Staying the course through H2 2024
...as key debates come to a head

Core Offerings

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

August 2024

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AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER

Scott Haslem
Chief Investment Officer

In this month's *Core Offerings*, we briefly assess how H1 2024 has evolved relative to our expectations. It's fair to say, despite challenging periods of sticky inflation and resilient growth, we arrived as planned at a mid-year rate-cutting cycle, though the sequence of the protagonists clearly changed. As we now set a course for H2, we have made some modest changes to a largely unaltered (and constructive) tactical position. After adding risk in early June—moving modestly overweight equities (though still with a preference for fixed income)—weakening US growth sees us take a more cautious tilt within fixed income, while moving overweight Japan relative to emerging markets to hedge political risks.

This month we also flag six key debates we believe investors need to be across as they traverse the back half of this year. More importantly, many of them are likely to 'come to a head' over coming months and may challenge our desire to tactically rotate from fixed income to equities, as interest rates are reduced and economies soft land. These include a mistake by central banks, reaccelerating inflation, political volatility, or recession risks.

"Our performance does not come from what we buy or sell. It comes from what we hold"

Howard Marks

It's been a good H1, despite the noise…

In one sense, and mostly through a macro lens, the first half of 2024 has not veered materially from expectations. There were moments when inflation reaccelerated, and at times growth appeared unwilling to slow in the face of at least moderately tight policy. Yet, on the whole, global growth has ebbed weaker (without collapsing), jobs markets have softened, and inflation has continued to grind lower, somewhat arduously, toward central bank targets. And as we highlighted in June's *Core Offerings*, the 'easing cycle *has* come into view', with the European and Canadian central banks, among others, starting to trim rates. Forecasters are expecting the UK to join them this month or soon after.

It's fair to say, despite challenging periods of sticky inflation and resilient growth, we arrived as planned at a mid-year rate-cutting cycle. However, the sequence of the protagonists clearly changed…

For markets, this has not paralleled perfectly into our expectations around how asset classes have performed, albeit portfolios with a growth tilt should have delivered a strong 5-6% return uplift for H1 2024 (an annualised double-digit pace). Maintaining a constructive (underweight cash) position has been key to performance.

- **For equities**, without doubt, our early-year adjustment to a more constructive view has paid off (having closed our US underweight and moved 'neutral' in February). Global equities rose 13% in H1, led by the US and the mega-cap stocks, while Europe rebounded 10% and Australia lagged at just 4%. Being overweight equities would have paid greater dividends, albeit this would have been a more challenging position, as inflationary risks could have confronted markets more fully during H1 than they did.
- **For fixed income**, our overweight has significantly benefited from our tilt toward credit relative to government bonds (both investment grade and high yield), as well as absolute return opportunities. Concerns about fiscal largesse in the US, regardless of which party takes power in November, as well as periodic bouts of inflation during H1 (notably in Australia) have led to only tepid returns in sovereign bonds so far.

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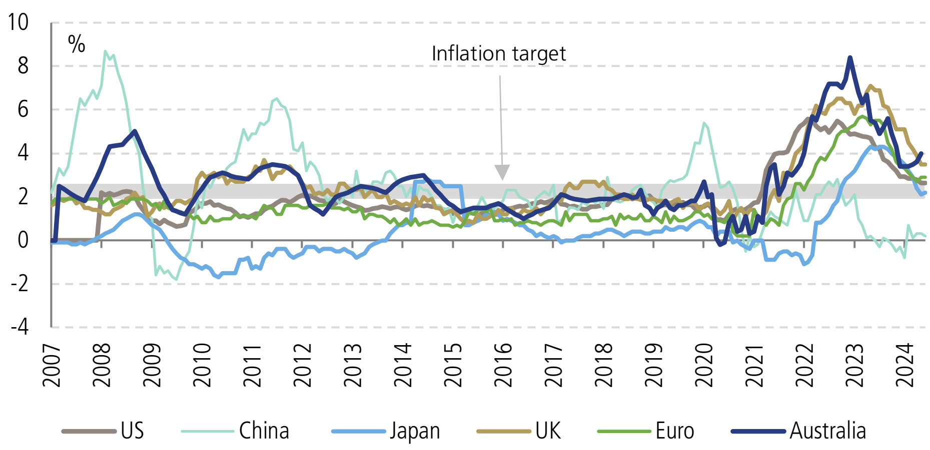
Renewed confidence in easing inflation is key to a (modestly) lower rates outlook



Source: LGT Crestone, Macrobond, Core inflation measures (except China and Australia).

"The breadth of global growth is improving from cycle lows, with encouraging signs from the PMI data. 80% of countries globally are seeing their composite growth proxy in expansion."

Société Générale
July 2024

Moderate topline 'world' growth masks the divergence between ongoing resilience in US and Asia and recent recessions in the UK and Europe (as well as weak growth in Japan)…

…This divergence is also playing out in policy responses. Easing now appears far more heterogenous, with a key differentiator being each country's relative progress toward its inflation target.

A focus on quality and tactical opportunism may prove more rewarding than relying solely on traditional asset class positioning. This might look like capturing higher fixed rate yields before rates fall, favouring small and mid-cap equities, where valuations are less stretched. Within alternatives, beyond private debt, the time to revisit commercial real estate may be emerging.

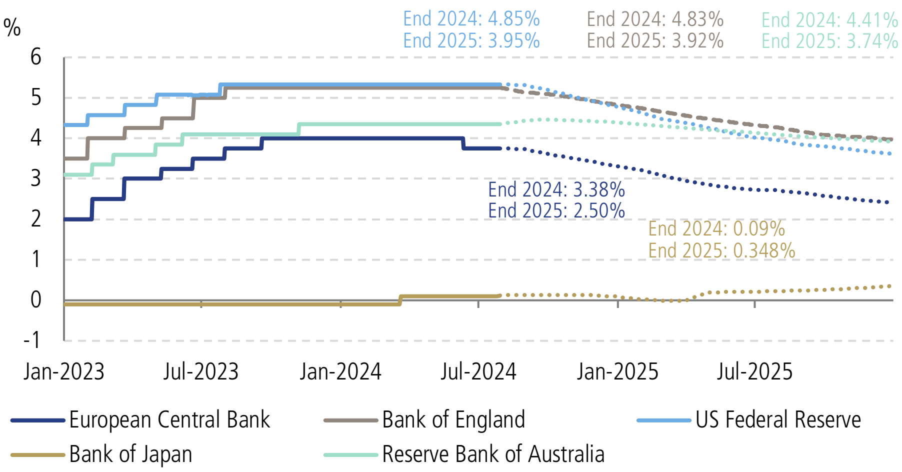
Setting course for H2…continuing to lean into risk as central banks trim

As the second half of this year gets underway, we believe our central thesis remains 'on track' – we're in a new phase of slower growth, moderating inflation, and a modest rate cutting cycle for at least the next six to 12 months. There have been twists and turns along the way, and there will likely be more ahead. But the fact that our outlook remains largely unchanged for now doesn't make it wrong. Nor are we unaware to those potential risks and developments that could set us on a different path, such as renewed inflation risks, political volatility, or rising recession risks, which we discuss (among other risks) below.

But for now, data continue to broadly support expectations for a relatively mild global growth slowdown during 2024. Outside the US, many major economies have gone through various stages of a 'traditional' cyclical slowdown during 2023 and early 2024, sparked by tight monetary policy. Assuming central banks provide some modest (and for some, additional) policy relief by end 2024, this 'softish' landing for the world economy should give way to a patchy recovery through 2025. Indeed, as Société Générale (SG) notes, "the breadth of global growth is improving, with encouraging signs from the PMI data. 80% of countries globally are seeing their composite growth proxy in expansion".

After seemingly reaccelerating through early 2024, inflation has reclaimed its downward glidepath. Indeed, markets are now increasingly emboldened by renewed price disinflation in the US, with markets now fully anticipating a September rate cut. Still, the divergence in growth cycles (particularly US and Asia's resilience versus recent recessions in Europe and the UK) is also playing out in policy timings. Policy easing now appears likely to be far more heterogenous, with a key differentiator being each country's relative progress toward its inflation target. Progress, particularly for countries like Australia, which faces 'stickier' prices, will remain key to the pace and timing of any normalisation in rates. The US, initially seen as among the first to ease in 2024, now is sequenced behind others with lower inflation.

Central banks: Modest rate cuts remain on track; we continue to lean into risk



Source: LGT Crestone, Macrobond. Dotted lines represent futures prices.

Our six-to-twelve month tactical positioning also continues to be influenced by a number of our ongoing key themes, including:

- **Our recently updated secular outlook:** As discussed in the June edition of *Core Offerings: Navigating risk in a changing world, …as the easing cycle comes into view*, we believe the imperative for nations to compete geo-politically, address societal inequities, and fund the energy transition will underpin a higher resting rate for growth, inflation, and rates going forward. This likely fosters more volatility and dispersion. Reflecting this, our strategic positioning embodies, among other things, higher allocations to cash and alternatives, and a renewed strategic equity allocation to Japan.
- **The need to be tactical within (not just across) asset classes:** As we wrote in our 2024 outlook, as the turning point to our new phase of slower growth and lower inflation unfolds, we expect market disruption and volatility to persist. This suggests that a focus on quality and tactical opportunism will prove more rewarding than relying solely on traditional asset class positioning. Within fixed income, this might look like capturing higher fixed rate yields before rates fall. In equities, we favour small and mid-cap exposures where valuations are less stretched. Within alternatives, beyond private debt, the time to revisit commercial real estate may be emerging.

Our latest TAAs: More cautious on fixed income and prudently hedging political risks

Our tactical positioning has recently benefited from our decision to add risk from 1 June this year, reflecting our improved confidence that both lower inflation and modestly lower interest rates were imminent. We continue to favour staying underweight cash (-3%), with a preference for fixed income (+2%) relative to a modest overweight (+1%) in equities.

We have made a number of tactical changes at the sub-asset class level. These better reflect recent political developments, progress on inflation, as well as clearer signs that a moderate slowdown in US growth is underway.

Looking beyond the short term, given our secular (medium-term) bias toward higher growth and higher inflation (which are imbued with political volatility and populism that fosters limited fiscal restraint) we recognise that as central banks trim rates over the next six months or so (and markets better price endpoints to the cycle), our preference for fixed income will likely wane in favour of adding further equity risk. This will, of course, also depend on risks of renewed inflation or a harder economic landing remaining at bay.

For now, this month, we have made a number of tactical changes at the sub-asset class level. These better reflect recent political developments, progress on inflation, as well as clearer signs that a moderate slowdown in US growth is underway. These changes, summarised here, are covered in more detail in the succeeding pages.

- We move **underweight emerging market equities:** Notwithstanding differing market views around the emerging value in China's equity market, we believe the rising risks of increased trade barriers, together with limited post-plenum stimulus, suggest China and emerging market equities are vulnerable to underperforming in the run-up to the US presidential election in early November and the period following (most of 2025).
- We move **overweight Japan equities:** In order to broadly maintain our modest overweight to equities, we initiate an overweight to Japan equities. While a stronger currency may ultimately prove a headwind for some parts of the market, we believe improving domestic demand trends, together with ongoing improvement in corporate governance, will underpin outperformance relative to other global markets.
- We **trim high-yield credit** in favour of global bonds: Signs of a softening US jobs market have modestly raised the risk of a harder US economic landing, leading us to favour investment grade credit over high-yield (to mitigate this risk). Moreover, while fiscal concerns may limit the extent global bonds can rally, the proximity of likely rate cuts in the US and elsewhere warrant closing our modest global bond underweight.
- We **modestly lift our foreign currency exposure:** There is now a higher probability that former President Trump will win the November election. Heightened risk of trade wars afresh and new tensions with China and Europe (among others) is likely to be US dollar positive near term. Greater foreign currency exposure may also benefit, should an extremely under-valued Japanese yen rally on an improving economy, as we expect.

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Six key debates to focus on as H2 2024 gets underway

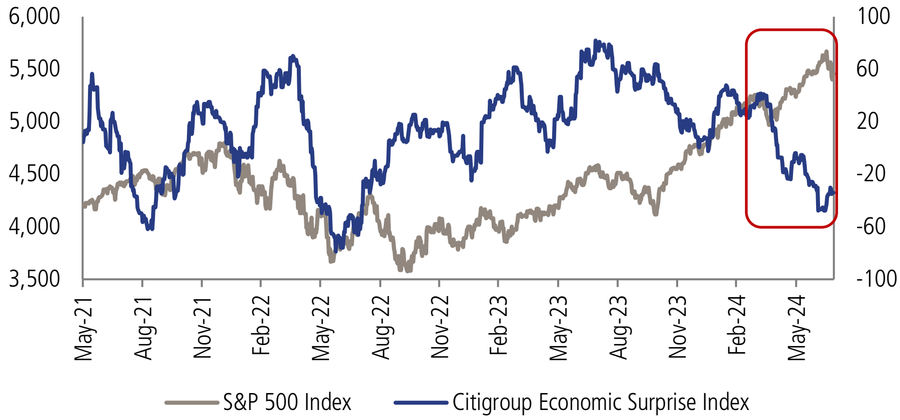
Central bank credibility suffered significant damage in 2021 and 2022, arguably keeping policy too low for too long...

…could central banks be making the same mistake again? Are they, once again, relying too heavily on 'data dependence', language that is again permeating the vernacular of central banks from Europe, the UK, Australia, and the US?

1. **Are central banks making the same mistake again?** Central bank credibility suffered sizable damage in 2021 and 2022. They arguably kept policy too low for too long, as hoped-for 'transitory' inflation proved more persistent than first thought. Central banks embraced a clear deviation from past history. Rather than policy decisions made through a forward-looking lens, they shifted to a more 'data dependant' policy (one willing to ignore the 'well understood' lags of policy). In the US (and Australia), real policy rates have now been above 'neutral' for an extended period, unemployment is rising, and growth is slowing. Could central banks be making the same mistake again? By once again relying too heavily on 'data dependence', language that is again permeating the vernacular of central banks from Europe, the UK, Australia, and the US, are we already sowing the seeds of a sharper slowdown than is needed in 2025? This would support fixed income more and favour equities less than we currently expect for 2025.
2. **When is bad data 'bad'?** As the following chart portrays, equities are in a 'mood'. They regard bad macro data as good news, to the extent that it suggests future rate cuts and an easing of bond yields (amid political and fiscal uncertainty). Weaker-than-expected data has been leading equity markets higher, particularly small and mid-cap sectors that are likely to benefit from easier financial conditions that support activity. Yet, history reveals that this narrative can be fragile when valuations are not 'cheap'. At some point, bad data can actually turn bad for equity earnings, leading markets to fret. Of course, given most central banks have ample ammunition to deploy, any sharper-than-expected downturn may be short-lived. This risk plays into our current desire to be only modestly overweight equities. It may also present opportunities for the nimble to tactically lean into equities (including the US) if markets correct.

Equations are in a 'mood'. They regard bad macro data as good news, to the extent that it suggests future rate cuts and an easing of higher bond yields (amid political and fiscal uncertainty). Yet, history reveals that this narrative can be fragile when market valuations are not 'cheap'.

Bad macro data is driving US equities higher. How long will this last?



Source: LGT Crestone, Bloomberg.

3. **How much will (US) politics really matter?** 2024 was always going to be the year of 'national' elections, with over 64 across the world and more than half of humanity fronting a ballot box. By now, many have come and gone, and most have landed on the less consequential side of the ledger. The US election still lies ahead and will demand attention—not least because of the market tension between the potential for a newly-elected Trump to spur markets via stimulus versus disruption in global trade, including far-reaching tariffs. According to BCA Research, "investors are overstating the degree to which bond yields will rise under a Trump presidency. [While] a further weakening in growth will help Trump in the polls, it will also put downward pressure on bond yields. Moreover, a second Trump administration might produce a lot less fiscal stimulus than widely believed". Who, if anyone, has the balance of power in the US Congress will be key to policy freedom, with the outcome a key focus for markets.
4. **Is China accepting 'mediocre' near-term growth?** Confronted with slowing growth, reflecting both structural and cyclical headwinds, China's authorities have resisted the temptation to support growth through significant leverage. China's debt expansion over past decades has weighed on investors' perceptions of financial stability. Post the recent third plenum (which many view as lacking stimulus) policy appears focused on "long-term development plans and various structural reforms", according to UBS. These decisions come in the wake of disappointing sequential Q2 growth, which halved form around 6% to 3%. It is possible that China is 'saving' its stimulus to support the economy through any post-US election imposts announced. However, it may also be the case that China is trapped in a balance sheet bubble that it can't get out of. Alternatively, it may now be more accepting that a consumer-led growth story will take longer to write. Either way, there is a risk for the world (and Australia) that China may be a less significant growth driver over the next few years.

Fiscal largesse isn't free, and appears to be making the task of reducing inflation more difficult in Australia. Further inflation upside could see rate hikes back in the frame. While consumer spending has not collapsed, and the jobs market remains firm, late-cycle hikes could shunt the economy on to a much weaker path than expected.

5. **Could services inflation remain elevated, short-circuiting policy easing?** Ongoing tight monetary policy appears to have belatedly reversed high services price inflation earlier in the year (likely helped by rising unemployment). But while services inflation has typically trended above central bank's 2-3% inflation targets (averaging nearer 3%, balanced by weaker goods inflation), more recently, global services inflation appears to be settling closer to 4%. Absent further easing (as we expect), this could create some angst for central banks and limit the pace and extent of future policy easing.
6. **Will Australia's stickier inflation drive a recession?** Real economic activity has slowed significantly in early 2024, and is likely to have remained well below trend into mid-year, led by a flat consumer, weaker housing activity, and softer external conditions, including in China. However, the outlook is conflated by a range of other indicators that suggest aspects of the economy remain robust, including the jobs market, house price growth and the demand for services. The latter may be contributing to inflation remaining pegged at 4% mid-year, while it has fallen closer to 2% in many other key economies. Likely contributing to this is much more stimulatory fiscal policy than expected from mid-year—across both federal and state governments. Fiscal largesse isn't free, and appears to be making the task of reducing inflation more difficult. Further inflation upside could see rate hikes back in the frame. While consumer spending has not collapsed, and the jobs market remains firm, late-cycle hikes could shunt the economy on to a much weaker path than expected. This could challenge even a relatively attractively priced equity market.

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 have 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, headlined by the US in November.

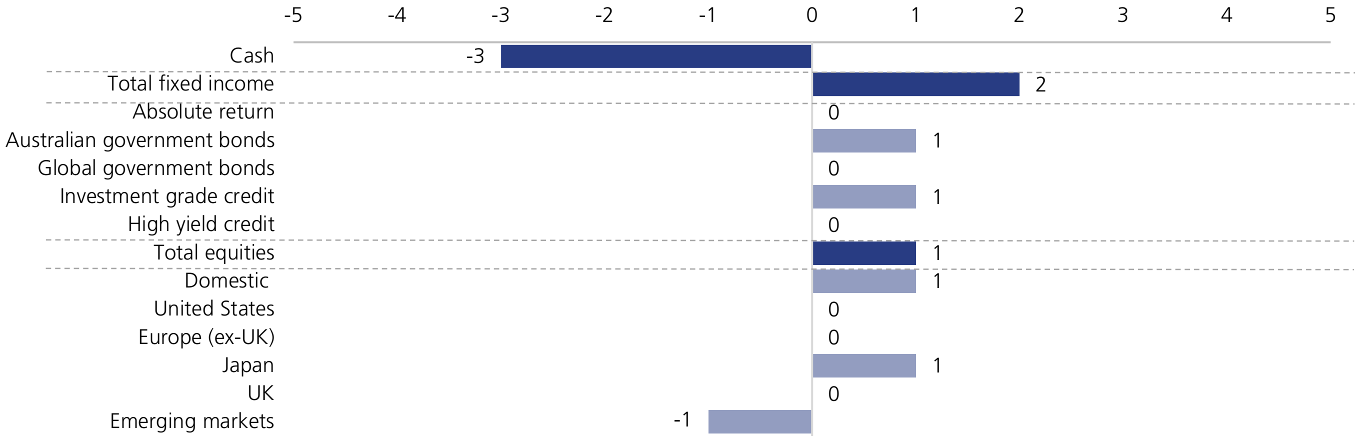
Diverging cycles: The US economy is resilient, but momentum may be peaking, while Europe may be bottoming, and China faces key cyclical and structural challenges. How these macro dynamics play out will be a key driver for markets this year.

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.

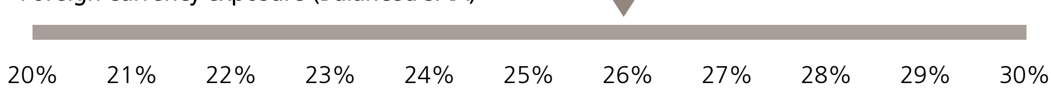
Structural thematics

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.	▪ 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 diversifying strategies. ▪ Global venture capital secondaries. ▪ Senior private debt, incl, corporate/asset-based finance. ▪ Global infrastructure across the risk spectrum.	▪ Long-bias equity hedge fund strategies. ▪ Lower grade and/or buy-and-hold real estate assets. ▪ 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

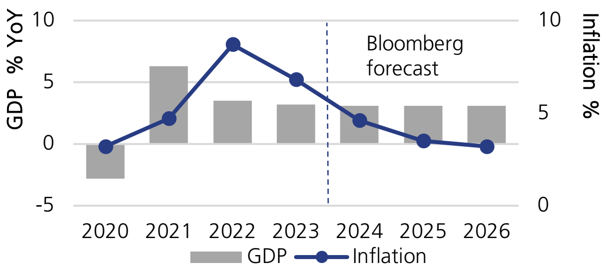
Data continue to broadly support expectations for a relatively mild global growth slowdown during 2024. Outside the US, most major economies have gone through various stages of a 'traditional' cyclical slowdown during 2023 and early 2024, sparked by tight monetary policy. This 'softish' landing for the world economy should give way to a patchy recovery through 2025. Indeed, as SG notes, "the breadth of the global growth is improving from cycle lows, with encouraging signs from the PMI data. 80% of countries globally are seeing their composite growth proxy in expansion".

However, moderate topline 'world' growth masks divergence between US and Asia resilience (and to a lesser extent Australia) and recent recessions in the UK and Europe (and weak growth in Japan). This divergence is also playing out in policy responses. After tightening in almost lockstep from 2021 to 2023, easing cycles look far more heterogeneous, with progress toward inflation targets an important differentiator. Central banks in Europe and Canada have already trimmed rates as inflation has corrected, while the UK is expected to cut this month. Sentiment has also recently been emboldened by further inflation progress in the US, with markets now re-focused on a September cut. Elsewhere, inflation progress will be key.

Politics have continued to dominate economies over recent months, with India's Modi government securing less of a majority than anticipated. A snap poll in France lurched to the far-right before returning more centralist. Yet, this has still resulted in a 'hung' parliament. In the US, a failed assassination attempt and a poor debate by President Biden have led to expectations of a Trump victory, despite Vice President Kamala Harris replacing President Biden. A new centrist president in Iran could also point to reconciliation with the West. Together with the energy transition and populist industrial policies, geo-political pressures are also likely to underpin a secular uplift in capex globally.

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 1.5%, and emerging markets expanding by around 4.5%.

Global GDP growth and inflation



Source: Bloomberg as of 31 July 2024.

Australia

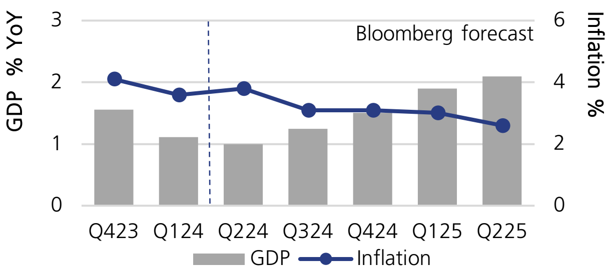
Real economic activity has slowed significantly in early 2024, and is likely to have remained well below trend into mid-year, led by a flat consumer, weaker housing activity, and softer external conditions, including China. However, the outlook is conflated by a range of other indicators that suggest aspects of the economy remain robust, including the jobs market, house price growth, and the demand for services. In the wake of a stronger-than-expected monthly inflation trend through Q2, a much more stimulatory fiscal position than expected from mid-year (across both federal and state governments) has led to concern that expected H2 rate cuts could be delayed into 2025. Any further inflation upside could see rate hikes back in the frame, braking growth more sharply than expected.

Growth weakened further to just 0.1% in Q1, after Q4's 0.3%. This lowers the annual growth to a well-below trend pace of just 1.1%. Private demand was flat while trade detracted, leaving government spending and rising inventories the key growth driver. Q2 data has been mixed, but arguably on the stronger side. After weakness in March and April, retail sales rebounded 0.6% in May, albeit still implying weak per person growth when inflation (4.0%) and population growth 2.5%) are considered. But after falling as interest rates were increased, house price growth has risen to 8.0% in July. Jobs growth continued to surprise positively (with a three-month average over 40,000), despite unemployment rising to 4.1%.

While the monthly inflation indicator had reaccelerated over recent months (to 4.0% in May), the more comprehensive Q2 data printed in line with forecasts (at 0.8% on the quarter, down from 1.0%). This has eased concerns about near-term rate hikes. However, Australia's inflation remains well above that of other countries. As CBA notes, the latest Reserve Bank of Australia (RBA) minutes from mid-June "highlight a central bank that was already vigilant to the upside risks on inflation after a stronger than expected April CPI Indicator". Following the lower Q2 CPI, UBS has removed its August rate hike, while CBA still sees a first rate cut in November.

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 1.2% for 2024, ahead of similar rebound in 2025.

Australian GDP growth and inflation



Source: Bloomberg as of 31 July 2024.

Economic outlook

United States

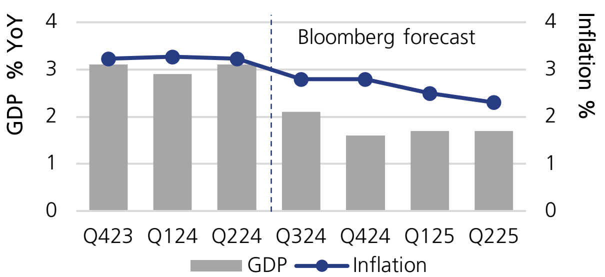
Recent months have revealed more convincing evidence that US growth is on a slower path and inflationary pressures are once again consistent with interest rates being trimmed in H2 2024, ahead of further modest cuts through 2025. Concern about an economy that was 'not landing' have given way to increased talk of a recession in 2025. However, a soft-ish economic landing—a near-term period of slower growth in H2 2024—still appears the most likely scenario. Indeed, the outlook for growth into 2025 rests at least to some extent on the policy uncertainty surrounding November's US presidential election. Recent weeks have embodied a poor debating performance from President Joe Biden, leading to his withdrawal (and endorsement of Vice President Kamala Harris), and a failed assassination attempt of former President and now Republican nominee, Donald Trump.

Growth in Q2 rose 0.7% (2.8% annualised), stronger than the 0.5% (2.0%) expected, or the 0.3% (1.4%) pace in Q1. But this is still materially slower than the 1% quarterly pace (4.2%) during H2 2023. Consumer spending rose a solid 0.6%, while external trade is an ongoing 'detractor'. Early Q3 data point to slower H2 growth. In June, the services and manufacturing ISMs fell below the key 50-mark. Non-farm jobs rose a still strong 206,000 in June, but there were downward revisions to prior months to below 200,000, and unemployment rose from 4.0% to 4.1%. As UBS notes, "that pace of job gains appears consistent with the broader slowdown underway".

Inflation continued its recent trend of surprising lower, with monthly core and headline data for June near zero, and core falling to a three-year low of 3.3%. Services inflation eased again, including the key rent component. Longview Economics notes "underlying inflationary pressures in the US have (significantly) decelerated in recent months". In his testimony to Congress, US Federal Reserve (Fed) Chair Powell acknowledged the slowdown underway, noting the jobs market had "cooled considerably". But he qualified his answers by emphasising "solid growth" and a strong labour market. A rate cut in September is expected by the market.

After 2.5% in 2023, UBS now sees growth maintaining an above-trend 2.3% pace in 2024, before slowing to 1.4% in 2025. SG expects even more moderate slowing ahead, with growth unchanged in 2024 at 2.5% before 2.2% in 2025.

US GDP growth and inflation



Source: Bloomberg as of 31 July 2024.

Europe

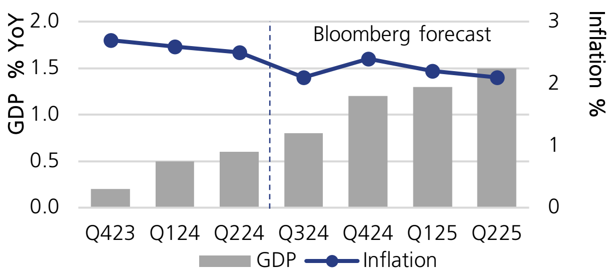
Data through Q2 suggest the European economy remains on a patchy growth trajectory, exiting the mild recession during H2 2023. While a soft external environment (and fiscal restraint, particularly in Germany) remain a headwind, improving services sector activity, together with the recent start of a likely ongoing rate-cutting cycle, should underpin an improving growth path through H2 2024 and into 2025. Political developments have dominated, with a snap election called in France by President Macron in the wake of a strong showing by the far-right parties in the European elections. A stronger showing by the centre political parties, however, has led to a likely hung parliament in France, which is less concerning to markets than the initially speculated move to the far-right.

Growth recovered modestly in Q1, up by 0.3%, after flat growth in each of the two prior quarters. Annual growth edged higher from 0.1% to 0.4%, still well below trend. Recent data have been more mixed. In July, the composite Purchasing Managers Index (PMI) eased again from its recent one-year high to 50.1 from 50.9 (a new five-month low). Consumer confidence remains weak, but retail sales rose by 0.6% in the three months to May, reversing a similar decline in the three months prior. The jobs market remains tight, with the unemployment rate unchanged at an all-time low of 6.4% in May.

Inflation continues to trend lower, edging down to 2.5% in June. Yet progress is uneven, with core inflation surprising to the upside, unchanged at 2.9% on stronger goods prices. The European Central Bank (ECB) trimmed its policy rate by 0.25% in June to 3.75%. As UBS notes, "while the June cut was well advertised, the pace of subsequent rate cuts is much less clear." The ECB has stressed it will "not pre-commit to a particular rate path". That 'data dependent' message was firmly anchored in its July communication, according to SG, where it left policy unchanged, as anticipated. Further easing of inflation in July and August (potentially close to target) is expected to drive a further 0.25% cut mid-September.

After relatively weak growth of 0.6% in 2023, UBS expects a modest recovery through H2 2024 to see similar growth in 2024 double to 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 (0.4% and 1.1%).

European GDP growth and inflation



Source: Bloomberg as of 31 July 2024.

Economic outlook

United Kingdom

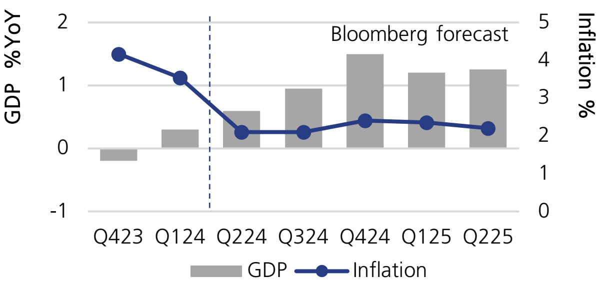
The UK economy has started growing again, exiting the H2 2023 recession in early 2024, and doing so at an arguably stronger pace than expected. Despite ongoing tight financial conditions, including high mortgage payments, consumer spending has been improving, while manufacturing and services activity have strengthened. Inflation in the UK also continued to trend lower in early 2024, settling for now near the inflation target. Some easing in monetary policy in H2 2024 is likely to provide further support to a modest growth recovery in 2025. As expected, Keir Starmer replaced Rishi Sunak as prime minister in the early July election in somewhat of a Labour Party landslide. However, given the past fiscal missteps and ongoing fiscal (and economic) challenges, UBS sees “limited risk of large fiscal giveaways” post-election.

Growth rebounded by a stronger-than-anticipated 0.7% in Q1 2024 after contractions of 0.3% and 0.1% in H2 2023. Annual growth recovered to a still tepid 0.3% (after -0.2%). Monthly growth data in Q2 point to ongoing strength, rising 0.4% in May (after 0.0% in April). According to UBS, “encouragingly, output grew across all major sub-sectors (services, industry and construction)” and is consistent with another solid print of 0.6% for Q2. The UK PMI rebounded in July to 52.7, from 52.3, the fifth month in expansion. The jobs market remains relatively tight, albeit signs of softening continue, with unemployment rising further to 4.4% in May (while wages growth has slowed). Retail sales also unexpectedly declined by 1.2% in June (likely impacted in part by election uncertainty).

Inflation continues to grind lower, unchanged at 2.0% in June (well below its 7.9% rate a year ago). Core inflation is higher and was unchanged at 3.5% in June, raising concerns that an expected first Bank of England (BoE) rate cut in August may not be forthcoming. According to UBS, “the lack of progress on services has likely come as a disappointment to the BoE, which in its May round of forecasts expected services inflation to ease”. UBS expects a rate cut in August (by 0.25% to 5.0%) with a further cut likely before year-end.

After growth of just 0.1% for 2023, UBS has 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 a weaker outlook of just 0.2%.

UK GDP growth and inflation



Source: Bloomberg as of 31 July 2024.

Japan

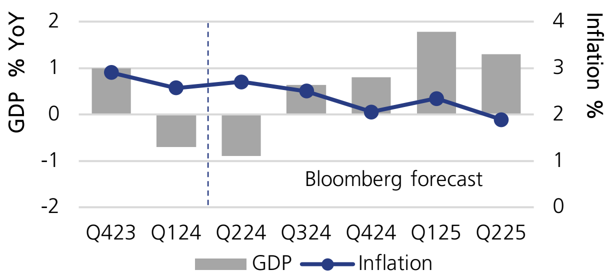
Recently mixed data have dented optimism regarding Japan’s ability to successfully transition from secular stagnation to nominal growth recovery. Despite narrowly avoiding recession in 2023, and improving business conditions and rising wages growth, activity contracted more significantly than expected in early 2024. Still, these positive dynamics, along with robust tourist arrivals and some improvement in global trade, should aid a moderate uplift in Japan’s growth momentum in 2024. In contrast to most other major economies, this should see some additional tightening of monetary policy in H2 2024 after the recent exit from negative rates (to zero). In the event better growth is not forthcoming, rates rises will remain limited.

Japan’s growth contracted by a much larger-than-expected 0.5% in Q1 2024, following a revised ‘flat’ (was 0.4%) for Q4 2023. Over the year, Japan’s economy contracted by 0.2%, its first full-year decline in three years. As UBS notes, “bullish confidence on the normalisation of Japan’s economy has fallen with news of sluggish consumption in the past three months.” Nonetheless, industrial production and real retail sales rose in May, suggesting a pick-up in Q2 growth. Wage growth (core earnings) improved from 2.0% to 2.7% in May, further supporting demand. In contrast, Japan’s PMI retraced in June to 49.7 from 52.6, cautioning over-optimism on growth.

The Bank of Japan (BoJ) decided to exit its negative interest rate policy in March (moving back to zero). The BoJ appears unlikely to raise its policy rate further until it has greater conviction in the economic and inflation outlook. This is likely to include a recovery in consumption. On the inflation outlook, UBS notes that “firms' price signals were somewhat upbeat” in the latest Tankan business survey, possibly driven by the need to offset higher input (due to weak currency) and wage costs. Both UBS and CBA expect a second BoJ hike to 0.25% in October. Supporting this, inflation remained unchanged at 2.8% in June (up from 2.2% in January), while core inflation edged higher to 2.6% from 2.5% (and 2.0% in January).

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 July 2024.

Economic outlook

China

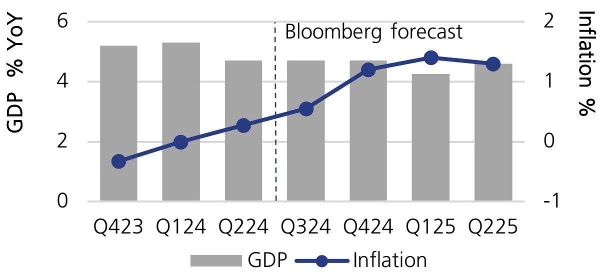
China's Q2 data confirmed the significant slowing in activity evidence in the monthly data. While investment and exports strengthened, policy has yet to sustainably impact consumer activity (which remains subdued) or housing trends (which remain very weak). China's third plenum, according to BCA Research, "adjourned without any specific prescriptions to reverse China's economic slump". SG remains optimistic new policy will come, noting, "the disappointing 2Q GDP print suggests some risks of China missing this year's 5% growth target". China may also face challenges ahead from new, potentially 60%, tariffs of under a Trump presidency. UBS estimates this could have a net impact of 1.5% on China's growth outlook (from weaker exports, capex, and consumption only likely be partly offset by policy).

The much-awaited third plenum concluded in July, with the Communiqué looking largely consistent with the authorities' recent speeches, while also lacking new stimulus. The Plenum reiterated China's long-term goal of achieving basic "socialism modernisation" by 2035, implying continued importance of decent economic growth in the coming decade. According to UBS, "the Plenum reiterated the government's call of 'letting the market mechanism play a better role' to optimize resource allocation, while it also emphasized the government's role in 'maintaining market order' and 'remedying market failure'".

China's annual 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 be 3%. There were signs of resilience in industrial production (5.9% after 6.2%) and exports (5.9% after 1.4%), albeit amid claims of over-production and excessive exports. Elsewhere, retail sales slumped from 4.7% to 2.7%, while real estate capex fell from -9.5% to -10.5%. These weaker trends were also evident in the end-quarter June data. Inflation retraced in June, easing to 0.2% from April and May's 0.3%. While non-food prices were stable, food prices continued to weaken, falling for their twelfth consecutive month.

After 5.2% in 2023, UBS expects China's 2024 growth to slow to 4.9%, before slowing further to 4.6% in 2025. Both SG and CBA expect a similar pace of 5.0% and 5.1% respectively for 2024, with further modest slowing in 2025.

Chinese GDP growth and inflation



Source: Bloomberg as of 31 July 2024.

Emerging markets

After relatively steady growth in early 2024, emerging market growth remains on track for a moderate slowing through to early 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 easing than originally anticipated by markets.

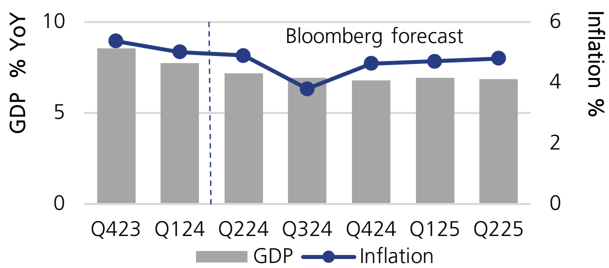
Looking ahead, the recently lower inflation and slower growth data in the US have likely renewed expectations of a weaker US dollar through H2 2024 and into 2025. This should provide some scope for ongoing easing of emerging market interest rates supporting growth. The unfolding modest stabilisation in the global manufacturing cycle should also support a range of emerging economies, particularly in North Asia.

AI and tech remain key drivers for the Asian region. South Korea's exports have continued to trend higher, in contrast to Taiwan, where February's rebound has somewhat faded. India's economic growth remained strong in early 2024, with real GDP rising 7.8% in Q1 2024 (modestly below Q4's 8.6% pace). In the upcoming Budget (23 July), UBS expects the Government to extend support for the rural economy, especially housing and roads, albeit within fiscal boundaries. It also expects the Government to maintain double-digit growth in public capex in the year ahead, helping India remain one of the fastest growing economies in the world. Prime Minister Modi was re-elected in June, but with a reduced majority.

For Latin America, growth is expected to slow in 2024, particularly into mid-year, 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 in the region in 2025, with UBS forecasting a pick-up to 2.2% in 2025 from 1.9% (was 1.8%) in 2024.

For all of the emerging markets, after 4.6% in 2023, UBS expects similar growth of 4.5% in 2024 (was 4.3%) before a similar pace of growth unfolds at 4.4% in 2025.

India GDP growth and inflation



Source: Bloomberg as of 31 July 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.
- The market is pricing the Fed to cut rates by 75 basis points (bps) by January 2025.
- 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 4.10%, its lowest level since February. The softer-than-expected CPI in June and dovish commentary from Fed Chair Jerome Powell on labour markets have fuelled expectations that the Fed will move the cash rate lower in September and by 75bps by January 2025. With the expectation of more dovish monetary policy, the Treasury curve has steepened. While still inverted, the front end of the curve is outperforming, and this is likely to continue. The risk of a Republican win in November and the resultant inflationary and fiscal expansive policy may well curb some of the market's enthusiasm. For now, the debate is about when the Fed cuts, not if. Beyond that, how many cuts are likely to be delivered and how quickly the Fed moves to remove policy restrictiveness is also important. 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 25bps, with the two-year Treasury now yielding 4.45%. When the Fed starts to ease, the curve should steepen to a more normal level. Unless the Fed moves multiple times and the market starts to price the terminal cash rate below 3.50%, it is difficult to see the 10-year Treasury yielding less than 4.00%.

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 Australian curve has been underperforming the recent US Treasury rally. At 4.07%, the Australian 10-year yield is now in line with its US equivalent, a level not seen since February. The consensus is that the RBA is unlikely to cut before the Fed as local service inflation remains sticky and the labour market remains strong. And there is a high risk the RBA's first move lower is not until Q1 2025. Over the past three months, the Australian 10-year yield has been trading in quite a tight trading range between 4.20% and 4.40%. To move out of this range, the market is perhaps waiting for a clearer direction from the RBA. We believe the next move from the RBA will be lower, but that this will likely be delayed. To benefit from a 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: Investors continue to be attracted to outright yields, which are driving spreads lower. Given robust market conditions, issuance in the US and Europe has been at record levels, with outright yields attracting greater demand. As global central banks start 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 usually offset by falling interest rates.

Domestic issuance has also been high. There has been significant Kangaroo supply from financial and corporate issuers, as offshore markets enter the northern hemisphere summer and domestic issuers enter reporting season. Banco Santander issued its inaugural AUD subordinated Tier II transaction, which met with strong demand pricing at BBSW +225bps. This was 25bps tighter that the original price guide. Toronto Dominion, Rabobank, New York Life, and SMBC have also issued senior unsecured debt in the last few weeks. ANZ also issued a jumbo AUD 1.9 billion 15NC10 Tier 2 deal, the largest fixed rate domestic bank deal ever recorded. Given the large amount of demand, ANZ priced the deal with minimal new issue concession to secondary levels. Initial price talks were around Australian swap +200bps, but the deal priced at Australian swap +183bps.

High yield credit: High yield spreads have remained relatively range-bound at historically tight levels since March. With all-in yields staying elevated, this has made them more appealing to yield-hungry investors. At the same time, growth has been resilient and credit fundamentals have shown signs of stabilising. Issuers have taken advantage of spread compression and the 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. US high yield and European high yield still offer yields of around 8.0% and 6.5%, respectively, which has attracted capital inflows. While modestly wider spreads are possible in the coming quarters, the current elevated yields in US high yield offer significant carry. This provides a buffer against potential mark-to-market losses from spread widening. However, 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 July, domestic equities gained 4.2%, slightly outperforming the MSCI World ex-Australia Index. Year-to-date, the S&P/ASX 200 has been a significant laggard.
- In July, the S&P/ASX 200 closed above 8,000 for the first time ever. This was the consensus price target for year-end 2024.
- While the RBA is likely to maintain its hawkish tone for a while yet, it is important to note that the most defensive sectors of the market have been outperforming over the past several months.

Defensive sectors, such as healthcare, consumer staples, and telecommunications were strong performers, gaining 7.7%, 7.2%, and 3.6%, respectively. Other sectors, such as financials (which were up 6.4%) and consumer discretionary (up 7.9%) also performed strongly.

The mining sector has been a considerable drag on overall equity market performance, as negative data out of China weighed on sentiment towards large-cap miners. The S&P/ASX 200 Mining Index has fallen 10% over the past two months and has been the worst performing sector year-to-date, down around 15%. Iron ore prices have again breached USD 100 per tonne, and are trading at levels that have, in the past, seen support (e.g., in May 2023 and March 2024).

Much of the Australian story depends on whether the RBA hikes rates again. As such, the 31 July CPI data release was important in re-assessing rate expectations. The market has now pared back rate hike expectations somewhat, although the first cut is not expected for another 12 months.

Valuations for the S&P/ASX 200 are richer than usual, while the current dividend yield is comparable to history. There are no clear signs of market euphoria, which is positive for the outlook for domestic equities. The weighting split between key sectors does not indicate a huge shift in composition, nor is the market cap overly concentrated among the biggest stocks relative to history. Currently, the top 5, top 10, and top 20 companies hold about the same market cap weight within the index as they have since the year 2000.

In terms of valuations, the price/earnings (P/E) ratio for the S&P/ASX 300 is relatively high at 17.3x, 1 standard deviation above the long-term average. While valuations are high as we enter a slower growth environment, P/Es can be supported by a fall in bond yields. This puts the onus on earnings to drive upside until such time as the RBA cuts rates. Additionally, valuations have merely tracked rising multiples, globally. On a relative basis to the MSCI World Index, the S&P/ASX 200 sits roughly in the range it has maintained in the post-COVID era.

International equities

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

Key points

- The MSCI World ex-Australia Index rose 4.1% in Australian dollar terms in July, closing at its intra-month high.
- In Australian dollar terms, Japan was the best performing region. The UK equity market also performed well following the general election.
- Within the context of an overall flat US market, there was significant rotation. The S&P 500 Equal-Weight Index gained 4.5%, while the NASDAQ fell 0.7%.

Over the past several months, activity data has mostly disappointed versus expectations. However, until mid-July, this has been positive for equity markets, as it raises the chance that the Fed will begin cutting rates in September. Over the shorter term, it also helps to contain bond yields, which have enabled global equities to continue their US-, tech-, and growth-led ascent. However, a 'bad is good' narrative is a fragile concept. Given current technicals, positioning, and valuations, this means that upcoming earning reports are even more important.

Although indices have welcomed a stabilisation in rates, the breadth of performance in the US equity market has remained poor - while in Europe, the performance of cyclicals versus defensives has faltered.

Following the Trump/Biden debate, stocks that are perceived to be 'Trump winners' have outperformed. Despite the softer data in the US, long bond yields have only retreated around 10bps, which may be due to investors reloading on the reflation trade, in expectation of a Trump win. Based on past experience of US election years, markets only start to really care about the potential winner around August. Typically, equity markets are range-bound to slightly down as the vote approaches, before sharply rebounding in the aftermath, regardless of who wins. This may necessitate a defensive posture over the immediate short term, but with a pivot to a more constructive outlook around the election. Additionally, the rate-cutting cycle could prolong the bull market and perhaps offer some mild stimulus to the economy.

Japanese equities should offer a more resilient exposure for investors. Earnings revisions for the TOPIX have continued to be revised higher over the past 12 months, and the underlying trends associated with bottom-up corporate reform are in train. According to Mizuho Securities, buybacks reached a record high of JPY 966 billion in May, and as a proportion of market cap, buybacks are now higher in Japan than in the US. Combined with cross shareholding unwind and cost-of-capital reform, bottom-up progress remains a key driver for Japan.

Asset class outlook

Currencies

Key points

- The US dollar weakened in July against most trading partners. For the past two months it has been broadly unchanged, but has experienced volatility, amid political uncertainty.
- The Australian dollar peaked at just under USD 0.68 during the month, given sticky inflation. However, US political uncertainty sees it now trading nearer USD 0.65.

In June and July, the US dollar was broadly unchanged against its major trading partners. Further disinflationary evidence supports greater confidence in a Fed rate-cutting cycle beginning from September. However, recent political shocks in the US have sparked significant volatility in currency markets, providing support for the US dollar as investors attempt to reconcile a moderating macro backdrop with the risk of tariffs, trade wars, and broader geo-political volatility. These political risks around the US election and the ongoing evolution of the global economic cycle and inflation are likely to be key drivers for the US dollar in the year ahead. Structural factors, including a widening US budget deficit and increasing geo-political multipolarity, point to downside pressures longer term, but these will not be in markets' minds for some time.

The Australian dollar has given up all of its gains since the start of June, having rallied strongly to trade at just under USD 0.68 from its mid-April lows of USD 0.65. While resilient jobs markets and stubborn inflation were the key drivers for the currency, Q2's lower core inflation print added to recent political uncertainty in the US, reinforced the Australian dollar's cyclical nature, with the currency falling around 4% from its mid-July high in line with US dollar strength. We expect the US elections to spur increased volatility in currency markets in coming months. Our external partners are forecasting the Australian dollar to end the year modestly higher, rebounding to between USD 0.68 and USD 0.69.

The euro has been trading around 1% lower since the start of June, with significant intra-month volatility, driven by the snap French elections that have heralded a hung Parliament. 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 continued to depreciate against most major currencies in June and early July, approaching JPY 162 against the US dollar. However, since mid-July, a combination of policymaker intervention and risk aversion has seen a strong rally in the currency to around JPY 153 (a 5% gain). Japan's internal inflation and macro dynamics remain tilted towards policy normalisation, with a 'nominal renaissance' in growth expected to continue over the next 12-18 months.

Commodities

Key points

- A weak Chinese economy has weighed on global commodity prices. Gold has been trading around USD 2,360 per ounce, below its recent highs.
- Iron ore prices have fallen 6% to trade around USD 103 per tonne, helped by ongoing supply increases.

Fundamental weakness in the Chinese economy, as well as slowing US economic momentum, weighed on global commodity prices in June and July. Brent crude prices were up as much as 7% in mid-July, amid escalating Middle East tensions. However, they have given up most of these gains on the back of Chinese weakness to trade below USD 79 per barrel in the last week of the month.

Gold bounced off an intra-month record high of around USD 2,460 per ounce to trade at around USD 2,360, 1.5% higher since the start of June. Industrial metals prices were hit by Chinese economic weakness, with copper and aluminium down about 10% and 16% respectively since June. Iron ore also showed weakness, falling 9% to USD 103 per tonne.

The evolution of the Chinese economy will continue to play a key role in the near-term outlook for commodities. There was limited additional stimulus from the Third Plenum, and we expect that authorities will continue to emphasise targeted and limited support packages over 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 in its property market and debt dynamics.

Recent data continue to suggest that the Chinese economy faces significant fundamental weakness, particularly in its consumer and housing sector. That said, this has prompted authorities to announce further stimulus measures to support the housing market. Even a stabilisation in economic conditions could underpin a broader recovery in ex-US economic growth and commodity demand.

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

Looking beyond the cyclical horizon, 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 the 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. Empirical evidence suggests that a disciplined strategic asset allocation (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 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 throughout the cycle.

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 will continue to slow in most developed economies this year. A European 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 generally healthy consumers, secular investment pressures, and an imminent global easing cycle. Australia continues to face challenges with stubborn inflation and stagnant growth. Overall, the outlook continues to favour fixed income, though we have taken the opportunity to shift our fixed income positioning more cautious. We remain broadly constructive on equities but have moved underweight emerging markets and overweight Japan. We have also increased FX exposure and 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 have 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 they choose to hike rates near-term.

Alternatives

We favour infrastructure, private debt, hedge fund 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 we expect as rates peak. We stay overweight domestic 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 move neutral (from underweight) global government bonds. Bond yields are largely priced for further cuts from the ECB and Bank of Canada. However, we see value at the front end of the US curve as it steadily steepens, reflecting the first rate cuts from the Fed. The mid-curve is also expected to perform across a number of global markets.

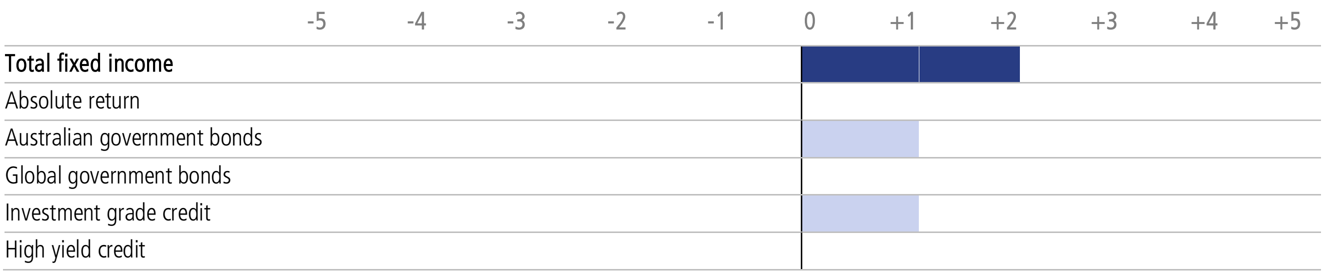
Investment grade credit

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 move neutral (from overweight) 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	65.98	64.83
Australian 3-year yield	3.92%	4.08%
Australian 10-year yield	4.24%	4.44%
Australian 3/10-year spread	30.2 bp	35.3 bp
Australian/US 10-year spread	0.1 bp	-22 bp
US 10-year Bond	4.15%	4.60%
German 10-year Bund	2.34%	2.69%
UK 10-year Gilt	4.04%	4.40%
Markit CDX North America Investment-Grade Index	52.5 bp	50.8 bp
Markit iTraxx Europe Main Index	55.66	52.7
Markit iTraxx Europe Crossover Index	298.83	296.3
SPX Volatility Index (VIX)	17.69	14.3

Source: LGT Crestone Wealth Management, Bloomberg as of 31 July 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. On a cyclically-adjusted P/E basis, valuations are not showing signs of being in an 'earnings bubble'. Into a potential slower global growth environment, with global central bank easing imminent, Australia's rate sensitive exposure and 0.7 beta to global equities could see relative support for domestic equities.

US

We are neutral US equities. With valuations extended and rate cuts being pushed back, the onus rests with positive earnings and AI-related growth from major tech names. A rotation into equal-weighted S&P 500 and small/mid-cap equities may continue, a headwind to benchmark returns.

Europe (ex-UK)

We are neutral European (ex-UK) equities. UBS believes that China looms large as a headwind to Europe's economic recovery and companies, both as its second largest export market and competitive threat for industrial markets. Investors are positioned neutrally, but looking for attractive entry points, noting that Europe has been the weakest performing region over the past three months, but is only down around 3% from its highs.

United Kingdom

We are neutral UK equities. UK equities have under-performed global equities over the past three months. However, this masks a real change in the composition of returns, with the broader, domestically orientated FTSE 250 Index significantly outperforming the more globally facing FTSE 100. This outperformance looks set to continue and justifies our neutral stance.

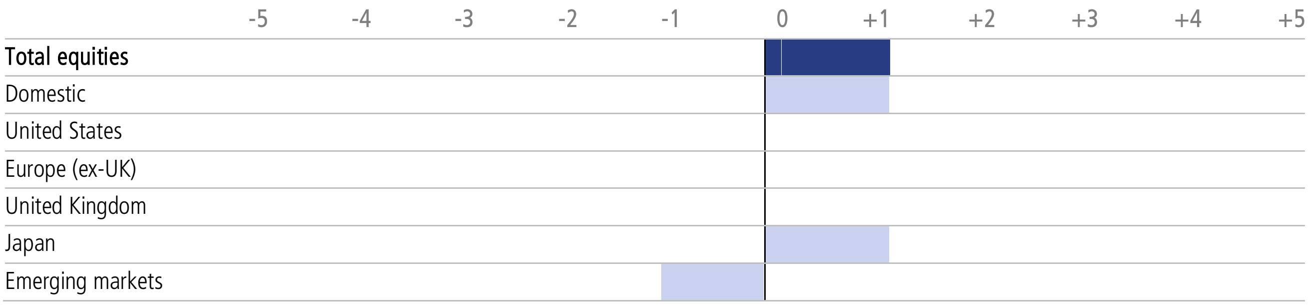
Japan

We have moved overweight Japan equities. Japan is undergoing structural change that has been more than a decade in the making. It is not simply a macro story of higher inflation, but one of greater corporate reform, leading to greater shareholder returns and in turn, higher valuations.

Emerging market equities

We have moved underweight emerging market equities. Although the MSCI Emerging Market Index's year-to-date return (+7.9%) has been its best in five years, it has also been its narrowest, with just five stocks accounting for 78% of the index's return. Analysts see a slower performance in H2 2024, with risks associated with the election and policy, as well as the pace of US rate cuts and performance of the US dollar.

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	8,092.3	7,998.0	-1.2%	18.3	3.6%
New Zealand	S&P NZ 50	12,405.3	12,865.0	3.7%	26.0	3.1%
United States	S&P 500	5,522.3	6,148.3	11.3%	20.0	1.4%
Europe	Euro Stoxx	503.9	586.4	16.4%	12.4	3.4%
United Kingdom	FTSE 100	8,368.0	9,436.1	12.8%	11.6	3.8%
China	CSI 300	2,938.7	3,566.1	21.3%	10.3	3.4%
Japan	Nikkei 225	39,101.8	44,674.3	14.3%	19.7	1.8%
India	Sensex	81,741.3	87,101.7	6.6%	23.4	1.4%

Source: Bloomberg. Data as of 31 July 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. 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 market 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 increasing competition, and spreads are beginning to tighten. Direct, sponsor-backed transactions versus broadly syndicated strategies are preferred as loan terms can be negotiated directly (offering greater protection to the end investor), 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 can provide more defensively positioned core assets on long-term, typically inflation-linked contracts. This can provide both a defensive ballast and inflation protection, both of which remain in high demand. Conversely, infrastructure also plays to long-term, multi-decade structural growth themes, most notably decarbonisation and digitisation. 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.

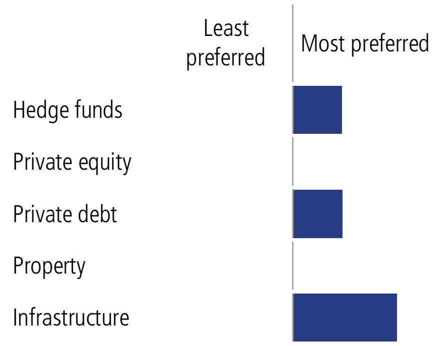
We favour infrastructure, private debt, hedge fund and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

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.

What we don't like

- Long-bias equity hedge fund strategies.
- Lower grade and/or buy-and-hold real estate assets.
- 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	$204.62	$195.75	58.4	0.9%	36%	29%	20%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$54.22	$53.85	22.8	1.4%	25%	23%	8%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.97	$5.50	27.5	3.4%	24%	132%	-1%	AA
MTS	Metcash Ltd	Cons. Staples	$3.66	$4.19	13.1	5.4%	19%	19%	5%	AAA
ALD	Ampol Ltd	Energy	$33.47	$35.52	15.3	5.2%	14%	15%	17%	AA
BPT	Beach Energy Ltd	Energy	$1.49	$1.70	10.3	2.8%	10%	5%	24%	AAA
MQG	Macquarie Group Ltd	Financials	$209.80	$203.96	19.4	3.4%	na	12%	12%	AA
SUN	Suncorp Group Ltd	Financials	$17.81	$17.70	16.6	4.2%	2%	10%	0%	AAA
RMD	ResMed Inc	Health Care	$32.49	$35.21	27.5	0.6%	24%	25%	14%	A
CSL	CSL Ltd	Health Care	$309.72	$324.62	33.6	0.8%	14%	17%	15%	AA
MND	Monadelphous Group	Industrials	$12.97	$14.64	20.7	4.1%	17%	14%	18%	AAA
BXB	Brambles Ltd	Industrials	$15.56	$16.62	19.0	1.9%	20%	24%	11%	AAA
ALU	Altium Ltd	Info. Tech	$68.33	$68.50	75.8	0.7%	36%	26%	28%	AA
XRO	Xero Ltd	Info. Tech.	$138.18	$153.01	86.9	0.0%	13%	17%	35%	AA
IGO	IGO Ltd	Materials	$5.55	$6.40	9.0	3.8%	3%	13%	-56%	AAA
JHX	James Hardie Industries	Materials	$54.67	$54.14	22.8	0.0%	41%	32%	17%	AA
GMG	Goodman Group	Real Estate	$35.10	$34.46	32.7	0.9%	10%	11%	12%	AA
APA	APA Group	Utilities	$7.91	$8.96	41.85	7.1%	7%	10%	8%	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 July 2024. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Beach Energy (BPT)—Buy. BPT is trading below book value and has a FY26 free cash flow yield exceeding 20%. A recent capex overrun related to its Waitsia project has resulted in stock price weakness, however the project now has ample conservatism embedded and an upcoming strategic review could provide a further catalyst.

Metcash (MTS)—Buy. Cheap on an absolute basis and relative to WOW and COL. 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 ~13x multiple (compared with 15x average over past 5 years) at close to trough earnings, positioning for a rerate.

James Hardie (JHX)—Buy. US housing cyclicality is weighing on short-term profits, however the company is reiterating its FY25 guidance. This suggests it is gaining market share in a falling volume environment, and a step-up in costs and investments is indicative of a positive long-term outlook. When US housing turns, James Hardie is positioned to capitalise—consensus still embeds 15–20% EPS growth over FY26 and FY27.

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	$17.81	$17.70	16.7	1.7	100%	4.2%	12.3%	AAA
MQG	Macquarie Group Ltd	Financials	$209.80	$203.96	17.3	2.3	40%	3.4%	9.1%	AA
WBC	Westpac Banking Corp	Financials	$29.80	$24.96	15.6	1.4	100%	5.7%	-8.7%	A
QBE	QBE Insurance Group Ltd	Financials	$18.08	$19.25	9.8	1.8	10%	3.9%	4.9%	AAA
COL	Coles Group Ltd	Cons. Staples	$18.10	$17.84	21.7	6.8	100%	3.7%	4.0%	AA
MTS	Metcash Ltd	Cons. Staples	$3.66	$4.19	12.4	2.6	100%	5.4%	4.5%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc	$4.97	$5.50	27.6	31.8	100%	3.4%	1.2%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc	$0.65	$0.83	14.3	0.7	100%	2.8%	55.6%	AA
TLS	Telstra Group Ltd	Com. Services	$3.94	$4.19	21.0	3.0	100%	4.6%	3.9%	AA
NEC	Nine Entertainment Co.	Com. Services	$1.46	$1.93	12.0	1.4	0%	5.3%	7.8%	AA
RMD	ResMed Inc	Health Care	$32.49	$35.21	24.2	6.8	100%	0.6%	11.7%	A
PME	Pro Medicus Ltd	Health Care	$143.76	$116.26	143.2	94.3	100%	0.3%	29.3%	BBB
REP	RAM Essential Services	Real Estate	$0.65	$0.77	14.0	1.3	0%	8.7%	-7.1%	-
MGR	Mirvac Group	Real Estate	$2.14	$2.23	15.7	0.8	0%	4.9%	-2.9%	AA
IRE	IRESS Ltd	IT	$10.63	$10.28	27.4	7.0	0%	0.8%	248.3%	AA
DBI	Dalrymple Bay Infra	Industrials	$3.04	$2.92	16.5	1.4	68%	7.2%	4.5%	-
ALX	Atlas Arteria Ltd	Industrials	$5.24	$5.56	12.6	1.2	0%	7.7%	0.0%	AA
APA	APA Group	Utilities	$7.91	$8.96	38.8	2.8	0%	7.1%	2.5%	AAA
ALD	Ampol Ltd	Energy	$33.47	$35.52	13.1	2.2	100%	5.2%	12.5%	AA
BPT	Beach Energy Ltd	Energy	$1.49	$1.70	8.3	1.0	100%	2.8%	71.4%	AAA
BHP	BHP Group Ltd	Materials	$42.30	$46.19	10.5	3.4	100%	3.5%	-1.2%	A
AMC	Amcor PLC	Materials	$16.19	$15.43	14.4	3.9	0%	3.1%	2.0%	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 July 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. Trades at 0.8x book value with catalysts on the horizon to close: office valuations finding a bottom, successful divestments reducing earnings uncertainty, capital partnerships unlocking development pipeline, and an eventual tailwind from interest rate cuts. Pays a 5.1% fully franked dividend with price protected by buffer to NTA.

Iress (IRE)—Buy. IRE is refocusing on its core Wealth and Trading business, with the sale of the Platforms business plus the sale of UK Mortgages due to complete on 1 August 2024. This will enable IRE to restate its dividend, alongside improving momentum at the top line (contract resets) and bottom line (cost efficiencies).

Atlas Arteria (ALX)—Buy. 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 it is overruled by the French constitutional court. Even if the tax is upheld, Atlas may seek compensation, which is all upside to 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	171.54	205.26	19.3	0.4	2,121,346	BBB
UMG NA	Universal Music Group	Com. Services	EUR	21.99	28.09	21.3	2.7	43,540	AA
DIS US	Walt Disney Co/The	Com. Services	USD	93.69	123.84	17.2	1.1	170,801	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	77.30	102.07	8.3	1.0	191,405	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	74.86	90.67	20.8	2.2	112,242	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	77.95	86.10	19.4	3.1	88,294	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	139.56	151.64	26.2	0.0	89,883	BB
RACE IM	Ferrari NV	Consumer Disc.	EUR	380.40	395.84	44.0	0.8	74,514	BB
EL US	Estee Lauder Cos Inc/The	Consumer Staples	USD	99.61	136.93	24.6	2.8	35,717	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	822.00	891.23	46.4	0.6	364,421	A
288 HK	WH Group Ltd	Consumer Staples	HKD	5.08	6.61	6.5	1.5	8,342	–
SHEL LN	Shell PLC	Energy	GBP	2840.00	3199.02	8.8	0.1	229,736	AA
LSEG LN	London Stock Exchange	Financials	GBP	9470.00	10687.26	23.6	1.5	64,676	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	59.58	62.89	8.1	5.5	47,711	AA
WFC US	Wells Fargo & Co	Financials	USD	59.34	65.20	10.8	2.8	206,878	BB
2318 HK	Ping An Insurance Group	Financials	HKD	34.15	54.13	4.4	7.6	95,939	A
939 HK	China Construction Bank	Financials	HKD	5.47	6.64	3.7	7.5	178,201	AA
MA US	Mastercard Inc	Financials	USD	463.71	514.08	28.0	0.6	428,412	AA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	912.00	966.40	31.3	1.6	590,636	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	444.61	469.78	58.8	0.0	157,994	A
EXPN LN	Experian PLC	Industrials	GBP	3672.00	3985.50	26.6	0.0	43,395	A
DSV DC	DSV A/S	Industrials	DKK	1264.00	1438.26	20.3	0.6	39,234	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	934.00	1205.90	17.5	1.8	737,869	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	850.50	1068.44	27.8	1.0	367,850	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	418.35	502.34	27.0	0.8	3,109,612	AA
ACN US	Accenture PLC	Information Tech.	USD	330.62	342.31	25.8	1.7	207,327	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	350.80	362.31	27.4	0.9	88,492	A
EQIX US	Equinix Inc	Real Estate	USD	790.24	909.22	63.5	2.4	74,998	AA
ORSTED DC	Orsted AS	Utilities	DKK	410.40	458.41	15.1	4.0	25,024	AAA
JNJ US	Johnson & Johnson	Health Care	USD	157.85	170.71	14.7	3.2	379,983	A
		Average Yield:					2.0%		

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 July 2024. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—Healthcare and genomics

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.

Healthcare and genomics—Select exposures

Healthcare and genomics sit at the intersection of several other major long-term investment trends—ageing, population growth, finance, and technology. The ageing of societies is one of the easiest predictions to make about the future.

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
JNJ US	Johnson & Johnson	Health Care	USD	146.67	171.40	13.37	3.51	352,988	A
UNH US	UnitedHealth Group Inc	Health Care	USD	495.37	566.33	16.00	1.76	455,931	AA
LLY US	Eli Lilly & Co	Health Care	USD	820.34	862.85	42.87	0.73	779,656	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	927.30	933.33	32.22	1.58	602,336	AAA
DHR US	Danaher Corp	Health Care	USD	256.80	274.50	29.55	0.47	190,208	A
ISRG US	Intuitive Surgical Inc	Health Care	USD	402.12	421.64	54.93	0.00	142,634	A
ILMN US	Illumina Inc	Health Care	USD	104.28	148.34	40.73	0.00	16,612	A
CSL AU	CSL Ltd	Health Care	AUD	280.10	317.32	26.42	1.09	90,068	AA
RMD AU	ResMed Inc	Health Care	AUD	31.40	35.23	23.77	0.70	30,694	A
COH AU	Cochlear Ltd	Health Care	AUD	322.56	288.36	46.88	1.48	14,057	AAA
PME AU	Pro Medicus Ltd	Health Care	AUD	120.12	113.18	120.48	0.42	8,346	BBB
TLX AU	Telix Pharmaceuticals	Health Care	AUD	18.15	16.80	46.66	0.00	4,035	AA
A US	Agilent Technologies Inc	Health Care	USD	130.41	137.31	22.81	0.81	38,217	AA
FRE GY	Fresenius SE & Co KGaA	Health Care	EUR	29.28	37.10	8.73	3.41	17,895	A
MRK US	Merck & Co Inc	Health Care	USD	125.54	143.61	12.71	2.68	317,969	A
EXAS US	Exact Sciences Corp	Health Care	USD	45.45	84.00	-	0.00	8,387	A
CRSP US	CRISPR Therapeutics AG	Health Care	USD	53.74	85.08	-	0.00	4,563	BBB
PFE US	Pfizer Inc	Health Care	USD	28.66	31.95	10.50	6.07	162,405	A
ROG SW	Roche Holding AG	Health Care	CHF	231.00	273.35	11.75	4.33	209,873	–
NOVN SW	Novartis AG	Health Care	CHF	93.17	100.06	13.03	4.21	226,254	AA
AZN LN	AstraZeneca PLC	Health Care	GBP	12190.00	13409.89	16.98	0.03	240,809	AA

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

Important information

About this document

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