



Monthly comment by  
Chief Strategist, David Bakkegaard Karsbøl

# Maintain overweight in stocks, so far

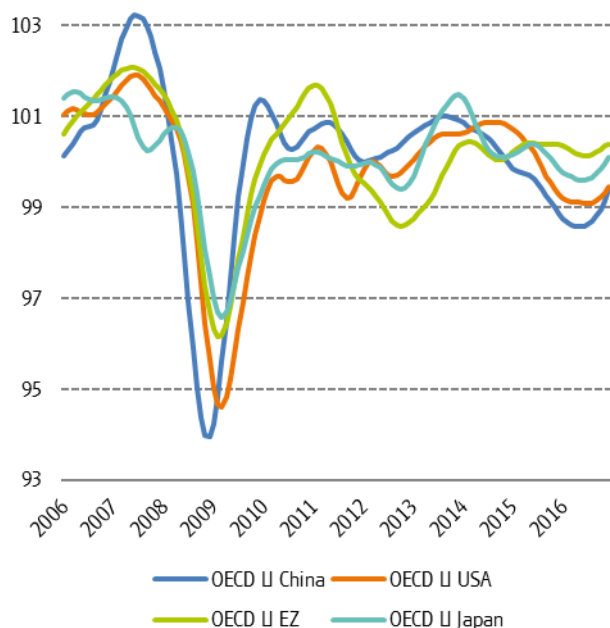
In economic terms, 2014 through 2016 was a relatively uninspired period. Growth in the US and Europa never dropped into negatives, although it sometimes felt that way. Instead it was generally dull and waning, and manifested itself in the decline of leading indicators, long-term interest rates, inflation and earnings growth.

This development culminated in mid 2016, when German 10-year bonds bottomed out at -0.2%. Since then the development has turned around with a large acceleration since October. We're seeing a number of surveys (ISM, PMI, consumer confidence, etc.) that have reached the highest levels in several years. We have also just seen the lowest number of unemployment-benefit applications in the US in the last 44 years.

The election of Donald Trump may have provided some momentum for smaller US companies that see better opportunity now that there is a higher probability that environmental and energy regulations will be rolled back. But in reality, business leaders were probably being over pessimistic in the middle of 2016.

There is no doubt that we are seeing a dramatic improvement in economic growth potential in the United States in the last few months – driven by fiscal policy, tax reform, monetary policy and deregulation, especially of the financial sector. My assessment is that this will continue in the United States over the summer. For most US companies, there will be nothing but growth in sight, and it can manifest itself in euphoric surveys, which we have already seen.

Good recovery in leading indicators



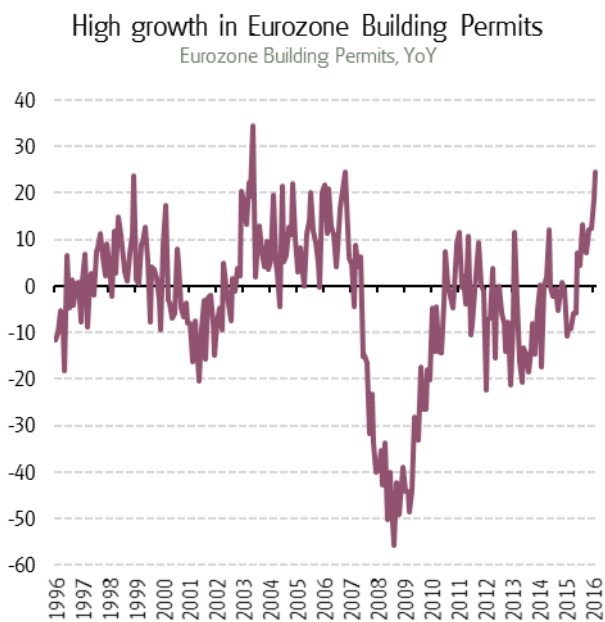
## European growth continues

This will impact the European economy, and it is already. Let me be the first to say that European growth is challenged in the longer term. Taxes are too high and the public sector is too large. But in the short term, that cyclical picture of European growth, as in the US, will be improving dramatically.

”

*In the short term, the cyclical picture of European growth, as in the US, will be improving dramatically*

The number of building permits in the Eurozone is rising quickly. In fact, growth has not been higher since 1996 (except for a single month in 2003). In other words, the European construction sector is finally recovering after the prolonged euro-crisis hibernation.



In 2016, euro zone wage increases remained at their highest level since 2008, and inflation increased by 2%. The nearest Eurozone Sentiment Indicator is now at its highest level since the beginning of 2011. This means that in a few months we should see GDP growth at around 2%, while the analyst corps on average expects only 1.5% for the full year.



## Potential trouble in Southern Europe

The trees do not grow into the sky, and I fear that the markets will be overly optimistic during the summer. Specifically, I fear that rising interest rates and gravel in the negotiating machinery in Greece could lead to a further deterioration of the situation in southern Europe. In other words, we run the risk that the spread widening that we have seen in southern European government bonds against German bonds (which has been moderate in recent weeks) may continue.

Of course, it is always difficult to predict exactly when such things will occur. However, I believe that it is a good rule that one should not expect political problems to grow too big in a strong stock market and where GDP growth remains close to 2%.

” *I fear that the markets will be overly optimistic during the summer*

Instead, I find it more likely that the problems of Greece and Italy will become a problem in the stock market when, according to my expectations, the market becomes more expensive and overly optimistic in summer.

## Trump becomes a statesman

Donald Trump gave a speech to the US Congress on 28 February. Across the board, the market and media were positively surprised that he had actually practised the speech and managed to convey a fairly consistent message – and that he stands firm on the promises of deregulation and tax cuts.

It is still uncertain how Trump will finance his costly election promises. Preliminary sources suggest he has a snowball's chance in hell to finance the volume of planned infrastructure projects, increased military spending, especially while lowering taxes.

Still, the bond market is sticking firmly to its steepening curve (an increased spread between 2- and 10-year government bond yields), which occurred immediately after the announcement of Trump's election victory. However, talk from various FOMC members about interest rate hikes has caused American 2-year interest rates to rise to their highest level since 2009.



*For most US companies, there will be nothing but growth in sight in the coming months*

## EURUSD parity still in sight

As discussed in the previous monthly report, I expect that the euro will be under continued pressure because of the large interest-rate differential between the US and the euro zone. Cooperation problems continue in the euro zone, where the refugee and debt crises remain unsolved and have been allowed to grow.

I maintain that the EURUSD is heading for parity, and it's one of the reasons that despite expensive pricing in US stocks, a "neutral" allocation remains.

## The MomVol indicator

Our MomVol indicator assumed a value of 0.85 at the end of February. This is an increase from the end of January and still firmly above the threshold of 0.6, below which, you should have an underweight in the stock market.



*An overweight in stocks should be maintained in March*

The indicator's signal is also supported by the fact that most of the OECD leading indicators are pointing upwards. An overweight in stocks should therefore be maintained in March.

Editorial deadline: March 6, 2017