

DECLINING ECONOMIC MOMENTUM

Increasing supply problems

Markets. Leading indicators have recently painted a more unambiguous picture that the economic momentum has reached its maximum this time. This development still does not seem to be in line with the general expectations. The so-called "Economic Surprise Indices" published by Citi have fallen from record highs in mid-2020 to now negative levels for both the USA, Europe and China. This indicates that a broad basket of key figures in the mentioned economies do not live up to market expectations. In this context, it should be added that in the USA and Europe, the development in the growth related key figures is mostly in the nature of a moderate slowdown with declining momentum from high growth levels in early summer. This has largely been the outlined scenario since pre-summer. However, recent weeks' price increases and supply problems, especially in the energy area, are expected to push the growth scenario to the negative side. Within a few weeks, the imbalances in the field of energy have reached a level that is affecting economic activity. The lack of electricity is forcing China to prioritize supply to the household or business sectors. In recent weeks, the Chinese authorities have selectively recommended energy-heavy companies to reduce or stop production activity. This primarily concerns production in the steel, cement and chemicals sectors.

Supply problems for an input as important as electricity potentially open the door to major negative surprises and occur at a time when global supply chains

are experiencing major bottlenecks. A supply chain in which Chinese industrial production plays a central role. The supply problem will have far-reaching effects from earnings to price developments - not just in China but globally.

Mixed returns in 3rd quarter

The Portfolio. After costs, the fund delivered a return of 0% in the third quarter, which is in line with the fund's benchmark index.

Equities had a moderate 3rd quarter where the global stock market given by MSCI World all countries returned 1.3% measured in euros.

In the equity component, the high jumper was global equities SRI, which delivered a return of 4.0%, while emerging markets had a difficult quarter with a return of -6.6%.

In the bond component, Danish bonds again had a difficult quarter with negative returns due to exposure to callable bonds and generally rising interest rates.

The more risky bonds such as high yield delivered a positive return of 1%, while emerging market bonds yielded -0.9%.

Convertible bonds yielded a return of -1.7%, which was 0.6 percentage points more than its benchmark index.

In absolute terms, the convertible universe was hit by declines in small cap and reflection trade, while the relative return was helped along by idiosyncratic events that contributed positively.

Strategy

Minimum is targeted at investors with a short investment horizon and/or low risk tolerance. The fund has a well-diversified exposure to equities, mortgage credit bonds, developed market treasury bonds, emerging market treasury bonds, corporate bonds and cash. The equities exposure is tilted to benefit from the value, small cap and momentum factors, and the exposure to corporate bonds is sought to be obtained through small issuers, low net debt and strong asset backing. For treasury and mortgage credit bonds, the strategy is to maintain a constant portfolio duration within a tight range. The overall exposure to the different asset classes is strategic and no attempt is made to time the market. The target equity exposure is 25%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.

