SEB House View

8 February 2023

SEB

Overview

House View factors

Macro and Markets

Market and Fair Value Indicators

In Focus

Asset Class and Sector Views

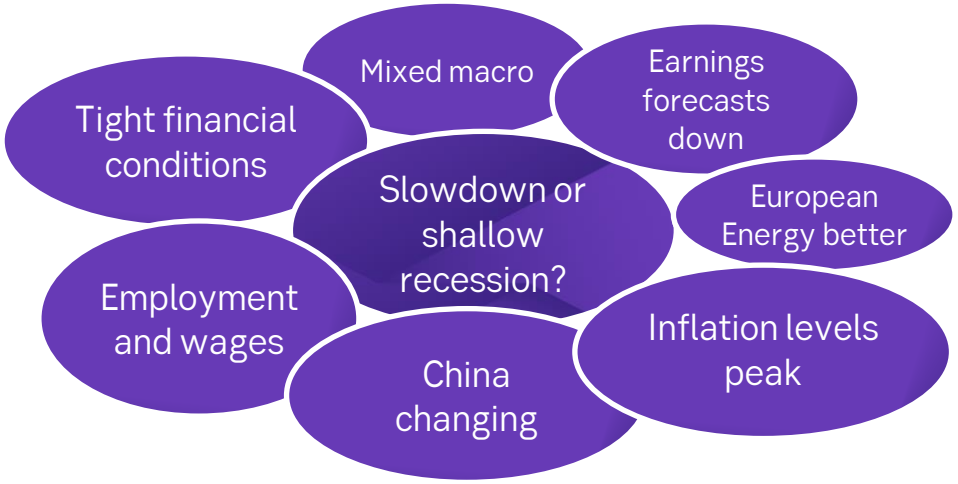
The road to recovery, not easy

A very strong start, new trends…time to increase risk.

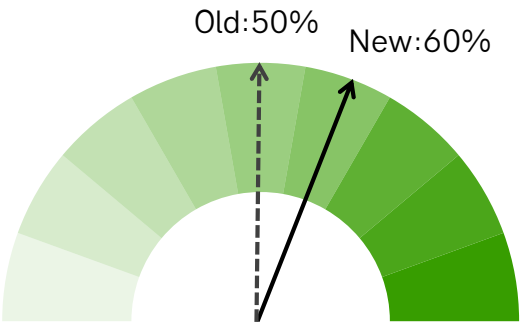
- Markets have continued the very strong trend that started in November last year, but several things have also changed this year, including but not limited to:
  - The decline in government bond yields which led to a quick recovery in growth stocks and high-yield bonds
  - The long underperformance of European and EM reversed to outperformance.
  - Two things drive markets and central banks today, inflation and the risk of deeper downturns in growth.
  - There is little doubt that we passed the peak level of inflation last year, however, there is still uncertainty on the level of inflation to come.
    - But as the trend is your friend in markets and the trend is identified to be lower, we are constructive
  - The risk of recession is a live discussion, but the important thing from an investment point of view is to have conviction on whether we are closer to a recovery than a downturn, this speaks for increasing risk utilization.
    - It is also important to keep an eye on the big picture, especially as data wobbles, and the big picture tells us that we are closer to a recovery
- Central banks are uniformly data driven, in combination with a fear to ease too quickly
- Their latest moves have been to lift rates, which were most likely some of their last interest rate hikes
  - Inflation has probably peaked, FED Chair Powell consistently mentioned disinflation in his last speech, while the ECB continued to have a tougher note
  - From our point of view, the important thing is how far from the downturn are we?
  - And as we think that we are close, this forms our call to increase risk utilization.
    - It is not very likely that we can perfectly identify when the pivot will occur, but it is good enough to see when the likelihoods are beginning to increase as this will gradually turn investor sentiment and drive markets higher

Investment Regime

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



Speedometer



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

Investment Regime: The USD says something

Inflation runs the show

The inflation scenario sets the tone for expectations. We are confident that the pace of price increases have peaked. Looking at wage data, the pace is still somewhat high, especially in the service sector, the FED's favorite. A too strong labor market with sticky wage growth is probably the biggest risk for inflation next year. But commodities, supply chains and less inflation from goods and manufacturing look promising. Some of these factors are still post-covid imbalances that are now being handled. Our inflation indicator, enclosed, is clearly improving.

The FED has changed tone, disinflation is the new theme, we agree

The FED slowed the rate of hikes in January, weary of lag effects after a season of steep hikes. Their move was expected. To see the effect of past tightening and a permanently higher wage situation would be a challenge. If we look at the different forecasts for next year, they almost uniformly point to 2% - 5 % inflation by the end of 2023. If we look at classic monetary analysis, the suggested pace down will be quicker because the current, very low monetary growth indicates sharply falling inflation. The tighter monetary policy and shift in inflation in 2022 have been strong, lending has almost stopped expanding and the correlations are historically high.

The business cycle... and earnings downgrades

The tone in macro forecasts are shifting. The likelihood of avoiding a recession is increasing, and the outlook for Europe and China has materially improved as the energy crisis and Covid policies have eased. Several major houses think that the US will avoid a recession in 2023. Growth is supported by high levels of employment, solid nominal wages and generally stable climate. This reduces risks and it is important to reflect on the difference between nominal and real variables. Earnings are nominal and growth is real. Earnings forecast are generally being revised down, economic data and price pressures are taking their toll. One observation is that volumes seems to be good in the reporting season and that is supported throughout the year with better growth forecasts, but margins are challenged by wage costs and higher input prices. Our forecasts point to higher expected EPS y/y and returns in Europe and Asia. Add to that expectations of a weaker USD, and the profile of a different investment year than last year materializes.

Macro Advantage US, optionality China	• US soft landing is more likely • China has a glimmer of hope, Covid and real estate is potentially better • Europe is in a new light • Consensus points to a U-shaped economic recovery in H2 2023
Central banks Everybody has tightened, enough?	• FED hikes, a bit less, or even the last? • Financial conditions are still tight, time to assess cumulative effects • China and Europe is an exception, better monetary growth
Politics Fiscals are somewhat tight	• Policies are surprisingly tight, but energy investments are supportive • We will see some compensating programs from governments • Long-term investment incentives for green transformation and defense
Corporates Does valuation reflect lower earnings?	• Inflation keeps the E in P/E high for now, but it will be challenged • Most companies will tighten margins • We are on the road to higher multiples as the easier monetary policy is within reach

RISKS Persistent inflation | FED policy mistake | Global recession | Political risks

Asset Allocation

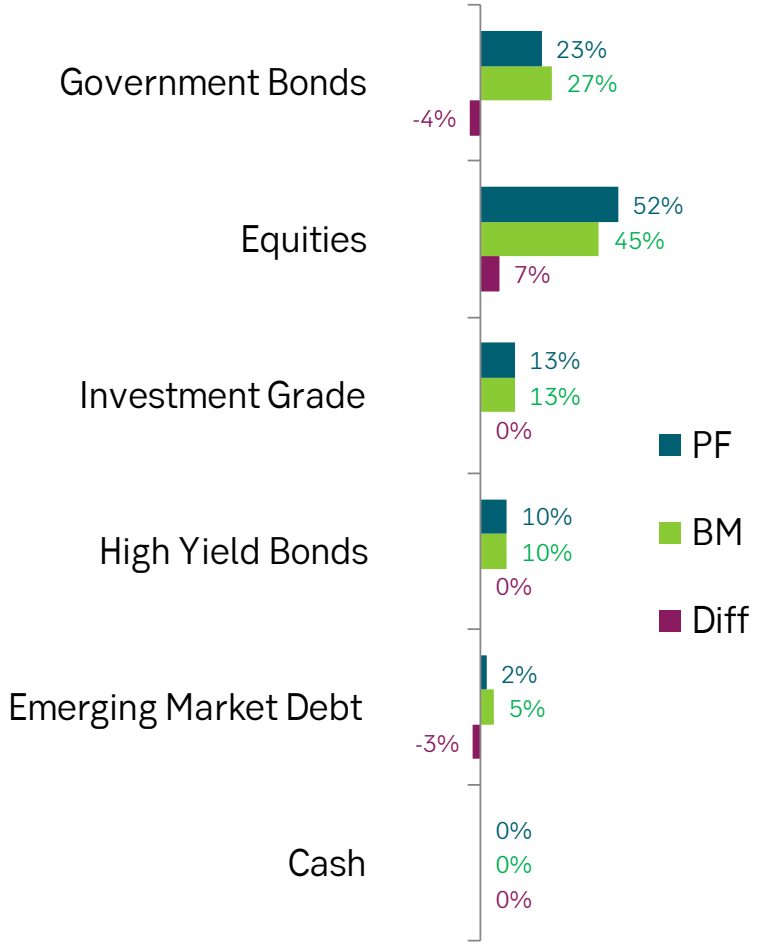
The road to disinflation is important

- Markets have faired well as the road to lower inflation reigns, monthly inflation is close to nonexistent and the likelihood that this is what will be important is high
- Lower inflation and a slightly better growth environment are positive for markets, we therefore lift our risk utilization to 60% from 50% and increase our equity position
  - Our decision to lift our position in equities is to some extent to reflect that our portfolios have drifted higher, but more importantly, to actively add equity risk
  - Our higher allocation in equities shall be seen in the context of slightly better macro forces and a high probability of lower interest rates going forward
- An important observation is that investor sentiment is still defensive, with historically high cash levels and low positioning in futures, which gives room for new market highs
- If the ongoing disinflation continues long-term government bond yields will decrease this year, which is in line with the high probability of a central bank pivot around 3Q
  - Lower bond yields is an important driver of equity valuations
  - In other words, it is not irrelevant to think in the context of a renewed TINA situation given that bond yields can fall below earnings yields of equities
  - Despite that a TINA scenario feels distant today, instead imagine what will happen in case the strong disinflationary trend continues...

We increase the cyclicality of our portfolio

- Our major move is to increase our equity exposure and historically it has been good to buy equities when central banks are close to shifting their policy after a hiking period
- From a macro perspective, if PMIs are at sub-50, closer to 45 as they are today, the entry point is probably more on the right side than if PMIs are around 60
- Our regression analysis shows that a combination of easing monetary policies, rising PMIs and stronger performance of consumer discretionary is a reliable buy signal
- Within bonds, we reduce our underweight in high-yield at the expense of government bonds and investment grade, as we expect the cyclical environment to improve

Model Portfolio



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

Regional Equity Allocation

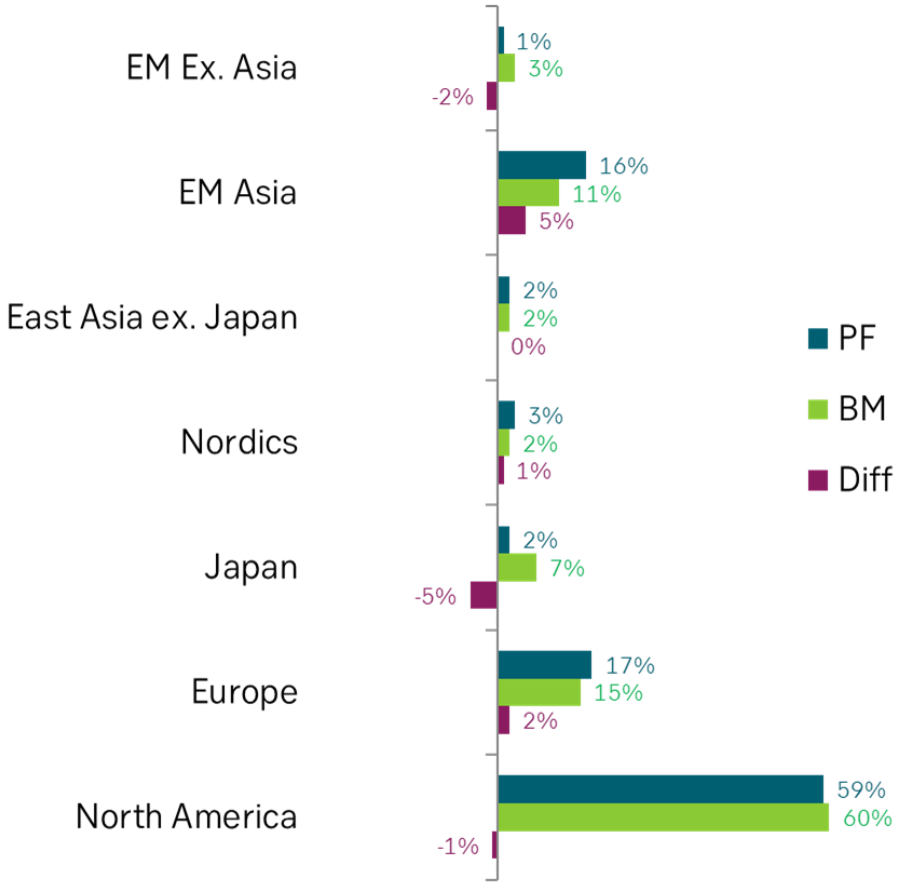
We increase our allocation to Europe, the new USD trend is important

- The most important trends this year have been the change of last years' trends
- US large caps are no longer the same, safe source of returns as they were in the past
- Nowadays, an equity portfolio needs to be diversified globally in terms of regions and currencies to achieve solid risk-adjusted returns
- In light of the discussion above, we lift Europe to an overweight in our regional equity portfolio, as macro forecasts have generally been improving over the last months
  - Europe's energy situation is easing, especially due to lower gas prices
  - At the same time, some regional macro data is showing early signs of a recovery, indicating stronger confidence and demand
  - The ECB is currently on hiking mode which puts upward pressures on short-term rates, but other factors are better, and the Euro is in a good place for now
  - The return of higher interest rates in Europe is beneficiary for banks which makes up a large part of European equity markets
  - Looking ahead, drivers will probably be China's booming post-Covid economy, lower interest rates and energy prices, which should improve Europe's position
- We finance our European overweight by an underweight in the US and EM Ex Asia
  - EM Ex Asia consist to a large extent of Brazil and Argentina which are USD sensitive and in general have companies that are price takers
- Our most pronounced overweight is still in EM Asia, on the back of China's reopening
  - A Chinese population that has been kept at home for over two years is about to let loose a new wave in spending will most likely create demand for everything from cars to travelling, increasing the possibility of Chinese GDP growing well over 5%.
- We also decrease our position in Japan since its equity markets are pressed by the likelihood of a new, hawkish monetary policy for the Yen and the bond markets

The Nordics are still in play and we hold our overweight

- The Nordics is a mix of cyclical value, commodities and defensive growth
- These markets probably have one thing in common, dependency on Europe, and the European markets tend to be seen as a group, which is why we hold our overweight

Regional equity positioning



Benchmark is MSCI All Country

Sector Allocation

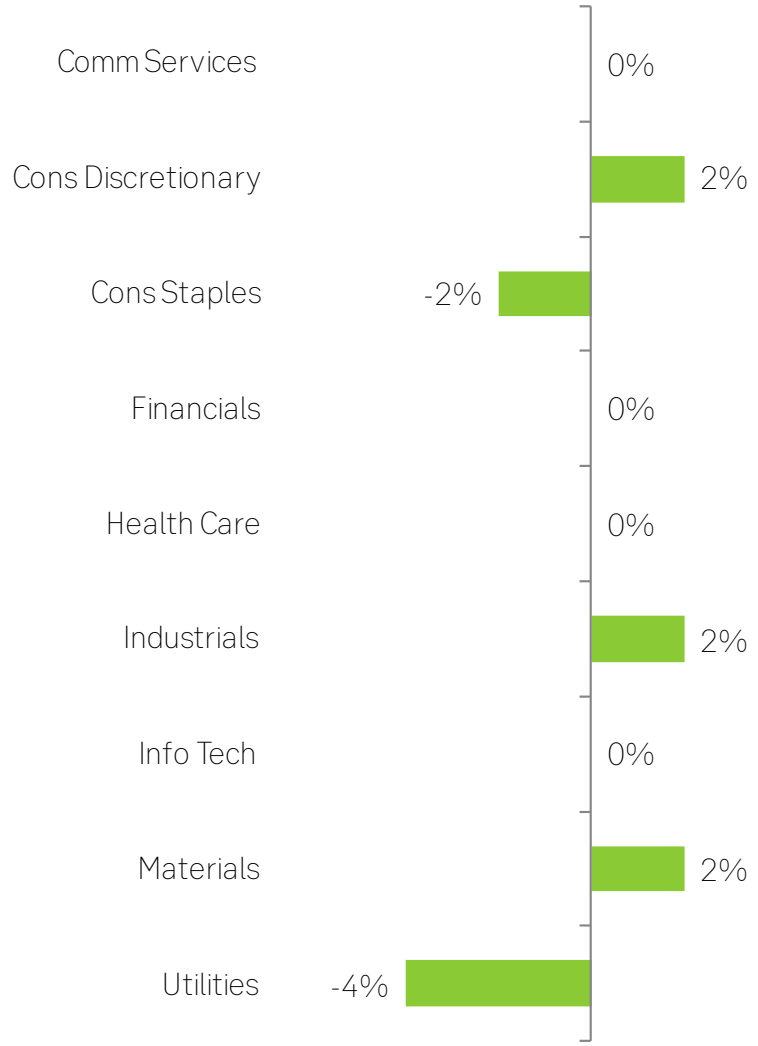
We shift to an even more growth positive position

- Sector performance has shifted over the past months
  - Energy is no longer the sole driver of equity performance and lately other sectors of the equity market have started to outperform the broad market
- We have also seen a shift in performance in factors as small caps has started to perform in line with broader markets and this will continue in our view
- Our change in sector positioning for this period is to take down health care to neutral and upgrade consumer discretionary to a 2% overweight
  - The cyclical shift in earnings should be beneficiary for consumer discretionary in relative terms to the more defensive pharmaceuticals and health care sector

We remain overweight in industrials and materials due to China and global capex

- Generally, capex trends are improving both in the correlations with the credit impulse in China, but also generally in the US and Europe
- Structurally, capex is interesting to have a constructive view on, as the needs for government-supported investments are rising, such as defense and green energy investments in solar and wind power
- The new China optimism shows what will happen when the tide turns on growth in China and this is important for relative sector performance going forward
  - If China succeeds in stimulating its slowing economy to the 5%-region this will support global capex
  - Then industrials and materials come into play and the climate becomes more cyclical, and therefore, we maintain an overweight on these sectors
- Regionalization will probably also create a need to rebuild capacity
- One situation that will be important is that it seems as if bond yields are close to a peak, which will be beneficiary for growth stocks, but demand will stay low
- Recession risks will continue to drive the narrative and they are strengthened by moves in EPS revisions that drive some of these trends, and clearly cyclicals will face a harder climate (see our sector material in the appendix)

Sector positioning



Risks to the Investment Regime

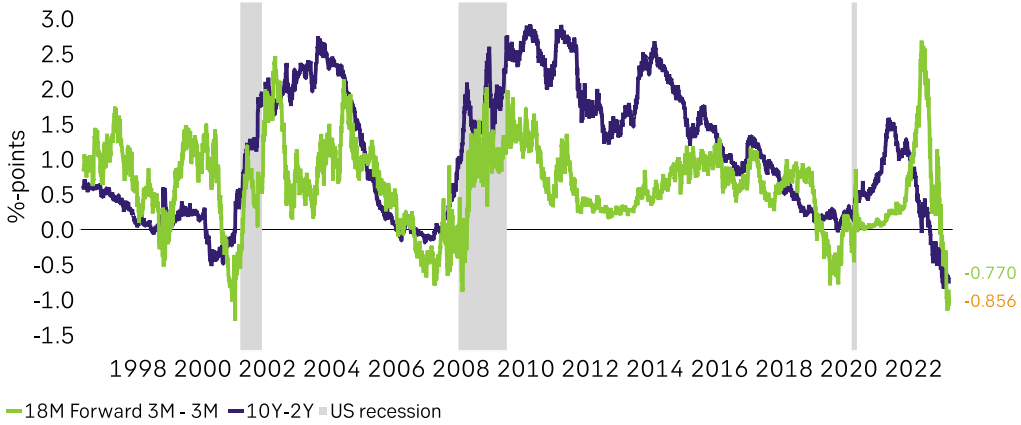
Falling company earnings and compressed profit margins

A sharp drop in earnings forecasts is probably the biggest risk for global equity markets this year. The FED is probably close to a peak level in interest rates while Asian central banks have also signaled ending their hiking cycle in the near-term. Having said that, the combination of elevated inflation and lagged effects of policy tightening from last year could lead to a larger decline in demand than economic forecasts. Consumption in the US has so far held up surprisingly well despite higher living costs, with support from its strong labor market and excess savings. But the risk this year is that demand and consumers spending drops sharply due to a faster-than-expected deterioration in labor market conditions, rising unemployment and shrinking savings. Lower demand would make it more difficult to for companies to raise prices as they did last year, while still high wage growth and input costs further compress company profit margins. Pessimistic CEO confidence in the US indicates that company earnings could fall significantly more than what markets currently discount.

The energy crisis is easing in Europe which reduces the recession risk, however, in the war in Ukraine is still the biggest tail risk in our view

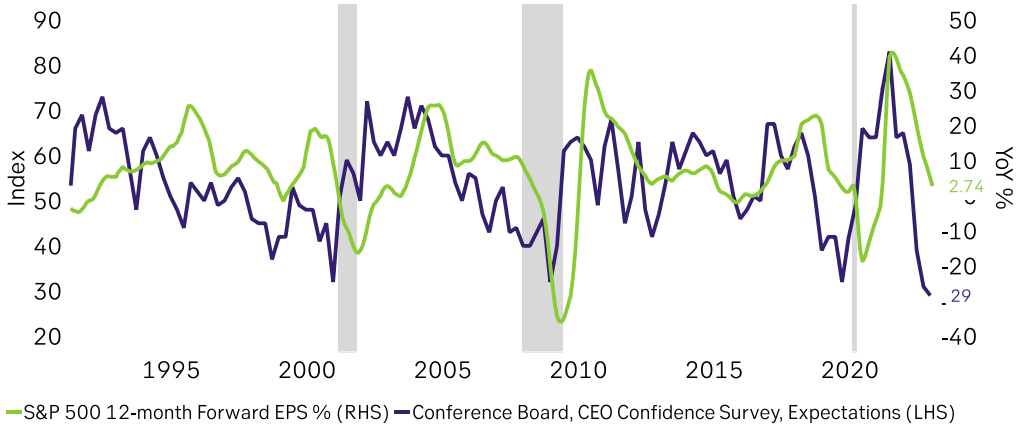
The risk of an energy-induced recession in Europe has fallen remarkably in the past weeks due to a seasonally mild winter, high gas storage levels and falling energy prices. Eurozone inflation has also fallen because of declining energy prices, however, inflation in the region is still far above the ECB's 2% target. The risk of sticky inflation in Europe is that the ECB tightens its monetary policy for longer or higher than expected. A scenario of rising interest rates and elevated inflation would most likely hamper any progress in Europe's recovery. The war in Ukraine also poses significant downside risks to growth and upside risks to inflation and commodity prices, as an escalation could easily disrupt global supply chains.

Figure 1: Both the "near-term forward spread", the FED's preferred recession indicator, and the US 2Y/10Y yield curve signal an upcoming recession.



Source: Macrobond, SEB

Figure 2: Low CEO confidence in the US points to a negative earnings outlook



Source: Macrobond, SEB

Return Estimates

Figure 1: 12 month forward looking return expectations

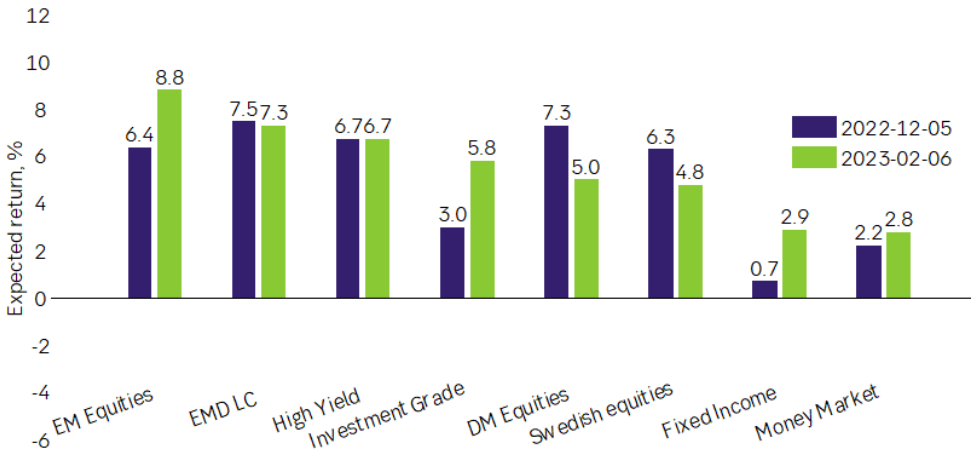


Figure 2: 12 month forward looking return expectations for equities and bonds

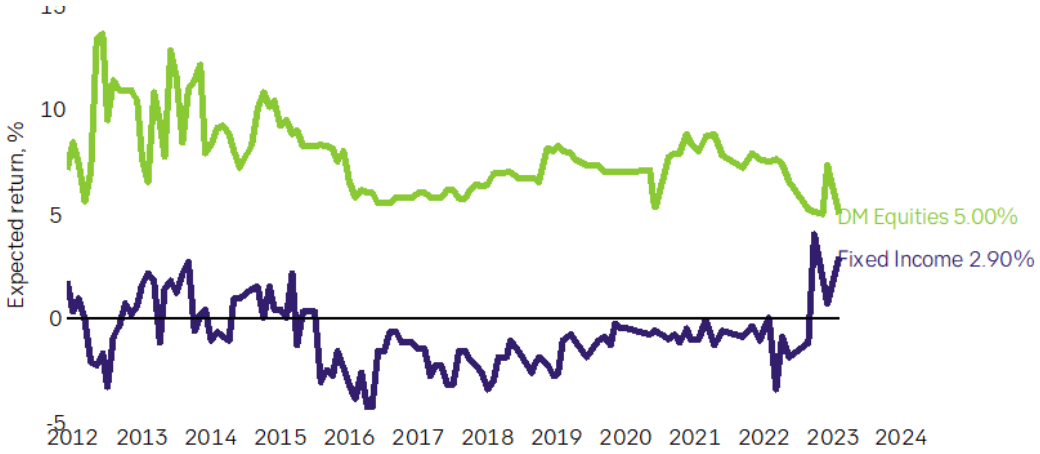


Figure 3: Absolute expected returns

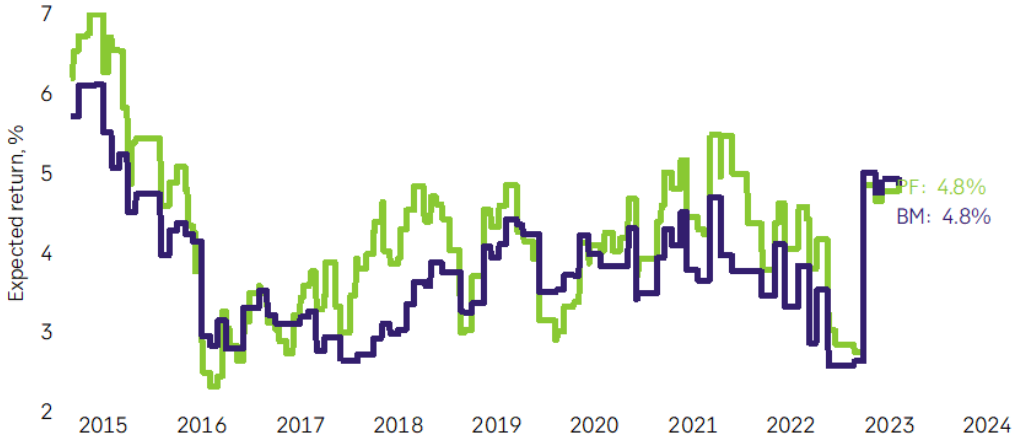
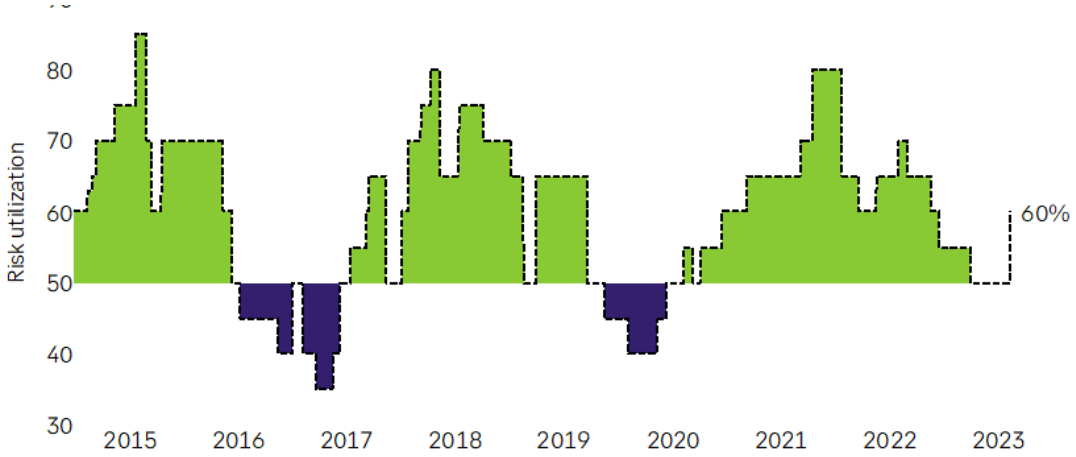


Figure 4: Risk utilization since inception



Historical House View Allocation

Figure 1: Equities

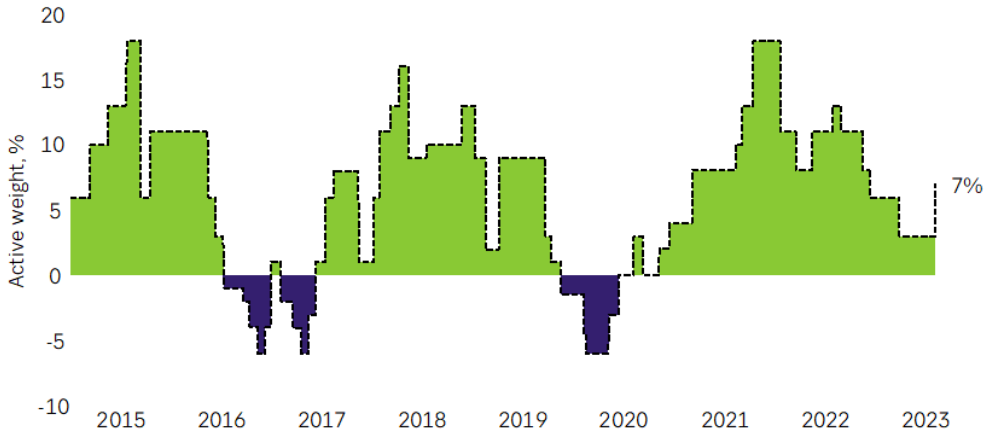


Figure 2: High Yield

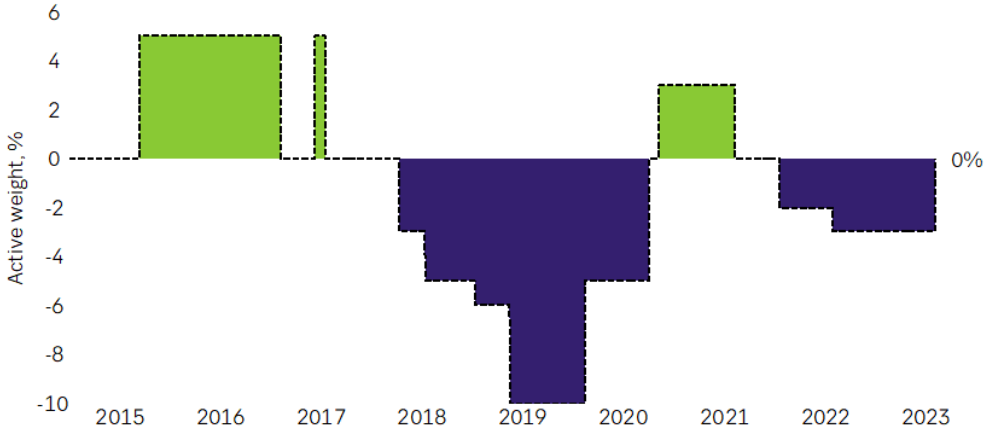


Figure 3: Emerging Market Debt

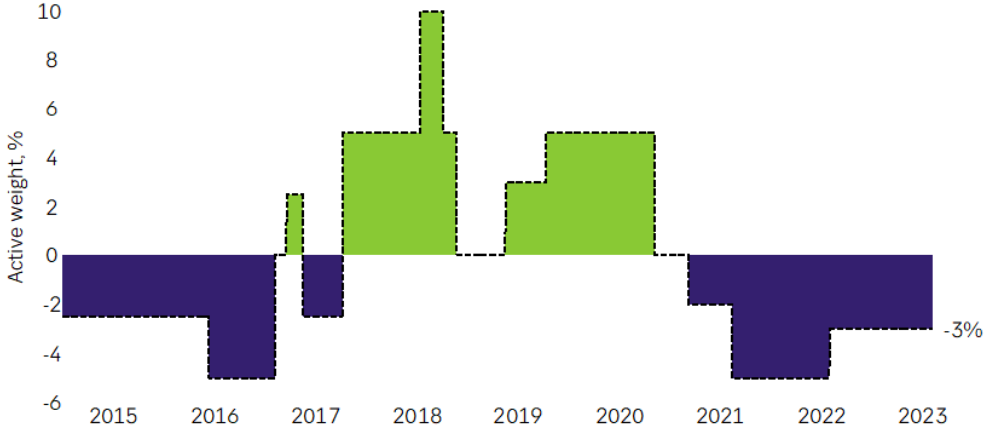
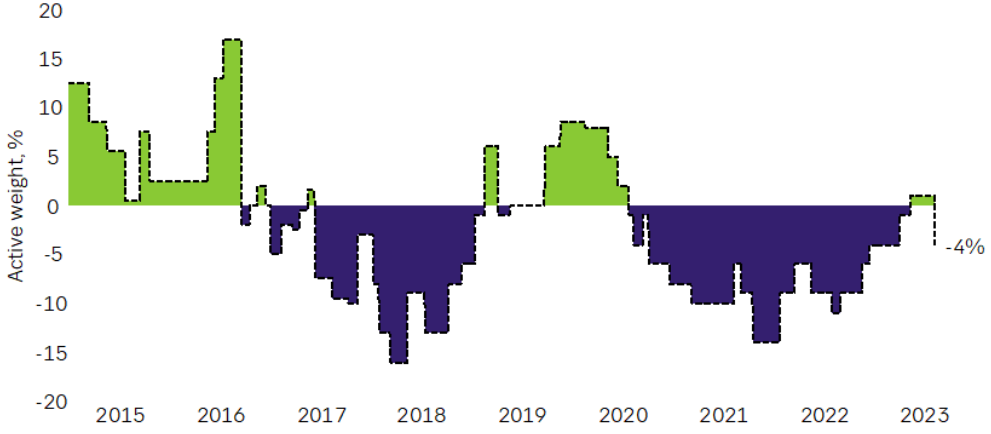


Figure 4: Fixed Income*



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

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House View Decision Variables

Inflation (macro) is the most important factor for tactical risk taking in our view

- Inflation has most likely peaked after falling for months, but is still elevated
- The Fed has signalled that it will stay data-dependent and incoming data on inflation will therefore continue to be of the highest importance
  - There is a lot of focus on Powell's favourite core services inflation measure which excludes housing
- Inflation data shows that the elevated price pressures are easing which is less negative in our view

Earnings have increased in importance amid the fourth-quarter season

- More than half of S&P 500 has reported results and earnings have been quite mixed
- Earnings have fallen year-over-year, but the decline has been less severe than expected and this is less negative in our view

Central banks remain important, but have become less negative

- Investors look to central banks for cues on when their current hiking cycles will end
- In our view, Powell was surprisingly dovish at last week's Fed meeting as he acknowledged that the disinflation process had started, without pushing back on easing financial conditions
  - Markets rallied and risk appetite increased on hopes that the FED is getting closer to a pivot, following Powell's press conference

On a 3-6M horizon, the House View committee decides to increase risk utilization

- In our view, now is a good time to increase the risk of our portfolio due to several positive market developments
  - We expect equities to outperform given the improving macro backdrop, China's reopening, easing inflation and a Fed pivot in the cards

Figure 1: We believe that inflation (macro) is still most important for risk-taking at the moment. Central banks are also important. 4Q EPS is important for equities right now.

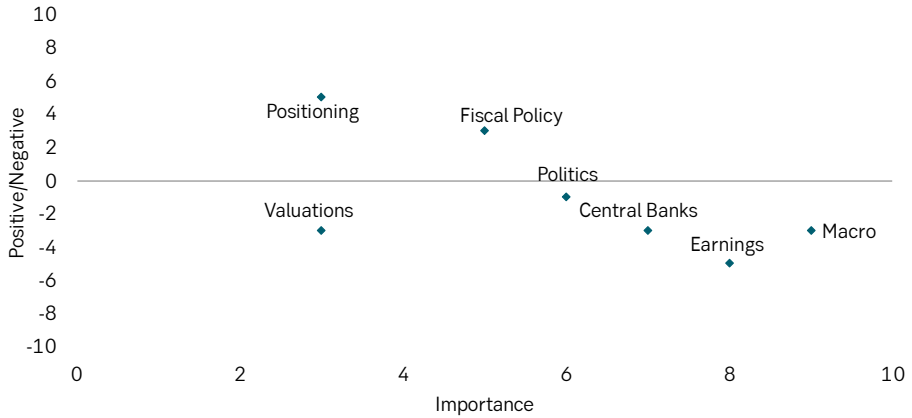
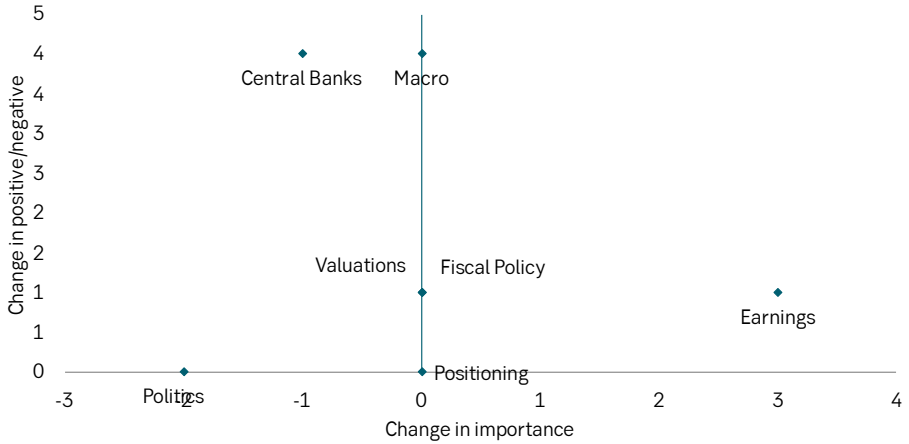


Figure 2: Earnings have increased in importance amid Q4 earnings season, while central banks have slightly fallen. Central banks are less negative after turning more dovish.



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Developments in the Markets

Global equities were off to a strong start in 2023

Global stocks edged higher in January as risk sentiment improved due to positive news on China's reopening, falling inflation and hopes for a Fed pivot. Tax-loss selling and short covering from last year were also mentioned as possible drivers. Major US stock indices advanced last month despite a rather weak Q4 earnings season with fewer positive EPS surprises compared to previous quarters. The Nasdaq composite, which lagged the S&P 500 and Dow Jones index last year, saw the biggest gain in January. There was also a reversal in leadership across equity markets; growth stocks led gains over value stocks, emerging markets outperformed developed markets, Europe outperformed the US and small-cap stocks performed better than large-cap stocks. Cyclical sectors generally delivered higher returns than defensive sectors as well. Last week, the Fed hiked interest rates by 25 basis points at its February meeting which was a slowdown in its pace of hikes from December. Markets continued to rally after Powell's press conference that was seen as dovish, due to his repeated references to disinflation and lack of pushback against easing financial conditions.

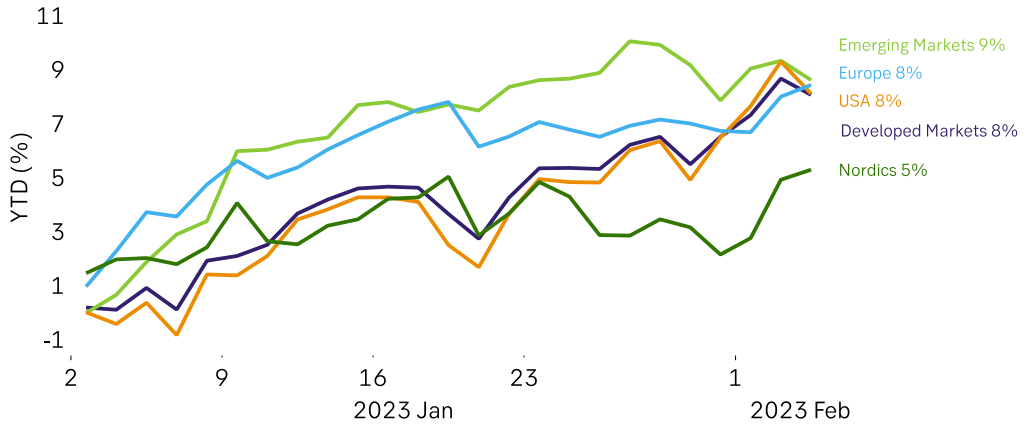
Corporate bonds rallied due to optimism on the macroeconomic outlook

Credit spreads have tightened, especially for high-yield bonds, due to lower recession risks and a more optimistic growth outlook amid China's accelerated reopening. Defaults rates have also remained low. At the same time, Europe's outlook has slightly improved due to the easing energy crisis following a mild winter and high gas inventory levels.

US treasuries rose as bond markets diverged from the Fed

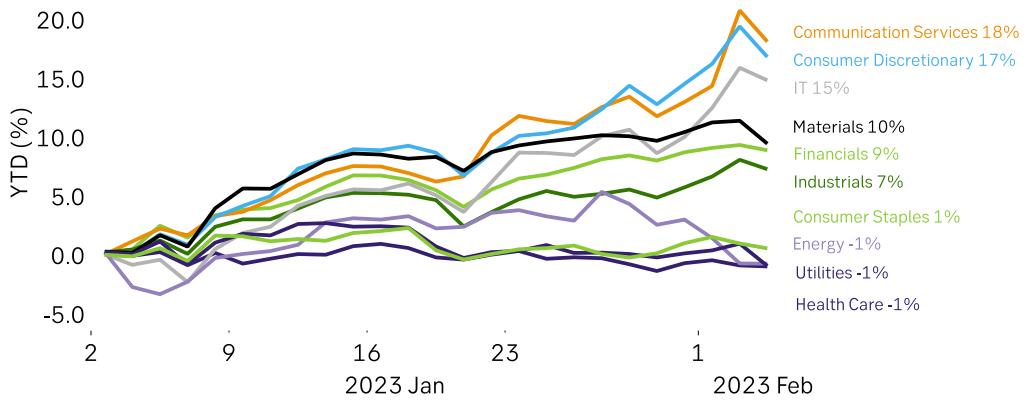
2-and 10-year treasury yields fell from their peaks in late 2022, as data showed that US inflation pressures eased and Fed Chair Powell delivered a dovish policy message in February. Treasury markets appear to have front-run the Fed which has signalled a slowdown in rate hikes, but not indicated that it is close to cutting rates. Bond markets currently expect the Fed to stop hiking rates in the second-half, when it has reached a terminal rate of 5.1%, and then to cut rates later this year.

Figure 1: The "January Effect" led to an upswing in global equities and the strongest gains in January for last year's laggards, such as Emerging Markets and European equities



Source: Macrobond, SEB

Figure 2: Reversal in last year's leadership: cyclical sectors, such as consumer discretionary and materials, have outperformed defensive sectors year-to-date



Source: Macrobond, SEB

Economy – Developed Markets

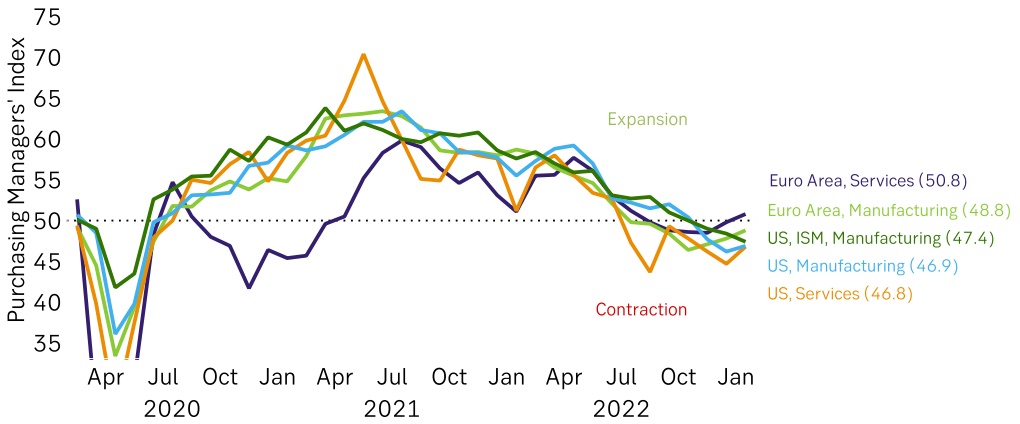
The US jobs market remained tight, but wages and core inflation slowed

- Non-farm payrolls surprised strongly to the upside in January, as the US added 517K new jobs, above the 189K estimated, which signals a still tight labor market
- The Employment Cost Index, a key measure that the Fed watches closely for pay growth, rose less than expected in Q4, indicating that the US wage growth is slowing
- US Q4 GDP growth deaccelerated to 2.9% q/q (annualized), above consensus (2.6%)
  - The biggest drivers behind the GDP growth were rising inventories and declining imports, however, domestic final sales was weak and slowed to 1.4% q/q
- The IMF recently lifted its 2023 global growth forecast, including for the US and Europe due to resilient demand, China's reopening and lower energy inflation
- US core retail sales, excl. autos, gas and food , fell more than expected in December and discretionary spending is being reduced, which signal lower consumption ahead
- Core PCE inflation, the Fed's preferred inflation gauge, fell to 4.4% y/y in December from 4.7% in November, suggesting easing price pressures in line with core CPI
- The ISM Manufacturing PMI slipped into a deeper contraction than expected last month, as companies slowed factory output because of weaker demand

Europe's outlook has slightly improved, but underlying inflation is still elevated

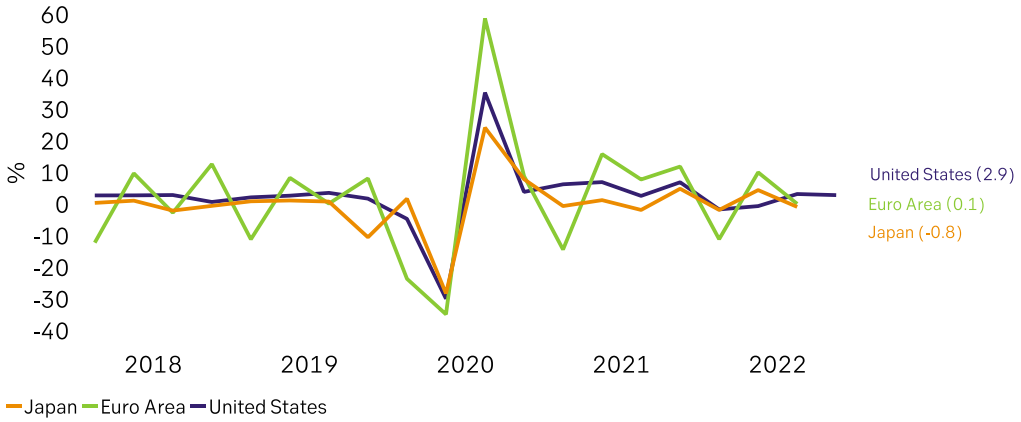
- GDP estimates showed that the Euro Area barely expanded in the fourth quarter, thus merely avoiding an excepted contraction and providing some relief to recession fears
- The Ifo Business Climate survey showed that German businesses were less pessimistic than in December, however, confidence remains close to multi-year lows and GDP data suggests that Germany's economy contracted in the last quarter of 2022
- Euro Area headline inflation fell more than expected to 8.5 % y/y in January from 9.2% in December, driven by easing energy prices amid a mild winter
  - Core inflation that excludes volatile items like energy and food, stayed at the all-time high of 5.2%, which suggests that core inflation remain sticky
  - Better-than-expected growth in Q4 and the sticky inflation print put more pressure on the ECB to keep rates higher for longer
- The ECB hiked rates by 50 bps as expected in February and was firm in its tone, as it signaled another 50 bps hike for its upcoming March meeting

Figure 1: Flash PMIs signal that services and manufacturing activity improved in the US and Euro Area last month. But only the service sector in the Euro Area expanded.



Source: Macrobond, SEB

Figure 2: The IMF recently lifted its global GDP growth forecast for 2023. US and European growth slowed last quarter, but were still above expectations



Source: Macrobond, SEB

Economy – Emerging Markets

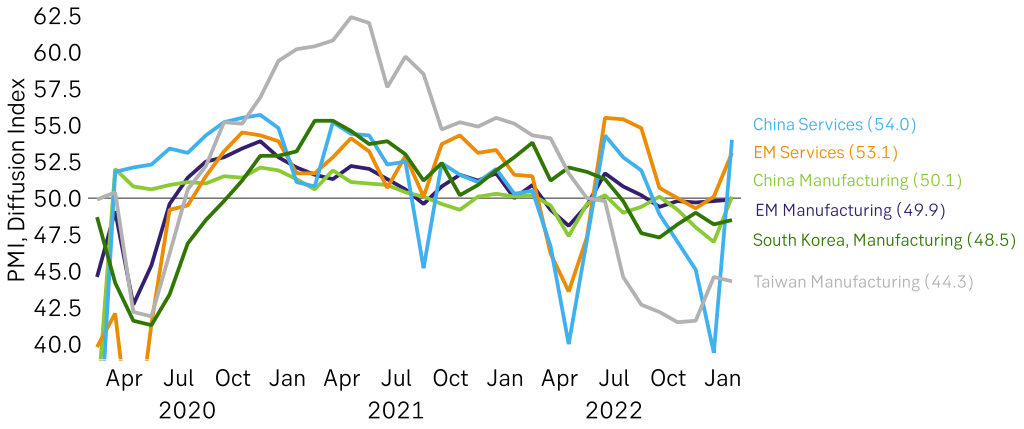
Asian economies saw a strong recovery in January according to PMI surveys

- Manufacturing conditions in Asia improved last month as purchasing managers became more optimistic that China's reopening will increase demand going forward
  - Business activity in Thailand, the Philippines and Indonesia expanded while other countries in the region remained in negative territory, but most of them improved
- Southeast Asian central banks are seen to be close to ending their tightening cycles
  - Central banks in Malaysia and Indonesia have signaled that they may be close to a peak and shift in policy to support growth, as inflation is expected to moderate
  - Slower hikes from the Fed have also reduced downward pressure on local currencies, which saw their values fall against a stronger USD last year
- South Korea recorded a record trade deficit in January, due to falling exports and semiconductor demand, following an economic contraction in the fourth quarter

China's Covid Zero pivot boosted its economy last month

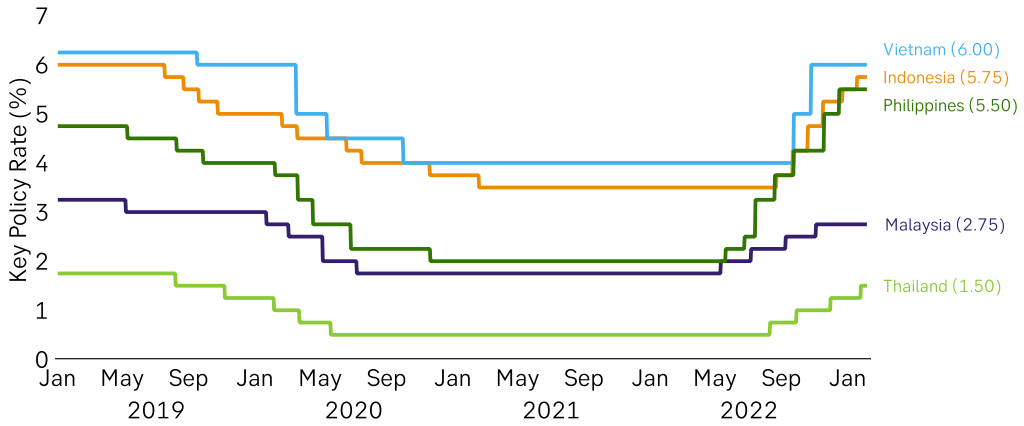
- China official PMIs rose back to expansionary territory in January amid its reopening, following months of economic contraction due to Covid lockdowns
  - The recovery in business activity was stronger in services than manufacturing, fueled by an uptick in demand as travelling increased during the Chinese New Year
  - Caixin Manufacturing PMI, which surveys smaller firms, still indicated a contraction
  - A growing Chinese economy adds upside risk for inflation, which may ultimately lead to more policy tightening from major central banks
    - However, we expect the growth effect from the reopening to dominate here
- Chinese home sales fell 14% y/y during the Lunar New Year holidays
  - Residential sales slumped in January amid weak demand, despite Beijing's supportive property policy and faster-than-expected easing of Covid restrictions
    - In November, China's government rolled out rescue plans to address the Covid-Zero policy and property crisis, the biggest tailwinds to the Chinese economy
  - Housing will probably need to rebound before there can be an economic recovery
- The PBoC left its benchmark rates unchanged in January for a fifth month in a row, but supported the economy and loan growth by injecting more liquidity into the banks

Figure 1: PMIs in China and EM, especially in services, have recovered from recent lows after China's Zero-Covid pivot late last year, which should boost global growth



Source: Macrobond, SEB

Figure 2: Central banks in Southeast Asia are believed to reach a peak in policy rates soon, as they have signaled expectations of easing inflation and lower growth ahead



Source: Macrobond, SEB

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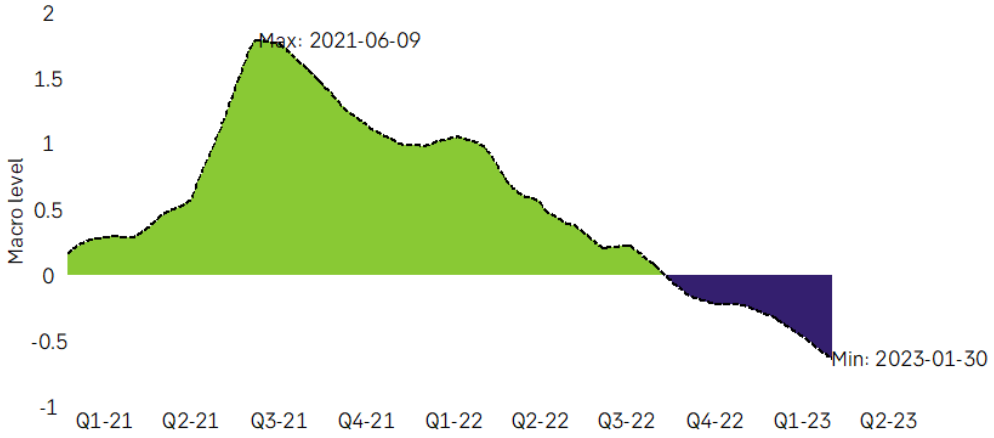
SEB House View – US Macro Status

Macro prints in the US surprised on the downside last month

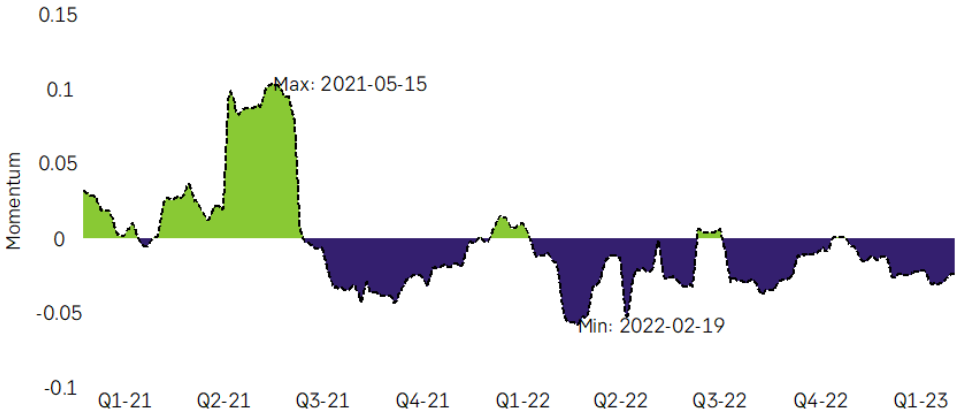
- The macro level has fallen further below the mean
  - The negative deviation has been largely driven by the ISM manufacturing and services PMIs, which fell into deeper contractions in January
  - Macro momentum has remained negative as the macro level has continued to fall, but the pace of change in the macro level has not accelerated despite the slowdown
- The plunge in the New York Fed's Empire State index and Conference Board's US Leading index contributed most to that macro surprises turned negative last month
  - Negative macro surprises seem to fade, but that depends on how well the US economy holds up against cumulative Fed tightening and how fast inflation recedes

Figure 1: The macro level in the US fell at the same pace in January



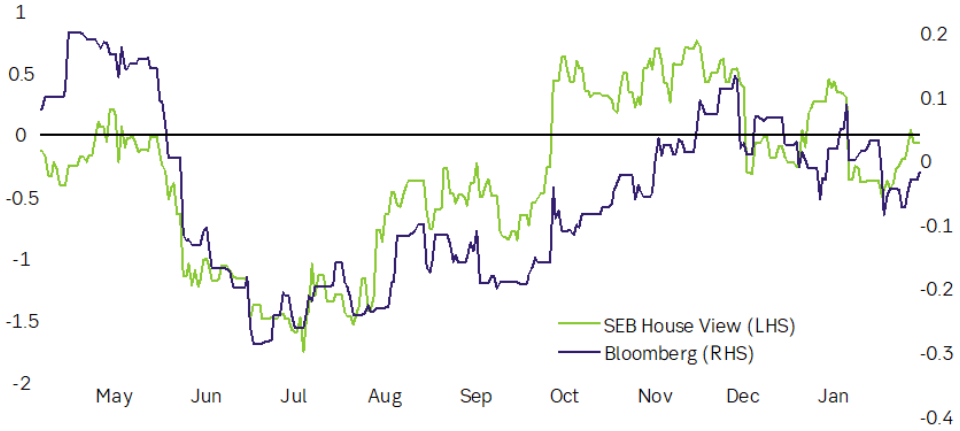
Source: SEB House View

Figure 2: US macro momentum was largely unchanged during January



Source: SEB House View

Figure 3: Macro surprises turned negative over January, but appears to be fading now



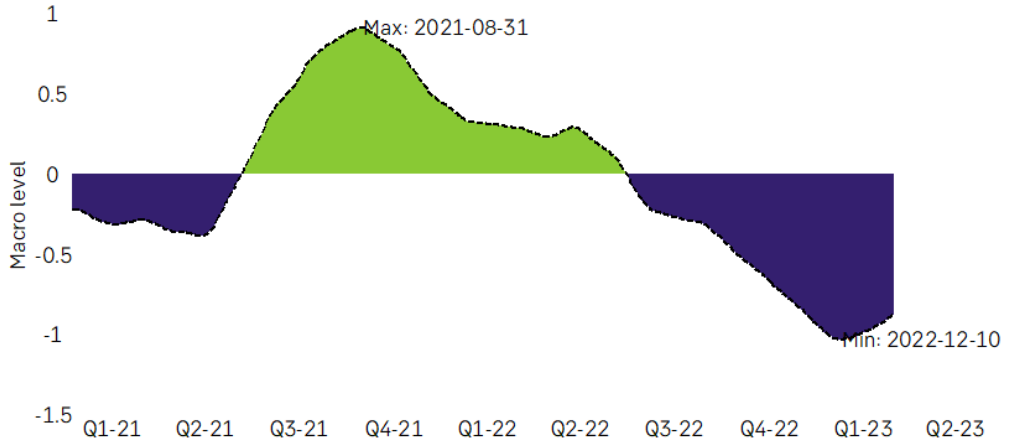
Source: SEB House View

SEB House View – EU Macro Status

Soft macro data in the Euro Area has improved, but hard data has been weak

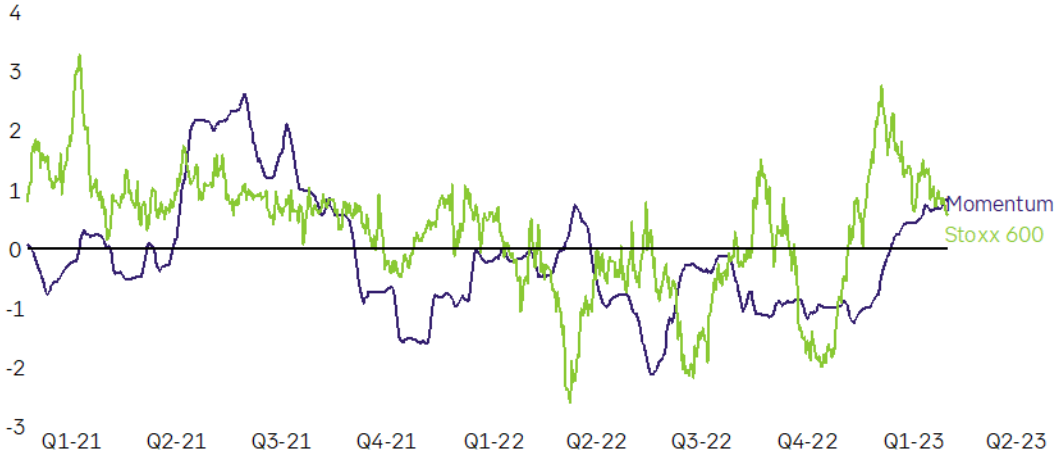
- The macroeconomic backdrop in the European Union is improving, with less pessimistic business conditions and consumer confidence in the region, especially in Germany
  - Soft macro data like the IFO Business Climate survey and the Euro Area's Consumer Confidence indicator rose in January, while hard data has been more negative
    - German retail sales for December plunged, while the latest figures show that Spain's production as well as German factory orders contracted in November
  - Nevertheless, the hard data is lagging and is likely more negative due to the energy crisis, which probably peaked this winter and data could improve going forward
  - There will probably take some time before easing energy prices are reflected in the hard data
  - And for now we believe more in the less negative readings from sentiment indicators, since they are usually leading the cycle, and they are currently signaling that the region will probably avoid a recession in the first-half of 2023

Figure 1: The level of EU macro stabilized over January



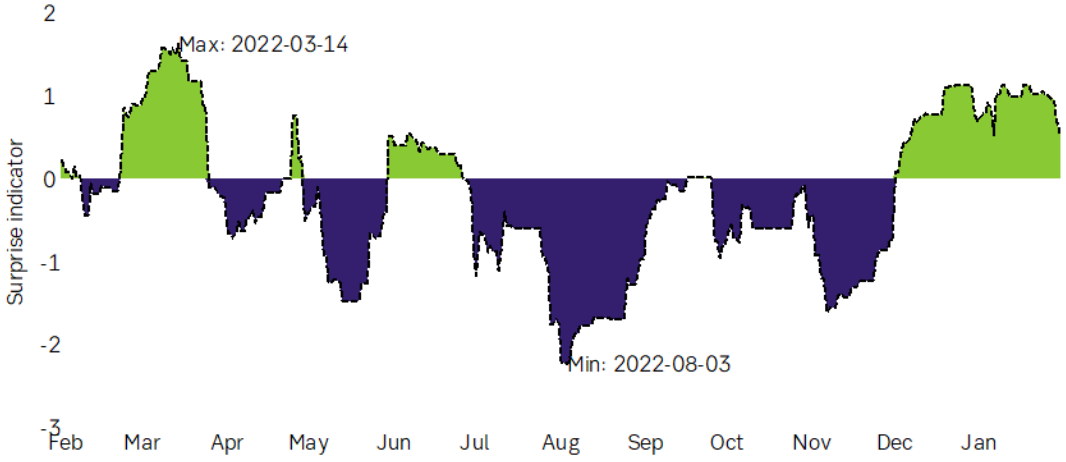
Source: SEB House View

Figure 2: Macro momentum improved during last month and turned positive



Source: SEB House View

Figure 3: Macro surprises faded in January due to weak German factory orders and retail sales



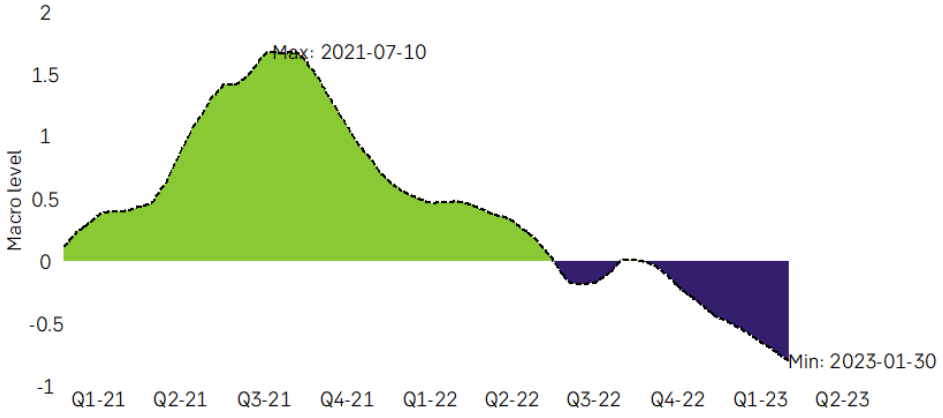
Source: SEB House View

SEB House View – EM Macro Status

EM macro surprises improved in January and we expect stronger macro going forward

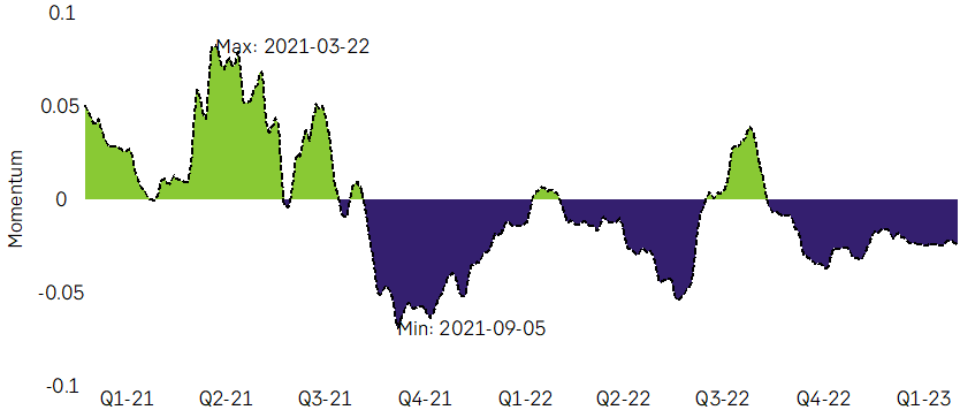
- China's retail sales fell at a much slower pace than expected in December, despite Covid lockdowns that weighted on demand
  - The surprising resilience of Chinese consumption signals better odds for a strong rebound in demand as China's reopening progress over the coming months
- However, South Korean and Hong Kong exports plunged year-over-year amid a global slowdown in demand, which caused our macro surprise indicator to stay negative in January
  - We expect that China's reopening will lead to stronger global demand that will lift growth in externally oriented and trade-dependent economies, such as South Korea and Hong Kong

Figure 1: The macro level in EM continued to fall as global demand slowed down



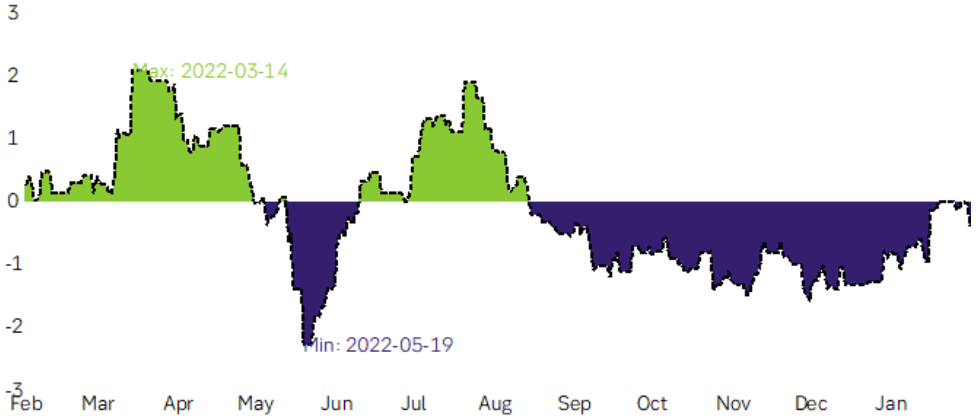
Source: SEB House View

Figure 2: EM macro momentum remained negative, but is expected to rise as China reopens its economy



Source: SEB House View

Figure 3: Weak exports in South Korea and Hong Kong surprised on the downside



Source: SEB House View

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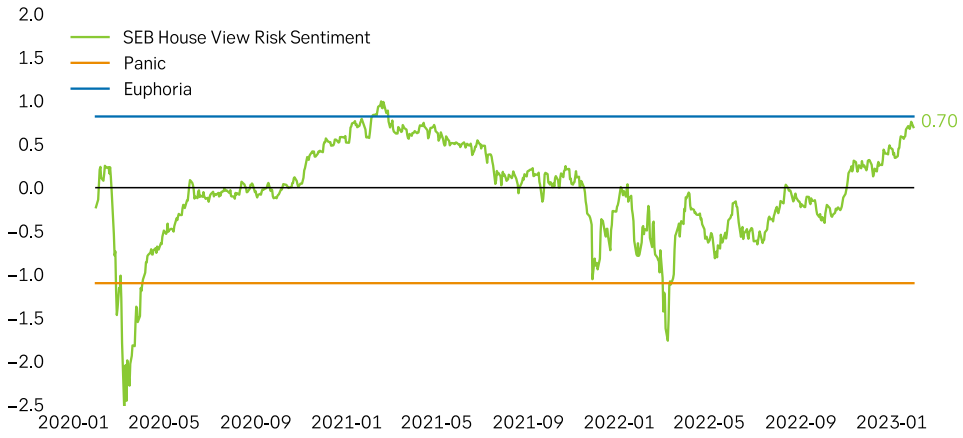
SEB House View – Risk Indicator

Our Risk Sentiment indicator is close to euphoria after the recent market rally

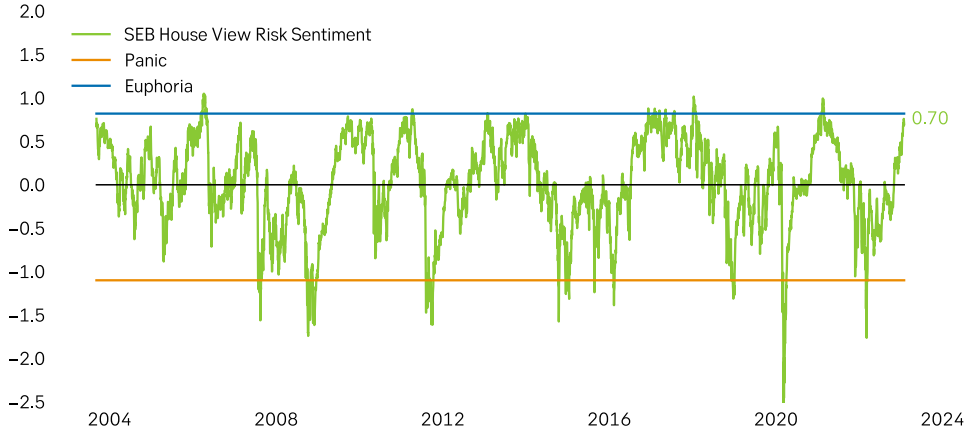
- The SEB House View Risk Indicator has increased over the past weeks and signals that risk sentiment has almost reached euphoria
  - Risk sentiment has improved due to a more positive narrative on easing inflation, China's reopening and a stronger outlook for global growth
  - This has eased market fears of a recession and led to a rally in risky assets
- The biggest drivers of higher risk sentiment were falling put-call ratios, positive momentum, lower stock market volatility as well as bond yields in Europe and the US
- Our risk indicator is probably close to peaking as it has almost reached euphoria
  - However, euphoria in our model has seldom been a good indicator for identifying peaks in equity markets, which makes sell signals from it unreliable…
  - We expect the stock market rally to continue, especially in Europe and EM, on the back of the growth story on China's Zero Covid pivot and easing global inflation

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



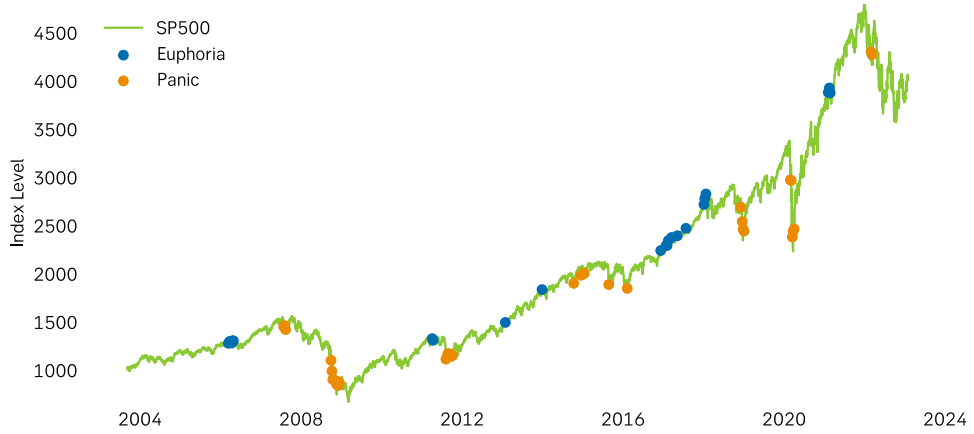
Source: SEB House View

Figure 1: SEB House View Risk Indicator



Source: SEB House View

Figure 3: Extreme states plotted on SP500



Source: SEB House View

In Focus: recession risks

The probability of a soft landing is being priced in after last week's Fed meeting

Last week, the Fed slowed the pace of its rate hikes to 25 basis points while Fed Chair Powell's gave a dovish press conference, which triggered a market rally in both bonds and equities. At his press conference, Powell acknowledged progress in the Fed's fight against inflation, by referencing several times to that disinflation had started. Powell also outlined his base case scenario of a soft landing where inflation returns to the 2%- target without a significant downturn. This message has fueled hopes for that the Fed will be able to bring down inflation without causing a recession. Money markets expect the Fed to raise the rate to 5.1%, as inflation remains elevated, and then cut rates later this year.

However, the US treasury and equity markets send mixed recession signals

The treasury yield curve, a reliable recession predictor historically, signals a recession as both the US 10y-3m and 10-2 year spreads turned negative last year. On the other hand, equity markets seem to expect an economic recovery. The relative performance between cyclical and defensive sectors implies that the leading ISM manufacturing PMI index will bottom at the lower end range of 40. This can be interpreted as that if a US recession would occur, it will be either a very short-lived or shallow recession. The tightening in US high-yield spreads also indicates a low likelihood of a recession.

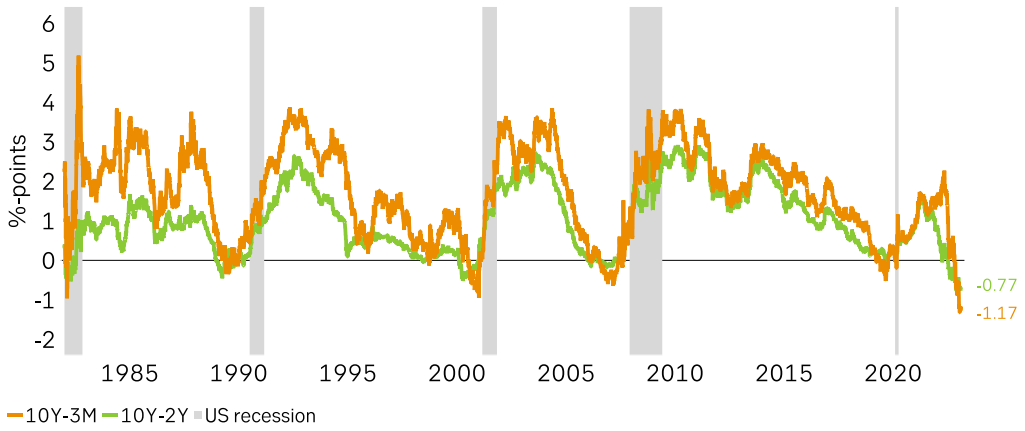
The strong US labor market should support consumption

Non-farm payrolls came in a lot higher than expectations in January which confirmed that labor demand remains high as firms are struggling to find workers. Unemployment fell to a 50-year low of 3.4%, which does not signal a contraction in the US economy (unemployment typically rises during recessions, which has yet occurred). The US housing market is already in a recession, but we think that it is unlikely to lead to broad economic contraction. Consumption should also be supported by a strong labor market and excess savings from the pandemic. Falling headline inflation will probably also be a tailwind for consumers.

In Europe, a mild winter and easing energy prices has reduced the risk of a recession

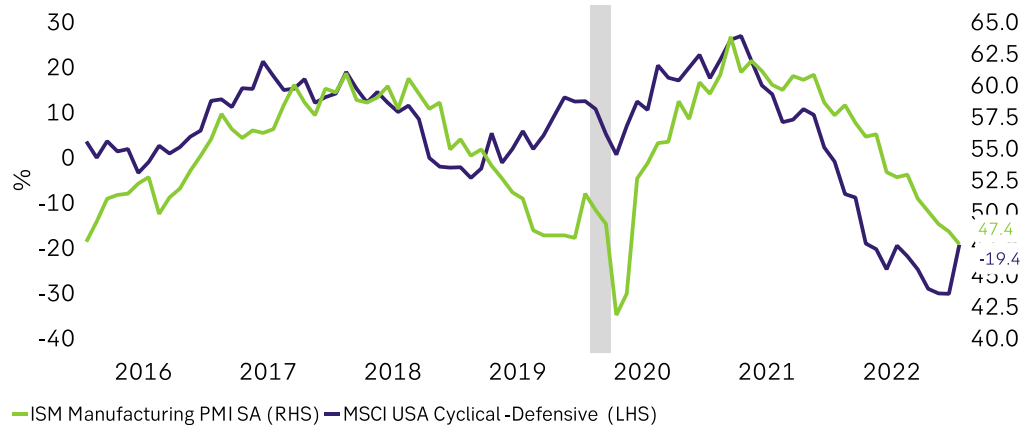
Lower energy prices should allow manufacturing firms to expand their production and lead to higher consumption. China's reopening will likely boost global demand and growth which should support the export-oriented Europe. PMIs are stabilizing in the region.

Figure 1: The inverted US 10y-3m and 10-2 year spreads signal a recession...



Source: Macrobond, SEB

Figure 2: ...while US equity markets expect a recovery in the ISM manufacturing PMI



Source: Macrobond, SEB

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Developed Market Equities – 12M Outlook

We expect DM Equities to deliver positive returns over the next 12 months

The risk of a hard landing in the US has somewhat decreased in the past weeks, as inflation has probably peaked and the FED has signaled a slowdown in the pace of rate hikes. We also expect that the FED will end its tightening cycle in the near-term and cut rates later this year, as inflation continues to fall, which should lead to a multiples expansion. In Europe, the growth risks are more balanced as headwinds from rising energy prices and inflation in the region have faded. Having said that, inflation is still elevated, but on the positive side it is falling. Europe's outlook has also improved due to a more quickly than expected reopening in China and recovering macro backdrop, which should be positive for the region, especially capex-intensive sectors and export industries. Within equities, we expect Europe to outperform the US because of a weaker USD and as Europe is likely to benefit more from China's reopening than the US. Negative EPS revisions are increasing the downside risks for Developed Market Equities.

A reopening of China could also be beneficial for some cyclical sectors

Defensive sectors outperformed cyclical sectors last year, but there has been a reversal in this trend, which we expect will continue for some time. In case China manages to boost its slowing economy to the 4-5% region, which is what we expect, global capex should be supported and benefit cyclical sectors, such as Industrials and Materials, in DM.

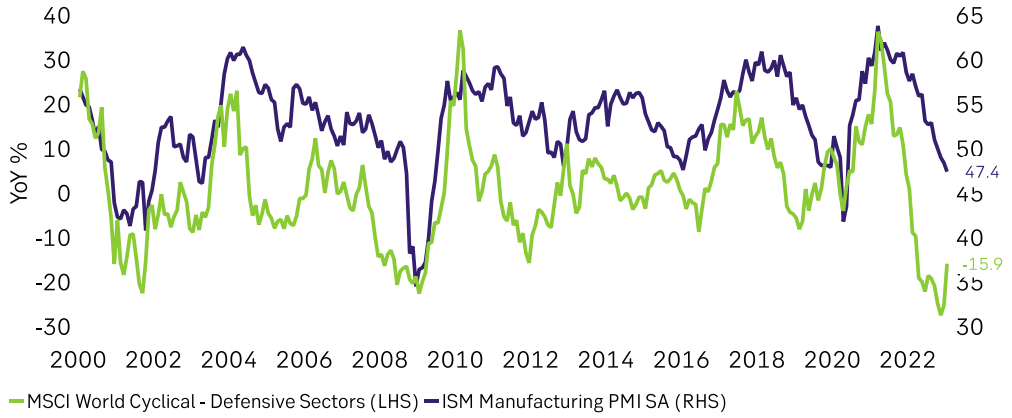
This year will favor companies with strong pricing power and profit margins

Companies with pricing power and growth characteristics will be important in 2023, due to the risk of high and sticky inflation compressing margins as costs increase. Households are becoming more price-sensitive than before, according to consumer data, which makes it harder for companies to pass on higher costs to consumers.

12M forward P/E multiples can expand due to inflation receding quickly and as lower bond yields push up equity valuations

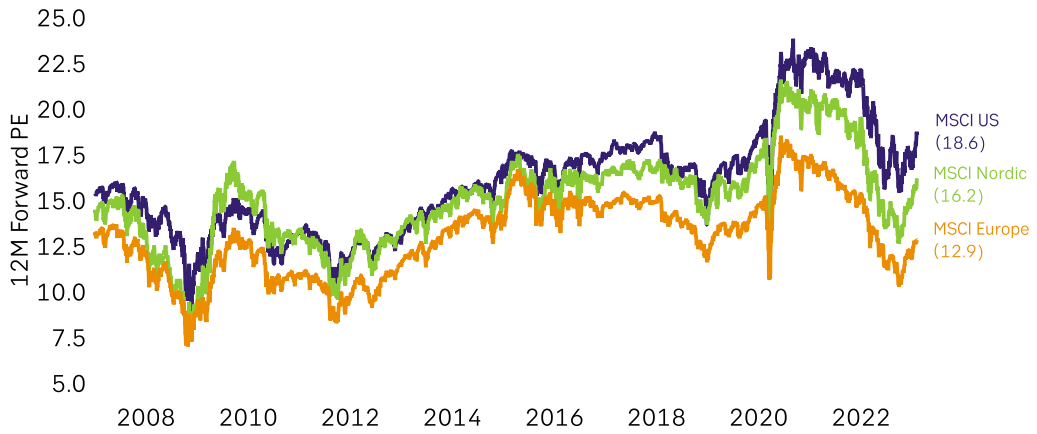
A peak in inflation and rates will likely lead to higher P/E ratios before a nominal earnings contraction, as earnings usually come with a certain lag after an economic recession.

Figure 1: DM cyclical sectors have discounted a US contraction heavily, but China's reopening could buoy capex which benefits sectors, such as Industrials and Materials



Source: Macrobond, SEB

Figure 2: The FED's tightening cycle is probably close to ending. We expect Developed Market Equities to re-rate once interest rates peak



Source: Macrobond, SEB

Emerging Market Equities – 12M Outlook

We expect EM Equities to deliver positive returns over the next 12 months

The growth premium of EM markets relative to DM markets should accelerate this year, in case EM inflation falls quickly. Central banks in EM were among the first central banks in the world to hike rates and will likely be the first ones to ease monetary policy as well, which supports growth. That is, we could see an improvement of GDP in this region, and we also expect further positive earnings revisions. The reopening in China has accelerated faster than expected, which should boost Chinese growth. We expect China's GDP growth to rebound to around 4-5% this year, which should also support economic growth in the region.

Policy support in China will likely benefit the asset class for the next 12 months

We expect China to continue to boost consumption and investments through supportive monetary and fiscal policy, as the economy gradually opens. As inflation is still below the 3% target, the PBOC is at a different starting point than DM central banks.

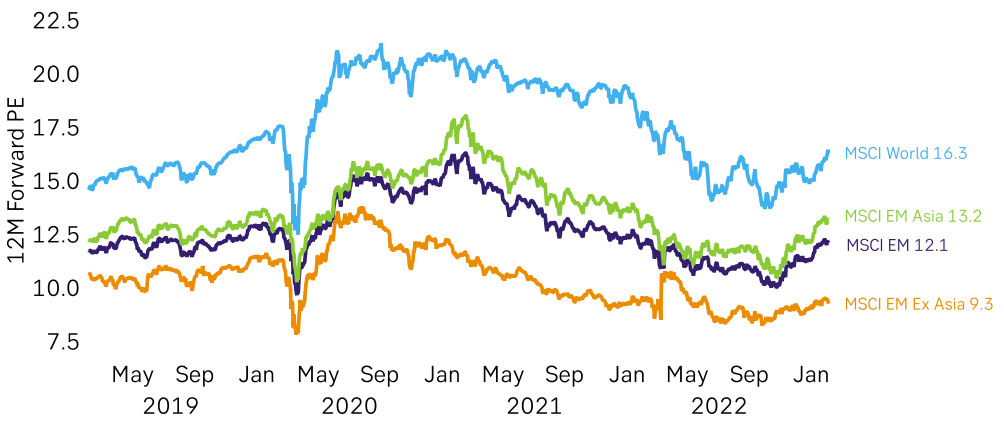
A weaker US dollar should support EM equities

Given the recent moves in the USD and signal from the FED to slow down its pace of rate hikes, we could see a downturn in the greenback, which should which boost EM equities.

Price levels in EM equities remain attractive relative to DM equities

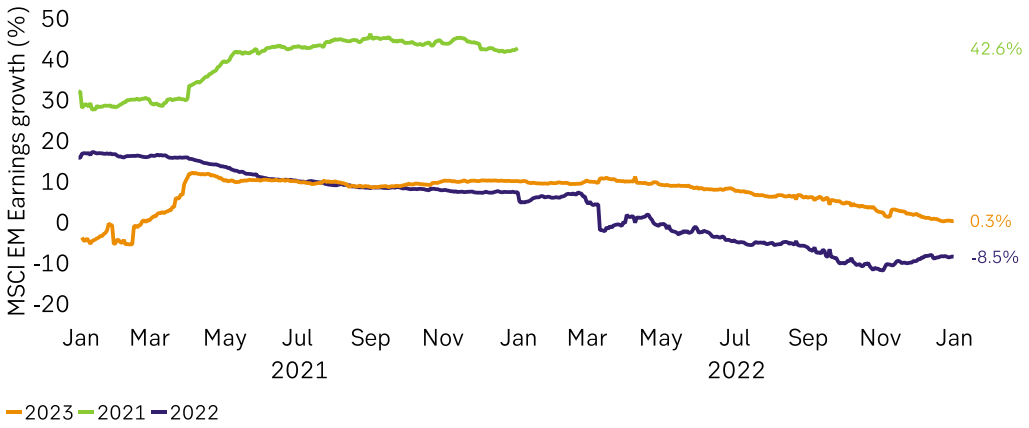
EM valuation has traded cheaper due to a multitude of challenges in 2022: zero Covid strategy, tech and property sector crackdowns, power rationing, a regulatory adjustment to the corporate profit share and President Xi's third term. These headwinds have largely faded, which should be supportive for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

Figure 1: EM Asia equities should outperform as China's reopening is underway



Source: Macrobond, SEB

Figure 2: In our view EPS estimates for EM are too low. We expect that the reopening in China will lead to higher EPS estimates which should support the asset class



Source: Macrobond, SEB

Corporate Bonds – 12M Outlook

Over a 12-month horizon we prefer corporate bonds over government bonds

The relative attractiveness of credit bonds over government bonds has increased as recession risks have decreased. Credit spreads have tightened, but still offer attractive yields, especially within the high-yield segment. Having said that, credit spreads are still historically wide which means that corporate bond markets are currently pricing in high levels of uncertainty. Recession risks have decreased, but not diminished entirely and we are therefore neutral in credit bonds.

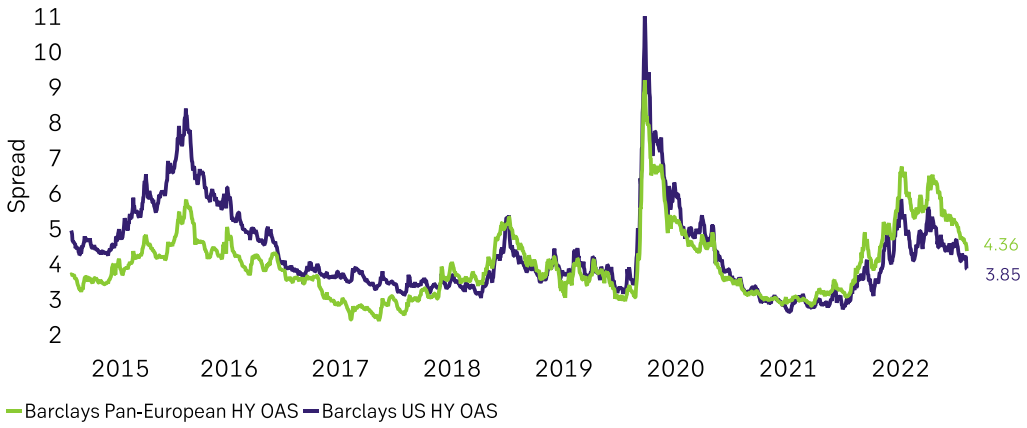
Corporate balance sheets are still strong

Although corporate bonds performed poorly last year, company balance sheets have remained sturdy. We prefer credit bonds over government bonds as they offer higher yields and expect corporate balance sheets to hold up well against a mild recession.

The biggest tail risk is probably the war in Ukraine

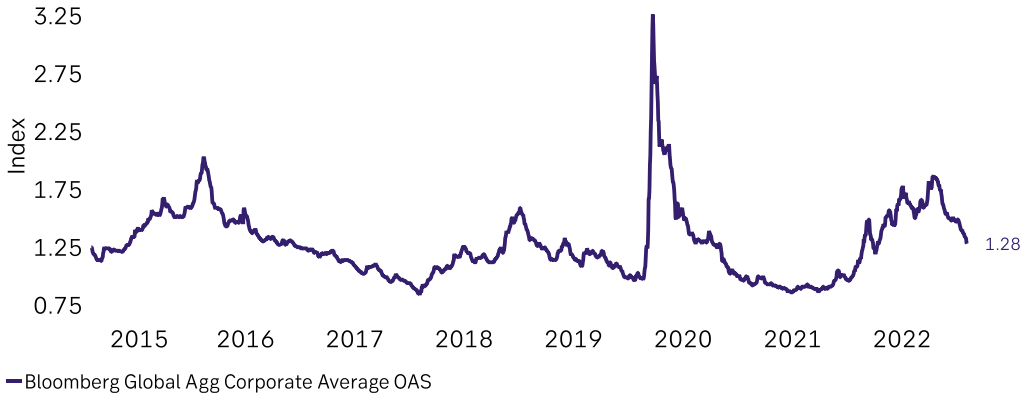
The war in Ukraine is ongoing and an escalation of the war would easily widen corporate credit spreads as it did last year. Investors also see rising defaults as one of the biggest tail risks at the moment. Defaults have so far remained relatively low, but this could change in case the cycle turns for the worse. We stay neutral corporate bonds at the expense of government bonds, for now.

Figure 1: HY spreads in the US and EU tightened following lower inflation and signals of a slowdown in FED hikes



Source: Macrobond, SEB

Figure 2: The spread on Investment Grade bonds has also fallen, but remain wide as the corporate bond market priced in a high level of uncertainty, e.g. due to the war



Source: Macrobond, SEB

Government Bonds – 12M Outlook

We hold an underweight in Government Bonds

Markets are expecting the Fed to cut rates in 2023 and long-term bond yields have likely peaked. We expect that long-term bond yields will fall going forward as inflation has probably peaked as well. However, more positive inflation surprises could lead to higher short-term bond yields. Having said that, the improving macro environment should benefit equities relatively more than government bonds. We expect easing monetary policy from central banks to be supportive for equity valuations, while government bonds will offer lower yields going forward.

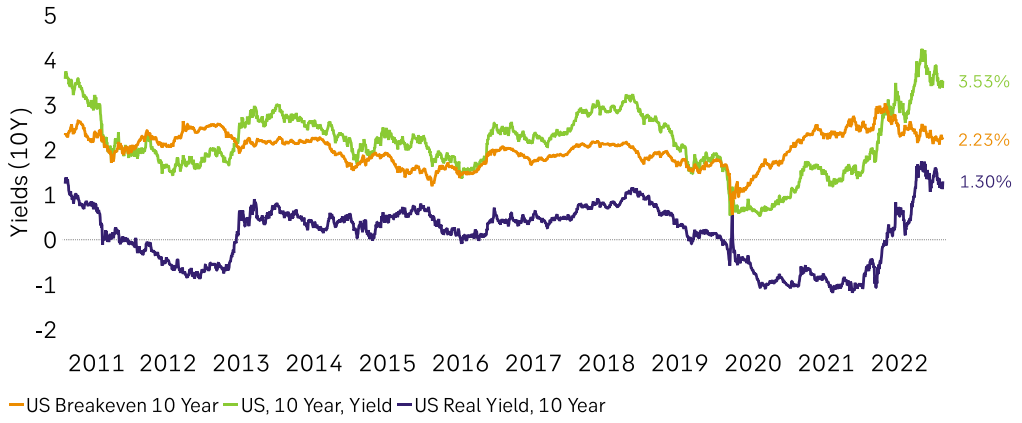
Government bond yields should decline going forward

Inflation breakevens have moved downwards while the FED has slowed and signaled a lower pace of its rate hikes going forward. Inflation has continued to fall which we expect will lead to rate cuts by the FED later this year. Bond yields should decline given the falling inflation and end of central banks' hiking cycle getting closer.

Over the long-term government yields will remained capped due to increased fiscal debt in developed markets

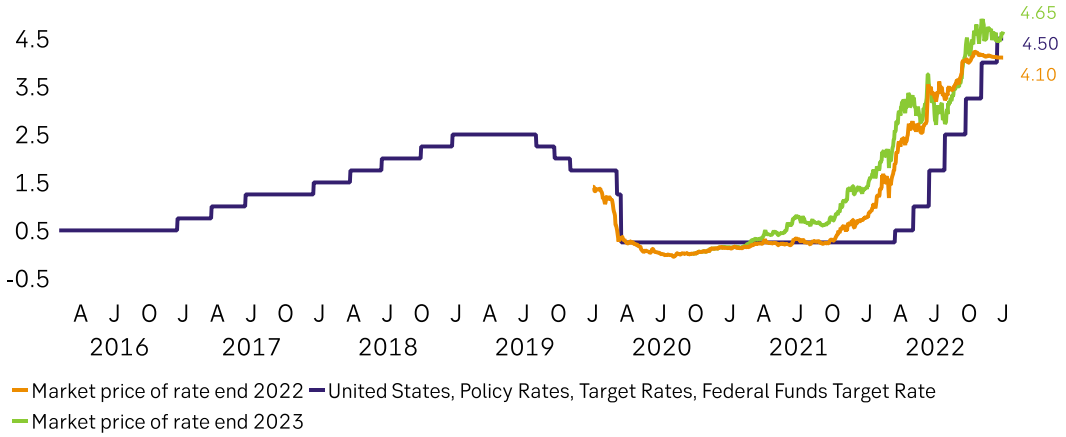
The enormous monetary and fiscal stimulus has allowed for central banks and governments balance sheets to balloon. Therefore, in order to fund the current national debt levels governments are likely to maintain interest rates at low levels for a very long time. We could also see an increase in taxes in order to reduce debt levels, but a hike in tax rates or cuts in government expenditure are not very likely in the near term.

Figure 1: Real yields have moved into positive territory, but we expect them to fall. Earnings yields for equities could become more attractive again.



Source: Macrobond, SEB

Figure 2: Markets are pricing in more hikes to obtain a year end rate that we have not seen since 2008



Source: Macrobond, SEB

Region Overview

Regional equity positioning

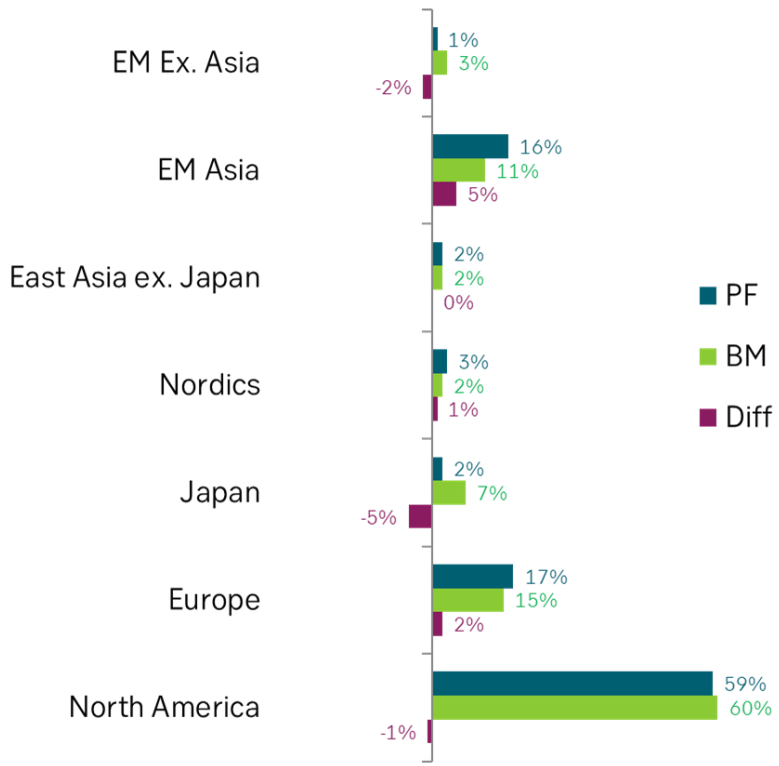
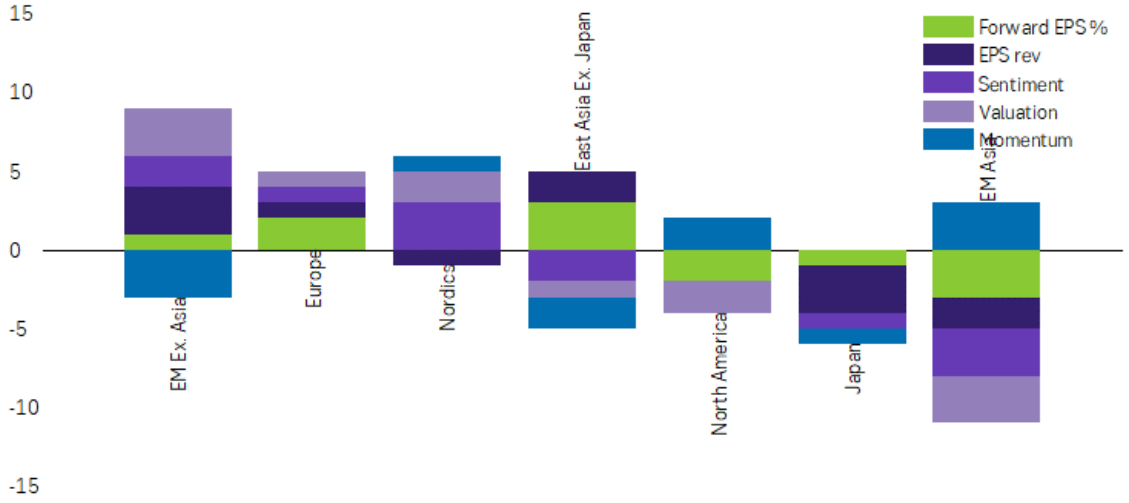


Figure 1: SEB House View region score*



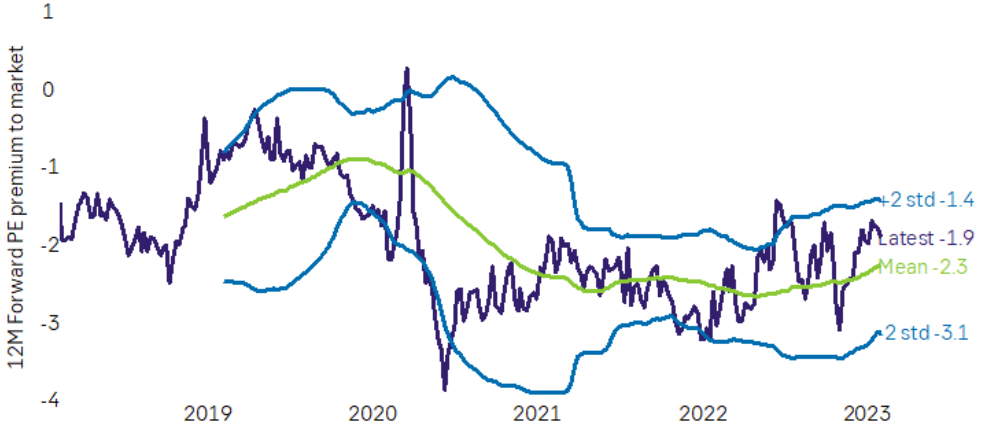
* Ranked by total score with highest score starting from left

EM Asia – Overweight

We remain overweight in EM Asia due to a favorable macro-outlook

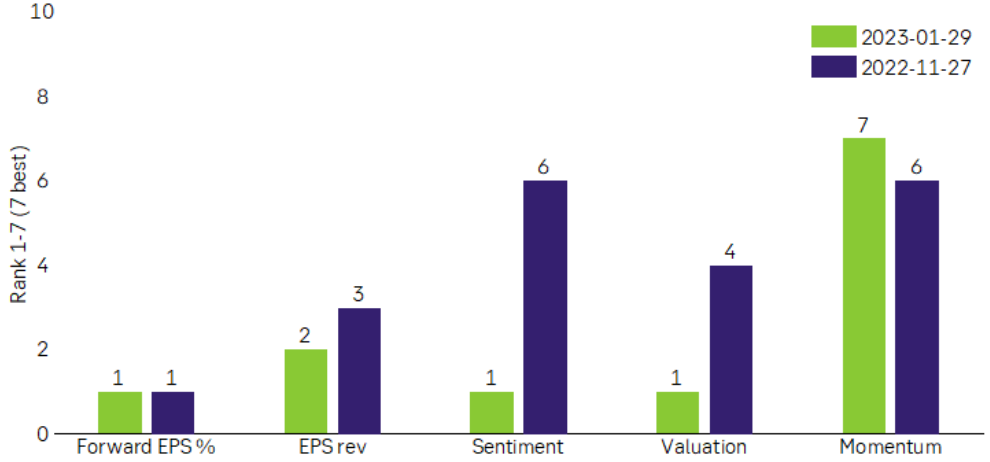
- We expect the regional outperformance for EM Asia equities to continue due to several positive factors
- The IMF recently raised China's growth outlook for 2023 from 4.4% to 5.2%
  - We expect China's reopening to lead to a rebound in Chinese as well as regional economic growth, which should support the strong momentum in EM Asia equities going forward
- The Fed's slowdown in rate hikes should lead to further depreciation in the US dollar, which should also benefit equities in the region
- The scores on momentum now ranks the highest relative to other regions
- However, fundamentals in our regional model are not great
  - But we think that there will be a recovery in the region's fundamentals, as the macro and earnings outlook improve this year due to China's reopening

Figure 1: Standardized relative valuation – Current constituents



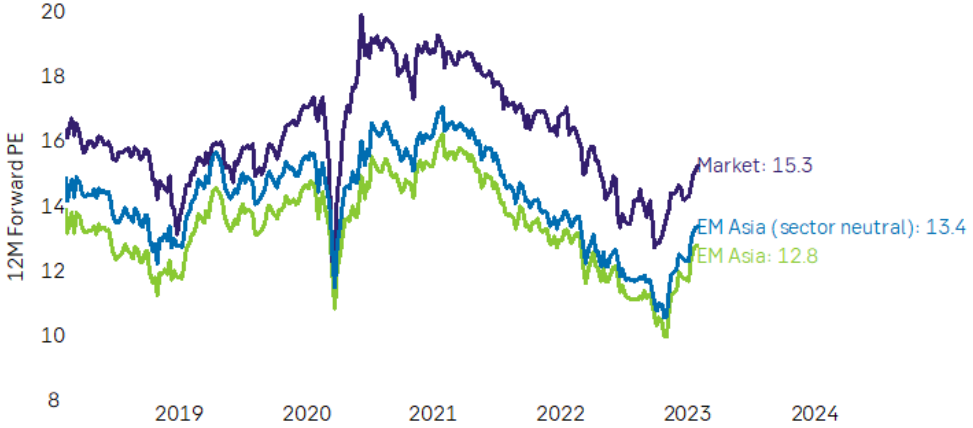
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



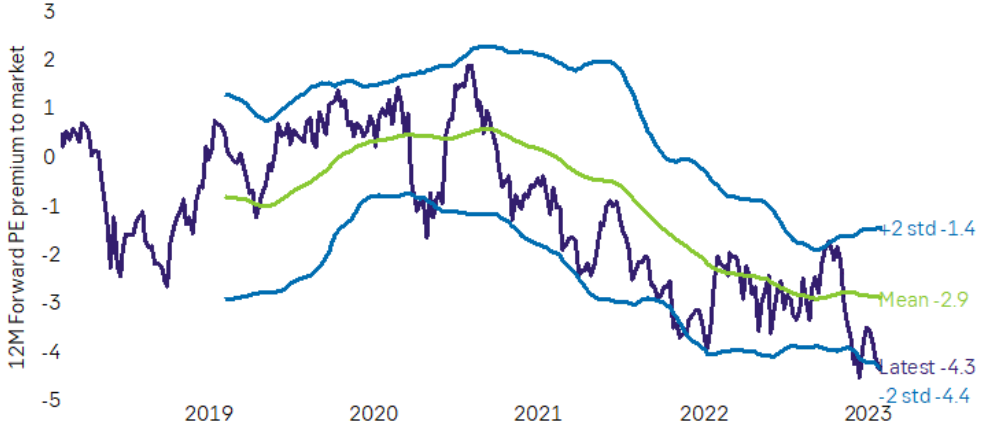
Source: SEB House View

EM Ex Asia – Underweight

We reduce to an underweight in EM Ex Asia due to growth headwinds

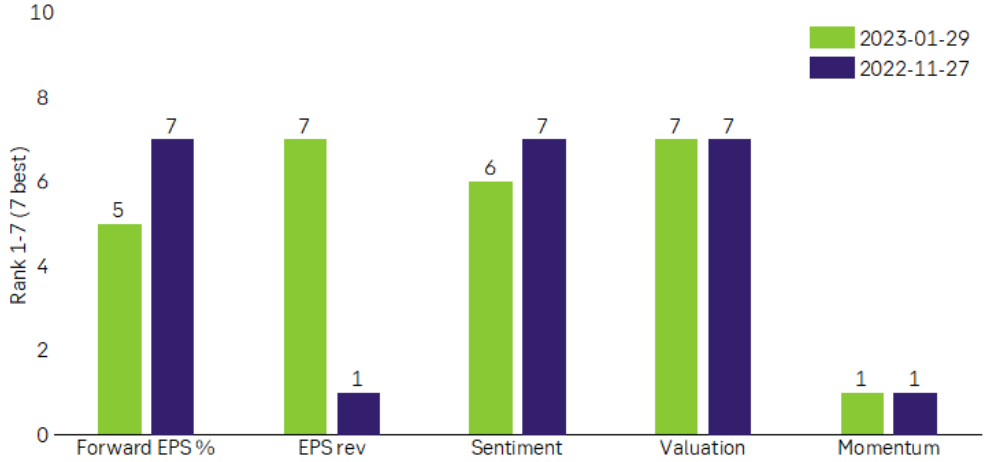
- Macro data in Brazil, Latin America's largest economy, has surprised on the downside
  - Brazil's manufacturing PMI improved in January, but remained below the 50 level which indicates that the manufacturing sector is still in contraction
  - Brazilian retail sales also fell more than expected in November and recorded its biggest decline in five months, due to disappointing Black Friday sales, a lack of credit growth, higher interest rates and rising consumer prices
- Brazil could also face growth headwinds from lagged policy tightening effects
- On the positive side, macro in the entire EM space is likely to improve because of stronger demand from China's reopening, but this yet being reflected in the region
- In our model, EM Ex Asia achieves the highest ranks on EPS revisions and valuations
- We tactically downgrade our neutral position in EM Ex Asia to slightly underweight, despite its strong earnings momentum and attractive relative valuations due to weak growth momentum in Brazil ahead, which makes up for 60% of the region

Figure 1: Standardized relative valuation – Current constituents



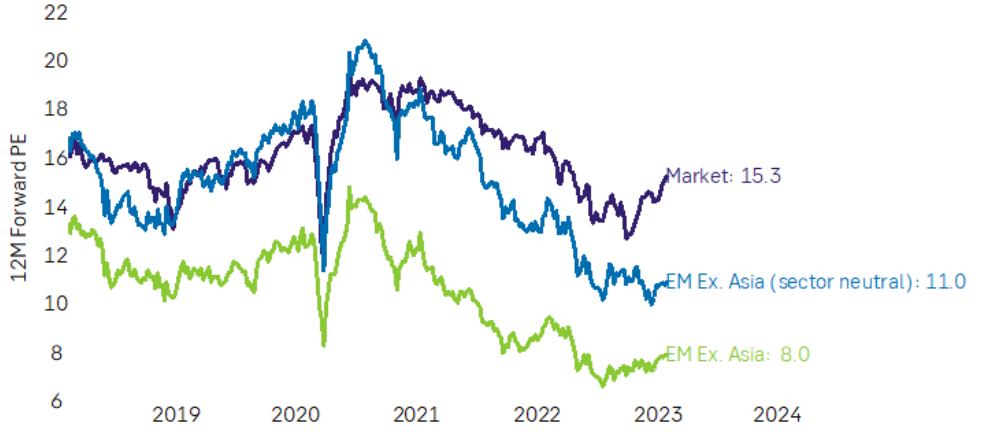
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



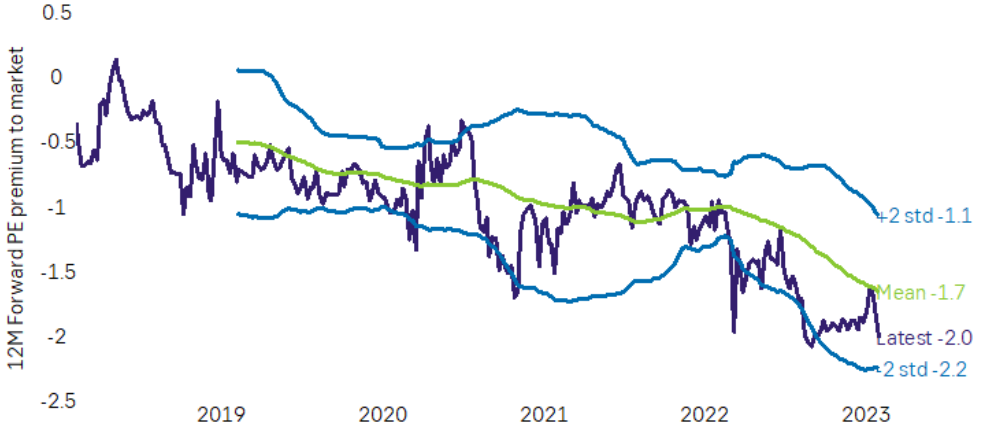
Source: SEB House View

Europe – Overweight

We upgrade to an overweight in Europe due to a stronger growth outlook

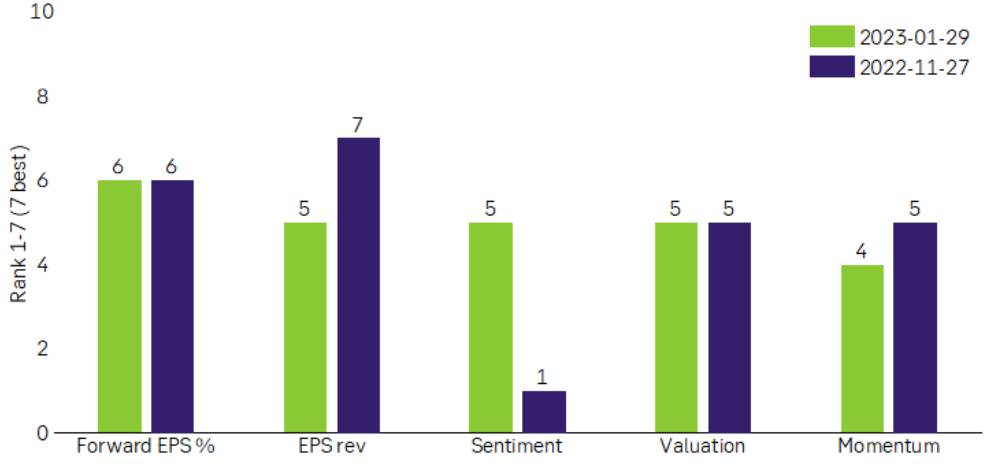
- Europe's growth prospects have slightly improved due to the easing energy crisis, China's rapid reopening and stabilizing macro-economic backdrop
  - China's reopening will most likely boost global growth, which should benefit Europe's export-oriented economy as global demand increases
  - Declining headline inflation and energy prices should add tailwinds to consumption
  - Revised IMF growth forecasts, rising Eurozone PMIs and improving consumer confidence also signal stronger growth ahead
- The ECB raised interest rates at its February meeting and signaled more hikes going forward, while the FED is likely closer to ending its hiking cycle
  - A narrower interest rate spread between the US and Europe should weaken the dollar against the euro which is more attractive to foreign, dollar-based investors
- Nevertheless, our EU macro level is still negative due to a deterioration in macro data
- Uncertainty in the region has decreased, but the war in Ukraine is still a big tail risk

Figure 1: Standardized relative valuation – Current constituents



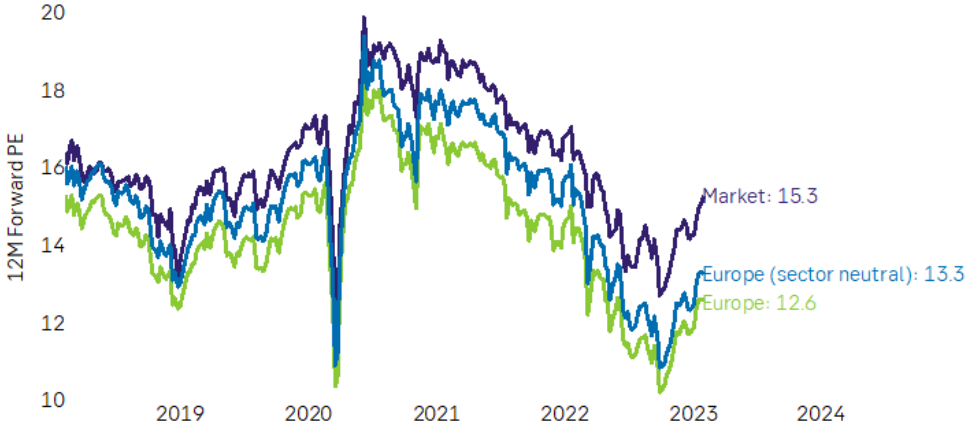
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



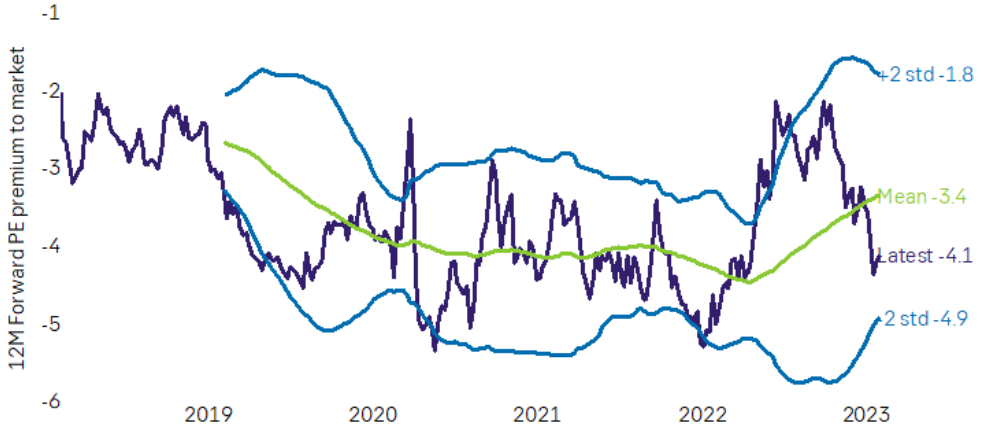
Source: SEB House View

Japan – Underweight

We increase our underweight in Japan due to the risk of rising rates and JPY which tend to hurt Japanese equities

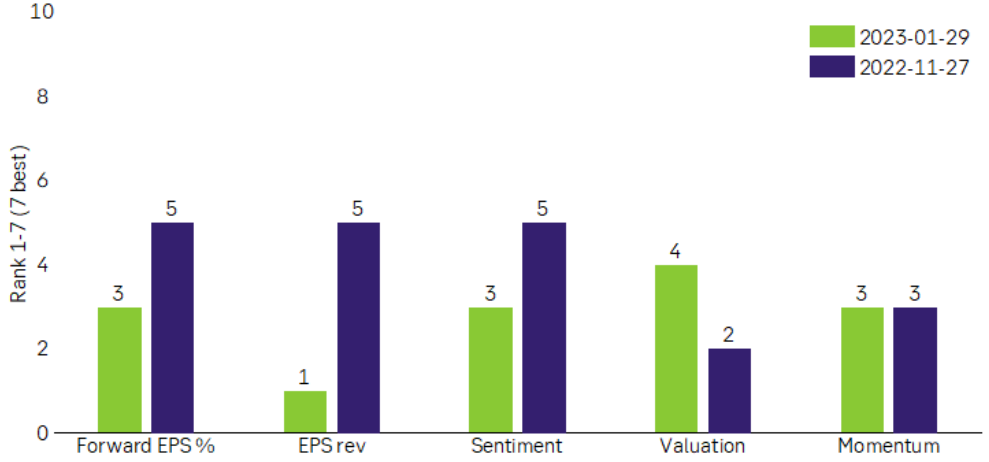
- In our model, Japanese equities trade at a discount compared to several regions
- Japan's economy is also poised to benefit from a boost in exports and inbound tourism from China's reopening, however, it also faces risks of tighter financial conditions
- The BoJ left its key rate and yield curve control (YCC) policy unchanged in January
- However, with Japanese core inflation exceeding the central bank's 2% target, there are growing pressures on the BoJ to tighten its ultra-loose monetary policy
- Monetary policy tightening by the BoJ should lead to higher bond yields and lower valuations for Japanese equities
- A hawkish pivot by the BoJ (or dovish pivot by the FED) should strengthen the JPY/USD, which has historically led to underperformance in Japanese stocks
  - A stronger JPY reduces the competitiveness of Japanese exports and lowers the value of profits earned overseas, in JPY terms, for Japanese firms

Figure 1: Standardized relative valuation – Current constituents



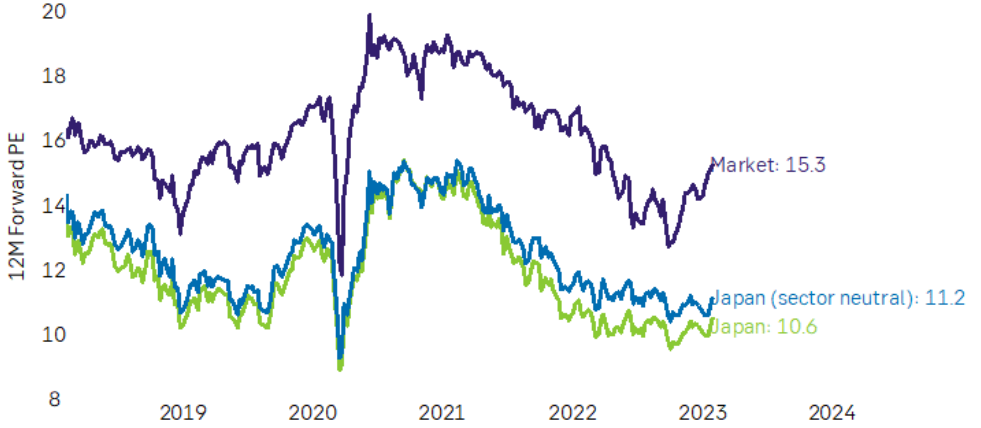
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



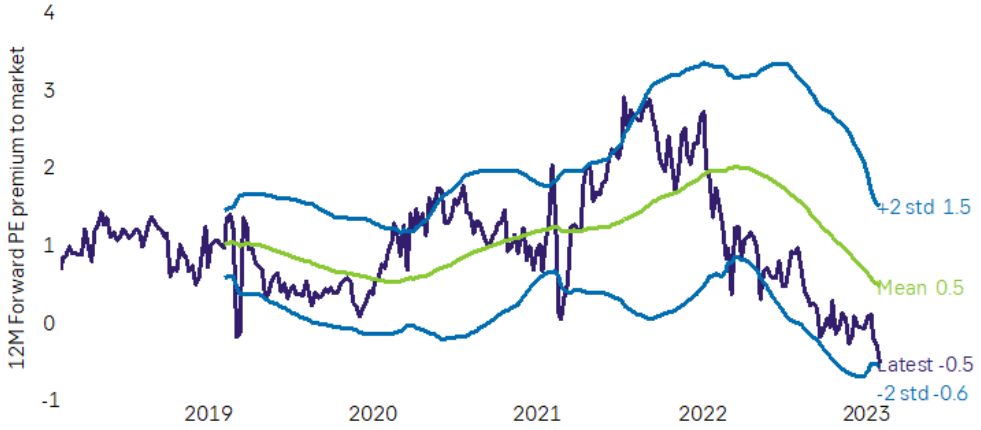
Source: SEB House View

Nordics – Overweight

We remain overweight in the Nordics

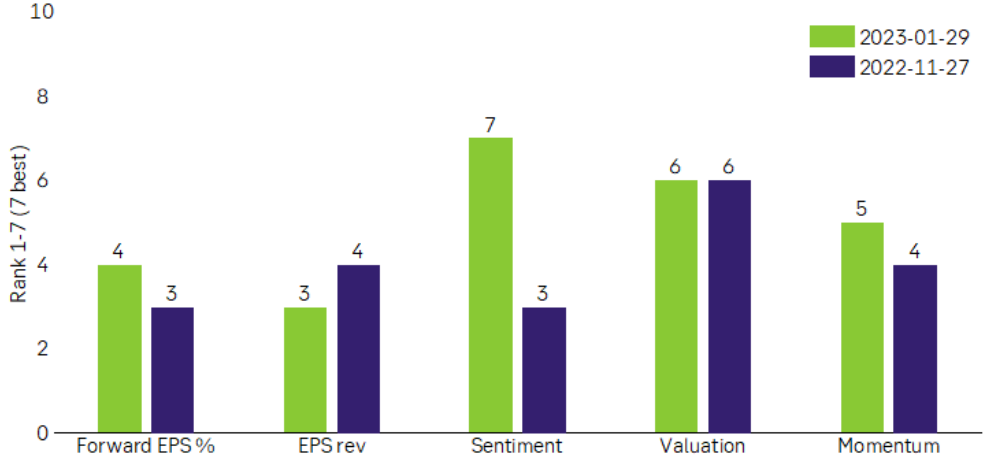
- We expect China's reopening to benefit the export-heavy Nordic region
- Nordic equities should outperform other regions in an inflationary environment with rising interest rates, since the Nordics is more value-tilted than other regions
  - Industrials and banks, the largest sectors in Sweden, usually outperform other sectors amid rising rates and inflation
- Having said that, we also expect energy prices to continue to decline and inflation to peak soon, which should lead to higher consumption and growth
- The Nordics' scores on sentiment and valuations rank high in our regional model
  - Attractive valuations reduce downside risks for longer-term equity investors

Figure 1: Standardized relative valuation – Current constituents



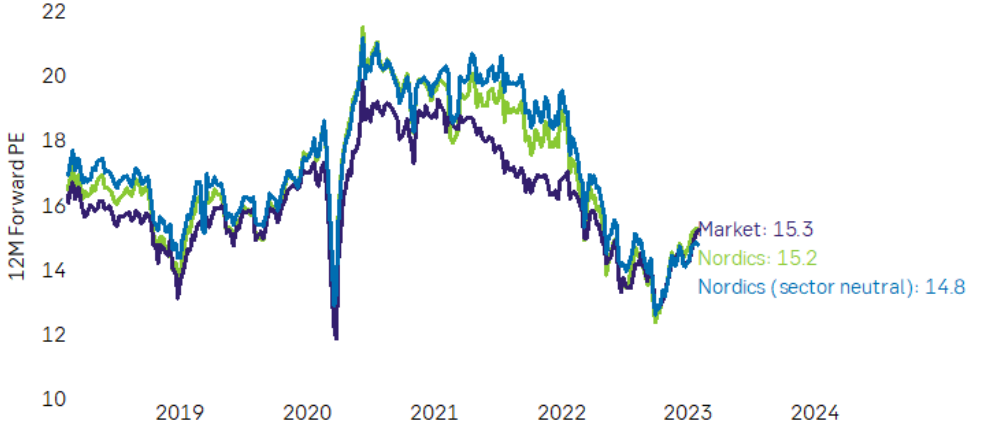
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



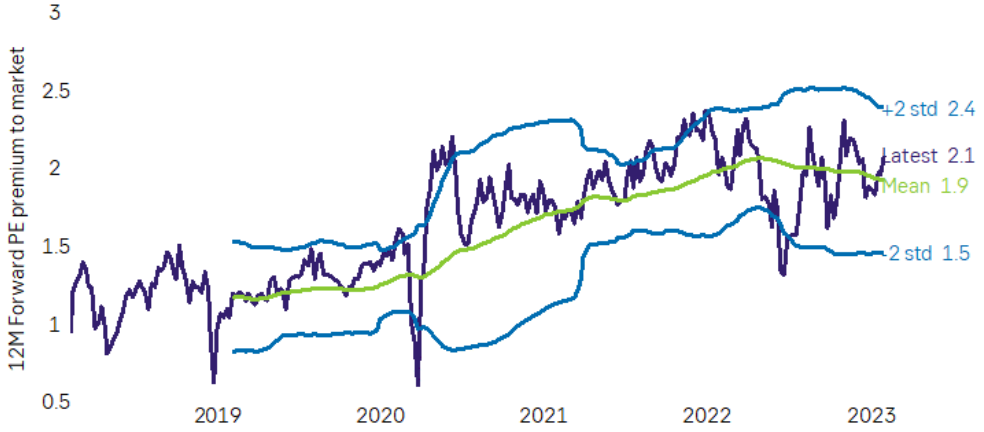
Source: SEB House View

North America – Underweight

We reduce our overweight in North America to underweight

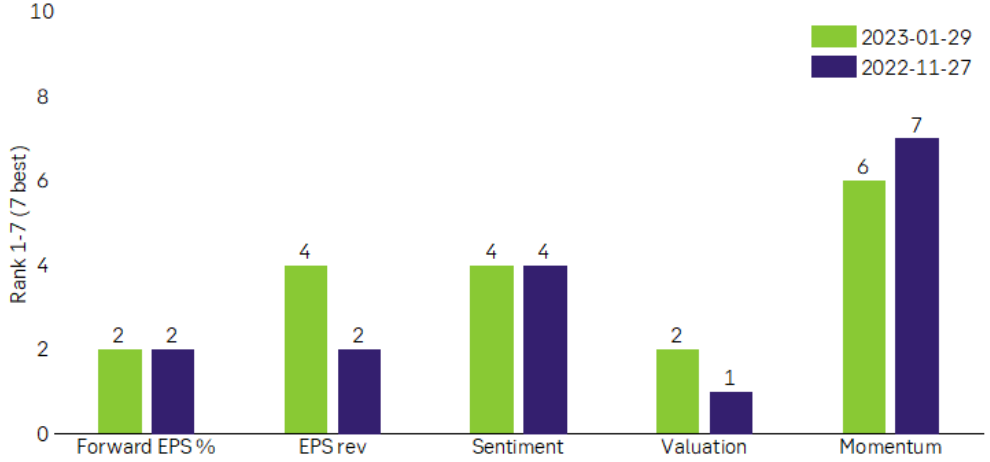
- US inflation has most likely peaked and the FED has turned more dovish lately
  - The Fed raised rates by 25 bps and signaled a few more, small hikes going forward
- We expect the region to avoid a recession because of rapidly falling inflation and resilient consumption due to savings and a tight labor market
- However, the scores on the earnings outlook and valuations rank low in our model
- Growth differentials to other regions will likely shrink going forward and we could see outflows to other regions due to cheaper valuations there and a weaker USD
  - China's reopening which should benefit EM/Europe relatively more than the US
  - The USD has probably played out its role as a driver for US equities going forward
- We see a trough in US economic activity later this year as an opportunity to add risk
  - Weaker PMIs in their low 40s usually present a good entry point for equity investors, but it is probably too early as the ISM manufacturing PMI is still falling

Figure 1: Standardized relative valuation – Current constituents



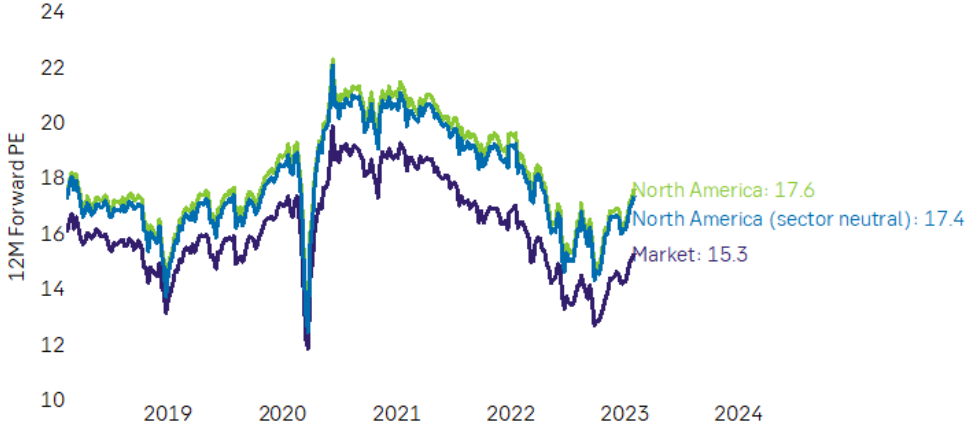
Source: SEB House View

Figure 2: Contribution to House View Region Score



Source: SEB House View

Figure 3: Absolute valuations – Current constituents



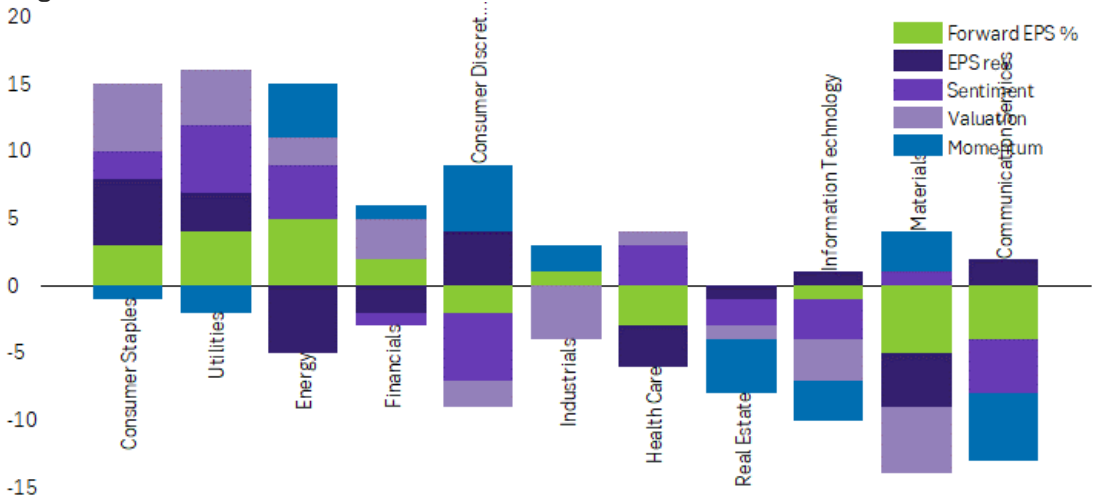
Source: SEB House View

Sector Overview

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

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

Figure 1: SEB House View sector score



Source: SEB House View

Overweight – Consumer Discretionary, Materials and Industrials

We increase Consumer Discretionary to overweight at the expense of Health Care

- Easing energy prices and China's reopening should lead to a better growth outlook and cyclical shift in earnings that lead to higher returns for consumer discretionary
- More balanced global growth risks, an end to the hiking cycle in the near-term and disinflation should increase consumer discretionary spending

We remain overweight in materials as they usually outperforms in inflation times

- Inflation has likely peaked, but the risk of sticky inflation remains, and materials as a sector is better poised to outperform during inflationary times
- A surge in commodity demand following the reopening in China is also beneficial
- In absolute terms, the sector trades at a 12M forward P/E ratio below the market

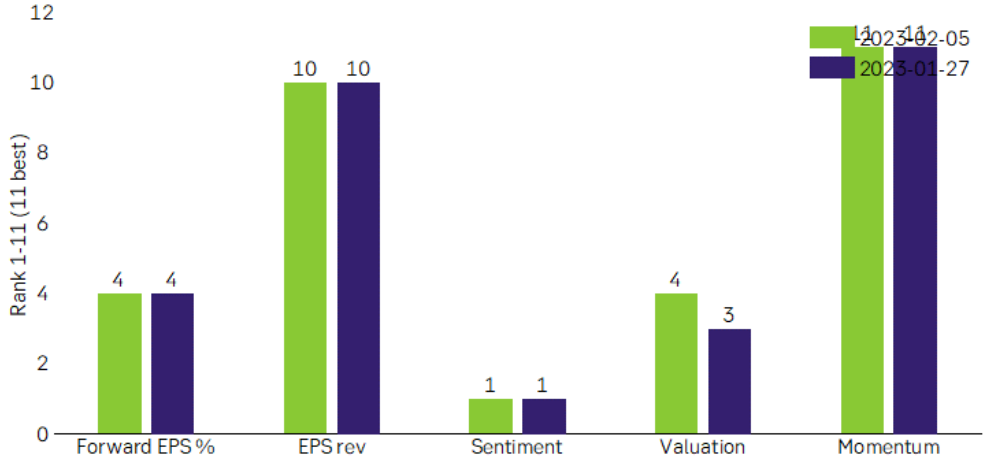
Industrials may benefit from investments in renewables

- The sector has a stable EPS outlook and momentum in our House View model
- Furthermore, Industrials should benefit from investments in the renewable energy space and a rebound in Chinese demand for global capex

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

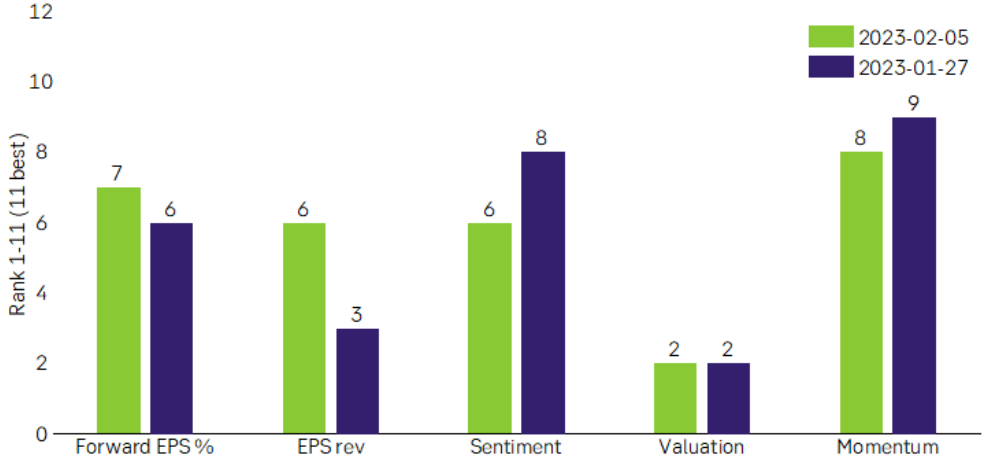
Source: SEB House View

Figure 2: Consumer Discretionary has seen strong EPS revisions and momentum



Source: SEB House View

Figure 3: Industrials has also had strong momentum in the last month



Source: SEB House View

Underweight – Consumer Staples and Utilities

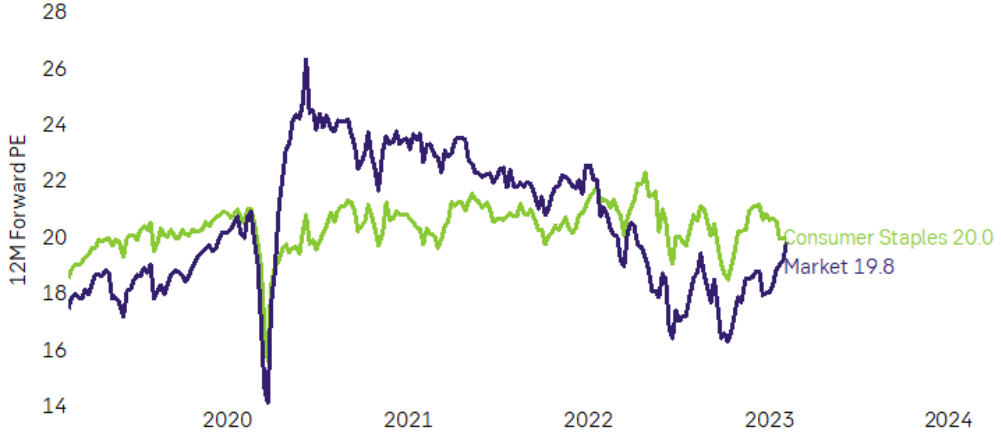
We remain underweight in consumer staples due to more balanced growth risks and stronger outlook for discretionary spending

- We expect this year's underperformance in defensive sectors to continue
  - Cyclical sectors should benefit more from China's reopening than defensive sectors, such as consumer staples, as discretionary spending increases
  - In our view, recessions risks have decreased which makes defensive sectors, like consumer staples, less attractive unless they trade at a significant discount

We stay underweight in Utilities

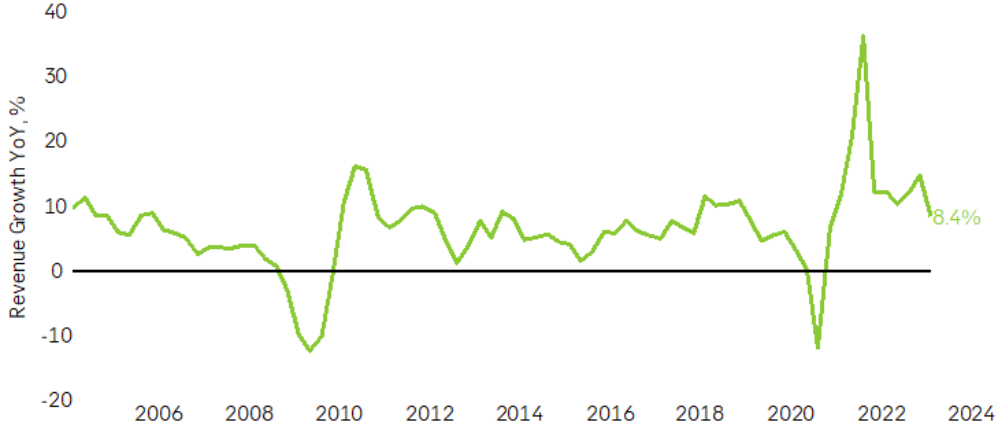
- We expect the weak momentum in utilities and de-rating in defensive sectors to continue, as investors turn to more cyclical sectors amid a stabilizing growth outlook
- Defensive sectors with predictable returns ,such as utilities, should underperform in case sticky inflation forces central banks to keep monetary policies tighter-for-longer
  - The sector is a bond proxy which moves inversely to bond yields

Figure 1: Consumer Staples trades at a slightly higher valuation than the market



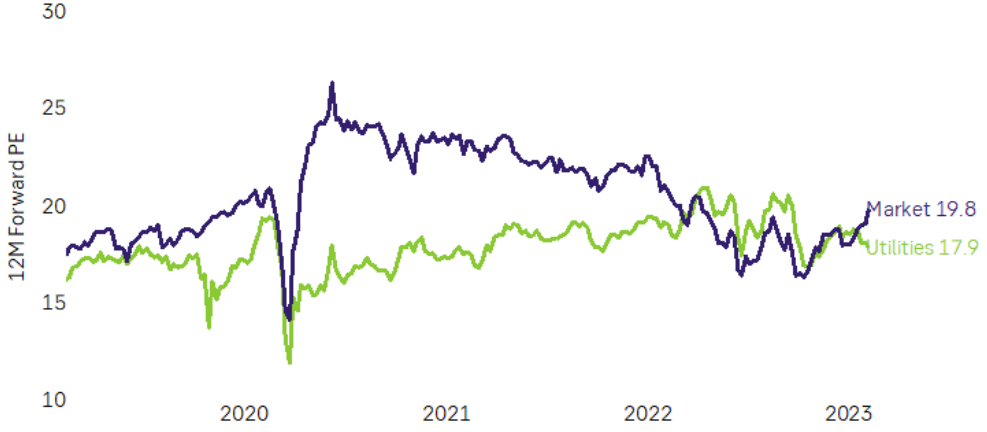
Source: SEB House View

Figure 2: Revenue growth for consumer staples is positive, but declining...



Source: SEB House View

Figure 3: Utilities is trading at a discount, but we think that cyclicals will be in favour



Source: SEB House View

Appendix 1 – Inflation Heatmap

US Inflation Indicators

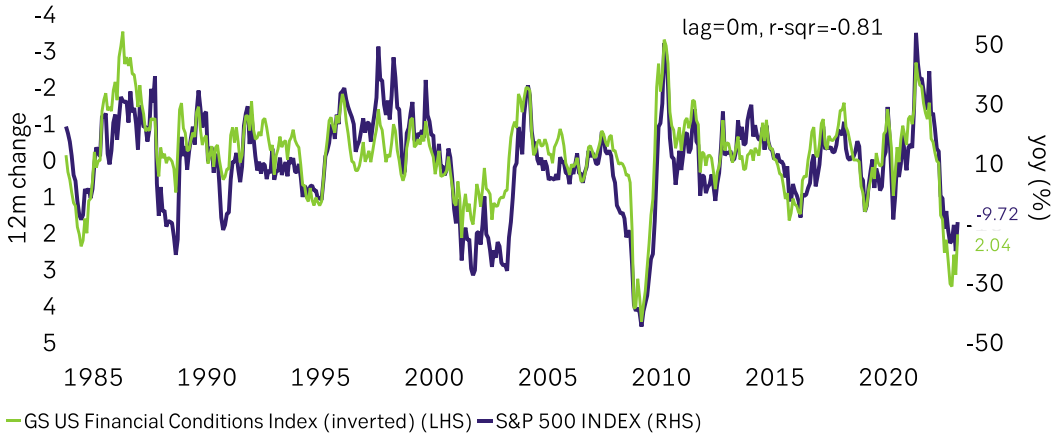
Heatmap based on rolling 10-year Z-scores. Actual data releases are shown below.

	2/2023	1/2023	12/2022	11/2022	9/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022	3/2022	2/2022	12/2021	12/2021	11/2021	10/2021	9/2021	8/2021	7/2021	6/2021	4/2021	4/2021	3/2021	2/2021
Economic Measures																									
Cleveland Fed Trimmed-Mean CPI Y/Y %			6,5	6,7	7,3	6,05	7,2	7,0	6,9	6,5	6,2	6,1	5,7	4,9	4,9	4,6	4,1	3,5	3,2	3,0	2,9	2,5	2,5	2,1	2,0
Core CPI Y/Y %			5,7	6,0	6,6	6,6	6,3	5,9	5,9	6,0	6,2	6,5	6,4	5,5	5,5	4,9	4,6	4,0	4,0	4,3	4,5	3,0	3,0	1,6	1,3
Core PCE Y/Y %			4,4	4,7	5,2	5,2	4,9	4,7	5,0	4,9	5,0	5,4	5,4	5,0	5,0	4,8	4,3	3,9	3,9	3,9	3,8	3,1	3,1	2,0	1,6
CPI Y/Y %			6,5	7,1	8,2	8,2	8,3	8,5	9,1	8,6	8,3	8,5	7,9	7,0	7,0	6,8	6,2	5,4	5,3	5,4	5,4	4,2	4,2	2,6	1,7
PPI Y/Y %			9,0	10,7	11,6	11,6	12,8	15,3	18,3	16,8	15,7	15,3	13,7	12,3	12,3	13,3	12,7	11,8	10,7	9,9	9,7	9,7	9,7	5,9	2,5
Sentiment																									
Michigan Expected Inflation 12M		5,8	6,6	7,3	6,4	6,4	6,5	8,2	8,2	7,4	8,2	8,0	6,0	6,2	6,2	6,8	6,3	6,0	6,1	5,8	6,1	4,3	4,3	4,3	4,3
Conf Board Expected Inflation 12M		6,8	6,6	7,1	6,8	6,8	7,0	7,4	7,9	7,5	7,5	7,9	7,1	6,9	6,9	7,3	7,1	6,5	6,7	6,6	6,7	6,2	6,2	6,4	6,5
ISM Services Prices Paid		67,8	68,1	70,1	69,8	69,8	72,3	73,2	79,1	80,9	83,2	82,9	83,2	84,5	84,5	83,0	83,2	80,6	76,7	82,3	78,0	75,0	75,0	72,9	71,8
ISM Manufacturing Prices Paid		44,5	39,4	43,0	51,7	51,7	52,5	60,0	78,5	82,2	84,6	87,1	75,6	68,2	68,2	82,4	85,7	81,2	79,4	85,7	92,1	89,6	89,6	85,6	86,0
ISM Manufacturing Supplier Deliveries		45,6	45,1	47,2	52,4	52,4	55,1	55,2	57,3	65,7	67,2	65,4	66,1	65,0	65,0	72,3	75,6	73,4	69,6	72,5	75,1	75,0	75,0	76,7	72,0
NFIB Higher Prices			43,0	51,0	51,0	51,0	53,0	56,0	63,0	65,0	63,0	66,0	64,0	57,0	57,0	59,0	53,0	46,0	49,0	46,0	47,0	36,0	36,0	26,0	25,0
Commodities																									
CRB Raw Industrials Y/Y %	-10,4	-12,1	-10,4	-14,4	-8,9	-4,6	-2,6	0,7	10,6	17,4	21,8	18,6	20,5	26,8	31,4	37,5	36,3	37,2	42,5	45,1	43,0	40,8	34,7	22,6	16,6
Lumber Y/Y %	-50,0	-66,4	-56,3	-26,1	-32,4	-9,8	-14,1	-13,2	-54,9	-34,3	-4,7	44,8	10,8	31,5	38,6	8,0	3,7	-37,7	6,6	68,9	282,2	358,9	283,6	145,1	107,8
Metals Y/Y %	-3,4	-4,1	3,7	-9,5	-10,6	-9,9	-3,5	-2,9	20,1	26,0	50,0	37,0	35,8	30,3	22,2	35,9	40,2	37,1	43,0	48,8	59,5	65,1	56,3	43,8	25,3
Agriculture Y/Y %	7,3	13,4	9,1	16,3	17,4	19,8	12,7	15,9	29,1	30,3	42,5	41,6	28,9	26,6	37,3	43,8	46,6	48,9	58,9	59,7	68,6	67,1	40,2	33,0	27,6
Energy Y/Y %	-8,6	31,0	53,0	34,0	29,9	70,6	73,9	68,7	117,5	103,3	87,7	80,1	71,6	52,1	49,3	89,3	87,6	44,9	43,8	53,3	42,5	54,1	25,7	-13,1	-23,2
Wages																									
Weekly Wages Y/Y %		5,4	4,2	4,9	6,0	6,0	3,9	5,7	6,1	5,8	5,6	6,1	7,4	6,0	6,0	5,0	6,5	6,3	5,2	6,1	5,1	4,2	4,2	6,6	4,9
Hourly Wages Y/Y %		4,4	4,8	5,0	5,1	5,1	5,4	5,4	5,4	5,5	5,8	5,9	5,3	5,0	5,0	5,4	5,4	4,9	4,4	4,3	3,9	0,6	0,6	4,3	5,3
Atlanta Fed High Skill Wages Y/Y %			6,0	6,0	5,6	5,6	5,3	5,1	5,0	4,7	4,6	4,4	4,2	3,8	3,8	3,6	3,5	3,5	3,4	3,4	3,4	3,5	3,5	3,5	3,5
Atlanta Fed Low Skill Wages Y/Y%			6,8	6,7	6,4	6,4	6,3	6,0	6,0	5,6	5,0	4,7	4,4	3,9	3,9	3,8	3,7	3,7	3,8	3,7	3,6	3,5	3,5	3,5	3,2
NFIB Small Business Wages		46,0	44,0	40,0	45,0	45,0	46,0	48,0	48,0	49,0	46,0	49,0	45,0	48,0	48,0	44,0	44,0	42,0	41,0	38,0	39,0	31,0	31,0	28,0	25,0
Inflation components																									
Shelter CPI Y/Y %			7,5	7,1	6,2	6,7	6,3	5,8	5,5	5,1	4,8	4,5	4,3	3,6	3,8	3,5	3,1	2,9	2,5	2,4	2,3	1,8	2,0	2,0	2,0
Electricity CPI Y/Y %			14,3	13,7	14,0	15,5	15,8	15,2	13,7	12,0	11,0	11,1	9,0	6,2	6,2	6,3	6,4	5,4	5,4	4,2	4,0	3,8	3,5	2,5	2,2
Education CPI Y/Y %			2,3	2,0	1,9	2,1	2,8	2,4	2,2	2,1	2,1	2,1	2,0	1,7	1,8	1,9	1,8	1,7	0,8	0,2	0,4	0,2	0,3	0,3	0,4
Car Rental CPI Y/Y %			-4,9	-6,0	-3,0	-1,4	-6,2	-11,9	-7,7	-0,4	10,4	23,4	24,3	39,1	36,1	36,6	38,8	43,1	53,0	73,4	87,8	86,4	82,3	31,7	11,6
Recreation CPI Y/Y %			5,7	5,4	3,2	4,1	4,2	4,5	4,7	4,9	4,4	4,8	5,1	4,2	3,3	2,8	3,8	3,5	3,5	3,7	1,9	0,5	1,8	1,3	1,1
Drugs CPI Y/Y %			2,8	2,8	2,9	3,5	4,0	3,5	3,1	2,3	2,1	2,7	2,5	0,5	0,2	0,0	-0,4	-1,6	-2,4	-1,9	-2,0	-1,6	-1,5	-2,3	-2,4
Market indicators																									
US 5Y Breakeven	2,3	2,4	2,6	2,6	2,2	2,6	2,7	2,6	3,0	3,2	3,4	3,3	2,8	2,9	2,8	2,9	2,5	2,5	2,6	2,5	2,6	2,6	2,6	2,5	2,3
US 5Y/5Y Breakeven	2,2	2,2	2,3	2,3	2,1	2,3	2,3	2,1	2,3	2,4	2,4	2,3	2,1	2,3	2,2	2,2	2,2	2,2	2,2	2,2	2,3	2,3	2,2	2,0	2,1
10Y - 2Y Yield Spread	-71,6	-55,7	-78,8	-52,3	-45,4	-20,6	-30,5	4,5	27,2	24,5	-8,0	35,9	62,0	77,4	82,6	109,5	119,6	107,6	100,3	118,8	144,1	146,2	153,2	126,6	98,1
Germany 10Y Breakeven	2,1	2,3	2,3	2,4	2,1	2,3	2,2	2,0	2,4	3,0	2,7	2,3	1,8	1,8	1,7	1,7	1,7	1,5	1,4	1,3	1,4	1,4	1,3	1,1	1,1
Japan 10Y Breakeven	0,7	0,8	0,8	0,9	0,9	0,9	0,8	0,9	1,0	1,0	0,8	0,7	0,5	0,4	0,4	0,4	0,3	0,2	0,2	0,3	0,3	0,2	0,2	0,2	0,1

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

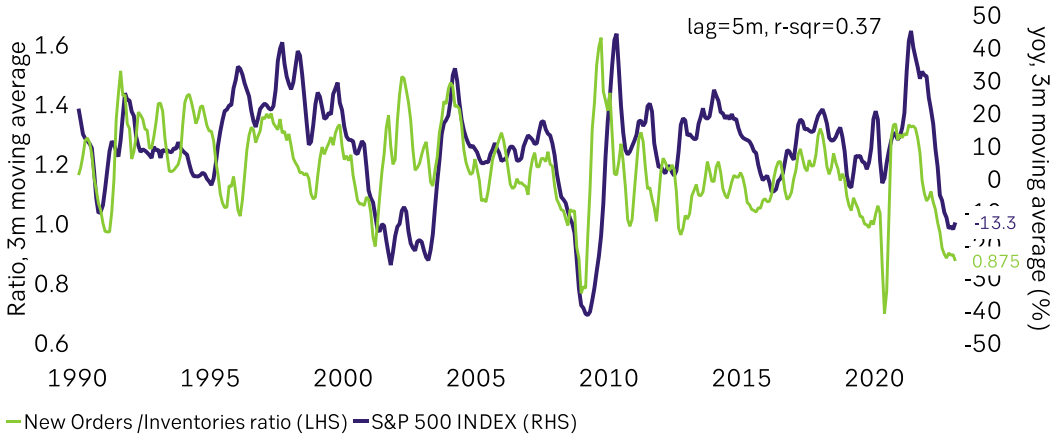
Appendix 2 – Regression Analysis and Factors

Figure 1: Easing US financial conditions should support the S&P 500



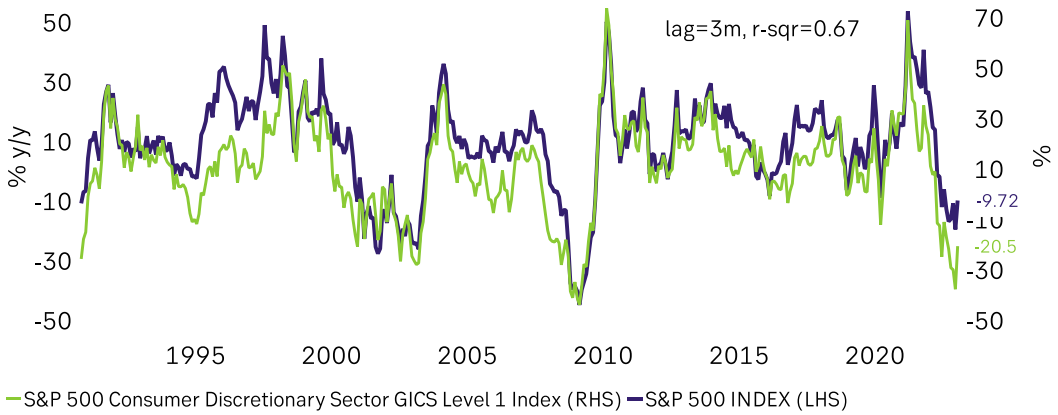
Source: Macrobond, SEB

Figure 2: ISM New Orders/Inventory ratio, which leads the S&P 500, is bottoming?



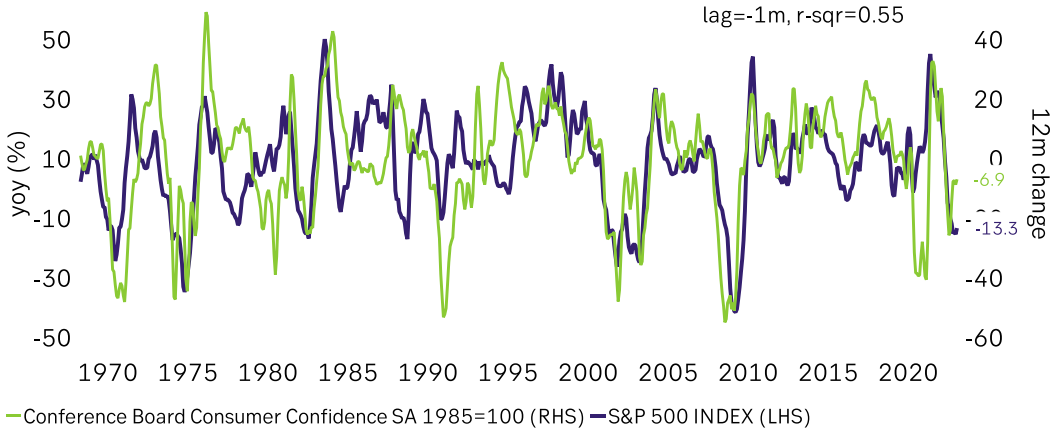
Source: Macrobond, SEB

Figure 3: Consumer Discretionary signals a turnaround in S&P500!



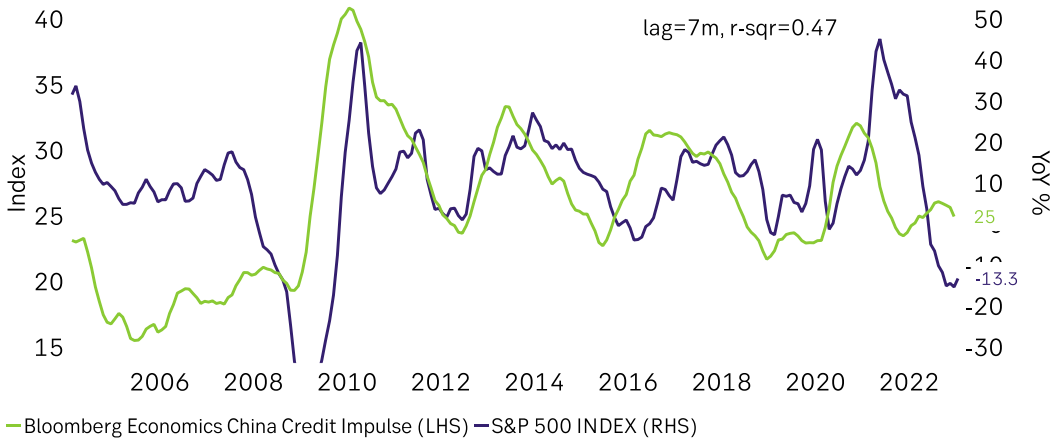
Source: Macrobond, SEB

Figure 4: Improving US consumer confidence is a bullish signal for S&P 500



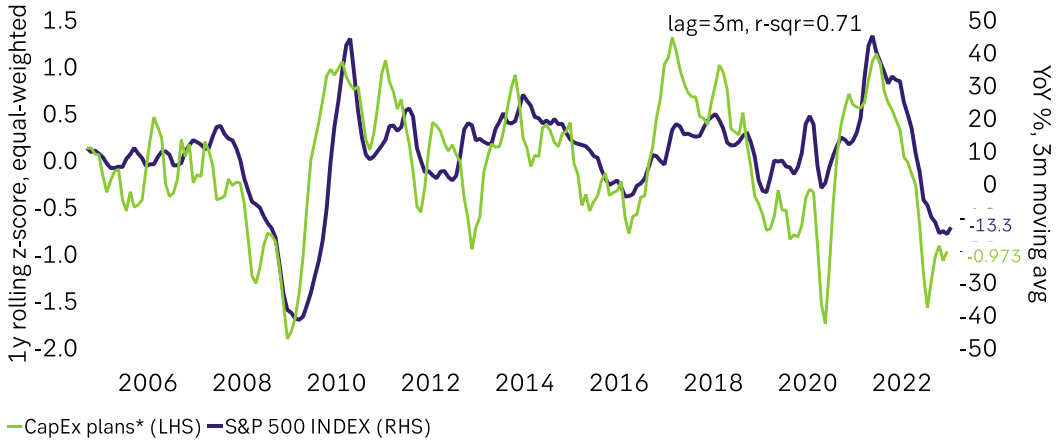
Source: Macrobond, SEB

Figure 1: China Credit Impulse, which has a long lead-time vs. stocks/PMIs, points up



Source: Macrobond, SEB

Figure 2: CapEx plans (regional Fed+NFIB) lead S&P 500 yoy by 3 months



Source: Macrobond, SEB

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