Prague, 24 Feb. 2022

Russian Invasion of Ukraine Causes Mighty Reaction on Financial Markets

As the first response, major sales off of high-risk assets have been taking place; in particular equity markets report drops in the order of up to tens of percent. The most significant decline has been marked by Russian shares that lost up to 50 percent at the time of today's market opening! However, such fall on the part of equities has hit also other regions: DAX of Germany is loosing 5 percent at this moment (2 p.m.), while U.S. futures marked the opening of the U.S. markets with an approx. 2.5 percent decline. On the contrary, we have witnessed strong trends towards so-called 'safe havens' or 'safe harbours', such as gold (+3 percent) or the U.S. sovereign bonds (10Y +1.5 percent in their price). At the same time, prices of energy and energy raw materials have gone up: BRENT oil today added +8 percent, while prices of 2023 electricity have increased by +13 percent (*Source: Bloomberg*).

Those movements increase the risk of so-called 'stagflation', which means a combination of only a minor economic growth and high inflation. We believe that this scenario may hit the European financial markets more than their U.S. or Asian counterparts.

Impacts on Raiffeisen's investment strategy:

Direct positions on the Russian market are close to zero as regards our managed funds and individual portfolios. Indirect positions are then represented by stakes in instruments focused on the segment of the so-called 'emerging markets', but even in these instruments the share of Russia is minimal, in the order of low percentage units. Viewed from this angle, drops in Russian equities will not have any direct material impact on our managed portfolios.

We expect the most sever effects of the current crisis to hit European equities and shares from so-called 'emerging markets', in particular in the European region. We envisage less impact in respect of U.S. shares. **Our investment strategy currently aims at overweighting in particular U.S. equities (approximately 60 percent of the overall equity positions), we currently hold European equities in a neutral position (approx. 16 percent), while our share in the emerging markets (approx. 15 percent) has been concentrated, in particular, in the Asian region as regards our managed portfolios. The rest belongs to developed Asian markets, such as Japan.**

Mr Michal Ondruška
Manager, Asset Management

The financial markets will probably remain unstable in the immediate days to come. We do not plan any fire sales of equities from our managed portfolios. **On the contrary, we would like to make use of the higher financial markets volatility in the coming days for performing some short-term trading. Initial shocks suffered by financial markets are usually followed by similarly strong short-term countermeasures.**

In future, when the situation calms down, we cannot exclude adjustments in tactical allocations, namely, towards further reductions of the share of equities as against bonds. We already made the first step in January this year by reducing – after some long time – overweighting of equities and by increasing the share of bonds. **Such planned adjustments are primarily based on the medium-term scenario of a gradual reduction of risk in portfolios due to higher interest rates and now also due to the potential 'stagflation' scenario.**

As regards the bond portion of our managed portfolios, we have maintained shorter average term to maturity of bonds (so-called 'duration'), and – at the same time – a high share of sovereign bonds. We consider such structure to be adequate, not only in view of the current geo-political situation, but also in the wake of the possible upcoming stagflation scenario.

The period of geo-political uncertainty, and thus insecurity in financial markets, may persist for months. We are convinced that Raiffeisen's long-term investment strategy can withstand even such effects and – as a result – it may even bring about new investment opportunities.

For the Asset Management team,

Mr Michal Ondruška

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