Raiffeisen Capital Management

Member of RBI Group

marketview

Market view April 2020

Introduction

State of emergency

It is difficult to find the right words to express the effects of the COVID-19 pandemic. The number of infections and deaths seems to be climbing steadily, making unprecedented measures necessary. Democracy and freedoms are being restricted, and personal life is **being changed fundamentally**. Pondering the right tactical risk measures for asset allocation seems almost secondary in these circumstances. But our **responsibility towards our customers and the assets** they have entrusted to our care does not end in this state of emergency, and so we are placing our full focus on mastering this phase as best as possible. But we must admit that we are unable to reliably predict the further course of the pandemic or its economic effects. Clearly, there are some indications, but nothing solid.

This is a good place to repeat one of the core statements from our commentary from last month: Under these circumstances, **caution takes precedence over optimising returns**. For this reason, **we reduced the equities allocation and the interest rate risk significantly** over the course of March. This equities decision proved to be correct despite the fact that the markets seemed to stabilise in recent days. The spread of the pandemic to the USA is likely to cause even greater volatility. By contrast, the interest rate risk was normalised because recent central bank statements seem to indicate that the risk potential here is limited.

All in all, market movements will be highly uncertain over the short term. Investors with a **longer horizon**, for example equivalent to the recommended holding period of our funds, are already seeing some **interesting options.**

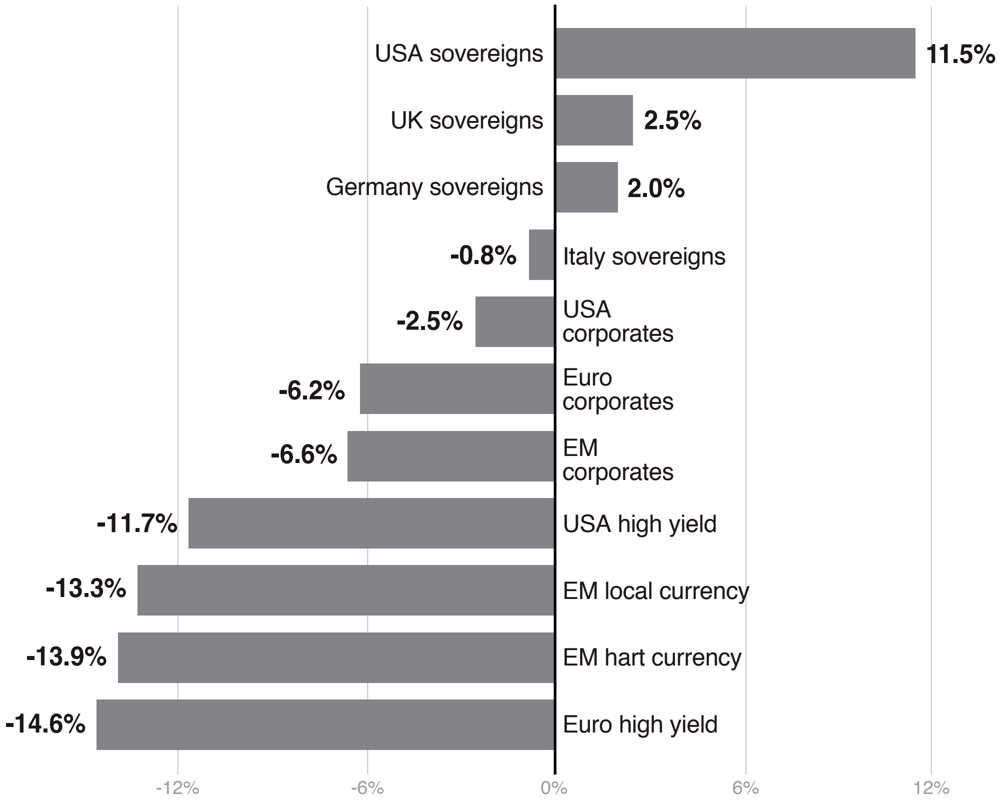
But our responsibility towards our customers and the assets they have entrusted to our care does not end in this state of emergency.

Your team at **market**view

Content

Market conditions

Bonds: Safe haven no more



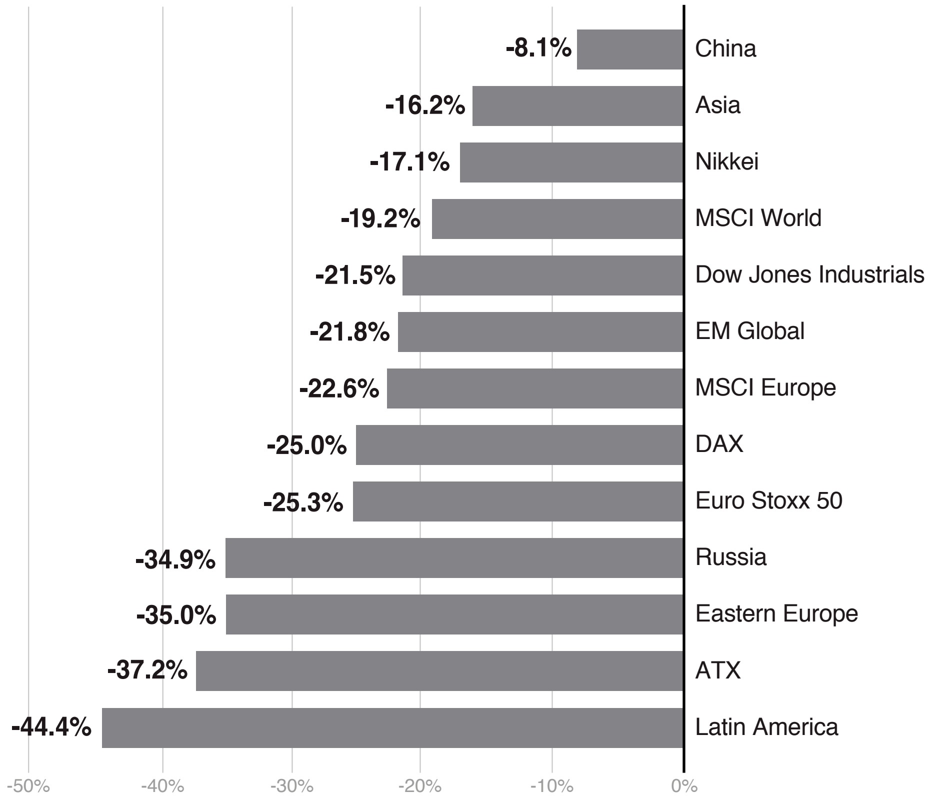
Returns in EUR
Source: Bloomberg Finance L.P., Raiffeisen KAG, 31 Dec 2019 – 31 Mar 2020; As of: 31 Mar 2020

It's easy to think that government bonds always function as a safe haven during times when equities are wracked by crisis. This time, however, that's only true to a limited degree and only up to **mid-March**, as yields on long-term government bonds reached **record lows** and slid deep into negative territory in the euro area. Even "risk-free" government bonds came under pressure, as there was a global exodus from all "risky" positions due to market stress, when the hunt for liquidity became the overriding consideration. Ultimately, only US Treasuries remained steadfast, as these instruments profited from the massive interest rate cuts by the US Fed. Towards the end of March, conditions calmed down again somewhat, as was also seen on the equity markets.

The situation is substantially more dramatic for "spread products", i.e. bonds with a yield premium such as **corporate bonds**, in particular for high yield and **Emerging Market securities**. The losses for these assets were **proportional to those seen on the equity markets**, with yield spreads reaching levels unseen since the 2008 financial crisis.

Market conditions

Equities: Unprecedented global synchronic market movements



Returns in EUR
Source: Bloomberg Finance L.P., Raiffeisen KAG, 31 Dec 2019 – 31 Mar 2020; As of: 31 Mar 2020

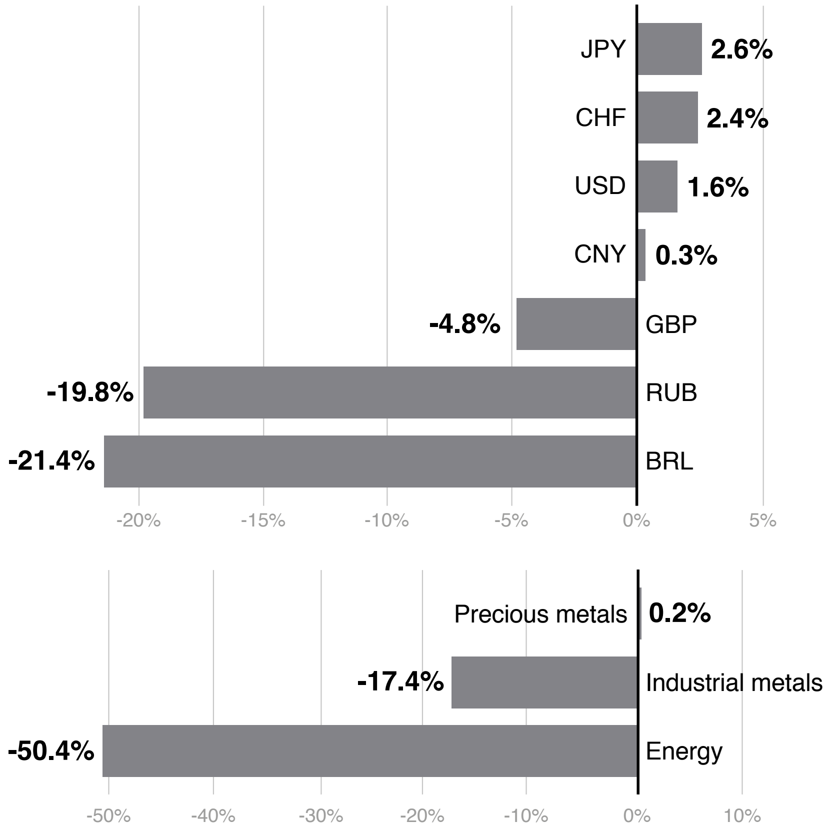
The situation deteriorated after things appeared less dramatic at the end of February. The fact that some indices posted highs as late as mid-February – with the US market even boasting an all-time high – has probably already faded from memory. However, the global outbreak of the corona pandemic **in March** also led to a **worldwide crash on the equity markets**.

Extreme daily and weekly losses and drastic countermoves kept the world on tenterhooks. Market volatility, the typical risk factor on the financial market, reached extreme levels in March, and it was not until the end of the month that a countermove set in, calming the markets a bit.

After all, equities rose by roughly 10% in a single week at the end of March, which represents the highest weekly gain in 11 years. And there is currently a small ray of hope on the horizon: China's equity market is currently under the least amount of pressure, an indication of a recovery. The developments in the final days of March also suggest that the **search for stabilisation** has begun, but the situation remains fragile.

Market conditions

Commodities and currencies: Commodities coming crashing down

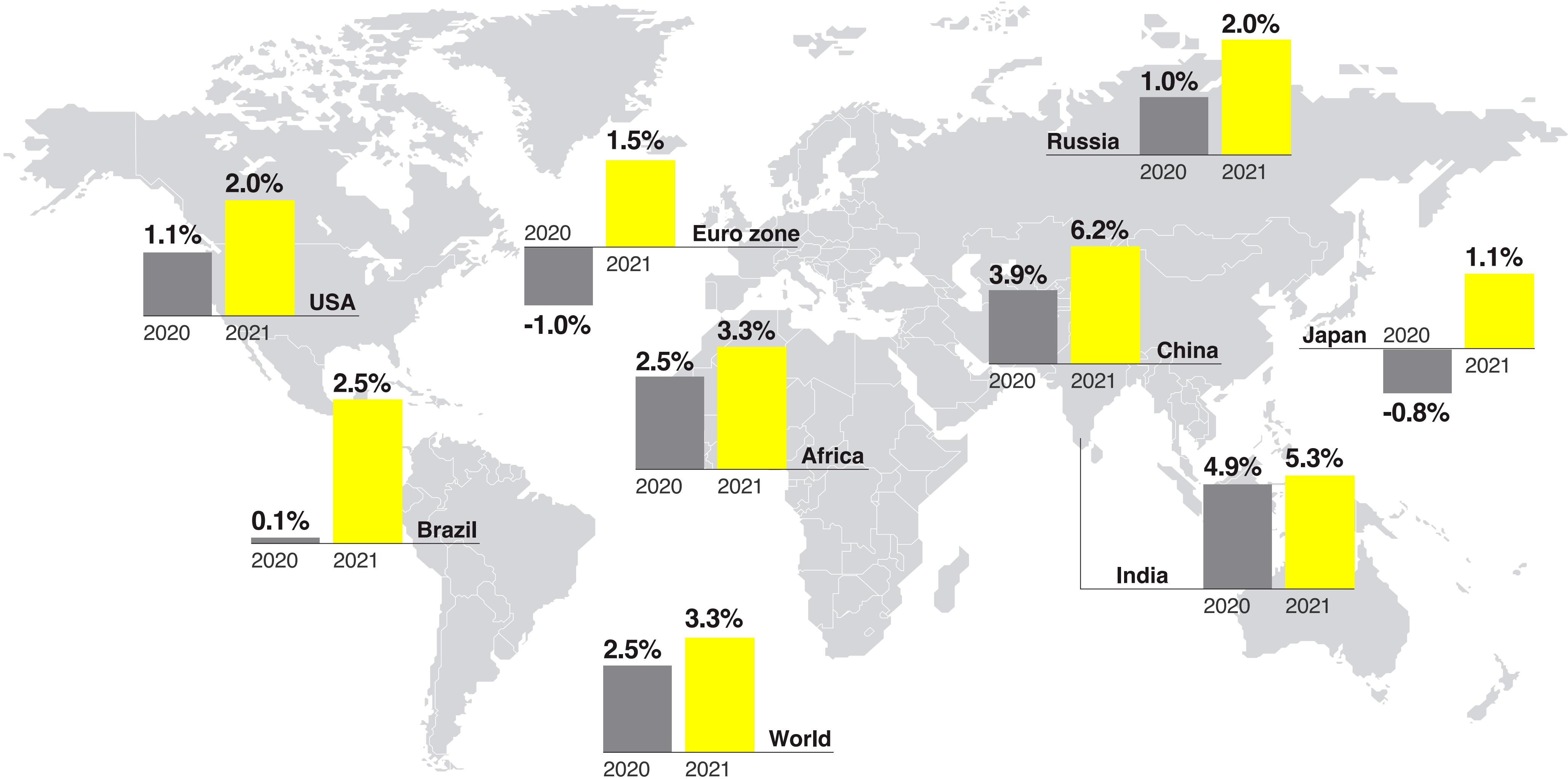


Returns in EUR
Source: Bloomberg Finance L.P., Raiffeisen KAG, 31 Dec 2019 – 31 Mar 2020; As of: 31 Mar 2020

Only the **gold price** was initially able to post some gains, but these were then conceded again when panic on the markets reached its peak. Due to **worries about recession,** industrial metals have been falling continuously since January, and both silver and platinum also have “industrial components”.
Energy commodities continue to bear the brunt of the downturn, with crude oil prices plunging by around 50%-60% since the beginning of the year, while losses for natural gas and other fuels were slightly less severe. On the whole, a massive **economic recession** is being priced in. Additionally, there is oversupply of oil on the order of around 10 million barrels per day, which grew even larger when the OPEC agreement ended. However, some prices are on the rise, as agricultural commodities have seen gains. Compared to last year, there is also more activity on the **FX markets**, and developments in the major currencies also reflect the spread of the virus epidemic: In conjunction with the outbreak in Europe (Italy), the euro weakened, and when the crisis hit the USA the dollar also lost a bit of ground again. However, **Emerging Market currencies** and **“commodity currencies”** came **under intense pressure.**

Outlook

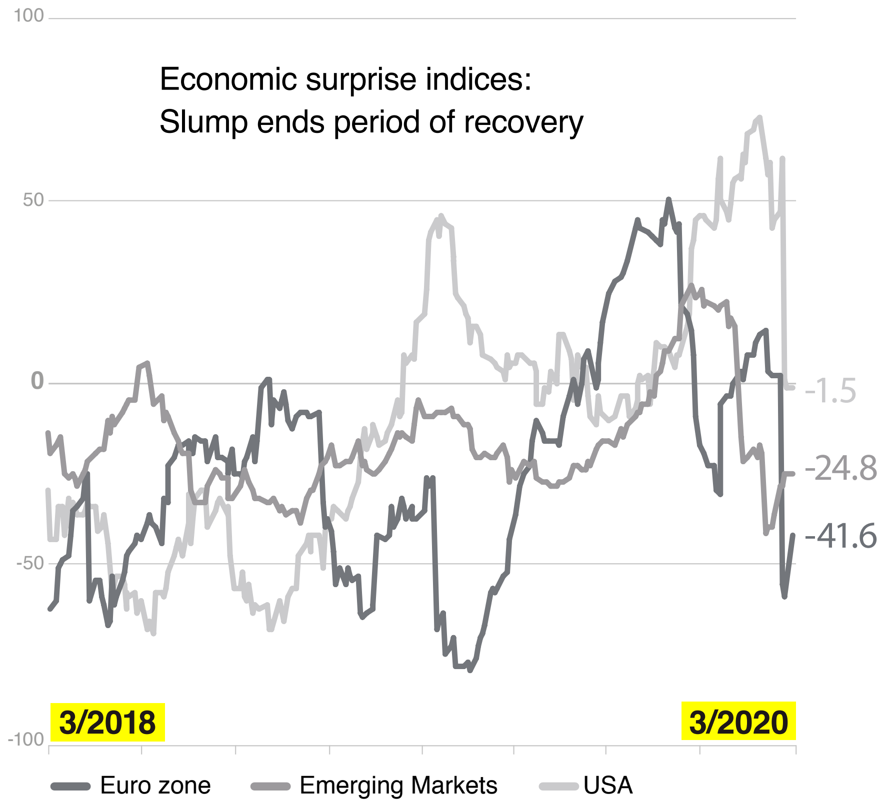
Global economic situation – GDP 2020-2021



Source: Bloomberg Finance L.P., As of: 31 Mar 2020

Outlook

Global economy: Lockdown



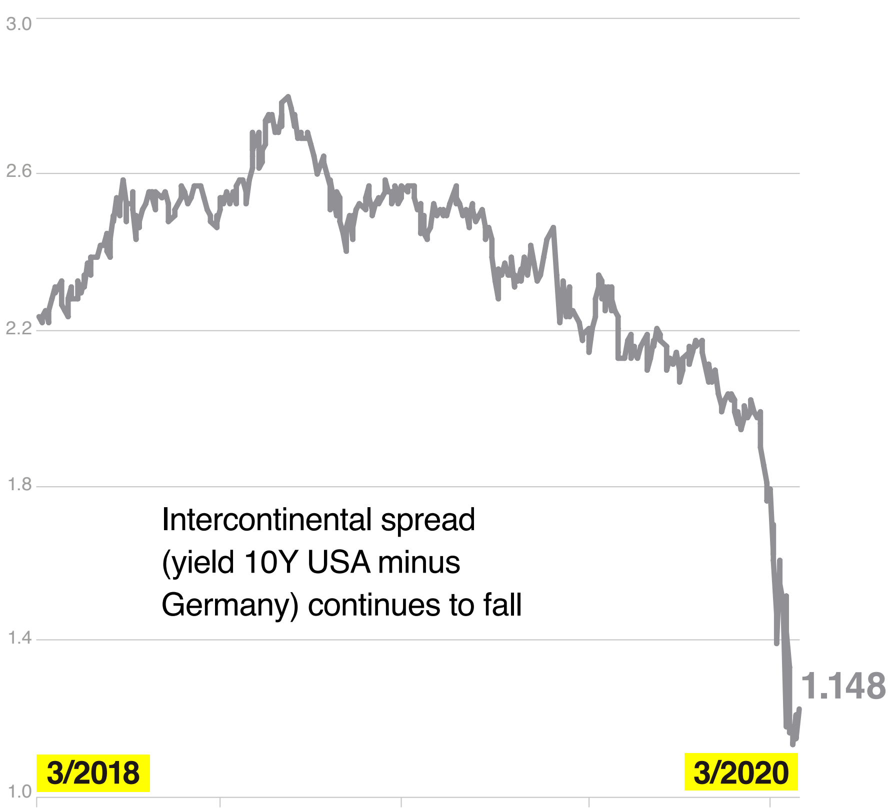
Source: Maritime and Port Authority of Singapore, Bloomberg

Governments around the world are currently focusing on limiting the further spread of the coronavirus. The broad lockdown that has been implemented in many areas of social life and business to reduce interpersonal contact is the most important measure in this.

However, this is also pushing the global economy to the brink of a temporary standstill – and initial indicators are **already pointing to dramatic drops** in growth and labour market metrics. Even though little specific data are available at present, the drop-off in the surprise indices in all regions show that the actual declines are often greater than the already **significantly reduced projections**.The rapidly changing newsflow is still driving developments on the stock markets and making short-term predictions all but impossible. The direct impacts for the global economy are becoming tangible and **earnings expectations** are beginning to more clearly reflect the consequences of this crisis.

Outlook

Money market and capital market: Central banks set the tone



Source: Bloomberg Finance L.P., Raiffeisen KAG

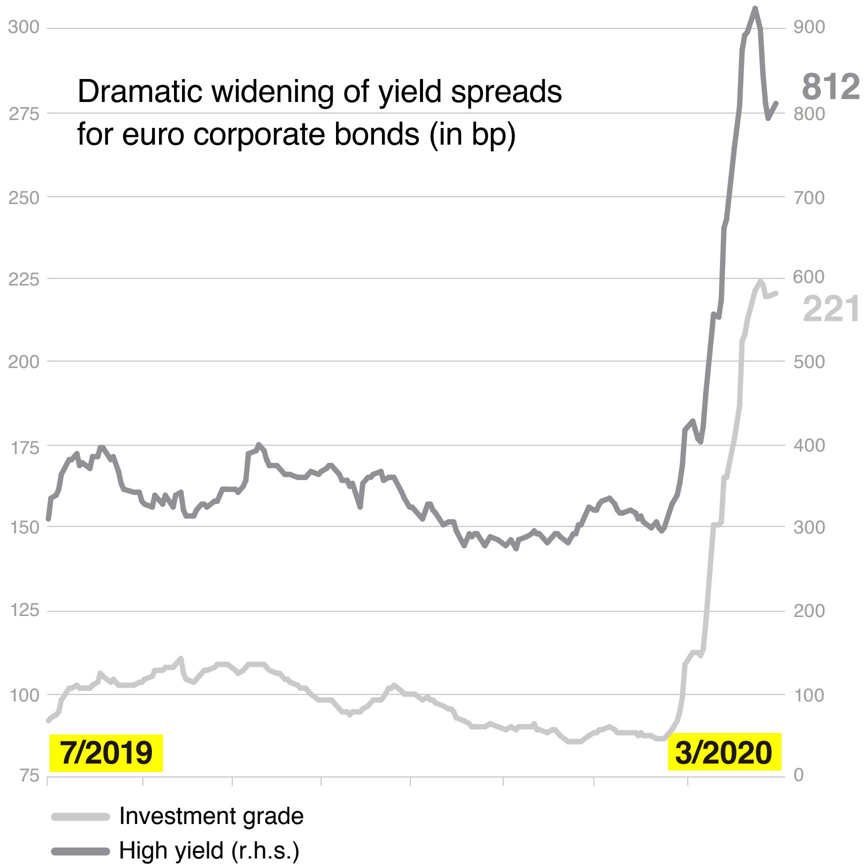
The **intercontinental spread,** i.e. the yield difference between US and German government bonds, fell significantly back in February and has now virtually collapsed. Our substantial overweighting of US government bonds versus German government bonds has continued to pay off.

Are **US bonds** really a **safe haven?** Or is the factor behind this the massive increase in bond purchases (government and mortgage bonds) by the US Fed, which has cut interest rates by 1.5 percentage points since March? The USA now also has a zero interest rate policy.

It was about 8 years ago that the head of the ECB got the point and made the statement “whatever it takes… and believe me, it will be enough”. Once again, the central banks are “all in” and fiscal policy is doing its part with unprecedented **economic rescue packages.** In the industrialised countries, up to 10% of GNP may be used.

Outlook

Government and corporate bonds: Major differences



Source: Bloomberg Finance L.P., Raiffeisen KAG

The government bond market is still being driven by the quantitative **easing measures of the global central banks,** which have repeatedly strongly underlined their intentions to purchase these asset classes in particular. And this will be necessary too, because the net issuance of many countries is likely to increase substantially as a result of their crisis mitigation measures. Along with our overweighting of US government bonds versus German government bonds, we also **overweight Italian instruments versus French securities**.

Analysts and the issuers themselves radically reduced earnings projections for the corporate sector in March. The **negative revisions** are now more drastic than in autumn 2008. Right now, there is still a lack of visibility about the actual development of default rates in the high yield segment. Is it possible that the default rates of 13% (Europe) and 14% (USA) from the 2008 crisis will be exceeded? We have adopted **a neutral position on corporate bonds** – i.e. neither an overweight nor an underweight – for the first time in a long while.

Outlook

Equities USA and Europe: Tough times ahead

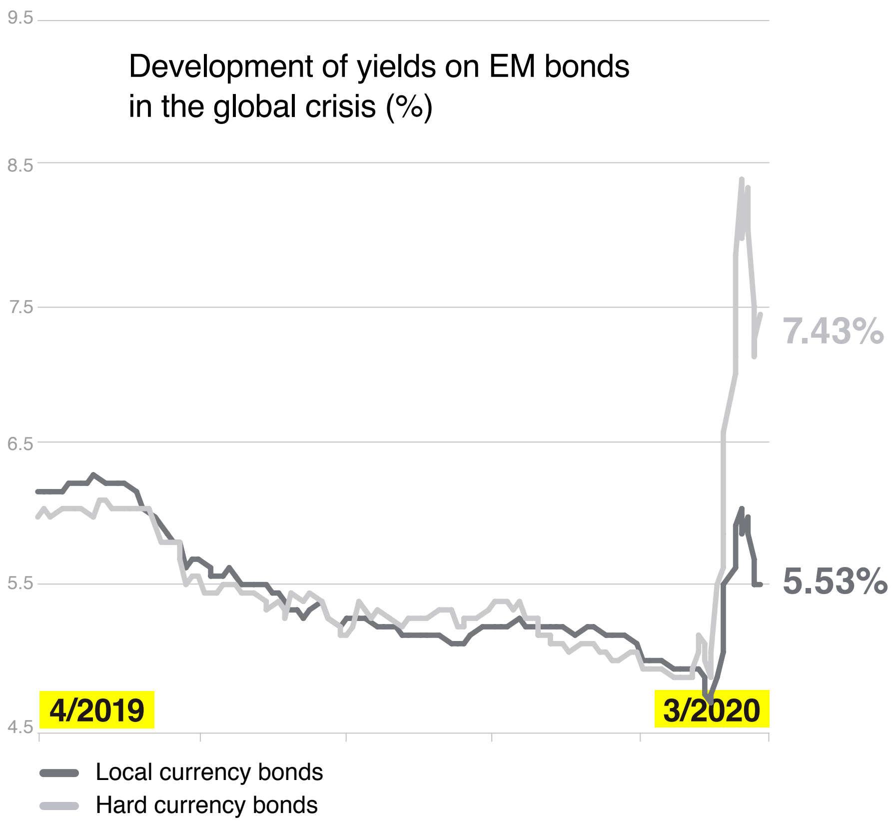
Global earnings growth under massive pressure
(MSCI World AC EPS 12 months in %)

Source: Bloomberg Finance L.P., Raiffeisen KAG

In the current environment, we view **fundamental data as a less relevant indicator** that any real progress is being made in the struggle against the pandemic. Since the global outbreak of this crisis, stock markets in countries which are further along in the spread of the infection or have been more successful in preventing it have performed better than those in countries which are "behind the curve". This is true both in absolute terms and in especially in risk-adjusted terms.
We believe that investors will continue to focus on **regional infection rates** in the weeks to come and that successful "corona fighters" will perform better.
Earnings growth for the MSCI World stock index including the Emerging Markets (based on the rolling 12-month results) was already in **double-digit negative** territory at the end of February. Even though earnings growth in the Emerging Markets was already well into negative territory at the end of January, similar developments are now likely in the developed regions as well.

Outlook

Emerging Markets: Damages cannot be fully assessed yet



Source: Bloomberg Finance L.P., Raiffeisen KAG

While the eye of the hurricane was squarely above China in January and February, the storm has since moved on. The **swaths of destruction** from the coronavirus pandemic are becoming increasingly evident, with **leading indicators dropping to record lows** and GDP growth figures constantly being revised downwards. The declines are now expected to be even bigger than during the 2008 crisis.

The development of business for individual companies is the hardest to predict, but substantial earnings decreases are expected here, as well. The hopes for a short decline dominate at present.

It is not possible to predict how long the pandemic will last, or how severe the economic impact will be. **Hard currency government bonds** have become more **attractive** right now, but will exhibit high **volatility** and mounting default risks in the coming weeks. Nevertheless, we feel that most of the fundamental problems have already been priced in and are overweighting this bond class versus European government bonds.

Strategic Asset Allocation

The Strategic Asset Allocation refers to the assessment of the various asset classes over a long-term horizon.

Equities

less attractive **attractive**

Equities saw a marked valuation adjustment over the past weeks. For this reason, we substantially increased the equity weighting in all key regions (Europe, Japan, and the Emerging Markets) at the end of March and now also have a position in US equities for the first time in several years. We bought an additional 10 percentage points in total.

Government bonds

less attractive **attractive**

Yields on the European government bond markets are at extremely low levels. Over a 5-year horizon, we expect low returns on these markets (or even negative returns in some cases). We still have positions in non-euro government bonds but used the yield declines in Q3 2019 and Q1 2020 to reduce some positions.

Corporate and EM bonds

less attractive **attractive**

Due to the positive performance, we took profits on EM currencies in Q3 2019 and sold off our positions in Italian government bonds entirely. In Q1 2020, we used the marked spread widening to buy euro corporate bonds and hard currency EM bonds. We began setting up an initial position in high yield bonds.

Real assets

less attractive **attractive**

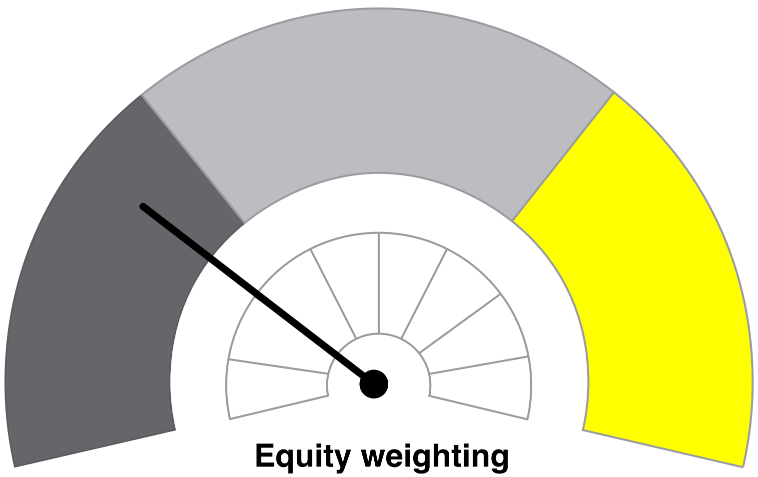
In the commodities segment, we used the rising prices for energy commodities to sell and bought industrial metals (commodities futures in both cases) until end-December. We also purchased energy sector equities. We use the sell-off of energy commodities during Q1 2020 to buy derivatives (energy commodities) and energy equities.

This forecast/assessment is not a reliable indication of future performance.

Tactical Asset Allocation

The Tactical Asset Allocation steers market-oriented mixed funds such as the Raiffeisen Strategy Funds over the short to medium term. The positioning of the fund management can differ from that of other capital market analysts (e.g. Raiffeisen RESEARCH).

Neutral weighting



Equity weighting

Maximum underweighting **Maximum overweighting**

In recent weeks, the share of equities was reduced in three steps: this move is targeted at reducing the absolute risk stemming from the inability to accurately predict the future trend. At the end of March, the decision was taken to maintain this position for the time being.

Current weighting in the strategy funds*

- **Economic developments:** Initial leading indicators (purchasing managers) slumped in March as anticipated; services sector suffering more than production; devastating data expected for the labour market
- **Corporate sector data:** Corporate results in Q1 and Q2 2020 are already expected to be clearly negative, high degree of uncertainty; forecasts for Q2 are between -4% and -20% in year-on-year terms
- **Market sentiment:** Contrarian indicators are often at extreme levels; price declines even more dramatic than during the 2008 financial crisis; signs for some initial bottoming out in the bear market
- **Special topics:** Global spread of the coronavirus; liquidity measures by central banks; fiscal packages by governments

This forecast/assessment is not a reliable indication of future performance.
*Raiffeisen Fund Security, Raiffeisen Fund Balanced, Raiffeisen Fund Growth

Indicators

Performance of selected* funds I

Strategy Funds	YTD	1 year	3 years	5 years	10 years	since inception	inception
Raiffeisen Fund Security	-6.04	-2.17	0.31	-0.13	2.88	3.52	06/1998
Raiffeisen Fund Balanced	-12.62	-7.47	-1.17	-0.15	3.32	3.41	07/1998
Raiffeisen Fund Growth	-18.22	-11.43	-2.20	-0.18	3.48	2.98	06/1998
Raiffeisen Active Equities	-20.98	-12.18	-1.47	0.38	5.08	1.80	05/1999
Raiffeisen Sustainable Solid	-5.48	-1.73	0.48	-	-	0.81	06/2015
Raiffeisen Sustainable Mix**	-9.79	-2.50	1.70	1.70	4.83	5.08	05/1999

Sustainable Funds	YTD	1 year	3 years	5 years	10 years	since inception	inception
Raiffeisen Sustainable ShortTerm	-1.76	-1.78	-0.84	-0.68	-	-0.64	10/2014
Raiffeisen Sustainable Equities***	-16.75	-4.51	3.08	3.06	4.91	2.07	05/2002

Alternative Investments	YTD	1 year	3 years	5 years	10 years	since inception	inception
Raiffeisen-Active-Commodities	-23.97	-24.29	-8.29	-7.51	-7.88	-7.50	08/2009

All figures from 3 years are p.a. figures
Raiffeisen KAG calculates performance based on the published fund price, using the OeKB methodology. Past value is not a reliable indicator of the fund's future performance.
Notice for investors whose domestic currencies differ from the fund currency (EUR): We would like to point out that the yield may rise or fall due to currency fluctuations. Individual costs – such as the subscription fee and any redemption fee in particular – as well as taxes will not be taken into consideration in the performance calculation. Depending on their concrete value, they will reduce a performance accordingly. Please refer to the key investor information (key investor document) for the maximum subscription fee or any redemption fee.

* These are selected sales relevant funds which cover the markets discussed in the document. These funds may not be registered in your home country.
** The fund Raiffeisen Sustainable Mix was launched under the name Raiffeisen-Global-Mix. The name as well as the fund's concept was changed by 30 September 2014.
*** The fund Raiffeisen Sustainable Equities was launched under the name Raiffeisen-Ethik-Aktien. The name as well as the fund's concept was changed by 1 October 2014.

Source: Raiffeisen KAG, own calculation, 31/03/2020, total return indexed net, calculated from the oldest available share class.

Indicators

Performance of selected* funds II

Bond Funds	YTD	1 year	3 years	5 years	10 years	since inception	inception
Raiffeisen Fund Conservative	-5.53	-2.62	-0.65	0.03	-	2.06	08/2011
Raiffeisen Global Bonds	3.06	6.72	2.39	1.65	3.83	5.20	06/1988
Raiffeisen GlobalFundamental Bonds	-8.69	-3.85	-1.17	-0.65	-	1.62	04/2011
Raiffeisen EmergingMarkets Bonds	-14.37	-11.32	-3.95	-1.36	1.73	4.01	11/2003
Raiffeisen EasternEuropean Bonds	-10.03	-1.33	-2.09	-0.79	1.56	4.90	05/2000
Raiffeisen-Euro-Corporates	-6.86	-3.72	-0.17	0.38	2.80	3.79	05/2001
Raiffeisen European HighYield	-14.93	-10.61	-2.43	-0.38	4.00	4.53	05/1999

Equity Funds	YTD	1 year	3 years	5 years	10 years	since inception	inception
Raiffeisen Global Equities	-20.43	-12.62	-2.72	-1.33	6.01	5.09	10/1986
Raiffeisen TopDividend Equities	-31.23	-24.92	-8.59	-6.12	2.09	1.03	07/2005
Raiffeisen EmergingMarkets Equities	-24.64	-18.47	-6.90	-4.36	-0.43	3.77	05/1999
Raiffeisen Eurasia Equities	-28.74	-21.96	-5.21	-3.20	1.08	3.46	05/2000
Raiffeisen European Equities	-29.29	-25.14	-9.81	-4.92	1.07	3.99	06/1996
Raiffeisen Austrian Equities	-34.98	-27.80	-8.13	-1.87	0.71	3.64	10/1989
Raiffeisen MegaTrends Equities**	-14.77	-2.52	4.19	3.74	5.08	1.55	09/1999
Raiffeisen Energy Equities	-42.64	-44.00	-17.21	-11.72	-7.56	-1.77	02/2002

All figures from 3 years are p.a. figures
Raiffeisen KAG calculates performance based on the published fund price, using the OeKB methodology. Past value is not a reliable indicator of the fund's future performance. Notice for investors whose domestic currencies differ from the fund currency (EUR): We would like to point out that the yield may rise or fall due to currency fluctuations. Individual costs – such as the subscription fee and any redemption fee in particular – as well as taxes will not be taken into consideration in the performance calculation. Depending on their concrete value, they will reduce a performance accordingly. Please refer to the key investor information (key investor document) for the maximum subscription fee or any redemption fee.

* These are selected sales relevant funds which cover the markets discussed in the document. These funds may not be registered in your home country.
** The fund Raiffeisen Sustainable Mix was launched under the name Raiffeisen-Global-Mix. The name as well as the fund's concept was changed by 30 September 2014.
*** The fund Raiffeisen Sustainable Equities was launched under the name Raiffeisen-Ethik-Aktien. The name as well as the fund's concept was changed by 1 October 2014.

Source: Raiffeisen KAG, own calculation, 31/03/2020, total return indexed net, calculated from the oldest available share class.

Indicators

Overview of market development

Equity indices		Diff. YTD	Diff. YTD	5 years p.a.
		in local currency	in euro	in euro
MSCI World	1,853	-20.1%	-19.2%	2.8%
Dow Jones	21,917	-22.7%	-21.5%	6.3%
Nasdaq 100	7,813	-10.3%	-8.8%	13.2%
Euro Stoxx 50	2,787	-25.3%	-25.3%	-2.9%
DAX	9,936	-25.0%	-25.0%	-3.7%
ATX	2,002	-37.2%	-37.2%	-1.8%
Nikkei	18,917	-19.2%	-17.1%	3.4%
Hang Seng	23,603	-15.9%	-14.1%	2.0%
MSCI EM	849	-19.1%	-21.8%	-0.8%
Exchange rates				
EUR/USD	1.10		1.6%	-0.5%
EUR/JPY	118.64		2.6%	1.7%
EUR/GBP	0.89		-4.8%	-4.0%
EUR/CHF	1.06		2.4%	-0.3%
EUR/RUB	86.70		-19.8%	-6.3%
EUR/CNY	7.79		0.3%	-3.1%
Commodities				
Gold	1577	3.9%	5.7%	7.4%
Silver	14	-21.7%	-20.4%	-2.1%
Copper	4939	-19.7%	-18.4%	-2.7%
Crude oil	21	-67.7%	-67.1%	-15.5%

Source: Bloomberg Finance L.P., 31 Mar 2020, YTD = change compared to previous year-end; past performance is not a reliable indicator for future development.

Bond yields	31 Mar 2020	Diff. YTD
	10Y, in %	in bp
USA	0.67	-125
Japan	0.02	3
UK	0.36	-47
Germany	-0.47	-29
Austria	0.01	-2
Switzerland	-0.33	14
Italy	1.52	11
France	-0.02	-13
Spain	0.68	21
Money market rates	**3M, in %**	
USA	1.43	-48
Euro zone	-0.36	2
UK	0.57	-22
Switzerland	-0.66	2
Japan	-0.05	0
Key rates of central banks	**in %**	
USA - Fed	0.25	-150
Euro zone - EZB	0.00	0
UK - BOE	0.10	-65
Switzerland - SNB	-0.75	0
Japan - BOJ	-0.10	0

Disclaimer

This document was prepared and edited by Raiffeisen Kapitalanlage-Gesellschaft m.b.H., Vienna, Austria (“Raiffeisen Capital Management” or “Raiffeisen KAG”). Despite careful research, the statements contained herein are intended as non-binding information for our customers and are based on the knowledge of the staff responsible for preparing these materials as of the time of preparation and are subject to change by Raiffeisen KAG at any time without further notice. Raiffeisen KAG assumes no liability whatsoever in relation to this document or verbal presentations based on such, in particular with regard to the timeliness, accuracy, or completeness of the information presented and the sources of information, or in respect of the accuracy of the forecasts presented herein. Similarly, any forecasts or simulations of earlier fund performance presented in this document do not provide a reliable indication of future performance. Furthermore, investors with a home currency different than the currency of the fund or portfolio should note that returns can also rise or fall due to currency fluctuations.

This document is neither an offer, nor a recommendation to buy or sell, nor an investment analysis. It is not intended for use in lieu of individual investment advice or other consultation. If you are interested in a specific product, along with your bank advisor, we will be happy to provide you with the prospectus and the information for investors pursuant to § 21 AIFMG, prior to purchase. All specific investments should be made following a consultation and discussion, and after having reviewed the prospectus and the information for investors pursuant to § 21 AIFMG. It is expressly noted that securities transactions can involve significant risks and that taxation of such depends on personal circumstances and is subject to change in the future.The performance of investment funds is calculated by Raiffeisen KAG and that of real estate investment funds by Raiffeisen Immobilien Kapitalanlage GmbH pursuant to the OeKB method, based on the data from the depository bank (in the event that payment of the redemption price is suspended, available indicative values are used). Individual costs, in particular the issue premium, any applicable return fee, and taxes, are not taken into account in calculating performance. Depending on the specific amount, these costs reduce the actual performance accordingly. The maximum amount of the issue premium and any applicable return fee can be found in the key investor document (key investor information) or the simplified prospectus (real estate investment funds).

The performance of investment funds is calculated by Raiffeisen KAG and that of real estate investment funds by Raiffeisen Immobilien Kapitalanlage GmbH pursuant to the OeKB method, based on the data from the depository bank (in the event that payment of the redemption price is suspended, available indicative values are used)..
Individual costs, in particular the issue premium, any applicable return fee, and taxes, are not taken into account in calculating performance. Depending on the specific amount, these costs reduce the actual performance accordingly. The maximum amount of the issue premium and any applicable return fee can be found in the key investor document (key investor information) or the simplified prospectus (real estate investment funds).
The performance of portfolios is calculated by Raiffeisen KAG in time-weighted terms (timeweighted return, TWR) or in money-weighted terms (money-weighted return, MWR) [refer to the presentation section for details] based on the last known market price or foreign exchange rate or information available via securities information systems. Past performance is not a reliable indicator of the future performance of an investment fund or portfolio. Performance is expressed in per cent (without fees) assuming the reinvestment of all dividends. The published prospectuses, information for investors pursuant to § 21 AIFMG, and customer information documents (key investor information) for the investment funds of Raiffeisen Kapitalanlage-Gesellschaft m.b.H. are available in German at www.rcm.at or, if the fund shares are sold abroad, in English (if applicable in German) or in your national language at www.rcm-international.com. The published prospectus for the real estate fund described in this document is available in German at www.rcm.at.

Imprint:
Media owner: Zentrale Raiffeisenwerbung
Publisher, produced by: Raiffeisen Kapitalanlage-Gesellschaft m.b.H.,
Mooslackengasse 12, 1190 Vienna

Contact

Photo: David Sailer

Member of RBI Group

Raiffeisen Capital Management is the umbrella brand for:

Raiffeisen Kapitalanlage GmbH
Raiffeisen Immobilien Kapitalanlage GmbH
Raiffeisen Salzburg Invest GmbH

Mooslackengasse 12
1190 Vienna, Austria

t I +43 1 711 70-0
f I +43 1 711 70-1092
e I info@rcm.at
w I www.rcm.at
www.rcm-international.com