



# COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 07/2021

Prague, 01.07.2021

## Robust Corporate Profits Hike Pushes Stock Markets Up

The most watched S&P 500 Index sped up its growth in June and it increased by 2.2 percent over that month. As regards efficiencies of the separate economic sectors, the best performing last month were the Technologies Sector (6.7 percent), the Energy Sector (3.2 percent), and the Long-term Consumption Sector (3.3 percent). Contrariwise, the cyclic sectors did not do well; for example, the Materials Sector dropped by -5.7 percent, the Finance Sector lost -3.4 percent, and the Utilities Sectors declined by -3.0 percent. All in all, the majority of those sectors that had suffered the worst decline in the last but one month now grew, and vice versa. The VIX Volatility Index has maintained its value under 20, which indicates a calming down of the equity markets.

The market developments were also affected by a session held by the FED in mid-June. The FED indicated a double rate hike during the year 2023 (according to earlier indications, first such hike should not have occurred until the beginning of 2024). Thus, the FED has responded to boosting commodity prices (electricity, metals, crude oil, etc.), and higher inflation which reached 5 percent, y/y, in May. Both the FED and other central banks made it clear that they considered inflation to be of a rather temporary nature.

Very low (negative) bond yields in Europe and Japan probably caused higher interest in the US Treasury; therefore, their yield unexpectedly fell from about 1.7 percent to below 1.5 percent during June. For this reason too, growth stocks (e.g., the Technology Sector) performed well.

A question arises here as to whether this stabilisation of yields is merely a temporary one or whether it may represent a break before further augmentation of bond yields. And while the FED so far does not plan to boost its interest rates in the course of both this and next years, the Czech National Bank has indicated possible two further hikes to take place by the end of this year; the first increase occurred as early as this past June.

Investors will focus their attention this month on the economic results to be recorded by corporations in the second quarter of 2021. The envisaged aggregated increases in profits generated by the S&P 500 Index companies has reached a record-high 62.8 percent, y/y, while the figure stands at 19.3 percent, y/y, in the case of revenues in the second quarter of 2021 (Source: FactSet). Such growing aggregate profits of the S&P 500 Index companies are expected to remain here for the entire year to the tune of 35.2 percent, y/y, and 12.3 percent, y/y, in the case of revenues (Source: FactSet).



Mr Michal Ondruška  
Manager, Asset Management



As regards our managed unit funds, the equity and mixed strategies did quite well, while purely bond funds rather stagnated. This was in response to the decision of the Czech National Bank which increased in June the base interest rate by 0.25 percent, which has again resulted in a moderate lowering of the prices of Czech-crown denominated bonds.

Concerning the bond portion of our fund portfolios, we have made use of several interesting opportunities in order to purchase some new attractive issues. They included, for example, a new issue by the company named Czechoslovak Group, with variable interest income and maturity in 2026. Also, we have purchased a newly established bond fund named Raiffeisen-Mehrwert 2027, denominated in EUR, subject to so-called 'strategy of buy-and-hold', and the target income of around 1 percent, p.a. Combined with an additional yield resulting from currency hedging, it has been generating a very interesting risk-to-revenue profile for the entire term of the existence of the fund.

The markets still see prime risks in potential increases of corporate taxes in the United States, the unexpectedly rocketing and protracted inflation, and resulting lower profit margins on the part of individual companies, stricter business regulation, and slowing down of the economic growth. Yet another risk facing the equity markets as well as corporate bond markets has still been represented by a potential lack of effect of vaccines against new virus strains. On the contrary, higher-than-expected profits reported by individual companies in the second quarter of this year may send stock markets even higher.

Our funds and individual portfolios still remain overweighed in equities. As equities grew, so did their relative weight in our models, and – as a result – we were slightly increasing our stock transfer within our tactical allocation. We continue to prefer growth regions and cyclical sectors such as the Technology, Industry, Finance, and the Consumer Durables Sectors. In view of the possibility of higher rates being imposed, we have kept shorter average maturity of bonds in whole in our portfolios, as against 'benchmarks'.

We wish you a pleasant summer.

For the Asset Management team,

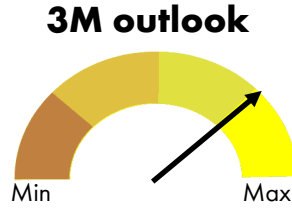
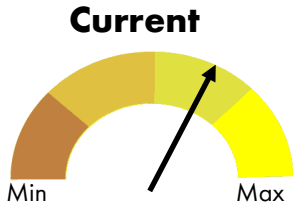
Mr Michal Ondruška



## Summary of Investment Strategies:

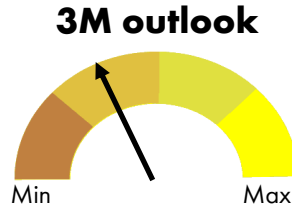
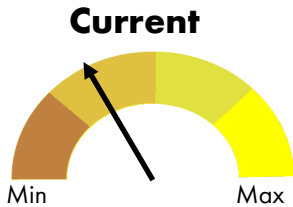
### Tactical Allocation

Equity overweighed in portfolios



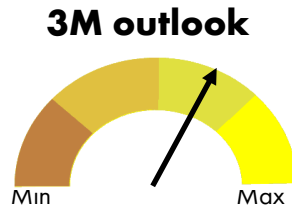
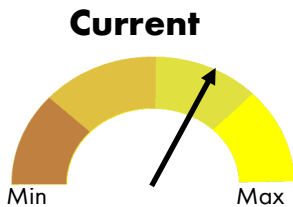
### Interest Rate Risk

Average bond maturities (Duration)



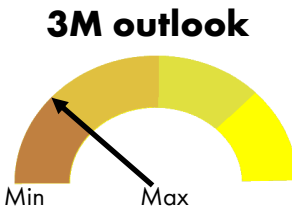
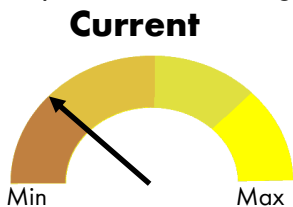
### Credit Risk

Portions of, e.g., corporate bonds



### Currency Risk

Unsecured positions in foreign currencies



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



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