Good reasons for optimism in 2018
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Acceleration in global GDP

Source: Macrobond, SEB
Surveys point to a good start
Centered on the developed world and the manufacturing sector

Global leading economic indicator

Positive growth momentum globally

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

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

Source: OECD
From deflation, to lowflation . . .

A major shift for central banks
...to inflation?

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

Is the Phillips curve still alive?

Source: Macrobond, SEB
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

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

Source: ECB, Bank of Japan, Fed, SEB
...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

S&P 500 3m realized volatility  Median 1929-2017

Source: Standard & Poor's, Macrobond, SEB
Is this the QE effect?
Depressed term premiums result in low volatility

Average volatility and US term premium

Source: Federal Reserve, Macrobond, SEB
Is this the QE effect?

Long-term interest rates to rise – steeper yield curves

US 10y yield & Risk premium

US term premium (Fed ACM model)  Federal Funds target rate (upper bound)
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

Source: MSCI Barra, Macrobond, SEB
Profits riding the business cycle...

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

Source: SEB Equity Research
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

SEB overweight / underweight sectors

- Basic Materials, Capital Goods, Financials, Property & Construction, Shipping & Transport
- Consumer, Healthcare, Oil & Oil services, Services & Utilities, Telecom/Technology/IT

Source: SEB Equity Research
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

Central Bank purchases vs. return on bonds
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

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

Source: Macrobond, SEB
5 investment areas to watch in 2018

• **Volatility:** To rise across markets as central banks start 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
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