Soft landing will support share prices

We are sticking to our forecast of a soft landing in the world economy, followed by a moderate increase in the growth rate. Future central bank key interest rate decisions will play a crucial role in ensuring the fulfilment of this forecast, with cuts of 1.5-2.0 percentage points expected before the end of 2025. In such an environment, we expect corporate earnings to increase by 7-10 per cent in the coming year. Meanwhile, a broader range of companies and sectors will be able to contribute to growth. We are continuing to maintain a slight overweight in risk assets, since valuation levels and positioning among investors are holding back our risk appetite.

Our assessment is that the growth picture has not changed to any great extent since *Investment Outlook* in May, despite political turbulence, periodically volatile markets and historically high real interest rates. In most cases, the fight against inflation has been successful. The fact that the US is now launching its rate cutting cycle will ease tensions in the central banking world and provide growth support in 2025–2026.

In late July and early August, we also experienced the first severe capital market turmoil for a long time. Did this episode of instability represent necessary profit-taking after a strong run-up, or was it a foretaste of what will happen when the US economy softens? But our view remains intact. A soft landing is still our main scenario. Clear risks surround this scenario, but also opportunities. We are sticking to our recommendation of a moderate overweight in risk assets. We also still believe in broad risk diversification. But conditions in different parts of the capital market are changing. This may mean that former pacesetters will face challenges to their leadership role.

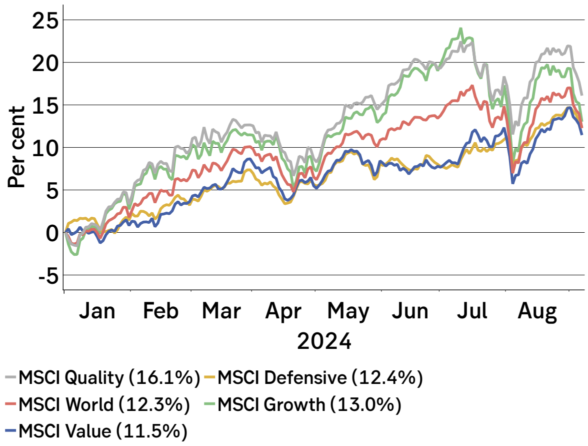
Allocation

We are approaching a point where we may carry out slightly larger changes both between and within asset classes. But first we want to see more evidence that the soft landing is materialising and that the current stock market consolidation will be replaced by a new positive trend and a broader upturn. We are ready, but we are not in a hurry to get ahead of the market. Instead, we want to see some confirmation of increased interest in emerging markets and small caps, for example, as well as an appreciating SEK that breaks out of the range against the USD where it has been oscillating for a long time. Regardless of this, our portfolios will continue to benefit from increased risk appetite and positive market performance.

Valuations and stock market performance

We have a relatively optimistic view of stock markets going forward, but this is based on a soft-landing scenario paired with continued key interest rate cuts. For a long time, we have recommended an overweight in US growth companies due to their market dominance, structural expansion and strong balance sheets. We are not diverging from this view yet, but we also recognise that other parts of the stock market that have been overlooked in recent years should benefit more from a cyclical recovery and lower interest rates. We are approaching an inflection point where investors should increasingly seek out small caps and emerging market equities.

Growth and quality companies have performed best in 2024



Source: Macrobond and MSCI

This year the returns on different types of equities have been volatile but are also more homogeneous than in previous years. Quality and growth factors remain at the top.

Global equities

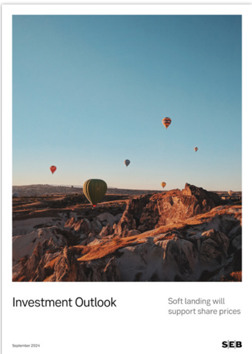
- Lower key interest rates will support valuations, and a weak USD will support liquidity
- A positive overall corporate earnings trend during the second quarter of 2024
- Good reasons to take another look at an emerging market exposure
- Small caps should benefit from our macro scenario

Fixed income investments

- Favourable preconditions will pave the way for more and faster key interest rate cuts
- We expect lower bond yields, but given this summer's already low yields, the downside is limited
- Any renewed worries about an economic hard landing may trigger temporarily plunging yields
- High yield bond valuations are stretched, with credit spreads back at historically low levels after a bout of turbulence in August

Nordic equities

- Consolidation will continue, with some volatility
- An increased focus on political risks?
- The recovery will be delayed, but earnings will increase
- Lower key interest rates will provide hope ahead of 2025
- When leading indicators rebound, cyclical sectors will be major beneficiaries
- The rally in small cap stocks faded, but it may return



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

- Semiconductors, Part 2 – The backbone of digitisation
- The US elections – An even battle focusing on taxes, tariffs and family policy

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

You will find all this at seb.se/investmentoutlookreport

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