NORDIC INVESTMENT PARTNERS

Roadmap 2024

The post-Covid inflation clouds vaporize

day by day

December 2023

Summary

Potentially another double-digit return year

2023 turned out to be a much better investment year than expected. In late 2022 the forecasters on Wall Street predicted S&P 500 would end 2023 at 4.100. The actual level is 4.700 or a 'miss' of 15%.
2023 surprised positively despite earnings came in as expected (flattish compared with 2022) hence the stock market return came from an increase in forward leaning valuation. That's kind of odd as the textbook valuation metric component (US 10-year bond yields) rose from 3.88% to 4.20% in 2023.

Why did stock markets increase valuations when soft factors such as geopolitical tensions, delays in decarbonisation and AI disruption should have increased the risk premium /lowered valuation? It was primarily driven by new growth industries with AI and Ozempic as buzz words

Skim/read this deck and you'll find more inspiration for the road ahead. And for reference you find Roadmap 2023 here

Enjoy the journey

2024 roadmap

Roadmaps can be quite static as the route you see on a map is very different from the actual route. However, without roadmaps it's difficult to navigate and you need to navigate proactively if road conditions, weather or end-destination change substantially

Main components in roadmap 2024

1. Economic activity will tend to be soft until inflation is 2-3%. An acceleration in activity is expected in second part of 2024
2. Monetary conditions will continue to be restrictive however with a more neutral attitude as inflation declines. In late 2024 central bankers will probably have done their first cuts in policy rates to stimulate economic activity
3. Most businesses have prepared for a rough time, so costs and expansion investments are kept tight. Investments tend to be focused on securing stable supply or so-called near/friend-sourcing. Businesses with too much debt have been busy improving cash flows and/or selling assets to reduce debt. During the period with higher inflation consumers and businesses have moved spending towards less expensive categories and trends detected in 2023 such as lower consumption of expensive alcohol and premium priced daily goods will continue in 2024. From a top-down perspective expectations for 2024 are for 5% revenue growth and 7-12% earnings growth.
4. In such as scenario (bullet 1-3) growing companies at reasonable valuation tend to perform well. Screening for GARP in 2024 find companies with positive cash flow in cutting-edge pharmaceuticals, medtech, semiconductors, some consumer stables and industrials. As always, companies with poor cash flow, low margins, high debts and lots of employees should be avoided.
5. The annual update of future growth industries into the 2040s have seen expansion in digitalization (AI) while renewables have declined a bit from last year high level. In the digital field there's several new tendencies that overall will boost productivity once implemented. The main benefiters from a new wave of productivity gains is AI infrastructure providers, but other business models can gain a lot too.
6. 2023 valuation expansion of 15% has primarily occurred in large cap digital giants based in USA. Their combined value creation in 2023 exceed 5.000 billion USD. Most of the other parts of global stock markets are below 10-year valuation average and are in 'accumulation or buy zone'. These zones include Asia, Europe and small/mid cap companies in general
7. Risks measured as general market declines happen frequently. Check the risk map for more details and scenarios.

The roadmap is for inspiration and education only. Read the disclaimer in the end of this slide deck

December 2023

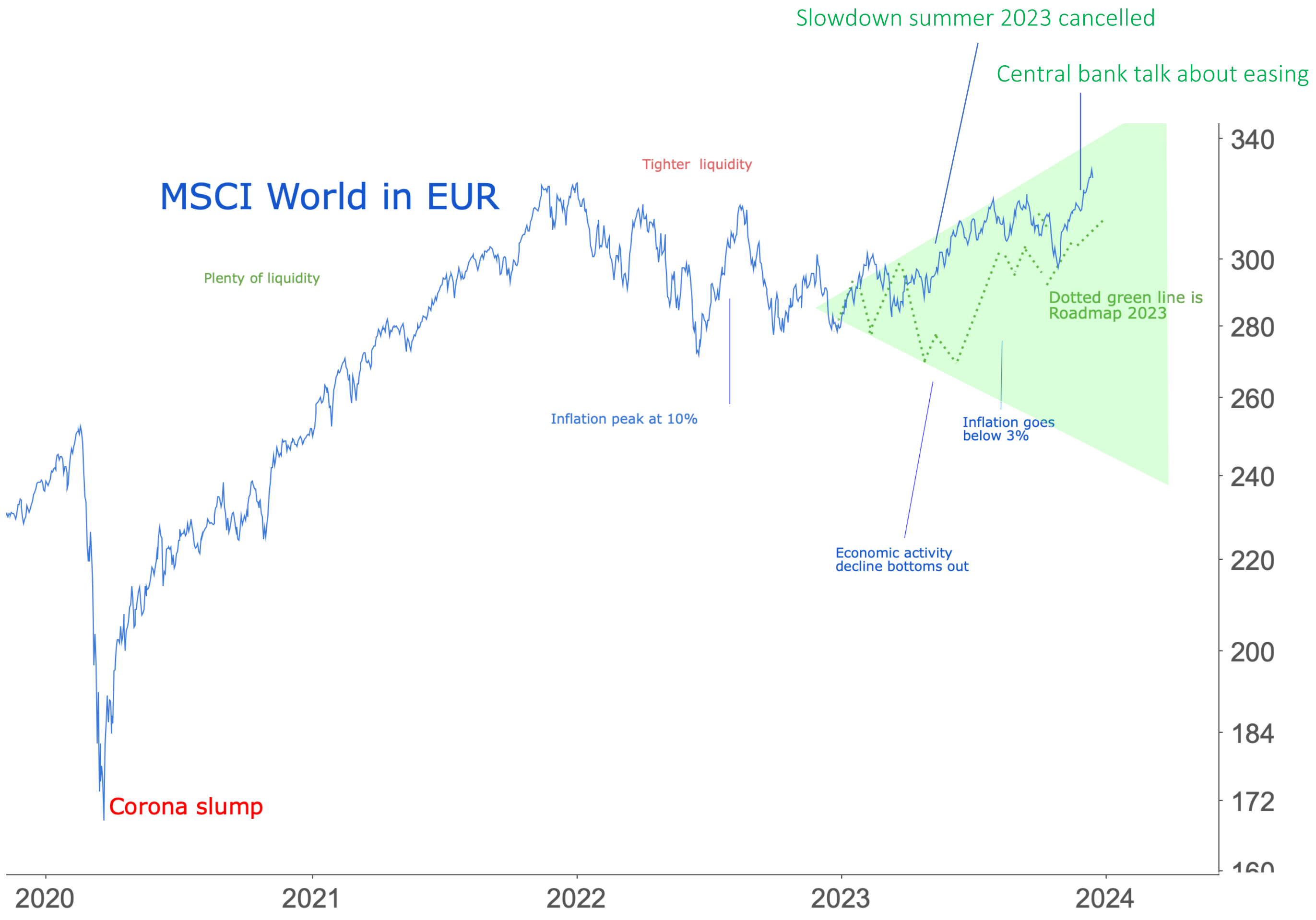
2023 review and learnings

2023 brought a lot of new learnings for investors;

1. Companies with underestimated and very strong cash flow growth beat the market seriously (Eli Lilly, Meta, Novo Nordisk and NVIDA as example)
2. Interest rates rose to levels not seen in decades. On-line banks is not set-up for bond investing as bonds are still a 'telephone' market
3. Investors motivated into stocks in 2020-21 when interest rates were zero preferred stable earners back then. In 2023 they moved out again and stable earners underperformed significantly
4. Stocks rose despite more geopolitical turmoil hence suggesting stock markets treat politcal turbulence in a constructive way.

2023 roadmap and what actually happened

Sales and earnings for 2023 came in more or less as expected. An expected summer 2023 recession didn't materialize, and interest rates peaked in October 2023. Stock markets rose 15% and mainly driven by few very large companies



2024: getting ready for clear skies

It looks like higher interest rates have done the job of reducing inflation. And in some aspect's inflation seems to disappear at the same speed in showed up. I was too early on my late 2021 thesis of ‘phantom stau’, however the world had not seen such a big stau before, so it just took longer than I guessed.

2023 was a back-and-forth year in terms of recession or not. Europe and China had its soft patch, while USA performed better than expected

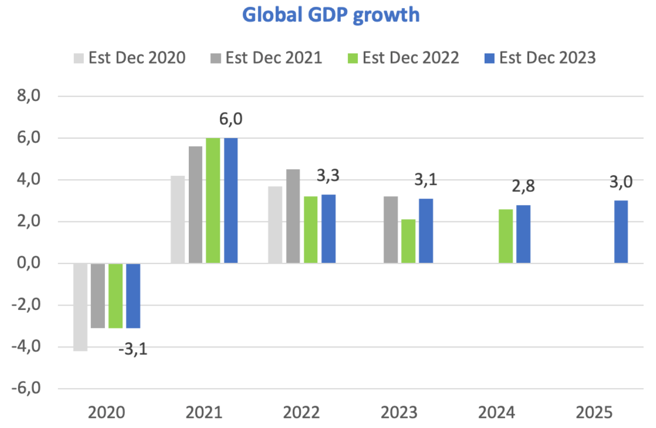
It remains to be seen if USA run into a soft patch in early 2024, but if inflation data continue to show decline, then central bankers toolbox improve i.e. they can stimulate the economy without worrying about inflation

There’s a lot of economist arguing for higher interest rates for longer due to high levels of government debts and a steep price tag for decarbonization of human energy usage. AI driven productivity growth could impact towards lower inflation as supply increase with higher productivity

The fundamental forecasts going into 2023

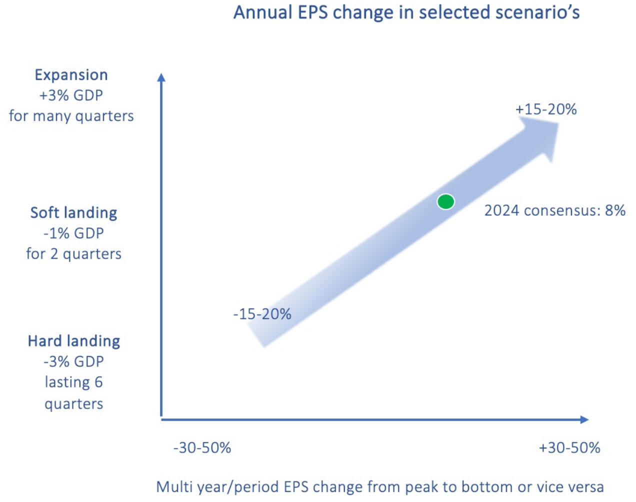
Key economic indicators	Size 2020	2021	2022	2023	2024	2025
US GDP	22.0trl $	5,9	2,1	2,1	1,5	1,7
Euro area GDP	11.4trl $	5,3	3,3	0,7	1,1	1,5
China GDP	14.1trl $	8,1	3,0	5,1	4,4	4,2
Global GDP	85.0trl $	6,0	3,3	3,1	2,8	3,0
Inflation rates						
US inflation		4,2	6,5	3,9	2,8	2,2
Euro inflation		2,6	8,3	5,5	2,9	2,3
China Inflation		0,8	1,9	0,4	1,0	1,5

Source: Conference Board, IMF and OECD. Annual change in percent

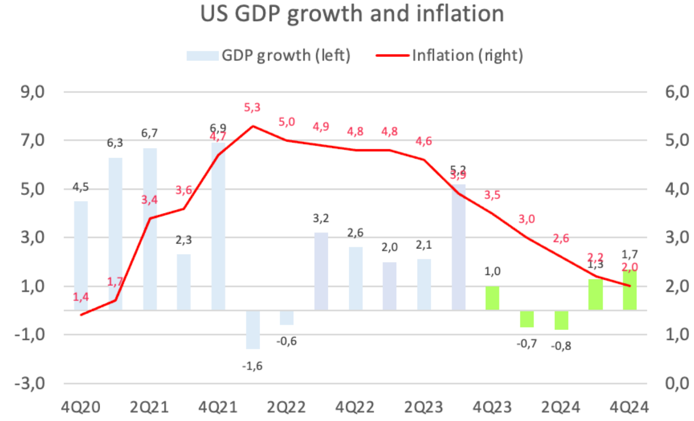


Source: IMF and OECD Nov 2023

Schematic view of correlation between economic activity and earnings



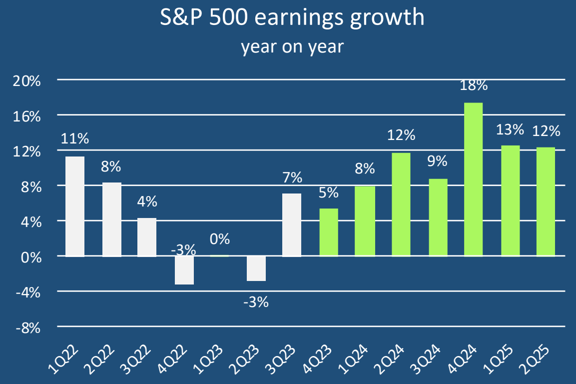
Source: Own design



Source: Conference Board, December 2023

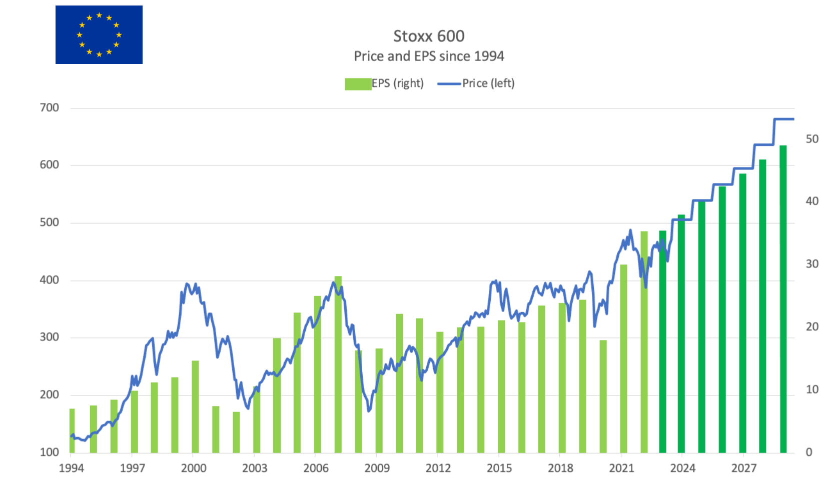
Earnings and changes in valuation are the key drivers

The corporate world has evolved into higher profitability since 2020 and mainly driven by a bigger influence from high-margin digital enablers such as semiconductors and software. 2024 will be more of the same and consensus expectations are for 7-12% EPS growth. In late 2023 European and US stocks are valued at 12.7x and 19.3x, respectively. This is the usual difference that almost ignore the fact that Europe is changing towards more healthcare, luxury goods and semiconductors with higher profitability than the old heavyweight industries such as banks, oil and chemicals. Running all the data provides a bullish outlook for 2024 despite a potential soft patch in the early part of the year



Source: LSEG Refinitiv consensus

Index earnings and performance contribution



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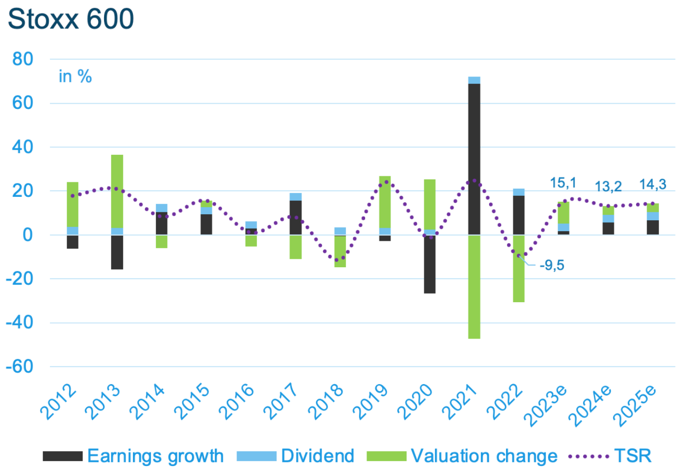
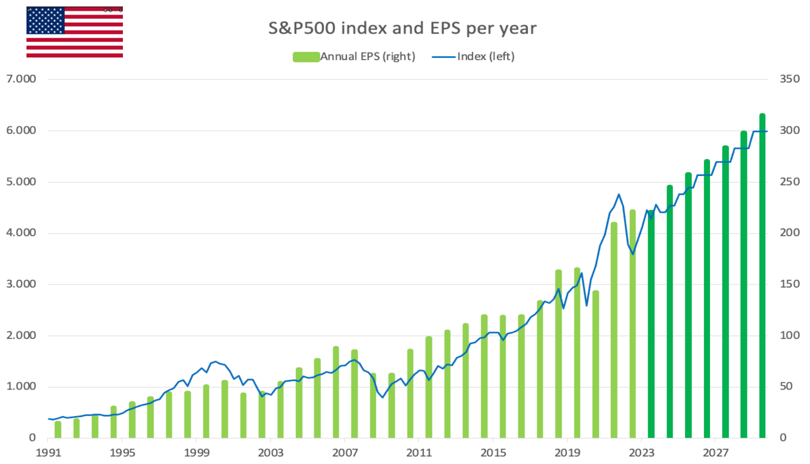
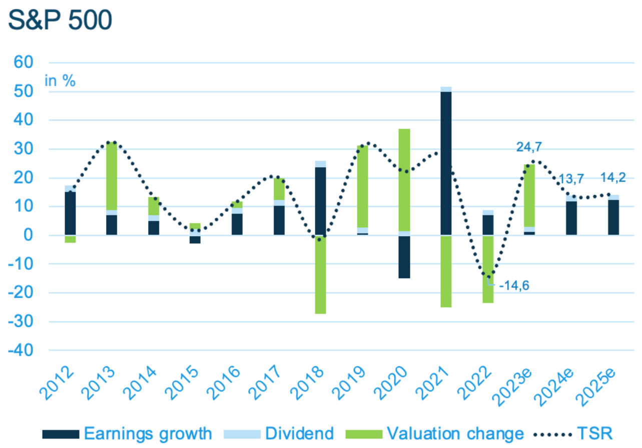


Index EPS and price performance

The components explaining the annual performance



Source: LSEG Refinitiv



Looking into a 15-20% return year

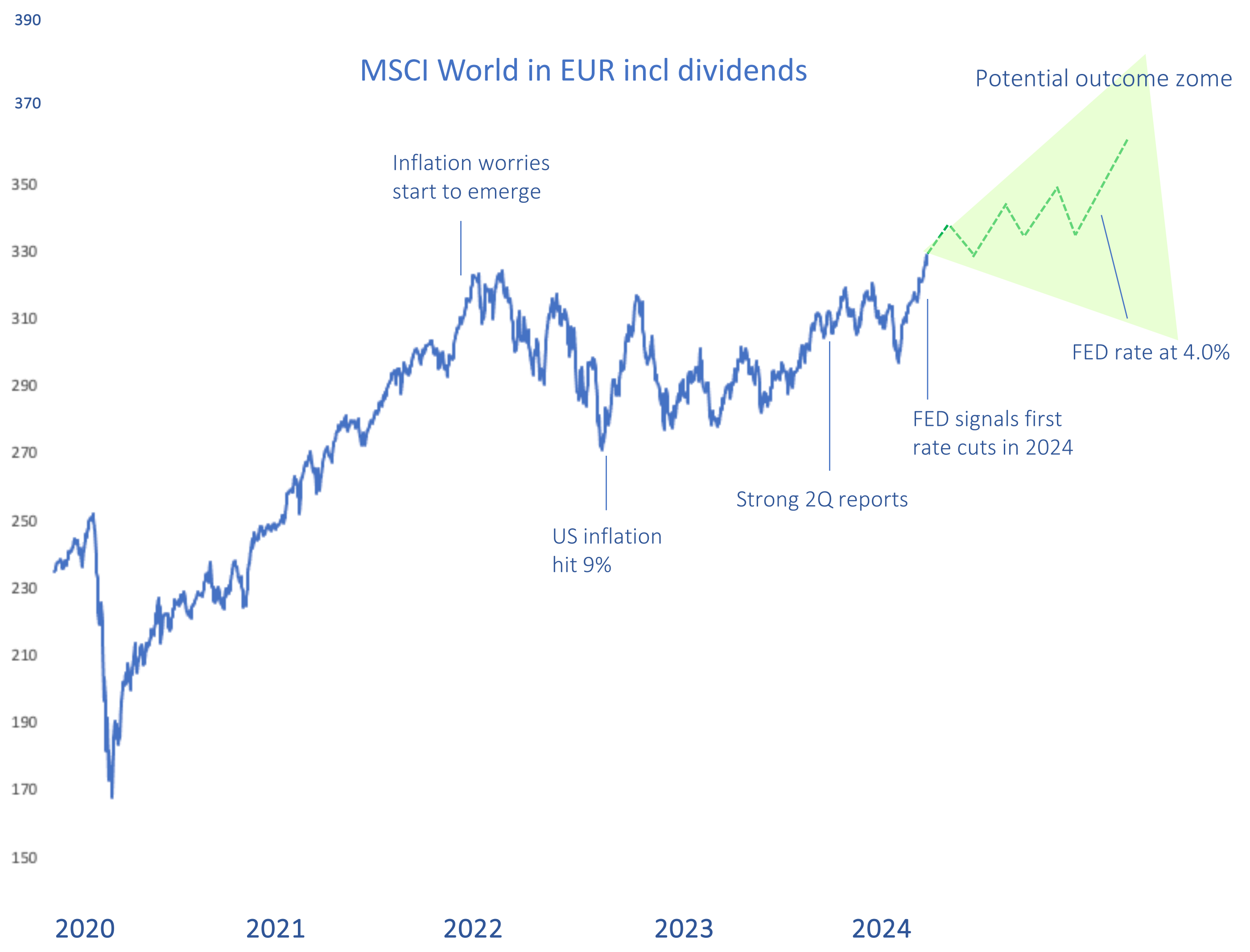
Forecasting of one year returns in stock markets can be a bit waste of time even if you were 90% certain of how earnings would be. On a 12-month view stock prices move in a random pattern, and it takes 17 years to have close to 100% correlation between stock price and earnings performance.

With that in mind;
2024 consensus from global investment bank strategists suggest a flattish first half and followed by a strong second half

As mentioned on previous pages earnings should be good in 2024. Consumption could surprise on the upside as wage increases exceed inflation. And Asia and Europe with undemanding valuations could start to perform

Nothing is cut in stone, so check the 'upside' and 'downside' surprises overview in the risk section

Simplified roadmap for stock prices in 2024



Risk radar 2024

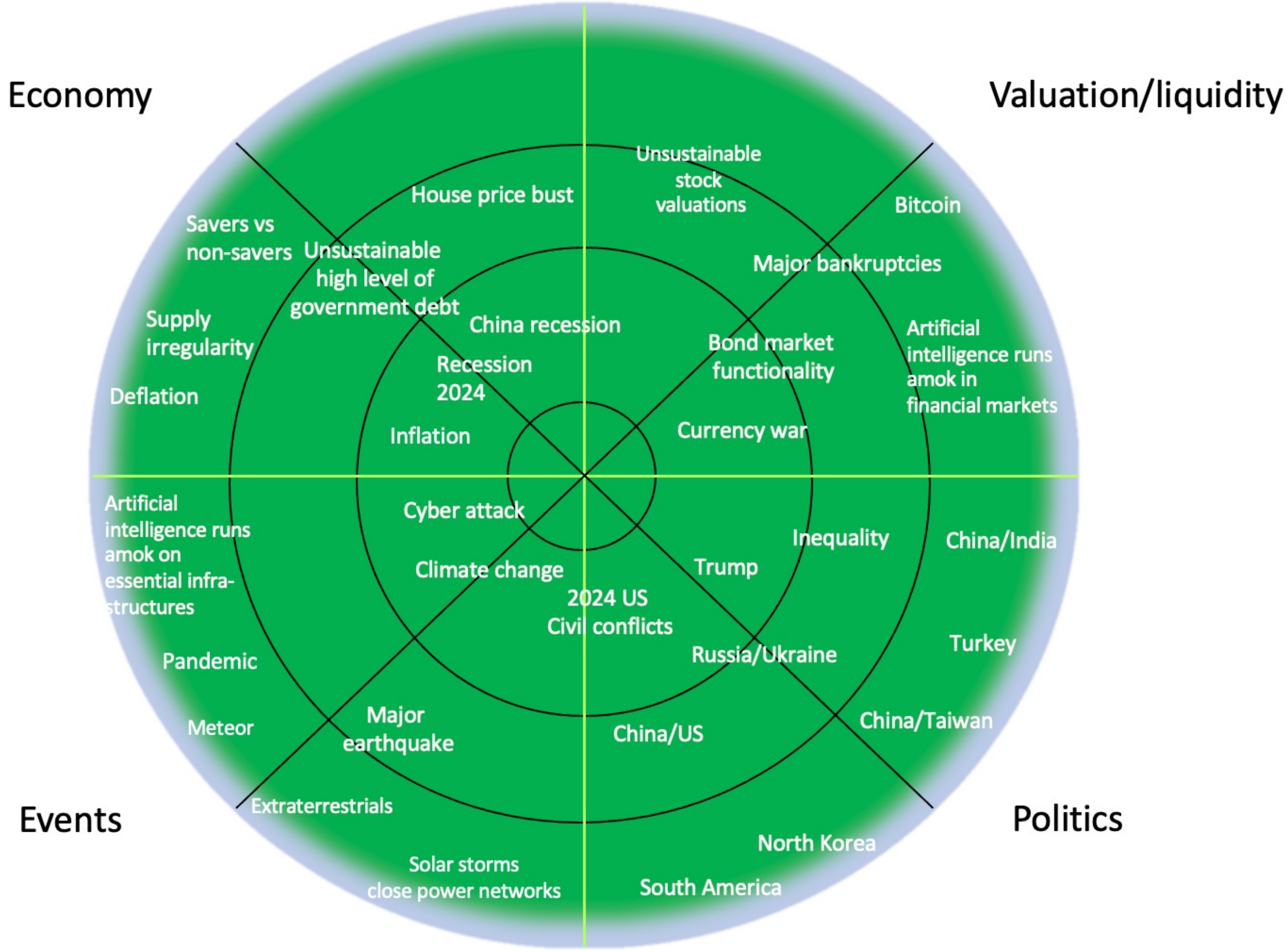
Risk is basically volatility and investors should always be mentally prepared for a 20% drop

The factors that really move things negatively are;

1) Recession in economy or earnings. In many cases this factor is triggered after a period excessive growth followed by a softer period
2) Valuations get too high and out of sync with reality and then normalize. Seen after the TMT bubble in 2000 and renew bubble in 2021
3) Shock to the system like pandemic, war, terror , Earthquake or lack of trust in the financial system

The main worries for 2024 are 1) the monetary slow-down medicine turns into a deeper recession and 2) geo political turmoil increase to a new level with Trump in the driver seat in USA

The radar screen to the right gives some suggestions for risk factors to keep in mind



Alternative routes

Upside surprises

Roadmaps are fine to give some sense of direction. It is however guesswork and being very specific about road conditions along the route will never be accurate.

The middle of the road forecast is for a slow start in economic activity, steady decline in inflation, lower policy rates and 7-12% better corporate earnings. If that becomes the reality, then 2024 could be another 15-20% total return year

One should recall that the long-term annualized returns including dividends are more realistic at 5-7%, so the performance since 2019 with 10.6% annual return is unusual. Yet, 2024 and maybe also 2025 could be benefitting from lower interest rates (higher valuation of stocks) as well as sustainable productivity gains from AI and new digital ways of doing things.

Positive surprises and what to do

Event	How it unfolds	Action plan
Global stocks rise more than 15%	Inflation decline occurs as expected and central bankers gets more accommodative. Earnings grow close to 12% but tilted to second half of 2024. Bond yields decline and investors start to move out of bonds and over in equities again	Check the monthly inflation data and the quarterly corporate updates. The 1Q and 2Q period will offer good insight into how 2H24 and 2025 will unfold. If investors feel safe we can move to even higher returns
Global stocks rise 25-40%	Inflation is down at 2% in late Spring 2024 and corporate updates and economic activity reports are good. Investors move fast out of bonds bought in 2023 and into equities. Stable earners (food, drinks, healthcare) performance will indicate if bond investors are coming back to equities	Same monitor as above, but it happens faster and there's stampede to get positioned in the only asset providing long term real returns; profitable growth companies. Valuation gets stretched in this scenario, but don't sell just yet as bull runs of this kind can last much longer than you imagine
Asia and Europe takes the lead with 25-30% jump	Asia and Europe are at attractive valuations, but investors sees no triggers to unfold the value. Chinas perceived in a kind of recession and Europe is seen to too bureaucratic. Yet the companies in China and Europe grow, and stocks will eventually follow	The money flows and price moves combined with activity updates should be monitored closely. Be ready as this can happen rather quickly as global investors are underweight China and Europe
Healthcare science makes the first digital human twin	A digital version of humans can speed up development of new treatment and prevention of diseases. This would have huge long-term implications for the healthcare industry set up to cure people <u>after</u> they have become ill.	There's already many labs working on this and once there's a breakthrough the company seen as the leader could get into something that resembles NVIDIA 2023 AI boost
Fusion energy becomes commercial	Fusion energy (same process as the Sun) is considered the energy solution after 2050. Scientist make breakthough discovery and first commercial roll-out starts in 2030	Unlimited energy for 'free' set motion in massive decarbonation. Lots of current energy assets become worthless
Productivity accelerates due to AI implementation	2023 saw a big new recognition in AI infrastructure providers like NVIDIA. 2024 could be the dawn of the benefiter's of AI.	Dell, IBM a.o. brought the PC to market. The biggest revenue came from e-commerce, social media etc, so AI will likely open new industries and revenue steam

Alternative routes

Downside surprises

Roadmaps are fine to give some sense of direction. It is however guesswork being very specific about road conditions along the route.

The middle of the road forecast lower policy rates in 2024 and that will propel stocks higher. Some of this has however been discounted in late 2023, so first half 2024 could be a bit bumpy before things normalize and stocks end 2024 on the strong.

It's impossible to rule out a deeper recession at some point. Some of the world largest economies such as China and USA have already issued too much debt and hence have less flexibility in their toolbox to stimulate the economy. This could turn into a multi-year reset period with serious negative implications on bond and stock markets

Negative surprises and what to do

Event	How it unfolds	Action plan
Stocks decline 10-15%	Inflation is sticky and will not go below 3% despite slowing economic activity. Investors gets nervous and sell	10-15% correction occur almost every year. Do some due diligence on the factors causing the correction and if its nothing more than a short-term issue then use the weakness to pick up some good businesses
Stocks decline 20-40%	Inflation remains sticky and high interest rates reduce consumption and sentiment. A deeper recession (6 quarters of GDP contraction) cause earnings to decline a lot (ref slide 4)	Hard to say if this will happen in 2024. In late 2023 there's not signs in that direction. It normally starts with a correction and then it just continues in negative direction. Once stock markets are down 40% its time to reshuffle into beaten up quality companies
Cyberattack(s)	There's no doubt that persons, organization and even governments try to harm via cyberattacks. A major cyberattack happen quickly and can cause communication and power networks to malfunction	This risk can bring societies to a standstill. Companies have tried it and its expensive, time consuming and very disruptive and hence very negative event. You can't really prepare for this apart rom having physical back-up or disconnected memory devices with your data. And then wait until things get switched on again
Too much government debt cause serious investor mis-trust	High interest rates make a major government default and algo trading volumes explodes upward, while yields rise to 10-20% levels as debt markets are illiquid	Central banks try to stop the stampede but public trust in governments is severely impacted. A long deep reset recession follows. Hard assets like gold and fertile land will likely outperform financial assets
Climate change accelerates	Hottest period modern history with more violent weather episodes is already being reported by media	Unfortunately, this should not be a surprise. Things like this move like glaciers and when they crack you should not be in their way
Oil goes to 200$	Inventories are low and if economic activity surprise on the upside energy consumption could rise significantly. Renew power cannot fill the demand so fossil fuel demand rise more than expected and propel oil price to new records	This is a low probability scenario. If it becomes a reality, it will be met with a recession that dampen economic activity. Also, it would stimulate renewable investments even further

Long term scenarios and themes

Era of producvity enhancing innovations in 2020s

Performance pockets of the future

Most economic overviews are made on a country basis. When looking at global GDP growth it's broken down into regions or large countries. It's logic as it's much easier defining a country with a border than trying to define a global industry.

Finding out which are the largest industries takes time and there's a lot of different data sources that need to be put together just to get o a rough estimate.

Based on the country approach the global nominal economy is expected to grow from roughly 101 trillion $ in 2022 to around 240 trillion $ in 2043.

Inflation is expected at around 2% and real GDP growth at 2.5%. The real GDP growth is again a combination of 1% labour force growth and 1.5% productivity growth. The labour force only grow due to emerging economies (India and Africa) as developed economies including China will have stagnant to declining labour forces.

50.000 billion $ in new types of revenues in 2043

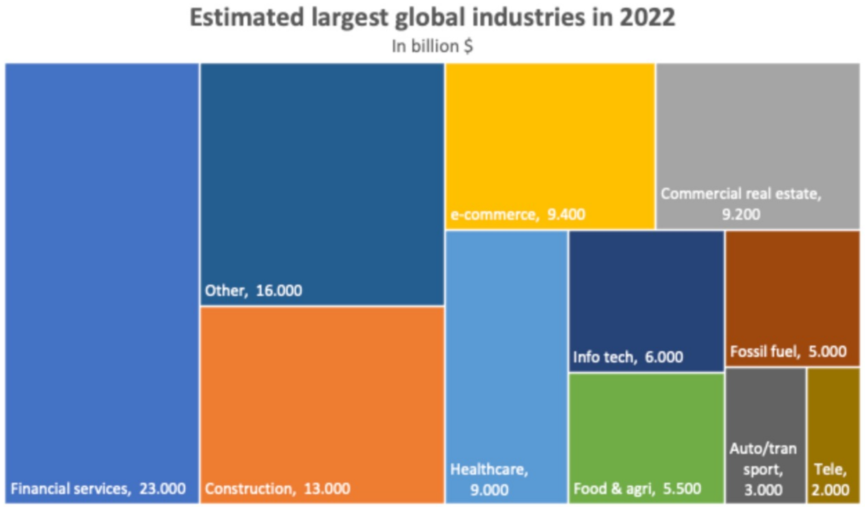
Over the next 20 years the value of global economic activity, measured as nominal GDP or revenues in trillion $, is expected to grow 125-150 trillion $ from the current run-rate of 101 trillion $.

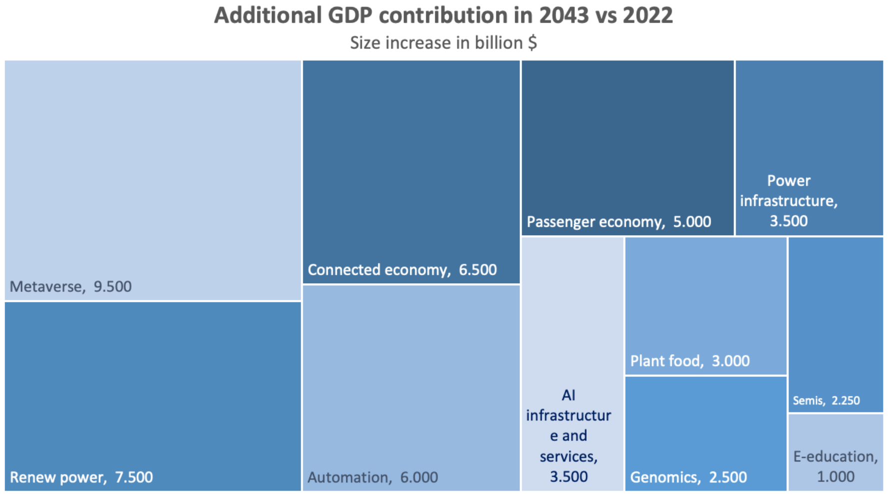
Most of the added economic activity will come from emerging economies with increased affluence (Africa and Asia in particular) and will fall into the traditional buckets such as construction, healthcare and education. Globalization is moving from China to India/Middle East as 'friend sourcing' is the new modus

In 2043 about 50 trillion $ of the new nominal GDP will come from new industries. For illustration, the smartphone industry can be used. In 2004 smartphone revenues was zero. Hardly any phones in circulation vs the 4-5 billion in circulation today and with subscriptions it's a total revenue stream of estimated 2.000 billion $

Since last year the AI bucket has grown bigger and bigger. AI is however embedded in other segments such as automation, passenger economy and semis.

No-one really knows how all this will play out, so this page is just to illustrate activity areas you have to pay attention to. The list is far from complete so be curious and identify new trends early.





Sources: own design and many sources such as Allied Research, BNEF, Intel, Ericsson, Illumina, BCG, McKinsey, IMF a.o.

The path to singularity

Humans consist of 32 trillion cells and each with 46 chromosomes and in the end of DNA/RNA which grouped into so-called nucleotide pairs. And each cell has 100 trillion atoms. That's a lot of combinations to sort out when you want to make a digital human .

Outside Shenzhen scientists are working to break the code. Beijing Genomics Institute employ 4.000 scientists that have sequenced DNA from 1.000 ultra-high IQ individuals hoping to isolate the DNA that contributes to human geniuses. BGI computational biologists sort all the data with superfast chips, AI and tailor made algo's. It will however probably be 2035-40 before the scientific work conclude.

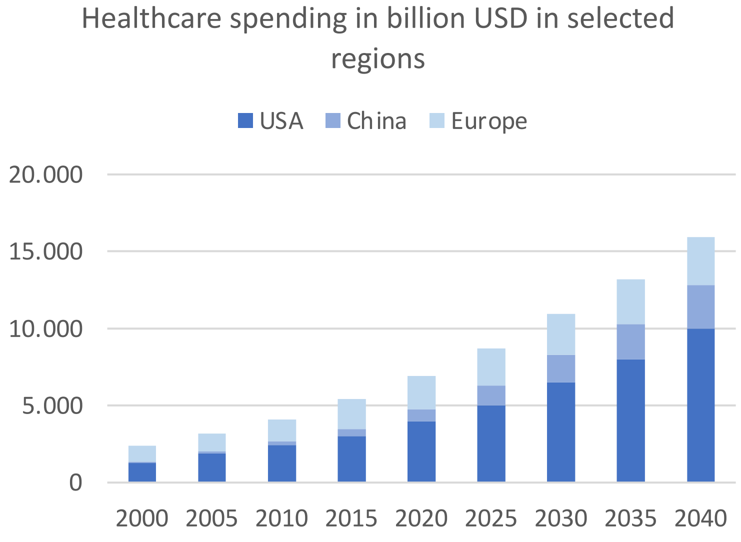
The changing healthcare market

Spiraling healthcare costs is a worry point for welfare states. Today's healthcare system is in essence designed over the past hundreds of years and focused on curing diseases. And cost/productivity improvements have been achieved through shorter hospitalization periods and more procedures that are done without need to hospitalization.

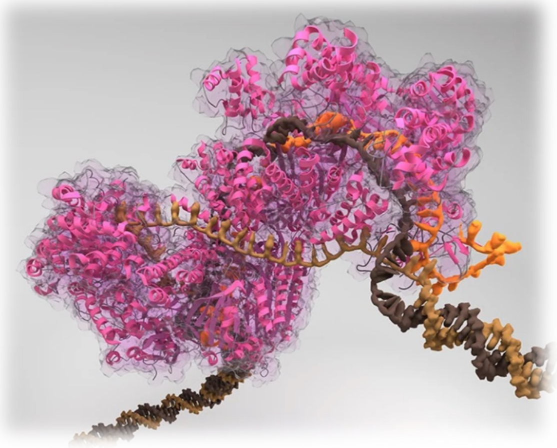
Only 1-2% of all healthcare spending is used for prevention, however its growing fast. The rapid growth of weight loss drugs from NovoNordisk and Eli Lilly is evidence of this new trend. GLP-1 and amylin drugs have positive side effects on cardiovascular diseases and could also have positive impact in other disease categories.

One area where prevention works already is immunotherapy. Immunotherapies stimulate the body's own immune system to prevent unwanted allergic reactions. More than 500 million people suffer for allergies and yet only 5 million are in immunotherapy. All the other cure the allergic episodes with antihistamine pills that dampen the occurrence of red eyes and running nose etc. My SumZero case for ALK Abello [link]

All the genomics work will eventually lead to much more preventive healthcare. Deloitte predict the structure of the healthcare market will change markedly over the next 20 years. The future of health [link]



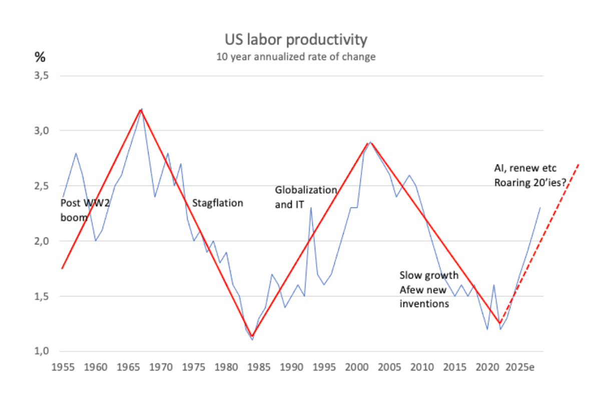
Source: Worldbank



Productivity

Over the past 200 years humanity has improved living standards many-fold. And innovation has gone hand-in-hand with the prosperity. The use of fossil fuels have improved living standards and transportation speeds, however it's not sustainable in the long run and human innovation need to speed up the decarbonation energy journey or find another planet to source it from 😃

Seen from chart below and to the right productivity comes in waves. There's several indications that we are heading straight into a 'roaring 20s' episode 2.



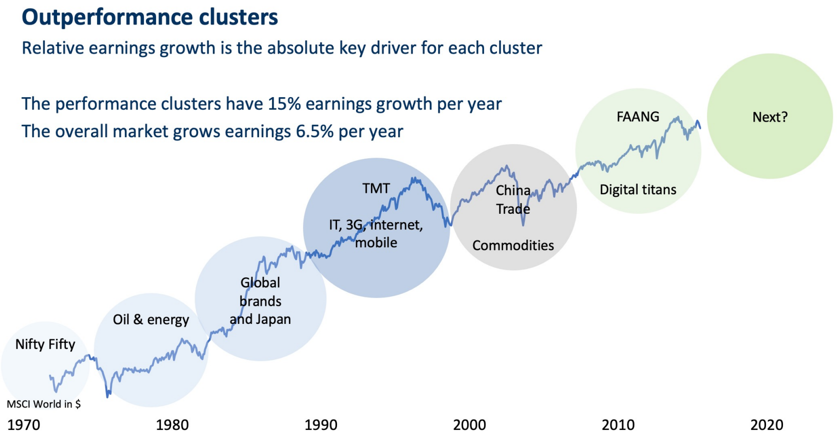
Which will be the next outperformance cluster?

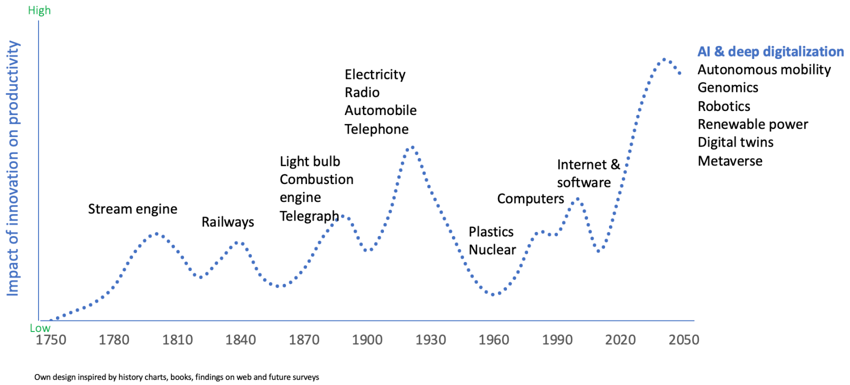
Looking at the past outperformance clusters you'll notice they only emerge into a clear trend a few years into each decade. The IT-bubble decade didn't start on 1st January 1990. It evolved around the introduction of America On-line and Netscape IPO's in 1992 and 1995 respectively. Same for the commodity bull market driven by China's economic expansion in 2000s.

The pole position for outperformance cluster looks most likely to be AI/deep digitalization with the potential to drive productivity much higher in the coming 10 years. I've been illustrating this for the past 5 years, so one day the timing might get right

It could also be the preventive healthcare opportunity described on page 12 in this deck. Novo Nordisk and Eli Lilly certain have the earnings growth that historically forms the outperformance clusters.

In terms of revenue growth, it could also be the renewable/decarbonization of energy space. The companies in that segment do however not show good capital discipline and/or have positive cash flows, so its unlikely to be that segment until they have learned the cash flow basics





One more thing

Nordic Investment Partners makes investment analysis that can be used for asset allocation and form investment decisions. This information is shared on its web-page, with a few individuals as well as Nordic Value Conference and similar events

It is not investment advice and remember take a look at the disclaimer on next page

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Key investment view towards 2035

Economic pace since 2010 have been highly dependent on fiscal and monetary stimulus provided in the aftermath of the 2008 crisis. The stimulus have however created imbalances such as government debts. This will probably continue even as it gets beyond sustainable in some countries. Some regions run large surpluses and more than enough to finance the government deficits elsewhere. A shift of power is happening at glacial speed.

Global economic growth has been declining from 6% in 1960s to around 3% in current decade. Productivity and population growth points towards lower economic growth in the coming decades. The underlying growth in global affluence will however continue and with Emerging Markets will be in lead as those economies grow double the speed of advanced economies. There will be mew pockets of innovation and growth and that's where Nordic Investment Partners focus the research

There's nothing wrong with modest GDP growth, but many investors have been accustomed to 8% annual earnings growth, while the realistic forward growth towards 2035 is more likely to be around 4%. Dividends of 2% comes on top. Annual swings are likely to remain in the 15-20% interval, so the occasional declines will continue, but recoup times will be longer

In an investment world with that overall outlook Nordic Investment Partners have since 2017 focused on identifying companies and business clusters with unique multi-year structural growth drivers and then invest in these when growth/profitability/valuation triangulation justifies it. The strategy avoid long term sun-set industries despite some of them are deep value from time to time. Family trusts use this investment method and perspective

The traditional business and inventory cycle still applies, so from period-to-period growth and inflation will change. In a world with evermore data and analytics the efficiency of eco systems will likely reduce the magnitude of economic swings as end-to-end value chains reduce slack and inefficiency.
Risks of financial mis-allocation of capital is the same as humans tend to run in flock

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