZK	-0.7%	-1.7%	-1.1%	24.75
USD/CZK	-3.8%	-12.8%	-9.7%	21.13
Global stock markets (MSCI All Country World)	4.4%	9.1%	14.4%	
Developed stock markets (MSCI World)	4.2%	8.6%	14.7%	
Emerging stock markets (MSCI Emerging Markets)	5.7%	13.7%	12.6%	
Frontier markets (MSCI Frontier Markets)	4.0%	15.3%	16.9%	
Global stock markets - Value (MSCI All Country World Value)	3.6%	9.4%	12.9%	
Global stock markets - Growth (MSCI All Country World Growth)	5.1%	8.8%	15.9%	
Global stock markets - Large Cap (MSCI All Country World Large Cap)	4.4%	8.9%	14.2%	
Global stock markets - Mid Cap (MSCI All Country World Mid Cap)	4.0%	10.3%	16.1%	
Global stock markets - Small Cap (MSCI All Country World Small Cap)	4.7%	6.8%	11.6%	
US (S&P 500)	5.0%	5.5%	13.6%	6205
US (Magnificent 7)	6.1%	1.5%	23.9%	
US (S&P 500 Equal Weighted)	3.2%	3.8%	10.6%	
US (NASDAQ)	6.6%	5.5%	14.9%	
Non-US stocks (MSCI All Country World ex-US)	3.2%	16.0%	14.8%	
Europe (STOXX Europe 600)	-1.3%	6.6%	5.9%	
Japan (MSCI Japan)	1.7%	1.6%	0.2%	
Emerging Asia (MSCI Asia ex-Japan)	5.7%	13.1%	14.4%	
China (MSCI China)	3.2%	16.7%	30.5%	
India (MSCI India)	3.4%	6.0%	3.9%	
Latin America (MSCI Latin America)	5.7%	26.3%	7.4%	
Central Europe (CECEEUR)	2.6%	28.5%	27.0%	
Czech Republic (PX)	0.4%	22.6%	39.6%	2157
Global bond markets (Bloomberg Global Aggregate)	1.9%	7.3%	8.9%	
Global government bonds (ICE BofA Global Government index)	1.8%	7.5%	9.0%	
US Treasuries (Bloomberg US Treasury index)	1.3%	3.8%	5.3%	
US Treasuries with maturity over 20 years (Bloomberg US Treasury 20+ Year index)	2.7%	2.6%	0.3%	
Global investment grade corporate bonds	2.3%	7.4%	9.6%	
Global speculative grade corporate bonds (high-yield)	2.3%	6.8%	13.0%	
EUR investment grade corporate bonds	0.3%	1.8%	6.0%	
EUR speculative grade corporate bonds (high-yield)	0.5%	2.7%	8.2%	
Czech government bonds (Bloomberg Czech Govt All > 1 Yr Bond)	-0.4%	2.0%	4.4%	
Average global bond yield (Bloomberg Global-Aggregate Yield To Worst)	-0.10%	-0.21%	-0.43%	3.47%
US 10 year government bond yield	-0.17%	-0.34%	-0.17%	4.23%
US 2 year government bond yield	-0.18%	-0.52%	-1.03%	3.72%
Germany 10 year government bond yield	0.11%	0.24%	0.11%	2.61%
Germany 2 year government bond yield	0.09%	-0.22%	-0.97%	1.86%
Czech Republic 10 year government bond yield	0.11%	0.05%	0.03%	4.27%
Czech Republic 2 year government bond yield	0.09%	0.14%	-0.46%	3.60%
Average global investment-grade credit spread	-0.05%	0.00%	-0.15%	0.89%
Average global high-yield credit spread	-0.19%	0.03%	-0.54%	3.32%
Global commodity markets (Bloomberg Commodity Total Return)	2.4%	5.5%	5.8%	
Crude oil Brent	5.8%	-9.4%	-21.8%	68
Copper	4.1%	14.7%	4.8%	9945
Gold	0.6%	25.2%	41.4%	3308
Silver	8.5%	22.6%	22.6%	35.9

Interview

Laurent Millet

Portfolio Manager, nordIX AG

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

What is your current view on the world in general and the global financial markets in particular?

We may be in the midst of a secular regime shift in financial markets. This change began after the Great Financial Crisis of 2009 and accelerated in the mid-2010s. The election of Donald Trump and Brexit were clear symptoms of this shift. From the fall of the Berlin Wall to the 2008 crisis, globalisation advanced rapidly, especially after China joined the WTO. It helped suppress inflation, which allowed central banks to keep rates low. Low interest rates supported asset prices significantly. However, this went too far and the system narrowly avoided collapse in 2009.

After the GFC, weak economic growth combined with strong asset growth widened inequalities and fuelled populism. COVID was a catalyst for further change. It rehabilitated fiscal spending and exposed globalisation's fragility. During the pandemic, people turned to their governments for protection and support. Governments imposed lockdowns, abandoned free-market principles, rolled out mass testing, secured vaccines, and organised large-scale distribution. They injected trillions in fiscal support to prevent economic collapse. Even critics of government intervention saw that only the state could act quickly enough to avoid disaster.

The pandemic also revealed the vulnerability of globalisation. Complex supply chains broke down under stress, leaving countries short of vital goods. Just-in-time systems proved brittle when borders closed. Economic interdependence, efficient in normal times, became a systemic risk during crisis.

Higher fiscal spending and deglobalisation are inherently inflationary. We may be moving from an era of deflation worries, quantitative easing and ever-increasing valuation multiples to one marked by geopolitical tensions, higher and more volatile inflation, tighter monetary policy, and contracting valuation multiples. The "buy and hold forever" strategy, which worked well for quality growth investors over the past decade, may no longer be optimal in an environment of valuation compression. Buying growth stocks at P/E multiples of 30 or more, on the hope they will grow into their valuations, looks increasingly risky. A reduction in a stock's price-to-earnings ratio from 35x to 25x (still demanding) represents a 29% decline. If this contraction occurs over ten years, it creates an annualised negative impact of roughly -3.4% per year, offsetting part of the company's earnings growth and significantly reducing overall investor returns.

This new era demands a more proactive and agile investment strategy that adapts to short-term changes while aligning with long-term objectives.

Do you share my opinion that the world economy and the global financial markets have been gradually entering a new global macro regime, with its three key attributes being

1) record total global debt (USD 318 trillion and 328% of global GDP at the end of 2024 based on the data from the Institute of International Finance),

2) structurally higher interest rates and bond yields amid rather sticky and elevated inflation, and

3) significantly elevated global macroeconomic volatility and geopolitical uncertainty?

Yes, I strongly agree. Global debt has grown faster than GDP for decades, particularly in developed markets. Debt-to-GDP ratios have reached unprecedented peacetime levels in the US, Europe, and Japan. The situation is less clear in emerging markets, as they issue much of their debt in dollars. High debt burdens drag on real growth. When debt exceeds productive capacity, its marginal benefit declines. Resources shift from productive investment towards servicing obligations. This crowds out private investment, weakens productivity, and reduces real income growth.

With interest rates at zero or negative after the GFC, fiscal dominance took hold. Central banks exhausted their tools and governments used expansive fiscal policy to sustain growth. Monetary policy became subservient to fiscal needs. Central banks could no longer tighten meaningfully without risking financial instability or recession. Fiscal authorities now drive economic outcomes, with central banks accommodating their spending. This environment increases inflation risks and reduces monetary policy independence.

Under fiscal dominance, central banks keep rates low to manage government borrowing costs, even when inflation builds. This undermines price stability mandates. Fiscal deficits push demand beyond productive capacity, raising inflation. Markets anticipate future deficit monetisation, embedding inflation expectations. This erodes policy credibility and creates volatility.

Demography adds further risk. A declining working-age population lowers real economic growth. Fewer workers reduce productive capacity and potential output. Retiring skilled workers also depress productivity growth. In early aging phases, households increase demand for liquid assets, putting downward pressure on prices. Later, they become net consumers of savings, reducing investment while labour scarcity drives wage inflation. Japan's recent inflation increase is a cautionary signal for Europe.

Is the US government debt trajectory – debt/GDP ca. 125%, deficit/GDP ca. 7%, interest costs/budget revenues ca. 20% and interest costs above USD 1 trillion – sustainable in mid- to long-term? How should the US government cope with their USD 37 trillion debt? Isn't the financial repression the only viable long-term solution?

High and rising government debt is not new. It has been a long-term trend in developed economies, not just the US. Japan and Europe face similar challenges. High debt burdens productivity and living standards. Debt diverts resources away from productive private investment towards servicing unproductive obligations. As debt accumulates, its growth impact diminishes, eventually becoming counterproductive.

Countries issuing debt in their own currency do not formally default as they can print money. Investors betting on default may be disappointed. Governments can use financial repression to manage high debt. This involves keeping interest rates below inflation using regulatory constraints and forcing domestic institutions to hold government bonds. Financial repression erodes real debt burdens but punishes savers and distorts capital allocation. Governments suppress market rates through central bank intervention, imposing a stealth tax on wealth and undermining productivity and long-term growth.

Dollar has materially weakened and US equities have significantly underperformed Rest-of-the-World equities since the beginning of this year. Do you think that the period of the US exceptionalism is already over?

Turning points can only be observed after the fact. However, I believe there is a strong likelihood that US exceptionalism is indeed over. After 'liberation day', US equities, bonds, and the dollar all declined, which is highly unusual. In past crises, the US dollar functioned as a reliable safe haven, partially insulating investors from market volatility. This led investors to avoid fully hedging their US dollar exposure. That protection has now disappeared.

Foreign investors now see US equity losses amplified by concurrent dollar weakness. Being under-hedged has hurt performance. This could trigger a dramatic and long-lasting shift, as investors diversify some of their foreign investments away from the US into other markets and asset classes. Such a trend would be a strong headwind for the US dollar and US assets and a tailwind for foreign assets and currencies.

The situation is worsened by the fact that the US is the world's largest debtor nation and relies heavily on foreign capital to sustain its asset prices and finance its deficits. Its net international investment position (NIIP) is -$26 trillion, about 80% of GDP. Foreigners own 20% of the total US equity market, 30% of US treasuries, and 30% of US corporate credit. Foreign holdings of US securities equal 43% of GDP in Europe, 96% in Canada, 59% in Japan, and 123% in Switzerland. The Mag-7 holdings of the Norwegian sovereign fund represent more than 100% of Norway's GDP.

Trade war escalation could trigger not just capital adjustment but wholesale repatriation. As foreign governments and investors reassess risk parameters, they should logically reduce exposure to American assets, creating potentially large outflows from US equities and bonds. Foreign central banks could start diversifying their reserves. Sovereign wealth funds, with their long time horizons and national interest focus, could recalibrate allocations. Private capital would then follow with amplified vigour.

The risk is particularly acute for US equities, which represent 70% of the MSCI World index. Their valuations are expensive both in absolute terms and relative to their own history, as well as compared to foreign stocks. Dan Rasmussen from Verdad analysed the top 1,000 global stocks and found that fundamental factors like profitability, growth, or sector mix explain only half of the valuation premium for US stocks. He also found that a higher percentage of US sales actually correlates with lower valuations, not higher ones. This implies that the valuation difference is largely attributable to listing location rather than business fundamentals, suggesting a compelling case for mean reversion and potential outperformance of international stocks in the future.

In a dramatic reversal from the post-2009 era, Europe and Japan may emerge as relative winners from these returning capital flows. Such a shift creates a genuine opportunity for active portfolio managers to shine. The past decade's passive index investing strategies heavily favoured US markets by default. Active managers who can identify undervalued assets in Europe and Japan now face a potentially more favourable environment. Stock selection skills rather than simple geographic allocation could determine success. Regional expertise could regain importance after years of neglect. Even with mediocre stock picking, investors who avoid US equities can outperform in relative terms during a dollar bear market.

What is you view on the extreme US stock market concentration and its implications for the global asset allocation and portfolio diversification?

US market concentration is so extreme that performance increasingly depends on a handful of expensive stocks. The top seven US companies now make up a disproportionately large share of market indices. Their sheer size drives index returns, leaving investors exposed to narrow leadership. This concentration creates hidden risks because the fortunes of the entire market become tied to the performance of a few dominant companies. If these companies falter, the impact on passive investors and index-linked portfolios could be severe.

If US exceptionalism is indeed ending, active management could enter a new golden age. This situation resembles the early 2000s, when avoiding overvalued technology stocks led to strong outperformance. Back then, active managers who resisted buying into the hype protected their portfolios as the dot-com bubble burst. They outperformed by focusing on valuations and avoiding crowded trades in expensive stocks. Today, a similar concentration exists in high-priced US growth stocks. Valuations in this segment are stretched, with multiples far above historical averages. Investors justify these prices with assumptions of continued high growth, strong margins, and dominant market positions. However, if growth expectations disappoint or market sentiment shifts, these stocks could suffer large declines, dragging down index returns with them.

If market leadership broadens or valuations correct, disciplined active strategies focusing on fundamentals and valuation could shine. Investors who can identify overlooked companies with strong cash flows, resilient business models, and attractive valuations stand to benefit. In this environment, the ability to differentiate between hype and genuine value becomes essential. Managers who can resist market narratives and conduct rigorous bottom-up analysis will be rewarded.

This shift would favour managers willing to diverge meaningfully from indices and hold stocks that are underrepresented in benchmarks. It reintroduces the importance of fundamental research, patience, and conviction in portfolio construction. After a decade dominated by passive flows and index hugging, such a regime change would restore the relevance of active investing skills in delivering superior long-term returns.

Do you think that the traditional 60/40 portfolio allocation – 60% equities and 40% bonds – is still sufficient for an average investor in 2025?

Traditional 60/40 portfolios work in stable growth and low inflation environments. Equities benefit from growth while bonds provide ballast when rates fall. However, when inflation rises, the 60/40 portfolio struggles. Inflation erodes company margins and reduces consumer purchasing power. Valuations contract as investors demand higher returns for inflation risk.

Bonds also suffer in high and / or rising inflation environments. Rising inflation pushes yields higher, leading to capital losses. The negative correlation between stocks and bonds breaks down. Both asset classes fall together, as seen in the 1970s and 2022.

In such times, investors turn to assets benefiting from inflation, such as commodities, infrastructure, or real estate with inflation-linked cash flows. Inflation-linked bonds like TIPS also offer partial protection. Higher inflation increases volatility and shortens business cycles, creating risks and opportunities for active investors.

Since the global financial crisis, buying and holding quality stocks has worked well, as these companies grew their margins and enjoyed rising valuation multiples. However, if inflation rises and becomes more volatile, a more tactical approach, like that used in the 1970s, may be more effective. This shift in market conditions justifies holding average cash balances, as cash provides flexibility during volatile periods. Having cash on hand allows investors to take advantage of attractive opportunities when asset prices fluctuate meaningfully.

What is your opinion on the ever increasing market share of passive investments?

Passive investing has grown relentlessly, representing about 50% of global equity funds. It offers cost-effective diversification but acts as a momentum strategy. Passive flows target large companies based on market weight, creating a powerful feedback loop that distorts prices. Larger stocks gain disproportionate flows, concentrating market value further.

This creates a fallacy of composition. Individually rational choices to invest passively can undermine market efficiency collectively. Reduced market elasticity means valuation mean-reversion becomes less reliable. Companies' fundamental value creation through earnings, dividends, and buybacks becomes more important.

Passive investing reduces price discovery efficiency because it allocates capital based on index weights rather than company fundamentals. When investors buy index funds, they purchase stocks in proportion to their market capitalisation without analysing their valuations or business prospects. This means prices reflect flows rather than fundamental value, weakening the market's ability to distinguish between strong and weak companies.

As a result, corporate capital allocation decisions become more important. With less active scrutiny, companies that deploy capital wisely – through disciplined investment, efficient operations, and shareholder returns via dividends or buybacks – drive their own long-term performance. In a market dominated by passive flows, management quality and capital discipline increasingly determine shareholder value creation. This shift places greater responsibility on company leaders to create genuine economic value, rather than relying on market re-rating or multiple expansion to lift their stock prices.

Does this structural trend pose any significant risks to investors?

If investors start withdrawing money from passive funds, these vehicles are forced to sell stocks indiscriminately. Selling is not based on valuation or earnings prospects but purely on the need to meet redemptions. This can amplify market declines, particularly in stocks with large index weights. The risk is that passive outflows accelerate a downturn, creating a feedback loop that worsens market stress.

Furthermore, the dominance of passive investing reduces the pool of active managers willing to buy undervalued stocks during sell-offs. Active investors provide liquidity and stabilise prices by allocating capital based on fundamentals. As their share of market activity diminishes, the market becomes more vulnerable to flows-driven volatility.

In this sense, the rise of passive investing creates a latent systemic risk. It builds fragility into the market structure. During times of economic growth, this fragility is hidden. But in a recession, when flows reverse, the absence of discriminating buyers can deepen drawdowns and delay recovery.

The rise of passive funds amplifies market swings during inflows and outflows. Active managers need flexibility to navigate these flows. Holding larger cash balances becomes more important as it provides liquidity to seize opportunities when passive-driven volatility dislocates prices, enabling disciplined buying when others are forced sellers.

You have been arguing that minimizing the short-term portfolio volatility decreases long-term portfolio returns. Could you please elaborate on this?

Minimising short-term portfolio volatility often feels intuitively right. It reduces mark-to-market stress and keeps investors comfortable. However, over the long run, this approach can reduce portfolio returns. This is due to the nature of return generation. Higher-returning assets tend to be more volatile. Equities, for example, offer higher expected returns than bonds precisely because they carry greater risk. By shifting away from these assets to minimise short-term volatility, investors sacrifice their portfolio's growth potential. Accepting reasonable short-term volatility to maintain exposure to higher-returning assets is key to compounding effectively.

Focusing excessively on short-term volatility can also lead to poor behavioural outcomes. Investors who try to avoid all drawdowns risk exiting markets prematurely, missing recoveries, and locking in lower returns. In the end, long-term investing rewards those willing to endure short-term discomfort to access the risk premia that drive wealth accumulation over decades.

Cliff Asness uses the term "volatility laundering" to criticise strategies that appear safer than they are. Strategies with illiquid assets or infrequent pricing create an illusion of low volatility. For example, private equity or private credit funds often report smoothed returns because their holdings are not marked to market daily. This makes their volatility appear far lower than listed equities, even if the underlying economic risks are similar. This is not genuine risk reduction but merely hides volatility by avoiding daily pricing. In reality, if these assets were marked to market like public securities, their returns would look far more volatile.

This has important implications for portfolio construction. Investors attracted to the apparent stability of such assets may underestimate their true risk. They mistake accounting smoothing for genuine diversification benefits.

If low liquidity is genuinely a feature rather than a bug, then expected returns on such assets should be lower, not higher. This challenges the widespread belief that investors are compensated with an illiquidity premium for holding less liquid assets. In theory, if investors see illiquidity as a negative, they demand higher returns to bear it. However, if investors perceive illiquidity as attractive because it masks volatility and makes portfolios appear smoother, the opposite happens. Investors effectively pay for the illusion of stability. They value the psychological comfort of avoiding daily price fluctuations, even though the underlying economic risk remains.

This willingness to pay for lower liquidity or lower volatility products results in lower expected returns for less liquid or lower volatility assets compared to liquid equivalents with similar risk exposures. Private equity funds that report smoothed returns may appear less volatile than listed equities, leading investors to accept lower returns in exchange for this perceived stability. The key insight is that markets do not reward investors for holding what they desire. If illiquidity becomes desirable because it conceals volatility, it is no longer a burden requiring compensation, but a feature investors pay for with reduced returns.

Do you think that gold could become an official formal component of the global monetary system in the upcoming years again?

Since Russia invaded Ukraine in early 2022, central banks around the world have accelerated their gold purchases. This trend reflects growing geopolitical uncertainty and a desire to reduce dependence on the US dollar. For many countries, gold serves as a neutral reserve asset, free from the credit risk and political influence affecting foreign currency holdings. The freezing of Russia's dollar reserves by Western governments highlighted the vulnerability of relying heavily on dollar-denominated assets.

In response, countries such as China, Turkey, and several emerging markets have increased their gold holdings. Their aim is to diversify reserves and strengthen financial security in an increasingly fragmented global order. This accumulation has supported gold prices despite rising interest rates, underlining its enduring role as a store of value in times of political and economic stress. It also signals that, for central banks, gold remains a strategic asset not just for diversification but as a safeguard against sanctions, currency volatility, and systemic risks in a world where geopolitical tensions are unlikely to fade.

There is a place for gold in portfolios as a diversifier. Unlike equities or bonds, gold is not a claim on any government or company. Its value does not depend on an issuer's solvency or the financial system's health. This makes it unique among major asset classes. Historically, gold has shown low or negative correlation with stocks and bonds, especially during market stress. When equity markets fall sharply, gold often holds its value or rises, helping to stabilise portfolio returns.

However, gold does not generate cash flows. Equities pay dividends and bonds pay coupons, but gold's return relies entirely on price appreciation driven by market sentiment, demand dynamics, and macroeconomic conditions. Gold is also difficult to value. Equities can be valued on cash flows and earnings, bonds on future coupon payments discounted to today. Gold has no intrinsic yield or contractual payoff. Its valuation depends purely on what others are willing to pay. Some try to value gold by comparing it to inflation, currency supply, or mining costs, but these are indirect anchors rather than fundamental drivers.

I see gold as a diversifier and hedge rather than a return-generating asset with clear valuation anchors.

What are currently the major investment risks which investors all over the world have to face right now?

One of the major risks investors face today is financial repression, where governments keep interest rates below inflation to manage high debt burdens. In an era of financial repression, bonds become weapons of massive wealth destruction. Their low nominal yields, combined with inflation, systematically erode investors' purchasing power, guaranteeing real losses over time. Worse, in periods of high inflation, bonds tend to be positively correlated with equities, offering little diversification when it is needed most.

For equity investors, another major risk is the temptation to abandon valuation discipline. Quality growth stocks have delivered exceptional returns since 2009. Businesses like Microsoft, Apple, and other dominant franchises have compounded capital at remarkable rates. However, after such a long period of outperformance, many of these stocks now trade at historically high multiples.

Investors should never confine themselves to rigid style boxes. They should seek investments offering attractive risk-adjusted returns. Over time, the type of attractive opportunities will change, and investors must adapt accordingly.

Investors often fall prey to recency bias, assuming that past performance guarantees future returns. I saw this firsthand when managing an equity fund at the end of 2021. Like many others, I focused too much on business quality and underestimated the impact of valuations. In 2022, returns were very poor as multiples contracted sharply for growth stocks despite strong fundamentals. This experience reinforced a core principle: a stock's future return always derives from fundamental business growth – revenue expansion, margin improvement, dividends, buybacks – and changes in valuation. If valuations are elevated, even outstanding business performance may produce mediocre or negative shareholder returns.

The path to long-term wealth is buying great businesses at reasonable prices, not simply buying great businesses at any price. Maintaining valuation discipline is essential, especially now, when optimism and extrapolation dominate market psychology.

High valuations create significant risk. A company growing at 12% annually with a price-earnings ratio that halves over ten years delivers just 4% annual returns. Quality businesses can continue performing well while their stocks deliver mediocre results. An attractive area today is low-growth companies generating substantial free cash flow at low valuations.

A stock valued at a low multiple to free cash flow offers investors a margin of safety and the potential for attractive returns. When a company generates strong free cash flow and trades at a low multiple, it can return a significant portion of these cash flows to shareholders through dividends and share buybacks. This direct cash distribution boosts investor returns independently of market sentiment.

Moreover, if the market re-rates the stock upwards towards a fairer multiple, investors benefit from capital appreciation in addition to the cash yield. Even without multiple expansion, the sheer volume of cash returned can produce strong absolute returns over time. This is the essence of value investing: buying robust businesses with reliable cash generation at prices that allow shareholders to earn a high return through both income and potential revaluation. It contrasts sharply with expensive growth stocks, where returns rely heavily on future growth expectations being met or exceeded. In low multiple situations, returns are more grounded in current, tangible cash flows, which provides stability and reduces reliance on uncertain long-term projections or market optimism to achieve satisfactory investment outcomes.

BIO

Laurent Millet is a French fund manager with seventeen years of experience. A CFA charterholder, he has over twenty years of investment experience in equities and private debt. He started his career in France and later worked in Italy, Switzerland, and the United Kingdom, where he spent eighteen years. At Artemis Investment Management in London, he co-founded and managed two European equity funds with a disciplined quality-value approach. He focuses on fundamental analysis and strict valuation discipline to find attractive long-term investments. He currently manages a European Consumer Credit Fund that finances non-bank lenders across Europe from Hamburg, Germany, where he has relocated with his family.

Global macro insights of the month

Stanley Fischer (1943–2025): Architect of modern macroeconomics and global policymaker

Lukáš Štieber

Analyst

At the age of 81, **Stanley Fischer**, a formative force in academic macroeconomics and global economic policymaking, passed away on May 31, 2025. Over the course of a distinguished career that spanned over five decades, Dr. Fischer emerged as one of the most influential economists of the modern era. His enduring legacy bridges rigorous theoretical insight, transformative policymaking, and extraordinary mentorship, leaving a profound imprint on both the intellectual development and institutional practice of macroeconomics.

Dr. Fischer's seminal 1977 paper, *"Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule,"* marked a foundational moment in the emergence of **New Keynesian macroeconomics.**[1] Integrating the rational expectations framework developed by Robert Lucas[2] with the concept of nominal rigidities—modeled as multi-period wage contracts—Fischer demonstrated how systematic monetary policy could exert real effects in economies with sticky wages, even under forward-looking rational behavior. This reconciliation of Keynesian short-run stabilization policy with micro-founded rational expectations analysis re-established the theoretical basis for countercyclical monetary policy and laid the intellectual groundwork for the **Dynamic Stochastic General Equilibrium (DSGE)** models that now underpin much of modern central bank macroeconomic modeling.[3]

Beyond his academic achievements, Fischer played a central role in international economic governance. He served as **Chief Economist of the World Bank** (1988–1990),[4] where he contributed to shaping development economics and structural reform policy. From 1994 to 2001, as **First Deputy Managing Director** of the International Monetary Fund,[5] he was instrumental in managing the IMF's response to the Asian financial crisis and advancing global monetary cooperation. As **Governor of the Bank of Israel** (2005–2013), Fischer guided the Israeli economy through the 2008 global financial crisis with notable success, earning broad recognition for maintaining macroeconomic stability.[6] Later, as **Vice Chair of the U.S. Federal Reserve** (2014–2017),[7] he brought global expertise and a long-term strategic perspective to U.S. monetary policy deliberations during a period of normalization and institutional reflection.

Equally significant was Fischer's role as a mentor and educator. During his decades-long tenure at the Massachusetts Institute of Technology (MIT), he supervised and inspired a remarkable cohort of graduate students who would go on to occupy central positions in global economic policy and academia. Among them were **Ben S. Bernanke** (Chair, U.S. Federal Reserve), **Mario Draghi** (President, European Central Bank), **Kazuo Ueda** (Governor, Bank of Japan), as well as **Gregory Mankiw, Christina Romer, Maurice Obstfeld, Kenneth Rogoff, Frederic Mishkin**, and **Lawrence Summers**—all of whom have held leadership roles at central banks, international financial institutions, or national governments.[8] Fischer's pedagogical impact extended far beyond the classroom, as he instilled in his students not only analytical precision, but also a sense of responsibility, ethical commitment, and intellectual humility.

Dr. Fischer's colleagues across academic and policy communities remember him as a rare combination of analytical brilliance and personal warmth. Despite his monumental contributions, he remained modest, generous with his time, and deeply committed to nurturing the next generation of economists. As **Olivier Blanchard**, former IMF Chief Economist and one of his students, observed, *"Stan was one of the most popular teachers, and one of the most beloved thesis advisers."[9] Stanley Fischer's contributions have left an indelible mark on modern macroeconomic thought and practice. His legacy endures through the institutions he shaped, the frameworks he helped build, and the many individuals he mentored—whose work continues to influence global economic policymaking today.

1. Fischer, S. (1977). "Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule." Journal of Political Economy, 85(1), 191–205.

2. Lucas, R. E. (1972). "Expectations and the Neutrality of Money." Journal of Economic Theory, 4(2), 103–124.

3. See Woodford, M. (2003). Interest and Prices: Foundations of a Theory of Monetary Policy. Princeton University Press.

4. For a summary of Fischer's tenure at the World Bank, see his biography at the Bank of Israel archives: https://www.boi.org.il

5. IMF Executive Board records, 1994–2001.

6. Bernanke, B. (2013). "Remarks on Stanley Fischer," presented at the Bank of Israel farewell event.

7. Federal Reserve Board (2014). "Stanley Fischer Sworn in as Vice Chair of the Federal Reserve." https://www.federalreserve.gov

8. MIT Department of Economics alumni records; also see: Blinder, A. S. (2018). Advice and Dissent: Why America Suffers When Economics and Politics Collide.

9. Quoted from Olivier Blanchard's remarks at the 2025 MIT Economics Memorial Lecture for Stanley Fischer (MIT News, June 2025).

Global macro insights of the month

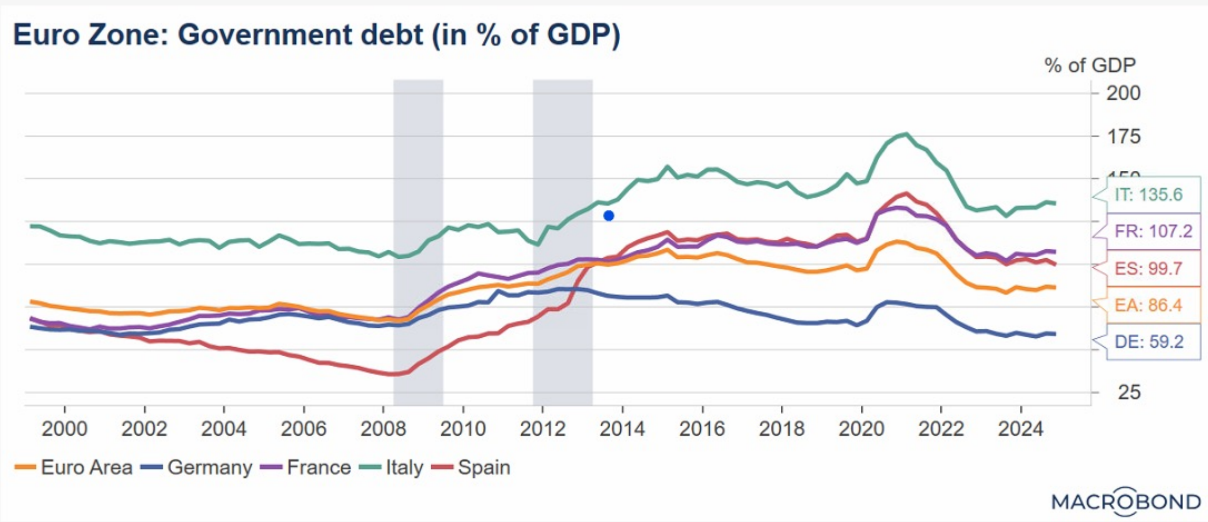
Europe is responding to Bessent's call

Andre Chelhot, CFA

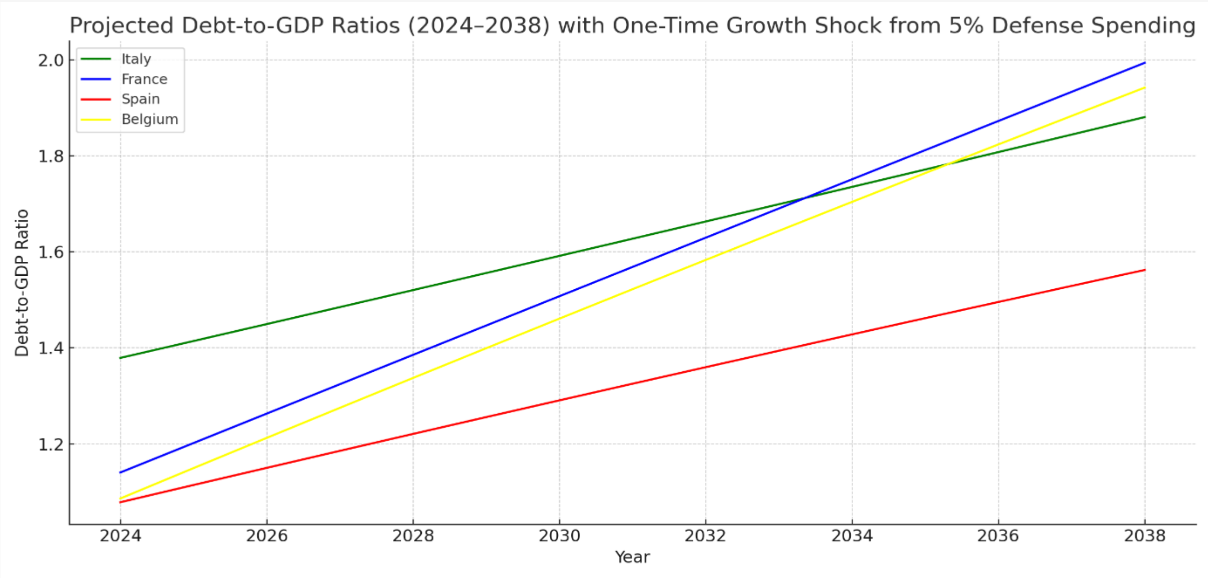
Chief Economist

Since the first day he took office, Secretary of the Treasury Scott Bessent has argued that the only way for Europe to respond to the unraveling of Pax Americana and the breakdown of the post-Cold War order is to rearm, repatriate capital, and run the eurozone like a sovereign power. The commitment by European NATO members to increase defense spending from 2% to 5% of GDP marks a profound strategic shift, not just militarily, but macroeconomically. This is not a one-off budget item. It is a regime change in fiscal policy, monetary coordination, and Europe's global financial role. To finance such a buildup without triggering a crisis, Europe must transform how it manages debt, monetary policy, and its external balance. And for once, it's doing exactly that.

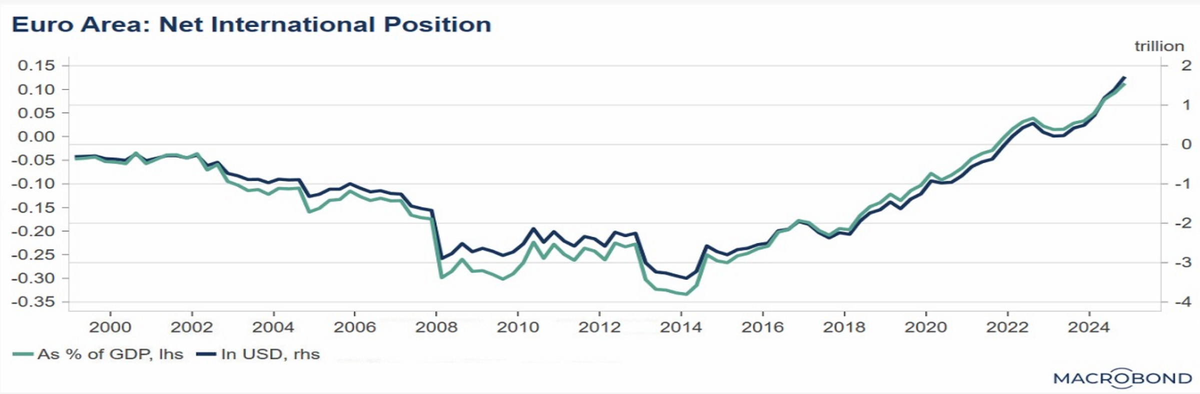
The government debt in the euro area stands at 86% of GDP, while levels are significantly higher in countries like Italy (135.6%) and France (107.2%). These already elevated debt burdens provide the backdrop against which the defense-driven fiscal expansion will unfold.



We try to illustrate the projected debt path for the euro area main members under a sustained 3% of GDP increase in their respective primary deficits to visualize the fiscal burden implied by the rearmament strategy. Assuming a nominal GDP growth rate of 3.8% (1.8% real + 2% inflation), and long-term interest rates at a level between 2 and 3%, the debt-to-GDP ratio would rise steadily if left unchecked.

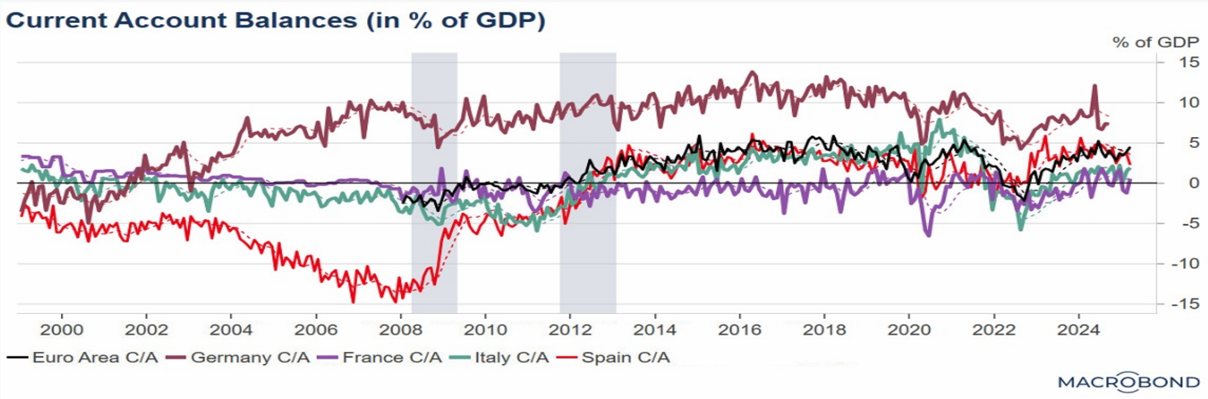


But this trajectory is only unsustainable if Europe behaves like a debtor economy. It is not. The euro area is a net creditor to the rest of the world, with a positive NIIP of around 10% of GDP, and that distinction changes everything.



In such a system, the ECB can maintain an accommodative stance to support the fiscal adjustment. This doesn't lead to euro depreciation. The repatriation of capital drives the euro higher, which in turn paves the way for the ECB to cut rates further. The strength of the euro itself becomes a constraint, pushing the ECB to stay accommodative to prevent excessive tightening via the FX channel.

We are witnessing a rebalancing of the European economy and, by extension, the global financial system. If defense spending increases by 3% of GDP and the private sector financial balances remain unchanged, the eurozone's current account surplus must fall by around 3 percentage points. That external surplus reduction must be offset somewhere else in the global economy. Balance-of-payments accounting doesn't allow for exceptions.



There are two likely places where the adjustment occurs:

1. **The United States.**

As European investors bring money home, inflows in the US must decline. This could narrow the U.S. current account deficit and weaken the dollar, especially if Europe becomes a more attractive place to invest. That would mark the beginning of the end of the financial arrangement whereby Europe subsidizes U.S. global leadership by exporting capital.

2. **Emerging markets outside of CEE.**

Non-CEE emerging economies that rely on European capital, such as Morocco, Egypt, Tunisia, and parts of Southeast Asia, may see lower FDI and portfolio flows. That means weaker currencies, tighter financial conditions, or the need to run larger current account surpluses to fill the gap left by Europe. In contrast, CEE countries are likely to benefit from the defense surge, as they are tightly integrated into European supply chains and security logistics.

But such a system cannot survive without institutional evolution. **A monetary union with divergent national debts cannot manage this scale of fiscal expansion unless it becomes a fiscal union.** And that, inevitably, leads to the need for a **common bond market** to mutualize debt tied to shared strategic commitments. The market won't finance a fragmented fiscal perimeter for long. But it will finance a sovereign Europe.

Europe is responding to Bessent's call. And the global balance of payments is shifting accordingly.

Debt is not neutral. This strategic fiscal expansion will create winners. The military-industrial complex, particularly in France, Germany, Italy, and CEE, will thrive under multi-year procurement programs. Domestic financial institutions gain access to more sovereign collateral and benefit from a low-rate environment. CEE and Southern Europe gain from defense investment and geopolitical importance. Pro-EU political forces benefit from the renewed legitimacy of European institutions.

But this also raises a deeper question: can this path continue without triggering inflation or fragmentation?

Inflation risk: In the short term, the rearmament boost is manageable. But over time, as capacity tightens and multiple policy agendas converge (defense, green, social), inflationary pressure could mount if productivity gains don't keep up.

Fragmentation risk: The Russian threat has unified Europe temporarily. But prolonged ECB accommodation and rising debt will eventually provoke pushback from fiscally conservative member states if no fiscal union is achieved first. Without burden-sharing mechanisms, this could reignite intra-EU divisions.

The strategy is plausible. But it rests on a fragile consensus and requires institutional reforms to endure.

Global macro insights of the month

The U.S. dollar under pressure: Policy-driven weakness with global implications

Ondřej Koňák

Analyst

The U.S. dollar has entered a notable downward trend in 2025, with the Dollar Index (DXY) losing over 10% year-to-date and reaching multi-year lows against major currencies. This decline is not the result of short-term market volatility, but reflects a broader set of economic, monetary, and policy-driven factors that are reshaping global markets.

A key driver behind the dollar's weakness is a shift in U.S. policy priorities. The current administration appears to be tolerating a weaker dollar as part of a broader strategy to stimulate domestic growth, improve trade balances, and support corporate earnings. This marks a clear departure from the traditional "strong dollar" stance that has characterized U.S. policy in the past.

Monetary policy is playing a central role in this trend. Faced with signs of economic slowdown, persistent fiscal imbalances, and muted inflation pressures, the Federal Reserve has signaled a readiness to continue lowering interest rates. This dovish outlook has led to a compression of yield differentials between U.S. and other developed market assets, reducing the relative attractiveness of the dollar for global investors.

Fiscal concerns are adding further pressure. The U.S. federal deficit continues to widen, with projections suggesting that total government debt could exceed USD 35 trillion within the next few years. This deteriorating fiscal trajectory is raising questions about the long-term sustainability of U.S. public finances and has already begun to erode foreign demand for U.S. Treasuries.

Investor sentiment towards the dollar is shifting accordingly. International investors are gradually diversifying away from USD-denominated assets, reallocating towards other currencies such as the euro, Swiss franc, and Japanese yen. There is also renewed interest in gold and select emerging market assets, as investors seek to hedge against further dollar depreciation.

Perhaps most significantly, the dollar's traditional role as a global safe haven appears to be diminishing. Unlike during previous geopolitical crises, recent global tensions have failed to trigger the typical flight-to-safety flows into the USD. This erosion of the dollar's safe-haven status reflects broader concerns about political stability, fiscal discipline, and the long-term credibility of U.S. monetary policy.

For investors, this evolving environment brings both risks and opportunities. Heightened currency volatility increases FX risk for portfolios with significant dollar exposure, making active hedging strategies more relevant than ever. At the same time, the weakening dollar creates incentives to rebalance global portfolios, with increased allocations to non-dollar assets and currencies. Emerging markets, which often benefit from a softer dollar through lower external debt servicing costs and improved capital inflows, could become a more attractive investment destination in the coming quarters.

There is also a growing risk that a weaker dollar could feed into higher imported inflation in the United States, potentially complicating the Federal Reserve's monetary policy response later this year.

In conclusion, the current trajectory of the U.S. dollar is not just a short-term fluctuation but a reflection of fundamental shifts in U.S. economic policy and global investor sentiment. For portfolio managers, the key takeaway is clear: proactive currency risk management and a more globally diversified investment strategy should be central themes for the second half of 2025.

Global macro insights of the month

Cui bono?
Or, the misery of protectionism

Štěpán Drábek
Analyst

Trump makes no secret of the fact that his tariff policy also aims to protect domestic industry from foreign competition and redirect production back to the United States. That may sound like a noble intention, but in reality, achieving this goal would bitterly harm both American consumers and producers. It would prevent them from taking advantage of the benefits of international division of labour and far-reaching specialization, which are the true engines of prosperity.

Every rational producer is naturally inclined to manufacture goods at the lowest possible cost. Protectionist policies, however, turn this logic on its head. Mises gives an illustrative example: although modern technology makes it possible to grow oranges and grapes in greenhouses even in polar or subpolar regions, such an enterprise would be rightly called sheer madness. Yet that is exactly what protectionism tries to do—prevent the production of goods where conditions are most favourable, and instead establish it where the circumstances are unsuited or at least suboptimal.

As a result of tariffs, businesses and entire industries arise in places where such ventures would be pure folly in a free market. This leads to a waste of resources that could have been used for more productive purposes. Ultimately, it is the consumer who pays the price for this absurd policy—literally—by being charged higher prices for domestic goods that reflect the less favourable conditions of their production.

Tariffs may benefit certain select industries or privileged companies that enjoy reduced competition; but that comes only at the expense of consumers. As Adam Smith already emphasized, *"the sole purpose and end of all production is consumption; the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer."* Succumbing to the particular interests of producers would thus amount to a betrayal of the public interest—or, more precisely, a departure from what would create a more desirable state of affairs for the greater part of the nation.

The utter absurdity of protectionism is exposed through Frédéric Bastiat's brilliant and characteristic method of *reductio ad absurdum*. He asks why the proponents of such policies are not more consistent in their arguments. For if they truly were, they would have to support the so-called "petition of the candlestick makers." In it, producers of everything related to lighting call for the unconditional elimination of unfair competition from a certain foreign rival who floods the domestic market with light at prices no one else can match. That rival, of course, is the sun. Their appeal to lawmakers is therefore: brick up all windows and ensure that sunlight cannot enter homes, as it mercilessly harms our virtuous industry!

Of course, this is an exaggeration—but it highlights the essence of the matter all the more clearly: that the arguments of those who seek to restrict international trade are unsustainable. Protectionism is often—Trump being no exception—justified on the grounds that it supports national industry and boosts employment. And indeed, in the case of the lighting manufacturers, protectionist policies would undoubtedly support their industry, where increased demand would lead to more jobs. But that's only half the truth. The other, equally important and darker side is typically ignored.

The gain of such protected sectors is entirely offset by the loss to consumers, who pay higher prices. What is less visible is that if consumers did not have to bear these additional costs, they could instead spend their money on other goods. Those purchases would, in turn, support different industries and jobs within them. As a result, society as a whole cannot possibly be better off under protectionist policies. On the contrary, by arbitrarily—and in the true sense of the word, unjustly—deciding which industries should enjoy the privilege of greater prosperity than they would under free market conditions, society as a whole suffers. Consumers are partially stripped of their ability to choose which producers should earn higher revenues—those who best satisfy their preferences. The profitability of producers and entire industries is suddenly no longer determined by their willingness to meet consumer demand, but by the favour of lawmakers and their readiness to privilege some at the expense of others.

Since the time of Adam Smith, economics has taught that instead of producing all goods domestically at unnecessarily high cost, it is better to import some from countries where they are cheaper—perhaps due to the undeniable advantages of different natural conditions. Domestic producers can then specialize in what they are best at in return. David Ricardo, building on Smith's legacy, took economics a step further with his remarkable insight that every country—or any economic agent—necessarily has an advantage in something (the so-called comparative advantage), and therefore no one need be left behind or isolated from international trade. Blocking the import of cheaper foreign goods is nothing other than depriving one's own citizens of the benefits of a broader division of labour. Protectionism is thus merely a seemingly attractive road to a lower standard of living.

Financial markets insights of the month

Is US exceptionalism coming to an end?

Michal Stupavský, CFA
Head of Research

Is US exceptionalism—in the form of significant outperformance of US equities relative to the rest of the world since the Global Financial Crisis—coming to an end? Before presenting my answer to this essential investment question, it is important to highlight several key facts:

First, the Net International Investment Position (NIIP) of the US economy is at a record deficit of -$26 trillion (80% of US GDP). This means that foreign investors own $26 trillion more in US assets than US investors own in foreign assets. The US NIIP reflects the cumulative current account deficits of its balance of payments. In absolute terms, foreign investors currently hold approximately 20% of US equities, 30% of US government bonds, and 30% of US credit instruments such as corporate bonds.

Second, the trajectory of US government debt is highly concerning based on the following fiscal indicators: total federal debt stands at $37 trillion; the government debt-to-GDP ratio is 125%; the budget deficit-to-GDP ratio is 7%; and annual interest payments on US government debt now exceed $1 trillion—making interest payments the largest single item in the federal budget. Furthermore, interest payments represent 3% of GDP and 20% of total budget revenues.

Third, the cyclically adjusted price-to-earnings ratio (Shiller CAPE) of the S&P 500 currently stands at 36x, placing it in the 97th percentile of all historical observations since 1881. In other words, US equity valuations are extremely elevated, whereas the MSCI All Country World ex-US index is, on average, valued 45% lower.

My key analytical conclusions are as follows:

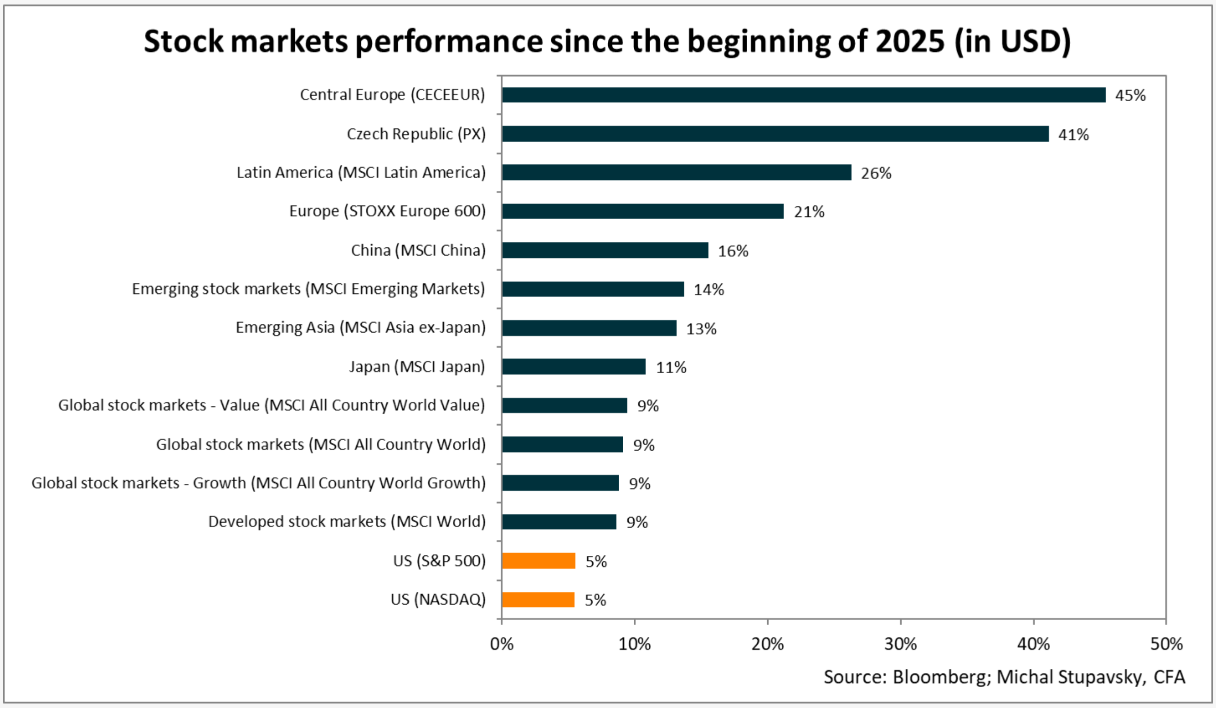
First, foreign investors remain heavily concentrated in US assets, which still dominate their portfolios. Therefore, the potential for further massive inflows of foreign capital into US financial markets now appears rather limited.

Second, the trajectory of US government debt appears unsustainable over the long term. As a result, I expect yields to maturity on U.S. Treasuries to trend higher, particularly for longer-duration bonds—implying that their market prices are likely to decline.

Third, US equity valuations currently offer no margin of safety, with S&P 500 stocks trading at an average CAPE of 36x.

Given the above, I continue to maintain my investment recommendation within a global equity allocation to keep a significant underweight to large-cap US equities. Regarding the US Treasury yield curve and interest rate levels, I remain of the view that underweighting duration—i.e. underweighting interest rate risk—remains the appropriate investment proposition. I continue to see the current level of the term premium as too low, particularly in light of what I perceive to be structurally significant fundamental risks, especially in the form of FX, credit, and inflation risks, which I believe are currently materially underpriced by the market.

All things considered, I would not go so far as to claim that US exceptionalism is definitively over. The share of US market capitalization in the global financial market will almost certainly remain dominant in the years to come. However, I also believe that the key analytical facts outlined above represent compelling fundamental signals that non-U.S. equities are likely to continue their relative outperformance over US equities seen in the first half of this year, over the medium-term horizon of the next five to ten years.



Note: Data as of 30 June 2025.

Financial markets insights of the month

US stocks are exceptional again, however investors seem to ignore risks

Tomáš Pfeiler, CFA
Analyst

Equity markets defy widespread fears of the death of the US exceptionalism. American indices finished the first half of 2025 on all-time highs. Investors have learnt not to take Donald Trump's words literally and therefore; they have started to ignore some of his controversial ideas. Furthermore, stocks are buoyed by the unrelenting march of the AI. On the other hand, there are justified concerns about the irrational exuberance.

S&P 500 has gained 5.5 percent this year. At the moment, it is almost 25 per cent above its April nadir – slump during this month was triggered by US president's aggressive tariff announcement. Key driver of the recovery is the conviction that "Trump always chickens out" or TACO. It is an assumption that US leader steps back from measures which would spur market turmoil or economic distress.

Back in April, many portfolio managers began to worry that during his second term financial markets are no longer the guardrail on president's extravagant policymaking. However, Trump's postponement of reciprocal tariffs helped to assuage imminent fears. This was kind a gamechanger and money managers have started to follow a similar playbook as during Trump's first term: do not overreact on policy pronouncements.

The AI and its grip on the market is another crucial factor. In January, Nvidia stock plummeted after an unexpected success of Chinese start-up DeepSeek. According to some observers, it was a reality check for Big Tech companies: they can build LLMs at fractional costs. Nevertheless, in 1Q earnings season there was no evidence that hyperscalers have started to migrate to cheaper solution. Their AI-related capital expenditures are soaring and their appetite for Nvida's superchips shows no signs of abating.

US companies continue with buyback spree. The overall amount of share repurchases for S&P 500 companies reached $293bn, which is a quarterly record. Retail investors have also not been on the sidelines. They have become a formidable force. The buy the dip instinct is deeply ingrained in their behaviour.

Nonetheless, there are some doubts that the current market rally has run ahead of fundamentals. There is a plethora of risks on the horizon. While we have probably seen the peak tariff stress, trade policy remains a source of uncertainty. The deadline for reciprocal tariffs of 9th July is just behind the corner. With complicated decision-making process in regions such as the EU and Trump's mercurial character, the road to final and permanent deal will be quite bumpy.

Furthermore, even if reciprocal tariffs are averted, the sole existence of universal tariffs can bite. They will probably stoke inflation. The Fed expects the inflation will once again exceed 3 per cent by the end of this year. Some investment banks predict inflation can reaccelerate to even higher levels – close to 4 per cent. Anyway, the Fed has constrained room for manoeuvre.

Investors are overly optimistic and they underestimate inflationary threat. They have been encouraged by recent CPI readings which have not yet signalled tariff-related price pressures. But it is quite likely that inflation will accelerate when companies deplete their stocks of goods. Furthermore, price dynamics will be affected by higher oil prices. While the conflict between Iran and Israel deescalated quite quickly and worst-case scenarios, such as disrupted oil flows through Hormuz strait, will not materialise, there will be inflationary impulses from higher oil prices.

Trump's Big Beautiful Bill will deepen government deficit and increase the US government debt burden, which can send US Treasury yields soaring. While yields on 10Y UST are comfortably below 5 %, fiscal profligacy can propel them to these heights. This level is an important psychological threshold and if exceeded, it could trigger a turmoil in the stock market.

It cannot be rule out that the robust trade deal will be announced and 2Q earnings season shows that AI deployment pronounces into higher margins. But there is a fair amount of complacency in equity prices. It seems that investors have started to completely ignore risks. And we know that such periods of excessive market euphoria often precede significant corrections.

Banking sector insight of the month

EU Confirms Preferential NSFR Treatment for SFTs: A Positive Signal for Repo Markets

Michal Mesík

Analyst

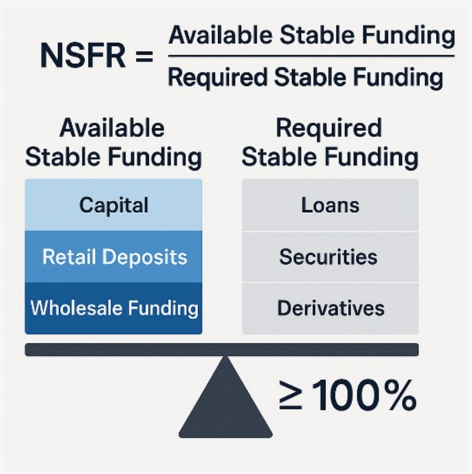


Chart generated by AI

"Nothing is more permanent than a transitory adaptation." These words aptly describe the latest instance of a temporary Basel III provision that proved difficult to unwind, as banks grew accustomed to the preferential treatment of reverse repo transactions in their short-term liquidity management.

June 28 marked the deadline for the expiration of the transitional prudential treatment of **Securities Financing Transactions (SFTs)** and short-term unsecured transactions under the **Net Stable Funding Ratio (NSFR)** in the Capital Requirements Regulation (CRR).

The **NSFR** compares a bank's Available Stable Funding (ASF) with its Required Stable Funding (RSF). Hence a lower RSF factor improves the NSFR ratio. A ratio of 100% or more indicates that the bank has sufficient stable funding to cover its long-term needs, while a ratio below that may suggest excessive funding risk.

Following the Basel Standard on NSFR, the EU implemented the NSFR regulatory requirements in June 2021 via Regulation (EU) 2019/876 including a transitional treatment of short-term securities financing transactions (SFTs) in line with the Basel standard. This transitional treatment, outlined in **Article 510(8) of the CRR**, allowed banks to apply a **0% Required Stable Funding (RSF) factor** to **short-term** financing transactions with other financial institutions, for example with respect to short-term (<6 months) **reverse repos (see Article 428r of the CRR)**. Without legislative action before June 28, the expiration of this provision would have aligned the RSF factor with the more conservative Basel III standard, as show in the table below:

Transaction Type	RSF under CRR (transitional)	RSF under Basel III
Reverse repo with financial customer, <6 months	0%	10%
Other SFTs with financial customer, <6 months	5%	15%
Unsecured loans to financial customers, <6 months	10%	15%

Table generated by AI

That deferred raise of RSF factors aimed to give credit institutions sufficient time to gradually adapt to a more conservative calibration and to assess whether that calibration was appropriate. In addition to that deferred raise, other adjustments were adopted to ensure that the introduction of the NSFR requirement did not disrupt the liquidity of the related collateral markets, including sovereign bond markets.

To prevent this, the European Commission proposed an amendment to make the transitional treatment permanent. Following a vote in the European Parliament at the end of May, the amendment was approved, paving the way for timely publication in the Official Journal of the European Union (OJEU). The amendment, now codified in Regulation (EU) 2025/1215, confirms that EU credit institutions may continue applying the preferential RSF factors to eligible SFTs and unsecured transactions with financial counterparties and maturities under six months (as shown in the table above).

Why is this important? Firstly, other key jurisdictions - including the U.S., UK, and Switzerland - have already deviated from the Basel rulebook on this issue. Had the EU adopted the stricter NSFR treatment, European banks would have faced a **competitive disadvantage**, as it would have increased their funding costs. Secondly, the liquidity of the repo market and banks' NSFR ratios would be negatively impacted.

For instance, let us have a look at an **open reverse repo transaction**, which is a type of SFT in which a bank or financial institution lends cash - typically to another financial institution - and receives securities as collateral. Such a transaction has **no fixed maturity date** and is usually rolled over daily, unless terminated by either party. This makes open reverse repos a valuable tool for short-term liquidity management.

Under the CRR, such a transaction would require a certain amount of stable funding. **Cash** requires **0% stable funding**, as it is the most liquid asset and carries virtually no liquidity risk. However, **short-term repos** backed by High-Quality Liquid Assets (HQLA) would require a **10% RSF factor** under the Basel III regime. Thus, a bank lending cash and receiving HQLA collateral would effectively swap a 0% RSF for a 10% RSF, resulting in **increased funding needs**.

Therefore, the **CRR transitional regime** supports **market liquidity** and the functioning of the EU repo market. A bank lending money and receiving HQLA in return is not required to hold any stable funding – in comparison with the 10% RSF factor defined under the standard Basel III framework. The permanent adoption of the preferential treatment thus leaves banks with stronger NSFR ratios, lower funding costs, and no disincentives to participate in the SFT market. For banks, this is a welcome development. Whether it also strengthens the long-term funding stability of the financial sector remains to be seen - likely during the next crisis.

Global M&A insight of the month

Mark Walter takes majority ownership of Los Angeles Lakers in record $10 billion deal

Martin Bosák

Analyst

In a historic transaction valued at $10 billion, Mark Walter—CEO of Guggenheim Partners and co-founder of TWG Global—will acquire majority control of the storied Los Angeles Lakers. This agreement, expected to close in the third or fourth quarter of 2025, marks the highest-ever sale of an American professional sports franchise.

Walter, a minority Lakers owner since 2021 with rights of first refusal, is already known for his success in sports ownership. As chairman of the baseball team Los Angeles Dodgers, he has overseen two World Series championships and a 12-year playoff streak. His holdings extend to the WNBA's Sparks, Formula 1's Cadillac team, and the Professional Women's Hockey League, underlining his multifaceted sports portfolio.

The Buss family, which acquired the Lakers in 1979 for $67.5 million, will retain a ~15% stake, with Jeanie Buss continuing as team governor. The deal highlights the Lakers' extraordinary appreciation—from humble beginnings under Jerry Buss to a $10 billion valuation.

Industry observers note that this sale follows a wave of record transactions across major U.S. sports—such as the Dallas Mavericks ($3.5 billion), Boston Celtics ($6.1 billion), and Minnesota Timberwolves ($1.5 billion)—reflecting a boom in franchise valuations.

Walter's takeover is part of a broader trend: sports franchises are increasingly viewed as globally strategic assets, not just local cultural institutions. Analysts suggest this is a turning point—investors are now buying into international portfolios, and franchises like the Lakers are being professionalized under deep-pocketed owners.

Czech M&A market insight of the month

Momentum builds in Czech pharma & healthcare deals

Tamara Lorencová
Analyst

In recent months, the Czech healthcare and pharmaceutical sector has remained highly active, driven by structural trends such as an ageing population, growing demand for specialised care, and accelerating innovation in the life sciences sector. These factors, coupled with the availability of strategic capital, continue to generate strong deal flow within the sector.

This momentum is fuelled by both inbound interest from international and domestic buyers, as well as an increasing volume of outbound investments by Czech-based companies expanding into regional markets. Together, these trends reflect the country's growing role as a Central European hub for healthcare and life sciences investment. Between late 2024 and mid-2025, M&A activity has spanned diagnostics, pharmaceutical infrastructure, outpatient care, elderly and long-term care, and fertility services.

Recent M&A activity signals ongoing sector strength

The most recent transactions in June 2025 reflect this ongoing trend. Germany-based **Brenntag Specialties** acquired **mcePharma**, a Czech company that develops and manufactures innovative dietary supplements and complementary foods for small animals, as well as cosmetics. This acquisition is in line with Brenntag's strategy of evolving from traditional chemical distribution to providing value-added good manufacturing practice (GMP) pharmaceutical services. The company aims to establish itself as a hub that will serve the EMEA region by offering customised solutions to biopharma clients.

Also in June, **Ambeat Care**, a joint venture between the Czech Ambeat Group and insurer Simplea, acquired **Medicina**, a follow-up care hospital with a capacity of 122 beds and a key provider of long-term inpatient care in the Ústí nad Labem region. Interest in similar facilities will remain high in the future as the market is under pressure from an ageing population, increasing numbers of care allowance recipients, lack of new capacity and rising occupancy rates.

In May, **Penta Hospitals** continued its cross-border expansion by acquiring **NZOZ Pasternik**, a Polish healthcare facility that provides nursing and medical care to over 100 patients 24 hours a day. Earlier, in April, it had also acquired **Proaltum**, a Polish provider of senior living and long-term care services, expanding its eldercare footprint beyond the Czech market.

Also in May, **FutureLife**, an IVF group based in Prague and backed by Hartenberg and CVC Capital Partners, expanded its international presence by acquiring **Bahceci Health Group**, a Turkish IVF specialist with an extensive regional footprint.

March 2025 was a particularly active period. The Czech-based venture capital firm **KAYA VC**, together with Inovo Venture Partners and RIO ASI, invested in **Jutro Medical**, a Polish provider of digital primary healthcare services.

Also in March, the French healthcare-focused private equity firm **ARCHIMED** acquired 100% of **BioVendor Group**, a Brno-headquartered diagnostics company. The company's strength in early disease detection and its global distribution network made it an attractive target for Archimed, who seeks to expand its diagnostics portfolio across Europe.

Earlier in March, **EMMA Capital** acquired **Diamedix Impex**, a distributor of medical equipment, thereby adding to its growing healthcare portfolio in the region.

In January 2025, Polish healthcare investor **Neuca SA**, along with its clinical arm **Pratia**, acquired the **Clinical Research Centre**, a Czech drug testing and research company, extending their clinical trial infrastructure into the Czech market.

Several large-scale transactions in late 2024 set the stage for the current wave of activity. In December, **Novo Nordisk** completed its USD 200 million acquisition of **Novavax's** Bohumil biologics manufacturing site, securing 14,000-square-meter of production capacity, a workforce, and related infrastructure, further anchoring high-tech pharma infrastructure in the Czech Republic. That same month, **Penta Hospitals** also acquired **SeneCura's** Czech network, adding 17 elderly care facilities with over 2,200 beds.

In October 2024, **Penta Hospitals** further reinforced its acute care portfolio with the acquisition of **Klinika Dr. Pírka**, a renowned orthopaedic and surgical centre in Mladá Boleslav.

In September 2024, Italian plasma therapeutics firm **Kedrion** acquired **Plasmafera**, which operates three plasma collection centres in South Bohemia. This strengthened Kedrion's European supply chain for immunoglobulin manufacturing.

Beyond these completed deals, the Czech market remains active, with several companies in the ongoing sale process. While transaction details have yet to be disclosed, market intelligence suggests that some Czech pharmaceutical and healthcare operators are currently exploring ownership changes or capital raise, especially in subsectors with export potential or cross-border scalability.

Private equity insights of the month

Private equity investments in sports: Volume II with CEE touch

Matěj Kumstýř
Analyst

As described in last month's article, private equity (PE) firms have increasingly turned their attention to the world of sports in recent years. From European football clubs to American basketball teams, Formula 1, and even entire leagues, sports franchises have become highly attractive assets. Investors are drawn by long-term value, strong brand equity, and diversified revenue streams.

Sports also offer a unique advantage: unlike many other forms of entertainment, the product is consumed live and online—driving high engagement, consistent viewership, and continuous sponsor interest. Moreover, certain leagues have built-in structural safeguards that reduce the risk of relegation or financial collapse, offering investors a relatively secure downside.

New content formats—such as behind-the-scenes documentaries and reality-style series—are attracting younger, more diverse audiences and creating fresh monetization opportunities. This particular value generator can strengthen the PE investment case, especially in CEE, where owners and clubs are still learning how to unlock their potential.

Key deals and notable players

A few years ago, I opened a deck of the world's leading PE funds and was surprised to see how many had exposure to major sports leagues or championships. What was once rare is now increasingly common.

Silver Lake's investment in City Football Group—owner of Manchester City and several other global clubs—was a landmark move into European football. Arctos Sports Partners and RedBird Capital have taken minority stakes across MLB, NHL, and international football franchises.

Formula 1 offers another well-known case. CVC Capital Partners held a controlling interest from 2006 to 2017, during which time the sport's commercial revenues soared. While their focus on profitability drew some criticism, CVC's tenure ultimately demonstrated how much commercial value private equity can extract in global sports.

Additionally, league structural changes are making PE investments more accessible. In 2022, CVC acquired a stake in Ligue 1's commercial rights entity, aiming to modernize operations and enhance the league's global reach

CEE: A fragmented but emerging opportunity

What should we expect in the fragmented Central and Eastern European (CEE) market, where mid-market PE traditionally operates?

I often ask regional PE funds whether they've considered investing in a sports club or league. To my surprise, many have said yes—they've analyzed one or two opportunities but concluded it was still too early. The investment model in CEE sports is not yet fully formed.

Some partnerships have emerged between funds and on-demand platforms or leagues with a strong digital presence, but the long-term viability of these models remains unproven. Ownership structures—often dominated by ultra-high-net-worth individuals or closely tied to major sponsors—create barriers for institutional investors. Transactions are typically based on turnover rather than focused on transforming a good club into a great one.

Although the pressure for stronger financial performance (or at least value appreciation) is increasing, the local and regional character of many sports assets in CEE limits scalability. For now, it's unlikely the region will produce more than a handful of compelling opportunities for private equity.

Private equity insights of the month

How elite PE funds turn 'hard times' into their playground

Lukáš Baloga
Analyst

During easier times—when interest rates are falling and most risk-on investments are rising—the private equity ("PE") world often relies heavily on financial engineering. This includes leveraging investments and benefiting from multiple expansion to drive returns. However, this paradigm is something change.

Where to chase value when interest rates are no longer their tailwind?

During more challenging times—marked by higher interest rates and tighter capital—value creation in PE shifts from financial engineering to operational side. The key drivers become skilled management teams with deep industry expertise, capable of identifying inefficiencies and unlocking growth that is often difficult to replicate across sectors.

Top-performing private equity funds with strong international networks gain an edge through access to off-market deals, allowing them to acquire assets at more attractive EBITDA multiples compared to market averages. These networks also bring industry-specific knowledge and operational know-how that help portfolio companies scale and perform by ultimately delivering superior returns to Limited Partners.

A broad base of global relationships focused on specific verticals further strengthens long-term value creation across portfolios.

At the same time, while PE giants at the large-cap level are attracting more attention—and therefore facing greater competition and higher entry valuations—opportunities in the mid-market, and especially the lower mid-market, remain abundant and less contested.

It's often more feasible to scale a company from for example €5 million to €20 million in EBITDA than to grow a €300 million EBITDA business into a €1 billion. Larger companies tend to have already optimized many of their operational levels and may face market or geographic limitations. In contrast, smaller, often family-owned businesses typically present more "low-hanging fruit"—from efficiency improvements to untapped growth opportunities, which makes them especially attractive in today's environment.

Ultimately, the most fundamental measure of a private equity fund's success is the value it creates from entry to exit. This value can stem from several sources: multiple expansion, deleveraging, revenue growth, and EBITDA margin improvement. While the first two reflect a financial engineering approach, the latter two signal true operational value creation—evidence that the sponsor has built a stronger, more efficient, and more competitive business. In today's environment of higher interest rates and limited leverage, it is this operational excellence that increasingly defines outperformance in PE.

Behavioral finance insight of the month

How regret shapes investing – when fear of mistakes keeps us frozen

Jana Přílučíková, PhD
Analyst

Imagine you had the chance to invest in a promising startup. You hesitated. A year later, the company is a market leader—and you are left with a sinking feeling: "I should have acted." That uncomfortable emotion is regret, and in behavioral finance, it plays a central role in shaping how we choose, avoid, or delay financial decisions.

The theory of regret suggests that people do not evaluate outcomes not solely based on utility or gain. In trying to avoid regret, we may hold back—missing chances that would have benefited us in the long run. In this sense, investors do not always maximize expected utility. This conflicts with rational models of investing, which assume investors objectively evaluate risks and returns. Regret aversion helps us to understand why we tend avoid rational choices in favor of emotional safety - to minimize the anticipated pain of bad decisions.

Regret aversion is the tendency to steer clear of decisions that could lead to future remorse. This can manifest in various ways, such as failing to rebalance portfolios due to fear of "messing up" or avoiding investments altogether to sidestep responsibility.

Psychologists distinguish between two forms of regret:

- Regret of commission: When we *act* and it leads to a bad outcome (e.g., buying a stock that tanks). Because we directly caused the result, we tend to blame ourselves more harshly.
- Regret of omission: When we *don't act*, and a missed opportunity turns out great (e.g., failing to invest in a booming sector). Although we may feel disappointed, the emotional sting is often less immediate, because no action was taken.

Interestingly, we tend to feel stronger regret immediately for actions that led to errors, because we hold ourselves directly responsible. In contrast, inaction provides a kind of emotional buffer—often unjustified, but psychologically comforting. This pattern explains why many investors "freeze" during uncertain times. Doing nothing feels safer than taking a step that could lead to regret.

The emotional power of regret can influence not only individual investors, but broader market dynamics. For example, during market crashes, many investors delay buying opportunities due to fear of buying "too early." The pain of getting it wrong feels greater than the potential reward. In bull markets, investors who missed out early often hesitate to jump in later—despite strong fundamentals—because they fear the regret of entering after the easy gains have passed. Fund managers may herd into popular assets to avoid underperformance and subsequent blame, even if the assets are overvalued.

Interestingly, while regret of action tends to feel stronger in the short term, studies show that over time, people are more likely to regret the things they did not do – for missed opportunities. In the long run, regret of omission—not taking a chance, not investing, not acting—can overshadow the regret of having acted and failed. This insight reinforces the importance of thoughtful risk-taking and maintaining a long-term perspective in financial decision-making.

By becoming aware of how regret tends to shape our behavior, we can learn to act with greater clarity and confidence. The goal is not to avoid regret at all costs. In the end, regret is part of being human. But the point is to make sure it doesn't make the decisions for us—and that it doesn't paralyze us. Because what matters most is not whether we feel regret, but how we respond to it.

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Quantitative methods insight of the month

Basics of macroeconomic modelling: The Hodrick-Prescott filter

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The Hodrick-Prescott (HP) filter is one of the most widely used statistical techniques in macroeconomics for separating time series data into trend and cyclical components. Formally developed by Robert Hodrick and Edward Prescott in 1997, the filter addresses a fundamental challenge in macroeconomics: separating long-term growth patterns from short-term fluctuations in economic variables. This decomposition is important for understanding business cycles, conducting monetary policy, and estimating output gaps. When applied to GDP, the filter separates the data into two components: the long-term trend (representing the economy's potential output or productive capacity) and cyclical deviations caused by demand shocks, financial disruptions, or policy interventions. Consider US GDP during the 2008-2009 financial crisis: as output plummeted by over 4%, policymakers faced an important question: How much of this decline represented permanent damage to productive capacity versus temporary resource underutilization?

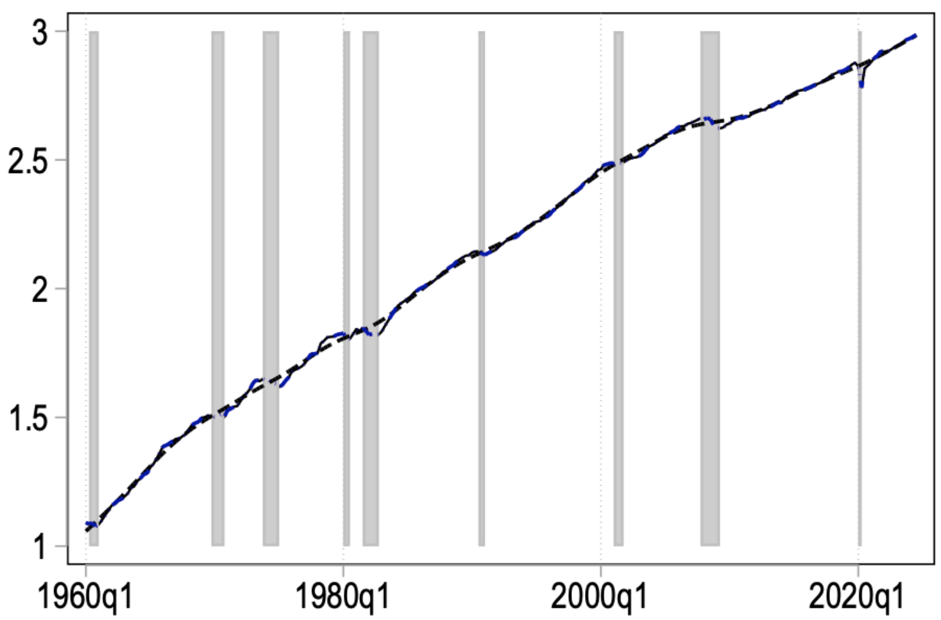
To understand how the HP filter would decompose such episodes, consider its application to the full US GDP series (1960-2025). The decomposition is done by solving the following optimization problem:

$$min_{GDP^T} \sum_{t=1960}^{2025} \left(\left(GDP_t - GDP^T{}_t \right)^2 + \lambda \left(\Delta GDP^T{}_{t+1} - \Delta GDP^T{}_t \right)^2 \right)$$

Although the formula above may appear complicated, the underlying intuition is quite straightforward. Setting aside notational precision for clarity, the min operator determines the optimal trend of the GDP growth (denoted by GDPT) that balances two competing objectives. The first term (in red) penalizes deviations when the long-term GDP drifts too far from actual GDP values (denoted by GDP). In mathematical terms, we minimize the sum of squared gaps between actual GDP and the trend. Why does this matter? If our trend line veered wildly away from actual data, it wouldn't be a meaningful representation of the economy's underlying capacity. We may think of it as ensuring that the estimate of long-term growth remains grounded in empirical reality.

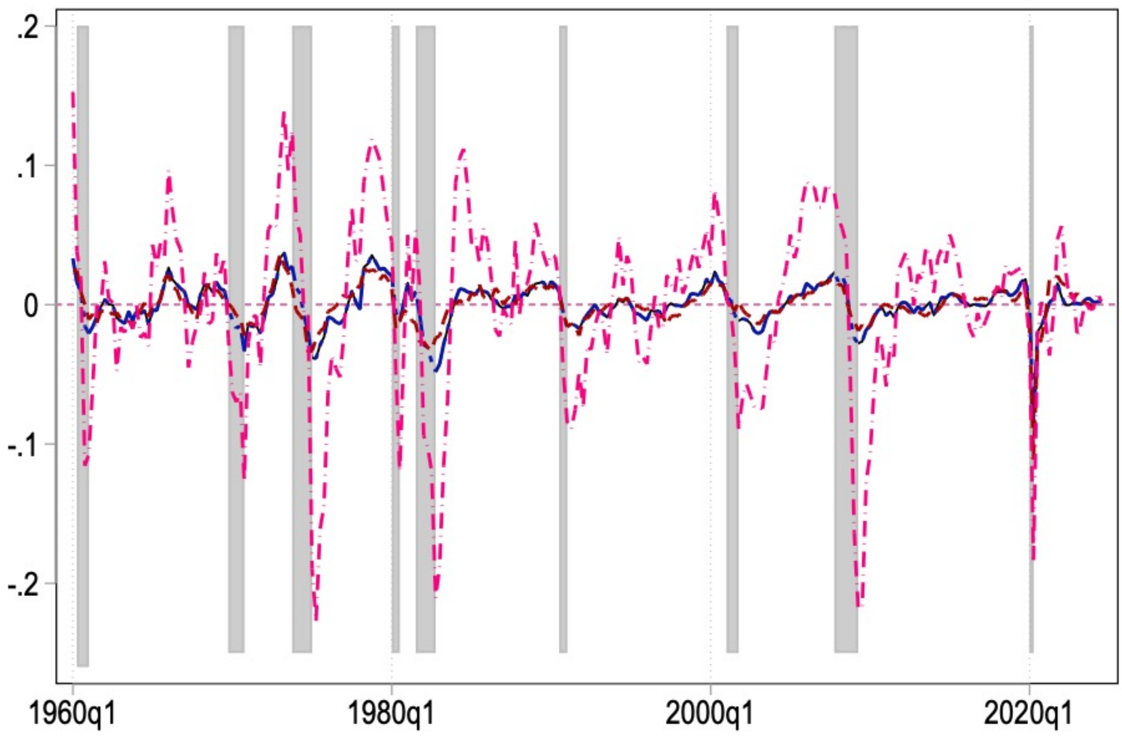
The second objective, captured by the blue bracket, penalizes changes in the trend's growth rate (ΔGDP). This reflects the belief that productive capacity - its ability to produce goods and services - doesn't jump around erratically from quarter to quarter. Factories don't disappear overnight, the labor force doesn't suddenly double, and technology doesn't regress. By squaring and summing these growth rate changes, the second term imposes a smoothness constraint on the trend. In essence, the first term anchors the trend to observed data, while the second term enforces that the trend does not become, colloquially speaking, "too wiggly". The parameter λ controls how smooth the resulting trend should be: higher λ implies a smoother (more linear) trend. The standard is to set λ=1600 for quarterly data, which embeds the belief that business cycles last for approximately 10 years. Without this smoothing constraint, the filter would interpret every recession as permanent capacity destruction and every boom as a permanent productivity leap. The smoothness penalty essentially says: "Wait, let's not overreact - that GDP drop is probably a temporary deviation from a stable growth path."

The figure below shows HP-filtered US GDP (1960-2025), with the trend shown as a dashed line and actual GDP as a solid line. Grey bars mark recessions, where actual GDP dips below trend, creating negative output gaps. Over these 65 years, the filter reveals both the stability of US long-term growth (roughly 2% annually) and the regular occurrence of cyclical deviations. Notice how the trend line maintains its smooth trajectory even during sharp recessions; this reflects the filter's core assumption that the economy's productive capacity evolves gradually despite short-term disruptions. The varying depths of these gaps across different recessions (shallow in 1990-91, severe in 2008-09 or 2020) provide a standardized metric for comparing recession magnitudes.



Real Gross Domestic Product (log) for the U.S. 1960-2025 (1960=1)
Black-dashed: HP trend. Blue-solid: original series. Source: FRED

The HP filter also enables analysis of relative volatilities across macroeconomic aggregates. The figure below displays cyclical deviations from the trend for GDP (black solid), consumption (red dashed), and investment (pink dashed) from 1960-2025. Again, gray shading indicates NBER recessions. The filtered data confirms a well-known stylized fact in macroeconomics: investment volatility far exceeds that of GDP (roughly 3x), while consumption closely tracks GDP with slightly lower amplitude. These empirical findings can serve as inputs (for parameter calibration) into more complex macroeconomic frameworks, such as DSGE models.

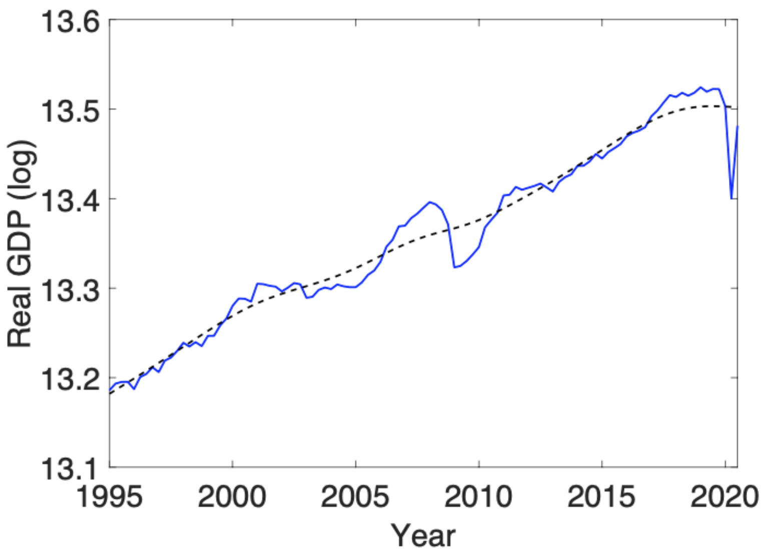


GDP, Consumption, Investment (log deviations from HP Trend) for the U.S. 1960-2025

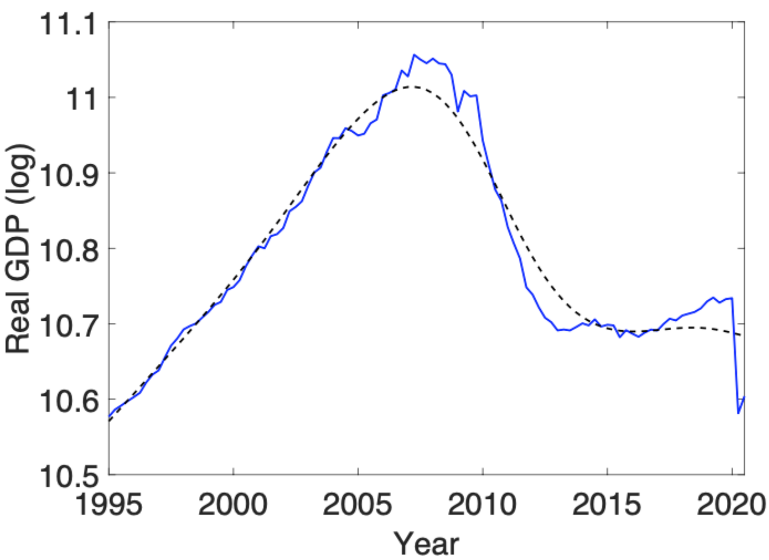
Source: FRED

The HP filter can also be a useful tool for economic policy evaluation, such as to examine whether the central banks are setting an optimal interest rate or evaluating structural deficits during the sovereign debt crisis. One specific application concerned Japan's policy response during the 1990s deflation, where economists used HP filter analysis to evaluate whether monetary and fiscal policies were appropriately expansionary given the economic slack (see discussion here by Paul Krugman).

Like virtually all macroeconomic or econometric tools, the HP filter has several limitations. Beyond some of the technical assumptions and the ability to generate business cycles in random data, one particular issue emerges during economic crises. To illustrate, consider the 2008 financial crisis. The figure below displays German GDP (blue solid line) and its HP-filtered trend (black dashed line), the latter representing long-term productive capacity net of cyclical fluctuations. While the HP filter reasonably captures Germany's temporary recession in 2008-2009, the Greek case, where the crisis had persistent effects, reveals a significant limitation.



Real Gross Domestic Product (level and log deviations from HP Trend) for Germany
Solid-blue: GDP. Black-dashed: HP trend (y^g)



Real Gross Domestic Product (level and log deviations from HP Trend) for Greece
Solid-blue: GDP. Black-dashed: HP trend (y^g)

According to the HP filter, Greece's economy was operating above potential during the financial crisis, with recession beginning only after 2010 when GDP fell below trend. Such an interpretation is deeply problematic. This creates the statistical artifact that pre-crisis GDP levels were above "potential", when they may have simply reflected a different economic equilibrium that proved unsustainable. The key difference is that Germany experienced a temporary shock and recovered, while Greece suffered a permanent structural break. This illustrates that even in retrospective analysis, the HP filter can struggle to distinguish between transitory fluctuations and persistent regime changes.

Blockchain technology and digital assets insight of the month

The value proposition of tokenized assets

Martin Skákala
Analyst

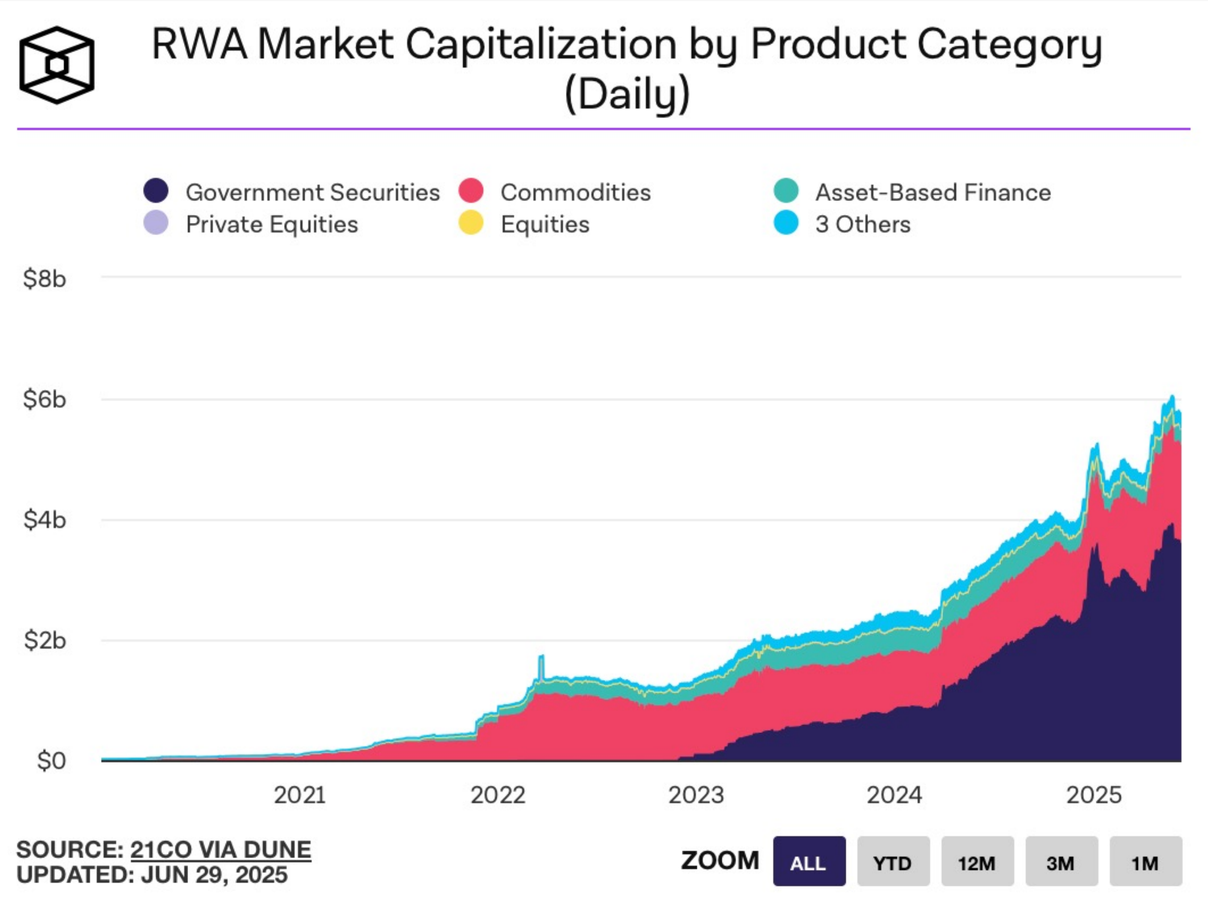
The financial industry is experiencing a once-in-a-generation infrastructure transformation. At the heart of this evolution is tokenization—the process of issuing real-world assets on blockchain infrastructure. While the hype surrounding cryptocurrencies has often overshadowed this development, institutional investors are increasingly recognizing tokenized assets as a credible structural innovation—not just a passing trend.

What makes tokenized assets compelling is not the technology itself, but the economic and operational value they unlock. Whether it's tokenized treasuries, real estate, private credit, or funds, the model offers four transformative benefits: efficiency, access, transparency, and composability.

First, operational efficiency. Tokenization reduces settlement times from days to seconds, automates compliance via smart contracts, and significantly cuts intermediary costs. Second, broader access. Tokenization lowers minimum investment sizes, enabling fractional ownership and making previously illiquid assets investable for a wider range of investors. Third, real-time transparency. Blockchain infrastructure enables 24/7 auditability of asset flows and ownership, which is especially relevant in today's environment of increasing regulatory scrutiny. Finally, tokenization enables programmability and composability—such as real-time yield distribution, automated rebalancing, or asset swaps across decentralized finance (DeFi) systems.

Institutions are no longer sitting on the sidelines. From BlackRock's BUIDL fund on Ethereum to Franklin Templeton's BENJI tokenized money market fund and JPMorgan's Kinexys platform, major players are actively deploying capital and infrastructure on-chain. The market for tokenized U.S. Treasuries has already surpassed $5 billion in assets under management—and is projected to grow by an order of magnitude in the coming years. Looking ahead, 21Shares and BCG estimate that the broader tokenized asset market could reach $16 trillion by 2030, equivalent to roughly 10% of global GDP.

Still, key challenges remain: regulatory clarity, secondary market liquidity, and secure digital custody. Yet, the direction of travel is clear—tokenized assets are not replacing traditional instruments; they are rebuilding them with better architecture. The long-term opportunity lies in tokenized funds, fixed income, and alternative assets, especially in private markets where efficiency gains are greatest. For investors, the strategic question is no longer "if" but "when and how" to engage.



Source: https://www.theblock.co/data/decentralized-finance/real-world-assets

About

Prague Finance Institute (PFI)

Non-profit organization affiliated with CERGE-EI

PFI aims to connect experienced and young finance professionals, including students, especially through educational and networking events

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