Nordic Investment Partners

Update August 2018

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Where is the puck going next?

USA up 3% last month and at record highs

Europe down 2% and below 18 year high

Fundamentals remain strong in USA and Europe is adding momentum

Valuation is not stretched in most cases

Investors are on the sidelines

FOMO bull market?

The current narrative is that the global economy will move to a slower pace within the next 18 months. Large investors have moved into more defensive positions in the last 4-5 months reflecting the expectation of slower times ahead. However, the US bull market continue at full speed. I observe huge amounts of capital on the sidelines and a total pool of outstanding shares that decline, so I wouldn't be surprised if the narrative turns bullish as the piled up capital get impatient as return on cash on the sidelines is low.

A bullish scenario is currently not in European and Asian stock prices and the puck could well move to those regions in the next 12 months.

As prices move upward the FOMO (fear of missing out) bull could suddenly enter the theater, which would fuel more buying from investors afraid of missing the opportunity. We are not in that mood yet, but I observe to see if it happens

New corporate ethics or a single swallow?

During August 2018 the CEO of Financial Times, arguably one of the most capitalistic newspapers, had to pay back part of his 2.1m GDP remuneration as the employees found it unfairly high. Time will show if the FT event gain momentum, but it's worth keeping an eye on. The global inequality has been widely debated and the statistics tell a very clear story. Over the last decades the profit share of the US economy has grown to 13% from 9%, while the wage share has declined from 66% to 62%. Put simply, the owners of corporations have taken a relative share from the workers.

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A bull market don't die of old age

US celebrate record high stock markets

US stocks have risen 3.453 days without a 20% correction, however there's been three garden party versions of 10% declines. Despite the records, media is still full of comments that the bull market is coming to an end, so let's just recap what can stop a bull market;

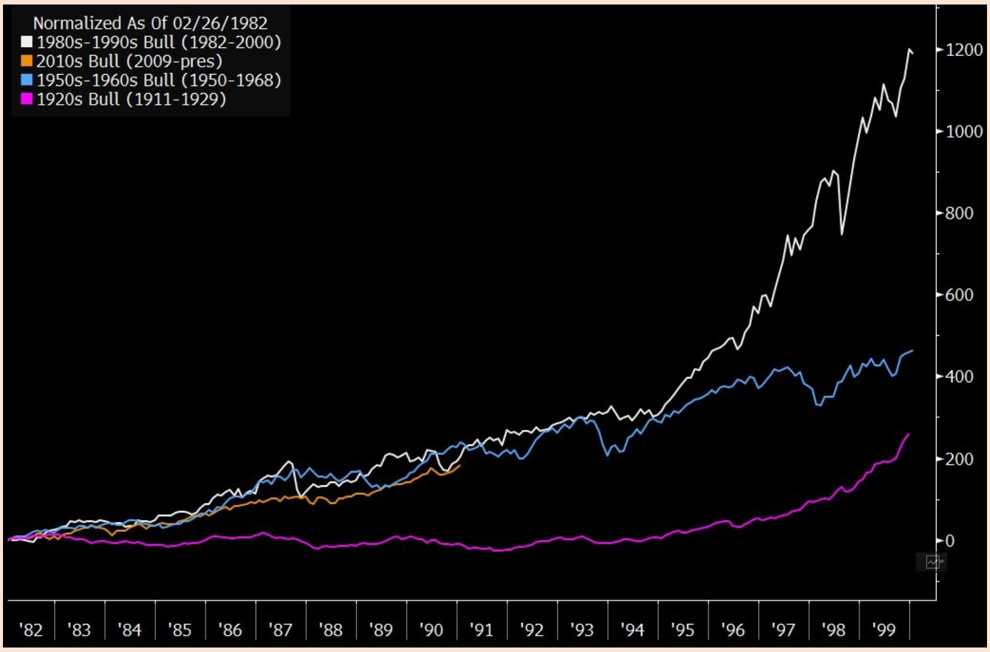
Media narrative is still

1. Economic downturn and lower earnings. This normally comes with an valuation contraction, so stocks fall much more than earnings
2. Stock prices run too far ahead of fundamentals and the gravity of financial markets, albeit slow, eventually bring down asset prices to normal or sustainable levels
3. An external shock like 9/11, an epidemic, major war or other unexpected

Based on history we're only half way through the current expansion

As the world looks in August 2018 it's difficult to see hard evidence of events that will strangle the bull market. Actually the current version of bull market in USA has been seen before;

The orange line is the current run, so plenty of room to continue



We are going through a unique period

	I might be too optimistic but it's my firm view we are moving through a unique period in history of increasing wealth and affluence driven by demographic factors, urbanization, digitalization, better healthcare and education and cheaper sources of energy.
German economic climate improves more than expected	The latest ifo survey of business conditions in Germany showed much better mood than expected. Last time there was such a jump in mood (3Q 2014) the DAX index jumped 30% in the following 6 months. I'm not 100% certain it will happen this time around, but I would not be surprised. In late 2014 a stronger US$ boosted European exports – a scenario less likely today.
Germany as a very solid economy vs other majors	Germany is after all the most solid economy of the large economies – government surplus on finances in 2018, maneuverable debt levels and a trade surplus. On those metrics Japan and USA are much more risky, so Germany could become 'safe heaven' despite having indebted Italy in the backyard.

Flow of funds – a stream with many sub-currents

Investors going from active to passive	One of the current mega trends in financial markets are money going from active managed funds into passive funds (EFTs etc). 2018 is no exception to that and the actively managed have even reduced their risk appetite since Spring 2018. Some defensive sectors have been bought and surplus cash put on the side line.
Institutional investors are preparing for tougher times ahead	OK, so institutional or professional investors are preparing for more difficult markets ahead and the argument is trade war and economic/ market fatigue after 8-9 years of economic expansion and record high stock prices. My take is that, if things just continue to expand and companies continue to grind on then these investors much reassess their position and potentially move capital back to work in stock markets.
Listed companies buy their own shares as never before….	While professional investors position themselves for changes in economic activity, currencies and various investment style factors then the listed corporates buy their own shares or pay out a dividend.

After the 2008-09 economic slowdown the main focus inside companies was to get the balance sheet in order as the banking system was dysfunctional for a while. Since 2012 the corporate balance sheets have been healthy (on average) and not all the cash generated in operations where not needed for expansion, so the surplus was distributed to shareholders as dividends or stock buy backs.

...so the total number of shares outstanding declines

Stock buy backs are the single biggest force driving markets

In the figure below you see how much capital is returned to shareholders in recent years. 2018 will set a record of more than 2.5 trillion $, up 22% on 2017 and fueled by lower corporate taxes in USA.

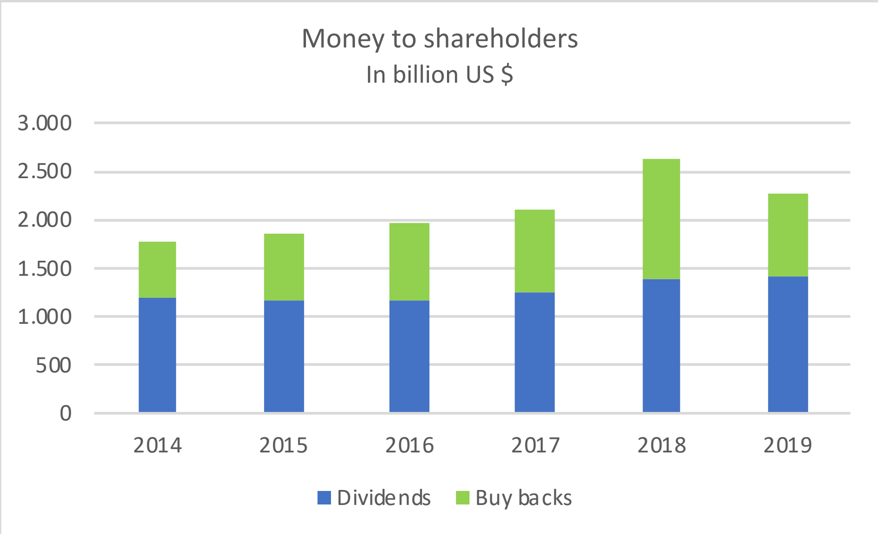
Dow Jones companies have reduced the share count from 85bn to 72bn over 9 years

America has been most active on this activity and since 2009 bought back 4 trillion $ and on top paid out 3 trillion $ in dividends. All the stock buy backs actually reduce the number of outstanding shares. Dow Jones index has seen the number of shares shrink from 85bn to 72bn since 2008. Contraction will only change if more companies get listed or the listed corporations stop buying back shares.

Some observers would like companies to invest in the future instead of just nursing shareholders, but for now the share buy backs shows no signs of change.

More than 2.5 trillion $ get thrown at shareholders in 2018

Global markets dividends and stock buy backs since 2014



Source: FT and Janus Henderson Global Dividend Index 2018

Sector and region performance update

Tech continues in pole position while oil/gas pull back as fundamental improvmentSector moves in August was mainly lower oil/gas stock prices as improvement in fundamentals

Performance, earnings growth and P/E 2019

Sector performances (price in local currency)	2018	Last month	2017-20 EPS growth rate	P/E19	PEG ratio
29/08/2018					
Auto	-0,3%	0,3%	2%	7,4	370
Banks	4,1%	0,8%	7%	12,0	171
Food/beverage	-4,5%	-0,7%	6%	17,6	293
Healthcare	13,0%	0,8%	7%	15,8	226
Oil/gas	3,9%	-3,5%	25%	19,4	78
Retail (incl Amazon)	29,1%	7,0%	11%	21,2	193
Tech	19,2%	6,6%	11%	19,2	175
S&P500	8,4%	3,4%	13%	16,4	123
Auto	-11,5%	-4,6%	5%	7,2	144
Banks	-12,1%	-5,6%	7%	10,1	144
Food/beverage	0,3%	0,5%	9%	18,6	204
Healthcare	7,4%	-0,2%	6%	15,3	259
Oil/gas	10,5%	-1,0%	33%	11,8	36
Retail	4,8%	-2,7%	4%	18,0	450
Tech	9,9%	1,4%	13%	20,6	157
Stoxx 600	-0,9%	-1,3%	10%	13,9	136

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