SEB House View

25 June 2024

SEB

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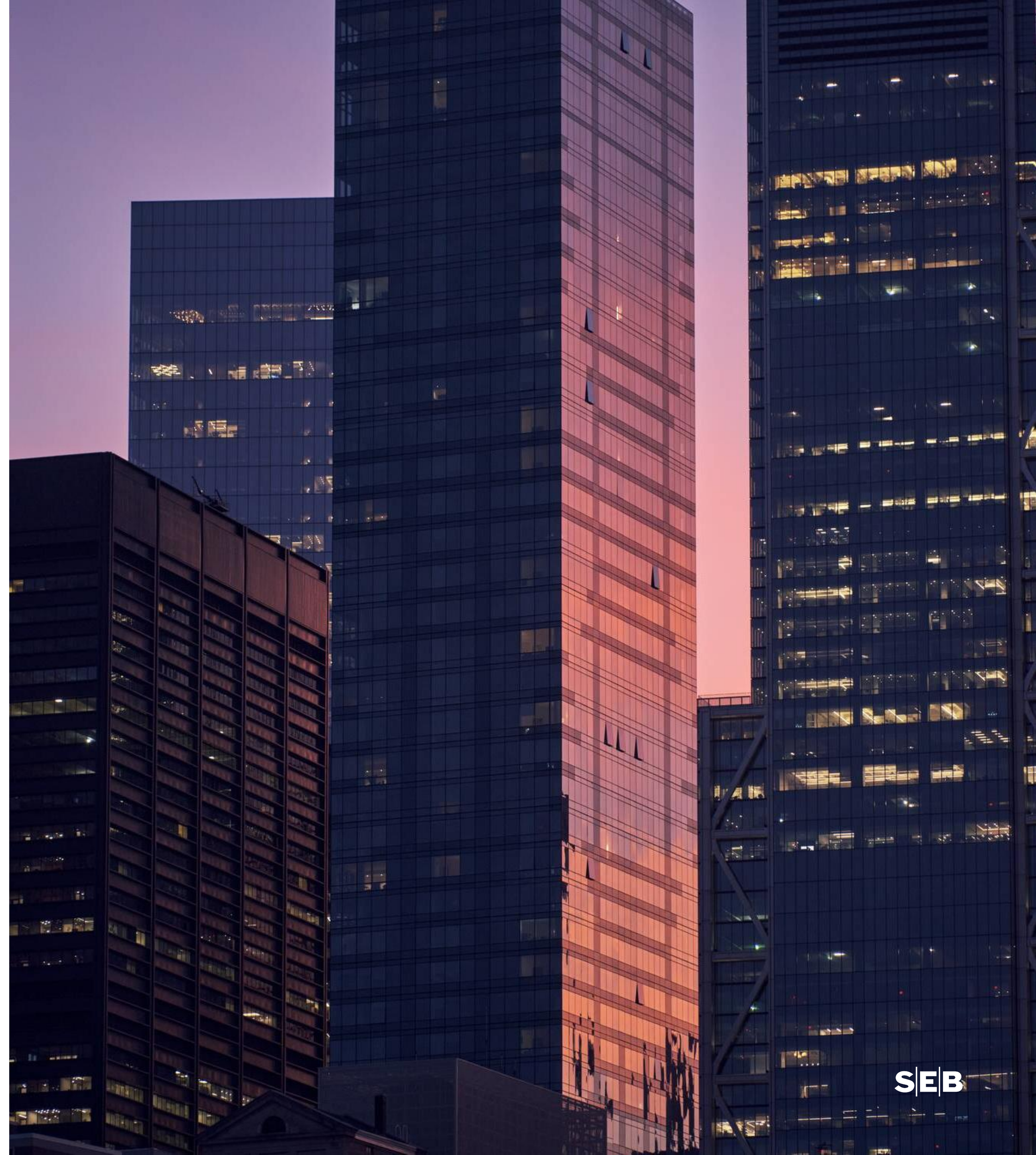


Political risks increase uncertainty in H2 2024

Global equity markets have reached new highs, the gains are driven by a handful of US Technology companies. AI is a mega-trend to stay for long and the valuation of the Mag 7 companies is far from extreme, yet concentration risk is a factor to consider. Political risks and opportunities will be considerable in the second half of 2024 starting in France. We remain with an above risk utilization as global growth is expected to hold up and lower inflation validates rate cuts in the coming months.

- The overall macroeconomic outlook is reasonably strong with the US economy still projected to achieve a soft landing while the rest of the world is showing signs of increasing confidence and growth prospects
  - US growth is slowing although the expectations for Q2 remains relatively strong at 2.5-3.0% q/q AR, macro surprises have been negative and recent data has confirmed growth will continue to moderate. Consumer confidence has been negatively impacted by interest rates "higher for longer", the labor market is clearly showing signs of weakening (although still from a strong level) and fiscal policy is not expected to boost overall activity going forward, as it did last year.
  - U.S. inflation has remained sticky, but the latest data points in the right direction. The supercore CPI print in May declined on a monthly basis as transportation costs showed signs of normalizing. Yet the Fed is not very close to cut interest rates as indicated at the June FOMC meeting. Monetary policy should be supportive for risk assets later in the year.
  - European growth prospects are slowly improving, although the latest PMI data was disappointing. Considering the political risks as the French parliamentary elections approach, coupled with persistently strong wage demands in parts of Europe, the ECB faces a delicate balancing act regarding the upcoming rate-cutting cycle.
  - Prospects for Emerging Markets have improved somewhat and EM equities is keeping the pace of developed markets.
- We maintain 60% in risk utilization given a favorable macro backdrop supporting risk assets, while closely monitoring inflation data and the timing of rate cuts

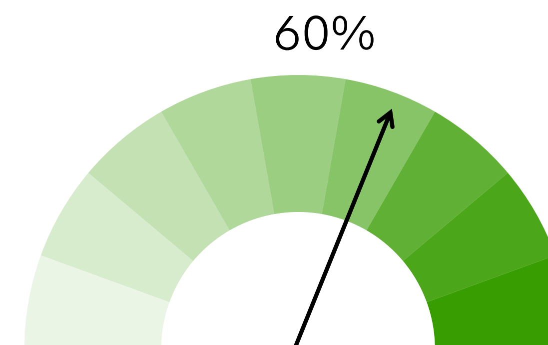
Investment Regime

Our regime-based framework defines the major characteristics of the investment regime

Political risks more present	Strong balance sheets generally	Earnings continue to grow in 2024
Robust US growth, but slowing	Mid-cycle correction rather than late cycle	EM prospects are improving, LT challenge remain
Soft landing in reach		ECB is facing elevated wage gains

Speedometer

60%



The speedometer controls to what extent the portfolios should utilize their risk budgets. It is connected to the model portfolio (page 4) which at all times utilizes its risk budget in-line with the speedometer. In a very general sense it can be interpreted as equities on/off (with 50% being neutral).

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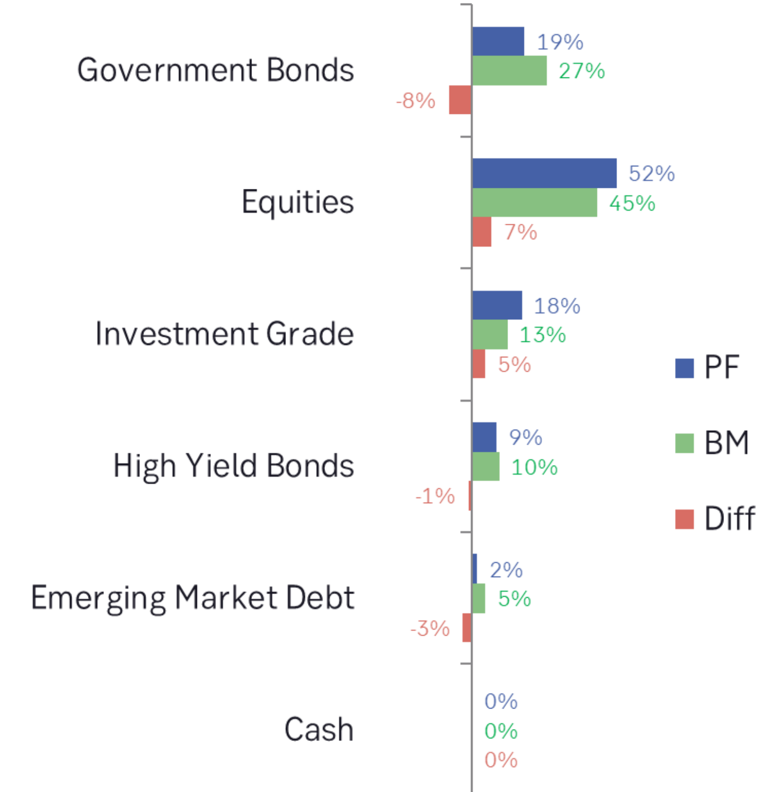
Asset Allocation: Return prospects are more equal now

In the absence of a deep economic downturn, equities remain the favored asset class. However, our fixed income allocation is providing good running yield plus an increasing diversification benefit as correlations are slowly normalizing.

- Return prospects for Equities and Bonds are not vastly different we think in the coming months
  - US earnings estimates are high (+14% 12m fwd), but fair given strong performance in Technology sector plus overall GDP growth around trend (ie 2.0-2.5%). European earnings have been weak as has EM, but both regions are seeing relatively strong expectations for 2025. If delivered we could continue to see solid returns for equities going forward, also outside the US (see our Capital Market Assumptions on page 8).
  - European Equities and French markets in particular fell on rising political risks, the region is overall attractively priced and likely to provide good returns 2024/25.
- Slowing US growth and relatively elevated yields are making fixed-income more attractive now and will certainly act as a hedge against a strong economic downturn
  - Credit markets are trading at historically tight levels and European spreads have widened after the recent burst of political risks associated with the upcoming French election. Nevertheless, we maintain our overweight to investment grade bonds
  - A hard landing would surely see bond returns provide a cushion against falling equity prices as correlations have moved to more neutral levels
- The outlook for Government Bonds has improved, although European sovereigns have recently been pressured by political risk, as inflation has continued to decline while several central banks have begun easing monetary policy. However, we remain UW and prefer Equities and IG over Government bonds.
- We think IG credit bonds can continue to deliver positive excess returns on the back of a stable economic environment, but prefer to remain underweighted to High-yield bonds and Emerging Market Debt.

Model Portfolio



Long only portfolio. Yearly VaR(95%) ex. mean between 7% and 21%.No restrictions on the individual asset classes. The weights are set manually by the House View committee; i.e. they are not based upon an optimization model.

Regional equity allocation: the case for neutral has strengthened

Last month, we downgraded US Equities from Overweight to Neutral and raised Emerging Markets from Underweight to Neutral. Since the EU election on June 8th, equity market developments have been negative for European assets, while EM and US markets have outperformed. We remain neutral on all regions as we await the political results from France before considering any changes. The US election continues to be the most significant source of uncertainty.

– The transatlantic spread has widened again, as US Tech companies have gained on more AI optimism, while Europe and France have been hampered by political risks. Our base case suggests that this gap is unlikely to widen further. In fact, there is potential for Europe to catch up if we see a constructive political outcome in France.

– The US election will provide markets with economic and political uncertainty heading into the second half of 2024.

- We maintain our neutral stance on European equities, but continue to prefer European small caps due to their relatively low valuations. Historically, small caps tend to outperform large caps as the ECB begins to cut rates.

– European growth is improving from a weak base which should benefit earnings expectations and general investor sentiment. Valuation is attractive, political risks need to subside and a clearer path for more substantial rate cuts to open before there is another 10-12% upside in 2025.

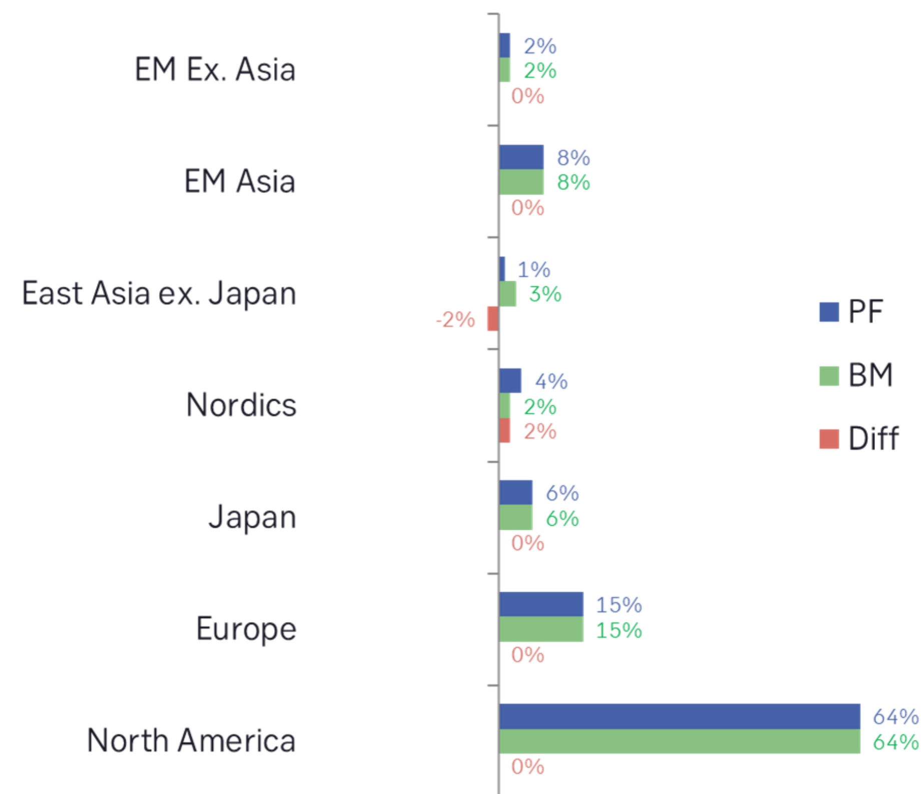
- We remain overweighted to Nordic equity markets

– Rate cuts should benefit interest rate-sensitive sectors, including our favored small cap stocks. These sectors have yet to fully respond to the brighter prospects indicated by leading indicators. Valuation is a drag as P/E ratios are now above historical averages.

- Last month, we raised EM Asia to neutral as prospects have improved, though we remain structurally cautious on China

– Our regional equity model prefers EM for its attractive valuations, however, growth continues to be weak in China which is a constraint for other regions that depend on strong export markets, including Europe. Therefore, we prefer to remain neutral on EM.

Regional equity positioning



Benchmark is MSCI All Country. Benchmark weights updated by September 2023. Portfolio weights have been adjusted accordingly to keep our active weights unchanged.

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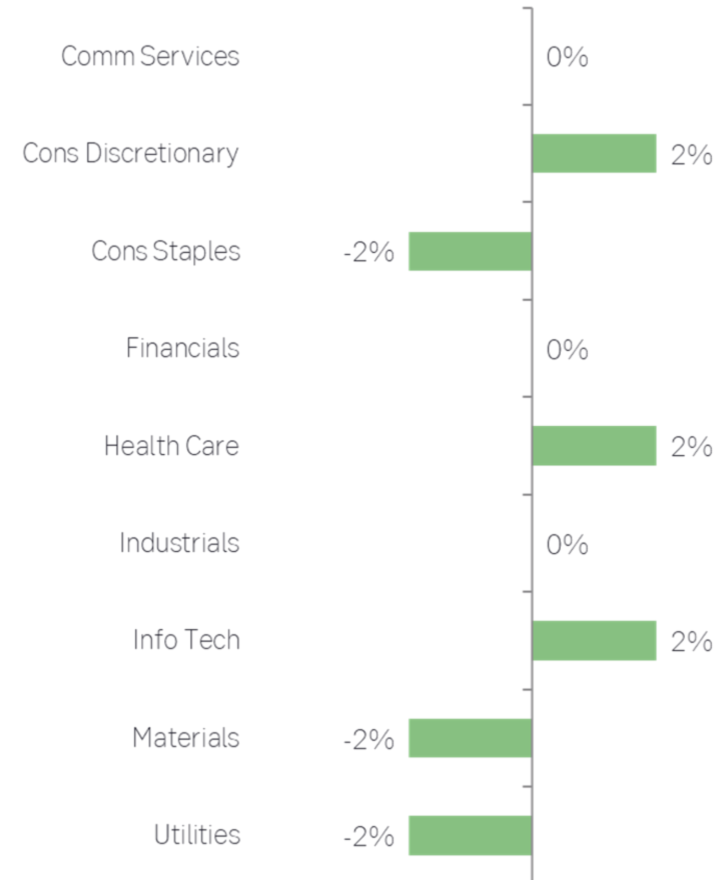
Sector Allocation: steady as she goes

We sustain a less cyclical position, yet still focused on growth and quality

- We have not made any adjustments to our Sector view in this update
  - Our most recent sector modification was to upgrade Health Care to overweight. Historically, the sector has performed well during periods of declining inflation and is less susceptible to rate fluctuations. Currently, the sector demonstrates strong positive momentum, with the earnings season delivering positive surprises. Simultaneously, we downgraded Industrials to neutral due to weak earnings scores in our model. However, rising PMIs argue against underweighting this sector and an eventual increase in CAPEX should support Industrials
- A strong labor market and still healthy US consumer leads us to maintain our overweight position in Consumer Discretionary for now
  - Earnings and consumer spending remain robust, though we anticipate a slowdown in private consumption due to decreasing excess household savings and a weakening labor market. Still, our model is bullish on this sector
- We continue to overweight Information Technology
  - The ongoing AI trend supports this sector, which is also favored for its less cyclical nature, providing downside protection
- We remain underweighted in Consumer Staples, Utilities, and Materials
  - A relatively strong economy with low unemployment and decent earnings growth should keep Consumer Staples from outperforming. In the event of a stronger downturn in macroeconomic indicators, the sector could become more attractive
  - We prefer to keep our underweight in Utilities as the fundamentals remain weak. However, a change in macroeconomic trajectory could prompt a reallocation
  - Finally, we hold our underweight position in Materials due to the bleak earnings outlook and considering the anticipated economic slowdown

Sector positioning



Risks to the investment regime

US soft patch turns into something deeper and markets begin to price bad news as bad news for risk assets

- Recent data has further confirmed that the growth in the US economy has slowed down meaningfully. While we assess growth to still be a positive driver for risk assets, the risk of slower US growth has increased.

Risk of stagflation

- Recent fears of weaker US growth runs the risk of markets beginning to price in a stagflation-scenario if inflation prints remain sticky. Recent inflation figures have decreased this risk, however.

Stretched valuations and a concentrated rally

- US market especially has been dominated by 2-3 AI-related stocks that have rather high expectations now (multiples at multi-year high). This leaves the market vulnerable to any idiosyncratic surprises related to just a few stocks.

Election uncertainties

- US Elections: First debate is on June 27th which kicks off a 4-5 month period where certain risks are elevated (trade, geopolitics, corporate taxation, fiscal deficit...)
- France is also having surprise parliamentary elections over the summer which pose certain risks related to deficits, country spreads and even Frexit-discussions to heat up again.

Escalation of geopolitical tensions

- The situations in the Middle-East and Ukraine still persist and are a constant risk factor for short-mid-term market sentiment.

Figure 1: US macro surprises have properly turned negative for the first time in over a year

Figure 2: Higher multiples due to the strong rally recently can impact the size of a potential drawdown if risks begin to materialize

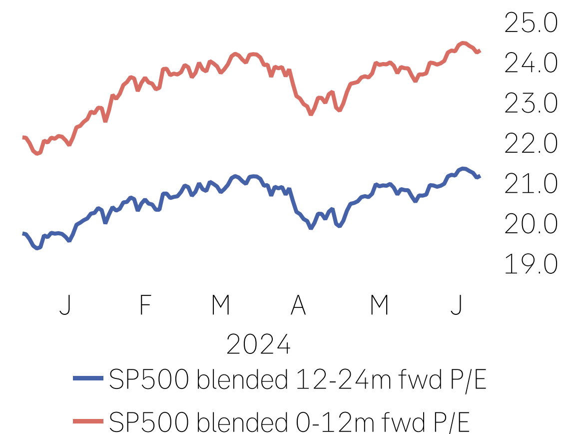
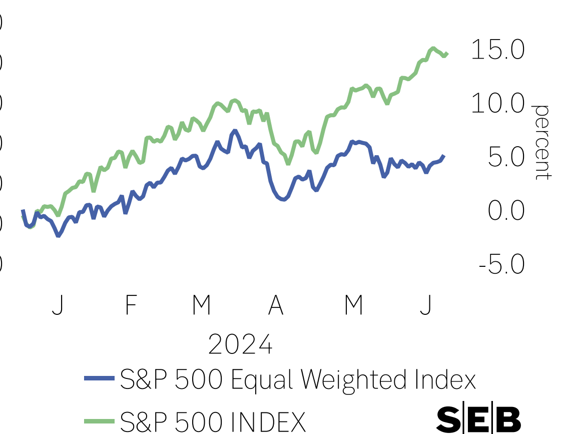


Figure 3: Strong concentration in returns (and weights) – company-specific risks are on the rise



Sources: SEB, Bloomberg, Macrobond

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Return Estimates

Figure 1: 12 month forward looking return expectations

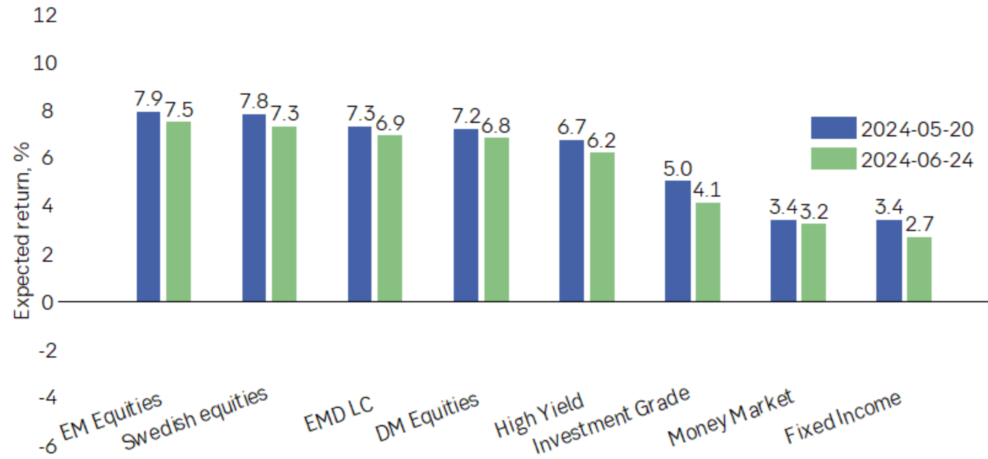


Figure 2: 12 month forward looking return expectations for equities and bonds

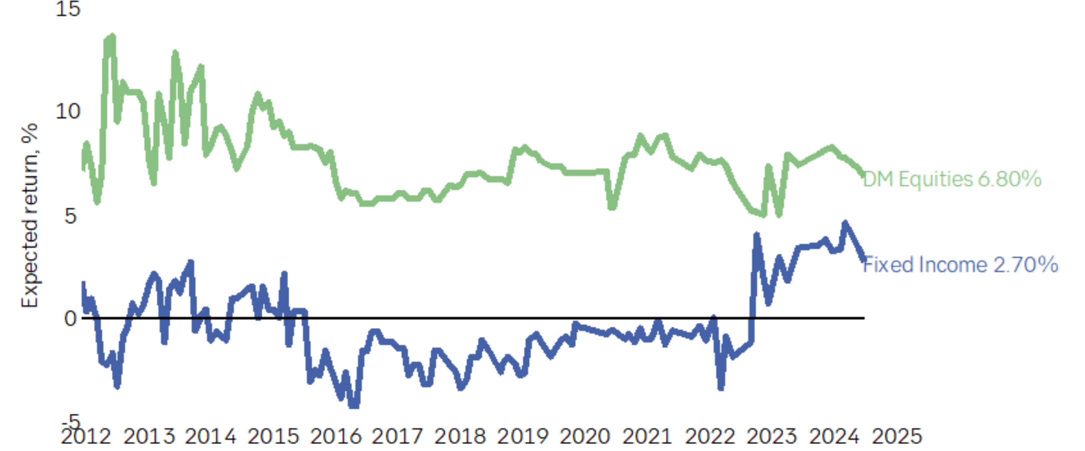


Figure 3: Absolute expected returns

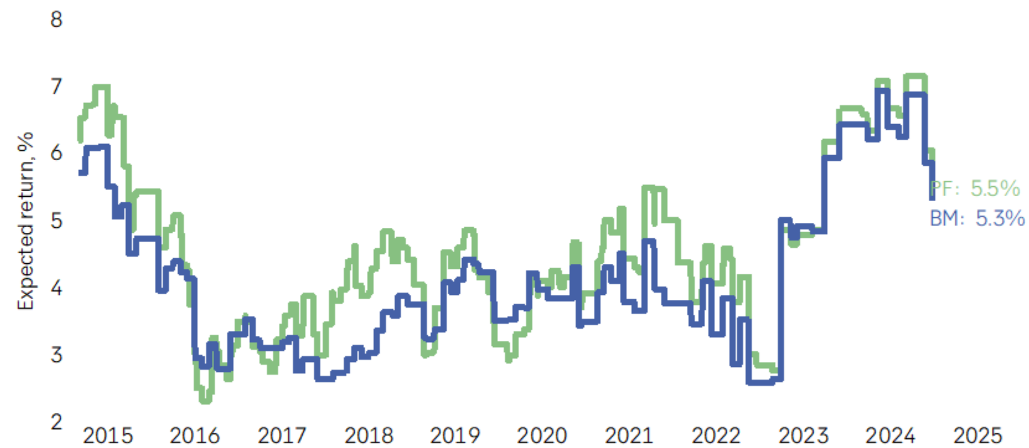
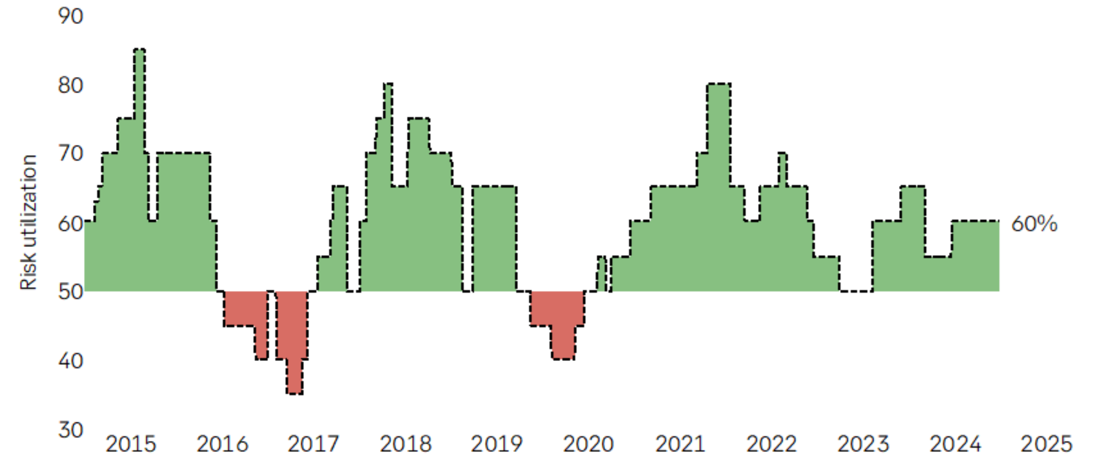


Figure 4: Risk utilization since inception



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Historical House View Allocation

Figure 1: Equities

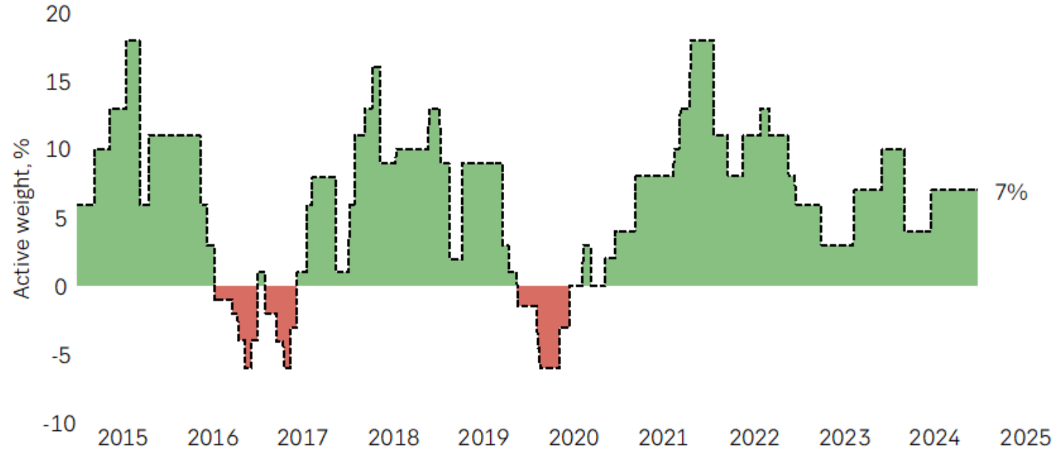


Figure 2: High Yield

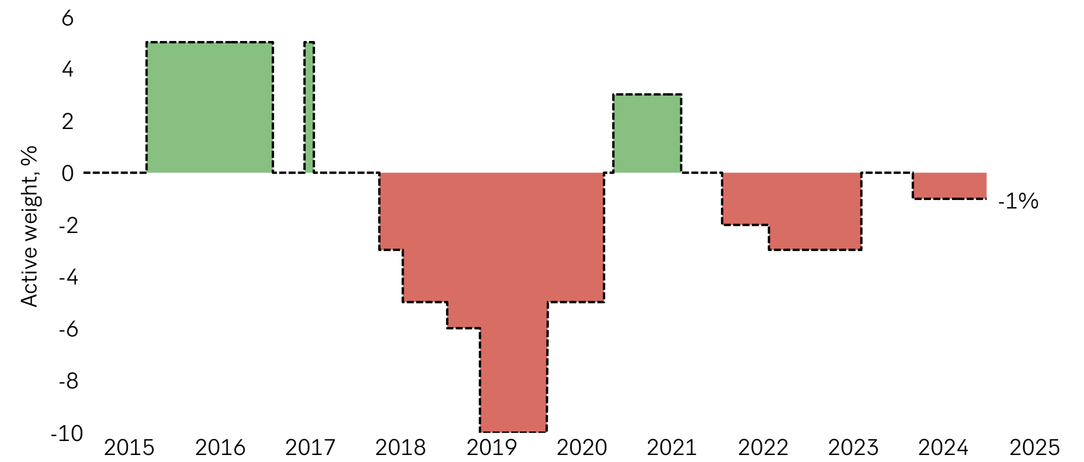


Figure 3: Emerging Market Debt

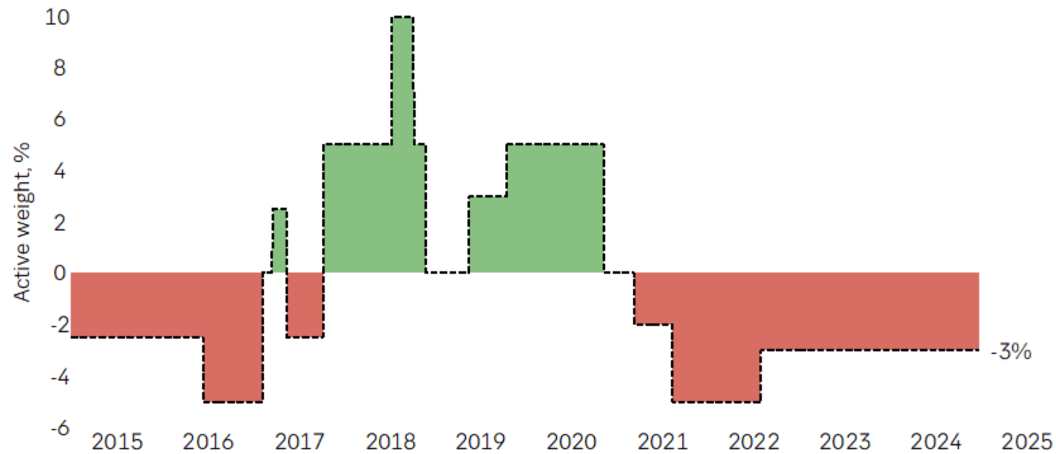
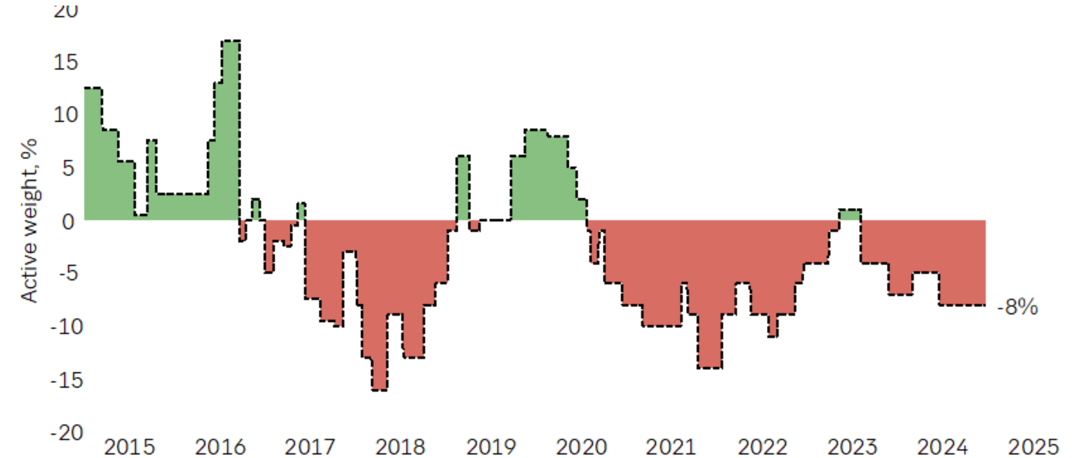


Figure 4: Fixed Income*



* The 2014-2015 combined overweight to equities and fixed income was financed by an underweight to Investment Grade, Commodities, and EMD.

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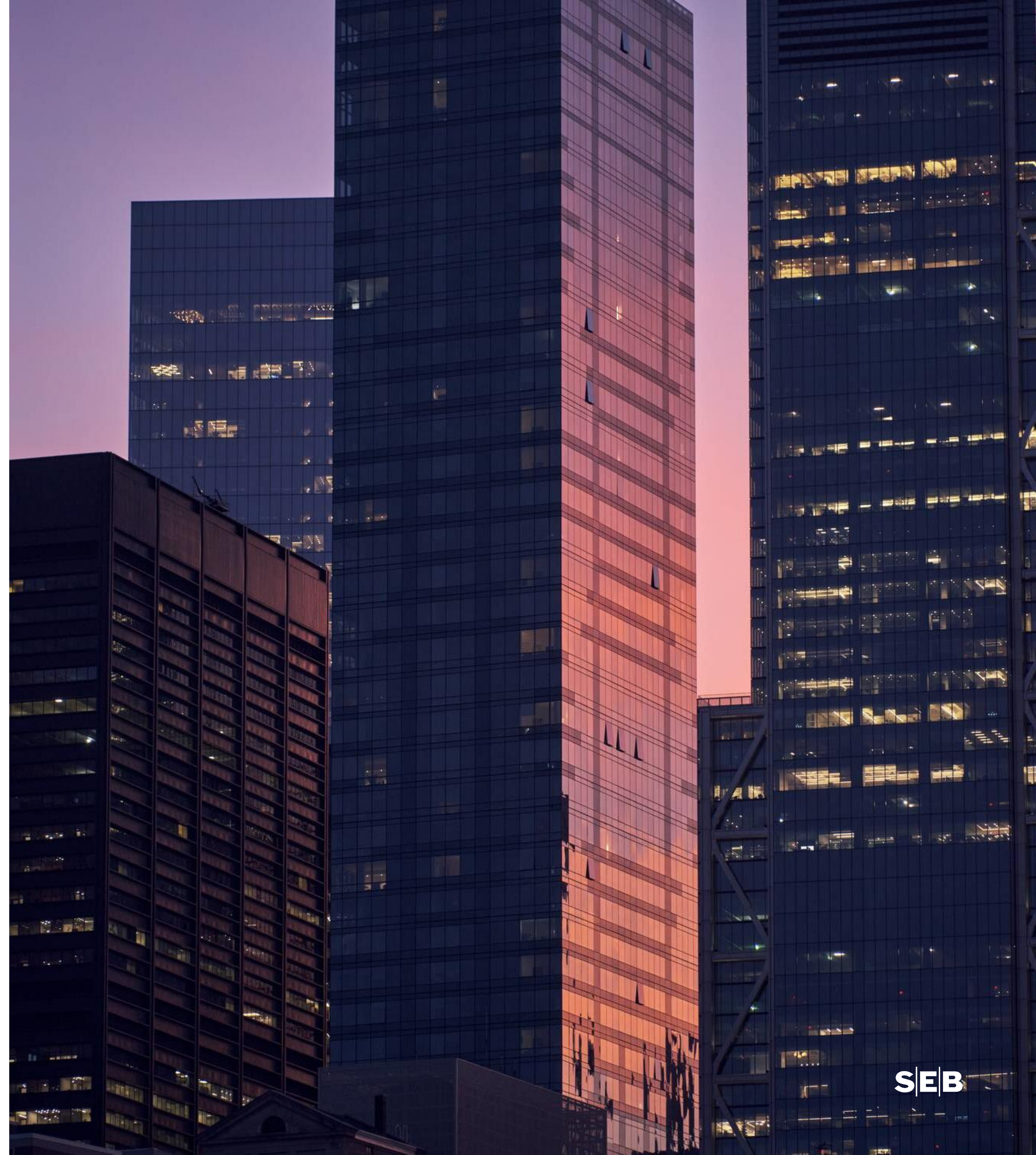
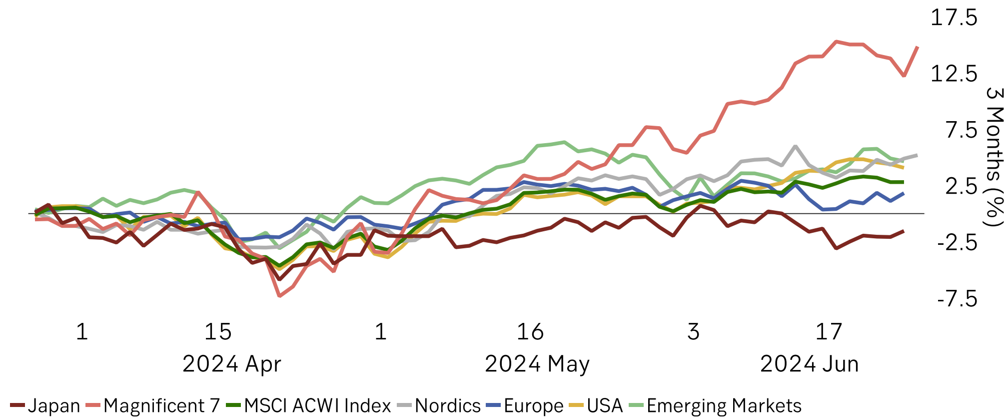


Developments in the Markets

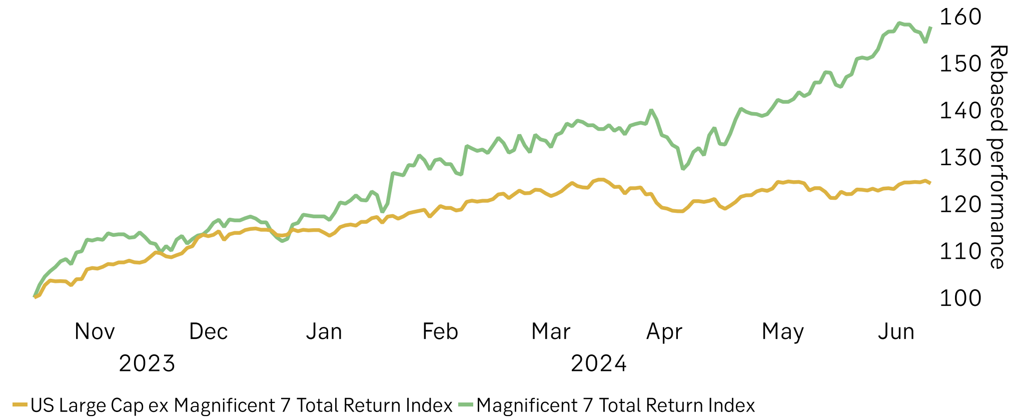
AI optimism drive markets higher, but broader markets have been tempered by slowing US data

Figure 1: In June, the Magnificent 7 (Mag 7) have really outperformed the broader market, which have struggled to break out at higher highs



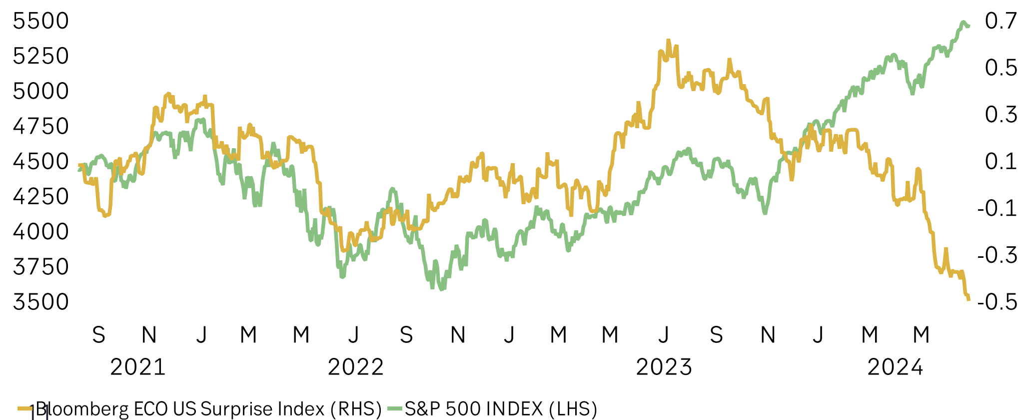
Source: Macrobond, SEB

Figure 2: The S&P 500 have reached new record highs in June, fueled by Mag 7. S&P 500 ex. Mag 7 have not shown similar strength.



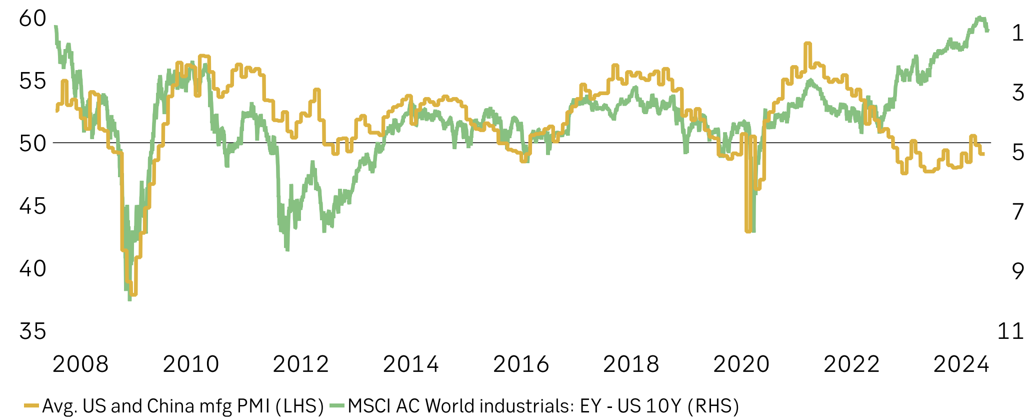
Source: Macrobond, SEB

Figure 3: Economic surprises have turned negative in US, but S&P 500 have reached new highs. Timing the AI optimism is seemingly more important that timing growth



Source: Macrobond, SEB

Figure 4: Equity risk premium for Industrials is compressed judged by the PMI developments, risk for growth disappointments



Source: Macrobond, SEB

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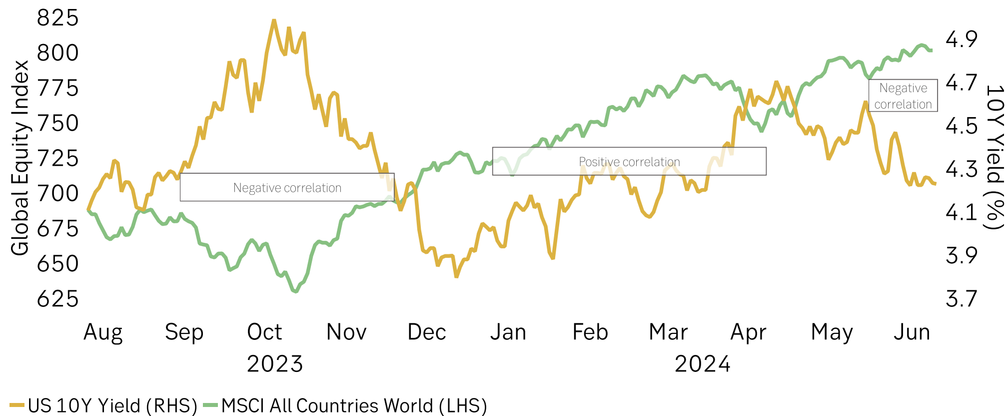
Developments in the Markets

Falling yields have supported the recovery in risky assets, but beware that correlation is not causality

Figure 1: Treasury yields have retreated from the peaks in late April, and the lower yields have supported the equity recovery. Negative correlation between yield and equities is back



Source: Macrobond, SEB

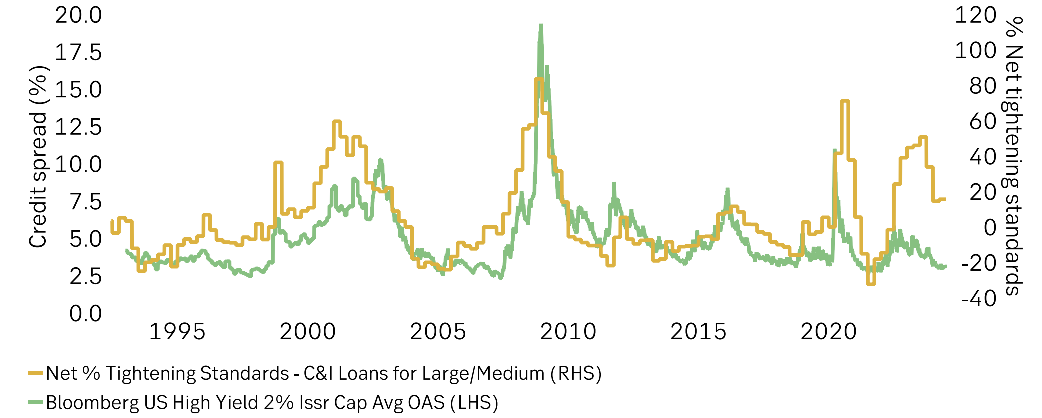
Figure 2: However, the nature of lower yields is much different than in October-January. This time, weak data, not near-term changes in policy rates, is driving long term yields

Source: Macrobond, SEB

Figure 3: Albeit yields have move lover since April, they are unchanged over the last 3 months. This is despite a weakening in economic data

Source: Macrobond, SEB

Figure 4: Spreads on US high yield remain at very low levels, despite the weaker economic data and relatively tight financial conditions



Source: Macrobond, SEB

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Developments in the Markets

Political uncertainty in France highlights fiscal vulnerability

Figure 1: Macrons decision to call for election have increased uncertainty in Europe. 10Y yield spread between France and Germany have spiked, but remain below 2011 levels

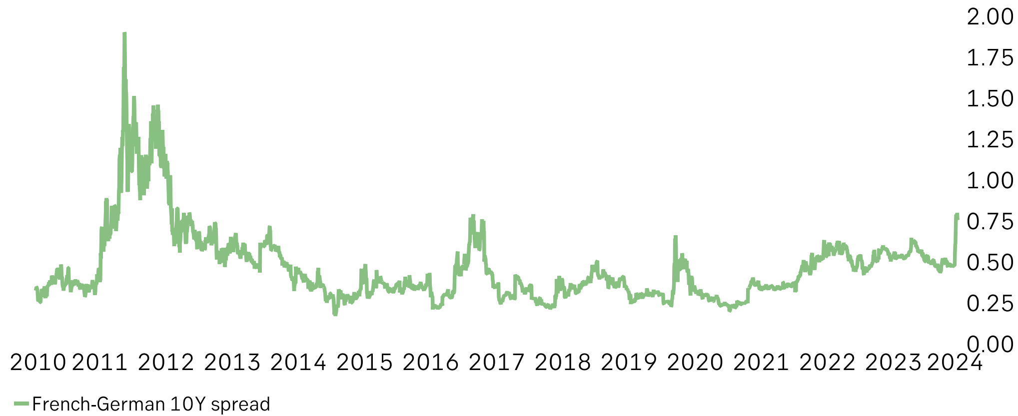


Figure 2: The uncertainty does not only affect the government bond spread. Implied volatility in EU large caps have decoupled from US implied volatility since the election news broke

Figure 3: Heightened cross-asset volatility have only had a limited effect on the European IG spread.

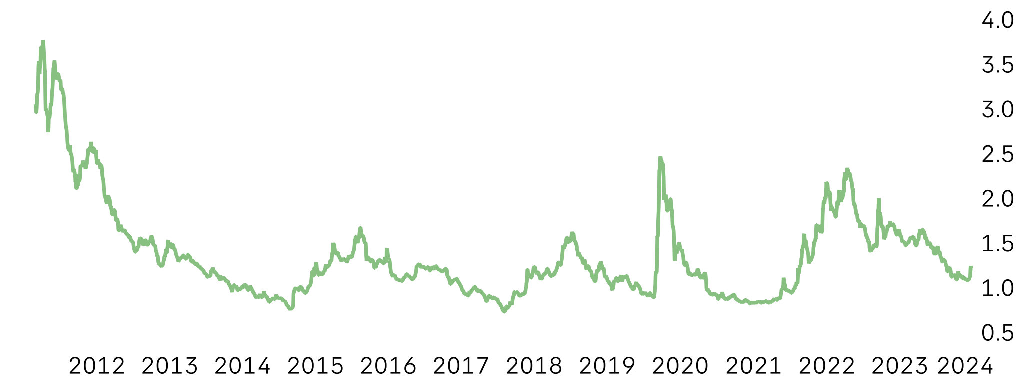
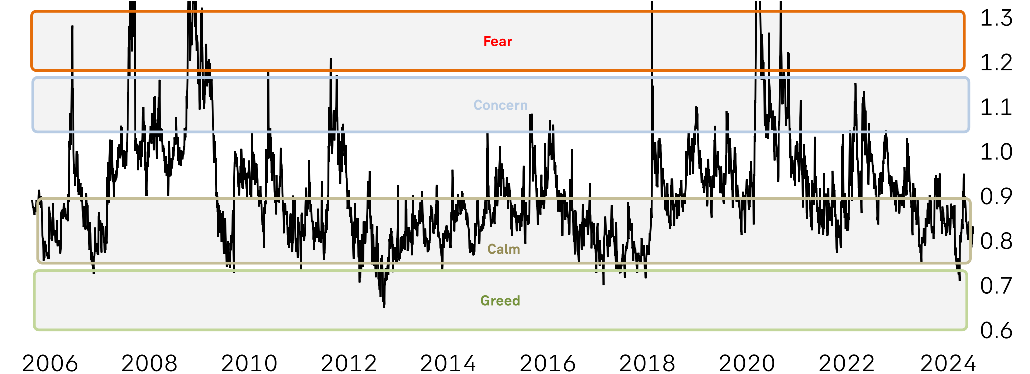


Figure 4: Despite the rather one-sided AI-dominance and political uncertainty in France (and UK and US), the slope of the VIX curve sends a signal about very calm investors outside EU



Economy – Developed Markets

The US economy has slowed down during the beginning of 2024

- The weak Q1 GDP growth was further revised down to 1.3% and subsequent data has generally surprised to the downside. Consensus is still expecting US growth to rebound in Q2 and be around 2.5% for the full year, however.
- The US labor market has given mixed signals recently (discrepancies between establishment and household survey), but generally is still at strong levels with unemployment rate now at 4%.
- On the inflation front recent figures have been softer which has been a positive after a string of hot numbers in the beginning of the year (May headline/core CPI 0% / 0.16% MoM and PPI -0.25% MoM).

Europe is still rebounding but certain risks have emerged

- Europe's PMIs are still in an upswing. The strong jump in Sweden's manufacturing PMI (54) may also signal better elsewhere (manuf. sector and Sweden's export linkages).
- The EU election results were a surprise and increased uncertainty especially in France as Macron called for new parliamentary elections to be held during June-July. The uncertainty around deficits, country spreads, Frexit will likely impact sentiment indicators and can also spill into hard activity data later on. As Europe is barely coming off from recession levels, any setback can be meaningful.

ECB begun rate cuts as expected, Fed still on hold but data is tilting towards cuts

- In the US, the current somewhat weaker growth picture along with slower inflation opens the door for rate cuts this year. The June dot plots signalled only one rate cut for this year but if the data continues its current trajectory, it is possible that more cuts are done.

Figure 1: The US economy has slowed down recently but expected to pick up in Q2-Q3

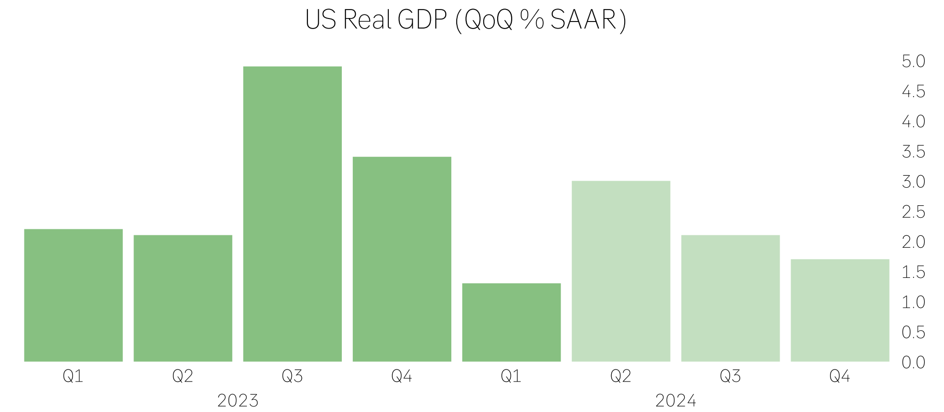
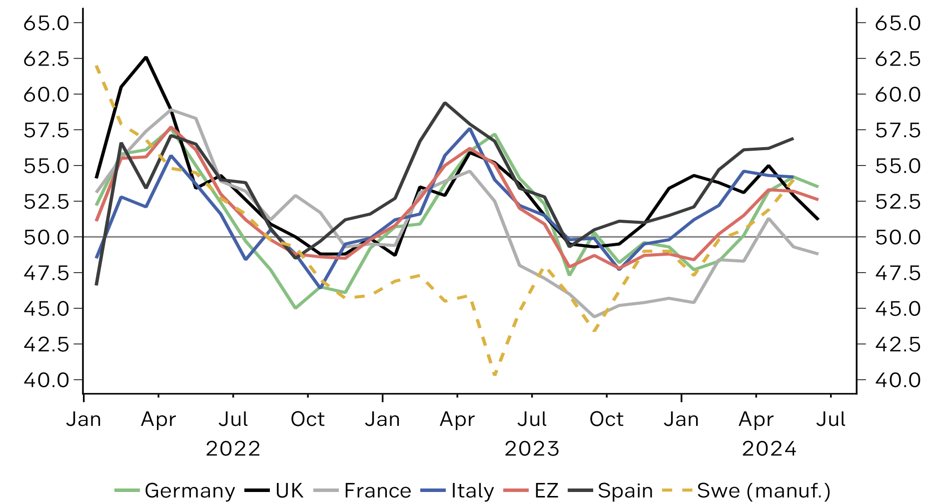


Figure 2: Europe has surprised positively, PMIs are in an upswing and rate cut cycle has begun



Source: Macrobond, SEB House View

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Economy – Emerging Markets

Election-related volatility has been high in EMs

- India's elections eventually resulted in the status quo more or less remaining, i.e. pro-growth BJP/Modi winning albeit with a much smaller majority. There was meaningful volatility around the results as markets feared the potential of a new regime/gridlock situation, which have since abated.
- Mexico's elections also surprised the markets negatively as Morena/Sheinbaum won by a landslide. Market's fears have centered around potential constitutional changes with such a large mandate.

Growth picture is generally positive in EMs, though China still has uncertainties

- India's strong growth has continued and it surprised positively yet again during Q1/24 by growing at a strong 7.8% (YoY) rate
- China's official PMIs are again showing weakness (although the private sector Caixin is showing more positive signs). The real estate sector remains weak although recently certain easing measures have been put in place which may not show in the activity data yet. Most recent activity data from May pointed to slight downtick in industrial production (+5.6% YoY vs. 6.7% in April), though perhaps more importantly the retail sales component growing to 3.7% (2.3%) is a positive.
- Both EU and US have recently discussed and set up tariffs on some Chinese goods which is a risk factor going forward, especially as the US elections approach.

Lat Am still only modest growth expectations (2024 YoYe 1.5%), but a likely benefactor (Mexico), if US/Europe-China trade tensions or geopolitics escalate further. Lat Am equities have been under huge pressure recently, however.

Figure 1: India continues strong and Q1 beat expectations by a wide margin, revisions positive

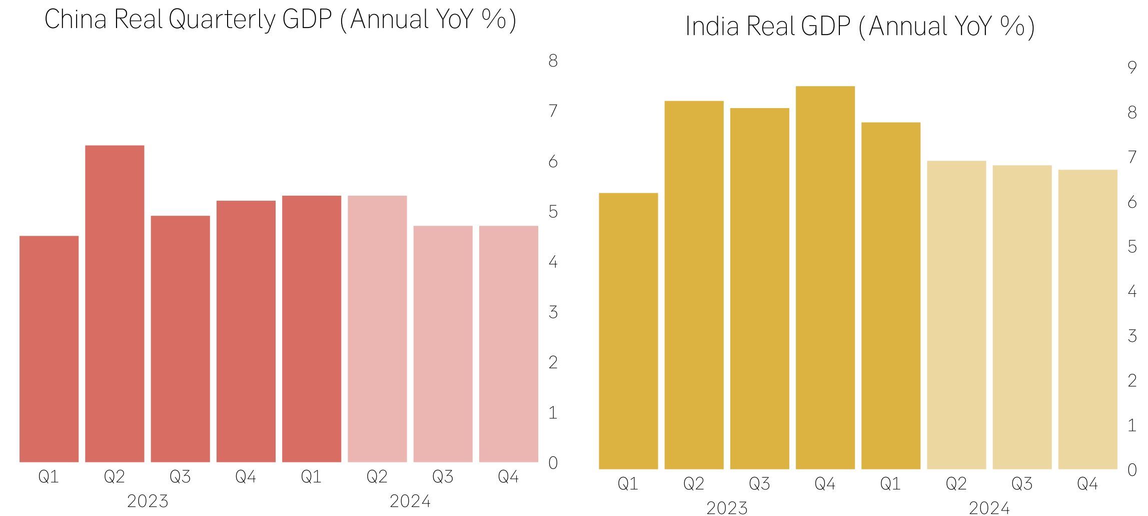
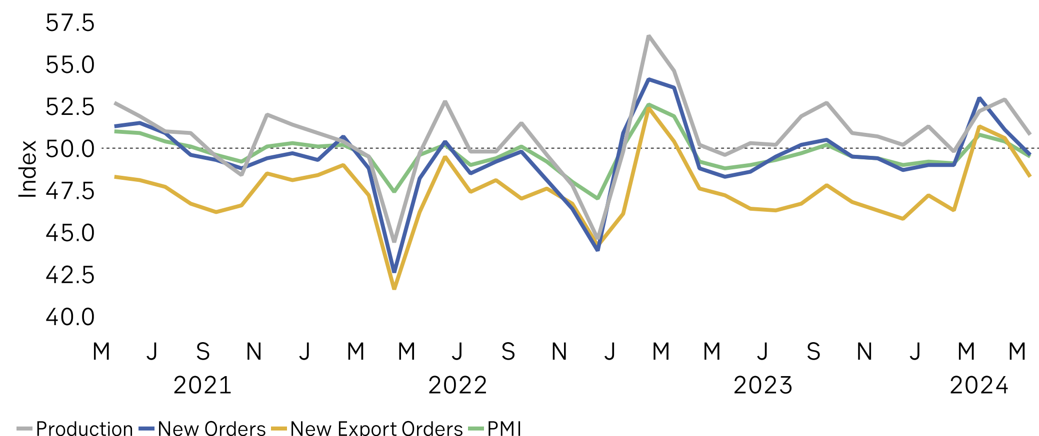


Figure 2: Chinese PMI and sub-components



Sources: SEB, Bloomberg, Macrobond

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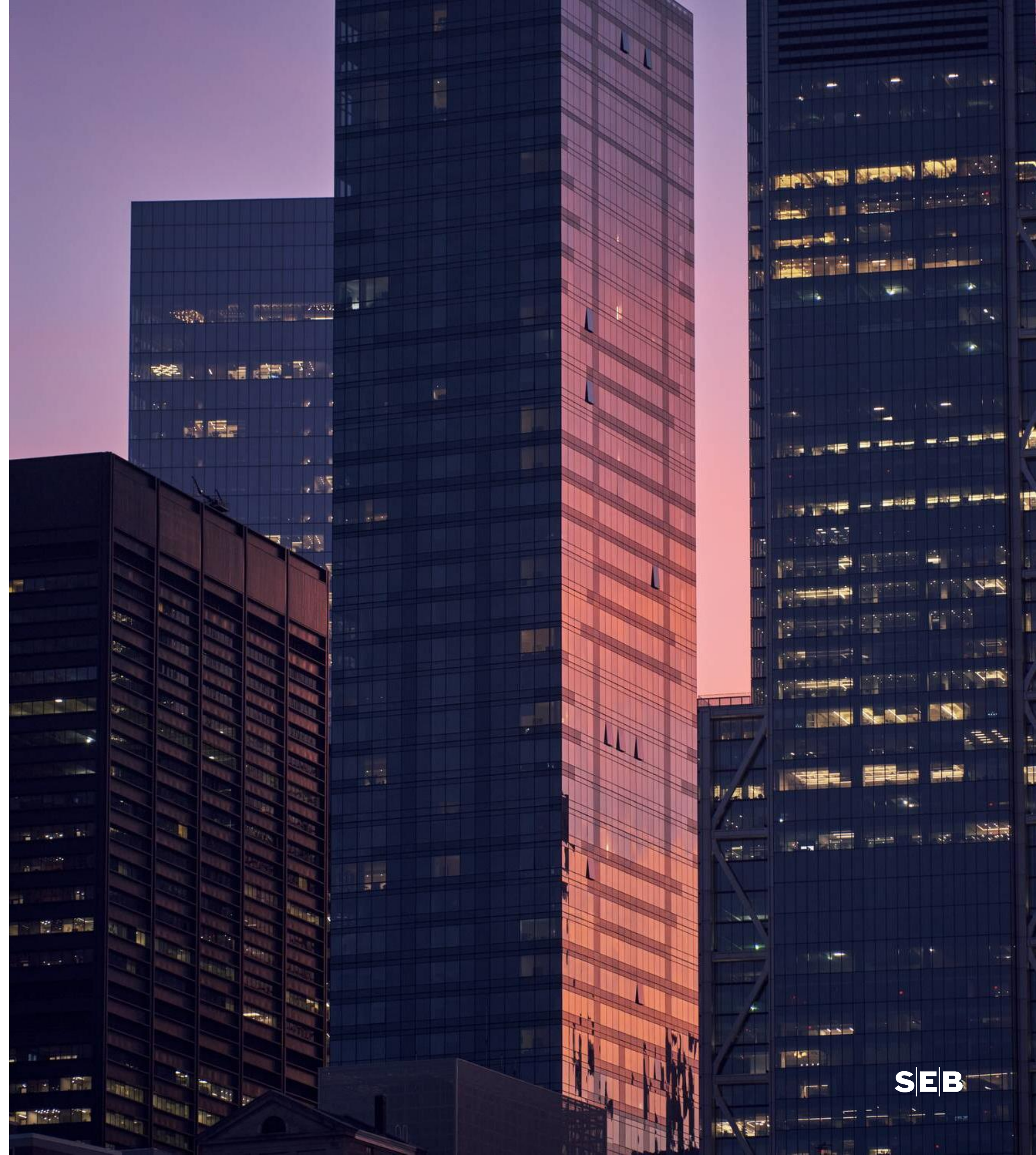


Developed Market Equities – 12M Outlook

Our 12-month outlook for developed market equities is a bit more cautious, but still positive given that we expect a soft-landing scenario

- Developed market central banks will likely go ahead with more rate cuts during the second half of the year, which in a soft-landing for the economy, will be supportive for equities on a strategic horizon. We anticipate a moderation in inflation and as a result, DM yields will likely fall a bit further, buoying DM equity valuations. Historically, US equities have performed well during Fed pauses, S&P has on average delivered 26.8% AR, with additional upside after the first rate cut, supporting our 12-month outlook for equities.

A 'soft landing' remains our base case scenario, but the risk of downside growth may heighten in an environment of "higher for longer" interest rates

- We expect inflation to normalize without inducing a recession. Labor markets in the US and Europe have remained strong despite higher interest rate levels. However, the lagged effects from tighter monetary policy should lead to downward pressure on growth. A mild recession still remains a risk to our outlook as savings and fiscal stimulus from governments start to wane.

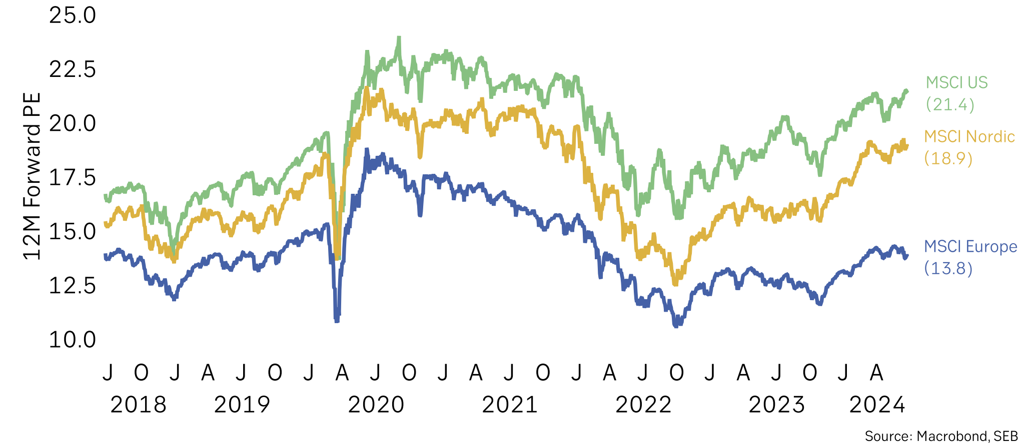
2025 earnings growth in the US and EU is expected to improve from 2024 levels

- We expect that both US and EU equities to also be driven by better earnings growth which can lead to a positive performance.

Small-caps have lagged large caps, but may have upside potential going forward

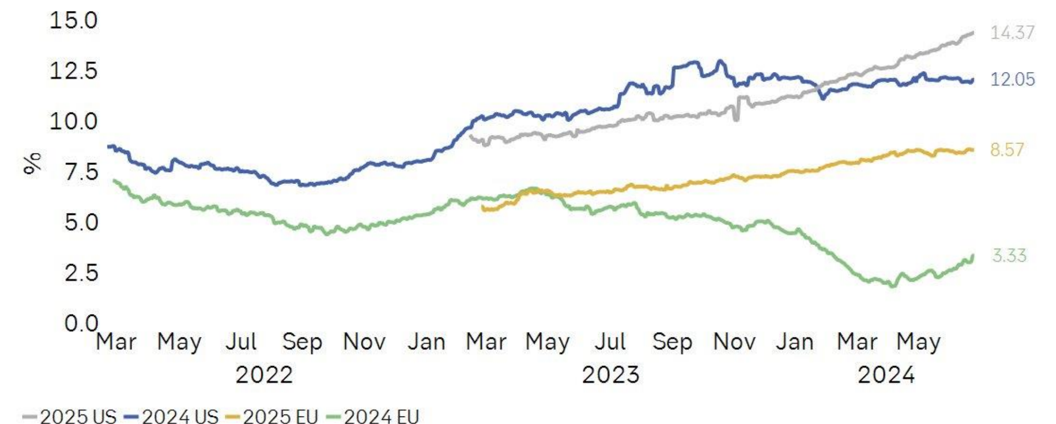
- Small-cap stocks have underperformed large-cap stocks last year and appear attractive due to their inexpensive valuations. Small-caps may be poised for outperformance when central banks initiate rate cuts.

Figure 1: We have seen an uptick in valuations lately. As Fed start to ease monetary policy during second half of 2024, we could see some further expansion in multiples



Source: Macrobond, SEB

Figure 2: U.S. and European EPS growth are expected to continue to improve in 2025



Source: Macrobond, SEB

Emerging Market Equities – 12M Outlook

EM Equities have rallied in the past few months, and we are slightly more optimistic. Over a 12-month horizon we could turn constructive on EM equities, which should be supported by a weaker USD, looser global monetary policy and low positioning overall in the region.

- Lower interest rates should boost demand and drive growth higher over the next 6-12 months. The EM region is projected to grow more rapidly than DM countries. Improvements in Asian exports also suggest better EM macro momentum ahead. Exports from South Korea and Taiwan, bellwethers for global trade, have gradually improved and show signs of a potential rebound in external demand

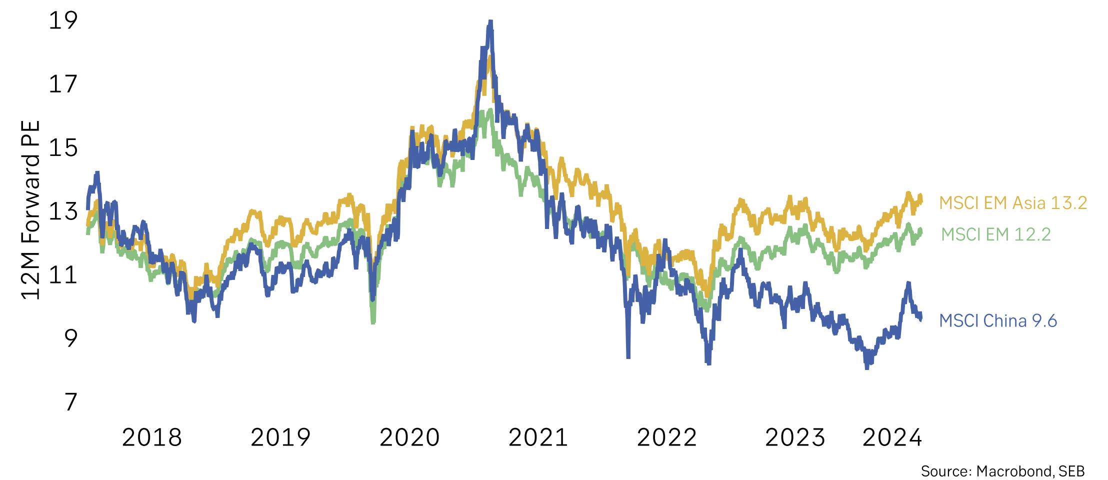
China faces economic and demographic challenges

- Investors are still overall bearish on China due to economic disappointments, a declining property market, and geopolitical challenges, leading to a de-rating of Chinese equities. Although China has rolled out targeted stimulus measures in recent months, their effectiveness remains uncertain, and aggressive fiscal stimulus may be limited due to China's high public debt. On the upside, Chinese equities have already priced in the negative news via a de-rating and could be close to a turnaround. Furthermore, the low valuations can limit further downside risks and provide a cushion against external negative shocks. Moreover, China's growth prospects still surpass developed markets, despite the downturn in the property sector, one of its key growth drivers.

The strong USD trend will likely begin to fade, supporting EM equities

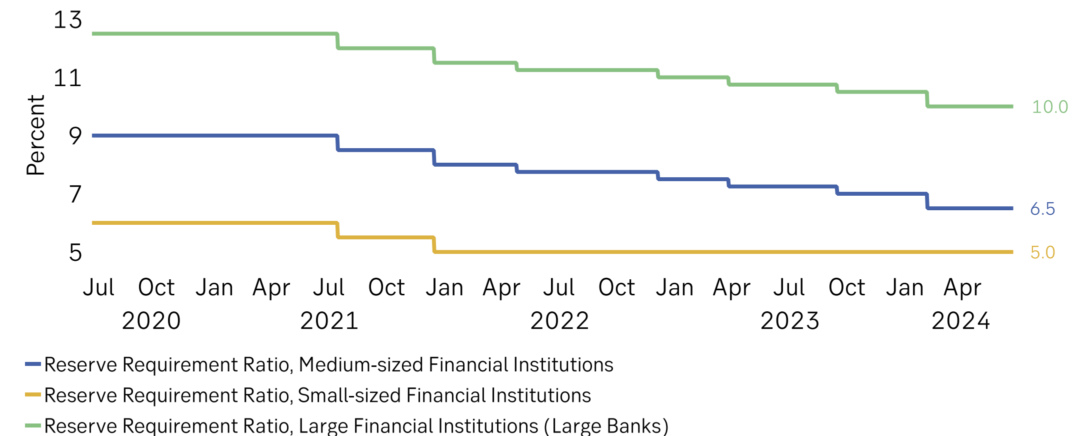
- We think the USD should weaken as recession fears fade due to resilient US hard data. Easing monetary policy should put downward pressure on the USD and a weaker US dollar should support EM equities.

Figure 1: Easing monetary policy should support EM growth and EM equities which could reaccelerate given the low valuations



Source: Macrobond, SEB

Figure 2: China has rolled out several stimulus measures, such as cutting its RRR rate, to support the stock market. The question remains if these measures are enough for a turnaround



Source: Macrobond, SEB

Corporate Bonds – 12M Outlook

Corporate bonds should benefit from lower rates and tighter spreads

- In a soft landing/goldilocks scenario, declining interest rates amid gradual monetary easing should benefit both corporate and government bonds. Nevertheless, corporate bonds should outperform government bonds as yields drop modestly, while credit spreads have better running yield.

In the case of a soft-landing scenario, high-yield corporate bonds could outperform their IG counterparts, but on a tactical horizon we prefer to keep a slight underweight given that risks of widening spreads are not over

- In a soft-landing scenario characterized by stable growth and increased risk appetite, high-yield corporate bonds are poised to outperform investment-grade bonds. Given their higher spreads compared to investment-grade bonds, high-yield bonds should become more appealing, especially as concerns about a potential recession diminish. As expectations for corporate earnings improve and default rates remain low, we can expect HY credit spreads to tighten.

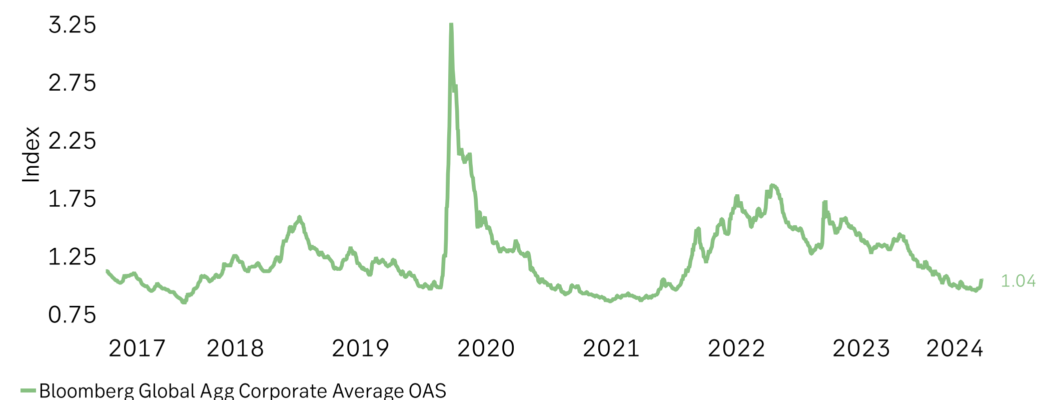
Downside risks to our 12-month outlook

- There are downside risks to our base case scenario and the uncertainty for next 12 months is relatively elevated. One such risk is that inflation proves to be more persistent than anticipated, prompting central banks to maintain higher for longer rates until something breaks in the economy. Another one is the growing political uncertainty in EU and specifically the upcoming election in France. Additionally, there is a possibility that economic growth unexpectedly turns sharply lower, causing a deeper downturn and prompts aggressive rate cuts from central banks. In all scenarios, IG credit spreads are anticipated to broaden modestly, while HY spreads widen significantly due to rising default rates, resulting in that high yields bonds underperforms safer investment grade bonds.

Figure 1: HY spreads in EU has recently ticked up some due to election uncertainty in France. However, we expect HY spreads to maintain tight in a 'soft-landing'/'goldilocks' scenario.

Source: Macrobond, SEB

Figure 2: IG bonds can also have a good performance next 12M as risk appetite improves and recession fears diminish. But risks of widening spreads cannot be disregarded



Source: Macrobond, SEB

SEB

Government Bonds – 12M Outlook

Government bonds will likely have positive returns on a 12-month horizon given expected global rate cuts

- Labor markets are in relatively good shape, which should slow wage growth and inflation. As inflation eases, we expect central banks to continuing to lower rates which should lead to a decrease in government bond yields over the next 12 months.

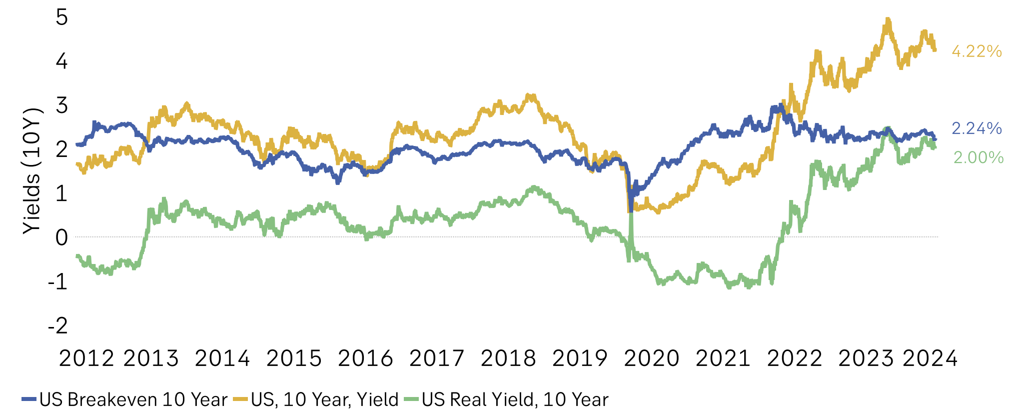
Given that bond yields are still at historically elevated levels, there is plenty of room for a positive rally in case of several rate cuts

- Easing monetary policy should boost both bond and stock prices. However, with reasonable growth and subdued inflation, equities might benefit more than government bonds. As interest rates decline, we expect EPS expectations to climb due to a resilient economy. Falling government bond yields also renders equities comparatively more appealing compared to bonds.

Sticky inflation and oil supply shocks could cause bond yields to rise further

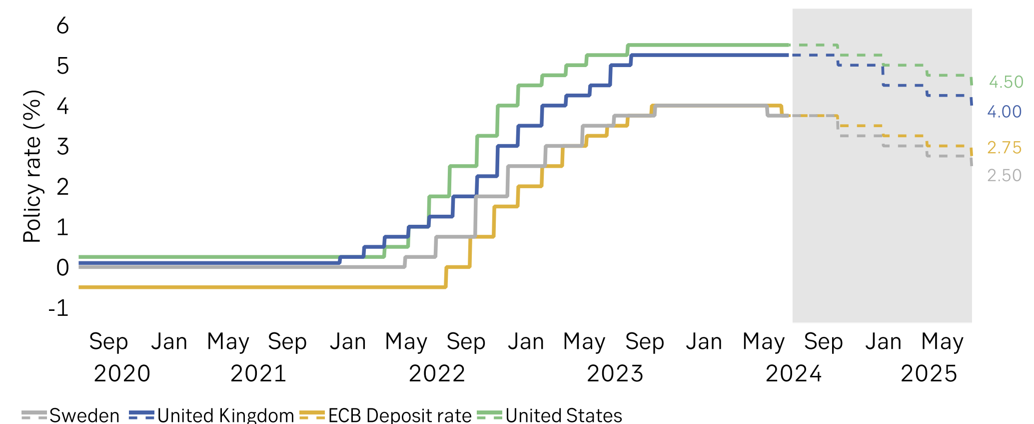
- However, there are many scenarios and factors that could prevent or postpone a bond rally. Persistent strength in US consumer spending and labor markets could sustain core inflation, which might compel the Fed to tighten further, driving bond yields upwards. Actions like OPEC further tightening the oil supply could be a catalyst. A surge in global commodity prices would pose an upside risk for inflation and thus bond yields. Rising inflation would likely deter central banks from cutting rates, pushing forward rate cuts expectations. Additionally, China's recovery could gain pace due to numerous new stimulus measures introduced, increasing demand for commodities and exerting upward pressure on commodity prices.

Figure 1: Real yields are in positive territory, but we expect real and nominal yields to decline as central banks continues to cut interest rates



Source: Macrobond, SEB

Figure 2: Central banks are expected to continuing to cut rates this year, which would benefit bonds. Forecasters are expecting a couple of rate cuts in 2024 and 2025.



Source: Macrobond, SEB

SEB

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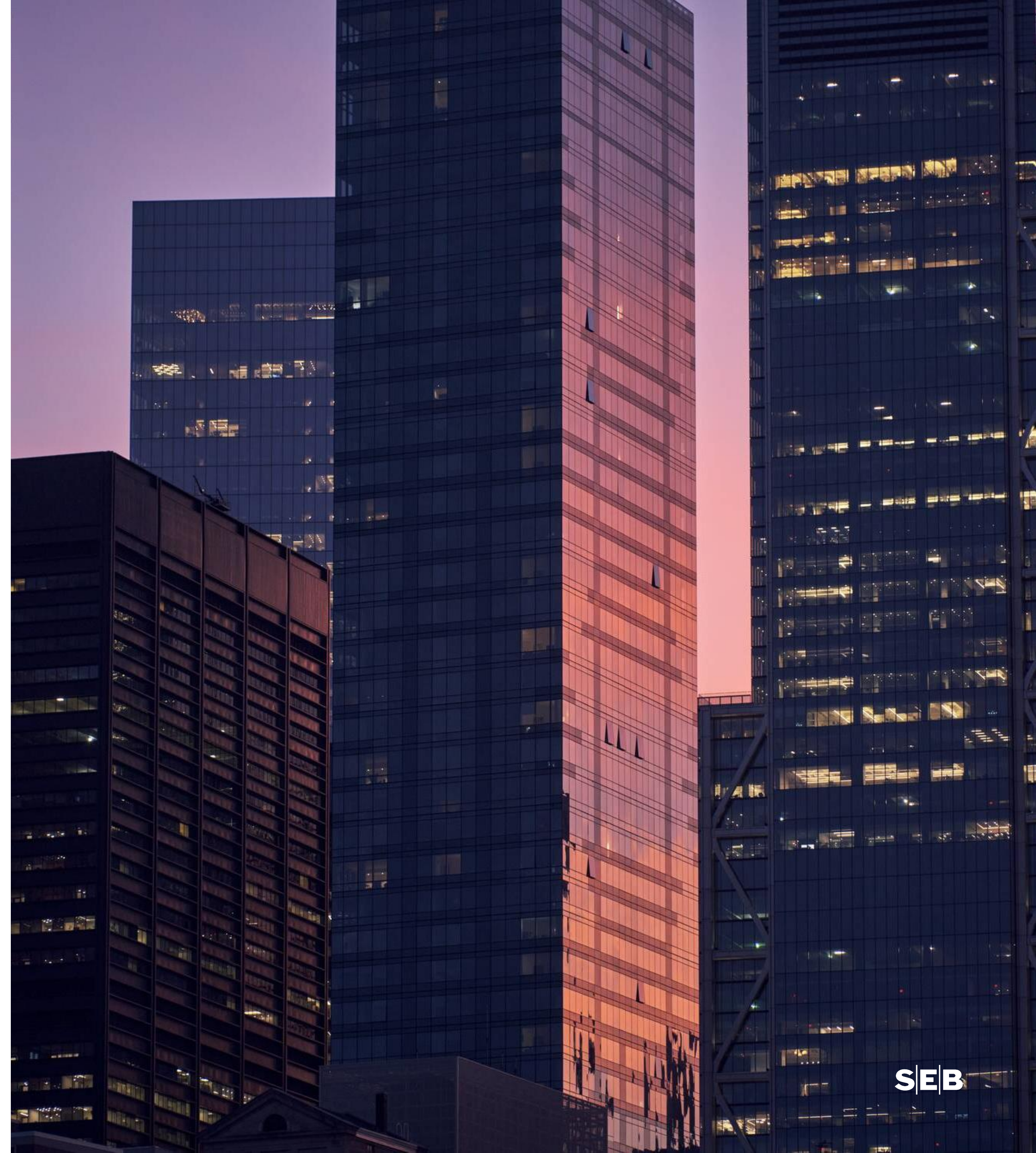
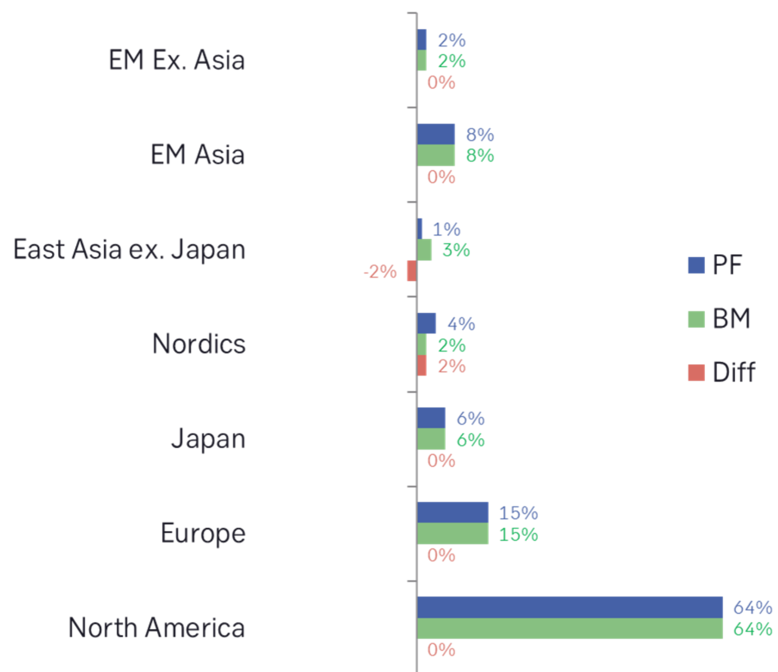
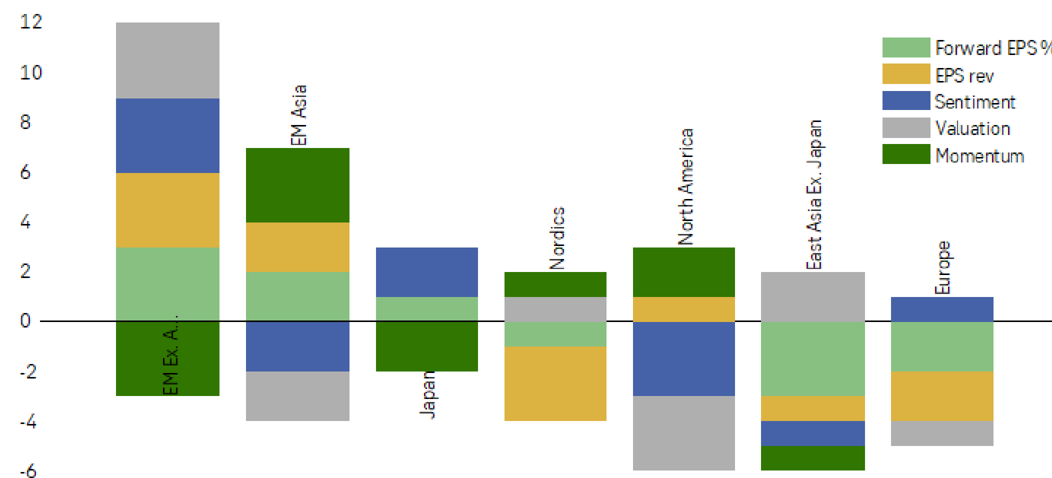


Region Overview

Regional equity positioning



SEB House View region score*



* Ranked by total score with highest score starting from left

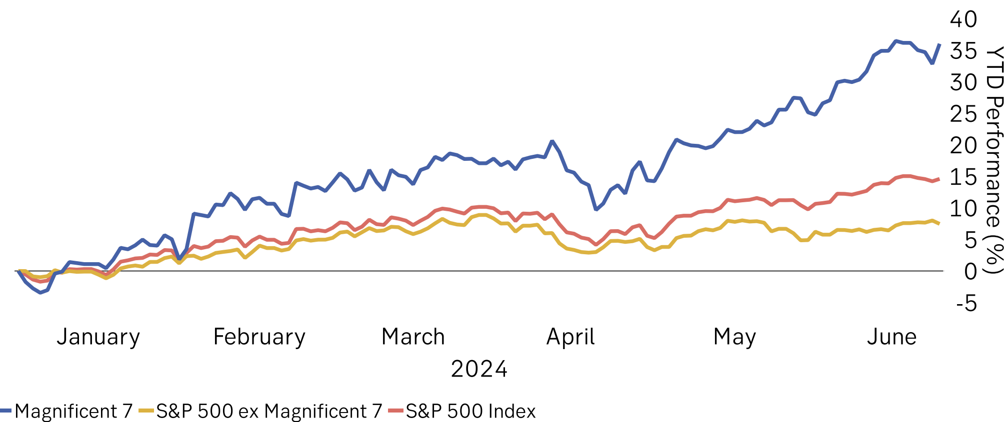
SEB

North America – Neutral

Weaker macro, but we expect growth to hold up relatively well. Due to high positioning, valuations, and concentration, we remain neutral on U.S. equities.

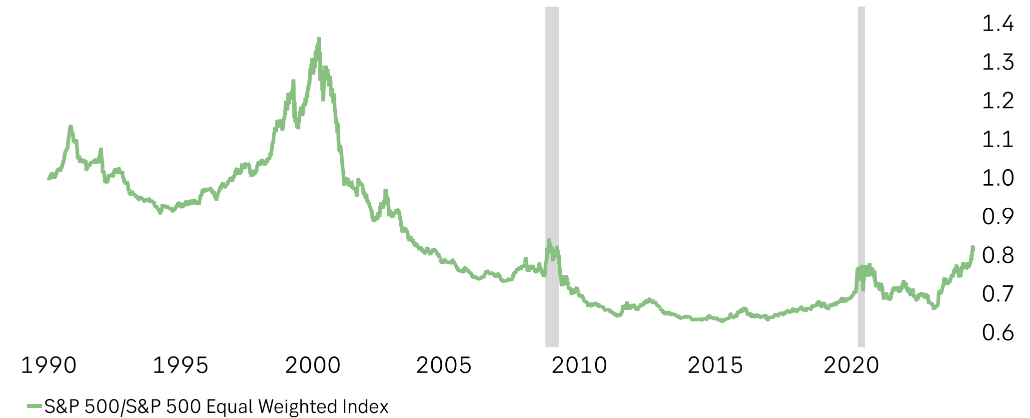
- U.S. macro surprises have turned negative with disappointing data in the past months. We expect growth to decline gradually, but remain solid. Recession risks have increased, but remain low in our view, due to a resilient labor market
- Slowing growth and disinflation should keep a lid on bond yields and open the door for Fed cuts this year, potentially more than the dot plot (1 cut) suggests
- Additionally, European political uncertainty and tariff issues could boost U.S. equities if global volatility spikes, given its safe haven status
- But given high equity positioning, rich valuations, and market concentration, leaving markets more vulnerable to disappointments, we stay neutral in the US
- **Within US equities, we prefer the Magnificent 7** for their robust earnings and defensive characteristics amid a growth slowdown and geopolitical uncertainties

Figure 1: The Magnificent 7 have outperformed the US equity market this year. We expect this trend to continue in the near-term, due to their solid earnings growth



Source: Macrobond, SEB

Figure 2: US equity markets have been narrowing, with mega-cap tech stocks outperforming on the back of the AI story, but it is not flashing red yet



Source: Macrobond, SEB

Figure 3: While the valuation of Magnificent 7 is higher compared to US large caps, they are not particularly expensive compared to their own history

Source: Macrobond, SEB

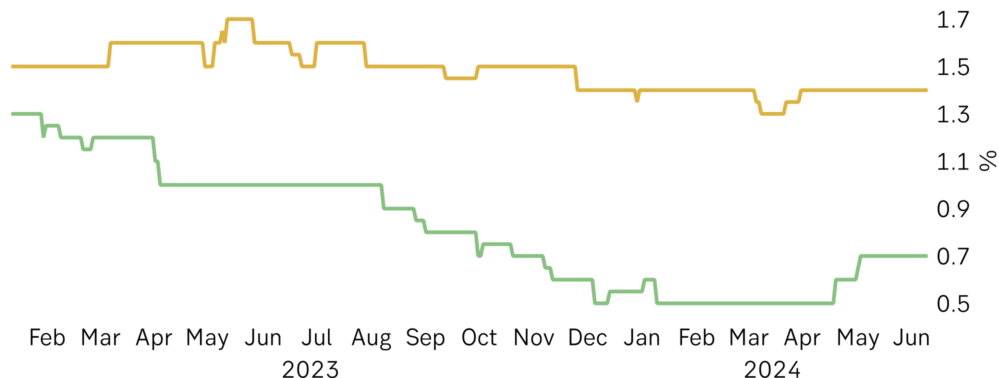
SEB

Europe – Neutral

We expect growth to improve as the ECB cuts rates. However, French elections and tariff issues add uncertainty to European equities. We prefer to stay neutral.

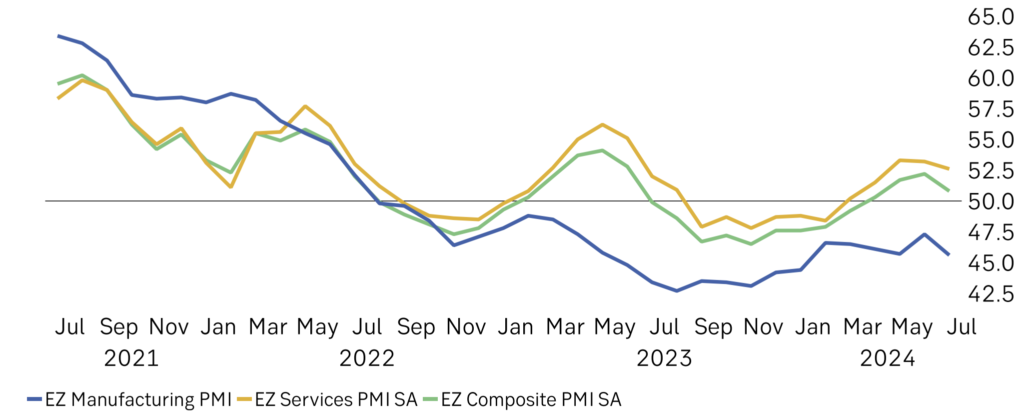
- The region ranks lowest in our region model, due to low scores on EPS outlook and revisions, however, we expect growth momentum in the region to improve (albeit from a slow pace) now that the ECB is cutting rates and inflation is easing
- That said, the preliminary June PMI data was disappointing, indicating a sharp slowdown in Eurozone business recovery due to weaker demand
- Political uncertainty will likely remain high in Europe until after the French elections, and the risk of tariffs from China and the U.S. further adds to the uncertainty for European equities
- Therefore, we stay neutral on European stocks. We prefer for small caps due to their relatively low valuations and profit potential. Historically, they also tend to outperform large caps as the ECB begins to lower rates.

Figure 1: We anticipate growth momentum in Europe to continue to improve, albeit from a slow pace, now that the ECB has begun cutting rates and inflation comes down



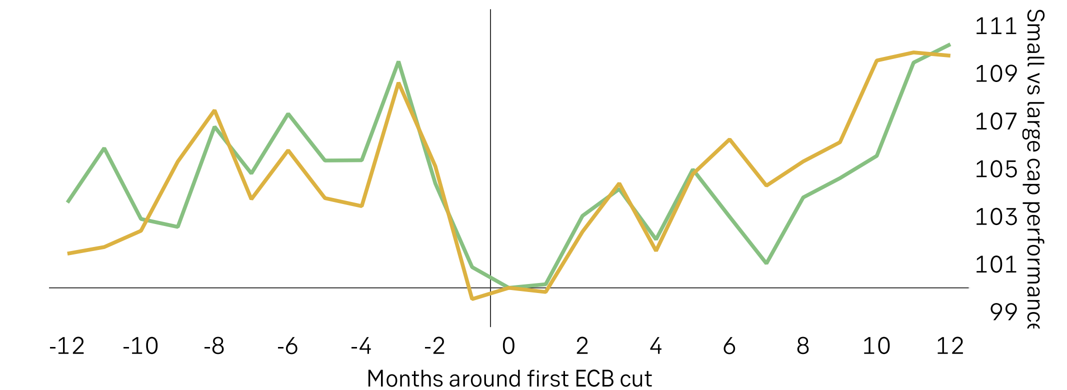
Source: Macrobond, SEB

Figure 2: That said, preliminary June PMI data showed a sharp slowdown in Eurozone business recovery, with services losing momentum and manufacturing contracting more



Source: Macrobond, SEB

Figure 3: European small caps usually outperform large caps as the ECB begins to lower rates



Source: Macrobond, SEB

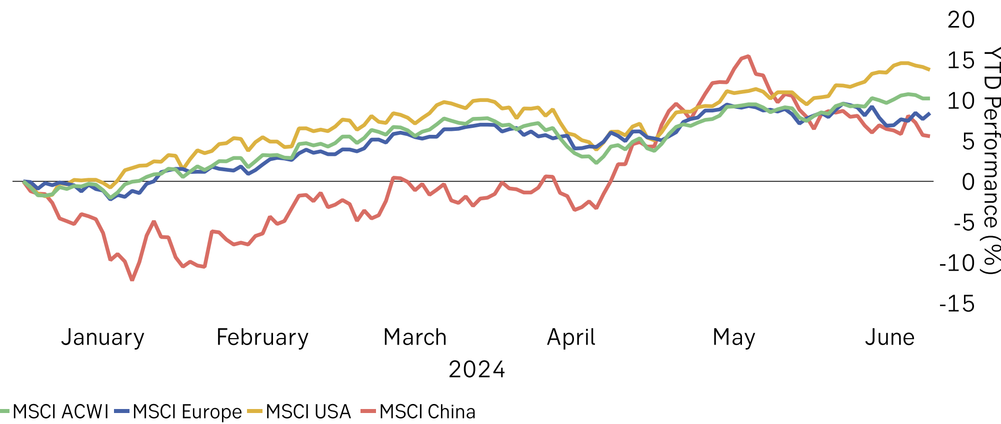
SEB

EM Asia – Neutral

Positive earnings revisions and cheap valuations, but looming risks from tariffs. We stay neutral on Chinese stocks as uncertainties have increased

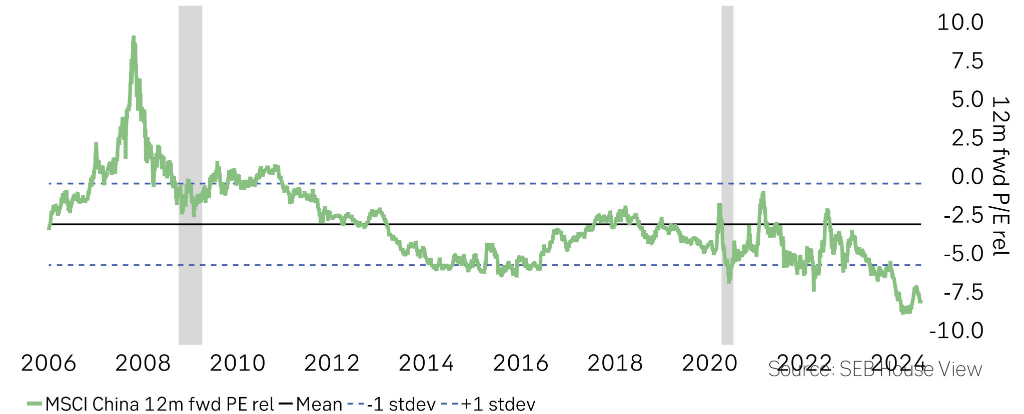
- Chinese equities have declined since our last update due to rising trade tensions from US and EU tariffs on Chinese goods and disappointing macro data
- Tariff threats, especially with the upcoming US election, pose a risk to Chinese equities in our view, and we are monitoring the situation closely
- China macro surprises turned negative this month with weaker-than-expected economic data, while PMI data has been mixed. The official manufacturing PMI signaled a contraction in May, while the Caixin PMI showed improving activity
- On the positive side, Beijing has ramped up efforts to stabilize the housing market, EPS revisions have been positive, equity valuations remain cheap, and positioning is still supportive for Chinese equities
- Considering these factors, we prefer to stay neutral on Chinese equities

Figure 1: Chinese stocks have underperformed lately, amid rising trade tensions from tariffs and weaker-than-expected macro data



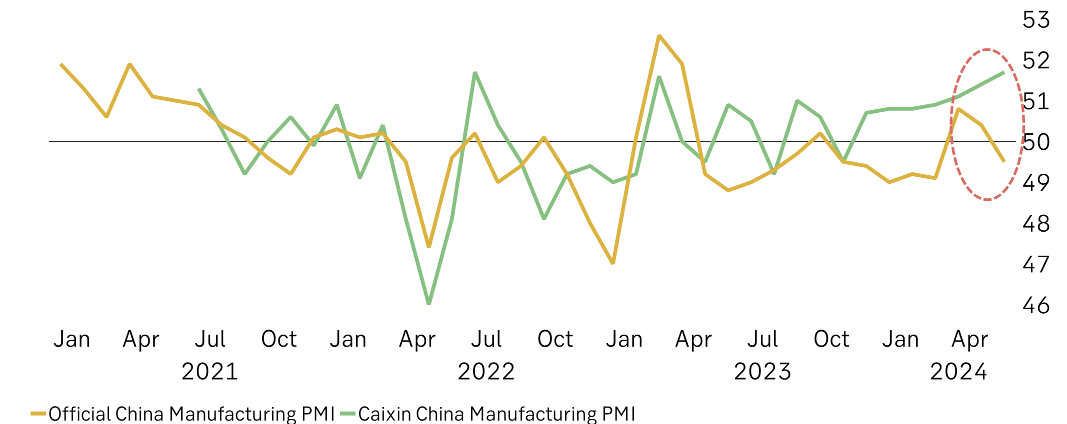
Source: Macrobond, SEB

Figure 2: However, Chinese equity valuations remain cheap – MSCI China relative 12m forward P/E ratio is more than 1 standard deviation below its mean



Source: Macrobond, SEB

Figure 3: The official and Caixin manufacturing PMIs were mixed in May: the former indicated contraction, while the latter signaled rising manufacturing activity



Source: Macrobond, SEB

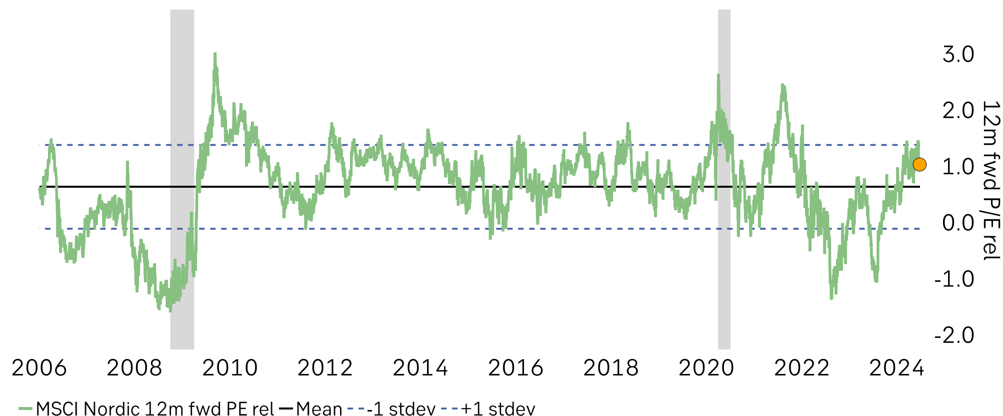
SEB

Nordics – Overweight

We prefer to remain overweighted to Nordic equities, especially Swedish equities, as we see more upside on the back of stronger fundamentals, driven by rate cuts and better growth

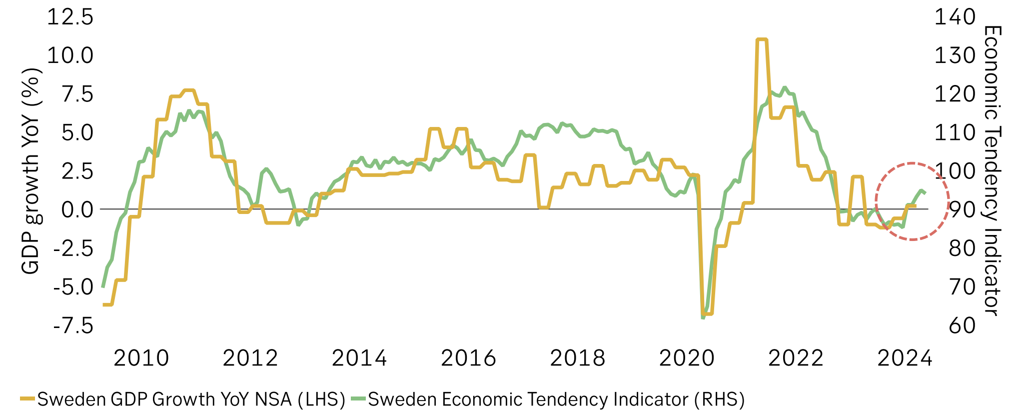
- The Nordics achieve relatively low scores on a muted earnings outlook and revisions in our regional model. Having said that, we believe improved growth and stronger fundamentals in the region will boost stock prices ahead
- Final GDP data showed Sweden's economy saw an unexpected rebound in Q1, up from flash estimates showing a contraction. Both the Sweden manufacturing PMI and Economic Tendency Survey are at levels consistent with GDP growth
- We anticipate growth in Sweden to improve ahead, aided by lower inflation and interest rates. Our economists expect the next Riksbank cut in August
- In terms of relative P/E valuations, Nordic equities are neither cheap nor overly expensive. Swedish equities, on the other hand, have lower P/E valuations.

Figure 1: In terms of relative P/E valuations, Nordic equities are neither cheap nor extremely expensive. Swedish equities, on the other hand, have lower P/E valuations



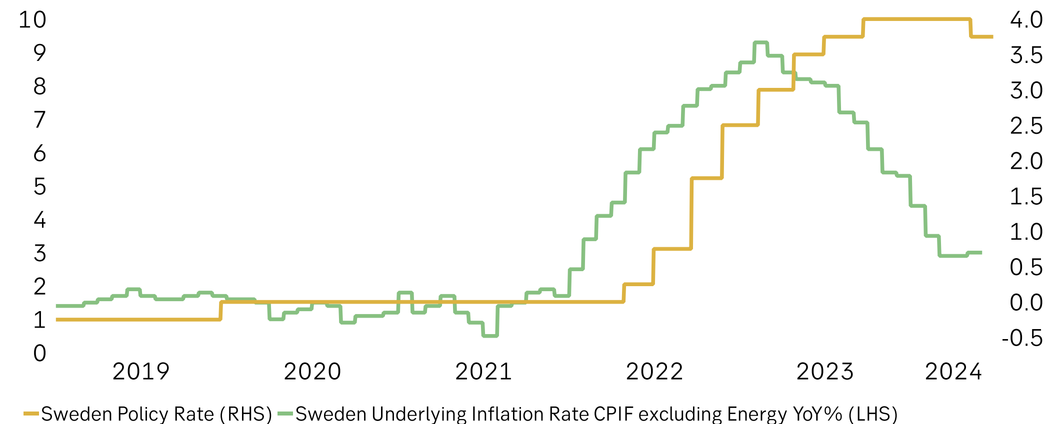
Source: Macrobond, SEB

Figure 2: Though still below its historical average of 100, Sweden's Economic Tendency Survey is now at levels which can suggest GDP growth ahead



Source: Macrobond, SEB

Figure 3: Inflation in Sweden came in higher-than-expected in May, removing chances for a June cut by the Riksbank, however, our economists still expect a rate cut in August



Source: Macrobond, SEB

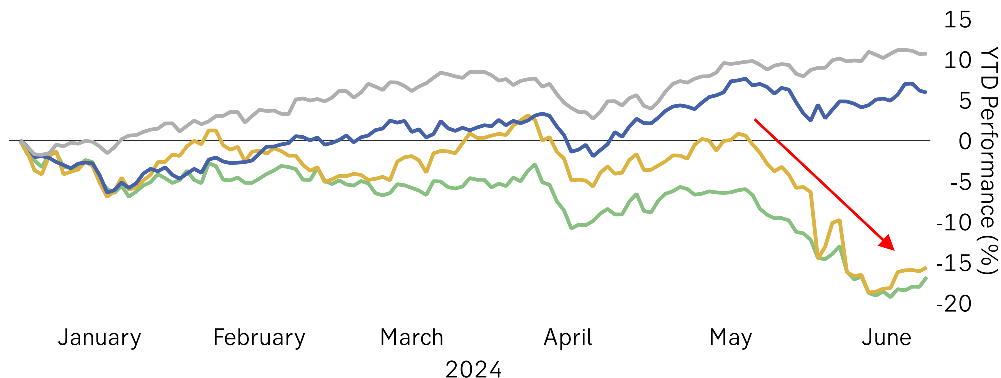
SEB

EM Ex Asia – Neutral

Despite scoring highest in our model for its EPS outlook and low valuations, negative momentum and expected growth slowdown lead us to remain neutral on the region

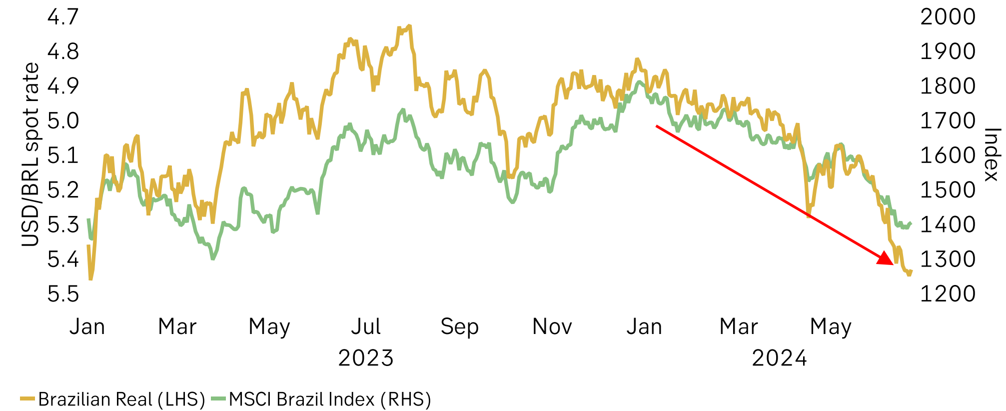
- Latin American equities have continued to underperform, pressured by the June Mexican election and judiciary reform fears weighing on investor sentiment
- Although the Mexican election is over, political uncertainty in the country remains high, especially with the upcoming U.S. election in November
- Our economists expect slower growth for Brazil and Mexico this year. Mexico faces risks from tight monetary conditions, government spending cuts, slowing U.S. growth, and a strong peso. Brazil's financial conditions have tightened, and the BCB may pause its easing cycle amid economic uncertainty
- Furthermore, negative investor sentiment persists over fiscal policy uncertainty in Brazil which has led to a slump in both its stock market and currency

Figure 1: Latin American equities have underperformed this year, recently pressured by the June Mexican election, as fears over controversial judiciary reforms have continued to weigh on investor sentiment



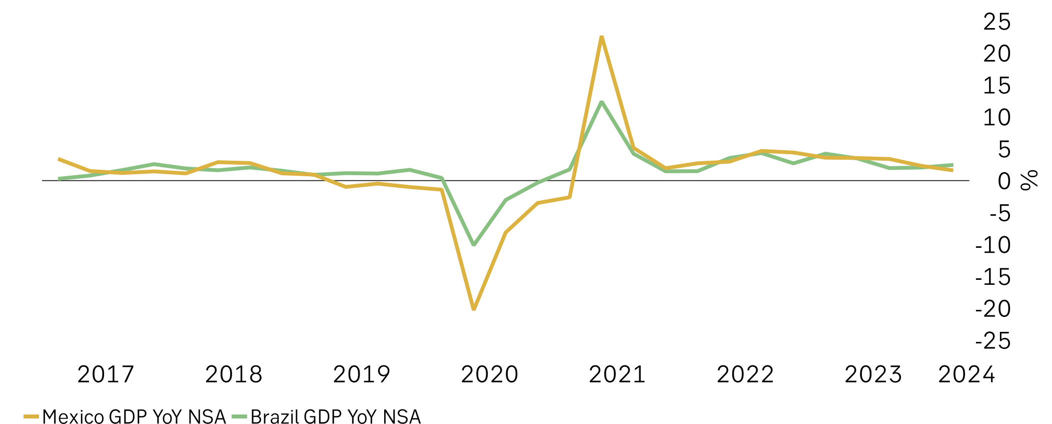
Source: Macrobond, SEB

Figure 2: Negative investor sentiment persists over fiscal policy uncertainty in Brazil which has led to a slump in both its currency and stock market



Source: Macrobond, SEB

Figure 3: The region scores highest on valuations in our model, but this is offset by a gloomier growth outlook, with our economists expecting slower growth this year



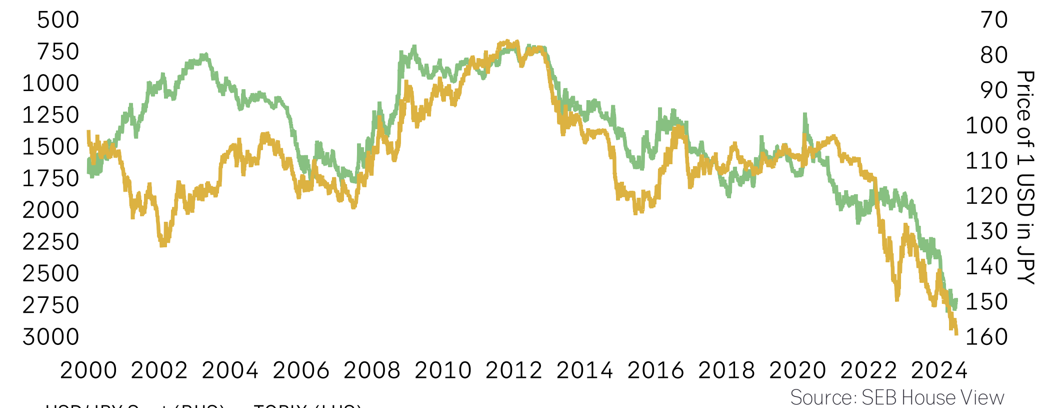
Source: Macrobond, SEB

Japan – Neutral

We maintain our neutral stance on Japanese equities due to the stalled economic rebound and high uncertainty ahead from rising interest rates and a stronger yen

- The rally in Japanese stocks has been driven by a weakening yen, strong earnings, and optimism around corporate reforms. However, we expect most of these tailwinds to fade as the yen is more likely to strengthen and the earnings outlook looks more uncertain
- Our economists anticipate BoJ rate hikes in July and September. This combined with a U.S. slowdown and Fed rate cuts, will likely strengthening the yen
- Additionally, higher interest rates add uncertainty to Japan's growth outlook, with the economy experiencing a stalled rebound and weak domestic demand
- Although we anticipate a global manufacturing turnaround benefiting cyclical regions like Japan, this recovery may take longer than expected
- Thus, we prefer to maintain our neutral stance on Japanese equities

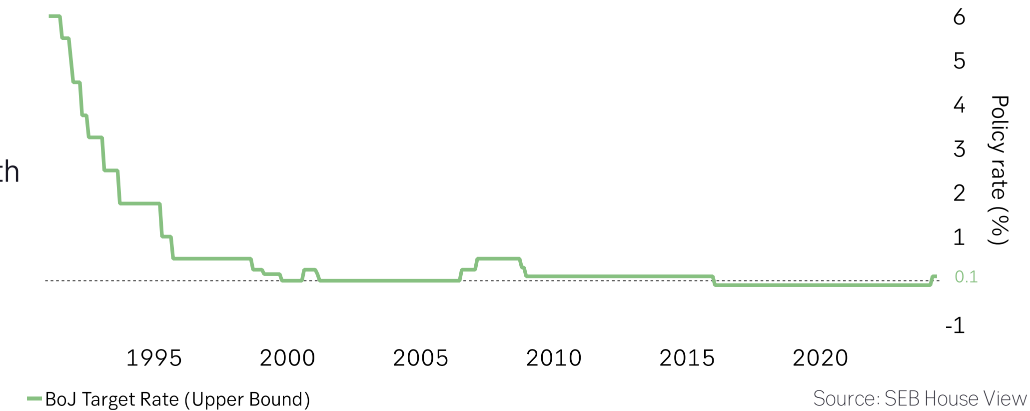
Figure 1: The rally in Japanese stocks has been driven by a weakening yen, strong earnings, and optimism around corporate reforms, but we expect most of these tailwinds to fade



Source: SEB House View

Source: Macrobond, SEB

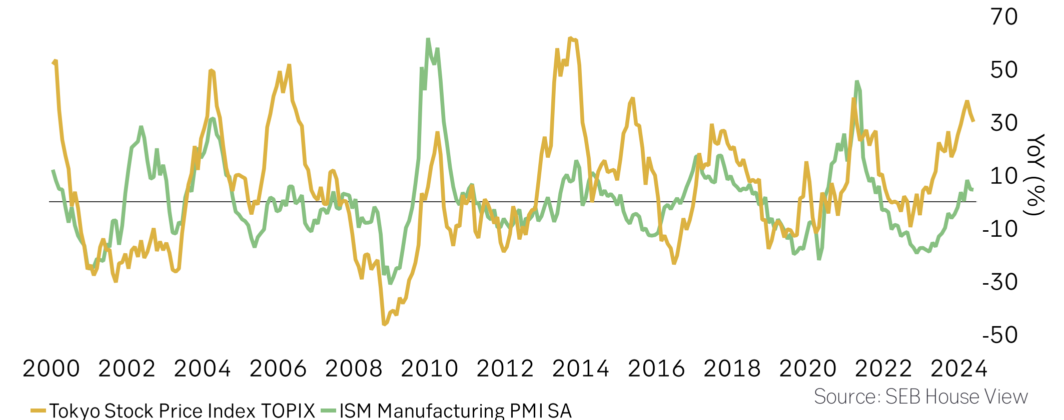
Figure 2: Our economists expect the BoJ to hike rates twice this year and Fed easing to start in September. A lower US-Japan rate differential will likely strengthen the JPY



Source: SEB House View

Source: Macrobond, SEB

Figure 3: An upturn in the global manufacturing sector has historically tended to benefit cyclical regions like Japan; however, the recovery in manufacturing may take longer than expected



Source: SEB House View

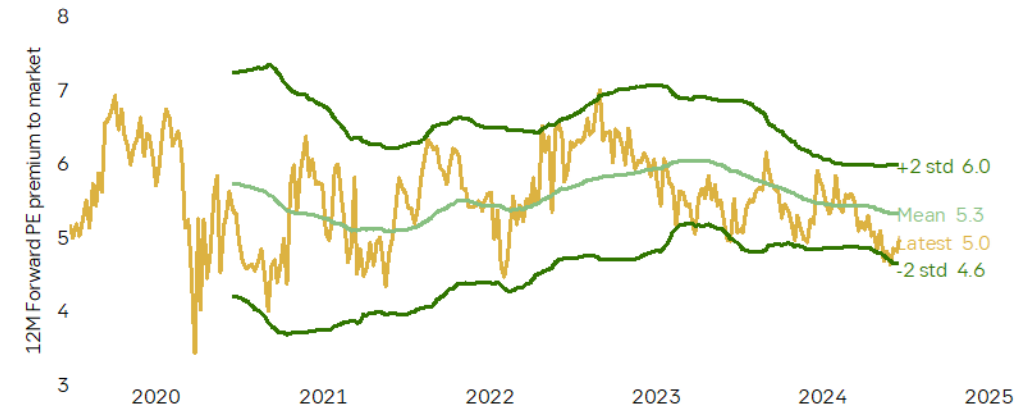
Source: Macrobond, SEB

East Asia Ex Japan – Underweight

We maintain our underweight to East Asia Ex Japan, due to its gloomy earnings outlook and heavy exposure to China which remains challenging

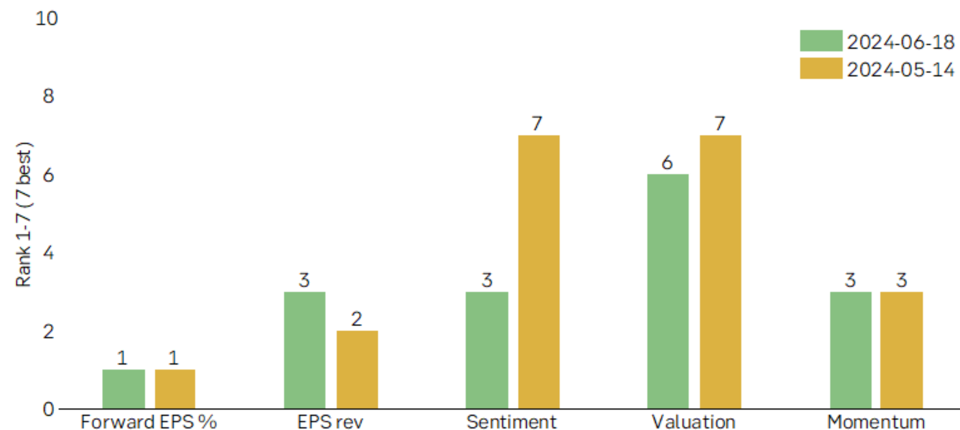
- The region's 12-month earnings outlook is dismal, ranking lowest in our regional model, even though earnings revisions have slightly improved since our last update
- The region's ranks high on low valuations in our model, however, it mostly consists of Australia, which is heavily exposed to China's challenging economy
- **Therefore, we prefer to maintain an underweight stance to the region**

Figure 2: Standardized relative valuation – Current constituents



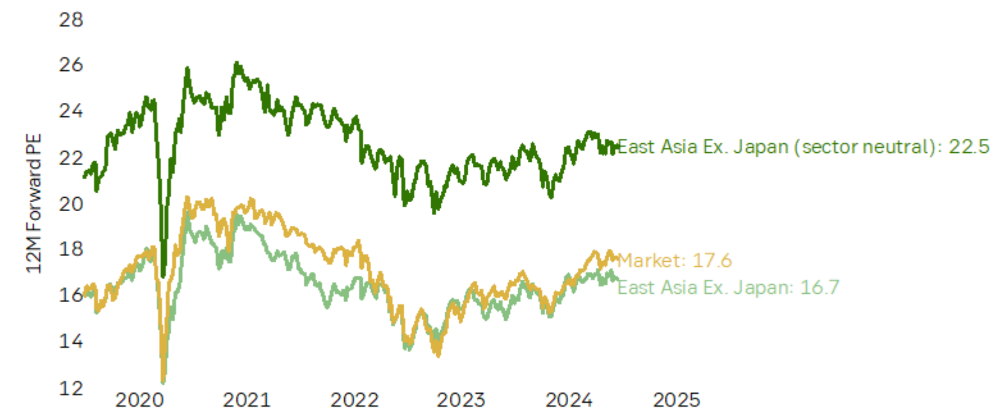
Source: SEB House View

Figure 1: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents

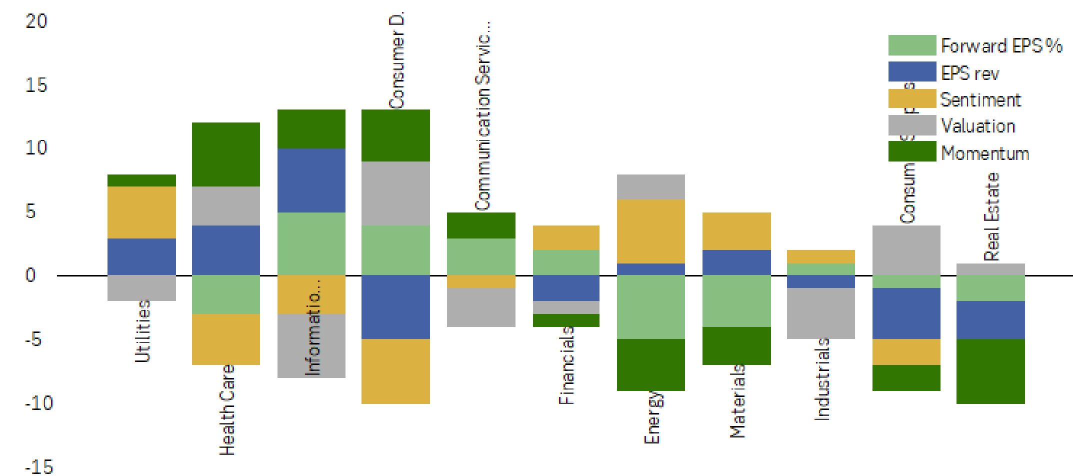


Source: SEB House View

Sector Overview

Sector	UW	N	OW
Communication Services		N	
Consumer Discretionary			OW
Consumer Staples	UW		
Financials		N	
Health Care		N	OW
Industrials		N	(OW)
Information Technology			OW
Materials	UW		
Utilities	UW		

SEB House View sector score



Source: SEB House View

* We do not take views on Energy or Real Estate. The former is too much of an oil call and the latter is too small a sector. (X) Indicates previous positioning.

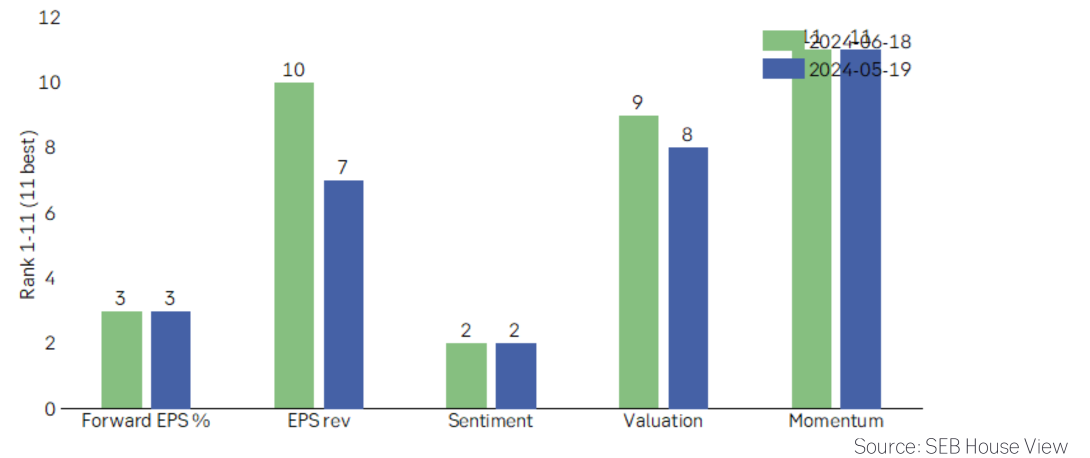
SEB

Overweight – IT, Consumer Discretionary and Health Care

We prefer to hold sectors with robust earnings, while keeping our slightly defensive tilt towards Health Care as we enter a late cycle environment

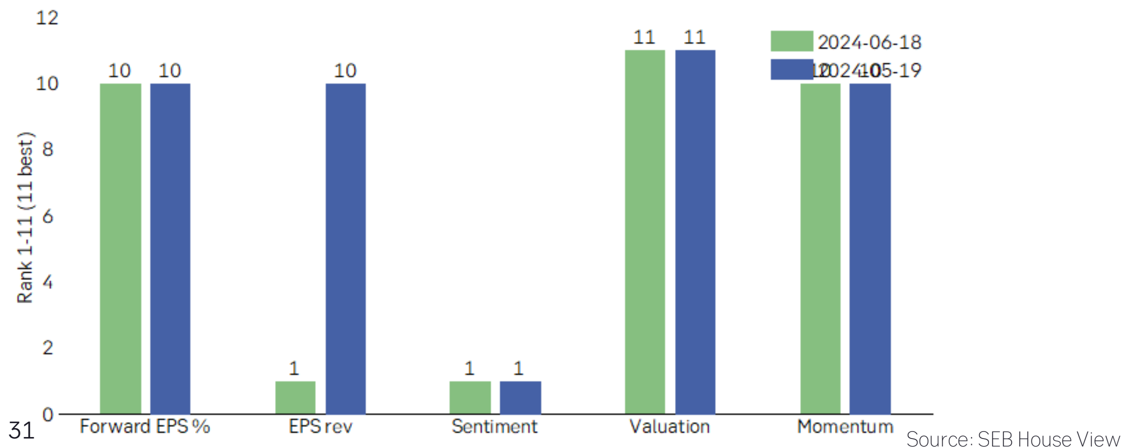
- We choose to stay overweight in Health Care as the sector has historically performed well during periods of falling inflation and is less volatile with rate swings. The sector shows strong positive momentum, and the current earnings season has been delivering positive surprises.
- We maintain our overweight position in Consumer Discretionary for now due to strong earnings and a still strong consumer spending. However, decreasing household savings and high prices pose some risks over the longer term
- We continue to overweight IT due to strong earnings, with expectations of rate cuts and support from the AI trend. This sector also provides downside protection due to its less cyclical nature.

Figure 2: Our sector model continues to signal strong momentum for Health Care as we enter a late cycle. Health care has historically performed amid periods of falling inflation



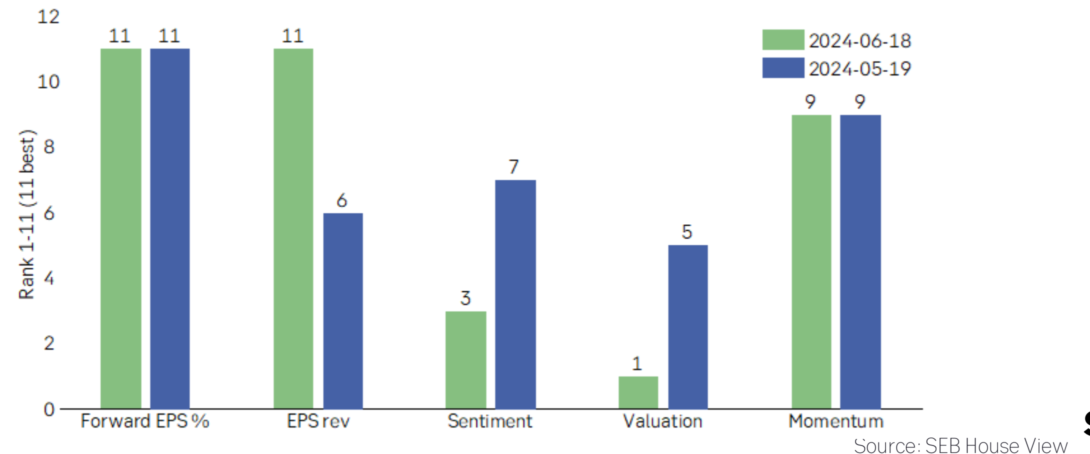
Source: SEB House View

Figure 1: The earnings growth outlook for Consumer Discretionary is still attractive



Source: SEB House View

Figure 3: Info Tech continues to experience strong momentum and robust earnings



Source: SEB House View

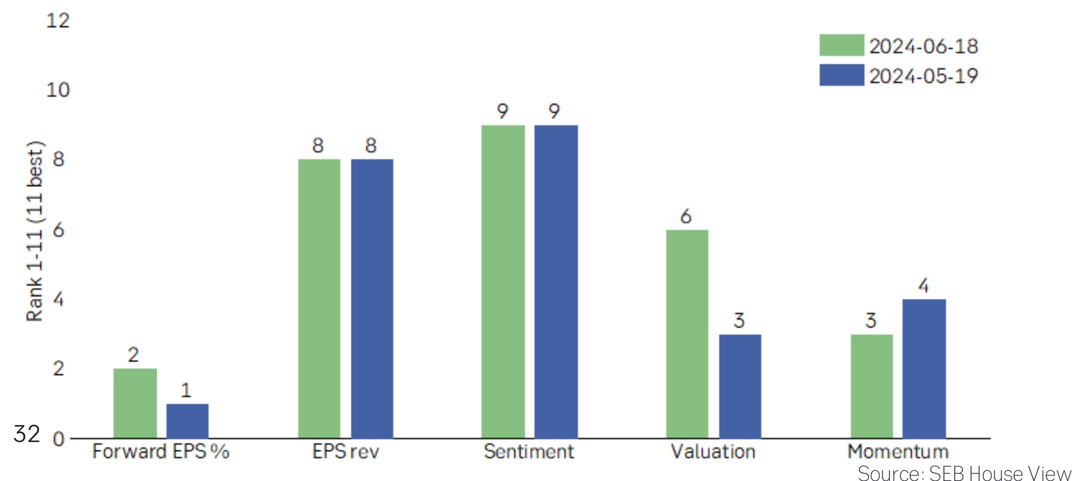
SEB

Underweight – Consumer Staples, Utilities and Materials

We maintain our underweights in Consumer Staples, Utilities, and Materials for now, as fundamentals do not support a change in allocation

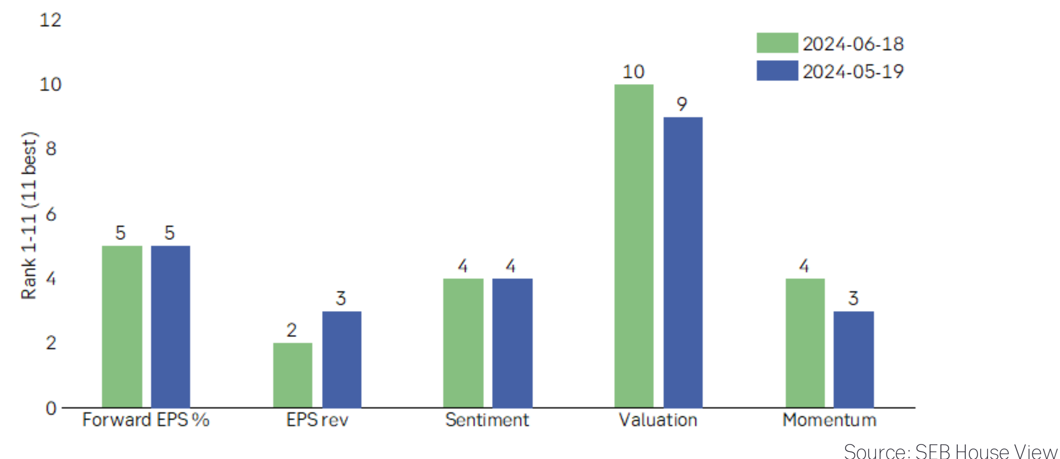
- Consumer Staples are expected to underperform relative to other sectors as long as the economic cycle remains strong. However, in the event of a significant downturn in macroeconomic indicators, this sector could become more attractive
- Utilities serve as a bond-proxy and usually perform well during a weaker economy and falling yields. Although we anticipate global growth to decelerate, we expect it to remain solid, with a low risk of recession. Additionally, current valuations are not particularly attractive, so we prefer to maintain a slight underweight in this sector.
- We maintain our underweight position in Materials due to a weak earnings outlook and an expected economic slowdown. The ISM manufacturing survey continues to indicate economic deceleration and demand for materials is likely to remain subdued as higher interest rates impact durable goods.

Figure 1: The earnings outlook for Materials remains weak, but is slowly improving



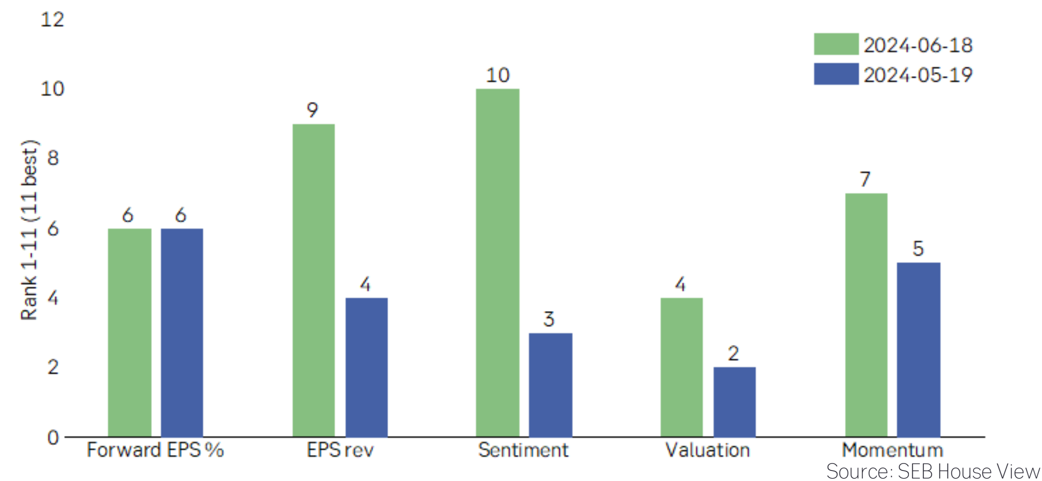
Source: SEB House View

Figure 2: Consumer Staples has a relatively weak earnings outlook for this year, but the sector could potentially become more interesting as we enter the late cycle



Source: SEB House View

Figure 3: Utilities has seen strong momentum, boosted by the AI boom



Source: SEB House View

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