May 2021

Investment Outlook
Summary

SEB

Sunny stock markets – storm clouds in sight

Economic performance and earnings generation in the corporate sector have surpassed market forecasts during every quarter since the COVID-19 pandemic broke out just over a year ago. This has been in line with our hopes and forecasts, because since late spring 2020 we have chosen to overweight risk assets such as equities and corporate bonds in our portfolios. Among the positive factors we see are forecasts of a high global growth rate and earnings increases, monetary and fiscal stimulus measures and relative valuations. On the negative side are high absolute valuation levels, often already aggressive positioning among investors and high total debt.

Fantastic earnings growth expected during 2021-2022

So far this year, stock markets have continued to climb at an impressive pace, with upgrades in earnings and growth forecasts as the main reason behind the continued upturns. To achieve the right stock market allocation, it has been important to follow developments related to inflation and bond yields, since stock market rotation has occurred in harmony with the movements of 10-year US Treasury yields. When they have climbed, money has flowed into cyclical sectors. When they have fallen, the flow has shifted towards growth companies.

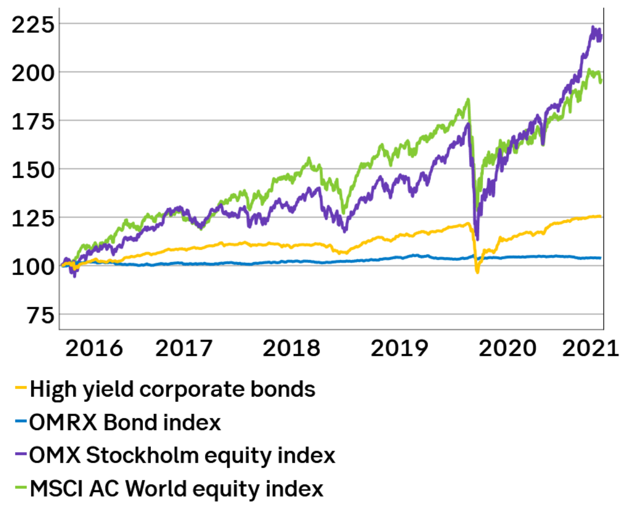
The global earnings growth forecast for 2021 is 35 per cent, with expectations of another 11 per cent increase next year. Looking back, 2020 ended up with an earnings decline of 18 per cent. If we combine these three years and calculate an average for the period, we end up with a yearly earnings increase of around 7 per cent, which is quite close to a historical average.

Continued positive return expectations

Although the potential for losses is constantly present, while the potential for continued increases is more limited than it has been over the past year, we expect positive returns during the next 12 months. The driving force is sharply rising earnings in an environment where we expect valuation multiples to be intact. We expect that, as usual, we will experience temporary risk spikes or profit-taking. Return expectations for equities are largely in harmony with expected earnings growth in 2022.

We believe that current trends of a cyclical nature will persist in the near future, but that a more defensive focus on sectoral and company selection will be advisable as growth rates subside during the second half of 2021. Strong underlying trends, driven by massive political initiatives, also continue to suggest companies with a focus on sustainability.

How different asset classes have performed



Source: Bloomberg/Macrobond

The chart shows returns for the past 5 years on the broad MSCI AC World equity index, Sweden's OMX equity index and OMRX bond index and the Pan-European High Yield Index currency-hedged to SEK.

Focus on health care and online gaming

As usual, *Investment Outlook* includes theme articles on current topics. The first of these is an in-depth look at the health care sector, which has been in the public spotlight throughout the pandemic but has been overshadowed in stock markets by an investor focus on growth stocks vs cyclical stocks. Our second in-depth theme article deals with the gaming sector, which is a large and fast-growing industry in which a number of Nordic companies have been successful.

Read more on seb.se/investmentoutlookreport

Global equities
- Expectations have been surpassed, despite a steadily improving profit outlook
- Valuations, high commodity prices, component shortages and rising long-term bond yields are sources of concern
- US and Chinese equities have outperformed European ones

Nordic equities
- The Swedish stock market upturn stands out
- Earnings in excess of forecasts and high risk appetites are driving markets
- Potential losses are growing larger as valuations climb
- Growth stocks or cyclical value stocks?

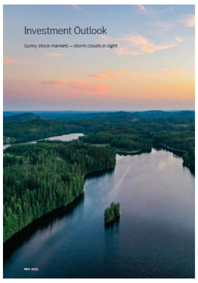
Fixed income investments
- After a sharp upturn in yields, the market is catching its breath
- A focus on central bank actions and inflation
- A strong, stable corporate bond market
- High absolute yields on emerging market debt

Return expectations, %, next 12 months (SEK)

Equities	Return	Risk*
Advanced economies	8.8	16.2
Emerging markets (local currencies)	8.8	15.7
Sweden	9.0	18.7
Fixed income investments	**Return**	**Risk***
Government bonds	-0.6	1.5
Corporate bonds, investment grade (Europe/US 50/50, IG)	0.4	7.2
Corporate bonds, high yield (Europe/US 50/50, HY)	1.5	11.0
Emerging market debt (local currencies, EMD)	5.4	8.9
Alternative investments	**Return**	**Risk***
Hedge funds	3.5	6.0

*24-month historical volatility

Source: SEB, forecasts May 2021



For more details, please read the full report, which you can find it at seb.se/investmentoutlookreport

There we also provide you with extra reading in the form of two interesting theme articles:
- The health care sector – Trends will ensure healthy growth
- Gaming – The Nordic gaming prodigies

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Investment Strategy
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