COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 04/2021

Prague, 1 April 2021

Equity Markets Did Well in March, Bond Prices Dropped

The most closely watched S&P 500 Index strengthened by 4.2 percent in March, thus reaching its new historical high. Among sectors, the best performing were the Utilities Sector (+9.7 percent), the Industry Sector (+8.7 percent), and the Short-Term Consumption Sector (+7.9 percent). On the contrary, the Technologies Sector (+1.6 percent), the Telecommunication Services Sector (+2.4 percent) and the Energy Sector (+1.9 percent) ranked among the worst performing ones.

The VIX Volatility Index has reached the value of 20 after some protracted period of time, which fact indicates certain investor reassurance. Reports showed up at the end of March that some banks (e.g., Credit Swiss, Nomura) might record not so well economic results because they had failed to sell out in time certain equities following a 'margin call' issued by the Archegos Capital hedge fund which had not managed to supply banks with sufficient cash required to cover its losses from equity positions held on debt.

Investors remain focused on global inflation. The yield of the ten-year U.S. sovereign bond increased in the month of March by more than 0.20 percent, thus reaching in excess of 1.70 percent. Similarly, the yield of the ten-year Czech sovereign bond increased more than 2 percent. While the FED does not plan any interest rates increases either this or next year, the Czech National Bank has already indicated possible double increases in the second half of this year.

Investors will focus this month on economic results recorded by firms in the first quarter of 2021. The envisaged aggregate increases in profits generated by the S&P 500 Index companies have reached 23.3 percent, y/y; in the case of revenues, the figure stands at 6.3 percent, y/y (*Source: FactSet*). As regards the entire year, expectations have it that aggregate increase of the S&P 500 Index corporate profits might amount to 25.4 percent, y/y, and of revenues to 9.6 percent, y/y. At the same time, analysts envisage rotations of sectors, since the cyclical sectors are expected to generate higher profits and the yield curve should be steeper than last year.

The expected P/E of 21.6 over the next 12 months is higher as regards the S&P 500 Index than its five-year average of 17.8 (*Source: FactSet*). Although the yield of the ten-year U.S. sovereign bond has risen from approximately 1.1 percent at the end of January up to the current roughly 1.75 percent, its value still remains relatively low, which fact is also believed to support equity markets, to be also accompanied by an envisaged growth of profits. Both in the U.S.A. and in Asia, the number of people infected with Corona virus has been decreasing, and also vaccination of the inhabitants has turned out to be relatively quick.

Mr Michal Ondruška
Manager,
Asset Management

Our portfolios were overweight in equities in the first quarter; in view of potentially higher rates, we have kept bonds with shorter average maturity in the whole in portfolios, as against 'benchmarks'. The markets may still face the risk of potential increases of corporate taxes in the United States, stricter business regulation, and a subsequent slowing down of the economic growth. Yet another risk has still been viewed in slow distributions of sufficient quantities of the Covid-19 vaccine or its lack of effect against new mutations, as well potential friction in business relations between the United States and China.

As regards the RIS unit funds, we have applied policies used in the previous months as well; in the area of mixed funds, we have continued to apply the strategy of overweighting the equity portion over the bond stake. In respect of regions, we have given priority to shares from the United States and the emerging markets, mainly those in South East Asia. On the other hand, we have underweighted the region of Europe and the Pacific (Japan, Australia, etc.). As regards sectors, we continue to trust cyclical equities (industrial shares, financial services or consumer durables). In respect of bonds, we rather prefer short-maturity or medium-maturity bonds. In the area of currency transactions, we made use of the weakest value of the Polish zloty against the Czech crown in the past 10 years. As an interesting investment opportunity, we were buying the Polish zloty for Czech crowns for selected funds in the amount of tenths of a percent. In this investment venture, we have potentials to increase the volume of the Polish zloty supply, if we can buy it at an even more attractive exchange rate.

As regards the period to come, we see as one of the key factors the previously mentioned increased yields from bonds, and uncertainty in the area of inflation, which has commenced a global increase. If the trend characterised by increased bond yields continues, this may even result in a slowing down of both equity and alternative markets; in fact, their price corrections cannot be excluded. Therefore, we cannot rule off partial collection of profits from equity positions in the next quarter of the year, as well as adjustments of tactical allocations, where we would slightly reduce our overweight equities.

We wish you pleasant Easter holidays.

For the Asset Management team,

Mr Michal Ondruška

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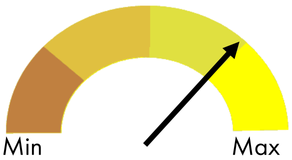
Summary of Investment Strategies:

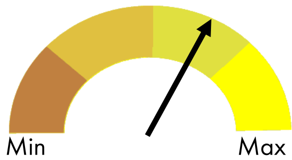
Tactical Allocation

Equity overweight portfolios

Current



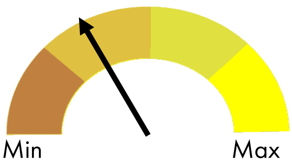
3M Outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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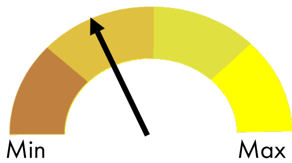
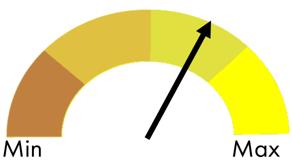


Credit Risk

Portions of, e.g., corporate bonds

Current



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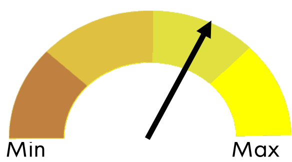
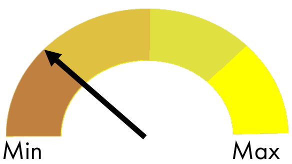


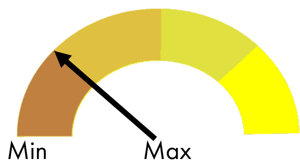
Currency Risk

Unsecured positions in foreign currencies

Current



3M Outlook



Source: Raiffeisenbank, a.s., Asset Management, information valid as of 01.04.2021

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