

FINANCIAL MARKETS AND THE ECONOMY IN 2025

Risk, resilience and rallies

Another year, another set of surprises – and unscripted consequences.

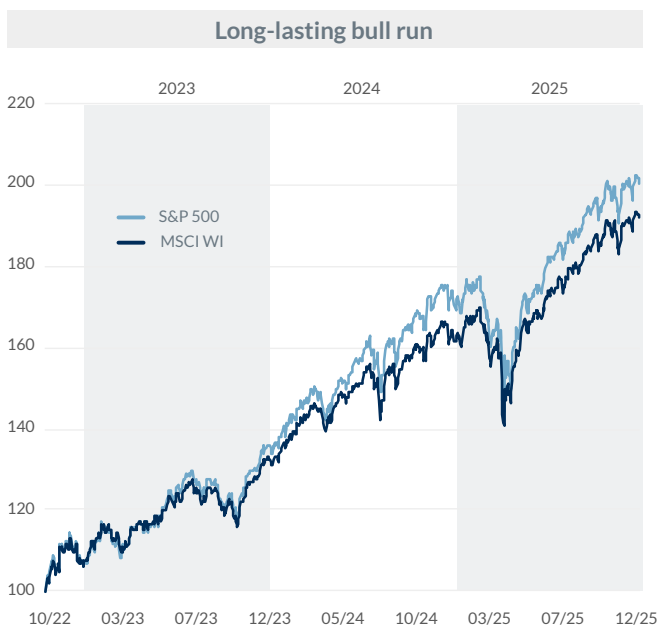
On the face of it, 2025 was an uneventful year – at least in the real economy. Global growth was forecast at 3.2% and now appears to have landed right there. US growth was projected at 2.0% and probably reached, well, 2.0%. Euro area growth was predicted to be around 1.2%, which now looks like another rare forecasting success.

In the US, inflation was expected to hover around 2.4–2.7%, with expectations of 2.1–2.3% in the Euro area and 3.0–3.3% in Norway and 2.0–2.3% in Sweden. As predictions go, these qualify as spot on. While rates weren't cut exactly as expected going into the year, it seems these economies still developed as most forecasters envisioned.

The funny thing is that the year truly offered a series of economic shocks. The largest of these were, arguably, the tariff hikes first announced by US President Donald Trump on 2 April – his so-called Liberation Day. During the following days, we experienced the biggest stock market decline since the pandemic panic of 2020.

Of course, after only one week, Trump backtracked substantially. This in turn set the stage for a powerful rally. The S&P 500 ended 2025 with a total return of 17.9%, with the MSCI World Index a full percentage point higher. The Scandinavian markets followed suit, with Denmark a lone exception due to poor performance for heavyweight Novo Nordisk.

For once, European stock markets outpaced the US, with STOXX Europe 600 delivering 20.6%. Part of the reason was probably bad news from the US, which was becoming steadily less supportive of Ukraine. In realisation that Europe would have to shoulder more of the burden, many European countries decided to increase their defence spending. Germany, in particular, broke further with its typical fiscal austerity to increase defence and public spending. This reinforced belief in European economies and markets. We have seen this before in financial markets: Seemingly bad news leads to a positive outcome.



Rebased, 14 October 2022 = 100, total return indices.
Source: FactSet, Pareto Asset Management



ICE BofA High Yield - Option Adjusted Spread. Source: FactSet

THE TARIFF CONUNDRUM

While much political news may be considered noise in a longer-term perspective, there is no doubt that the shorter-term impact through 2025 was substantial. With every Trump announcement of harsher tariffs, the stock market seemed to cringe, only to rise in relief when these were fully or partially suspended (the famous TACO trades – “Trump Always Chickens Out”). Similarly, the Israeli and US strikes on Iran lifted the Brent Blend higher, only to see a later reversal as the dreaded escalation didn’t happen.

In the real economy, however, political events may have consequences far beyond temporary noise. At the end of 2025, the average US tariff level had risen from 2-3% to some 16-18%, the highest level since the 1930s. According to every textbook I’ve read and, more importantly, every book that I’ve seen referenced, this constitutes a tough blow to the economy. It is effectively a consumption tax making prices higher and wallets slimmer.

As it happens, there is little or no trace of such an effect in final 2025 numbers. Judging by contemporary comments, the strong economic performance of both the US and its trading partners, plus not least the absence of an inflationary impulse, may seem like something of a surprise. There are, however, several reasons why the impact is deferred.

For one, the consumer price index, at least in the US, is dominated by services, which were sheltered from the tariff hikes. Their share is now around 64%, having risen for decades. Furthermore, high inventories and long contracts may have postponed necessary price increases. In addition, of course, companies in competitive businesses likely chose margin compression over price hikes.

Logically, then, the major impact should still be ahead of us. On the other hand, we don’t know the final extent of these tariffs. Apart from the intermittent backtracking, we’ve seen a number of exceptions being introduced. And it may just be that the services share of the economy renders economic history anything but a blueprint.

WHOSE DEBT ARE YOU WORRIED ABOUT?

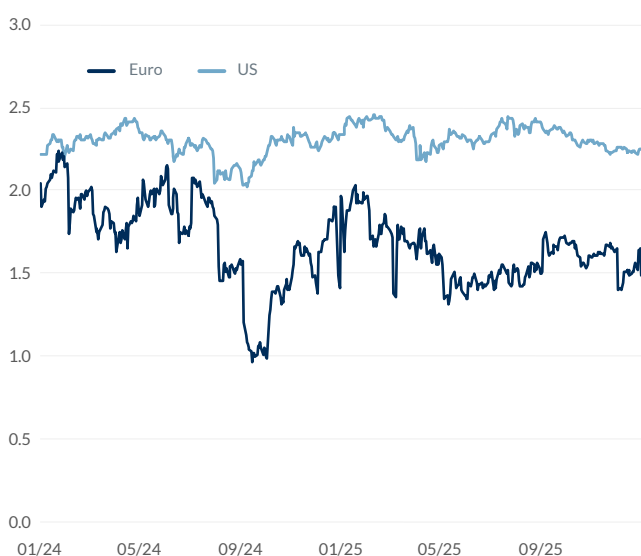
Another source of concern has been the high and rising government debt, again with the United States in the spotlight. With US public debt rising from 65 per cent in 2007 to more than 120 per cent of GDP, and a budget deficit approaching 6% for 2025, it does seem hard to reign in.

In part, this has been possible because of the US dollar’s position as the global reserve currency, facilitating comparatively cheap government borrowing. This feature is often referred to as the “exorbitant privilege” – a term coined by France’s then-finance minister Valéry Giscard d’Estaing some 55 plus years ago. The resulting yield reduction is often called a convenience yield.

Now, it seems, the convenience yield is shrinking. A working paper from the US National Bureau of Economic Research (NBER) estimates that a 5 percentage-point increase in long-term debt as a share of GDP slashes the convenience yield by a full 0.94 percentage points. The effect is smaller for short-term debt. Either way, this debt gets harder to handle. The “One Big Beautiful Bill”, signed last summer and estimated to increase the deficit by \$2.8 trillion by 2034, does not make it easier.

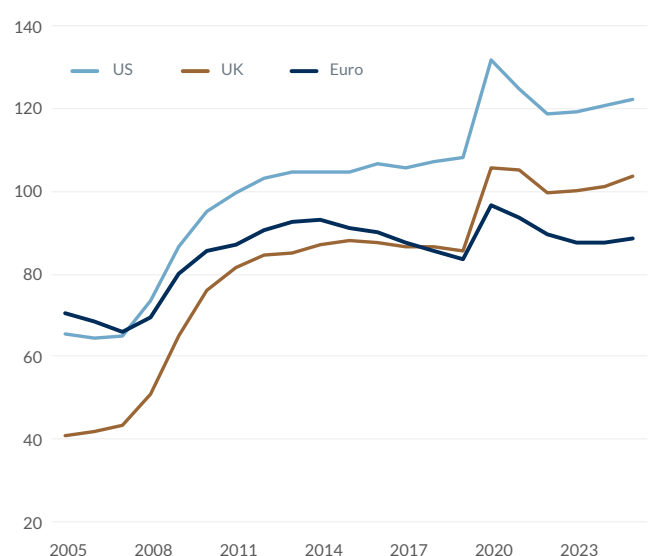
The United Kingdom is on a similar path, though their debt has only recently exceeded 100% of GDP. The Euro area is somewhat of a surprise here, with a deficit ratio roughly on par

Inflation expected to be muted



10-year expected inflation (nominal yields less real yields/TIPS).
Source: FactSet, Pareto Asset Management

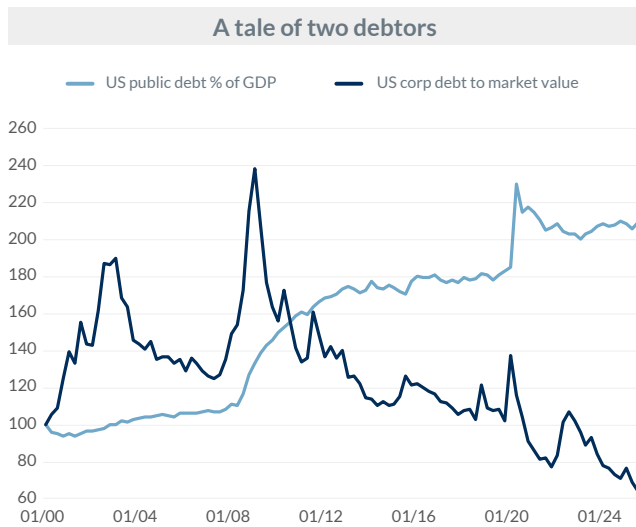
Indebted governments



General government gross debt as a percentage of GDP. Source: IMF

with the peak of the debt crisis. At 90% it is nevertheless high for an economic area with, so far, modest growth.

Hidden from headlines, however, is the much brighter picture in the corporate sector. If we again measure debt as a percentage of GDP, US non-financial corporations have only seen a moderate increase since the start of the millennium – and since 2020, the level has fallen from 56 to 46 per cent of GDP. Furthermore, the average debt/equity ratio has been stable or slightly falling ever since the Great Financial Crisis. And using the market value of equity instead of the book value, the equity ratio has risen to as much as 86 per cent. You won't find this figure in the swarm of debt-concern headlines.



Rebased, January 2000 = 100. Corporate debt refers to non-financial corporations. Source: FRED

To the extent that you worry about an impending recession, then, please note that the business sector is much better equipped than the public sector. It's also in better shape than it has been for many years.

The same applies in the UK, where corporate equity ratios have risen from below 50 per cent after the financial crisis to more than 70 per cent now. And that's using book equity. Figures for the eurozone are less abundant, but at least the corporate sector debt ratio has been fairly stable at around 75 per cent since 2008. And over the past four years, it has shown a clear downward trend.

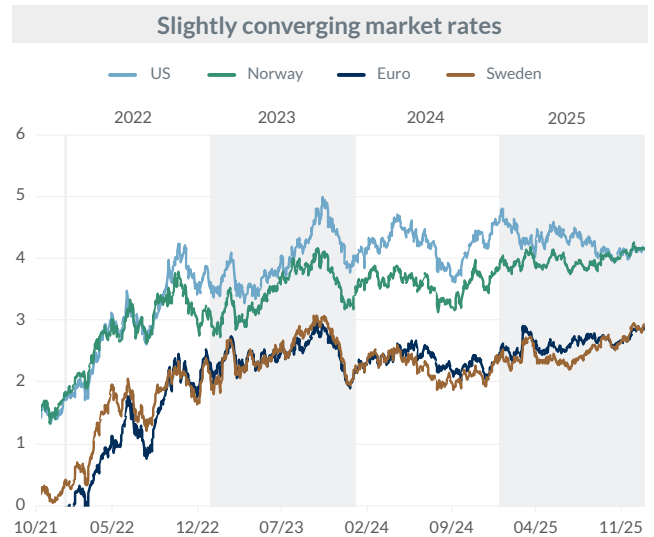
If these figures don't lift the weight off your shoulders, they should at least remind you that there are more well-run companies than governments – meaning lots of good investment opportunities for our clients.

LAGGING GROWTH STOCKS?

Of course, to the extent that government borrowing affects interest rates, they still weigh heavily on business conditions. During 2025, key interest rates were cut by 100 basis points (bps) in Europe and the UK, by 75 bps in the US and Sweden, and by 50 bps in Norway.

Not that market rates followed suit: Most European markets saw higher rates and a steeper yield curve, while US rates fell at both

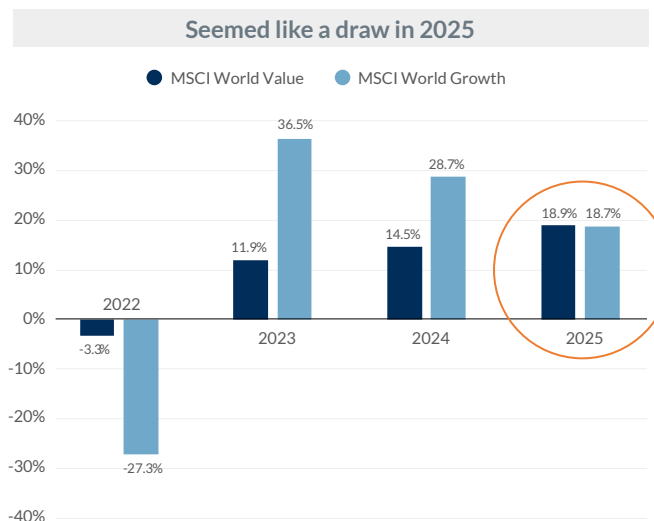
ends, especially the short end. This divergence through 2025 in fact brought about a bit more divergence, as the gap between US and Euro long rates was reduced by almost one percentage point. As usual, Norwegian rates moved more in tandem with US rates, while Swedish rates followed the Euro area.



Yield to maturity, 10-year government bonds. Source: FactSet

As a general observation, rate movements were more subdued in 2025, as was the investor preoccupation with possible rate developments. Nevertheless, lower rates in the US propped up the stock market, with the S&P 500 returning 17.9%. As the two preceding years were even stronger, returning 26.3% and 25.0%, respectively, the S&P 500 has now posted a cumulative three-year return of 86% – the best three consecutive years in this millennium.

Once again, the “Magnificent Seven” punched above their weight – which, incidentally, has moved north of 1/3. In aggregate, they returned an estimated 23.3% in 2025, pushing their cumulative three-year return to an impressive 221%. This year, however, their contribution to the index return was a more modest 7.8 percentage points, or just below 44% of the total. Of course, this implies that the remaining 493 companies contributed a somewhat less impressive 10.1 percentage points.



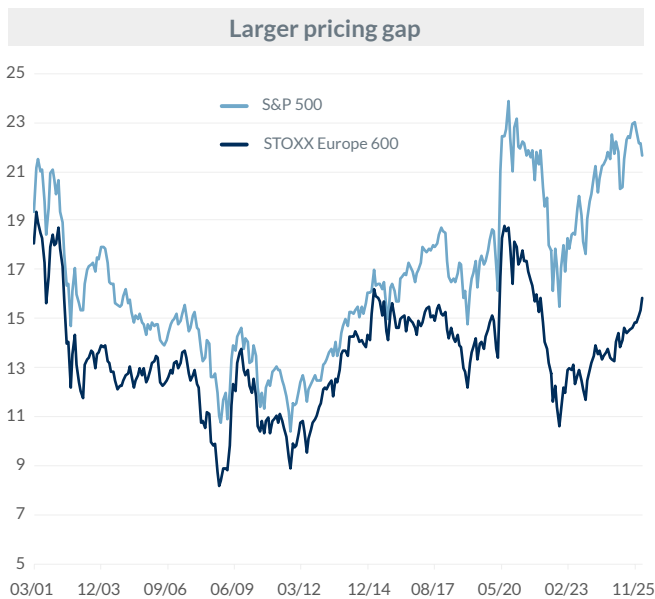
MSCI World Growth and World Value indices. Source: FactSet

All the more striking, then, that the MSCI World Growth Index and the MSCI World Value Index finished the year neck and neck, both returning just below 19%. As a rough estimate, the Magnificent Seven account for more than 40% of the former, but less than 10% of the latter – suggesting that many other growth stocks had a decidedly more mediocre performance. In other words, the growth stock universe outside of the Magnificent Seven actually lagged the market in 2025.

I dare say that's not the idea you got by reading comments on the stock market this year.

A QUESTION OF PRICING?

The distinction between growth and value is often framed as a question of pricing. For the broad market, pricing was little changed in 2025. However, the direction was clear – most multiples increased – on top of a steady and far more substantial rise since 2022. In consequence, valuations based on contemporaneous multiples – like forward P/E ratios – are considerably higher than they were five years ago. For the S&P 500, in particular, this multiple went from 16.9 to 22.2. For the European market, the multiple expansion was more moderate.

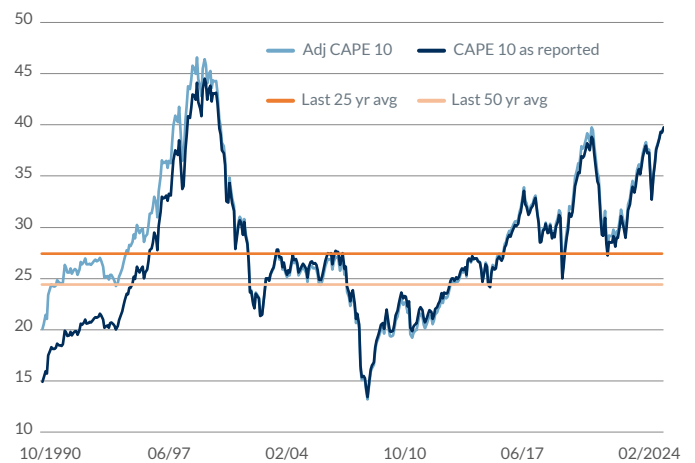


P/E, 12 months forward. Source: FactSet

The picture looks different if we choose 2020 or 2021 as our starting point. Most multiples are still somewhat below their level five years ago. The Cyclically Adjusted Price/Earnings ratio (CAPE), adjusted for changing dividend payout ratios, is merely back to where it was at the end of 2021. And, more importantly, earnings have risen by almost 40% in the US and – perhaps a bit surprising – almost 80% in Europe (as represented by STOXX Europe 600). Hence, despite higher pricing, the bull market is by no means void of fundamental support.

Stronger earnings have both cyclical and structural causes. A surprisingly strong economy has supported the stock market and has in turn been fuelled by the wealth effect of higher market values. And then there is the AI effect, which has unleashed a wave of investments in this new technology. Such factors are probably best understood as cyclical.

Expensive? Perhaps. But it's been more expensive before



The Cyclically Adjusted Price Earnings ratio (CAPE) adjusted for changing dividend payout ratios. Source: Robert Shiller / S&P Dow Jones Indices / Pareto

That being said, there are some outstanding examples of lofty valuations. Take Tesla, which now makes up roughly 2.5% of the S&P 500. Its P/E multiple has risen from between 50 and 60 in 2023 to above 200 at the end of 2025. Such multiples normally signify exceptionally strong growth or expectations thereof. In the case of Tesla, however, earnings have halved since 2023. This puts it squarely in the expectations category.

High hopes among Tesla investors ...



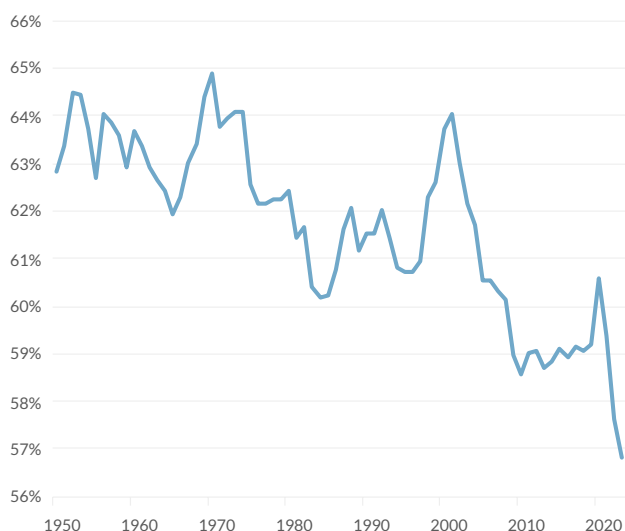
Forward P/E estimates Tesla. Source: FactSet

... yet to be fulfilled



EPS estimates Tesla next 12 months. Source: FactSet

Shrinking labour share in the US



Labour compensation as a share of GDP in the United States. Source: FRED

A STRUCTURAL CASE

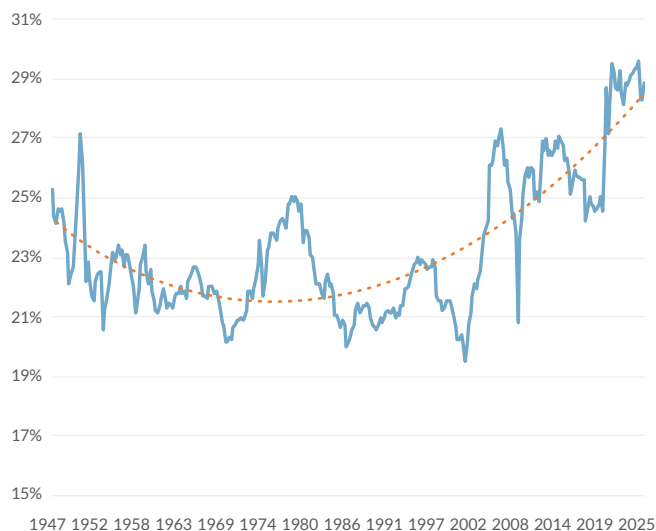
It is also true that there has been a structural shift in the way the economy works – in most of the advanced economies, and certainly in the United States, which still leads the way in financial markets. A recurring theme has been the eroding purchasing power of the middle class, due to stagnant wages and salaries. While it now seems that government transfers and other countervailing factors have been underestimated, it is indeed true that the labour share of the US economic pie (before transfers) has been shrinking for decades – from 65% in 1970 to 57% in 2023. A more recent estimate would probably be around or below 56%.

The flip side of this coin, of course, is that the share going to capital has been increasing. Similarly, gross corporate profits (including depreciation) in the United States have risen from 20% in 1970 to 29% now. (And in case you wondered, the missing 15% or so can be allocated to factors like unincorporated business, rental income and net interest income.)

The declining labour share has been attributed to factors like weaker unions and economic policies. In my view, the changing characteristics of industry are no less important. Many of today's corporate giants have high fixed costs and low marginal costs, which translates to high barriers to entry and lower price pressure. This resulting pricing power increases profits, while reducing the labour share – although dividends received by employees are not counted as labour income.

In other words, if you read about the declining middle class, you may stop to reflect that you yourself, as an investor in these companies, benefit from this trend. What's more, you also have a strong reason to believe that much of the increase in profits will not necessarily be reversed.

Increasing share of profits in the US

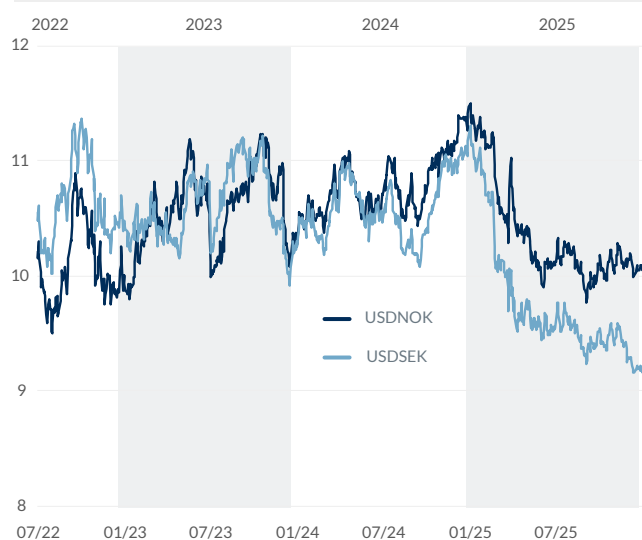


US gross corporate profits (before depreciation / capital consumption) as a share of gross domestic income, with polynomial trendline. Source: FRED, Pareto Asset Management

LOST IN TRANSLATION

There is, however, more to this story. Let's loop back to equity returns. For European investors in US securities, the party was quite a bit more restrained this year. As the US dollar depreciated by 11–17% against our local currencies, most of these dollar returns were, well, lost in translation. US stocks delivered a lot less to investors on this side of the Atlantic Ocean.

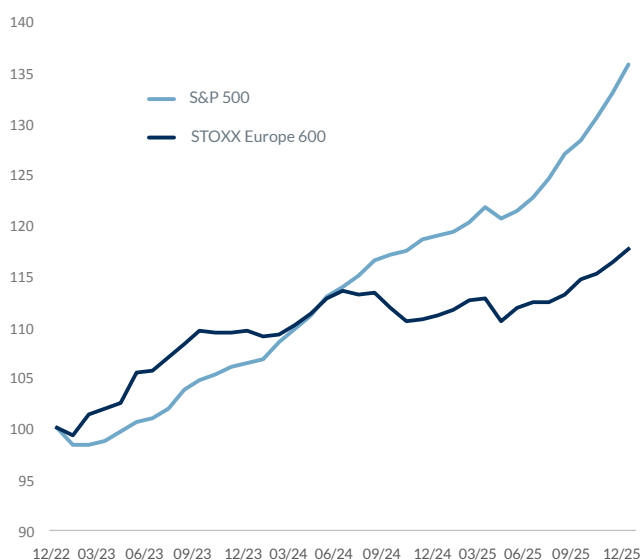
Not the whole story



Source: FactSet

On the other hand, the very weakness of the US dollar is another important reason why US stocks have been thundering on. In aggregate, revenues in currencies other than the US dollar account for more than 40% of S&P 500 revenues. In some sectors, like technology and consumer staples, it's in the range of 50–65%. And several companies, like Netflix, PepsiCo, and 3M, have already reported stronger revenues due to favourable currency translation.

The fundamental bull-market support



Next 12 months earnings estimates, 31.12.2022 = 100. Source: FactSet

During 2025, forward earnings estimates for the S&P 500 rose by some 14%. Part of this increase can undoubtedly be attributed to the weaker US dollar. Previous reports, from sources like WisdomTree and J.P. Morgan, indicate that a 10% decline in the US dollar is associated with a 6–8% boost to earnings. Of course, due to long-term contracts, inventories, and currency hedging, it takes time for this effect to filter through to the bottom line. Nevertheless, not least because this market is about forward earnings, if it weren't for the weak dollar, the US 2025 stock party might never have taken off.

As a more general observation, country and currency of domicile may tell you very little about financial sensitivities of larger corporations. Their revenues and costs often reflect a hodgepodge of countries and currencies, and the short-term impact may have the opposite sign of the long-term impact – like debt becoming more expensive while real revenues rise.

You might say that many large companies are in fact priced in international dollars – or whatever you would like to call their particular currency basket. What appears lost through currency moves may be offset by stronger earnings. Or vice versa. Once again, we see that investment is about second-level thinking – looking beyond the obvious effect to the full set of consequences. Intuition seldom gets you all the way.

STEADILY MORE PRECIOUS METALS

One obvious feature of 2025 was the strong performance of metals, with appreciation spanning from 18% for aluminium to a stunning 149% for silver. Gold, being a more common investment vehicle, attracted most of the attention, with a price rise of 67%. Needless to say, a number of all-time highs were recorded this year.

I haven't recommended investing in gold and probably never will. But let's look at how it behaves; this is where it gets interesting: While stocks and gold exhibit positive co-

movement, in the sense that both have risen strongly over the past year, their 12-month correlation has been surprisingly and distinctly negative, at one point reaching -0.74. It hasn't been lower since 1978, when US inflation was getting ready to hit two decimals.

So, both have been rising – just not in tune, in fact very much not in tune. Bad months for stocks have been good months for gold, and vice versa. And yet they both end up notably higher. What's happening?

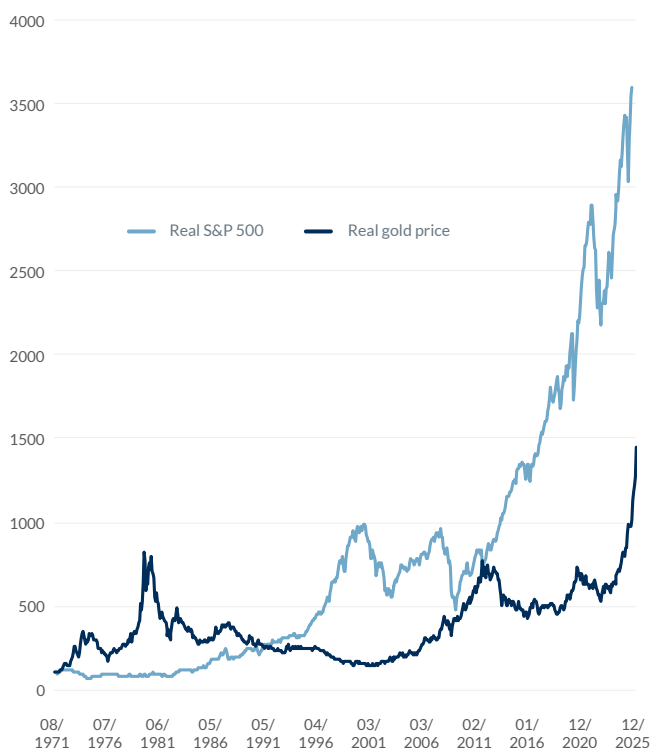
Here's one likely explanation: Maybe gold really caught on to the public apprehension, while inelastic demand for stocks kept pushing stock prices higher. Or maybe those headlines have more relevance for gold prices than for stocks.

Just think about it. What would propel investors to look for a safe haven? Right – uncertainty and apprehension. There are fears they want to be safe from.

In contrast, what would lead investors to buy stocks? I truly hope the answer is something along the lines of long-term returns due to company earnings strength. That, at least, is what we tell our clients.

With stocks, you don't hide from nasty headlines. You ride it out. Keep that in mind if contemporary events make you wish you had indeed found a safe haven – and look instead for a smart haven. As an investor, you should be conscious of the kind of drivers you want your investments to have.

Glittering comeback



Deflated by US CPI figures. Rebased, August 1971 = 100. Source: FactSet, Pareto Asset Management

NO CORPORATE SHUTDOWN

In 2025, we also witnessed the longest US federal shutdown in history. Besides reducing economic activity, it contributed to suspending or eliminating publication of a string of economic data. Federal Reserve Chair Jerome Powell likened it to “driving in the fog”. Many investors voiced their concern.

We didn't invest in the dark, though. This period saw many quarterly reports being published, many of them quite encouraging too. Of course, there was no corporate shutdown. Our investees went about their business in the usual way, publishing their quarterly reports as they should and had promised their investors. Some inspired optimism, some disappointed – but the necessary information was there all along.

And this, remember, is the information that primarily guides our investments. We need to make sense of what's happening in the financial markets, and I did find an interested audience when I discussed some of the missing figures with my colleagues. But the guiding lights are to be found in the company-specific information that pours in.

I suppose the very contrast with the federal shutdown attests to the quality of corporate management, discipline and

continuity. In short: Many a business is far better run than the average government, or above average ones for that matter. We find a large number of companies that are very well run indeed – and that's where we put your money.

That's also where we place our trust. There is no dearth of worries. Judging from the financial media, a potential AI bubble tops the list, followed by continued political uncertainty. The psychological challenge in this situation is to remind yourself that if you worry about this or that, you can be sure that millions of other investors do the same. If so, many of them will already have acted accordingly, meaning that this particular reason to worry is already discounted in the stock market. Or being addressed by strong companies which find a way out.

In short – I wouldn't worry about the things that everybody else worries about. Total surprises will be a lot scarier, whether or not they qualify as black swans. They might even provide after-the-fact justification for the things that people do worry about.

Obviously, however, I don't know what's going to surprise me in the coming months and years. And if I don't know what to worry about, I can't worry about that either.

2025 in a nutshell	
OSEBX	18.4%
S&P 500 return	17.9%
MSCI World net (USD)	18.9%
3-month NIBOR	from 4.68% to 4.07%
10-year Norwegian Treasury	from 3.86% to 4.15%
10-year Swedish Treasury	from 2.42% to 2.83%
10-year US Treasury	from 4.57% to 4.17%
10-year Euro Treasury	from 2.35% to 2.86%
Brent Blend	from USD 74.64 to USD 60.85
USD/NOK	from 11.36 to 10.09
EUR/NOK	from 11.76 to 11.85
USD/SEK	from 11.05 to 9.22
GDP growth, global	3.3%
GDP growth, Norway	1.1%
GDP growth, Sweden	1.5%
GDP growth, Mainland Norway	1.8%

Sources: Oslo Børs, S&P Dow Jones Indices, MSCI, Norges Bank, FactSet, IMF, SSB, SCB, Riksbanken, Pareto.