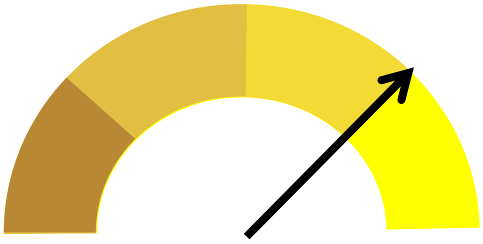
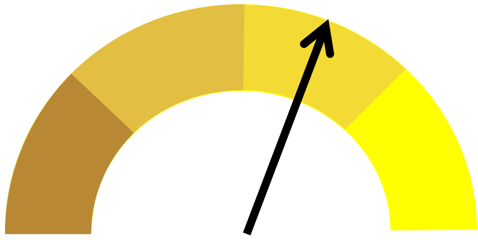
# Asset Allocation
# RB Asset Management 3Q/2024




Source: Raiffeisenbank a.s., Asset Management, data valid as of 15 July 2024

Dear Clients,

Financial markets have entered the holiday season calmly as particularly the equity markets closed after the first six months very successfully. Investors in the most closely watched S&P 500 Index earned 14.5 percent during the half-year (the second quarter growth equalled 3.9 percent) and the Index continues to overcome other historical milestones, reaching its absolute highs with its value nearing 5600 points. The global equity markets, measured by way of the MSCI AC World Index, increased by 10.3 percent in the first six months. On the contrary, global bonds, measured by the Bloomberg Global Aggregate Bond Index, decreased by 3.2 percent, having lost 1.1 percent in the second quarter. Czech sovereign bonds deserved praise for their performance of +0.8 percent in the first six months; however, they lost 0.3 percent in the second quarter (the Bloomberg Czech Govt 3-5 yr Index). Foreign currency investments by Czech crown investors earned additional valuation due to the strengthening of both USD and EUR against CZK, in this year's first quarter in particular.

We were entering the current year with certain concerns regarding growths of the global economy as a whole; now, though, we can see that the global real GDP growth will obviously exceed 3 percent (*Source: Bloomberg*), which represents a better value that that generated prior to the 2019 pandemic. The main driver of the trend will be represented by household consumption, due to existing higher savings but also due to a tight labour market, increasing wages, and resulting higher household disposable income. Foreign trade has been facing some new risks in the form of introductions of customs duties, tariffs, and barriers; nevertheless, following the declining global trade in the previous two years, this year seems to be going to record some increases. The global trend of decreasing inflation has slowed down when it dropped from the average global inflation rate of 8.7 percent in 2022 to 6.8 percent in 2023, while this year's figure is expected to equal 4.6 percent (*Source: IMF*). The reason behind such development lies in stabilising food and energy prices and high dynamics of wages pushing, in particular, prices of services. The slightly higher economic growth and a slower decline of inflation (a 'no landing' scenario) then tell in an important manner on the monetary policies applied by central banks. Easing will be slower and interest rates - following their reduction cycle - will remain on a higher level than where they stood at the beginning of the tightening. Moreover, the central banks seem to resign totally on issuing any prognoses and the future trends of the rates now fully depend on any incoming data. Therefore, new data inputs in the coming two to three months will be of key importance for the future trajectories of the rates. When such new data are published, we can expect higher market volatility.

The surviving investor optimism in equity markets has been confirmed by some outstanding results achieved by, in particular, technological corporations, especially those in the Artificial Intelligence segment. While the so-far dominant factors regarding equities included inflation, bond yields, and monetary policies, nowadays the 'master sceptre' is in the hands of profits; they should increase in respect of the U.S. equity market by more than 11 percent this year (*Source: FactSet*). The power of increasing equities and other high-risk assets, however, has been undermined by a lack of width of the market rally. A comparison of the S&P 500 Index (weighed by market capitalisation) against its peer possessing identical weights allocated to all 500 stocks demonstrates the lower markets width prevailing ever since the global financial crisis. Therefore, the performance of the equity market has been concentrated on just a few stocks dealing with, in particular, the topic of Artificial Intelligence. In reality, this represents a repetition of the situation occurring at the end of the millennium, when, too, the market was dominated by a narrow batch of stocks. Still, such state of affairs does not prevent achievements of outstanding results in asset management by way of suitable selection of instruments and proper tactical allocation. Therefore, we continue to overweight slightly the equity portion in our managed portfolios.

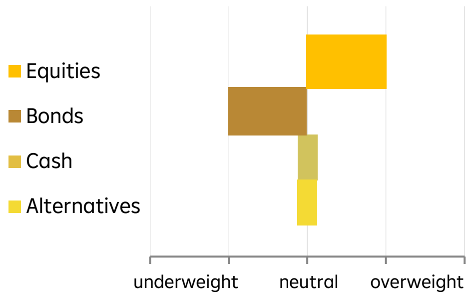
Political risks will be increasing in view of the autumn elections in the United States, as seen by the recent surprising outcome of the French voting that caused negative marker responses. Combined with the on-going geo-political conflicts, we will probably witness an overall higher volatility. Especially after a calmer summer season, we may be facing usual seasonal outflows from High-Risk Assets. Any potential corrections of markets then may represent a suitable opportunity for boosting investment in diversified portfolios.

Existing achievements confirm our conviction that asset management again represents the first option in valuation of funds.

Thank you for being with us and we are looking forward to working together in future!

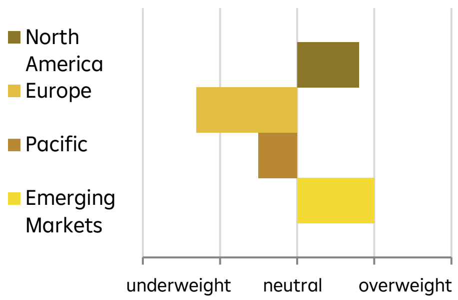
***Mr Miroslav Paděra, CFA, Head of Asset Management***

# Tactical Asset Allocation – Asset Classes



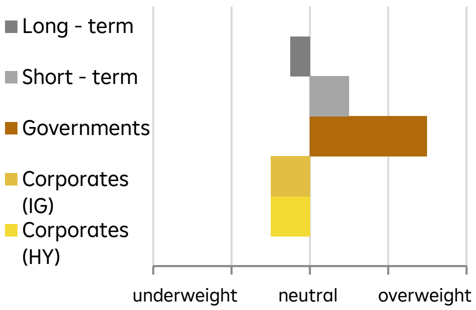

Regardless of the decline suffered by the equity markets in April, thanks to the subsequent two months having recorded growths, the historic highs were exceeded. The U.S. indices were driven in particular by several largest corporations as well as by the Technology Sector. Looking back, the first six months of this year belong to very well-doing seasons, and compared to other years, the beginning of this year ranks among the best periods in long-time history. The indices in the United States were growing at a two-digit rate, and also other regions marked significant increases (although to a somewhat lesser extent). Investor moods seem to be optimistic now and fears of recession, thanks to fair macro-economic figures, are negligible. Our managed portfolios, where we have kept overweighted equity positions, have profited from such developments.

# Tactical Asset Allocation – Equity Regions




We did not change our asset allocations. The current setup of both regional and sectoral allocations has been favourable for the portfolios. We have slightly overweighted emerging markets and we have also been overweighted in the region of North America. We keep underweighted allocations in Europe and the Pacific. Exposition in U.S. equity markets represents approximately 66 percent of the risk-portion of the portfolios. This includes about 10 percent invested in the Nasdaq Index. We also keep overweighted positions in the Finance, Industrial, and Health Services Sectors. We hold approx. 13 percent in European equity markets. We hold 7 percent in the Pacific Area, including Japan, and approximately 14 percent in the emerging markets.

# Tactical Asset Allocation – Bonds



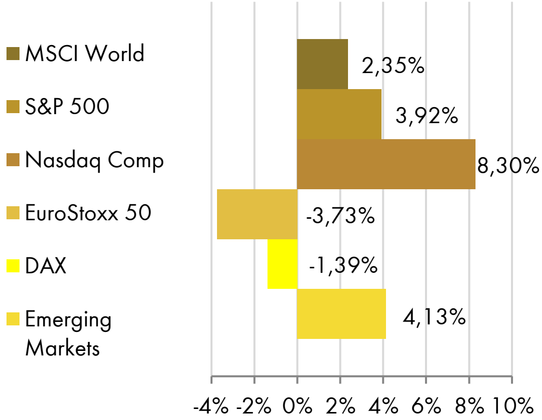

We have been awaiting the first rates cut by the FED; its constantly repeated postponing continued in the past months. At the moment, though, thanks to the current drop in inflation, consensus begins to prevail that we will hopefully see such cut already this year, possibly even twice, by a quarter of the percentage point each time. The yield of the U.S. sovereign bonds, therefore, was growing at the beginning due to such postponements. Nowadays, we can already witness a decreasing trend. In total, the yield of the five-year U.S. Treasury increased in the first six months of this year by 0.55 p.p., up to 4.44 percent.

The Czech National Bank cut down its interest rates in May, and then again in June, each time by 0.5 percentage point, down to the current 4.75 percent.

Absence of creditworthy Czech-crown corporate bonds continues, although several issues appeared recently (for example, a bond issued by České dráhy). We keep the duration of the bond portion of our portfolios neutral at the benchmark level.

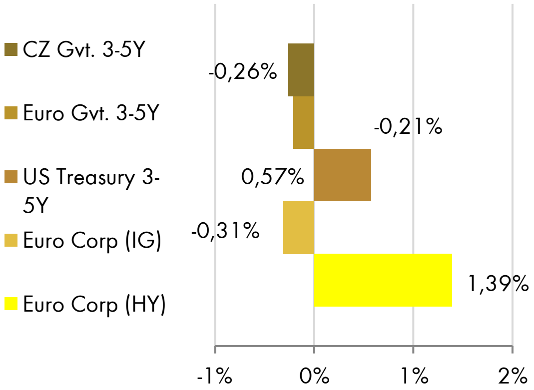
Source of the data in the charts: Raiffeisenbank a.s., Asset Management, valid as of 15 July 2024

# Economic Situation and Market Trends in 2Q/2024



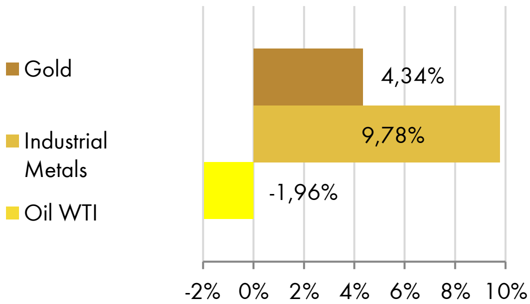

## Equities

The equity markets were traded in a mixed manner in the course of the second quarter of the year. Failures included, in particular, European equities as the Eurostoxx 50 Index wrote off 3.7 percent. European stocks were specially affected by political uncertainties regarding the outcomes of the elections in Britain and in France. On the contrary, outstanding performances were reported by technological stocks which, measured by the Nasdaq Index, added 8.3 percent. The broad S&P 500 Index of U.S. equities improved by 3.9 percent. Similar good performance was marked by the Emerging Markets Index, which grew by 4.1 percent. The Index of Global Equity Markets increased by 2.4 percent in the second quarter of the year 2024.




## Bonds

Bonds have stagnated in the course of the second quarter. Among the monitored significant indices, the largest movement was generated by the European High-Risk Bonds Index, which strengthened by 1.4 percent. The U.S. government bonds with maturities of 3-5 years increased by 0.6 percent. European and Czech sovereign bonds fared in a similar manner. The Index of Czech sovereign bonds with maturities of 3-5 years lost 0.3 percent. The Index of European sovereign bonds wrote off 0.2 percent. European corporate bonds also slightly weakened by 0.3 percent.




## Commodities

Gold jumped up by 4.3 percent in the second quarter. The volatile industrial metals index increased by 9.8 percent. Crude oil went slightly down by having written off 2 percent.

| | 28/03/24 | 28/06/24 |
|---|---|---|
| EUR/CZK | 25,221 | 25,037 |
| USD/CZK | 23,394 | 23,364 |
| EUR/USD | 1,079 | 1,077 |

## Currencies

Compared to the end of the first quarter, currencies stood at similar marks at the end of the second quarter. The Crown strengthened against the Dollar by 0.1 percent. It strengthened against the Euro by 0.7 percent. Regarding the currency pair of Euro-Dollar, the Dollar slightly strengthened by 0.7 percent.

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 28 March 2024 to 28 June 2024. 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

The most closely watched S&P 500 Index increased by 3.9 percent in the course of the second quarter of this year, and the Global MSCI ACWI added 2.4 percent. Both indices thus reached new historical highs during the month of June, and their growth has continued at the beginning of July. Investors have been preparing for their corporate earning reports season for the second quarter; these, together with their corporate long-term visions regarding the future periods, may give a clue about which direction the equity markets will be taking following their strong growth at the beginning of the year. The major U.S. banks will start disclosing their economic results starting already on 12 July.

Among the sectors, the best performing was the Technology Sector (+8.6 percent), where NVIDIA was doing particularly well, as well as other large corporations profiting from the AI theme. Also doing well was the Communications Sectors (+4.9 percent). The worst performances were reported by the Energy Sector (-3.5 percent) and the Materials Sector (- 4.9 percent).

The FED stuck to its benchmark interest rate of 5.50 percent, however, probability has it that its first cut will come as soon as in September, because the U.S. June inflation published at the beginning of July was less than expected by the market. According to expectations concerning the whole year, the FED would be cutting down on the benchmark interest rate rather twice, depending on the incoming macro-economic data.

The ECB reduced, as envisaged, its deposit rate from 4 percent down to 3.75 percent in mid-June; any further cuts this year are less certain. Despite this, analysts believe that the ECB would be cutting down on its deposit interest rate two more times this year, depending, of course, on the incoming macro-economic data. The yield of the German ten-year sovereign bond fluctuates around 2.5 percent p.a.

The Czech National Bank surprisingly reduced its 14-day rate by 0.50 percent down to 4.75 percent in June. Analysts mostly anticipated such cut not to be more than 0.25 percent. Nevertheless, the CNB indicated that it would be more cautious regarding any further reductions, and that they would respond to additional data (in particular, about inflation and the labour market) as they would be coming. The Czech inflation speed increased in June by a mere 2 percent, y/y, which meant a pleasant surprise for the market. Analyst anticipate that the 'repo' rate would be set at around 3.75 percent towards the end of the year (*Source: Bloomberg, RB*).

As far as the entire this year and the S&P 500 index are concerned, analysts estimate an 11.2 percent (*Source: FactSet*) aggregate increase in corporate profits and a 5.0 percent growth in the aggregate corporate sales, something which might uphold the equity markets, together with envisaged declining inflation. Analysts also believe that next year will see a two-digit aggregate increase in profits; therefore, positive sentiments have so far prevailed in markets. Of importance will particularly be the corporate economic results for the second quarter of this year which, together with corporate outlooks for the future period, will commence to be published in the days to come. Also, the autumn presidential elections and any steps taken by the new U.S. president may affect the markets. Therefore, higher volatility may return to the markets in the course of September and the autumn months.

The war in Ukraine and other geo-political factors (e.g., the Middle East), including fears of a return of higher inflation, remain among the main risks facing the capital markets.

**Outlook by: Raiffeisenbank a.s., Asset Management, re: individual asset classes in 3Q/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 |
|---|---|---|---|

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