SEB

Press release

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Investment Outlook: Markets waiting for earnings confirmation

The economy is continuing to stabilise and our world view is painted in bright colours. Interest rates are low, risk appetite is good, the stock market has performed well and now corporate acquisitions are also gaining momentum. Can we expect these trends to continue, or is the next step a pause?

Does higher GDP growth automatically fuel continued stock market rallies?

"Both yes and no. The stock market is a leading indicator, which climbs on hopes of a brighter future – and once we look closely at the evidence and note that growth is actually taking off, the stock market has often already celebrated some of this victory in advance. Meanwhile, greater optimism obviously provides opportunities for higher earnings, which are the most efficient stock market fuel. Last year, shares rose mainly on hopes of higher earnings. Now it is time to show the evidence," says **Ann Grevelius**, Global Head of Investment Strategy at SEB.

The global economy, led by the United States, continues to perform well. Interest rates remain low, while stock market valuations have risen. Emerging markets are still lagging behind, burdened by structural challenges and lower growth rates. In this issue of *Investment Outlook*, we have chosen to look more closely at Africa. We note that conditions in individual African countries are very different, and that it is not always possible to equate attractive economies with attractive investment opportunities.

"The emergence of an economic middle class in Africa may eventually become an increasingly strong growth engine in domestic markets. More than 40 per cent of the population south of the Sahara is under age 14. In itself this offers amazing opportunities – but it also poses a major challenge to generate job opportunities for this huge labour resource. Sub-Saharan Africa offers opportunities, but for an equity investor it is difficult to achieve the most attractive exposure," Ann Grevelius notes.

From a portfolio strategy standpoint, the allocation challenge is to strike a balance between relatively highly valued stock markets in the developed world, lower valuations – but more instability – in emerging markets and, on the other hand, a fixed income market that will continue to provide low nominal returns.

"We continue to prefer a lower-valued European stock market to a higher-valued American one. We are choosing to have our emerging market exposure in Asia and are continuing to maintain relatively high risk in our fixed income portfolios, with a focus on corporate bonds in the high yield segment," says **Hans Peterson**, Global Head of Asset Allocation at SEB.

Investment Outlook gives readers an in-depth look at the investment climate and the 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.

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