

Commentary on the Financial Markets

04/24

Stock markets rose again in March

The most-watched S&P 500 index gained 3.6% during March, and the global MSCI ACWI added 3.3%. Both indices reached new all-time highs. Investors are slowly preparing for the company's earnings season for the first quarter, which may give an indication of which direction stock markets will take again after strong growth since the beginning of the year.

Among the sectors, energy (+10.1%) was the best performer last month, benefiting from rising oil prices. The materials (+6.9%) and utilities (5.8%) sectors also performed well. The worst performer was recorded in the durable goods sector (+0.4%), where shares of Tesla and Nike, for example, fell.

The Fed has left the key interest rate unchanged at 5.50%, but it is likely that its first cut will not occur until June or July at the earliest. For the year as a whole, the Fed is expected to cut its benchmark interest rate by 0.75% to 4.75%. Similarly, the ECB is expected to cut the deposit rate from 4.0% to 3.25% this year (source: Bloomberg). In line with market expectations, the CNB set the repo rate at 5.75% p.a. at its March meeting. A further cut of 0.50% is expected at the May meeting.

The yield on the ten-year German government bond is around 2.35% p.a. And the yield of the US "treasury" with the same maturity climbed over 4.3% p.a. The latest published ISM manufacturing index reading has gone over 50 points, for the first time since September 2022. This indicates growth in the US economy, but at the same time upward pressure on prices. In March, bond yields in both the US and Germany rose slightly as inflation remains at higher levels.

The yield on the Czech government bond with a ten-year maturity reached 3.9% p.a., which is already lower than its US counterpart. Analysts expect the CNB to cut the 2-week repo rate from the current 5.75% to 3.5% by the end of this year.

The expected P/E of 20.4 for the next 12 months for the S&P 500 is slightly higher than its five-year average of 19.0 and also higher than its 10Y average of 17.7 (source: FactSet), indicating that markets are slightly overvalued. Therefore, it will be important in the future how inflation develops and how the profits of individual companies grow. It is the upcoming season of economic results for the 1st quarter of this year that can give a clue. Analysts estimate an aggregate increase of 3.6% in earnings and revenue for S&P 500 companies in the coming quarter. For 2024 as a whole, they estimate an 11% aggregate increase in corporate earnings in the S&P 500 index, which could support stock markets along with expected declining inflation.

In the past month, RIS funds have participated in the continuing growth of mainly stock markets. Selected mixed funds recorded a slight decrease in the equity component. Even after this adjustment, the overweight rate of the equity component of the portfolios remains at the level of units of percentage points. After a long period of growth in stock markets, we have partially withdrawn profits, mainly from the US markets. Position trades were also executed. We can mention the partial sale of Komerční banka's shares after several months of growth, or the repeated purchase and sale of Intel shares, always with a profit of several percent. Apple shares have been sold off in selected portfolios, as we believe that the company's growth potential has already been largely exhausted.

In the bond part of the portfolios, purchases were made of exchange-traded ETFs focused on US and European bonds, which we still consider to be more attractive compared to Czech bonds. We also took the opportunity to newly include a Česká spořitelna bond denominated in EUR and due in 2030 in selected funds.

As part of our investment strategies, we overweight stocks over bonds. Regionally, we are dominated by North America, slightly underweighted by Europe and the Pacific, and slightly overweighted in 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 CZK bonds and an overweight duration on dollar and euro bonds. In our opinion, these foreign currency bonds offer an interesting potential for future growth in their prices.

We wish you success in the upcoming period!

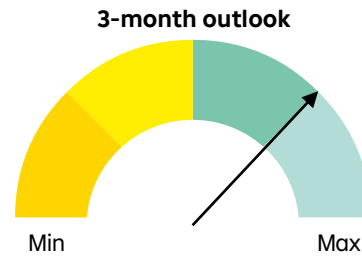
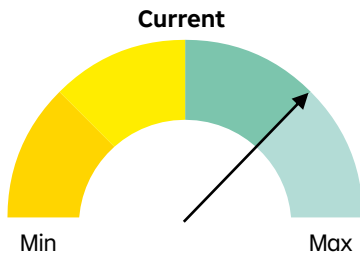


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Investment Strategy Summary

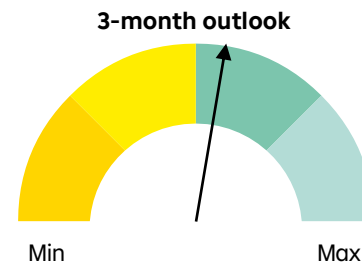
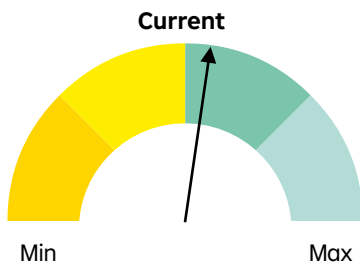
Tactical Allocation

Overweighting of stocks in portfolios



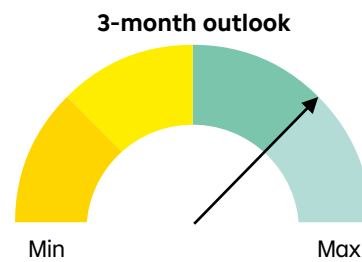
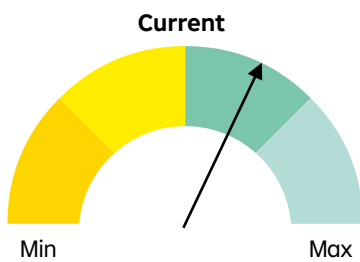
Interest Rate Risk

Average duration of bonds



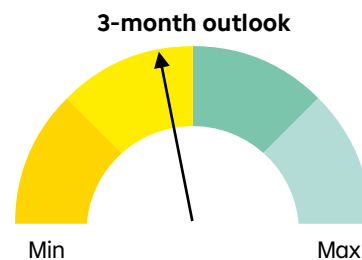
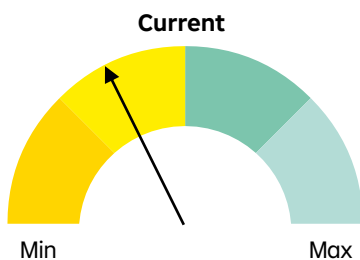
Credit Risk

Share of corporate bonds



Currency Risk

Unhedged positions in foreign currency



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