Nordea Boutiques
Economic Outlook 2021

Content

Introduction

Economic Outlook 2021
Each year, we compile the investment outlooks for the coming year from our various internal and external boutiques. We are pleased to share this 2021 collection of outlooks on each boutique's respective asset class with you. We thank you, valued client, for investing with Nordea and wish you a successful 2021.

Asset Management at Nordea
As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialized internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients.

Internal boutiques

We have established segregated teams for key asset classes, allowing each team to focus on their primary activity: managing money. This means retaining competence centres that leave freedom to the investment managers. In addition to our Nordic expertise, we have built well-established track records over the years in both equity and fixed income strategies ranging from Credit and Covered bonds to Global, European and Emerging Markets equities as well as Multi-Assets Solutions.

External boutiques

Nordea External Partners team aims to meet investor needs by selecting best-of-breed asset managers who can generate alpha in specific regions or asset classes. The rationale is to concentrate on boutiques focused purely on money management in the belief that fund distribution distracts investment managers from their primary objective: generating exceptional investment performance.

Macro

Macro opinion by Sebastien Galy, PhD, Nordea's senior macro strategist

Nordea ASSET MANAGEMENT

Outlook 2021*

2021 should see the global economy led by China and a moderate recovery in Europe and the United States in an environment supportive of risk, though already with some pockets of very tight pricing in investment grade. We are focused on 1) A China-led rebound 2) ESG solutions supported by policies in Europe and the United States 3) New technologies 4) Infrastructure, and 5) Flexible solutions that can quickly adapt the geometry of a portfolio.

A China centric rebound

China is the bright spot as the economy steadily rebounds and continues at a very decent clip. Consumption should also steadily improve as the job market tightens with growth expectations of 8% for 2021. China's demand is already supporting production in Germany and this should help the rest of Asia Pacific. Note though that China is on a course for some import substitution in critical industries at a time when regional frictions are increasing. While this is an important development over a five year horizon, we remain focused on the economic rebound.

USA – W shaped recovery

Faced with a possibly W-shaped recovery, the Democrats may have to wait for the January 20th Presidential inauguration to pass a substantial fiscal package, and this with difficulty if the Republicans hold the Senate. For now, we haggle on a budget of circa 900 billion dollars. Beyond this and partially to finance it, taxes are likely to rise somewhat for those earning two hundred thousand and above, while capital gains could increase somewhat to be a tad more in line with personal income so as not to discourage labor. This should help finance a broader health insurance, infrastructure, student loan forgiveness and a USD 1.7 trillion plan – in theory - to reach zero net gas emissions by 2050.

Europe – dispersion in growth

Growth in Europe is decelerating with lockdowns in several countries and should start to rebound in January and February. Consensus expects economies to broadly recover together, but the odds are of some dispersion with the North outperforming. For example, Nordic economies are expected to grow at 3.5%. Nonetheless, Europe is likely to grow at a decent pace as its economies are far below potential.

Product implications

There are a series of product implications: 1) A China rebound can be expressed through EM exposures or specific China ones. 2) The ESG is a secular trend that is rapidly spreading. 3) New technologies such as Alibaba or Ant disrupt fundamentally established companies. 4) Infrastructure is likely to benefit from government spending in Europe and the United States. This is a defensive asset class, trading at historical discounts with high exposure to secular trends like ageing assets, de-carbonization and data growth, which will further drive growth potential of this asset class.

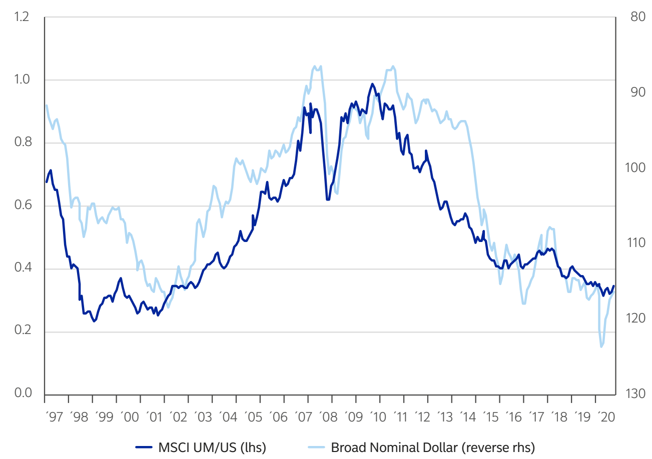
Conclusion

The environment next year should be broadly supportive for risk, yet there are already signs of excessively tight pricing in investment grade. We expect to see bouts of volatility from this, as well as periods of lower growth expectations. This continues to suggest holding flexible solutions that can quickly adapt to new circumstances.

EM forward PE trades at a large discount

Source: Bloomberg as of 10.12.2020

EM outperforms when the dollar is weak



Source: Bloomberg as of 10.12.2020

*Information as of mid-December 2020

ESG

Nordea Responsible Investments Team

Nordea ASSET MANAGEMENT

Nordea Stars Funds

- ESG will become the most powerful driver of outperformance for certain sectors
- A progressive Biden administration could enable a boom of ESG investing in the USA
- We expect increased regulation and client scrutiny as well as an increased focus on social issues

ESG will become the most powerful driver of outperformance for certain sectors. We do see a trend towards regulators, clients, and media increasing their scrutiny on ESG considerations. We furthermore expect an increased focus on social issues, in the context of climate change and in a broad sense as well. But mainly, as ESG established itself in 2020 as mainstream, we believe 2021 will be the year where ESG will establish itself almost as a blockbuster.

There were many indications for this direction of travel in 2020 already, both on the investment side and for the valuations of stocks with a strong sustainable story. On the investment side, ESG themed funds emerged as clear winners of the COVID-19 pandemic as inflows were indisputably strong, and there were robust indications for outperformance of ESG products. Most institutional investors expect to increase allocations to ESG products (82% according to a recent survey conducted by Amundi), coupled with very supportive political trends in key markets such as China and the USA following Joe Biden's victory. In short, ESG has proven to be not just a luxury for a bull market, but a necessity for turbulent times.

A progressive Biden administration could enable a boom of ESG investing in the USA, where the field has been growing in popularity but also been much more controversial than in Europe. We expect a much more benevolent regulatory climate under a Democratic government. Furthermore, the Democrats seem to have won a tight majority in the Senate in addition to the White House and the House of Representatives. This should increase the chances of a US Green Deal to materialise – at this stage it is difficult to assess how much of a game changer this will be.

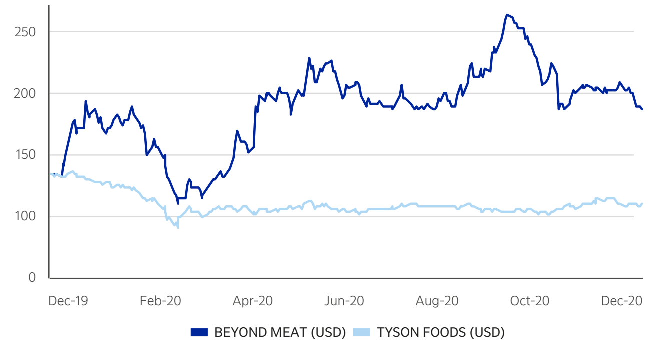
The EU Green Deal has already provided incentives for new listings of sustainability themed stocks, and for the valuations of companies with a strong green story. For example, Electric Vehicule charging supplier Compleo's share price has doubled in the few months since its listing. New technologies, such as enzymes that can be used in plastic recycling, and hydrogen electrolysers are establishing themselves rapidly and delivering strong growth in share price. We expect this trend to continue in 2021. It is even more pronounced in the US, where Tesla's share price increased sevenfold and sustainability-themed business models as a whole have become an increasingly important source of both disruption and economic growth. Plant-based burger producer Beyond Meat's stock has also doubled since its listing in late 2019, despite a turbulent ride. In the retail sector, the imminent IPO of second-hand retailer Poshmark is generating outstanding interest. We expect business models such as Poshmark to increasingly threaten traditional fast fashion outlets, and we would also expect many of Poshmark's competitors on the European side (eg. Depop) to be listed on stock exchanges in the near term.

In Europe the big challenge will be responding to regulation and moving product design in line with its aims. Increased client scrutiny of ESG offerings is already a reality. As a swath of European sustainability regulation comes into force in 2021, both companies and investors will have to work on transparency. Here, it will be about proving that ESG investing has actual impact, not just a good marketing story.

Lastly, we expect that climate change will hold as both a regulatory and investment trend. There were fears COVID-19 would deprioritize this megatrend but our society acknowledged this became time sensitive. We do believe the social aspect of climate change adaptation and mitigation will be in focus, as with many other areas, the pandemic shone a light on social issues. We expect social justice in a broad sense to play a more significant part in our engagement work in 2021 as a result of that.

To sum up, we expect ESG to become a key outperformance and valuation driver and we should see new listings with a strong sustainability story to outperform significantly. We also expect increased regulation and client scrutiny, as well as an increased focus on social issues.

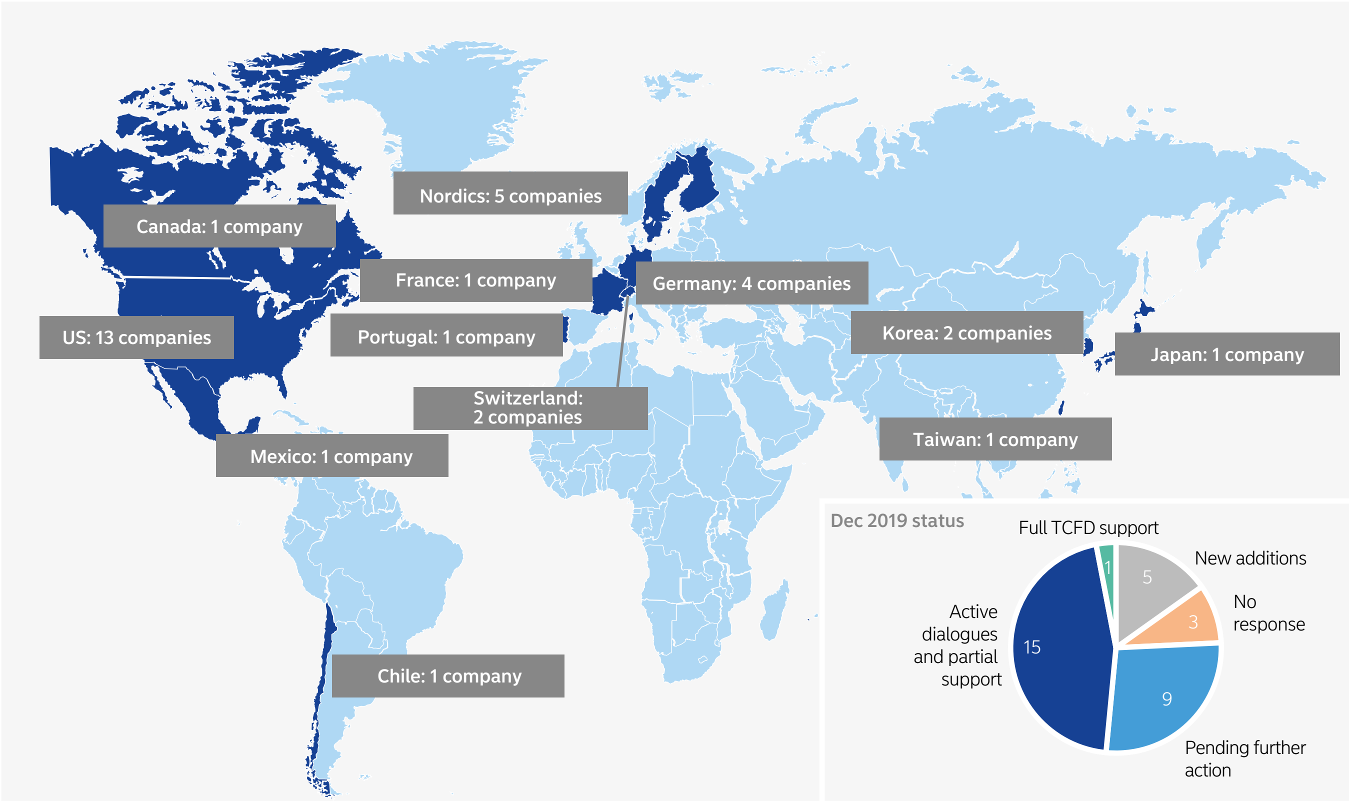
Share price development of Beyond Meat and Tyson Food during 2020



Source: Refinitiv, Thomson Eikon

Source: Nordea Investment Management AB. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB

The RI team is engaging with 30 companies to align with the TCFD recommendations



Nordea Multi Assets Team

Nordea 1 - Stable Return Fund
Nordea 1 - Flexible Fixed Income Fund
Nordea 1 - Alpha 10 MA Fund

- The economic outlook is good, with Covid-19 vaccines hopefully paving the way for return to normal life styles and still heavy economic and financial support from both fiscal and monetary policy
- Equities are currently fair valued on 12-month forward earnings. The valuation using next years estimated earnings is less challenging and together with support from earnings and leading macro momentum as well as the current low yield environment there is still some room for higher equity prices. One source of caution for us is credit with its tight valuation, high leverage and likely rising default risk

The year 2021 will likely see a recovery from the extraordinary circumstances the COVID-19 pandemic has created. However, the shape and pace of the economic recovery will also largely depend on an economy's ability to contain the spread of the virus as well as to organize the distribution of vaccines that are going to be approved by local health authorities in the near future. This should nevertheless only have a limited impact on sovereign yield curves as the extreme low/negative yield environment is likely to persist for longer given the extreme fiscal and monetary support measures which have been put in place by governments and central banks across the globe in order to deal with the economic consequences of the pandemic.

Region wise we have seen that East Asian economies such as China, Japan and South Korea have managed the virus quite well, whereas the developed economies as well as most emerging markets have struggled to do so. While China´s economic recovery is already well underway we would expect other economies to follow closely during 2021 in a scenario with accelerated vaccine approval and distribution.

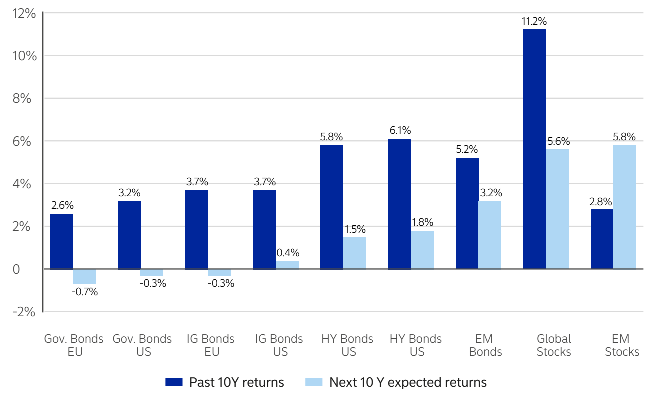
Volatility wise there is however room for surprises and we see several factors that could have a strong impact on the recovery story in 2021, such as Covid-19 infection rate development, subsequent lockdowns or lockdown easings as well as continued monetary and fiscal stimulus.

All of the aforementioned can potentially have a large effect on consumer and business confidence in 2021 and impact size and shape of the economic recovery process.

From a geographical perspective, we slightly favour Developed Markets (DM) over Emerging Markets (EM). While an improving risk appetite in addition to a possibly depreciating US-Dollar would be in favour of EM we see corporate governance rather weak compared to DM. Furthermore, possible earnings growth in Emerging Markets is very much centred within the growth segment of the market and also largely depending on the news flow.

From a style perspective, we clearly favour the more defensive/low risk equity segments. The positive news flow around vaccine development has triggered a rotation away from the expensive growth sector - which has been favoured by investors for so long - and has instead channelled renewed investor interest into the value and quality related market segments. This style rotation is further supported by very attractive valuation levels of value compared to growth, both on an absolute and relative basis. With everything currently priced for low/moderate inflation and earnings growth still facing some uncertainties, we have a high conviction in our Stable/Low Risk Equities. Their historically high valuation gap paired with a more resilient and stable earnings outlook gives room for future return potential and makes them a very attractive investment case in our view.

Historical vs. expected returns across different asset classes



Source: Nordea Investment Management AB, on the basis of analyses carried out by the Multi Assets Team. Period under consideration: 31.10.2010 – 31.10.2020. Past and expected returns are unhedged, in base currency and from EUR based investor's stance. **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of your investment can go up and down, and you could lose some or all of your invested money. Expected numbers are only targets. There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved.**

All in all, equities should do relatively well and we see a much brighter outlook compared to fixed income and credit. The risk appetite is still good, the global earnings cycle is on a path to recovery and risky assets are well supported by ample fiscal and monetary support. We currently see quite a strong correlation between risky assets which indicates that the market is momentum driven and as long as the general risk appetite stays at decent levels our positive view should find ample support. Earnings have taken a severe hit in 2020 due to Corona but

Source: Nordea Investment Management AB. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Nordea Investment Management AB.

the reopening of global economies support a steady economic improvement in 2021 and beyond, and we should likely see a cyclical rebound as well as a continued rotation from growth to value that has recently gained in popularity with the extreme valuation gap starting to close. Nevertheless, we also expect this to come with higher bouts of volatility given the still prevalent uncertainties in the market.

The Fed still plays an important role, and continuous fiscal and monetary stimulus will remain one of the main drivers of overall equity markets performance and sentiment in 2021, especially during H1. We do see the potential for continued supportive measures, a scenario which would back a faster economic recovery.

Within the fixed income space we retain our cautious stance given the extremely low/negative yield environment. Contrary to credit and equity markets, bond yields have not shown many signs of recovery. Instead, bond yields continue to be held down by very accommodative central bank policies and forward guidance (promises to keep interest rates ultra-low). US duration remains relatively more attractive, given interest rates are still higher compared to Europe where interest rates remain bleak and – in our view – are expected to remain low for a longer time. Moreover, we also expect US rates to be more dynamic compared to Europe which adds to the relative attractiveness. Nevertheless, we see duration premia being at rather unattractive levels and the diversification benefits investors could previously harvest are continuously fading. When interest rates go up we can see duration becoming more attractive again but for the time being we do not see this happen in the near future. Instead, bond yields should remain well-anchored by asset purchase programs and low inflation expectations.

As for credit, we have recently witnessed a massive spread compression despite largely credit-unfriendly trends in the marketplace. Nevertheless, corporate bond markets have continued to push spreads lower with support from the central banks' bond purchases as well as generous liquidity. However, given the significant drawback global lockdowns had on economies worldwide and the full impact of these measures likely to further materialize in 2021, we expect increasing default rates in the future which is also indicated by leading default indicators. We still find that corporate debt compared to profits are rising and current spreads – now close to pre-covid-19 levels – do not offer much insolation from possible defaults or rating downgrades. Hence, this leads us to remain a cautious stance on credit and we believe that more attractive risk/return profiles can be found within equity markets.

From a longer-term standpoint, it is key to highlight that expected returns for the next decade will be significantly different from what investors have seen over the course of the previous one, with shrinking expectations taking a toll across traditional asset classes. This is especially true for fixed income, with low to even negative expected returns across the asset class, except for the high yield segment which in turn bears significantly higher risk for investors. By contrast, equities will still be very much in the spotlight as the main source of returns for the coming years. Here the question is whether they will be able to deliver those expected returns without any significant increase in volatility or any sizeable correction.

With fixed income's diversification potential being significantly decreased at the current interest rate levels there is a strong need for investors to have other, alternative tools available to be able to diversify equity beta risk within their portfolios. This remains more pressing than ever, particularly as the traditional diversification potential that investors have been used to in the past has shrunk even more significantly in 2020. The sharp equity market sell-offs investors had to experience in March and September 2020 have been a strong testimony of this dilemma investors are facing (e.g. duration vs. equity beta). We therefore want to stress the importance of having proprietary alternative defensive strategies in the toolbox that can help investors to fight that dilemma and achieve diversification within their portfolios. One example is the use of defensive currencies being selected based on quality characteristics and attractive valuation that can serve to achieve the desired diversification effect.

So, now more than ever, investors must focus on diversification and find investment solutions that can rebalance and enhance risk adjusted portfolio returns (since most of the traditional diversification potential has faded away). While we have been claiming that diversification has been at risk for some years now across traditional asset classes, 2020 has proven us right; our proprietary strategies helped us to navigate extremely rough seas by offering an attractive asymmetric behaviour and attractive risk-adjusted returns while still maintaining a highly liquid portfolio profile. Especially the latter is also very important as we have witnessed during the 2020 March sell-off that certain market segments have dried up significantly in terms of liquidity which was a strong reminder for investors that liquidity is a key factor that should not be underestimated. This is why liquid alternatives provide interesting investment opportunities. If wisely chosen, they can offer low correlation to traditional asset classes by exploiting alternative and diversified sources of returns.

Nordic Equities

Nordea Nordic Equities/ Swedish and Finnish Equity Team

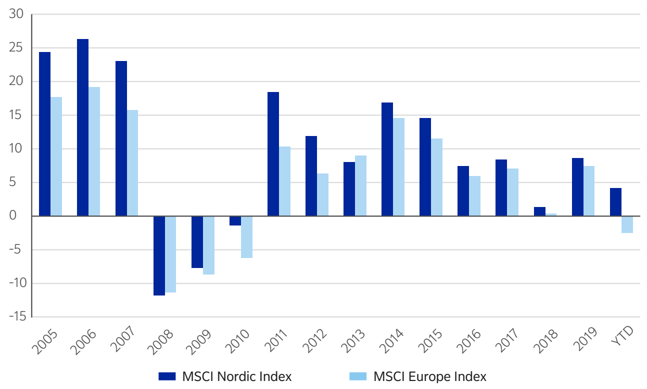
Nordea
ASSET MANAGEMENT

Nordea 1 - Nordic Equity Fund
Nordea 1 - Nordic Stars Equity Fund

- Strong sentiment going into 2021 is supporting high valuations
- The Nordic countries will hold up well after the pandemic
- We expect the Nordic equity market to continue to outperform Europe

The stock market has recovered surprisingly well from the exceptional circumstances occurred in 2020. Government stimuli have worked to bridge the uncertainty around the pandemic and we are going into 2021 at high valuations but positive sentiment. The recovery is however uneven, as the global manufacturing industry keeps recovering while the global service industry gets deeper into the recession with continued restrictions and as stimulus packages are wearing of. The trend in the Nordic countries looks similar to continental Europe, but low government debt levels and high tax rates have allowed for powerful local stimulus packages. This is probably best reflected in the outperformance of Nordic financial sectors compared to European financials as this is a local industry. Sweden, the largest Nordic country that represents roughly 45% of the MSCI Nordic Index, has been widely criticised for its liberal strategy to control the pandemic and is being less affected, which has become visible in the strengthening of the Swedish krona. We should get more clarity about the permanent effects from the pandemic in the second half of 2021, as we see what new consumer habits and patterns look like without government restrictions.

Historical performance of Nordic vs. European equities



Source: Nordea Investment Management AB. Date: 15.12.2020

Global equity markets have become used to monetary and physical stimuli, which have again extended the time of low interest rates. In 2020, physical stimuli came with a green label and thus seem to have twofold intentions: bridge the recession and accelerate environmental investments. In the EU, the Green Deal combined with EU taxonomy, will undoubtedly continue to support climate positive companies, which have started to represent a significant part of the Nordic investment universe. Meanwhile conventional energy, that used to dominate the Oslo stock exchange has become an marginal part of the MSCI Nordic Index. We expect the strong ESG theme to continue in 2021 and believe it will remain a significant valuation driver. We will continue to strengthen our ESG research capabilities, deepen ESG integration in our investment process and philosophy and improve the ESG product offering.

The Nordic MSCI Index outperformed MSCI Europe Index substantially in 2020. This is no coincidence, but the same trend we have seen during the 21st century. When looking at total return of Nordic MSCI versus European MSCI indices, the Nordic shows consistent outperformance over both a three and five year perspective. It is difficult to explain the consistent outperformance since it appears across industries, other than with qualitative factors. The Nordic universe offers well-run companies, with quality business models and strong corporate governance. A large part of the Nordic universe is exposed to the global economy given the company's history of expanding internationally offering diversified end-markets with both global and local strong holds. The are some country variations with Denmark being more exposed to the Healthcare sector, Norway to commodities and Sweden and Finland to Industrials and Financials. This allows for diversified industry exposure for the region as a whole.

In general, we are cautiously optimistic regarding duration of currently elevated equity valuations considering that interest rates should remain low. The volatility in the equity markets has allowed us to continue to find new investment ideas that fit our strategy to invest in above average companies at below average prices and we expect this to continue in 2021.

European Equities

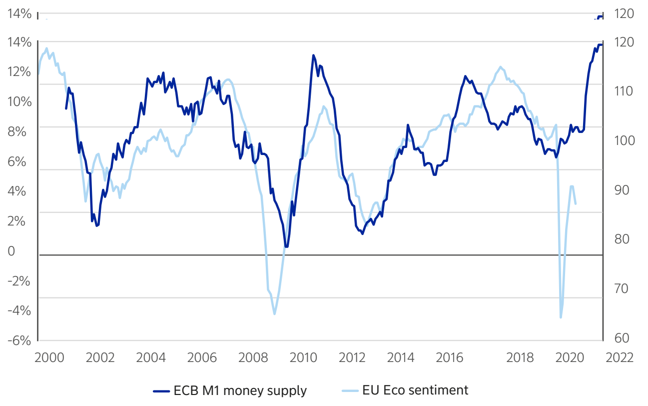
Nordea European Equities/ Fundamental Equities Team

Nordea 1 - European Stars Equity Fund
Nordea 1 - European Small & Mid Cap Equity Fund

- In an optimistic scenario, we could have a fast roll-out of the new COVID-19 vaccines during Q1 and Q2 which could lead to an end of the pandemic sometime in the summer in most countries.
- 2021 could see the strongest economic upturn in 20 years with the large European Green Deal supporting both the economy and the green transition.
- The political support for the green transition supports our strong focus on ESG and the pandemic has not caused any slow-down in green ambitions across the globe. We have a large exposure towards companies benefitting from the transition towards a green economy and believe this megatrend will support our investments well into 2021 and beyond

2020 has been a volatile year in the equity markets and we did see both the fastest bear market and the fastest recovery ever recorded. Looking into 2021, the COVID-19 situation and the roll-out of vaccines make the outlook even more complicated than normal. In an optimistic scenario, we could have a fast roll-out of the new COVID-19 vaccines during Q1 and Q2 which could lead to an end of the pandemic sometime in the summer in most countries. In addition, other long-term market overhangs like Brexit and the US-China trade war could be resolved, the latter helped by Biden's Presidency. Favourable outcomes could lead to a positive year for equities in 2021.

Development of ECB M1 Money Supply and European Economic sentiment



In a pessimistic scenario, we could see serious side-effects leading to few people taking a vaccine, the vaccine could fail to help against asymptomatic cases and thereby prolong lock-downs or a mutation of the virus could lead to the pandemic continuing well into 2022. We believe that the market today is pricing in a lot of "return to normal" and a negative scenario could therefore lead to materially lower equity levels during 2021. We do however believe that the overall market will temporarily be willing to look through a spike in virus cases, lock-downs and weak quarterly financial results well into the beginning of 2021, as long as we are heading towards a normalisation (the positive scenario).

We have a balanced positioning in our European STARS strategy, as we see the highest likelihood for the positive scenario, but cannot rule out the pessimistic one.

In 2020 we have seen unprecedented support from central banks that will continue into 2021 and that could lead to a very positive economic outlook in the absence of a negative virus scenario. By looking at the strong historical relationship between money supply and economic activity, we could have the strongest economic upturn in 20 years by the end of 2021. We have further seen a change in fiscal policy, for example the large Green Deal in Europe that will support both the economy and the green transition. We believe that the political support for the green transition supports our strong focus on ESG and that the pandemic has not caused any slow-down in green ambitions across the globe. We have a large exposure towards companies benefitting from the transition towards a green economy (and no exposure to oil and gas companies) and believe that this megatrend will support our investments well into 2021 and beyond.

Putting it all together, we could have not just a V-shaped recovery but a V+-shaped recovery of the economy, and we are thus optimistic about the equity markets for 2021. The market has somehow already positioned itself for a strong recovery and cyclical stocks trade on high multiples, while more counter-cyclical sectors like Health Care and Consumer Staples trade on more than two standard deviations' discount vs. the last 10 years. We believe that it makes sense to have a barbell approach going into 2021 and we are hence overweight Banks, which have been lagging the cyclical recovery, and overweight Health Care which looks very attractive from a historical valuation perspective.

North American Equities

River Road Asset Management

Nordea 1 - North American Value Fund/
Nordea 1 - North American Small Cap Fund

- The US economy recovery should continue with momentum increasing during H2 2021. We believe GDP growth will be in the 4.5% range in 2021, driven by a resurgence in consumer spending and industrial capex
- For stocks, 2021 will be a battle of higher earnings versus lower valuations as the economy reopens. Absolute valuations for the broader market are extremely high, but we believe earnings growth is likely to be very strong with the consensus forecasting the strongest two-year recovery in earnings since World War II
- Many areas of the stock market are more favorably priced than broader averages like the S&P 500, most notably smaller cap and value stocks. We believe the rotation favoring small caps and value stocks will re-emerge in early 2021 and continue through at least the first half of the year, supported by attractive relative valuations and historical patterns in the early stage of economic and profit cycles

We expect the U.S. economic recovery that began in mid-2020 to continue throughout 2021, with momentum increasing during the second half of the year as the nation fully reopens. This is based upon our assumption that stimulus funds will enter the economy by February and vaccines will be both widely available and administered by the end of Q2. It further assumes the Federal Reserve will remain highly accommodative, which is supported by recent statements made by the central bank's Federal Open Market Committee (FOMC). At the conclusion of its December meeting, the FOMC delivered new economic projections that showed a more optimistic outlook, while continuing to underscore how patient the committee plans to be in firming policy.

Consequently, we believe GDP growth will be in the 4.0% to 5.0% range in 2021, driven by a resurgence in consumer spending and industrial capex. Regarding the consumer, post-vaccine growth should be fueled by a combination of low- and high-income households. Low-income consumers should benefit from a second round of stimulus checks and improved employment trends, while higher income households will likely unleash pent-up demand fueled by excess savings. According to Jefferies, the top 25% of U.S. households have suffered virtually no job losses yet their spending is down nearly 10%, which has driven a surge in the savings rate. As these households increase their spending on travel, food services, and recreation,

Forward 1 Year Price to Earnings ratio

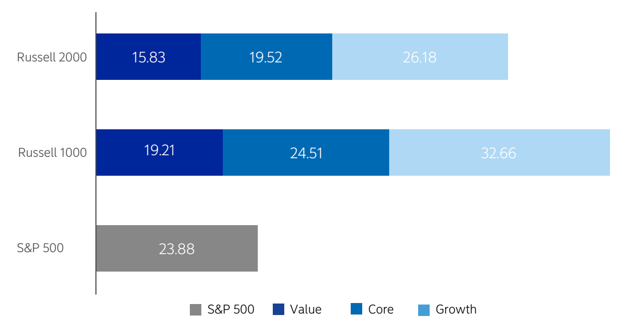


Chart shown as of November 30, 2020. Excludes negative earnings. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group; Standard & Poor's.

this should increase demand for low-income jobs, supporting spending across all income levels.

Regarding industrial capex, spending on consumer goods may level off in 2021 as spending on services increases. However, the restocking cycle should continue through much of 2021 as inventories are extremely low. This should boost industrial production, capacity utilization, and (ultimately) industrial capex. From an inflation perspective, the shock from COVID-19 did not result in a typical recession as demand for goods surged, while producers struggled to keep up. This created a floor under price inflation. In 2021, these demand and supply forces should normalize. The biggest risks to our economic forecast are a meaningful delay in the distribution of vaccines or a mutation of the virus that keeps lockdown measures in place. While we think risk of the latter causing widespread disruptions is a relatively low probability, it could potentially have devastating consequences for U.S. and global economic growth.

On the political front, we see limited risk with the transition to President-elect Joseph R. Biden Jr. in January. President-elect Biden's ability to implement the most divisive aspects of his campaign platform, including higher taxes and greater regulation, will be held in check by Republican control of the Senate and the Democrat's tenuous post-election control in the House of Representatives. Although the runoff elections in Georgia during January could still shift control in the Senate, we think this is a low probability. Furthermore, investors would be well served to note that the profit cycle is a much bigger driver of stocks and the economy than politics.

For stocks, 2021 will be a battle of higher earnings versus lower valuations as the economy reopens. Absolute valuations for the broader market are extremely high, with the S&P 500 currently trading in the 96th percentile, based upon historical forward

Source: River Road Asset Management. Date: December 2020. Unless otherwise stated all views expressed are proprietary to River Road Asset Management.

P/Es. However, we believe earnings growth is likely to be very strong as the economy begins to normalize, with the consensus forecasting the strongest two-year recovery in earnings since World War II. Additionally, we think stocks look very favorable compared to bonds. The S&P 500 dividend yield is nearly 2x the yield on 10-year Treasuries (1.58% versus 0.84% as of November 30) and dividends are likely to rise next year. Furthermore, unlike bond yields, earnings are nominal and tend to participate in inflationary upside.

Finally, many areas of the stock market are more favorably priced than broader averages like the S&P 500, most notably smaller cap and value stocks. Our small cap team was spot-on with their proclamation in mid-July that a more sustained rotation favoring small caps and value stocks had commenced. This trend, which began on July 10, continued through November, pausing only in December as COVID-19 surged. We believe this rotation will re-emerge in early 2021 and continue through at least the first half of the year, supported by attractive relative valuations and historical patterns in the early stage of economic and profit cycles. However, it is less clear to us whether a multi-year trend can emerge as many of the secular elements favoring small cap and cyclicals are not yet apparent.

In summary, we expect a robust recovery for the U.S. economy in 2021. Unfortunately, this is already reflected in the valuation of the S&P 500. Additionally, we expect risks will increase in the second half of the year as stimulus wears off and the restocking cycle fades. At that point, valuations will become more important to investors. Fortunately, we believe smaller cap and value stocks still present compelling relative investment opportunities. Thus, while we are neutral on the broader market in 2021, expecting modestly negative or positive returns for the S&P 500, we expect greater upside for the relatively attractive small cap and value segments.

Emerging Market Equities

GW&K Investment Management

Nordea 1 - Emerging Wealth Equity Fund
Nordea 1 - Global Small Cap Fund

- Emerging economies have experienced considerably shallower economic declines than developed countries wile recoveries look more robust
- While EM growth in the last years was clearly Asian led, a broad based global recovery, accompanied by a weaker US dollar and higher commodity prices could help economies in Latin America and the EMEA region
- Relative valuation of emerging markets remains reasonably attractive

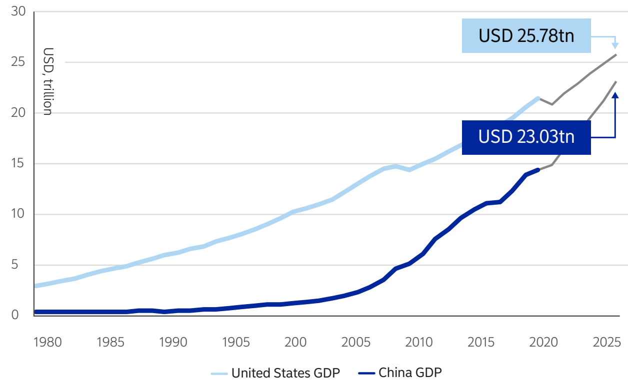
A very bright light at the end of the pandemic tunnel appeared late in 2020, with news that highly effective vaccines will soon be available. It appears that we are now past the depths of this crisis and will hopefully soon return to a routine business cycle. There are obviously unknowns that could influence emerging market equities in the short-term or longer, such as elevated debt levels on a global basis, the pace and sustainability of immunizations, and whether pandemic containment policies create long lasting behavioral changes. Nevertheless, we believe continued global economic expansion is the most likely scenario for the next several years.

The pandemic induced economic contraction was generally not as severe as initially feared – particularly in emerging Asia. The latest OECD Economic Outlook upgraded its forecast for 2020 global economic growth from -8.0% to -4.4%, with China expected to grow nearly 2%. The prevailing narrative for 2021 is robust economic growth, backed by the expedient normalization of business activity and still loose US monetary policy. For example, J.P. Morgan sees global GDP expanding by about 5% in 2021 after a decline of 4% in 2020. That 2021 gain would represent the strongest yearly gain in over two decades. Importantly, emerging market nations are expected to lead with a gain of 6.8% in 2021 following a decline of 2.0% in 2020. In contrast, developed countries are projected to grow by 3.8% in 2021 following a decline of 5.2% in 2020. If forecasts like this are on track, emerging economies will have experienced considerably shallower economic declines than developed countries in 2020, while generating recoveries that are substantially more robust in 2021.

The overall EM growth advantage in this unusual global cycle reflects the highly effective public health measures seen in key Asian EM economies like China, South Korea, and Taiwan. Those measures helped secure shallower and shorter downturns than many DM nations, as well as in EM regions like Latin America and EMEA. They also necessitated less aggressive use of fiscal stimulus during the global recession, which will leave those nations with less fiscal drag in coming years as the world economy recovers.

The Asian growth advantage also reflects the role of technology and goods-producing industries in driving growth in those nations, since those industries have demonstrated relative resilience during the pandemic, and, more importantly, healthy consumer spending in China. The country is the world's fastest growing consumer and the size of its economy is quickly approaching the US. However, it also reflects Asia's business dynamism, embrace of economic reform, focus on education, and execution proficiency.

China GDP quickly approaching the US



Source: Duff & Phelps, Bloomberg Finance L.P., Citi Research.

This is a structural phenomenon that is unlikely to change and will be a key driver of global economic expansion for many years. China and India are both home to nearly 1.4 billion people each – they are the world's largest consumer bases and both are growing more than the global average. The countries of China, Taiwan, South Korea, and India are also exceedingly important to emerging market equity performance, since they comprise approximately 70% of the MSCI Emerging Markets Index. We have long recognized Asia's growing influence on emerging markets, especially China's strength and the immense consumption opportunity in both China and India. This will continue to be a critical area of investment focus for us in the near future.

The situation is quite different in other EM regions. In the immediate future, a broad-based global recovery, accompanied by a weaker U.S. dollar and higher commodity prices, could help growth-sensitive, commodity-oriented economies in Latin America and the EMEA region play catch up in 2021. Longer-term, a concerted economic reform agenda is needed for certain countries in these regions, like Brazil and South Africa, to reach

Source: GW&K Investment Management. Date: December 2020. Unless otherwise stated all views expressed are proprietary to GW&K Investment Management.

full economic potential. There are optimistic signs: Brazil, for example, passed a long overdue overhaul of the public pension system and plans to address its onerous tax system. We are closely watching these regions, hopeful that they will follow a pro-growth path.

Finally, the 2021 backdrop appears supportive for emerging market equities. With major central banks likely to keep monetary policy highly accommodative for the next several years, the path of least resistance for global equity markets still appears to be up. In addition, the relative valuation of emerging markets remains reasonably attractive. At the end of November, for example, the Shiller PE ratios of the S&P 500, MSCI EAFE, and MSCI EM Indexes stood at 29.3, 18.8 and 14.8 times respectively. With 2021 consensus earnings growth for the MSCI EM Index currently averaging 32%, emerging market equities should build on 2020's commendable performance.

Asian Equities

Manulife Investment Management

Nordea 1 - Asia ex-Japan Equity Fund

Nordea 1 - Chinese Equity Fund

- Consensus estimates a strong GDP growth for Asia ex-Japan economies, China and India
- Key structural trends ahead: broad base adoption of 5G technology, Climate change and sustainable development, factory automation and digitalisation of economy in South East Asia

We started the year in 2020 with a host of uncertainties. There was expectation that the tension between US and China will escalate ahead of the US Presidential Election. The concern was quickly overshadowed by the outbreak of Covid-19, which led to shutdowns and lock down of activities across the globe sending prices of various asset classes on a downward spiral. In light of the sudden shock to the global economy, governments and central banks around the world provided unprecedented fiscal and monetary stimulus into the system to calm capital markets and to stabilize economic growth in their respective countries.

A series of "Black Swan" events created opportunities. The portfolio has evolved from leveraging on the beneficiaries of work-from-home and eat-at-home trend to positioning for a gradual recovery of economic activities as people and businesses adjust to living with COVID-19.

Moving forward, Covid-19 vaccines have been successfully tested and will be rolled out from 2021. There is hope that the coronavirus will be controlled, after which countries around the world may slowly rebuild their economies. While it may take some time before vaccines reaches the mass population, the impact of COVID-19 may not be as severe as initially felt as people and management of companies are better prepared and learned to adapt to living with COVID-19. Companies who survived up to this stage stand to gain market share from those who did not.

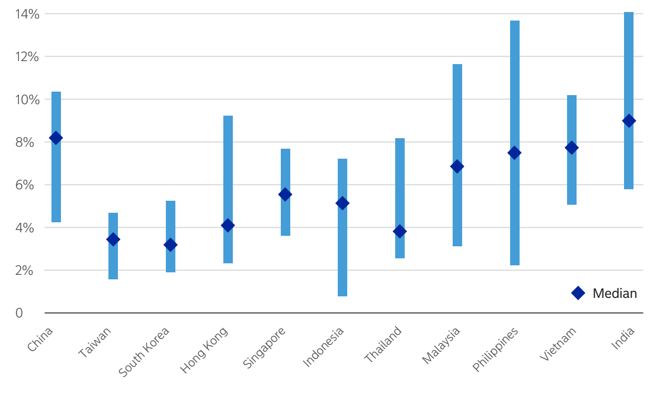
Economic Growth in 2021

During the onset of COVID-19 outbreak, Asia ex-Japan economies manage to avert a severe shock to the system thanks to swift fiscal response from the governments. Looking ahead, consensus estimated that Asia ex-Japan economies will grow at a rate of 5.5% yoy in 2021. Growth in China and India is estimated at 8-9% yoy, outpacing growth in other countries within the region. Whilst the absolute growth figure appears high, it is worth noting that it is derived from an abnormally low base in 2020. Overall, we expect economic recovery in the region to be gradual and uneven. The economic stress felt in 2020 may have to work its way through 2021 and we expect to see deterioration of loan asset quality along the way, particularly in sectors with prolonged earnings weakness. Given the dispersion of consensus estimates for GDP growth across the Asia region (Chart 1), it is imperative that we focus on the key structural trends that would gather interests in 2021, instead of applying a broad-brush optimism over a swift recovery.

Key structural trends in 2021:

1. Broad base adoption of 5G technology
This is expected to trigger a replacement cycle globally and we believe the supply chain in Asia, particularly the tech supply chain in North Asia (Taiwan, China, Korea) will benefit from this trend.
2. Climate change and sustainable development
The commitment to reduce green-house gas emission is expected to expedite the development and adoption of electric vehicles and energy efficient products which expected to induce growth in the ecosystem of renewable energy and resources.
3. China + 1 sourcing strategy
Production relocation or trade redirection will continue to see multinational and Chinese companies relocating or setting up new factories in the region.
4. Factory automation
We believe that this trend will help companies overcome the issues of labor shortage and enhance productivity. 5G and IoT enable automation of more business processes.
5. Digitalisation of economy in South East Asia
We expect digital adoption in South East Asia to play catch up with China and this certainly represent an interesting opportunity for investors in the region in the near term.

GDP growth forecast ranges - Asia ex Japan (%)



Source: Bloomberg, 15 December 2020

Source: Manulife Investment Management. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Manulife Investment Management.

Indian Equities

ICICI Prudential Asset Management Company Ltd.

Nordea 1 - Indian Equity Fund

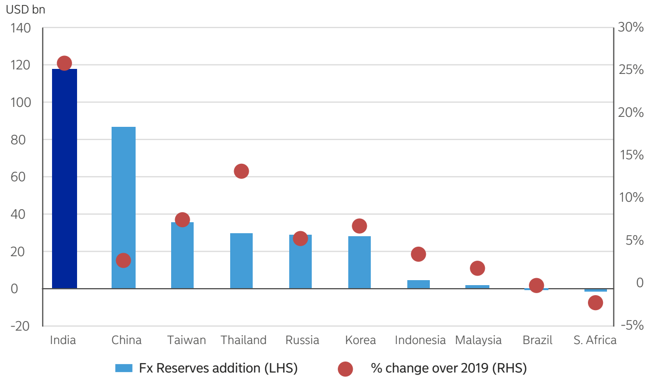
- Mobility and activity levels have improved significantly as the economy unlocks
- Structural reforms set the stage for strong re-bound in growth in the coming years
- Markets are at record highs; India's P/E premium to Emerging Market's (EM) close to long term averages

India witnessed one of the most stringent nationwide lockdown resulting in sharp GDP contraction of 23.9% yoy in the second quarter of 2020. The Government and Royal Bank of India (RBI) instituted several measures to support the economy through the lockdown by way of financial relief to mitigate the hardships faced by the poor, collateral free loans to Medium and Small Enterprises, credit facilities for farmers, street vendors, liquidity injection in the form of rate cuts, long term repo operations, moratorium for debt repayments etc. Several high frequency indicators are now already trending at pre-Covid levels. Manufacturing PMI has increased to its highest reading since January 2012. The economic reversal has come despite Government's conservative fiscal stance compared to other EM's. Real GDP growth of India has been remarkably steady for the last three decades; 6.5% -7% yoy growth.

The Government has already set the ground for a strong economic growth over the next decade through passage of bold reforms. India has been ahead of the global curve both in terms of digital penetration and access to mobile first technologies. Policy makers are contemplating measures to boost manufacturing and infrastructure spending to be able to optimize the opportunity in global supply chain shifts. The Government's 5-year Production Linked Incentive scheme (PLI) to companies that manufacture electronics hardware and pharma has been well received. Buoyed by the success of this scheme, the PLI has been expanded to 10 more sectors with a cumulative outlay of USD 20bn over next 5 years.

On the macro front, policy rates have been cut. This combined with surplus liquidity has led to speedy monetary transmission. Lending rates have fallen the sharpest in nearly a decade. We are seeing early signs of pick up in credit growth in housing loans, auto loans, personal loans etc. India accumulated forex reserves accretion of USD 117bn from Jan to Nov 2020 which is the highest among EM's (see chart on the right). The total forex reserves are at record high of USD 575bn which translates to an import cover of 17 months. A favorable Balance of Payments position, healthy forex reserves and RBI intervention are expected to keep the Indian rupee largely stable.

Forex reserves addition highest among EMs



Source: Bloomberg; Data for the period from 31 Dec 2019 to 30 Nov 2020.

One concern has been retail inflation which has surpassed RBI's tolerance band of 6% for three consecutive quarters. Much of the high inflation is attributed multiple supply side shocks and high food prices. A gradual return to normalcy as supply side disruptions fade and a favorable base effect should help in bringing back inflation to RBI's comfort zone by second half of 2021.

We look forward to 2021 with hopes of normalization in business and pick up in earnings. Low interest rates, structural changes in cost structures by variabilising fixed cost in the post pandemic set up, lower corporate taxes and re-bound in the economy should lead to recovery in earnings for most corporates. Equity markets are currently at record highs supported by unprecedented global liquidity, strong foreign portfolio flows and hopes of a vaccine rollout. The rally is broad based across sectors; valuations across market caps have converged. Quality and growth style have outperformed value style so far, however, since the positive news of the vaccine, a reversal is underway. Though markets look expensive on 1-year forward PE basis but adjusting for low yields and relative to EM's valuations, India is trading at average levels. EM portfolio positioning in India is close to decadal lows which could attract further flows supported by an improving earnings cycle, stronger economic recovery and policy momentum. From a sector perspective we expect domestic cyclical sectors like Financials, Real Estate and Industrials to do well as private capex cycle picks up spurring economic growth.

Source: ICICI Prudential Asset Management Company Ltd. Date: December 2020. Unless otherwise stated all views expressed are proprietary to ICICI Prudential Asset Management Company Ltd.

Latin American Equities

Itaú Asset Management

Nordea 1 - Latin America Equity Fund

- More optimistic outlook for the region, as vaccine developments advance at a faster pace, and the global monetary liquidity finally starts to reach Latin America
- Emerging Markets (EM), including Latin America, appear as investment opportunities for global investors since valuation in the region is attractive

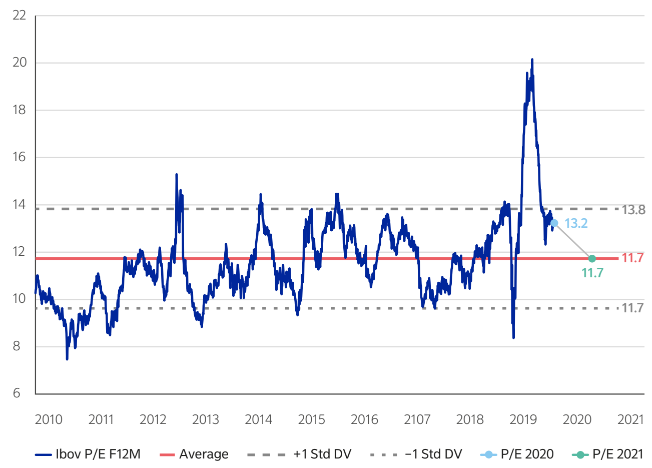
The economic recovery process, post-Pandemic, has been different from the period post-GFC (Global Financial Crisis). In summary, most developed economies reacted essentially with monetary stimulus, which were not coordinated by Central Banks or even simultaneous. Despite substantial liquidity, banks were under-capitalized and not willing to lend at that time. This time around governments´ responses to the crisis have been a combination of monetary and fiscal stimulus, and they have been coordinated and implemented at the same time, creating the biggest growth stimulus ever seen. Also, banks´ balance sheets are much stronger now and there is a disposition to lend. In this scenario growth is no longer scarce.

Because of growth scarcity, growth assets were in short supply. At the same time technological development provided a new variety of assets available to investors. This environment prompted growth assets to strongly outperform value assets. Latin American equity markets were poor in "tech" assets and rich in value assets, such as commodities, banks and telecom stocks.

These sectors are very relevant to Latin American equity markets and heavy representative in their benchmarks. Financials and commodities represent more than 50% of the Ibovespa index for instance, the most popular benchmark in the Brazilian equity market. Banks and telecom companies are also relevant to the Mexican equity market, and commodities specifically are relevant to all markets in Latin America. Developed economies and China were in the late cycle of economic growth (growth decelerating) previous to the Pandemic, which is not a period favorable to commodities. The Pandemic put the whole world into a recession and also, as mentioned above, all developed economies and China back into an early stage of the economic growth with monetary and fiscal stimulus. This is a perfect environment to commodities. In fact, we have seen fast growing demand for iron ore, copper, steel, and other commodities that Latin America has a position of dominance. At the same time, there is no supply to keep up with the growing demand. The Pandemic also generated more demand for Telecommunication services as more people are and probably will continue to be working for home. In the case of Banks, we favor the Brazilian banks, as they are strongly capitalized and made excess provisions in the beginning of the Pandemic. The delinquency has been way better than previous estimates, so current provisions are likely to be reversed, therefore increasing profits.

Global investors have never been so under-allocated to Latin America and that has already begun to change with a strong flow of international capital in October, November and month-do-date December. Economic recovery and valuation gap between developed markets and emerging markets, including Latin America, prompted this flow. We believe it will continue as valuation in the region is attractive. Chile for instance, trades at a significant discount to its own historical valuation, and Brazil trades basically at its historical average, which is unusual in a world with such liquidity.

Ibovespa 10Y Historical P/E F12M Ratio



Source: Bloomberg, as of 15.12.2020

Source: Itaú Asset Management. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Itaú Asset Management.

Listed Infrastructure

CBRE Clarion Securities

Nordea 1 - Global Listed Infrastructure Fund

- As of mid-December, Global Listed Infrastructure (GLI) was down 4.5% on the year and trailing the surprisingly strong returns of the global equity market of +13.5% over the same period
- The weak performance is disconnected from fundamentals where earnings and dividends were resilient for the majority of infrastructure companies through the pandemic
- While the "New Economy" enjoyed investor attention in 2020, we believe that there will be a renewed focus on the "Essential Economy" in 2021 to the benefit of infrastructure companies

The global pandemic driven by the COVID-19 outbreak was the largest exogenous shock in modern history. The global economy entered the year in relatively good health with an expansion underway, only to be derailed into its deepest contraction in over seven decades as fear and restrictions limited economic activity. The global central bank monetary response coupled with aggressive fiscal policies staved off the worst-case scenarios and kept credit flowing. The recession was short-lived given the policy support and re-openings over the summer, while the expansion is expected to continue into 2021 as forecasts for global GDP next year are approaching 5%.

Equity markets embraced companies that embodied the "New Economy" after the market sell-off in March. Examples include companies like Peloton (home fitness/tech), Netflix (streaming entertainment), Carvana (on-line car sales) and Zoom (virtual meetings). There was less excitement for the "Essential Economy" such as your water, gas and electric utilities. Infrastructure assets remain essential and, as they did this year, will continue to need investment to ensure that the everyday demands for water, heating, cooling and power will be met.

We forecast several dynamics that could re-energize interest into the Essential Economy: 1) growing ESG fund flows seeking investments in decarbonization and clean water which are attractive themes for these funds; 2) governments globally continue to increase and accelerate clean energy policies which benefits utilities; 3) M&A potential driven by both energy companies seeking strong platforms to diversify from their existing asset base and institutional investors looking to invest in long-lived asset bases with stable growth.

Decarbonization was one of our key themes heading in 2020 and our view is even stronger for 2021. Utilities are playing a key role in the clean energy transition. Many utilities still own coal-fired power plants that are old and costly, and they are shutting them down and replacing with renewables that are increasingly cheaper. Utilities that are also developers of those renewables are even better positioned as the investment opportunity set is only growing and provides a long runway of predictable growth. The innovation in clean energy is also driving other investment opportunities in battery storage, smart meters and network efficiency.

While the majority of the essential sectors within infrastructure reported stable earnings, volume driven sectors that have more economic sensitivity did face challenges. Airports were the biggest laggards, and many of the companies had to cut dividends in the face of unprecedented 80-90% declines in traffic volumes. Midstream companies were also impacted by the sharp decline in fuels related to travel as well as lower economic activity that led to negative earnings revisions and dividend reductions.

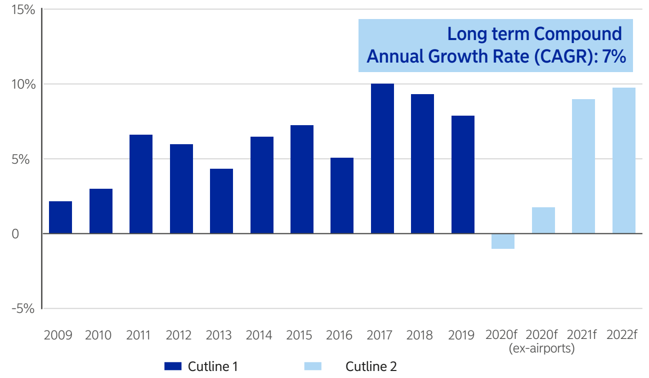
The positive trends for an effective vaccine that is widely distributed is notably positive for the outlook for the most impacted infrastructure sectors. Toll roads and passenger rail companies are likely the early beneficiaries. Midstream companies also should expect better economic activity and more travel to drive higher volumes. Airport activity will certainly improve, although the recovery to pre-COVID levels may take 3-4 years. We believe risk levels remain elevated for traffic volumes that are sensitive to business/commuter traffic as we expect some long-term changes to business travel.

Communication infrastructure kept pace with the broad equity market this year given the increased need and demand for data growth. We remain positive on the data growth theme which remains secular and structurally supported by the Internet of Things (IoT). While the valuations of the companies are not as discounted as in other sectors in infrastructure, the ability to of the companies generate consistent cash flow growth remains attractive.

Infrastructure forms the backbone of every economy, enabling economic and social development. Infrastructure assets generate social, environmental and economic impacts, such as contributing to greenhouse gas emissions reduction, revitalizing disenfranchised areas, improving access to services and creating employment. Infrastructure underpins many of the 17 UN Sustainable Development Goals (SDGs), and thus infrastructure investors are well positioned to make a positive impact on the societies and economies in which they invest.

The need to invest into essential infrastructure assets is not tied to broad macro forces. Safety, reliability and efficiency are the primary factors that support on-going investment into the assets, all under the regulatory structure which ensures a consistent return in excess of companies' cost of capital. The consistency of demand and ongoing need for investment drives predictable and stable cash flows. It also provides for a differentiated return profile from the broader equity market where cycles and competition may lead to more volatile earnings and returns. After a year where infrastructure performance disconnected from fundamentals and with strong themes supporting visible future growth, we believe that infrastructure is poised to offer very attractive absolute returns.

Development of Listed Infrastructure dividend growth



Note: Based on CBRE Clarion Listed Infrastructure Universe. Source: CBRE Clarion investable universe, FactSet and Bloomberg as of 11/30/2020. Information is the opinion of CBRE Clarion, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results.

Source: CBRE Clarion Securities. Date: December 2020. Unless otherwise stated all views expressed are proprietary to CBRE Clarion Securities.

Global Real Estate

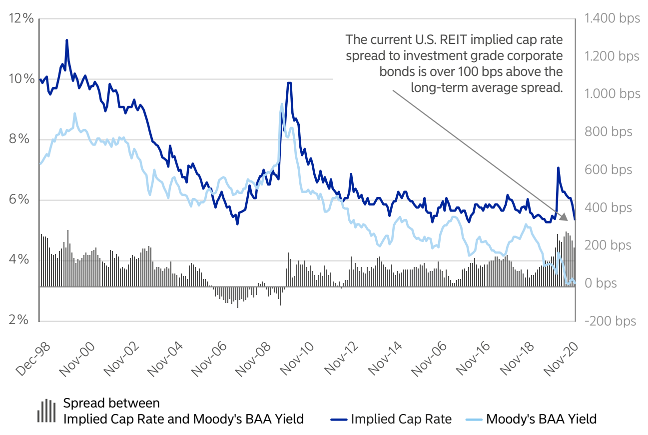
Duff & Phelps Investment Management Co

Nordea 1 - Global Real Estate Fund

- Global real estate equities lagged global equities during 2020, although they have staged a meaningful rebound and we believe this is likely to continue in the year to come
- We expect cash flow and dividend growth to reach again positive territory in 2021, with discrepancies across sectors
- Continued variance in the global economic growth, as well as regional and property sector fundamentals make active management the preferred option for listed real estate investors

Following the outperformance in 2019, global real estate equities lagged global equities during 2020. However, they have staged a meaningful rebound from their intra-year lows and have seen a further boost as the data on the efficacy of COVID-19 vaccinations has been released. We believe a continued rebound of REIT stock prices is likely in the year to come. This is partially evidenced by the historically wide spread of US listed real estate's implied cap rates to investment grade bond yields, and rising REIT share prices are associated with low cap rates.

Spread of real estate implied cap rates to investment grade bond yield



Source: Duff & Phelps, Bloomberg Finance L.P., Citi Research.

The pace of global economic growth will start the year off with continued acceleration. However, tough year-over-year comparisons will not ease until we enter the second quarter of 2021. Global real estate cash flow and dividend growth should rebound to positive territory in 2021, nevertheless underlying trends by property sector will continue to be highly uneven.

Themes we are focusing on include:

- Fiscal and monetary support: Governments and central banks are providing meaningful fiscal and monetary support to help reduce the negative shock from the Global Pandemic Crisis (GPC), COVID-19.
- New supply: Construction activity will continue to slow, and new real estate supply should moderate over the next couple of years.
- Balance sheet health: US balance sheets are better positioned than they were prior to the Global Financial Crisis, making discounted equity offerings less likely. International balance sheets are generally not as well prepared; additional equity or assets sales will be needed.
- M&A tailwind: M&A activity has picked up into year-end and could continue to accelerate if the meaningful discounts-to-NAV in public real estate security markets remain in place.

Our base case total return drivers for global real estate in 2021 include:

- 2021E global cash flow growth will accelerate as economic activity rebounds.
- Attractive dividend yields of ~4.0% will benefit from dividend growth driven by increased cash flow.
- Secular growth drivers will continue to benefit Data Centers, Cell Towers, and Logistics; Office, Retail, and Lodging recoveries will vary by quality, market, mix, and duration.

There are several potential upside catalysts to our base case. A key macro consideration is greater-than-expected recovery in global economic growth, which would drive higher real estate occupancies and rents. Another upside factor would be rotation into real estate securities from bonds and broader equities. An increased potential for M&A and privatizations continues to exist, given the listed discounts to private real estate market prices and the ongoing desire for high quality, core real estate among institutional investors. A key risk is the continued uncertainty surrounding the depth and duration of the GPC. It is possible that government directives will temporarily impact select property sectors and markets. Furthermore, a delay in the rollout of effective vaccines will delay a return to normalcy.

Looking to the year ahead, we expect variance in global economic growth. Regional and property sector fundamentals in real estate will be more pronounced, due to the lingering impacts of COVID-19. How far the markets will pull forward the expected global economic recovery is a key consideration. We expect the variance in global growth trajectories to create opportunities for active managers.

Source: Duff & Phelps Investment Management Co. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Duff & Phelps Investment Management Co.

Nordic Fixed Income

Nordea Norwegian Fixed Income Market

Nordea 1 - Norwegian Bond Fund
Nordea 1 - Norwegian Short-Term Bond Fund

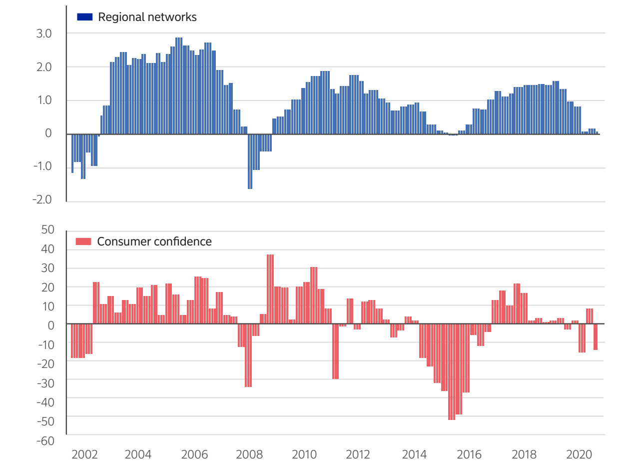
- The Norwegian government contributed to support the economy during the COVID-19
- New vaccines and consumption growth will likely support the GDP in the first half of 2021
- A weaker NOK and a higher-than-eurozone inflation might lead to interest rate hikes

The Norwegian economy showed resiliency during the COVID-19 crisis, but increased unemployment affected the GDP which fell by more than 3%. Vaccines are expected to be rolled-out in Norway in early 2021. The priority will be given to "high-risk" individuals. These events will likely support the private consumption.

We also expect a significant GDP-growth compared to 2020 which will likely pave the way for interest rate hikes from Norges Bank. A rather weak NOK was the main driver to the increase in the core inflation during the spring of 2020. We expect the overall inflation in Norway to remain relatively high vis-à-vis comparable economies in 2021.

Going into 2021, NOK credit spreads are on the wide side relative to similarly-rated issuers in the EUR-market. We believe that spreads will continue to be supported by accommodating monetary and fiscal policies. Also, positive sentiment is expected to emerge by an increase in the issuance activity of senior non-preferred debt by Norwegian banks. However at the moment, we avoid chasing higher yielding issuers, and prefer adding risk in presence of more re-assuring macroeconomic data.

Regional network and consumer confidence



Source: Nordea Investment Management AB and Macrobond, as of December 2020

Nordea Swedish Fixed Income Market

Nordea 1 - Swedish Bond Fund
Nordea 1 - Swedish Short-Term Bond Fund

- The COVID-19 dominated the economy and restrictive measures have been introduced.
- GDP growth and SEK appreciation rates are expected to occur during 2021.
- Rates remained unchanged although cuts cannot be ruled out.

The COVID-19 pandemic dominated the overall macroeconomic environment during 2020. A second wave of infections called for more stringent restrictions which negatively affected hard-hit services sector.

Based on what we experienced in the summer, we expect the economy to start recovering once measures are gradually eased. Whilst crisis like these suggest that it will take time before GDP returns back at the pre-crisis levels, we have seen the GDP being revised upwards compared to the prognosis in September. The Swedish government now predicts GDP to decline by 2.9% in 2020 and grow by 3.0% in 2021.

To give further support in such an uncertain time Sverige Riksbanken decided to expand and extend the asset purchases from SEK 500 billion to up to SEK 700 billion up to 31 December 2021. Whilst cuts in the repo rate may realise, it remained unchanged at 0% and is expected to remain at this level in the coming years.

The spread tightening in covered- and corporate bond was the main driver for both absolute and relative returns in 2020 and we expect this to continue even throughout 2021. We see potential for a sustained SEK appreciation and expect the EUR/SEK rate to strengthen further during 2021. We maintain an overweight position in covered- and corporate bonds, as we consider the current risk premia to be fairly attractive, especially compared to government bonds.

EUR/SEK rate

Source: Bloomberg, 02/01/2018 – 16/12/2020

European Covered Bonds

Nordea Danish Fixed Income & European Covered Bond Team

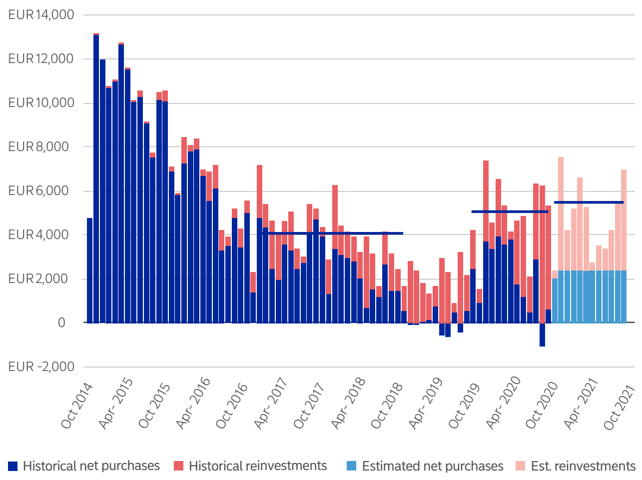
Nordea 1 - European Covered Bond Fund
Nordea 1 - Low Duration Covered Bond Fund
Nordea 1 - European Covered Bond Opportunities Fund

- The ECB is still a key driver of the market, and will be for the foreseeable future
- The supply in 2021 is expected to be subdued, supporting spread levels
- New opportunities ahead: our active stance to make a difference

The year 2020 started as expected, with new issues being quite active in January. The ECB remained a dominant factor on the demand side: spreads were steadily grinding tighter and tighter. When the new virus suddenly appeared around the world, the market turned sour, putting pressure on liquidity. Credit spreads widened and the covered bond spreads followed to some extent. It became clear that central banks around the world had to intervene and set up programmes to allow liquidity in the market, leading to measures impacting positively spread recovery. These measures impacted the supply of covered bonds for the rest of 2020, and will again in 2021. In 2020, the supply of benchmark EUR covered bonds ends up around EUR 95bn, way below the EUR 140-150bn expected in January. This represents a negative net supply of almost EUR 20bn. A key decision from the ECB was the 'extended' TLTRO III, where banks could obtain a special (favourable) rate of -1% from June-20 until Jul-21, if certain loan growth measures were met. This removed much of the funding needs for European banks, and only banks that hadn't access to these liquidity came regularly to the market to issue covered bonds.

Going into 2021, we expect the supply to be subdued, as most banks still hold these TLTRO uptakes. One could have hoped that banks had the incentive to repay some of it, when the favourable special rate ends, to issue longer dated covered bonds instead. Yet, the ECB extended the programme at their meeting in December 2020, with three additional tenders (Jun-21, Sep-21 and Dec-21) and extended the special rate until Jun-22. In our view, the supply should therefore stay more or less in line with 2020, which should be supportive for spreads. On the other hand, the demand picture remains in line with 2020, as the ECB is still dominating the market with large purchases. As illustrated in the graph on the right, the CBPP3 still undertakes large net purchases, with high redemptions needed to be reinvested. Together with the PEPP (Pandemic Emergency Purchasing Programme), which is a flexible programme where only around 1% has been spend on covered bond so far, the demand from ECB should be slightly higher in 2021 compared to 2020.

Details of the CBPP3



Source: ECB. As of December 2020.

In this context, we find many opportunities in non EUR-zone issuers. In particular, Canadian issuers would need to issue some size, as the central bank in Canada has removed the special liquidity measures put into place due to the COVID-19. We also expect to find alpha opportunities in the non-core covered bond markets, with e.g. Slovakia and Poland trading quite attractive as well. Over 2020, we have been active in the DKK and SEK covered bond markets. Riksbank in Sweden has launched a QE programme, which buys up a large part of the SEK covered bond market, compressing spreads substantially. DKK covered bonds will continue as well to be an opportunity, to which we have a dynamic allocation. At the moment, they offer a pickup of around 20bps (FX hedged) to a core EUR covered bond.

European High Yield Bonds

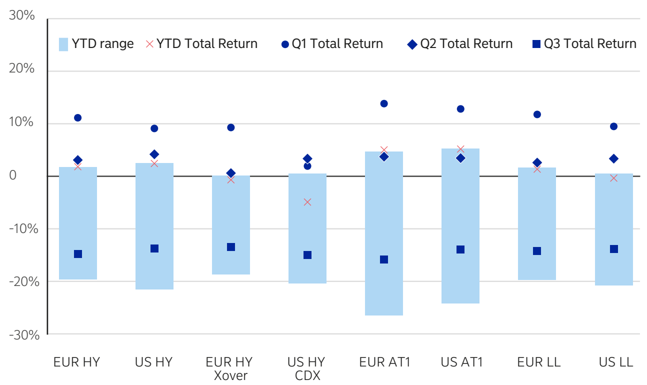
Capital Four

Nordea 1 - European High Yield Bond Fund

- Back to initial spreads levels from early 2020 and markets seem to have recover strongly from March drawdown with the support of central banks, sponsors and governments
- Moving into 2021, a low yield environment combined with a strong primary issuance activity should provide a diverse opportunity set for active managers to identify credits with upside potential
- We would expect greater recovery rates in Europe based on more senior secured issuance than in the U.S.

The leveraged finance markets have now broadly recovered from the March drawdown and spreads are back at the levels observed in the beginning of the year. The unpresented action by central banks, sponsors and governments to support the underlying economy has managed to keep default rates idiosyncratic and in the low single digit range.

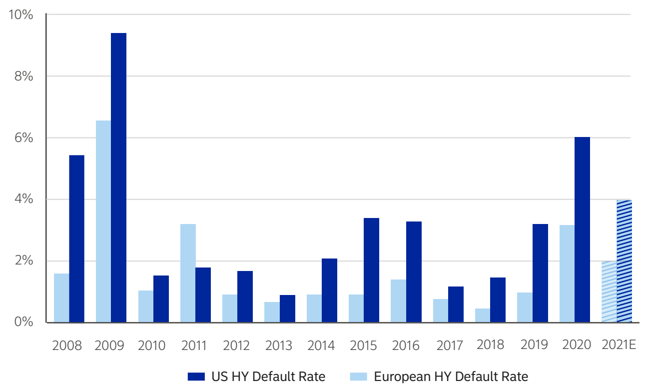
Return Developments



Source: ICE bond data, Credit Suisse loan data, Bloomberg CDS data.

Looking ahead to 2021, the market should receive tailwinds from a continued low default environment and growing markets as we expect strong primary issuance within both high yield and loans next year. Looking at European leveraged finance compared to the US, the market broadly expects European default rates to remain about half of what's observed in the U.S., given the greater quality in the European market and the market being less exposed to COVID-sensitive sectors such as energy and retail that remains under pressure. In addition, we expect greater recovery rates in Europe based on more senior secured issuance than in the U.S..

European vs U.S High Yield – Default rates



Source: Credit Suisse, JPM.

The next stage of the recovery and normalization should be driven more by company and industry specific developments, requiring managers to take a pronounced and detailed view on industry and companies.

The European High Yield spread-to-worst has tightened to 371bps. Assuming a default rate of 2.0% for the coming 12 months and a recovery rate of 40%, European High Yield bonds would generate an excess return of 251bps versus government bonds if the high yield spread stays unchanged at 371bps. In addition to this, return from rolldown of the curve should be expected.

Source: Capital Four. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Capital Four.

US Investment Grade Corporate Bonds

MacKay Shields LLC, Global Fixed Income Team

Nordea 1 - US Corporate Bond Fund

- In previous crises, the U.S. corporate bond market established itself as an important safe haven to global investors
- We believe the fundamental backdrop and technical support for Investment Grade (IG) credit still remains attractive, even though compensation for risk is more limited
- As the world faces a second wave from the pandemic and awaits distribution of a vaccine, 2021 should favor active managers able to seek out total return opportunities rather than rely on carry alone

A scorecard of the US Corporate Bond Market

2021 Headwinds	2021 Tailwinds
Tighter valuations	Improving economic conditions
Elevated leverage	Strong monetary & financial support
Inflation risks	Abating fallen angel risk
Risk for higher corporate taxes	Lower supply expectations
Risk for increased regulation	Strong global demand

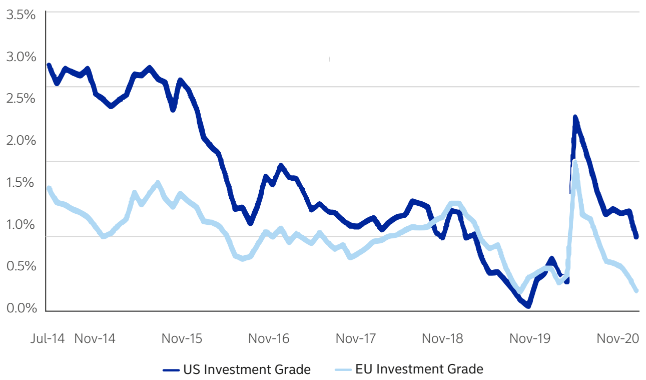
There are a couple important takeaways from the U.S. IG corporate bond market's performance during a global pandemic. First, 2020 reminded investors of the importance of an IG rating given how the U.S. Federal Reserve stepped-in to stabilize financial conditions and ensure the availability of credit. The Fed viewed the IG credit markets as systemically important and as a result, we witnessed first-hand companies proactively tender and term out their debt in order to preserve their high quality ratings. The U.S. Federal Reserve's commitment to the markets and the use of its balance sheet re-instilled investor confidence and provided the necessary spark to fuel a powerful rally.

Another important takeaway from 2020 was the fleeting nature of liquidity in both the ETF market and secondary trading markets. While the year was defined by a health crisis, the markets endured a liquidity crisis back in March. The liquidity strain that reverberated across the global financial markets served as an important reminder that investors must continue to manage liquidity risk commensurate with credit risk and other portfolio risk factors.

As we look ahead to 2021, we recognize that valuations look more compressed and all-in yields are very low. However, we believe total return opportunities rather than "carry plays" will drive performance. Even as we embark on the early stages of the recovery there are still sectors of the market whose ratings trajectories and credit costs will hinge on their ability to grow into their new post-COVID capital structures. Stated another way, the marginal companies need to continue to produce enough cash to pay for the emergency financing they received to stay solvent. While many other parts of the corporate market are trading at or near their pre-COVID spread levels, we are mindful that there is now little margin for error should merger & acquisition activity rise or some other re-leveraging event emerge. Our style of eliminating uncompensated risk through fundamental bottom-up research and a macroeconomic overlay should help us avoid those issuers most vulnerable.

As the markets await the roll-out of COVID-19 vaccines, we are excited about the opportunities presented to us heading into 2021. Most sell-side strategies expect IG corporate issuance to decline as much as 30% next year and this will be a notable tailwind to the market. Additionally, demand for U.S. credit is likely to remain strong, particularly from overseas buyers in Europe and Japan looking to avoid negative yields. In fact, on both an absolute and relative currency-adjusted basis the U.S. corporate bond market is at its cheapest level in nearly five years relative to the European corporate bond market (see chart below). When combined with an improving U.S. economic backdrop and supportive monetary and fiscal policies, the U.S. corporate bond market remains one of the more attractive markets for investors.

Yields: U.S. IG (EUR Hedged) vs. EUR IG



Source: ICE Data Services, Bloomberg, Reuters and MacKay Shields.

Source: MacKay Shields LLC, Global Fixed Income Team. Date: December 2020. Unless otherwise stated all views expressed are proprietary to MacKay Shields LLC, Global Fixed Income Team..

US High Yield Bonds

Aegon USA Investment Management, LLC

Nordea 1 - North American High Yield Bond Fund

- Three key factors support a cautiously optimistic outlook on high yield in 2021: ongoing economic recovery, improving fundamentals and supportive market technicals
- Improving fundamentals should lead to declining defaults as the economic recovery ensues and companies begin a multi-year period of balance sheet repair
- Technicals will likely remain extremely strong as the quest for yield continues and demand outstrips supply
- Despite historically low yields, the high yield asset class offers opportunities for added value, especially relative to most other fixed income categories

After a turbulent 2020, we are cautiously optimistic on the high yield asset class in 2021. We expect three key factors will continue to support the high yield asset class: the ongoing economic recovery, improving fundamentals across sectors and supportive market technicals. Although we are cautiously optimistic given vaccine developments and improving fundamentals, we are carefully assessing risks that could undermine the pace of the recovery.

Fundamentals

While fundamentals may remain challenged in the near term given elevated leverage and weak earnings, we expect improvement in 2021. Assuming a successful implementation of the Covid-19 vaccine and a decline in lockdown measures, we anticipate nearly all high yield sectors will experience a year-over-year earnings improvement. That said, fundamentals are starting from a weak spot and many companies may not return to pre-pandemic levels for some time.

With respect to leverage, high yield issuers amassed a substantial amount of debt in 2020 with leverage peaking at 5.8X this credit cycle. For the majority of high yield issuers, we believe leverage levels are manageable as earnings rebound, provided we see a healthy economic recovery and a tapering of new coronavirus cases. Further, many high yield companies proactively shored up liquidity and extended maturities during 2020, which should allow most issuers to adequately service their debt loads.

Although our outlook on fundamentals is generally positive, certain companies exposed to Covid-19 disruptions may experience a protracted recovery. For the issuers most exposed to Covid-19, we anticipate a multi-year period of balance sheet repair to begin in 2021. With this, we expect a meaningful decline in default rates in 2021 given the improving fundamental backdrop with defaults in the 3-5% range in 2021 on a par-weighted basis.

Technicals

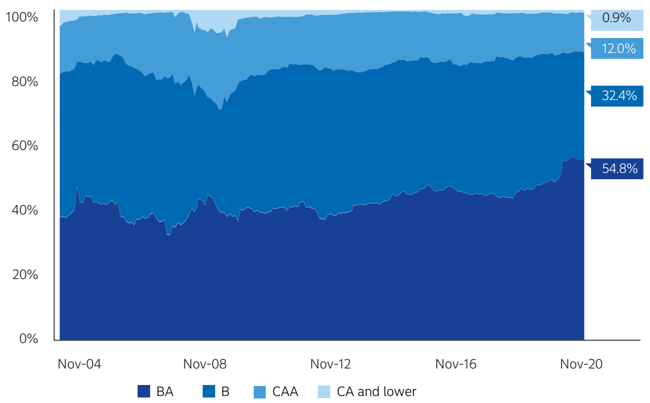
Technicals will likely remain extremely strong in 2021 as the demand for high yield credit is expected to outweigh supply. After a record year of new issuance in 2020, primary market activity may slow on a relative basis, providing another positive technical for the asset class. With the Fed continuing to provide assurance of rates near zero for an extended period of time, we do not envision the supportive technicals changing in any meaningful way. As the quest for yield continues, we anticipate the relentless bid for high yield will continue.

Cautious optimism on the road ahead

The significant rally in high yield during 2020 has resulted in spreads inside long-term averages. However, spreads are still above historical tights, providing room for a continual grind tighter in 2021. Further, it is important to note that the high yield index quality has improved with the significant increase in fallen angels as BBs are at an all-time high of 55% (see chart below). Given the high-quality mix, spreads could go tighter than in previous cycles. Against this backdrop, we expect high yield total returns to be approximately 4.0-5.0% in 2021.

Despite low all-in yields, we believe the high yield asset class offers opportunities for added value, especially relative to most other fixed income categories, and will likely continue to draw investor inflows as the quest for yield continues. Markets may present bouts of volatility throughout the year, but we anticipate high yield to outperform other fixed income alternatives as the economy rebounds.

Record BB exposure in the high yield index



Source: Bloomberg Barclays Indices. Reflects index allocations by credit quality for the Bloomberg Barclays US Corporate High Yield Index based on market values through November 2020.

Source: Aegon USA Investment Management, LLC. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Aegon USA Investment Management, LLC.

US Mortgage Backed Securities

DoubleLine Capital LP

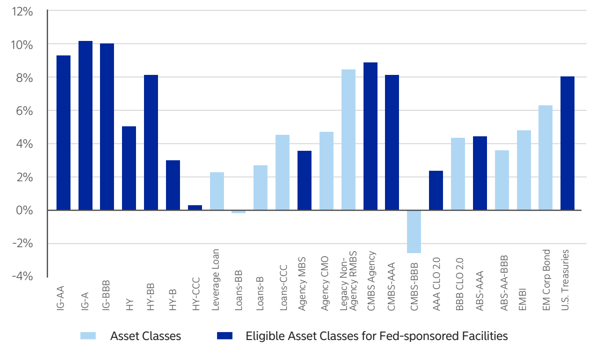
Nordea 1 - US Total Return Bond Fund

- Spreads for many structured products have retraced much of their widening from earlier in the year. However, we continue to have a constructive outlook on these asset classes heading into 2021[1]
- We believe many areas of structured products offer attractive relative value compared to corporate bonds
- Fundamentals for U.S. housing and the U.S. consumer largely remain favorable and will likely improve alongside the continued economic recovery
- Areas more-acutely impacted by COVID-19, namely parts of the commercial real estate (CRE) and aviation asset-backed securities (ABS) markets, have some of the greatest upside potential in 2021

2020, for better or worse, will be a year to remember. The COVID-19 pandemic brought unprecedented changes across global markets through extremely accommodative monetary policies and fiscal support that dwarfed relief packages enacted during the Global Financial Crisis, likely having impacts on consumer behavior for years to come. Heading into 2021, we believe structured products will continue to recover amid sustained monetary support from central banks, with economic growth buoyed by COVID-19 vaccines and the potential for additional fiscal stimulus measures. While some structured-product spreads retraced a sizable amount of the widening experienced in March, securitized credit largely lagged the recovery in corporate bond spreads.

The Federal Reserve's market intervention caused a dislocation between securitized credit and U.S. corporate bonds, evidenced by the slower recovery in areas of securitized credit. We believe the slower recovery in securitized credit could create opportunities for investors in 2021. With nominal rates and credit spreads in much of the fixed-income universe at or approaching all-time lows or tights, securitized credit can offer investors higher yields with lower interest-rate risk relative to other fixed-income sectors. The positive technical backdrop remains supportive for securitized credit, while improvements within underwriting and regulation have resulted in securitizations more likely to withstand adverse market environments. The confluence of these factors should bode well for the potential outperformance of securitized credit relative to corporate bonds.

Year-to-Date Performance of Fixed-Income Indexes through December 11, 2020



Source: DoubleLine, Bloomberg. Eligible asset classes for Fed-sponsored facilities denoted in dark blue

Emerging Market Debt

Nordea EM Debt Team

Nordea 1 - Emerging Stars Bond Fund

- A slowing recovery, subdued underlying inflation and monetary largesse create a carry-friendly environment in 2020, underlining the attractiveness of EM bonds
- We find EM corporates particularly attractive from a sustainability perspective
- Main risks: Extremely bulled-up investors and peak policy support

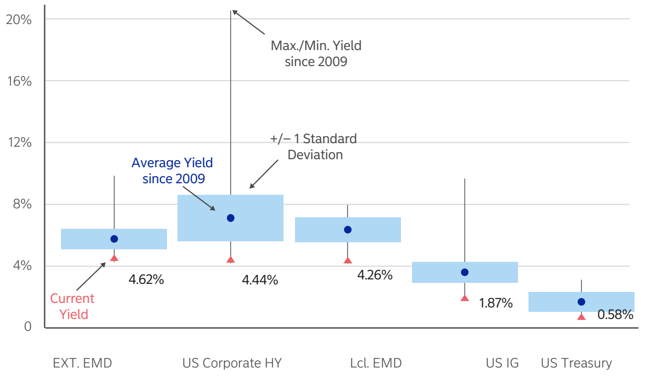
The pandemic has caused the deepest shock to the global economy in recent history, followed by a rapid reopening-rebound as the first wave of the virus was met with unprecedented fiscal and monetary stimulus. Emerging Markets (EM) recovered as well, despite more limited stimulus options. While the momentum in developed markets (DM) is losing steam, financial markets are roaring ahead in a v-shaped manner. Prospects of widely available vaccines in 2021 cause investors to ignore any near-term weakness. How much of this optimism is justified?

Looking through the swings caused by a sequence of "first wave–reopening rebound–2nd wave–vaccine boost" mini-cycles, a continued but slowing recovery should be the most likely underlying macro scenario for 2021. Growth gets a significant boost from vaccine developments. Add to this a favourable base-effect in Q2 and spring might appear like a reflationary boom-phase.

However, headwinds are caused by the fiscal hangover in the shape of shrinking structural deficits, implying a drag on growth in both EM and DM. Also, the recovery should be driven more by the service sector, gaining most from vaccine availability. EM goods exporters will therefore benefit less from next year's recovery as compared to 2020. The EM-DM growth gap should narrow. Lastly, a peak in China's credit impulse further limits the upside to growth in 2021.

Apart from a temporary spike in inflation due to aforementioned base-effects and energy prices, low inflation should dominate the medium-term. Excess capacity stays ample and the pandemic has reinforced structural disinflationary drivers: Global debt is much higher than before Covid, the share of zombie companies has increased, tech is more widely used and inequality should rise as low-wage earners suffered more from shut-downs. True, fiscal spending has been catapulted higher, but private saving has compensated for public dis-saving. Money-multipliers remain in the doldrums.

Global Yield Comparison



Source: Nordea Investment Management AB and Macrobond

While the broader macro backdrop could disappoint what seems to be an overwhelmingly bullish consensus heading into 2021, the implications for EM fixed income are actually encouraging. First and foremost, the resulting growth-inflation trade-off means that monetary policy will remain extremely loose and liquidity ample. This is a recipe for low DM yields and abundant liquidity provision, supporting the attractiveness of EM bonds from a carry perspective. Both EM duration and sovereign spreads are expected to benefit. That said, the upside to the broad asset class might be frontloaded as the negative drivers gain momentum in the H2.

One of our favourite investment themes are EM corporates, offering exposure to a range of sustainable business models within e.g. renewables. We are avoiding quasi-sovereigns due to the dominance of the utility and energy sector. In light of a decent carry-potential and a promising fiscal trajectory, Egypt remains one of our top country pics. Chinese bonds look attractive relative to US government bonds as Chinas recovery is more advanced and should slow earlier than the US.

A key risk is the fact that the vast majority of investors see very few risks in 2021. Sentiment is red-hot and valuations are not cheap. Policy support is peaking as fiscal deficits will shrink and central bank balance sheet growth slow, increasing market's vulnerability to any form of disappointment.

Source: DoubleLine Capital LP. Date: December 2020. Unless otherwise stated all views expressed are proprietary to DoubleLine Capital LP.
1) Structured products include Agency mortgage-backed securities, non-Agency residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities.

Emerging Market Corporate Debt

MetLife Investment Management

Nordea 1 - Emerging Market Corporate Bond Fund

- EM growth will be positively impacted by:
  - o Global vaccine rollout allowing economies to re-open for business
  - o Continuing accommodative monetary and fiscal policy
  - o Search for yield
  - o Biden administration to emphasize more bilateral engagement on a variety of global issues, most notably trade
- Corporates continuing to show positive credit fundamentals, attractive yield pickup in EM HY vs. US HY corporates
- Ongoing heavy issuance in EM corporates and sovereigns

The expected ongoing low rates environment mixed with continued recovery of corporates and countries that have been impacted by COVID-19 should lead to a strong year of growth for Emerging Markets (EM) in 2021. The global environment will remain supportive for credit in the upcoming year, along with expected large cash flows from investors to help support the macro backdrop. The US policy changes under President-elect Joe Biden and supportive DM monetary policy point towards an optimistic outlook. With vaccines beginning to be administered across the globe, countries are hopeful about getting their economies back on track. China was the only large country to experience growth in 2020, and it is expected that China will continue to lead the global recovery in 2021 as other countries catch up.

We have seen unprecedented levels of both monetary and fiscal policies globally in 2021 due to the COVID-19 pandemic, and we expect to see some lingering affects going forward. Emerging market central banks have cut rates by over 40 percentage points in 2020; however now some countries, such as Brazil, need to monitor rising inflation levels and act accordingly. After posting the largest annual increases in EM debt levels in 2020 due to the pandemic, countries must figure out how to pay for the new debt and bring their levels back down. Peru got put on watch negative, South Africa received a rating cut, and Morocco was cut to junk all due to increased spending and debt. 2021 will be an important indicator of how countries recover from these extreme policy actions.

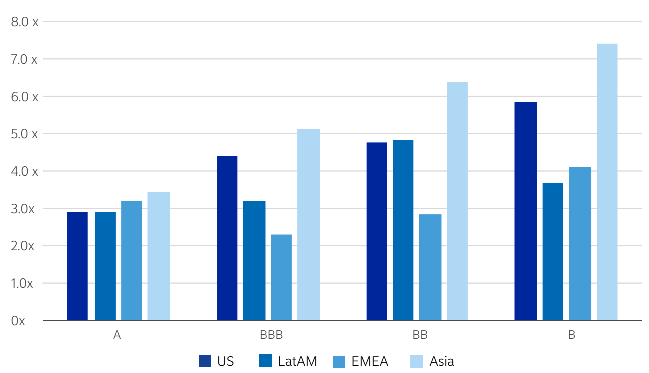
We continue to see value in EM corporates, despite the recent rally, as credit metrics continue improving from the lows of Q2 2020. The spread differential between EM HY and US HY has widened out into year-end 2020, leaving attractive opportunities for spread pickup, especially in the single-B space. The risk-adjusted return of EM corporates has also improved, with corporates able to remain more stable than sovereigns and local currency bonds during the volatility of the pandemic and the US election. We see opportunities in base metals producers in both Latin America and Africa as well as some special situations in Asia and the Caribbean.

The sovereign story continues to be a little bit more uncertain, as countries work on controlling the high debt burdens that they have taken on in the last year. High yield sovereigns are at compelling yields, especially compared to DM countries; however, vulnerable countries could still see residual defaults in the near term. Presidential elections in countries including Ecuador, Peru, Mongolia, Chile, and Uzbekistan are scheduled for 2021 that the markets will monitor for any political noise.

Emerging Markets will continue to face some ongoing side effects of the pandemic's impact on economies into 2021, so monitoring fallen angels and default rate will be an important indicator. Cuspy sovereigns, such as Colombia, India, and Romania still face elevated pressure from the rating agencies to prove that they are on the path towards recovery and stability in order to maintain their IG ratings. After the higher than usual, yet still lower than originally expected, corporate default rate in 2020 of 3.5%, the default rate in 2021 is expected to be lower, more in line with average yearly defaults, around 2.8%. The support from countries central banks to support economies has helped minimize defaults this year even as sectors that were directly impacted by COVID-19 lockdowns faced severe headwinds.

Looking at issuance for 2021, the market is expecting fairly heavy issuance once again. Corporate issuance out of Asia and EMEA is expected to be higher, with LatAm relatively stable. EM corporate maturities and coupon payments will reach over $285 billion, leaving investors with a lot of cash back on the table to put work. We will continue to be strategic in cash positioning to allow us opportunities to participate in new deals that we are comfortable with and where we see beneficial upside.

Gross Leverage 2020



Source: BofA

Source: MetLife Investment Management. Date: December 2020. Unless otherwise stated all views expressed are proprietary to MetLife Investment Management.

Renminbi Bonds

Manulife Investment Management (Hong Kong) Limited

Nordea 1 - Renminbi Bond Fund

- V shaped rebound of Chinese economy driven by investments and exports, followed by a pick-up in consumption
- Chinese government bond yields offer a very decent pick-up of around 2.4% against US treasuries
- After a strong 2020, the renminbi still has potential to appreciate further against the US Dollar

Broad Economic Outlook

After the deep economic contraction experienced due to the pandemic that saw China's GDP decline -6.8% yoy in 1Q20, China has experienced a V-shaped rebound to its economy over subsequent quarters led by investment and exports followed by a pick-up to consumption. With the successful containment of the pandemic domestically, the Chinese economy was among the first to re-engage in industrial production. The Chinese economy benefitted from a combination of government stimulus and a stronger than expected rebound to its global exports as global trade picked up, particularly in light of production shortages in other economies. Following the improved economic outlook, real GDP growth is expected to reach 2% yoy for 2020. Looking ahead, real GDP growth in China is forecast to accelerate to 8.2% yoy in 2021 before falling back to a 5-6% p.a. range in the following year, according to Bloomberg consensus forecasts, on optimism that the rollout of vaccines will help support a return to global growth next year.

Against this backdrop and following a broadening of China's economic recovery, we could see China withdraw some of the highly expansionary credit and fiscal policies implemented during 2020 to counter the pandemic. Growth to Total Social Financing (TSF), a broad measure of credit and liquidity in the economy, accelerated to 13.7% yoy in October from 10-11% at the beginning of the year while the official fiscal deficit increased to 3.6% of GDP from 2.8% in 2019. With the broad economic recovery and the government focusing on more sustainable real GDP growth of around 5-6% p.a. over the next few years rather than aiming to exceed a strict numerical GDP target, there is room for fiscal consolidation. After the issuance of 1 trillion yuan of special COVID-19 government bonds in 2020, which led to market interest rates retracing to pre-COVID levels, overall bond issuance and supply risk for 2021 is likely to be more limited.

Monetary Policy

With respect to monetary policy, the PBOC cut policy rates by 30 basis points in total over February and April and has kept rates on hold since then. Heading into 2021, policy rates are expected to remain relatively stable. The PBOC has consistently signaled to the market that it is against excessive stimulus from broad rate cuts to promote financial stability and will likely continue with targeted monetary policy actions that could include more targeted reserve ratio requirement (RRR) cuts as well as open market operations to manage market liquidity. While outright policy rate cuts are unlikely at this stage of the rate cycle, the probability for rate hikes also remains low given expected fiscal and credit consolidation and the subdued inflation outlook which reduces the risk of the economy overheating. As 10-year CGB yields have now moved back to around the 3.3% level, we believe this is an attractive entry point for investors and now offers a very decent pick-up of around 2.4% against US treasuries. From a curve perspective, the 5-7 year segment looks particularly attractive relative to longer-dated paper in terms of relative value.

Defaults

In a further sign of policy normalization, the incidence of defaults has also picked up since November. According to Goldman Sachs, the 2020 YTD default rate for privately owned companies was 4% and 0.55% for State owned enterprises (SOEs). We see this as an extension of the deleveraging process that began in 2016. While there has been a distinct lack of credit differentiation among onshore credit issuers, the recent defaults in the SOE sector have called into question that all SOEs will be supported by the government. By allowing some of the more marginal SOE names to default, this is ultimately positive for establishing greater market discipline and improved credit differentiation longer term. In 2021, we could see more defaults among the weakest names that will result in further industry consolidation as a result of policy normalization. Some investors, particularly the onshore commercial banks, may look to move up in quality and allocate more of their portfolios to CGBs, policy banks and higher-rated credits.

Currency

The renminbi has been among the strongest performers this year among Asian currencies, gaining 5.84% against the US dollar year to date to November. This has been driven by a combination of the high interest rate differential for China yields versus US yields, the improving economic outlook for the Chinese economy as well as the positive flows into Chinese assets this year. Looking ahead to the first half of next year, we believe the renminbi will stay broadly around current levels with the potential to appreciate further against the US dollar targeting the 6.40 level. This is driven primarily by the softness

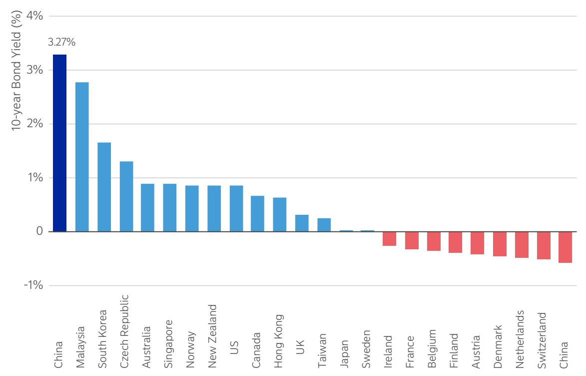
Source: Manulife Investment Management (Hong Kong) Limited. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Manulife Investment Management (Hong Kong) Limited.

in the US dollar that may weaken further on possible delays to the US economic recovery due to the ongoing impact of the pandemic as well as a further widening of the US budget deficit from potential additional economic rescue packages currently under negotiation.

Market Outlook

As China continues to make progress on its economic recovery and the global economy looks to put the pandemic behind it and return to growth, 2021 looks promising for China fixed income assets. We expect foreign inflows into Chinese bonds could reach CNY 1.3-1.5 trillion from an estimated CNY 1 trillion in 2020 and foreign ownership of CGBs could reach 12% (from 9% in 2020) while foreign ownership of total onshore fixed income assets should exceed 3% as investors look to further diversify assets away from other markets and seek exposure to the relatively more attractive yields in Chinese bonds.

China offers an attractive yield among AAA-to-A rated countries/territories



Source: MIM, Bloomberg as of 30 November 2020

Source: Manulife Investment Management (Hong Kong) Limited. Date: December 2020. Unless otherwise stated all views expressed are proprietary to Manulife Investment Management (Hong Kong) Limited.


Nordea
ASSET MANAGEMENT