PFI Monthly

Delivering Knowledge That Matters.

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Analyst team

Lukáš Baloga
Martin Bosák
Andre Chelhot, CFA
Štěpán Drábek
Adam Friedl
Diana Hricišáková
Ondřej Koňák
Matěj Kumstýř
Radek Jirků
Tamara Lorencová
Michal Mesík, CFA
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Tomáš Pfeiler, CFA
Štěpán Pírko
Jana Přílučíková, PhD
Michael Schulz, CFA
Martin Skákala
Matúš Strážnický
Michal Stupavský, CFA
Vojtěch Šikl
Lukáš Štieber
Peter Šulan

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Prague Finance Institute

Content

Financial markets monthly dashboard

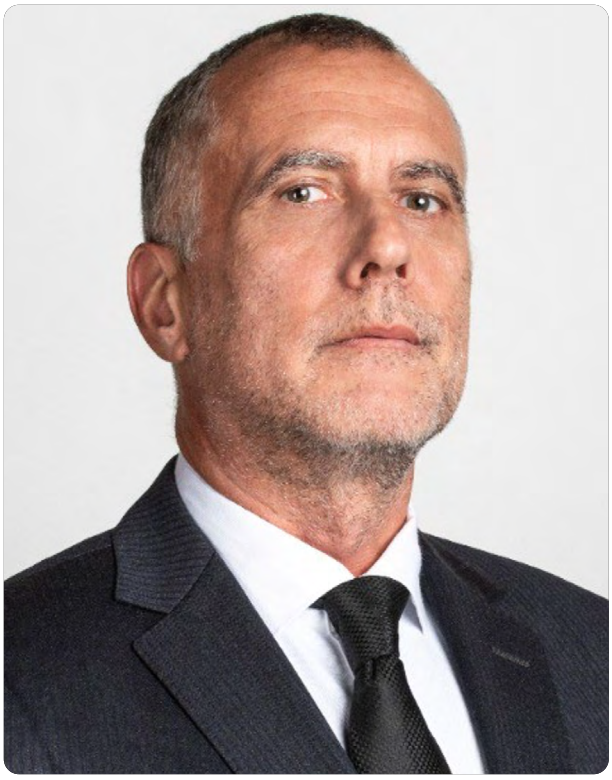
Source: Bloomberg; Michal Stupavský, CFA

	July	YTD change	12 months change	Last value
Dollar index DXY	3.2%	-7.9%	-4.0%	100.0
EUR/USD	-3.2%	10.3%	5.4%	1.142
EUR/CZK	-0.7%	-2.4%	-3.5%	24.57
USD/CZK	1.6%	-11.4%	-8.7%	21.47
Global stock markets (MSCI All Country World)	1.3%	10.5%	14.2%	930
Developed stock markets (MSCI World)	1.2%	9.9%	14.1%	
Emerging stock markets (MSCI Emerging Markets)	1.7%	15.6%	14.6%	
Frontier markets (MSCI Frontier Markets)	3.8%	19.7%	18.8%	
Global stock markets - Value (MSCI All Country World Value)	0.4%	9.8%	8.9%	
Global stock markets - Growth (MSCI All Country World Growth)	2.1%	11.1%	19.4%	
Global stock markets - Large Cap (MSCI All Country World Large Cap)	1.4%	10.4%	14.5%	
Global stock markets - Mid Cap (MSCI All Country World Mid Cap)	0.9%	11.3%	12.6%	
Global stock markets - Small Cap (MSCI All Country World Small Cap)	1.0%	7.9%	6.7%	
US (S&P 500)	2.2%	7.8%	14.8%	6339
US (Magnificent 7)	5.8%	7.4%	31.7%	
US (S&P 500 Equal Weighted)	0.9%	4.7%	6.9%	
US (NASDAQ)	3.7%	9.4%	20.0%	
Non-US stocks (MSCI All Country World ex-US)	-0.4%	15.6%	11.9%	
Europe (STOXX Europe 600)	0.9%	7.6%	5.4%	
Japan (MSCI Japan)	2.7%	4.3%	4.0%	
Emerging Asia (MSCI Asia ex-Japan)	2.3%	15.7%	17.7%	
China (MSCI China)	4.5%	22.0%	39.5%	
India (MSCI India)	-3.2%	2.7%	-3.5%	
Latin America (MSCI Latin America)	-4.6%	20.5%	1.5%	
Central Europe (CECEEUR)	4.4%	34.2%	34.1%	
Czech Republic (PX)	3.9%	27.4%	39.2%	2242
Global bond markets (Bloomberg Global Aggregate)	-1.5%	5.7%	4.4%	
Global government bonds (ICE BofA Global Government index)	-2.0%	5.4%	3.5%	
US Treasuries (Bloomberg US Treasury index)	-0.4%	3.4%	2.6%	
US Treasuries with maturity over 20 years (Bloomberg US Treasury 20+ Year index)	-1.1%	1.5%	-4.2%	
Global investment grade corporate bonds	-0.6%	6.7%	6.3%	
Global speculative grade corporate bonds (high-yield)	0.4%	7.2%	11.3%	
EUR investment grade corporate bonds	0.5%	2.4%	4.8%	
EUR speculative grade corporate bonds (high-yield)	1.2%	4.0%	8.1%	
Czech government bonds (Bloomberg Czech Govt All > 1 Yr Bond)	-0.4%	1.6%	1.4%	
Average global bond yield (Bloomberg Global-Aggregate Yield To Worst)	0.10%	-0.11%	-0.05%	3.57%
US 10 year government bond yield	0.15%	-0.20%	0.34%	4.37%
US 2 year government bond yield	0.24%	-0.28%	-0.30%	3.96%
Germany 10 year government bond yield	0.09%	0.33%	0.39%	2.70%
Germany 2 year government bond yield	0.10%	-0.12%	-0.57%	1.96%
Czech Republic 10 year government bond yield	0.13%	0.18%	0.58%	4.39%
Czech Republic 2 year government bond yield	0.06%	0.20%	-0.05%	3.65%
Average global investment-grade credit spread	-0.10%	-0.10%	-0.22%	0.79%
Average global high-yield credit spread	-0.25%	-0.22%	-0.86%	3.07%
Global commodity markets (Bloomberg Commodity Total Return)	-0.5%	5.0%	9.7%	
Crude oil Brent	7.3%	-2.8%	-10.1%	73
Copper	-3.7%	10.4%	4.8%	9574
Gold	-0.4%	24.7%	35.7%	3293
Silver	2.4%	25.5%	26.9%	36.7

Interview

Andre Chelhot, CFA

Chief Economist, Prague Finance Institute & Macro Advisor, Zelof & Partners



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

What is your current view on the world in general, and the global economy and the global financial markets in particular? Which major themes have been especially important for you recently?

We are going through a structural regime shift. The world is moving from the post-1989 era of Pax Americana, globalization, and low inflation to an age of fragmentation, capital controls and capital scarcity, rearmament and heightened geopolitical risks, and structurally higher real interest rates. Policy volatility is rising. For markets, this means higher macro volatility, an end to the low-volatility/low-rate equilibrium, and the growing importance of geopolitical hedging. Themes I'm watching closely: capital scarcity, re-militarization, and risks of regional conflicts and their impact on world energy prices, fragmentation of trade and capital flows, and the rising role of real hard assets.

You have been arguing for approximately two years that the world has been gradually entering a new global macro regime. Could you please remind our readers what its main attributes and investment implications are?

The new regime is defined by the reversal of the forces that drove the Great Moderation: cheap labor, global trade integration, and disinflationary capital surpluses. We call the new regime the "walk in reverse." The implications: structurally higher and sticky inflation, higher real rates, and higher volatility. Capital will flow less freely. Fiscal dominance is returning. Investors must allocate toward hard assets, government-funded investments, short-duration instruments, strategic commodities, and geographies with sound external balances.

You have been arguing for several months that the US economy is going into a recession. What are the major macroeconomic indicators telling you about the US economy right now? Do you still maintain your recession call? And what is your current outlook on the Fed's monetary policy setup in this regard?

Yes, I maintain the view that the US economy will enter a significant slowdown or a recession. Leading indicators across ISM surveys, small business sentiment, transportation, capex plans, retail outlooks, and consumer durables sentiment are all pointing down. The labor market is weakening with job openings falling, unemployment duration rising, and full-time employment in good jobs shrinking. We have to add that for the bottom 50% of the population that has seen its real disposable income eroded by the rise in prices, the current environment feels like a recession. The Fed is boxed in: easing may come, but its transmission to the real economy is weaker than in the past. Rate cuts will not avert the downturn, and inflation may re-emerge once demand stabilizes. Aggressive easing by the Federal Reserve might have a counter-effect on the economy since lower rates will reduce household interest income. The main risk is that if we go into recession, the fiscal response will be quite limited since the budget deficit is already at 6.5% of GDP. The risk to our scenario is a sudden surge in productivity and a significant rise in private capital spending. Although there is a high probability for the first to take place thanks to the rapid technological advances we are currently witnessing with the spread of AI, we cannot see a significant surge in private capital spending in an environment of capital scarcity and crowding-out effect coming from the public sector.

US government debt indicators are very worrying. Isn't financial repression the only viable long-term solution?

Yes. With debt near 125% of GDP and interest costs exceeding 20% of revenues, financial repression is inevitable. That means structurally negative real rates, caps on deposit yields, and taxation of capital. The state will force savings into government bonds, either through regulation or incentives. We are already seeing attempts to relax the regulatory capital standards for US banks regarding their investments in US Treasuries. If the new SLR rules are adopted, we could see an increase in demand by banks for Treasuries of more than $2 trillion, but a big chunk of that demand would be taken from the money market funds' demand for Treasuries. Hence, the net effect will be negligible. Also, there is talk about issuing a federal stablecoin backed by Treasuries. But again, the effect will be negligible, as investments in this stablecoin have to come from somewhere else, meaning sales of other assets. We are also entering an era where monetary and fiscal policy are fused. The bond market will be a policy tool, not a market. The Federal Reserve is obliged by law to ensure a low cost of financing for the government. It is its third mandate, and most economists tend to disregard this very important mandate. When the debt of any country reaches such high levels, the central bank loses de facto its independence.

How is the all-time high US government debt connected with the all-time high income and wealth inequality?

They are two sides of the same coin. Over the decades, policy choices favored asset owners through tax policy, deregulation, and QE. Now the fiscal burden rests on an eroded middle class, while wealth is concentrated among those who also benefit from rising interest income. Unless redistribution mechanisms are introduced, the debt burden will exacerbate inequality. When governments hand out free money to the population in times of crisis, this money gets spent on consumer goods and services, which becomes the revenue of large corporations that control the vast US consumer market. The problem is that these revenues are not being fairly distributed among the population since wages keep being suppressed in the absence of labor unions and high corporate tax rates. Hence, corporate profits explode. The top 10% of the population owns 80% of the stock market. In summary, government spending is a transfer of wealth from the bottom to the top. If inequality keeps rising at the current pace, society will revolt, and populism will rise

.

Could you explain the NIIP (Net International Investment Position) and the implications of the US NIIP at around -$25 trillion or -80% of GDP?

The NIIP is the net balance of a country's external assets and liabilities. A -$25 trillion NIIP means the US owes that much more to the rest of the world than it owns abroad. It is also a

reflection that the US consumes more than it produces, and it has been relying on foreign goods and foreign savings. This reflects decades of current account deficits and the relative outperformance of the US stock market compared to that of the rest of the world. Most economists keep forgetting the second part. The implications are clear: the US is highly dependent on foreign capital, even if this capital is abundant. If capital inflows slow or reverse, the dollar and US asset prices become vulnerable. The NIIP is both a reflection of and the Achilles heel of US exceptionalism.

The dollar has weakened, and US equities have underperformed RoW in 2025. Is the era of US exceptionalism over?

Let us face it. The 'exceptionalism' of the United States was supported by rising government deficits, a very loose monetary policy, and low cost of capital, hence the very significant outperformance of the US stock market relative to that of the rest of the world. But now there is a price for that exceptionalism: very high levels of debt and sticky inflation. Many market participants have pointed out the extreme weakness of the USD in recent months. However, if you look at the last 40 years, the USD is still quite strong and might weaken even more, not because the USA is losing its hegemony in the world, but mainly because policymakers in the USA want a weaker dollar and very low interest rates. This new macro policy setting could result in a renewed outperformance of the US stock market relative to that of the rest of the world (currency hedged).

What is your current outlook on the European economy? Will Europe manage to re-accelerate growth? What structural factors will be decisive?

Europe's outlook has been constrained by demographics, energy costs, and institutional rigidity. But defense spending, green transition investment, and fiscal reform could take the Eurozone economy out of its misery. Honestly, we were quite surprised by the sudden pivot in European policy concerning fiscal commitments. The Maastricht Treaty is no more. We will see deficits of Eurozone governments going above the target set in the Treaty. This is a significant shift in European policy that took most market participants by surprise, including us. It means that the Eurozone economic model is no longer relying on exports and trade but is now geared toward domestic demand, and more specifically, from the public sector. This shift in the economic model means that the Eurozone can tolerate a strong euro, which could help in containing inflation, allowing the ECB to maintain a very low-interest rate environment. Bear in mind that increased defense spending normally results in a rise in the economy's productivity growth rate. In the long term, we still maintain the view that the euro's survival and the shift in the economic model both require a full fiscal union. Without it, rising defense budgets and uneven debt loads will strain the monetary union.

Could gold become an official component of the global monetary system again?

Yes, over time. Gold is being quietly re-monetized by central banks as a hedge against sanctions, currency debasement, and geopolitical fracture. It won't replace fiat currencies, but it could return as a neutral reserve anchor, especially in a multipolar system. The weaponization of the dollar has made gold attractive to non-Western powers. Expect more bilateral trade settlements in gold or gold-linked instruments. On the other hand, we know that the amount of physical gold stored or circulating in the world is a fraction of all the contracts written on gold. Hence, I am strongly against buying paper gold. Investors should look at real assets that provide a steady and inflation-hedged income. The best asset classes are residential real estate and value stocks of companies that sit on large quantities of productive capital.

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

First, the regime misdiagnoses, assuming the world will return to the pre-2022 norm. Second, capital scarcity, especially for high-debt sovereigns, especially for foreign debt that is denominated in USD. Third, fragmentation disrupts trade, capital flows, and supply chains. Fourth, policy volatility, central banks, and governments are no longer predictable. Finally, the dollar trap, foreign holders of US assets may reallocate, creating currency and rate volatility. The age of passive allocation is over. We are in a global macro investing again.

BIO

Andre Chelhot is the Advisor to the Board at Zelof & Partners LLP which is a client-focused advisory and investment company, specializing in the fixed-income asset class, based in London. Before that he was the Chief Economist and the Head of the FX and Interest Rates, and Sovereign Credit Desk at the Olayan Group. Prior to the Olayan Group, he was trained as a macro economist and as a central bank watcher at the Central Bank of Canada. Andre has been in the position of the Chief Economist of the Prague Finance Institute since October 2024. Andre holds a master's degree in international finance and economics from the University of Montreal and is a CFA Charterholder.

Footnote: In the July 2024 interview, I was wrong about the euro because I did not foresee the change in the European economic model. As explained in the text, the shift toward public-sector-driven domestic demand and the breakdown of the Maastricht consensus now support a stronger euro and a more resilient policy mix.

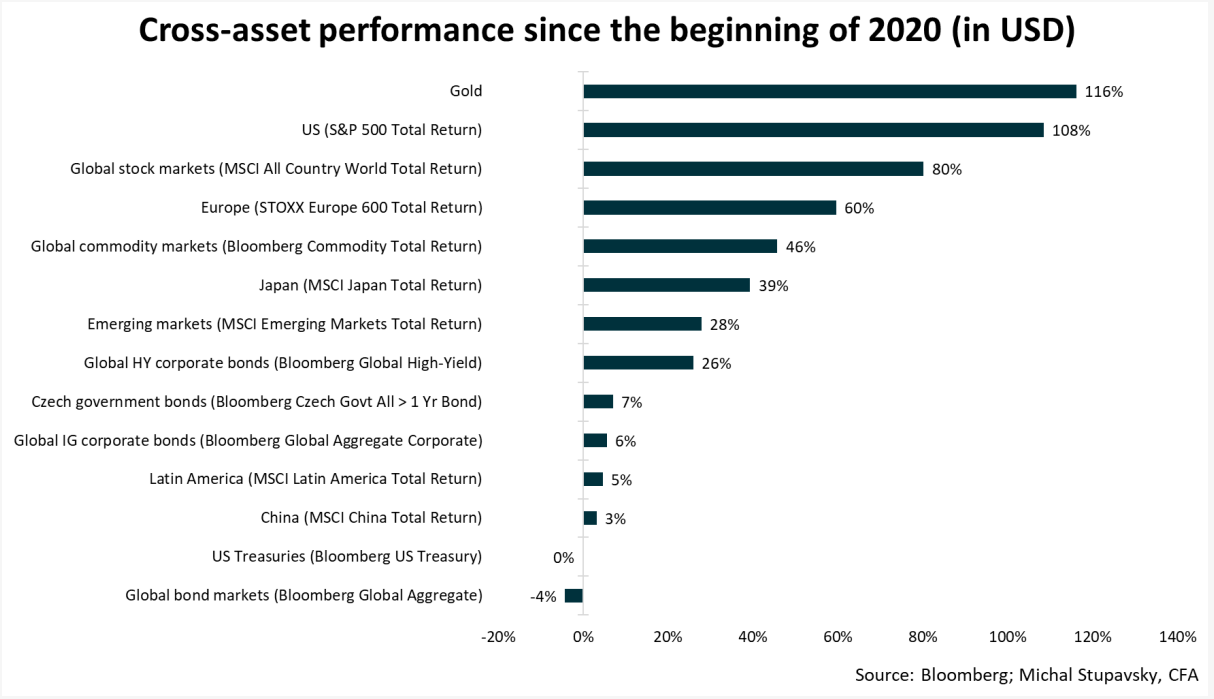
Chart of the month

Cross-asset performance decade-to-date

Michal Stupavský, CFA

Head of Research

Cross-asset performance decade-to-date, i.e. since the beginning of 2020, shows that to best asset classes have been gold (+116%) and US large-cap equities (S&P 500 Total Return +108%). On the other hand global fixed-income asset class has delivered a slightly negative performance (Bloomberg Global Aggregate -4%).



Note: Data as of 31 July 2025

Global macro insights of the month

Negative US net international investment position (NIIP) does not in itself signal a crisis, but it embeds structural fragility

Laurent Millet, CFA

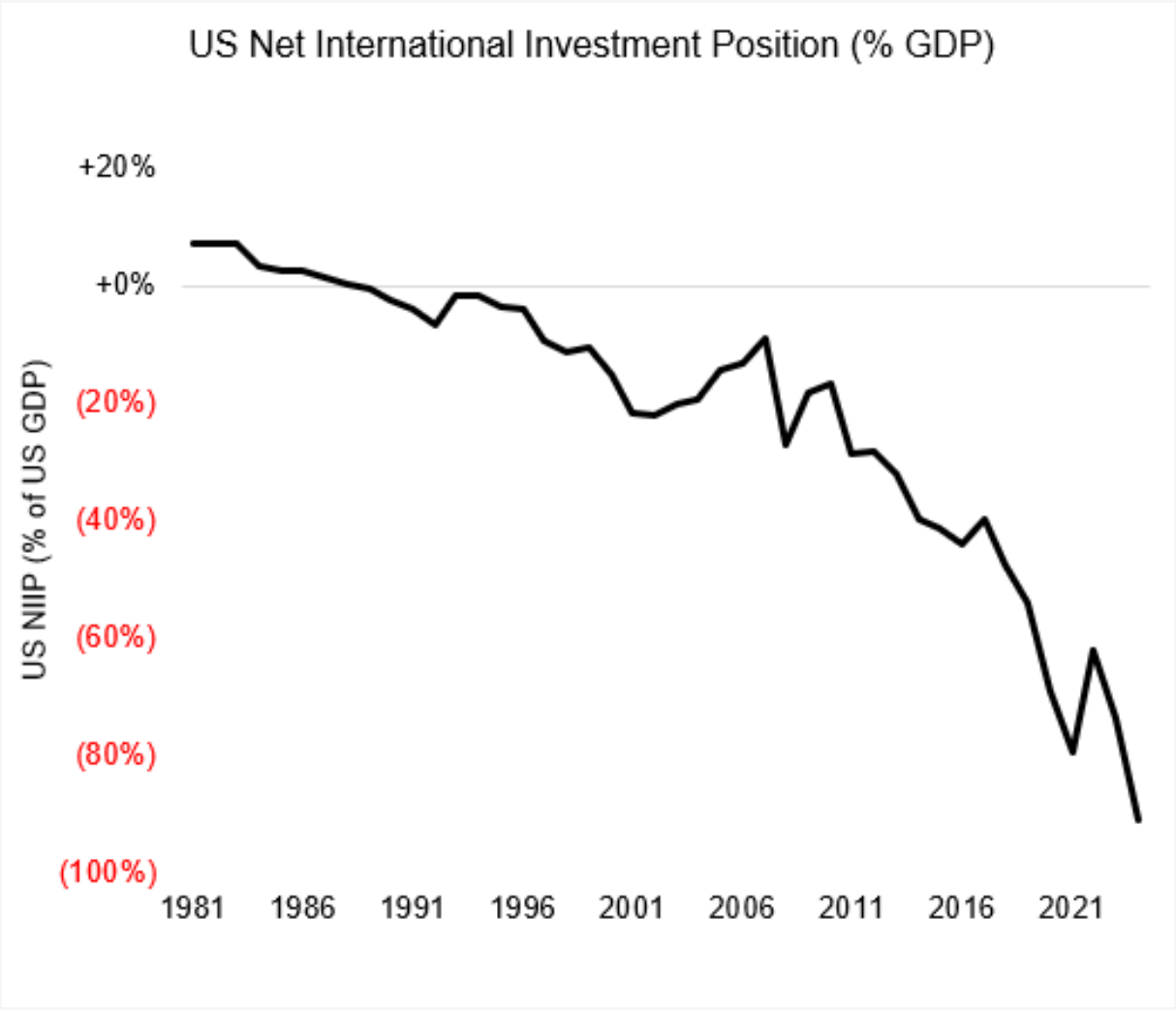
Portfolio Manager,
NordIX AG

Guest contributor

Investors often assume that the United States has always run a negative net international investment position (NIIP). This reflects a form of recency bias. In reality, America was the world's largest creditor nation for decades after the Second World War. Its persistent surpluses meant it invested more abroad than foreigners invested in the US.

This picture changed sharply in the 1980s. President Reagan's fiscal policies cut taxes and lifted defense spending, producing record budget deficits. At the same time, the Federal Reserve under Paul Volcker raised interest rates aggressively to crush inflation. These high real rates drew in foreign capital and drove the US dollar sharply higher between 1980 and 1985. A strong dollar made US exports less competitive and imports cheaper, widening the current account deficit.

The US was no longer saving enough to finance both domestic investment and large government deficits. The personal savings rate fell, corporate savings were inadequate, and the government was deeply in the red. Under the balance of payments identity, a current account deficit must be matched by a capital account surplus. Foreign capital, therefore, had to flow into the US to plug the gap. Investors abroad bought Treasuries, corporate bonds, equities and real estate in unprecedented volumes. By 1989, America had shifted from the world's largest creditor nation to a debtor nation.



Source: IMF

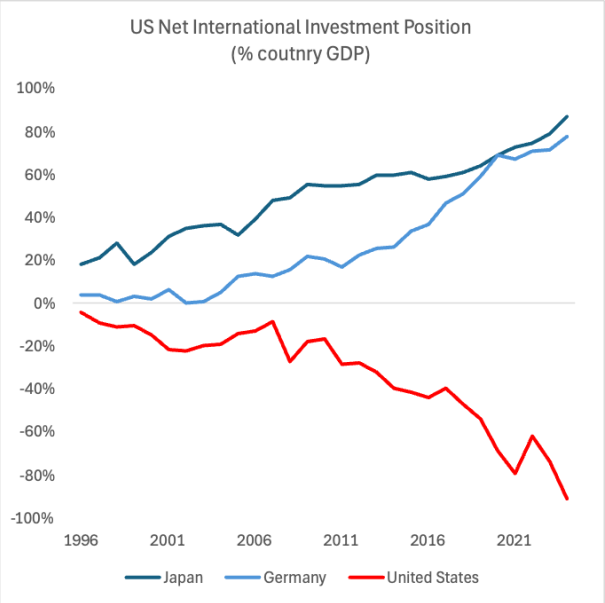
Cumulative current account deficits work mechanically. Each year the US imported more than it exported, and the difference was financed by selling assets to foreigners or by borrowing. Over time, the value of foreign-owned assets in the US grew far faster than US-owned assets abroad. The strong dollar compounded the problem by reducing the dollar value of American assets held overseas, because they were denominated in weaker foreign currencies. This accounting effect accelerated the deterioration in the net international investment position (NIIP). By the first quarter of 2025, America's NIIP had reached negative $24.6 trillion, or 82 per cent of GDP.

Once the US became a debtor nation, the global financial system evolved to accommodate its persistent need for foreign capital. This dependence altered capital flows, asset prices and the vulnerability of emerging markets to shocks. The negative NIIP institutionalized a form of "vendor financing". Export-driven economies such as Japan, and later the newly industrializing Asian economies and China, ran large current account surpluses through mercantilist policies. These surpluses were recycled back into US assets. According to the Federal Reserve, foreigners now own 20 per cent of the US equity market and 30 per cent of the Treasury and corporate bond markets. These inflows pushed US interest rates lower than they would otherwise have been and underpinned rising asset prices.

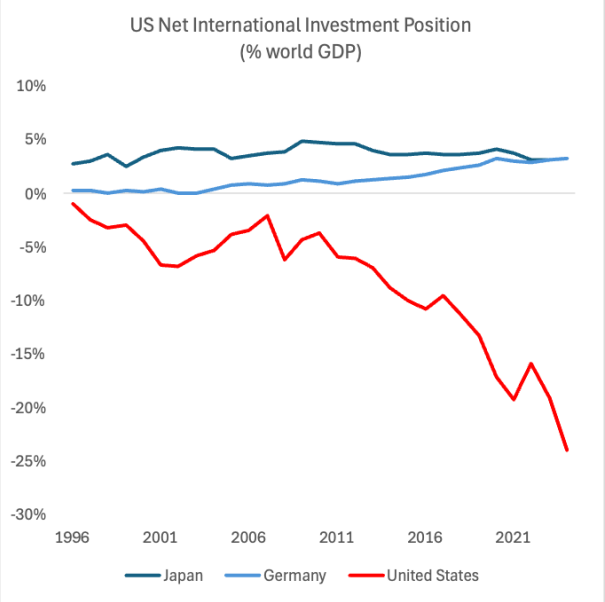
This foreign capital has long supported US market valuations. A shift in global investor sentiment would create headwinds for domestic equity markets.

A negative net international investment position does not in itself signal a crisis, but it embeds structural fragility. Persistent current account deficits and reliance on foreign capital create an imbalance that is tolerable only while flows continue. Any reversal would have profound consequences for US risk assets, since foreign capital plays a pivotal role in financing deficits and supporting valuations.

Trade conflicts can worsen this fragility. They have a habit of escalating into something far more damaging than tariffs. Rising tensions may trigger not only capital adjustments but wholesale repatriation. Foreign governments and investors could reduce exposure to US assets as they reassess risk, prompting large outflows from equities. Central banks might diversify their reserves. Sovereign wealth funds, guided by national interests as much as returns, could recalibrate allocations. Private capital would follow with speed.



Source: IMF



Source: IMF

Defense spending commitments in Europe will require domestic capital. Repatriation of overseas assets, particularly from the United States, is a logical funding source for European pension funds. Japanese investors now face much higher domestic yields, and their historic role as global capital exporters may fade as capital returns home.

These shifts rarely happen overnight. They unfold slowly, in boardrooms and policy discussions, yet the cumulative impact can be immense. Pension funds and sovereign wealth funds control vast assets. Their allocation decisions change at a glacial pace, which means any reversal of flows will likely be a grinding headwind rather than a sudden shock. Valuations built on the assumption of a constant bid from foreign investors may find themselves pressured lower for years.

Markets have grown accustomed to believing that liquidity is permanent. This belief is misplaced. Capital flows are cyclical, and mean reversion takes time. The United States, with its high asset valuations and dependence on foreign savings, appears particularly exposed. A decade of gradual outflows could depress valuations even without a dramatic crisis.

Portfolio managers face no greater decision than their stance on American equities. This single allocation choice will shape performance for years. Underweighting could preserve capital during a painful adjustment. Overweighting could prove catastrophic if foreign capital retreats. Investment careers will be made or broken on this call.

Fragility builds quietly and resolves painfully. The absence of a crisis should never be mistaken for safety.

Global macro insights of the month

Anchoring inflation: It's all in the expectations

Štěpán Drábek

Analyst

When we talk about inflation, the key issue isn't just how prices have moved in the past, but what people expect will happen in the future. My colleague Jiří Schwarz, advisor to the Bank Board of the Czech National Bank, and I argued in our article that central banks don't respond primarily to historical inflation data – rather, they respond to how households, firms, and financial markets perceive the future path of inflation. Expectations guide behaviour: they influence how people spend, save, invest, and negotiate wages, which in turn drives actual inflation dynamics.

One of the most persistent challenges we highlighted is the stickiness of these expectations. Even after headline inflation returned toward the Czech National Bank's 2 % target in early 2024, majority of the people continued to believe that inflation remained much higher. Both perceived and expected inflation stayed elevated. In this environment, telling consumers to simply "wait for prices to fall" is like waiting for Godot – it's unlikely to happen.

This matters because when people expect high inflation, they behave in ways that help to bring it about. If households anticipate rising prices, they tend to spend faster and push for higher wages. In a tight labour market, firms often respond by raising wages, and then prices, to maintain margins. This can spark a wage-price spiral that is difficult and costly to reverse.

That's why well-anchored inflation expectations are so crucial. As we argued, clear and credible communication from the central bank is just as important as its interest rate decisions. When people trust that inflation will return to target, even major price shocks - like those from energy markets - are less likely to lead to long-lasting inflation. Managing expectations, in this sense, becomes the foundation of price stability.

Financial markets insights of the month

The illusion of continuity: Lessons from Japan's 35-year market detour

Miloš Labaj

Founder, Convexify

Guest contributor

At the close of the 1980s, Japan stood at the pinnacle of global financial power. In 1989, it was home to the world's largest stock market by capitalization, surpassing even the United States. Eight of the ten most valuable companies on Earth were Japanese, including five banks. Nippon Telegraph and Telephone, the telecommunications giant, had a market capitalization greater than that of IBM, Exxon, GE, AT&T, Ford, GM, Merck, and BellSouth ... combined.

Such dominance created an unshakable belief in Japan's economic destiny. The Nikkei 225 index had risen by a staggering 223 times over four decades, compounding at an annualized rate of approximately 15%. Extrapolating that trajectory forward, it was not unreasonable—at least by contemporary sentiment—to imagine the index reaching 5 million by 2025.

But that growth never materialized. As of 2025, the Nikkei sits not at five million, but just barely above 39,000 level it reached in 1989. For investors who assumed the past would dictate the future, the discrepancy is startling. A 99% error in expectation.

This is not merely a historical anecdote. It is a profound lesson in the dangers of linear thinking within non-linear systems. For those willing to listen, Japan's lost decades offer one of the most sobering risk management case studies in modern finance.

From boom to stagnation: A structural shift

Before the bubble burst, the prevailing mood in Japan was euphoric. The Nikkei had delivered a tenfold return over the preceding 20 years. There were no major drawdowns, no recessions of consequence, and little perceived risk. Optimism was not a bias; it was the base case. Investors, institutions, and policymakers collectively believed that the growth trajectory was sustainable, if not inevitable.

That illusion collapsed in December 1989. The Nikkei entered a prolonged and brutal bear market, eventually declining by more than 80%. Yet perhaps more devastating than the initial crash was what followed: a three-decade stagnation. It took 34 years—until 2023—for the index to reclaim its prior peak.

To put this into perspective, the longest drawdown the index had previously experienced was six years. This new era was more than five times longer. Investors who had anchored their expectations to historical recovery patterns were ill-prepared for the duration and magnitude of the downturn.

The limits of historical extrapolation

The Japanese experience reveals the fallacy of assuming that past performance can be a reliable predictor of future returns—particularly in the absence of structural context. It also underscores the danger of overconfidence during periods of prolonged asset appreciation.

The failure in 1989 was not due to a lack of information or sophistication. Rather, it stemmed from a widespread inability to imagine a regime shift. Market participants were conditioned by years of uninterrupted gains to believe that the system itself had changed—that Japan had discovered a new economic model immune to the cyclicality and corrections that had historically plagued Western markets.

But market history is not a blueprint; it is a warning. Every prolonged boom carries the seeds of its own reversal. Valuations disconnect from fundamentals. Leverage accumulates in plain sight. And confidence quietly transforms into complacency.

Implications for today's investors

There is a clear and uncomfortable parallel between Japan in 1989 and the current state of U.S. equity markets. The S&P 500 is again near all-time highs. Mega-cap technology firms dominate index weightings. Investors are increasingly prone to narratives that imply permanent upward trajectories—driven, this time, by artificial intelligence and platform monopolies rather than industrial scale and banking power.

No one can say whether today's optimism is misplaced. But that is precisely the point: markets are probabilistic systems, not certainties. Assuming that the next 35 years will resemble the last 10 is not a strategy; it is a gamble.

The Japanese case study makes one thing clear: there are no inherently safe markets. No geography or asset class is immune to overvaluation or long-term underperformance. What exists, instead, is the discipline of robust risk management—an approach that prepares not just for growth, but for stagnation and reversal.

Conclusion: Risk without memory

Japan's market trajectory since 1989 challenges the very foundations of passive investing and buy-and-hold orthodoxy. It shows that even the world's dominant economy can fall into a multi-decade malaise, defying expectations and frustrating investors.

The greatest financial errors often arise not from incorrect data, but from misplaced certainty. Japan's story is not about failure—it is about overconfidence, extrapolation, and the cost of ignoring risk when times are good.

The lesson is not that markets always crash or that recoveries are impossible. Rather, it is that market regimes can change drastically, and when they do, history becomes less of a guide and more of a trap.

For long-term investors, the key takeaway is stark: never assume that upward trends are permanent, that drawdowns will be brief, or that valuations don't matter.

What happened to Japan can happen anywhere.

Financial markets insights of the month

Selection of the best equity valuation quotes

Michal Stupavský, CFA

Head of Research

Dear readers,

I started collecting interesting, valuable and thought-provoking investing quotes several years ago. With major equity indices at new all-time highs now I thought you might appreciate several of the best quotes about equity valuations I have come across.

Regards,
Michal Stupavský

1. Valuations don't matter—until they do.

2. While equity valuations may give investors limited insight about what kind of returns to expect in the short term, they are often accurate predictors of returns in the mid- to long term of 5-10 years.

3. Valuations are the prices we pay for investments. It is perhaps the most critical judgment of future returns.

4. An investment can still make much sense at a cheap enough valuation. Conversely, a stock with an extremely high valuation may be predicated on an impossible earnings trajectory. Even in the best of environments, such investments tend to do poorly.

5. Valuations are a terrible market timing indicator. However, in the short term valuations tell you everything about market psychology. In the long term, they tell you everything about expected returns.

6. Ultimately, valuations always became problematic when earnings growth failed to meet lofty expectations.

7. Throughout history, low valuations preceded the best investment return periods. Such is because low valuations allowed for multiple expansions as investors could "pay up" for expected earnings growth.

8. Never forget that any great business can become a bad investment if the price you pay is too high.

9. Over the long-term, valuations do matter.

10. It is imperative to remember valuations are very predictive of long-term returns from the investment process. However, they are horrible timing indicators. Because valuations, and fundamentals in general, take a long-time to play out in the markets, it is not surprising investors dismiss them during a secular bull market.

11. What drives long-term secular "bear" markets is "valuation contraction." Such is driven by investor re-evaluation of earning power by companies due to changes in interest rates, inflation, and, most importantly, prospects for economic growth.

12. Over the last 120 years, valuations have consistently proved to be a strong predictor of future returns, with lost decades common.

13. Overpaying for growth can lead to lost decades.

14. Periods of low returns follow periods of excessive market valuations.

15. For any given set of future cash flows, the lower the price an investor pays today, the higher the returns the investor will enjoy in the future.

16. Rich valuations are associated with weak subsequent market returns, while depressed valuations are associated with strong subsequent market returns.

17. For any given set of expected future cash flows, the higher the price an investor pays, the lower the long-term rate of return the investor can expect. The lower the price an investor pays, the higher the long-term rate of return he can expect.

Financial markets insights of the month

Investors need to balance between the US stock market exceptionalism and the myriad of risks on the horizon

Tomáš Pfeiler, CFA

Analyst

Relentless rally in the US equities has not run out of steam. The tariff détente and strong results of big tech companies bolstered investors' enthusiasm. The narrative of the US stock market exceptionalism reverberates around the world again. However, it is too dangerous to ignore risks: especially unpredictable US political leadership and nascent signs of slowing economic activity.

While the tariffs, especially on European goods, are a victory of Donald Trump's unorthodox approach to policymaking, it is much more disputable whether they are supportive to the broader US economy. American equities surged on the announcement of the deal between the United States and the EU, because money managers believe that the pervasive uncertainty is abating. But in the longer term, tariffs will translate into higher prices of consumer goods or lower margins of US companies. Volumes of international trade might drop, which is obviously detrimental to the economic activity.

Corporate earnings is the only dimension, where the euphoria seems to be justified. Hyperscalers published extraordinary revenue and P&L growth – with Amazon being a slight exception. Their vast capex, which could exceed $400bn this year, predominantly directed to the AI infrastructure, are acceptable for investors since they have a palpable impact on revenues. For example, Microsoft's 2Q net income jumped 24 per cent y-y.

Nevertheless, things are more complicated below the surface. The economy has begun to decelerate. While the headline 2Q US GDP growth of 3 % seems to be a resilient pace, it is affected by swings in import, exports and inventories as companies embarked on tariff-related manoeuvring. Consumer spending suffered a clear slowdown compared to the 1H24. Housing numbers are deteriorating as higher interest rate finally started to bite.

The fresh payrolls data shows that the labour market is cooling beyond the orderly rebalancing, the Fed was eager to deliver during 2024. The revision for May and June was especially harsh – the figures were lowered by 258k. Traders are currently pricing 87 % probability of cut in the September FOMC meeting, compared with around 45 % prior to the release of the July payrolls report.

The problem is that the US central bank is not willing to cut rates soon. Labour market is just a one dimension – the totality of data needs to underpin the Fed's decision. Jerome Powell needs to see further evidence that the inflation is not accelerating. June Core PCE surprised upside at 2.8 per cent. The effect of tariffs will be more pronounced in the next months and therefore is quite probable that the inflation will spike further.

Two FOMC policymakers who dissented (Michelle Bowman and Christopher Waller) believe the effect of tariffs is only one-off and therefore the central banks should look through it. Most participants, however, need to see further evidence. Anyway, the Fed needs to perform a delicate balancing act between the price stability and the economic growth.

Furthermore, Trump's pressure on Powell to cut rates immediately is extremely dangerous. The independence of central banks is one of the key pillars of the modern financial system. Investors, businesses and consumers believe that the Fed is independent and that it might deploy whatever tool it deems effective to combat inflation. Due to this conviction the inflation expectations remain anchored to 2 %.

If the president tries to undermine the Fed's independence by expelling Powell or by nominating a pliant chairman after Powell's mandate terminates, inflation expectations might start to de-anchor. When public discords between Trump and Powell peaked in mid-July, 10Y breakevens soared to 2.45 %, the highest level since the February and clearly above the 2 % level. They slumped to 2.3 % after the recent payroll report. Any direct attempts to influence the Fed's independence would cause a much steeper rise in inflation expectations, sending long-term UST yields soaring and the equity market to dive.

There is a reason to believe that investors are too complacent. While there is an undisputed positive impact of AI technology on corporate profits and the aggregate tariff levels will be lower than worst case scenario suggested, the overall market situation is far from perfect. There are notable risks on the horizon and it would be a grave mistake to ignore them. Especially, when stocks hover at-all-time highs.

Financial markets insights of the month

Big Tech in Q2 2025: AI momentum drives strong results – But at a cost

Ondřej Koňák
Analyst

The Q2 2025 earnings season confirmed one dominant theme: AI is no longer just a buzzword—it has become a structural driver of both revenue and capital allocation across Big Tech.

Beyond the headline numbers a deeper shift is underway: AI is reshaping how tech giants build, monetize, and defend their business models. We're witnessing not just a wave of AI-powered features, but the rise of AI infrastructure as a moat—from proprietary models to vertically integrated cloud stacks bundling compute, storage, and inference.

What increasingly sets the leaders apart isn't just model performance, but distribution scale and the ability to embed AI into habitual user behavior. Alphabet didn't win Q2 by launching a radically new model—but by rolling out AI Overviews in Search to over 2bn users, subtly reshaping how billions interact with the web.

Meanwhile, the cost of staying ahead is rising fast. CapEx guidance is ballooning—often into tens of billions—and focus is shifting from flashy model announcements to questions of unit economics, inference efficiency, and AI infra ROI. The market is starting to reward those who not only innovate, but scale profitably.

Alphabet leads the pack

Alphabet delivered a standout quarter, with revenue up 14% y/y to USD 96.4bn, driven by strong advertising performance and accelerating cloud adoption. The company highlighted the central role of AI in fueling growth across its core businesses.

New AI-powered features—such as AI Overviews and AI Mode in Search—demonstrated Alphabet's ability to integrate advanced capabilities directly into its most widely used products. Net income rose 19% y/y, and the consolidated operating margin surpassed 32%, underscoring the long-term payoff from years of investment in AI and infrastructure.

The scale of Alphabet's AI integration is unmatched: over 2bn users now interact with AI Overviews, and Gemini reports more than 450mn monthly active users. However, this expansion has come with significant investment. The company raised full-year CapEx guidance to USD 85bn, contributing to a more than 60% y/y drop in free cash flow this quarter.

These elevated investments reflect a strategic push to scale cloud and AI infrastructure in response to surging demand—signaling that Alphabet is playing the long game

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AI is the common thread

Microsoft also delivered strong results, highlighting its position as a key AI platform provider. Its AI business is now tracking a USD 13bn annual run rate, powered by deep Azure integration and partnerships like OpenAI.

Apple, while more cautious in its AI messaging, emphasized record growth in its services segment and installed base. Apple continues to focus on on-device intelligence and tight ecosystem integration, potentially building a differentiated and privacy-centric AI stack over time.

Across the board, AI is no longer siloed—it's being embedded into everything from developer tools and search to productivity apps and operating systems.

Investor takeaway

Despite concerns over rising CapEx and mounting regulatory scrutiny, investors broadly welcomed the results. Alphabet's stock rebounded sharply post-earnings as markets recognized the monetization potential of its AI investments and infrastructure.

The key question for long-term allocators now is not who has the best model, but rather:

Who can scale AI profitably—without eroding margins or drawing excessive regulatory fire?

Corporate finance insight of the month

Return on Invested Capital (ROIC) – A friend to a smart investor

Matúš Strážnický

Analyst

Few metrics are both powerful and underappreciated as Return on Invested Capital (ROIC). Company headlines are usually dominated by earnings per share (EPS) and return on equity (ROE), while ROIC provides a clear picture of the company's performance.

The basic rule of a business is that it must generate more cash than it consumes – it creates value. ROIC aims at this vital process: How efficiently is a company turning its invested capital into profits?

ROIC measures how well a company generates operating income, most usually defined as Net Operating Profit After Tax (NOPAT), relative to the Invested Capital (debt and equity less cash) it uses to operate and grow:

$$ROIC = \frac{NOPAT}{INVESTED\ CAPITAL}$$

It is a profitability ratio focusing on all capital components and does not focus solely on assets (ROA) or equity (ROE). ROIC is a powerful measure for several reasons:

- **Efficiency**: It tells you how efficiently a company is turning capital into profits. The higher the ROIC, the better the company is at generating value per unit of currency invested.
- **Capital Allocation**: It reflects management's ability to allocate capital wisely. A high ROIC suggests good investment decisions.
- **Competitive Advantage**: Companies reaching consistently high ROIC often benefit from competitive advantages — what Warren Buffett refers to as an "economic moat."
- **Value Creation**: ROIC is closely tied to value creation. When a company's ROIC exceeds its cost of capital, it creates value for shareholders. If it's below, it destroys value.

There's no benchmark for "good" ROIC, but a rule of thumb is:

- Above 10 %: strong capital efficiency and potential value creation,
- Between 6/7 %–10 %: Industry-dependent,
- Below 6 %: Rather poor capital deployment or low-margin businesses.

As ROIC might appear as a useful profitability ratio on its own its true potential comes forth when paired with the weighted cost of capital (WACC). Take a company ROIC of 12 % and company WACC of 8 %, the company generates 4 % more than it costs to fund its operations (both debt and equity funding) – sign of value creation. The lower the ROIC – WACC spread, the less value per invested capital is generated. WACC larger than ROIC is a sign of value destruction.

For both its self-explanatory role and combination with WACC, ROIC becomes more than just another ratio. It's a friend of a smart (both of a value and growth) investor. Companies that consistently earn high ROIC tend to reward their shareholders, while ROIC laggards go in opposite direction. It provides a glimpse into the strategies that companies pursue to create value in a single metric.

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Banking sector insight of the month

Credit officer vs. AI agent(s) – Who decides?

Michal Mesík, CFA

Analyst

Artificial intelligence has been transforming banking for years, initially focusing on tasks like fraud detection and credit scoring using structured data. Banks have been actively deploying machine learning techniques to analyse customers' transaction data, with the ultimate goal of discriminating between „good" and „bad" customers.

Today, AI systems analyse vast amounts of (unstructured) transactional data to assess creditworthiness with speed and precision. With the rise of generative AI and large language models, banks now use AI for content creation, automated reporting, and even programming - driving major efficiency gains.

However, as banks and fintechs increasingly rely on these systems, a critical dilemma emerges: how far should we allow AI to go in making lending decisions? Should AI make autonomous decisions and run the credit granting process fully on its own? These questions arise with a new frontier in AI development: agentic AI. Similarly to how autonomous driving vehicles operate, full lending processes could nowadays be run without human interaction. The entire lending process is decomposed into specific steps and each of these process steps handled by a specialised AI agent, trained to deliver concrete results. For instance, the data collection agent, the credit scoring agent, the decisioning agent, and the customer-communication agent. Multiple AI agents enabling a fully automated loan processing without human involvement.

The central question is: how much automation are European clients willing to accept? In other words, when taking out a loan would you prefer to get a seemingly objective AI-driven credit decision based on your data, or would you rather rely on a bank employee who understands your unique situation? With this regard, I believe the human interaction is there to stay despite increasing automation, similarly as bank branches have remained in the wake of digitalisation.

AI promises objective decisions - though what if it infers sensitive traits from your data, like religion, political views, or pregnancy? Imagine being denied a loan because you're a woman likely to take maternity leave, have green eyes, and live in a low-income area. While regulations limit discriminatory criteria, biased model training data can still reinforce inequality. AI models analyze thousands of variables, enabling faster approvals and broader credit access. Yet, this comes with ethical concerns as well. Moreover, can a machine truly grasp the nuances of an individual's financial situation? And what happens when it gets it wrong? Customers have the right to understand why their loan was rejected - but can they trust an AI to provide a transparent explanation?

Many models operate as „black boxes", making transparency difficult. To address these risks, EU regulators introduced the AI Act, classifying credit scoring systems as high-risk. This mandates human oversight, regular audits, and clear explanations for AI-driven decisions - measures designed to ensure accountability and safeguard consumer rights.

Even with regulations in place, I think a mix of common sense, concerns about data privacy, and banks wanting to be more efficient will strike a good balance between AI application and human involvement. I expect AI will increasingly handle simple consumer loans, while mortgage decisions will still be made by human credit officers. Either way, banks will need to build transparent AI systems and clearly explain how decisions are made. Ultimately, humans should stay in the driving seat.

Global M&A insight of the month

Union Pacific to acquire Norfolk Southern in $250 billion merger, creating first transcontinental U.S. railroad

Martin Bosák

Analyst

Union Pacific has agreed to acquire Norfolk Southern in a $250 billion deal that will establish the first fully transcontinental freight railroad in the United States. The merger will connect the western and eastern U.S. rail networks, enabling uninterrupted rail service from the Pacific to the Atlantic across more than 80,000 kilometers of track in 43 states.

The transaction, mostly stock-based with a partial cash component, values Norfolk Southern at $320 per share (a 25% premium to its recent trading average), representing an enterprise value of $85 billion. Combined with Union Pacific's estimated $165 billion valuation, the new company will become the largest rail operator in the country. Norfolk Southern shareholders will receive $88.82 in cash per share and one Union Pacific share (resulting in ownership of approximately 27% of the combined company).

The combined rail network will eliminate key interchange bottlenecks—particularly in Chicago—enable single-line coast-to-coast service, improve freight transit times, and enhance competitiveness against trucking and Canadian carriers. Estimated annual synergies of $2.75 billion are expected, along with gains in efficiency and service quality.

The cash portion of the deal will be funded through a mix of new debt and balance sheet cash. At closing, the combined business should have Debt to EBITDA of approximately 3.3x. Based on 2024 results, the pro-forma company would generate $36 billion in revenue, $18 billion in EBITDA, an operating ratio of 62%, and $7 billion in free cash flow.

The deal will face a comprehensive regulatory review from the Surface Transportation Board, as well as possible scrutiny from federal agencies, labor unions, and industry competitors. Without a voting trust structure, the merger is fully exposed to regulatory delays. Should it fall through, Union Pacific has agreed to pay a $2.5 billion termination fee.

The merger, if approved, would mark the largest U.S. corporate combination since 2023 and represents a significant milestone in reshaping national freight infrastructure. The companies expect to complete the transaction by early 2027.

Czech M&A market insight of the month

Carlyle acquires majority stake in Czech-founded data consultancy Adastra

Adam Friedl
Analyst

In July 2025, global investment firm Carlyle agreed to acquire a majority stake in Adastra Group, a Czech-founded consultancy focused on data, cloud, and AI solutions. The transaction values Adastra at approximately EUR 340 million (around CZK 8.5 billion), making it the largest Czech tech deal of the year. Completion remains subject to regulatory approvals across jurisdictions.

Founded in Prague in 2000 and co-headquartered in Toronto, Adastra has grown into an international group providing consulting and implementation services in data management, digital transformation, and advanced analytics. The company employs more than 2,000 professionals across North America, Europe, and Asia, and generated revenues of approximately EUR 200 million (around CZK 5 billion) in 2023. Its clients include major enterprises in financial services, automotive, telecom, manufacturing, healthcare, and retail. Adastra's founders Jan Červinka, Jan Mrázek, and Petr Jech will retain a significant minority stake and continue with the company under Carlyle's ownership.

The deal is being executed through Carlyle Europe Technology Partners V and Carlyle Asia Partners Growth II funds. It marks Carlyle's fourth Czech transaction in recent years, following a minority investment in Prague-based AI translation software company Memsource (now Phrase) in 2022, the acquisition of scientific instrumentation firm Tescan later that year, and optics producer Meopta in 2023. The investment extends Carlyle's presence in the local technology sector and provides a base for further international expansion in data and AI services.

According to Carlyle, the transaction will support Adastra's continued expansion of its service portfolio and geographic reach, including through targeted M&A. Adastra's management views the deal as a logical step in the company's international growth, particularly in light of rising enterprise demand for large-scale cloud and AI transformation projects.

The transaction confirms a growing interest among international investors in Czech technology companies—especially those with established export potential and recurring revenues. It reflects a broader trend of cross-border acquisitions involving Czech firms with strong sector expertise and international reach.

Adastra was advised by JP Morgan (financial), Ernst & Young (accounting), and Dentons (legal). Carlyle was represented by Clifford Chance, whose teams in Prague, London, and Frankfurt provided comprehensive legal counsel.

Private equity insights of the month

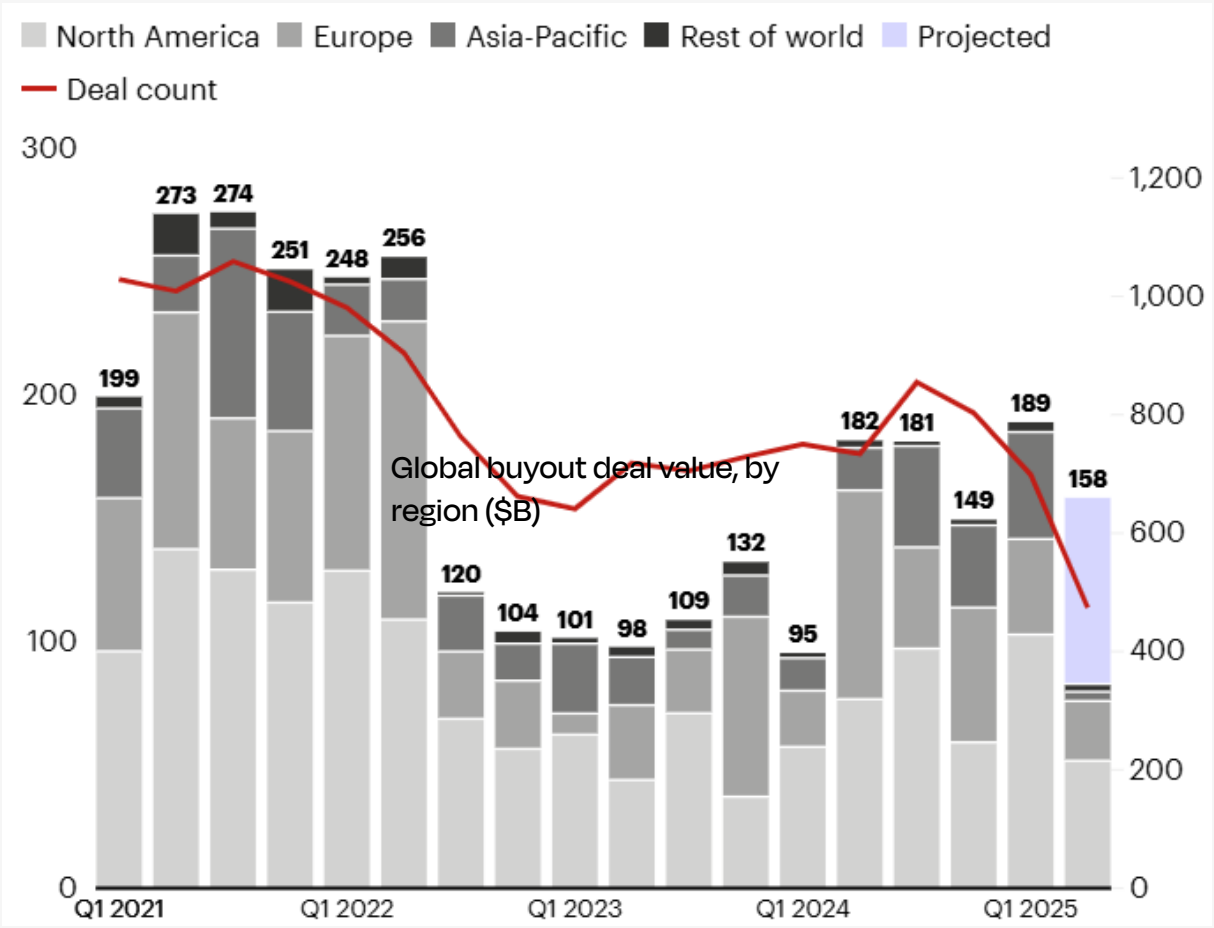
Investors demand exits – Below marks if necessary

Diana Hricišáková

Analyst

At the start of 2025, the private equity industry expected a broad-based recovery, encouraged by positive signs from 2024 and a notably strong first quarter. However, as spring approached, the market was impacted by a combination of renewed tariff volatility, ongoing interest rate uncertainty, and tightening credit conditions. Early 2025 seemed promising - Q1 buyout deal values reached nearly $189 billion, the highest since the record-setting year of 2022 and nearly double the $95 billion recorded in Q1 2024. Yet, the outlook for Q2 has weakened, with expectations of declining deal and exit values, alongside a sharp drop in deal count. Current deal volume is being driven primarily by large-cap transactions (megadeals), masking a broader slowdown in mid-market activity. The weak exit environment is particularly evident in the IPO market, where several anticipated listings, including Klarna, have been postponed or cancelled.

Global buyout deal value, by region ($B)



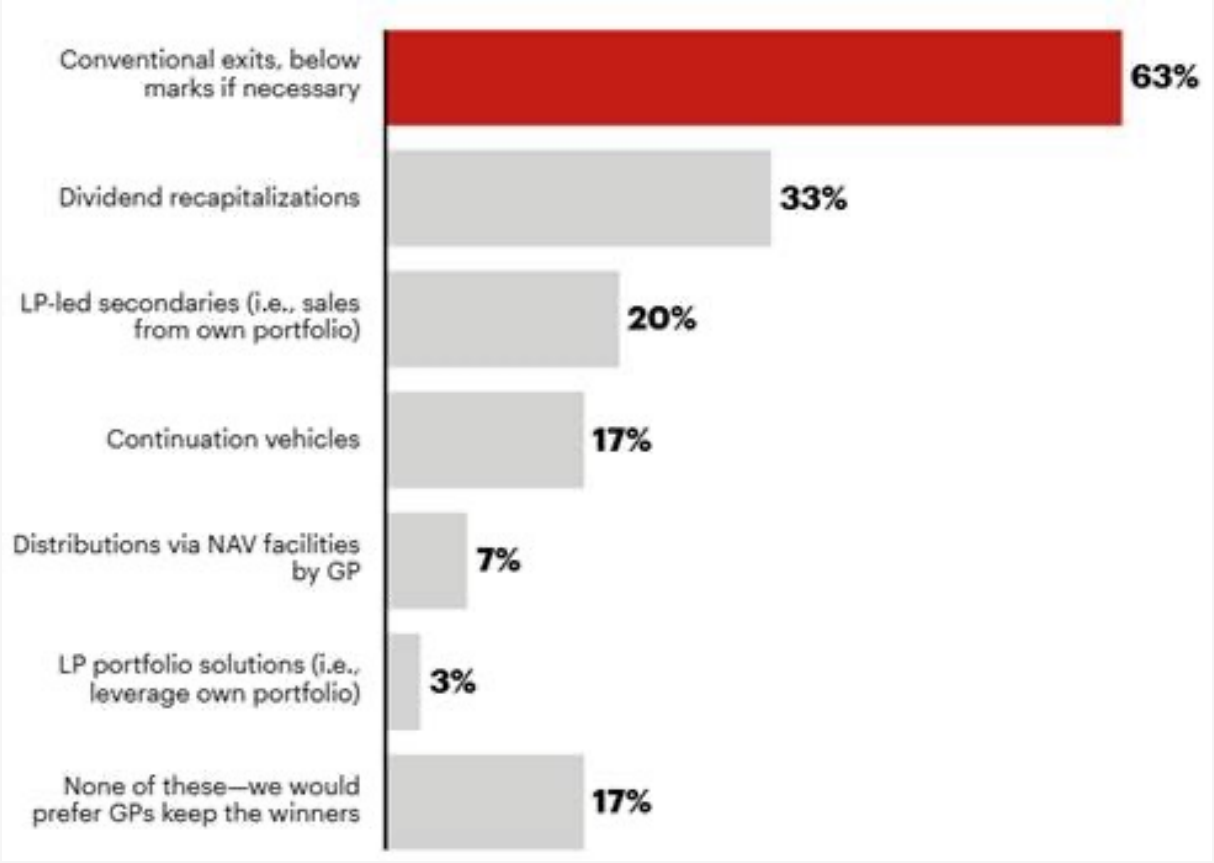
Notes: Excludes add-ons, special-purpose acquisition companies, loan-to-own transactions, and acquisitions of bankrupt assets; based on announcement date; includes announced deals that are completed or pending, with data subject to change; geography based on target's location; data as of May 19, 2025; deal count is scaled to quarterly basis

Source: Dealogic; Bain

This slowdown is further deepening the lack of liquidity, which has been an issue for already few years. Recent fund vintages are struggling to return capital to LPs (Investors), with 2018 US and Western European funds distributing just over 0,6x of paid-in capital - well below the historical 0,8x benchmark.

LPs are showing growing frustration with partial exits and are pushing for full realizations, despite the challenging market. In a recent Institutional Limited Partners Association (ILPA) poll, 63% of LPs expressed a preference for traditional exits over options like dividend recapitalizations, LP-led secondaries or very popular GP-led secondaries (Continuation vehicles). It is striking that such a large proportion of LPs are now willing to accept valuations even below recent portfolio marks just to secure a full exit - an indication of how intense the liquidity pressure has become and a clear reflection of the market's growing impatience for realizations.

Preferred path to liquidity, by percentage of limited partners selecting



Source: ILPA–Bain webinar poll, March 2025

Private equity insights of the month

Semi-liquid funds open doors to individual investors

Lukáš Baloga

Analyst

The private equity asset class, traditionally the domain of institutional investors, is becoming more accessible through a wave of semi-liquid funds. These hybrid structures combine features of open-end mutual funds with less liquid closed-end vehicles, driving broader adoption among individual investors.

For many years, private equity was accessible only to institutional investors due to high investment minimums and limited liquidity. This is now changing with the rise of semi-liquid funds, which offer a balance between liquidity and long-term investing through predefined redemption intervals. These hybrid vehicles provide individual investors with access to private equity strategies featuring lower minimum investments, faster capital deployment, and built-in diversification, all while avoiding the complexity of traditional drawdown structures. Their added flexibility, combined with exposure to private markets, is making private equity increasingly attractive to a broader base of investors, especially during periods of high correlation between stocks and bonds.

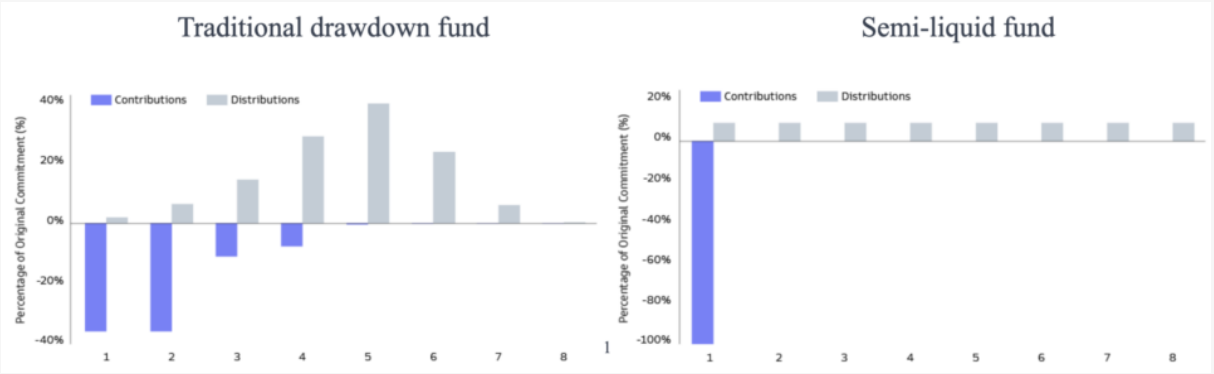
Redemptions rights

Semi-liquid funds typically allow investors to subscribe and redeem at fixed intervals, either monthly or quarterly, depending on the fund's structure. The market standard allows redemptions of up to 5 % of net asset value (NAV) per window.

Drawdown strategy

Unlike traditional private equity funds that call capital over several years, semi-liquid funds require full capital commitment upfront, giving investors immediate exposure to underlying assets. Managers can continuously raise and invest capital without formal fundraising cycles. This helps avoid the typical "J-curve" effect, as illustrated in the picture below.

Drawdowns comparation of Traditional drawdown vs. Semi-liquid fund

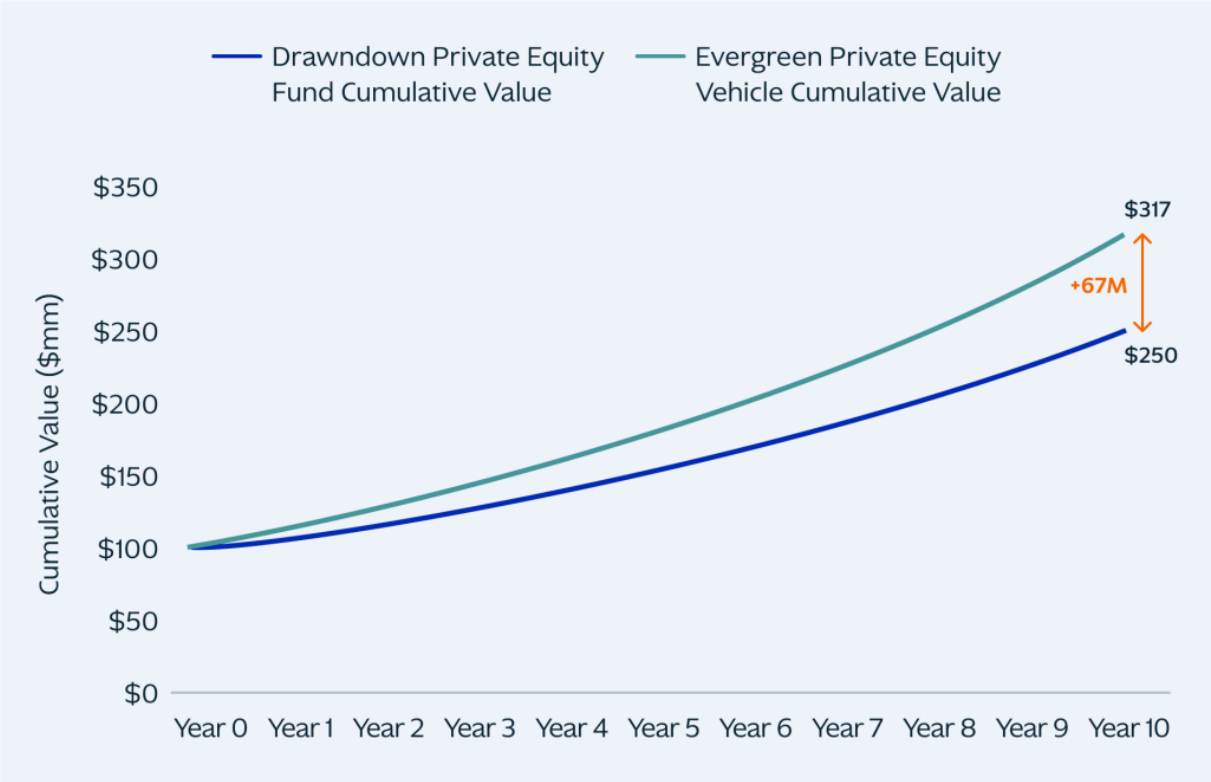


Source: BSPEC: The Rise of Semi-Liquid Funds: A Game Changer in Modern Portfolio Management, 2024

The "magic" of compounding

One of the key advantages of semi-liquid funds is the ability to benefit from uninterrupted compounding. According to KKR, achieving a 3x MOIC (Multiple on Invested Capital) over a 10-year investment horizon requires a net IRR (Internal Rate of Return) of 11.6 % in a semi-liquid fund. In contrast, a closed-end fund needs a significantly higher IRR of 18.4 % to reach the same return.[1]

Cumulative Value of Investing $100 in Evergreen and Drawdown Vehicles for 10 Years



Source: KKR: An Evergreen Vehicle Can Be an Important Tool in Private Equity Asset Allocation, 2024[2]

This demonstrates how, assuming the underlying companies perform well, compounding in semi-liquid funds can drive long-term portfolio outperformance.

Liquidity limitations

While semi-liquid funds offer more flexibility than traditional closed-end funds, they are not fully liquid. Investors typically cannot redeem their entire position at once. According to Schroders, in a quarterly redemption fund, it may take between four and seven months to fully redeem capital.[3] This offers more flexibility than closed-end structures, but less than public market investments.

Risk of unfavourable valuations

When redemption requests exceed normal levels, managers may need to sell assets at unattractive valuations to meet liquidity needs, potentially introducing volatility into fund performance.[4] Similarly, if a fund receives a surge of capital during periods of high market valuations, managers may be forced to invest under less favourable conditions.

Market deployment

To manage inflows effectively, semi-liquid fund managers must maintain a steady pipeline of attractive investment opportunities. This ensures that newly committed capital or proceeds from asset sales can be reinvested efficiently and ideally at favourable valuations.

Universal rule

While there are trade-offs compared to closed-end funds, one universal principle applies across all private market strategies: managers with experience across economic cycles and proven value-creation playbooks are more likely to identify patterns, avoid mistakes, and repeat successful strategies. These are the managers best positioned to unlock the full potential of this evolving investment format.

[1] https://www.kkr.com/insights/evergreen-vehicle-private-equity

[2] Illustrative purposes only. Assumes a 10-year horizon. The drawdown fund deploys capital evenly over 5 years, with exits after 5 years. Undrawn capital is invested in a 60/40 equity-bond portfolio returning 6.8% (5% bonds, 8% equities, based on historical MSCI World and Bloomberg Global Agg returns since 1990). Distributions are reinvested in the same. The evergreen vehicle holds 85% in private equity and 15% in liquid credit/cash/treasuries earning 5%. A 13.5% net IRR is assumed for both structures' private equity exposure, based on Cambridge Global Private Equity Index (2000–2019, Global Buyout and Growth Equity funds).

[3] https://www.schroders.com/en-au/au/individual/insights/semi-liquid-funds-is-the-cash-drag-really-such-a-drag/

[4] https://www.privateequityinternational.com/why-semi-liquids-are-not-just-for-wealthy-individuals/

Behavioral finance insight of the month

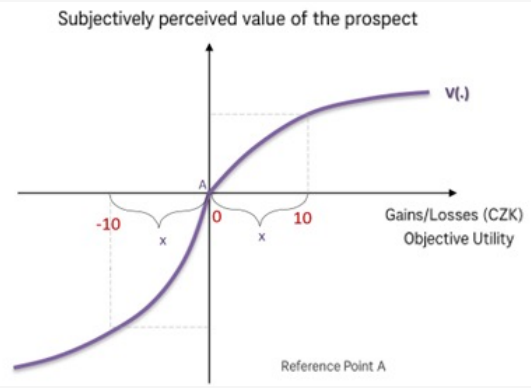
Why we feel losses more than the joy from gains: How Prospect Theory rewrote the rules of investing

Jana Přílučíková, PhD

Analyst

Imagine this: You gain $100. It feels good. But then you lose $100. Suddenly, the earlier gain seems to vanish from your memory—and the sting of the loss lingers. This asymmetry in emotional response is not just a personal quirk. It is a predictable pattern that lies at the heart of Prospect Theory - one of the most influential ideas in behavioral economics and behavioral finance, developed by Nobel laureate Daniel Kahneman and Amos Tversky.

Fig. 1. The Prospect Theory Value Function



Source: Přílučíková (2024)

Unlike traditional economic models of utility, the value function of Prospect Theory is S-shaped (see Fig. 1.) and asymmetric. It is:

- **Concave for gains** (reflecting risk aversion), and
- **Convex for losses** (reflecting risk-seeking behavior).

And crucially, the slope is steeper for losses than for gains—this visualizes the well-documented phenomenon of loss aversion.

The Prospect Theory value function is defined on deviations from a reference point, rather than on absolute outcomes. It suggest that we do not evaluate gains and losses in isolation - instead, we interpret them relative to where we currently stand, or what we expect. That reference point could be our current wealth, a previous peak, a competitor's outcome, social comparisons or even a personal aspiration. A key insight of the model is that people evaluate options based on how they differ from their current situation—not on their absolute value. In other words, relative changes carry more weight than absolute levels.

If we rise above our reference point, we feel a gain. If we fall below it, we feel a loss—even when the objective outcome remains the same. This relativity has profound implications for how investors perceive risk, react to volatility, and define success.

This emotional asymmetry has evolutionary roots. In early human environments, losses—of food, shelter, or social status—could have been fatal. As a result, our brains became wired to be to be more sensitive to potential downsides than to equivalent gains or even at the cost of overlooking equivalent gains. That wiring remains active in modern financial decisions.

By understanding the prospect theory value function, we gain deeper insight into the psychological mechanisms behind market inefficiencies— and why it is essential to recognize and counterbalance our natural tendencies, for instance through structured decision-making, long-term strategy, and reflective thinking.

In the next Behavioral Finance Insight, we will explore the second core component of Prospect Theory—the probability weighting function.

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Blockchain technology and digital assets insight of the month

Regulating the ledger: The year the United States got serious about crypto

Martin Skákala

Analyst

Crypto regulation in the United States has often resembled the weather in Washington: lots of talk, little action, and everyone pointing fingers when the storm finally hits. But something has shifted in 2025. This summer, Congress didn't just hold another round of hearings. It passed laws. Real ones. With signatures, implementation timelines, and regulatory teeth.

For the first time in over a decade of digital asset discourse, the United States is not just reacting — it is designing. And in doing so, it's revealing something deeper: its conflicted, often contradictory, but finally tangible approach to the digital asset era.

At the center of this shift is the **GENIUS Act**, signed into law in mid-July. You can tell it's real by the silence that followed. No grandstanding on Twitter. No immediate lawsuits. Just a quiet wave of law firm memos and compliance teams spinning up workstreams. The law does what many thought impossible: it **federally regulates dollar-backed stablecoins** — and does so without killing them.

The requirements are strict, but not unrealistic. If you want to issue a payment stablecoin in the U.S., you need to be a bank, a regulated trust company, or a new class of OCC-approved nonbank issuer (OCC = Office of the Comptroller of the Currency). Your reserves must be dollar-denominated and held in full — cash, Treasurys, or short-term government money market funds. Monthly attestations. Annual audits. AML compliance. And, perhaps most importantly, the legal authority to freeze or redeem tokens when required.

This is regulation by design, not punishment. It reflects a new mood in Washington: we don't want to kill the industry — we want to cage it, structure it, and claim it. For stablecoin issuers like Circle and Paxos, this provides clarity. And yes, even Tether — long viewed as the wild card — can continue operating under U.S. law, so long as it aligns with the law's reserve and reporting conditions.

And yet, stablecoins are the easy part. They behave more like money market funds than crypto-native assets. The harder questions lie with everything else: tokens, blockchains, DAOs, NFTs, and the entire spectrum of digital assets that don't pretend to be "stable."

That's where the **CLARITY Act** enters the picture. The bill, passed in the House in July and now under Senate debate, is more than an attempt to define digital commodities. It's an admission that the old frameworks — built for stocks, bonds, and commodity futures — don't stretch far enough to cover what crypto has become.

The CLARITY Act proposes a **legal pathway for digital assets to begin their life as securities and graduate into commodities**. Tokens that meet certain decentralization or maturity thresholds would eventually fall under the purview of the CFTC, with corresponding oversight. The bill envisions joint SEC-CFTC rulemaking on everything from custody and margin requirements to token listings and delistings — even in decentralized contexts.

It's an ambitious structure. And like all ambitious American structures, it comes with turf wars, trade-offs, and the risk of collapse in conference committee. But even if the bill dies in the Senate, it leaves behind a legacy: the mainstreaming of an idea the crypto industry has shouted for years — that digital assets are a new category, not a variation of an old one.

And yet, not all of Washington's legislative energy is directed toward building frameworks. Some of it is aimed at building walls. The **Anti-CBDC Surveillance State Act**, passed narrowly in the House, is a case study in American political tension. The **bill would prevent the Federal Reserve from issuing a central bank digital currency** — not just directly, but even through intermediaries. Its language is less about finance than about fear: fear of surveillance, of government overreach, of programmable money in the wrong hands.

Supporters frame it as a bulwark against financial tyranny. Opponents see it as a solution to a problem that doesn't yet exist. But politically, it speaks volumes. The U.S. is not just slow to embrace a CBDC — it may be actively allergic to it. In an era where China, the EU, and dozens of emerging markets are piloting digital fiat, America is slamming the brakes — not out of technical incapacity, but philosophical resistance.

This raises a deeper question: is the U.S. regulating crypto to control it, or to compete globally? The answer may lie in a less discussed but equally important development: the White House's Digital Asset Market Structure Report, released in late July. The 160-page document — the product of a year-long working group across Treasury, SEC, CFTC, OCC, and the Fed — reads like a blueprint. It calls for harmonized oversight, a sandbox for innovation, enhanced risk monitoring tools, and capital requirement updates for institutions engaging with digital assets.

And in the shadow of all these big-ticket items sits another quietly radical proposal: the **Bitcoin Reserve Act**. Still in Senate committee, the bill suggests that the U.S. Treasury begin acquiring and holding Bitcoin in a strategic reserve — effectively treating BTC like digital gold. What was once a libertarian meme now has legislative legs. While still early stage, the very existence of the bill shows that the U.S. is not just trying to control crypto markets — it's also thinking about long-term strategic positioning.

There's nothing revolutionary in the report or even the reserve bill alone. But together, they confirm what GENIUS and CLARITY had already suggested: the U.S. is preparing to normalize crypto, not banish it. And while it may not embrace every edge case — DeFi or DAOs are still largely ignored — the groundwork is being laid for a structured coexistence between Wall Street and Web3.

What does all this mean for investors, builders, and observers? It means the fog is lifting. Slowly, unevenly, and sometimes in contradictory ways — but it is lifting. The U.S. is starting to make the one move that changes everything in a regulatory landscape: choosing to define.

GENIUS defines stablecoins. CLARITY attempts to define tokens. The Anti-CBDC Act tries to define limits. The Bitcoin Reserve Act suggests strategic value. And the White House blueprint begins to define a system. Not in full. Not without gaps. But enough to sketch out a future where crypto isn't just tolerated — it's structured.

Will it work? That depends. On how well agencies implement the laws. On whether market participants adapt. On whether Congress continues the work or leaves the scaffolding half-built. But for the first time in years, we're no longer stuck in the mode of waiting. The United States has entered the mode of making.

And this effort fits into a broader strategy. This same summer, the White House rolled out its AI Action Plan — aiming to make America the global leader in artificial intelligence. Whether in code or capital, crypto or compute, the goal is the same: lead the next era of infrastructure. On both fronts, the U.S. is now declaring it wants to win.

Energy sector insight of the month

New rise of PV power station installations in European market?

Radek Jirků

Analyst

According to SolarPower Europe, the total installed solar capacity in the EU reached 338 GW by the end of 2024, equaling the spring peak electricity load. Notably, nearly half of this capacity was installed within just the past three years (2022–2024). Solar has now become the leading source of electricity generation capacity in Europe. However, SolarPower Europe cautions that the pace of new installations may not be sufficient:

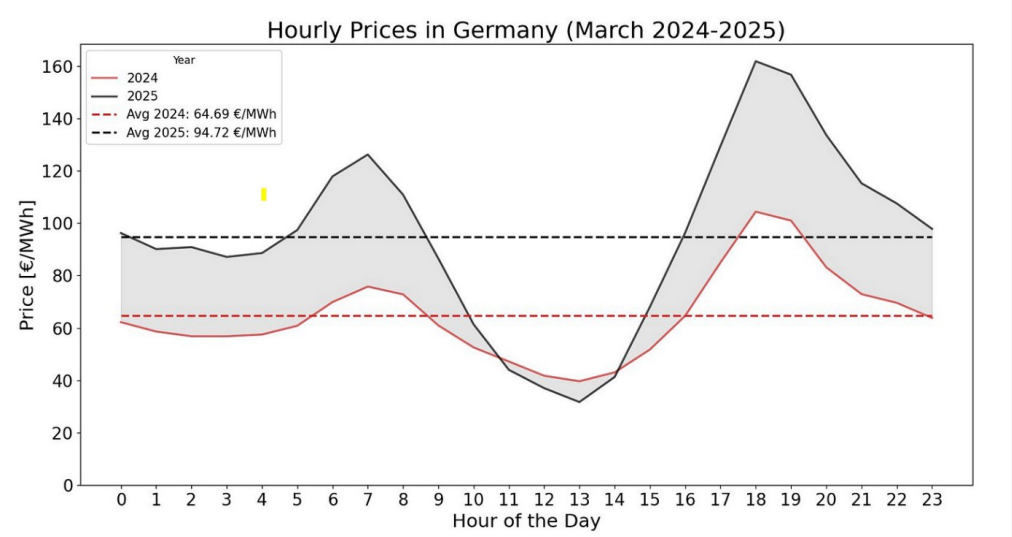
At the time of publishing the Energy Market Outlook 2024 last December, SolarPower Europe issued a yellow card to policy makers, warning that if action is not urgently taken to keep supporting its solar industry, the EU is at risk of missing its REPowerEU targets for 750 GW of total solar capacity in 2030. Six months on, we are changing this warning to a red card, as developments in several key markets since the start of 2025 confront us with a more pessimistic outlook. We have once again lowered our expectations, with annual growth staying consistently below 10% for the next 5 years.

Source: Global Market Outlook for Solar Power 2025-2029, https://www.solarpowereurope.org/insights/outlooks/global-market-outlook-for-solar-power-2025-2029#download

Growth has plateaued, with new installations in 2024 only slightly exceeding those of 2023. For 2025, the organization projects a similar outcome, forecasting 66 GW of newly installed capacity. Nonetheless, this remains an exceptionally high level of deployment—particularly considering that afternoon electricity demand in spring typically falls below 300 GW on weekdays and drops to under 250 GW on Sundays.

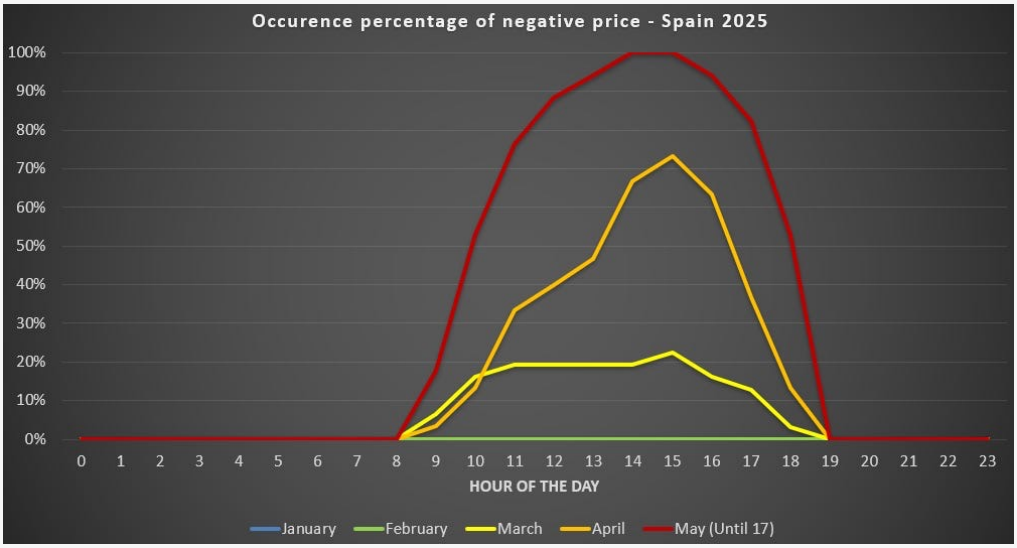
Declining solar capture price

On the other hand, solar capture rates are declining significantly, with a new record low set in Germany in April 2025. The solar capture price averaged just €31.5/MWh, compared to an overall market average of €78/MWh—resulting in a capture rate of only 40%. This marks a sharp drop from the previous record low of 49% observed in May 2024.



Source: https://gemenergyanalytics.substack.com/p/what-has-been-the-impact-of-solar

The final chart for Spain in 2025 illustrates the frequency of negative electricity prices. As of mid-May, negative prices have occurred during two hours. These events tend to coincide with periods of peak solar generation, highlighting the growing pressure on the system during times of abundant solar output.



Source: https://gemenergyanalytics.substack.com/p/what-has-been-the-impact-of-solar

It is likely that records for negative pricing and low capture rates will continue to rise. As a result, there is increasingly limited room for the economically viable deployment of new solar installations—at least until the balance shifts through the expansion of battery storage and system flexibility.

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

Our key activities

- **PFI Macro Anchor podcast** hosted by PFI Chief Economist Andre Chelhot, CFA
- **PFI Talks podcast** in cooperation with the daily E15 (e.g. Daniel Kahneman, Jeffrey Sachs, Aswath Damodaran, Marc Faber, Barry Eichengreen or Peter Oppenheimer)
- **Panel discussions** (roundtables)
- **Valuation Masterclass** (semester-long business valuation course)
- **Technical Analysis Masterclass** (unique six lectures on technical analysis)
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Contacts

Prague Finance Institute, z.s.
The Schebek Palace
Politickych veznu 936/7
110 00 Prague 1
Czech Republic
www.praguefi.com

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PFI partners are

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