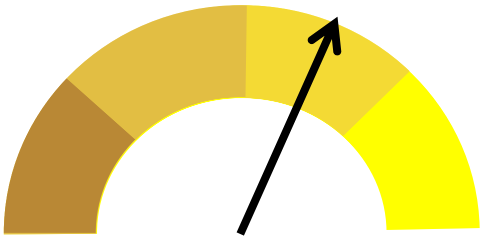
ASSET ALLOCATION

RB Asset Management 3Q/2021

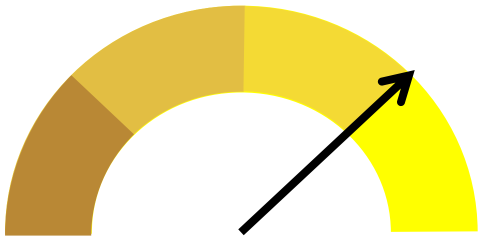
PĚTIHVĚZDIČKOVÁ BANKA
K VAŠIM SLUŽBÁM

KLIENTSKY
NEJPŘÍVĚTIVĚJŠÍ BANKA
2015–2019

Current Asset Allocation



Expected Asset Allocation in 3Q/2021



Source: Raiffeisenbank a.s., Asset Management, valid as of 8 July 2021

Dear Clients,

An optimistic mood prevailed in the financial markets in the past quarter. Equities continued to grow and many global indices have reached their new historical highs. Growing stock markets were not even hindered by fears of higher inflation, which has now been on the increase rapidly throughout the world. It is rather the other way round, fears of inflation have made investors to turn their attention to real assets, such as equities, as well as real property, commodities or, for example, the arts. Faced with higher inflation and expected rises in interest rates, bonds have already been doing less well. Those denominated in the Czech currency were slightly losing in the past quarter, due to both rates hikes applied by the Czech National Bank and changes in expectations towards further, agile, increases in interest rates.

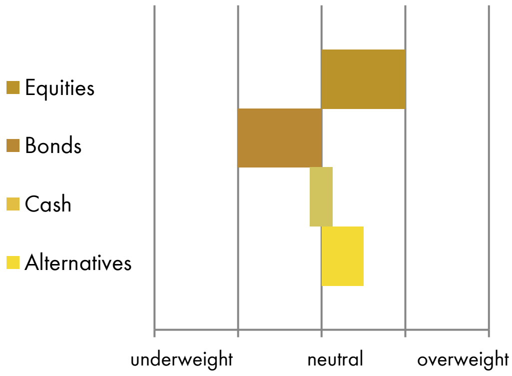
It could be stated that the topics of inflation and interest rates have been among of the most important factors that currently affect the financial markets. Looking back in history, faced with inflation fluctuating between 3 and 6 percent, the equity markets were doing relatively well. Shares were achieving real appreciation while also significantly exceeding bond yields. The topic of inflation has been mentioned frequently also in the context of time; some say a higher inflation will rather represent a temporary and a short-time occurrence. In our opinion, inflationary pressures may persist for a little longer, perhaps up to one year. Disruptions of trade relations due to the Pandemic have been so significant that the supply side has now been unable to fully cover the enormously increased demand, including due to other factors, such as the impassable Suez Canal or limited operations of Chinese ports. Prices of not only input materials and raw materials, but also transport and labour, have been rising. In our opinion, settling these relationships will be a matter of months rather than weeks.

We are ready to face this situation. In our strategies, we continue to overweigh equities; on the bonds side, we still hold shorter maturities and bonds with a variable coupon, which cope better with rising interest rates. As stocks were growing, so did their relative weight in our models, and – as a result – we have been slightly increasing our stock transfers within our tactical allocation. We continue to prefer growth regions and cyclical sectors, such as the Technology, Industry, Finance, and the Consumer Durables Sectors.

We wish you much success in the coming period.

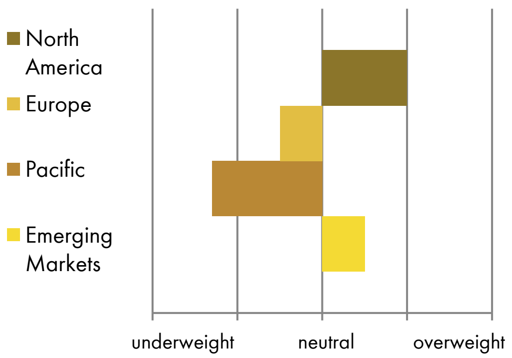
Mr Michal Ondruška
Manager, Asset Management

TACTICAL ASSET ALLOCATION – ASSET CLASSES



Although the MSCI ACWI global stock index has been approximately 25 percent higher than its record-high level before the Pandemic, we believe that the equities may continue to grow. This opinion is supported by the positive combination of robust profit increases, attractive valuations as compared to bonds, and markets supported by central banks and governments. More specifically, the risk yield premium on global equities over government bonds is around 4 percent, which is well above the long-term average of 2.7 percent. Profitability of U.S. companies has been by 30 percent higher than before the Pandemic; in the case of Asia, it is higher by 40 to 50 percent. Despite the risk of potential corrections, which cannot be systematically predicted, it remains suitable for investors to stay overweighed in equities, while appreciating that investing 'on top' needs not be more risky than in the course of other terms. In a number of real portfolios, the relative weight of shares has increased due to their growth, which is why we are slightly increasing the transfer of shares within our model tactical allocation, without the need of having to rebalance existing portfolios. Alternative investments, for example, in real estate rental income and private equity, serve as a portfolio diversification tool.

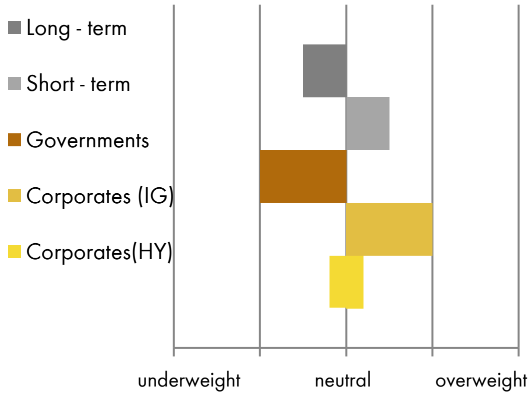
TACTICAL ASSET ALLOCATION – EQUITY REGIONS



We continue to be overweighed in our models in the United States and emerging markets. On the contrary, we have been underweighed in the Pacific and – slightly less – in Europe. Exposition into U.S. equity markets represents approximately 62 percent of the risk portion of the portfolios. This figure includes a roughly 10-percent exposition in the Nasdaq technological index. At the same time, we have been overweighed in the Finance, Industry, Health Services, and Consumer Durables Sectors. We have excluded from our portfolios companies with small market capitalisation (small caps). Our exposition in European equity markets amounts to 14 percent. We hold 5 percent in the Pacific area, including Japan, and approximately 19 percent in emerging markets.

Raiffeisenbank a.s. Hvězdova 1716/2b ▪ PO box 64 ▪ 140 78 Praha 4 ▪ tel.: +420 234 401 111 ▪ fax: +420 234 402 111 ▪ e-mail: info@rb.cz ▪ web: www.rb.cz ▪ IČ: 49240901 ▪ zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051

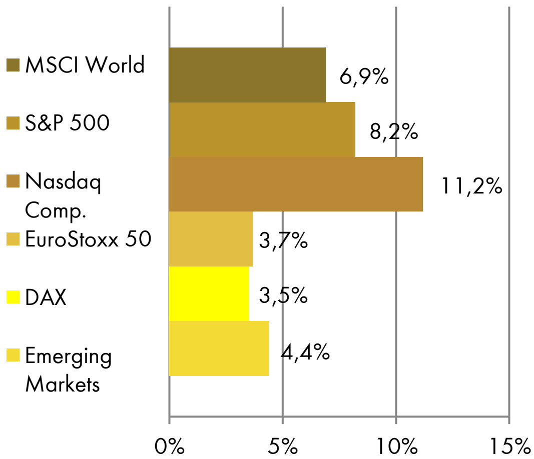
TACTICAL ASSET ALLOCATION – BONDS



Bond markets remain under a strong influence from the central banks. In June, the markets were supplied with new information, in the order of occurrence, by in particular the European Central Bank, the U.S. FED, and also the Czech National Bank. According to the 'doves' from the ECB, the market needs to be continuously supported through increased bond purchases. Low to negative yields on EUR bonds will thus continue and discussions on the dampening of purchases will not take place until next autumn. On the contrary, the 'hawks' in the FED admit that it has already been talking about normalising its policy and curbing purchases, which may become clearer at its next session. Some FOMC members envisage a potential rate hike as soon as next year. The Czech National Bank has started a relatively aggressive process of raising rates and the market is now waiting for rates to reach a level close to 2 percent at the end of 2022. Compared to the benchmark, we therefore maintain a shorter average time to maturity (so-called 'duration') and tactically overweigh the share of creditworthy corporate bonds.

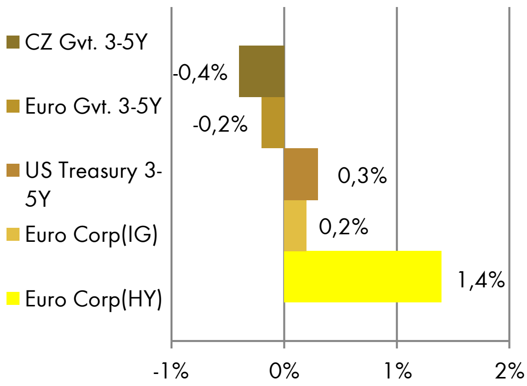
Source of data in charts: Raiffeisenbank a.s., Asset Management, valid as of 8 July 2021.

ECONOMIC SITUATION AND MARKET TRENDS



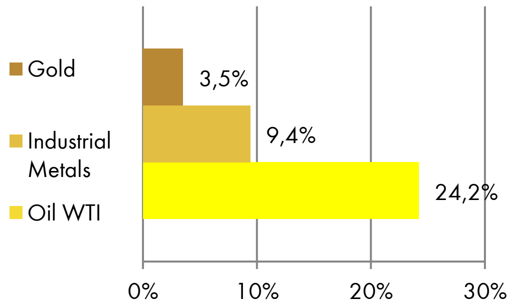
EQUITIES

The equity markets have followed up on the previous second quarter of this year. Again, mainly the U.S. stocks did well. Especially thanks to a well-started economy and corporate profitability, the U.S. stocks were the drivers of global stock gains. The Nasdaq technological index added 11.2 percent and the general index of America's companies, the S&P 500 Index, added 8.2 percent in the period in question. European equities, measured by the DAX and Eurostoxx indices, added 3.5 percent and 3.7 percent, respectively. Emerging markets performed slightly better than the European stocks and their index added 4.4 percent. Thanks to the relatively large weight of U.S. shares in the world stock index, this index gained 6.9 percent over the period under review.



BONDS

In the period in question, sovereign bond indices showed relatively minor changes. The U.S. sovereign bonds index added 0.3 percent. European sovereign bonds and Czech sovereign bonds lost 0.2 percent, and 0.4 percent, respectively. The bond markets, however, were relatively volatile in the same period. And particularly the Czech sovereign bonds with maturity of 3-5 years were fairly significantly influenced by the Czech National Bank's rhetoric, supported by its first rate hike this year at the end of the quarter. European high-risk bonds (high-yield) continued to tighten risk spreads to historic lows. This fact resulted in their prices increasing by 1.4 percent.



COMMODITIES

Commodities have been by far the most volatile ('classic') type of assets we have been monitoring this year. In particular, the prices of commodities entering the manufacturing process (industrial metals, energy, wood, and others) have increased considerably, which has already started to affect fairly significantly the prices charged by producers, and which began to spread over the entire production chain. Oil increased 24.2 percent in the second quarter, industrial metals added 9.4 percent, and gold, in its capacity of an imaginary store of value, credited 3.5 percent.

CURRENCIES

	31/03/21	30/06/21
EUR/CZK	26,12	25,51
USD/CZK	22,27	21,51
EUR/USD	1,1730	1,1858

In the period in question, the Dollar weakened against the Euro by 1.09 percent. The Czech Crown strengthened against the

Dollar by 3.42 percent and by 2.34 percent against the Euro. In our opinion, the Czech Crown has been affected mainly by the rhetoric of the Czech National Bank and new predictions of rate hikes. We expect that changes in interest rate differentials will continue to have a significant impact on these currency pairs in the period ahead.

Source of data in charts: Bloomberg. The performance of the individual assets has been measured in the primary traded currency of such instruments in the second quarter of 2021.

FUTURE OUTLOOK

The most popular S&P 500 Index strengthened by 14.4 percent since the beginning of the year, and by more than 8 percent over the past three months. At the end of June, this index reached a new all-time high. Among the sectors, the best performing were the Technology Sector (+13 percent), the Real Estate Sector (+11.8 percent), and the Communications Services Sector (e.g., Facebook, Alphabet, T-Mobile) (+10.9 percent). On the other hand, the worst performing sectors included the Utility Sector (-0.5 percent), the Short-term Consumption Sector (+2.1 percent), and the Industry Sector (+3.7 percent).

The VIX Volatility Index has ended under the value of 20, which fact indicates a certain calming down on the part of investors.

The global inflation remains in the focus of investors. Although U.S. inflation (CPI) reached 5 percent, y/y, in May, the yields of the ten-year U.S. sovereign bond dropped over the month by more than 0.20 percent, and it got from approximately 1.70 percent to under 1.50 percent. Similarly, the yields of the ten-year Czech sovereign bond were reduced from approximately 2 percent to some 1.8 percent, although the Czech National Bank boosted its repo rate to 0.50 percent in June, and yet another hike is expected to occur as soon as in August. The FED so far does not intend to increase its interest rates both in the course of this and the coming year, however, it has indicated its intention of increasing its rates as soon as in 2023. Originally, the FED was planning not to increase its rates until 2024.

Investors will focus on the corporate economic results in the second quarter of 2021 this month. The envisaged aggregated increases in profits generated by the S&P 500 Index companies have reached a record-high 62.8 percent, y/y, and in the case of revenues, the figure stands at 19.3 percent, y/y, in the second quarter of 2021 (*Source: FactSet*).

As regards the entire year, expectations have it that the aggregated increase of the S&P 500 Index corporate profits should amount to 35.2 percent, y/y, and of revenues by 12.3 percent, y/y.

The envisaged P/E of 22.3 in respect of the next 12 months is higher for the S&P 500 Index than its five-year average of 18 (*Source: Bloomberg, FactSet*). The yields of the ten-year U.S. sovereign bond fluctuates around 1.5 percent, which remains a relatively low figure (it has a negative real yield); therefore equities still continue to seem attractive.

Our portfolios have been overweighed, and in view of potential rate hikes, we maintain shorter average maturity of bonds as a whole in our portfolios as against the 'benchmarks'. The markets still see their prime risks in potential increases of corporate taxes in the United States, the unexpectedly high inflation extending for a longer period of time, and – consequently – lower profit margins generated by individual companies. Yet another risk facing the equity markets and corporate bond markets is still represented by possible lack of effect of vaccines against new mutations and subsequent slowing-down of the economic growth. On the other hand, higher than expected profits reported by individual enterprises may get the equity markets up again.

Outlook by Raiffeisenbank a.s., Asset Management, regarding the individual asset classes in 3Q/2021:

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.

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 8 July 2021. 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 Michal Ondruška, Manager, Asset Management.