NORDIC INVESTMENT PARTNERS

Roadmap update 3Q 2024

No-one lives forever. Huge wave of inheritance to impact consumption patterns next 20 years

October 2024

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Summary

MSCI World in € incl dividends returned 2.6% in 3Q24 and 17.6% YTD.
It's good support to the 2024 roadmap prediction of 2024 being a 15-20% return year.

The main driver for 2024 is that the economic volatility and high inflation associated with the Covid lock downs in 2020-22 would vaporize and give in to more normal economic and pricing patterns. That included gradually lower Central bank rates in the latter part of 2024.

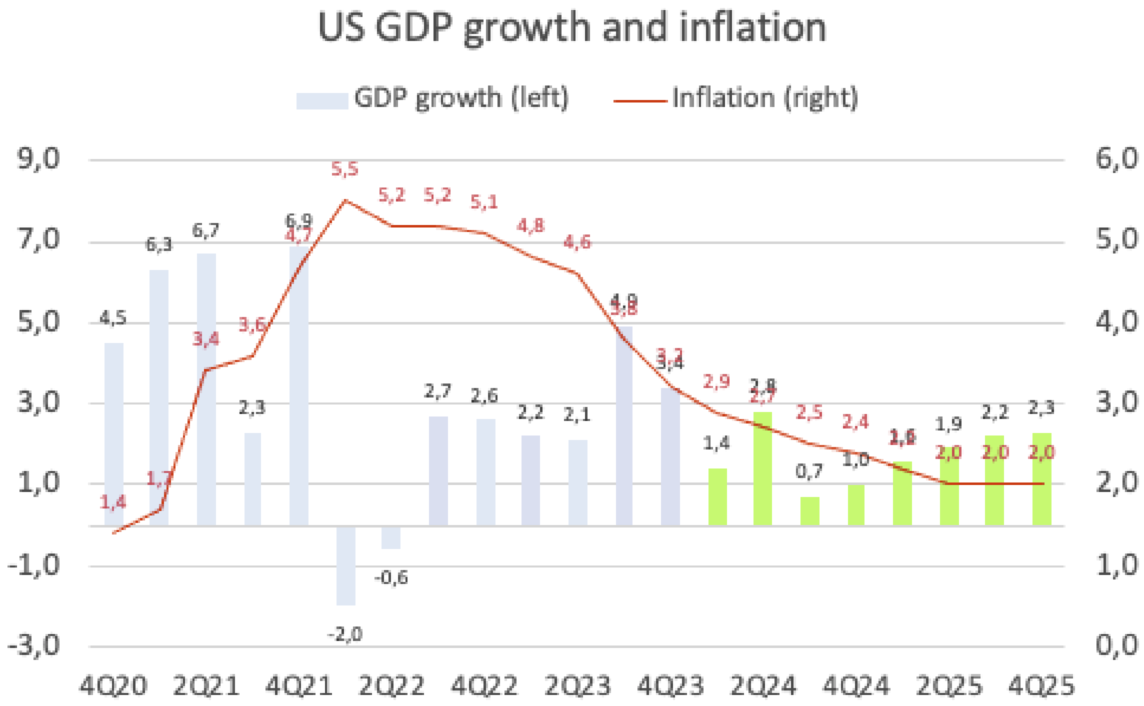
3Q 2024 saw several interest rate cuts from leading central banks. This will continue many quarters and central bank rates will eventually be approximately same level as nominal GDP growth.

The question is if the restrictive Central bank policies have put the economies closer to a recession. That seems not to be the case by end 3Q 2024, but it needs to be monitored closely. As example;

The job markets continue to be good in USA, however the averaged newly added wage earner has lower monthly wage than was the case two years ago. As many US consumers live from paycheck to paycheck this could cause a soft patch in US consumption

3Q 2024 roadmap update

The picture for US GDP growth and inflation has not changed much since the 2Q 2024 update. Inflation is mainly held up by shelter costs ie. housing costs incl rents, however there's clear signs that component is cooling down. Central bank rates are 2%-point higher than inflation so there's plenty of room to lower rates, which in turn will stimulate activity in 2025 and 2026. All good for corporate activity and earnings



Source: Conference Board

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

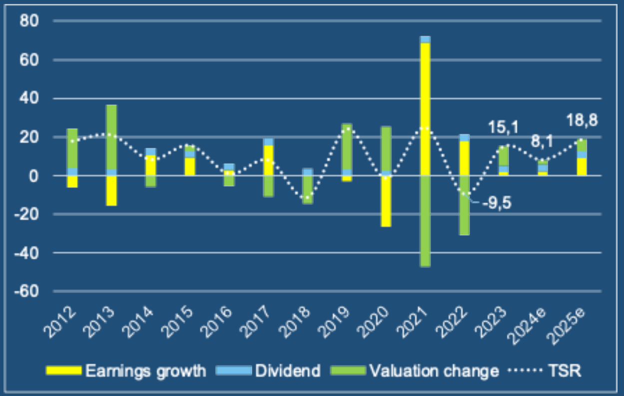
Stock market update I

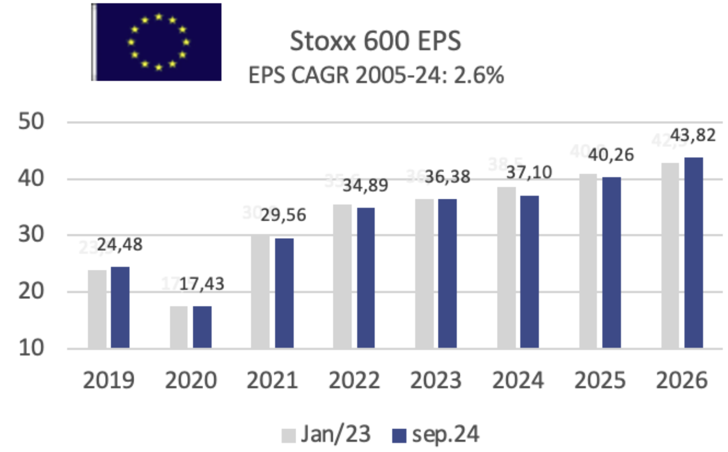
The 18% increase in MSCI World in € in 2024 can be broken down into 2% dividend, and a 6% increase in earnings (8% for the full year). Hence, valuations are 10% higher at the nine-month mark. Is it fair to have 10% higher valuations in 2024 ? The long-term average valuation is 16.7x and USA with 2/3 of global market cap is currently at 20x next year earnings.

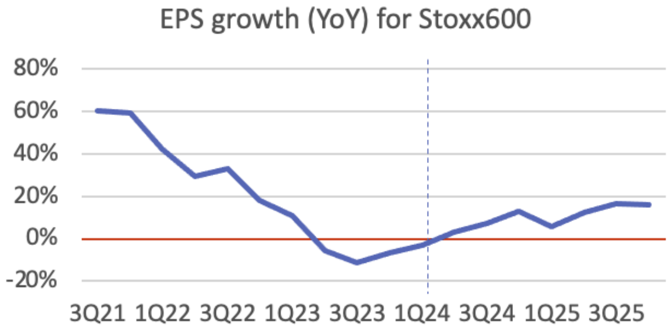
Previous roadmap updates have looked at USA digital leadership companies. They have much better profitability and hence justify higher valuations.

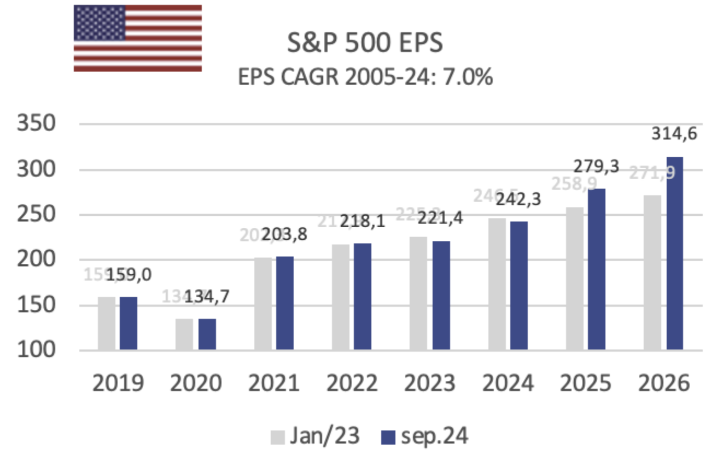
Turn your eyes to slow growth Europe that's valued at 13x next year earnings. The composition of Stoxx600 is changing towards tech, software, luxury and healthcare at the expense of energy and financials, so at some point a higher valuation is justified. In 2025?

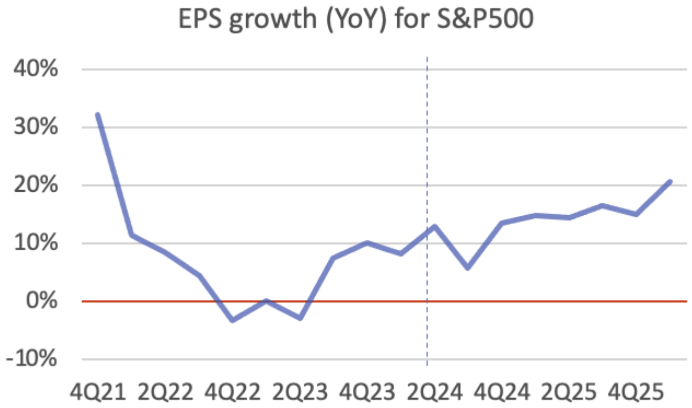
Stoxx 600 return components since 2012











Stock market update II

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

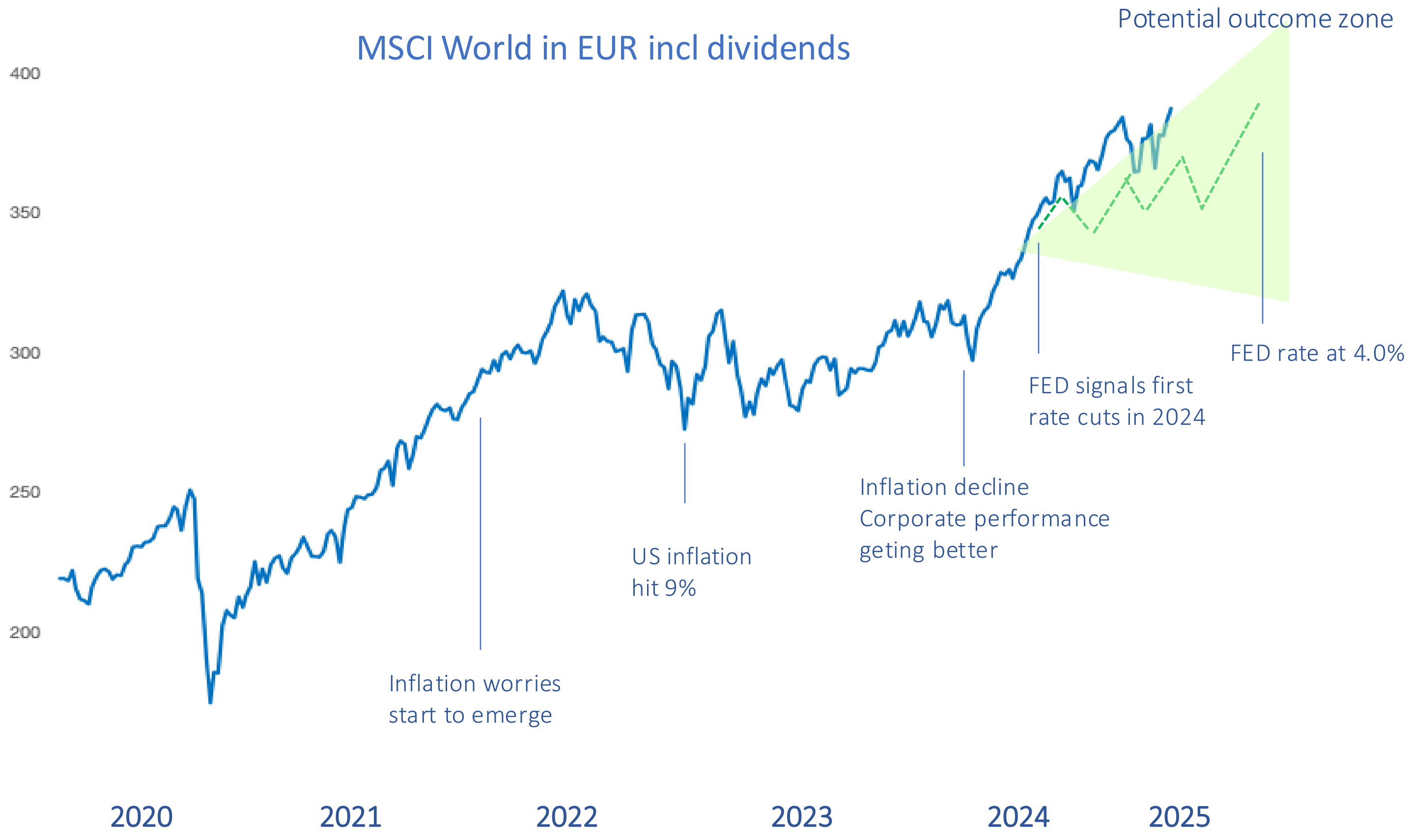
This is the same situation as earlier in 2024.

You could ask how come there's not more selling when valuations are clearly in the upper end of long-term valuation intervals. Part of the answer was in 2Q 2024 roadmap update that focused on 'who are the buyers'. It's mainly corporate stock buy backs and second driver is passive index funds. Both are relatively ignorant to valuation levels. The the pond of investors that care about valuations is getting smaller as fewer investors are active.

Could it change? Corporate buybacks will continue if corporate cash flows exceed the investments needed to grow their business with good profitability. The holders of passive funds are individuals and pension funds that use the vehicles for savings. As savings need to be used or passed on to next generation some sort of selling is likely to occur in the coming years/decades

Updated simplified roadmap 2024 with realized prices in 3Q 2024

Thesis for 2024 (December 2023 forecast): 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

Time for the baby boomer generation to pass on their wealth

Demographics moves likes glaciers – you can't stop them

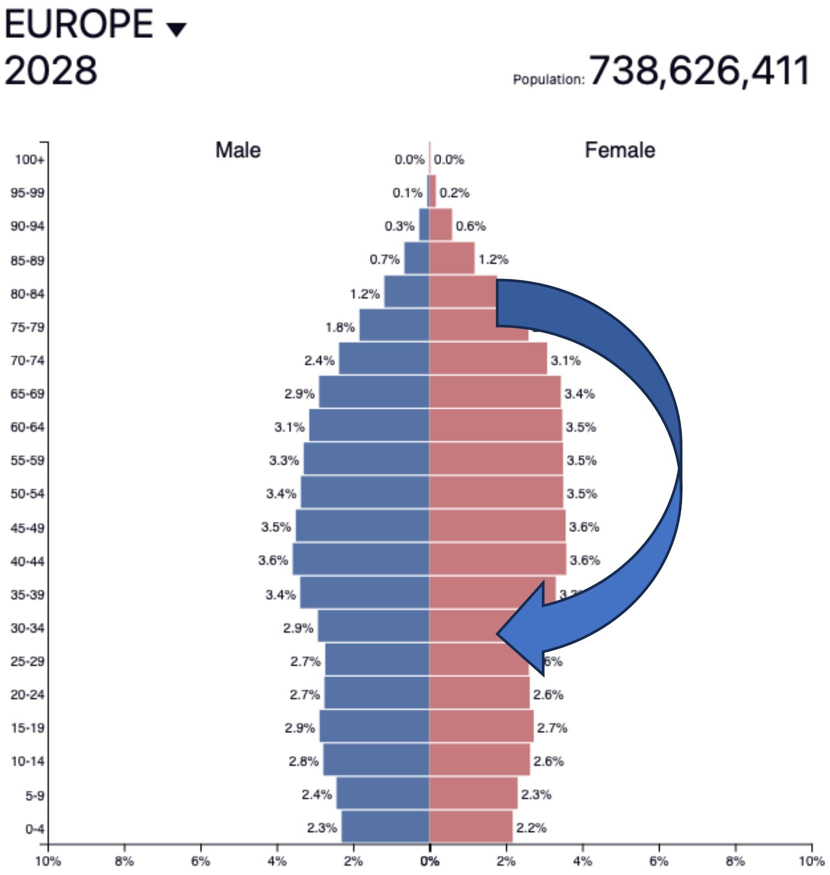
In 2028 there will be 5 million fewer people in Europe than in 2023. In USA there will be 10 million more people in 2028 vs 2023.

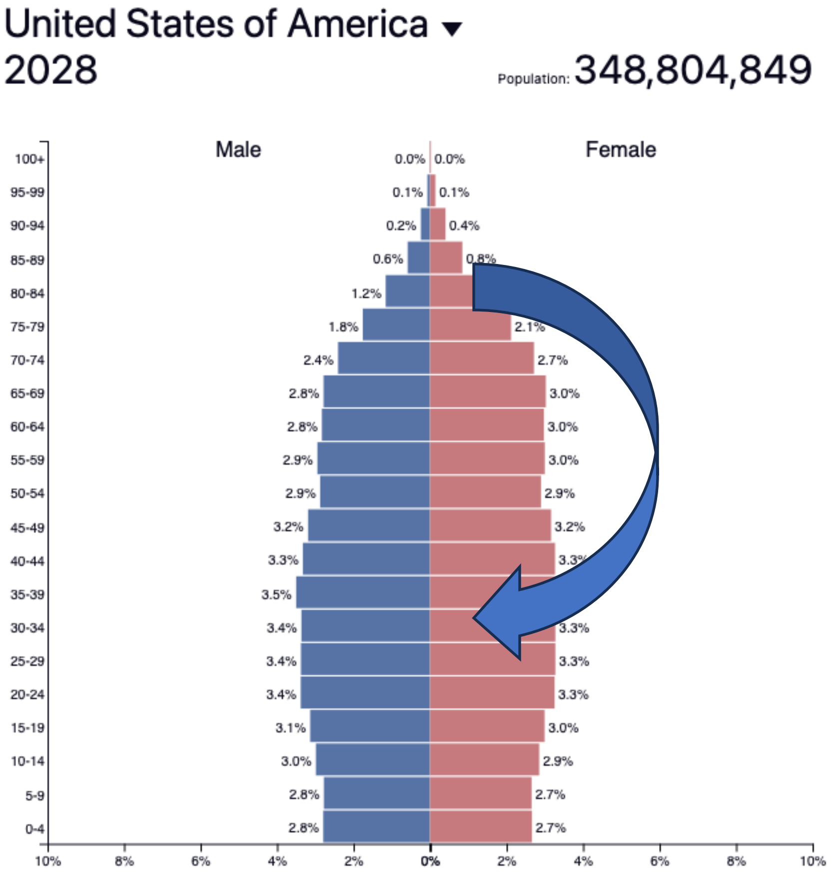
Based on an average age of 85 years then a European group of 160 million people that live today will be history in 2044. They will be replaced a still unborn group, which most likely will be 35 million per 5-year cohort or a total of 140 million people. Hence 20 million fewer Europeans in 2044 or the same as the population in Netherlands gone.

When you're on the other side of 60 years old your consumption patterns tend to be more intangible vs earlier in life when you need baby strollers, a sofa and all kinds of things. Most of the readers of my Quarterly update knows the drill.

As the older generation become history then their wealth baton is passed on to the younger generations.
Bank of America estimates the total wealth to be passed on is around 90 trillion $ in USA alone

More than 100 trillion $ to be passed on to next generations over the next 20 years





Source: BofA and Our world in data

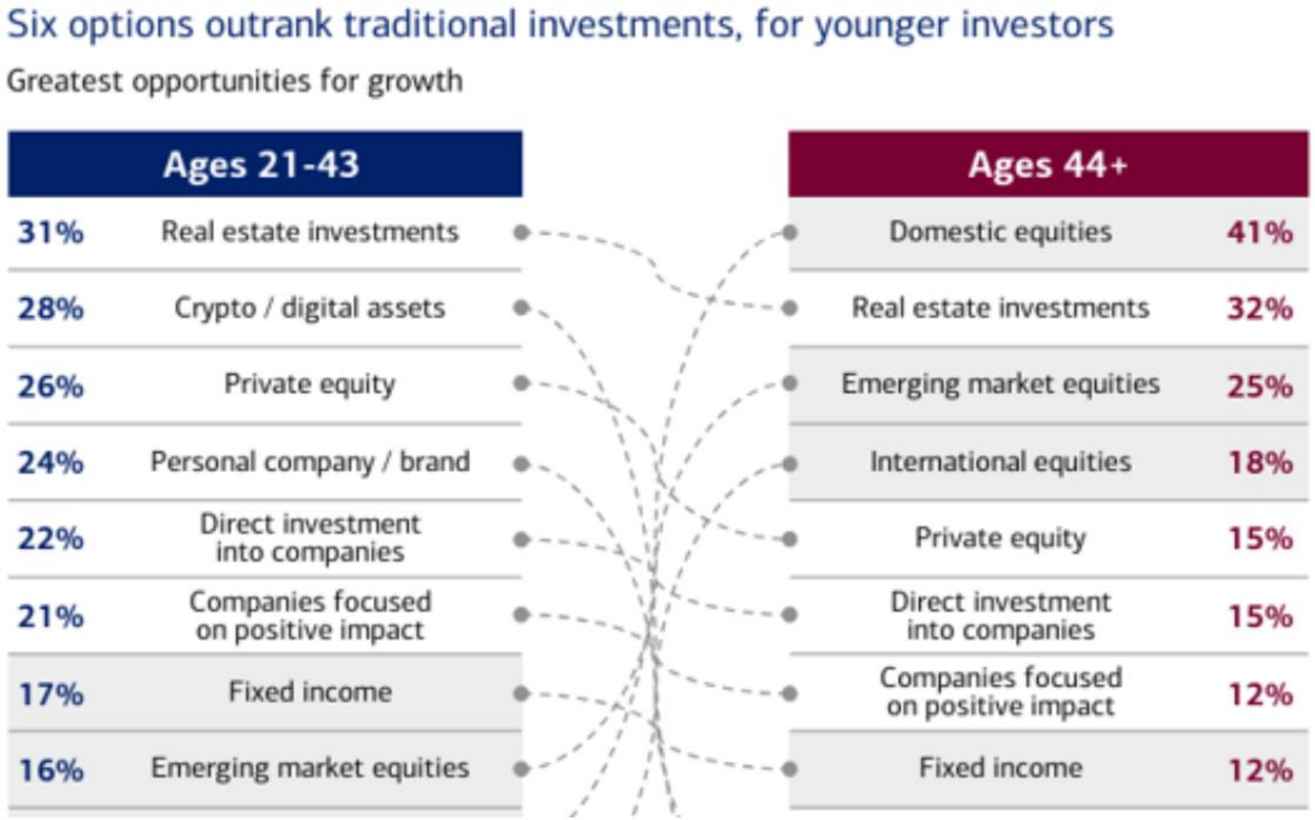
How to re-allocate 100 trillion $

There’s already surveys on ’how to spend it’ and the main findings are that older individuals tend to have surplus capital that’s saved in equities, real estate and bonds the younger individuals (age group 25-40 years old in 2024) say they want a house or flat and surplus capital will be saved in digital assets or private equity.

As the average lifetime in developed economies now exceed 80 years then the receiving end will be 50-55 years old then they inherit. At that age, their own kids are about to fly from the nest and set up their own home. The 50-55-year-old can then choose to pass on some of the inheritance to the younger ones for an easier start or keep it for their own retirement period.

Humanity has never seen such as big inheritance pass-on so the next decades will likely see some unexpected new patterns in private consumption. Stay tuned for more on this.

How to spent it



Source: BofA

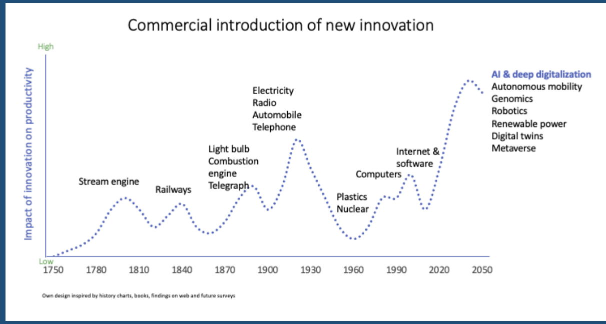
Vestas (139 DKK on 3 Oct 2024)

Vestas founded a wind turbine producer in 1970s and listed in Copenhagen in 1998. With 1/6 market share Vestas is the industry leader.

Vestas installed base is 170 GW of power and the current annual add is 15 GW.

The overall demand for non-fossil fuel power is estimated to grow at a 10% annual pace. The past 40 years has been driven by land-based wind turbines, while lots of future growth will come from offshore based wind farms in shallow water areas. The current installed base of 0.5 million turbines is expected to reach 1.0 million turbines in 2040

Vestas fits the innovation roadmap



World leader wind turbines

At the recent Cyprus Value 2024 conference I pitched Vestas Wind Systems. I also hold Vestas in Børsen All Star portfolio – link to podcast and portfolio here

Since IPO Vestas has generated 14% annual return and 12% revenue CAGR. It's obviously not a linear journey.

Vestas and peers got caught in higher production and transportation costs in 2021-23 period and they had to absorb the higher costs and earnings consequently plummeted.

The next period 2024-27 is for a normalization of earnings driven by an orderbook that replace unprofitable orders with profitable orders.

Vestas's return on capital in periods of normal to high profitability exceed 30% and as the company (and industry in Europe and USA) emphasize financial sustainable performance the valuation suggest a price of 250-300 DKK.

Main risk is silly pricing from Asian competitors.

This is only for educational and inspirational purpose. This not a recommendation to buy or sell. Do your own research, assessment and follow up and seek professional advice if you need to

Stock price since IPO

Productivity roadmap

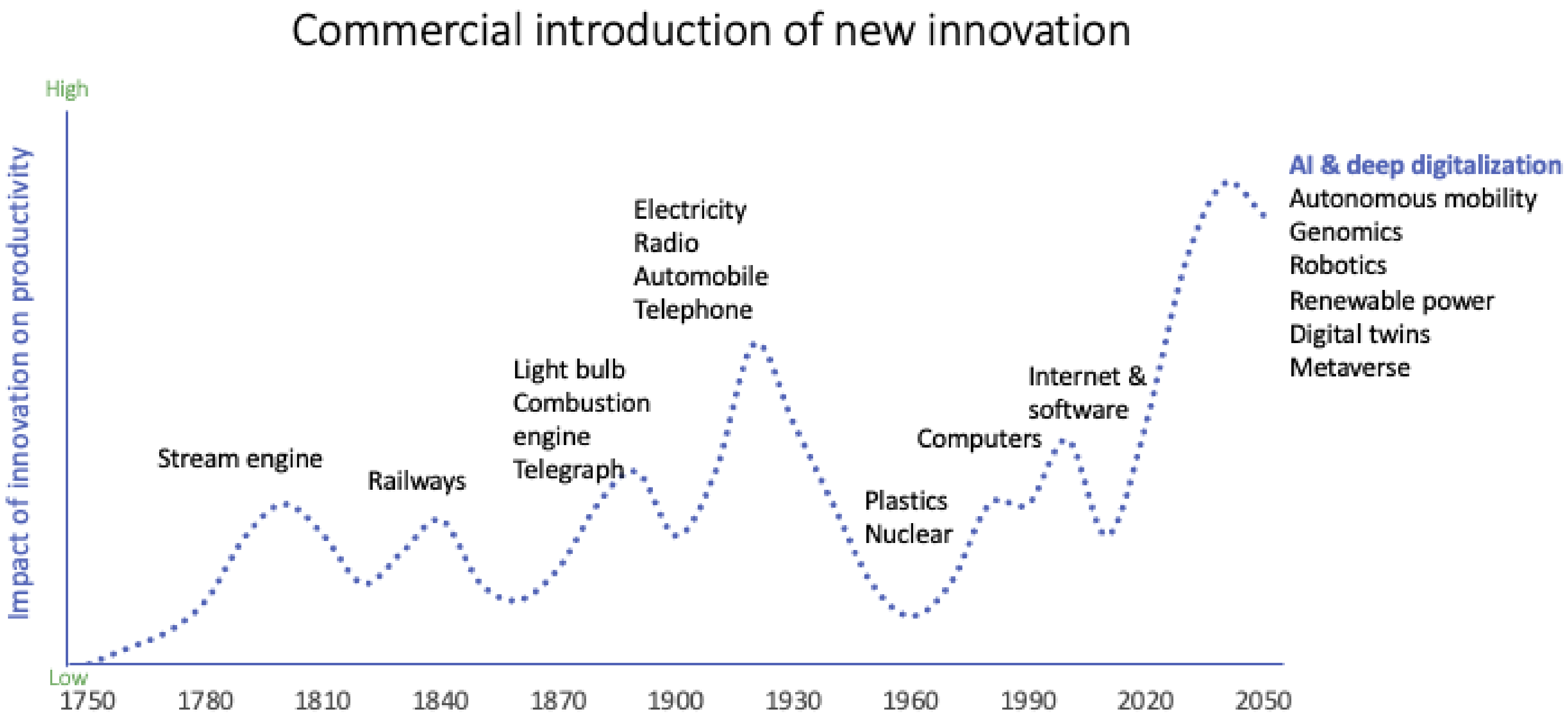
Over the past 7 years, I have consistently emphasized the significance of digitalization as a key theme. Its impact will be profound, revolutionizing human interactions and enhancing productivity.

2023-24 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 2.900bn $ today).

It's just for inspiration and not investment advice. Do your own research or ask your advisor.

Heading straight into the biggest productivity transformation in humans' history



Own design inspired by history charts, books, findings on web and future surveys

One more thing

Nordic Investment Partners makes investment analysis and roadmap's that can be used for inspiration in asset allocation and investments. The 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** (link) a Swedish investment fund that's among the top 1% best global funds since inception in 2014

Reach out for more

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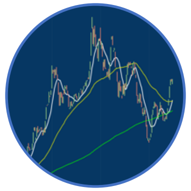
Key investment view towards 2035

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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