



Equity Markets Corrected Previous Growths in September

The most closely watched S&P 500 Index dropped by 4.6 percent in the course of September. The chief reasons behind the weakening of that equity index were statements by FED members that the benchmark interest rate might be hiked from 5.5 percent up to 5.75 percent later in the year, and that the interest rate would remain on such a higher tier for a prolonged period of time, prior to its reduction during next year. A certain role may have been played by the seasonality factor because September ranks among the statistically worst months of the year as regards performances of the S&P 500 Equity Index.

Among the sectors, the best performing last month were the Energy Sector (+3.7 percent), which benefited from the rising price of oil. Other sectors were lagging behind, particularly the Health Services Sector (-2.6 percent) and the Finance Sector (-2.6 percent). On the other hand, the worst performances were recorded by the Technology Sector (-7.0 percent) and the Real Estate Sector (-8.3 percent).

The FED kept the benchmark interest rate at 5.50 percent throughout September, but it may rise it further later this year. The ECB increased the deposit rate from 3.75 percent up to 4.0 percent in September. The Czech National Bank ("CNB"), in keeping with expectations, has maintained the repo rate at 7 percent p.a. Today, the PCE (Personal Consumption Expenditures) Index for August is going to be published in the United States, something that is mainly followed up by the FED. The index is expected to rise up to 3.5 percent, y/y, in respect of August, as against 3.3 percent, y/y, in July. Estimates have it that the Euro Area inflation growth rate (CPI) slowed down to 4.5 percent, y/y, in the course of September, from 5.2 percent, y/y, in August, which would be the good news.

The yield of the ten-year German sovereign bond increased from 2.5 percent p.a. as high as up to 2.9 percent p.a. The yield of the U.S. Treasury with identical maturity has jumped as much as up to 4.6 percent p.a. In September, the prices of bonds dropped both in the United States and in Germany, since inflation still remained at higher levels and the central banks could not exclude further hiking of their interest rates.

At the end of September, the yield of the Czech sovereign bond with ten-year maturity reached approximately 4.7 percent p.a., something which, by coincidence, equalled similar yields reported from the United States. In spite of this, analysts anticipate reduction of the benchmark interest rate in the Czech Republic by the end of the year. Nevertheless, the rhetoric of the CNB indicates that the bank intends to stick to its benchmark interest rate currently sitting at 7 percent p.a. also in the coming months.



»» Commentary on Financial Markets

The anticipated P/E of 18 (*Source: FactSet*) for the coming 12 months is somewhat lower for the S&P 500 Index than its five-year average of 18.7 (*Source: FactSet*); however, it is at the same time higher than its ten-year average of 17.5 (*Source: FactSet*), which indicates that the markets have not been significantly underestimated, also given higher current interest rates. Therefore, it will remain important for the future how inflation is progressing and how profits of individual companies grow.

It is the forthcoming season when the 3rd quarter economic results are supposed to be released that might hint the answer. Analysts guess that next year might see a two-digit aggregated profit in the S&P 500 Index, something which – together with anticipated declining inflation – might uphold the equity markets. Nevertheless, next month might bring higher volatility and uncertainty to the markets, namely, as a result of the economic results reported by corporations and the in-coming inflation figures. Probably the biggest current risk is described as fears of a possible recession, if the central banks continue to hike their interest rates, while failing to facilitate a 'soft landing' for the individual economies.

No significant changes have occurred as regards the investment strategies of the RIS funds. In spite of some negative developments regarding the markets, we have managed to generate some short-term profits using the iShares STOXX Europe 600 Basic Resources UCITS ETF instrument in respect of certain specified funds. Also worth mentioning are selective moderate reductions of exposition of the Finance Sector in some selected portfolios, in favour of the Communications Sector. On the bond side, we took advantage of a drop in the prices of U.S. Treasuries and continued to buy with the iShares US Treasury Bond ETF. Also, we gradually commence buying more bonds with lower credit qualities using the SPDR Bloomberg High Yield Bond ETF. We wish to pay more attention to so-called 'high yield bonds' in the coming months. We have currently been valuing our free funds denominated in CZK, by way of deposits for interest rates close to the CNB base rate, i.e., 7 percent p.a.

As far as our investment strategies are concerned, we maintain overweight equities as against bonds. Regarding the regions, we overweight North America and the emerging markets, while slightly underweighting Europe and the Pacific. Among the sectors, we overweight the Technology Sector, the Industry Sector, and the dividend-paying shares segment. Our bonds strategies favour the maintenance of longer average maturity of bonds (duration) as against bond benchmarks. We prefer sovereign bonds to corporate issues.

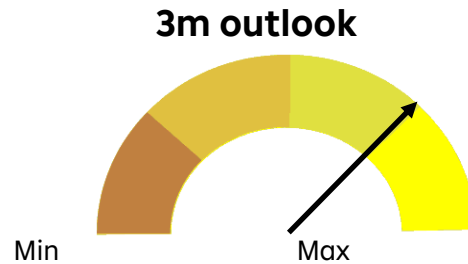
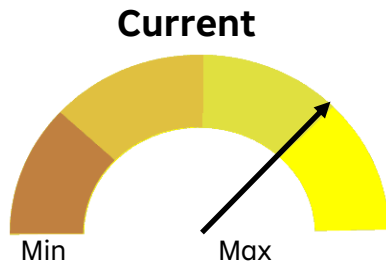
We wish you much success in the coming period!

Mr Michal Ondruška

Summary of Investment Strategies:

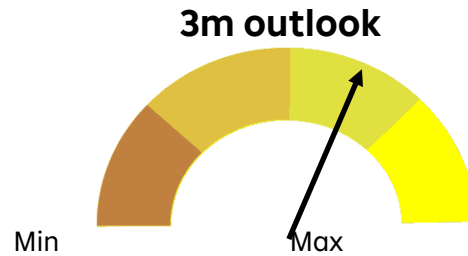
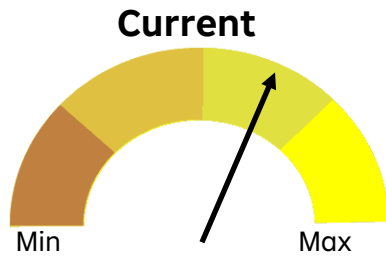
Tactical Allocation

Equity overweighted in portfolios



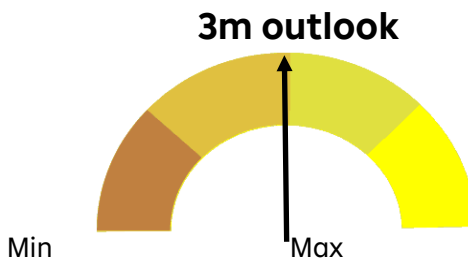
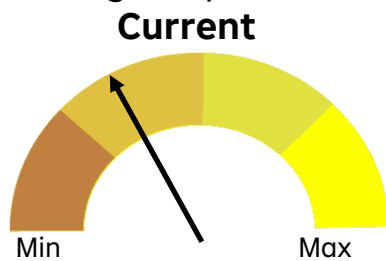
Interest Rate Risk

Average bond maturities (Duration)



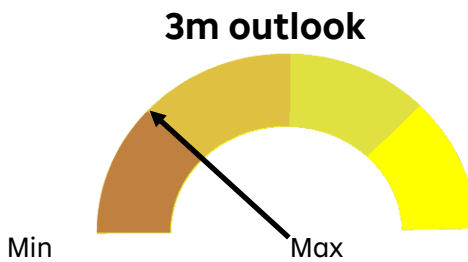
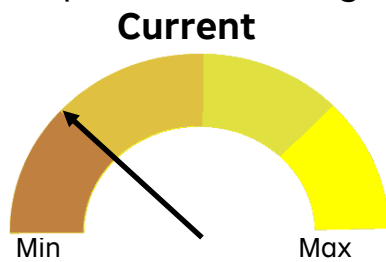
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisen investiční společnost, a.s., data valid as of 29 September 2023.

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