



# COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS - 01/2021

Prague, 4 Jan. 2021

## **Financial Markets Focus on Outcomes of U.S. Senate Elections and Future Corporate Results**

The just passed year was very demanding for the financial markets. The Corona virus Pandemic hit almost all market segments; we witnessed major drops both as regards equities and corporate bonds, in particular, in the first quarter of the past year. The situation required unprecedented responses from the central banks in the form of reductions of interest rates and supplies of new liquidity. Also fiscal incentives offered by individual governments and – last but not least – the development and approval of a new vaccine, have been of great help. The equity markets responded by calming down and a subsequent growth.

The best monitored S&P 500 Index gained a strong +16.2 percent in respect of the whole year. On the other hand, the Czech PX Index, for example, failed to wipe off its year-round losses and it ended up with a drop of -8.6 percent; a similar result was recorded by the European Euro Stoxx 50, with a decline of -5.8 percent.

Among sectors, the best performance was recorded in the course of the past year by technologies (+42 percent), the consumer durables sector (+28.2 percent) and the materials sector (+17.9 percent). On the contrary, energies (-36.9 percent), the financial sector (-4.2 percent), and utilities-infrastructure (-2.9 percent) ranked among the worst performing sectors. The VIX Volatility Index exceeded the value of 80 in March, however, it dropped to the value of 23 towards the end of the year (the ten-year average amounts approximately to 19.5), which indicates a substantial calming down of the markets.

Investors will follow again, among other things, corporate economic results for the previous year, to be published in the course of January 2021. Expectations have it that profits generated by the firms belonging to the S&P 500 Index will plunge in aggregate by -13.6 percent, y/y, and that revenues would drop by -1.8 percent, y/y, as regards the entire last year. On the other hand, aggregated profits of the companies listed in the S&P 500 Index will grow by 22.1 percent, y/y, in 2021, and revenues will increase by 7.9 percent, y/y. At the same time, analysts expect potential rotations of sectors since higher growth in cyclical sector profits and a slightly steeper yield curve are expected. Currently, yields of sovereign bonds remain very low (e.g., the 5-year Czech state debt bears 0.66 percent, p.a., and the figure stands at 0.36 percent, p.a., in the U.S.A.; in the Euro area, these yields are even negative.

The anticipated P/E of 22.1 over the next 12 month is higher for the S&P 500 Index than its five-year average of 17.4 (Source: FactSet). Although the yield of the U.S. ten-year sovereign bond has improved to approximately 0.92 percent, its value remain low, which in turn encourages the equity markets.



**Mr Michal Ondruška**  
Manager, Asset Management



The markets see it as a risk should the Republicans fail to win in the Senate election in Georgia held on 5 January 2021. A potential increase in corporate taxes, higher business regulation, and a consequent slowdown in the U.S. economic growth, could have a negative impact on stock markets. Yet another risk for the equity markets and corporate bond markets has still been viewed in slow distribution of sufficient quantities of the Corona virus vaccine or the rift in the U.S.-China trade relations.

Our funds entered the tranquil close of the otherwise very turbulent year 2020 more than successfully. This was mainly thanks to the positive development in the global equity markets, whereas almost all stock markets that we have monitored closed their trading higher than in November (also very successful). Our revised investment strategy also brought positive points, when the share component was increased at the expense of bonds several times in 2020. When boosting the equity component, in addition to broader equity indices where we prefer cyclical companies from the U.S.A. and South East Asia, we also focused on more specific investment topics. For example, on areas that may participate in the gradual 'return to normal' following the approval of the Covid-19 vaccines, or on sectors that may benefit significantly from the U.S. presidential change. Therefore, we purchased, for example, U.S. airlines or shares in companies benefiting from the development of alternative energy sources. In addition to these purchases, we can also mention active trading despite the otherwise quiet last month of the year. More such trading took place, for example, in respect of Russian shares, where price movements in excess of 10 percent were no exceptions in December. As regards the bond portions of our portfolios, investments in high-quality U.S. corporate bonds were preferred, as well as in U.S. government bonds, which can participate in the growth of local inflation.

We wish you a successful start in New Year 2021!

For the Asset Management team

Michal Ondruška

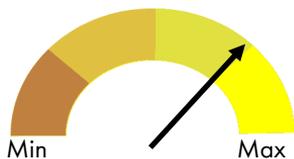


## Summary of Investment Strategies:

### Tactical Allocation

Equity overweighed in portfolios

**Current**



**3M outlook**



### Interest Rate Risk

Average bond maturities (Duration)

**Current**



**3M outlook**



### Credit Risk

Portions of, e.g., corporate bonds

**Current**



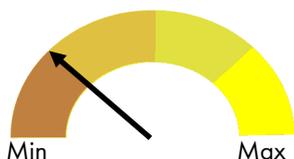
**3M outlook**



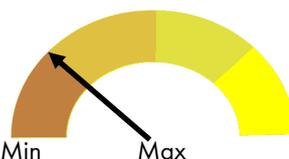
### Currency Risk

Unsecured positions in foreign currencies

**Current**



**3M outlook**



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 4 January 2021.



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