



# COMMENTARY ON FINANCIAL MARKETS

## 02/2023

Prague, 1 Feb. 2023

### Capital Markets Experienced 'January Effect'

The capital markets experienced so-called January Effect at the beginning of this year when the most closely watched S&P 500 Index strengthened by a significant 6.2 percent in January 2023. The companies' earnings season has been under way in the United States as individual firms publish, among other things, also their future outlooks. So far, the economic results of the individual companies have not been bad at all; they have been more cautious as regards their outlooks for the coming quarter of the year. A rather worse-than-expected outlook comes, for example, from chip manufacturers (e.g. Intel) since demand for personal computers has been falling. Banks, too, have been down to earth, having created higher adjustments for the first quarter of this year.

Among the sectors, the best performing in the past month were the Communications Services Sector (15.1 percent), the Consumer Durables Sector (14.8 percent) and the Real Estate Sector (9.9 percent). On the contrary, the Short-Term Consumption Sector (-1.1 percent), the Utilities Sector (-2.0 percent) and the Health Services Sector (-1.8 percent) reported the worst performances.

The FED will be in session at the beginning of February 2023. Expectations have it that the FED will increase its benchmark interest rate from 4.50 percent up to 4.75 percent (Source: Bloomberg). The cycle of interest rates hikes in the United States could be completed during the first half of this year when the FED benchmark interest rate will reach approximately 5 percent p.a. Fight against inflation remains the FED's priority, although inflation dropped in the United States down to 6.5 percent, y/y, from previous 7.5 percent in December 2022.

It is also expected that the ECB would increase its benchmark interest rate from 2.50 percent p.a. up to 3.00 percent p.a. during its session on 2 February 2023 (Source: Bloomberg). Inflation rate has slowed down also in the Euro Area where it reached 8.5 percent in January 2023, as against 9.2 percent in December 2022.

The yield of the ten-year U.S. sovereign bond, following some better inflation data, slipped from 3.70 percent down to 3.50 percent over the past month. The yield of the ten-year German sovereign bond fluctuates under 2.30 percent p.a. The Czech National Bank Board meets again on 2 February 2023. Expectations have it that the CNB will maintain its benchmark interest rate at 7 percent p.a. (Source: Bloomberg). Czech January inflation, which may exceed that recorded in December, will not be announced until 10 February 2023.



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The yields of Czech sovereign bonds with longer maturities declined significantly from their highs down to the current approximately 4.6 percent (the ten-year Czech Republic's sovereign bond). Lower inflation growth, which reached 15.8 percent, y/y, compared to the expected 16.2 percent in December 2022, also helped the decline in Czech government bond yields.



As regards this year, analysts estimate that the aggregated S&P 500 Index corporate profits should go up by 3.4 percent, and revenues by 2.6 percent. (Source: FactSet). It is the expected growth in profits and the hopes of falling interest rates, assuming slowing inflation, that could support the growth of equity markets this year.

Hand in hand with market optimism, also the RIS mutual funds entered the New Year positively and, in most cases, they gained in the order of several percent points in the first month alone. This result has been contributed to significantly by the chosen investment strategy. Primarily worth mentioning in this sense is prolonged duration (average term to maturity) of the bonds held, when, for example, the Index of Czech sovereign bonds with maturities of 1-3 years strengthened by 0.4 percent in January, while its counterpart mapping up the development of the segment with maturities in excess of 10 years jumped up by a major 4.4 percent over an identical period of time. In the course of the month, managers also realized profits from short-term trading, for example, repeated purchases and sales of an instrument called 'Lyxor Bund Future Daily -1x Inverse UCITS ETF', profiting from the growth of the yields of 10-year German government bonds, but also of other exchange-traded funds (ETFs). The chosen investment strategy and active investment approaches making use of short-term changes in the prices of financial assets significantly contributes to this year's attractive appreciation of assets in the RIS funds.

The development of global inflation and the end of the cycle of interest rate hikes by central banks remain the decisive factors for the further development of financial markets, in addition to the growth of profits of individual companies. Generally speaking, both macro and micro indicators may play stronger roles than in the previous months because decisions will be made about the further directions of the central banks' monetary policies. Also, the war conflict in Ukraine and recession in Europe remain risk factors.

**In our investment strategies, we keep the duration of the bond component weighted with the benchmark. We also consider further moderate extension of such duration. As regards equities, we maintain neutral positions against bonds. In the event of declines in the equity markets, we are prepared to increase the equity component and its gradual over-weighting against bonds. The majority of investment ventures have been directed to the United States markets, while the other regions, such as Europe, the Pacific, and the Emerging Markets, have still been under-weighted.**

We wish you much success in the coming period!

For the Asset Management team,

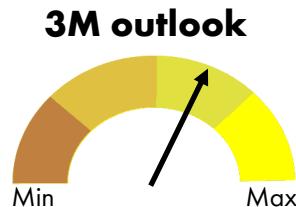
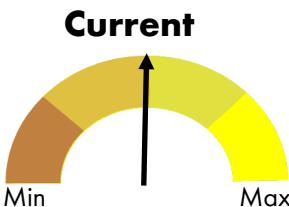
Mr Michal Ondruška



## Summary of Investment Strategies

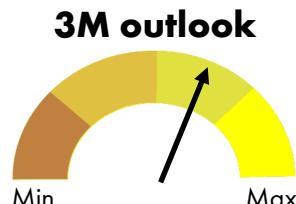
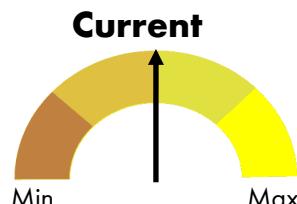
### Tactical Allocation

Equity overweighted in portfolios



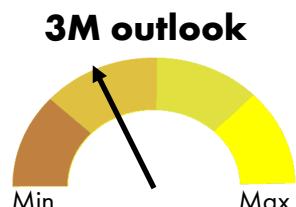
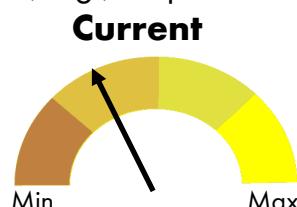
### Interest Rate Risk

Average bond maturities (Duration)



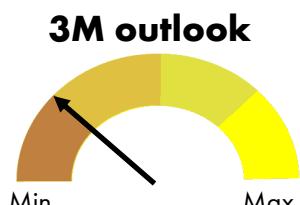
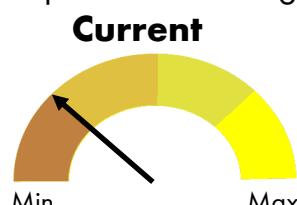
### Credit Risk

Portions of, e.g., corporate bonds



### Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 February 2023.

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