Prague, 4 May 2020

Commentary on Current Situation Facing Financial Markets

The S&P 500 equity index slightly weakened in the course of the past week, and it marked a higher decline by 2.8 percent on Friday. The weakening resulted from threats voiced by the U.S. President envisaging further trade customs duties to be imposed against China, if it were confirmed that the virus had leaked from a Chinese laboratory at Wu-han, and that China had intentionally failed to report the imminent danger. The highly monitored leading indicator of American managers in production (the ISM index) dropped from 49.1 in March to 41.5 in April, which represented the lowest figure since 2009, and – at the same time – the largest monthly decline since 1951. It was also this figure, combined with collections of previous returns, that contributed to the drop of the equity indices marked on Friday.

However, Wednesday witnessed a positive piece of news from Gilead Sciences, which confirmed that the medicine known as 'Remdesivir' had been found effective, and so the U.S. Food and Drug Administration (FDA) licensed application of such medicament under an emergency regime. At the same time, yet another company, Moderna, announced that it could produce in cooperation with Lonza of Switzerland up to a billion ampoules with the mRNA-1273 vaccine candidate for use against corona virus.

On Saturday, investors eyed a general meeting of the enterprise named Berkshire Hathaway belonging to the well-known financier Warren Buffett. The company's already surprisingly high cash further increased in the first quarter because the financier had sold all of his stakes in air companies that he had held in his portfolio, and as yet, he did not find any suitable replacement investment ventures. This represented at the beginning of the new week an unfavourable piece of news for the financial markets and, in particular, for shares in airline carriers.

The season of disclosures of economic results has already passed to its second half. The enterprises showing better than expected results include, for example, Apple, Gilead, Microsoft, and Mondelez. On the other hand, Amazon and its quarterly returns disappointed its investors; it dropped by more than seven percent on Friday. Further American enterprises will be disclosing their economic results this week, such as Disney, GE, Anhauser Busch, and CVS. Most attention will be paid in the course of this week to information about the labour market in the U.S.A.

As far as the Czech bond market is concerned, the government has issued on the primary market bonds worth CZK 350 billion, and treasury bills worth CZK 69 billion, since the beginning of the year. In the last months, the local banks have been ranking among the most active buyers. On the secondary market trading with Czech sovereign bonds, interest prevails mainly in issues with longer maturity and fixed coupons. On Thursday, investors will watch the CNB, which is expected to further lower the interest rates. As regards corporate bonds denominated in EUR or USD, we can witness their strengthening in prices and narrowing of their 'spreads', following interventions from FED and ECB.

We have slightly adjusted some of the portfolios last week, which were to a larger extent overweighed in certain high-risk instruments. This was the result of a relatively strong growth recorded in the equity markets in the previous days. It is possible that higher market volatility will be maintained in the days to come, especially in response to the economic results disclosed by certain enterprises or due to potential worsening of the relations between the U.S.A. and China. In the previous two weeks, we made partially 'more conservative' the portfolios of certain funds (while maintaining slight overweighing of the equity components, though); we did not see it fit to modify the structure of investments in any significant manner in the last days of April. What deserves to be mentioned, though, are continuing further purchases of American corporate bonds with low credit risk (with allocated investment grade ratings, i.e., BBB-/Baa3 and better) and short-term maturity. We consider this segment of the bond market as suitable for the complementation of our funds, in view of the current economic development and from the point of view of maintaining 'return versus risk'. A portion of newly invested funds designated for equity investments has been distributed more or less evenly in so-called ETF funds, which copy performances of the indices Nasdaq 100, STOXX Europe 600, and S&P China.

Summary:

- In the days to come, we can expect **higher volatility of the markets** without any clear trends shown, which offers an opportunity for more active trading regarding our managed funds.
- We have made **the equity segment** slightly more conservative in the course of the past days.
- We make use of opportunities provided for at bond markets, in particular, in the segment of investment grade **corporate bonds**.
- We remain **slightly overweighed** as regards high-risk instruments.
- By selling off, and/or making certain portfolios slightly more conservative in the past days, we have opened up **space for new purchases** of equities for potentially lower prices.

We wish you peaceful and successful week.

For the team of your portfolio managers.

Michal Ondruška
Manager, Asset Management

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