COMMENTARY ON FINANCIAL MARKETS 07/2023

Prague, 3 July 2023

Both Equities and Bonds Did Well in June

The equity markets strengthened again in June 2023, thus adding up to their growth recorded in the previous months. The U.S. equities' S&P500 Index rose by a fairly mighty 5.5 percent in June, having added on close to 16 percent since the beginning of this year. This year has also been successful for the other regions; for example, the German equities included in the DAX Index have increased by 18 percent and the Japanese Nikkei Index has grown by 17 percent since the start of the year 2023. And the prize-winner is: the Nasdaq Technological Index, which has gone up more than 31 percent this year (*Source: Bloomberg*).

The bond markets did not lag behind, either. Czech crown-denominated sovereign bonds with maturities in 3 to 5 years added almost 0.7 percent in June 2023, having risen by a total of 3.8 percent since the start of the year 2023 (*Source: Bloomberg*).

The reasons behind the current optimistic feelings prevailing in the financial markets have been, in particular falling inflation, and the ensuing potential lowering of interest rates. Prospective growths of corporate profits and revenues in the second half of this year represent yet another supporting factor (*Source: Bloomberg*). The Technological Sector further benefits from a wave of optimism regarding future exploitations of Artificial Intelligence.

On the other hand, there have existed potential risks in a slower reduction of inflation, as indicated by the recent surprise that the financial markets suffered regarding the value of year-to-year core inflation in the United Kingdom (reality +7.1 percent vs. anticipated 6.8 percent, *Source: Bloomberg*), or by still other steps taken by the central banks and their potential hawkish outlooks. The U.S. FED will be in a session in July and the markets expect further, and possibly the last hike of the interest rates within the present cycle, namely from the present-day 5.25 percent up to 5.50 percent (*Source: Bloomberg*). Comments issued by central bankers concerning future trends will be of interest, namely, whether they would admit further interest rates hikes or whether they would be satisfied with the currently set values.

Mr Michal Ondruška
Manager, Asset Management

Raiffeisenbank a.s. Hvězdova 1716/2b, PO box 64, 140 78 Praha 4, tel.: +420 234 401 111, fax: +420 234 402 111, e-mail: info@rb.cz, www.rb.cz, IČ: 49240901, zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051

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In the period to come, the confirmation of the trends of falling inflation, as well as real steps and rhetoric used by central banks will be of importance, but also – for example – the results reported by corporations regarding the second half-year of 2023, which sets off in full swing already this month. In the short-time outlook, technical correction of the previous major growths in equities cannot be excluded; however, such potential correction is seen here as an investment opportunity.

As regards the performances of the RIS unit funds, the month of June is rated as 'successful'. Also, that month brought about some opportunities for position trading. The continuing anxiety relating to ČEZ shares allowed for the generation of some short-term profits. The most frequent commercial instruments, though (in total 34 deals made in respect of some selected RIS funds), regarded iShares STOXX Europe 600 Basic Resources UCITS ETF. Its overall price fluctuation facilitated the execution of multiple cheap purchases and subsequent sales for higher prices. On the bond side of the RIS funds portfolios, purchases of Czech sovereign bonds took place, for example, those with maturity in 2031, but also bonds denominated in EUR and USD, implemented via Exchange Traded Funds, so-called ETF. This step resulted in a moderate extension of duration, so that the average maturities of the bonds contained in the majority of the bond portions of the RIS funds portfolios have been at least 4 years.

As far as our overall investment strategies are concerned, <u>we have further increased the share of equities as against bonds.</u> We have moved from a slightly overweight position in equities to a position characterised by medium overweighting as against bonds. The reason for this have been expectations of higher profits and revenues recorded by corporations in the months to come, accompanied by falling inflation, and including a possible drop in interest rates. As regards regions, we are overweight in North America and the emerging markets, while being moderately underweight in Europe and the Pacific. Among the sectors, we are overweight in the Technology Sector, the Industry Sector, and in the dividend-paying shares segment. As part of our bond strategies, we maintain longer durations (average maturities of bonds) as against bond benchmarks. We prefer sovereign bonds to corporate issues.

We wish you much success in the coming period!

For the Asset Management team,

Mr Michal Ondruška

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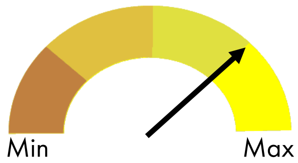
Summary of Investment Strategies:

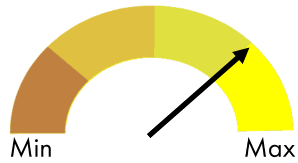
Tactical Allocation

Equity overweighted in portfolios

Current



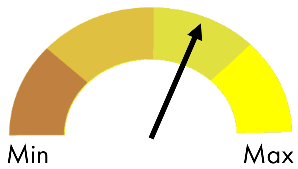
3M outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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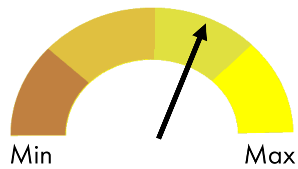
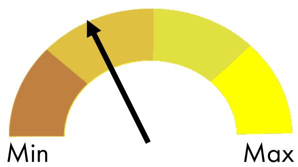


Credit Risk

Portions of, e.g., corporate bonds

Current



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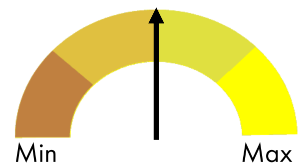
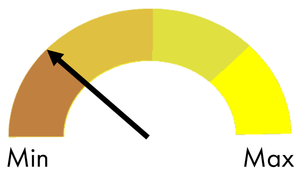


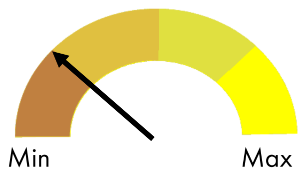
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 3 July 2023.

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