



Prague, 1 June 2023

Theme of Artificial Intelligence Significantly Enlivens Markets during May

The most closely watched S&P 500 Index strengthened by 0.25 percent in May. Such strengthening of the equity markets mainly resulted from better than expected economic results reported by U.S. corporations and performance of the Technological Sector. More than 97 percent of the S&P 500 Index corporations have already published their results; 78 percent of them reported better than expected profit per share. In the first quarter of 2023, the aggregate profit of the S&P 500 Index firms dropped by -2.1 percent, while revenues increased all in all by 4.1 percent.

The results reported by NVIDIA indicated that demands for applications of Artificial Intelligence would raise steeply, which resulted in a high increase in the value of that company (approx. USD one trillion) as well as of other firms in the industry involved in manufacturing or designing of semi-conductors (e.g., AMD, TSM, ASML). In other words, the topic of Artificial Intelligence ('AI') significantly boosted equity markets in the course of the month of May.

Among the sectors, the best performing were the Technologies Sector (+8.9 percent), the Communications Sector (+3.9 percent), and the Consumer Durables Sector (+2.5 percent). On the contrary, the worst performing were the Energy Sector (-10 percent) and the Utilities Sector (-5.9 percent).

The FED increased its benchmark interest rate up to 5.25 percent in May, and expectations have it that a pause will be applied as regards further hiking of interest rates in the course of June (Source: Bloomberg). The PCE price index increased by 4.3 percent in April, which was more than the 4.2 percent raise recorded in March. Therefore, further interest rate hikes cannot be excluded in the United States in the months to come; nevertheless, a more probable scenario counts with stable interest rates until the end of this year. The House of Representative passed a bill suspending the U.S. debt ceiling. Without such raising of the debt ceiling, the United States would be at a risk of insolvency as early as this month. The debt ceiling suspension act must also be approved by the Senate in the days to come.

The ECB deposit rate reaches 3.25 percent p.a. and the refinancing rate equals 3.75 percent p.a. It is anticipated (Source: Bloomberg) that the ECB, too, will raise its deposit and refinancing rates by 0.25 percent, despite significantly down-turning inflation. The ECB session takes place on 15 June 2023.

The yield of the ten-year German sovereign bond fluctuates around 2.3 percent p.a. and the yield of the U.S. "Treasury" with an identical maturity moves around 3.65 percent p.a. The U.S. bond market responded in part to the U.S. debt ceiling agreement when the yields of the "Treasury" dropped from their May highs of around 3.85 percent.



Mr Michal Ondruška
Manager, Asset Management



At the end of May, the yield of the Czech sovereign bond with ten-year maturity reached approximately 4.6 percent p.a. The CNB keeps its benchmark interest rate at 7 percent p.a. The next CNB session is planned for 21 June 2023 and it cannot be absolutely excluded that it would increase its interest rates, due to high inflation expectations and a potential wage-price inflationary spiral. However, the majority of analysts anticipate (Source: Bloomberg) that the benchmark interest rate would remain at 7 percent p.a. since inflation in the Czech Republic has been falling faster than expected.

The decisive factors affecting the trends in the equity markets, beside higher profits generated by individuals corporations, include the development of global inflation and the end of the cycle of increasing interest rates by central banks. The risks, beside global inflation and related cooling down of the growth of the global economy, include potential difficulties facing the Commercial Real Estate Sector (e.g., office space, shopping malls) in the United States, where developers will be required to refinance for higher rates, something that may affect in a negative manner some of the smaller regional banks.

As regards the RIS funds, we gradually increased equity positions in the past month, resulting in a moderate overweighting of shares as against bonds. We purchased both broad U.S. equity indices and such specific sectors as the Energy Sectors and the Materials Sectors both in Europe and in America. More successful trades took place last month of the Global Miners ETF. However, the most traded security regarding the RIS funds in May 2023 were ČEZ shares, of which more than thirty trades took place across all funds. Such active trading was assisted by high volatility, when purchase prices typically hovered around 1,000 crowns per share and were sold 3-5 percent higher. On the contrary, some equity positions in the Finance or Technology Sectors were downgraded. As far as bonds are concerned, sales of longer Czech sovereign bonds took place at prices close to their local highs; subsequently the same bonds were bought at a percentage-point cheaper at the end of the month.

It remains our investment strategy to increase the share of equities as against bonds. We thus move from a neutral position to a position of overweight stocks and underweight bonds. The reason is an expected growth in profits and sales of companies in the coming months, accompanied by falling inflation, including a drop in interest rates. Regarding the regions, we overweight North America and the emerging markets, while moderately underweighting Europe and the Pacific Area. Among sectors, we overweight the Technologies Sector, the Industry Sector, and the dividend-paying shares segment. In the case of a suitable opportunity, we expect a further increase in the share of equities. As part of our bonds strategies, we keep longer 'duration' (average maturity of bonds) as against bond benchmarks. We prefer sovereign bonds to corporate issues.

We wish you much success in the coming period!

For the Asset Management team,

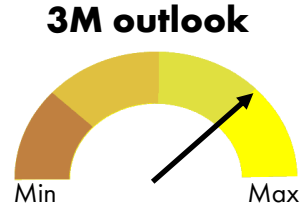
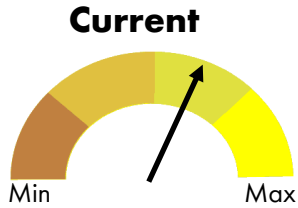
Mr Michal Ondruška



Summary of Investment Strategies:

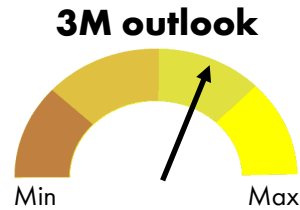
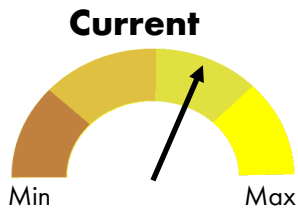
Tactical Allocation

Equity overweighted in portfolios



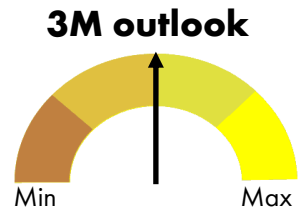
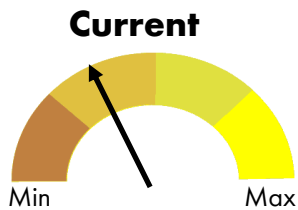
Interest Rate Risk

Average bond maturities (Duration)



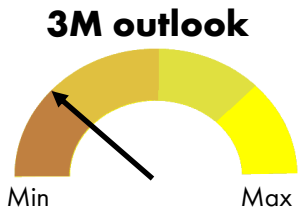
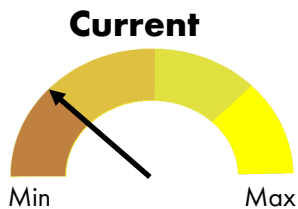
Credit Risk

Portions of, e.g., corporate bonds



Currency Risk

Unsecured positions in foreign currencies



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 June 2023.



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