COMMENTARY ON FINANCIAL MARKETS 08/2023

Prague, 1 Aug. 2023

Equity Markets Accelerated Growth

The most closely watched S&P 500 Index strengthened by 3.1 percent in July. The reasons behind such strengthening were better than expected economic results reported by corporations in respect of the second quarter of 2023. Other positive factors included market expectations regarding a future drop in global inflation and reductions of interest rates. Already more than 50 percent of the S&P 500 Index corporations have published their results for the second quarter of this year; 80 percent of them generated better than expected profits per share.

Analysts' anticipations were exceeded in particular by the economic results of some major banks and technological firms, such as JPM, Bank of America, Google, Intel and Meta. Also the topic of Artificial Intelligence ("AI") continues to fill the pages of the mass media, thus upholding the equity markets.

In July, both the FED and the ECB increased their benchmark interest rates by 0.25 percent. The FED has risen its rate up to 5.50 percent, while the ECB's deposit rate reached 3.75 percent. The U.S. PCE price index has slowed down its growth from 3.8 percent, y/y, in May, down to 3.0 percent, y/y, in June. Estimates have it that the Euro Area inflation growth rate (CPI) would slow down to 5.3 percent, y/y, in July (*Source: Bloomberg*). Both central banks have indicated that certain additional macro-economic data will decide whether the rates would further climb or whether they have already reached their peaks.

The yield of the ten-year German sovereign bond fluctuates around 2.5 percent p.a., while the U.S. Treasury with an identical maturity oscillates around 4 percent p.a. In July, bond yields slightly increased both in the United States and in Germany, since in particular the U.S. labour market has been in a good shape and the performance of the U.S. economy has exceeded analysts' anticipations. Yet another reason behind the growing yields has been seen in the announcement of the Japanese central bank, the Bank of Japan, to the tune that it would allow the yield of the ten-year sovereign bond increase as much as up to 1 percent p.a., from the previous regulated level oscillating around 0.5 percent p.a. This piece of news also affected the U.S. bond market because financial markets are interconnected and Japanese investors hold large volumes of the U.S. Treasury. The yield of the Czech sovereign bond with a ten-year maturity was around 4.0 percent p.a. at the end of July because the market had already begun to speculate about a reduction of the benchmark interest rate in the Czech Republic by the end of this year. So far, the Czech National Bank ("CNB") sticks to a 7 percent p.a. benchmark interest rate. A CNB session planned for Thursday probably would not alter the rate (*Source: Bloomberg*).

Mr Michal Ondruška
Manager, Asset Management

This year, analysts foretell a moderate growth of the S&P 500 Index aggregated profit by 0.4 percent and of revenue by 2.4 percent. (*Source: FactSet*). Nevertheless, next year is supposed to witness a two-digit aggregated increase of the S&P 500 Index profits, which, along with declining inflation, can further help the equity markets.

The positive development affecting financial markets in the past month has also been reflected in the performances of the funds manage by Raiffeisen investiční společnost (RIS). Their growth was particularly contributed to by overweighting of equities as against bonds at the level of tactical allocation, as well as by suitable distribution of risk funds across regions, with preferences given to North America and the emerging markets, which performed better than underweighted European equities. On the bond side, good performances have been facilitated by longer average term to maturity (duration) of the bonds held.

As viewed by adjustments of the RIS funds' investment strategies, much has not changed in the past month; as an example, we can mention further moderate extension of both the Czech crown duration by purchasing the Czech sovereign bond with maturity in 2031, and extension of duration on the Dollar and Euro bond curve with the help of Exchange Traded Funds, so-called ETFs. On the equities side, let's mention partial collection of profits from local highs. The past month, too, allowed for sharing in higher equity markets volatility by generating some short-term profits. The iShares STOXX Europe 600 Basic Resources UCITS ETF again represented a favourite instrument (a total of 22 ventures relating to some selected funds).

The decisive factors for the further development of the equity markets, beside growing profits of the individual companies, include global inflation trends and an end to the cycle of central banks' hikes of their interest rates. Another further risk remains here, beside global inflation and the relating cooling down of the global economy, in the form of such geo-political factors as the war in Ukraine and the tension between Taiwan and PRC.

In the framework of our investments strategies, we continue to maintain over-weighted equities as against bonds. As far as regions are concerned, we overweight North America and the Emerging Markets, while slightly underweighting Europe and the Pacific Area. And as regards sectors, we overweight the Technologies Sector, the Industrial Sector, and the dividend-paying shares segment. Our bonds strategies favour the maintenance of longer average maturity of bonds (duration) 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,

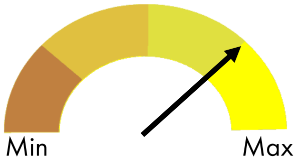
Mr Michal Ondruška

Summary of Investment Strategies:

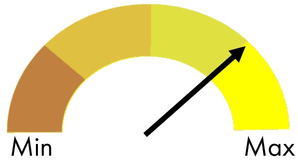
Tactical Allocation

Equity overweighted in portfolios

Current



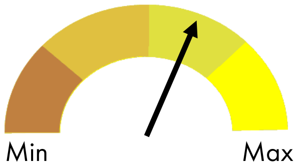
3M outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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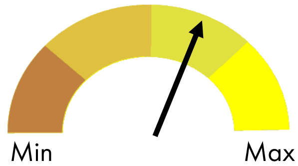
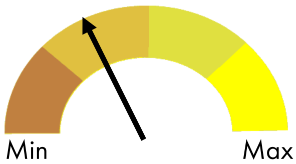


Credit Risk

Portions of, e.g., corporate bonds

Current



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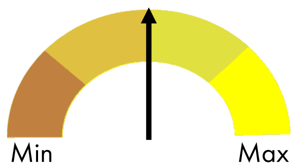
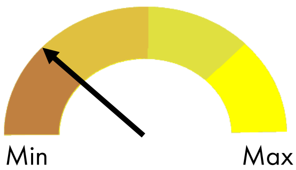


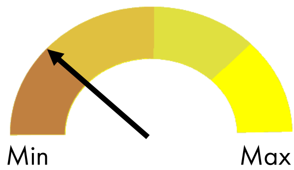
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 August 2023.

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