



Prague, 2 Jan. 2023

No Presents from Santa for Equities in December

The most closely watched S&P 500 Index dropped by 5.9 percent in December 2022. Technological titles suffered an even higher setback, namely by 8.7 percent, measured by the Nasdaq Index. (Source: Bloomberg). Negative sentiments increased in particular following the December session of the U.S. FED, which published estimates produced by its members regarding future interest rates trends, so-called Dot Plot, according to which expectations for the level of the maximum interest rate of this cycle have shifted further upwards.

Bonds did not do well, either, as the yield to maturity of the U.S. 10-year Treasury increased by almost 30bp, up to 3.87 percent p.a.; Crown-denominated bonds were not left behind, either, having boosted their yields by approximately 5bp up to 5.10 percent p.a. (10Y CZGB, Source: Bloomberg). Some positive news regarding the just past month has come from the area of energy prices: the cost of both gas and electricity declined by more than 38 percent and 35 percent, respectively (Source: Bloomberg). Energy prices represent significant leading indicators of future levels of inflation. Czech inflation may also slow down due to the strong Crown, which has been the strongest against the EURO over in excess of the past ten years.

This year, we expect the situation facing the financial markets to calm down, especially in the second half of the year. Inflationary pressures should gradually subside, while the rhetoric of the central banks will probably change, too, namely in the direction of a possible easing of their monetary policies. As far as the Czech market is concerned, investors expect a decline in interest rates by more than 1 percent in the annual horizon this year (Source: Bloomberg). The war conflict in Ukraine remains a great uncertainty; its further development is *de facto* unpredictable and it can bring about strong negative – as well as positive – impulses to financial markets.

Viewed from the angle of several future months, we expect high volatility to prevail in the financial markets. The global economy starts to slow down and some regions have been heading to recession. The scenario of such slowdown or recession, in our opinion, has not been fully included in prices, in particular those of equities. Therefore, we cannot exclude further drops in the equity markets. On the other hand, new and long-term opportunities to buy high-quality companies have been opening up; and this represents a very good piece of news.



Mr Michal Ondruška
Manager,
Asset Management



We shall monitor the trends in profit and revenues reported by companies as the season for disclosing the economic results for the fourth quarter of 2022 begins in the days to come. Generally speaking, both macro and micro indicators can be playing a more important role in the following period than in the previous months, because the future trends in the monetary policies of the central banks will be decided there and then.

Neither the end of the year saw any major investment strategy changes regarding individual portfolios and the RIS funds. As part of our regional equity allocation, we have overweighted U.S. stocks to both European and emerging equity markets. As regards the bond portions of our portfolios, we still give preference to Crown-denominated Czech sovereign bonds. Although the end of December was marked by its 'Christmas holiday airs' and the transaction activities in both bond and equity markets declined to a recognisable degree, trading in respect of the RIS funds did not deviate from the average values even in the rest of the year. Statistically, the RIS funds executed more than 110 equity or bond deals in December 2022; as far as the entire year 2022 is concerned, the relevant figure exceeded 1,200 trading ventures.

During December 2022, after a rise in the prices of Crown-denominated bonds, the weight of the Czech sovereign bond with maturity in 2033 was reduced in some selected RIS funds; then this bond was re-purchased for a price 2 percent lower than the selling price. On the equities side of the RIS funds, some successful short-term transactions involving ČEZ stocks are worth mentioning. Using stock-exchange traded funds, so-called ETF, some selected RIS funds continued to reduce the weight of the energy sector, and – on the other hand – they slightly boosted the weight of technologies as well as the portion of medium-sized corporations and the U.S. financial sector.

As part of our investment strategies, we retain the duration of the bond portion on the par to overweight against the benchmark. We believe that a gradual U-turn in the interest rates trends will facilitate growths in the prices of bonds, namely those with medium-term and long-term maturities. On the equity side, we maintain a neutral positions against bonds. In the event of declines in the equity markets, we are prepared to increase the equity component and to have it gradually overweight bonds. The majority of investment ventures have been aimed at the U.S. market, while the other regions, such as Europe, the Pacific, and the Emerging Markets have so far remain underweighted.

In conclusion, let me thank you for your trust shown to us last year, and wish you good health, satisfaction, and successes in your personal life and in your businesses in the new year 2023. Thank you for being with us and we are looking forwards to future cooperation!

For the Asset Management team,

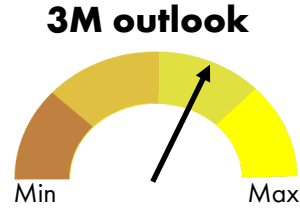
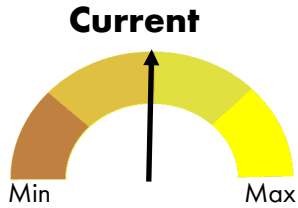
Mr Michal Ondruška



Summary of Investment Strategies:

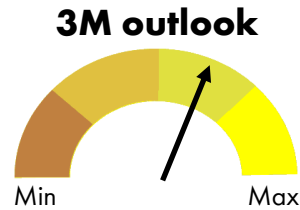
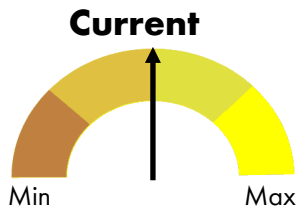
Tactical Allocation

Equity overweighted in portfolios



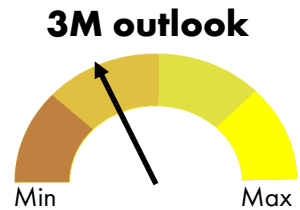
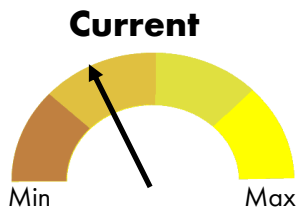
Interest Rate Risk

Average bond maturities (Duration)



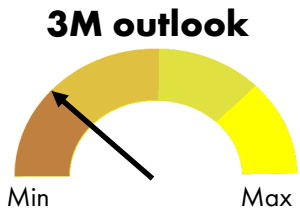
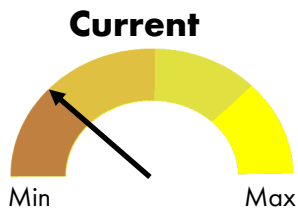
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 2 January 2023.



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