Raiffeisen BANK
Client inspired banking

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Commentary on Current Situation Facing Financial Markets

Calming down of the financial markets. Last week – in view of fluctuations of equity indices – ranked among the easier weeks. Central banks' actions in support of liquidity and interests offered both equity and bonds markets a time out, following which the financial markets might again re-concentrate their attention on the fundamental issues. Although the global economic downturn can hardly warrant expectations of any good figures regarding the first quarter of 2020, the decline in the equity indices reported in the course of March had to a large extent reflected this state of affairs. The U.S. S&P 500 Index lost a mere 2.1 percent last week. The sectors of consumer goods, health care, and energy, did well and they strengthened over the past week. The energy sector responded in a positive manner to reports that both Russia and Saudi Arabia will negotiate reductions of crude oil outputs. The so-called the 'Fear' or 'Volatility' Index VIX dropped from its extreme values around 80 down to 46, which again signalled a calming down of the situation.

Although the U.S.A. published very high figures of newly unemployed last week, combined with a decrease in the number of job opportunities in the U.S.A., the equity markets recorded quite low declines. Relatively favourable information was published on Friday, when the leading indicator of American services managers reached the value of over 52, which indicated a growth recorded by this important sector in the U.S.A. American companies will start reporting their economic results generated in the first quarter of this year. Analysts expect a drop in profits in excess of 5 percent. The second quarter is likely to be the worst, when profits are expected to fall by about 10 percent. The second half of the year should be seeing an improvement.

The numbers of infected Americans have grown from 135 thousand ill people last Monday to the current 332 thousand, and this figure is the highest in the world. Nevertheless, the good news is that Italy, Spain, and even New York, report declining numbers of both newly infected people and casualties. Viewed by the financial markets, these are very favourable pieces of news.

As regards individual portfolios, we purchased some more ETF funds focusing on dividend-paying stocks and the health care sector last week. Health care, similarly as the other sectors, experienced a significant decline; in our opinion, its current valuation and long-term prospects make this sector an interesting investment opportunity. Similar picture is offered by dividend stocks. Here, even the financially strong companies possessing healthy business models and strong cash positions could not evade sales; in the long term we consider this market segment attractive.

In our managed funds, we implemented partial modifications of portfolios: on the equity side, we newly introduced shares in Johnson & Johnson (health care) in *Fond progresivní strategie*; as regards other funds, we regrouped the consumer goods sector of European companies for the broader EURO STOXX 50 Index. Because of very good diversification on the bond side of the funds, we were not required to make any adjustments.

Summary:

- **Leading indicators further suggest a gradual calming down of the situation.** We monitor the declining trends in the numbers of newly infected and deceased people due to coronavirus, both in Europe and, e.g., in New York. We follow certain calming down also

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in respect of other leading indicators, such as the Volatility Index VIX. We also see stabilization in the bond and the currency markets.

- We consider as an interesting moment the very **moderate response on the part of financial markets to the significantly negative data** published about the American economy last week (data about unemployment and newly created job opportunities) ➔ **characteristics of the resigned market** – again an important leading indicator of a possible change in the trend.
- The situation about the financial markets has **so far developed according to our scenario** of faster revival, equities currently fluctuate approx. 15 percent above their lowest values, but there is still a difficult road ahead, markets may continue to fluctuate.
- We do not abandon our scenario of a faster return to normal, **we are slightly overweighed** in risk instruments. We have strengthened the health care sector and the segment of dividend and at the same time financially strong companies in the past days. We have increased the share of corporate bonds issued by creditworthy issuers.
- **We do not expect any major changes in the composition of the portfolios in the week to come**.

Let me wish you a Happy and Peaceful Easter.

For the team of your portfolio managers.

Michal Ondruška
Manager, Asset Management

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