Prague, 1 Dec. 2020

Positive Mood at Equity Markets, Sector Rotation Continues

The presidential election in the U.S.A. has been decided as the Democratic presidential candidate Joe Biden prevailed. On the other hand, the Republicans are expected to have the upper hand in the Senate. This, however, is not going to be decided until Georgia holds its election at the beginning of January. If the Democrats should win the Georgia elections, though, everything may look quite different as regards the markets – see our Elections Special of 18 November 2020.

Positive moods prevailed at the equity markets last month, mainly due to the elections (it was presumed that the Senate would block any corporate tax increases) and also since production and distribution of the Covid-19 vaccines was supposed to be launched. The American S&P 500 Index increased by approximately 10.8 percent in one single month. It was mainly the cyclical sectors that came out as the winners last month; they thus made up for their previous losses. The best results were marked by the energy sector (28 percent), the financial sector (17 percent), the industrial sector (16 percent), and the materials sector (12 percent). On the contrary, the utilities sector (0.7 percent) and the real estates sector (+6.9 percent) did not do so well. However, the technological sector has been the most successful one since the beginning of the year, having increased by almost 35 percent; the energy sector performed the worst with a decline of 39 percent since the beginning of the year.

Next year, the aggregate increase in profits of corporations belonging to the S&P 500 Index is expected to increase by approximately 21.9 percent, y/y, while revenues are supposed to grow by approximately 7.7 percent, y/y (*Source: FactSet*). At the same time, analysts believe that rotations of sectors would occur, caused by higher profits generated by the cyclical sectors and a somewhat steeper yield curve also due to higher anticipated inflation.

The envisaged S&P 500 Index P/E of 21.7 in the coming 12 months is somewhat higher than its five-year average of 17.4 (*Source: FactSet*). Although the yield of the ten-year U.S. sovereign bond has grown from 0.70 percent to some 0.85 percent, its value remains low, which in turn supports the equity markets. Also, analysts mainly foretell further growth of the S&P 500 Index in the coming year. We have overweight portfolios.

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Although the central banks in general plan to maintain their interest rates unchanged next year, the markets have already begun speculating about a steeper yield curve and higher future inflation, mainly in the U.S.A. and in Prague. As a result, prices of bonds with longer maturity and fixed coupons have weakened, along with moderate increases in their revenues. Also, markets have experienced higher demand for currencies from the emerging markets, including the Czech crown. Therefore, the Czech crown strengthened significantly over the past month against both the EUR and the USD.

As we mentioned before, a Democratic majority in the Senate has been viewed as a risk for the markets, along with potentially increased corporate taxes, stricter regulation of businesses, and subsequent slowing down of the economic growth in the U.S.A. Moreover, a third Pandemic of the Corona virus would represent yet another risk for the equity markets and markets dealing in corporate bonds, unless early manufacturing and distribution of sufficient quantities of vaccines is launched.

November showed to be a very successful month for the funds managed by RIS. Its beginning saw significant adjustments in the applied investment strategy, with the goal of achieving higher profits from the envisaged fading of uncertainty surrounding the outcome of the U.S. presidential election, as well as investor optimism 'fuelled' by emerging reports of the successes of multi-producer vaccines against the Corona virus. Decisive importance was attached to further increasing of the equity component in our managed portfolios, which, for example, in the FWR Strategy 15 Fund with a neutral portion of shares at 15 percent of the value of assets, reached a stake of almost 24 percent at the end of the month. At the same time, we implemented some changes in the regional and sector structures of our investments into equities. Beside the current overweighing in American shares as against the structure of the global equity MSCI AC World Index, we have also given more confidence to stocks from China and South-East Asia, especially in connection with their successful fight against the ongoing Pandemic. As far as the sector structure is concerned, we increased the portion of shares in industrial enterprises, producers of durable goods (e.g., household equipment, cars, etc.) or American banks, mainly at the expense of defensive sectors of the economy (everyday consumer goods, public services, etc.). Our managed mixed and equity funds thus scored overall significant improvements in November. The above-described decisions, together with similar steps applied following the collapse of the markets in the spring months, can rightly be described as the main 'engineer' of the current favourable performance of our portfolios in this difficult year – both absolute and relative – and not only in the investment sense of the word.

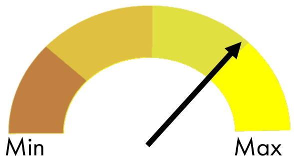
For the Asset Management team
Michal Ondruška

Summary of Investment Strategies:

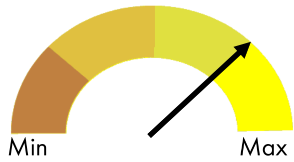
Tactical Allocation

Equity overweighed in portfolios

Current



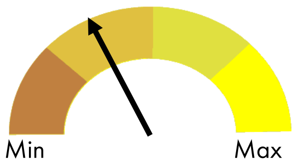
3M outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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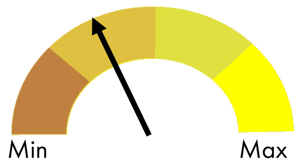
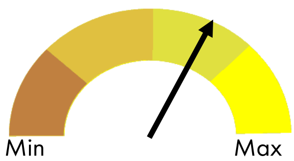


Credit Risk

Portions of, e.g., corporate bonds

Current



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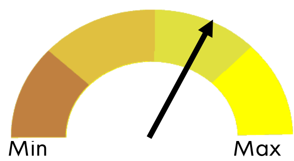
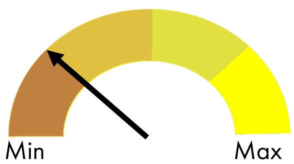


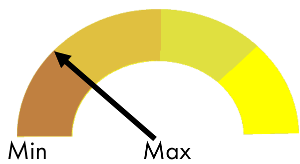
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 Dec. 2020

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