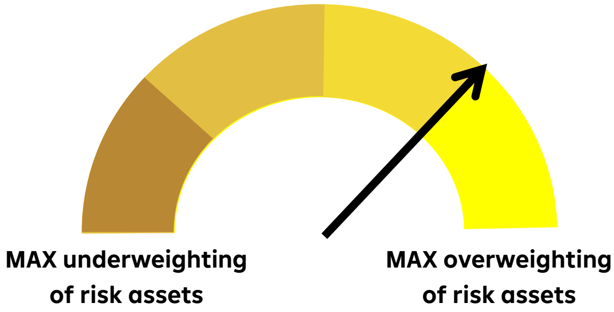
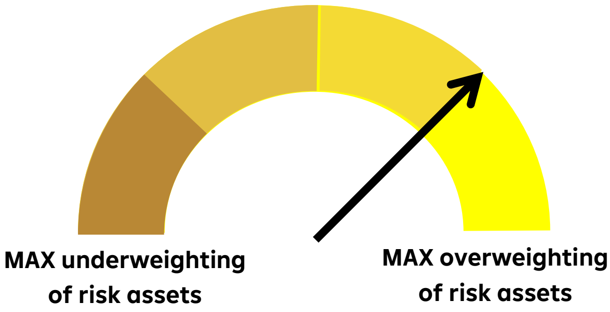
Asset Allocation
RB Asset Management 2Q/2025

Current Asset Allocation



Expected Asset Allocation in 2Q/2025



Source: Raiffeisenbank a.s., Asset Management, data valid as of 10 April 2025.

Dear Client,

The first quarter of 2025 has unfolded differently for participants in the financial markets than expected. In the stock markets, contrary to the saying "America first," American stocks lagged behind with a decline of 5% (S&P 500 index). Global stock markets (MSCI AC World index) fell by 1.7%, emerging market stocks gained 2% (measured in USD), European stocks rose by 5% (in EUR), and the Prague Stock Exchange index even appreciated by 19%. Investments in foreign currency, particularly in USD, resulted in losses for Czech koruna investors (in contrast to 2024) due to the dollar weakening against CZK by approximately 5%. Concerns about inflation have returned to the markets, along with uncertainties regarding interest rate developments and the unclear impact of tariff policies on the global economy. The risk of recession has increased, and the term stagflation is being mentioned, along with the possibility of trade wars. Global bonds, measured by the Bloomberg Global Aggregate Bond Index (unhedged in USD), yielded 2.6%, with part of the return contributed by the strengthening of foreign currency bonds against the U.S. dollar. Czech government bonds yielded 1.4% in the first quarter.

After two years of sluggish growth in the eurozone economy, this year will not be easy either. The German economy has contracted for two consecutive years, and this year is unlikely to bring significant change. European countries are much more dependent on the performance of their exports, so the impact of announced tariffs is likely to be significantly detrimental. In light of foreign developments, the macroeconomic analysis team at RB has revised its growth forecast for the Czech economy this year from 2.1% to 1.6%, assessing the risks towards lower growth. The U.S. economy has managed to overcome all obstacles in recent years, growing by nearly 3%. However, with the new year comes a new challenge in the form of Donald Trump returning to the White House. Initial euphoria is beginning to give way to fear and concerns about future developments. The term recession has returned to the vocabulary of many analysts, investors, and even ordinary consumers, particularly in connection with the impacts of the trade war. Nevertheless, the base scenario for RB this year does not anticipate a recession, as confirmed by the latest Fed estimate, which expects growth of 1.7% for this year.

The current market downturns can be attributed to the policies of President Donald Trump, who, in early March, did not rule out a recession this year in response to a direct question and acknowledged short-term turbulence stemming from his economic agenda. The implementation of the new American president's economic agenda will take some time and may bring further turbulence, while the new U.S. administration seems to tolerate negative market movements and the scenario of a short-term recession for now. The impacts of tariff measures on inflation and economic growth pose a difficult challenge for Fed Chairman Jerome Powell, who will find it very challenging to balance the risks of inflation and recession with changes in interest rates. On the other hand, it is important to note that tariffs have been announced for some time, and many companies have already begun preparations for their implementation, such as relocating production to the U.S. or diversifying their markets. The current market reaction is very emotional; once the situation calms down, there may be strong counter-movements, especially if President Trump changes or adjusts his positions again.

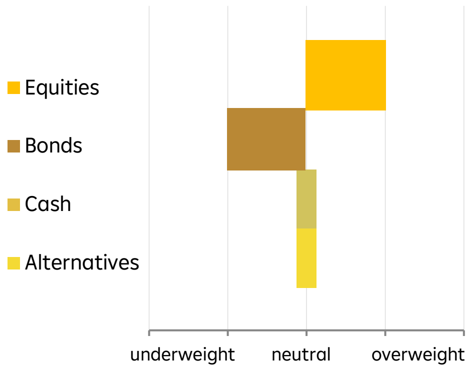
In our managed portfolios, we maintain an overweight position in equities with a regionally balanced representation of individual markets according to market capitalization. The yields on selected bonds remain solid, and their allocation in portfolios mitigates the risk of potential corrections in the 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. Our managed portfolios are widely diversified, and declines in stocks are often offset by rising bond prices. We hold quality instruments from the best global companies, whose business models have withstood many stress tests even during previous downturns.

In managing our portfolios, we are cautious and adhere to the principles of optimal portfolio management and diversification. We believe that careful selection of investment instruments and a long-proven investment strategy help us face market downturns and ensure stability and long-term growth for our clients' portfolios.

Thank you for being with us, and we look forward to further cooperation!

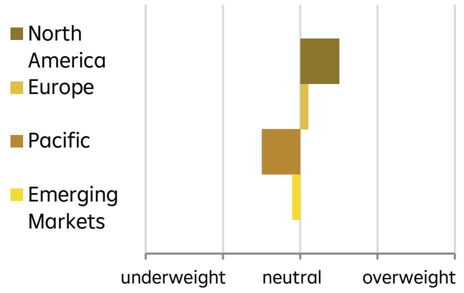
Mr Miroslav Padera, CFA, Head of Asset Management

Tactical Asset Allocation – Asset Classes



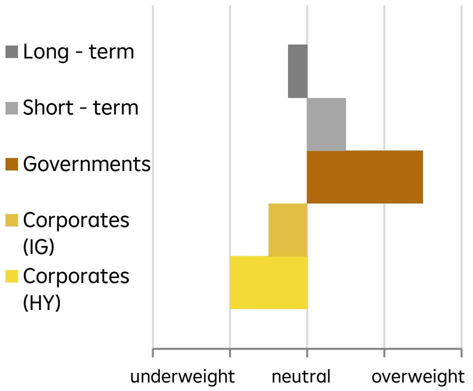
We have not changed the ratio of risky to non-risky instruments in the recent period. Changes have only occurred at the level of regions and sectors. The surprisingly aggressive onset of the trade war currently has the most significant impact on risky assets and even on the market for safe U.S. government bonds. Czech government bonds performed very well in the first quarter, which benefited diversified portfolios. European equities, particularly in connection with the planned substantial German fiscal expansion, also showed decent results in the first quarter. The expectation is that the initial shock from high tariffs will subside and that there will be corrections in the announced tariff policy. Stocks and equity funds should then, as they have in the past, provide higher long-term returns than non-risky investments.

Tactical Asset Allocation – Equity Regions



We made minor changes in asset allocation, increasing our allocation in the European region while slightly reducing our weight in North America. This step was taken due to the cancellation of the debt brake in Germany and new potential investments in infrastructure and defense industries in the EU. In emerging markets, we are practically in a neutral position, and we are underweight in the Pacific and Japan, which may be disadvantaged by a strong yen. Currently, our exposure to U.S. stock markets represents approximately 66% of the risk portion of the portfolios. In European stock markets, we hold an allocation of about 15%. In the Pacific, including Japan, we have 6%, and in emerging markets, we hold approximately 13%. We have not changed the sector allocation.

Tactical Asset Allocation – Bonds

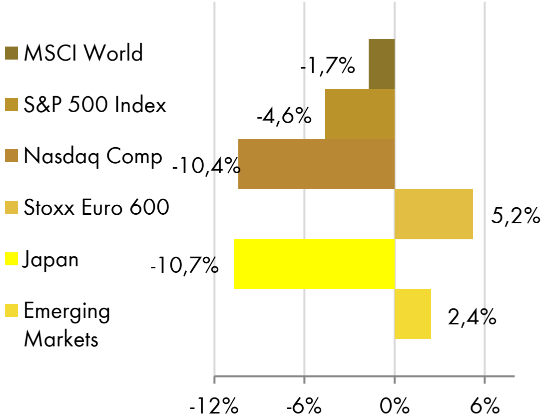


The Fed's rates remained unchanged in the first quarter (range of 4.25-4.50%). However, the outlook for future movements is now changing very dramatically. Not long ago, it was anticipated that the period of rate cuts was nearing its end. Now, in connection with the trade war and concerns about recession, there is speculation about a rapid reduction of even one percent this year. The sharp change in outlook has led to a significant increase in U.S. Treasuries (Bloomberg U.S. Treasury Index: 3-5 Y rose by 2.7% in the first quarter). In the eurozone, the expectations have moved in the opposite direction. A massive German fiscal expansion is planned, resulting in a sharp increase in yields on European bonds. The Czech National Bank is cautious about lowering rates. RB analysts expect only one rate cut in May, followed by a prolonged interest rate stability.

In our managed portfolios, we maintain a duration close to the benchmark. We are also supplementing the portfolios with floating-rate bonds, where we benefit from still relatively high current coupons. There continues to be a shortage of quality corporate bonds in CZK. We approach the high-yield bond segment with caution.

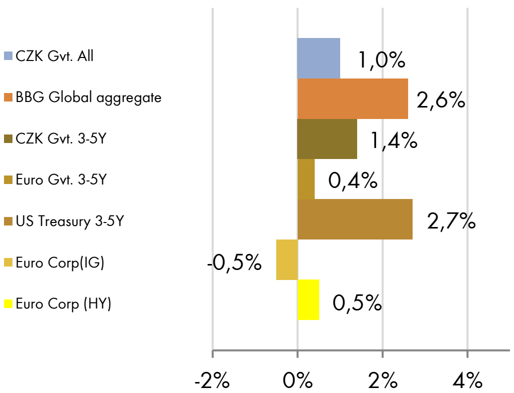
Source of data in charts: Raiffeisenbank a.s., Asset Management, data valid as of 10 April 2025.

Economic Situation and Market Trends in 1Q/2025



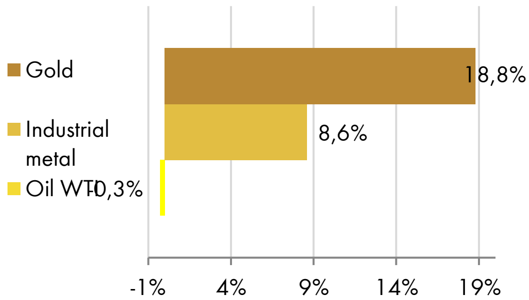
Equities

The first quarter of this year was marked by a wave of pessimism in the stock markets. The MSCI World index weakened by 1.7%. American stocks performed relatively poorly, with the NASDAQ technology index declining by 10.4% and the S&P 500 index falling by 4.6%. In contrast, European stocks performed relatively well, with the Stoxx Europe 600 index rising by 5.2%. The emerging markets index also gained 2.4%. Investors shifted some of their investments away from the U.S. as valuations there were already relatively high. European stock markets benefited from expected investments, particularly in infrastructure and the defense industry.



Bonds

At the beginning of the year, nearly all significant government bond markets recorded positive returns. The index of Czech government bonds with maturities of 3-5 years strengthened by 1.4%. The index of U.S. government bonds with the same maturity increased by 2.7%. European government bonds rose by 0.4%. The index of European high-yield bonds added 0.5%. In contrast, European corporate bonds (Investment Grade) performed relatively poorly, declining by 0.5%, primarily due to a longer duration compared to high-yield bonds.



Commodities

Gold, as a figurative safe haven, strengthened by a solid 18.8%. Industrial metals also increased by 8.6%. The price of oil did not see significant change quarter-on-quarter, declining by 0.3%. However, oil is now experiencing a more pronounced drop due to concerns about recession and the negative decision by OPEC+ members to increase production more than expected.

	31/12/24	31/03/25
EUR/CZK	25,204	24,95
USD/CZK	24,344	23,07
EUR/USD	1.0354	1,0816

Currencies

The dollar weakened against both the koruna and the euro. It depreciated by 5.2% against the koruna and by 4.7% against the euro. The markets are reacting negatively to the actions of the new U.S. president. The koruna strengthened by 1.0% against the euro.

Source of data in charts: Bloomberg. Performances of individual assets are measured in the primary currency of the given instrument in the period from 31 December 2024 until 31 March 2025. 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

In the first quarter of this year, capital markets were impacted by a potential trade war between the U.S. and the rest of the world, which fully ignited on April 2nd after the announcement of unexpectedly high tariffs on imports to the U.S. The Nasdaq index and later the S&P 500 entered a bear market at the beginning of April. Conversely, the bond markets strengthened in the first quarter of this year. How will capital markets develop in the coming months?

Investors, as well as politicians, are primarily focused on the tariffs (trade war) between the U.S. and the rest of the world, which triggered this year's significant decline in the stock markets. U.S. President Trump announced on the evening of April 2nd the so-called reciprocal tariffs on virtually all countries, which were much higher and broader than the market had anticipated. For the upcoming period, it will be crucial whether politicians can negotiate to reduce or eliminate some tariffs on the EU, China, or other countries. According to the latest reports, President Trump has postponed the implementation of the increased tariffs (the basic 10% rate remains in effect) for all countries except China by 90 days, which helped the financial markets on April 9th (or possibly April 10th, as European markets were already closed on April 9th). The EU has also postponed planned retaliatory measures against tariffs by 90 days to allow time for negotiations with the U.S. regarding tariff reductions.

The upcoming corporate earnings season for the first quarter of this year and the outlook of individual companies for the future could alleviate panic in the stock markets. For the first quarter of this year, aggregated earnings for companies in the S&P 500 index are expected to grow by 7.0% year-on-year, with revenues increasing by 4.2% year-on-year. For the entire year, aggregated growth in earnings for companies in the S&P 500 index is currently expected to be 11.3%, with revenues growing by 5.4% (source: FactSet, April 4, 2025). Banks (e.g., JPM, GS, WFC, Citi) will be among the first corporations to start publishing their financial results. However, in the context of the newly imposed tariffs, it can be expected that analysts and individual companies will lower their growth estimates for corporate earnings for this year, which will also be reflected in the estimated aggregated earnings growth for the S&P 500 index.

The Fed will meet on May 7th, and the market currently expects (source: Bloomberg) that the Fed will likely keep the rate at 4.50% in May, although the new tariffs may change this expectation. The Fed is expected to gradually lower the base rate throughout the year. The next ECB meeting is scheduled for April 17th. The market expects the ECB to lower its deposit rate from the current 2.5% to 2.25% (source: Bloomberg). The Czech National Bank (ČNB) is currently holding the repo rate at 3.75%. The next ČNB meeting is scheduled for May 7th. It is expected that during this year, the ČNB will lower the rate to 3.5% (source: RB).

The yield on the ten-year U.S. Treasury bond fell to below 3.9% at the beginning of April, only to rise above 4.4% a few days later. The yield slightly decreased at the end of March and the beginning of April as investors shifted from stocks to bonds. However, there is significant nervousness in the bond market as well, and yields are volatile.

In the coming days, we expect that the increased volatility in the stock markets will continue until the possibility of negotiating tariff reductions with the U.S. administration and the rest of the world (EU, China, etc.) becomes clearer. If tariff reductions cannot be negotiated, the likelihood of a global recession or stagflation will increase. Additionally, corporate earnings and outlooks for individual companies may provide investors with insights into the direction of the stock markets. The war in Ukraine and other geopolitical factors (e.g., the Middle East), along with fears of a return to higher inflation (due to the imposition of permanent tariffs), remain among the main risks for capital markets.

Outlook by: Raiffeisenbank a.s., Asset Management, individual asset classes in 2Q/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		

KEY: POSITIVE EXPECT. | NEUTRAL EXPECT. | NEGATIVE EXPECT.

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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.

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