



Prague, 31 Aug. 2023

Equity Markets Took Time Off During August

The most closely watched S&P 500 Index weakened by 1.6 percent in the course of the month of August 2023. Such minor correction was caused by relatively high valuations of equity indices as against yields of the U.S. sovereign bonds, as well as by some other bad news. One: the Fitch agency has reduced its rating of the U.S. state debt; and two: the Moody's agency has cut down on the ratings of several U.S. banks. Moreover, difficulties resulting from core inflation in the United States have boosted the yields of the U.S. sovereign bonds with maturity of 10 years in excess of 4.3 percent p.a. Meanwhile, some more bad news has come from China regarding the Real Estate Sector (over-indebted companies, such as Evergrande and Country Gardea), accompanied by some feeble results scored by the leading PMI indicators, which represent a sign of stagnation of the Chinese economy. The Chinese Finance Ministry reduced the tax on securities transactions on Sunday, August 27, with the aim of stimulating the Chinese capital markets.

The 2023 second quarter earnings seasons has continued in the United States in August. The entire market concentrated in the first place on the results disclosed by NVIDIA, which exceeded the expectations of analysts. All in all, 80 percent of the S&P 500 Index companies generated better than expected profits.

The ECB, so far, sticks to its deposit rate of 3.75 percent, and its next session is planned to take place on 14 September. The FED has currently set its benchmark interest rate at 5.50 percent, and it will be in session on 20 September. At the end of August, slightly worse results were announced as regards the labour market in the United States, so it is possible that the FED will not increase its rates in September, although it would not exclude it, either (Source: Bloomberg). An important figure will be released today: expectations have it that the PCE price index will be growing at the rate of 3.3 percent, y/y, in the United States in respect of the month of July 2023. In the Euro Area, the speed of the inflation growth rate (CPI) remained at 5.3 percent, y/y, in August 2023. Both central banks have indicated that it will be the newly released macro-economic data that will decide whether the interest rates would or would not be shifted higher.



Mr Michal Ondruška
Manager, Asset Management



The yield of the ten-year German sovereign bond fluctuates around 2.5 percent p.a. at the end of August, and that of the U.S. "Treasury" with an identical maturity oscillates around 4.10 percent p.a. Yields of bonds in both the United States and in Germany increased in the course of the month of August, but they dropped again at the end of the month due to the above-mentioned unfavourable data from the U.S. labour market and the less advantageous figures in respect of the IFO Index in Germany. The yield of the Czech sovereign bond with a ten-year maturity was around 4.3 percent p.a. at the end of August. At the moment, the Czech National Bank („CNB“) has kept its benchmark interest rate at 7 percent p.a. The market expects the CNB to leave the interest rates unchanged throughout September (Source: Bloomberg).

During the drops in the markets, which we witnessed in the course of the first two ten-day terms in August, we increased some selected equity as well as bond positions in the RIS portfolio funds. The overwhelming majority of them found themselves at higher price levels as compared to the executed purchases at the close of the month; however, part of such profits has been realised as well. It was with the aim of extended holding that we have invested in, e.g., U.S. equities in the Information Technologies Sector or in low market capitalisation companies (so-called small caps); on the contrary, any purchased positions in global minors' ETFs were sold after approximately 14 days, thus earning several percent of profits. On the bond side, we have purchased U.S. sovereign as well as corporate bonds with longer maturities, again with the goal of earning profits from their short-term trading (the tool named "iShares iBoxx \$ Investment Grade Corporate Bond ETF" was sold for a price by 1.64 percent higher one week after its purchase). When the local bond market fully incorporated in its prices what we suspect will had been quite improbable longing for an almost 3-percent drop in the CNB benchmark interest rate in the horizon of the next 12 months, we sold Czech Republic's shorter maturity bonds. The monies thus released have currently been evaluated in the form of term deposits with interest rates close to the CNB benchmark rate, i.e., 7 percent p.a.

The decisive factors relevant for the future development of the equity markets include the future global inflation trends and an end of the cycle of interest rate hikes by central banks. Other further risks remain here in the form of such geo-political factors as the war in Ukraine and the tension between Taiwan and PRC. Analysts estimate next year's aggregated increase in profits in respect of the S&P 500 Index to reach two digits, something which could further strengthen the equity markets (Source: Bloomberg).

As far as our investment strategies are concerned, we maintain equities overweight against bonds. As far as regions are concerned, we overweight North America and the Emerging Markets, while slightly underweighting Europe and the Pacific. Among sectors, we overweight the Technologies Sector, the Industry Sector, and the dividend-paying shares segment. Our bonds strategies favour the maintenance of longer average maturity of bonds (duration) as against bond benchmarks. We prefer sovereign bonds to corporate issues.

We wish you much success in the coming period!

For the Asset Management team,

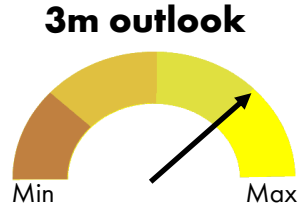
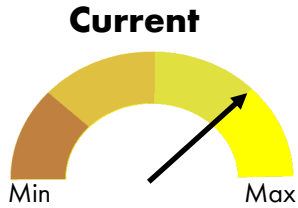
Mr Michal Ondruška



Summary of Investment Strategies:

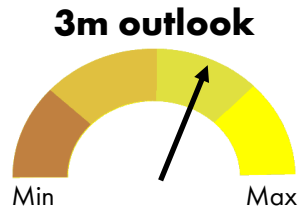
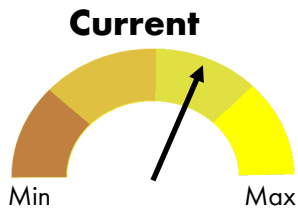
Tactical Allocation

Equity overweighted in portfolios



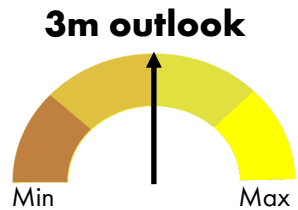
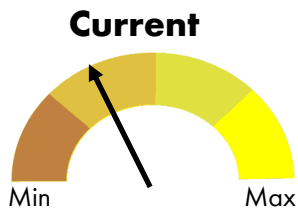
Interest Rate Risk

Average bond maturities (Duration)



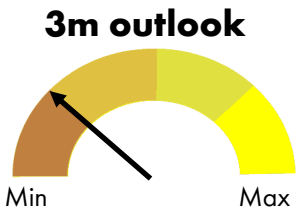
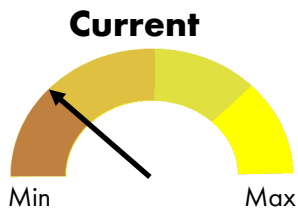
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 31 August 2023.



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