ASSET ALLOCATION

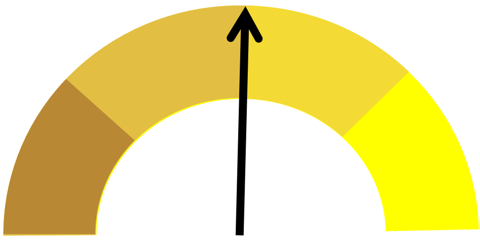
RB Asset Management 2Q/2020

PĚTIHVĚZDIČKOVÁ BANKA
K VAŠIM SLUŽBÁM

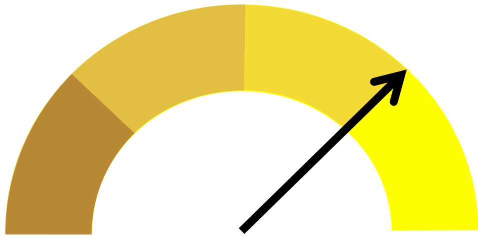
KLIENTSKY
NEJPŘÍVĚTIVĚJŠÍ BANKA
2015-2019

CURRENT STATE OF FINANCIAL MARKETS AND PORTFOLIOS ALLOCATION

Asset allocation in previous period



Asset allocation in next period



Dear Clients,

We have been experiencing one of the most demanding periods in our new history. The coronavirus pandemic has been spreading to almost all corners of the world, affecting the lives of millions of people throughout the entire planet. The financial markets have experienced an extensive impact, and the equity markets have recorded the deepest slump since the 1930's; thus, the first quarter of 2020 will be noted with black letters in the history of financial markets.

However, life goes on. When the pandemic is over, the key factors will include speed and intensity of the revival of the global economy. We believe that the ability to recover the economy will be relatively strong in this respect, and that we shall return to normal rather in the range of months than years; that should also be preceded by certain developments in the financial markets.

Our investment strategies rely on the scenario of faster revival of financial markets (so-called "V" scenario). Therefore, our short-term tactical strategy now is to overweigh slightly riskier assets, using market downturns to accumulate interesting stock titles, sectors and regions; we also buy corporate bonds issued by financially strong companies. We spread our purchases over time, we do not buy everything in a single go, leaving space for additional investments. Financial markets will probably remain unstable for some time. We make use of opportunities that emerge once in decades. Market slump has swept away even some long-term prospering companies as well as industries and regions that had enjoyed healthy development just a few weeks ago.

The current period is very demanding in the psychic respect; however, let us not forget about investment discipline. We invest in longer time horizons because hasty sales in response to short-term decreases generate long-term losses, fear is not a good investor's guide. History teaches us that drops are followed by boosts, so let us be prepared to it and – first of all – let us be in the market.

We wish you health, strength, and patience in the days to come good.

Sincerely,

Michal Ondruška, Manager, Asset Management

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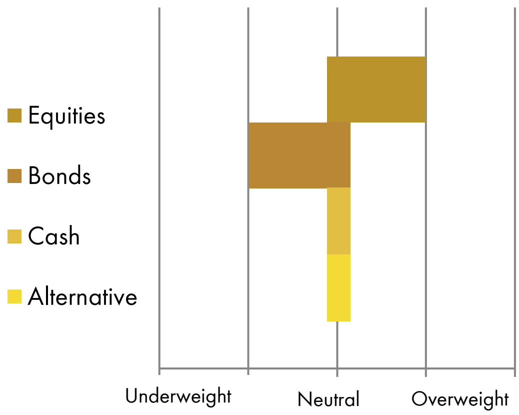
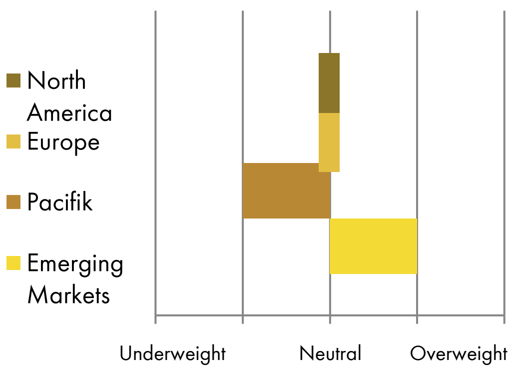
ASSET DISTRIBUTION AS RULED BY THE INVESTMENT BOARD



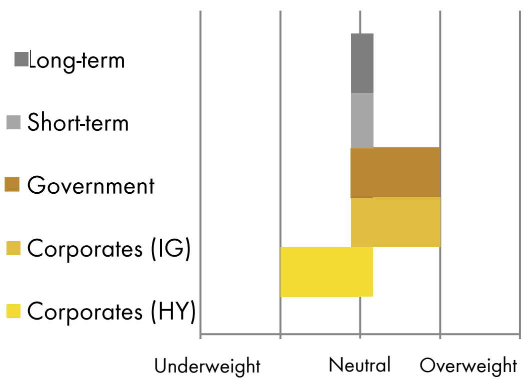
We witnessed two fundamentally unfavourable sequences of events in the past quarter. Beside the global coronavirus pandemic, the other 'black swan' was represented by the failure of the OPEC countries to reach an agreement, and the subsequent fall in the prices of the 'black gold'. The panic on the financial markets culminated in the third week of March, when equities, bonds as well as gold experienced panic sales and cash seemed to be the only safe harbour. The central banks as well as the governments of the majority of the countries of the world hurried up to help. The markets calmed down and a number of investment opportunities of the decade opened up. Risk-free investment returns have declined significantly and relative attractiveness of equities as measured by their risk premiums have reached long-term highs. The markets will remain volatile until a medicine healing coronavirus is discovered; also the traditional macro-economic indicators will remain dramatic. Still, we believe that the panic sales are behind us now, and that it would be proper at the moment to start buying moderately more investment assets.

TACTICAL ASSET ALLOCATION – EQUITY REGIONS



Also this month, we did not change asset allocation in respect of regions. We outweigh the portfolios via global funds. We have newly included in the portfolios the sector of global health care and ETF composed of dividend-paying shares. Exposition to American equity markets represents approximately 56 percent of the risk portion of the portfolios. Out of that, around 10 percent is held in the Nasdaq technological index, and 8 percent in the financial sector. Our exposition in European equity markets equals 18 percent. We hold 9 percent in the Pacific area, including Japan, and approximately 17 percent in the emerging markets.

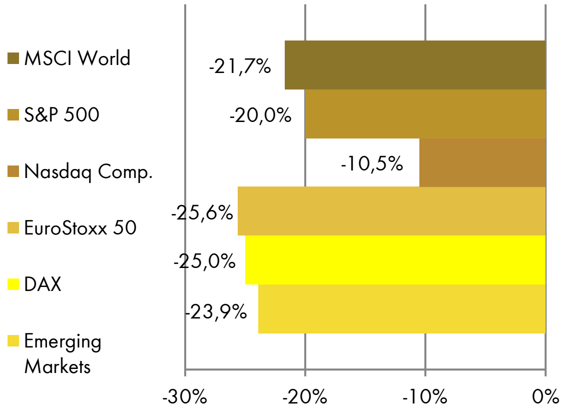
TACTICAL ASSET ALLOCATION – BONDS



Last month demonstrated probably in the most noticeably manner the very different nature of the segments of the bond markets; the prices of sovereign bonds issued by safe countries kept increasing, while – on the other hand – high-yield bonds kept falling, same as equities. Paradoxically, a similarly quick fall was experienced by investment grade (IG) bond funds, despite lowered central banks' rates. Markets have been significantly lulled by the vigorous action taken by the U.S. Fed, which newly purchases sovereign and investment bonds and funds, practically without any limitations. The ECB offers a similar assistance. Also, attractiveness of Czech sovereign bonds increased following the announcement of the agreement on CNB purchases on the secondary market. As regards interest rates, the CNB is prepared to cut down on the rates further. Frequent over-indebtedness of non-investment grade (HY) companies facing difficult economic situations leads us to underweight this segment. Czech and American sovereign and IG bonds are suitable for relative increase.

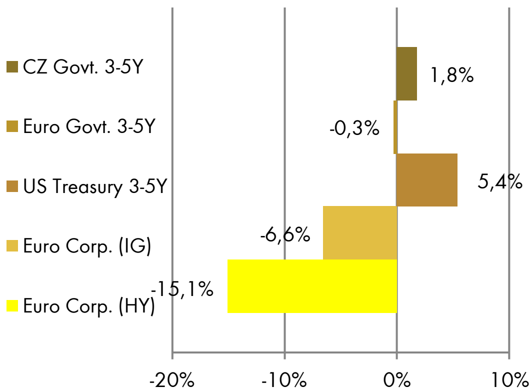
ECONOMIC SITUATION AND MARKET TRENDS

• EQUITIES



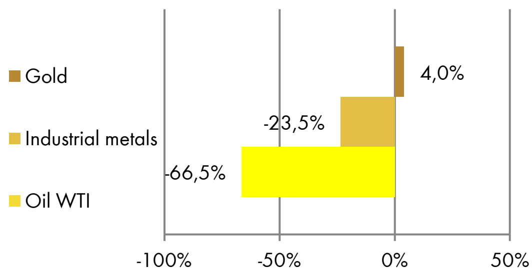
Equity market corrections have affected negatively all significant sectors and regions. Out of the major indices, the most hit in the first quarter was the European 'EuroStoxx 50' index, which wrote off 25.59 percent. The U.S. Nasdaq technological index performed relatively best, when it wrote off a "mere" 10.53 percent. Emerging markets lost 23.87 percent. Over the monitored period, there has been no segment of importance, which would have profited from the situation, and its share would have grown throughout the period in question.

• BONDS



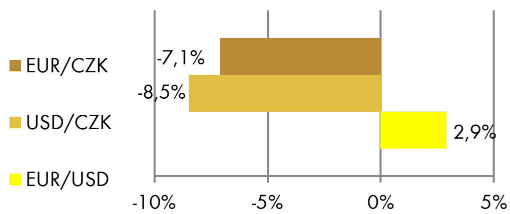
The bond market was very turbulent in the first quarter of the year. Investors investing in Czech crowns in Czech sovereign bonds with maturities of 3-5 years would earn 1.79 percent. The best performance was shown by the index of American sovereign bonds, which yielded 5.38 percent. Such growth in the prices of sovereign bonds resulted from the policy of easing applied by the central banks. However, corporate bonds, and in particular high-risk corporate bonds, appeared on the opposite side of the spectrum in the first quarter of the year. The index of European high-yield bonds lost 15.05 percent in the period in question. European liquid corporate bonds wrote off 6.58 percent.

• COMMODITIES



It was gold that profited from the panic prevailing in the markets; the dollar price of gold increased by 3.95 percent in the course of the first quarter of the year. Oil, on the other hand, experienced a sharp fall by 66.46 percent. This was due to a significant increase in mining by Saudi Arabia and Russia, combined with declining demand. Lower demand on the part of industries also affected prices of industrial metals: they fell by 23.53 percent.

• CURRENCIES



The Czech crown faced a major pressure in the first three months of the year. It depreciated against the dollar by 8.54 percent and lost 7.12 percent against the euro. This was mainly due to sales of the crown by foreign holders. The dollar appreciated against the euro by 2.88 percent.

Source of the data in the charts: Bloomberg. Performance of individual assets is measured in the primary currencies of the instruments in the first quarter of 2020.

OUTLOOK

Currently, against the probable climax of the coronavirus pandemic not only in Europe but also in the U.S.A., it is hard to guess a short-term trend in the capital markets in a single quarter of the year. Nevertheless, equity markets as a rule outrun the economic cycle by 6 months, therefore we slightly outweigh equity portfolios.

Investors' attention will be focused in the coming weeks mainly on the trends of the coronavirus pandemic in the U.S.A. and in Italy. Restrictions in the U.S.A. (shops and restaurants closed down, pharmacies and groceries open, similarly as in Prague) will probably survive until the end of April or longer. On the other hand, the situation in China begins to stabilise and it is slowly returning to the old track. Production capacities in China have been performing in over 70 percent. So far, the hardest hit in China has been the services sector; however, even this branch sets off the ground.

As a reminder, at the time of the 2001 Internet bubble, the S&P 500 Index fell by up to 50 percent and it dropped by almost 60 percent during the 2008 financial crisis. This year, the S&P 500 Index was losing more than 30 percent of its high. Due to the oil price war, the energy sector is doing the worst this year, losing about 50 percent.

The Fed has been striving to uphold the capital markets, that is why it reduced significantly the range of the benchmark interest rate from 1.5-1.75 percent to 0-0.25 percent, and it commenced purchasing bonds and bond ETF. The U.S. government and its president, too, have approved a USD 2 trillion fiscal incentives in support of households and businesses. This move has been very positively responded to by equity markets, which recovered from their lows this year following this report.

We are of the opinion that we have already been through the major sell-outs and market fluctuations, as long as the coronavirus pandemic can be halted in the foreseeable future and shops and services re-opened and manufacturing re-started.

A certain picture about the development of markets will be offered by the financial results generated by enterprises in the first quarter of this year, which will be published during April. At the same time, companies may also want to publish their adjusted outlooks for this year. Analysts estimate that the aggregate profit of the S&P 500 Index will fall by more than 5 percent in the first quarter of this year and by about 10 percent in the second quarter of this year (source: Factset). As regards the entire year 2020, analysts expect drops in profits by 1.2 percent, against a 2 percent growth in earnings, though. The S&P 500 Index has traded with an expected P/E of 15.5 next year which is less than the average P/E of 16.7 over the past five years (Factset).

The following table indicates our outlook regarding the separate asset classes in the horizon of three months:

EQUITIES	BONDS	CASH	ALTERNATIVE
Global	Bonds < 3Y	Cash, Term Deposits, Savings Accounts	Energy, oil
	Bonds> 3Y		Real property
Growth sectors + Healthcare	Credit + HighYield		Gold

KEY:	POSITIVE EXPECTATION	NEUTRAL EXPECTATION	NEGATIVE EXPECTATION

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NEWS

Raiffeisen realitní fond on offer again

Raiffeisen realitní fond, which has been very popular among investors, has re-opened for purchases, for the sixth time in succession. In April, May, and June, you are invited to make use of a limited offer and join the shareholders in verified properties in the Czech Republic. When the fund portfolio has been expanding, only real estates with good addresses, operational transport infrastructures, and high-quality tenants, have been considered. Preference has been given to office buildings, retail buildings, multifunctional centres, logistics, warehouse and industrial buildings. The fund has been striving to achieve a long-term attractive appreciation. For more information, please, see here.

NOTICE

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.
The information has been valid as of April 8, 2020. This information may be modified in future and RB shall not be required to inform any recipients of the present document about such modifications.

Officer in charge: Mr Michal Ondruška, Manager, Asset Management.