

STRATEGY & MACRO TEAM

Market overview

4 June, 2019

Strategy & Macro Team:

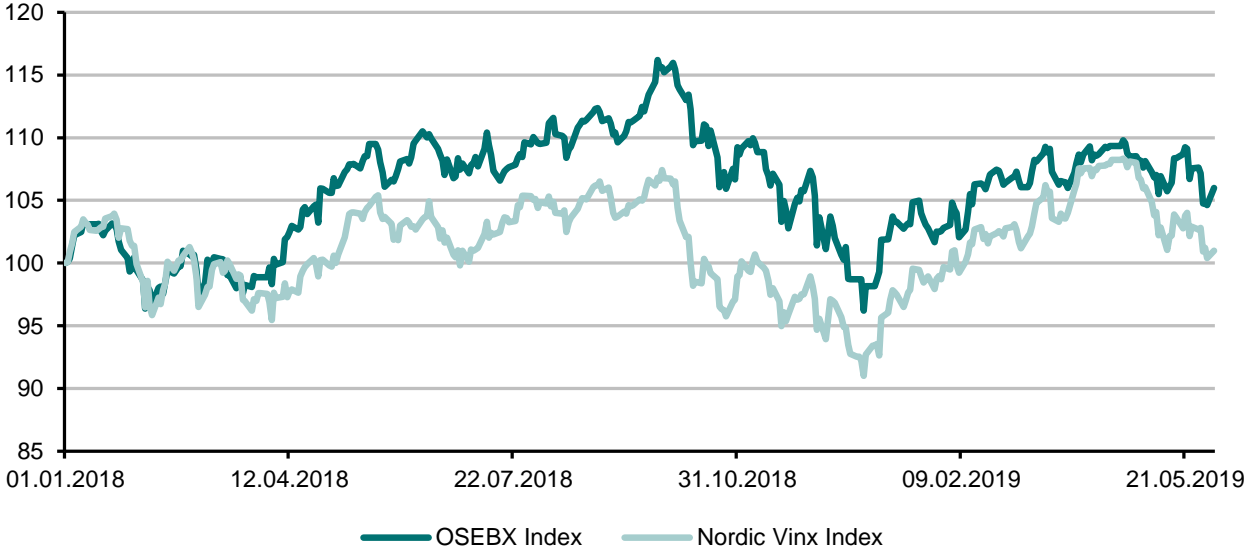
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Nordic index performance

- OSEBX index total return of 6% since the start of 2018, up 8% YTD
- Vinx Nordic index total return of 1% since the start of 2018, up 9% YTD

Vinx Nordic and OSEBX index (total return, rebased)



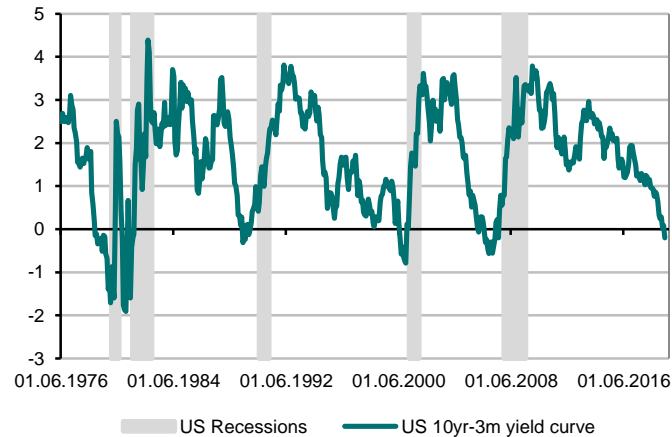
Source: Bloomberg (underlying data), DNB Markets (further calculations)

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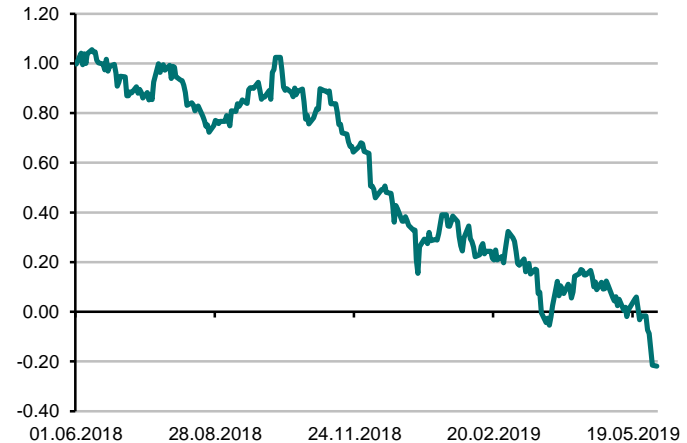
The US yield curve has triggered the start of a recession countdown indicator

- The US 10-year minus 3-month yield curve has led every recession since the early 1970s
- After inverting in late March the spread increased to a peak of 17bp in mid-April before inverting again
- Historically, the yield curve has often had several short-term inversions before a sustained period of inversion is established

US 10yr – 3-month yield curve and recessions



US 10yr – 3-month yield curve (LTM)

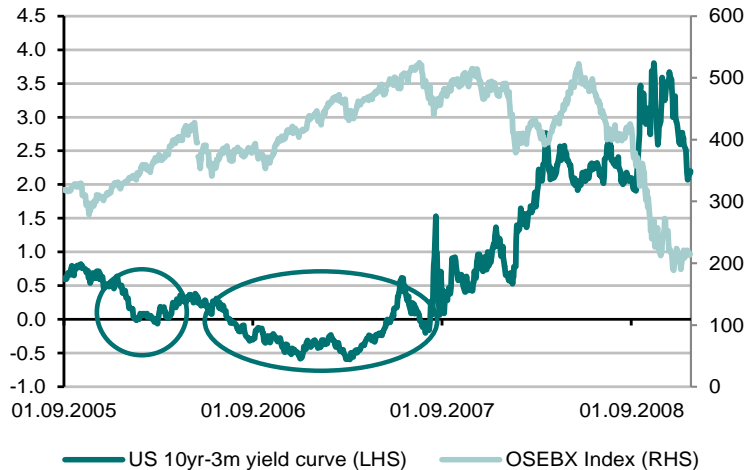


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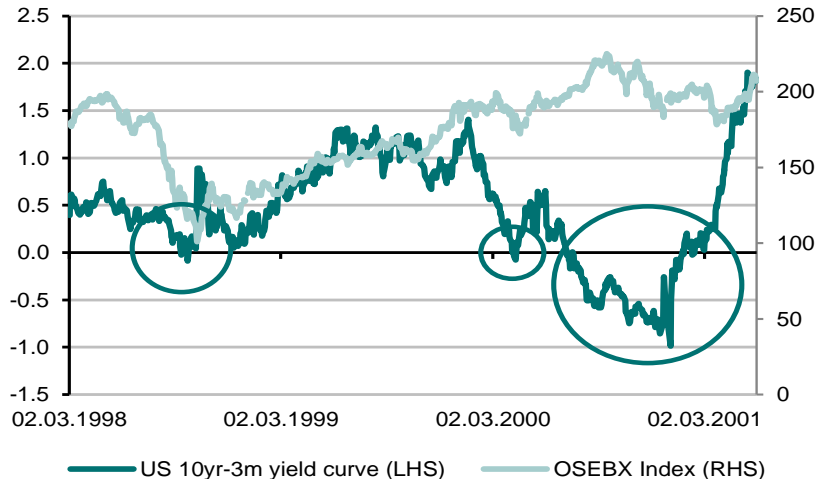
Yield curve inversion still implies reasonable one-year forward returns

- In the last cycle, the yield curve first inverted on 18 January 2006 for one day, followed by several short periods below zero
- The sustained period below zero started almost exactly a year before the OSEBX peaked, 41% higher
- The yield curve inverted for a few days in September 1998, two years before the OSEBX peaked in September 2000
 - There was another dip below zero for a few days in April 2000

OSEBX versus US yield curve, 2005-08



OSEBX versus US yield curve, 1998-2001

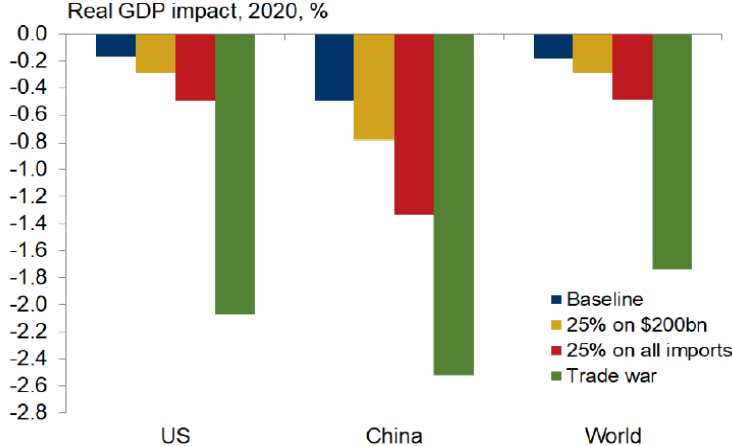


Current tariffs are not a cycle-ending proposition but a full trade war would be

- US exports to China equate to 0.6% of US GDP
- Chinese exports to the US equate to 3.6% of Chinese GDP
- Current tariffs are likely to hit US GDP by around 0.3%-pts
 - Consensus US GDP for 2019 is 2.6% and 1.9% for 2020
 - Significant, but not cycle-ending
- 25% tariff on all Mexican imports would hit GDP by at least 0.7%-pts

Chart 8: Rising trade tensions wouldn't lead to a recession, but a full-blown trade war would

From bilateral trade war to full-blown global trade war



Source : Oxford Economics

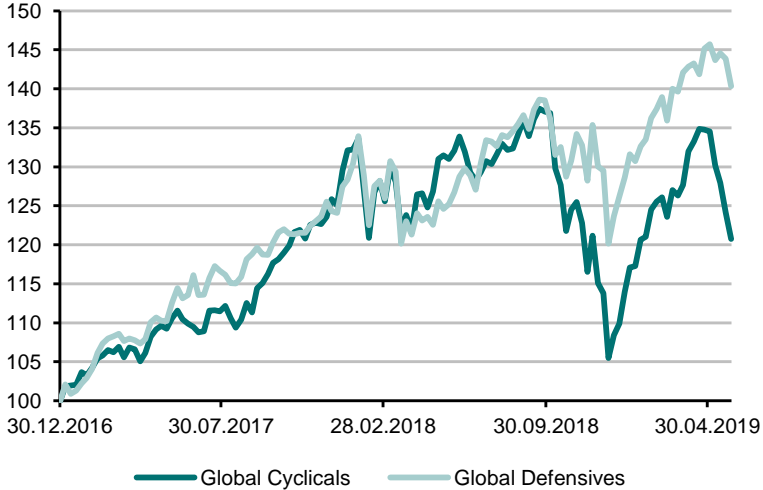
Global equity market performance trends

- Stocks with significant exposure to China have declined by much more than the MSCI World index over the past few weeks
- Global Cyclical stocks have significantly underperformed Global Defensive stocks during May

MSCI World with China Exposure versus MSCI World



Global Cyclical versus Global Defensive

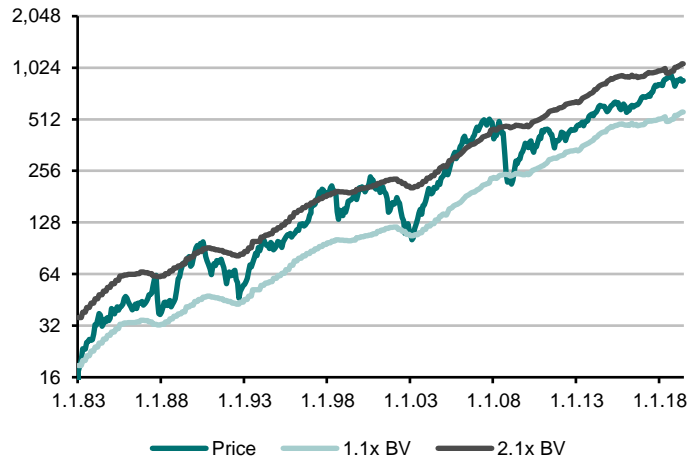


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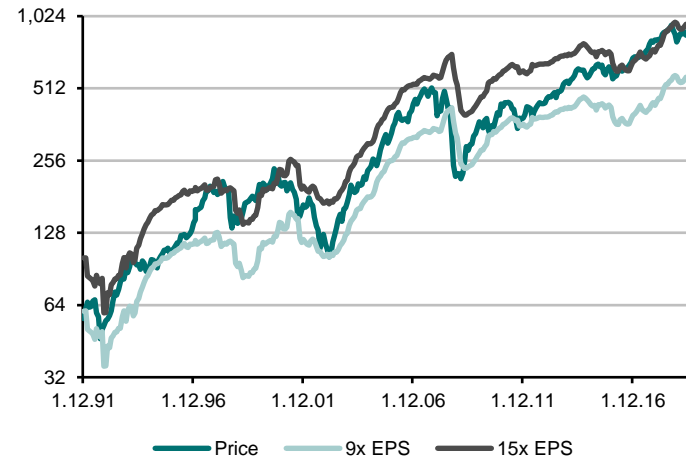
OSEBX close to valuation ceiling

- Valuation is still higher than average despite recent share price declines
- But this illustrates how valuation is difficult to use as a timing indicator
 - P/E has been above the prior cycle peak for the last three years
 - In the prior cycle, P/B first passed 2.1 in 2005

OSEBX Price versus P/B bands



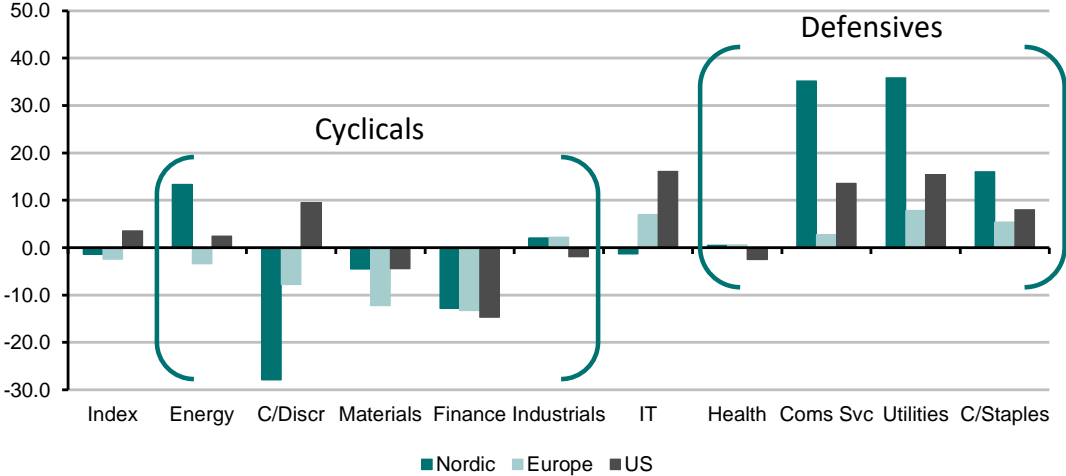
OSEBX Price versus P/E bands



Valuation: Defensives are priced more aggressively than cyclicals

- Finding places to hide in defensive sectors is not that easy
- Lack of valuation opportunities makes earnings revisions more important
 - Cyclicals are more at risk of earnings disappointments in a trade war scenario
- Selective exposure to Consumer Discretionary could be interesting

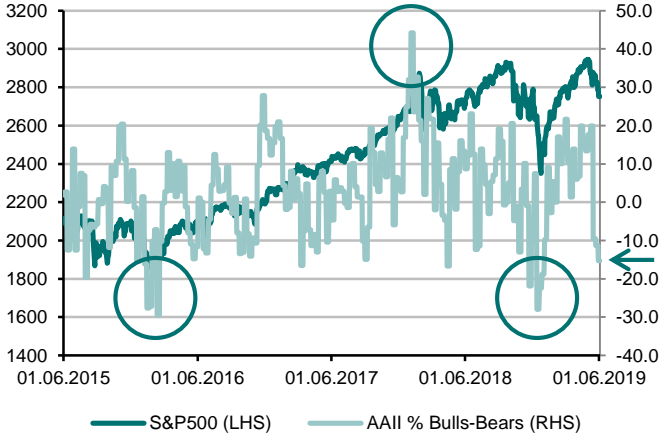
12m Fwd P/E premium to 10 year median (%)



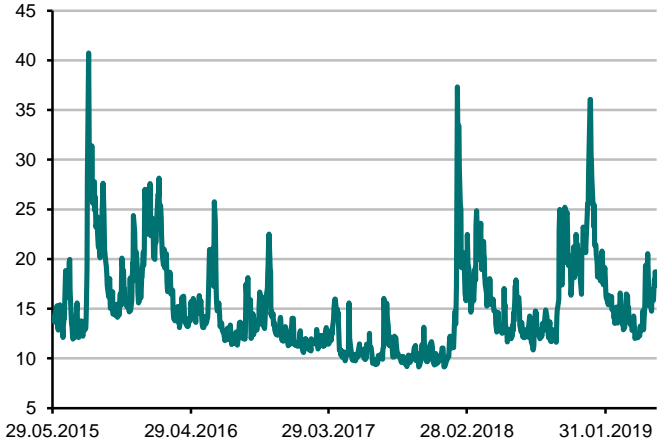
Sentiment is cautious but not signalling a contrarian Buy signal yet

- The spread between the percentage of Bullish investors minus the percentage of Bears is now at -15.3 with the Vix at 19
 - Not sufficiently low to give a clear contrarian Buy signal but could provide some support in the absence of new negative newsflow
- Contrarian Buy signal when the percentage of Bulls minus Bears is below -25 and the Vix is above 35

AAII Bull-Bear versus S&P500



Vix Index



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