Raiffeisen
Investiční společnost

Commentary on the Financial Markets

01/24

Stock and bond markets continued to rise during December

The very positive sentiment of November 2023 continued in both the stock and bond markets. Investors' optimism was based mainly on the expected slowdown in inflation and the decline in interest rates, as well as on the expected double-digit growth in corporate profits in 2024. The most-watched stock index, the S&P 500, rose 4.1% during December 2023.

At its last meeting in December, the FED indicated that it would cut the key interest rate by 0.75% p.a. this year, but investors expect that the FED may cut the rate by as much as 1.50%. Similarly, investors expect interest rates to be cut in the EU, although the ECB has not given a clear outlook on whether and when it will cut rates.

The yield on the US government bond with a maturity of 10 years fell from 4.3% p.a. to 3.9% p.a., and the German government bond with the same maturity fell from 2.4% p.a. in November to around 2% p.a. at the end of December 2023. The growth rate of inflation (CPI) in the US decreased from 3.2% y/y in October to 3.1% in November, and in the euro area, the annual inflation growth reached 2.4% in November.

In line with analysts' expectations, the CNB lowered the repo rate to 6.75% p.a. at the end of December from 7.0% previously. Analysts expect this rate to reach around 4% p.a. by the end of 2024. At the end of December, the yield on the Czech government bond with a ten-year maturity was around 3.75% p.a.

The expected growth in earnings and the decline in global inflation may support the stock and bond markets this year. The economic results of companies for last year and managers' outlooks for this year will also give a hint. The results of larger companies and banks will be published from around mid-January 2024. The war in Ukraine and geopolitical frictions, including fears of a return to higher inflation and a possible recession, remain among the main risks for financial markets.

The positive mood at the end of last year had a positive effect on the performance of RIS funds. Not only stocks grew, but also the prices of bonds, both Czech, European and North American. On the overall annual balance sheet, overweighting stocks proved to be the right investment strategy, and on the bond side, extending the average time to maturity (duration). From the point of view of individual trades for the month of December 2023, on the equity side, it is worth mentioning the purchase of ČEZ shares after an interesting price drop. On the bond side, there is the purchase of euro bonds (both government and corporate) with different maturities using exchange-traded instruments (ETFs).

We believe that the financial markets will be in a good mood also in the coming year, which should be marked by interest rate cuts, and that the growth trend, despite the usual price fluctuations, will continue.

As part of our investment strategies, we also outweigh stocks over bonds. In terms of regions, we predominate North America, slightly underweight Europe and the Pacific, and are tied to emerging markets. Of the sectors, technology, industry and dividend stocks predominate. <u>As part of our bond strategies, we are considering shortening the average length to maturity (duration) to a neutral or slightly overweighted degree.</u> This is due to the strong growth in bond prices (a decline in bond yields) at the end of last year. We prefer government bonds to corporate issues.

In conclusion, let me thank you for your trust in the past year and wish you good health, happiness and well-being in the new year 2024. Thank you for being with us and we look forward to further cooperation!

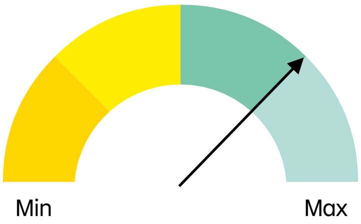
Michal Ondruška
CIO, Member of the Board

Investment Strategy Summary

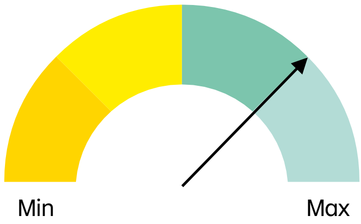
Tactical Allocation

Overweighting of stocks in portfolios

Current



3-month outlook

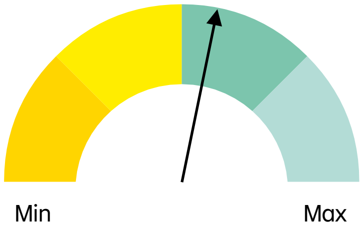


Interest Rate Risk

Average duration of bonds

Current

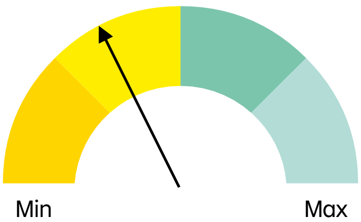
3-month outlook



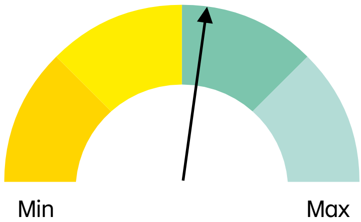
Credit Risk

Share of corporate bonds

Current



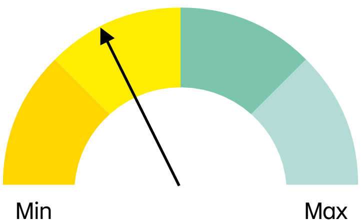
3-month outlook



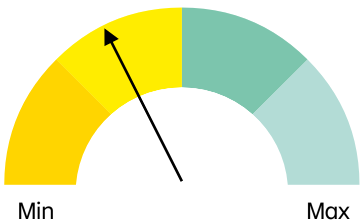
Currency Risk

Unhedged positions in foreign currency

Current



3-month outlook



source: Raiffeisen investiční společnost, a. s., as of January 2nd, 2024

Disclaimer:

All opinions, information, and any other data contained in this document are for informational purposes only, non-binding, and represent the opinion of Raiffeisen Investment Company a.s. ("RIS"). Unless otherwise stated, the source of information is the Bloomberg system or RIS.

The information in this document is based on publicly available sources that RIS considers reliable, but the information has not been verified by independent third parties. Despite taking all due care to ensure the accuracy of the information provided, impartiality, and appropriateness of the statements, RIS does not guarantee or assume responsibility for the timeliness, completeness, and accuracy of the content of this document.

References to documents of other entities do not imply that RIS endorses, recommends, or approves of these documents. The statements in this document are the author's opinion as of the date of issuance of this document, may not necessarily reflect the views of RIS, and may be changed without prior notice.

RIS is not responsible for any losses or damages that may arise in connection with the use of this publication. This document does not constitute an offer to buy or sell any financial asset or other financial instrument.

Before making any investment decision, it is the responsibility of each investor to obtain detailed information about the intended investment or trade. RIS is not responsible for any damages or lost profits caused by any third parties' use of the information and data contained in this document.

RIS points out that providing of the investment service Asset Management of RIS funds, is associated with a number of risk factors that may affect the profitability or loss of the investment. Investments are not bank deposits and are not insured under the deposit insurance fund. The higher the expected return, the higher the potential risk. The duration of the investment also affects the level of risk. The return also fluctuates due to fluctuations in exchange rates and interest rates.

The value of the invested amount and the return on it may increase or decrease, and the return of the originally invested amount is not guaranteed. Past or expected performance does not guarantee future performance. Due to unpredictable fluctuations and events in financial markets and the risk of investment instruments, the achievement of the client's investment goal may not be guaranteed.

The returns from investments must be reduced by the remuneration and costs of RIS agreed upon in the contractual documentation, or by the remuneration and fees specified in the RIS remuneration and fees schedule. The taxation of client's assets always depends on the client's personal circumstances and may change. RIS does not provide tax advice, and therefore, the responsibility associated with the tax consequences of investments remains fully with the client. The offer of investment services may not be presented to a client defined as a US person.

Information about Raiffeisen investiční společnost a.s.

Raiffeisen investiční společnost a.s. is an investment company based at Hvězdova 1716/2b, Prague 4, with registration number (IČO) 29146739. It is registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File No. 18837. The supervisory authority overseeing Raiffeisen investiční společnost a.s. is the Czech National Bank.

The information provided in the document is accurate as of January 2, 2024. However, please note that these information may change in the future, and Raiffeisen investiční společnost a.s. is not obligated to inform the recipients of the document about such changes.

Raiffeisen investiční společnost a.s. reserves the right to act based on the information or conclusions contained in this publication even before the publication is distributed to others.