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Market outlook

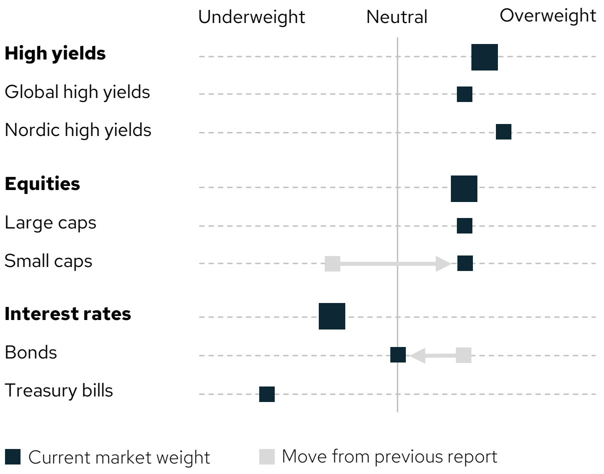
High yields: Significant overweight maintained

Equities: Increasing allocation to small caps

Interest rates: Reducing exposure to bonds

Megatrends: Full allocation to renewable energy

Despite continued caution regarding the economic outlook, the global economy is recovering while IPO and M&A markets are gaining momentum. According to the Riksbank, Sweden is expected to reach 2.7% growth next year, well above trend growth. Headwinds for markets stem from elevated equity valuations and uncertainty surrounding the U.S. economy. We are making minor portfolio reallocations by increasing exposure to small-cap equities, reinstating full weight in renewable energy, and reducing exposure to investment-grade bonds.



IPO market accelerates

IPO and M&A activity has picked up pace post-summer, with notable listings such as Klarna, Noba Bank, and Verisure, alongside transactions like ABB's sale of Robotics to SoftBank. This represents a significant revitalization of the capital markets that should not be underestimated.

Meanwhile, economic conditions in Europe and the Nordics continue to improve, partly supported by earlier rate cuts now showing effect. Growth was slower earlier this year but is increasingly trending positively, particularly in Sweden, where industrial production and order books have strengthened. The recovery is aided by accommodative monetary policy from both the ECB and the Riksbank.

The U.S. economy faces challenges, including a soaring national debt, unclear trade policy, and a complete overhaul of immigration policy. So far, the economy has managed these headwinds, and markets have responded calmly, supported by lower interest rates, rising equities, and increasing risk appetite.

High yields

The rate hikes following Covid have made all fixed-income markets more attractive, especially relative to equities, which have not seen a major correction despite significantly higher rates compared to a few years ago. Nordic high yield bonds currently offer a yield of 7.8%, while the earnings yield on U.S. equities (S&P 500) stands at 3.6%. With such a pricing gap, equities will struggle to match high-yield returns in the coming periods. We therefore maintain our significant overweight in high yield.

Equities

We are increasing exposure to small-cap stocks, which we believe will benefit from a stronger IPO and M&A environment. The Russell 2000 index has outperformed the S&P 500 since mid-August. Large-cap equities remain expensive both on a P/E basis and relative to bonds. Risks in large caps have risen as the "Magnificent Seven" now represent an alarmingly large share of the market. Despite improving macro conditions, we maintain only a modest overweight in large caps.

Interest rates

Rates have declined in both the U.S. and Europe during Q3, and credit spreads on investment-grade bonds have fallen to historically low levels. We are therefore taking profits on our U.S. corporate bond positions. The rationale is valuation, but also the segment's vulnerability to a stronger IPO and M&A market, as large companies often finance acquisitions with debt—especially when issuing bonds is as cheap as it is now.

Megatrends

Finance: Banks borrow at record-low costs

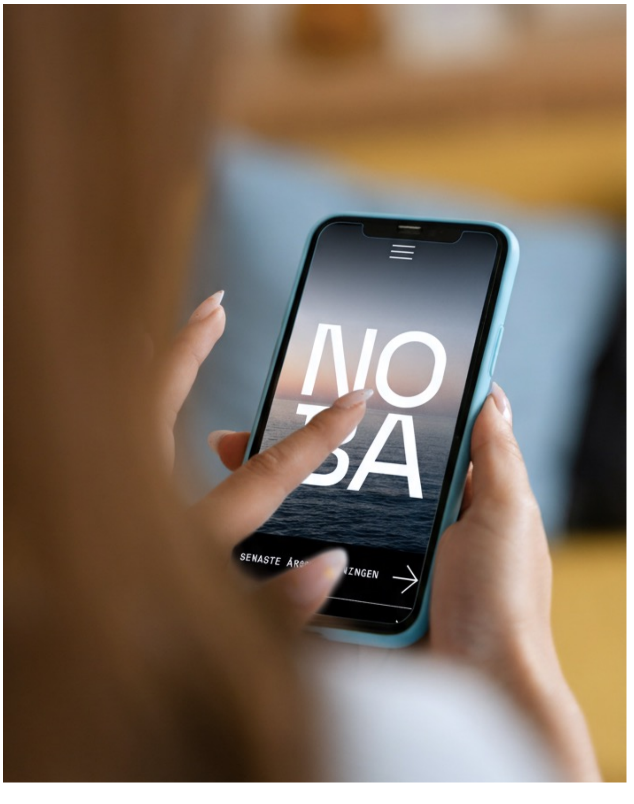
Defence: Peace is no threat

AI: Strong demand for AI products

Renewables: Moving to full allocation

Finance

Banking and financials have been in a megatrend that began nearly three years ago, triggered when central banks abandoned zero-rate policies and raised benchmark rates to historically more normal levels. The European banking sector has significantly outperformed the broader market. Earnings growth has kept pace, and banks can now issue subordinated debt at record-low costs. We see no signs of this positive trend reversing and maintain full exposure.



Defence

The defense sector has gained renewed momentum in 2025, driven by heightened geopolitical uncertainty and Trump's isolationist policies. Despite a significant ceasefire in the Middle East, Europe's overall security environment continues to justify strong demand for defense equipment. Large parts of the world have underinvested in defense for decades, while security conditions have deteriorated. This also applies to much of Asia, which faces an increasingly assertive China.

AI

The sector delivered robust equity performance in Q2 and Q3, fully recovering from the Q1 decline relative to the market. While some argue AI is in a bubble, as long as demand and profits grow rapidly, downside risk remains limited. Nvidia and Advanced Micro Devices have both reported substantial orders from OpenAI, and Samsung posted its strongest quarterly profit in years, driven by demand for AI servers and chips.

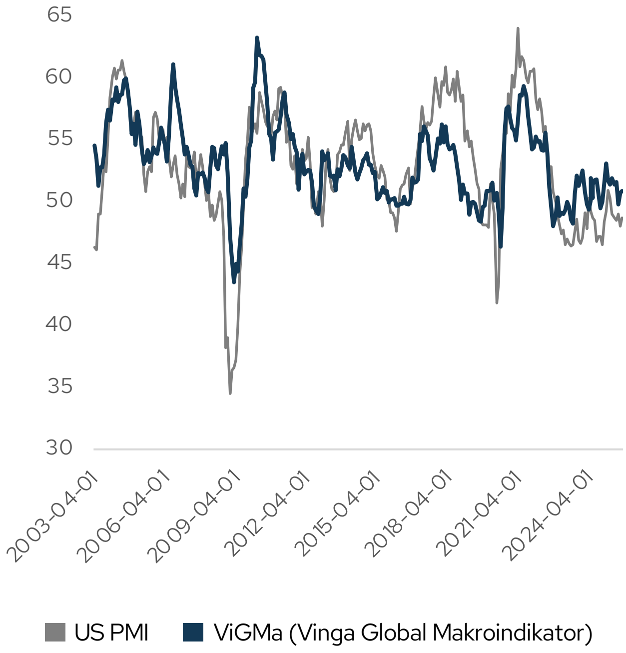
Renewables

After a couple of years in the doldrums, the sector is clearly back in a positive megatrend. Despite negative sentiment and political headwinds from decision-makers like Trump, the industry continues to order wind and solar parks. Onshore wind farms require no subsidies and are currently the most profitable energy source. Within the EU alone, an additional €400–500 billion per year in green investments is needed to meet the 2030 targets under the Green Deal.

Macro indicator ViGMa

Vinga's global macro indicator has mostly moved sideways throughout the year and continues to signal growth around trend for the fourth quarter. Cautiously positive signals stem partly from stronger momentum in macro data and partly from a slightly steeper yield curve in the fixed-income market. However, the rise in copper prices is harder to interpret in an environment marked by widespread geopolitical uncertainty.

The Vinga Global Macro Indicator (ViGMa) reflects expectations for overall economic activity in the coming quarters and is based on information from multiple sources. ViGMa combines information from the regular publication of a wide range of macro data, and from pricing in both bond and commodity markets. The indicator provides important support for assessments of the economic situation and for returns and risk in the markets.



The credit clock is four

The clock struck four early in 2025, signaling a favorable climate for both credit and equity markets. Temperatures have risen in the credit market, and the spread on corporate bonds has narrowed—an indication of increased risk appetite. While IPO and M&A markets have indeed ramped up activity, the dangers of reckless risk-taking by companies remain distant. Most firms are still in a consolidation phase, expanding cautiously amid trade wars, geopolitical tensions, and a relatively slow economic recovery.

The credit clock or credit/equity cycle is a powerful model that takes into account the risk behaviour of corporate managers during different phases of the business cycle. When both credit and equity markets are falling, the credit clock is nine. In the next phase, when the clock is twelve, company managements take measures (new issues, cancelled dividends, etc.) to ensure their survival, which is positive for the credit market but worse for the stock market.

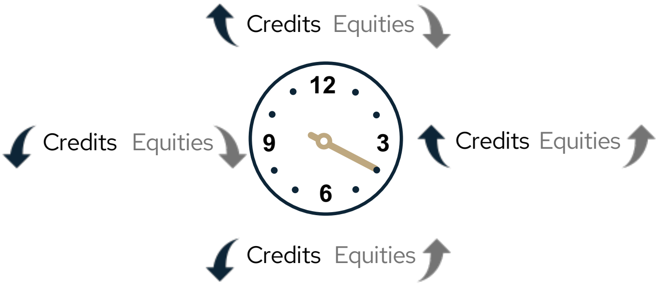


Figure: The credit clock (credit/stock cycle)

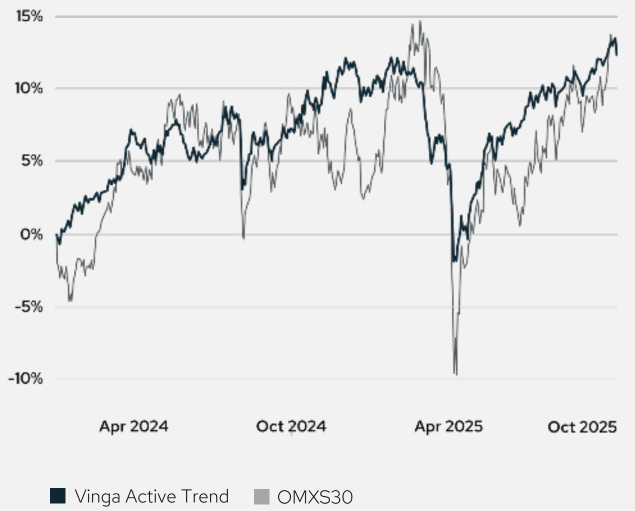
Business proposal: Vinga Active Trend

The Vinga Active Trend allocation lists the funds that best reflect the current market view and the percentage weight assigned to each fund. It also details the weight changes that have taken place since the last portfolio strategy and the performance of the funds since they were added. The funds are selected on the basis of a few key criteria and are often a mix of longer-term investments to capitalise on megatrends, and shorter-term opportunistic investments. Past performance is no guarantee of future returns.

If you would like to know more about Vinga Active Trend or receive a business proposal, our sister company Vinga Wealth Management can provide this based on each potential investor's circumstances. Contact our wealth advisors at:

Vinga Wealth Management
info@vingawealth.se
vingagroup.com/wealth

Performance



Fund allocation

High yields	Nordea US high yield HB SEK Vinga Corporate Bond Case högräntefond Nordea European High Yield HB SEK
Equities	Storebrand Global multifactor A SEK Handelsbanken Sverige 100 Ind Cri A1 SEK AMF Aktiefond Europa Swedbank Robur small cap EM global Carnegie Småbolagsfond A
Interest rates	Simplicity likviditet Danske Invest Tillväxtmarknadsobligation SEK
Megatrends	DNB Finans S Finserve Chelverton Global Tech Fund DNB Renewable Energy B SEK Finserve Global Security Fund Handelsbanken Hållbar Energi (A1 SEK)

Allocation tabel