Strategy

Asset Management

Twitter; @jwthulin
 Allocation products outperforming peers

<table>
<thead>
<tr>
<th></th>
<th>YTD</th>
<th>1Y</th>
<th>2018-01-01</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Portfölj</td>
<td>Peers*</td>
<td>Diff</td>
</tr>
<tr>
<td><strong>PENSER LÅGRISK</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vs Peers</td>
<td>-4,73</td>
<td>-5,94</td>
<td>1,21</td>
</tr>
<tr>
<td><strong>PENSER MEDELRISK</strong></td>
<td>-3,90</td>
<td>-7,45</td>
<td>3,55</td>
</tr>
<tr>
<td>vs Peers</td>
<td>-4,45</td>
<td>-1,27</td>
<td>3,18</td>
</tr>
<tr>
<td><strong>SVENSKA AKTIER</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vs OMX Stockholm Benchmark Index</td>
<td>-2,87</td>
<td>-4,59</td>
<td>1,71</td>
</tr>
<tr>
<td><strong>PENSER HÅLLBARHET</strong></td>
<td>-4,45</td>
<td>-7,45</td>
<td>3,00</td>
</tr>
<tr>
<td>vs Peers</td>
<td>-19,90</td>
<td>-7,51*</td>
<td>4,24**</td>
</tr>
<tr>
<td><strong>PENSER DYNAMISK ALLOKERING</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>vs Peers</td>
<td></td>
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</tbody>
</table>

*Peers internt val, källa: Bloomberg 2020-03-23
**Peers 'Morningstar Blandfond SEK, försiktig', källa: Bloomberg 2019-12-31
Penser Yield senast uppdaterad 2020-05-25
Avkastning för Penser lågrisk, Penser medelrisk, Svenska Aktier och Penser hållbarhet angivet exkl. avgifter
YTD avser perioden 2019-12-31 till 2020-06-03.
1 year avser perioden 2019-06-03 till 2020-06-03.
***från 2019-01-01
Outperforming
## Global Equities as of 3rd June

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
<th>Notable holdings</th>
<th>Ret, since purch.</th>
<th>Days since purch.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 1</td>
<td>Focus on american large-cap equity securities</td>
<td>Amazon.com, Facebook, Alphabet</td>
<td>70.17%</td>
<td>1836</td>
</tr>
<tr>
<td>Strategy 2</td>
<td>Focus on companies developing cloud-computing and similar software</td>
<td>Zoom Video Communication, Zscaler, Cloudflare</td>
<td>45.87%</td>
<td>63</td>
</tr>
<tr>
<td>Strategy 3</td>
<td>Focus on american tech-companies</td>
<td>Microsoft, Intel, Netflix</td>
<td>39.66%</td>
<td>595</td>
</tr>
<tr>
<td>Strategy 4</td>
<td>Investments in video-games and e-sport</td>
<td>NVIDIA, Nintendo, Activision Blizzard</td>
<td>23.29%</td>
<td>85</td>
</tr>
<tr>
<td>Strategy 5</td>
<td>A strategy with long exposure to online-retail and short exposure to physical stores</td>
<td>eBay, Stamps.com, Etsy</td>
<td>23.13%</td>
<td>93</td>
</tr>
<tr>
<td>Strategy 6</td>
<td>Companies focused on developing cutting edge technologies including robotics, driverless cars, 3D printing and artificial intelligence</td>
<td>Lasertec, Inphi, Advanced Micro Devices</td>
<td>17.72%</td>
<td>442</td>
</tr>
<tr>
<td>Strategy 7</td>
<td>Focus on equity securities within the top 85% in market cap of Chinese equity markets</td>
<td>Alibaba Group, Tencent Holdings, China Mobile</td>
<td>11.65%</td>
<td>488</td>
</tr>
<tr>
<td>Strategy 8</td>
<td>Focus on companies within the fintech-sector</td>
<td>PayPal Holdings, Fiserv, Adyen</td>
<td>9.34%</td>
<td>180</td>
</tr>
<tr>
<td>Strategy 9</td>
<td>Companies with a focus on bio-technology</td>
<td>Moderna, Regeneron Pharmaceuticals, Biogen</td>
<td>7.73%</td>
<td>180</td>
</tr>
<tr>
<td>Strategy 10</td>
<td>Investing in US large and mid capitalization stocks identified through three fundamental variables: ROE, earnings variability and financial leverage.</td>
<td>Johnson &amp; Johnson, Mastercard, NIKE</td>
<td>5.59%</td>
<td>384</td>
</tr>
<tr>
<td>Strategy 11</td>
<td>Focus on chinese health-care</td>
<td>Jiangsu Hengrui Medicine, Wuxi AppTec, Aier Eye Hospital Group</td>
<td>2.71%</td>
<td>57</td>
</tr>
<tr>
<td>Strategy 12</td>
<td>Focus on companies developing cybersecurity-solutions.</td>
<td>Zscaler, Fortinet, Okta</td>
<td>-0.91%</td>
<td>2</td>
</tr>
<tr>
<td>Strategy 13</td>
<td>Focus on american home builders</td>
<td>DR Horton, Lennar, NVR</td>
<td>-1.66%</td>
<td>240</td>
</tr>
<tr>
<td>Strategy 14</td>
<td>Focus on companies that could benefit from the long-term growth and innovation in genomics, immunology, and bioengineering.</td>
<td>Exelixis, Seattle Genetics, Genmap</td>
<td>-1.97%</td>
<td>20</td>
</tr>
<tr>
<td>Strategy 15</td>
<td>Focus on high-quality US companies that have prospects for long-term returns as a result of their ability to grow earnings and their willingness to increase dividends</td>
<td>Walmart, PepsiCo, Apple</td>
<td>-3.63%</td>
<td>85</td>
</tr>
<tr>
<td>Strategy 16</td>
<td>Exposure to Taiwanese equity markets</td>
<td>Taiwan Semiconductor Manufacturer, MediaTek, Formosa Plastics</td>
<td>-6.10%</td>
<td>169</td>
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</tbody>
</table>
Quick graphs for the week ahead

But, firstly – last week’s most important number, NFP. A blowout as temp laid off persons re-entered the labour market:

This also means that our prediction that the economy turned around in April is even more validated!
Most alerted data for the week

USA
- 9e NFIB, JOLTS
- 10e CPI, FED!!!!
- 11e Claims
- 12e University of Michigan consumer confidence

China
- 10e CPI, PPI, money supply (M1)

Japan
- 8e GDP (final)
- 9e Machine orders (watch for rebound!)

EU
- 8e Sentix
- 9e GDP (final)

Germany
- 8e Production

Sweden
- 10e Prosperas inflation survey
- 11e PES unemployment rate, CPI
SWE CPIF the 2020 roll-over that we predicted is here! Forecasts have been a full 1.5% off

We stick to short SEK versus USD, EUR, and AUD.
Sweden – unemployment will rise, will head to 10%
Chinese M1, will increase following China’s credit impulse
US UoM, on the 9th we will guestimate UoM
FED! Holding a policy in line with the market

Markets perspective; (and focusing on the US), one of the ‘best’ measures on neutral rates is the 5 years’ real rate in 5 years’ time (5y5y). Comparing that to how markets weigh the policy outlook over the immediate future should, thus, provide us with an estimate of how financial markets interpret (and transmit) the monetary policy stance.

Interestingly, as the FED indicated a more pronounced hiking cycle during winter 2016/17 policy rates increased relative to markets perception of the neutral rate which is a clear indication that the hikes were indeed perceived as a tightening of the monetary policy stance. However, as the FED began to contemplate reversing course and lowering rates, markets were already shifting down their long-run expectations, suggesting that the monetary policy stance is – on balance – unchanged.

In other words, the FED interest rate cuts thus far have only managed to keep pace with financial markets’ deteriorating views on what rates “should be”, implying no real loosening of monetary policy.

– In short, if the FED is really looking to offer support to the economy, it had to go the extra mile…all in the eyes of the market

VOILA, we ended up in QE, in all fairness, the FED must have realized this back in 2019!!!
FED Outlook is tilted towards a cut….
FED queries

Wednesday’s FOMC meeting is a big one, both for the bond-market guidance and for hearing the economic projections that underline the committee’s thinking.

Will the Fed formalize its QE commitment?

What are the precise conditions that influence tapering?

How likely is yield-curve-control or another “twist” in their bond purchases?

We don’t see why the FED should back away from its programs, it is far too early. Hence, this meeting will provide a nice comfort zone for markets and leave us with the all-important equity rotation question!
Rate trough? Too early, but we put this on the radar
Rate stimulus in the US – how big is it?

Big! And we can now quantify the GDP effects
United States, Business Surveys, NFIB, Small Business Economic Trends, SA

- Capital Expenditure Plans, Planning A Capital Expenditure, Next Three to Six Months, rhs
- Job Openings, Positions Not Able to Fill Right Now, rhs
- Small Business Optimism Index

Källa: Erik Penske Bank & Macrobond
US CPI

CPI has peaked – we no longer have any CPI positions on! Same message as previous months….we now await more action in inflation expectations.
CPI breakdown

United States: Contributions to inflation

Source: BLS

- All Items, Index
- Education & Communication
- Medical Care
- Apparel
- Transport
- Food & Beverages
- Other Goods & Services
- Recreation

Källa: Erik Penser Bank & Macrobond
Claims

The curve of claims has peaked (for now).
German production followed orders

But, looking forward we see a lagging trend following what happened months ago in Asia and the US.

The cost of lagging and lacking stimulus is becoming more and more evident.
Economic surprises are VITAL in this balancing act

This measure uses data versus data, not via reactions in the market(s)

Bloomberg ECO US Surprise Index, rhs • Bloomberg ECO Euro Area Surprise Index
Strategy maintained

OW equities

Searching for trough in rates, inflation expectations
Macro: summary
The Great Divergence
In late Q2 and into Q3… we think the market will discuss that:
1, US has done too much
2, EU has done too little

…as a frontrunner, LOIS spreads are falling faster in US vs EU
Divergence in the making

Consumer Surveys, SA

- Euro Area, DG ECFIN, Consumer Confidence, Balance - United States, Conference Board, Consumer Confidence Index, Total, Total

Källa: Erik Persson Bank & Maritime

Consumer Surveys, SA

- United States, Conference Board, Consumer Confidence Index, Total, Expectations
- Euro Area, DG ECFIN, Consumer Confidence, General Economic Situation Over Next 12 Months, Balance

Källa: Erik Persson Bank & Maritime
Unprecedented US event!

We also note that the spread between present reading and future readings are massive, unprecedented, usually this indicates a bottom in the markets, hence macro following what we have already seen in FRA OIS, LOIS, FX basis, Vol and Vix curves… The below argues for a much stronger recovery compared to 2008…

Is Europe troughing?….maybe…but we hold off positions in Eurozone for the time being! But – since last week we are definitely closer.
U wanna fight the FED, we don´t!!!
Central banks are supportive, the most since 2009, should we fight the central banks? No, especially as macro has bounced already! There is NO disconnect between macro and markets.
QE is back! Huuuge numbers…biggest QE EVER

Biggest ever QE by the US as % of GDP!!! Same goes for BoJ, ECB notably lagging
US Financial conditions = mended!
Time to get detailed...US financial conditions / financial stress MUCH better than EZ’s!!!

This is crucial, we can now measure just how better things are in US markets compared to EZ....and little wonder that flows have and will be directed to the relative winner, the US

These models build on ECB and FED research!

This means that we now, daily, can compare the two huge financial markets in a unique manner, this is important for allocations and trades. So far, we have 0% equities in EZ and 90% in the US.
Macro and markets in harmony!

Now we can ”see” the recession in actual indicators, to the extent that it is statistically measurable.

We can also conclude, given this data, that the recession has ended and that is efficiently priced by equities. **This leads to a balancing act between known downside risks and a troughing activity, this AND the stimulus is the markets’ focus since 24th of March, miss this and miss the rebound!**

You would also risk running the ”there is a disconnect bewteen macro and markets” narrative that has only resulted in loss of return, with little empirical backing. In fact, I struggle to find a single macro theorem that does NOT lead to the above conclusion!
Thus, US GDP’s consensus at -34% to be REVISED UPWARDS!

This would undeniably be POSITIVE for equities.

This alters by every datapoint, we have predicted that the GDPNow models will turn upwards, that process has started!
Weekly data troughing...? YES!, in fact this happened way back, in very early April

Below is built 217 datavariables

United States, Gross Domestic Product, Constant Prices, SA, AR, Change P/P

Källa: Erik Penser Bank & Macrobond
Macro and Equities in perfect harmony, PROOF!

Below is built 217 datavariables and equities follow macro, as always…
Some thoughts on equities
Speculative Futures – still supports LONG positions

Lång mot kort via futures, CFTC – S&P 500, rhs

Källa: Erk Penser Bank & Macrobond
EPS outlook - troughed

- November EPS forecast
- April EPS forecast
- Bank of America - EPS indikator
- June EPS forecast
- S&P YoY
Short term tactical monitor

• This monitor catches the stress in Equity markets (thus narrower than the other one in this package)
• When green bars rise we are in GREED
• When green bars fall we are in FEAR

• Currently we are in GREED

• We have acted in global equities and in domestic

Källa: Erik Penser Bank & Macrobond
Rates vs Equities

Rates signal HIGHER equity levels, ie strong positive growth

To the left: Curve adjusted for Term Premium
To the right: FED fund futures

- United States, Equity Indices, S&P, 500, Index, Price Return, Close, USD, rhs
- USAs räntekurva (staten, 2s/10s), adjusted for Term Premium (FED’s)
Sentiment – Lagging the trough, indicating side lined money having to move back in 😊!
Just a note: Equity direction from a valuation point of view, Current levels

United States, Equity Indices, S&P, 500

- Index (Shiller), Cyclically Adjusted P/E Ratio (CAPE), Index, Price Return, Close, USD
- Index (Shiller), Cyclically Adjusted P/E Ratio (CAPE), Index, Price Return, Close, USD

Källa: Erik Penser Bank & Macrobond
Just a note: Equity direction from a valuation point of view, Forward looking

UP by 10%, hard to see any overvaluation when we put current or forward looking P/E in a context!
Conclusion – OW equities

Based on the trend in the virus, the policy responses, the macro outlooks, the daily trading model, risks etc:

• We OW risk (since 24th of March)
• We OW US and China and those strategies that are top in the world
  • Cloud computing
  • Video games
  • Online consumption
  • Biotech in US
  • Health Care in China
  • Software in US
  • Cybersecurity
• We avoid BETA
• We hedge properly, ie strategies that work
• We are tactically very active
• We initiate stop loss strategies with pre-set levels
• We watch volatilities, credit spreads, and policies
• We forecast a rebound in equities and macro in Q2 in certain parts / strategies
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