



## Evli Nordic Investor Podcast

### Transcript

#### Episode 4: Q4/2021

**Tomas Hildebrandt:** Hello, and welcome to the Nordic Investor Podcast by Evli for professional investors, following the Nordic capital markets. Every quarter, we present a short-term outlook for the Nordic market, extract earnings from the previous quarter, examine changing cross-asset trends and highlight key things to keep an eye on. My name is Tomas Hildebrandt and I'm the Market Strategist at Evli's institutional Asset Management in Helsinki.

Today we'll cover a range of topics from the Nordic equity market to the Nordic bond market and to a 2022 forecast for the overall region. To do so, I'll be picking the brains of my expert colleagues Valtteri, Ville and Juha-Matti here at Evli.

Now, if you're wondering what 2022 may hold in store for the Nordic market, we have you covered. Evli's new Chief Strategist Valtteri Ahti is here with me to tell you more about it. Valtteri, welcome to the podcast.

**Valtteri Ahti:** Thank you, Tomas.

**Tomas:** So, how do you see the end of this year in terms of key micro and market themes?

**Valtteri:** We think that the end of this year is looking really good. We're in the midst of a strong earnings season and if you look at global macro, the world economy is basically running at double the speed it normally runs. The Nordic economies are no exception so we're seeing robust growth in all the Nordic economies.

Going into next year, it's going to be a bit trickier, more of a Jekyll-and-Hyde year: the first half is going to be a continuation of the strength witnessed at the end of this year, so extremely rapid economic growth, also quite a bit of inflationary pressure. In the second half we're both seeing a slowdown in economic growth rates towards longer-run trends and a gradual dissipation of that inflationary pressure that's hitting the world economy right now in the beginning of next year.

**Tomas:** Inflation seems to be a very hot topic at the moment. What's your assessment on that one?

**Valtteri:** The risk is towards inflation lasting longer, being more broad-based and higher in general than market participants generally anticipate.

**Tomas: This looks a little bit like a stagflationary environment like the 70's. But right now, it seems that the supply side of the economy is not catching up to the demand that we see globally, and what you're saying is that the demand remains strong, and companies are ramping up their production and offering. First prices go up but then competition will take the price to some kind of an equilibrium level again.**

**Valtteri:** That's exactly what I'm saying. Tomas, what would you do if somebody offered on whatever you're selling ten times more than you're charging right now? You'd obviously increase supply, right? Or someone would.

**Tomas: That's the market economy. How do you think the Nordics are faring in this kind of environment, in this kind of global competition?**

**Valtteri:** The Nordics have performed extremely well, and the reason is that the Nordic economy suffered a far smaller drop in terms of economic activity than the rest of the world and the rest of Europe. That's why our bounceback or growth hasn't been as fast because we just didn't fall as far as others did to begin with.

Furthermore, the Nordic populations are far more vaccinated than most OECD economies. We anticipate there to be a lot less risk in terms of Corona blowback, be that through altered virus strains or mutations. We're looking at a robust growth in essentially all the Nordic economies, in particular in Norway. Sweden is growing rapidly, and Finland is also bouncing back quite nicely. We're even seeing for example the Norges Bank has already raised interest rates and is looking for another interest rate hike. The Nordics look relatively strong in the current environment.

**Tomas: So in essence and to conclude, the global outlook is positive. We have some headwinds with inflation at the beginning of the year, but looking further on, the pressure should abate, and the growth should continue at a good pace overall.**

**Valtteri:** That's an excellent summary, yes.

**Tomas: Good. Thank you, Valtteri, for joining the podcast today and thanks for your insights.**

**Valtteri:** Thanks, Tomas.

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**Tomas: My second guest today is Ville Tiainen, Evli's Nordic Equities Fund Manager. You listeners remember him from our podcast last spring. Welcome, Ville.**

**Ville Tiainen:** Thanks, Tomas, nice to be here again.

**Tomas: There has been quite many IPOs throughout the whole year, bringing new companies to the market. What's behind this phenomenon and what's behind this strong interest?**

**Ville:** That is an excellent question. If I need to name one theme that I would remember from this year in the Nordics, that is definitely the IPOs, especially both in Finland and Sweden which are our team's focus markets. I'd guess that the main driver behind the listing activities is the excess liquidity and resulting elevated multiples that we've been seeing during the last couple of years at least.

Naturally some of these offerings might have been postponed from last year due to covid-19 but especially in Sweden, to answer your question, the structural factors play an important role. It's kind of impossible to pinpoint one single factor driving this phenomenon, but I'm inclined to believe that Sweden or Swedes have above-average willingness to take risks, they are more opportunist when it comes to growing businesses and trying new things. What I think is the most important thing is that the country for some reason has a unique ecosystem where in addition to traditional big-ticket institutional investors there are smaller professional investors that provide capital and liquidity for these aspiring younger companies. Maybe one anecdotal evidence is that according to Bloomberg, Sweden's capital Stockholm has bred more unicorns per capita than any other region in the world, save for Silicon Valley. So there's something really special in Sweden and especially in the small and mid-cap segment when it comes to listed equities.

**Tomas: Could you describe what kind of companies are getting listed at the moment? Is it some specific sectors or what kind of names and companies are coming to the market?**

**Ville:** I would say that both in Sweden and Finland there is not one single sector or kind of business type.

**Tomas: So it's broad-based?**

**Ville:** It's really broad-based, especially in Sweden. We have seen more than a hundred IPOs year-to-date, with different sizes and different sectors. And in Finland, we've seen almost 20 IPOs. So it's really broad-based both in Finland and in Sweden.

**Tomas: That's interesting. Traditionally the Nordics are well known for their cyclical nature. Is this still the case and looking forward, are we able to continue balancing between cyclical and defensive themes during the next year?**

**Ville:** Yes, that's a great question once again and we get that often. On index level the Nordic markets are, excluding Denmark, slightly tilted towards cyclical sectors. But still in Finland and Sweden we see many good defensive names, if it were the case we would like to overemphasize or overweight those in our portfolios. But there are numerous companies in these more defensive sectors that we can utilise in our portfolios.

**Tomas: Would you say that the newcomers to the market, those IPO companies, are typically growth companies or what kind of characteristics would you put on them?**

**Ville:** Naturally the vast majority of those companies are growth oriented, I would say. Of course, there's been some of these more mature cases where the expected growth rates are somewhere in the mid-single digits or something like that. But a vast majority of those cases are growth companies.

**Tomas: So basically, with the diversified portfolio you get a little bit of all themes in the Nordics?**

**Ville:** Yes, exactly.

**Tomas: So how is it if we're looking at the outlook for next year? How do you think it will differ from this year?**

**Ville:** When I was doing my due diligence before the podcast, I checked what the pundits and strategists were saying at the end of last year about the outlook for this year, and now what I just heard Valtteri saying, the big picture seems to be more or less the same, of course apart from the inflation expectations. I'll buy the base scenario that Valtteri just pictured, but maybe one differentiating factor is the earnings revisions trend that we are watching closely on the market level and of course on the company level. The earnings revision trend for 2021 earnings has remained positive but has turned negative for 2022 earnings. That is something we're of course watching closely.

But to be honest, of course I understand that the macro backdrop is important but still, and this is something we were talking about with portfolio manager Janne Kujala before I came here, that even though you'd get the the big picture right, the macro picture right, and do the stock picking based on that picture, you might get the stock picking part totally wrong. It is important to be mindful about the economic outlook and the macro backdrop, but still we focus on the company level fundamentals and the stock level price action.

**Tomas: If we reflect on Valtteri's part: the growth outlook is good, there are some inflationary concerns which could lead to some cost pressures at companies but if companies are flexible, if they are able to adapt, they should fare in this kind of environment.**

**Ville:** Yeah, and especially the companies that have the pricing power should fare well. And this kind of inflationary environment shows which companies have that kind of power. And of course that speaks really big things about those companies that have and those that don't have the pricing power.

**Tomas: Great. So now my final question to you: If you could name just one key thing that investors should look out for in 2022 when it comes to the Nordic markets, what would it be?**

**Ville:** I would still stress the IPO market and be mindful about the quality and valuation of the upcoming IPOs since what we have heard from our brokers from both from Sweden and Finland, the IPO pipeline looks pretty solid or pretty stuffed for the end of this year and the beginning of next year. Though the average offer-to-date returns have been pretty solid both in Finland and in Sweden during this year, the market has cooled down in Sweden during October. So the average returns or offer-to-date returns especially in Sweden for IPOs that have been made during October have turned negative. That is something that I would focus on during next year. IPOs will continue, we believe, both in Finland and Sweden, but I would be more mindful about the quality and valuation of the upcoming IPO candidates.

**Tomas: Quality and valuation. Thank you, Ville. It was nice that you were here, thanks for your participation.**

**Ville:** It's always a pleasure, thank you.

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**Tomas: My final guest today is Juha-Matti Pukka, our head of fixed-income funds and Nordic Bond specialist. Welcome to the podcast, Juha-Matti.**

**Juha-Matti Pukka:** Happy to be here, thanks for having me.

**Tomas:** Let's drive right into it. How has 2021 been for the Nordic bond market?

**Juha-Matti:** 2021 so far has been very good for the Nordic corporate bond market. Investor demand for the asset class has been very good and it's been increasing. Also, the performance has been stable and very good. The secondary market demand is very, very high, so it's been a very difficult market to buy. And the primary market has been a little bit under our estimate when it comes to the primary market activity. Structurally the demand for paper has been much bigger than the supply of new bonds to the market so that's very good for the secondary market performance and also for our corporate bond portfolio performance.

**Tomas: Liquidity driven.**

**Juha-Matti:** Liquidity driven, indeed.

**Tomas: Ville told us previously that quality and valuation are key in the equities. Is it the same thing in bonds?**

**Juha-Matti:** Definitely. If you think about the Nordic corporate bond market, it's a very unique combination of very strong fundamentals and attractive levels when it comes to yield spreads. You have to accept the fact that the majority of the companies are unrated but if you're comparing the credit fundamentals of Nordic unrated companies to the rated peers in the European market, you're getting quite a bit of excess yield for your investments. I will say again, the companies, the credit fundamentals and the valuations are quite unique in the Nordic market.

**Tomas: Looking at the developments among issuers, how have the issuing companies been behaving this year?**

**Juha-Matti:** The issuing companies have been continuing to beef up the balance sheets. They have been doing this ever since the 2020 pandemic drawdown. That was a big shock for the companies, and they started to focus on the cash flow to defend the balance sheet and trying to get the business running while you get all these containment measures that are putting some limits on doing business.

The companies have been doing a great job and we are expecting this to continue also during next year also. The companies have been active, they have been refinancing the upcoming maturities while the funding is very cheap to obtain from the capital markets. So the companies have been issuing new bonds and refinanced the next two-three-year maturities, pushing the wall of maturities much longer. Also, they have been taken off the big spikes in the maturity profiles.

**Tomas: One growing theme has been the floating-rate notes and growing supply and demand in them. Tell us a little more about that.**

**Juha-Matti:** It's very good that you mentioned that. I'm jeopardising the use of the word unique here again, but it's a unique feature of the market that there's such a big amount of new bonds issued in floating rate format. Outside of the Nordic region, not that many companies are doing that, but in the Nordic region, I would say half of the companies are issuing floating rate notes. That's giving you a good protection from the rate volatility we are seeing now.

Going into 2022, the inflation picture is quite difficult to paint. Valtteri was talking about how we are expecting things to go. But the investor sentiment is changing very fast, and we have seen in 2021 a lot of volatility when it comes to the longer end of the curve in the yield market and the rates market. So having a floating rate note in your portfolio is actually giving you stability, and you are taking the credit risk and you are taking advantage of yield spreads tightening. But at the same time, you don't have to go longer in duration and you can stay invested but keep the duration low.

**Tomas: And most probably the central banks will tighten their monetary policies during next year.**

**Juha-Matti:** Yes, except for the ECP. I think Norges Bank already did; Riksbank in Sweden is also maybe going to do it. So having Swedish krona and Norwegian krone investments invested in floating rate formats is giving you protection from the rate hikes, too.

**Tomas: So now we talked about what's in store for the Nordic market but how about a few words about Evli's funds?**

**Juha-Matti:** The Nordic market has been very good for us once again. We have a great exposure to the Nordic market in various portfolios when it comes to pan-European products or even the dedicated Nordic funds. We have been really enjoying the good performance in the Nordic region. So we continue to see the Nordic market as a very attractive source for alpha in 2022. Especially I like the fact that the market has been very stable, and the performance has been quite predictable.

We are coming with a lag to the European market for the broader corporate bond markets. So after the rally in 2021 in the broad markets, the Nordic market has been sort of left behind and there's a lot of room to perform from here.

Also, I was mentioning the fact that in the Nordic market you need to know the fact that when you're invested in unrated bonds you're getting some additional yield. That's about 50 to 150 basis points of extra yield you're getting for your investments. The additional spread on top of the market that is already quite tight, that's actually a significant part of the overall yield spread. So for us, it's a very low-hanging fruit to be investing in, and I think going into 2022 we are seeing an increasingly high demand from the non-traditional investors in the Nordic region.

**Tomas: Great. We're now coming to the end of our podcast. My last question to you is the same as to my colleagues: What would be the one key thing that our listeners should know about the Nordic Market in 2022?**

**Juha-Matti:** I think the low-yield environment has been having this mantra going on for years that fixed income is not offering any meaningful returns for investors. But I beg to differ because the yield spread difference I mentioned earlier is actually putting the Nordic market in relative terms at quite an attractive point. I think in 2022 you are able to make very good total returns in the Nordic corporate bond market. I think it's getting more and more difficult in this cycle to make positive total returns in fixed income and the Nordic market is one of those that really stands out for the potential for the total returns.

**Tomas: Great, Juha-Matti. Thanks for being here today and thanks for your insights.**

**Juha-Matti:** It was my pleasure.

**Tomas: This brings us to the end of the episode and our market outlook series for this year. However, the good news is we'll be back and do it all over again in 2022. Look out for the first episode dropping in in the new year. Until then, please visit Evli's blog hub and feel free to send us your questions at [fundinfo@evli.com](mailto:fundinfo@evli.com).**

**Before I go, I once more would like to thank my guests Valtteri, Ville and Juha-Matti for an engaging discussion. I'm Tomas Hildebrandt and this has been The Nordic Investor Podcast by Evli. Bye bye, au revoir, hejdå!**