SEB House View

9 November 2022

SEB

Overview

House View factors

Macro and Markets

Market and Fair Value Indicators

In Focus

Asset Class and Sector Views

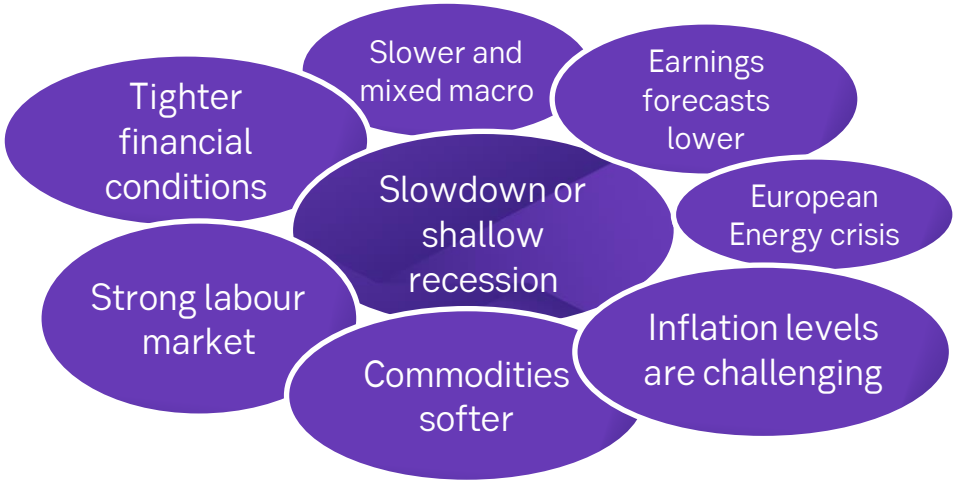
Step by step, a test of probabilities

Investment Regime: expectations or reality?

- Markets work with expectations, central banks work with risks
  - Today markets are starting to discount the turn in the FED's policy while central banks at the same time are acting to reduce any risk of continued inflation
  - One of the most important questions today is to predict when the FED is finished hiking and the subsequent policy
- After the last FOMC meeting in November the discussion among FED governors has more and more tilted towards – "let's take a break and see how the very quick hiking cycle affects the economy"
  - Usually there is a lag between hikes and effect of approximately 6 months, so what has been the fastest tightening in financial conditions in a very long time will affect the economy well into Q2 2023
- In the prediction teams, the likelihood that we have passed the inflation peak is high
  - If the current profile of the CPI inflation follows a similar pattern to earlier cycles and we are in the slope down, our heat map shows clearly what happens
- A consequence of that is that the likelihood for a plateau in policy and expectations of policy is near and when that is consensus, the dreadful volatility in bonds will recede and we get a possibility for a stable trend in equities
- The other driver of expectations is China, where growth has been low, well below expectations, probably needed levels, which is an issue for the party
  - Subsequent action recently incentivizing CapEx to private firms is an example
  - Covid lockdowns are the real challenge and when we see a definite policy change, we will get a strong macro support, but timing is trickier than expectations
- The conclusion of our reasoning above is that there is a potential positive tilt to our stance as the economy is nearing some inflection point
- The challenge is that there is still a very high volatility in the bond markets due to uncertainties on FED and when that volatility settles, the probabilities for a better regime rises
- But we patiently stay at 50, for now..

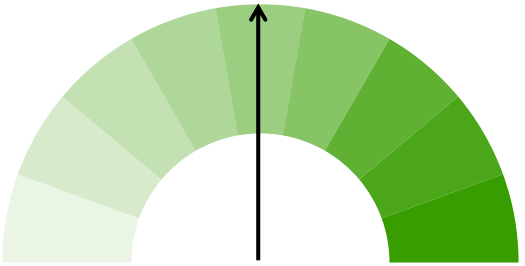
Investment Regime

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



Speedometer

50%



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).

Investment Regime: slowly moving to a new regime

The next step is a plateau in monetary policy

Monetary policy and the shift during 2022 have been the root cause of almost everything. The most important thing is how the central banks act and how they steer liquidity. This year almost every central bank, 32 out of 35, has been hiking aggressively. The effect is the tightest financial conditions in ages and a bond volatility above any standards. The effect on financial assets is of course very negative. This regime will most likely end in a quarter or two, hopefully one. The trend in inflation follows earlier peak phases and subcomponents as commodities are sharply lower. Monetary policy works with a lag and what we see now in weaker house prices is the first step. Building permits will follow the same trend down, and after that production as we now see in forward-looking PMIs, and finally employment. When that likelihood is seen as high, bond volatility will begin to fall, yields stabilize, and financial conditions improve. Then we are in a new regime.

The next question is how the business cycle will be and will it matter?

Markets have corrected and both equity and bonds valuations are far away from trends in the sense that current pricing of both markets have considered a weak development. Bond markets have higher yields that most likely is an effect of uncertainty on inflation and FED policies and if inflation continues to move down, current yields will be too high and need to come down. In other words, volatility has a price. Equity markets also holds a risk premia, in part because of high bond volatility, but also because high interstate sensitivity of growth stocks. The conclusion of this is that there are rather high risk premia in markets that gives some cushion for macro developments. Earnings forecasts have also been down- graded over the last month, so a weaker development is not an unknown fact.

But what about forecasts? GDP estimates are being downgraded

GDP estimates downgrades reflects a weak development stemming from tight monetary policies, lower real values and Chinas much weaker development. And China is a key possibility since a gradual shift in Covid policy and continued fiscal and monetary support would add signifcantly to global growth. A China that grows at 5% is a material difference to a China growing at 2%. China has taken over as the world's foremost source of demand.

Macro Advantage US, optionality China	• The US is at risk of entering a recession, • GDP forecasts are revised down • China works to lift growth • Most forecasts point to lower growth with a turning point in Q3 2023
Central banks Time to wait for effect	• Australia might be the first not to hike more • Financial conditions are super-tight, time to assess effects
Politics Supportive policies	• Russia continues to complicate the energy crisis and worsen prices • Governments seek ways to compensate for energy costs • Looser fiscal policy is on its way. due to a possible recession ahead
Corporates Does valuation reflect lower earnings?	• Inflation keeps the E in P/E high for now, but it will be challenged • Most companies will feel the pain of lower demand and tighter margins

RISKS Persistent inflation | FED policy mistake | Global recession | Political risks

Asset Allocation

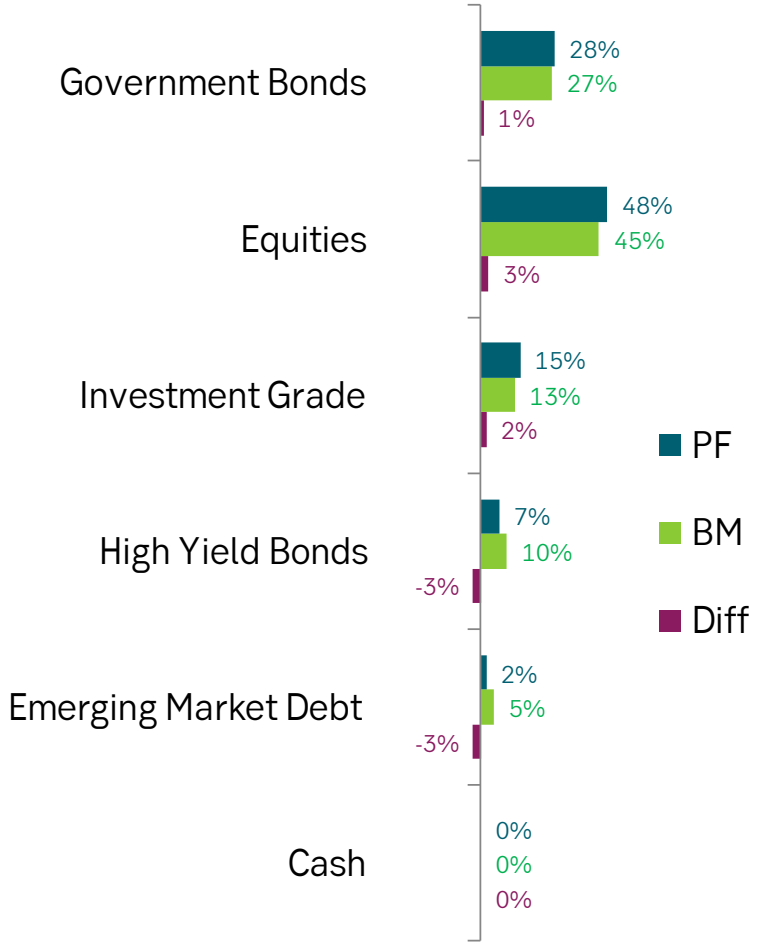
The reasoning to be overly defensive is likely easing

- We might be getting closer to the point when consensus moves over to a full peak in monetary policy and volatility starts to fall
  - In that case, bonds will be the first beneficiary, while equities will gradually benefit
- Based on our conclusion from that and our assessment that both markets carry sufficient risk premia, we cut our cash position to 1% and allocate to government bonds and IG bonds
- Bonds are probably the asset class that will benefit most from a change in central bank expectations
- The forecast for inflation and the business cycle will gradually benefit all asset classes so a neutral/equal weigh in both equites and bonds is natural
- Looking at equity market factors the defensive parts of the market has outperformed lately, pointing to a defensive view on the business cycle.
- If we want to see a strong trend in equities it is necessary to see more cyclical sectors perform, and that lies a bit away still, so a neutral positioning is natural

Bonds have been resurrected

- The investment landscape has shifted substantially as bonds nowadays carry yields
  - The effect of that will be evident on other asset classes as hedges etc.
  - For our part we lift our bond allocation to low-risk segments of the bond market
- Government bonds with some duration is a yield source and if we are closer to the turning point in yields, they offer value
- If the business cycle becomes softer than expected, they will probably be a good source of return as yields has risen
- Investment grade bonds carry a relevant risk premia and attractive spread levels.
- The risker parts of the bond universe will still be underweighted
- EMD needs a new USD regime and HY still has some cyclical risk to price in

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

We hold our US overweight

- The outmost driver of regional performance the last year has been the strength of the USD
- That trend Is still dominant, driven by reasonably good macro performance
- There is a tendency for other regions to catch up with the US, but it is still too early to call a change to that trend, and we take the safer road
- One element in the strategy is that macro data is sluggish and consensus is for recession, likely or not
- And with the other regions' weaknesses, the US will probably fare best and the USD will continue to be a stable asset…
- The last bounce up in Chinese-linked markets is a signal on what to expect, but the call is probably to early.

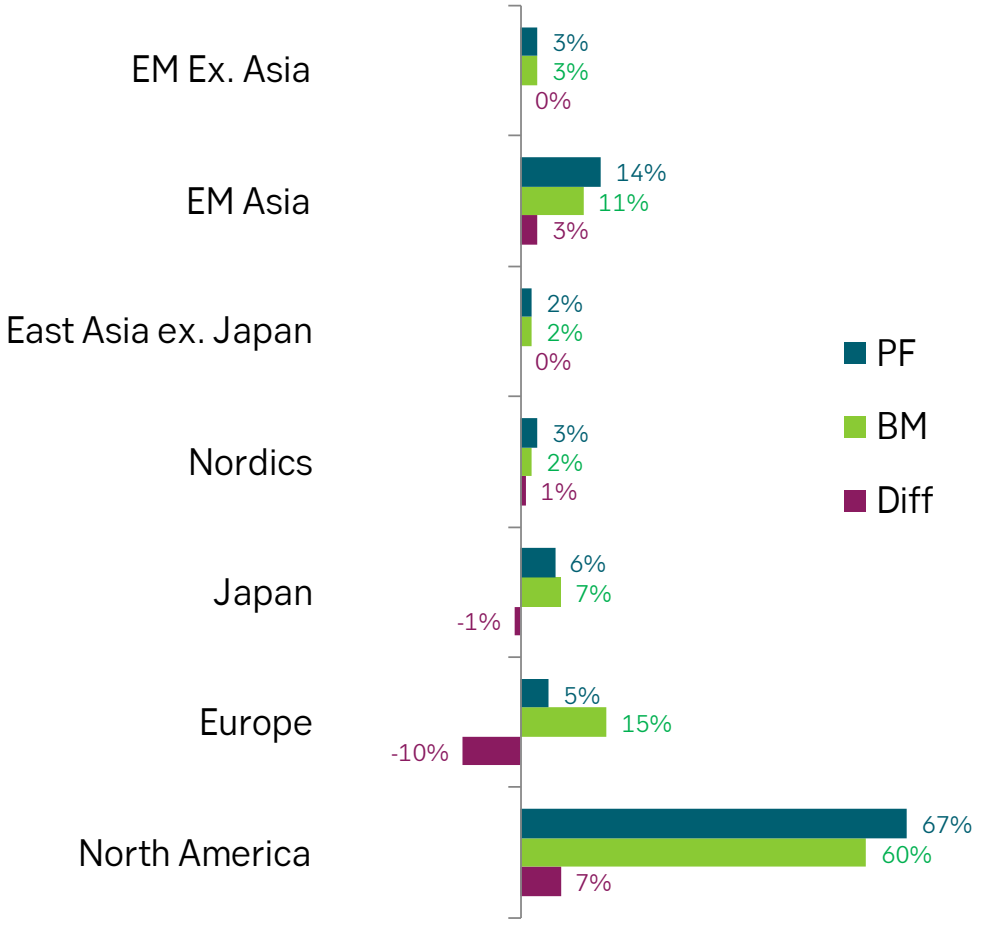
Europe is waiting for more ECB tightening

- The macro backdrop for European consumers is still dear, better weather probably makes the pain easier to handle, but the road ahead is tricky
- A positive factor is credit expansion in China and down the road if it continues will be a positive factor for European capex heavy industries
- Leading indicators such a the Sentix points to much lower PMIs ahead, so caution is still warranted
- Looking at the data, the risk of an outright contraction is evident, and the interest rate hikes do not make it better

Emerging markets, USD and China…

- Our overweight to EM Asia is challenged by lockdowns but consensus is moving on the matter…
- But China continues to mange liquidity and create monetary growth. And forecasts for growth has improved for the next year

Regional equity positioning



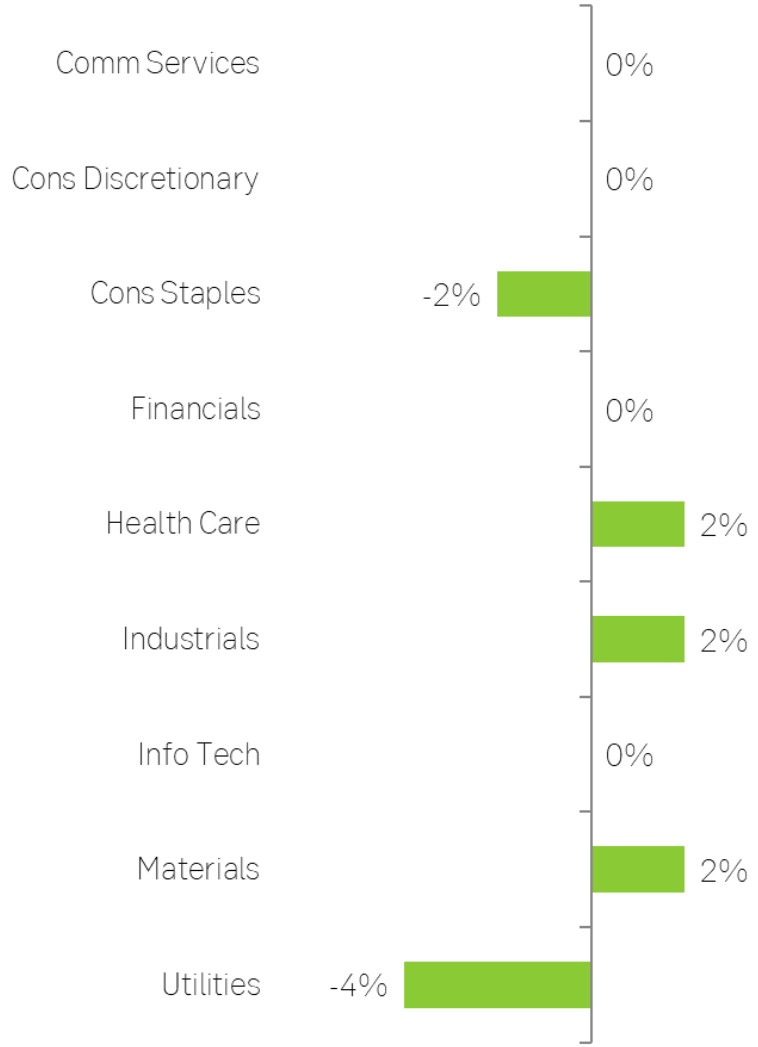
Benchmark is MSCI All Country

Sector allocation

We have a slightly inflation positive position

- The strongest theme in sector performance is still commodities, i.e. oil
  - The outperformance of oil producers is massive and therefore making this task very tricky in 2022
- In relative terms, defensiveness has been the second-most successful category, will this change?
  - Probably yes, but as long as the central banks tighten liquidity the defensive trend continues
- The last sequence of optimism on China shows what will happened when the tide turns on growth in China and this is important
  - If they succeed in stimulating the economy to the 5% region this will support global capex
  - Then the industrials and materials come in play and the climate become more cyclical, and therefore, we hold that position
- Generally, capex trends are improving both in the correlations with credits in China but also generally in US and Europe
- Structurally capex is interesting to have a constructive view on, as the need for government-supported investments is rising, such as defense and green investments
- Regionalization will probably also create a need to build capacity
- One situation that will be important is that it seems as if bond yields are close to a peak, which will be beneficiary for growth stocks, but demand will stay low
- Recession risk will continue to drive the narrative and is strengthened by moves in EPS revisions that drive some of the trends, and clearly cyclicals will face a harder climate (see our sector material in the appendix)

Sector positioning



Risks to the investment regime

The resilient US labor market increases the risk for overtightening and a deeper recession

- There are signs of a weakening US labor market, but a longer-lasting labor shortage is a still risk that could lead to more rate hikes and severe contraction in the economy
- The Fed has hopes for that a drop in the record-high job vacancies will be enough to slow down wage growth, which has been one key driver of US inflation this year
  - However, the stronger-than-expected jobs report for October released last Friday showed that the labor market is still strong, which adds more pressure on Fed
  - Economists are concerned that the resilient job market will force the Fed to push the unemployment rate a lot higher before wage pressures can start to abate
  - The risk of a policy mistake is rising as the Fed is expected to continue to hike rates into next year, which could have a bigger economic impact than anticipated since the cumulative effects from past hikes this year have likely not materialized yet

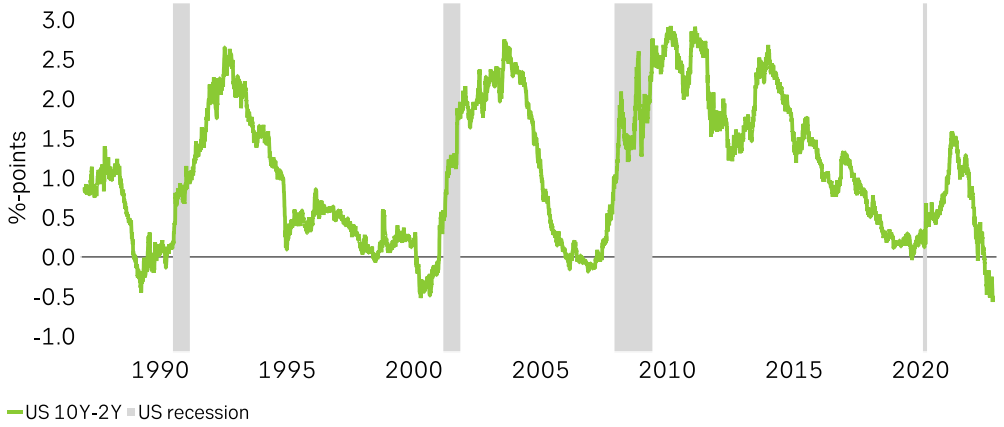
Weaker macro and negative earnings revisions

- ISM Manufacturing PMI, a leading economic indicator, have fallen and is just above the 50-level which only points to a very modest expansion in the US economy
- We think that there is a risk for global earnings to come under negative pressure over the coming months, as consumer sentiment and economic activity decline further

The war in Ukraine and energy crisis push Europe into a recession

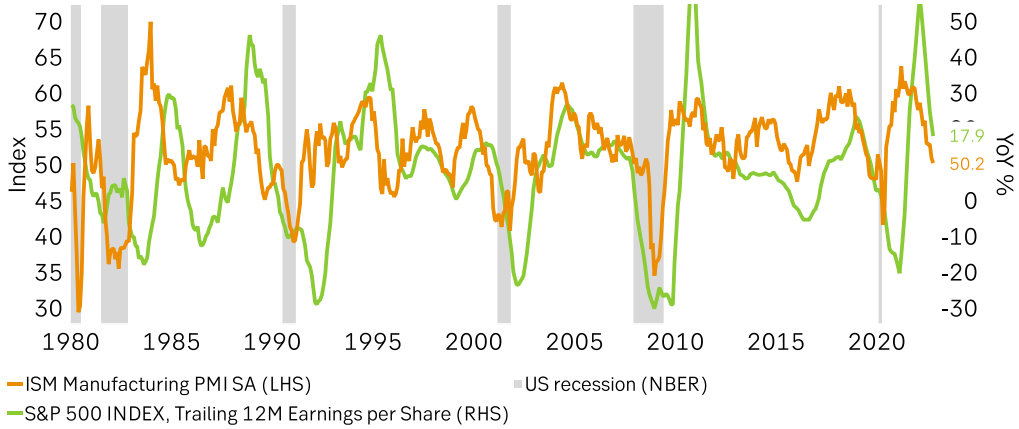
- Inflation in the region has risen largely on the back of higher energy and commodity prices, following the outbreak of the war in Ukraine earlier this year
- The record-high level of inflation in the Eurozone shows few signs of slowing down, which increases the risk of an imminent recession as the ECB hikes rates at the fastest pace in its history

Figure 1: The US yield curve reached a 40-year high in inversion which signals that bond markets expect a recession. However, there is a 12-18 month lag historically



Source: Macrobond, SEB

Figure 2: The weaker macroeconomic outlook indicates downside risks for earnings



Source: Macrobond, SEB

Return Estimates

Figure 1: 12 month forward looking return expectations

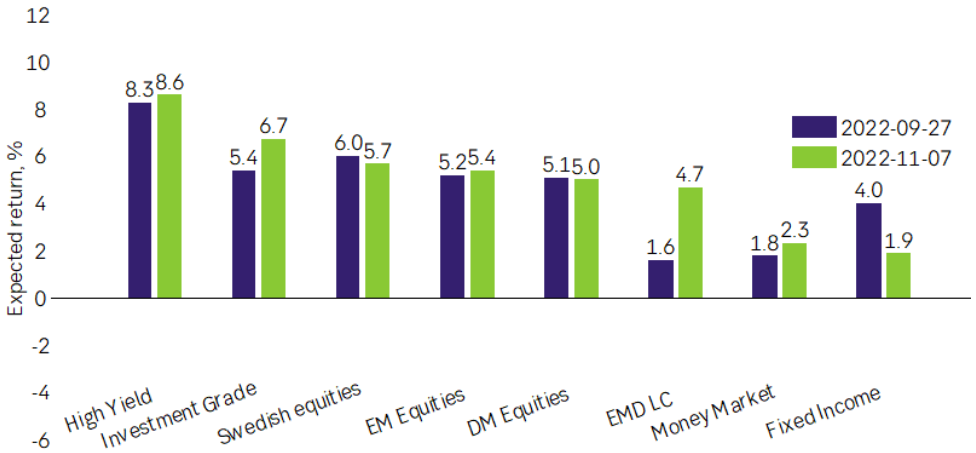


Figure 2: 12 month forward looking return expectations for equities and bonds

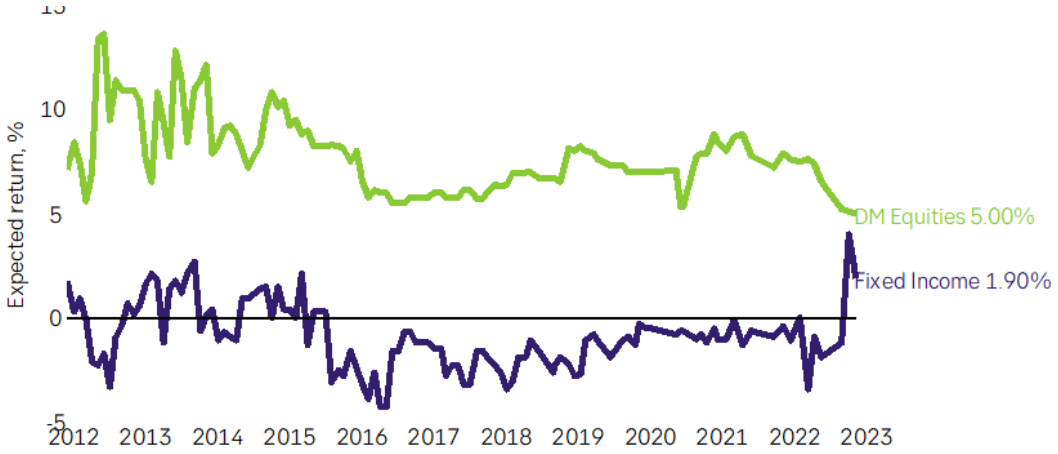


Figure 3: Absolute expected returns

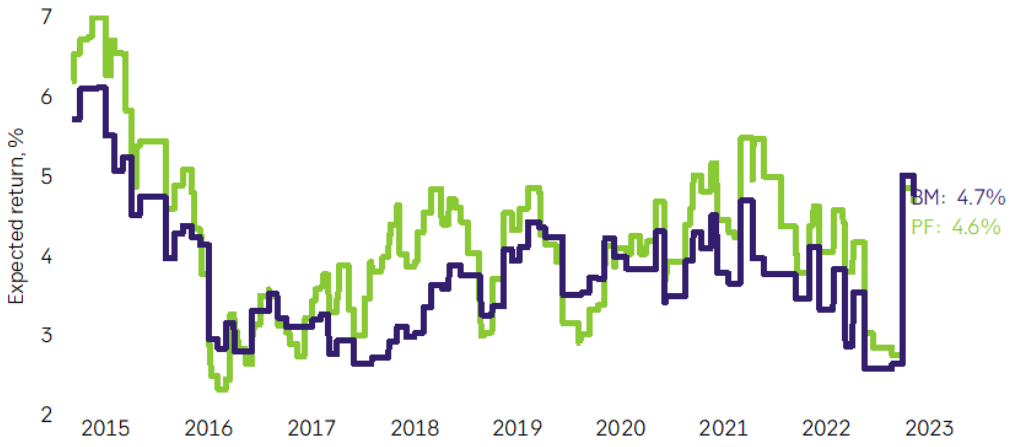
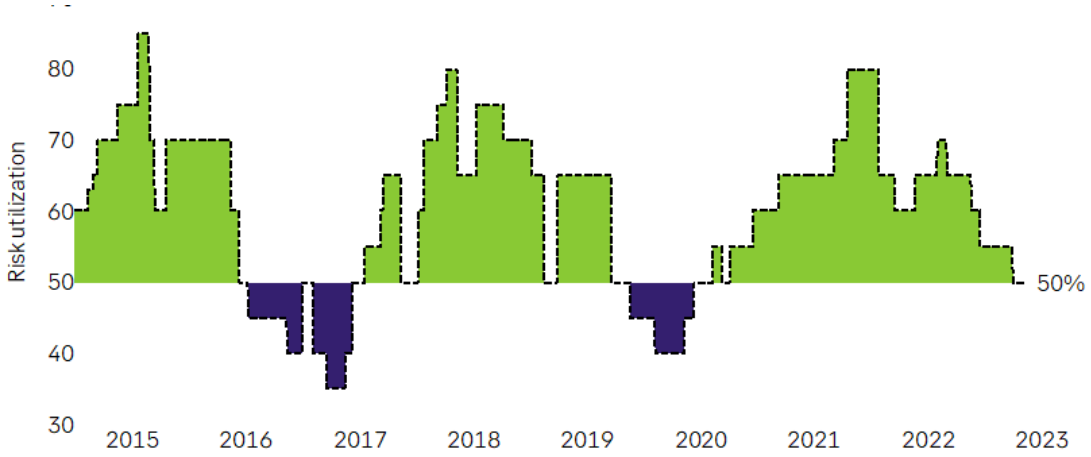


Figure 4: Risk utilization since inception



Historical House View Allocation

Figure 1: Equities

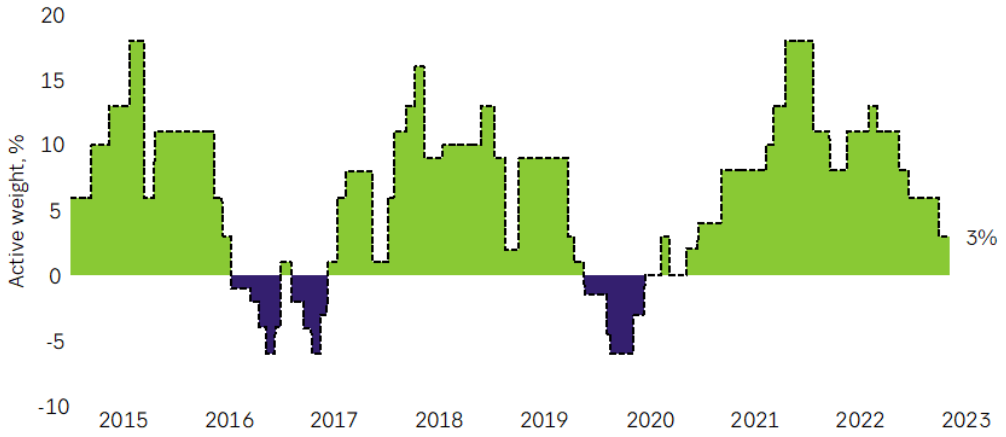


Figure 2: High Yield

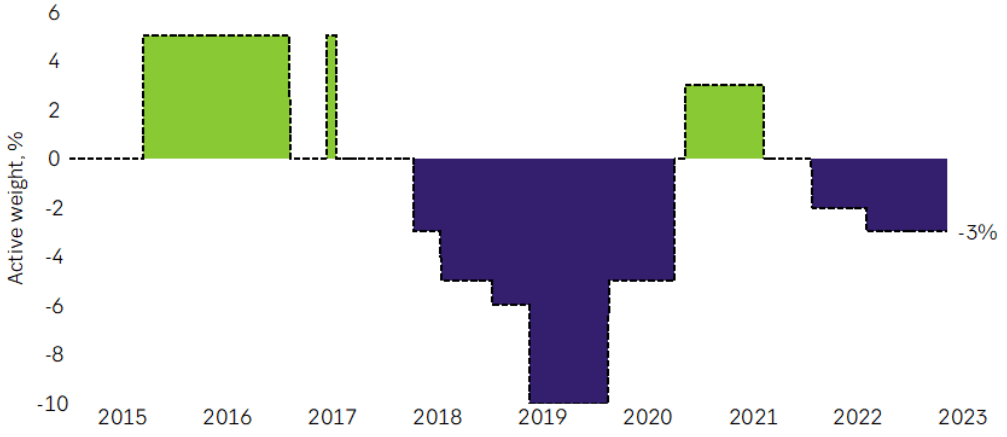


Figure 3: Emerging Market Debt

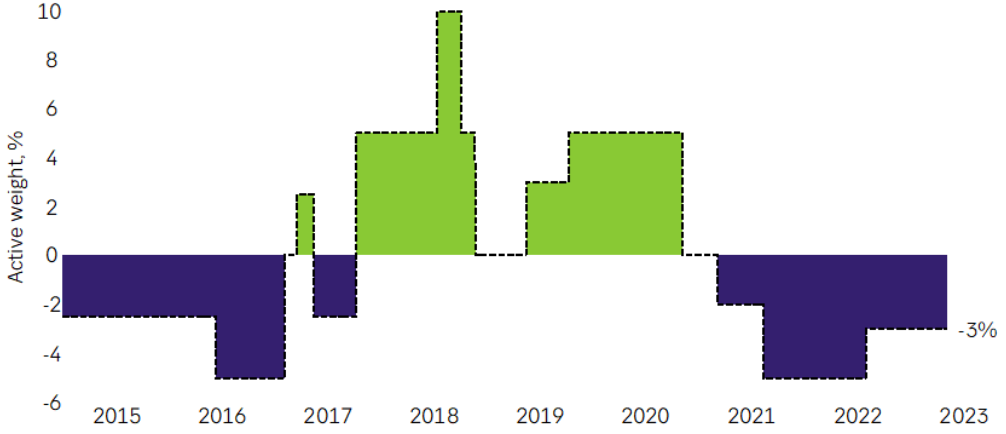
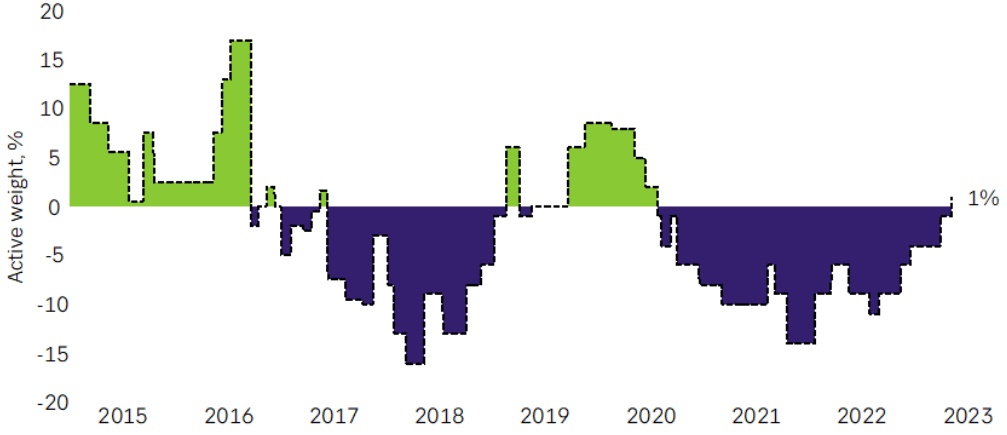


Figure 4: Fixed Income*



* 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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House View decision variables

Central Banks is the single most important factor for our risk taking

- We think that one of the most important questions for markets today is to predict when the Fed will stop hiking rates and what the new policy will look like after a pivot
- At last week's FOMC meeting Powell signalled that the Fed has more work to do as the labour market remains very tight and warned for that rates would peak at a higher level than expected
  - Bond yields soared and stocks fell after Powell's hawkish press conference, as markets had already risen on hopes for a Fed pivot
  - Uncertainty over inflation and the Fed policy path has led to higher rates and bond volatility this year, which have been negative for equity markets
- In our view, Central Banks still remain negative for equities at the moment, but we are slightly less negative of the variable as inflation has likely peaked already and expect rates to peak next year

Politics has become more important as focus shift to China and Xi's new leadership

- The CCP party congress and Xi securing his third term have raised many questions about what this will mean China's economic outlook and policy going forward
  - The world hopes that China will reopen its economy from the pandemic soon, as it would boost global demand and growth
  - There are also risks of rising tensions between China and Taiwan and a deterioration or longer duration in the war between Ukraine and Russia

Earnings have also increased in importance as third-quarter results come in

  - Earnings were generally not as bad as was expected initially, but we expect EPS growth to become a negative factor for equities in the near-term

On a 3-6M horizon, House View prefers to stay neutral to risky assets

- In our view, the elevated volatility in interest rate, because of the uncertainty in Fed policy, would need to come down before equities could see a sustainable rally

Figure 1:Central Banks remains the most important variable for our risk taking. Politics has also increased in importance because of China's new leadership.

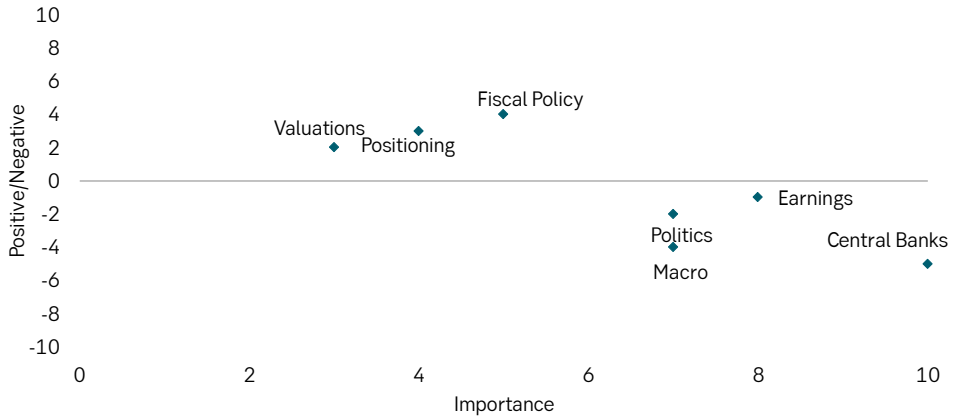
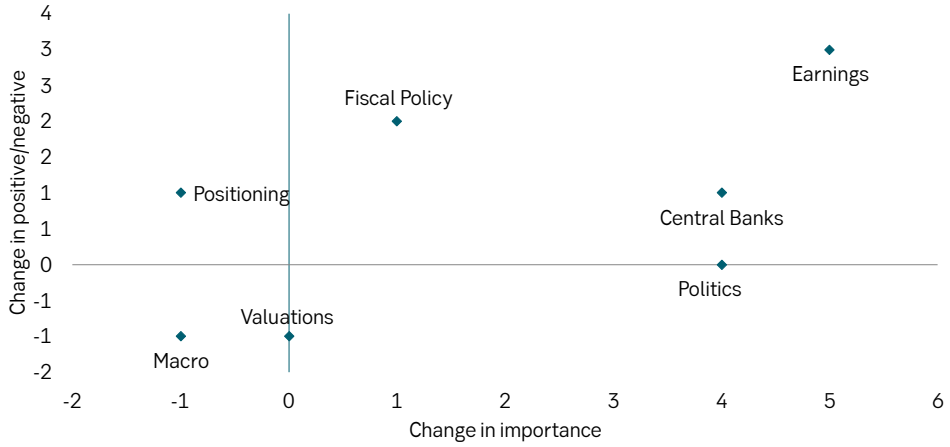


Figure 2: Central banks has increased in importance as the key question now is when the Fed will pivot. Earnings also becomes more important as the earnings season is underway.



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Developments in the Markets

Hopes for a dovish Fed pivot provided stocks with some market relief

Equities were up in October after September's broad sell-off, despite a challenging outlook and interest rate hikes by central banks. Financial conditions eased at the end of last month as markets interpreted central bank announcements from the BoC, ECB and BoJ as a signal for an upcoming dovish pivot. Renewed hopes for Fed to ease the pace of future interest rate hikes, a weaker USD and better-than-expected 3Q earnings sent US stocks higher in October. European stocks also advanced as gas prices plunged around 50%, due to warm weather and high gas inventories, strong earnings and dovish 75 bps ECB rate hike. DM equities outperformed EM equities, which were weighted down by the sell-off in Chinese stocks following president Xi's third term victory and disappointing quarterly earnings. The VIX Index fell below 30 from its peak in October while implied US interest rate volatility remained elevated, despite recent declines. Value outperformed Growth amid rising interest rates and slump in big tech names after a weak quarter.

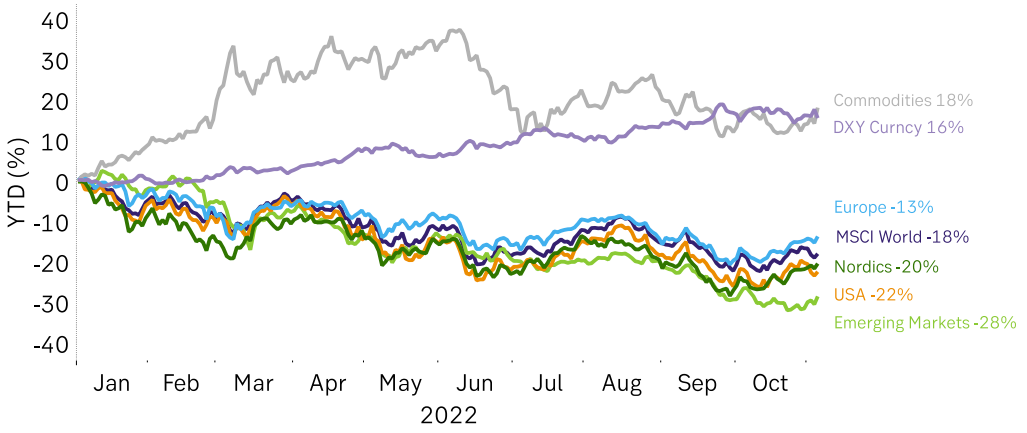
A hawkish Fed and strong US jobs report then ended hopes for a dovish turnaround

The Fed hiked interest rates by 75 bps as expected while Powell delivered a hawkish message that financial conditions will need to tighten more for inflation to fall. Markets are currently pricing in a 5.15% peak in the federal funds rate in 2023, up 10 bps from the 5.05% peak before the FOMC November meeting. US 2-year bond yields have risen more than 10-year yields and caused the yield curve to invert further to a 40-year high.

The Q3 earnings season have been mixed so far

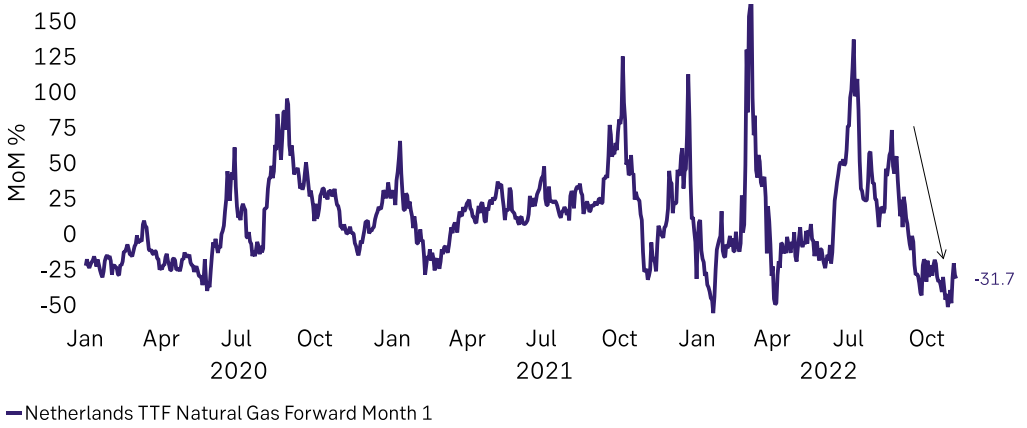
The US and Europe have generally seen relatively solid earnings results, while Chinese companies reported disappointing earnings and revenues, due to weaker macro amid a restrictive zero-covid policy, challenging housing market and falling external demand. Overall, there has been a negative skew in price reaction to earnings, where companies that have missed expectations have been punished more than companies have been rewarded for beating expectations. All in all, tech and consumer discretionary sectors have disappointed, while value-tilted sectors, such as financials and industrials, have outperformed.

Figure 1: Global equities recovered in October despite aggressive interest rate hikes from central banks, but stocks are still in negative territory YTD.



Source: Macrobond, SEB

Figure 2: Dutch natural gas prices slipped due to unseasonably warmer weather and high level of gas inventories, but European markets are worried about a winter recession



Source: Macrobond, SEB

Economy – Developed Markets

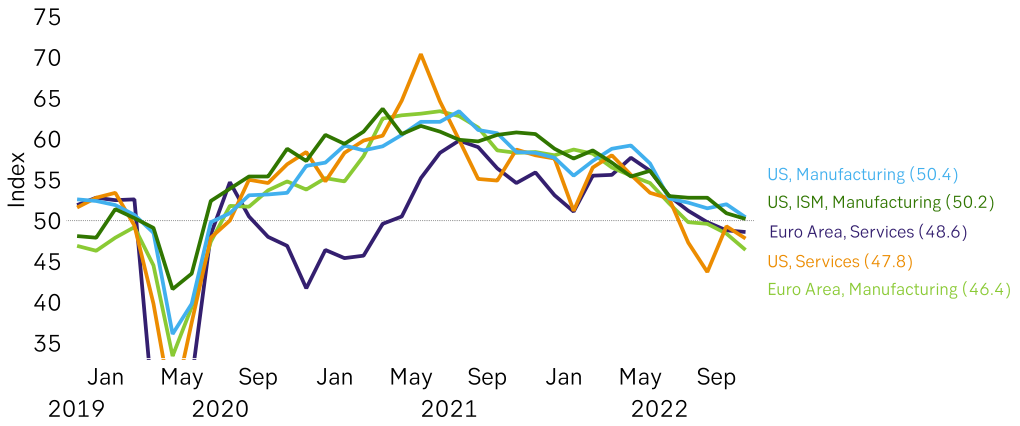
Leading indicators fell in October as employment contracts and demand soften

- US CPI inflation fell to 8.2% YoY in September vs. consensus at 8.1%
  - Core CPI YoY accelerated faster than expected, driven by rising core service inflation, and monthly inflation gains remained broad-based
- The US economy grew 2.6% YoY in Q3, which was higher than the forecast of 2.4%
  - GDP growth turned positive after two consecutive quarters of negative growth this year, temporarily easing concerns about an upcoming recession
  - Increased consumer spending and narrower trade deficit contributed positively
  - Nevertheless, economists expect the strength to be temporary as demand will continue to fall because of higher interest rates
- The ISM services PMI fell to 54.4 in October, below consensus, signaling a faster deacceleration in services-sector activity growth than expected
  - Notably employment contracted as employers could not find qualified workers to fill open positions or froze hiring due to a weaker outlook
  - Exports fell the most since the previous all-time high in January due to USD strength
  - Prices increased which points to that price pressures remained high for services
- The ISM manufacturing PMI slipped to 50.2 in October, signaling weaker growth
  - Supplier deliveries improved for the first time since 2016 and input prices fell, which indicates deflationary trends for goods, in contrast to the service sector
  - The survey showed that supply-demand imbalances improved as demand indicators contracted and production and employment expanded altogether
- Labor demand remained strong in October as payrolls rose by 216k vs. 193k est.
  - The hard data suggest that the jobs market is still tight, but is starting to cool down
    - Unemployment rose to 3.7% from 3.5% last month, which was above est. 3.6%

The ECB hiked interest rates, but also signaled that rate increases may slow

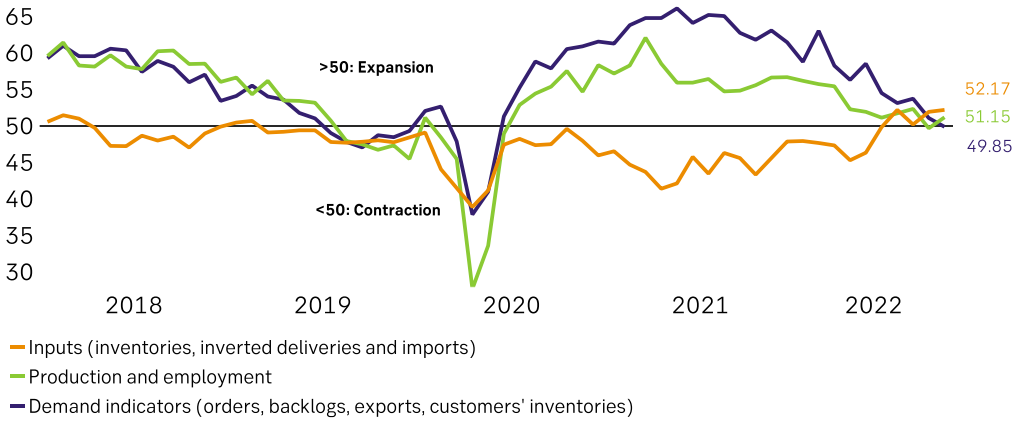
- October's PMIs pointed to a contraction in services and manufacturing as demand fell
- The ECB raised rates by 75 bps as the bloc face rising inflation that reached a record 10.7%YoY in October, amid a war and energy crisis that have led to falling confidence
- Lagarde signaled that hikes may end soon, and December's meeting will be important for QT as the bank is expected to reveal plans for its balance sheet reduction

Figure 1: Economic activity in Europe continued to contract in October according to Markit PMIs. Both ISM and Markit PMIs pointed to an expansion in US manufacturing



Source: Macrobond, SEB

Figure 2: US manufacturing PMI (ISM survey) reported that supply-demand imbalances improved in October while prices contracted for the first time since 2016



Source: Macrobond, SEB

Economy – Emerging Markets

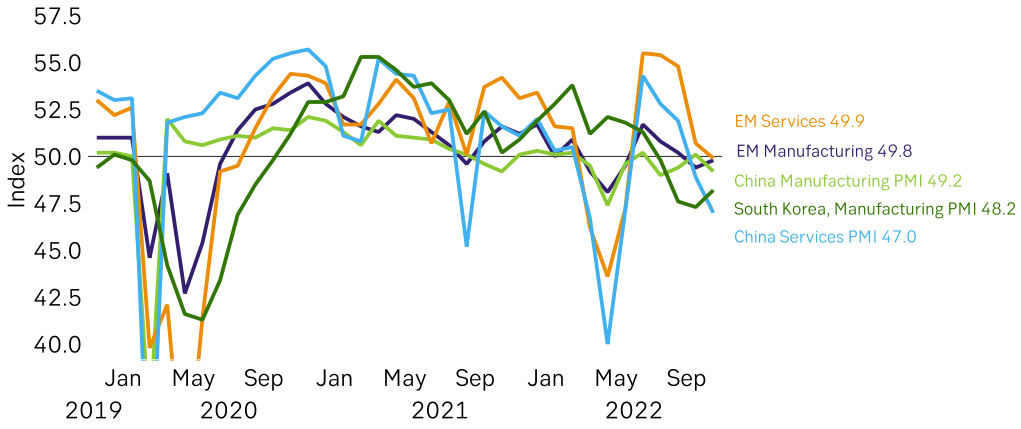
Emerging markets PMIs showed contraction in October amid weaker global demand

- The aggregate EM manufacturing PMI fell below 50 as most countries reported contractions in output amid worse global demand conditions
  - The weaker demand was underpinned by deteriorating global trade conditions, as many countries in the APAC region experienced declines in new exports
  - Taiwan experienced one of the steepest fall in its exports ever and South Korean exports in October were weaker-than-expected as only autos and fuel rose
- Global PMIs also showed that input costs and output price pressures eased, but price inflation remained elevated compared to historic averages
  - However, the fall in South Korean exports is consistent with a weaker global demand for goods and we think this should ease goods inflation going forward
- Policy rate expectations for EM central banks that were early hikers in this cycle have stabilized recently, as most of them either paused rates at their latest meeting or signaled to have ended hiking

Leading indicators show that China's economic recovery was short-lived, while investors also became more concerned over its outlook as Xi secured his third term

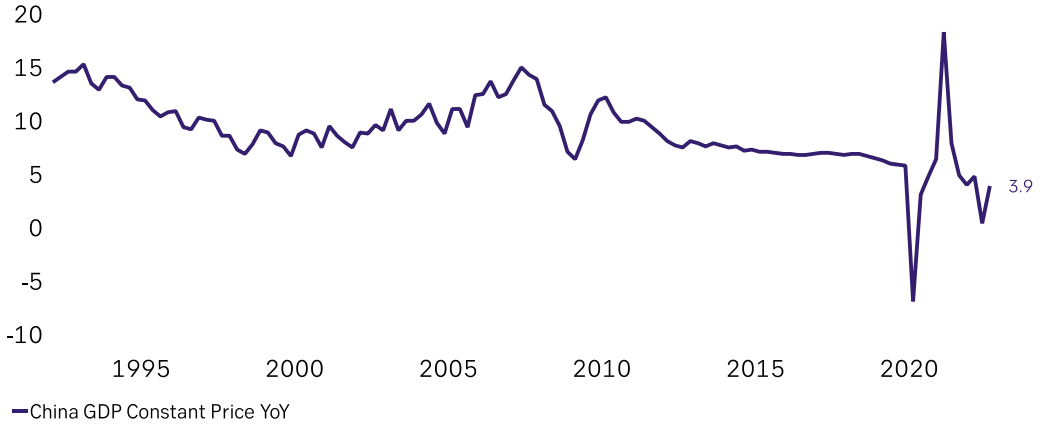
- China's official manufacturing and services PMIs fell back into contraction in October, due to strict covid restrictions taking a toll on its economy and falling global demand
- GDP rose 3.9% in Q3, which was above forecasts, but slower Chinese export growth, weaker housing market and falling consumption dampen the country's outlook
  - Home sales continued to fall in October, reflecting a deeper downturn in housing
- Markets became more bearish on China's outlook after Xi was elected President for a third consecutive term at the 20th party congress, due to concerns over his power grip
- Some key points from October's party congress:
  - Xi effectively increased his power by replacing Politburo members with loyalists
  - No indication given about a change in the country's zero-covid policy
  - No major shifts in economic policy nor direction of future policy was revealed
  - The tone against Taiwan remained unchanged despite rising geopolitical tensions
- PBOC held policy rates, but continued to increase M2 money supply in October

Figure 1: EM manufacturing and services PMIs showed contraction in October, while economic activity in China shrunk at a faster pace than in the previous month.



Source: Macrobond, SEB

Figure 2: Weaker global demand for Chinese exports amid a challenging global backdrop has raised concerns over China's outlook and what will drive its growth



Source: Macrobond, SEB

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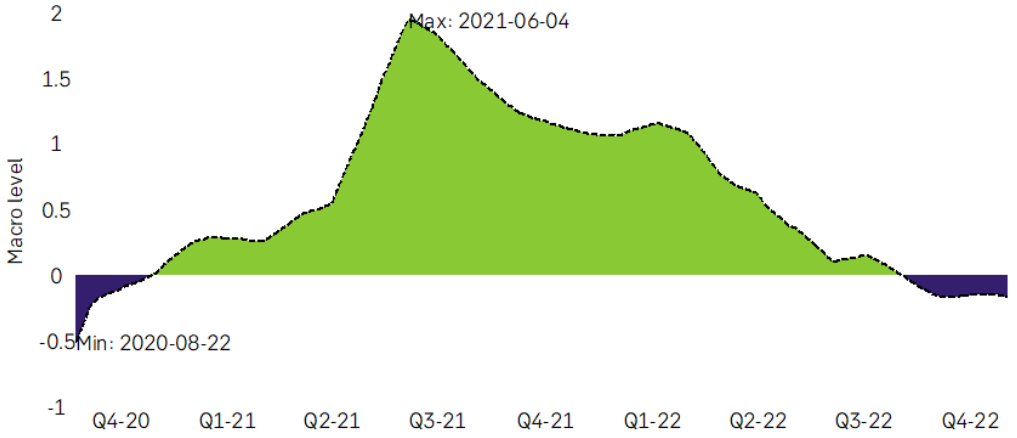
SEB House View – US Macro Status

US macro momentum was weak during October and the aggregate macro level remained below trend

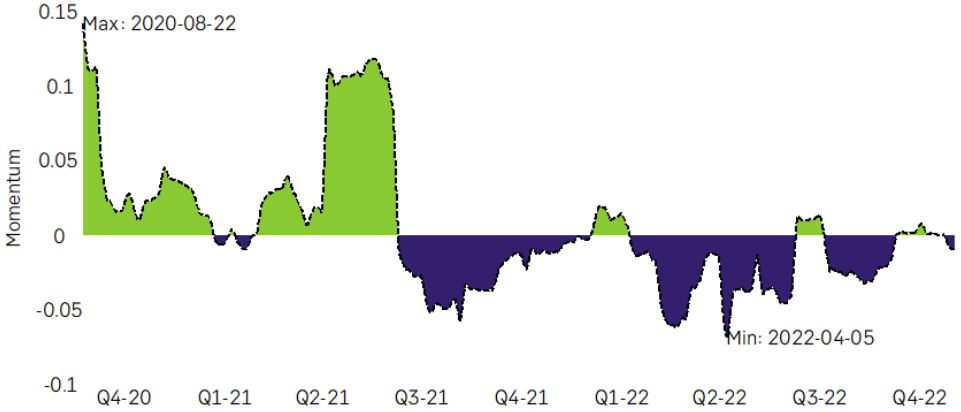
- The macro level stayed negative, below its long-term trend, as the Philly Fed outlook survey and ISM manufacturing PMI continued to fall amid a weaker business outlook
- The declines in the Philly Fed and ISM manufacturing surveys also contributed to the negative shift in aggregate macro momentum
- The S&P 500 index recovered from its mid-October low as our US macro surprise indicators rose during the past month
  - The rise in our indicator was largely due to unexpectedly high new home sales, despite rising interest rates which have pushed out buyers from the market
  - We expect housing market sentiment to slip as demand falls and there is risk for negative surprises going forward since past monetary tightening has likely not come into effect yet

Figure 1: The US macro level has remained negative, but is flat since the last month



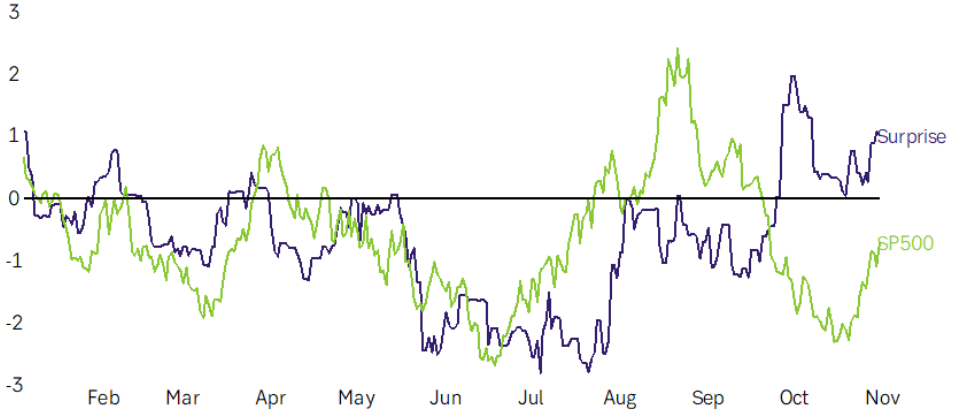
Source: SEB House View

Figure 2: US macro momentum was slightly negative in October as the Philly Fed Business outlook trended downwards and ISM manufacturing PMI declined



Source: SEB House View

Figure 3: US macro have surprised on the upside mostly due to that new home sales that beat expectations by in Aug-Sep, even though it fell from the previous month



Source: SEB House View

SEB House View – EU & EM Macro Status

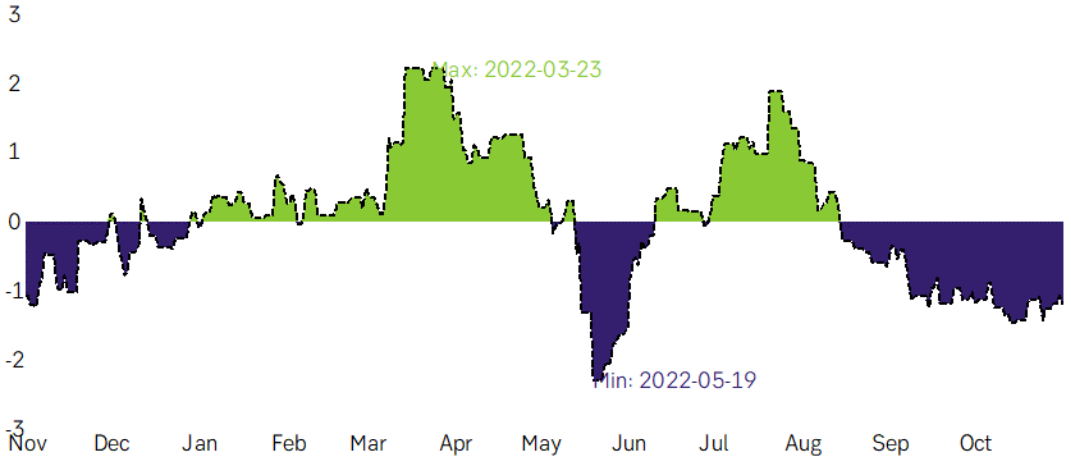
EU macro slipped as business and consumer sentiment remained negative

- Germany's IFO business survey contributed negatively to EU macro surprises
  - The economic outlook for Germany, Europe's largest economy, is bleak as the IFO expectations index was in recession territory amid energy and inflation concerns
  - Warmer weather offered some relief to expectations from the energy crisis, but this is likely temporary as temperatures could fall anytime soon
- Inflation in the Eurozone surprised to the upside in October
  - CPI YoY rose to 10.7%, the highest level on record in Eurozone history
  - Higher energy and food prices contributed most to the rise in the annual inflation
- The ECB hiked rates by 75 bps, in line with expectations, but Lagarde's following press conference was dovish as she signaled that the pace of tightening may ease soon

Weaker global demand and lockdowns in China weighed on EM macro in October

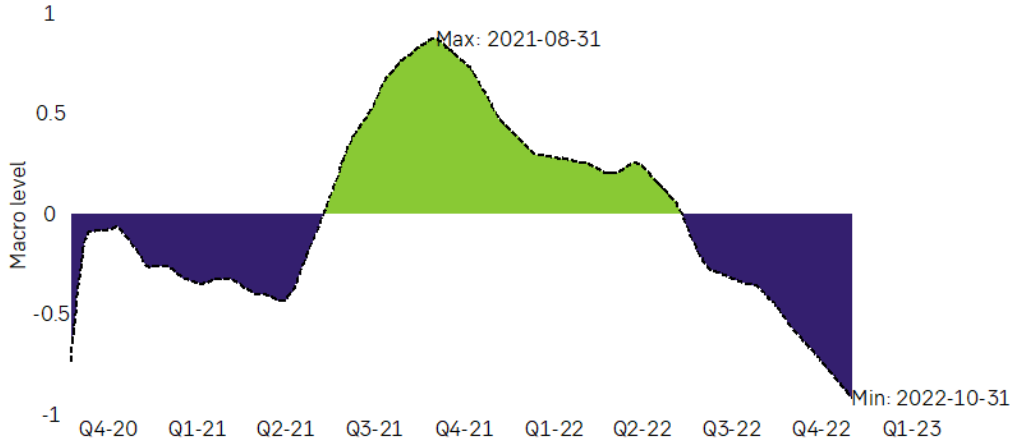
- Exports in Taiwan and S. Korea surprised on the downside amid weaker global demand
- Manufacturing PMI showed a contraction in factory output due to covid restrictions

Figure 2: EM macro surprises have been driven by business data which can be volatile



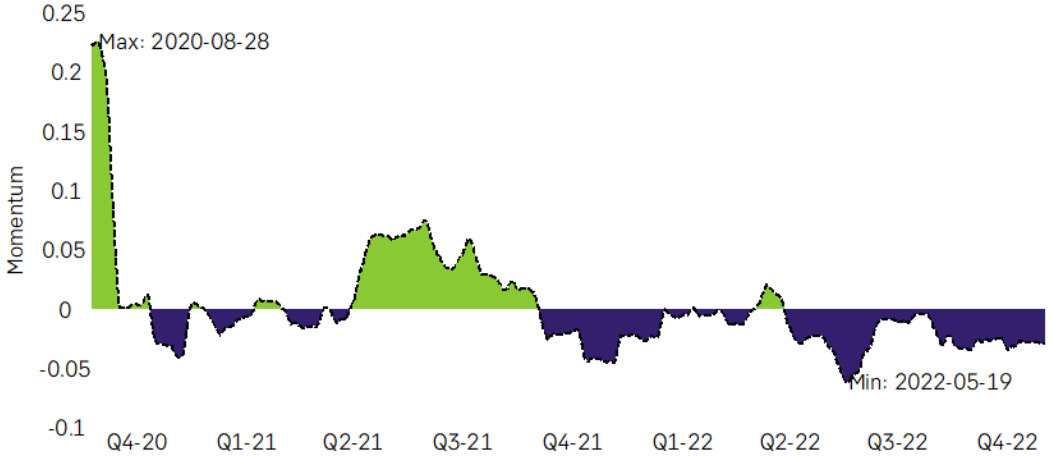
Source: SEB House View

Figure 1: The EU macro level fell sharply as confidence stayed below its long-term trend



Source: SEB House View

Figure 3: EU Macro momentum has been flat but is still negative, which leads to lower macro



Source: SEB House View

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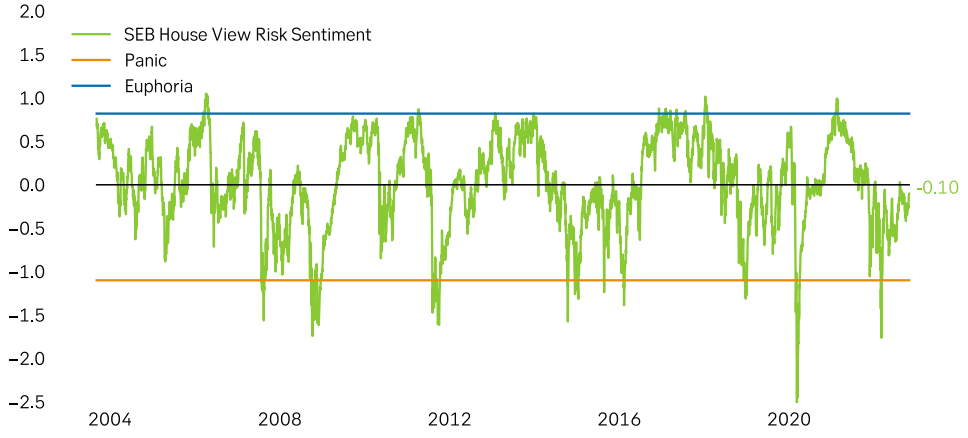
SEB House View – Risk Indicator

SEB House View Risk Sentiment stayed close to neutral in October

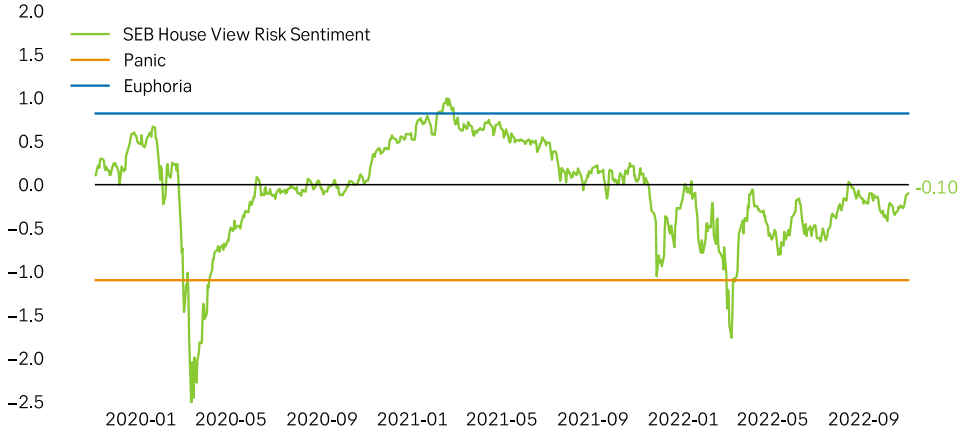
- Our indicator suggests that risk sentiment remained below, but very close to neutral in the past month, despite elevated market volatility due to rising interest rates
- US and German 10-year bonds contributed positively to the risk sentiment
  - Longer-term bond yields are less policy-sensitive than shorter-term bond yields which have risen quickly lately, due to large Fed and ECB rate hikes
- Spreads between Emerging and Developed markets, as well as IG credit spreads all contributed negatively to the overall risk level
- Nevertheless, these effects almost offset each other and the risk level only improved from -0.15 to -0.10

Figure 1: SEB House View Risk Indicator



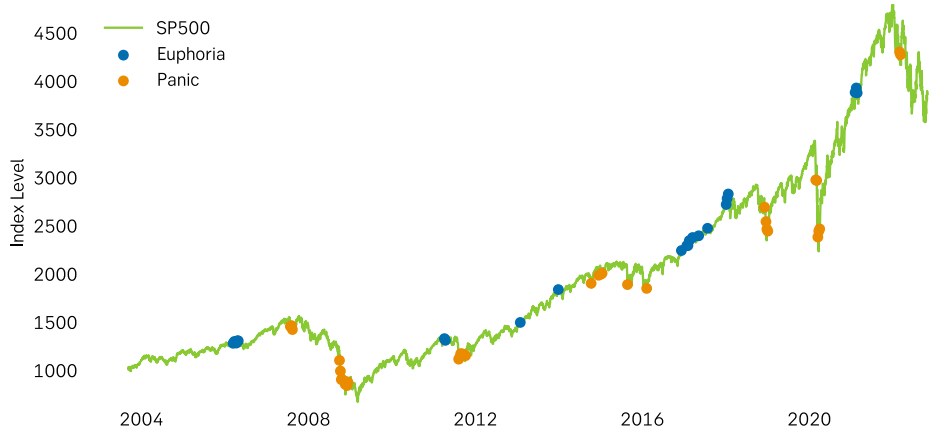
Source: SEB House View

Figure 2: SEB House View Risk Indicator – Short Time Horizon



Source: SEB House View

Figure 3: Extreme states plotted on SP500



Source: SEB House View

In Focus #1: Inflation

The risk is that sticky wage inflation keeps inflation elevated for longer-than-expected, but we see signs that the labor market is starting to cool down

- Labor demand remained strong in October, but the unemployment rate also rose
- We think that the US labor market has already peaked, and that unemployment should continue to rise as the economy slows down and financial conditions tighten
- The "jobs hard to get" minus "jobs plentiful" has begun to rise and this indicator has historically been strongly correlated with the unemployment rate

Housing is also getting weaker which should lower shelter inflation

- Shelter inflation has been a driver of inflation this year, but we expect this to end soon
- In our view, US house prices will continue falling, which should reduce rental costs

The slowing economy is good news for inflation as supply catches up with demand

- The ISM manufacturing PMI showed that supply-demand imbalances moderated in October as production and employment improved and demand indicators moderated
- The survey also showed that price pressures for inputs improved
- We expect that there will be a contraction in manufacturing, due to weaker demand and a slowing economy, which should help to bring inflation going forward

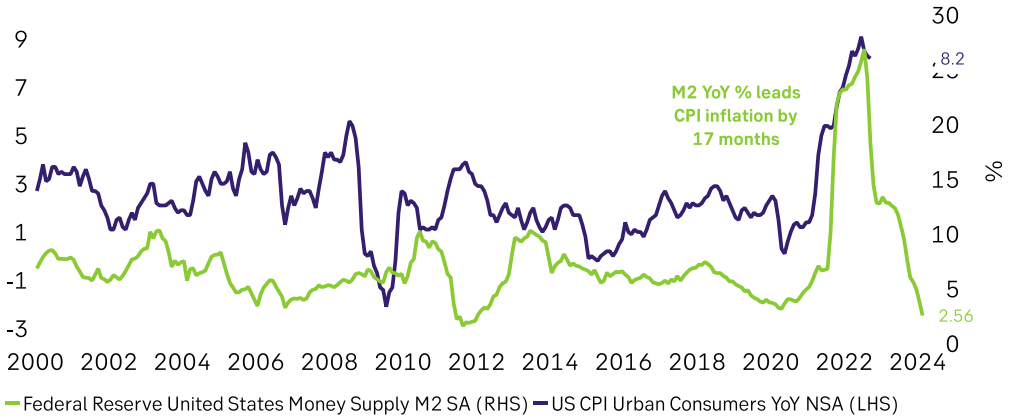
Our inflation heatmap confirms abating price pressures from commodities

- Prices for raw industrial materials fell below its 10-year mean for the first time in two years, sending the strongest signal that prices pressures are easing
- Overall, indicators for wage growth remained unchanged in terms of 10-year Z-scores

A Republican win in the midterm election is unlikely to bring down inflation

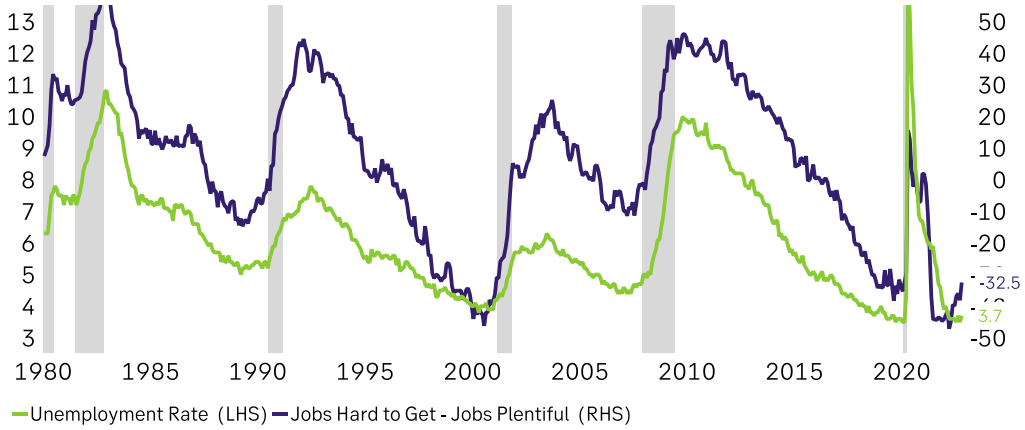
- A Republican win would most likely mean cuts in government spending and a lower debt ceiling, which should be disinflationary as less money flow through the economy
- On the other hand, Republicans' proposed tax cuts and repeal of Democrats' policies on reduced health care and electricity costs would likely be inflationary if passed
- But economists are skeptical to that the G.O.P. can reduce inflation in the short-term

Figure 1: We think inflation could fall sooner than later as the Federal Reserve has already tightened monetary supply significantly and policy lag effects will materialize



Source: Macrobond, SEB

Figure 2: The unemployment rate will likely rise further as labor demand weakens



Source: Macrobond, SEB

In Focus #2: Earnings and equity returns

The fall in global equity prices this year has been driven by higher interest rates and contractions in valuation multiples

- The negative returns for the S&P 500 index can be attributed to falling P/E ratios which have more than offset the positive growth in earnings per share (EPS)
  - P/E ratios have fallen this year as interest rates have increased amid aggressive policy tightening in a response to high inflation, while earnings have held up surprisingly well, although the economy is already in or is close to a recession
  - Many investors therefore believe that stock markets have not fully priced in the recession risks and that earnings should fall substantially in the near-term to reflect this growth risk

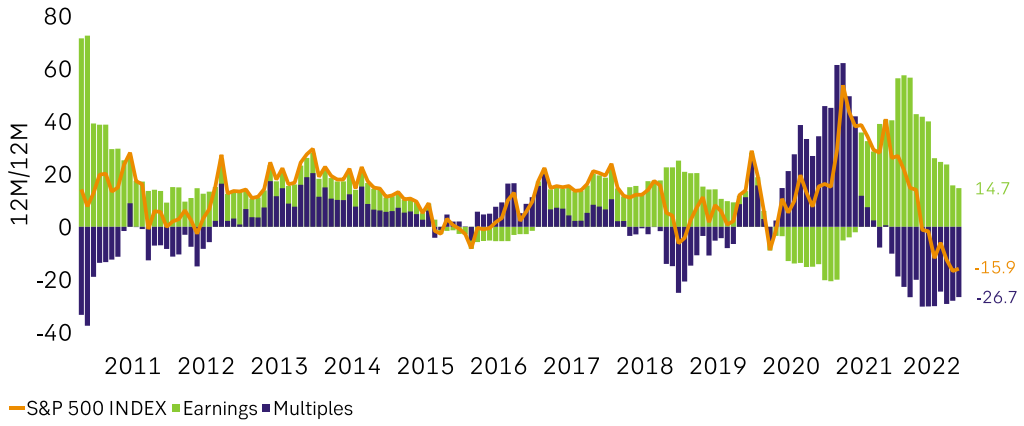
Our global EPS growth model indicates that global earnings should fall, but this could come with a significant lag

- The EPS model looks at macro variables that have helped to explain growth in past earnings cycles to make predictions about future EPS growth
  - More specifically, we used export growth in certain Asian economies, financial conditions, credit spreads and other leading economic indicators, which we found useful in predicting past earnings cycles
- The model is not perfect as it assumes that earnings only depend on a few variables and because it is trained on previous downturns, which may differ from and not be representative for the current earnings recession
- Nevertheless, the deterioration in the above-mentioned macro factors suggest that earnings growth could turn negative in the near-term

The 1974 bear market could give a hint for how the current bear market develops

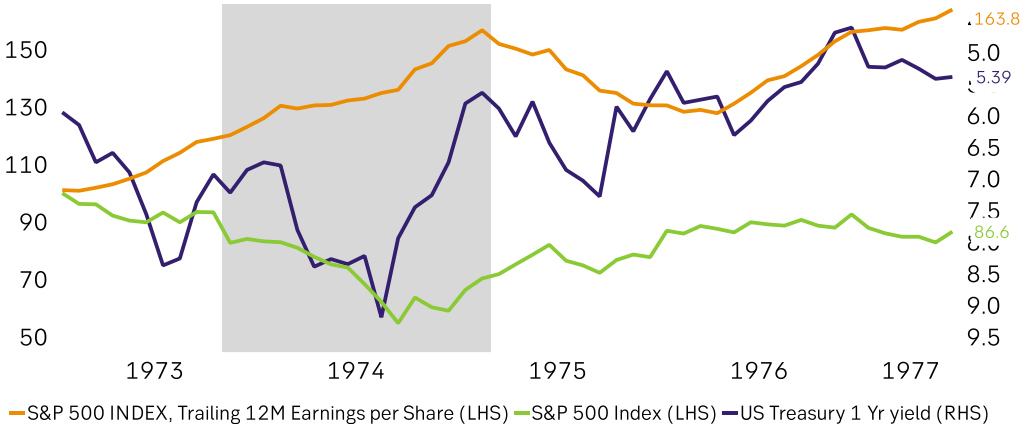
- The 1974 bear market, caused by an oil price shock and high inflation together with policy tightening, like today, ended shortly after Fed stopped hiking rates
- The US stock market and economy recovered quickly after the bear market bottomed, on the back of falling rates, i.e. rising P/E, but before earnings started to fall
- History suggests that stock markets could rally before an earnings recession even

Figure 1: We think that equity markets will recover after a brief recession following a peak in interest rates, possibly before earnings start falling, like the bear market in 1974



Source: Macrobond, SEB

Figure 2: Earnings fell after the 1974 bear market when the US equity market and economy were already in recovery after the peak in interest rates..



Source: Macrobond, SEB

In Focus #3: China

We stay constructive on Chinese equities as they appear oversold and the negative outlook is too bearish, but negative earnings revisions need to bottom first

- Markets have grown increasingly bearish on the country's outlook after the 20th CCP congress where Xi extended his presidency for a third term
- We think that the valuations are too low and do not reflect China's growth outlook
  - Xi's reshuffle is part of tightening his power, but he also realizes that the only way to stay in power is to deliver economic prosperity and growth
  - Xi's decision to replace Premier Li with another Li could be a positive for growth as the former Li has not reached its set growth targets
  - Therefore, we think that China will enact more pro-growth policies to boost the country's consumption and strengthen its domestic economy going forward
- Policy makers will likely stabilize the weak housing market and restore credibility in the market and property developers' ability to complete projects

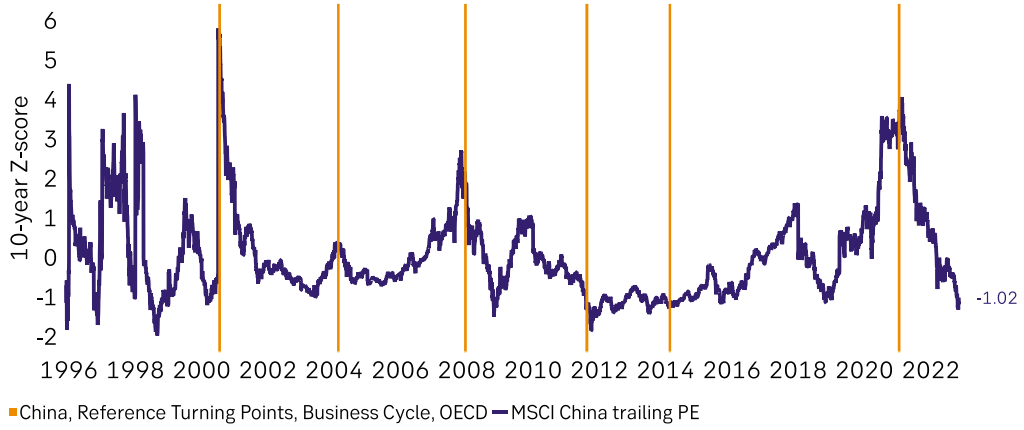
The recent weakness in macro data indicates that China's economy is vulnerable to covid restrictions and that its zero-covid policy will likely be adjusted or removed

- There has been no progress in China's zero-covid policy yet, but we think that China will have little choice but to reopen its economy, as the policy became unsustainable
- There is growing political pressure on Xi to address the situation due to discontent over lockdowns that is hurting both small and large businesses

No change in rhetoric towards Taiwan, but we think China is unlikely to start a war

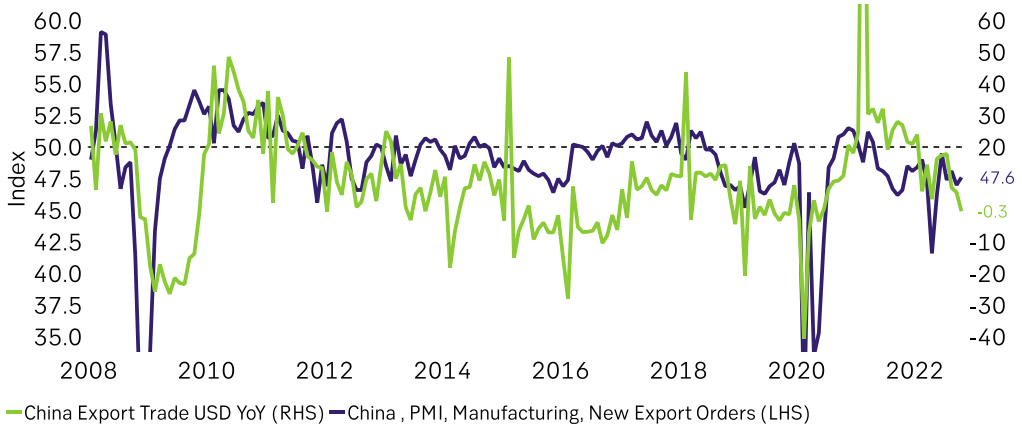
- China is likely deterred to invade Taiwan as it would face criticism and sanctions from the rest of the world similar to what happened to Russia because of Ukraine
- Russia is one of the few countries, if any, that would not condemn an invasion of Taiwan, but the country is not significant trading partner to China
- Furthermore, a war with Taiwan would likely mean a destruction in infrastructure and factories in Taiwan, as the country is prepared to defend itself against China
- China would most likely succeed in invading Taiwan, unless the US interfere, but a win for China would also be a loss since destroyed factories would stop or reduce valuable Taiwanese exports to China, e.g. semi-conductors, for a long time

Figure 1: Valuations have fallen as markets turned negative on Chinese growth after Xi was elected president for China for a third term, which led to a sell-off in Chinese stocks



Source: Macrobond, SEB

Figure 2: Chinese exports is set to decline as global demand weakens and China's economic policy will likely focus on strengthening the domestic economy instead



Source: Macrobond, SEB

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Developed Market Equities – 12M Outlook

Our 12 month outlook for developed market equities is still uncertain due to the global race to hike rates and recession risks, but we expect that equities will outperform bonds after an inflation peak

Downside risks of a hard landing have increased as the FED shows little signs of a pivot. Moreover, the global outlook is challenged by real estate troubles and renewed lockdowns in China, together with a potential escalation of the war in Ukraine and deepening energy crisis in Europe. EPS estimates could come down in the near-term as they have been rather stable, despite weaker growth forecasts. On the positive side, the US economy is doing relatively well, being supported by a tight labor market combined with strong household and business balance sheets. We could see easing inflation, a Fed pivot, exit of China's zero-covid policy, an end to the war in Ukraine and improving energy crisis in Europe, which could reverse the negative trend for equities.

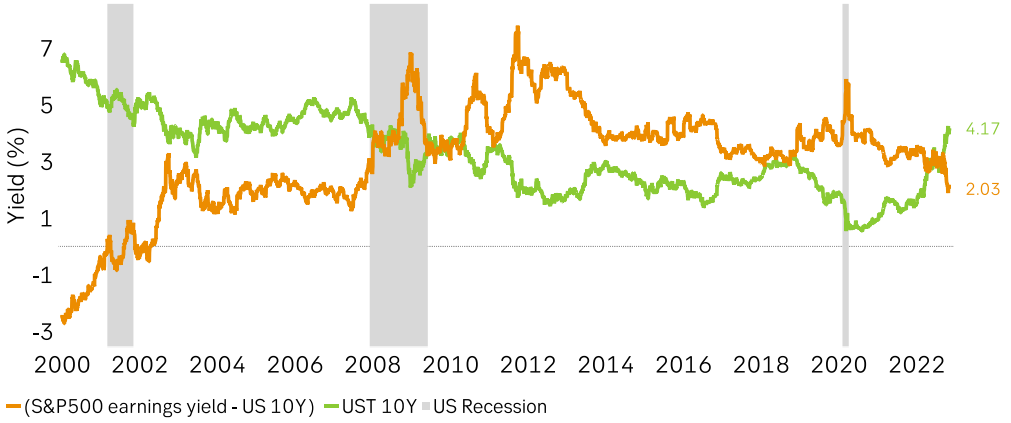
Companies that can raise prices and offer growth despite inflationary pressures will be the winners of this new environment

As the downside risks for higher-for-longer inflation and a recession have increased, companies that have pricing power and can offer growth will be attractive. Investors will likely be willing to pay more for companies with good profit margins and higher growth.

12M fwd P/E multiples have contracted and now trade below pre-pandemic levels

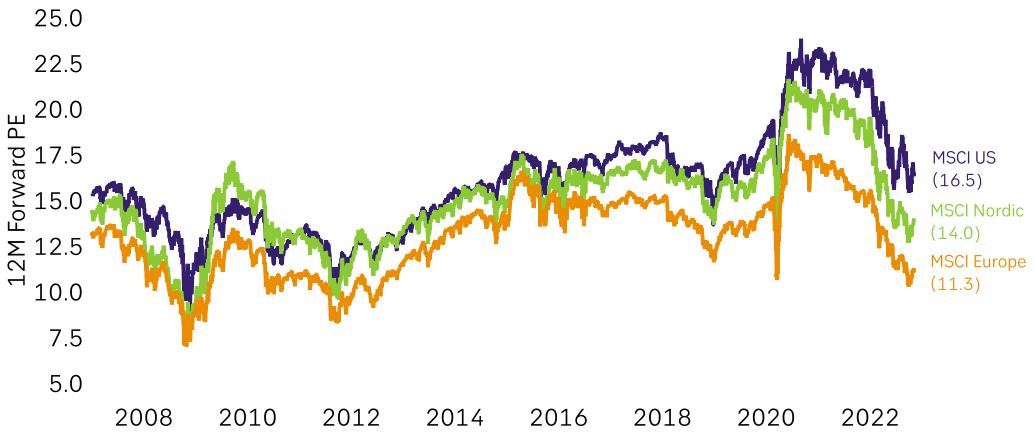
Stock markets have de-rated significantly this year and the low valuations mean that downside risks for longer-term investors have fallen. In case long-term yields stabilize around these levels, we could see an expansion in valuation multiples for equities.

Figure 1: The spread between the US forward earnings yield and 10Y yield has tightened further as yields have soared



Source: Macrobond, SEB

Figure 2: Valuations have fallen amid central banks' hiking campaign against inflation



Source: Macrobond, SEB

Emerging Market Equities – 12M Outlook

We expect EM Equities to deliver positive returns over the next 12 months

The growth premium of EM markets relative to DM markets can accelerate in 2022 as inflation and commodity prices will likely remain elevated in this new evolving phase. That is, we could see an improvement of GDP in these regions and can expect further positive earnings revisions. The reopening trade is yet not fully priced in for the region and should benefit EM. However, a downturn in the real estate market and covid lockdowns in China are still major risks for the region. Leaders have vowed to stabilize the property market, but also signaled that China will stick to its zero-Covid policy. Chinese growth has disappointed this year due to lockdowns and is expected to come in well below its 5.5% target. However, China's stance to zero-covid could improve soon. In our view, as long as the global economic outlook remains buoyant, we expect EM equities to outperform bonds.

Policy support in China will likely benefit the asset class for the next 12 months

We expect China to boost consumption and investments through supportive monetary and fiscal policy, following Premier Li's recent call for pro-growth policies. As inflation is still below the 3% target, the PBOC is at a different starting point than DM central banks and can support the economy with stimulating monetary and fiscal policies.

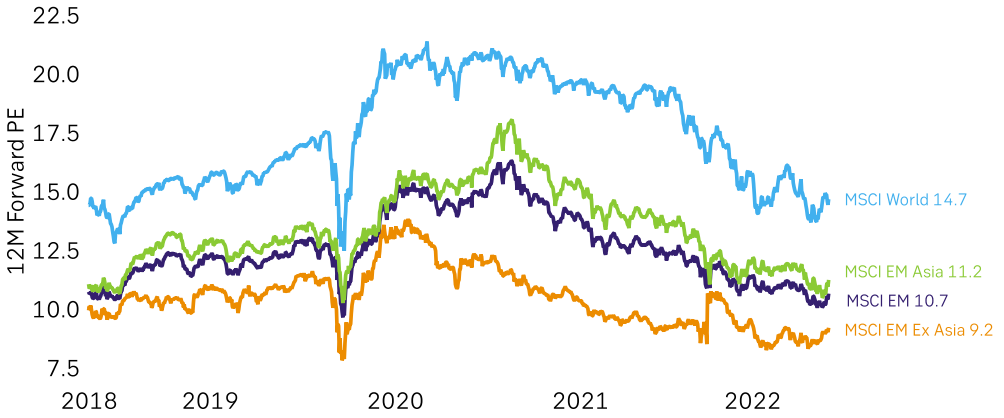
The direction of the dollar will determine the performance of EM equities

Given that US rates are expected to rise we could see further rises in the dollar which would put negative pressures on EM equities. But seeing as the dollar has reached a level we have not seen since 2002, we may have reached a peak level.

Price levels in EM equities remain attractive relative to DM equities

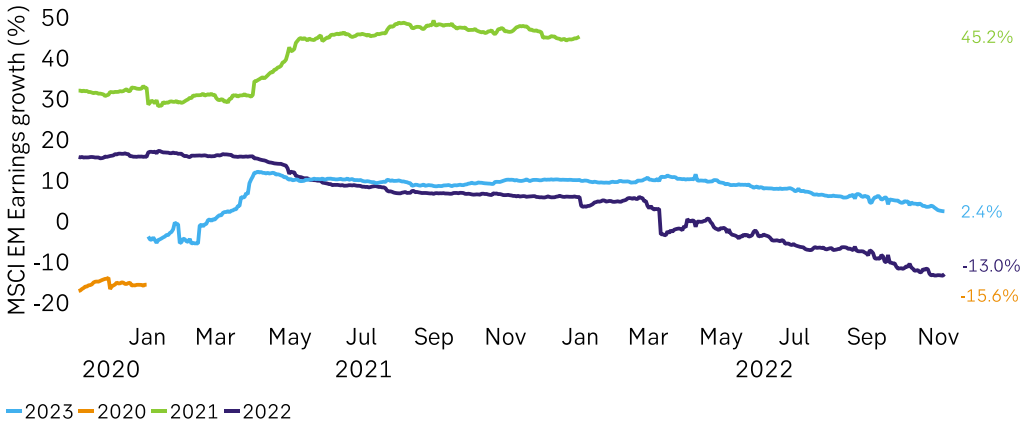
EM valuation has traded cheaper due to a multitude of challenges last year: zero Covid strategy, property sector adjustment, power rationing and a regulatory adjustment to the corporate profit share. Global investors are still relatively underweight EM due to the higher risk premia in the region, but we may see a turnaround this year as investors look for alternative assets when developed markets and bond markets are under pressure.

Figure 1: Emerging market equities can now come into favor as the region is expected to grow at a faster pace than developed countries, amid a global slowdown



Source: Macrobond, SEB

Figure 2: In our view EPS estimates for EM are too low. We expect the reopening of countries in the EM, together with strong external demand to support the asset class



Source: Macrobond, SEB

Corporate Bonds – 12M Outlook

Over a 12-month horizon we prefer Equities over corporate bonds, but we lift Investment Grade bonds to an overweight

We increase our position in Investment Grade bonds as bonds carry yields and investment grade bonds have attractive spread levels. Investment Grade bonds have low risk and sufficient risk premia in our view. We remain underweight to High Yield bonds given that they probably have more cyclical risk to price in. Credit spreads have widened due to hawkish central banks and rising bond yields. Moving forward, further spread widening is still a risk in this inflationary environment, while the risk-reward for equities is higher.

Corporate bonds can see withdrawals due to rising rates, slowing growth and escalating geopolitical tensions

Investment Grade Bonds can still offer a decent return and some protection against the volatility of stocks. The risks of rising rates in combination with a global slowdown can further weigh on corporate debt.

We expect credit profiles to remain stable as activity normalizes

Although corporate bonds have performed poorly since the start of the year, businesses balance sheets remain sturdy. However, we remain wary of the risks from geopolitics, prolonged inflation and a slower economic recovery

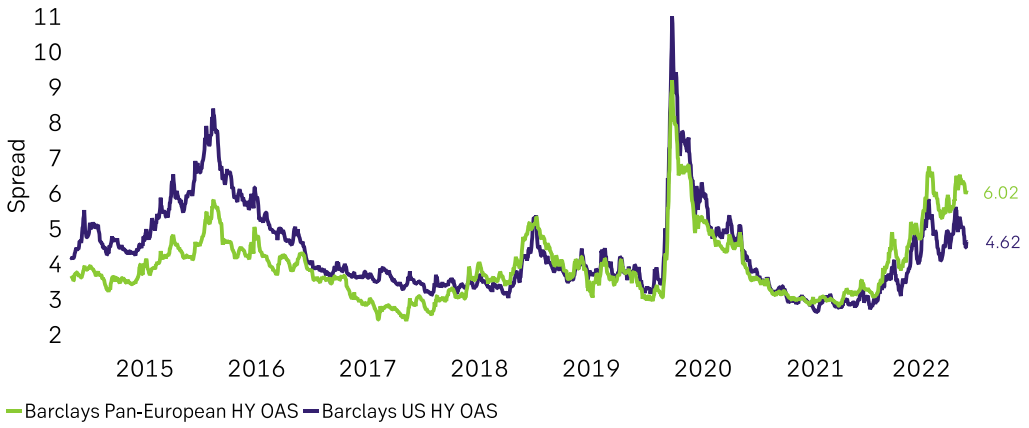
Liquidity in the market is getting more challenged

Financial conditions have deteriorated due to a tighter monetary policy from global central banks. The treasury yield curve has remained inverted as bond markets expect a recession. And with a tightening monetary policy ahead we could see further volatility in bond markets onwards.

Nevertheless, default rates could rise moving forward

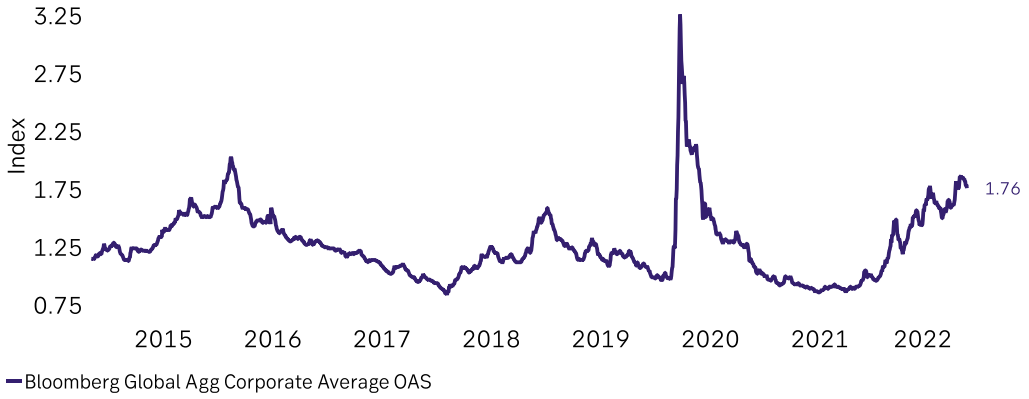
We expect it is unlikely that default risks will be priced aggressively as businesses have strong balance sheets. However, we could see rising defaults rates and wider spreads because of reduced earnings, due to higher borrowing costs and slowing growth

Figure 1: HY spreads in the US and Europe have widened amid tighter monetary policy. In our view there is still further risks of widening at this point in time.



Source: Macrobond, SEB

Figure 2: The spread on Investment Grade bonds has also risen as the corporate bond market priced in further uncertainty.



Source: Macrobond, SEB

Government Bonds – 12M Outlook

We increase to an overweight in Government Bonds and reduce cash

Markets are expecting the Fed to hike rates in 2022, but at a slower pace, and cut rates later in 2023. However, long-term bond yields have likely peaked and we expect that long-term bond yields will be more stable than shorter-term bond yields. That is, more positive inflation surprises could lead to higher short-term bond yields. Having said that, long-term treasury yields have reached overall attractive levels. So given the high yields and expected trajectory of bond yields, the asset class can generate returns.

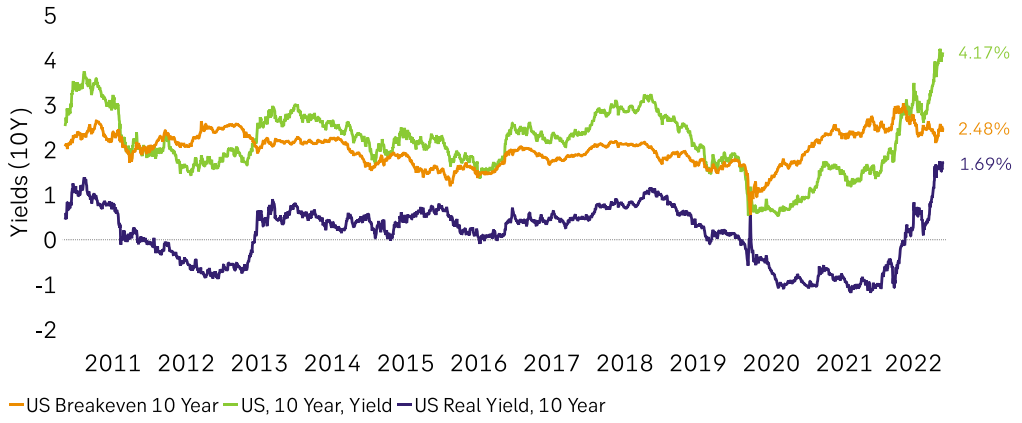
Real yields have turned positive due to the rapid rise in yields

The US yield curve has shifted upwards as markets priced in a rapid tightening of monetary policy. Inflation breakeven have moved downwards as central banks are now focused on battling inflation, but also because markets are more worried about the economic outlook. Given these moves, we have seen real yields rise and close in on positive levels. As real yields are now at higher levels, there is potential return for government bonds.

Over the long-term government yields will remained capped due to increased fiscal debt in developed markets

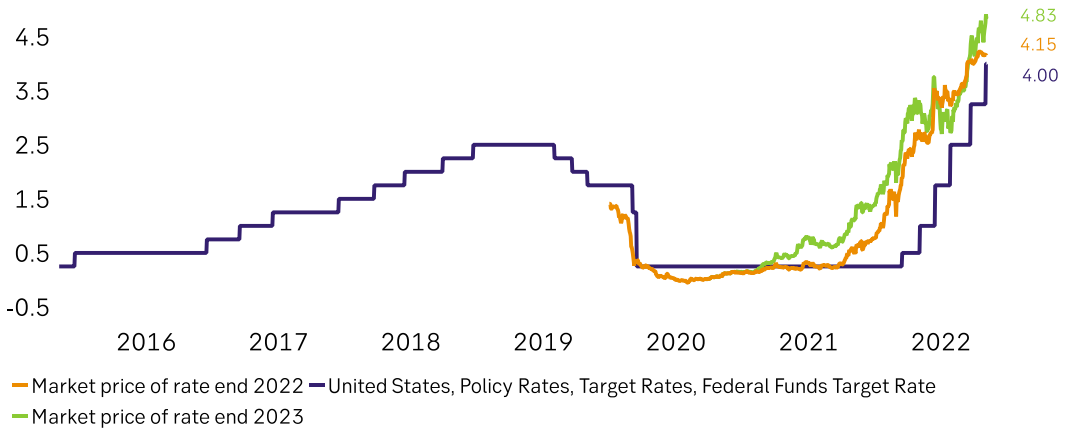
The enormous monetary and fiscal stimulus has allowed for central banks and governments balance sheets to balloon. Therefore, in order to fund the current national debt levels governments are likely to maintain interest rates at low levels for a very long time. We could also see an increase in taxes in order to reduce debt levels, but a hike in tax rates or cuts in government expenditure are not very likely in the near term.

Figure 1: Real yields have moved into positive territory. Longer-term treasuries have likely peaked and yield levels look attractive now



Source: Macrobond, SEB

Figure 2: Markets are pricing in more hikes to obtain a year end rate that we have not seen since 2008



Source: Macrobond, SEB

Region Overview

Regional equity positioning

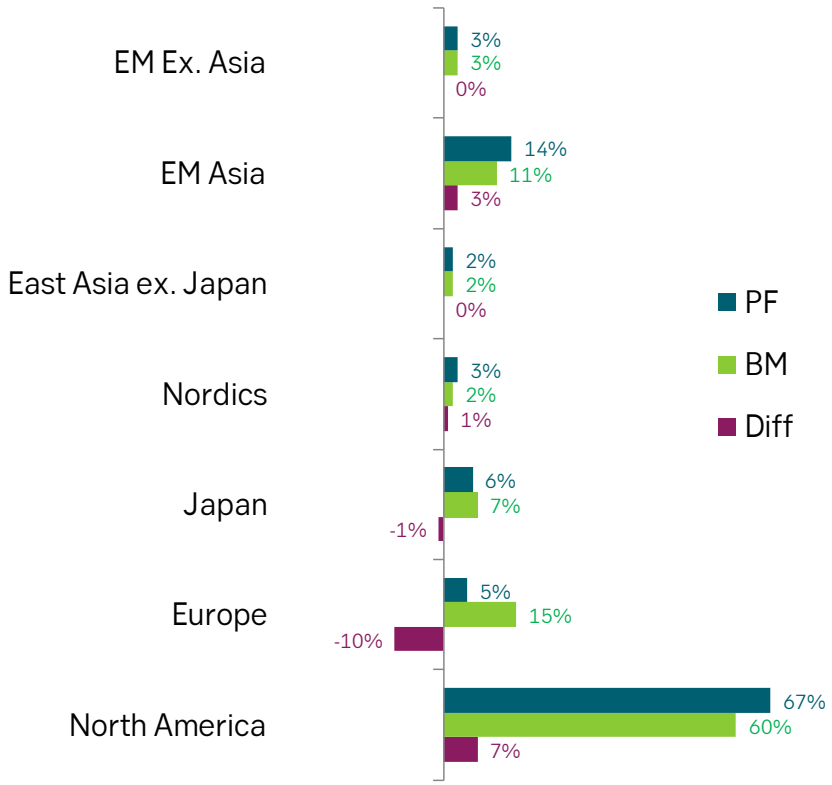
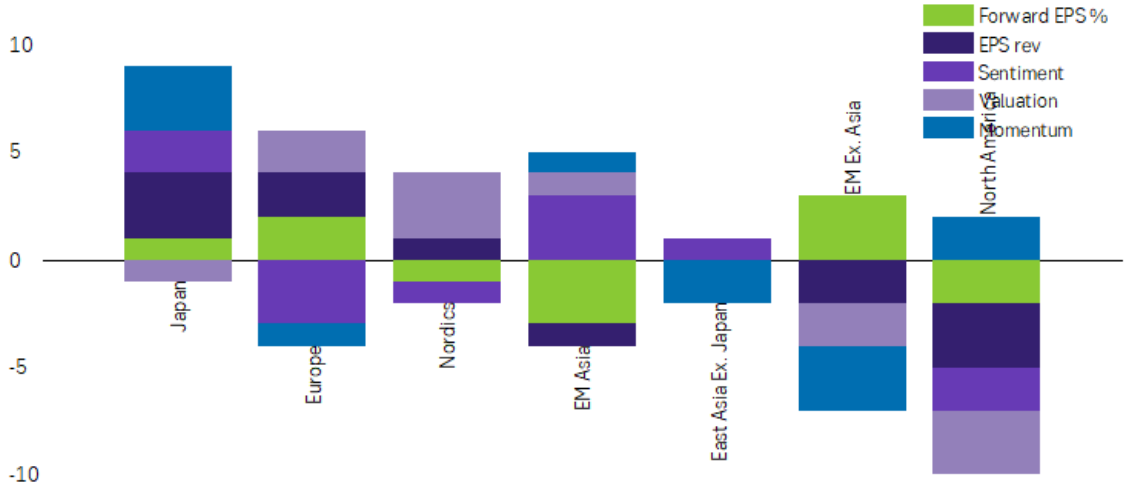


Figure 1: SEB House View region score*



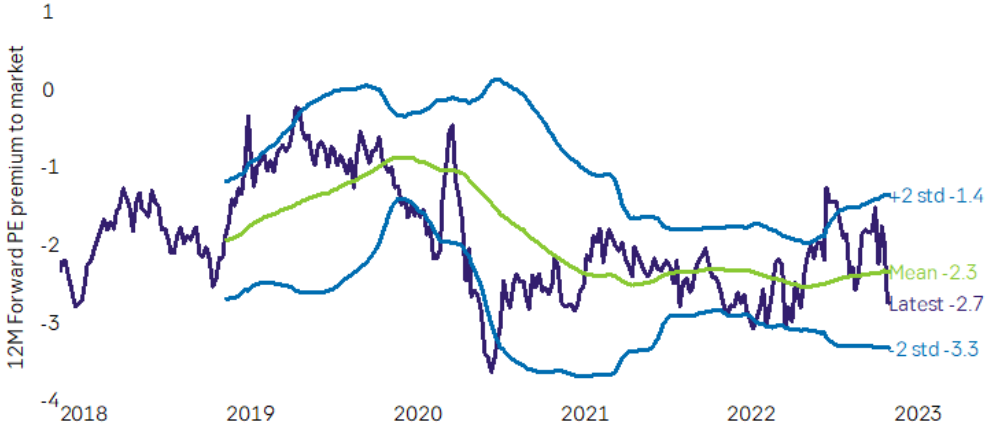
* Ranked by total score with highest score starting from left

EM Asia – Overweight

The market is bearish on EM Asia equities, due to growth concerns over China and Xi's policies going forward

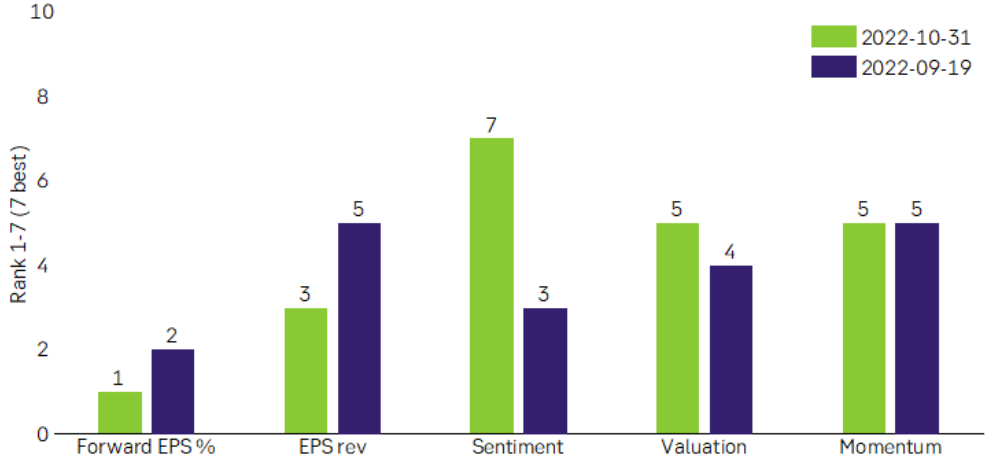
- The region has been dragged down by the sell-off in Chinese equities that started after Xi secured a third term following the Communist Party's congress
  - We believe that the market is too bearish on Chinese stocks and that the valuation has become attractive
- Our regional model scores EM Asia highest at sentiment, which may signal oversold conditions for the region
- We believe that the zero-covid policy is unsustainable for China's economy and that Xi will face political pressure to reopen the economy to boost demand and credit
  - The official NBS manufacturing PMI reading showed that the Chinese manufacturing sector contracted in October, amid strict covid lockdowns
  - Xi will soon have to find another source of growth as exports growth start to fall

Figure 1: Standardized relative valuation – Current constituents



Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents

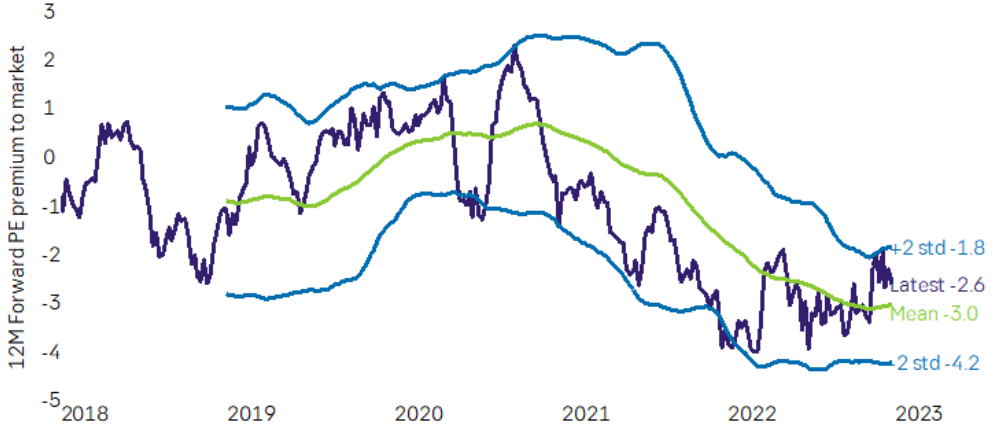
Source: SEB House View

EM Ex Asia – Neutral

We prefer to continue to stay neutral EM Ex Asia

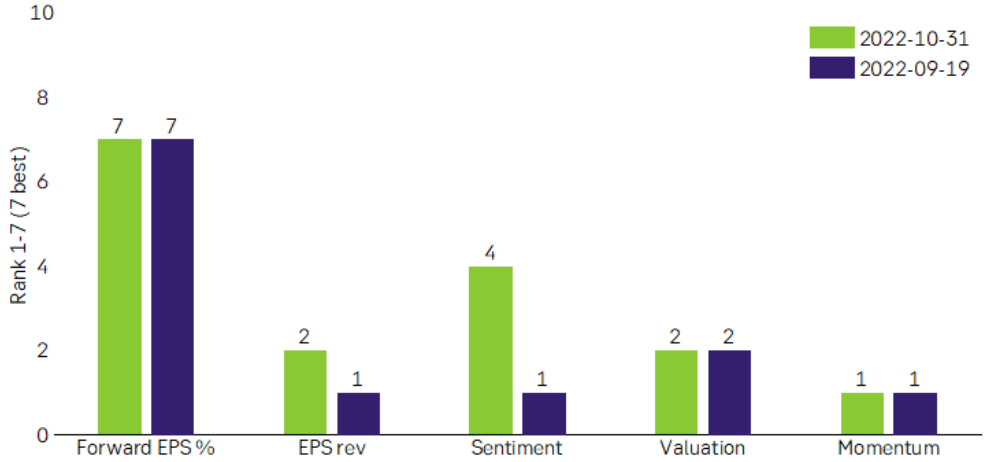
- Macro in Brazil, the region's biggest economy, showed signs of weakening as both consumer and business confidence fell in October
  - Confidence indicators reported declines in current conditions and expectations that fell below optimism levels for consumers and businesses
- Our aggregate macro indicators also showed that both macro momentum and surprises remained negative in October
- On the positive side, our regional scoring model shows that EM Ex Asia has strong EPS growth and improving EPS revision, which can be positive factors for equities
- We maintain a neutral position based on the combination of a weaker macroeconomic backdrop and falling confidence, with stronger fundamentals and cheaper valuations in terms of low price-earnings multiples

Figure 1: Standardized relative valuation – Current constituents



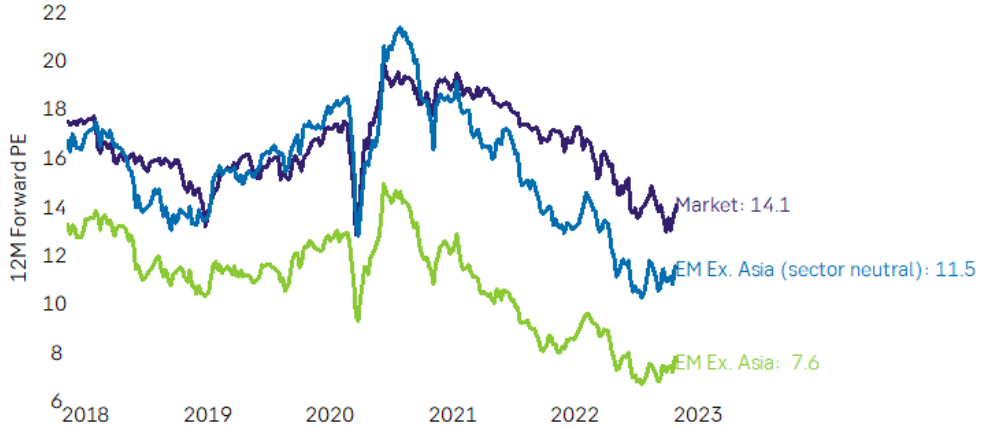
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



Source: SEB House View

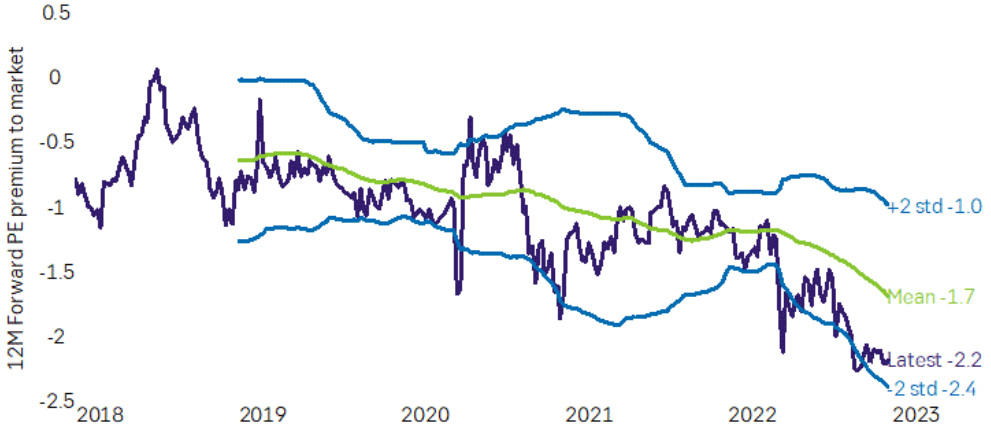
Europe – Underweight

We keep our underweight to Europe as the region faces major headwinds

- Europe score high on forward EPS and revisions as well as valuations
- However, macro in the region as surprised to the downside in October due to weaker confidence from consumers and businesses
  - Business expectations reached recessionary levels amid concerned over the energy crisis and rising inflation
- Europe also faces challenges to growth from less accommodative monetary policy as the ECB plans to hike rates further and announce when their quantitative tightening (QT) of its balance sheet will begin

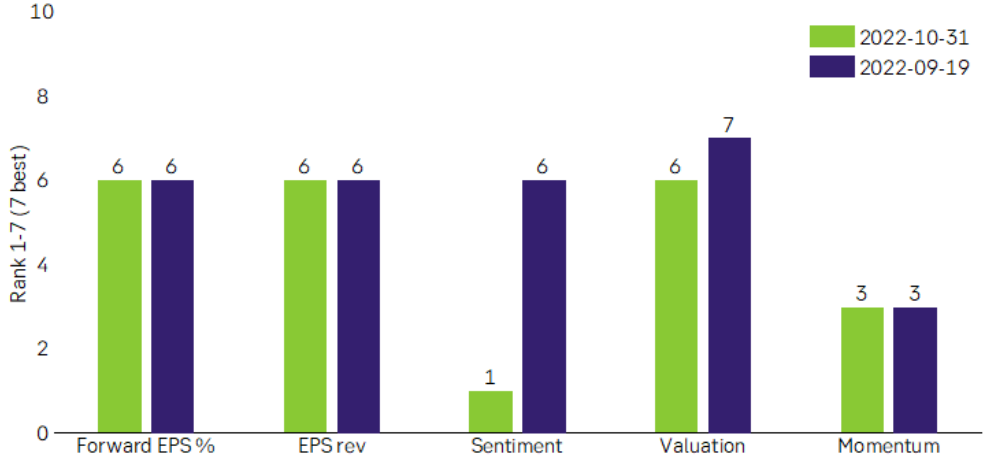
- We maintain our underweight in Europe because the region likely face a higher risk of a recession in the coming months while financial conditions are expected to tighten more as the ECB continues to hike rates

Figure 1: Standardized relative valuation – Current constituents



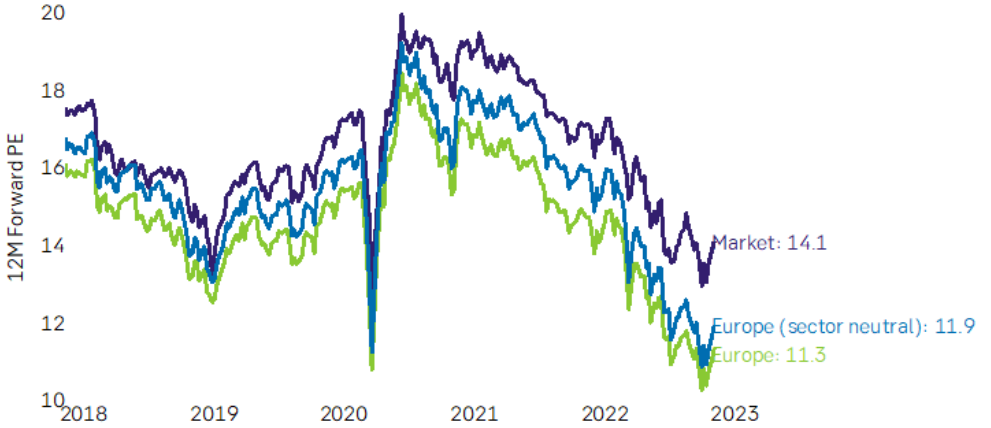
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



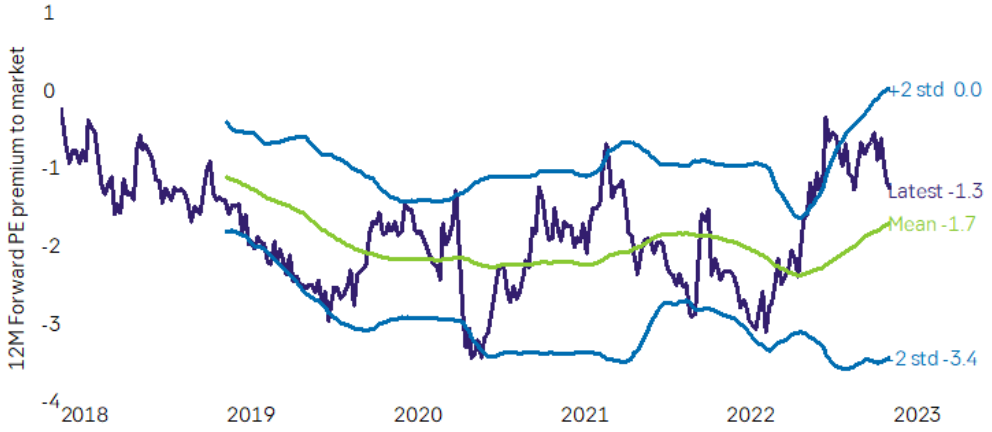
Source: SEB House View

Japan – Underweight

We stay underweight Japan because the weak yen and high inflation could likely lead to a slowdown or recession in the near-term, which is bad for equities there

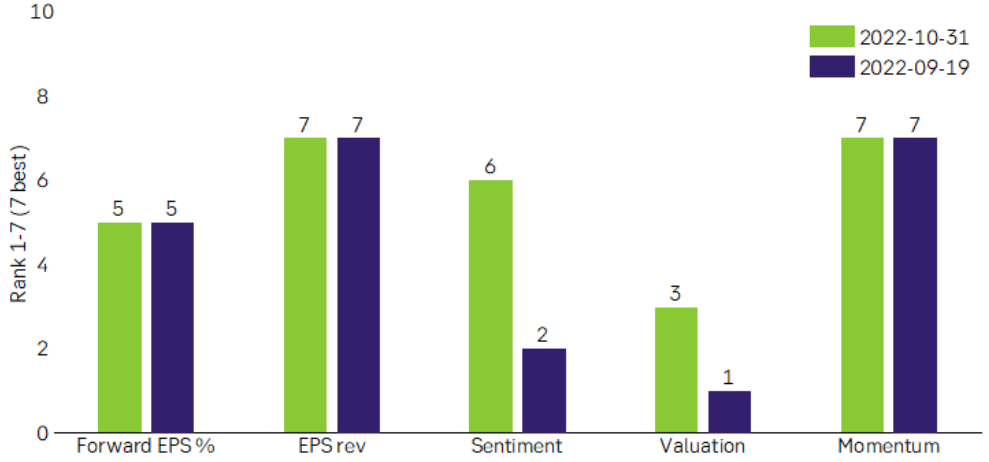
- The BoJ's easy monetary policy has led to a weaker yen against the dollar, as the Fed has continued to hike rates while the BoJ has kept rates ultralow
  - A weaker yen exacerbate the negative impact of rising prices on Japanese households and businesses and there are signs that inflation has already started to take a toll on real consumer spending
- The government's stimulus package will likely ease the impact of inflation on households and businesses, temporarily, but it will likely not be able to stop an economic slowdown or downturn
- There are already signs that higher prices are starting to reduce real consumer spending, which does not bode well for growth
- Our regional equity model scores Japan high on EPS revisions and momentum

Figure 1: Standardized relative valuation – Current constituents



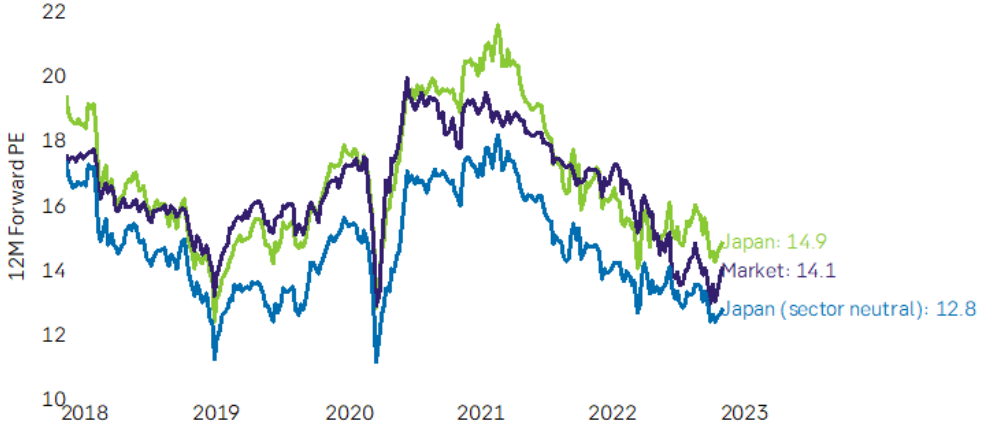
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



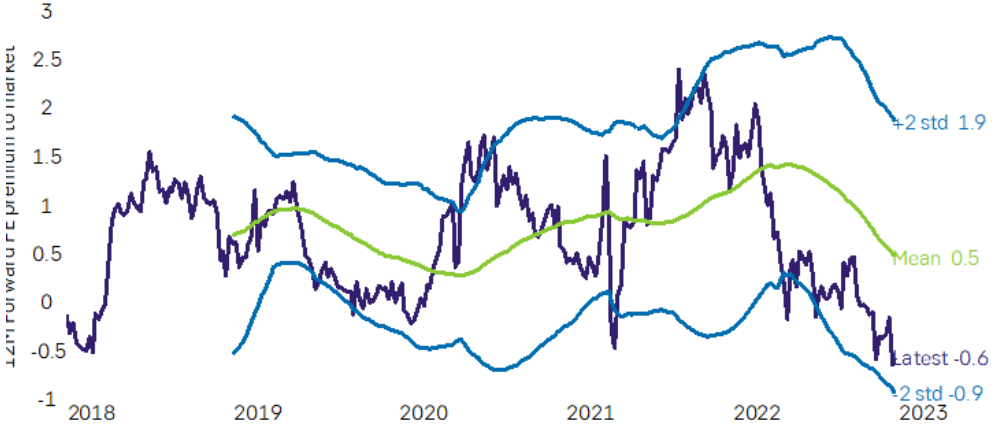
Source: SEB House View

Nordics – Overweight

We remain overweight because of tailwinds from a stronger USD, inflationary characteristics and attractive valuations

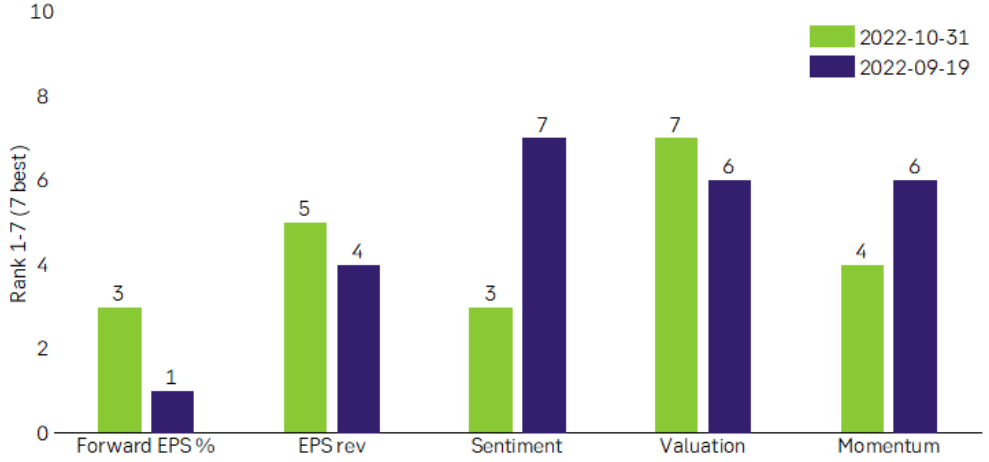
- Earnings remained robust and surprised to the upside in the third quarter, despite higher interest rates, input costs and rising wages
  - We expect Nordic equities to outperform in an inflationary environment as the region is more value-tilted than other regions
  - Industrials and banks, the largest sectors in Sweden, usually outperform other sectors amid rising rates and inflation
- Even though the USD has strengthened significantly this year, we think that it is too risky to bet against the dollar, as the Fed hike by smaller increments for-longer
- A stronger USD should benefit the export-heavy region as export demand increases
- Out regional model scores the Nordics highest at valuation and EPS revisions are rising, which can support equities in the shorter-term

Figure 1: Standardized relative valuation – Current constituents



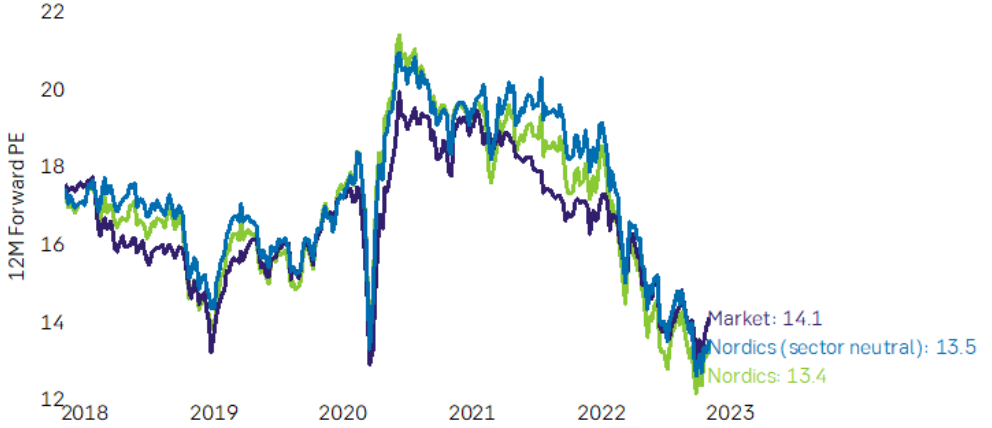
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



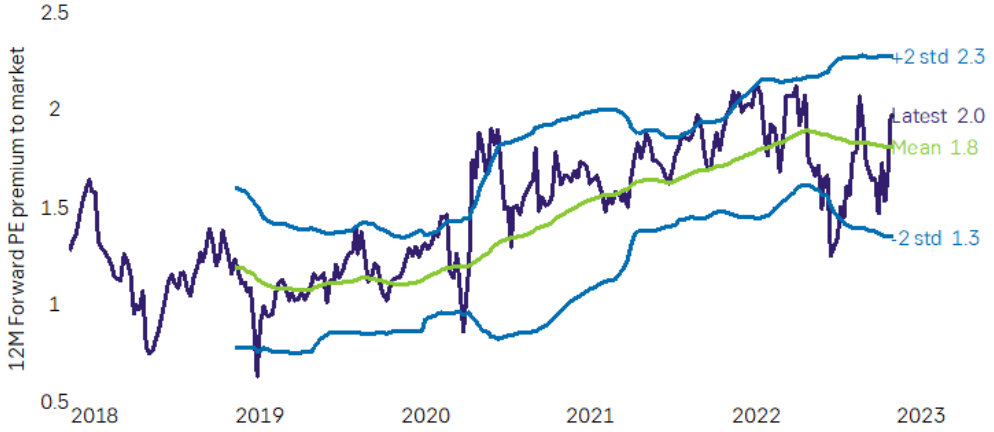
Source: SEB House View

North America – Overweight

We keep our overweight in the US because the USD strength is likely to continue

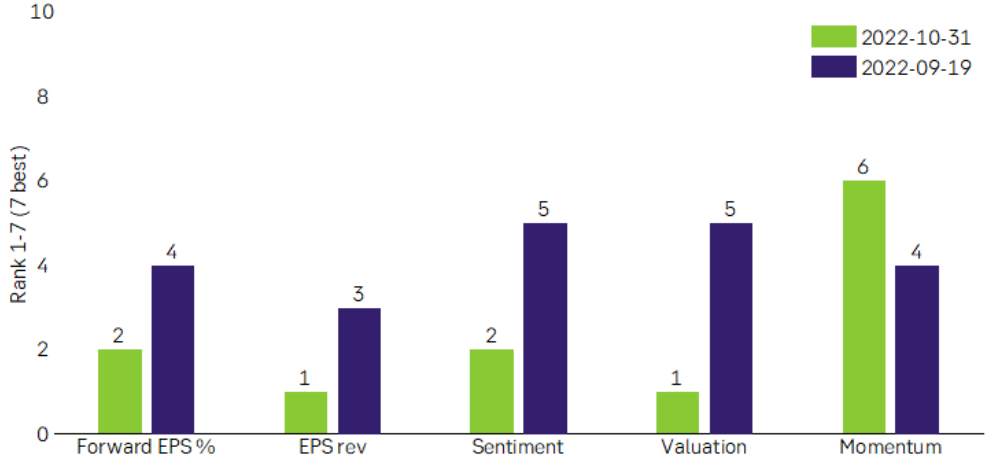
- The region will likely benefit from capital inflows due to a hawkish Fed and a stronger USD
- The US is also considered a 'safe heaven' region and rising geopolitical tensions in the world from Ukraine and Russa and Taiwan, puts the region in a relatively better position than the rest of the world
- Macro and consumers have held up relatively well, compared to other regions and we think that inflation has already peaked and could fall quickly like in past inflation regimes
  - A peak in Fed tightening would benefit US equities the most and we think that tighter financial conditions from past hikes this year will help bring inflation down, even if there is a lag

Figure 1: Standardized relative valuation – Current constituents



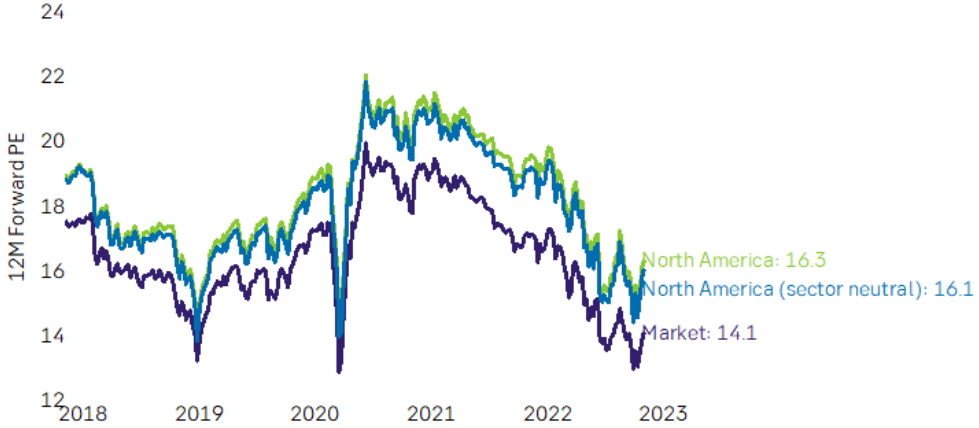
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



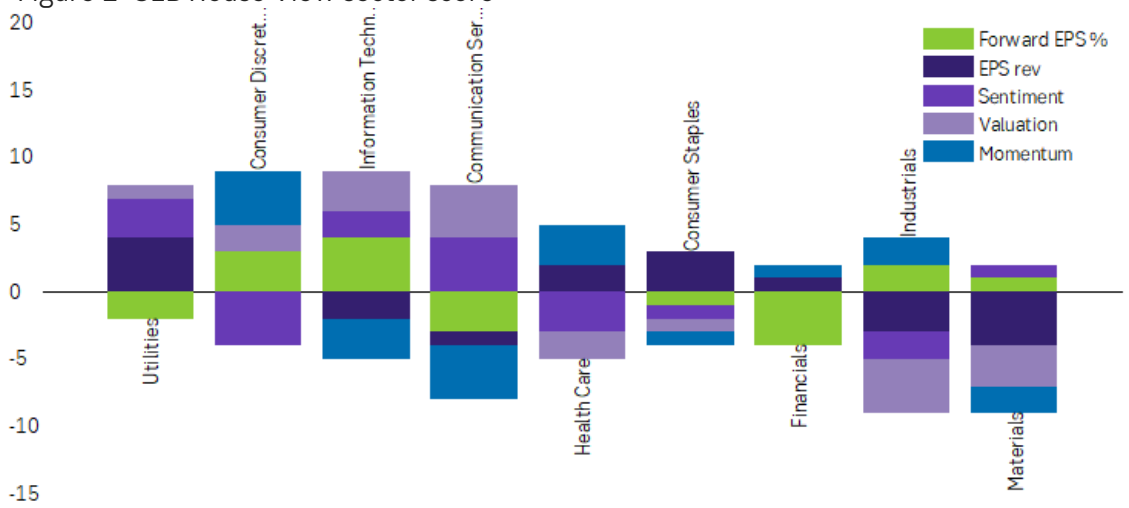
Source: SEB House View

Sector Overview

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

* 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 last months positioning.

Figure 1: SEB House View sector score



Source: SEB House View

Overweight – Materials, Health Care and Industrials

We keep our overweight to materials as they usually outperforms in an inflationary environment

- There is a risk of high and sticky inflation and Materials as a sector is better poised to outperform during inflationary times
- The 12m forward EPS growth for the sector is strong

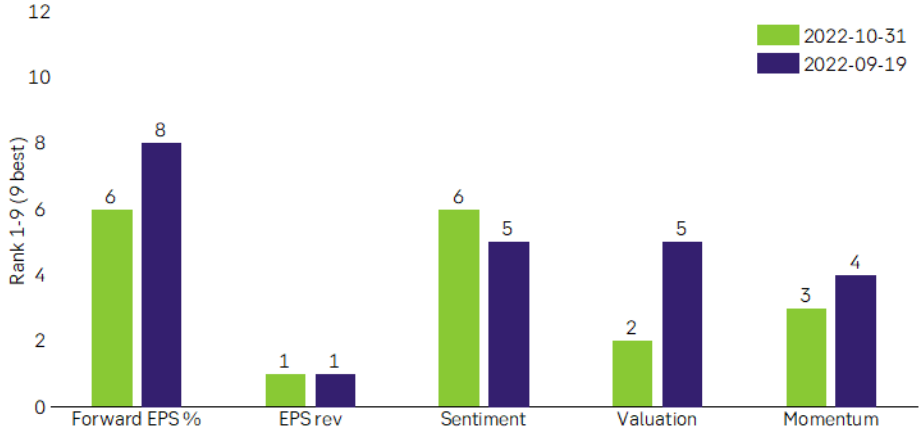
Health Care still provides protection against a recession

- We keep our overweight to Healthcare due to the sector's defensive characteristics
- Global growth risks are rising amid high inflation, hawkish Fed and the war in Ukraine
- We see growth potential in Pharma due to a global aging population, resurging covid cases and monkey pox vaccination

Industrials may benefit from investments in renewables

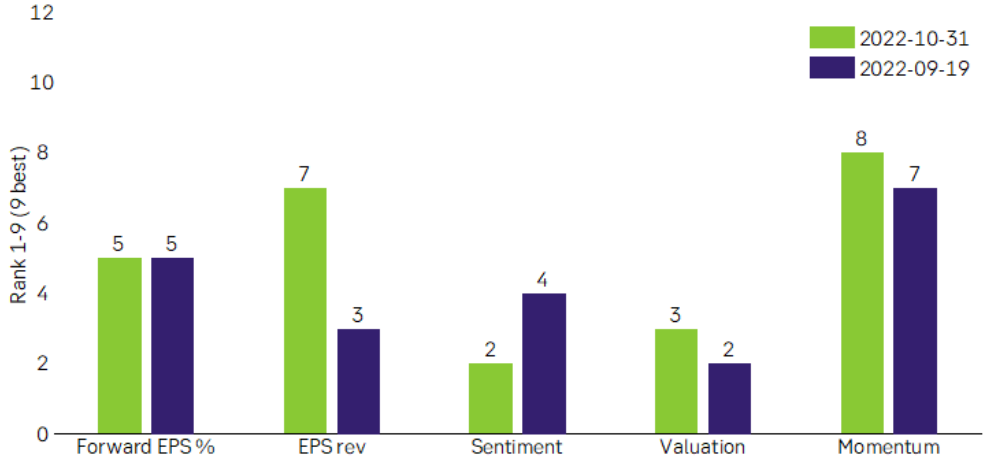
- The sector has a stable EPS outlook in our House View model
- Furthermore, Industrials could benefit from CapEx investments in the Renewables space

Figure 1: In our model, Materials still ranks high on the 12m EPS outlook



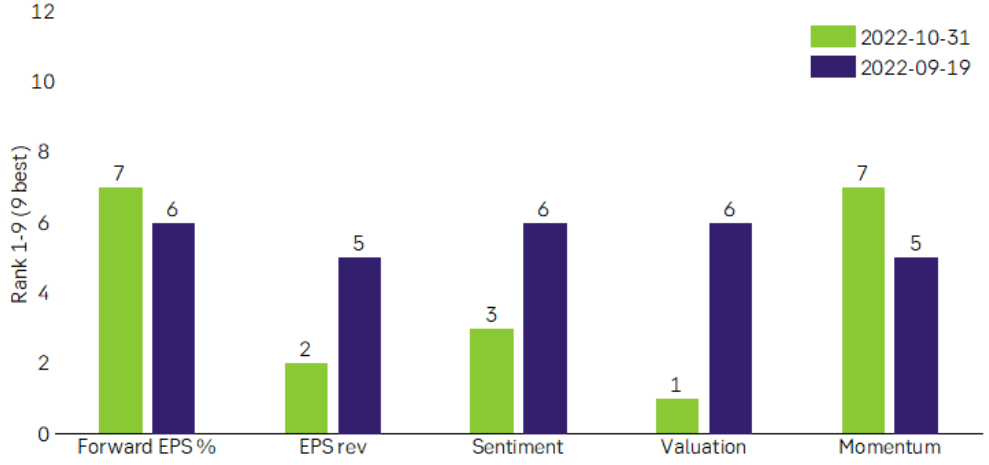
Source: SEB House View

Figure 2: Healthcare EPS had held up relatively well vs. other equity sectors



Source: SEB House View

Figure 3: The EPS outlook for Industrials remains stronger than many sectors



Source: SEB House View

Underweight – Consumer Staples and Utilities

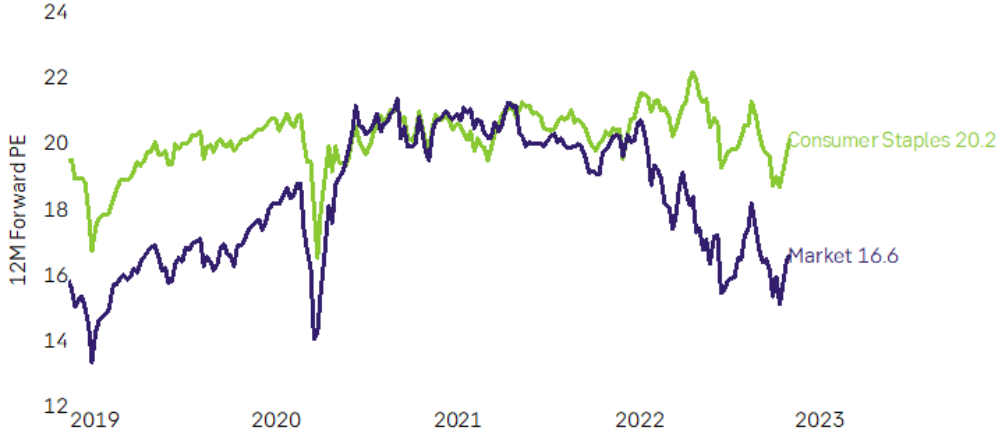
Consumer staples is still expensive and offers little growth

- We keep our underweight as we believe that the sector is expensive and there is better growth opportunities elsewhere
- Moreover, consumer staples will likely underperform other sectors as global central banks continue to lift rates
  - The sector is a bond proxy which moves inversely to bond yields

We prefer to stay underweight in Utilities

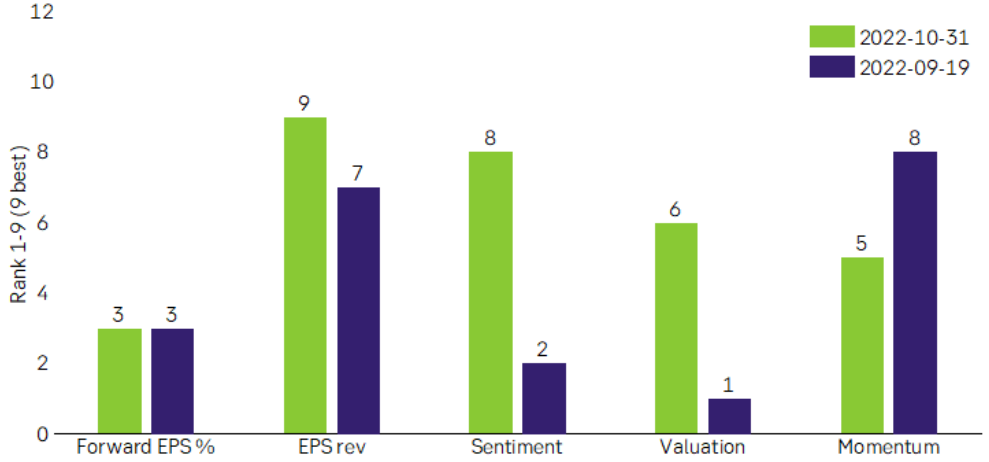
- Utilities still scores the lowest on valuation in our House View Sector model
- Furthermore, rising interest rates are likely to lead to a multiple contraction in the sector as it is very sensitive to higher rates
- The earnings growth for the sector looks rather weak, despite the expensive valuation

Figure 1: Consumer Staples still trades at a premium to the market



Source: SEB House View

Figure 2: Utilities scores low on valuation and sentiment in our House View model



Source: SEB House View

Figure 3: Utilities is currently trading at a higher multiple than the market

Source: SEB House View

Appendix – Inflation Heatmap

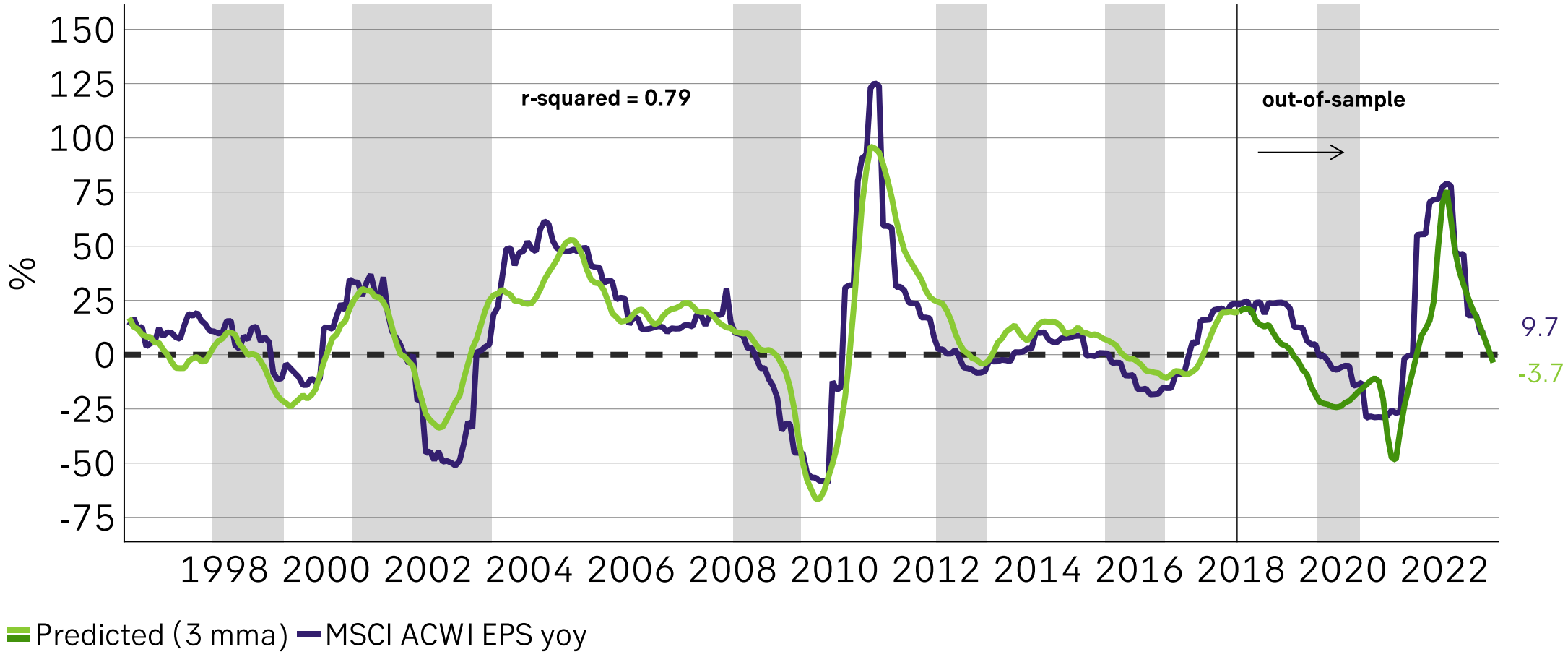
US Inflation Indicators

Heatmap based on rolling 10-year Z-scores. Actual data releases are shown below.

	11/2022	10/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022	3/2022	2/2022	1/2022	12/2021	11/2021	10/2021	9/2021	8/2021	7/2021	6/2021	5/2021	4/2021	3/2021	2/2021	1/2021	12/2020	11/2020
Economic Measures																									
Cleveland Fed Trimmed-Mean CPI Y/Y %			7,3	7,2	7,0	6,05	6,5	6,2	6,1	5,7	5,4	4,9	4,6	4,1	3,5	3,2	3,0	2,9	2,6	2,5	2,1	2,0	2,0	2,1	2,1
Core CPI Y/Y %			6,6	6,3	5,9	5,9	6,0	6,2	6,5	6,4	6,0	5,5	4,9	4,6	4,0	4,0	4,3	4,5	3,8	3,0	1,6	1,3	1,4	1,6	1,6
Core PCE Y/Y %			5,1	4,9	4,7	5,0	4,9	5,0	5,4	5,4	5,2	5,0	4,8	4,3	3,9	3,9	3,9	3,8	3,5	3,1	2,0	1,6	1,6	1,5	1,4
CPI Y/Y %			8,2	8,3	8,5	9,1	8,6	8,3	8,5	7,9	7,5	7,0	6,8	6,2	5,4	5,3	5,4	5,4	5,0	4,2	2,6	1,7	1,4	1,4	1,2
PPI Y/Y %			11,5	12,8	15,4	18,3	16,8	15,7	15,3	13,7	12,7	12,3	13,3	12,7	11,8	10,7	9,9	9,7	8,7	9,7	5,9	2,5	0,4	-0,8	-1,3
Sentiment																									
Michigan Expected Inflation 12M		7,3	6,4	6,5	8,2	8,2	7,4	8,2	8,0	6,0	6,2	6,2	6,8	6,3	6,0	6,1	5,8	6,1	5,7	4,3	4,3	4,3	3,8	3,0	3,2
Conf Board Expected Inflation 12M		7,0	6,8	7,0	7,4	7,9	7,5	7,5	7,9	7,1	6,8	6,9	7,3	7,1	6,5	6,7	6,6	6,7	6,5	6,2	6,4	6,5	6,1	6,0	5,7
ISM Services Prices Paid		70,7	68,7	71,5	72,3	80,1	82,1	84,6	83,8	83,1	82,3	83,9	83,0	83,0	79,5	75,9	81,4	78,8	79,1	76,0	73,5	71,6	64,7	65,4	64,3
ISM Manufacturing Prices Paid		46,6	51,7	52,5	60,0	78,5	82,2	84,6	87,1	75,6	76,1	68,2	82,4	85,7	81,2	79,4	85,7	92,1	88,0	89,6	85,6	86,0	82,1	77,6	65,4
ISM Manufacturing Supplier Deliveries		46,8	52,4	55,1	55,2	57,3	65,7	67,2	65,4	66,1	64,6	64,9	72,2	75,6	73,4	69,5	72,5	75,1	78,8	75,0	76,6	72,0	68,2	67,7	61,7
NFIB Higher Prices			51,0	53,0	56,0	63,0	65,0	63,0	66,0	64,0	58,0	57,0	59,0	53,0	46,0	49,0	46,0	47,0	40,0	36,0	26,0	25,0	17,0	16,0	18,0
Commodities																									
CRB Raw Industrials Y/Y %	-13,2	-9,4	-4,6	-2,4	0,7	9,8	16,9	21,9	18,6	21,4	25,9	31,4	37,9	36,8	35,0	40,8	45,1	43,1	42,0	34,7	21,1	16,6	13,6	9,7	7,4
Lumber Y/Y %	-29,3	-32,2	-9,8	-4,4	-13,2	-51,5	-38,2	-5,3	46,6	16,9	29,1	33,6	7,1	5,1	-37,8	-9,3	68,9	248,2	378,6	283,6	140,7	104,0	120,9	67,1	41,5
Metals Y/Y %	-5,0	-7,9	-9,9	-3,4	-2,9	17,7	22,7	49,0	50,0	34,3	27,2	21,2	31,1	41,7	36,7	37,9	48,8	55,0	66,2	56,3	34,5	23,8	18,0	19,9	3,9
Agriculture Y/Y %	18,9	19,2	19,8	14,1	15,9	24,7	27,0	44,7	44,7	29,8	27,2	40,1	38,7	45,1	48,6	58,8	59,7	67,8	69,0	40,2	33,6	28,6	17,1	9,1	6,1
Energy Y/Y %	38,4	28,3	70,6	72,0	68,7	118,3	112,0	99,9	81,5	63,8	49,4	47,7	85,3	81,2	46,0	38,3	53,3	38,7	41,4	25,7	-8,0	-22,9	-44,6	-43,3	-44,7
Wages																									
Weekly Wages Y/Y %		6,9	5,8	3,7	5,4	5,5	5,4	5,0	5,7	7,3	6,4	5,9	4,9	6,1	6,3	5,2	6,1	5,1	5,1	4,2	6,6	4,9	8,2	6,2	8,3
Hourly Wages Y/Y %		4,7	5,0	5,2	5,2	5,2	5,3	5,5	5,6	5,2	5,4	4,9	5,3	5,4	4,8	4,3	4,3	4,0	2,2	0,6	4,4	5,2	5,3	5,5	4,6
Atlanta Fed High Skill Wages Y/Y %			5,6	5,3	5,1	5,0	4,7	4,6	4,4	4,2	3,9	3,8	3,6	3,5	3,5	3,4	3,4	3,4	3,4	3,5	3,5	3,5	3,5	3,6	3,7
Atlanta Fed Low Skill Wages Y/Y%			6,4	6,3	6,0	6,0	5,6	5,0	4,7	4,4	4,2	3,9	3,8	3,7	3,7	3,8	3,7	3,6	3,4	3,5	3,5	3,2	3,0	3,1	3,1
NFIB Small Business Wages		44,0	45,0	46,0	48,0	48,0	49,0	46,0	49,0	45,0	50,0	48,0	44,0	44,0	42,0	41,0	38,0	39,0	34,0	31,0	28,0	25,0	25,0	21,0	24,0
Inflation components																									
Shelter CPI Y/Y %			6,7	6,3	5,8	5,5	5,1	4,8	4,5	4,3	4,1	3,8	3,5	3,1	2,9	2,5	2,4	2,3	2,1	2,0	2,0	2,0	2,0	2,2	2,3
Electricity CPI Y/Y %			15,5	15,8	15,2	13,7	12,0	11,0	11,1	9,0	10,7	6,2	6,3	6,4	5,4	5,4	4,2	4,0	4,2	3,5	2,5	2,2	1,5	2,0	1,3
Education CPI Y/Y %			2,1	2,8	2,4	2,2	2,1	2,1	2,1	2,0	1,9	1,8	1,9	1,8	1,7	0,8	0,2	0,4	0,3	0,3	0,3	0,4	0,4	0,8	0,6
Car Rental CPI Y/Y %			-1,4	-6,2	-11,9	-7,7	-0,4	10,4	23,4	24,3	29,3	36,1	36,6	38,8	43,1	53,0	73,4	87,8	110,0	82,3	31,7	11,6	2,8	5,2	8,7
Recreation CPI Y/Y %			4,1	4,2	4,5	4,7	4,9	4,4	4,8	5,1	5,1	3,3	2,8	3,8	3,5	3,5	3,7	1,9	0,6	1,8	1,3	1,1	0,3	1,6	2,5
Drugs CPI Y/Y %			3,5	4,0	3,5	3,1	2,3	2,1	2,7	2,5	1,3	0,2	0,0	-0,4	-1,6	-2,4	-1,9	-2,0	-1,7	-1,5	-2,3	-2,4	-2,1	-2,1	-0,7
Market indicators																									
US 5Y Breakeven	2,6	2,3	2,6	2,7	2,6	3,1	3,2	3,4	3,3	2,8	3,0	2,8	2,9	2,6	2,5	2,6	2,5	2,6	2,7	2,6	2,5	2,3	2,0	1,8	1,6
US 5Y/5Y Breakeven	2,3	2,1	2,3	2,3	2,1	2,4	2,5	2,4	2,2	2,1	2,2	2,1	2,2	2,2	2,2	2,2	2,2	2,3	2,2	2,2	2,0	2,2	2,0	1,9	1,7
10Y - 2Y Yield Spread	-50,8	-47,0	-20,6	-36,3	4,3	27,5	28,8	-3,1	24,9	59,3	88,7	75,0	109,8	119,7	111,4	100,0	118,8	140,3	143,0	153,2	141,7	102,4	79,6	81,5	61,4
Germany 10Y Breakeven	2,4	2,1	2,3	2,2	2,1	2,4	2,9	2,7	2,4	1,8	1,8	1,7	1,7	1,7	1,5	1,4	1,3	1,4	1,3	1,3	1,1	1,1	0,9	0,9	0,7
Japan 10Y Breakeven	0,9	0,9	0,9	0,8	0,9	1,0	1,0	0,8	0,7	0,5	0,5	0,4	0,4	0,3	0,2	0,2	0,3	0,3	0,2	0,2	0,2	0,1	0,0	0,0	-0,1

■ Standard deviations above mean shaded in darker red ■ Close to mean ■ Standard deviations below mean shaded in darker blue

Appendix - Global EPS Growth



Source: Macrobond, SEB

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