



COMMENTARY ON FINANCIAL MARKETS

05/2022

Prague, 2 May 2022

Equities Correct Previous Growth and Fall to This Year's Lows

The most closely watched S&P 500 Index dropped -8.8 percent in April 2022, having written off more than 13 percent since the beginning of the year. Among the sectors, the best performing last month were the Short-term Consumption Sector (+2.3 percent) and the Energy Sector (-1.7 percent). On the other hand, the following sectors have recorded the worst performance: the Communications Sector (-14.3 percent), the Consumer Durables Sector (-12 percent), the Technologies Sector (-11 percent), and the Financial Sector (-9.9 percent). The equity markets have experienced higher volatility, which reflects increased concerns on the part of investors.

Inflation remains the Number One topic; the local figure has currently been the highest ever since (Source: Bloomberg). The inflation peak probably is still ahead of us. Analysts do not expect it until the third quarter of 2022 (Source: Bloomberg). Along with inflation, the market has been watching closely steps taken by central banks: both the U.S. FED and the Czech National Bank will be in session this week. They are expected to act congruently and hike their rates: by 0.5 percent up to 1 percent in the United States and up to 5.5 percent in the Czech Republic (Source: Bloomberg). It is in particular in the Czech Republic that we feel that the rate hiking cycle will have been nearing its peak, which will settle somewhere around 5.75-6.0 percent. The current bond yields, as well as the expected approaching peak of the rate hike cycle, are contributing to boosting the appeals of the Czech crown-denominated bonds.

Investors continue to monitor the season of corporate economic results in the first quarter of 2022, and – as a matter of course – the development in Ukraine. A total of 55 percent of the companies listed on the S&P 500 Index have already published their economic results, and 80 percent of them reported better than expected profit and 72 percent better than anticipated revenues. So far, corporate profits have been growing by 7.1 percent, y/y, and revenues by 12.2 percent, y/y. This entire year's anticipated aggregate growth in corporate profits in the S&P 500 Index by 10.3 percent, y/y, and revenues by 9.8 percent, y/y (Source: FactSet), represent the good news from the view angle of investors in equities.



Mr Michal Ondruška
Manager, Asset Management



As regards the equity portions of our managed portfolios, we have aimed the majority of our equity investment ventures to the United States, where we envisage a lower degree of the negative impacts of the Ukrainian war. Some of the attractive investments of the past month included, for example, purchases of companies active in the field of robotics and artificial intelligence, purchases of shares in airlines or in companies that would further benefit from the gradual electrification of passenger transport.

We still expect higher volatility to prevail in the financial markets and it cannot be excluded that shares may experience further short-term drops in prices. Nevertheless, we see any such setbacks suffered by the equity markets as opportunities for making purchases at lower prices. In the annual perspective, we remain positively set towards high-risk assets.

Our overall investment strategy aims at maintaining moderate overweighting of equities over bonds. We prefer the region of the United States whose economy should not be so hard hit by the outcome of the invasion of the Russian troops, as the case will be in Europe. Talking about sectors, we overweight the Technologies Sector, the Industrial Sector, the Financial Sector, the Consumer Durables Sector, and the Health Services Sector. As far as bonds are concerned, we maintain shorted term to maturity; nevertheless, the attractiveness of Czech-crown denominated bonds has been increasing significantly so the moment of yet another extension of 'duration' thus comes nearer.

We wish you much success in the coming days!

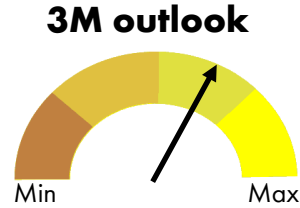
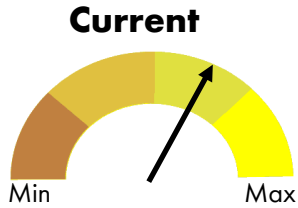
Mr Michal Ondruška



Summary of Investment Strategies:

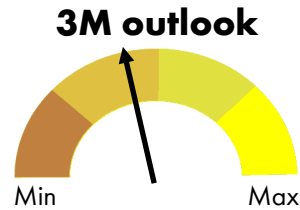
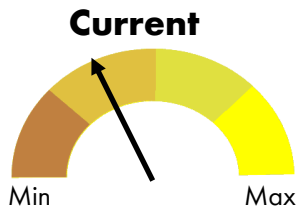
Tactical Allocation

Equity overweighted in portfolios



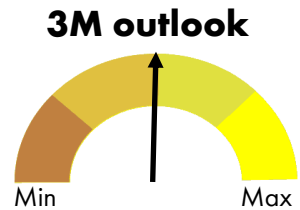
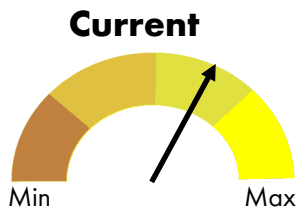
Interest Rate Risk

Average bond maturities (Duration)



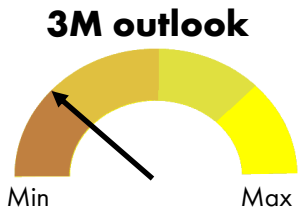
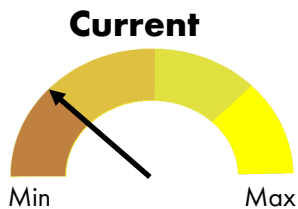
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 2 May 2022.



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