



# COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 05/2021

Prague, 3 May, 2021

## **Equity Markets Continued to Grow while Bond Prices Turn Stable in April 2021**

The most closely watched S&P 500 Index sped up its growth in April as against March, and it strengthened by 5.6 percent. Among the sectors, best performing were the Real Estate Sector (7.9 percent), the Consumer Durables Sector (7.3 percent), the Communications Sector, and the Technologies Sector (both 6.9 percent). On the contrary, the worst performing sectors included the Energy Sector (0 percent) and the Short-term Consumption Sector (+ 1.5 percent). The value of the VIX Volatility Index remained under 20 points in April, which indicates certain tranquillization on the part of investors.

Global inflation continues to represent an important topic. On the one hand, prices of input materials have been rising (e.g., commodity prices such as copper, oil, electricity, steel, wood), while labour shortages exist in lower paid professions (the American people have received generous support in the form of checks, so they have no incentive to accept lower paid jobs). The topic of inflation has also been tackled by the legendary investor and the CEO of Berkshire Hathaway (BRK), Mr Warren Buffett, at its general meeting of shareholders on Saturday.

Despite threats of higher inflation, the yields per month of the ten-year U.S. sovereign bond slightly dropped from 1.7 percent down to approx. 1.6 percent in the course of April. Similarly, the yields of the ten-year Czech sovereign bond, which exceeded 2 percent in March, fell as low as to 1.8 percent. The question is, whether the current stabilization of yields is temporary or whether it means just a break in further growths in bond yields. While the FED does not plan any increases of its interest rates either this year or next year, the Czech National Bank has indicated a possible double increase in the second half of this year.

This month, investors are focusing their attention on the financial results of companies for the first quarter of 2021. So far, almost 60 percent of the companies belonging to the S&P 500 Index have already released their results. For the time being, the aggregate growth of corporate profits from the S&P 500 Index reaches 45.8 percent, y/y, and sales have grown by 9.1 percent, y/y, which is better if compared to the expected profit growth of 23.3 percent, y/y, and the growth of sales of 6.3 percent, y/y, before the start of the earnings season relating to the first quarter of 2021 (Source: FactSet). As regards the entire year, the aggregate growth in corporate profits from the S&P 500 Index is expected to reach a significant 31.7 percent, y/y, and sales are expected to grow by 10.9 percent, y/y.



Mr Michal Ondruška  
Manager, Asset Management



The envisaged P/E of 22.0 in respect of the next 12 months is higher for the S&P 500 Index than its five-year average of 17.9 (Source: FactSet). The yield of the ten-year U.S. sovereign bond still remains relatively low, which fact should also support equity markets. The numbers of newly infected people have been dropping in the U.S.A. as well as in Asia (with the exception of India) and they also manage to vaccinate their population relatively quickly.

We made use of the positive sentiments prevailing in the equity markets in April, in order to collect part of our profits, and we reduced overweight risk instruments in our portfolios. The individual portfolios are now slightly overweight; in view of potentially increasing rates, we keep shorter average maturity of bonds in general in portfolios as against 'benchmarks'.

The first month of the second quarter was also very successful for the RIS funds; all RIS funds across different compositions or degrees of risk achieved positive returns. This was largely due to Czech sovereign bonds, mostly with longer-maturity, which have corrected their previous steady six-month declines. Global equities, too, contributed positively to the appreciation generated last month. As regards the RIS investment strategy, we can mention, for example, diversification of U.S. bonds, which – despite their generally shorter term to maturity – yielded similarly as longer-maturity Czech sovereign bonds. In the past month, conservative funds were invested, for example, in an MREL bond from the Raiffeisen Group, in a shorter 3-year bond issued by the International Investment Bank or in U.S. corporate bonds with hedged interest rate risk. On the equity side, following the ongoing economic recovery, we invested in April in carefully selected cyclical sectors such as Technologies, Finance, and Industry, and we did not avoid, either, short-term trades, such as with ČEZ shares on the Prague Stock Exchange, where we took advantage of short-term increased volatility. We also remain slightly overweight in risk instruments.

We wish you much success in the coming days.

For the Asset Management team,

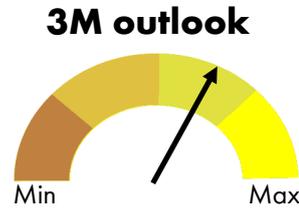
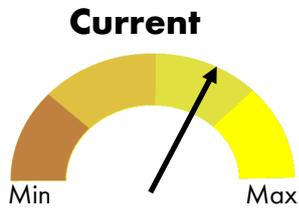
Mr Michal Ondruška



## Summary of Investment Strategies:

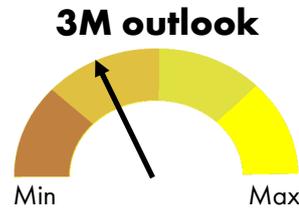
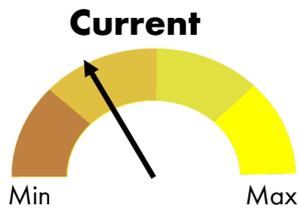
### Tactical Allocation

Equity overweighed in portfolios



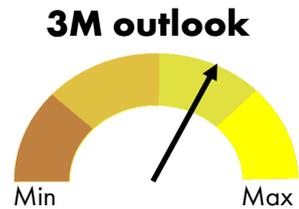
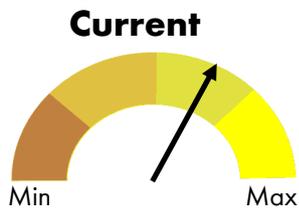
### Interest Rate Risk

Average bond maturities (Duration)



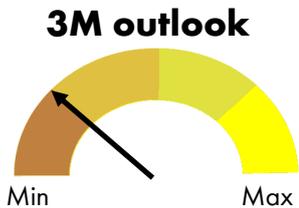
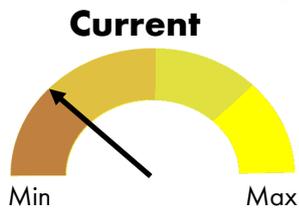
### Credit Risk

Portions of, e.g., corporate bonds



### Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 3 May, 2021



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