



Equity Markets Under Correction

Negative sentiments prevailed on equity markets also in October. The most closely watched S&P 500 Index weakened again in the course of October, namely by 2.2 percent. The main reasons behind such corrections of the equity index still remain high inflation and risk of growing yields of the 10-year U.S. sovereign bonds, which exceeded the psychological limit of 5 percent p.a.

Investors fear that the economy of the United States may slide into a recession due to higher rates. Nevertheless, the growths of the U.S. GDP highly exceeded market expectations in the third quarter of 2023. Probably thanks to the higher bond yields, the FED leaves the benchmark interest rate without any changes at 5.5 percent p.a. in November, although its increasing cannot be excluded at all.

Among the sectors, the best performing were the defensive Utilities Sector (+1.3 percent) and the Technologies Sector (0 percent) last month. Other sectors were losing. The worst performances were recorded by the Consumer Durables Sector (-5.5 percent) and the Energy Sector (-5.75 percent).

The season of disclosing of the economic results for the third quarter has been under way in the United States. Summing up, corporate profits have done better than market expectations. For example, the Technologies Sector was supported by the results reported by Microsoft and Intel, that were better than expected by the markets. Similarly positive results were achieved by Netflix and Verizon, both of them belonging to the Communications Sector. On the contrary, both the results and the outlook published by the Tesla car maker were a disappointment for investors. The Consumer Durables Sector, thus, was saved by the figures generated by Amazon.

The ECB retained the deposit rate at 4.0 percent in October, and it is likely that no further hiking of that rate would take place. The Czech National Bank ("CNB"), in keeping with anticipations, has maintained the repo rate at 7 percent p.a.; nevertheless, the market envisages that the CNB would cut down on its rates before the end of this year, possibly at its session on Thursday 2 November 2023. The U.S. PCE (Personal Consumption Expenditures) Index, which follows, in respect of inflation, the FED, increased by 3.4 percent, y/y, in September, something that corresponded to analysts' views.

The yield of the ten-year German sovereign bond fluctuates around 2.8 percent p.a. The yield of the U.S. 'Treasury' with identical maturity has jumped up to approximately 4.9 percent p.a. At the end of October, the yield of the ten-year Czech sovereign bond moved around 4.7 percent p.a., which is below the yield of the similar bond in the United States.



»» Commentary on Financial Markets

The anticipated P/E of 17.1 (*Source: FactSet*) for the coming 12 months is somewhat lower for the S&P 500 Index than its five-year average of 18.7, and lower than its ten-year average of 17.5 (*Source: FactSet*). This indicates that the markets have not been overpriced. But taking into account also the current higher interest rates, bonds seem to be more attractive thanks to their low risk premium. Therefore, it will be important how inflation is going to be developing in future and whether interest rates would be reduced without any impacts from recession.

Analysts anticipate a two-digit aggregated increase of profits in the S&P 500 Index for next year (*Source: FactSet*), although their optimistic expectations have been slightly curtailed in the past days. November and December belong to months with statistically better performances, so it is possible that the moods on the equity markets will improve. Probably the most serious current risk remains in the form of fears of potential recession, if the central banks continued to hike their interest rates and fail to facilitate a 'soft landing' for the individual economies. The Middle East war conflict and its potential spreading represent yet another risk facing the evolution of equity markets.

As regards the investment strategy of the RIS funds, we responded in October to increased volatilities occurring across markets and asset classes. We made use of high activities noticed on the part of traders with U.S. bonds and – with the help of the instrument named iShares iBoxx Investment Grade Corporate Bond ETF – we were involved in several days of trading. On the bond side, beside short-term trades with the instrument called iShares STOXX Europe 600 Basic Resources ETF, we also adjusted the sector structure in respect of several selected funds. It resulted in a moderate reduction of the Energy Sector and the overweight technologies, and we have invested such released funds in the Communications Sector and the Industrial Sector. Also worth mentioning is a moderate reduction of our exposition as regards ČEZ or purchases of gold miners.

As far as our investment strategies are concerned, we maintain overweight equities as against bonds. As for regions, we overweight North America and the emerging markets, while slightly underweighting Europe and the Pacific Area. Among the sectors, we overweight the Technologies Sector, the Industrial Sector, and the dividend-paying equities segment. Our bond strategies are based on maintaining longer average maturity of bonds (duration), as against bond benchmarks. We prefer sovereign bonds to corporate issues.

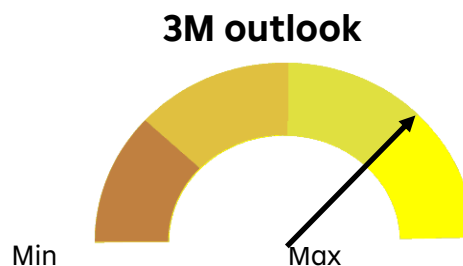
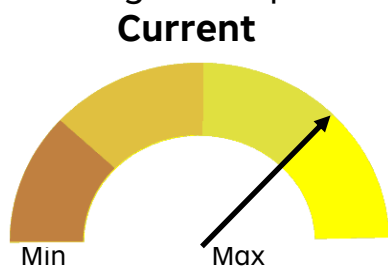
We wish you much success in the coming period!

Mr Michal Ondruška

Summary of Investment Strategies:

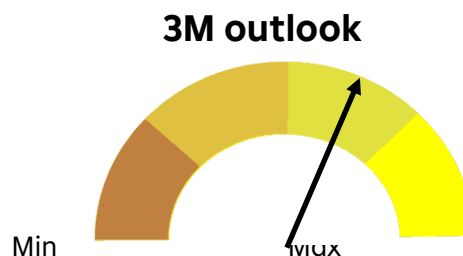
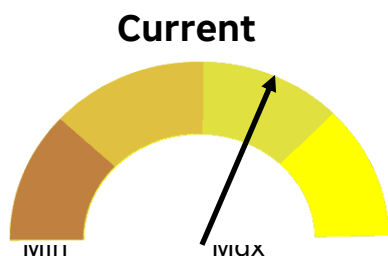
Tactical Allocation

Equity overweighted in portfolios



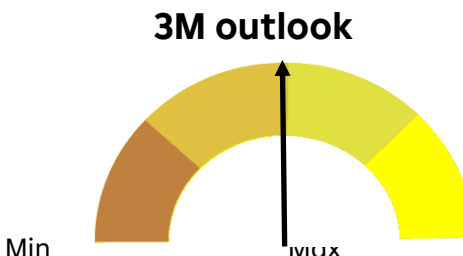
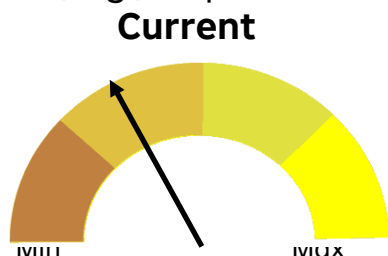
Interest Rate Risk

Average bond maturities (Duration)



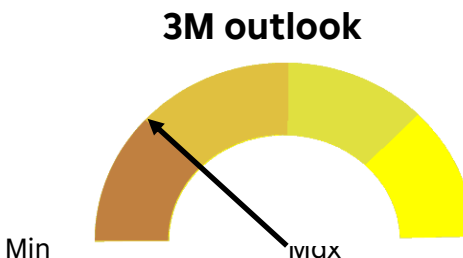
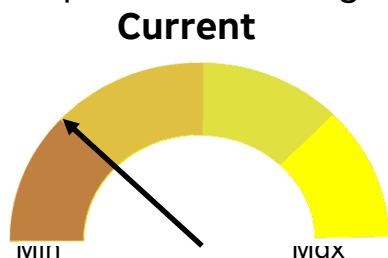
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisen investiční společnost, a.s., data valid as of 1 November 2023.

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