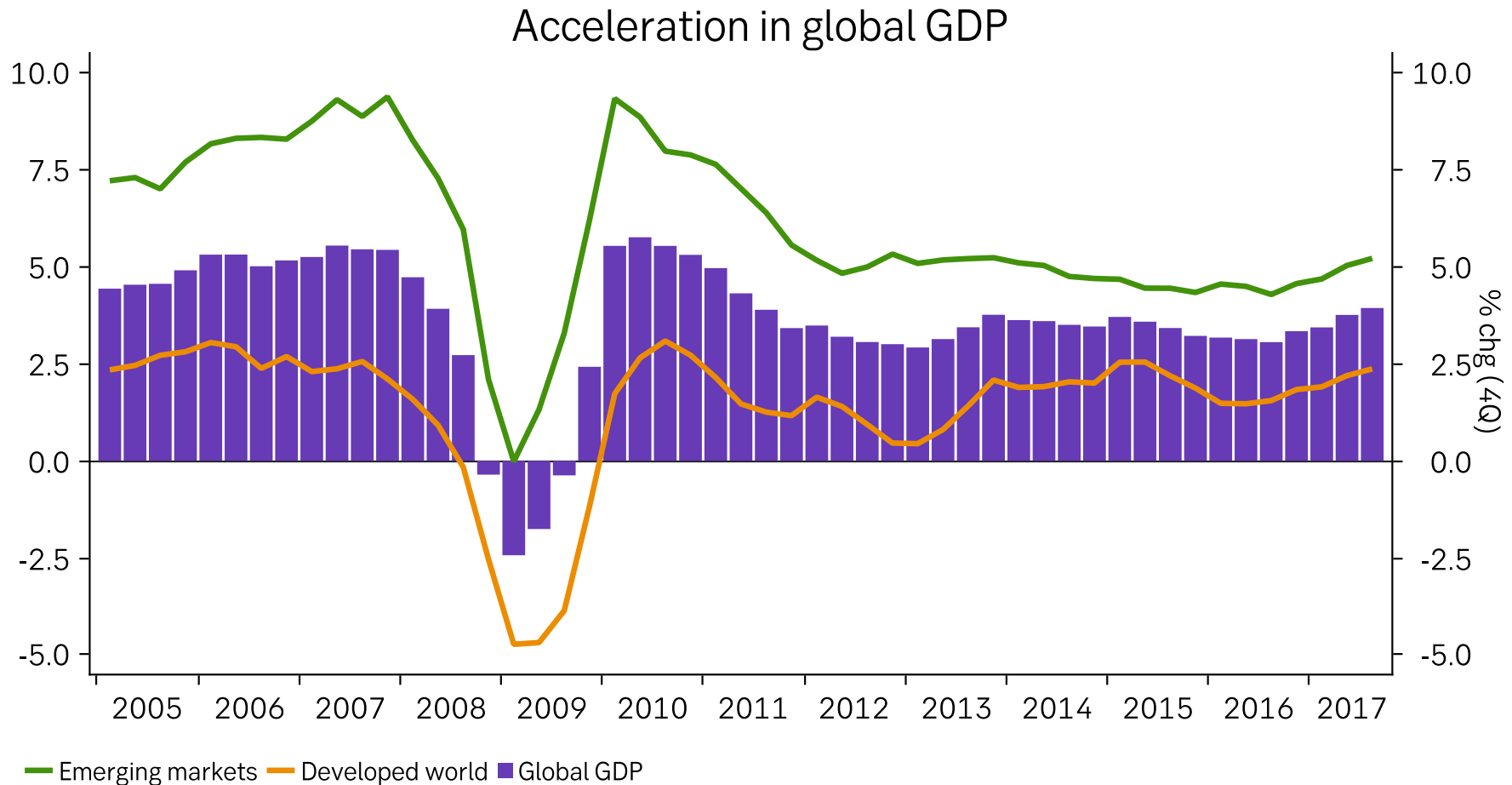


Good reasons for optimism in 2018

SEB

Erica Blomgren, Chief Strategist Norway
+47 2282 7277, erica.blomgren@seb.no
[@SEK_bonds](https://twitter.com/SEK_bonds)

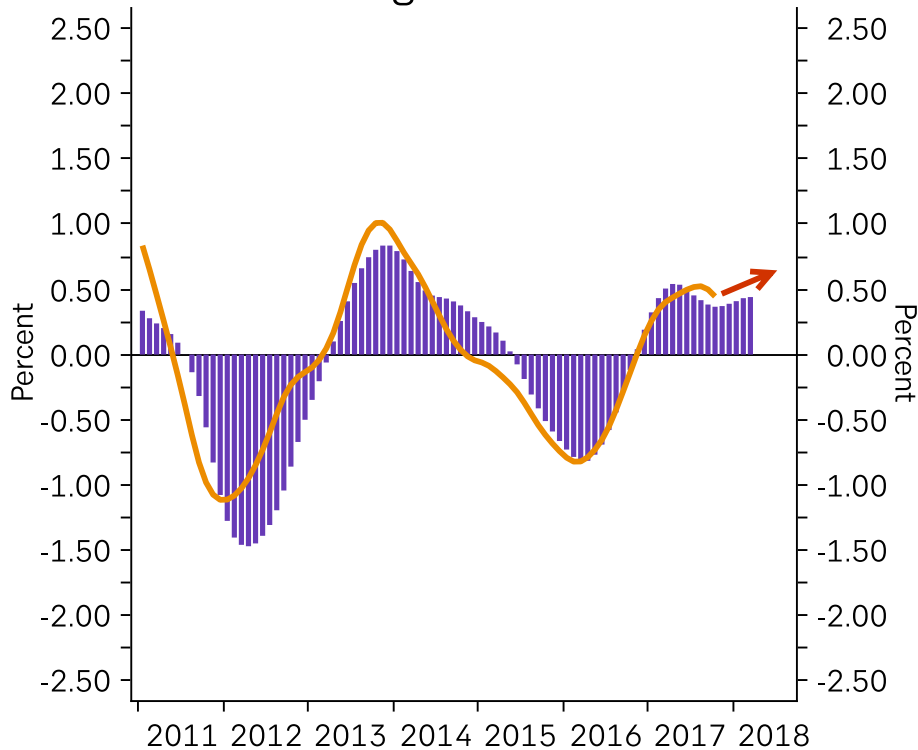
Good reasons for optimism in 2018



Surveys point to a good start

Centered on the developed world and the manufacturing sector

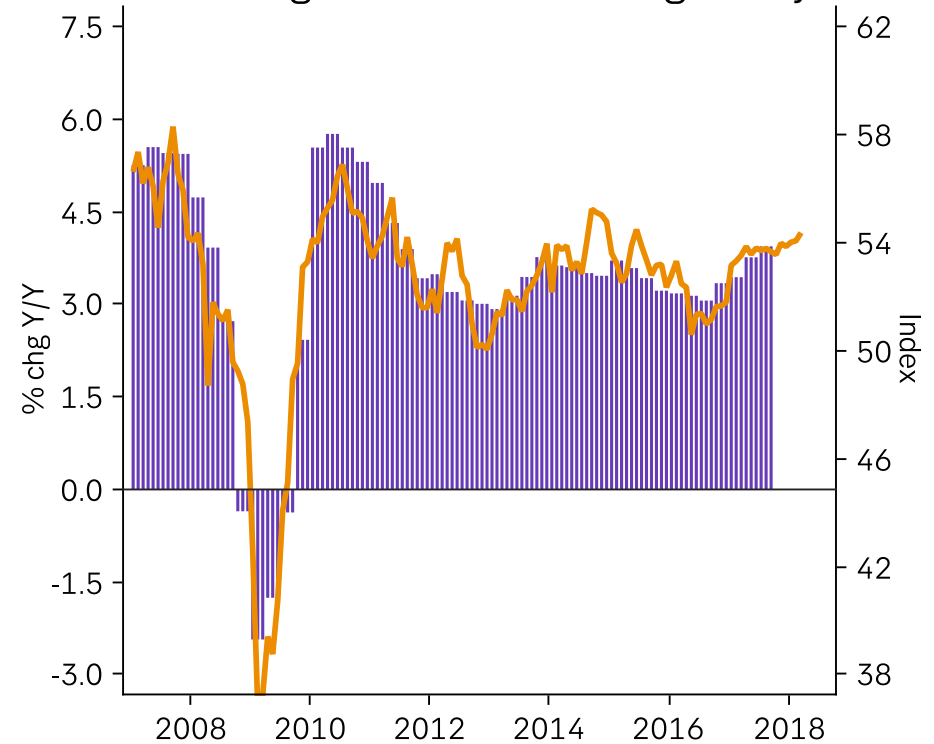
Global leading economic indicator



— OECD LEI, y/y ■ SEB GLEI

Source: OECD (Organisation for Economic Co-operation & Development), SEB

Positive growth momentum globally



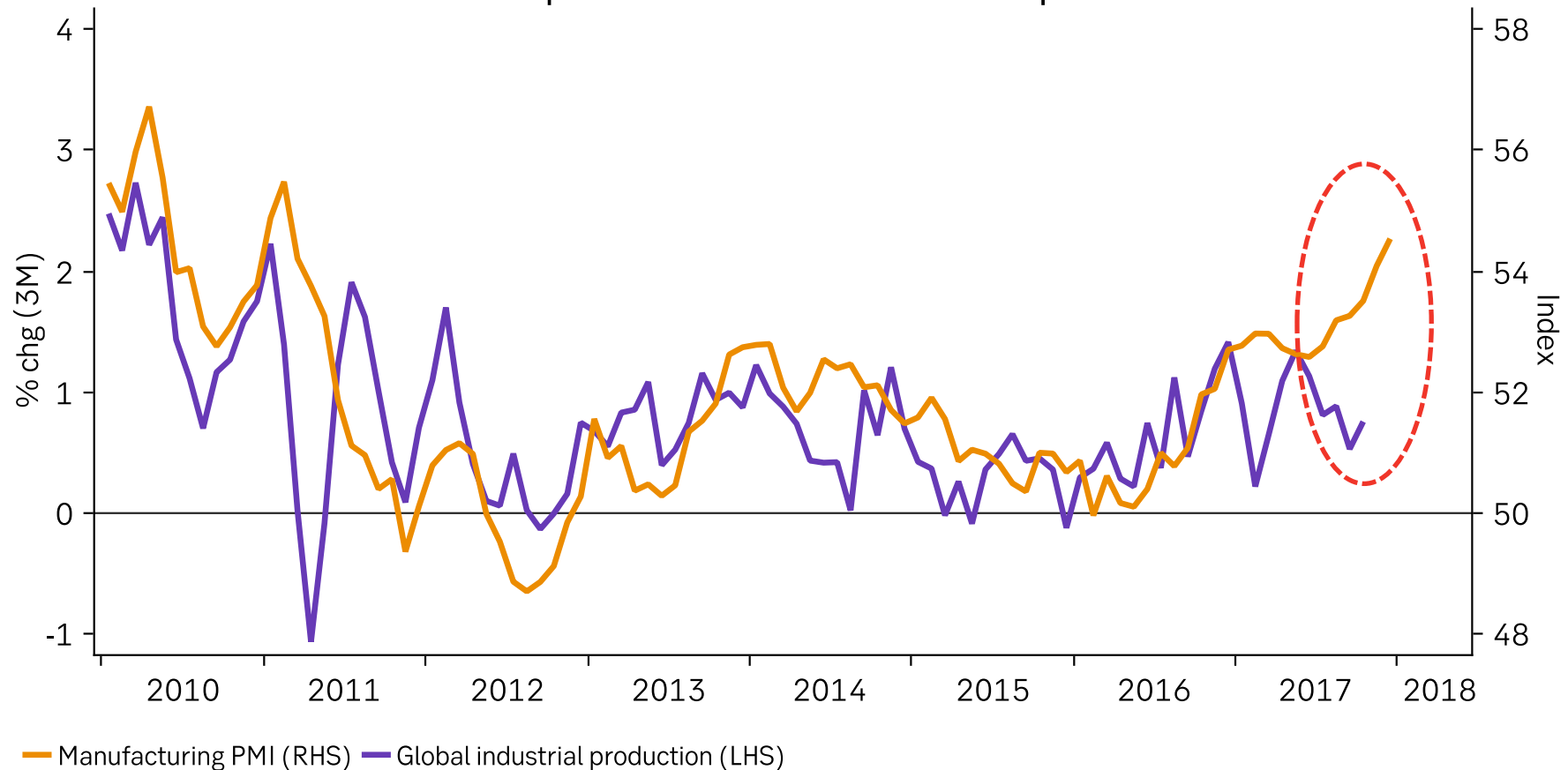
— Global composite PMI, 3M earlier (RHS) ■ Global GDP (LHS)

Source: IHS Markit, Macrobond, SEB

A sharp turn in the industrial cycle

Will drive new capital spending on a more widespread basis

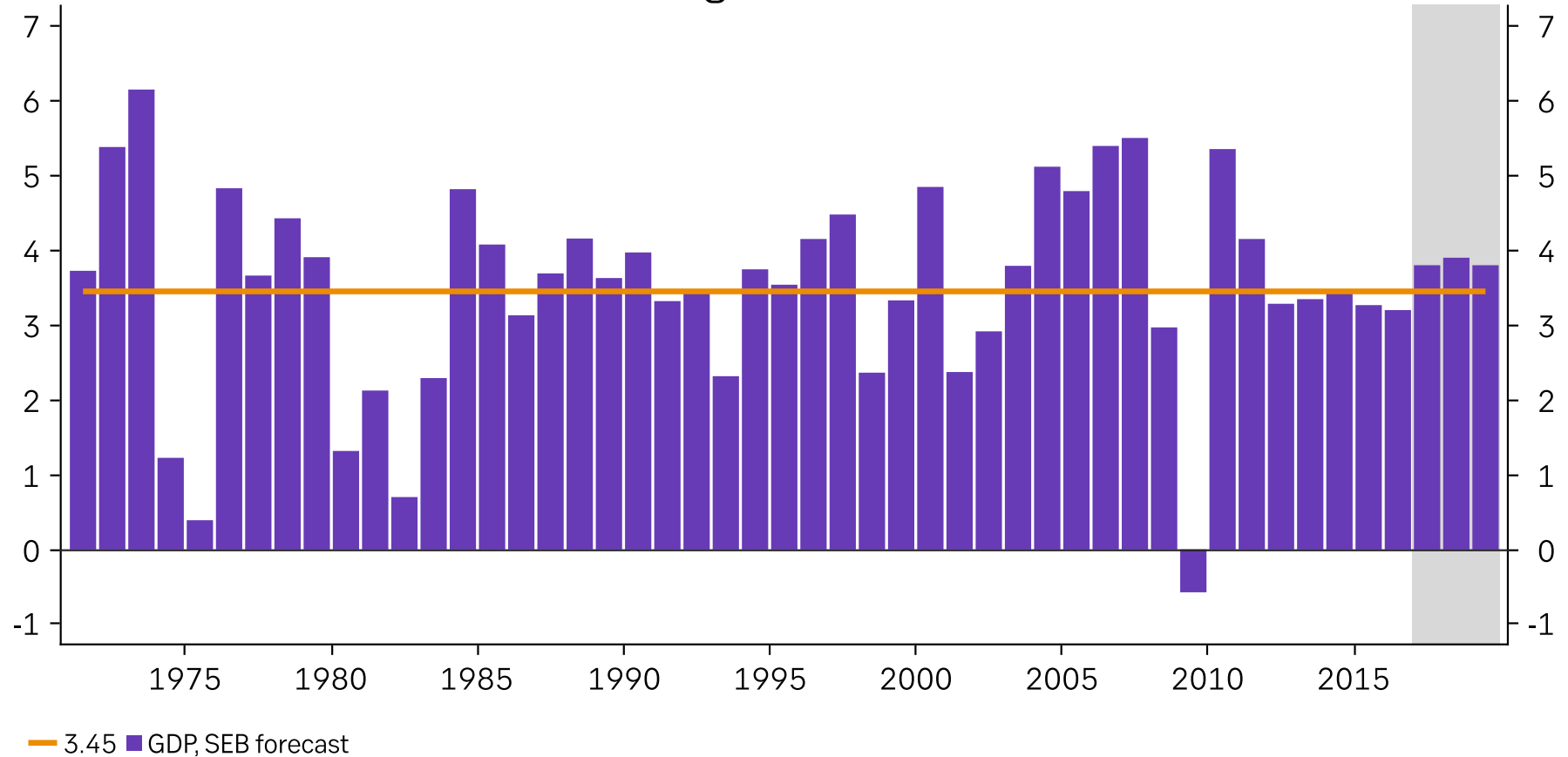
Global composite PMI and industrial production



Source: Netherlands Bureau for Economic Policy Analysis (CPB), IHS Markit, Macrobond, SEB

Above-trend growth in global GDP

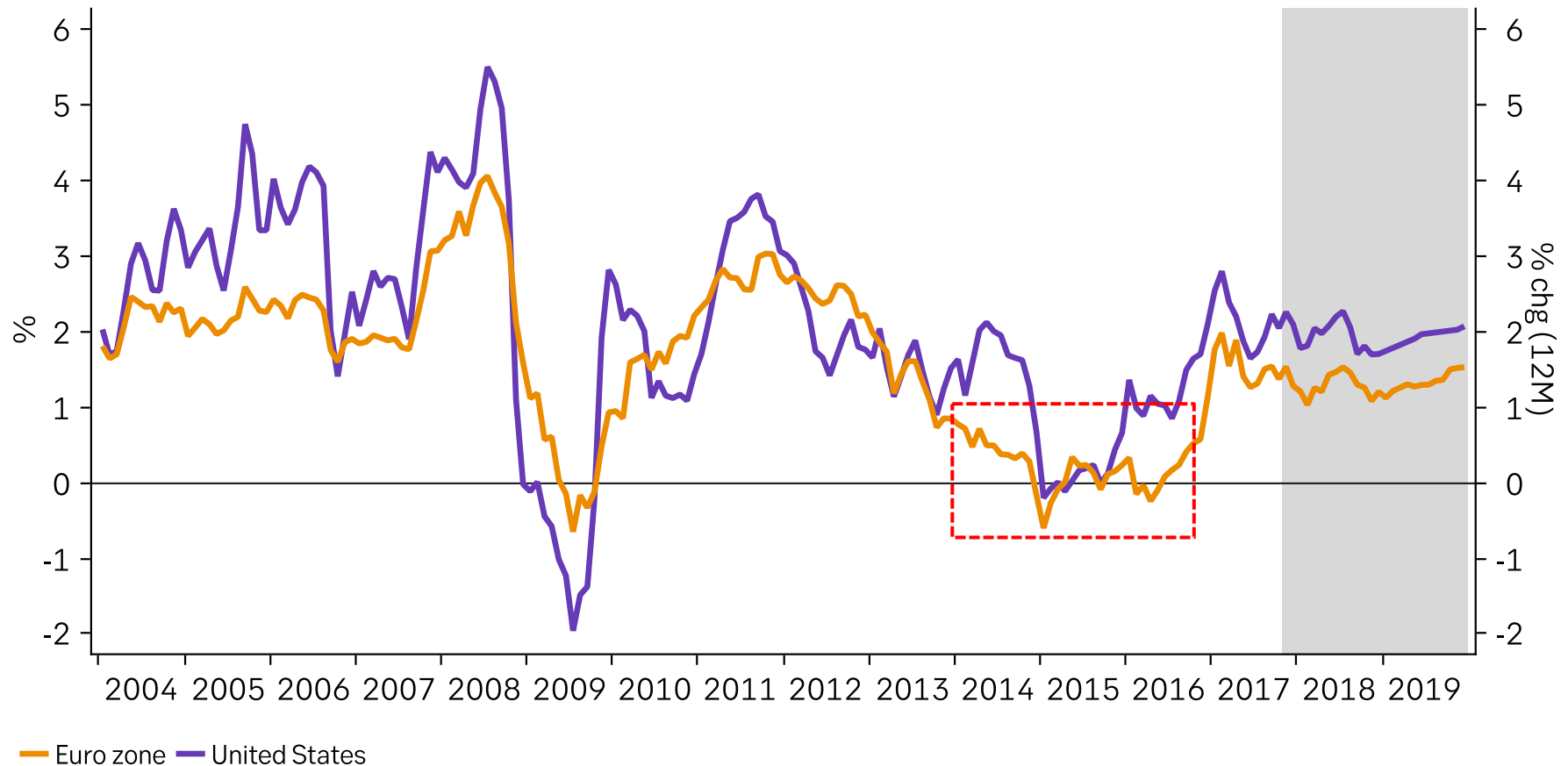
World GDP growth above trend



From deflation, to lowflation...

A major shift for central banks

Headline inflation incl. SEB's forecast

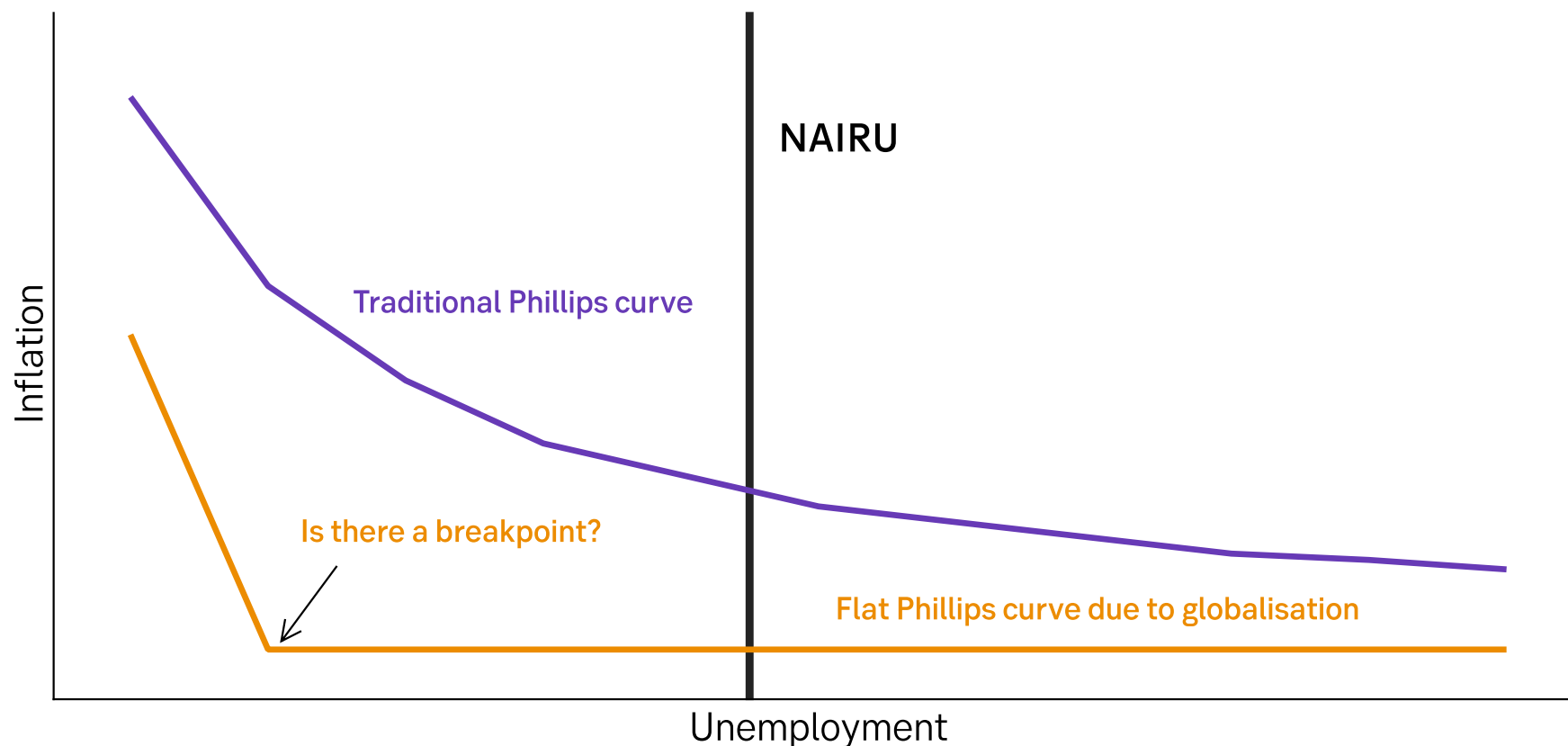


Source: Macrobond, SEB

...to inflation?

Upside risks to inflation dominating – if you believe in the Phillips curve

Is the Phillips curve still alive?

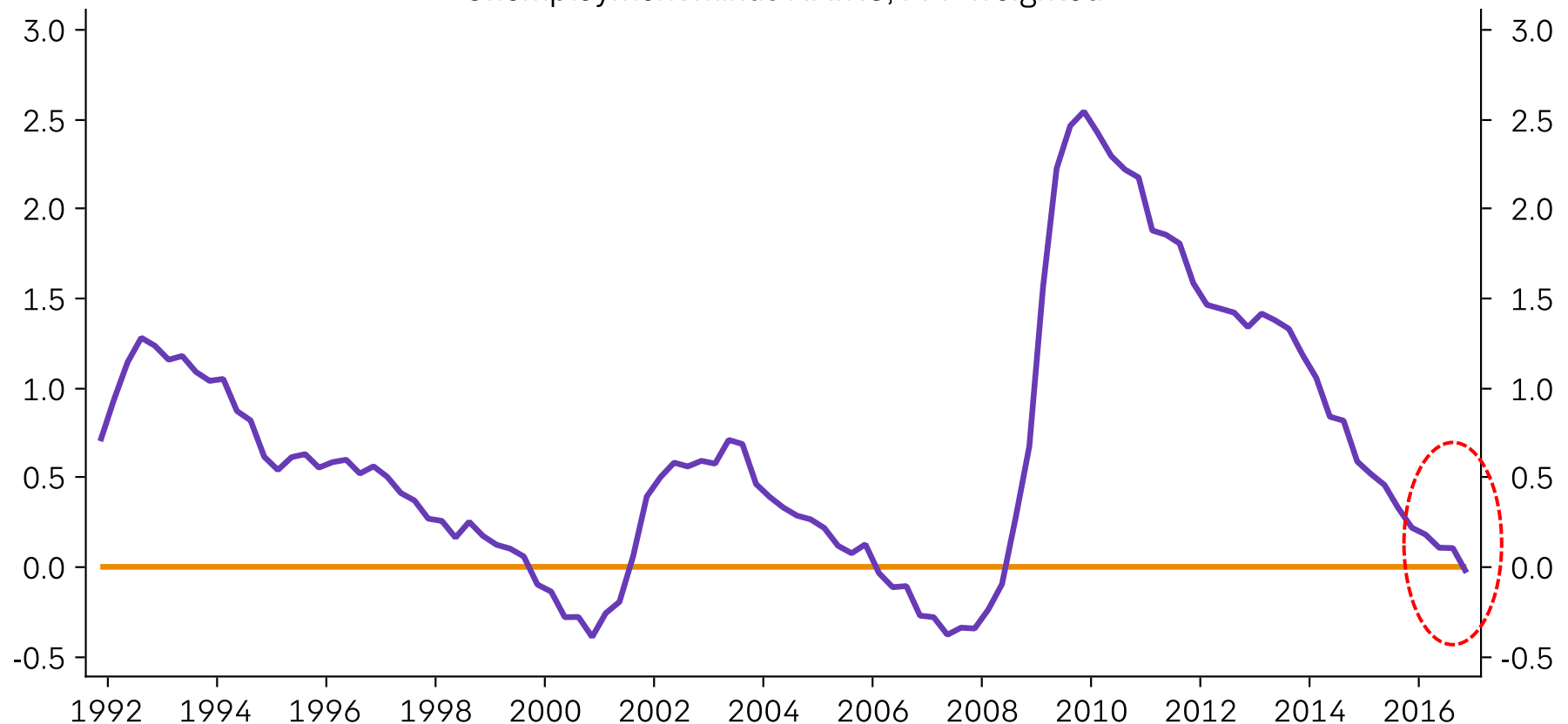


To big test is yet to come

The labour market gap has just closed

The labour market gap is closed in the G7

Unemployment minus NAIRU, PPP weighted

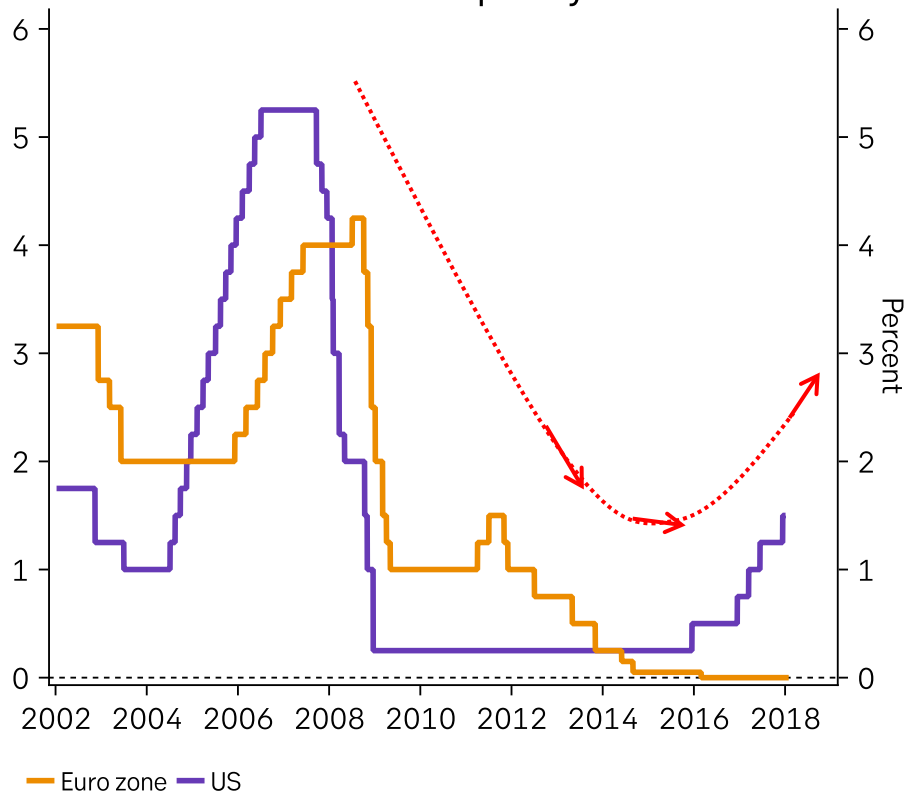


Source: Macrobond, SEB

A small step for central banks...

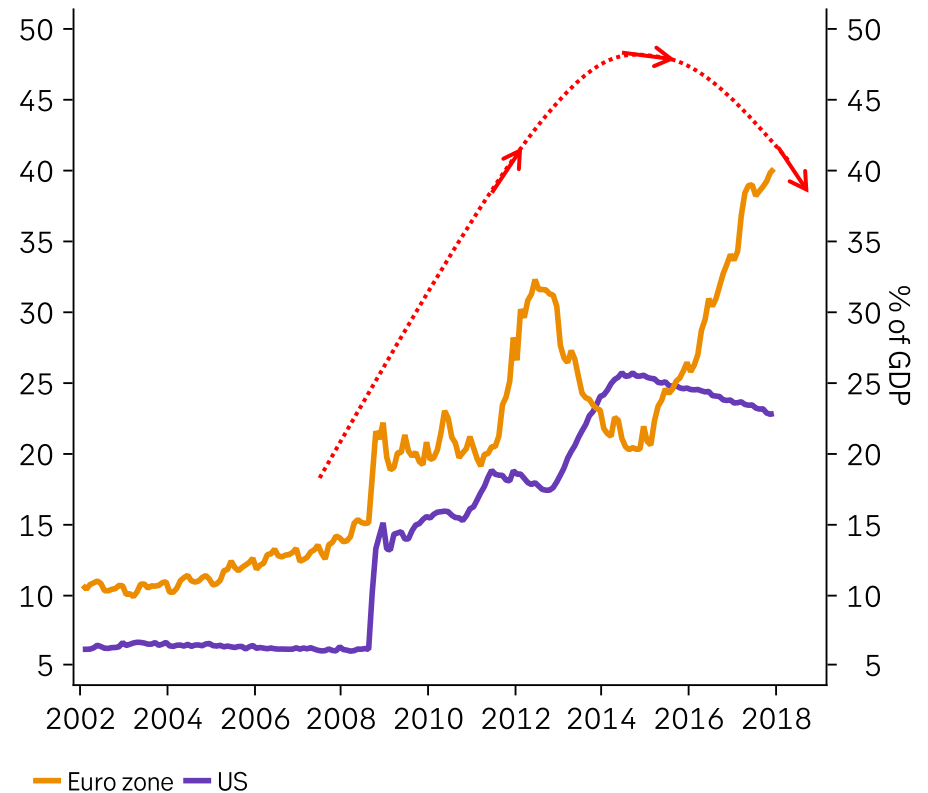
Tighter monetary policy well-motivated by growth and inflation outlook

Central bank policy rates



Source: Macrobond, SEB

Central Banks' balance sheets



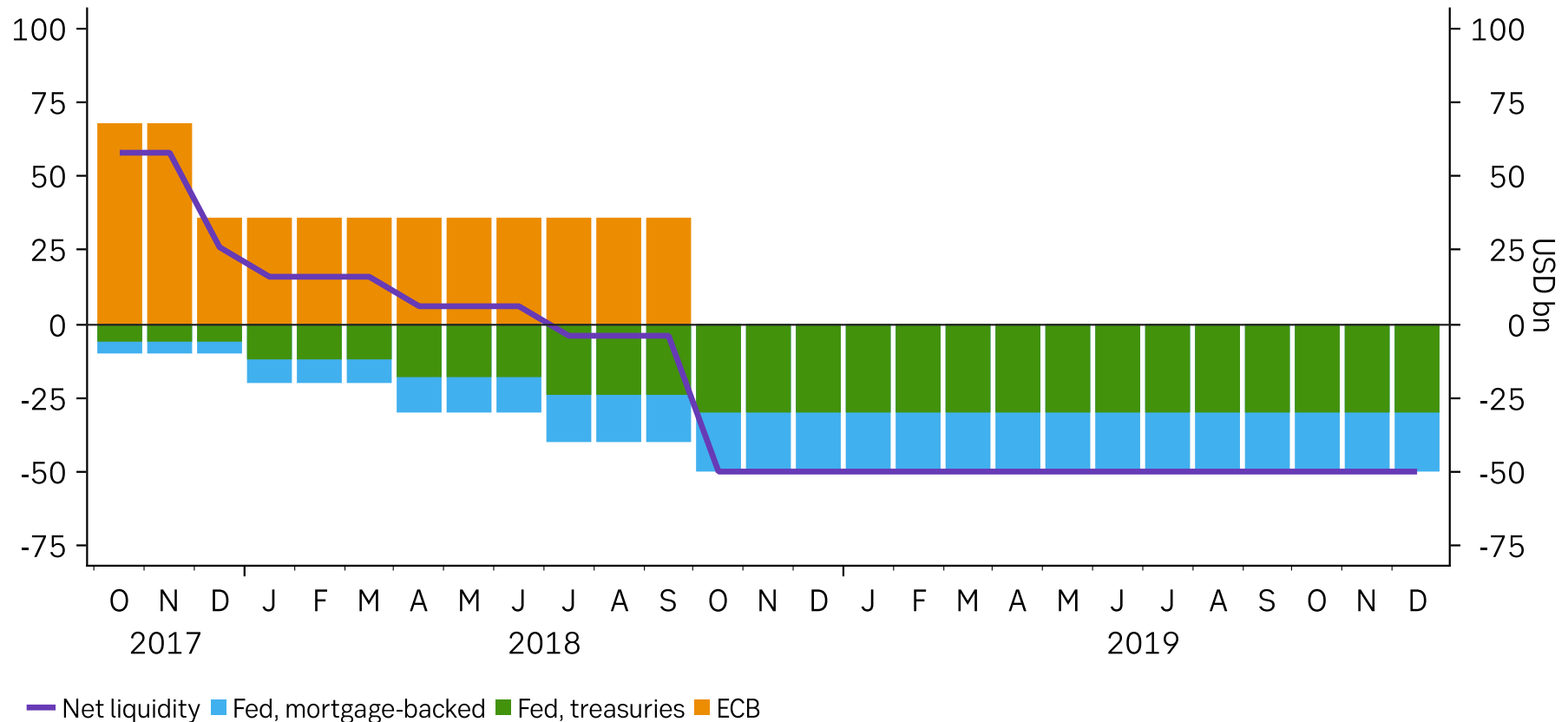
Source: Macrobond, SEB

A small step for central banks...

Tighter monetary policy ahead – withdrawing liquidity

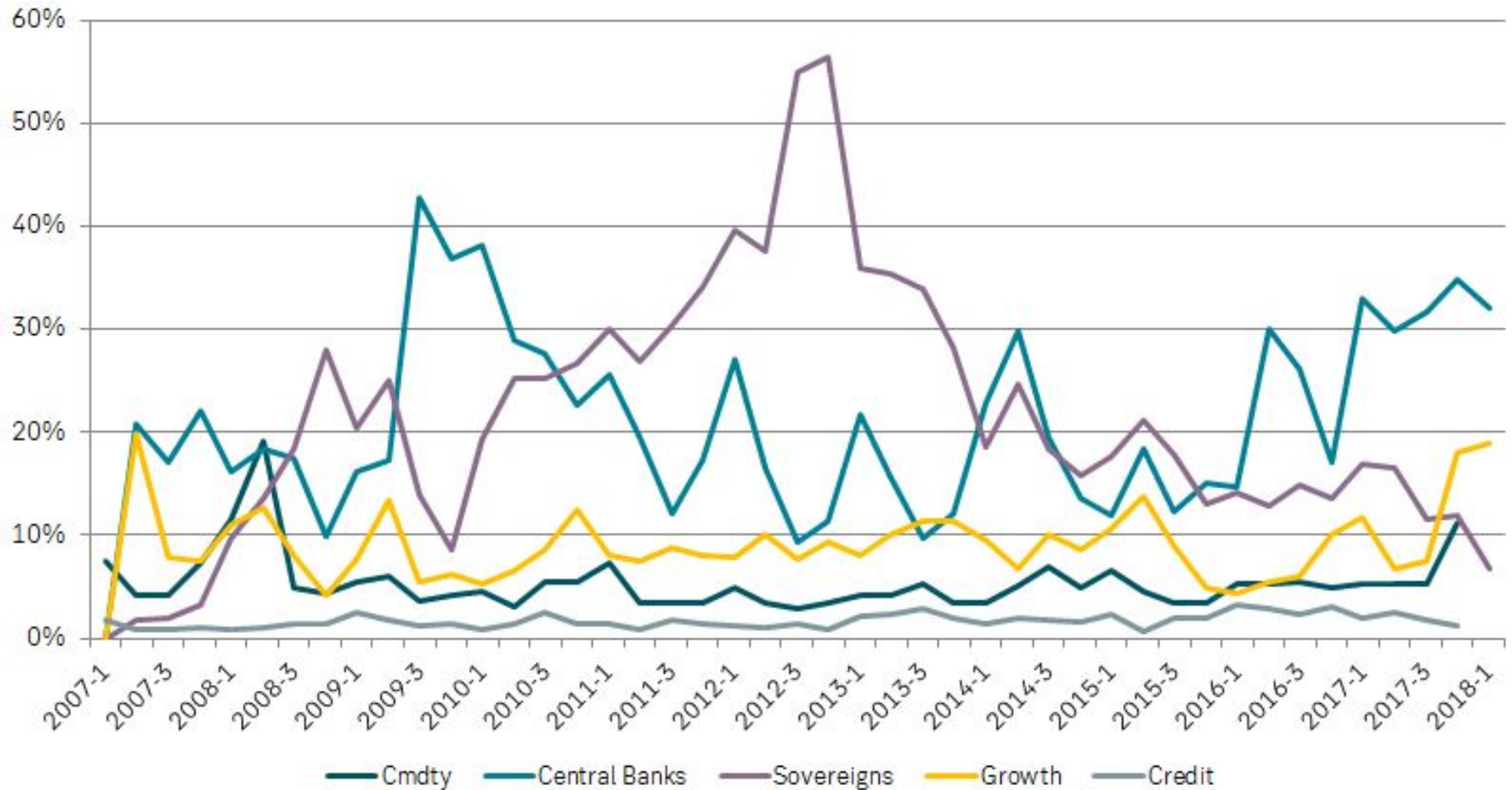
Changes in central bank liquidity

SEB forecast: 2018-2019



...a giant leap for markets!

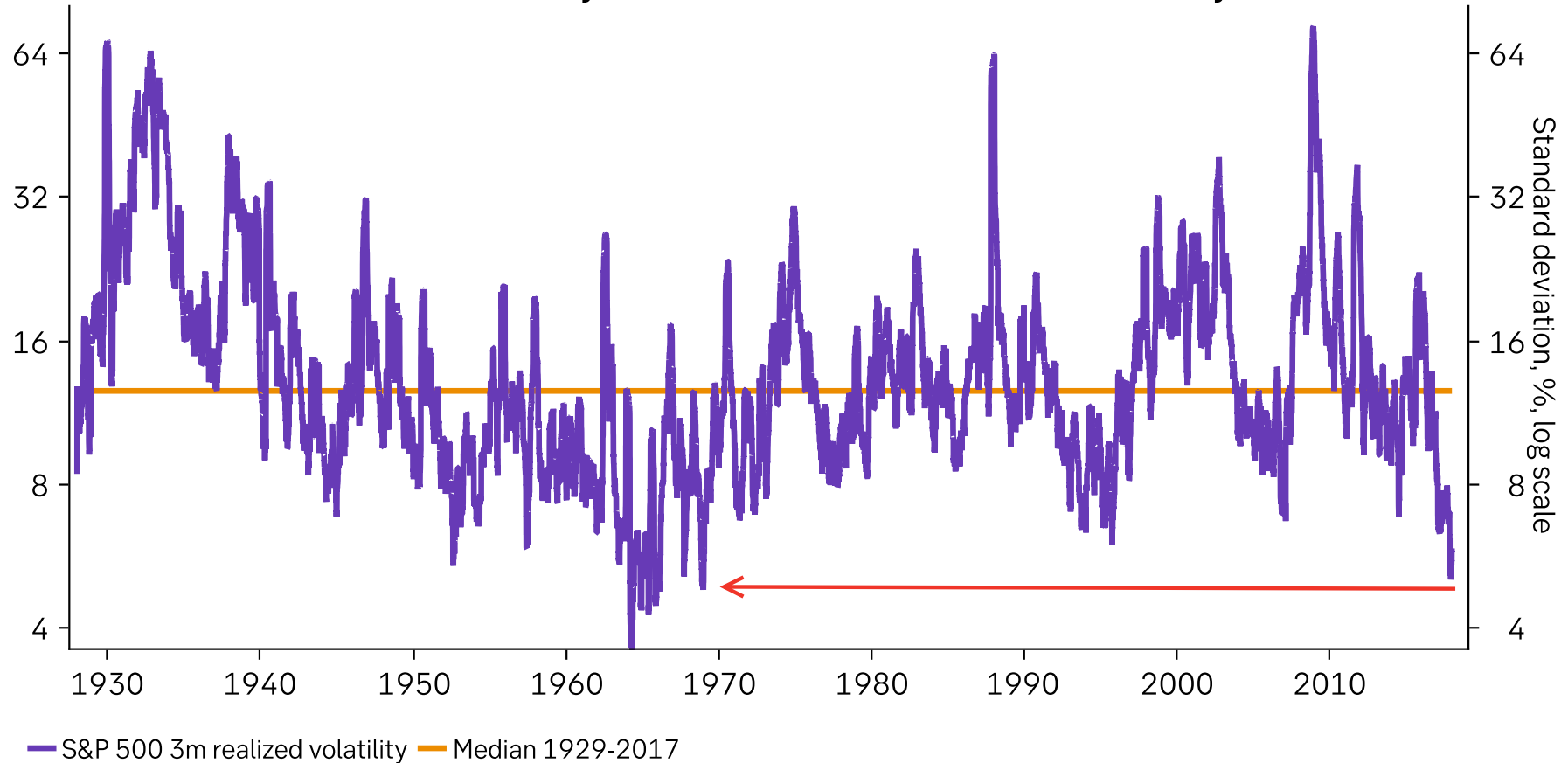
What is driving financial markets?



Unleashing uncertainty

Perception of risks should change in line with central bank policy

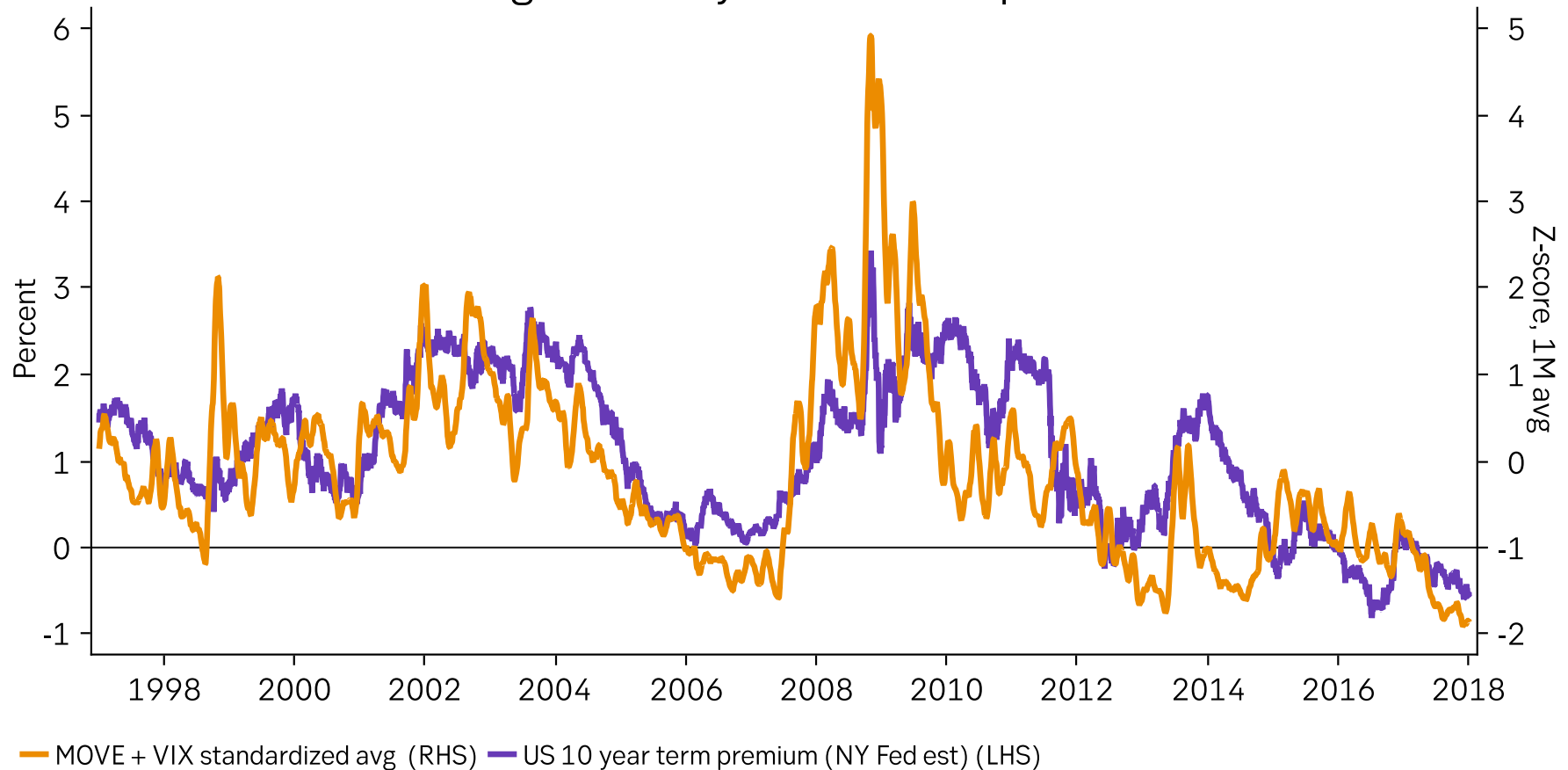
Realized volatility at levels not seen in almost 50 years



Is this the QE effect?

Depressed term premiums result in low volatility

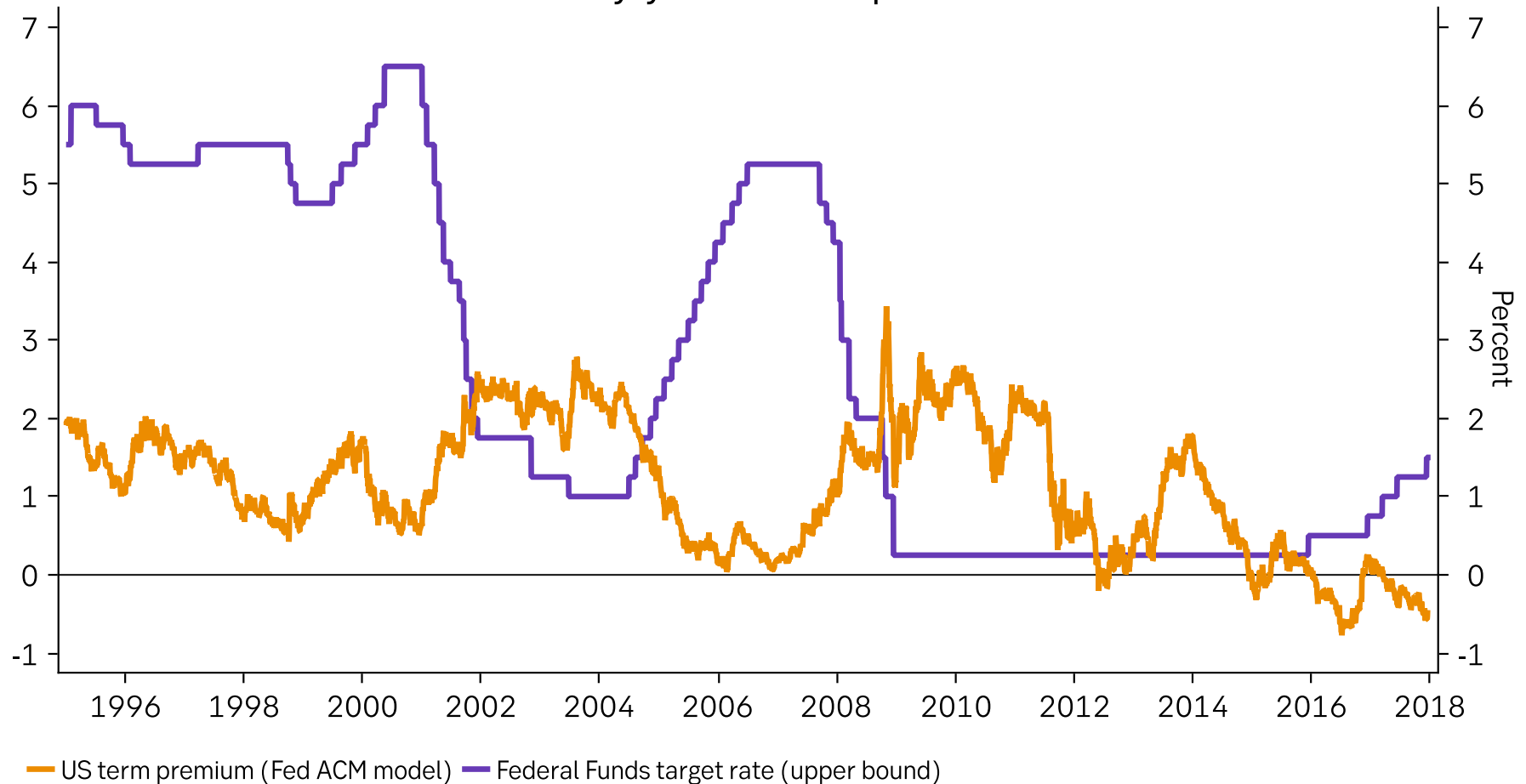
Average volatility and US term premium



Is this the QE effect?

Long-term interest rates to rise – steeper yield curves

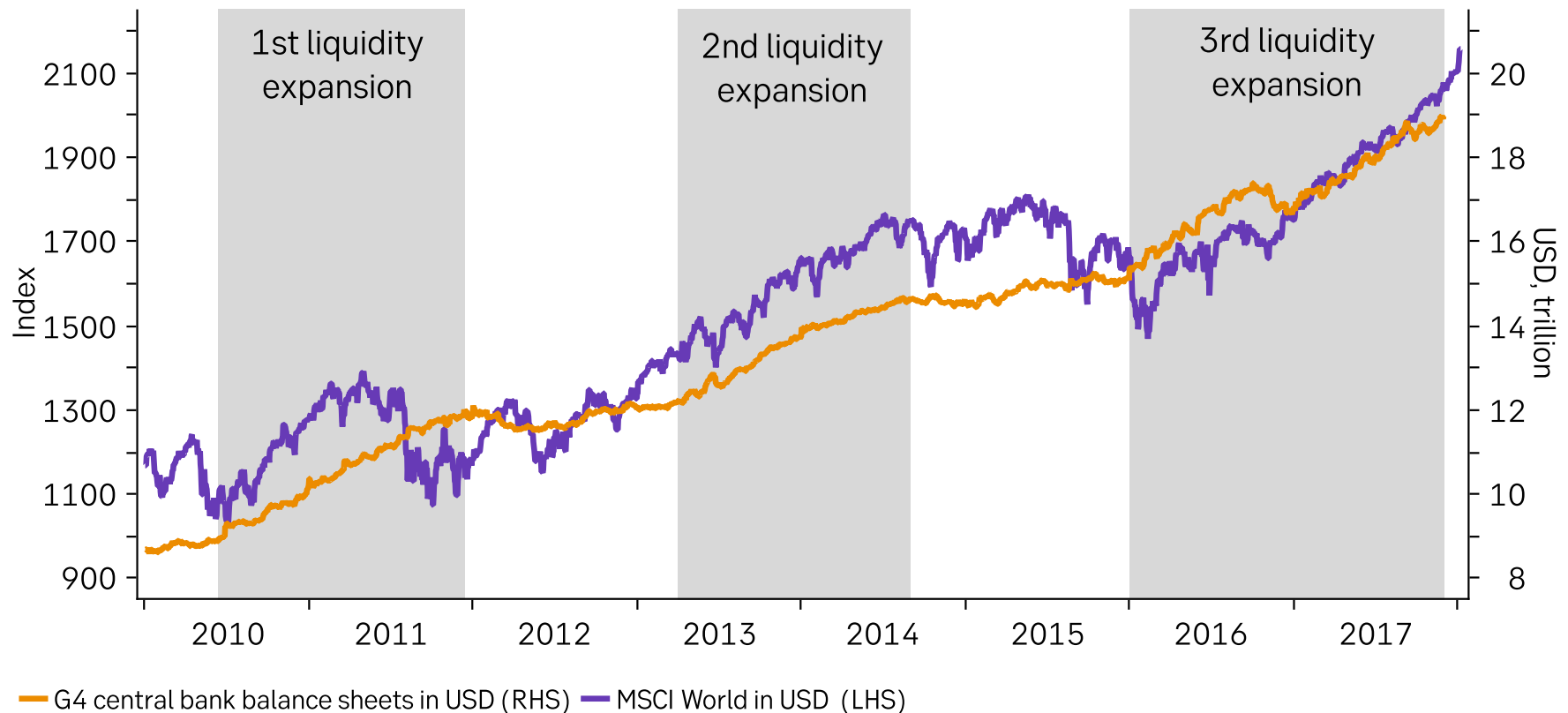
US 10y yield & Risk premium



A trigger for a larger correction?

We think not, instead expecting a good start to Nordic equities in 2018

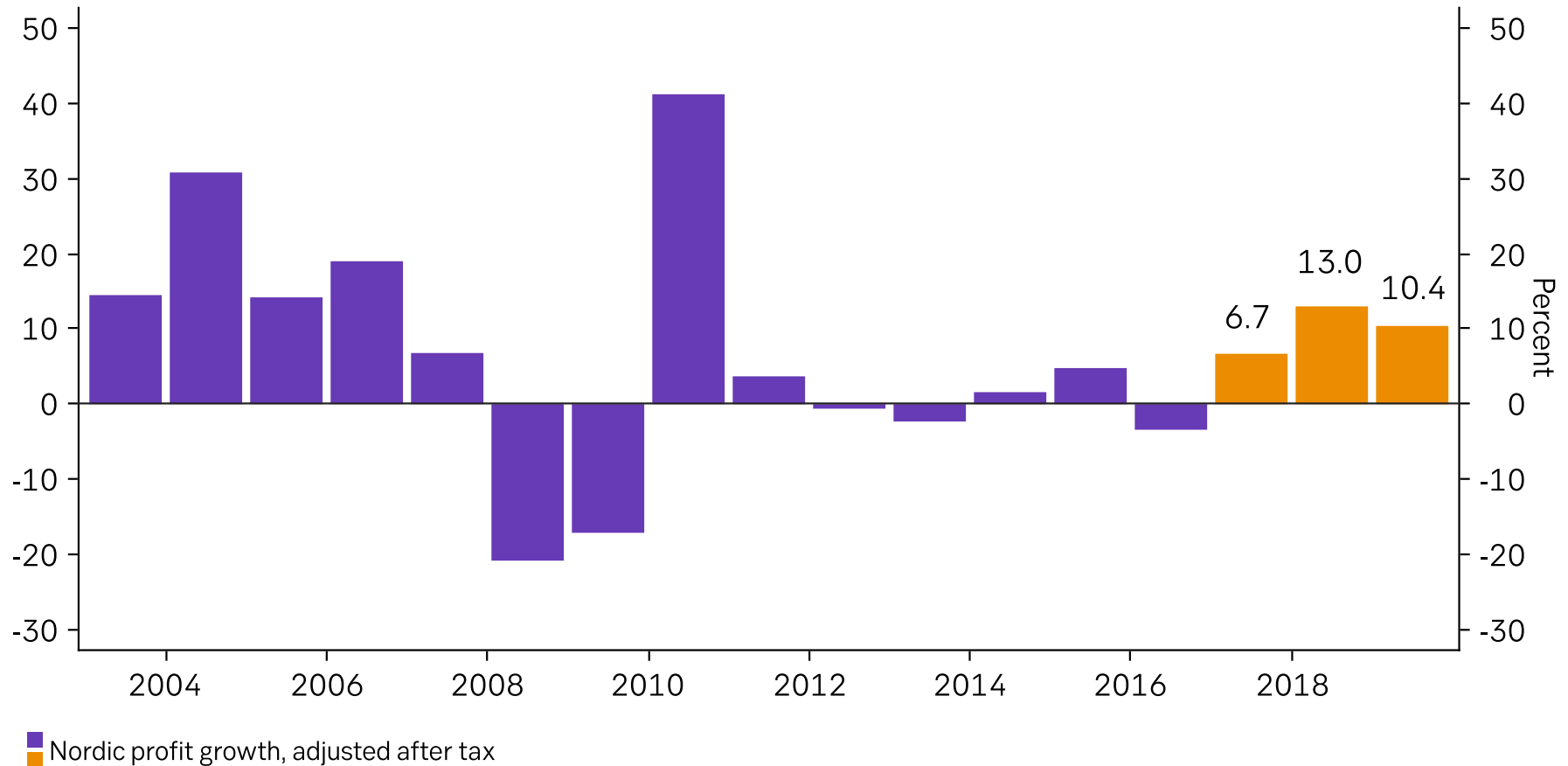
Central banks QE has boosted liquidity and risk appetite



Profits riding the business cycle...

The global business cycle moving to 2nd gear, supporting the profit cycle

Profits to continue to recover



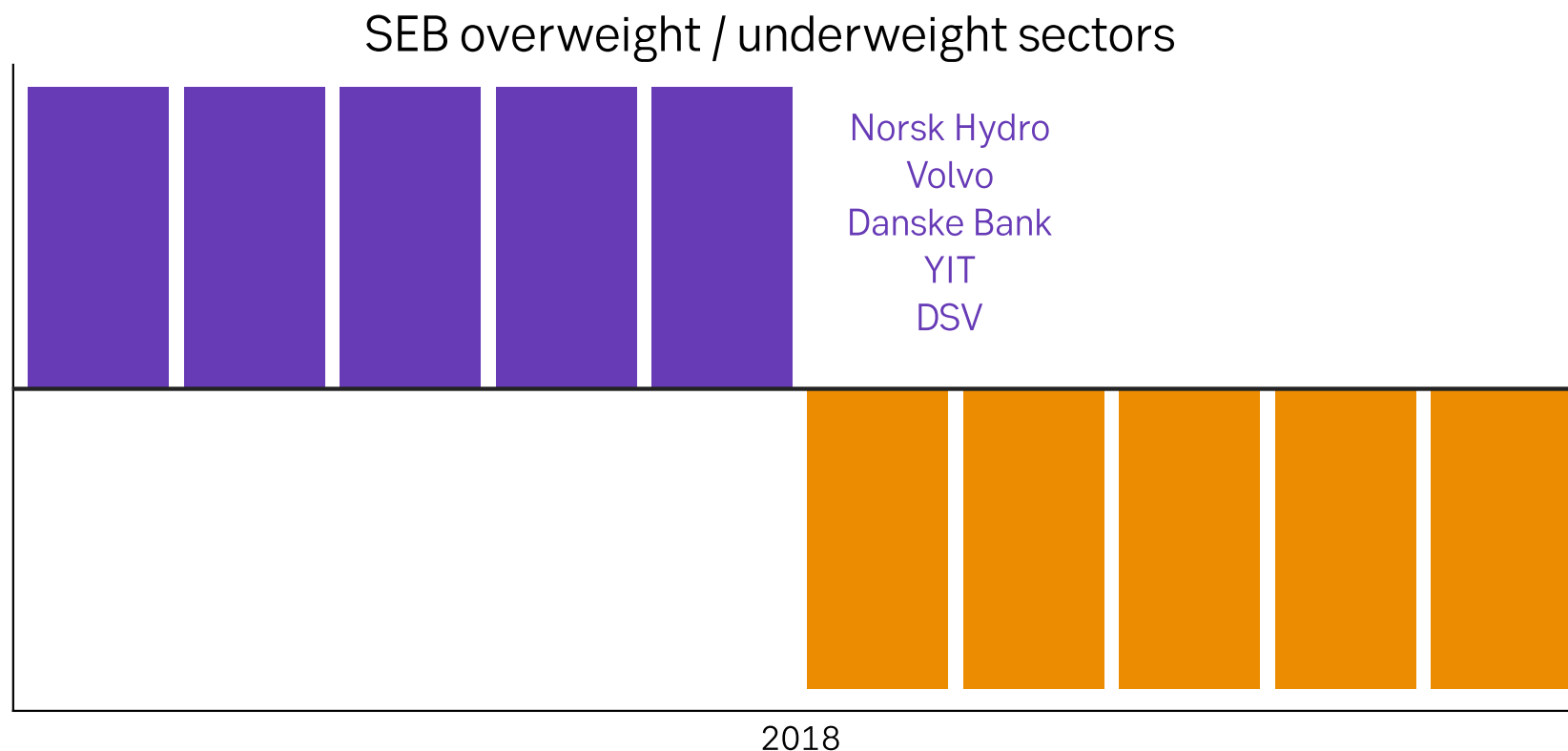
...suggesting a 13-14% return in 2018

The MSCI Nordic index to reach 265/270 level before year-end



We favour cyclical sectors

To leverage on the business cycle recovery moving to second gear

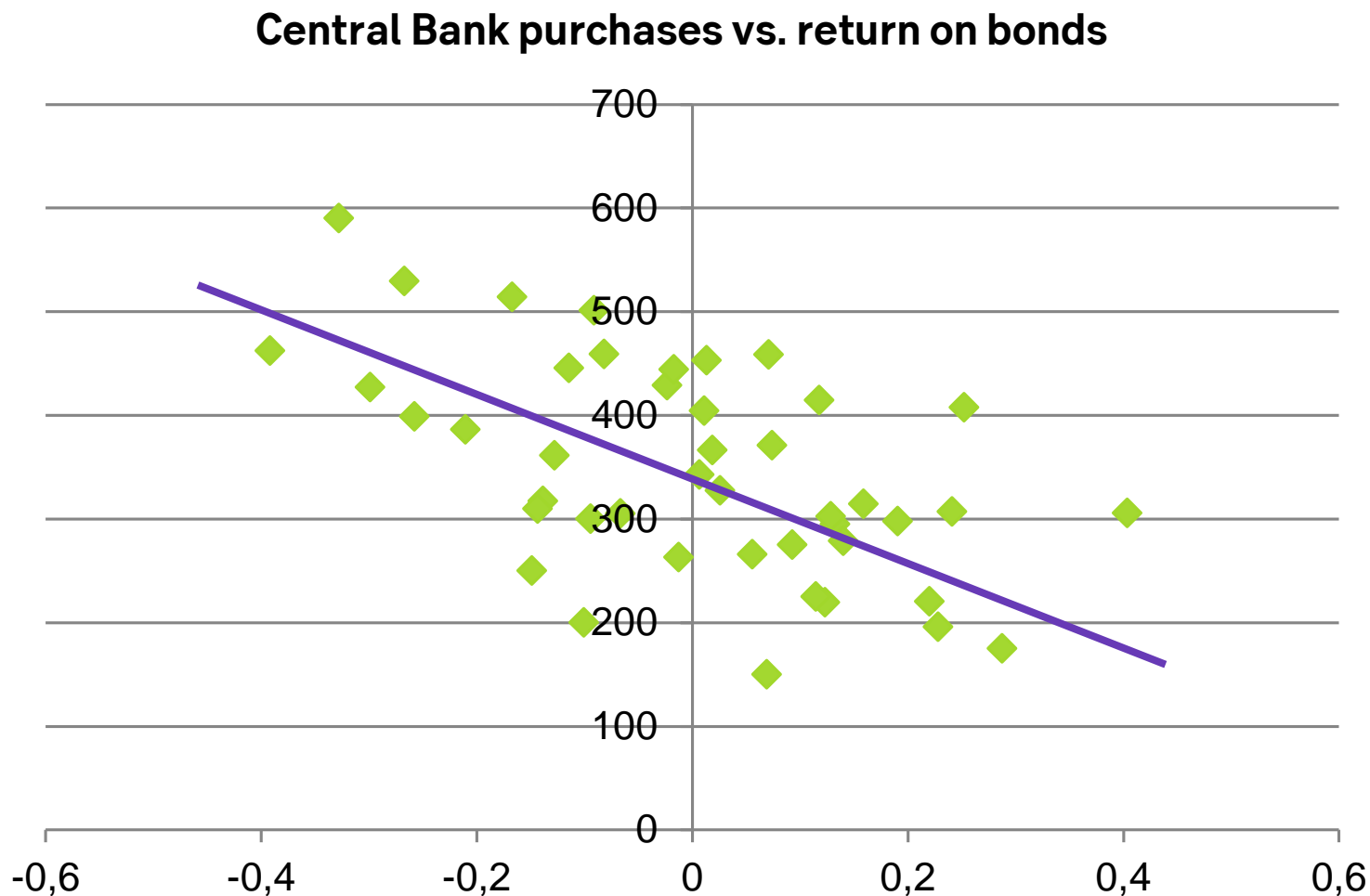


■ Basic Materials, Capital Goods, Financials, Property & Construction, Shipping & Transport

■ Consumer, Healthcare, Oil & Oil services, Services & Utilities, Telecom/Technology/IT

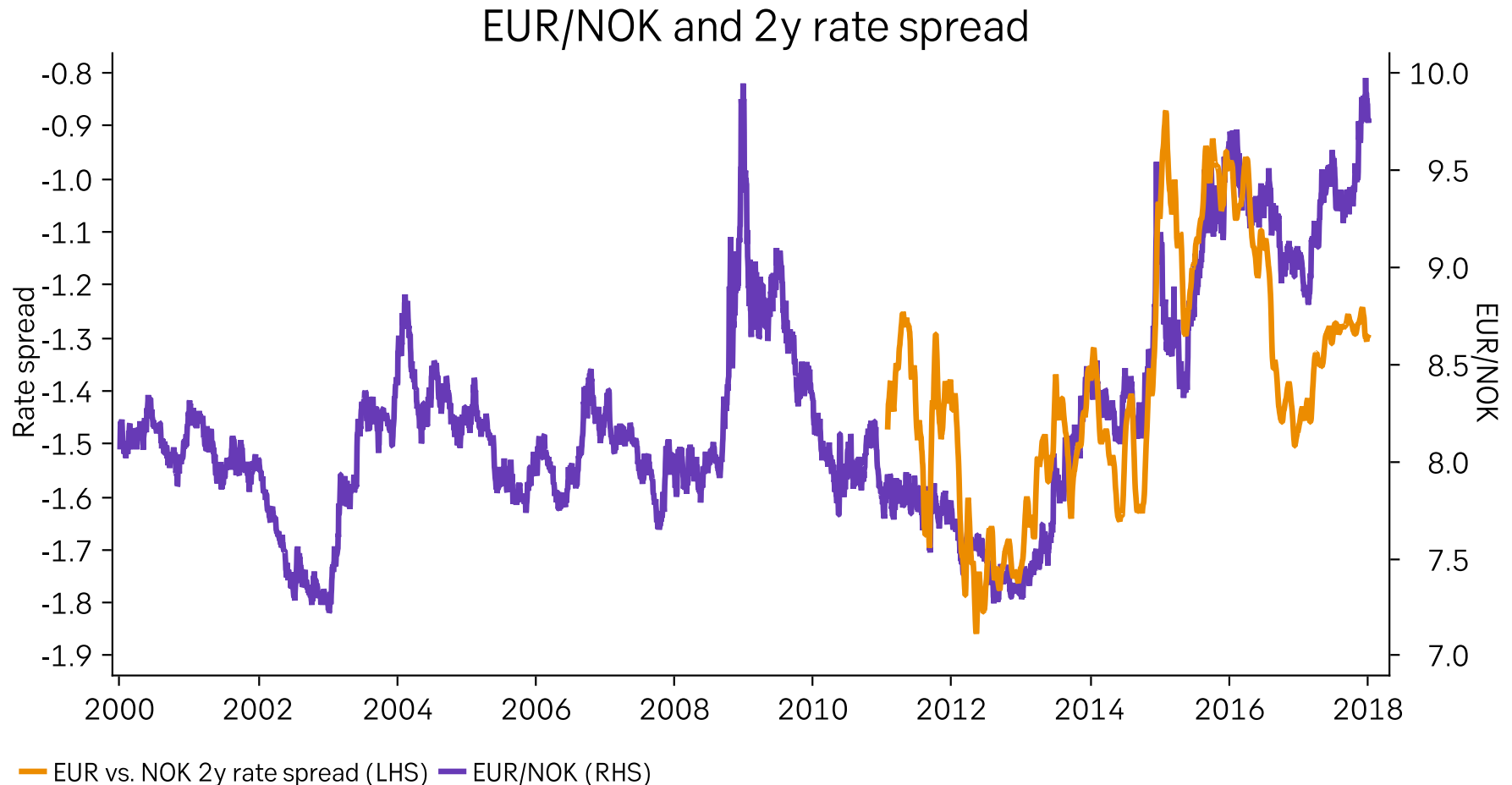
Wider credit spreads, but not a blow

It's not how much central banks have *on their books* that matters, but how much *they buy*



Time for a trend break?

NOK weakness is exaggerated, judging by fundamentals

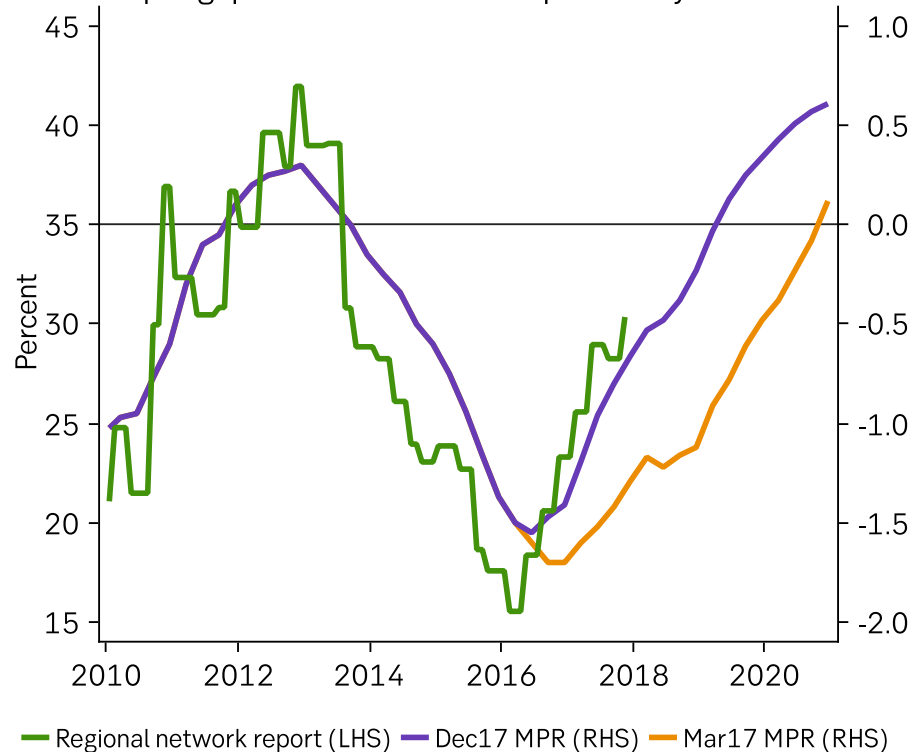


Norges Bank helps to lift NOK

Strong economic growth opens up for rate hikes

Norges Bank's assessment of the output gap

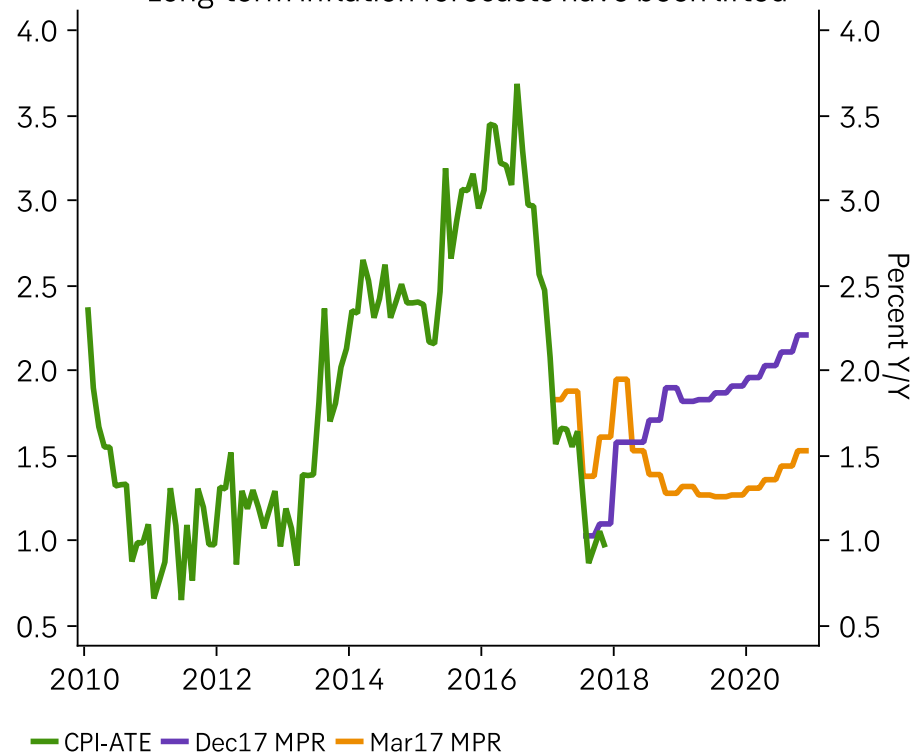
Output gap to close earlier than previously assumed



Source: Norges Bank, Macrobond, SEB

Norges Bank's CPI-ATE forecast

Long-term inflation forecasts have been lifted

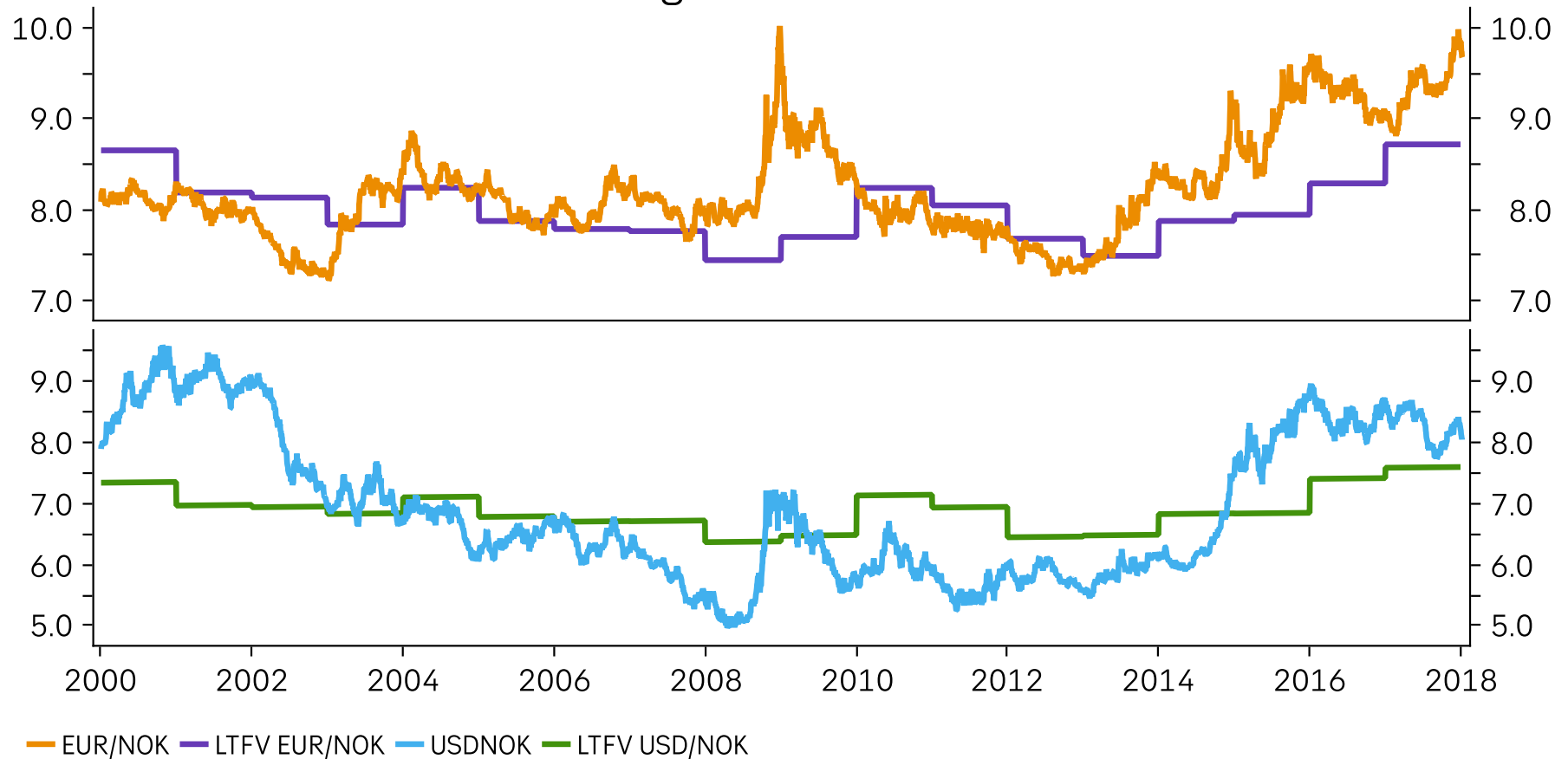


Source: Norges Bank, Macrobond, SEB

Valuation in NOK attractive

LTFV: EUR/NOK 8.70, USD/NOK 7.60

SEBEER long-term fair value in NOK

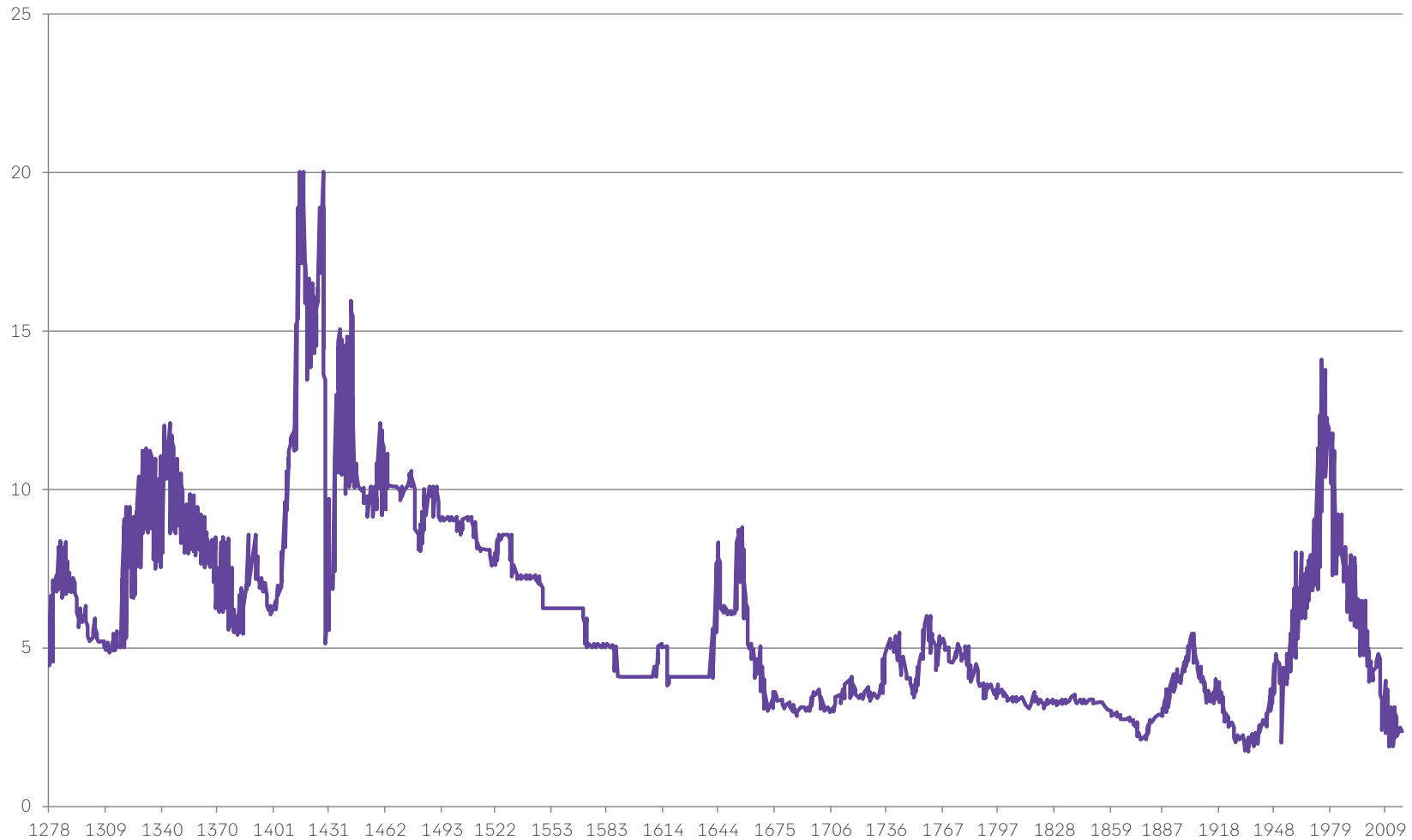


5 investment areas to watch in 2018

- **Volatility:** To rise across markets as central banks starts to pull back stimulus – insurance is cheap.
- **Interest rates:** Higher long-term interest rates (shorter duration in portfolios) ...
- **Equities:** ...but not enough to alter our positive outlook for Nordic equities. Sector allocation with cyclical bias.
- **Credits:** Somewhat wider IG credit spreads on lower demand.
- **FX:** NOK to be one of the best performing G10 currencies.

You know rates have been higher...?

Interest rates the last 750 years



Source: Bank of England

Disclaimer



Important: This statement affects your rights

All research (reports, studies and publications) produced by SEB Merchant Banking, a division of Skandinaviska Enskilda Banken AB (publ) ("the Bank"), is produced for institutional investors only. It is not intended for private clients or Private Customers (as defined by the UK Financial Services Authority, (the "FSA")) and must not be distributed to private clients or Private Customers.

The Bank has offices in Copenhagen, Frankfurt, Helsinki, London, New York, Oslo, Paris, Singapore and Stockholm. This report is produced for private information of recipients and SEB Merchant Banking's research department is not soliciting any action based upon it. Opinions contained in this research report represent SEB Merchant Banking's research department present opinion only and are subject to change without notice.

All information contained in this report has been compiled in good faith from sources believed to be reliable. However, no representation or warranty, expressed or implied, is made with respect to the completeness or accuracy of its contents and the report is not to be relied upon as authoritative. Recipients are urged to base their investment decisions upon such investigations, as they deem necessary. To the extent permitted by applicable law, no liability whatsoever is accepted for any direct or consequential loss arising from the use of this document or its contents.

Your attention is drawn to the fact that the Bank, a member of, or any entity associated with the Bank or its affiliates, officers, directors, employees or shareholders of such members may from time to time (a) have a long or short position or holding in the securities or options of such companies mentioned herein, (b) buy or sell or participate in an issue of such securities or options, (c) provide corporate finance services to such companies or in relation to such securities or options, (d) be represented on the board of directors or similar supervisory entity of such companies. The Bank may make a market in the securities mentioned in this report.

Authors' statement of independence (Analyst Certification)

We, the authors of this report, hereby confirm that notwithstanding the existence of any potential conflicts of interest referred to herein, the views expressed in this report accurately reflect our personal views about the companies and instruments covered. We further confirm that we have not been, nor are or will be, receiving direct or indirect compensation in exchange for expressing any of the views or the specific recommendation contained in the report. We are not registered or qualified as research analysts, representatives or associated persons under the rules of any US exchange, regulatory organization or State

This statement affects your rights:

This report is confidential and may not be reproduced, redistributed or republished by any recipient for any purpose or to any person.

Recipients

SEB Research is approved and issued by Skandinaviska Enskilda Banken AB (publ) ("SEB"), a bank organized under the laws of the Kingdom of Sweden, on behalf of itself and its affiliates for institutional investors. SEB is not a registered Broker-Dealer under the US Securities and Exchange Act of 1934. This report must not be distributed to retail clients except those of SEB Oslo Branch and, in case of research distributed via SEB Helsinki Branch, to its retail clients located in Finland.

Use

This research report is produced for the private information of recipients - if you are not a client of ours, you are not entitled to this research report, and should destroy it. The document is not, and should not be construed as, an offer to sell or solicitation of an offer to buy any securities. Opinions contained in the report represent the author's present opinion only and may be subject to change. In the event that the author's opinion should change or a new analyst with a different opinion becomes responsible for our coverage of the company concerned, we shall endeavour (but do not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within SEB, or other circumstances.

Good faith and limitations

All information, including statements of fact, contained in this research report have been obtained from SEB, Bloomberg or Macrobond and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by SEB with respect to the completeness or accuracy of its contents, and it is not to be relied upon as authoritative and should not be taken in substitution for the exercise of reasoned, independent judgement by you. Recipients are urged to base their investment decisions upon such investigations as they deem necessary. To the extent permitted by applicable law, no liability whatsoever is accepted by SEB for any direct or consequential loss arising from the use of this document or its contents.

Distribution

This research report has been prepared by SEB or its affiliates and is being distributed by SEB offices in Stockholm, Copenhagen, Oslo, Helsinki, Frankfurt, London, Tallinn, Vilnius, Singapore and Hong Kong. Research reports are prepared and distributed in Lithuania by AB SEB bankas and in Estonia by AS SEB Pank in accordance with the requirements of the local laws and Financial Supervision Authority's conduct of business rules. It is being distributed in the United States by SEB Securities Inc. ("SEBSI"), a wholly owned subsidiary of SEB organized under the laws of the State of Delaware, USA. Any United States institutional investor receiving the report, who wishes to obtain further information or to effect a transaction in any security discussed in the report, should do so only through SEBSI and not its affiliates. Addresses and Phone numbers for each office can be found at the end of the report.