COMMENTARY ON FINANCIAL MARKETS 10/2022

Prague, 3 Oct. 2022

Equity Markets Remain Under Selling Pressure

The most closely watched S&P 500 Index weakened by 9.3 percent in September 2022. The equity markets thus responded in a negative manner to the outcome of the September FED session, where the benchmark interest rate was increased by another 3.25 percent, p.a. Beside such interest rates hiking, the U.S. FED has applied yet another handy tool in an attempt to slow down the economic growth, namely so-called 'quantitative tightening'. This instrument drains liquidity from the financial markets, which also has a negative effect on stock indices. The FED's priority thus remains to fight inflation, cost what it may, that is, even despite the risk of a significant slowdown in economic growth, or even a possible recession.

The ECB, too, increased the benchmark interest rate from 0.50 percent up to 1.25 percent, p.a., and the deposit rate from 0 percent up to 0.75 percent, p.a., at its September session. Thus, the ECB responded to the constantly increasing inflation n the Euro Area.

Among the sectors, the best performing in the past month were the Health Services Sector (-2.9 percent), the Finance Sector (-8.1 percent) and the Short-Term Consumption Sector (-8.7 percent). On the contrary, the Real Estate Sector and the Technological Sector reported the worst performances, (-14.0 percent) and (-12.2 percent), respectively.

The yield of the ten-year U.S. sovereign bond jumped from 3.1 percent to as much up as 4.0 percent, p.a., in September; now, it fluctuates around 3.8 percent. Similarly, the yield of the ten-year German sovereign bond increased from 1.6 percent, p.a., towards the end of September, up to the current 2.2 percent, p.a. The CNB Board, in its new setup, contrary to both the FED and the ECB, do not want as yet to make any further benchmark rate hikes; the rate remained sitting at 7 percent, p.a., in September. Nevertheless, the yields of the Czech sovereign bonds increased again at the end of the month, thus copying similar development trends in the United States and in Germany. The yield curve of the Czech sovereign bonds may have flattened, however, it still retains its inverse shape.

Mr Michal Ondruška
Manager, Asset Management

The upcoming third quarter earnings season will be important for further market development. The U.S. dollar strengthening against the EUR or other currencies, and higher input costs, can negatively affect profit margins of individual enterprises, which would in turn represent a negative surprise for analysts (for example, Nike has had worse than expected results due to a strong USD, among other things). However, an opportunity for long-term investors is slowly starting to open up in the market.

From the perspective of the RIS funds, the environment characterized by higher volatility has made it possible to conclude short-term profitable trades in selected stocks and ETFs. They involved, for example, the purchase and resale of ČEZ equities, as well as of the exchange-traded fund comprising shares of gold miners (GDX US), both with a trading profit amounting to several percentage points.

As far as the bond markets are concerned, the RIS funds took advantage of higher volatility of yields to maturity (currently reaching several-years highs, not only in Europe but also in the United States) by buying and reselling an ETF benefiting from a decline in the price of ten-year German sovereign bonds. Some selected RIS funds continued to seek slight extensions of its duration by participating in a primary auction of Czech sovereign bonds with maturity of 6 to 11 years. The current average maturity of the bond portions of the RIS funds portfolios mostly reaches a lever of about 4 years.

As regards equities and bonds, the RIS funds and the other managed individual portfolios are weighted at neutral positions. The majority of investment ventures have been directed to the United States markets. Gradual extension of duration towards neutral values in relation to indices has been applied in respect of bonds. Due to the existing geo-political tensions, we still expect high volatility to prevail in the financial markets in the course of the coming months.

We wish you much success in the days to come!

For the Asset Management team,

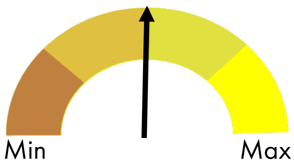
Mr Michal Ondruška

Summary of Investment Strategies:

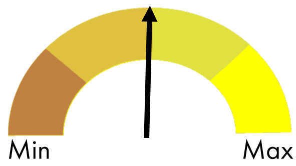
Tactical Allocation

Equity overweighted in portfolios

Current



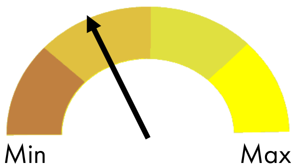
3M outlook



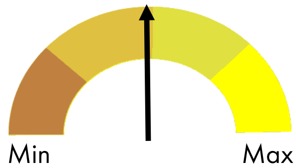
Interest Rate Risk

Average bond maturities (Duration)

Current



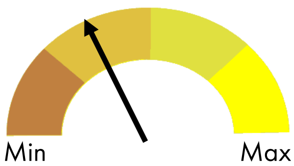
3M outlook



Credit Risk

Portions of, e.g., corporate bonds

Current



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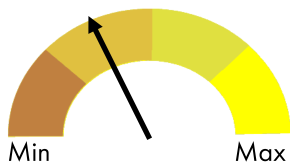
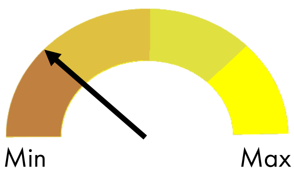


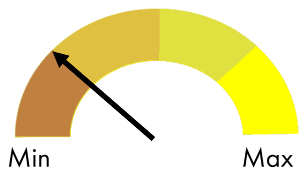
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 3 October 2022.

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