Raiffeisen
Investiční společnost

Commentary on the Financial Markets

03/24

The S&P 500 stock index again at an all-time high

The mood on the stock markets continued to be positive during February. The most-watched stock index, the S&P 500, gained 5.2% for the month and the global MSCI World gained 4.2%. Both indices reached new all-time highs on the last day of February. In the U.S. and Europe, earnings season is coming to an end. In the S&P 500, 73% of companies had better-than-expected earnings.

Among the sectors, durable goods (+7.9%), industrials (+7.2%) and materials (+5.3%) were the best performers last month. The worst performers were real estate (+2.6%) and utilities (+1.1%). It is worth mentioning Nvidia's economic result, which exceeded market expectations. Nvidia has become the third-largest company in the S&P 500 index, behind Microsoft and Apple. Clearly, the topic of AI continues to attract investors.

The Fed will meet in March, but has previously indicated that it will not rush to cut the key interest rate. The FED has indicated that the rate will fall by 0.75% p.a. this year, but its first cut will probably not occur until June or July this year.

The yield on the US Treasury bond with a maturity of 10 years exceeded 4.3% in February, but after the latest inflation figures, which met market expectations, the yield fell below this limit again. A German government bond with the same maturity trades at a yield of around 2.45% p.a.

In line with analysts' expectations, the CNB lowered the repo rate by 0.50% to 6.25% p.a. Analysts expect the rate to cut again by 0.50% at the next meeting in March. After a smaller-than-expected increase in the inflation rate for January (2.3% y/y), analysts now expect the repo rate to reach around 3.50% p.a. by the end of 2024. The yield of the Czech government bond with a ten-year maturity is around 3.9% p.a.

The S&P 500's expected P/E of 20.4 for the next 12 months is higher than its five-year average of 19 and higher than its 10-year average of 17.7 (source: FactSet). Analysts estimate an 11 percent aggregate increase in earnings for S&P 500 companies this year (source: FactSet). Aggregate revenues of S&P 500 companies are expected to grow 5% this year. 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 frictions, including fears of a return to higher inflation and a possible recession, remain the main risks for capital markets this year.

Last month, RIS funds again participated in the growth of the markets to an increased extent thanks to the continued strategy of overweighting stocks at the expense of bonds. The rate of overweighting of equities is in the order of higher units of percentage points, despite continuously realized profit-taking from positions such as the Vanguard S&P 500 ETF, Financial Select Sector SPDR Fund, iShares Global Healthcare ETF, etc. There were several changes in the structure of the bond segments of the funds during the month, the most obvious of which was the shift of investments from corporate bonds issued by European issuers to bonds of companies in the US. The motive for these deals is the different condition, or growth prospects, of the economies in Western Europe and overseas. With regard to the expectation of a sharp reduction in interest rates by the Czech National Bank this year, reflected in the current prices of CZK bonds, the uninvested funds will most likely be directed primarily to developed bond markets abroad. In our opinion, the intensity of monetary policy easing by both the US Fed and the European Central Bank provides more room for positive surprises (i.e. a growth impulse for bond prices) this year.

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. As part of our bond strategies, we maintain a neutral to slightly overweighted duration on one-crown bonds and an overweighted duration on dollar bonds. In our opinion, dollar bonds offer an interesting potential for future growth in their prices.

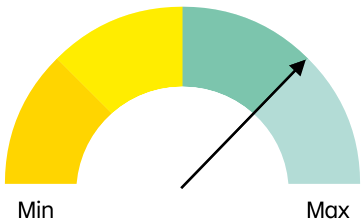
We wish you success in the upcoming period!

Michal Ondruška
CIO, Member of the Board

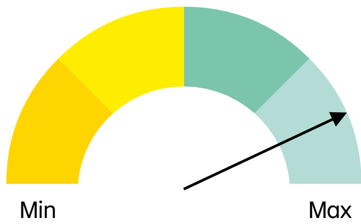
Investment Strategy Summary

Tactical Allocation
Overweighting of stocks in portfolios

Current

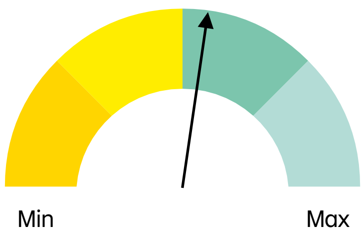


3-month outlook

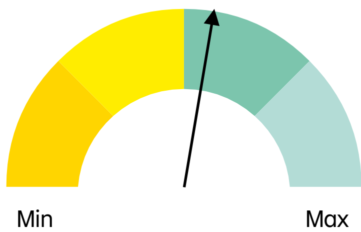


Interest Rate Risk
Average duration of bonds

Current



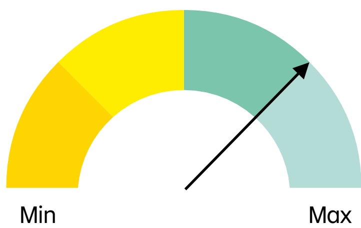
3-month outlook



Credit Risk
Share of corporate bonds

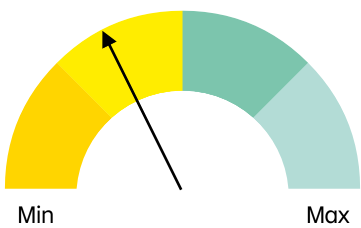
Current

3-month outlook

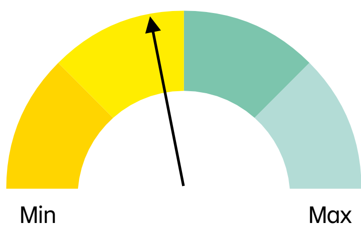


Currency Risk
Unhedged positions in foreign currency

Current



3-month outlook



source: Raiffeisen investiční společnost, a. s., as of March 1st, 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 March 1st, 2024. However, please note that this 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.