Raiffeisen
Investiční společnost

Commentary on the Financial Markets

05/24

Stock markets weakened in April, investors started to worry about inflation again

The most-watched S&P 500 index fell 4.2% during April as the latest inflation data (3.5% y/y for March) in the US was higher than expected and investors began to worry about inflation again. At the same time, the season of publishing financial results for the first quarter of this year is underway in the US and Europe. So far, the S&P 500's aggregate earnings have risen 3.5%, and nearly 79% of S&P 500 companies have better-than-expected earnings-per-share.

Of the sectors, the defensive sectors were the best performers last month. Utilities rose 1.7%, the consumer goods sector fell only -1.1% and the energy sector fell -3.2%. On the other hand, real estate (-8.5%), technology (-5.8%) and healthcare (-5.0%) had worse performance. The technology sector was negatively impacted by a worse growth outlook for chipmakers (e.g. Intel, AMD) as well as a worse outlook for Meta's cost growth. Nvidia has not yet released its quarterly earnings results (5/22). On the other hand, investors were positively surprised by the financial results of Alphabet, Amazon and Microsoft.

Yesterday, the FED left the key interest rate unchanged at 5.50%, it is likely that its first cut will not take place until September at the earliest. In a press conference, Fed Chairman Jerome Powell indirectly supported the stock market, virtually ruling out an interest rate hike. He also called speculation on stagflation of the US economy unlikely. The growth rate of the PCE (Personal Consumption Expenditures) index excluding energy and food for March remained at 2.8% y/y, which was above market expectations, and also the CPI was higher in March (3.5% y/y) than the market expected. For the year as a whole, the Fed is now expected to cut its benchmark interest rate by 0.25% to 0.50%. The ECB is still expected to cut the deposit rate from 4.0% to 3.25% this year. As expected, the CNB lowered the key repo rate by 0.5% to 5.25% p.a. today. At the end of 2024, the market expects the repo rate to be around 4.25% to 4.50% (source: Bloomberg).

The yield on Germany's ten-year government bond is around 2.5% p.a. And the yield on the US Treasury with the same maturity climbed to 4.6% p.a. Bond yields rose in both the US and Germany in April, as inflation remains at higher levels. The yield on the Czech government bond with a ten-year maturity reached 4.3% p.a., which is lower than its American counterpart.

The S&P 500's expected P/E of 20.0 for the next 12 months is slightly higher than its five-year average of 19.1 and also higher than its 10-year average of 17.8 (source: FactSet), indicating that stock markets are slightly overvalued. Therefore, it will be important in the future how inflation develops and how the profits of individual companies grow. Analysts estimate an aggregate increase in corporate earnings from the S&P 500 index of 10.8% for the full year 2024 (source: FactSet), which could support stock markets, along with expected declining inflation.

In April, RIS fund managers reacted again to the increased volatility across markets that has emerged in recent months. There was a slight profit-taking of stocks, which reduced the weighting of stocks over bonds. Despite this, stocks remain outweighed against bonds.

In response to market movements in bond prices, their average time to maturity was extended during the month. Czech government bonds maturing in 2028 were exchanged for maturity in 2034 and a new issue of euro bonds of OTP banka maturing in 2029 was purchased. Investments were also made in longer euro and dollar bonds, mostly government bonds, while the portfolios were enriched to a lesser extent by high-yield bonds.

On the equity side, there was a reduction in positions in ČEZ, Komerční banka and Nvidia, where the sale took place close to the maximum price. Sectoral ETFs such as iShares STOXX Europe 600 Basic Resources and iShares STOXX Europe 600 Oil & Gas were also sold. On the other hand, shares of Intel and the Amundi Japan TOPIX II UCITS ETF were purchased.

As part of our investment strategies, we outweigh stocks over bonds. Regionally, we dominate North America and Emerging Markets, slightly underweighting Europe and the Pacific. Of the sectors, technology, industry and dividend stocks predominate. As part of our bond strategies, we maintain a neutral to slightly overweighted duration on CZK bonds and an overweight duration on dollar and euro bonds. In our opinion, foreign currency bonds offer an interesting potential for future growth in their prices.

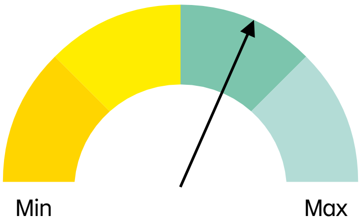
We wish you success in the upcoming period!

Michal Ondruška
CIO, Member of the Board

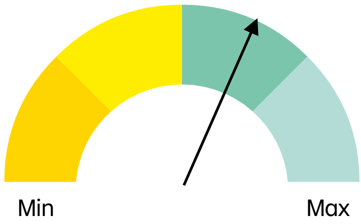
Investment Strategy Summary

Tactical Allocation
Overweighting of stocks in portfolios

Current

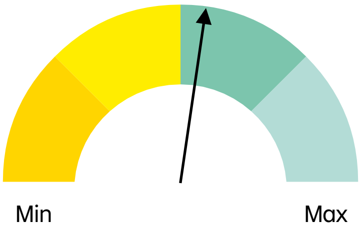


3-month outlook

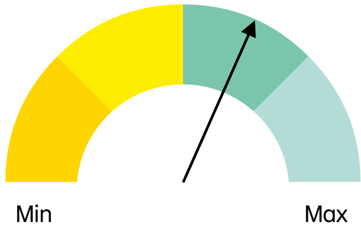


Interest Rate Risk
Average duration of bonds

Current

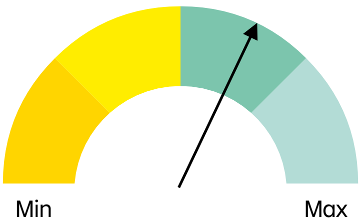


3-month outlook

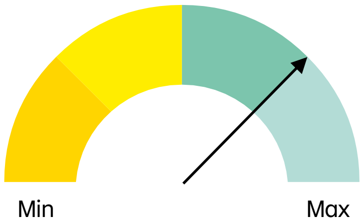


Credit Risk
Share of corporate bonds

Current

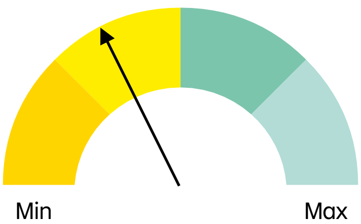


3-month outlook

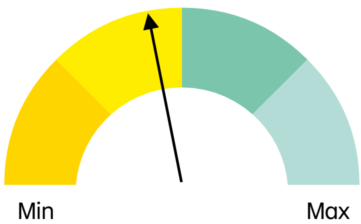


Currency Risk
Unhedged positions in foreign currency

Current



3-month outlook



source: Raiffeisen investiční společnost, a. s., as of May 2nd, 2024

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