



# COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 08/2021

Prague, 02. 08. 2021

## Equity Markets' Growing Trends Also Continued in July

The most watched S&P 500 Index increased also in July, this time by 2.3 percent. The European Eurostoxx 50 index did not do so well, having added 0.75 percent, while the MSCI Emerging Markets Index even dropped by more than 6.7 percent. Among the U.S. sectors, the best performing last month were the Health Services Sector (+4.9 percent), the Real Estate Sector (+4.6 percent), the Utilities Sector (+4.3 percent) and the Technologies Sector (3.9 percent). On the contrary, the worst performing sectors included the Energy Sector (-8.3 percent) and the Financial Sector (-0.5 percent). The trends prevailing in the equity markets were affected, on the one hand, by the results reported by companies in respect of the second quarter of this year, and, on the other hand, by a somewhat more significant decline in the yields of sovereign bonds with longer maturities, primarily in the United States. The Volatility Index VIX might have retained its position around its long-term average value, however, as soon as during the month it indicated greater nervousness and uncertainty on the part of investors.

The companies' results-reporting season has been in full swing in the United States and in Europe. Almost 60 percent of the S&P 500 Index firms have already released their economic results. With 88 percent of companies, their growth rates of both sales and profits were better than expected by analysts. So far, the aggregated profits of the S&P 500 Index firms increased by 85 percent, while their sales grew by 23 percent in the second quarter of 2021 (Source: FactSet).

The June 2021 inflation in the United States and in the Czech Republic was higher than analysts' estimates. Inflation in the Euro Area also rose above the ECB's target, reaching an estimated 2.2 percent in July. Despite the risk of future higher inflation, the yield on the ten-year US sovereign bonds has fallen below 1.3 percent. The drop on yields has been attributed to both technical factors and to fears of the spreading of the Corona virus 'delta' mutation. In the Czech Republic, the yield of a similar bond fluctuates around 1.7 percent, however, probability has it that it may further increase following a session of the Czech National Bank, which indicated a further rise in interest rates as early as this past Thursday. The FED does not so far intend to boost its interest rates; still, it may restrict the volume of monthly purchases of bonds (USD 120 billion), probably at the beginning of next year. The markets would expect the FED chairman to make a statement on this topic at its Jackson Hole meeting at the end of August this year.

The envisaged P/E of 21.2 in respect of the next 12 months is higher for the S&P 500 Index than its five-year average of 18.1 (Source: FactSet). The yield of the ten-year U.S. sovereign bond remains relatively low, which may continue to support the equity markets, too, together with the robust growths of corporate profits.



Mr Michal Ondruška  
Manager, Asset Management



In the course of the first month of the summer holidays, our managed portfolios profited from the positive sentiments prevailing in the financial markets. Viewed by the funds under our management, it is worth to mention our purchase of an issue by Volkswagen with a three-year maturity and an attractive yield of 1.8 percent p.a. On the equities side, we have made use of higher volatility in order to generate some profits from short-term trading. In this way, for example, we sold some recently acquired stock-exchange-traded ETFs of gold miners with several percents' profit, and a week later we re-purchased them for a lower price. We made a similarly interesting return on ETFs of shares belonging to the Energy Sector. Also, for example, we bought some ETFs linked to the financial sectors in both the United States and in Europe in order to replenish our portfolios. As regards the Financial Sector, we expect some positive developments in the coming months, among other things, as a result of resumption of dividend payments, which were suspended during the Pandemic by way of resolutions issued by the central banks in order to maintain stability of the Financial Sector.

We continue to overweigh in equities both our fund and individual portfolios. In view of the possible increases of the rates, primarily in the Czech Republic, we maintain shorter average maturities of bonds as against the 'benchmarks'. We still continue to prefer growth regions and cyclical sectors, such as Technologies, Industry, Finance, and Consumer Durables Sectors.

We wish you a pleasant and peaceful summer.

For the Asset Management team,

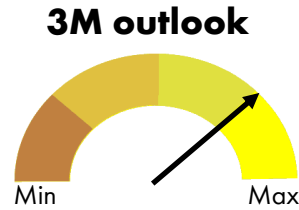
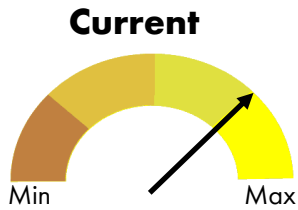
Mr Michal Ondruška



## Summary of Investment Strategies :

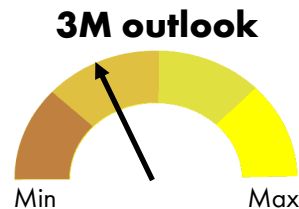
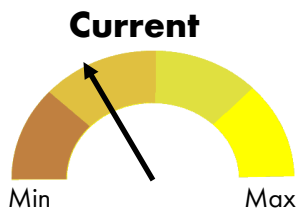
### Tactical Allocation

Equity overweighed in portfolios



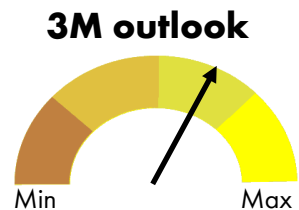
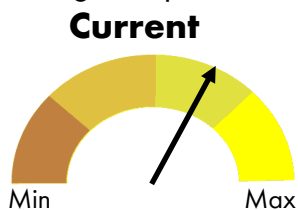
### Interest Rate Risk

Average bond maturities (Duration)



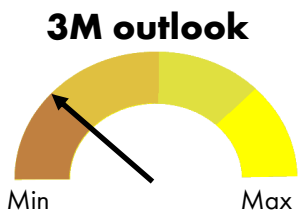
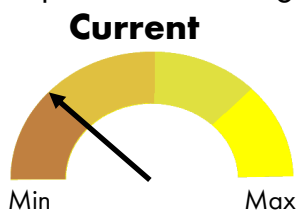
### Credit Risk

Portions of, e.g., corporate bonds



### Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 2 August 2021



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