

Annual letter 2021

February 2022, Kuylenstierna & Skog S.A

During 2021, developed stock markets showed strong performance while emerging markets did worse. Continued spread of Covid-19 and new mutations meant, in addition to the human suffering, new lock downs, logistical issues, component shortages, increased production costs and rising inflation. The probability of tighter monetary and fiscal policy thus increased. We saw a lot of IPOs and we saw a new type of stock market activism when millions of followers on various forums jointly bought the most shorted shares. "Delta" and "Omicron" but also "transitory" were frequent words in media during the year.

2021 started with rising stock markets. In the US, Democrats managed to gain majority in both the House of Representatives and the Senate, the latter through Vice President Kamala Harris' vote. Financial markets responded positively, probably because it increased the chances of fiscal policy measures. The storming of the Capitol did not significantly affect the markets. The company reports for the fourth quarter resulted in some major price movements in some stocks, but in general they were well received. Significantly larger movements arose in connection with the forum Reddit / WallStreetBets, when millions of followers urged to buy in the most shorted shares in the market, including the American gaming store chain Gamestop which rose just over 2600% at most. The price rises forced some large institutions to cover their positions with large losses as a result.

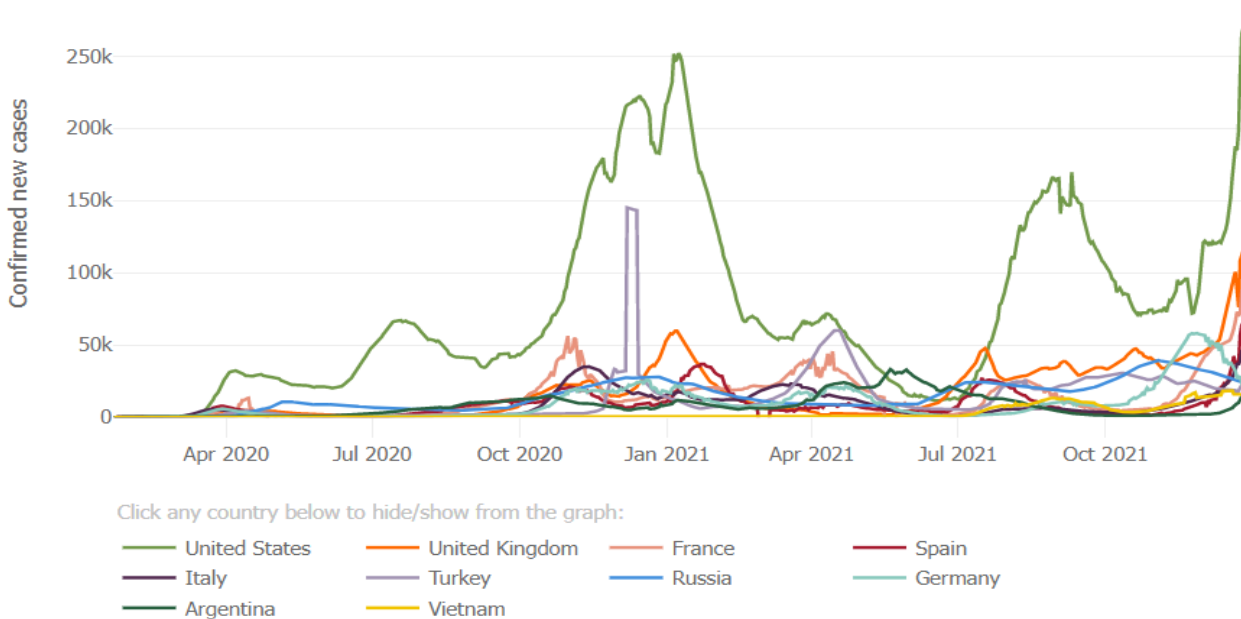


On the negative side, markets worried about the delta variant of the Corona virus, rising interest rates and fears of higher inflation. The US 10-year government bond rose to above 1.7% during the first quarter from being below 1% at the turn of the year. Growth companies, that tend to be more affected by a higher interest rate, dropped relatively sharply.



The market was also disturbed by component shortages and logistics problems. Shipping prices skyrocketed and many companies faced increased costs for input goods but also difficulties in obtaining them at all. The lack of semiconductors came into focus and emerged as the new oil where Taiwan and South Korea are important producers and allies with the West. The relations between Beijing and Washington harshened and the situation around the South China Sea was tense.

However, the world's stock markets continued their positive trend until after the summer, partly driven by strong company reports with good order intake and cost control, continued stimulus and the reopening of societies and economies. FED chief Jerome Powell repeated the mantra, in unison with other central banks, that inflation is transitory and was due to temporary bottlenecks.



New cases of Covid-19

The stock markets in China, on the other hand, moved in the opposite direction. Chinese authorities continued to tighten regulations and in other ways control domestic companies, especially in the technology, real estate and educational sectors. The real estate sector was also negatively affected by the real estate developer Evergrande.

Towards the autumn, uncertainty in the financial markets increased. The high energy prices and component shortages began to have a negative effect on companies' margins and profitability, even though economic activity remained high with good order intake. Talk of tapering in the US and rising interest rates meant a rotation from growth companies to value companies. The Fed's Jerome Powell abandoned the mantra that inflation is transitory, which increased the risk of lasting inflation, which in turn increases the likelihood of more aggressive interest rate hikes. The spread of



No of deceased in Covid-19 in relation to new cases

Omicron surged, albeit with relatively low death rates. The year ended with rising stock markets.

2022 - Inflation and interest rates, bottlenecks and higher costs, geopolitical risk and protectionism. The return to normal but with new behaviours and worries about mutations.

In 2022, inflation figures, interest rate hikes and a reduction in central banks' balance sheets will be central to investors. If we return to a more normal situation where the spread of Covid-19 decreases, will bottlenecks be resolved and the rising costs we saw during the second half of 2021 decrease? Or are we facing a year of rising inflation?

Globalisation will also be in focus and to some extent questioned. Many have understood how vulnerable supply chains become when we are dependent on production and components from another part of the world. Our guess is that some manufacturing, for example when it comes to semiconductors, will be moved closer to your home country due to political and security reasons, but that globalisation in general, in connection with the digitalisation, will continue.

With regards to digitalisation, we will continue to see that it may be easier to start new companies than to restructure existing ones, something we have seen in the car industry. It will be crucial for companies to take advantage of and implement digitalisation, otherwise they risk becoming irrelevant.

News from Kuylenstierna & Skog

In 2021, Johan Kjærnsvik and Per Åberg became new shareholders in Kuylenstierna & Skog S.A. Johan has been with the company since 2006 and is the CEO of the Swedish branch. Per joined K&S in 2021 from VP Bank / Banque Öhman in Luxembourg.

In July 2021, our Chairman of the Board, Björn Carlson, passed away. We remember a colourful and witty person whose philosophy and knowledge will live on within K&S. Anders Lindbergh will take his place as a new board member of K&S from 1 January 2022. Anders most recently came from UBP / Carnegie Banque in Luxembourg.

In March, we also welcome Anneli Tippett to our office in Stockholm. Anneli has been employed by K&S since the start in 2000.

Finally, we look forward to an exciting year where we are at your disposal and will do our best to meet your needs.