SEB House View

7 December 2022

SEB

Overview

House View factors

Macro and Markets

Market and Fair Value Indicators

In Focus

Asset Class and Sector Views

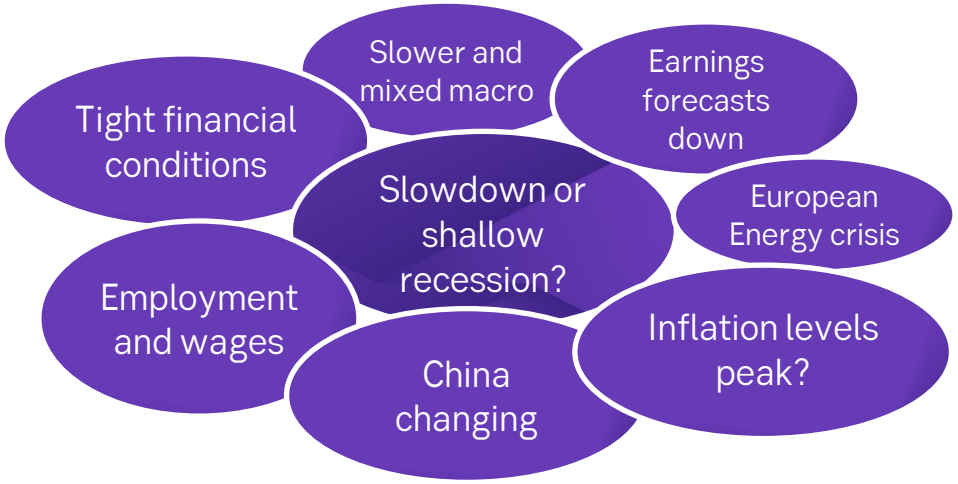
A brand new world, maybe

Investment Regime: are things improving?

- There have been a stream of events in the past weeks leading to a gradual change to a relatively more constructive view for assets, namely:
  - Inflation has probably peaked and China, the most important driver for growth at the moment, is gradually changing their stance on Covid
  - At the same time, Europe's situation has somewhat stabilized…
  - It is reasonable, or even probable, that a soft landing will take place in the US
- Nevertheless, make no mistake, there still are several obstacles ahead
  - We are currently in a period with substantial monetary tightening that still has a few rounds to go
  - The weaker growth outlook for the first-half in 2023 also challenge earnings
  - And the potential for more black swan events in Ukraine is vast
- Seasonality is something that can be seen as a bit of a joke, but history confirms that equity is a winter sport, and market moves now continue to prove that
- For now, markets are supported by the idea that inflation has peaked, which is very likely if we look at our diverse map of inflation components
- An inflation peak implies that the FED will be satisfied with one or two more hikes, but the jury is out on what happens over the coming meetings
- A good reason to believe that the world has changed is the recent moves in the USD
  - The wobblier USD points to that the world is changing and that the perception of risk has changed in a more positive direction
- China plays a role in changing sentiment and can play a role in how 2023 will look
  - The driving force right now is the gradual easing of tight covid controls
  - If the actions to stabilize lending and the weak property market take a grip on the overall Chinese economy, then global trade will rise again
- We see the recent moves in markets as a reasonable reaction to events, but two things remain important for now
  - Valuations jumped up quite a bit and the negative EPS outlook is not good
  - The sentiment has been and is still very mixed with a negative tone
- Our conclusion is to stay at 50% in risk utilization, as the market rally will likely be subdued until we get a real change in monetary policy

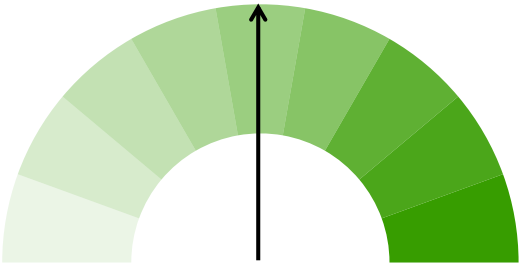
Investment Regime

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



Speedometer

50%



The speedometer controls to what extent the portfolios should utilize their risk budgets. It is connected to the model portfolio (page 4) which at all times utilizes its risk budget in-line with the speedometer. In a very general sense it can be interpreted as equities on/off (with 50% being neutral).

Investment Regime: The USD says something

Inflation runs the show

The inflation scenario sets the tone for expectations. We are confident that the pace of price increases are slowing, but when it comes to assertiveness, we must stay humble. Looking at wage data, the pace is still a concern, 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 next year. But commodities, supply chains and less inflation from goods and manufacturing look promising. Some of these factors are still post-covid imbalances that are now being handled. Used car prices are expected to drop by 10-20%, rents have been a problem, but should fall as the declining house prices come into effect.

The Fed will wait until inflation slows down

Even though lower prices are likely going forward, there is always an element of uncertainty. The FED wants to see the effect of past tightening and a permanently higher wage situation would be a challenge. If we look at the different forecasts for next year, they almost uniformly point to 2% - 5 % inflation by the end of 2023. If we look at classic monetary analysis, the suggested pace will be quicker because 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 are historically high. One remark is that the research community likely struggles a bit in this scenario as most analysts have not experienced high inflation before.

The business cycle... and earnings

One thing that is striking is that several major houses think that the US will avoid a recession in 2023. Growth should be supported by high levels of employment, stable nominal wages and generally okey climate. This reduces risks and it is important to reflect on the difference between nominal and real variables. Earnings are nominal and growth is real. Earlier, we reduced our 12-month EPS growth forecast to the +10% region for the US, but more negative revisions in the near-term is possible, as tightening is still underway. Bloomberg's mean EPS growth estimate for the US is currently in the + 10% region.

Macro Advantage US, optionality China	• US soft landing is more likely • China has a glimmer of hope, Covid and real estate is potentially better • Consensus points to a U-shaped economic recovery in H2 2023
Central banks Everybody has tightened, enough?	• FED hikes will be a bit slower, with perhaps two more hikes to go? • Financial conditions are super-tight, but time to assess cumulative effects • China is an exception with M2 up 12%
Politics Fiscals are somewhat tight	• Policies are surprisingly tight, fiscal imbalances in play • We will see some compensating programs from governments • Long-term investment incentives for green transformation and defense
Corporates Does valuation reflect lower earnings?	• Inflation keeps the E in P/E high for now, but it will be challenged • Most companies will tighten margins • We are on the road to higher multiples as the easier monetary policy is within reach

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

Asset Allocation

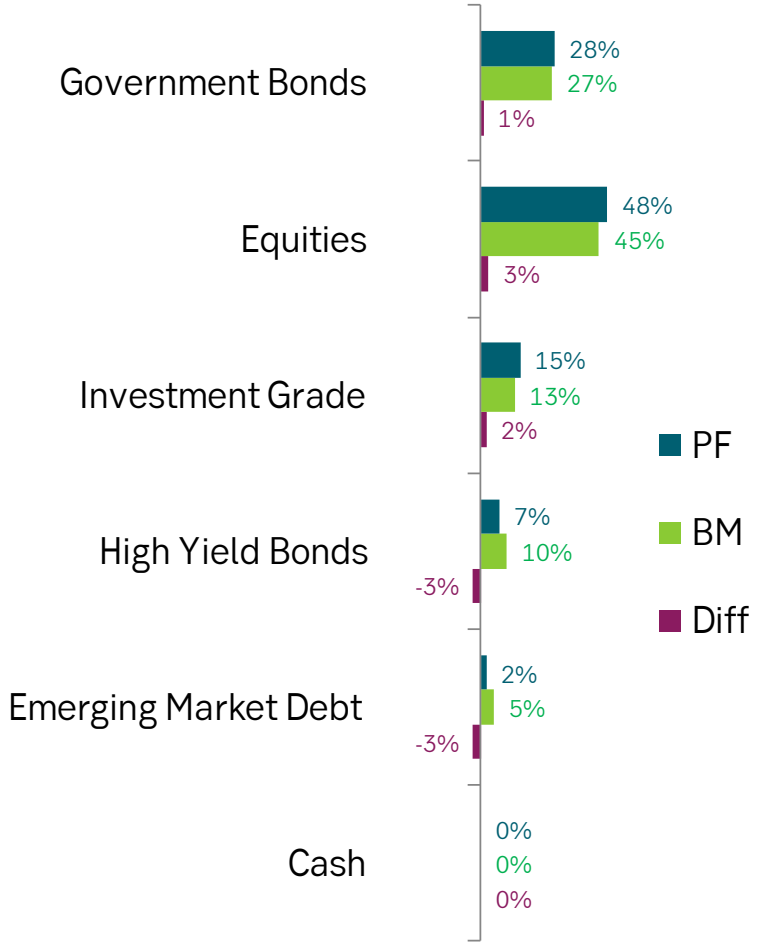
Welcome back, the 60/40 portfolio with returns

- We are in a setting now that creates possibilities both in bonds and equities
- The selection of asset focus is mostly an effect of two things, risk willingness and the outlook for next year, and we chose to prioritize equites over bonds here
- Bonds offer returns and some protection if H1 of 2023 will be weaker than expected
- Cash also offers some returns, but bonds are still more compelling in this regard
- The forecast for inflation and the business cycle will gradually benefit all asset classes, and therefore a neutral or equal weight in both equites and bonds is natural

Our more cyclical tilt for equities and bonds

- Looking at equity market factors, the defensive sectors have outperformed lately, indicating that the overall market has a defensive view on the business cycle ahead
- If we want to see a strong trend in equities, it is necessary to see more cyclical sectors
- perform, and that lies a bit away still, so a neutral positioning is natural
- Equities are supported by high nominal earnings growth and a potentially positive 2024 after a turnaround in the business cycle in H2 2023
- All in all, the market has started to behave better
  - Looking at sector performance lately, the period when Energy/Commodities was the only sector to perform appears to have ended
  - We now see a more natural trend pointing to a reasonably good performance
- Overall, we think that risks are more balanced now and therefore we hold some cyclical risks in the portfolio in terms of Equities and Investment Grade bonds
- Until we get a real break in the monetary policy, we prefer to keep our portfolio weights rather balanced with lower exposure to the most cyclical assets, such as High Yield and Emerging Market Debt
- Our call for keeping a low exposure to Emerging Market Debt is risky however
  - China's credit expansion and the overall higher quality of Emerging Market bonds can challenge our position, especially as the USD may continue to weaken

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 slightly reduce our position in the US, but remain overweight

- The outmost driver of regional performance this year has been the USD strength and although that strength have recently abated, it is too early to talk about a new trend
- We reduce our position in the US and diversify our equity portfolio globally as a reaction to improvements in China and gradually better risk sentiment
  - There is a tendency for other regions to catch up with the US after periods of underperformance and we see early signs of that, which valuations are supporting
  - We therefore increase our overweight in EM Asia by 2% and reduce our underweight in Europe by 2 % as well, at the expense of North America
- Nevertheless, because of weaknesses in the other regions ex-USA, recoveries there can take some time and there is a possibility that the US could perform reasonably well and the USD to continue to be a stable...for now
  - The last bounce up in Chinese-linked markets is a signal on what to expect, but the call is probably too early to make
  - Therefore, we choose to not downgrade our US position to neutral

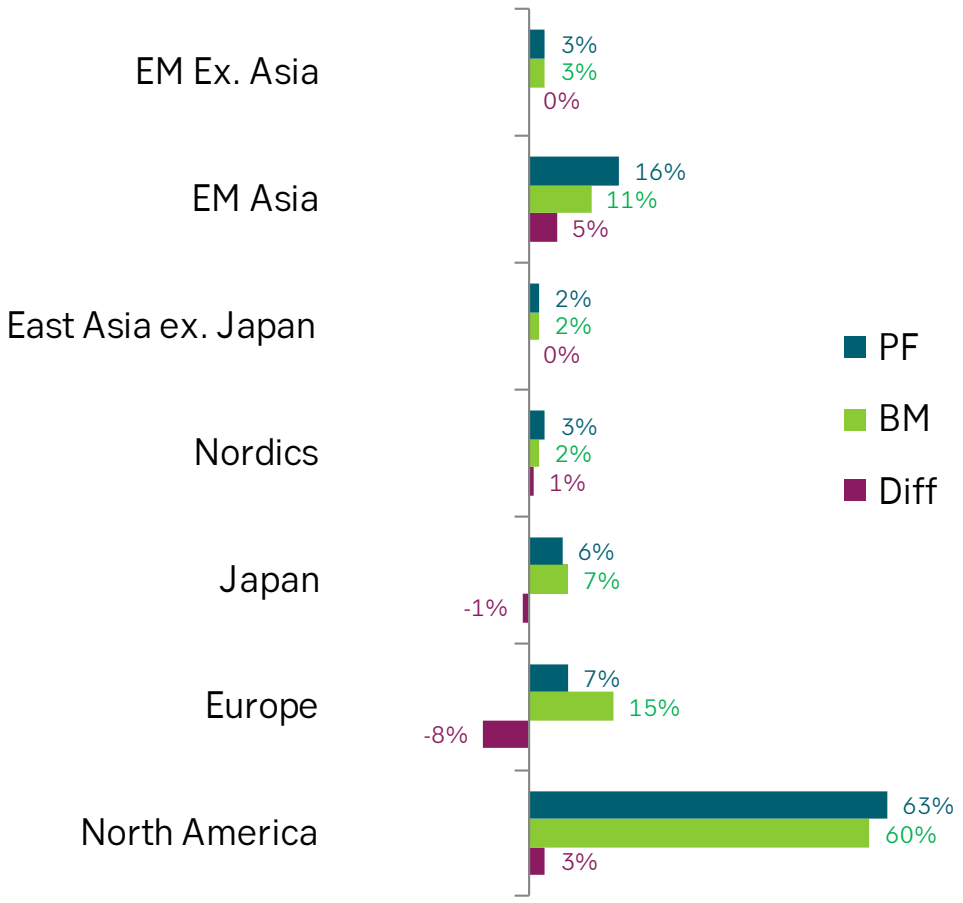
Europe is expecting more tightening from the ECB

- The macro backdrop for European consumers is still dear, better weather probably makes the pain easier to handle, but the road ahead is tricky
- A positive factor for the region is China's credit expansion, which should be a positive factor for Europe's capex-heavy industries down the road if the expansion continues
- Looking strictly at European macro data and sentiment, the risk of a recession is evident, and more interest rate hikes from the ECB do not make things better

Emerging markets, the USD and China ...

- Our overweight to EM Asia is challenged by lockdowns, but consensus is quickly moving on the matter
- But China continues to manage liquidity and create monetary growth, while forecasts for growth in EM Asia for next year have generally improved lately

Regional equity positioning



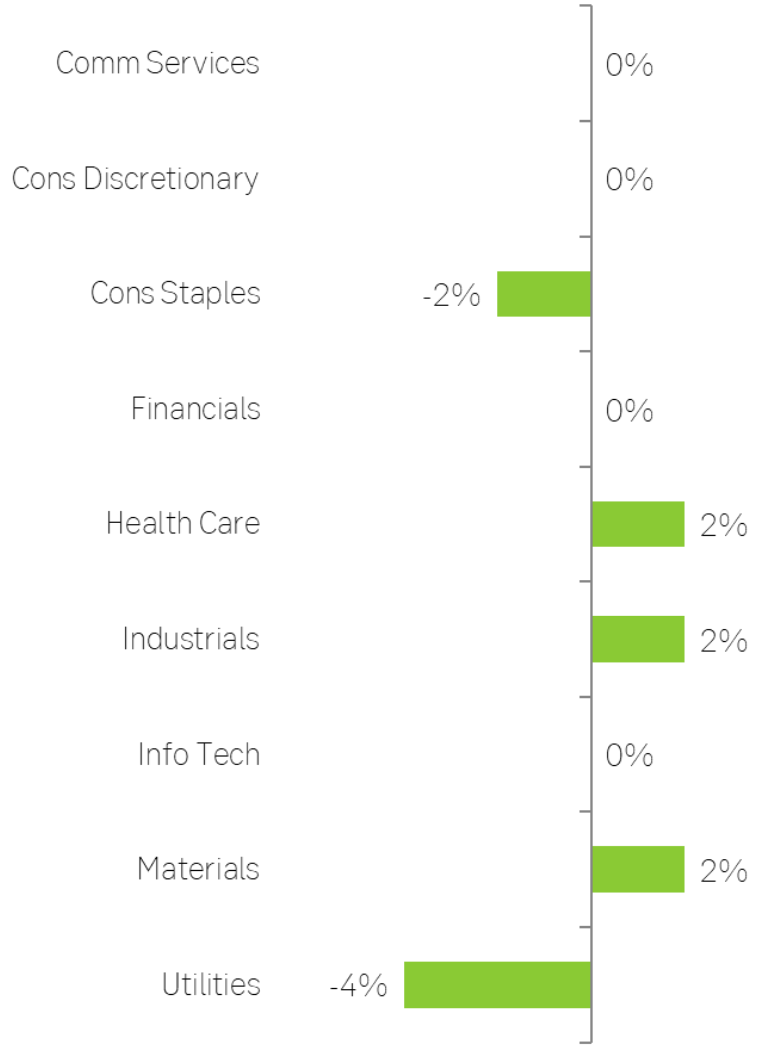
Benchmark is MSCI All Country

Sector Allocation

We have a slightly inflation positive position

- Sector performance has shifted over the past months
  - Energy is no longer the sole driver of performance, lately more sectors of the equity market have started to perform
- We have also seen a shift in performance in factors as small caps has started to perform in line with broader markets
- 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 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
- Recession risks will continue to drive the narrative and they are strengthened by moves in EPS revisions that drive some of these trends, and clearly cyclicals will face a harder climate (see our sector material in the appendix)

Sector positioning



Risks to the Investment Regime

The risk of overtightening from the FED

The FED has indicated that it will slow its pace of rate hikes in the near-term, as early as December, and then hold rates high until inflation is under control. The risk here is that the FED overestimates the strength of the US economy and underestimate the effects of its past monetary tightening on demand. Financial conditions are currently tight and economic activity has started to show signs of weakening as PMIs have fallen below 50, which indicates a contraction. Further rate hikes followed by a prolonged period of restrictive monetary policy increases the risk of a hard landing in the US.

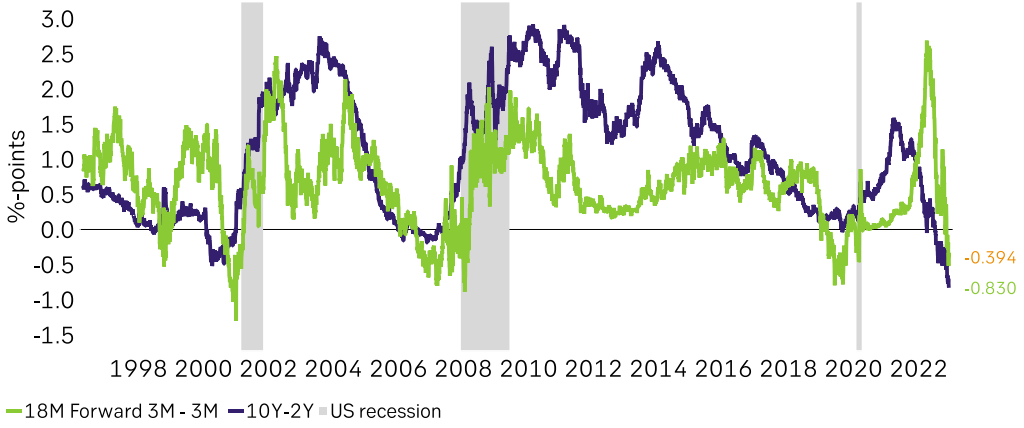
Earnings growth falls more than expected

A key risk for markets is that EPS growth next year comes in far below consensus because consumer demand deteriorates more than economists think. Consumption in the US has held up surprisingly well despite high CPI inflation, which has outpaced nominal wage growth. US personal spending have so far been supported by a strong labor market and previously accumulated savings from covid stimulus. The risk now is that the US household sector contracts next year as consumers cave into the combination of high inflation and high interest rates and sharply cut their spending. Looking beyond consumers, low confidence among CEOs in the US indicates that earnings growth could fall significantly more than what markets currently discount.

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

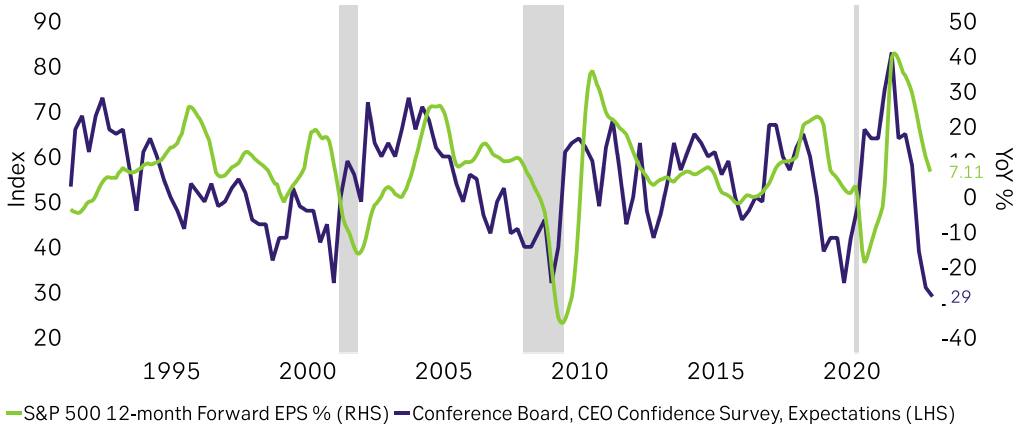
Inflation in the eurozone recently fell on the back of a slowdown in energy and services price growth. However, there are upside risks for energy prices in the near-term as winter approaches and inflation can remain sluggish well into next year if the war in Ukraine and European energy crunch continue. Inflation is still far above the ECB's target and markets are worried that Europe is at risk of an imminent recession, as the ECB is expected to hikes rates further.

Figure 1: Both the "near-term forward spread", the FED's preferred recession indicator, and the US 2Y/10Y yield curve signal an upcoming recession.



Source: Macrobond, SEB

Figure 2: Low CEO confidence in the US points to a negative earnings outlook



Source: Macrobond, SEB

Return Estimates

Figure 1: 12 month forward looking return expectations

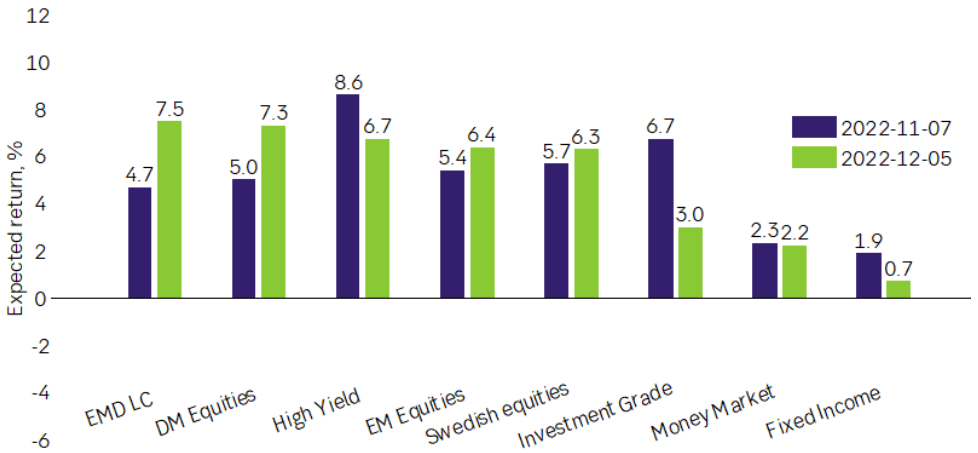


Figure 2: 12 month forward looking return expectations for equities and bonds

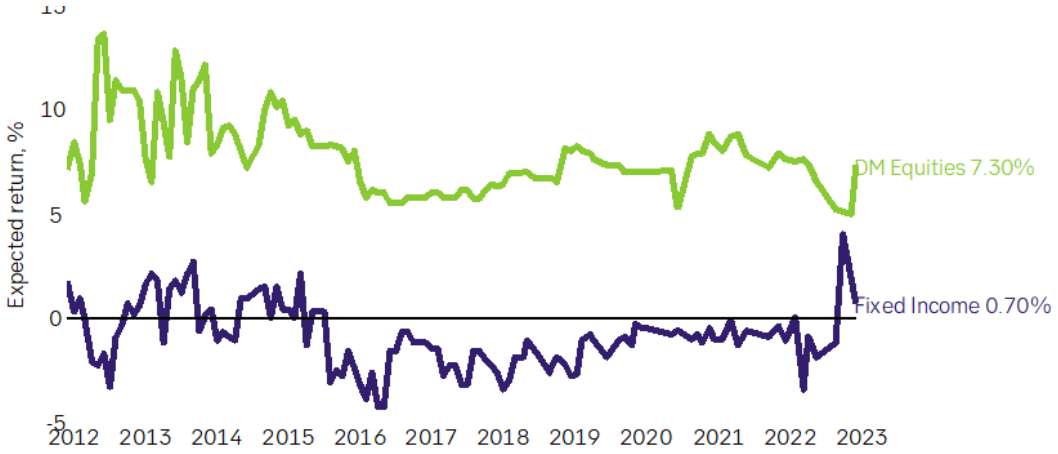


Figure 3: Absolute expected returns

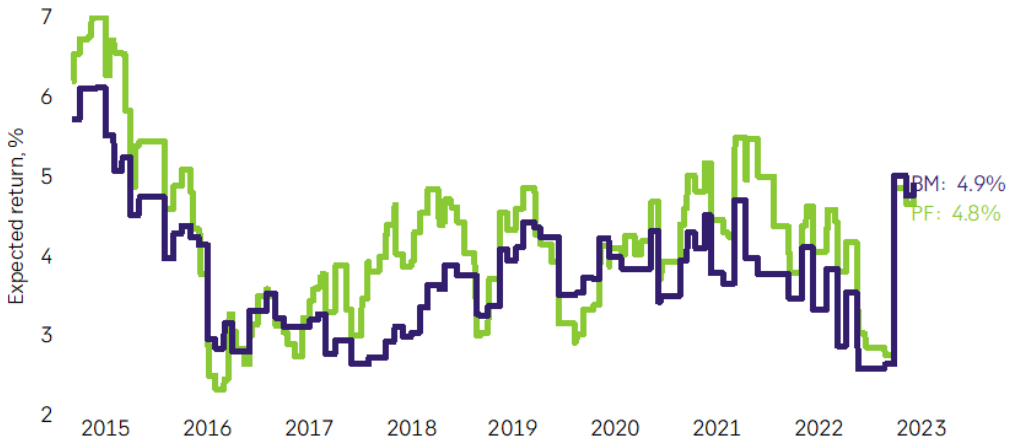
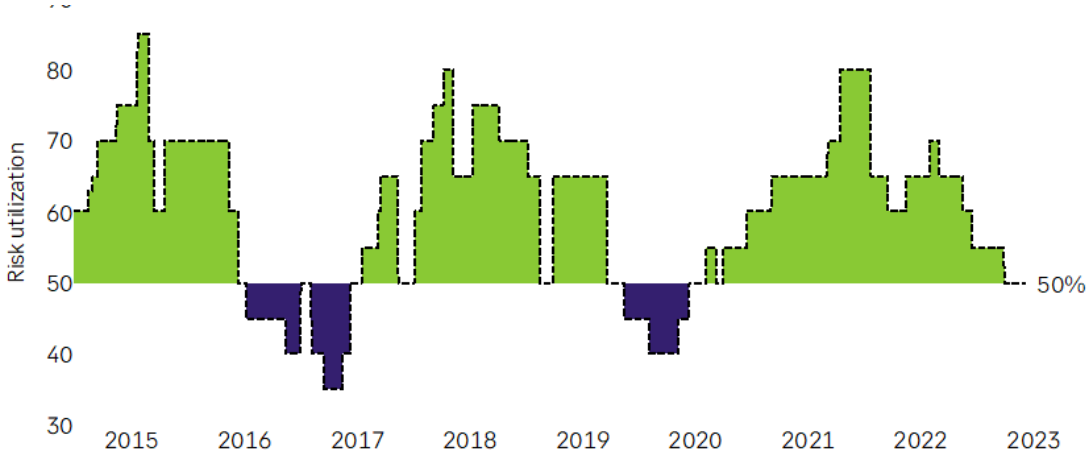


Figure 4: Risk utilization since inception



Historical House View Allocation

Figure 1: Equities

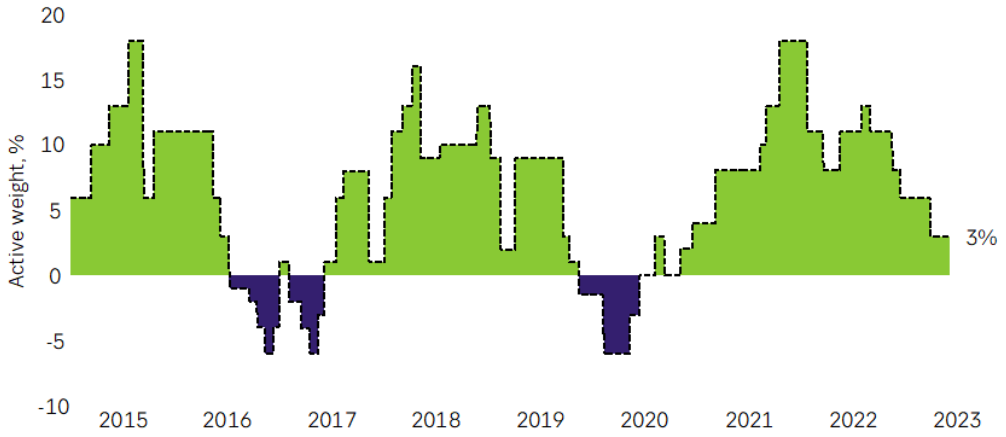


Figure 2: High Yield

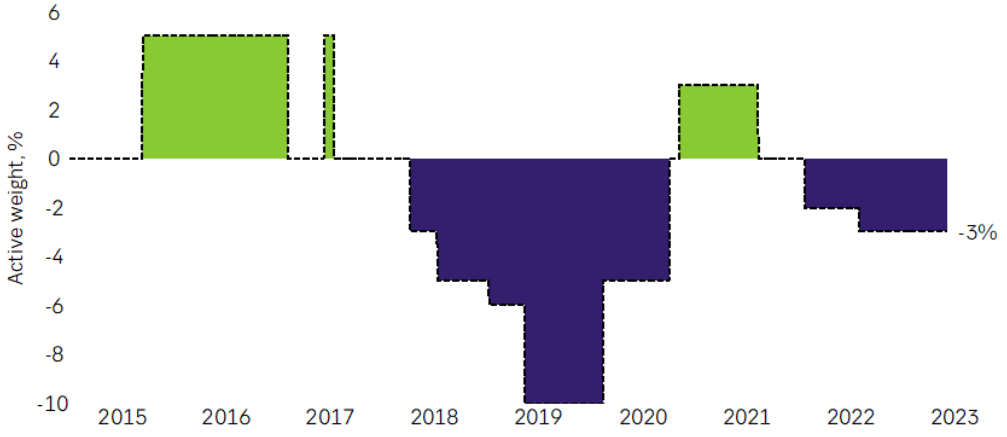


Figure 3: Emerging Market Debt

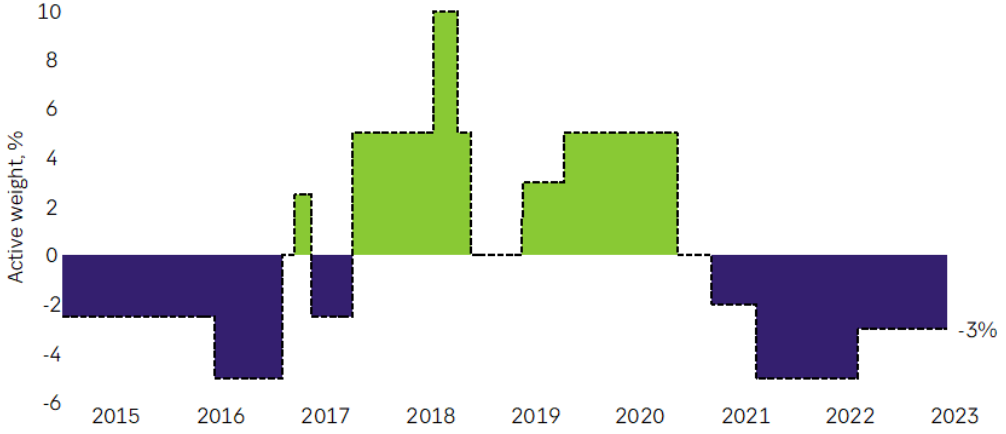
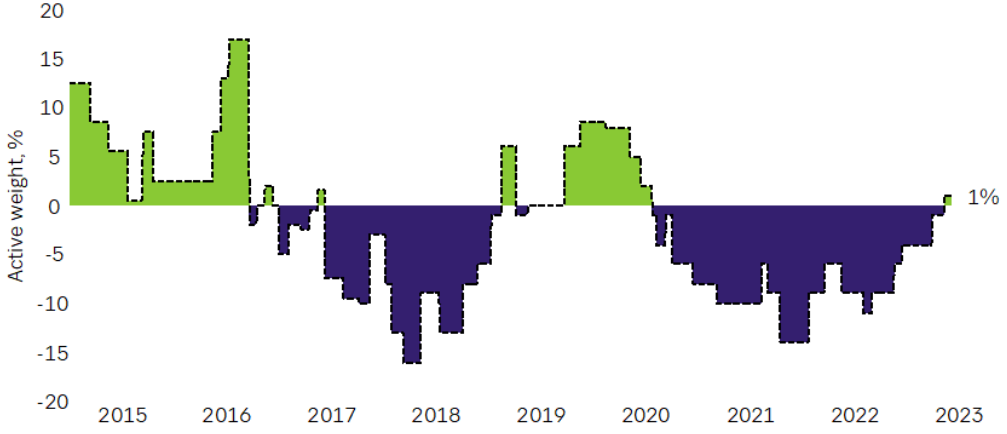


Figure 4: Fixed Income*



* 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

The House View committee sees Inflation (Macro) as the most important factor for tactical risk taking heading into 2023 as uncertainty is still high

- Non-farm payrolls showed that the labour market added far more jobs to the US economy in November than expected and that wage inflation was still high
  - Bond yields rose and stocks fell after the report, which signalled strong labour demand and sluggish earnings growth, that would increase pressures on Fed
  - Signs of a tight jobs market ahead of the Fed's December meeting, led to lower risk sentiment and rising expectations of the Fed funds peak rate next year
  - Inflation has been the main driver for markets this year
  - In our view, Inflation is still of the highest importance heading into the next year, since it is related to the risk of Fed overtightening and risk of a hard landing

Politics has become even more important after last month when Beijing signalled that a reopening of the Chinese economy was on the cards

- Chinese-linked markets rallied on speculations of an end to the country's zero-Covid policy after massive protests against restrictions and the state media's changing narrative about the risks of the coronavirus
  - The release of 20 new measures from China to loosen quarantine rules and a following press conference to downplay covid risks and promote a higher vaccination rate among elders, led to a frenzy in speculations of a reopening
  - The effects of a potential reopening remain to be seen, but will likely be positive, yet gradual, for global growth, in particular for Chinese and EM assets

On a 3-6M horizon, the House View committee decides to stay neutral

- In our view, it is too early to increase the risk of our portfolio, until inflation improves enough for the Fed to signal that they are ready to pivot and start to cut interest rates

Figure 1: We believe that Inflation is the most important variable for risk taking at the moment. Central Banks and Politics, i.e. China's zero-covid policy, are also important.

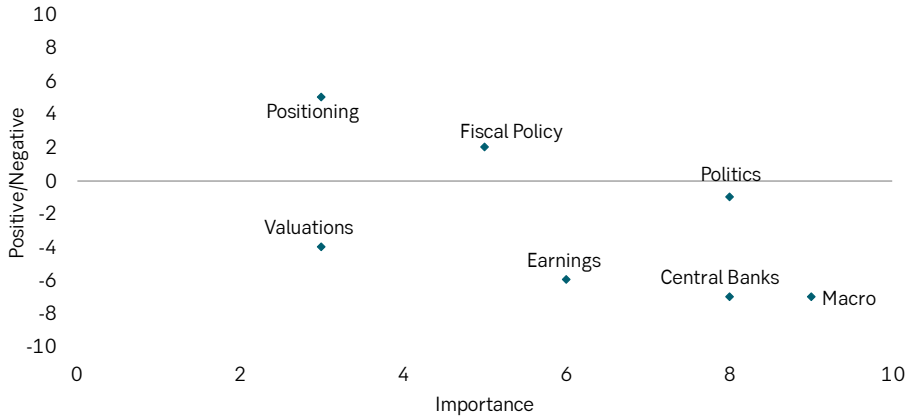
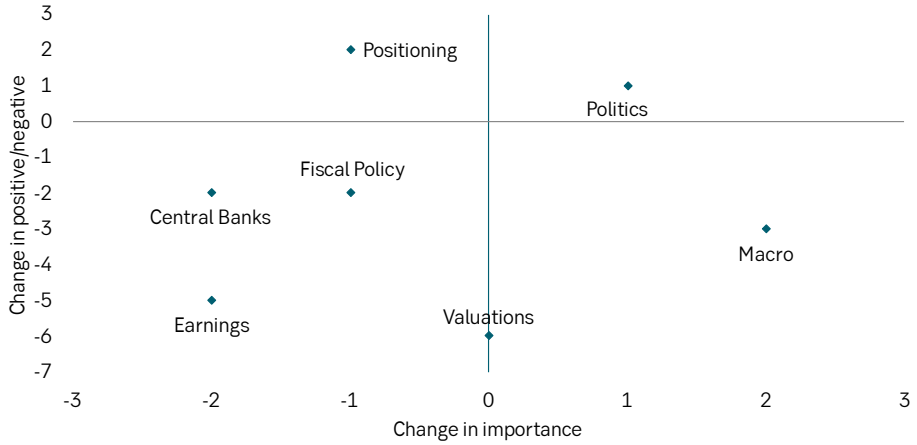


Figure 2: Central Banks has slightly fallen in importance, but remain important, as markets look for a pivot. Politics became more important amid new reopening hopes in China.



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Developments in the Markets

Global equities gained for a second month as Powell signalled a hike slowdown

Equities rallied in November on bets that a peak in inflation will lead to a downshift in the Fed's pace of tightening. Hopes of China's reopening also contributed to the gains. Fed Chair Powell signalled a potential slowdown in rate hikes in a speech last week ahead of the Fed's meeting in December. The S&P 500, Dow Jones and Nasdaq Composite index soared while the US dollar and bond yields declined after Powell's speech, as bond market expectations for the peak level in Fed funds fell below 5%. Having said that, equities and bonds are still on track for one of their worst performances in years on the back of aggressive tightening from central banks against inflation. Interest rate volatility continued to fall last month and the VIX index dropped to the lower 20s, which supported risky assets. Value has continued to outperform Growth, not only due to higher rates, but also generally stronger earnings. Defensive Sectors, such as Health Care and Consumer Staples, have outperformed Cyclical sectors this year, amid a slowdown in global growth and lingering fears of an upcoming recession.

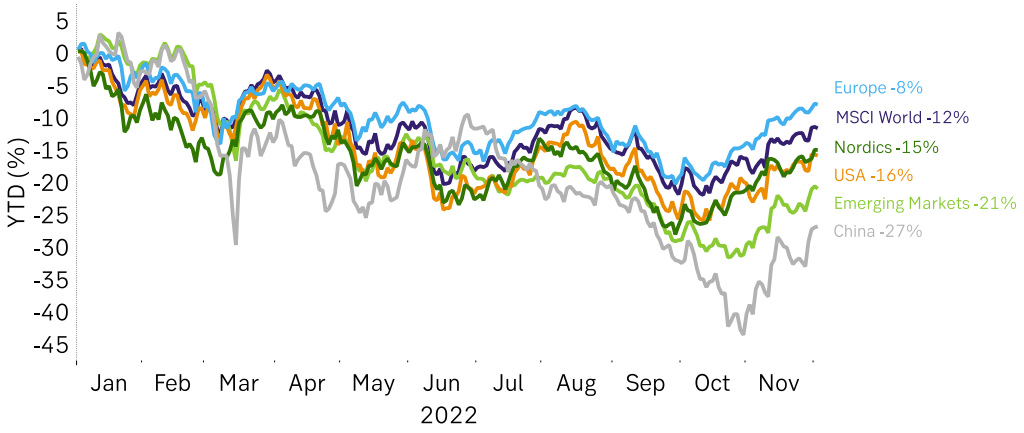
European equities entered a bull market as stocks continued to climb

European stocks advanced in recent weeks because of improved risk sentiment, driven by signals on a relaxation in China's covid restrictions, peak Fed hawkishness and a stronger Euro. Stocks in the region rose as Eurozone headline inflation slowed for the first time since June last year. Commodity prices were down overall last month, but oil prices rose because of Russian sanctions, expectations of buoyed demand from China and +OPEC's decision to cut oil production. Natural gas prices in Europe soared as the region embraced itself for a cold winter. Optimism for China to lift lockdowns pushed EM and China equities higher last month.

Bonds also rose on hopes for a less aggressive Fed after inflation slowed in October

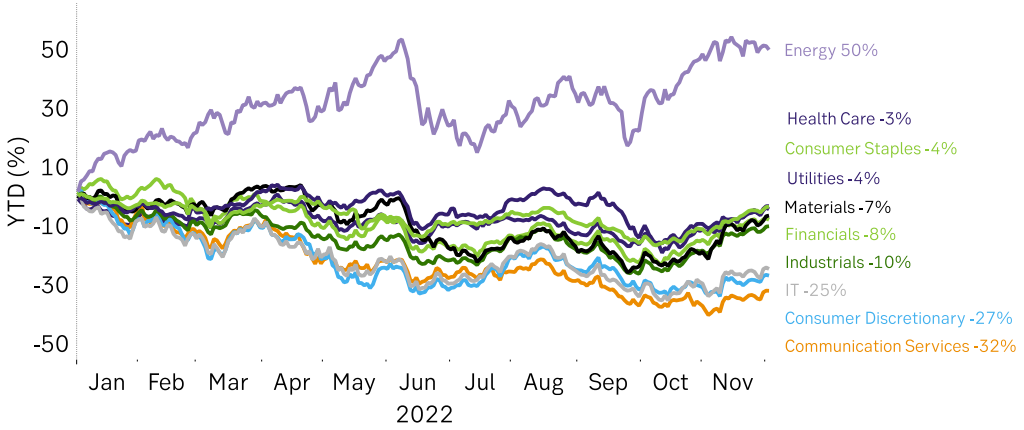
Bond prices rose while yields fell as Powell cemented market expectations of a 50 bps hikes by the Fed in December. Longer-term yields fell more than shorter-term yields last month, causing a deeper inversion between the US 10Y and 3M yield. An inversion in the yield curve has historically been a relatively good recession indicator.

Figure 1: Global equities recovered on hopes for a Fed pivot and zero-Covid exit by China, but stocks are still in negative territory YTD as central banks have hiked rates quickly.



Source: Macrobond, SEB

Figure 2: Energy is the only sector that has delivered positive returns this year. Defensive sectors, such as Health Care and Staples, have outperformed cyclical sectors.



Source: Macrobond, SEB

Economy – Developed Markets

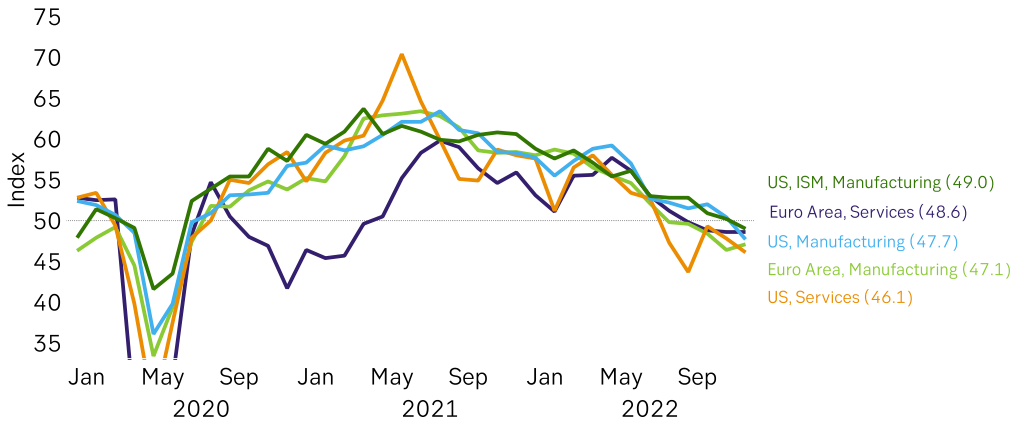
The US jobs market remained tight and wage growth surprised to the upside

- Non-farm payrolls pointed to a strong US labor market that added more jobs than expected and where wage inflation was high while unemployment remained low
- Prior to the US jobs data, Powell held a speech where he reiterated the Fed's previous message that it will start to slow down the pace of rate hikes to assess the effects of cumulative tightening
- Core PCE inflation, the Fed's preferred inflation gauge, fell more than expected to 0.2% m/m in October from 0.5% m/m, which bolstered the Fed's case to slow hikes
- The US Department of Commerce's estimates on economic activity in 3Q were mixed
  - Real GDP grew 2.9% QoQ, while growth in GDI QoQ rose by a modest 0.3%
  - Personal spending was up 1.7% QoQ due to strong demand, despite higher prices
- ISM PMI for manufacturing contracted last month for the first time since the pandemic
- New home sales in increased more than expected in October, but this strength in demand is likely temporary as sales rebounded from a very weak September

Euro Area inflation eased in November for the first time since June last year

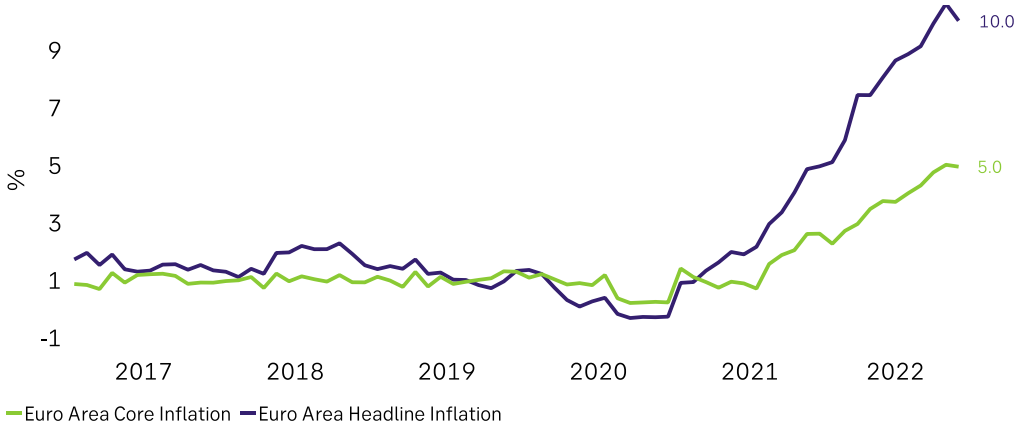
- Eurozone headline inflation fell to 10% in November, which was below consensus
  - Headline inflation in the region declined from 10.6% in October, as lower energy inflation more than offset price growth for food, alcohol and tobacco
- Core inflation y/y, which excludes energy, food, alcohol and tobacco, did not budge from its all-time high at 5 % and inflationary pressures were still elevated
  - Many forecasts point to lower inflation next year, but there are risks of positive inflation surprises over the coming months as the late heating season kicks off
- The ECB is not entirely convinced that inflation has reached a peak yet and the central bank has signaled that it may be too soon to start slowing rate hikes in December
  - Consensus is for a 50 bps hike by the ECB, but markets price just above 50 bps
- The IFO Business Climate survey slightly rose in November as German businesses were less pessimistic about the future than a month ago
- The Gfk survey indicated that German consumer confidence will stabilize in December because of the government's energy support, but remain close to record-low levels

Figure 1: The US manufacturing sector contracted in November according to surveys from both ISM and Markit. Manufacturing activity shrank faster than forecasts.



Source: Macrobond, SEB

Figure 2: Headline CPI inflation y/y fell in the Euro Area in November due to a decline in energy price growth . Core inflation y/y remained at record-highs.



Source: Macrobond, SEB

Economy – Emerging Markets

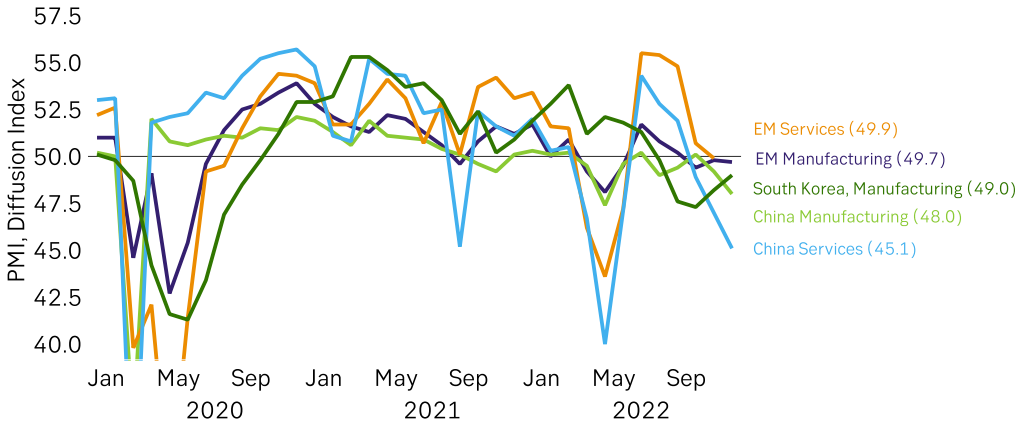
Beijing signaled that a zero-Covid exit are on the cards after massive covid protests

- Policymakers released new measures to ease quarantine rules last month which included a shorter time for quarantine and home isolation for travelers
- Beijing appeared to soften their stance on zero-covid after authorities held a press conference where they downplayed covid risks and urged elders to get vaccinated
- Retail sales slipped 0.5% y/y in October and industrial output growth slowed
- PMIs signaled that Chinese manufacturing and services activity shrank at a faster pace last month, due to lower demand amid covid outbreaks and lockdowns
  - New orders fell as demand deteriorated, while disruptions from lockdowns led to delays in supplier deliveries and lower factory output
- The PBoC, China's central bank, cut the reserve requirement ratio for major banks in November to increase bank lending and support its slowing economy
  - The central bank hopes that by injecting more cash into banks, credit demand will boost growth which has been slow and led to negative GDP revisions this year
- The PBoC also loosened its policy in October by increasing M2 money supply
- December's Central Economic Work Conference will be important as it will offer insight into China's economic goals and path over the next 5 year-period
  - Pro-growth policies have so far been ineffective as GDP only grew 3% in the first 9 months and investors will look for how the new leadership aims to change that

Brazil barely grew last quarter, but will likely hold policy rates at the next meeting

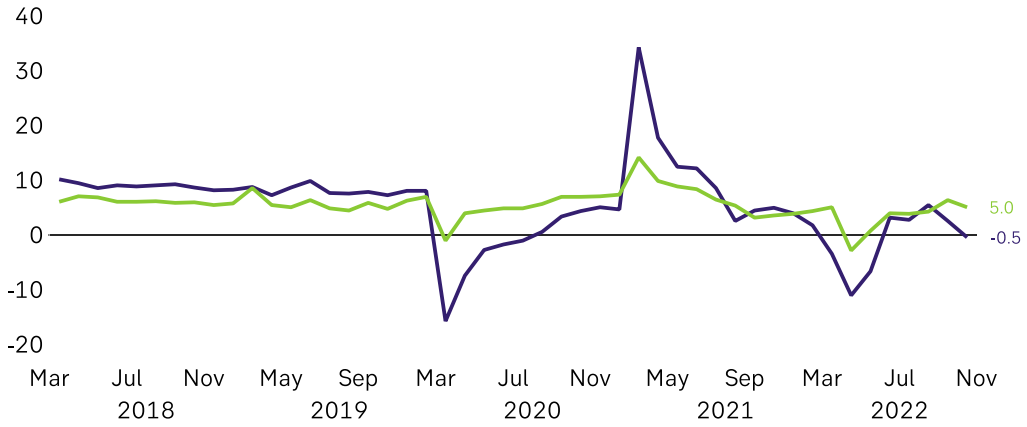
- EM inflation has receded rapidly after fast tightening by central banks in the region
- Falling inflation has led to expectations of rate cuts ahead of DM central banks
- However, Brazil's central bank is expected to hold its policy rate in December due to concerns of higher inflation because of President Lula's plans for extra fiscal spending
  - It held its policy rate steady in October when the inflation rate was 6.5% y/y
- Brazil's manufacturing PMI fell below 50 in November, which could signal a contraction in Q4 as growth was rather weak in the last quarter
- GDP rose 0.4% QoQ in the Q3 with help from fiscal stimulus and reopening effects, but these have likely played out their role as growth drivers going forward

Figure 1: PMIs have fallen more in China than in the rest of EM, as rising covid cases and restrictions continue to weigh on Chinese businesses and consumer demand



Source: Macrobond, SEB

Figure 2: Demand fell and growth in industrial output slowed in October due to zero-Covid restrictions, which did not prevent a new covid outbreak in November



Source: Macrobond, SEB

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SEB House View – US Macro Status

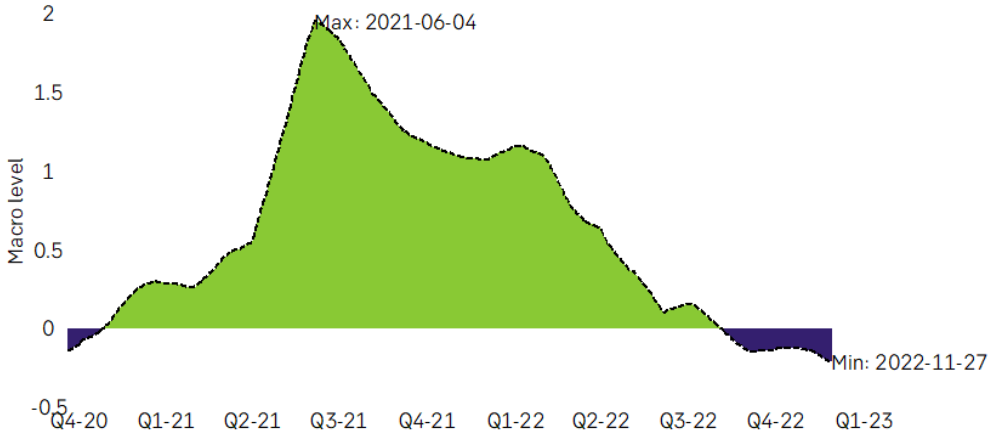
US macro stayed below its long-term trend last month, but the slowdown moderated

- The Philly Fed survey showed that current manufacturing activity further declined last month, which contributed negatively to our aggregate macro level and surprises
  - On the positive side, future activity rose last month – although it remained negative – as future indicators for new orders, shipments and capital expenditures increased

Macro data surprised to the upside despite a more negative outlook for US growth

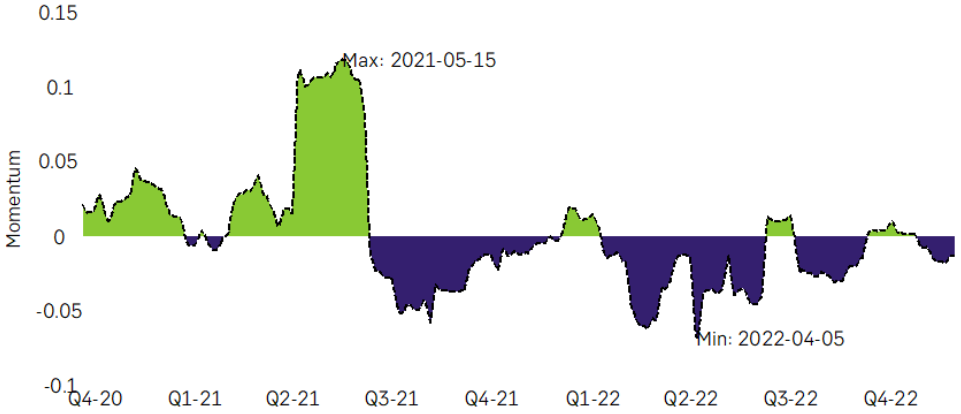
- Inflation surprised to the downside in October, while S&P PMIs were in contraction
- Orders for durable goods in the US rose 1% MoM in October, well above expectations, due to upticks in transportation equipment and military aircrafts
- New home sales increased by 632k units in October, more than the expected 570k rise
  - The unexpected increase in home sales was driven by a rebound in demand from the South following a weak September when hurricane Ian hit the region
  - The housing market will likely weaken over the next months due to high mortgage rates and low demand as a result of this year's aggressive Fed hikes

Figure 1: Declining manufacturing activity in November weighted on US macro



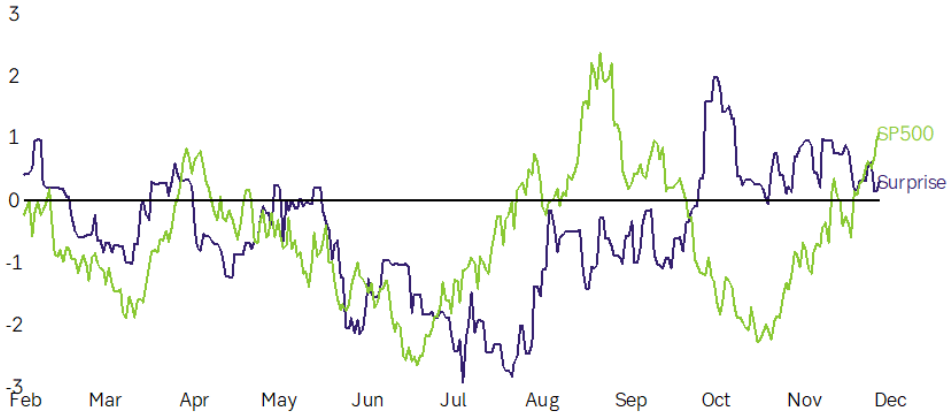
Source: SEB House View

Figure 2: US macro momentum was almost flat MoM due to mixed macro data as PMIs continued to fall, but consumer spending remained resilient despite elevated inflation



Source: SEB House View

Figure 3: US macro surprised on the upside as housing demand and durable goods unexpectedly rose in October, signaling that macro is stronger than markets think



Source: SEB House View

SEB House View – EU Macro Status

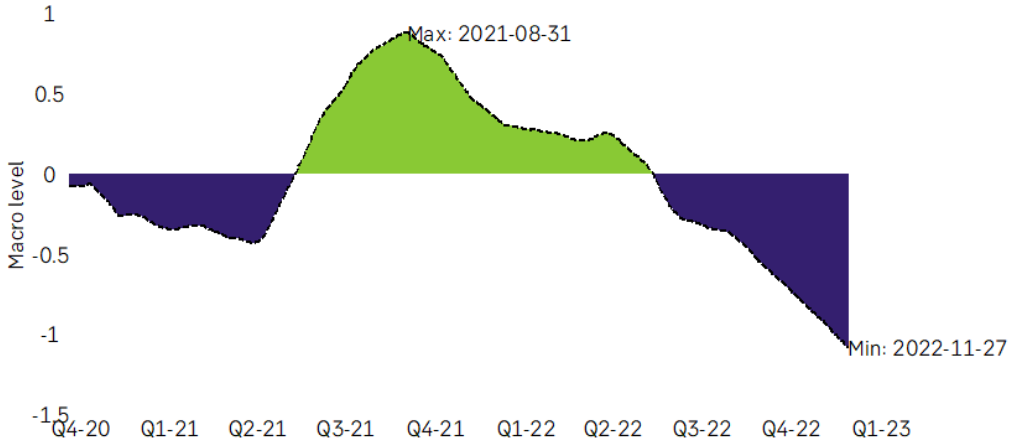
The EU macro level reached negative territory below contraction levels seen during the pandemic, as business and consumer sentiment continued to deteriorate

- Gfk consumer confidence in Germany slightly improved for the December period, for a second consecutive month, as the government introduced energy price caps
  - German consumers were still pessimistic as price caps only eased fears of high energy prices to some extent, but long-standing fears of higher prices remained

EU macro surprised on the downside again due to weakness in factory output

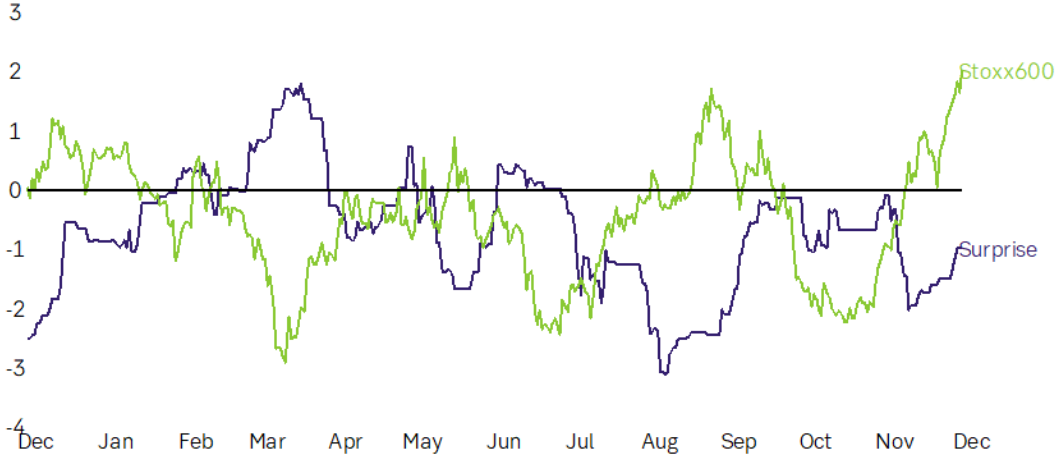
- Spain's manufacturing PMI further fell into contraction territory in October
  - The country's factory activity contracted for a fourth consecutive month as economic uncertainty and inflation pressures led to declines in demand and output
- German factory orders slid 4% in September as demand fell more than -0.5% forecast
- This is in line with recent EU manufacturing PMIs that have signaled a contraction for the sector amid falling demand due to high energy costs and record-high inflation

Figure 1: The EU macro level has continued to fall and is far below pandemic levels



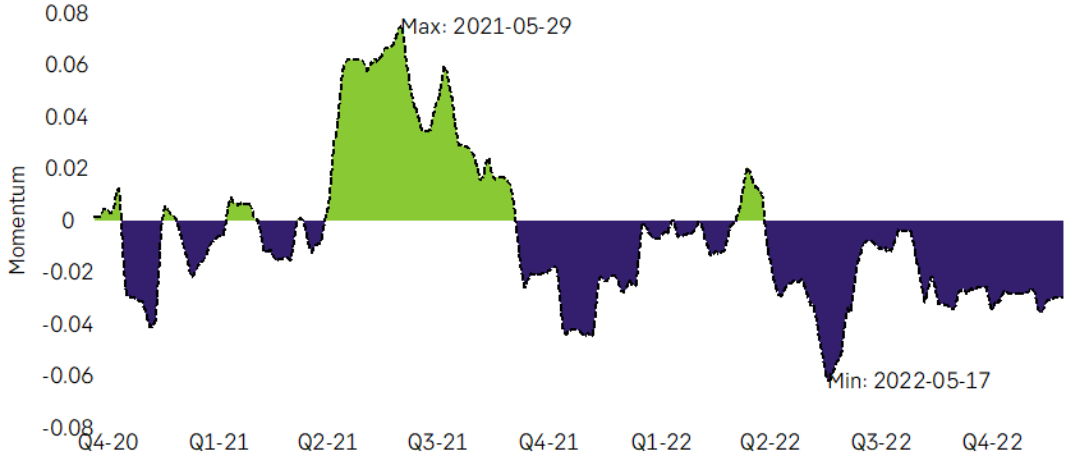
Source: SEB House View

Figure 2: European equities have risen despite negative macro surprises in the region



Source: SEB House View

Figure 3: Macro momentum was negative due to weak EU manufacturing sentiment



Source: SEB House View

SEB House View – EM Macro Status

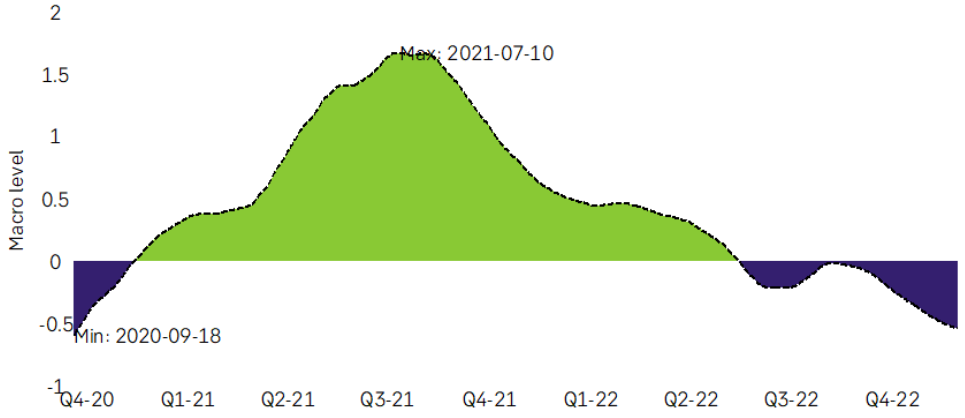
Our EM macro indicator surprised to the downside, as Chinese covid restrictions depressed domestic demand and business activity

- Chinese retail sales fell -0.5% YoY in October compared to forecasts of 0.7% growth
  - Retail sales contracted amid a rise in new covid cases and restrictions that saw the largest drop in sales for home appliances and communications equipment
- China's services PMI fell into a deeper contraction than expected in October
  - Covid curbs led to lower demand and business activity to decline for a second month
  - The economic pain from restrictions has led to protests across China, which put pressure on policymakers to reopen its economy sooner than later

Outside China, Taiwan and South Korea felt the pain from weaker global demand

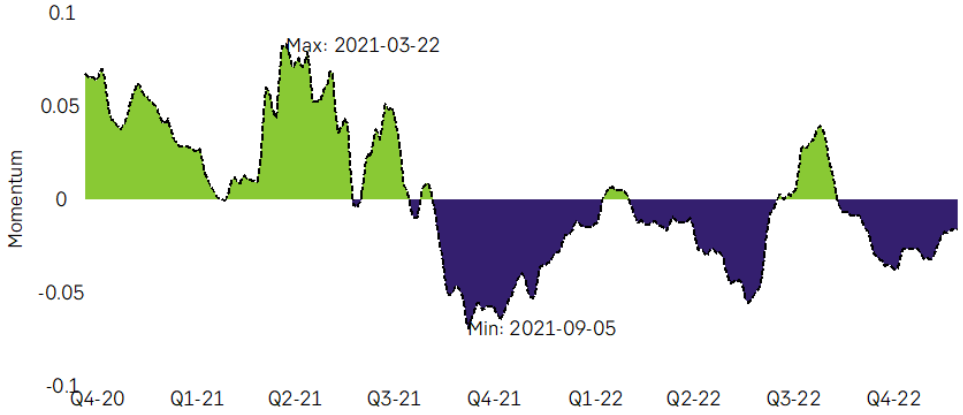
- Taiwan manufacturing PMI fell to 41.5 in October, an all-time low
  - The sector saw its output and new orders contract at a faster pace than in the month before, due to weaker domestic and global demand for its goods
- S. Korean exports YoY fell more than expected in October, also due to weaker demand

Figure 1: Our EM macro indicator continued to deteriorate as global demand weakened



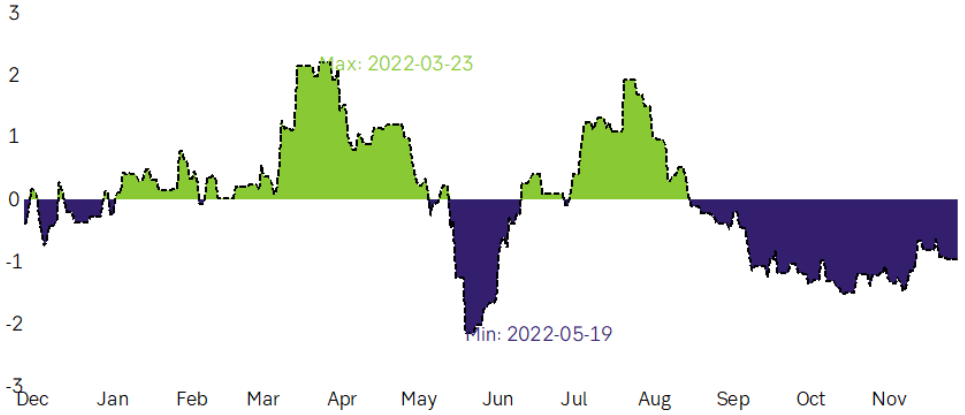
Source: SEB House View

Figure 2: EM macro momentum remained negative amid sharp contractions in South Korean exports and China's services sector



Source: SEB House View

Figure 3: Disappointing South Korean exports and weaker demand in China due to lockdowns contributed negatively to our EM macro surprise indicator



Source: SEB House View

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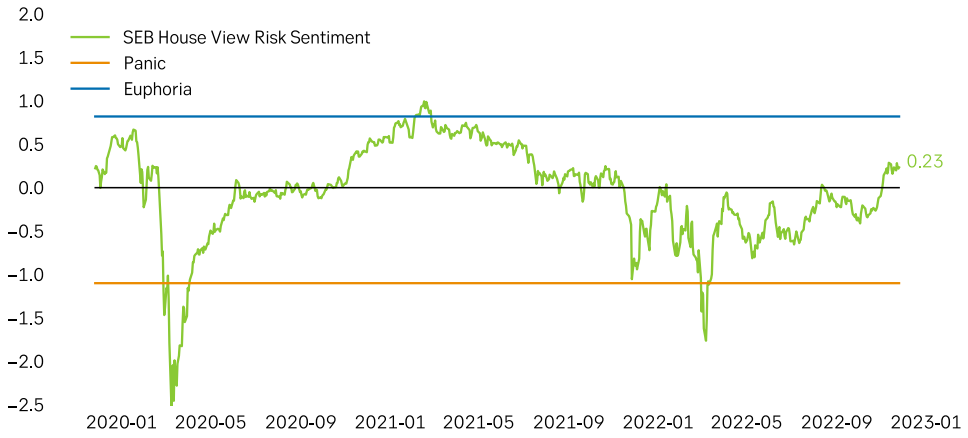
SEB House View – Risk Indicator

The Risk Indicator rose after November's relief rally, however, the indicator shows that risk sentiment is far away from euphoria

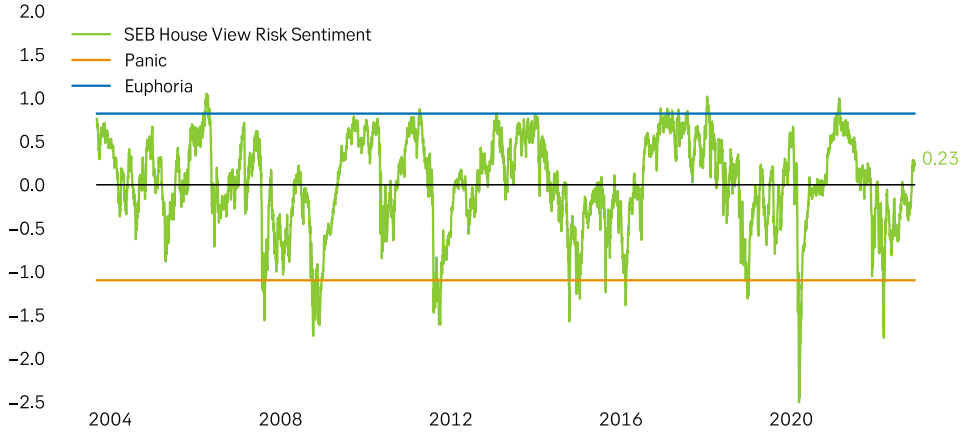
- Our indicator signals that risk sentiment is still sound, despite edging higher following the recent market moves
  - The indicator is at odds with some investors' belief of a positive overreaction to the recent news of a slowing FED and China's supposedly easing covid policies
  - Having said that, we have at previous House View meetings concluded that our indicator is less accurate in predicting stock market peaks than troughs (see figure 3 that plots historical extremes for the S&P 500 index)
- Falling bonds yields, followed by improved sentiment, were the two biggest contributors to the increase in our Risk Indicator
  - Lower implied, or forward-looking, volatility on European and US stock markets also contributed to the upward move from -0,10 in November to 0,23 in December

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



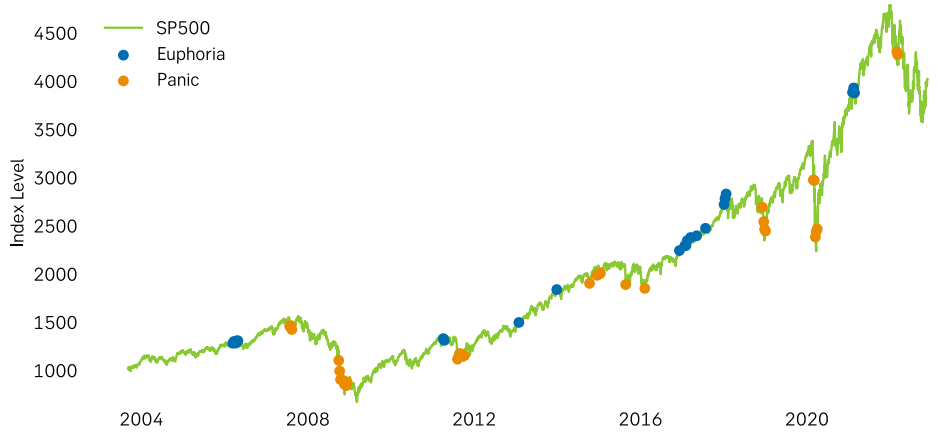
Source: SEB House View

Figure 1: SEB House View Risk Indicator



Source: SEB House View

Figure 3: Extreme states plotted on SP500



Source: SEB House View

In Focus: Inflation

Our inflation heat map indicates that US inflation is falling

- The heatmap shows that inflation pressures are falling due to declines in the prices paid and deliveries components of the ISM Manufacturing PMI index
- Commodity price growth, ex-energy, have also declined recently

Leading indicators based on regional Fed surveys point to a contraction in demand

- Apart from the ISM, regional manufacturing activity surveys, such as the Philly and Chicago Fed, signals lower demand for US manufactured goods ahead
- Less demand for goods will almost certainly lead to lower goods inflation, which should drive headline inflation lower in the coming months

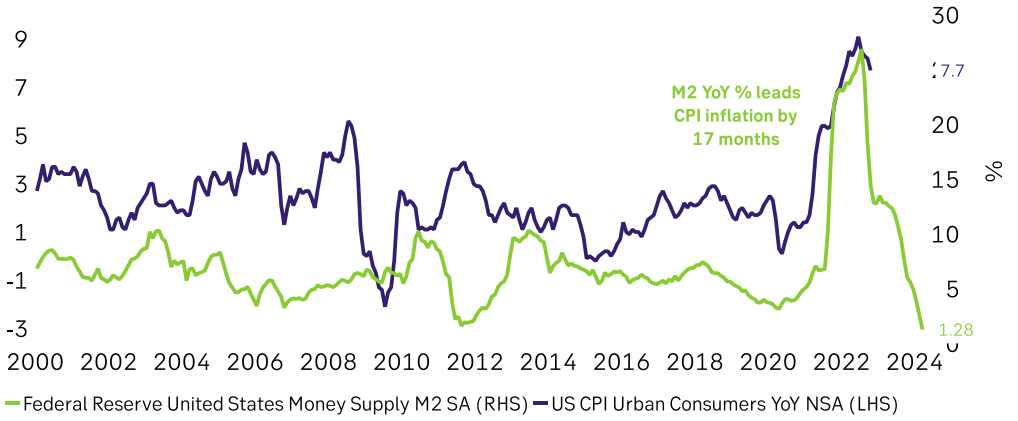
Monetary policy tightening should by itself lead to lower inflation

- In theory, as the level of CPI tend to track the level of the monetary stock, slower money supply growth should lead to a fall in inflation as well
- Inflation in the US should therefore continue to fall as the Fed has sharpy lowered money expansion to 1.28% y/y in October, below pre-pandemic levels

Services inflation will likely be the most important inflation driver going forward

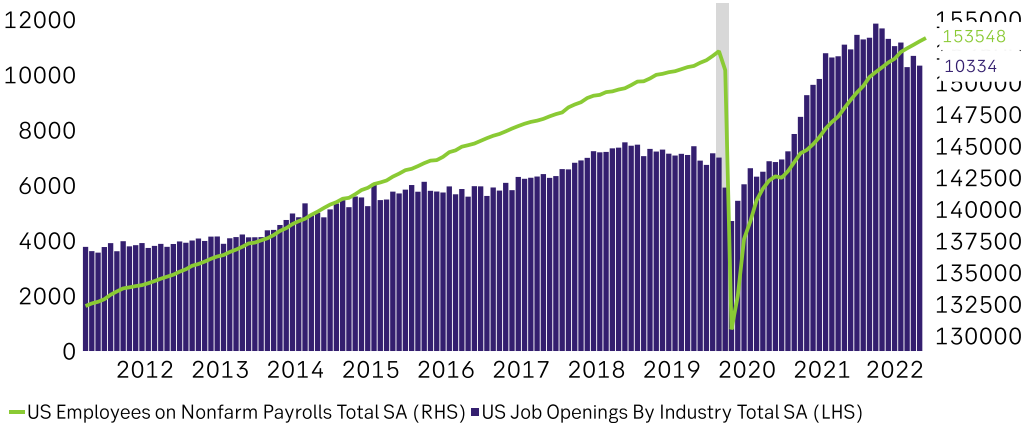
- Core goods inflation has recently softened in the US, while core services inflation has remained high, making services costs a key concern for the FED
- Services inflation has been high due to, among other things, a tight US labor market in which supply has stayed below demand since covid and wages increased as a result
- The labor force participation rate will likely stay below pre-covid levels for some time as the lower participation was likely a result of early retirements during the pandemic
  - Since labor supply will likely not rise any time soon, labor demand and employment would instead need to fall for wage growth to moderate
    - Unemployment stayed at 3.7% in November, but we think that the US jobs market will cool down and unemployment rise as demand is starting to fall
- Fewer job openings was an early sign that the labor market is starting to slow down, but strong payrolls and falling initial jobless claims point to a hot labor market still

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



Source: Macrobond, SEB

Figure 2: The US labor market has remained strong, but should cool down as the economic activity is starting to fall



Source: Macrobond, SEB

In Focus: China's reopening

November was an eventful, but rocky month for Chinese stocks, which surged on reopening hopes that fueled risky assets

- Global equities rallied in November over hopes of a reopening in China and gradual exit from its strict Covid Zero policy, which has been a drag on the region's growth
  - Speculations that China's central government was planning to lift restrictions increased risk sentiment across markets and re-rated Chinese shares, despite a spike in new infections and nationwide protests against lockdowns
- Earlier last month, Beijing released "20 new measures" which allow local authorities to take a more targeted approach against covid outbreaks
  - The measures included, among others, shorter quarantine time for international travelers and close contacts of people who have tested positive for covid
  - The new measures were interpreted by markets as a first step in a gradual exit from the zero-Covid policy and triggered a relief rally for risky assets

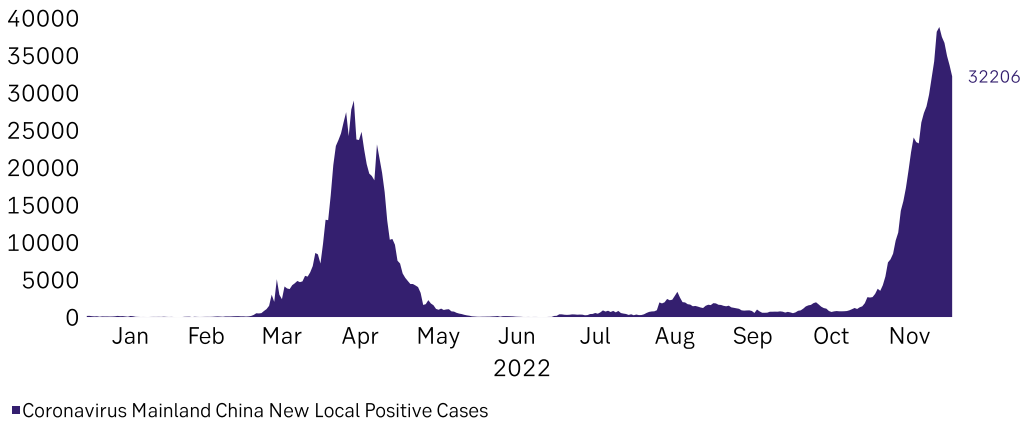
A reopening could be a turning point for Chinese equities that have seen poor performance over the past two years

- We think that China will reopen gradually over the next months for several reasons
  - Beijing's new quarantine rules are likely a first step away from zero-Covid
  - The fact that China has been easing covid-policies, despite severe outbreaks at the moment, is a signal for that a gradual reopening could be underway already
  - The changed official rhetoric and narrative to ease public virus fears and encourage vaccination among elders may indicate that China has plans to reopen
- We think that market sentiment towards China could continue to improve going into 2023, but that the path to a reopening can be rocky and drive market volatility

EM equities and the Consumer Discretionary sector will likely be the biggest winners

- A reopening should boost global growth as demand and production rebound and benefit riskier assets, such as EM Asia equities, cyclicals and commodities, more
- Segments of the market which are most likely to gain from the reopening trade include Consumer Discretionary, transportation, hotels, casinos and luxury goods

Figure 1: Demand fell and industrial output growth in China slowed in October, due to zero-Covid restrictions which did not prevent a new covid outbreak in November



Source: Macrobond, SEB

Figure 2: Chinese companies climbed in November on speculation on China's reopening, but there is more upside potential as China equities are below their peaks

Source: Macrobond, SEB

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Developed Market Equities – 12M Outlook

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

The risk of a hard landing in the US has somewhat decreased recently, as inflation has probably peaked and the FED has signaled a slowdown in the pace of rate hikes. However, the outlook for Europe is gloomier, but a gradual reopening in China could be a positive factor for capex-intensive sectors in the developed world. However, downside risks from overtightening of monetary policy and negative earnings revisions have increased for developed market equities. Having said that, we expect the FED to end its tightening cycle in the near-term, as financial conditions are already tight and US inflation appears to have peaked. Europe, on the other hand, has a tricky road head as the region faces multiple headwinds from elevated inflation, a weaker macro environment, an energy crisis and further monetary policy tightening.

A reopening of China could also be beneficial for some cyclical sectors

Defensive sectors have outperformed cyclical sectors this year, which currently discount an US economic contraction. We expect a gradual reopening to boost China's growth to 4-5%, which should support global capex and cyclical sectors, such as industrials.

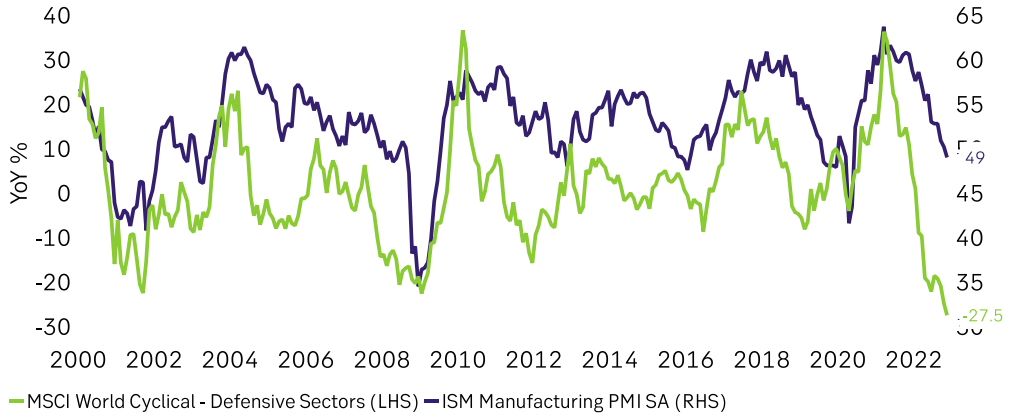
2023 will favor companies with pricing power that can maintain good profit margins

As the downside risks for sticky inflation and profit margin compression have increased, companies that have pricing power and can offer growth will be attractive. Investors will likely be willing to pay more for companies with good profit margins and higher growth. Households are becoming more price-sensitive, according to consumer data, which should make it more difficult for companies to pass on higher costs to consumers.

12M forward P/E multiples can expand due to inflation receding quickly and as lower bond yields push up equity valuations

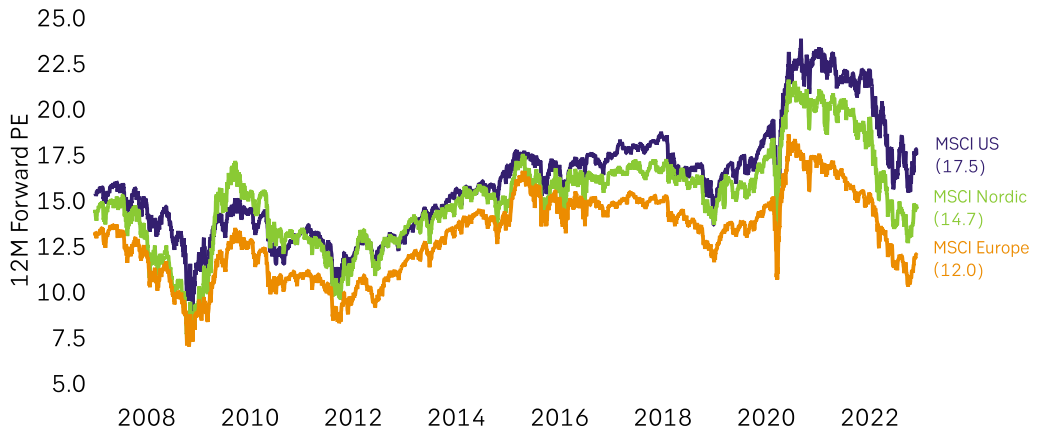
A peak in inflation and rates will likely lead to higher P/E ratios before nominal earnings contract, as earnings usually come with a certain lag after an economic recession.

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 bottom once rates peak and then re-rate as interest rates fall.



Source: Macrobond, SEB

Emerging Market Equities – 12M Outlook

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

The growth premium of EM markets relative to DM markets can accelerate next 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. That is, we could see an improvement of GDP in these regions and can expect further positive earnings revisions. The reopening trade in China is probably not fully priced in yet, as the country is expected to reopen gradually over the coming months. Chinese growth has disappointed this year despite fiscal and monetary support. But we expect the stance to zero-covid to continue to improve in China, gradually, and China's GDP growth to rebound to around 4-5% for the next year. The budget meeting in December will offer clues for China's future economic path and goals, which will likely ease investors' skepticism against Xi and improve risk sentiment towards China.

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 its 3% target, the PBoC is at a different starting point than central banks in developed economies.

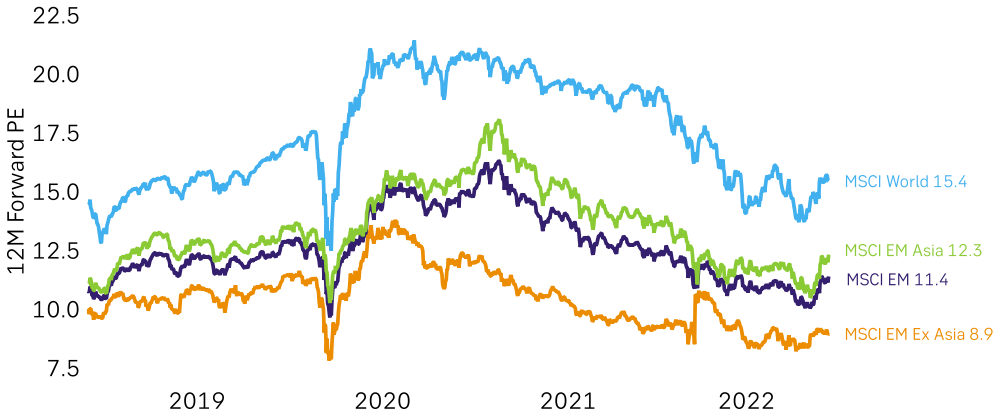
A weaker US dollar should support EM equities

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

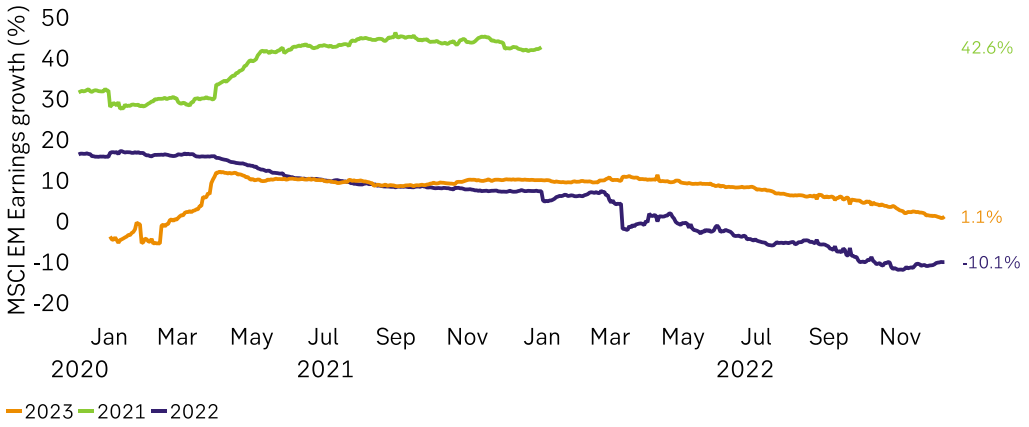
EM valuation has traded cheaper due to a multitude of challenges in 2022: zero Covid strategy, tech and property sector crackdowns, power rationing, a regulatory adjustment to the corporate profit share and President Xi's third term. Global investors are still relatively underweight EM due to the higher risk premia in the region, but we may see a turnaround next year as investors look for alternative assets when growth in developed economies and bond markets come under pressure.

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



Source: Macrobond, SEB

Figure 2: In our view EPS estimates for EM are too low. We expect that a 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 Investment Grade bonds over High Yield bonds and continue to hold an underweight to High Yield bonds

The relative attractiveness of High Yield bonds to Investment Grade bonds is still low in our view. Corporate bond markets are pricing in high levels of uncertainty, given that overall spreads are at elevated levels. We remain underweight to riskier High Yield bonds and EM debt as we think that this uncertainty will persist until inflation comes down or the FED pivot. Investment Grade bonds have low risk and sufficient risk premia in our view.

We prefer the low-risk segment of bond markets

We remain overweight to Investment Grade Bonds as they carry yields and can provide some protection against the volatility of equity markets. And we hold an underweight to the riskier parts of the bond markets, such as High Yield bonds and EM Debt, until we get a real break in monetary policy.

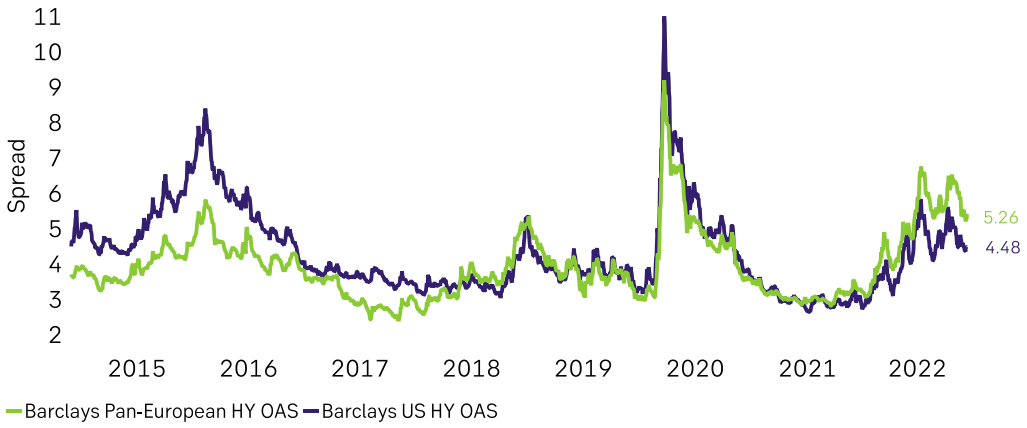
Corporate balance sheets are still strong

Although corporate bonds have performed poorly since the start of the year, businesses balance sheets remain sturdy. We remain overweighted to Investment Grade bonds as we expect the strong business balance sheets to hold up well against a mild recession.

Economic uncertainty should benefit Government and Investment Grade bonds at the expense of riskier High Yield bonds and EM Debt

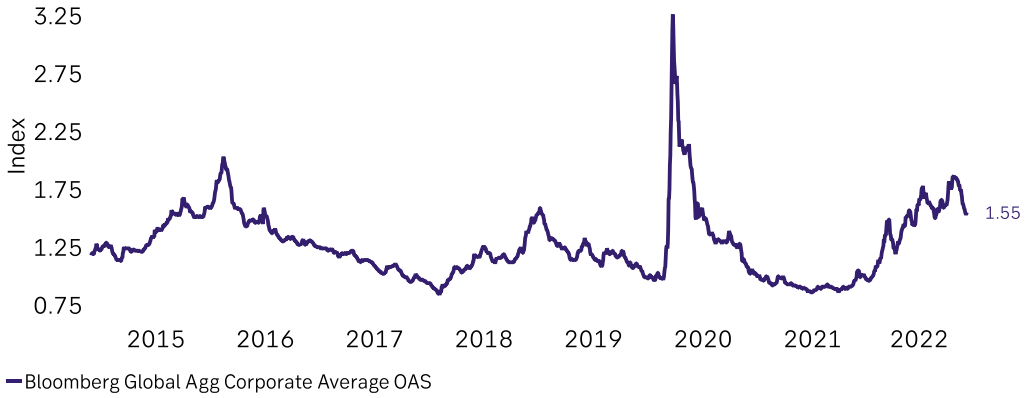
Investors see rising defaults as one of the biggest tail risks at the moment. Due to this risk, we expect safer Government and Investment Grade bonds to see more inflows at the expense of riskier High Yield bonds and EM Debt, despite historically wide credit spreads.

Figure 1: HY spreads in the US and EU tightened following lower inflation and signals of a slowdown in FED hikes. In our view, there are still risks of wider HY spreads.



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 for the outlook next year.



Source: Macrobond, SEB

Government Bonds – 12M Outlook

We hold an overweight to Government Bonds

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

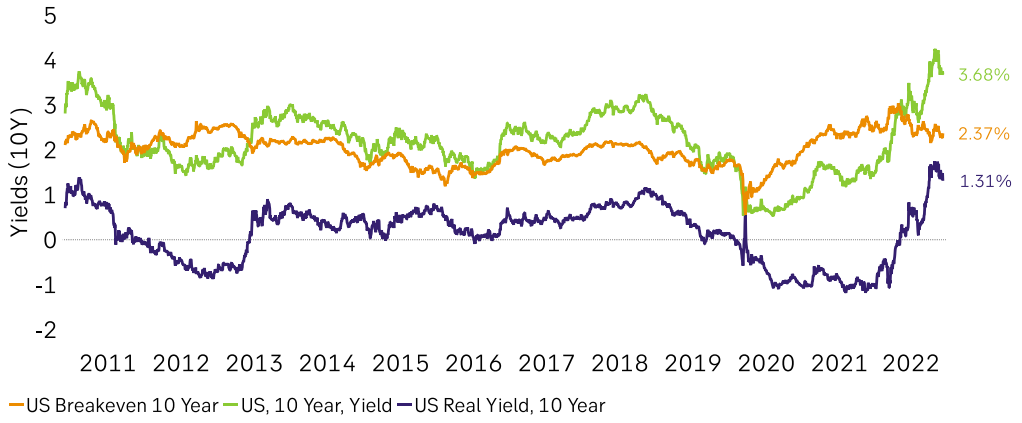
Real yields have turned positive due to the rapid rise in yields

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

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

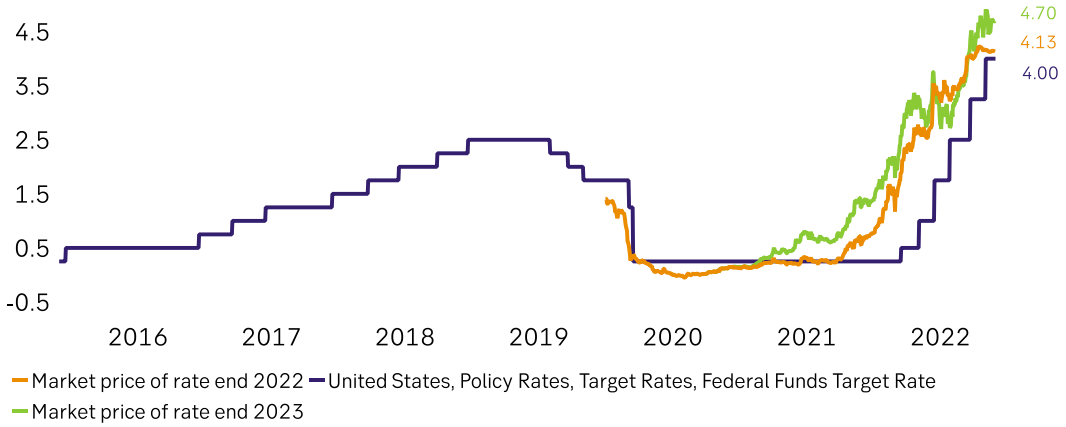
The enormous monetary and fiscal stimulus has allowed for central banks and governments balance sheets to balloon. Therefore, in order to fund the current national debt levels governments are likely to maintain interest rates at low levels for a very long time. We could also see an increase in taxes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

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



Source: Macrobond, SEB

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



Source: Macrobond, SEB

Region Overview

Regional equity positioning

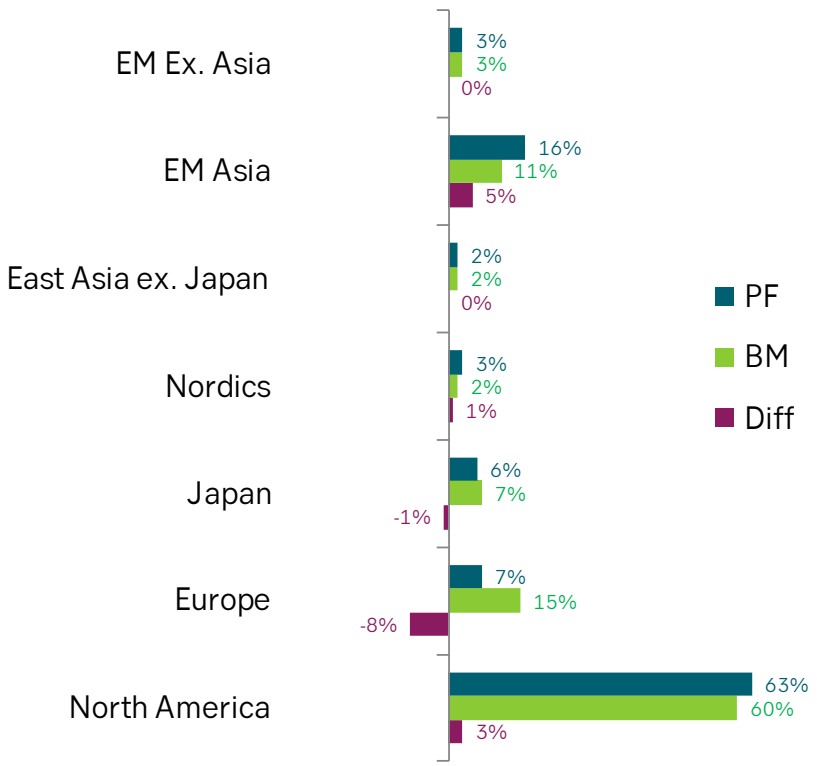
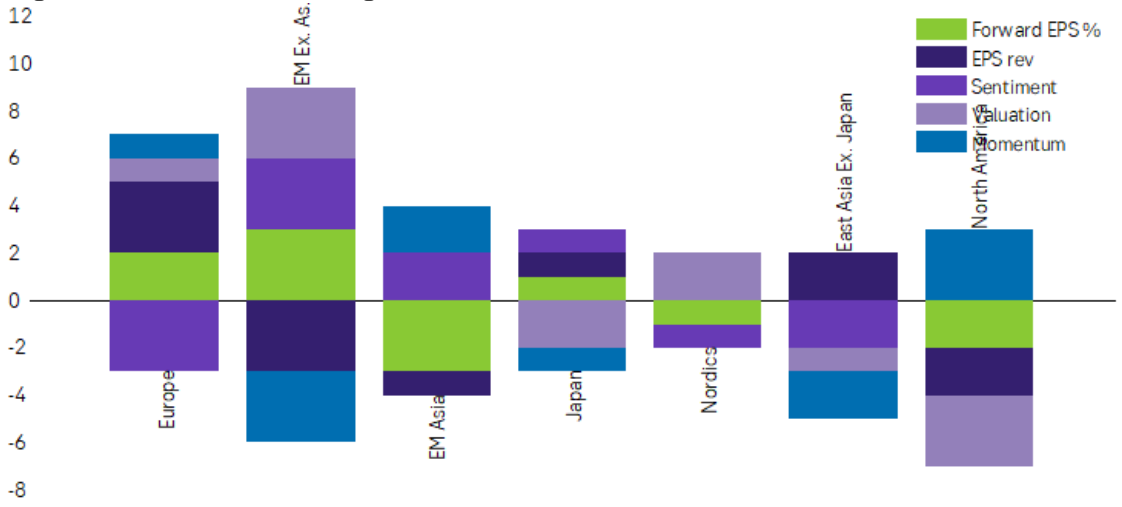


Figure 1: SEB House View region score*



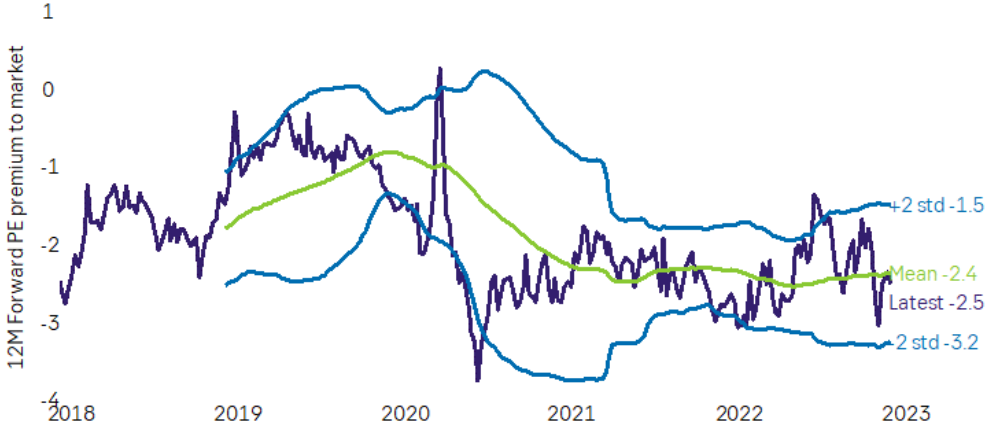
* Ranked by total score with highest score starting from left

EM Asia – Overweight

EM Asia stands most to gain from China's potential zero-Covid pivot and we therefore increased our overweight to the region

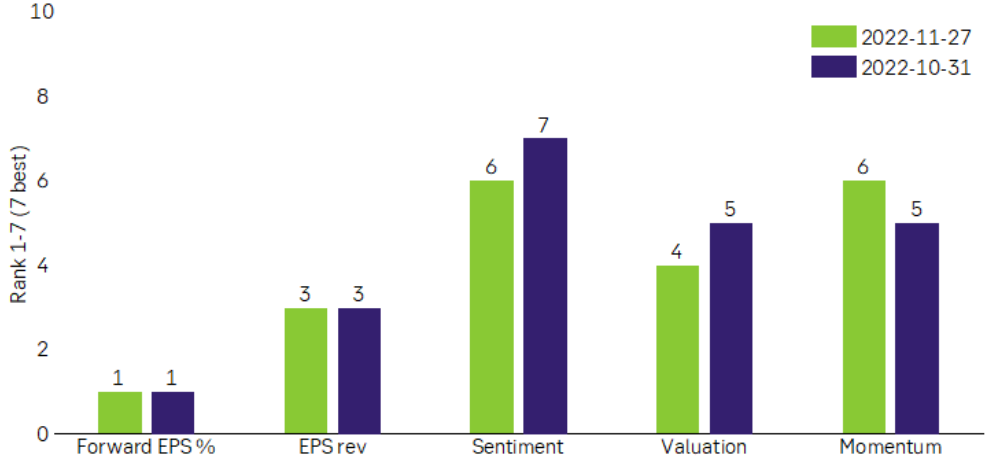
- The region has been a laggard this year, but we believe that it will benefit from China's reopening next year, as a rebound in consumption should boost growth
  - Stronger domestic demand from China should also boost Asian exports and growth for countries in the region, such as South Korea, Taiwan and Hong Kong
- Fundamentals in our regional model are not great, but we believe that they will improve over the coming months
  - Nevertheless, the scores on momentum and sentiment (RSI) rank high relative to other regions
  - We expect to see a turnaround in the region's macro-outlook, market sentiment and earnings next year, due to a gradual reopening of the Chinese economy
- Geopolitical risks around Taiwan remain and it is too early to tell if US-China relations will improve after last month's G20 summit in Bali

Figure 1: Standardized relative valuation – Current constituents



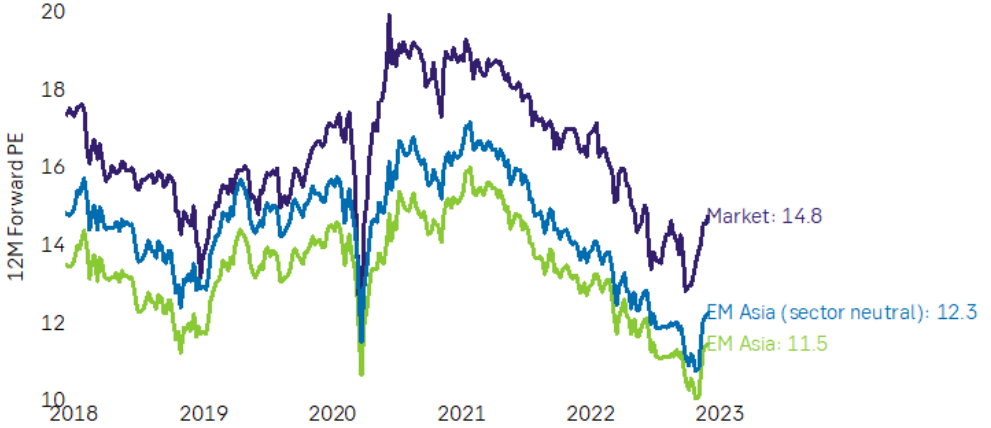
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



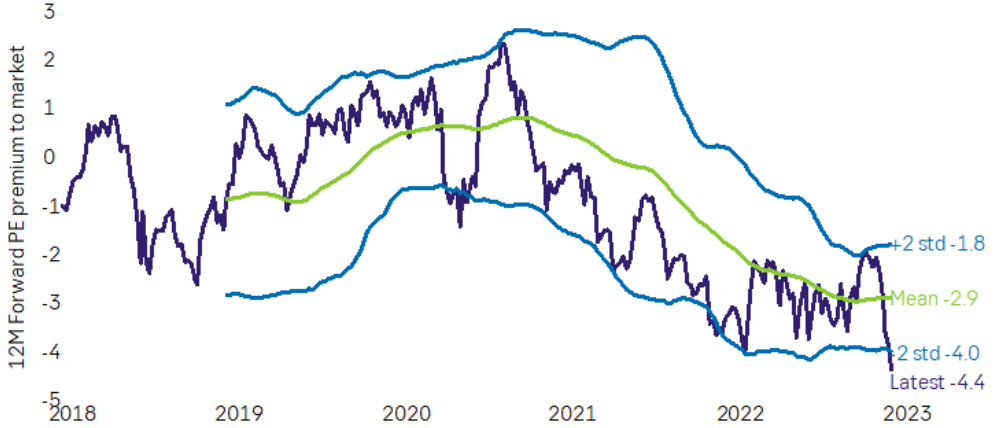
Source: SEB House View

EM Ex Asia – Neutral

We prefer to stay neutral EM Ex Asia

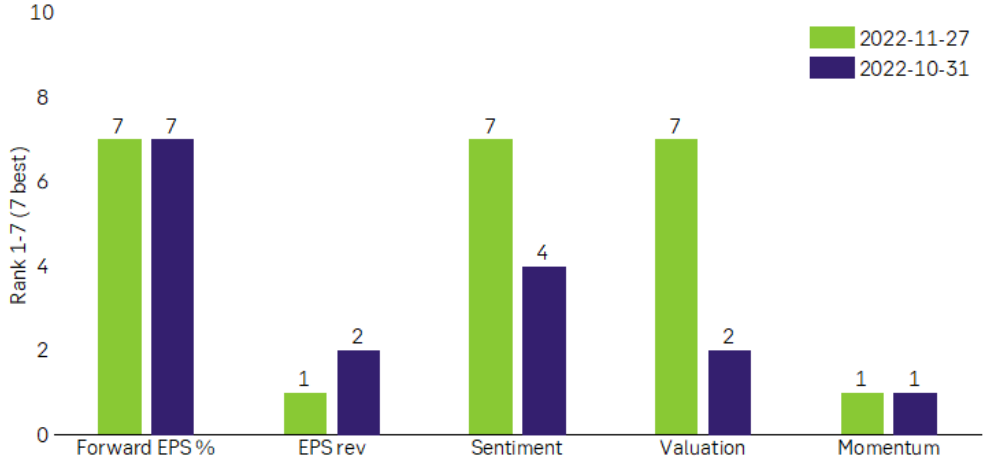
- Macro in Brazil, the region's biggest economy, showed signs of weakening as both consumer and business confidence fell in October
  - Confidence indicators reported declines in current conditions and expectations that fell below optimism levels for consumers and businesses
- Our aggregate macro indicators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

Figure 1: Standardized relative valuation – Current constituents



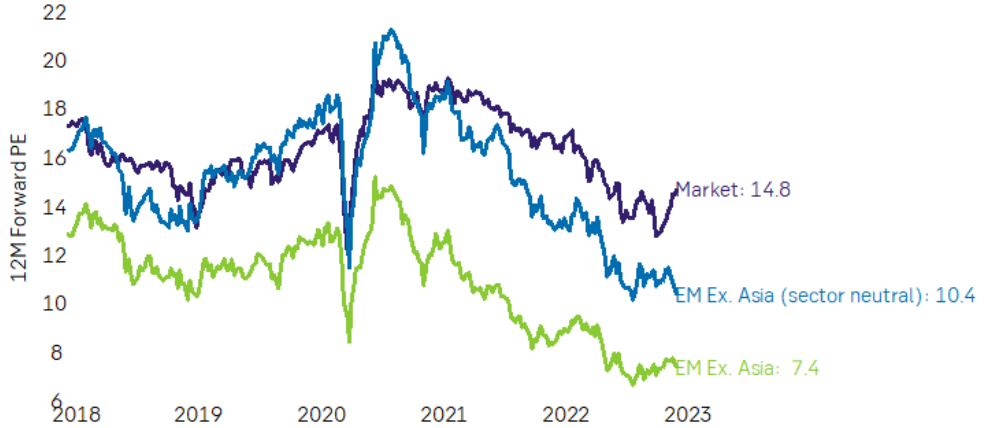
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



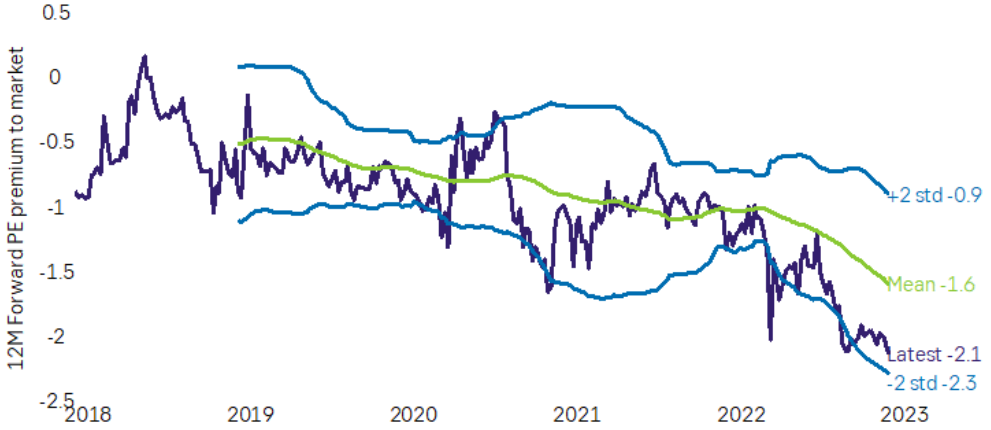
Source: SEB House View

Europe – Underweight

We slightly reduced our underweight

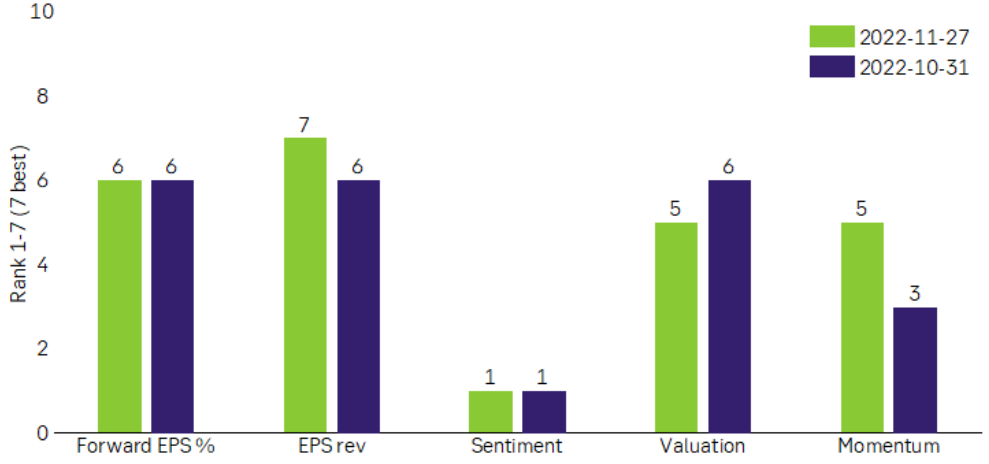
- The region is likely already at or approaching a recession as aggregate macro levels have fallen below contraction territory seen during the pandemic
- Consumer and business confidence remain pessimistic due to lingering fears of higher energy prices amid the energy crisis and Germany's unemployment rate is rising..
- Geopolitical risks from EU price caps on Russian oil add to headwinds for the region
- The ECB has signaled that it is prepared to keep raising rates at a fast pace, despite elevated growth risks in the region and market expectations of a slowdown
- China's reopening should be positive for economic activity in the region as demand and trade improves, but could also lead to upside risks to commodity prices and interest rates
  - It is difficult to say what net effect China's pivot would have on Europe
- Despite Europe's top rank in our model, we think that it is too early to upgrade our position and prefer to wait until macro reaches a trough or inflation/rates peak

Figure 1: Standardized relative valuation – Current constituents



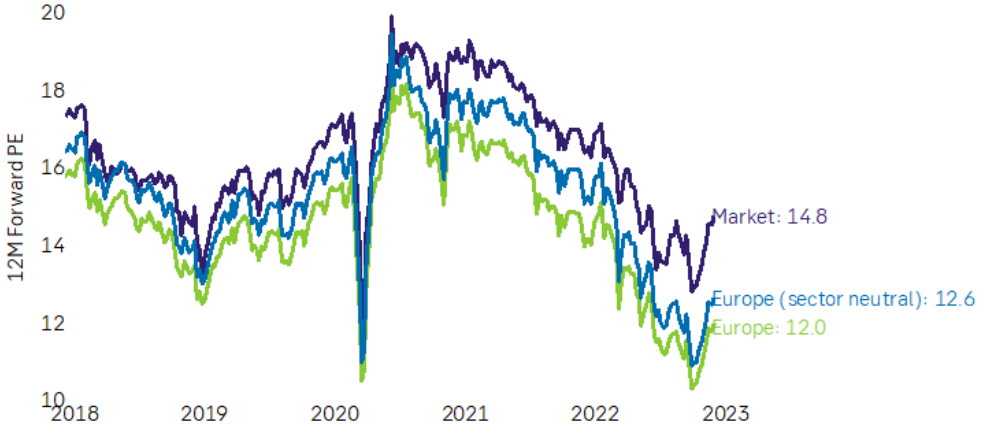
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



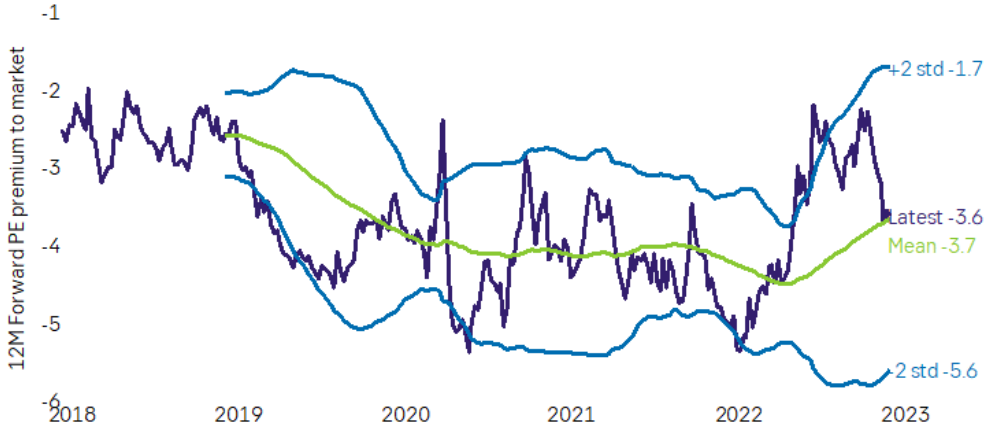
Source: SEB House View

Japan – Underweight

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

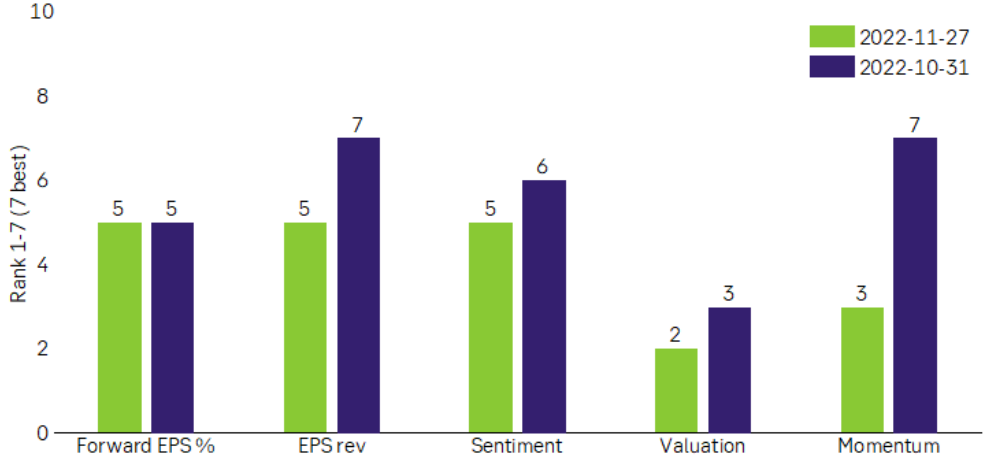
- The BoJ's easy monetary policy has led to a weaker yen against the dollar, as the Fed has continued to hike rates while the BoJ has kept rates ultralow
  - A weaker yen exacerbate the negative impact of rising prices on Japanese households and businesses and there are signs that inflation has already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

Figure 1: Standardized relative valuation – Current constituents



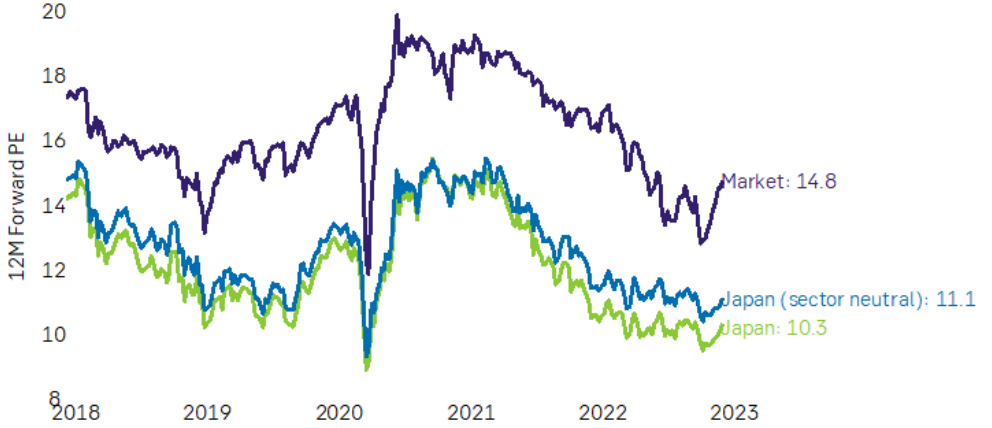
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



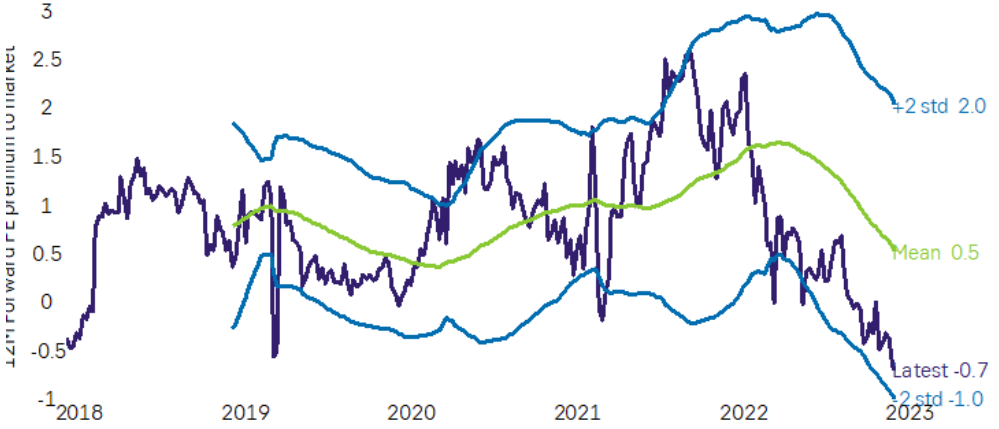
Source: SEB House View

Nordics – Overweight

We remain overweight because of tailwinds from a possibly stable USD next year, inflationary characteristics and attractive valuations

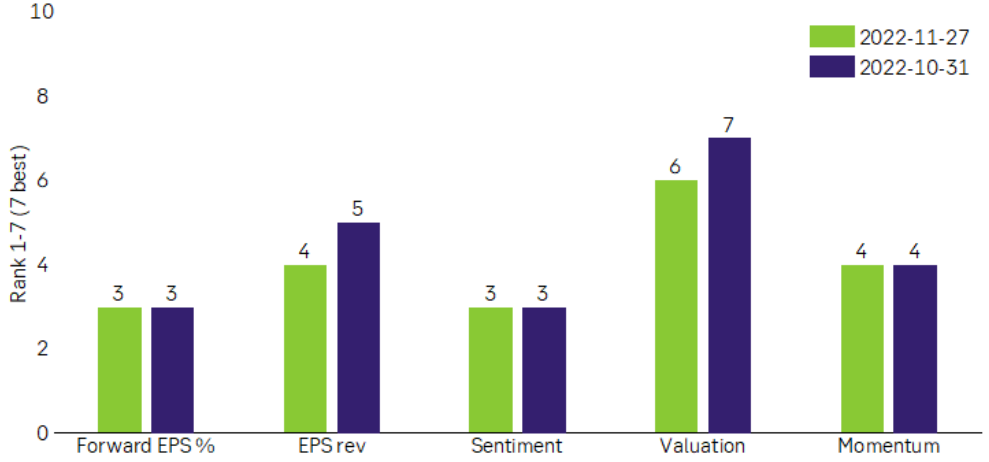
- Earnings remained robust and surprised to the upside in the third quarter, despite higher interest rates, input costs and rising wages
  - We expect Nordic equities to outperform in an inflationary environment as the region is more value-tilted than other regions
  - Industrials and banks, the largest sectors in Sweden, usually outperform other sectors amid rising rates and inflation
- Even though this year's strengthening of the USD appear to have faded, it could remain stable in the near-term, as the Fed is expected to hike rates by smaller increments for-longer
- A strong trade-weighted USD should benefit the export-heavy region
- Our regional model scores the Nordics high on valuations
  - Attractive valuations should reduce downside risks for longer-term equity investors

Figure 1: Standardized relative valuation – Current constituents



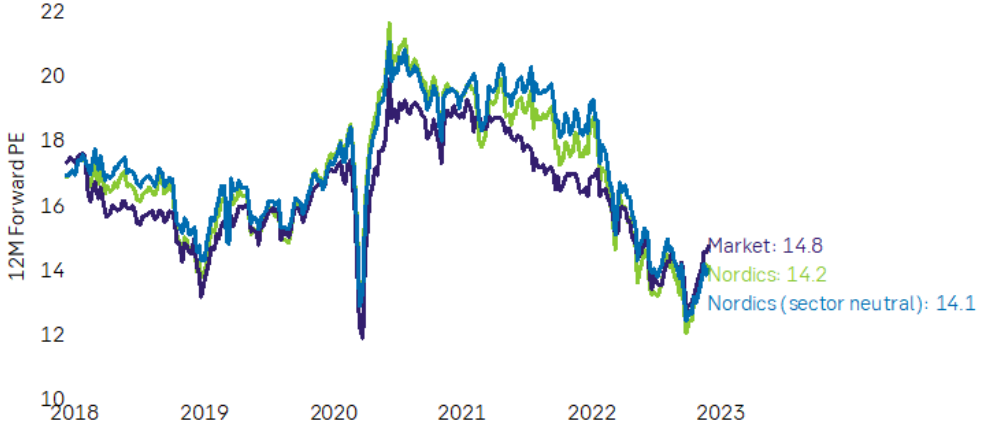
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



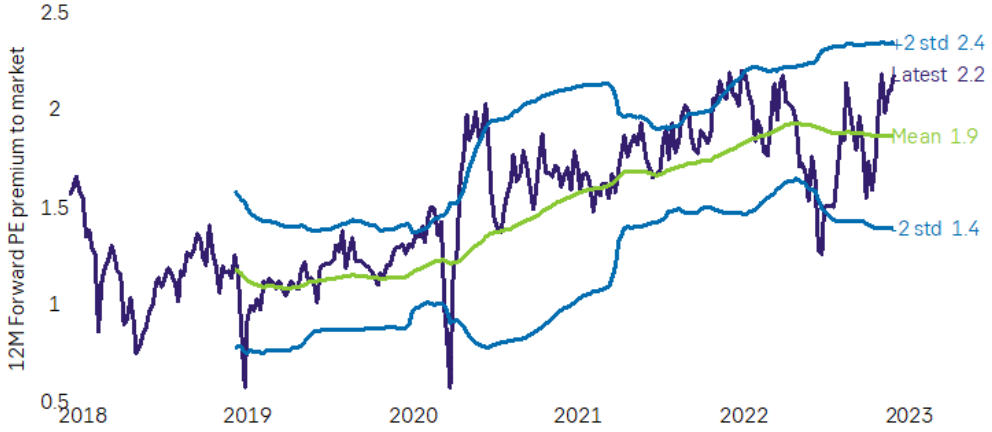
Source: SEB House View

North America – Overweight

We slightly reduced our position, but remained overweight

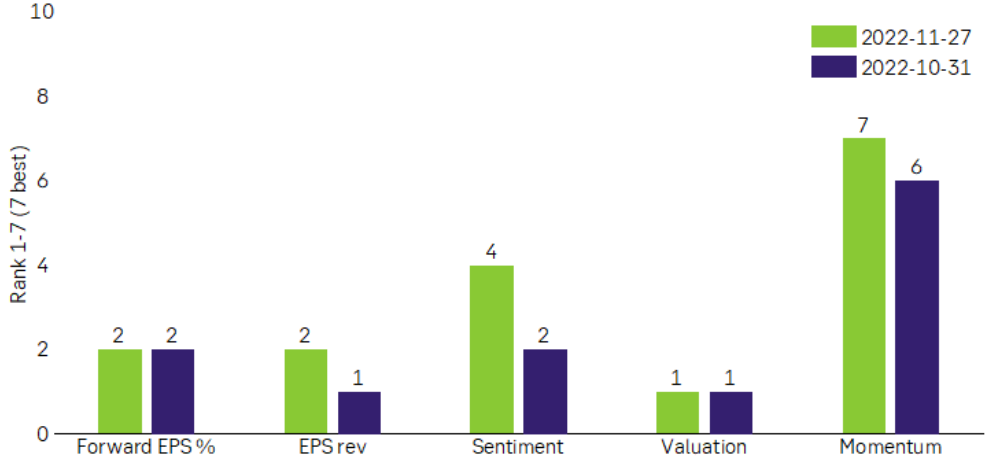
- US equities should benefit from a normalization in inflation and lower interest rates next year, as the economy is approaching a slowdown in growth or even a recession
- Weaker PMIs in their low 40s usually present a good entry point for equity investors and we see a trough in economic activity next year as an opportunity to add risk
- Interest rate volatility will likely continue to fall and allow a sustained rally in equities
- However, we have likely seen a peak in Fed hawkishness following October's soft CPI print and do not expect last week's strong NFP report to cause another 75 bps hike in December
- The peak in USD strength is related to the peak in hawkishness and both these two factors have probably played out their role as equity drivers going forward
- Despite solid Q3 earnings season, we see downside risks for earnings in 2023

Figure 1: Standardized relative valuation – Current constituents



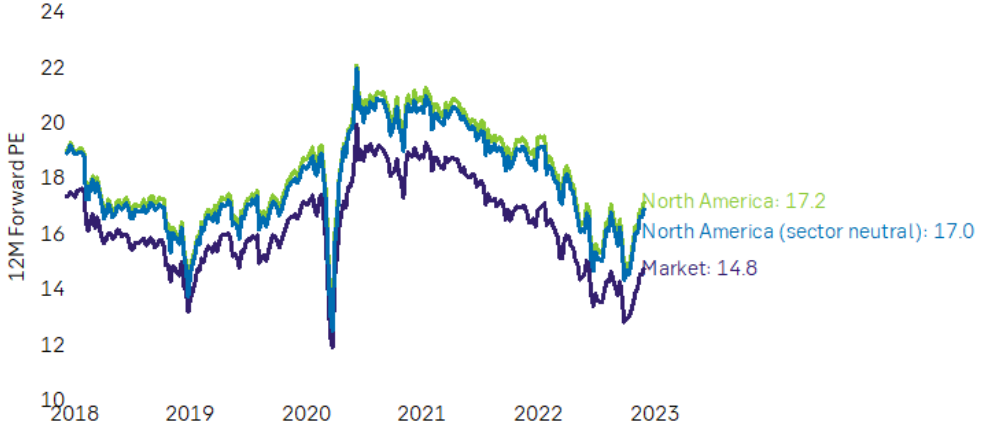
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



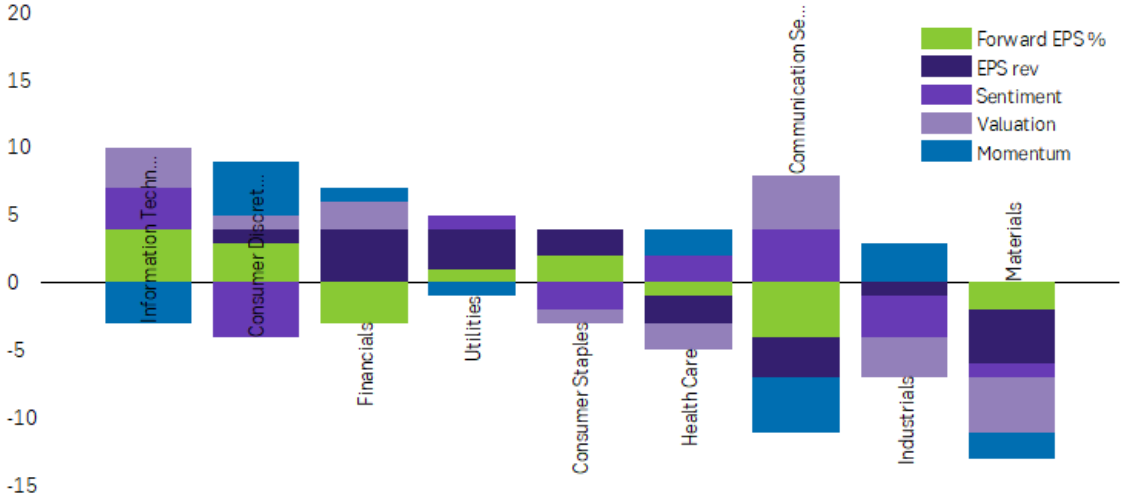
Source: SEB House View

Sector Overview

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

* We do not take views on Energy or Real Estate. The former is too much of an oil call and the latter is too small a sector. (X) Indicates last months positioning.

Figure 1: SEB House View sector score



Source: SEB House View

Overweight – Materials, Health Care and Industrials

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

- There is a risk of high and sticky inflation and Materials as a sector is better poised to outperform during inflationary times and in case of zero-Covid exit
- In absolute terms, the sector trades at a 12M forward P/E ratio below the market

Health Care still provides protection against a recession

- We keep our overweight to Healthcare due to the sector's defensive characteristics
- Global growth risks are rising amid high inflation, hawkish Fed and the war in Ukraine
- We see growth potential in Pharma due to a longer trends such as a global aging population, but also current trends, such as China's recent surge in covid cases

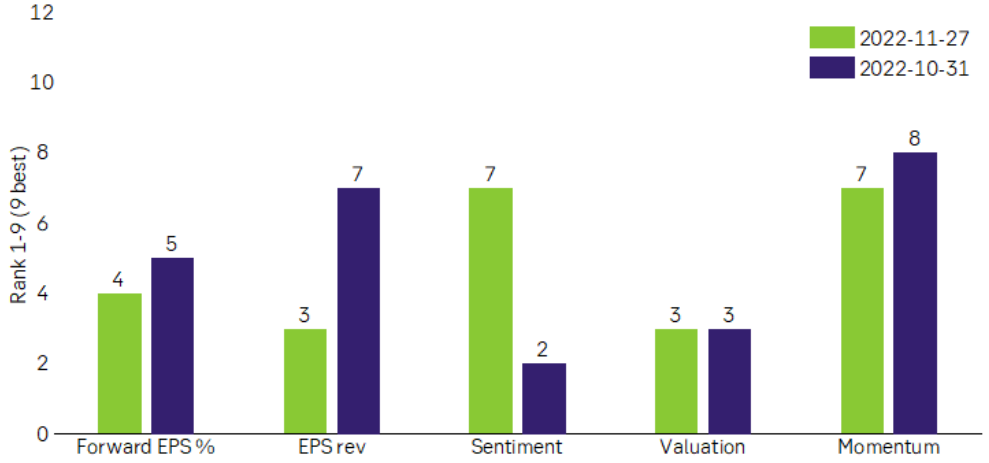
Industrials may benefit from investments in renewables

- The sector has a stable EPS outlook 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: In absolute terms, Materials trade at a lower PE ratio than the overall market

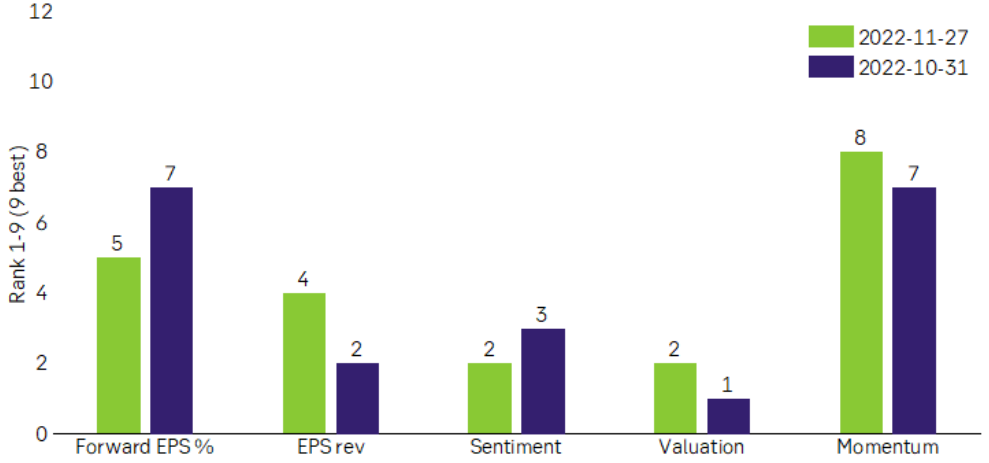
Source: SEB House View

Figure 2: Sentiment/RSI has increased for the Healthcare sector



Source: SEB House View

Figure 3: Industrials have seen the strongest momentum in the last month



Source: SEB House View

Underweight – Consumer Staples and Utilities

The EPS outlook for Staples has improved, but the sector is still rather expensive

- We keep our underweight to Staples as we believe that the sector is expensive
- Cyclical sectors will likely benefit more from a potential reopening in China than defensive sectors, such as Consumer Staples, as demand for discretionary spending should increase
- Consumer Staples should underperform in case monetary policy tightening takes longer than expected, due to sticky services inflation
  - The sector is a bond proxy which moves inversely to bond yields

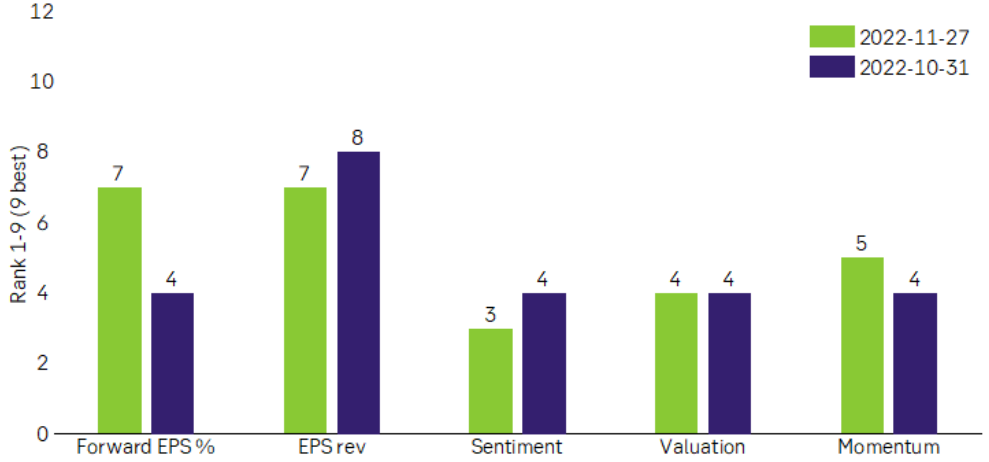
We stay underweight in Utilities

- The earnings growth for the sector looks rather weak in our House View model
- Utilities also trade at a premium relative to the broader market, despite a weaker EPS outlook

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

Source: SEB House View

Figure 2: Consumer Staples scores low on valuation and sentiment in our model



Source: SEB House View

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

Source: SEB House View

Appendix – Inflation Heatmap

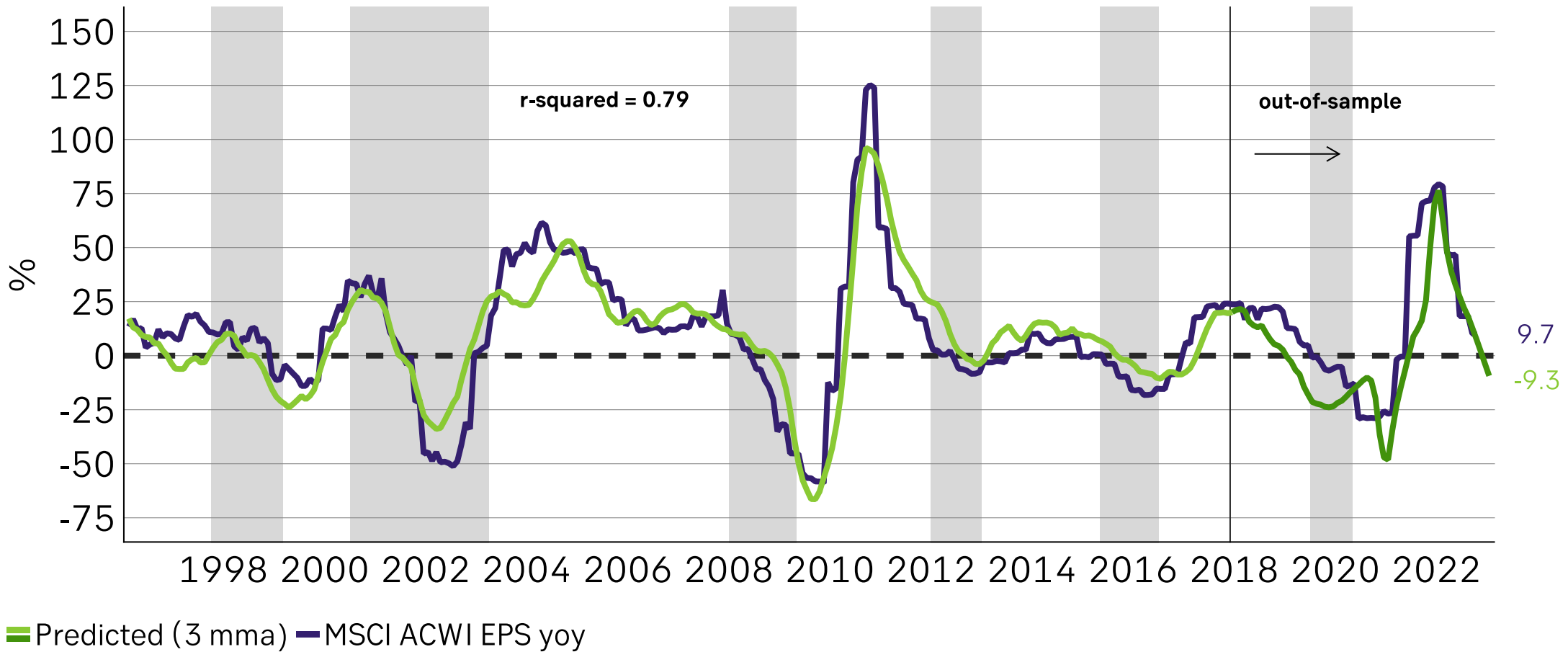
US Inflation Indicators

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

	11/2022	10/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022	3/2022	2/2022	1/2022	12/2021	11/2021	10/2021	9/2021	8/2021	7/2021	6/2021	5/2021	4/2021	3/2021	2/2021	1/2021	12/2020	11/2020
Economic Measures																									
Cleveland Fed Trimmed-Mean CPI Y/Y %		7,0	7,3	7,2	7,0	6,05	6,5	6,2	6,1	5,7	5,4	4,9	4,6	4,1	3,5	3,2	3,0	2,9	2,6	2,5	2,1	2,0	2,0	2,1	2,1
Core CPI Y/Y %		6,3	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	1,3	1,4	1,6	1,6
Core PCE Y/Y %		5,0	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	1,6	1,6	1,5	1,4
CPI Y/Y %		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	1,7	1,4	1,4	1,2
PPI Y/Y %		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	2,5	0,4	-0,8	-1,3
Sentiment																									
Michigan Expected Inflation 12M	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	4,3	3,8	3,0	3,2
Conf Board Expected Inflation 12M	7,2	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	6,5	6,1	6,0	5,7
ISM Services Prices Paid		70,7	68,7	71,5	72,3	80,1	82,1	84,6	83,8	83,1	82,3	83,9	83,0	83,0	79,5	75,9	81,4	78,8	79,1	76,0	73,5	71,6	64,7	65,4	64,3
ISM Manufacturing Prices Paid	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	86,0	82,1	77,6	65,4
ISM Manufacturing Supplier Deliveries	47,2	46,8	52,4	55,1	55,2	57,3	65,7	67,2	65,4	66,1	64,6	64,9	72,2	75,6	73,4	69,5	72,5	75,1	78,8	75,0	76,6	72,0	68,2	67,7	61,7
NFIB Higher Prices		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	25,0	17,0	16,0	18,0
Commodities																									
CRB Raw Industrials Y/Y %	-10,9	-14,8	-8,9	-2,5	-2,5	1,2	9,3	17,4	20,6	18,2	20,2	26,9	31,7	38,3	35,9	37,9	42,5	45,4	44,2	40,8	34,9	22,9	16,2	13,2	11,3
Lumber Y/Y %	-50,6	-21,1	-32,4	4,6	-15,1	-9,8	-46,9	-30,7	-0,7	37,2	15,5	32,6	29,8	19,4	0,9	-47,9	6,0	63,2	256,7	358,9	255,3	149,3	103,7	115,6	55,7
Metals Y/Y %	-0,4	-13,2	-10,6	-5,0	-2,6	0,8	15,6	27,9	49,9	29,4	34,8	29,6	21,8	39,0	42,0	34,4	45,1	49,1	64,7	65,1	53,1	41,7	25,2	17,0	19,0
Agriculture Y/Y %	15,4	13,3	17,4	21,1	17,0	19,1	34,1	31,6	43,6	35,6	28,1	27,2	36,3	43,2	44,9	51,6	57,9	60,1	66,7	67,1	33,1	35,7	28,6	14,8	11,4
Energy Y/Y %	60,5	28,0	29,9	83,2	79,3	63,7	121,2	103,0	98,7	60,4	72,3	53,4	48,2	83,4	82,2	38,0	56,8	54,5	41,3	54,1	39,4	-7,6	-29,3	-43,8	-39,3
Wages																									
Weekly Wages Y/Y %	4,7	6,6	5,8	3,7	5,4	5,5	5,4	5,0	5,7	7,3	6,4	5,9	4,9	6,1	6,3	5,2	6,1	5,1	5,1	4,2	6,6	4,9	8,2	6,2	8,3
Hourly Wages Y/Y %	5,1	4,9	5,1	5,2	5,2	5,2	5,3	5,5	5,6	5,2	5,4	4,9	5,3	5,4	4,8	4,3	4,3	4,0	2,2	0,6	4,4	5,2	5,3	5,5	4,6
Atlanta Fed High Skill Wages Y/Y %		5,7	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	3,5	3,5	3,6	3,7
Atlanta Fed Low Skill Wages Y/Y%		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	3,2	3,0	3,1	3,1
NFIB Small Business Wages	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	25,0	25,0	21,0	24,0
Inflation components																									
Shelter CPI Y/Y %		6,9	6,2	6,3	5,8	5,2	5,1	4,8	4,5	4,1	4,1	3,8	3,4	3,1	2,6	2,5	2,4	2,1	2,1	1,8	2,0	2,0	2,0	1,9	2,0
Electricity CPI Y/Y %		14,1	14,0	15,8	15,2	13,4	12,0	11,0	11,1	8,7	10,7	6,2	5,7	6,4	5,0	5,4	4,2	4,0	4,2	3,8	2,5	2,2	1,5	1,5	1,4
Education CPI Y/Y %		2,0	1,9	2,8	2,4	2,1	2,1	2,1	2,1	1,9	1,9	1,8	1,7	1,8	1,7	0,8	0,2	0,1	0,3	0,2	0,3	0,4	0,4	0,3	0,6
Car Rental CPI Y/Y %		-3,5	-3,0	-6,2	-11,9	-2,7	-0,4	10,4	23,4	10,4	29,3	36,1	39,8	38,8	36,6	53,0	73,4	83,0	110,0	86,4	31,7	11,6	2,8	5,1	7,7
Recreation CPI Y/Y %		3,9	3,2	4,2	4,5	4,1	4,9	4,4	4,8	4,3	5,1	3,3	3,3	3,8	2,9	3,5	3,7	3,1	0,6	0,5	1,3	1,1	0,3	1,2	2,0
Drugs CPI Y/Y %		2,9	2,9	4,0	3,5	2,9	2,3	2,1	2,7	2,4	1,3	0,2	0,2	-0,4	-1,0	-2,4	-1,9	-2,1	-1,7	-1,6	-2,3	-2,4	-2,1	-1,8	-1,9
Market indicators																									
US 5Y Breakeven	2,5	2,6	2,2	2,7	2,8	2,6	3,0	3,3	3,5	3,2	2,9	2,9	2,8	2,9	2,5	2,6	2,6	2,5	2,6	2,6	2,6	2,4	2,2	1,9	1,7
US 5Y/5Y Breakeven	2,2	2,3	2,1	2,4	2,4	2,0	2,3	2,5	2,4	2,2	2,2	2,3	2,2	2,2	2,2	2,2	2,3	2,2	2,3	2,3	2,2	2,0	2,1	2,0	1,8
10Y - 2Y Yield Spread	-70,9	-41,0	-45,4	-34,3	-24,2	5,1	25,8	21,3	3,6	38,9	60,3	77,8	87,3	105,1	120,8	107,5	103,4	121,7	145,2	146,2	155,2	127,2	95,2	79,6	68,8
Germany 10Y Breakeven	2,3	2,4	2,1	2,4	2,1	2,0	2,2	3,0	2,7	2,1	1,8	1,8	1,7	1,7	1,7	1,5	1,4	1,3	1,4	1,4	1,3	1,1	1,0	0,9	0,9
Japan 10Y Breakeven	0,9	0,9	0,9	0,9	0,8	0,9	0,8	0,9	0,8	0,7	0,5	0,4	0,4	0,4	0,3	0,2	0,2	0,3	0,3	0,2	0,2	0,2	0,1	0,0	0,0

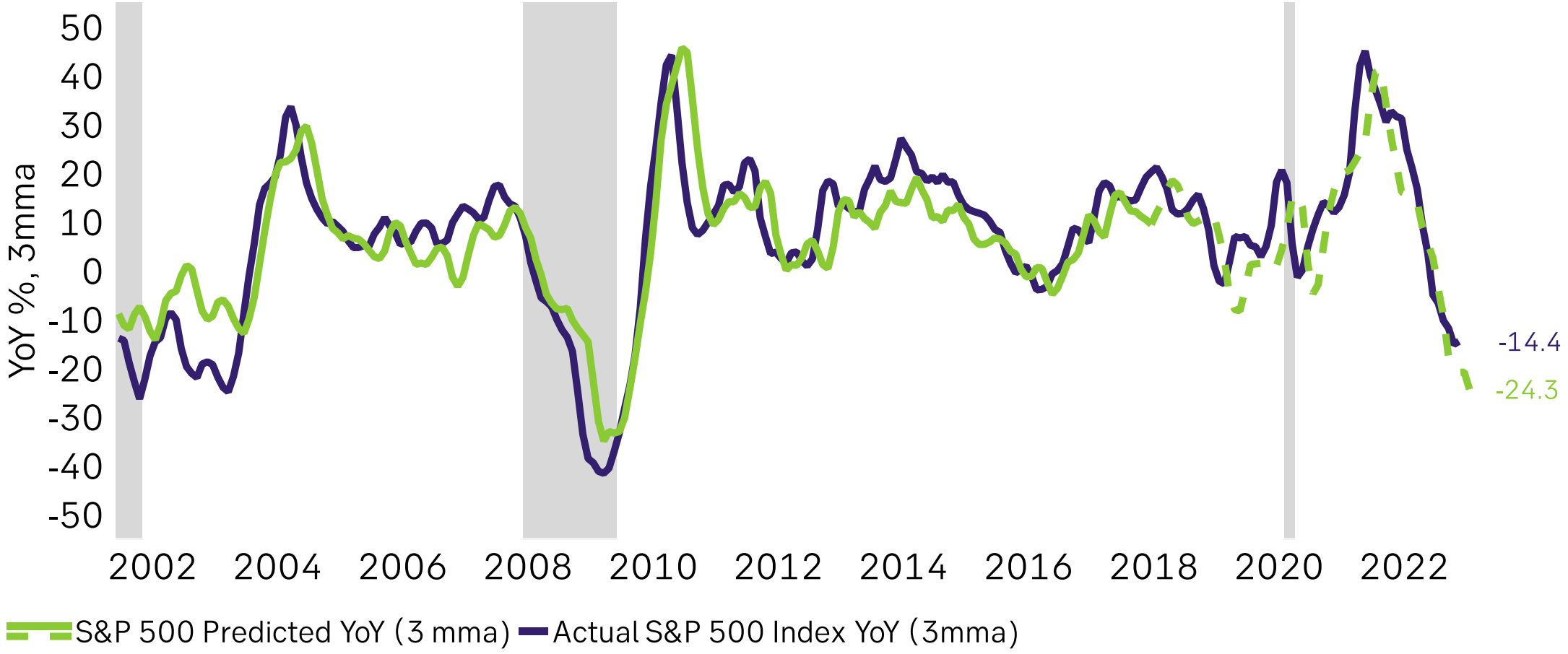
■ Standard deviations above mean shaded in darker red ■ Close to mean ■ Standard deviations below mean shaded in darker blue

Appendix - Global EPS Growth



Source: Macrobond, SEB

Appendix - US Equity Returns



Source: Macrobond, SEB

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