

# GAINING ECONOMIC MOMENTUM DESPITE FRAGILE CONDITIONS

**Markets.** The CLI indicator for the G20 economies has been in the expansion phase since the end of August, indicating that the economies have gained economic momentum. However, the trend is uneven and fragile due to an increase in interest rates, with a 100-basis point increase from the Federal Reserve (Fed) and a 200-basis point increase from the European Central Bank (ECB) in 2023. To ensure more available capacity in the labor market, central banks are maintaining restrictive monetary conditions. This creates unfavorable conditions for a potential tactical expansion of a more sustainable nature. Recently, the market was confirmed that a soon-to-come monetary easing cycle may be underway in the first half of 2024, affecting broadly based financial conditions downward, which could open the possibility for positive effects on confidence indicators and thus a new tactical growth phase. Based on the economic momentum, the financial market in the fourth quarter of 2024 realized a return pattern characterized by higher returns for risky assets compared to risk-free assets.

The expansion of economic momentum in the G20 economies is expected to flatten out during the first half of 2024. The strategic condition is expected to shift from positive to negative. After nearly 14 years of growth, the labor market is "overheated", which the U.S. central bank and other central banks aim to address. They will do this through interest rate hikes and quantitative tightening to halt the wage-price spiral before it gets out of control.

Overall, this sets the stage for a return hierarchy in the first half of 2024, where the return on Danish government and mortgage bonds is expected to outperform the return on stocks and corporate bonds. In the second half of 2024, there is an opportunity for a turning point with a more growth trajectory and a return hierarchy that shifts character in favor of risky assets.

**The Portfolio.** After accounting for expenses, the fund generated a return of 4.0% during the fourth quarter, in line with the benchmark set for the fund. Global equities had a strong fourth quarter delivering a return of 6,4% given the MSCI World All Countries index after having been down by 4% at the end of October. The equity component of the fund delivered a return on par with the benchmark. The headwind to the value factor and emerging markets dragged performance down while the sustainable equity pool outperformed due to the outperformance of the growth factor. All fixed income categories experienced solid absolute returns ranging from Short European Bonds yielding 2.7% to Emerging Markets Bonds delivering 7.7%. Relative to each pool's own reference benchmark only Long and Short European bonds delivered positive excess returns. Convertible bonds yielded a return of 2.9%, lagging their comparison benchmark by 2,7%-points mainly due to headwind in its exposure to the value factor and sustainable profile. Private equity demonstrated a return of 3.8% while infrastructure gained a steady 1.4%.

## 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.

