

## Press release

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### **Investment Outlook:** Tensions in Europe are making capital markets a challenging territory

**The task of European political leaders – striking a balance between austerity and growth – is a challenge that is having an impact on capital markets. Right now the focus is on whether or not Greece will stay in the euro zone, and we are choosing to maintain a high level of preparedness for the coming market turmoil.**

There are great tensions among voters because of the austerity programmes now under way around Europe, and the political picture will remain a risk factor for financial markets. The era of generous political programmes is past, and the consequences are painful. Meanwhile the solution to debt problems is economic growth.

“Recent weak market performance has two main explanations. Conditions in the euro zone are familiar to investors, but their outcome is highly uncertain. Political tensions after the elections in Greece and France add a further dimension of uncertainty. The situation of Spain’s banks is also creating turmoil in the markets, and until it is clear what the end result will be, this element of uncertainty will persist. The other main reason for the weak markets is that the global macroeconomic picture has recently been less vigorous than expected. The combination of slow real growth and financial problems is not good for capital markets, and stabilisation looks likely to be at least a month or so away,” says **Hans Peterson**, Global Head of Investment Strategy at SEB Private Banking.

In spite of everything, the markets offer potential for those with a healthy sense of selectiveness, although risk appetite remains low, according to Mr Peterson. He continues:

“The search for returns has intensified. Above all, investors are seeking alternatives with limited or modest risk yet attractive returns. Corporate bonds, especially in the high yield segment, and emerging market bonds are two attractive fixed income alternatives. For those who are prepared to assume the risk involved in owning equities, companies with high dividend yields may be good alternatives.”

For investors, 2012 has largely been dominated by politics. The key task for European political leaders should be to create confidence and positive expectations among households and businesses, in order to generate demand for consumption and capital spending.

“Which tools they use will vary, but the common element is that it will remain necessary to continue restoring order to public finances. Decision makers must ensure that households and businesses understand these actions. Their decisions must be perceived as credible, successful in the long term and, especially, as fair. But what is economically desirable is of course not always compatible with what is political feasible. The risk is that there will be greater focus on easing public belt-tightening requirements and less focus on measures that will increase optimism and growth,” says **Lars Gunnar Aspman**, Senior Economist at Investment Strategy.

*Investment Outlook* gives readers an in-depth look at the investment climate and prospects for seven asset classes. It also provides advice about current risks and opportunities in the art of investing. The report can be read in its entirety at <http://newsroom.sebgroup.com/en>.

<b>For further information, please contact</b> Hans Peterson, Global Head of Investment Strategy, +46 8 763 69 21 Lars Gunnar Aspman, Senior Economist Investment Strategy, +46 8 763 69 75	<b>Press contact</b> Claes Eliasson, Press & PR +46 76 396 53 19
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