Raiffeisen BANK
Client inspired banking

Prague, 11 May 2020

# Commentary on Current Situation Facing Financial Markets

The current growth in the equity markets could not be discontinued even by the unemployment rate in the U.S.A., which increased from 4.4 percent in March to a record-high 14.7 percent in April. The investment adage saying '*Sell in May and Go Away*' does not seem to apply this year. The American S&P 500 index added 3.5 percent in the course of last week and the technological sector even jumped up more than 6.6 percent. However, it was the energy sector that became last week's winner; by growing more than 8 percent last week, it commenced strengthening the oil prices thus beginning to eliminate previous losses. Oil prices, have responded to reduced outputs and higher demand, in particular demand for automobile petrol, along with the gradual easing of the restrictive measures. The transportation sector has formed almost 60 percent of the total demand for oil. The equity markets, apart from growing oil prices, have also been supported by better than expected economic results reported by enterprises in the U.S.A., by further gradual easing of restrictions, and – last but not least – also by reports about tests of vaccines and medicines against corona virus.

In Thursday, the CNB reduced its *repo* rate from 1 percent down to 0.25 percent. This move will further support prices of sovereign bonds with fixed coupon and medium-term maturity, and it will maintain yields of sovereign bonds very low.

The season of disclosing the economic results in the U.S.A. has already been almost over since 86 percent of the member corporations of the S&P 500 index have already reported their figures. Out of them, 66 percent disclosed better profit then expected, and 58 percent had better revenue than expected. So far, the first-quarter profits dropped in total by 13.6 percent, y/y.

We keep our portfolios moderately overweighed. The expected P/E indicator about 20.4 (*Source: FactSet*) in respect of the coming 12 months is relatively high as compared to its 5-year average of around 16.7; however, it is necessary to consider low interest rates (the U.S. ten-year sovereign bond yields approx. 0.70 percent, p.a.) as well as future growths in corporate profits. Equity markets and corporate bond markets remain facing the risk of potential occurrence of a second wave of the corona virus pandemic in the autumn or in the winter this year. Yet another risk could be represented by the victory of a democratic candidate in the presidential election n the U.S.A. and potential increases in corporate taxes. The U.S. elections will be taking place at the beginning of November this year.

Last week ranked among the more successful also for our managed funds on the financial markets. They have held – and continue to hold – higher portion of equities than their neutral stakes, thus capable of benefiting from continuing optimistic trends. As regards bonds, the current strategy combining a mix of sovereign and short-term, mainly investment grade, corporate bonds, seems to be correctly set. Therefore, the past week saw merely some minor changes; we may mention, for example, a reduction of the equity position in the Czech power company ČEZ and an adjustment of the average term to maturity as regards Czech sovereign bonds in some selected funds.

**Summary:**

- Financial markets have (so far) behaved **in compliance with our investment strategy** – we remain slightly overweighed in equity instruments, while combining in the bond portion sovereign bonds and well-performing corporate bonds.
- Moreover, the continuing decline in the number of newly infected economies, gradual opening of economies, and the development of relations between the U.S.A. and Chine, represent **important factors** in the further directions taken by financial markets.
- **Risks: a second wave of the infection**; this is opposed by the time factor, which is important as regards the development and approval of a new vaccine since – over time – probability of successful application of new remedies increases.
- Financial markets can be expected to be volatile for another while; beside active trading in funds, this also represents **an opportunity for building up tactical portfolio positions.**
- An important role will also be played by **sector distribution.** We prefer, for instance, the health sector, the technologies sector, and the segment of large and strong dividend-paying corporations.
- The reference interest rate fell to a minimum, similarly as sovereign bond yields and interest on term deposits and savings accounts. **The significance of investing as a way of valuing financial resources has been increasing.**

We wish you a pleasant and successful week.

*For the team of your portfolio managers.*

***Michal Ondruška***
*Manager, Asset Management*

## NOTICE

All opinions, outlooks, and information, including investment recommendations and commercial ideas, and any other information contained in the present document, are solely for reference purposes, not binding, and they represent the opinions of Raiffeisenbank a.s. ("RB"). The present document is not a solicitation of purchase or sale of any financial assets or any other financial instruments. Prior to adopting any investment decisions, RB recommends performing a search of detailed information about the envisaged investment or trade. RB has produced the present document exerting the utmost professional care and in good faith, however, it shall not be responsible for correctness of its content or for its completeness or accuracy. RB shall not be liable for any damage or lost profit caused to any third parties by making use of or relying on any information and data contained in the present document. Raiffeisenbank a.s. wishes to point out that the rendering of above-described investment services contains a number of risk factors, which may affect either return on or loss of such investments. Investments do not represent bank deposits and they are not insured under the Deposit Insurance Fund. The higher the expected yields, the higher the potential risks. The duration of investments affects the level of risk. Yields also fluctuate due to exchange rate fluctuations. The value of invested amounts and related yields may rise or fall, while full return on the originally invested sum is not guaranteed. Past performance does not guarantee future performances. Expected performances do not represent reliable indicators of future performances. Due to unforeseen fluctuations and developments on financial markets and risks inherent in investment instruments, the investment goals pre-determined by clients need not be achieved. Any yields from such investments shall be reduced by rewards paid to and expenses incurred by Raiffeisenbank a.s., as agreed in the contractual documentation, and/or rewards and fees listed in the Raiffeisenbank a.s. price-list. Taxation of the client's assets always depends on the client's personal circumstances and it may change. Raiffeisenbank a.s. does not offer tax advices and therefore any liabilities associated with the tax consequences of investing in bonds remain in full up to the client. Investment services shall not be offered to clients defined as U.S. persons.

## Information about Raiffeisenbank a.s.

The document has been drafted by Raiffeisenbank a.s., with registered office at Hvězdova 1716/2b, Praha 4, Registration number (IČO): 49240901, incorporated in the Companies Register administered by the Municipal Court in Prague, Section B, File no. 2051. Raiffeisenbank a.s. has been supervised by the Czech National Bank.

The information has been valid as of 11 May 2020. This information may be modified in future and RB shall not be required to inform any recipients of the present document about such modifications.