Prague, 1 Nov. 2022

Equity Markets Wiped Off Part of Their Previous Drops in October

The most closely watched S&P 500 Index strengthened by 8 percent in October 2022. The equity markets were buttressed by speculation that the FED would not increase its benchmark interest rate in December in such an aggressive manner as it had done so far. The FED will be in a session at the beginning of November, and expectations have it that the benchmark interest rate would rise from 3.25 percent p.a. up to 4.0 percent p.a. In December, the FED will raise the rate again, nevertheless, the markets speculate that such new hike would only be by 0.50 percent. The cycle of interest rate increases in the United States may be completed in March next year. Beside rates increases, also the volume of assets on the FED's balance sheet has been reduced (quantitative tightening), something which has affected negatively liquidity of markets. The FED's priority thus remains to fight inflation.

The ECB increased its 'repo' rate from 1.25 percent up to 2 percent p.a. at its October session, and its deposit rate from 0.75 percent p.a. up to 1.5 percent p.a. Thus, the ECB responded to the constantly growing inflation in the Euro Area.

Among the sectors, the best performing last month were the Energies Sector (+24.9 percent), the Industry Sector (+13.9 percent) and the Finance Sector (+11.9 percent). On the contrary, the worst performances were reported by the Consumer Durables Sector (+1.1 percent), the Utilities Sector (+1.9 percent), and the Communications Sector (+0.7 percent).

The yield of the ten-year U.S. sovereign bond sticks to around 4.0 percent p.a., and the yield of the ten-year German sovereign bond fluctuates around 2.1 percent p.a. The Czech National Bank Board will meet on Thursday 3 November 2022 again, and it is expected (*Source: Bloomberg*) that it would not boost the benchmark interest rate, which it has been keeping at 7 percent p.a. The yield curve of the Czech sovereign bonds has flattened in the course of October, however, it still retains its moderate inverse shape.

The anticipated P/E of 16.3 (*Source: FactSet*) for the next 12 months is lower for the S&P 500 Index than its five-year average of 18.5 (*Source: FactSet*) as well as its ten-year average of 17.1 (*Source: FactSet*). Viewed from this angle, valuations do not seem extra high, however, if recession prevailed in the United States, analysts would probably reduce their profit estimates. Also the interest rates are higher than they were in the previous years.

Mr Michal Ondruška
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The upcoming third quarter 2022 earnings season is not utterly bad, nevertheless, it is not outstanding, either. More than 50 percent of the S&P 500 Index companies have already published their results.

Among them, better than expected earnings were reported by more than 55 percent of the firms (*Source: Bloomberg*) and 70 percent of the companies have generated better than expected profits (*Source: Bloomberg*). Some large corporations like Meta, Google or Amazon, however, reported worse that expected economic results for this year's third quarter, and also their outlook has been somewhat worse, and their shares fell down in consequence thereof.

No major changes in their investment strategies have occurred as regards the RIS mutual funds. Their portfolios thus – as against their so-called 'neutral positions' – remain slightly overweight in equities, in the range of roughly 3 percentage points. This development has affected positively those funds' performances in the just past month, when – for example – the MSCI's ACWI global equity index strengthened by a significant 6 percent over the same period. 'Duration' (in simple words: the average maturity of bonds held) was further slightly extended to approximately four years following drops in their prices. Previous weeks' fluctuating both stock and bond markets once again have created an opportunity to moderate the effects of this year's fall in the prices of most financial assets with profits generated by way of short-term trading. In this sense, successful transactions can be mentioned in October with ČEZ shares, the exchange-traded fund of the VanEck Gold Miners gold miners, an instrument profiting from the decline in the prices of the ten-year German government bonds (Lyxor Bund Future Daily -1x Inverse UCITS ETF) etc. The portfolios of the RIS funds have for some time now held a relatively high portions of free cash resources (in some cases even more than 10 percent of the individual funds' assets); these will be invested in the rest of the year under attractive conditions in both shares and bonds, especially with longer maturities.

As far as the overall investment strategy is concerned , we remain as regards stocks and bonds in a neutral to slightly overweight position in favour of stocks. The majority of our investments have been directed to the United States, while the other regions, such as Europe, the Pacific, and the Emerging Markets, have been underweighted. In the past period, we have gradually increased duration of the bond portions of our portfolios to correspond to benchmarks. We overweight sovereign bonds as against corporate issues. The decisive factors for the further development of financial markets, in addition to the growth of profits of individual corporations, further include the development of global inflation and the end of the cycle of interest rate increases by central banks, especially the FED. We continue to expect higher volatility in the financial markets in the course of the future months.

We wish you much success in the coming days!

For the Asset Management team,

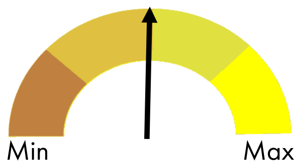
Mr Michal Ondruška

Summary of Investment Strategies:

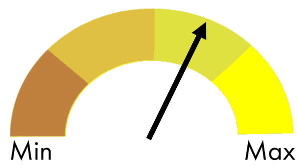
Tactical Allocation

Equity overweighted in portfolios

Current



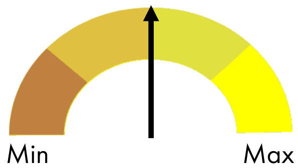
3M outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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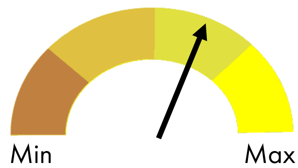
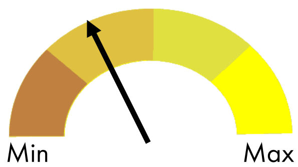


Credit Risk

Portions of, e.g., corporate bonds

Current



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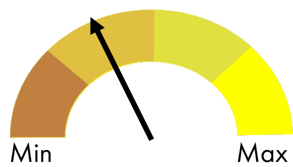
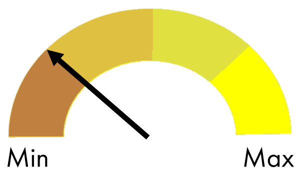


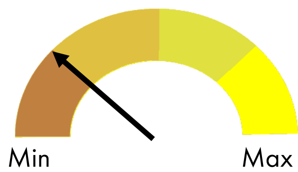
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



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

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