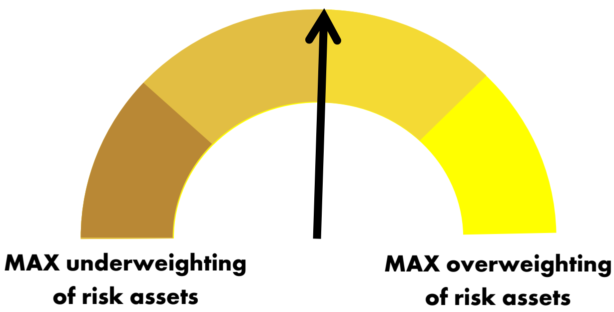
ASSET ALLOCATION

RB Asset Management 3Q/2022

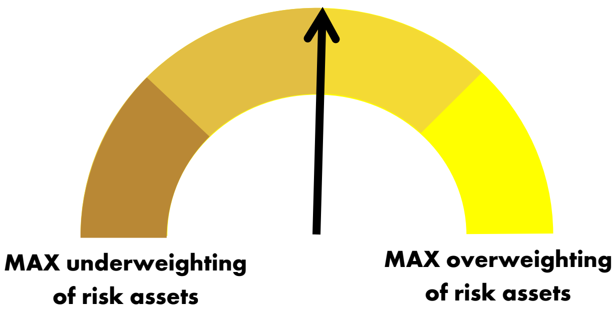
PĚTIHVĚZDIČKOVÁ BANKA K VAŠIM SLUŽBÁM

KLIENTSKY NEJPŘÍVĚTIVĚJŠÍ BANKA 2015–2019

Current Asset Allocation



Expected Asset Allocation in 3Q/2022



Source: Raiffeisenbank a.s., Asset Management, data as of 13 July 2022.

Dear Clients,

The Financial markets have just undergone yet another difficult time. The Russian invasion of Ukraine, fears of recession, high inflation, and increasing interest rates, all of that and other developments took their toll in the form of increased uncertainty and anxiety on the part of investors. Unfavourable sentiments took their shape in declining share prices, which have already lost more than 20 percent from their January highs. Increasing interest rates then impacted hard also on bond markets; Czech-Crown-denominated bonds lost more than six percent from the beginning of the year 2022.

On the other hand, new investment opportunities have emerged meanwhile. Declining prices of Czech-Crown-denominated bonds have generated the highest bond yields over the past twenty years. Today, buyers of Czech sovereign bonds would fix yields in excess of 6.3 percent p.a. over two years. Similarly, buying equities subject to bear market 'discounts' can also represent an interesting opportunity.

Nevertheless, one cannot be too caution as the outlook for the coming months remains uncertain. Difficulties regarding gas supplies prior to the winter season, escalation of tension in Ukraine, a new Covid wave, interest rates increasing beyond expectations. All this may result in further ambivalence in the financial markets. Therefore, we perceive some new opportunities on the one hand, however, there remains a feeling of high uncertainty on the other hand. From the point of view of a portfolio manager, a regular investment strategy can be more than ever interesting, both as regards equity instruments and bonds or bond funds. It is hard to identify the break-even point; however, investments can be spread over time and make an average of the resulting purchase prices. We will take advantage of such opportunity that has not been here for several years, while reducing the risk of bad timing.

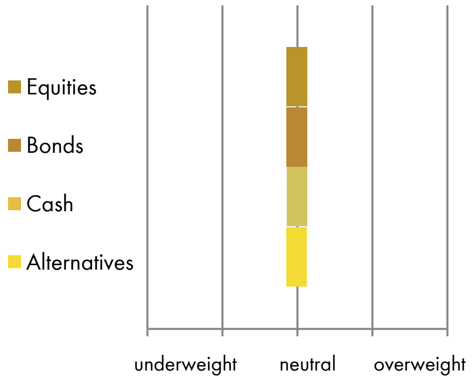
As regards our managed portfolios and funds, we have actively made use of market fluctuations for executing short-term as well as strategic trading. We have extended step-by-step maturities, in particular in respect of sovereign bonds, with the aim of locking down attractive yields for an extended period of time. We have slightly reduced overweighting of shares as against bonds, thus having reached a neutral level, due to previously mentioned attractiveness of bond yields. In the area of equity strategies, we have significantly over-weighted U.S. equities where we have noticed milder impacts of the sequels of the war in Ukraine, as compared to, for example, Europe. We believe in long-term prosperity of the financial markets and we consider the current sales to represent interesting investment opportunities.

We wish you much success in the period to come.

Mr Michal Ondruška, Manager, Asset Management

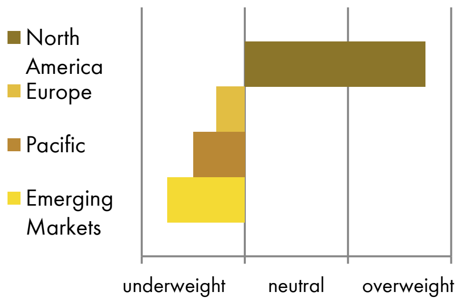
Raiffeisenbank a.s. Hvězdova 1716/2b ▪ PO box 64 ▪ 140 78 Praha 4 ▪ tel.: +420 234 401 111 ▪ fax: +420 234 402 111 ▪ e-mail: info@rb.cz ▪ web: www.rb.cz ▪ IČ: 49240901 ▪ zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051

TACTICAL ASSET ALLOCATION – ASSET CLASSES



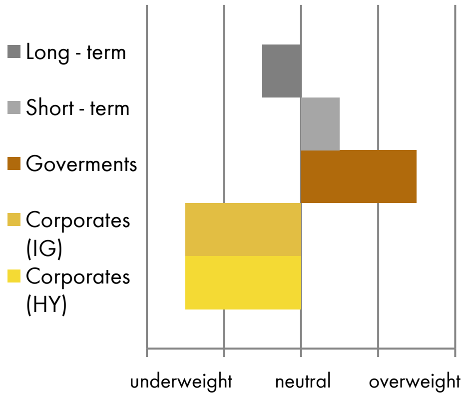
The most frequent word in the financial markets in the first quarter: 'inflation', was complemented by the word 'recession' in the past weeks. Its probability has increased significantly for the American and European continents; the United States may already find itself in a technical recession (two consecutive quarters of falling GDP). Yields of 10-year sovereign bonds have already responded to this situation, having dropped by approximately 0.5 to 1 percent point in the developed markets. The likelihood of rate cuts after next year's peak has increased. A key factor for further market development will be represented by the pace of slowing inflation, where falling global commodity prices would indicate a possible reversal (with the exception of European energy prices). Also of key importance will be priorities of central banks in their fight against inflation, versus recession, and resolution of, for example, the issue of fragmentation (ECB). As far as equity markets are concerned, they will be affected the most by the earnings season and either confirmation or denial of expectations for corporate earnings growth of close to 10 percent this year. Due to the increased uncertainty of further developments and the relatively attractive yields of the money market and bonds, we set the tactical allocation to neutral.

TACTICAL ASSET ALLOCATION – EQUITY REGIONS



We have adjusted our tactical allocation as against the previous quarter of the year by shifting equities to a neutral level. Our investment strategies, in view of the war in Ukraine and the envisaged slowing down of the economic growth mainly in Europe, remain focused on the region of America. We keep an underweighted state as regards Europe and the Pacific, same as in the emerging markets. Expositions in U.S. equity markets represent approximately 70 percent of the risk portions of our portfolios. Of that, around 10 percent is placed in the Nasdaq technological index. Sector-wise, beside technologies, we have been over-weighted in the Finance Sector, the Industrial Sector, and the Health Services Sector. As a new venture, we are selling off the cyclical Durable Goods Sector. We have a 13-percent-presence in European stock markets. We hold 6 percent in the Pacific, including Japan, and approximately 11 percent in the emerging markets.

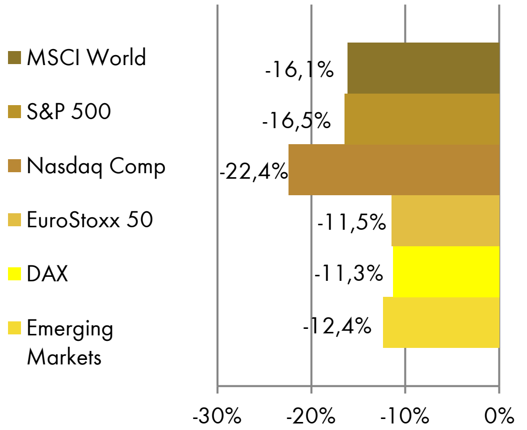
TACTICAL ASSET ALLOCATION – BONDS



Yields to maturity of sovereign bonds continued to record values on world markets in the second quarter of this year, although they had been falling for several weeks due to fears of a recession. Czech rates, too, continued to rise significantly with the Czech National Bank repo rate standing at 7 percent and the yield on the 10-year government bond currently being close to 4.5 percent (when the same bond was in demand for a yield of 6 percent a few weeks ago). Attractiveness of in particular Czech-Crown-denominated bonds, money-market instruments, and the local currency will thus continue, although we have been challenged by one of the highest inflations in Europe. Corporate bonds suffer from increasing price risk premiums more than sovereign bonds. More persistent inflationary pressures, especially in Europe, continue to represent yet another risk facing bonds. In view of the increased market risks, we prefer sovereign bonds to corporate bonds, and we are prepared to extend gradually the average term to maturity, so-called 'duration' in a moderate manner.

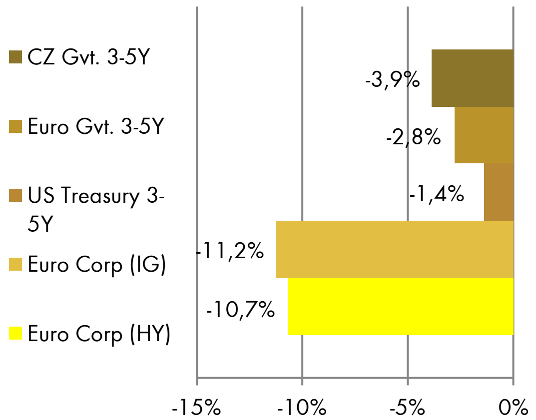
Source of data in charts: Raiffeisenbank a.s., Asset Management, data valid as of 13 July 2022.

ECONOMIC SITUATION AND MARKET TRENDS



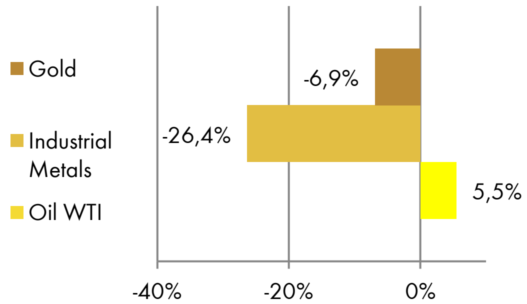
SHARES

The second quarter of this year was characterised by declines spreading across a wide range of investment assets. The equity markets represented no exception at all. The general index of global stocks dropped by 16.13 percent. Among U.S. equities, the technology stocks fared worse, when the Nasdaq Index weakened by 22.44 percent. The U.S. S&P 500 Index lost 16.45 percent. European shares, too, felt the pressure. The Euro Stoxx 50 Index dropped by 11.47 percent. Equity indices responded particularly for fears of increasing interest rates and the Ukrainian crises. At the same time, questions emerged regarding the robust nature of the global economic growth.



BONDS

Bond markets have been affected by factors similar to those challenging equities. Fears of increasing rates and an economic downturn had the biggest impact on the sub-prime bond market. The European High-Yield Bond Index wrote off 10.65 percent. Czech sovereign bonds with maturities of 3-5 years were losing 3.88 percent. Also U.S. sovereign bonds went down, namely by 1.38 percent. European sovereign bonds with maturities of 3-5 years weakened by 2.77 percent. Yields of some bonds, thanks to corrections, reached some relatively interesting values. For example, the Czech sovereign bonds with certain maturities have yielded more than 6 percent p.a.



COMMODITIES

Industrial commodities, too, have grown weaker, driven by anxieties regarding the slowing down of the global economy. Industrial metals were corrected by 26.35 percent. Gold dropped by 6.92 percent. There were some exceptions: mainly in the area of energy commodities. Oil increased by 5.46 percent. Also European gas and electricity have grown stronger.

	31/3/22	30/6/22
EUR/CZK	24,40	24,74
USD/CZK	22,06	23,60
EUR/USD	1,107	1,048

CURRENCIES

The Euro weakened against the Dollar by 5.27 percent. The Crown is weaker against the Euro by 1.40 percent. Against the Dollar, the Crown has lost 7.00 percent. The Dollar has continued to be driven by some negative sentiments in Europe and by the prospects of further rate hikes in the United States.

Source of data in charts: Bloomberg. Performances of individual assets are measured in the primary currency of the given instrument in the period from 1 April to 30 June 2022.

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

FUTURE OUTLOOK

The most closely watched S&P 500 Index dropped by more than 20 percent in the first half of this year, so the index has technically swung into a 'bear' market.

Equity indices find themselves under sales pressure, since some investors fear lower profitability of companies due to growing inflation and increasing interest rates, and ensuing recession. Although it is expected that, for example, the United States economy will fall into recession in the second quarter, the labour market has still been in a very good shape, something that slows down the consequences of recession.

Investors will again focus on corporate results for the second quarter, which will be published in the United States starting in July. Analysts anticipate aggregate growth of the S&P 500 Index corporate profits by 10.5 percent, y/y, and revenues by 9.7 percent, y/y. As regards this entire year, a relatively fair growth of the S&P 500 Index corporate profits is expected, namely by 10.2 percent, y/y, and revenues by 10.7 percent, y/y (*Source: FactSet*).

The FED increased its benchmark rate by 0.75 percent in June, to the interval of 1.5 – 1.75 percent, as against the envisaged increase by 0.50 percent. This step, too, resulted in a drop in the equity markets in the course of the month of June. Yet another increase of the FED rates in expected to occur at the end of July 2022, namely by another 0.50 – 0.75 percent. The ECB has also indicated a possible benchmark rate hike as early as in July and then in September.

Higher global inflation has caused movements in yields of the ten-year sovereign bonds not only in the United States but also in Europe. The yield of the ten-year U.S. sovereign bond now fluctuates around 3.1 percent; in mid-June, it reached the figure of 3.5 percent. In the Czech Republic, the yield of the sovereign bond with maturity of ten years moves around 4.5 percent; it reached its highs of around 5.9 percent in mid-June. Czech-Crown-denominated bonds have recorded significant price increases at the end of June, thus having noticeably contributed to mitigation of the impacts of mixed strategies with equity representation.

The Czech National Bank responded to the threat of higher inflation at the end of June by hiking its benchmark interest rate from 5.75 percent up to 7 percent, which was by 0.25 percent more than expected by the market. At the moment, it is not certain whether the Bank Board in the new composition will carry on such rates hiking. The new Governor of the Czech National Bank has indicated in advance that he does not intend to increase the rates. The bond yield curve has so far had an inverse shape in the Czech Republic, which represents one of the indicators of potential future cooling down of the economy in the Czech Republic. The fight against inflation may also make difficult relations in the exchange rates of CZK/EUR or CZK/USD. The Czech Crown suffered a weakening following the appointments of the new governor of the Czech National Bank; therefore, the Czech National Bank must spend a larger volume of funds from its foreign exchange reserves on interventions in order to maintain a relatively stable Czech Crown, than the case was in the first quarter of this year or even in April.

The anticipated P/E of 15.8 (*Source: FactSet*) for the next 12 months is lower for the S&P 500 Index than its five-year average of 18.6 (*Source: FactSet*) and it is even lower than its ten-year average of 16.9 (*Source: FactSet*). Equities have thus been slightly undervalued viewed from this angle; however, the question remains of whether analysts would or would not lower their estimates of future profits of individual companies. A risk factor will be represented by the upcoming economic results of companies for the second quarter of this year, which will be published in July, and which may reduce the expectations of analysts and investors regarding the growth of profits this year.

In our portfolios, we have reduced moderate over-weighting of shares and we have increased the portion of bonds. This is mainly due to relative high attractiveness of yields on Czech-Crown-denominated bonds. We continue to direct the majority of investments in equities to the United States whose economy should not be so hard hit by the consequences of the invasion of the Russian troops as the case is in Europe. Among the sectors, we overweight the Technologies Sector, the Industrial Sector, the Finance Sector, and the defensive Health Services Sector. In our portfolios, we make use of attractive bond yield where we direct cash earned on equities or equity funds. In view of the potential rate hikes and possible weakening of the CZK, we still maintain shorter maturities of bonds (so-called 'duration') against benchmarks as a whole in the portfolios. Nevertheless, we anticipate gradual extension of duration.

Outlook by: Raiffeisenbank a.s., Asset Management, regarding the individual asset classes in 3Q/2022:

SHARES	BONDS	CASH	ALTERNATIVES
U.S.A.	Bonds < 3Y	Cash, Term Deposits, Savings Accounts	Energy, 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.