NORDIC INVESTMENT PARTNERS

Roadmap update 1Q 2025

Very low visibility due to US politics and new world order

April 2025

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1Q 2025 roadmap update

Roadmaps serve as a compass, not a GPS. They provide direction but lack pinpoint accuracy. Without a roadmap, navigating uncertain conditions becomes challenging, particularly when road conditions, weather, or end-destination circumstances change significantly. Proactive navigation is essential in such scenarios. For inspiration and educational purposes only. Please refer to the disclaimer at the end of this slide deck.

Visibility deteriorated during 1Q 2025, and stock prices started to discount higher risk premiums and economic downturn

Seasoned readers of my roadmaps recall Lenin's saying, "There are decades where nothing happens; and there are weeks where decades happen." 1Q 2025 is one of those weeks. US leadership is in process of changing the world order as we've accustomed to since end of WWII. USA leadership is sick and tired of being the global policeman and economic supporter. Roosevelt's free world and democracy vision is seen as outdated by new US leadership and a new, yet unclear, world order is slowly emerging and partially executed via previous unheard-of communication. General media has much more on tariffs, USA/Russia deciding on Ukraine peace, Greenland, Canada as 51st state etc.

It's unclear how things will fold out and in such as situation consumers and businesses gets cautious and spend less / save for a rainy day. This psychology can in itself create a economic downturn with negative ripple effects globally. In the 2025 roadmap I phrased it this way '' political turbulence is anticipated, likely affecting consumer and business sentiment through headline-driven reactions''

Yet, economic forecast from renowned institutions such as IMF and OECD have only shaved their forecast a tiny bit. And stock market forecasters and equity analysts have hardly moved their estimates down. Is it like a sitting duck just waiting to be shot down?

Difficult to say but market moves in 1Q 2025 gives you some indication of what is forecast to happen. Investors have shifted capital out of US growth/tech companies and into stable earners as well as Chinese growth stocks and European defence/infrastructure companies. The latter due to US leadership questioning the future of the NATO defence alliance that was set up after WWII. Consequently, Europe is now on a trajectory of increased defence spending and designing a new fabric without close ties to USA.

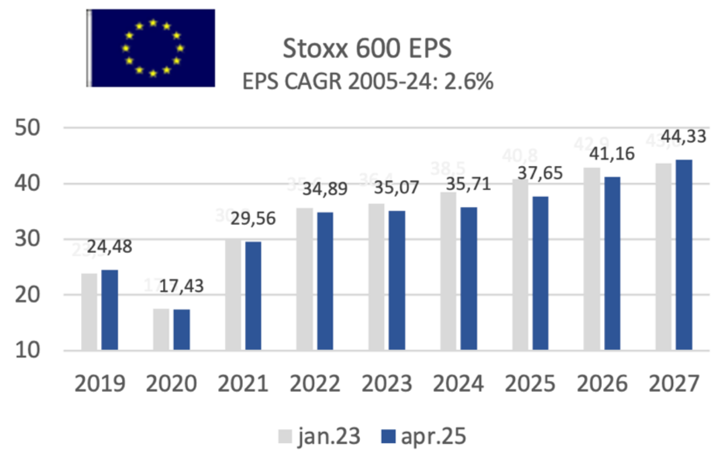
So far, lots of the low visibility comes from communication and few facts. As more facts emerge, then visibility will likely improve in the coming months and quarters, so stay tuned and be careful out there.

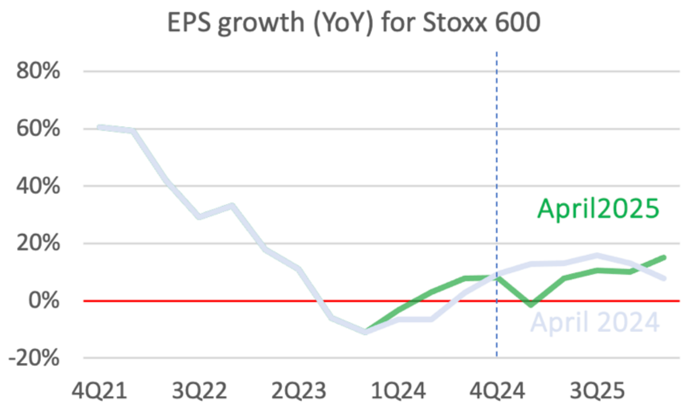
Stock market update 1

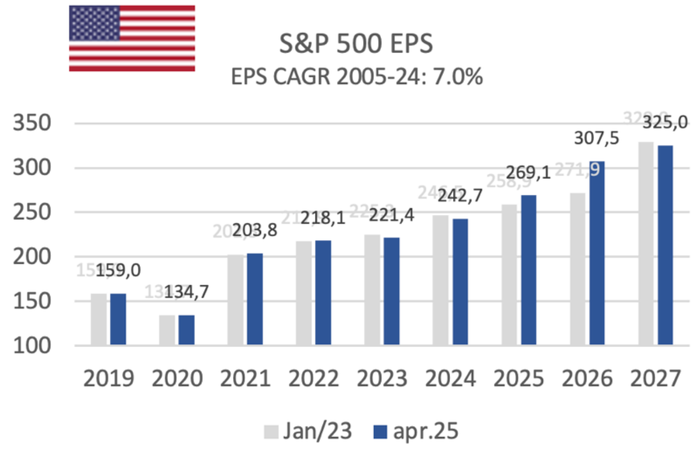
Its very hard to estimate the actual impact of Trumps import tariffs, but first calculations shows 5-10% lower earnings if the tariffs are implemented without mitigation (price increases). Any recession impact comes on top

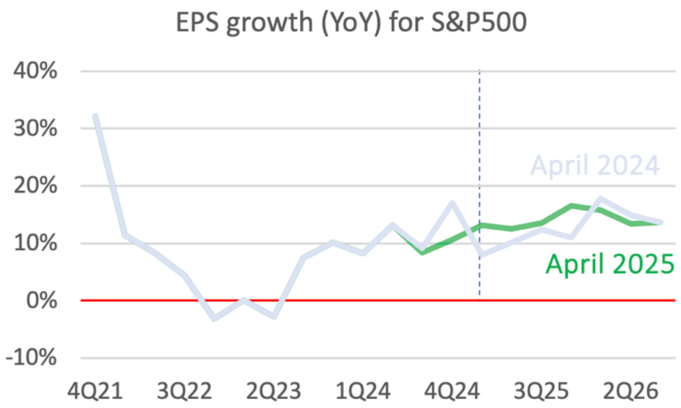
For illustration that means S&P500 earnings in 2026 will decline to 280-285 USD. As inflation will rise in US then P/E forward should decline to around 18x (was 22x going into 2025). Consequently S&P500 should find a floor at 5.100 vs 5.400 at close 3 April.

Similarly, European activity is on the way up so earnings should be more resilient and at 15x (14x going into 2025) forward the floor as already been reached even though it doesn't look like that in early April 2025.









Stock market update 2

This is a compass, not a GPS. Overall, the projection is for a 10% return for the year. Factors such as Trump's rhetoric and quarterly updates will likely contribute to the usual market volatility. If we avoid a recession, the path toward 2025 should remain clear.

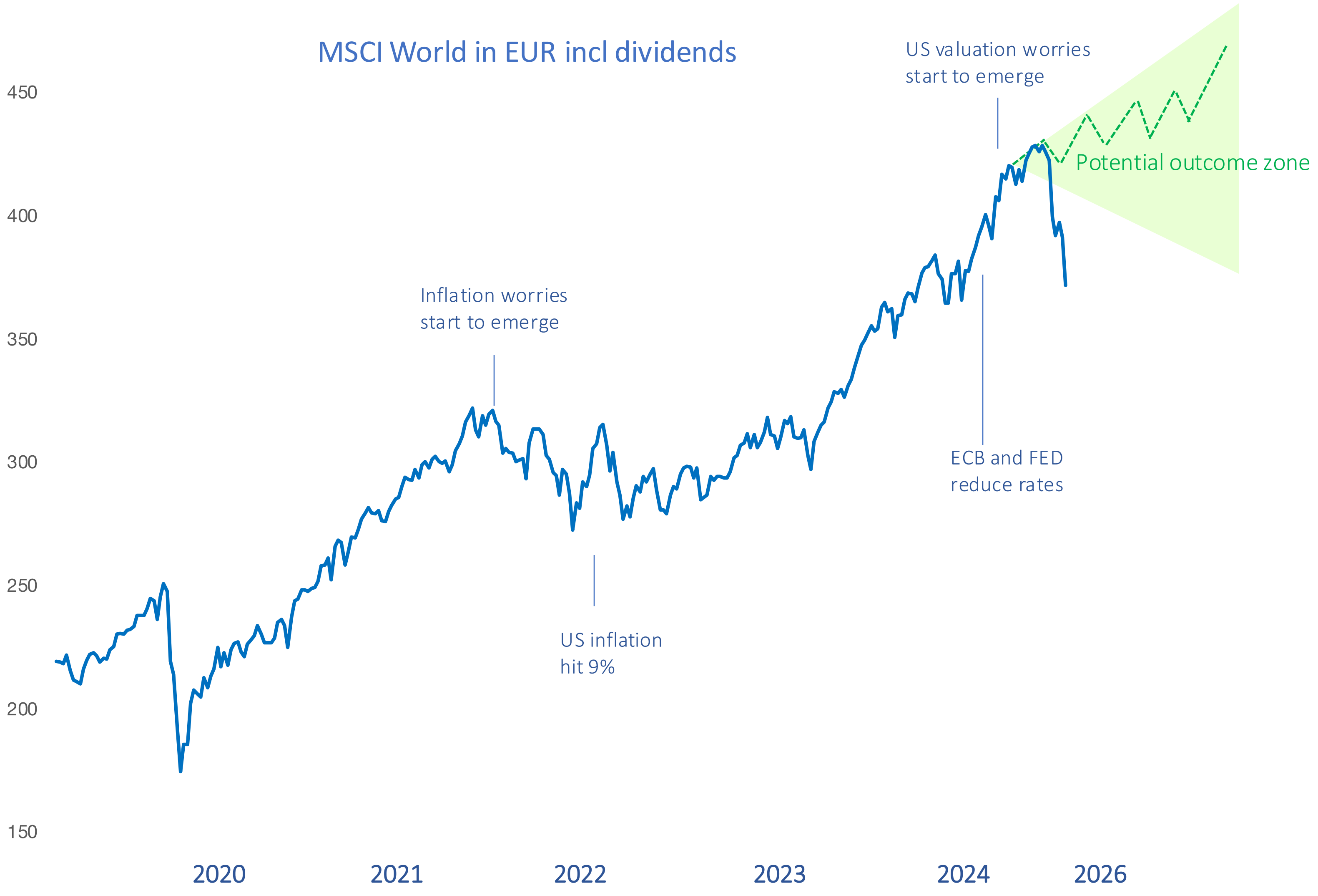
Trumps liberation day have so far liberated investors, pensions funds etc trillions of dollars in lost capital.

Fear is widespread and that's normally a time when you be greedy.

Measured by CNN's Fear & Greed Index its time to be contrarian

3 April 2025

17 March 2020



Updates on selected investment themes

Focus on company fundamentals in times of low visibility

How to navigate in low visibility situations?

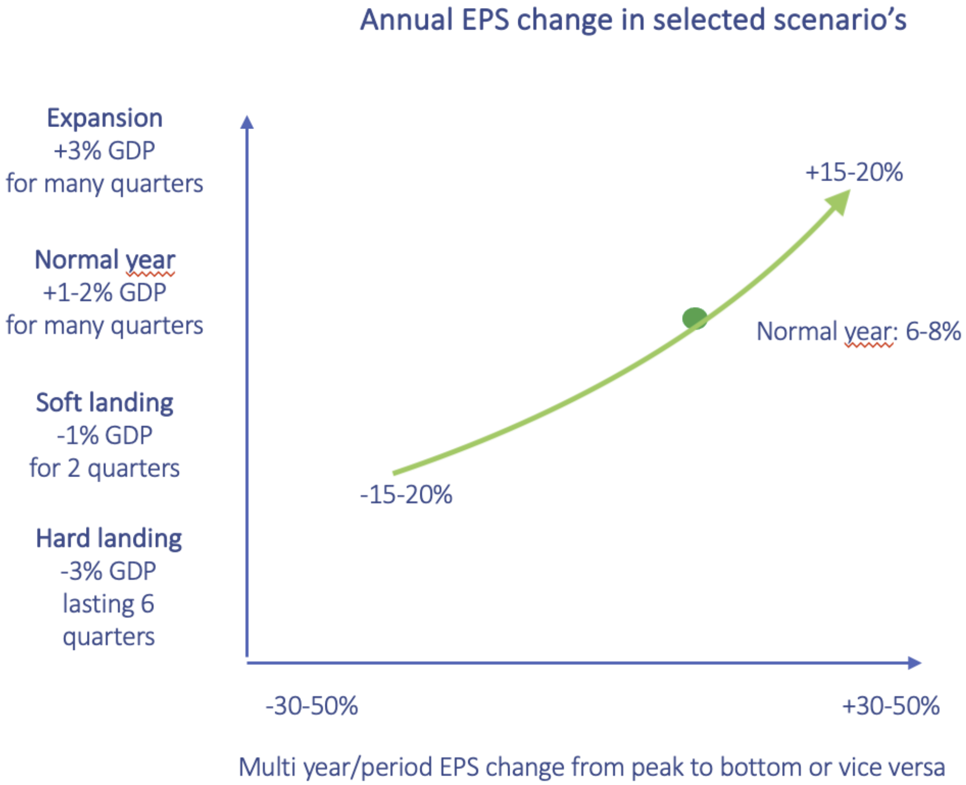
In the first quarter of 2020, COVID-19 lockdowns triggered a dramatic 30% decline in stock prices. A constructive liquidity boost and vaccine research was initiated and things normalized quickly

As for the 2025 U.S. tariff episode, it's still in its early stages, leaving economists grappling to evaluate how such a swift change in the global landscape might influence economic activity and corporate performance. With limited data so far, further time and analysis are needed to draw robust conclusions. Markets, however, appear to be pricing in a soft landing, reflected in current stock market declines of 10-20%.

Over the past 15 years, the United States has seen government debt soar, with GDP growing at approximately 2.5% annually. Notably, around 1 percentage point of this growth has been fuelled by increased debt. Consequently, the U.S. debt-to-GDP ratio has reached 124%.

Europe offers a contrasting picture. Over the same period, GDP growth averaged around 1.5% per year without a significant increase in debt. With a debt-to-GDP ratio of 82%, Europe now has more fiscal room to maneuver, potentially driving higher levels of activity. However, this isn't uniform across the continent—some Mediterranean economies face more constraints.

When immediate clarity is scarce, take the long view: looking five years ahead, Europe appears poised for stronger growth compared to the past decade and a half.



Picking regions, sectors and single stocks

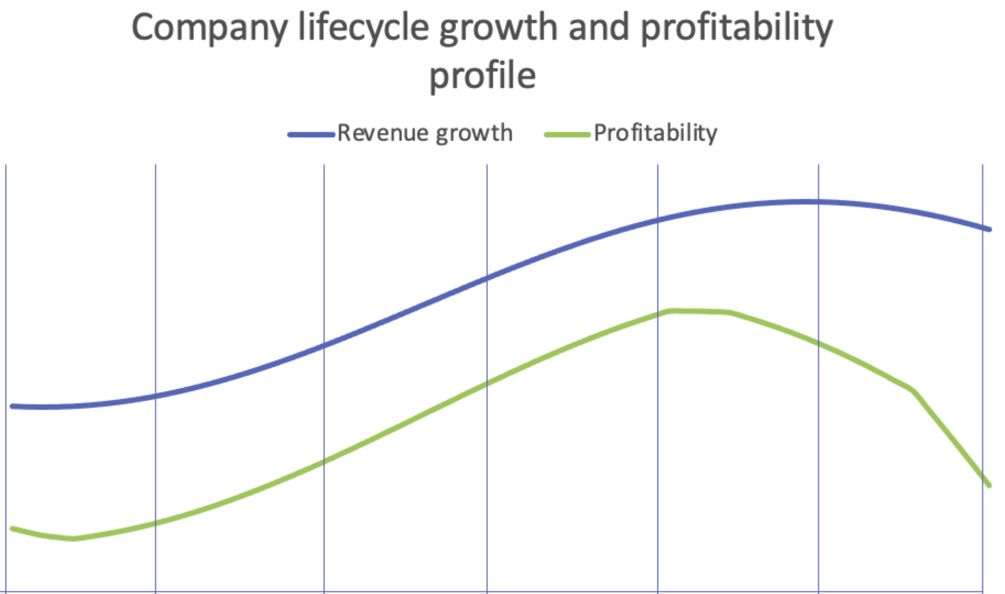
In times of uncertain investors flock to stable ground i.e. proven business models and products/services that will see demand almost no matter that kind of economic environment we're in. Food & beverages and basic entertainment is in this category and can be found in 'mature growth' and 'mature stable' in the illustration on the right.

And vice versa, when visibility is good and interest rates low investors price assets with potentially long period of high growth to levels that often become unsustainable. Early growth is in this category and many good examples found in late 2021.

If you can find a fairly valued 'successful growth' company, then that's the sweet spot for GARP investing. However, in a period with low visibility, such as now, the confidence in cash flow growth in 'successful growth' companies is subject to question marks as these businesses have not yet shown their resilience in different economic episodes such as 'mature growth' have.

There' s a lot of moving parts and companies do not move ina linear way from 'start-up' to 'sunset', but you get the idea.

If you diversify your portfolio in the sections from 'successful growth' to 'mature stable' then you should be able to navigate in almost all-weather condition by simply shifting weights on the companies you've already invested in and know well.



Life cycle stage	Start-up	Early growth	Successful growth	Mature growth	Mature stable	Sunset
Profit profile	Cash burn	Even more cash burn	Cash flow emerge	Cash flow accelerates	High & stable cash flow	Cash flow & ROIC decline

Danish company fundamentals are getting better

Over the last 25 years Danish companies have performed very well and until 2022 stock prices did as well as Nasdaq tech stocks in USA.

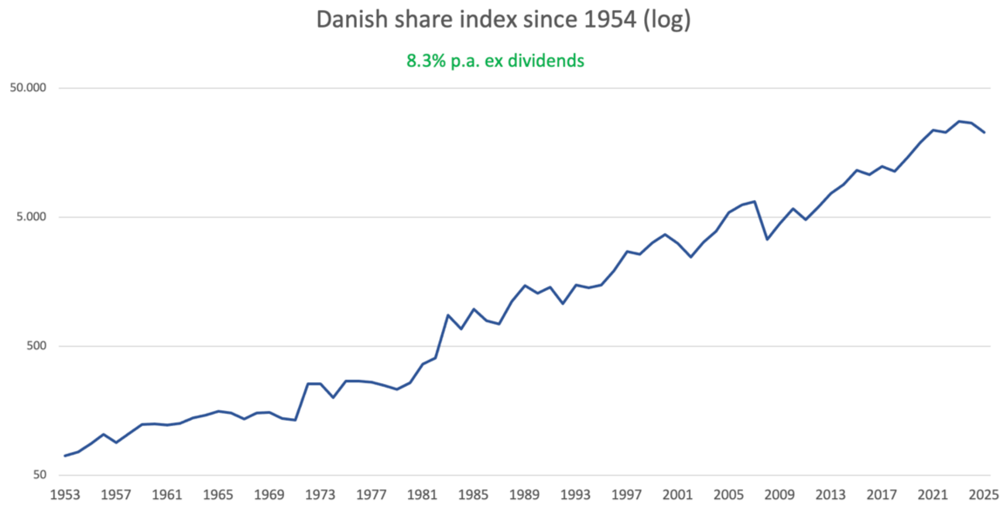
In fact, Danish stock market with price data back to 1954 has generated above 8% return per year plus dividends, so its probably above 10% per year.

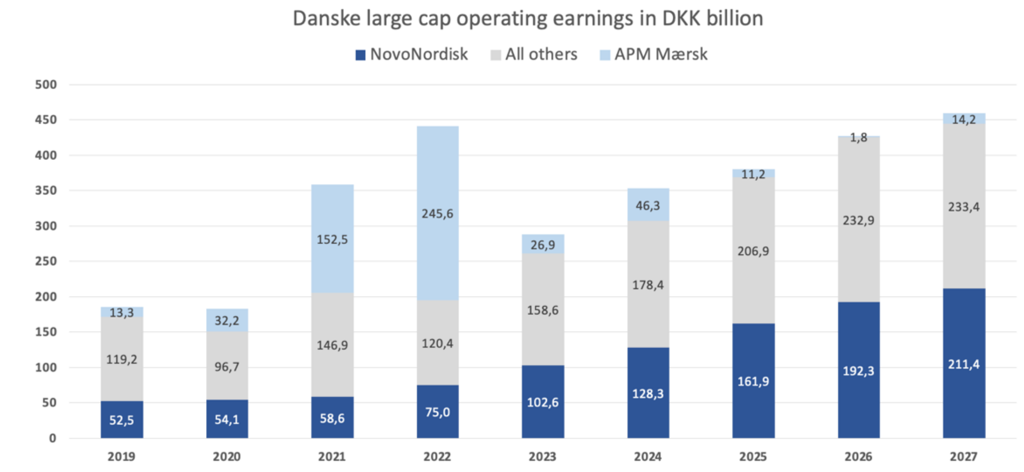
In recent years, the OMX C25, a capped index, is down 20% from its 2021 level. And the uncapped version, OMX CPH All shares, is unchanged. In 2022 Danish companies operating earnings exceeded 400 billion DKK and the 400 billion DKK mark is expected to the reached again in 2026.

The big difference is that the 2026 version is a much better earnings quality as APM Mærsk volatile freight-rate dependent income in 2021/22 is gone and replaced with much higher visibility income from growth companies and stable earners such as Novo Nordisk, Coloplast, DSV, Danske Bank and Carlsberg.

The combined net debt of the Danish large-cap universe is negligible. After the recent sell-off, the total market capitalization of Danish companies is 3.640 billion DKK, trading at 10x the estimated 2025 EV/EBIT.

Important note: Estimates have not been adjusted downward for US tariff and potential recession, but it’s nevertheless in the very low end compared to the last 25 years



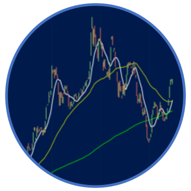


Financial companies are measured by pre-tax profits and not EBIT

Key investment view towards 2035

Economic pace since 2010 have been highly dependent on fiscal and monetary stimulus provided in the aftermath of the 2008 crisis. The stimuluses have created imbalances such as government debts. Unsustainable government debt levels will likely continue as policy makers are not motivated to think long term. Some regions do however run large surpluses and more than enough to finance the government deficits elsewhere. A shift of global power is happening at glacial speed.

Global economic growth has been declining from 6% in 1960s to around 3% in 2020s. Productivity and population growth points towards lower economic growth in the coming decades. The underlying growth in global affluence will however continue and there will be clusters of new industries emerging over the next decades that offers growth and profitability just as the smartphone industry has done over the past 20 years.



There’s nothing wrong with modest GDP growth, but many investors have been accustomed to 8% annual earnings growth, while the realistic forward growth towards 2035 is more likely to be around 4%. Dividends of 2% comes on top. Annual swings are likely to remain in the 15-20% interval, so the occasional declines will continue, but recoup times will be longer

In an investment world with that overall outlook, I have since 2017 focused on identifying companies and business clusters with unique multi-year structural growth drivers, high profitability and then invest in these when growth/profitability/valuation triangulation justifies it; so-called GARP investing. This investment approach has been rewarding in the past and is expected to be so in the future too. The strategy avoids long term sun-set industries at deep value (traps) with high dividend yields

The traditional business and inventory cycle still applies, so from period-to-period growth and inflation will change. In a world with evermore data and analytics the efficiency of eco systems will likely reduce the magnitude of economic swings as end-to-end value chains reduce slack and inefficiency. Risks of financial mis-allocation of capital is the same as humans tend to run in flock

Contact

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