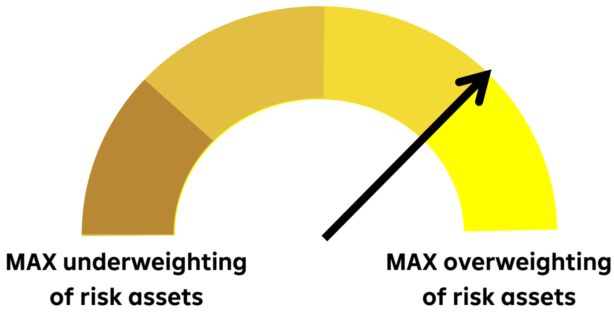
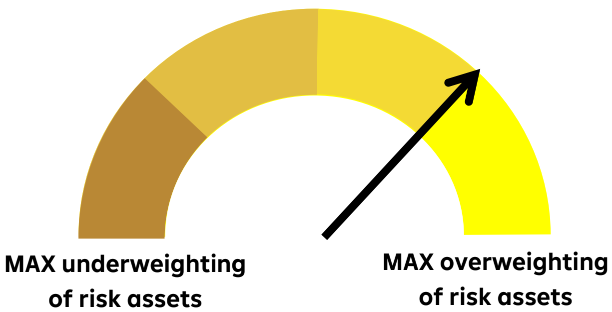
Asset Allocation
RB Asset Management 4Q/2023

Current Asset Allocation



Expected Asset Allocation in 4Q/2023



Source: Raiffeisenbank a.s., Asset Management, data valid as of 12 October 2023.

Dear Clients,

The third quarter of the current year, and the month of September in particular, brought about corrections of previous price increases to markets. Thus, the historical seasonal assumptions have come true when the U.S. S&P 500 Equity Index showed, particularly in September, the worst monthly performance over the past 15 years (-1.1 percent on the average, while -4.9 percent this past September). Despite this, market yields have been favourable this year. The global equity markets have appreciated by 12 percent over the three quarters of the year 2023, while the medium-term Czech government bonds have added 5.8 percent, and the best watched S&P 500 Index 15 percent and the Nasdaq Composite technological equities index even 31 percent. This development has had positive reflections on the performances of our managed portfolios.

Expectations of further trends prevailing in the United States in the form of a 'soft landing' in the course of the summer have been supported by favourable economic data. Global inflation has been stepping down, the labour market has slightly improved, and the economic growth in the United States has remained above the 2 percent mark. Nevertheless, the FED remains cautious and it stressed at its session on 20th September that the struggle against inflation was not by far completed, and that it was prepared for another 'hike' this year. Rates reductions may take place at a significantly slower pace than as signalled by the FED in the summer, or as believed by the markets. This scenario was additionally supported by increasing oil prices from the summer lows. The resulting response from the bond markets, where in particular longer maturities yields increased in a major way over the past few weeks, thus indicates markets' coming together with the policies applied by the central banks ("CB"), which intend to keep the rates 'higher and longer', because the struggle against inflation would be difficult, in particular when it comes to the 'last mile' (reduction of inflation from 3-4 percent down to 2 percent). Unfortunately, risks have been growing that the restrictive policies of the CB would remain in place for too long, thus increasing the probability of recession. This may cause current drops in the equity markets in October, when favourable data from the U.S. labour market represent a dominant factor, with potential impacts on potential steps to be taken by the FED, and also by the bond markets. Investors will be able to guess more exact trends taken by the equity markets from data released by corporations during the forthcoming season of publication of their results. The developments in the Middle East will be of key importance, with their impacts on oil prices, inflation and the distribution of global political forces. The markets responded to the outbreak of the conflict by reducing bond yields, something that the equity markets made use to boost their values.

Although the current environment has been uncertain, we see the decline in asset prices as an opportunity, and we consider it important to retain our investments, in particular in equity markets. Corporate results exceed projections in almost 80 percent of cases. In the coming two years, profits of the S&P 500 Index companies are expected to grown by more than 10 percent per year on the average (*Source: Bloomberg*). In the implementation of the 'soft landing' scenario, positive estimates by analysts regarding the S&P 500 Index firms, who currently assess the growth potential of the price of the Index by 17.5 percent in the annual horizon; at the same time, the average growth potential amounted to 12 percent over the past 10 years (*Source: Bloomberg*). We prefer government and high-rating corporate bonds and longer maturities as a diversification instrument, in particular as regards a potential scenario for recession. We keep a portion of the portfolios in money market instruments ready to be invested in new opportunities resulting from higher market fluctuations, where we are prepared to make further purchases at lower prices.

We wish you much success in the future periods!

Miroslav Paděra, CFA, Head of Portfolio Management

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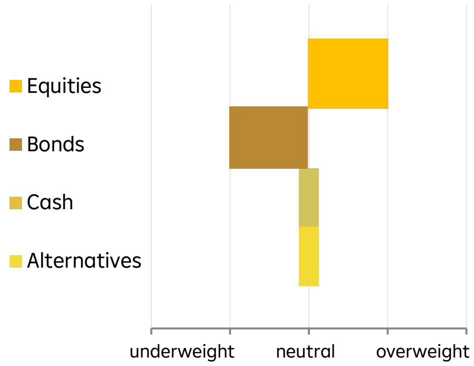
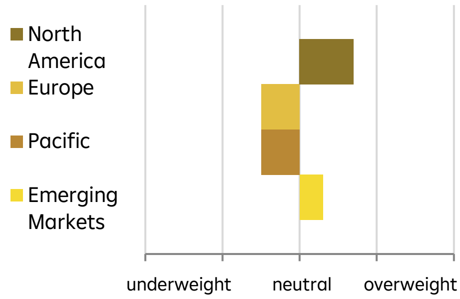
zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, sp. zn. B 2051.

Tactical Asset Allocation – Asset Classes



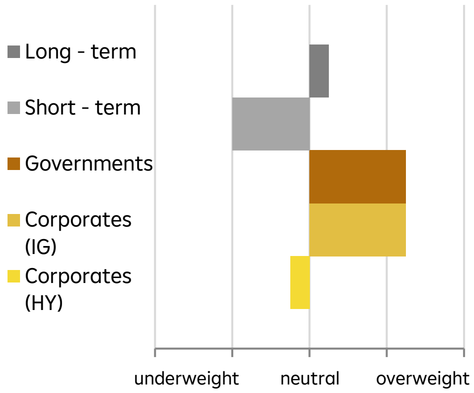
This year's growth of equities was almost exclusively drawn by an increasing Price/Earnings indicator, that is, by valuation rather than by higher profits. At the same time, it concentrated on the 'Magnificent Seven' (the largest titles), which significantly relate to Artificial Intelligence. Our orientation on the Nasdaq technological index, as well as the selection of 5 of the 'Magnificent Seven' in the dividend model, allowed us to achieve or exceed performances of the global equity index as regards our managed portfolios. Equities represent investments in future innovations, technological development, and exploitation of new patents, with the full weight of transforming new opportunities into shareholder profits, unlike bonds which, in simple terms, carry mostly fixed income. Although the risk of recession caused by tightening the financial conditions over the past few weeks has been increasing and the equity markets might respond by a correction, we do not consider the current data as justifying any reductions of the weight of the equity component. Timing the stock market is impossible in the long term. We believe that especially the world's largest corporations representing advanced economies are extremely resilient and able to deal with higher rates. That is why we leave the equity component overweight in the portfolios.

Tactical Asset Allocation – Equity Regions



As regards our investment strategies, we have not made any changes in their regional distribution as against the previous quarter. We are overweight in the regions of the United States and in the emerging markets. We keep underweight allocations in Europe and the Pacific Area. Expositions in the U.S. equity markets represent approximately 65 percent of the risk portions of our portfolios. This figure includes around 10 percent in the Nasdaq Technological Index. We are also overweight in the Financial, Industrial, and Health Care Sectors. We maintain a 13 percent representation in European equity markets. And we hold 6 percent in the Pacific Area, incl. Japan, and approx. 16 percent in the emerging markets.

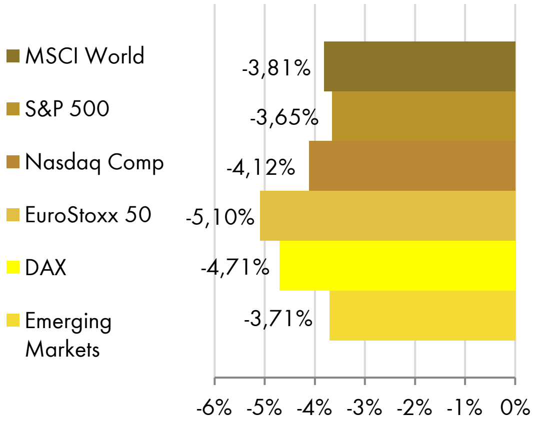
Tactical Asset Allocation – Bonds



We can repeat also in respect of the third quarter that the Czech central bank has not adjusted its interest rates (repo rate: 7 percent), while the FED and the ECB increased their rates up to 5.25 – 5.50 percent, and 4.0 percent, respectively. The Czech-crown denominated sovereign bonds with maturities of 3 to 5 years currently offer yield of 4.6 percent p.a.; the same yield oscillated above 5 percent at the beginning of the year. On the contrary, similar yields in Europe and the United States were growing. The corresponding current yields of sovereign bonds denominated in USD (4.7 percent) and in EUR (3.2 percent) are by 0.7 percent, and by 0.2 percent, respectively, higher than at the beginning of the year, due to continuing hawkish rhetoric of those central banks. The growth of longer maturity yields has been especially greater in the recent weeks and the inversion of yield curves is diminishing. The relative attractiveness of Czech-crown denominated bonds has been gradually decreasing as the market calculates a rapid and early reduction of the rates in the Czech Republic. The Czech National Bank admits the possibility of rate cuts already this year; the market is even working with the scenario of a rate cut of more than 3 percent in the annual horizon. However, such a development should be conditional on the fulfilment of the scenario of a rapid decline in inflation in the Czech Republic, something which was supported by the data for September. Considering the increased risk in the markets, we prefer sovereign bonds as well as investment-ratio corporate bonds, for their low credit risk. USD and EUR-denominated high-yield bonds currently offer an attractive yield around 9 percent. We keep part of the portfolios in money market instruments ready to invest in new opportunities.

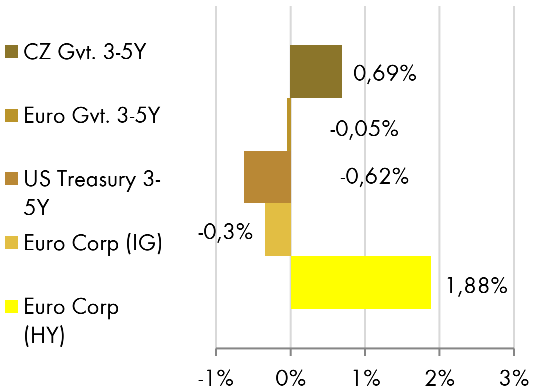
Source of the data in the charts: Raiffeisenbank a.s., Asset Management, valid as of 12 October 2023.

Economic Situation and Market Trends in 3Q/2023



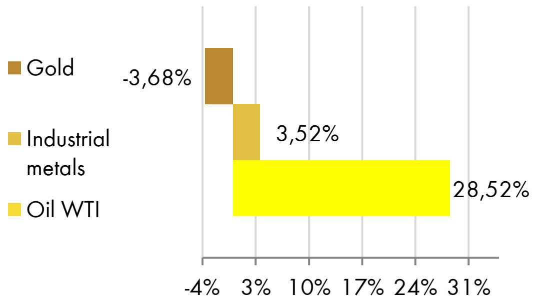
Equities

The third quarter of the year saw a correction of the equity markets, which spread over regions. Equities were negatively affected especially by increasing bond yields and higher than expected interest rate hikes. Among the prime watched regions, the worst performing were European equities, as the Euro Stoxx 50 Index wrote off 5.1 percent. German stock lost over 4.7 percent. U.S. equities fared relatively better, as the SP 500 Index lost 3.7 percent. Shares of technological corporation belonging to the Nasdaq Index weakened by 4.1 percent. The Emerging Markets Index lost 3.7 percent.



Bonds

Bond markets reflected different phases of the cycles of monetary policies across the regions. The Index of U.S. sovereign bonds with maturities of 3-5 years wrote off 0.6 percent. European sovereign bonds with maturities of 3-5 years stagnated. Relatively good performances were recorded by European high-risk bonds, whose index strengthened by 1.88 percent. Also the Czech sovereign bonds were fairly successful in the monitored period. Their index added 0.7 percent.



Commodities

As far as commodities markets are considered, gold did not do well, having lost 3.7 percent. Industrial commodities did well in the third quarter. The Index of industrial metals strengthened by 3.5 percent. Crude oil strengthened fairly noticeably. The WTI crude oil prices jumped by 28.5 percent.

	30/6/23	30/9/23
EUR/CZK	23,76	24,426
USD/CZK	21,7789	23,105
EUR/USD	1,0909	1,0573

Currencies

Currency markets were quite turbulent as viewed by a Czech investor. The Czech crown lost 6.1 percent against the Dollar. It lost 2.8 percent against the Euro. And Euro weakened by 3.1 percent against the Dollar.

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 30 June 2023 to 30 September 2023. The currencies table shows the rates as of the date as indicated. Values contained in the text have been rounded to one decimal place.

Future Outlook

Negative sentiments began to prevail in the capital markets during September. The most closely watched S&P 500 Index weakened by 3.65 percent in the course of the third quarter. The chief starter behind the weakening of the equity index and other equity markets were indications by FED members that the benchmark interest rate may be hiked from 5.5 percent up to 5.75 percent later this year, and that the interest rate would remain on such higher tier for a prolonged period of time prior to its reduction in the course of next year. Certain role may have been played by the seasonality factor because September ranks among the statistically worst months of the year as regards performances of the S&P 500 equity index.

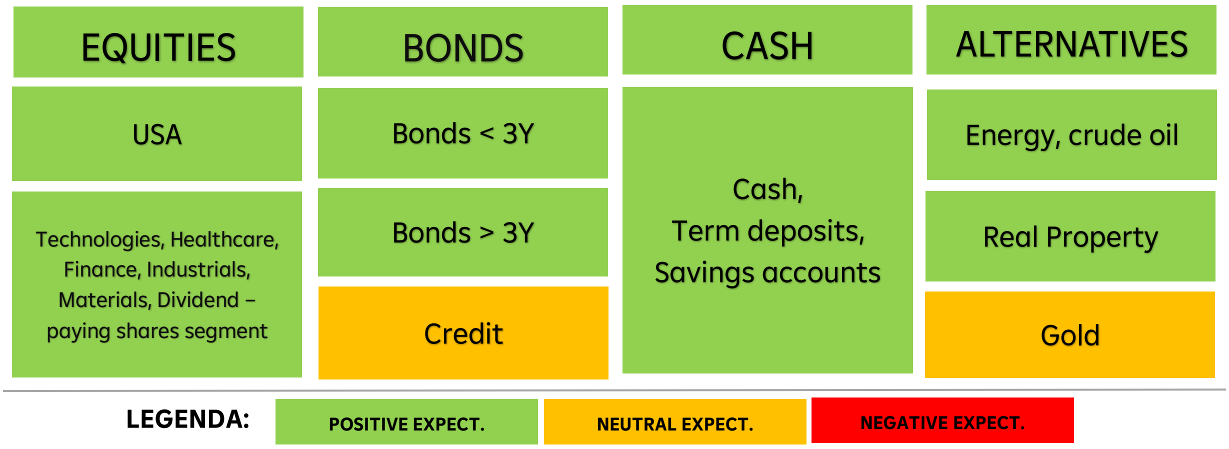
The FED kept the benchmark interest rate at 5.50 percent throughout September but it may further rise this year. The ECB increased its deposit rate from 3.75 percent up to 4.0 percent, and its next session is planned to take place at the end of October. Partially good news is that the PCE (Personal Consumption Expenditures) Index has increased in the United States, when its real growth of 3.5 percent, y/y, in August was not higher than the market expectations. In the Euro Area, the core inflation growth rate (core CPI) slowed down to 4.5 percent, y/y, in September from 5.3 percent, y/y, in August, which would represent the good news. Positive report from the labour market about the employment rate and high numbers of newly created jobs have originally been regarded by the equity markets as bad news, because investors feared ongoing inflation and higher interest rates.

The yield of the ten-year German sovereign bond increased from 2.5 percent p.a. as much as up to 2.9 percent p.a. The yield of the U.S. 'Treasury' with identical maturity has jumped as much as up to 4.6 percent p.a. at the beginning of October. In September, the prices of bonds dropped both in the United States and in Germany, since inflation still remains at higher levels and the central banks could not exclude further hiking of their interest rates.

At the beginning of September, the yield of the Czech sovereign bond with a ten-year maturity fluctuated around 5.0 percent p.a.; Still, analysts anticipate a reduction of the benchmark interest rate in the Czech Republic by the end of this year. Nevertheless, the rhetoric of the CNB indicates that the bank intends to stick to its benchmark interest rate sitting at 7 percent p.a. also in the coming months.

The anticipated P/E of 18 (*Source: FactSet*) for the coming 12 months is somewhat lower for the S&P 500 Index than its five-year average of 18.7 (*Source: FactSet*); however, it is at the same time higher than its ten-year average of 17.5 (*Source: FactSet*), which indicates that the markets have not been significantly underestimated, also given the higher current interest rates. Therefore, it will remain important for the future how inflation is progressing and how profits of individual companies will grow. It is the forthcoming season of the publication of the 3rd quarter economic results that might hint the answer. Analysts guess that next year might see a two-digit aggregated profit in the S&P 500 Index, something which might uphold the equity markets, together with anticipated declining inflation. Higher volatility and uncertainty may appear on the markets in the coming weeks, especially due to the higher corporate profits, the incoming figures about inflation, and the ongoing Middle East conflict. It is hard to guess how long the conflict would last, and whether it would not spread. Probably the biggest current risk is described as the fear of a possible recession, if the central banks continue to hike their interest rates and fail to facilitate 'soft landing' for the individual economies.

Outlook by: Raiffeisenbank a.s., Asset Management, regarding the individual asset classes in 4Q/2023:



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