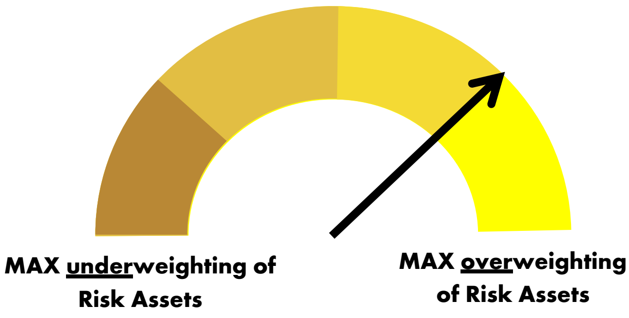
ASSET ALLOCATION

RB Asset Management 1Q/2021

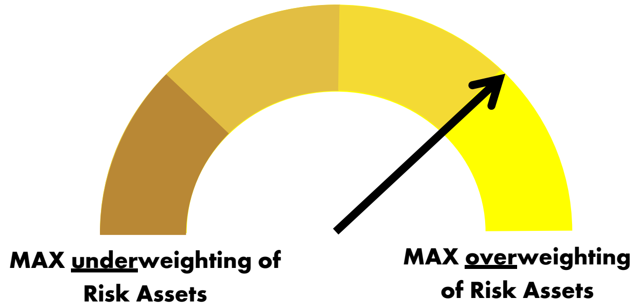
PĚTIHVĚZDIČKOVÁ BANKA K VAŠIM SLUŽBÁM

KLIENTSKY NEJPŘÍVĚTIVĚJŠÍ BANKA 2015–2019

Current Asset Allocation



Expected Asset Allocation in 1Q/2021



Source: Raiffeisenbank a.s., Asset Management, data valid as of 12 January 2021.

Dear Clients,

Positive moods prevailed over the financial markets also towards the end of the past year. Some equity indices added as much as two-digit profits over the entire year 2020, even despite the unprecedented economic decline caused by the Corona virus pandemic. Although the past year might be recorded as a less joyful period in our memories, it was a success as viewed by financial markets.

We have entered the new year riding upon a wave of further growths of the equity markets. Also, the opening of the year witnessed the closely watched elections to the U.S. Senate in the state of Georgia. Both of the contested seats will have gone to Democratic candidates. Thus, the Democrats will take control over all of the three important posts, i.e., the Presidency, the Senate, as well as the House of Representatives. Thereby, the path towards the implementation of the programme pronounced by President Biden will be much easier. In the short view, we anticipate a positive response from the equity markets. Higher fiscal impetuses will consequently result in higher consumption. In the long run, however, deficits will require to be compensated by way of higher taxes. A backfire from the FED cannot be ruled out, as higher consumption can lead to higher inflation and thus to higher rates. Such development would result in a slowing down of both bond and equity markets.

Despite the ongoing next wave of the pandemic, financial markets have shown strong immunity. At the same time, some significant leading economic indicators (e.g., ISM) indicate higher dynamics of the economic growth occurring even as early as in the first six months of this year.

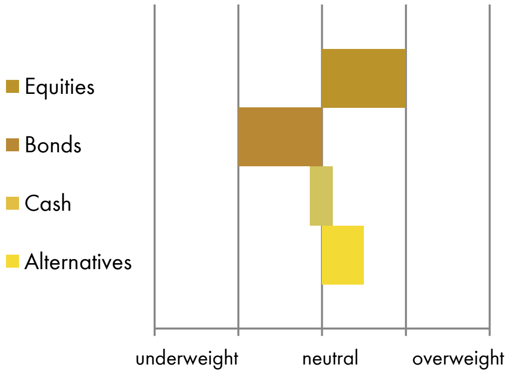
In our opinion, the rhetoric of the central banks will be of particularly key importance this year to whether the optimistic expectations of markets will be duly implemented, in the sense of potential increases in interest rates, the intensity of fiscal impetuses, and – last but not least – corporate economic results generated by enterprises. We anticipate the current trends to continue in the first months of the current year; nevertheless, the dynamics of equity markets growths may become weaker, precisely with regard to higher taxes or interest rates.

We do not expect any changes in our strategies to be applied in this quarter of the year. We have been overweight in equity instruments, as we prefer cyclic sectors, such as, for example, technologies, finances or industries. As far as regions are concerned, we have been overweight in the markets in the United States and in some of the emerging markets, particularly those in Asia. As regards bonds, we stick to those with shorter maturities, in view of potential increase of the yield curve. We continue to overweight the share of corporate bonds that offer higher yields under acceptable risks as against sovereign bonds.

We wish you a successful start to the new year 2021.

Mr Michal Ondruška
Manager, Asset Management

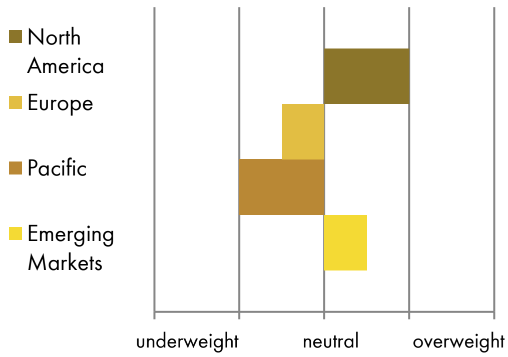
ASSET DISTRIBUTION AS RULED BY THE INVESTMENT BOARD



The strength of recovery of world economies in 2021 will depend, among other things, on the following factors: (i) managing of the pandemic and opening up of economies; (ii) fiscal support from governments; and (iii) central bank policies. High efficiency of vaccines should persuade more people to get vaccinated and allow for faster easing up of restrictions; speed of production and logistics remain an issue, though. We must be prepared to live with the restrictions throughout the first half of the year. The Democratic victory in the United States will allow for approval of further large-scale economic support programmes to the extent of 11 percent of the U.S. GDP. The European Commission has already approved an unprecedented package to the tune of EUR 750 billion as part of the post-crisis revival. The central banks will be doing their utmost in order to keep low costs of financing and they will continue to supply liquidity to the financial system.

As part of our tactical allocation, we prefer equities and other risk assets against sovereign bonds whose yields still lack attraction. Alternative investments, such as revenue from lease of real property and private equity will serve to maintain diversified portfolios.

TACTICAL ASSET ALLOCATION – EQUITY REGIONS



We have been currently overweight in the United States and in emerging markets in our models. On the contrary, we have been underweight in the Pacific area and slightly less in Europe. Exposition in the U.S. equity markets represents approximately 62 percent of the risk portion of the portfolios. Out of that, some 10 percent has been invested in the NASDAQ technological index, and 8 percent in the financial sector. We have been further exposed in health services, in the consumer durables sector, and in the industrial sector. Also, we have been represented in enterprises with low market capitalisation ('small caps'). Our exposition in the European equity markets equals 14 percent. We hold 5 percent in the Pacific area, including Japan, and approximately 19 percent in emerging markets.

Source of the data in the charts: Raiffeisenbank a.s., Asset Management, data valid as of 12 January 2021.

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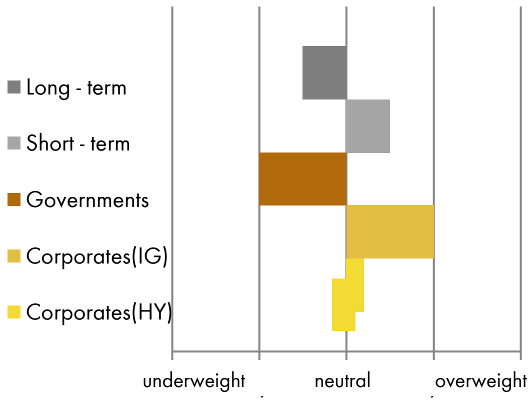
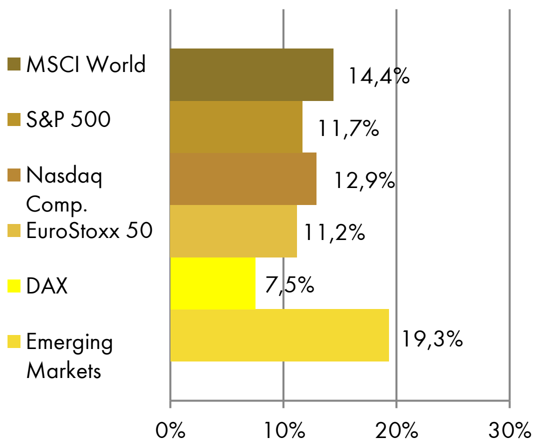
TACTICAL ASSET ALLOCATION – BONDS



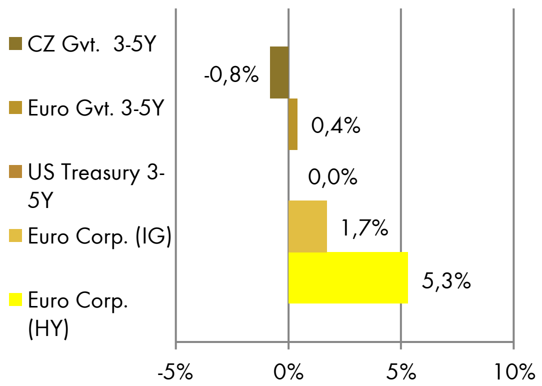
The inflation targets pronounced by the FED and the ECB are unlikely to be achieved this year, which has been significantly affected by the pandemic, although quantitative easing will continue at the current level. Czech inflation will probably get weaker. Central bankers will thus keep short-term rates at low levels for longer periods of time. Due to the need to finance high government deficits, the risk of growth in longer-maturity sovereign bond yields has increased, especially in the United States. The point is that the ECB is likely to increase further its asset purchases, thereby limiting the potential growth in bond yields. Therefore, we have been keeping shorter average term to maturity (so-called 'duration') as against the benchmark, and we have tactically been overweight as regards the share of creditworthy corporate bonds.

ECONOMIC SITUATION AND MARKET TRENDS



EQUITIES

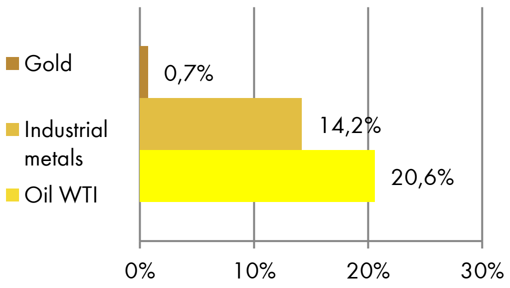
The last quarter of the past year was characterised by some optimism. Such positive sentiments on the part of investors were based on encouraging reports regarding vaccines and positive responses to the outcome of the presidential elections in the United States. During that period, the equity indices of significance kept growing at a very nice speed. The best performing were equities from the emerging markets, which added 19.3 percent, while the global shares index increased by 14.4 percent. U.S. equities grew by more than ten percent (Nasdaq +12.9 percent, S&P 500 +11.7 percent). Relatively less performing were European shares that increased by 11.2 percent, and the German stock exchange DAX index +7.5 percent.



BONDS

The easing up of the monetary policies continued to dominate most bond markets. In particular, European high-risk bonds added a respectable 5.3 percent during the period under review. European corporate bonds increased by 1.7 percent, while European sovereign bonds added 0.4 percent. U.S. sovereign bonds trampled on the spot in the monitored period. Czech sovereign bonds set off in the opposite direction: they wrote off 0.8 percent in the period we refer to. This was due to changes in the sentiments of investors who began to lean towards the idea of raising rates earlier than expected in the past.

Source of the data in the charts: Raiffeisenbank a.s., Asset Management, data valid as of 12 January 2021.



COMMODITIES

Optimism continued to reign over industrial and energy commodities. Industrial metals added up 14.2 percent. U.S. WTI oil jumped by 20.6 percent. Gold, on the contrary, in its capacity of defensive assets, overstepped more or less on the spot and credited only 0.7 percent (measured in USD).

	30/09/20	31/12/20
EUR/CZK	27,06	26,24
USD/CZK	23,08	21,47
EUR/USD	1,1721	1,2216

CURRENCIES

The positive sentiment also affected the trends prevailing as regards currencies. Czech crown (viewed by foreign investors as 'more risky') increased against dollar more than 7 percent, and 3.2 percent against EURO. On the contrary, the U.S. dollar lost 4.1 percent against EURO.

Source data in charts: Bloomberg. Performance of individual assets is measured in the primary currency of the given instrument in the fourth quarter of 2020.

FUTURE OUTLOOK

Last year was very demanding for the capital markets. The Covid-19 pandemic initially frightened investors and resulted in major drops not only in respect of shares but also in corporate bonds, especially in the first quarter of last year. The markets then began to respond positively to liquidity supplied by central banks and to lower benchmark interest rates. The markets were further assisted by fiscal incentives in support of both enterprises and their employees, and – last but not least – by reports of development and approval of Covid-19 vaccines (e.g., Pfizer, Moderna).

The most closely watched S&P 500 Index increased by more than 16 percent over the entire year. On the contrary, for example, the Czech PX Index lost -8.6 percent, while the European Euro Stoxx 50 Index wrote off -5.8 percent last year.

Among sectors, best performing were technologies (+42 percent), the consumer durables sector (+28.2 percent), and the materials sector (17.9 percent). The worst performing sectors, on the other hand, were energies (-36.9 percent), the financial sector (-4.2 percent), and the utility-infrastructure sector (-2.9 percent). The VIX Volatility Index exceeded the 80 mark in March, but fell to 23 at the end of the year (the ten-year average equals about 19.5), which indicates a significant calming down of markets since the beginning of last year.
Investors will be watching out, among other things, for the economic results of enterprises over that past year, to be released in the course of January 2021. An aggregated decline in profits from the S&P 500 Index is expected to reach -13.6 percent (y/y) and revenues by -1.8 percent (y/y) over the past year (*Source: FactSet*). On the other hand, it is estimated that aggregate profits from the S&P 500 Index is to grow by 22.1 percent (y/y) and revenues by 7.9 percent (y/y) this year. At the same time, analysts envisage higher profits to be generated by cyclic sectors, which they tend to prefer this year.

This trend should also be supported by a steeper yield curve. Currently, yields of sovereign bonds have been very low (e.g., the 5-year Czech state debt bears approximately 0.7 percent, p.a., and this figure stands at 0.4

percent, p.a., in the United States); in the Euro area, these yields are even negative. Nevertheless, expectations have it that such longer-maturity bond yields will gradually grow.
The envisaged P/E of 22.1 in respect of the next 12 months is higher for the S&P 500 Index than its five-year average of 17.4. (*Source: FactSet*). Although the yields of the ten-year U.S. sovereign bond has increased 1 percent, its value remains low, which supports equity markets. Our portfolios have been overweight. The majority of investment banks anticipate increases in equity markets this year. RBI targets at S&P index of 4200 at the end of this year (*Source: RBI*), which would mean a two-digit growth of the index this year, also.

A risk exists for the market following the Democratic victory in the Senate elections in Georgia on 5 January 2021 in the form of potential corporate tax increases, stricter business regulations, and subsequent slowing down of economic growth in the United States. Yet another risk for the equity markets and corporate bond markets has still been viewed in slow distributions of sufficient quantities of the Corona virus vaccine or the rift in the U.S.-China trade relations.

Outlook by Raiffeisenbank a.s., Asset Management, regarding the individual asset classes in 1Q/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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Officer in charge: Mr Michal Ondruška, Manager, Asset Management.