Prague, 16 March 2023

Financial Markets Under the Weight of Bank Titles

While the financial markets seemed to have coped with the weekend collapse of the U.S. Silicon Valley Bank ("SVB") and Signature Bank ("SB") without any major difficulties, yesterday's reports from Credit Suisse ("CS"), though, launched an avalanche of sales, across both the equity market as well as the commodities market. Under such tense situations, the winners usually are sovereign bonds, and it was also the case this time. While the S&P 500 U.S. Equity Index lost up to 2 percent yesterday, the U.S. ten-year sovereign bond, on the contrary, strengthened by 2 percent. **Diversified portfolios containing bonds, thus, did not lose as much as it might have seen at the first glance.**

If we sum up the situation facing the above-described banks:

- Both SVB and SB represent regional banks applying a specific market model – focusing on emerging innovative firms, crypto-currency projects, etc.;
- Neither SVB nor SB represent 'system' banks; to put it simply, they are banks of lesser importance;
- CS, on the contrary, is a significant banking institution; nevertheless, it has long been known that this entity has been facing difficulties.

In our opinion, the scope of difficulties facing those three banks has been limited and we do not envisage that the contagion could spread over the entire banking system. This does not mean, though, that we could not witness similar developments over the coming days or weeks, nevertheless, we expect them to occur in respect of minor or medium-sized institutions or companies sensitive to interest rate fluctuations and characterised by weaker cash positions.

It needs to be taken into account that – beside possible management mistakes – it was particularly growing interest rates that acted as the main launcher of difficulties facing those institutions, when – on the one hand – the morals of repaying debts was worsening due to high interest rates, and – on the other hand – banking reserves were spent in the form of positions in long-term sovereign bonds whose prices dramatically decreased as a result of growing interest rates.

Nevertheless, all this results in one important conclusion: the current level of interest rates probably hits its limits, the economies have begun slowing down vigorously, and – at the same time – the probability of recession increases while inflation falls.

Mr Michal Ondruška
Manager, Asset Management

Irrespective of the current difficulties facing the above-described banking houses, considering all the effects imposed upon financial markets, our investment strategy is built precisely on the assumption that interest rates are already approaching their peak and may even decrease in the foreseeable future. **Therefore, we have already significantly extended the average term to maturity of bonds (so-called 'duration') as regards the bond portion of our investment strategies in the past months**, something which would results in boosting their prices at the moment of drops in interest yields.

As regards the equity portion, on the contrary, we have so far waited before we would have increased our equity positions. In our opinion, the equity markets have not yet fully absorbed the slowing down of the economic growths or potential recession. We consider the current declines in equity markets as an investment opportunity. The technical point of view indicates the breaking of important support boundaries, so the declines in equity markets can extend over several weeks or months; therefore we will spread our possible purchases over time. **It is our goal to achieve long-term overweighting of shares over bonds.** Our preferred regions include the U.S. market; as regards sectors, we will focus on growth industries that will benefit from future economic advances and lower interest rates. They include, for example, the Technologies Sector, the Consumer Durables Sector or the Industry Sector.

Bellow, we list a topical review of current direct positions in SVB, SB, and CS, expressed as a share in the total managed assets in the given segments:

positions in SVB and SB (equities/bonds), RIS funds:	0.00 percent/0.00 percent
positions in SVB and SB (equities/bonds), individual portfolios:	0.00 percent/0.00 percent
positions in CS (equities/bonds), RIS funds:	0.00 percent/0.00 percent
positions in CS (equities/bonds), individual portfolios:	0.00 percent/0.20 percent

Every major market movement may result in either profit or, as a matter of course, losses. When a certain market segment drops, it does not mean, due to specific reasons, that the entire market is toxic; on the contrary, the remaining part of the market may be in a completely different condition and perspective, and panic sales generate the biggest losses. We can see some interesting and long-time unrepeated opportunities in the current developments facing financial markets. The way toward them will not be an easy one and it will certainly require a great deal of patience, but I believe this mission will be successful.

I wish you much success in the coming period!

Mr Michal Ondruška

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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