NORDIC INVESTMENT PARTNERS

Roadmap update 1Q 2024

Nice conditions in first quarter. 2024 looks more likely as a 15-20% return year with the occasional setbacks en route

April 2024

Summary

1Q 2024 has in isolation confirmed that 2024 will be a good year for stock markets.

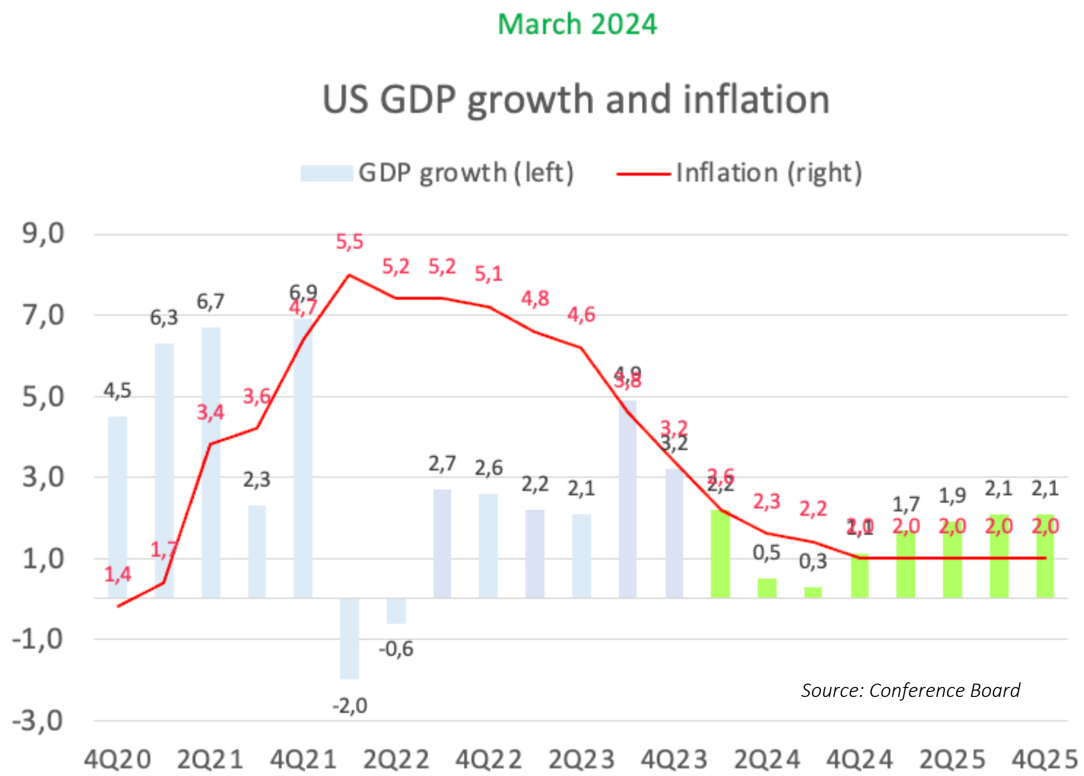
The 8% bull market has created approximately 9.000 billion $ additional paper wealth for equity investors. It's the highest absolute amount ever and it creates financial comfort in many households, pension funds and among savers in general. It is, however, not the same as saying consumption and investments in real assets will start to accelerate.

However, economic activity has been better than expected and inflation is coming down, but maybe less than hoped for. The better economic activity has among others been fuelled by higher real wages as wage negotiations from 2022-23 now start to filter through.

Corporate performance has been as expected and it's been especially good in niches such as AI infrastructure builders (Nvidia a.o), defense contractors (SAAB a.o.) and weight loss drug makers (Novo Nordisk a.o). Some observers are afraid of a bubble in the hottest sectors, but who really knows?

A strong 1Q most often result in a strong full year. Hence, 2024 looks more like a 20% return year than a 10% return year

1Q 2024 roadmap update



The expectation of a winter 2024 recession has vapourized and the slowdown over summer 2024 will do its work on inflation. Ideal conditions for growth companies

Stock market update I

The impressive return in 1Q 2024 has not been supported by a similar upgrade of earnings.

This leaves in broad terms two options;

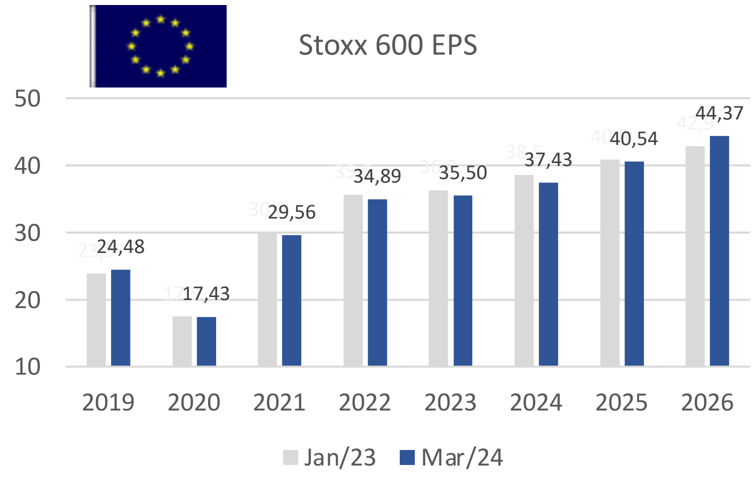
1) The prospects for the next 1-3 years have improved significantly
2) There's FOMO (fear of missing out) so investors just pour money into the stock market without really considering what they are paying for what they get.

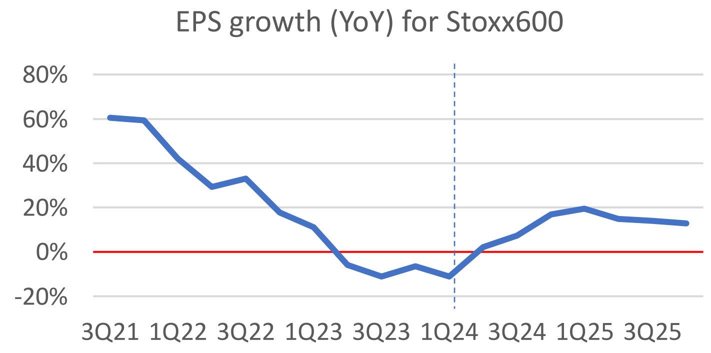
Global Investors have been accustomed to 6-9% annual returns over the past decades. On slides 6 and 7 you find more about expected returns and who sets the prices for stocks.

The long-term performance of a stock is the fundamental performance of the underlying business. On an index level US companies have outperformed significantly over the last 10-15 years, Japan have caught up over the last 10 years and there's signs Europe is starting to see better performance simply because the stale industries weigh less than growing industries in Stoxx 600.

Europe /Stoxx600

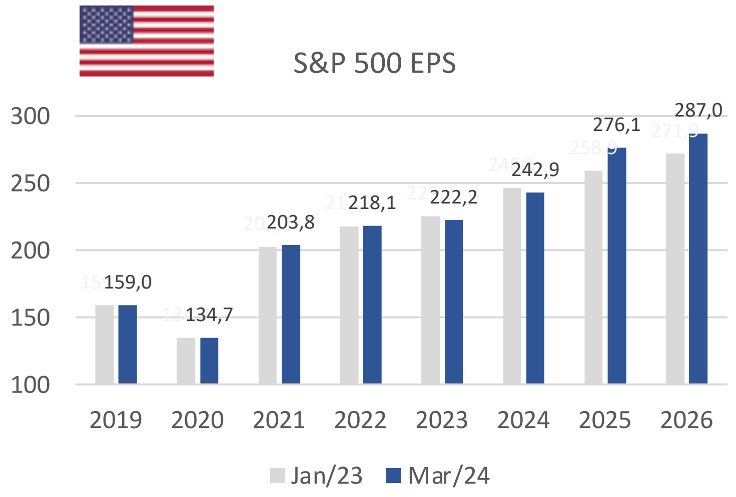
EPS CAGR 2005-2023: 2.5%

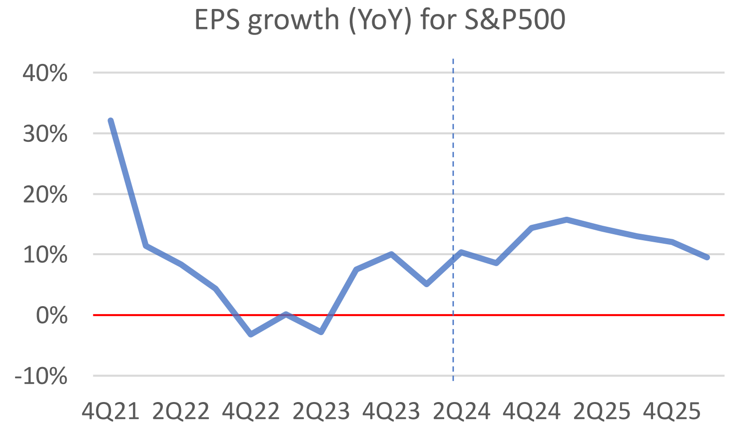




USA /S&P500

EPS CAGR 2005-2023: 6.9%





Stock market update II

As seen from the illustration on this page stock markets have clearly moved much faster upward than anticipated in Roadmap 2024 link

The question for the time being is if stock prices have run to far away from earnings. It happens all the time for single stocks, but less frequently for the total market.

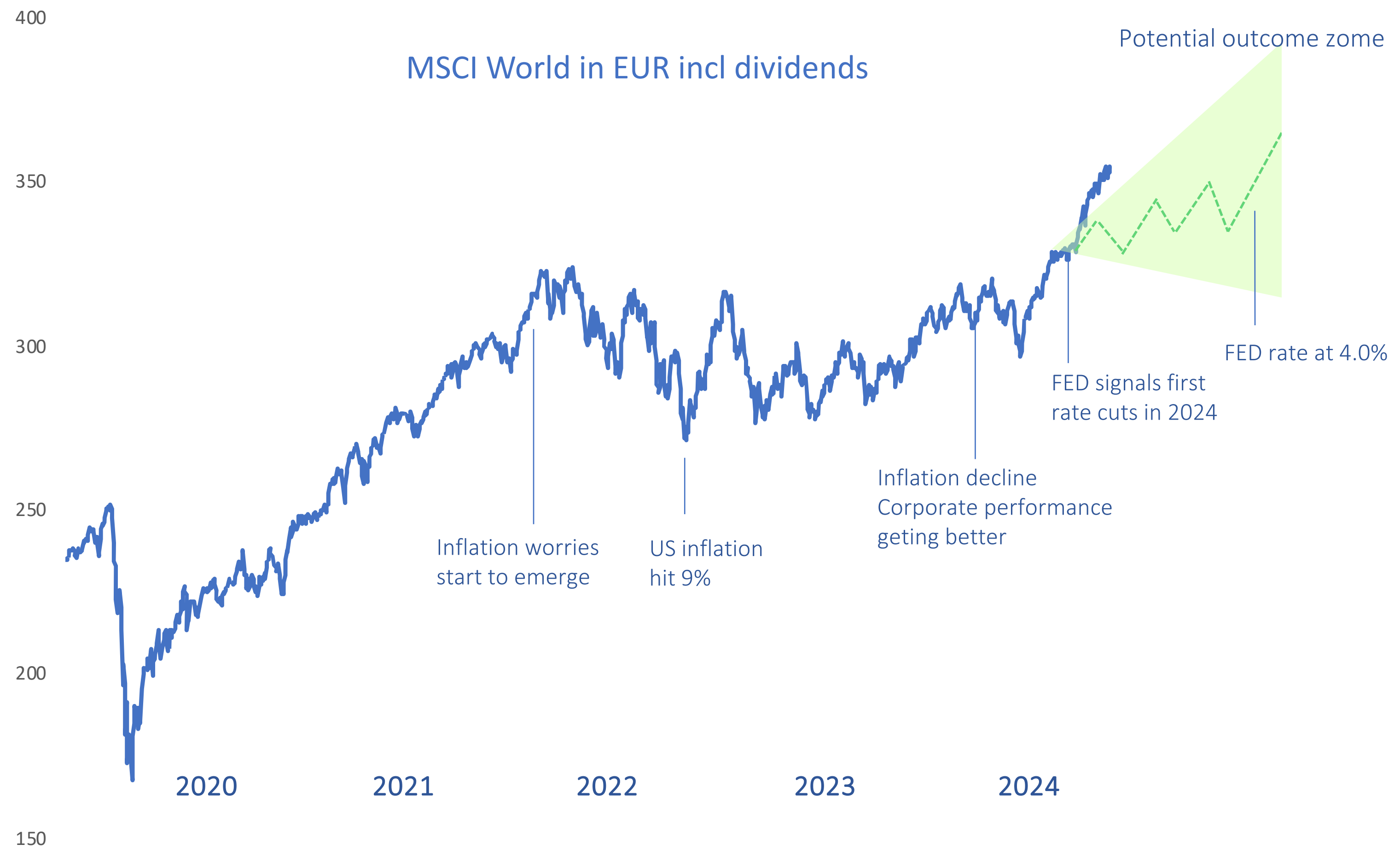
Or is the stock market telling us something about the future? Higher productivity from AI implementation ? Or is it retail investors and pension/wealth funds simply running after the ball? More in 'who sets the price' on page 7

The breath of participation in 2024 is good i.e. more companies have joined the bull market than what was the case in 2023 when relatively few companies created the whole party.

Not all companies have joined the party and renewables again in 2024 stand out as the participant with no dance card. Please let me know if you know when this will change…

Updated simplified roadmap 2024 with realized prices in 1Q 2024

Thesis for 2024: Consensus earnings growth 2024 is expected to be 7-12% and it's normally 2%-point too high. Including recession years like 2001, 2008 and 2020 estimates are 7% too high going into any given year. So, if there's no major hick-up in 2024 it's likely to be a 10-20% return year as valuations going into 2024 are around 15x when the Magnificent Seven are excluded



Updates on selected investment themes

Expected returns

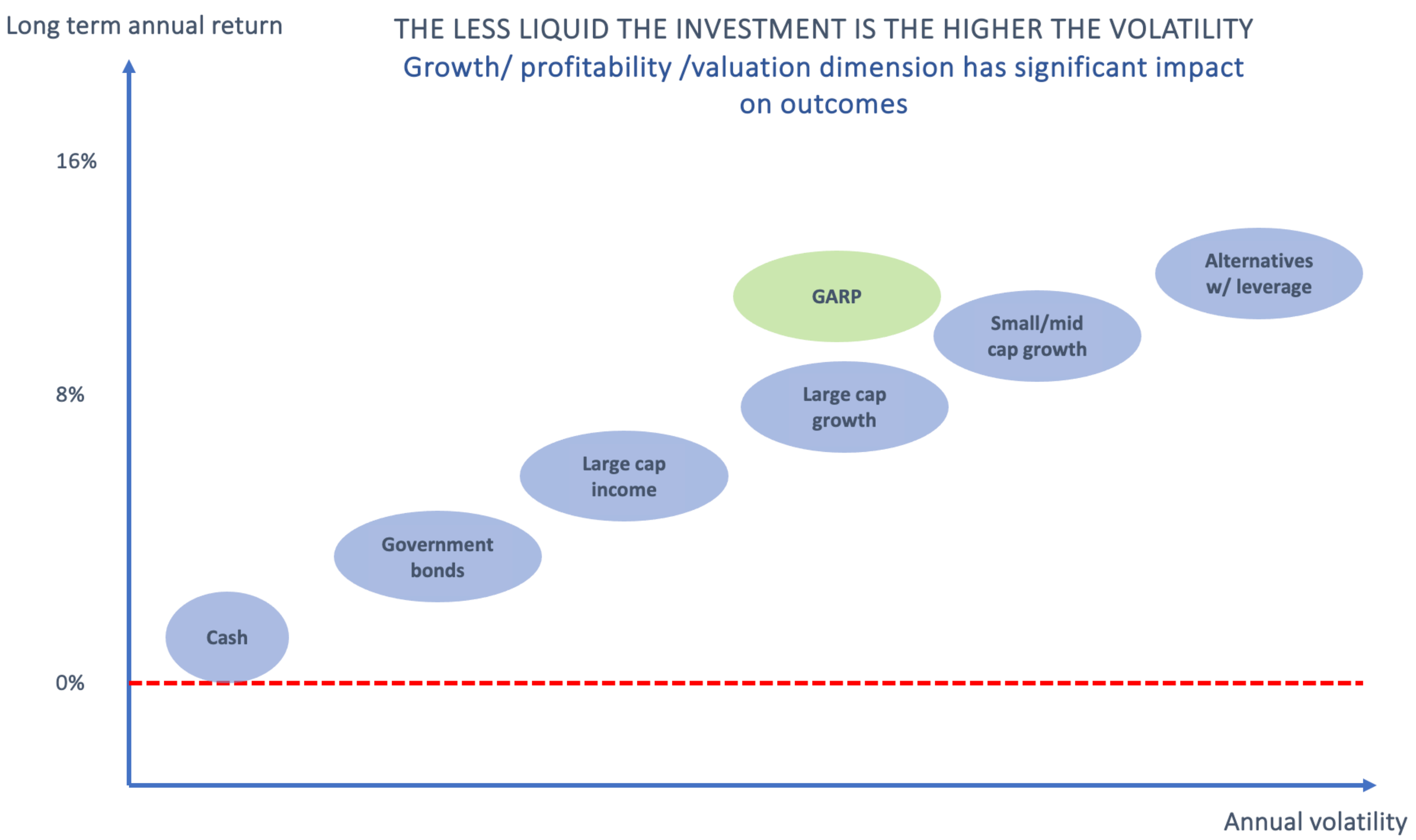
Academics, actuaries and large funds puts lots of resources into finding out expected returns for the future. For equities its correlations to economic activity, sales and earnings growth, political regimes and valuations (risk premium for various asset classes goes) that frames the work.

I've been through a lot of materials and my working assumption is this:

1. The economy expand due to more people/workers, productivity gains and on top comes price increases. On a global scale the normal nominal growth is around **5%**
2. Listed companies are like the elite football teams so they grow faster, and I use **6.5%** nominal growth
3. Including dividends this translate into **8%** annual return for stocks

That clearly beats cash and bonds in the long term, so no wonder savers are increasingly moving to equities.
But who makes sure we get these returns?

Simple schematic illustration of pre-tax returns for major asset classes



Price discovery in the stock market

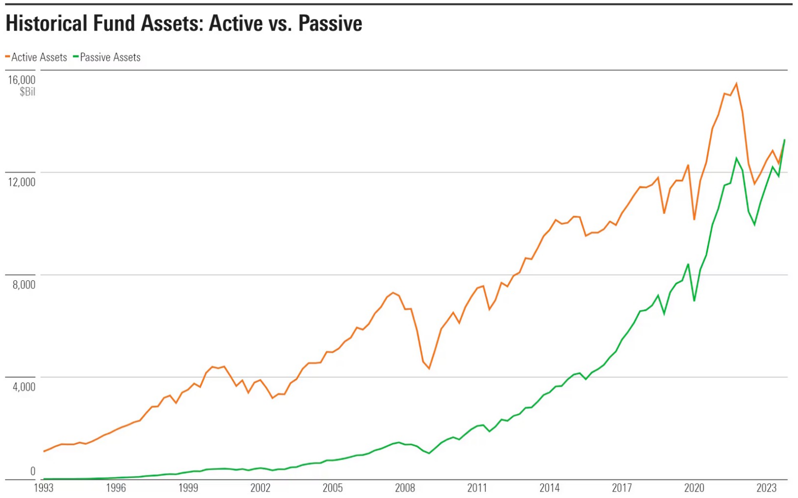
Who sets the price in the stock market?

Active investors set the price based on accessment of what the business is worth. Passive funds buys whatever the index consist of and do not care what the business does, how its valued or the motivation of the people running the business.

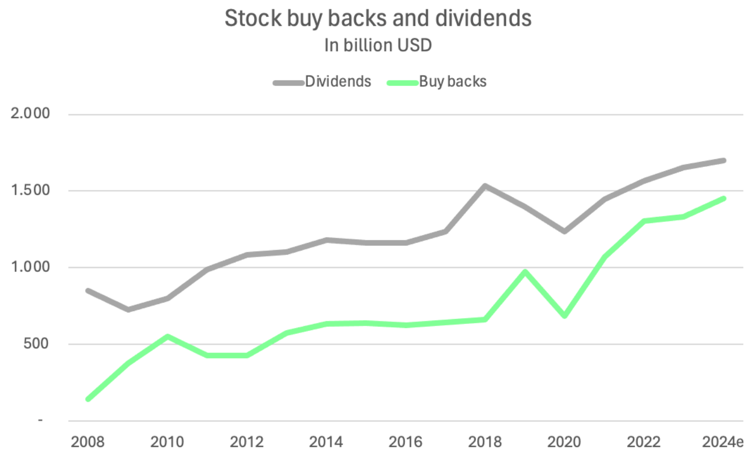
Readers of my quarterly updates recall the analogy of the stagecoach (earnings) going from Copenhagen to Rome with dog in a long leach (stock market) tied to the stagecoach. No matter how curious the dog is it will sooner or later arrive in Rome together with the stagecoach. So, in a world dominated by passive funds, who will set the price in the future?

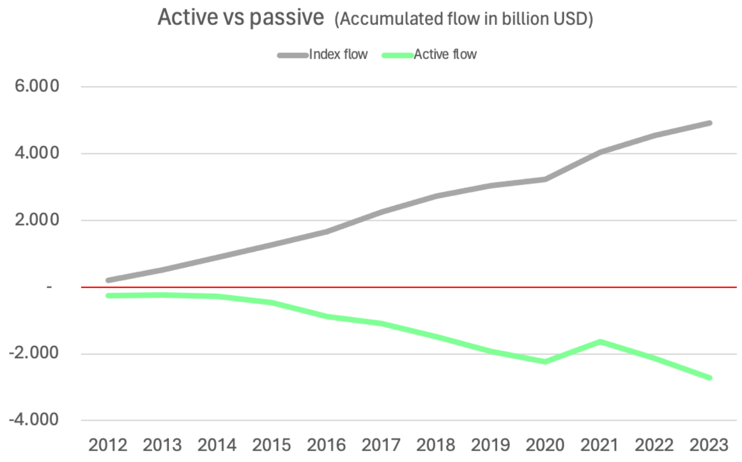
Passive funds are now close to 14.000 billion $ and active managers have 13.000 billion $, down from 15.400 billion $ in 2021. And the directions are not likely to change so passive will get more dominating

Future stock prices to be set by passive flows and buy-backs



Source: Morningstar Direct Asset Flows. Data as of Dec. 31, 2023.





Source: Hergé/Tintin

Over the past 15 years stock buy backs have increased to almost 1.500 billion $ per year. This is several times more than the net inflow to passive funds per year (375bn$ in 2023), so the biggest buyer is listed companies buying their own shares.......

In essence, the future stock markets will be driven by the most successful growing companies generating more cash than they need and using the excess cash for buy backs. And if the company is also a big index component its almost a sure success

Lots of companies will be left to themselves, which could be an Eldorado for stock-pickers

Sources: Bain, Janus Henderson, Bloomberg, FT, Morningstar a.o.

One more twist to expected returns and passive flows

No matter how you twist and turn it's the underlying business that drives the long-term performance of the stock price. And business is people, customers and interactions around products and services.

New ways of doing things develops all the time and new 'heroes' emerge. 10 years ago, Nvidia and Broadcom didn't get much attention outside specialist circles. 10 and 20 years from now there will be new 'world famous' companies that are almost unknown today. But it could also be well known companies today that break new ground with new technologies or business strategies.

Interior of Mercedes self drive transporter

The investment landscape changes over time. From day to day its difficult to see

In the real world there's so much going on in respect to changing business models towards the highly digitalized world. This is part of my roadmaps and I seek new inspiration and insights all the time.

During 1Q 2024 I listened to insightful podcasts that give additional knowledge for the curious investor.

Knowledge, found in the podcasts highlighted here, makes your investor toolbox better and might inspire you in new directions.

Microsoft CEO shares his view and insights into next generation platform (AI), how it will impact almost all businesses and how he navigates into the future

Link

Hermes by Acquired. Excellent insight into the worlds leading luxury brand run by 6th generation of the family

Link

David Einhorn about how stock market structures are broken, and fundamental investing is challenged by passive investment strategies

Link

Productivity roadmap

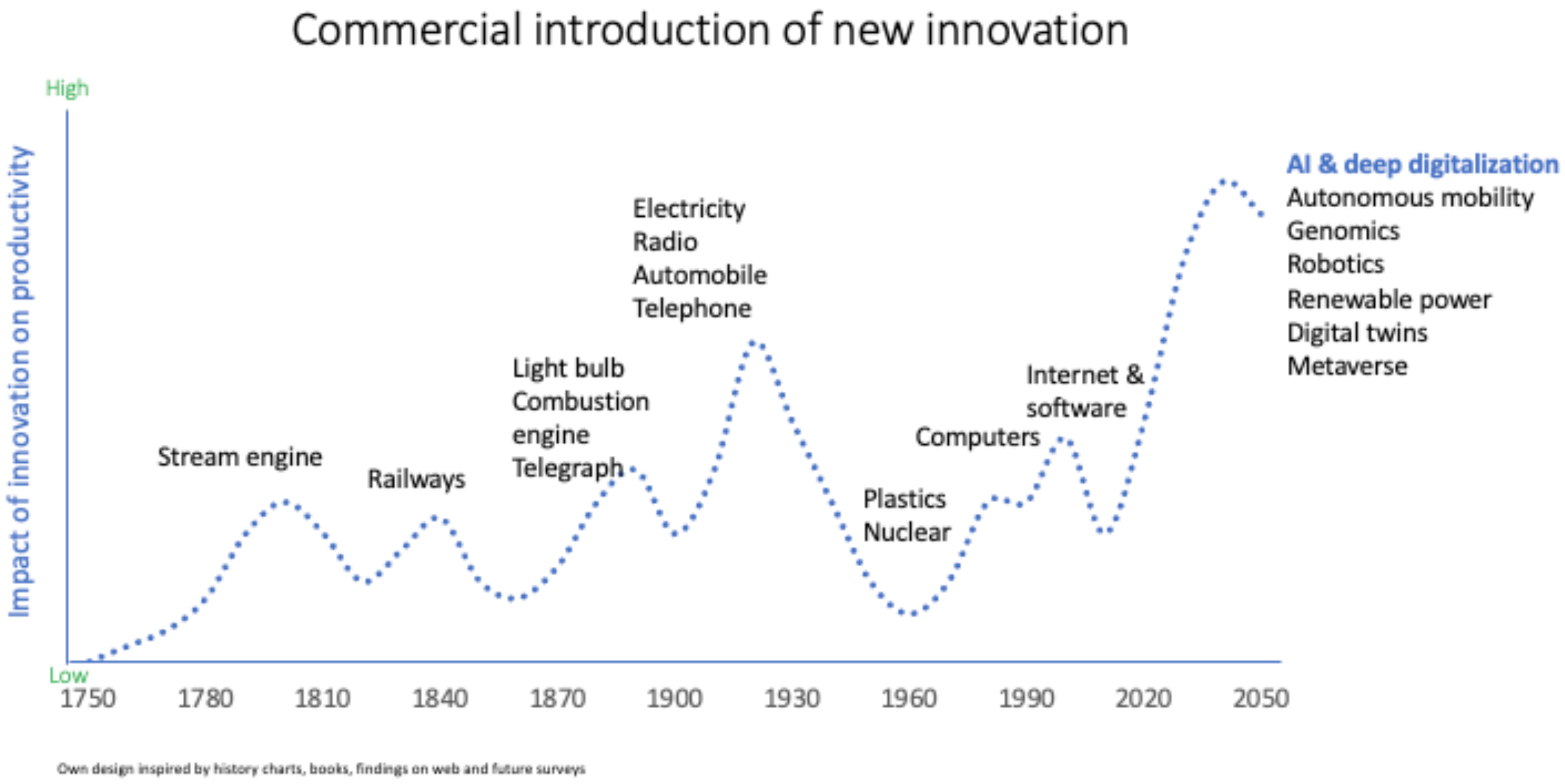
Over the past 7 years, I have consistently emphasized the significance of digitalization as a key theme. Its impact will be profound, revolutionizing human interactions and enhancing productivity.

1Q 2024 has elevated AI infrastructure companies like Nvidia to record highs. All spending related to AI is estimated by IDC at 154 billion $ in 2023. That's nothing in a global economy of 110 trillion $.

In 1840s UK spend 10% on GDP on railroad buildout, so why shouldn't AI get to 5% of GDP ? And why shouldn't that propel Nvidia to be the first company reaching 10.000 billion $ in market cap ? (its 2.000bn $ today)

It's just for inspiration and not investment advice, so do your own research

Heading straight into the biggest productivity transformation in humans' history



One more thing

Nordic Investment Partners makes investment analysis and raodmaps 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 at Nordic Value Conference and similar events

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

Since 2023 I work with **Brock Milton Capital** (former Coeli Global) (link) a Swedish investment fund with 15% annual return (3% annual outperformance) since inception in 2014.

Reach out for more

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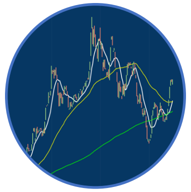
Key investment view towards 2035

Economic pace since 2010 have been highly dependent on fiscal and monetary stimulus provided in the aftermath of the 2008 crisis. The stimuluses have created imbalances such as government debts. Unsustainable government debt levels will likely continue as policy makers are not motivated to think long term. Some regions do however run large surpluses and more than enough to finance the government deficits elsewhere. A shift of global power is happening at glacial speed.

Global economic growth has been declining from 6% in 1960s to around 3% in 2020s. Productivity and population growth points towards lower economic growth in the coming decades. The underlying growth in global affluence will however continue and there will be clusters of new industries emerging over the next decades that offers growth and profitability just as the smartphone industry has done over the past 20 years.



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, I have since 2017 focused on identifying companies and business clusters with unique multi-year structural growth drivers, high profitability and then invest in these when growth/profitability/valuation triangulation justifies it; so called GARP investing. This investment approach has been rewarding in the past and is expected to be so in the future too. The strategy avoids long term sun-set industries at deep value (traps) with high dividend yields

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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