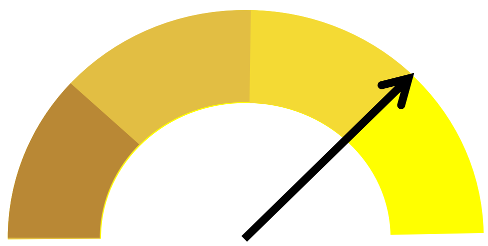
ASSET ALLOCATION

RB Asset Management 1Q/2022

TIHVĚZDIČKOVÁ BANKA K VAŠIM SLUŽBÁM

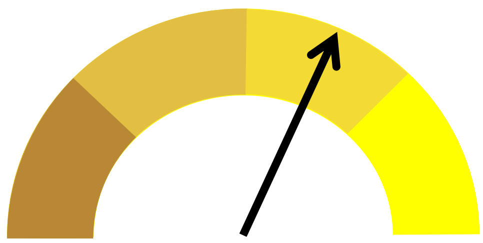
KLIENTSKY NEJPŘÍVĚTIVĚJŠÍ BANKA 2015–2019

Current Asset Allocation



MAX underweighting of risk assets | **MAX overweighting of risk assets**

Expected Asset Allocation in 1Q/2022



MAX underweighting of risk assets | **MAX overweighting of risk assets**

Source: Raiffeisenbank a.s., Asset Management, information valid as of 12 January 2022.

Dear Clients,

Optimism prevailed in the financial markets last year. Well performing were particularly equities and alternative instruments; appreciation in excess of 20 percent was no exception. The Czech market, whose total appreciation exceeded 40 percent, was a 'top-of-the-class' among equity indices. Despite difficulties related to the Covid Pandemic, a robust economic growth was maintained in virtually every corner of the world. Nevertheless, there are no free lunches; pumping cheap money into the individual economies required its pound of flesh, namely, in the form of an extremely soaring inflation. Some central banks, including the Czech National Bank, had already responded by sharp rises in their interest rates, while other central banks get ready to take such steps. Such rates hikes affected prices of bonds in a negative manner; the Czech crown denominated bonds lost more than 7 percent last year. Despite such declines in bond prices, last year's investing represented a 'success' story. This was reflected not only by high influx of new money to investment accounts, but particularly by above-the-average appreciation of mixed and higher-risk strategies, both in absolute figures and in relative comparisons to the preceding years.

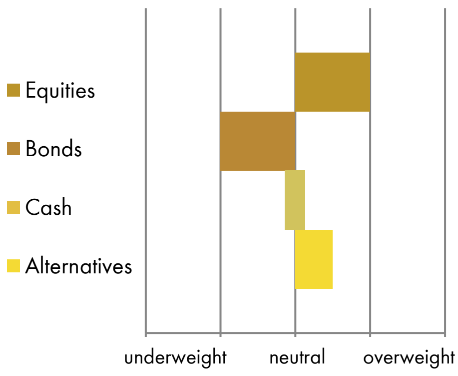
This year may be very interesting in the financial markets; trends may be changing as against the state of affairs prevailing in the previous two years. We expect a possible rotation in several places. One, as regards bonds: as the interest rates have at the moment been rocketing, it cannot be excluded that they would drop at an identical speed at the brink of this and next years; it will therefore be important to pick up an appropriate bond strategy, namely, when and how to extend bond maturities and participate in an optimum manner in potential increases of bond prices. Two, as regards shares: higher interest rates will slow down economic growths and attractive higher yield of bonds will not favour shares, either. Therefore, it will be a key decision as to when to cut the gas, how to change regional and sectoral compositions, or what type of instruments to choose. We have been working with various scenarios of possible trends; we would not rule out implementation of modifications of real portfolios as early as in the near future.

In the long run, investments rank among successful ways of appreciating money, despite periods of declines and even imminent crises. I am very glad that the past year brought about some interesting appreciations; however, it is necessary to keep in mind that the future might also bring about some less joyful moments. Successful investing is primarily about patience, discipline, and long-term investment strategies.

We appreciate your confidence and we wish you all the best in New Year 2022!

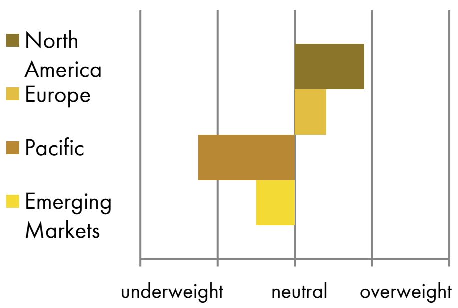
Mr Michal Ondruška
Manager, Asset Management

TACTICAL ASSET ALLOCATION – ASSET CLASSES



The primary factors affecting the financial markets at the beginning of the year 2022 include: inflation, policies adopted by central banks and governments, geo-politics, the new 'Omicron' strain, and – in particular in Europe – high energy prices. Profitability of equities all around the world, despite declining support from central banks, should reach a double-digit rate, also due to inflation, which, however, will be curbed by higher interest rates. All in all, we can expect one-digit growth of the main equity indices. Prices of bonds issued in countries with increasing interest rates will be declining. To an extent higher than last year, there exists a risk of the world central banks' exaggerated reaction to high or more persistent inflation, and resulting more pronounced corrections of risky assets and re-pricing of valuation multiples. Nevertheless, in the longer term and in an environment of increasing controlled inflation, equities outperform bond yields and they are able to achieve real returns. For Czech investors, where the yield on a 2-year government bond has already exceeded 3.5 percent, the attractiveness of shares is lower, but still justified because safe fixed instruments do not beat inflation. As regards the tactical allocation of Czech crown investors, we are considering a reduction in over-weighting of equities and alternatives and a moderate increase of the share of debt instruments.

TACTICAL ASSET ALLOCATION – EQUITY REGIONS



We have slightly adjusted tactical allocation as against the previous quarter. In our models, we still remain overweight in the United States and – as a new feature – also in Europe. On the other hand, we remain under-weight in the Pacific, while we are virtually on par with the benchmark in emerging markets. Exposition to U.S. equity markets represents approximately 63 percent of the risk portion of the portfolios. This figure includes about 10 percent held in the Nasdaq technological index. We have been overweight in the Financial Sector, the Industrial Sector, and the Health Services Sector, as well as in the Consumer Durables Sector. We hold 16 percent in European equity markets. We hold 8.5 percent in the Pacific Region, including Japan, and approximately 15 percent in the emerging markets.

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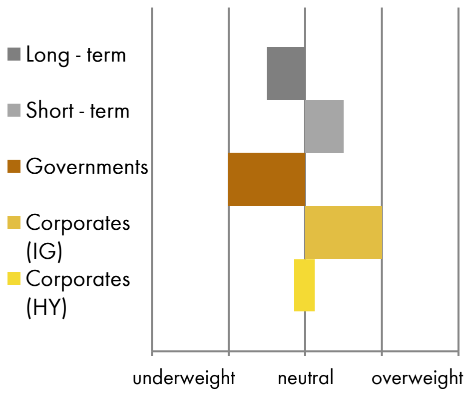
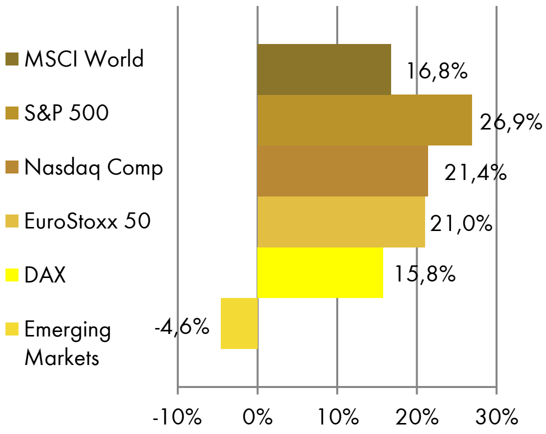
TACTICAL ASSET ALLOCATION – BONDS



We have entered the New Year at a brisk pace of increasing yields of government bond issued in the United States, Europe, and the Czech Republic. Yields of 10-year bonds issued by the Czech Republic thus reaches 3.2 percent, and the high interest rate differential has resulted in stronger Czech crown. Recently published minutes from a meeting of the U.S Federal Reserve (FED) indicated that the growth of interest rates in the United States might be higher than the market had expected, which was reflected in a decline of world stock indices. Still, the FED policy remains stimulating and the indicated speed of rate hikes is very moderate (anticipated this year's rate increases by 0.75 to 1 percent). The ECB probably will not move with its rates this year. Thus, the low to negative yields on bonds denominated in EUR will probably not change in any major way. On the contrary, the Czech National Bank will still carry on its further relatively quick rates hikes. This policy will increase attractiveness of, in particular, bonds denominated in Czech crowns, money market instruments, as well as the local currency. The inverse shape of the Czech yield curve, with yields close to 5 percent at the short end and 3.5 percent p.a. at 10 years, indicates a potential reduction in Czech National Bank rates after price pressures ease. Thus, the timing of extending duration of the portfolios of bonds denominated in Czech crowns will be of key importance. Longer-maturity bond prices will be facing the risk of persisting inflationary pressures, the plan of issues of the Ministry of Finance (which prefers longer maturities), and growing global rates. In comparison to the benchmark, we have been maintaining shorter average term to maturity (so-called 'duration') and we have been tactically overweight as regards the share of creditworthy corporate bonds.

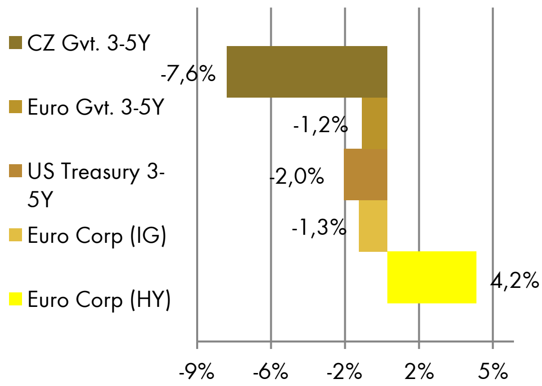
Source of the data in the charts: Raiffeisenbank a.s., Asset Management, valid as of 12 January 2022.

ECONOMIC SITUATION AND MARKET TRENDS IN 2021



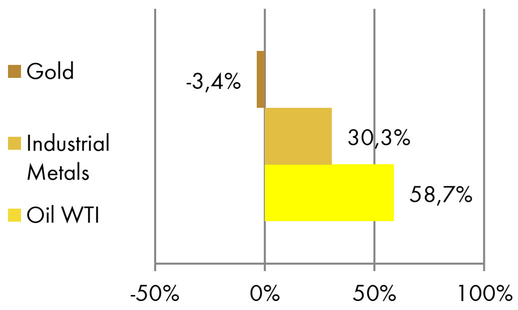
SHARES

The year 2021 was very successful for shares. Almost all important equity indices recorded two-digit profits. The general U.S. S&P500 Equity Index strengthened by 26.9 percent last year. The Nasdaq Index of technological shares added 21.4 percent. European shares increased by 21 percent. The emerging markets and their equity markets became the imaginary losers. The MXEF Index wrote off 4.6 percent. This was due to the situation prevailing in the Chinese market, in Turkey, and in other countries belonging to the same market segment.



BONDS

Bond markets, including the Czech Republic, were affected by higher inflation. Related to that were growth expectations as well as real growths of interest rates. The Czech Republic experienced one of the fastest speeds of rate hikes in modern history. It influences bond markets in a significant manner. The Index of Czech sovereign bonds with maturities of 3-5 years lost 7.58 percent last year. The Index of European sovereign bonds declined by 1.19 percent. The U.S. state bonds wrote off 2.04 percent. High-risk bonds, though, performed well: for example, the Index of European risk bonds added 4.21 percent.



COMMODITIES

Commodities were driven up by increased demand and insufficient supply. Oil added 58.7 percent in the course of the year. Industrial metals increased by 30.3 percent. Gold, which had historically been made use of as a hedge against inflation, weakened by 3.4 percent, in spite of relatively high global inflation. Also worth mentioning are swelling prices of some other energy commodities: for example, electricity prices grew by hundreds of percent.

	31/12/20	31/12/21
EUR/CZK	26.24	24.89
USD/CZK	21.47	21.88
EUR/USD	1.222	1.137

CURRENCIES

The Euro weakened against the Dollar by 6.9 percent in the course of the year 2021. The Czech crown added 5.16 percent against the Euro last year; however, it lost 1.89 percent against the Dollar at the same time. From our point of view, changes in the development of currency pairs were significantly affected by changes in the interest rate differential, when the Czech crown in particular was driven by rising interest rates in the Czech Republic at the end of the year.

Source of the data in the charts: Bloomberg. Performance of individual assets is measured in the primary currency of the given instrument since the beginning of the year until 31 December 2021.

The currencies table shows the rates as of the date as indicated.

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FUTURE OUTLOOK

The most closely watched S&P 500 Index added 9.0 percent in the fourth quarter of last year, and it strengthened by 26.9 percent over the entire past year, without effect from dividends. Among the sectors, the best performing last year were the cyclical sectors. Such as the Energies Sector (46.4 percent), the Real Estates Sector (41.7 percent), the Technologies Sector (33.7 percent), and the Finance Sector (32.5 percent). On the other hand, the Utilities Sector (14.1 percent) and the Short-term Consumption Sector (14.3 percent) marked the worst performance of all.

The FED has signalled that it would speed up the termination of the 'quantitative easing' and increase the rates three-times by 0.25 percent in the course of the year. It must respond in this way to inflation, which has been growing faster than expected by both analysts and investors. They anticipate that inflation might slow down its growth gradually in the United States and in the Euro Area commencing in the first quarter of 2022.

Despite the fact that inflation has been higher than envisaged by analysts, and not only in the United States but also in Europe, the yield of the ten-year U.S. sovereign bond stuck to approximately 1.5 percent until December 2021; nevertheless, expectations have it that it would already start going up towards 2 percent this year. The Czech National Bank's forcefulness again caught analysts unprepared; it responded to increasing inflation by yet another key interest rate hike from 2.75 percent up to 3.75 percent, and it has hinted that a further move up in excess of 4 percent might come in the course of this year's first quarter. The Czech crown responded to such rates hikes by increasing its exchange rate against the Euro below CZK 24.50; further increases cannot be excluded, either. Yields of Czech sovereign bonds begin to be attractive for investors again. If inflation should reduce its rate significantly, demand for particularly fixed-coupon bonds will increase. Such development might represent a momentum for modifying the bond strategy, namely, a move towards extending the maturities of our managed portfolios.

The envisaged P/E of 21.1 (*Source: Bloomberg*) in respect of the next 12 months has been higher for the S&P 500 Index than its five-year average of 18.4 (*Source: FactSet*). According to expectations regarding the entire this year, the aggregated S&P 500 Index corporate profits should go up by 9.4 percent, y/y, and of revenues by 7.6 percent, y/y (*Source: FactSet*). In addition, the yield of the 10-year U.S. sovereign bond remains relatively low, which also underlines attractiveness of equities. Since analysts expect both corporate profits and revenues to grow at a one-digit rate, it is no longer realistic to look this year for so strong equity markets growths as in 2021. Also, higher equity markets volatility cannot be excluded this year, in particular due to increasing of interest rates by the FED, further due to growing inflation, fluctuations of energy prices, the Covid Pandemic and emergence of new geopolitical risks.

Overall, we have been maintaining our managed funds and individual portfolios overweight in equities and, given the possible further increase in rates, we also hold shorter average maturities of bonds. Among the sectors, we continue to prefer growth sectors, such as the Technologies Sector, the Industry Sector, the Consumer Durables Sector or the Finance Sector. Regarding the regions, we rely on the developed markets, in particular the market in the United States. We gradually plan to replenish our portfolios with Czech sovereign bonds with longer maturities, thus prolonging their average term to maturity.

Outlook by: Raiffeisenbank a.s., Asset Management, regarding the individual asset classes in 1Q/2022:

EQUITIES	BONDS	CASH	ALTERNATIVES
USA, EMM Asia	Bonds < 3Y	Cash, Term Deposits, Savings Accounts	Energy, crude oil
Technology, Healthcare, Finance, Industrials, Consumer Discretionary, Dividend-paying shares segment	Bonds > 3Y		Real Property
	Credit		Gold

KEY: POSITIVE EXPECT. | NEUTRAL EXPECT. | NEGATIVE EXPECT.

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Information about Raiffeisenbank a.s.

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Officer in charge: Mr Michal Ondruška, Manager, Asset Management.

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