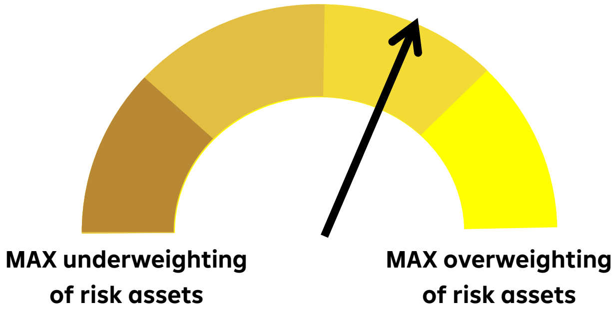
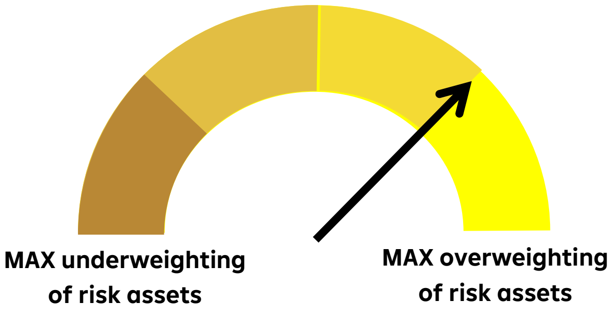
# Asset Allocation
# RB Asset Management 1Q/2025




Source: Raiffeisenbank a.s., Asset Management, data valid as of 14 January 2025.

Dear Client,

The year 2024 has brought positive results for investors, especially in the stock markets, continuing the success of 2023. Global stock markets, measured by the MSCI AC World index, increased by 15.7%, with the U.S. market performing particularly well, growing by 23.3% (S&P 500 index). Emerging market stocks added 5.1%. The last quarter of the year confirmed the dominance of the United States over the world, as the U.S. stock index increased by 2.1%, while emerging markets declined by 8.2% (measured in USD), and the MSCI AC World index lost 1.2%. Investments in foreign currency provided additional appreciation for Czech crown investors due to the strengthening of both USD and EUR against CZK. Concerns about inflation, higher rates, and debt returned to the bond markets, particularly in the United States. Global bonds, measured by the Bloomberg Global Aggregate Bond Index (unhedged in USD), lost 1.7% in 2024, with the fourth quarter's decline of 5.1% contributing to the annual loss of the index, partly due to the weakening of foreign currency bonds against the U.S. dollar. Czech government bonds yielded 2.5% in CZK for the entire year, although they fell by 1.4% in the fourth quarter.

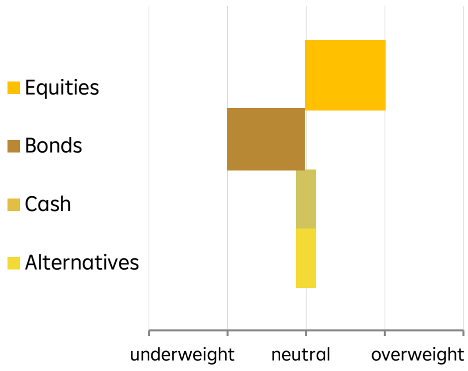
According to the latest forecast from the Czech National Bank, the domestic economy is expected to grow by 2.4% this year, which is a welcome change after previous turbulent years. The base interest repo rate could be further reduced in the first half of the year. Household consumption will be the main driver of growth. The investment climate in the Czech Republic is improving due to lower interest rates, declining inflation and predictable economic policy, even as we approach parliamentary elections. Growing domestic demand and improving conditions in global markets bring reasons for optimism. The year 2025 could thus be a year of stabilization and opportunities for new investments and economic growth. In Europe, the political crisis in Germany and France will be addressed through early elections, which should affect the competitiveness of European companies and potential lead to adjustments of the Green Deal. Foreign demand in the eurozone is expected to grow in 2025 because of the gradual stabilization of global markets and reviving economic activity. This growth should support the export sectors of eurozone countries, including the Czech automotive industry.

Overall, 2025 is expected to bring stabilization of inflation, economic growth, and strong stock markets. Geopolitical factors and monetary policy will play a key role in future developments. Re-elected President Trump will support the domestic market through tax cuts, reduced bureaucracy, and the imposition of tariffs on imports. This should bolster the U.S. market but also bring inflationary risks, which could affect Fed policy and potentially lead to market corrections. It is likely that inflation and interest rates will remain above pre-pandemic levels. Investors may find opportunities by leveraging the wave of transformation in the real economy, such as artificial intelligence (AI) and the transition to a low-carbon economy. Capital markets will play a crucial role in driving extensive infrastructure development. Investors should place greater emphasis on themes and mega trends. In managed portfolios, we are increasing the weight of stocks, particularly in the United States, as the AI theme expands, and the U.S. has stronger growth and better capacity to leverage this trend. AI is considered a key technology that will have a greater impact than technologies from previous periods of significant change. Investors should not expect another year of stock returns exceeding 20%, but many institutions still believe in continued growth of U.S. stocks averaging 10% per year (source: Bloomberg). Interest rates are likely to be lowered more slowly than the market currently expects. This year is unlikely to be a year of government bonds due to concerns about excessive government borrowing in the U.S. and inflation, but the yields on selected bonds remain solid, and their allocation in portfolios mitigates the risk of potential corrections in stock markets. Portfolio diversification is key to navigating the currently uncertain environment, with stock markets and private assets (private equity and debt) offering opportunities for solid returns in the medium to long term.

At the beginning of the new year, allow me to thank you for your trust so far and wish you much health, satisfaction, and personal well-being in the new year 2025. Thank you for being with us, and we look forward to further cooperation!

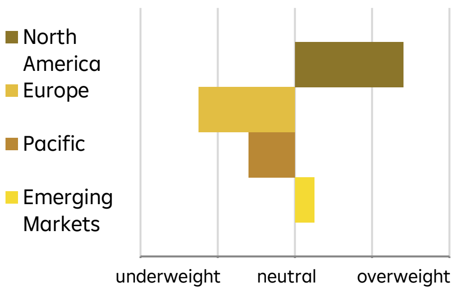
***Mr Miroslav Padera, CFA, Head of Asset Management***

## Tactical Asset Allocation – Asset Classes



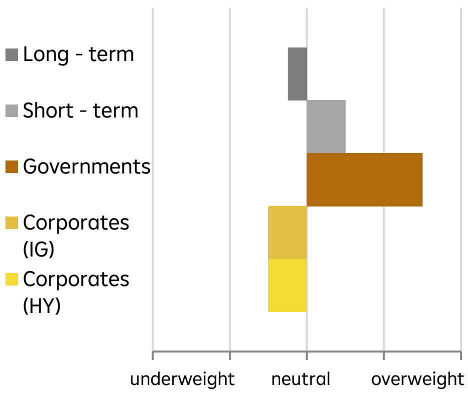

Stock markets maintained a positive trend even in the last quarter, particularly as U.S. markets reacted favorably to the clear results of the presidential elections and the new president's plans to support the growth of American companies (tax cuts, encouragement of manufacturing relocation to the United States). Concerns about inflation returned to the bond markets, partly due to the threat of new tariffs. Our overweight in risk assets and especially in the technology sector proved to be the right strategy for managed portfolios, and at the end of the year, we further slightly increased this overweight. The CZK investor benefited and is likely to continue benefiting from currency movements, with the USD strengthening against the CZK by more than 7% in the last quarter, while the highest proportion of risky investments in the portfolios is in unhedged USD instruments. In the underweighted bond component of the managed portfolios, we are increasing the share of corporate bonds and maintaining a neutral duration relative to the benchmark.

## Tactical Asset Allocation – Equity Regions




We made changes in asset allocation by removing the healthcare sector, which may not be supported by the new administration of the U.S. president. We also increased our allocation in the North America region and underweighted Europe and the Pacific, including Japan. Additionally, we reduced our overweight in emerging markets. Currently, our exposure to U.S. stock markets represents approximately 70% of the risk portion of the portfolios, with around 10 percentage points in the Nasdaq index. We also have overweight positions in the financial and industrial sectors. In EU stock markets, we hold an allocation of about 11%. In the Pacific, including Japan, we have 6%, and in emerging markets, we hold approximately 13%.

## Tactical Asset Allocation – Bonds

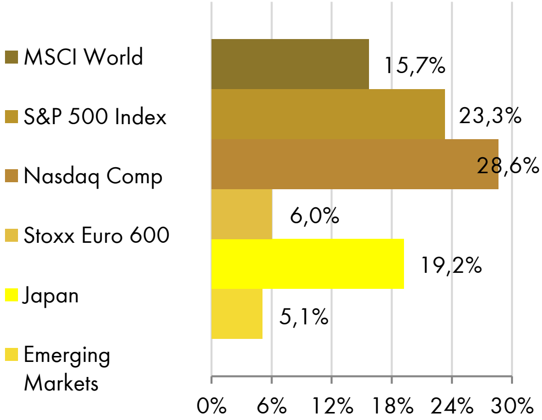



After the rate cut in September, the Fed repeated the same action twice, at the November and December meetings. The market anticipated this, and therefore the reduction was already priced into bond prices. However, newly published macroeconomic data did not indicate a slowdown in the economy and instead raised concerns about a return of inflation. As a result, there is a risk of limiting or completely halting the Fed's rate-cutting cycle in 2025. Consequently, yields on U.S. Treasuries with longer maturities have increased.

The ECB also cut interest rates twice in the previous quarter. However, concerns about halting the rate-cutting cycle are less pronounced than with the Fed. The Czech National Bank (ČNB) reduced the two-week repo rate in November (as expected), but at the December meeting, it left it unchanged at 4%. Yields on CZK bonds increased across the entire yield curve, with the five-year government bond available for purchase with a yield above 3.8% p.a.. Despite several new issues emerging recently, there is still a shortage of quality CZK corporate bonds. Regarding duration, we did not make any significant changes in the past period, maintaining a neutral stance relative to the benchmark.

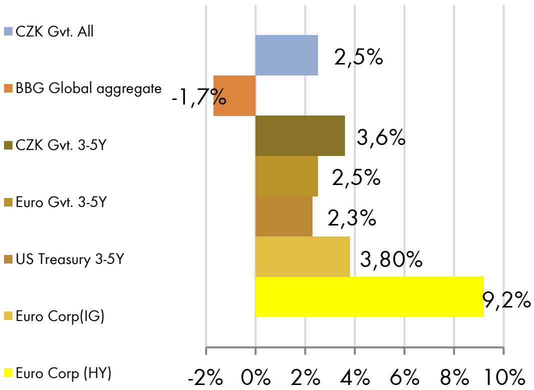
Source of data in charts: Raiffeisenbank a.s., Asset Management, data valid as of 14 January 2025.

# Economic Situation and Market Trends in 2024



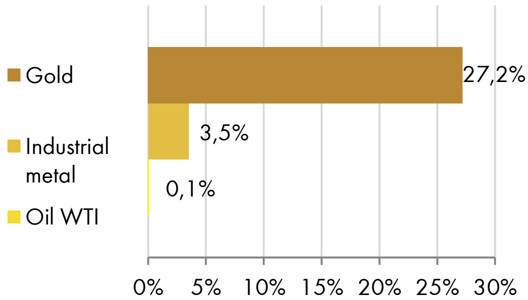

## Equities

The year 2024 in the stock markets was characterized by a wave of optimism for most of the period. The most significant stock indices posted double-digit results. The broad U.S. index S&P 500 grew by 23.3%, while the technology index Nasdaq Composite appreciated by 28.6%. Japanese stocks, represented by the Nikkei 225 index, yielded 19.2%. The global stock index MSCI AC World increased by 15.7%. In contrast, European stocks performed relatively worse, with the STOXX Europe 600 index adding 6%. Similarly, emerging market stocks did not perform well, gaining only 5.1%.




## Bonds

The bond markets experienced a volatile year. The index of Czech government bonds across all maturities gained 2.5%. European government bonds with maturities of 3-5 years strengthened by 2.5%. U.S. government bonds with maturities of 3-5 years added 2.3%. European corporate bonds increased by 3.8%. High Yield European corporate bonds performed relatively well, with their index gaining 9.2% in 2024.




## Commodities

Gold finished the year with a significant appreciation of 27.2%. Demand for gold was driven by interest from central banks as well as geopolitical risks. Industrial metals increased by 3.5%. Oil ended the year at nearly the same levels as it opened, gaining only 0.1%.

| | 29/12/23 | 31/12/24 |
|---|---|---|
| EUR/CZK | 24.698 | 25.204 |
| USD/CZK | 2.363 | 24.344 |
| EUR/USD | 1.1039 | 1.0354 |

## Currencies

The Czech crown weakened against the dollar by 8.9% over the year. CZK depreciated by 2.1% against the euro. The euro weakened against the dollar by 6.2%.

Source of data in charts: Bloomberg. Performances of individual assets are measured in the primary currency of the given instrument in the period from 29 December 2023 until 31 December 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 American stock index S&P 500 strengthened by more than 20% in dollar terms during the last year and in 2023 as well. Bond markets also performed relatively well over the past two years. The development of capital markets this year and in the upcoming quarter depends on many factors.

For the upcoming period, the corporate earnings season for the fourth quarter of last year and the outlook of individual companies for this year will be particularly important. For the forth quarter of 2024, aggregated earnings for companies in the S&P 500 index are expected to grow by 11.7% year-on-year, with revenues increasing by 4.9% year-on-year. For the entire year 2025, aggregated growth in earnings for companies in the S&P 500 index is expected to be 14.8%, with revenues growing by 5.8% (source: FactSet). Banks (e.g., JPM, GS, WFC) will be among the first corporations to start publishing their financial results, beginning in mid-January. Strategists and sector analysts from various Wall Street banks are generally positive about the development of the U.S. stock market and expect further growth this year (source: Bloomberg). The anticipated growth in earnings should support the stock markets.

Another important date is January 20, 2025, when the inauguration of the new U.S. president, Donald Trump, is scheduled. The future president has mentioned the possibility of imposing tariffs on China, Europe, and other countries. The introduction of tariffs could lead to a cooling of growth in individual economies and, primarily, pressure on inflation, which could result in a slower reduction of interest rates by central banks (FED, ECB, BOJ) for a longer than expected period. This could, of course, slow down or even reverse the anticipated decline in bond yields not only in the U.S. but also in Europe and possibly in the Czech Republic.

The FED will meet on January 28-29, and the market expects (source: Bloomberg) that the FED will likely keep the rate at 4.50% p. a,. in January. The next ECB meeting is scheduled for January 30. The market expects the ECB to lower its deposit rate, which is currently set at 3.0% p.a.. The Czech National Bank (ČNB) maintains the repo rate at 4.00% p.a., and at its last meeting in December of last year, the ČNB did not lower the rate. Nevertheless, it is expected that during this year, the ČNB will reduce the rate to 3.5% p.a. (source: RB). The yield on the ten-year U.S. Treasury bond reached 4.8% p.a. in the first half of January. Analysts (source: Bloomberg) expect a gradual decline of this yield during the year. However, if inflation in the U.S. does not ease, it is possible that yields may continue to rise. Its future development could be important not only for bond markets but also for the development of stock markets.

Currently, we have portfolios overweighted in equities, with a regional overweight in the U.S. The war in Ukraine and other geopolitical factors (e.g. the Middle East), along with fears of a return to higher inflation (tariffs, labor market in the U.S.), remain among the main risks for capital markets.

**Outlook by: Raiffeisenbank a.s., Asset Management, individual asset classes in 1Q/2025:**

| EQUITIES | BONDS | CASH | ALTERNATIVES |
|---|---|---|---|
| U.S.A. | Bonds < 3Y | Cash, Term Deposits, Savings accounts | Energy, Oil |
| Technologies, Finance, Industrials, Materials, 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 Miroslav Paděra, Head of Asset Management.