Kepler Cheuvreux' IR Summit on 14 December 2018

On Friday, 14 December 2018, Kepler Cheuvreux held their annual IR summit in Paris. Around 300 IR professionals had signed up to the conference representing companies from most of Europe, but as usual with the majority from France and Germany. Traditionally, Kepler Cheuvreux also invites the European IR associations and more than 20 societies are supporting the event though not all are there – so DIRF alone represented the Nordic countries and companies.

The topics covered are the ones considered of most importance to the IROs to help investor relations to get a clearer understanding of the current market environment whether on regulation, various asset management issues, sustainability, macro economy and the strategic frame for 2019. In the following you can read the key take-aways from the session regarding the macroeconomic analysis and trends.

The strategic frame: End of an era

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<u>The global economy at the end of 2018 and outlook 2019</u>

If you don't lose money now, you're a hero! Overall trend is negative for stock markets in 2019 so the investment advice is to go long. Company valuations will go further down and there will be less profits and lower P/E. The present market turbulence will last approximately two years.

This development is caused by the fact that the financial world is in trouble, and the global market economy has turned negative. 2018 has been a fiasco of conventional thinking, and now big change is happening as we are at the end of an era. Historically, this happens every 15-20 years when such radical change occurs.

A new direction is ongoing and what we will see is humans being replaced by machines. This means that you must have a plan of where you are going. Growth is not the only thing that matters; it is also to focus on getting stability.

The good news is that it is not a repetition of the 2008 financial crisis – such a crisis only occurs once in a lifetime. But governments and central banks are changing direction and we are struggling with some of its consequences such as,

- Transfer of debt into government and public sector
- Bankruptcy of financial sector was generally avoided, but the banking sector was not 'cleaned up'
- Inflation of all imaginable assets like real estate and stock markets due to the pushdown of the price of debt through quantitative easing.

Consequences on economies NOW

- Central banks will put a stop to quantitative easing and raise interest rates (taking away the drugs!)
- Asset prices are going down
- New thinking among none-Western countries especially China as Western economies are declining – but is the USA going to accept their decline?
- Trend towards a stop to open, liberal economies and open markets
- Change in the global, economic cycle of product invention in Western countries, production in China/Asia and product sale globally
- Bear market equals disruption and we will see new patterns and behavior.

Political consequences influencing economies

- The new political thinking points in the direction of more authoritarian rule, less trade, less investment
- No more financial austerity – people have had enough (said in Paris during 'Les vestes jaunes' demonstrations)
- The ECB has stopped their quantitative easing and put an end to liberal consensus
- Everything has gone up in value except inflation. People are voting for change, but our enemy is deflation.
- Fight for more financial equality especially by the young generation

How to fix it?

- Change to growth with a bit of inflation (2-3%) – like we did in the 50'ies and 60'ies
- Take the pressure off the labour force with higher wages and salaries

We will see a global anti-liberal wave and a move towards a fight against inequality which will lead to a few years of disturbance. Such developments have occurred several times in recent history – and we will overcome it – even if the Western economies may not continue to be in the driver's seat in future.