

Investment Outlook February 2026

Growth drives earnings, which drive markets

SEB

Summary

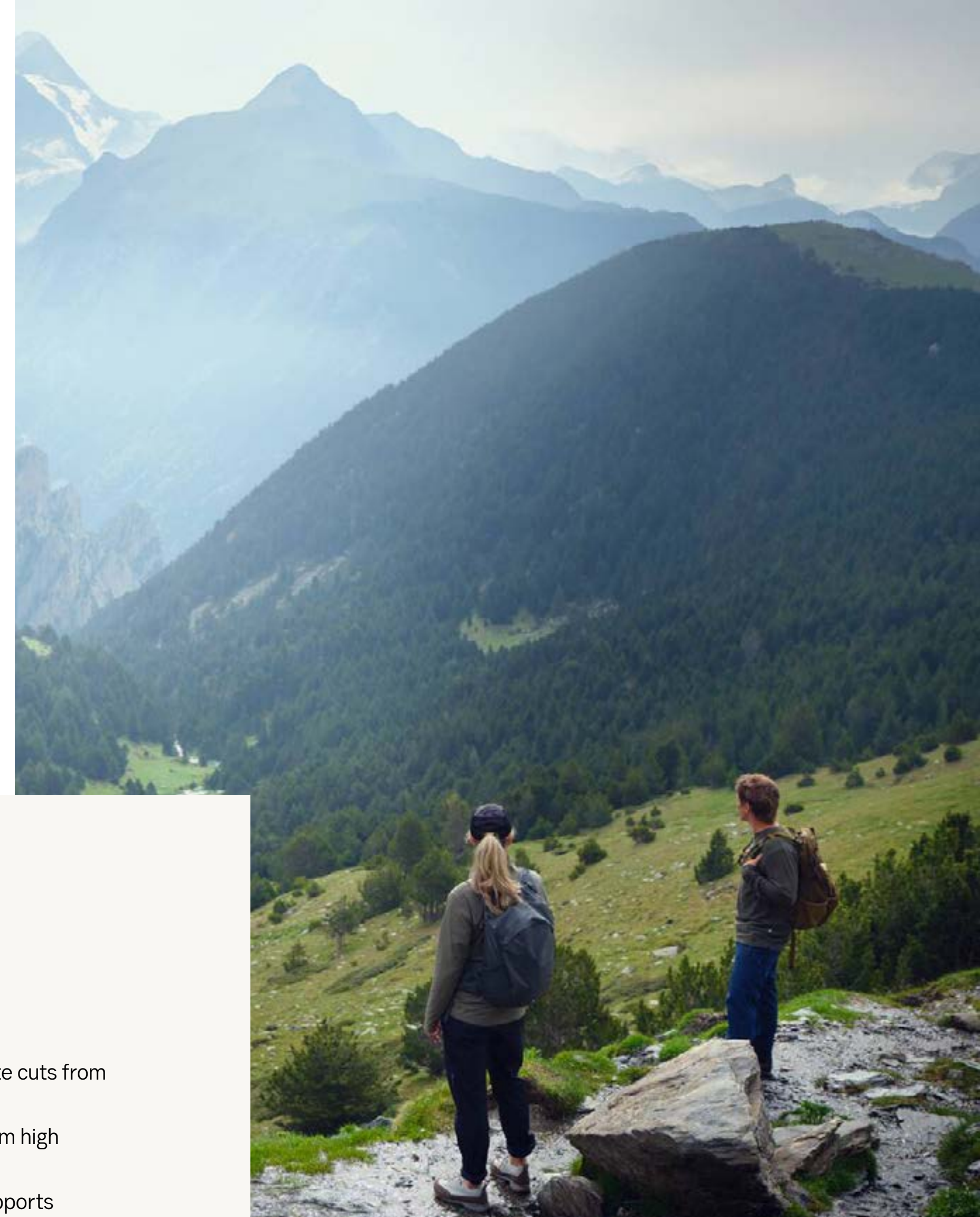
In this edition of *Investment Outlook*, we have increased our risk allocation. Rising global growth, contained inflation, and a broader cyclical upswing continue to provide strong support for equities, while increased investments in defense and infrastructure add further momentum to the economy. AI driven productivity is also strengthening corporate earnings and enabling sustained margins. At the same time, geopolitical risks are rising, alongside concerns about a long term erosion of the US dollar's value, and we also see a risk of higher long term yields as government bond supply increases. In a world where more countries are forging new partnerships and diversifying away from the United States, we see particularly strong tailwinds for emerging markets, whose sector composition includes a high share of technology companies, attractive valuations, and additional support from a weaker dollar. The outlook for Swedish small cap companies is improving as well.



Carl Hammer
Head of Asset Allocation,
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Fredrik Öberg
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Our market view

- Global growth, expansionary policy and AI-driven productivity support an overweight in equities
- Inflation does not constrain risk appetite, but large fiscal deficits and uncertain monetary policy argue against long durations
- Geopolitics and a weaker dollar favour equities and real assets over government bonds

Equities

- We see the greatest potential in emerging markets, driven by strong regional growth, an improving global economic outlook, and a weaker US dollar.
- Cyclical sectors are expected to deliver solid earnings growth, and small-cap companies are projected to reverse their negative trend in 2026.
- We remain cautious about US technology companies and ongoing geopolitical risks.

Fixed income

- Low Swedish inflation means further rate cuts from the Riksbank cannot be ruled out
- Long-term yields are under pressure from high supply
- A favourable fundamental backdrop supports credit, but valuations and supply remain headwinds

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Investments involve a risk

Investment Outlook

In this report, we review SEB's market view – from the overall macroeconomic factors to our assessment of the equity and fixed income markets. Our market view is produced by SEB's investment experts to provide a comprehensive and well-founded picture.

House View Forum serves as a support both in discretionary management and advisory services. Discretionary management means that the bank makes investment decisions for the client within an agreed framework, while the advice is adapted to each client's needs and circumstances.

Successful asset management requires a long-term strategy, but also the flexibility to make tactical adjustments when the market situation changes. This report highlights the investment areas we consider to be particularly interesting at the moment.

The publication Investment Outlook is released every quarterly. In addition, shorter updates will be published between quarterly reports to communicate our market view and asset allocation.

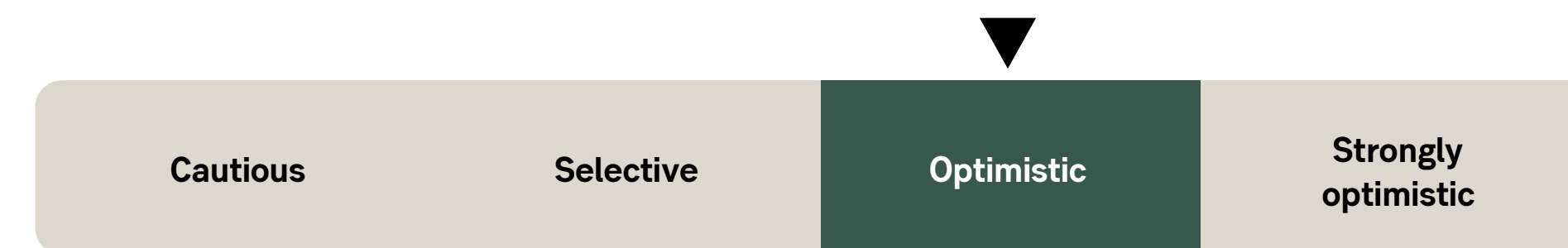
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Asset allocation view

Our view on asset classes and regions is based on a 6–12 month horizon. It provides a concise assessment of how we balance risks and opportunities over the period.

Overall risk level	Negative	Neutral	Positive
Equities	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Fixed income	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Cash	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Our view on the equity market/risk assets



Market conditions can shift quickly and require different levels of risk management. During periods of heightened uncertainty, we take a cautious approach with limited risk exposure. In more balanced environments, we apply a selective and measured level of risk-taking. As the outlook improves, we adopt a more optimistic stance and broaden our risk exposure. In strong market phases, we turn distinctly optimistic and support a higher level of risk-taking.

Stable growth and continued support for equities

We continue to see strong global growth prospects, with GDP expected to grow around trend at just over 3% per year in 2026–2027, and with emerging markets outpacing mature economies. The United States is supported by expansionary fiscal policy and substantial AI related investments, while Europe benefits from increased spending on defense and infrastructure. Central banks also have room to keep policy rates low, particularly in Europe where inflation is under control. AI-driven productivity provides structural upside and allows

companies to sustain high profit margins for longer, strengthening the global earnings outlook. This continues to support equities, with earnings growth becoming broader and less dependent on the U.S. technology sector. We therefore maintain an overweight position in equities relative to fixed income, where we see stronger return potential. On the fixed income side, we remain cautious on long dated government bonds, especially in the United States, where large budget deficits and rising bond supply may push long term yields higher.

3%

Global growth in 2026-2027

Asset allocation view

Emerging markets stand out for their strong potential, and we also maintain a positive outlook on Europe. However, we do not consider the US equity market to be a current favorite. We prefer to take risk through equities rather than high-yield bonds, and we hold a slightly positive view on investment-grade bonds.

Assets classes	Negative	Neutral	Positive
Equities	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Fixed Income	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Cash	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Fixed income			
Government Bonds	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Investment Grade	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
High Yield	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
FX			
EUR/USD	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
EUR/SEK	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
USD/SEK	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Equity Regions	Negative	Neutral	Positive
US	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Europe	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Nordics	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Japan	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Emerging markets	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

Equity Sectors	Negative	Neutral	Positive
Communication	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Consumer Discretionary	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Consumer staples	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financials	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Health care	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Industrials	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Information technology	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
Materials	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>
Utilities	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>

The scale has five levels, where a neutral view is shown in grey, a negative view in orange, and a positive view in green.

Our market view

Strengthening global growth, contained inflation, and a broader cyclical upswing continue to provide solid support for equities. AI-driven productivity is boosting earnings and enabling more resilient profit margins. At the same time, geopolitical risks are rising and concerns about a long-term erosion of the dollar's value are increasing, while the growing supply of government bonds poses a risk of higher long-term yields. In a world where more countries are forging alliances and diversifying away from the US, we see particularly strong tailwinds for emerging markets, supported by a high share of technology companies, low valuations, and a weaker dollar. The outlook is also improving for Swedish small-cap equities.

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Strong growth prospects with potential upside

We expect global GDP to continue expanding around trend, at just above 3 percent per year in 2026–2027, despite both geopolitical and political uncertainty. The US economy is expected to grow by 2.3 percent in 2026, while the euro area should expand by around 1.2 percent. Sweden stands out with a clear recovery expectation, reaching up to 3 percent after several weak years. At the same time, we see upside potential to current forecasts. In the US, these stem from additional fiscal stimulus and AI driven investment. In Europe, there is potential for positive spillover effects from substantial German investment and defense initiatives, which could support a broader cyclical recovery. In Sweden, both household consumption and exports to Europe may provide additional support. Emerging markets are expected to grow faster than developed economies, reinforcing our overweight stance on EM. Both monetary and fiscal policy are also expected to contribute to a continued global tailwind for growth.

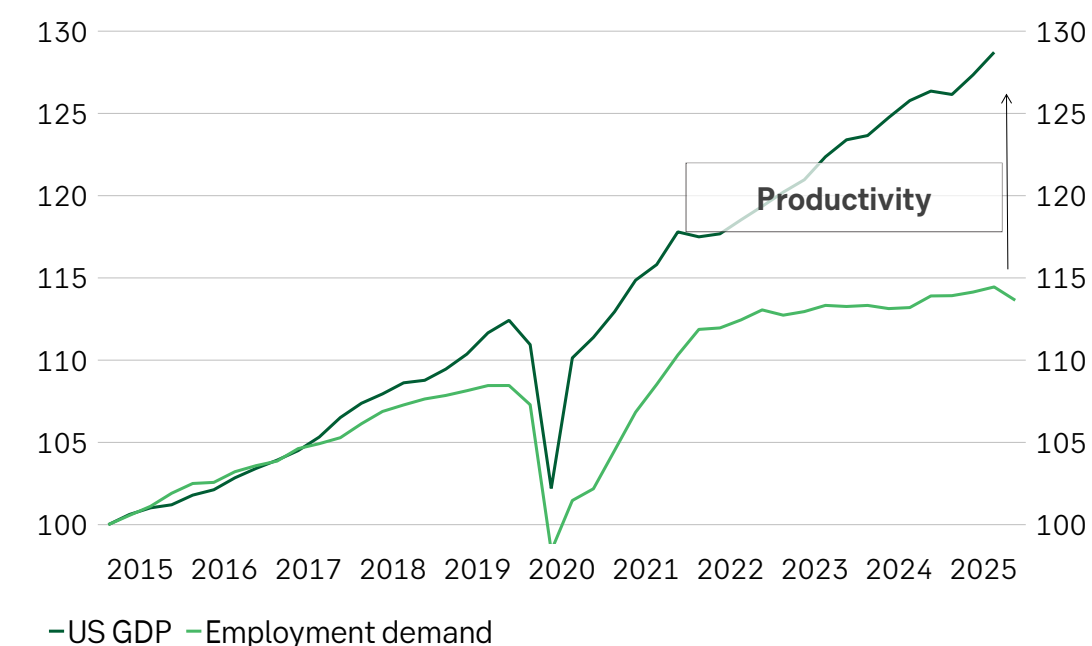
Inflation remains contained in Sweden and the euro area, and could even fall below target if the krona and euro continue to appreciate. The European Central Bank (ECB) and the Riksbank may therefore have some room to cut rates again in 2026, although this is not our base case. The picture in the US is more complex. Tariffs, a weaker dollar, and a potential rebound in the labor market suggest that disinflation could be slower. The risk is that the Federal Reserve (Fed) cuts policy rates less than markets currently expect.

Geopolitical risks driving higher gold prices

Geopolitical uncertainty has risen significantly. The relationship between Europe and the US, as well as within NATO, is more uncertain than it has been for a long time. The global order has shifted towards increased fragmentation and reduced international cooperation. Europe is responding with higher defense and infrastructure spending, while reshoring and domestic supply chains are accelerating. This strengthens resilience but also increases the risk of structurally higher inflation.

Markets are reflecting these concerns through dollar weakness. The recent decline in the dollar signals lower confidence in US assets and a global diversification away from the US. This results in rising risk premiums and higher demand for real assets.

Economic growth without employment gains



Source: Macrobond

Geopolitical uncertainty is also evident in the gold price, which has strengthened and acts as a direct signal that investors and central banks are seeking safety in an increasingly fragmented world. Meanwhile, defense and infrastructure spending is boosting demand for commodities and industrial metals, supporting cyclical sectors and many emerging markets.

The US fiscal deficit and debt levels pose a long term risk, making the economy more vulnerable and increasing the likelihood of further dollar depreciation. Many central banks are reducing their holdings of US Treasuries and increasing their gold reserves – global gold reserves are now more valuable than global holdings of US government bonds. We assess that the dollar remains overvalued and has room to weaken further.

Current growth is supported by expansionary fiscal policy and large budget deficits, adding to the risk landscape. High public debt levels may eventually lead to more disorderly increases in interest rates, particularly at longer maturities, especially in Japan and the US.

Our market view in brief

The global economy is expected to maintain a stable pace of growth in the coming years, with a particularly strong recovery in Sweden and improving prospects across Europe. Inflation is largely under control in both Sweden and the euro area, while the outlook in the United States is more complex. A combination of tariffs, a weaker dollar, and a potentially stronger labor market may lead the Federal Reserve to cut rates less than the market anticipates. At the same time, the global environment is marked by rising geopolitical tensions and a more fragmented international landscape, driving stronger demand for gold and real assets. Significant investments in defense and infrastructure are also supporting commodity prices and cyclical sectors.

The United States' large deficits and rising debt levels pose a long term risk and point to continued downward pressure on the dollar. AI is driving substantial productivity gains globally, which could extend the economic cycle and broaden earnings growth across more regions and sectors than in previous periods. We remain positive on equities relative to fixed income, seeing attractive potential in both Europe and emerging markets, where valuations, momentum, and structural drivers are more favorable. The US, however, is not among our equity market favorites at present, given elevated valuations, political uncertainty, and a weakening dollar trend. The key risks ahead center on interest rate movements, geopolitics, and potential disappointment in the U.S. technology sector.

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AI, productivity, and the labor market

There are signs that the US economy can grow without creating a large number of new jobs. It remains uncertain how much of this is driven by productivity gains versus lingering post pandemic effects, but efficiency improvements are expected to be significant going forward. Many sectors could benefit – including banks, which are expected to achieve meaningful cost savings through AI. AI-driven productivity provides a structural upside that allows the economy to grow without triggering the same inflation constraints as in previous cycles (effectively extending the cycle). At the same time, younger workers and recent graduates are finding it more difficult to enter the labor market, which could become a challenge. For companies, this means many businesses may grow while maintaining stable or even declining cost bases. Record high margins could therefore persist longer, providing continued support for global earnings.

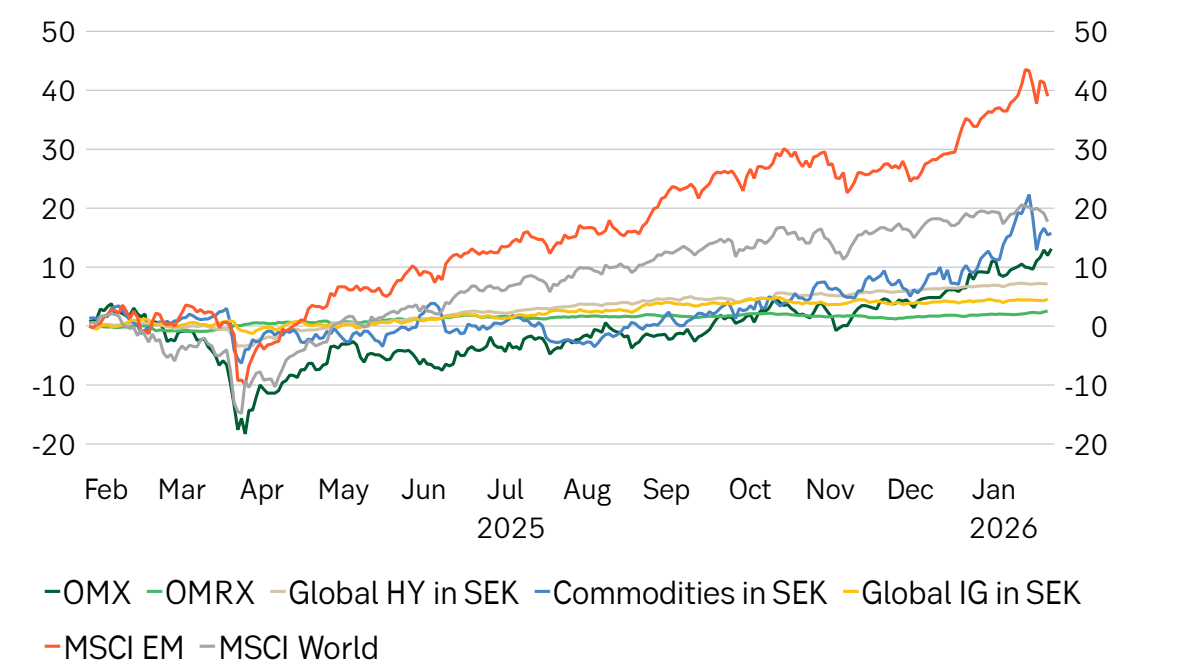
Double digit growth and broader market leadership

Earnings expectations for 2026 show double digit growth across most regions; emerging markets, for example, are expected to grow around 20 percent, and Europe just above 11 percent. Importantly, earnings growth is expected to broaden rather than be driven solely by US technology companies. Earnings revision trends indicate improving momentum outside the US, particularly in emerging markets and Japan, while Europe and the Nordics have stabilized. This supports a more diversified equity cycle in which more sectors and investment styles can benefit.

Allocation – continued preference for equities

We continue to see solid support for equities, underpinned by rising earnings, global stimulus, and productivity gains driven by AI – all of which suggest that the market cycle may have further to run. We therefore maintain a risk exposure above neutral, with an overweight in equities relative to fixed income. Our return estimates indicate that equities are likely to outperform fixed-income investments. Regionally, we advocate an overweight in Europe, where markets benefit from improving economic indicators, defence and investment programmes, and more attractive valuations compared with the US.

Asset class performance over the past year



Source: Bloomberg, Macrobond

Emerging markets (EM) represent the area where we see the greatest potential. EM combines lower valuations, stronger earnings momentum, and a structural tailwind from increasing technology exposure, particularly across AI-related supply chains. In addition, global allocations to EM remain low, creating scope for substantial inflows if sentiment improves. A weaker US dollar has historically been supportive for EM assets. We highlight India as a compelling market that has not fully participated in the broader EM rally. See our feature article on page 17 for more detail.

The US is not among our preferred equity markets at present. Valuations are elevated, and the dollar has lost part of its historical role as a safe-haven buffer during risk-off periods. Persistent geopolitical uncertainty and large fiscal deficits further speak for a gradual weakening of the currency.

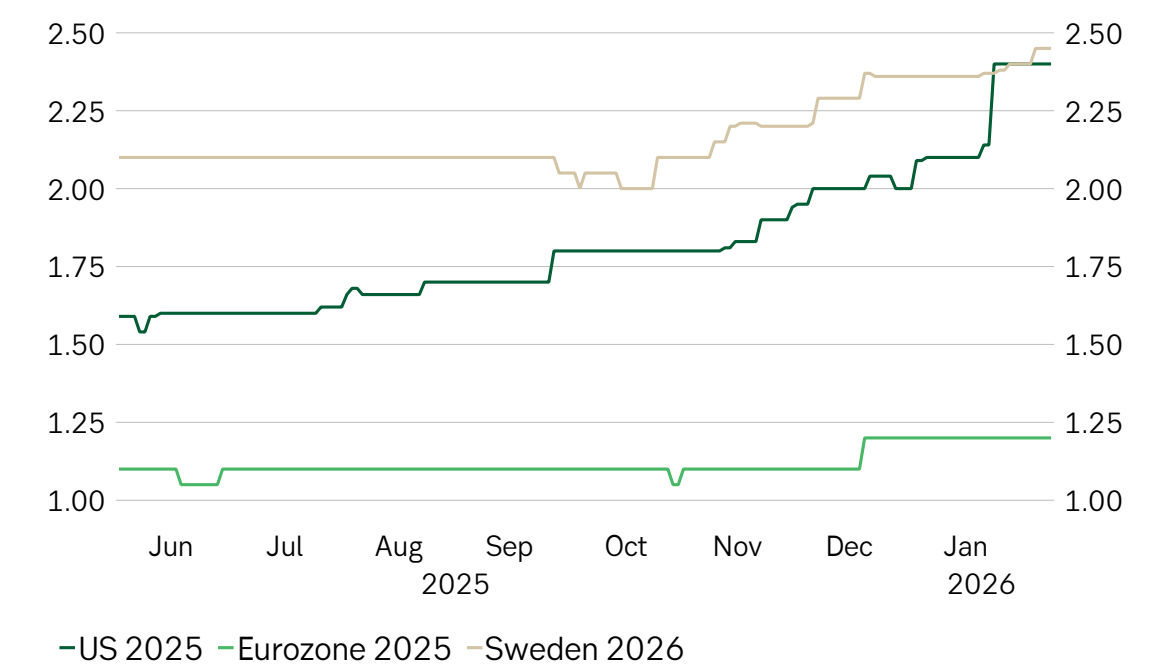
On the fixed-income side, we remain cautious on long-dated government bonds, particularly in the US, where the Federal Reserve is unlikely to deliver aggressive rate cuts and where bond supply continues to rise. We prefer to take risk through equities rather than high-yield bonds, and we hold a slightly positive view on investment-grade bonds.

Dollar still under pressure

The appointment of Kevin Warsh as the new Fed Chair has been interpreted positively. They has historically voted for a more hawkish (tightening) stance, which could indicate independence from political pressure. We are not entirely convinced, although recent signals suggest that President Trump may have recognized the risks of further undermining central bank independence.

The US dollar remains in focus. Structural factors point to continued weakening against both the euro and Swedish krona as global reserves and capital flows diversify. The trade weighted krona has already moved towards equilibrium levels, but Sweden's strong economy and improving outlook suggest the currency could appreciate further over time.

2026 GDP consensus forecast



Source: SEB, Macrobond

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Risks

Large fiscal deficits combined with an uncertain inflation outlook could create stress in government bond markets. Japanese yields have risen sharply over the past year, and given Japan's substantial holdings of foreign assets in both Europe and the US, repatriation flows could push global yields higher. US deficits, combined with expansionary policy, questions around Fed independence, and stronger labor market dynamics (should growth hold up), could push long term US yields to 4.5 percent or above.

There is also a risk that market expectations for US technology companies are too high. While valuations are not currently overstretched, markets expect sustained rapid earnings growth for several years. Equity markets are also heavily positioned towards risk assets, increasing vulnerability to corrections if sentiment shifts abruptly – for example, due to geopolitical shocks. Should US inflation unexpectedly accelerate, risk appetite is likely to weaken as markets price in higher future interest rates.



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Global economic upswing and a weaker dollar support equities

Global equities remain in the later stages of a long bull market, yet the outlook is still positive. A supportive macro environment – with fiscal stimulus, more accommodative monetary policy, and a weaker US dollar – continues to strengthen risk oriented assets.

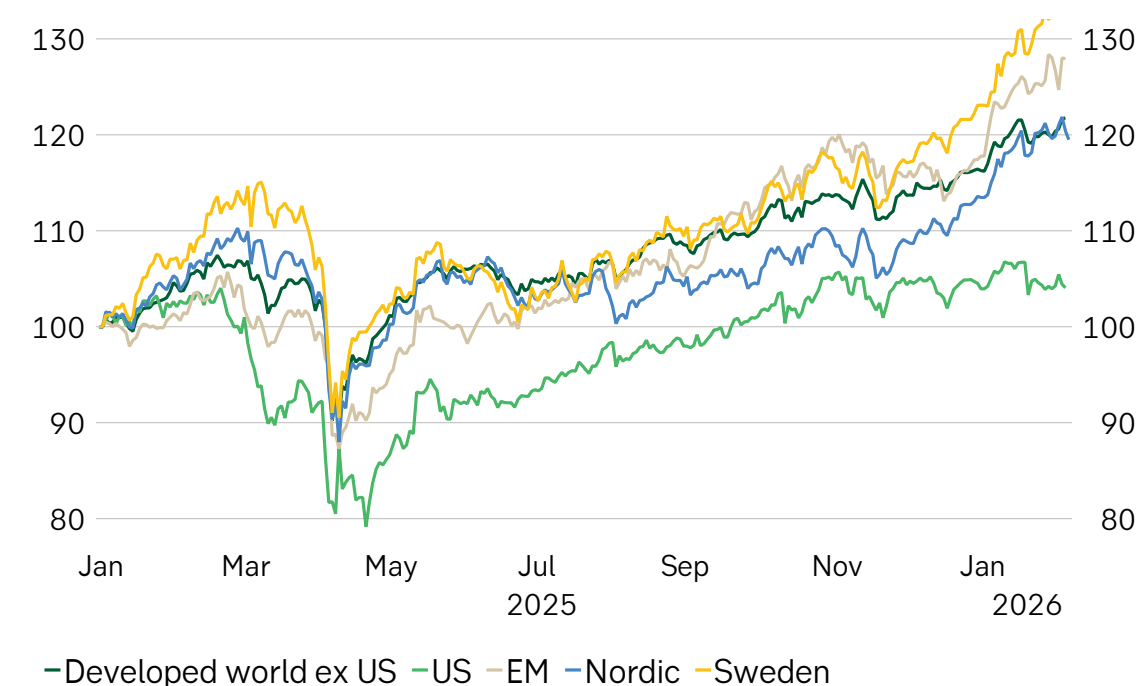
Valuations have risen globally but remain below the levels that typically undermine a constructive, fundamentals driven equity view. Consensus earnings expectations exceed 10 percent across most regions this year, and given the favourable macro backdrop, our base case is that these forecasts will be met. This supports the view that equities should continue to deliver solid returns, especially relative to fixed income.

United States – still a sector driven market

The outlook for US equities remains heavily influenced by company specific factors, particularly the dominance of technology companies and the importance of the AI theme within US indices. Key questions this year concern how AI technologies will begin to generate revenue, as well as the scale and durability of related investments. Recent sector rotation and weakness in technology stocks – even beyond the most obvious AI names and especially within software – together with earnings support from a weaker dollar, indicate opportunities beneath the surface.

Several major AI related IPOs may also materialize this year, giving investors more insight into the financial viability of the sector. In the short term, such listings would be positive for large technology

Global equities are in a late stage of the upswing – but the outlook remains positive



Source: Bloomberg, Macrobond (Performance in EUR)

companies due to their ownership stakes and the confidence new financing may bring to, for example, OpenAI's commitments. Over the long term, however, these IPOs introduce risks by making it clearer whether pure play AI companies can translate heavy investments into sustainable profits. Since this remains uncertain, we believe it is premature to call AI a bubble.



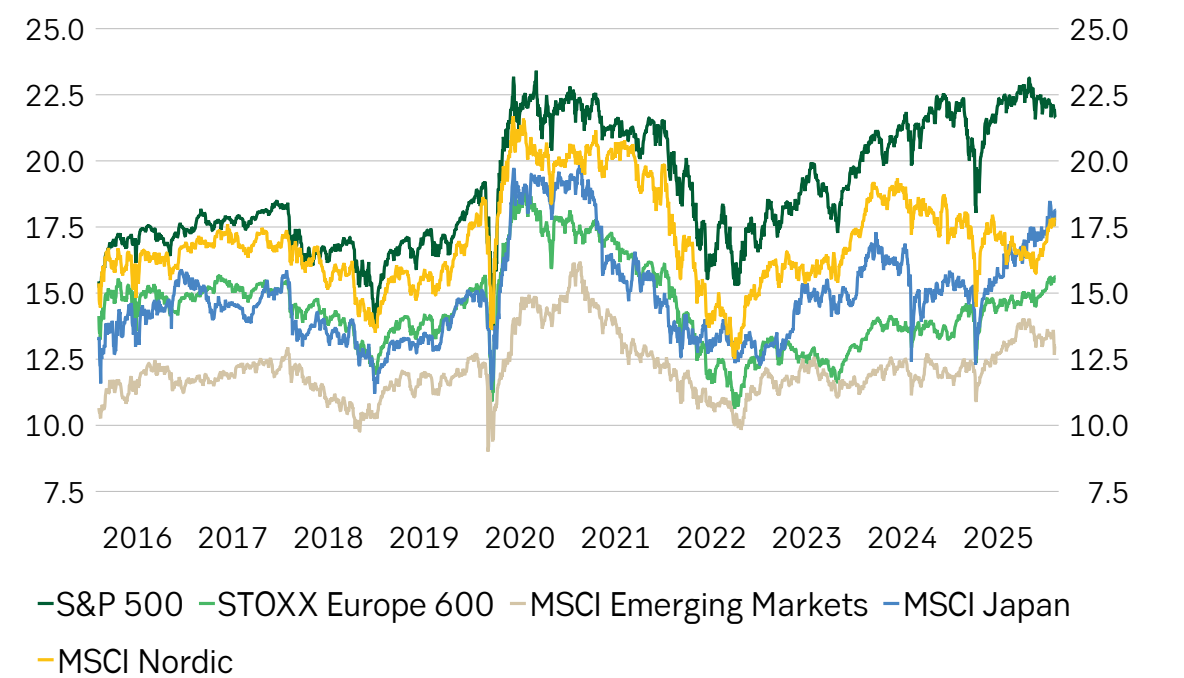
Global equities in brief

Global equity valuations have risen but remain at levels that continue to support a constructive outlook, particularly as earnings growth is expected to exceed 10 percent this year. In the US, the market is dominated by technology and AI-related themes, where upcoming IPOs may create both opportunities and risks. Europe is benefiting from an improving macro environment, supported by fiscal initiatives and reduced trade policy uncertainty. Emerging markets are lifted by strong regional growth, structural drivers such as AI expansion, and undervalued currencies, making pullbacks attractive entry points. Japanese equities are weighed down by a weak yen but could strengthen as economic policy shifts. From a sector perspective, financials and parts of the technology space remain attractive, while consumer staples appear less compelling in a more cyclically supportive environment

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Regardless of the outcome, the US market remains highly concentrated, meaning equity performance is driven by fewer factors than in other regions. The rapid, valuation driven rotation into small caps has also been unusually strong, making the outlook less attractive. Our positive equity stance is therefore primarily directed towards markets outside the US.

Global valuations are rising but still support a positive equity outlook



Source: Bloomberg, Macrobond

Europe – macro conditions are finally improving

Europe is a more macro driven equity market with significant exposure to cyclical sectors. Weak economic performance in recent years has led to recurring earnings downgrades, while trade tensions, geopolitical uncertainty, and a strong euro have further weighed on performance.

This year, however, the macro backdrop appears more favourable. Germany’s substantial fiscal initiatives in defence and infrastructure are now translating into concrete actions. The strong euro is expected to become a smaller obstacle for exporters, and trade policy risks currently appear lower than last year.

Against this backdrop, European equities should be able to deliver returns broadly in line with expected earnings growth of around 10 percent. There is also upside potential for higher valuations if the economy strengthens further or geopolitical risks decline. Additionally, we see several attractive themes with their own drivers, including financials, defence, small and mid caps, and construction.

Emerging markets – macro strength and structural themes combine

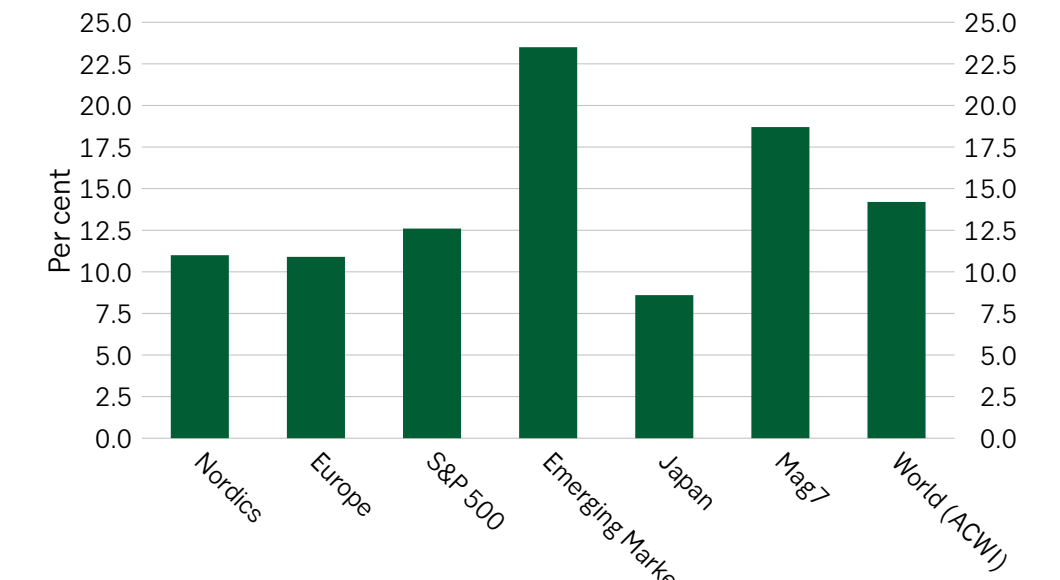
Emerging Markets (EM) offer the clearest combination of supportive macro conditions and strong structural trends. Growth in major Asian economies is expected to be around 5 percent, with India approaching 7 percent, while China’s uneven recovery increases the likelihood of additional stimulus. EM equities benefit from strong regional growth, high commodity prices, a positive global cycle, and a weakening US dollar.

They are also major beneficiaries of AI expansion: Korea leads in memory capacity, Taiwan dominates advanced semiconductors, and Chinese tech companies are emerging as AI players. EM currencies are significantly undervalued and may offer further upside if they appreciate. Despite strong performance and intermittent volatility, we view pullbacks as buying opportunities and expect emerging markets to outperform other regions this year. Read more in our feature article on emerging markets on page 17.

Japan – you can’t discuss equities without discussing the yen

Japanese equities have performed well in local currency terms, but yen weakness has eroded returns for foreign investors. Japan is therefore as much a currency play as an equity one. Support from fiscal policy and slightly tighter monetary policy may lift both equities and the yen, but high valuations and several uncertainties lead us to maintain a neutral stance.

EM accounts for the highest expected earnings growth



Source: Bloomberg, Macrobond

Sector allocation – focus on cyclical sectors and new AI winners

The financial sector remains attractive despite several years of strong performance and rising valuations. The rally began from very low levels, and today’s macro backdrop differs significantly from the period of zero interest rates, low nominal growth, and low inflation. In this context, current valuations appear reasonable relative to earnings potential. Earnings growth is expected to remain robust, and increased M&A activity could provide further support. The sector is also well positioned to benefit from AI driven efficiency gains.

Within technology, the gap between winners and losers is widening, making stock selection increasingly important. A shortage of memory capacity and growing investment in proprietary AI applications have shifted the landscape: focus is moving from chipmakers like Nvidia to memory producers, which have become a bottleneck in the value chain. Meanwhile, higher memory prices are weighing on consumer tech companies like Apple. Recent dramatic industry-wide declines in software valuations have created attractive entry points, and we do not view AI based “vibe coding” tools as materially disrupting core software business models as quickly and broadly as market pricing suggests.

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The communication services sector is also strengthening alongside AI development. Google is leading in advanced AI models, AI related cloud growth and is developing its own chips, while Meta is showing clear AI driven improvements in its core business. These companies are less exposed to memory component shortages due to their scale, financial resources, and long term supply agreements, giving them a temporary – and potentially decisive – advantage over smaller AI players.

Consumer staples currently appear the least attractive sector. Valuations are high and earnings are stable rather than cyclical, increasing the risk of underperformance in an environment of strong growth and an improving economic outlook. In such a scenario, the risk return profile looks weaker than in other sectors.



Oskari Eklund
Portfolio Manager
SEB Asset Management

“Emerging markets offer the clearest combination of supportive macro conditions and strong structural trends.”

Rising optimism among Nordic investors

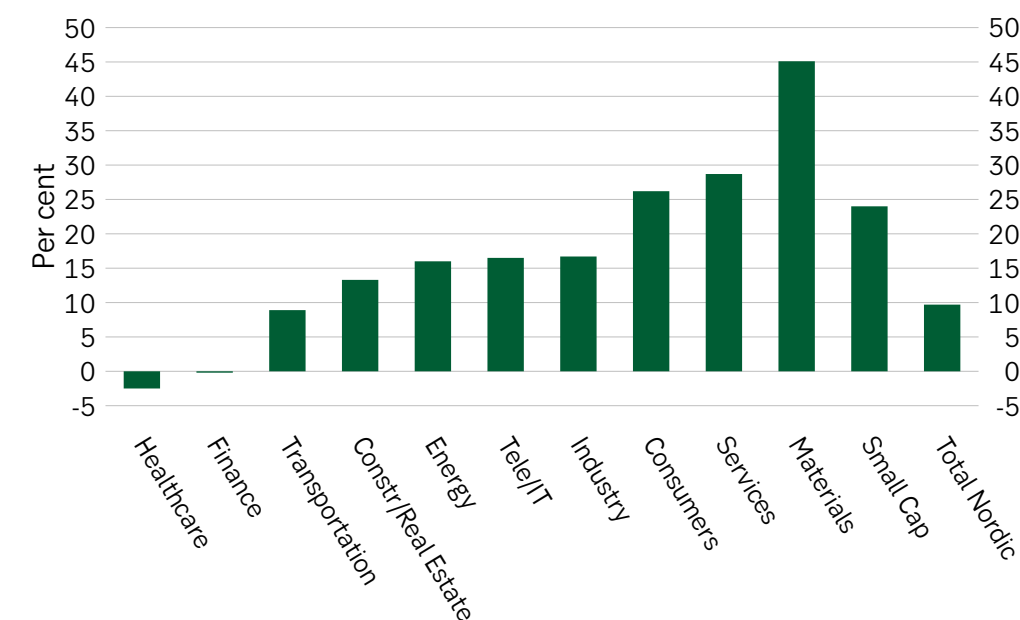
The optimism is unmistakable. Global institutional cash levels are at their lowest point in more than 25 years. Nordic listed companies signal confidence despite unfavourable currency movements and geopolitical uncertainty. Several indicators now point to the arrival of a cyclical economic upswing. This is expected to drive strong earnings growth, particularly within cyclical sectors and among small cap companies.

Corporate communication has become noticeably more positive over the past three months. After a historically long downturn, an increasing number of signs now point towards an imminent improvement. We expect earnings growth of around 10 percent this year, despite significant FX headwinds and major challenges among the Nordic region's largest pharmaceutical companies. In cyclical sectors such as materials, industrials, consumer and services, we expect earnings growth of 17-45 percent. Small cap companies are also clearly overrepresented in cyclical sectors, not least within consumer oriented industries. As a group, small caps are expected to deliver earnings growth of 24 percent this year.

High but not alarming valuations

Over the past 20 years, large cap valuations on the Stockholm stock exchange have only been higher during the pandemic bubble of 2020–2022. The current P/E multiple is approximately 13 percent above the 10 year average. This represents a challenge as it limits upside potential and increases the risk of setbacks should earnings expectations fail to materialise. However, it is not a critical issue as long as earnings growth begins to accelerate again. High valuations rarely pose a problem as long as the trend continues upward, usually a catalyst in the form of deteriorating outlooks is required to trigger a correction.

Strong earnings growth driven by cyclical sectors is expected



Source: Bloomberg

Concerns around the US IT sector

A more significant valuation concern can be found in the US, where the IT sector is valued at more than 30 times forecasted cash flows for the coming year, a level not seen since the dot com bubble. The P/E ratio is high but not alarming given still strong earnings growth; the issue is that free cash flow has started to weaken.

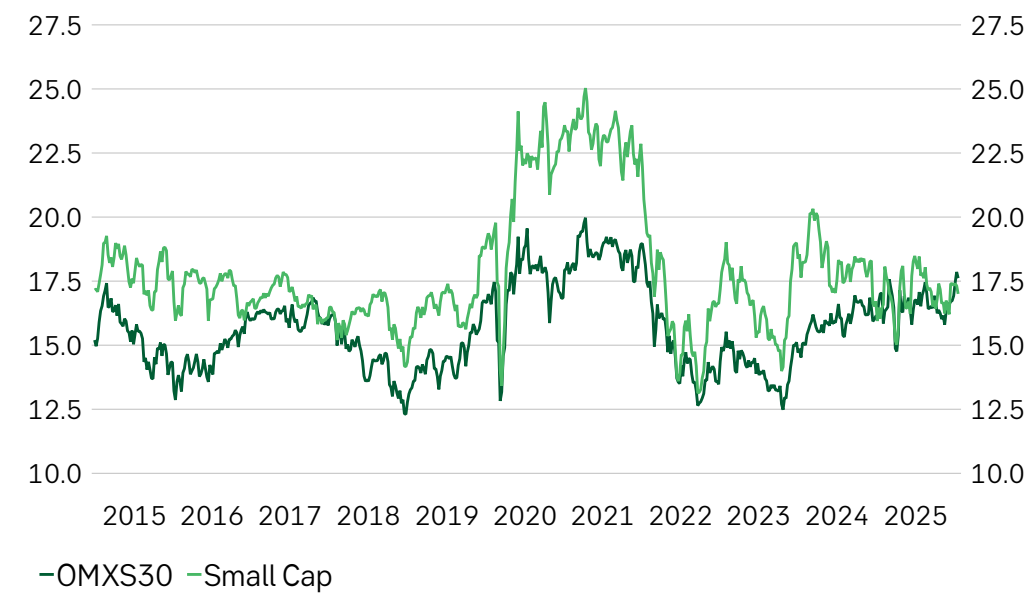


Nordic equities in brief

The optimism is unmistakable. Global institutional cash levels are at their lowest point in more than 25 years. Nordic listed companies signal confidence despite unfavourable currency movements and geopolitical uncertainty. Several indicators now point to the arrival of a cyclical economic upswing. This is expected to drive strong earnings growth, particularly within cyclical sectors and among small cap companies. In summary, we expect strong earnings growth, driven by a cyclical upswing, to outweigh challenges from FX headwinds, geopolitical uncertainty, and relatively stretched valuations. Temporary, politically driven setbacks are likely this year as well. Should the euphoria surrounding AI and data centres fade, it could have a significantly cooling effect on Nordic equities, making careful monitoring of the US IT sector warranted. Our base case, however, remains a positive market development in the year ahead.

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Swedish large caps are highly valued, but not prohibitively so



Source: Bloomberg

A sector traditionally characterised by strong cash flow conversion is now investing enormous sums in new data centres, the profitability of which remains unproven. Should investors start questioning the returns on this investment wave, the downside is substantial. Such a correction would inevitably have a significant impact on Nordic equity markets as well. For now, however, earnings in the US IT sector continue to grow, and forecasts are being revised upwards. Since the peak in November, the IT index has fallen by 7 percent, while the P/FCF valuation multiple has dropped more sharply, from more than 36x in October to 30x today.

Data centres boosting growth

On the positive side, the massive ongoing investments in AI related data centres are driving demand for many Nordic industrial companies. For example, suppliers of electrification equipment, energy infrastructure for data centres, and various components and inputs. In many cases, data centres are now the fastest growing end market segment for Nordic industrial firms.

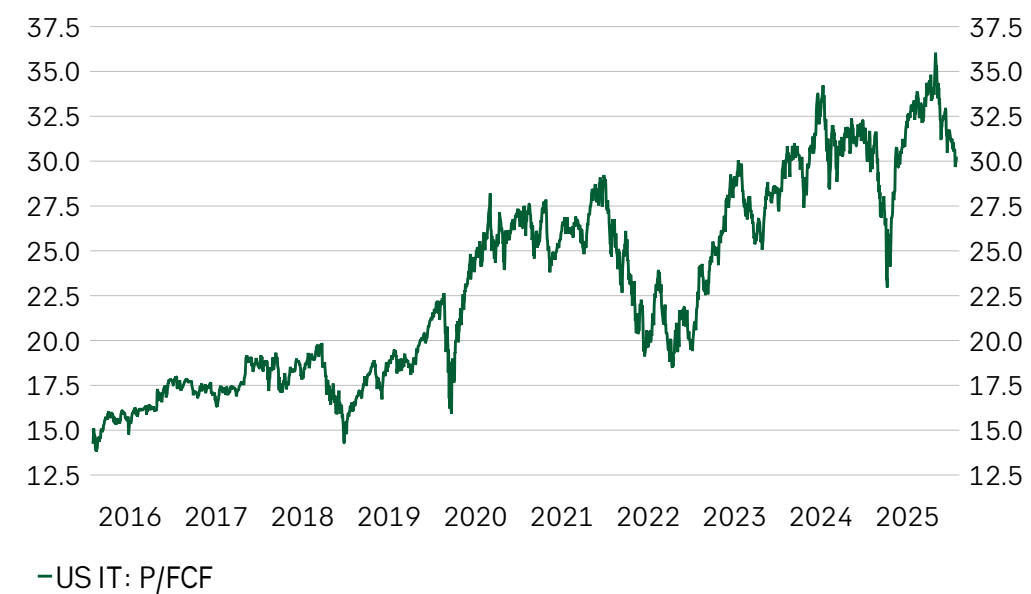
Small caps in a favourable position

Small cap companies typically benefit significantly from a cyclical upswing. After several years of underperforming large caps across the Nordic markets, small caps could be well positioned for a rebound if our earnings expectations materialise and the economic cycle strengthens as anticipated. They are also more attractively valued, both relative to their own history and in comparison with larger companies. This pattern holds true in Sweden as well as the broader Nordic region. Historically, small caps have often traded at a premium to large caps but are now priced at a discount. Read more about Swedish small caps in our thematic article on page 21.

Weak dollar pressures earnings

Swedish companies have historically benefited from a gradually weakening krona. The depreciation of the SEK against the USD, in particular, has historically provided a clear earnings boost for OMXS30 companies. This trend has now reversed and has become a strong headwind, especially for export oriented industries. Many companies have significant operations in the US and other USD-linked regions, meaning earnings in these markets decline when translated into SEK, regardless of whether revenues come from exports or local sales.

US IT stocks are trading at historically high cash-flow multiples



Source: Bloomberg

For companies with major cost bases in SEK but revenues in USD, the effect is amplified. So far, the challenge remains manageable, but excessive or rapid currency swings could pose a risk to both equity markets and corporate earnings.

Optimism despite challenges

In summary, we expect strong earnings growth, driven by a cyclical upswing, to outweigh challenges from FX headwinds, geopolitical uncertainty, and relatively stretched valuations. Temporary, politically driven setbacks are likely this year as well. Should the euphoria surrounding AI and data centres fade, it could have a significantly cooling effect on Nordic equities, making careful monitoring of the US IT sector warranted. Our base case, however, remains a positive market development in the year ahead.



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“small caps could be well positioned for a rebound if our earnings expectations materialise and the economic cycle strengthens as anticipated.”

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Higher supply may push long-term yields higher

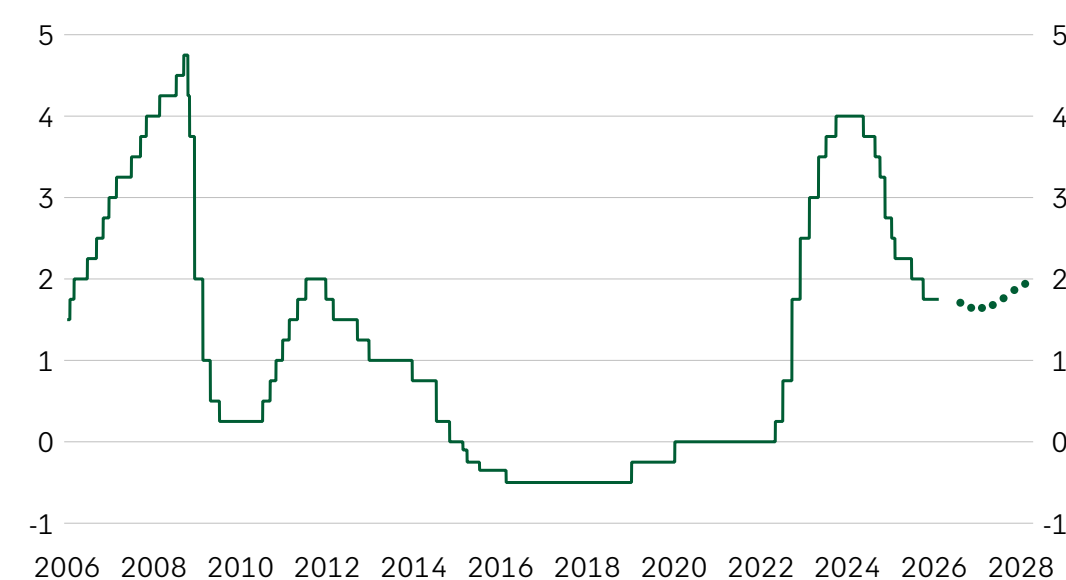
Ahead of 2026, both the European Central Bank (ECB) and the Swedish Riksbank indicate that policy rates are likely to remain unchanged at current levels for an extended period. The Swedish economy has rebounded faster than expected, while inflation has declined more rapidly and is expected to remain very low during the spring and summer. Taken together, this increases the likelihood of an additional rate cut by the Riksbank.

Inflation in Sweden is expected to fall rapidly to levels well below the 2 percent target, after having been too high for much of last year. Underlying inflationary pressures appear favorable, and the continued strengthening of the krona further contributes to easing price increases. A key factor behind the low inflation expected in 2026 is the halved VAT on food introduced in the spring – a temporary effect.

As the Swedish economy moves onto a firmer footing, there are solid arguments for the Riksbank to look through the temporarily low inflation. At the same time, the combination of low inflation and continued slack in the Swedish economy, following an extended period of weak growth, makes it highly unlikely that the Riksbank would initiate a rate-hiking cycle over the next 6-9 months. It is far more likely that the Riksbank would choose to cut rates further if the economic recovery weakens or if inflation continues to come in below expectations.

A similar picture applies to the ECB. Most signs point to policy rates remaining at current levels for an extended period, but the threshold for cutting rates appears lower than that for raising them in the coming quarters.

Rate cuts are more likely than hikes



Source: Bloomberg, Macrobond

Greater uncertainty surrounding the Fed

The situation is more uncertain for the US Federal Reserve, although the baseline scenario remains further rate cuts. The US economy continues to show relative strength, with a robust start to the year, while inflation remains elevated. The main arguments for rate cuts include a weakening labor market, the upcoming leadership change at the Federal Reserve, and recurring political pressure from the Trump



Fixed income investments in brief

There is strong reason to believe that both the Riksbank and the ECB will keep policy rates unchanged for an extended period. Rate cuts, however, appear significantly more likely than rate hikes. In Sweden, inflation is expected to fall rapidly to levels well below target, partly driven by temporary factors such as the halving of VAT on food. At the same time, continued spare capacity and a weak labour market suggest that interest-rate increases are unlikely over the next 6–9 months, even if the economic upturn proves stronger than expected. It is far more likely that the Riksbank would choose to cut rates further should the economic recovery weaken or if inflation continues to undershoot expectations. In the US, the outlook is more uncertain: rate cuts remain the main scenario, but risks are two-sided given robust economic momentum and persistently high inflation. Overall, shorter maturities appear relatively attractive, while long-term yields are pressured by increasing supply of both government and corporate bonds. Corporate bonds are supported by a favourable economic environment and rising corporate earnings. However, credit spreads are already tight, and we therefore expect spreads to remain close to current levels.

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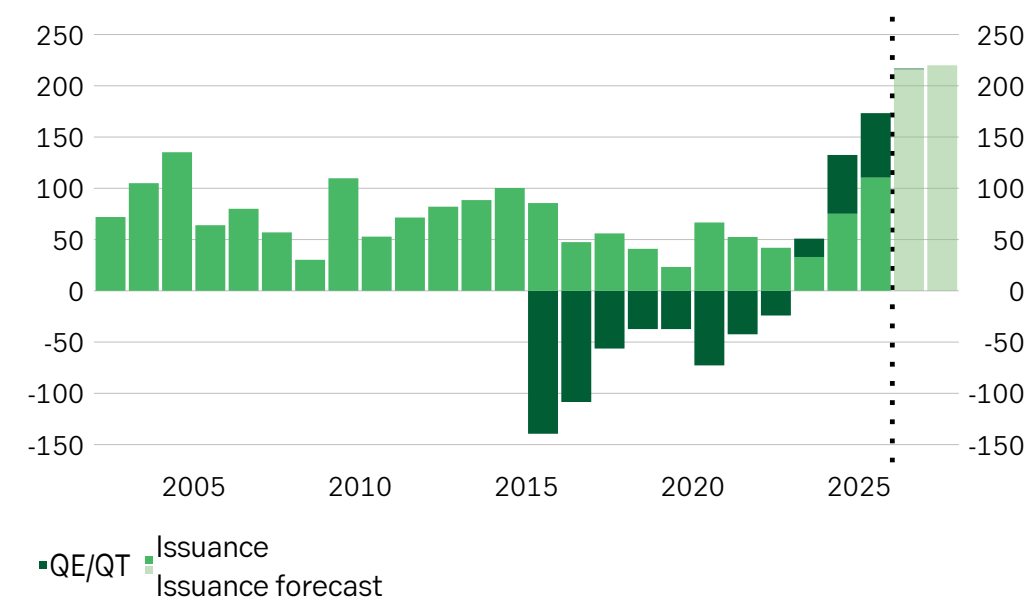
administration, which favors a more expansionary monetary stance. However, risks are two-sided: a further strengthening of the economy could fuel additional inflationary pressures, particularly given the tight labor supply caused by the current restrictive US immigration policy.

Overall, yields on shorter dated bonds appear relatively attractive, offering protection should the positive macro outlook fail to materialize – a scenario that would likely prompt significantly lower policy rates.

Challenging environment for long-term yields

The outlook is more challenging for longer dated bonds. Long-term yields have been in focus over the past year, with varying narratives across countries. In markets such as Japan, France, and the United States, concerns have emerged around the long term sustainability of public finances. In Sweden, public finances remain strong, but a more expansionary fiscal stance – combined with increased defense spending and support to Ukraine – is widening the budget deficit. As a result, the supply of nominal government bonds is set to rise significantly. This year, the National Debt Office is expected to issue volumes not seen at any point in the 2000s. Meanwhile, prior to 2022, the Riksbank purchased large quantities of government bonds – some years exceeding the entire net supply.

A significantly larger supply than during the entire 2000s is expected in Sweden



Source: Riksgälden, Macrobond

Relatively tight spreads across all segments



Source: Bloomberg, Macrobond

The shift in the supply – demand balance is therefore substantial. While demand for government bonds will likely remain, the price required for markets to absorb the increased supply is more uncertain, especially in a scenario of solid economic performance and an end to central bank rate cuts.

Additional supply is also expected from the corporate bond market, with record issuance anticipated in both the European and US investment grade segments. Last year, net supply from AI-related issuers in the USD market more than doubled compared with the previous year, accounting for roughly 30 percent of total net issuance. AI-related investments are expected to remain a key driver in 2026, often financed through longer dated bonds. This suggests continued upward pressure on long-term yields.

Credit spreads, after several years of strong performance, remain at historically tight levels across segments. The fundamental backdrop – characterized by a healthy economic outlook and rising corporate earnings – remains supportive. However, current valuations and the high expected supply argue against further spread compression. We expect credit spreads to remain broadly in line with current levels.

A potential headwind for credit markets is the risk of rising volatility in an environment shaped by large scale investments tied to a technological shift. Such conditions may benefit the equity market but can be more challenging for credit markets. A similar pattern was observed in the late 1990s, when equity markets performed strongly while volatility rose – an environment unfavorable for corporate bonds relative to equities.

Credits are likely to outperform government bonds in 2026, but largely in line with current spread levels, as there is limited room for further tightening.

At present, we prefer a modest overweight in interest rate risk in Sweden and Europe, but only in segments most closely linked to central bank expectations, with maturities of up to 4-5 years. At the same time, we hold a negative view on long-term yields, where we see a risk of continued increases. Within credit markets, we maintain a neutral stance, balancing a favorable fundamental outlook against valuation and supply considerations. We favor shorter dated credit to reduce sensitivity to spread movements.



Martin Lundvall
Head of Fixed Income Management,
SEB Asset Management

Theme: Tailwinds for emerging markets

Emerging markets offer a different type of exposure compared with developed markets – both geographically and sector-wise. Driven partly by different fundamental factors than developed markets, they have higher structural growth and currently trade at attractive valuation levels. At the same time, they come with higher risk and greater volatility. For investors looking to broaden their portfolios and gain access to long term global growth themes, emerging markets can serve as a valuable complement within a well diversified portfolio.



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Diversifying beyond the US

Over the past decade, the US has been the dominant engine of global equity returns. American companies, particularly large technology firms, have delivered strong growth, led innovation, and come to represent an increasingly large share of both global equity indices and investor portfolios. For many investors, this has been positive, offering high returns without requiring many active investment decisions. The dynamic has also resulted in many investors becoming heavily concentrated in US equities and the US dollar, often without realising it.

Investing in emerging markets (EM) provides diversification both geographically and across sectors. EM spans the entire value chain, from commodity-rich economies such as Brazil, Indonesia and South Africa, to high tech manufacturing and development centres like Taiwan, South Korea and China. In addition, Eastern Europe houses attractive opportunities in markets such as Poland and the Czech Republic. Poland, in particular, has been a strong growth engine in recent years, with solid economic expansion and favourable prospects ahead. The OECD estimates that Poland's economic growth will be nearly twice the EU average in the coming years. Equity markets have responded accordingly, with the MSCI Emerging Markets Eastern Europe index performing almost three times better than the broader MSCI Emerging Markets index over the past three years. Given continued solid growth forecasts, these markets still offer attractive valuation levels, leaving room for further positive stock market performance.

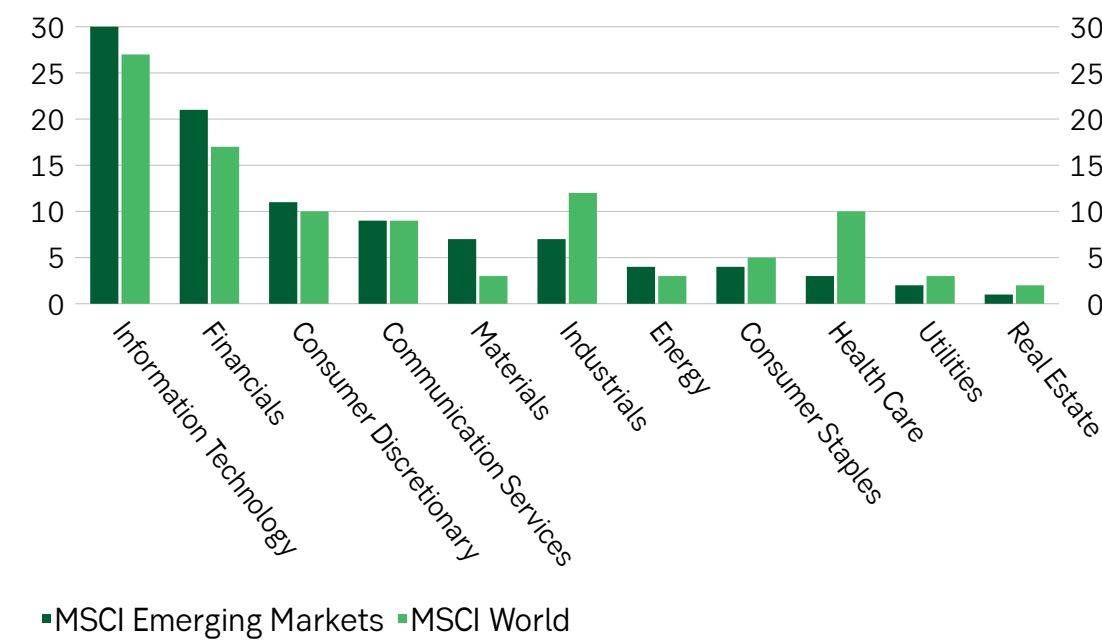
EM also differs from developed markets in terms of sector composition. Emerging markets have a higher weight in IT, commodities and financials, but lower exposure to industrials and healthcare. Beneath the surface, the contrasts are even more pronounced. Within IT, EM has a significantly higher share of hardware oriented companies, thus supplying components for electronics, IT infrastructure and AI related computing. Developed markets, by contrast, have a far greater focus on software and related services.

Commodities such as copper, nickel, lithium and rare earth minerals play a critical role in the global transition towards electrification, battery development and renewable energy. These materials feed into semiconductors and other electronics production, as well as telecom and IT infrastructure. This means that EM naturally offer exposure to global trends such as automation and AI. Many EM companies also benefit from serving both global and domestic demand, which is supportive in an environment of rising protectionism and periodic reversals of globalisation.

Within financials, EM has a strong overweight to banks and many of the largest Chinese banks carry individual market values equivalent to nearly half of Sweden's GDP. These financial institutions often face different competitive pressures than their peers in developed markets, including highly integrated tech ecosystems that compete for customers.

Even though technology has become more of a defensive sector in recent years, these broader sector differences make EM inherently more cyclical and sensitive to economic fluctuations. This, in turn, opens up opportunities for investors to find entry points and capitalise on the volatility.

The cyclical nature of emerging markets creates investment opportunities



Source: MSCI



The theme article in brief

The US has dominated global equity returns over the past decade, leaving many portfolios more heavily tilted toward the US than intended. Against this backdrop, emerging markets can offer broader geographical and sector exposure. They encompass everything from commodity-driven economies such as Brazil and Indonesia to advanced technology manufacturing in Taiwan, Korea, and China, as well as strong performance in Eastern Europe, where Poland has distinguished itself with high growth rates and attractive valuations. EM differ from developed economies through a higher concentration in IT hardware, commodities, and banks, giving them a more cyclical profile. Growth is driven by factors such as demographics, urbanization, and rapid digitalization, while the overall risk level tends to be higher. A weaker US dollar also typically supports emerging markets through lower borrowing costs and stronger demand. Valuations remain historically low, and an improvement in sentiment could pave the way for a re-rating. For investors seeking exposure to long-term global trends, emerging markets can therefore represent an attractive and complementary component in a diversified portfolio.

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One of the key reasons to invest in emerging markets is that they can provide a different type of exposure compared with developed markets. Returns in emerging markets are often driven by other factors than those that dominate in, for example, the US and Europe.

Economic shifts shaping EM

For many years, EM growth has been a key driver of global economic expansion. Despite wide variation across countries and time periods, emerging economies often exhibit higher structural growth, fuelled by favourable demographics, urbanisation, rising income and faster productivity gains. While this does not guarantee stronger equity performance every single year, it provides a foundation for long term earnings growth.

A central driver is that many EM economies are still in a “catch up” phase, where investment, industrialisation and digitalisation can generate significant economic impact in a relatively short time. Countries such as India and Indonesia are seeing a rapidly expanding middle class, boosting demand for everything from consumer goods and financial services to infrastructure and healthcare.

As household incomes rise and economic stability improves, consumption patterns tend to shift – from basic goods to higher quality products, services and brand driven offerings. This is amplified by EM’s ability to leapfrog traditional development stages: digital solutions can scale quickly without the need for extensive legacy infrastructure. Mobile payments and e-commerce, for instance, can grow without the costly build out of physical retail networks or branch offices. Banks can bypass large physical footprints, and consumers can shift directly from cash or cards to fully digital solutions.

For equity markets, this often translates into stronger long term earnings potential. EM offers structural tailwinds that are harder to find in developed economies, where growth is more dependent on innovation, efficiency gains and market share gains. However, higher growth does not automatically mean higher equity returns. Inefficient capital markets, weaker institutions and larger political risks often imply higher risk premiums and greater volatility.

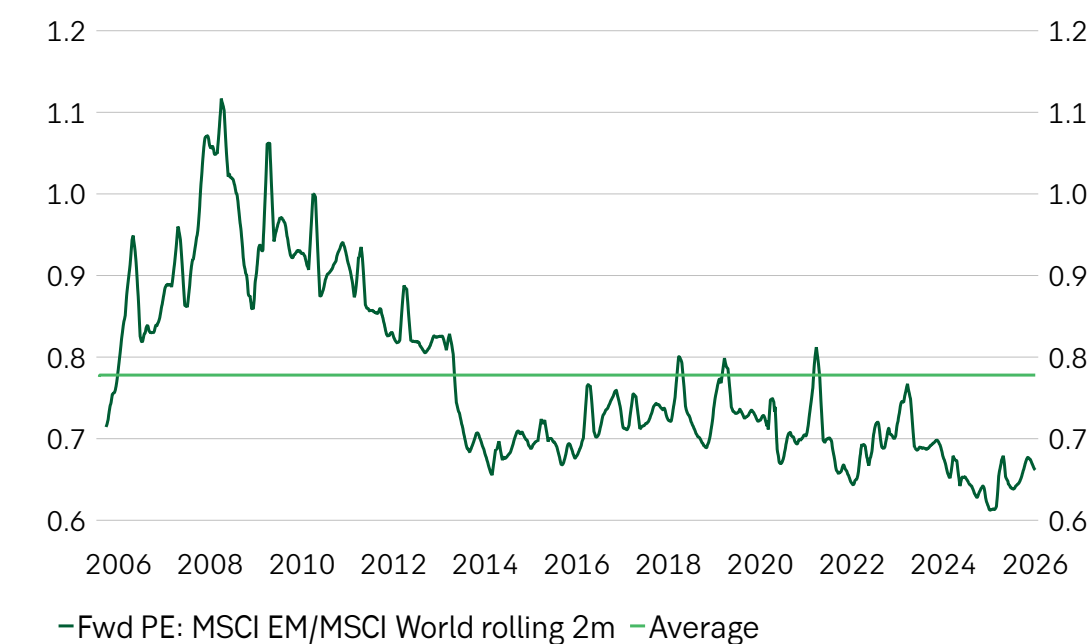
A stronger or weaker US dollar?

EM is generally viewed as benefiting from a weaker US dollar, for several interconnected reasons. Many EM corporates and governments borrow in dollars. A weaker dollar lowers the local currency cost of interest payments and amortisation, improving financial conditions and supporting profitability, which can feed into stronger equity performance.

A weaker dollar also makes it more attractive for global investors to seek returns outside the US, increasing capital inflows into EM and strengthening local currencies and asset prices. Stronger local currencies reduce imported inflation, boost household purchasing power and stimulate domestic demand. Currency appreciation also adds an extra return layer for foreign investors when local equity gains are converted back into dollars.

As major commodity exporters, EM countries also benefit because most commodities are priced in dollars. A weaker dollar makes these commodities cheaper for buyers in other currencies, increasing demand and supporting the performance of EM resource producers.

Historically low valuations



Source: Macrobond

EM equities often trade at lower valuations than developed markets, for reasons such as political risk, currency instability, lower liquidity and more challenging market access.

Over the past decade, this valuation gap has widened, and EM is now trading well below its 20 year average relative to developed markets – suggesting that much of the uncertainty is already reflected in prices.

If earnings growth continues to improve and sentiment strengthens – for instance through lower inflation, falling interest rates or a more supportive global macro backdrop, there is scope for a re-rating. This would mean markets begin to price future earnings more generously, providing additional upside beyond underlying profit growth.

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In 2025, we saw early signs of accelerating earnings growth, and forecasts point to continued momentum into 2026. This could create favourable conditions for equity markets broadly. At the same time, emerging markets are far from homogeneous. Differences across countries, sectors and corporate quality are significant, making active selection essential to identify the most attractive opportunities.

Emerging markets offer a type of market exposure different from that of developed economies – across both geography and sectors. Returns are influenced by different economic forces, and EM economies tend to exhibit stronger structural growth while still trading at attractive valuation levels. However, they also involve higher volatility and greater risk. For investors aiming to reduce US concentration, diversify globally and gain exposure to long term growth themes, emerging markets can play a valuable role in a well balanced portfolio.



Marie-Anne Meldahl
Fund Manager,
SEB Asset Management

“Emerging markets are driven by different underlying forces, supported by higher structural growth and currently trading at attractive valuations”

Theme: Will 2026 be the year of small caps?

Ahead of 2025, expectations for Swedish small-cap equities were high. Falling inflation, having reached a peak in interest rates, and hopes of an economic recovery created a constructive backdrop. However, the outcome proved to be one of the weakest relative performances versus the broader market in over a decade. To understand the prospects for 2026, a look back at 2025 is therefore necessary. By analysing what went wrong, and why several supportive factors were not enough, we can better assess whether the conditions for a turnaround in Swedish small caps are now in place.



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Supportive interest rate environment

Monetary policy was a key factor. Following a rapid shift from a zero interest rate environment to a repo rate that peaked at 4 percent in 2024, the Riksbank halted tightening and began a rate cutting cycle. Expectations heading into 2025 were for further rate cuts, which is also what materialised. By the end of 2025, the repo rate had fallen to 1.75 percent.

A declining rate environment is particularly meaningful for small caps for several reasons. First, it affects investor risk appetite. As interest rates fall, capital tends to move further out on the risk spectrum in search of returns, historically benefiting asset classes such as Swedish small caps. Second, interest rates influence valuations through the discount rate. Small caps often have a greater proportion of their expected cash flow further into the future, given their typically higher growth profiles. A lower discount rate raises the present value of these future cash flows, directly supporting valuations.

Finally, lower rates reduce financing costs. As a group, smaller companies carry more leverage than large caps, making them more sensitive to higher interest rates. Even though leverage levels had decreased significantly by 2025 compared with the exit from the zero interest rate environment in 2022, the rate cuts nevertheless provided meaningful relief to income statements. Taken together, small caps benefited from the rate cuts implemented in 2025. Since the starting point for interest rates in 2026 is lower than at the beginning of 2025, and with the average repo rate expected to be lower throughout the year, the small-cap segment enters 2026 with even stronger monetary-policy tailwinds.

Positive economic outlook

After several years of weak GDP growth in Sweden, expectations heading into 2025 were for a gradual economic recovery. Most forecasts indicated growth in the range of 1.5–1.9 percent, with even more confidence in 2026. The outcome for 2025 is expected to land around 1.7 percent. This meant that small caps received support from the cycle, but without additional momentum.

For 2026, however, forecasts point to a clearer acceleration, with expectations above 2 percent and in some cases as high as 3 percent. The main drivers behind this improvement include stronger private consumption, lower inflation, tax cuts, and rising investments. Such a scenario would create significantly better conditions for Swedish small caps in 2026.

Inflation prospects are also more favourable. In 2025, inflation hovered at or slightly above the Riksbank's target of under 2 percent. Forecasts for 2026 suggest inflation will fall below target, partly due to temporary VAT reductions. This provides further room for a more stable real-economic environment.

The labour market is another important component. Unemployment remained relatively high in 2025, but expectations for 2026 indicate gradual improvement. Although major changes are not anticipated, the direction of travel contributes positively, albeit modestly, to the overall macroeconomic picture.

Stronger consumer purchasing power

Heading into 2025, there was a clear expectation that Swedish households would recover. Inflation had normalised relative to the previous year, improving predictability in everyday expenses and thus supporting consumption. The combination of lower inflation and rising wages boosted real incomes, historically a key driver of consumption.

After several years of elevated inflation, many households had postponed larger purchases such as travel, renovations, and durable goods, creating pent-up demand. Consumers also received support from multiple sources: reaching an interest rate peak, which is particularly significant in Sweden, where households are among the most interest-sensitive in Europe. Tax cuts, including an expanded earned-income tax credit and a higher basic deduction, increased disposable income for both workers and pensioners. For most employees, this meant an additional SEK 150–400 per month after tax.



The theme article in brief

Heading into 2025, there were strong arguments in favour of Swedish small caps, yet the outcome was the opposite. The year became the weakest relative performance in more than a decade, and the period of underperformance is now the longest of the 2000s. What failed to materialise was the expected recovery in the economy and earnings, despite support from falling rates and lower inflation. The macroeconomic foundations for 2026 are at least as solid as they were heading into 2025, this time with clearer visibility in growth, consumption and earnings momentum. Rates provide structural tailwinds, inflation is under control and forecasts point to broader economic acceleration. Consumers enter the year with stronger purchasing power, and small-cap earnings growth is expected to regain leadership relative to large caps. Valuations also offer support, with Swedish small caps trading at a discount, partly driven by heavily negative fund flows. International sentiment indicators, such as US small-cap performance, signal gradually improving risk appetite.

However, the outcome in 2025 was more cautious than expected. Consumption did rise, but only moderately. Instead, household savings climbed, partly due to the introduction of a tax-free savings threshold of SEK 150,000 in tax-advantaged investment accounts ("Investeringssparkonto") and capital-insurance accounts.

For 2026, the conditions are even more favourable. The starting point for interest rates is lower, inflation subdued, and real wages rising. New tax cuts are expected to increase disposable income for most workers by SEK 900-1,500 per month – a materially larger effect than in 2025. The tax-free savings threshold will also increase to SEK 300,000. The counterweights are a more uncertain global backdrop, where geopolitical tensions and rapid shifts could restrain consumer confidence. Even so, the overall conditions are clearly stronger than the previous year. Should housing prices stabilise or rise slightly, there is further upside potential for consumption. A strong consumer outlook is particularly important for Swedish small caps, which tend to have higher exposure to the domestic economy and rely more heavily on household demand.

Strong earnings growth expected

Ahead of 2025, analysts were decidedly optimistic. In aggregate, earnings for small caps were expected to grow by around 25 percent. The actual outcome was a disappointment. Although final figures are not yet fully confirmed, indications point to earnings growth of around 0–5 percent.

The downward revisions throughout the year can partly be attributed to company-specific factors, but also to broader macro events. One such event was "Liberation Day," when Donald Trump announced new tariffs on April 2, increasing uncertainty for many companies. Uncertainty is typically negative for equity markets and often hits small caps harder. The Swedish krona also strengthened significantly, especially against the US dollar, appreciating by about 17 percent.

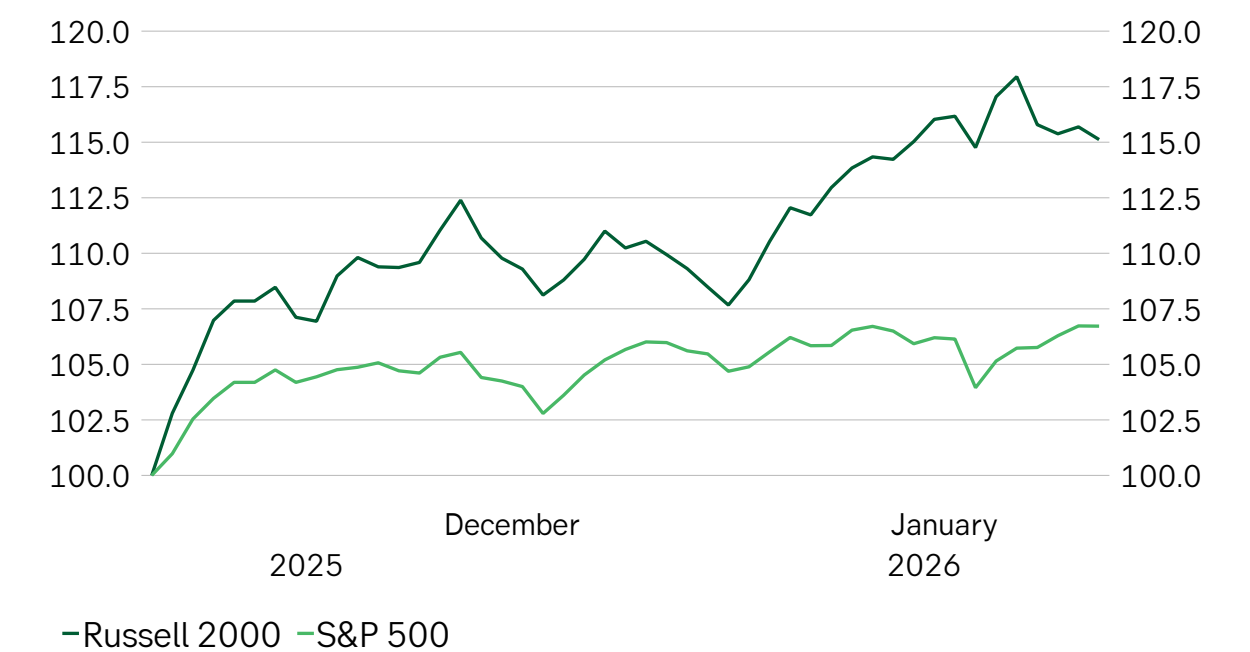
This had a negative effect on earnings for export-oriented small caps, particularly as smaller firms more often have their production and cost base in Sweden while generating revenues in foreign currency. Larger firms tend to have more natural currency hedges through local production abroad. For 2026, optimism has returned, with earnings growth expectations again near 20 percent. Risks remain, such as new tariff initiatives or currency volatility, but few expect a currency move of the same magnitude as in 2025. Long-term earnings growth is crucial for companies' ability to reinvest, innovate, and create shareholder value. Historically, small caps have grown earnings faster than large caps, a key explanation for their long-term appeal. In recent years, however, large caps have delivered comparatively stronger earnings. The forecasts for 2026 indicate that small caps will once again outgrow large cap earning, if realised, this would provide a strong foundation for the segment.

US small cap sentiment improving

Even with a focus on Swedish small caps, the influence of the US is hard to ignore. The US accounts for just under 10 percent of Swedish exports and is therefore an important, though not dominant, market. Political developments and market sentiment in the US also often have global implications.

A relevant sentiment indicator is the Russell 2000 index, which tracks around 2,000 US small-cap companies. Since mid-November, the index has begun to outperform the broader US market. Many investors view the Russell 2000 as a leading indicator of risk appetite and global small-cap sentiment, including in Europe and Sweden. At the same time, it is not a perfect proxy for Swedish small caps and should be seen more as a temperature check than a precise benchmark.

The Russell 2000 is pointing to strengthening investor risk appetite



Source: Bloomberg

Valuation and fund flows

While earnings and macro conditions are important drivers, they must be viewed in relation to valuations. Over the past five years, Swedish small caps have traded within a range of roughly a 10 percent premium to a 10 percent discount relative to large caps. For much of the period, valuations have been between par and a 5 percent discount. In the decade prior, small caps traded at an average premium of around 10 percent. Today, valuations imply a discount of 5–10 percent depending on the metric, providing support as long as earnings expectations hold.

The link between fund flows and small-cap performance is strong. Net inflows tend to coincide with positive returns, whereas outflows typically align with weaker performance. In 2025, there were significant outflows from Swedish small-cap funds, accelerating in the final quarter and weighing on returns. Early 2026 has also been characterised by net outflows.

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Large Swedish companies have outperformed smaller ones



—Relative performance of large caps vs small caps

Source: Bloomberg

Outflows exceeding 10 percent of assets under management were recorded among several large funds in 2025, and in some cases over 20 percent. When these flows will reverse is difficult to judge, but a substantial portion of reallocations has likely already taken place.

Conclusion

Heading into 2025, there were strong arguments in favour of Swedish small caps, yet the outcome was the opposite. The year turned out to be the weakest relative performance in more than a decade, and the period of underperformance is now the longest of the 2000s. What failed to materialise was the expected economic and earnings recovery, despite support from falling interest rates and lower inflation.

The macroeconomic foundations for 2026 are at least as solid as they were heading into 2025, this time with clearer visibility in growth, consumption and earnings momentum. Low interest rates provide structural tailwinds, inflation is under control and forecasts point to broader economic acceleration. Consumers enter the year with much stronger purchasing power, and small-cap earnings growth is expected to regain leadership relative to large caps.

Valuations also offer support. Swedish small caps trade at a discount versus historical averages, partly driven by heavily negative fund flows. International sentiment indicators, such as recent US small-cap performance, provide additional signs that risk appetite is gradually improving.

Pinpointing the exact turning point is difficult, but on balance, interest rates, macro trends, consumer dynamics, earnings, valuations and sentiment all suggest that the outlook for 2026, and beyond, is favourable. From a long-term perspective, Swedish small caps appear to be an interesting component of a well-diversified portfolio.



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