September 2020

Investment Outlook
Summary

Back to the future

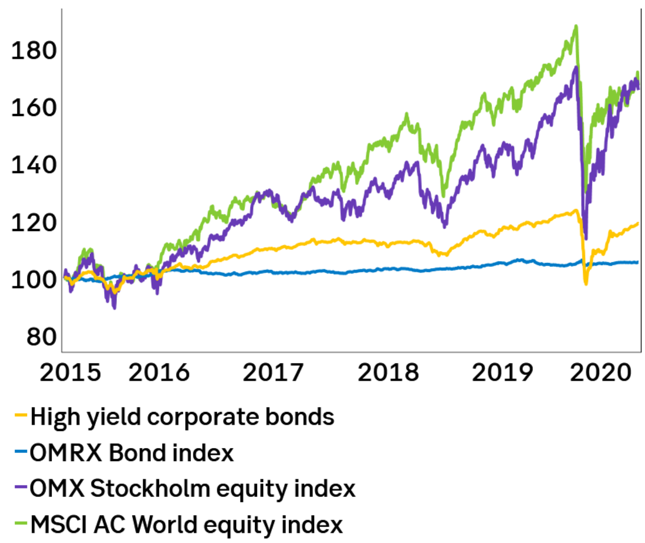
Last spring's free-falling economies and almost total uncertainty about the effects of the COVID-19 pandemic have been replaced by a clear recovery, driven largely by uniquely massive stimulus measures. We can thus once again lift our gaze from acute problems and look forward to a future that we believe will be dominated by further recovery, continued stimulus packages and extremely low interest rates and bond yields.

Prolonged recovery will dominate the world economy
After their abrupt halt last winter and early spring, economies around the world are slowly reverting to normality. Their recovery will continue during the next couple of years. Growth will be faster than historical averages, but because of this year's deep slump in the growth curve and lingering problems including heightened unemployment, it will take time before economies catch up with their earlier growth trends.

Political leaders and central bankers need to continue providing stimulus
The recovery is shifting the economic policy conversation away from acute crisis responses towards the question of what long-term fiscal stimulus programmes are needed to help sustain growth. The absence of such aid packages, or insufficiently large ones, will risk creating disappointment among hopeful investors. Central bank stimulus measures are likely to continue, however, ensuring good liquidity and low interest rates for even longer than envisioned in earlier forecasts.

High share valuations may be justified if growth holds
Today's share price valuations, measured as price/earnings ratios, are the highest since the IT (dotcom) bubble of 20 years ago. Lower interest rates and bond yields, resulting in lower return requirements, are one important explanation. The successes of such "digital dragons" as Amazon and Google are another explanation – these companies are driving both earnings growth and valuations in stock markets. If growth forecasts prove correct and if the digital transition of our societies continues, this suggests that high valuations are defensible. Looking ahead, we expect continued low interest rates and yields – along with a slow return to more normal economic growth trends – to provide support to stock markets. We thus still have an optimistic view of risk assets such as equities, and we are maintaining our hypothesis that stock market downturns should be regarded as buying opportunities.

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.

Returns on corporate bonds have climbed sharply since last March's price decline and have greatly exceeded our expectations. Their future potential is thus not as strong as before, but we are still positive towards owning corporate bonds, especially those with a sustainable focus.

Looking at sustainable energy and ageing
The first theme article in September's *Investment Outlook* is a continuation of our earlier exploration of developments in the important field of sustainability, especially in energy. This time we describe the promise of solutions to environmental challenges offered by the future use of "green" hydrogen. Our second theme article studies the effects on the economy and consumption of the fact that on average, we humans are getting older and older.

Read more on seb.se/investmentoutlookreport

Global equities

- Second quarter corporate earnings greatly surpassed the market's low expectations.
- We expect falling earnings growth for two more quarters before the demand situation normalises and earnings growth can rebound.
- We still have a positive view of digitisation-related companies thanks to their superior market positions and structural growth, but high valuations are a source of concern.
- Institutional investors have become more optimistic about economic and earnings trends.

Nordic equities

- Record-sized quantitative easing has given financial markets energy; elevated P/E ratios may be long-lasting.
- Quarterly reports surprised very much on the upside; companies are more resilient to the crisis than feared.
- Expensive stocks have become more expensive; low valuations have been a trap for investors in 2020.
- High valuations will affect potential future returns; extensive sector rotation may occur during the coming year.
- Green companies will be the winners of the 2020s, but after the upturn there is a need for selectivity in stock-picking, and the US presidential election will be of major near-term importance.

Return expectations, %, next 12 months (SEK)

Equities	**Return**	**Risk***
Advanced economies	7.7	18.3
Emerging markets (local currencies)	7.8	18.1
Sweden	7.9	18.3
Fixed income investments	**Return**	**Risk***
Government bonds	-0.3	1.4
Corporate bonds, investment grade (Europe, IG)	1.9	7.0
Corporate bonds, high yield (Europe/US 50/50, HY)	3.8	11.1
Emerging market debt (local currencies, EMD)	5.7	10.4
Alternative investments	**Return**	**Risk***
Hedge funds	3.5	7.0

*24-month historical volatility

Source: SEB, forecasts Sept 2020

Fixed income investments

- Today's low rates and yields may be long-lasting, though we expect central banks to allow some rate increases if they coincide with sustained economic recovery.
- Expected negative returns on government bonds are driving investors towards riskier fixed income investments.
- Corporate bonds have recovered sharply. Their future potential is thus lower, but we remain positive towards owning corporate bonds and foresee that they will benefit from aggressive central bank and government stimulus programmes.

Alternative investments

- Increased market risk appetite helped hedge funds turn in a positive performance.
- Equity long/short funds benefited from a more fundamental environment and a positive quarterly report period.
- Comparatively stable bond yields provided support for macro funds.
- Event-driven funds saw a robust recovery, especially in mergers and acquisitions (M&A) and credits.

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:

- Hydrogen technology – Key to a green future
- Ageing populations – Megatrend with investment potential

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Investment Strategy
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