Press release
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SEB Investment Outlook:
Brighter world economic outlook – 2011 has the potential to be a good investment year

The world economic outlook is turning brighter. More regions are moving towards a cyclical upturn that is becoming increasingly self-sustaining. Meanwhile central banks in major industrialised countries are continuing to pursue accommodative monetary policies, and there are clear efforts to nurture growth around the world. These will be needed in order to overcome problematic government finances – especially in parts of Europe, but also in the United States. The danger of inflation in the emerging markets sphere is another source of concern. In spite of this, the investment environment will continue to improve, and there is potential for 2011 to be a good investment year. However, it will become increasingly important to distinguish between markets, and their position in the economic cycle will determine the rules of the game.

In recent years the markets have been characterised by dramatic fluctuations, and the same is true of investors’ risk appetite. Investors have either floored the accelerator or put both feet on the brake, which is pronounced risk-on/risk-off trading behaviour. Two main patterns have dominated. During periods when there has been a high level of willingness to take risks, investors have bought equities, corporate bonds and commodities on a broad front while selling government bonds and US dollars. And when risk appetite has been low and the focus has been on deflation worries, investors have done the opposite. Hans Peterson, CIO Private Banking and Global Head of Investment Strategy maintains that investors today must distinguish to a greater extent between different markets in order to succeed.

“We foresee a larger number of driving forces in stock markets during 2011. Profit forecasts will climb both this year and in 2012 in Sweden, the US and the euro zone. Monetary policy is providing an economic stimulus in many places. And commodities will benefit from improving demand in the traditional industrialised countries of the OECD, while high demand from parts of the EM sphere will continue.

We predict that the overall global economic growth will average about 4.5 per cent during 2011-2012, which is well above the historical trend. GDP in the emerging markets (EM) sphere – which accounts for nearly 50 per cent of the world economy (adjusted for purchasing power) – will increase by 6.5 per cent in both 2011 and 2012. Meanwhile, growth in the OECD countries looks set to end up just below 3 per cent in both years.

“One important question for 2011 is what strategy investors should apply and what their allocation between sectors and between stock markets should be. Looking ahead, an improved general economic situation, a stable profit outlook, low share valuations and greater risk appetite justify optimism about the performance of many of the world’s stock markets, although reversals and brief disruptions may naturally occur. We remain positive towards emerging markets, but we are shifting our focus from giants like China, Brazil and India to stock markets in less developed countries with
large growth potential. In the short term, we also see potential in the mature markets of Europe and the US. The American economy has revealed upside surprises recently, and US companies are strong after having undergone several years of restructuring,” Mr Peterson says.

“Looking ahead, what will be especially important is choosing the right market. Investors need to weigh in a number of key parameters – including changes in GDP growth, monetary policy, financial stability and currency rate movements. So far during 2011, there has been an unusually big difference between returns on different stock exchanges. In January there was a gap of about 30 per cent between the best- and worst-performing stock markets. This indicates that investors are no longer as uniformly positive or negative towards risk assets such as equities, but their investment decisions are instead based to a growing extent on the conditions in individual markets. During 2011 we expect the risk premium to fall in capital markets, which will make an increasing number of alternative asset classes attractive,” Mr Peterson concludes.

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