SEB House View

29 March 2023

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The road to recovery, not easy

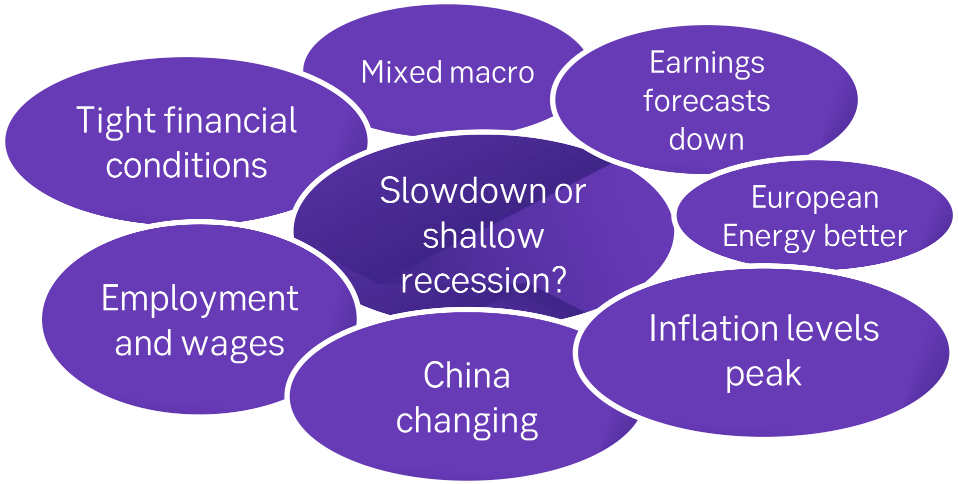
A new narrative, SVB and CS brought a new guest to the table

- Equity markets have fared well over the last weeks, despite substantial volatility in bond markets as the heightened uncertainty on stability risks has taken control
- The developments in banks over the past weeks, even though most likely not systemic, has impacted confidence.
  - The likelihood for a credit contagion has somewhat risen following these developments
  - These trends were fed by rising rates, but have more attention as the bank events came.
  - Bank lending has slowed and M2 growth in the US has been negative
- The combination of high CPI inflation that motivates central banks to keep monetary policy tight and credit contagion is not an optimal scenario for risk-taking
  - The window is of course when central banks are motivated to start lowering rates again, but it is hard to see that scenario without a couple of positive CPI prints
  - On the same note, it is important to see that the bank funding issues will probably hasten the process of lower growth and inflation
  - In the meantime, equities risk being challenged by macro data and lower risk appetite
  - Nevertheless, equites has continued to do relatively well, there is likelihood that markets expectations are quite well-balanced as the combination of decent growth and some inflation support earnings ad the outlook for a lighter fed policy is positive according to Fed fund forecasts.

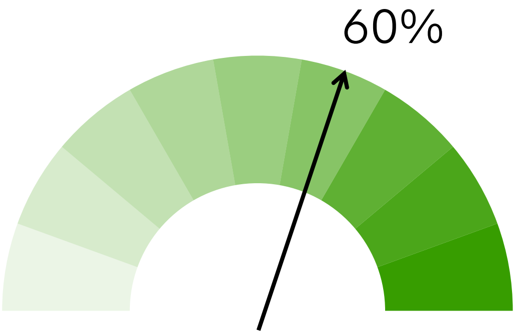
- The view on investment horizons matter, we are convinced that central banks will lower interest rates, as data has showed low inflation for several subcomponents of CPIs.
- We stay at 60% in risk utilization as markets have already priced in a lot and we do not expect broader contagion
- There are some early signs of an end to the bear market, but we chose to not increase risk for now, due to that the negative risk sentiment will likely persist in the short-term

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).

Investment Regime: The USD says something

Inflation still runs the show, now with some help

The inflation scenario sets the tone for expectations. We are confident that the pace of price increases has peaked as inflation has eased in the last months, but we remain humble to the risk that the disinflation could take some time. Looking at wage data, the pace is still somewhat high, especially in the service sector, the FED's favorite. A too strong labor market with sticky wage growth is probably the biggest risk for inflation this year. But commodities, supply chains and less inflation from goods and manufacturing look promising. Our belief that we have passed the inflation peak has been confirmed. Now we just need a couple of good CPI prints to confirm the trend.

The Fed has changed its tone, disinflation is the new theme, bank issues should not be a gamechanger..

The FED slowed the rate of hikes, weary of lag effects after a steep hiking season done. Their move was expected. The issues with bank funding and contagion risk can help the FED to bring inflation down. If we look at the different forecasts for next year, they almost uniformly point to 2% - 4 % inflation by the end of 2023. If we look at classic monetary analysis, the suggested pace downwards will be quicker because of the current, very low monetary growth indicates sharply falling inflation. The tighter monetary policy and shift in inflation in 2022 have been strong, lending has almost stopped expanding and the correlations to lower growth are historically high. Patience is required.

The business cycle... and earnings downgrades

The tone in macro forecasts are shifting. The likelihood of avoiding a recession is increasing and the outlooks for Europe and China have materially improved as the energy crisis and Covid policies have changed. However, the developments during the last weeks and contagion risks have marginally shifted our base scenario toward a more negative direction. Profit margins are being challenged and at some point, valuations could be at risk of being challenged as well. But the risk of a recession is still low and all in all this supports the outlook for risk-taking in the medium to the long term.

Macro

Advantage US, optionality China

- US soft landing is probably most likely
- China has a glimmer of hope, Covid and real estate is potentially better
- Europe has done well
- The consensus points to a U-shaped economic recovery in H2 2023

Central banks

The Fed has probably tightened enough, the ECB is probably not done

- FED hiked rates, one or two hikes to go
- Financial conditions are still tight, time to assess cumulative effects
- China has better monetary growth than the US and EU

Politics

Fiscal policy is somewhat tight

- Policies are surprisingly tight, but energy investment is supporting
- Long-term investment incentives for green transformation and defense

Corporates

Does valuation reflect lower earnings?

- We are on the road to higher valuation multiples as easier monetary policy is within reach
- Earnings does well for now, some challenges ahead

RISKS

- Persistent inflation
- FED policy mistake
- Global recession
- Political risks

Asset Allocation

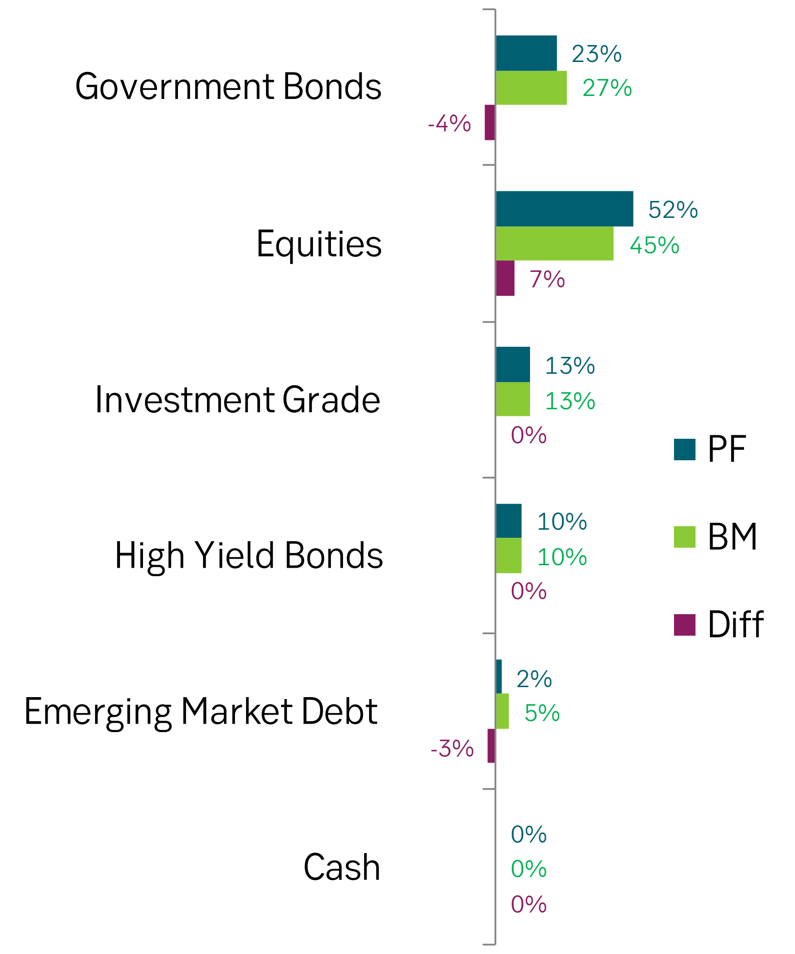
The road to disinflation is important

- Equity markets have faired well through the last period of volatility, being supported by the disinflation narrative and ok earnings.
  - The likelihood for diinflation is high, as month-to-month inflation is close to nonexistent, and the subcomponents are almost unanimously positive
- We maintain our overweight to equities as lower inflation and a slightly better growth environment will be positive for equity markets
  - An important observation is that investor sentiment is still on the defensive side with high cash levels and low positioning in futures, which increase the upside.
  - Our overweight to equities shall be seen in the context of very good probability of lower interest rates, changed sentiment and better earnings later 2023.
- As the ongoing disinflation process continues long-term bond yields will decrease during the year, in line with the higher likelihood of a central bank pivot in Q3
  - Lower bond yields is an important driver of equity valuations, and it is not irrelevant to think of a renewed TINA situation as bond yields can once again fall below earnings yields
  - Today TINA feels distant, but imagine what happens if disinflation continues

We hold some cyclicality of the portfolio

- The major risk driver of our portfolios is our exposure to equities
  - Historically, it has often been a good to be in equities when central banks are close to a pivot following a hiking period and when the ISM closer to 45, as it is now
  - This would arguably be a better entry point than a pivot when PMIs are at 60
- Our historic regression analysis shows that a combination of easier monetary policy, turning PMIs and strong performance for consumer discretionary is a stable signal
- Growth has been a dominant market theme, but that trend will reverse when the FED shifts policy, and cyclical assets will outperform as the USD gradually loses support
- Within credit, we increased HY bonds to neutral last time, due to a cyclical shift in the environment, which we financed by selling IG and government bonds
- We stay neutral to corporate bonds as our conviction is still intact, despite the recent banking turmoil which appear to be easing, but the market situation is very fluid

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

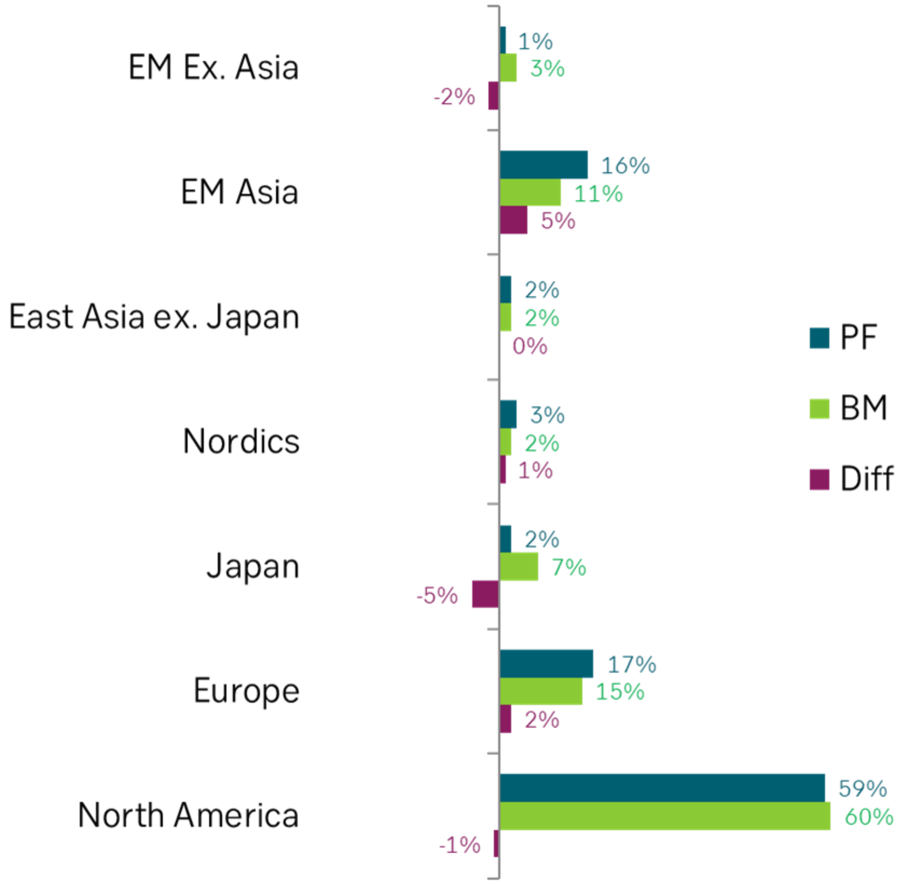
We kept our overweight to EM Asia and Europe, the USD trend is important

- The most important trends this year have been the reversal of last years' trends
- US large caps are no longer the safe source of returns as they were in the past
  - Nowadays, an equity portfolio needs to be diversified globally in terms of regions and currencies to achieve solid risk adjusted returns
- The big equity driver is as stated earlier the return to lower interest rates, and the improved energy situation mostly strengthen Europe's position, while the removal of Covid-Zero is expected to boost China's growth to 5% or more
- However, China's strengthening has been slower-than-expected and China has been excluded from some major equity benchmarks
  - But overall, the growth outlook supports EM Asia and we stay overweight here
- We hold our overweight to Europe as macro forecasts for the region have improved
  - The energy situation has faded, better macro data indicates stronger demand and confidence, and the Euro is in a better position than the USD
  - The ECB is still in the process of hiking rates which can weigh on equities, but the return of interest rates should benefit Europe as banks is a large part of the market
- We also kept our underweights to the US and EM Ex Asia unchanged from last time
  - EM Ex Asia consists to a large extent of Brazil and Argentina which are sensitive to the dollar and in general have companies that are price-takers
- Our most pronounced overweight is still to EM Asia, due to China's reopening
  - We expect that the reopening will result a new spending wave on everything from cars to travelling, as the supply side will meet two years of pent-up demand
- We also decreased our exposure to Japan at the last House View meeting
  - Japanese equities are under stress from a likely policy shift for the yen and bonds

We remain overweight to the Nordics

- The Nordics is a mix of cyclical value, commodities and defensive growth
- These markets probably have one thing in common, dependency on Europe, and the European markets tend to be seen as a group, which is why we hold our overweight

Regional equity positioning



Benchmark is MSCI All Country

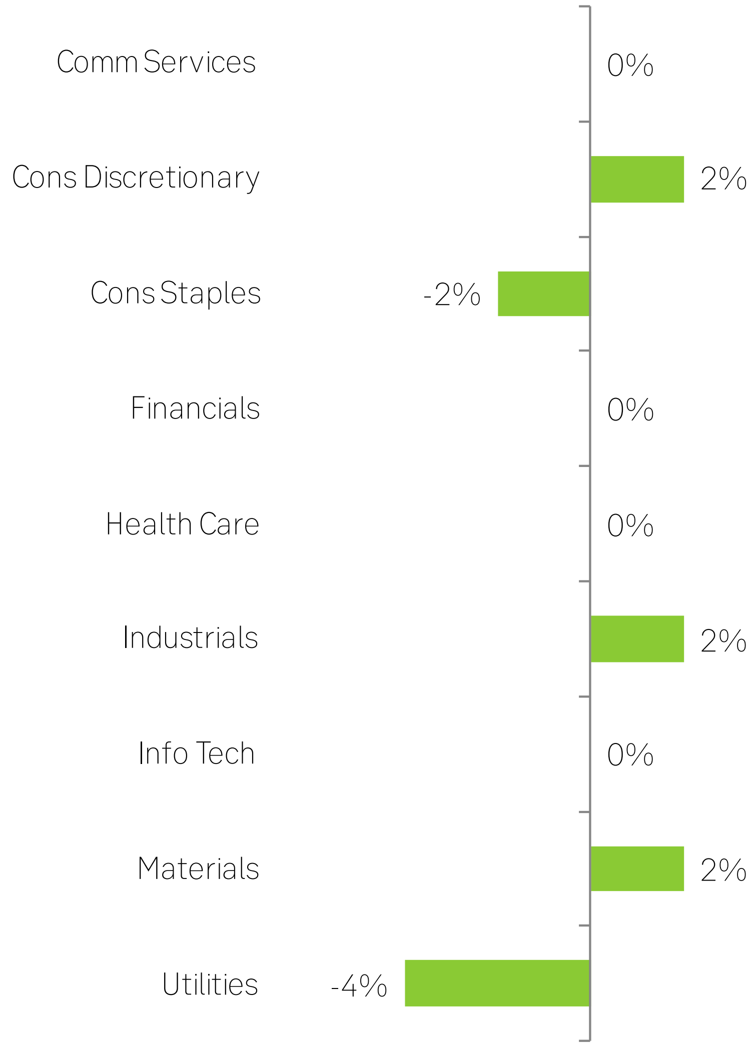
Sector Allocation

We have a growth positive position

- The trend in sector performance has continued over the past weeks
  - Most of the cyclical sectors have been laggards, while some growth segments of the equity market and European industrials have performed strongly
- We have also seen a shift in performance in factors as Swedish small caps have started to perform in line with broader markets, this will continue
- Since our basic idea is that we are getting closer to the point of lower interest rates, we think that it is prudent to be positioned for that
- The new optimism in China shows what will happen 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 industrials and materials will come into play and the climate becomes more cyclical, and therefore, we maintain an overweight on these sectors

- Generally, capex trends are improving both in the correlations with the credit impulse in China, but also generally in the US and Europe
- Structurally, capex is interesting to have a constructive view on, as the needs for government-supported investments are rising, such as defense and green energy investments in solar and wind power
- Regionalization will probably also create a need to (re)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

Sector positioning



Risks to the Investment Regime

SEB

Contagion risks from a global banking crisis

The collapse of Silicon Valley Bank and Credit Suisse triggered fears of broader contagion which caused a sell-off in risky assets, in particular banking stocks. Markets fears have since then eased following the takeovers of SVB and Credit Suisse, as the risk of contagion appeared to be contained. The Fed has maintained that the banking system is strong, however, we think that the risk of contagion or another bank failure still exists.

A severe credit crunch which causes an economic slump

The recent bank turmoil has led to deposit withdrawals and caused liquidity issues at US regional banks. When banks are concerned with falling deposits, they are less willing to lend money which reduces the availability of loans to businesses and households. Tightening of lending standards will most likely weigh on consumer and business spending and in turn slow down the economy. Credit conditions had already tightened for some time, before the banking turmoil began, and will likely tighten further because of the financial stress. We remain humble to the high uncertainty of what the extent of these effects will be.

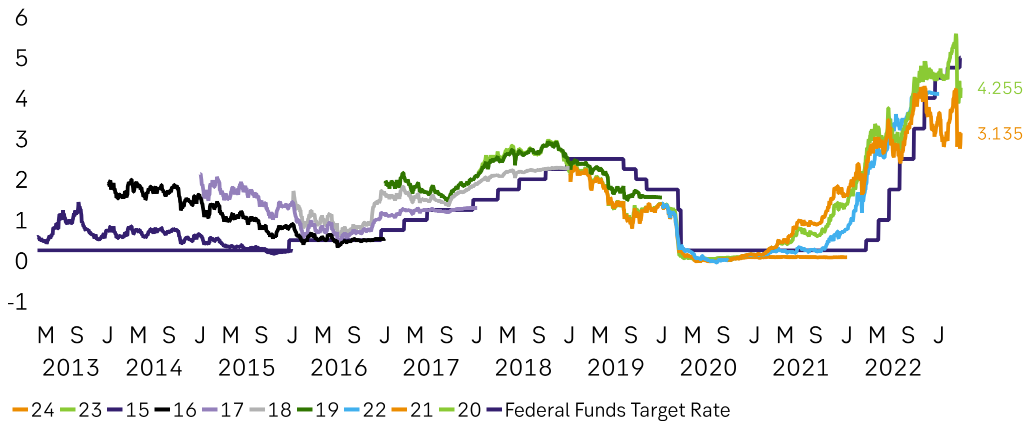
Higher-for-longer rate regime

Large unrealized losses from rising interest rates and a high proportion of uninsured depositors are what ultimately led to Silicon Valley Bank's collapse. Other banks with large losses and high proportion of depositors who that could potentially trigger a bank run are at also at risk. Higher rates will keep these unrealized losses elevated, making banks more vulnerable to solvency risks. In addition to banks, the real estate and private equity sector could also be hit by higher interest rates.

Deterioration in macro or in the upcoming earnings season

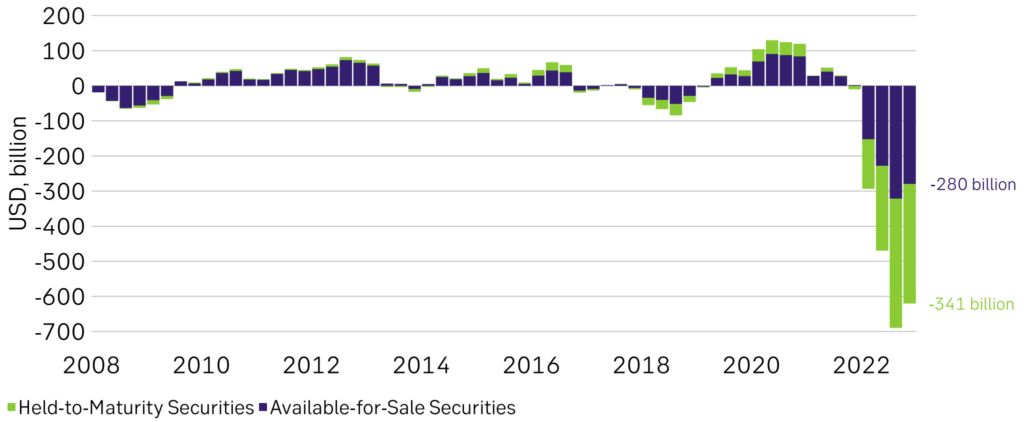
Despite recent signs of improvement in the outlook, the path to recovery is expected to be slow and will likely be fragile. Sticky inflation, uncertainty from the war in Ukraine, rising US-China tensions and a banking crisis could all disrupt the recovery and weaken demand . Weaker demand could also lead to a sharp fall in future company earnings.

Figure 1: Higher-for-longer interest rates will keep unrealized losses at financial institutions high, increasing the risk of another SVB happening…



Source: Macrobond, SEB

Figure 2: Unrealized losses on investment securities at FDIC-insured institutions have soared amid the Fed's aggressive hiking campaign



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

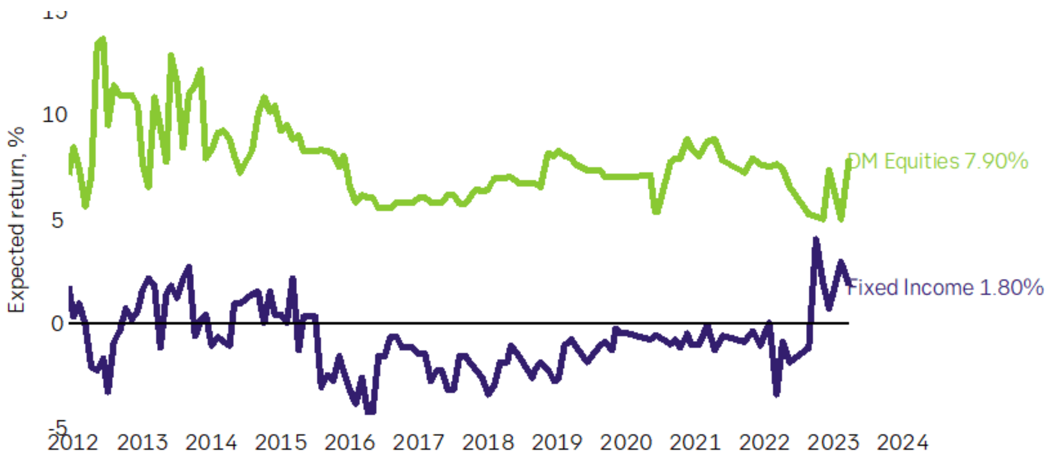


Figure 3: Absolute expected returns

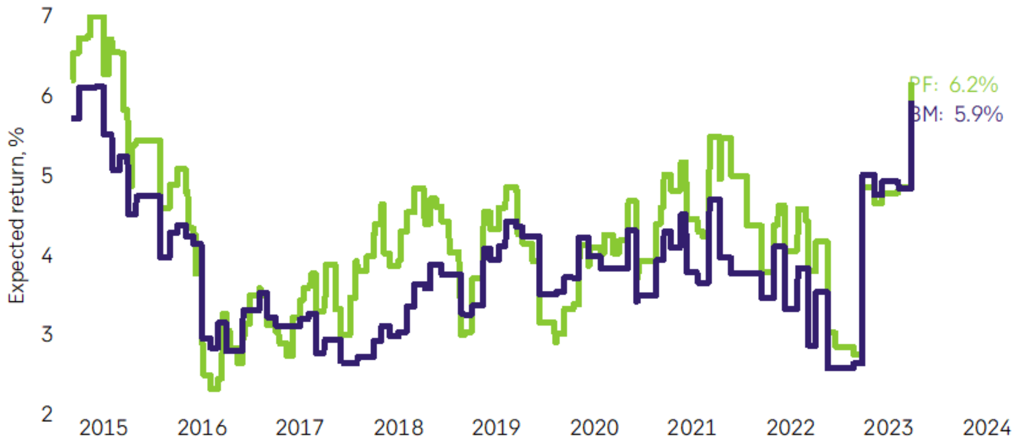
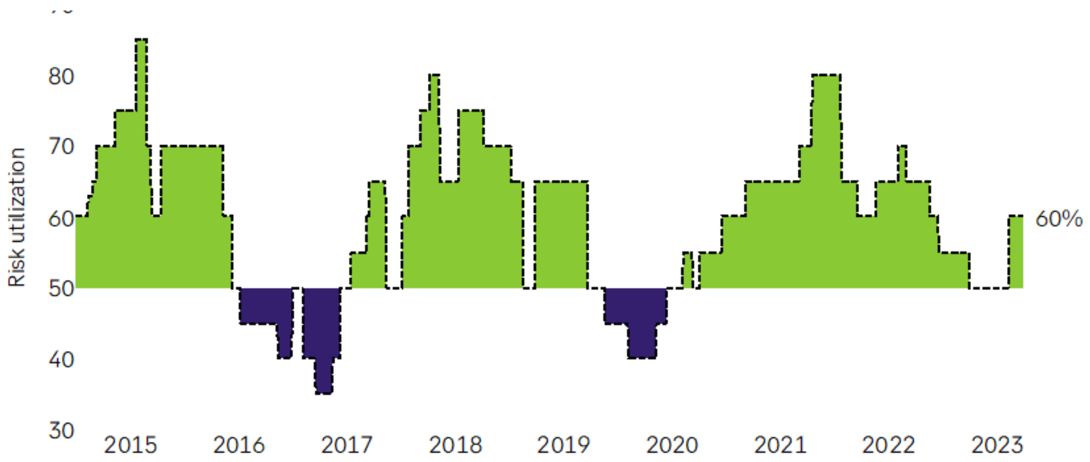


Figure 4: Risk utilization since inception



Historical House View Allocation

Figure 1: Equities

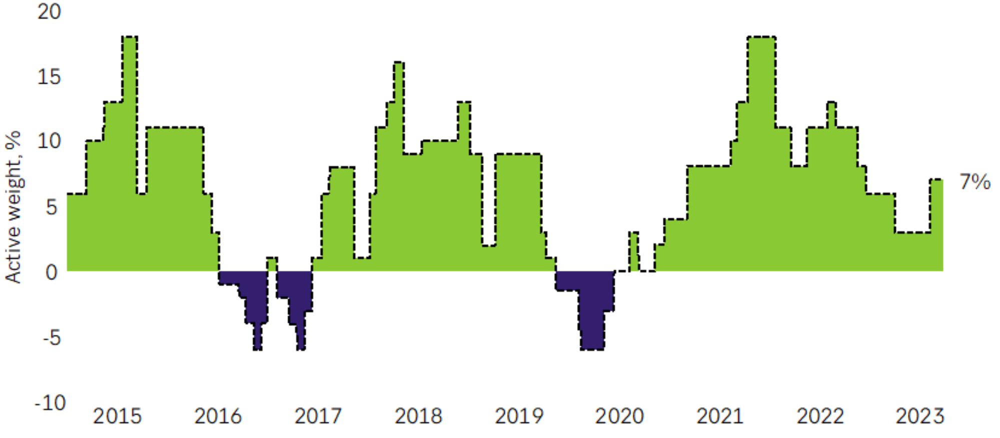


Figure 2: High Yield

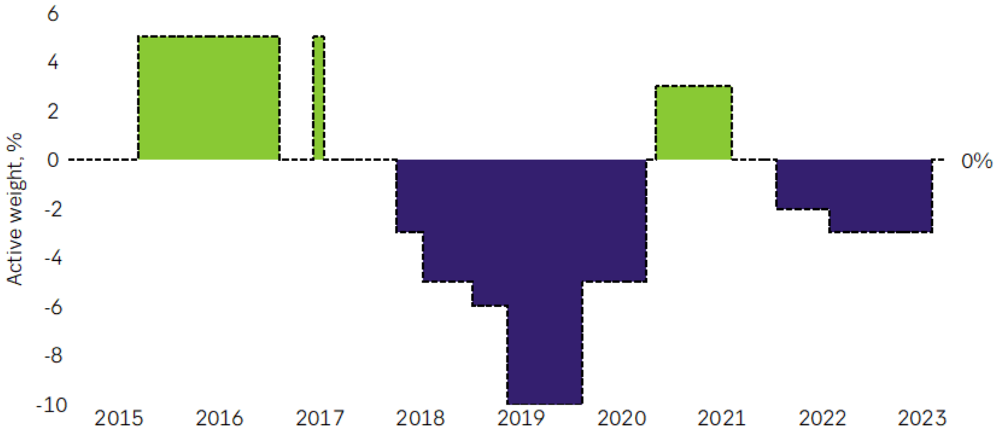


Figure 3: Emerging Market Debt

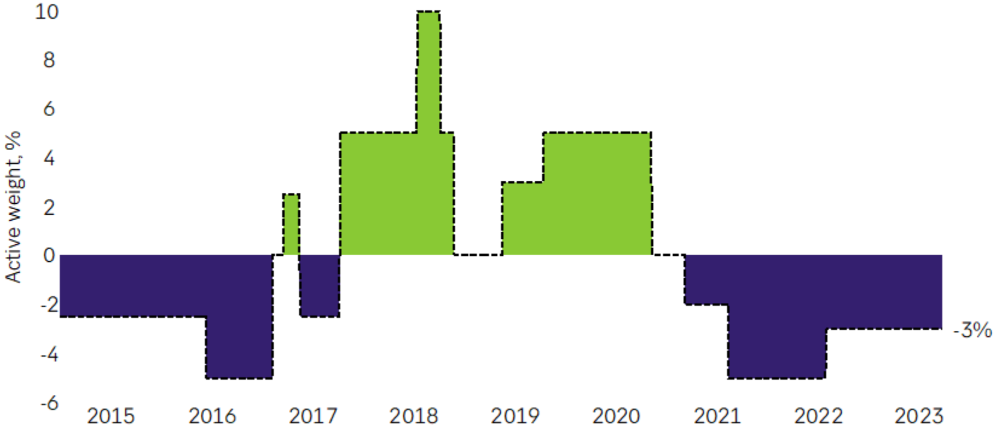
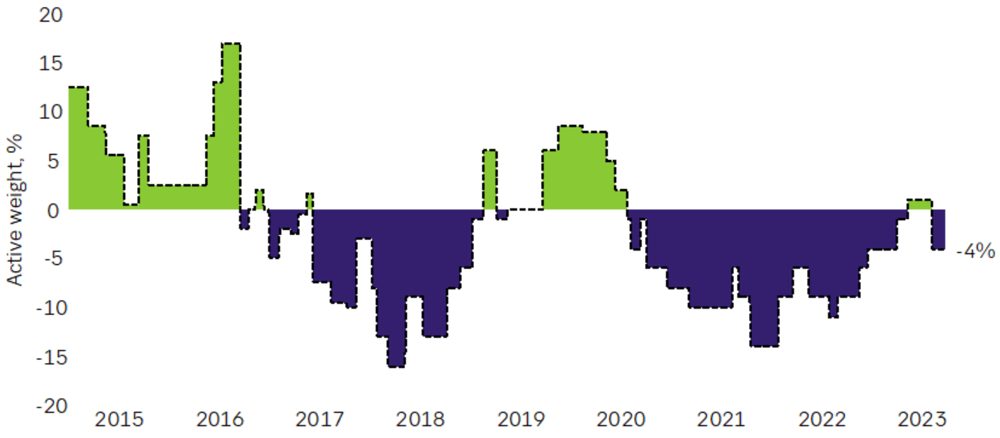


Figure 4: Fixed Income*



* 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 have increased in importance amid the global banking tumult, but have also become more negative

- The Fed hiked rates in March and signalled some additional policy firming may be appropriate given the high inflation pressures
- The central bank also indicated that rate cuts this year is not in its base case, despite higher recession risks following the collapse of SVB and Signature bank
  - Bond markets disagreed with the Fed's rate outlook and made bets on that the Fed will cut rates this year, due to tightened credit and a slowing economy
  - Bond market volatility has been elevated amid a growing disconnect between markets and the Fed, and will likely remain elevated as banking system concerns remain in focus

Earnings have fallen in importance as fourth-quarter earnings are behind us

- The decline in earnings the last quarter was not as bad as markets had expected
  - However, we do not expect earnings to support equities going forward and see earnings as a negative factor for equities on a tactical horizon

Macro is still of high importance, but the outlook is gloomier as tighter credit conditions will likely weigh on the economy

- We see macro as a negative factor for equities at the moment as a banking crisis will likely lead to tighter lending standards at banks, which in turn reduces demand
- In our view, a systemic credit crunch is the biggest tail risk right now

On a 3-6M horizon, the House View committee remains constructive to equities

- We prefer to hold risk utilization at 60% as the Fed is probably close to a peak in rates and may cut interest rates later this year, which would trigger a stock rally
- Tightening credit conditions should hasten the disinflation process, which is already underway, and slow economic activity
- A credit crunch increases the probability of rate cuts by the Fed this year

Figure 1:Central banks are most important for risk-taking at the moment, given a potential bank crisis. Macro is also important as the risk of a credit crunch looms.

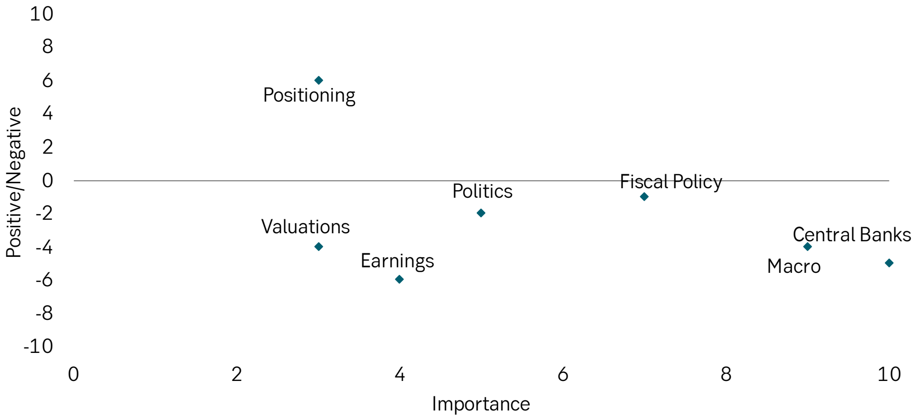
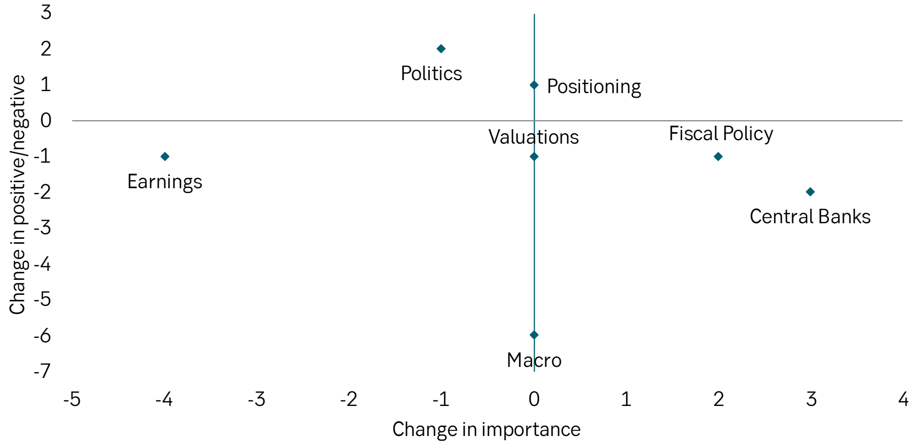


Figure 2: Central banks and fiscal policy have increased in importance, while macro is more negative for equities than last month, as a credit crunch looms.



Developments in the Markets

Global stocks fell amid concerns over financial vulnerability

Equities declined in March as investors rushed into safe-haven assets amid the bank turmoil. The collapse of US regional banks SVB and Signature bank triggered fears of a global bank crisis, which quickly spread to European banks. Shares in Credit Suisse, the troubled and systemically important Swiss bank, dropped due to contagion fears. Swiss authorities backed UBS to acquire its rival Credit Suisse to prevent a financial meltdown. Market volatility spiked as investors swung between despair and hope for that contagion risks were contained. Amid the bank turmoil, the Fed hiked interest rates by 0.25 % in March. US equities rallied after the FOMC meeting, driven by expectations that the Fed is close to pause rate hikes. US stocks were flat in March and outperformed other developed markets, while emerging markets edged higher. European equities fell due to concerns over European banks and Sweden's highly leveraged property market.

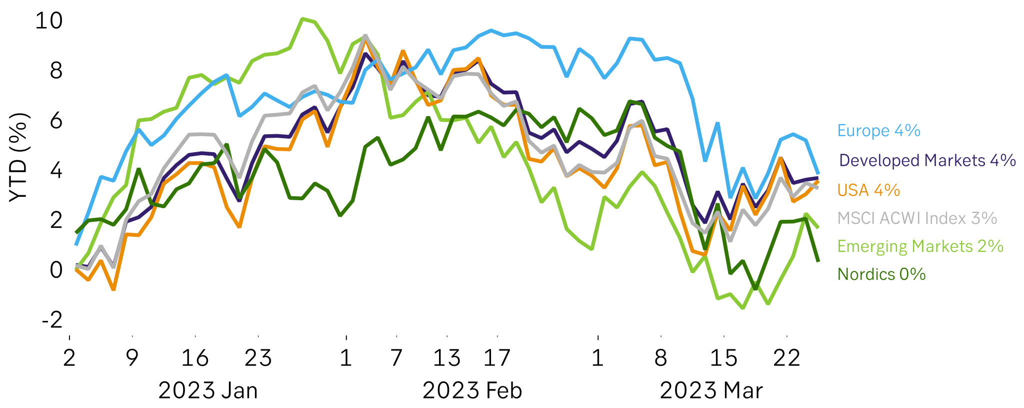
Credit markets were mixed after Credit Suisse's AT1 debt wipeout

Corporate bonds saw a huge repricing in March as investors sold riskier debt and sought safety in high-quality bonds, amid default concerns due to the banking turmoil. The yield gap between HY and IG bonds widened and reached a five-month high, as low-quality bonds were priced wider to high-quality bonds. AT1 bonds fell sharply after a Swiss government-backed deal for UBS to buy Credit Suisse wiped out $17 billion of Credit Suisse's AT1 debt. The deal left bond holders of Credit Suisse's risky debt in the wind as they absorbed losses, while the bank's shareholders received some compensation.

US treasury yields fell as bond markets increased their bets for Fed rate cuts

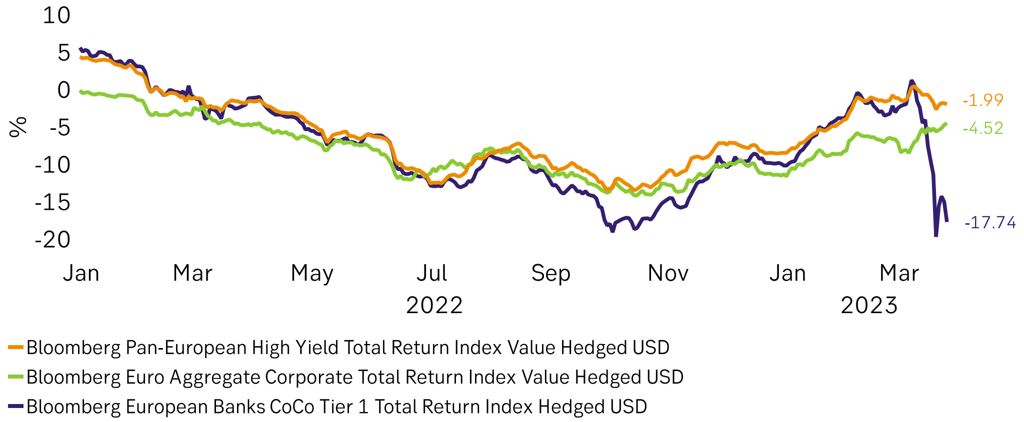
2-year US bond yields fell as much as 50 bps in March, causing a steeper US yield curve. Treasury yields declined after markets repriced a higher probability for Fed rate cuts this year and as investors rushed into treasuries for safety amid bank fears. At the FOMC March meeting, the Fed raised rates and announced that QT will continue at the same pace, which were expected. However, bond markets bet on that the Fed will cut rates this year, despite that Fed Chair Powell said he did not expect any cuts this year due to stubbornly high inflation.

Figure 1: Global stocks declined in March after the US bank failures, but are still up YTD.



Source: Macrobond, SEB

Figure 2: European AT1 bonds underperformed the credit market after UBS's deal to acquire Credit Suisse wiped out $17 billion of Credit Suisse's AT1 bonds.



Source: Macrobond, SEB

Economy – Developed Markets

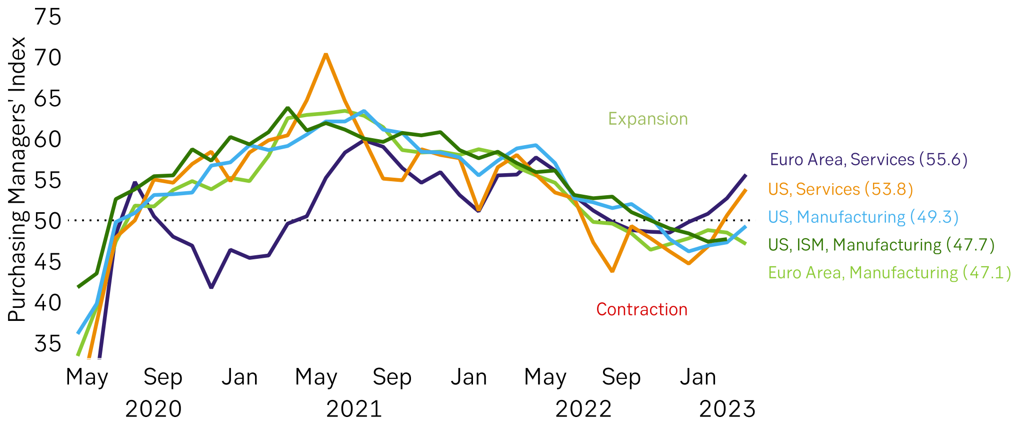
US core inflation rose, but hard data was soft as consumption fell and output was flat

- US headline inflation slowed in February as expected while core inflation rose unexpectedly to 0.5%, indicating that consumers still face sluggish inflation
- Producer prices fell in February, indicating easing inflation in the months to come
- The Fed hiked rates 25 bps and announced continued QT as expected in March, but its median projection for the terminal fed funds rate stayed unchanged
  - But we expect that a slowdown in growth, falling inflation, moderating wages and a tighter lending standards will prompt the Fed to cut rates later this year
- The ISM Manufacturing improved marginally in February, still indicating a contraction
- US Retail sales declined last month, slightly below the consensus, after the strong rebound in January which was largely driven by unseasonably warm weather
  - The strength in consumption has been driven largely by temporary factors which should fade with normalizing weather and subdued household income growth
- Industrial production in the US was flat last month, below the consensus
- February NFP surprised to the upside, but dropped from January's jump and we got downward revisions to January, signaling the US job market momentum is fading
  - Slowing hourly earnings growth indicate abating wage pressures in the US
  - Labor force participation increased slowly, but is well below pre-covid levels
  - Unemployment edged up in February and we think that it will rise going forward as large and small businesses continue to cut jobs and freeze hiring
- Non-defense capital goods orders ex-aircraft slightly rose, above the consensus
  - NFIB and Fed capex plans signal that a decline in capital goods orders lies ahead

Inflation rose in the eurozone, but PMIs were a mixed bag in March

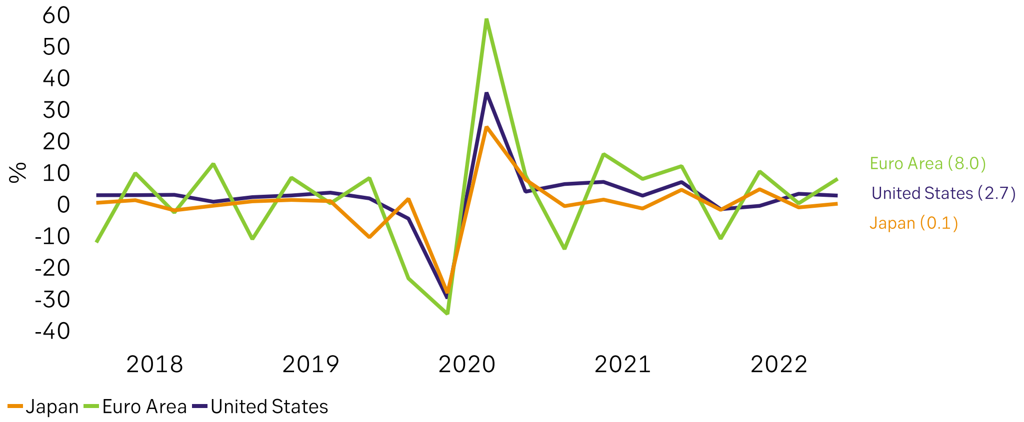
- Data confirmed that eurozone core inflation rose in February
- The ECB hiked rates by 50 bps, as expected, and President Lagarde emphasized the resilience of the eurozone's banking sector with strong capital and liquidity positions
  - Guidance on the ECB's future policy was unclear, but the central bank signaled a shift to a more data-dependent policy approach going forward
- March flash PMIs indicated an acceleration of growth in the service sector, while manufacturing activity contracted at a faster pace than in the previous month

Figure 1: Manufacturing activity in the US and EU improved, but still contracted. Business surveys indicated that only the services sector expanded last month.



Source: Macrobond, SEB

Figure 2: The IMF recently lifted its global GDP growth forecast for 2023. US and European growth slowed last quarter, but were still above expectations



Source: Macrobond, SEB

Economy – Emerging Markets

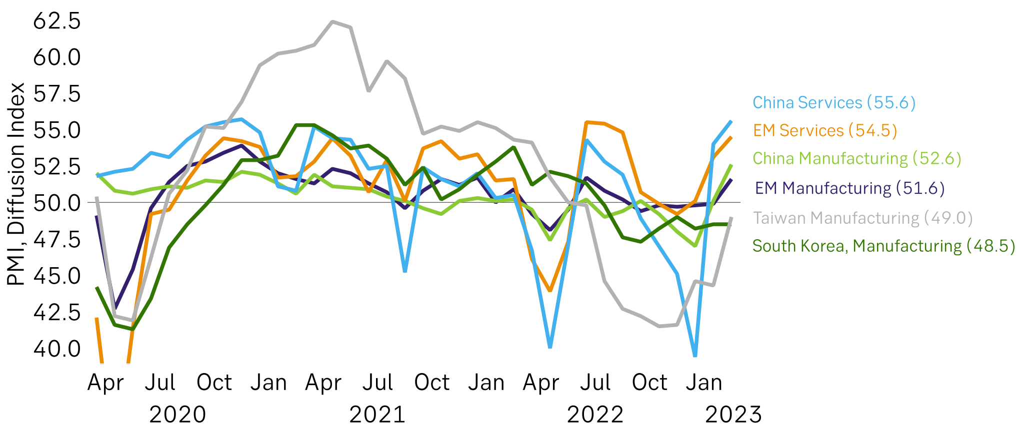
Aggregate macro indicators for Emerging Markets improved in February

- Overall business activity continued to expand in Emerging Markets in February, led by China's rebound in growth, while Taiwan and South Korea lagged their peers
- The IMF bailed out Sri Lanka by giving it a $3 billion dollar loan to help the country deal with its debt burden and support public finances for education, roads etc.
  - Although the systemic risk of Sri Lanka's default is low, it highlights a broader problem that many low-income countries in the region face, i.e. rising debt levels
    - An increasing number of low-income face debt challenges due to higher interest rates and fiscal deficits

The PBoC continued to pursue its accommodative policy amid disinflation in February

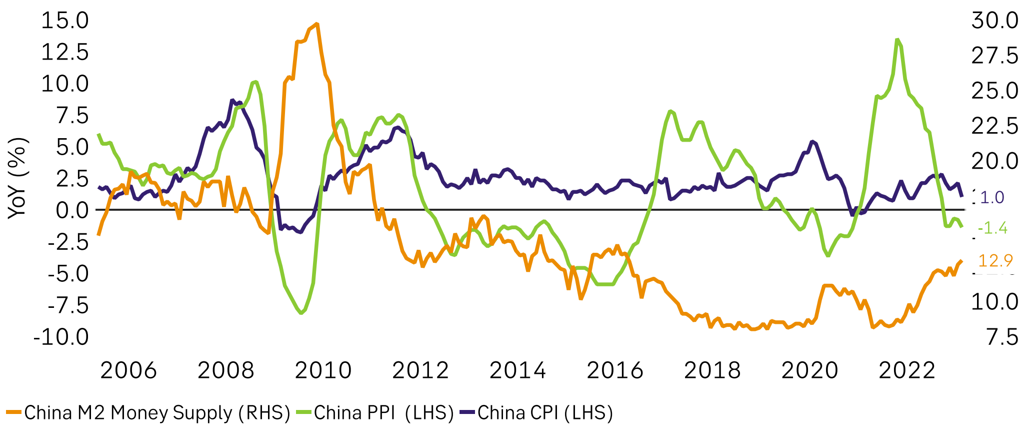
- Chinese inflation dropped in February, well below the consensus
  - Inflation for food and non-food items eased sharply as consumers remained cautious, despite China abandoning its strict Covid-19 restrictions
- The PBoC expanded the M2 money supply in February, while it also cut the RRR to support bank lending and China's economy
  - The low Chinese inflation should allow the PBoC to continue with its expansive monetary policy to support China's economic recovery from the pandemic and its troubled property market
  - Nevertheless, the Chinese central bank also remain wary of inflation pressures building up following the country's reopening
- Chinese business activity accelerated in February as PMIs indicated that the services sector grew at a faster pace, while manufacturing expanded for the first time in seven months
  - Data showed a rebound in demand for manufacturing as new orders and new exports increased for the first time since last July
  - China's services sector expanded at the fastest pace in six months, as the removal of covid restrictions helped to further strengthen demand
- China's industrial production increased less-than-expected during January-February
  - The below-trend Chinese growth supports further policy easing by the PBoC

Figure 1: Business activity in Emerging Markets has improved. EM indicators for both services and manufacturing are expanding. Taiwan and South Korea are laggards.



Source: Macrobond, SEB

Figure 2: Chinese central bank expanding its balance sheet to prevent CPI deflation



Source: Macrobond, SEB

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SEB House View – US Macro Status

SEB

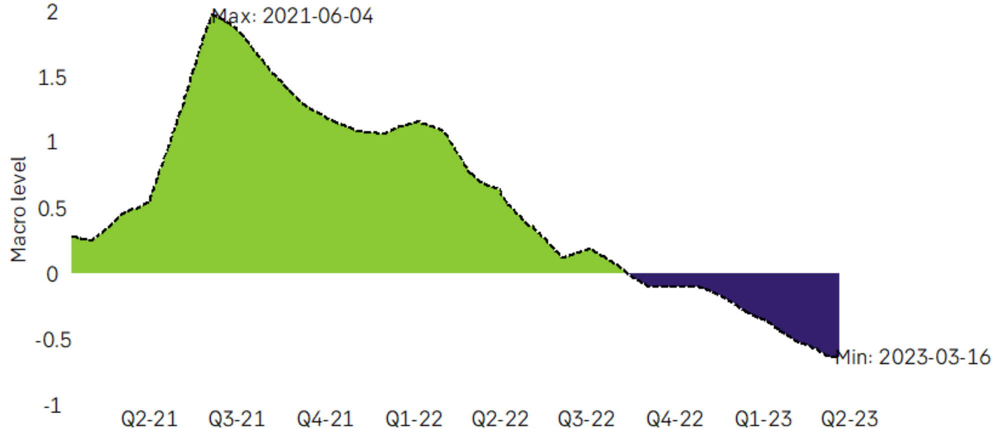
The level of US macro is still below its 5y trend due to low business confidence

- Our macro level indicator has stayed negative amid weak business sentiment
  - A net percentage of firms in the Philly Fed survey reported declining activity and the future activity index indicated weak growth expectations over the next six months
  - ISM manufacturing rose slightly higher, but signaled a contraction in factory activity and lower production levels to match weaker demand in the first-half of 2023
- US macro momentum was barely positive over the last month, but was bumped up to positive territory by expanding business activity in the services sector
  - New orders and employment rose, while supplier deliveries and price pressures fell

Overall US macro surprised to the upside in March

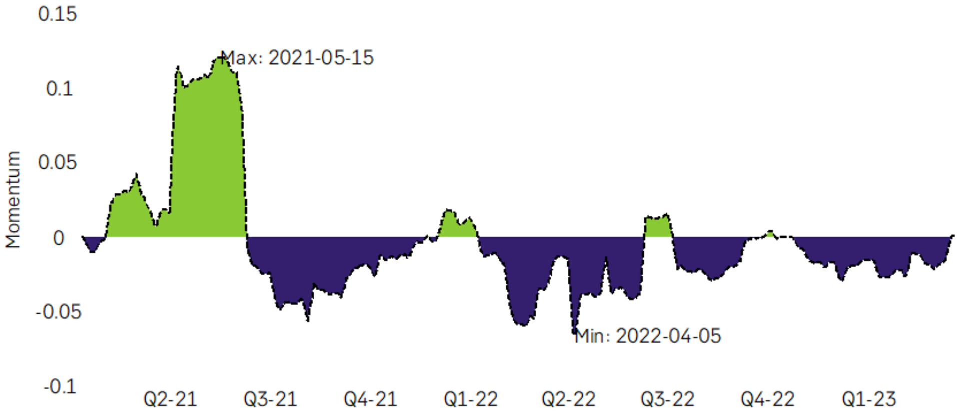
- Solid service activity and stabilization of the housing market contributed positively
  - ISM service PMI fell marginally in February, but still came in higher than consensus
  - New home sales in the US rose more-than-expected to a one-year high in January, on the back of higher sales in the South and signs of a property market stabilization

Figure 1: The US macro level has remained below its trend due to historically low business sentiment



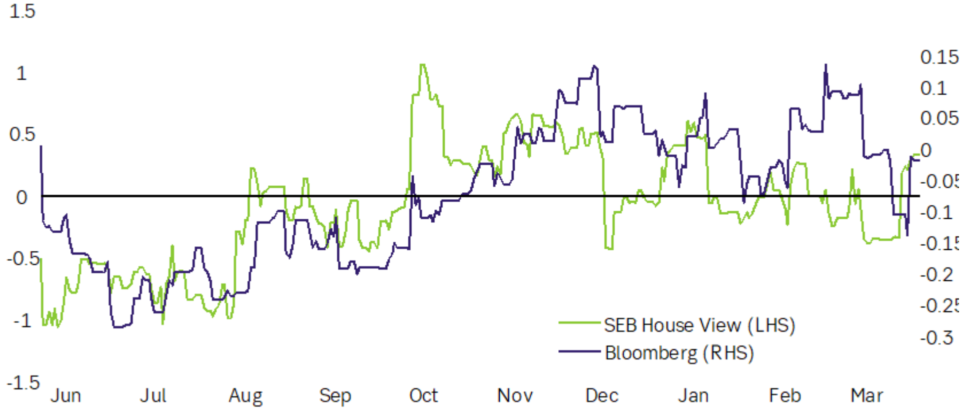
e View

Figure 2: US macro momentum has been driven by improving business confidence



Source: SEB House View

Figure 3: US services PMI and new home sales have surprised strongly to the upside, contributing the positive reading in our macro surprise indicator



Source: SEB House View

SEB House View – EU Macro Status

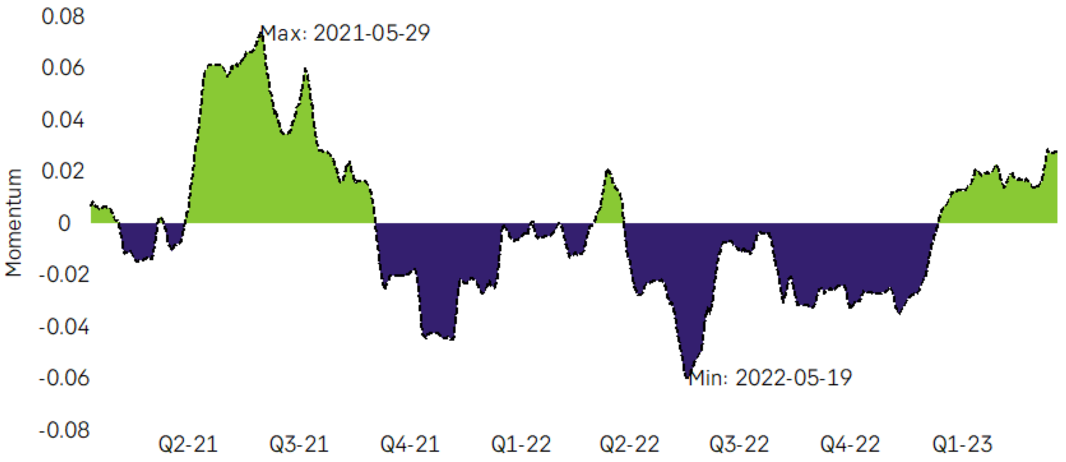
A rebound in Germany's industry contributed to positive macro momentum in the EU

- Macro momentum in the EU has been positive over the last month, due to the strong pick-up in Germany's industrial sector, which is a positive signal for growth ahead
  - January industrial production and factory orders unexpectedly MoM rose month-on-month after contracting in December
  - Warmer weather and lower energy costs in January helped to drive industrial production MoM, especially in construction and energy-intensive industries
  - The increase in German factory orders was mainly due to stronger capital goods demand, in particular for aircraft and spacecraft construction

German business sentiment and retail sales have surprised to the downside

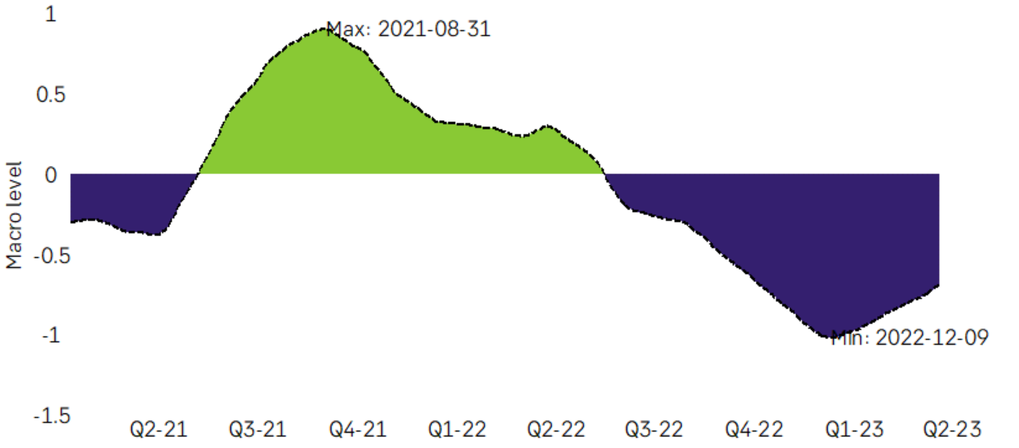
- The current assessment Ifo index marginally fell in February vs. expectations of better sentiment, as manufacturers reported slightly worse business conditions
- Real German Retail sales declined MoM in January compared to an expected increase.
  - Elevated inflation and uncertainty impacted consumers negatively.

Figure 2: EU macro momentum is increasingly positive after Germany's rebound



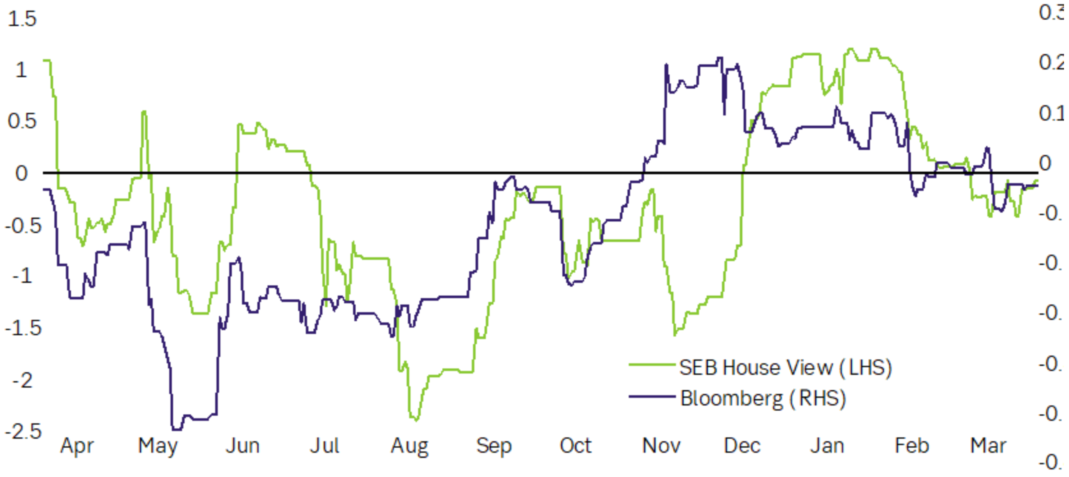
Source: SEB House View

Figure 1: The EU macro level has continued to improve, but remains under its trend



Source: SEB House View

Figure 3: EU macro disappointed in March, due to lower business sentiment and consumption



Source: SEB House View

SEB House View – EM Macro Status

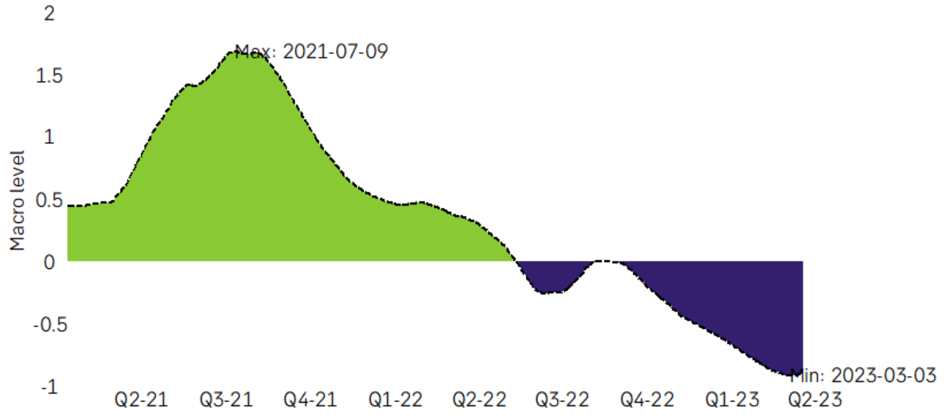
EM macro momentum turned positive in March as China's economy returned to growth

- Caixin PMI indicated that China's manufacturing sector expanded in February amid China's reopening, for the first time since last July, following a contraction in January
  - Manufacturers reported increases in new orders and output due to stronger demand, higher employment and shorter delivery times amid easing supply chains
- Caixin Services PMI signaled that China's service sector grew at the fastest pace since August last year, following the country's exit from its Zero-Covid policy

EM macro surprises were overall slightly negative amid slowing global demand

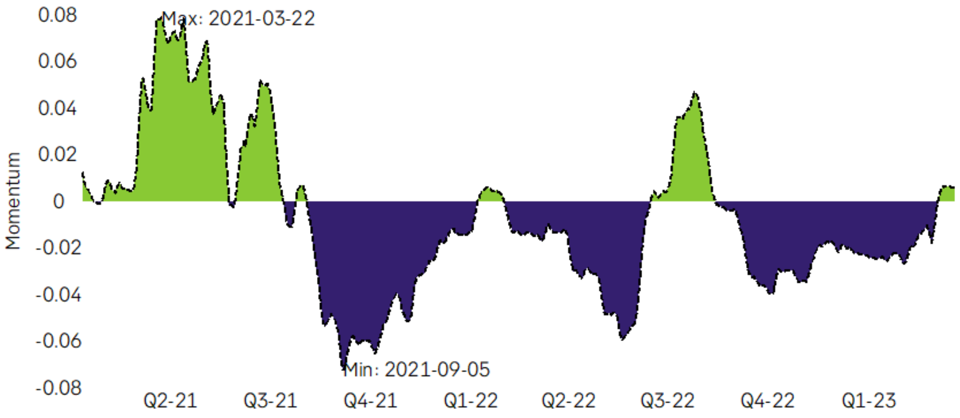
- Taiwan's industrial output decreased y/y in January at the steepest pace since 2009
  - Production fell across all industries and came in well below the consensus
- Hong Kong Exports YoY dropped the most in 70 years in January as exports to all major markets fell, amid slowing global demand and the Lunar New Year celebration
- Having said that, the hard economic data above comes with a significant lag and we expect that EM macro will pick up due to stronger post-Covid demand from China

Figure 1: The EM macro level stabilized amid improved business sentiment in China



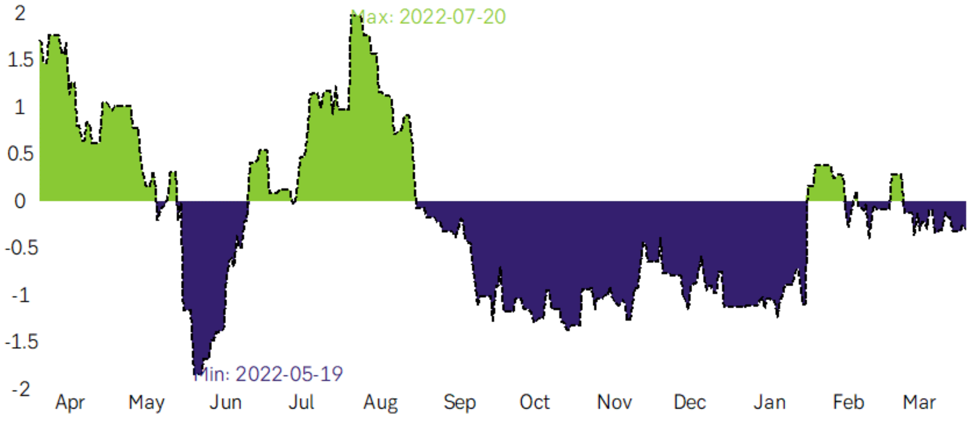
Source: SEB House View

Figure 2:EM macro momentum turned positive due to better PMIs from China



Source: SEB House View

Figure 3: Falling production in Taiwan and HK exports contributed negatively to surprises



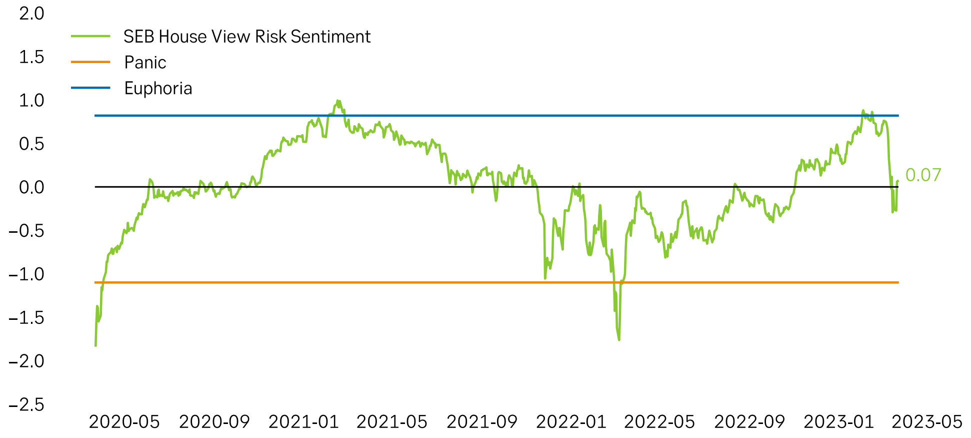
Source: SEB House View

SEB House View – Risk Indicator

Global risk sentiment sharply dropped in March after the US regional bank failures

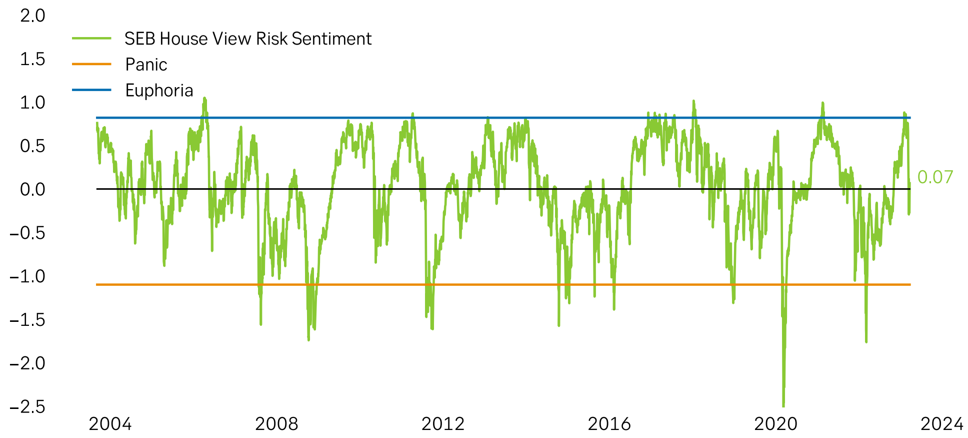
- Our risk appetite indicator fell from euphoria to a slightly positive level in March
  - The US bank failures shook investor confidence for the banking sector and increased recession fears which led to a sell-off of risky assets
  - Amid this risk-off trade, the underperformance of small vs. large cap stocks and financials against consumer staples contributed most to the fall in our risk indicator
  - Economic policy uncertainty also rose amid a gloomier economic outlook, elevated uncertainty and expectations for more bank regulations from policymakers
- Risk appetite could remain low in the near-term as investors are more cautious now

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



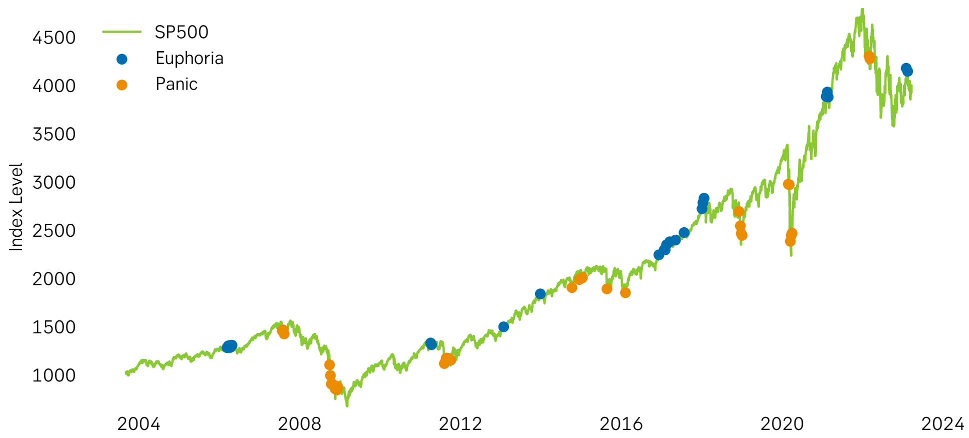
Source: SEB House View

Figure 1: SEB House View Risk Indicator



Source: SEB House View

Figure 3: Extreme states plotted on S&P 500



Source: SEB House View

In Focus: contagion risks

Recession risks have increased after SVB and CS, but the impact is uncertain

The Fed thinks that the recent banking turmoil will likely lead to tighter credit conditions in the economy, which will in turn result in lower growth and inflation. The Fed expect unemployment in the US to rise to 4.5% this year, up from 3.6% in February. An increase in unemployment of that magnitude has always occurred during a recession. However, the Fed also acknowledged that the extent in which the banking sector will affect the economy is uncertain. In our view, the risk of a recession has increased as lending standards at banks will likely further tighten after the recent developments. Nevertheless, we think that the probability of a recession is still low and expect the recovery to persist, although the road there may be more difficult than prior to SVB.

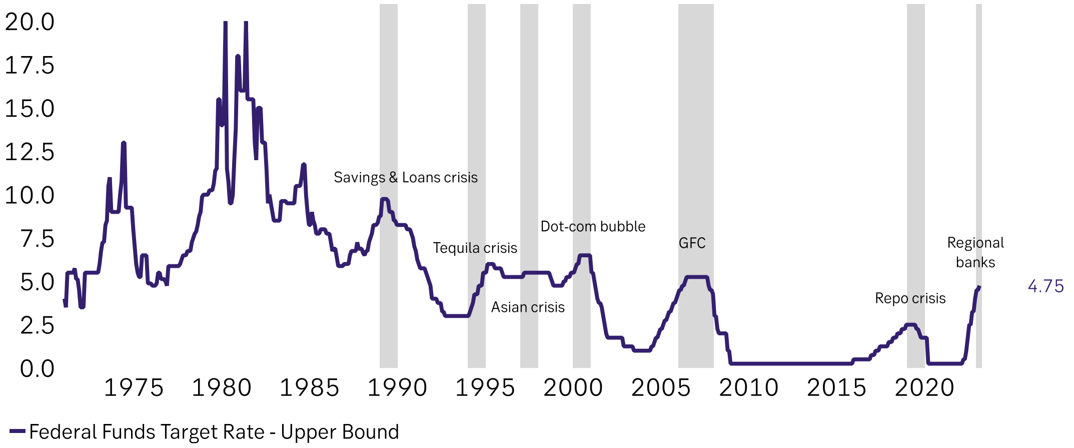
Contagion risks are not systemic in our view

In the past, financial cries have often coincided with peaks in the Fed funds rate. This time, we do not think contagion risks will be systemic, now that the Fed has offered a liquidity backstop to distressed banks and the FDIC has guaranteed all deposits. Given that banks have the full support from the US government and its central bank, we think that the regional banking crisis in the US is contained, at least for now. UBS's acquisition of rival Credit Suisse seem to have eased market jitters about the global banking system, and we think that the risk of contagion from Europe's banking sector is low. The ECB and BoE have vowed to follow the hierarchy debt structure after Swiss regulators wiped out $17 billion of AT1 bonds at Credit Suisse while equity holders retained some value.

However, we expect that the risk of further tightening of credit conditions is high

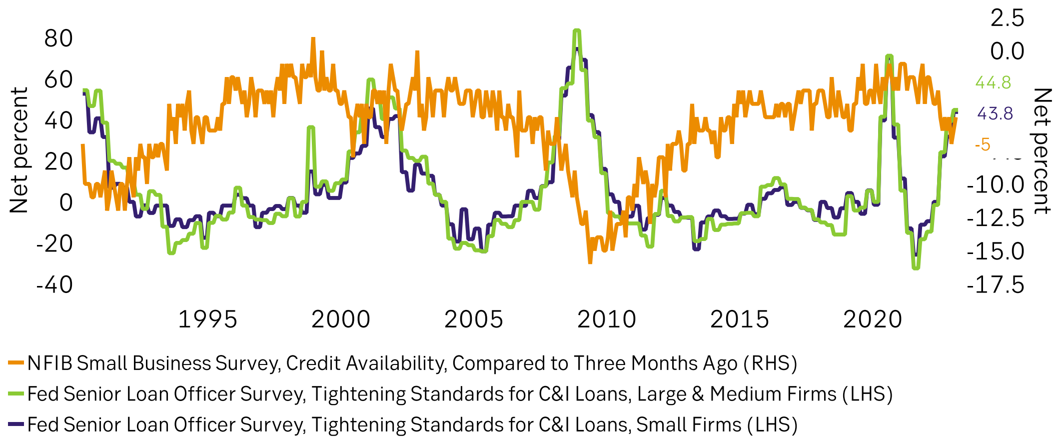
We expect the banking meltdown to lead to a further tightening of credit standards, as banks continue to reduce their lending to households and businesses. This reduction in credit availability should weigh on economic activity and inflation. The tightening of credit will probably do much of the Fed's job to bring inflation down, which we think increases the likelihood of rate cuts later this year. Although the risk of aggressive tightening of credit conditions is real as standards for loans have been tightening since last year, a deep recession is not our base scenario. Having said that, we acknowledge the high uncertainty of the contagion risks and extent of the effects of a potential crisis.

Figure 1: Peaks in the fed funds rate have historically coincided with financial crises. We think that contagion risks are contained for now, but it ultimately depends on the Fed.



Source: Macrobond, SEB

Figure 2: Although uncertainty is high about the extent of the banking turmoil's impact, it will most likely result in to even tighter credit conditions and weaker loan demand



Source: Macrobond, SEB

In Focus: inflation

The weaker growth outlook for the US is disinflationary

The Fed's latest economic projections showed that it expects subdued growth in the US to continue for this year and the next. Furthermore, a record-high number of Fed members in March saw downside risks to the economy. Our macro indicators also indicate that the macro level is below its five-year mean, which signal below-trend growth ahead. The slowdown in the global economy, which started before the recent banking turmoil, should be a driver for disinflation process going forward.

Furthermore, the regional banking crisis may speed up the disinflation process

There is a high degree of uncertainty regarding the size of the economic impact from the banking system. Having said that, what is more certain is that contagion fears from a potential crisis will lead to tighter credit conditions, as regional banks focus on strengthening their balance-sheets and shrinking their loan books, rather than extending new loans. A credit crunch has most likely already begun, as credit standards tightened prior to collapse of Signature bank and SVB. The contagion risks will probably tighten lending standards further and in turn lead to lower growth and inflation.

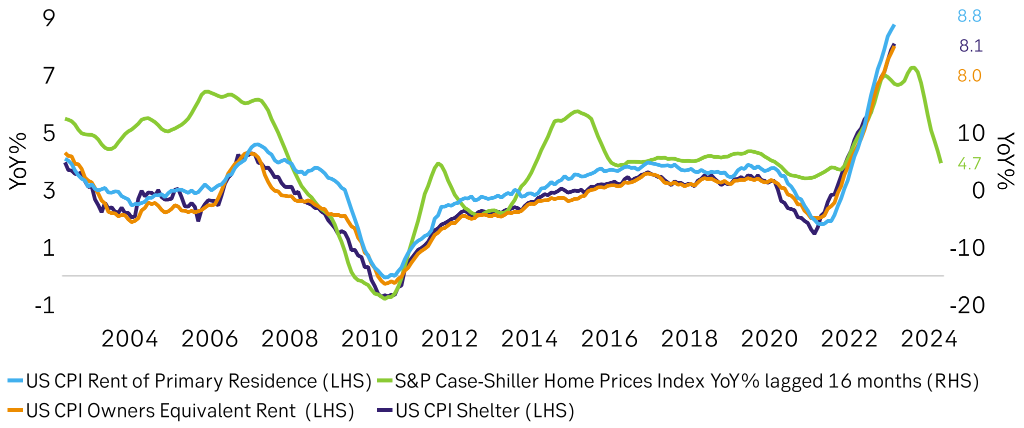
Our inflation map indicates that price pressures are easing

The Fed's statement from March showed that a fewer number of FOMC participants see upside risks to core inflation. Our inflation indicators show that US wage growth is slowing down, which Atlanta Fed's Wage Growth Tracker confirms. The US labor market has remained tight, but unemployment should rise from these record-low levels and income growth moderate. While our inflation map indicates that inflation is coming down, it also shows that US CPI shelter inflation is lagging as it is still very elevated. Nevertheless, the drop in US home prices signals falling shelter inflation ahead.

Monetary policy to the economy and inflation has long and variable lags

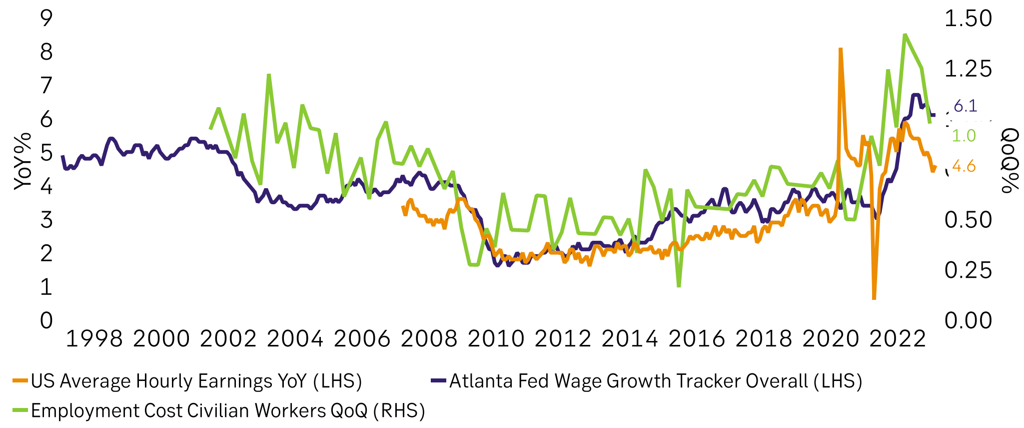
Inflation tend to peak after the Fed is finished with hiking interest rates, as policy tightening usually come with long and variable lags. However, US inflation peaked last year amid the Fed's tightening campaign. This could imply that easing supply chain pressures has so far been driving disinflation and that the economy has yet felt the full effect of the cumulative monetary tightening, which began last year.

Figure 1: Growth in US home prices leads CPI shelter inflation and its two major components by 16 months. Lower home price growth indicates easing shelter inflation.



Source: Macrobond, SEB

Figure 2: US wage growth most likely peaked last summer and Atlanta Fed's Wage Growth Tracker signals that wage growth in the US has continued to decline.



Source: Macrobond, SEB

Developed Market Equities – 12M Outlook

Over the next 12 months the risk-reward for developed market equities is more skewed to the upside

We expect developed market equities to deliver risk-adjusted returns in excess of government bonds. Disinflation and easier monetary policy together with stabilizing global macro due to China's reopening, should support the asset class.

P/E multiples will likely expand due to disinflation and interest rate cuts

Disinflation will lead to interest rates cuts by central banks this year which will support higher equity valuations. The bank turmoil will likely lead to a credit crunch that will speed up the disinflation process.

Early signs of a trough from indicators that usually occur before bear market lows

Several such indicators have been triggered within the last month as PMIs have improved, short-dated bond yields declined, yield curves steepened, unemployment increased, and investor sentiment has been bearish.

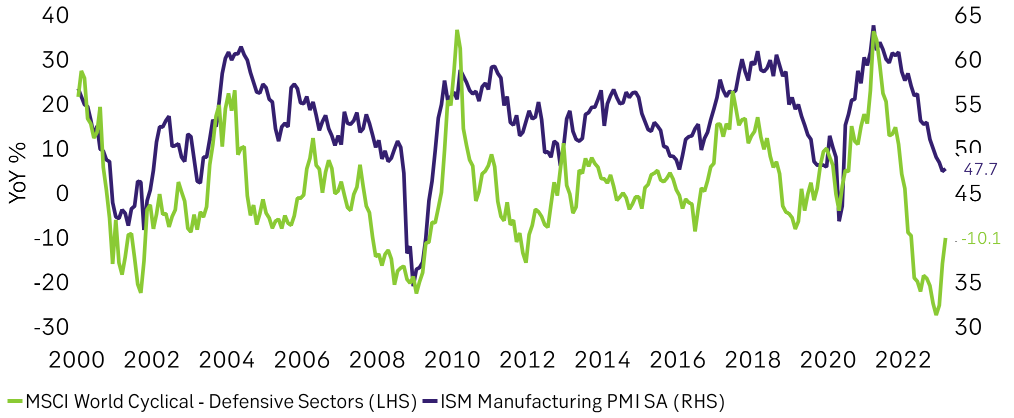
Within developed market equities, we expect Europe to outperform the US

European equities have underperformed US equities for years and should see more inflows going forward to due cheaper valuations. A weaker US dollar will make returns of European assets more attractive for foreign investors. Europe's export-oriented and capex-intensive industry will likely benefit more from China's reopening than the US. Downside risks to European growth are more balanced as headwinds from the energy crisis and cold weather have faded. Having said that, we are wary of tightening of credit conditions which could decrease business capex.

Downside risks to corporate earnings as economic activity slows

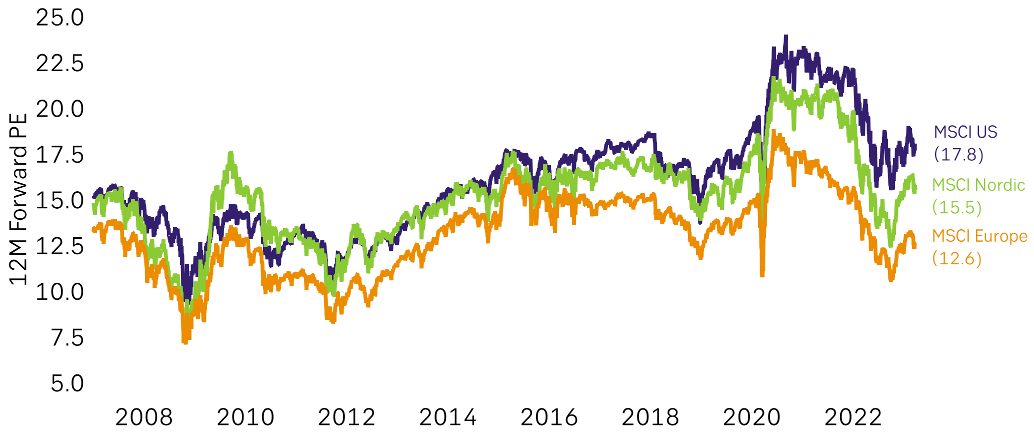
The upcoming Q1 earnings season could surprise to the downside due to compression of profit margins and soft demand. But lower bond yields is exponential to asset prices as a discount factor and should outweigh lower earnings which is only linear to asset prices.

Figure 1: DM cyclical sectors have discounted a US contraction heavily, but China's reopening could buoy capex which benefits sectors, such as Industrials and Materials



Source: Macrobond, SEB

Figure 2: The FED's tightening cycle is probably close to ending. We expect Developed Market Equities to re-rate once interest rates peak



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 should accelerate this year, in case EM inflation falls quickly. Central banks in EM were among the first central banks in the world to hike rates and will likely be the first ones to ease monetary policy as well, which supports growth. That is, we could see an improvement of GDP in this region, and we also expect further positive earnings revisions. The reopening in China has accelerated faster than expected, which should boost Chinese growth. We expect China's GDP growth to rebound to around 4-5% this year, which should also support economic growth in the region.

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

We expect China to continue to boost consumption and investments through supportive monetary and fiscal policy, as the economy gradually opens. As inflation is still below the 3% target, the PBOC is at a different starting point than DM central banks.

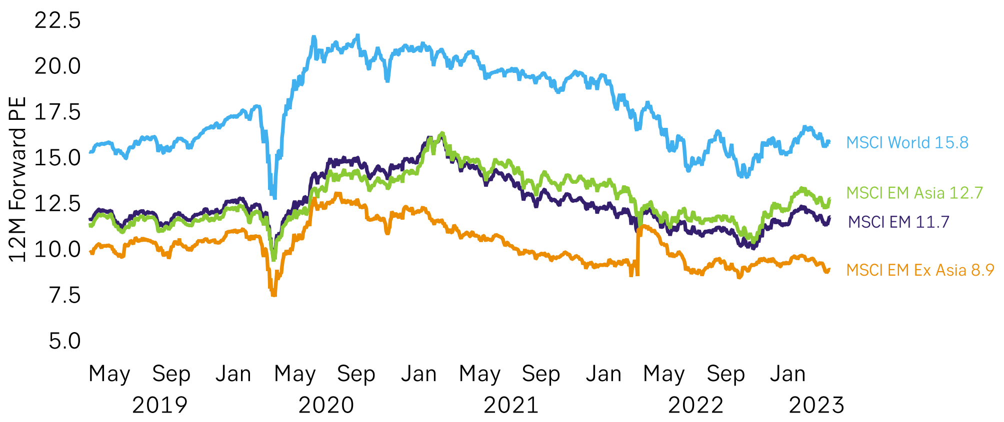
A weaker US dollar should support EM equities

Given the recent moves in the USD and signal from the FED to slow down its pace of rate hikes, we could see a downturn in the greenback, which should which boost EM equities.

Price levels in EM equities remain attractive relative to DM equities

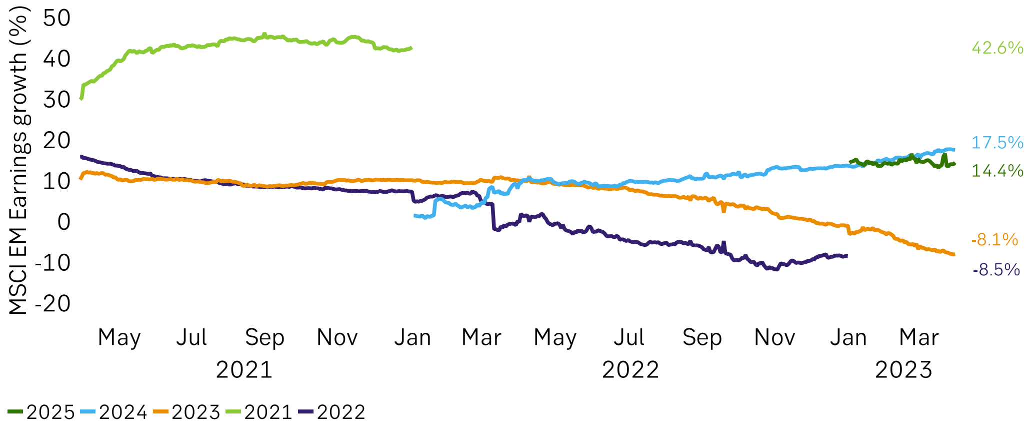
EM valuation has traded cheaper due to a multitude of challenges in 2022: zero Covid strategy, tech and property sector crackdowns, power rationing, a regulatory adjustment to the corporate profit share and President Xi's third term. These headwinds have largely faded, which should be supportive for valuations.

Figure 1: EM Asia equities should outperform as China's reopening is underway



Source: Macrobond, SEB

Figure 2: In our view EPS estimates for EM are too low. We expect that the reopening in China will lead to higher EPS estimates which should support the asset class



Source: Macrobond, SEB

Corporate Bonds – 12M Outlook

Over a 12-month horizon we prefer corporate bonds over government bonds

The relative attractiveness of credit bonds over government bonds has increased as recession risks have decreased. Credit spreads have tightened, but still offer attractive yields, especially within the high-yield segment. Having said that, credit spreads are still historically wide which means that corporate bond markets are currently pricing in high levels of uncertainty. Recession risks have decreased, but not diminished entirely and we are therefore neutral in credit bonds.

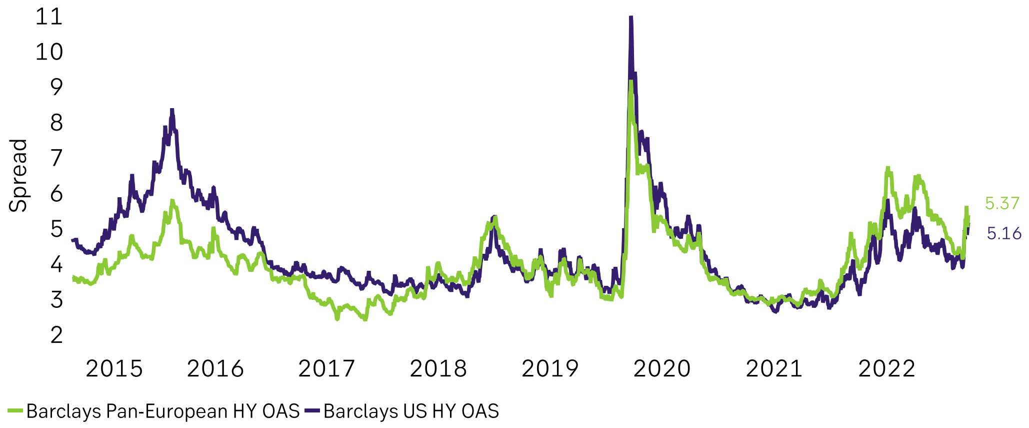
Corporate balance sheets are still strong

Although corporate bonds performed poorly last year, company balance sheets have remained sturdy. We prefer credit bonds over government bonds as they offer higher yields and expect corporate balance sheets to hold up well against a mild recession.

The biggest tail risk is probably the war in Ukraine

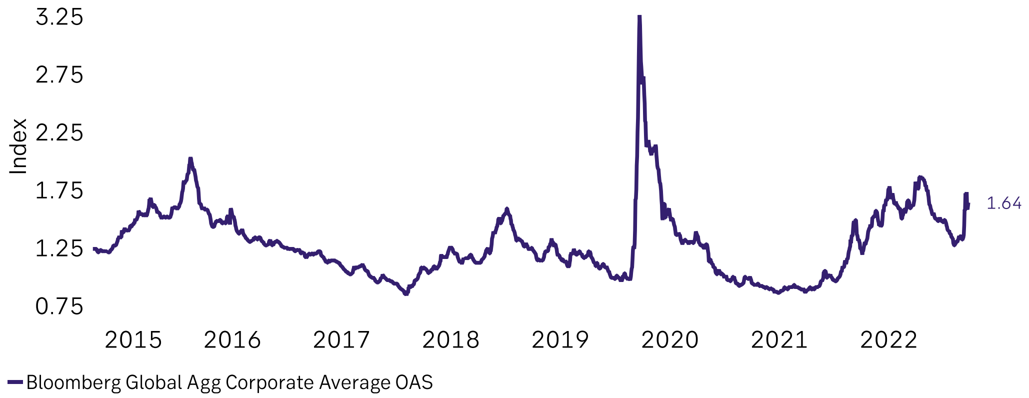
The war in Ukraine is ongoing and an escalation of the war would easily widen corporate credit spreads as it did last year. Investors also see rising defaults as one of the biggest tail risks at the moment. Defaults have so far remained relatively low, but this could change in case the cycle turns for the worse. We stay neutral corporate bonds at the expense of government bonds, for now.

Figure 1: HY spreads in the US and EU tightened following lower inflation and signals of a slowdown in FED hikes



Source: Macrobond, SEB

Figure 2: The spread on Investment Grade bonds has also fallen, but remain wide as the corporate bond market priced in a high level of uncertainty, e.g. due to the war



Source: Macrobond, SEB

Government Bonds – 12M Outlook

SEB

We hold an underweight in Government Bonds

Markets are expecting the Fed to cut rates in 2023 and long-term bond yields have likely peaked. We expect that long-term bond yields will fall going forward as inflation has probably peaked as well. However, more positive inflation surprises could lead to higher short-term bond yields. Having said that, the improving macro environment should benefit equities relatively more than government bonds. We expect easing monetary policy from central banks to be supportive for equity valuations, while government bonds will offer lower yields going forward.

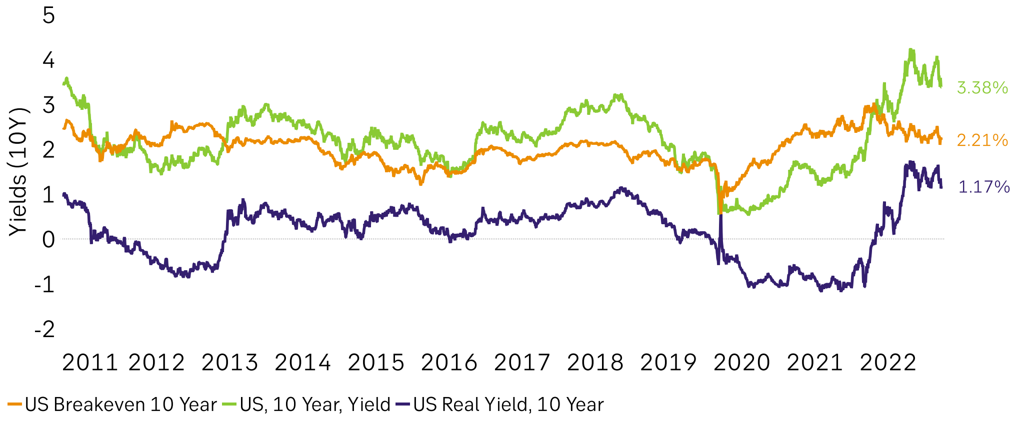
Government bond yields should decline going forward

Inflation breakevens have moved downwards while the FED has slowed and signaled a lower pace of its rate hikes going forward. Inflation has continued to fall which we expect will lead to rate cuts by the FED later this year. Bond yields should decline given the falling inflation and end of central banks' hiking cycle getting closer.

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

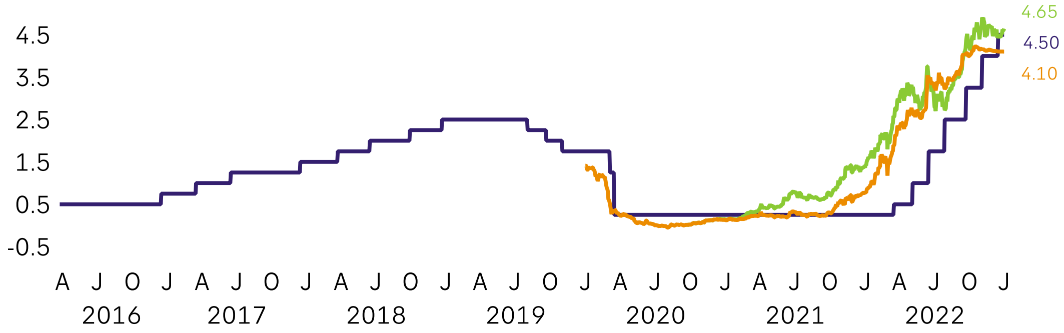
The enormous monetary and fiscal stimulus has allowed for central banks and governments balance sheets to balloon. Therefore, in order to fund the current national debt levels governments are likely to maintain interest rates at low levels for a very long time. We could also see an increase in taxes 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 bond yields are in positive territory, but we expect real yields to fall as central banks cut interest rates. Earnings yields for equities could become more attractive again.



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

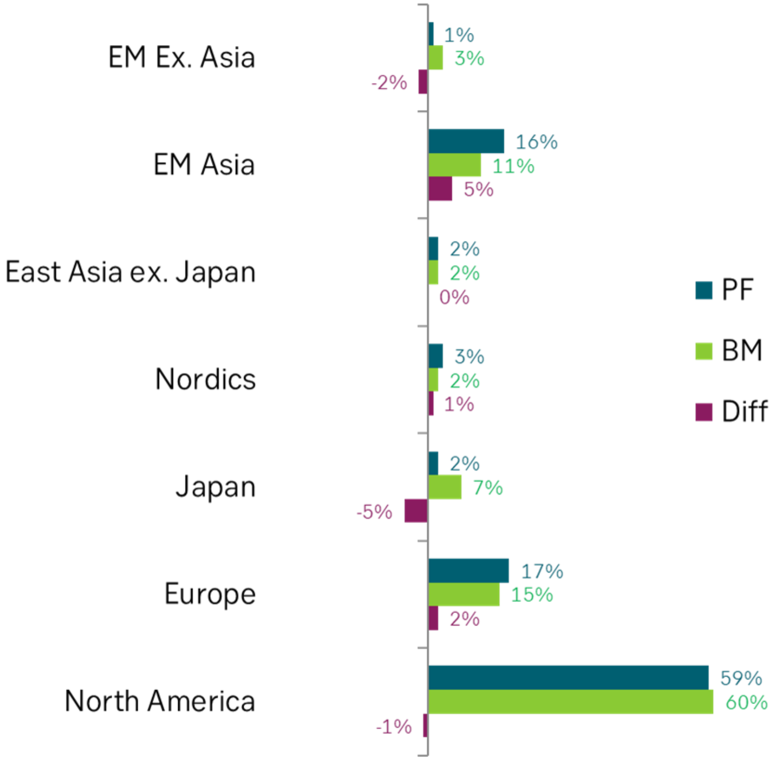
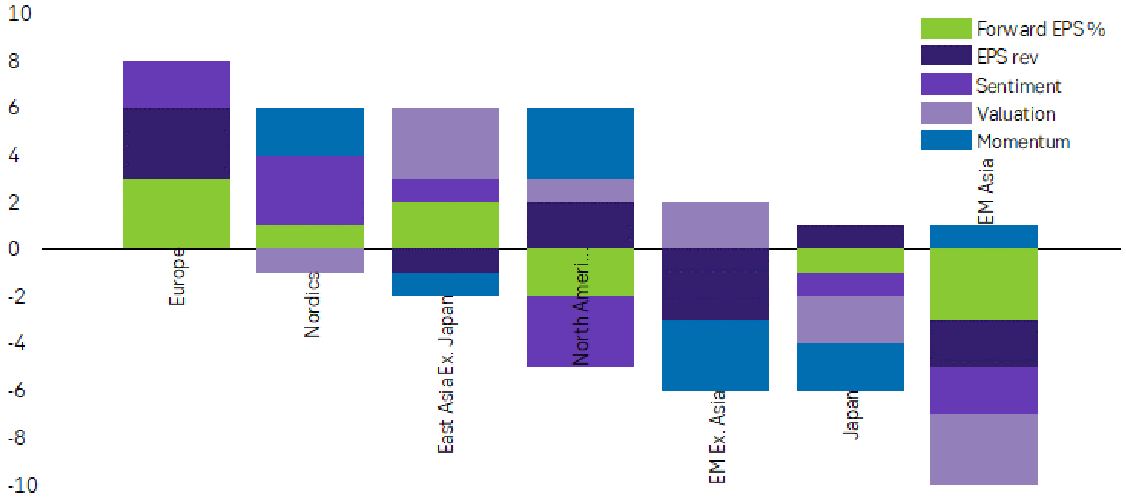


Figure 1: SEB House View region score*



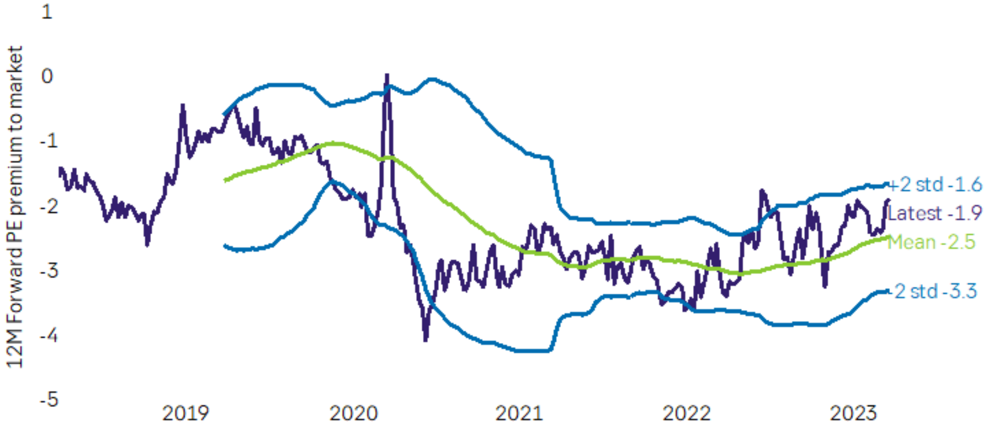
* Ranked by total score with highest score starting from left

EM Asia – Overweight

We remained overweight in EM Asia due to a favorable macro-outlook

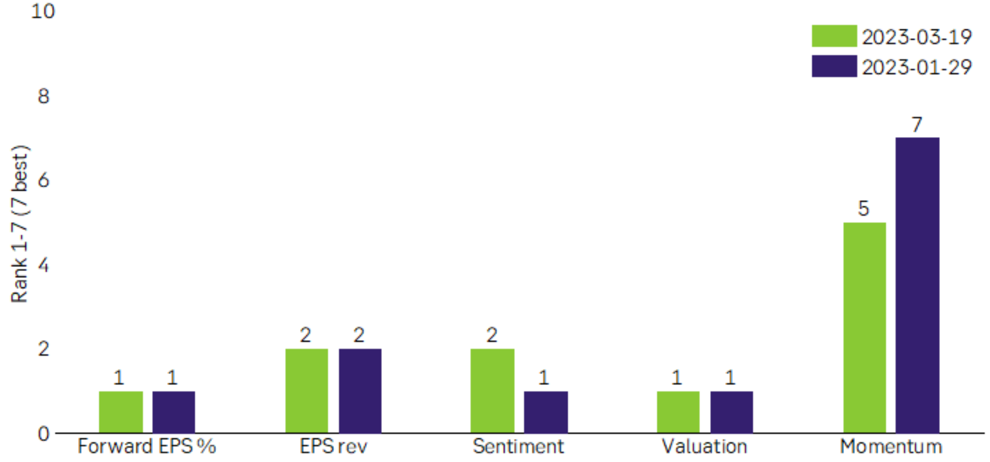
- We expect the regional outperformance for EM Asia equities to continue due to several positive factors
- The IMF recently raised China's growth outlook for 2023 from 4.4% to 5.2%
  - We expect China's reopening to lead to a rebound in Chinese as well as regional economic growth, which should support the strong momentum in EM Asia equities going forward
- The Fed's slowdown in rate hikes should lead to further depreciation in the US dollar, which should also benefit equities in the region
- The scores on momentum now ranks high relative to other regions
- However, fundamentals in our regional model are not great
  - But we think that there will be a recovery in the region's fundamentals, as the macro and earnings outlook improve this year due to China's reopening

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

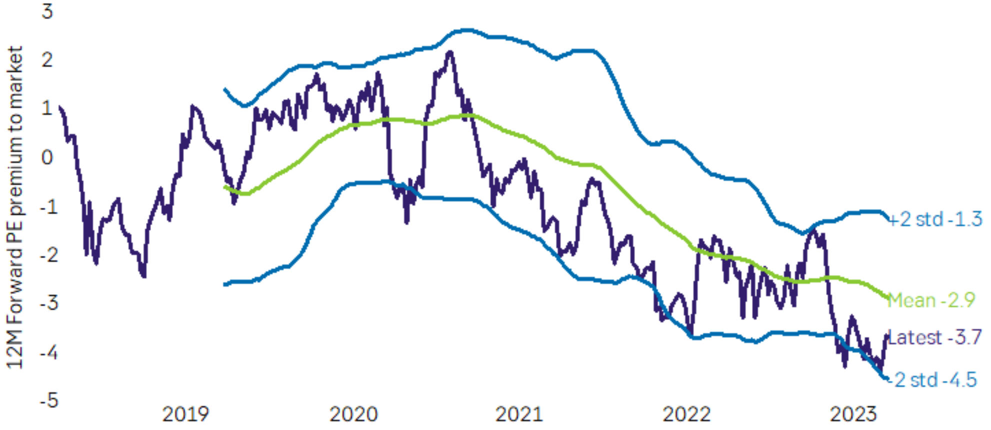
Source: SEB House View

EM Ex Asia – Underweight

We stayed underweight to EM Ex Asia due to growth headwinds and weak earnings

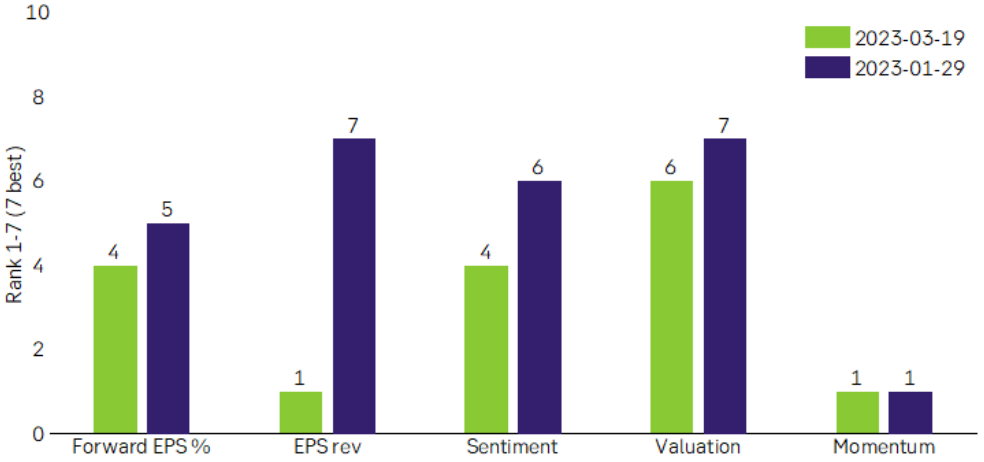
- Macro data in Brazil, Latin America's largest economy, has surprised on the downside
  - Brazil's manufacturing PMI improved in January, but remained below the 50 level which indicates that the manufacturing sector is still in contraction
  - Brazilian retail sales also fell more than expected in November and recorded its biggest decline in five months, due to disappointing Black Friday sales, a lack of credit growth, higher interest rates and rising consumer prices
- Brazil could also face growth headwinds from lagged policy tightening effects
- On the positive side, macro in the entire EM space is likely to improve because of stronger demand from China's reopening, but this yet being reflected in the region
- In our model, EM Ex Asia achieves the lowest rank on EPS revisions, but is high for P/E
- We keep our underweight position in EM Ex Asia despite attractive relative valuations due to weak growth momentum in Brazil ahead, which makes up for 60% of the region

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

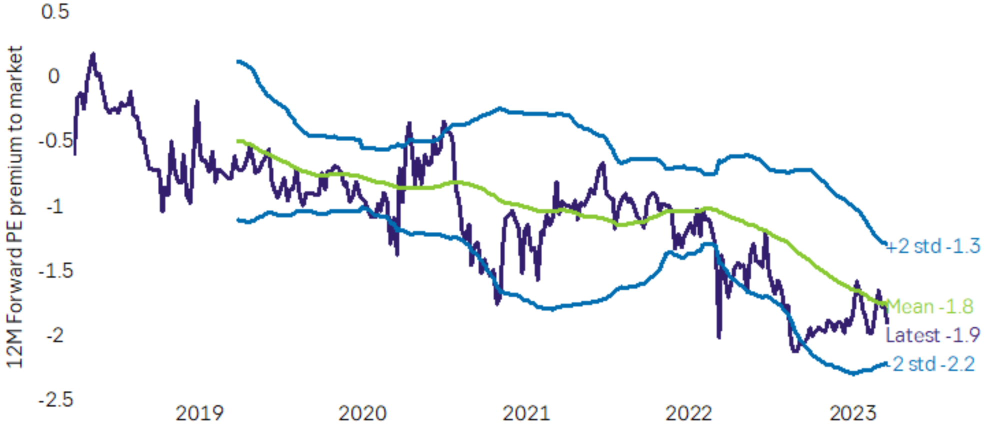
Source: SEB House View

Europe – Overweight

We stay overweight to Europe due to a stronger growth outlook

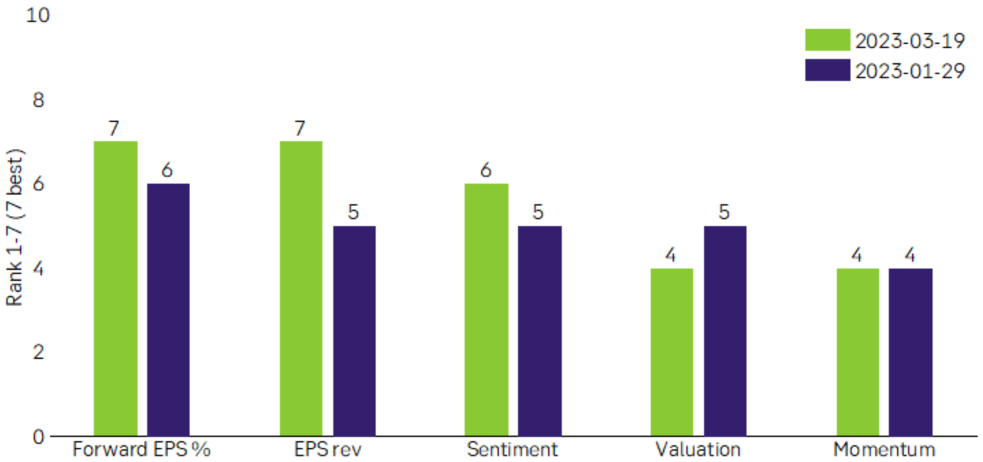
- Europe's growth prospects have slightly improved due to the easing energy crisis, China's rapid reopening and stabilizing macro-economic backdrop
  - China's reopening will most likely boost global growth, which should benefit Europe's export-oriented economy as global demand increases
  - Declining headline inflation and energy prices should add tailwinds to consumption
  - Revised IMF growth forecasts, rising Eurozone PMIs and improving consumer confidence also signal stronger growth ahead
- The ECB hiked rates by 50 bps at its March meeting and signaled additional hikes, but with a more data-dependent approach, while the FED is likely closer to a peak
  - A narrower interest rate spread between the US and Europe should weaken the dollar against the euro which is more attractive to foreign, dollar-based investors
- Nevertheless, our EU macro level is still negative due to a deterioration in macro data
- Uncertainty in the region has increased due to the Credit Suisse event and bank turmoil, but contagion risks are contained for now

Figure 1: Standardized relative valuation – Current constituents



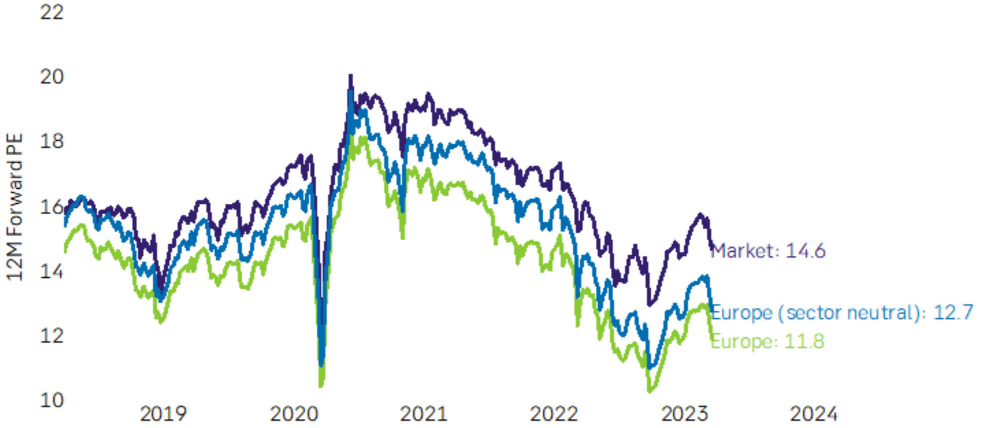
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



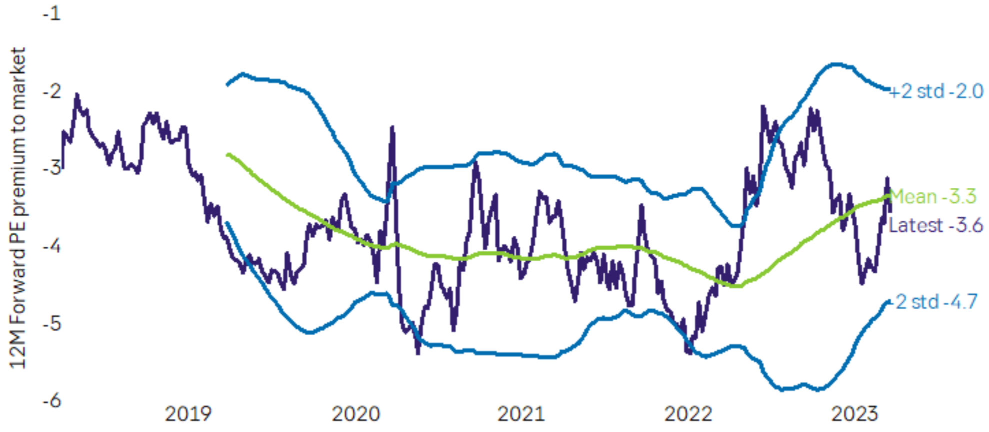
Source: SEB House View

Japan – Underweight

We remain underweight to Japan due to the risk of rising rates and JPY which tend to hurt Japanese equities

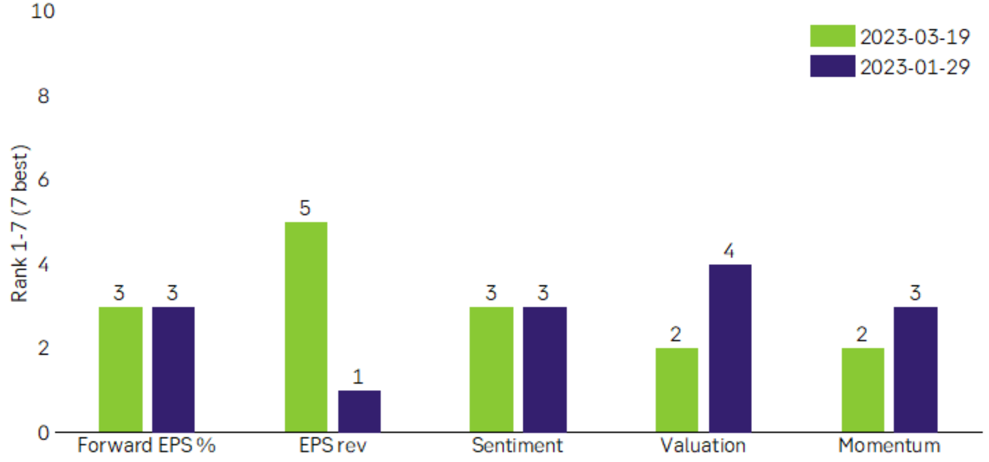
- In our model, Japanese stocks have had relatively strong EPS revisions
- Japan's economy is also poised to benefit from a boost in exports and inbound tourism from China's reopening, however, it also faces risks of tighter financial conditions
- The BoJ left its key rate and yield curve control (YCC) policy unchanged in January
- However, with Japanese core inflation exceeding the central bank's 2% target, there are growing pressures on the BoJ to tighten its ultra-loose monetary policy
- Monetary policy tightening by the BoJ should lead to higher bond yields and lower valuations for Japanese equities
- A hawkish pivot by the BoJ (or dovish pivot by the FED) should strengthen the JPY/USD, which has historically led to underperformance in Japanese stocks
  - A stronger JPY reduces the competitiveness of Japanese exports and lowers the value of profits earned overseas, in JPY terms, for Japanese firms

Figure 1: Standardized relative valuation – Current constituents



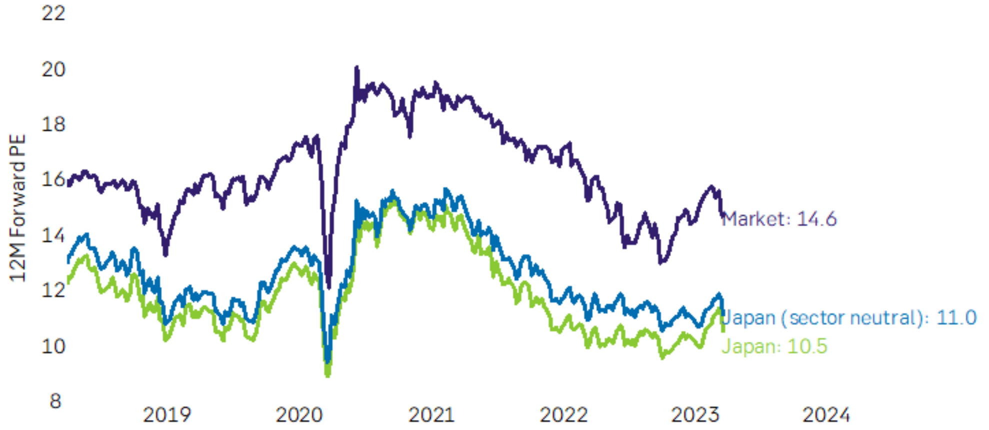
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



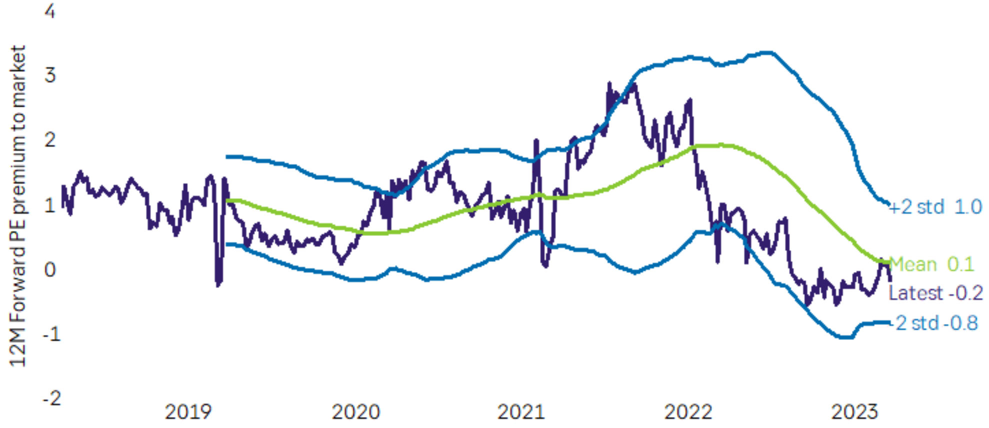
Source: SEB House View

Nordics – Overweight

We remain overweight in the Nordics

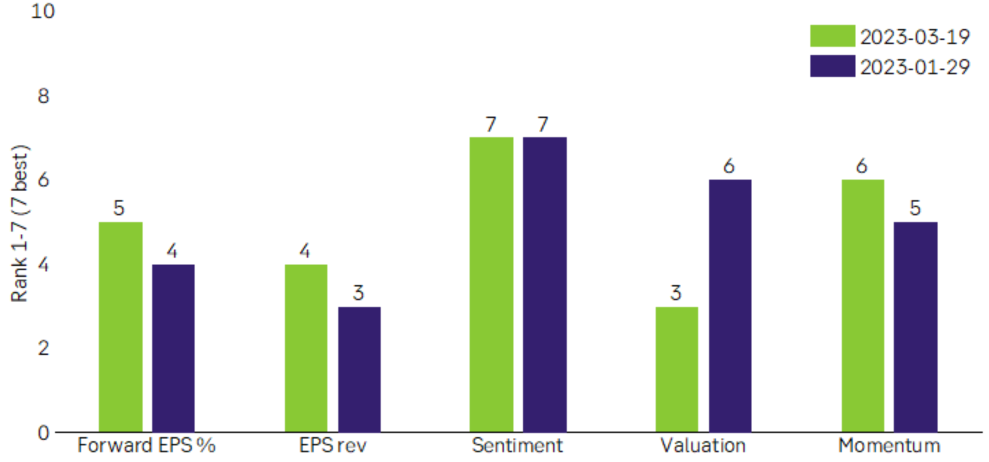
- We expect China's reopening to benefit the export-heavy Nordic region
- Nordic equities should outperform other regions in an inflationary environment with rising interest rates, since the Nordics is more value-tilted than other regions
  - Industrials and banks, the largest sectors in Sweden, usually outperform other sectors amid rising rates and inflation
- Having said that, we also expect energy prices to continue to decline and inflation to peak soon, which should lead to higher consumption and growth
- The Nordics' scores on sentiment and momentum rank high in our regional model

Figure 1: Standardized relative valuation – Current constituents



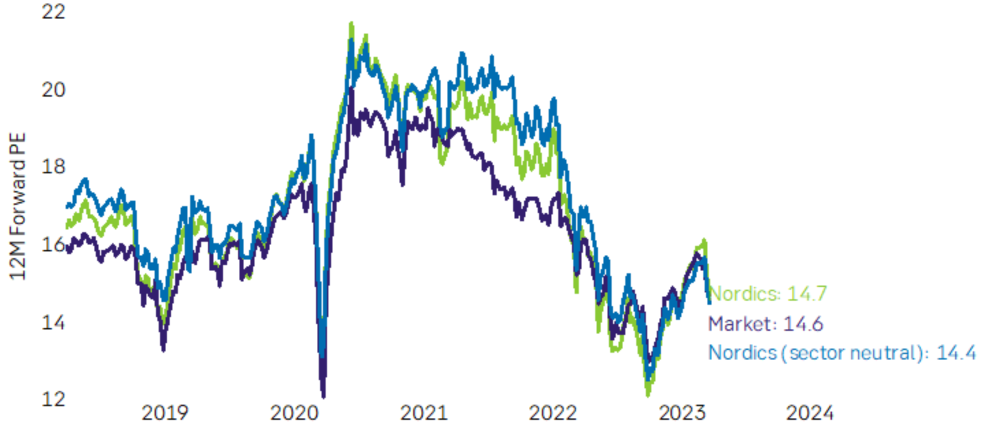
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



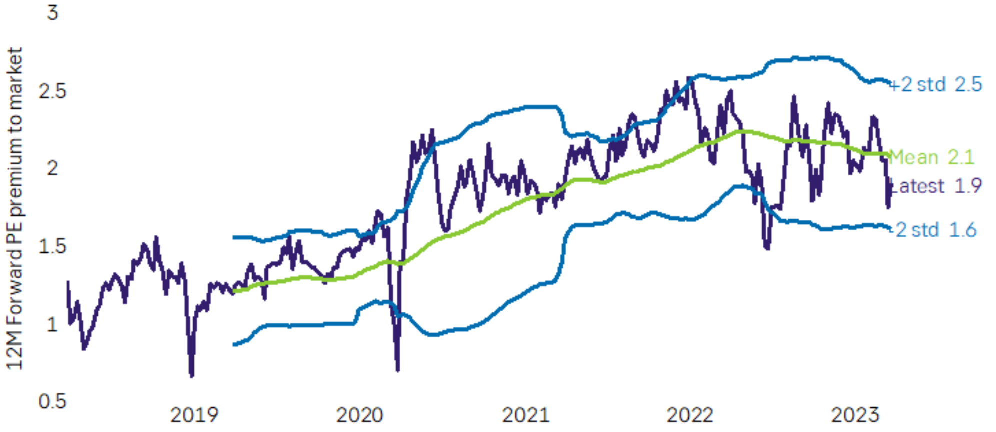
Source: SEB House View

North America – Underweight

We keep our underweight to North America

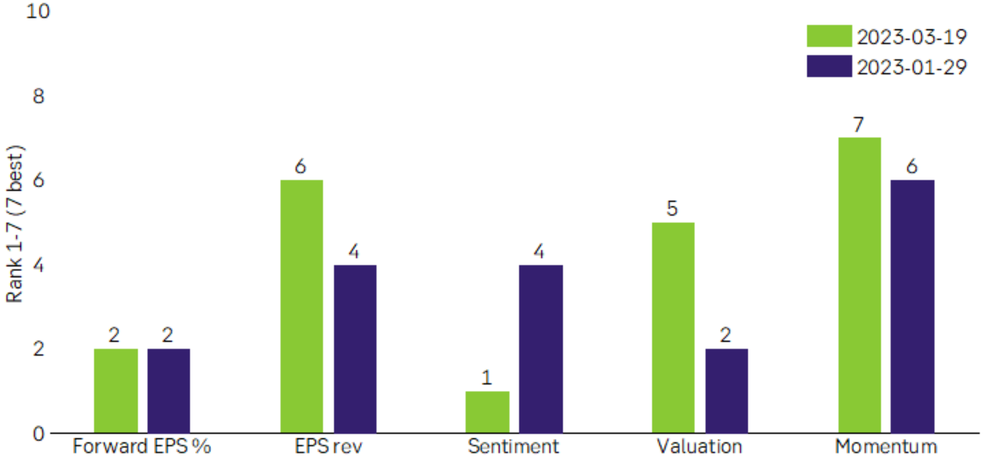
- US inflation has most likely peaked and the FED has turned more dovish lately
  - The Fed raised rates by 25 bps and signaled additional firming policy may be appropriate
- We expect the region to avoid a recession because of rapidly falling inflation and resilient consumption due to savings and a tight labor market
- However, the scores on the earnings outlook and sentiment rank low in our model
- Growth differentials to other regions will likely shrink going forward and we could see outflows to other regions due to cheaper valuations there and a weaker USD
  - China's reopening which should benefit EM/Europe relatively more than the US
  - The USD has probably played out its role as a driver for US equities going forward
- We see a trough in US economic activity later this year as an opportunity to add risk
  - Weaker PMIs in their low 40s usually present a good entry point for equity investors, but it is probably too early as the ISM manufacturing PMI is still falling

Figure 1: Standardized relative valuation – Current constituents



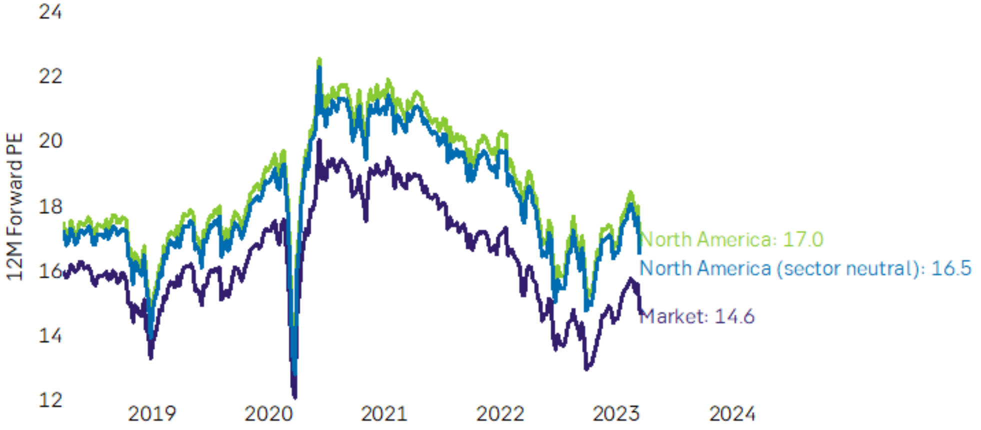
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



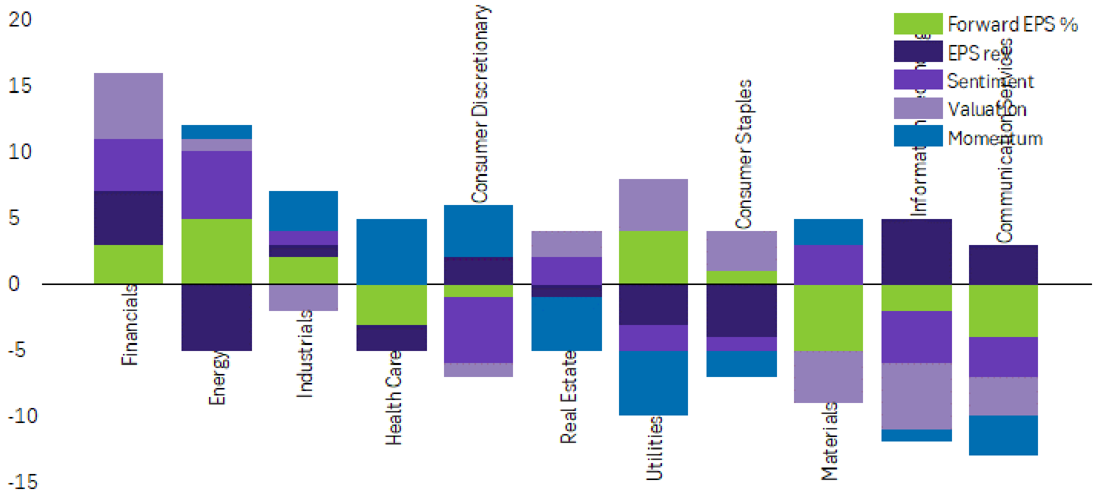
Source: SEB House View

Sector Overview

Sector	UW	N		OW
Communication Services		N		
Consumer Discretionary		(N)	OW	
Consumer Staples	UW			
Financials		N		
Health Care		N	(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 – Consumer Discretionary, Materials and Industrials

We remain overweight in consumer discretionary

- Easing energy prices and China's reopening has improved the growth outlook
- A cyclical shift in earnings should lead to higher returns for consumer discretionary
- A hastened disinflation process in combination with falling interest rates this year should ease the cost-of-living crisis and support consumer discretionary spending

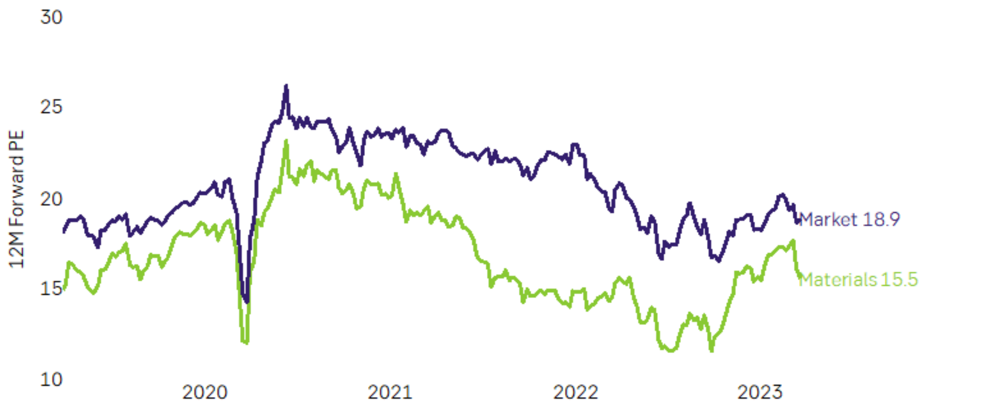
We also stay overweight in materials as they usually outperforms in inflation times

- The risk of higher-for-longer inflation remains, despite that inflation has peaked
- Materials is an inflation hedge as the sector tend to outperform during high inflation
- Rising demand for commodities after China's reopening will also benefit the sector
- In absolute terms, the sector trades at a 12M forward P/E ratio below the market

Industrials should benefit from investments in renewables

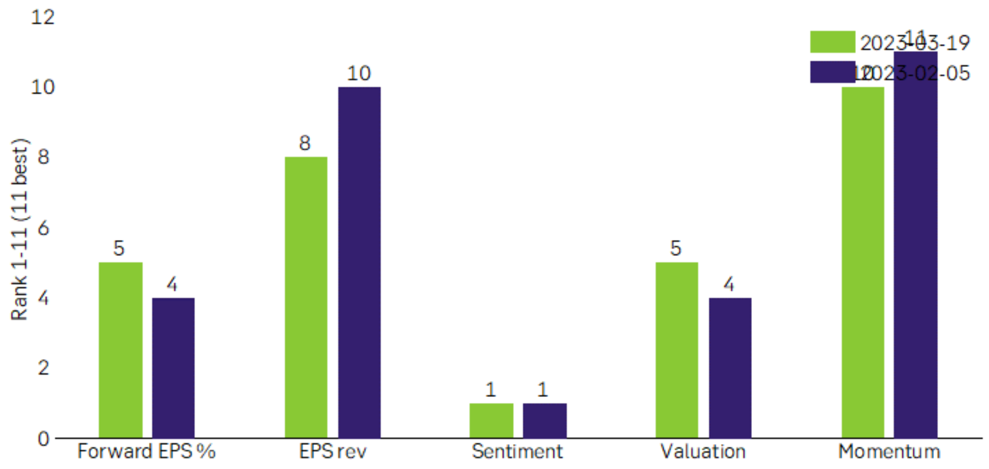
- The sector has a stable EPS outlook and momentum in our House View model
- Furthermore, Industrials should benefit from investments in the renewable energy space and a rebound in Chinese demand for global capex

Figure 1: Materials still trades at a lower forward price-earnings ratio than the market



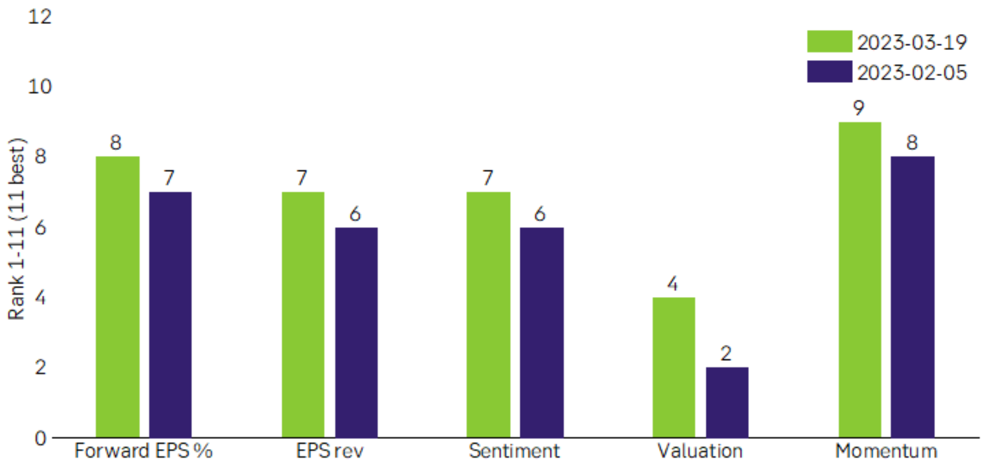
Source: SEB House View

Figure 2: Consumer Discretionary has seen solid EPS revisions and momentum



Source: SEB House View

Figure 3: Industrials has also had strong momentum in the last month



Source: SEB House View

Underweight – Consumer Staples and Utilities

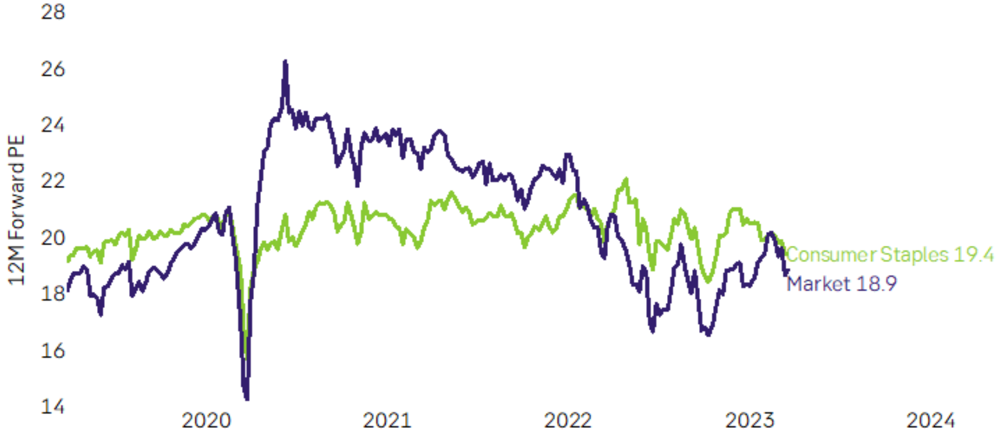
We remain underweight in consumer staples as we expect the sector to underperform consumer discretionary

- We expect this year's underperformance in defensive sectors to continue
  - Defensive sectors, such as consumer staples, should benefit less from China's reopening than cyclical sectors as discretionary spending increases
  - Expanding PMIs for services in the US and EU should give momentum to the retail sector, which accounts for nearly a third of consumer discretionary
  - Recession risks have increased due to a potential banking crisis, which favours consumer staples as it is a defensive sector
    - But a deep recession is not our base scenario and staples trades at a premium

We stay underweight in utilities

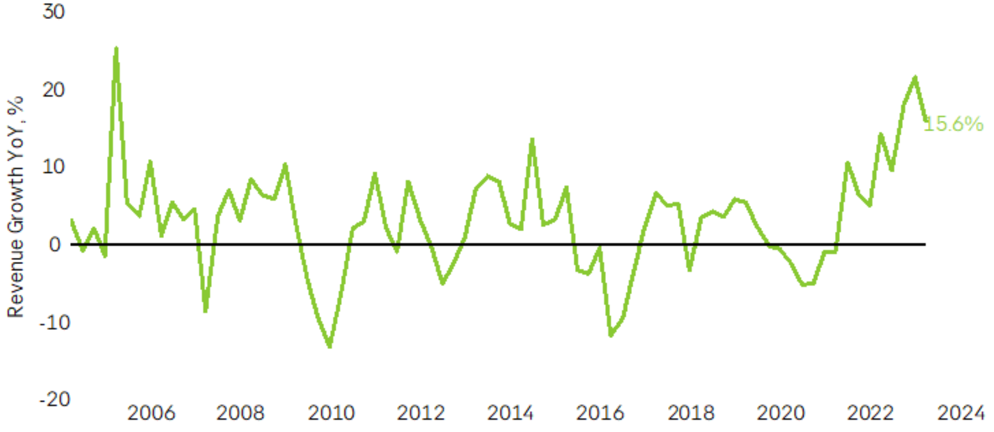
- We expect outflows from utilities as investors rotate out of defensive sectors to cyclical sectors, in order to increase their positioning for China's reopening
- Utilities will likely trade at a market discount until its growth outlook improves

Figure 1: Consumer Staples trades at a slightly higher valuation than the market



Source: SEB House View

Figure 2: Revenue growth for utilities has declined and the 12M outlook is weak



Source: SEB House View

Figure 3: Utilities is trading at a discount, but we think that cyclicals will be in favour

Source: SEB House View

Appendix 1 – Inflation Heatmap

SEB

US Inflation Indicators

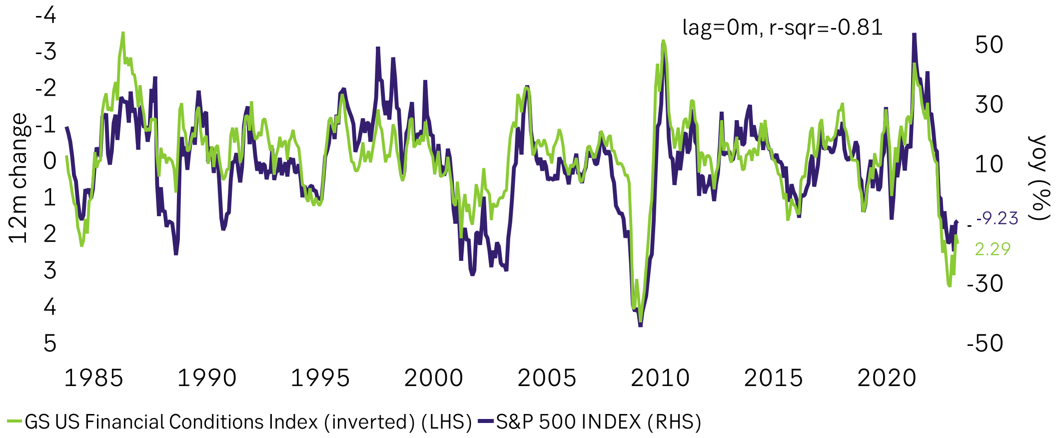
Heatmap based on rolling 10-year Z-scores. Actual data releases are shown below.

	3/2023	2/2023	1/2023	12/2022	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
Economic Measures																									
Cleveland Fed Trimmed-Mean CPI Y/Y %		6,5	6,6	6,6	6,7	6,05	7,3	7,2	7,0	6,9	6,6	6,2	6,1	5,8	5,5	4,9	4,6	4,1	3,4	3,1	2,9	2,8	2,6	2,4	2,1
Core CPI Y/Y %		5,5	5,6	5,7	6,0	6,3	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
Core PCE Y/Y %			4,7	4,6	4,8	5,1	5,2	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
CPI Y/Y %		6,0	6,4	6,5	7,1	7,7	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
PPI Y/Y %		6,4	8,7	8,9	10,6	11,2	11,6	12,8	15,3	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
Sentiment																									
Michigan Expected Inflation 12M	5,3	5,9	5,8	6,6	7,3	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
Conf Board Expected Inflation 12M		6,3	6,7	6,6	7,1	6,9	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
ISM Services Prices Paid		65,6	67,8	68,1	70,1	70,9	69,8	72,3	73,2	79,1	80,9	83,2	82,9	83,2	82,9	84,5	83,0	83,2	80,6	76,7	82,3	78,0	78,2	75,0	72,9
ISM Manufacturing Prices Paid		51,3	44,5	39,4	43,0	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
ISM Manufacturing Supplier Deliveries		45,2	45,6	45,1	47,2	46,8	52,4	55,1	55,2	57,3	65,7	67,2	65,4	66,1	64,6	65,0	72,3	75,6	73,4	69,6	72,5	75,1	78,8	75,0	76,7
NFIB Higher Prices		38,0	42,0	43,0	51,0	50,0	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
Commodities																									
CRB Raw Industrials Y/Y %	-17,8	-13,4	-8,8	-11,7	-13,6	-14,0	-8,8	-2,0	-3,4	1,4	13,0	19,1	20,7	16,1	20,3	26,5	35,2	37,0	37,2	38,0	43,6	46,0	38,9	39,9	34,9
Lumber Y/Y %	-59,0	-70,5	-56,4	-63,5	-45,4	-23,3	-32,3	0,9	-7,7	-21,9	-52,8	-27,0	4,8	30,3	33,5	19,0	28,3	29,6	5,8	-42,1	17,1	93,4	291,6	325,8	203,5
Metals Y/Y %	-27,3	-16,5	-1,8	-4,0	-7,1	-16,1	-12,1	-1,5	-5,9	1,8	18,7	39,3	54,3	25,4	31,4	26,6	30,9	41,0	45,4	36,2	42,8	50,5	60,6	58,5	56,9
Agriculture Y/Y %	-13,0	1,9	5,8	10,5	8,6	15,9	21,0	19,4	7,6	29,1	36,2	35,1	47,5	33,8	28,4	33,6	41,9	35,6	46,6	54,8	60,4	57,9	65,9	63,7	35,9
Energy Y/Y %	-35,3	-9,1	12,4	36,6	39,8	20,0	37,0	96,2	76,0	78,1	116,4	98,2	106,1	56,1	57,4	51,2	66,6	80,2	62,0	31,3	50,8	58,2	43,3	54,9	28,5
Wages																									
Weekly Wages Y/Y %		4,7	5,4	4,2	4,9	6,8	6,0	3,9	5,7	6,1	5,8	5,6	6,1	7,4	6,7	6,0	5,0	6,5	6,3	5,2	6,1	5,1	5,1	4,2	6,6
Hourly Wages Y/Y %		4,6	4,4	4,8	5,0	4,9	5,1	5,4	5,4	5,4	5,5	5,8	5,9	5,3	5,7	5,0	5,4	5,4	4,9	4,4	4,3	3,9	2,2	0,6	4,3
Atlanta Fed High Skill Wages Y/Y %		6,2	6,1	6,0	6,0	5,7	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
Atlanta Fed Low Skill Wages Y/Y%		6,6	6,6	6,8	6,7	6,7	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
NFIB Small Business Wages		46,0	46,0	44,0	40,0	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
Inflation components																									
Shelter CPI Y/Y %		8,0	7,8	7,5	7,1	6,9	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
Electricity CPI Y/Y %		12,9	11,9	14,4	13,9	14,1	15,4	15,6	15,2	13,7	12,0	11,1	11,1	9,1	10,5	6,5	6,5	6,4	5,2	5,2	4,1	3,9	4,2	3,5	2,5
Education CPI Y/Y %		2,3	2,3	2,3	2,0	2,1	2,1	2,8	2,3	2,2	2,1	2,1	2,1	1,9	1,9	1,8	1,9	1,8	1,7	0,8	0,2	0,4	0,3	0,3	0,3
Car Rental CPI Y/Y %		-0,8	1,8	-4,2	-5,7	-3,3	-1,2	-5,9	-12,1	-8,7	-1,6	9,7	23,4	25,3	30,9	37,3	37,1	38,9	43,1	53,2	73,5	85,7	107,1	80,8	31,2
Recreation CPI Y/Y %		6,3	5,7	5,7	5,4	3,9	4,1	4,2	4,5	4,7	4,8	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	1,2
Drugs CPI Y/Y %		2,9	3,2	2,8	2,8	2,9	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
Market indicators																									
US 5Y Breakeven	2,3	2,6	2,3	2,3	2,4	2,7	2,4	2,9	2,6	2,8	2,9	3,4	3,7	3,2	2,8	2,8	3,1	2,9	2,5	2,5	2,6	2,5	2,7	2,4	2,6
US 5Y/5Y Breakeven	2,2	2,2	2,3	2,1	2,2	2,4	2,3	2,4	2,2	2,3	2,2	2,6	2,4	2,1	2,1	2,2	2,2	2,4	2,2	2,1	2,2	2,2	2,3	2,2	2,2
10Y - 2Y Yield Spread	-39,9	-87,7	-76,2	-57,8	-79,3	-26,7	-52,7	-28,9	-22,4	5,9	26,6	22,5	23,1	37,8	79,5	80,0	98,8	117,5	118,1	106,9	107,4	122,2	144,8	139,8	145,8
Germany 10Y Breakeven	2,3	2,5	2,1	2,2	2,2	2,3	2,4	2,5	2,0	2,2	2,3	2,9	2,6	2,1	1,7	1,8	1,7	1,9	1,6	1,4	1,3	1,3	1,4	1,3	1,3
Japan 10Y Breakeven	0,6	0,7	0,6	0,8	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,9	0,6	0,6	0,4	0,4	0,4	0,3	0,2	0,1	0,3	0,3	0,2	0,2

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

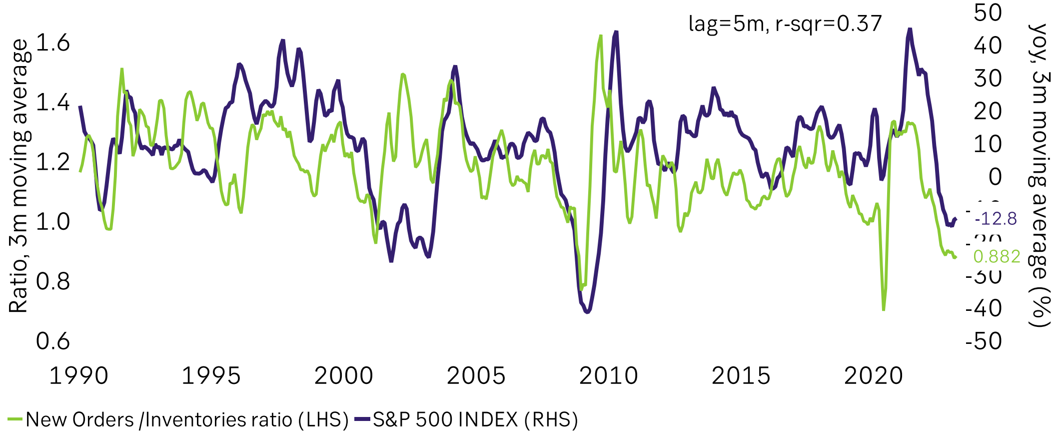
Appendix 2 – Regression Analysis and Factors

Figure 1: Easing US financial conditions should support the S&P 500



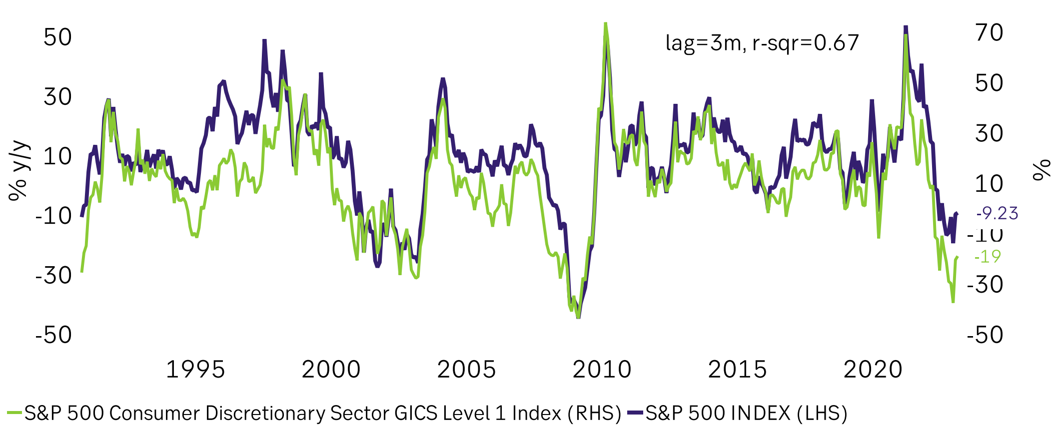
Source: Macrobond, SEB

Figure 2: ISM New Orders/Inventory ratio, which leads the S&P 500, is bottoming?



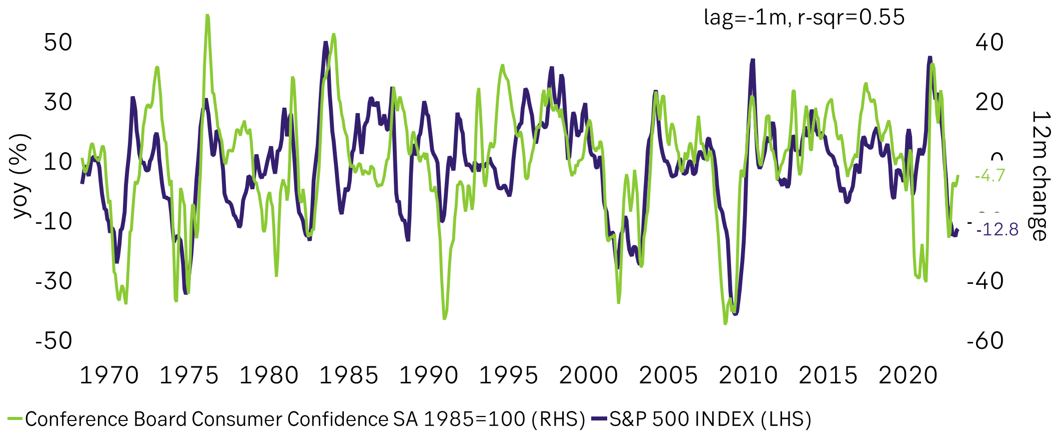
Source: Macrobond, SEB

Figure 3: Consumer Discretionary signals a turnaround in S&P500!



Source: Macrobond, SEB

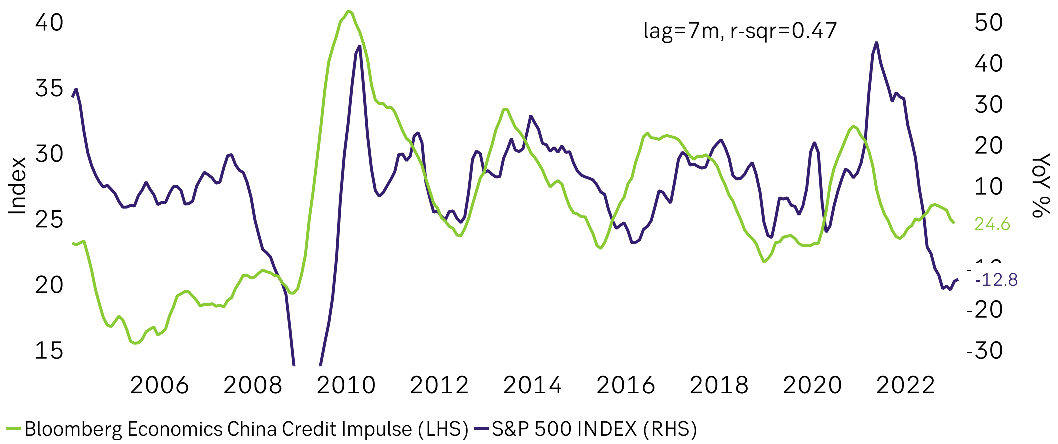
Figure 4: Improving US consumer confidence is a bullish signal for S&P 500



Source: Macrobond, SEB

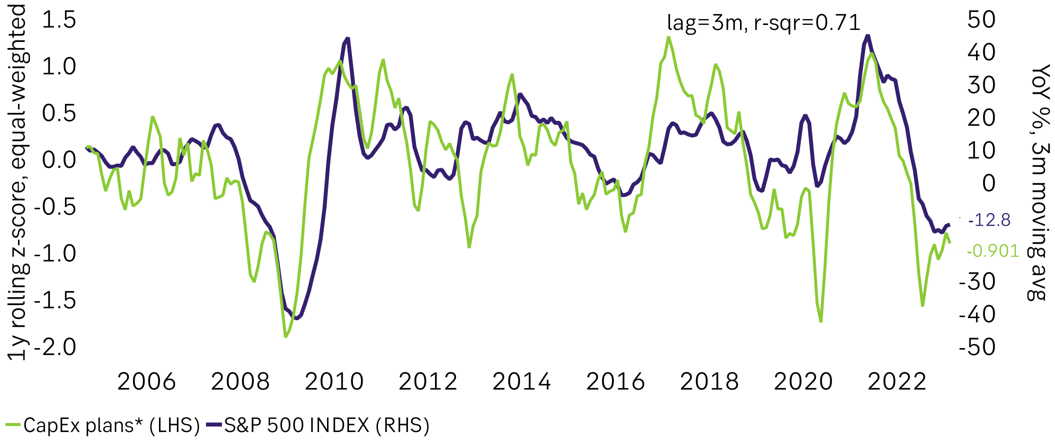
Other factors (coincident or leading)

Figure 1: China Credit Impulse, which has a long lead-time vs. stocks/PMIs, points up



Source: Macrobond, SEB

Figure 2: CapEx plans (regional Fed+NFIB) lead S&P 500 yoy by 3 months



Source: Macrobond, SEB

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