

Nordic countries still attractive on a comparative basis

The Nordic region

- GDP growth forecasts for the Nordic Region remain well above the ones related to the European Union (see table below)
- Nordic banks are feeling the impact of credit market turmoil through higher funding costs and losses on securities holdings, but they are not directly exposed to US subprime-related losses.

Real GDP growth	2008	2009
United States	0.8 %	1.4 %
EURO-Zone	1.6 %	1.9 %
Sweden	2.2 %	2.4%
Finland	2.7 %	2.7 %
Norway	2.9 %	2.5 %
Denmark	1.4 %	1.3 %
Average Nordic Region market-cap-weighted	2.3 %	2.3 %

Sweden

- The direct impact of the recent bout of global financial market instability on the Swedish economy is expected to be modest, but a general tightening of lending criteria and weaker external demand will nevertheless be reflected in a gradual deceleration in the pace of economic expansion in 2008/2009.
- The impact of higher international oil and commodity prices should ease by mid-year, but domestically generated inflation is forecast to rise, as accelerating wage growth boosts labour costs.
- Rising domestic inflationary pressure will be mitigated in part by the projected appreciation of the krona, which should help to bear down on import prices.
- In fact if the ECB cut rates, the yield spread with the comparable Swedish krona interest rates, which now stand at 4.25%, will widen to over 100 basis points (bps), and the krona will be pushed higher. The combined impact of lower imports demand in the euro-zone and a strengthening krona would affect Swedish exporters.

Norway

- Strong employment growth and generous real wage increases sustained the consumer boom, while strong global demand and high prices for Norway's exports (especially shipping and petroleum products) boosted corporate profits, underpinning investment in both the mainland economy and the offshore sector.
- GDP growth will remain buoyant in the short-term, but we expect it to decelerate gradually during the outlook period.
- High oil prices and positive interest rate differentials should lend support to the Norwegian currency. From mid-2008 onwards, however, the krone will be susceptible to a modest depreciation, on the assumption of weaker growth and (in 2009) lower oil prices.
- Although strong domestic demand has led to a surge in imports, Norway's external balances have been benefiting from buoyant export earnings in an environment of high international oil prices. There will also be continuing surpluses on the services balance, supported by strong earnings from shipping, oil drilling and financial services.

Denmark

- GDP growth slowed in 2007, partly because of supply-side constraints, as indicated by widespread labour shortages and record high levels of capacity utilisation.
- In 2008/09, economic growth is expected to remain well below the rates seen in recent years. Although capacity constraints are beginning to ease, wage and price inflation have picked up.
- Although export earnings have benefited from the rise in international oil prices (Denmark is a net exporter of oil and gas), strong domestic demand has led to a surge in imports, in part because capacity constraints have ensured that higher demand has been met by foreign production. The trade balance will remain in deficit during 2008-09. The current-account balance will nonetheless be supported by strong surpluses on the services balance (driven by shipping activity) and the income balance.

Finland

- The Economist Intelligence Unit expects that GDP growth will remain considerably stronger than that of most other members of the euro area. Domestic demand growth will moderate, but remain robust.
 - Higher excise duties and domestic demand growth are having an upward effect on prices. EIU expect the rate to fall during the course of 2008, but it is likely to average about 3% for the year and to remain well above 2% in 2009.
 - In 2007 the current-account balance stood at an estimated US\$12.6bn or 5.2% of GDP. In 2008 we expect imports to grow faster and exports to grow more slowly than in 2007. There will therefore be a reduction in the size of the trade and current-account surpluses, but they will remain substantial
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Equity valuation perspective

Ticker	Index	EV/EBIT ¹	EPS Growth ² next vs. current year
SXXE	DJ EURO STOXX EUR	0.8 %	1.4 %
OMX	OMX STOCKHOLM	1.6 %	1.9 %
HEX	OMX HELSINKI	2.2 %	2.4%
OSEBX	OSE OSLO	2.7 %	2.7 %
KFX	OMX COPENHAGEN	2.9 %	2.5 %
Average Nordic Region market-cap-weighted		2.3 %	2.3 %

¹ UBS data as at 08 April 08, based on 2007 EBIT. EV/EBIT stands for Enterprise Value divided by Earnings before Interests and Taxes

² Based on Bloomberg Analysts Estimates, as of 24/04/2008. EPS stands for "Earnings per Share"

- Comparing the average valuation multiple of Nordic Companies (EV/EBIT) with the corresponding multiple of the Euro-zone stock markets, as represented by the DJ Euro Stoxx Index, it results that Nordic companies are cheaper (10.5 vs. 11.6). Obviously the growth perspectives of the companies must be taken into account when interpreting the valuation multiples.
- Higher projected growth warrants a higher valuation multiple. In the short term, we can see that the forecasted average decrease in earnings per share is similar between the Nordic region and the euro-zone (-10.5% vs. -10.4%). Going forward after 2009, we believe that the innovative nature of the Nordic companies, their flexibility and strong orientation to exports, including towards high growth areas like the Baltics, Russia, and increasingly the Far-East, should grant them higher growth perspectives with respect to the Euro-zone. Therefore, the current lower valuation of Nordic companies described above can be seen as a relative undervaluation.
- All Nordic stock markets were fully caught in the bout of global selling started in the first half of August. The market discounted a recession in the US and a situation in which the economic situation in the euro area weakens and the European Central Bank experiences rising pressure to cut its rates.
- In certain cases, we noted an over-reaction in the market, for example in the Swedish market where the prices of companies in certain sector like Industrials, especially in the engineering sub-sectors, were cut to reach valuation levels which are unreasonably low even in the worst case hypothesis, and indicate therefore some very attractive investments currently.
- The Norges Bank (the central bank) has been raising its rates steadily along with rate increases in the euro- zone, and the strength of the domestic economy and persistent wage inflation has prompted the central bank to maintain a 75 basis-point spread over comparable euro-zone rates. The Norges bank has announced that it will raise its rates twice more this year. However, the current period of financial market turmoil suggests that rate increases may be in doubt, and this could provide a catalysts for an upturn in the stock market.
- The Copenhagen bourse did not avoid selling pressures that have struck global stock markets since the start of the year. However, the selling stopped and in recent weeks, domestic stock prices have rallied, outperforming most markets on the continent as well as major indices on Wall Street.

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