Raiffeisen
Investiční společnost

Commentary on the Financial Markets

07/24

Stock markets strengthened again in June, investors are betting on a possible retreat in inflation

The S&P 500, the most-watched stock index, gained another 3.2% in June and has already gained a promising 14.5% since the beginning of the year. In June, the markets were mainly driven by technology stocks such as Nvidia, Apple and Microsoft. The technology sector gained 7.6%, while the durable consumer sector added 3.7%. The worst performers were the utilities (-6.3%) and materials (-3.5%) sectors.

The FED has left the key interest rate unchanged at 5.50% for the time being, and it is likely that its first cut will not occur until the autumn of this year. The PCE index, which measures inflation and is also a closely watched indicator of the Fed, rose 2.6% y/y in May, which was within market expectations. This supported expectations that the Fed could cut its key interest rate this year. The 10-year treasury yields also reacted positively to the PCE index and the better-than-expected CPI in the US (3.3% y/y in May), falling to around 4.2% during the month, but then stabilizing at a slightly higher 4.4%. The ECB cut the deposit rate from 4% to 3.75% in mid-June, as expected, but further rate cuts this year are already uncertain and will depend on incoming macroeconomic data. Nevertheless, the market expects the ECB to cut rates this year. The yield on Germany's ten-year government bond is still around 2.55% p.a.

In June, the CNB surprisingly lowered the 14-day repo rate by 0.50% to 4.75%. Analysts mostly expected a cut of just 0.25%. However, the CNB has indicated that it will be more cautious with further rate cuts and that it will depend on other data (especially inflation and the labour market) that will come.

Analysts are forecasting an 11.3% increase in aggregate corporate earnings and a 5.0% increase in aggregate corporate revenue from the S&P 500 index for the full year, which could support stock markets, along with expected declining inflation. Of particular importance will be the economic results of companies for the 2nd quarter of this year, which will be published in the coming days, together with the company's outlooks for the next period.

Also in the past month, RIS funds participated in the continuing growth of mainly stock markets. Pure bond and mixed funds also recorded positive performance. In the case of the bond component of the RIS funds' portfolios, it is worth mentioning the new issue of five-year bonds of České dráhy a.s. with an annual yield of 5.647%, the total volume of which reached CZK 8 billion. Demand for this corporate issue was historically the highest and approached CZK 14 billion. In this high level of competition, we have purchased a volume of over CZK 800 million for selected funds. In the case of the equity component, there was a slight regional positional substitution in the selected funds by reducing the weight of US technology stocks, while a slight increase in European equities. We expect lower trading activity in the upcoming holiday season, but this may bring higher volatility and, as a result, new transaction opportunities.

As part of our investment strategies, we outweigh stocks over bonds. Regionally, we dominate North America and Emerging Markets, slightly underweighting Europe and the Pacific. Of the sectors, technology, industry and dividend stocks predominate. As part of our bond strategies, we maintain a neutral to slightly overweighted duration on CZK bonds and an overweight duration on dollar and euro bonds.

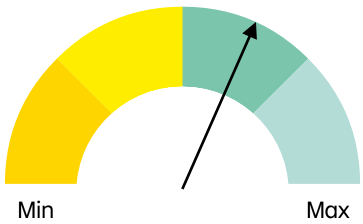
We wish you success in the upcoming period!

Michal Ondruška
CIO, Member of the Board

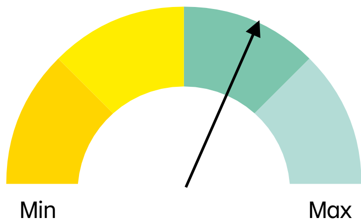
Investment Strategy Summary

Tactical Allocation
Overweighting of stocks in portfolios

Current

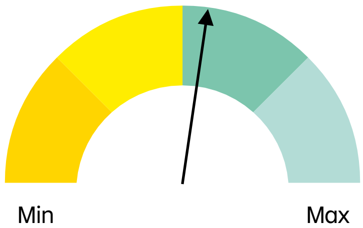


3-month outlook

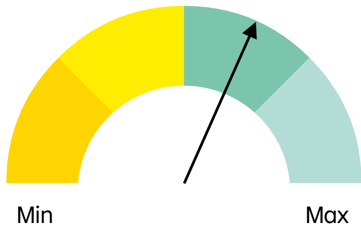


Interest Rate Risk
Average duration of bonds

Current

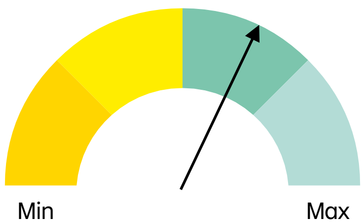


3-month outlook

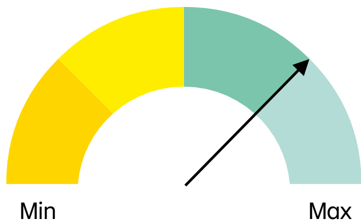


Credit Risk
Share of corporate bonds

Current

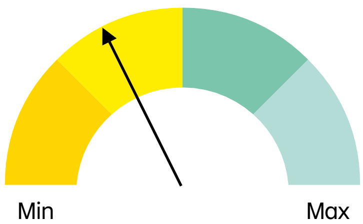


3-month outlook

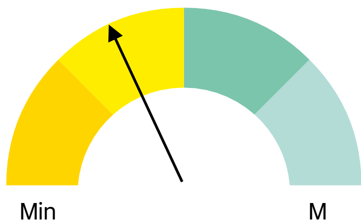


Currency Risk
Unhedged positions in foreign currency

Current



3-month outlook



source: Raiffeisen investiční společnost, a. s., as of July 1st, 2024

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