Prague, 3. April 2023

Stronger Equity Markets in March, Despite Financial Sector Troubles

The past month was characterised by significantly higher uneasiness in the Financial Sector on both sides of the Atlantic. Fears about banks' health were reflected in the trends of equity indices. Nevertheless, surprisingly in the end, the month of March was a successful one both in respect of equities and bonds. Bonds benefited from increased interest on the part of investors in higher safety. Equities, on their part, were assisted by fairly faster calming resulting from statements by the central banks about their preparedness to help, as well as by the fast resolution of the protracted difficulties facing the Swiss financial giant, Credit Suisse.

All in all, the S&P 500 Index improved in March 2023 by 3.5 percent; among the sectors, the best performing were the Technologies Sector (+10.6 percent), the Communications Sector (+8.4 percent), and the Utilities Sector (+4.1 percent). On the contrary, the worst performances were recorded by the Finance Sector (-10 percent), the Real Estate Sector (-2.1 percent), and the Materials Sector (-1.4 percent).

The FED boosted its benchmark interest rate by 0.25 percent up to 5.0 percent in March. It cannot be excluded that the FED will raise its interest rates in May 2023 again; however, the first reduction of the rates might happen as early as in this coming autumn.

Saudi Arabia announced unexpectedly that the OPEC countries, commencing in May 2023, will cut down on their oil extraction by approximately 1.15 million barrels per day. Such startler has already been responded to by the prices of both the Brent and the WTA oils, which went up by more than 5 percent. Higher oil prices push inflation up, nevertheless, bond prices have so far reacted in a moderate manner and no major shifts in their yields have so far occurred.

The CNB continues to keep its benchmark interest rate at 7 percent p.a., although Czech inflation increased by 16.7 percent, y/y, in February. Raiffeisenbank analysts anticipate that the CNB will cut down on its benchmark interest rate as early as in the second half of this year.

Yields of the Czech sovereign bonds with longer maturities remain fluctuating. The yield of the ten-year Czech sovereign bond reached the limit of 5 percent p.a. and then dropped to approximately 4.6 percent p.a. within several weeks.

Mr Michal Ondruška
Manager, Asset Management

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The anticipated P/E of 17.8 (*Source: FactSet*) for the coming 12 months is somewhat lower for the S&P 500 Index than its five-year average of 18.5 (*Source: FactSet*); however, it is at the same time higher than its ten-year average of 17.3 (*Source: FactSet*). As far as this year is concerned, analysts expect a moderate growth of the S&P 500 Index aggregated profit by 1.5 percent, and of revenues by 2.0 percent. (*Source: FactSet*). Next year's projected stronger earnings growth and expectations of lower interest rates could support equity markets in the second half of this year.

As far as funds are concerned, their fund managers have made use of increased volatility in the Financial Sector and realised some profit from short-term trades with Erste shares. From the point of view of tactical allocations, a slight increase in the developing markets, mainly those in Southeast Asia, took place. Also worth mentioning is the majority sell-off of NVIDIA shares, which have almost doubled in value since the beginning of the year.

On the bond side of the RIS funds, short-term gains were realized as a result of movements of the yield of the ten-year German sovereign bond. Their duration was further slightly extended in respect of some selected RIS funds by purchasing a Czech sovereign bond with maturity in 2030, or by purchasing ETF's containing U.S. bonds with longer maturities.

The decisive factors as regards the next period include growths in corporate profits and sales; the current situation will be described in the economic results season for the first quarter of 2023, which will start in the following days. The impact on inflation of higher oil prices and the actions of central banks can also represent important factors. And the war conflict in Ukraine remains a risk factor, too.

Regarding our investment strategies, we keep neutral positions in equities as against bonds. As far as regions are concerned, we overweight North America and the emerging markets; on the contrary, we underweight Europe and the Pacific. Among the sectors, we prefer the Technologies Sector, the Industry Sector, the Consumer Durables Sector, and the dividend-paying shares segment. In case of declines in equities markets, we are ready to increase the stock component and weight it against bonds.

We wish you much success in the coming period!

For the Asset Management team,

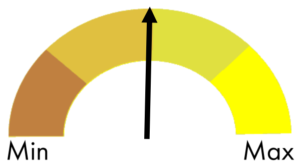
Mr Michal Ondruška

Summary of Investment Strategies:

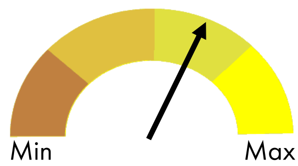
Tactical Allocation

Equity overweighted in portfolios

Current



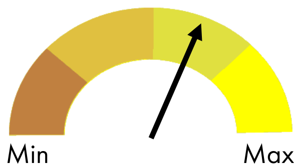
3M outlook



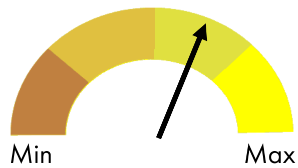
Interest Rate Risk

Average bond maturities (Duration)

Current

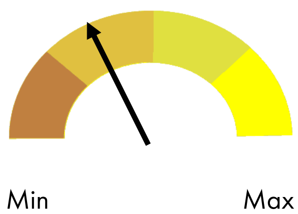


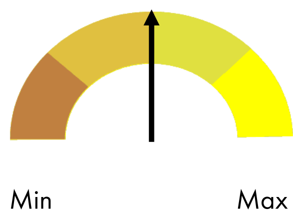
3M outlook



Credit Risk

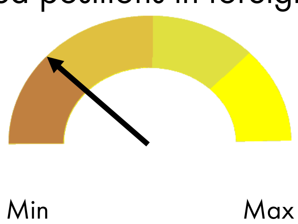
Portions of, e.g., corporate bonds

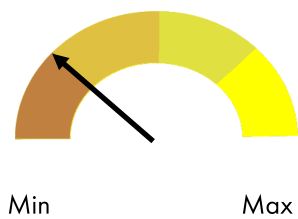




Currency Risk

Unsecured positions in foreign currencies





Source: Raiffeisenbank, a.s., Asset Management, data valid as of 3 April 2023.

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