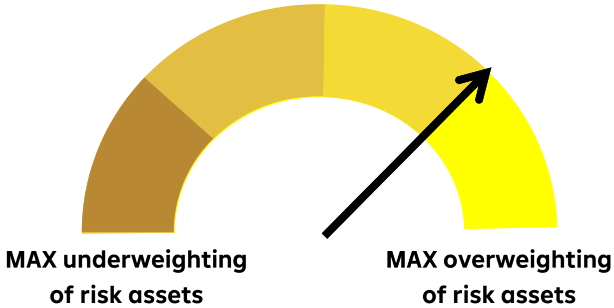
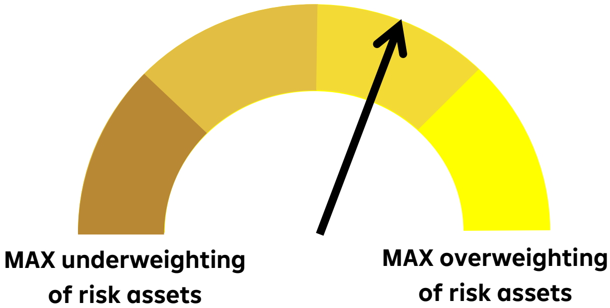
Asset Allocation
RB Asset Management 2Q/2024

Current Asset Allocation



Expected Asset Allocation in 2Q/2024

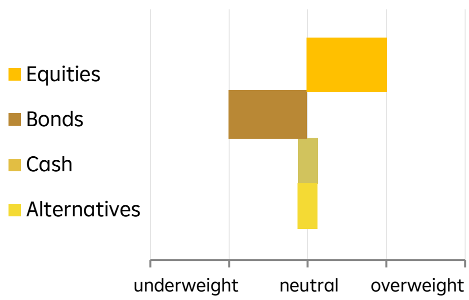


Source: Raiffeisenbank a.s., Asset Management, data valid as of 11 April 2024

Dear Clients,
The first quarter of the year 2024 brought to investors in financial market some more positive yields, in continuation from the last quarter of the previous year, especially in equity markets. The most closely watched S&P 500 Index added more than 10 percent to its investors, which represented the best yield as regards the first quarters over the past five years, having thus overcome several historical milestones; its value oscillating around 5200 finds itself at historical highs. The global equity markets, measured by the MSCI AC World Index, grew by 7.8 percent; on the contrary, global bonds, measured by the Bloomberg Global Aggregate Bond Index, lost 2.1 percent. Some positive appreciation was delivered by the Czech sovereign bonds which yielded 1 percent in the past quarter (*Bloomberg Czech Govt 3-5 yr Index*). Investments in foreign currencies made by Czech crown investors offered yet additional appreciation, resulting from the strengthening of both the US dollar and the EUR as against the Czech crown.
The released economic data have been surprisingly positive on both sides of the Atlantic Ocean; however, it does not affect the trends of unfolding scissors to the benefit of the U.S. economy, as compared to Europe. The U.S. ISM Industrial Production Index surprisingly leaped in March to expansion zone, for the first time in the past eighteen months. The European industrial countries, like Germany and actually also the Czech Republic, have been facing higher prices of energy inputs as well as the effects of the war conflict raging in their geographic neighbourhood of Ukraine. The Services Sector currently acts as the driving factor of the European economy. Czech households have been made to feel happier by their inflation returning to the goal declared by the central bank, namely, its year-on-year value of 2 percent achieved both in February and in March. Linked to that, growing real wages have begun to tell in a positive manner on household consumption and improving performance of the Czech economy.
Investors' optimism as regards equity markets stems, in particular, from an envisaged decline in the global interest rates, the driver of economic growth in the form of Artificial Intelligence, but also the increasing probability of 'soft landing' or even 'no landing' scenarios, in view of some strong data about production and inflation coming from the United States. Thus, the date of the first decline in the FED rates has been postponed, as the markets currently shift their probably first rates drop to as late as in September, instead of the originally envisaged summer months. Also dropping has been the expected number of such cuts from seven in January to the current less than three. Yields to maturity of Czech sovereign bonds thus increased in the course of the quarter. Nevertheless, the risk premiums of corporate bonds, and – similarly – the equity markets, stick to their very low levels, which reflects the relaxed financial conditions. Some estimates have it that the so far easing financial terms act as if the FED reduced its rates by one percentage point, something which may equal the rates being neutral in effect. Equities do not suffer from such state of affairs, they even may profit because corporations can enjoy with low-risk premiums and economies grow (i.e., 'no landing' scenario).
The leading central banks are expected to start cutting down on their interest rates this year; the specific timing, however, will depend on concrete data, since – for example – the U.S. inflation in March staged a negative surprise with its higher figure of 3.5 percent. The emerging markets have already profited from on-going reductions of rates, which has been supported by lower inflation and economic growths. Political risks will increase due to the November elections in the United States. Combined with the on-going geo-political conflicts, we will probably witness higher total global markets volatility occurring in the further periods of the year, while having to face the routine seasonal high-risk assets outflow. In our managed portfolios, we continue to slightly overweight the equity component, while reducing its share by realising profits.
The yields we have achieved confirm our conviction that portfolio management and asset management again form the first option in appreciation of funds. Thank you for being with us and we are looking forward to assisting you again in future!

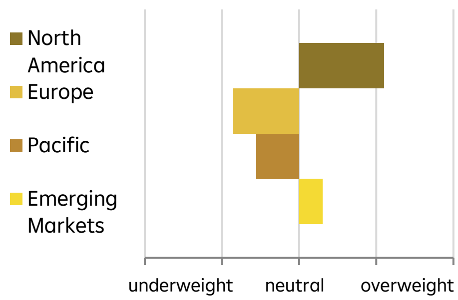
Mr Miroslav Paděra, CFA, Head of Asset Management

Tactical Asset Allocation – Asset Classes



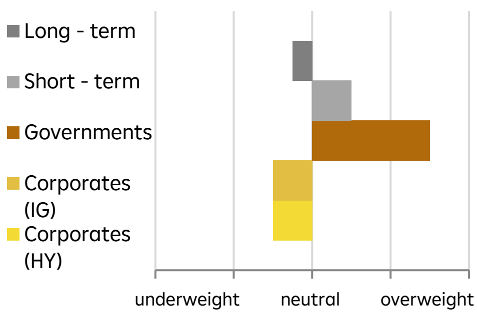
The beginning of the year meant the continuation of positive moods in both local and international equity markets. Investments in stocks denominated in foreign currencies brought unsecured Czech crown investors yet another interesting benefit in the form of exchange rate fluctuations, which made the holding of such equities still more attractive. We have left in place the previous overweighting of the stock component of our portfolios; in some cases, though, we had to sell some smaller amounts when the ratio of equities in the portfolios was nearing the agreed limits due to price increases. In spite of any previous share price rises, assumptions of further growth still exist. Data relating to the labour market and further 'macro' figures demonstrate that the U.S. economy is strong and the corporations have managed to cope with high interest rates. Currently, it is chiefly the risk of returning inflation that bothers us; fears exist, for example, as regards oil prices. Commentaries from the FED mention an unbalanced decline of inflation. As far as the coming period is concerned, we will cut down on the share of the equity component in our managed portfolios, while leaving its size slightly over-weighted as against the strategic allocation.

Tactical Asset Allocation – Equity Regions



We made no changes to the asset allocation during the last quarter. We have moderately over-weighted the emerging markets. We are over-weighted in the region of North America. We keep slightly underweighted allocations in Europe and the Pacific Area. Our exposition in the U.S. equity markets represents approximately 66 percent of the risk portion of our portfolios. Of that, some 10 percent in the Nasdaq Index. We are over-weighted in the Finance, Industrial, and Health Care Sectors. We keep approx. 13 percent in the European equity markets. We hold 7 percent in the Pacific Area, including Japan, and some 14 percent in the emerging markets.

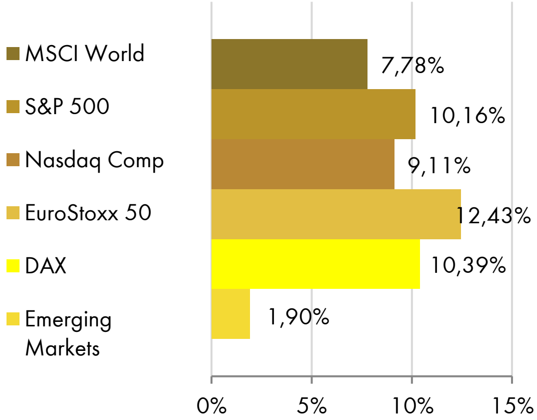
Tactical Asset Allocation – Bonds



The Czech National Bank continued cutting down on the repo rate in the first quarter of this year; it started the process at the end of 2023. Commencing at 7 percent in mid-December, the rate was reduced to the current 5.75 percent in three steps. The speed of further rate cuts, however, may be finally slower than originally awaited by the market. This trend was reflected in growing bond yields lately. In the United States, the anticipated rate cuts by the FED have not even commenced; predictions of first such cut have been shifted to later autumn dates, and also to higher values of such rates at the end of 2024. Also, thanks to such shift the yields of the five-year U.S. sovereign bonds have grown this year by 0.8 percentage point, up to 4.6 percent. Approximately at the same time as the FED, also the ECB may be reducing its rates. The further trends in the individual rates, thus in bond prices, will depend primarily on the future behaviour of the not yet completely tamed inflation. The Czech crown yield curve today already shows the classical up-going trend, while yields from longer bonds significantly exceed yields of two-year 'papers'; therefore, we began to combine variable coupon bonds and 'longer' bonds, e.g., with maturities in 2030 (so-called 'dumbbell approach'). The market lacks sufficient quantities of creditworthy corporate bonds and credit spreads remain narrow; therefore, we mainly invest in sovereign bonds. We leave duration neutral on the par with the benchmarks.

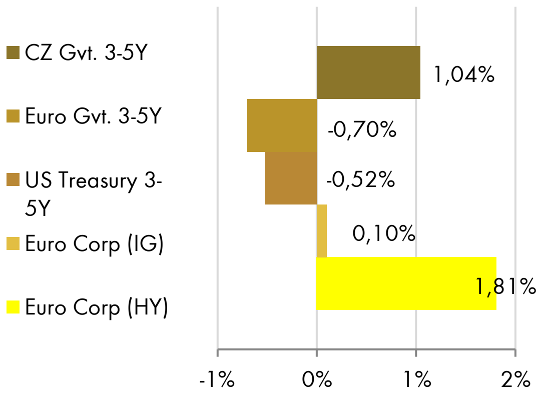
Source of the data in the charts: Raiffeisenbank a.s., Asset Management, valid as of 11 April 2024

Economic Situation and Market Trends in 1Q/2024



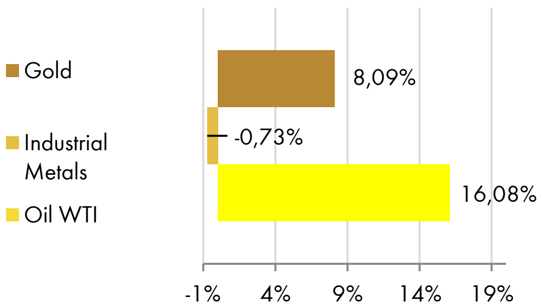
Equities

Euphoria and growing equity markets accompanied us all through the first quarter of the year 2024. Shares were supported by the anticipated growth of the global economy and expected interest rate cuts. The best performing were European stocks, when the EURO STOXX 50 EUROPEAN EQUITIES INDEX strengthened by 12.4 percent. U.S. equities did not lag behind much, either, as the S&P 500 Index grew by 10.2 percent and the U.S. technologies, measured by the NASDAQ Composite Index, strengthened by 9.1 percent. Emerging markets' equities did significantly worse, when the MSCI Emerging Markets Index strengthened by 1.9 percent.



Bonds

Bond markets did not mark any straight trend in the course of the first three months of the year. Among the important bond segments that we monitor, best performing were the European high-risk bonds; their index increased by 1.8 percent. The European Corporate Bonds Index added 0.1 percent. The Czech sovereign bonds grew by 1 percent. On the contrary, European sovereign bonds with maturities of 3-5 years fared by far worse; their index weakened by 0.7 percent. U.S. sovereign bonds with identical maturities dropped by 0.1 percent.



Commodities

On commodity markets, gold continued its sleepy ride. This notional 'safe harbour' strengthened by 8.1 percent. Industrial metals lost 0.7 percent. WTI oil rose by a significant 16.1 percent as a result of the increasing geo-political risks in the Middle East.

	29/12/23	**28/03/24**
EUR/CZK	24,698	25,221
USD/CZK	22,363	23,394
EUR/USD	1,1039	1,079

Currencies

The Czech crown lost 4.6 percent against the U.S. dollar in the course of the first three months of the year 2024. It was weaker by 2.1 percent against the EURO over the same period. The dollar strengthened by 2.3 percent against the EURO.

Source of the data in the charts: Bloomberg. Performances of individual assets are measured in the primary currency of the given instrument in the period from 29 December 2023 to 28 March 2024. The currencies table shows the rates as of the date as indicated. Values contained in the text have been rounded to one decimal place.

Raiffeisenbank a.s., Hvězdova 1716/2b, 140 78 Praha 4, IČO 49240901,
zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, sp. zn. B 2051.

Future Outlook

The most closely watched S&P 500 Index strengthened by 10,2 percent in the course of the first quarter of this year, and the Global MSCI ACWI added 7.8 percent. Both indices reached their new historical highs during the month of March. Investors prepare for the season of releasing corporate economic results regarding the first quarter; it may help indicate in what exactly direction the Equity markets will re-set out following their strong growth since the year start. Some major U.S. banks begin publishing their economic results as early as from 12 April.

Among the sectors, the best performing in the past quarter was the Energy Sector (+12.6 percent), which benefited from rising oil prices. Also doing well were the Communications Sector (+12.4 percent) and the Finance Sector (+12.0 percent). The worst performances were recorded by the Real Estate Sector (-1.3 percent) and the Consumer Durables Sector (+2.8 percent), where the shares of Tesla or Nike were among the less fortunate.

The FED retained its benchmark interest rate at 5.50 percent, however, probability has it that its first reduction will be taking place in September. As regards the entire year's new expectations, the FED may cut down on its benchmark interest rate by 0.5 percent down to 5 percent. It is anticipated that the ECB will reduce its deposit rate from 4.0 percent down to 3.25 percent this year (*Source: Bloomberg*). The Czech National Bank, in keeping with market expectations, set its repo rate to 5.75 percent p.a. at its session in March. Yet another reduction by 0.50 percent is expected to occur at a session in May. RB analysts believe that the CNB repo rate would drop as far down as to 3.5 percent p.a. at the end of the year 2024. The yield of the ten-year German sovereign bond also fluctuates around 2.4 percent p.a. and the yield of the U.S. 'Treasury' with an identical maturity has exceeded 4.5 percent p.a. The latest figure of the ISM Index in manufacturing reached over 50 points, for the first time since September 2022. This indicates flourishing U.S. economy, however, accompanied by pressures on higher prices. The labour market in the United States remains very strong, too, something which raises the risk of postponing interest rate cuts not only in the United States, because higher inflation has also been exposed to pressures from higher commodity prices.

The yield of the Czech sovereign bond with ten-year maturity exceeded 4.0 percent p.a., which represents a lower yield than that recorded by its U.S. counterpart. Nevertheless, expectations have it that bond yields would rather be declining this year.

The projected P/E of 20.4 in respect of the next 12 months is higher for the S&P 500 Index than its five-year average of 19.0, and also higher than its ten-year average of 17.7 (*Source: FactSet*), which indicates that markets have been slightly overrated.

Therefore, it will be of importance in future how inflation will be developing and how individual corporations' profits will be rising. It will be exactly the forthcoming season of releasing economic results for this year's first quarter that can give us some major clues. Analysts believe that the forthcoming quarter will see aggregated increases of both profits and sales of corporations belonging to the S&P 500 Index by 3.6 percent. As far as the entire year 2024 is concerned, they speak about a 10.9 percent aggregated increase of corporate profits in the S&P 500 Index, which – together with anticipated declining inflation - could benefit equity markets. However, equity markets may experience higher volatility both in relation to the coming season of disclosing economic results and later on in connection with the U.S. elections in November. The war in Ukraine as well as some other geo-political factors (e.g., the Middle East), including fears of returning higher inflation, remain among the main risks facing capital markets.

Outlook by: Raiffeisenbank a.s., Asset Management, re: individual asset classes in 2Q/2024:

EQUITIES	BONDS	CASH	ALTERNATIVES
USA	Bonds < 3Y	Cash, Term Deposits, Savings Accounts	Energy, oil
Technologies, Healthcare, Finance, Industrials, Materials, Dividend – paying shares segment	Bonds > 3Y		Real Property
	Credit		Gold

LEGENDA: POSITIVE EXPECT. | NEUTRAL EXPECT. | NEGATIVE EXPECT.í

Notice

All opinions, information, and any other facts and figures contained in the present document are solely for reference purposes, not binding, and they represent the opinions of Raiffeisenbank a.s. ("RB"). Information and figures related to movements recorded in capital markets and presented in connection with the provision of client asset management services and contained in the present document, have been based on publicly available sources and on information or data published by such rating agencies as Reuters, Bloomberg, FactSet, etc. The present document is not a solicitation of purchase or sale of any financial assets or any other financial instruments. Prior to adopting any investment decisions, it is the responsibility of each investor to perform a search of detailed information about the envisaged investment or trade. RB shall not be liable for any loss or damage or lost profit caused to any third parties by making use of any information and data contained in the present document. RB wishes to point out that the provision of client asset management services contains a number of risk factors, which may affect either return on or loss of such investments. Investments do not represent bank deposits and they are not insured under the Deposit Insurance Fund. The higher the expected yields, the higher the potential risks. The duration of investments affects the level of risk. Yields also fluctuate due to exchange rate fluctuations. The value of invested amounts and related yields may rise or fall, while full return on the originally invested sum is not guaranteed. Past or anticipated performance does not guarantee future performances. Due to unforeseen fluctuations and developments in the financial markets and risks inherent in investment instruments, the investment goals pre-determined by clients need not be achieved. Any yields from such investments shall be reduced by rewards and expenses of RB agreed in the contractual documentation, and/or rewards and fees listed in the RB price-list. Taxation of the client's assets always depends on the client's personal circumstances and it may change. RB does not offer tax advices and therefore any liabilities associated with the tax consequences of investing in bonds remain in full up to the client. Investment services shall not be offered to clients defined as US persons.

Information about Raiffeisenbank a.s.

The document has been drafted by Raiffeisenbank a.s., with registered office at Hvězdova 1716/2b, Praha 4, Registration number (IČO): 49240901, incorporated in the Companies Register administered by the Municipal Court in Prague, Section B, File no. 2051. Raiffeisenbank a.s. has been supervised by the Czech National Bank.
The information has been valid as of 11 April 2024. This information may be modified in future and RB shall not be required to inform any recipients of the present document about such modifications.

Officer in charge: Mr Miroslav Paděra, Head of Asset Management.