Raiffeisen
Investiční společnost

# Commentary on the Financial Markets

10/24

**Stock markets strengthened in September**

In terms of performance, September is statistically a less successful month of the year, but stock markets did well this September. The most-watched stock index, the S&P 500, gained 2.0%, while the broader MSCI World exceeded this value by another two-tenths, gaining 2.2%.

The US GDP for the second quarter of this year, published in September, confirmed annual economic growth of 3%. It is also worth mentioning the large economic stimulus in China, which is mainly focused on the real estate and banking sectors, and which helped the Chinese stock index to grow by a strong 21% in September. With this jump, the Chinese stock index has moved from red to green numbers this year.

During September, the best performing stock sector was the durable consumption sector (7.1%). The utilities sector also performed very well (5.9%), benefiting from a reduction in interest rates and greater investor interest in electricity producers in the US in connection with the growth of data centers of large companies. The energy sector was the worst performer (-3.8%), mainly due to a strong decline in oil prices, and the healthcare sector (-2%) also did not do well.

The US core PCE index, which is the Fed's monitored indicator to measure inflation, rose 0.1% m/m in August and 2.7% y/y, which was in line with market expectations. At its meeting on September 18, the FED rather unexpectedly lowered the key interest rate by 0.50% to 5.00% and indicated a further reduction of this rate to about 4.50% by the end of this year. However, the market expects the interest rate to fall to 4.25% by the end of the year. Similarly, the ECB is expected to reduce its deposit rate from the current 3.50% to 3.0% p.a. by the end of this year.

In September, the CNB lowered the 14-day repo rate by 0.25% to 4.25% p.a., which was within market expectations. The CNB indicated that the further development of rates would depend on the data that would gradually come in. However, analysts expect the repo rate to fall to 3.75% p.a. by the end of this year.

It is also interesting to look at the growth in profits and sales of companies. For this year as a whole, analysts estimate aggregate earnings growth of 10.0% for S&P 500 companies and 5.1% growth in aggregate sales, which could further support stock markets, along with expected falling inflation and interest rate cuts. For next year, analysts even estimate up to 15% aggregate earnings growth for the S&P 500 index (source: FactSet).

At the beginning of November, presidential elections will take place in the USA. Polls for the winner of the election are still balanced, so it cannot be ruled out that we will see greater volatility on the financial markets at the end of October or during November.

Increased market volatility in September was also reflected in activity and transactions on RIS funds. Bonds worth more than two billion crowns were traded on the conservative part. About three-quarters of the trades took place on Czech government bonds. Due to their falling yields, shorter bonds with maturities in 2025–2028 were sold. Part of these funds went into longer koruna bonds with maturities of 2031–2036. In addition, foreign currency bonds were purchased mainly in dollars, in the form of exchange traded funds (ETFs). Here, the scope was quite wide, from US corporate bonds to emerging market bonds.

On the equity side of the funds, there were smaller portfolio adjustments and short-term trades, which were based on higher stock market volatility. Transactions have repeatedly taken place, for example, with shares of the German car manufacturer BMW or in the sector of European mining companies. From other regions, it was trades with Japanese companies or shares from emerging market countries.

**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 expect higher volatility in financial markets, which may also create interesting investment opportunities.**

We wish you success in the upcoming period!

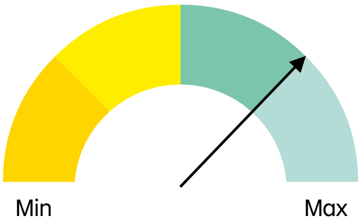
**Michal Ondruška**
*CIO, Member of the Board*

## Investment Strategy Summary

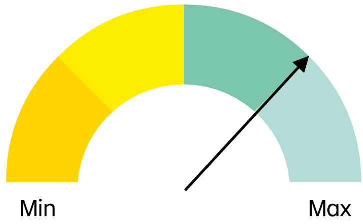
### Tactical Allocation

Overweighting of stocks in portfolios

**Current**



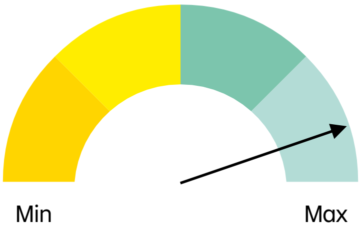

**3-month outlook**



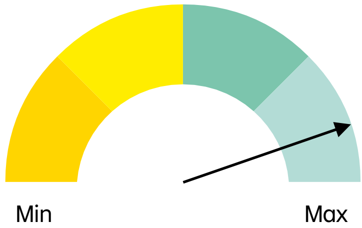

### Interest Rate Risk

Average duration of bonds

**Current**



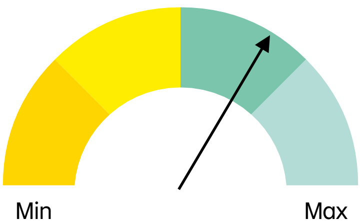

**3-month outlook**



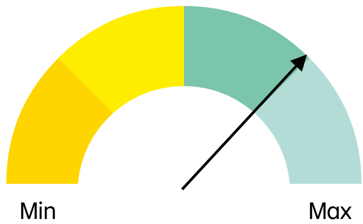

### Credit Risk

Share of corporate bonds

**Current**



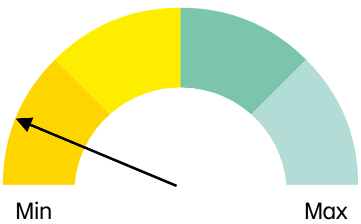

**3-month outlook**



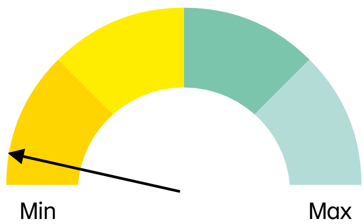

### Currency Risk

Unhedged positions in foreign currency

**Current**




**3-month outlook**




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

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