Raiffeisen
Investiční společnost

Commentary on the Financial Markets

02/24

The S&P 500 stock index hit new highs.

The positive mood on the stock markets from the end of last year persisted during January. The most-watched stock index, the S&P 500, gained 1.6% for the month and the global MSCI World gained 0.3%. The S&P 500 index reached a new all-time high. Earnings season is underway in the U.S. and Europe. In the U.S., more than 30% of S&P 500 companies have already published their results. About 68% of them had better-than-expected profit per event, and 69% had better-than-expected revenue.

Among the sectors, the best performers last month were communications (+4.4%), financials (+3.1%) and technology (+2.7%). On the other hand, the worst performers were recorded by the real estate (-4.8%) and durable consumption (-4.4%) sectors. Tesla, which carries a lot of weight in the durable goods sector, had worse-than-expected results for the fourth quarter of last year, and the decline in its shares also contributed to the overall decline in the sector. On the other hand, the communications sector was helped by improved outlooks for future earnings for Netflix and Verizon.

Chipmakers Intel and AMD disappointed with their outlook for earnings growth in the next quarter, to which both titles responded with a decline. Alphabet shares reacted similarly. Microsoft's results exceeded market estimates, yet its shares fell slightly after the results. From investors' reactions to the economic results of technology companies, it can be seen that investors' expectations with regard to the growth of the artificial intelligence (AI) segment are relatively high.

The Fed left the key interest rate unchanged at 5.5% at its January meeting and indicated that it would not cut the rate during March. The Fed has previously indicated that it will cut the key interest rate by 0.75% p.a. this year, but investors estimate that the Fed may cut the rate by as much as 1.50%. After yesterday's FED meeting, investors shifted their assumptions for the first reduction in the key interest rate from March to May.

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 the rate to be cut at every CNB meeting. The repo rate could thus reach around 4% p.a. by the end of 2024. At the end of January, the yield on the Czech government bond with a ten-year maturity was around 3.9% p.a.

The projected P/E of 20.0 (source: FactSet) for the next 12 months for the S&P 500 is higher than its five-year average of 18.8 and higher than its 10-year average of 17.6 (source: FactSet). Analysts expect double-digit aggregate earnings growth for the S&P 500 this year and next (source: FactSet). The expected growth in earnings and the decline in global inflation may support the stock and bond markets this year.

The war in Ukraine and other geopolitical tensions, including fears of a return to higher inflation and a possible recession, remain among the main risks for capital markets.

In January, we responded to increased volatility across markets when managing RIS funds. On the Czech government bond side, we sold long bonds maturing in 2035 at the beginning of this year, and at the end of January we bought them at lower prices. CEZ shares were managed in a similar way, first selling them at the beginning of the year and then buying them at lower prices. There were also more shorter trades with sectoral equity ETFs such as Lyxor Japan TOPIX, iShares STOXX Europe 600 Basic Resources, Lyxor Nasdaq 100 and iShares STOXX Europe 600 Oil & Gas. Within the Alternative Fund, there has been a reduction in positions in the sectors of agriculture, food and beverage, mining, robotics and automation. These positions have been replaced by broadly diversified commodity ETFs.

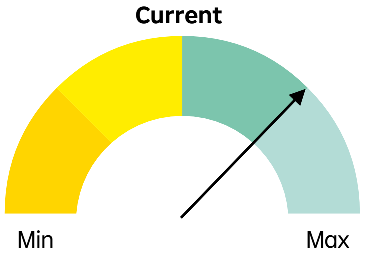
As part of our investment strategies, we still overweight stocks over bonds. In terms of regions, we overweight North America, slightly underweight Europe and the Pacific, and are neutral to emerging markets. Of the sectors, technology, industry and dividend stocks predominate. As part of our bond strategies, we have shortened the average length to maturity (duration) of bonds to levels close to neutral to slightly overweight. This was due to the strong growth in bond prices (a decline in bond yields) at the end of last year. For the next period, we are considering further increasing the overweighting of shares against bonds. This is due to our favorable expectations for the appreciation of stocks compared to bonds this year.

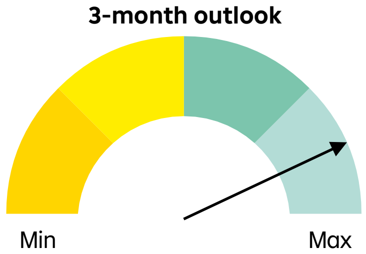
We wish you success in the upcoming period!

Michal Ondruška
CIO, Member of the Board

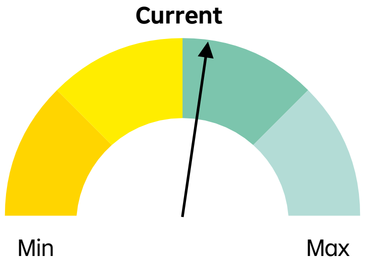
Investment Strategy Summary

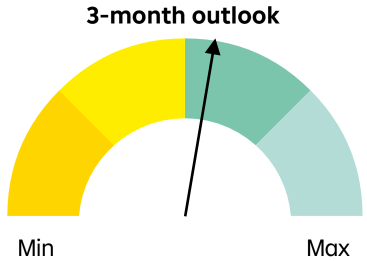
Tactical Allocation
Overweighting of stocks in portfolios



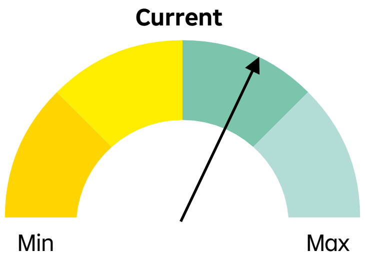


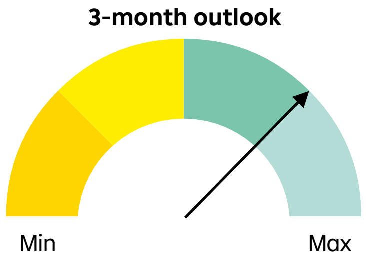
Interest Rate Risk
Average duration of bonds



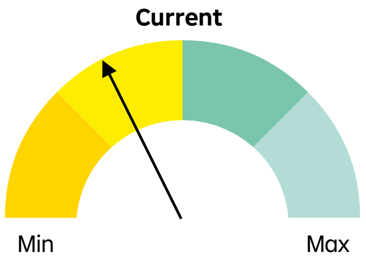


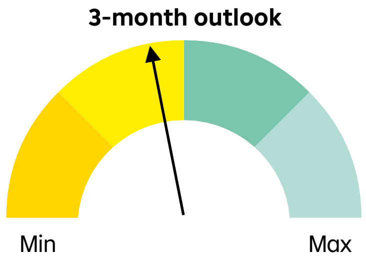
Credit Risk
Share of corporate bonds





Currency Risk
Unhedged positions in foreign currency





source: Raiffeisen investiční společnost, a. s., as of February 1st, 2024

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