



Market Review & Outlook

November 2024

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Market overview

Global overview

U.S. labour market developments were notably weak in October, largely due to the impact of extreme weather and strikes. Non-farm payroll growth amounted to a modest 12k, with private payrolls even declining. Additionally, the strong September figures were revised slightly lower. Despite weak payroll growth, the unemployment rate held steady at 4.1%, as did earnings growth at 4% year-over-year. Meanwhile, other U.S. economic indicators, such as personal consumption, remained robust throughout the month. Broad inflation measures, including core PCE inflation, continue to run at monthly rates equivalent to 2.5% or higher, driven primarily by persistently high wage-driven services inflation.

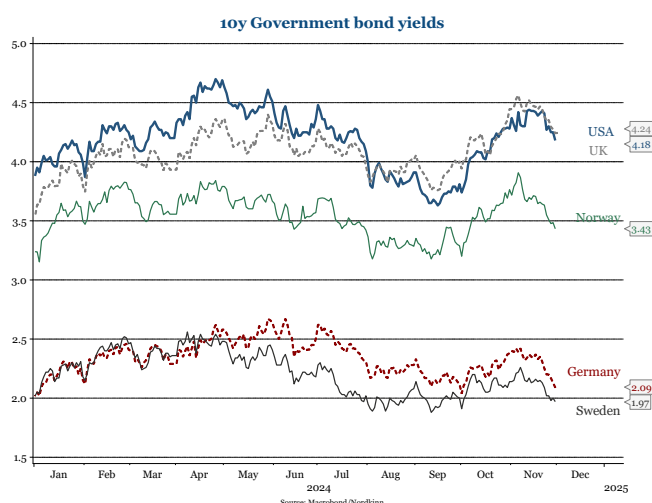
In Europe, the inflation outlook is gradually improving, paving the way for the ECB to address perceived weaknesses in demand. However, the data presents a mixed picture: survey indicators suggest softness, while “hard” data is more resilient. This divergence is fuelling debate within the ECB’s Governing Council over whether the challenges are cyclical or structural in nature, leading to differing views on the future rate path. Nonetheless, a December rate cut is widely expected, with the primary question now being the size of the cut.

Turning briefly to the post-U.S. election landscape, our (and consensus) prediction of a Republican “red sweep” proved correct. Donald Trump secured a strong public mandate, even winning the popular vote—a result considered nearly impossible for any Republican candidate. Radical nominations to key administration posts initially raised concerns about how Trump’s economic proposals, such as tariffs, would be implemented. However, market fears eased following the decision not to appoint Robert Lighthizer as U.S. Trade Representative and, more significantly, the nomination of Scott Bessent as Treasury Secretary.

Bessent’s appointment reassured markets, as his views on fiscal policy suggest he is unlikely to test the limits of U.S. government debt issuance or pursue a weak-dollar policy. This relief was reflected in bond markets, where long-term yields, which had surged in October, receded somewhat in November following his nomination (see chart).

Considering these developments, we have retired our global theme “*End of U.S. exceptionalism*” after incurring minor additional losses in November. In its place, we introduced a new global theme, “*Geopolitical tensions impacting growth*,” designed to explore how geopolitics effect economic growth within and between states and, in particular, in Europe.

Our global FX theme, “*FX misalignment*,” also contributed positively in November, primarily driven by a stronger NOK.



Nordic overview

On November 7th, the Swedish Riksbank announced a 50 bps rate cut, to 2.75%, see chart. The move, widely anticipated and already priced in by the market, was driven by persistently low inflation (CPIF) and a delayed recovery in private consumption. The sluggish European economy and heightened risks of further deterioration in the Eurozone also influenced the Board’s decision to implement a larger-than-usual cut.

Later in the month, the Riksbank updated its seven-year-old estimate of the neutral rate, lowering it to a range of 1.5–3% from the previous 2.5–4%. The new midpoint (2.25%) aligns with the trough of the Riksbank’s latest rate path, although market pricing at the end of the month suggested a lower trough of around 1.5%.

Swedish interest rates mirrored the downward movement of EUR rates throughout November, despite limited domestic macroeconomic justification for such a shift. In fact, both inflation and Q3 GDP data slightly exceeded expectations. Furthermore, business surveys indicated broad-based improvements across most sectors.

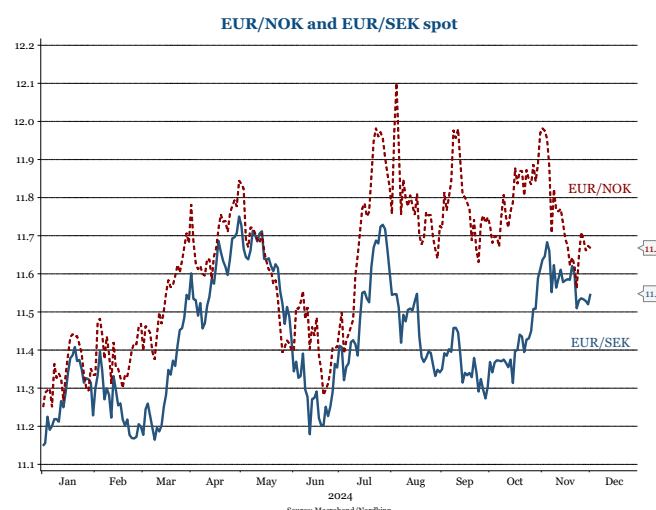
Additionally, the Swedish National Debt Office raised its borrowing forecast for nominal bonds by 25%, which is an increase equal to SEK 20 bln ahead. The Riksbank also announced it would maintain its current pace of bond sales through 2025.

Reflecting these factors, the Swedish portfolio themes “*After cuts come growth*” and “*From QE to QT*” contributed positively to the fund’s monthly performance.

In Norway, underlying CPI inflation dropped to 2.7% year-on-year in October, down from 3.1% in September. This figure was 0.2 percentage points below Norges Bank’s forecast, which has consistently overestimated inflation throughout 2024. With core CPI inflation returning to the 2%-range for the first time in 2.5 years, the market is increasingly anticipating the onset of monetary policy easing.

Expectations for rate cuts were further bolstered by the appreciation of the NOK exchange rate index in November, now aligned with Norges Bank’s projections. At the same time, stronger-than-expected growth in Mainland- Norway GDP suggests the central bank is unlikely to rush into lowering rates.

On balance, Norwegian interest rates declined in November, outperforming movements in major trading partners. As a result, our “*Norway: Inflation risks overvalued*” theme contributed positively to performance during the month.



Outlook

Global outlook

The economic policies of the incoming Trump administration continues to remain opaque and lack detailed articulation, creating an environment of heightened uncertainty and at times frustration for investors until there is greater clarity on critical issues such as trade and migration policies. Nevertheless, markets appear willing to give the combined Trump-Bessent approach the benefit of the doubt, for now.

Scott Bessent, the newly appointed nominee for Treasury Secretary, comes across as pragmatic on fiscal policy and has sought to temper some of the more extreme elements of Trump's campaign rhetoric. Crucially, Bessent seems to hold a conventional Republican stance on public debt and deficits, signalling that Trump is aware of the risks associated with the U.S.'s precarious fiscal position. This recognition likely underpins much of the positive market response post-election.

Bessent often frames his approach within the "3-3-3" framework, which outlines key policy objectives:

Fiscal Policy: In coordination with the newly established Musk-Ramaswamy-led Department of Government Efficiency (DoGE), Bessent aims to reduce the fiscal deficit to 3% of GDP (from the current ~6%, see chart). This would primarily involve cutting public expenditures while implementing tariffs.

Growth Policy: Deregulation and DoGE initiatives to enhance U.S. productivity are expected to raise medium-term GDP growth to 3% annually, contributing to the fiscal consolidation goal.

Energy Policy: Bessent anticipates increasing U.S. energy production by ~3 million barrels per day (in oil equivalents) by reducing regulations on oil and gas exploration. This would also complement growth initiatives by bolstering domestic energy supply.

While the "3-3-3" agenda is intuitively appealing, it remains largely theoretical, with limited specifics provided by Bessent or the broader administration. Furthermore, significant tensions exist between Trump's campaign promises and Bessent's pragmatic framing, raising questions about whose vision will ultimately prevail. There are also notable coordination and timing challenges between various policy proposals.

In summary, while imminent tail risks associated with Trump's policies have diminished, it remains too early to give an all-clear signal regarding their potential impact on inflation. Investors should remain cautious until more concrete details and coordinated action plans emerge.

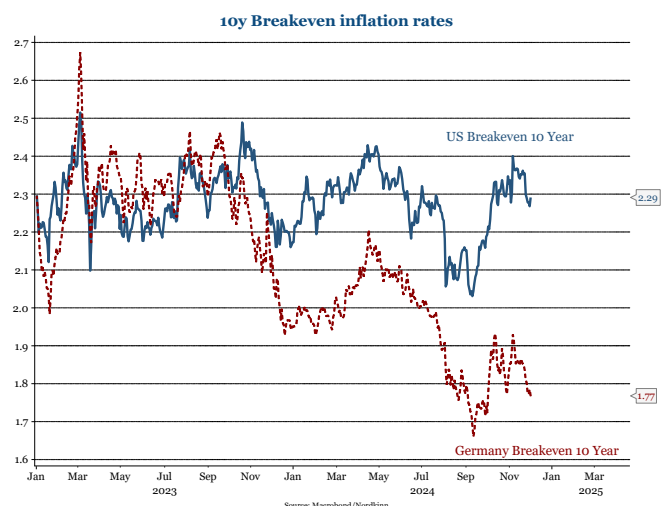
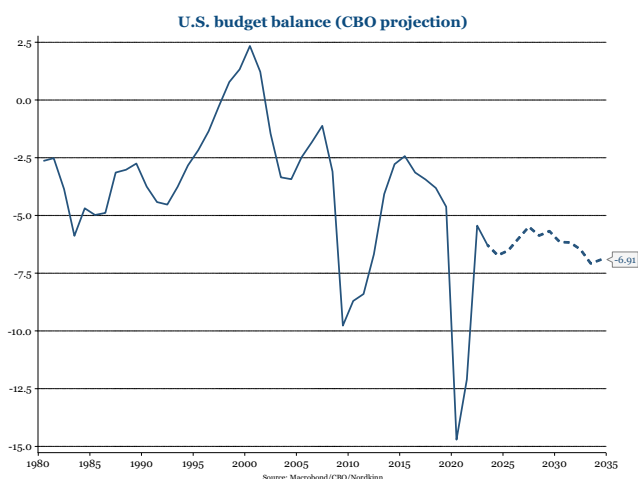
In the short term, the pro-business stance of Trump's policies appear to have bolstered the immediate growth outlook by reducing uncertainty and stimulating business sentiment. However, we remain sceptical about the long-term effects. The controversial measures such as cutting immigration and committing to mass deportations, combined with higher tariffs, are unlikely to be fully offset by vague promises of deregulation and poorly defined "productivity and efficiency" gains. The longer-term implications will become clearer as more details emerge about these policies, which will require our close monitoring.

On inflation, while market participants and analysts seem less concerned than before the election, it's worth recalling that most dynamic, general-equilibrium analyses of Trump's proposals indicate that their short-term effects indeed are inflationary. This serves as a reminder to remain vigilant also about inflation risks in the months ahead.

Shifting focus to Europe, Trump's policies offer little relief for the region. Tariffs pose a particular threat to the Eurozone, whose economy is highly open relative to its size. Rising uncertainty is already prompting companies to delay investments and hiring, while rigid fiscal rules continue to constrain governments' ability to respond effectively. As is often the case, this leaves the ECB as the primary counterweight to growing risks for economic malaise. That said, the Eurozone's economic weakness is not a new story, and markets are already pricing in continued sluggish growth and subdued inflation (see chart).

Adding to Europe's challenges is German Chancellor Scholz's decision to initiate a process for new elections, which many might interpret as deepening the region's woes. However, as Jean Monnet, one of the European Union's founding fathers, observed, "Europe will be forged in crisis and will be the sum of the solutions adopted for those crises." Considering the current confluence of geopolitical (military and trade), structural, and cyclical challenges facing Germany and Europe, a strong fiscal response to these issues would not be surprising.

In summary, the global economic outlook will remain heavily influenced by U.S. political developments. While details of U.S. policy are sparse, the immediate outlook for the U.S. economy appears positive—at least until inflation pressures potentially reaccelerate. In Europe, indications point to weaker growth and lower inflation, compounded by various political challenges, which aligns with current market expectations. It is with these considerations that we have introduced our new global theme, "*Geopolitical tensions impacting growth*".



Outlook

Nordic outlook

We maintain our view that the Swedish economy is set for rebound as we move into next year. Survey indicators continue to strengthen our confidence, although the recovery in private consumption has been slower than expected. The impact of recent rate cuts will take time to filter through to households, and planned fiscal stimulus will not take effect until 2025. While most economists share our optimistic outlook, this sentiment has yet to be reflected in the interest rate market.

In contrast, Swedish rates followed EUR rates downward in November. Despite improving Swedish consumer sentiment, Eurozone confidence remains subdued. We expect Sweden to outperform economically in 2025, although this expectation is not yet apparent in rate spreads. If Swedish consumers act on their improving optimism, there is potential for SEK rates to underperform in 2025, as illustrated in the chart.

We anticipate that the Riksbank will cut rates again in December, likely followed by another cut in January or March, bringing the policy rate to 2.25%—the midpoint of the estimated neutral rate. At that point, it would be prudent for the Riksbank to pause and evaluate the economy's response to the cuts, as well as the effects of upcoming fiscal measures. If needed, further rate reductions could occur later in the year, though we consider this unlikely given our expectations of a growth rebound and underlying inflation (CPIF excluding energy) remaining near 2%. That said, global uncertainties, such as trade tariffs and geopolitical risks, could alter this outlook.

Our expectations for Swedish growth in 2025, along with its implications for interest rates, are encapsulated in the theme *"After cuts come growth."* Meanwhile, the theme *"From QE to QT"* explores the gradual normalisation of Swedish government bonds amid increased supply and easing repo market pressures. Both themes remain highly relevant as we approach 2025.

The Swedish National Debt Office plans to issue SEK 100 bln in nominal bonds, while the Riksbank is set to sell approximately SEK 50 bln of its Swedish Government Bond (SGB) holdings. Additionally, mortgage institutions must attract new buyers for bonds previously held by the Riksbank, which are now maturing or nearing maturity. The key question remains whether demand will be sufficient to absorb this increased interest rate risk, particularly as current yield levels offer limited risk and term premiums. While buyers will certainly emerge, the critical factor will be price.

The fixed income market is poised for another fascinating year in 2025, shaped by these dynamics and uncertainties, keeping volatility elevated.

In Norway, conditions are aligning for interest rates to soon begin descending towards more normal levels. The current monetary policy stance has successfully helped control inflation, which has fallen from a peak of 7.1% in June 2023 to 2.7% in October 2024.

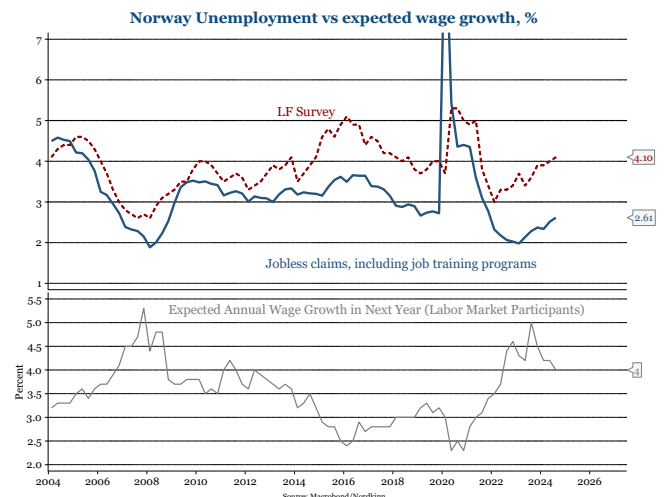
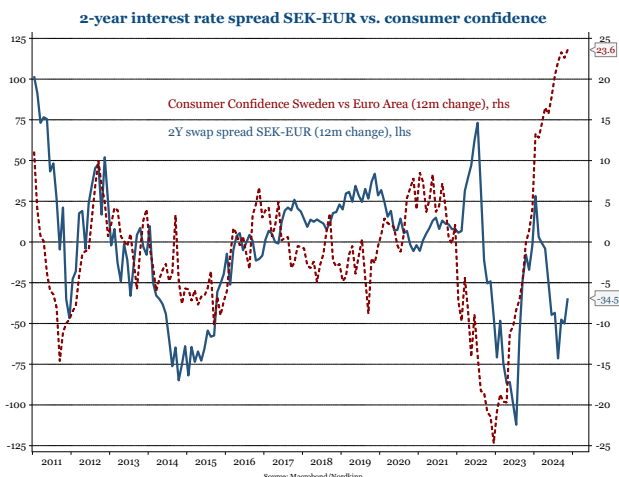
The stabilisation of the NOK exchange rate has likely reinforced Norges Bank's confidence in the durability of this lower inflation rate. Over the past 1.5 years, the NOK exchange rate has remained broadly stable, with EUR/NOK trading within a range of 11.20–12.00. This stability has contributed to very low imported inflation, with price growth for imported goods and services rising only 0.9% year-on-year in October.

Additionally, restrictive monetary policy has tempered the economy somewhat, without tipping it into recession. To be sure, economic growth remains robust and unemployment is low, but some signs of cooling labour market conditions suggest a sustainable path toward lower inflation. For instance, a recent labour market survey indicates that expected wage growth for next year has declined to 4.0%, see chart. Although this remains slightly above the level consistent with the inflation target over time, it is below Norges Bank's projection of 4.3%.

It is also worth noting that the Norwegian economy has benefitted significantly from a tax package introduced in June 2020 to support the energy sector during the sharp drop in oil prices early in the pandemic. However, looking ahead, we anticipate zero growth in petroleum investments in 2025, followed by a decline from 2026 onwards. This implies the economy may need additional support from other sources, such as the household sector, where growth has been sluggish.

Even if the economy remains reasonably healthy, maintaining the key policy rate at 4.5% while inflation descends toward target presents unnecessary risks, especially in the context of the lack of recovery in household consumption and housing investments, not to mention heightened geopolitical uncertainties. These factors make a gradual easing of policy an increasingly prudent move.

As such, we expect Norges Bank to signal its readiness to lower the key policy rate at its upcoming meeting on December 19th, potentially as early as January. To capitalise on this outlook, the fund maintains exposure for steeper yield curves and lower rates in Norway versus peers in our new theme, *"Norway: Path to looser policy"*, which replaces *"Norway: Inflation risks overvalued"*, effective from December 1st.



About Nordkinn

Nordkinn Asset Management is a fixed income specialist based in Stockholm and Oslo. We invest in the global fixed income and currency markets – with a particular focus on our home markets Norway and Sweden.

Our focus is to generate stable absolute returns that exhibit low correlation to other assets. Our Nordkinn Fixed Income Macro Fund was launched in 2013.

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