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Technology, Politics and Equity Market Outlook

Looking at the investment world in 2025 and beyond, we have previously written about the new multipolar world where more countries play a bigger role. However, currently the world seems rather unipolar with the US and President Trump setting the agenda. Investors are kept busy trying to distinguish noise from reality. This has shortened investors' time horizon and created a more complex investment environment.

The US built the rule-based international order post-Second World War. They are now signalling change and are pulling back. Prioritising power over rules. What are the longer-term ramifications of this? Does it undermine the US leadership and economy, the global economy and equity markets?

A power-based leadership model is linked to military power, and the US seems to be shrinking its global security umbrella. This has significant implications, forcing Europe to loosen the fiscal restraints and spend much more on its own defence. The future of war will be technology-driven, where drones are relatively cheap and defence domes are expensive.

Will AI FOMO create an investment bubble?
Technology and AI are the epicentre of a global battlefield, where tech giants, egos and nations participate in an investment race in the quest for global supremacy. There is a fear of missing out (FOMO), and the key participants have deep pockets with a lot of cash to spend. This cocktail contains a recipe for an investment bubble with potentially disappointing returns on investment.

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Bo Knudsen
CEO and Portfolio Manager
C WorldWide Asset Management

It can be useful to put the current spending in a historical context. Over the past 100 years, there have been at least four major infrastructure capex cycles starting with the US electrification wave in the 1920s. In the 1950s and 60s, in particular in the US, we had the big highway buildout, and around the 2000s with the internet boom, we had the aggressive build-out of fibre optics. From 2010 and onwards there was a fourth wave with massive investments in cloud infrastructure.

These projects lasted for a number of years and although with some estimate uncertainty, the total investments during the built-out period were around 0.5 to 1% of GDP per annum[1]. The current AI investment spending in the US is around 300 billion USD per annum, compared to a near $30 trillion U.S. economy, or about 1%[2] . The US semiconductor company Marvell recently predicted that AI capex will reach 1 trillion USD, or closer to 3% of GDP.

One must be humble when making historical comparisons, but we've had some impactful developments already this year with the Deep Seek moment driven by rapid innovations from China. Most recently as well, a critical paper from Apple highlighting that there is no direct road to super intelligence via the current large language models and the technology of AI.

Risk of overexcitement

We believe that there is a risk of overexcitement. The World Index and especially S&P500 have to a large degree been driven by AI-related companies. Among these, the key infrastructure suppliers provide the "picks and shovels" (primarily Nvidia, TSMC and Broadcom) to the infrastructure owners and operators (typically the Cloud providers like Amazon and Microsoft).

Capital expenditures are inherently cyclical, especially when they relate to newbuilds in contrast to replacement cycles. One supportive factor of this cycle compared to history is that it is not financed by debt, as the buyers are cash-rich, supported by strong operating cash flows. However, as always, these investments require a solid return to be sustained, so the key is how to make money out of AI. Who is going to pay for the benefits? AI will certainly yield productivity enhancements, but there are unanswered questions about the future business models.

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1 "Are we in an AI Capex Bubble" by Ian Graham, May 2025
2 Google, US GDP 2025

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We expect the companies that build and own the infrastructure will enjoy longer earnings streams and develop more sticky client relationships.

History shows that the infrastructure suppliers can have supernormal profits for a while, but eventually, competition will kick in. Nvidia is currently enjoying these benefits. Their Datacentre business was USD 3 bn. in 2020, with revenues expected to reach a stunning USD 257 bn. in 2027 according to UBS[3]. These revenues will constitute more than 0,7% of GDP, much higher than what Cisco Systems, the Nvidia of the telecom boom in the 1990s, reached back then.

As long-term investors and our process of “constant competition for capital”, we prefer the AI infrastructure owners over the infrastructure suppliers though with exposue to Taiwanese TSMC having a broad product and client base. We expect the companies that build and own the infrastructure will enjoy longer earnings streams and develop more sticky client relationships.

Wider range of economic outcomes

Politics, technology and the economy is interlinked, especially if a US recession unfolds. A US recession would likely derail AI infrastructure investments as technology capex is cyclical and linked to the economic cycle.

There are crosscurrents analysing the economic outlook. The political uncertainty could dampen corporate investments, and the outcome and consequences of Trump’s trade policy and tariffs create uncertainty among corporations and consumers. Also, the mounting US government debt position and the increased cost of servicing the debt are a drag, pointing to a potential recession. On the other hand, government spending continues at high levels, more or less at a similar pace as under the Biden administration. The challenges of Elon Musk and the DOGE program have shown that significant spending cuts don’t come easily. Combined with aggressive tax cuts, a markedly lower US dollar and potentially a new round of interest rate cuts, we have currents proving support for continued economic growth.

With a fluid political environment, both scenarios are likely, providing a wider range of outcomes than normal for the US economy and equity markets.

3 UBS Global Research, NVIDIA Corp, 2. June 2025

One headwind for investing in the US is the weakening dollar, and with fiscal stimulus and low valuation supporting European equities and a weaker dollar generally providing tailwind for Asia and emerging markets, we have a regional preference for equity markets outside the US.

"Golden rules of investing" breaking apart

When we try and predict the future, we usually base our analysis on financial theory, historical precedents and correlations. Sometimes we believe that "Things are different this time". These are dangerous words in the world of investing. But change happens over time and some 'golden rules of investing' have been breaking apart lately. One of the true classics that we have been witnessing over the lifespan of our 40-year company history is that an inverted yield curve eventually is followed by a recession in the US. However, no recession occurred following the significant and fast rise in US short rates in 2022 (causing an inverted yield curve) on the back of rapidly rising inflation. Also, this happened in a debt-heavy global and US economy, which should, all things being equal, increase the interest rate sensitivity of the economy.

The US has a big domestic economy, and another long-standing fact is the enormous importance of housing and real estate for consumers and corporations. But like a super resistant boxer taking hits, the US economy has taken weak activity in housing and big problems in the commercial real estate sector on the chin and is still standing. Very short-term focused

So, are recessions in the US a thing of the past? Is the Teflon-covered US economy also going to weather tariffs, aggressive policy initiatives, a historically high level of geopolitical uncertainty and a rolling government debt funding crisis? And if the economy were to fall into a recession, would the final "iron law" of the link between recession and heavy falls in the stock market also falter? These latest developments certainly produce a high level of humility when it comes to predicting a general setback in both the economy and equity markets.

What is going on - why is the system coping so well, and why is seemingly nothing breaking? And is the classic "recession-no recession" question the right question to focus on as an investor?

The rolling recessions

It is true that the overall economy is coping well not least with help from the AI-investments and the continued high levels of government spending. But there are a lot of breaking going in parts of the system with several "rolling recessions" hitting sectors and pockets of stocks significantly. Two examples of hard-hit areas in the US are commercial real estate and spending among low-income households.

Thus, it is not enough to look at the macrocycle overall. You need to analyse and understand the cycles of the end-markets and the thematics driving each company to understand temporally cyclical variations from underlying structural changes.

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Sustainability of growth over magnitude

We certainly acknowledge and understand the unrelenting wave of indexation. The US and the technology sector have driven global indices like never before. As a result, today, index investors face huge concentration risk.

Our investment strategy favours the sustainability of a company's growth over the magnitude of growth. However, companies with stable and predictable growth have been discounted in the current environment, where investors' time horizon have shrunk. Rising real rates on the back of the inflation scare starting in 2022 played an initial role, while today's political uncertainty has amplified investors' short-termism.

History shows that over time, the strategy of "sustainability over magnitude" yields superior returns as the momentum of "magnitude" starts to fade. Encouragingly, the portfolio companies in our global strategy have delivered solid earnings growth. Over the past 5 calendar years, earnings per share have grown appx. 13% CAGR[4]. This compares to MSCI ACWI, where EPS have grown appx. 5,5%[5]. The earnings of our portfolio companies have furthermore outgrown the market in the last 4 out of 5 calendar years. This illustrates the multiple compression among our quality companies with sustainable earnings and the fundamental positive outlook for our investments. On our measures, several of these companies are now trading at reasonable multiples compared to their own history.

We will always emphasize the longer-term. Our strategy is to find the company with the clearest right to win in a long-term, attractive market and build a portfolio of some of the best quality companies in the world. In principle, these are stocks to own for the next ten years without worrying too much. Along that journey of ownership, thematics plays a central role, and the key risk management factor is to understand the thematic dynamics affecting the end markets of our portfolio companies.

4 FactSet and own calculations. The calculations are based on holdings at the beginning of each calendar year and then measure the companies' earnings growth that calendar year. The method disregards portfolio changes during the year, however that factor shouldn't change results significantly.

5 MSCI, June 2025

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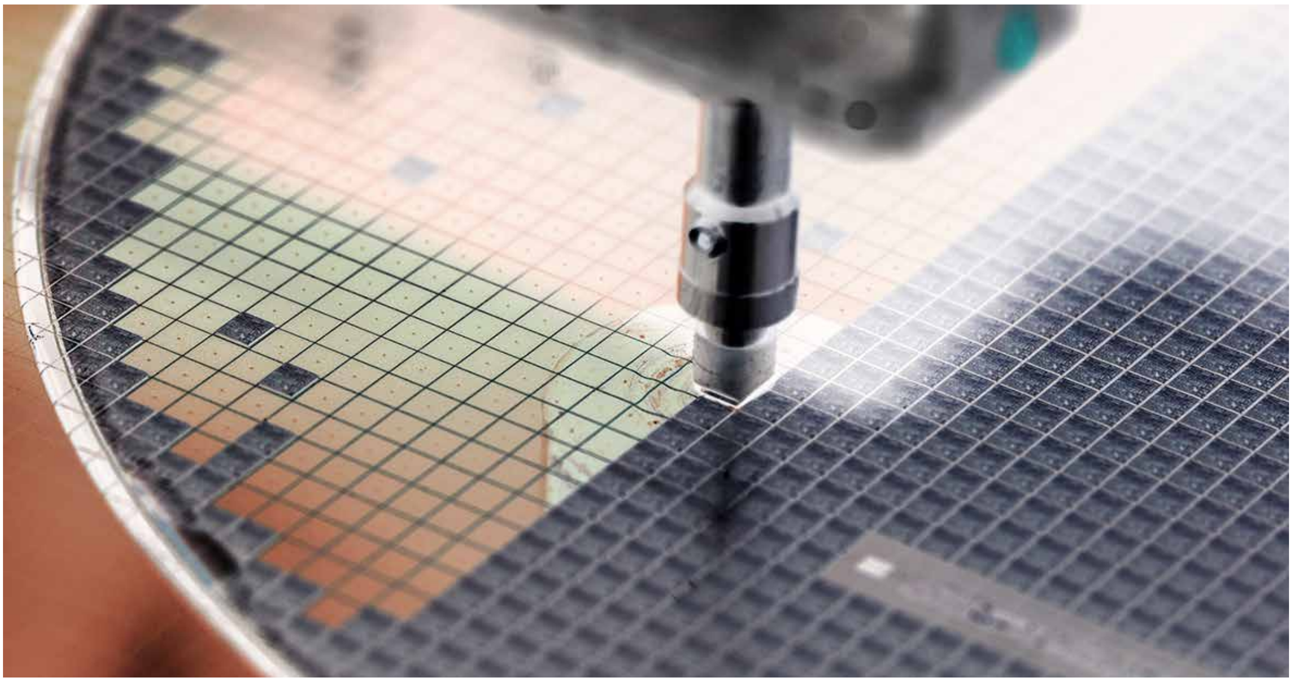

Detta är marknadsföringskommunikation.

Investeringar i fondandelar är alltid förknippade med risk. Tidigare resultat ska inte tolkas som en prognos om framtida avkastning. Fondandelar kan både öka och minska i värde, och kan påverkas av ändringar i valutakursen. Det finns inga garantier för att du får tillbaka hela det investerade kapitalet.

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C WorldWide Asset Management Fondsmaeglerselskab A/S Danmark Filial i Sverige
Box 7648 (Blasieholmsgatan 5) | SE-103 94 Stockholm | Tel: +46 535 273 00 | Org.nr. 516405-7233
cworldwide.se | info.se@cworldwide.se