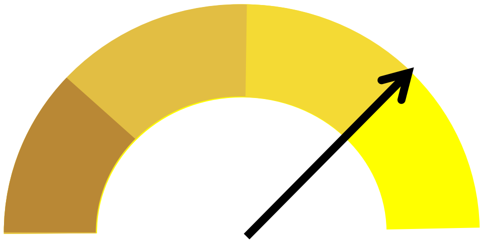
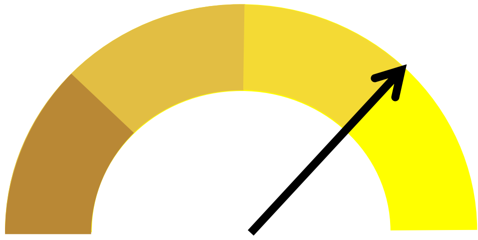
Asset Allocation
RB Asset Management 1Q/2024

Current Asset Allocation



Expected Asset Allocation in 1Q/2024



Source: Raiffeisenbank a.s., Asset Management, data valid as of 10 January 2024

Dear Clients,

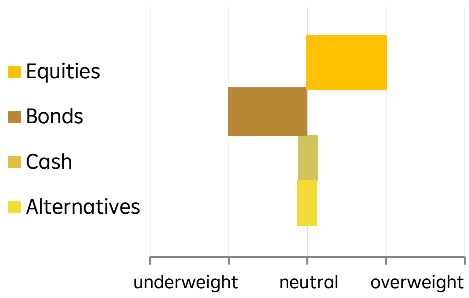
The year 2023 brought investors in financial markets such positive results which few of them had expected at the beginning of the year. The global equity markets, measured by way of the MSCI AC World Index, grew by 20 percent, global bonds, according to the Bloomberg Global Aggregate Index, yielded 5.4 percent. With the majority of asset classes, last year was an opposite to the demanding year 2022 when the equity markets dropped by twenty percent and global bonds by 15.7 percent. Nevertheless, the global markets had had to endure a volatile period and they did not begin to grow strongly until the fourth quarter. Investors' optimism was based, in particular, on an expected drop in the global interest rates while the closely watched sessions of both the U.S. and the European central banks held close to the end of the year 2023 possessed the spirit of giving an end to increasing interest rates, thanks to the slowing down inflation speed; same as the envisaged two-digit growth of corporate profits in 2024 and increasing numbers of bets on a 'soft landing' scenario, that is, slowing down of economies under a moderate inflation speed without falling into a recession. The Czech sovereign bonds noted down a very positive story, having yielded more than 12 percent last year, mainly thanks to rocketing prices and drops in yields to maturity in the fourth quarter.

Thus, the forward-looking markets have priced the envisaged 2024 outlook which economists see from the macro-economic point of view in many aspects better than the just passed year. In 2023, for example, the Czech Republic suffered the full impacts of its previous energy crisis and high inflation, which resulted significantly in slumping real wages and household consumptions. This year is already going to show opposite trends. Economic growth will be accompanied by lower inflation as compared to the previous year, which will be projected in renewed growths of real wages. While the 2023 Czech inflation exceeded 10 percent on the average, this year's inflation could be within the tolerance band of the inflation target, which will allow the Czech National Bank to continue to reduce its interest rates fairly quickly. Analysts expect that the 2024 end-of-the year benchmark interest rate would be by 2.25 percent to 3.25 percent lower in the Czech Republic; as far as the FED and the ECB as concerned, their figures could be by 1.3 percent and by approximately 0.8 percent lower, respectively (*Source: Bloomberg*). At the same time, expectations have it that further inflation drop contributes to the tolerance targets set by the central banks. As long as the central banks, thanks to declining inflation, would cut down on their interest rates at an identical speed rate, and if no negative scenario bringing about recession occurs, the potentials of improvements on in particular stock markets will be very positive in the coming period. On the top of the war in Ukraine and the Middle East unrest, potential blockades of the supply chains currently in place in the Red Sea have been added to the global risks. Nevertheless, we are entering the new year with optimism. We are convinced that investments and asset management will again stand as the first option in appreciation of money.

Let me, at the beginning of the new year, thank you for your ongoing trust and wish you good health, satisfaction, and personal comfort in the year 2024. Thank you for being with us and we are looking forward to working together in future!

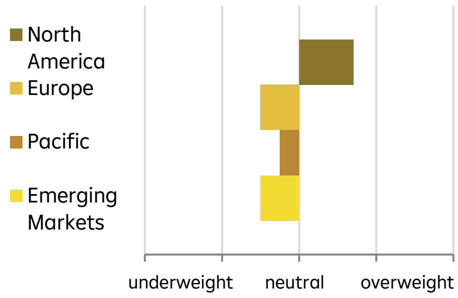
Miroslav Paděra, CFA
Head of Portfolio Management

Tactical Asset Allocation – Asset Classes



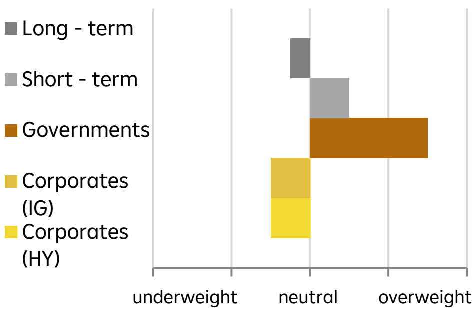
We maintain the existing overweighting of the equity portion in our portfolios, in keeping with the current set-up of the financial markets. The macro-economic environment prevailing in the main economies can be characterised as a late phase of economic cycle with robust economic activity, especially in the United States. High interest rates baffle inflation; at the same time, though, they do not result in a wave of bankruptcies because enterprises possess sufficient financial funds of their own. The United States profit from the new mega-trend of 'Artificial Intelligence' and from transfers to 'clean energy'. Corporate results as well as the outlook improved in the past year and the forthcoming season of presenting of result will be of key importance. Europe was hit by higher energy prices and its share of technological companies on equity indices has been relatively low. Although the U-turn made by the U.S. central bank and probable termination of the interest rates increases cycle caused boosting of prices of both equities and bonds at the end of 2023, the scenario of 'soft landing' and decreasing rates will continue to be positive especially in respect of corporate profits and investments in equities.

Tactical Asset Allocation – Equity Regions



We made only a minor change as regards the regional distribution of our investment strategies as against the previous quarter. As a new feature, we weighted the emerging markets and slightly increased our involvement in the Pacific Area and in North America. We are over-weighted solely in the region of North America. We keep underweighted allocations in Europe and in the Pacific Area. Our expositions in American equity markets represents approximately 66 percent of the risk portion of our portfolios. Out of that, some 10 percent have been allocated to the Nasdaq Index. We are over-weighted in the Financial, Industrial, and Health Care Sectors. We hold equal to 13 percent in European equity markets. We keep 7 percent in the Pacific Area, including Japan, and approximately 14 percent in the emerging markets.

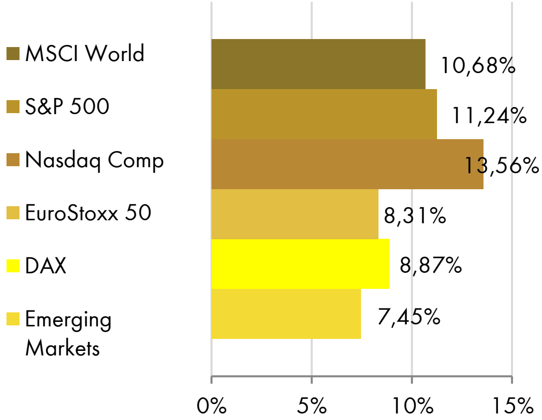
Tactical Asset Allocation – Bonds



The yield of the U.S. 10-year sovereign bond reached its new high at the end of October 2023, after sitting for 16 years slightly above 5 percent. Afterwards, a U-turn occurred and yields of sovereign bonds begun to dive fairly wildly on the majority of markets. Thus, in particular longer maturity U.S. sovereign and corporate bonds were rather losing until that point ever since the beginning of 2023. Changes in markets moods resulting from changes in the rhetoric of both the FED and the ECB, as well as from declining inflation, then brought about a quick drop in yields and boosting bond prices which on a number of markets outran the expected reductions of rates by the central banks. The Czech National Bank applied the first cut on the rates down to 6.75 percent as early as at the end of last year, while the FED and the ECB have kept their benchmark rates at 5.25-5.50 percent, and 4.0 percent, respectively. Analysts envisage the benchmark rates to remain approximately between 3.5 and 4.5 percent in the Czech Republic at the end of 2024, close to 4 percent in the United States, and approximately at 3.2 percent as regards the ECB (*Source: Bloomberg*). The Czech-crown denominated sovereign bonds with maturities of 3 to 5 years currently offer yields of 3.9 percent p.a. The corresponding current yields of sovereign bonds denominated in USD amount to 4.0 percent, and those denominated in EUR amount to 2.6 percent. We currently see the sharp decline of in particular medium-term to long-term bonds at the end of 2023 as having been exhausted, and so we rather prefer shorter durations as regards our bond portfolios when we maintain a portion of such portfolios in money market instruments or in bonds with variable coupon currently yielding an attractive 6.9 percent p.a. In view of the narrow credit spreads (a lower excess yield of bonds), we prefer sovereign bonds to corporate bonds.

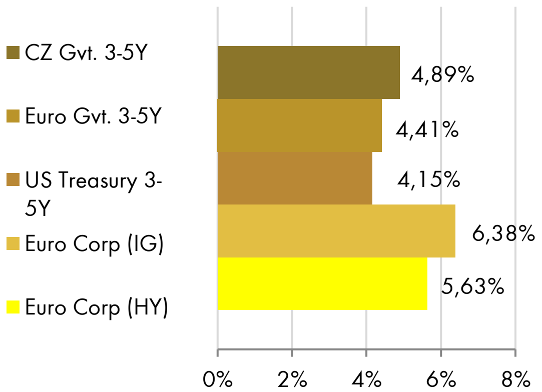
Source of the data in the charts: Raiffeisenbank a.s., Asset Management, valid as of 10 January 2024

Economic Situation and Market Trends in 4Q/2023



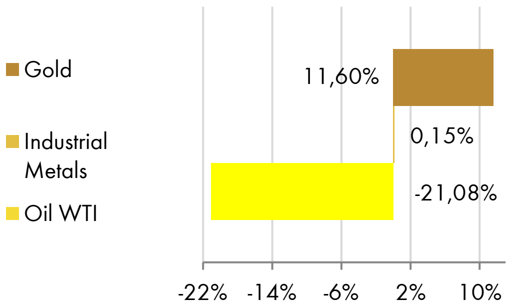
Equities

The closing quarter of 2023 was characterised by a wave of euphoria in respect of a number of investment activities. Equities were no exception. The global stock markets were dominated by U.S. shares. The Nasdaq Technological Shares Index added 13.6 percent. The SP500 Index improved by 11.2 percent. The Emerging Markets Equity Index grew by 7.4 percent. European stocks added 8.3 percent. Such performances of the European shares were to a large extent drawn by increases generated by German equities; the German Exchange index, DAX, strengthened by 8.9 percent. The MSCI Aggregated Global Stock Index grew by 10.7 percent.



Bonds

Bonds, too, profited from expectations of lower inflation and a faster drop in rates by central banks. The rally ran across the global bond markets. The Czech sovereign bonds index with maturities of 3-5 years strengthened by 4.9 percent. The index of European sovereign bonds grew by 4.4 percent. European high-risk bonds added 5.6 percent. And European corporate bonds gained 6.4 percent. U.S. sovereign bonds with maturities of 3-5 years strengthened by 4.2 percent.



Commodities

Gold did well on commodity markets, rising by 11.6 percent. Industrial commodities were mostly stagnating. The index of industrial metals strengthened by 0.2 percent. Crude oil fell quite significantly. The WTI oil price corrected by -21.1 percent.

	29/9/23	29/12/23
EUR/CZK	24,426	24,698
USD/CZK	23,105	22,363
EUR/USD	1,0573	1,1039

Currencies

The Dollar did not fare very well on the currency markets; it lost 3.2 percent against the Czech Crown. The Czech Crown weakened by 1.1 percent against the Euro. The Euro-Dollar currency pair was against the Dollar as the same lost 4.4 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 September 2023 to 29 December 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

Both equity and bond markets were overwhelmed by very positive sentiments towards the end of last year. Investors began to believe in further drops in inflation and interest rates and in a two-digit growth of corporate profits this year, something which supported the markets. The price of the most closely watched S&P 500 equities index increased by 11.2 percent in the course of the last quarter of the year and the more diversified MSCI (ACWI) Global Index grew by 10.7 percent. This year, the equity markets may also receive support from the U.S. presidential elections planned to take place on 5th November 2024. One theory has it that markets move in cycles, and it is particularly the second term of presidential mandates that has been more favourable for the markets, although – statistically – it is the third year in presidential office that has proven to be the best. Presidents are motivated to seek re-election, and therefore they strive to have the U.S. economy in a good shape at the time of the elections.

Among the sectors, the best performing in the last quarter of the past year were the Real Estate Sector (+17.6 percent), the Technology Sector (+17.4 percent), and the Finance Sector (+13.4 percent). The worst performance was recorded by the Energies Sector (-7.3 percent).

The FED indicated at its last session in December last year that it would reduce its benchmark interest rate by 0.75 percent p.a. in the course of this year. However, investors are optimistic and they believe that the FED would cut the rate down by as much as 1.50 percent during this year because they envisage a significant drop in the inflation speed. Similarly, investors hope for a reduction of interest rates in the EU, although the ECB did not make any clear indications whether and when it would do so. The ECB rhetoric remains all the same, it is up to further incoming macro-economic data which would decide when such rates reduction would take place.

The yield of the U.S. sovereign bond with maturity of 10 years dropped from its high of 5.0 percent p.a. in October to approximately 4.0 percent p.a., and the German sovereign bond with identical maturity declined from approx. 3.0 percent p.a. down to approx. 2.15 percent p.a. at the beginning of January.

Analysts' median, according to Bloomberg, expects the first interest rates cuts in the United States as well as in the Euro Area in the second quarter of 2024.

The inflation growth speed (CPI) dropped in the United States from 3.2 percent, y/y, in October down to 3.1 percent in November. The Euro Area's year-on-year inflation growth sped up to 2.9 percent, y/y, in December; it was a mere 2.4 percent, y/y, in November.

The Czech National Bank, in keeping with analysts' expectations, reduced its repo rate down to 6.75 percent p.a. from the previous 7.0 percent at the end of December. Analysts believe that this rate may drop down to approx. 4 percent p.a. towards the end of 2024. The yield of the Czech sovereign bond with ten-year maturity fluctuated around 4.0 percent p.a. The anticipated P/E 20.0 (*Source: Bloomberg*) for the next 12 months is higher for the S&P 500 Index than its five-year average of 18.8, and higher than its ten-year average of 17.6 (*Source: FactSet*). Analysts envisage a two-digit aggregated growth of profits in the S&P 500 Index next year (*Source: FactSet*). It is in particular the expected increase in profits, drop in global inflation, and in interest rates set by the central banks that may affect positively both the stock and the bond markets this year. A hint may also come from the economic results generated by companies last year as well as from outlooks offered by their directors regarding this year. The results of some major corporations and banks will be released approximately beginning mid-January this year.

The war in Ukraine and other geo-political frictions, including fears of the return of higher inflation and a potential recession, remain the main risks facing capital markets.

Outlook by: Raiffeisenbank a.s., Asset Management, re: individual asset classes in 1Q/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 10 January 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 Portfolio Management.