PFI Monthly

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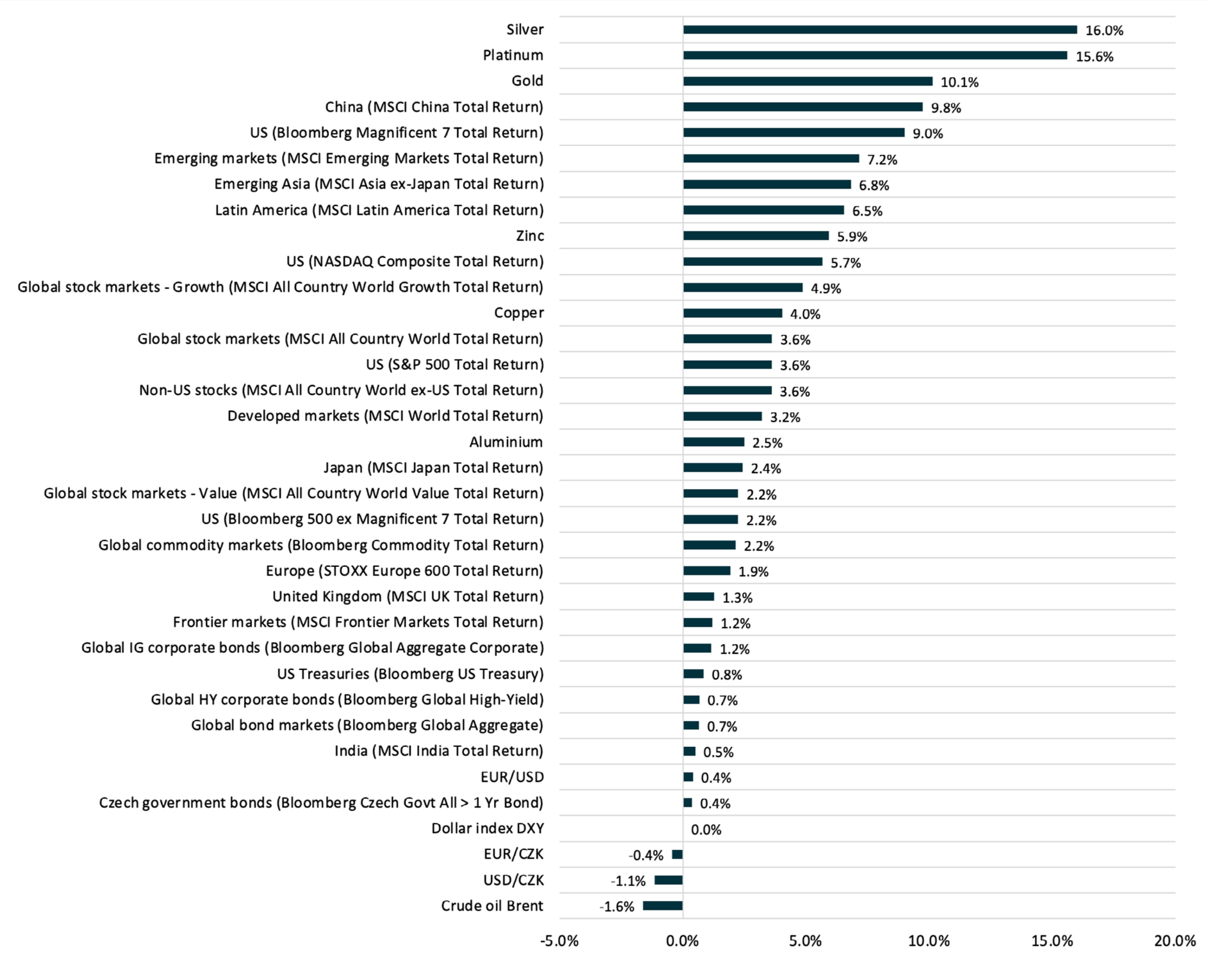
Content

Cross-asset performance in September and year-to-date

Michal Stupavský, CFA

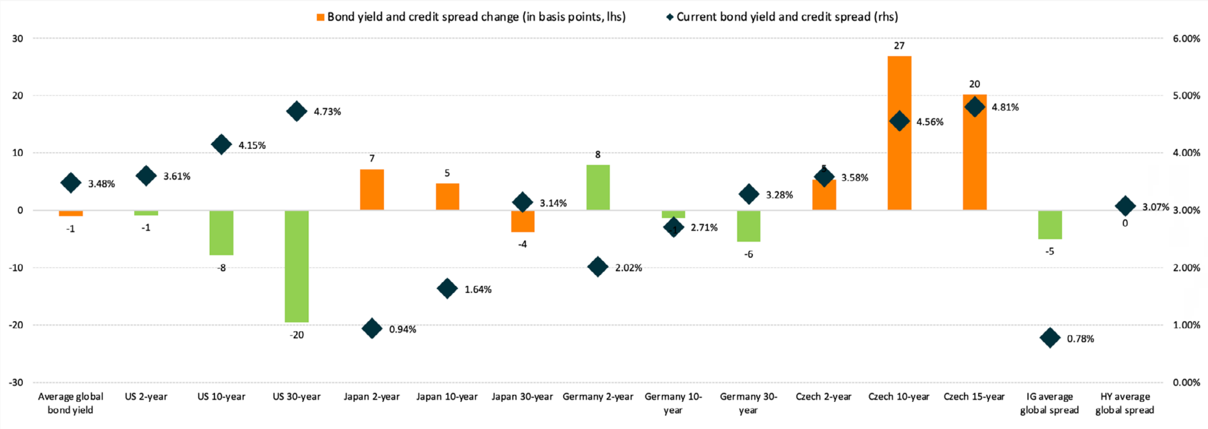
Investment Strategist, Conseq Investment Management &
Head of Research, Prague Finance Institute

Chart 1 – Cross-asset performance in September (in USD)



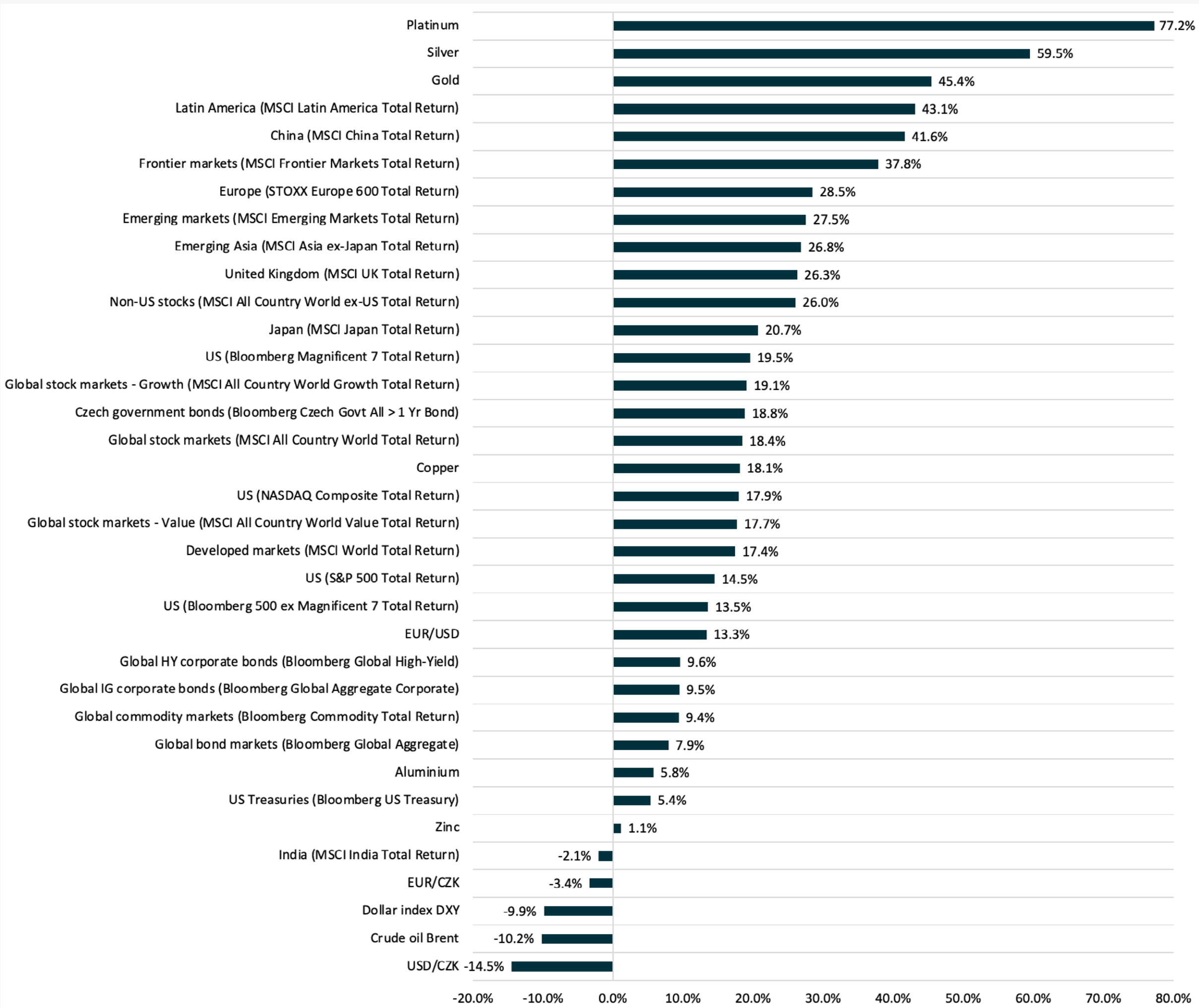
Source: Bloomberg; Michal Stupavsky, CFA

Chart 2 – Bond yields and credit spreads change in September



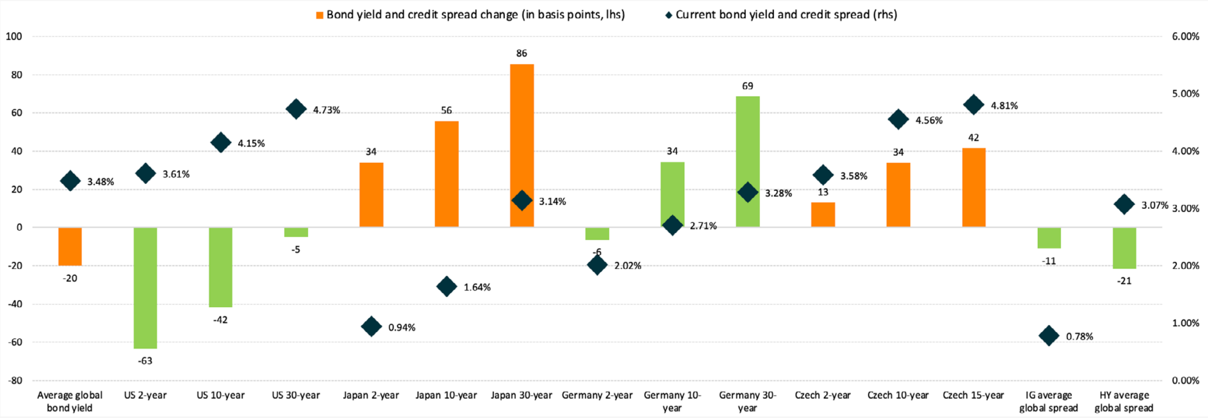
Source: Bloomberg; Michal Stupavsky, CFA

Chart 3 – Cross-asset performance year-to-date (in USD)



Source: Bloomberg; Michal Stupavsky, CFA

Chart 4 – Bond yields and credit spreads change year-to-date



Source: Bloomberg; Michal Stupavsky, CFA

Interview

Katarína Ščecinová, CFA

Portfolio Manager, J&T Banka

The interview was conducted by Michal Stupavský, CFA, Head of Research at the Prague Finance Institute.

Let's start our interview with one general but very important question. What is your current view on the world in general, the global economy and financial markets in particular? Which major themes have been especially important for you as a Portfolio Manager recently?

It is time to be vigilant. We are witnessing great times as economic conditions are favorable across the investable regions. Unemployment stays low, inflation is somehow slowing, GDP is growing as consumers are spending, companies are innovating and investing, capital is flowing and governments are supportive. Apart from that, central bankers communicate willingness to step in once the data reveals any deterioration. Monetary policy is the one that determinates the development on the financial markets within the short term horizon. This holds true especially for the US Federal Reserve that embarked on an easing journey just recently. There are other popular topics such as artificial intelligence that I find interesting, but only for investors to equity market.

U.S. dollar has sharply weakened and US equities have significantly underperformed other equity markets since the beginning of this year. Do you think that the period of the US exceptionalism is already over?

Measured by S&P 500, I find double digit returns on US equities exceptional in terms of history and still competitive to other developed countries over the course of the year. However, exceptionalism is not about year to date performance. It reflects the DNA of the economy. United States are the cradle of capitalism and this mentality cannot evaporate overnight or a four year term. The main pillars of US exceptionalism such as common law, morality, free market capitalism and sanctity of private property are untouched. Even though president Trump brought a lot of uncertainty to the financial markets since his Liberation Day moment, he is a proponent member of many business friendly measurements related to taxes, R&D investments, administration simplicity etc. Recently published GDP data revealed a surprisingly good shape of the economy. The US stock exchange is liquid, transparent and attracts the most ambitious companies. That's also the case for private capital. The United States remains a favorable destination for innovative and young entrepreneurs as they perceive local business as environmental and supportive. Therefore the story upholds its validity.

In terms of the global asset allocation and your investment portfolios' positioning what are the three main investment recommendations which dominate your mandates in the present?

In terms of strategic allocation there are not any changes in the present as it reflects on the client´s risk profile and requirement, not the external environment. Tactically, I perceive fixed income instruments as more attractive than equities. Regionally, I find good opportunities in US fixed income markets, both in government and corporate bonds. Within the equity markets it is more important to stay selective and not follow the main indexes that are overloaded with technologies. In particular, I pay attention to capital intensive companies that will lower their borrowing costs with interest rate cuts and equities with high dividend yield that might serve as proxy for bonds in certain cases. In European markets my focus is on real estate and energy infrastructure.

You have been a Portfolio Manager at J&T Banka with a focus on public markets since 2010, what do you like the most about your job and what are the major investing lessons that you have learned over the years in this position?

Rules need to be obeyed. You should always focus on long term goals, understand your risk appetite and reflect on your specific liquidity needs. Strategic allocation is the main driver of the performance. It is necessary to diversify within the portfolio and move away from the crowd, once the theme becomes too popular. Markets are irrational from time to time, investors are skewed to biases and portfolio managers under pressure to meet high expectations. The main challenge is to drive the client safely through the turbulences, while protecting and creating wealth.

There are many HNWIs among your clients, what are the most challenging aspects in regards to your communication with them?

It is important to find a common language all involved parties will understand. To remain open minded towards investment ideas, proposed by clients, is also crucial. Communication with clients is always rewarding as it shows me financial markets from different perspectives. My clients mainly come from business environments and they are happy to share their real life experiences to formulate their opinions. These aspects simply cannot be modeled in excel or understood from the Bloomberg terminal.

Within the Prague Finance Institute you have recently begun preparation of an investment course focused on women. What major investing themes are you going to lecture about?

I would like to start from scratch to make sure basic investment principles are understood correctly. My lessons will combine theory together with practical examples. The course will be divided into three parts. First, I will focus on psychological barriers that hold some of us distant from financial independence and I will educate about available investment instruments. Secondly, I will reveal the joy of investing. Finally, there will be a part dedicated towards our emotions, that is referred to as behavioral finance. I will make the attendees familiar with financial environment and share my views as well as experiences.

Why is your investment course going to be exclusively focused on women and what major goals do you want to achieve with your course?

I am one of them and I see the gap in education, not only in respect to my clients but my friends as well. I noticed the growing number of female investors that just ask for a different way of communication. My goal is to show the possibilities, help understand financial markets and make it more comprehensible for this specific audience.

When do you currently expect the start of the course?

If everything goes according to the plan, I believe we are ready in March 2026.

BIO

Katarina graduated from the University of Finance and Administration in Prague, Czech Republic. In 2009, she earned her MBA degree in Financial Management from the City University of Seattle, and in 2014 she became a CFA Charterholder. Throughout her career, Katarina has gained extensive knowledge and experience in investments while working across various financial market departments within J&T FINANCE GROUP. She began her career as an analyst on the trading desk and later acquired valuable investment banking expertise at J&T IB & Capital Markets. Since 2012, she has served as a portfolio manager at J&T BANKA, a.s., with primary responsibility for individual client mandates, and also holds the position of Deputy Director of the J&T BANKA Asset Management Department. In addition, she serves as Director of Maltese investment funds J&T SICAV plc and J&T Advanced Solutions SICAV plc.

Czech economy insight of the month

Lessons from the Czech Republic's inflation surge

Štěpán Drábek

Macro Analyst,
Prague Finance Institute

The recent inflationary period in the Czech Republic has raised difficult questions about responsibility, timing, and long-term consequences. While external shocks and various economic actors may have played some role, the core argument is clear: the Czech National Bank holds primary responsibility for failing to contain excessive price growth.

As the institution tasked with maintaining price stability, the central bank is inherently accountable when inflation grows significantly. Neither government policy nor business behavior can be considered the true origin of high inflation rate. The causa causarum lies in an inadequate monetary policy response. In this case, the Czech National Bank reacted too slowly, mildly, and hesitantly.

With hindsight, the tightening cycle should have begun earlier, proceeded more decisively, and culminated in higher interest rates. Foreign exchange interventions could also have been used more actively to strengthen the koruna exchange rate, and thereby help to reduce the inflation rate. Taken together, monetary policy was simply not strict enough when it mattered most.

Although the main inflation wave has passed, its consequences linger. Certain segments, especially services, continue to see faster price growth. Inflation leaves scars on the economy that heal only gradually, meaning full recovery from this turbulent period will take quite some time.

The most important lesson is for central banks themselves: inflation must never be underestimated. The complacency with which many institutions treated emerging price pressures – believing them to be merely temporary – proved costly. For individuals, the takeaway is that even after long periods of stability, unexpected shocks can trigger persistent inflation if policymakers react incorrectly. Being prepared at the personal level is thus always essential.

Financial markets insights of the month

All-time high U.S. equity valuations: Short-term versus long-term implications

Michal Stupavský, CFA

Investment Strategist, Conseq Investment Management & Head of Research, Prague Finance Institute

Most U.S. equity valuation indicators are currently at or near all-time highs. Based on historical statistics, today's starting valuation levels have very limited predictive power for expected equity returns over the short-term horizon of one to two years. However, starting valuation levels have a highly significant impact on expected returns over the medium- to long-term horizon of around ten years. Current valuation extremes, according to historical patterns, clearly indicate that the expected average annual return of U.S. equities over the upcoming decade, including dividends, is very likely to be substantially lower than in the past decade.

I also believe that "this time is not different", and that U.S. equity valuations will, sooner or later, undergo a significant downward normalization, i.e. de-rating. Potential catalysts for such a market development could include the continuation of the current (secular?) trend of relatively weak free cash flow dynamics among U.S. technology giants, or even a pronounced absolute decline, due to unprecedented capital expenditures (CAPEX) on new data centers and related AI infrastructure. Another possibility, which cannot be ruled out as well, is that the return on incremental invested capital (ROIIC) from these current investment outlays will on average turn out to be significantly weaker than most investors presently expect.

Indeed, total equity return has four principal fundamental drivers: revenues dynamics, net profit margin change, P/E valuation change and dividend yield. Taking into account the fact that net profit margins and P/E ratios are currently at or near all-time highs, the total equity return contribution of these two drivers will be quite likely much weaker during the upcoming decade compared with the past decade. That is why, if we are going to assume in our base case scenario a similar revenues dynamics and realized dividend yields in the upcoming decade as in the past decade – some might argue though that this is a rather optimistic proposition, especially in terms of the expected revenues growth – the probability of much lower total equity returns over the upcoming ten years seems to be quite high.

Financial markets insights of the month

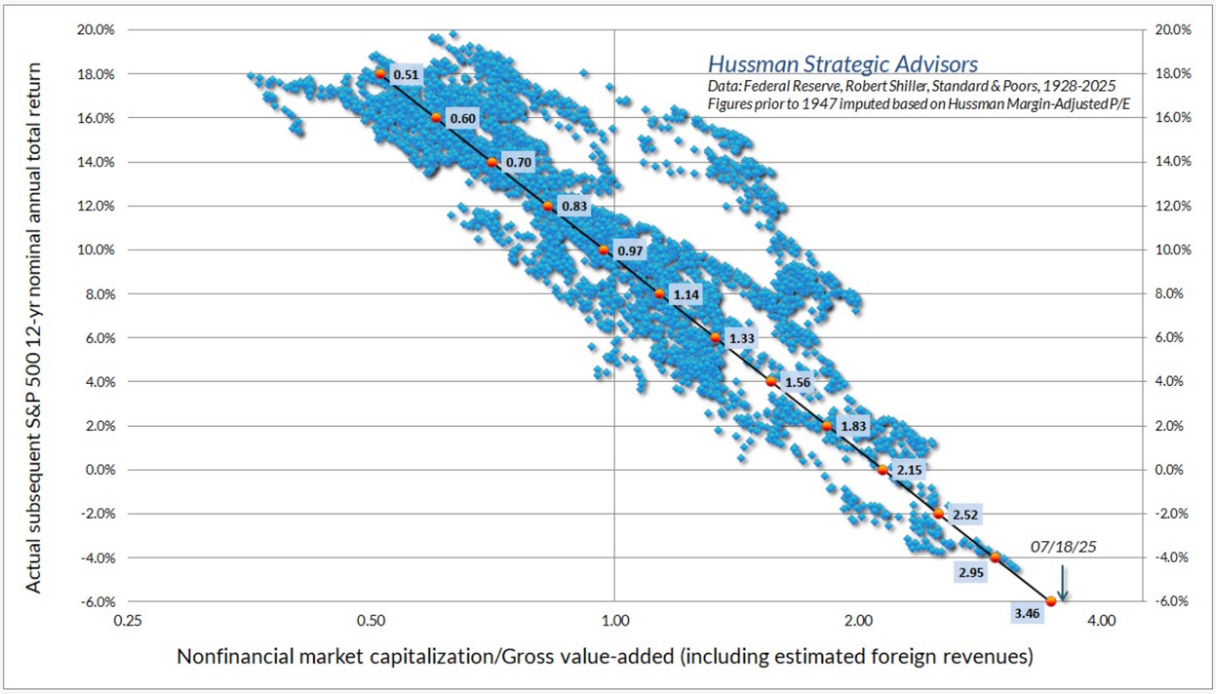
Beyond US exceptionalism: The case for emerging markets

Laurent Millet, CFA

Portfolio Manager, NordIX European Consumer Credit Fund

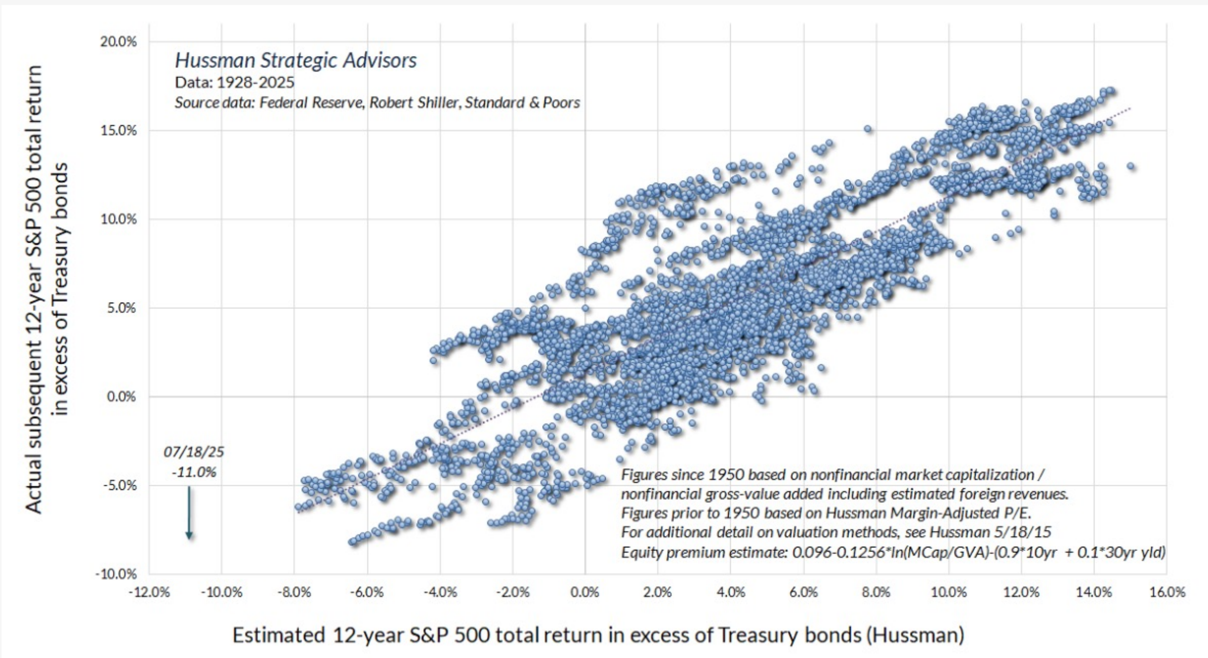
Valuations are not a reliable tool for short-term market timing. Near term price movements reflect sentiment, liquidity conditions, and shifts in investor psychology far more than underlying fundamentals. Over longer horizons, however, valuations assume decisive importance. The return an investor ultimately earns is determined by the price paid for a stream of future cash flows. Valuations act as a gravitational anchor on long term performance. High starting multiples reduce prospective returns; low multiples enhance them.

John Hussman's favourite valuation gauge is the ratio of nonfinancial market capitalization to gross value-added (GVA). This measure anchors market prices to the underlying economic output of US companies rather than to earnings, which can be distorted by temporary margin fluctuations or accounting adjustments. GVA, as a measure of corporate value creation, proves more stable and less susceptible to manipulation, providing a stronger foundation for valuation analysis. Historically, this ratio has demonstrated a remarkably tight relationship with subsequent ten-to-twelve-year S&P 500 total returns, with correlation coefficients exceeding 0.90. Hussman regards it as the most robust and reliable indicator of long-term market outcomes.



https://www.hussmanfunds.com/comment/mc250720/

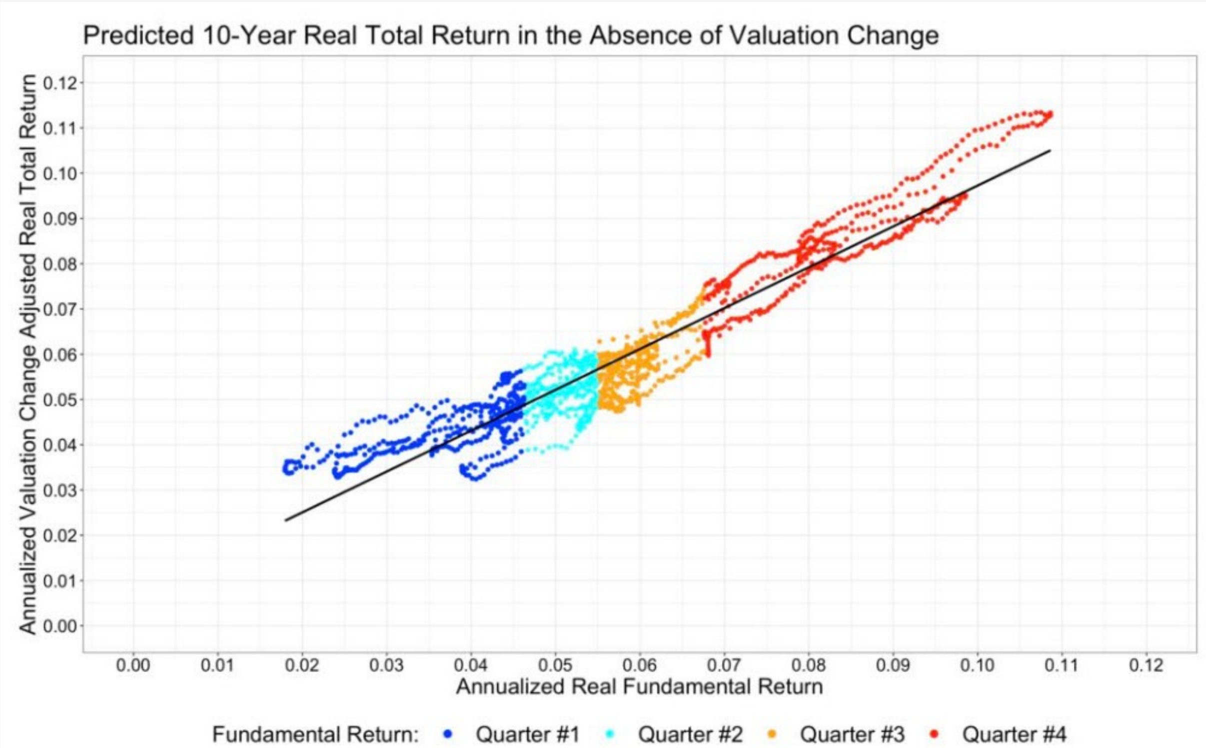
Today, this ratio stands at its highest level on record, materially exceeding the peaks observed prior to the 2000 and 2008 market cycles. Historical patterns at these valuation extremes suggest that S&P 500 returns over the next decade are likely to be negative in absolute terms, even assuming valuations merely revert to trend rather than overshoot downward. Relative to bonds, US equities now appear more overvalued than at any point in modern market history. The equity risk premium has compressed to levels that offer no meaningful compensation for bearing equity risk.



https://www.hussmanfunds.com/comment/mc250720/

Valuations as destiny: What you pay determines what you earn

The extreme readings in Hussman's preferred gauge illuminate a broader reality: valuations are not merely useful for framing long term expectations; they are the primary force that drives them. This conclusion is supported by more than a century of market history. Drawing on 142 years of data spanning 1881 to 2023, Markku Kurtti demonstrates that valuation changes remain the dominant influence on equity returns even when measured over the longest horizons. Valuation shifts account for 72.6 per cent of return variability over forty-year periods. Price movements generate their own narratives, creating feedback loops that influence investor behaviour and market dynamics. Meanwhile, the real fundamental return from US equities, defined as dividend yield plus earnings growth, has remained remarkably stable at 5.5 to 6 per cent regardless of prevailing valuation levels.



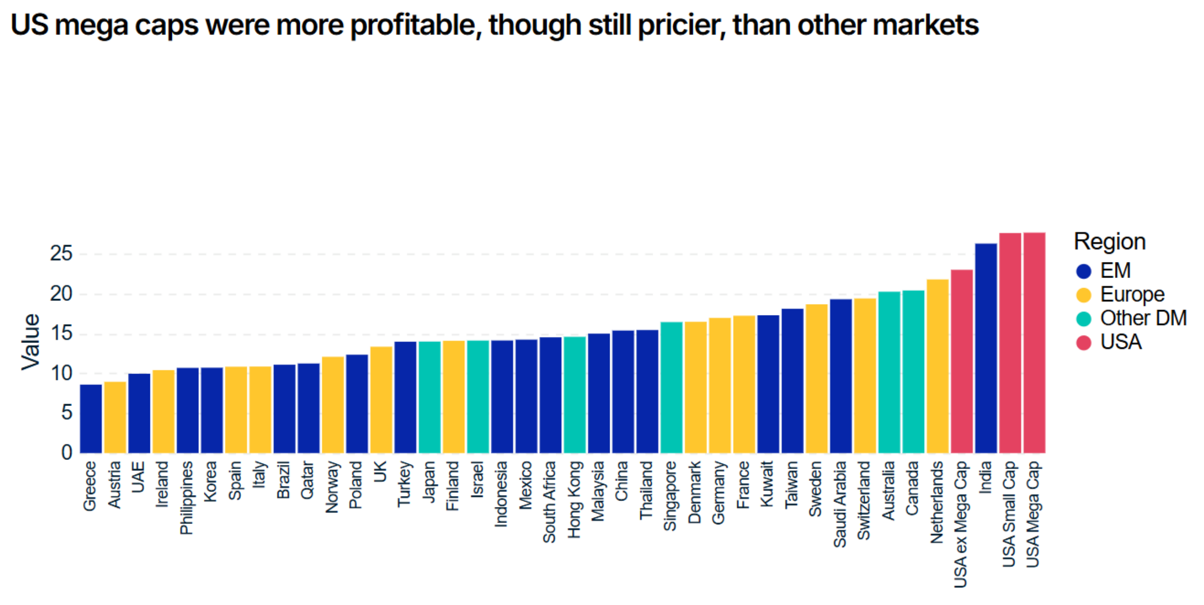
https://outcastbeta.com/a-voting-machine-or-a-weighing-machine/

US equities have delivered approximately 13 per cent compounded annual returns since 2010. That outcome reflected revenue growth of roughly 5 per cent, margin expansion of 3 per cent, multiple expansion of 3 per cent, and dividends of 2 per cent. Investors appear to assume such performance can continue indefinitely. The United States now represents two thirds of the MSCI All Country World Index, up from 43 per cent in 2010, whilst its forward price earnings multiple has risen from 15 times to 23 times. Valuations will eventually matter. To replicate the past fifteen years, S&P 500 net profit margins would need to expand further from already elevated levels, whilst price earnings multiples would need to climb to 34 times. Such assumptions appear implausible, particularly in an environment no longer characterised by steadily declining bond yields.

Beyond career risk: Criteria for thoughtful diversification

Whilst US equities are unattractively valued, investors are unlikely to eliminate them entirely. The career risk would be prohibitive given that US equities represent more than 70 per cent of the MSCI World Index. The relevant question, then, is which equity markets would best complement a reduced US allocation. The ideal alternative should differ meaningfully from what it is designed to complement. It should be driven by different economic factors, valued at a material discount, and sufficiently robust to withstand political and economic shocks.

The straightforward answer is that reducing US equity exposure whilst increasing global ex US allocation would very likely improve portfolio risk reward. The valuation gap between the United States and the rest of the world now stands as wide as at any point in modern history. Many international equities already offer high sustainable dividend yields. Layering in even modest sales growth, slight margin improvement, or a gentle re-rating of multiples produces total return expectations in the low double digits. These prospects compare favourably with the US market, where forward returns depend heavily on ever higher valuations and ever-expanding margins.



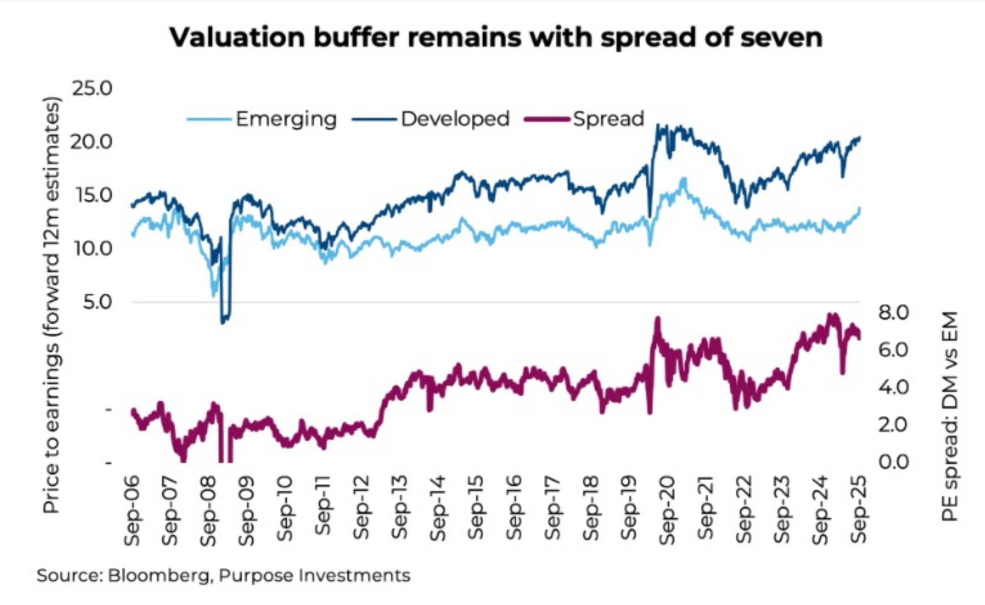
https://www.msci.com/research-and-insights/blog-post/five-takeaways-for-country-investing-from-2025-historic-equity-shift

Within the global ex US opportunity set, emerging markets warrant particular attention. They offer not merely a valuation discount, but a convergence of structural improvements, cyclical tailwinds, and sectoral advantages that together present a compelling case for meaningful allocation. The irony is that the institutional risks investors associate with emerging markets may now be more pronounced in the market need to be fleeing.

The valuation gap and a decade in the wilderness

https://www.purposeinvest.com/thoughtful/has-the-emerging-market-winter-thawed

Emerging markets have significantly underperformed the United States over the past decade. This prolonged weakness has left many trading at substantial discounts, both absolute and relative to US equities. Emerging markets now account for only 10 to 15 per cent of global equity market capitalisation. This represents a meaningful allocation, yet one insufficiently large to command universal attention, allowing many investors to overlook the asset class entirely. Their indifference has been reinforced by years of disappointing relative performance. Based on Bloomberg equity indices, emerging markets delivered an annualised return of approximately 5 per cent over the past fifteen years. Developed markets, by contrast, generated roughly 11 per cent, with developed international equities contributing approximately 7 per cent even excluding the exceptional performance of the United States. Such persistent underperformance has created what might fairly be described as a long winter for emerging markets.



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For investors with long term horizons and contrarian inclinations, such valuation gaps offer the prospect of superior returns. Historically, valuation discounts in emerging markets were justified by slower growth expectations and elevated risk. The picture today is markedly different. Growth momentum in emerging economies now exceeds that of developed markets, yet current valuations fail to reflect this strength. The disconnect suggests meaningful upside potential as prices have not adjusted to improving fundamentals.

Institutional transformation: Twenty years of reform, one crisis to prove it

Emerging market central banks have undergone a remarkable transformation over two decades. The Peterson Institute documents a doubling of transparency scores since 1998. Most adopted inflation targeting frameworks after 2005. Chile, the Czech Republic, Hungary, South Korea, and South Africa now match advanced economy transparency levels. Communication improved substantially, with policy statements becoming clearer and more accessible. Central banks strengthened their independence and analytical capabilities, incorporating macroprudential considerations into monetary policy frameworks.

Emerging market central banks decisively outperformed the Federal Reserve and European Central Bank during the Covid crisis and its aftermath. The data is compelling. Emerging market central banks began tightening monetary policy in spring 2021. The Fed and ECB continued their accommodative stance for another year. This timing difference proved critical. By moving early, emerging markets avoided the sharp, disruptive rate increases that later characterised advanced economy policy.

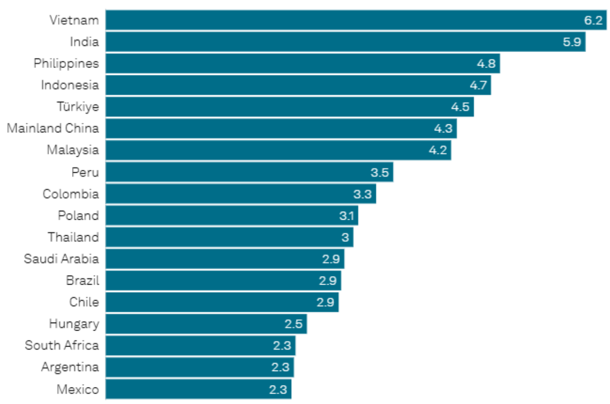
During previous crises, emerging markets faced devastating capital outflows when advanced economies tightened policy. This cycle proved different. Capital outflows remained manageable. Exchange rate pressures stayed contained. Outside a handful of small markets with idiosyncratic difficulties, emerging economies navigated the cycle with unexpected stability. Stronger institutions, broader capital markets, and more diversified economies have rendered the asset class considerably less fragile than in past episodes. Banking sectors in emerging markets proved highly resilient, avoiding the stresses that plagued Silicon Valley Bank and Credit Suisse.

Most remarkably, emerging markets have begun easing policy ahead of advanced economies. This reversal of traditional sequencing represents a historic first, attributable to their earlier and more gradual tightening cycle. Banks had time to adjust balance sheets. Financial stability risks remained contained.

Four percent growth in a two percent world

Emerging markets have traditionally been perceived as fragile, vulnerable to country specific risks and external shocks. Today, however, they exhibit stronger macroeconomic discipline and greater resilience, particularly as developed markets contend with rising fiscal pressures and decelerating growth.

Vietnam, India to top annual GDP growth over next decade (%)
Average annual GDP growth 2024–2035



Data compiled Sept. 18, 2024.
Source: S&P Global Market Intelligence.
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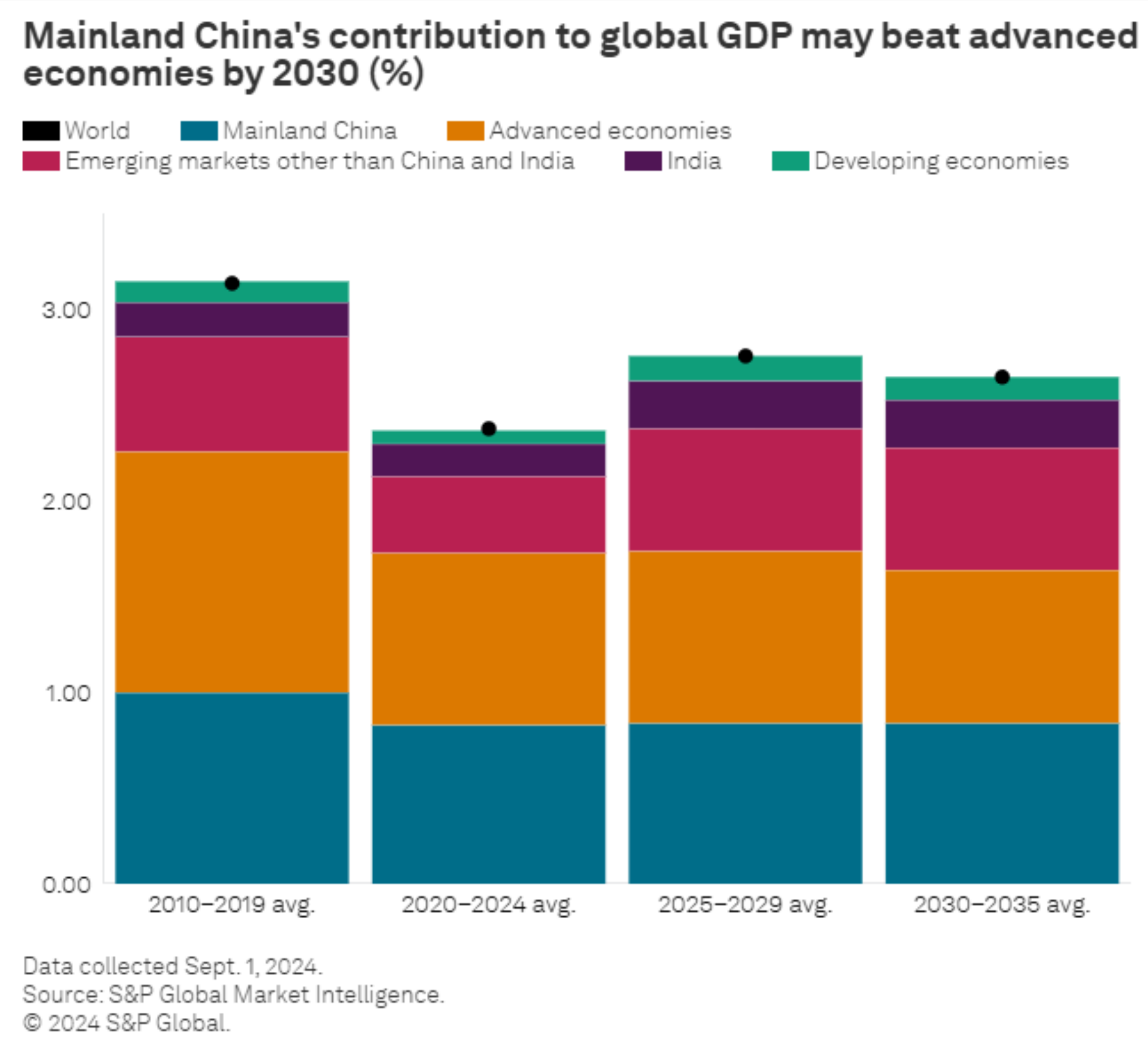


https://www.spglobal.com/en/research-insights/special-reports/look-forward/emerging-markets-a-decisive-decade

Emerging markets are positioned to play an increasingly important role in shaping the global economy over the coming decade. According to S&P Global, their GDP is projected to grow at an average annual rate of just over 4 per cent through 2035, compared with less than 2 per cent for advanced economies. By that point, emerging markets are expected to account for approximately 65 per cent of global economic expansion. Much of this growth will originate in Asia Pacific, led by China, India, Vietnam, and the Philippines. India is on course to establish itself firmly as the world's third largest economy, whilst Indonesia and Brazil are projected to rank eighth and ninth respectively.

Fiscal positions provide further support, with average government debt just above 60 per cent of GDP compared with more than 100 per cent in developed markets. This divergence reinforces the strategic appeal of emerging markets within global portfolios.

Dollar weakness and capital flow dynamics

Investors who remain heavily concentrated in US markets face not only the risk of valuation contraction but also forgo the potential benefits of currency and valuation mean reversion elsewhere.

Figure 3: Citi US dollar real effective exchange rate (1989 - present)

Source: Citi Broad Real Effective Exchange Rate Index – US dollar. Data from March 31, 1989 to July 2, 2025.

https://www.invesco.com/apac/en/institutional/insights/fixed-income/weak-dollar-strong-emerging-markets.html

The US dollar has been exceptionally strong in recent years, supported by higher relative interest rates and persistent global demand for safe assets. Yet on most measures of purchasing power parity, it appears overvalued. Should the dollar weaken, as it has during previous cycles, this would provide an additional tailwind to international equity returns. With the Federal Reserve expected to begin easing policy, downward pressure on the currency seems likely to persist. Beyond monetary policy considerations, growing concerns about the sustainability of US fiscal deficits weigh increasingly on sentiment. Annual deficits are approaching two trillion dollars, with federal spending near seven trillion set against revenues of only five trillion.

https://www.purposeinvest.com/thoughtful/has-the-emerging-market-winter-thawed

A weaker US dollar would provide a significant tailwind for emerging markets. Dollar weakness enhances emerging market performance through several channels: it improves trade competitiveness, encourages capital inflows, and supports local currencies. The appeal is further amplified by the high real interest rates prevailing across many emerging economies, which enhance the relative attractiveness of their currencies to global investors.

From headwind to catalyst: The Fed's coming pivot

With the Federal Reserve now preparing to ease, what represented a significant headwind has the potential to become a meaningful tailwind for emerging markets. Emerging market equities have historically outperformed developed markets during periods of US monetary easing. Whilst exceptions exist, notably during the Asian financial crisis and the Covid era of extraordinary quantitative easing, the broader pattern has remained intact. With the Federal Reserve expected to begin lowering rates in September 2025, the coming cycle may once again catalyse relative outperformance.

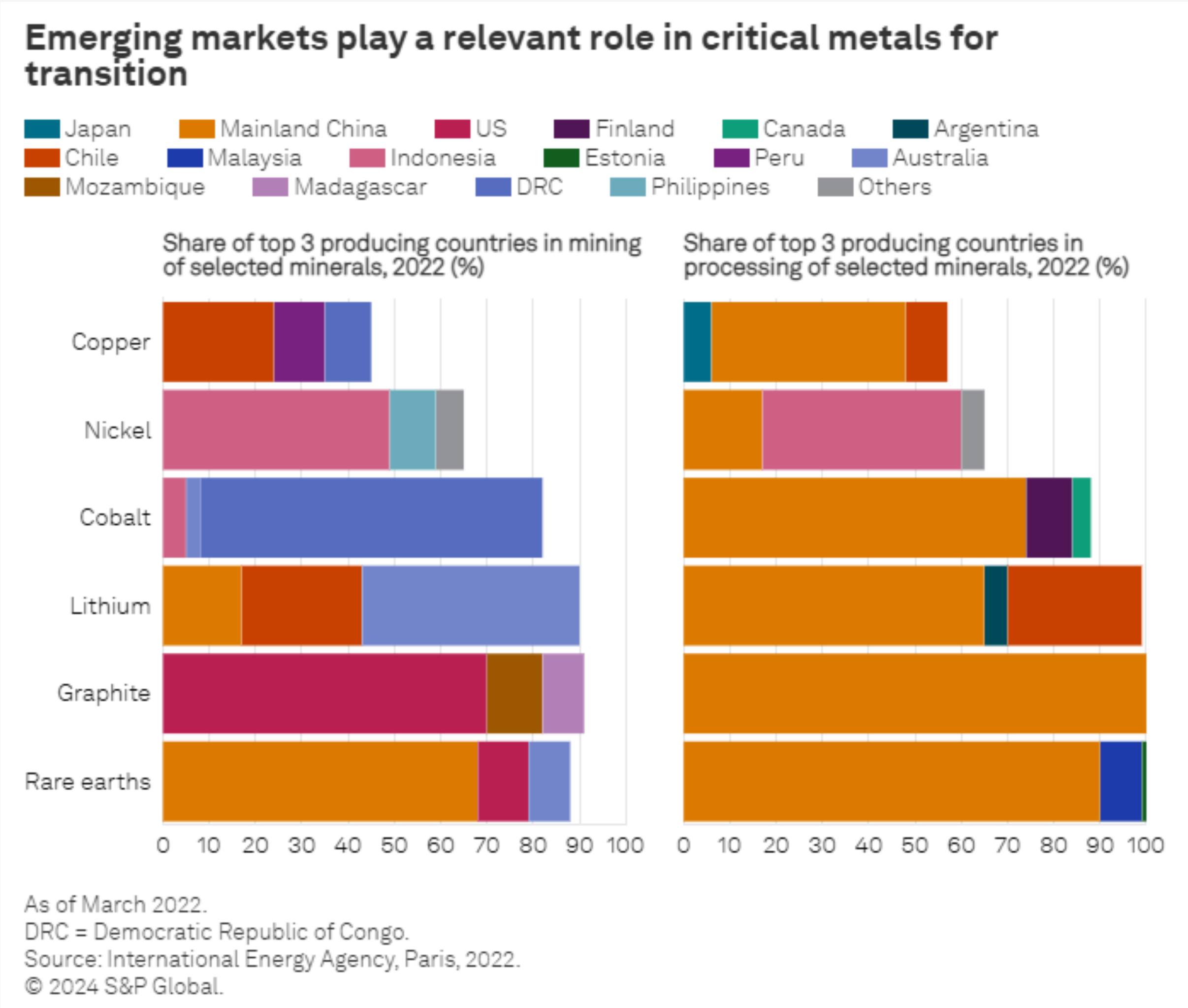
Lower US rates typically ease global financial conditions, affording emerging market central banks greater scope to reduce their own rates. Seventeen of nineteen major emerging economies are already cutting rates, a dynamic that supports domestic growth and equity market performance. The backdrop proves particularly constructive for markets driven by domestic demand and idiosyncratic growth stories. Lower borrowing costs encourage credit expansion, investment, and consumption, reinforcing the positive impact of stronger fundamentals and compelling valuations. Against this setting, the Federal Reserve's shift toward easing adds a further layer of support to the emerging market case.

Owning the supply chain for the next decade

Two of the defining economic themes of the coming decade, the energy transition and artificial intelligence, share a critical characteristic: emerging markets dominate the essential supply chains. This positions the asset class to benefit structurally from secular trends regardless of near-term cyclical fluctuations.

Copper, lithium, and the infrastructure of tomorrow

The global drive to accelerate the energy transition and meet sustainable development goals will place emerging markets with abundant critical minerals firmly in the spotlight. Demand for copper, cobalt, nickel, and lithium is expected to grow at an exceptional pace given their essential role in electric vehicles, batteries, and renewable energy infrastructure.



https://www.spglobal.com/en/research-insights/special-reports/look-forward/emerging-markets-a-decisive-decade

A joint study by S&P Global Market Intelligence and S&P Global Commodity Insights projects that copper demand, vital for electrification, will double from 25 million metric tonnes today to approximately 50 million by 2035. Lithium demand is expected to rise even more steeply. According to a 2021 European Parliament report, Europe alone would require consumption to increase eighteenfold by 2030 and sixtyfold by 2050 to achieve its transition targets.

China already dominates mining and processing capacity across copper, cobalt, nickel, and lithium. Chile and Peru remain central to copper supply, whilst Indonesia has established itself as a leader in nickel production. Efforts by advanced economies to diversify sources and secure long-term access will likely channel significant investment into emerging markets with substantial mineral reserves.

Technology dominance at value prices

Even for those most convinced of artificial intelligence's transformative potential, emerging markets arguably represent the most compelling route to meaningful exposure. The technology sector constitutes approximately 22 per cent of the MSCI Emerging Markets index, rendering it the second largest sector allocation behind financials. This weighting, however, belies the sophistication and strategic importance of emerging market technology companies, which represent world leading franchises across semiconductors, electronics, hardware, software services, business process outsourcing, and cloud infrastructure.

The structural tailwinds supporting AI related products are proving particularly advantageous for Asian technology manufacturers. Taiwan's semiconductor foundries produce approximately 90 per cent of the world's most advanced chips, whilst South Korea commands roughly half of global solid state memory supply. This represents a remarkable shift in the industry's centre of gravity: whereas the United States and Europe dominated semiconductor production in 1990, accounting for just over 80 per cent of global output, today both regions combined represent a mere 23 per cent of manufacturing capacity. Asia now accounts for the balance. Moreover, up to three quarters of the suppliers serving the so called Magnificent Seven are domiciled outside the United States, concentrated primarily across East and Southeast Asia.

The frequently cited concern regarding potential Chinese aggression towards Taiwan warrants examination, though perhaps not the conclusion typically drawn from it. The reality is that any material disruption to Taiwanese semiconductor production would prove catastrophic for the Magnificent Seven themselves, given their near absolute dependence on TSMC and other Taiwanese foundries. Similarly, the critical minerals and rare earth elements essential to AI infrastructure are predominantly sourced from emerging markets. In short, if the Taiwan risk materialises, developed market technology equities would suffer comparable, if not greater, impairment. The geopolitical risk, therefore, represents a systemic concern rather than a discriminating factor between market exposures.

For emerging markets investors, this presents a compelling opportunity: exposure to companies possessing comparable market dominance, growth trajectories, and operational quality to their US technology counterparts, yet trading at materially more attractive valuations.

Redefining stability in a changing world

It is worth observing, with only slight provocation, that US markets now exhibit characteristics once considered the preserve of emerging economies. Political risk has escalated sharply. The rule of law operates under unprecedented strain. The current account deficit persists at levels that would trigger alarm were they observed elsewhere. Central Bank independence, long a cornerstone of American institutional credibility, faces open challenge from political leaders demanding monetary accommodation despite elevated inflation. The currency has become the primary shock absorber for mounting fiscal imbalances.

More troubling still is the erosion of foundations upon which American exceptionalism was built. Political interference in markets and regulatory agencies has intensified. Legal mechanisms have been deployed against political opponents with increasing regularity. Dirigisme, traditionally associated with less market-oriented systems, has gained bipartisan acceptance. The emergence of strongman politics, irrespective of party affiliation, undermines institutional norms that once clearly distinguished developed from developing markets.

The irony is difficult to ignore. At precisely the moment when emerging market central banks have strengthened their independence, improved their transparency, and demonstrated superior crisis management, their American counterpart faces pressure to subordinate monetary policy to political expediency. Whilst emerging economies have worked systematically to enhance institutional quality and reduce arbitrary interference, the United States appears to be moving in the opposite direction.

That US equities command their highest valuation premium in history precisely as these institutional fundamentals deteriorate borders on the absurd. Markets are pricing in perpetual American exceptionalism at the very moment its foundations crumble. The disconnect between price and underlying quality has rarely been more pronounced.

The genuinely attractive risk reward may now reside in markets where institutional reform advances rather than retreats, and where the trajectory points toward greater rather than diminished credibility.

Financial markets insights of the month

AI euphoria is back, at least for now

Tomáš Pfeiler, CFA

Portfolio Manager, Cyrrus

In August, there were mounting signs that AI euphoria started to abate. MIT study warned that companies are reaping only minimal revenues from this technology. Results of Nvidia failed to reignite broader enthusiasm about artificial intelligence. However, September brought a series of encouraging news which reinvigorated investor confidence.

First of all, upbeat guidance of Oracle surprised the market. Larry Ellison, its founder, claimed that "AI will change everything". Company's shares leaped 36 per cent after the release of its earnings report. Stocks of the other AI-related companies surged as well.

Nvidia, the leading chip designer, embarked on a buying spree in September. It announced the acquisition of 4 per cent stake in its struggling rival Intel for an amount close to 5 billion dollars. Such a transaction sent Intel's shares soaring. They strengthened 23 per cent after the deal announcement. This kind of partnership is beneficial for both sides. It is a vital infusion of capital for Intel. It will also grant the company a better access to the market for AI chips. For Nvidia, the key gain is the consolidation of its supply chain.

Nvidia also announced a more important transaction. It plans to invest 100 billion dollars in OpenAI. While $5bn for a stake in Intel is pocket money for Nvidia, $100bn is a substantial sum even by its standards. Nonetheless, the amount is not a lump sum. It is a total figure that the chipmaker will invest over several years. The first $10bn tranche will not be spent until the first half of 2026.

It is obviously disputable whether such a giant transaction pays off. Critics argue that AI is still a closed ecosystem and the monetisation of this technology is lamentably slow. On the other hand, optimists point to robust free cash flow that Nvidia generates – it should surpass 72 billion dollars in 2025. Therefore, the chipmaker will not run out of money. The tie-up with OpenAI can help Nvidia to fortify its dominant position in AI-related infrastructure. It will be detrimental to main competitors such as Broadcom.

The deal with OpenAI is associated with building of new data centres. Nvidia estimates around 10GW of computing power will be built over following years. Morgan Stanley suggests that infrastructure investments of this magnitude will require spending of 600 billion dollars and Nvidia could reap around $350bn – a considerable part of it. Therefore, the alliance with OpenAI can pay off handsomely for the leading chip designer. Its stock climbed after the announcement and the total market cap is now above $4.5tn.

While the euphoria around AI propelled broader US indices to all-time highs, there are doubts about deployment of this technology among corporations. In regulatory filings for the SEC, companies often mentioned that they are not sure how exactly can the AI transform their business models or help to generate meaningful growth.

Lot of enterprises invest into AI because of the FOMO. They fear, their competitors will simply outinvest them, securing an edge in the future. Thus, lot of companies just recklessly spend on artificial intelligence features or infrastructure without seeing clear benefits for their businesses.

At this stage, there is no reason to believe, the positive sentiment will turn sour in the short-term. However, the stock market's narrow focus on the AI narrative is extremely dangerous. Any signs of slowdown might send equities into turmoil. The so-called DeepSeek effect is a horror scenario. If it turns out that large language models can be developed at fractional costs, a violent unwinding of entire AI-driven rally is quite probable.

Financial markets insights of the month

European banks: What's fuelling the 2025 rally

Ondřej Koňák

Founder, NAVCalc

In 2025 so far, European banks have staged one of the strongest performances in decades. Once considered underperformers plagued by weak margins, regulatory burdens, and legacy issues, they have become a leading sector in Europe's equity market.

Banks drive European equity outperformance

European equities have been strong performers in 2025, with the Stoxx Europe 600 Index posting robust gains in the first half of the year. Banks played a central role in this rally: the Stoxx Europe 600 Banks Index gained 29% in 1H25 — its strongest first-half performance since 1997. This re-rating has pushed many bank shares to levels not seen since before the global financial crisis, supported by robust dividends and large-scale buyback programs. This shift shows how quickly sentiment can turn once structural weaknesses are perceived as addressed.

Key drivers behind the rally

Here are the main positive forces driving this outperformance:

Driver	Why it helps banks
Higher interest rates & favorable yield curves	With ECB having raised rates substantially, banks are benefiting from wider net interest margins. The recent cuts are fewer, and inflation is nearer target, giving banks some certainty. **In practice, the traditional lending model — once squeezed by years of near-zero rates — has become profitable again.**
Strong internal capital & regulatory positions	Many European banks entered this cycle with better CET1 capital ratios than in the past cycles. That gives them room to absorb shocks, return capital or invest. **Investors often underestimate how different the sector looks today compared to 2008** — balance sheet resilience is no longer in doubt.
Resilient macroeconomic backdrop	Growth in the euro area is modest but stable, inflation is approaching the ECB's medium-term target and unemployment is low. That means less downside from credit risk or major recessions.
Investor rotation & valuation gap vs. U.S.	European banks had long traded at a discount to their U.S. peers, but 2025 has seen a marked shift. Valuations have re-rated as investors sought yield and more stable performance outside the U.S. It also helped that many institutional investors reduced exposure to U.S. markets amid a volatile political backdrop, reallocating capital to Europe. With banks representing around 12% of the Stoxx Europe 600 Index — these inflows have provided a disproportionate boost to the sector. It is rare to see macro flows and sector-specific fundamentals align so strongly in favor of European financials.

Emerging risks & caveats

While the current outlook is favorable, several risks could limit further upside or even reverse some gains. These are important for investors to watch:

1. **Rate cuts & margin squeeze**: The ECB has paused its rate cuts and many analysts believe further rate reductions may be limited. If interest rates decline sharply, or if yield curves flatten too much, banks' interest margins could be squeezed.
2. **Credit quality & non-performing loans**: The ECB has signaled concerns especially for smaller banks: new guidelines require them to increase provisions for old bad loans. Some smaller institutions have higher exposure to NPLs.
3. **Regulatory, political & tax risks**: Political uncertainty in certain European jurisdictions could lead to unexpected regulatory interventions, especially around consumer lending costs, bank fees, etc.
4. **Valuation fatigue**: Given the sharp run-up in share prices, much of the good news may already be priced in. There's risk of a setback if macro data disappoints or if markets move to price in worse outcomes (e.g., recession, inflation surprise). This is why the rally, while impressive, should not be mistaken for a one-way trade.

What to watch next

The rally in European banks may not be over, but the next leg will depend on several moving parts. **ECB policy remains critical** — further rate cuts or a flatter yield curve could pressure margins, while sticky inflation would extend the current sweet spot. **Credit quality** is another area to monitor, especially in sectors exposed to higher financing costs such as construction, transport, automotive or real estate.

For investors, banks now combine income and recovery potential but selectivity is key — stronger balance sheets and diversified business models are better positioned than smaller peers still carrying legacy or high-debt exposure. Valuations have moved higher, so discipline matters: much of the easy re-rating is already priced in. Put simply: this is a sector to own selectively, not indiscriminately.

ConclusionEuropean banks in 2025 have defied expectations: rising from problem sector to one of the strongest beneficiaries of current monetary and economic trends. The convergence of favorable interest rates, relatively stable inflation, capital strength, and investor rotation has created a sweet spot for the sector.

Yet, this is not risk-free or assured. **The next 12-18 months will likely reveal whether this is a structural re-rating — one tied to lasting improvements in profitability, asset quality, and regulation — or a cyclical peak driven by temporary conditions.** For long-term investors, the challenge is to separate structural change from cyclical noise — and position accordingly.

Corporate finance insight of the month

The interplay of ROIC and growth (On ROIC part II)

Matúš Strážnický

Analyst/Investor

The July issue of PFI, highlighted the usefulness of the ROIC profitability ratio and the importance of benchmarking it against the WACC. To expand this ROIC – WACC framework one can introduce a third factor: growth.

By growth we mean topline expansion – revenues or sales (whether from a business, CAPEX expansion, project or investment). While ROIC helps investors understand the efficiency and structure of capital deployment, the topline sets the ultimate ceiling the entire P&L/Cash Flows cascades down from.

How does the internal setup drive growth?

An analyst or investor takes on a holistic view of a company's revenue generation setup and spends effort estimating its growth path. Through the ROIC lens, recall that: **ROIC = NOPAT / Invested Capital**.

Here, the numerator (NOPAT) reflects both endogenous and exogenous influences, while the denominator (Invested Capital) is internal piping of the business model itself. If we set aside external influences and focus primarily on business mechanics, we arrive at central relationship: Growth (a) = ROIC (b) x Reinvestment Rate (c).

- Growth (a) represents the expansion of the business itself.
- ROIC (b) incorporates both top line and internal setup and the attentive reader will recognise that this already connects closely to the cash flow metrics.
- The Reinvestment Rate (c) expresses how much of NOPAT is allocated back into the business to generate future growth (a proxy for free cash flow reinvestment).

Ultimately, a company must continually reinvest – whether to sustain, improve or defend its growth. It does not occur in isolation (although many times it appears so), it is always the result of reinvestment opportunities and the returns that can be achieved on them.

This interplay between **growth and its sustainability** remains a constant point of debate between growth and value investors. ROIC provides the right framework for extending that discussion.

First, the smart investor would like to see **ROIC > WACC – the fundamental test of value creation**.

Second, one must ask: at what growth and reinvestment rate does the ROIC-WACC dynamic play out? Consider two competitors:

- **Company A**: 5% Growth = 20% ROIC x 25% Reinvestment Rate
- **Company B**: 5% Growth = 10% ROIC x 50% Reinvestment Rate

For Company B to match the growth of Company A, it must reinvest half of its NOPAT, due to its structurally lower ROIC. Faced with an imminent investment decision, the rational investor would prefer Company A, which combines i) higher ROIC (optimistically, above its WACC) and ii) lower Reinvestment Rate as the lower Reinvestment Rate is freeing up capital to be deployed elsewhere.

This illustrates why **focusing on ROIC has greater value-generating potential than chasing growth**. Asset-light companies (with low Invested Capital) often achieve high ROICs well above their WACC, these are the popular "growth" stocks and ventures able to reinvest whole compounding returns. Capital-intensive businesses, on the other hand, struggle to chase growth as they are forced to improve internal efficiency.

Thoughtful value creation stems not from growth alone, but from reinvesting capital at consistently high returns. This is why ROIC serves as the clearest guide for long-term investors. When applying the ROIC framework, the second step is to examine growth—its drivers and its sustainability.

Banking sector insight of the month

Chase in Germany: J.P. Morgan's bid to redefine European retail banking

Michal Mesík, CFA

Financial Risk Manager, European Investment Bank

J.P. Morgan, the largest retail bank in the United States and a top-tier global investment bank, is preparing to launch its digital banking brand, Chase, in Germany in 2026. This move marks a bold step in CEO Jamie Dimon's ambition to challenge European banking giants on their home turf—bringing American-style digital innovation to one of Europe's most traditional and complex retail banking markets.

The bank is no stranger to Germany. J.P. Morgan was the first foreign institution to enter the German market after World War II, establishing its presence in 1947. Since then, it has built a strong foothold in investment banking, corporate finance advisory, and corporate banking. Following Brexit, the bank consolidated its European operations in Frankfurt and has increasingly served the backbone of the German economy—its renowned Mittelstand companies.

However, the German retail banking market presents a different challenge. Margins have historically been extremely low, supported by a dense network of local banks and limited competition. Personal relationships with bankers still play a significant role. Profitability is further sustained by widespread joint liability schemes, such as those in the Sparkassen sector, which help keep capital requirements relatively low. At the same time, the market has become a target for numerous fintech challengers.

Can J.P.Morgan disrupt this market with its Chase brand? The odds are promising. German banks have historically had elevated cost-income ratios of around 70%, which provides an interesting playroom. Chase is expected to start its German activities in the first half of 2026 and initially focus on savings products as it did in UK. In the UK, Chase has acquired approximately 2.5 million customers by offering attractive interest rates on deposits. The UK business is now on the verge of profitability after years of investment—a similar trajectory is possible in Germany.

One potential hurdle is the complex regulatory and legal environment, coupled with high capital costs. J.P. Morgan built a robust capital base in Germany during its transformation into a Societas Europaea in 2021, with capital of around €34 billion. This move placed the bank squarely on the radar of the European Central Bank (ECB). In the couloirs it is whispered that ECB has been quite strongly challenging the aggressive attempts of J.P.Morgan to optimise its capital structure and to keep the cost of regulatory compliance low. The bank has thus gained firsthand experience with European regulation, so increased scrutiny should come as no surprise.

Other U.S. banks have attempted to enter Europe with limited success, often hindered by regulatory complexity and local market nuances. However, thanks to J.P.Morgan's experience with retail banking in the U.S. I am moderately optimistic that the bank of Jamie Dimon can succeed at entering the German retail banking market.

Unlike others, like Goldman Sachs, J.P.Morgan has already a strong local presence in corporate and investment banking and is hiring local talent to tailor Chase's offering to the German customer. The bank has lately been massively investing in technology and has proven the willingness to invest for the long-term, absorbing early losses in pursuit of long-term growth, as demonstrated in the UK.

If Chase can replicate this trajectory, it will not only disrupt the German market but also redefine digital banking across Europe. Unlike previous U.S. entrants, J.P. Morgan appears equipped to navigate the regulatory terrain and tailor its offering to local needs—making this expansion one to watch.

Czech M&A market insight of the month

Czech football under new ownership – Domestic billionaires reshape the game (2025)

Adam Friedl

Deal Advisory, M&A – Supervisor,
KPMG Czech Republic

The year 2025 has reinforced a clear trajectory: some of the country's wealthiest entrepreneurs are taking direct ownership of leading Czech football clubs. What began with Slavia Prague's return to domestic hands in late 2023 has evolved into a series of transactions this year, confirming a broader shift from foreign to domestic ownership with longer-term commitments. This new wave combines financial strength with ambitions to improve infrastructure and youth development, setting the stage for a more professionalized era in Czech football.

FK Teplice – Accolade acquires 100%

In April 2025, Czech investment group Accolade acquired 100% of FK Teplice from AGC Glass Europe, which had owned the club since the early 1990s. The agreement makes Accolade the new owner of the football club, its stadium, and related assets. While the deal ends more than three decades of foreign ownership, AGC will remain a sponsor of the club. According to statements from both parties, the cooperation is set to continue off the pitch, particularly in the area of youth development.

Accolade, led by Milan Kratina and Milan Kratochvíl, specializes in industrial real estate and infrastructure projects across Central Europe. Its entry into football represents a diversification into a regional asset with strong visibility.

Zbrojovka Brno – Vojtěch Kačena acquires 80%
In July 2025, billionaire Vojtěch Kačena acquired an 80% stake in Zbrojovka Brno, with the previous owner OneCap retaining 20%. His financial commitment makes Brno one of the best-funded clubs in the second division.

Kačena, who controls the energy-tech group Second Foundation, has outlined plans to build a new stadium financed entirely from private resources and to establish a modern youth academy. Second Foundation, founded in Prague in 2019, is active in energy trading and technology solutions, including algorithmic trading, market-making, and integration of renewable and storage assets.

FK Pardubice – Kaprain acquires 70%
In August 2025, the Kaprain Group, owned by Czech investor Karel Pražák, acquired approximately 70% of FK Pardubice. Minority shareholders remain in place. Kaprain, which already has a strong industrial presence in the city through chemical company Synthesia, intends to link sponsorship and sporting support with its regional activities. The investor stressed its commitment to both the first team and youth development.

Viktoria Plzeň – Majority acquired by Michal Strnad
In September 2025, Michal Strnad, owner of Czechoslovak Group (CSG), agreed to acquire a majority stake in Viktoria Plzeň from Swiss-Austrian investors. The deal is subject to competition authority approval. Strnad emphasized that the acquisition is a private investment, separate from his defense business.

Adolf Šádek, long-time chairman of the board and chief executive, will continue in his role and retain a minority stake. Another minority shareholder remains Swiss businessman Martin Dellenbach, ensuring continuity alongside Šádek. Strnad, born in 1992, is among the youngest Czech billionaires. Under his ownership, CSG has grown into a major Central European industrial holding with operations in defense, automotive, rail, and aerospace, employing over 10,000 people and exporting to more than 60 countries.

Sigma Olomouc – Sigma Sport becomes sole owner
Also in September 2025, SK Sigma Olomouc underwent the most significant ownership change in its history. Local investment vehicle Sigma Sport, part of the Olomouc-based Sigma Group, acquired 99% of the club from the member association SK Sigma Olomouc MŽ. The city of Olomouc, which held the remaining 1% share, agreed to transfer its stake as well, consolidating full ownership under Sigma Sport.

Financial terms were not disclosed, though reports suggested a valuation in the hundreds of millions of Czech crowns. Sigma Group, a long-standing sponsor of the club, is owned by local industrialist Milan Šimonovský. The new structure is also supported by local business partners, including billionaire Pavel Hubáček (Creditas Group) and developer Richard Morávek (Redstone), who joined as major sponsors.

The new owners plan to strengthen the club's financial base, invest in youth development, and modernize facilities. A new youth training center has been announced, alongside ambitions to keep homegrown players longer and regularly compete for top-six positions and European cups. The former association, which had controlled Sigma for decades, will remain involved in grassroots development and facilities management, ensuring continuity for the academy.

Slavia Prague – Precedent set by Pavel Tykač
This wave of transactions follows the precedent set in December 2023, when billionaire Pavel Tykač acquired Slavia Prague from Chinese owner CITIC Europe Holdings. Tykač became the sole owner of the club and its Eden stadium, restoring Slavia to domestic ownership and stabilizing its finances.

Strategic outlook
These transactions illustrate a broader pattern: Czech billionaires are no longer acting merely as sponsors but are stepping into majority ownership roles, combining financial resources with strategic oversight. Their focus is on infrastructure, professionalized academies, and stronger regional ties.

For the Czech M&A landscape, the trend mirrors dynamics in other sectors: a return of ownership to domestic capital, longer investment horizons, and reduced reliance on foreign owners. Whether this translates into lasting sporting and financial stability will become clear in the years ahead.

Private equity insights of the month

Trends shaping the 2025 private markets landscape

Matěj Kumstýř

Asset Manager, RSJ Investments

From time to time, it is appropriate to revisit the key trends shaping the PE industry and strongly emphasized by investors (LPs) and managers (GPs). These topics are currently among the most frequently discussed within the global PE community.

AI is increasingly becoming a tool in investment evaluation, applied in two main ways. The first is in the assessment of new investments, where an AI tool reviews the investment materials in a given sector across the fund's history (sometimes going back as far as 20 years) and evaluates the subsequent performance and accuracy of the original assumptions. This, of course, eliminates the need for investment directors to painstakingly recall how decisions were made two decades ago. The second application is in sourcing, where PE funds are beginning to use AI tools for data mining across all available companies in order to pre-select suitable targets.

The PE industry continues to deliver excess returns compared to public markets. According to the latest studies from the Institute for Private Capital, excess returns have historically hovered around 2–3 percentage points. More interestingly, private equity-backed companies grow roughly 7 percentage points faster and on average achieve margins 1–1.5% higher. What also stands out is that this excess return, in risk-adjusted models, does not hold for VC funds, which across large samples perform in line with public markets. In venture capital, it is truly only the top funds that generate outsized profits.

Over a 20-year horizon, the PE industry has consistently produced excess returns, but in recent years the S&P 500 has outperformed. The key question, of course, is to what extent this is riskier given the concentration in the 'Magnificent 7'. Still, the underperformance of PE is apparent in the last two years. Looking back, however, the PE market experienced a similar phase after the Global Financial Crisis, putting us now in a situation comparable to 2013. Funds raised in those years went on to deliver standard results with excess returns of 2–4%. The open question remains whether PE is entering a period of lower returns or at the start of a new positive cycle. Much will depend on the direction of public markets, which currently sit at historically high levels.

Semi-liquid structures in PE are still growing. In recent years, many semi-liquid funds have been launched, including by the world's largest PE firms. Even so, they currently account for only around 5% of all PE capital. By 2035, estimates suggest this share could grow to 20%. While this is notable growth, for institutional investors (pension funds, insurers, endowments, large family offices) semi-liquid solutions remain uninvestable. Entry and exit at quasi-market pricing is still seen as a conflict of interest, particularly in the buyout segment.

Liquidity in PE remains constrained. Before COVID, the PE industry distributed 20–25% of capital back to investors annually; today, the figure is still closer to 12%. This naturally forces LPs to commit new capital. At the same time, LPs and GPs are drawing closer together. The low level of distributions—driven by a weak IPO market and greater macro volatility that hinders exits—is pushing LPs and GPs to cooperate more and engage in deeper dialogue.

The secondaries market is growing and thriving. Secondary markets for PE fund interests continue to broaden. Given the tougher exit environment, funds are turning to solutions that can offer liquidity to their investors. LP-led secondaries, where LPs sell stakes at a discount, are seeing the rise of mega-funds (including semi-liquids) that have raised significant capital and now need to deploy it. These funds are effectively vacuuming up everything on the market, which may reduce returns in the future. A major growth area is GP-led transactions, where a manager extends the investment horizon of a portfolio company by raising capital through GP-led secondaries to create and finance a continuation vehicle. The logic is simple: if a company is growing and has strong margins, there is no reason to sell prematurely. We are even beginning to see so-called "GP-led squared" deals, where a continuation vehicle is created for an existing continuation vehicle. While an interesting trend, it increasingly resembles perpetual ownership without a clear investment horizon—almost akin to public markets.

The ESG trend in PE has been losing steam. According to the latest AlixPartners IPEM Allocation and Fundraising Trend Report 2025, ESG has slipped from the top of LP and GP agendas toward the bottom. What was once an absolute 'must' has moved to the margins with rising geopolitical tensions. From a supply-and-demand perspective, the greatest oversupply of capital today is in green and climate-tech funds that continue to push this theme.

Private equity insights of the month

Efficiency defines the next tech M&A wave

Lukáš Baloga

Private Markets Professional,
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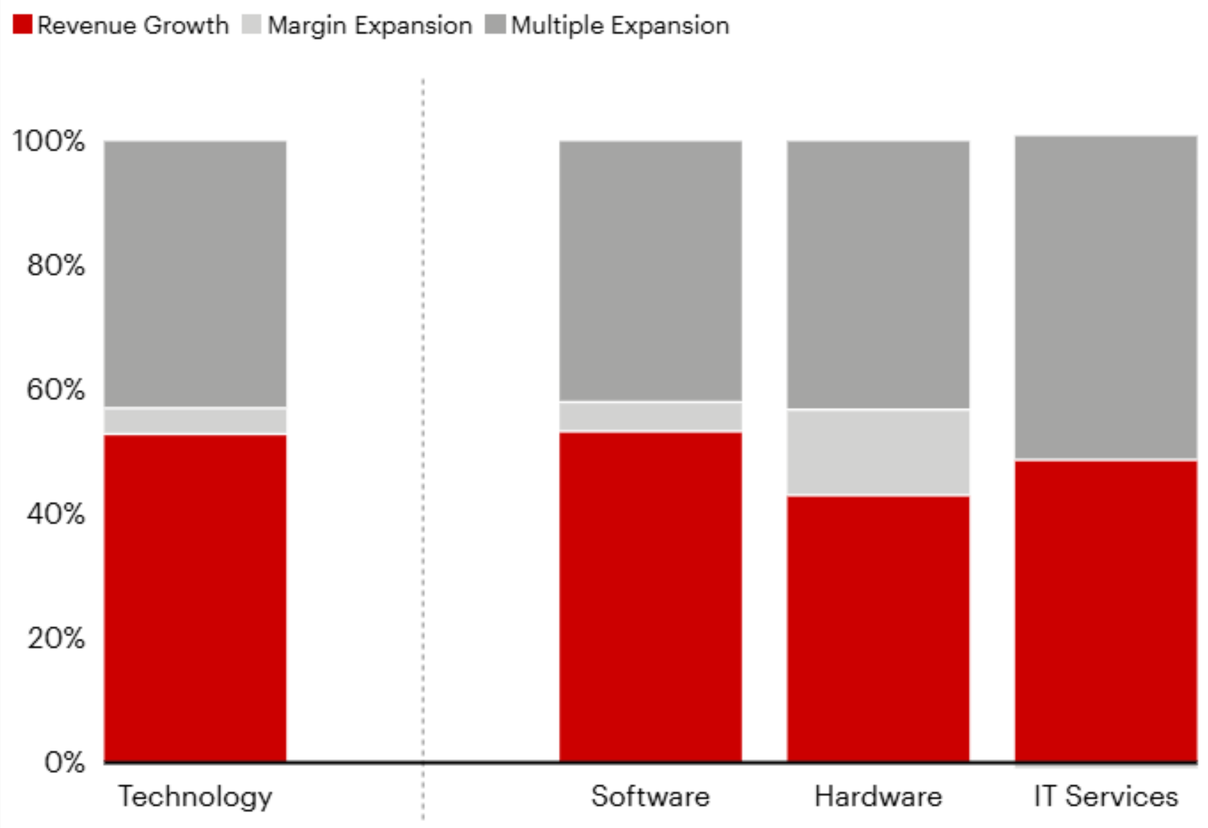
The technology sector has long been in focus, but today's policy shifts, regulatory inertia, and geopolitical uncertainty have impacted global dealmaking. With protectionist trade policies threatening cross-border flows, one question stands out: is betting on technology the most proprietary M&A play left?

After a fast start to 2025 technology amount of dealmaking has not been immune to tariff-related uncertainties and geopolitical tensions, even as its share of overall activity, particularly in North America, has continued to grow.

This raises a critical question: what is the main driver of value in the technology sector—revenue, costs, or multiples?

Bain's M&A Report on North American technology deals (2010–2024) found that revenue growth accounted for 53% of total value creation, driven mainly by expanding into new markets, upselling existing customers, and raising prices. Nearly as much value (43%) came from multiple expansion, as the ongoing boom in technology dealmaking steadily pushed acquisition prices higher. Margin improvement, by contrast, contributed only 4%.

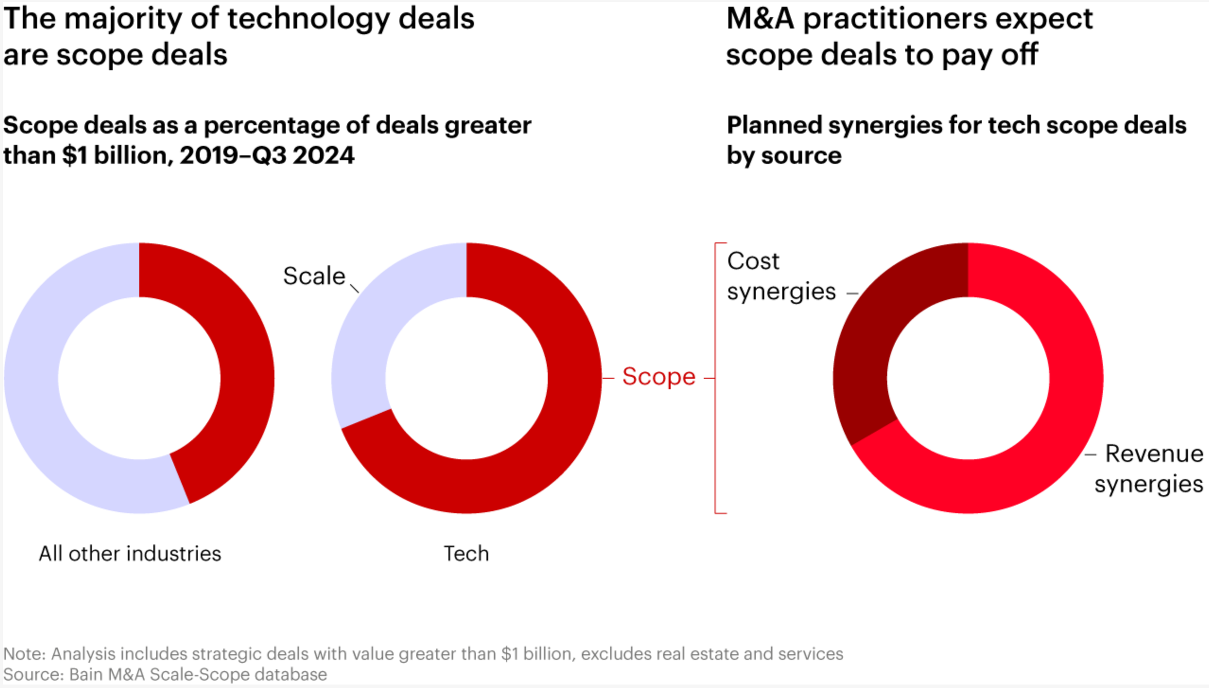
Median indexed of buyout/growth deals in North America (2010-24, in USD)



Source: Bain & Company – Technology Report: Deals Rise in 2025, But Easy Wins May Be Over (Sep 23, 2025)

Will revenue growth and multiple expansion remain the primary engines of tech M&A value creation, or will today's higher interest rates and tighter financing conditions change the trend?

As previous graph analysing the technology market since 2010 showed the technology industry's appetite for growth-oriented scope deals has been clear. As the market environment changed mega deals (greater than 1 bil. USD) dramatically altered the rules of the game for tech scope deals, and companies need to change their approach to synergies with tighter debt covenants and greater investor scrutiny on margins as well as growth, technology acquirers can no longer rely solely on revenue-synergy theses. Even in scope deals, achieving meaningful cost synergies has become essential to meeting return expectations.



Source: Bain & Company – Technology Report: Deals Rise in 2025, But Easy Wins May Be Over (Sep 23, 2025)

Many indicators suggest that technology investing is undergoing a fundamental shift. The "easy money" era of acquiring promising companies and benefiting from explosive revenue growth and expanding multiples is fading. As penetration curves flatten and overall software spending slows, revenue growth can no longer be taken for granted. Future returns will rely less on market momentum and more on identifying new sources of revenue and driving margin expansion through operational excellence.

Real estate insight of the month

Data center demand keeps growing

Peter Šulan

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Data centers are not a niche real estate asset anymore. They are the basis for everything we do online, from streaming to AI and demand just keeps surging. However, the supply cannot keep up.

According to CBRE, the vacancy in the data center sector in the United States fell to a record-low of 1.6% in the first half of 2025, even though the top four markets expanded its inventory by 43% year over year. Rents in the main hubs have been rising at double-digit rates to about $217.30 per kW per month. The situation in Europe is also tightening across the main markets (Frankfurt, London, Amsterdam, and Paris), vacancy fell to 7.4% in Q1 2025, and rents have reached $180 to $215 per kW per month.

Why cannot supply keep up with demand? The main constraint is not land, buildings, or fiber. It is deliverable grid power. Energy companies cannot connect large new loads fast enough, so projects need to wait for substation capacity and network upgrades. In the United States, facilities that began operating in 2023 took roughly five years from interconnection request to go-live. Even where lines exist, long-lead electrical equipment and local permitting still extend project schedules.

AI boom and limited data center capacity resulted in strong returns in 2024, which exceeded 25% (DLR +36%, EQIX +19%). However, in 2025, prices have adjusted - data center REITs have fallen by approximately 10.8% since the beginning of the year, despite ongoing demand for additional capacities and solid fundamentals. The main reasons for the decline include:

- Earning outlook - Equinix reduced its long-term growth outlook for its AFFO (Adjusted Funds From Operations) per share from 7-10% to 5-9%. This was seen as disappointing by many investors who had assumed higher growth.
- Interest rates - Long-term government bond yields remain high despite monetary policy easing, increasing borrowing costs for capital-intensive REITs and making bond yields more competitive relative to dividends. This puts pressure on multiples in interest rate-sensitive sectors.
- Timing risk - Ongoing delays caused by network queues, equipment delivery times, and approval processes are leading to delays in launches and cash flow, which is reducing valuations.

US REITs - Investment Performance by Property Sector

Sector	Number of Constituents	Total Return (%) 2024	Total Return (%) 08/2025: YTD	Dividend Yield (%)
FTSE Nareit Equity REITs	134	8,73	3,35	3,94
Data Centers	**2**	**25,22**	**-10,83**	**2,61**
Industrial	12	-17,78	6,51	3,83
Office	17	21,50	-3,15	4,55
Retail	29	14,01	5,07	4,66
Residential	18	12,83	-3,79	3,78
Diversified	12	-10,01	18,80	5,91
Lodging/Resorts	12	-2,00	-6,12	5,03
Health Care	17	24,18	21,34	3,14
Self Storage	5	-0,52	-0,90	4,38
Timberland	3	-16,27	-2,94	3,52
Telecommunications	4	-14,15	10,73	3,41
Gaming	2	-1,13	14,20	5,48
Specialty	8	35,90	-1,20	4,19

Source: FTSE™, Nareit®.

For those interested in investing in data centers, the options are very limited. Currently, only two pure data center REITs are listed on US stock exchanges: Equinix (EQIX) and Digital Realty (DLR). Other players had already been taken private - QTS was acquired by Blackstone for $10 billion in 2021, American Tower acquired CoreSite Realty Corporation also for $10 billion in 2021, and CyrusOne was acquired by KKR & GIP for $15 billion in 2022. Within Europe, there are no REITs focused exclusively on data centers and investors typically engage in general-purpose REITs that develop powered shells or complete facilities such as SEGRO (SGRO), which recently also formed a joint venture with Pure Data Centres Group to build a £1 billion fully equipped data center. However, there is a new player going public - Fermi (FRMI), whose shares will commence trading on October 1, 2025, on the NASDAQ and London Stock Exchange. The company aims to raise more than $682,5 million through this IPO.

Behavioral finance insight of the month

The disposition effect: Why we celebrate too soon and hope for too long

Jana Přílučíková, PhD

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

What is the disposition effect?

The disposition effect, first identified by Shefrin and Statman (1985), describes a strikingly irrational pattern in investor behavior:

- Premature selling of winning investments – investors often "lock in" gains too quickly by selling profitable assets, even when fundamentals suggest further growth.
- Reluctance to sell losing investments – at the same time, investors hold on to losing positions for too long, hoping for a turnaround that rarely comes.

These two moments – the quick celebration of a modest gain and the stubborn patience with a painful loss, capture one of the most powerful behavioral biases in finance – the disposition effect.

At its heart lies a key motive — the attempt to minimize feelings of regret (known as regret avoidance). Investors tend to avoid the negative emotional reactions associated with unsuccessful investments. Realizing a loss transforms hope into failure and triggers regret; realizing a gain brings immediate relief and closure. This asymmetry explains why investors sell winners too quickly and hold losers too long.

The disposition effect directly contradicts the traditional economic principle of rational decision-making, where agents are assumed to maximize utility and minimize losses. Instead, it reveals the deeply human side of markets — a bias that pushes us away from rationality and toward emotionally driven choices.

Prospect Theory and CPT connection

Prospect Theory helps us understand why this happens. Investors tend to evaluate outcomes relative to a reference point, most often the purchase price. Selling below it feels like failure, selling above it feels like success. Cumulative Prospect Theory shows how distorted probability weighting reinforces the tendency — we tend to overweight the chance that losers might recover and underweight the chance that winners may rise further.

This paradox contradicts classical economic theory, which assumes rational agents maximize expected utility. Instead, psychological forces and emotional biases drive investors' actions.

The behavioral roots of the disposition effect

The disposition effect can be explained through several behavioral mechanisms:

- Loss aversion (Kahneman & Tversky, 1979): The pain of realizing a loss outweighs the pleasure of realizing a gain, leading investors to delay selling losers.
- Regret avoidance: Selling at a loss triggers strong feelings of regret, so investors postpone the decision.
- Mental accounting: Gains and losses are evaluated relative to the purchase price, not absolute value.
- Framing effects: Experimental evidence shows that how gains and losses are presented (frames) can amplify the disposition effect.

Looking ahead

The disposition effect remains one of the central puzzles in finance. While Prospect Theory captures much of it, critics argue that emotional, cultural, and even biological factors are not yet fully accounted for. Recent research in hedonic psychology, epigenetics, and neuroplasticity suggests that our financial biases are not fixed; they can be reshaped through awareness, experience, and training.

Understanding and mitigating the disposition effect is more than an academic exercise. For investors, it can mean the difference between portfolios that stagnate and portfolios that grow.

The lesson for investors is clear: the disposition effect is powerful, but not inevitable. With discipline and awareness, we can avoid celebrating too soon, stop hoping for too long, and instead make choices that truly serve our financial goals.

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Blockchain technology and digital assets insight of the month

The rise of digital asset treasury companies

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The digital asset sector has undergone a profound shift this year, driven by the rapid surge of treasury companies – publicly traded entities that allocate substantial portions of their balance sheets to cryptocurrencies like Bitcoin, Ethereum, and Solana. This approach, which first gained traction five years ago, has accelerated in 2025, attracting over 200 companies often from unrelated industries. These companies raise capital via equity issuances, private investments, or at-the-market programs to build cryptocurrency reserves, effectively turning their stocks into leveraged proxies for digital asset exposure while exerting significant influence on market dynamics.

This trend has evolved from an experimental tactic into a core structural element of the markets. In total, treasury holdings now exceed $128 billion, a modest yet impactful share of the $3.9 trillion global cryptocurrency market cap. Bitcoin dominates, with accumulations surpassing 810,000 BTC - valued at approximately $93 billion and representing about 4.07% of its 19.93 million circulating supply. Ethereum positions have expanded notably to over 3.68 million ETH, worth around $14.7 billion or 3.05% of its 120.7 million circulating supply, while Solana holdings reach 14.38 million SOL at $3.02 billion, equating to approximately 2.5% of its 575 million circulating supply. Momentum persists through steady inflows: thousands of BTC, tens of thousands of ETH, and millions of SOL added weekly, providing consistent buying support that stabilizes prices and reduces short-term fluctuations.

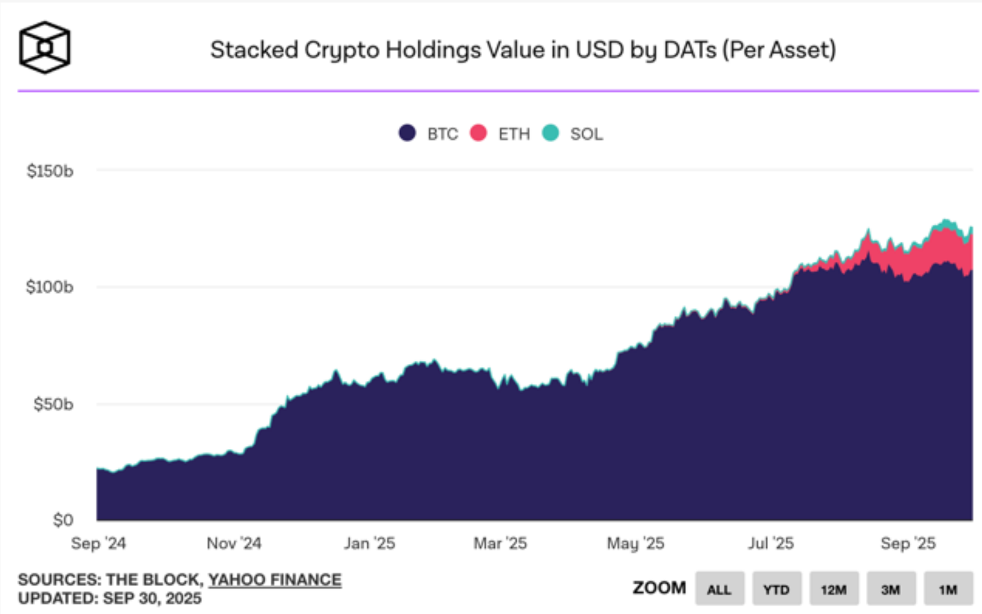
Prominent examples include Strategy's vast Bitcoin portfolio of 640,031 BTC, which has yielded billions in unrealized gains through strategic capital deployment. Ethereum-focused firms like BitMine stake their entire 2.65 million ETH holdings for annual yields, highlighting the appeal of proof-of-stake assets over Bitcoin's pure store-of-value model. Solana's high-speed network and staking returns around 6.65% attract similar commitments, notably through Forward Industries' $1.65 billion funding initiative to acquire 6.82 million SOL. Diversification is also underway, with emerging positions in tokens like XRP - targeting nearly $1 billion - and SUI, broadening the strategy beyond the leading assets.

Share prices in this space frequently trade at premiums to net asset value, sometimes as high as 175%, allowing for efficient fundraising where proceeds acquire more cryptocurrency than the dilution incurred. However, strains are emerging: roughly a quarter of U.S. treasury stocks now sit below net asset value, indicating investor weariness from frequent equity raises. Sharp declines in cases like KindlyMD - down 96% from peaks - and widening discounts for ALT5 Sigma illustrate the pitfalls in an increasingly saturated field.

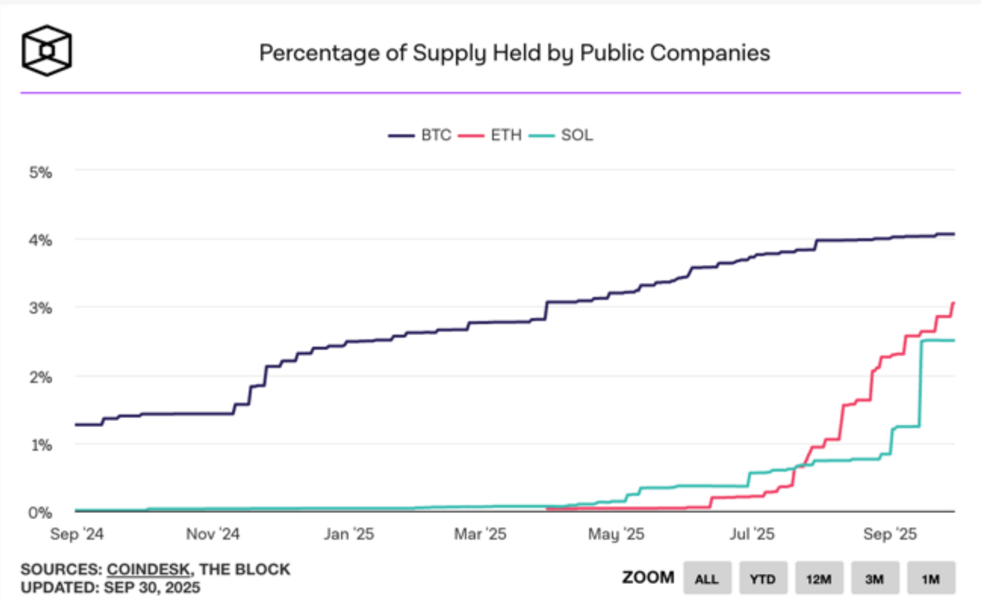
These treasury companies generate positive cycles, where capital inflows enable further acquisitions and price uplift, but they also embed risks. Premiums could erode, prompting asset sales for share repurchases and downward pressure on cryptocurrency values. Bitcoin's limited supply heightens dilution challenges, unlike Ethereum and Solana, where yields offer growth without constant capital needs. Broader uncertainties include scrutiny of unusual trading before announcements and the risk of liquidations in a market correction, which could tighten links between equities and digital assets, potentially spiraling declines.

Ethereum's supply and demand dynamics have shifted notably in Q3 2025, with recent corporate purchases outpacing net issuance, a trend that has tightened supply and fueled upward price pressure. This imbalance, driven by treasury companies aggressively accumulating over 3.68 million ETH, far exceeds the network's modest issuance of roughly 0.1 million ETH monthly, amplifying scarcity. A similar dynamic is now unfolding with Solana, where surging demand from firms like Forward Industries - holding 6.82 million SOL ($1.58 billion) - outstrips its issuance, hinting at a potential supply squeeze. Meanwhile, Bitcoin's market reflects a slower, steadier accumulation by treasury companies, with early leaders like Strategy solidifying dominance, though long-term holders offloading positions are capping price growth, creating a balanced yet constrained demand environment for now.

The model is likely to mature through protocol shifts toward yield-generating chains, blended operational structures, and consolidations where dominant firms absorb undervalued counterparts. A few leaders per asset may prevail, leaving others at persistent discounts. This development signals blockchain's deepening integration into finance, yet volatility underscores the need for prudence.



Source: https://www.theblock.co/data/treasuries/crypto-treasuries/stacked-crypto-holdings-value-in-usd-by-public-companies-per-asset



Source: https://www.theblock.co/data/treasuries/crypto-treasuries/percentage-of-supply-held-by-public-companies

Book review of the month

The Ascent of Money: A Financial History of the World, Niall Ferguson, 2009

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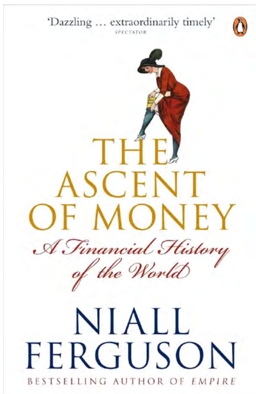
Financial historian Niall Ferguson wrote a truly outstanding book, covering the major topics of the financial history of the world. In only 370 pages he managed to touch in a relatively concise manner upon the following themes, just to mention the major ones:

- The House of Medici – An Italian banking family and political dynasty that first consolidated power in the Republic of Florence under Cosimo de' Medici and his grandson Lorenzo "the Magnificent" during the first half of the 15th century. First true banking dynasty in the world.
- The Rothschild family – The rise of the biggest financial dynasty, especially during the 19th century
- Napoleonic Wars (1803-1815)
- The birth of banking and bond market
- American Civil War (1861-1865)
- German hyperinflation after the First World War, primarily in 1923
- Elaboration on why (hyper)inflation is a political as much as a monetary phenomenon; case study: Argentina
- Evolution of the stock market, the birth of joint-stock limited company and financial bubbles; stock market bubble case study: the Mississippi stock bubble in France in 1720 (John Law's bubble)
- The US stock market bubble of 1929 and the subsequent Great Depression of 1929-1933; the US stock market declined a staggering 89% during the Great Depression of 1929-1933 and the stock market peak from 1929 was reached only in 1954
- Dot.com bubble of the late 1990s
- Enron scandal in 2001
- The evolution of risk management and insurance contracts
- The origins of welfare state; first in Germany, Otto von Bismarck's social insurance legislations at the end of 19th century



- The evolution of hedging instruments and derivatives
- The evolution of residential property market and mortgage loans, Savings & Loans crisis in the US in the middle of 1980s
- Long-Term Capital Management (LTCM) fiasco in 1998
- Subprime mortgages securitization, the US real estate bubble and the ensuing Global Financial Crisis
- The evolution of microfinance
- Key highlights of behavioral finance foundations laid by Daniel Kahneman and Amos Tversky

I have enjoyed reading this book so much that I cannot recommend it enough. Everyone interested in financial history should read it as well.

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 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)
- **Research** (PFI Monthly magazine)
- **PFI Scholarship**
- **Platform for sharing interesting job opportunities** in the financial sector
- **Social media**, especially LinkedIn

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