

Markedsutsikter

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Head of Allocation and Global Fixed Income

<https://video.storebrand.no/webinar-om-hvordan-krigen-i-ukraina>

Markedssyn per juni 2022

Aksjer

- Norge:
- Globalt:
- Svenske:
- EME:

**Normalvekt
Overvekt
Overvekt
Overvekt**

Obligasjoner

- Norge:
- Svenske:
- Globalt:

**Undervekt
Undervekt
Undervekt**

Kreditt:

Normalvekt

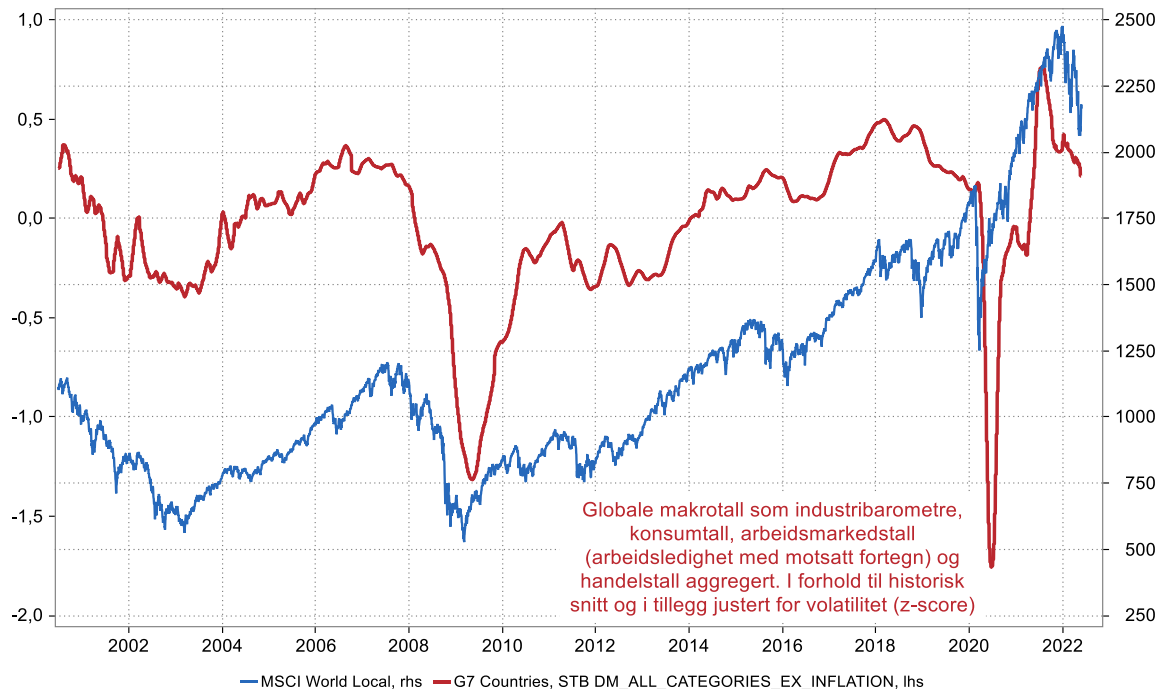
Pengemarked:

Undervekt



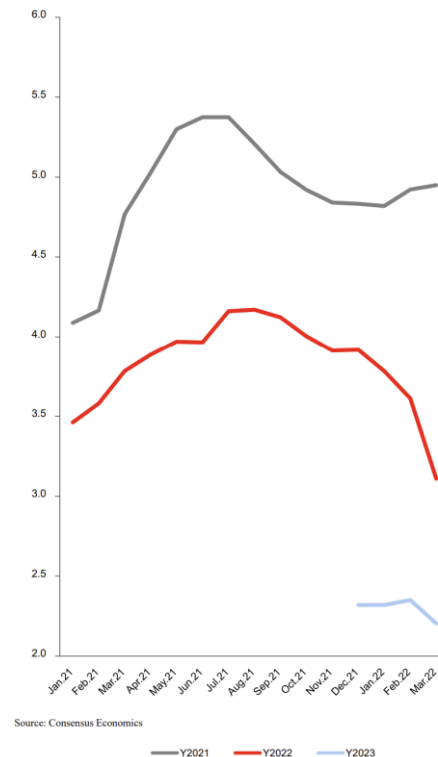
Makrotallene i industrilandene har tapt momentum og vekstutsiktene justeres ned

Global macro data (DM) vs MSCI World local



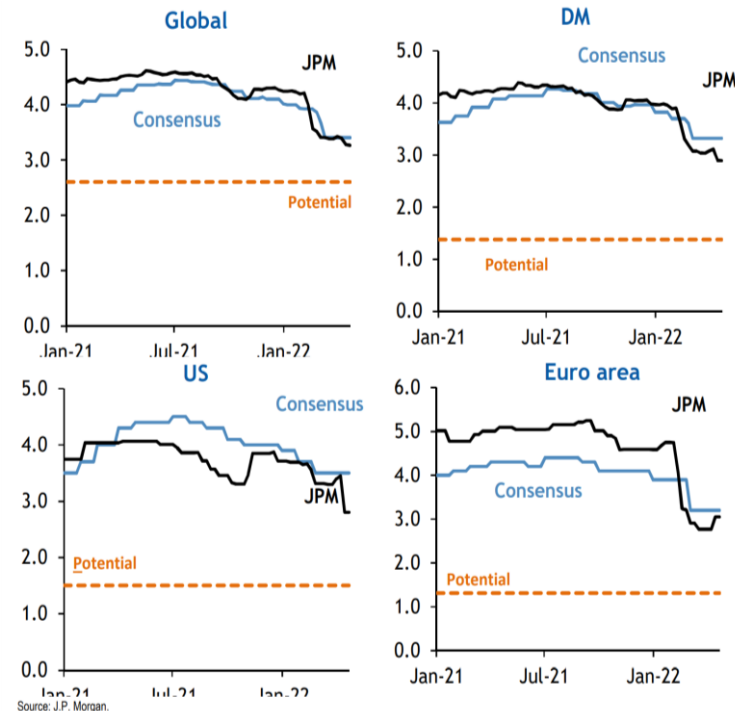
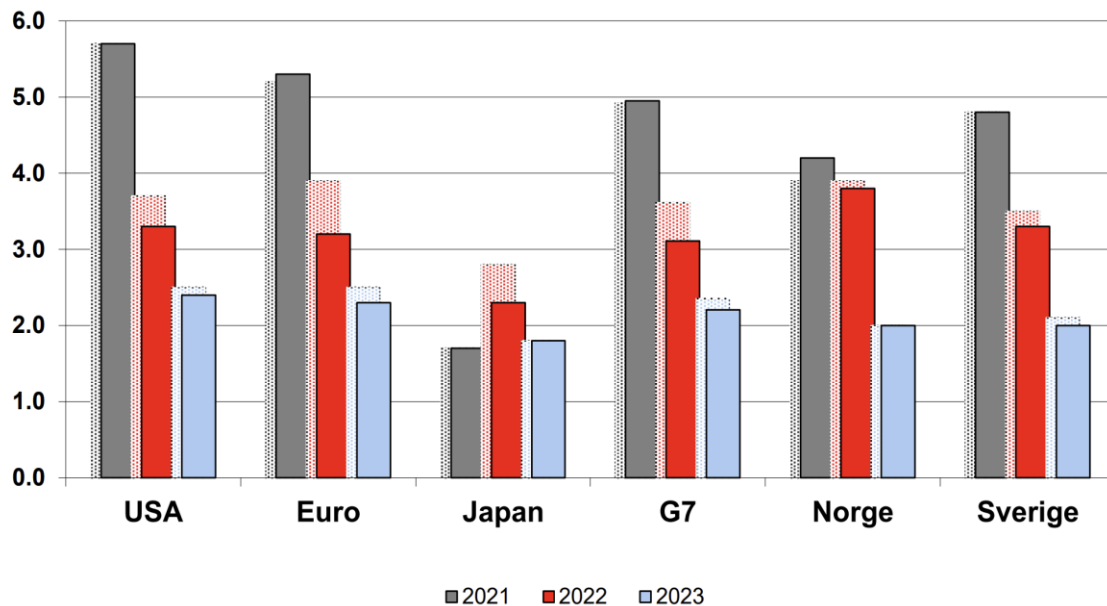
Source: Macrobond, Bloomberg and Storebrand Asset Management

G7 CONSENSUS GDP FORECAST



Selv om vekstutsiktene er på vei ned, er de fortsatt godt over trend og normalen. Fortsatt gjenåpningseffekter i økonomien

BNP vekst - prognoser



Inflasjonsutsiktene stiger derimot fortsatt

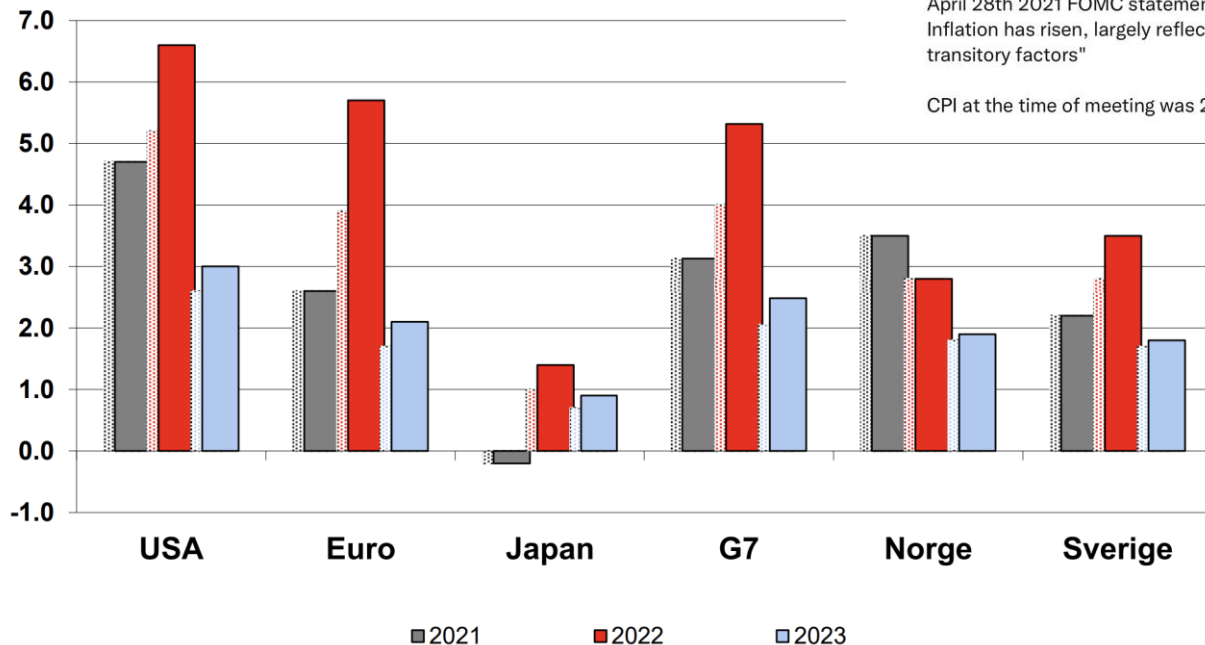
Inflasjon - prognoser



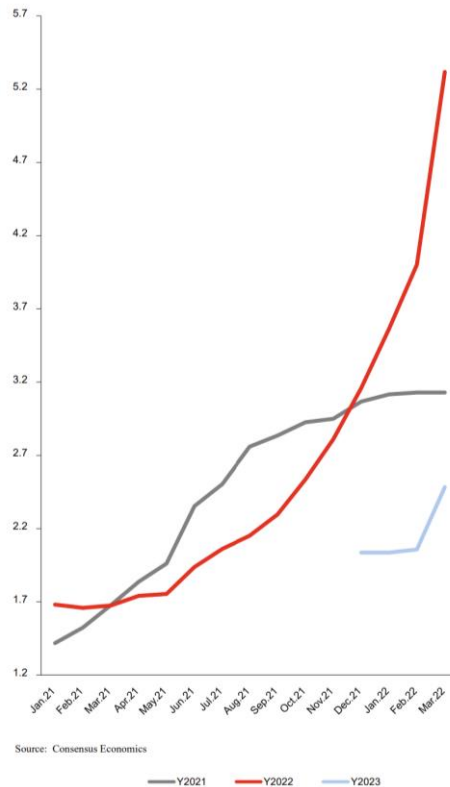
Jim Bianco biancoresea... · 28.04.2022
"Transitory" is a year old today.

April 28th 2021 FOMC statement noted "
Inflation has risen, largely reflecting
transitory factors"

CPI at the time of meeting was 2.6% YOY



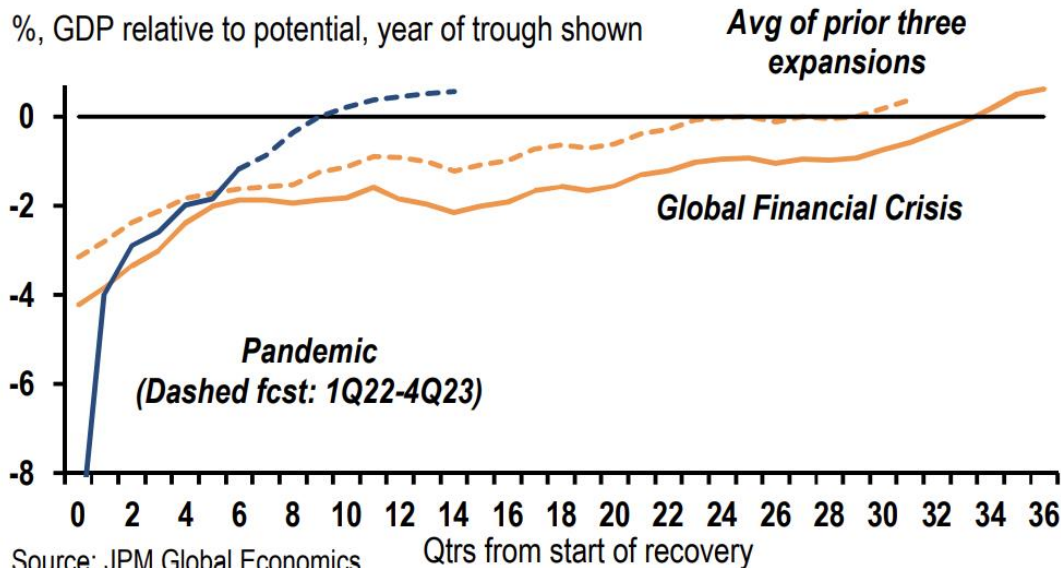
G7 CONSENSUS CPI FORECAST



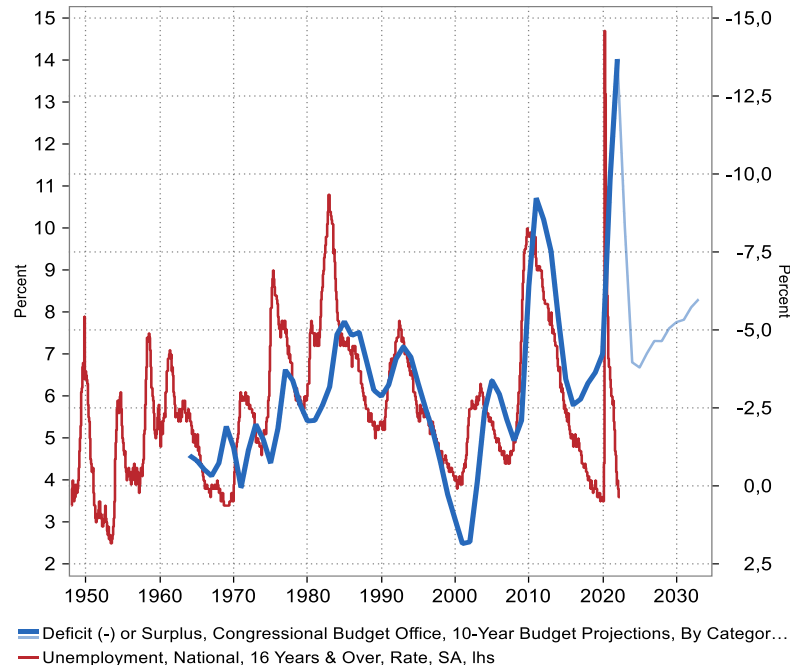
Source: Consensus Economics

Utfordringen er at kapasitetstaket er nådd. Arbeidsledigheten har hentet inn hele pandemi-oppgangen og når rekordlave nivåer

Figure 2: Global output gap, recovery from recessions

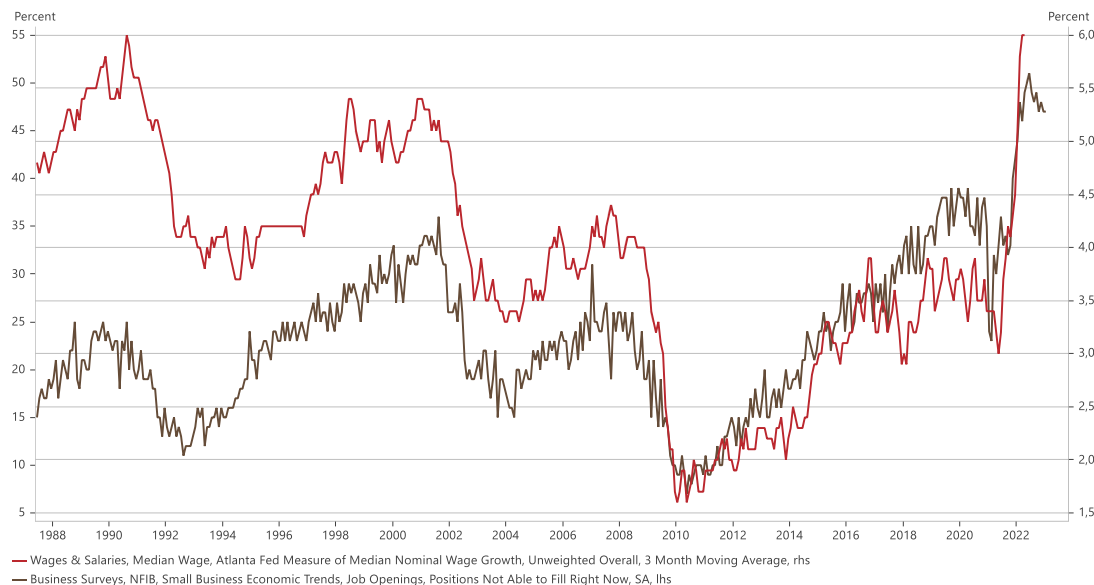


United States, Fiscal policy



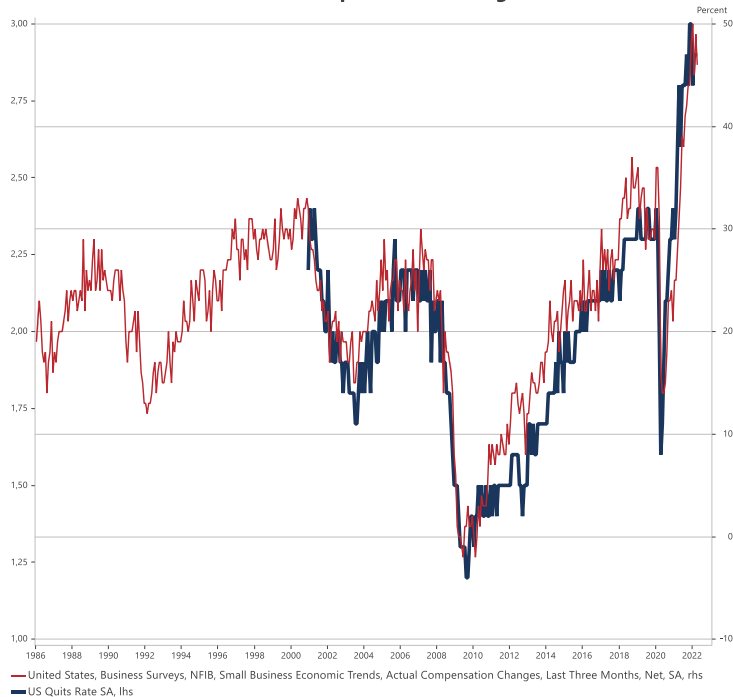
Arbeidsmarkedet er fortsatt stramt og lønnsveksten er på videre vei opp. Bedriftene må øke utsalgsprisene

United States



Kilde: Storebrand Asset Management og Macrobond

United States, Quits Rate vs Compensation Changes

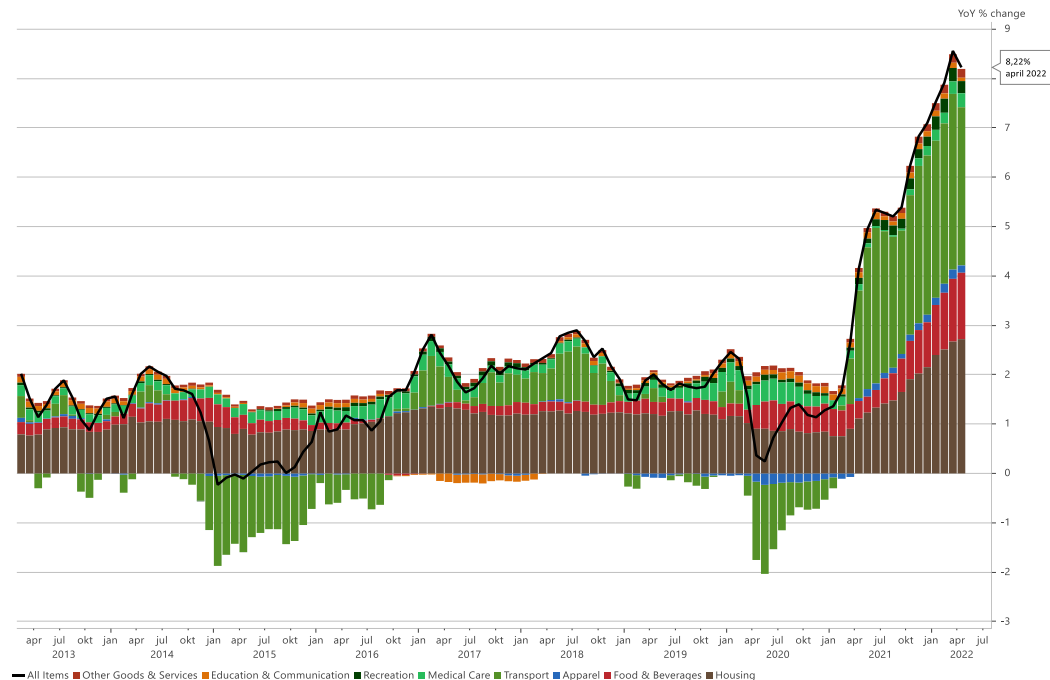


Kilde: Storebrand Asset Management og Macrobond

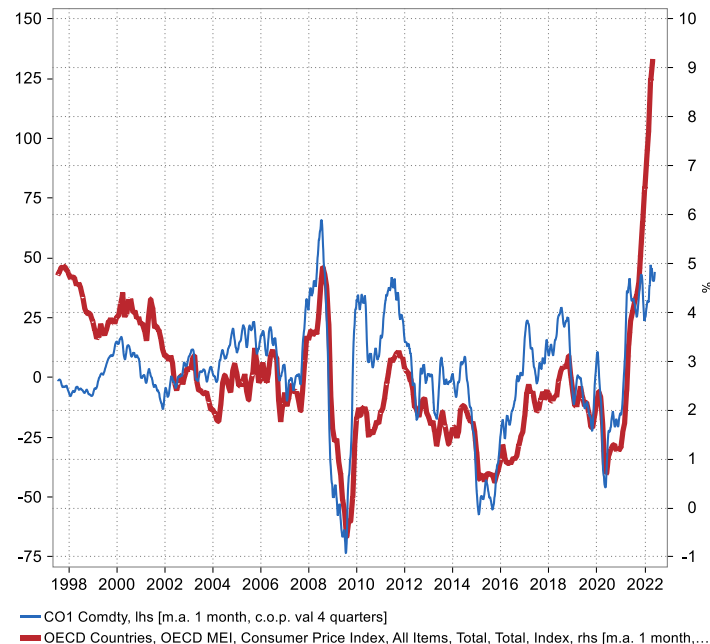
Inflasjonen kommer likevel trolig til å toppe ut de kommende månedene, mest som følge av baseeffekter

United States: Contributions to inflation

Source: BLS



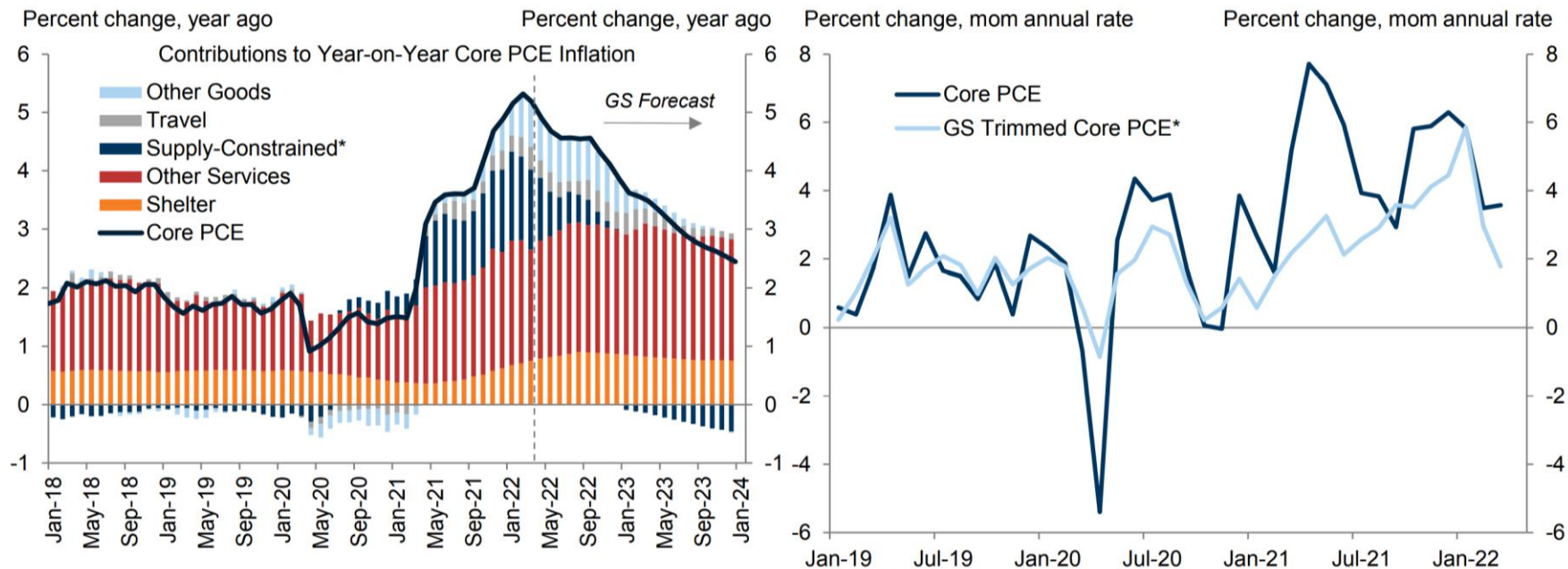
Kilde: Storebrand Asset Management og Macrobond



Source: Macrobond

Pandemirelaterte flaskehalser har også løsnet opp. Spørsmålet er hvor kjapt det faller, men det kan likevel kjøpe Fed litt tid

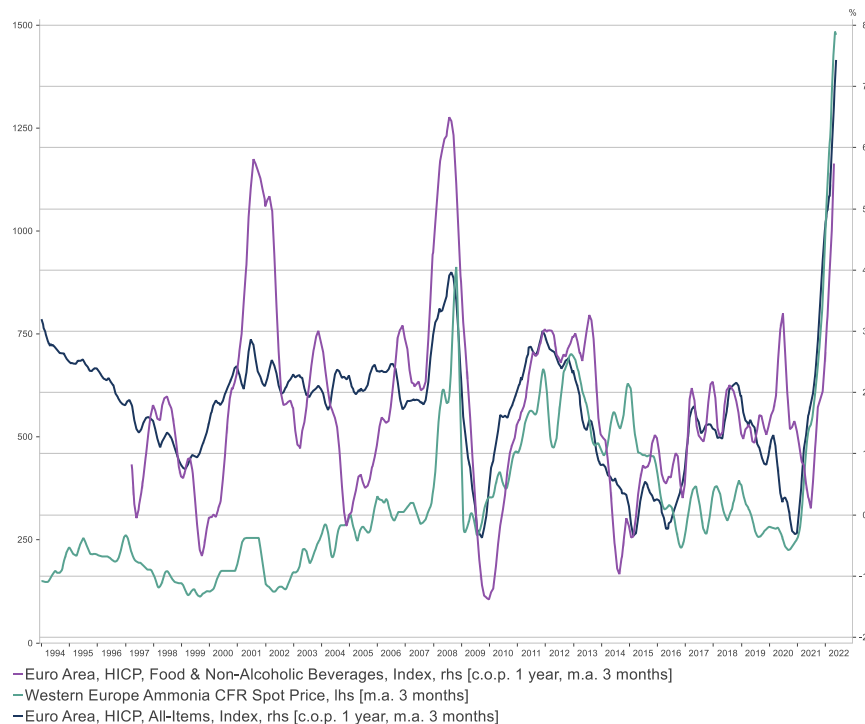
Exhibit 2: Past the Peak on Core PCE



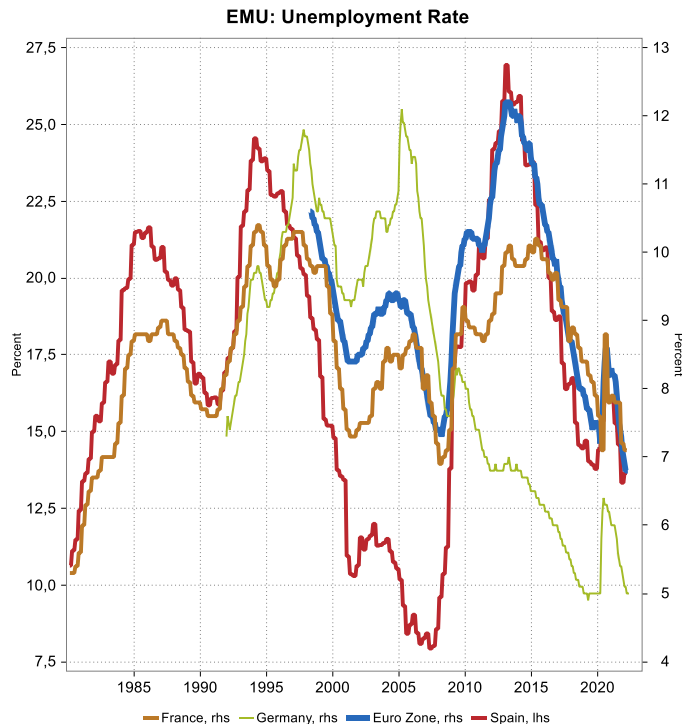
* New, used, and rental cars, furniture, sporting equipment, household appliances, sports and recreational vehicles, and video, audio, photo, and info. equipment.

* Trimmed-mean of Ex Food and Energy PCE.

Inflasjonen i Eurosonen ligger etter. Frykten for struping av gasstilførsel har avtatt, som ville utløst en resesjon i Europa

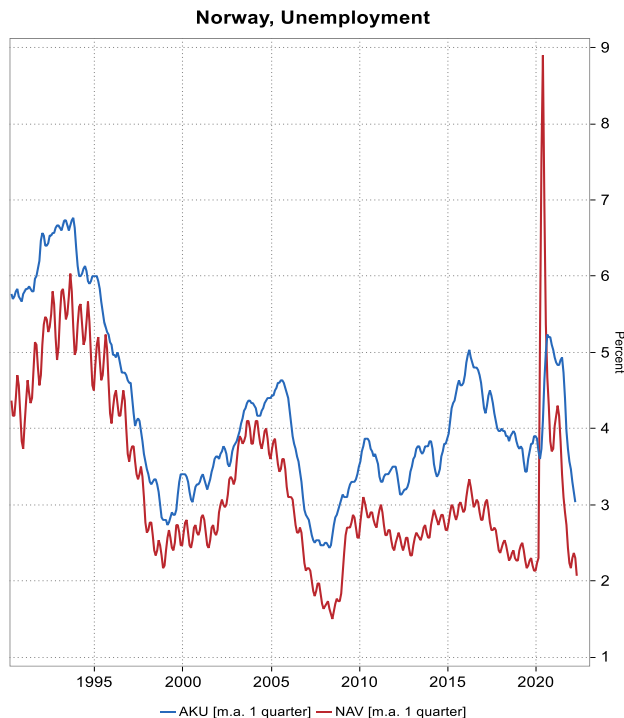


MACROBOND

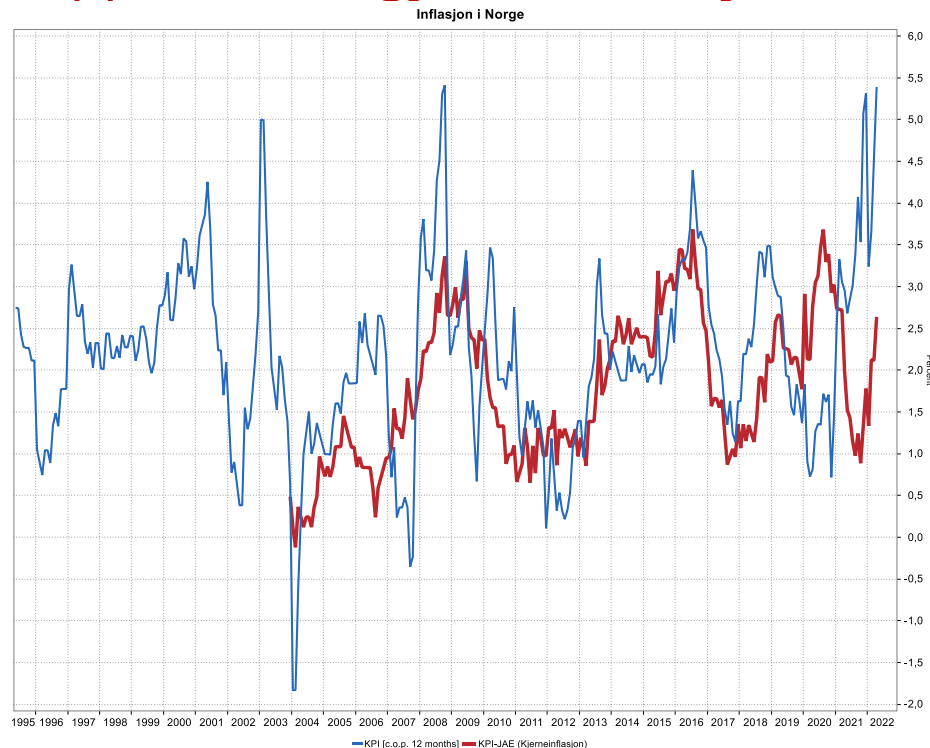


Source: Macrobond

Arbeidsledigheten i Norge faller mot pre-pandemi nivåer. Høy KPI vil påvirke lønnsoppgjøret. Oppside hva gjelder inflasjon



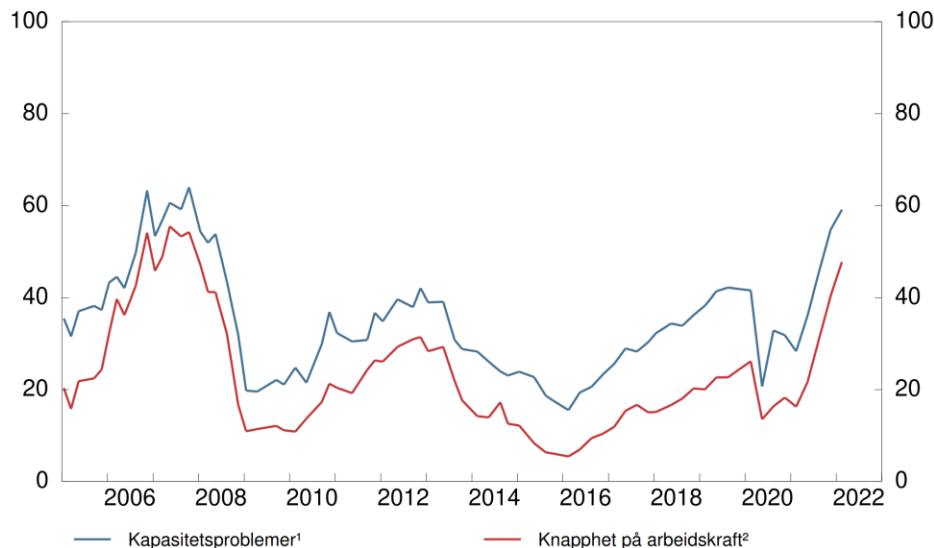
Source: Macrobond



Source: Macrobond

Kapasitetsutnyttelsen i Norge tiltar kraftig, og er på sitt høyeste siden 2007. Markert skifte i lønnsutsikter siden nov

4 Kapasitetsproblemer og knapphet på arbeidskraft. Aggregert Prosent

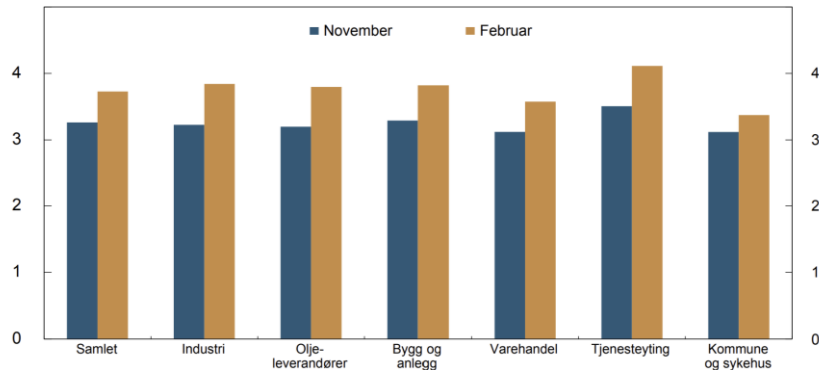


¹ Andel av kontaktbedrifter som vil ha noen eller betydelige problemer med å møte en vekst i etterspørselen.

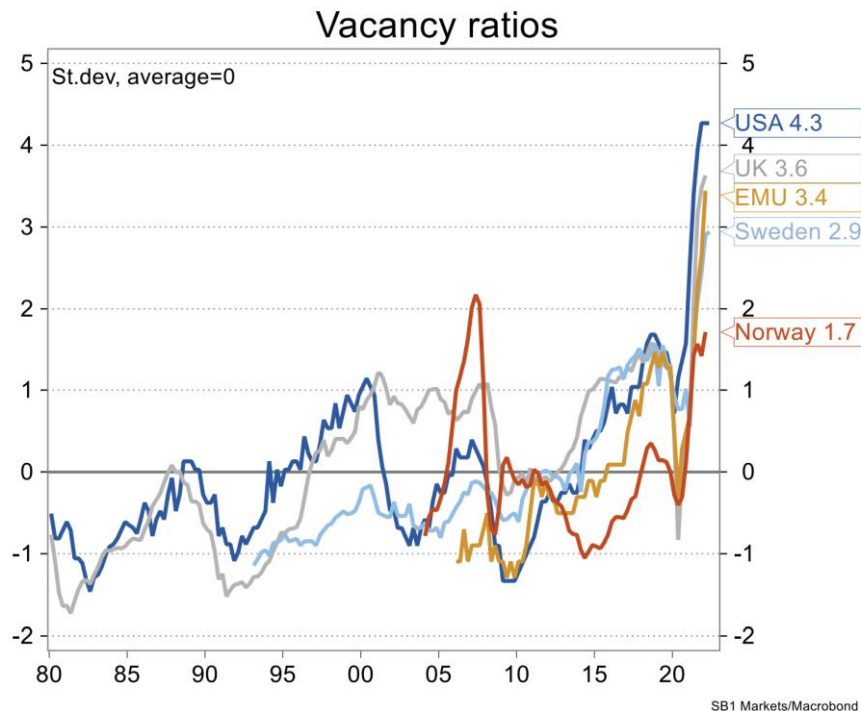
² Andel av kontakter som svarer at knapphet på arbeidskraft begrenser produksjonen.

Kilde: Norges Banks regionale nettverk

Figur 3. Årslønnsvekst
Forventet årslønnsvekst. Prosent



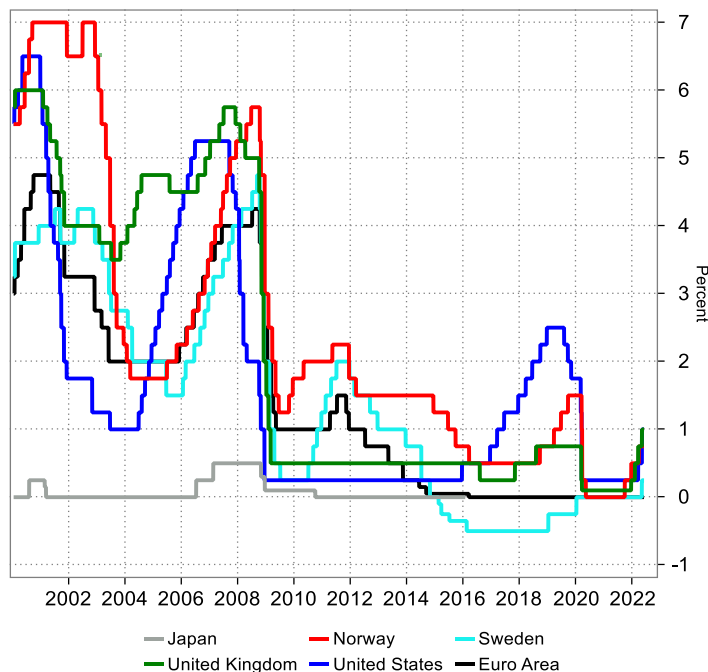
Arbeidsmarkedet strammes inn overalt. Et globalt fenomen, som merkes spesielt i servicesektoren



Renter og obligasjoner

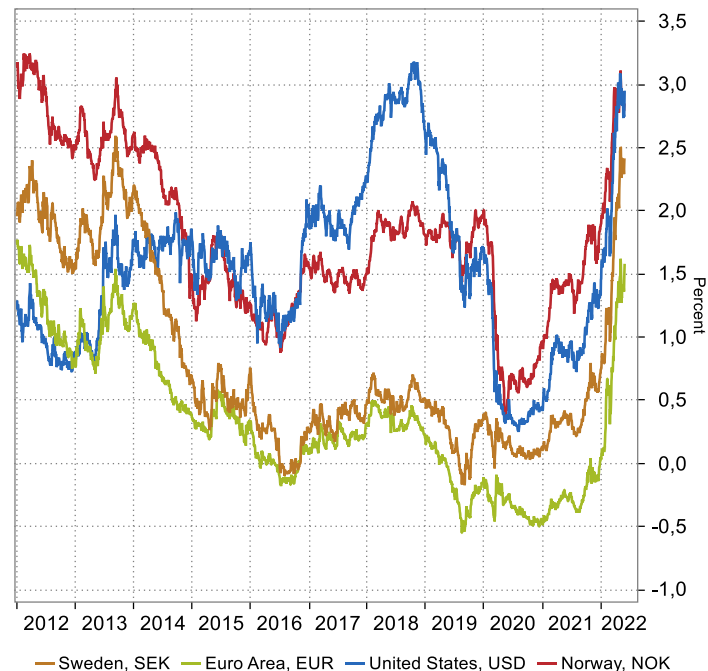
Sentralbankene forblir haukete selv om vekstforventningene justeres ned. Riksbanken snudde, mange er "behind the curve"

Styringsrenter DM



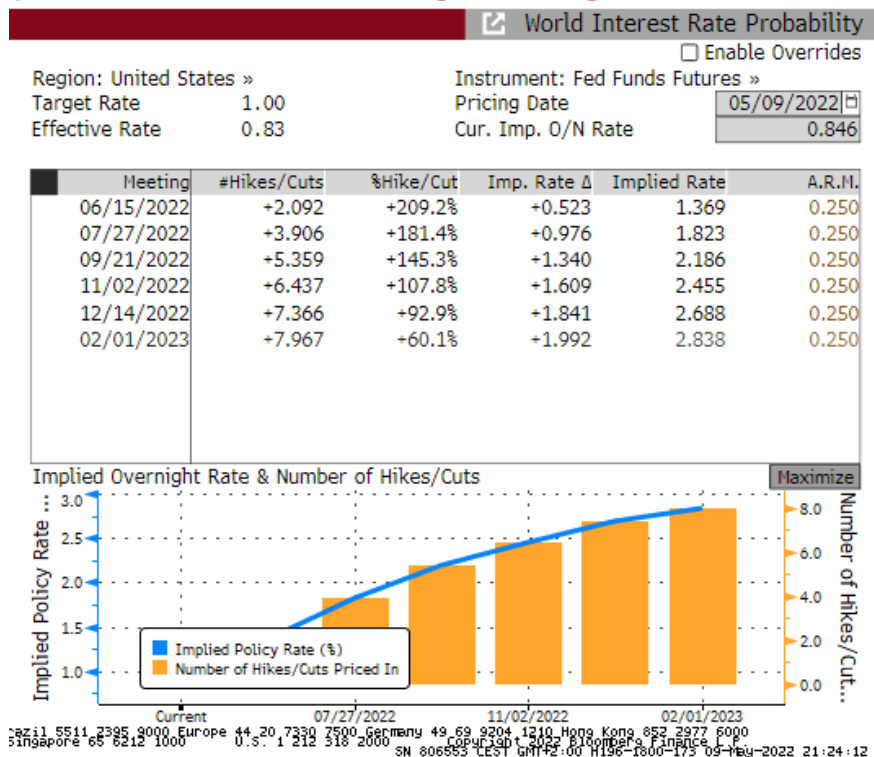
Source: Macrobond

Swap Rates, 5 Year, Mid

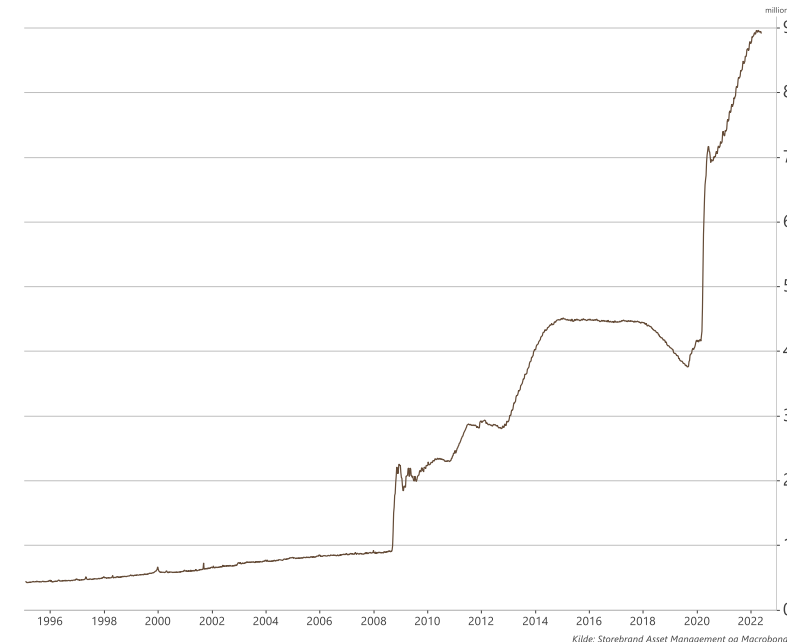


Source: Macrobond

Verdens viktigste sentralbank (Fed i USA) vil fortsett med et par doble hevinger, og straks normalisere balansen...

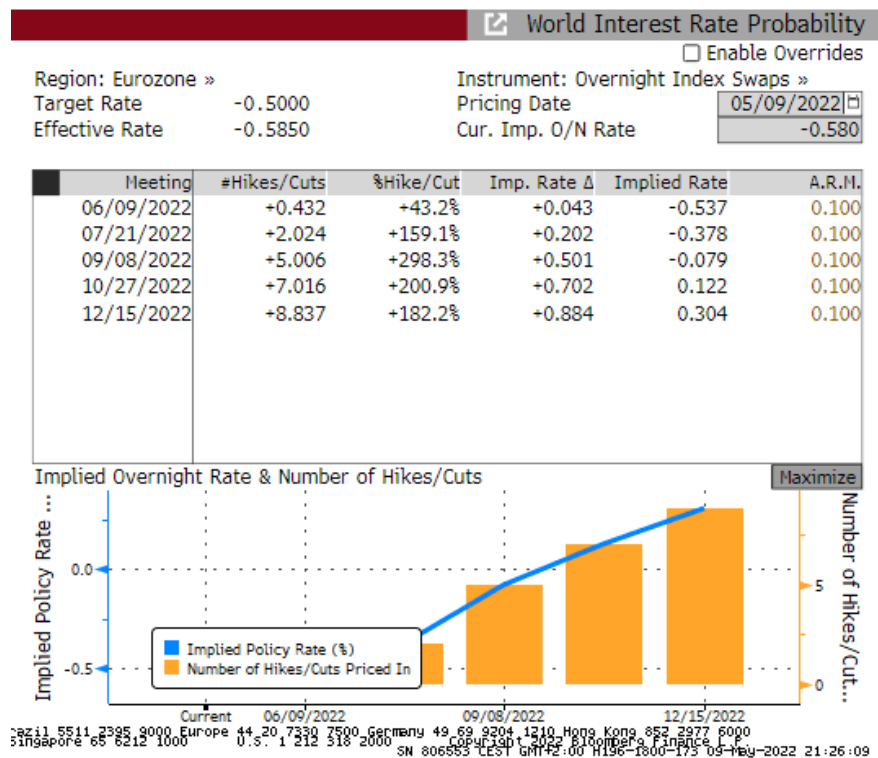


US Condition of All Federal Reserve Banks Total Assets

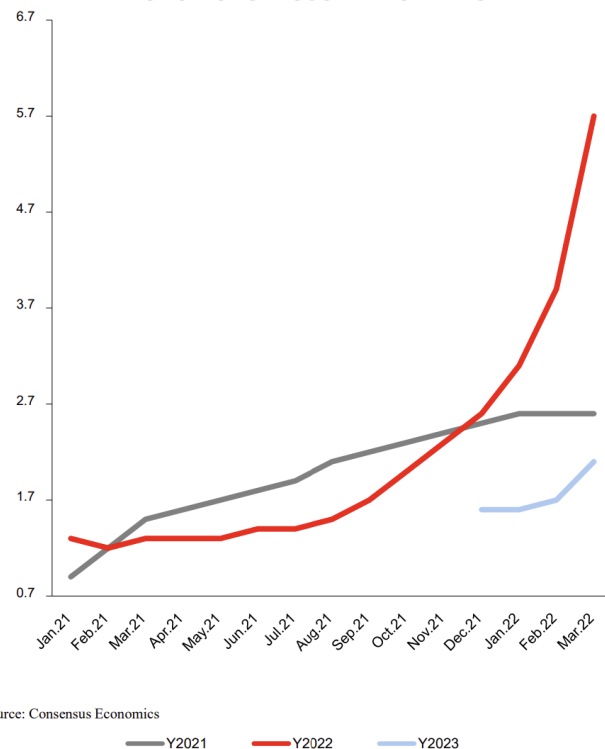


Kilde: Storebrand Asset Management og Macrobond

Selv ECB forventes å heve renten snart. Inflasjonen i Eurosonen bare akselererer videre...

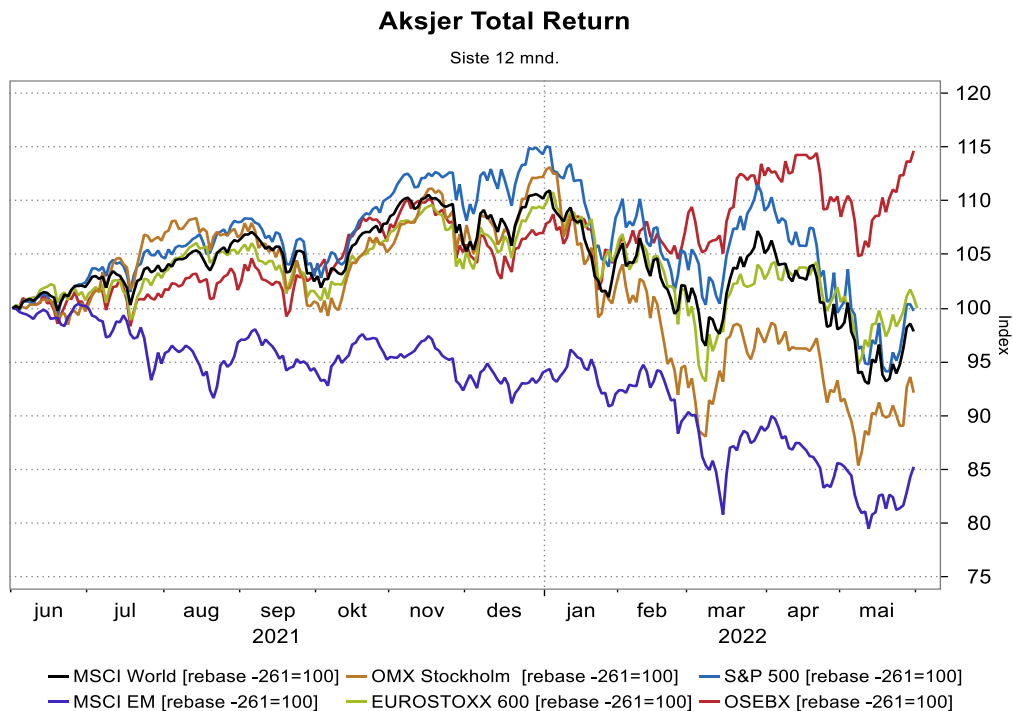


EURO CONSENSUS CPI FORECAST



Aksjer

Oslo Børs med ny alltime high. Relativt sett har norske aksjer og verdiaksjer klart seg bedre med stigende renter



Source: Macrobond

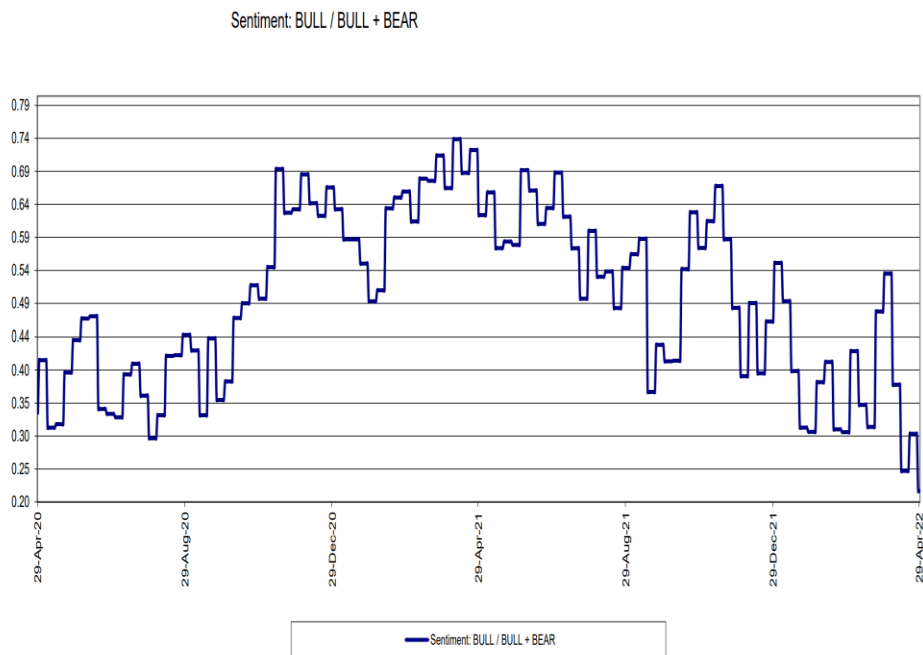
Sentimentet i markedene nærmer seg rekordlave nivåer, til tross for at arbeidsmarkedet nærmer seg rekordnivåer

Exhibit 6: Flows into equities have turned negative

4-weeks global fund flows

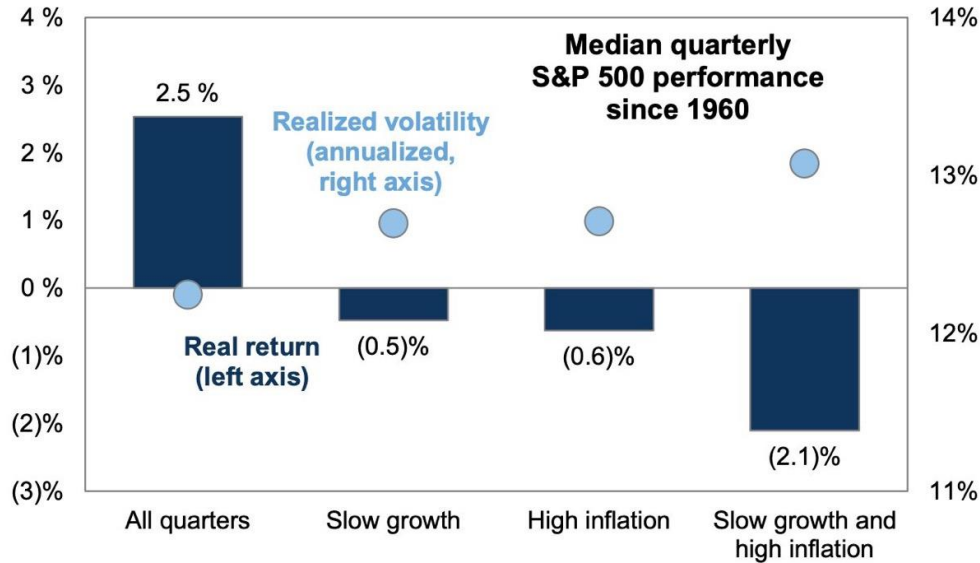


Source: EPFR, Haver Analytics, Goldman Sachs Global Investment Research



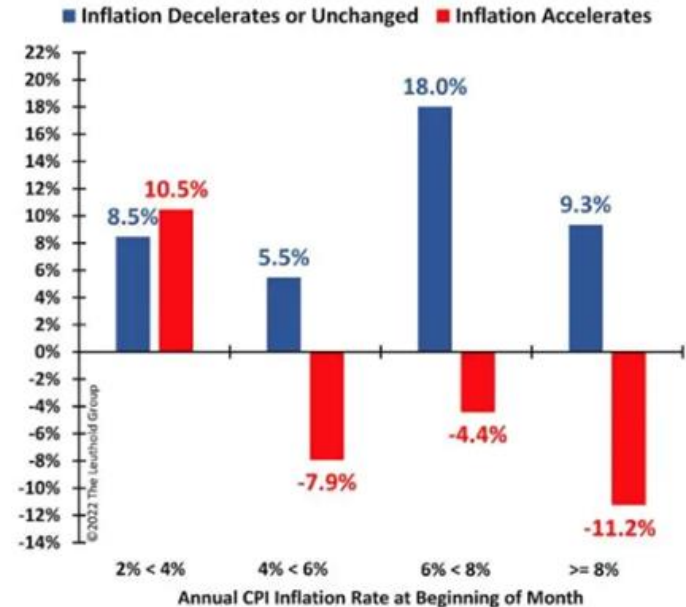
Stagflasjon har blitt mer aktuelt. Men en uttopping av inflasjonen kan likevel være positivt for aksjemarkedene

Exhibit 2: Equities have typically struggled in stagflationary periods
1960 – 2020; returns measured with 1-quarter lead relative to economic data



Source: Goldman Sachs Global Investment Research

S&P 500 One-Month-Forward
Average Annualized Percent Change when Annual
CPI Inflation Rate Accelerates and Decelerates
1945 to 2021



Markedssyn per mai 2022

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 **Kreditt:** **Normalvekt**

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Innholdet i denne rapporten er kun ment som service internt i Storebrand. Storebrand Asset Management AS (SAM) påtar seg ikke ansvar for eventuelle feil i informasjonen. Uttrykk for forventninger til fremtiden må ikke vurderes som løfter eller garantier fra SAM. Omtale av enkeltselskaper er ikke ment som noen kjøpsanbefaling overfor investorer. SAM tar ikke ansvar for tap eller skade som følge av bruk av informasjonen i denne rapporten. Storebrand avstår fra investering i selskaper som medvirker til krenkelse av menneskerettigheter, arbeidstakers rettigheter, korrupsjon, alvorlig miljøskade, produksjon av landminer, klasebomber, atomvåpen og tobakk.

- Appendix

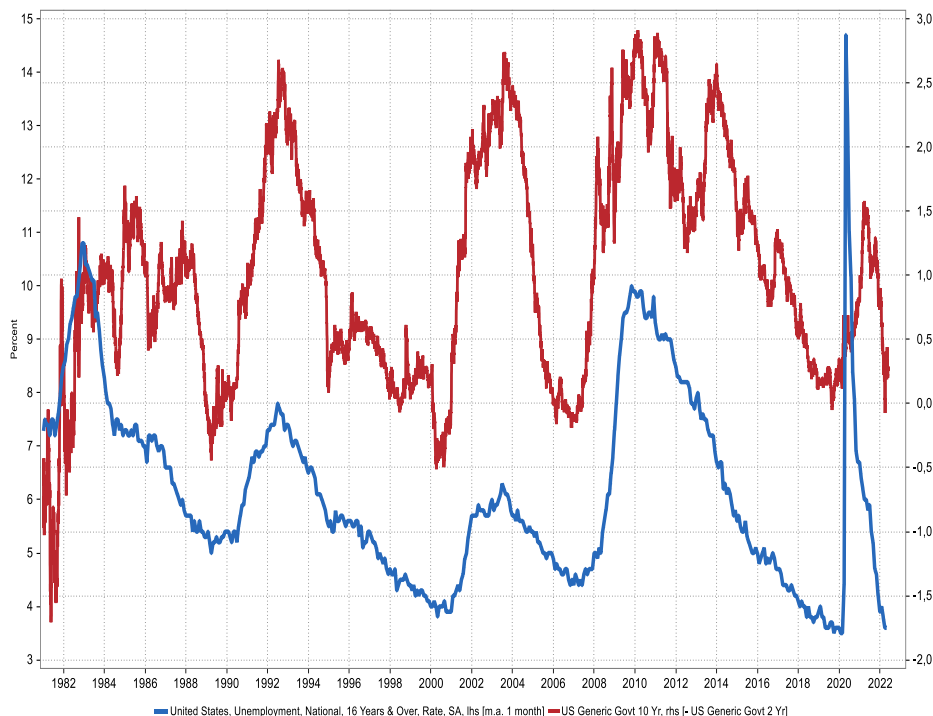
Crisis events usually lead to a rally, except when they occur while the Fed pricks a bubble

Crisis Events, DJIA Declines, And Subsequent Performance

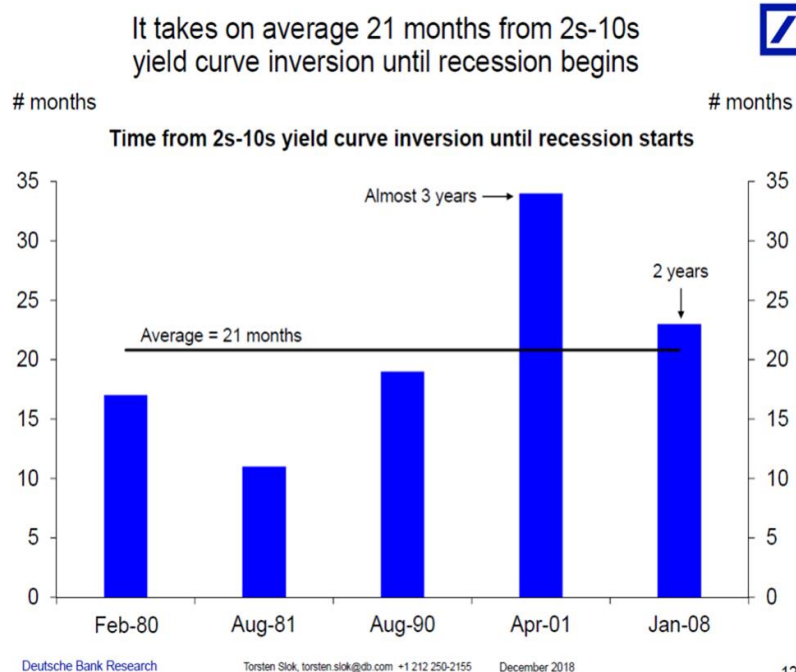
Event	Reaction Dates	Reaction Dates	DJIA Percentage Gain Days after Reaction Dates			
		%Gain/Loss	22	63	126	253
Panic of 1907	02/15/1907 - 11/20/1907	-42.9	6.9	14.7	29.9	48.3
Exchange Closed WWI	07/22/1914 - 12/24/1914	-10.2	10.0	6.6	21.2	80.2
Woodrow Wilson Stroke	09/25/1919 - 09/26/1919	1.3	5.7	-4.5	-16.0	-21.8
Bombing at JP Morgan Office	09/15/1920 - 09/30/1920	-5.5	2.4	-14.9	-9.5	-17.3
Market Crash of 1929	10/11/1929 - 11/13/1929	-43.7	27.3	34.1	46.0	11.8
➡ Germany invades France	05/09/1940 - 06/22/1940	-17.1	-0.5	8.4	7.0	-5.2
➡ Pearl Harbor	12/06/1941 - 12/10/1941	-6.5	3.8	-2.9	-9.6	5.4
Truman Upset Victory	11/02/1948 - 11/10/1948	-4.9	1.6	3.5	1.9	6.1
➡ Korean War	06/23/1950 - 07/13/1950	-12.0	9.1	15.3	19.2	26.3
Eisenhower Heart Attack	09/23/1955 - 09/26/1955	-6.5	0.0	6.6	11.7	5.7
Suez Canal Crisis	10/30/1956 - 10/31/1956	-1.4	0.3	-0.6	3.4	-9.5
Sputnik	10/03/1957 - 10/22/1957	-9.9	5.5	6.7	7.2	29.2
➡ Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2	30.4
JFK Assassinated	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1	24.0
Martin Luther King Assassinated	04/03/1968 - 04/05/1968	-0.4	5.3	6.4	9.3	10.8
➡ U.S. Bombs Cambodia	04/29/1970 - 05/14/1970	-7.1	0.4	3.8	13.5	36.7
Kent State Shootings	05/01/1970 - 05/26/1970	-14.0	9.9	20.3	20.7	43.7
Penn Central Bankruptcy	06/19/1970 - 07/07/1970	-7.1	8.0	16.0	24.9	33.8
➡ Arab Oil Embargo	10/16/1973 - 12/05/1973	-18.5	9.3	10.2	7.2	-25.5
Nixon Resigns	08/07/1974 - 08/29/1974	-17.6	-7.9	-5.7	12.5	27.2
Iranian Hostage Crisis	11/02/1979 - 11/07/1979	-2.7	4.7	11.1	2.3	17.0
➡ U.S.S.R. Invades Afghanistan	12/24/1979 - 01/03/1980	-2.2	6.7	-4.0	6.8	21.0
Hunt Silver Crash	02/13/1980 - 03/27/1980	-15.9	6.7	16.2	25.8	30.6
Falkland Islands War	04/01/1982 - 05/07/1982	4.3	-8.5	-9.8	20.8	41.8
Beirut Bombing	10/21/1983 - 10/23/1983	0.0	2.1	-0.5	-6.9	-2.9
➡ U.S. Invades Grenada	10/24/1983 - 11/07/1983	-2.7	3.9	-2.8	-3.2	2.4
Continental Illinois Bailout	05/08/1984 - 05/27/1984	-6.4	2.3	11.5	10.1	18.3

➡ U.S. Bombs Libya	04/14/1986 - 04/21/1986	2.8	-4.3	-4.1	-1.0	25.9
Financial Panic '87	10/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0	24.2
Invasion of Panama	12/15/1989 - 12/20/1989	-1.9	-2.7	0.3	8.0	-2.2
➡ Iraq Invades Kuwait	08/02/1990 - 08/23/1990	-13.3	0.1	2.3	16.3	22.4
➡ Gulf War	01/16/1991 - 01/17/1991	4.6	11.8	14.3	15.0	24.5
Gorbachev Coup	08/16/1991 - 08/19/1991	-2.4	4.4	1.6	11.3	14.9
ERM U.K. Currency Crisis	09/15/1992 - 10/16/1992	-4.6	0.6	3.2	9.2	14.7
World Trade Center Bombing	02/25/1993 - 02/27/1993	-0.3	2.4	5.1	8.5	14.2
Oklahoma City Bombing	04/18/1995 - 04/20/1995	1.2	3.9	9.7	12.9	30.8
Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0	16.9
U.S. Embassy Bombings Africa	08/06/1998 - 08/14/1998	-1.8	-4.0	4.8	10.4	32.0
U.S.S. Cole Yemen Bombing	10/11/2000 - 10/18/2000	-4.2	6.6	6.1	6.1	-5.1
➡ WTC and Pentagon Terrorist Attacks	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
➡ War in Afghanistan	10/05/2001 - 10/09/2001	-0.7	5.9	11.5	12.4	-16.8
Bali Nightclub Bombing	10/11/2002 - 10/13/2002	0.3	6.6	12.3	6.7	24.4
➡ Iraq War	03/19/2003 - 05/01/2003	2.3	5.5	9.2	15.6	22.0
Madrid Terrorist Attacks	03/10/2004 - 03/24/2004	-2.4	3.9	3.9	-0.1	4.4
London Train Bombing	07/06/2005 - 07/07/2005	0.3	2.3	0.1	5.6	7.8
India Israel and Lebanon Bombings	07/11/2006 - 07/18/2006	-3.0	5.0	10.9	16.4	28.3
Bear Stearns Collapse	03/13/2008 - 03/14/2008	-1.6	5.6	3.0	-4.4	-38.1
➡ Russia Invades Georgia	08/08/2008 - 08/16/2008	-2.2	-4.0	-26	-34.2	-19.2
Lehman Brothers Collapse	09/15/2008 - 09/16/2008	1.3	-18.8	-22.6	-32.3	-11.5
Israel Invades Gaza	12/27/2008 - 01/21/2009	-3.0	-13.5	-4.2	7.9	23.6
Boston Marathon Bombing	04/12/2013 - 04/15/2013	-1.8	4.6	6.1	4.4	11.4
➡ Russia Invades Crimea	03/07/2014 - 03/14/2014	-2.4	1.2	4.4	5.7	11.1
Chinese Market Turmoil	08/21/2015 - 08/25/2015	-4.8	4.1	13.6	6.6	17.8
U.K. Votes to Leave E.U.	06/23/2016 - 06/27/2016	-4.8	7.7	5.6	16.3	25.2
COVID-19 Crash	03/4/2020 - 03/23/2020	-31.4	26.5	40.0	46.0	74.4
Mean		-7.0	4.2	6.0	9.6	15.3
Median		-3.0	4.6	6.1	9.3	17.0

Invertering av rentekurven får mye fokus igjen. Sist det skjedde var høsten 2019..

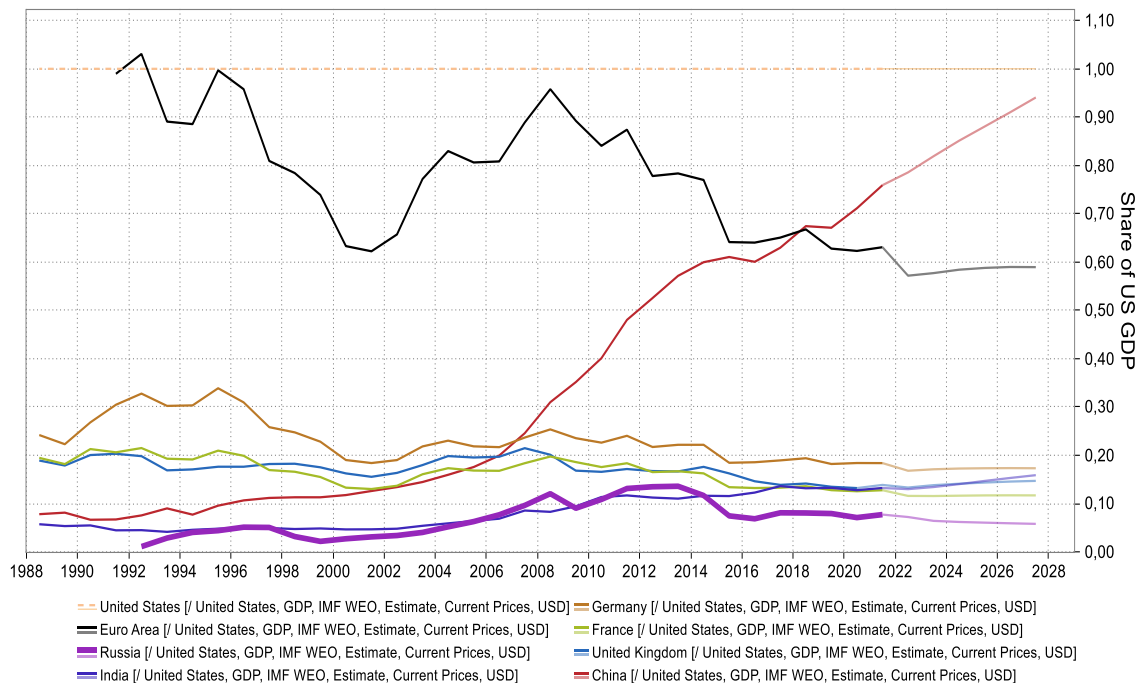


Source: Macrobond

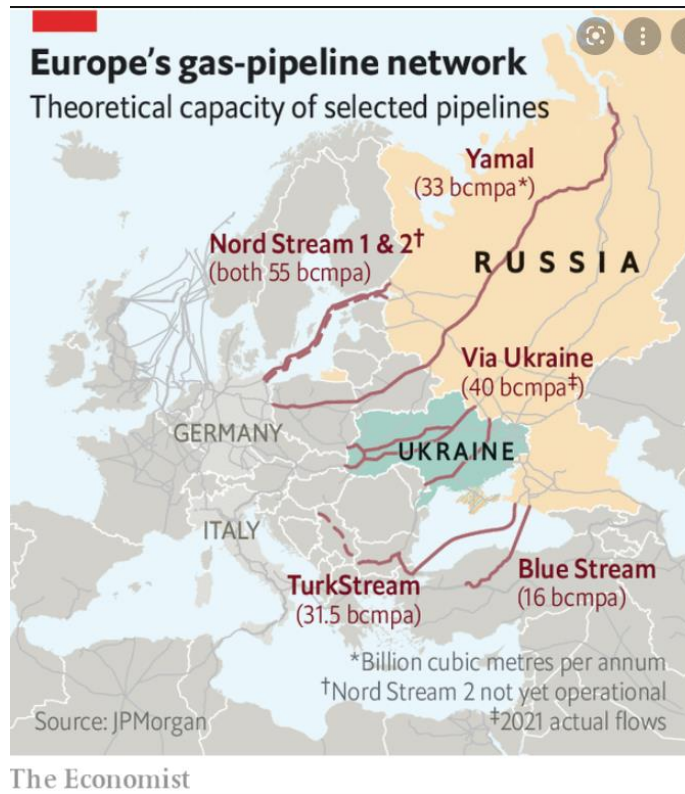


Krig i Europa: Den russiske økonomien (BNP) er liten i en global kontekst

GDP, IMF WEO, Estimate, Current Prices, USD



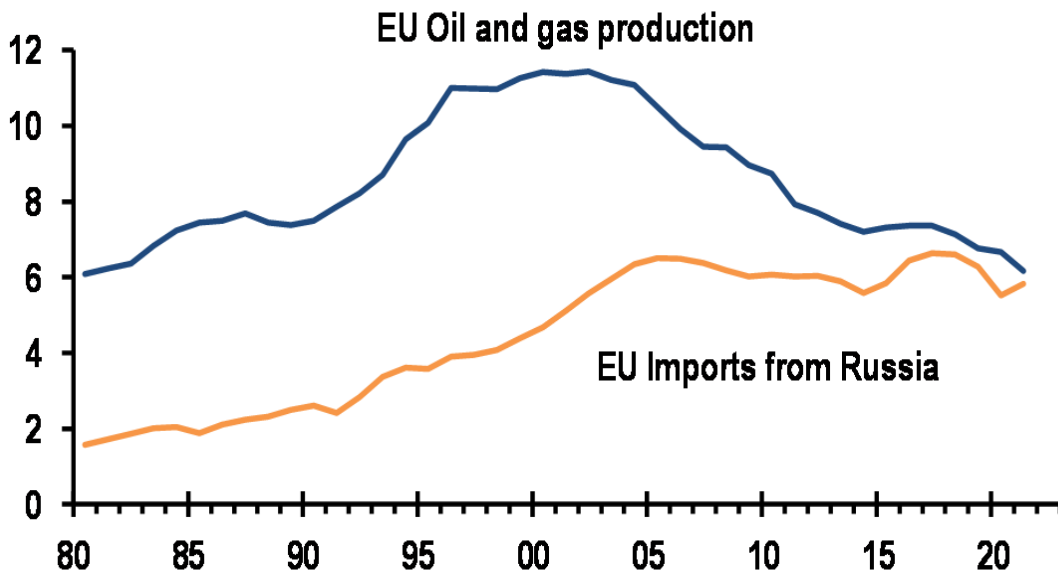
Source: Macrobond



Krig i Europa: Russisk eksport av olje/gass har derimot betydning

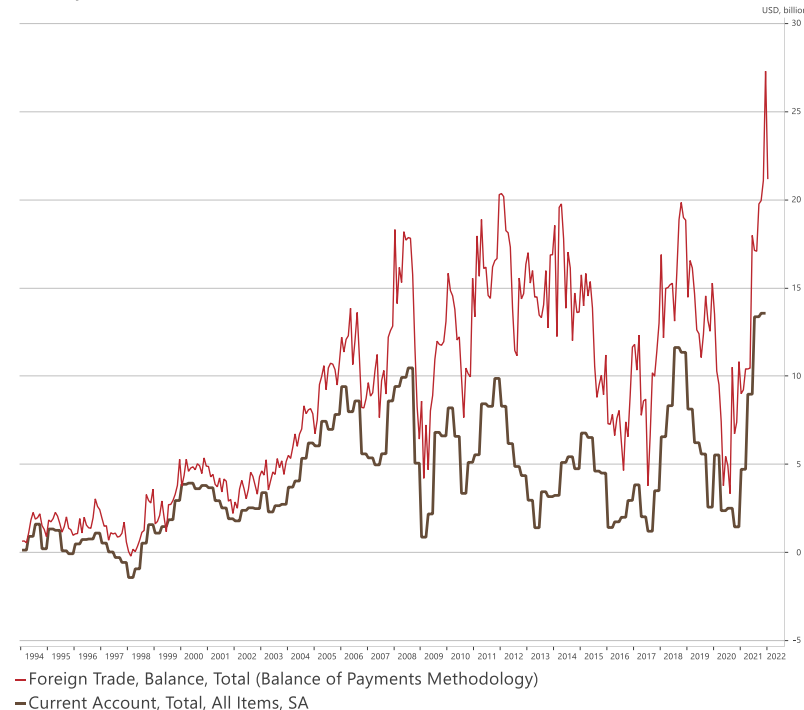
Figure 2: EU oil and gas production vs. imports from Russia

mb/d oil equivalent



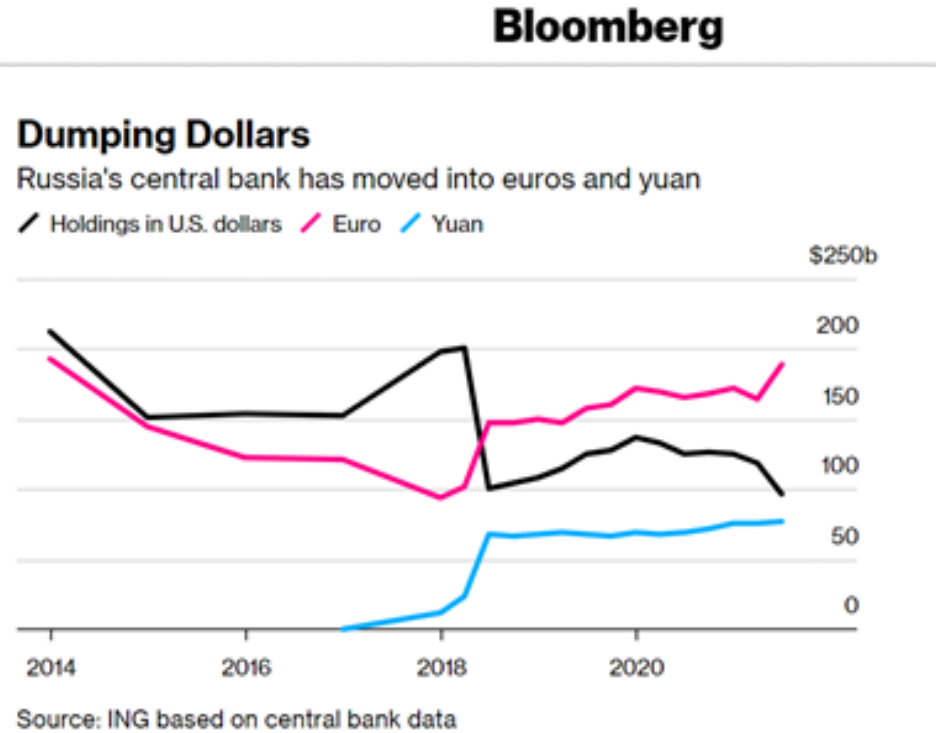
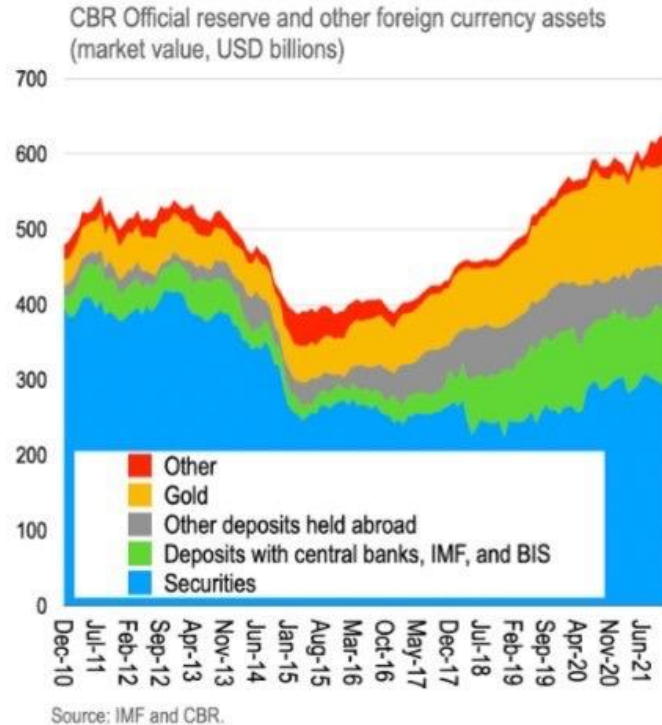
Source: BP, Gazprom, Eurostat, Russia Federal Customs Service, JPMAM calculations

Russia, USD



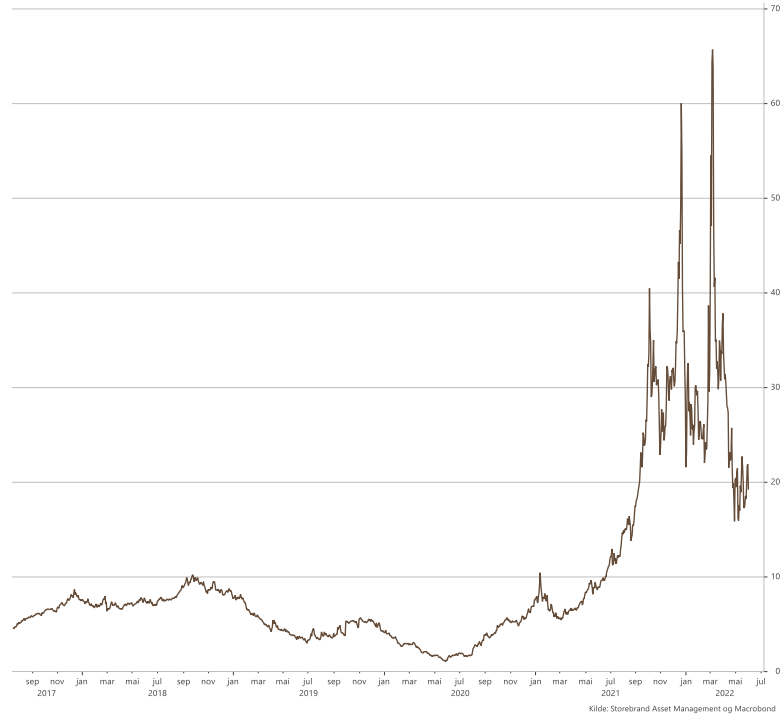
Kilde: Storebrand Asset Management og Macrobond

Sanksjonene isolerer den russiske økonomien. Men Russland har diversifisert og olje-/gasshandel er unntatt sanksjonene

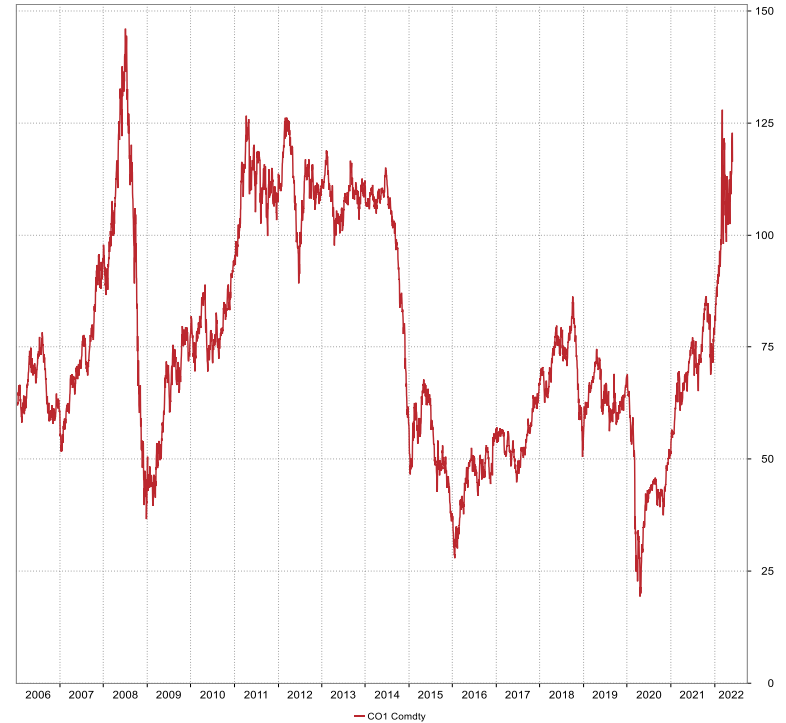


Krig i Europa: Råvareprisene skjøt i været, men har falt tilbake

ICE UK Natural Gas NBP Futures in USD/MMBtu Month 1



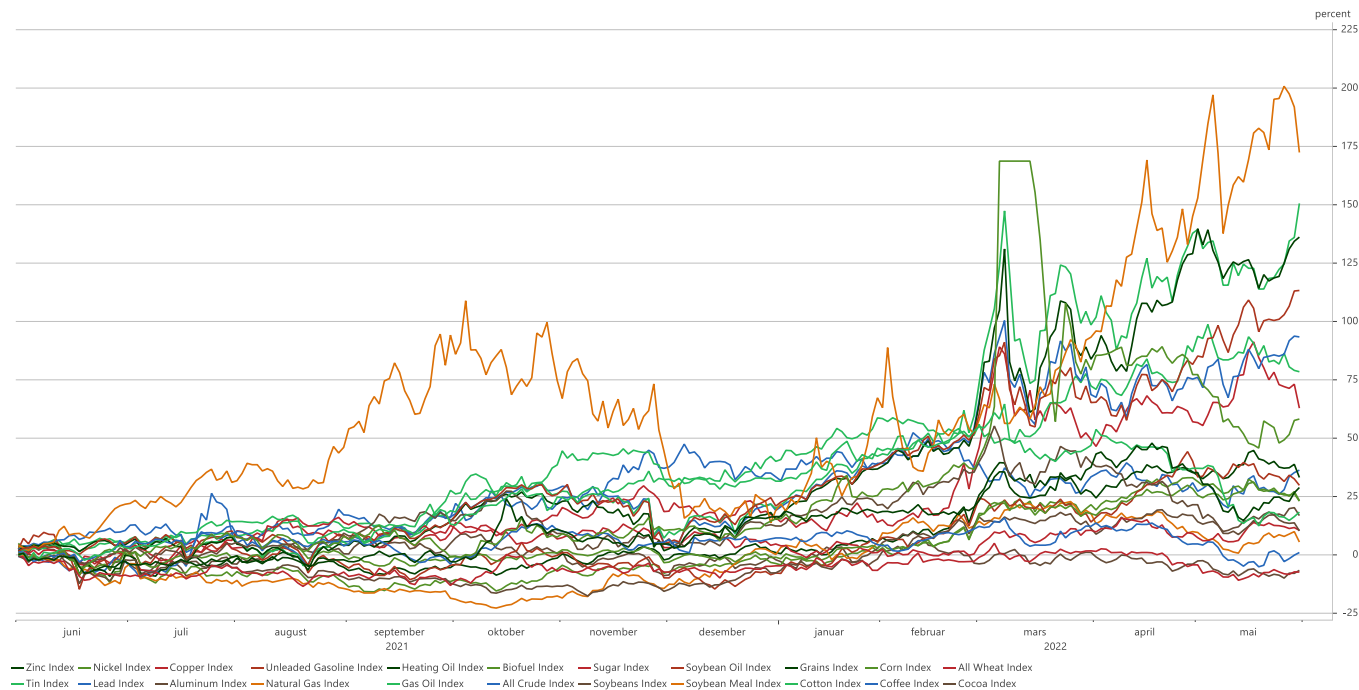
Oil price



Ikke bare olje- og gasspriser som har steget og vil smitte over.. Matprisene er også på vei opp

Commodity prices soaring

S&P GSCI Indices 1-year performance



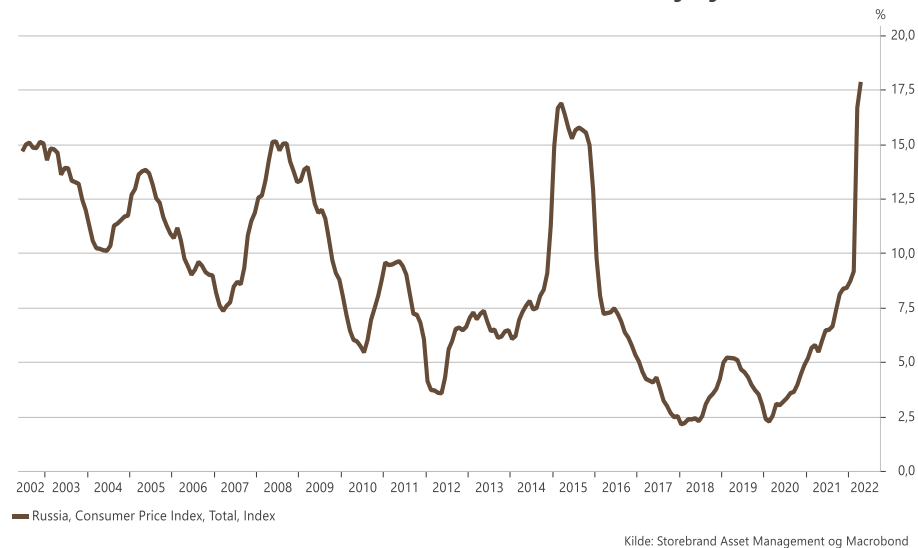
Kilde: Storebrand Asset Management og Macrobond

Russisk økonomi vil bli isolert, knele og oppleve kraftig stigende inflasjon. Men Russland er i stor grad selvforsynte

Russia, Gross Domestic Product, Total (National), Constant Prices, RUB

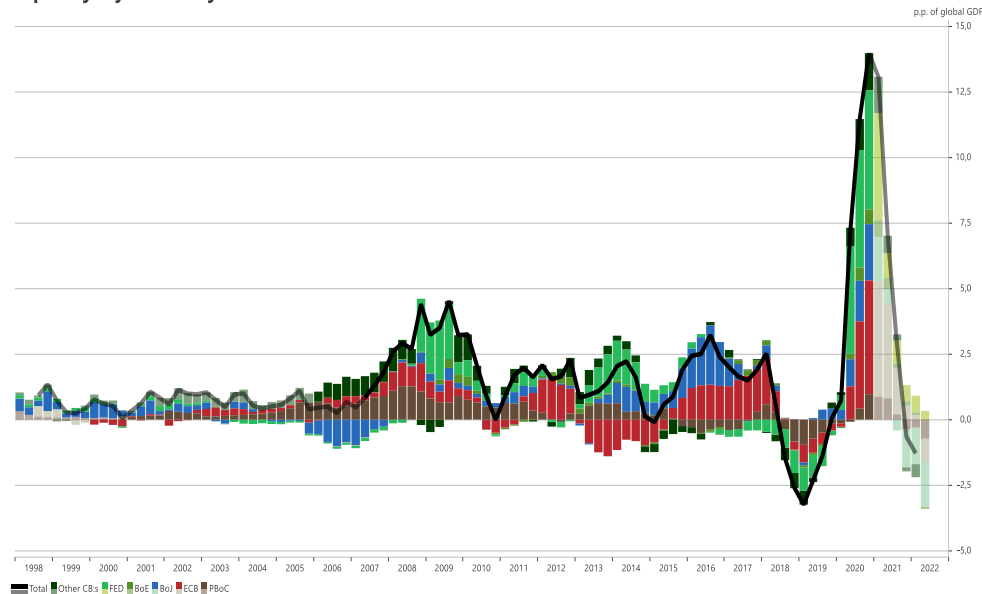


Russia, Consumer Price Index, Total, Index (% yoy)

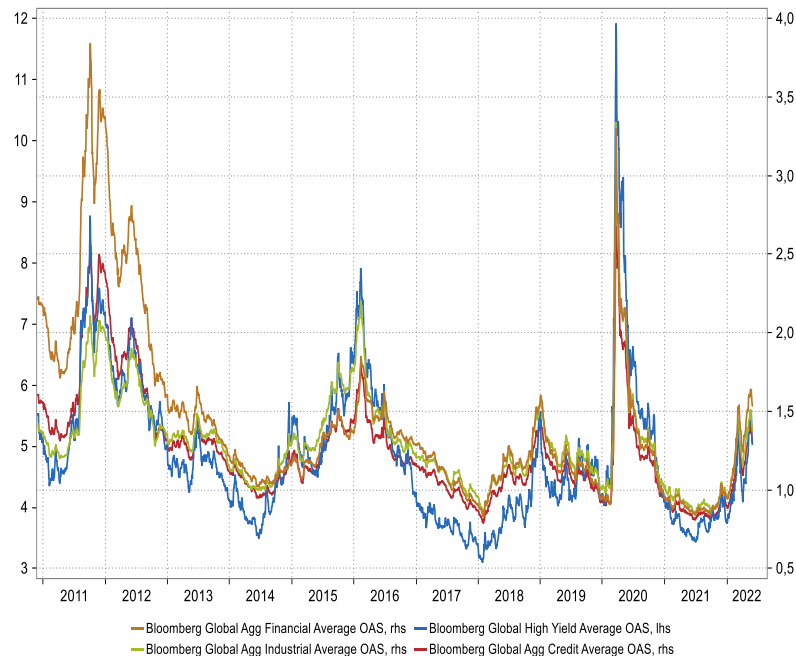


Kredittspreadene har derimot snudd ned igjen

Liquidity injections by central banks

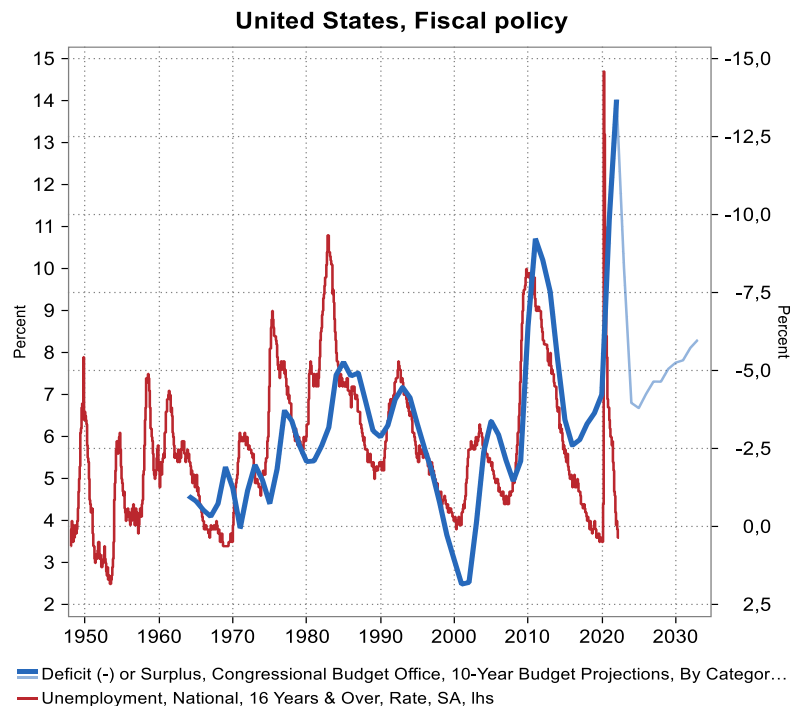


Kilde: Storebrand Asset Management og Macrobond

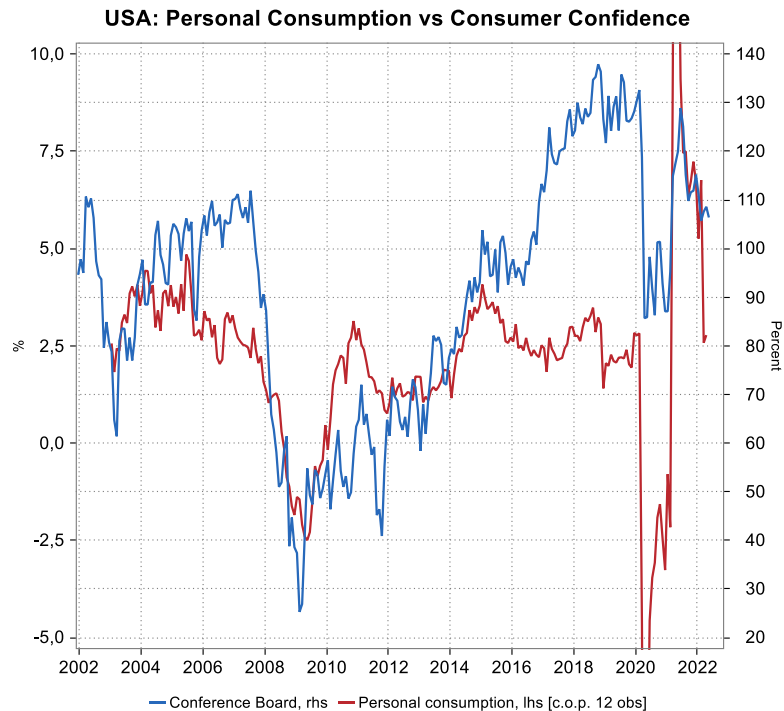


Source: Macrobond

Arbeidsledigheten har praktisk talt hentet inn hele pandemioppgangen. Vil trolig nå laveste nivå siden 1950-tallet i år

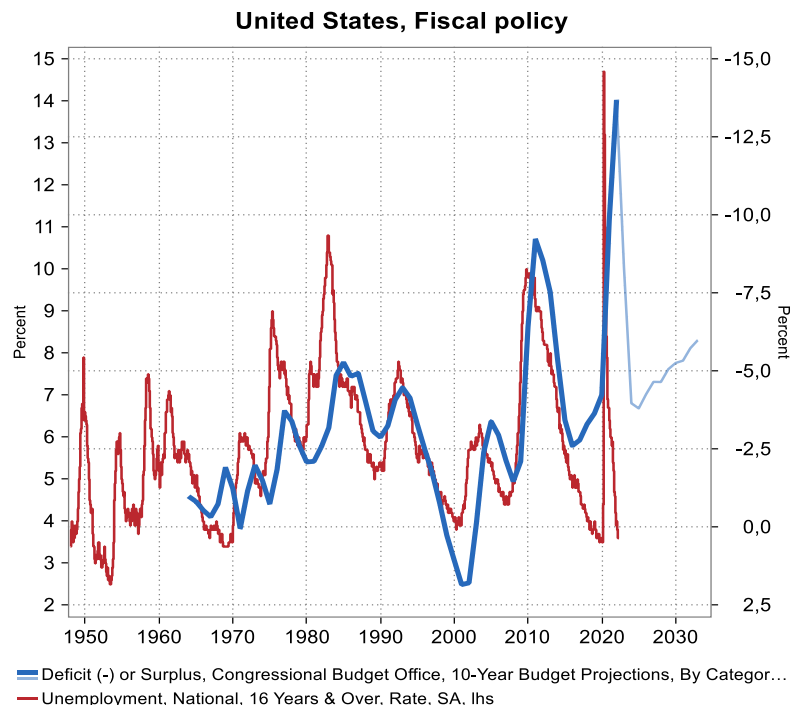


Source: Macrobond

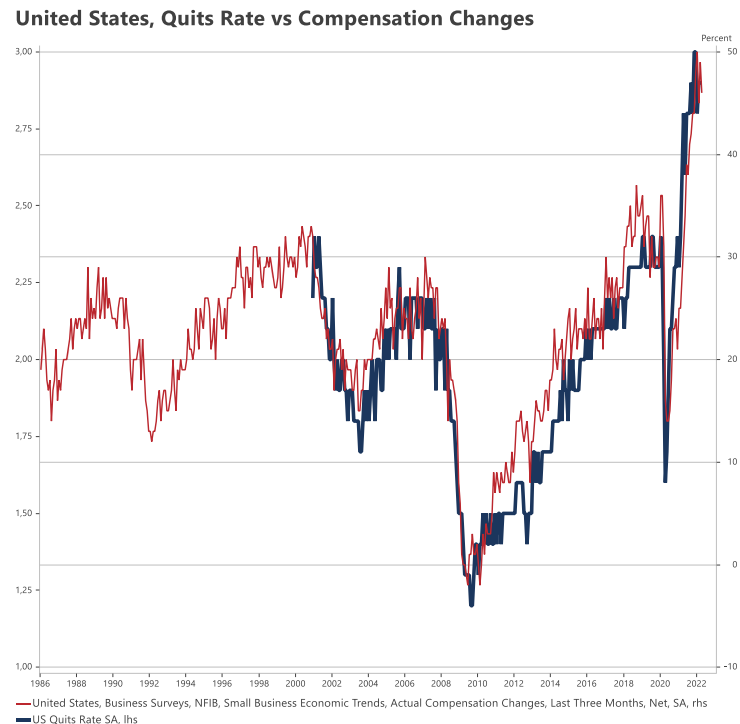


Source: Macrobond

Arbeidsledigheten har praktisk talt hentet inn hele pandemioppgangen. Vil trolig nå laveste nivå siden 1950-tallet i år



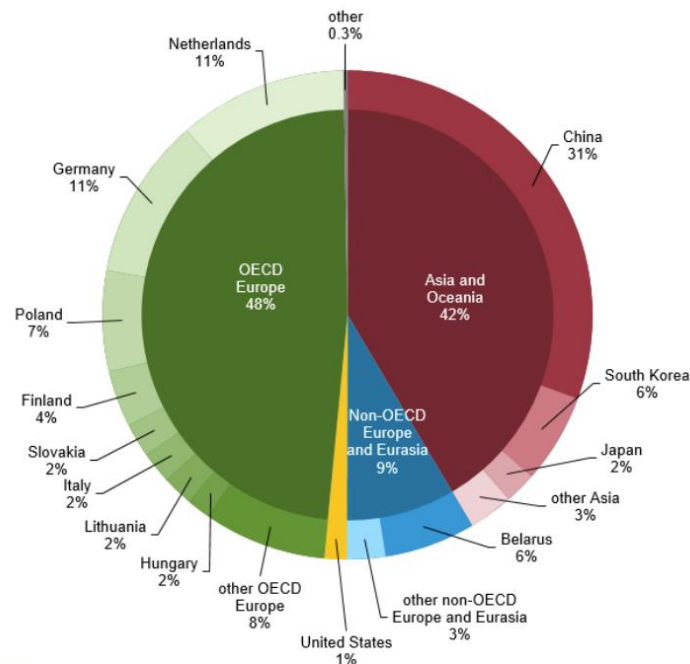
Source: Macrobond



Kilde: Storebrand Asset Management og Macrobond

Krig i Europa: Spesielt Europa er avhengige av gassimport

Russian crude and condensate exports by destination, 2020



Source: Graph by the U.S. Energy Information Administration, based on Russian export statistics and partner country import statistics from Global Trade Tracker

Source: EIA, FGE

Europe's dependence on Russian gas will shape attitudes to sanctions

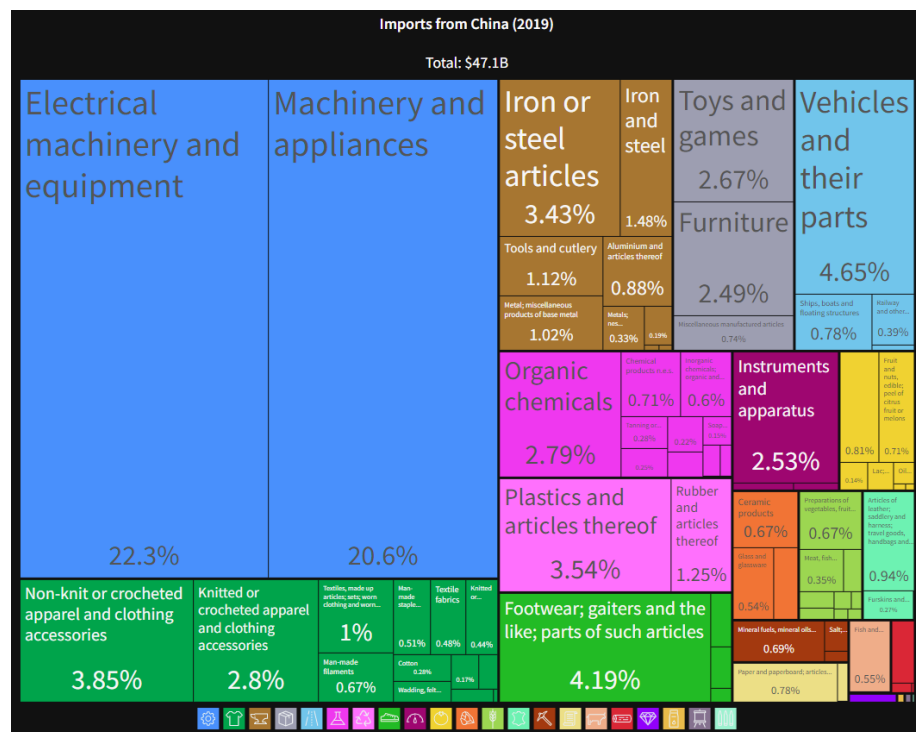
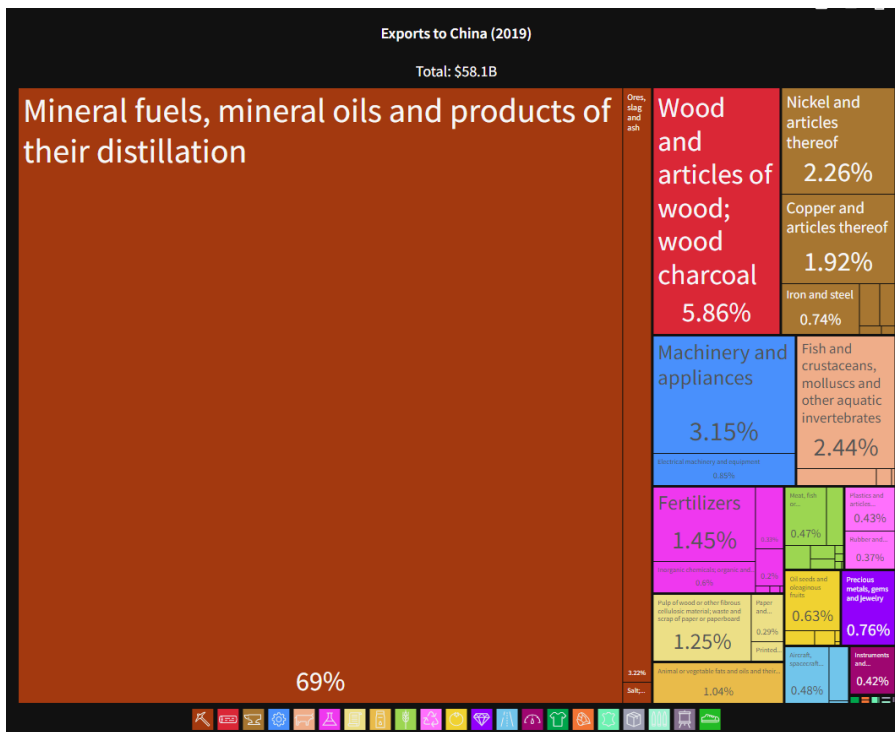
	Gas imports/ total imports (%)	Gas energy supply/ total supply (%)	Gas imports from Russia (%)	Russian gas cut-off vulnerability Index*	Against sanctions on Russian gas
Hungary	45.1	33.6	95.0	57.9	x
Czech Republic	29.6	18.1	100.0	49.2	x
Latvia	23.1	21.2	100.0	48.1	x
Slovakia	25.4	24.9	85.4	45.2	x
Italy	41.5	41.6	43.3	42.1	x
Germany	31.0	26.6	65.2	40.9	x
Bulgaria	23.2	14.2	75.2	37.5	x
Poland	24.7	17.0	54.9	32.2	
Netherlands	23.5	45.1	26.3	31.6	
Romania	12.2	30.1	44.8	29.0	
Lithuania	18.6	26.0	41.8	28.8	
Finland	9.1	6.6	67.4	27.7	
Greece	13.3	24.0	39.0	25.4	x
Estonia	11.2	7.8	46.2	21.8	
France	32.3	15.8	16.8	21.6	
Austria	41.9	22.8	0.0	21.6	x
Luxembourg	16.4	18.2	27.2	20.6	
Spain	25.9	25.3	10.4	20.5	
Belgium	23.4	30.2	6.5	20.0	
Portugal	24.9	24.9	9.7	19.8	
Ireland	25.0	34.2	0.0	19.7	
Malta	10.0	45.3	0.0	18.4	
Croatia	23.3	30.6	0.0	18.0	
Slovenia	12.9	11.7	8.7	11.1	
Denmark	12.2	13.6	0.0	8.6	
Sweden	3.9	2.8	12.7	6.5	

* Average of first three columns.

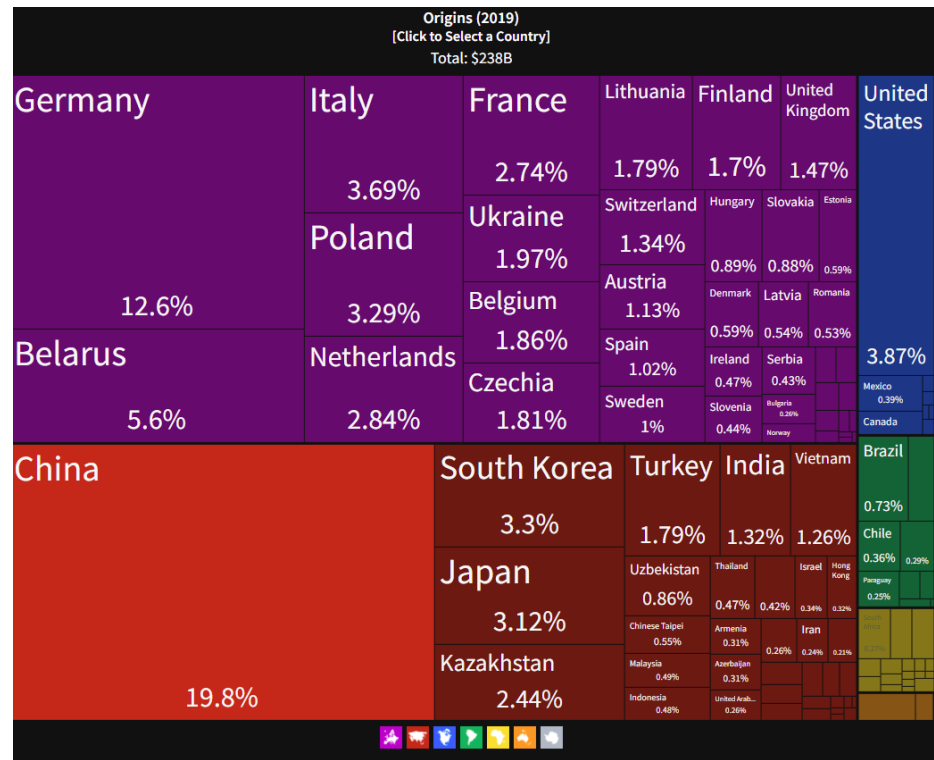
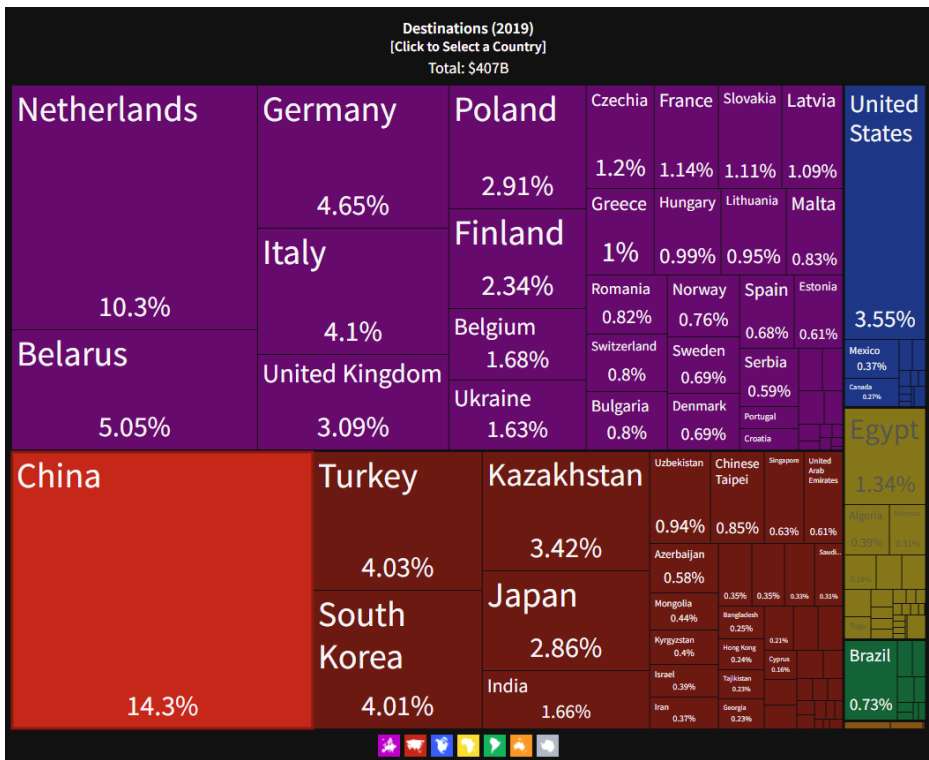
Note. 2020 data, except for UK, which is 2019.

Sources: Eurostat; ISPI; EIU.

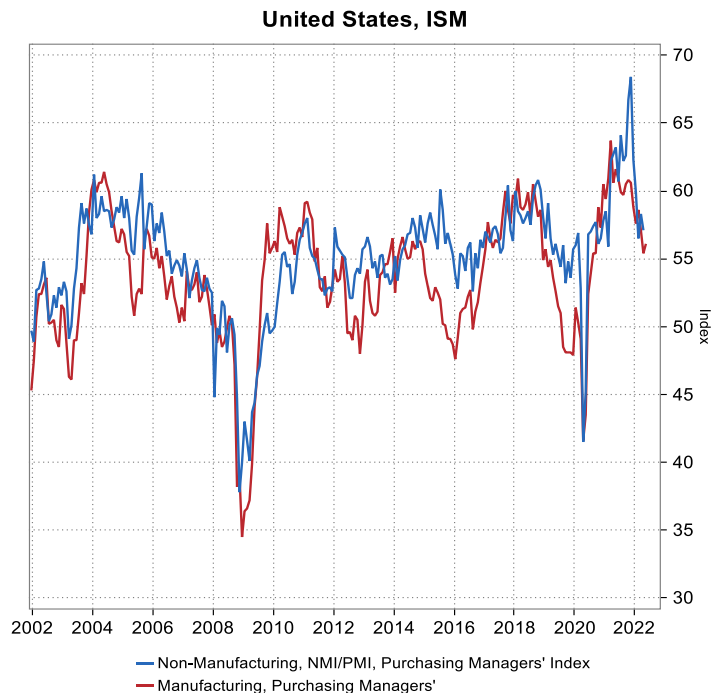
Kinas rolle politisk og økonomisk blir også en viktig faktor fremover



Handelen totalt mot Europa er likevel større enn med Kina



Industribarometrene er fortsatt høye i USA og Eurosonen, men tapet av momentet vil forsterkes i de kommende månedene

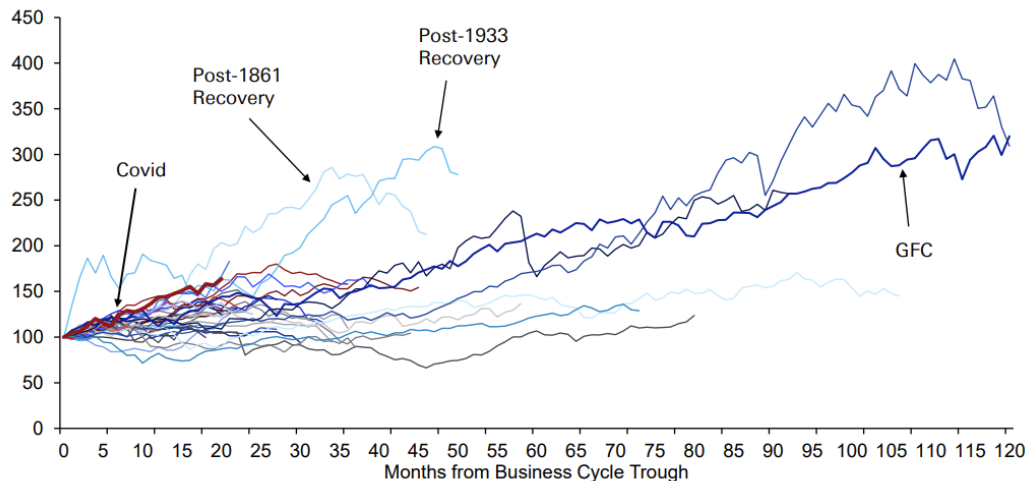


Ikke bare har den økonomiske gjeninnhenting har vært en av de sterkeste. Men også aksjemarkedsgjeninnhenting

One of the strongest S&P 500 recoveries in history....



S&P 500 recoveries through every business cycle since 1854



Source: Deutsche Bank, GFD, NBER

Deutsche Bank
Research

Jim Reid | (+44) 20 7547 2943 | jim.reid@db.com

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...men det lave rentenivået påvirker diskonteringsrenten og prisingen av fremtidsutsiktene

Shiller PE Ratio



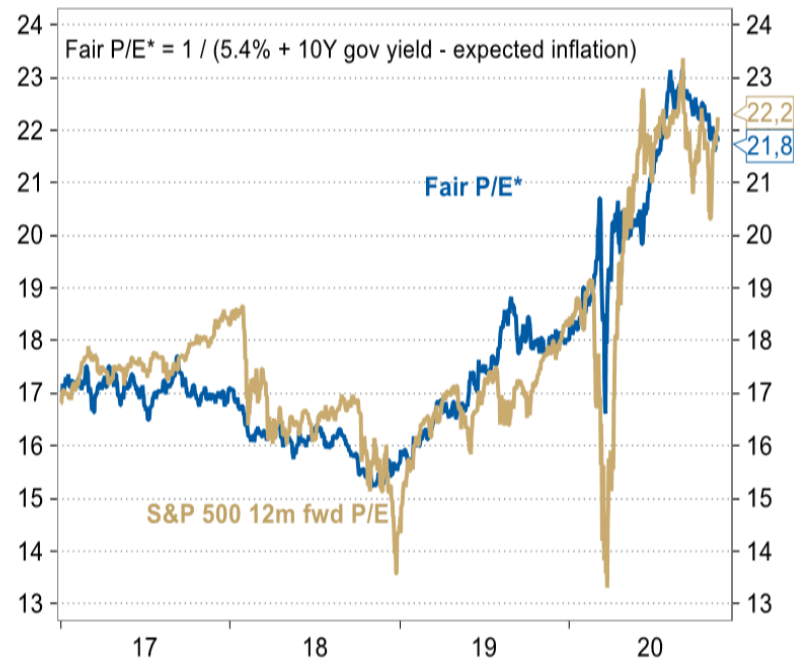
[Chart](#) [Table](#) [FAQ](#)

[f](#) Share

Current Shiller PE Ratio: 37.94 +0.10 (0.27%)

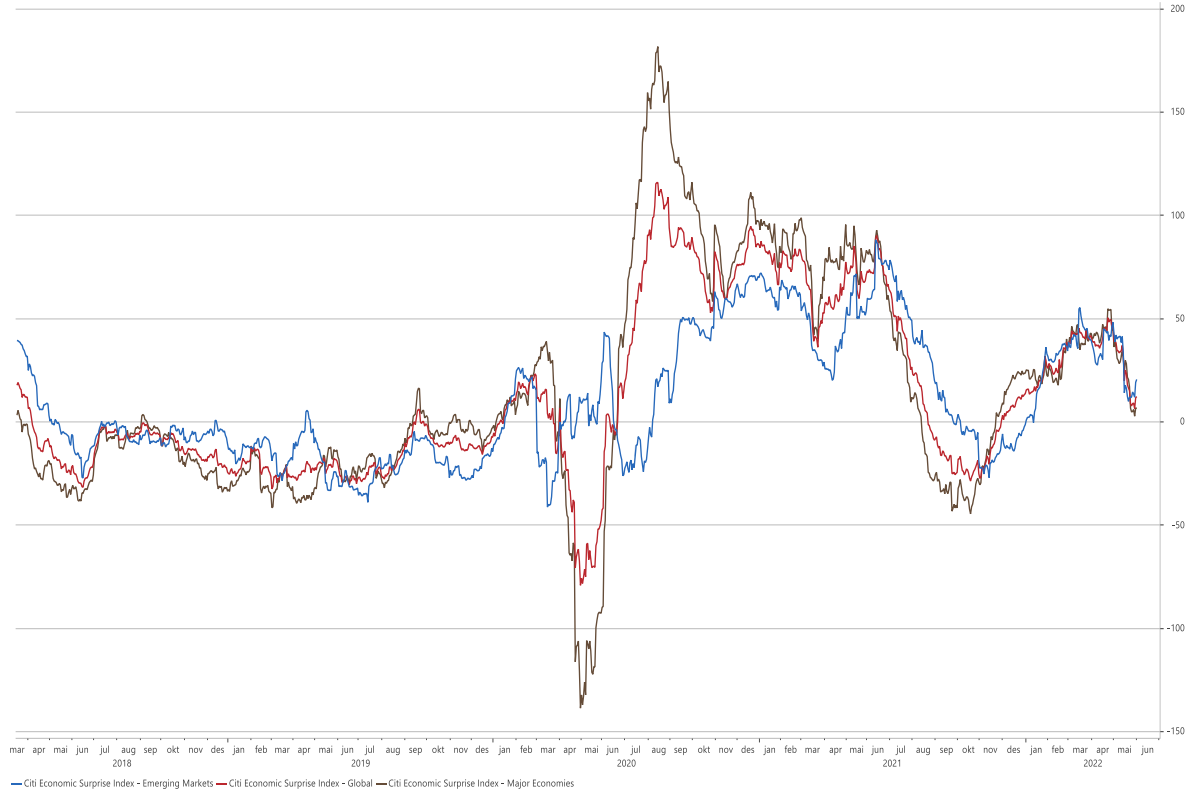
11:23 AM EDT, Fri Jun 25

United States - P/E. actual vs 'fair'



*Fixed real growth of 1% and 4.4% risk premium would give same result. Same with

SB1 Markets/Macrobond



Kilde: Storebrand Asset Management og Macrobond

MACROECONOMIC OUTLOOK

Global and Chinese economic
and policy trends

Presented for Norway China Chamber of
Commerce

4 May 2022

Håkon Kavli

Storebrand Asset Management





Global Economic
Backdrop

Chinese Backdrop
and Policy for
Growth

Geopolitics and
Great Power Rivalry

1

Global Economic Backdrop

Global Economic Backdrop

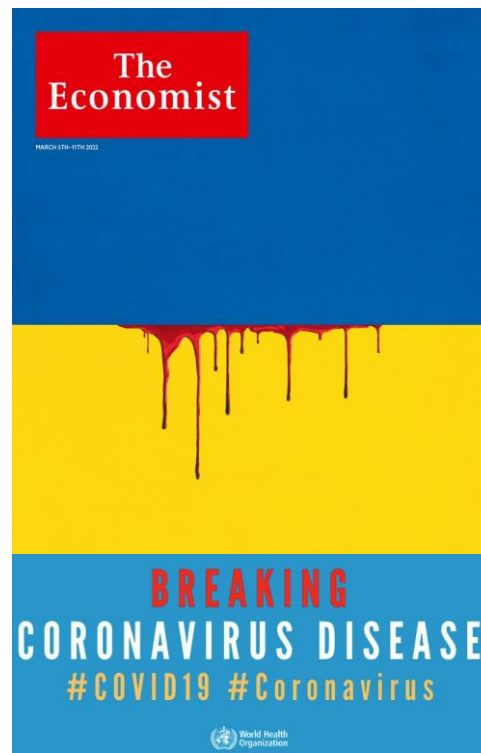
Global economic growth is strong, but faces potential disruptions from:

- Inflation and monetary policy
- Russia / Ukraine
- Covid-19
- Deglobalization

This Inflation Is Demand Driven and Persistent

Apr 20, 2022 | JASON FURMAN

Although inflation has risen sharply for multiple reasons, increased demand is by far the most important factor. The common argument about strangled ports, microchip shortages, and other supply-side issues simply cannot explain why advanced economies grew so briskly in 2021.



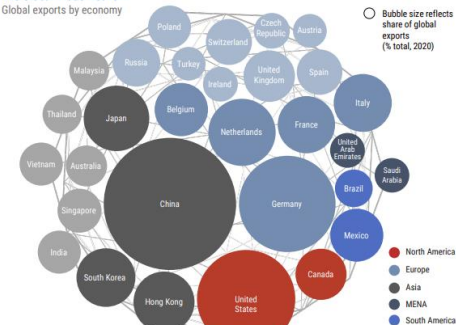
Goldman Sachs | Global Macro Research

ISSUE 108 | April 28, 2022 | 5:55 PM EDT

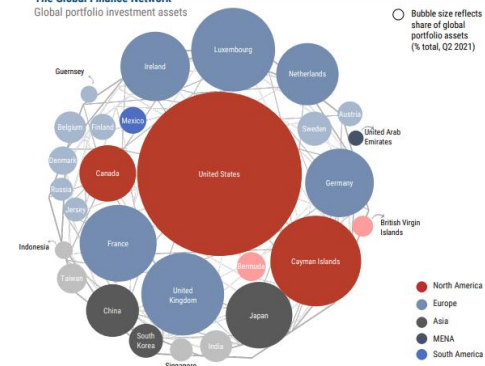
TOP of MIND

(DE)GLOBALIZATION AHEAD?

The Global Trade Network
Global exports by economy



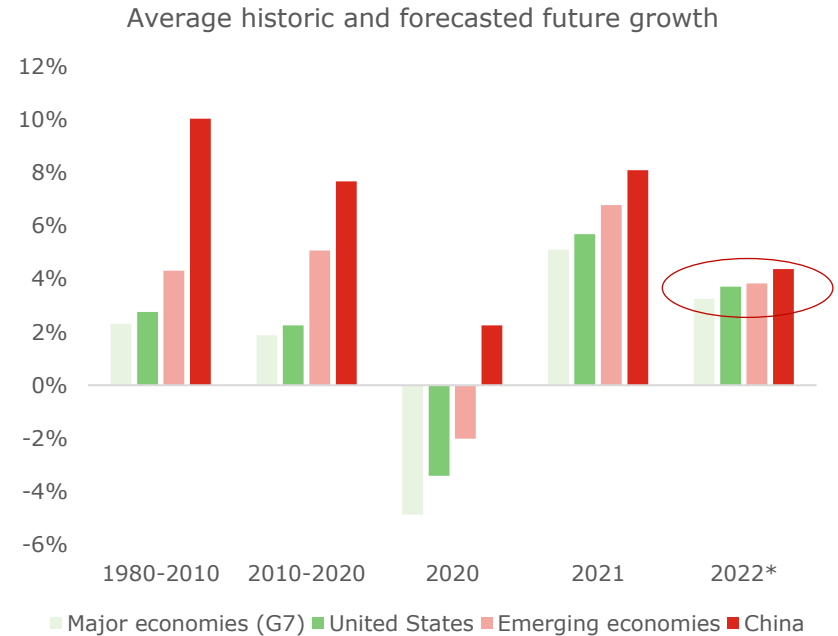
The Global Finance Network
Global portfolio investment assets



Global Economic Backdrop: GDP Growth

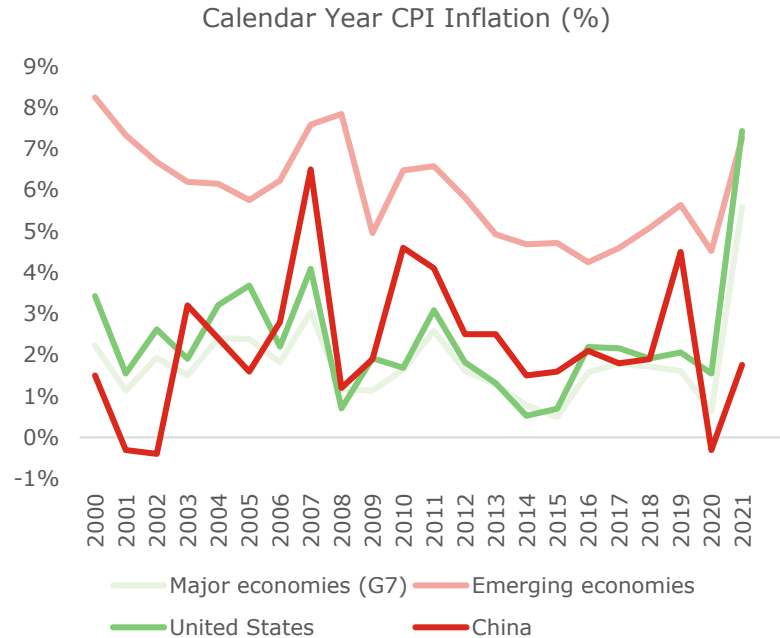


Source: International Monetary Fund

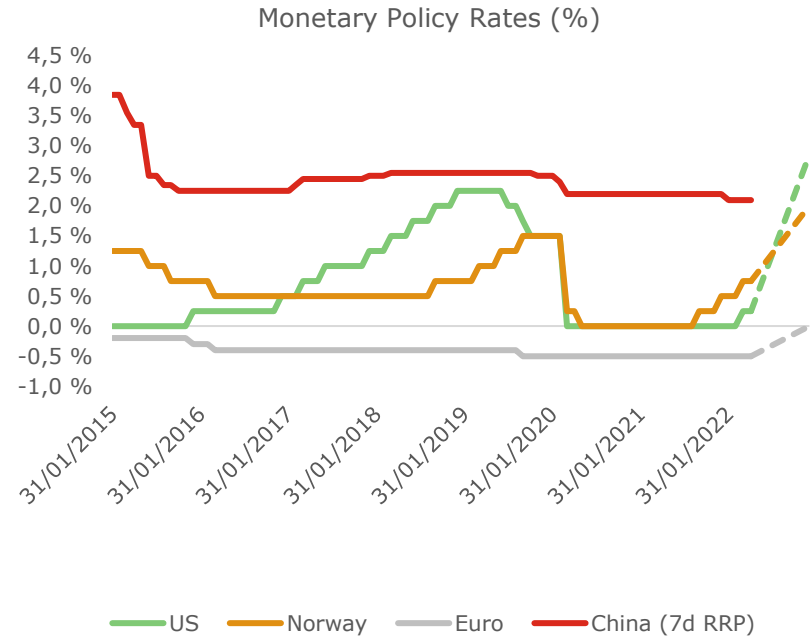


Source: International Monetary Fund

Global Economic Backdrop: Inflation and Monetary Policy



Source: International Monetary Fund

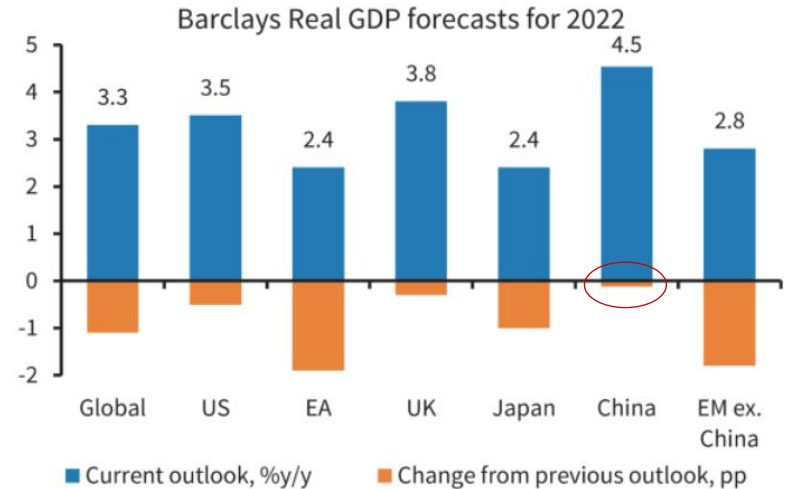


Source: International Monetary Fund

Global Economic Backdrop: Russia / Ukraine

The war mainly affects China via energy imports and national security / diplomacy channels

- Oil and oil products account for 9.7% of Chinese imports (largest product category)
- 15.8% of oil imports come from Russia (second largest source)
- Broader economic impact is estimated to be minimal



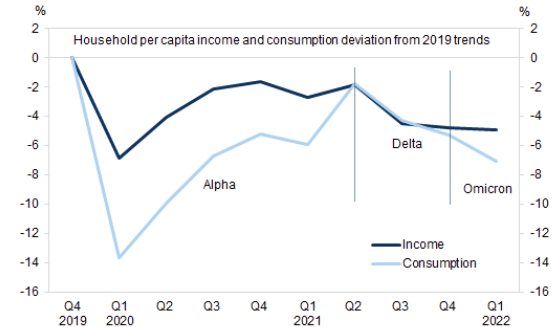
Source: Barclays Research

Source: International Monetary Fund

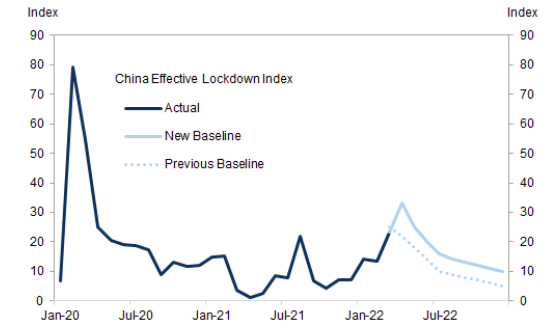
Global Economic Backdrop: Covid-19

Severe economic impact of Covid-19 in urban areas and to supply chains

- Household consumption currently 7% below pre-covid trend
- Household income currently 5% below pre-covid trend
- Effective Lockdowns are highest since first wave in 2020. But now more focused in Shanghai.
- Economic effects may be understated.
 - Cement production fell by 11% in a period with supposed positive construction growth. Historically unusual.
 - Covid impact hard to distinguish from policy induced slowdown



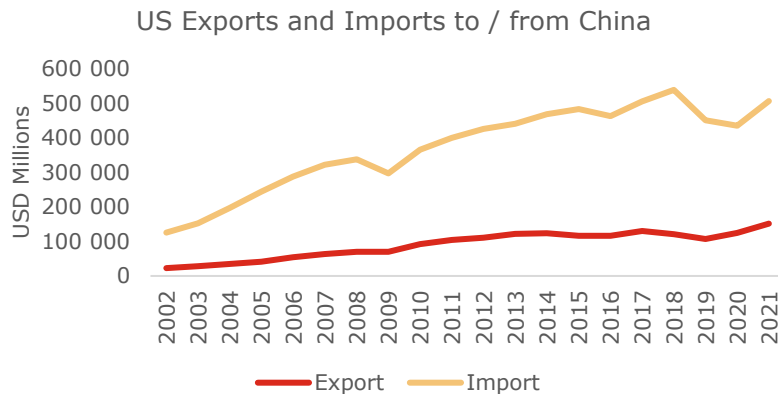
Source: CEIC, Goldman Sachs Global Investment Research



Source: Wind, University of Oxford (covidtracker.bsg.ox.ac.uk), Goldman Sachs Global Investment Research

Global Economic Backdrop: Deglobalisation

- No sign of deglobalisation in data (yet)
- But geopolitics may force change



Source: U.S. Census Bureau

FDI IN FIGURES

April 2022



Global FDI flows surge 88% in 2021, rising above pre-pandemic levels

Foreign corporates investing in China surged in 2021

Tianlei Huang (PIIE) and Nicholas R. Lardy (PIIE)

March 29, 2022 4:15 PM

Image credit: REUTERS/Grace Liang

Despite years of calls by some Western governments for reshoring—relocating foreign investments away from China—and widespread commentary that deglobalization is the new trend, China's inbound foreign direct investment (FDI) in 2021 rose by a third to reach \$334 billion, a new all-time high. The jump in FDI is documented in the 2021 Balance of Payments report published by the State Administration of Foreign Exchange of China.[1]

2

China's Backdrop and Economic Policy

China's Economic and Geopolitical Backdrop

- China is less affected economically by Russia / Ukraine, inflation and monetary policy.
- But a wide range of risk factors muddle the outlook:
 - 20th party congress
 - Zero covid strategy
 - Property markets
 - Trade war
 - Geopolitics / Taiwan / Great power rivalry
 - Demographic trends

Western multinationals sound alarm over China's Covid lockdowns

Extension of strict virus curbs dents US and European groups' results and weakens outlooks

Evergrande crisis locks Chinese developers out of global debt market

China meets banks to discuss protecting assets from US sanctions

Officials concerned that measures taken against Moscow could also be applied to Beijing



China's Economic and Geopolitical Backdrop

1. Growth target for 2022 = 5.5%
 - Wildly optimistic by most accounts
 - Requires more "low-quality" growth
2. Current policies makes growth target harder to reach:
 - Zero-Covid (no sign of loosening)
 - Property sector crack down (loosened)
 - Tech sector crack down (loosened)
3. Short term solutions:
 - Infrastructure spending, low-income stimulus, monetary policy, forced lending
4. Long term solutions (five year plan):
 - Self reliance, common prosperity, capital regulation, financial risks, carbon neutrality

Short term policy hurdles and solutions

- Zero Covid:
 - All production except strategically important come to sudden stop in Shanghai
 - Over 50% of german business with links to China report complete disruption or severe impact. Only 7% report no impact.
 - Rising unemployment and poverty
 - 150bp drag on Q2 growth
- Real estate sector:
 - "Housing is for living, not speculation"
 - Leverage constraints halt new development
 - Severely affects revenue to local governments
 - Sale of new and used property falls
- Vaccines
 - Foreign mRNA vaccines only solution if zero covid strategy remains?
- Real estate:
 - Loosened at local level
 - Tax breaks
 - Lending from state owned asset managers
- Infrastructure
 - Large scale investments true to China's old growth model
- Monetary policy
 - Reduced RRR
- Stimulus to households?

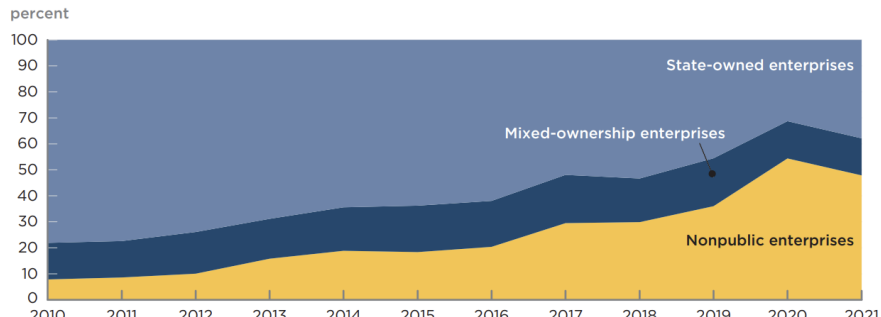
Longer term solutions: No more debt fuelled growth

Michael Pettis, professor at Peking University, argues Chinese growth can come from:

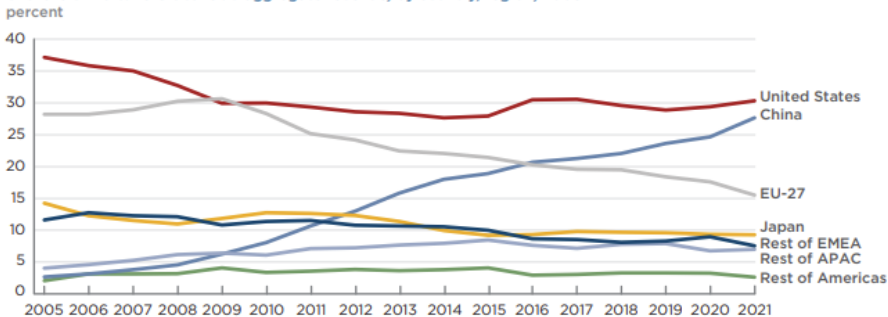
1. Continue nonproductive investments to give short term boost to growth. But assets then depreciate while debt remains.
2. Replace nonproductive investment with productive investment (capital regulation, new technology)
3. Replace nonproductive investment with consumption (common prosperity)
4. Replace nonproductive investment with growing trade surplus
5. Replace nonproductive investment with nothing, allow growth to slow to 2-3%

Longer term solutions: Private enterprise?

Aggregate market capitalization of Chinese Listed Top 100 companies, share by ownership category, 2010-21



b. Share of Fortune Global 500 aggregate revenue, by country/region, 2005-21



APAC = Asia Pacific; EMEA = Europe, Middle East, and Africa

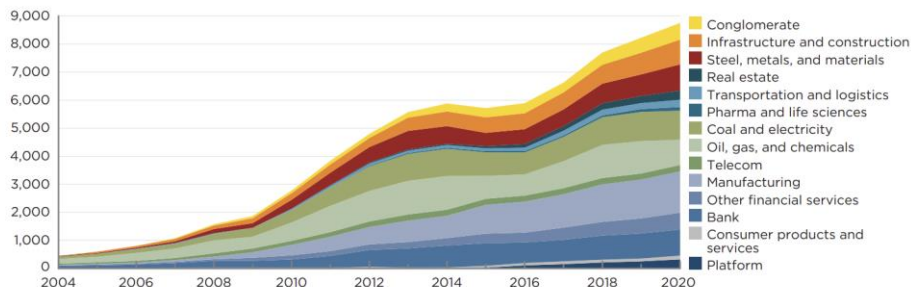
Note: Revenue data are from the prior year in panel b.

Source: Fortune Global 500 rankings; authors' calculations.

Figure 13
Sectoral mix of Chinese Fortune 500 companies, by aggregate revenue, 2004-20

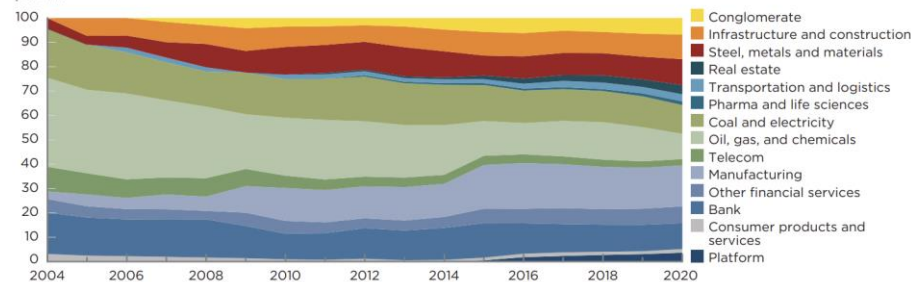
a. Aggregate revenue

billions of dollars



b. Share of aggregate revenue

percent



Source: Fortune Global 500 rankings; authors' calculations.

3

Geopolitics and Great Power Rivalry

China vs USA: Great Power Competition

- The last remaining bipartisan issue in the U.S
- China considered the first and foremost national security threat
 - "China increasingly is a **near-peer competitor**, challenging the United States in multiple arenas—especially economically, militarily, and technologically"
 - "China will continue deepening diplomatic, defense, and technology **cooperation with Russia to challenge the United States**"

John Ratcliffe, former Director of National Intelligence:

*"If I could communicate one thing to the American people [...], it is that **the People's Republic of China poses the greatest threat to America today**"* – Wall Street Journal, 3. Dec 2020

- Strategic Ambiguity on Taiwan:
 - "We expect that friction will grow as China continues to increase military activity around the island, and Taiwan's leaders resist Beijing's pressure for progress toward unification."
 - Kevin Rudd (former Prime Minister of Australia): Xi is a man in a hurry and intends to settle the Taiwan issue in his political lifetime
 - China has time on its side: Military power catches up with the U.S. to "offset perceived U.S. military superiority"



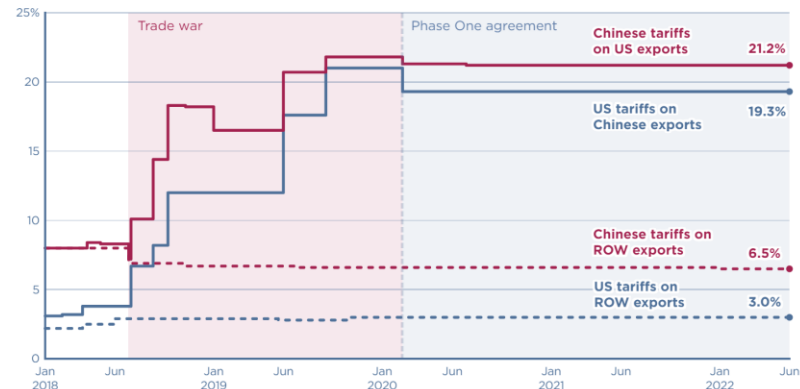
ANNUAL THREAT ASSESSMENT OF THE U.S. INTELLIGENCE COMMUNITY

Office of the Director of National Intelligence

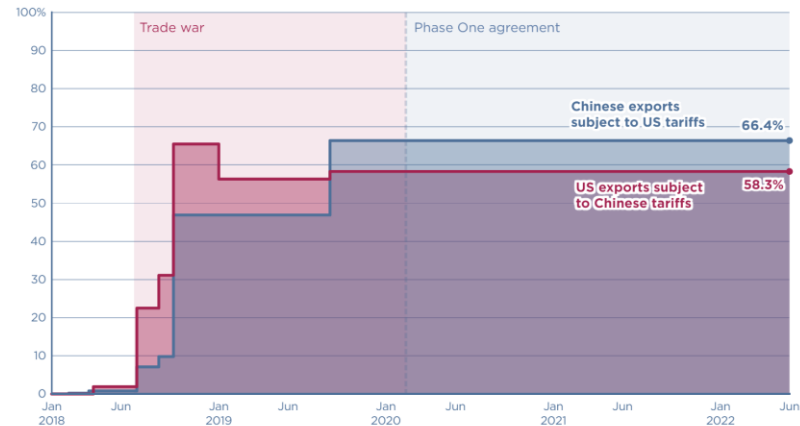
February 2022

With Information as of January 2022

a. US-China tariff rates toward each other and rest of world (ROW)



b. Percent of US-China trade subject to tariffs



China – US Trade War

Tariffs

Much back and forth on broader tariffs:

2016-2018: \$50-\$200bn worth of US imports are tariffed. Half of it being autos and computer parts. The rest mainly consumer goods. 50% of US imports now tariffed. Some of it at 25%. China retaliates with 25% on \$50bn

2020: Phase One Trade Deal. But tariffs remain 6 times higher on average than prior to trade war.

March 2022: Biden reinstates some tariffs

Sanctions

Aim to safeguard US semiconductor supremacy and IP

March 2016: ZTE sanctioned. Lifted in 2018.

May 2019: Huawei sanctioned.

December 2020: SMIC sanctioned

China and Europe



China wants from EU

Trade
Stay out of internal affairs
Counterbalance to US

EU wants from China

Trade
Human rights
Rules based order
("systemic rival")



*European Commission and HR/VP
contribution to the European Council*

EU-China – A strategic outlook

EU imports of goods from China, 2021

	€ million	% of China in extra EU imports
Netherlands	110 420	29.3
Germany	98 031	22.5
France	40 744	20.0
Italy	38 525	19.4
Poland	31 121	31.9
Spain	30 522	19.0
Belgium	24 785	14.9
Czechia	18 561	39.4
Sweden	10 787	20.5
Hungary	9 849	28.5
Denmark	8 570	25.4
Austria	7 902	18.0
Ireland	6 992	11.2
Romania	6 198	22.9
Slovenia	5 871	27.4
Greece	5 009	16.0

EU exports of goods to China, 2021

	€ million	% of China in extra EU exports
Germany	104 655	16.5
France	24 028	10.7
Netherlands	15 906	7.3
Italy	15 691	6.4
Ireland	11 006	11.1
Spain	8 659	7.1
Belgium	8 029	5.2
Sweden	6 654	9.0
Denmark	5 963	11.9
Austria	4 869	9.2
Finland	3 639	12.0
Poland	3 064	4.3
Czechia	2 462	6.6
Slovakia	2 185	12.8
Hungary	1 643	6.2
Bulgaria	1 116	9.8

12 March 2019

Source: Eurostat

4

Conclusion and Market Outlook

Growth with headwinds

- Immense momentum in Chinese growth
 - Common prosperity is the right approach
 - Demographics a long term headwind, but not necessarily a growth stopper
- Short term risks are priced in:
 - Covid will eventually pass
 - Real estate sector was extended and crackdown was rational
- Geopolitics remain a source of uncertainty:
 - Taiwan issue will remain
 - Great power rivalry continues
 - Decoupling a long term risk, but no hints of this in macro data
- Don't bet against China
 - Investors and business see opportunities for growth
 - FDI at record levels
 - Private sector grows rapidly

Tactical overweight emerging markets

- Chinese market sentiment at 30 year low
- Current problems are fully priced in
- Even at 2-3% growth, today's valuations are acceptable

Tactical overweight global and norwegian equities

- Growth remains strong, but major risk from inflation and monetary policy
- Sentiment extremely pessimistic, valuations ok