NORDIC INVESTMENT PARTNERS

Roadmap 2025

Most likely positive stock market returns in 2025 although not as high as 2023-24

December 2024

2025 roadmap

Roadmaps serve as a compass, not a GPS. They provide direction but lack pinpoint accuracy. Without a roadmap, navigating uncertain conditions becomes challenging, particularly when road conditions, weather, or end-destination circumstances change significantly. Proactive navigation is essential in such scenarios. For inspiration and educational purposes only. Please refer to the disclaimer at the end of this slide deck.

Main components in roadmap 2025

After years of recovery and elevated inflation following the COVID-19 lockdowns, 2025 is expected to mark the return of a "normal" economic environment. However, political turbulence is anticipated, likely affecting consumer and business sentiment through headline-driven reactions.

Key economic forecasts for developed markets include GDP growth of 1-2% and inflation of 2-3%. While a recession remains a risk, any downturn in 2025 may stem from governmental dysfunction.
Monetary policy trends will ease in Europe and US will be slightly more restrictive depending on the glidepath for inflation. By year end 2025 central bank rates are expected to be 2.25% (current 3.0%) in Europe and 3.75% (current 4.5%) in USA
The geopolitical and corporate dynamics: Since 2017, geopolitical tensions—especially US-China rivalries—have reshaped global supply chains, emphasizing localized production. Elevated interest rates from 2022-2024 prompted corporations to focus on debt reduction, dampening M&A activity. However, 2025 is poised for a rebound, with US firms leveraging a strong dollar and higher valuations to acquire overseas assets.
Market expectations: Revenue growth of 3-6% and earnings growth of 6-12%. There's only one big hair in the soup; equity valuations in USA are on the high side with 23x forward earnings, compared with 13x forward in Asia and Europe. The US, as the driving force of global stock prices, plays a significant role in market trends. American investors now hold 30% of European equities, up from 20% 12 years ago. Should US valuations contract in 2025, the ripple effects could extend to other markets.
Investment focus 2025: Investors should prioritize well-managed, growth-oriented companies with reasonable valuations. Promising sectors include cutting-edge pharmaceuticals, digital consumer services, select semiconductors and power infrastructure providers. Conversely, companies with poor cash flow, thin margins, high debt levels, or large workforces are less favourable.
Risks considerations: Market downturns are common; refer to the risk map for detailed scenarios and mitigations.

For additional insights, please review the 2024 roadmap here

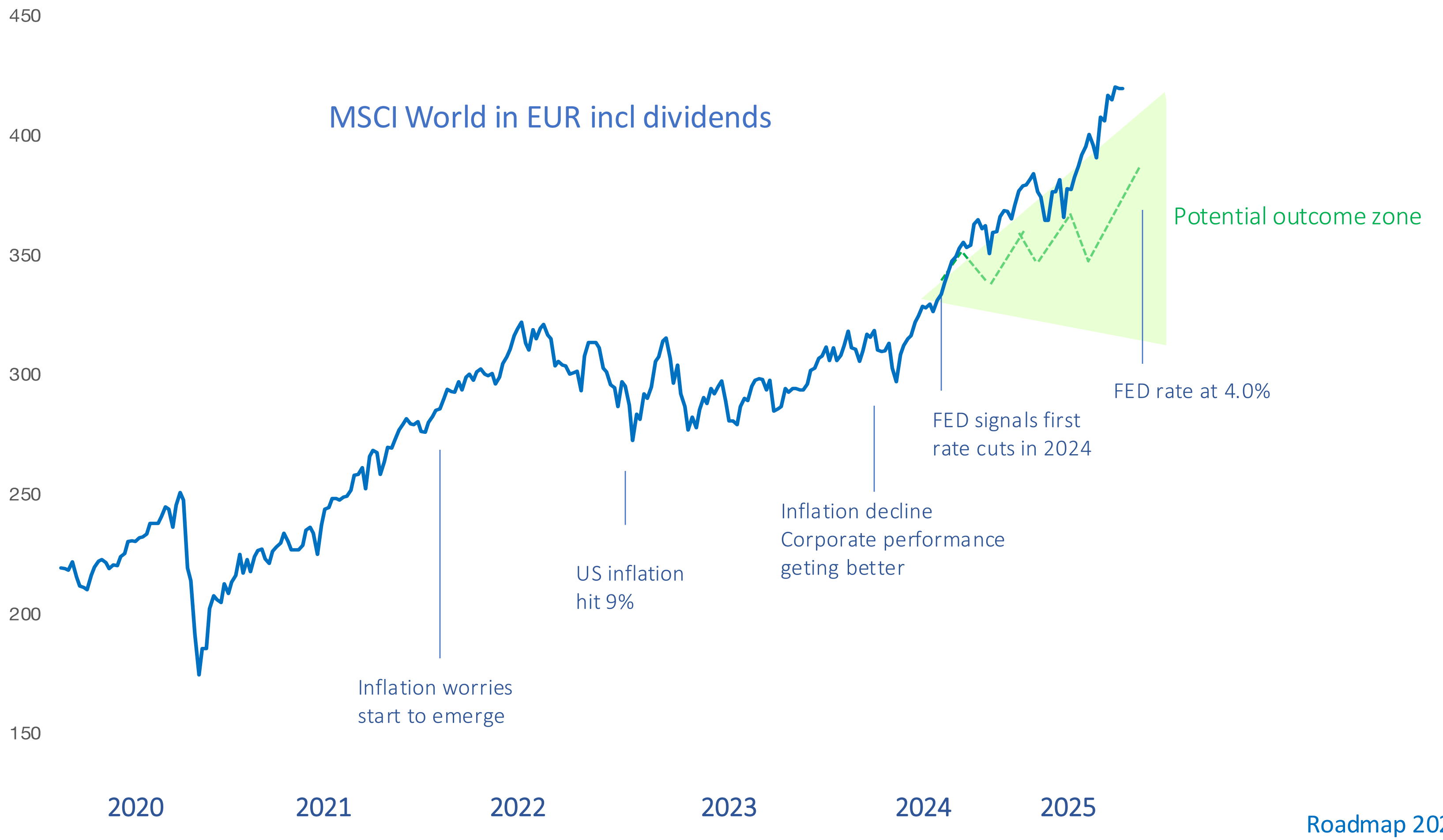
Updated simplified roadmap 2024 with realized prices in 2024

Thesis for 2024 (December 2023 Forecast)

Lower Central bank rates impacted 2024 stock price performance very positively.

The consensus forecast for 2024 projected earnings growth of 12% for the S&P 500 and 6% for the Stoxx 600. While the S&P 500 met these expectations, the Stoxx 600 delivered flat earnings, underperforming significantly.

As a result, US stocks have substantially outperformed both Europe and the rest of the world. Initial forecasts for a 10-20% return year proved to be conservative, as the MSCI World Index in euros rose by 27%, with the US market surging 34% and Europe achieving a modest 9% gain.

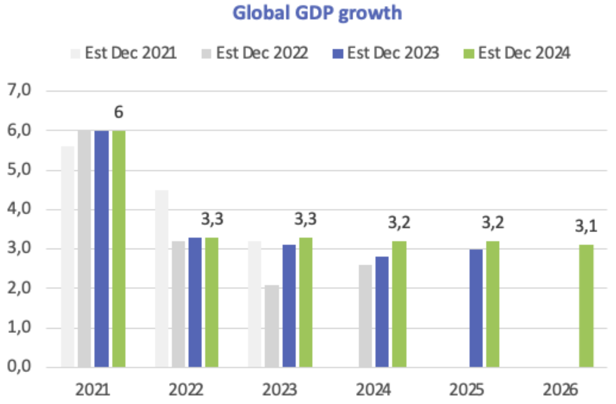


The fundamental forecasts going into 2025

Just keep an eye on these indicators

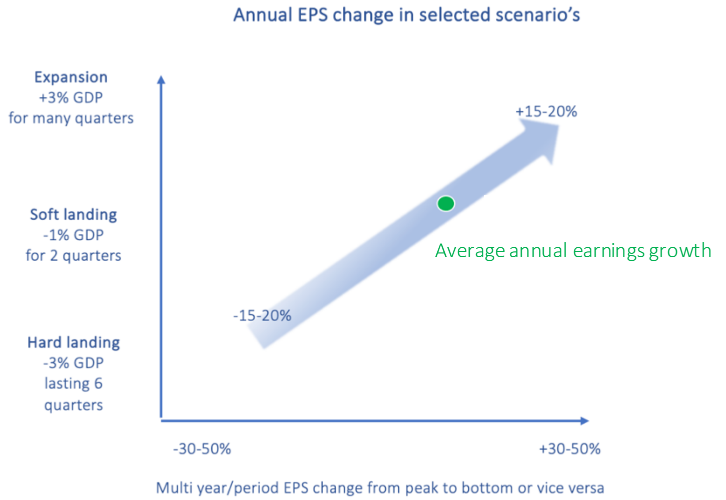
Key economic indicators	Size 2023	2022	2023	2024	2025	2026
US GDP	27.3trl $	2,1	2,9	2,8	2,2	2,1
Europe area GDP	22.7trl $	3,3	0,4	0,8	1,2	1,5
China GDP	17.8trl $	3,0	5,2	4,8	4,5	4,2
Global GDP	105.1trl $	3,3	3,3	3,2	3,2	3,1
Inflation rates						
US inflation		6,5	4,1	3,0	2,4	2,1
Euro inflation		8,3	5,7	2,4	2,0	1,9
China Inflation		1,9	0,2	0,4	1,7	1,5

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

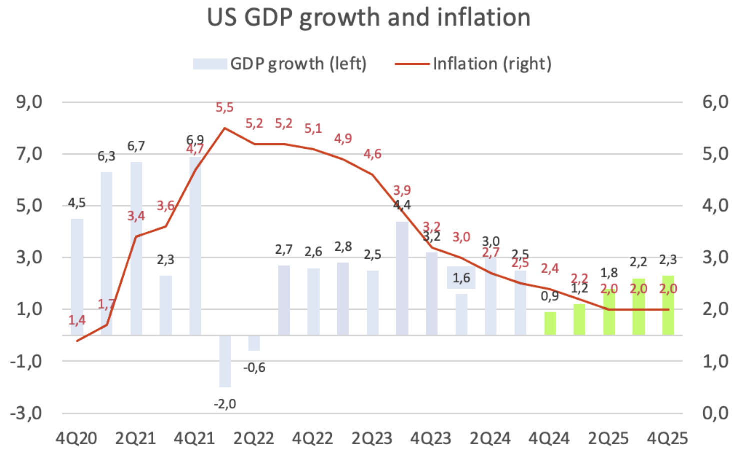


Source: Conference Board, IMF and OECD. Annual change in percent

Schematic view of correlation between economic activity and earnings



Source: Own design



Source: Conference Board, November 2024

Earnings roadmap for 2025

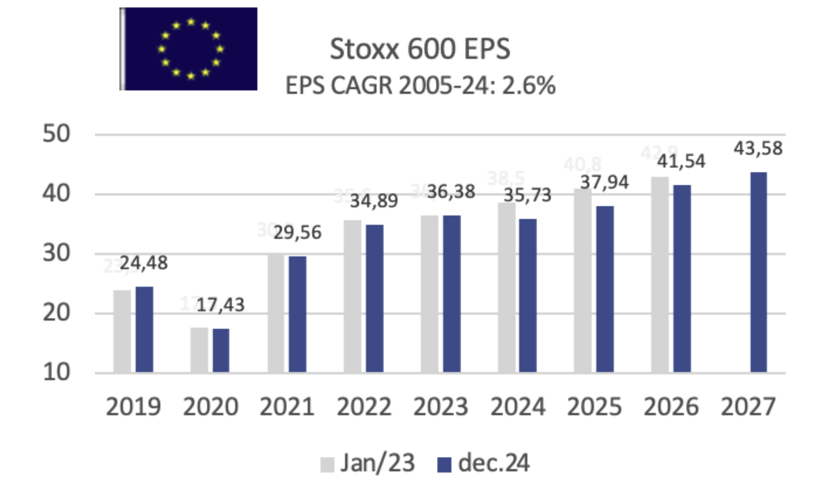
Each year comes with unique market dynamics. On next page you can explore how performance components have evolved since 2012.

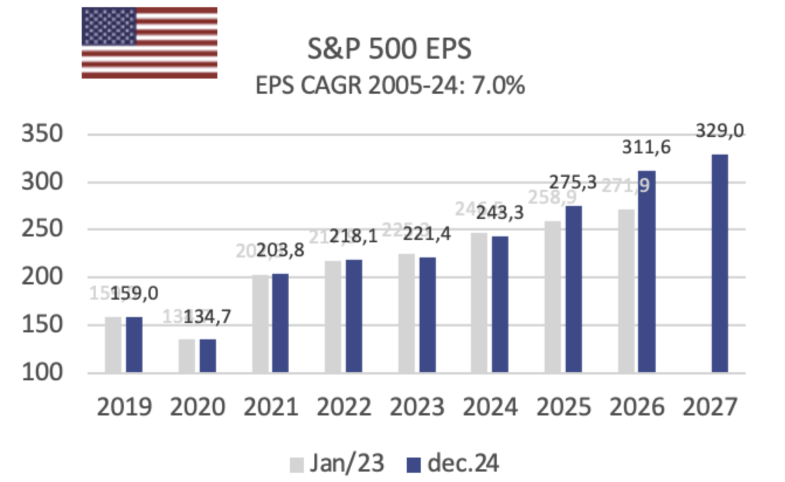
European Market Overview
European earnings growth is projected at **6% in 2025**, driven primarily by a 20% increase in technology earnings, followed by 12% growth in healthcare and industrials. However, sectors like energy and utilities are expected to see a 3% decline in earnings.

Europe's market is valued at **13x forward earnings**, slightly below its long-term average of **14x**. Despite some bright spots, Europe continues to lag the U.S. in terms of performance. Years of regulation have stifled productivity growth and innovation. For instance, artificial intelligence remains underdeveloped in Europe, creating a challenging environment for long-term economic growth and competitiveness.

U.S. Market Overview
The U.S. has served as the global growth engine for the past decade, and projections for 2025 suggest this trend will continue. **S&P 500 earnings are expected to grow by 13%**, led by 23% growth in technology, 21% in healthcare, and 19% in industrials. Energy and real estate are expected to see 4% growth.

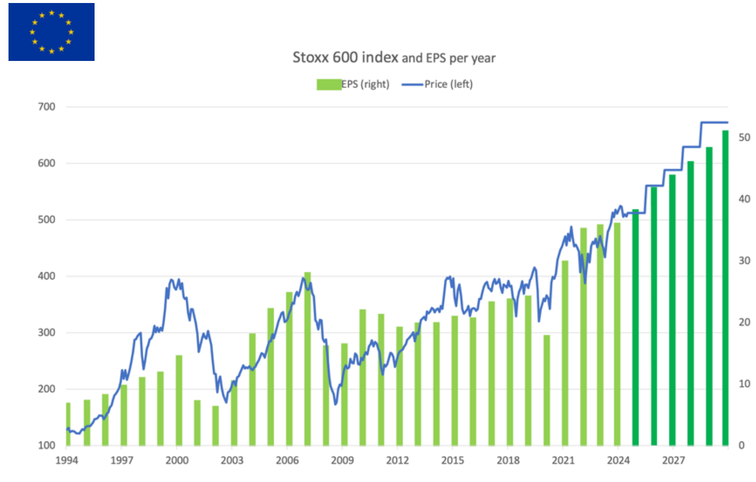
The U.S. market is valued at **22.4x forward earnings**, significantly above its 10-year average of **18.5x** and 40-year average of **15.8x**. The American economy benefits from its highly capitalistic system, fostering innovation and growth. The incoming administration has promised to ease regulatory burdens further, supporting robust productivity growth and ample capital availability for innovation.



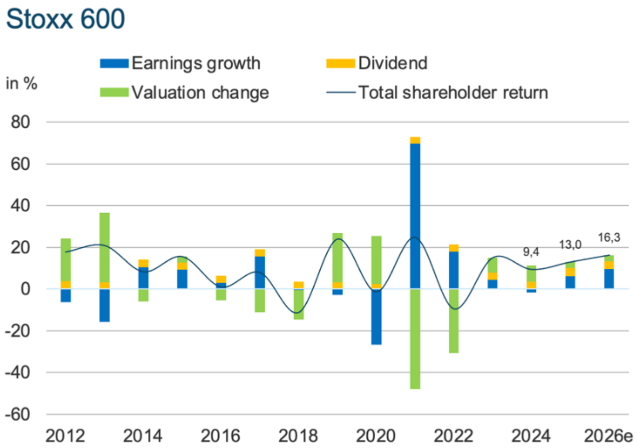


Index and performance contribution

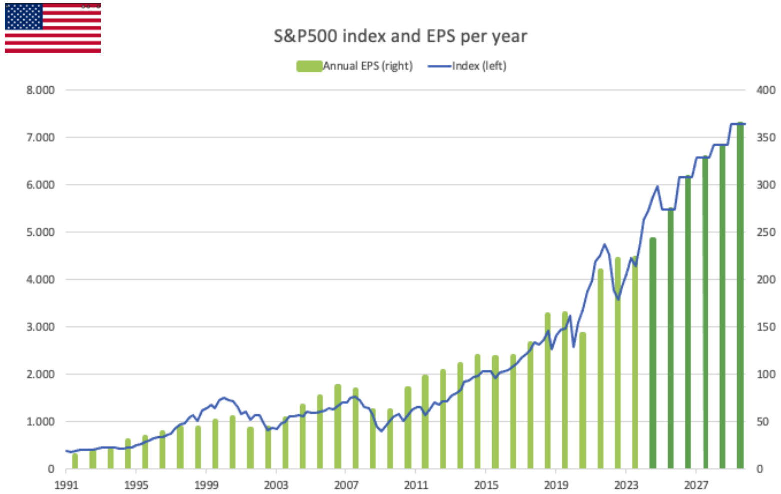
Even with a modest valuation contraction, the US market could still deliver double digit returns in 2025.



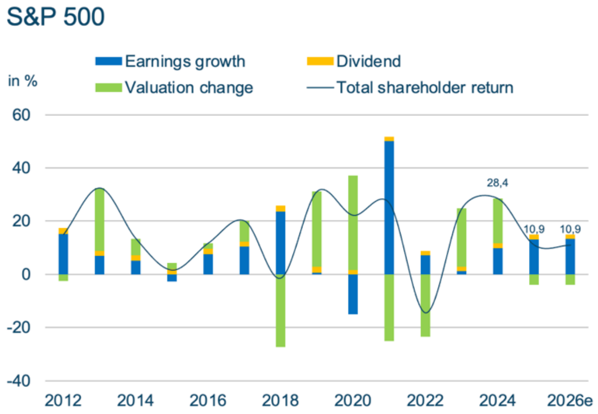
Source: Stoxx 600, LSEG Refinitiv + own longer term assumptions



The components explaining the annual performance

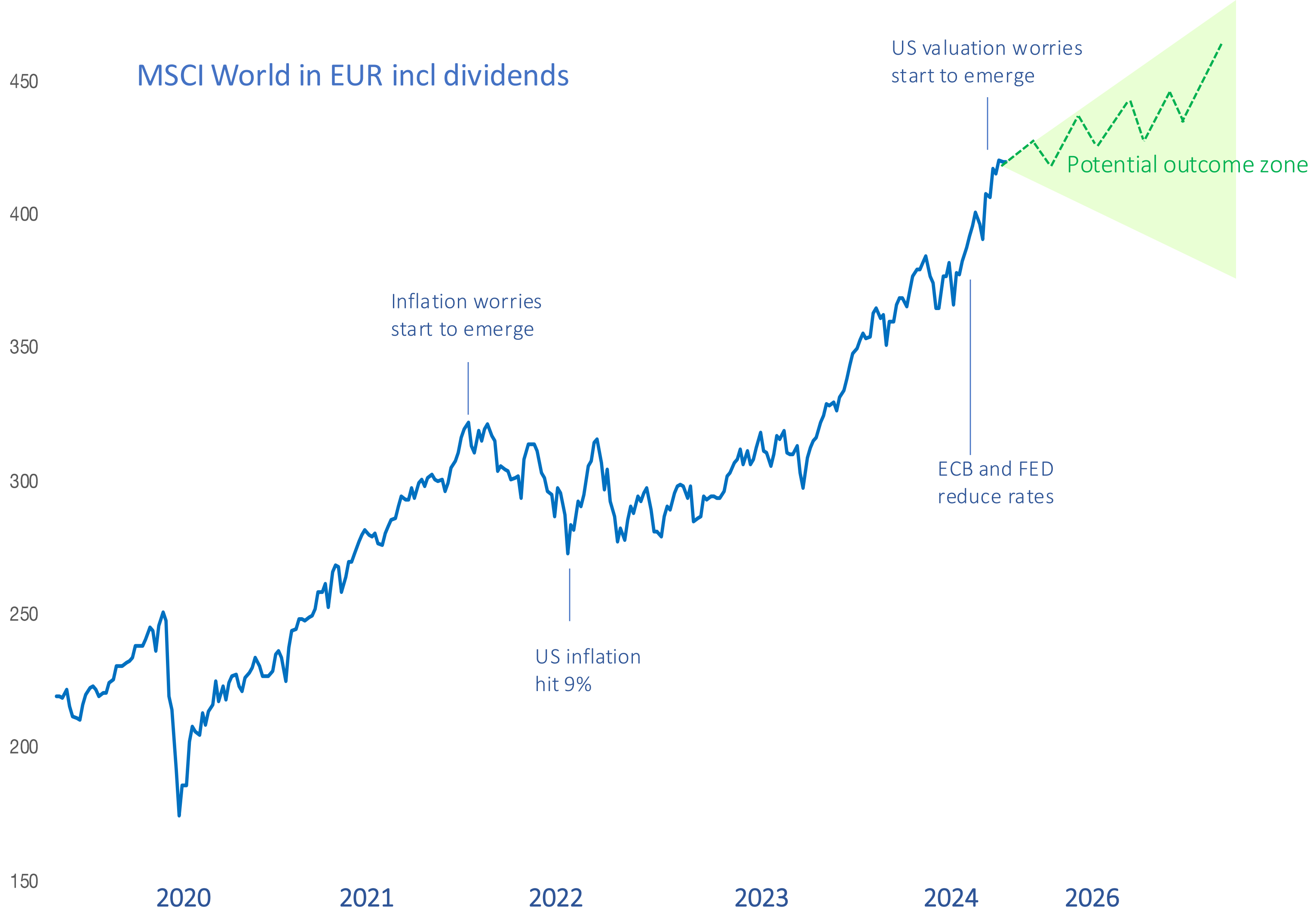


Source: S&P500 and LSEG Refinitiv + own longer term assumptions



Simplified roadmap for stock prices in 2025

This is a compass, not a GPS. Overall, the projection is for a 10% return for the year. Factors such as Trump's rhetoric and quarterly updates will likely contribute to the usual market volatility. If we avoid a recession, the path toward 2025 should remain clear.



2025 risk radar

Risk is essentially volatility, and investors should always be mentally prepared for potential and rapid market drops of around **20%**.

Key factors that historically impacted markets significantly:

1. Economic or earnings recessions

2. Overextended valuations

3. Tightening of monetary conditions

4. Systemic shocks

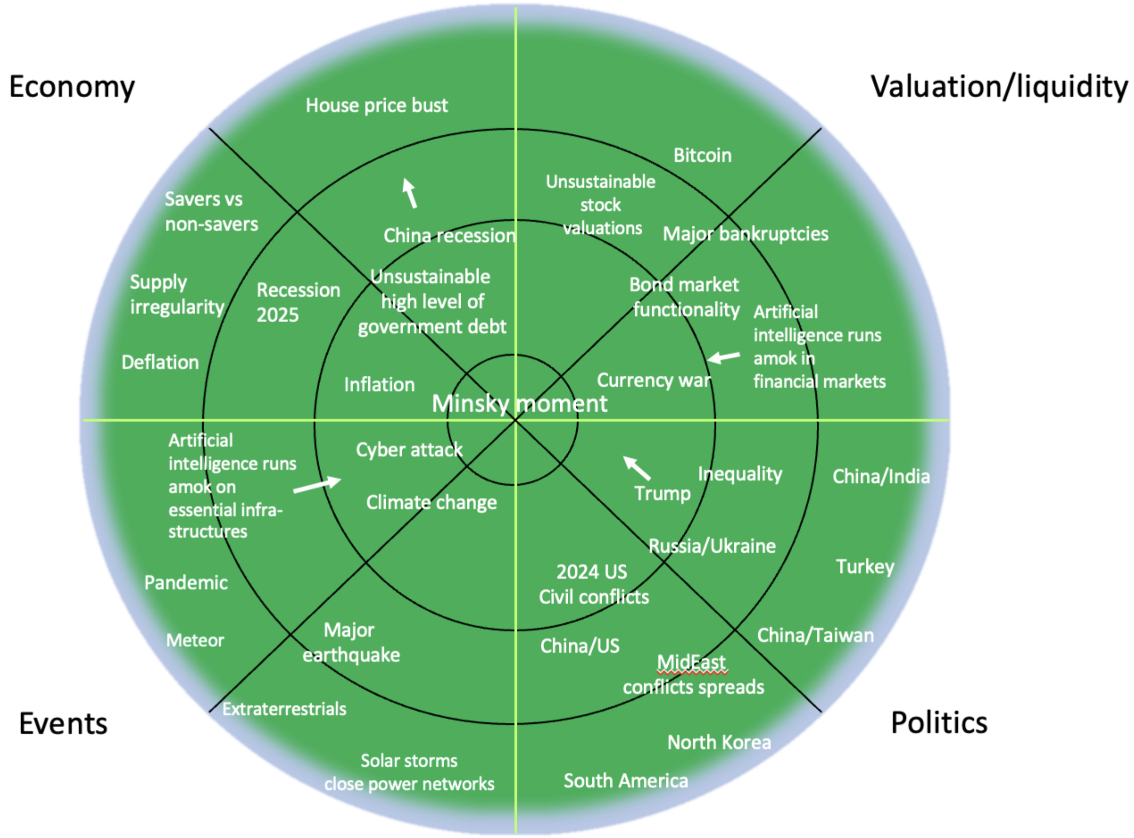
Key concerns for 2025:

1. Geopolitical tensions may escalate, particularly with new leadership in US

2. Government debt levels are uncomfortable high in case an economic slump emerge

3. High dependence on few sectors for performance

Risk Management
The radar screen on the right highlights potential risk factors to monitor.



Positive surprises to the Roadmap and how to navigate those episodes

Event	How it unfolds	Action plan
Global stocks rise more than 15%	The AI technology lift productivity faster than anticipated in traditional sectors such as banking, insurance and travel services. As a consequence, earnings estimates are lifted 5-10%	This will happen slowly, and it will be easy to see as call-center interaction gets easier and costs structures start to change character
Global stocks rise 25-40%	Due to integration of AI in many processes inflation drops to below 2% while economic pace accelerate. Passive equity funds sees massive inflows from cash/bond funds and fuel a bull market not seen since 1920s and 1990s	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 as earnings growth is turtle speed. Deregulation, more government spending on defense and innovation and China stimulus packages change the narrative from Summer 2025	US passive equity funds sense opportunity and capital rush to non-US equities. Be ready as this can happen rather quickly as global investors are underweight Asia, 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 after 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 break though 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
Autonomous driving release a rush for new EV's	The long-awaited self-driving cars starts rolling out on the streets and hit 1 million units forecast by mid-2026	This will change transportation services overnight as unmanned vehicles deliver people and goods a substantially lower costs than today. Short taxi companies and buy ride sharing platforms

Negative surprises to the Roadmap and how to navigate those episodes

Event	How it unfolds	Action plan
Stocks decline 10-15%	Inflation is sticky and starts going up again. Central banks (mostly FED) gets restrictive and popular high valuation stocks get hit by sell orders	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 Central bank action cause a 4-6 quarters recession. Government debts are already high and fears of a debt collapse (**Minsky moment**) ripple through markets	Hard to say if this will happen in 2025. This will happen sooner or later as government debt levels are already unhealthy in some major economies. It normally starts as a correction, but continues to roll down the hill. 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, power networks and other important infrastructure 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
AI runs amok in financial markets	Algorithms and AI perform more and more functions in financial markets. A software glitch (fat finger?) cause a major flow driven sell off	Exchange authorities get caught foo guard and markets plummet 20-30% very fast. Best solution is to pull the power plug. Restoring confidence will take time.
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 50$	'Drill baby drill' has the desired effect of lower prices.	This is a low probability scenario. If it becomes a reality, it will halt renewable investment in many regions and cause havoc in oil/gas producing countries incl USA.

Long term scenarios and themes

Era of producvity enhancing innovations in 2020s

Positive surprises to the Roadmap and how to navigate those episodes

56.000 billion $ in new types of revenues in 2044

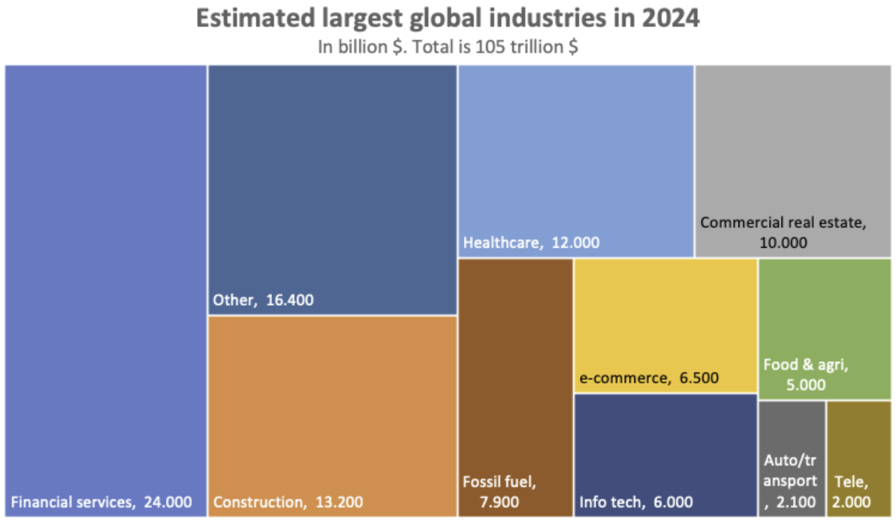
Over the next 20 years, the value of global economic activity, measured as nominal GDP or revenues in trillions of dollars, is projected to grow by $150 trillion, increasing from the current run-rate of $105 trillion.

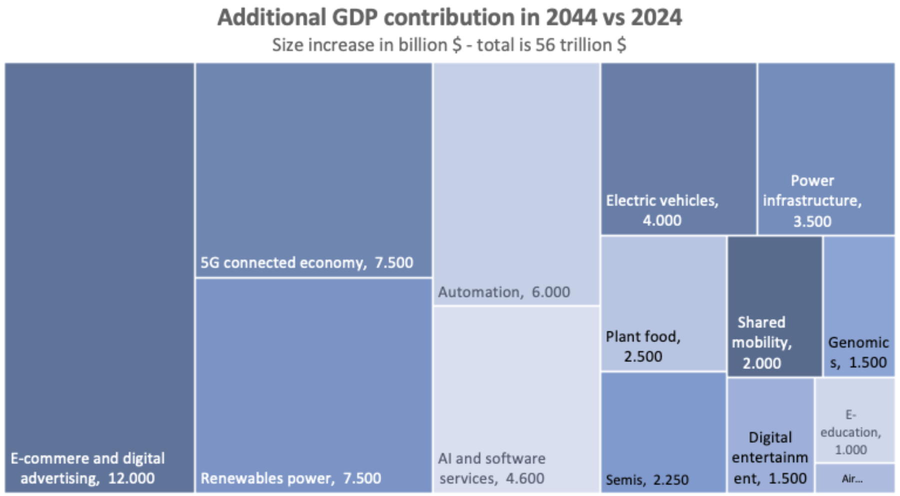
The majority of this growth will be driven by emerging economies, particularly in Africa and Asia, where rising affluence will contribute significantly. Much of this added economic activity will fall into traditional sectors such as construction, energy, healthcare, and education.

By 2044, an estimated $56 trillion of the new nominal GDP will come from entirely new industries and business models. To illustrate, consider the smartphone industry: in 2004, its revenues were effectively zero, with only a handful of devices in circulation. Today, there are 4–5 billion smartphones globally, generating a total revenue stream estimated at $3 trillion, including data-subscriptions.

In recent years, the AI sector has seen rapid expansion. However, AI is often integrated into other segments such as automation, the passenger economy, or enabled via semiconductors, rather than existing as a standalone industry.

While the exact trajectory of these changes remains uncertain, this page highlights key activity areas that warrant close attention. The list is by no means exhaustive. Staying curious and identifying emerging trends early will be crucial.





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

AI (artificial intelligence) comes to your pocket

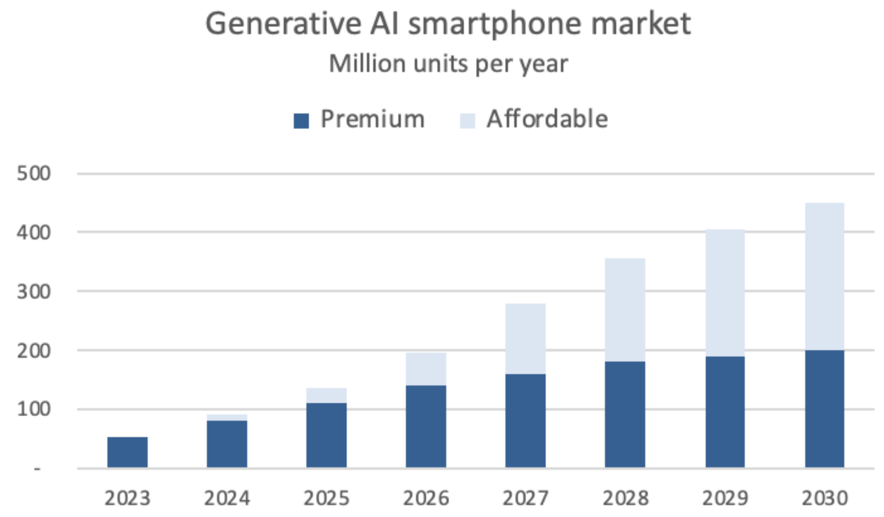
Just 15 years ago, smartphones were a novel concept, with state-of-the-art communication happening via BlackBerry. Fast forward to 2024, and AI-enabled smartphones have become a part of everyday life. But why buy a new one when the old still works?

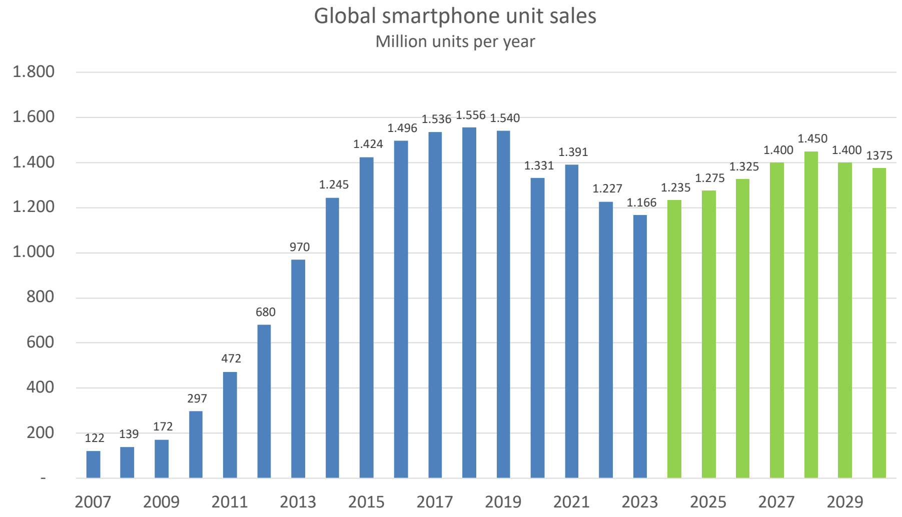
Generative AI smartphones now offer features such as:

- Predictive text
- Route suggestions
- Voice search and virtual assistants
- Real-time translation
- Location-based app and entertainment recommendations
- Voice-to-text, data retrieval, and photo search
- Interactive gaming

Since 2017, smartphone sales have been driven primarily by replacement purchases. Premium versions, like Apple's latest models, have only recently gained more traction. The pace of adoption will be seen in 2025 and depends on consumer feedback and usage.

AI smartphones consume far greater amounts of data, which is expected to create a ripple effect as their popularity grows. This trend will benefit semiconductor companies like Micron, Qualcomm, Skyworks, and STMicro, as AI smartphones require 40% more DRAM and 10% more NAND, alongside advanced processors optimized for applications and energy efficiency.





Autonomous driving

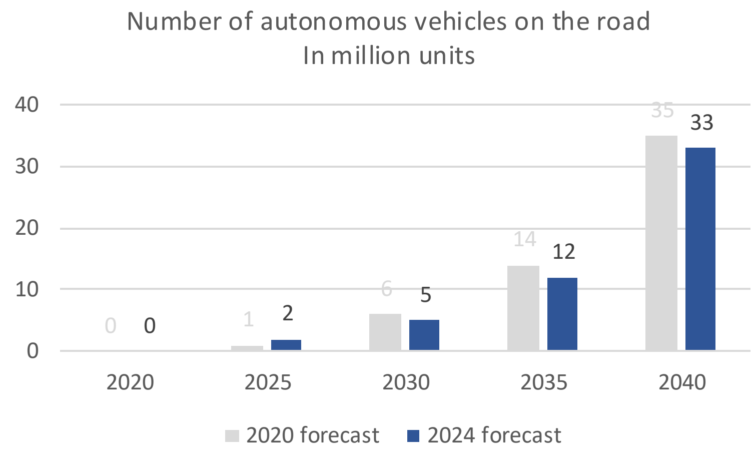
One of the major revenue opportunities in the future lies in shared mobility powered by electric vehicles. The key challenge will be persuading people to relinquish control and trust vehicles to handle all the driving.

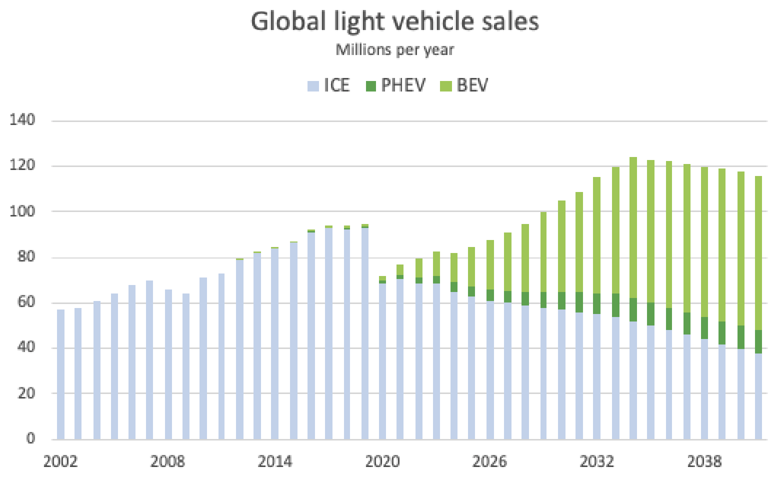
While the future of autonomous vehicles is already here, current adoption remains small-scale. However, the coming years will see significant scaling up, with new business models emerging. The rapid development of AI models has accelerated the learning process for autonomous vehicles, and this progress will only intensify as more driving data is collected, analyzed, and applied to improve autonomous driving capabilities.

Robotaxis, such as those from Baidu and Waymo, are leading examples, but ridesharing platforms like Uber, Lyft, Didi, and Grab could also become key players. These companies already possess the infrastructure to generate revenue for vehicle owners through autonomous mobility solutions.

AI has been a hot topic for years, but its transformative potential became evident with OpenAI's groundbreaking launch in November 2022.
Autonomous driving may experience its own 'aha moment' by 2025, when self-driving vehicles become a common sight in cities.
Industry forecasts have been tempered due to slower EV sales in 2023-2024, but this could shift as demand for autonomous vehicles, particularly as robotaxis, gains momentum.

Imagine commuting in 2026 without the stress of traffic, using the time to catch up on news, reply to messages, or unwind with a game—all while being seamlessly transported by an autonomous vehicle.





Source: IHS Markit, Goldman, BNEF and own estimates

Which, if any single, will be the next outperformance cluster?

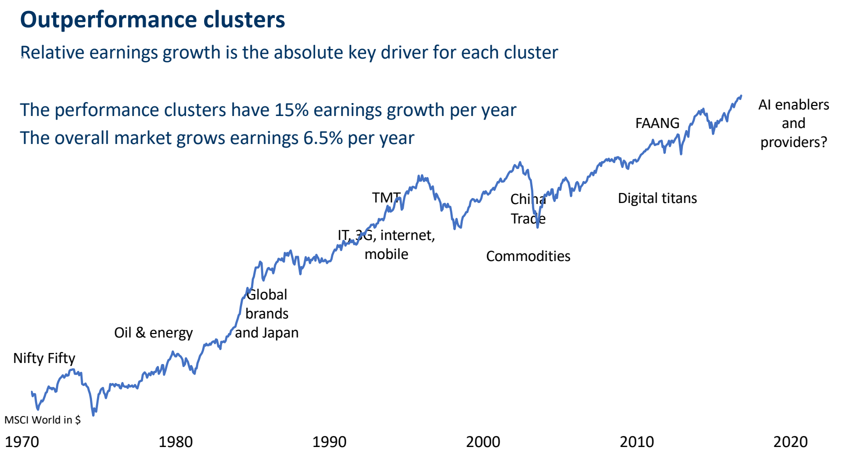
Looking at historical patterns of outperformance, it's clear that these clusters typically take a few years into each decade to solidify into a discernible trend. For instance, the IT boom of the 1990s didn't begin on January 1, 1990—it evolved with milestones like the launch of America Online in 1992 and the Netscape IPO in 1995. Similarly, the commodity bull market of the 2000s was driven by China's rapid economic expansion.

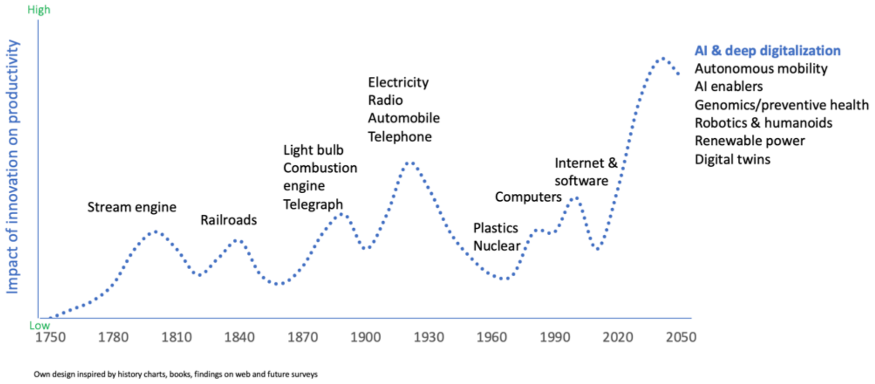
Looking ahead, the most promising candidate for the next outperformance cluster appears to be AI and deep digitalization, with the potential to drive significant productivity gains over the next 10-20 years. I've been illustrating this trend for years, and eventually, the timing will align.

This shift could be driven by advancements like AI-powered smartphones, the emergence of robotaxis in numerous cities, or even breakthroughs in AI-enabled preventive healthcare.

Another potential area for revenue growth is the renewable energy and decarbonization sector. However, many companies in this space currently struggle with poor capital discipline and a lack of positive cash flow, making it less likely to dominate until these fundamentals improve.

The next major outperformance cluster will likely hinge on a combination of technological innovation and its ability to generate sustainable value creation.





Key investment view for the next 10-20 years

Economic pace since 2010 have been highly dependent on fiscal and monetary stimulus provided in the aftermath of the 2008 crisis and Covid lock-downs. The stimulus have however created imbalances such as high government debt levels. The unfunded stimulus 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 few pockets of innovation and profitable 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 lower. Dividends of 2% comes on top. Annual swings are likely to remain in the 15-20% interval, so the occasional declines will continue

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 successfully

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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