

Pioneer News

13th AUGUST 2003

Newsletter for Investors

COMMENTARIES, NEWS

Greenspan in Congress

The June interest rate cut in the USA by 0.25% to a record-low of 1% is a known fact. In his speech delivered in the Senate and the Congress, Alan Greenspan pointed out that he was prepared to leave interest rates at a record low level as long as needed by the American economy. He even hinted that he would be willing to cut interests to zero.

The concerns about insufficient economic revival and the threat of deflation (he does not use this word in public announcements) show that the American central bank (Fed) will rather assume the risk of an excessive release of fiscal policy. Potential inflation growth seems a much smaller danger now than deflation due to an insufficient monetary stimulus. The likelihood of deflation in the United States is low but its consequences would be so destructive that Fed will rather undergo the risk of excessive rather than insufficient support.

The National Bureau of Economic Research (NBER) doubtless contributed to the building of a positive expectation as it announced in July that the US economy had overcome a recession that it had slumped into in March 2001 and had recovered from in November 2001. Many economists predict that economic growth will accelerate in the second half of this year due to massive fiscal and monetary support (low interest rates, low taxes, a weak dollar and enormous government spendings). Current data from the last day in July increase the likelihood of this scenario.

Why does so much nervousness linger then? In spite of the distinct improvement in the mood, there is still the scare of unexplored deflation as a consequence of indistinct imbalance from 1990s, which cannot be even eliminated by the record-high support of builders of the monetary and fiscal policy. Deflation would result in reduced wages and employment rate, caused by decreased sales due to price cuts. Debtors would have a hard time paying off their debts. This would all impair economic growth and would pose huge obstacles for the central bank in its efforts to revive the economy since nominal interests cannot drop in the negative territory; real interests during deflation are positive even if nominal interests are zero. They cannot be reduced any more, though.

RAPID EQUITY GROWTH STOPPED

At the beginning of June the S&P 500 index first tested the limit of 1,000 points and even managed to cross it for one day in the middle of the month. It oscillated around this value for two months because investors, while appreciating the mostly positive results of American

corporations in the second quarter of this year, feared that equity markets could grow faster than deserved based on such good news. More intriguing were the developments on the bond markets in mid-June, which are covered in greater detail in a separate article on page 2.

At the beginning of June both ISM indices (activity in manufacturing and services), optimistic comments by Alan Greenspan, head of the American central bank (Fed), and better-than-projected data regarding the decline in the number of jobs in the processing industry boosted equities. Counterforce against equities came from the labor market.

The second half of the month started off optimistically. A rather unimportant index of industrial activity in New York was the stimulus, even though its growth was impressive. That is why certain skepticism was voiced, calling for some "relaxation" so the fundamentals could catch up with the market. These calls were answered. Although equities ended up in the positive territory in June and the growth rate at the end of the quarter was at a record high in many years, stock exchanges started a trendless period. One of the noteworthy macroeconomic reports coming from the US in June was a surprisingly strong increase in the number of new housing construction projects – specifically by 6.1%. The number of sold existing and newly built houses increased gradually by 1.2% and 12.5%, respectively. The labor market improved, but the number of requests for unemployment benefits continued to exceed 400,000. A revision of the GDP growth in the first quarter from 1.9% to 1.4% was not expected but the market accepted it without any major response. As for European events, improvement in the index of the Ifo institute in Munich was noteworthy; this index is used to measure business confidence in Germany and followed up on its May growth (the same development was observed in July).

The first macroeconomic data from July was not encouraging – the industrial ISM index in the United States indicated a decline in industrial activity. Unemployment rate climbed to its nine-years' maximum (6.4%). Pessimism was quenched by the superb performance of the ISM index for the services sector.

In the next week, just before the reporting of corporate results in the second quarter, the market recorded a decent growth in expectation of good news. Almost all of them came true, but the S&P 500 index was not strong enough to exceed the limit of 1,000 points, around which it oscillated during the whole of July. It ended up at 990. The whole situation can be illustrated in the report of the first major company – Yahoo. Although its profits climbed considerably, its shares dropped immediately after the report because the growth was not as good as expected. Since most companies surprised us rather positively, though, the market defended its previous development. Revived attention paid to macroeconomic data contributed to this situation, too. According to the US Department of Trade, the growth of the US economy in the second quarter increased to 2.4% from 1.4% in the first quarter. The information was a pleasant surprise for the market because GDP was expected to grow by 1.5%, while the number of requests for unemployment benefits dropped again. On the last day in the month, the S&P 500 index again scored over 1,000 points but failed to keep this value in the course of the day.

Index	July	Start of year
S&P 500 (US\$)	1.62%	12.56%
DJ EStoxx 50 (EUR)	3.28%	2.76%
FTSE 100 (GBP)	3.12%	5.50%

INTEGRATION OF UNICREDITO ITALIANO'S INVESTMENT ACTIVITIES ON THE CZECH MARKET

The Board of Directors of Pioneer Global Asset Management S.p.A. (PGAM) and the Board of Directors and the Supervisory Board of Živnostenská banka, a.s. granted their approval with the planned transaction in which Pioneer Global Asset Management S.p.A. will become the sole owner of ŽB – Trust, investiční společnost, a.s. and ŽB – Asset Management, a.s., until now held by Živnostenská banka, a.s. All the four mentioned companies are part of one of the leading European financial groups - UniCredito Italiano.

Pioneer Global Asset Management S.p.A. is UniCredito Italiano's global holding corporation, responsible for the group's investment activities. PGAM uses the business mark Pioneer Investments. In June 2003, Pioneer Global Asset Management S.p.A.'s subsidiaries managed global investments worth over EUR 110 billion. Pioneer Investments brings the experience and quality of an investment manager, operating on the investment market for 75 years, to its markets.

In the Czech Republic, Pioneer Global Asset Management S.p.A. is the sole shareholder of Pioneer česká investiční společnost, a.s. The transaction plan will be submitted to the Czech Securities Commission for approval and announced to the Office for the Protection of Economic Competition. The process of integration of Pioneer česká investiční společnost, a.s., Pioneer česká finanční společnost, s.r.o., ŽB – Trust, investiční společnost, a.s. and ŽB – Asset Management, a.s. will follow the granting of the approval and completion of the transaction.

Jiří Kunert, Chief Executive Officer of Živnostenská banka, a.s., and Daniel K. Kingsbury, head of Pioneer Investments New Europe, expressed their utmost satisfaction with the planned transaction and their belief that the companies' integration would reinforce Pioneer Investments' capacity and position in asset management and Živnostenská banka, a.s.'s capacity and position in the provision of customer services. It was also announced that Roman Pospíšil, Chief Executive Officer of Pioneer česká investiční společnost, a.s. since March, was appointed to be in charge of the integration process.

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WHERE ARE BONDS HEADING?

The bull market with bonds has persisted for over 20 years and investors have become accustomed. It has become a kind of a hit in the last three years. An increasing number of experts warn, however, that the situation on the bond market is changing. Current development since June justifies their claims. There are two opposing scenarios in the future, though. We will briefly mention everything we should know about bonds first.

Source: Bloomberg

The chart shows yield development in local currencies for the USA (US Treasuries), United Kingdom (UK Gilts), Germany (German Bunds) and Japan.

Bonds are actually publicly tradable debentures. Their maturity is measured in years. The longer their average maturity (duration), the more sensitive the bond rate to the vicissitudes of the required yields. That is why bonds with shorter maturity are safer and usually render lower yields. When a long-term decline in interests is expected, it is beneficial to invest in long-term debts, and vice versa.

Risks and yields

The risk associated with a bond is also determined by its issuer. American government bonds can be deemed as the safest bonds. Bonds issued by high-quality companies with the rating of AAA, AA and A can be also described as safe. Safety worsens quickly from the rating of BB, which results in the offered yields. The response of prices of the latter bonds to economic reports is distinctly different from the response of prices of safe bonds.

Bond yields have two components. The first of them is interest (coupon) yield, which depends on the required yield amount, derived among others from interest rates prevailing at the time of issuance of the given bond. This yield does not vary during the lifetime of a bond in the case of ordinary bonds with fixed coupons. The other component is price movement (capital gains/losses). If yields decline, market prices of bonds grow because those who buy them at higher prices get such lowered yields. When yields are on the rise, market prices of bonds drop. This swinging tendency is regular and never changes.

Two future alternatives

The fact that declining yields increase bond prices led to an above-average bond price growth in the past twenty years. Since US interests were at the approximate level of 16% during that period, the room for their decline (i.e. growth in bond prices) was really huge. Today's situation is completely different as interests and yields are at their record low globally. The possibility of their continued decline (i.e. growth in bond prices) is very limited in a situation when they range between 3% and 4%. However, two completely different situations can occur.

Option 1 – continuous economic slump

The hopes of economic revival will not be realized and the efforts of central banks to avoid deflation will fail, too. In that case the glory of bonds can continue for some more time and bond investments could still be the best option for example over the following 10 years. This is the case in

Japan, where the interest decline from 3% to the current 0.5% showed that even low offered yields associated with their further decline are very advantageous during deflation. Confidence in continuously high profits associated with bond investments is therefore confidence in a continuous economic slump.

Option 2 – growth prevails

The other alternative will occur if the economy grows and central banks are successful in their efforts to avoid deflation. The real result could be inflationary growth if the Fed is willing to avoid deflation even by considerably slackening its monetary policy. Of course, it would lead to a rapid drop in bond prices.

What is the prevailing expectation?

The development shows that the investors' belief in economic revival prevails. The Fed caused some panic by its interest cuts by 0.25% in June without mentioning deflation or the use of untraditional methods. Investors have already become accustomed to such untraditional methods and deflation rhetoric and these factors have become the basis of the extraordinary price growth during a couple of months before June, i.e. the turnover month. Although price correction is rather speedy, it does not end in the case of the second option.

What we should know

What should investors planning to invest in bond funds know? In addition to the unclear future of the price market, there is one more risk lurking for them – automatic investments, made in the light of the previous twenty years. It would be probably wise to take into account that the potential of bonds is quite exhausted after twenty years of growth. The massive difference between the past (record-high profits) and the future (low yields), associated with investors' lack of knowledge of what they are buying, is a big risk. In spite of it, there is still a chance in this environment that bonds could reap some more double-digit profits. We can say only one thing for sure. The purchase of bonds is riskier today than in the past twenty years. However, bonds are still to be used in the portfolio of conservative and cautious investors. Their position in such portfolios is irreplaceable, but it is diversification that should be the focus of attention. The Czech magazine FOND SHOP for instance recommends blending in 5% of stock in a bond portfolio in order to curb the overall risk. We will not, however, take over the roles of financial advisors; the decision is to be made by each client individually.

COMMENTARIES, NEWS

Bond – Bond is a debt instrument, issued by an issuer in order to obtain capital in the form of borrowing. Bonds can be issued by governments, municipalities, firms etc. In general, bonds represent a promise to pay off the borrowed sum and interest (coupons) by a specific date (maturity). Investors become the issuer's creditors but do not assume any title, which makes them different from shareholders. On the other hand, they are satisfied preferentially to shareholders in case of the issuer's financial trouble. Bonds are often classified in various categories. Classification based on maturity and credibility is the most important. Short-term (based on maturity) government (based on credibility) bonds are considered to be the safest. Riskier bonds have to offer a higher yield to compensate for the investor's higher risk.

Yield to maturity – Expected average annual rate of return on investment, expressed as percentage. Consists of three components in the case of bonds – coupon, interest on interest and capital gains/losses.

Duration (interest risk) – Measures bond price sensitivity to the movement of interest rates. Expresses any change in bond prices, brought about by a 1% change in the yield. A five-year duration means, for instance, that the bond price will temporarily decrease by 5% if the yield increases by 1%, and vice versa. The higher duration, the higher price sensitivity.

Credit risk – Risk of non-payment or delayed payment of a coupon and nominal bond value. We classify bonds into investment and non-investment (high-yield) bonds. The rating of investment-level bonds is AAA to BBB, while high-yield bonds are rated B and lower.

Currency risk – Risk faced by each investor that buys bonds denominated in any other currency than the investor's reference currency.

Yield curve – Curve that shows yields from various bonds of the same credibility, with different maturity, at a given time.

PIONEER FUNDS – Euro Corporate Bond

You can enter the market with European attractive corporate bonds, issued in EUR, through this Fund. On the Czech market this Fund is incorporated in premium (V.I.P.) investment schemes.

This Fund is only focused on bonds that have an investment level; government bonds are just complementary. S&P's average portfolio rating of this Fund is currently A-, which means that the Fund contains neither top-quality bonds (rated AAA), which offer lower yields and higher safety, nor risky bonds (rated BB and lower), which bear high yields and high risk.

The Fund is suitable for medium-term investments (three and more years) and is aimed at a valuation higher than that offered by government bond funds and monetary-market funds, but lower than a valuation offered by equity funds. It is a rather conservative, but not very conservative investment. Of course, it depends on the health and ability to repay debts by companies, such as Olivetti Finance, Royal KPN, Deutsche Telecom and France Telecom, which constitute significant positions in this Fund.

The Fund's 95% benchmark is the Merrill Lynch Large Cap Corporate index, which stands for the performance of big issues of corporate bonds, denominated in EURO. They have to comply with the following conditions: at least one year before maturity, fixed coupon payment schedule, minimum size EUR 500 million and rating by Moody's and S&P. The remaining 5% benchmark is the JPMorgan Cash 1 Month Euro index, which is used as a relevant benchmark for the portfolio's monetary element – deposits with one-month maturity.

At the end of June the expected yield to maturity was 3.91%. The current performance of class A bonds, denominated in EUR from inception, is 11.4% (7.1% p.a.).

Fund management is a team affair; Raffaele Bertoni is in charge. He is also responsible for corporate bonds in all fixed-yield portfolios, which makes it a total of 38 funds. He is supported by a credit risk management team, coordinated by Clayton Hampton.

Pioneer Funds – Euro Corporate Bond

Basic data*	
Inception of calculation of net assets	11/30/2001
Registered office	Luxembourg
Fund value	EUR 1,589.46 mil
Unit value	EUR 5.77
Initial minimum investment	CZK 30,000 or EUR 1,000
Maximum initial purchase fee	3.50%
Management remuneration	1.00%
ISIN	LU0133659622

* Class A, EUR, non-distributing, data applicable at 06/30/2003

Cumulative performance (EUR)**

	Net assets	Weighed index (MSCI Europe)
06/30/03		
1 month	0.17%	0.29%
3 months	2.86%	3.34%
6 months	4.73%	5.42%
From start of year	4.73%	5.42%
1 year	10.13%	12.10%
From inception	15.20%	14.92%

** The performance data is only related to class E units. All the information is based on net assets value (NAV). NAV is the value of each unit without any administration, transaction and deposit banking fees. NAV does not include any other fees, such as taxes and purchase fees. Class E is publicly offered in Italy only. Details on other offered classes of units are given in Pioneer Funds' Prospectus.

Growth of EUR 10,000 investment into class E units from 10/05/01 till 06/30/03

TOP products of Pioneer Funds – compared to competitors, source: Micropal and rating agencies (applicable at July 25, 2003)

(This summary is published monthly based on achieved results.)																
				6 months*		1 year*		2 years*		3 years*		Since inception*		Rating (06/30/03)		
Type	Subfund	Inception date	Size (EUR mil.)	Subfund position/ Total number of funds	Quarter	Subfund position/ Total number of funds	Quarter	Subfund position/ Total number of funds	Quarter	Subfund position/ Total number of funds	Quarter	Subfund position/ Total number of funds	Quarter	Morningstar Rating	S&P Star Rating	S&P Fund Management Rating
European stock	PF Italian Equity	03/20/98	745.75	2 / 34	1	7 / 32	1	6 / 30	1	8 / 24	2	4 / 11	2	****	****	-
	PF French Equity	03/27/98	59.80	20 / 25	4	12 / 24	2	5 / 24	1	2 / 22	1	2 / 13	1	***	****	A
	PF Core European Equity	03/20/98	1,331.79	90 / 247	2	146 / 230	3	66 / 210	2	52 / 177	2	14 / 68	1	****	****	-
	PF Top European Players	07/07/00	410.32	63 / 247	2	35 / 230	1	6 / 210	1	10 / 177	1	10 / 178	1	****	****	A
American stock	PF U.S. Mid Cap Value	10/05/01	26.33	36 / 165	1	36 / 155	1					6 / 137	1	*****	-	AA

Emerging markets' stock	PF Emerging Markets Equity	07/07/00	158.06	28 / 68	2	16 / 66	1	29 / 62	2	23 / 58	2	30 / 57	3	***	**	-
Sector stock	PF Global Technology	07/07/00	137.59	66 / 126	3	45 / 124	2	28 / 119	1	36 / 98	2	34 / 94	2	***	****	-
	PF Global Telecoms	07/07/00	107.81	113 / 126	4	86 / 124	3	47 / 119	2	8 / 98	1	6 / 94	1	***	****	-
Balanced strategies	PF Pioneer Mix 2	11/05/99	1,040.38	47 / 93	3	35 / 89	2	23 / 76	2	18 / 66	2	19 / 60	2	***	****	-
High-risk bonds	PF Emerging Markets Bond	07/07/00	133.86	17 / 48	2	29 / 44	3	12 / 41	2	11 / 39	2	16 / 39	2	***	**	-
	PF U.S. High Yield Corpor. Bond	07/07/00	381.08	2 / 22	1	5 / 22	1	2 / 17	1	1 / 13	1	1 / 12	1	****	****	-

* The specified figures are only related to class E units, denominated in EUR. All the information is based on net asset values (NAV). NAV comprises the value of all units, free of all administrative, transaction and deposit fees. Net assets do not include any other fees, such as taxes and sales charges.

Pioneer News • Newsletter for Investors • Published by Pioneer Investments Group in the Czech Republic.
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