COMMENTARY ON FINANCIAL MARKETS 12/2022

Prague, 1 Dec. 2022

Equity Markets Strengthened Again in November

The most closely watched S&P 500 Index improved by 5.4 percent in November 2022. The FED boss Jeremy Powell indicated in his speech delivered on the last day of the just past month that interest rate hikes and quantitative tightening might continue at a slower pace as early as commencing in December 2022. The S&P 500 Index responded by strengthening by 3 percent, although the FED head – rather than pronouncing any new ideas – had just confirmed what the markets expected anyway. Equity markets were also supported in the course of November 2022 by the latest data revealed about inflation both in the United States and in the Euro Area, which were below market expectations. It is anticipated that the FED may increase its benchmark rate from 4.0 percent up to 4.5 percent p.a. in December. The cycles of interest rates hikes in the United States may be terminated during the first six months of next year and expectations have it that the FED benchmark rate would reach approximately 5 percent p.a. Nevertheless, fighting inflation still remains the FED's priority.

At the same time, it is expected that the ECB would boost its repo rate from 2 percent up to 2.50 percent p.a. at its session to be held in mid-December 2022. Inflation rate growth slowed down in the Euro Area from 10.7 percent in October to 10.0 percent in November 2022.

Among the sectors, the best performing last month were the Materials Sector (11.7 percent), the Industrial Sector (7.5 percent), and the Financial Sector (6.9 percent). On the other hand, the worst performances were reported by the Consumer Durables Sector (+1.5 percent) and the Energy Sector (+1.3percent).

The yield of the ten-year U.S. sovereign bond slipped, following a tem marked by some better inflationary data, from 4.0 percent in October as low as under 3.7 percent p.a. at the end of November 2022. The yield of the ten-year German sovereign bond fluctuates around 1.9 percent p.a. The Czech National Bank Board will be meeting again on 21 December. It is expected that the Czech National Bank will continue to keep its benchmark rate at 7 percent p.a. It was in particular the yields of Czech sovereign bonds with longer maturities that fell significantly from their highs to the current approx. 4.7 percent (the ten-year Czech sovereign bond), which was reflected in the form of some major increases of bond prices over the past month. Lower inflation, which reached 15.1 percent in October compared to 18.0 percent in September, facilitated drops in yields and price growths of Czech sovereign bonds.

As regards the rest of this year, analysts estimate the aggregate earnings growth for the S&P 500 Index to increase to the tune of 5.2 percent, and then again by 5.7 percent next year (*Source: Factset*). Companies will be publishing their annual results as well as their outlooks in the course of January 2023. That will be one of the decisive factors facilitating the further development of equity markets, together with the setting of their interest rates by the FED and other central banks.

Mr Michal Ondruška
Manager, Asset Management

It will be in January that analysts would likely adjust their estimates of the growths of profits of individual companies for the next year. In November 2022, intimations about a monetary crisis hitting the Czech Crown started to circulate; in our opinion, such reports were rather taken out of context and as such they did not reflect the real state of affairs. For example, the 'crisis' argument of high interventions in support of the Czech Crown by the Czech National Bank does not take into account their still very high level in relation to the GDP.

Higher volatility prevailing in financial markets has also been reflected in the management of the RIS unit funds, in respect of which more that 120 deals were completed in the course of November 2022. Following the very strong growth of the Czech sovereign bonds, we sold a minor portion of that bond position with maturity in the year 2030. We purchased 200-million-Czech-Crown worth of bonds with maturity in 2025 for *Fond dluhopisové stability*. Interesting credit premiums on corporate bonds have also been made use of; for example, we have invested in the primary Euro issue of a Czech company named Passer, and subsequently also in the group bond issued by the Czech Raiffeisenbank, with a yield of 8.27 percent and maturity of 5 years. As compared to the previous months, more deals took place involving U.S. bonds, too; probably, we have been nearing the top of anticipations of rising interest rates, which could indicate a price floor in respect of those bonds. We have invested mainly in corporate bonds with maturities of 5 to 8 years; here, too, a bet on tightening credit spreads has been made. Some activity took place also regarding the Euro bond curve.

On the equities side, rather minor adjustments have been made, mainly in the distribution between sectors; it is worth mentioning, for example, the lowering of the position in gold miners, the transfer of part of the funds from the Financial Sector (which has been doing very well this year) to the Technology Sector, which – on the contrary – has been relatively attractive from our point of view, or reducing the commodity component in the Alternative Fund.

Duration of the bond portion of our portfolios has now been weighted to slightly overweight with the benchmark, while bonds with longer maturities contributed significantly to the overall positive performance of our managed portfolios and funds over the previous month. For example, *Raiffeisen fond dluhopisových trendů* added a significant +4.7 percent in the past month. At the credit level, sovereign bonds continue to prevail over corporate issues. As regards the equities, we maintain a neutral to slightly overweight position in equities versus bonds. The majority of investment ventures has been directed to the United States markets, while the other regions, such as Europe, the Pacific, and the Emerging Markets, have been underweighted.

We continue to expect high volatility in the financial markets; nevertheless, investors' activity will be played down as the end of the year approaches. The decisive factors for further developments continue to include the war in Ukraine, growths in profits and sales of companies, interest rates hikes, and inflation. Next year, we envisage a gradual slowing down of inflation and declines in interest rates. Therefore, we maintain a positive outlook for the main types of instruments, such as equities and bonds, for the next year 2023.

We wish you much success in the coming days!

For the Asset Management team,

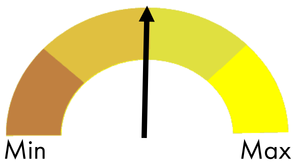
Mr Michal Ondruška

Summary of Investment Strategies:

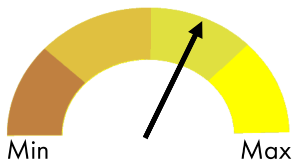
Tactical Allocation

Equity overweighted in portfolios

Current



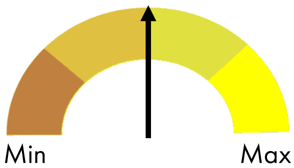
3M outlook



Interest Rate Risk

Average bond maturities (Duration)

Current



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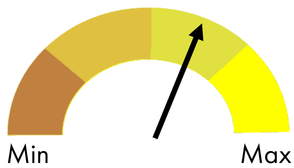
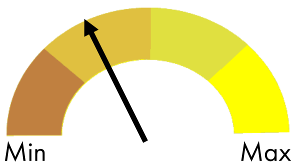


Credit Risk

Portions of, e.g., corporate bonds

Current



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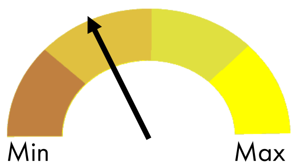
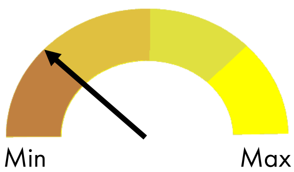


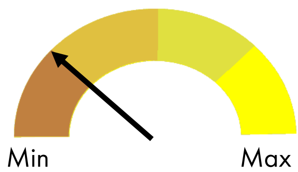
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 December 2022.

Raiffeisenbank a.s. Hvězdova 1716/2b, PO box 64, 140 78 Praha 4, tel.: +420 234 401 111, fax: +420 234 402 111, e-mail: info@rb.cz, www.rb.cz, IČ: 49240901, zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051

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