COMMENTARY ON THE CURRENT SITUATION FACING FINANCIAL MARKETS 10/2021

Prague, 1 Oct. 2021

After Longer Time, Equity Markets Corrected Growth in September, and CNB Unexpectedly Raises Interest Rates by 0.75% up to 1.5%

In September, the most closely watched S&P 500 Index weakened by 4.9 percent after several months of growth. Such weakening of the equity markets have been caused by some impaired sentiments prevailing on the part of investors, due to primarily corporate earnings growths in the United States having likely peaked in the second quarter of this year. Yet another reason rests with expected playing down of quantitative easing (monthly purchases of bonds by the FED to the tune of USD 120 billion) and related increases in yields of not only sovereign bonds. Last but not least, such impaired sentiments have resulted from difficulties faced by the giant Chinese real estate company, Evergrande, in redeeming its bonds; the nearing debt ceiling in the United States; and increasing global inflation.

Among the best performing sectors last month were the Energy Sector (+6.9 percent), the Consumer Durables Sector (-2.1 percent), and the Financial Sector (-2.4 percent). On the contrary, the worst performing sectors included the Materials Sector (-7.9 percent), the Utilities Sector (-6.9 percent), and the Industrial Sector (-6.6 percent). The Volatility Index VIX exceeded its long-term average in the course of September, which indicates higher concerns existing on the part of both investors and the equity markets.

Inflation has continued to remain in the focus of attention of investors. The German inflation has reached a high 4.1 percent, y/y, although it stood at 3.9 percent one month earlier. Such higher inflation affected the yield of the ten-year German bond, which moved from approx. -0.38 percent at the end of August to -0.19 percent at the end of September. Similarly, the yield of the ten-year U.S. sovereign bond has grown from 1.3 percent to approx. 1.5 percent. **The Czech National Bank has responded to higher inflation by an unexpectedly robust hike of the key interest rate from 0.75 percent to 1.50 percent. In the Czech Republic, the yield of the sovereign bond with maturity of ten years reached as high as up to 2.1 percent, which is 0.3 percent more than one month ago. The Czech National Bank will probably increase its rates as much as up to approx. 2 percent by the end of the year.** The markets responded in a model manner: the Czech crown strengthened and bond yields rose. **We adjusted our investing strategy already in the past to the scenario involving gradual growths of interest rates; therefore yesterday's act of the Czech National Bank does not have any major impact on our investment decisions.**

Mr Michal Ondruška
Manager, Asset Management

Raiffeisenbank a.s. Hvězdova 1716/2b, PO box 64, 140 78 Praha 4, tel.: +420 234 401 111, fax: +420 234 402 111, e-mail: info@rb.cz, www.rb.cz, IČ: 49240901, zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051

Raiffeisen BANK
Banka inspirovaná klienty

The funds we manage underwent ongoing adjustments throughout September. We took advantage of the increased activities of bond issuers and participated in several primary subscriptions. We can mention, for example, the purchase of 5-year Santander bonds with a yield of 2.35 percent p.a.; 3-year MREL bonds of the Raiffeisen Bank International group with a yield of 2.07 percent p.a.; or the 3-year bond of the International Investment Bank, in which the Czech Republic also has a share, with an attractive yield of 2.45 percent p.a. We have also concurrently modified the composition of bonds denominated in EUR and USD. We sold longer-term sovereign and corporate European bonds and invested in those that are linked to inflation. We acted in a similar manner in respect of Dollar-denominated bonds, where we realised gains on longer-maturity corporate papers and reinvested in corporate bonds, but ones with hedged interest rate risk.

Faced with the current environment of higher inflation, we still expect a decent performance of shares, but also of alternative instruments, such as commodities and real estate. Therefore, we still overweigh equities as against bonds in the portfolios that we manage. As regards our bond strategies, we prefer bonds with shorter and medium-term maturities over longer maturities.

The risk facing equity markets include growths of bond yields, so we monitor very closely any movements of yields on American and European bond instruments.

Yet another risk has been represented by lowering of profit margins of corporations, as well as debates conducted by policy-makers about raising the US debt ceiling and possible increases in corporate taxes. W cannot exclude higher volatility in the capital markets in the coming period; such development, however, may bring about further interesting investment opportunities.

We wish you much success,

For the Asset Management team,

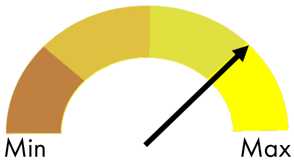
Mr Michal Ondruška

Summary of Investment Strategies:

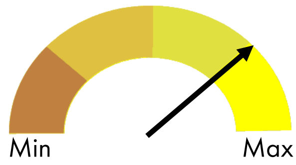
Tactical Allocation

Equity overweighed in portfolios

Current



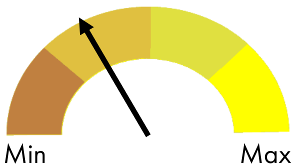
3M outlook



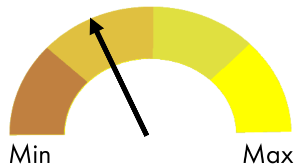
Interest Rate Risk

Average bond maturities (Duration)

Current



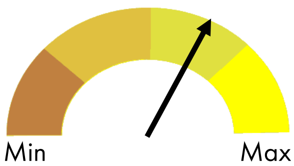
3M outlook



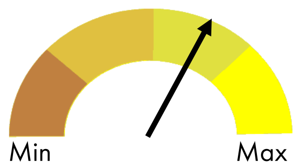
Credit Risk

Portions of, e.g., corporate bonds

Current



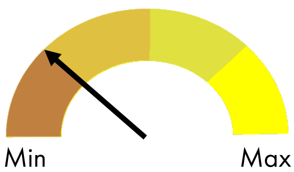
3M outlook



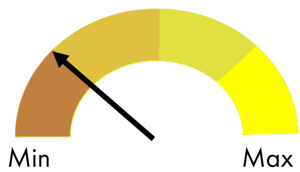
Currency Risk

Unsecured positions in foreign currencies

Current



3M outlook



Source: Raiffeisenbank, a.s., Asset Management, data valid as of 1 October 2021

Raiffeisenbank a.s. Hvězdova 1716/2b, PO box 64, 140 78 Praha 4, tel.: +420 234 401 111, fax: +420 234 402 111, e-mail: info@rb.cz, www.rb.cz, IČ: 49240901, zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051

NOTICE

All opinions, information, and any other facts and figures contained in the present document are solely for reference purposes, not binding, and they represent the opinions of Raiffeisenbank a.s. ("RB"). Information and figures related to movements recorded in capital markets and presented in connection with the provision of client asset management services and contained in the present document, have been based on publicly available sources and on information or data published by such rating agencies as Reuters, Bloomberg, FactSet, etc. The present document is not a solicitation of purchase or sale of any financial assets or any other financial instruments. Prior to adopting any investment decisions, it is the responsibility of each investor to perform a search of detailed information about the envisaged investment or trade. RB shall not be liable for any loss or damage or lost profit caused to any third parties by making use of any information and data contained in the present document. Raiffeisenbank a.s. wishes to point out that the provision of client asset management services contains a number of risk factors, which may affect either return on or loss of such investments. Investments do not represent bank deposits and they are not insured under the Deposit Insurance Fund. The higher the expected yields, the higher the potential risks. The duration of investments affects the level of risk. Yields also fluctuate due to exchange rate fluctuations. The value of invested amounts and related yields may rise or fall, while full return on the originally invested sum is not guaranteed. Past or anticipated performance does not guarantee future performances. Due to unforeseen fluctuations and development on financial markets and risks inherent in investment instruments, the investment goals pre-determined by clients need not be achieved. Any yields from such investments shall be reduced by rewards and expenses of Raiffeisenbank a.s. as agreed in the contractual documentation, and/or rewards and fees listed in the Raiffeisenbank a.s. price-list. Taxation of the client's assets always depends on the client's personal circumstances and it may change. Raiffeisenbank a.s. does not offer tax advices and therefore any liabilities associated with the tax consequences of investing in bonds remain in full up to the client. Investment services shall not be offered to clients defined as US persons.

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 1 October 2021. This information may modified in future and RB shall not be required to inform any recipients of the present document about such modifications.

Raiffeisenbank a.s. Hvězdova 1716/2b, PO box 64, 140 78 Praha 4, tel.: +420 234 401 111, fax: +420 234 402 111,
e-mail: info@rb.cz, www.rb.cz, IČ: 49240901, zapsaná v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 2051