



# COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 06/2021

Prague, 1 June 2021

## Inflation in Investors' Focus

In May, the most closely watched S&P 500 Index slowed down its growth, having increased by a mere 0.5 percent in that month. Among the sectors, the best performing were the Finance Sector with an increase of +5.7 percent, the Materials Sector (+4.6 percent), the Energy Sector (+4.2 percent) and the Industry Sector (+3.1 percent). On the contrary, the list of the worst performing sectors included the Long-term Consumption Sector, which dropped -3.0 percent, and the Technologies Sector (-2.4 percent). Better performances were rather limited to the Cyclical Sectors and to companies with more robust cash flow, which pay higher dividends. The VIX Volatility Index maintained its valued of 20, which indicated a calming down of the markets.

Global inflation remains in the focus of investors when the April inflation was higher both in the United States and in the Czech Republic than estimated by analysts, thus reaching such relatively high values of +4.2 percent in the United States, and/or +3.1 percent in the Czech Republic (both year-on-year). Despite the risks of higher inflation, the yield of the ten-year U.S. sovereign bond oscillates around 1.6 percent and around 1.8 percent in the Czech Republic. The question remains, whether such stabilisation of revenues is only temporary or whether we have been witnessing a mere break before bond yields begin to grow further. While the FED so far does not intend to increase its interest rates in the course of this and the coming year, the Czech National Bank has indicated possible double increases in the second half of this year. The first such hike is to come as soon as in the summer months and the second one in the autumn.

In view of possible higher-than-expected inflation and stronger growth in interest rates, we hold shorter average maturity of bonds as a whole in portfolios as compared to "benchmarks".

The financial markets may be facing yet another risk in the form of potential increases of corporate taxes in the United States, a high planned deficit in the United States, reductions of profit margins of companies due to higher prices of raw materials and higher wages, and – last but not least – geopolitical risks.

All in all, however, we have been maintaining a positive outlook for equities in the medium term, supported in particular by the very good economic performance of companies, and for the time being, still supportive policies shown by governments and central banks. This has been reflected in portfolio models, where we continue to overweigh equities over bonds. We believe in the Cyclic Sectors, such the Finance Sector, the Technologies Sector, the Industrial Sector, or the Consumer Durables Sector. We maintain a positive outlook also in the segment of dividend-paying equities and in alternative instruments, such as – for example – real property.



Mr Michal Ondruška  
Manager, Asset Management



The investment strategies applied to the RIS funds did not experience any significant modifications in May. The funds have remained – as against their so-called ‘neutral distribution’ – outweighed in shares at the expense of bonds; however, given the possible risk of correction after the previous price increases, the ratio of such overweighting was not as high as that at the beginning of the year.

We were particularly successful in our preferred shares of companies operating in ‘traditional’ Cyclical Sectors (Industry, Finance, etc.), which also outperformed in May last year’s ‘beaters’ – that is, certain titles from the Information Technology Sector. As regards bonds, due to fears of faster inflation following the easing of the anti-Covid restrictions, and rather earlier than later increasing of base interest rates by (not only) the Czech National Bank, we continue to prefer short-term and medium-term bonds against their counterparts with longer maturities.

We have complemented our portfolios with interest rate hedging instruments or inflation-protected bonds. As usual, also in May, we tried to use increased nervousness on the part of investors and resulting price fluctuations, especially as regards higher-risk instruments, in order to achieve profits from short-term trading. Thus, for example, we bought in the middle of the month the shares of the graphics card manufacturer Nvidia and a week later we sold this position with a profit of almost ten percent.

We wish you much success in the coming days.

For the Asset Management team,

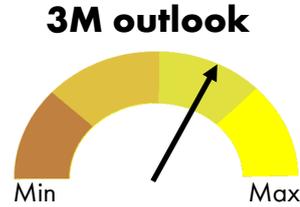
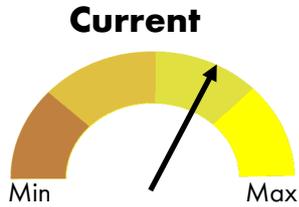
Mr Michal Ondruška



## Summary of Investment Strategies:

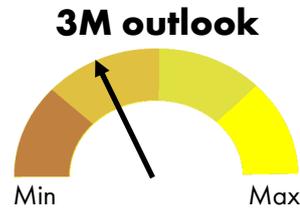
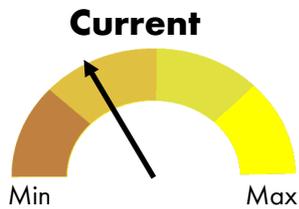
### Tactical Allocation

Equity overweighed in portfolios



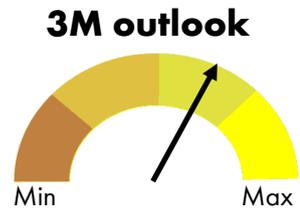
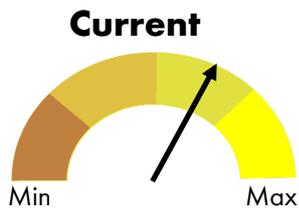
### Interest Rate Risk

Average bond maturities (Duration)



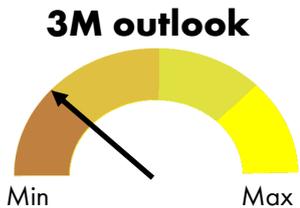
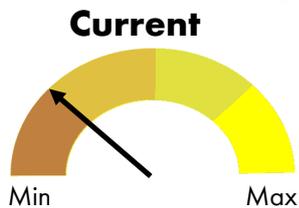
### Credit Risk

Portions of, e.g., corporate bonds



### Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 June 2021



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