Raiffeisen
Investiční společnost

Commentary on the Financial Markets

12/24

The S&P 500 stock index is at all-time highs

The US S&P 500 stock index strengthened again after the presidential election, reaching its all-time high, surpassing the 6,000-point mark and gaining another 5.7% in November. The widely spread MSCI World index also reached an all-time high. Among the sectors, the best performers were the durable consumer goods (+12.9%) and financials (+10.5%) sectors. The energy sector also performed well (+7.8%). The worst performers were healthcare (+0.4%) and materials (+1.5%).

The Fed will meet on 18 December 2024 and the base interest rate is expected to be reduced from 4.75% p.a. to 4.50% p.a. The next ECB meeting is scheduled for 12 December 2024. The ECB is expected to cut the deposit rate by 0.25% to 3.0%. Similarly, the CNB expects that the repo rate may be lowered from the current 4.00% to 3.75% p.a., but in this case the market is divided approximately 50:50. Some analysts no longer expect this reduction at the end of the year. The next CNB meeting is scheduled for 19 December 2024.

The yield on Germany's ten-year government bond fell from 2.4% p.a. to about 2.2% p.a. in November 2024, and the yield on the US "treasury" also declined from 4.30% p.a. to approximately 4.20% p.a. Lower yields were helped by inflation overseas and the eurozone, which did not surprise the markets as it rose within market expectations. The financial markets also received positively the news of the nomination of the US Secretary of the Treasury, Mr Scott Bessant, who wants to reduce the US deficit and who has experience in capital markets.

Analysts estimate a 9.4% increase in aggregate corporate earnings and a 5.0% increase in aggregate corporate sales from the S&P 500 index for the full year (source: FactSet). Now investors are already starting to focus on next year 2025, when they estimate a 15.0% aggregate increase in earnings for the S&P 500 index (source: FactSet). Stock market sentiment remains positive. However, the risks for the further development of stock markets include the possible introduction of high customs barriers and geopolitical risks (Ukraine-Russia, the Middle East).

The November changes in the structure of the RIS funds' portfolios were primarily a reaction to Donald Trump's victory and the economic consequences of the announced steps of the new US administration. On the one hand, corporate tax cuts, deregulation, stimulus fiscal policy and protectionist measures in international trade (including tariffs on imports of goods to the US) should support economic growth there, but on the other hand, they increase the risk of widening budget deficits and have an inflationary effect. At the global level, concerns have grown about the negative effects on the already weaker economic condition of selected export-oriented regions, unsurprisingly led by Europe. Thus, there have been several territorial shifts in RIS funds in the past month – US stocks have been bought, at the expense of investments "in the rest of the world". Within the US market itself, shares of globally operating companies were sold and the representation of companies generating revenues, especially in the USA, was increased. The operations carried out on the part of fixed-income instruments were aimed at reducing the duration (simply: average time to maturity) of US bonds. The opposite approach was applied to European bonds, i.e. extending their duration in order to profit more significantly from the expected faster reduction in interest rates by the European Central Bank, given a strong preference for EMU government bonds over bonds issued by companies operating in the European Union. However, long-term government bonds of the Czech Republic (issue due in 2034) also saw an increase in their share. In short-term trades, we can mention cheap purchases and subsequent sales with several percent gains in the shares of European companies operating in the mining or energy sectors.

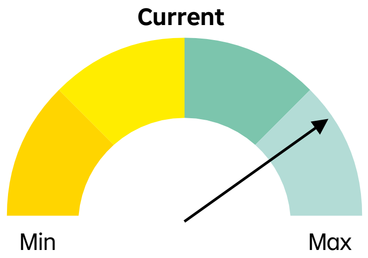
In terms of investment strategies, we overweight stocks over bonds. Regionally, we overweight North America and Emerging Markets, underweight Europe and the Pacific. The sectors are dominated by technology, industry and the dividend stock segment. Within the framework of bond strategies, we maintain an overweighted duration on koruna bonds, an overweighted duration on euro bonds and a weighted duration on dollar bonds. We continue to expect higher volatility in financial markets, which may also create interesting investment opportunities.

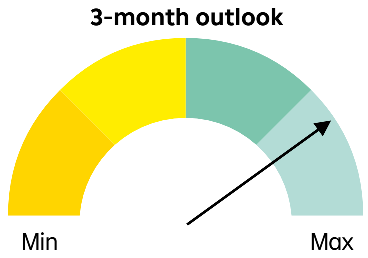
We wish you success in the upcoming period!

Michal Ondruška
CIO, Member of the Board

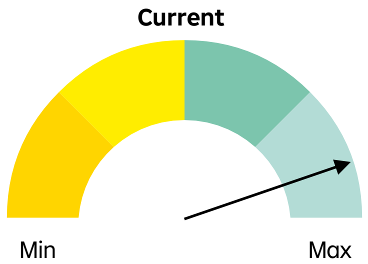
Investment Strategy Summary

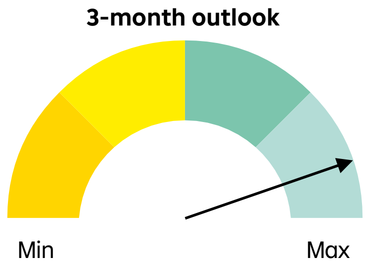
Tactical Allocation
Overweighting of stocks in portfolios



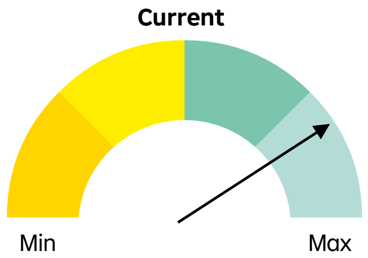


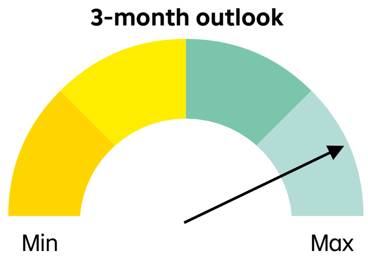
Interest Rate Risk
Average duration of bonds



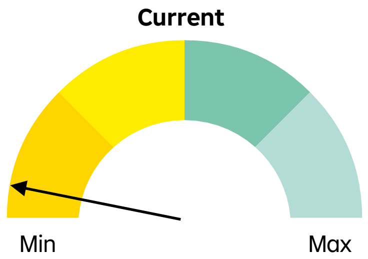


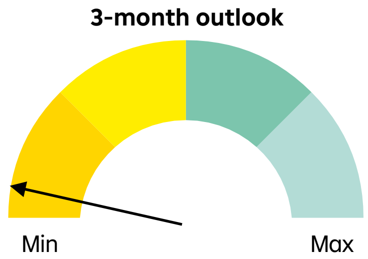
Credit Risk
Share of corporate bonds





Currency Risk
Unhedged positions in foreign currency





source: Raiffeisen investiční společnost, a. s., as of December 2nd, 2024

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