Raiffeisen
Investiční společnost

# Commentary on the Financial Markets

08/24

**In July, nervousness prevailed on stock markets, while bond prices rose**

The most-watched stock index, the S&P 500, eventually gained 1.1% during July, but we saw higher price volatility during the month. Investors realized profits mainly on technology companies and the "index" of the magnificent seven (NVIDA, Microsoft, Amazon, Apple, Tesla, Meta, Alphabet). Reportedly, one larger macroeconomic hedge fund, which is controlled by computers, was also behind the sell-off. In the US, the second-quarter earnings season is underway, so far corporate earnings seem good, as 79% of companies in the S&P 500 index have beaten analysts' expectations.

During July, the technology sector weakened the most, by -3.3%, and the communications sector also did not do well (+0.15%). On the other hand, the financials (+6.4%), real estate (+7.2%) and utilities (+6.8%) sectors performed well.

The Fed met on 31 July 2024 and, in line with market expectations, left the key interest rate unchanged at 5.50%. It is now very likely that the first reduction will take place in September this year. The PCE index, which measures inflation and is tracked by the Fed, rose 2.5% y/y in June, supporting expectations that the Fed could cut the benchmark interest rate in September. The PCE index and the better-than-expected CPI (3.0% y/y vs 3.1%) were also positively reacted to by the yields of the 10-year "treasury", which fell below 4.1% at the end of the month.

The ECB cut the deposit rate from 4% to 3.75% in mid-June, as expected, but another rate cut this year is not so certain and will depend on incoming macroeconomic data. Nevertheless, the market expects the ECB to cut rates in September as well (source: Bloomberg). The yield on the ten-year German government bond fell from about 2.55% to about 2.30% p.a. during the month.

In June, the CNB surprisingly lowered the 14-day repo rate by 0.50% to 4.75%, while indicating that it would be more cautious with further rate cuts. Given the weaker koruna and its previous rhetoric, it is therefore likely that it will cut rates by only 0.25% at its meeting on 1 August 2024.

Analysts estimate a 10.9% increase in aggregate corporate earnings and a 5.1% increase in aggregate corporate sales from the S&P 500 index for the full year, which could support stock markets, along with expected falling inflation and expected interest rate cuts. The remaining economic results of companies will still be important (e.g. on 1.8. Apple publishes and on 28.8. Nvidia) for the 2nd quarter of this year, which, together with the company's outlook for the next period, will be published in the coming days. Greater volatility in the capital markets may emerge in September, when the US presidential election is approaching. September is also statistically the worst month in terms of stock market performance. In the upcoming holiday period, we expect lower trading activity, which, however, may bring higher price volatility and, as a result, new transaction opportunities.

During July, we slightly increased our positions in the Czech government bond with maturity in 2032 on RIS funds. The aim was not to directly extend the duration, but rather to allocate the funds' free cash. There were also purchases of exchange-traded ETFs focused on US bonds. On the stock side, there were more position trades. We can mention the sale of Intel shares in two tranches, always with a few percent gain, or a slight increase in Microsoft shares after a few percent price correction.

**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!

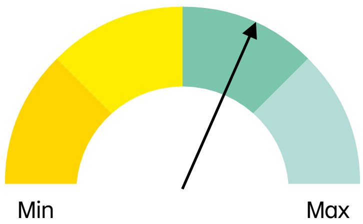
**Michal Ondruška**
*CIO, Member of the Board*

# Investment Strategy Summary

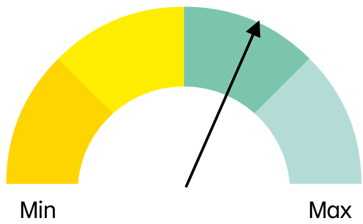
## Tactical Allocation

Overweighting of stocks in portfolios

**Current**




**3-month outlook**

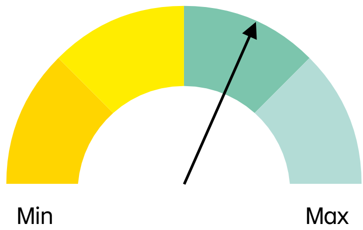



## Interest Rate Risk

Average duration of bonds

**Current**

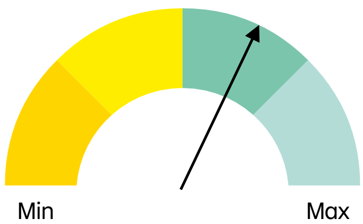

**3-month outlook**



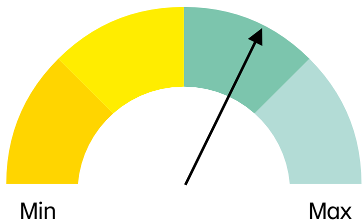

## Credit Risk

Share of corporate bonds

**Current**



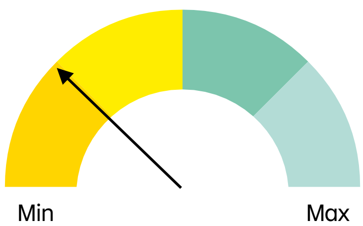

**3-month outlook**



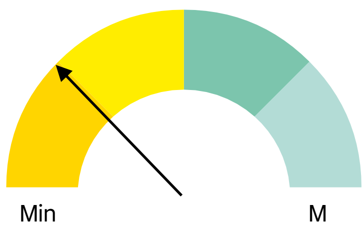

## Currency Risk

Unhedged positions in foreign currency

**Current**




**3-month outlook**




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

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