COMMENTARY ON FINANCIAL MARKETS 01/2022

Prague, 3 Jan. 2022

Rich Christmas Presents in Equity Markets in December

In December 2021, the most closely watched S&P 500 Index added 4.4 percent and its growths culminated at 26.9 percent, without effect from dividends paid out over the entire last year. Among the sectors, the best performing last month were the defensive ones, such as the Consumer Goods Sector (9.7 percent), the Real Estate Sector (9.3 percent), the Utilities Sector (8.8 percent), and the Health Services Sector (8.6 percent). On the contrary, the worst performing were the Consumer Durables Sector (0 percent), the Energy Sector (+1.7 percent) and the Financial Sector (2.9 percent). As regards the entire last year, the best achiever was the Energy Sector (46.4 percent) and the bottom place went to the Utilities Sector (14.2 percent). The VIX Volatility Index stayed under its long-term averages, which indicated a calming down of both investors and the equity markets.

The FED has signalled that it would speed up the termination of the 'quantitative easing' as early as in next March. Also, the FED indicated that it might hike the rates in total 3-times by 0.25 percent in the course of the year. Investors expect inflation to start slowing down gradually in the United States, commencing in the first quarter of 2022.

Despite the fact that inflation, not only in the United States but also in Europe, has been higher than envisaged by analysts, the yield of the ten-year U.S. sovereign bond sticks to approximately 1.5 percent. The Czech National Bank's forcefulness again caught analysts unprepared; it responded to increasing inflation by yet another key interest rate hike from 2.75 percent up to 3.75 percent, and it has hinted that a further move in the upward direction might come in the course of this year's first quarter. CZK responded to the rate increases by strengthening below CZK 24.90 for 1 EUR. In the Czech Republic, the yield of the ten-year sovereign bond has increased and it now fluctuates slightly above 2.8 percent.

The envisaged P/E of 22 (*Source: Bloomberg*) in respect of the next 12 months has been higher for the S&P 500 Index than its five-year average of 18.4 (*Source: FactSet*). Nevertheless, the yield of the ten-year U.S. sovereign bond remains relatively low, while the aggregated growth of the S&P 500 Index corporate profits stayed high at 21.3 percent, y/y, also in the fourth quarter of 2021. Publication of last year's corporate results will commence during this month. The aggregated S&P 500 Index corporate profits are expected to grow by 9.2 percent, y/y, and of revenues by 7.5 percent, y/y, in respect of the entire year 2022 (*Source: FactSet*). Since analysts believe that also corporate revenues will be increasing at a single-digit rate, equity markets can no longer be expected to be growing as strongly this year as they did in 2021. RBI anticipate that the S&P 500 Index can reach the level of 5150 points at the end of this year (*Source: RBI*), which would represent an annual yield of approximately 8 percent this year.

Mr Michal Ondruška
Manager, Asset Management

Our managed mixed funds profited from the year-long over-weighting of equities and other high-risk assets as against conservative instruments also at the very close of 2021. As far as regions are concerned, primarily the developed equity markets on both sides of the Atlantic were doing well over the entire year; they have been what we have preferred in the long term in our client portfolios. On the equity side, we have mainly been spending any incoming cash for sector exchange-traded funds, so-called ETF, for example, with a focus on electrification of the automotive industry or communication services. Also, we took advantage of declines in some stock prices and replenished them at attractive prices (Netflix, NVIDIA, ČEZ). We complemented some selected funds with an ETF fund, whose aim was to copy the growth curve of the popular Bitcoin crypto-currency. We have held Bitcoin futures contracts in the above-mentioned ETF fund.

The trading of the Czech sovereign bonds took an interesting course in December. Initially, fears of the new strain of the Corona virus and higher volatility of equities pushed the prices of Czech bonds up in the first half of the month. Later, however, investors' expectations of a further rapid increase in interest rates by the Czech National Bank (which was confirmed by a factual hike in interest rates by 1 percentage point on 22 December) outweighed them, and then the Czech bond prices headed lower again. This trend gave us the opportunity of purchasing the Czech Sovereign Bond with maturity in 2029 for some selected portfolios at the beginning of December; then we sold it off after a few days with a one percent profit. Before the Christmas holidays, we re-purchased the same bond into the portfolios again, even at a lower price than that at the beginning of the month.

All-in-all, we have maintained our managed funds and individual portfolios over-weighted in shares and, due to possible further rate increases, we have also held a shorter average maturity bonds. Among sectors, we prefer growth sectors, such as the Technologies Sector, the Industry Sector, the Consumer Durables Sector, and the Financial Sector. Region-wise, we trust the developed markets, in particular the U.S. market, which also predominates in the assets we manage.

We wish you good health, personal satisfaction, and much professional success in the New Year!

For the Asset Management team,

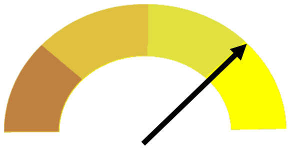
Mr Michal Ondruška

Summary of Investment Strategies:

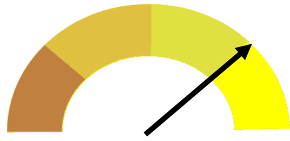
Tactical Allocation

Equity overweighted in portfolios

Current



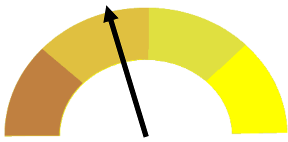
3M outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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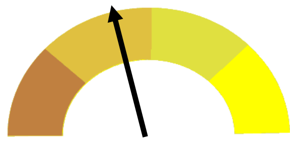
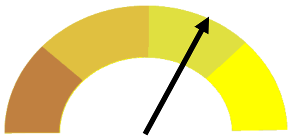


Credit Risk

Portions of, e.g., corporate bonds

Current



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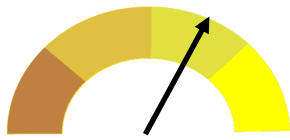
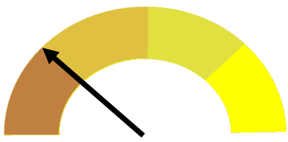


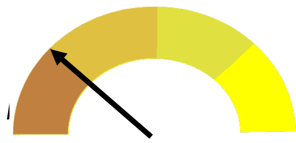
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 3 January 2022

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