COMMENTARY ON FINANCIAL MARKETS 08/2022

Prague, 1 Aug. 2022

Equity Markets Bounce Back

The most closely watched S&P 500 Index strengthened by 8 percent points in July 2022, thus wiping off a portion of its losses generated in the first six months of the year. Although the U.S. economy finds itself in technical recession (the GNP having dropped during two consecutive quarters of the year), investors chose to bet on its future turnover in July. We primarily see better than expected company results for the second quarter of this year behind the growth reported by the equity markets during July, along with speculations about a slowdown in inflation growth in the United States (the prices of some commodities have already fallen). More than a half of the companies belonging to the S&P 500 Index have already published their economic results, and 73 percent of them reported better profits per share than anticipated (*Source: Bloomberg*).

The FED raised its benchmark interest rate again by 0.75 percent up to 2.50 percent in July and yet another rate hike is expected to occur in September. The ECB also raised its benchmark interest rate from 0 percent up to 0.50 percent, while its deposit rate went up from -0.50 percent to 0 percent.

Among the sectors, the best performing last month were the Consumer Durables Sector (+16.3 percent), the Technologies Sector (+13.2 percent) and the Industrial Sector (+8.5 percent). On the other hand, the worst performances were recorded by the Communications Sector (+2.8 percent), the Health Services Sector (+2.1 percent) and the Short-term Consumption Sector (+1.7 percent). The list of companies reporting better-than-expected results included, for example, Amazon, Apple, and Tesla. On the contrary, worst-than-expected results were recorded, for example, by Meta.

Mr Michal Ondruška
Manager, Asset Management

Although inflation reached the highest growth rate since November 1991 in the United States, namely 9.1 percent, y/y, the yields of U.S. bonds have declined. The yield of the ten-year sovereign bond dropped from 3.0 percent p.a. down to 2.6 percent p.a., although it reached the limit of 3.5 percent p.a. in mid-June. This indicates that investors in the United States are already expecting a drop in inflation. Similarly, the yield of the ten-year German sovereign bond decreased from approximately 1.1 percent p.a. at the end of June to as much as the current 0.8 percent p.a.

At the moment, it is not certain whether the Czech National Bank Board in its new composition will carry on more rates hiking. We shall see at the beginning of August whether the new set-up of the Bank Board of the CNB would opt to increase the benchmark interest rate or not. The bond yield curve has had an inverse shape in the Czech Republic, which represents one of the indicators of potential future cooling down of the economy in the Czech Republic.

The forthcoming corporate economic results for the second quarter of this year, to be disclosed in the course of the month of August, may hint investors in seeking the answer to the question of whether the S&P 500 Index has already touched its bottom. We extended so-called 'duration' (in a simple language: the average maturity of bonds) held in the RIS unit funds in July, with the aim of more significantly partaking in their expected price developments. The purchase of a government bond with maturity in 2035 made in mid-July was evaluated by approximately 4.5 percent by the end of July, and about half of such 'performance' was recorded by investments in bonds newly issued by a local bank, with maturity in 2027. On the contrary, we reduced the stake of U.S. corporate bonds with interest risk hedging (iShares Interest Rate Hedged Corporate Bond ETF). On the equity side, it is worth mentioning a series of three successful short-term purchases and subsequent sales of shares in ČEZ; in each separate case, the trading profit amounted to several percent points. We maintain the weight of equities in our managed portfolios near neutral levels.

As regards the levels of equities and bonds, our portfolios have been balanced (neutral allocation). We direct most of our investment ventures in the United States whose economy should not be so hard hit by the consequences of the invasion of the Russian troops as the economies in Europe. We gradually extend 'duration' of the bond portions of our portfolios, namely due to the envisaged slowing down of the growth of inflation in the coming period.

The past months have brought about a number of opportunities, both as regards equities and bonds. The portfolio strategy of '<u>time</u> in the market' combined with regular investments showed some positive outcome. We again witnessed it that counter-motions following previous drops often had been sudden, strong and very fast, which to a significant extent represented a disadvantage in applying the strategy of so-called '<u>timing</u> the market', since it was unlikely to determine the exact turning point correctly. We believe that higher volatility will accompany the financial markets also in the future period; valuations of certain equity segments as well as bond segments have already now offered some interesting and long-term investment opportunities.

We wish you much success in the days to come!

For the Asset Management team,

Mr Michal Ondruška

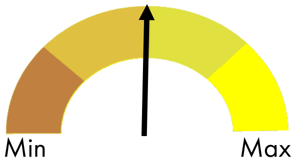
Raiffeisen BANK
Banka inspirovaná klienty

Summary of Investment Strategies:

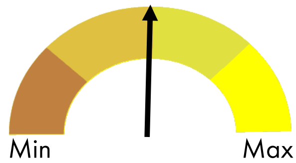
Tactical Allocation

Equity overweighted in portfolios

Current



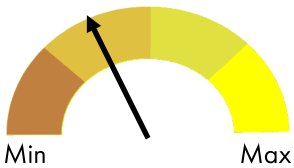
3M outlook



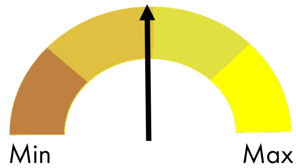
Interest Rate Risk

Average bond maturities (Duration)

Current



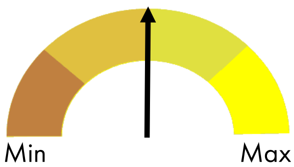
3M outlook



Credit Risk

Portions of, e.g., corporate bonds

Current



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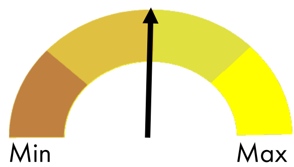
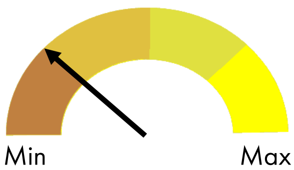


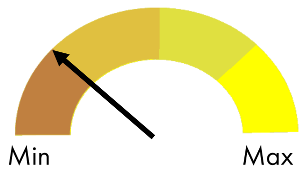
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 August 2022.

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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