

Investment Outlook May 2025

Is the loss of momentum
temporary?



SEB

Contents

Introduction	3
Summary	4
Our market view	6
Our portfolio	11
Global equities	12
Nordic equities	15
Fixed income investments	20
Themes	23
Infrastructure investments	
Global trade	
International overview	32

Theme: Infrastructure

Infrastructure investments today are about future-proofing the quality of life and economies of billions of people worldwide. But what do these investments mean, why will they be important in the coming years and how can public and private capital work together to achieve the necessary results?

Read more on page 23 in our article about infrastructure.

[Introduction](#)[Summary](#)[Our market view](#)[Our portfolio](#)[Global equities](#)[Nordic equities](#)[Fixed income investments](#)[Themes](#)[International overview](#)

Is the loss of momentum temporary?

The last *Investment Outlook* was published right after Donald Trump's inauguration. Since then, his policies and various initiatives have been of central importance to political and economic assessments and to financial markets. Stock markets started this year on an optimistic note. But in response to increasing tariff initiatives and concerns, share prices movements became more volatile and turned negative. Market turmoil culminated in the weeks after "Liberation Day" on April 2, when Trump unveiled very large tariff increases. He then put many of these on hold when political and market reactions became too great. No one knows exactly how and when the tariff situation will be resolved. At this writing, markets seem to be showing some optimism. Negotiations are under way and are making progress in several places, and there is hope that Trump understands the harmful effects of tariffs, especially on the American economy. We could then avoid tariff levels that are excessively harmful to growth and markets. But given Trump's need to finance his promised tax cuts and his ambitions to move manufacturing to the US, tariffs are likely to be clearly higher in the future than historically.

Together with increasing uncertainty about future rules of the game for consumers and businesses, this implies lower economic growth forecasts.

Although recession can be avoided, it also means that corporate earnings projections need to be lowered. That journey has begun but is hardly over. Today's tough question comes in two parts: How much do forecasts need to be revised downward, and how much is being discounted by markets? The Q1 report season was fairly strong, but corporate managements signalled a tough situation and a risk of near-term weakness. American uncertainty has caused the US dollar to fall sharply, while the Swedish krona has appreciated against most currencies. Because a large proportion of global equity investments are dollar-related, the foreign currency component has lowered returns for a krona-based investor. That trend may continue, but we have already seen larger movement than for a long time. Unless the dollar starts to show strength again, the profit-generating capacity of US exporters will benefit, while the opposite will be true for European and Swedish exporters.

Surveys show that this year, professional investors have reduced their risk-taking, lowered the proportion of equities in their portfolios and moved capital from the US to Europe.

Our view is that investors are expecting further downward revisions in earnings but not a pure recession scenario, which is part of the risk picture. There is thus room for surprises in both directions.

In this genuinely uncertain situation, we are choosing to remain close to normal in our portfolios. We have a neutral allocation between equities and more stable asset classes, such as fixed income and alternative investments (in our case, hedge funds). In equities, we are slightly overweight in large US growth companies, combined with a Swedish equity portfolio with a certain focus on "value" stocks, which are more cyclical as a group.

Turning to our theme articles in this issue, one is called "Global trade – Major transition if world trade imbalances are to be adjusted". It highlights the problems inherent in what Trump wants to achieve: bringing US trade with the rest of the world into greater balance. Our second theme article is about the large investments needed to future-proof our society, under the heading "Infrastructure investments – a path to economic growth".

"In this genuinely uncertain situation, we are choosing to remain close to normal in our portfolios."

Fredrik Öberg
Investment Officer, Investments



Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Summary

Our market view

Since the last issue of *Investment Outlook*, the market climate has changed drastically. Optimism has been replaced by uncertainty and sharp volatility, with a clear turning point in early April when the US unveiled a new, confrontational tariff policy. Confidence in the American economy and policies has been shaken, leading to capital shifts away from the US to other countries, a falling dollar and weaker US stock markets. Meanwhile, the Swedish krona has appreciated, which has negatively impacted returns on global assets measured in SEK. Tariffs and geopolitics are slowing global economic growth, especially in the US and China, while interest rate cuts and stimulus measures, especially in Europe, are having the opposite effect. Earnings estimates are being pushed lower, and investors' risk appetite has declined. Despite some stabilisation, an uncertain global picture remains. We continue to see elevated risks in the short-term market situation.

Our portfolio

Because of the current uncertainty, we are avoiding large risks and are instead keeping the portfolio close to normal – with an even allocation between equities, fixed income and liquid alternative investments. In equities, we have a balance between Swedish and global stocks, with

US growth companies offsetting Swedish value stocks. In the fixed income sub-portfolio, we have a slightly longer duration and an underweight in high yield bonds in favour of more stable bonds. Our hedge fund exposure contributes to stability, especially in today's market climate. We regard keeping our portfolio close to normal as responsible, but at the same time we are actively looking for the next possible change as the market situation develops.

Equities and valuations

In local currencies, world stock markets have shown marginal changes, but Swedish investors have suffered losses as a consequence of krona appreciation. Uncertainty about the scale and impact of tariffs has contributed to lower earnings forecasts, especially in Europe. Meanwhile, US growth companies, mainly in the tech sector, are showing continued strength. Europe will benefit from new public investment packages. Their effects will be delayed, but value companies should be able to benefit. In the Nordic region, the market is under pressure from the same uncertainty, with clearly lower earnings forecasts. Nordic stock markets are attractively valued, and we see good recovery potential. But there is great uncertainty, and these markets will be strongly affected by political developments.

2.8%

Global growth in 2025

1.6%

Swedish growth in 2025

1.1%

US growth in 2025

Risks

There are many unanswered questions that make the risk situation unusually complex. Are we in a period of transition, where the world order is changing for many years to come, or are we seeing adjustments within the current system? The answers are still uncertain, and this affects many of the risks we try to assess in our forecasts and portfolios – questions such as whether US policies will lead to recession, whether tariffs will erode corporate margins, whether uncertainty will make both businesses and consumers more passive, and whether the world will become more divided and de-globalised are crucial. The future of the dollar as a reserve currency and whether these changes are temporary also play a major role. Although our main scenario includes no recession and predicts interest rate cuts, the complex risk situation is one reason we are limiting our risk-taking.

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Summary

Concerns about tariffs and slowing growth may dampen the stock market mood, but stimulus measures and interest rate cuts are providing hope in a genuinely uncertain environment.

Global equities

- Rapid krona appreciation has depleted the value of assets in other currencies for SEK investors
- Higher tariffs have a negative impact on growth and corporate earnings, but their effects are hard to assess
- Company reports beat expectations, but future earnings expectations have been lowered
- An increased focus on geographic diversification

Nordic equities

- Tariffs may be crucial for the Nordic stock markets and economies in 2025
- Stimulus measures in the EU and China provide hope
- Reversal of regulatory trend?
- Unclear picture from quarterly reports
- Earnings forecasts have been lowered

Fixed income investments

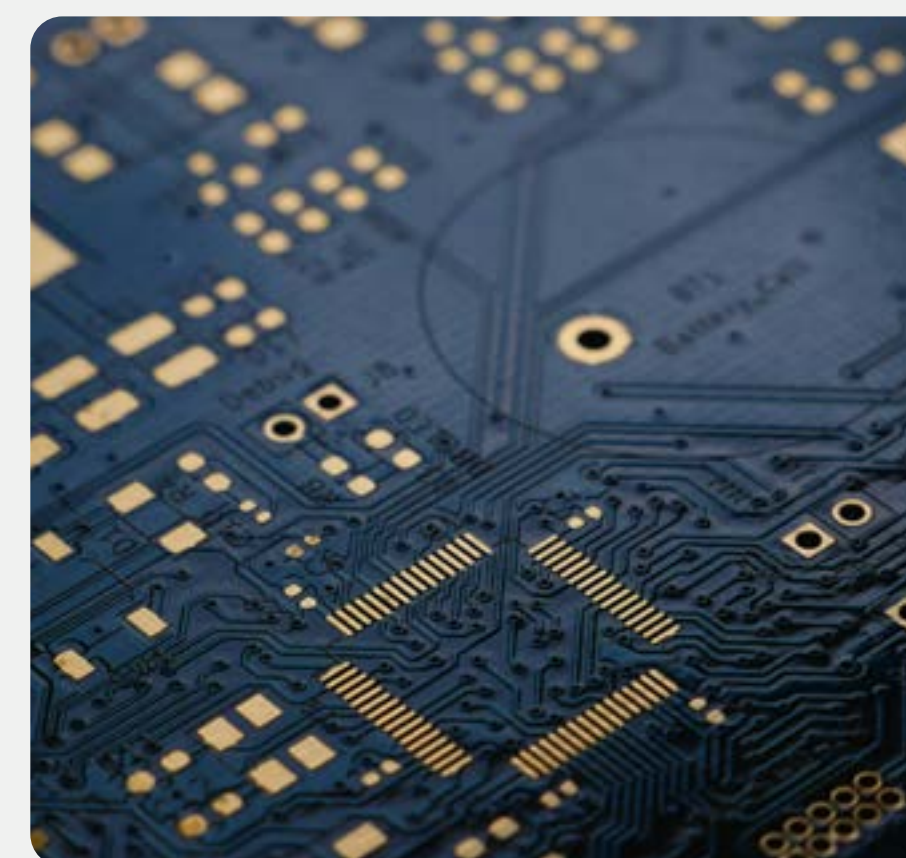
- Global fixed income markets remain shaky
- Tariff policies still the focus of attention
- Credit spreads have increased from low levels
- We expect central banks to keep cutting rates, but long-term yields are not falling

Theme: Infrastructure investments

- Infrastructure a vital factor for growth and competitiveness
- Countries around the world are launching new investment programmes
- A focus on digital and energy infrastructure
- Public funds not enough; private capital crucial to meet investment needs
- Private infrastructure attractive as a long-term investment

Theme: Global trade

- The US has had big trade deficits for many years
- The main reasons are high consumption and low savings – not weak exports
- Higher tariffs are expected to have a limited impact and may prove costly
- Balanced global trade is desirable, but requires actions by all parties





Our market view

Major uncertainty surrounding the economic policy situation (= tariffs) is having a negative impact on growth and earnings forecasts as well as investors' view of the future, while creating volatility in financial markets.

Lower forecasts are putting pressure on risk assets, while the possible easing of tariffs, lower key interest rates and stimulus measures outside the US are generating hope about longer-term developments.

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

A lot has happened since our last *Investment Outlook*. A long period of rising risk appetite and a positive outlook among investors has been replaced by great uncertainty about the future and strong volatility in the capital market. Tracking the date of the definitive breakpoint is easy. It occurred on April 2, “Liberation Day”, when Donald Trump gave a detailed account of what tariff policy the United States intends to pursue. Before he presented this message, the market’s focus was on positive driving forces, such as tax cuts and stimulus measures in other countries that could offset the effects of higher but reasonable tariff levels. Since then, the focus has been more clearly on creating a new world order in which the US will remedy what its government regards as the unfavourable situation that has prevailed for many years. In this view, America’s burden has included the following:

- The US dollar’s status as a reserve currency has led to an excessively strong exchange rate and thus competitive disadvantages
- America’s role as the world’s policeman has become very costly
- The US has a large, permanent trade deficit due to unfair trade policies by other countries
- Large running budget deficits because the US is hit by high tariffs when exporting and has low tariff quotas when importing

The medicine to cure these problems and get other countries to start repaying its accumulated debt consists of the following demands (among others) on the outside world:

- Accept much higher tariffs without countermeasures
- Buy more US products and services
- Take greater responsibility for their own defence and buy the materiel from the US
- Move production capacity to the US
- Pay a lump sum to the US

The response from other countries and capital markets was not what the US government expected. From an American perspective, the response was a combination of obstruction and pleas for the parties to meet at the negotiating table. Corporate executives pointed to

“Somewhat less strident tones from the US and earlier plunging share prices set the stage for the relatively strong stock market rebound that has since occurred.”

negative consequences for various parts of US business. In capital markets, risk aversion increased. Funds shifted from aggressive or riskier assets to defensive or safer exposures. We have experienced these movements many times before. However, the pattern was partly different this time, via a clear flow out of US assets and into those of other countries. The normal pattern is the opposite. Among other things, this caused the US dollar to fall sharply. US long-term Treasury yields rose, while government bond yields fell in other countries. US share prices fell more than those of Europe and Asia.

These developments can be interpreted in many ways, but one common interpretation is that confidence in the US has been shaken to the core and that the US would actually lose out on high tariffs against other countries. Add to this Trump’s decisions to withdraw from international partnerships such as the Paris Agreement and the World Health Organisation. A more in-depth analysis is presented in

our theme article on “Global trade”. What role will the United States play in the future?

The above reactions as well as criticism from leading economists and some CEOs of large US corporations have resulted in a pause on some of the highest tariffs and a somewhat gentler message from the US. One example of this moderation of the message is America’s call for “give and take” in upcoming negotiations on trade agreements. Somewhat less strident tones from the US and earlier plunging share prices set the stage for the relatively strong stock market rebound that has since occurred.

If we look at the financial markets and the asset classes we use in our portfolios, we see large differences between last year’s performance and developments so far this year, as shown in the charts on the next page.

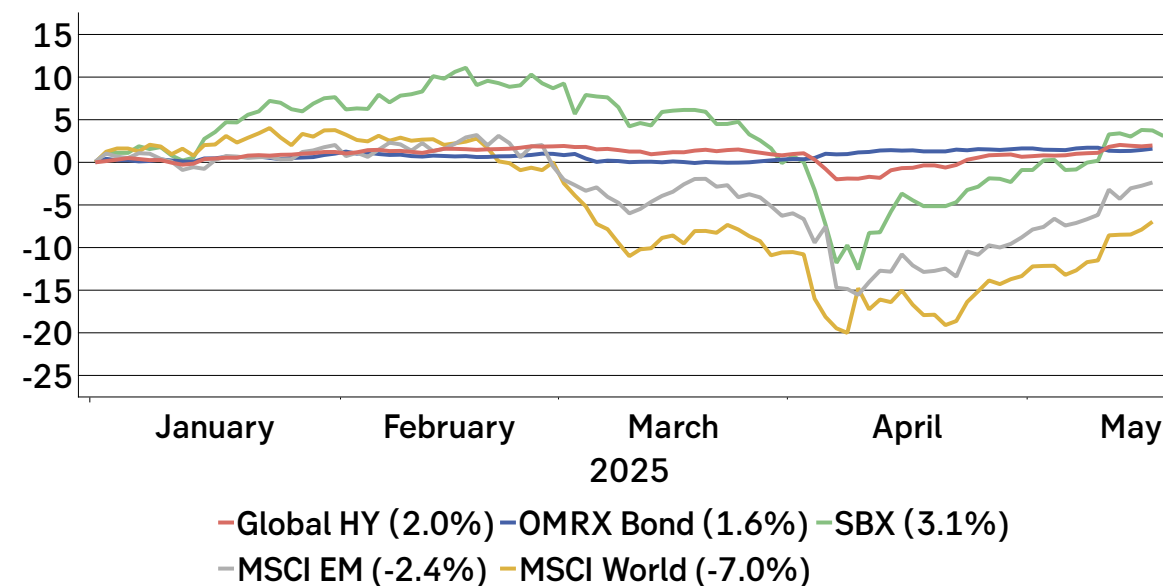
Our market view in brief

Since our last *Investment Outlook*, the market climate has changed drastically. Previous optimism has been replaced by uncertainty and sharp volatility, with a clear turning point in early April when the US presented a new, confrontational tariff policy. Confidence in the US economy and policies has been shaken, leading to capital movements from the US to other countries, a falling dollar and weaker US stock markets. Meanwhile, the Swedish krona has strengthened, which has negatively impacted returns on global assets measured in SEK.

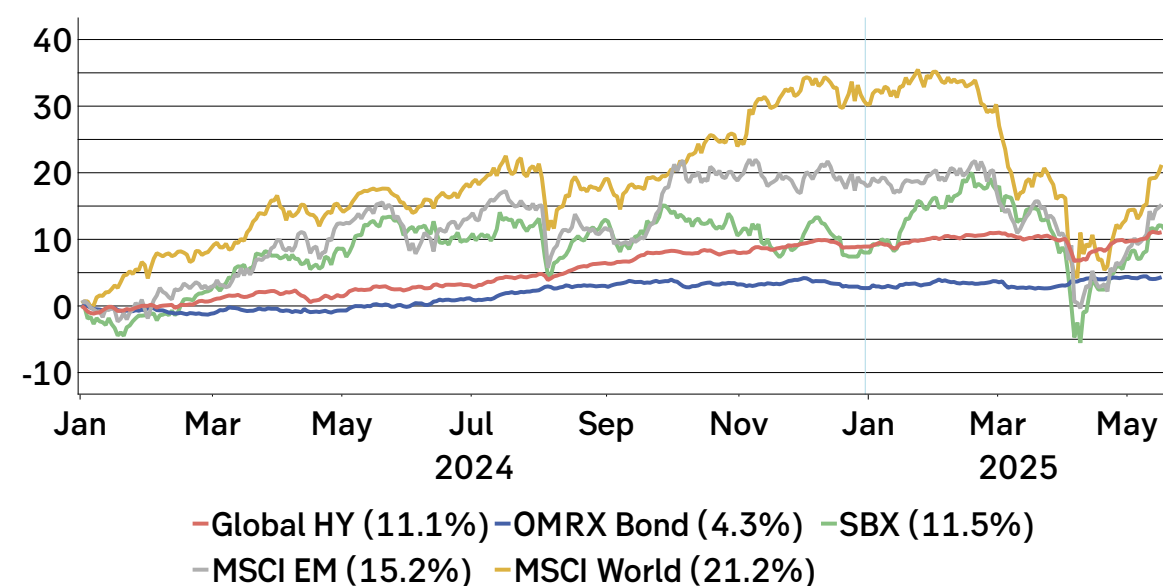
Tariffs and geopolitics are dampening global growth, especially in the US and China, while interest rate cuts and stimulus measures, especially in Europe, are having the opposite effect. Earnings estimates are being pushed downward, and investors’ risk appetite has declined. Despite some stabilisation, the global picture remains uncertain, and we continue to foresee elevated risks in the short-term market situation.

- Introduction
- Summary
- Our market view**
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview

This year, global equities are the worst of “our” asset classes, measured in SEK...



... long term, global equities are best, but all asset classes are in positive territory



Source: Bloomberg, Macrobond

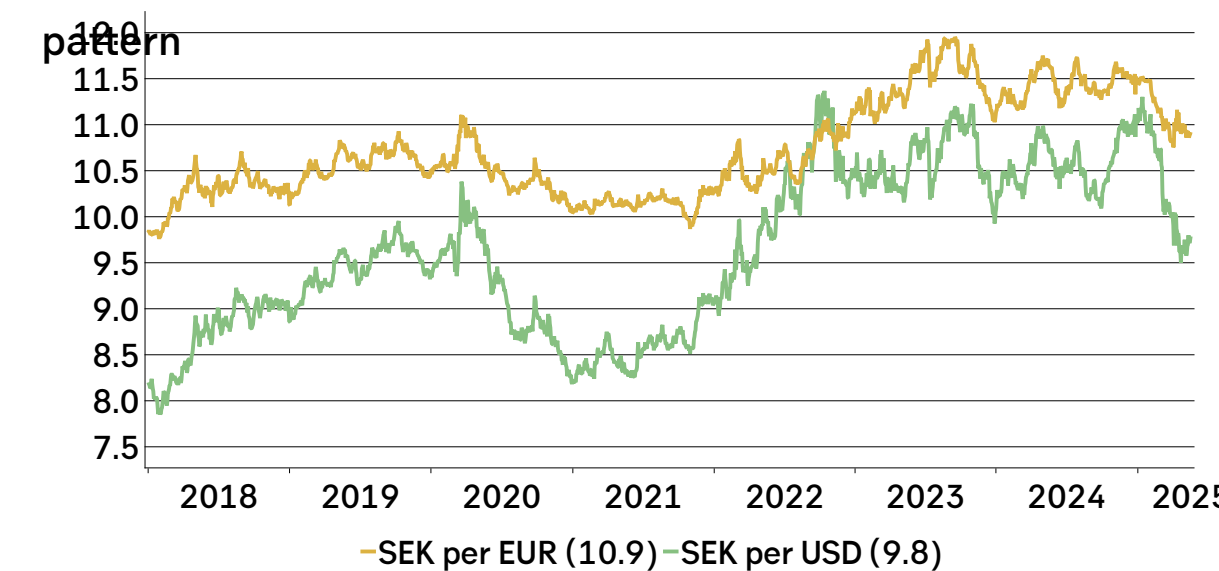
The charts show the 2024 and early 2025 performance of Swedish equities (SBX), the MSCI World Index and the MSCI Emerging Markets Index (MSCI EM) measured in Swedish kronor, as well as the Swedish fixed income index OMRX Bond and a global high yield index hedged to kronor.

In 2024, returns were very strong for all asset classes – especially global equities, which were helped by a very strong US stock market. Converted to Swedish krona, the return was even better due to a weakening of the SEK against both the EUR and USD. So far this year, the trend is the opposite. Stock markets have shown weakness, especially in the US. But the numbers are not especially large, and the main negative effect for global equities – which are at the bottom – is an inverse currency effect. A stronger Swedish currency erodes returns to SEK-based investors, measured in SEK. It is worth noting that the world’s largest stock exchange fell the equivalent of 20 percentage points from top to bottom in local currency between February and April. This is a significant correction in a historical perspective. As usual, credit spreads also widened, but the scope was more limited than normal in response to corresponding negative stock market movements.

The abnormally large and rapid exchange rate movements, especially between the USD and SEK, have had an unusually large impact on the total return for an SEK-based investor, in both directions. There is, of course, a risk that the krona may continue to gain ground against the dollar, but the appreciation of recent months has at least reduced the large undervaluation that many, including us, believed applied to the krona around the start of 2025. The dollar has previously been perceived as a safe haven and has risen in times of financial turmoil. For us Swedes, a surging dollar has offset the effects of falling stock markets. This time, however, the situation is the opposite, probably because declining confidence in the US and the dollar is at the epicentre of the problems. Whether it persists or markets return to the previous order remains to be seen.

Investors around the world feel a bit more secure after the recent stabilisation in equity and fixed income markets. Yet uncertainty remains high. Investors have definitely become less optimistic, as potential risks have come into sharper focus. We share this changed view of the future. We have lowered our global growth forecasts for 2025-2026 from a stable growth picture to a slowdown, in which the world economy nevertheless avoids a recession.

The USD has fallen while risk aversion does not follow the usual pattern



Source: Bloomberg, Macrobond

The chart shows the performance of the SEK against the USD and EUR. The SEK weakened during 2024 and then recovered sharply in 2025, especially against the USD.

Tariffs and uncertainty slowing the world

The rules-based international order, in terms of trade policy and economics, is in turmoil. Tariffs and geopolitics – and the uncertainty surrounding them – are driving sentiment, forecasts and markets. Unpredictable, hard-to-interpret initiatives and decisions by the White House have led to an unusually uncertain situation and global economic policy confrontation. The trade war will be without a winner, and the price of current US tariff policy will climb the longer it endures.

Global growth prospects are now clearly deteriorating among major economies, especially the US and China. The impact on the euro area is more limited. The downward revision in our 2025-2026 GDP forecasts due to tariffs totals about 1.5 per cent for the US, half that much for China and a few tenths of a percentage point for the euro area. Confidence in the US economy and policies – nationally and globally – is falling, and a large negative growth effect is due to economic policy risk and uncertainty. A large part of our downward revisions will thus not be reversed if tariff levels are lowered. Global GDP growth will end up a bit under 3 per cent yearly – low figures in a historical perspective.

- Introduction
- Summary
- Our market view**
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview

Tariffs result in wide inflation gaps between the US and the euro area. Euro area inflation will reach 2 per cent in mid-2025 as wage hikes – the previous inflation problem – slow down. The big gap, which will interrupt the US inflation decline – will be goods inflation that occurs when imports are subject to tariffs. This will raise price levels in 2025-2026, but we do not expect the effect to be permanent, since US inflation will approach target late next year.

Central banks face increasing complexity and are being forced to navigate a changing economic and political landscape. Inflation has fallen in many countries, but it remains above target. This raises some concerns about lasting changes in pricing behaviour. Inflation worries have increased, although generally stable inflation expectations allow manoeuvring room for monetary policymakers. We believe that interest rate policy – in the US and Europe, for example – has good potential to support growth and the labour market through further interest rate cuts during 2025 and 2026.

Downward revisions to our forecasts for global real GDP growth

	2024	2025	Rev*	2026	Rev*
United States	2,8	1,1	-1,3	1,3	-0,6
China	5,0	4,2	-0,3	4,0	-0,3
India	6,3	6,5	0,0	6,5	0,1
Germany	-0,2	0,2	-0,2	1,1	0,0
United Kingdom	1,1	0,9	-0,7	1,2	-0,2
Sweden	1,0	1,6	-0,6	2,9	-0,2
OECD	1,8	1,3	-0,6	1,4	-0,4
Euro area	0,9	1,0	-0,1	1,2	-0,2
Baltic countries	1,2	2,2	-0,1	2,4	-0,3
Emerging markets	4,4	3,9	-0,2	3,8	-0,4
World, PPP**	3,2	2,8	-0,4	2,8	-0,3

*Revised from *Nordic Outlook*, February 2025 ** PPP= Purchasing power parities. Source: *SEB Nordic Outlook*

“Tariffs result in wide inflation gaps between the US and the euro area.”

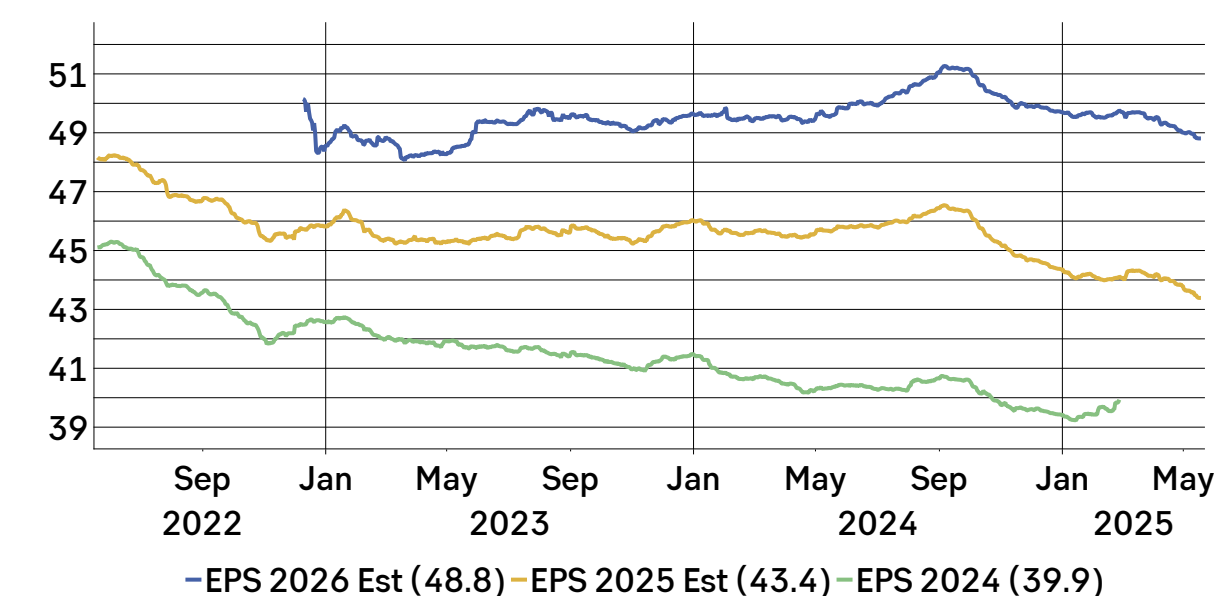
The likelihood of potential outcomes and a more detailed picture of economic developments are presented in our “International overview” section, which is an excerpt from the issue of *Nordic Outlook* published on May 6.

Lower growth and higher trade barriers will lead to less expected earnings growth

Lower expected growth rates for the next two years and higher trade barriers, such as tariffs that affect input prices and prices to end-customers, are unfavourable to corporate earnings delivery. The impact varies between regions and sectors and is hard to calculate because actual conditions are surrounded with great uncertainty. At this writing, 2025 earnings estimates on a global basis have been lowered from +13 per cent to just below 8 per cent. These revisions may well be adjusted further, with many analysts likely to await clearer conditions before making revisions. Today’s estimates are fairly close to historical averages, while the situation implies more headwinds. A reasonable assumption is that investor expectations are lower than today’s consensus estimates among analysts, as suggested by the fact that during 2025 the investor community has reduced its portfolio risk level and its exposure to the US.

Since downward GDP revisions are largest in the US and China, one would assume that the same would apply to the earnings revisions, but this is not the case. If we take the American example, there are counterforces. For example, export earnings are benefiting from a weaker USD, and the stock market includes many growth companies expected to continue to show low cyclical dependency and good earnings growth. In addition, the US stock market has a relatively large proportion of defensive companies.

The consensus estimate for 2025 earnings growth has been lowered to 8 per cent



Source: Bloomberg, Macrobond

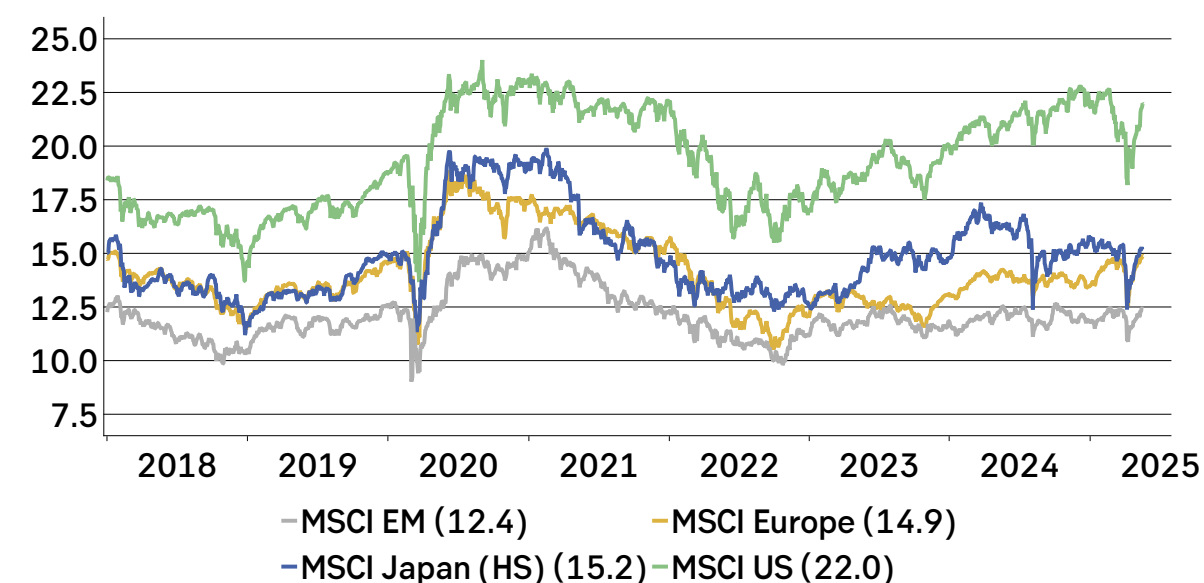
The chart shows how expected earnings in 2024, 2025 and 2026 have changed over time for the MSCI All-Country World Index. The difference between 2024 and 2025 corresponds to an expected earnings increase of just over 8 per cent.

Reduced risk appetite and valuations

Falling stock markets and shaky capital markets are never desirable. But they have one positive effect, which is that prices of financial assets fall and general risk-taking among investors decreases. This allows upside potential for the future. The recent period of market turmoil has lowered the prices of equities, especially in the US stock market, which many considered overvalued in the past. Other stock markets are basically at the same levels as before the latest turbulence. Read more about share valuations and our view of the stock market in the “Global equities” and “Nordic equities” sections.

- Introduction
- Summary
- Our market view**
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview

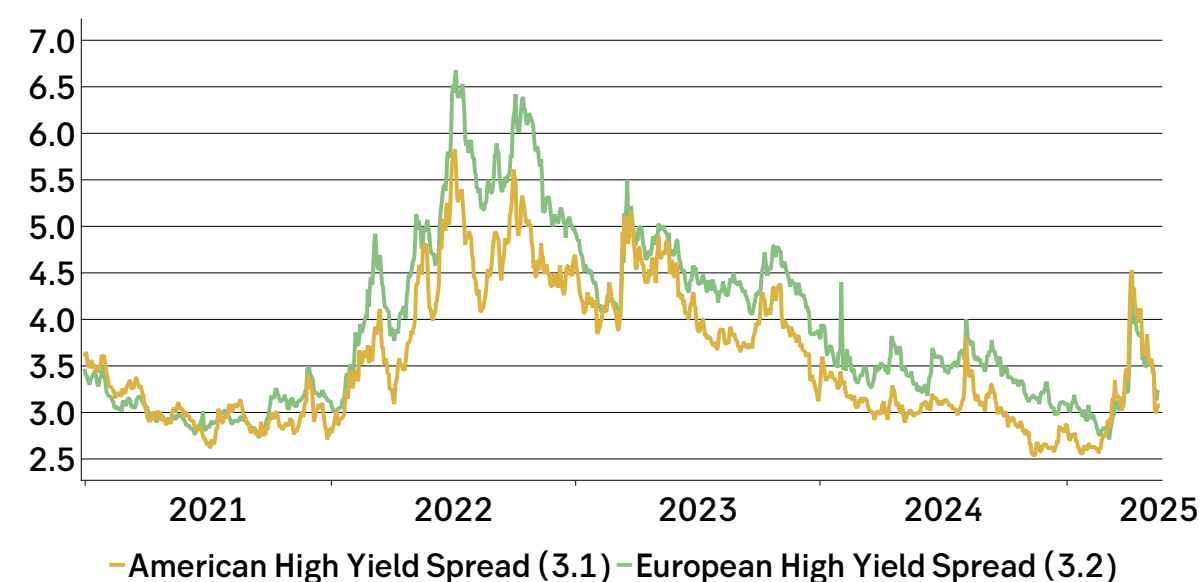
Lower P/E ratios in the US while other countries are unchanged



Source: Bloomberg, Macrobond

The above chart shows P/E ratios (valuations on a stock exchange measured as the ratio between share price and earnings). US stocks stand out with higher valuations than those of other countries. This is mainly due to successful US-based growth companies, which pull up the average.

Falling risk appetite is also reflected in wider credit spreads



Source: Bloomberg, Macrobond, Barclays

The chart shows the credit spreads that an investor receives in addition to underlying government bond yields when buying high yield (HY) bonds in the US and Europe, measured in local currency (i.e. without the currency hedging cost).

In the corporate bond market, corresponding effects are usually measured via credit spreads – the compensation that investors receive in addition to underlying government bond yields. This spread widened greatly as market turmoil worsened and has subsequently narrowed as this turmoil subsided. However, spreads today are clearly wider than at the beginning of this year. For a more detailed explanation, see our “Fixed income investments” section.

Messy risk situation

Many big questions remain unanswered, which makes the risk picture unusually complex. Are we in a period of transition, where the world order will change for many years? Or are we now seeing mere adjustments to the system in which we are used to operating? We do not know, and the answers will affect many of the risks we try to assess and take into account in our forecasts and in our portfolios. These include:

- Will the proclaimed policies of the United States lead to a recession?
- Will tariffs erode companies’ margins?
- Will uncertainty cause both companies and consumers to become passive?
- Will the US be a relative winner or loser when the new rules of the game become reality?
- Is the world becoming even more divided and de-globalised? What effects will this have?
- What will happen to the role of the US dollar as a reserve currency?
- Are all these just temporary changes that will trigger a Democratic victory in the 2028 US presidential election, and can things be partly reversed as a result of the 2026 midterm election?

Whether the above risks materialise remains to be seen, but the complex risk picture will help restrain our risk-taking, despite a main scenario of no recession and future interest rate cuts.



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Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Our portfolio

Given the unusually high level of uncertainty, we are keeping our portfolio weights close to normal.

The first four months of 2025 have seen great financial market volatility, mainly in the equities asset class. One world stock market index has shown large price movements, but below the surface, in many cases the shocks have in many cases been even greater – between regions, sectors and different types of stocks. In fixed income investments, there have recently been some headwinds, including slightly higher bond yields and widening credit spreads, both of which mean lower values for various types of bonds.

These large price movements reflect the fundamental uncertainty about the situation that has dominated the past few months and still prevails. In times of genuine uncertainty, such as now, we consider it unwise to take large risks in portfolio management in any direction. Instead, we have focused on maintaining a well-balanced portfolio that can both capture the potential of risk assets and withstand turbulent times.

We are thus close to normal in our allocation between equities and the more stable asset classes fixed income and liquid alternative investments, i.e. hedge funds. In equities, we also have a balance in our allocation between Swedish and global equities. Within these categories, however, we have some differences in profiles. In global equities we still maintain a small overweight in large US growth companies. In Sweden, the portfolio has a slightly larger element of “value” stocks, which are typically more cyclical. The difference between Swedish and global equities creates a balance in the overall portfolio and reflects our outlook for the future, where large American growth companies are well positioned to become winners

in an uncertain world including a US slowdown, while Swedish value and industrial stocks will benefit from a potential upshift in growth, especially in Europe.

In the fixed income sub-portfolio, we have relatively cautious positioning. Due to the risk of weaker economic activity and thus continued inflow to bonds, we have a slightly longer duration (maturity) in our portfolios. We are also underweight in riskier corporate bonds in the high yield segment, in favour of more stable investment grade bonds. Our sub-portfolio of liquid alternative investments continues to include a handful of hedge funds of a market-neutral nature combined with so-called macro hedge funds. In other words, they have no or little covariation with equities and fixed income investments, which means that they contribute stability to the portfolio, a beneficial factor in today’s volatile markets. In our allocation between fixed income investments and liquid alternative investments, we overweight the former at the expense of the latter. This usually provides higher stability to the overall portfolio during volatile periods. In addition, it compensates for the underweight we have towards purely defensive sectors in our equities exposure.

In uncertain times, we believe that having a portfolio without major deviations from a normal situation is a responsible way to manage our customers’ assets. But that doesn’t mean we are idle. We are constantly considering changes to adjust the balance of the portfolio in response to shifts in the market, and we are actively looking for the next possible major change in order to capture market potential as the picture clears.

Our portfolio in brief

The first four months of 2025 were characterised by high financial volatility, especially in equities, where movements were extensive both between regions and within different types of companies. The fixed income market has also faced headwinds, in the form of slightly higher bond yields and widening credit spreads. Because of the prevailing uncertainty, we are avoiding large risks and instead keeping the portfolio close to normal – with an even distribution between equities, interest rates and liquid alternative investments. We have a balance between Swedish and global equities, with US growth companies offsetting Swedish value stocks. In the fixed income sub-portfolio, we have a slightly longer duration and an underweight in high yield bonds in favour of more stable bonds. Our hedge fund exposure contributes to stability, especially in today’s market climate. We regard keeping the portfolio close to normal as responsible, but at the same time we are active and looking for the next possible change as the market picture evolves.



Fredrik Öberg
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- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities**
- Nordic equities
- Fixed income investments
- Themes
- International overview

Global equities: Selective opportunities in an uncertain market environment

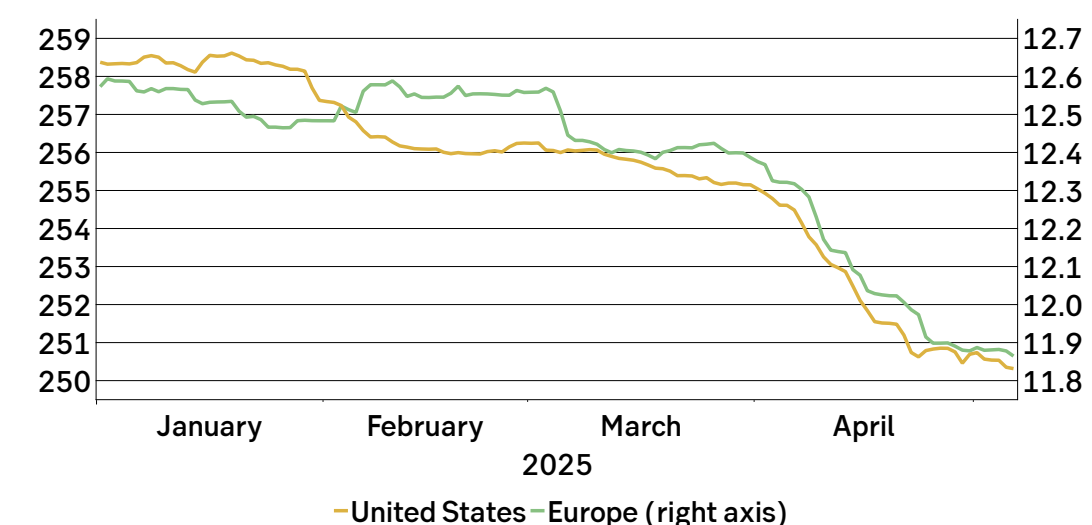
The year began with sharp fluctuations on the world’s stock exchanges. Political turbulence and concerns about the effects of trade barriers are putting pressure on growth and earnings forecasts. Meanwhile, signs of strength in certain sectors and regions are opening the way to selective opportunities.

So far, the stock market year has been turbulent – to say the least – and has shown several different faces. The first 5-6 weeks were characterised by some optimism, especially about European equity markets, driven by low valuations and better growth prospects. Then US President Donald Trump’s various policy initiatives created uncertainty, causing stock markets to fall. These headwinds became storm winds when Trump unveiled his extremely high tariffs on April 2, only to be replaced by a relief rally when he backed away from some of his tariff ideas.

The overall result is that since the beginning of 2025, world stock markets have only shown a marginal decline, with the US as one of the losers and broad European indices among the winners. Measured in Swedish kronor, however, the picture is different. For Swedish investors, the recent large and rapid appreciation of the krona has meant that the values of assets in other currencies, especially the weak US dollar, have fallen significantly more. In SEK terms, the world equity index is currently down 13 per cent. It is rather obvious that tariff worries are behind the volatility and stock market weakness. Higher tariffs will hurt economic growth and listed company earnings. But the effects are hard to assess. First, we do not know how high the tariffs will actually end up and how other countries will respond. Second, we do not know what

the total impact will be on demand. Third, we do not know to what extent companies will be able to adapt and compensate. But earnings forecasts for this year will more than likely need to be lowered. This has already happened to some extent. Right now, US large-cap earnings (S&P 500) are expected to increase by about 8 per cent, while in Europe (Eurostoxx 600) they will end up only slightly above 0. This means downward adjustments in the range of 3-5 per cent.

This year’s earnings forecasts have been gradually lowered



Source: Bloomberg

The chart shows the 2025 earnings forecasts (earnings per index unit) for MSCI US (left-hand scale) and MSCI Europe (right-hand scale).



Global equities in brief

The stock market year began with some optimism, especially in European markets, where low valuations and hopes of increased growth provided support. But this positive mood was quickly replaced by uncertainty, especially as a consequence of Trump’s aggressive tariff initiatives, which created great volatility and exerted downward pressure on stock markets. In local currency, world stock markets have shown marginal changes, but for Swedish investors, strong krona appreciation has led to significant losses. Uncertainty about the scale and impact of tariffs has contributed to downward revisions in earnings forecasts, especially in Europe. Meanwhile US growth companies, mainly in the tech sector, are showing continued strength. Europe will benefit from new investment packages, whose effects will be delayed, but “value” companies should benefit. Longer term, we expect Europe to become more attractive than before. Broad risk diversification and a focus on quality continue to characterise our portfolios in today’s uncertain stock market climate.

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

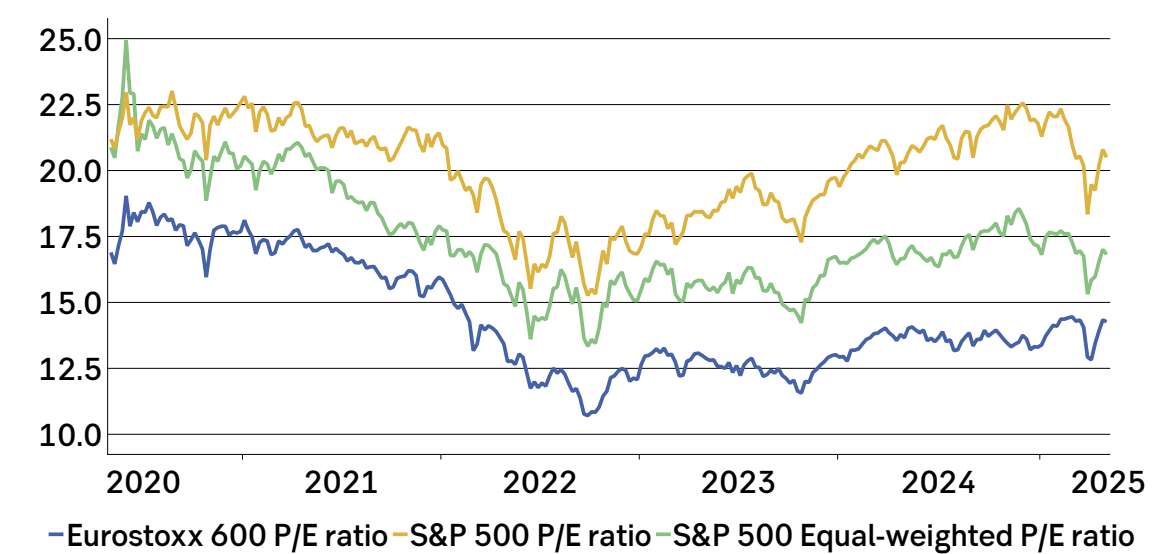
The latest report season showed continued rather good earnings growth, as so often with large US growth companies (“Big Tech”) as the driving force. It should be noted, however, that the last quarter ended before Trump’s tariff announcement. In their quarterly reports, many companies pointed to a great deal of uncertainty in the coming quarters. Their forecasts are likely to be lowered a bit more, but assuming that the economic slowdown does not turn into a recession, earnings need not fall at an aggregate level.

The higher earnings growth of large growth companies will account for continued higher US earnings. These companies also report that they are sticking to their ambitious investment plans, including those connected to artificial intelligence (AI), which bodes well for the future. But for other American companies, the outlook is less bright, assuming that tariffs will hit the US economy hardest. Currency movements can help, however, with a weaker dollar supporting earnings growth via exports, while the opposite will be true of Europe with its stronger euro. In Europe, already approved stimulus and investment packages will make a positive contribution, but it will take time to launch such initiatives and benefit from their favourable effects.

If we look at how stock markets are valued, we see clearly higher price-earnings ratios in the US than in Europe and emerging market (EM) countries. But this may be explained by large growth companies, whose higher valuations and outsized market weight pull up valuations. The “normal” P/E ratio is around 20. If we instead assign equal weight to all companies in the index (so that large companies have less impact), the P/E ratio ends up around 17. The corresponding figure for Europe is 14, which means that the difference in valuations is at normal levels. Of course, we might ask whether Big Tech is overvalued, but looking at earnings trends, market positions and the strength of corporate balance sheets, we think its higher valuations are justified.

“In the long run, however, Europe may become more attractive relative to the US than it has been.”

Continued higher valuations in the US



Source: Bloomberg

The chart shows the changes in P/E ratios among US listed large caps, represented by the S&P 500 and the equally weighted index S&P 500 (all companies having the same weight in the index) as well as Eurostoxx 600, a European large-cap equity index.

In the long run, however, Europe may become more attractive relative to the US than it has been. Pressure from the US on several levels is creating a stronger sense of community and more joint investments, especially in defence. Germany is at the forefront here, with major stimulus programmes both in terms of general investments and defence. More focus on growth and investments and less focus on regulations will lead to a better business climate. This has been noted by some professional investors, who have increased their exposure to European equities during 2025 at the expense of US equities. Investors have also adjusted their overall risk level by holding a

lower proportion of equities and a higher amount of cash. All else being equal, this should be regarded as a positive factor for stock markets, since the need to sell decreases and investors’ scope to buy increases. But so far, the movement has not been so large as to reverse the current trend. Portfolio allocations are still quite close to their neutral weights.

Given the above situation, we see good reasons to own both European and US stocks. However, there are arguments in favour of different orientations depending on geography. In the US, we see growth companies as still attractive, for the above-mentioned reasons. In Europe, we prefer “value” companies because of their attractive valuations, but also because their overall cyclical nature means they should benefit from better growth prospects in the future.

In emerging markets, the picture is fragmented. Many obviously different countries are included in EM indices. A weak USD and US interest rate cuts are usually good for these stock markets in general, while macroeconomic concerns and declining risk appetite point in the opposite direction. In China, the largest of the EM countries, stock exchanges have held up quite well, supported by some good news in the technology area, such as AI models and car batteries. But growth is being squeezed by US tariffs and China’s own slowdown. Stimulus measures are likely, but it is unclear whether they will be enough. Share valuations are relatively low, which is appealing, but the situation is hard to assess, especially regarding tariffs, which suggests a cautious investor attitude in the near term.

[Introduction](#)[Summary](#)[Our market view](#)[Our portfolio](#)[Global equities](#)[Nordic equities](#)[Fixed income investments](#)[Themes](#)[International overview](#)

Aside from geography, type of company and the value/growth factor, company size is a dimension for investors to consider. In the short term, when choosing between large and small companies, it is natural to prioritise large companies and high quality. These are generally more financially stable, which is usually appreciated in troubled times when growth forecasts are being lowered. Later on, lower interest rates and economic recovery suggest smaller companies. They also have attractive valuations in relation to large companies, but we do not consider it urgent to buy small caps right now.

Overall, we expect stock markets to face some headwinds in the near term, with general uncertainty and lower earnings forecasts. But the prospect of a brighter outlook, with lower key interest rates and better growth, should provide support for stock prices. We are maintaining good risk diversification between geographies and types of companies, without excessive deviations from the normal situation – a strategy that usually proves useful in troubled times.



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Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Nordic equities: A focus on tariffs

A continued shaky but essentially sideways trend is our main scenario for the rest of 2025, although there is great uncertainty and room for far more negative as well as more positive scenarios. Unfortunately, a great deal depends on policy measures that are hard to predict and on the psychological state of financial markets, companies and households.

High political risk

There are plenty of storm clouds on the horizon that could shake up the market again during the year. Ongoing negotiations between the United States and its trading partners around the world risk leading to renewed market turmoil unless the US shows itself willing to make significant downward adjustments in its so-called reciprocal tariffs in exchange for various concessions from other countries. Aside from country-specific tariffs, there is also uncertainty about imminent sector-specific tariffs; so far these have only been quantified for the automotive industry and steel/aluminium. Tariffs have not yet been set for pharmaceuticals, semiconductors, wood products and copper.

Probably the most devastating scenario for the stock market is one where more countries follow China's example and take countermeasures, resulting in new responses from the US, ultimately leading to a breakdown in all trade.

The European Union has prepared a package of measures that the media has called its trade "bazooka", which could be used against the US. Corporate executives familiar with the content of the package

are most often far more concerned about EU countermeasures than US tariffs. The bazooka includes measures such as invalidating US intellectual property rights in the EU and suspending all EU use of software from American companies. We assume for now that the enormous damage this would do to the European economy will prevent the use of this absurd "weapon", regardless of how much the trade war escalates. In the unlikely event we end up in a situation where the market starts to fear an escalation as described above, the stock market will tumble much lower than it did in April.

Will deregulation promote growth?

Prior to the announcement of its so-called reciprocal tariffs, the US released a lengthy report on what it considers to be trade obstacles (non-tariff barriers) imposed by other countries on American exports. The section on the EU includes a small number of direct tariffs on US goods such as 26 per cent for fish and shellfish and 22 per cent for trucks. Following this are 32 pages of various non-trade barriers, in particular a large number of lengthy regulations. There is a clear overlap between regulations the US believes are trade barriers and the regulatory frenzy that – according to Mario Draghi's recent report



Nordic equities in brief

The trade dispute is creating uncertainty in financial markets and adversely affecting economic conditions. The most positive scenario for the stock market is probably one where the EU-US trade dispute leads to more deregulation in Europe, while the US backtracks on tariffs for the region. Unfortunately, there is room for far more negative scenarios, a number of which have a higher probability. Companies are uncertain and are taking a wait-and-see approach due to tariffs and the trade war. Earnings forecasts for SEK-based investors have been lowered significantly over the past three months, mainly because of the stronger krona and a deterioration in economic conditions. Banks have done well, outperforming the stock market this year. That trend may very well continue but is threatened by the risk of faster key interest rate cuts. Real estate companies benefit from lower interest rates yet have been one of this year's losers on the Stockholm stock exchange. There should be room here for upward valuations of companies that can handle the increased vacancy risk. The Nordic stock markets are attractively valued, and we see good recovery potential. But there is considerable uncertainty, which will be greatly affected by political developments.

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

on the future of EU competitiveness – has had a large negative impact on EU productivity. It is not just the US and Draghi who consider EU regulations to be trade barriers and a burden on productivity; both large and small companies have frequently confirmed this. Even some of Sweden's biggest industrial corporations note that certain suppliers outside the EU prefer not to sell to them rather than adapt to the EU's Corporate Sustainability Reporting Directive (CSRD) and Carbon Border Adjustment Mechanism (CBAM).

Even before Trump fired the first salvo in the ongoing trade dispute, the EU unveiled a programme in February to reduce the bureaucracy created by a number of new sustainability-related regulations. According to the Omnibus Simplification Package, the administrative burden due to CSRD and other areas will be reduced by 25 per cent for large companies and 35 per cent for smaller companies.

A dream scenario for the stock market and European companies would be if the EU could placate the US into reducing the proposed tariffs in exchange for further reducing regulations and perhaps completely eliminating some. After the regulatory frenzy that has prevailed over the past decade, there is definitely room for more simplifications than were presented in February's Omnibus Package. Not only would that reduce costs for US companies that want to export to the EU – the biggest winners would probably be European companies. Discussions are under way, but it remains to be seen what the outcome will be.

While the scale of productivity-stifling regulations on the other side of the Atlantic pales in comparison with the EU, deregulation was in fact one of the Republicans' most important issues in the 2024 US presidential election. Promises of deregulation in a number of sectors, especially finance, were also a strong factor contributing to an improvement in US business sentiment in November/December 2024. So far not much has happened on that front. But keeping in mind the 2026 midterm elections and the rapid economic deceleration we now see in the US, this and other measures to promote business activity will be near the top of the agenda over the next six months.

“Earnings forecasts have been revised downward significantly over the past three months, mainly for Sweden but also for the Nordics generally”

Companies are taking a wait-and-see approach but are not afraid

In the latest round of quarterly reports, there was a great focus on tariffs and the trade war. Even companies that have no direct exposure at all to trade flows between the US and the rest of the world often took time to describe how they are exposed to various indirect effects. Few or no companies can do business in an environment where new tariffs are implemented with lightning speed and planned tariff levels may fluctuate 25 percentage points up and down again within a 24-hour period. Neither sellers nor buyers are especially keen on making deals where factors beyond their control can change the price by far more than the profit margin companies make on these deals.

We have already seen the consequences of this in new order bookings for trucks in North America, which plummeted 52 per cent compared to April last year. New order bookings were the lowest since spring 2020, when the COVID pandemic struck, and we have not seen the same annualised rate for a full year since 1991.

Hopefully, we will not have to extrapolate what this level will be. We will probably see a recovery as soon as companies are reasonably certain about the assumptions they base their investment decisions on. While tariffs as such may be expected to lower growth and temporarily boost inflation in the US, it is actually this uncertainty that has brought investment decisions to a complete halt for now.

Some Swedish companies with significant international goods flows and US sales consider Trump's global 10 per cent minimum tariff to be a lesser problem than the currency fluctuations they are forced to manage on a regular basis. The companies that will truly feel the squeeze are those that depend on goods flows from China to the US (or the reverse, but that is much less often the case).

The Q1 report period as a whole was mixed. There is much uncertainty but no great concern among listed companies generally. In brief, the performance of cyclical companies has undoubtedly been better than was apparently feared around April 10 this year but far worse than we had hoped in early February. One sector that was clearly a negative standout during the reporting period is once again consumer goods companies. Producers of everything from white goods to passenger cars to garden and leisure goods continue to be squeezed by weak demand. That downturn continues from an already a low level, and many of these companies also have an especially heavy exposure to new tariffs.

On the plus side, banks, telecom operators and insurance companies delivered better reports than expected.

Lowered earnings forecasts

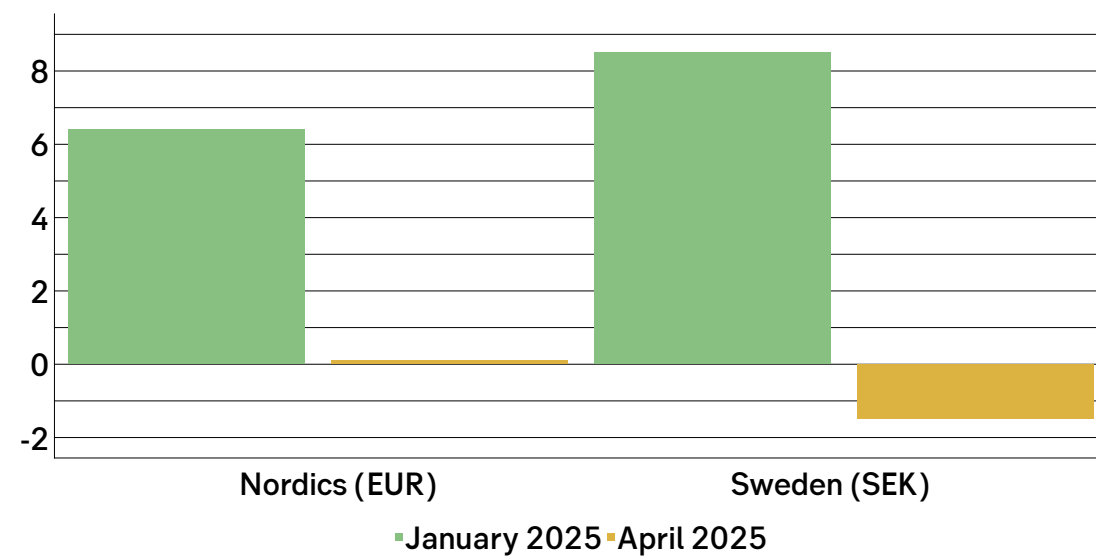
Earnings forecasts have been revised downward significantly over the past three months, mainly for Sweden but also for the Nordics generally. Only three months ago, earnings growth of more than 6 per cent was expected in the Nordic region and more than 8 per cent in Sweden. Now we foresee marginally positive growth in the Nordics and nearly a 2 per cent fall in Swedish earnings.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities**
- Fixed income investments
- Themes
- International overview

Initially, it was primarily the stronger Swedish krona that led to lower earnings forecasts. The deterioration in economic conditions and to some extent fears about the impact of tariffs along with other factors subsequently have also contributed to revised forecasts.

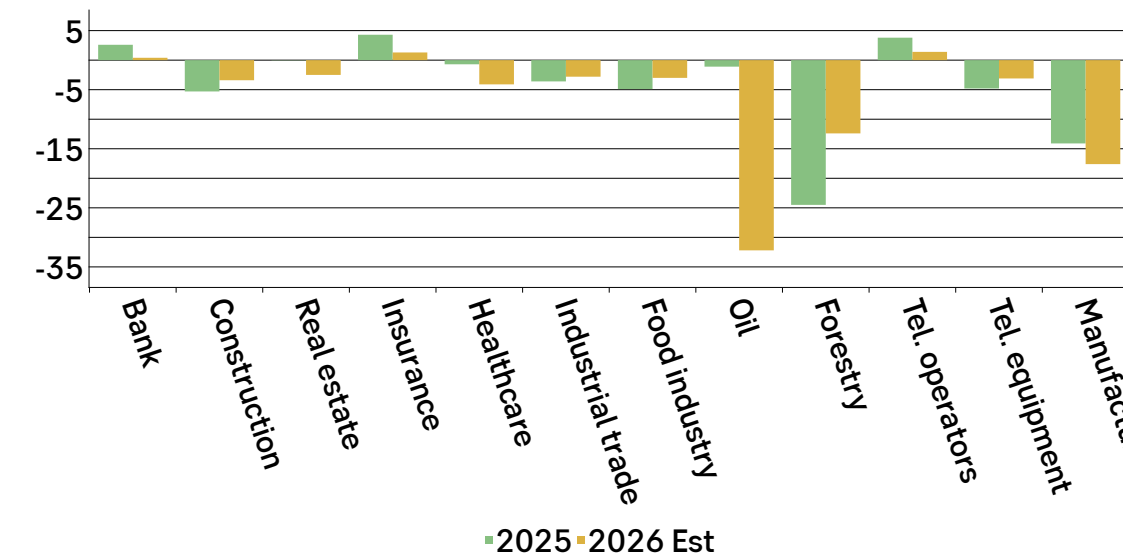
Unfortunately, the deterioration in economic conditions cannot be blamed solely on the US. The expected recovery in Sweden and the other Nordics, driven by interest rate cuts, tax cuts and pent-up consumer needs as well as investments in housing, has not yet picked up speed. Consumer confidence in Sweden has fallen sharply since November 2024. Half of the upturn from the historic low set in autumn 2022 has been erased, and confidence is now lower than in spring 2020, when the COVID pandemic hit.

Earnings forecasts have been lowered significantly



The chart shows SEB's forecast earnings growth for Nordic and Swedish companies at the end of January compared to the end of April. Only three months ago, earnings growth of more than 6 per cent was expected in the Nordic region and more than 8 per cent in Sweden. We now foresee marginally positive growth in the Nordic region and nearly a 2 per cent fall in Swedish earnings.

Cyclical equities take a beating after setbacks to the economic recovery



The chart shows earnings forecast revisions for selected sectors over the past three months. Industrials, forest products and oil are negative standouts while insurance companies, banks and telecom operators are the only sectors to buck the trend, with upward revisions.

Cyclical sectors take a beating

Surprises in Q1 reports, the recent decline in economic indicators and the strong Swedish krona are clearly reflected in forecast revisions. We have lowered our earnings forecasts significantly for cyclical sectors such as forest products, industrials, oil and consumer goods. Sectors that do not trade in goods have fared much better; for example, forecasts have been revised upward for insurance companies, telecom operators and banks. For banks, earnings have been revised upward despite expectations that faster interest rate cuts could mean lower net interest income going forward.

Tariff negotiations and the general economic trend will play a critical role in continued earnings forecast revisions and probably also the performance of cyclical stocks. Meanwhile, stimulus measures now awaited in Europe, especially Germany, in the form of investments in defence and infrastructure, may provide some hope. If these measures are also combined with deregulation that improves

productivity to a sufficient extent, the positive long-term effects in Europe will be significant. China is also expected to implement additional stimulus measures to bolster an economy squeezed by a domestic real estate crisis and the trade war with the US. American political leaders should also present some of the "business-friendly" reforms they promised during the election campaign as soon as possible.

Nordic stock markets divided

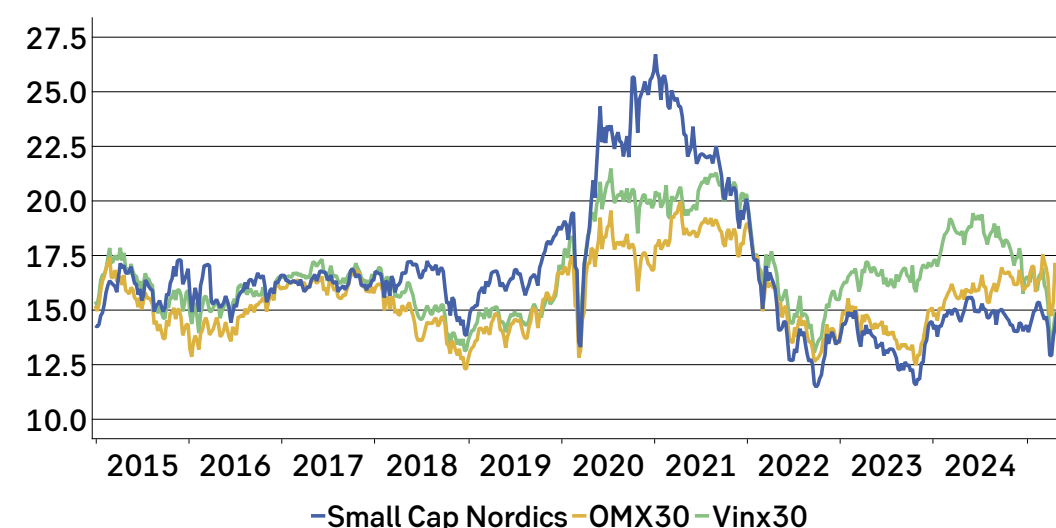
The brutal downturn for the biggest Nordic company, Novo Nordisk, dominates the performance of Nordic stock markets as a whole and the Copenhagen stock market in particular. From its peak less than a year ago, the pharmaceutical giant's share price has plummeted by more than 60 per cent. Despite the downturn, the company has a nearly 40 per cent weight in the Copenhagen stock exchange's overall index and about a 14 per cent weight in the Nordic index. Novo Nordisk's market valuation is still nearly 40 per cent higher than that of the second biggest listed Nordic company, AstraZeneca, and more than three times higher than the third biggest Nordic company, Swedish-based Investor.

If we focus instead on Sweden, performance has been more varied. The year began with a swift upturn in share prices, and our forecast of a 10 per cent upturn in 2025 was met as early as mid-February. Sweden's large-cap OMXS30 index was valued then at a 12 per cent premium to its 10-year average. After Trump unveiled his so-called reciprocal tariffs in early April, panic hit the stock market. US gauges of market fear such as the VIX volatility index surged to their highest level since the COVID pandemic broke out in 2020. Based on this metric, over the past 20 years market fear was only higher in the spring of 2020 and during the financial crisis of 2008-09. If we look instead at the equivalent European-wide index, market fear after the Russian invasion of Ukraine in 2022 was also comparable.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities**
- Fixed income investments
- Themes
- International overview

The panic has now eased but may return if new political missteps are made, either in the US or in response to American whims. Economic conditions have deteriorated, but analysts are already trying to incorporate that in their forecasts. The Nordic index is valued 11 per cent below its historical average and is at its lowest level since autumn 2022, when there was great concern that the central banks' battle against inflation would lead to a global recession. Nordic small caps are still also attractively priced. The risk/reward ratio appears to be less advantageous for Swedish large caps, which are trading at a small premium to their historical average.

Rollercoaster ride for equities



Source: Bloomberg

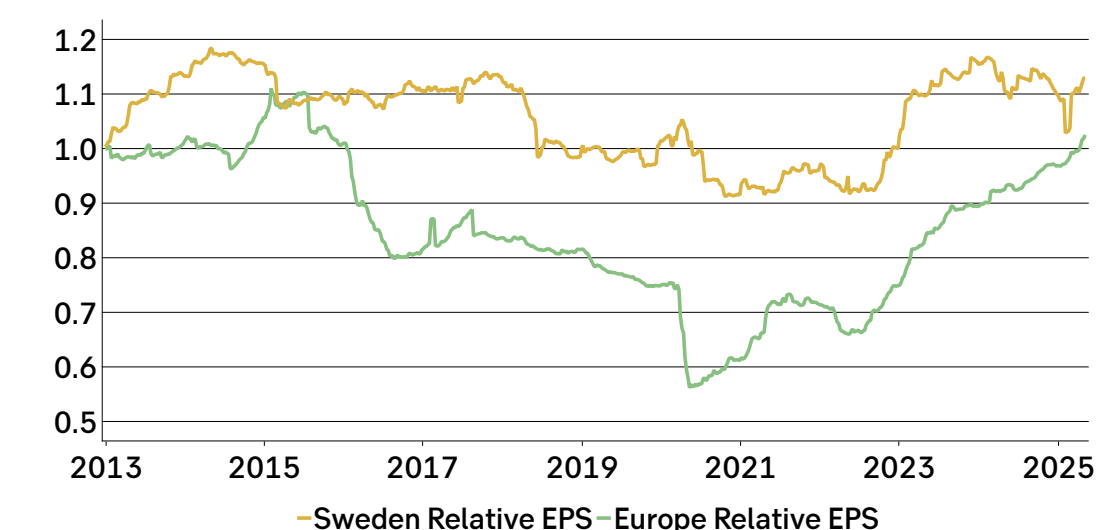
The chart shows the P/E ratio (12-month forward consensus) for the Stockholm stock exchange and the Nordics as a whole, as well as for Nordic small caps. Swedish large caps have relatively normal valuations again after a volatile start to the year. Nordic small caps are still relatively cheap in a historical perspective. Nordic large caps are back near their autumn 2022 troughs and 11 per cent below their historical average valuation.

“Banks were a positive standout in the Q1 report period and have outperformed the stock market again this year, both in the Nordic region and the rest of Europe.”

Banks and real estate: opposites on the interest rate seesaw but valuations in both are attractive

Banks were a positive standout in the Q1 report period and have outperformed the stock market again this year, both in the Nordic region and the rest of Europe. Over the past five years, Swedish banks posted a 169 per cent return compared to 80 per cent for the OMXS30. Two factors behind this outperformance were better earnings growth than the stock market overall, with a big boost from the upturn in interest rates, and relative upward valuations. We see an almost identical trend for the relative valuation of bank equities in Sweden and in Europe as a whole. Banks are valued at a 37 per cent discount to the stock market average, an upward valuation from nearly a 50 per cent discount at their 2023 low.

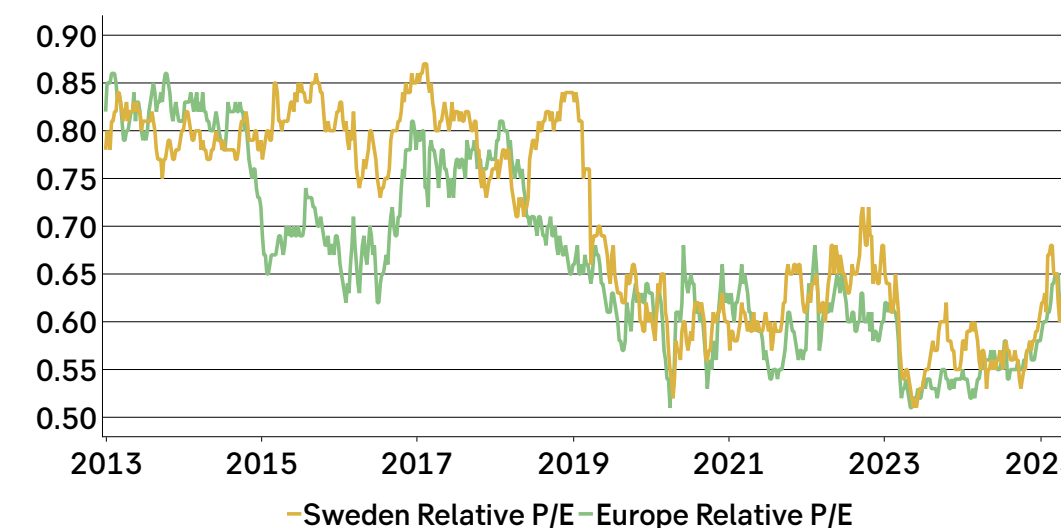
Banks show relatively good earnings growth throughout Europe



Source: Bloomberg

The chart shows 12-month forward rolling earnings forecasts for banks relative to the stock market as a whole in Sweden and in Europe as a whole.

Swedish bank equities follow a positive European trend



Source: Bloomberg

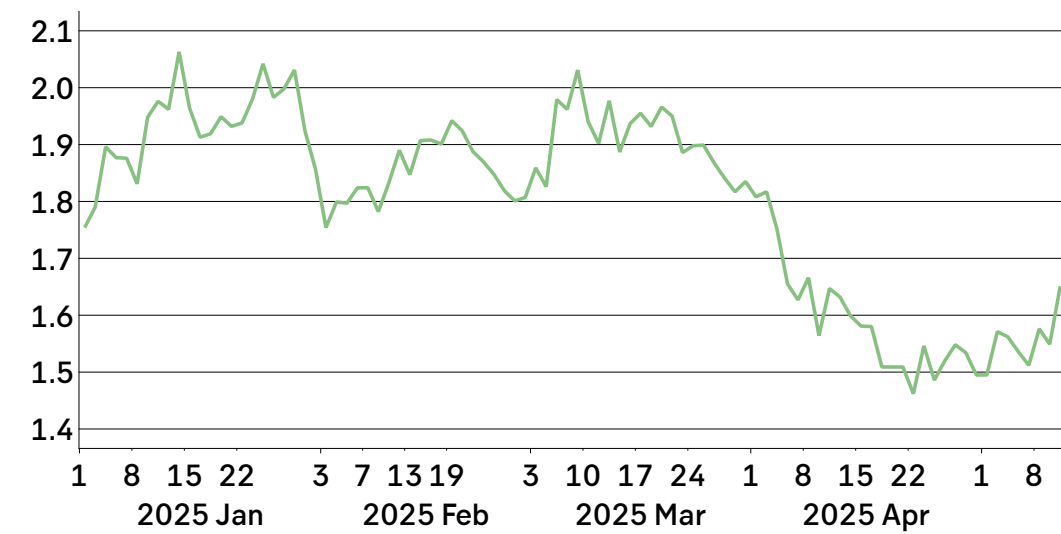
The chart shows the relative valuation of European banks versus the stock market overall and the corresponding figure for Swedish bank equities compared to the Stockholm stock market.

We believe that bank equities are still undervalued by investors, especially due to generous dividends (7.2-7.5 per cent annual direct return in 2025-27) combined with share buybacks. However, their performance going forward will depend on the interest rate trend. Since the start of the tariff dispute, expectations about central bank key interest rates and GDP growth forecasts have both come down. Lower key rates can be expected to squeeze banks' net interest income, while lower growth will reduce demand for new loans.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities**
- Fixed income investments
- Themes
- International overview

Another interest rate-sensitive sector that instead benefits from lower interest rates – yet has been among the losers this year on the Stockholm stock exchange – is real estate. We believe real estate companies have been underappreciated, given the recent interest rate trend. One important reason for this is increased vacancy rates and concerns about further increases in vacancies going forward. On earnings announcement days, a clear correlation is seen between share price reactions for real estate equities and their so-called net lettings, the net of new/lost leases on an annualised basis. One segment of the real estate sector where vacancy risk is significantly lower than others, while net asset values (NAV) are among the highest in the sector and rent increases are relatively positive, is real estate companies that focus on housing.

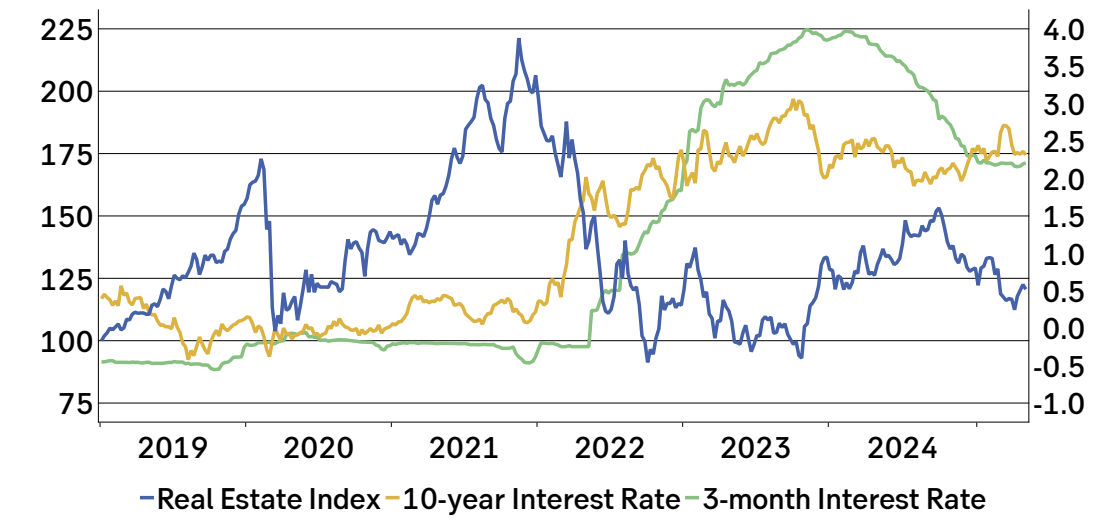
Lower central bank key rates are expected



Source: Bloomberg

The chart shows the European Central Bank's expected key interest rate at year-end 2025. The US tariff war has pushed down growth expectations and interest rates. Lower central bank rates may improve economic conditions and are especially beneficial to real estate equities, but they can be expected to reduce net interest income for banks.

Lower bond yields have boosted real estate equities



Source: Bloomberg

The chart shows the Stockholm stock exchange's real estate index and Swedish 10-year and 3-month government bond yields. The downturn in interest rates and yields since the autumn of 2023 has provided good support for real estate equities on the Stockholm stock exchange, but a relatively modest upturn in long-term yields over the past six months has been a serious setback.



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Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Fixed income investments: Global fixed income markets still shaky

This year began the way last year ended, with high volatility and great uncertainty about where we are headed. Naturally, market attention is centred on President Trump's economic policies and the tariffs the world faces. Fixed income markets are mainly focused on the degree to which implementation of these policies will affect global economic activity and inflation, but announcements of European fiscal stimulus measures have also clearly influenced the markets.

In early 2025, the markets were dominated by various political initiatives and uncertainty, mostly about US trade policies – an unusual situation. Expectations of changes in central bank benchmark interest rates and the publication of new core economic statistics such as GDP data and inflation have taken a back seat, for a change. Instead, markets have tried to price in different scenarios of how a potential new global policy and geofinancial world order may affect interest rates and yields in the slightly longer term. Bond yields have gyrated in response to these political initiatives. We have also seen how correlations between US and European bond yields have broken down at times and how normal relationships between government bond yields and equities have not followed traditional patterns. Credit spreads on corporate bonds, which have been narrowing for a long time, also widened considerably at the end of the period.

Forecasts of central bank interest rates

	Apr 30	2025	2026
Federal Reserve	4.50	3.75	3.00
European Central Bank	2.25	1.50	1.50
Bank of England	4.50	3.75	2.75
Norges Bank (Norway)	4.50	4.00	3.50
Riksbank (Sweden)	2.25	2.00	2.00
Total (EU 27)			

Source: SEB. forecasts May 2025



Fixed income investments in brief

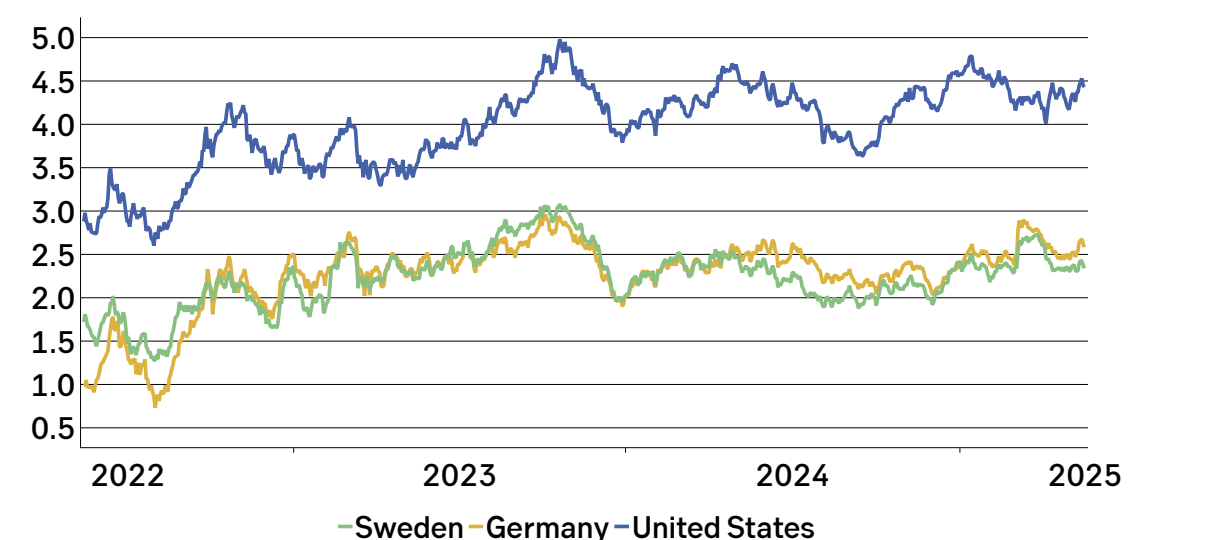
In early 2025, the markets were dominated by political initiatives and uncertainty, mostly about US trade policies – an unusual situation. Expectations of changes in central bank benchmark interest rates and the publication of new economic statistics have taken a back seat as markets have instead tried to price in the effects of a potential new geofinancial world order. Bond yields have gyrated, correlations between US and European yields have broken down, and the relationship between government bonds and equities has deviated at times. In the US, yields have been volatile, with movements in response to tariff threats and reduced confidence abroad. In Europe, long-term yields rose following announcements of large-scale investments in defence and infrastructure but have fallen since then. In Sweden, yields have followed the European trend, but at a somewhat lower level. Credit spreads, especially for high yield bonds, widened substantially after the tariff announcements but have narrowed since then. Interest rate funds with a high credit risk have been negatively affected, while government bond funds in Europe have turned in a more positive performance.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments**
- Themes
- International overview

Government bonds

The US – The overall trend for both shorter- and longer-term yields has been downward during the first several months of 2025 but also characterised by high volatility. Yields on 2-year Treasuries have traded in the range of 4.40 to 3.50 per cent, while 10-year Treasury yields have ranged between 4.80 and 3.85 per cent. Expectations of Federal Reserve (Fed) rate cuts in response to slower economic activity and inflation that could be considered under control have been mixed with political initiatives, which have triggered market volatility in the short term. Threats and announcements of new tariffs on America's trading partners initially caused yields to fall sharply – in line with the stock market slump, which is usually the reaction when investors seek out safer alternatives. However, this time the downturn in yields was replaced by a sharp upturn. This is attributed to several factors: expectations of rising inflation due

10-year government yields: sideways, with an upward tendency



Long-term (10-year) government bond yields have been pulled slightly upward for various reasons. In the US, this is largely due to distrust in America's new policies, while in Europe it is in response to increased investments in infrastructure and defence, which will sharply increase the bond supply going forward. We believe long-term yields will rise cautiously during the remainder of the year.

to tariffs, forced sales by hedge funds and falling confidence among foreign investors. It was particularly noted that foreign investors, who hold about one third of US government bonds, started to sell their holdings. There are many indications that it was this movement which ultimately caused Trump to back down somewhat from his most aggressive tariff threats. For the rest of the year, we foresee that the Fed will lower its key interest rate two or three times, which will cause shorter-term yields to move slightly lower. For longer maturities, however, we predict that tariff fears will drive up inflation in combination with weaker government finances due to lower taxes and a loss of confidence in US policy, which could lead to somewhat higher long-term yields. To summarise, this will lead to a clearly positive yield curve by the end of 2025, with 10-year yields 70-80 basis points higher than 2-year yields.

Europe – The trend has been sideways to somewhat upward for long-term yields and somewhat downward for short-term yields during the first part of 2025. The European Central Bank (ECB) has continued to cut its key interest rate in response to slow European economic activity and inflation that is moving towards the 2 per cent target. German 10-year yields have traded in the range of 2.30 to 2.90 per cent. The single biggest event took place in early March, when a number of countries announced major investments in defence and infrastructure. These initiatives, aimed at strengthening Europe's military capacity and reducing its dependence on external actors, have led to expectations of increased borrowing and thus higher bond yields. For example, German 10-year yields rose about 50 basis points in just a few days, the biggest upturn in such a short period of

time for decades. After the rapid upturn, yields for longer maturities fell and are now trading at roughly the same level, around 2.50 per cent, as at the start of the year. During the rest of 2025, we predict that the ECB will lower its key interest rate two or three times, which will keep shorter-term market rates at their present level of around 1.8 per cent. However, for longer maturities, we foresee that increased borrowing needs will put upward pressure on yields.

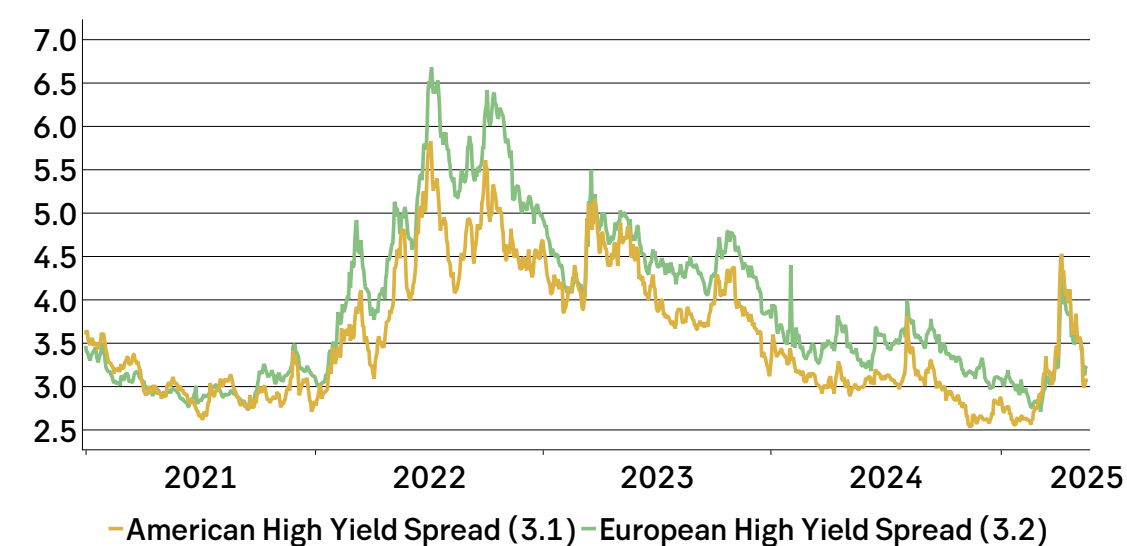
Sweden – The trend for longer-term market yields has been similar to that in the rest of Europe, with Swedish 10-year yields still trading somewhat below their German counterparts at around 2.40 per cent. Swedish economic activity has been a disappointment, but the Riksbank has been restrained by inflation, which was somewhat of an upside surprise during the winter. However, the two most recent figures again suggest lower inflation, paving the way for one or more rate cuts, which could bring down shorter-term yields. Longer-term yields will probably also rise somewhat in Sweden given increasing borrowing needs.

Forecast of 10-year government bond yields, %

	Apr 30	Dec 2025	Dec 2026
United States	4.17	4.50	4.80
Germany	2.45	2.60	2.80
Sweden	2.31	2.55	2.85
Norway	3.86	3.80	3.95

Source: SEB

Credit spreads for HY bonds have been pushed higher



Source: Macrobond

Credit spreads for high yield bonds widened significantly after the announcement of new US tariffs but have since narrowed a bit.

Corporate bonds

The credit spread – the additional yield that companies pay above the yield on government securities – has seen a narrowing trend for a number of years. There are various reasons for this. In the market environment we have experienced, where companies have good earnings growth and investor appetite for riskier assets has been high while the bond supply has been relatively low and corporate default rates are declining, spreads tend to narrow. This trend has been favourable for corporate bond valuations and funds that invest in them. Before and after the announcement of new US tariffs, which surprised the markets, corporate bonds saw a significant change in valuations, with credit spreads widening by around 2 percentage points at their peak for US high yield (HY) bonds – which carry the highest risk – and around 1.5 percentage points for their European counterparts.

For bonds with higher creditworthiness – investment grade (IG) bonds – the upturn was at most 0.4 percentage points. Although spreads have narrowed somewhat since their peak, there are many indications that they will remain slightly wider than before the tariff announcement, at least in the US. Uncertainty has eased somewhat in recent weeks, but it is still difficult to determine what the permanent damage will be, mainly to the US economy. Most analysts have lowered their forecasts, mainly for the US but also for global GDP growth, and this will have repercussions for corporate earnings and thus also borrowing needs. Another key factor for the corporate bond market is loan default rates. The credit rating agency Moody's wrote in its latest report that today's tariffs and trade problems will weaken credit conditions and that the corporate default rate will not decline as quickly as was previously expected. The global default rate may remain high or increase depending on how negative an impact tariffs will have on economic and financial conditions. To summarise, we remain cautious about investments in high yield bonds but are somewhat more positive about investment grade bonds.

Fixed income funds

The fixed income funds affected most by recent turbulence are those with a lot of credit risk, known as high yield funds, but fixed income funds with lower credit risk have also been negatively affected by widening credit spreads and increased borrowing costs. In April, many of these funds had a negative total return for the first time since early 2023, although total returns since the start of the year are still in positive territory. It is difficult to determine their performance going forward, which will still depend greatly on global tariff policies. However, the running yield for most corporate bond funds has increased somewhat, which makes them more attractive to invest in now. The fixed income funds that have managed best, delivering a

positive return both in April and since the start of the year, are 100 per cent government bond funds with exposure to Sweden and/or Europe with slightly shorter maturities; they have benefited from last month's yield downturn. This kind of fund could be of interest to someone who believes the tariff drama will continue and that times will get worse, though that is not our main scenario.



Tomas Rydin
Fund Analyst, Investments

[Introduction](#)[Summary](#)[Our market view](#)[Our portfolio](#)[Global equities](#)[Nordic equities](#)[Fixed income investments](#)[Themes](#)[International overview](#)

Infrastructure investments – a path to economic growth

Infrastructure investments today are about future-proofing the quality of life and economies of billions of people worldwide. But what do these investments mean, why will they be important in the coming years and how can public and private capital work together to achieve the necessary results?

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

After global crises like the COVID-19 pandemic and Russia's invasion of Ukraine, countries around the world are reconsidering infrastructure investments as a critical strategy for economic recovery as well as for increased self-sufficiency and security in their own energy production. Both in Europe and the US, governments are planning major investments to modernise and expand infrastructure in a way that can stimulate growth, create jobs and achieve long-term sustainability goals. An infrastructure investment is usually defined as assets that are needed to support basic societal functions and are also capital-intensive to build.

Decades of underinvestment in infrastructure

Before we go into more detail about national investment packages, it is important to understand what the situation looks like globally for infrastructure investments. According to the World Economic Forum, it is estimated that up to USD 90 trillion in infrastructure investments will be needed globally over the next 15 years to meet the needs of growing populations, climate adaptation and economic growth.

Infrastructure also plays a key role in many of the world's most pressing challenges such as climate change, inequality and digital transformation. Countries must invest in their infrastructure not only for growth but also for resilience and control, while also making systems more sustainable and efficient.

Digital and green infrastructure will revitalise Europe

Reports such as the European Commission's *A Competitiveness Strategy for Europe* (the "Draghi report") highlight the acute need for significant infrastructure investments to enhance Europe's competitiveness. Such reports note that underinvestment in

infrastructure, if not addressed, will weaken Europe's global competitive position. They point out that in 2020, European infrastructure investments totalled only 2 per cent of GDP, considerably lower than 3.4 per cent in the US and 8 per cent in China. To remain competitive, Europe must increase its infrastructure investments by about 1-2 per cent of GDP annually, which is equivalent to about EUR 2.5 trillion, until 2030.

The Draghi report emphasises that both digital and green infrastructure are critical to Europe's future economic success. Its conclusion is that digital transformation, including the rollout of 5G networks and high-speed internet, is vital to developing Europe's digital economy, which accounted for 6.9 per cent of EU GDP in 2020.

The report notes that digital infrastructure – such as cloud services, artificial intelligence (AI) and cybersecurity – need to enjoy top priority in order to promote innovation and provide Europe with competitive advantages. Meanwhile, investments in green technology – such as electric cars, battery storage solutions and smart power grids – are critical in order to achieve the EU's climate-neutrality goal by 2050. The report estimates that more than EUR 1 trillion will be needed for green technology by 2030.

One conclusion is that better coordination among EU member states on infrastructure is required. The Trans-European Transport Network (TEN-T) and the Trans-European Networks for Energy (TEN-E) should be expanded to ensure better integration and connectivity in the EU. The Commission calls for an ambitious, coordinated infrastructure agenda with both public and private investments.



The theme article in brief

After global crises, countries view investments in infrastructure as an important key to economic growth, recovery, competitiveness and energy security. The EU needs to increase its investments to meet the need for digitisation and meet climate goals, while Germany has launched a major investment package for modernisation, security and the green transition. Technologies such as AI, data centres and smart cities are becoming increasingly important, as are investments in renewable energy and energy storage. Meanwhile, cooperation between public and private actors is required, since funding needs are enormous and larger than national governments alone can invest. Private infrastructure thus becomes an attractive asset class, since it has historically shown stable returns and low correlation with other types of assets, while investment needs are large. Investments create jobs, strengthen human welfare and make countries more resilient and competitive in a rapidly changing world.

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Germany to invest EUR 500 billion in infrastructure

Germany has announced the establishment of a EUR 500 billion infrastructure fund – a significant shift in the country's fiscal policy. The initiative is aimed at strengthening and modernising Germany's infrastructure systems in areas such as energy, transport, digitisation, research, education and health care.

The fund will finance projects beyond the usual budget constraints, with EUR 100 billion for Germany's states and municipalities and EUR 300 billion for the federal government as well as EUR 100 billion earmarked for climate-related measures over a 12-year period.

The fund will also contribute capital to initiatives that will help Germany achieve carbon neutrality by 2045. To finance this initiative, Germany will issue additional government bonds.

The EUR 100 billion set aside for climate-related measures is a key component of the fund. This money will finance, among other measures, energy-efficient building renovations, infrastructure development for electric mobility, expansion of the hydrogen industry and investments in technologies to reduce carbon dioxide emissions in industrial processes.

The primary goal of the country's energy policy is to achieve consistently low, predictable and internationally competitive electricity prices. This goal will drive significant investments in various energy sources, including the expansion of wind and solar power and an additional 20 GW of gas-fired power capacity by 2030. The policy also entails greater focus on expanding renewable energy sources such as bioenergy, hydropower and geothermal energy as well as energy storage technology.

“Historically, infrastructure investments = physical investments that people can touch and see, but in recent years digital infrastructure has developed very quickly and is now an important component of infrastructure investments.”

The US: From modernisation to uncertainty

In the United States, the Joe Biden administration pushed through the Infrastructure Investment and Jobs Act – one of the largest infrastructure investment efforts in the country's history, worth USD 1.2 trillion over the following decade. The package covers a wide range of sectors, from renovation of bridges and roads to expansion of broadband service in rural areas. One major focus is green energy infrastructure, including installation of charging points for electric cars, development of renewable energy and modernisation of the power grid.

The Biden administration also launched the Inflation Reduction Act, a 10-year USD 740 billion climate and economic package. Important areas include support for investments in climate change mitigation and expansion of renewable energy and energy storage solutions.

With Donald Trump back in the White House, the focus of infrastructure investments has shifted somewhat, from renewable energy to more traditional infrastructure such as natural gas, coal and

motorways. Another important change is Trump's focus on having private capital play an even more active role and contribute more funds to infrastructure investments compared to public investments. Specifically, new investments in offshore wind power have already seen delays or have not been issued building permits at the federal level since Trump took office, with Equinor's project off the coast of New York being one example.

The picture is different for other renewable energy sources. In many Republican states, onshore wind and solar power have been, and continue to be, the preferred solutions for increasing energy production since the technology and weather conditions make wind and solar power the cheapest and most efficient energy sources.

The role of technology and innovation

Historically, infrastructure investments = physical investments that people can touch and see, but in recent years digital infrastructure has developed very quickly and is now an important component of infrastructure investments. For example, investments in broadband

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

and wireless internet access are crucial for connecting remote areas to the digital economy. They have also been vital tools for education, health care and business operations, especially in rural areas.

More and more money is also being invested in “smart cities”, where technologies such as artificial intelligence (AI), the Internet of Things (IoT) and Big Data analyses are increasingly integrated in city planning. These technologies optimise everything from traffic flows and energy use to waste management, and create more efficient, sustainable urban environments. In many ways, the infrastructure of tomorrow will be defined as much by its digital as its physical capabilities.

Data centres, with servers that store and process large quantities of data, are the backbone of the digital economy. As demand for cloud-based services and AI applications grows, investments in data centres are crucial in supporting these new technologies. Meanwhile, enormous amounts of energy are needed to run data centres, which increases the need for power from renewable energy to ensure that digital infrastructure remains sustainable.

Energy security to secure self-sufficiency

Energy security has become a key issue for governments worldwide since geopolitical tensions, climate change and growing energy needs put pressure on existing infrastructure. In particular, Russia’s invasion of Ukraine revealed vulnerabilities in global energy supply chains and demonstrated the importance of securing national control over energy resources and infrastructure. This has accelerated reassessments of self-sufficiency, with many countries now intensifying their investments in infrastructure in order to diversify their energy sources, strengthen their resilience and secure more sustainable and controlled energy production.

“To ensure that the energy supply is stable and reliable even when solar and wind power generate no energy, energy storage plays a vital role.”

One important area for infrastructure investments is the transition to renewable energy. Governments, especially in Europe, now regard renewable energy not just as a way to combat climate change but also as a key to increasing their self-sufficiency. Yet energy security is not only a matter of increasing renewable energy capacity, but also of modernising and strengthening ageing power grids. Many advanced economies such as Sweden are investing in smart networks that use digital technology to monitor and manage energy use more efficiently. This makes it possible to integrate renewable energy sources more quickly while improving the resilience of networks to disruptions caused by geopolitical crises or extreme weather conditions, in order to reduce vulnerability.

To ensure that the energy supply is stable and reliable even when solar and wind power generate no energy, energy storage plays a vital role. Technologies such as large-scale battery storage systems are now being implemented to store surplus energy when production is high. This also enables the use of renewable energy sources during periods of low production. Another way to store energy is to produce hydrogen gas from water through electrolysis when there is a power surplus. This “green” hydrogen can then be used to reduce emissions in the heavy vehicle and maritime transport sectors.

Economic and social effects

One of the immediate benefits of infrastructure investments is new jobs. Large-scale projects in a number of sectors such as transport, energy, construction and technology create thousands of jobs, both directly and indirectly. In the US, infrastructure investments are expected to create millions of jobs over the next decade. This can contribute to economic recovery and create opportunities for those communities hit hardest by the COVID pandemic and economic austerity measures.

One growing sector is social infrastructure, which includes important social services such as health care, education and housing – some of the pillars of the Swedish welfare state model. Investments in digital health technology, such as online doctors and electronic medical files, may be taken for granted today in Sweden but can greatly improve access to quality health care in other countries and in areas that have worse community health care services. For example, the expansion of broadband in rural areas ensures that more people get access to internet-based education and digital health care services. Similarly, AI-driven education technologies can improve learning and bridge gaps in education at a low cost.

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

Strong infrastructure systems also constitute an important competitive advantage for many countries. Regardless of whether it is through green energy projects, digital investments or climate-adaptive cities, infrastructure will be a key factor for future economic growth. Countries with modern, efficient infrastructure systems attract more investments, which leads to higher productivity and provides a better quality of life for citizens. Infrastructure investments are not just a matter of building for conditions today; they are a matter of preparing for tomorrow. Countries that invest in infrastructure, especially in energy and digital solutions, are positioned to be leaders in the global economy.

Challenges and risks

Large-scale investments also entail challenges in terms of implementing these ambitious plans. Funding is a problem when governments alone must carry out investments, since countries must balance investment needs with what are often growing national debts. In many cases, governments rely instead on public-private partnerships to share the burden, but these arrangements may be complex and involve risks.

Project implementation is another challenge. Delays, cost overruns and poor administration may greatly reduce the impact of infrastructure investments. There are also political and logistical obstacles that must be overcome, especially in countries where infrastructure decisions are fragmented among regulatory authorities at the national and various local levels.

Private capital plays a vital role here. The enormous quantity of infrastructure investments that are needed exceed the capacity of governments to fund them by a wide margin. With public finances hit by the economic repercussions of the COVID pandemic, inflation

and rising debt levels, it has become necessary to rely increasingly on private capital. With the help of private investors, governments can spread the risk of large-scale infrastructure projects, gain access to more flexible funding alternative and justify delivery of projects on time and within budget.

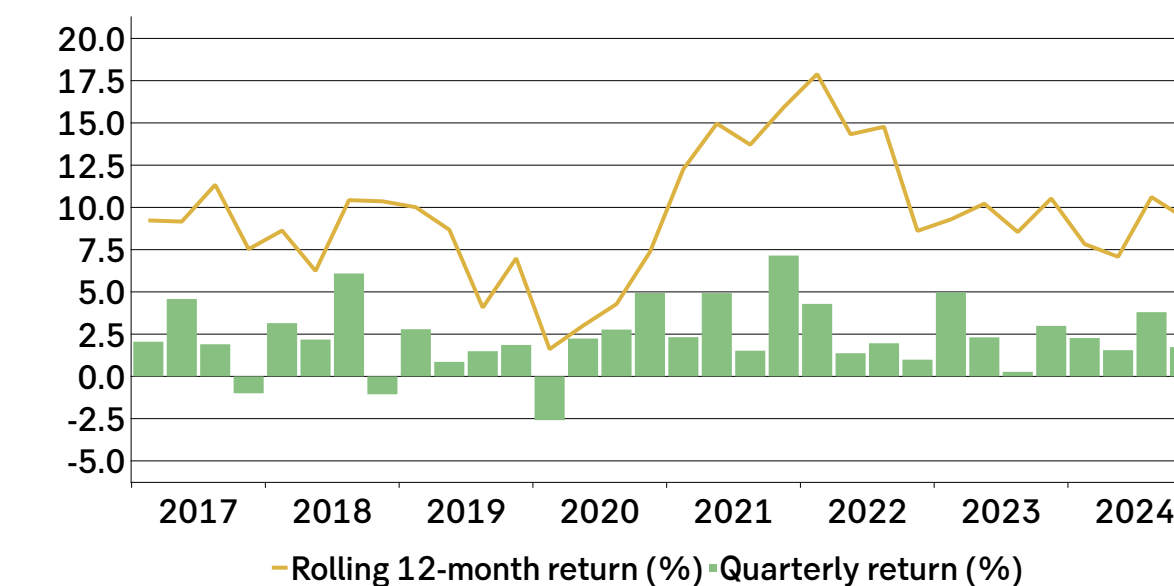
Infrastructure as an investment

Privately owned infrastructure has become an increasingly important asset class for investors looking for stability, diversification and long-term returns. Infrastructure projects such as data centre leasing, bridges, airports and renewable energy sources can provide steady, predictable cash flows through fees, long-term contracts or power purchase agreements. That makes private infrastructure an attractive investment for people looking for stable income streams.

There is also good potential for finding attractive investment opportunities, given the great need for investments in all infrastructure segments, but especially data centres and renewable energy. These two sectors are also closely interconnected since much of the increased need for energy comes from AI and data centres.

One of the biggest advantages of private infrastructure is its relative stability and low correlation with other asset classes such as equities and bonds. Infrastructure projects are often based on essential services such as electricity, transport and communication, which makes them less sensitive to market volatility. That means investments in infrastructure can help to reduce risk and increase long-term risk-adjusted portfolio returns. Many infrastructure contracts also provide natural protection against inflation, since revenue can often be adjusted through price increases to offset higher inflation, which protects investor cash flows from rising costs.

Stable returns make infrastructure attractive



Source: Bloomberg

In the above chart, we can also see how this stability is reflected in historical returns. Infrastructure was not as volatile as other assets during the COVID pandemic, amid rising inflation or in response to Russia's invasion of Ukraine. This return profile makes infrastructure attractive to investors.

Private infrastructure investments offer long-term growth opportunities, especially in areas such as renewable energy, transport and digitisation. For investors looking for long-term and high risk-adjusted returns, privately-owned infrastructure offers an attractive alternative for diversifying their portfolios while contributing to the public good.

[Introduction](#)[Summary](#)[Our market view](#)[Our portfolio](#)[Global equities](#)[Nordic equities](#)[Fixed income investments](#)[Themes](#)[International overview](#)

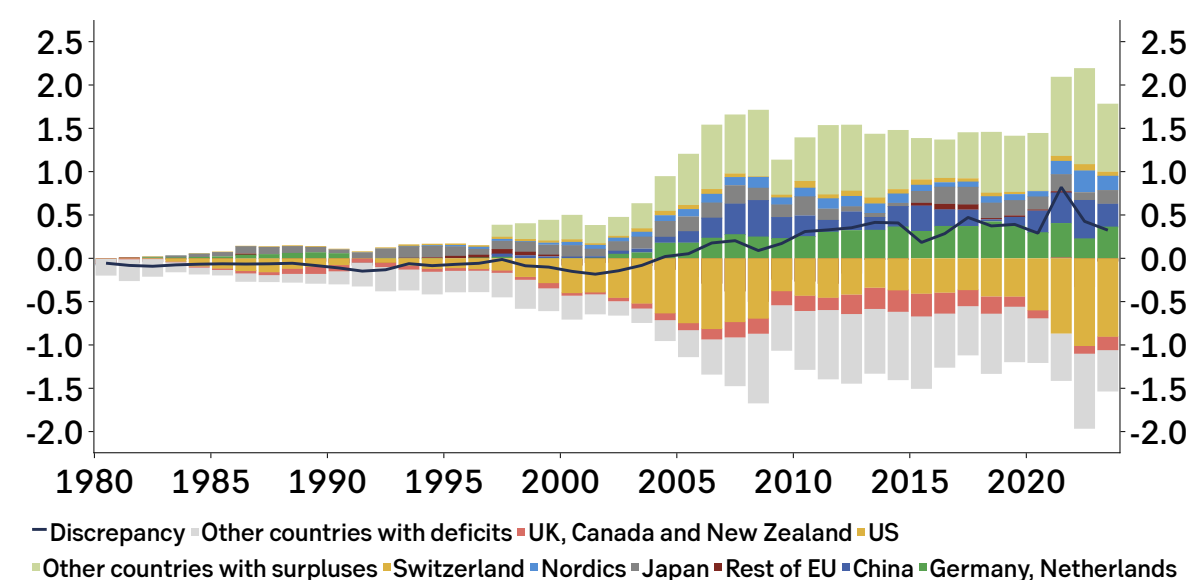
Global trade – major transition if world trade imbalances are to be adjusted

The size of the “reciprocal” tariffs against the rest of the world announced by President Donald Trump has, at least initially, been linked to how large a trade deficit the United States has with each country. This article analyses the nature of global imbalances and discusses the underlying drivers. The article was originally published in SEB’s economic report *Nordic Outlook*. To see the full report, click on seb.se/nordicoutlookreport.



- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes**
- International overview

The US is the country with the biggest deficit



Source: IMF, Macrobond, SEB

The US has a deficit against almost everyone

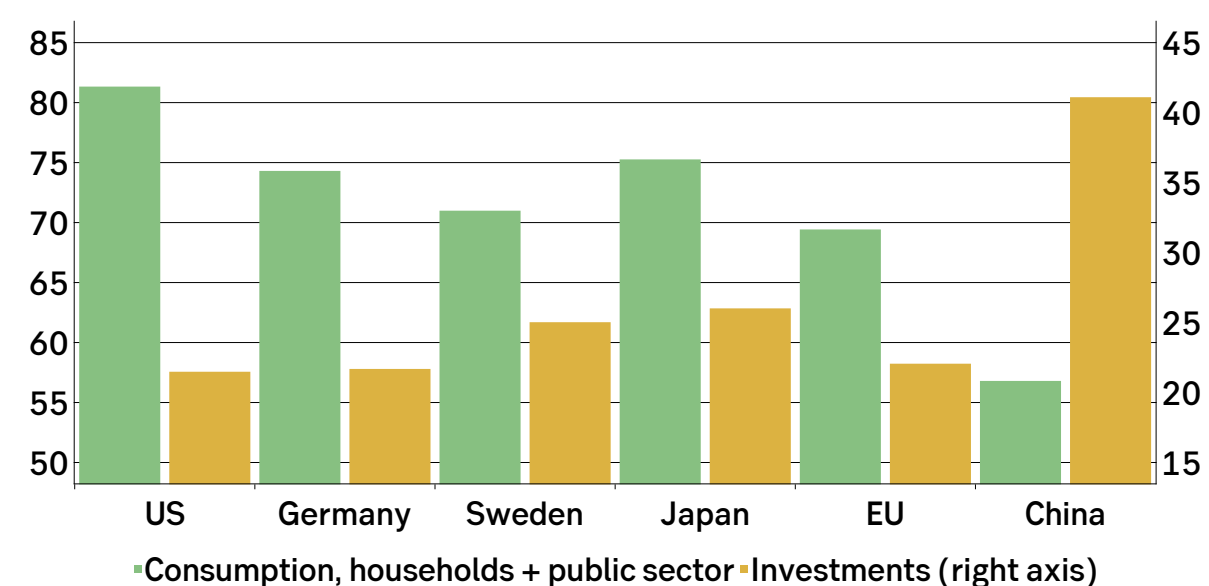
A country's current account includes other elements such as return on capital, but trade in goods and services is the main driver of surpluses and deficits. The US has had large trade deficits for a long time, and they totalled more than 60 per cent of the world's current account deficits in 2023. After the global financial crisis of 2007-9, US deficits shrank as consumption and investments fell more than in other countries, but as a share of GDP these deficits have remained at historically high levels. The above chart shows current account balances in trillions of dollars for selected countries.

Countries with surpluses are largely found in Europe and Asia. Germany has the largest surplus, but the Nordic countries and Switzerland are also high on the list. China's surplus is almost as large as Germany's. Japan also belongs to the surplus group. The balances of emerging economies vary quite widely. Many oil-producing countries have surpluses, as do many export-oriented emerging economies in Southeast Asia. But most poor countries in Asia, the Middle East and South America have deficits. Larger countries such as Mexico, India and Brazil have relatively small deficits, about 1-2 per cent of GDP.

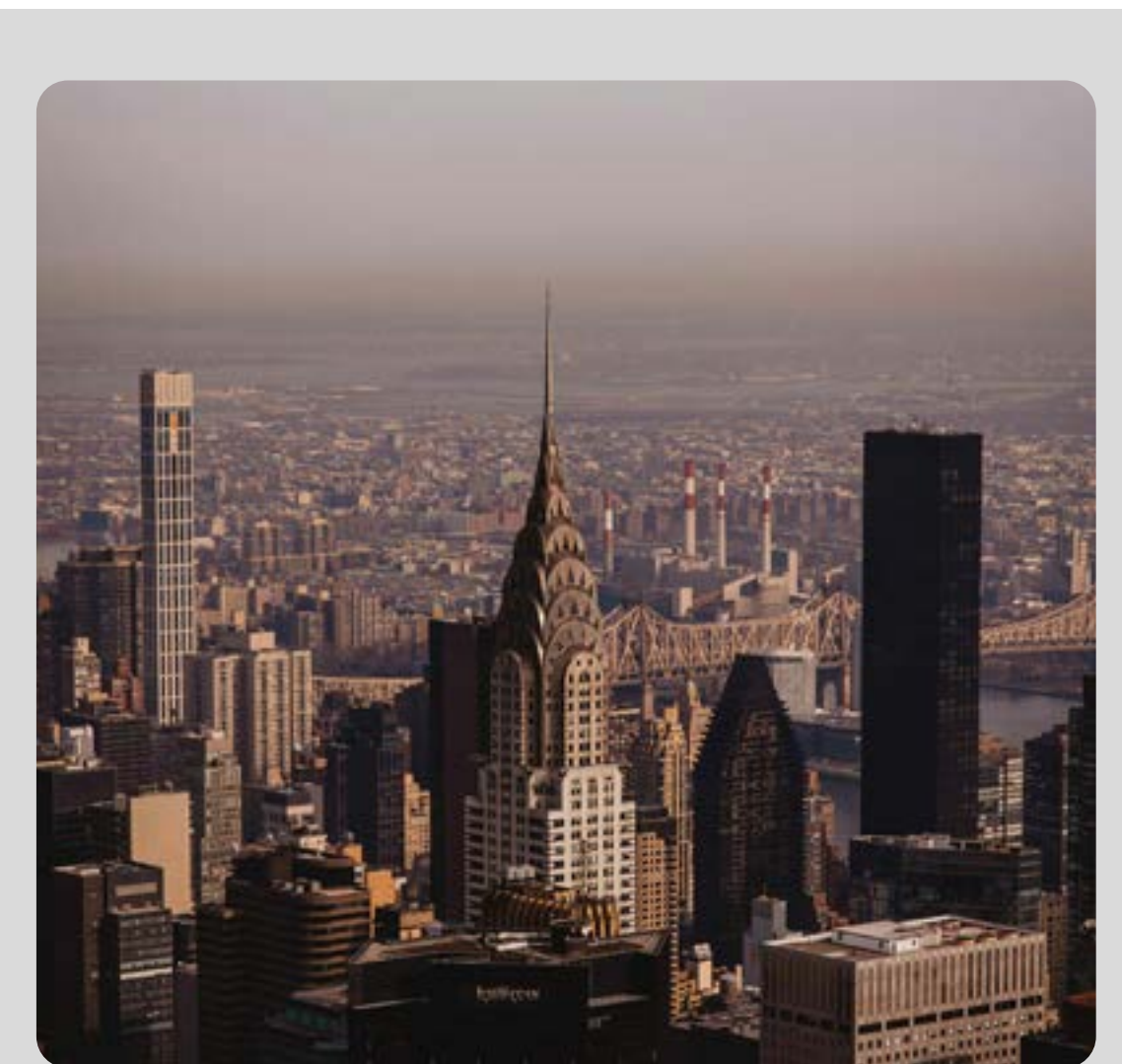
The drivers of the trade balance are multifaceted and are influenced by the economic structure of each country. One characteristic of most countries with large surpluses is that they have many multinational companies that channel investments abroad. But the United States also has many multinational companies, which in many cases dominate the world market. This is especially clear in IT services, banking services and mobile phones.

Another important factor is domestic demand. The US stands out with very high consumption, especially among households. Consumption as a share of GDP is above 80 per cent of GDP, which is 5-10 percentage points higher than in the surplus countries of Sweden, Germany and Japan.

High consumption in the United States



Source: Macrobond, SEB



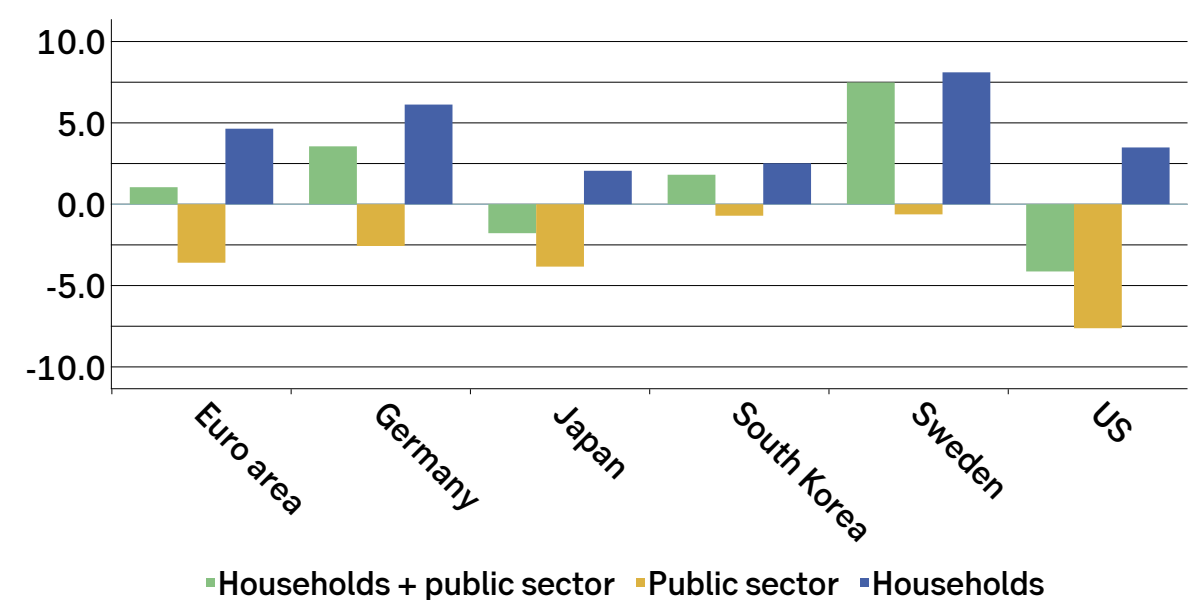
The theme article in brief

The United States has run large trade deficits for many years. In 2023, the US trade deficit accounted for over 60 per cent of the world's total current account deficits. These US deficits are mainly due to structurally high consumption and low savings rather than weak exports. Countries with surpluses, such as Germany, China and Japan, often have higher savings and export surpluses and invest in financial assets abroad, mainly the US. Meanwhile, capital inflows go to stock exchanges rather than to real, growth-promoting investments. Proposals for increased American tariffs aim to reduce US deficits by favouring domestic production, but the effects of these tariffs are expected to be limited and costly. Excessively rapid, large measures (such as tariffs) risk creating problems in the global economy. In the long term, more balanced global trade would be desirable, but requires action by both surplus and deficit countries. A gradual adjustment would be less harmful than a trade war.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes**
- International overview

Savings are an important factor. High consumption is reflected in low savings, and the US has both low household savings and large public sector deficits. Countries with surpluses, on the other hand, often have high savings in the household sector and small deficits in the public sector. Pension savings are typically the most important driver for countries with high household savings.

Low household savings, large public sector deficits in US



Source: OECD, Macrobond, SEB

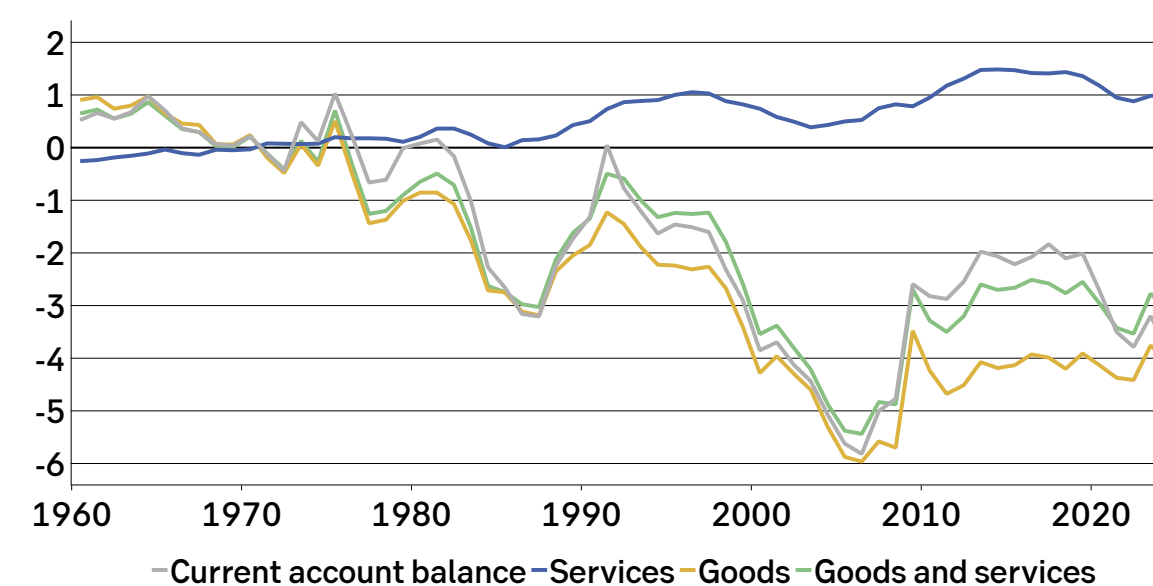
Countries with high savings often channel much of their investments to other countries, mainly to the US, with its well-developed and open capital markets, which is reflected in their current account surpluses with the US. However, capital inflows to the US are not reflected in real capital formation but are instead channelled into financial investments. In fact, the investment ratio as a share of GDP is at about the same level in the EU and the US. In Sweden, Japan and, above all, China, investments represent a larger share of GDP. Easily accessible stock exchanges with many expansive companies and high interest rates have attracted capital inflows from large parts of the world, resulting in a stronger dollar and highly valued stock markets.

“Many countries with large trade surpluses risk slower growth if their exports to the US decline.”

A difficult process to balance trade

US trade deficits are not a new phenomenon. Deficits began to grow as a share of GDP in the mid-1970s, and the upturn has mostly continued, with temporary reductions during periods of economic slowdown.

Long period of large US deficits



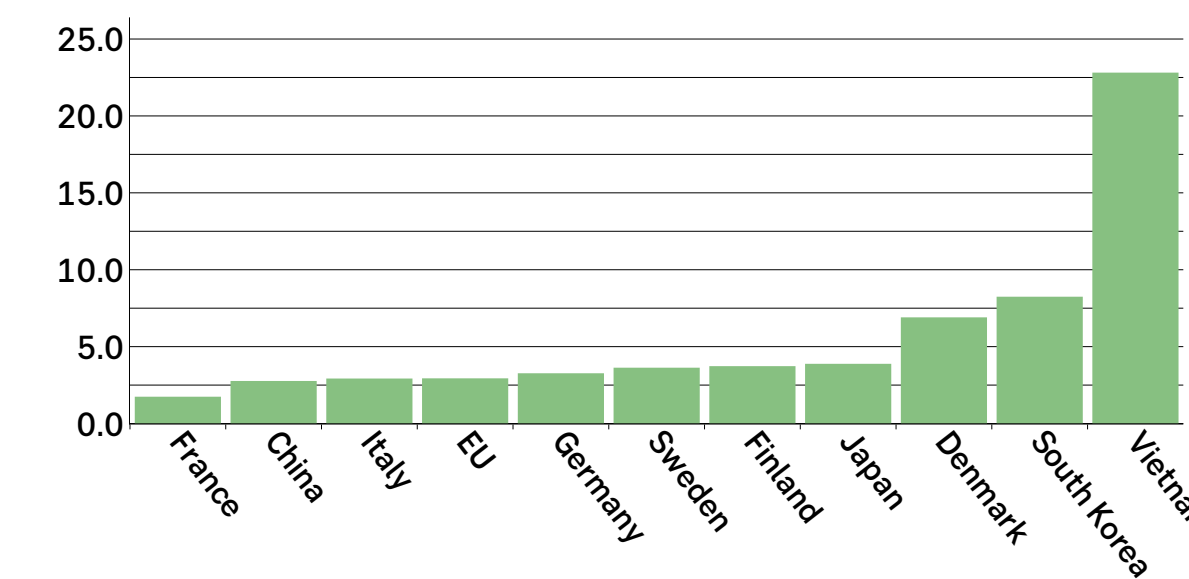
Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, SEB

The idea behind raising tariffs is to favour domestic production over imports and thereby reduce trade deficits. This will probably have the desired effect to some extent, but the question is at what price. The above analysis suggests high consumption, rather than low exports,

is driving the deficits. Replacing cheap imports with domestic production will involve costly and time-consuming investments. It will also be difficult to find labour, given already low unemployment. Imports of goods would have to be more than halved to achieve balanced trade with China and by one quarter to achieve this with Japan and the EU.

Many countries with large trade surpluses risk slower growth if their exports to the US decline. Goods exports to the US are equivalent to about 3-4 per cent of GDP in the EU, and a little less in China. For several other Asian economies, exports to the US account for a significantly larger share of GDP.

Exports to US important to many countries with surpluses



Source: Macrobond, SEB

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes**
- International overview

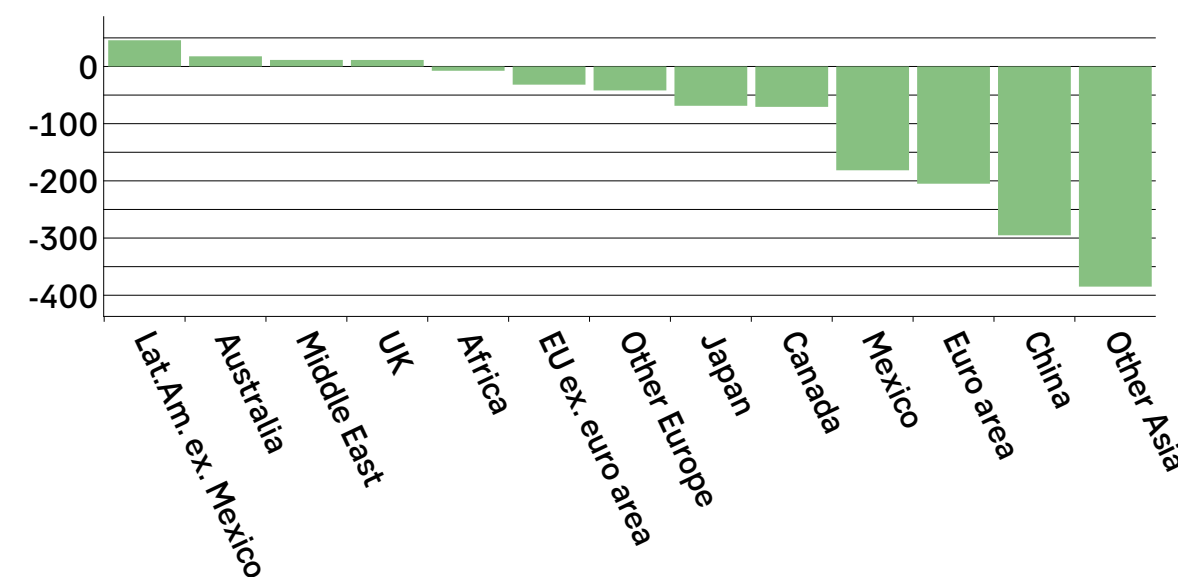
Tariffs a costly solution to global imbalance

One alternative and complementary way to reduce imbalances is for countries with large surpluses to boost their consumption and investments. In many countries, such a process is already partly underway through increased investments in infrastructure and defence, for example in Europe. Demand for exports from the US will therefore rise, but given the sizeable US external deficit, large increases will be required to balance trade. Exports of goods to Japan and the EU would need to increase by over 40 per cent, and such exports to China would need to almost triple to eliminate deficits with each country.

The question is how fast and how much trade deficits can be reduced without a deep crisis for the global economy. During Trump's previous term of office, the deficits did not decrease at all, which did not prevent the trade agreements that were signed at the time from being hailed as a major success. However, the president's approach is more aggressive during this term of office, and tariffs look set to be raised significantly more. A 10 per cent increase in all tariffs would mean an increase in the cost of imports equivalent to nearly 1.5 per cent of GDP. We estimate that this would increase consumer prices by 1-1.5 per cent over the next 12-18 months. For exporting countries, such a cost increase would be manageable. Although it would represent a setback and mean lower sales, it would not be crucial to growth over the next few years. The higher tariffs in our forecast are expected to have a relatively small effect on trade imbalances, but if tariffs end up significantly higher, they would have a major impact on consumers in the US and producers in surplus countries.

More balanced trade would be good for stability in the long term. In its annual report on trade, the International Monetary Fund (IMF) states that adjustments should be made by both sides, i.e. countries with surpluses should take steps to reduce these and vice versa. High tariffs risk harming economic growth both in the US and globally, especially if they lead to an escalating trade war. A more gradual adjustment of trade with the US would thus be preferable.

US has goods trade deficit against almost all regions



Source: Macrobond, SEB

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview**

Weak global economy because of tariff war

2.8%
Global growth in 2025

1.6%
Swedish growth in 2025

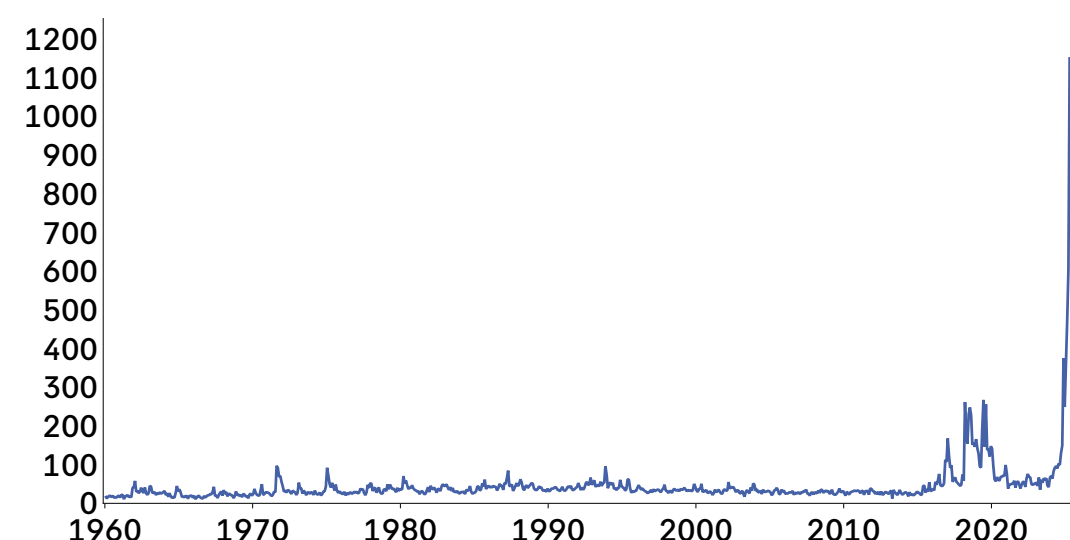
1.1%
US growth in 2025

“International overview” is an excerpt from the *Nordic Outlook* macroeconomic report; find the full report at seb.se/nordicoutlookreport. Growth potential was relatively good at the start of 2025, but White House policies have radically changed growth and market conditions. Politically imposed uncertainty is causing businesses, households and financial markets to hesitate, leading to slower growth, volatile markets and a weaker dollar.

Political uncertainty dominates forecasts

The rules-based international order, in terms of trade policy and economics, is in turmoil. Tariffs and geopolitics – and the uncertainty surrounding them – are driving sentiment, forecasts and markets. Unpredictable, hard-to-interpret initiatives and decisions by the White House have led to an unusually uncertain situation and global economic policy confrontation. The trade war will be without a winner, and the price of current US tariff policy and uncertainty will climb the longer it endures.

High trade uncertainty

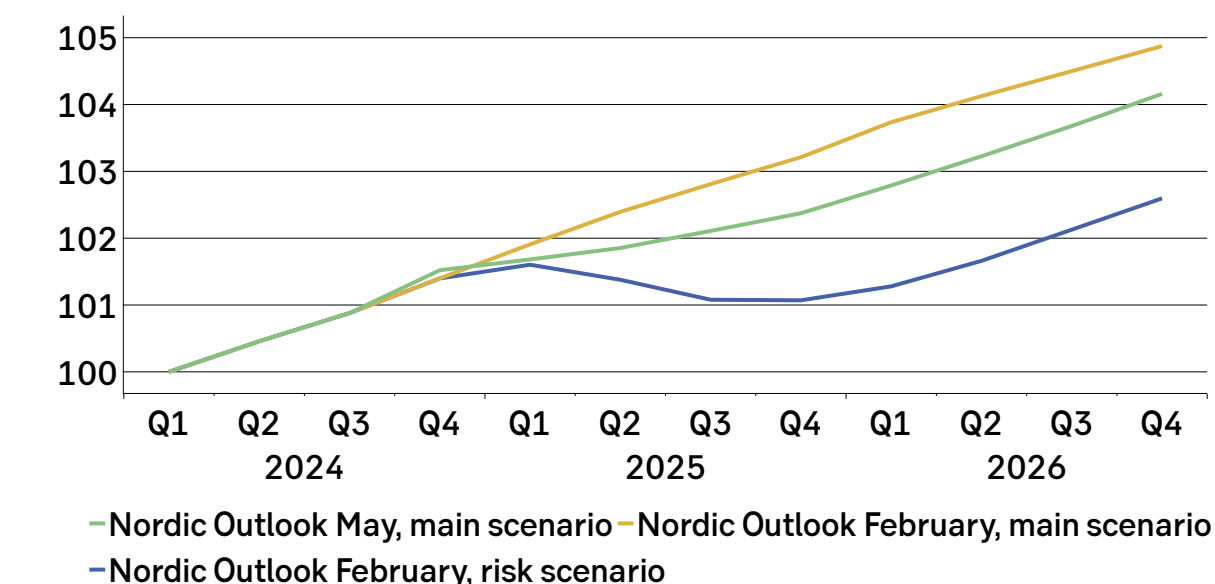


Source: Matteo Iacoviello, Macrobond, SEB

President Donald Trump’s tariff announcement in early April radically changed the situation. Global growth prospects are now clearly deteriorating among major economies, especially the US and China. The impact on the euro area is more limited. The downward revision in our 2025-2026 GDP forecasts due to tariffs totals about 1.5 per cent for the US, half that much for China and a few tenths of a point for the euro area. Confidence in the US economy and policies – nationally and globally – is falling, and a large negative growth effect is due to economic policy risk and uncertainty. A large part of our downward revisions will thus not be reversed if tariff levels are lowered. Global GDP growth will end up a bit under 3 per cent annually in 2025-2026 – low in a historical perspective. US growth has slowed sharply this year and is teetering on the brink of recession; The growth rate in 2025-2026 will be nearly halved, compared to February’s *Nordic Outlook*. China will not achieve its politically established growth target of 5 per cent, and the Chinese economy is probably growing more weakly than the official statistics show. The euro area is doing better, thanks to German fiscal stimulus. Our current forecast for the 38 mainly affluent OECD economies is halfway down to the negative alternative scenario in our last issue, and downside risks have increased.

The US and China are clearly on an economic and security policy collision course. Their differences are visible in several fields: political, trade and financial. Since April, it has become clear that the US, with

OECD growth compared to before the tariff shock



Source: Macrobond, SEB

Trump at the helm, will not shy away from economic and financial setbacks – at least short-term ones – but the pause in many tariffs to allow negotiations shows that Trump is not tone-deaf to market reactions and warnings from certain influential people. At the economic level, the problem of the large US trade deficit is more complicated than tariffs can solve. Consumption, investment and savings imbalances create global tensions but are hard to manage in the short term. The EU, a region we believe both the US and China want on their side, must navigate between these giants. Given the right policies, the EU can end up as a relative winner.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview**

The economic situation and market assessments of Trump's first 100 days in office are mediocre, to say the least, and the American economic exceptionalism of recent years is over. Stock markets have fallen, fixed income markets have been destabilised, metrics such as the VIX volatility index have occasionally skyrocketed and confidence in the US economy has been damaged, which is evident from the fact that the dollar has fallen to its lowest level in three years despite higher Treasury yields. This raises the question of whether US government securities can be regarded as risk-free assets. We expect a continued news-driven and volatile financial market, a weaker dollar and lower central bank interest rates.

Global GDP growth

Year-on-year percentage change

	2023	2024	2025	2026
United States	2.9	2.8	1.1	1.3
Japan	1.5	0.1	0.8	0.8
Germany	-0.3	-0.2	0.2	1.1
China	5.4	5.0	4.2	4.0
United Kingdom	0.4	1.1	0.9	1.2
Euro area	0.4	0.9	1.0	1.2
Nordic countries	0.3	1.7	1.6	2.1
Sweden	-0.1	1.0	1.6	2.9
Baltic countries	0.3	1.2	2.2	2.4
OECD	1.7	1.8	1.3	1.4
Emerging markets	4.8	4.4	3.9	3.8
World, PPP	3.5	3.2	2.8	2.8

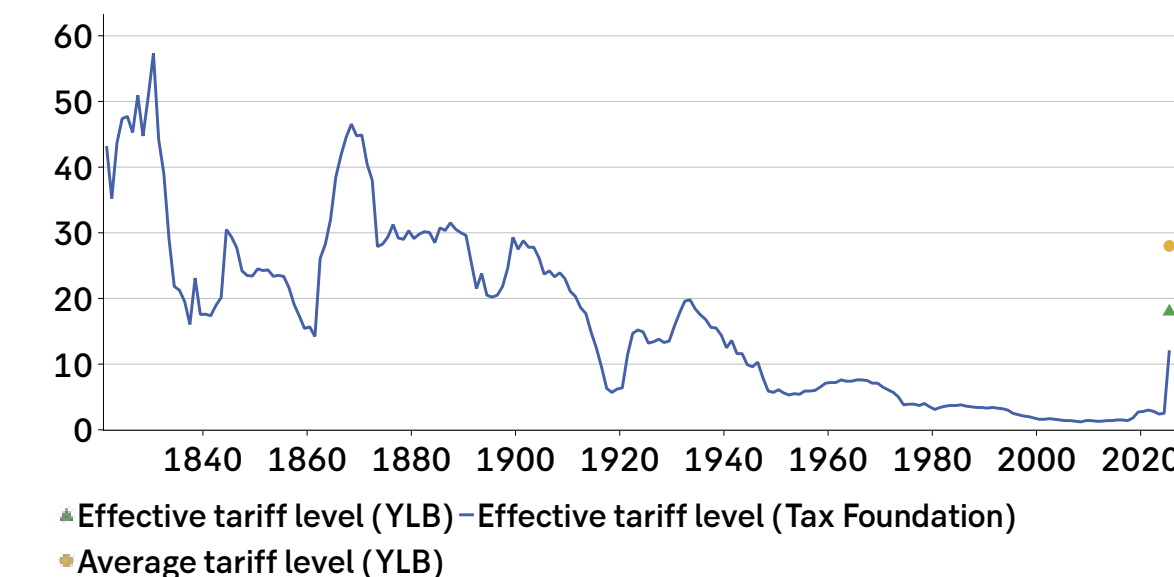
Source: OECD, IMF, SEB. PPP=Purchasing power parities

What is the aim of US tariff policy? For President Trump, tariffs are a multi-purpose tool, with many applications: immigration, trade, reducing the influx of drugs, boosting federal revenues, shrinking the trade deficit and bringing production home to the US. In addition, there are goals such as ensuring that strategic goods are produced at home, even if it seems difficult to achieve this in today's specialised world. All in all, this suggests a high level of tariffs, even after negotiations. Given Trump's history of breaking existing agreements, it also suggests that uncertainty will remain, even if new trade agreements are signed.

How high will tariffs be? The average tariff rate on US imports is currently just under 30 per cent. We have not seen such high tariffs in more than 100 years (effective tariffs are somewhat lower). So-called "reciprocal" tariffs, and America's extreme China tariffs, make trade essentially impossible. In view of global specialisation, this will not work in the long run, unless the goal is a full-scale embargo. In this forecast, we assume that the 10 per cent general US import tariff will remain largely unchanged – the revenues will help finance US tax cuts. Some sectors will have a higher level (up to 25 per cent), but we will probably also see a number of exemptions. Some countries, especially China, are also likely to be the target of higher general tariffs than others.

Tariffs will not only have short-term negative effects on growth. Aside from their near-term impact on trade, growth and financial markets, tariffs are also harmful to medium- and long-term growth. The lack of predictability will make it difficult, if not impossible, for companies to plan. Trading systems will be reshaped, competition will be reduced, and innovation will diminish. For companies, the focus of attention will be on keeping tariffs as low as possible rather than on achieving more efficient production.

Average US tariffs, %



Source: Tax Foundation, Macrobond, SEB

Negotiating trade agreements during the 90-day pause that ends in early July will be a challenge. Such processes normally take years. We assume that it is a matter of providing enough improvements for the US for Trump to declare victory. For the US and China, one way forward may be for both to gradually exempt certain goods from tariffs, which may eventually lead to a favourable enough environment to reach agreement.

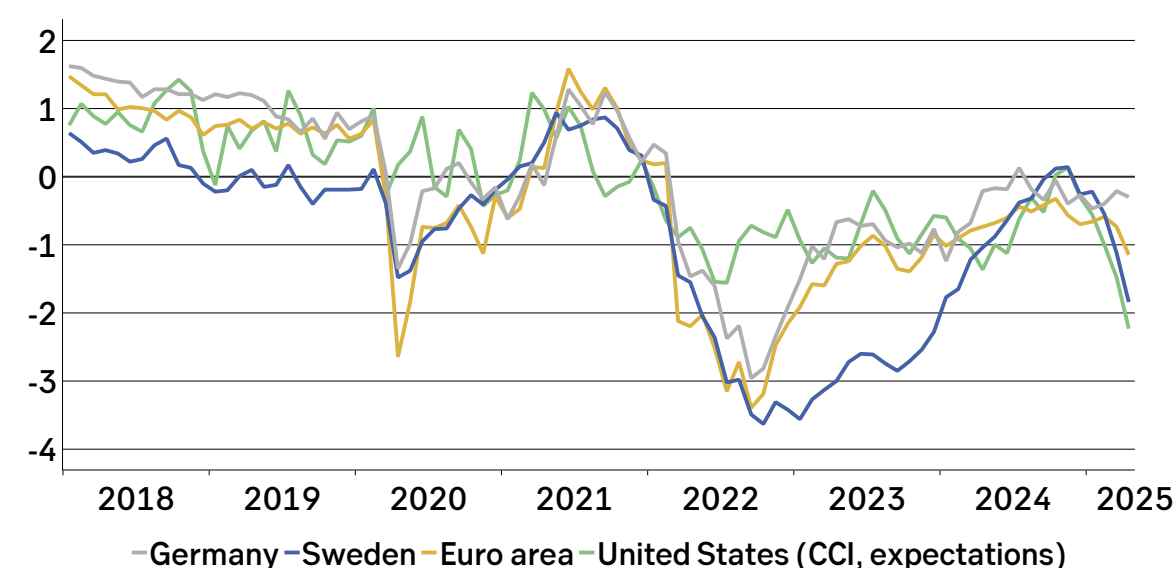
Negotiations are ongoing. We believe that new trade agreements will be concluded, with lower tariff levels. In recent years, households and businesses have built up a great deal of crisis experience and adaptability to unforeseen events. Negotiations are also ongoing in various geopolitical conflicts, such as between Russia and Ukraine, which recently signed a mineral agreement with the US. The weakening of the dollar is part of rebalancing the world economy; German (and European) stimulus is another useful step in that direction. The US and European labour markets have been relatively resilient, and many consumers are ready to spend more, once interest rates and inflation fall. Many countries are developing plans to boost productivity, which will be crucial to long-term economic growth.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview**

The level of tariffs and how much of a country’s trade is affected by tariffs are important factors. But issues such as price sensitivity and the potential for changing suppliers or goods also play a major role. Model estimates made by the International Monetary Fund (IMF) and Germany’s Kiel Institute, among others, clearly indicate that the US and China will be hardest hit, but everyone will be affected to some extent. The differences are explained by the fact that all US imports (except exempted products) are affected; for other countries, it is “only” their exports to the US. This is probably why many countries have chosen not to respond with their own new tariffs. Negotiations will probably result in lower tariff levels than at present, since the countries that impose tariffs have the most to lose.

Today the focus is on trade relations, tariffs, growth effects and how markets will react. But aside from these issues, we are affected as much as before by major structural shifts, where policies and national actions are changing. The green transition will face ups and downs. The US has (again) withdrawn from the Paris Agreement, but security policy reasons and falling renewable energy prices suggest that the process will continue elsewhere. Demographic challenges are increasing, and the technology transition is creating both concerns and opportunities for the labour market and productivity.

Sharply lower consumer confidence in many countries



Source: Conference Board, Eurostat, Swedish National Institute of Economic Research, Macrobond, SEB

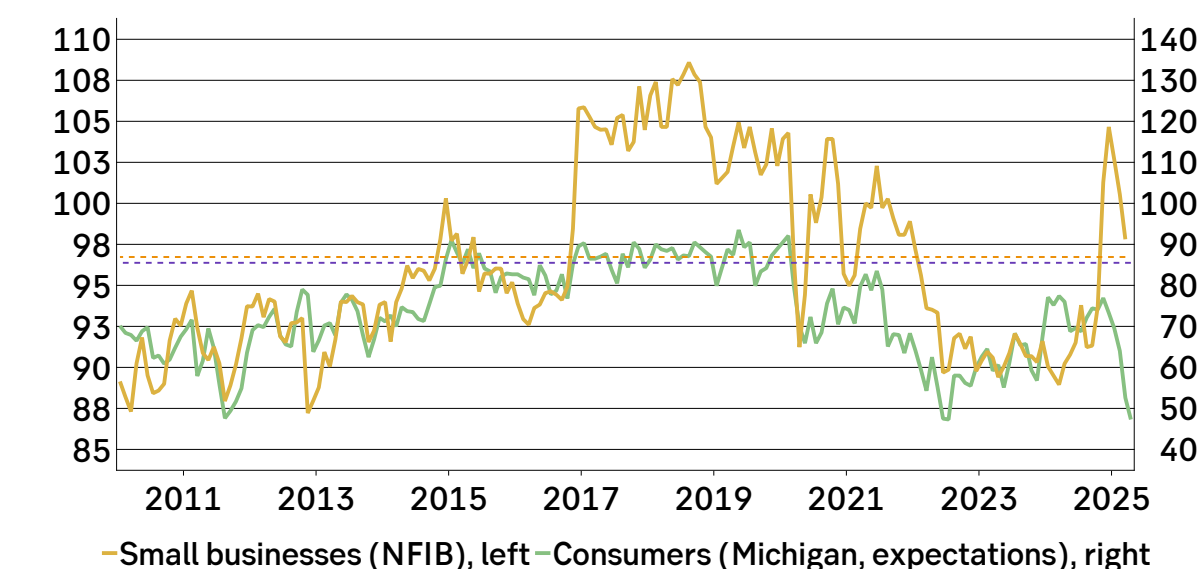
“Our view of the US has changed. The American exceptionalism of recent years – with a rapid growth rate and a strong stock market and dollar – appears to be over.”

Anaemic global economy due to tariff war

At the beginning of 2025, the situation of households looked better than for a long time, but the recovery in consumption has now been put on hold. Concerns about the general economic situation have caused consumer confidence to fall. But positive drivers remain; inflation and interest rates have fallen in many countries, real incomes are rising again, savings are at a high level and despite some deterioration, labour markets are resilient. We expect a weaker, belated upturn in consumption. When uncertainty about the tariff war diminishes, consumption will pick up, albeit with some delay.

Our view of the US has changed. The American exceptionalism of recent years – with a rapid growth rate and a strong stock market and dollar – appears to be over. The economy is slowing due to government policies, not underlying weaknesses. Confidence indicators have weakened, and the order situation has deteriorated. Various transport data such as container traffic point to a sharp tariff-driven import slowdown. Weaker consumption and investments are behind our revised growth forecast, as uncertainty, high prices and Treasury yields as well as financial uncertainty put pressure on households and businesses. Some companies will boost their investments in the US, but the country is no longer viewed as an attractive destination for financial assets. Tariffs will cause inflation to rise to 3.5 per cent this year, but the Federal Reserve will ease monetary policy. GDP fell in Q1 2025, and we have lowered our growth forecast from 2.4 per cent in 2025 and 1.9 per cent in 2026 to a bit above 1 per cent both years.

Optimism about Trump has shifted to pessimism

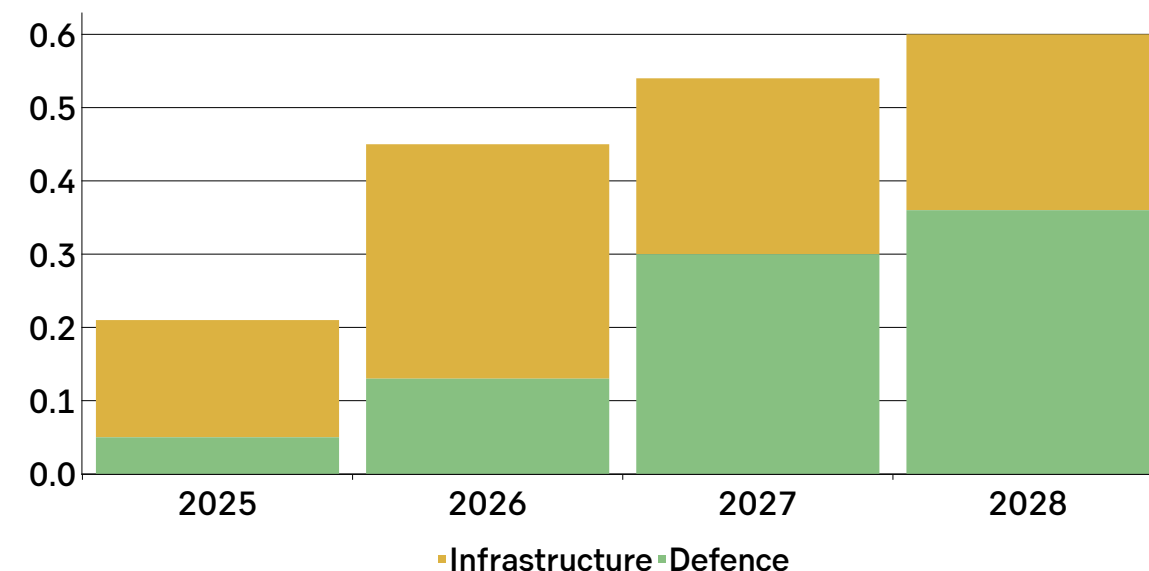


Source: University of Michigan, National Federation of Independent Business, Macrobond, SEB

Will Europe be a winner in the end? Two forces are pulling Europe in different directions. Trade dependence means that the region is burdened by tariffs and uncertainty. But Germany’s decision to ease its “debt brake” and boost its infrastructure investments, together with European security policy investments, will provide fiscal support. Negative tariff effects will impact both 2025 and 2026 but will be offset by more expansionary fiscal policies from 2026 onward. In the tug-of-war between the US and China, the EU may end up a winner, but at the same time it will not be easy for the EU to balance between these two strong-willed countries.

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview

Germany: Growth impact of higher defence and infrastructure spending on GDP



Source: Macrobond, SEB

China, which has responded with counter-tariffs, is clearly the focus of US policies, both economically and strategically. There will be huge challenges to China, with tariffs threatening the role of exports as a growth engine, while problems persist in the property market and domestic demand remains weak. We expect no major domestic reforms. A moderate currency devaluation and export diversification will ease the trade shock and compensate for the downturn to some extent. Growth will not reach Beijing's 5 per cent target but will instead fall towards 4 per cent in 2025 and 2026.

Downside risks predominate

We are lowering the OECD growth forecast in our main scenario and now foresee greater downside than upside risks. Our negative growth scenario is mainly connected to US policies. We have seen how tariffs, uncertainty and volatility have led to turmoil in financial markets, including doubts about the role of the dollar, high American stock market valuations and whether US government borrowing will be sustainable. A negative domino effect from tariffs and financial market uncertainty could make the downturn more severe and lead to global spillover effects.

Scenarios for the OECD countries

GDP growth, per cent

	2023	2024	2025	2026
Main scenario	1.7	1.8	1.3	1.4
Negative scenario			0.5	-0.1
Positive scenario			1.9	2.4

Source: SEB

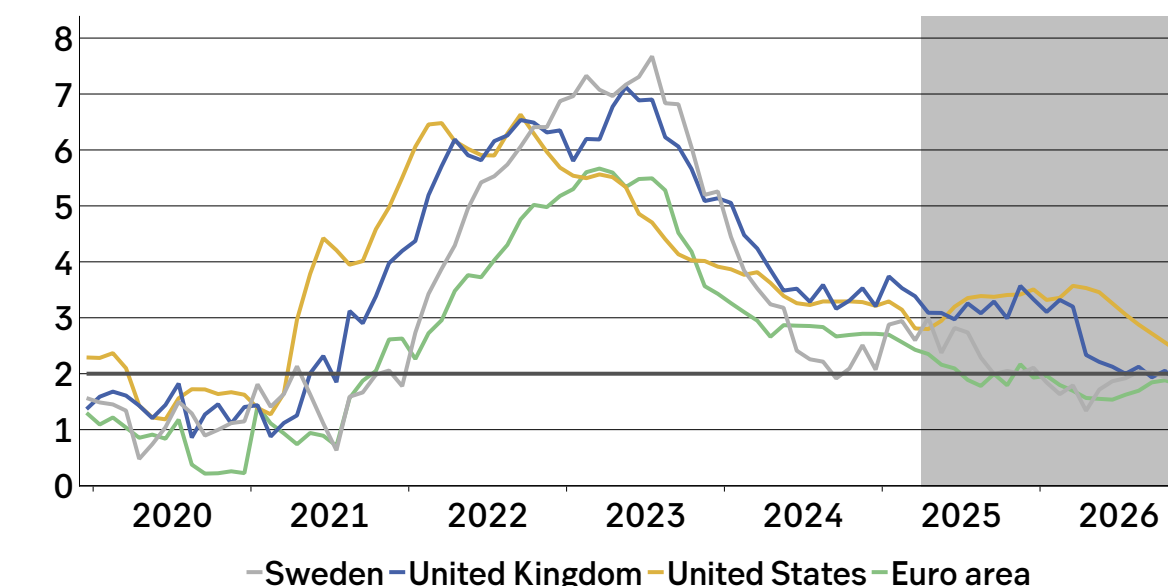
There are portions of Trump's policies that are growth-friendly, such as deregulation and certain tax cuts. If tariff negotiations ultimately lead to lower tariffs, compared to "Liberation Day", and if global uncertainty can heal, at the same time as European stimulus measures have a greater positive impact than we expect, growth could surprise on the upside. If China meanwhile addresses its structural problems, the situation may improve further. But upside potential is more limited, due to already strained labour markets.

Deflationary forces predominate

Inflation developments will vary during the coming years depending on the country and time horizon. The impact of tariffs on goods prices is the dominant new factor. Meanwhile we foresee continued steps in the right direction as regards other inflationary factors.

Tariffs will lead to wide gaps between US and euro area inflation. Euro area inflation will reach 2 per cent in mid-2025 as the rate of wage increases – the previous inflation problem – slows. The big difference, and what will interrupt the US inflation downturn, will be goods inflation as imports become subject to tariffs. This effect becomes clear when we compare our US and euro area forecasts for goods and services, with US goods inflation rising by as much as 7 per cent at worst.

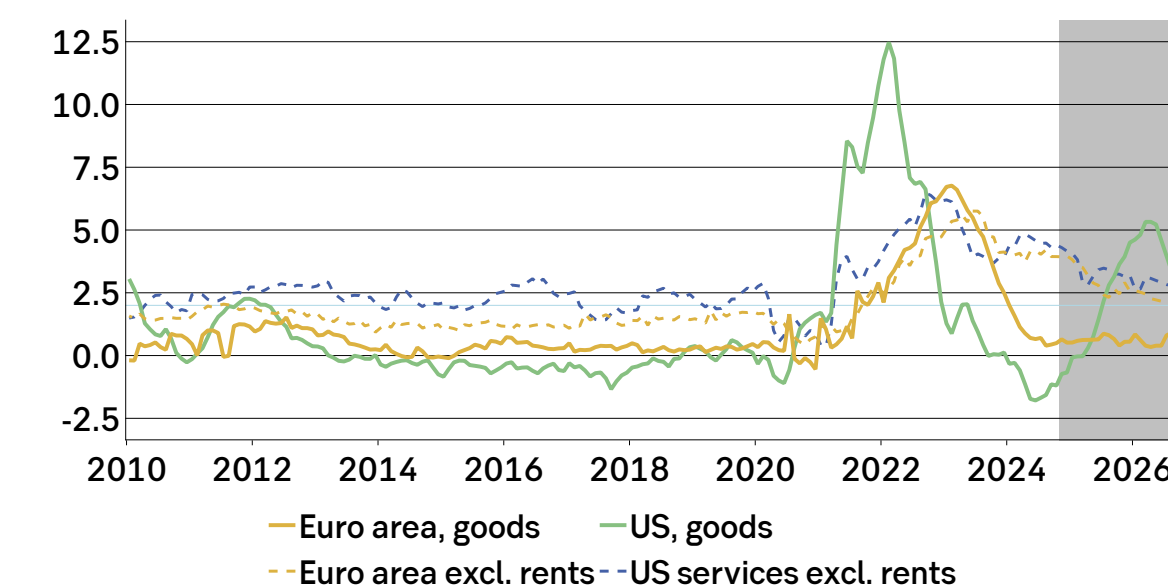
Core inflation on its way down, but at different speeds



Source: Macrobond, SEB

US tariffs provide an inflationary impulse, in the US. The US accounts for a large share of global final consumption and in many areas is dependent on imported goods. Given higher tariffs, it will be difficult for companies to avoid price hikes, an effect similar to a value-added tax (VAT), but only on imports. In addition, prices of tariff-exempt and domestically produced goods may increase if companies realise they can raise them. Meanwhile the economy will slow and demand will decrease, which will have a certain countervailing effect.

Service prices will remain above historical averages

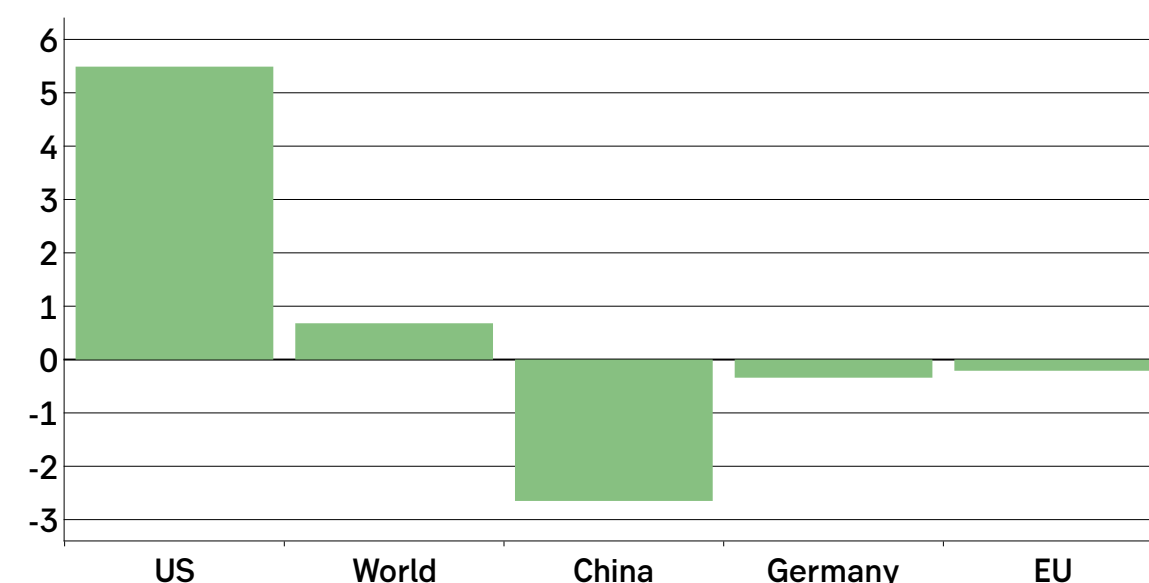


Source: Macrobond, SEB

- Introduction
- Summary
- Our market view
- Our portfolio
- Global equities
- Nordic equities
- Fixed income investments
- Themes
- International overview**

For the rest of the world, the effect of tariffs will be a tug-of-war between different forces. In countries that do not introduce counter-tariffs, there will be no direct price-raising effect. Instead, we believe some countries may experience a slight downward effect on inflation as global demand slows as excess capacity and former US imports from China and Southeast Asia find other markets. This is in line with estimates by international organisations of the impact of US tariffs, although in a complex economic environment such model-based estimates should be taken with a grain of salt. There may also be restraining effects such as a weak dollar, lower energy prices and potential efficiency and productivity increases due to artificial intelligence (AI).

Effect of tariffs on goods prices, %



Source: Kiel-institute, SEB

There are indications that some companies are planning to smooth out the cost increase from tariffs on a global basis, i.e. the rest of the world will have to partially compensate for squeezed margins in the US. For example, producers may want to set a global price for consumers. We do not believe this effect will be crucial; if we are wrong, inflation in Europe will end up somewhat differently.

“The euro area does not suffer from a lack of capital, but to some extent a lack of self-confidence.”

Fiscal tightening on hold

Due to recurrent crises and stimulus packages, with only moderate consolidations in between, public sector deficits and debt are already high in many countries and are being further squeezed by rising bond yields. Due to politics and realities, cost-cutting will be postponed. We do not expect a debt crisis, but episodes of market nervousness will limit policy choices.

Trump’s policy agenda includes investments in border controls and deportations as well as tax cuts. His tax agenda will be especially difficult to finance, despite tariffs and DOGE/Elon Musk’s cost-slashing efforts. Trump’s financing includes some optimistic assumptions and there is a risk of higher deficits, contributing to higher Treasury yields and a weaker dollar.

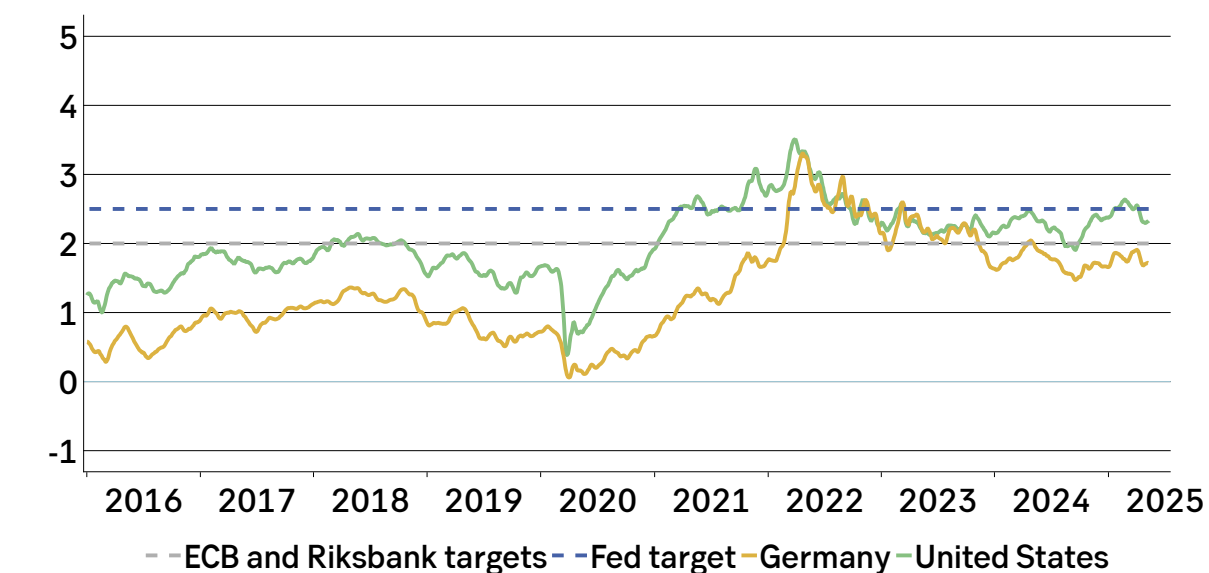
The euro area: Capital spending and defence

The war in Ukraine, tensions between the EU and the US and the recent German election, leading to a new coalition government, have led to less focus on cost-cutting and more on fiscal spending and reforms. Because of tight budgets and a difficult political balancing act in some countries with fragile governments, such as France, Germany will provide most of the region’s stimulus. Deficits are increasing slightly in the overall euro area, and the fiscal policies are moderately expansionary. The region does not suffer from a lack of capital, but to some extent a lack of self-confidence. Given insufficient public financial muscle, the region must come together, streamline its capital markets and create incentives for private capital in order to boost investments and growth.

A complex situation for central banks

Central banks face increasing complexity and are being forced to navigate a changing economic and political landscape. Inflation has fallen in many countries but remains above target. This raises some concerns about lasting changes in pricing behaviour. Inflation worries have increased, although generally stable inflation expectations allow manoeuvring room for monetary policymakers. We believe that interest rate policy – in the US and Europe, for example – has good potential to support growth and the labour market through further interest rate cuts during 2025 and 2026.

Below-target inflation expectations



Source: Macrobond, SEB

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

The Fed's forecasting ability and monetary policy are being hampered by the chaotic White House process in trade, immigration, deregulation, austerity and fiscal policy – with uncertain effects on the US and the rest of the world. Trump has expressed a desire to politicise the Fed, which is deeply problematic. This provides support for those who question whether US Treasury bonds can continue to be regarded globally as almost completely risk-free assets.

The structural conditions for monetary policy are also fundamentally changing, challenging central banks' estimates of a neutral interest rate, i.e. the benchmark for assessing whether their policies are expansionary or tightening. Geofinancial fragmentation, increased protectionism and uncertainty about global cooperation are impacting productivity growth, investments and capital flows. If growth potential worsens in the long run due to trade conflicts, the equilibrium interest rate will also fall. If, on the other hand, monetary policy is inflationary, then the neutral interest rate will rise. This means that the equilibrium interest rate as a benchmark will be even harder to interpret and use than at present.

Global financial stability risks have increased this spring, according to estimates by the IMF and other organisations – amid an environment of continued high asset prices, stagnant economic growth and thus poorer profitability, high public sector debt and the risk of rising long-term bond yields. Erosion of confidence in the fiscal sustainability of countries with high public sector debt – as we have seen in the UK, France and to some extent the US – has led to surging bond yields that have created more stress in financial markets. A worrying trend in this context is that today the White House seems to be deprioritising international cooperation, which is important for safeguarding global financial stability.

Inflationary impulses and rising unemployment are creating a dilemma for the Fed. These inflationary impulses come from the supply side (tariffs), not the demand side. As a result, we believe that the Fed views the inflation upturn as temporary and with little

“In a turbulent environment, central banks may need to change their plans quickly.”

Central banks

Year-end key interest rates, per cent

	Apr 30	2025	2026
Federal Reserve	4.50	3.75	3.00
ECB*	2.25	1.50	1.50
Bank of England	4.50	3.75	2.75
Norges Bank (Norway)	4.50	4.00	3.50
Riksbank (Sweden)	2.25	2.00	2.00

*Deposit rate

Source: SEB

risk of spillover effects to wages and other prices. We expect the Fed to cut its key interest rate three times this year and three more in 2026, slightly more than in our previous forecast. Trump is pressuring the Fed and wants to see lower interest rates; we believe that the US central bank will retain its independence, that Fed Chair Jerome Powell will remain in office and that interest rate policy will be managed by the Fed, not by the White House. Gradually lower inflation and a moderate recovery with downside growth risks will persuade the ECB to cut interest rates three more times this year to 1.50 per cent. This is a level below what we regard as neutral.

In a turbulent environment, central banks may need to change their plans quickly. Large movements in government bond yields, exchange rates and the stock market – at the same time as many countries need to issue large amounts of bonds – can create an environment where central banks need to step in to stabilise markets. This means that we should not write off anything in the central banks' toolbox over the next few years, such as interest rate pauses, faster rate cuts or beginning or ending bond purchases.

Continued USD depreciation

The foreign exchange (FX) market has been quite volatile this spring, with the dollar in particular losing ground and all other G10 currencies appreciating. This development is both surprising and expected. Surprising, in the sense that we expected a stronger dollar, initially driven by the fact that US policies would create general uncertainty but would also be growth-friendly. Expected, in the sense that the forces now driving USD depreciation are precisely the ones we previously said would eventually push the dollar in a downward direction.

Currencies, exchange rates

	Apr 30	Dec 2025	Dec 2026
EUR/USD	1.14	1.18	1.22
USD/JPY	143	132	125
EUR/GBP	0.85	0.88	0.91
EUR/SEK	10.97	10.60	10.20
EUR/NOK	11.79	11.55	11.20

Source: Bloomberg, SEB

Introduction

Summary

Our market view

Our portfolio

Global equities

Nordic equities

Fixed income investments

Themes

International overview

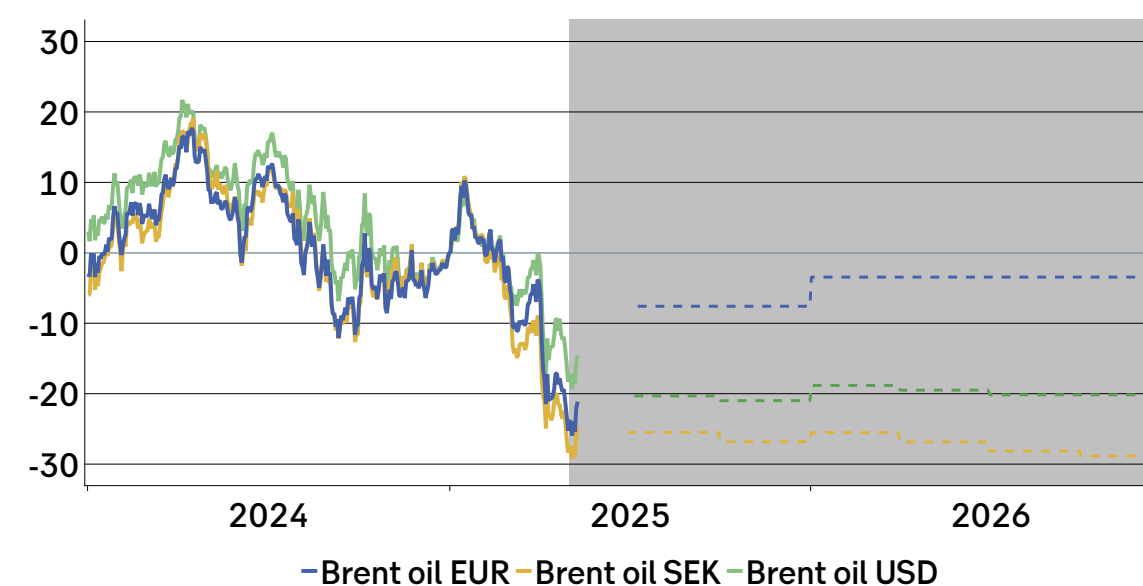
Chaotic policies have structurally damaged perceptions of the US economy, and the shift from the concept of American exceptionalism has contributed to USD depreciation. Meanwhile, perceptions of the EU and the euro area have shifted in a more positive direction, partly due to higher investments in infrastructure and defence – especially in Germany. We expect the USD depreciation we have seen this spring to continue, albeit with a risk of rebounds. Even if tariff levels are negotiated downward, the damage to market confidence in the US economy is permanent and the perception of the dollar has shifted in the long term. The effect will be that investors will reallocate assets from the US to Europe. We also expect companies to currency-hedge to a greater extent, creating a self-reinforcing effect – the opposite of the effect that previously pushed down the EUR, but especially such currencies as the SEK.

Foreign exchange (FX) market volatility is substantial and will continue. Meanwhile the market is moving away from strong USD levels, which means that we regard these shifts more as a normalisation and a movement towards equilibrium levels. Our forecast is that the EUR/USD will move towards a bit above 1.20 by late 2026. The SEK has a long way to go before achieving equilibrium. It will appreciate according to our forecasts but will not be strong. It will move from historically weak levels to more normal ones that are in line with our models; this means that EUR/SEK will reach 10.20 by the end of 2026.

Supply and demand holding down oil prices

After a sharp fall in oil prices in early April – within a few days by more than USD 15/barrel – Brent crude has recouped about half its decline and now costs around USD 65/barrel. For users of the EUR and SEK, for example, prices were pushed down further by currency appreciation. Oil prices are being squeezed by a combination of factors: weaker demand due to growth concerns, production increases by the OPEC+ cartel and price cuts by Saudi Arabia. Our forecast is that oil prices will average around USD 70/barrel in 2025 and 2026. Natural gas prices have also fallen. European gas reserves are slightly below their historical average, and clearly lower than a year ago. The fact that China has stopped importing American natural gas is providing temporary relief for Europe.

Oil prices in selected currencies



Source: Intercontinental Exchange (ICE), Macrobond, SEB

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