



# COMMENTARY ON FINANCIAL MARKETS

## 04/2022

Prague, 1 Apr. 2022

### Optimism Returns to Financial Markets

The most closely watched S&P 500 Index increased by 3.7 percent in March, having absorbed quickly the initial reports about the war in Ukraine, as well as about the FED's hiking of its interest rates. The FED raised its benchmark interest rates by 0.25 percent in mid-March, which was a fairly moderate step as against what was expected by the market participants.

Among the sectors, the best performing were the Energy Sector (+ 9.3 percent) and the Utilities Sector (10.3 percent) last month. On the contrary, the worst performances were shown by the Finances Sector (-0.1 percent), the Communications Sector (0.74 percent) and the Short-term Consumption Sector (1.8 percent). In the stock markets, investors' uneasiness has been slowly calming down; the VIX Index fell to 20-points-mark, which is close to the long-term average.

Investors will again focus their attention on corporate results, which will start appearing in the United States in April in respect of the first quarter 2022. Analysts envisage an aggregated increase of the S&P 500 Index corporate profits by 4.8 percent, y/y, and of revenues by 10.7 percent, y/y. A very decent growth of corporate profits of the S&P 500 Index companies is expected throughout the entire year, namely, by 9.4 percent, y/y, and of revenues by 9.0 percent, y/y (Source: FactSet).

Increased inflation has already caused movements in the yields of the ten-year sovereign bonds, not only in the United States but also in Europe. The yield of the ten-year U.S. sovereign bond increased from 1.8 percent to the current 2.4 percent. Also, Germany's ten-year sovereign bond yield has risen from approximately 0.1 percent as much as up to 0.6 percent. In the Czech Republic, the yield of the sovereign bond with maturity of 10 years increased over one month by 0.6 percent, up to 3.8 percent. The Czech National Bank yesterday responded to the threatening increased inflation by boosting its benchmark interest rate from 4.5 percent to 5 percent, which – though – was in line with expectations voiced by investors. The market continues to assume that the interest rates in the Czech Republic will still be growing until they reach their peak in mid-year.



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It is also envisaged that the FED interest rates will still grow up to the 1.75 – 2 percent range this year. The yield curve drawn by bonds in the Czech Republic has had an inversed shape, which represents one of the indicators foretelling possible future cooling down of the economy.

Bond yields in the United States will remain relatively low, something that indicates moderate equity activities, which, too, as a rule protect investors against inflation better than bonds do. Moreover, expectations invariably have it that corporate profits generated by U.S. companies will be growing, reaching moderate speeds.

Challenged by the current environment characterised by higher volatility (fluctuation of prices), we have continued to strive to identify interesting investment opportunities – both in the shape of purchases for strategic holding for attractive prices or for the purpose of making profits from short-term trading. For example, we have performed certain partial transfers of the equity portions of the RIS funds from Europe in the first decade of March (which will probably suffer economically as a result of the ongoing conflict) to U.S. equities that we have kept even more overweight as against the structure possessed by the MSCI ACWI global equity index. On the bond side, we have managed to generate certain trading profit from transactions involving the instrument named iShares EUR Inflation Linked Govt Bond ETF. Also, we have taken advantage of several interesting new issues in the area of corporate bonds.

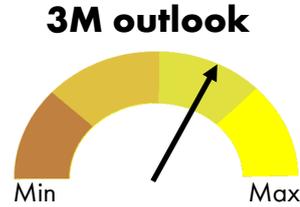
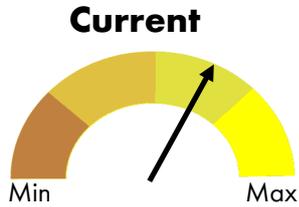
As regards our overall investment strategies, we maintain moderate overweighting of shares over bonds. Most of our equity investments have been directed to the United States whose economy is not supposed to be so hard hit by the invasion of the Russian troops as the case may be in Europe. We overweight, in particular, the cyclical sectors, such as the Technologies Sector, the Industrial Sector, the Finance Sector, or the Consumer Durables Sector; among the defensive sectors, we overweight the Health Services Sector. In view of potential further increases in the rates, we preliminarily continue to hold shorter average maturity of bonds (so-called 'duration') as against 'benchmarks'. Attractiveness of bonds denominated in Czech crowns has been further growing and the moment of additional extending of 'duration' is coming closer. We still expect higher volatility in the financial markets, while remaining positively oriented in respect of risky assets in the annual perspective.



## Summary of Investment Strategies:

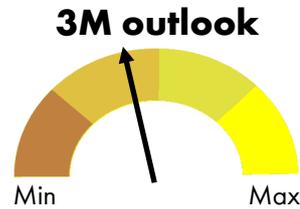
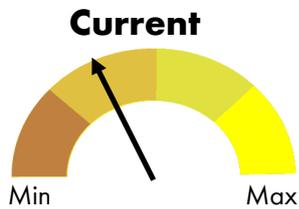
### Tactical Allocation

Equity overweighted in portfolios



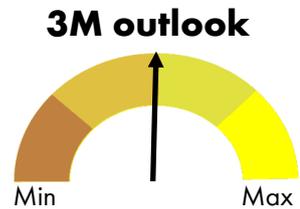
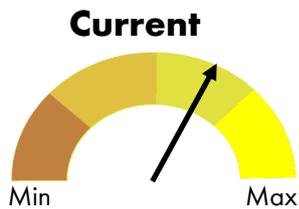
### Interest Rate Risk

Average bond maturities (Duration)



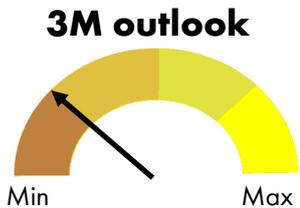
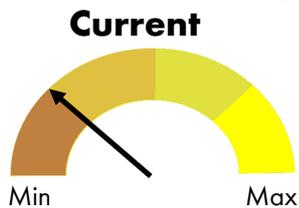
### Credit Risk

Portions of, e.g., corporate bonds



### Currency Risk

Unsecured positions in foreign currencies



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



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