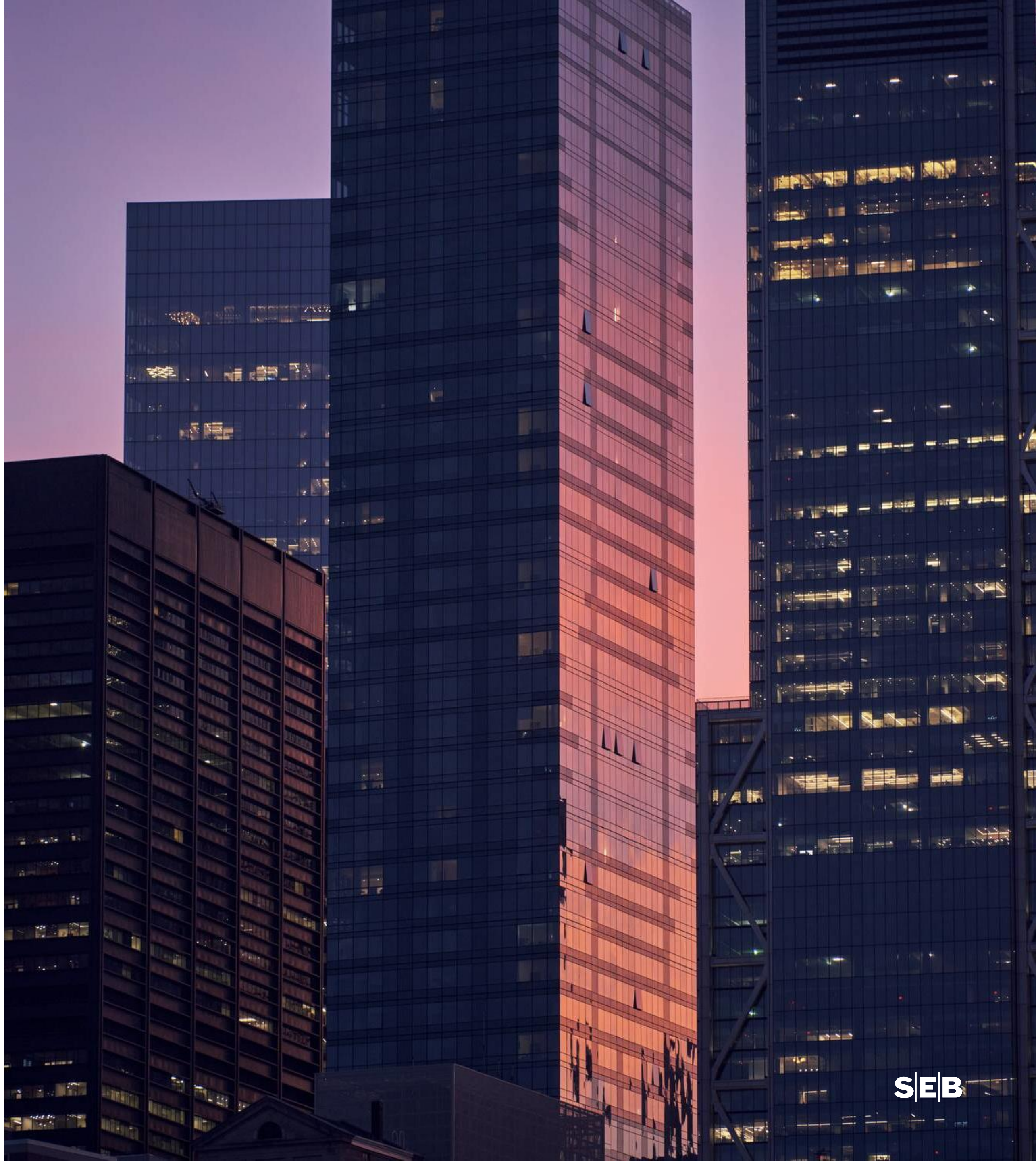
SEB House View

7 February 2024

Agenda



Strong US earnings push markets higher

Earnings, positive inflation data and confirmation of a soft-landing scenario continue to drive markets

- Strong US Earnings (Magnificent 7) and weakening price pressure have supported risk appetite in the past couple of weeks
  - 2024 started in a defensive way as markets consolidated the very strong gains in Q4 2023 and central banks pushed back on expectations of rate cuts in Q1
  - The probability for a US recession remains low, but as US growth continues to surprise on the upside, the risk for a more substantial downturn later in this cycle may increase as the Fed may have to postpone policy easing
  - European PMI-barometers are showing tentative signs of bottoming out, supporting rising activity for the region where expectations remain very muted (as is positioning in the EU equity markets).
  - Emerging markets continue to struggle, China in particular, we are waiting for more fiscal action before upgrading our weak outlook, but observe that equity valuation is at historical lows
- The ECB remains worried for wage growth, while Fed says the US can continue to grow and still reach their inflation target
  - We expect the ECB to start cutting rates in April (potentially already in March).
  - At the latest Fed meeting Fed Chair Jerome Powell said the Fed expects a strong US economy with inflation near target. That said, the strong January non-farm payrolls report has eliminated the probability for a US rate cut in March
- Risks to our main scenario are centered on US economic reacceleration, a tight labor market with sticky wage inflation and tight(er) Fed policy. Inflation risks are also rising due to increased freight rates amid tensions in the Middle East
- We keep our pro-risk position and risk utilization at 60% for now watching inflation data and the timing for rate cuts.

Investment Regime

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

Inflation moderating rate cuts in Q2 24

Strong balance sheets generally

Earnings continue to grow in 2024

Robust US growth, but slowing

Soft landing is our main scenario

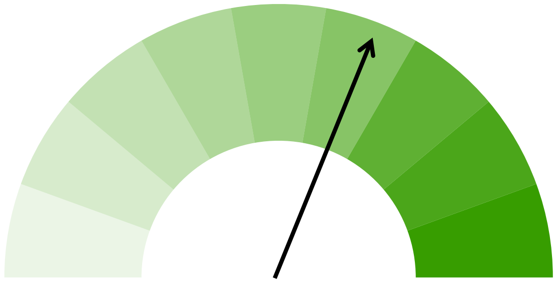
Weakness in China, but with tentative signs of support

Risk: Rising geopolitical risks

Risk: A "no landing" in the US

Speedometer

60%



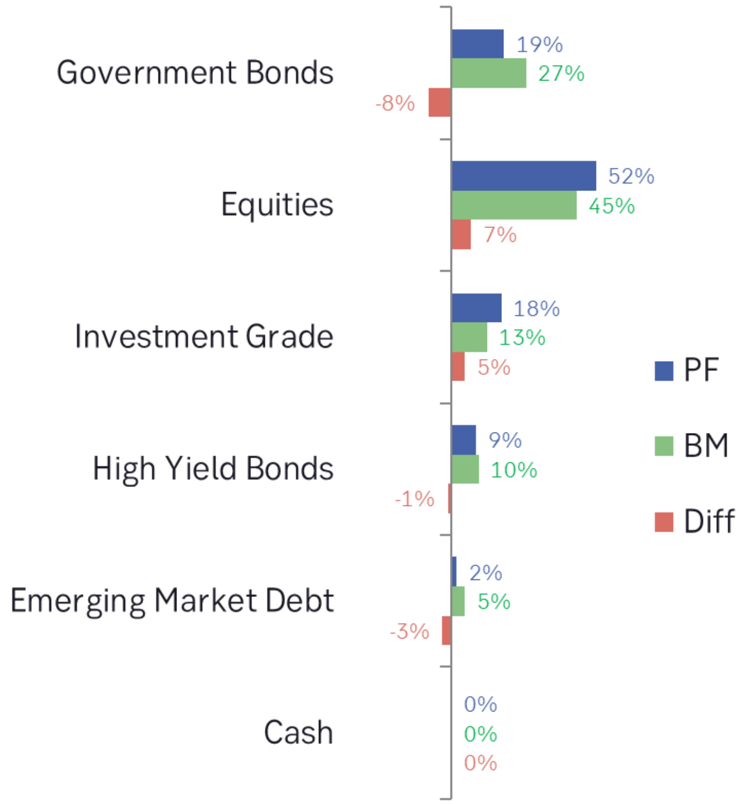
The speedometer controls to what extent the portfolios should utilize their risk budgets. It is connected to the model portfolio (page 4) which at all times utilizes its risk budget in-line with the speedometer. In a very general sense it can be interpreted as equities on/off (with 50% being neutral).

Asset Allocation

We expect the strong market performance at the beginning of the year to continue for the near future, albeit not at the same strength. In our view robust earnings and falling bond yields can still aid in sustaining the market sentiment

- We maintain our overweight in Equities, but a word of caution is validated as US markets are trading at elevated multiples (12-month forward P/E above 20x)
  – Our strategy continues to hold a soft landing as the most likely scenario where unemployment rises very gradually and where lower inflation enables central bank to cut rates in Q2 24
  – The difference between equity and bond market returns is not huge, making the case for further hikes in risk utilization less appealing (low equity risk premium)
- Bonds continue to offer good returns indicating the importance of balancing portfolios
  – In the context of expected lower inflation we think portfolios will be increasingly diversified as the equity-bond correlation will slowly turn more negative
  – A hard landing would surely see bond returns provide a cushion against falling equity prices
- We hold on to our underweight in Government Bonds and instead focus our portfolios to the high-quality segment of the corporate bond market
  – The soft-landing scenario fits well with Investment Grade bonds and we get a light yield pickup
- Our slight underweight in High Yield bonds is a small risk-reward statement
  – Spreads are tight and risk-reward is not great adding to HY
- We keep our underweight to Emerging Market Debt
  – Fed rate cuts and a weaker USD in 2024 will make the case for moving in a more positive direction

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.

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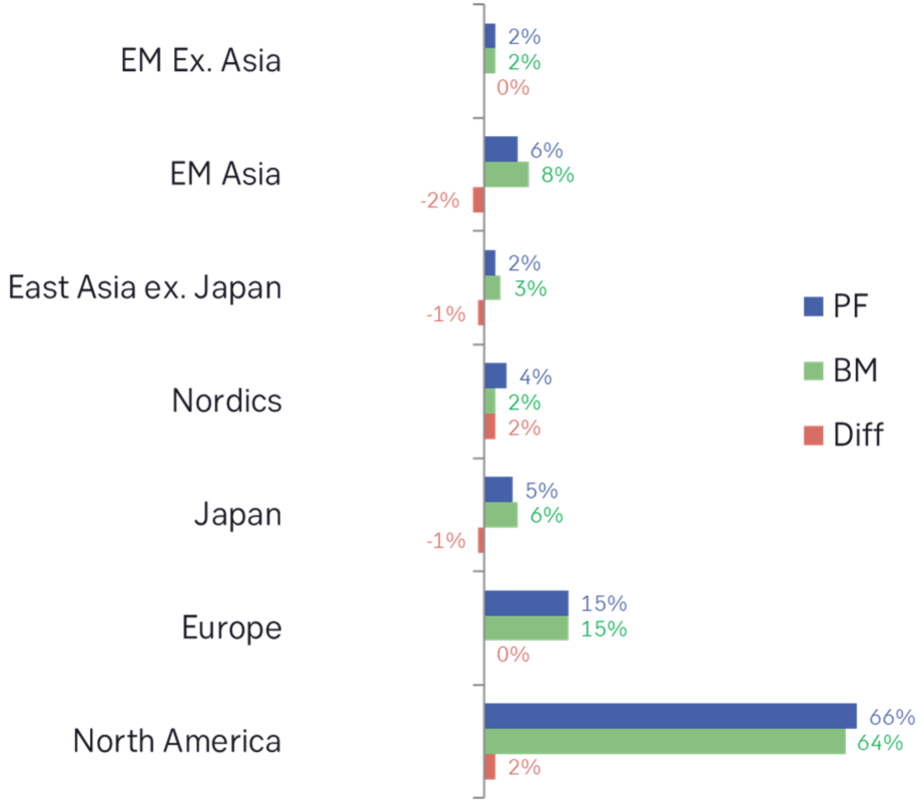
Regional equity allocation

We prefer to keep our overweight to the US due to its strong earnings and defensive properties and await better macro fundamentals from the RoW before changing our allocations to Europe and Emerging Markets

- Markets continue to show good momentum with US equities outperforming led by the technology sector
  - We continue to focus on assets with limited cyclicality and focus more on innovation and growth (see sector changes as well)
  - The historical rather extreme valuation gap between the US and the rest of the world will ultimately be due for a set-back
  - A downgrade to the tech sector could be a negative catalyst and the US election outcome is also another risk to be discussed later in the year
- We maintain our neutral stance to Europe which gives us an optionality
  - European growth is weak, but so are expectations on earnings and general investor sentiment, setting the stage for positive surprises
  - ECB rate cuts should benefit this region, however, geopolitics and trade frictions further add to investor concerns
- We also maintain our overweight to the Nordic market
  - The Riksbank was surprisingly dovish at the February meeting. Rate cuts will benefit interest rate-sensitive sectors including our tilt towards small cap stocks
- We think that EM Asia will require a stronger cyclical backdrop before upgrading
  - Our regional model signals that EM is trading at attractive valuations and it prefers to raise the allocation to EM
  - However, growth continues to be weak in China which will also be a limitation for other regions that depend on strong export markets, including Europe
  - Not enough fiscal support has been presented to expect China to bounce back more materially yet – investors expect a weaker Chinese economy in the next 12 months

Regional equity positioning



Benchmark is MSCI All Country. Benchmark weights updated by September 2023. Portfolio weights have been adjusted accordingly to keep our active weights unchanged.

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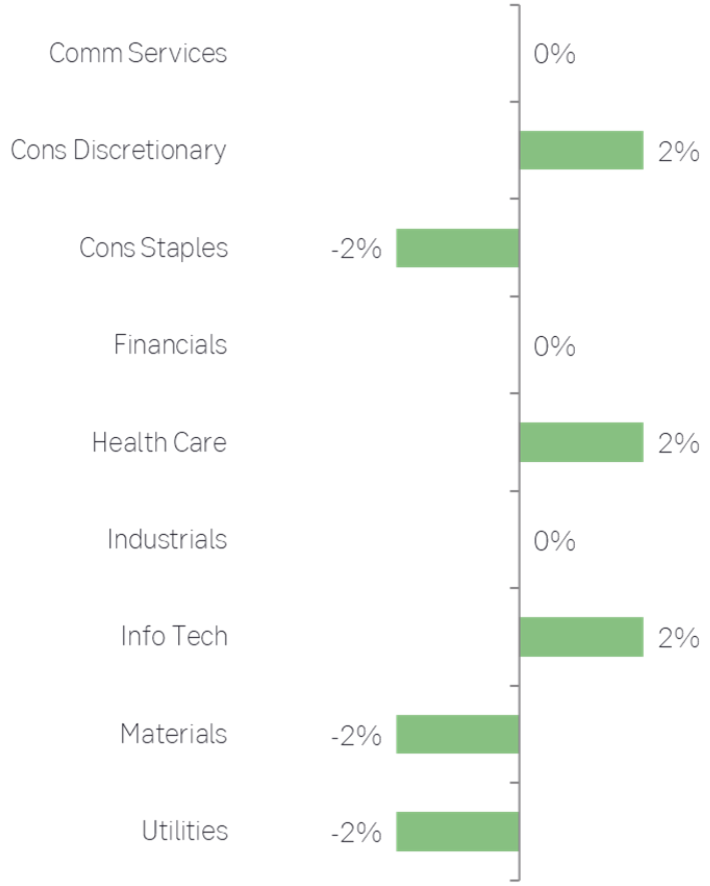
Sector allocation

We have a less cyclical, but still growth and quality positive position

- We increase Health Care to an overweight and reduce Industrials to neutral
  - Health Care has historically performed strongly during periods of falling inflation and is less volatile for rate swings. The sector signals strong positive momentum and so far the earnings season is showing strong positive earnings
  - We lowered Industrials to a neutral as the sector score is low in our model due to weak earnings scores. Historically the sector tends to have weaker performance during a slowdown of the economy and CAPEX is low
- A strong US consumer entails us to keep our overweight in Consumer Discretionary
  - Earnings and consumer spending remains strong
  - But declining excess household savings and high prices are risks over a longer horizon
- We keep our overweight to IT
  - The AI trend continues to be supportive and the sector also provides downside protection due to its less cyclical nature
- We keep our underweight in Consumer Staples, Utilities and Materials
  - A relatively strong economy with low unemployment and decent earnings growth keep Consumer Staples from outperforming. In case of a stronger downturn in macro indicators, the sector could become more attractive
  - We prefer to keep our slight underweight to Utilities as the fundamentals are still weak, but a change in macroeconomic trajectory could entail us to change the allocation
  - Finally, we hold our underweight in Materials given the low earnings score and considering that we are entering a slowdown in the economy.

Sector positioning



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Risks to the investment regime

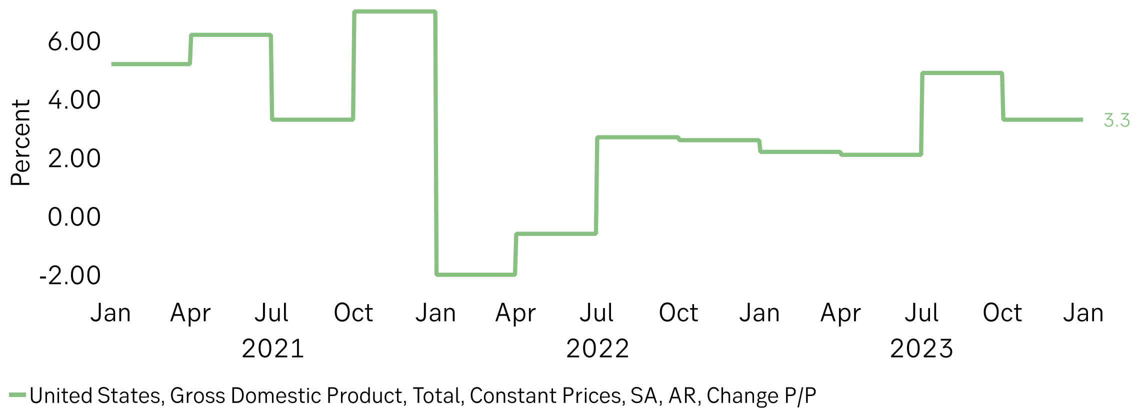
US growth reaccelerating increasing the odds for a hard landing

Financial conditions have eased substantially in the US as equities have rallied, interest rates fallen and credit spreads narrowed. Expectations for rate cuts have given a boost to consumer and business confidence. Real wages are also growing as the labor market is tight giving further tailwind to private demand and spending. Although consensus expects a material growth slowdown, the risk of a reacceleration of US growth is not insignificant which in turn could boost wage growth and ultimately inflation. This risk of a "no landing" in the US and more hawkish monetary response from the Federal Reserve has increased as data indicates a very strong momentum.

Geopolitical tensions and rising freight rates

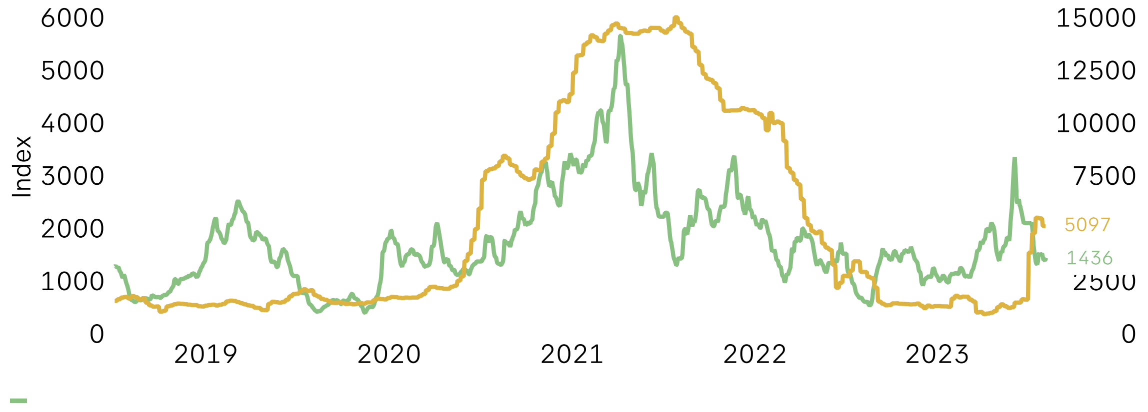
US has struck targets inside Syria and in Yemen as a response to the killing of three US soldiers. Houthi rebels continue to target vessels bound for the Red Sea and the Suez Canal and this has pushed 80% of Asian exports to Europe around the Cape of Good Hope. Rising freight costs are going to push goods inflation higher again, but the estimate of the degree of price level impact varies between different sources. The IMF estimates that a one-standard-deviation increase in global shipping costs increases domestic headline inflation by about 0.15 ppts, with the effect building up over the course of 12 months. Analysts are less concerned about the rising global shipping costs, noting that the current surge in shipping costs does not occur alongside widespread factory closures and transfer-driven demand. Furthermore, the costs of international transport represent a minor share of the price of final consumer goods - about 1.5%. Consequently, even if the cost of sea freight were to double, the impact on core goods inflation would be relatively modest, increasing by about 0.4 ppts, while the effect on overall core inflation would be smaller, about 0.1 ppts. The ongoing conflict between Russia and Ukraine continues to be troublesome for Europe and China and the Taiwan/US relation remains a concern. 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 risky assets.

Figure 1: US Growth outlook: GDP expands above trend



Source: Macrobond, SEB

Figure 2: Baltic dry index relatively muted, cost of China transports to Europe increasing



Source: Macrobond, SEB

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Return Estimates

Figure 1: 12 month forward looking return expectations

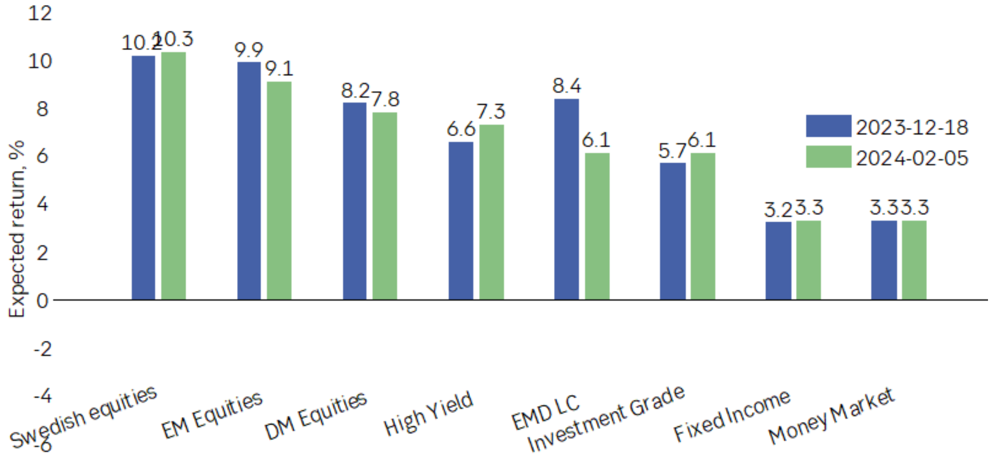


Figure 2: 12 month forward looking return expectations for equities and bonds

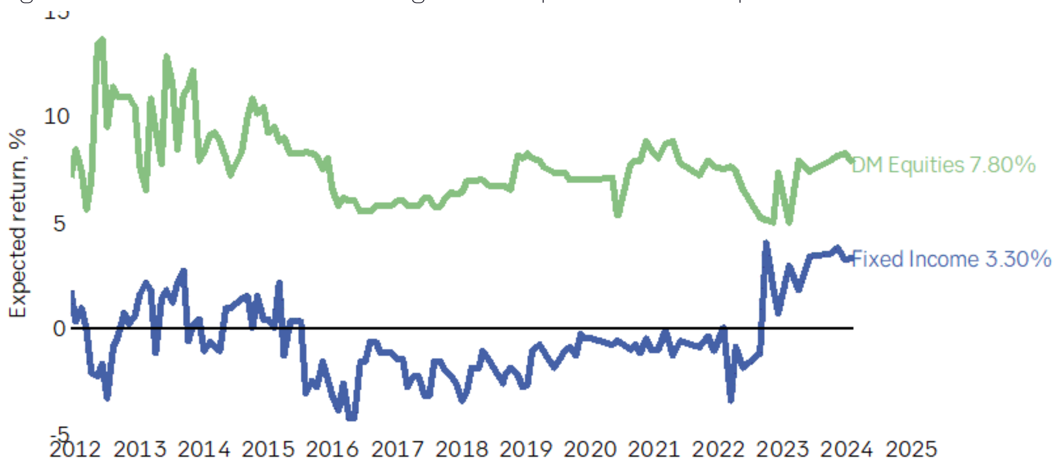


Figure 3: Absolute expected returns

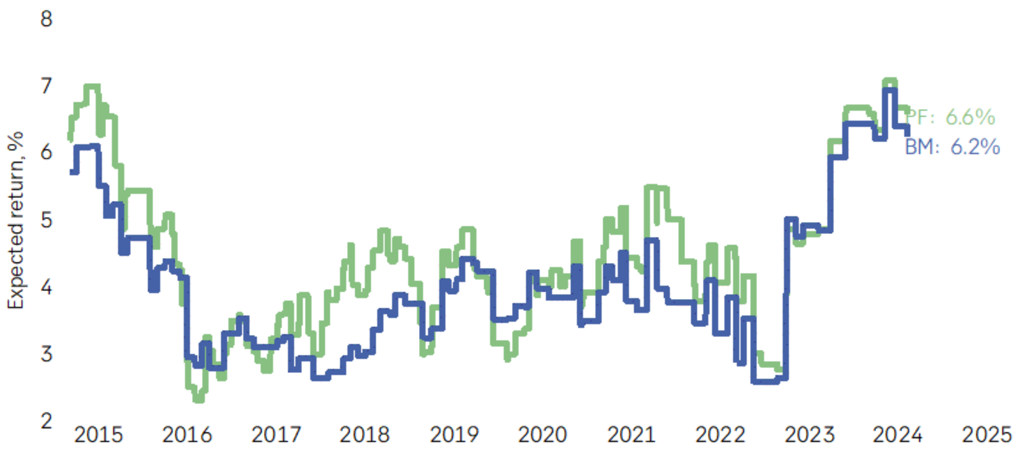
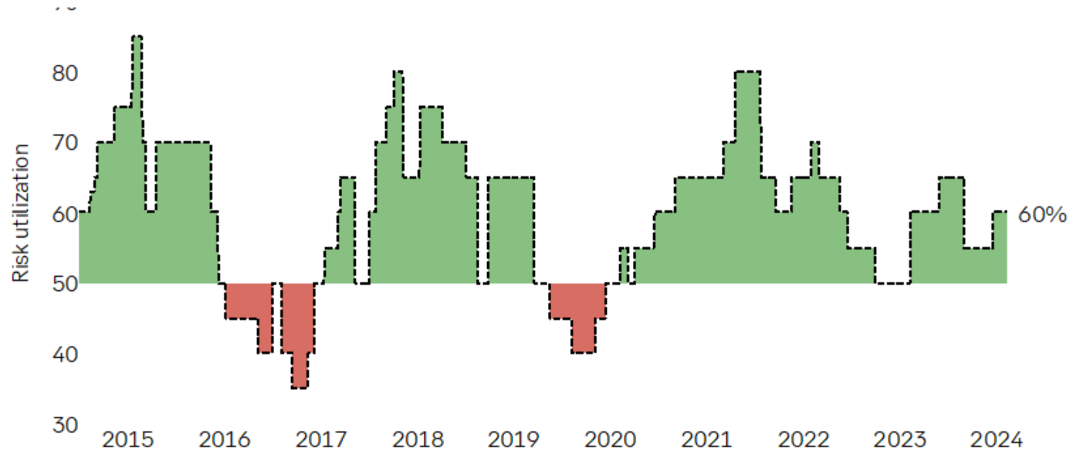


Figure 4: Risk utilization since inception



Historical House View Allocation

Figure 1: Equities

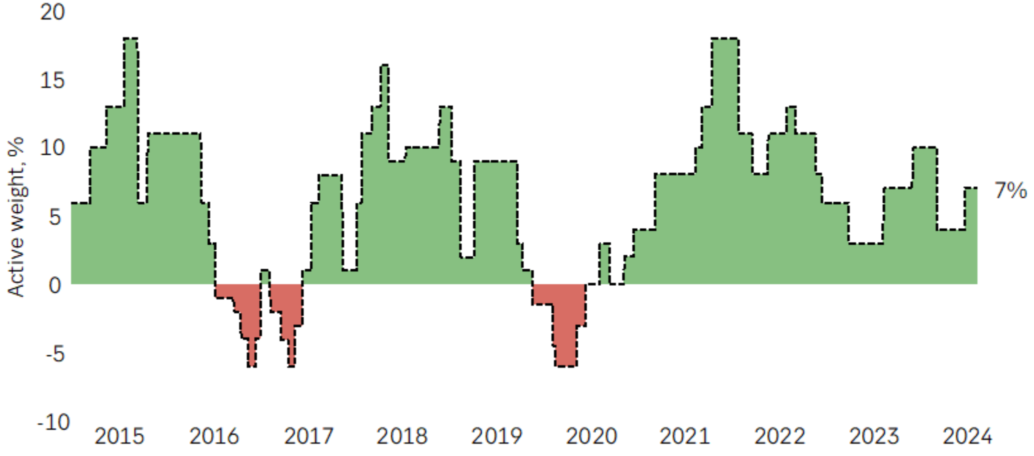


Figure 2: High Yield

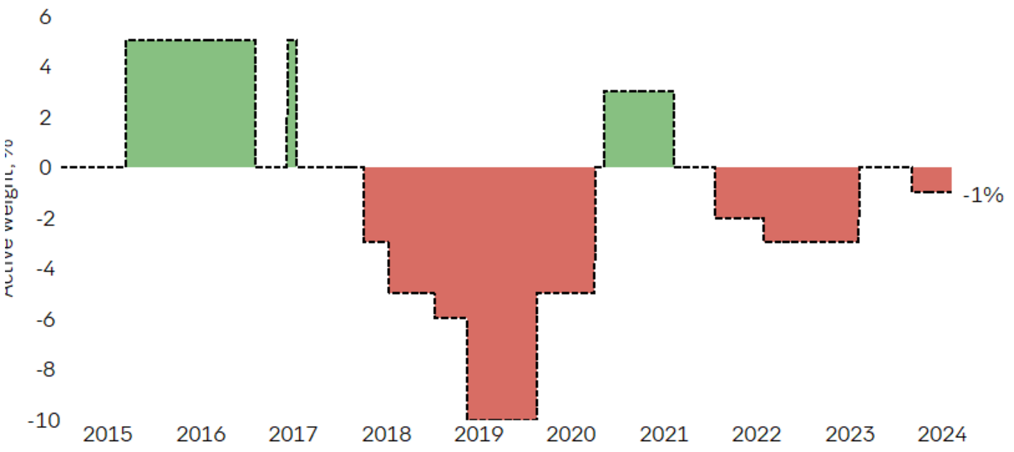


Figure 3: Emerging Market Debt

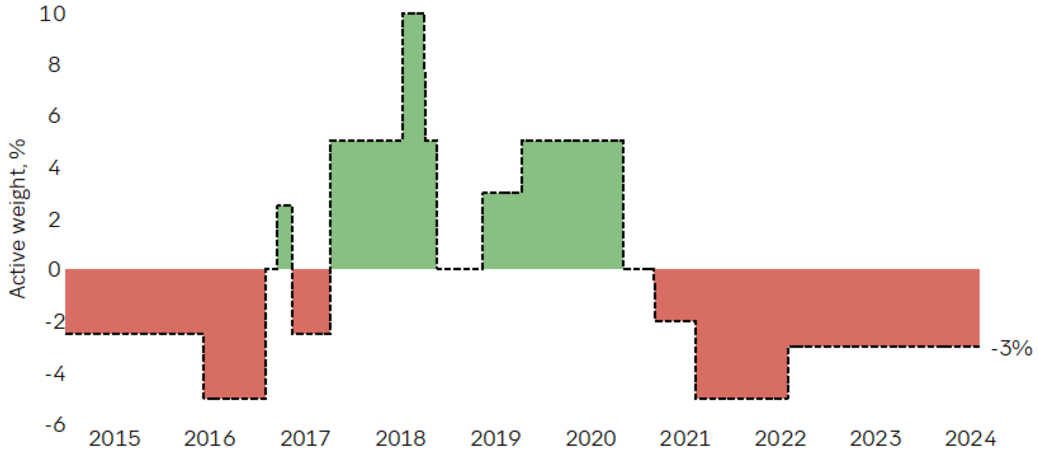
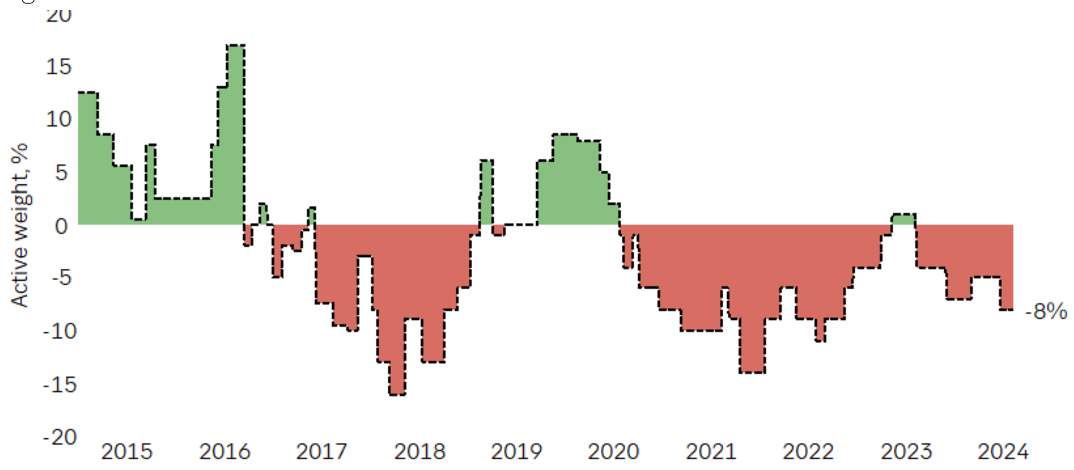


Figure 4: Fixed Income*



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* The 2014-2015 combined overweight to equities and fixed income was financed by an underweight to Investment Grade, Commodities, and EMD.

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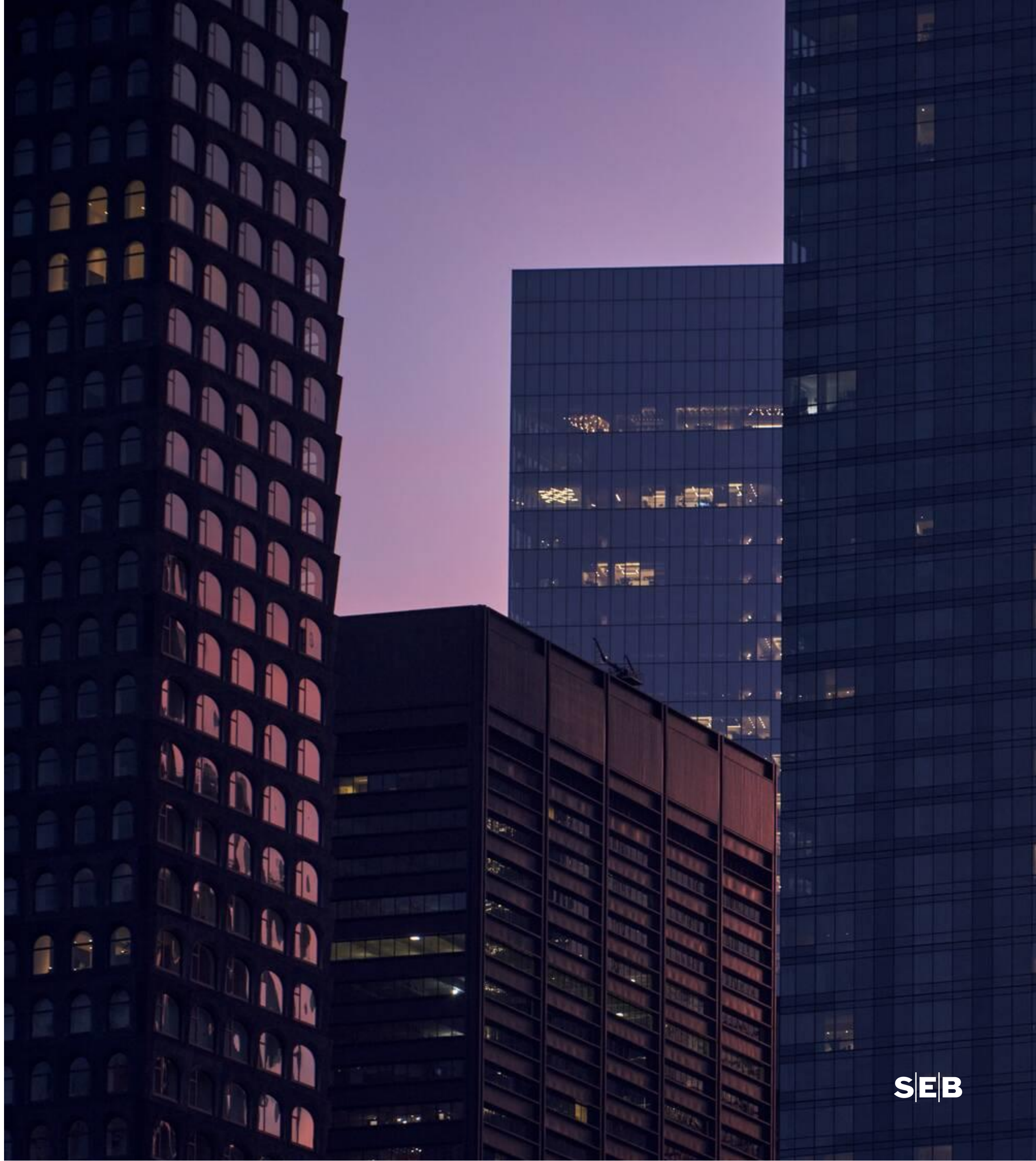


House View decision variables

The most important factors for equity markets right now are central banks, earnings and macro, in our view, which are currently supportive for equities

- Investor focus has been on central bank rate decisions, company earnings, and economic data, with a recent shift towards less optimism from central banks due to pushback against early rate cuts
  - The Fed is unlikely to cut rates in March following the strong non-farm payrolls data, contrasting with previous expectations for a rate cut
  - Earnings have also come into focus, as we write this, we are into the Q4 2023 earnings season, which has driven equites higher as they have come in better-than-expected, on average, largely driven by upbeat reports from US tech
  - Macro has become a more positive factor for equity markets with data showing resilient growth, strong labor market and declining core inflation, suggesting a soft landing for the economy
- Macro and central banks will most likely remain important ahead, with focus shifting away from earnings to these factors as the earnings season concludes
  - Investors will likely turn more focus to central banks, away from earnings, looking for guidance of future policy in light of the recent macro data, which has been stronger in the US and weaker in Europe and China
  - As central banks have indicated that they remain data-dependent, economic data will continue to be important for markets
- On a 3-6M horizon, SEB House View prefer to maintain risk utilization at 60%
  - Recent macro data further supports our base case scenario of a soft-landing, which is why we prefer to remain constructive on equities
  - However, we also see an increased chance of a "no landing" scenario and are closely monitoring incoming data for indications of this

Figure 1: Central banks, earnings and macro data are the three most important factors for equities right now.

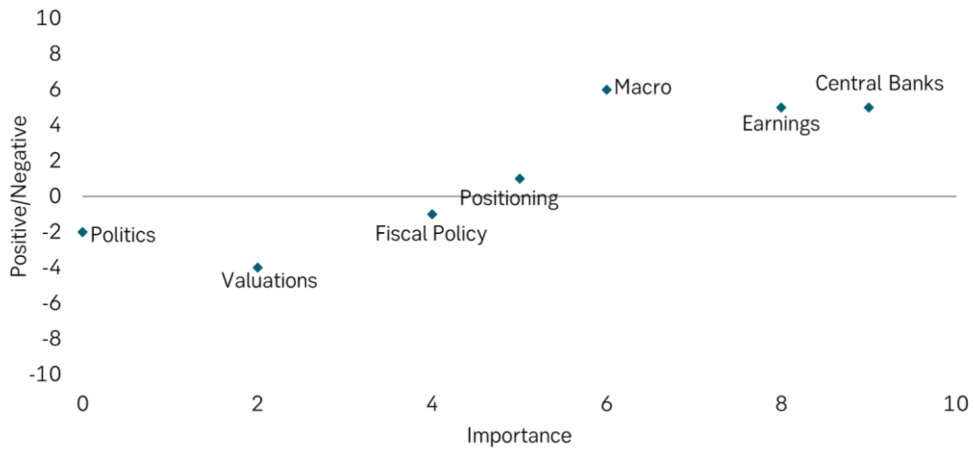
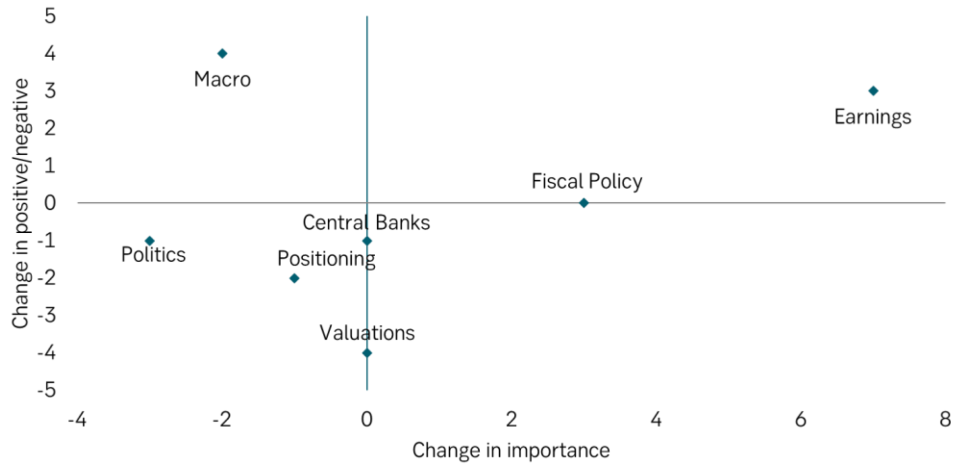


Figure 2: Macro has become more positive due to lower inflation and resilient growth. Earnings have increased in importance as the earnings season has kicked off



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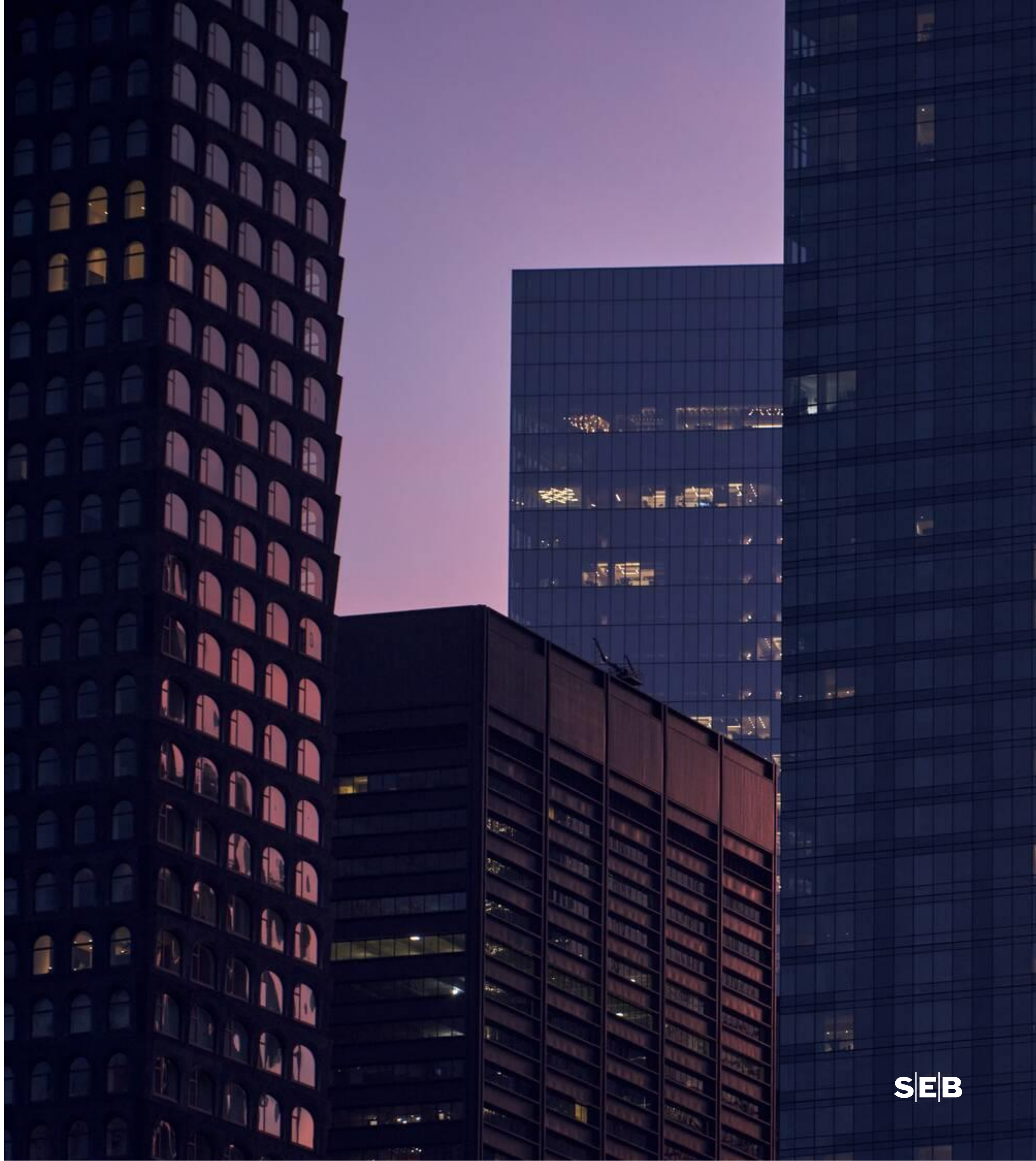
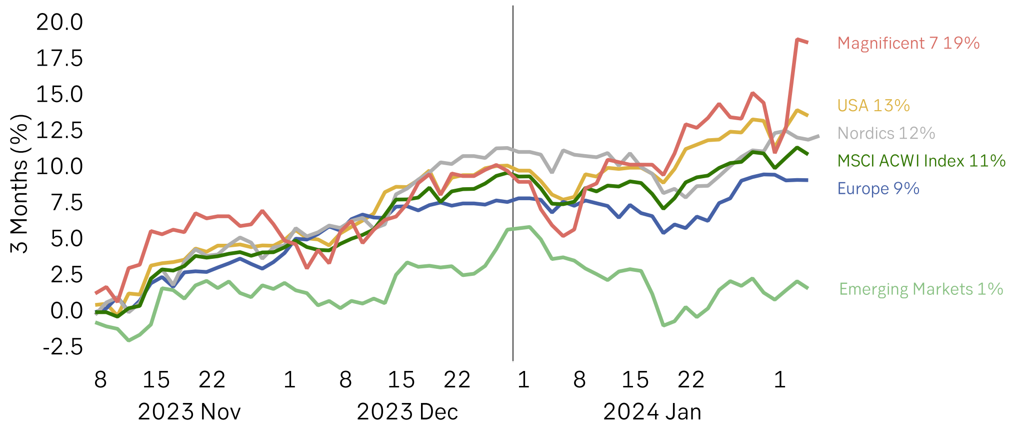


Developments in the Markets

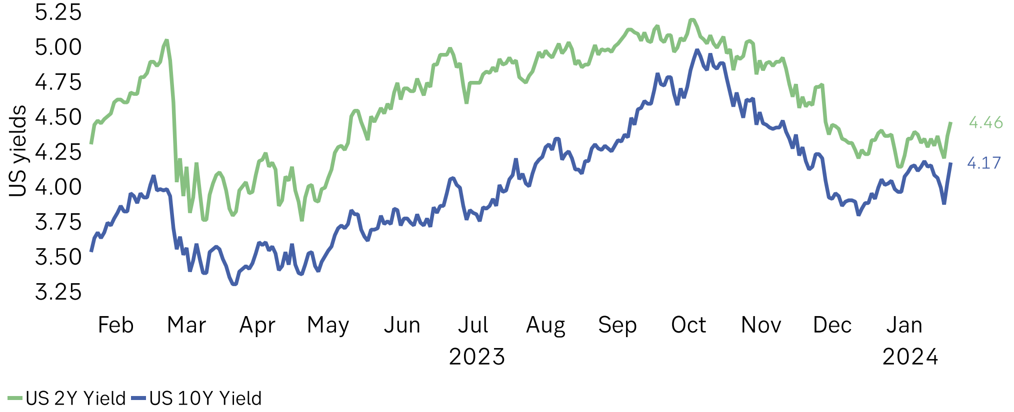
Strong Q4 2023, while 2024 started of rather moderately as expectations of swift rate cuts were scaled back

Figure 1: Markets were fairly muted at the start of 2024. US equities overall outperformed the RoW in January as markets were mostly driven by the Magnificent 7



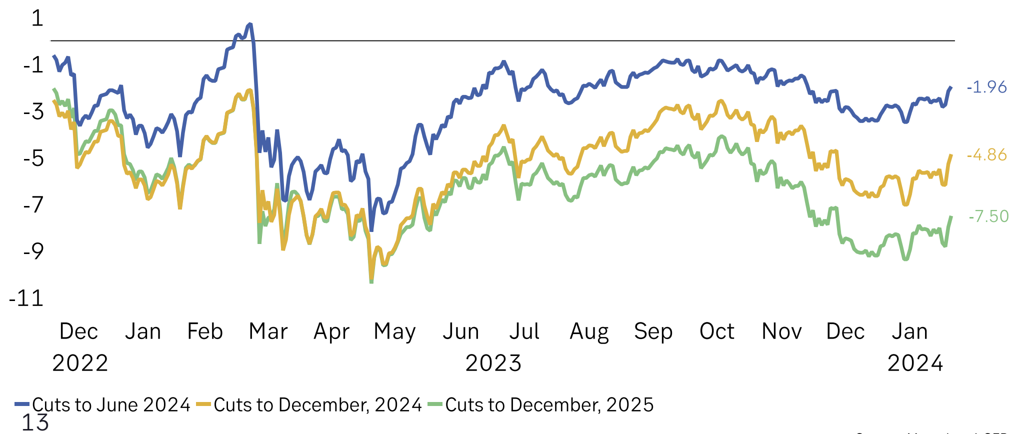
Source: Macrobond, SEB

Figure 2: Long term yields climbed in January as Fed policy members warned that the bank would not rush to cut rates



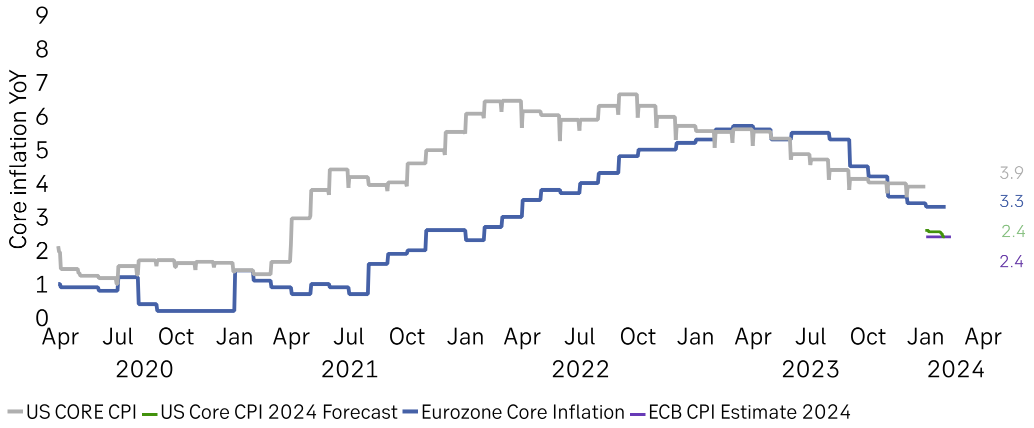
Source: Macrobond, SEB

Figure 3: Market expectations turned slightly less aggressive on Fed rate cuts. The market is now pricing in less rate cuts than what we saw by the end of 2023



Source: Macrobond, SEB

Figure 4: Economists are expecting lower inflation for 2024 which would support the go ahead of central banks rate cuts



Source: Macrobond, SEB

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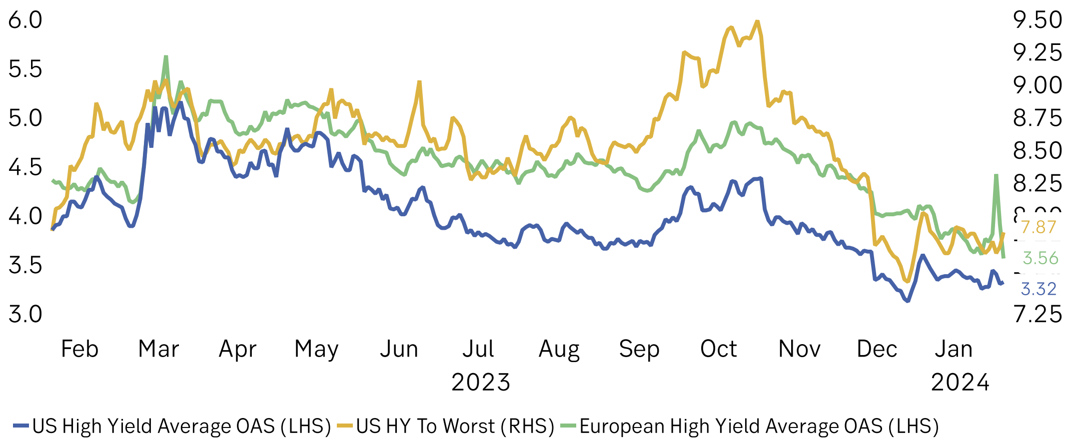
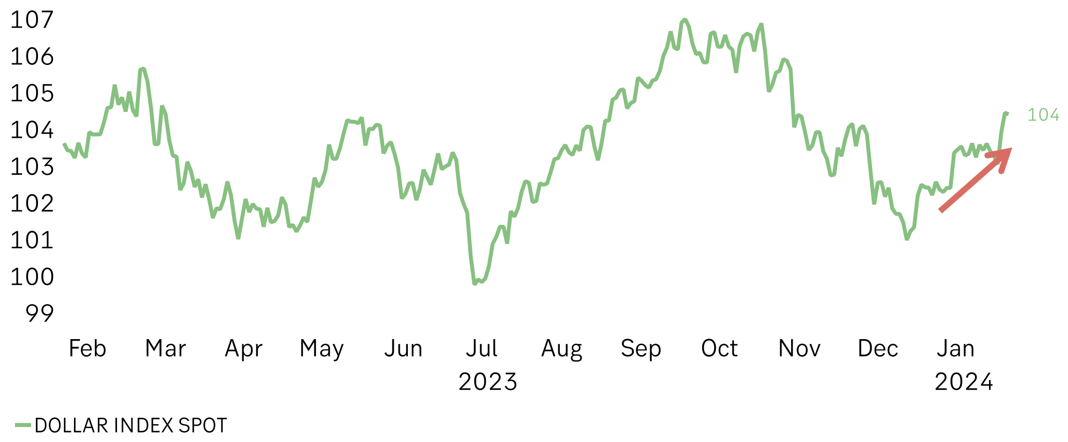
Developments in the Markets

Figure 1: US credit spreads widened in early January as renewed worries shook markets. Since then we have seen risk appetite increase and credit spreads continue to tighten



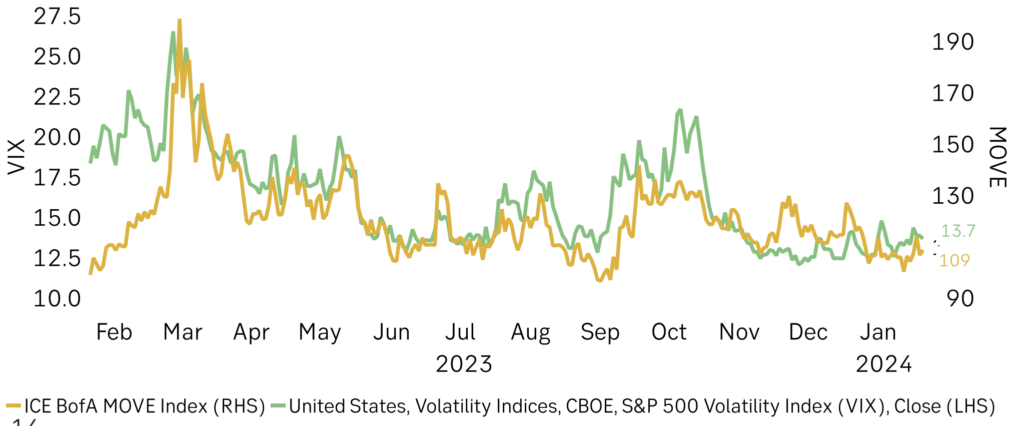
Source: Macrobond, SEB

Figure 2: The US dollar continued to strengthen in January on the back of higher yields, but has since stabilized. Renewed expectations of rate cuts could weaken the dollar



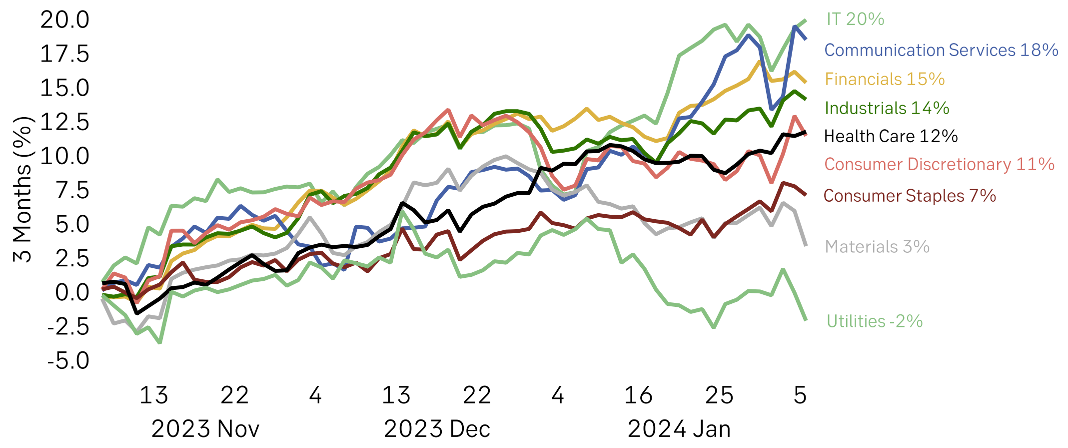
Source: Macrobond, SEB

Figure 3: Both equity and interest rate volatility has fallen back as concerns about higher-for-longer rates eased among investors



Source: Macrobond, SEB

Figure 4: Cyclical sectors have contributed to the gains in equities, while defensive sectors have been lagging



Source: Macrobond, SEB

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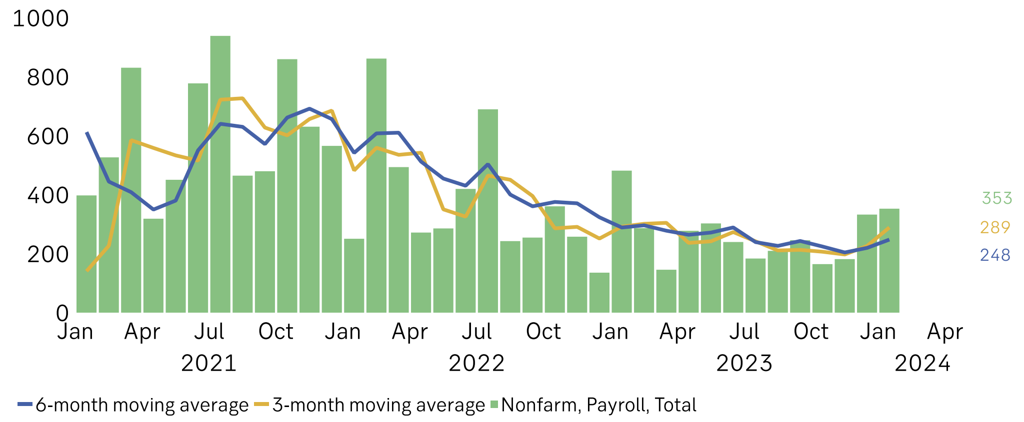
Economy – Developed Markets

Central banks maintain rates, await clearer signs of sustained inflation decline

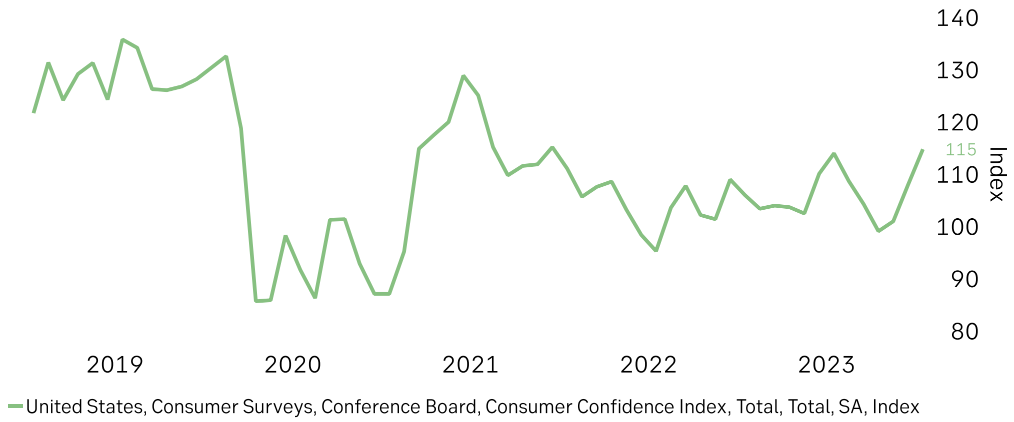
- At its January meeting, the Fed maintained interest rates, signaling that a rate cut in March is improbable without additional data confirming sustained disinflation
- January's US payrolls report revealed a higher-than-expected surge in new job, an acceleration in wage growth, while the unemployment rate remained at 3.7%
- US "supercore" PCE inflation – the Fed's preferred measure of underlying inflation picked up in December, driven by price gains for recreation and financial services
  - Having said that, the three- and six-month annualized pace of core inflation has fallen below the Fed's 2% target, indicating weakening momentum in inflation which, in our view, bolsters the case for rate cuts in 1H
- The employment cost index rose at its slowest since 2021 in Q4, indicating slowing US wage growth, which should pave the way for rate cuts later this year
- US GDP growth slowed to a solid pace of 3.3% in Q4, beating forecasts, primarily driven by strong personal consumption, followed by government spending and net exports –supporting our base case of a soft landing scenario
- US GDP growth slowed to 3.3% in Q4, but surpassed forecasts, with solid personal consumption being the biggest driver, followed by government spending and net exports, which supports our base case of a soft landing
- Last month, the ECB held rates steady as expected, with Lagarde hinting at a possible June cut after Q1 wage negotiating talks, denting hopes for a March cut
- Euro area headline inflation fell to 2.8% y/y in January, in line with consensus, but annual core inflation eased less than expected, offering a mixed message
  - Core prices – excluding food, tobacco and alcohol – declined in January, suggesting that the trend in core inflation is still weakening
- The euro area avoided a technical recession in Q4 as growth came in marginally better than expected, however, data indicates growth in the region has stagnated

Figure 1: After a stronger-than-expected US jobs report and Powell's comments last week, bond markets now price in a first rate cut by the Fed in May



Source: Macrobond, SEB

Figure 2: Consumers are expecting inflation to subdue next year which has contributed to the uptick in the consumer confidence index we've seen lately



Source: Macrobond, SEB

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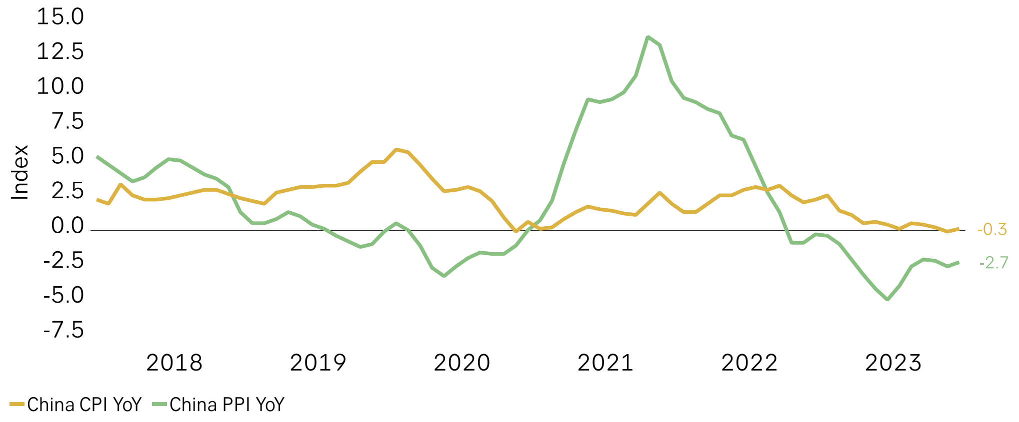
Economy – Emerging Markets

China steps up stimulus rhetoric amid property and stock market slump

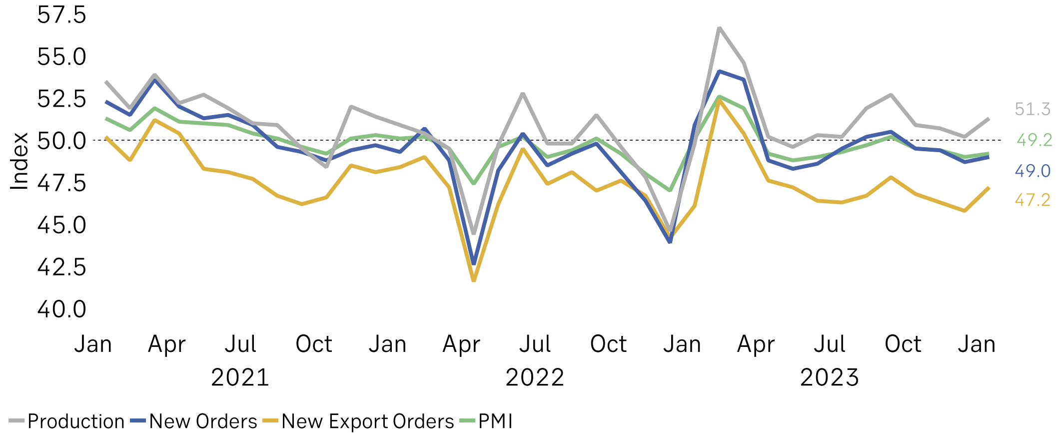
- China's GDP grew by 5.2% last year, slightly over the 5% goal, driven by clean energy, hinting at more government support for renewable sectors going forward
- That said, forecasts shows that the growth of the Chinese economy is expected to slow this year
- However, December's PPI and CPI data continue to signal deflationary pressures in China, highlighting soft domestic demand and the need for more stimulus
- The official China manufacturing PMI showed a modest rise in January, under expectations, indicating a slow start to the year due to prolonged weak demand.
- Supportive fiscal and monetary policies will be needed to support growth
- The PBoC, China's central bank, aims to roll out more targeted economic support to key sectors by increasing funding to technology, green projects, and small businesses, amidst the country's property and stock market challenges
- China's central bank cut the reserve requirement ratio by 50 basis points earlier this month, injecting 1 trillion yuan into the market
- Last month, the PBoC kept its one-year policy loan rate steady, due to concerns of the yuan's strength and uncertainty of timing of Fed rate cuts – a Fed cut would provide the PBoC more room for policy easing
- China is also considering a rescue package for the stock market to counteract the significant sell-off, which saw the CSI 300 stock index hitting a five-year low

Figure 1: Recent inflation numbers in China show continued deflation in the economy which may require stronger policy stimulus in order to lift demand



Source: Macrobond, SEB

Figure 2: Even though we saw a slight improvement in the Chinese PMI, the subcomponents, such as the new export orders and new orders are still at contractionary levels



Source: Macrobond, SEB

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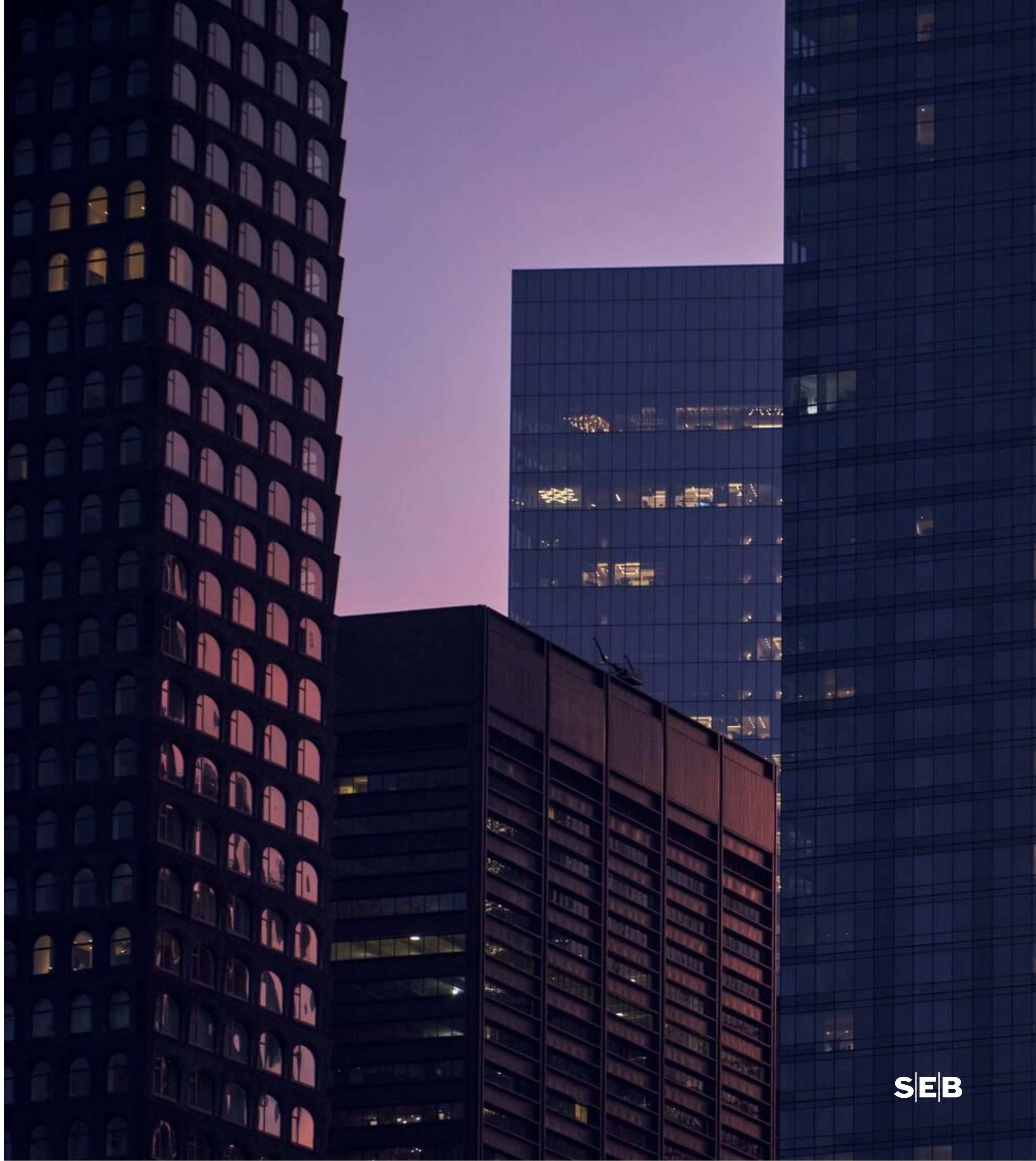

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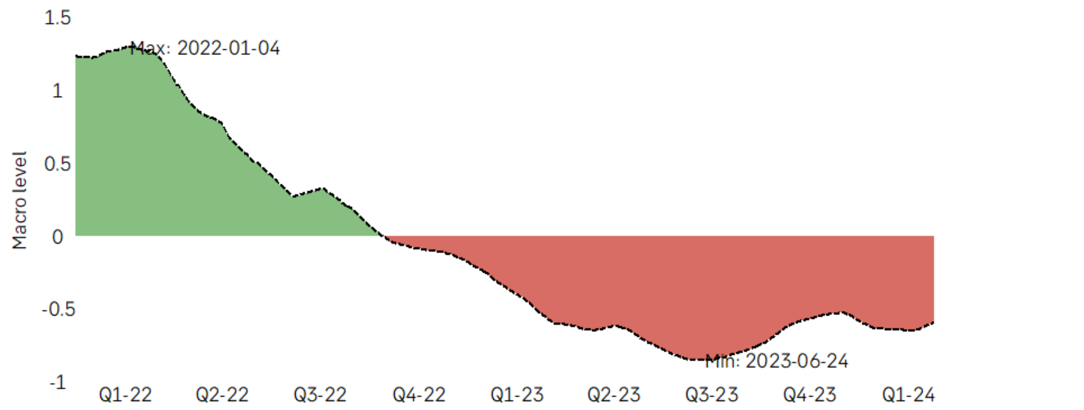
SEB House View – US Macro Status

US data surprises have been positive, but modest, according to our indicator. We expect more modest data surprises ahead as growth slows

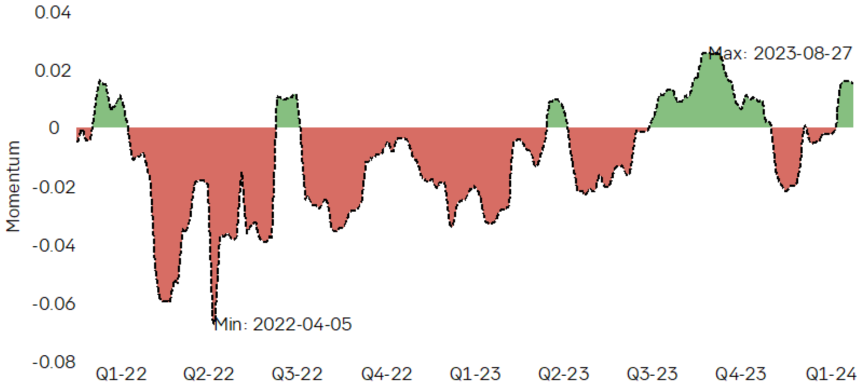
- December's US housing starts exceeded expectations, hinting at a possible stabilization in the housing market amid high interest rates and low affordability
- Michigan's consumer sentiment in January surpassed forecasts, reflecting an improved consumer outlook as inflation and interest rate expectations dropped
  - The fall in inflation expectations supports the case for Fed rate cuts this year. However, a sustained recovery in consumer sentiment remains uncertain due to a cooling labor market and weaker business conditions
- Empire State manufacturing index plunged in January due to a decline in orders and shipments, falling below forecasts. The latest Empire State reading suggests continued weakness in US manufacturing. That said, Fed policy easing should be supportive, allowing manufacturing activity to stabilize, albeit at a weak level

Figure 2: US macro level is still below its historical average



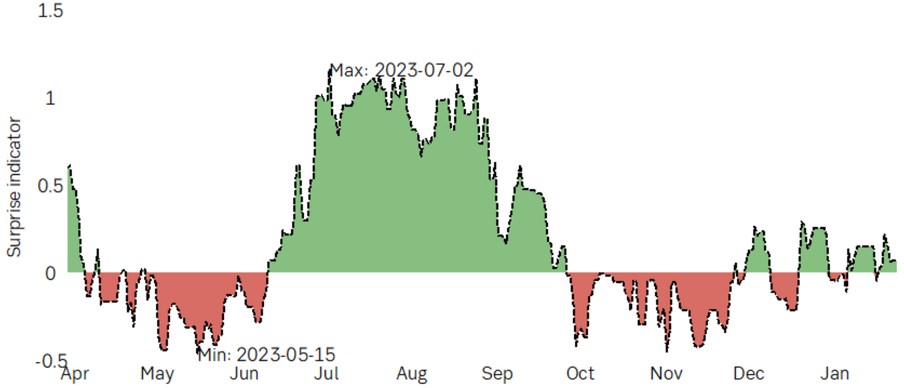
Source: SEB House View

Figure 1: US macro momentum picked up in January according to our indicator, boosted by a stronger consumer confidence, retail sales and manufacturer new orders



Source: SEB House View

Figure 3: US economic surprises have been modest, particularly manufacturing surveys have been weak. We anticipate soft US surprises as growth slows in the coming months



Source: SEB House View

SEB House View – EU Macro Status

Gradually rising PMIs signal that growth in 2024 may not be as bad as expected

- Eurozone Manufacturing PMI rose more than expected to 46.6 in January, which indicated a slower pace of contraction for the third consecutive month
  - This suggests a possible stabilization in the eurozone's manufacturing sector which could provide potential support for risk assets in the region
- Germany's Manufacturing PMI also rose in January, well above forecasts. Despite the index still indicating a contraction, six months of improvement suggests that German manufacturing may be finally stabilizing
- In January, the EU's Consumer Confidence indicator fell compared to December, coming in below forecasts and staying well below the long-term average
  - Having said that, consumer confidence in the EU has notably recovered from 2022's low, and anticipated rate cuts should boost sentiment of households which has typically benefitted economically sensitive small cap stocks

Figure 2: The EU macroeconomic recovery has stalled due to mixed data, staying below trend. However, improving manufacturing PMIs hint at a potential pick-up in growth later in the year…

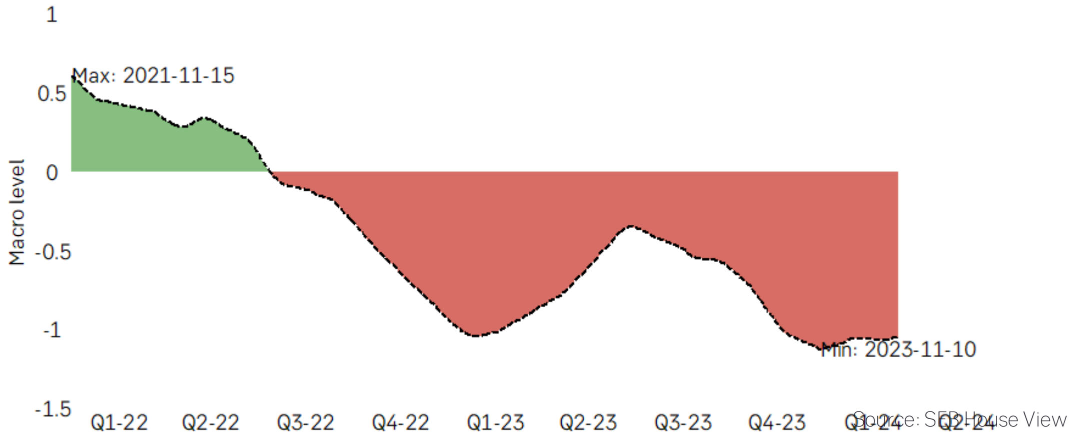


Figure 1: Macro momentum for the eurozone is positive again, albeit is virtually flay, after mixed PMIs readings from the manufacturing and services sector in the EU

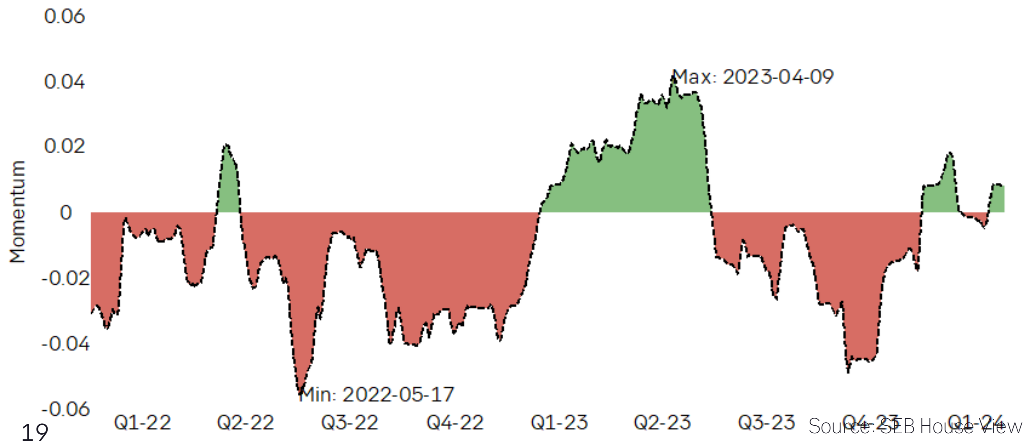
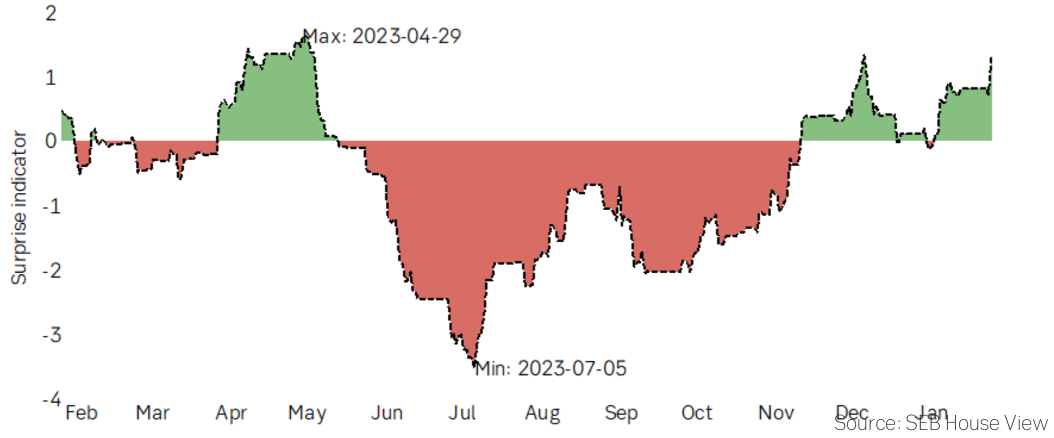


Figure 3: Gradually rising PMIs signal that growth in 2024 may not be as bad as expected. Eurozone risk assets could be poised for a cyclical rally, should data continue to surprise on the upside

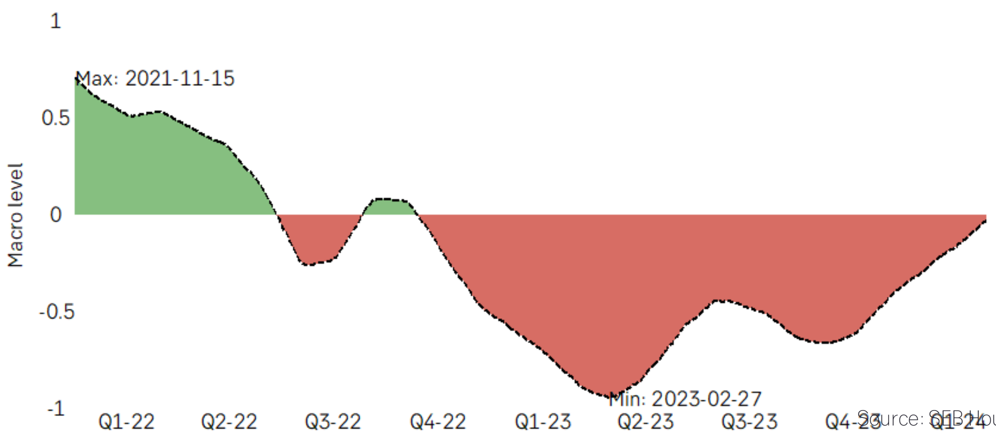


SEB House View – EM Macro Status

EM macro data surprised on the upside in January due to better-than-expected PMI and export data

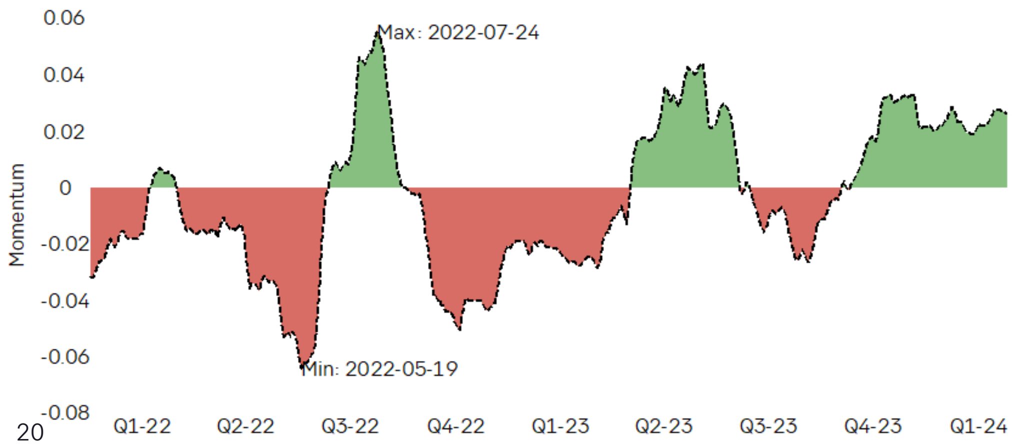
- Caixin China Manufacturing PMI unexpectedly rose in December, indicating a continued expansion in factory activity, as both output and new orders grew
- South Korean exports increased more than anticipated in December, boosted by US demand and semiconductor sales, but global growth slowdown is a risk.
  - December's export growth in South Korea was slower than November, which could suggest a modest recovery in global trade, with overall soft global demand and weak demand from China
- Taiwan's December exports surpassed expectations due to strong U.S. demand for high-tech goods and increased shipments to major economies, except China, where exports decreased

Figure 2: The EM macro level returned to neutral territory in January after gradual improvements in both soft and hard economic data.



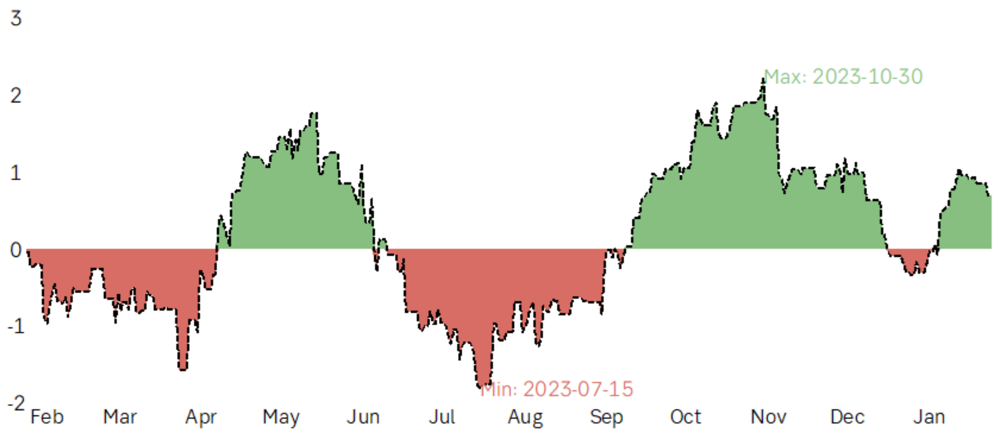
Source: SEB House View

Figure 1: EM growth momentum remained in positive territory, boosted by increases in the Caixin China Manufacturing PMI and accelerating export growth for Taiwan and Hong Kong



Source: SEB House View

Figure 3: EM macro data surprised on the upside due to better-than-expected China Manufacturing PMI and export growth in South Korea and Taiwan for December



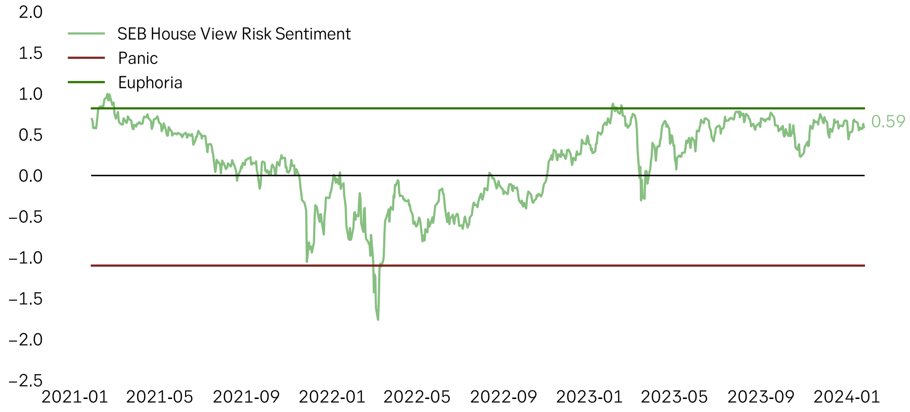
Source: SEB House View

SEB House View – Risk Indicator

Markets embark on 2024 with optimism for a soft economic landing

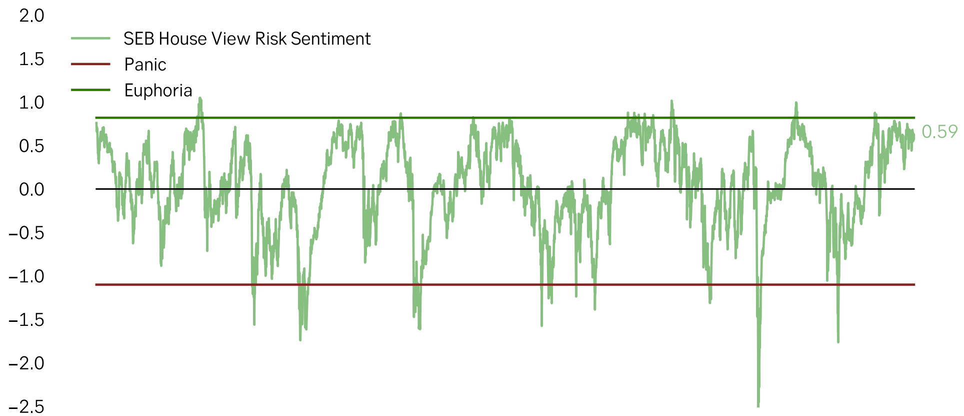
- Optimistic market sentiment prevails, with US stocks hitting new highs despite rising bond yields and policymakers' skepticism about early rate cuts this year
- Markets' risk-on mood, marked by strong momentum in the equity market and stocks outperforming bonds, alongside narrowing credit spreads, elevated our Risk Appetite Indicator
- However, heightened geopolitical risks, especially the possibility of a wider Middle East conflict or a sharper-than-anticipated economic slowdown, could quickly shift market sentiment to a more cautious stance
- A so-called "no landing" with above-trend US growth and sticky inflation poses another risk, as it may limit the Fed's ability to cut rates, leading to markets reassessing and potentially reducing expectations for rate cuts this year

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



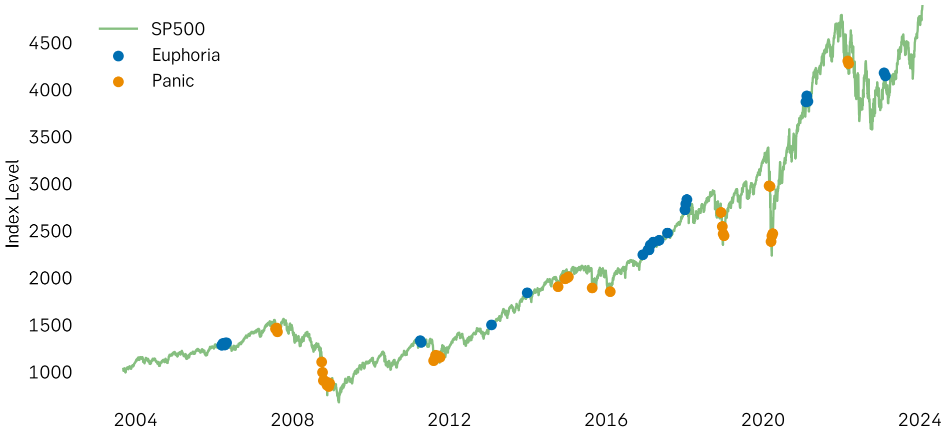
Source: SEB House View

Figure 1: SEB House View Risk Indicator



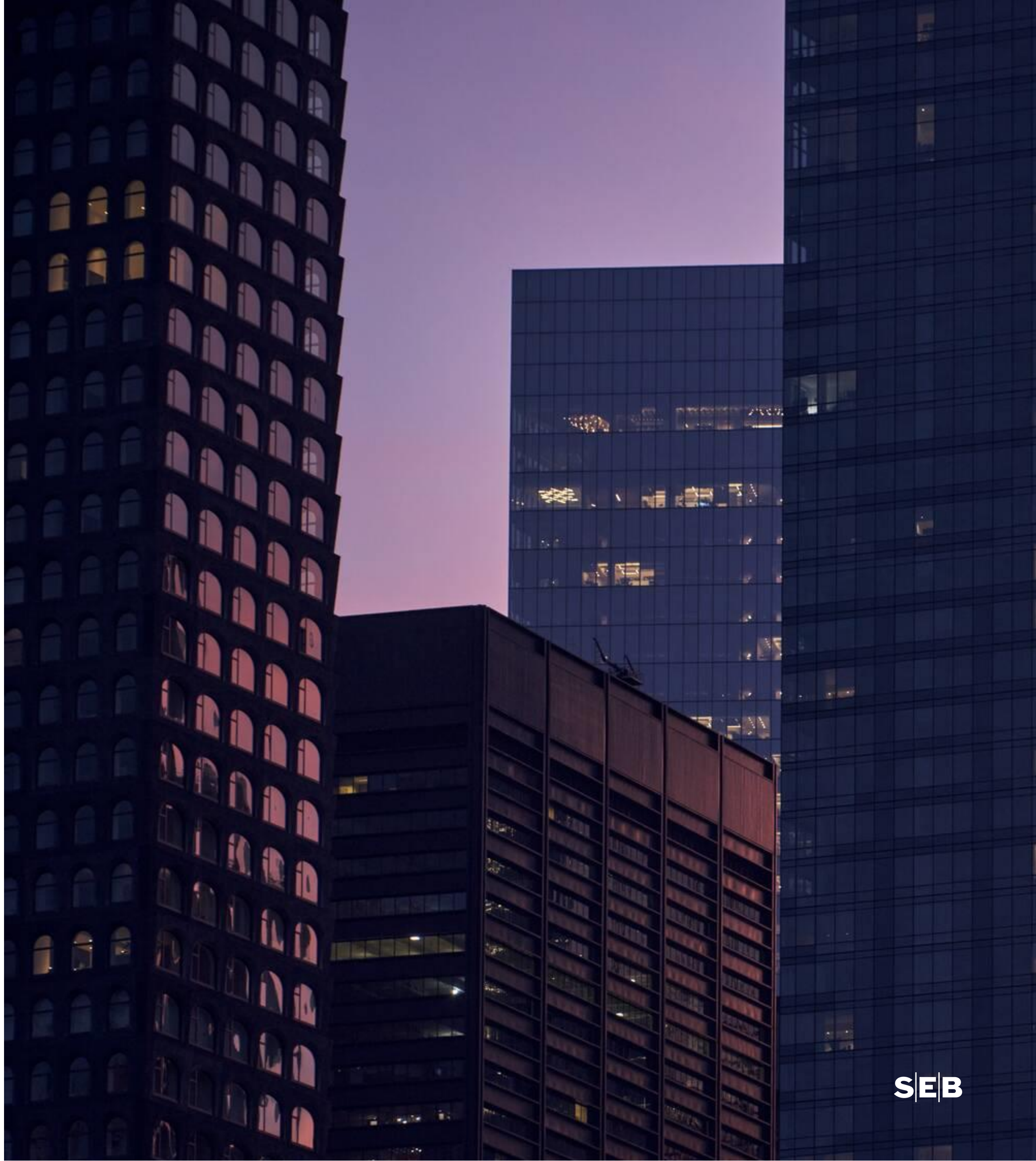
Source: SEB House View

Figure 3: Extreme states plotted on SP500



Source: SEB House View

Agenda



Developed Market Equities – 12M Outlook

Our 12-month outlook for developed market equities is a bit more cautious, but still positive given that we expect a soft-landing scenario

Developed market central banks will likely go ahead with rate cuts this year, which in a soft-landing for the economy, will be supportive for equities on a strategic horizon. We anticipate a moderation in inflation and as a result, DM yields will likely fall a bit further, buoying DM equity valuations. Historically, equities have performed well between the last Fed rate hike and first Fed rate cut, with additional upside after the first rate cut, supporting our 12-month outlook for equities.

A 'soft landing' remains our base case scenario, but the risk of downside growth may heighten in an environment of higher for longer rates

We expect inflation to normalize without inducing a recession. Labor markets in the US and Europe have remained strong despite rising interest rates. That said, the lagged effects from tighter monetary policy should lead to tightening credit conditions, exerting downward pressure on growth. A mild recession remains a risk to our outlook as factors supportive of growth, such as excess savings and fiscal stimulus from governments start to wane.

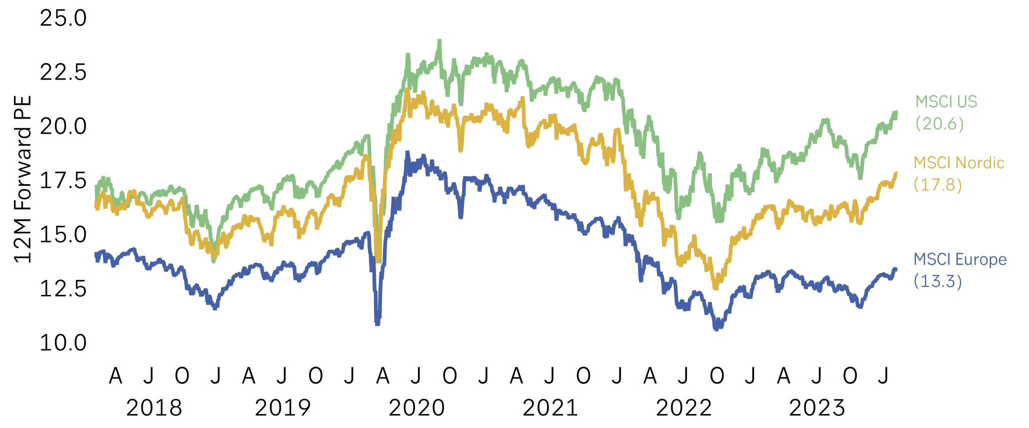
2024 earnings growth in the US is expected to improve after a dismal 2023

European equities trade at a historically wide discount compared to US equities. US equities could continue to rally this year due to expansion in multiples as central banks start to cut rates. We expect US equities to be driven also by better earnings growth which can lead to a positive performance of US equities.

Small-caps have lagged large caps, but may have upside potential going forward

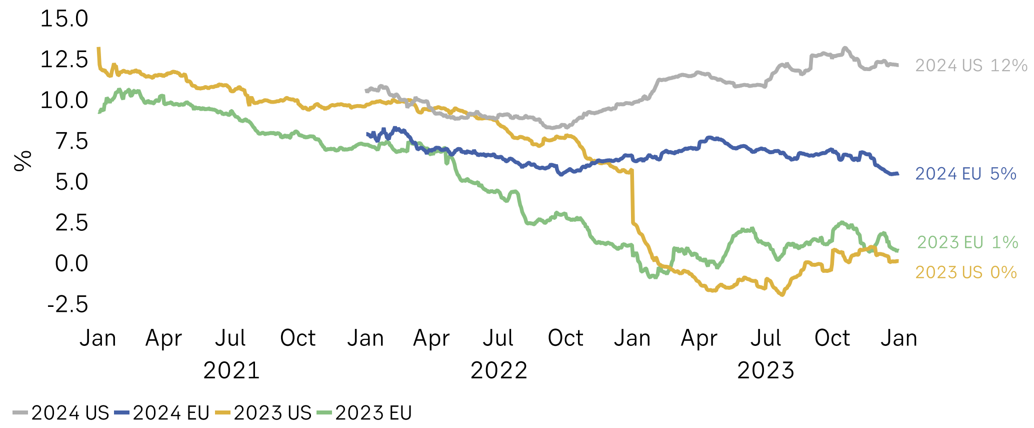
Small-cap stocks have underperformed large-cap stocks last year and appear attractive due to their inexpensive valuations. Small-caps may be poised for outperformance when central banks initiate rate cuts.

Figure 1: We have seen an uptick in valuations lately. As the Fed starts to loosen monetary policy in 2024, we could potentially see some further expansion in multiples



Source: Macrobond, SEB

Figure 2: SPX bottom-up EPS growth is expected to improve in 2024 after a dismal 2023



Source: Macrobond, SEB

Emerging Market Equities – 12M Outlook

On a tactical horizon we prefer to keep a cautious position due to political risks and a weak property market. But over a 12-month horizon we could turn constructive on EM equities after a dismal 2023, which should be supported by a weaker USD, looser global monetary policy and low positioning overall in the region.

Lower interest rates should boost demand and drive growth higher over the next 6-12 months. The EM region is projected to grow more rapidly than DM countries. Improvements in Asian exports also suggest better EM macro momentum ahead. Exports from South Korea and Taiwan, bellwethers for global trade, have gradually improved and show signs of a potential rebound in external demand

China faces economic and demographic challenges

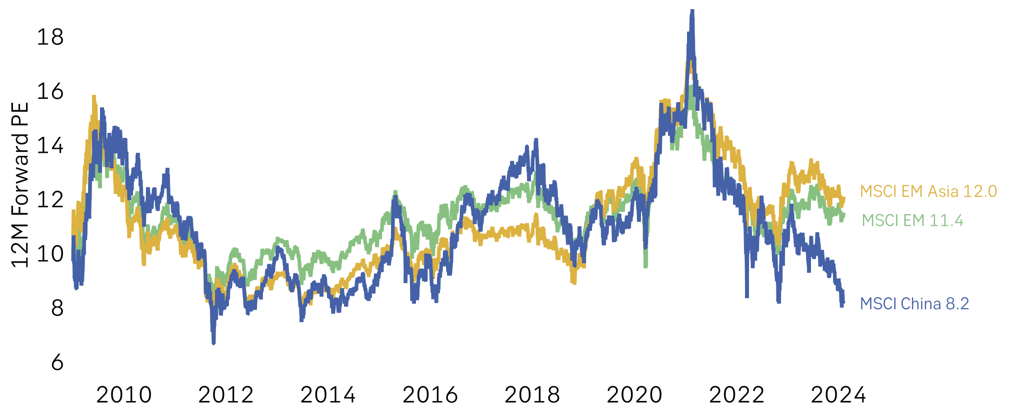
Investors are still overall bearish on China due to economic disappointments, a declining property market, and geopolitical challenges, leading to a de-rating of Chinese equities. Although China has rolled out targeted stimulus measures in recent months, their effectiveness remains uncertain, and aggressive fiscal stimulus may be limited due to China's high public debt.

On the upside, Chinese equities have already priced in the negative news via a de-rating and could be close to a turnaround. Furthermore, the low valuations can limit further downside risks and provide a cushion against external negative shocks. Moreover, China's growth prospects still surpass developed markets, despite the downturn in the property sector, one of its key growth drivers.

The strong USD trend will likely begin to fade, supporting EM equities

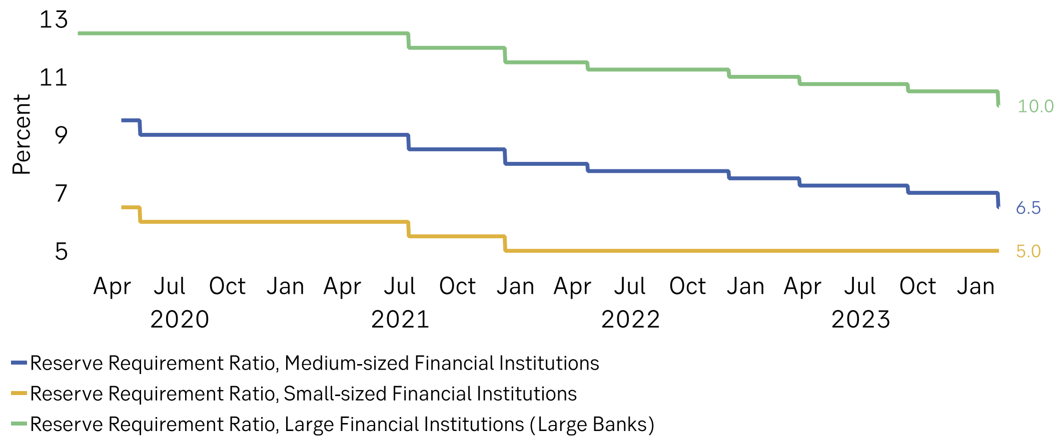
We think the USD should weaken as recession fears fade due to resilient US hard data. Easing monetary policy should put downward pressure on the USD and a weaker US dollar should support EM equities.

Figure 1: Easing monetary policy should support EM growth and EM equities which could reaccelerate given the low valuations



Source: Macrobond, SEB

Figure 2: China has rolled out several stimulus measures, such as cutting its RRR rate, to support the stock market. The question remains if these measures are enough for a turnaround



Source: Macrobond, SEB

SEB

Corporate Bonds – 12M Outlook

Corporate bonds should benefit from lower rates and tighter spreads

In a soft landing/goldilocks scenario, declining interest rates amid gradual monetary easing should benefit both corporate and government bonds. Nevertheless, corporate bonds should outperform government bonds as government bond yields drop modestly, while credit spreads have better running yield.

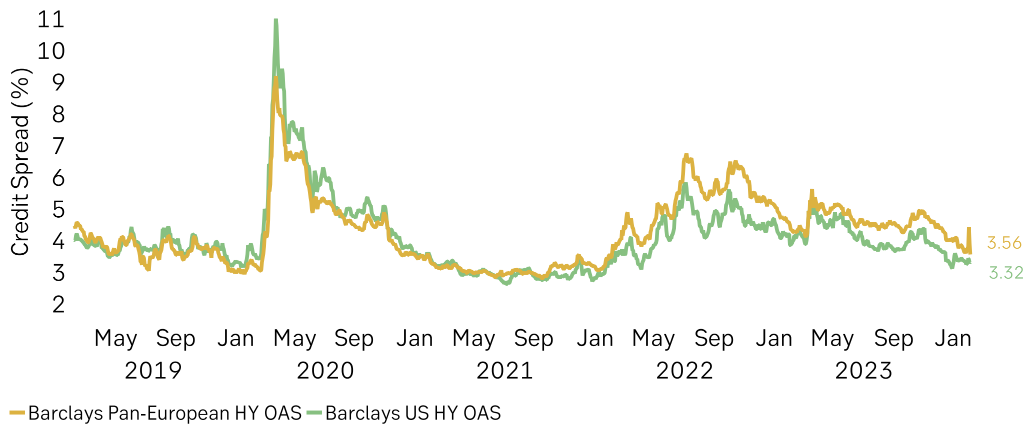
In the case of a soft-landing scenario, high-yield corporate bonds could outperform their IG counterparts, but on a tactical horizon we prefer to keep a slight underweight given that risks of widening spreads are not over

In a soft-landing scenario characterized by stable growth and increased risk appetite, high-yield corporate bonds are poised to outperform investment-grade bonds. Given their higher spreads compared to investment-grade bonds, high-yield bonds should become more appealing, especially as concerns about a potential recession diminish. As expectations for corporate earnings improve and default rates remain relatively low, we can expect HY credit spreads to tighten.

Downside risks to our 12-month outlook

Having said that, the uncertainty for the next 12 months is still on the background, given the various macroeconomic scenarios that could play out. There are downside risks to our base case scenario and outlook. One such risk is that inflation proves to be more persistent than anticipated, prompting central banks to maintain higher for longer rates until something breaks in the economy. Additionally, there is a possibility that economic growth unexpectedly turns sharply lower, causing a deeper downturn and prompts aggressive rate cuts from central banks. In both scenarios, IG credit spreads are anticipated to broaden modestly, while HY spreads widen significantly due to rising default rates, resulting in that high yields bonds underperforms safer investment grade bonds.

Figure 1: HY spreads may still tighten further in a 'soft-landing'/'goldilocks' scenario where rates decline and default rates remain low. However, risks of widening spreads are not over



Source: Macrobond, SEB

Figure 2: IG bonds can also have a good performance next year as risk appetite improves and recession fears diminish. But risks of widening spreads cannot be disregarded

Source: Macrobond, SEB

Government Bonds – 12M Outlook

Government bonds will likely have positive returns on a 12-month horizon given expected global rate cuts

Labor markets are in relatively good shape, which should slow wage growth and inflation. As inflation eases, we expect central banks to lower rates which should lead to a decrease in government bond yields over the next 12 months.

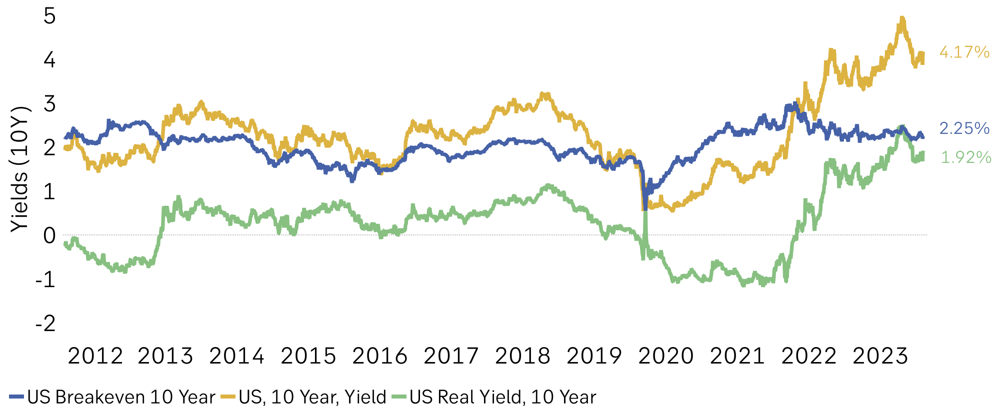
Given that bond yields are still at historically elevated levels, there is plenty of room for a positive rally in case of several rate cuts

Easing monetary policy should boost both bond and stock prices. However, with reasonable growth and subdued inflation, equities might benefit more than government bonds. As interest rates decline, we expect EPS expectations to climb due to a resilient economy. Falling government bond yields also renders equities comparatively more appealing compared to bonds.

Sticky inflation and oil supply shocks could cause bond yields to rise further

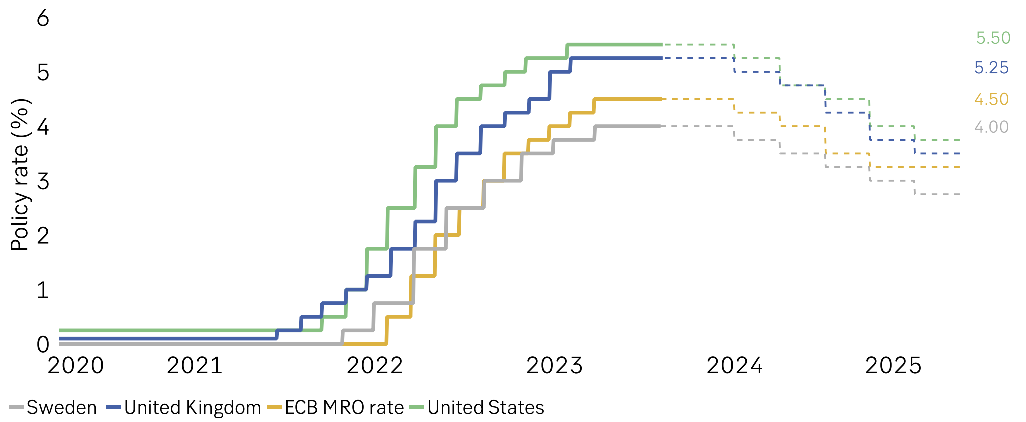
However, there are many scenarios and factors that could prevent or postpone a bond rally. Persistent strength in US consumer spending and labor markets could sustain core inflation, which might compel the Fed to tighten further, driving bond yields upwards. Actions like OPEC further tightening the oil supply could be a catalyst. A surge in global commodity prices would pose an upside risk for inflation and thus bond yields. Rising inflation would likely deter central banks from cutting rates, pushing forward rate cuts expectations. Additionally, China's recovery could gain pace due to numerous new stimulus measures introduced, increasing demand for commodities and exerting upward pressure on commodity prices.

Figure 1: Real yields are in positive territory, but we expect real and nominal yields to decline as central banks start to cut interest rates



Source: Macrobond, SEB

Figure 2: Central banks are expected to cut rates this year, which would benefit bonds and stocks. Forecasters are expecting a couple of rate cuts in 2024 and to continue in 2025



Source: Macrobond, SEB

SEB

Region Overview

Regional equity positioning

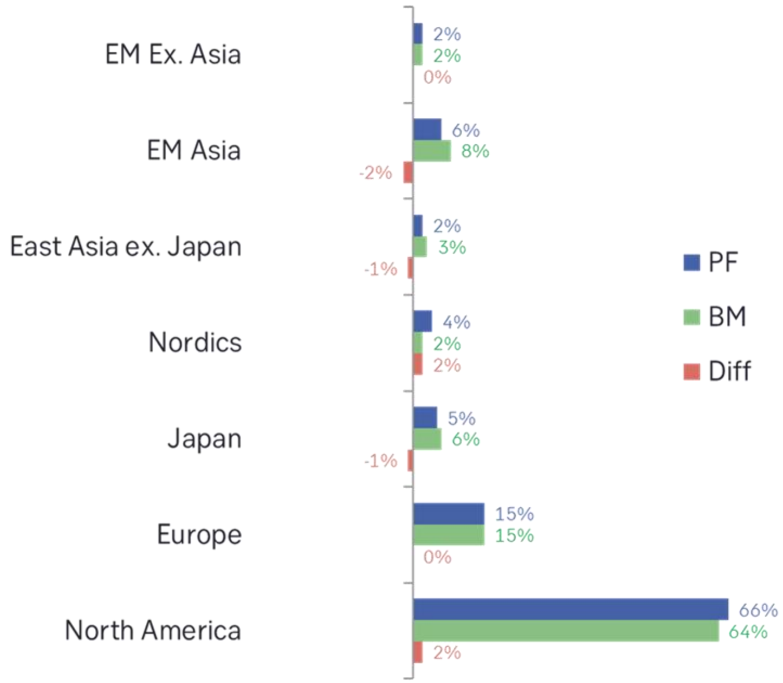
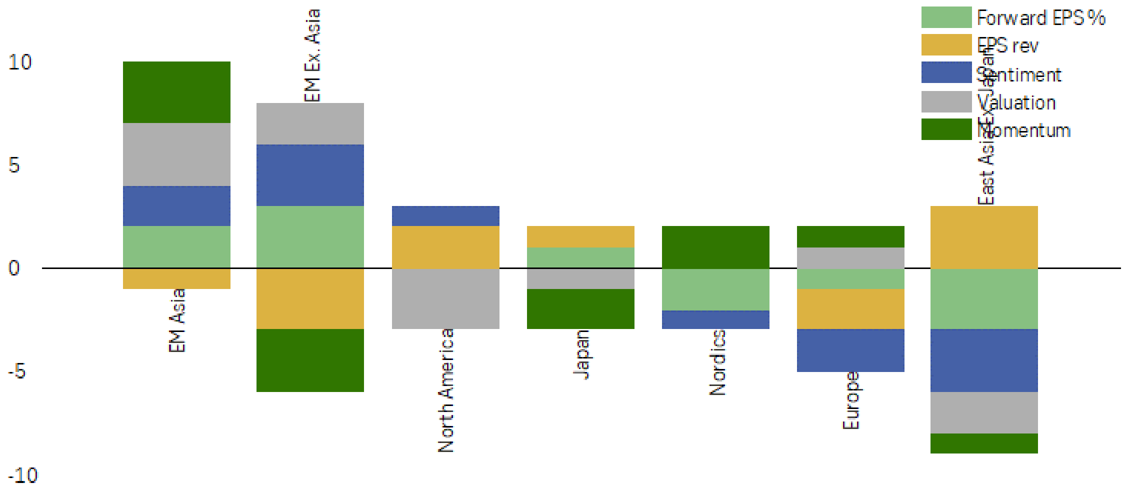


Figure 1: SEB House View region score*



* Ranked by total score with highest score starting from left

EM Asia – Underweight

We maintain our EM Asia equities underweight due to China's ongoing weakness and rising geopolitical risks, despite low positioning and attractive valuations

- Chinese stocks saw record four-week inflows due to excitement over new policy support, but are still likely underowned after a long period of outflows
- Nevertheless, the effectiveness of the recently announced policy measures to shore up Chinese economic activity is highly uncertain - investors still expect a weaker Chinese economy in the next 12 months
- EM Asia achieves the highest rank on valuations compared to other regions, due to very low valuations for Chinese stocks which recently hit a 5-year low
- That said, market sentiment is extremely bearish due to China's property market slump, and rising geopolitical risks are adding to investor concerns
- We expect market sentiment to remain range-bound in the near-term amid weak macro and property market data, until a catalyst for optimism emerges

Figure 2: Standardized relative valuation – Current constituents

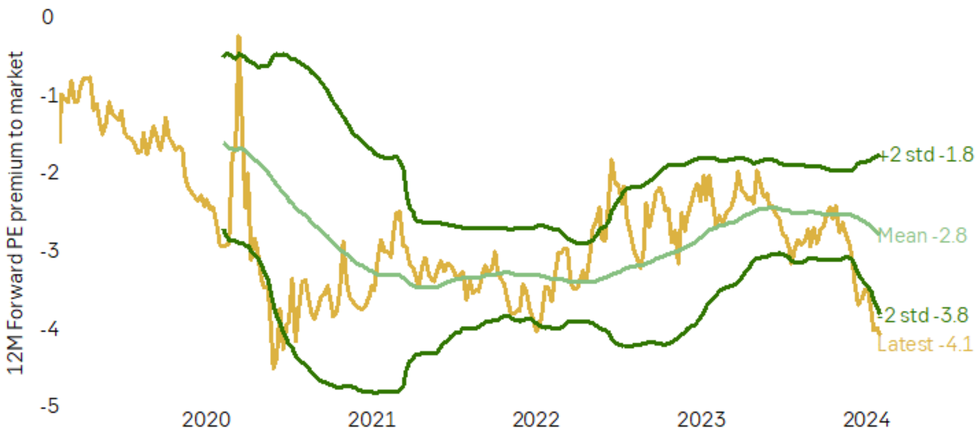
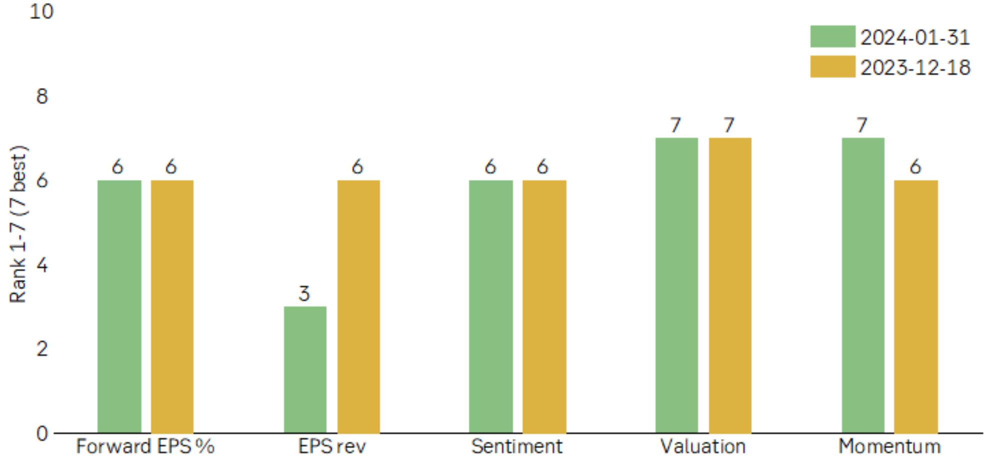
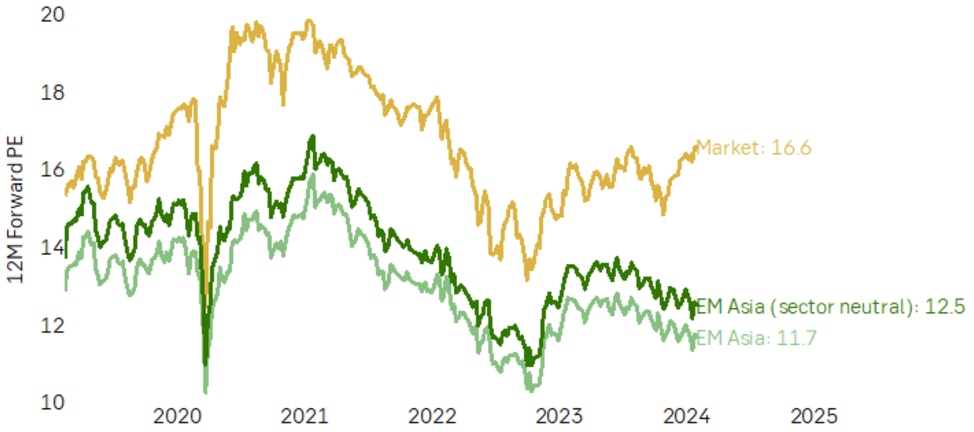


Figure 1: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



Source: SEB House View

SEB

EM Ex Asia – Neutral

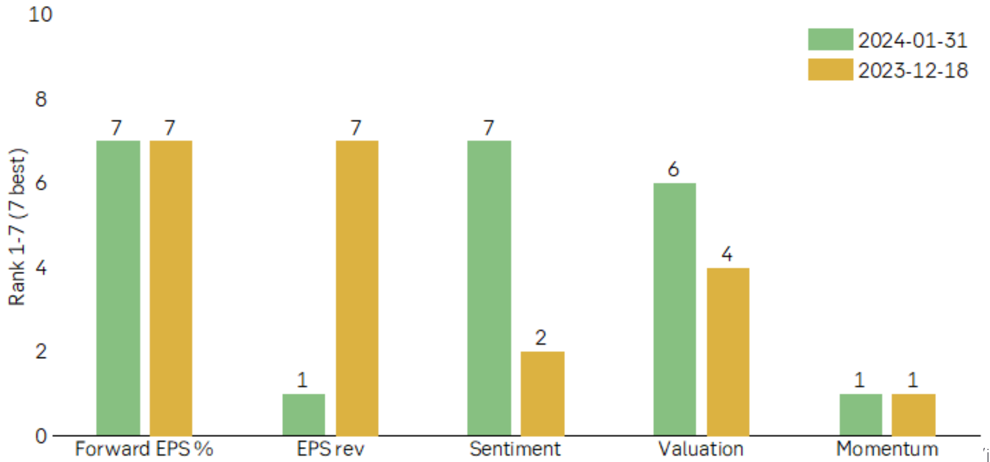
We maintain our neutral stance on Em Ex Asia, despite recent rate cuts, due to persistent USD strength, rising geopolitical risks and signs of a global slowdown

- The solid EPS growth outlook over the next 12 months looks attractive, even though earnings estimates have revised downwards over the last month
- Key Latin American economies reduced interest rates in January, while signaling further cuts which is expected to boost domestic consumer spending
- The region ranks relatively high on valuations compared to other regions
- However, a stronger USD, rising geopolitical risks and a global economic slowdown create a more defensive climate, supporting our neutral stance
- If the global growth outlook and risk appetite improve, the region could attract inflows due to low valuations and solid EPS growth

Figure 2: Standardized relative valuation – Current constituents

Source: SEB House View

Figure 1: Contribution to House View Region Score



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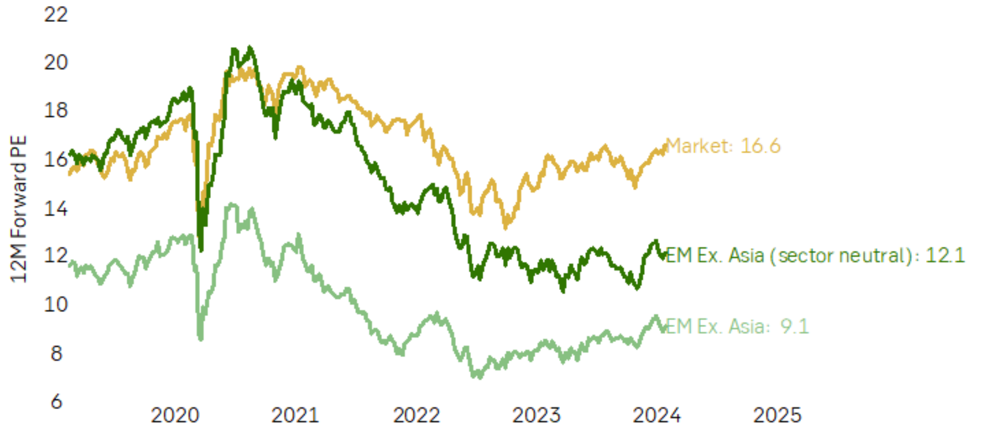

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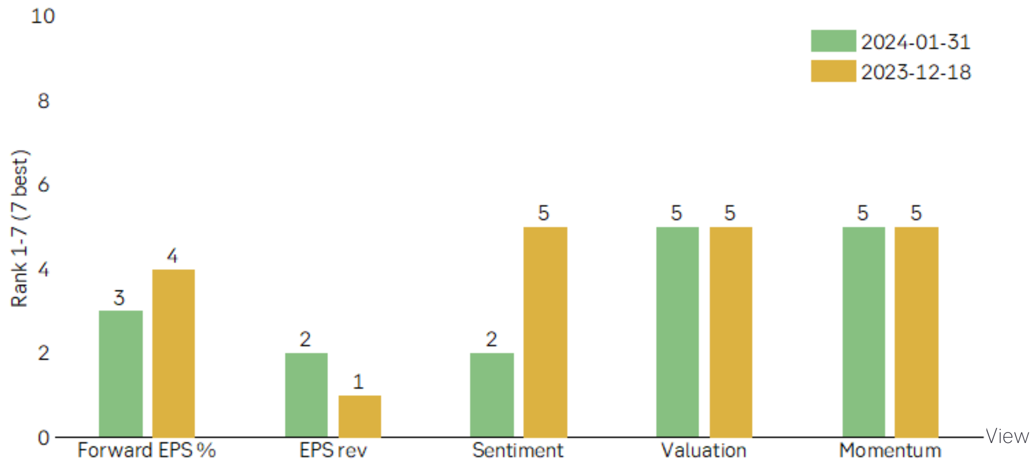
Europe – Neutral

We think a soft landing is still possible, but prefer to stay neutral to Europe as geopolitical risks are rising and China remains weak

- Macro data in the region has been soft with January's tepid euro area PMI and stagnating GDP growth in Q4. That said, the euro area avoided a recession last year, suggesting a soft landing is still attainable in our view
- Euro area core inflation fell slower-than-expected in January, however, we still see potential ECB rate cut in March, earlier than market expectations for April, as economic data is more likely to come in on the softer side
- The region ranks low in EPS growth, but low expectations allow room for positive earnings surprises
- Despite increased valuations, upside potential remains due to rate cuts and improved growth outlook
- Rising geopolitical risks and uncertainty around China could weigh on the region

Figure 1: Contribution to House View Region Score



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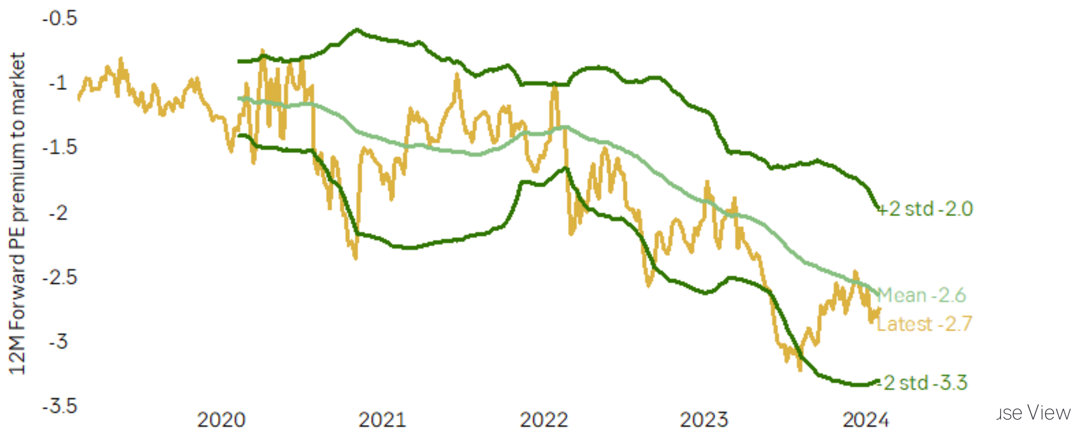

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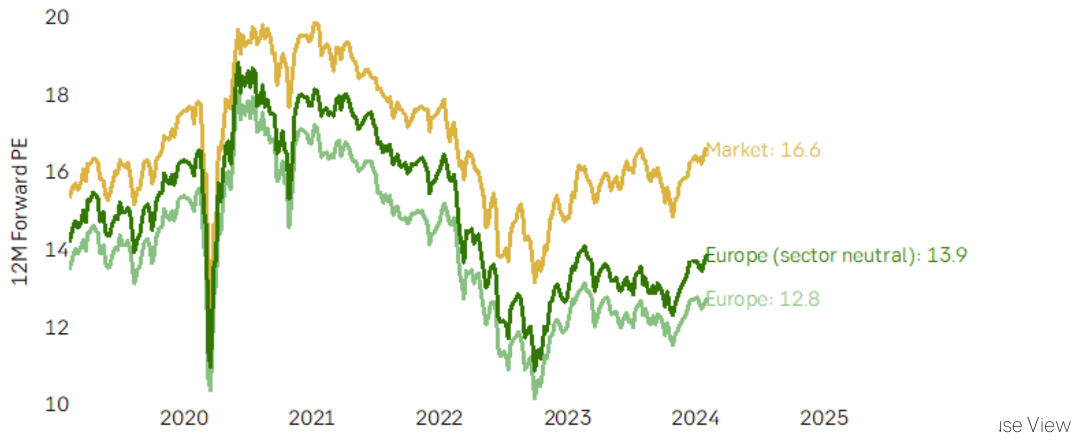
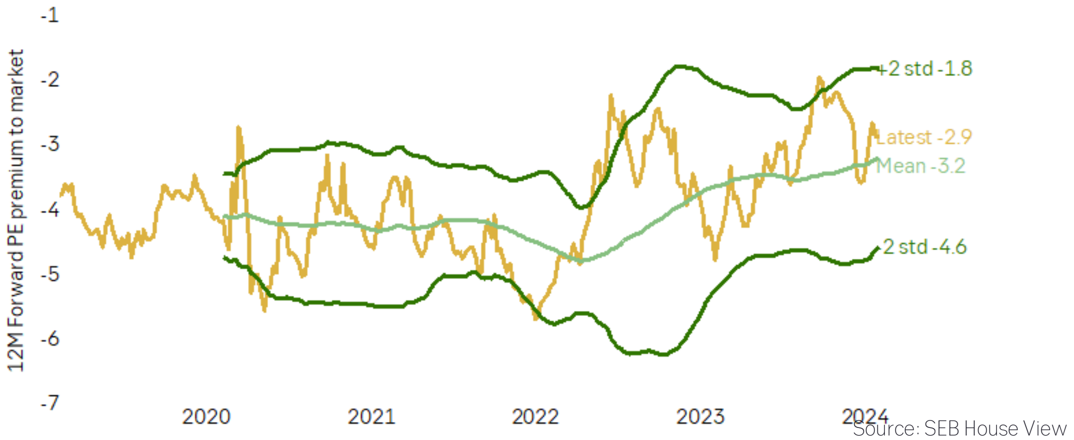


Japan – Underweight

We remain underweight to Japanese equities due to anticipated headwinds from JPY appreciation, global slowdown and policy normalization

- January's manufacturing PMI showed that manufacturing conditions deteriorated modestly, while retail sales has painted a gloomy picture of weak domestic demand
- Consensus expects solid EPS growth from Japanese stocks this year, however, a global economic slowdown will most likely weigh on corporate earnings
- JPY appreciation from policy shifts, including the BoJ's exit from NIRP, will likely weigh on exports and corporate profits, putting downward pressures on stocks
- While recent inflows into Japanese equities seem positive, fund managers consider being long Japanese equities one of the most overcrowded trades position,
- The anticipated policy shift by the BoJ in the spring should put downward pressure on Japanese equity valuations, depending on the pace of normalization

Figure 2: Standardized relative valuation – Current constituents



Source: SEB House View

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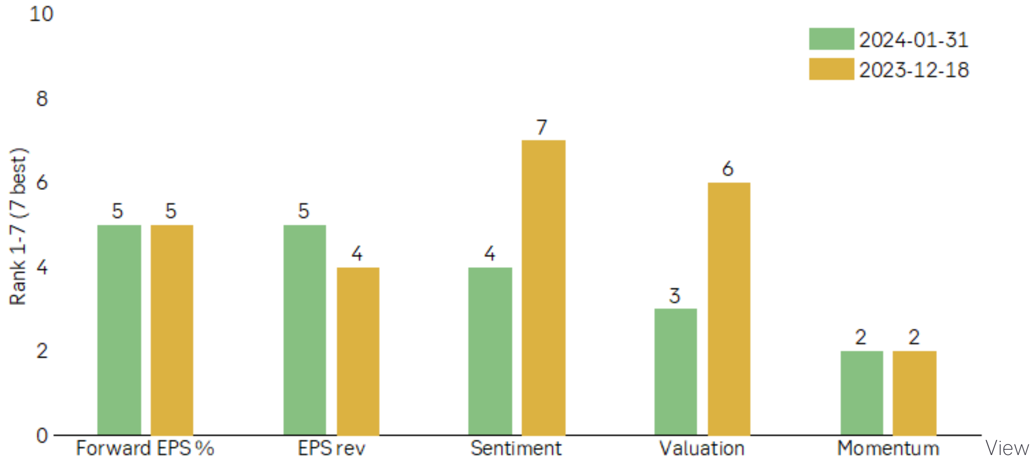
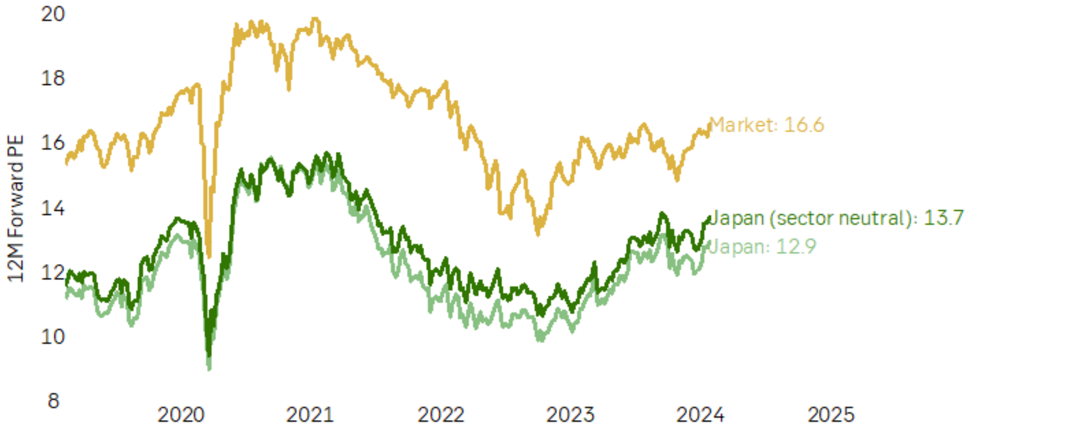


View

Figure 3: Absolute valuations – Current constituents



ıse View

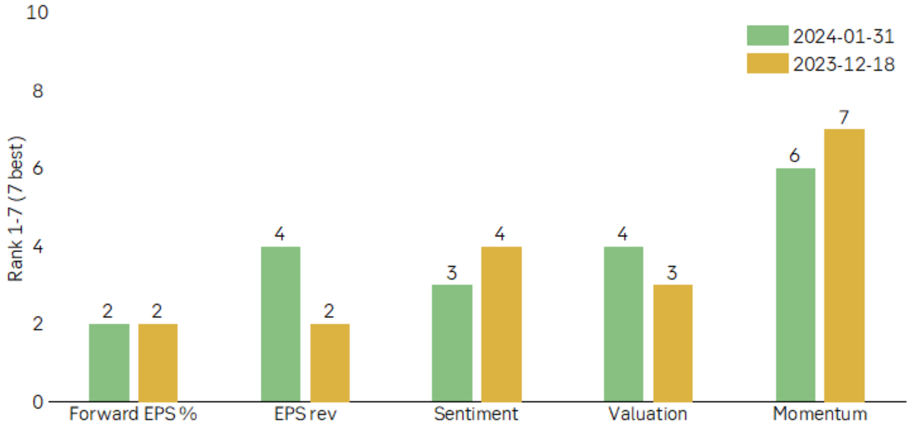
SEB

Nordics – Overweight

We stay overweighted to the Nordics, expecting this year's strong momentum to continue

- 12M forward consensus EPS growth is weak, yet revisions are less negative than in other regions and lower expectations set the stage for potential positive surprises
- Sweden's composite PMI rose in January but showed economic contraction. That said, we expect a soft landing with lower inflation and interest rates
- Riksbank's February meeting kept rates steady, signaling a possible rate cut in the first half of 2024 if inflation declines swiftly
- We anticipate lower inflation to lead to interest rate cuts in the first half, which should lift Swedish equity valuations
- The SEK is set to strengthen, buoyed by low valuations and potential early rate cuts by the Fed and ECB, potentially boosting Swedish equities' global appeal
- The region ranks high for momentum in our model, and we expect this to continue

Figure 1: Contribution to House View Region Score



Source: SEB House View

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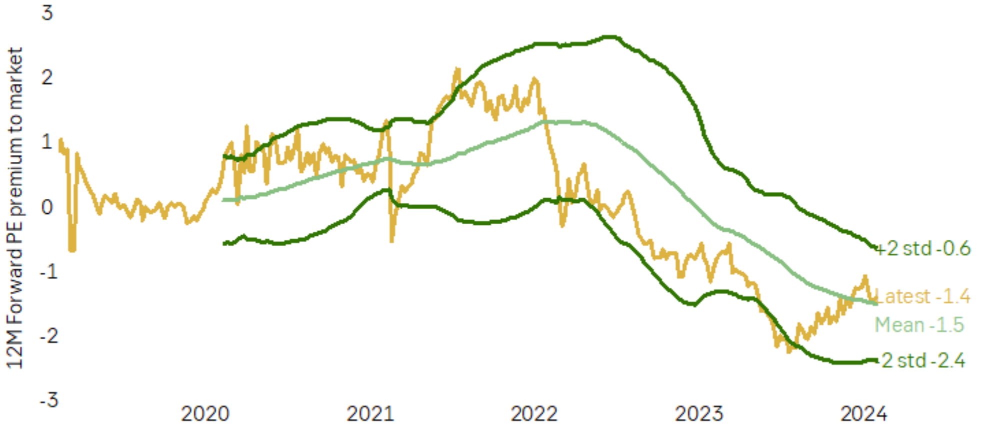

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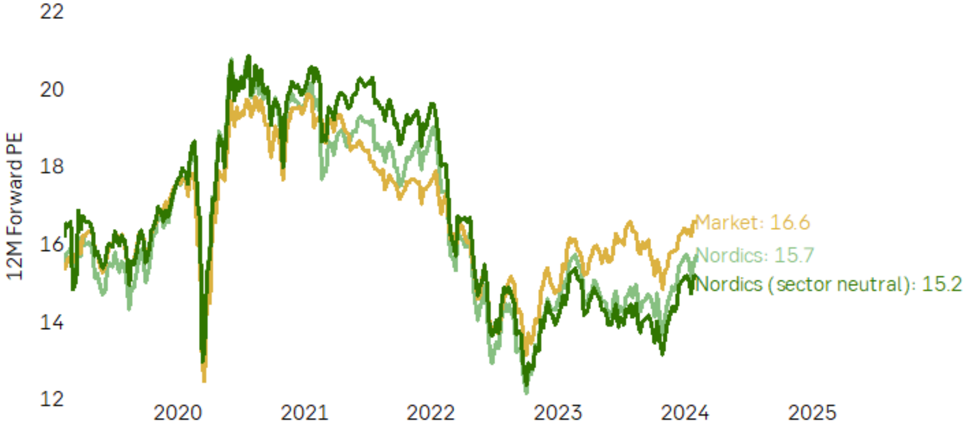


Source: SEB House View

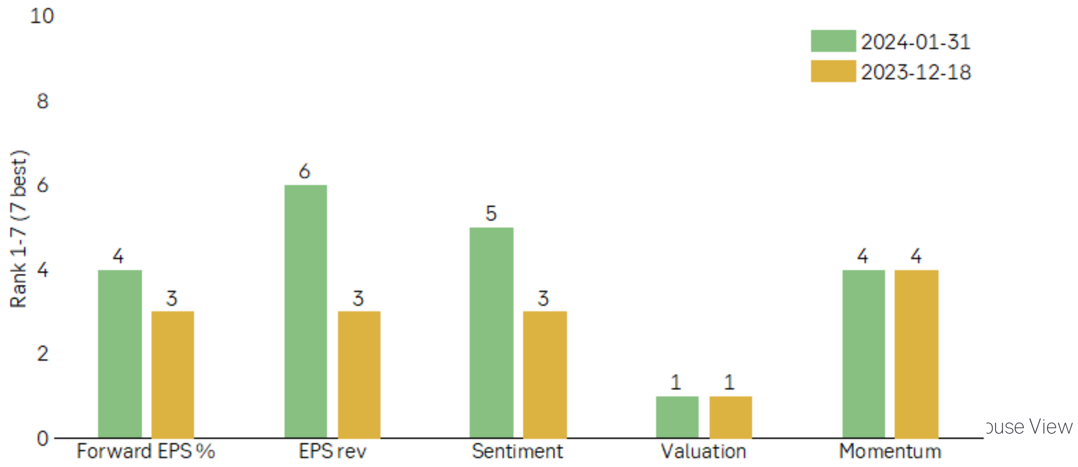
SEB

North America – Overweight

We prefer to stay overweight in the US due to expected solid earnings growth and the high likelihood of a soft landing which has historically benefitted stocks

- We expect the Fed to achieve a soft landing, avoiding a recession, which has historically been positive for US equity performance
- In addition, we anticipate rate cuts from the Fed this year due to a decline in inflation, which should boost US equity valuations
- Despite high valuations, US equities remain attractive due to their defensive qualities amid a global growth slowdown and rising geopolitical risks
- EPS revisions have been positive and we think EPS growth will improve this year, aided by growth from the Magnificent 7, likely driving US equity performance
- However, we also think there is potential in other regions like Europe with lower valuations that could catch up if they start to deliver earnings growth, we see earlier-than-expected central bank cuts or the tech rally fades

Figure 1: Contribution to House View Region Score



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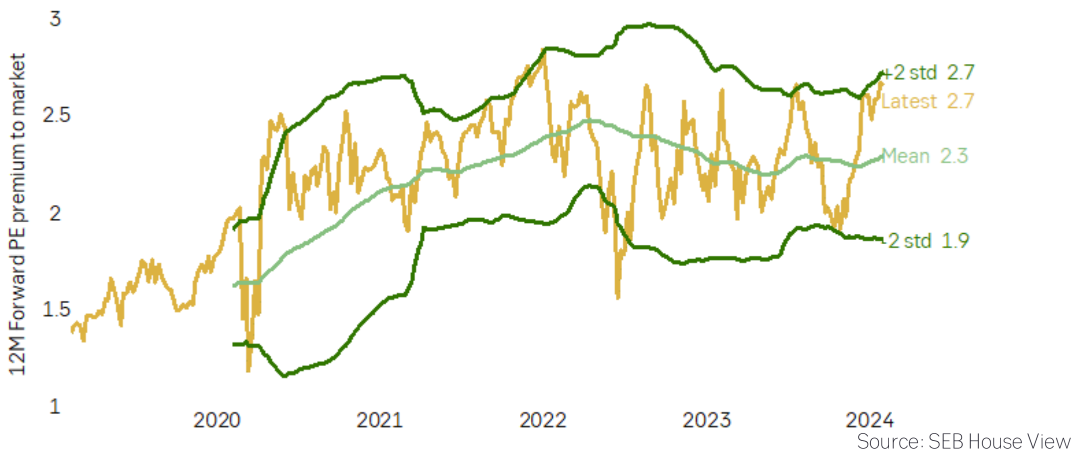
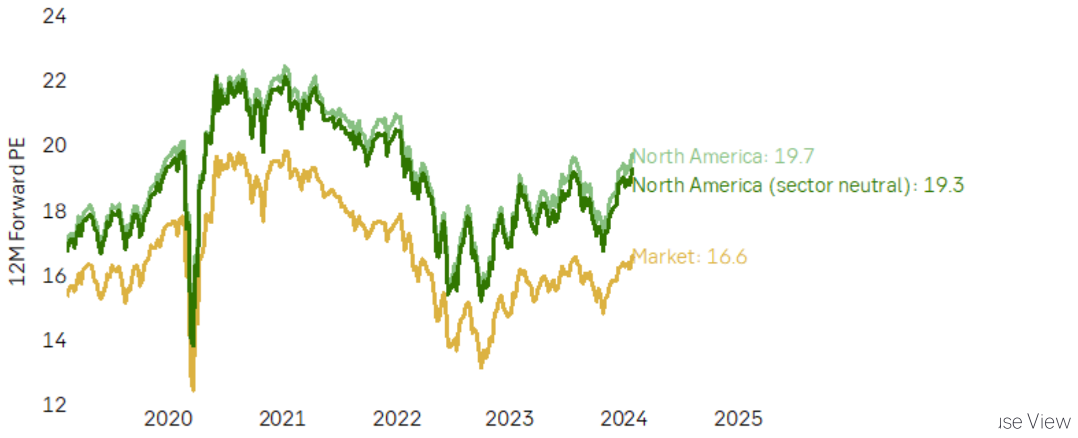


Source: SEB House View

Figure 3: Absolute valuations – Current constituents



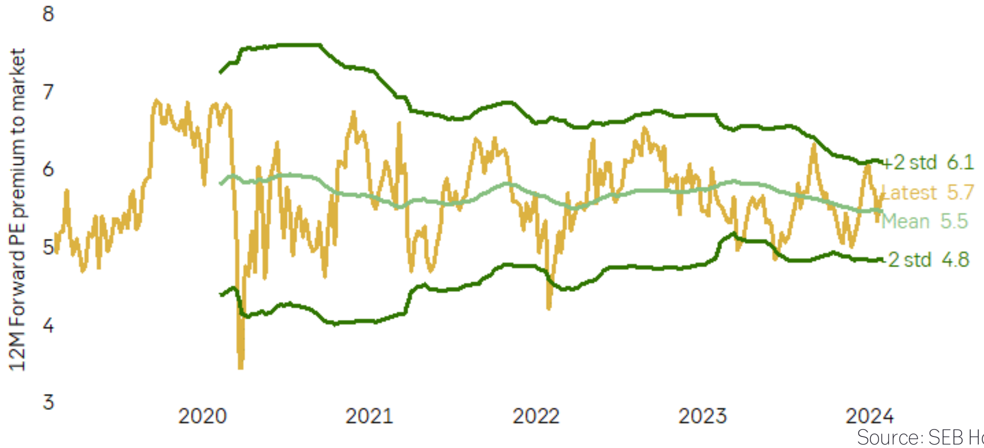
SEB

East Asia Ex Japan – Underweight

We chose to stay underweight in East Asia Ex Japan, as it achieves the lowest rank in our regional model while being heavily exposed to developments in China

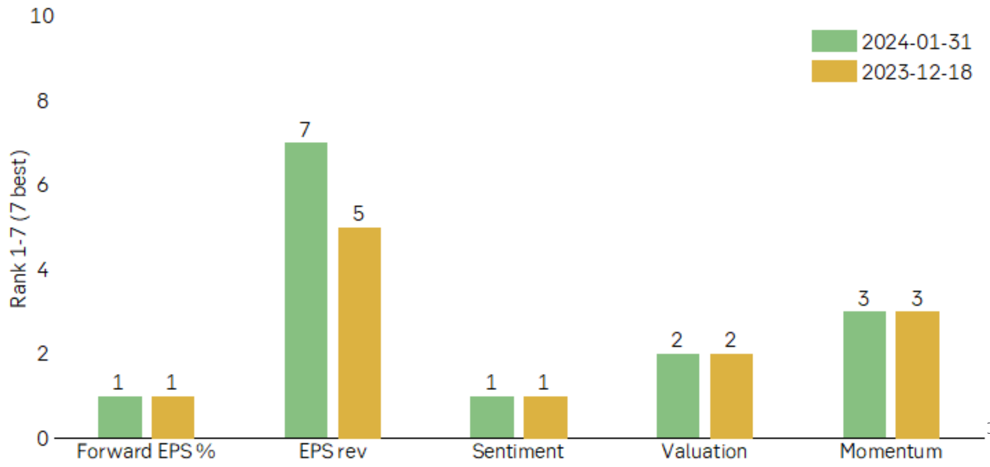
- In our regional model, the region continues to score the lowest in comparison to other regions
- 12M Forward earnings are dismal, but earnings revisions have improved
- The region mostly consists of Australia, which is heavily exposed to Chinese trade
- The region has lacked momentum, showing flat performance early in the year, trailing other regions
- **Therefore, we prefer to keep our underweight in the region**

Figure 2: Standardized relative valuation – Current constituents



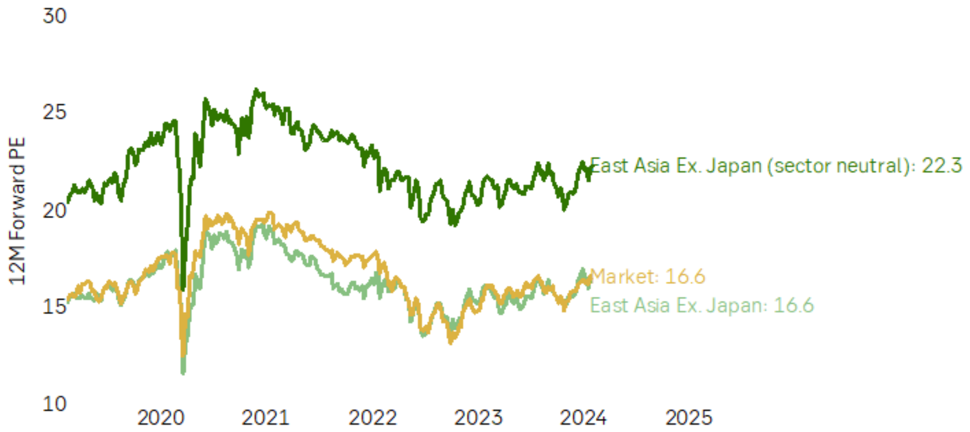
Source: SEB House View

Figure 1: Contribution to House View Region Score



ouse View

Figure 3: Absolute valuations – Current constituents



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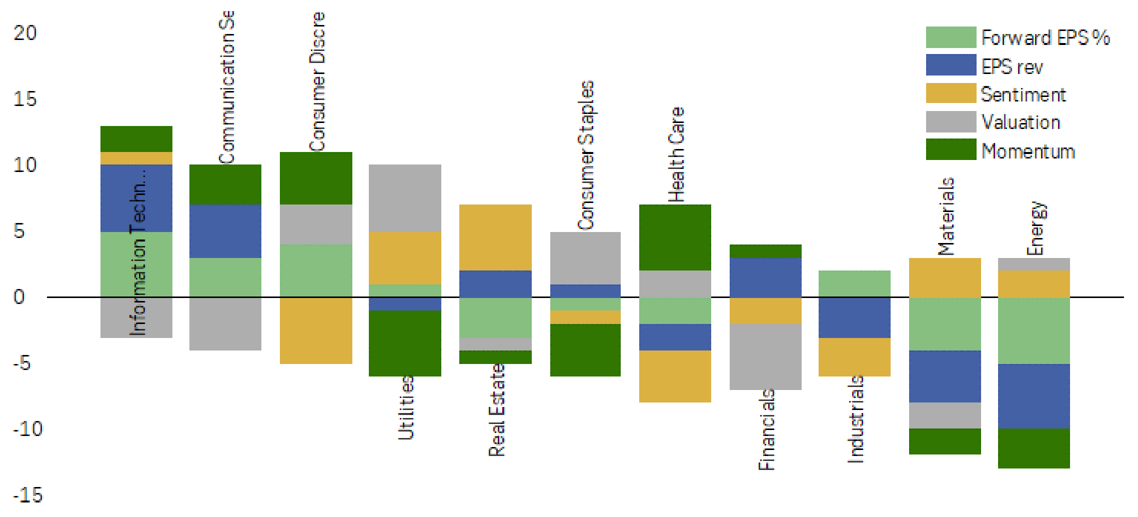
SEB

Sector Overview

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

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

Figure 1: SEB House View sector score



Source: SEB House View

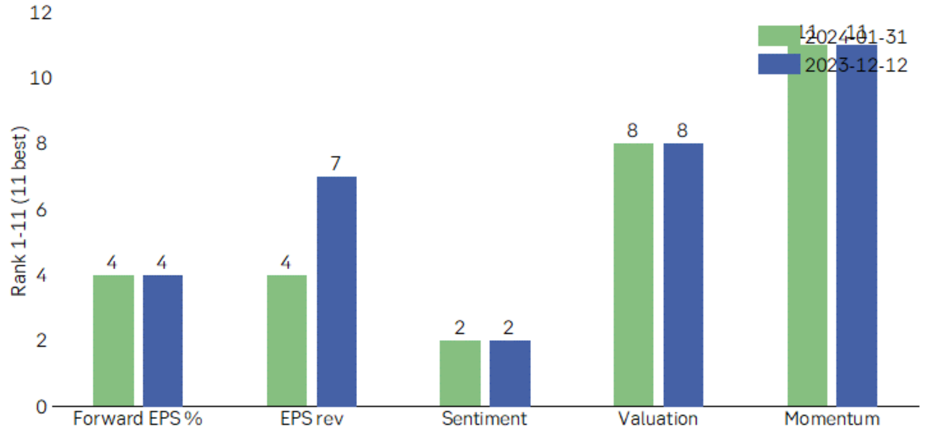
SEB

Overweight – IT, Consumer Discretionary and Health Care

We prefer to hold sectors with strong earnings and add a defensive tilt by increasing Health Care to an overweight and reducing Industrials to neutral

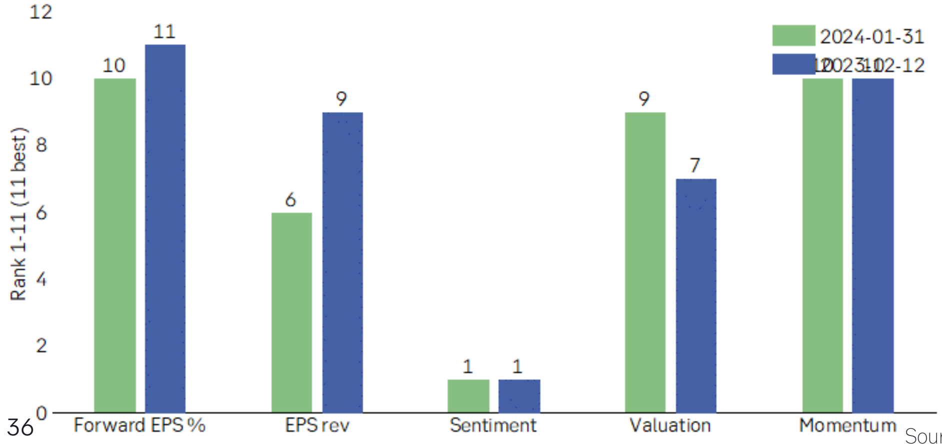
- Health Care has historically performed strongly during periods of falling inflation and is less volatile for rate swings. The sector signals strong positive momentum and so far the earnings season is showing strong positive earnings
- We lowered Industrials to a neutral as the sector score is low in our model due to weak earnings scores. Historically the sector tends to have weaker performance during a slowdown of the economy and CAPEX is low
- We keep our overweight in Consumer Discretionary, for the time being, as earnings are strong. Consumer spending is still strong, but with decreasing household savings and high prices there are some risks over a longer horizon
- We keep our overweight to IT due to strong earnings and we expect rate cuts and the AI trend to be supportive. The sector also provides downside protection due to its less cyclical nature

Figure 2: Our sector model signals strong momentum for Health Care as we enter late cycle. The sector has historically outperformed during periods of falling inflation



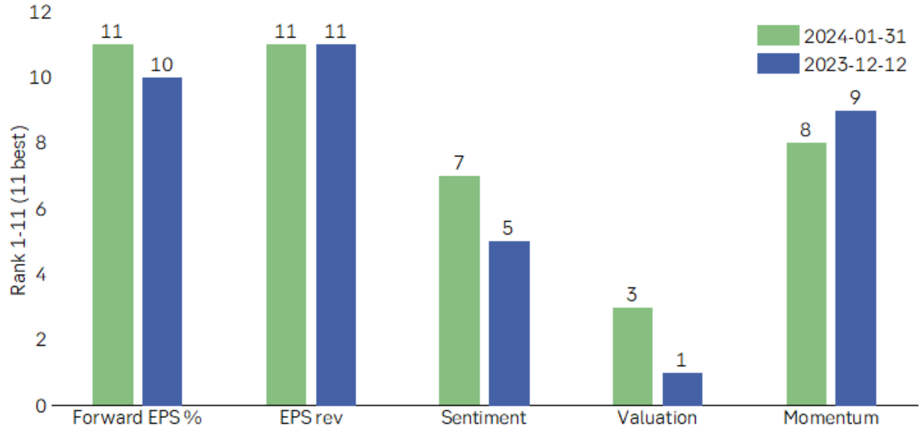
Source: SEB House View

Figure 1: The earnings growth outlook for Consumer Discretionary remains attractive



Source: SEB House View

Figure 3: IT earnings continued to surprise positively and keep a strong growth outlook



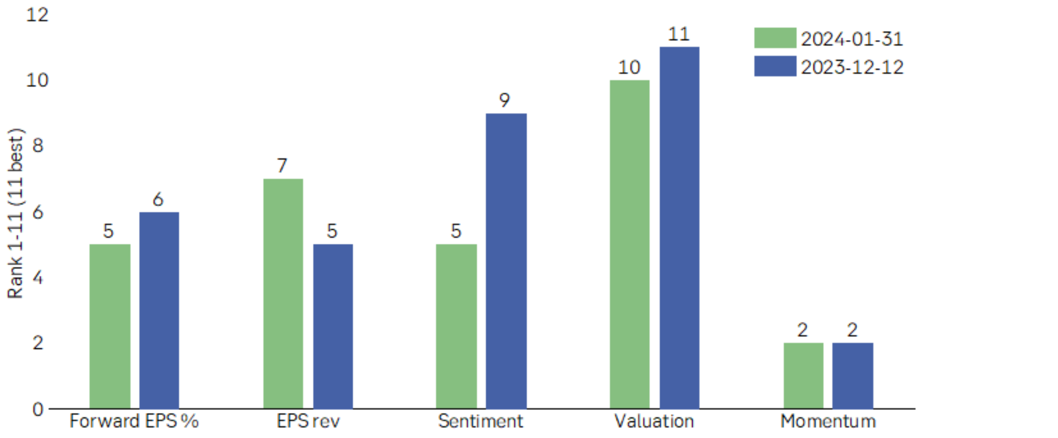
Source: SEB House View

Underweight – Consumer Staples, Utilities and Materials

We keep our underweights in Consumer Staples, Utilities and Materials for the time being as fundamentals are still not there to justify a change in allocation

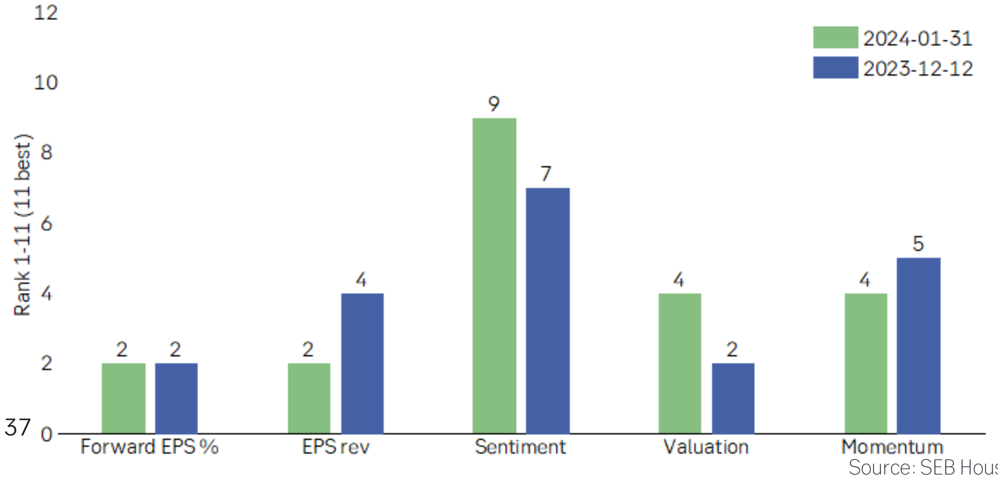
- Consumer Staples will likely underperform relative other sectors as long as the cycle holds up strongly. In case of a stronger downturn in macro indicators, the sector could become more attractive
- Utilities is also a sector that performs well during a weaker economy and as yields fall, but as the fundamentals are still weak for the sector, we prefer to keep our slight underweight to the sector
- We hold our underweight in Materials given the low earnings score and considering that we are entering a slowdown in the economy. Demand for materials will likely remain subdued as rates are dragging on durable goods and manufacturing surveys are still signaling a slowdown in the economy

Figure 2: Consumer Staples still has weak earnings outlook, but could potentially become more interesting as we enter the late cycle



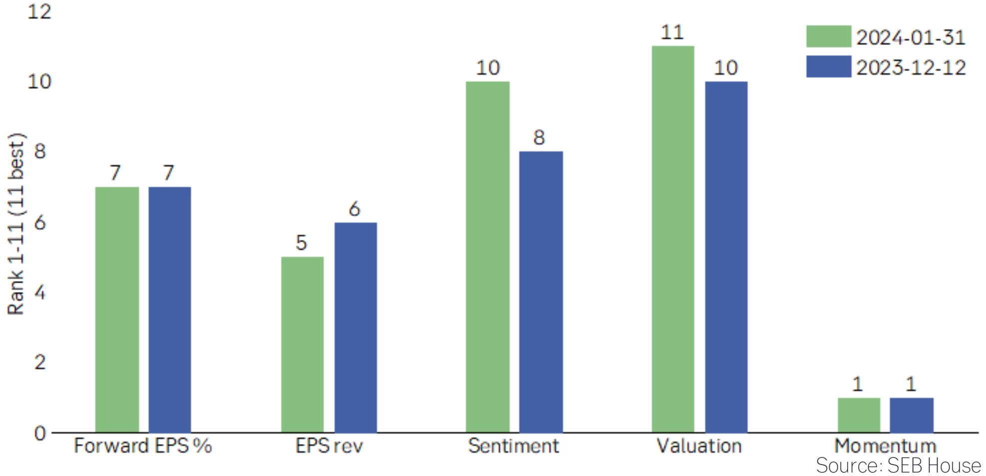
Source: SEB House View

Figure 1: Materials still has very low scores on earnings growth



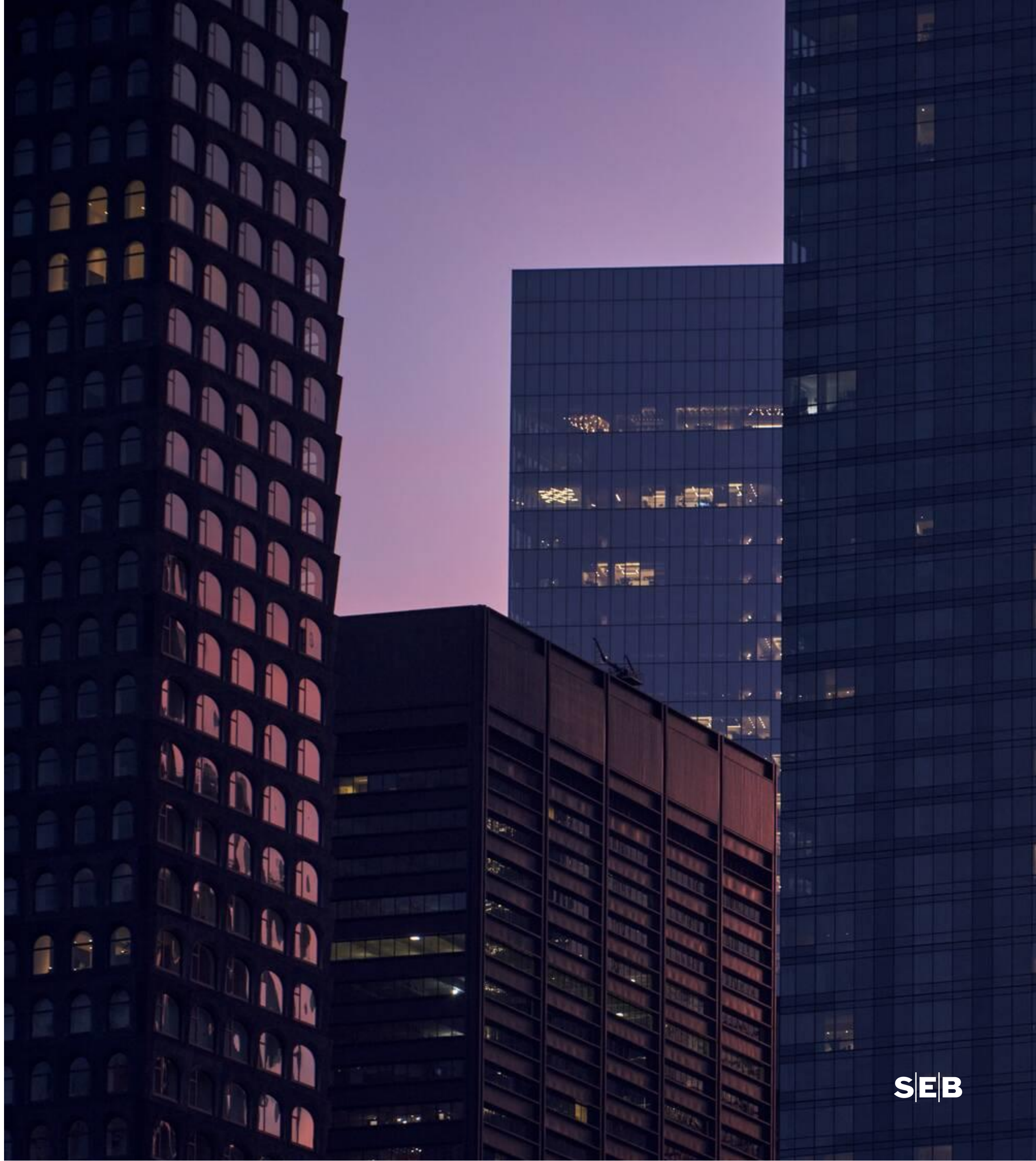
Source: SEB House View

Figure 3: Momentum for utilities has still not turned



Source: SEB House View

Agenda



US Inflation Heatmap

US Inflation Indicators

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

	2/2024	1/2024	12/2023	11/2023	10/2023	9/2023	8/2023	6/2023	6/2023	5/2023	3/2023	3/2023	2/2023	1/2023	12/2022	11/2022	9/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022	3/2022	2/2022
Economic Measures																									
Trimmed-Mean CPI			3.9	4.0	4.1	6,05	4.5	5.0	5.0	5.5	6.2	6.2	6.5	6.6	6.6	6.7	7.3	7.3	7.2	7.0	6.9	6.6	6.2	6.1	5.8
Core CPI			3.9	4.0	4.0	4.1	4.3	4.8	4.8	5.3	5.6	5.6	5.5	5.6	5.7	6.0	6.6	6.6	6.3	5.9	5.9	6.0	6.2	6.5	6.4
Core PCE			2.9	3.2	3.4	3.6	3.7	4.3	4.3	4.7	4.8	4.8	4.8	4.9	4.9	5.1	5.5	5.5	5.2	5.0	5.2	5.1	5.3	5.5	5.6
CPI			3.4	3.1	3.2	3.7	3.7	3.0	3.0	4.0	5.0	5.0	6.0	6.4	6.5	7.1	8.2	8.2	8.3	8.5	9.1	8.6	8.3	8.5	7.9
PPI			-0.2	-1.1	-0.4	2.3	2.1	-3.1	-3.1	-0.9	3.0	3.0	6.3	8.8	8.9	10.5	11.6	11.6	12.8	15.3	18.3	16.8	15.7	15.3	13.7
Sentiment																									
Michigan Expected Inflation 12M		4.6	4.5	6.1	6.3	5.3	5.6	5.2	5.2	6.3	5.5	5.5	5.9	5.8	6.6	7.3	6.4	6.4	6.5	8.2	8.2	7.4	8.2	8.0	6.0
Conf Board Expected Inflation 12M		5.2	5.5	5.7	5.9	5.7	5.7	5.8	5.8	6.1	6.3	6.3	6.2	6.7	6.6	7.1	6.8	6.8	7.0	7.4	7.9	7.5	7.5	7.9	7.1
ISM Manufacturing Prices Paid		52.9	45.2	49.9	45.1	43.8	48.4	41.8	41.8	44.2	49.2	49.2	51.3	44.5	39.4	43.0	51.7	51.7	52.5	60.0	78.5	82.2	84.6	87.1	75.6
ISM Manufacturing Supplier Deliveries		49.1	47.0	46.2	47.7	46.4	48.6	45.7	45.7	43.5	44.8	44.8	45.2	45.6	45.1	47.2	52.4	52.4	55.1	55.2	57.3	65.7	67.2	65.4	66.1
NFIB Higher Prices			25.0	25.0	30.0	29.0	27.0	29.0	29.0	32.0	37.0	37.0	38.0	42.0	43.0	51.0	51.0	51.0	53.0	56.0	63.0	65.0	63.0	66.0	64.0
Commodities																									
CRB Raw Industrials	-6.2	-4.9	-5.5	-2.4	-2.3	-5.0	-7.4	-10.1	-16.5	-17.7	-18.1	-14.8	-10.4	-12.1	-10.4	-14.4	-8.9	-4.6	-2.6	0.7	10.6	17.4	21.8	18.6	20.5
Metals	-20.1	-14.7	-16.9	-4.9	-1.8	-0.9	-4.7	-6.8	-23.2	-19.6	-25.2	-21.6	-3.4	-4.1	3.7	-9.5	-10.6	-9.9	-3.5	-2.9	20.1	26.0	50.0	37.0	35.8
Agriculture	-12.4	-8.7	-1.5	-5.2	-5.4	-2.1	5.0	0.2	-12.7	-12.7	-5.3	-8.3	7.3	13.4	9.1	16.3	17.4	19.8	12.7	15.9	29.1	30.3	42.5	41.6	28.9
Energy	-11.1	-21.1	-28.0	-22.2	-19.7	-30.9	-33.7	-36.3	-48.9	-41.6	-27.8	-17.5	-8.6	31.0	53.0	34.0	29.9	70.6	73.9	68.7	117.5	103.3	87.7	80.1	71.6
Wages																									
Hourly wages		4.5	4.3	4.3	4.3	4.5	4.5	4.7	4.7	4.6	4.6	4.6	4.7	4.6	4.9	5.1	5.1	5.1	5.4	5.5	5.4	5.6	5.8	5.9	5.3
Inflation components																									
Shelter CPI			6.3	6.7	6.8	7.1	7.3	7.1	7.8	8.1	7.6	8.1	8.0	7.8	7.5	7.1	6.2	6.7	6.3	5.8	5.5	5.1	4.8	4.5	4.3
Electricity CPI			3.3	3.4	2.4	2.6	2.1	3.8	5.4	5.9	9.2	10.2	12.9	11.9	14.4	13.9	13.6	15.4	15.6	15.2	13.7	12.0	11.1	11.1	9.1
Car Rental CPI			-12.1	-10.7	-9.6	-8.6	-6.8	-6.9	-12.4	-12.4	-8.2	-8.9	-0.8	1.8	-4.2	-5.7	-2.9	-1.2	-5.9	-12.1	-8.7	-1.6	9.7	23.4	25.3
Recreation CPI			5.6	4.8	5.7	6.4	6.1	5.4	5.9	5.8	5.6	6.0	6.3	5.7	5.7	5.4	3.1	4.1	4.2	4.5	4.7	4.8	4.4	4.8	5.1
Market Indicators																									
US 5Y Breakeven	2.2	2.2	2.2	2.3	2.3	2.2	2.3	2.2	2.2	2.2	2.5	2.7	2.3	2.4	2.6	2.6	2.2	2.6	2.7	2.6	3.0	3.2	3.4	3.3	2.8
US 5Y/5Y Breakeven	2.3	2.2	2.3	2.5	2.4	2.3	2.5	2.2	2.2	2.2	2.2	2.3	2.2	2.2	2.3	2.3	2.1	2.3	2.3	2.1	2.3	2.4	2.4	2.3	2.1

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

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