COMMENTARY ON FINANCIAL MARKETS 05/2023

Prague, 2 May 2023

Equity Markets Strengthened Again in April

It was particularly the just passed weekend when we recalled the events occurring at the beginning of March 2023, namely, the fall of two U.S. banks: Silicon Valley Bank and Signature Bank. There and then, the chief role was played by the First Republic Bank of the United States, which, following weekend negotiations, was subsequently taken over by another U.S. bank, JPMorgan. It again becomes clear that quick and effective measures represent the fundamental preconditions for successful resolutions, something which was fully reflected by the calm trading at the opening of the markets on Monday.

The most closely watched S&P 500 Index strengthened by 1.46 percent over the entire month of April 2023. The reasons for such rise have particularly been better than expected corporate results for the first quarter of this year. More than 50 percent of the firms belonging to the S&P 500 Index have already published their results, and 79 percent of them had better than expected profit per share. The growth of the equity markets have also been assisted by the favourable economic results of the technologic (Microsoft, Alphabet) or the communications sector giants (Meta).

In March, the FED increased its benchmark interest rate up to 5.0 percent and it is expected (*Source: Bloomberg*) that another such increase up to 5.25 percent will take place this Wednesday (3 May 2023). Fight against inflation remains the FED's priority; however, inflation has already shown certain marks of weakening when the PCE Index increased by a mere 4.2 percent in March, as against 5.1 percent in February. So the question is whether the expected rate hike is already the last one, or not, this year.

The ECB boosted its interest rates by 0.50 percent at its March session. Its deposit rate reached 3.0 percent p.a., while the refinance rate equals 3.50 percent p.a. Expectations have it (*Source: Bloomberg*) that the ECB, too, will raise its deposit rate as well as its refinance rate this week, probably by 0.25 percent, and that it would continue in rates hiking.

The yield of the ten-year German sovereign bond fluctuates around 2.3 percent p.a., and the U.S. 'Treasury' with an identical maturity around 3.55 percent p.a. The bond market remains fairly volatile and bond yields respond in particular to expected inflation and to future rates adopted by central banks.

Mr Michal Ondruška
Manager, Asset Management

Also the yields of Czech sovereign bonds with longer maturities remain volatile. At the end of April, the yield of the ten-year Czech sovereign bond reached approximately 4.6 percent p.a. The CNB continues to keep its benchmark interest rate at 7 percent p.a., and the market anticipates (*Source: Bloomberg*) that its rates would not change either tomorrow (on 3 May 2023) when the CNB is in session.

As far as the investment strategy of the RIS funds is concerned, no significant changes occurred in the course of the past month. Market development without a clear direction, driven by regularly arriving economic data and estimates of their impact on the monetary policies of the U.S. FED or the ECB, however, once again brought opportunities for short-term trading. On the bond side, it is worth mentioning in this respect, e.g. the sales of ČEZ shares for prices in excess of CZK 1,200 (a ten-month price high) or reduction in the representation of Erste Bank, followed by re-purchases for an almost 4 percent lower price. In the bond segment, profit was generated from trading in liquid instruments on markets in the United States and Western Europe (e.g., Amundi German Bund Daily -1x Inverse, ProShares Short 20+ Year Treasury, etc.). Some selected funds experienced a slight increase in the weights of shares from so-called emerging markets after their previous price declines, with the aim of building longer-term positions. In terms of their achieved performances, the majority of the RIS funds ended the month higher.

The decisive factors of future developments in the equity markets continue to include global inflation trends and an end to the cycle of interest rates hikes by central banks. Also of importance will be increases in profits and sales of individual companies. A newly emerging risk may be seen in difficulties facing the commercial real estate sector (e.g., offices, shopping malls) in the United States, where developers will have to refinance using higher rates, which may have a negative impact also on further minor regional banks.

As far as our investment strategies are concerned, we maintain neutral positions in equities as against bonds. Regarding the regions, we overweight North America and the emerging markets, while underweighting Europe and the Pacific Area. Among the sectors, we overweight the Technologies Sector, the Industry Sector, the Consumer Durables Sector, and the dividend-paying shares segment. In the event of declines in equity markets, we are prepared to increase the portion of equities and to overweight it against bonds. In terms of bond strategies, we maintain longer 'duration' (average bond maturity) 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,

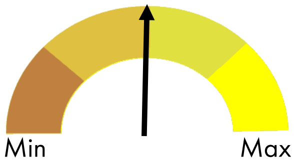
Mr Michal Ondruška

Summary of Investment Strategies:

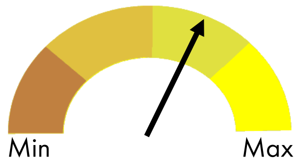
Tactical Allocation

Equity overweighted in portfolios

Current



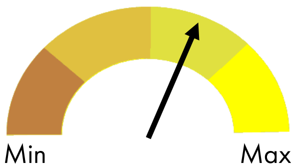
3M outlook



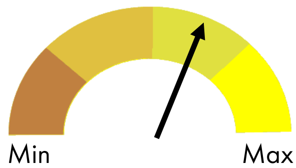
Interest Rate Risk

Average bond maturities (Duration)

Current



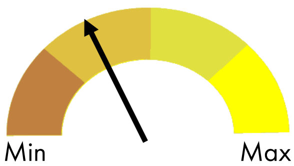
3M outlook



Credit Risk

Portions of, e.g., corporate bonds

Current



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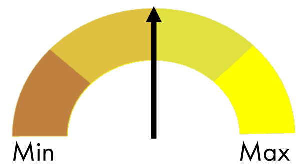
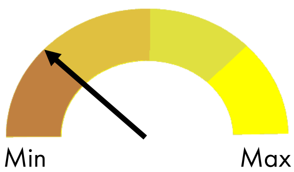


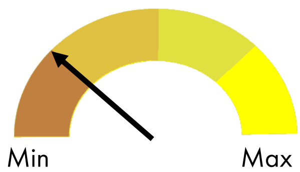
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 2 May 2023.

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