31 May 2023

Agenda

03 **Overview**

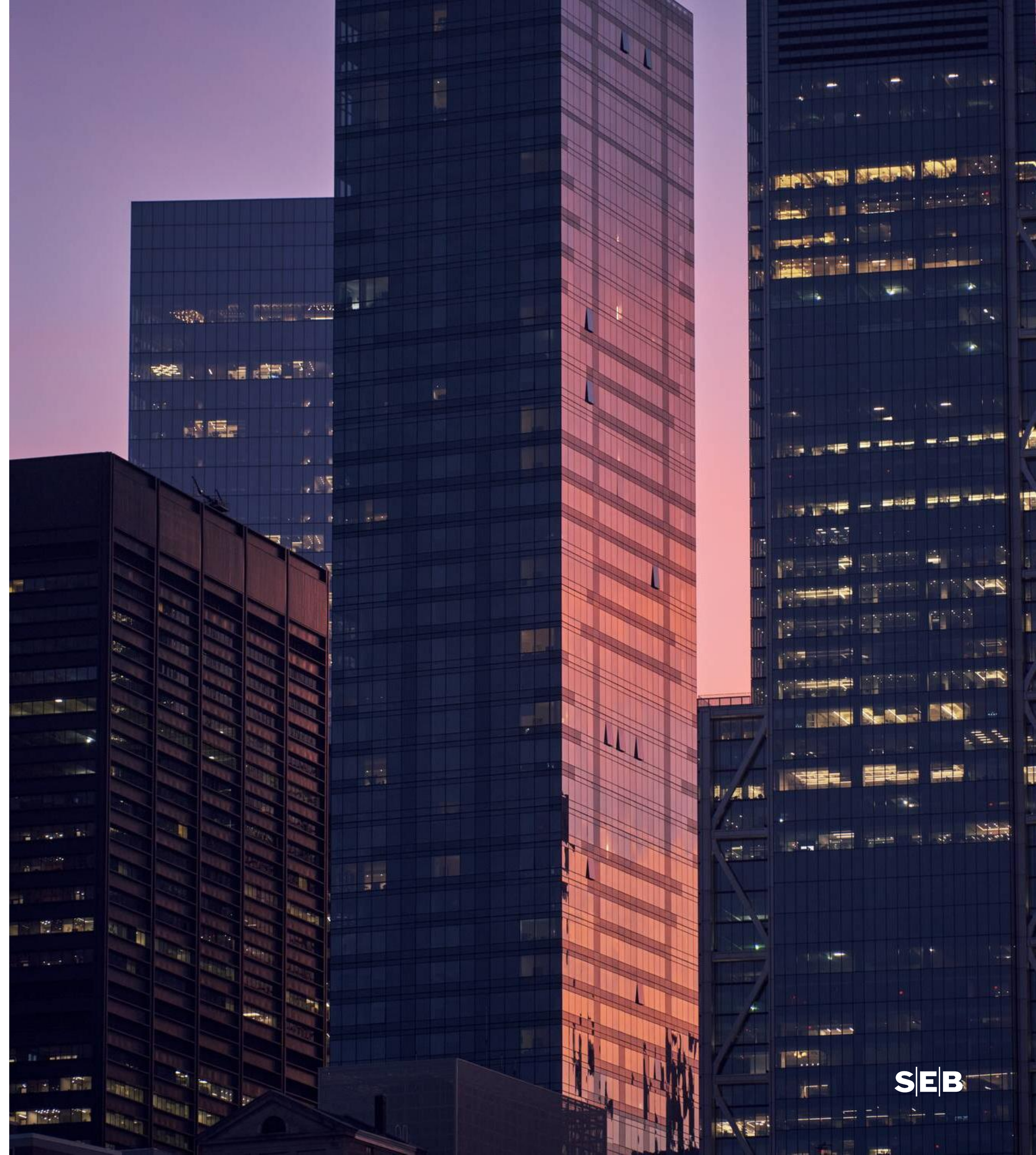
12 House View factors

14 Macro and Markets

18 Markets and Fair Value Indicators

23 In Focus

28 Asset Class and Sector Views



A resilient economy supports equities

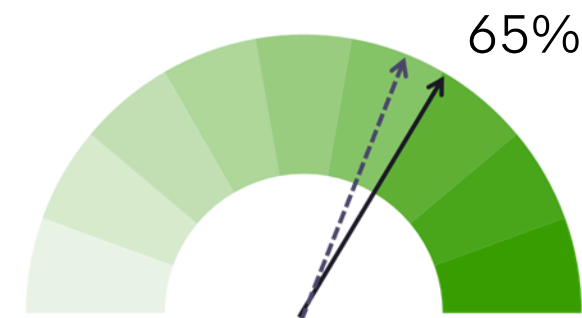
- Equity markets continue to perform well, the strength in the economy produces good corporate earnings, and valuation multiples remain on an acceptable level
- The most significant development this year is the decline in inflation
  - The disinflation process is particularly evident in commodity and goods prices and the ongoing tightening of credit is expected to sustain this process going forward
  - While the specific timeframes are up for discussion, there is a likelihood that the disinflation trend will persist well into 2024
  - Current market projections indicate that CPI inflation will fall steadily to 2.5%-3% by 2024, a forecast with which we completely agree
- Growth has been stronger than expected, especially compared to certain soft indicators
- This is important as expectations have contributed to a negative sentiment
  - Strong growth generates favorable earnings, which have been quite decent lately, both EPS and growth estimates have been revised upward in the past month
  - Historical data also show that EPS generally performs better in an inflationary environment than during phases of deflation, suggesting that earnings can maintain decent levels
- War and uncertainty have subdued sentiment throughout this year, which is in our view evident in the defensive/bearish positioning surveys, futures data and hedge fund beta
- In this sense, markets have climbed a wall of worry, but sentiment might be shifting
  - Revised forecasts tend to lift spirits and improve investor confidence
  - In recent months, there has been a small rally in growth stocks, traditional IT-related stocks driven by AI discussions, but this is not negligible.
  - Moreover, if our disinflation outlook proves accurate, then lower bond yields should support growth stocks in the coming moths
- We are going to 65% in risk utilization
  - The important call is that the driving forces are in place, namely that the disinflation process is well supported by tightening credit conditions, which will slowly bring down all inflation
  - Furthermore, bond yields will likely face downward pressures, while growth expectations gradually change EPS forecasts, which should in turn lift sentiment and provide more support to equity markets

Investment Regime

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

Tight financial conditions	Hard macro stronger than soft	Earnings forecast lower
Employment and wages	Slowdown or shallow recession?	European Energy better
China changing		Inflation levels peak

Speedometer



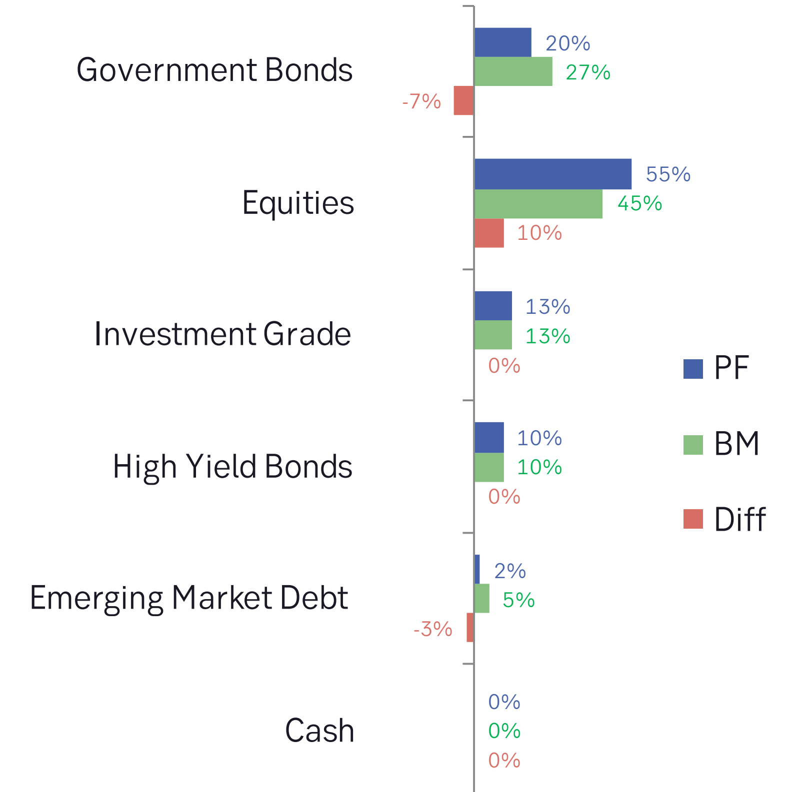
The speedometer controls to what extent the portfolios should utilize their risk budgets. It is connected to the model portfolio (page 4) which at all times utilizes its risk budget in-line with the speedometer. In a very general sense it can be interpreted as equities on/off (with 50% being neutral).

Asset Allocation

Lower inflation and growth drives markets

- Equities is our preferred way for taking risk as we expect this year's stability in equity markets to continue and sentiment to improve over the coming months
- The resilience in actual growth is important for our decision to increase risk, in particular the disparity between soft sentiment data and hard economic data, which is interesting, but seems to be overlooked.
  - We have included some research on the difference between this hard and soft data in the presentation, which shows that, all in all, the recession risk is not as big as forecasted
- Earnings which are important for equity markets, seems to be holding up well
  - Given the stability in demand from consumption and lately in durable goods, as the US consumer remains well supported with wages closely aligned with inflation, we expect this positive trend to continue
- The recent surge in interest towards growth stocks is noteworthy and we expect this category of stocks to remain in focus, given the probable bond scenario and that innovations have always been a driver for growth
- The ongoing tightening is another significant factor for equities, with recent forecasts projecting the fed funds rate to reach 5.50% by the June meeting
  - This tightening would likely provide robust support for the disinflation process, gradually pushing down bond yields after the recent upward shift
- Bond markets are less favored at this point due to that the multiple effect on equites from lower yields is more compelling than repricing of bonds by lower yields per se, however, bonds will most likely perform well
- We maintain a neutral position in both IG and HY bonds, as the corporate bond universe is supported by yields and relatively strong growth
  - Credit spreads are at reasonable levels, and there is some issuance activity supporting these levels
- The emerging market bond space is currently still an underweight position for us
  - This universe is dependent on the US dollar and given the recent strengthening of the dollar, we chose to maintain our underweight position
- From a longer market perspective, we believe that the period when equities embark on a favorable trend is approaching we have included an analysis of factors signaling a new trend in the presentation, with the most important being the turnaround in indicators such as the FED's policy stance

Model Portfolio



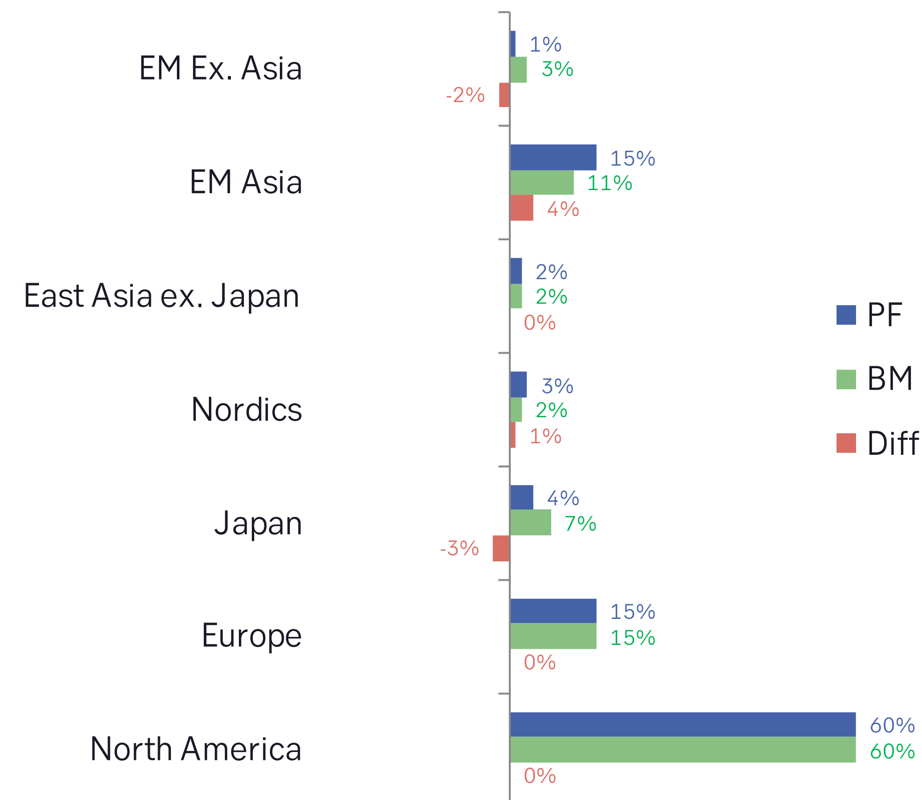
Long only portfolio. Yearly VaR(95%) ex. mean between 7% and 21%.No restrictions on the individual asset classes. The weights are set manually by the House View committee; i.e. they are not based upon an optimization model.

Regional equity allocation

The scope for regional equity allocation is changed, two things has happened

- The USD has stabilized and can maintain some strength as the tightening persists
- This changes the framework for regional allocation, shifting more focus towards the US
- The slowing, last phase of the tightening cycle that will be the tune for the coming quarters might very well provide support for the USD and US equities
- This balances on a thin line as the first phase will be the final trough in the markets, supported by the shift in FED policy
- But before that takes place the most likely phase is tightening and some slowing
- The conclusion for us is to reduce some cyclicality and set a neutral position between US and EU
- Chinese economic data has been weaker than anticipated, the country has struggled to gain momentum and growth has surprised on the downside
- The Chinese response has primarily relied on monetary measures, but the strong M2 growth has not been sufficient to support growth
  - The Chinese economy is undergoing structural changes, and the issue of high leverage poses challenges, making more aggressive fiscal support less likely
- The challenges faced by China have resulted in less cyclical support for EM and Europe, which is why we see a case for decreasing our allocation to both regions, including EM Asia and EM globally
  - However, we still maintain an overweight to EM Asia and this is also reasonable given the USD stability
  - The region benefits from reasonable valuations, improved fiscal positioning and stable interest in some markets, but we chose to reduce our exposure given these challenges
- In conclusion, we chose to neutralize our active weights between the US and Europe
- Japan has had a run, with some policy shifts being well received by markets and as a result, we close some of our underweight allocation to Japan
  - The Japanese yen is considered a defensive play, aligning well with a slightly more defensive market phase

Regional equity positioning



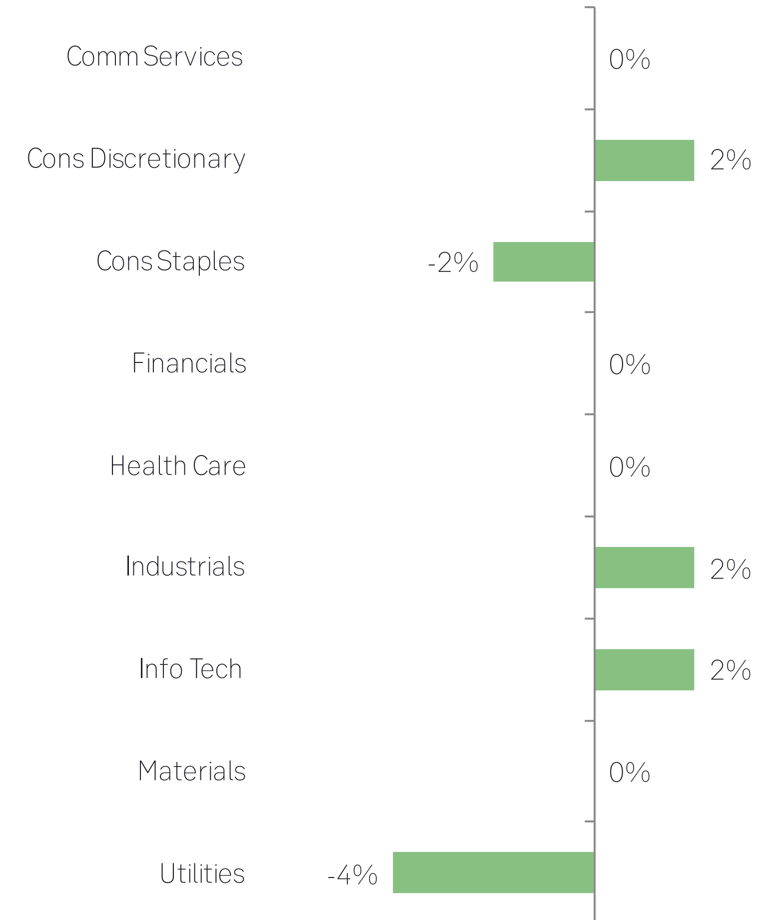
Benchmark is MSCI All Country

Sector allocation

We have a less cyclical, but still growth positive position

- In the upcoming quarters, the investment environment will be characterized by ongoing tightening measures, gradually lower bond yields, and surprisingly strong consumption
- Given these factors, we think it is natural to shift focus towards low-cyclicality and growth stocks
  - The growth factor should outperform, being supported by recent AI trends and innovation in the IT sector
- Our portfolio changes character by reducing cyclicality, the turning point in FED policy moves further ahead, but the tightening phase will still be the driving regime
- To adjust our portfolio accordingly, we reduce the materials sector to a neutral position, as this sector is generally the most cyclical asset class
  - Additionally, as Chinese support for growth diminishes, this sector falls out of favor
  - This decision is also influenced by the fact that commodity prices remain relatively low
- We increase our allocation to innovation stars and lift the IT sector to overweight
  - EPS revisions in this sector reflect the ongoing optimism, both sales growth and EPS revisions are robust
  - IT is a major beneficiary of lower bond yields ahead compared to other sectors, due to its long-duration stocks
- We maintain our overweight to consumer discretionary which is exposed to consumer stability and still benefits from the excess savings accumulated during the Covid period
  - Consumer discretionary has also demonstrated strong sales growth compared to other sectors
  - In addition, some companies within this sector are considered long-duration stocks and should further benefit from the lower bond yield forecast
- We keep our overweight position in industrials as the sector has exhibited solid sales growth and positive EPS forecasts
  - In the likely scenario of a soft landing, industrials are expected to perform well due to their limited cyclicality and positive margin history, in essence, they have more control over their own destiny

Sector positioning



Risks to the investment regime

Sticky inflation and central banks remain hawkish

Inflation data has surprised on the upside in the US and Europe, causing concerns for that inflation could stay elevated for longer. Persistent inflation raises the risk of central banks maintaining a restrictive monetary policy for longer than expected. Over the past year, central banks have aggressively raised interest rates, and further hikes only serve to heighten the risk of overtightening. Previous expectations of a Fed pause in June have been reversed, with markets now pricing in the possibility of additional rate hikes. The impact of rapidly rising interest rates was evident in March, as it induced stress in the banking sector and led to the collapse of US regional banks. While market fears have eased since then, further banking stresses and impacts on commercial real estate or private equity may occur if interest rates remain high or continue to rise.

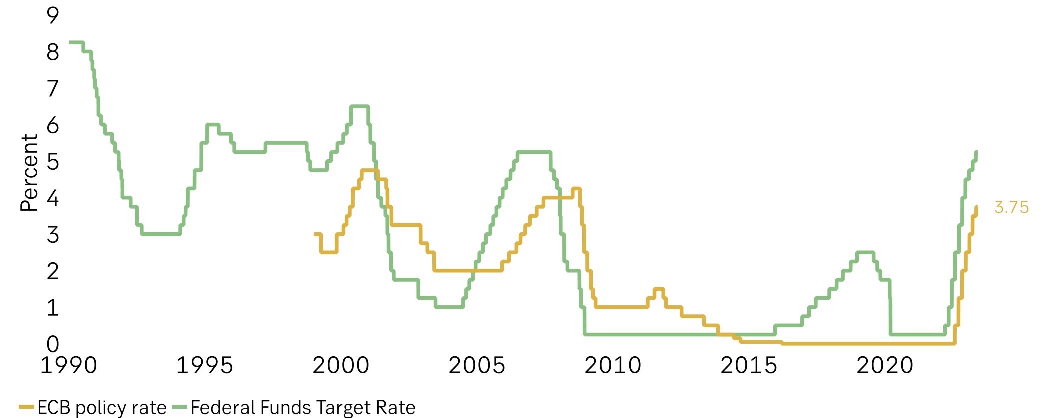
Deep global recession or a severe credit crunch

The tightening of lending standards is expected to have a negative impact on consumer and business spending, potentially slowing down the economy. However, the exact extent of these effects remains uncertain. Despite solid hard macro data and recent improvements in GDP forecasts, growth is projected to remain below trend and will likely be vulnerable. Several factors, including tightening credit conditions, excessive tightening by central banks, escalation of geopolitical conflicts, and a banking crisis, could potentially lead to a severe downturn. A significant decline in economic activity and corporate earnings would weigh on equity markets, as previously discussed.

Geopolitics worsen

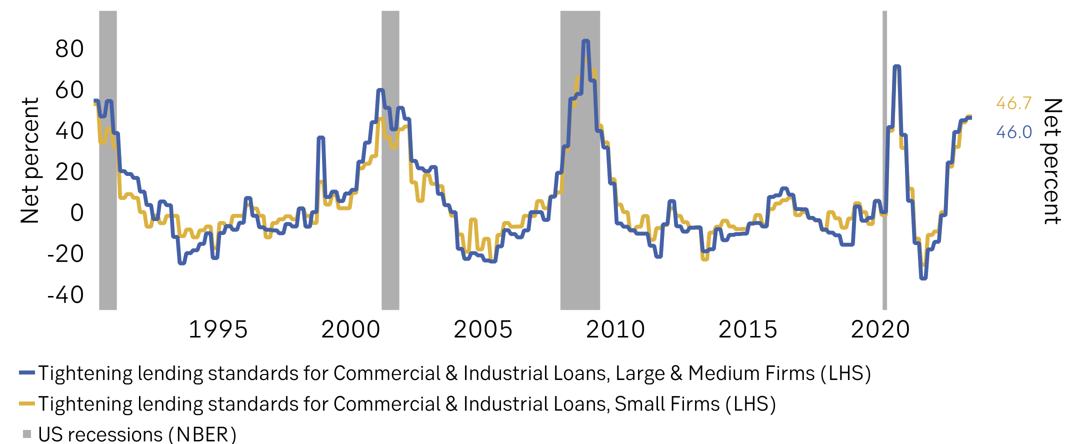
Geopolitical uncertainty has the potential to reduce global risk appetite, which would negatively impact risk assets. The ongoing conflict between Russia and Ukraine has weighted on risk sentiment over the past year, although this has somewhat faded in the background. However, the growing tensions between China and Taiwan/US, with the latest example being China's ban of US chipmaker Micron, have raised investor concerns. If this situation escalates further with additional export controls or bans between China and the US, it is likely to have a detrimental effect on global trade and risk assets.

Figure 1: Sticky inflation and higher-for-longer interest rates raises the risk of overtightening and further stresses in the financial sector…



Source: Macrobond, SEB

Figure 2: Tightening bank lending standards have typically occurred before the onset of recessions



Source: Macrobond, SEB

Return Estimates

Figure 1: 12 month forward looking return expectations

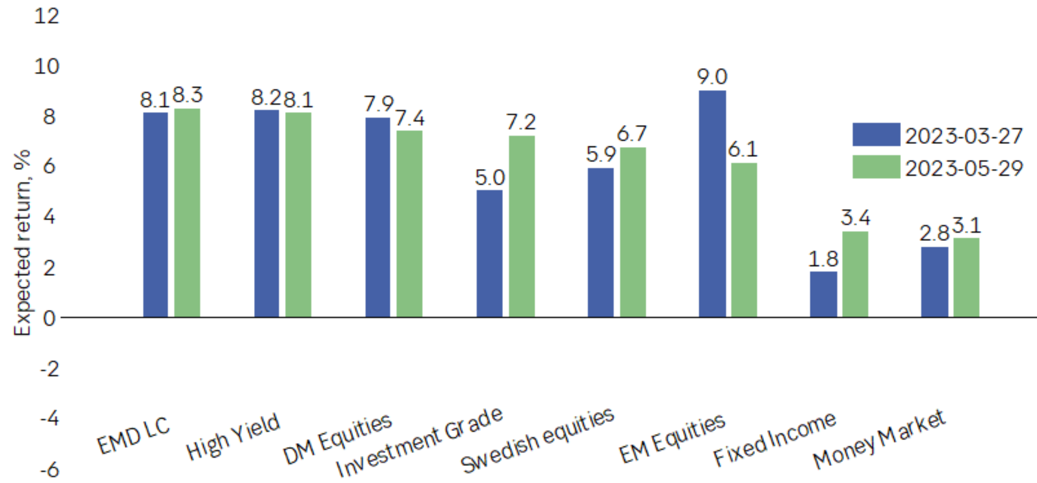


Figure 2: 12 month forward looking return expectations for equities and bonds

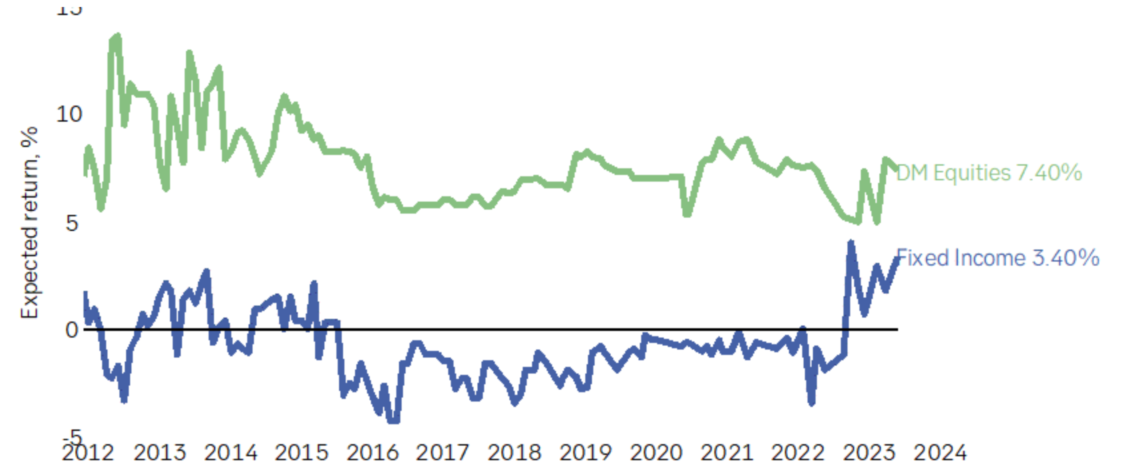


Figure 3: Absolute expected returns

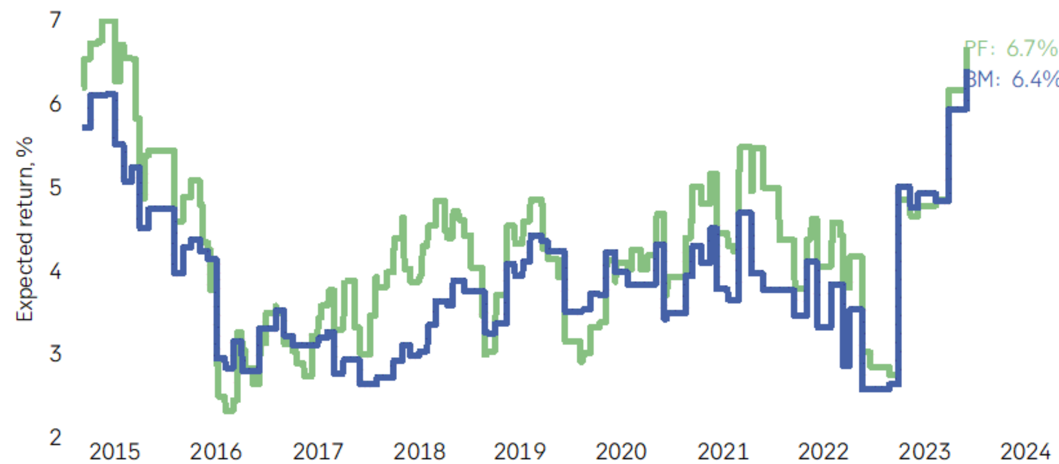
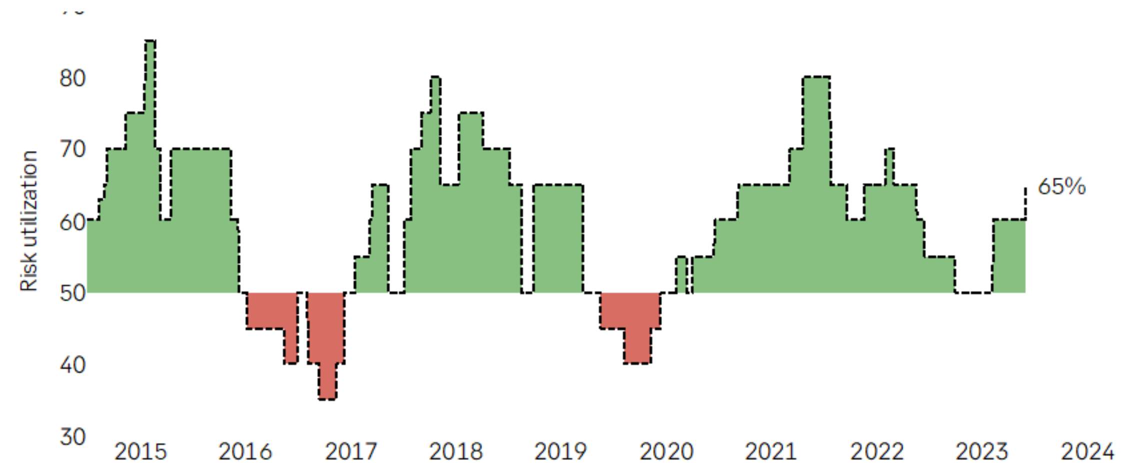


Figure 4: Risk utilization since inception



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Historical House View Allocation

Figure 1: Equities

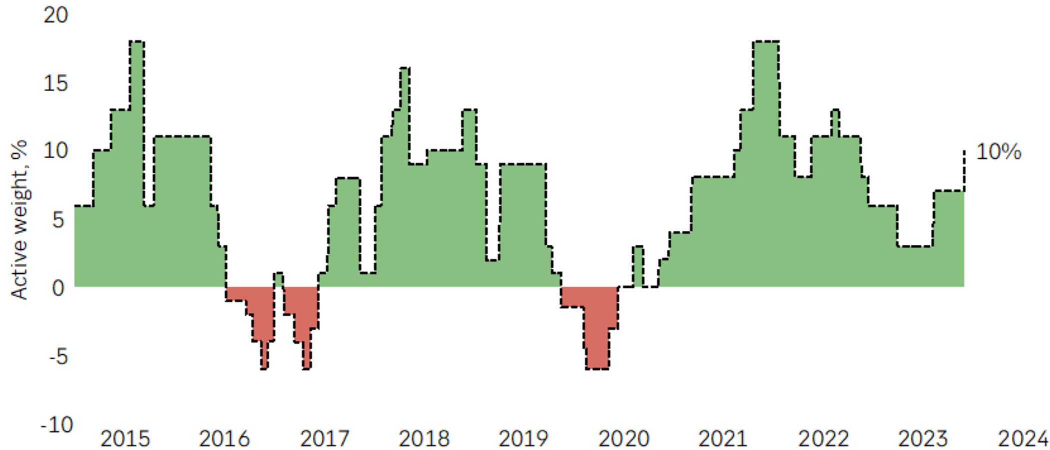


Figure 2: High Yield

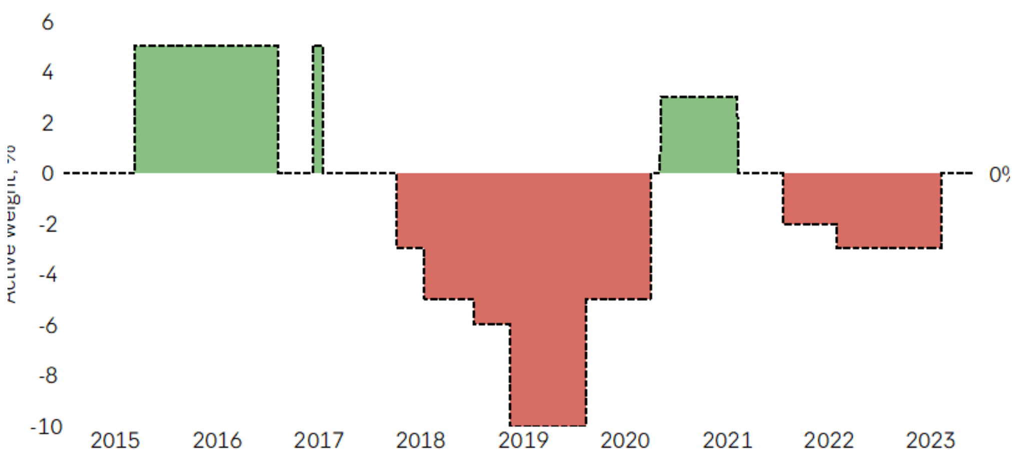


Figure 3: Emerging Market Debt

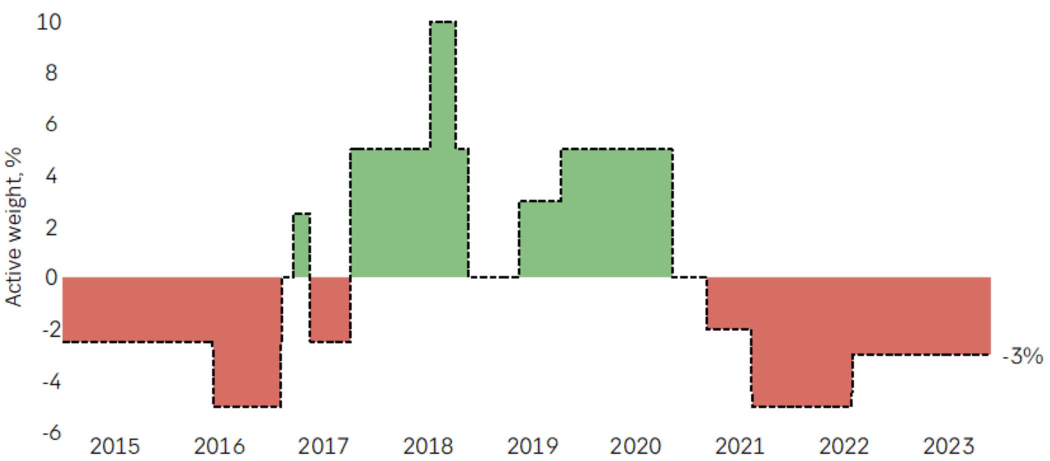
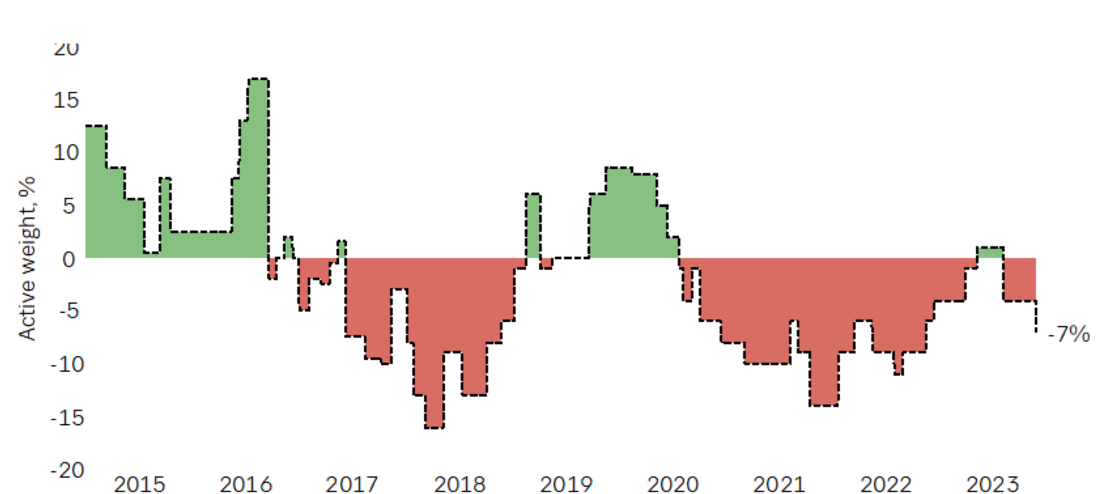


Figure 4: Fixed Income*



* 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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Agenda

03 Overview

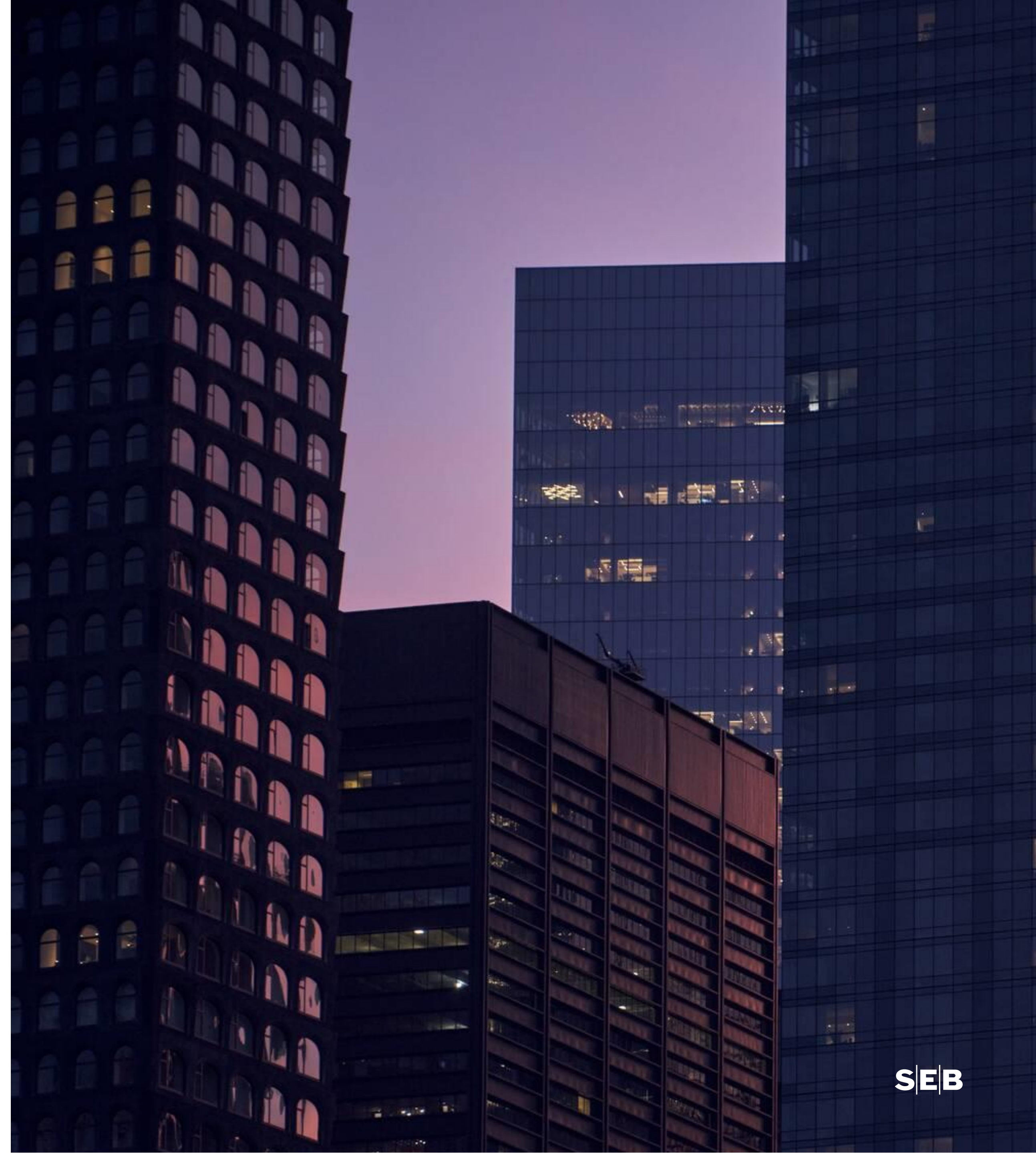
11 **House View factors**

13 Macro and Markets

17 Markets and Fair Value Indicators

22 In Focus

27 Asset Class and Sector Views



House View decision variables

Macro is most important right now for equities, in our view, and has become less negative

- Economic data has been robust, especially in the US, despite the higher interest rates and inflation which weigh on demand and growth
- The resilience in US hard data will likely support growth and corporate earnings, which is important for equity markets
- Chinese data, on the other hand, has been weaker-than-expected, which has likely contributed to its modest performance YTD
- We think that the risk of a US recession is low in this macro backdrop, as solid employment and excess savings will keep consumer spending stable

The importance of central banks for equity markets slightly declined over the last period, in our view

- However, this was only temporary as markets shifted their attention to Q1 company reports and the looming US debt default…
- Investor focus has shifted back to central banks as the Fed and ECB policy meetings in June is getting closer
- Inflation data in Europe and the US has surprised to the upside lately, increasing expectations for more hikes

Earnings have become more positive for equities

- First-quarter earnings surprised to the upside, 78% of the S&P 500 have beaten EPS estimates
- We view earnings as a more positive factor for equities now than in March, following the strong Q1 results
- Positive EPS surprises that result in significant upward earnings revisions usually leads to above-average stock performance

On a 3-6M horizon, House View prefers to increase risk utilization

- We think that disinflation will suppress bond yields and that a stabilization in EPS/growth outlook will improve risk sentiment, which benefits equities

Figure 1: Macro is the single most important factor for equities right now, in our view, followed by central banks and earnings

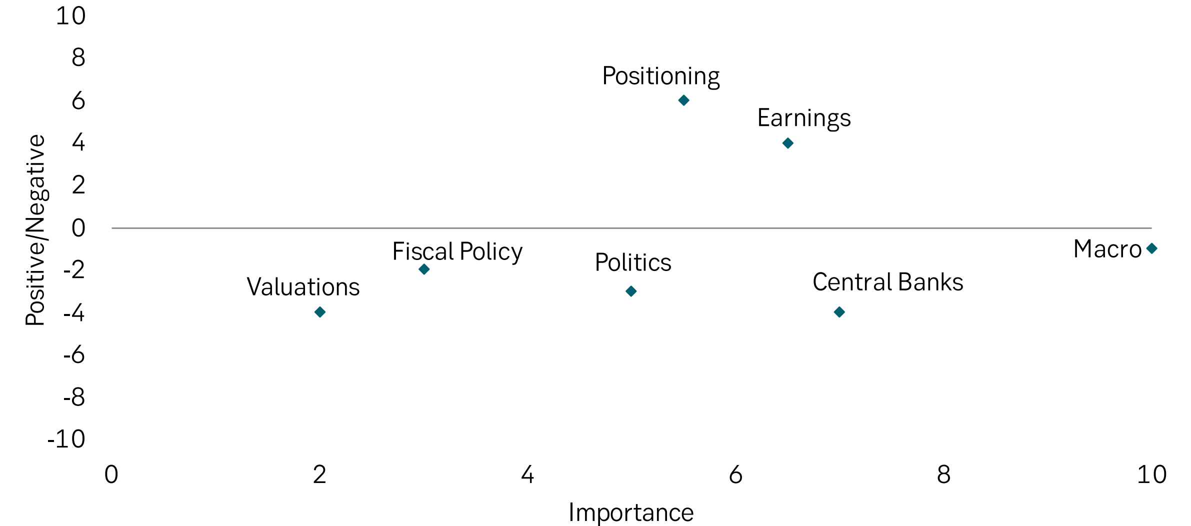
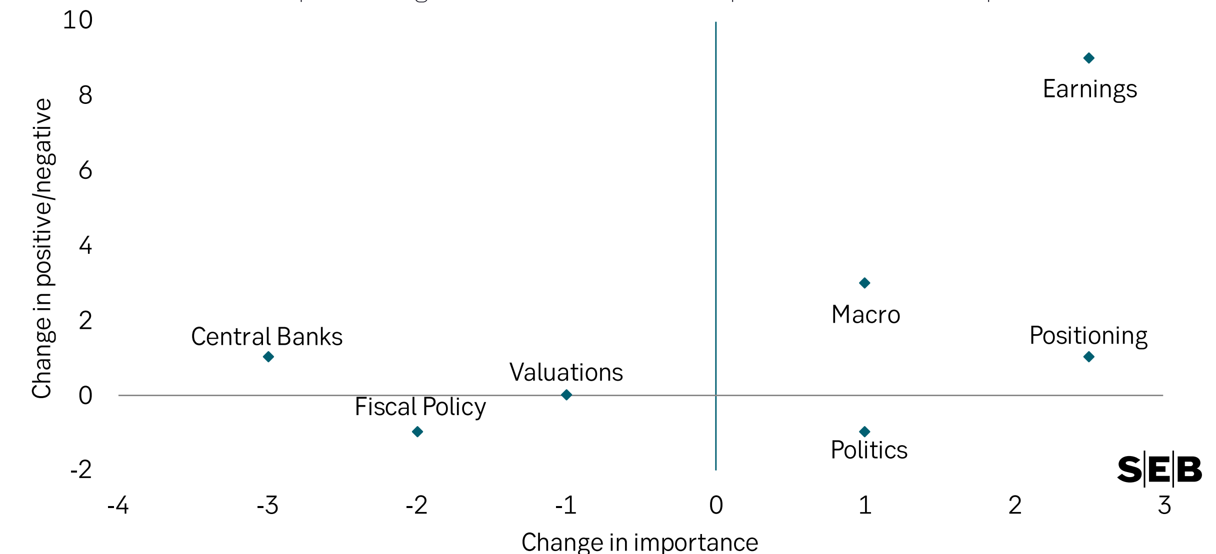


Figure 2: Our view on earnings have turned positive after EPS beat estimates last quarter. Robust macro data and positioning have also become more positive factors for equities.



SEB

Agenda

03 Overview

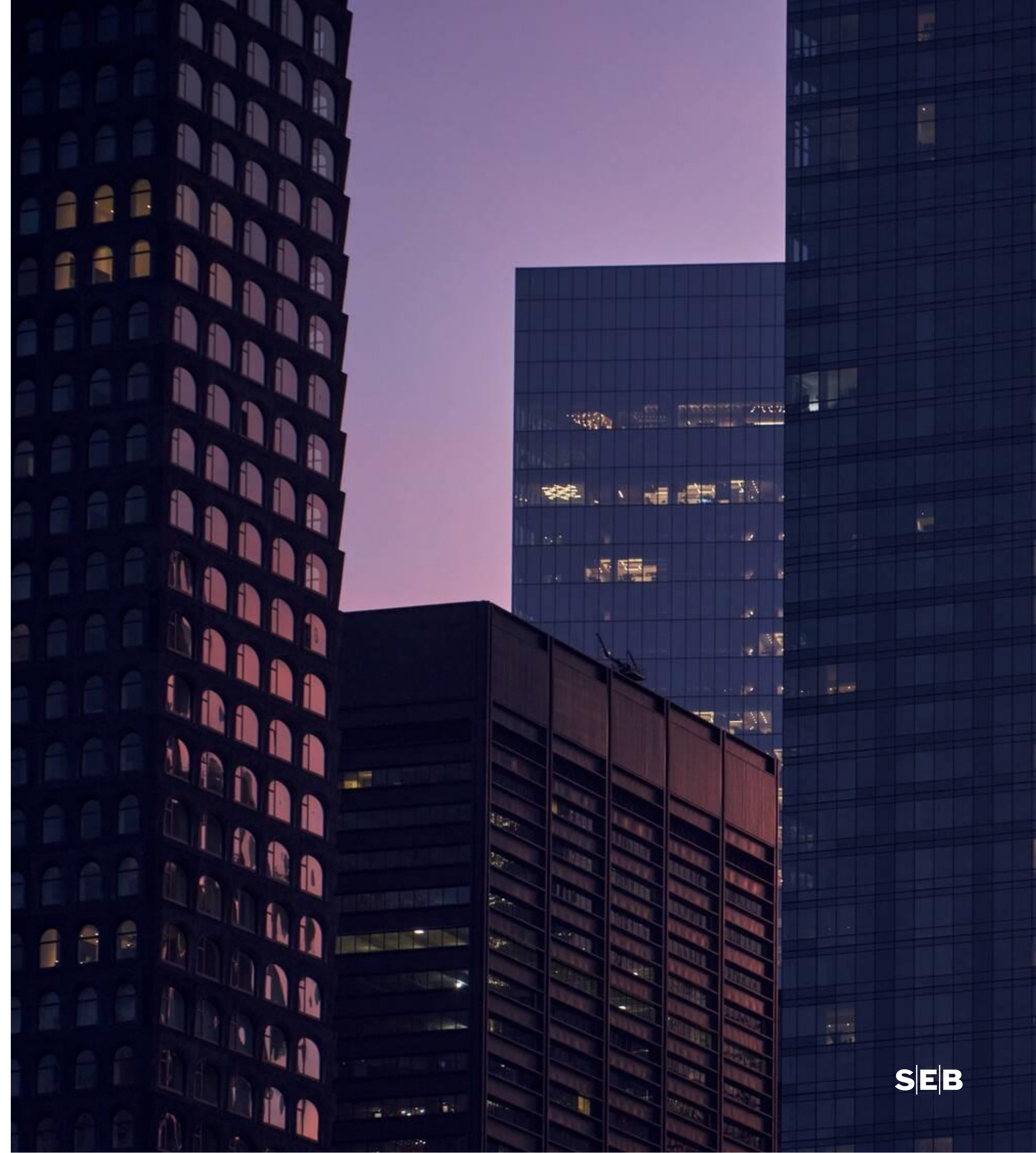
11 House View factors

13 **Macro and Markets**

17 Markets and Fair Value Indicators

22 In Focus

27 Asset Class and Sector Views



Developments in the Markets

US stocks hit a new 2023 high in May

The S&P 500 edged slightly higher and hit a new 2023 high in May on hopes for a resolution to US debt-ceiling negotiations. US stocks have been range-bound in recent weeks, but is up YTD. This year's rally in US equities has been driven by expectations of a Fed pause in June and rate cuts in the second-half. However, the stock rally has been narrow as it has been largely driven by mega cap tech companies. Nevertheless, technology stocks performed strongly over the last month, extending this year's gains. The tech sector's outperformance YTD has been fueled by lower US interest rate expectations, solid Q1 earnings and an improved outlook due to promising AI trends. A very strong earnings surprise from NVIDIA last week contributed to the tech sector rally. Financials have been a laggard this year and have continued to decline due to lingering bank concerns after the collapse of SVB and other regional lenders. Global equity benchmarks have been mixed outside the US. Japanese stocks hit a 33-year high on robust economic data and US debt-ceiling optimism, outperforming global equities. European stocks slid in May, while Chinese equities dropped amid weaker-than-expected macro data and rising geopolitical tensions. Growth continued to outperform value stocks, extending this year's trend which has been driven by hopes for a shift in monetary policy tightening. Stock volatility has been muted despite worries around the US debt-ceiling and investors gradually increased their equity exposure, but still held a high level of cash in their portfolios.

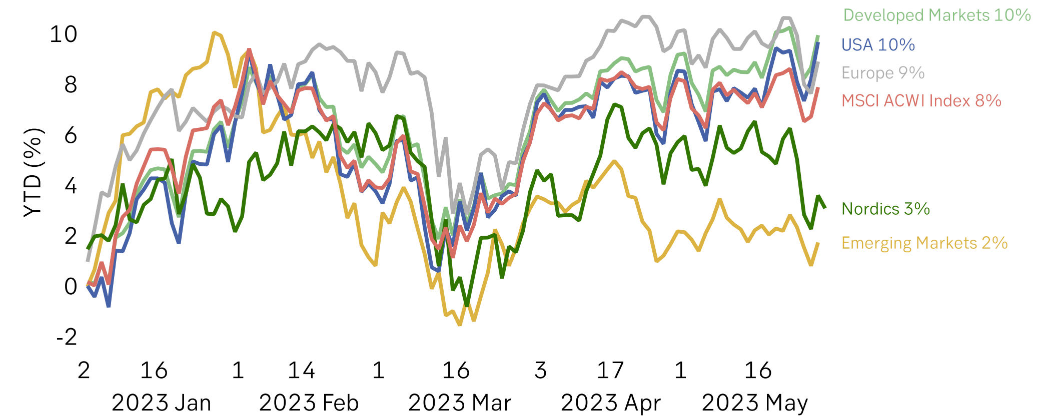
US and German bond yields rose on inflation data and hawkish central bank rhetoric

Treasury yields surged in May on the back of resilient economic data in the US and hawkish Fed comments. US yields rose after US non-farm payrolls, consumer spending and core PCE inflation data have come in above expectations. The better-than-expected data led bond markets to price in a higher likelihood of a Fed hike in June. One-month treasury yields recorded an all-time high as there were concerns that the US would not be able to lift its debt-ceiling before the X-date, leaving it to default on its debt. German bond yields also rose this month as traders have increased their bets for ECB rate hikes and after hawkish signals from central banks and lower-than-expected decline in UK inflation.

Credit spreads tightened after banking sector woes eased

Credit markets delivered positive returns in April, but were little changed in May. Credit spreads tightened in the first-half of April as fears around US regional banks eased, but spreads started to widen again as banking fears returned. The widening of credit spreads reversed in May and spreads tightened as optimism around the US-debt-ceiling and positive EPS surprises lifted risk appetite.

Figure 1: US and Japanese equities hit YTD highs in May, extending this year's rally



Source: Macrobond, SEB

Figure 2: US credit spreads have tightened after the banking turmoil in March, as fears for a banking crisis have eased

Source: Macrobond, SEB

Economy – Developed Markets

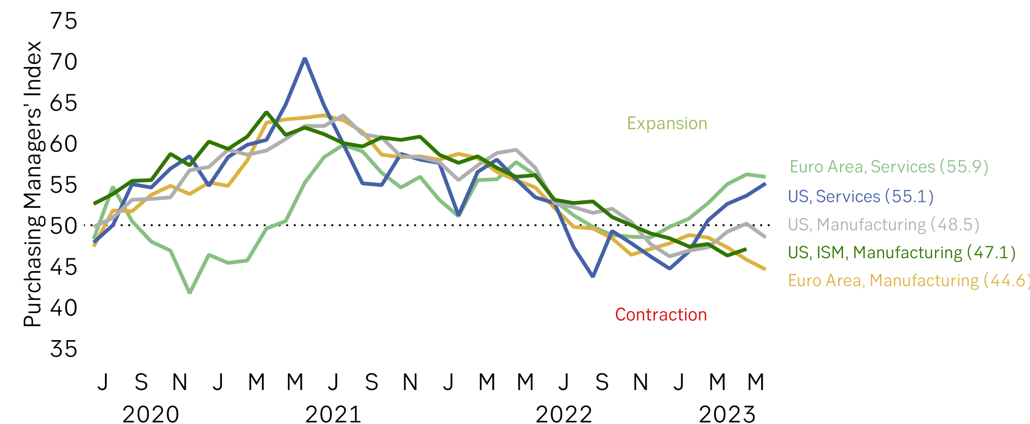
Solid US economic data, mixed inflation data

- Core PCE inflation, the Fed's preferred inflation gauge, unexpectedly rose to 4.7% in April against consensus of 4.6%
- On the other hand, April's US CPI report showed that headline inflation slightly slowed last month
  - Core services CPI ex-housing moderated to 0.1% MoM in April, indicating that core services inflation is heading towards to more normal levels again
  - We think that falling underlying inflation and tightening credit conditions will bolster the case for a Fed pause as early as June and rate cuts later this year
- The Fed lifted its policy rate by 0.25% at its May meeting, in line with expectations, but it also toned down its more hawkish tone from the previous meeting
  - At his press conference, Fed Chair Powell hinted a shift to a data-dependent stance and a possible pause in June, as the extent of the effects from credit tightening remain uncertain
  - But Powell ruled out any rate cuts later this year, in contrast with market expectations
- US payroll growth surprised to the upside in April as it accelerated from March and the unemployment rate fell to a 53-year low, indicating a resilient US job market
  - Robust hard data has increased market bets for a Fed hike in June, but this week's US payroll data will show whether labor market softened, and if wage inflation eased in May
  - Other indicators, such as initial jobless claims and small business hiring plans have pointed to weaker labor demand ahead
- ISM PMIs were mixed in April as they signaled a faster expansion in the service sector, while manufacturing was still in a contraction, although at a declining pace
- US policymakers reached a tentative deal over the weekend to lift the debt-ceiling and prevent the US to default on its debt, and we expect a deal to be passed by congress soon

The ECB hiked rates in May and signaled more hikes ahead as inflation remains high

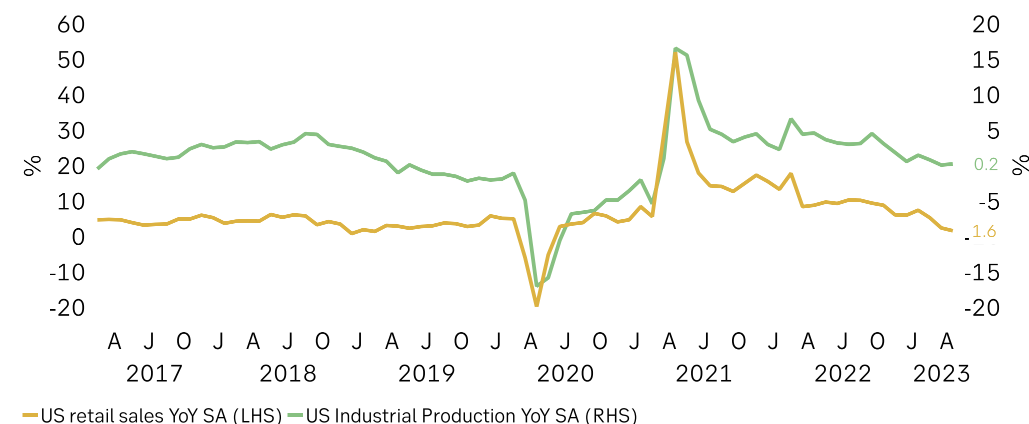
- Eurozone activity momentum slowed in May according to preliminary PMI data
- The ECB hiked rates by 0.25% as expected, but it signaled for additional rate hikes and faster QT as the central bank is focused on bringing down core inflation
- Euro area core inflation saw a modest decline in April and is still above the ECB's 2% goal

Figure 1: PMI manufacturing activity in the Euro area and US remain weak, but business survey for services indicated further expansion in May



Source: Macrobond, SEB

Figure 2: US economic data has been resilient, consistent with a soft landing scenario



Source: Macrobond, SEB

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Economy – Emerging Markets

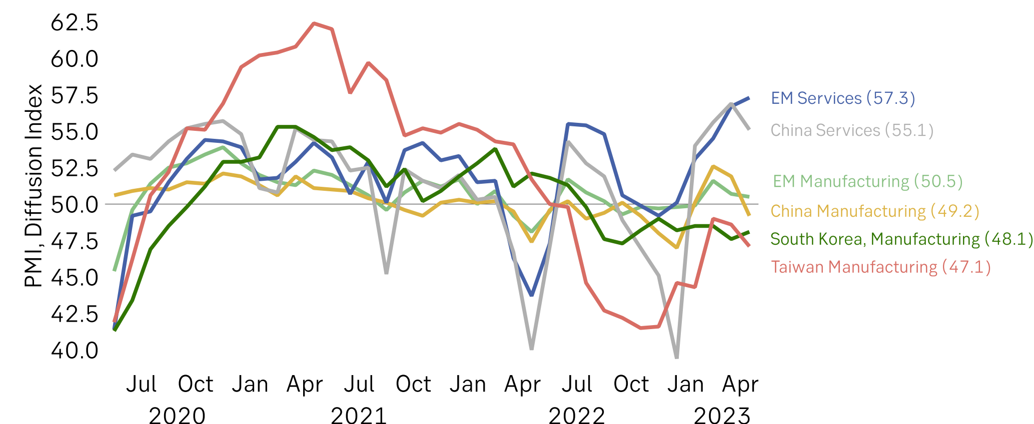
Expectations for China to ease its monetary policy are rising, as disappointing economic data has raised concerns that its post-covid recovery is fading

- China's Manufacturing PMI disappointed as activity in the sector unexpectedly fell into contraction, reversing the initially strong rebound at the start of this year
- China's industrial production grew year-over-year in April, accelerating from a rise in the prior month, but came in well below market expectations
  - Markets expectations for annual growth in Chinese factory output were high given a low base of comparison from a year earlier when China was under lockdowns
- Chinese retail sales grew at a solid pace in April compared to a year ago, accelerating from a rise in March, but neither managed to live up to the high market forecasts
  - Growth in consumer spending has declined, reversing the upward trend that started after China's zero-Covid exit, which has raised concerns that China's recovery is losing momentum
  - We expect to see more policy stimulus from China to support growth
  - We also expect China to grow at a faster pace than other regions in the coming months, although the momentum in growth will probably slow
- The PBoC injected more capital into banks via its medium-term lending facility, but left the medium-term lending interest rate unchanged in May, in line with expectations
  - China's central bank has kept monetary policy loose to stimulate the economy after cutting interest rates last year during the pandemic
  - Furthermore, the PBoC recently released a report in which it hinted that it would keep money supply and credit appropriate, which fueled speculations for RRR cuts or lower interest rates
- April's M2 money supply rose at a solid, albeit slower rate than last month and forecasts

Soft export order data in Asia signals a global growth slowdown

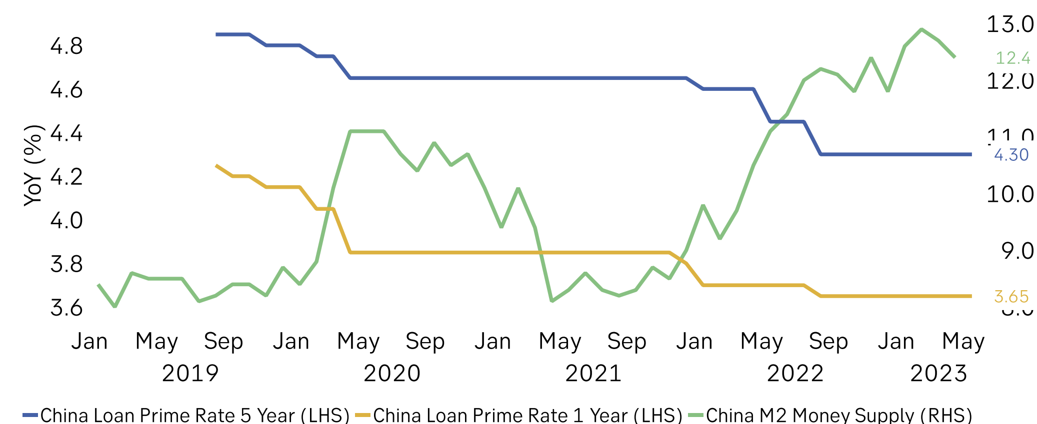
- Recent data showed that exports orders in Taiwan dropped y/y in April, for an eight consecutive month, amid falling global demand for electronic products
- Hong Kong export orders also slumped in April versus a year ago

Figure 1: China's recovery is showing signs of slowing as its manufacturing sector has fallen into a contraction. Chinese growth is buoyed by the expansion in services...



Source: Macrobond, SEB

Figure 2: Chinese monetary policy remains supportive and the PBoC may cut interest rates to support China's fading recovery



Source: Macrobond, SEB

Agenda

03 Overview

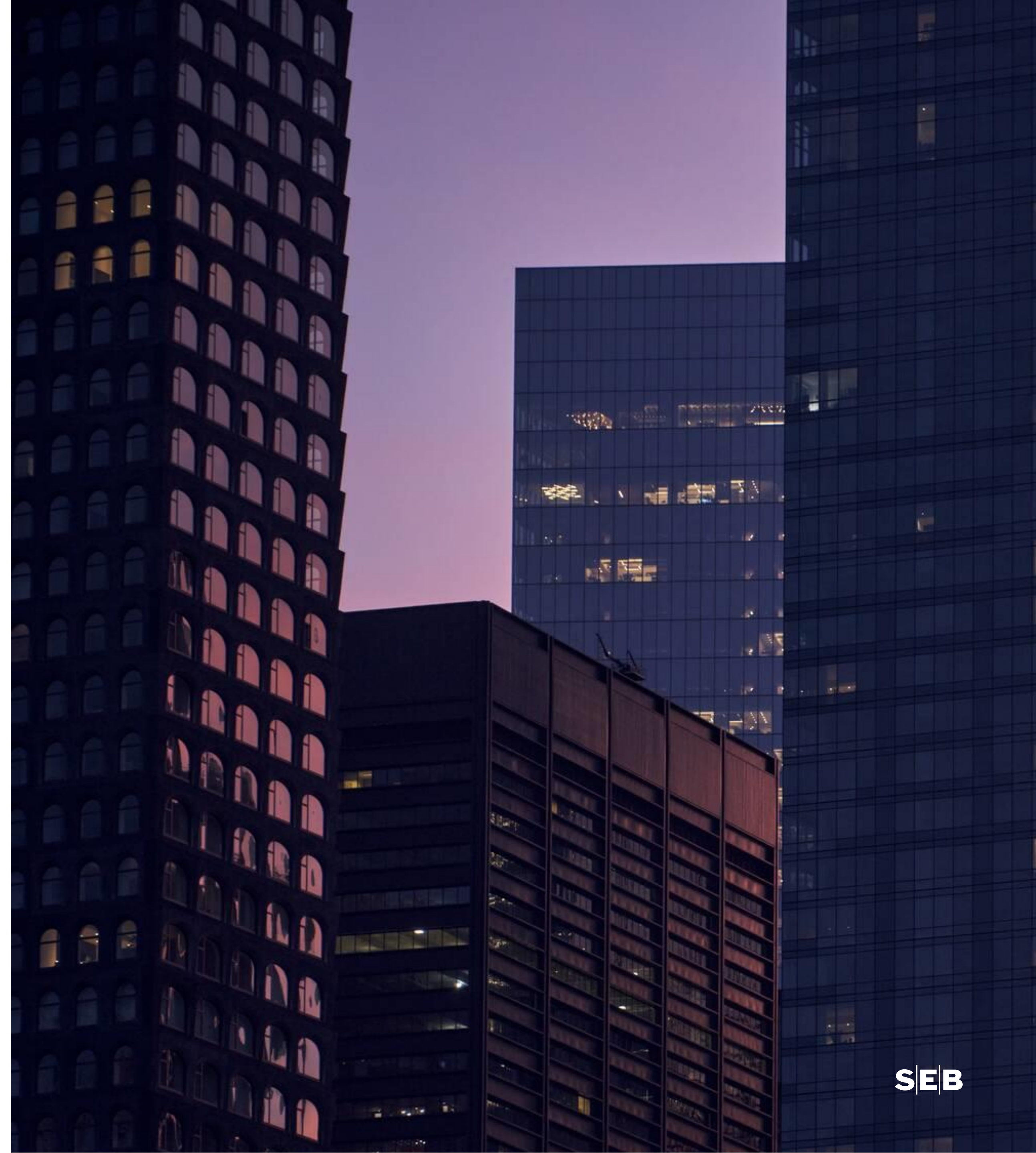
11 House View factors

13 Macro and Markets

17 Markets and Fair Value Indicators

22 In Focus

27 Asset Class and Sector Views



SEB House View – US Macro Status

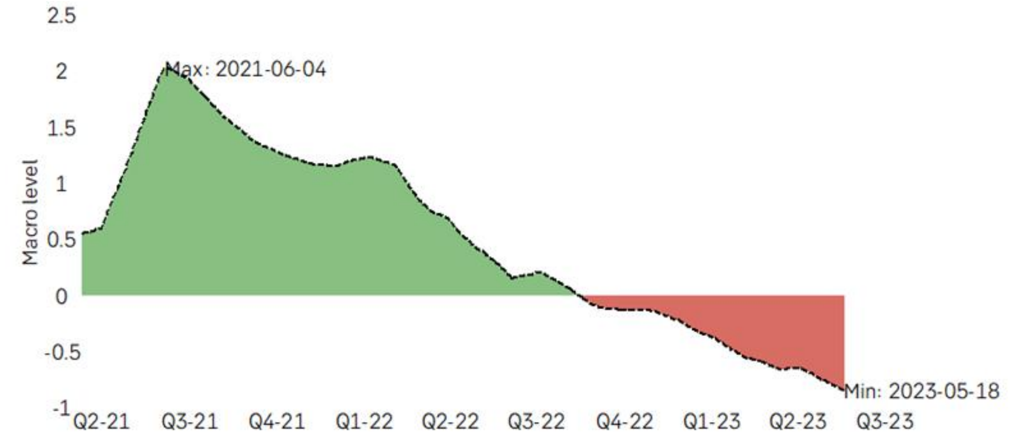
More pessimistic business surveys contributed to negative US macro momentum

- The increase in April's ISM Services PMI did not offset the decline in the March survey
  - US soft data points to a slowdown or even recession, likely driven by concerns about tightening credit conditions, but this contrasts with overall decent hard macro data
- The rebound in April's US retail sales did not outpace the contraction in March, which leaves retail sales below the peak in January
  - The retail sales data suggests that consumption is slowing, however, US consumer data has been mixed, with personal consumption expenditures and durable goods picking up in April
  - We think that the stability in consumer demand could persist for longer, supported by excess savings from the pandemic as well as the strong labor market

US macro data surprised on the downside in May, driven lower by weakening sentiment

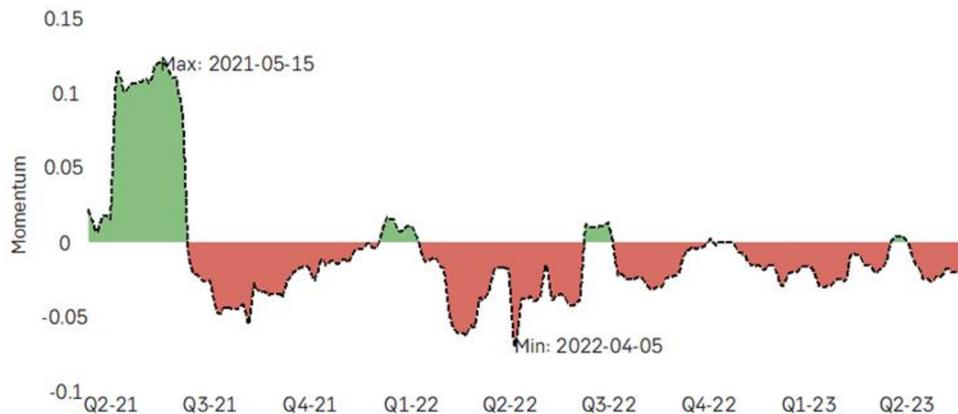
- Michigan's consumer sentiment slid to a six-month low, below the consensus estimates, as consumers were more pessimistic about the US-debt deal impasse, which seems to be over
- US manufacturing orders rose in March, but came in below expectations

Figure 1: The US macro level has fallen below its long-term trend, due to weak business confidence



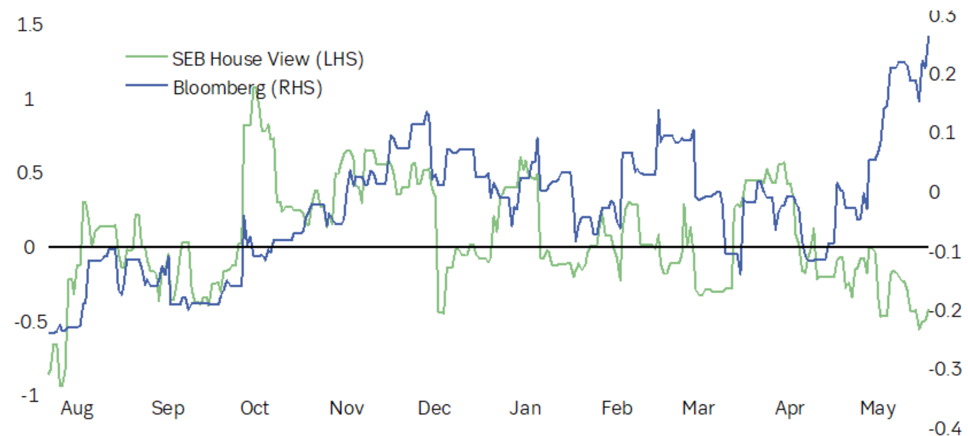
Source: SEB House View

Figure 2: Big declines in March's ISM services PMI and retail sales has kept US macro momentum negative, despite their rebound in April



Source: SEB House View

Figure 3: Our macro surprise indicator turned negative in April-May, mostly due to weak consumer and business sentiment, overall hard data surprised on the upside



Source: SEB House View

SEB House View – EU Macro Status

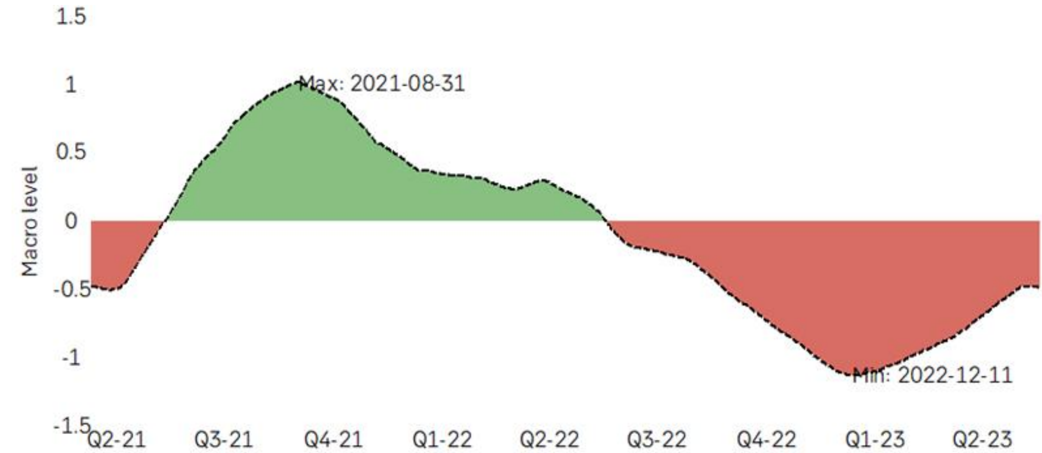
EU macro momentum turned negative due to weakening German manufacturing

- German industrial production declined MoM in March, reverting two months of growth
  - Decreases in the manufacture of motor vehicles, machinery and construction contributed to the overall decline in industrial production
  - Having said that, more recent GDP data showed that the Eurozone grew in Q1 and avoided a recession, despite the poor manufacturing performance

Macro surprises have faded in the euro area, but remain positive

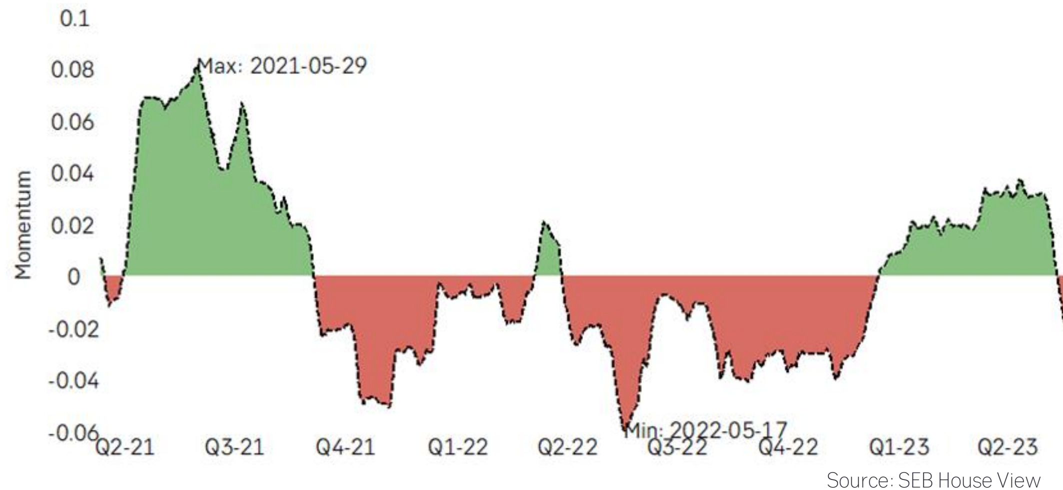
- German Services PMI rose more-than-expected in April, revised upwards to 56 from a preliminary estimate, signaling the quickest pace of expansion for services in one year
- The IFO survey which measures general business conditions in Germany also improved more than forecasts in April, which contributed positively to our surprise indicator
  - Macro data surprises have faded, but macro can surprise more strongly on the upside going forward, in case China's recovery does not fade and future monetary policy is reasonable

Figure 1: The EU macro level has continued to improve



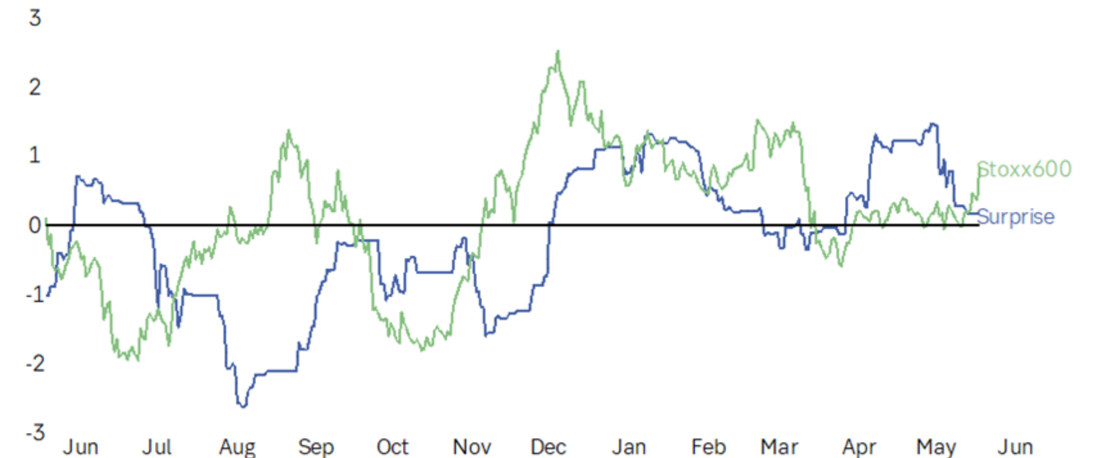
Source: SEB House View

Figure 2: The drop in Germany's factory output weighted on the EU's macro momentum



Source: SEB House View

Figure 3: EU macro surprises have faded, but remains in positive territory



Source: SEB House View

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SEB House View – EM Macro Status

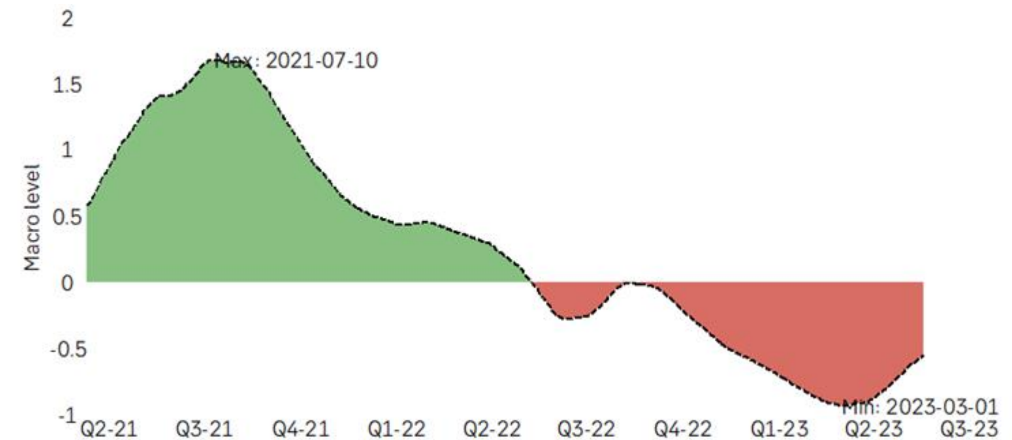
EM macro momentum remained positive as hard data stabilized

- Annual HK export growth improved in March, but exports still fell versus a year ago
  - HK exports has fallen for a tenth consecutive month as global demand for goods has been soft, nevertheless, it appears that the declining trend has stabilized
- China's retail sales growth YoY accelerated in April, as retail sales rose for a second consecutive month, alongside higher industrial production growth

EM macro surprises have been positive

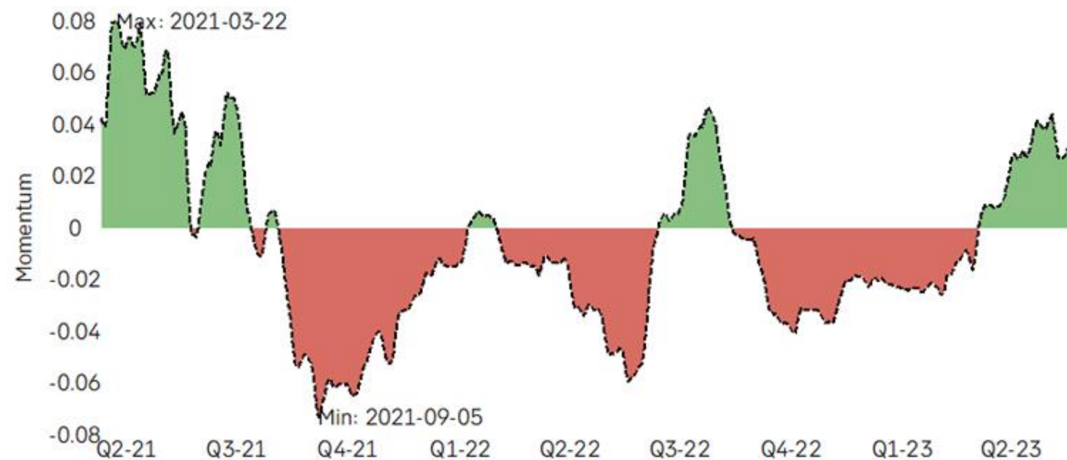
- Chinese exports grew more than economists had predicted in April, but there are signs that the Chinese recovery is slowly losing some of its momentum
  - April's yearly export growth compared to last year's lockdowns may be misleading, as the data also showed that shipments dropped MoM
  - More policy stimulus from China and a weaker yuan should be positive for growth
- The March Brazil retail sales beat estimates, as consumer spending on office equipment and pharmaceuticals products rose despite high prevalent interest rates. Further disinflation could offset high rates and job market slack and boost spending

Figure 1: The macro level for EM economies have improved, but is still negative



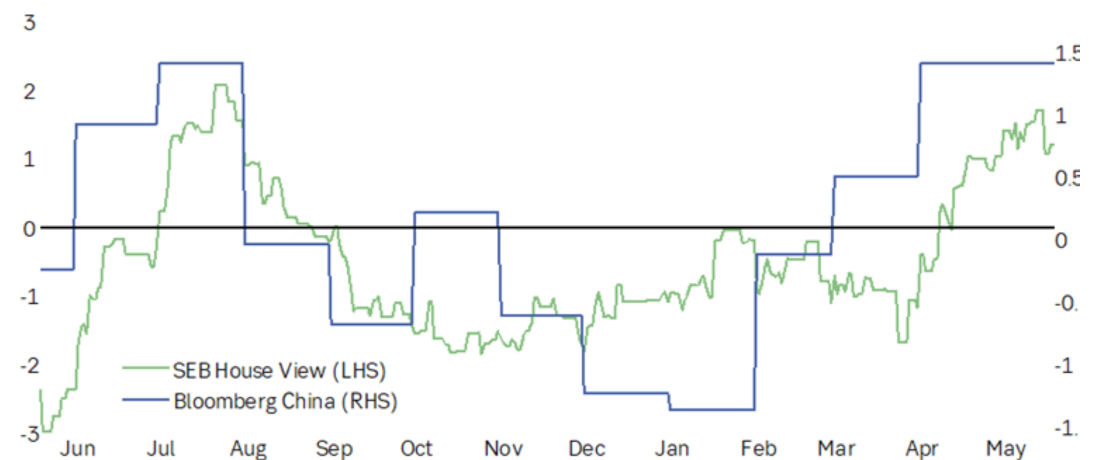
Source: SEB House View

Figure 2: Better HK exports and China retail sales YoY led to positive EM macro momentum



Source: SEB House View

Figure 3: EM macro surprised to the upside, helped by Chinese exports and Brazilian retail sales



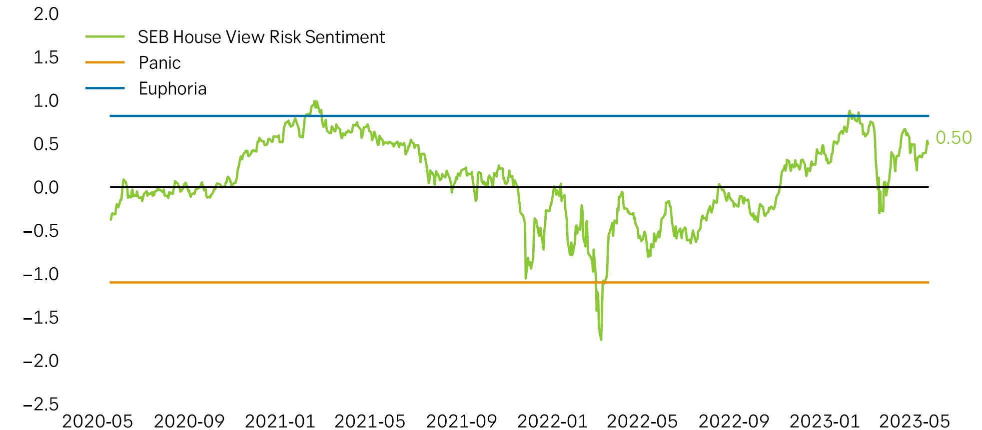
Source: SEB House View

SEB House View – Risk Indicator

Risk appetite returned to positive territory as banking sector fears eased

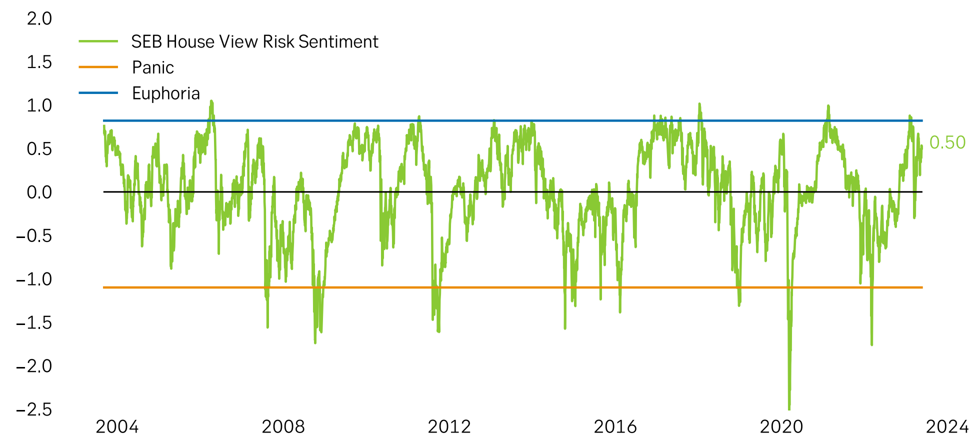
- The House View Risk Indicator rebounded from the negative readings in March to a positive level in May, as risk sentiment improved
  - Risk assets rallied after investors' concerns about US regional banks eased and hopes for a Fed pivot and US debt-ceiling deal led to higher risk sentiment
  - Growth has continued to outperform value on the back of positive big tech earnings surprises and as AI trends have gained more traction
  - Sentiment has improved as FX and equity volatility have continued to fall
- Risk appetite have increased, but remain below levels consistent with euphoric investor behavior, which leaves room for further upside
  - Potential catalysts in the near-term could be downside surprises in incoming inflation data, surprisingly dovish central banks and positive growth estimates or earnings revisions

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



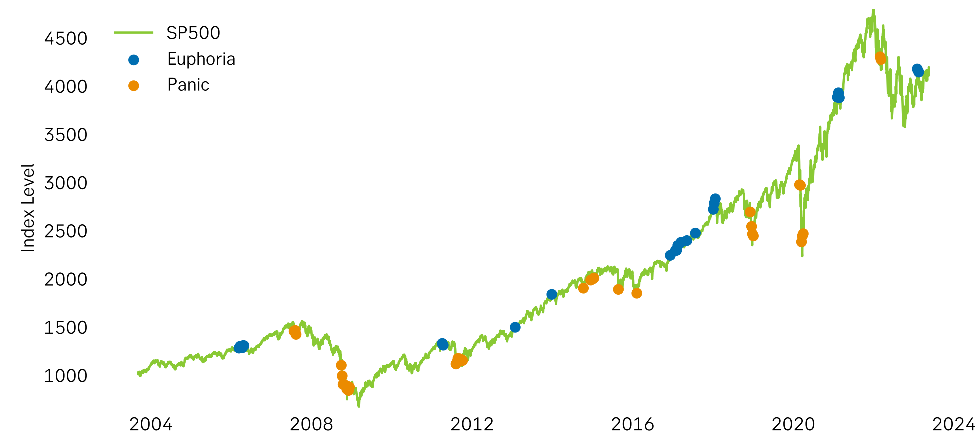
Source: SEB House View

Figure 1: SEB House View Risk Indicator



Source: SEB House View

Figure 3: Extreme states plotted on SP500



Source: SEB House View

SEB

Agenda

03 Overview

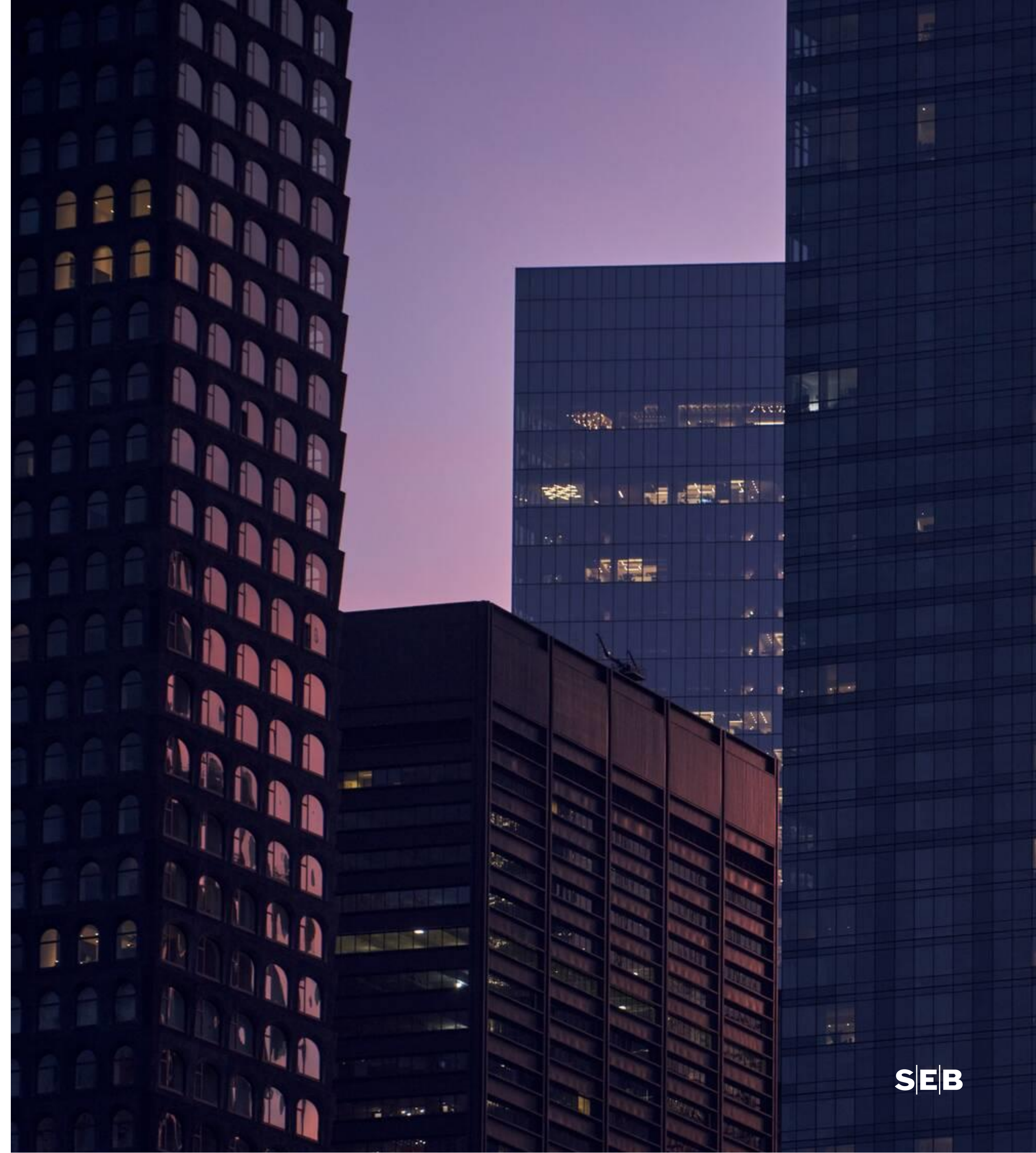
11 House View factors

13 Macro and Markets

17 Markets and Fair Value Indicators

22 **In Focus**

27 Asset Class and Sector Views



In Focus: market troughs (1/2)

An anatomy of previous equity market troughs indicates that stocks may have already bottomed…

Although it is difficult to predict market bottoms, we have put together a list of economic and financial market indicators on the next slide, which have often preceded or coincided with prior bear market bottoms. Our analysis of previous bear market troughs suggests that the S&P 500 index likely reached a trough last October, as multiple signposts were triggered around that time. Over 70% of the signposts were triggered before the October low. This makes us more confident in that the bear market has ended. We briefly go through some of these indicators below.

Peak in inflation/rates

Our monetary policy signposts have indicated more upside for equities: financial conditions eased last year while short-term US treasury yields receded from their new highs twice - a trend typically preceding previous market bottoms. Another important signpost is Fed cutting interest rates. Markets are pricing in Fed rate cuts later this year, but we have yet seen Fed easing policy. However, we expect the Fed to pivot by year end, because of receding inflation pressures and a weakening job market due to high interest rates and tightening credit conditions.

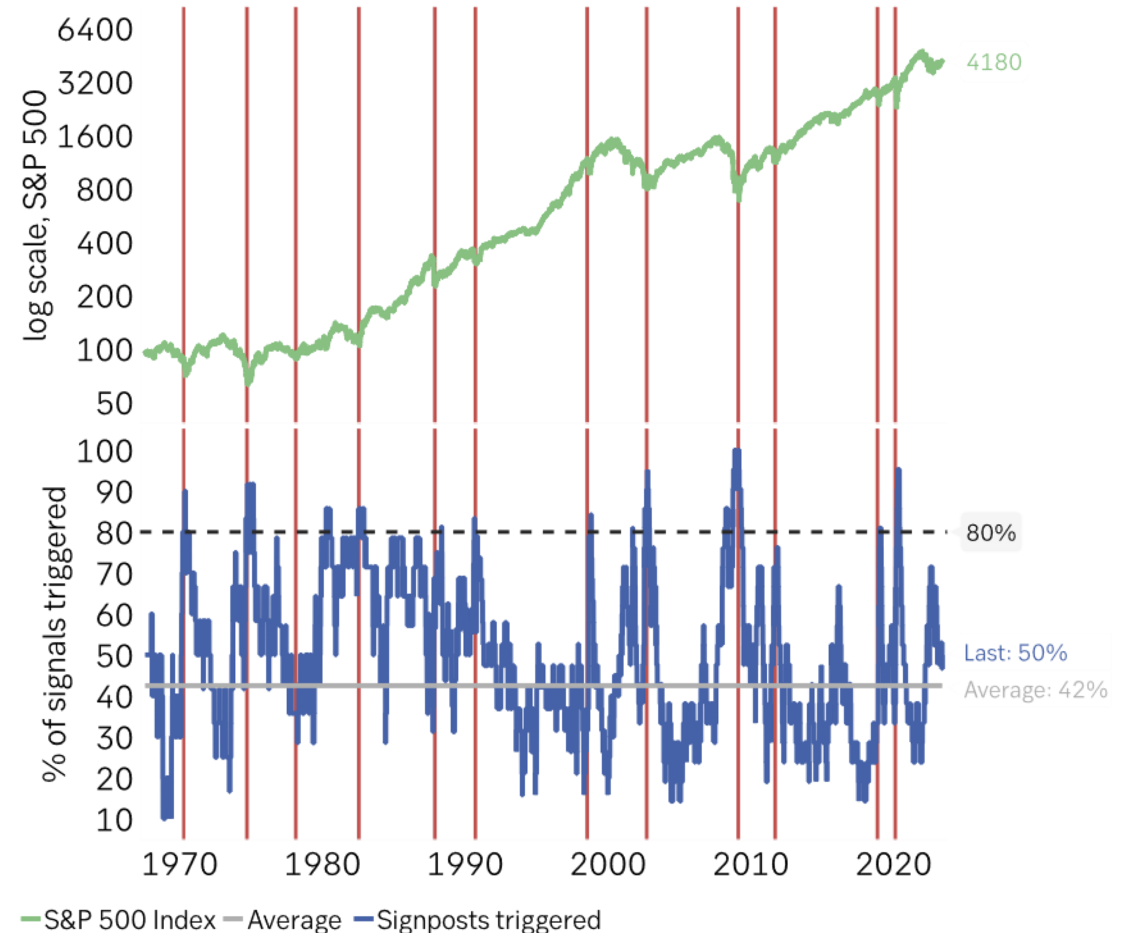
Valuations and risk premia

In past bear markets, stocks bottomed after significant increases in the equity risk premium, as they priced in a recession via a higher risk premium. Last year the US equity risk premium surged amid a de-rating in equities.

Stocks have performed strongly this year and since the end of last year, fueled by hopes for a Fed pivot in the second-half, which have pushed bond yields lower and stock valuations higher. The P/E ratio for the S&P 500 index has risen above 19x, but valuations are not getting stretched in our view. The market rally in large cap stocks has been rather narrow and driven to a large extent by big tech companies and the P/E ratio for the equal-weighted S&P 500 index seems reasonable.

The rule of 20 which says that the sum of the P/E ratio and CPI inflation should be less than 20 before stocks can bottom, was not triggered last year despite the de-rating in equities. This signpost was never triggered due to the elevated inflation pressures, but we anticipate that this criteria will be fulfilled as the disinflation process proceeds.

Figure 1: Several variables that have historically signaled equity market bottoms after previous bear markets have already been triggered over the past months…



Source: Macrobond, SEB

SEB

In Focus: market troughs (2/2)

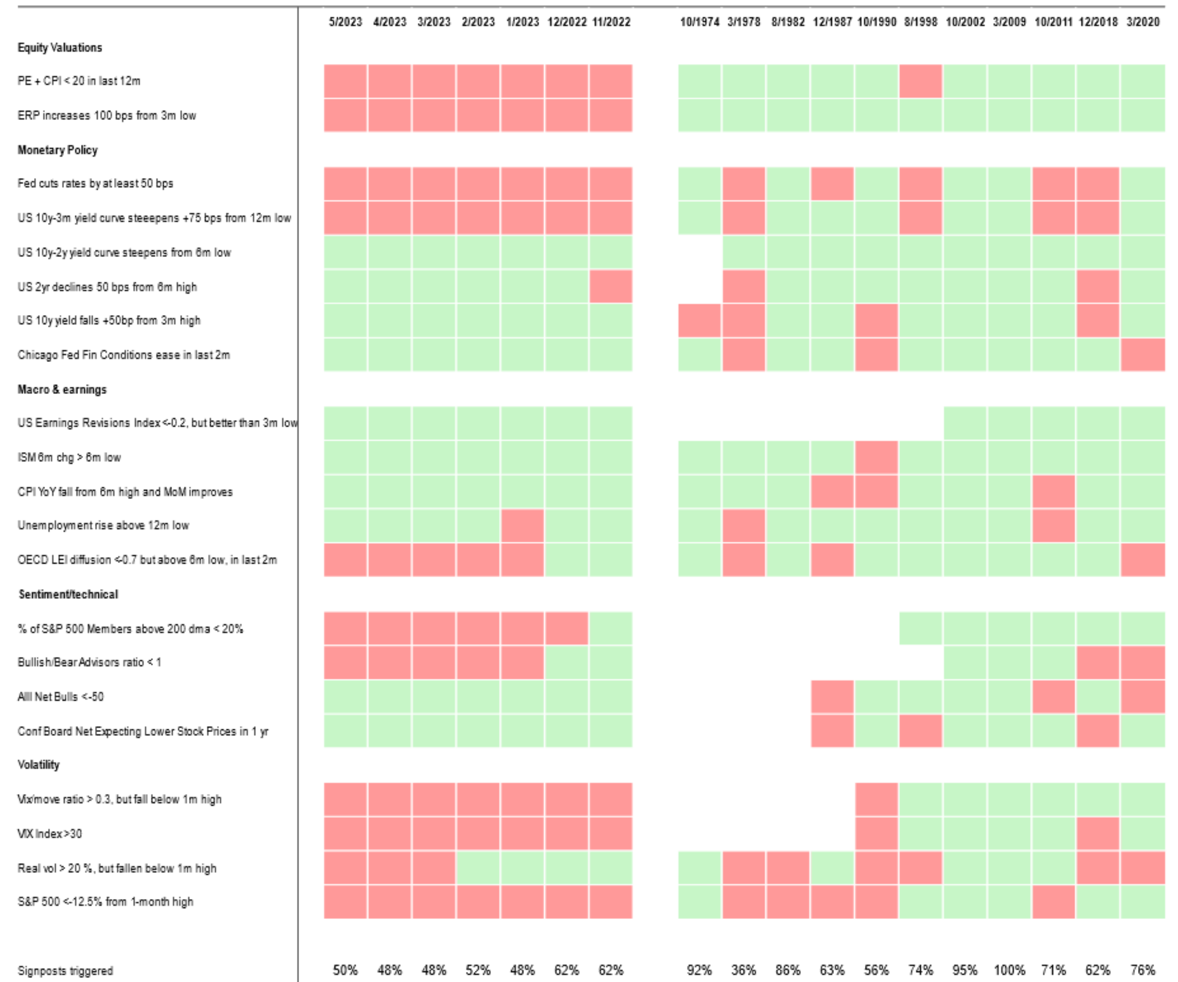
Macro

Most of our macro indicators have stayed triggered throughout this year and continue to point to more upside potential for stocks. US inflation peaked in June and has continued to fall since then. Historically, inflation peaked around the time of S&P 500 troughs. Furthermore, the momentum in the ISM and Conference Board Leading economic index have somewhat improved which support our soft-landing scenario.

Sentiment

Investor sentiment has tended to be extremely bearish around prior stock market bottoms. The US AAII investor sentiment survey for individual investors has therefore often been a reliable indicator for signaling turning points. The net bullish readings, the number of bulls minus bears in the AAII survey, have typically been in deep negative territory like it was in October and is today, when markets bottomed. Institutional investors are also extremely bearish, evident by the historically high cash allocation in Bank of America's latest Fund Manager Survey.

Figure 1: List of signposts that have historically signaled turning points in prior bear markets



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In Focus: recession risks (1/2)

Excessive sentiment pessimism affects perceived recession odds

The fear of recession has been a hot topic since the end of covid, and consequently, sentiment indicators still reflect a pessimistic view of the economy. Recession concerns remain at the same level as in previous month, growth expectations are the weakest since December 22' and cash balances have increased.

However, unlike the bearish investors and market analysts, the general hard activity is currently pointing in a different direction and has shown signs of improvement since December. Accordingly, the apparent deterioration in the US economic momentum this year appears to be driven entirely by sentiment measures. Historically, deteriorations in sentiment indicators that look typically recessionary have always been accompanied by similar worsening in actual economic activity in past recessions - such a trend between soft and hard data is currently not visible.

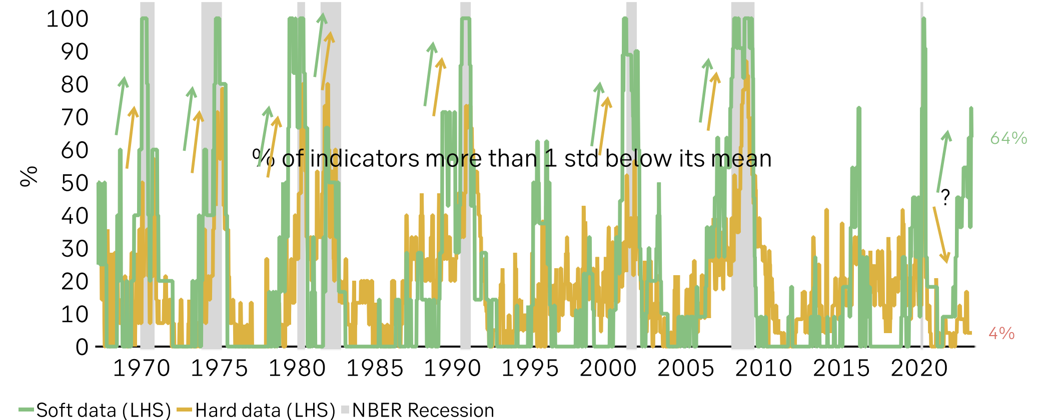
How likely is a recession?

Some historical risk factors for recession point to above-average levels. The yield curve is deeply inverted and surveys indicate tightening lending standards and falling loan demand. Historically, weaker credit growth in combination with tightening bank standards has happened either a few months before or during recession, while inverted yield curves have been reliable predictors for recessions in the past.

Having said that, the US labor market is surprisingly strong and the unemployment rate has declined to its lowest level in 53 years, which do not signal an imminent recession. High employment levels together with unusually healthy private sector balance sheet is likely to sustain a decent level of consumer spending going forward, which should mitigate some of the adverse impact that comes with rising unemployment. The unemployment rate probably has more room to rise than in previous economic cycles, given the low unemployment rate today, without necessarily causing a deep recession

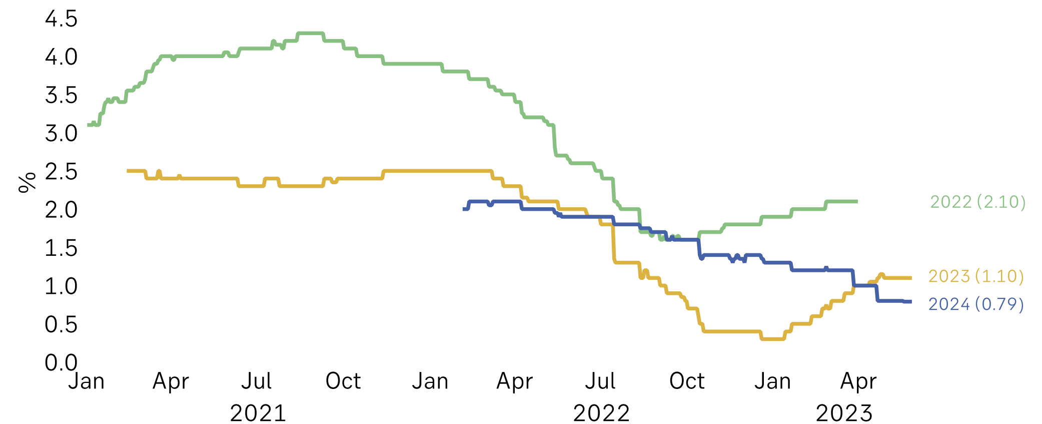
Moreover, the current divergence in strength between hard and soft data, shown in figure 1, has never occurred in prior recessions and we do not think that this time will be an exception to that. US GDP forecasts for 2023 have stabilized and is rising, as shown in figure 2, which do not indicate a deep recession in our view. Additionally, much suggest that Fed is close to ending its hiking cycle and hold rates, which raises the probability for a US soft landing.

Figure 1; Soft data overstates the risk of a US recession due to pessimistic business surveys



Source: Macrobond, SEB

Figure 2: 2023 US GDP forecasts have stabilized and are now rising, in contrast to a recession call



Source: Macrobond, SEB

SEB

In Focus: recession risks (2/2)

EPS has beaten expectations

Throughout the year, the market has expected significant EPS contractions as a consequence of the major P/E declines spotted last year. Yet, first-quarter S&P 500 earnings have surprised to the upside and the much feared deep contractions has not occurred. Instead, operating EPS appear to have bottomed out in Q4 2022 and earnings expectations are now rising anew.

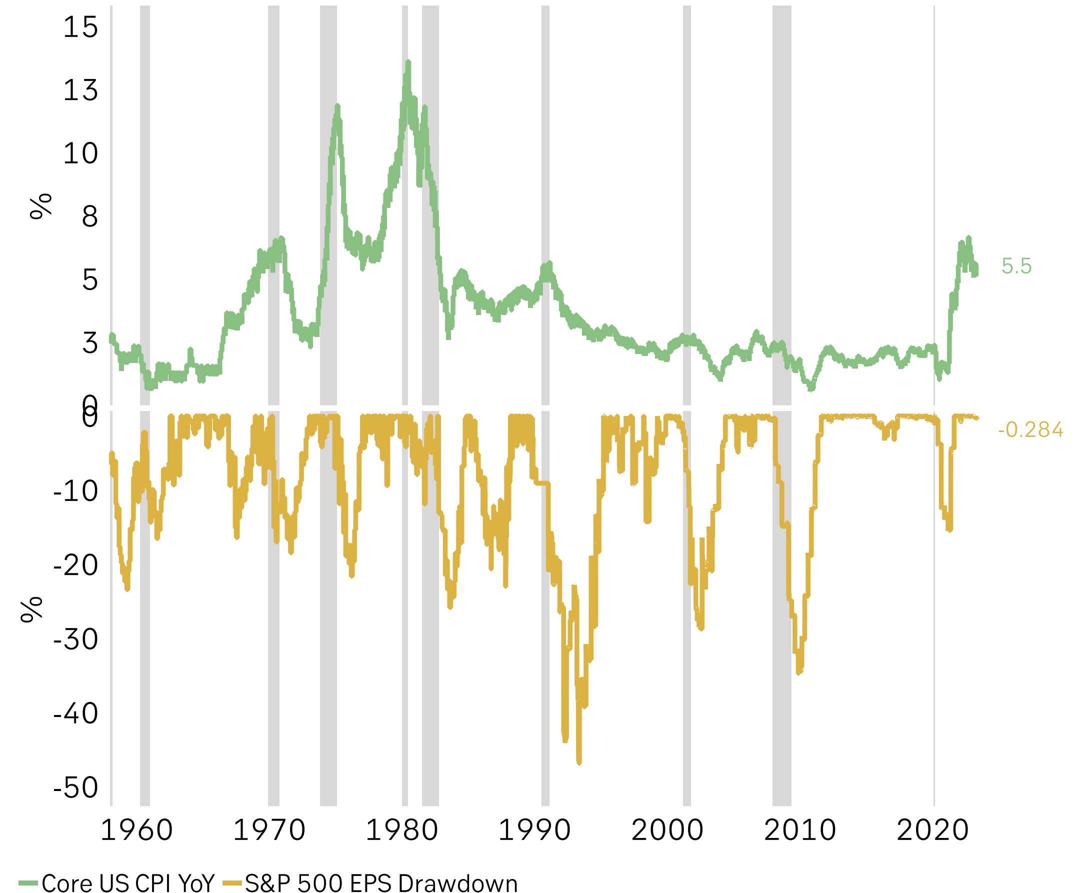
Moreover, evidence show that EPS drawdowns were much milder during recessions in the 1970 and 1980s and have become progressively deeper since the 1990s when low inflation prevailed. Hence, it is possible that today's elevated inflation may offer some protection to nominal earnings. As inflation is now comparable to the historical levels in the 1970s and 1980s, it is likely that it will boost companies to maintain pricing power and thus decent profit growth, even if the economy falls into a recession.

Conclusion

The risk of a severe recession appears to be low. We can probably expect a decline in the economy, but several parameters suggest that the downturn will likely be mild and result in a soft landing. For instance, assuming a mild recession and a decline in inflation by an additional 150 basis points would still leave nominal GDP to be growing at around 4%, which is the same as the average nominal growth rate during periods of normal economic expansion.

Risks that could trigger a severe recession, such as accelerated inflation and a US bank default, are considered small. As overall hard data reflects a much more optimistic view of the economic environment than current sentiments, it is likely that the excessive sentiment pessimism is rooted in political and monetary uncertainty rather than an actual risk of recession. If so, is the fear of recession really worth all this attention from the market?

Figure 1: Elevated US core CPI mitigates EPS drawdowns



Source: Macrobond, SEB

Agenda

03 Overview

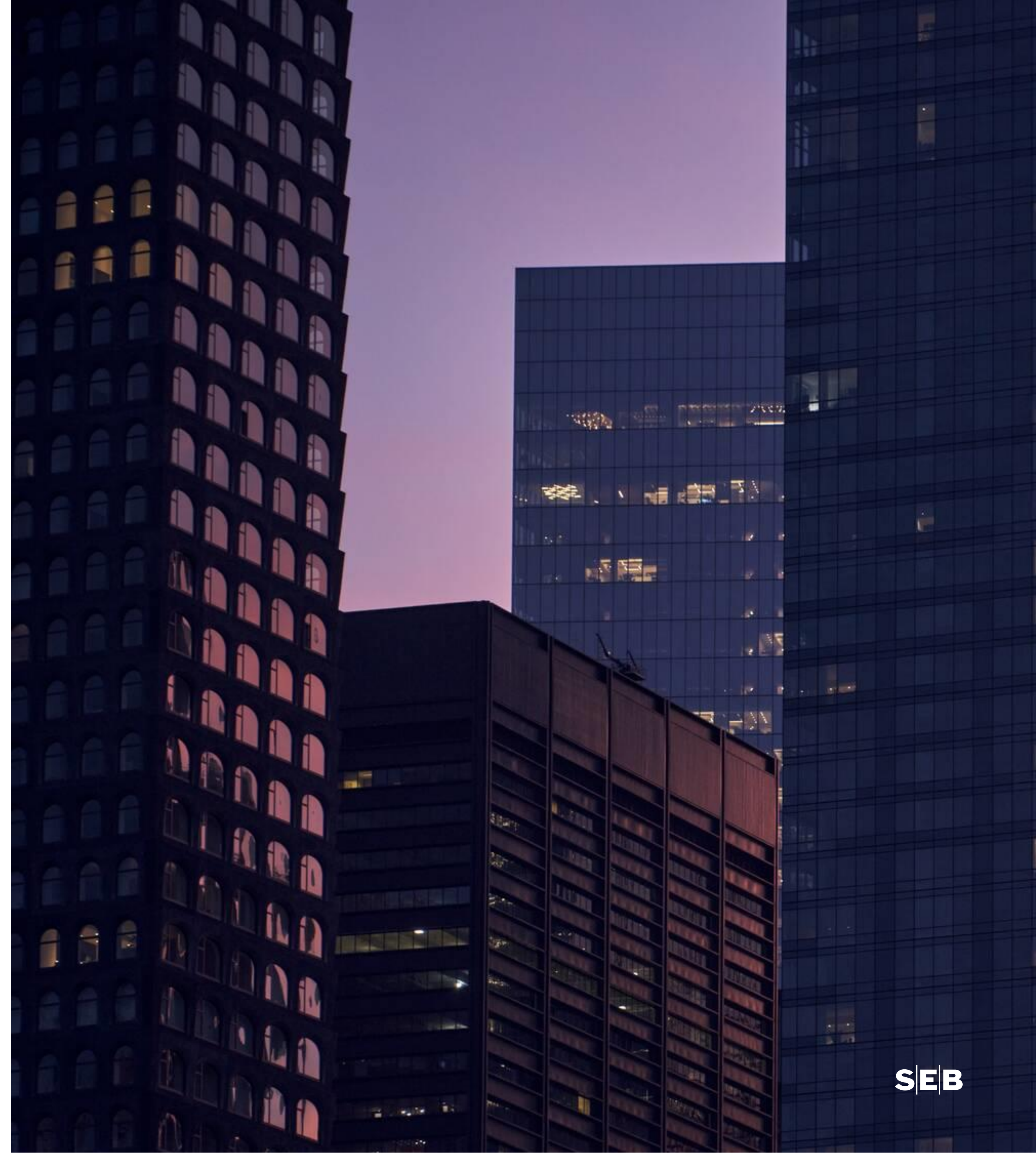
11 House View factors

13 Macro and Markets

17 Markets and Fair Value Indicators

22 In Focus

27 **Asset Class and Sector Views**



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.

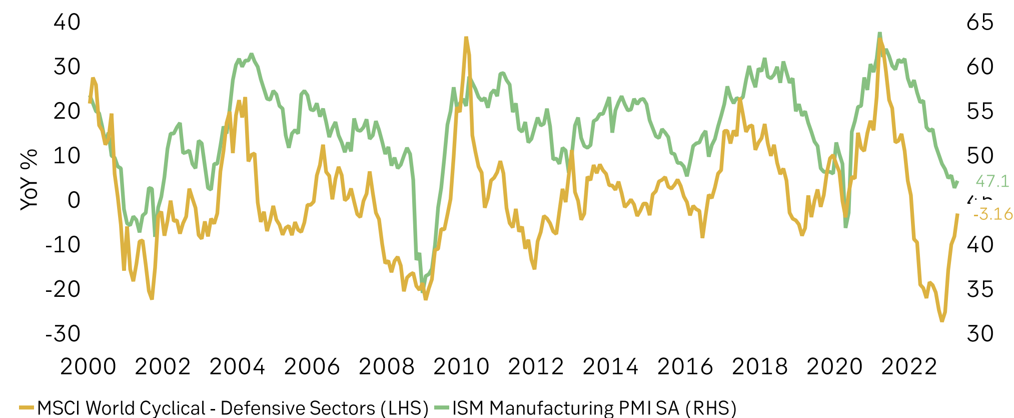
Within developed market equities, we expect Europe to outperform the US

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

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.

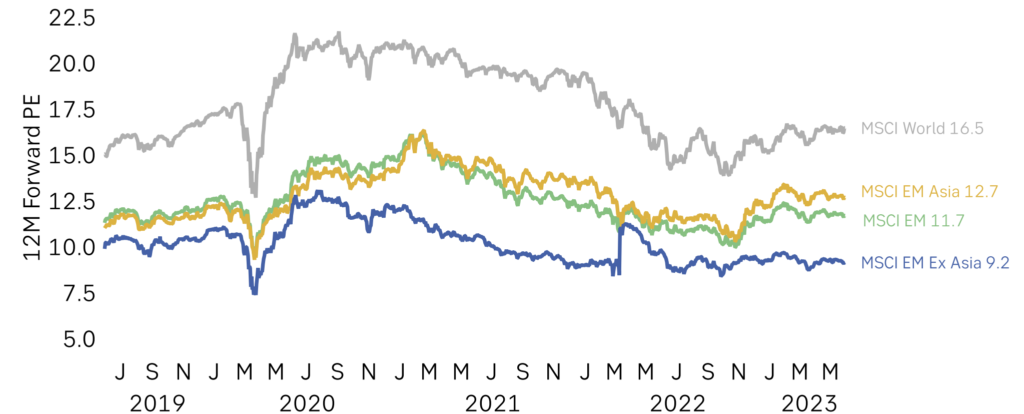
A weaker US dollar should support EM equities

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

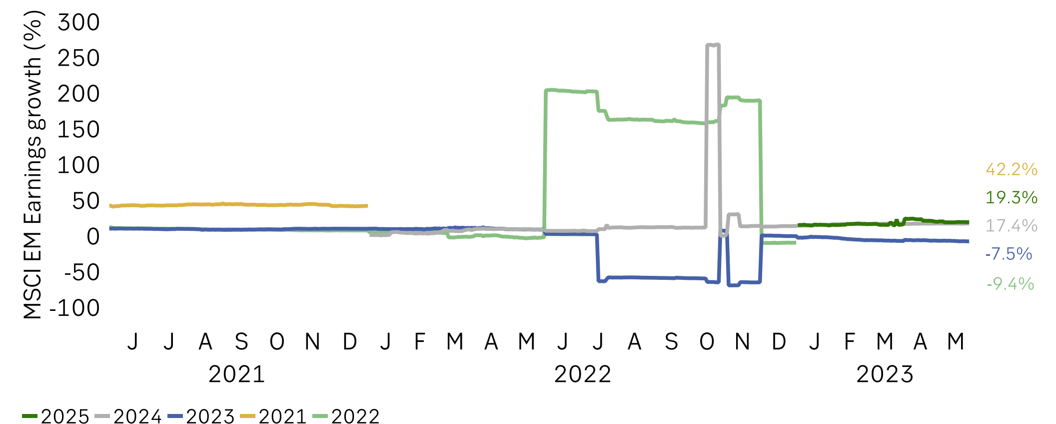
EM valuation has traded cheaper due to a multitude of challenges in 2022: zero Covid strategy, tech and property sector crackdowns, power rationing, a regulatory adjustment to the corporate profit share and President Xi's third term. These headwinds have largely faded, which should be supportive for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

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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

SEB

Government Bonds – 12M Outlook

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.

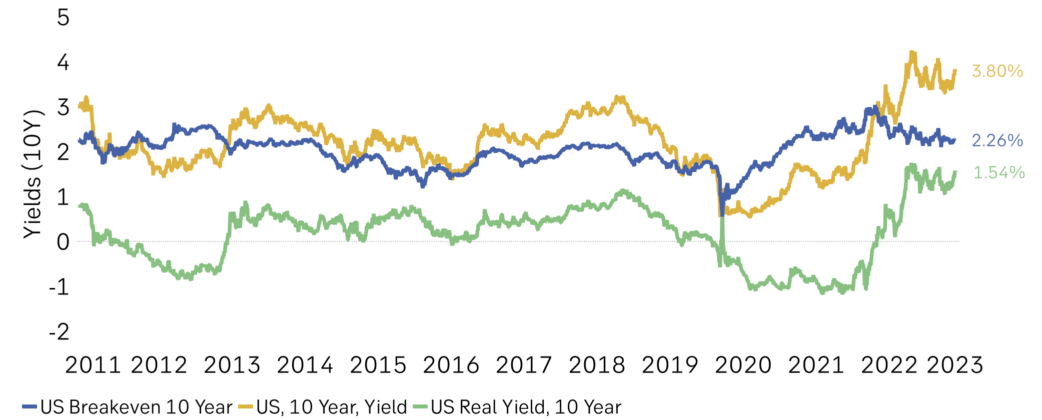
Government bond yields should decline going forward

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

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Region Overview

Regional equity positioning

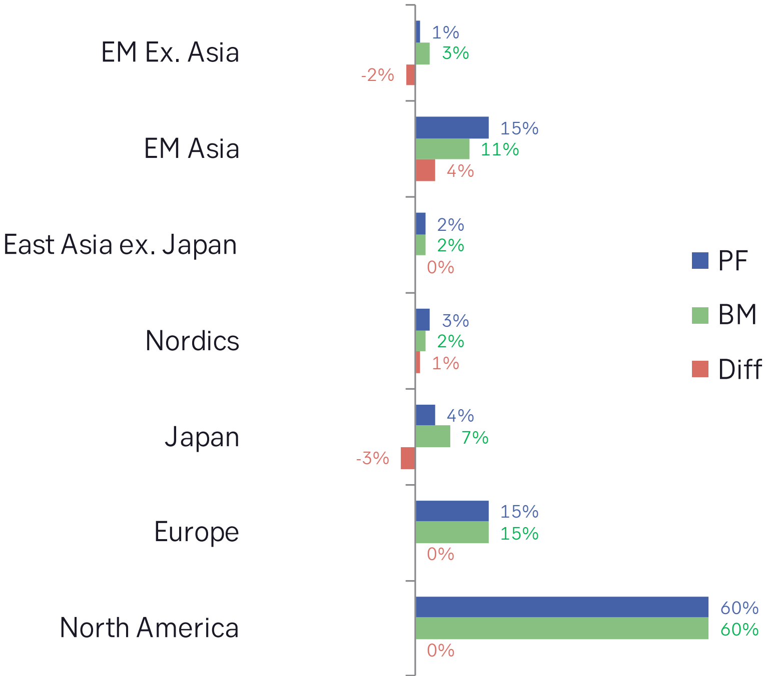
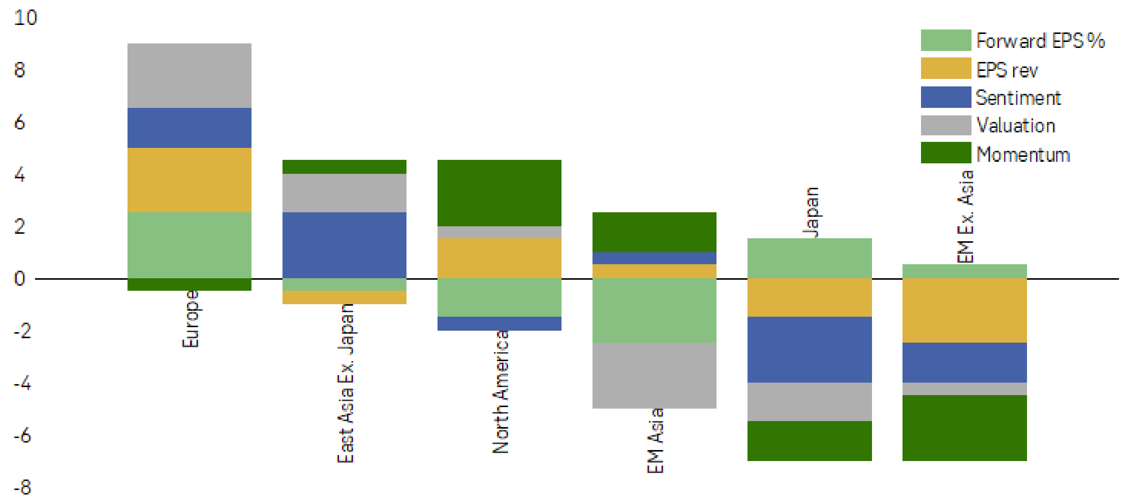


Figure 1: SEB House View region score*



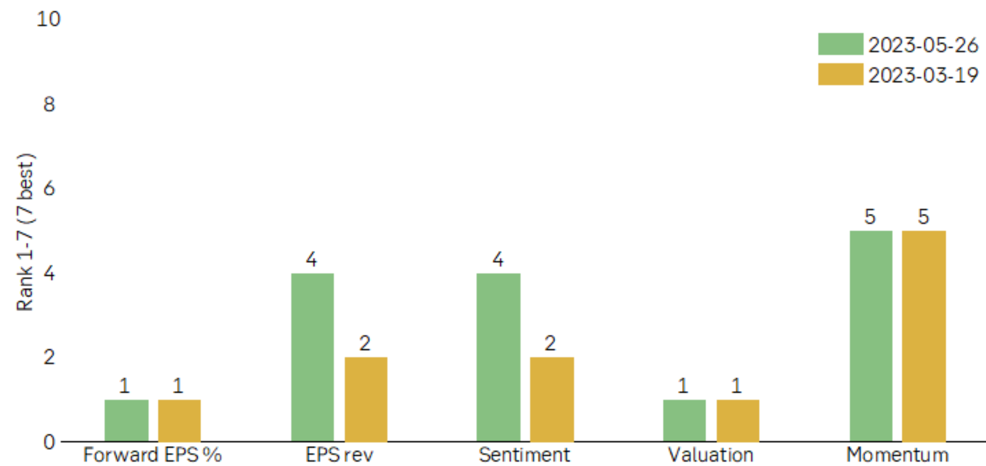
* Ranked by total score with highest score starting from left

EM Asia – Overweight

China's recovery will likely fade, but can still deliver growth, we slightly reduce our overweight

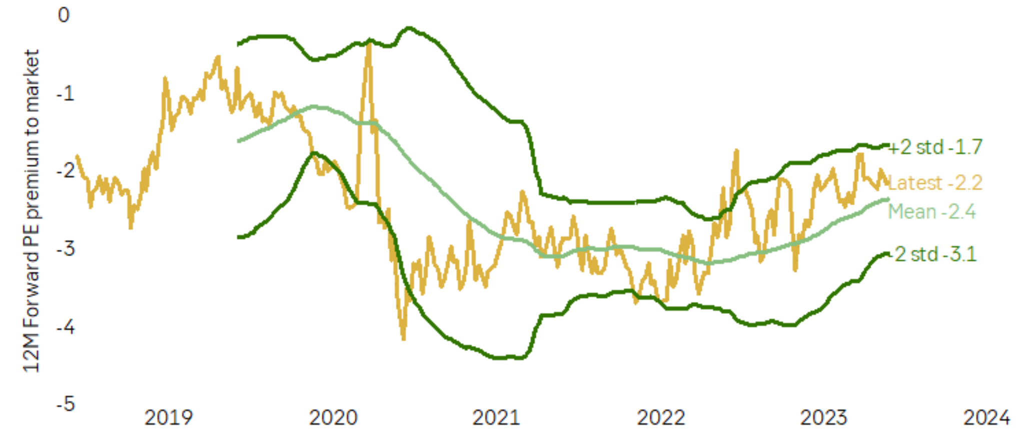
- EM Asia achieves a relatively high score on relative momentum according to our model, but the lowest score on valuations
  - Monetary policy easing in China would likely support equity valuations in the region
  - The PBoC has signaled that it will keep policy supportive, and we think that there is a possibility for lower interest rates and/or reserve requirement ratios for banks ahead
- EM Asia ranks low on forward earnings growth , but earnings could surprise on the upside if expectations continue to fall and/or if China's recovery is supported by aggressive stimulus
  - Weak Chinese manufacturing and housing data have raised concerns for that the country's recovery is beginning to lose steam…
  - We expect that China's recovery will be softer going forward, driven by lower global demand, however, its expanding services sector, easing policy and improving housing market, could be somewhat supportive for growth
  - We expect China to grow 4-5% this year, which could also support decent EPS growth

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 1: Standardized relative valuation – Current constituents



Source: SEB House View

Figure 3: Absolute valuations – Current constituents

Source: SEB House View

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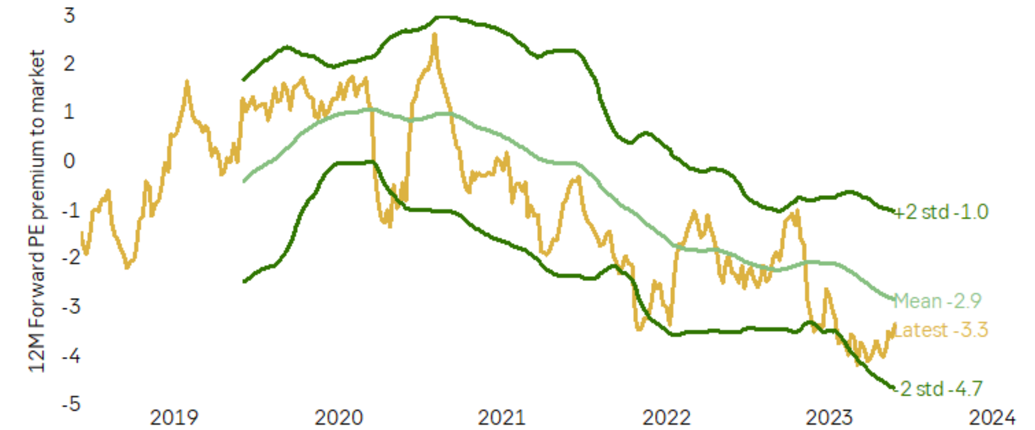
EM Ex Asia – Underweight

Macro in EM Ex Asia has improved, but we stay underweight due to downside growth risks

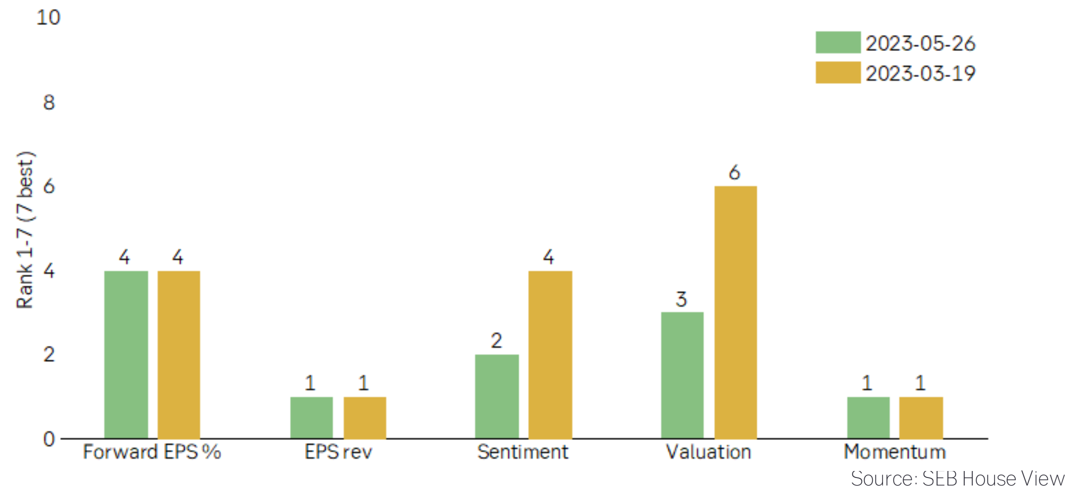
- Macro conditions in Brazil, which makes up for 60% of the region, appear to have taken a turn for the better, which could mean stronger growth ahead
  - Brazil's industrial output rose in March, reversing the steep decline in February
  - Brazil's composite PMI index also signaled an economic expansion for the second consecutive month in April, helped by higher business activity in the services sector
  - But EM manufacturing is still weak and spill-over effects from China have not materialized
- In our regional equity model, EM Ex Asia ranks in the lowest or middle bucket on factors such as earnings revisions, sentiment and valuations
- However, commodity prices will likely fall due to a global slowdown which would hurt the trade surplus of commodity-exporting countries in the region
- Brazil's new fiscal framework proposal is aimed at reducing its debt burden, but the effectiveness of the new rules are uncertain and stabilization in debt is questionable

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

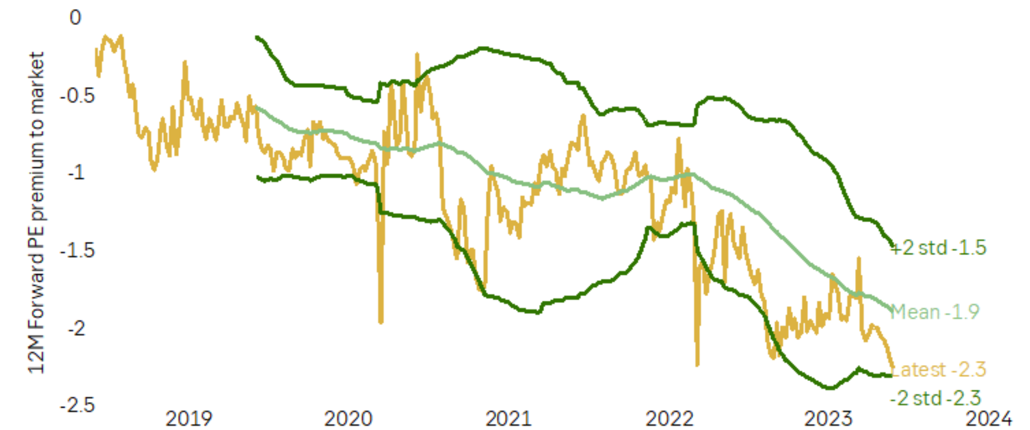
Source: SEB House View

Europe – Neutral

We slightly reduce Europe to neutral, due to weakening economic conditions

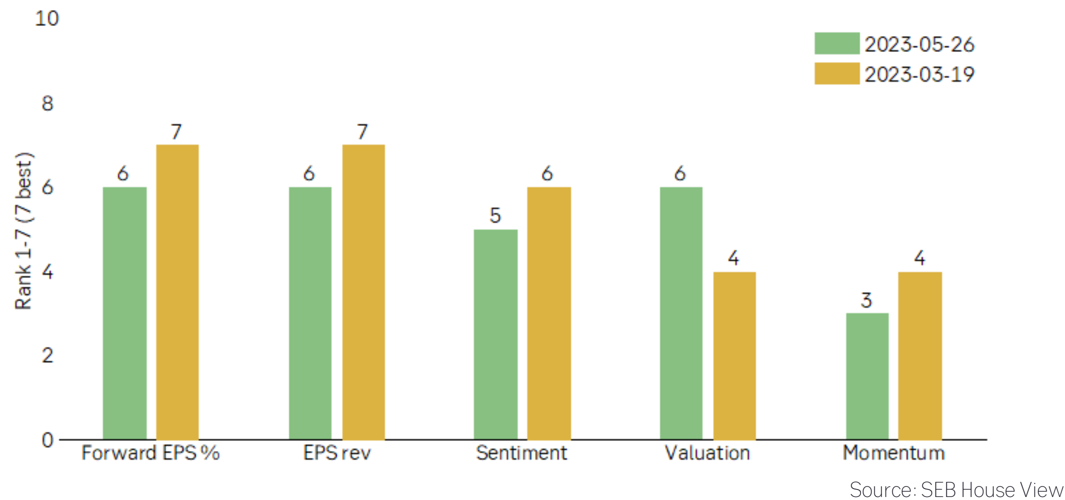
- Economic conditions in Europe seem to be deteriorating, as high interest rates and inflation weigh on demand while China's recovery has been weaker-than-expected
- Germany, Europe's biggest economy, entered a technical recession last quarter as its economy contracted due to weaker consumption, amid high inflation and interest rates
  - Q1 growth forecasts for Europe will likely be revised down as well, but the bloc could avoid a recession, helped by increased spending on travel and leisure in the service sector
  - The growth outlook for Europe remains stable in our view, although recession risks have increased as the manufacturing sector is still in contraction
- The ECB slowed rate hikes to 0.25% in May, but signaled more tightening ahead to curb inflation
  - On the positive side, more ECB rate hikes would likely strengthen the EUR which should attract more capital inflows from dollar-based foreign investors
- Europe also ranks in the top on EPS outlook and revisions in our model, despite the weaker macro, and the subsiding contagion fears over US regional banks should support risk assets

Figure 1: Standardized relative valuation – Current constituents



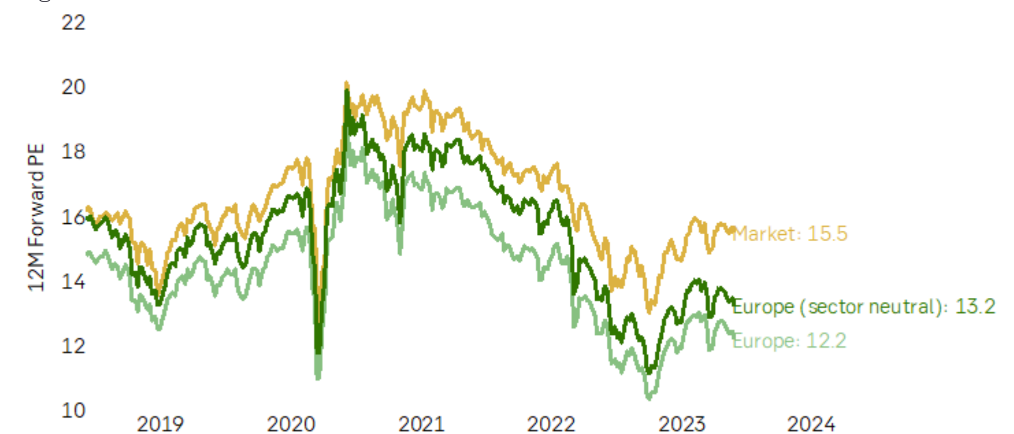
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



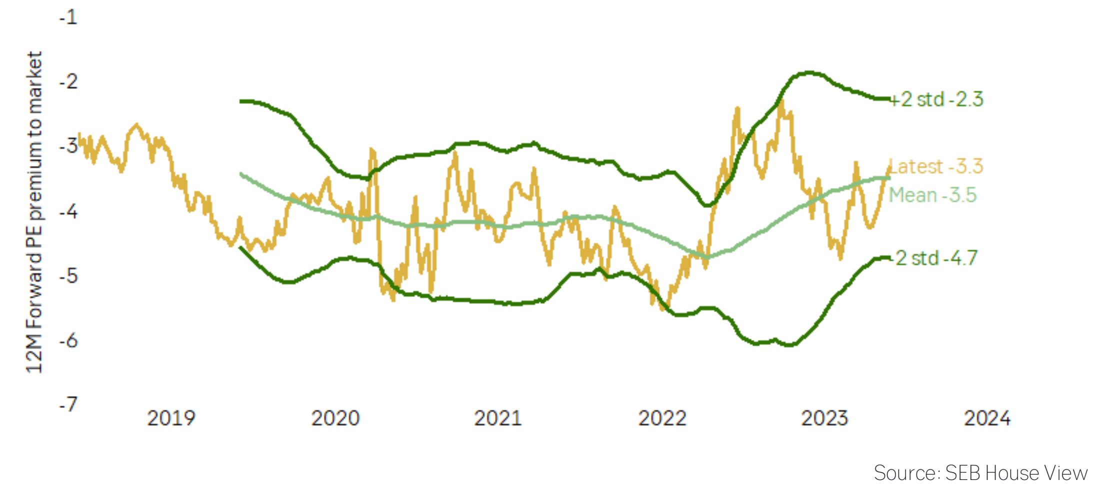
Source: SEB House View

Japan – Underweight

We reduce our underweight to Japanese equities after the recent rally, but remain underweight, as weaker overseas demand for exports and BoJ shift will weigh on stocks

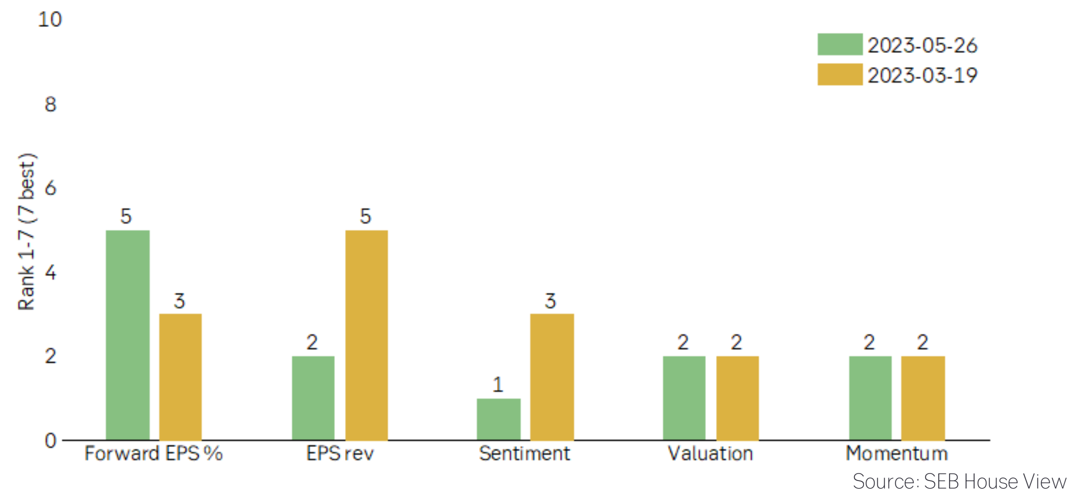
- Japan's economy has seen an uplift, with stronger Q1 expansion than expected, buoyed by increased spending and an improved post-COVID recovery
- PMIs have also signaled improving economic conditions in Japan, helped by an increase in inbound tourism after the country lifted its restrictions
- Japan's improved corporate governance code and long-awaited return of inflation after years of deflation are positive factors for the Japanese stock market in the long-run
- However, the Bank of Japan is facing growing pressure to normalize its monetary policy and lift interest rates to curb the country's high core inflation, a move that could adversely affect Japanese equity valuations
  - Higher interest rates would weigh on Japan's economy and in turn corporate earnings, while also making the yen and Japan's exports more expensive

Figure 1: Standardized relative valuation – Current constituents



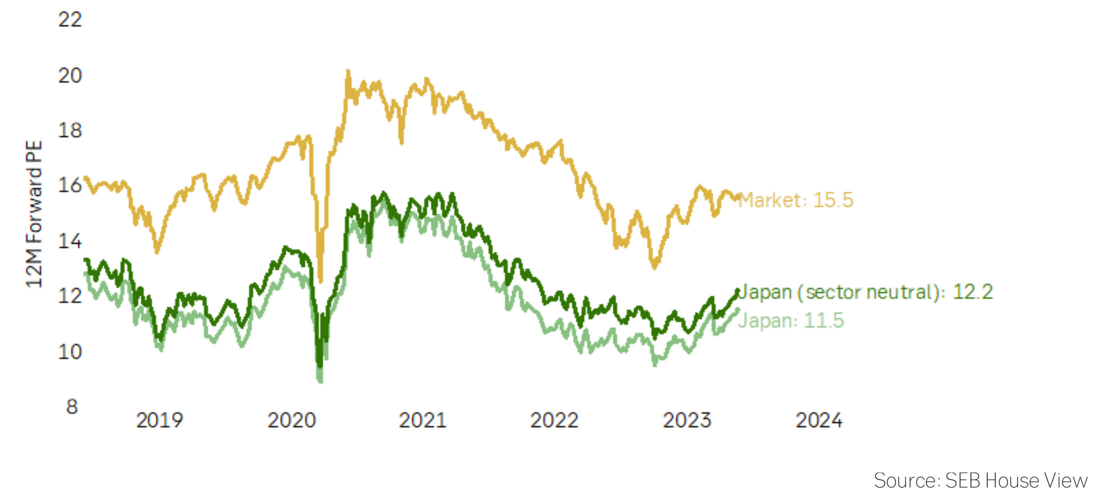
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



Source: SEB House View

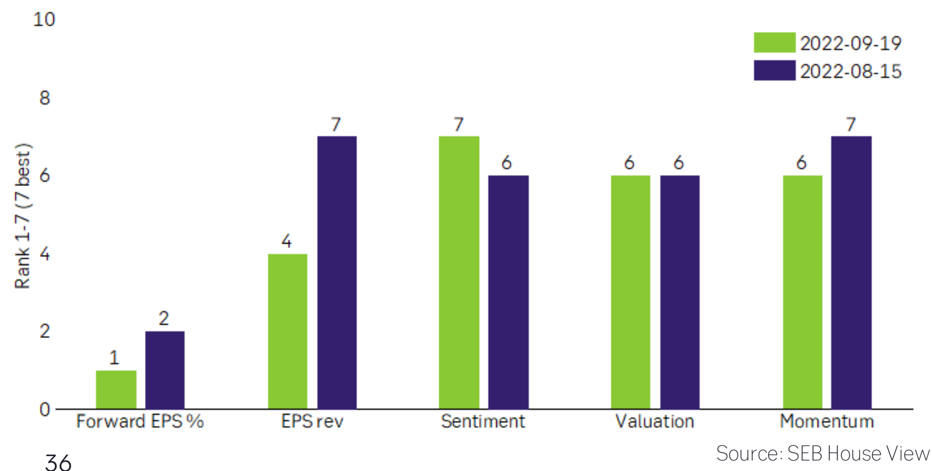
SEB

Nordics – Overweight

We remain overweight in the Nordics

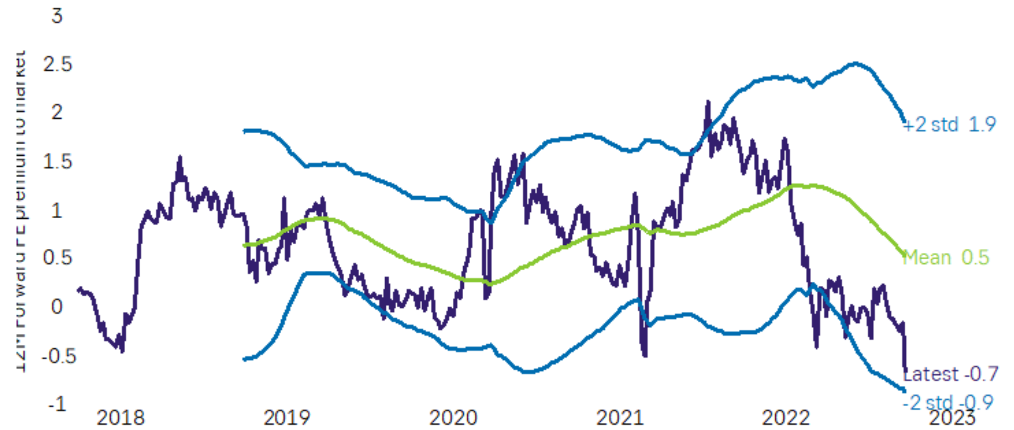
- Value stocks has underperformed growth amid this year's tech rally and could see more inflow as investors look for cheaper value stocks with strong balance sheets and stable cash flows
  – The Nordics has underperformed other regions and is more value-tilted with a relatively high concentration of industrials and banks versus other regions
- We expect the weak Swedish krona and China's recovery to benefit the export-heavy Nordics
  – The Swedish krona has recently weakened against other major currencies, making Swedish exports still relatively cheap to other countries
- Sweden's economy has been more resilient than-expected according to preliminary Q1 GDP data
  – Our GDP growth forecasts point towards a recession for 2023, but the Swedish economy defied consensus of a technical recession in Q1 after growing in the first quarter, up from a fall in Q4
- Energy prices have declined, but core inflation in the region remains too high
  – Sweden's Riksbank indicated that it is prepared to hikes rates further to bring down inflation
  – Having said that, Swedish equities, which largely consist of industrial companies and banks, the usually outperform other sectors amid rising interest rates and inflation

Figure 2: Contribution to House View Region Score



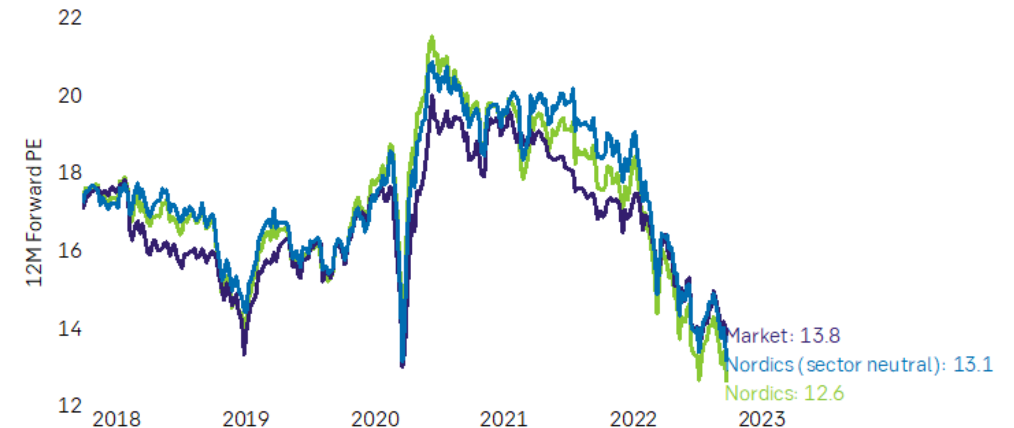
Source: SEB House View

Figure 1: Standardized relative valuation – Current constituents



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



Source: SEB House View

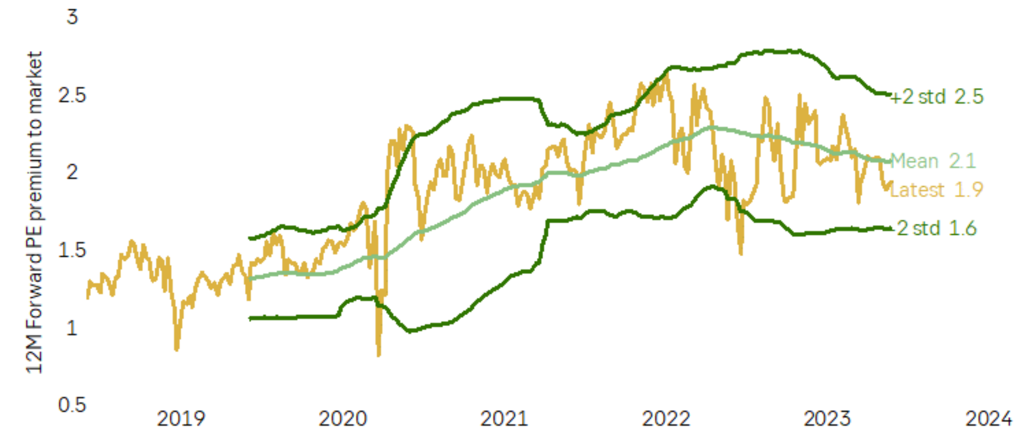
SEB

North America – Neutral

We lift the region to neutral as decent macro can buoy earnings, but wait for Fed cuts

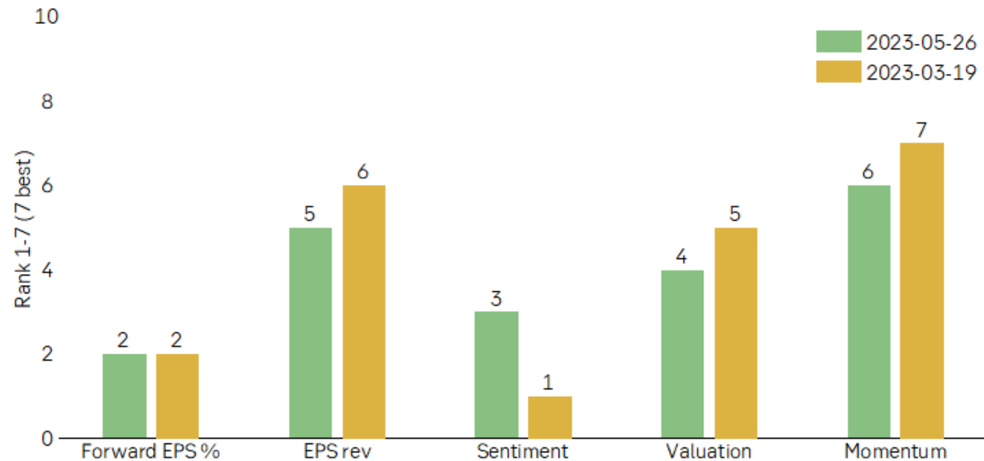
- The Fed lifted rates by 0.25% in May and Powell signaled a potential pause in June
  - Our base case remains that the Fed will keep rates unchanged in June and cut the policy rate by year-end which should increase equity valuations, but the Fed policy uncertainty is high
- The US debt deal is positive for risk sentiment, but markets are more likely to remain range-bound than see a sustained rally, until the Fed signals policy easing
- Given the robust economic data, the risk of a US recession in the near-term is low in our view
- The solid US economy can produce good corporate earnings, which is a positive factor
- However, persistent strength in the economy also raises the risk for sticky inflation and additional Fed hikes, which would put downward pressure on stock valuations
  - US core PCE inflation and consumer spending picked up in April, raising sticky inflation concerns and the risk of another Fed hike in June

Figure 1: Standardized relative valuation – Current constituents



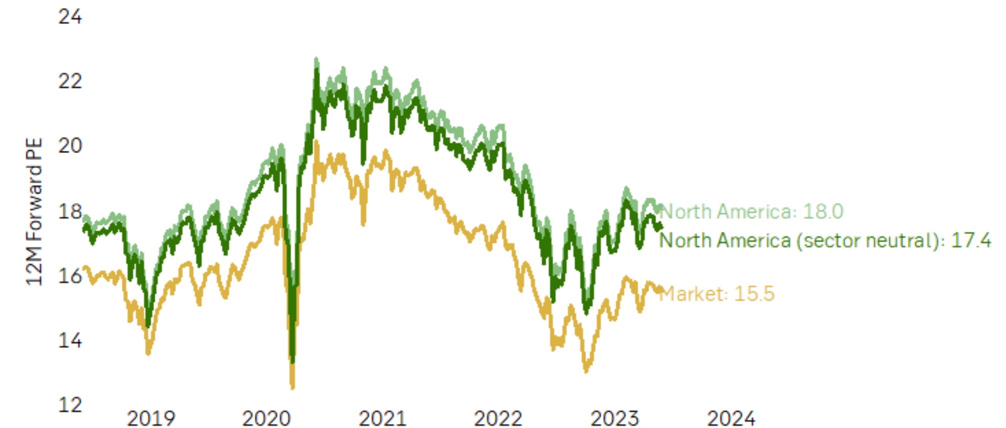
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents

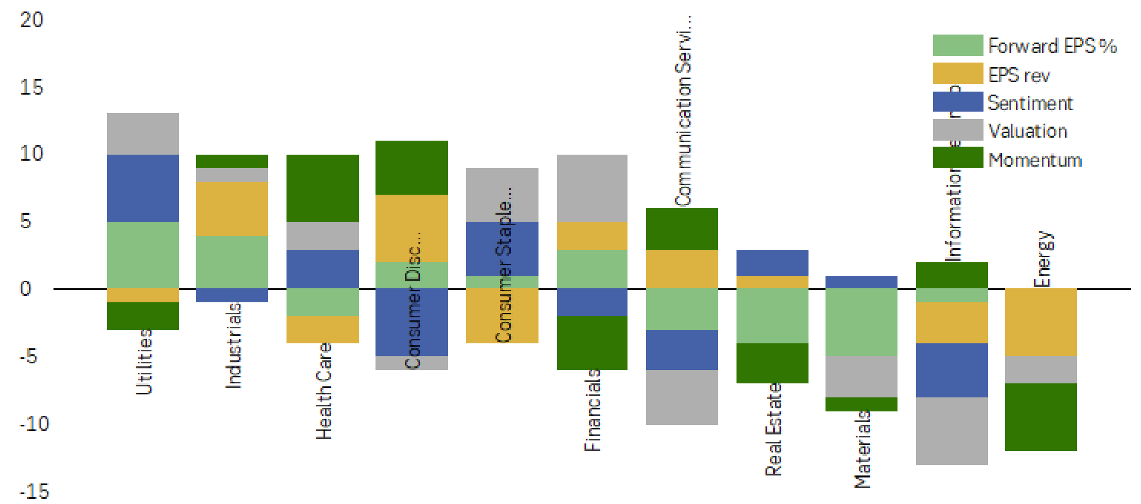


Source: SEB House View

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)	OW
Materials		N	(OW)
Utilities	UW		

Figure 1: SEB House View sector score



Source: SEB House View

* 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.

SEB

Overweight – Consumer Discretionary, IT and Industrials

We remain overweight in consumer discretionary

- Earnings estimates have been revised upward and the EPS outlook for the sector has improved
- The low risk of a US recession, resilient US durable goods demand and elevated inflation will likely support corporate earnings, which should lead to higher returns for consumer discretionary

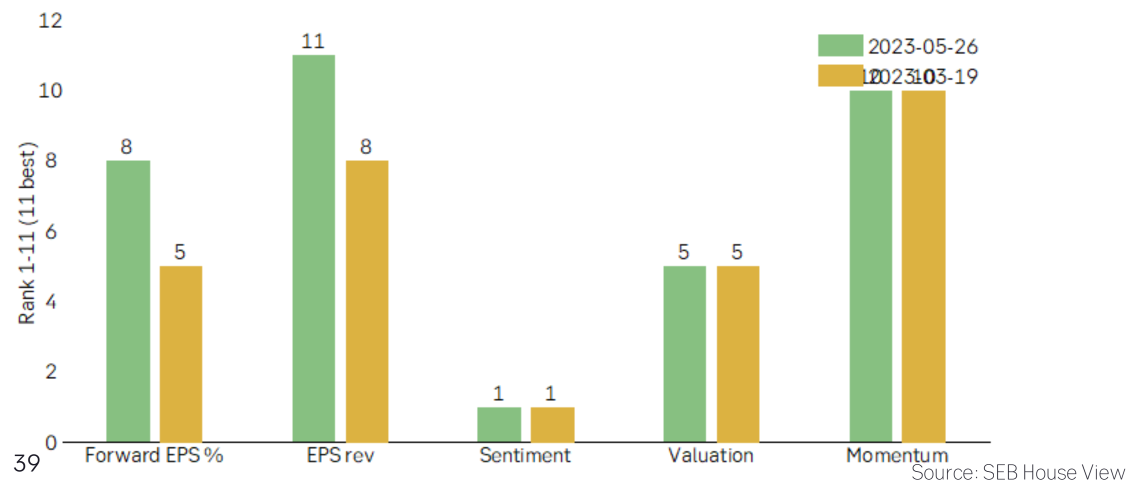
We lift information technology to overweight as we expect the recent AI trend to continue

- Tech has rallied on the recent AI trend and we think this trend will likely persist as demand from businesses and consumers will be high
- In the first quarter, tech earnings surprised strongly to the upside, and this should result in producing positive earnings revisions and a better growth outlook for the sector
- The sector provides downside protection during downturns as it is less cyclical, but tech stocks which are interest-rate sensitive, should also re-rate when the Fed cuts rates later this year

We maintain an overweight in industrials

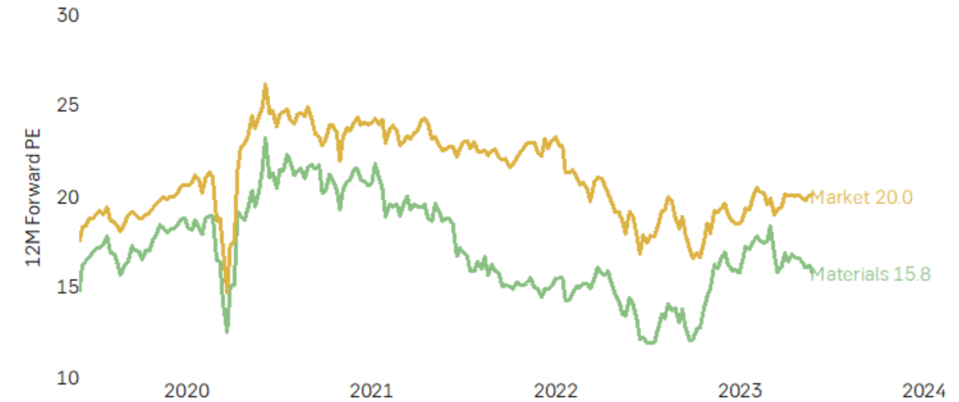
- The sector has a strong EPS outlook and momentum in our House View model
- Furthermore, industrials should benefit from investments in renewable energy and a rise in global capex due to China's economic recovery, although China has disappointed lately

Figure 2: Consumer discretionary has seen positive EPS revisions and momentum



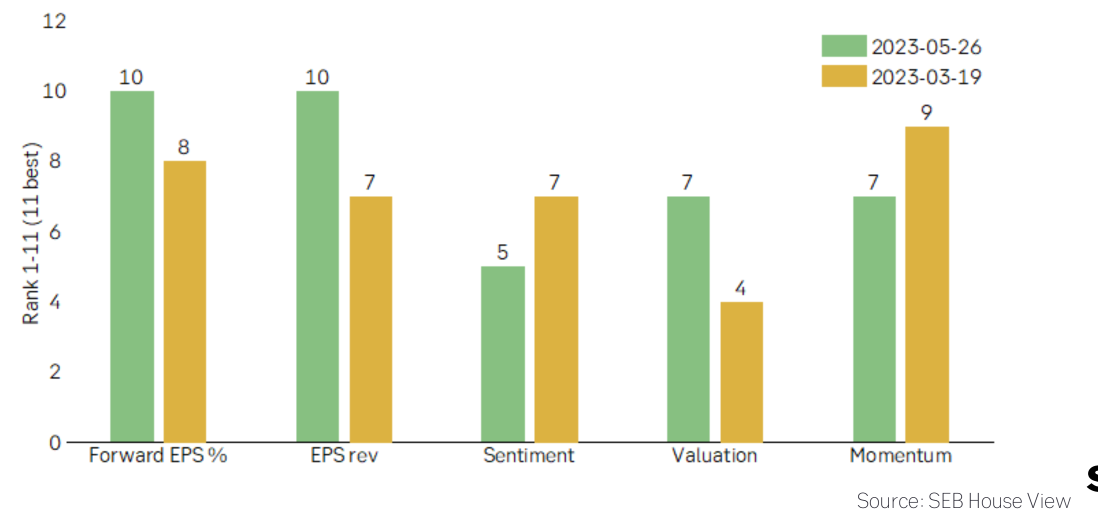
Source: SEB House View

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



Source: SEB House View

Figure 3: The EPS outlook has improved for industrials



Source: SEB House View

SEB

Underweight – Consumer Staples and Utilities

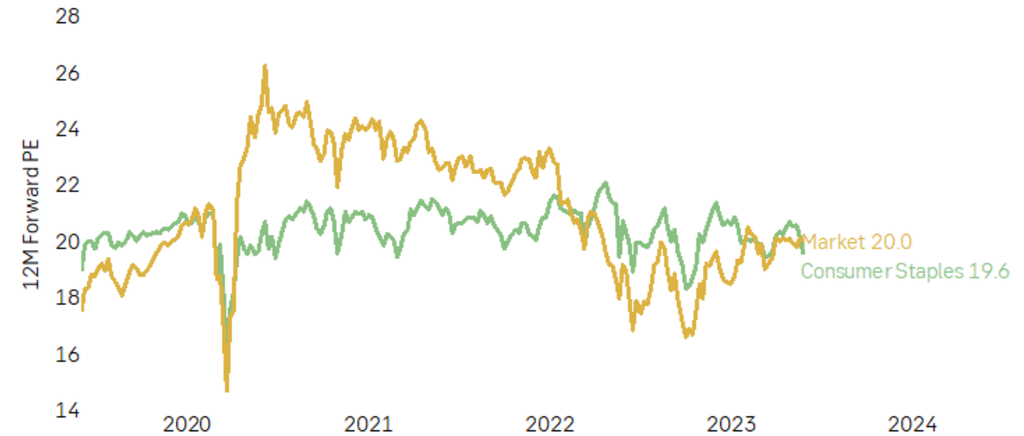
We remain underweight in consumer staples

- We expect this year's underperformance in defensive sectors, such as staples, to continue
- The risk of a US recession is overstated, in our view, as economic data has been solid
- We also think that the risk of a banking crisis is low as banks are in good shape and deposit outflows have stabilized
- In other words, we see a US soft landing as more likely than a deep recession and think that consumer staples will price this in and continue to underperform over the next months

We prefer to stay underweight in Utilities

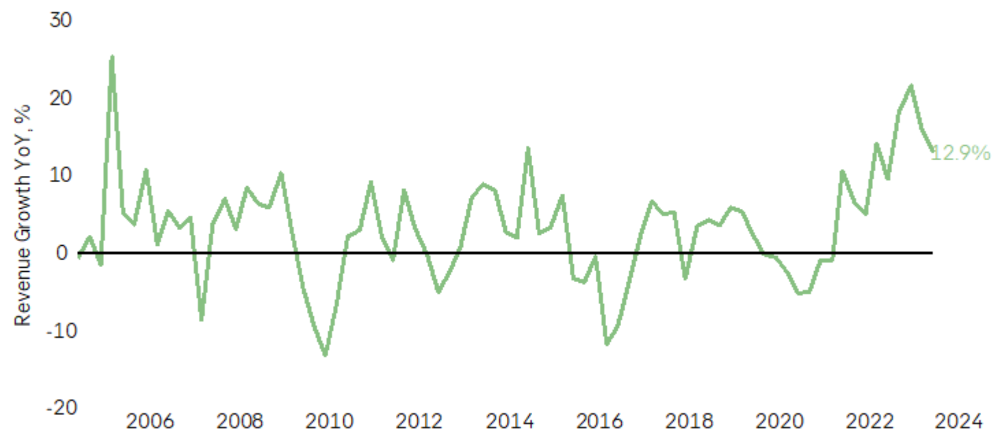
- Utilities are less attractive as stock volatility is low, interest rates are high, and a severe downturn is less likely in our view
- We expect to see more outflows from utilities as investors rotate out of defensive sectors to unloved/cheap cyclical sectors, following this year's tech rally

Figure 1: Consumer Staples has de-rated and now trade at a small discount to the market



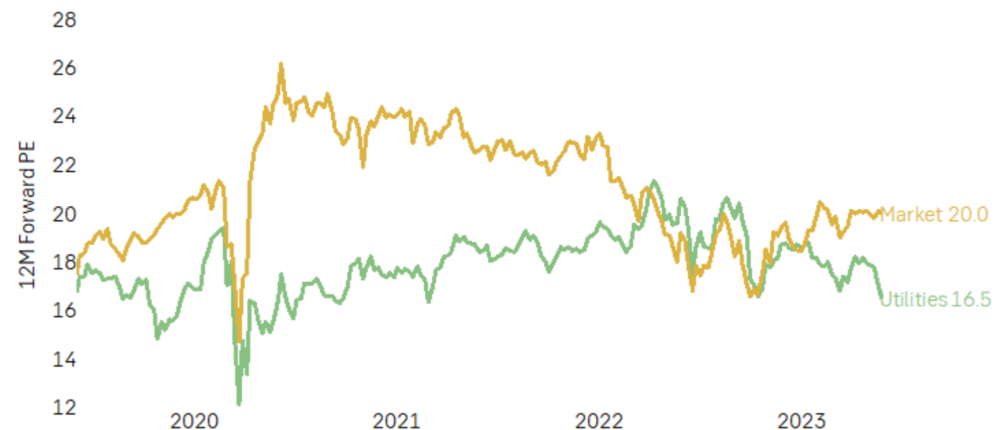
Source: SEB House View

Figure 2: Top-line growth for utilities has continued to decline



Source: SEB House View

Figure 3: Utilities is trading at a wider discount, we expect to see more outflows



Source: SEB House View

Appendix – Inflation Heatmap

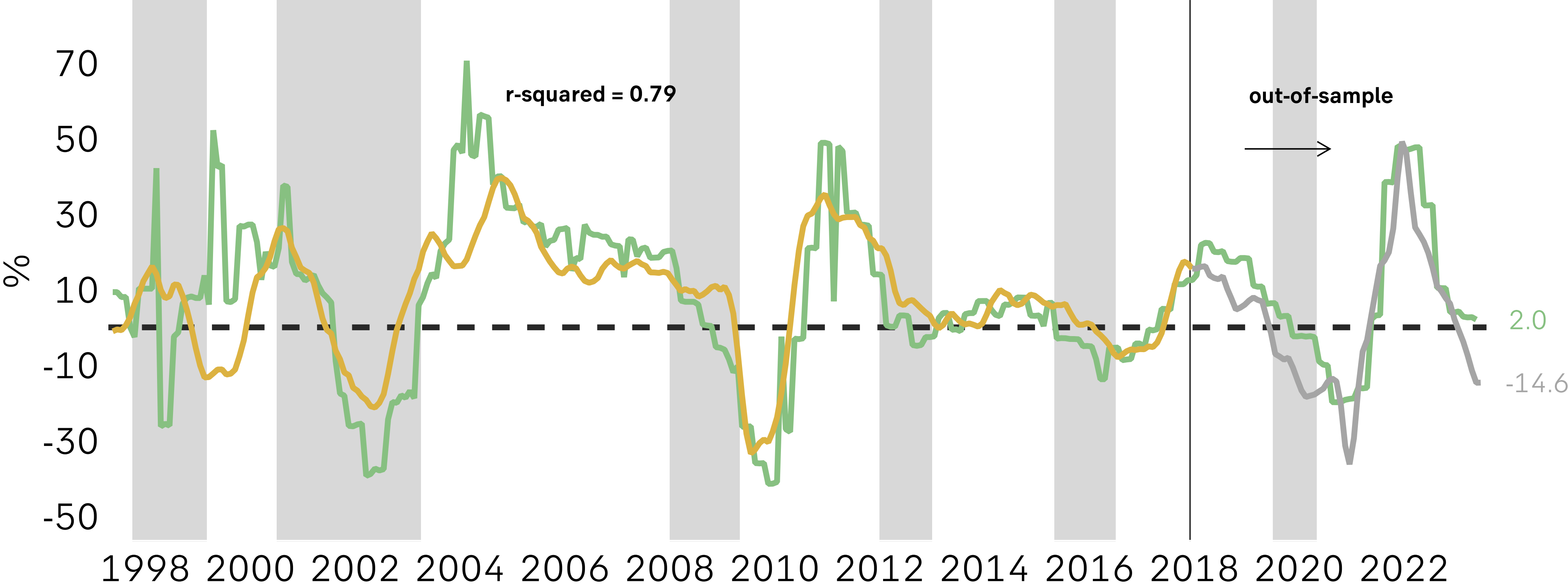
US Inflation Indicators

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

	5/2023	4/2023	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
Economic Measures																									
Cleveland Fed Trimmed-Mean CPI Y/Y %		6,1	6,2	6,5	6,6	6,05	6,7	6,9	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
Core CPI Y/Y %		5,5	5,6	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
Core PCE Y/Y %		4,7	4,6	4,7	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
CPI Y/Y %		4,9	5,0	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
PPI Y/Y %		2,6	3,0	6,3	8,8	8,9	10,5	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
Sentiment																									
Michigan Expected Inflation 12M	6,3	6,6	5,5	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
Conf Board Expected Inflation 12M	6,1	6,2	6,3	6,2	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
ISM Services Prices Paid		59,6	59,5	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
ISM Manufacturing Prices Paid		53,2	49,2	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
ISM Manufacturing Supplier Deliveries		44,6	44,8	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
NFIB Higher Prices		33,0	37,0	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
Commodities																									
CRB Raw Industrials Y/Y %	-16,5	-17,8	-17,8	-13,4	-8,2	-12,1	-13,0	-12,9	-9,0	-1,5	-3,6	1,4	9,4	16,8	19,5	17,2	20,9	26,5	33,5	37,1	37,2	37,9	43,4	45,9	40,2
Lumber Y/Y %		-66,8	-59,0	-70,5	-50,9	-65,0	-44,9	-21,1	-36,0	7,9	-4,4	-21,9	-48,4	-27,2	5,8	31,8	16,6	19,0	21,4	28,3	5,8	-44,2	9,9	81,0	272,2
Metals Y/Y %	-23,5	-25,2	-27,3	-16,5	-1,2	-4,6	-4,4	-9,3	-13,4	-0,4	-7,4	1,8	13,8	30,9	48,9	29,4	36,8	26,6	23,3	41,4	45,4	34,6	45,5	50,2	62,4
Agriculture Y/Y %	-16,2	-13,4	-13,0	1,9	8,0	9,7	9,6	15,1	18,8	19,5	11,3	29,1	33,2	31,4	49,3	29,6	27,3	33,6	38,3	38,2	46,6	53,0	62,2	57,4	62,5
Energy Y/Y %	-45,7	-37,4	-35,3	-9,1	6,8	32,1	44,2	25,3	29,0	88,0	83,9	78,1	120,6	97,4	103,0	55,5	62,2	51,2	59,1	85,3	62,0	33,6	53,4	61,2	45,5
Wages																									
Weekly Wages Y/Y %		6,1	4,1	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
Hourly Wages Y/Y %		4,4	4,3	4,7	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
Atlanta Fed High Skill Wages Y/Y %		6,4	6,4	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
Atlanta Fed Low Skill Wages Y/Y%		6,3	6,5	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
NFIB Small Business Wages		40,0	42,0	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
Inflation components																									
Shelter CPI Y/Y %		8,1	8,1	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
Electricity CPI Y/Y %		8,4	10,2	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
Education CPI Y/Y %		2,3	2,3	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
Car Rental CPI Y/Y %		-11,2	-8,9	-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
Recreation CPI Y/Y %		6,4	6,0	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
Drugs CPI Y/Y %		3,6	3,2	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
Market indicators																									
US 5Y Breakeven	2,2	2,3	2,3	2,6	2,4	2,3	2,4	2,6	2,3	2,8	2,6	2,8	3,0	3,3	3,7	3,1	2,8	2,8	3,0	3,0	2,5	2,5	2,6	2,5	2,6
US 5Y/5Y Breakeven	2,3	2,2	2,2	2,2	2,3	2,1	2,2	2,3	2,3	2,4	2,2	2,3	2,2	2,4	2,4	2,1	2,1	2,2	2,1	2,4	2,2	2,2	2,3	2,2	2,2
10Y - 2Y Yield Spread	-76,6	-50,4	-39,9	-87,7	-69,4	-57,8	-78,1	-40,7	-42,9	-36,2	-25,2	5,9	26,5	23,9	19,7	38,8	70,7	80,0	96,8	116,2	118,1	110,5	109,3	125,4	142,5
Germany 10Y Breakeven	2,4	2,4	2,3	2,5	2,1	2,2	2,2	2,3	2,4	2,5	2,1	2,2	2,2	2,8	2,6	2,0	1,7	1,8	1,6	2,0	1,6	1,4	1,3	1,3	1,4
Japan 10Y Breakeven	1,0	0,8	0,6	0,7	0,7	0,8	0,9	0,9	0,9	0,9	0,8	0,9	0,9	0,9	0,9	0,6	0,5	0,4	0,4	0,4	0,3	0,2	0,1	0,3	0,3

■ 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

SEB

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