

ECONOMIC EXPANSION AMID MONETARY POLICY EASING

Markets. The leading OECD indicators remain above 100 for the world's largest economies, and we expect them to stay in the expansion phase in the coming months, supported by monetary policy easing. Based on the economic momentum, the financial market realized a return pattern in the fourth quarter of 2024 characterized by higher returns for risky assets compared to risk-free assets.

We believe the foundation for future stock price increases remains intact: Investors are becoming more comfortable with the strength of the economy, and central banks will continue with monetary easing in 2025. Data continues to indicate a tactical Goldilocks environment, but the risk of a reflationary higher-for-longer regime has increased. This is not only due to strong macroeconomic data but also potential policy measures from President Trump. We expect continued progress in the manufacturing sector over the next 1-2 quarters. We are already seeing a downgrade in median consensus expectations for a recession in 2025, as well as a positive momentum shift in the orders/inventory ratio, which typically leads the manufacturing cycle by about one quarter.

We still see no signs of accelerating inflation, and the Fed remains clearly attentive to its dual mandate. Markets appear to be ahead of the Fed, reflecting stronger-than-expected economic development and stagnant inflation in the coming quarters. This also means that we need to see a reacceleration of macro data to witness a further repricing of market expectations for the Fed in 2025.

Strategy

Balance 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 50%, but a deviation of +/- 5% is allowed before the portfolio is rebalanced.

The Portfolio. After accounting for expenses, the fund achieved a 1.2% return in the fourth quarter of 2024, falling behind its benchmark of 3.2%.

The primary contribution to the absolute return was the equity component of the fund, with a contribution of 1.0 percentage points.

The allocation to credit, and particularly infrastructure, at the expense of Danish sovereign and mortgage bonds, has positively influenced the relative return. On a relative basis, high yield and emerging market debt outperformed their respective benchmarks, while convertible bonds struggled to keep up with its benchmark.

Global stocks, as measured by the MSCI ACWI in local currency, increased by 1.3%. When converted to EUR, this increase amounted to 6.7%, driven by a strong appreciation of the U.S. dollar.

The equity component of the fund underperformed its equity benchmark. This was primarily driven by the performance of the active equity managers. Generally, a significant portion of the underperformance among active strategies has been driven by an underweight in American technology stocks, which have risen considerably in 2024.

The strategic overweight in Danish equities had a negative impact on the relative performance as well.

See performance and fund data

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