crestone.

More than meets the AI

Can power-hungry AI and a lower-carbon economy co-exist?

Core Offerings

Our latest view of markets and insights into our latest strategic and tactical asset allocation positions

September 2024

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More than meets the AI

Can power-hungry AI and a lower carbon economy co-exist?

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICE

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Globally, we are at the convergence of three global mega-trends—the rise of artificial intelligence (AI), the electrification of everything, and the shift to a low-carbon future.

In recent years, AI and large language models (LLMs) have witnessed a period of rapid expansion and extensive large-scale application. Global tech companies keep finding new ways to bring AI into every facet of our lives. Virtual assistants, chat bots, and LLMs are taking over how we go about our daily lives, and they certainly do bring efficiencies. But AI models need training, with huge amounts of data, housed in massive data warehouses, all powered by electricity, which under our current energy system is primarily generated by the burning of fossil fuels, like coal, oil and gas.

How can we continue the AI expansion, while simultaneously reducing carbon emissions? In some ways, the demand for electricity from AI is no different from the rising demand from the electrification of everything—from electric vehicles (EVs), heat pumps and industry. It's *how* we meet the demand that matters most. If we build more fossil fuel plants or extend their useful lives to meet our growing electricity demand, it will come with negative consequences for climate.

But if we use our insatiable appetite for electricity to lean harder into renewables and other low-carbon power sources (perhaps nuclear energy in some global regions) and leverage AI to become more efficient, optimising more and using less, then we can lower carbon emissions, even as AI continues its unstoppable march into our lives.

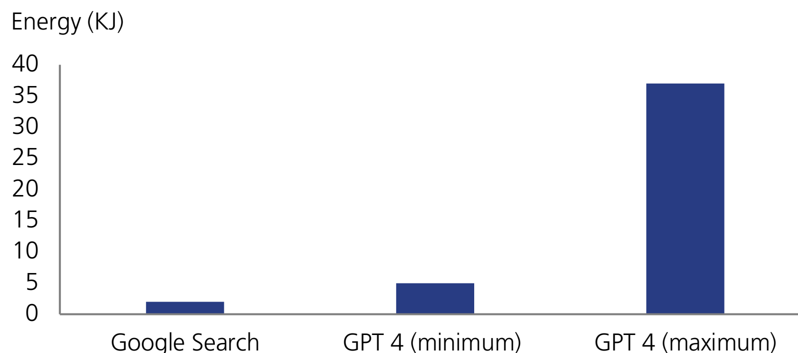
AI and energy consumption

As the use of AI and related technologies becomes more widespread, there is growing concern over the energy consumption required to power these tools and, therefore, the subsequent environmental impact associated with these advancements.

AI refers to a range of technologies that enable machines to exhibit intelligent behaviour. Generative AI is used for creating new content—i.e., text, images, or videos. Examples include ChatGPT, which generates text, and DALL-E, which can take text and create images. To generate its answers, these tools need to be trained on huge datasets using computer power from thousands of servers that are housed in data centres. Data centres need enormous amounts of electricity to meet that demand. According to a report by Goldman Sachs, a ChatGPT query needs nearly 10 times as much electricity as a Google search. In Goldman Sachs' view, this difference lies in a coming sea change for how the US, Europe, and the rest of the world will generate power. This is because under the current system, the majority of that energy comes from burning fossil fuels, like coal, oil and gas, the primary drivers of greenhouse gas emissions (GHGs).

In some ways, the demand for electricity from AI is no different from the rising demand from the electrification of everything—from EVs, heat pumps and industry. It's how we meet the demand that matters most.

Energy usage: A quick google search versus Chat GPT 4



Source Vires, A. (October 18, 2023), *The growing energy footprint of artificial intelligence.*

And AI is predicated to become even more sophisticated, requiring even more energy. The amount of data required for each upgrade of Chat GPT is requiring more and more data inputs. GPT 1 was trained on a dataset of 11,000 books, GPT 2, was trained using 1.5bn parameters, GPT 3.5, around 175 billion parameters, and Chat GPT 4, the most advanced version, has been trained on an estimated 1.8 trillion parameters (Invgate, February 2024). Every upgrade to AI models and an increase in the size of their datasets, will command more electricity than its predecessor and potentially increase carbon emissions even further.

The rise of the data centre—some key stats

The explosion in demand for data centres has attracted investor attention in the past few years. They are an attractive investment opportunity due to their utility-like cash flows and risk-adjusted yields.

The explosion in demand for data centres has attracted investor attention in the past few years. They are an attractive investment opportunity due to their utility-like cash flows and risk-adjusted yields (McKinsey & Co, January 2023. However, pressure to make data centres sustainable is high. Not only are their emissions from electricity a concern, but the massive amounts of water required for cooling the servers and the cement and steel required in their build out will add further strain to environmental resources.

Some regulators and governments are imposing sustainability standards on all new builds. The *Inflation Reduction Act* provides tax credits and production tax credits for renewable energy generation and storage. This development and the surge in demand for AI and its capabilities, and the net -zero pledges of datacentres' biggest users gives investors opportunities to help data centres secure carbon-free energy.

- **Number of data centres:** According to the International Energy Agency (IEA), there are now more than 8,000 data centres globally, with approximately 33% of these located in the US, 16% in Europe, and close to 10% are located in China. Growth in the US, in particular, is expected to be driven by AI, cryptocurrency, 5G, and generous tax incentives.
- **Share of global energy consumption:** In recent years, data centre consumption has been a relatively stable 1-2% of global energy consumption, but this is forecast to rise towards 5% by the end of the decade, on par with the aviation industry (Forbes, DeBow, June 2023).
- **Factors driving data centre electricity demand:** According to a recent report by Goldman Sachs, AI is predicted to drive a 160% increase in data centre electricity demand. Cryptocurrency mining is also a significant contributor to the energy generated by datacentres. The IEA forecasts that data centres' total electricity consumption could reach 1,000 terawatt-hours in 2026, roughly equivalent to the electricity consumption of Japan. The IEA study concludes that search engines like Google could see a tenfold increase in electricity demand when AI is fully implemented into its platform.
- **How much energy do hyperscalers data centres use?** A hyperscalers data centre can use as much power as 80,000 households do. Hyperscalers are large-scale data centres that specialise in delivering massive amounts of computing power and storage capacity at scale. Examples of hyperscalers include Google, Meta, Microsoft, Amazon.

In recent years, data centre consumption has been a relatively stable 1-2% of global energy consumption, but this is forecast to rise towards 5% by the end of the decade, on par with the aviation industry.

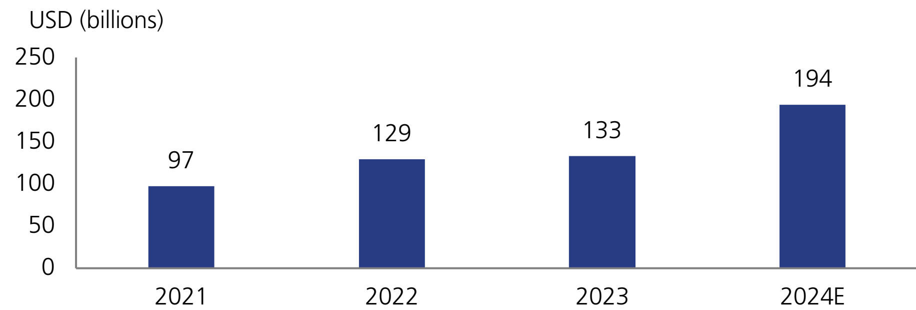
Datacentres will though, continue with technological advancements and improvements themselves. As Jensen Huang, CEO Nvidia said recently "you can't just assume that companies will just buy more computers…you also have to assume that those computers are going to get better and faster".

The race for AI domination

There is no doubt that global tech companies are full steam ahead in the race for AI domination. Global tech giants, Alphabet and Google, have been influenced by the successful launch of OpenAI's ChatGPT (the now well-known generative AI chatbot that reached 100 million users in just two months). They have, subsequently, launched their own chatbots, Bing Chat and Bard respectively (Vrjie, Uni of Amsterdam, 2023). In the race to produce the best AI systems Google is pouring an enormous amount of resources and funding into training AI systems and building bigger and bigger data centres, all of which require tremendous amounts of electricity and, under the current system, increased CO_2 emissions. Google said it spent USD 12 billion on capex in Q1 2023, driven overwhelmingly by investments in data centres to fuel its AI endeavours. The company said it expects that it will keep up that same level of spending year-on-year.

Meta, Microsoft, Amazon, and Google are all users of datacentres in the race for AI domination. All these companies also have net-zero targets.

Data centre capex by largest hyperscalers (Microsoft, Google, Amazon, Meta and Oracle)



Source: Blackstone.

In our view, the only way AI and net zero can co-exist is if the aggressive lean into AI technologies is matched with an equally aggressive lean into renewables and other low-carbon sources of energy.

But the hyperscalers all have net-zero pledges

Meta, Microsoft, Amazon, and Google are all users of datacentres in the race for AI domination. All these companies also have net-zero targets. They and other hyperscalers have committed to using only carbon-free energy by 2030. Microsoft and Google have pledged to reach 100% clean energy usage for their data centres by 2030 (International Energy Agency, February 2024). Amazon is targeting a much more ambitious target by 2025. These three companies alone currently account for more than 50% of the world's large-scale data centre capacity (CRN, January 2021).

But just recently, Google released its sustainability report, where it announced that its GHG emissions rose last year by 48% (compared to its baseline year in 2019). It admits "as we further integrate AI into our products, reducing emissions may be challenging".

Microsoft has taken its climate pledge one step further than Google, saying it intends to be carbon negative by 2030. But just recently, Brad Smith of Microsoft said, "In 2020, we unveiled what we called our carbon moonshot, but that was before the explosion in Artificial intelligence'. So how do the largest consumers of datacentres, and the most aggressive in the AI gold rush, intend to power their ambitious plans?

Renewables (and nuclear) hold the key to powering the AI revolution

In our view, the only way AI and net zero can co-exist is if the aggressive lean into AI technologies is matched with an equally aggressive lean into renewables and other low-carbon sources of energy. Whilst wind and solar will be crucial for sustainable AI development, they do face intermittency issues. We see the role of nuclear power in some regions as a key player in optimising performance and providing stability to the grid. Increasingly small modular reactors (SMRs), a newer form of nuclear power technology, is also showing promise as a source of carbon-free energy. The push to win the AI arms race is swelling the electricity demands of the global tech giants who are all looking for carbon-free energy. The use of renewable energy is already a critical component in all their carbon reduction strategies.

Microsoft, Amazon (AWS), and Google are all working to design green data centres, which use 100% renewable energy. Hyperscalers are also starting to fund the building of renewable energy plants in the face of soaring prices caused by supply-chain shortages. In the UK, for example, Amazon has supported Scottish Power's wind farm and is purchasing its entire 50-megawatt output. For co-location companies, to help their tenants reach their carbon-free targets, they are signing power purchase agreements (PPAs) with suppliers of renewable energy.

Yet, such moves will not suffice if only renewable energy is involved. The first problem is intermittency. Solar power is generated only in the daytime, while wind power is obviously reliant on the wind. So, under the current system, fossil fuels are often the supplementary source of power from renewable PPAs. It is expected that nuclear energy may also fill part of the gap, and in March this year, Talen Energy announced a USD 650 million deal with Amazon to sell a data centre powered by one of the largest US nuclear plants. Nuclear energy is carbon -free, but does have a long development time. It is also cost-intensive, so it won't be able to solve everything.

Microsoft, Amazon, and Google are all working to design green data centres, which use 100% renewable energy. Hyperscalers are also starting to fund the building of renewable energy plants in the face of soaring prices caused by supply-chain shortages.

The opportunities for investors

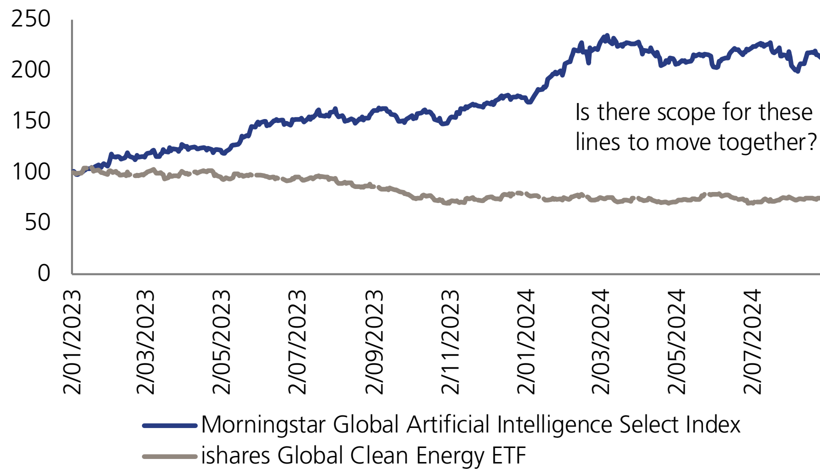
All of this presents opportunities for investors. Not all data centre providers have the scale to procure renewable power either through PPAs or investments in renewable power plants. The pressure to decarbonise data centres also presents opportunities—not only in infrastructure, but in renewables needed to power them, as well as cooling and energy efficiency technologies.

Whilst the market has been quick to embrace the AI narrative, it has not been so kind to the renewable energy sector particularly since it is a key factor with respect to how widely and how quickly AI is adopted. There has been a significant divergence of AI relative to the S&P Global Clean Energy Index (see the chart below).

The explosion in demand for datacentre capacity and allocations has attracted the attention of all types of investors—growth capital, buyout, real estate and, increasingly, infrastructure investors. But there are other opportunities up and down the supply chain, within capital structures, and across asset classes (e.g., listed equity, commodity exposures, alternatives, as well as energy providers). Commitments by the hyperscalers to be net zero make the case for clean energy a promising one. Further, some of the key inputs into datacentres, including copper and uranium, also make these commodities an attractive investment opportunity, given constrained supply backdrops.

The pressure to decarbonise data centres also presents opportunities – not only in infrastructure, but in renewables needed to power them, as well as cooling, and energy-efficiency technologies.

There's been a significant divergence in the performance of AI and clean energy



Source: Bloomberg. Data as at 26 August 2024.

What's driving our views

Maintaining a constructive stance amid a shifting balance of risks

We maintain a broadly constructive macro view and expect further moderation in global growth and inflation, as well as a modest global rate-cutting cycle. We recently made changes to our tactical positioning to reflect the shifting balance of risks sparked by recent transatlantic political volatility. We have closed our global government bond underweight and high yield credit overweight, moved underweight emerging market equities, and overweight Japanese equities. We have also increased foreign currency exposure. We maintain a nimble stance with our tactical positioning, given evolving macro and political risks.

Can policymakers stick the landing? After a fast and steep hiking cycle, central bankers now need to calibrate policy to lower inflation without triggering a recession. There are political and geo-political risks, and the secular inflation outlook is volatile.

Politics takes centre stage in 2024: After the geo-political shocks of the past two years, politics will be a key market driver this year. More than 64 'national' elections are taking place in 2024. The headlining US election is approaching in November.

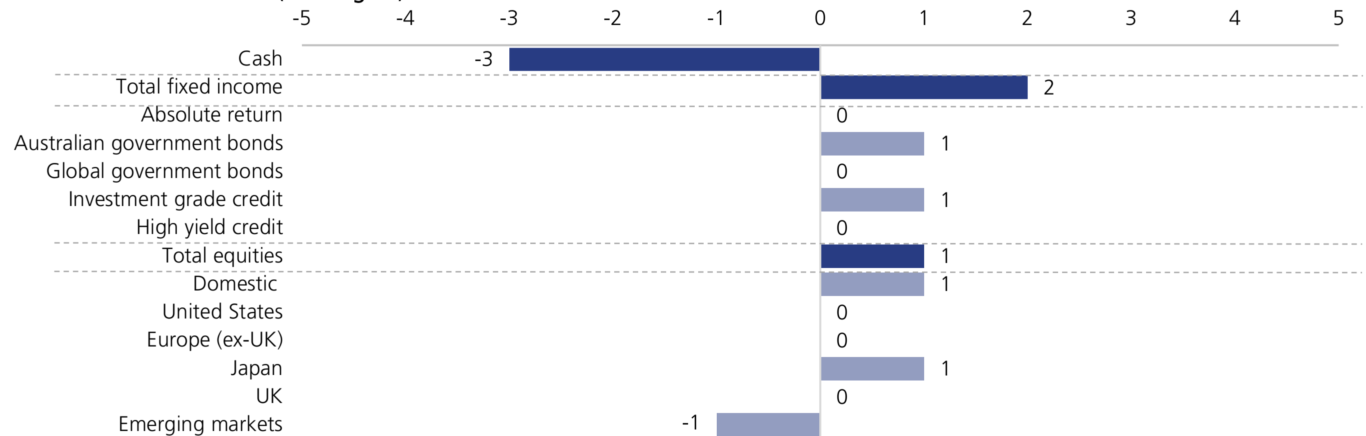
Diverging cycles: The US economy is resilient, but momentum has peaked, while Europe struggles to emerge from recession. China faces key cyclical and structural challenges. How these macro dynamics play out will be a key driver for markets this year.

Fortune favours the flexible: With ongoing volatility and uncertainty, we believe it pays to be diversified, nimble, and flexible over the year ahead. Investors will benefit from prudently managing liquidity and investing with high quality active managers.

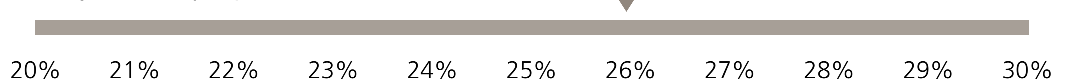
Structural thematics

Transitioning towards **multi-polarity** will likely create more volatility, presenting growth and opportunities for investors.	The trade-off between net-zero commitments, cost and energy security creates a **challenging energy transition**.	**Artificial intelligence** presents challenges and opportunities. Advances in pharmaceuticals are a constructive force for the long term.	**Higher rates** increase forward-looking returns across all asset classes, giving investors more options.

Tactical asset allocations (% weights)



Foreign currency exposure (Balanced SAA)



	What we like	What we don't like
Equities	▪ Japanese equities with bottom-up corporate reform tailwinds. ▪ Actively managed small and mid-cap equities. ▪ Broader (non-mega cap) S&P 500 exposure.	▪ Companies with shorter debt maturities at risk of higher-for-longer rates. ▪ Stocks trading at historically tight dividend yields. ▪ Emerging markets (particularly China) at risk of Trump presidency/higher tariffs.
Fixed income	▪ Actively managed funds investing in higher quality credit. ▪ Fixed/floating rate 4 to 7-year senior and tier 2 bank credit. ▪ Investment grade fixed-rate corporates and Kangaroo issuers.	▪ Longer-maturity bonds, which are vulnerable to rising inflation and term premia risk. ▪ Lower quality credit vulnerable to higher cost of funds.
Alternatives	▪ Multi-strategy hedge funds and other diversifying strategies. ▪ Global venture capital secondaries. ▪ Senior private debt, incl corporate and asset-based finance. ▪ Global infrastructure across the risk spectrum, particularly playing to long-term structural themes.	▪ Long-bias equity hedge fund strategies. ▪ Construction and/or junior lending within real estate. ▪ Carbon-intensive assets/ industries with no transition plan.

Source: LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocations. Investment grade credit includes Australian listed hybrid securities. Foreign currency exposure is representative of the balanced strategic asset allocation.

Economic and asset class outlook

Economic outlook

Global economy

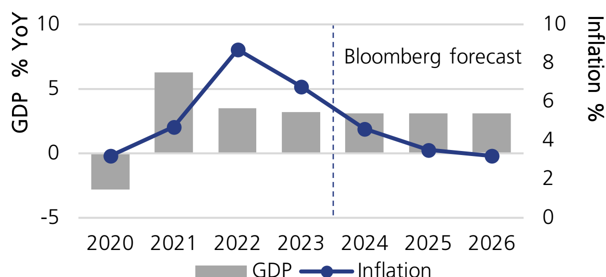
The past month has featured elevated volatility across global markets. This occurred as sentiment regarding the outlook for the US economy initially soured in early August, the Bank of Japan (BoJ) unexpectedly lifted interest rates, and China's post-Plenum stimulus disappointed. The signalling by the US Federal Reserve (Fed) that lower rates were 'on the table' at around the same time the BoJ was signalling higher rates, led to a sharp reversal in capital flows that had been seeking cheaper leverage in Japan. Global equity markets and the US dollar fell sharply, while global bond yields fell, as policy easing expectations grew.

Over subsequent weeks, US data stabilised (and positively surprised on the consumer front). And combined with further modest disinflation, sentiment once again focused on the narrative of a moderately slowing US growth outlook that will support a moderate Fed rate-cutting cycle, now starting in September. Further anticipated easing by central banks across Europe, the UK, and Canada is also seen aiding the narrative of a moderately below-trend global economy in H2 2024 that gives way to a patchy growth recovery through 2025. Elsewhere, China's economy appears to be losing momentum, Japan is rebounding from its early year growth slump, while Australia's recent fiscal largesse has likely delayed rate cuts until 2025.

As always, uncertainties have the potential to shape the macro outlook away from the central thesis of slowing growth, falling inflation, and moderate rate reductions (ahead of a 2025 pick-up). Risks remain as to whether central banks have held rates too high for too long, with the seeds already sown for a sharper downturn in 2025. Sticky services inflation globally also holds the potential to slow or disappoint rate cut expectations. And prospects of unrest in the Middle East remain (with oil prices spiking in late August on supply disruptions), while the US presidential election still lies ahead in November. More positively, secular themes around AI and the energy transition could underpin more forcefully future growth and earnings.

Consensus expects global growth to slow in 2024 to a pace modestly below long-term averages of around 3.5%, with a similar pace unfolding through 2025. Consistent with that, UBS expects growth to average a little over 3% in both 2024 and 2025, with advanced economies expanding by around 1.6%, and emerging markets expanding by around 4.5%.

Global GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Australia

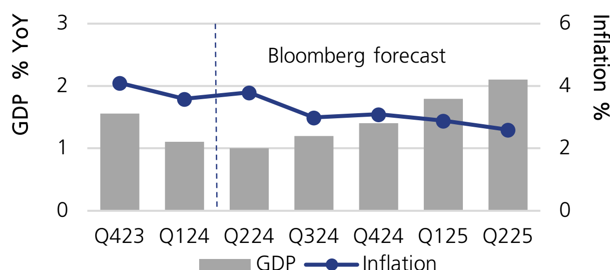
Real economic activity has slowed significantly in H1 2024, led by a soft consumer, weaker housing activity, and softer external conditions, including in China. However, the outlook is combined with other indicators that suggest some aspects of the economy are robust, including the jobs market, house price growth, and the demand for services. With only limited further progress on reducing Australia's relatively high inflation during Q2, together with a much more stimulatory fiscal position than expected from mid-year, hoped-for year-end interest rate cuts are now expected to be delayed into 2025. While this has raised the risks of a sharper downturn, Australia's stickier inflation backdrop portrays limited economic stress.

Growth weakened to just 0.1% in Q1 after Q4's 0.3% pace. This lowered annual growth to 1.1%, well below trend. Private demand was flat, while trade detracted, leaving government spending and rising inventories the key growth drivers. Q2 data has been mixed. After rebounding 0.6% and 0.5% in May and June, July data was flat, suggesting consumers were saving recent tax cuts. Consumer spending is likely to see growth remain around 1% annually in the upcoming Q2 data. Elsewhere, the jobs market remains mixed, with strong jobs growth (over 3%), but unemployment drifting higher to 4.2% in July. Recent momentum in house prices has moderated.

Although inflation in Q2 eased concerns about renewed near-term rate hikes, it showed limited progress toward the Reserve Bank of Australia's (RBA) 2-3% target. Quarterly core inflation eased to 0.8% from 1.0%, while the annual pace only edged lower to a still relatively high 3.9%. More positively, Q2 wages data "continue to indicate wages growth peaked in Q4 2023 and has eased as the labour market has cooled," according to CBA. Since its peak of 1.3%, quarterly wages growth has slowed to 1.0%, 0.9% and now 0.8% in Q2, a clear and sustained downward trend. Still, comments from RBA officials remain hawkish, signally that rate cuts are not on the agenda this year. Deputy Governor Hauser characterised inflation as persistent and still surprising positively.

After growth of 2.0% in 2023, UBS expects Australia to avoid a recession, with growth of 1.2% in 2024 (was 1.5%), ahead of a recovery to 2.1% in 2025. CBA sees slightly slower growth of 1.1% for 2024, ahead of a similar rebound in 2025.

Australian GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Economic outlook

United States

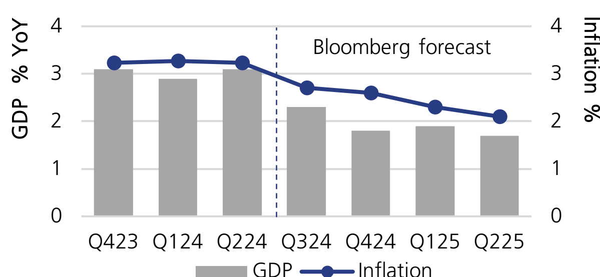
Recent months have revealed more convincing evidence that US growth is on a slowing path and inflationary pressures are, once again, consistent with interest rates being trimmed in H2 2024, ahead of further modest cuts through 2025. Concern about an economy that was 'not landing' have given way to renewed talk of a recession in 2025. Still, a period of slower (below trend) growth over the coming year appears the most likely scenario. The pace of future Fed rate cuts, the resilience of the US jobs market, developments in the Middle East, and the outcome of November's US presidential election will all impact the outlook.

Growth rose by a robust 0.7% (3.0% annualised) in Q2. However, when combined with Q1, H1 growth expanded by 2.2%, a cooling from the 3.1% growth in 2023. Early Q3 data point to slower H2 growth. While retail sales surprised to the upside in July (rising 1.0%), the core measure decelerated from 0.9% to 0.3%. Non-farm jobs slowed to just 114,000 (with sharp downward revisions to prior months), while unemployment surprised higher to 4.3% from 4.1%. Housing data, including permits and starts, re-weakened during July (despite lower mortgage rates), likely reflecting "the cumulative effect of 'higher for longer' [interest rate policy] starting to weigh on residential activity", according to BCA Research. August's composite Purchasing Managers' Index (PMI) eased to 54.1 from 54.3, a four-month low.

Inflation continues to trend lower, with Longview Economics noting "underlying inflationary pressures in the US have (significantly) decelerated in recent months". Core inflation eased to 3.2% in July from 3.3% in June (and 3.9% at end-2023). The Fed left rates unchanged at 5.50% at its July meeting, as widely expected. It is, however, moving closer to the easing cycle, with Chair Powell's Jackson Hole speech laying the grounds for a September cut. Powell acknowledged the significant decline in inflation and the normalisation of the jobs market. According to BCA Research, "price pressures have now sufficiently ebbed to cement a September rate cut".

After 2.5% in 2023, UBS now sees growth maintaining an above-trend 2.5% pace in 2024 (was 2.3%), before slowing to 1.5% in 2025 (was 1.4%). SG expects an even less significant slowing ahead, with growth unchanged in 2024 at 2.5% before easing moderately to 2.2% in 2025.

US GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Europe

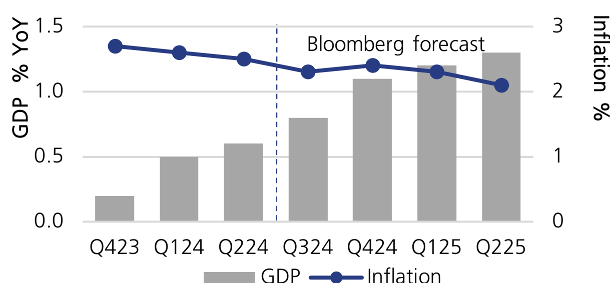
Growth data for Q2 revealed Europe's economy emerged from its mild recession in H2 2023. However, recent data suggest headwinds facing the economy, which render the recovery tepid. These include still tight monetary policy, a soft external environment (including China), and fiscal tightening in Germany. According to UBS, "a deterioration of business sentiment is most pronounced in but not limited to France, indicating that the deceleration likely goes beyond political uncertainty after the election and that the Eurozone economy may have lost momentum in late Q2/early Q3". Moreover, UBS notes that following Germany's growth contraction in Q2, the weakening of sentiment indicators in June and July "has raised fears about Germany falling into a technical recession".

Growth in Q2 rose 0.3% (0.6% annually), repeating Q1's result and beating expectations. Among the larger economies, France and Spain surprised to the upside (up 0.3% and 0.8% quarter-on-quarter (q/q) respectively), while Italy was in line with expectations (up 0.2% q/q). German growth disappointed (-0.1% q/q). Recent data have been mixed. In August, the PMI recovered from a five-month low, rising to 51.2 from 50.2, led by services. Consumer confidence is weak, while retail sales retraced in June after a positive few months to May. While the jobs market remains tight, the unemployment rate rose in June to 6.5% (from 6.4%), its first rise since September last year.

Inflation continues to trend lower, albeit the core measure remained unchanged at 2.9% in July (and headline inflation edged higher on energy prices). Wages growth also slowed from 4.7% to 3.6% in Q2. The European Central Bank (ECB) left the policy rate unchanged in July, after trimming it by 0.25% in June to 3.75%. The ECB has stressed it will "not pre-commit to a particular rate path". This 'data dependent' message was firmly anchored in its July communication, according to Société Générale (SG), albeit it believes "data needs to strongly surprise to the upside to derail a September cut." UBS and CBA also expect the ECB to cut in September.

After relatively weak growth of 0.5% in 2023, UBS expects a modest recovery in H2 2024, with growth up 0.6% in 2024 and 1.2% in 2025. SG expects a stronger recovery in 2024 and 2025 (0.9% and 1.4%), while CBA sees a more moderate recovery only emerging in 2025 (0.7% and 1.1%).

European GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Economic outlook

United Kingdom

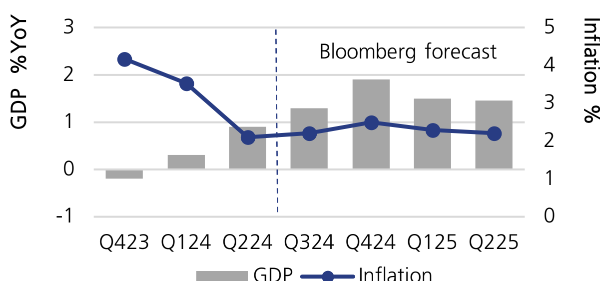
The UK economy has started growing again, exiting the H2 2023 recession in early 2024, and doing so at an arguably stronger pace than expected. Despite ongoing tight financial conditions, including high mortgage payments, consumer spending has been improving, while manufacturing and services activity have strengthened. Inflation in the UK also continues to trend lower in H2 2024, settling for now near the inflation target. Moderate easing of monetary policy in H2 2024 is likely to support the growth outlook through 2025. Further reductions in rates from here will depend on renewed signs of easing domestic inflation pressures.

Growth surprised positively in Q2, rising 0.6% (after 0.7%), a strong rebound from contractions of 0.3% and 0.1% in H2 2023. Annual growth lifted from 0.3% to 0.9%. Services sector activity led the rise, albeit data through Q2 suggest a modest loss of momentum on political uncertainty and poor weather. After falling in June by almost 1%, retail sales rose 0.5% in July, while unemployment reversed several months of gains, easing to 4.2% from 4.4%, signalling tight conditions. Positively, August's PMI moved higher again, rising to 53.4 from 52.9, led by services. UBS expects growth to continue expanding in H2, albeit at a slower 0.3% pace per quarter.

UK inflation was weaker than expected in July—across headline, core, and services measures. The headline measure edged higher to 2.2%, while the core decelerated to 3.3% (from 3.5%). Services inflation, which has been stubbornly high, fell to 5.2% from 5.7%. The Bank of England (BoE) cut its policy rate from 5.25% to 5.00% in its August meeting, the first reduction since early 2020. The decision was narrowly made with a 5-4 vote, reflecting internal debate about the timing and need for further cuts. The BoE's guidance suggests a cautious approach, indicating further reductions will depend on continued progress on inflation. CBA expects two more rate cuts before year-end, in line with market pricing. UBS expects only one further cut before the end of the year.

After growth of just 0.1% for 2023, UBS has recently revised higher its recovery in 2024 from 0.2% to 0.7%, ahead of 1.5% in 2025. SG expects stronger growth of 1.0% in 2024, while CBA has also lifted its growth outlook for 2024 from 0.2% to 0.6%, and a more moderate 1.0% pace in 2025.

UK GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Japan

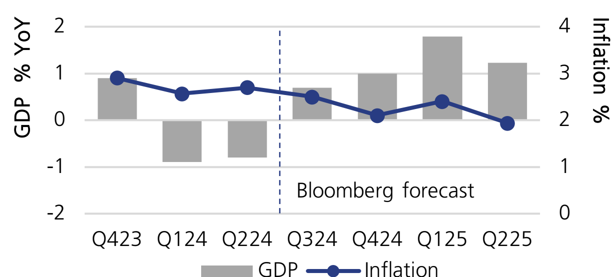
A strong rebound in Q2 growth has renewed optimism that Japan is on a path to successfully transition from secular stagnation to nominal recovery. According to KKR, "an economic reawakening supported by real income growth and improved productivity is accelerating off a low base". Focus remains on the domestic consumer, and the potential for wages growth to support stronger spending (and rising rates). Improving global trade and tourist arrivals are also considered positive growth drivers ahead. Prime Minister (PM) Kishida has indicated that he will not run again for the presidency of Japan's Liberal Democratic Party (LDP), and a new PM is expected to be elected in late September. Assuming the LDP retains power, the direction of policy should not change.

Japan's growth rebounded by a stronger-than-expected 0.8% (3.1% annualised) in Q2, following -0.6% (-2.3%) in Q1. The annual pace was still negative (at -0.8%). However, positively, consumption rose over 1% in the quarter after four quarters of negative growth. Japan's key quarterly Tankan business sentiment index for manufacturers rose to 13 in Q2, its highest since early 2022, while August's PMI rose further to 53.0 from 52.5. Wage growth (core earnings) improved from 2.0% to 2.7% in May, further supporting demand, with retail sales rising 0.6% in June, its third consecutive gain.

Inflation remained unchanged at 2.8% in July, consistent with improving underlying demand and robust pricing signals in the Tankan survey. Reflecting this, the BoJ somewhat unexpectedly raised the policy rate by 0.15% to 0.25% at its July meeting. Importantly, as noted by Longview Economics, "Governor Ueda, in the press conference, suggested that 'neutral is some way off'", projecting confidence that sustainable 2% inflation had been achieved. The relatively hawkish tone from the BoJ underpins a significant appreciation in the Japanese yen, with a number of forecasters (including UBS) pencilling in two further hikes before year-end. In contrast, Morgan Stanley views BoJ commentary as overly hawkish and has retained its view for the next hike to be in January 2025.

After strong growth of 1.8% in 2023, UBS expects growth to soften to 0.0% in 2024 (was 0.5%) before steadying at around a 1.1% pace in 2025. SG forecasts a similar pace of just 0.1% for 2024, but a strong rebound to 1.5% for 2025.

Japanese GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Economic outlook

China

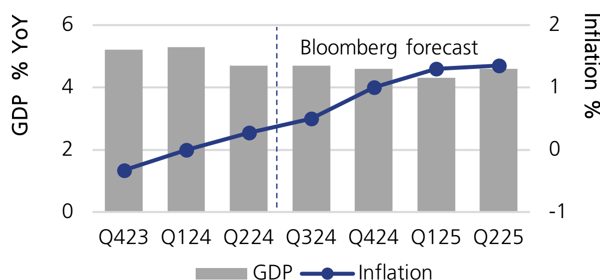
China's Q2 data confirmed the significant slowing in activity through the quarter. This trend persistent into July and August, where data remain lacklustre. While investment and exports have strengthened, policy has yet to sustainably impact consumer activity (which remains subdued) or housing trends (which remain very weak). China's Third Plenum "adjourned without any specific prescriptions to reverse China's economic slump", according to BCA Research. SG remains optimistic that new policy will come, noting, "the disappointing Q2 growth print suggests some risks of China missing this year's 5% growth target". In contrast, BCA believes "authorities remain unlikely to irrigate the economy with large-scale fiscal stimulus." UBS also sees downside risks to the 5% target, particularly following the July data.

China also faces future growth headwinds into 2025, given the risk of new tariffs if former President Trump wins the US election. According to UBS, tariffs of 60% could negatively impact China's growth by 1.5% per year. The European Union has recently announced plans to impose a 9% additional tariff on electric vehicle (EV) imports as part of a broader strategy to counteract subsidies provided by Beijing to its EV industry.

China's growth slowed to 4.7% in Q2 (from 5.3% in Q1). Moreover, the pace of activity during the quarter, as estimated by UBS, fell more sharply from around 6% to about 3%. Data for July and early August remained relatively weak. Retail sales growth edged higher (2.0% to 2.7%), while manufacturing and infrastructure remained resilient in July (manufacturing was 8.3% after 9.3%, while infrastructure was 10.8% after 10.2%). However, property activity remained weak, with new starts (-19.7% after -21.7%) stabilising and property sales (-15.4% after -14.5%) moving lower. Meanwhile, export growth cooled (7.0% after 8.6%). Inflation rebounded modestly in July, rising to 0.5% from 0.2%.

After 5.2% in 2023, UBS has cut its China growth outlook to 4.6% in 2024 (from 4.9%), ahead of further slowing to 4.0% in 2025 (was 4.6%). CBA has recently trimmed its China forecasts from 5.1% to 4.9% for 2024 (ahead of 4.7% for 2025). SG has trimmed growth for 2024 from 5.0% to 4.8%.

Chinese GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Emerging markets

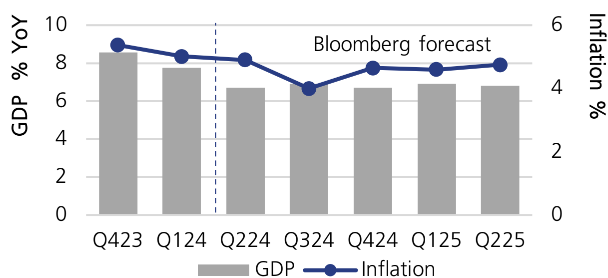
After relatively steady growth in early 2024, emerging market growth remains on track for a moderate slowing through H2 2024 (including and excluding China). This is relatively broad-based, though timings vary across Latin America, emerging Europe, and Asia. China's mixed growth outlook and a resilient US dollar, on the back of geo-political and political concerns, have weighed on the emerging market currencies. This has led, in particular in Asia, to a slower pace of central bank cuts than originally anticipated. UBS notes one of the key headwinds for emerging markets revolves around China, which has already shown symptoms of exporting an increasingly deflationary impulse to the rest of the world, notably emerging economies, and this pressure would rise under a high tariff scenario.

For Asia, Q2 growth has proved somewhat mixed across the region, albeit still consistent with a 5% pace. South Korea's growth missed estimates, with a modest 0.2% gain (2.3% annually). In contrast, Singapore delivered a stronger 0.4% gain (in line with 2.9% annually), while Malaysia beat with an almost 3% gain (5.9% annually). Elsewhere, Vietnam growth rose to 6.9% from 5.9% in Q2, while Thailand edged higher to 2.3% from 1.6%. As SG notes, "since the Fed signalled in early August that rate cuts are imminent, the depreciation pressure on the Asian currencies has faded substantially. This removes one major external hurdle for central banks in the region to policy rate cuts". In India, Q2 growth has yet to be released, though monthly data suggest growth momentum likely remained resilient in the quarter. Inflation has surprised to the downside (on softer food), easing to 3.5% from 5.1%.

For Latin America, growth is expected to slow into early H2 2024, though moderating inflation should support ongoing rate cuts. Central banks in Mexico, Argentina, Chile, and Brazil have cut rates in the last few months. Easing monetary policy should underpin some recovery in growth through 2025. In Brazil, easier fiscal policy is weighing on the ability of the central bank to further cut rates, with recent June data coming in stronger than expected across industrial and service sectors.

For all of the emerging markets, after 4.6% in 2023, UBS expects similar growth of 4.4% in 2024 (was 4.3%) before a modest slowing to 4.1% in 2025.

India GDP growth and inflation



Source: Bloomberg as of 31 August 2024.

Asset class outlook

Absolute return and government bonds

Position: Neutral absolute return and global government bonds; overweight Australian government bonds

Key points

- We recommend maintaining a diversified portfolio of fixed and floating rate bonds.
- Volatility in rates is expected to continue until at least the first Fed rate cut.
- The domestic bond market has underperformed the US-led rally, and we look for outperformance ahead.

The 10-year US Treasury yield has moved to 3.90%, around its lowest level since December last year. We expect to see volatility in the rates market as we move closer to an expected Fed cut. The Jackson Hole Symposium all but confirmed that the Fed will cut rates in September. How quickly the Fed moves following this is highly dependent on data. The Fed continues to tread a fine line between slowing inflation and protecting the US jobs market. The number of rate cuts and the speed at which the Fed removes policy restrictiveness are important considerations for investors. Given the expectation of dovish monetary policy, the Treasury curve has steepened. Although the curve is still inverted, the front end has been outperforming, and this is expected to continue. We believe global disinflation will continue at a moderate pace, allowing central banks to reduce cash rates to a more neutral level.

When looking to invest in US Treasuries, we recommend the two- to six-year part of the curve, where government bond yields are currently higher than longer-dated yields, but are expected to fall over the next six to 12 months. The two-year/10-year spread remains inverted by approximately 10 basis points (bps), with the two-year Treasury now yielding 3.90% (rallying from 4.25% in July). When the Fed starts to ease, the curve should steepen to a more normal level.

Commonwealth Government bond yields and price action are influenced by US rates, particularly at the longer end of the curve. However, as the RBA was less aggressive in raising rates and is likely to remain on hold for longer, the domestic yield curve has been underperforming the recent US Treasury rally. Although the Australian 10-year yield (4.01%) is slightly higher than its US equivalent, it rallied 40bps in August. Consensus expects the RBA is unlikely to cut before the Fed, as local service inflation remains sticky and the labour market is strong. There is a risk the RBA will not move until Q1 2025. However, there are still uncertainties around this timing as upcoming data prints could change this view very quickly. We believe the next rate-cut move from the RBA will be lower. However, we also expect this move to be delayed, as highlighted in the latest RBA minutes. To benefit from more unrestricted level of rates, we recommend investing in the four- to eight-year part of the curve.

Investment grade credit and high yield credit

Position: Overweight investment grade credit; neutral high yield credit

Key points

- We prefer investment grade bonds as inflation cools and downside risks to global growth moderate.
- High yield credit quality has improved and demand for outright yields has risen, driving spreads lower.

Investment grade credit: Investment grade credit spreads spiked in early August on the back of weaker US employment data and the risk-off environment in markets. The rally in interest rates and fears of a harder landing moved credit spreads higher. However, total returns remained positive due to falling interest rates. Issuance in both the US and Europe stalled at the beginning of August—but with robust market conditions for issuers and demand from investors, spreads quickly recovered. As such, August was another bumper month for issuance. As global central banks begin to pick up the pace of easing later in the year, spreads are likely to fall further, in line with a more risk-on environment. Staying in high-quality bonds should protect portfolios if there is a significant growth slowdown. Although credit spreads may be at risk of widening, particularly in the high yield sector, this is typically partly offset by falling interest rates.

Domestic issuance was also high in the second half of August, with significant Kangaroo supply from financial and corporate issuers. BNP Paribas issued an Australian dollar subordinated Tier II transaction, which priced at BBSW +215bps. Lloyds Banking Group also priced a subordinated Tier II transaction at BBSW +218bps. Onshore, the market was dominated by Macquarie issuing a subordinated Tier II transaction at BBSW +185bps and a listed Additional Tier I hybrid at BBSW +265bps. Both transactions met with strong demand.

High yield credit: High yield spreads were heavily sold at the beginning of August during the brief bout of volatility. Having remained relatively range-bound at historically tight levels since March, the spike in spreads was short lived. While growth in the US is declining at a moderate pace and credit fundamentals are stable in aggregate, the high yield sector has shown that it is vulnerable to spread widening. As such, any signs of growth slowing at a faster pace could result in further spread widening.

Meanwhile, issuers have taken advantage of the compression in spreads and reopening of high yield markets to refinance outstanding bonds, with issuance remaining elevated. We currently favour investment grade credit relative to high yield, as we see more pronounced risks of spread widening for the latter. Leveraged, lower-rated companies are more sensitive to adverse economic outcomes and, therefore, default risk. Investing via recommended private debt managed funds is our preference over the public high yield bond market.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- In August, domestic equities were essentially unchanged, although they did manage to participate in the rapid recovery seen across global markets following the late July/early August sell-off.
- The S&P/ASX 200 Index outperformed the MSCI World ex-Australia Index by ~2ppts over the month.
- The IT sector continued its strong run, with sector heavyweights WiseTech and Xero performing strongly.

Although Australia outperformed in August, it was somewhat surprising to see the index participate fully in the late July/ early August sell-off, falling 6.4% from peak-to-trough. This fall was slightly more than that experienced by the MSCI World ex-Australia Index, and in contrast to its typically lower beta status.

Almost three quarters of companies have now reported. According to UBS, Australian companies have been "stoic", with earnings beats outnumbering earnings misses by a ratio of 4:3. Dividends have proven even more impressive, where beats to misses have run at 3:2. Although outlook statements have shown more caution, forward guidance upgrades are matching forward guidance downgrades.

Consumer discretionary names have been a standout at the start of financial year 2025, with JB Hi-Fi leading the sector with 5.2% year-on-year growth. Super Retail (+3.2%), Universal Stores (+12%), Accent Group (+3.5%), and Baby Bunting (+3.5%) also provided strong trading updates for the first six to seven weeks of the financial year.

Similar to CBA and NAB, quarterly updates from ANZ and Westpac confirmed that net interest margins have troughed. Meanwhile, insurers continue to show pricing power, with Suncorp, IAG and Medibank Private all impressing on margins.

Expectations for June 2025 profits have, so far, been downgraded by 0.7% (or AUD 1 billion) to AUD 140 billion. This is in line with the average reporting season downgrade. So far, of the major sectors, financials are having the strongest reporting period, while industrial companies have seen the biggest downgrades.

Soft domestic demand and a lack of significant policy support have led to a deterioration in a range of economic indicators in China. Chinese equities and policies continue to weigh on domestic sentiment, given ongoing continuing challenges in the property market and the lack of broader policy support from the Third Plenum. Consequently, the materials and energy sectors are significantly lagging the broader index. Benchmark iron ore prices fell to below USD 90 per tonne in August (before recovering), their lowest level since Q4 2022.

International equities

Position: Overweight Japan; neutral US, Europe, and the UK; underweight emerging markets

Key points

- The MSCI World ex-Australia Index fell 1.2% in August in Australian dollar terms.
- Although the index fell 6% over five days, it recovered rapidly over the following seven days, rising 5%.
- Domestic and European indices were the best major performing markets in August, whilst the NASDAQ was a laggard.

Equities have been volatile in August, with the S&P 500 suffering its largest drawdown (almost 10%) since October 2022. The Volatility Index saw its largest spike since the pandemic and its largest one-day spike in history. It also saw its fastest retracement of a spike of more than 25 points.

There have been four potential catalysts for recent market volatility. Firstly, weak US data (initial jobless claims, consumer confidence, and non-farm payrolls). Secondly, concerns about technology (i.e., valuations and a concern of too much capex spend on AI). Thirdly, a surprise move from the BoJ (and resulting carry trade unwind). Finally, the absence of aggressive stimulus in China following the Third Plenum.

Equity markets no longer appear to be a one-way trade to the upside. Investors now need to analyse the odds of a weaker-than-expected economic slowdown, the timing and magnitude of Fed rate cuts, extended positioning in mega-cap technology stocks (albeit this is unwinding), valuations that are far from cheap, and a pending US election. In H1 2024, the focus for investors was the disinflationary pulse (which allowed central banks to begin their easing cycles) amidst still resilient corporate earnings and margins. In H2 2024, the narrative has switched to growth—both in terms of the type of economic 'landing' we will witness and the magnitude of rate cuts the Fed will likely feel comfortable executing.

S&P 500 earnings growth positively surprised in Q2 2024, posting a 10.5% gain year-on-year relative to expectations of an 8.1% gain on 30 June. Most of this beat is attributable to the Magnificent 7. However, it should not be forgotten that the other 493 companies in the index are now contributing positively to index gains for the first time in six quarters.

Bottom-up consensus for 2025 is now for 15% growth, which appears optimistic in the context of still elevated interest rates (which act with a lag), record margins, and a historical average earnings per share (EPS) growth rate of around half of that.

Japanese equities are attractive after their technical sell-off. The outlook for company fundamentals remains supported by ongoing, bottom-up progress on corporate reforms, a gradual end to deflation, and positive real wages. Japanese stocks should outperform global peers on a relative basis, especially after the rapid reset in investor sentiment.

Asset class outlook

Currencies

Key points

- The US dollar traded at its lowest level since December 2023 as Fed Chair Powell comments hinted towards an interest rate cut in September.
- The Australian dollar moved to back to around USD 0.68. This occurred after investors sold the Australian dollar to lows of around USD 0.63 during market volatility around the yen carry trade at the end of July and early August.

Currency markets were not immune from the impacts of market volatility at the start of August. Volatility rose due to concerns about a potential recession in the US and the significant unwind and impact of the yen carry trade following the BoJ's unexpected rate rise in early August.

From a macro perspective, we have continued to go through various stages of a 'traditional' cyclical slowdown during 2023 and 2024. This has occurred as central banks have hiked rates and are now moving back towards a lower base rate environment as growth and inflation ease.

The US dollar fell against most major currencies in August, as Fed Chair Powell all but announced the start of an interest rate easing cycle would likely start in September. As is the case with other central banks, the timing and magnitude of rate cuts will be data dependent, and will be driven by the outlook and balance of risks for the overall economy.

The Australian dollar has moved from USD 0.65 at the start of August and was trading around USD 0.68 at the end of August. The currency came under pressure early in the month as markets and investors retreated from 'risky' assets. However, it appreciated as the likelihood of interest rate cuts by the RBA were considered to be less likely in 2024. Current levels have moved towards longer-term fair value estimates, though we expect the US elections to spur increased volatility across currency markets in coming months. Our external partners continue to forecast the Australian dollar to end the year in the range of USD 0.68 to USD 0.69.

The euro was broadly flat against the US dollar in August. Early in the month the currency was weaker against the US dollar due to risk-off sentiment and relative growth concerns. However, it regained ground as investors sold the US dollar. We continue to expect the Eurozone to face macro risks on a structural basis, though the near-term outlook is beginning to look more supportive of a modest cyclical recovery, particularly if the US joins the Eurozone in a rate-cutting cycle.

The Japanese yen fell to a low of USD 162 in June / July. However, it has gained around 12% since mid-July, largely driven by the BoJ's unexpected announcement at the end of July of an interest rate hike. Japan's internal inflation and macro dynamics remain tilted towards policy normalisation, with a 'nominal renaissance' in growth to continue over the next 12-18 months.

Commodities

Key points

- A weak Chinese economy continues to weigh on global commodity prices. Gold is currently trading at all-time highs of USD 2,500 per ounce.
- Iron ore prices have continued to fall, trading in a range around USD 100 per tonne (p/t).

Fundamental weakness in the Chinese economy, as evidenced by weak property markets and weak consumption growth, continues to weigh on global commodity prices.

Brent crude oil prices broadly traded sideways in August, due to ongoing tensions in the Middle East, falling demand from China due to the popularity of EVs, and reports of lower supply from OPEC member Libya. Oil traded at USD 77 per barrel (p/b) at end August, after closing around USD 80 p/b at the end of July.

Gold has been trading around record highs of a little over USD 2,500 per ounce, reflecting expectations for lower global interest rates and concern about geo-political risks. Industrial metal prices have also continued to weaken since the highs seen in June and July, with copper and aluminium prices rising 1% and 8% in August respectively. Iron ore also showed weakness, trading in a range around USD 100 p/t.

The evolution of China's economy will continue to play a key role in the near-term outlook for commodities. Although authorities are targeting 5% growth in 2024, UBS notes there is downside risk to this outlook. There was limited additional stimulus from the Third Plenum, and we anticipate that authorities will continue to emphasise targeted and modest support packages over substantial broad-based stimulus. This approach reflects China's multi-year efforts to rebalance its economy towards more sustainable consumer- and services-led growth, while addressing structural issues (including excessive leverage) in its property market.

Recent data suggests the Chinese economy faces significant fundamental weakness, particularly in its consumer and property sectors, where starts, sales, and completion data continue to fall, along with falls in new house prices. Infrastructure spending has also fallen as has industrial output.

The key upside risk for commodities is that economic stresses threaten social stability and force authorities to pursue more aggressive stimulus, which could support a cyclical rebound in commodity prices in the absence of a broader global slowdown. This backdrop will likely lead to ongoing elevated volatility in commodity prices.

Longer-term themes, including climate change and geo-politics, are likely to support the commodity complex on a secular basis. It is difficult to determine how these competing cyclical and secular forces might evolve over the year ahead, and we are particularly cognisant of the risk that a cyclical downturn could outweigh secular tailwinds in the near term.

Asset allocation views

Strategic asset allocation views

Why do we believe in strategic asset allocation?

We believe that the central component of successful long-term performance is a well-constructed strategic asset allocation (SAA). Empirical evidence suggests that a disciplined SAA is responsible for around 80% of overall investment performance over the long term[1]. Diversification plays a critical role within SAA. By diversifying your portfolio among assets that have dissimilar risk and return behaviour, lower overall portfolio risk can be achieved, and your portfolio can be better insulated during major market downswings.

Why do we advocate SAAs to our clients?

We believe that SAAs encourage a disciplined approach to investment decision-making and help to remove emotion from these decisions. A thoughtfully designed SAA provides a long-term policy anchor for clients. Over the long term, we believe clients are best served by identifying the risk they can bear, then adjusting their return expectations accordingly. Return expectations may be anchored unrealistically. However, risk tolerance tends to remain more consistent through different cycles.

Why strategic asset allocation?

Strategic asset allocation is an important part of portfolio construction as it structures your portfolio at the asset class level to match your specific objectives and risk tolerance.

Furthermore, history has shown that a disciplined strategic asset allocation is responsible for around 80% of overall investment performance over the long term.

Strategic asset allocations in models

	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	4	4	4	4
Fixed income	52	34	16	13
Absolute return	11	6	2	2
Government bonds	27	14	7	5
Investment grade credit	11	12	5	4
High yield credit	3	2	2	2
Equities	23	41	59	38
Domestic	10	17	25	11
United States	8	14	20	16
Europe (ex-UK)	2	3	5	4
Japan	1	2	3	2
United Kingdom	1	2	2	2
Emerging markets	1	3	4	3
Alternatives	21	21	21	45
Private markets	8	10	11	20
Real assets	7.5	7	6.5	14
Hedge funds and diversifiers	5.5	4	3.5	11
Target foreign currency exposure	15	25	35	30
Indicative range for foreign currency	10–20	20–30	30–40	25–35

Source: LGT Crestone Wealth Management. Investment grade credit includes Australian listed hybrid securities.

[1] Ibbotson, Roger G., and Paul D. Kaplan. 2000. '*Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?*' Financial Analysts Journal, vol. 56, no. 1 (January/February).

Active portfolio weights and tactical asset allocation views

Our current tactical asset allocation views

We expect growth and inflation to continue to slow in most developed economies this year. A European rate-cutting cycle is already in play and the US should follow suit in September.

We do not see a deep global recession on the horizon, with healthy consumers, positive secular investment pressures, and a global easing cycle now underway. Australia continues to be challenged by stubborn inflation and stagnant growth. Overall, the outlook continues to favour fixed income, albeit we have recently taken the opportunity to shift our positioning to be more cautious. We remain broadly constructive on equities (with a small overweight) but have recently moved underweight emerging markets and overweight Japan. We continue to maintain a nimble stance in the face of evolving macro and political risks.

Why tactical asset allocation?

Tactical asset allocations have a six- to 12-month investment horizon and are reviewed monthly. They can be considered an interim strategy where the aim is to provide a smoother investment journey without altering the end goal.

Cash

Our cash position is -3, reflecting our view that that rates have likely peaked, favouring fixed income and equities over cash.

Fixed income

At an asset class level, fixed income remains our highest conviction position at +2. Within this, we favour investment grade credit to take advantage of attractive yields and supportive economic conditions. We recently neutralised our high yield position to close our global government bond underweight, and we remain overweight Australian government bonds. We believe markets are under-pricing the potential for RBA cuts over the coming year, even if it chooses to hold rates steady near term.

Alternatives

We favour infrastructure, private debt, hedge funds and diversifying strategies. We are becoming more constructive on real estate globally, and anticipate that the next three to six months should present an attractive long-term entry point for those looking past short-term volatility.

Equities

We are modestly overweight equities, reflecting the more supportive macro backdrop that we expect as rates peak. We remain overweight domestic equities but have moved underweight emerging markets due to challenging macro and political risks. We have moved overweight Japan on structural and cyclical tailwinds.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	-3	1	1	1	1
Fixed income	2	54	36	18	15
Absolute return	0	11	6	2	2
Australian government bonds	1	14.5	8	4.5	3.5
Global government bonds	0	13.5	7	3.5	2.5
Investment grade credit	1	12	13	6	5
High yield credit	0	3	2	2	2
Equities	1	24	42	60	39
Domestic	1	11	18	26	12
United States	0	8	14	20	16
Europe (ex-UK)	0	2	3	5	4
Japan	1	2	3	4	3
United Kingdom	0	1	2	2	2
Emerging markets	-1	0	2	3	2
Alternatives	–	21	21	21	45
FX exposure	1	16	26	36	31

Decreased weight this month   Increased weight this month

Source: LGT Crestone Wealth Management. Investment grade credit includes Australian listed hybrid securities.

Our view on fixed income

Australian government bonds

We are overweight Australian government bonds. Domestic bond yields have been underperforming the US as sticky inflation and labour data delay the RBA from easing. We view any weakness in domestic government bonds as a buying opportunity, as it is likely that the RBA will need to ease at some stage in the period ahead, in line with global rates.

Global government bonds

We are neutral global government bonds. Bond yields are largely priced for further cuts from the ECB, BoE and Bank of Canada. However, we see value at the front end of the US curve as it steadily steepens, reflecting the initial rate cuts from the Fed. The mid-curve is also expected to perform across a number of global markets.

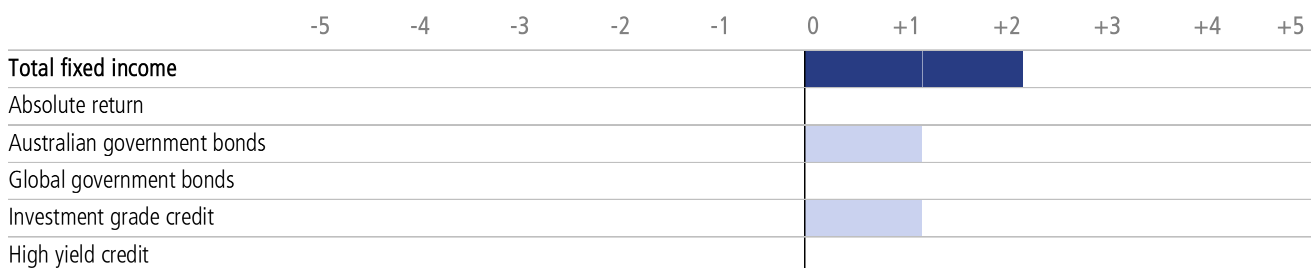
Investment grade credit

We are overweight investment grade credit. While all-in yields are at historically elevated levels, we believe investors should continue to deploy into investment grade credit both in fixed and floating rate formats. Credit fundamentals remain solid, and we expect limited credit quality deterioration.

High yield credit

We are neutral high yield credit. Spreads are near historically low levels, brought down by demand from yield hungry investors and the improvement in the average credit rating, which is currently BB. However, the sector is susceptible to adverse economic outcomes and default rates are beginning to climb, albeit from a low base. We prefer investment grade credit over high yield.

Active fixed income weights (%)—We are overweight fixed income



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	64.30	65.98
Australian 3-year yield	3.55%	3.92%
Australian 10-year yield	3.97%	4.24%
Australian 3/10-year spread	40.5 bp	30.2 bp
Australian/US 10-year spread	0.1 bp	0.1 bp
US 10-year Bond	3.90%	4.15%
German 10-year Bund	2.30%	2.34%
UK 10-year Gilt	4.02%	4.04%
Markit CDX North America Investment-Grade Index	49.3 bp	52.5 bp
Markit iTraxx Europe Main Index	52.55	55.66
Markit iTraxx Europe Crossover Index	288.48	298.83
SPX Volatility Index (VIX)	15.00	17.69

Source: LGT Crestone Wealth Management, Bloomberg as of 31 August 2024. Active fixed income weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on equities

Domestic

We are overweight domestic equities, which have been closing in on their all-time highs—although this has been led by a valuation re-rate, more than earnings. The market is pricing four rate cuts over the next 12 months, a marked shift from mid-July, when the market was pricing just one rate cut.

US

We are neutral US equities, where the risk of a US recession has risen, as labour markets exhibit some fraying at the edges. This poses some risk for H2 2024 earnings. However, there are expectations of a more aggressive monetary policy response from the Fed. As such, we expect an ongoing battle between shorter-term growth concerns, relative to the traditional 'don't fight the Fed' playbook.

Europe (ex-UK)

We are neutral European (ex-UK) equities. US election risks (i.e. tariffs), weak China domestic consumption (versus strong exports), as well as weaker data from Germany, are headwinds for European equities. Sell-side analysts are lowering H2 2024 earnings expectations for European corporates, as recent results have failed to demonstrate a broadening in top-line recovery, while margin pressure remains a risk.

United Kingdom

We are neutral UK equities. The UK has traditionally been a low beta, defensive market, which performs well on a relative basis during downturns. If global equities see a pullback later this year, the UK could be a relative winner. The UK has de-rated strongly since the 2016 Brexit vote. On a forward price/earnings (P/E) basis, it is now trading near its lowest level for the past three decades versus global peers.

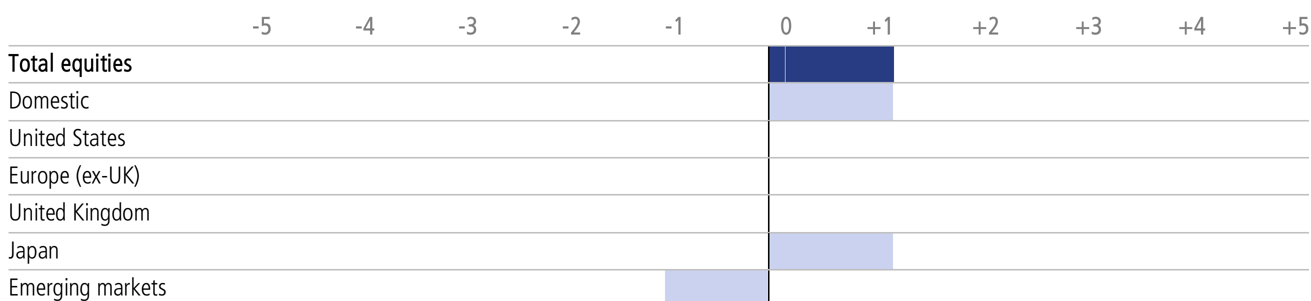
Japan

We are overweight Japan equities, which are now trading at a discount (14x) to their 10-year average (14.5x), and to developed market equities (S&P 500 at 21.5x and MSCI Developed Markets at 19x). They are only slightly more expensive than the MSCI Emerging Markets Index (12x). As market volatility and carry trade fears subside, we expect global investors to seek out cheaper Japanese equities.

Emerging market equities

We are underweight emerging market equities, which have underperformed the US and Eurozone in US dollar terms for the past 15 years. According to BCA Research, this reflects an inability of emerging market companies to grow EPS. Since 2010, US EPS have grown nearly 200% in US dollar terms, while emerging markets EPS have remained flat.

Active equity weights (%)—We are modestly overweight equities



Equity market summary

Region	Index	Latest price	Consensus 1 yr Target	Consensus 1 yr Upside	Next year P/E [1]	Next year D/Y [2]
Australia	S&P ASX 200	8,091.9	8,102.1	0.1%	19.2	3.6%
New Zealand	S&P NZ 50	12,447.7	13,166.7	5.8%	31.0	3.0%
United States	S&P 500	5,648.4	6,214.7	10.0%	20.5	1.4%
Europe	Euro Stoxx	511.4	586.5	14.7%	12.6	3.4%
United Kingdom	FTSE 100	8,376.6	9,464.1	13.0%	11.8	3.8%
China	CSI 300	2,842.2	3,395.2	19.5%	10.1	3.5%
Japan	Nikkei 225	38,647.8	44,235.7	14.5%	19.0	1.8%
India	Sensex	82,365.8	88,294.5	7.2%	23.4	1.4%

Source: Bloomberg. Data as of 31 August 2024; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield. Active equity weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on alternatives

Hedge funds and diversifiers

Higher rates and greater asset price dispersion are supporting the case for hedge funds. Macro and structural market forces should further increase the divide between winners and losers in coming years, creating a more expansive set of long and short opportunities for unconstrained investment vehicles, like hedge funds. Against this backdrop, hedge funds are well positioned to capitalise on a greater magnitude of market dispersion, given their natural role as both liquidity providers and opportunistic investors. Low-beta, multi-strategy exposures are preferred within core hedge funds, while we have also introduced alternative diversifying strategies into portfolios through royalties, insurance and litigation, due to higher equity/bond correlations.

Private markets

Private equity remains core, with venture secondaries particularly attractive. Deal and exit activity remains muted, albeit green shoots are emerging. This should support valuations, given underlying company fundamentals appear strong. In light of this, we recommend maintaining exposures to private equity and venture capital and building positions where underweight. We prefer new primary and secondary fund commitment structures, with venture secondaries presenting attractive opportunities, given ongoing persistent dislocations and heightened discounts relative to buy-out equivalents. However, investors should maintain discipline and partner with fund managers that have sufficient data and qualitative insights to source and assess high quality opportunities.

Private debt is preferred, albeit competition is increasing. Higher base rates and increased spreads on private debt offshore mean that risk-adjusted returns continue to be attractive relative to other asset classes. However, public markets have re-opened, which has increased competition, and spreads are beginning to tighten, whilst the anticipated trajectory of interest rates will reduce absolute returns longer term. Direct, sponsor-backed transactions versus broadly syndicated strategies are preferred, as loan terms can be negotiated directly, but we are also looking at private, asset-backed finance. As well as being a good diversifier, this has the potential to be a much larger, yet less competed market. We are cautious on construction and land-focussed real estate lending.

Real assets

We are becoming more constructive on global real estate. Valuer sentiment in Australia has shifted, which has resulted in meaningful downgrades in valuations. This is more in line with what has been experienced globally across sectors. While there may still be further to move, particularly in lower quality assets, we anticipate that the next three to six months should present an attractive long-term entry point for those looking past the noise, particularly when you consider replacement costs have risen materially, which limits future supply. While we do expect interest rates to moderate globally from here, which will support valuations, investors should focus on buying well into high quality assets without making heroic assumptions on the path of prospective interest rate moves or value-add initiatives. Trying to pick the bottom of any market remains challenging. But taking a long-term view, core-plus property equity is looking more attractive. We prefer global relative to local markets at this juncture.

Infrastructure is the most preferred sub-asset class within alternatives. Infrastructure continues to perform strongly, given its more defensively positioned assets with often long-term, inflation-linked contracts. Infrastructure also plays to long-term, multi-decade structural growth themes, most notably decarbonisation and digitisation, where we are happy to take on a little more risk through value-add exposures. Private clients remain underinvested in unlisted infrastructure relative to Australia's institutional community, and growing exposures should aid long-term portfolio outcomes on both return-enhancing and risk-reduction measures.

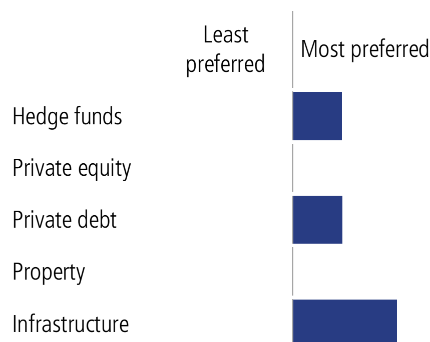
We favour infrastructure, private debt, hedge fund and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

What we like

- Multi-strategy hedge funds and other diversifying strategies.
- Global venture capital secondaries.
- Senior private debt, including corporate and asset-based finance.
- Global infrastructure across the risk spectrum, particularly playing to long-term structural themes.

What we don't like

- Long-bias equity hedge fund strategies.
- Construction and/or junior lending within real estate.
- Carbon-intensive assets and industries with no transition plan.



Direct equity

Recommendations: Domestic equities—Best sector ideas

Objective of this list

The objective is to identify the best business models or best in breed by GIC's Industry Group for longer-term investors. While we also overlay valuation, companies are included based on anticipated three to five-year performance. When analysing companies to add to the list, some metrics we consider are:

- **Profitability measures**—Return on net operating assets, return on invested capital, free cashflow and return on equity.
- **Liquidity and leverage**—Net debt to equity, Altman Z-score, net debt to earnings before interest, tax, depreciation, and amortisation (EBITDA).
- **Efficiency**—Capital expenditure to sales.
- **Valuation**—Price/earnings ratio, price/book ratio, enterprise value to sales and EBITDA, private equity screens.

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Com. Services	$219.00	$203.45	52.7	1.1%	43%	32%	19%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$54.71	$53.99	22.9	1.4%	25%	22%	8%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.99	$5.37	28.7	3.4%	23%	113%	7%	AA
MTS	Metcash Ltd	Cons. Staples	$3.58	$4.17	12.8	5.5%	19%	19%	5%	AAA
ALD	Ampol Ltd	Energy	$28.93	$34.67	14.6	4.8%	14%	14%	19%	AA
BPT	Beach Energy Ltd	Energy	$1.25	$1.52	7.4	4.8%	15%	11%	37%	AAA
MQG	Macquarie Group Ltd	Financials	$215.65	$203.96	20.0	3.3%	na	12%	12%	AA
SUN	Suncorp Group Ltd	Financials	$17.67	$18.14	17.8	4.5%	6%	11%	12%	AAA
RMD	ResMed Inc	Health Care	$35.72	$36.74	26.5	0.6%	29%	25%	10%	A
CSL	CSL Ltd	Health Care	$307.16	$326.35	31.0	1.0%	14%	18%	17%	AA
MND	Monadelphous Group	Industrials	$12.88	$14.02	17.9	5.0%	18%	15%	8%	AAA
BXB	Brambles Ltd	Industrials	$18.23	$18.51	19.9	2.1%	22%	28%	11%	AAA
ALU	Altium Ltd	Info. Tech	$68.33	$68.50	78.4	0.7%	35%	26%	29%	AA
XRO	Xero Ltd	Info. Tech.	$142.84	$155.92	81.0	0.0%	13%	17%	34%	AA
IGO	IGO Ltd	Materials	$5.55	$6.55	9.5	3.9%	5%	13%	-62%	AAA
JHX	James Hardie Industries	Materials	$55.08	$53.57	24.8	0.0%	40%	30%	19%	AA
GMG	Goodman Group	Real Estate	$33.40	$35.33	27.8	0.9%	12%	12%	13%	AA
APA	APA Group	Utilities	$7.59	$8.51	46.00	7.5%	6%	8%	32%	AAA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 August 2024. ESG is environmental, social, and corporate governance.

Trade opportunities

Please note the following opportunities may not fully satisfy metrics for the above table.

Metcash (MTS)—Buy. MTS is cheap on both an absolute basis and relative to Woolworths and Coles. Earnings have been impacted by slowing housing activity, with hardware comprising 19% of revenue, but close to 40% of EBIT. This cyclicality is an opportunity to gain exposure at a 13x multiple (compared to its 15x average over the past five years), where it is close to trough earnings and positioned for a rerate.

James Hardie (JHX)—Buy. Despite US housing cyclicality weighing on short-term profits, James Hardie has been reiterating financial year 2025 guidance, suggesting it is gaining market share in a falling volume environment, while higher costs and investments are indicative of a positive long-term outlook. When US housing turns, it is positioned to capitalise. Consensus still embeds 15–20% EPS growth over financial years 2026 and 2027.

Ampol Ltd (ALD) —Buy. ALD trades at an attractive 12x P/E and an 8-9% dividend yield. Balance sheet strength, diversification, and the FSSP (which underpins a minimum refining margin) mean refining margins need to fall to less than USD 5 per barrel (from USD 8-10 per barrel) for the dividend yield to fall below 6%.

Recommendations: Domestic equities—Sustainable income

Objective of this list

This objective is to generate 'sustainable income' over time. Historically, companies that grow their dividends consistently can offer superior long-term performance. While we also overlay valuation, companies are included based on anticipated three to five-year performance. When analysing companies to add to this list, some metrics we consider are:

- **Profitability measures—**Return on assets, cashflow, return on invested capital and return on equity.
- **Liquidity and leverage**—Net debt to equity.
- **Efficiency**—Change in revenue, EBITDA, and margins.
- **Management signalling**—Dividend growth and pay-out ratios.

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Div. yield	1yr DPS growth	MSCI ESG rating
SUN	Suncorp Group Ltd	Financials	$17.67	$18.14	15.8	1.6	100%	4.5%	0.0%	AAA
MQG	Macquarie Group Ltd	Financials	$215.65	$203.96	17.8	2.4	40%	3.3%	9.1%	AA
WBC	Westpac Banking Corp	Financials	$31.24	$26.16	16.1	1.5	100%	5.5%	-8.0%	A
QBE	QBE Insurance Group Ltd	Financials	$15.79	$18.74	9.3	1.6	20%	4.3%	12.0%	AAA
COL	Coles Group Ltd	Cons. Staples	$18.79	$19.01	19.5	6.9	100%	3.7%	14.8%	AA
MTS	Metcash Ltd	Cons. Staples	$3.58	$4.17	12.2	2.6	100%	5.5%	4.5%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc	$4.99	$5.37	26.7	30.6	100%	3.4%	7.7%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc	$0.44	$0.58	15.0	0.8	0%	3.2%	21.4%	AA
TLS	Telstra Group Ltd	Com. Services	$3.93	$4.27	18.5	3.0	100%	4.8%	5.9%	AA
NEC	Nine Entertainment Co.	Com. Services	$1.33	$1.77	11.0	1.3	0%	5.8%	11.7%	AA
RMD	ResMed Inc	Health Care	$35.72	$36.74	24.1	7.4	100%	0.6%	2.7%	A
PME	Pro Medicus Ltd	Health Care	$150.70	$133.28	114.8	83.8	100%	0.3%	29.4%	BBB
REP	RAM Essential Services	Real Estate	$0.68	$0.74	13.1	1.6	0%	7.5%	2.0%	-
MGR	Mirvac Group	Real Estate	$2.04	$2.16	16.3	0.9	0%	4.4%	11.1%	AA
IRE	IRESS Ltd	IT	$9.68	$10.56	24.3	6.1	0%	1.2%	136.3%	AA
DBI	Dalrymple Bay Infra	Industrials	$3.10	$3.18	16.5	1.4	67%	7.1%	4.5%	-
ALX	Atlas Arteria Ltd	Industrials	$5.10	$5.37	14.1	1.2	0%	8.0%	0.2%	AA
APA	APA Group	Utilities	$7.59	$8.51	35.0	3.0	0%	7.5%	1.9%	AAA
ALD	Ampol Ltd	Energy	$28.93	$34.67	12.3	2.1	100%	4.8%	27.9%	AA
BPT	Beach Energy Ltd	Energy	$1.25	$1.52	5.4	0.9	100%	4.8%	81.7%	AAA
BHP	BHP Group Ltd	Materials	$40.77	$45.72	11.3	3.1	100%	3.5%	-5.3%	A
AMC	Amcor PLC	Materials	$16.69	$16.08	14.5	4.2	0%	3.1%	1.2%	A

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 August 2024. ESG is environmental, social, and corporate governance.

Trade opportunities

Please note the following opportunities may not fully satisfy metrics for the above table.

Mirvac Group (MGR)—Buy. MGR trades at a 0.8x book value with various factors likely to crystallise this discount. These include office valuations finding a bottom, successful divestments reducing earnings uncertainty, capital partnerships unlocking a development pipeline, and an eventual tailwind from interest rate cuts. MGR pays a 5.1% fully franked dividend with its price protected by a buffer to net tangible assets.

APA Group (APA) —Buy. APA trades at a 3.1% spread to the 10-year bond yield, which is above its historical average. An upcoming regulatory decision relating to its east coast gas network could remove a key overhang on the stock. There are major structural tailwinds in decarbonising and electrifying the Pilbara.

Atlas Arteria (ALX)—Buy. ALX is forecast to distribute 7.6% in dividends in the coming 12 months. A new concession tax, which is being imposed on traffic networks, is fully priced, yet there is a chance that it will be overruled by the French constitutional court. Even if the tax is upheld, Atlas may seek compensation, which would be an upside to its current price.

Recommendations:
International equities—Best sector ideas

Objective of this list

The objective is to provide a list of large-cap international companies across sectors with sustainable business models that generate compounding returns on investment and capital over the longer term. While we also overlay valuation, companies are included based on anticipated three to five-year performance. When analysing companies to add to the list, some metrics we consider are:

- **Profitability measures**—Return on net operating assets, return on invested capital, free cashflow and return on equity.
- **Liquidity and leverage**—Net debt to equity, Altman Z-score, net debt to EBITDA.
- **Efficiency**—Capital expenditure to sales.
- **Valuation**—Price/earnings ratio, price/book ratio, enterprise value to sales and EBITDA, private equity screens.

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
GOOGL US	Alphabet Inc	Com. Services	USD	163.38	206.65	18.5	0.4	2,021,619	BBB
UMG NA	Universal Music Group	Com. Services	EUR	23.63	27.78	23.2	2.5	47,755	AA
DIS US	Walt Disney Co/The	Com. Services	USD	90.38	110.44	17.5	1.1	163,912	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	81.45	105.07	8.6	0.8	201,110	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	83.32	90.62	23.3	2.0	124,927	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	94.57	96.97	23.9	2.6	107,167	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	117.31	128.30	23.8	0.0	75,269	BB
RACE IM	Ferrari NV	Consumer Disc.	EUR	447.20	405.43	50.7	0.7	89,630	BB
EL US	Estee Lauder Cos Inc/The	Consumer Staples	USD	91.66	115.56	23.2	3.3	32,880	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	892.38	898.66	50.4	0.5	395,623	A
288 HK	WH Group Ltd	Consumer Staples	HKD	5.68	7.42	7.0	0.8	9,345	–
SHEL LN	Shell PLC	Energy	GBP	2681.00	3262.05	7.6	0.1	220,348	AA
LSEG LN	London Stock Exchange	Financials	GBP	10250.00	10889.57	25.8	1.4	71,479	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	58.50	62.00	8.0	5.6	47,500	AA
WFC US	Wells Fargo & Co	Financials	USD	58.47	64.37	10.6	2.9	199,018	BB
2318 HK	Ping An Insurance Group	Financials	HKD	37.40	52.80	4.8	6.9	102,538	A
939 HK	China Construction Bank	Financials	HKD	5.52	6.66	3.7	7.4	180,367	AA
MA US	Mastercard Inc	Financials	USD	483.34	519.95	29.1	0.6	446,548	AA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	938.10	979.61	32.3	1.6	620,416	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	492.63	484.21	64.8	0.0	175,058	A
EXPN LN	Experian PLC	Industrials	GBP	3684.00	3974.07	27.5	0.0	44,455	A
DSV DC	DSV A/S	Industrials	DKK	1205.00	1450.65	19.3	0.6	38,196	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	944.00	1213.96	17.7	1.8	766,071	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	812.00	1067.14	27.2	1.0	358,466	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	417.14	501.65	27.2	0.8	3,100,618	AA
ACN US	Accenture PLC	Information Tech.	USD	341.95	341.00	26.7	1.6	214,432	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	369.37	367.12	28.7	0.9	93,176	A
EQIX US	Equinix Inc	Real Estate	USD	834.36	910.33	63.1	2.2	79,218	AA
ORSTED DC	Orsted AS	Utilities	DKK	390.60	450.29	13.8	3.8	24,321	AAA
JNJ US	Johnson & Johnson	Health Care	USD	165.86	170.91	15.5	3.0	399,265	A
		Average Yield:					1.9%		

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 August 2024. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—The intersection of AI and decarbonisation

Objective of this list

Thematic investing is an approach which focuses on predicting long-term trends rather than specific companies or sectors. As it is also often associated with secular forces, this means it can provide investors with exposure to themes that are expected to grow at rates above economic growth over the longer term. Thematic investing is best suited to longer-term investors and those looking for opportunities beyond the comparatively smaller investment universe that exists in Australia. Some key themes that investors are exploring include:

- Climate change.
- Cryptocurrency and blockchain.
- Demographics.
- Electric vehicles.
- Healthcare and genomics.
- Energy transition.
- Artificial Intelligence.
- Security and safety.
- Supply chain disruption.
- Sustainable investing.

The intersection of AI and decarbonisation—Select exposures

Energy demand is being underpinned by two major crosscurrents simultaneously—the world's transition commitment, and the nascent, yet burgeoning, demand for AI and its significant energy requirements. There exist opportunities across multiple industries, capital structures, and asset classes, making it a rich environment for alpha generation.

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
GOOGL US	Alphabet Inc	Comm. Services	USD	$163.38	206.65	18.5	0.4	2,021,619	BBB
AMZN US	Amazon.com Inc	Cons. Disc.	USD	$178.50	218.31	26.7	0.0	1,873,459	BBB
TSLA US	Tesla Inc	Cons. Disc.	USD	$214.11	214.91	67.6	0.0	684,004	BBB
NXE US	NexGen Energy Ltd	Energy	USD	$6.03	9.51	na	na	3,405	A
CCJ US	Cameco Corp	Energy	USD	$40.84	56.18	30.6	0.3	17,773	AA
SHEL LN	Shell PLC	Energy	GBP	$2,681.00	3,262.05	7.6	0.1	220,348	AA
BPT AU	Beach Energy Ltd	Energy	AUD	$1.25	1.52	5.4	8.7	1,929	AA
STO AU	Santos Ltd	Energy	AUD	$7.22	8.43	11.1	3.0	15,863	AA
SU FP	Schneider Electric SE	Industrials	EUR	$230	231	24.4	1.8	146,078	AAA
VWS DC	Vestas Wind Systems	Industrials	DKK	$154.90	210.23	17.9	0.2	23,170	AAA
GEV US	GE Vernova Inc	Industrials	USD	$201.00	195.04	32.6	0.0	55,235	A
NVDA US	NVIDIA Corp	IT	USD	$119.37	148.18	30.0	0.1	2,928,146	AAA
MSFT US	Microsoft Corp	IT	USD	$417.14	501.65	27.2	0.8	3,100,618	AA
2330 TT	Taiwan Semiconductors	IT	TWD	$944.00	1,213.96	17.7	1.8	766,071	AAA
ASML NA	ASML Holding NV	IT	EUR	$812.00	1,067.14	27.2	1.0	358,466	AAA
NXT AU	NEXTDC Ltd	IT	AUD	$16.95	19.81	na	0.0	6,897	AA
IFX GY	Infineon Technologies	IT	EUR	$33.00	42.57	15.5	1.2	47,612	AAA
ON US	ON Semiconductor Corp	IT	USD	$77.87	87.08	16.2	0.0	33,356	A
FCX US	Freeport-McMoRan Inc	Materials	USD	$44.28	55.24	20.4	1.7	63,624	BBB
GMG AU	Goodman Group	Real Estate	AUD	$33.40	35.33	24.5	0.9	43,199	AA
NEE US	NextEra Energy Inc	Utilities	USD	$80.51	83.38	21.9	2.8	165,448	AA
CEG US	Constellation Energy	Utilities	USD	$196.70	225.43	22.1	0.8	61,984	BBB
ORSTED DC	Orsted AS	Utilities	DKK	$390.60	450.29	13.8	3.8	24,321	AAA

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 31 August 2024. ESG is environmental, social, and corporate governance.

Important information

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