SEB House View

28 February 2022

Strong global economy, but increased degree of uncertainty

Investment Regime: Still strong, but downside risks have risen

- The global economy is still solid as it enters the post-Covid phase with macro economic data surprising to the upside
- Markets have probably already priced in a higher risk premia
  - Although we may see energy prices stay higher for longer than expected, governments will likely push forward with fiscal stimulus to aid consumers
  - As oil is more expensive, the risk of inflation staying elevated for longer has increased
- The duration of Russia/Ukraine conflict is still highly uncertain, but the risks of a prolonged situation – with sanctions and restrictions will likely remain
  - It is still impossible to deduce how the war develops, but the evaluation of the real economic outlook is now more difficult.
- Global central banks will probably proceed with tightening monetary policy
  - But the path for hiking rates will likely ease as uncertainties have risen
- The escalation in the Russia/Ukraine situation has increased macro uncertainty in Europe so the economic growth outlook is more uncertain in the region than expected
  - Rising energy prices will likely hurt more Europe than the US
  - Tailwinds from investments in technology and climate will likely be accompanied by heavy European investments in defence
  - The effects of the Ukraine crisis on the US will probably be quite small as the US can tap into its shale market
  - And EM Asia will perhaps outperform Europe as capital moves to other regions

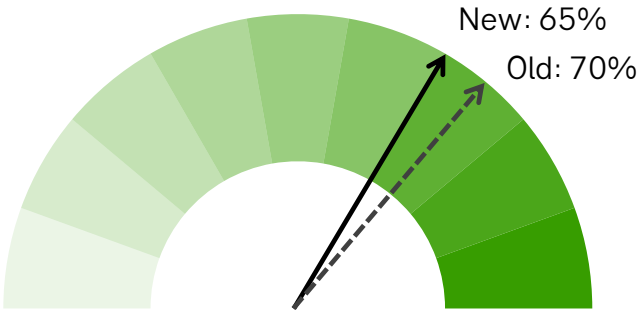
Strategy: We reduce risk utilization to 65%

- We make a gradual adjustment to risk utilization as the uncertainty for the economic outlook has on the margin risen
- With that, we stress that the fundamental macroeconomic background has not changed on its upward trajection and so we maintain an overweight to equities, but prefer to reduce the overweight

Investment Regime

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

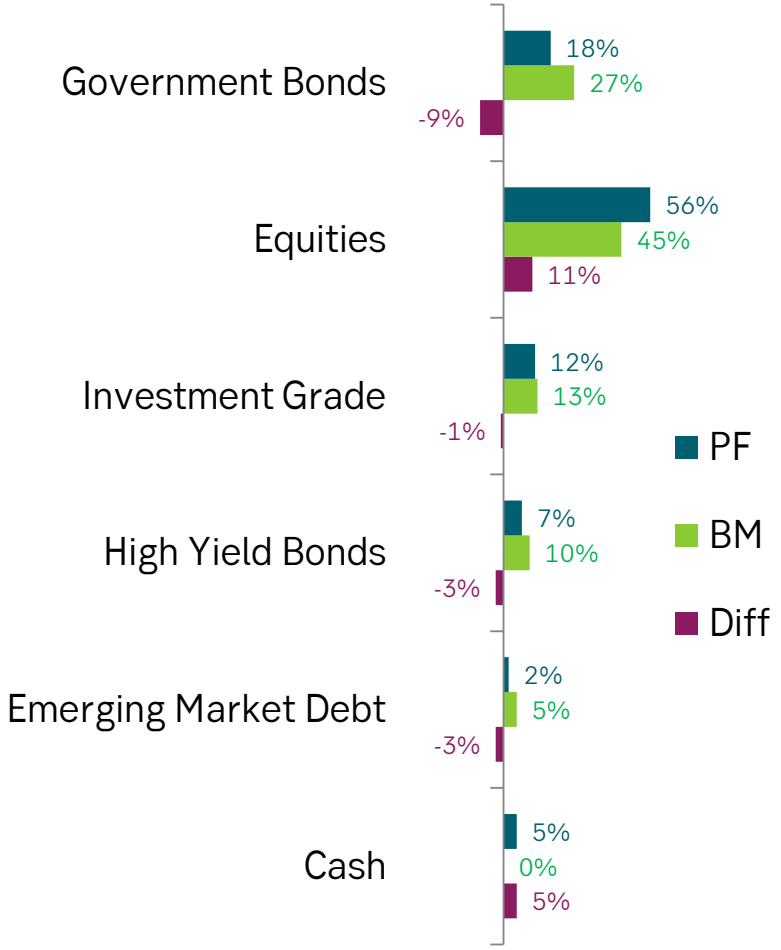
Speedometer



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).

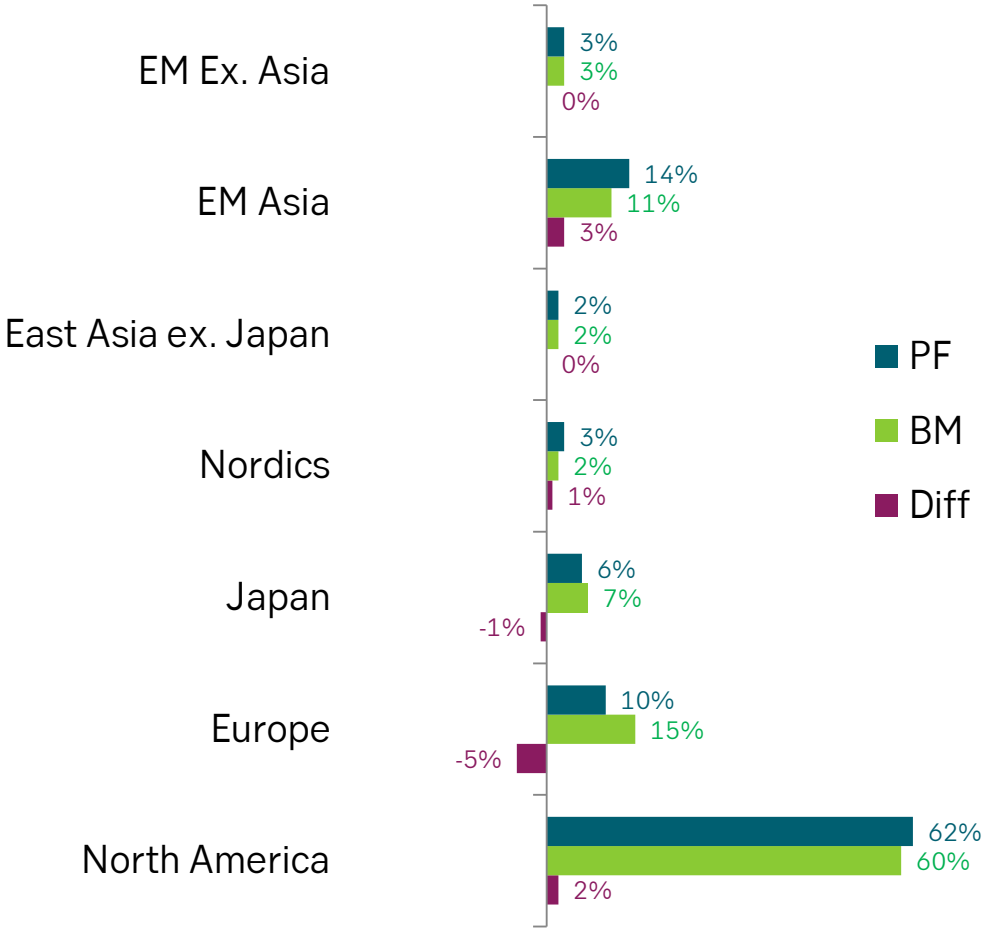
Asset Allocation and Regional equity allocation

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 positioning



Benchmark is MSCI All Country

Things that we are discussing

Investment decisions are made with the fundamental picture in mind

- We keep an overweight to equities, but adjust our overweight in equities to the downside
- The growth outlook is our focus – this is still on a good trajectory
- We prefer to take a small step right now, but keep monitoring the developments in Ukraine and the reactions from the rest of the world

What are the risks going forward? And if the situation endures for longer?

- Will the take-over of Ukraine be enough? What will Putin's next steps be? And the response from the West? Anyone's guess
- For now we expect further economic sanctions, but remain vigilant in case a stronger retaliation from the EU or US comes into view
- We note that there is a risk that the situation will have longer duration than what is expected
  - Then, we may see a negative impact on the growth outlook if this lasts for longer primarily through sentiment and the inflation debacle

What has the market discounted?

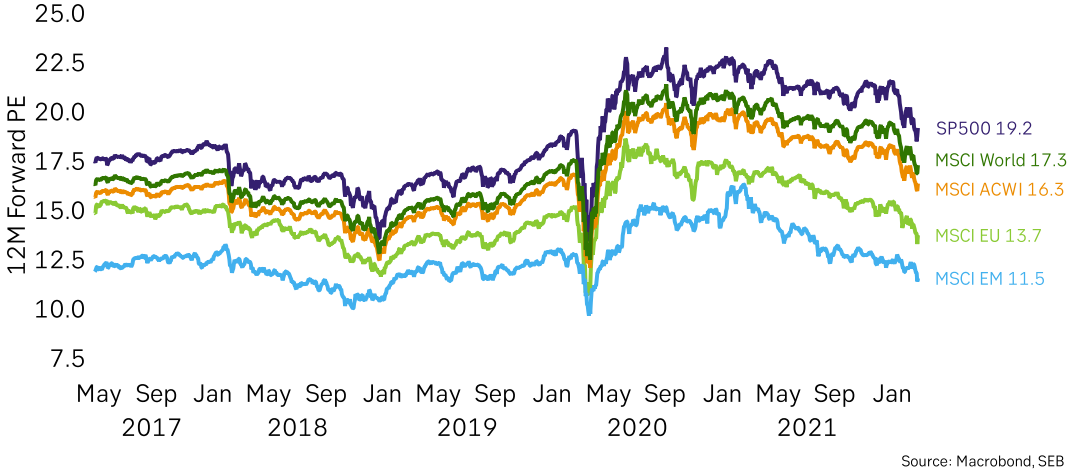
- Markets are highly volatile and prices are lower – commodities are taking a much bigger impact
- Expect elevated input costs in terms of energy - this can bring about further fiscal support in Europe as energy prices will likely remain elevated and increased inflation risks.

Having an overweight on the basis of the fundamental view

- Is there a good fundamental argument/trigger to go underweight? – Not right now in our view
  - The recent moves in markets is mainly related to geopolitics and sentiment – still highly volatile

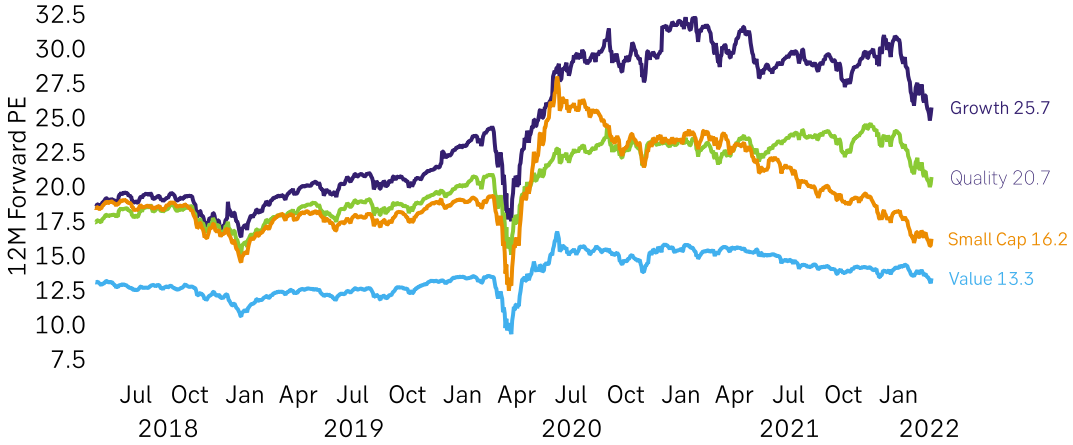
Valuations & Earnings (12M Forward)

Figure 1: Forward Valuations are lower – markets have discounted



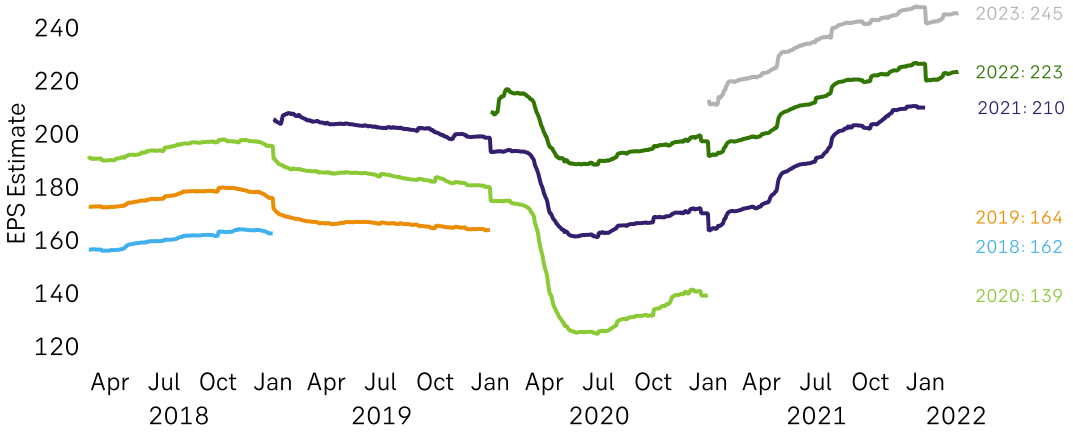
Source: Macrobond, SEB

Figure 2: Multiples in growth stocks are lower



Source: Macrobond, SEB

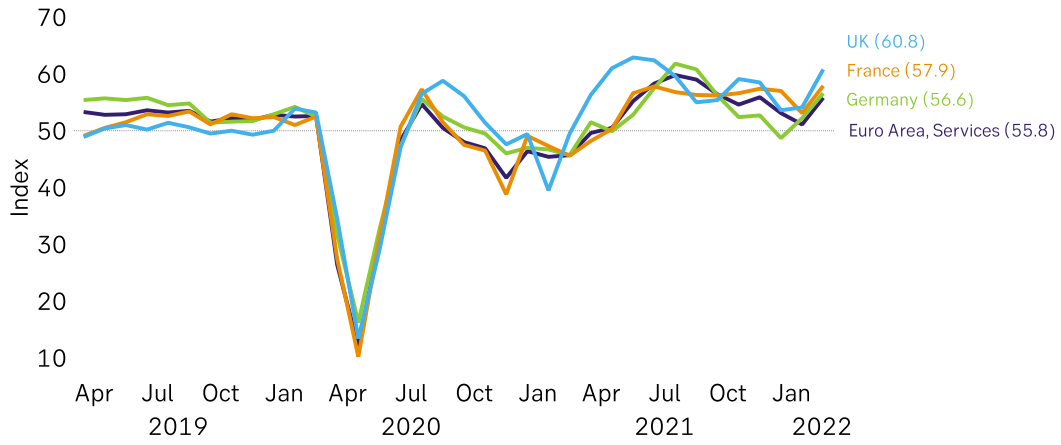
Figure 3: S&P500 EPS estimates still at good levels



Source: Macrobond, SEB

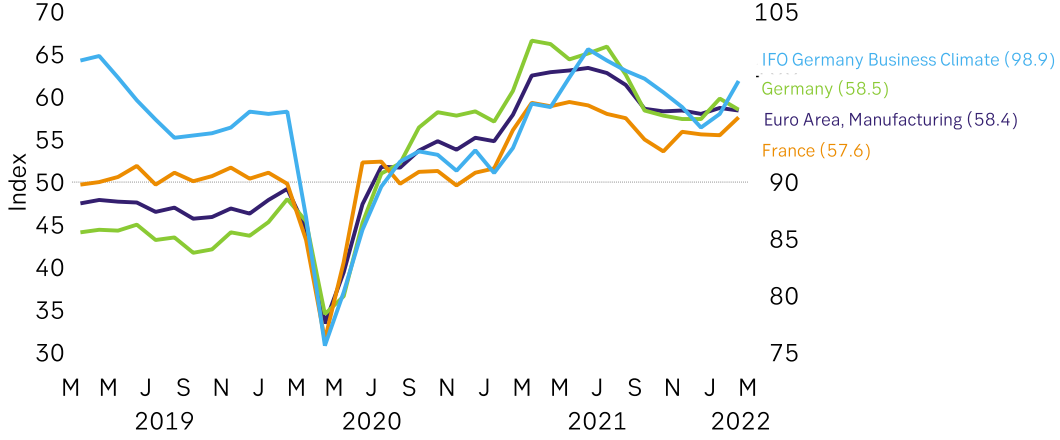
Macro data is improving

Figure 1: Business activity in Europe, especially in services, is improving



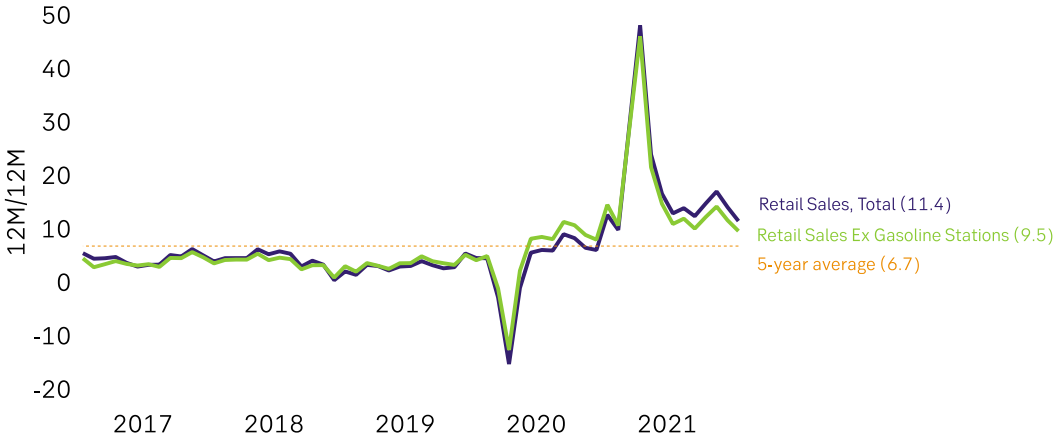
Source: Macrobond, SEB

Figure 2: Manufacturing in Europe is expanding – business climate is improving



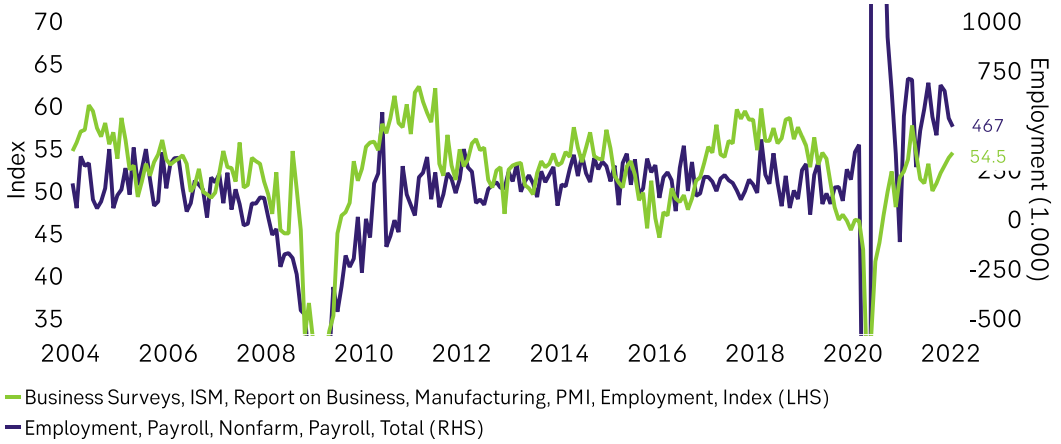
Source: Macrobond, SEB

Figure 3: Consumption in the US remains resilient – retail sales are robust



Source: Macrobond, SEB

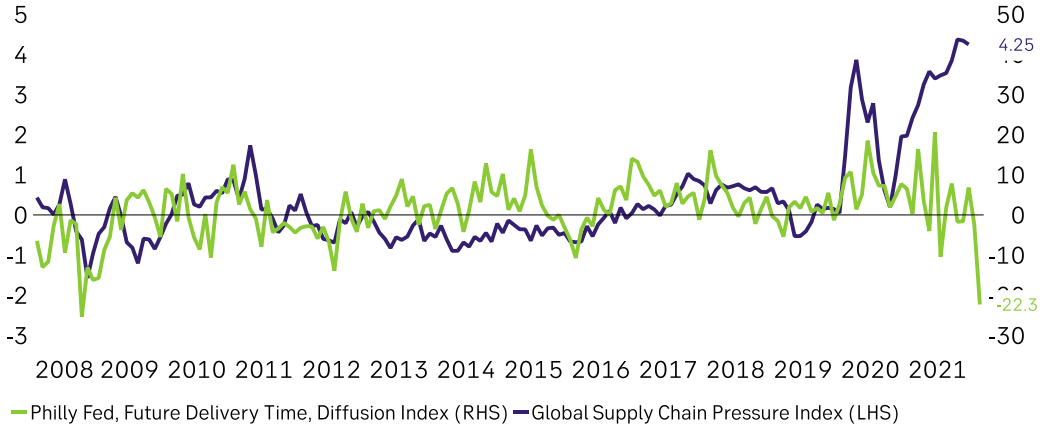
Figure 4: Labour statistics in the US are strong – work force is growing



Source: Macrobond, SEB

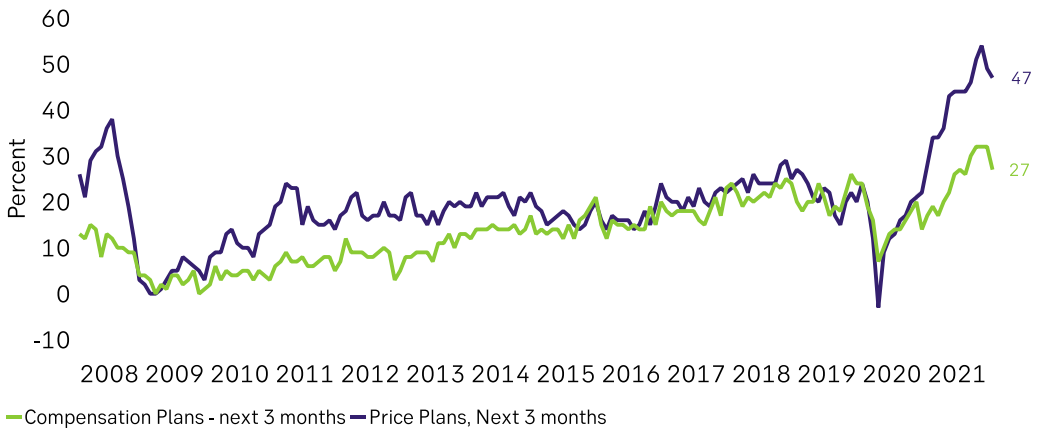
Inflationary pressures can abate

Figure 1: Supply chain disruptions peak – Delivery times expected to decrease



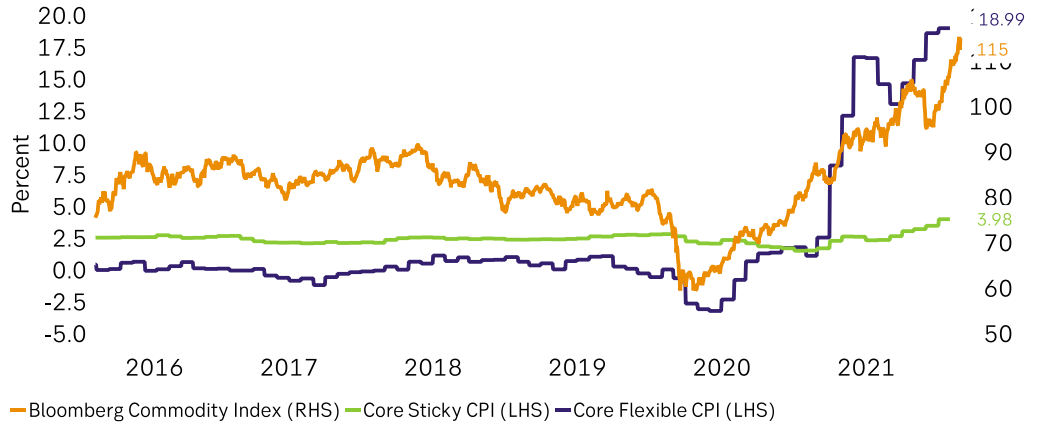
Source: Macrobond, SEB

Figure 2: Compensation plans is seeing a turn around as job market improves



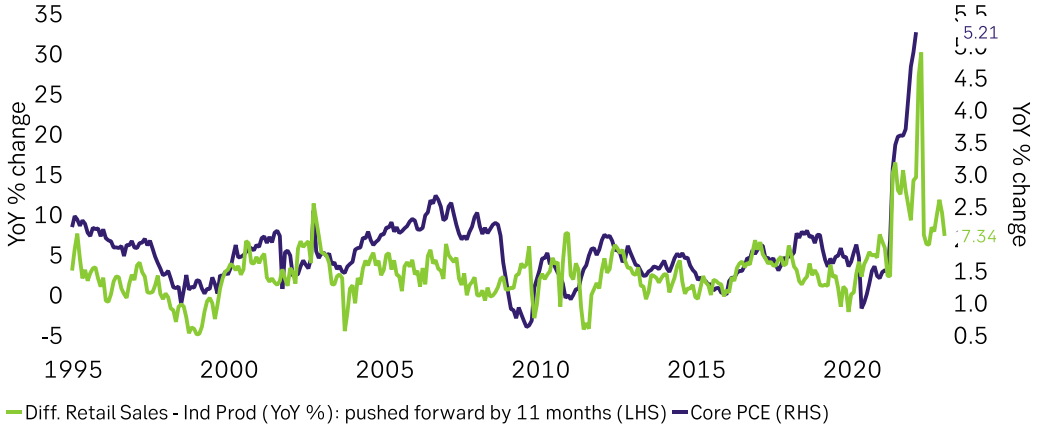
Source: Macrobond, SEB

Figure 3: Higher commodity prices have contributed to CPI flexible prices – this can dissuade as energy prices normalize



Source: Macrobond, SEB

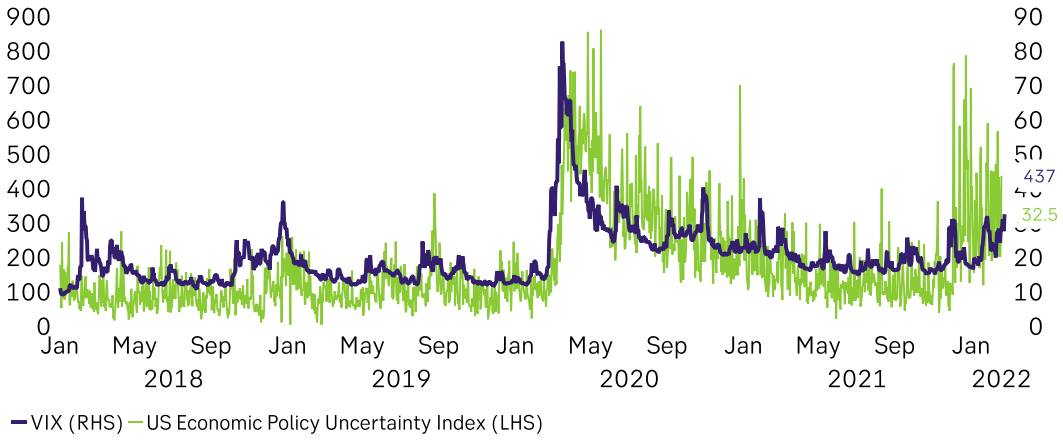
Figure 4: Consumption is moving away from goods to services – gap between retail sales and production is narrowing



Source: Macrobond, SEB

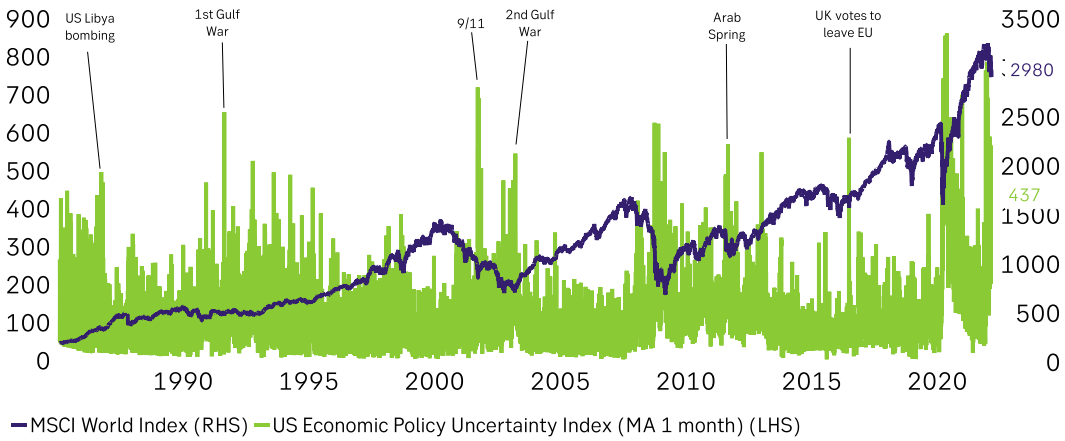
Geopolitical tensions are current drivers

Figure 1: Heightened policy uncertainty has driven volatility lately



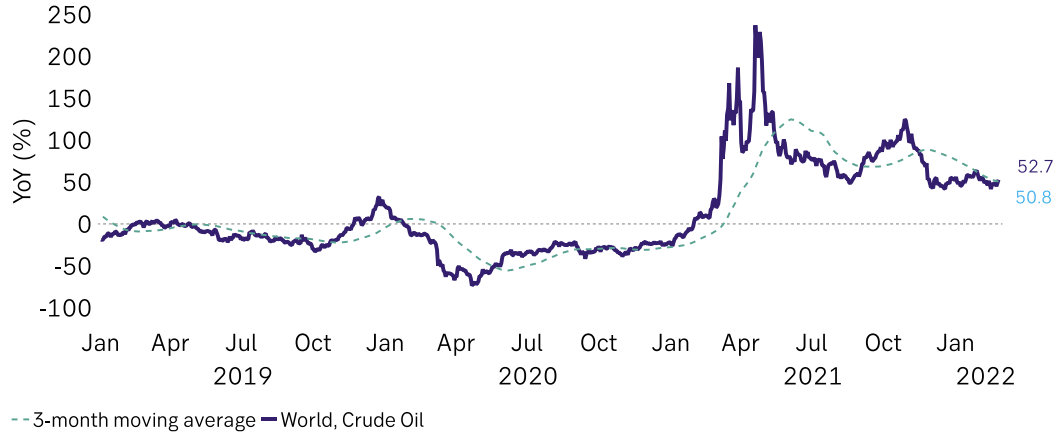
Source: Macrobond, SEB

Figure 2: But market declines due to geopolitical tensions have historically been a temporary setback



Source: Macrobond, SEB

Figure 3: In any case oil price change YoY should moderate as base effects diminish



Source: Macrobond, SEB

Europe's impact from Russia

Figure 1: European banking exposure to Russia (foreign claims) – Italian, French and Austrian banks most exposed, US exposure limited.

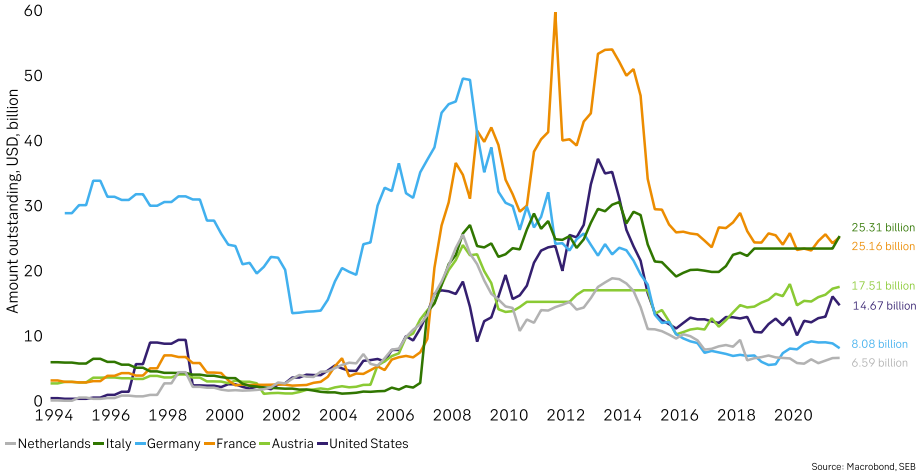
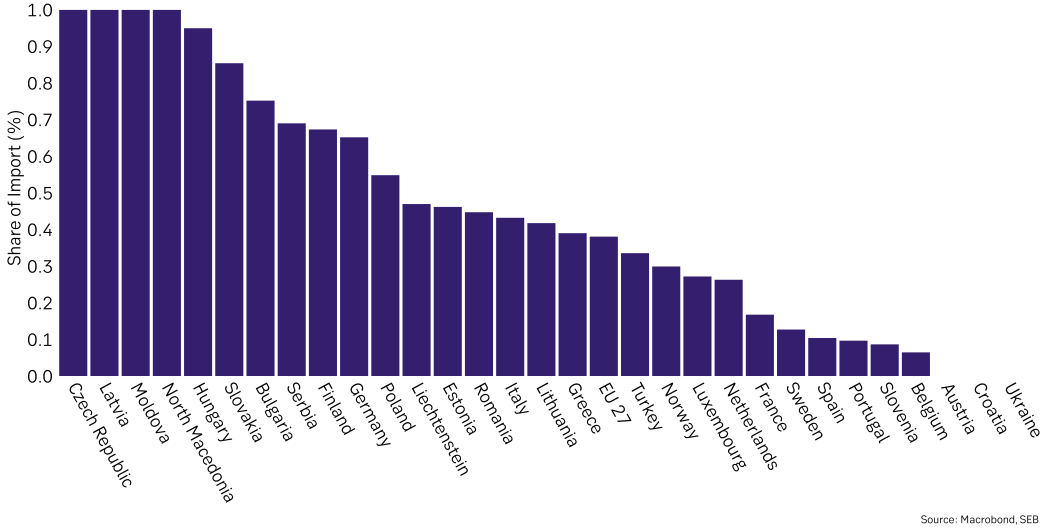


Figure 2: Share of natural gas import from Russia, by country (2020)



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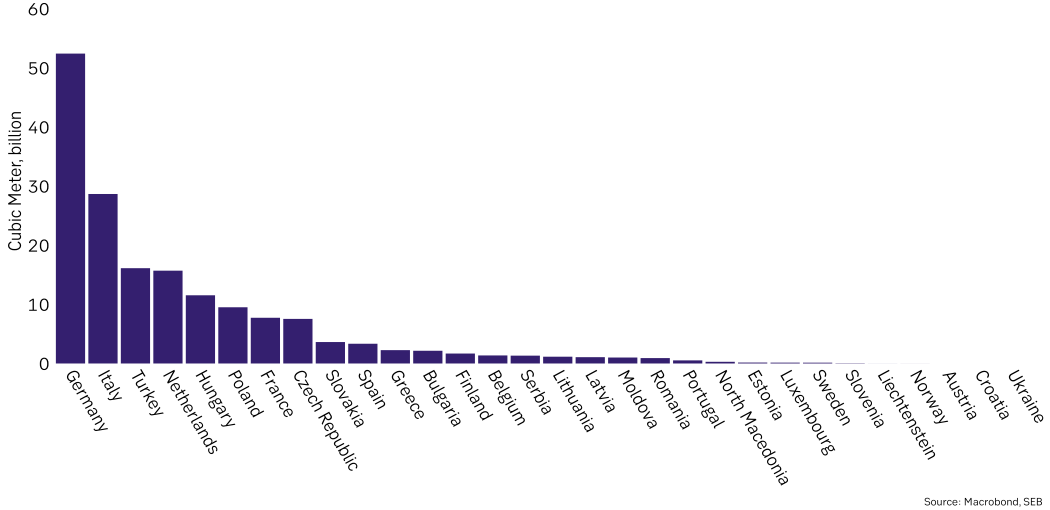
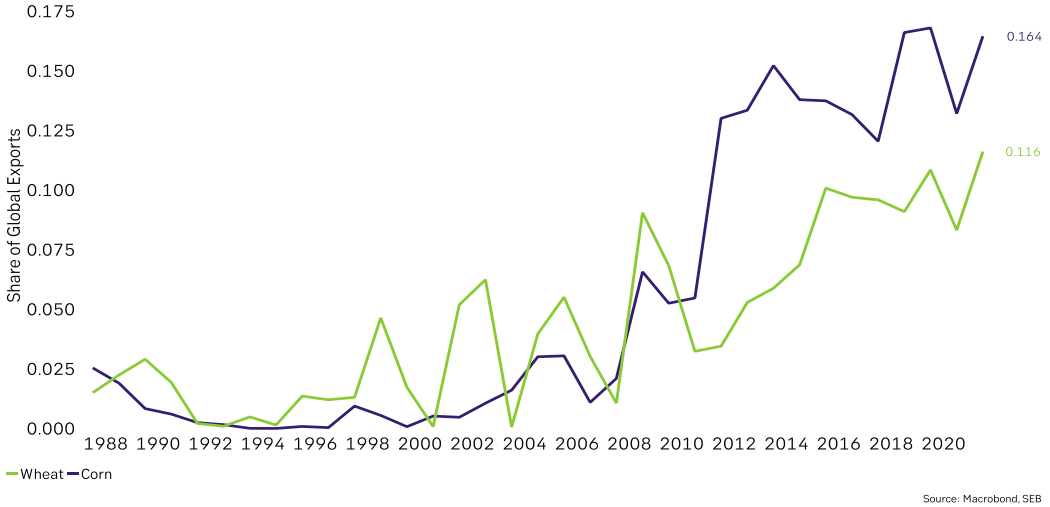


Figure 4: Ukraine's share of global wheat and corn exports



Oil production

Figure 1: US crude and shale oil production is climbing, but is still below pre-covid levels

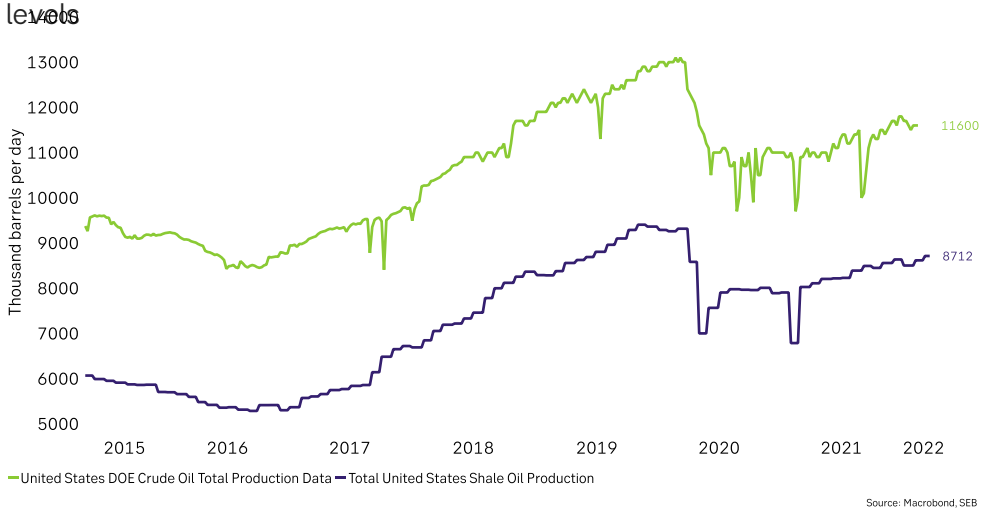


Figure 2: Crude WTI price and US total rig count. Higher rig count tend to follow after steep price increases, i.e. more oil investments.

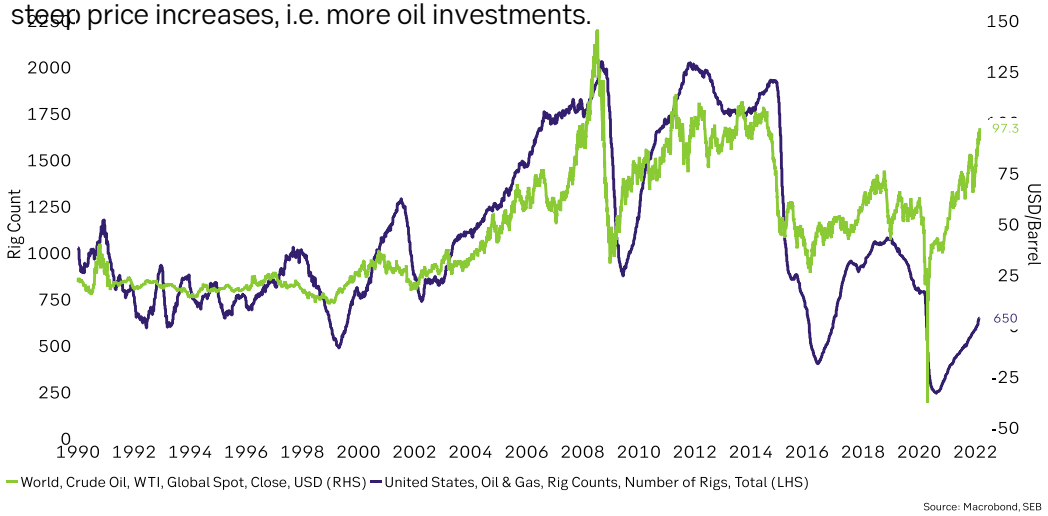
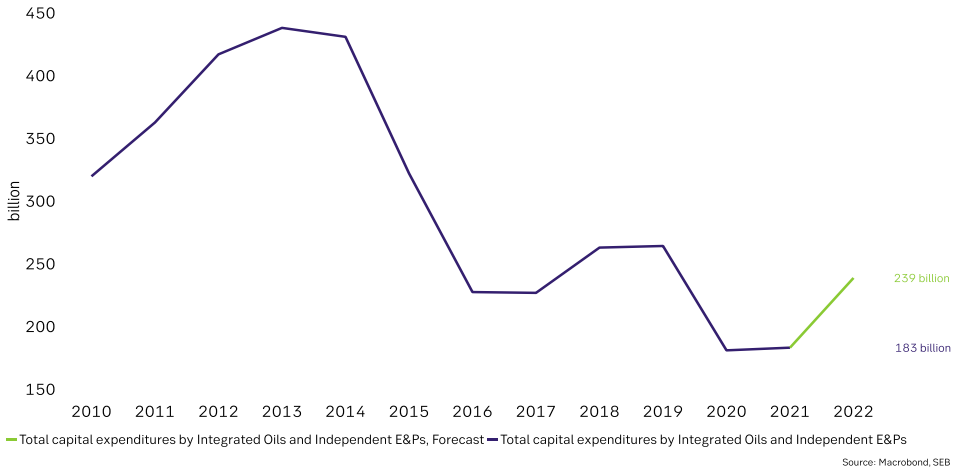


Figure 3: Capital expenditures in oil industry, consensus forecast for 2022 globally is higher



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