November 2020

Investment Outlook
Summary

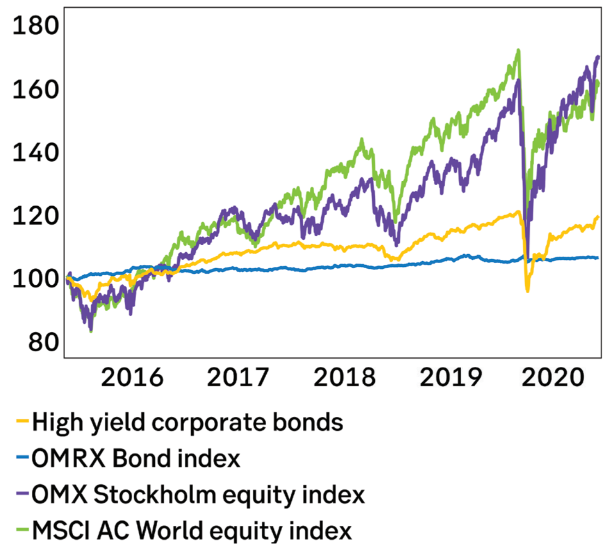
Recovery, temporarily interrupted

We will soon put a very difficult year behind us. The situation is now more stable, though we have suffered a new setback as the spread of COVID-19 increases. Encouraging indications about impending vaccines and a US election outcome that was well received by investors will help us feel more confident and lift our gaze to 2021 and 2022. We will gradually reopen our societies in 2021. If we react as we usually do, there should also be a pent-up need for consumption.

Shifting from emergency responses to forward-looking initiatives
The return to a more normally functioning society and a more robust economic situation will continue to be supported by central banks, which will ensure that there is plenty of liquidity in the system over the next few years and that key interest rates and government bond yields do not skyrocket. At the same time, we will see unusually far-reaching fiscal stimulus programmes. As the recovery strengthens, these programmes will shift from emergency responses to forward-looking initiatives, for example as part of a worldwide green transition.

Low interest rates and bond yields will mean few alternative sources of returns
The price of financial assets is now quite high from a historical perspective. However, this is balanced by a bright medium-term forecast for both GDP growth and corporate earnings. Interest rates and bond yields are also extremely low and are expected to remain so for some time to come, which means there are few alternative sources of returns. This will affect relative prices and create tolerance for higher asset valuations. Our investment portfolios are still positioned for rising stock and corporate bond markets, but historically high pricing is limiting the extent of our overweight in risk assets.

How different asset classes have performed



Source: Bloomberg/Macrobond

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

Investment areas with potential
As usual, Investment Outlook includes theme articles on current topics. The first is an in-depth look at dividends. Companies that pay high dividends have had a tough time in the stock market for some years, even though high dividends should intuitively be attractive when interest rates and bond yields are low.

Our second theme article describes a development stage that we call "Industry 4.0". It outlines what modern methods there are for running an industrial company today as efficiently and flexibly as possible, and which Swedish companies are at the forefront of these developments.

Read more on seb.se/investmentoutlookreport

Global equities

- Quarterly reports show surprisingly strong earnings performance, thanks to good cost control.
- A Democratic presidential victory and a divided Congress – relatively favourable for stock market performance.
- Hopes for COVID-19 vaccines are helping to drive cyclical companies.
- Relatively high valuations can be justified by low interest rates and yields , as well as earnings recovery.

Nordic equities

- Improved stability and predictability are favourable to equities and the economy.
- Vaccines are igniting hopes; the second COVID-19 wave is slowing the recovery but will not stop it.
- Significantly better earnings performance this year than previously feared.
- Revenge for dividend stocks in 2021?
- Environmental technology shares remain a smart choice, but no Green Deal is likely in the US.

Fixed income investments

- We expect long-term government bond yields to climb cautiously from historically low levels.
- We expect the European Central Bank to extend its QE programme until year-end 2021, despite powerful fiscal stimulus in the euro area.
- Opposition to negative key interest rates – combined with monetary stimulus – suggests continued low short-term interest rates.
- The search for returns will boost demand for corporate bonds, which CBs are also buying.

Return expectations, %, next 12 months (SEK)

Equities	**Return**	**Risk***
Advanced economies	8.8	18.0
Emerging markets (local currencies)	8.9	17.3
Sweden	8.9	18.1
Fixed income investments	**Return**	**Risk***
Government bonds	-0.3	1.4
Corporate bonds, investment grade (Europe/US 50/50, IG)	1.7	7.0
Corporate bonds, high yield (Europe/US 50/50, HY)	2.7	11.1
Emerging market debt (local currencies, EMD)	6.5	10.4
Alternative investments	**Return**	**Risk***
Hedge funds	3.5	7.0

*24-month historical volatility

Source: SEB, forecasts Nov 2020

Alternative investments

- Less extreme volatility levels have improved the return potential of hedge funds.
- Equity long/short funds benefited from the stable stock market upturn.
- The message of CB policies has meant a clearer investment landscape for macro funds.
- Historically low interest rates and yields remain a negative factor for many hedge funds.

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

There we also provide you with extra reading in the form of two interesting theme articles:

- Dividends – Revenge of the dividends?
- Industry 4.0 – Transformation will create opportunities

Investment Strategy
SEB
SE-106 40 Stockholm, Sweden