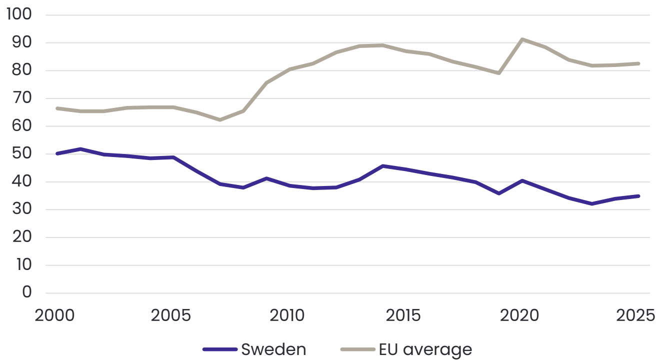
Swedish Election: Political Uncertainty, Economic Continuity

Sweden's general election on 13 September resulted in an exceptionally close race between the two political blocs. While the final outcome remains uncertain and government formation could take time, we expect limited implications for Swedish and Nordic corporates. Sweden enters the post-election period from a position of strength, with robust public finances, strong institutions and an ongoing economic recovery supporting a stable and predictable business environment.

Preliminary results give the left-leaning opposition a narrow advantage in parliament. If this result holds, a Social Democrat-led government under Magdalena Andersson appears the most likely outcome. Forming a government could nevertheless prove complicated given differences between the parties that would need to support a new administration, potentially resulting in lengthy negotiations and another minority government. While this may create political headlines in the near term, such situations are not unusual in Sweden and have historically had limited implications for the broader economy.

From an investment perspective, this reflects one of Sweden's key strengths: a high degree of institutional and economic continuity across political cycles. Minority governments, coalition negotiations and cross-party agreements have been recurring features of Swedish politics, while broad consensus has remained around prudent public finances and the main pillars of economic policy. This is reflected in government debt remaining substantially below the European average, while Sweden has also recorded a general government fiscal surplus on average over the longer term. Sweden also holds the highest possible sovereign credit ratings from all three major rating agencies, highlighting the country's strong institutions, robust public finances, wealthy and diversified economy and substantial policy flexibility.

Figure 1. Sweden maintains substantially lower public debt than the EU average



Source: IMF World Economic Outlook database (general government gross debt, % of GDP).

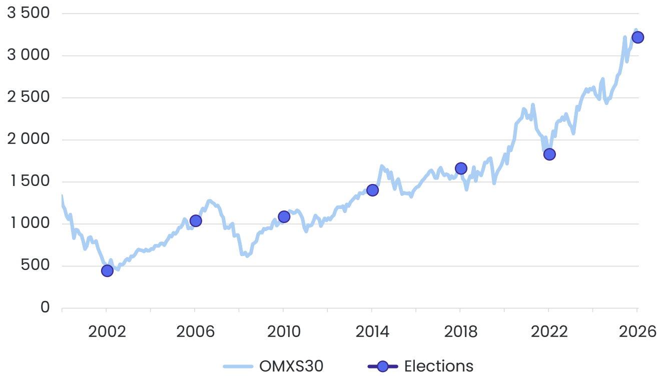
Markets looking beyond the election

The reaction from financial markets has so far been relatively calm, reinforcing the view that the election does not materially change Sweden's broader investment case. This is also consistent with historical experience, as previous Swedish elections have generally had a limited and short-lived impact on domestic financial markets, as illustrated by the equity market's performance around election periods. Swedish companies – particularly the large, internationally diversified and export-oriented companies that make up a significant part of the equity and credit markets – are more sensitive to global growth, interest rates and broader risk sentiment than to domestic politics.

Some short-term uncertainty is possible if government negotiations become prolonged. However, the scope for a lasting impact on Swedish equities, interest rates or the krona appears limited. Sweden's strong institutional framework, fiscal position and broad political consensus provide important anchors even during periods of political uncertainty.

A change of government could nevertheless bring shifts in selected areas of economic policy. Parts of the left-leaning bloc have, for example, proposed additional taxation of banks, while proposals have also been raised to restrict or prohibit profit distributions and other value transfers from privately operated schools. However, support for such measures is far from uniform among the parties likely to be required to form a government and the eventual policy direction will depend heavily on negotiations between the parties supporting a new administration. This should limit the scope for more far-reaching policy changes.

Figure 2. Swedish equities through seven elections



Source: Nasdaq OMXS30. Monthly closes.

Economic recovery remains the bigger story

The election also comes as the Swedish economy is moving through a gradual recovery. Current forecasts generally point to real GDP growth of around 2% in both 2026 and 2027. The improvement is expected to be driven primarily by domestic demand, as rising real wages support household consumption, alongside expansionary fiscal policy and higher public investment. While geopolitical developments and higher energy prices remain risks to the outlook, the underlying direction is one of improving economic activity.

For investors, this combination of political stability, strong public finances and improving economic growth remains the more important story. Government negotiations may dominate Swedish headlines in the coming weeks, but Sweden's fundamental strengths are largely independent of the precise composition of the next government. Its strong institutions, substantial fiscal flexibility and long tradition of political compromise provide a stable foundation for businesses and investors. While individual sectors could be affected by specific policy changes, we see little in the election outcome that fundamentally alters the investment case for Swedish or Nordic credits or equities.

Stefan Pari
Portfolio Manager
Espiria

Erik Karlsson
Portfolio Manager
Espiria

Contact us

Private Investors
Phone: +46 8 505 97 777
direct@eastcapital.com

Institutions
Phone: +46 8 505 88 555
pro@eastcapital.com