Investors look past soft landing

Our main thesis for 2024 is that positive drivers, a gradual decline in interest rates and a bottoming out of the economy will lay the groundwork for a broader stock market upturn, driven by former stragglers. But the economic soft-landing scenario is already largely discounted in the market, which limits its potential. Nevertheless, we recommend staying on the positive side with regard to risk assets, i.e. between neutral and overweight.

2023 was a very strong year in capital markets, with sharp increases in value for both equities and bonds. In particular, the US economy surprised on the upside. Tight monetary policy had conquered inflation, and there was finally a signal from the US Federal Reserve that the federal funds rate will be cut in 2024. This resulted in a stock market rally during the final quarter of 2023. Other positive stock market forces were artificial intelligence (AI) and GLP-1 medications. These are more structurally positive forces that benefited large technology companies, much of the semiconductor sector and the pharmaceutical industry, among others.

Allocation

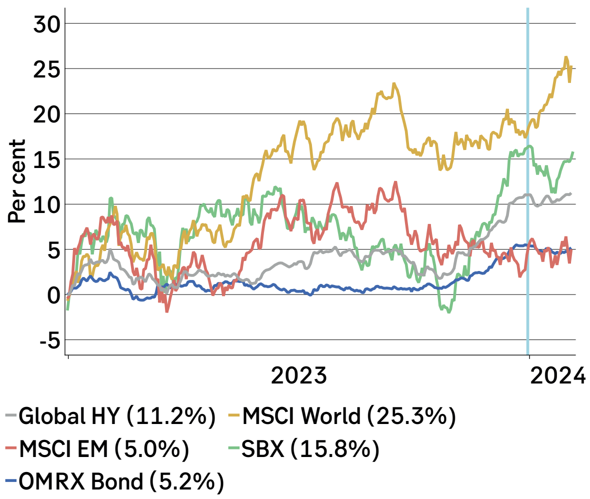
The structure of our portfolios is such that they perform well amid rising risk appetite, and they decline when risk aversion increases. This means we are overweight in risk, although the equity portion of our overall portfolio is only marginally overweight. In our global sub-portfolio, we maintain an overweight in last year's winners, large US growth companies. This is complemented by an overweight in small and medium-sized enterprises, with a focus on lower valued companies. There are clear underweights in Europe and some defensive sectors. If our main scenario holds, it is likely that we will gradually adjust this portfolio composition during the year.

In Swedish equities, our focus is on equity-specific risk-taking among major listed companies, supplemented by what we regard as a suitable proportion of small and medium-size companies that we invest in via small cap funds. The latter experienced a weak period throughout 2022 and in 2023, apart from the rally during the last quarter. This weak period resulted in a much-needed downward adjustment of the valuation parameter, and the future outlook is improving. In fixed income investments, we do not expect a continued narrowing in credit spreads or sharp declines in long-term yields. On the other hand, we do not expect any drama in the other direction either. We are thus starting 2024 with neutral exposure to high yield corporate bonds and an overweight in investment grade bonds.

Valuations and stock market performance

The United States will not completely dominate stock market improvements but will instead be joined by Europe and Japan and eventually also emerging markets, which have been left behind for a few years. Of course, China is still the key to the performance of Asian and to some extent Latin American stock markets, but we expect decent growth in China and a degree of flirtation with financial market actors. At present, however, we prefer the tech sector as well as small caps on a global basis, IT companies for their high rate of earnings growth and structural growth, and small caps for their upside potential in an approaching positive macro environment.

Swedish equities caught up with global equities during the final quarter of 2023



Source: Bloomberg

Global equities

- A strong stock market year, with large tech companies in the driver's seat
- A broader upturn late in 2023 was led by small caps
- The tech sector is entering a period of major earnings increases
- Lower interest rates and a brighter economic outlook will benefit small caps
- Chinese stocks may be poised for a rebound after several gloomy years

Fixed income investments

- A favourable inflation trend will trigger most key interest rate cuts
- The decline in bond yields late in 2023 will limit the downside for long-term yields this year
- Continued high absolute interest rates in lending, but limited potential from narrower credit spreads
- Stable growth prospects and favourable inflation trends will support emerging market debt

Nordic equities

- Interest rates will go down and earnings will go up. Nothing can go wrong, can it?
- High expectations after the stock market rally of recent months
- High interest rates continue to have an impact, but relief awaits further ahead
- The Q4 report season is off to a weak start, and earnings forecasts are being lowered
- The relationship between earnings and inflation, the downside of falling commodity prices
- A low risk premium for equities
- Political risks are being neglected, but they may have an impact on earnings this time

For more details, please read the full report, which also provides you with extra reading in the form of two interesting theme articles:

- Theme: China – A focus on "modern industrial systems"
- Theme: Greater circular material flows will create opportunities

Our experts Fredrik Öberg and Johan Hagbarth also present our in-depth market view in the form of a video.

You will find all this at seb.se/investmentoutlookreport

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