



COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 09/2021

Prague, 1 Sept. 2021

Equity Markets Retained Positive Sentiments Also Through August

The most closely watched S&P 500 Index continued its positive trends in August 2021 by adding 2.9 percent. Among the sectors, the best performing last month were the Financial Sector (+5.2 percent) and the Utilities Sector and the Communications Sector (+3.9 percent). On the contrary, the worst performing sectors included the Energy Sector (-2.0 percent) and the Short-term Consumption Sector (+1 percent). The trends inherent in the equity markets were positively affected by the business results disclosed by companies in respect of this year's second quarter, as well as by the still low yields of sovereign bonds, especially in the United States.

The season characterised by presentations of the second quarter business results of firms both in the United States and in Europe was a success. As much as 87 percent of the companies belonging to the S&P 500 Index reported better revenues as well as profits than expected by analysts. Aggregated profits of the S&P 500 Index companies jumped up by approximately 89 percent and their revenues increased by almost 25 percent in the second quarter of 2021 (Source: FactSet). It should be noted as a point of interest that higher volatility and a subsequent decline was recorded by a recent IPO by the brokerage firm of Robinhood, following indications by the SEC about a potential ban on direct sale of orders to market makers, something that lies in the core of Robinhood's business model.

Inflation continues to be in the focus of attention of investors. The Euro Area inflation exceeded the ECB's goals when it reached an estimated three percent in August (the July figure stood at 2.2 percent). Despite higher inflation, the yields of the ten-year German bond continues to fluctuate in negative figures, around -0.38 percent, while the yields of the ten-year U.S. sovereign bond stick to around 1.3 percent. In the Czech Republic, the yields of a similar bond slightly exceed 1.8 percent; however, it is quite probable that further growth might occur after the next session of the Czech National Bank which has indicated yet another interest rates hike.

The FED does not plan any increases of its interest rates so far. Nevertheless, talk has been ever more frequent about restrictions on purchases of assets by central banks. If such process is commenced, it may result in more pressure on prices of bonds and their higher yields.

Risks facing the equity markets have been seen primarily in potential boosting of corporate taxes in the United States, a higher inflation, the lowering of profit margins of companies, and certain potential geo-political risks. Also a possible new wave of the Corona virus might have a negative impact on the financial markets..



Mr Michal Ondruška
Manager, Asset Management



Higher volatility facing the equity markets, and/or certain selected titles, again brought about opportunities for generating profits by way of short-term trading in respect of our managed funds – on behalf of all of them, let's mention, e.g., the shares in the Netflix stream services provider or the exchange-traded (ETF) Lyxor MSCI Russia fund.

We also continued moderate restructuring of the bond portion of our portfolios. Due to fears of a possible tightening of monetary conditions on both sides of the Atlantic (first by limiting asset purchases by central banks and then by raising interest rates), we reduced the share of USD and EUR bonds issued by corporations, and/or with longer residual maturities. Instead, we mainly purchased sovereign bonds of the Czech Republic. Unlike their foreign counterparts, they have already gone through some strong 'clearance sales' this year and, given the interconnectedness of the markets, they may have happened to be somewhat 'ahead of the rest of the world'. While the moment of the beginning of a new cycle of rate hikes is not yet estimated to occur until the coming years in the United States and the Euro Area, the Czech National Bank already raised interest rates twice this year (from 0.25 percent to 0.75 percent p.a.), so a growth of the CNB rates by another 1.25 percentage points over the next 12 months is already fully taken into account in the current prices of financial instruments traded on the domestic market.

We continue to overweigh both funds and individual portfolios in equities as against bonds, we prefer growth regions and such sectors as the Technologies, Finance, Industry, and/or Long-term Consumption. In view of further expected rate hikes, mainly in the Czech Republic, we keep shorter average maturity of bonds as a whole in our portfolios, as against the 'benchmarks'; at the same time, we slightly overweigh the share of corporate issues.

We wish you much success,

For the Asset Management team,

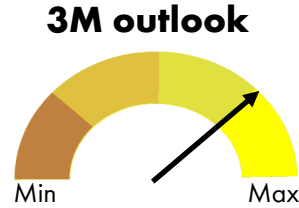
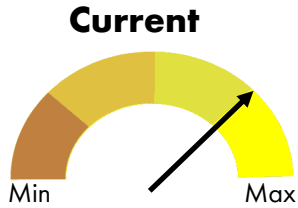
Mr Michal Ondruška



Summary of Investment Strategies :

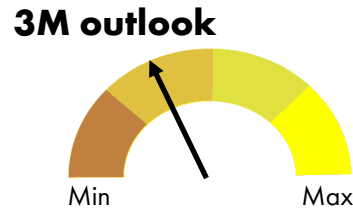
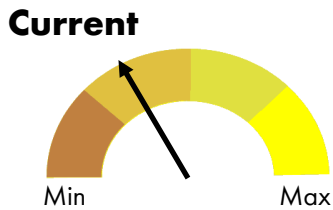
Tactical Allocation

Equity overweighed in portfolios



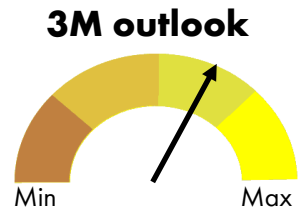
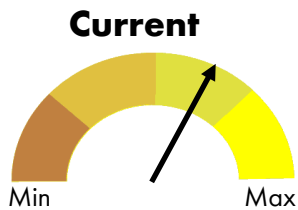
Interest Rate Risk

Average bond maturities (Duration)



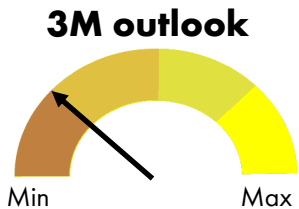
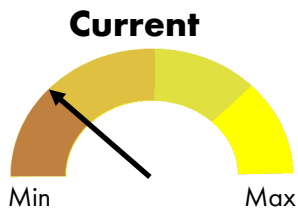
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 September 2021



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