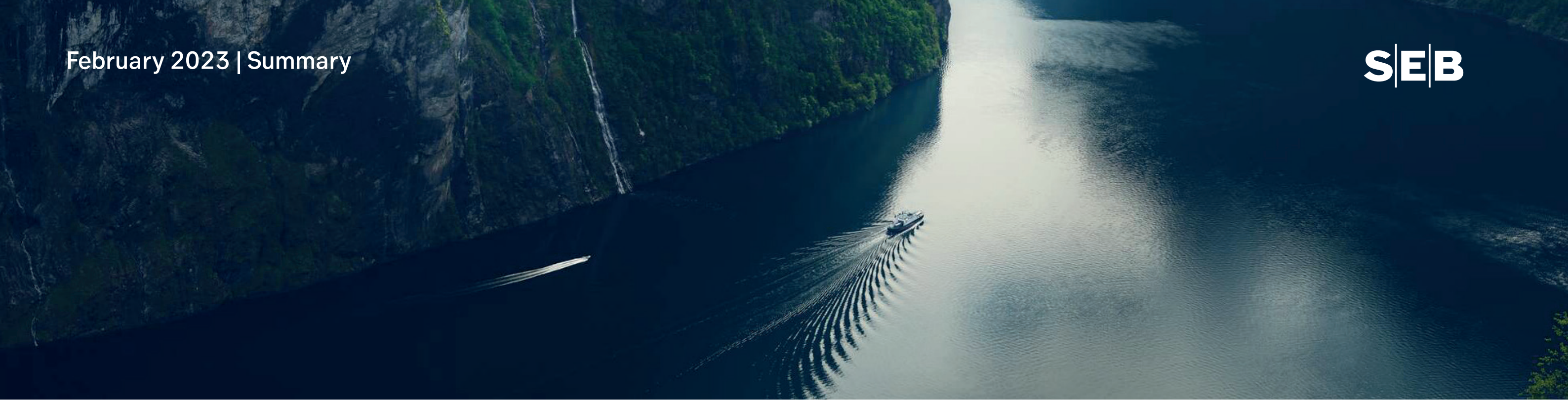


Investment Outlook: Inflation downturn will ease risk picture

A brighter international outlook is emerging, especially thanks to the prospect of large declines in inflation. Yet we still expect a mild recession during 2023, with a recovery starting in the second half of the year. We believe that this outlook is discounted in financial markets, with bond yields at more normal levels and equity valuations in line with historical averages. Despite prospects of a brighter outlook, because of the impending slowdown in growth and earnings we are maintaining a neutral allocation between asset classes in our portfolios.

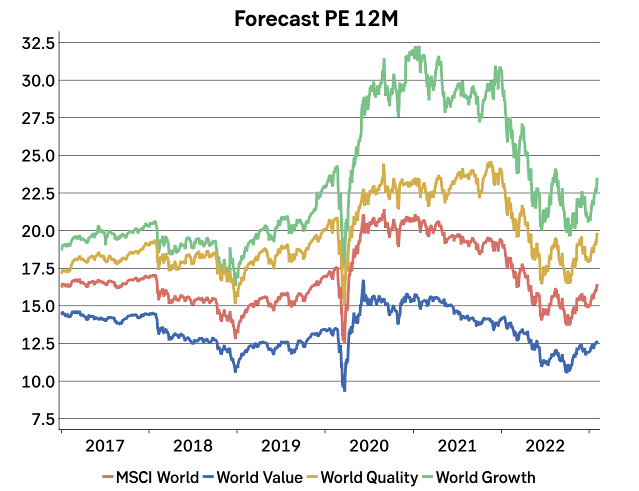
This brighter picture has been welcomed by investors, and there has been a powerful market rebound since late September. Investors have repositioned their once extremely cautious portfolios towards historically more normal levels, though with a continued cautious edge. This also means that the favourable valuations we saw last autumn have faded. Today's valuations are more neutral in a historical perspective, especially if we are to get through a recession. By definition, this implies a higher risk of worse market performance than we expect.

Allocation

The past quarter saw a strong recovery in capital markets, bringing both stock and bond valuations and investor positioning into more neutral territory. Given these conditions, we find it appropriate to have portfolios that are close to neutral in terms of risk.

Being close to neutral means that we expect to benefit from risk premiums and that our portfolios will generate positive returns in the coming period. This is synonymous with corporate bonds providing higher returns than government bonds and stocks providing higher returns than corporate bonds over a somewhat longer time horizon. We are not further increasing our proportion of equities, because of the impending economic downturn combined with neutral valuation signals and the fact that bonds have an attractive expected return, since we believe that high bond yields will fall. This will also serve as a stabiliser against possible corporate earnings and cyclical disappointments.

The wide valuation gaps in the stock market have narrowed



Source: Bloomberg

We are now back at pre-pandemic levels, and the same applies if we instead study P/E ratio trends by economic sector (IT, pharmaceuticals, etc.).

Valuations and stock market performance

Short-term downward adjustments in earnings forecasts and rising share prices justify a cautious approach to stock markets in the near future. However, assuming that our main growth scenario proves correct, we are approaching the point where it will be time to look ahead towards the next phase. Earnings growth should rebound during the second half of 2023, which will probably coincide with the end of central bank tightening. The long-term stock market outlook appears hopeful.

Read more in the report at seb.se/investmentoutlookreport.

Global equities

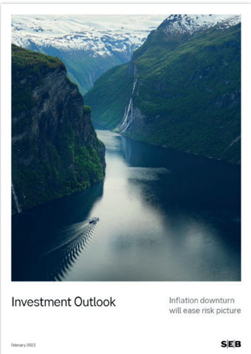
- Falling natural gas prices and the reopening of China are fuelling stock markets
- Downside risks to corporate earnings estimates will be offset by falling long-term bond yields
- Valuations are at historical average levels
- A cautious approach to stock markets in the near future, but the long-term outlook for equities looks hopeful

Fixed income investments

- Most central banks are nearing the end of their cycle and will carry out a final rate hike during H1 2023
- The Fed will cut its key interest rate in December, while the ECB and the Riksbank will follow suit in 2024
- Long-term bond yields will move lower during the year, with US yields falling ahead of European ones
- Attractive yields on corporate credits, but limited near-term price increases after a strong period
- Emerging market debt ended 2022 on a positive note; China and Fed actions will be decisive in 2023

Nordic equities

- Falling energy prices will soften any slowdown
- China's abrupt COVID-19 policy reversal will help support Nordic equities
- Valuations will limit the upside after the recent stock market rally
- Falling inflation is now part of market expectations
- Corporate earnings performance remains convincing
- Inventory adjustments will increase the magnitude of economic cycles



For more details, please read the full report, which also provides you with extra reading in the form of two interesting theme articles:

- Global fragmentation – A critical inflection point with major consequences
  - A review of global fragmentation winners and losers among Swedish companies
- Increased hopes of much lower inflation

Our experts Fredrik Öberg and Johan Hagbarth also present our in-depth market view in the form of a video.

You will find all this at seb.se/investmentoutlookreport

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