Monthly Newsletter
Savings and Investments
Global expansion shows continued strength

September 2017

Market overview

Usually quieter summer period was not so quite this year, especially in the last month. Investors were triggered by increased political risk because of US-North Korea tensions and also natural disaster – devastating hurricane in the southern United States. All of this boosted volatility in markets and pushed some market returns into negative territory. However, macroeconomic data was very positive, with stronger-than-expected growth registered in many countries including US, Europe, UK and Japan confirming that the global recovery remains solid. We think that negative triggers will not harm this global recovery trend, therefore our level of risk tolerance remains high.

Stock markets*	Major events and expectations
USA (S&P 500 index, USD): **+0,1%** in August **+10,4%** YTD **+75,7%** in 5 years **Europe** (MSCI EURO, EUR): **-0,7%** in August **+5,4%** YTD **+50,0%** in 5 years **Eastern Europe** (MSCI EM Eastern Europe, USD): **+7,5%** in August **+6,9%** YTD **-16,8%** in 5 years **Asia** (MSCI EM Asia, USD): **+1,1%** in August **+29,8%** YTD **+37,7%** in 5 years **Latin America** (MSCI EM Latin America, USD): **+4,4%** in August **+22,7%** YTD **-18,8%** in 5 years	**The US revised its second quarter 2017 GDP growth figure upward to 3%**, the strongest in two years. This helped push the dollar higher. The purchasing managers' index for manufacturing also rose, despite a forecast that it would be unchanged. Although the August labour market report was somewhat weaker than expected in terms of job creation, unemployment is a low 4.4%. **Hurricane Harvey left behind massive destruction in Texas but its long-term impact is expected to be minor**: negative this quarter, but then a boost from reconstruction investments. **While North Korea delivered new threats, the US responded with a mixture of diplomatic and military rhetoric**. Conflict-related political risk remains increased, but it shouldn't harm global recovery trend. Also the risk related to **US debt ceiling** is postponed to the end of the year as president D. Trump has agreed to support a three-month extension of the debt ceiling and government funding through Dec 15. **In Europe, economic environment improved**, with the euro area registering Q2 GDP growth of 2.2% (the highest level since 2011). Purchasing managers' indices (PMI), an indicator of the economic health of the manufacturing sector, remained strong at 55.8 and consumer confidence increased to 10-year high. All of this increases expectations for Q2 growth. However, **the euro continued to strengthen against US dollar** which increases the fragility of the European recovery. **The emerging economies were boosted by positive data from China**, which posted higher Q2 GDP growth of 6.9%, driven by improvements in industrial production and domestic consumption. Manufacturing PMI remained above 51, signalling further expansion. The **international central bank meeting in August sent no new signals**. The market does not foresee a heightened risk that central banks will tighten monetary policies too fast, upsetting asset markets. The US Federal Reserve (Fed) plans to reduce its balance sheet by not reinvesting the proceeds of all maturing bonds. Meanwhile the European Central Bank (ECB), Sweden's Riksbank, the Bank of Japan and others are helping markets by supplying liquidity. As economies keep growing and more central banks start applying the brakes, this may of course create volatility, though the banks have done the opposite for years. We are keeping an eye on central banks but do not believe they will have a negative impact for some time. Latest PMIs recordings shows continued **broad-based global expansion**, both in terms of geographic regions and sectors. We (SEB) foresee world economic growth above the historical average throughout 2017-2019 forecast period. We paint a rather optimistic picture, with late-cycle growth forces such as capital spending and private consumption lifting **global growth to 3.8% both this year and next**. Despite dark political clouds, activity has surprised on the upside in many economies such as US, China, Japan and the euro zone as well as the Nordic and Baltic countries – driven by ever-stronger labour markets, rising resource utilisation, increased trade and higher asset prices. An improved growth outlook, combined with expansionary monetary policies, will continue to sustain share prices.

* More information regarding indexes' performance can be found at the end of the document

SEB

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Impact on investments of different risk categories

Product group	Impact during the last month and expectations looking forward
Low risk (conservative)	In the light of increased political risk related to North Korea and natural disaster in US, government bond yields were tend to decrease in August. However, in the longer run we see the trend of rising yields triggered by more favourable economic growth outlook, less accommodative monetary policy by Fed, ECB tapering. Expectations to gradually rising core government bond yields will continue to drive investors into less rate sensitive asset classes such as High Yield bonds.
Medium risk (balanced)	In August our balanced risk portfolios provided slightly negative returns. From being risk neutral in May, we increased total risk exposure in our portfolios during the summer by decreasing the proportion of fixed income investments and increasing the weight of global equities. The Q2 earnings report season turned out favourably, beating expectations globally both in terms of revenues and earnings. With a strong report period behind us and macro data that confirms a positive economic picture. A higher growth rate along with higher interest rates and yields make earnings forecasts more realistic.
High risk (aggressive)	On a global basis, leading indicators have rebounded or climbed recently. This is good as the corporate sector enters a silent period: the next quarterly report season is several weeks away. Macroeconomic data and central bank actions will determine risk appetite, along with geopolitical signals such as those surrounding North Korea. But overall, our main scenario is global growth acceleration. We expect positive contributions from both capital spending and private consumption, while signs of faster salary increases and higher demand will reduce the risk that inflation will fall to excessively low levels. All of this is favourable to equities. In regional terms, we still foresee better potential for equities in Asia/emerging markets, but also in Europe compared to the US.

Glossary

Terms used	Explanation
Gross Domestic Product (GDP)	The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.
Investment grade bonds, high yield bonds	Investment grade bonds – bonds (sovereign or corporate) with credit ratings that indicate a relatively low risk of default. High yield bonds – bonds (sovereign or corporate) with credit ratings that indicate a relatively higher risk of default than investment grade bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds. Two main credit rating agencies Standard & Poor's (S&P) and Moody's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. S&P designations of 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as high yield or "junk bonds".
Leading indicator	A measurable economic factor that changes before the economy starts to follow a particular pattern or trend. Leading indicators are used to predict changes in the economy, but are not always accurate. Few examples of leading indicators include stock market performance, manufacturing activity, inventory levels.
Monetary policy	Monetary policy is the process by which the monetary authority (usually the central bank) of a country controls the supply of money (the size and rate of growth of the money supply), for the purpose of promoting economic growth and stability. For example, if the money supply grows too fast, the rate of inflation will increase and the economy will "overheat". If the growth of the money supply is slowed too much, then economic growth may also slow. The main tools to control money supply include open market operations (buying or selling assets), changing interest rates and changing reserve requirements for commercial banks.
Purchasing managers' indexes (PMIs)	An indicator of the economic health of the manufacturing sector. The PMI indexes are based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change.
Tapering	Tapering is the gradual winding down of central bank activities used to improve the conditions for economic growth. Activities can include changes to conventional central bank activities, such as adjusting interest rates or reserve requirements, or more unconventional ones, such as quantitative easing (QE). As a financial term, tapering is best known in the context of the Federal Reserve's quantitative easing program.
US debt ceiling	The maximum amount of money the United States can borrow. The debt ceiling was created in 1917 (under the Second Liberty Bond Act), putting a "ceiling" on the amount of bonds the United States can issue.
Yield	The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Stock market indexes performance information covering the immediately preceding 5 years till 31 August, 2017

Region	Index	Currency	Performance						
			2012	2013	2014	2015	2016	12 months	2017 YTD
USA	S&P 500	USD	13,4%	29,6%	11,4%	-0,7%	9,5%	13,9%	10,4%
Europe	MSCI EURO	EUR	15,6%	19,6%	2,3%	6,1%	1,7%	14,0%	5,4%
Eastern Europe	MSCI EM Eastern Europe	USD	13,2%	-2,9%	-40,0%	-8,1%	33,0%	24,1%	6,9%
Asia	MSCI EM Asia	USD	18,1%	-0,2%	2,5%	-11,8%	3,8%	22,9%	29,8%
Latin America	MSCI EM Latin America	USD	5,4%	-15,7%	-14,8%	-32,9%	27,9%	19,6%	22,7%