Raiffeisen BANK
Client inspired banking

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Commentary on Current Situation Facing Financial Markets

The equity markets have reduced losses generated during the previous weeks. The S&P 500 Index broke the resistance level of 2,700 points and strengthened by more than 8 percent over the past week. The equity markets responded in a positive manner primarily to certain new, and one could even say, unprecedented economic incentives from the U.S. Fed. By having taken these steps, the U.S. central bank has unequivocally demonstrated its determination to protect the economy, cost what it may. Yet another positive piece of news was that about the completion of an agreement on reduction of oil production between Russia and OPEC; however, the markets responded merely in a reserved manner. The 'Fear' Index VIX dropped towards the limit of 40; however, it still remains far from its long-term average of 20.

This week, American companies will start publishing their economic results generated in the first quarter of this year. Today, the results of JPM will come out, and tomorrow we shall hear from Bank of America, Citigroup, and Goldman Sachs. Based on information published by Factset, analysts expect, as a new phenomenon, declines in aggregated profits of the S&P 500 Index by 10 percent to take place already in the first quarter of this year. The second quarter will probably be very unfavourable, since profits will be newly expected to drop by approximately 20 percent. The second half of the year should see certain improvements of the situation. Nevertheless, Factset reports that analysts envisage corporate profits to decrease in the overall figures by 8.5 percent as regards the entire year 2020.

As the number of Americans infected by coronavirus reached 331 thousand last week, nowadays the figure stands at 583 thousand. The good news is that in the U.S.A., similarly as in Europe, the number of newly infected and deceased people begins to fall. However, potential market growths in future face the risk of a return of the infection, a so-called second wave, and a later than expected recovery of the economies. It is probable, though, that an effective vaccine against the virus will exist in a foreseeable future, so the above-described risk may diminish in the course of time. Mr Anthony Fauci, the director of the National Institute of Allergy and Infectious Diseases and an aide to U.S. President Trump, indicated that the existing restriction in the U.S.A. may be lifted gradually in the course of May, which would facilitate the re-starting of the American, and also the global, economies.

Following the previous weeks, which were very active measured in business activities, the just passed days were fairly calm as regards our managed portfolios and funds. Such development went hand in hand with the overall calming-down of the situation on the markets. Our investment strategy of recent moderate overweighing of equities and purchases of corporate bonds issued by creditworthy issuers was demonstrated as correct in the past week. Therefore, we did not have any reasons to modify the structure of our portfolios. Although equities remain deep under their maximum values, they still have grown sharply from their lowest prices at the end of March.

As regards funds, we have taken advantage of the current positive mood on the markets and slightly reduced the proportion of riskier bonds denominated in Czech crowns.

Summary:

- **Unprecedented incentives** offered by central banks and governments in protecting their economies keep supporting the financial markets ➔ the central banks/governments have been ready to do *de facto* **"anything"** in protecting their economies.
- The numbers of newly infected and deceased people due to coronavirus **have been increasing at a slower rate** than the case was in the previous days and the curve begins to flatten.
- Gradual **easing of the restrictions** in force in the individual countries has been acquiring more concrete features; a talk goes about the months of May and June as far as their timing is concerned.

  ➔ At the moment, we consider the possibility that the equity markets might be dropping to a new bottom as very unlikely.
- We see the beginning of the **season of results** published by companies for the first quarter, so higher fluctuation of the financial markets cannot be excluded.
- Investors begin to concentrate on presumed **increase in profits in 2021**, having written off their corporate profits this year.
- Still, we can see certain risks in the occurrence of a **second wave** of infection, but this risk diminishes in time as the likeliness of the development of a new and effective vaccine has been increasing.
- So far, the situation in the financial markets has been **developing in keeping with our investment strategy**, **so we remain slightly overweighed** as regards risk instruments.

We wish you nice and peaceful Spring days.

For the team of your portfolio managers.

Michal Ondruška
Manager, Asset Management

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