Nordea
ASSET MANAGEMENT

Fund Update – Special Edition

January 2025

Alpha MA Strategies

Market Review 2024

Despite some volatility spikes and sharp market movements fueled by macroeconomic and monetary policies' uncertainties and announcements, along with rising geopolitical risks, 2024 will be remembered as an overall positive year for most asset classes.

Amongst them, the winner was – for second year in a row – Global equity markets. A performance that was mostly driven by mega-cap companies, which implied the overall market saw a significant increase in valuations (PEs) with rather limited fundamental support (EPS growth). Sectors-wise, Information Technology, Communication Services and Financials were the best performing sectors, while Materials, Real Estate and Healthcare lagged the most. In terms of styles/equity factors, Momentum, Growth and Quality significantly outperformed Minimum Volatility and Value, namely driven by the Magnificent 7's overweight in the former indices relative to the standard MSCI World Index. This massive equity rally performance was followed by high beta credit assets (mostly HY & EM Corporate), and to a lower extent, but higher duration and safer fixed income sub-asset classes (IG & EM Hard Currency Govies). Bonds-wise, high quality government bonds (US, Germany, etc.) underperformed due to some steepness normalization, mostly driven by mid-to-long ends yields moving higher across the Atlantic. All in all, they offered returns from slightly positive (short end of the curve) to slightly negative (in the long end), which meant 2024 was another year where low risk/volatility assets (ex-cash) significantly underperformed higher risk assets. An anomaly that has inverted the efficient frontier in recent years.

Performance Review 2024

Within the context described above, the **Nordea Alpha MA Strategies (A7, A10, A15)** delivered absolute flat to negative performances of 0.30%, −1.57%, −4.65% respectively (gross of fees)[1]. Amongst the main performance drivers we can highlight the following ones:

- On the negative side:
  - The main detractor was the **Equity Premia SuperStrategy**, where our long/short beta neutral strategies posted diverging outcomes. From a more granular stance, the Quality & Growth sleeve detracted the most from performance. This sleeve had a lower beta than its usual level around 1 during market rallies, as it was not exposed to some of the most expensive names that drove indices' performance. Meanwhile, the Low Risk Value sleeve also had a negative impact, but to a lower extent, as Value and Minimum Volatility factors it is exposed to were out of favour over the period. Despite this, we continue to have high conviction in these sub-strategies, as we see that its diversification benefit, historical earnings growth and valuations are more supportive than ever. Meanwhile, our more pro-cyclical Momentum & Growth and Value & Quality did well, offsetting partially the aforementioned losses
  - Additionally, the **Fixed Income Premia SuperStrategy** detracted to a minor extent given the slightly long Duration position stemming from our Value Momentum sub-strategies, as US yields steepened and moved upwards along the curve (especially in the long-end)
- On the positive side:
  - The main contributor was the **Strategic Risk Balancing SuperStrategy**. This was mainly driven by its strategic exposure to the equity beta, which strongly benefitted from equity markets' positive trends. In addition, it is important to highlight the positive asymmetry of its defensive components, which offered diversification during the early summer and end of December selloffs, while posting an overall positive contribution in an overall bull market year for equities/risky assets
  - The rest of the SuperStrategies delivered small to medium positive contributions, with no significant outliers

Outlook

Moving into 2025, the global investment landscape presents a complex mix of challenges and opportunities. Disrupted risk-return relationships, evolving policies, and shifting market structures demand an adaptive approach to investing. In this challenging environment, an unconstrained and flexible absolute return strategy is crucial for navigating future headwinds, especially in fast-moving markets with rapidly shifting expectations and high equity valuations.

1) Source: Nordea Investment Management AB. Period under consideration: 31.12.2023 – 31.12.2024. Performance in EUR, gross of fees. **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.**

Nordea's Multi-Assets Team is confident that our **Alpha MA Strategies** are well-prepared to adapt, aiming to succeed where traditional diversification strategies falter[2]. We've been enhancing our portfolio's resilience by creating and integrating new strategies, refining existing ones, and bolstering overall robustness and diversification. These efforts aim to navigate the current market environment more effectively and position our portfolios for future success[2]. Among those, we would highlight:

- The overall inclusion the momentum factor across some of our SuperStrategies (Equity, Cross Asset Momentum & Currencies) to allow the portfolio to benefit form strong momentum for risky assets and not only to protect it when momentum turns weaker
- The enhancements carried out to manage the beta of the long/short equity strategies, to limit the idiosyncratic risks generated by the rise of the Magnificent 7 (within Equity and Strategic Risk Balancing SuperStratetegies)
- The broadening of our Fixed Income SuperStraregy, which now includes a more diversified set of underlying risk premia substrategies, with less directionality (regime-based beta) and higher diversification potential

Despite challenges, we remain confident that the above enhancements – which have always been part of the research driven approach of the Multi Assets Team – will increase the portfolios' ability to deliver on their value propositions[2]. Given the current portfolios' positioning and composition, we anticipate potential tailwinds if equity markets exhibit more broad-based behavior and/or if we continue to see a normalization of correlation patterns, yield curves, and efficient frontiers.

We're optimistic about the future. Our strategies aim to offer superior diversification with limited sensitivity to traditional assets, valuable in uncertain markets[2]. Looking ahead, Nordea's Alpha MA Strategies are poised to adapt, innovate, and capitalize on opportunities, aiming to offer clients a robust approach to diversify their portfolios[2].

2) **There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.** The presented figures are estimations of Nordea Investment Management AB – Multi Assets and are based on assumptions and on information currently available. **No guarantee can be given for the accuracy of the data and these estimations might not be met in the future.** For illustrative purposes only.