The circular economy: Better for the planet, better for the economy

Core Offerings

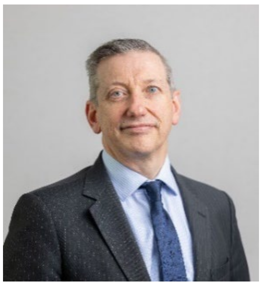
Our latest view of markets and insights into our latest strategic and tactical asset allocation positions

March 2023

Contents

The circular economy:
Better for the planet, better for the economy

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER



Scott Haslem
Chief Investment Officer

Amanda MacDonald
Head of Sustainable Investment

Economic growth and human development are inextricably linked to demand for natural resources, as raw materials are an input into almost every sector of the global economy. Consumption drives economic growth, but the linear economic model that exists today of 'take-make-consume-dispose' is almost certainly not sustainable. The extraction, processing, use and disposal of finite natural resources deeply affect the planet's climate, environment, and underlying resource supply.

The central premise of the circular economy is to break this 'take-make-consume-dispose' pattern by keeping products, commodities, and resources 'in the loop' for as long as possible. Creating integrated production and supply chains that reduce, reuse, repurpose, recycle, and remanufacture will ultimately maximise our resource efficiency and better align economic value creation with long-term ecological wellbeing.

In this month's letter, we examine the key differences between the traditional 'linear' economic model and a circular economy. We discuss how Australia (with a relatively low circularity rate compared to the global average) stands to benefit from adopting a circular economy, as well as some of the investment opportunities available in this space.

Disrupting the linear model

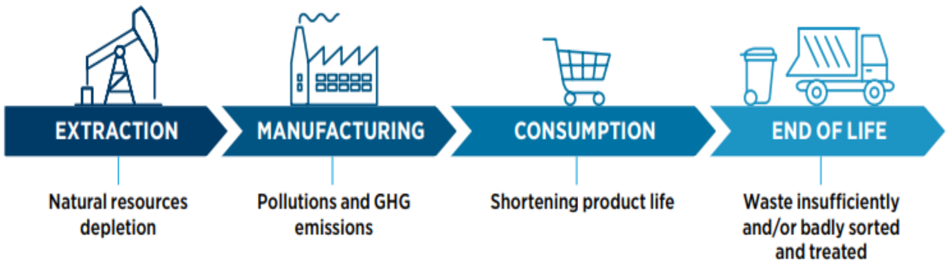
In the linear economy that we know today, economic growth is strongly linked to raw material use. Indeed, according to the Organisation for Economic Co-operation and Development (2020), global materials extraction has doubled between 1990 and 2017 and is expected to double again by 2060.

The linear model of production and consumption is built on 'take-make-consume-dispose'. For example, miners take metals from the ground, and this material is manufactured to make a fridge. Once the fridge reaches the end of its useful life, it is considered waste and moved to landfill. But the extraction, processing, use and disposal of natural resources deeply affects the planet's climate, environment, and underlying resource supply.

"Meeting the needs of a growing and increasingly affluent population will require material extraction to double by 2060 under historical trends."

International Resource Panel, 2019

Our economy favours a linear model, which is not sustainable with increasing consumption and rising populations



Source: Amundi Asset Management.

The key difference between linear and circular economies is the treatment of raw materials, including fossil fuels, metals, plants, and animals. In linear economies, economic growth is strongly linked to raw material use. But this is an unsustainable model over the long term, as most resources are finite and need time to replenish themselves for future use. In a world with increasing consumption and rising populations, economies which are not considering circular initiatives expose themselves to significant risks.

The problem with the linear approach

Not only does the one-way production model of a linear economy cause significant strain on finite resources, it also contributes to significant amounts of waste. Current consumption requires the environmental resources of 2.3 planets, according to the World Business Council for Sustainable Development. The linear model fails to acknowledge a key issue, which is that natural resources are limited and need time to regenerate to make new resources available for future consumption.

Circularity: A model of production and consumption that is designed to decouple economic growth from the consumption of finite resources.

United Nations Principles for Responsible Investment

On a planet with finite resources and a growing population, we have little choice but to move towards a circular economic model. Achieving a circular economy lies at the heart of the United Nations' Sustainable Development Goal (SDG) 12: Responsible Consumption and Production. This SDG calls for action to address waste, raise resource efficiency, improve supply chain accountability, and ultimately work toward a more sustainable future.

Circularity—More than just recycling

The concept of a circular economy is grounded in the ideas of sustainability and resource efficiency, and seeks to keep products, commodities, and resources 'in the loop' for as long as possible.

The central premise of the circular economy is to break the global **'**take-make-consume-dispose**'** pattern of growth in order to reduce the environmental impact of production and consumption and eliminate waste. Circular economic concepts seek a closed-loop system, not only to minimise waste and enhance sustainability, but also to keep raw materials in productive use for longer to enhance productivity.

The focus is to 'reduce, reuse, repurpose, recycle, and remanufacture' to create integrated production and supply chains, ultimately maximising resource efficiency.

Ultimately, a circular economy represents a shift away from the linear model that we know today. Moving away from the status quo requires a clear understanding of the direct benefits and costs of circular opportunities, but also the indirect and flow-on effects to the broader economy.

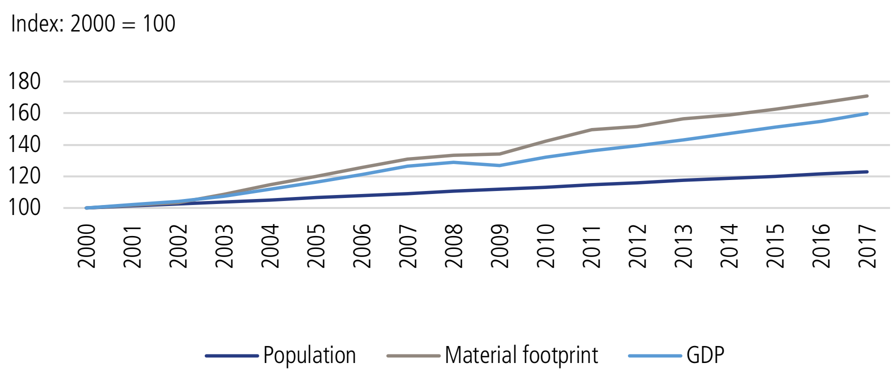
Shrinking our material footprint is imperative

In circular economies, 'material footprint' refers to the total amount of raw materials used to meet final demand for consumption and investment (Commonwealth Bank of Australia (CBA) (2023), *Beyond economics*). It is an indicator of the pressure put on the environment to support economic growth and to satisfy the material needs of the population. Since 2010, the world has seen a significant increase in its material footprint, driven by rising populations, increased consumption, and demand for materials. The global material footprint has seen a 70% increase since the year 2000 and 113% increase since 1990.

In circular economies, the focus is to 'reduce, reuse, repurpose, recycle, and remanufacture' to create integrated production and supply chains, ultimately maximising resource efficiency.

Without collaborative and concerted effort, the global material footprint is projected to grow to 190 billion metric tonnes by 2060, according to the United Nations. Even more alarming is that the global material footprint is rising faster than GDP growth and population growth. In other words, there has been no significant decoupling of material footprint growth from either population or economic growth since 2000. In order to reduce the strain on our natural resources, it is imperative we reverse that trend.

Population, material footprint and GDP growth index 2000–2017



Source: United Nations Stats Report, 2019.

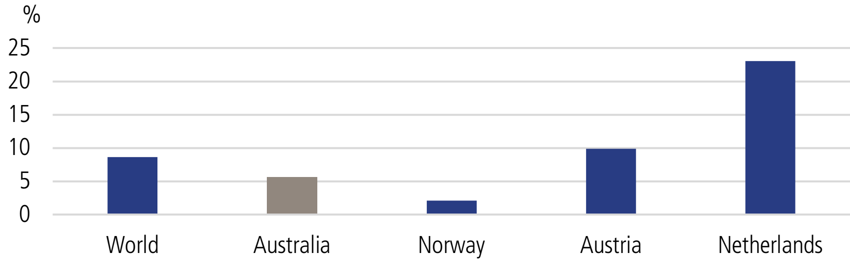
Why should Australia adopt a circular economy?

In its report, *How circular is Australia's economy,* CBA estimates Australia's circularity rate to be around 5%, compared to the world economy at 9%. The circularity rate is the amount of materials that are recycled, reused and recovered relative to materials used.

By global standards, Australia's circularity rate is low, which highlights the long journey ahead if Australia is to decouple economic growth from its material footprint. Increasing Australia's circularity involves a reduction in the use of 'newly' extracted materials; it does not imply a reduction in the 'use' of materials.

In the transition to increased circularity, economies like Australia, which are dependent on extraction and the export of raw materials, may be at more risk of disruption than economies that use materials for manufacturing.

By global standards, Australia's circularity rate is low



Source: Adapted from CBA, *How circular is Australia's economy?*

A circular approach helps mitigate risk

In the transition to increased circularity, economies like Australia, which are dependent on extraction and the export of raw materials, may be at more risk of disruption than economies that use materials for manufacturing. For example, Australia extracts a large amount of materials via mining and agriculture, while China uses a large amount of materials in manufacturing. Further, Australia is at risk from disruption as other countries adopt more circular initiatives. Governments in China, South Korea, and Japan have announced that their economies will be net-zero carbon emitters by 2060, 2050 and 2050 respectively. To meet their targets, they will reduce their imports of carbon-intensive energy sources like coal, oil and gas. These three countries are major importers of Australia's mining exports. Therefore, Australia's exports could be at risk when governments choose to reduce their-carbon intensive imports. To increase circularity from its current low levels, Australia needs to reduce the use of newly-extracted materials and consider innovative and transformative ways of doing so.

A circular approach provides specific economic benefits

In its report, *Potential economic pay-off of a circular economy*, KPMG writes that "circular activities and processes not only extend the usable life of products but also extend their value, create new jobs and raise economic growth".

"Circular activities and processes not only extend the usable life of products but also extend their value, create new jobs and raise economic growth."

KPMG

It suggests that a circular economy in food, transport and the built environment represents a potential economic benefit for Australia of AUD 23 billion in GDP by 2025, and estimates that by 2047-48, the benefit of a circular economy will likely create an additional 17,000 full-time equivalent jobs for Australia.

To position itself on a global scale, Australia needs to consider circular initiatives from both a macro-economic and micro-economic perspective. As consumer sentiment and awareness of these issues grows, the circular economy has the potential to give us the tools to tackle environmental challenges, as well as provide us with the ability to encourage economic growth, increase jobs, and enhance our prosperity.

Circular economy as a sustainable investment opportunity

The investment case for circularity really depends on the size and magnitude of the four key drivers outlined below. It is also important to recognise that circularity remains in its nascency and to be fully implemented in economies does come with risks. We see the below four drivers of circular initiatives:

- Regulation: Governments are beginning to address broader parts of product supply chains to reduce waste and improve environmental transparency

- **Consumer demand:** Businesses that adopt circularity potentially open new business opportunities appealing to shifting consumer appetite. Whilst the majority of purchases currently still consist of new goods, shifting consumer trends are fuelling a rise in resale marketplaces.
- **Resource scarcity**: At the heart of the circular economy is a reduction in the need to extract and use new raw materials.
- **Technological advancement**: Continued advances in relevant technologies will see reduced cost curves for metal recycling, chemical recycling, and pyrolysis of industrial waste, and bioplastics. This means focusing on upstream innovation and not necessarily better waste management.

It is important to recognise that circularity remains in its nascency, and its full implementation in economies does come with risks.

In the following table, we have identified companies that may benefit from or contribute to the advancement of the circular economy. This is not a list of recommendations—the following companies have been identified to be considered as a company with circular economy thematic attributes.

Investment opportunities in the circular economy

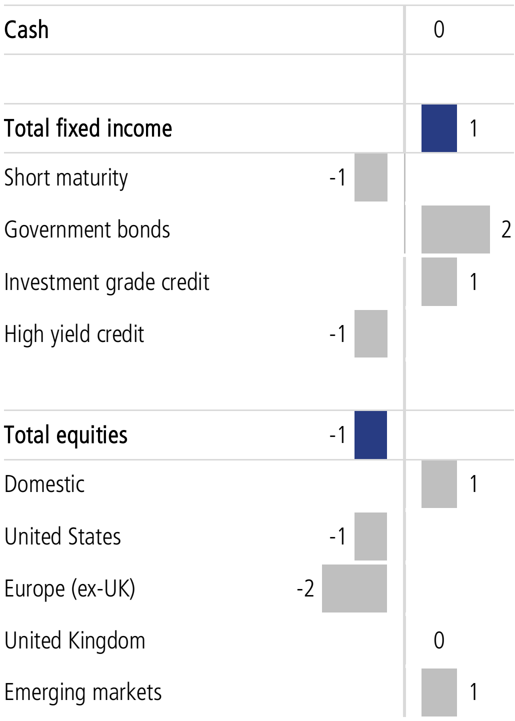
Listed companies	
Amcor ASX: AMC	Actively addresses customers' desire for more recycled materials in packaging.
Brambles ASX: BXB	Focuses on a circular share and reuse model, to be inherently low carbon.
Ecolab NYSE: ECL	Develops and offers services, technology and systems that specialise in treatment, purification, cleaning and hygiene of water.
Waste Management, Inc NYSE: WM	A comprehensive waste and environmental services company operating in North America.
Xylem NYSE: XYL	Offers equipment and services for water and wastewater applications that address the full water cycle from collection through distribution and reuse.
Managed funds	
AB Global Sustainable Thematic	Global equity sustainable thematic strategy with exposure to companies that are focusing supply chains toward circular economic initiatives.
TT Global Environment Fund	Global equity environment strategy with 5% exposure to companies specifically focusing on circular economy initiatives.
BlackRock Circular Economy Fund *	One of a kind strategy, investing in well-positioned global companies poised to capitalise on the circular economy transition. The fund was created in partnership with the Ellen MacArthur Foundation, whose mission is to accelerate the transition to a circular economy.
Private markets	
Who Gives a Crap	100% recycled toilet paper, paper towels, and tissues, which donates 50% of profits to help build toilets for those in need.
Samsara	An Australian start-up that has the ability to return plastic polymers back into their original virgin monomers, thereby closing the loop to make plastic infinitely recyclable.

Sources: LGT, LGT Crestone, UBS. * Currently not available on approved product list.

We have also developed a *Quick guide to the circular economy*, which provides a summary of how the circular economy encourages economic growth, how various countries around the world are implementing the fundamental elements of a circular economy, and some of the opportunities investors can take advantage of. Please ask your investment adviser for a copy of this guide.

What's driving our views

Tactical asset allocations (% weights)



Source: LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocations. Investment grade credit includes Australian listed hybrid securities.

Trimming risk: Resilient growth delays central bank pause

As expected, at the start of 2023 equity markets have been relatively volatile. Both shares and bonds rallied in January on hopes of a soft landing, then gave back some of their gains in February as a result of more resilient macro data, sticky inflation and the possibility of higher-than-expected interest rates.

Inflation volatility is likely to persist—Inflation is falling near term. But fading impacts of globalisation, structurally tight labour markets, and geo-political impacts on supply chains suggest less deflation and more inflation.

A return to 'normal' interest rates—Peaking inflation is likely to foster a near-term peak in central bank hikes. But stickier inflation than over the past two decades is likely to limit a return to near-zero interest rates.

Geo-political volatility likely to be enduring—Russia's invasion of Ukraine has ended a long period of benign globalisation. Ongoing decoupling of leading edge technology, political and trade alignment, as well as military and energy security, are all key potential drivers of growth and profits.

Diversification may matter more—In a world of heightened volatility and fewer long-cycle trends, it is important to maintain portfolio diversification, avoiding over-exposure to individual markets, sectors and other specific return drivers. Unlisted investments are likely to grow in favour.

Structural thematics

The energy transition—As the world faces a trade-off between net-zero commitments, cost, and energy security, it is setting the scene for both old and new forms of energy to play a role.

Sustainable investing—As the world becomes more connected, it is also becoming more socially aware. The intersection of finance and sustainability will govern a reallocation of capital.

The search for income—The exit of "zero-bound interest rates" has resulted in a resetting of income expectations across all asset classes, from equities to fixed income, to income-generating alternative unlisted assets.

Deglobalisation—Brexit, trade wars, COVID-19, and Russia's invasion of Ukraine have up-ended a relatively harmonious world order, with impacts spanning geo-politics, military spend, supply chains and demographics.

	What we like	What we don't like
Equities	▪ Companies with pricing power/resilient revenues ▪ Later-cycle defensive exposures in the consumer staples, telco and utilities sectors ▪ Emerging markets due to China re-opening, improving earnings and better valuation metrics	▪ Sub-market EPS growth companies, which are vulnerable to valuation headwinds ▪ S&P 500 companies, where valuations are now back above pre-COVID average valuations ▪ Continental Europe, where inflationary pressures suggest significant earnings headwinds
Fixed income	▪ Green bonds and ESG-oriented strategies ▪ Fixed-rate three to five-year senior unsecured banks ▪ Fixed-rate Australian bank subordinated tier II	▪ Short maturity bonds with a preference for more duration in portfolios
Alternatives	▪ Multi-strategy, credit-oriented and discretionary macro hedge funds ▪ High-grade, core-plus commercial real estate and infrastructure ▪ Private market and real assets exposed to the global energy transition	▪ Carbon-intensive assets with no transition plan ▪ Pre-IPO strategies ▪ Passive private market and/or real asset strategies ▪ Construction and/or junior real estate lending

Economic and asset class outlook

Economic outlook

Global economy

The global economy appears on track for a material slowing in economic activity this year, as the lagged impacts of 2022's rapid rise in central bank rates and borrowing costs begins to weigh on households and corporates. While any recession this year (or in early 2024) may be relatively shallow, early 2023 data has been stronger than expected, not only on the back of Europe's warmer winter and China's re-opening, but also due to the resilience of consumer spending and industrial output.

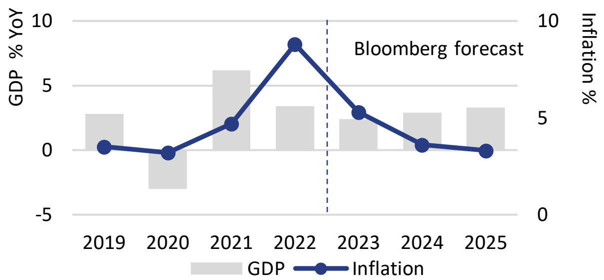
Together with a recently slower-than-expected moderation in inflation (albeit increasingly passed its peak), this has led many major economy central banks to reassess whether there is 'more work to be done' on raising interest rates in H1 2023. It now appears a likely pause in policy tightening around end-Q1 is drifting into mid-Q2 for the US Federal Reserve (Fed) and Reserve Bank of Australia (RBA), which join the European Central Bank (ECB), which is well behind in its tightening cycle. In contrast, the Bank of England (BoE) appears close to a pause, the Bank of Japan (BoJ) remains on hold, while China's authorities continue to support growth with credit easing.

This is leading to upgrades to the near-term growth outlook across the US, Europe, as well as Asia. Easing supply-chain pressures are also leading to a faster production recovery in sectors like autos. However, this is also raising concerns that the pace of growth may need to slow more forcefully in H2 2023 to ensure adequate easing of inflation pressures.

While this has increased the prospect of a harder landing and more volatility ahead—and markets have priced an additional 0.5% of near-term rate increases—leading indicators of activity continue to suggest we are on the cusp of weakening growth. Tight jobs markets show signs of easing wage growth and weaker vacancy trends, credit conditions have tightened significantly, and consumer confidence remains low.

Forecasts for the outlook remain around 2% for 2023, lifting modestly in 2024. In January, the World Bank cut its 2023 outlook, noting "global growth is expected to decelerate sharply to 1.7% in 2023—the third weakest pace of growth in nearly three decades". CBA recently edged up its outlook from 1.8% to 2.0%, rising further to 2.6% in 2024. UBS sees faster growth at 2.4% (was 2.3%) in 2023 and 2.7% in 2024.

Global GDP growth and inflation



Source: Bloomberg as at February 2023.

Australia

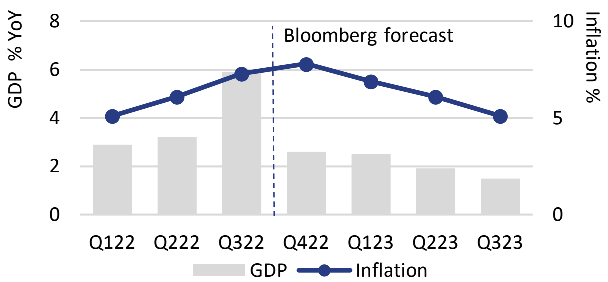
While the Australian economy retained significant momentum in late 2022, some early 2023 data is now tentatively revealing a slowing in growth ahead. Renewed concerns about elevated inflation, leading the RBA to flag further rate hikes, has now reversed a recent improvement in consumer sentiment. The jobs market and consumer credit card spending have also started to weaken more clearly. Still, China's re-opening—and some stabilising of the global growth backdrop—have added to confidence that while growth will likely slow materially ahead, Australia can avoid recession and outperform growth in other developed economies. Signs of a further moderation in growth will be key to avoiding over-tightening of rates policy.

Growth in Q3 2022 rose by a solid 0.6% after a strong 0.9% gain in Q2, lifting annual growth to a well-above-trend 5.9%. Q4 data is due imminently and expectations centre on a solid 0.7% gain, albeit annual growth should correct to below a 3% pace, ahead of further moderation in H1 2023. Retail sales fell sharply in December, by 3.9%, reversing steady gains across recent months. House prices and leading indicators of housing activity continue to weaken significantly, with loan growth falling over 4% in December (albeit a backlog of work is supporting new building approvals for now).

Importantly for the inflation outlook, wages growth continues to rise by less than expected, at 3.3% in Q4 2022. Moreover, the labour market has recently weakened, with jobs falling for two months and unemployment rising from 3.4% to 3.7% in January, only marginally below the RBA's end-2023 forecast. While inflation was stronger than expected at 7.8% in Q4 (from 7.3%), reaching a new high since Q1 1990, global and domestic trends point to lower inflation in 2023. Despite this, the RBA pivoted more hawkish in February, flagging further rate hikes on the back of inflation being "way too high". Reflecting this, after the hike to 3.35% in February, both CBA and UBS have lifted their terminal rate forecasts to 3.85%.

Growth is expected to be around 3.5% in 2022 (after 2021's strong 5.2% rebound post-pandemic). UBS expects Australia to avoid a recession in 2023, with the lagged impacts of the increase in rates slowing growth to 1.4% in 2023, while CBA forecasts a sharper slowing to 1.1%. UBS expects growth to recover modestly to a 1.7% pace in 2024.

Australian GDP growth and inflation



Source: Bloomberg as at February 2023.

Economic outlook

United States

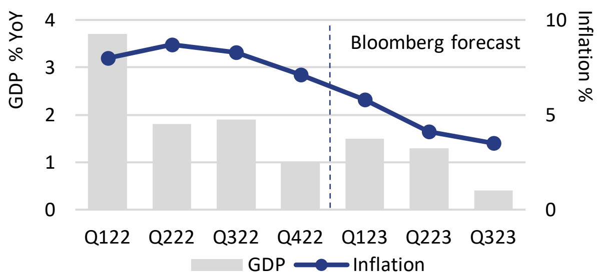
Signs of slowing growth through late 2022 have quickly given way in early 2023 to signs of economic resilience and stickier-than-expected (services) inflation. This has heightened concerns of a more aggressive tightening cycle by the Fed. However, according to Longview Economics, "while the current general narrative in markets is increasingly dominated by the soft-landing view, the key indicators which lead the cycle are generating a broad based set of recession warning signals." A sharp pull-back in growth is expected over the coming year, with the US economy either in or near recession by mid-2023. While any recession is likely to be mild, the lagged impact of rising rates should see unemployment lift through H1 2023, in turn continuing to pressure inflation lower during H2 2023.

Growth proved robust at 0.7% (2.7% annualised) in Q4 after a 0.8% rebound (3.2%) in Q3. This highlights the US's strong 3% pace of growth in H2 2022. Recent data has been resilient. The US composite purchasing managers leading index (PMI) jumped above the key 50 mark to 50.2 in February (from 46.8). Retail sales rose by a well-above consensus 3.0% in January, more than reversing losses across November and December. An already tight jobs market delivered a bumper 517,000 jobs print for January, with unemployment retracing to a new cycle low of 3.4%. BCA Research notes, "for now, the data suggest that the US economy remains too hot."

Inflation fell from 6.5% to 6.4% in January, continuing its recent trend lower from a peak of 9.1% mid-2022. However, recent data reveal a less-than-expected decline, as well as sticky core inflation of 5.6% (led by services). While the Fed has been slowing the pace of hikes, with a 0.25% lift to 4.75% in January, it appears to believe it has more work to do on interest rates, with the latest minutes noting that "all participants continued to anticipate ongoing increases in the target range for the funds rate would be appropriate to achieve the Committee's objectives." UBS expects two further hikes to 5.25%, one in March and one in May.

After a post-pandemic rebound of 5.9% in 2021 and growth of 2.1% in 2022, UBS expects a sharp slowing to 0.8% (was 0.6%) in 2023 (and 0.4% in 2024). JPMorgan also sees a mild recession in 2023, albeit with higher growth of 1.0%.

US GDP growth and inflation



Source: Bloomberg as at February 2023.

Europe

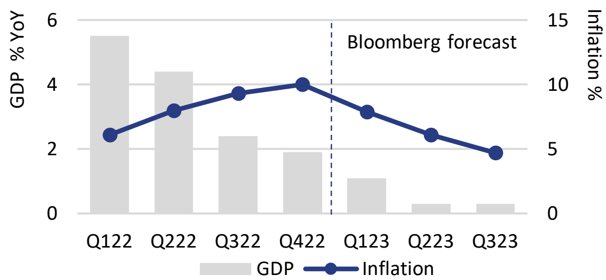
A warmer-than-expected winter has recently underpinned a more positive outlook for Europe over recent weeks (as have easing supply chain issues for industrial output). Recent data suggest the risks of a winter recession have reduced, ahead of what is likely to still be a very tepid recovery over the balance of the year. Moreover, elevated inflation suggests the impact of tightening rates (likely to rise through to mid-year) is yet to be felt by European households and businesses. China's recent diplomatic engagements with Russia highlight the continued uncertainty and risks associated with the ongoing Ukraine war.

Europe's Q4 economic growth beat again, up 0.1% against expectations for a similar sized decline. The annual pace slowed further from 2.3% to 1.9%. February's PMI data added to an improving trend, rising to 52.3 from 50.3. The jobs market is also tight, though unemployment edged higher to 6.6% in December (from an historic low 6.5%). While retail sales have been volatile, falling 2.7% in December (after 1.2%), annual growth remains steadily negative (near -3%). While BCA Research notes five consecutive months of consumer sentiment improvement, UBS highlights the recent ECB lending survey "shows evidence of a further significant tightening in financial conditions for firms and households".

Inflation eased, from a peak of 10.6% in October to 8.6% in January. However, the ECB has been focused on core measures, which have risen to 5.3% in January from 5.0% in November. The ECB raised the policy rate 0.50% in January to 2.5%. While repeatedly saying its rate action would be data-dependent and 'meeting-by-meeting', the ECB pre-committed to a 0.50% hike in March. President Lagarde, according to UBS, argued that the risks to growth were now more balanced than they appeared in December, and the same was the case for inflation. UBS expects a further 0.5% hikes in March and a final 0.25% in Q2, taking policy to 3.25% for the rest of 2023. Société Générale (SG) expects the ECB to pause in H2 at 3.0%.

After a post-pandemic rebound of 5.3% in 2021 and growth of 3.5% in 2022, UBS expects a sharp slowing to 0.8% in 2023 (recently revised higher from 0.2%). SG expects higher growth of 1.1% in 2023, while CBA upgraded its growth outlook from -0.9% to -0.5% (and 1.0% in 2024).

European GDP growth and inflation



Source: Bloomberg as at February 2023.

Economic outlook

United Kingdom

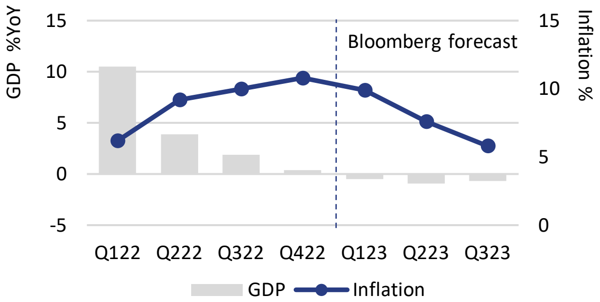
Recent data suggest growth has slowed in the UK over recent months, as elevated energy costs, rising inflation, and tighter monetary policy weigh on domestic activity (including the key housing sector). Growth has, nonetheless, been more resilient than expected, inflation has eased more slowly than elsewhere, and the jobs market remains tight, underpinning a recently more rapid rise in rates than in Europe. Thus, the likelihood of recession in H1 2023 remains elevated and "households are in the throes of a trifecta of shocks (real income, energy, and interest rate shocks)", according to Longview Economics.

Growth was flat in Q4, after -0.2% in Q3, helping the UK narrowly avoid a technical 'winter' recession, albeit annual growth eased to a near stalled 0.4% from 1.9%. Some early 2023 data has improved (such as the PMI jumping to 53.0 from 48.5 in January) and the jobs market remained tight in the February report (with wages growth accelerating, even as vacancies slow). Retail sales also recovered 0.5% in January after a 2% decline across November and December.

Price pressures remain significant, and UBS believes recent labour market data are "unlikely to have provided relief to the BoE's concerns around the strength in wage growth and the risk of inflation persistence." Inflation fell for the third month in January, to 10.1% from 10.5%. While still elevated, the BoE continues to flag it is nearing the end of its rate cycle. In February, it raised the policy rate another 0.5% to 4.0%, with two key changes. Firstly, it conditioned any future hikes on "evidence of more persistent [inflation] pressures". Secondly, it removed the reference of "forceful" policy response to greater inflation persistence, opening the door for a smaller 0.25% hike. Still, Governor Bailey noted while the BoE had done much (in terms of tightening), it was too early to declare victory. UBS expects the BoE to deliver one more 0.25% hike in March, bringing the cash rate to 4.25%, "and stop there".

After growth of 4.0% in 2022 (and the strong 7.6% rebound post-pandemic), UBS expects 2023 growth to fall by 0.4%, while CBA and SG also expect a significant slowing to -0.9% for 2023. For 2024, growth is expected to rebound modestly, with UBS forecasting 0.6% and CBA just 0.3% for 2024.

UK GDP growth and inflation



Source: Bloomberg as at February 2023.

Japan

In contrast to other key advanced economies, Japan looks on track to deliver steady, if not somewhat modest, growth over the next couple of years. The eventual (stop-start) re-opening of the domestic economy following the pandemic, as well as the opening of international borders, a weak currency, and high consumer savings, are all likely to support modest growth. A material slowing in global activity will be a headwind via weaker exports and manufacturing capex. However, the recent easing of fiscal policy will continue to support activity. Focus will soon turn to the change in BoJ Governor Ueda in April, and whether this leads to a more restrictive policy stance.

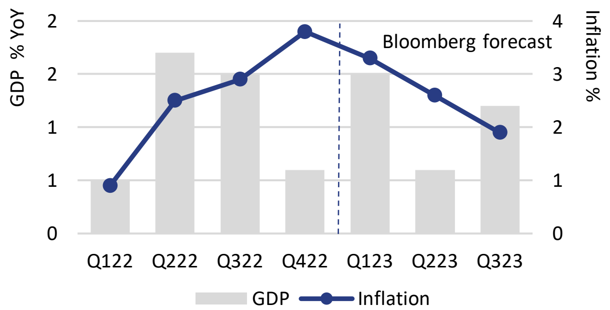
Growth rebounded tepidly in Q4, rising 0.2% after an unexpected 0.3% contraction in Q3, with the annual pace slowing to just 0.6%. Growth is expected to improve further in Q1, with Japan's February PMI unchanged at 50.7 (from 48.9 in December). According to BCA Research, "Japan's Economy Watchers Survey suggests that businesses are becoming less pessimistic about the economic outlook". Mixed consumer trends continue (given still subdued wages growth), with retail sales rebounding 1.1% in January (after December's 1.3% decline). Unemployment remains low at just 2.5%.

Core inflation rose to 4.2% from 4.0% in January, its highest since 1981, reflecting less improvement in energy prices and a pick-up in accommodation pricing. With UBS expecting inflation to move weaker imminently (to 3.2% in February), BCA Research believes "a sustained economic improvement and more pronounced domestic price pressures are needed to nudge the BoJ towards a less accommodative stance."

Still, the BoJ has recently been forced to purchase significant amounts of bonds this year (equivalent to 4% of output) to support its 'yield curve control' (YCC) policy. According to BCA Research, with new leadership taking over the central bank in April, the market's focus will be on how the BoJ will change its YCC policy, which has clearly become unsustainable.

After 2.1% in 2021, growth slowed to 1.1% in 2022. UBS expects a moderately better pace of growth of 1.3% in 2023 (and 1.2% in 2024). SG expects 1.4% in 2023 (1.3% in 2024).

Japanese GDP growth and inflation



Source: Bloomberg as at February 2023.

Economic outlook

China

China's recovery stalled in Q4, as renewed COVID outbreaks weighed on consumer spending and property activity remained historically weak. However, forecasts for 2023 have continued to strengthen over recent months, as China accelerated the end of its COVID-zero restrictions and borders re-opened for travel. While a large-scale stimulus remains unlikely, a rebound in income on the back of the economy re-opening and jobs sector recovering should (together with a reduction in excess saving) underpin a pick-up in consumer spending through Q2 and H2 2023. With slowing capex and global export demand, China's pick-up in growth will remain moderate, but contrasts with typically slowing growth elsewhere in major economies.

Output in China slowed by less than expected in Q4, stalling in the quarter against expectations for a contraction. Annual growth eased to 2.9% from Q3's 4.0% pace. However, UBS's high frequency data around Chinese New Year holidays showed much better economic activity than in 2022, with people movement, outbound travel, and domestic tourism revenue rebounding notably. On the other hand, property sales, auto sales, and the truck freight traffic index weakened in January, the latter partly due to the expiration of auto purchase incentives and Chinese New Year holiday distortions.

According to CBA, "President Xi's [latest] speech suggests the government is shifting its priority to demand from supply", hinting at more support for the economy. Credit growth made a strong start to the year in January, with the second highest absolute level, though slowing from 9.5% to 9.3% on base effects. The authorities are expected to continue boosting credit, as recently highlighted in December's key Central Economic Work Conference. China's upcoming National People's Congress from 5 March is also likely to reiterate a focus on supporting growth with a target of 'around 5%'.

After 8.4% in 2021, China's growth slowed to 3.0% in 2022. But in contrast to most other economies, UBS expects growth to accelerate to 4.9% in 2023 (recently upgraded from 4.5%). SG recently cut its 2023 forecast from 5.7% to 4.8%, while CBA recently lifted its forecast from 4.9% to 5.5%.

Emerging markets

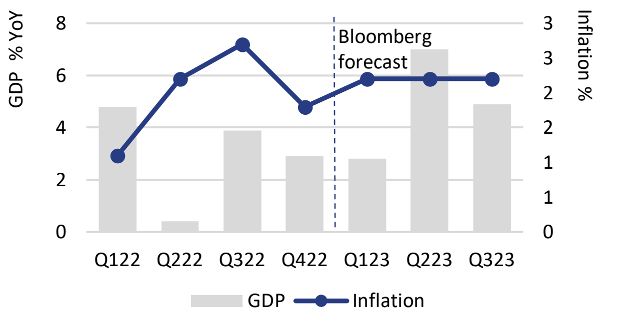
After a H2 2022 rebound in activity led by Asia, the emerging market region is expected to continue recovering moderately through 2023, as Asian growth strengthens and emerging Europe stabilises. China's accelerated re-opening provides further growth support to Asia. Nonetheless, the region will continue to face headwinds from a slowing global economy through 2023, particularly North Asia's export-orientated economies. Inflation has started to broaden beyond just food and energy, suggesting elevated rates into mid-year, before rate cuts in H2 2023 as inflation pressures recede.

The outlook for Asia has improved on the back of a faster-than-anticipated China re-opening, with UBS recently upgrading its outlook for Hong Kong and Thailand. "The resumption of cross-border travel is the foremost channel through which Asian economies benefit." Most central banks (including Bank of Korea, Bank of Thailand, and Bank Indonesia) continued to increase rates in January, though UBS believes peaking inflation (especially for Southeast Asian nations) suggests many are near the end of the tightening cycle. High core inflation in India, Thailand, Malaysia, and Philippines suggest further hikes to come, though India is now likely on hold after January's hike, according to UBS and SG (with a risk of one more following January's higher inflation).

For Latin America, the key headwind will be the slowing global economy impacting external demand for exports. UBS expects growth to slow from 3.6% in 2022 to 1.0% in 2023. In Brazil, fiscal policy has been tightened amid peak central bank rates. Q3 quarterly growth slowed from 1.0% to 0.4%, adding to expectations that interest rates will be cut in H2 2023 (after three steady months), as inflation moderates more clearly. For emerging Europe, a downturn in consumer spending is one of the main drivers of an expected slowdown in growth in 2023.

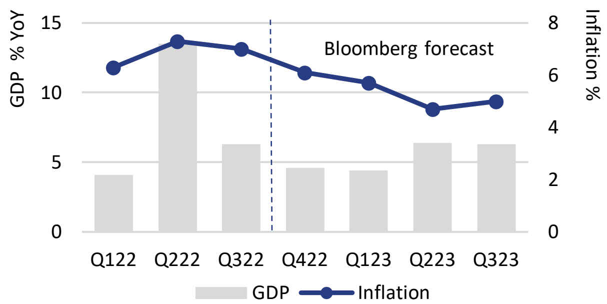
After 7.5% in 2021, UBS expects emerging market growth to have halved to 3.9% in 2022. A modest further slowing is expected in 2023 to 3.8% (was 3.7%). Growth in emerging Europe has been revised higher to 1.0% after 2.2% in 2022.

Chinese GDP growth and inflation



Source: Bloomberg as at February 2023.

India GDP growth and inflation



Source: Bloomberg as at February 2023.

Asset class outlook

Short maturity and government bonds

Position: Underweight short maturity, overweight government bonds

Key points

- Central banks are likely to continue tightening monetary policy in Q1 2023 and early Q2.
- Global bond yields have risen, as markets price higher terminal rates.
- We expect rate volatility to remain elevated in Q1 2023, reflecting the risk of a sharper-than-expected slowdown in economic growth.

Short maturity—Markets have reacted negatively to central banks' comments on inflation, with the Fed and RBA claiming inflation is too high. While US data suggests inflation has peaked and the aggressive pace of hikes from central banks will slow, the market has priced in higher rates for longer. In the US, strong consumer demand and labour markets should allow central banks to continue at the current pace of rate rises. The market is pricing in a further three rises by the RBA (a terminal rate of 4.15%). However, we believe, once the terminal rate reaches around 3.85%, the RBA will pause for an extended period as cracks appear in the labour market. The yield on the three-year government bond rose 50 basis points (bps) in February and is now at 3.50%, reflecting the higher implied terminal rate.

With recent higher unemployment data in Australia and a greater concern of a global recession led by higher interest rates, we believe that the current implied terminal rate is too high. The higher move in shorter-term government and investment grade bonds is attracting greater demand from investors as outright yields increase. We recommend that investors take some duration in portfolios via a balanced exposure to fixed rate and floating rate notes.

Government bonds—Our base case is that bond yields are likely to fall over the next six to 12 months as growth decelerates because of tighter financial conditions, elevated energy costs, and general macro uncertainty. The 10-year Treasury yield, now around 3.9%, is pricing in rate cuts and fears are growing of an imminent recession, which is characteristically seen in the inversion of the yield curve. Given the balance of risks between high inflation and slowing growth, we believe the asset class presents an attractive asymmetric return prospect. Bond yields may remain volatile in the short term as markets will be influenced by macro data, but we see any rise in bond yields as a buying opportunity. Above-target inflation numbers are likely to reverse and drop quickly enough for central banks to take out insurance against a recession, predicting lower energy prices, a weaker labour market, and ultimately lower cash rates. Government bonds are our most preferred sector within fixed income.

The risk-return on the defensive, higher-quality segments of fixed income remains appealing, given the all-in yields on offer and the expected transition from inflation risks to growth risks. Within this context, we prefer high grade and investment grade bonds.

Investment grade and high yield credit

Position: Overweight investment grade and underweight high yield credit

Key points

- Domestic subordinated Tier II debt is our most preferred segment within investment grade credit.
- Investment grade credit spreads are stable as outright yields attract greater demand.
- We prefer investment grade credit over high yield, where the latter is vulnerable to an increase in default risk.

Investment grade credit—With bond yields rising, investment grade credit spreads have remained stable due to increasing demand as outright yields become more attractive. Domestically, with the three-month Bank Bill Swap index (BBSW) now around 3.50% and a steeper swap curve at the front end, we recommend investing in fixed rate assets around the three to five-year part of the curve. Senior unsecured bank spreads have remained elevated at around BBSW+105bps, offering a yield to maturity of 5.00% for five years. We expect issuance to remain high in both subordinated Tier II and senior unsecured, which should keep spreads elevated. We see this as an investment opportunity, particularly in Tier II, as outright yields are offering attractive returns of around 6.25%.

Spreads in the hybrid market have been remarkably stable and have remained at historically low levels over the last 12 months. The average trading margin for major banks that have a first call date greater than five years is BBSW +260bps. ANZ issued a $1.5 billion seven-year capital note at BBSW +275bps, which met with strong demand from both new money and re-investment sources. ANZ was the only major bank that needed to refinance this year, so spreads are likely to remain low due to limited expected supply. However, on a risk-adjusted basis, we see more value higher up the capital structure in subordinated Tier II debt, where spreads are around BBSW +225bps, yielding approximately 6.00% for five-year fixed rate debt.

High yield credit—The culmination outright yields of around 8.50% has led to high yield spreads being more stable. However, we remain cautious about the high yield market and expect a widening of spreads in coming months. This is consistent with less supportive liquidity conditions, an increase in defaults to a more normalised level, and high yield spreads coming under further pressure from likely interest rate rises.

Tactically, before we become more positive on the broader high yield market, we need to see further evidence that inflation is coming under control, which will provide confirmation that central banks do not need to hike as aggressively as anticipated and recession can be avoided.

Yields for US and European high yield debt of around 8.5% provide a level of protection against falling prices. With a large part of the investment universe now trading at a discount to par, there are select opportunities available for investors. Our preference is to be higher up the credit quality curve in investment grade credit.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- Domestic equities fell 2.9% in February, once again struggling to breach the 7,600 level that has marked a peak on four occasions over the past 18 months.
- In Australian dollar terms, the S&P/ASX 200 underperformed the MSCI World Index, as the Materials and Financials sectors led declines.
- Banks gave back all year-to-date gains in February, as uncertainty around monetary policy, combined with CBA's first half results, saw investors become cautious.

At the time of writing, reporting season is still underway and results, having started quite positively, have begun to show greater signs of weakness. In aggregate, earnings per share (EPS) estimates for the S&P/ASX 200 have fallen approximately 0.5%. This is better than is typical during earnings periods, albeit revenues have broadly been stronger than expected, with financial year 2024 S&P/ASX200 revenue upgraded by around 1.4%. Offsetting this have been higher costs, which have also come in higher than anticipated. Taken in totality, they have more than offset a resilient top line. Dividends have come in stronger than expected, although looking to financial year 2024, there are tentative signs that investors should prepare for flat, or perhaps lower payouts.

In February, the S&P/ASX 200 index, and especially the banks sector, was whipsawed by some uncertainty on monetary policy. Following the RBA meeting, the rates market repriced expectations for the RBA cash rate to peak around 4.2% (up from 3.75%), which signals a further two rate hikes. At this stage, the market is not fully priced for a rate cut until May 2024. Till that point, the market had been pricing in the benefits to net interest margins (NIM) for the banking sector. However, following this re-pricing, investors became more circumspect on the outlook for bad debts and the resilience of the consumer, as well as competition for deposits potentially eating into some of the NIM benefits from higher rates.

The index now trades on a 12-month forward price/earnings (P/E) ratio of 14.3x (roughly in line with its long-run average of around 14.5x). This will squarely shift the focus to earnings, which in the face of a likely weaker consumer and housing sector, will potentially be very multi-faceted. Australia's leverage to China remains a key focus. Money supply growth in China is growing at its fastest pace since 2016, although we feel the commodity-facing names may have capitalised much of this benefit in already. The index's actual exposure to domestic-facing and economically sensitive companies is not especially significant (excluding the banks, which are somewhat nuanced). Combined, the consumer discretionary and industrials sectors represent just 12% of the index, with property a further 6%. However, it could be argued the property sector has already incorporated the effects of rising rates and the impact on consumption.

International equities

Position: Underweight Europe and the US, neutral UK and overweight emerging markets

Key points

- In February, global equity markets fell 2.3%, with emerging markets giving back some of the strong gains following China's emergence from COVID-zero.
- All sectors suffered falls during the month, with energy and materials leading declines. The tech sector was the best performing, albeit performance waned over the second half of the month as rate expectations rose.
- A very strong payrolls/jobs report in early February took some of the euphoria out of markets, as investors were forced to confront a 50bps increase in bond yields.

Many commentators are now positing the notion of a 'no-landing' economic scenario – i.e., economic growth and employment prove resilient in the face of the sharpest increase in interest rates ever seen. With that, the bond market has significantly repriced both terminal rate expectations and the prospect of rate cuts. The market is now pricing in a peak in the Fed funds rate of 5.41%. A little over a month ago, it was 4.86%. Put another way, investors have added two full rate hikes to their terminal, or peak Fed funds rate. Secondly, the notion of a Fed pivot, or rate cuts, is now being strongly challenged by the bond market. Pricing for the January 2024 Fed funds rate has moved from 4.1% to 5.16% in just over a month, a significant repricing of the so-called Fed pivot. The 'higher-for-longer' narrative seems more plausible today than at any previous point in this hiking cycle.

UBS sees the S&P 500 bottoming at 3,200 in Q2/Q3 and ending the year at 3,900. This is predicated on growth deteriorating considerably into Q2/Q3, and the P/E multiple contracting from its current elevated level of 18x to 14.5x, which are the trough levels seen in 2002, 2018 and 2020. It forecasts 2023 EPS to decline by more than 10% to $198, with a margin decline below 2020 lows for S&P ex-financials/energy. The second half rebound in equity markets is underpinned by a counter-consensus view that the Fed will aggressively cut rates to 4% by year-end and to 1.25% by Q2 2024 versus the broader consensus view of 4.05%.

European equities are up over 20% since their September low. The European equity market has rallied for valid reasons: China re-opening, robust economic data, fast-falling headline inflation, improving supply-chain issues, resilient corporate earnings (or perhaps lagged) and a mild winter, which has helped on the energy front. Ultimately, European EPS tends to follow US EPS, but with a beta of 1.5x. Since the ECB did not start lifting rates until July, it seems reasonable to suggest that European EPS will also trend in the same direction as the US, but with a lag of two to three months. UBS modelling suggests that Eurozone EPS will fall towards 30 from its current 34.5x. If this is correct, this would suggest that Europe is trading on 15.5x P/E, in line with pre-COVID peaks.

Asset class outlook

Currencies

Key points

- Persistent inflation concerns and a clouded global growth outlook have been the focus for currency markets.
- The US dollar reclaimed some recent losses on renewed expectations the Fed will lift rates further than the market was previously anticipating.

The USD index had been on a steady decline since reaching its peak of 114 in Q4 2022. But it found some renewed strength in February after persistently high inflation data in the US saw the Fed reinforce a more hawkish outlook. Although the Fed slowed its rate hiking to 25bps in the month, it emphasised the need to maintain a tight monetary policy environment into 2023 and signalled that policy would likely be tightened above earlier expectations. The market-implied terminal rate is now expected to reach 5.41% by the end of Q2 2023. The US dollar's direction is likely to be conditioned by how long the Fed keeps rates in restrictive territory. In the near term, the likely deteriorate in the growth data in early 2023 and given the counter-cyclical nature of the US dollar, further downside may be somewhat limited, due to an increase in safe-haven flows. Sentiment should change in a more meaningful way once the Fed transitions to a cutting cycle, which the market has currently priced for Q4 2023.

The Australian dollar has strengthened significantly since its trough of USD 0.62 in Q4 2022, buoyed by a softer US dollar, as well as an improving global growth outlook, primarily driven by China. The abandonment of China's COVID-zero policy at the end of 2022, and the continued re-opening of the Chinese economy early in 2023, are expected to be tailwinds for the Australian dollar in the near term. On the other hand, interest rate differentials between Australia and the US were a headwind in February after hawkish rhetoric from the Fed increased the likelihood that rates will tighten above earlier expectations. A renewed bout of US dollar strength weighed on the local currency in February, pushing it below USD0.675. For end-2023, CBA expects the Australian dollar to remain around its current level, and targets USD 0.68, while UBS expects it to lift to USD 0.75 by year-end.

After falling to a 20-year low in Q3 2022, the euro rose to USD 1.10 in January but has since eased to USD 1.06 in February. The outlook for the euro has improved recently after a surprisingly warm winter across the region saw natural gas prices plummet. This means the negative terms of trade shock that had been so bearish for the currency has now reversed. The ECB's hawkish pivot in December also means it is likely the bank will keep the policy rate higher until late 2024. This should eventually lead to some compression in Europe/US interest rate differentials. Forecasts have largely been revised higher for the euro. UBS now targets USD 1.15 (previously USD 1.10) for end-2023, and CBA targets USD 1.08 (previously USD 1.01).

Commodities

Key points

- The macro backdrop for commodities has improved since November, when the Chinese government began to ease COVID restrictions.
- The near-term demand outlook for commodities remains uncertain, as the markets weigh up China's re-opening with the prospect of a global economic slowdown and increased supply in some areas.

Oil prices remained range-bound between USD 75 – USD 90 per barrel (bbl) in February as the market balanced concerns around a potential US recession and optimism around China's demand recovery. Oil markets should continue to contend with several supply and demand factors in the months ahead. Expectations that the Fed is coming to the end of its rate-hiking cycle, and the downtrend seen in the US dollar since October, have been supportive of prices. Additionally, China remains one of the top oil importers, and the rapid re-opening of its economy should boost energy demand. However, global recession concerns are mounting in other regions. Meanwhile, the supply-side response has been quite muted, and the European Union's embargo on Russian oil and associated sanctions have been less restrictive than initially envisaged, with Russian production remaining resilient to date. Both CBA and UBS expect prices to average USD 90 bbl for end-2023.

Iron ore has surged over 70% since November, consolidating in February at ~USD 124/ per tonne (p/t), down slightly from over $130/ per tonne at one point. However, prices remain approximately 16% below the peak in March 2022. China remains the key driver, where the easing of strict COVID-zero policies and the rapid re-opening of its economy have fuelled optimism for a recovery in demand, as the economy recovers from pandemic disruptions. China's Policymakers have reaffirmed their commitment to stimulating infrastructure to support growth, boosting expectations for higher iron ore demand. Longer term, the over-arching trends of recovering supply, as well as the decarbonisation of the steel sector (particularly China's efforts to control its carbon emissions), are expected to limit price upside. UBS targets USD 103 p/t for end-2023 and USD 85 p/t for end-2024. Its long-term view is for prices to settle around USD 60 p/t.

Base metal prices have lifted since November, reflective of more positive sentiment following China policymakers' abandonment of the restrictive COVID-zero policy. Optimism that the Fed is nearing the end of its rate-hiking cycle and a weaker US dollar have also been supportive of prices. Longer term, de-carbonisation trends are bullish for most metal and mineral demand profiles as the world transitions away from fossil fuels. Nickel, copper, aluminium, and lithium graphite all face significant under-supply, which should support prices over the longer 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	3	3	3	3
Fixed income	53	35	17	14
Short maturity	8	6	3	3
Government bonds	32	15	7	5
Investment grade credit	11	11	4	4
High yield credit	2	3	3	2
Equities	24	42	60	38
Domestic	12	19	28	11
United States	6	11	16	13
Europe (ex-UK)	3	4	5	4
United Kingdom	2	3	4	3
Emerging markets	1	5	7	7
Alternatives	20	20	20	45
Hedge funds	6	6	5	14
Private markets	7	7	9	17
Real assets	7	7	6	14

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

Whilst we remain constructive on markets relative to 2022, we now expect that the period of potential market volatility will extend to the middle of 2023. As such, we are trimming risk as resilient growth and inflation (particularly in the US) delay central banks from pausing.

Our view of 'worse macro, better (or less bad) markets' is still the right call for 2023. Within equities, we have moved to a slight underweight at the asset class level. We remain overweight Australia and emerging markets, and have kept the underweight to Europe ex-UK, whilst moving underweight the US. Within fixed income, we remain overweight with no change to government bonds and investment grade credit, but we have moved high yield to an underweight and reduced the underweight to short maturity.

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

We have moved to a neutral cash position. This change reflects the significant movement in policy rates, which are now 0.5% higher than previously forecast.

Fixed income

At the asset class level, we remain overweight. At a sub-asset class level, we are overweight investment grade credit and government bonds, supported by yields appearing to remain higher for longer. We have moved slightly underweight high yield credit, as higher-than-expected rate hikes may underpin a deterioration in the high yield credit market. These changes provide a clearer reflection of our preference for investment grade (higher quality) credit over high yield.

Alternatives

We favour increasing allocations to hedge funds and real assets, with deployed private equity least preferred.

Equities

We have moved underweight equities and continue to prefer some better valued non-US markets. We are underweight Europe ex-UK due to a weaker earnings outlook, with markets adjusting for a modestly better short-term outlook. The US position has moved to an underweight due to the recent rally and 'full-ish' valuations. We retain an overweight to domestic equities and emerging markets due to attractive valuations in Australian and China, as well as the potential for tailwinds associated with China's re-opening.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt		Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	0	^	3	3	3	3
Fixed income	1		54	36	18	15
Short maturity	-1	^	7	5	2	2
Government bonds	2		34	17	9	7
Investment grade credit	1		12	12	5	5
High yield credit	-1	v	1	2	2	1
Equities	-1	v	23	41	59	37
Domestic	1		13	20	29	12
United States	-1	v	5	10	15	12
Europe (ex-UK)	-2		1	2	3	2
United Kingdom	0		2	3	4	3
Emerging markets	1		2	6	8	8
Alternatives	--		20	20	20	45

v 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

Short maturity

We are underweight short maturity. We favour a more balanced position in duration-related bonds and credit securities, as aggressive monetary policies from central banks have sufficiently repriced bond yields. Our base case is that central banks will be required to ease monetary policy in late 2023 (or early 2024), making a duration play in fixed rate outperform floating rate over time.

Government bonds

We are overweight government bonds. With expectations of further central bank rate hikes over the next three months largely priced into markets (both domestically and offshore) and yields elevated, we remain overweight government bonds. Although it is difficult to forecast the absolute peak, government bonds have largely incorporated an aggressive rate hiking cycle (which we expect to peak during Q2 2023).

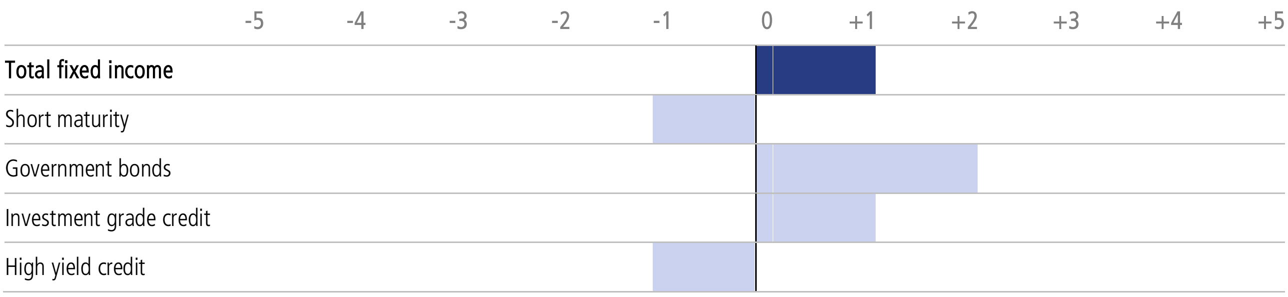
Investment grade credit

We are overweight investment grade credit. Investment grade credit spreads have moved closer to fair value, and we have now moved overweight. We are comforted by higher outright yields. Helped by a wider swap curve, they now provide a reasonable cushion to any further spread widening.

High yield credit

We are underweight high yield credit. With central banks remaining hawkish, high yield credit spreads will be vulnerable. We believe spreads have not widened sufficiently enough to compensate for the higher funding costs, liquidity premium, and for a potential acceleration in defaults as interest rates rise more than initially anticipated and an expected material slowing in the global economy unfolds.

Active fixed income weights (%)—We have trimmed our underweight to short maturity and moved underweight high yield credit



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	86.50	79.04
Australian 3-year yield	3.60%	3.16%
Australian 10-year yield	3.85%	3.53%
Australian 3/10-year spread	24.3 bps	36.5 bps
Australian/US 10-year spread	-6.0 bps	-1.5 bps
US 10-year Bond	3.91%	3.54%
German 10-year Bund	2.65%	2.32%
UK 10-year Gilt	3.83%	3.34%
Markit CDX North America Investment-Grade Index	75.4 bps	73.7 bps
Markit iTraxx Europe Main Index	79.6	79.8
Markit iTraxx Europe Crossover Index	413.7	415.5
SPX Volatility Index (VIX)	20.4	19.9

Source: LGT Crestone Wealth Management, Bloomberg as at 28 February 2023. Pricing based on UBS Global Research. 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 equities

We are overweight domestic equities. In a relative sense, Australia remains a preferred regional allocation. With its leverage to a re-opening in China (via education, tourism, real estate, and commodities demand), and a dividend yield almost twice that of the MSCI World index, Australia remains an overweight, albeit the valuation support has diminished.

US equities

We are underweight US equities. Earnings expectations are beginning to fall, a pre-requisite to becoming more positive on the US market over the long term. However, markets have been quick to price in a soft landing ahead of actual earnings, which continue to deteriorate. Valuations have moved to pre-COVID peaks, leaving the index vulnerable in the face of higher policy rates and bond yields.

European (ex-UK) equities

We are underweight European (ex-UK) equities. European equity markets have been very resilient, largely underpinned by an easing of energy concerns. The ECB was late to raise interest rates and consequently, earnings declines look to be three months behind the US, with less valuation support than previously, given the strong rally.

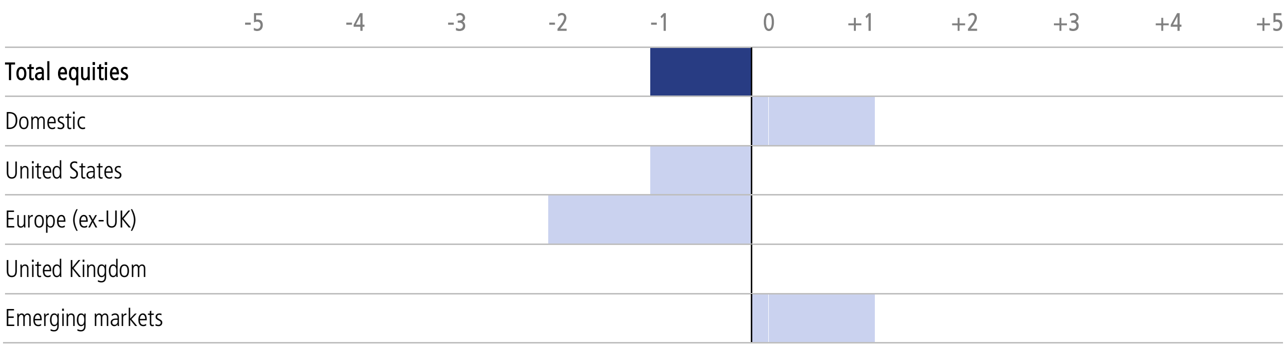
United Kingdom equities

We are neutral UK equities. Year-to-date, the FTSE 100 index has lagged global markets, rising 6% in local currency terms versus the MSCI World index, which is up 8%. The FTSE 100 did generate 10-15 percentage points of outperformance in 2022. This makes sustained outperformance from here more difficult, especially given many of those drivers are more complicated this year: energy prices, weak currency, rising interest rates, and global growth.

Emerging market equities

We are overweight emerging market equities. Earnings gains in China and India may stand out this year in a world where growth is shaping up to be a scarce commodity. Consensus expects both markets to post double-digit 2023 EPS growth, which can extend across the region and into broader emerging markets. China's emergence from COVID-zero restrictions has caught global investors off-guard, given their significant underweight to the region.

Active equity weights (%)—We have moved underweight 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	7,258.4	7,799.5	7.5%	14.1	4.29%
New Zealand	S&P NZ 50	11,894.6	12,632.9	6.2%	27.7	3.04%
United States	S&P 500	3,986.7	4,608.1	15.6%	16.5	1.77%
Europe	Euro Stoxx	456.0	522.5	14.6%	12.0	3.42%
United Kingdom	FTSE 100	7,876.3	9,026.9	14.6%	10.7	3.55%
China	CSI 300	3,279.6	3,811.4	16.2%	10.9	2.94%
Japan	Nikkei 225	27,445.6	32,077.8	16.9%	14.5	2.16%
India	Sensex	58,962.1	70,641.2	19.8%	19.4	1.49%

Source: Bloomberg. Data as at 28 February 2023; 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

Low beta hedge fund strategies are preferred, but credit is now also looking attractive. Market volatility continues to provide a ripe hunting ground for hedge funds, where mis-pricing has created opportunities across asset classes for skilled managers. Heightened macro-economic and geo-political uncertainty is also presenting attractive opportunities for discretionary macro strategies, while idiosyncratic credit strategies should provide increasingly attractive risk-adjusted return opportunities in 2023. We are, therefore, focusing on satellite exposures in those areas, alongside diversified multi-strategy solutions that can take advantage of the wider investment universe.

Private markets

This year's re-calibration should present an attractive deployment opportunity for private equity and venture coming into 2023. While private equity is least preferred on a relative risk-adjusted basis when compared to other alternative asset classes, we believe 2023 will be an attractive year in which to deploy new capital. 2022 has served as a re-calibration with regards to private market valuations, particularly within the venture and growth sectors. As such, entry valuations are now starting to re-adjust, while secondary (fund) market activity is beginning to pick up. When partnering with the right private markets platform, the latter is a compelling option for private clients. In summary, we recommend maintaining exposures to private equity and venture capital. However, investors should consider new primary and secondary fund commitment structures through early 2023, rather than growing exposures in evergreen strategies where they are already fully invested.

Private debt looks increasingly attractive as yields reset higher on the back of interest rate increases. If investors do not compromise on credit quality and cater for increased debt servicing costs, private debt should be attractive due to wider spreads, credit protections relative to public market equivalents, and their typically floating rate structures. We prefer direct lending versus broadly syndicated strategies, as loan terms can be negotiated directly, offering greater protection to the end investor. We also prefer corporate and sponsor-backed transactions relative to real estate lending strategies that are often heavily focussed on construction. Increased input costs arising from supply-chain disruption are further impacting builders and their contractors, alongside rising rates.

Real assets

We favour core-plus, high-quality real estate. Notwithstanding some anticipated valuation softness, real estate continues to be one of our favoured asset classes within alternatives, but we see a meaningful dichotomy across different assets, sectors, and investment approaches. We prefer high-grade commercial assets where there is some ability to add value through up-leasing, repositioning, or marking rents to market, for example. When in the right assets, these initiatives can and have been able to offset and exceed valuation declines, resulting from interest rate increases. We also like high-quality, overseas, multi-family accommodation. This can benefit during periods of higher inflation, as shorter lease terms allow rents to mark to market more often. In addition, firms that have prudently put in place longer-term debt facilities at attractive rates, and those that have been conservative with prior long-term discount rate assumptions, are likely to provide a superior experience for investors.

Infrastructure is our most favoured sub-asset class. 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 are in high demand currently. With most COVID-19 related travel restrictions likely behind us, volume-based transport-related assets, such as airports, and contracted assets should play a key role in diversified portfolios. Further, we see attractive investment opportunities focussed on energy transition. According to Brookfield Asset Management, the next 30 years will require in excess of USD 100 trillion of investment, presenting an unprecedented commercial opportunity.

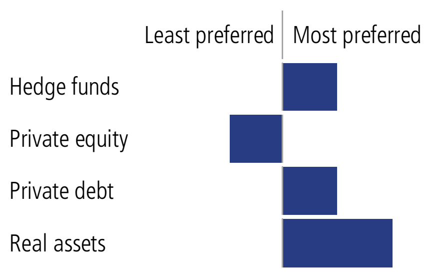
Our most preferred and least preferred exposures—We continue to favour core real assets and private debt, while maintaining private equity and low-beta hedge funds exposures

What we like

- Multi-strategy, credit-oriented and discretionary macro hedge funds
- Domestic private debt and asset-backed securities (excluding real estate)
- High-grade, core-plus commercial real estate and infrastructure
- Private market and real assets exposed to the global energy transition

What we don't like

- Passive private market and/or real asset strategies
- Pre-IPO strategies
- Construction and/or junior lending within real estate
- Carbon-intensive assets and industries with no transition plan



Direct equity

Recommendations: Domestic equities—Best sector ideas

Objective of this list

The objective is to identify the best business models or best in breed by GICs 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 upside	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
NEC	Nine Entertainment	Com. Services	$1.95	35%	11.3	6.1%	15%	15%	4.7%	A
ALL	Aristocrat Leisure	Cons Discret	$36.54	15%	19.5	1.8%	22%	19%	7.8%	AA
TLC	Lottery Corp	Cons Discret	$5.19	0%	31.8	2.9%	22%	129%	8.0%	AA
MTS	Metcash	Cons Staples	$4.07	10%	13.1	5.4%	21%	27%	-2.9%	AAA
ALD	Ampol	Energy	$32.96	11%	11.6	5.8%	16%	19%	-8.6%	AA
MQG	Macquarie Group	Financials	$189.52	6%	15.2	3.6%	na	16%	-5.6%	AA
IAG	Insurance Australia Group	Financials	$4.65	12%	21.5	3.4%	na	10%	70.4%	AA
RMD	ResMed	Health Care	$31.43	16%	33.0	0.6%	28%	23%	9.0%	A
CSL	CSL	Health Care	$296.30	13%	37.3	0.8%	15%	17%	28.3%	A
MND	Monadelphous Group	Industrials	$12.00	9%	22.1	4.0%	na	13%	22.8%	AA
ALU	Altium	IT	$39.16	1%	53.0	1.2%	34%	23%	25.1%	A
IGO	IGO	Materials	$13.13	17%	6.3	3.0%	24%	37%	3.9%	AA
JHX	James Hardie Industries	Materials	$31.03	17%	15.4	0.2%	39%	40%	-9.2%	AA
GMG	Goodman Group	Real Estate	$19.86	12%	21.2	1.5%	10%	10%	10.8%	AA
CHC	Charter Hall Group	Real Estate	$13.31	14%	14.3	3.2%	15%	13%	-7.2%	AAA
ORG	Origin Energy	Utilities	$8.01	-2%	32.8	4.0%	7%	4%	92.2%	A

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 28 February 2023. ESG is environmental, social and corporate governance.

Trade opportunities

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

ResMed (RMD)—Buy. As major sleep apnoea competitor Philips falls to GFC and Eurozone crisis lows (-75%), the product recall that will limit its ability to sell its products, and may negatively impact customers' longer-term perception, paves the way for RMD to take permanent market share.

IAG Group (IAG)—Buy. IAG trades cheaply in absolute (13.5x P/E for financial year 2024) and relative (7% discount to the market versus an average 3% premium) terms. Its leverage to higher rates, combined with an eventual easing in claims inflation, should result in solid earnings growth, complemented by ongoing buybacks as business interruption reserves are released.

CSL Limited (ALU)—Buy. Issues over plasma supply are abating, with Mexican border supply set to resume, allowing the average donor payment to be reduced. Margins at CSL Behring contracted from 59.3% to 54.8% between financial years 2020 and 2022, but these are expected to improve, given an expected increase in plasma per donor; more plasma collected per collection centre; and more immunoglobulin extracted from each litre of plasma.

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 upside	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Grossed up yield	1yr DPS growth	MSCI ESG rating
IAG	Insurance Australia Group	Financials	$4.65	11.6%	12.6	1.75	30%	3.35%	75.6%	AA
MQG	Macquarie Group Ltd	Financials	$189.52	5.8%	16.1	2.23	40%	3.65%	-0.5%	AA
WBC	Westpac Banking Corp	Financials	$22.53	11.0%	10.5	1.12	100%	6.32%	5.3%	A
QBE	QBE Insurance Group Ltd	Financials	$15.08	11.3%	9.2	1.68	10%	3.70%	7.7%	AA
COL	Coles Group Ltd	Cons Staples	$18.18	0.5%	22.2	7.20	100%	3.59%	2.1%	AA
MTS	Metcash Ltd	Cons Staples	$4.07	10.1%	13.5	3.64	100%	5.43%	-2.7%	AAA
SGR	Star Entertainment Grp	Cons Discret	$1.48	6.4%	24.6	0.70	100%	0.61%	100.0%	A
TAH	Tabcorp Holdings Ltd	Cons Discret	$1.01	10.6%	25.9	0.86	100%	1.88%	15.8%	AA
TLS	Telstra Corp Ltd	Com. Services	$4.16	12.9%	22.9	3.17	100%	4.09%	4.7%	A
NEC	Nine Entertainment Co	Com. Services	$1.95	34.7%	10.8	1.77	0%	6.07%	4.2%	A
RMD	ResMed Inc	Health Care	$31.43	16.4%	30.3	8.37	100%	0.56%	-2.3%	A
PME	Pro Medicus Ltd	Health Care	$61.01	-3.0%	89.1	54.50	100%	0.45%	23.4%	BBB
REP	RAM Essential Services	Real Estate	$0.80	19.4%	13.6	1.5	0%	7.25%	1.7%	--
SGP	Stockland	Real Estate	$3.84	5.0%	12.4	0.9	0%	7.01%	-3.3%	AAA
IRE	IRESS Ltd	IT	$9.31	11.9%	21.4	3.89	0%	4.91%	2.0%	AA
DBI	Dalrymple Bay Infra.	Industrials	$2.51	4.7%	13.2	1.18	0%	8.29%	4.8%	--
ALX	Atlas Arteria Ltd	Industrials	$6.84	-2.3%	16.2	2.07	0%	5.60%	7.6%	AA
ORG	Origin Energy Ltd	Utilities	$8.01	-2.4%	17.1	1.59	100%	3.97%	6.9%	A
ALD	Ampol Ltd	Energy	$32.96	11.0%	12.7	2.16	100%	5.83%	-3.4%	AA
BHP	BHP Group Ltd	Materials	$45.20	8.3%	10.5	3.62	100%	4.57%	-7.6%	A
AMC	Amcor PLC	Materials	$16.53	2.5%	13.8	na	0%	2.93%	2.7%	AA

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 28 February 2023. ESG is environmental, social and corporate governance.

Trade opportunities

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

QBE Insurance (QBE)—Buy. The premium rate environment is now more positive than it has been for a decade. Combined with the benefits of higher investment portfolio yields due to higher interest rates, QBE stands to be a significant outperformer in 2023. In absolute terms, the stock's P/E of less than 9x is two standard deviations from its long-term average.

RAMS Essential Services (REP)—Buy. Year-to-date, REP has outperformed the S&P/ASX Property index. This is a trait that is expected to continue, given its multiple defensive characteristics—essential services-orientated, long WALE (weighted average lease expiry), and a low level of gearing.

Ampol (ALD)—Buy. ALD is trading at 9.6x 2023 earnings, a 37% discount to its historical average (of 15.3x) and largely in line with global peers (at 9.7x). The business is now structurally better positioned and recent weakness presents a buying opportunity.

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 upside (%)	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
LSEG LN	London Stock Exchange	Financials	GBP	7432.00	23.1	22.7	1.5	49,506	AA
LLOY LN	Lloyds Banking Group PLC	Financials	GBP	52.62	22.4	6.7	5.9	42,767	AA
WFC US	Wells Fargo & Co	Financials	USD	46.90	13.4	8.9	3.3	177,932	BB
2318 HK	Ping An Insurance Group	Financials	HKD	53.30	36.7	6.1	5.0	125,855	A
939 HK	China Construction Bank	Financials	HKD	4.80	34.5	3.2	8.4	154,823	A
2330 TT	Taiwan Semiconductor	IT	TWD	511.00	21.3	12.4	2.6	433,545	AAA
MA US	Mastercard Inc	IT	USD	356.36	18.9	24.6	0.7	339,698	AA
ASML NA	ASML Holding	IT	EUR	584.00	22.9	25.4	1.3	249,300	AAA
GOOGL US	Alphabet Inc	Comm Services	USD	90.76	39.3	13.5	0.0	1,163,709	BBB
UMG NA	Universal Music Group NV	Comm Services	EUR	22.35	21.2	25.9	2.1	42,919	AA
DIS US	Walt Disney Co/The	Comm Services	USD	99.95	27.2	18.4	1.1	182,596	A
9988 HK	Alibaba Group Holding Ltd	Cons Discret	HKD	86.50	66.3	10.0	0.1	233,412	BBB
NKE US	NIKE Inc	Cons Discret	USD	119.69	9.5	30.3	1.2	185,580	BBB
SBUX US	Starbucks Corp	Cons Discret	USD	102.34	9.4	25.2	2.3	117,596	A
ABNB US	Airbnb Inc	Cons Discret	USD	124.44	11.6	29.2	0.0	79,707	BB
RACE IM	Ferrari NV	Cons Discret	EUR	245.30	4.0	34.6	0.9	47,582	BB
BA US	Boeing Co/The	Industrials	USD	201.29	13.3	34.4	0.9	120,420	BBB
DSV DC	DSV A/S	Industrials	DKK	1281.00	9.0	20.5	0.6	39,911	AA
MSFT US	Microsoft Corp	IT	USD	250.19	16.1	23.3	1.1	1,862,365	AAA
ILMN US	Illumina Inc	Health Care	USD	199.30	20.1	61.3	0.0	31,489	AA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	996.20	-0.2	28.1	1.7	323,129	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	230.13	17.3	37.4	0.0	80,680	A
EL US	Estee Lauder Cos Inc/The	Cons Staples	USD	243.74	19.7	33.6	1.2	87,067	A
COST US	Costco Wholesale Corp	Cons Staples	USD	486.85	13.1	31.0	0.8	216,029	A
288 HK	WH Group Ltd	Cons Staples	HKD	4.56	59.0	5.6	1.0	7,454	BBB
SHW US	Sherwin-Williams Co/The	Materials	USD	222.32	11.8	22.6	1.2	57,457	A
SHELL NA	Shell PLC	Energy	EUR	28.85	17.3	6.0	4.5	211,713	AA
EQIX US	Equinix Inc	Real Estate	USD	695.15	11.7	65.2	2.1	64,471	AA
ORSTED DC	Orsted AS	Utilities	DKK	615.20	21.6	28.9	2.5	36,792	AAA
		Average Yield:					1.9%		

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 28 February 2023. ESG is environmental, social and corporate governance.

Recommendations: Thematic investing—The circular economy

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
- Inflation
- Metaverse
- Security and safety
- Supply chain disruption
- Sustainable investing

The circular economy—Select exposures

The circular economy is an economic system that aims to reduce waste, minimise resource consumption, and increase efficiency. Here are some examples of global stocks that are exposed to the thematic of the circular economy.

Code	Company	Sector	Base CCY	Market price	Consensus upside (%)	P/E 1yr fwd (x)	Yield 22E (%)	Market cap (USD bn)	MSCI ESG rating
WM US	Waste Management	Industrials	USD	$149.82	9.8	22.4	2.0	61,147	A
TSLA US	Tesla	Consumer Disc.	USD	$208.48	-0.5	37.0	0.0	659,652	A
ECL US	Ecolab	Materials	USD	$160.12	6.4	27.7	1.4	45,548	AAA
VIE FP	Veolia Environment	Utilities	EUR	$28.31	13.4	15.6	4.5	21,421	A
ALB US	Albemarle	Materials	USD	$254.81	25.1	9.1	0.6	29,863	BBB
PHG SW	Koninklijke Philips	Health Care	CHF	$48.00	-69.3	35.8	1.8	45,436	BB
JCI US	Johnson Controls	Industrials	USD	$62.87	16.3	15.7	2.5	43,205	AAA
NESTE FH	Neste Oyj	Energy	EUR	$45.69	19.1	15.1	3.2	37,215	AAA
DD US	DuPont de Nemours	Materials	USD	$73.08	18.0	16.6	2.2	33,493	A
SIE GY	Siemens	Industrials	EUR	$144.70	15.6	14.3	3.3	122,578	AA
SU FP	Schneider Electric	Industrials	EUR	$152.12	9.2	18.1	2.4	91,992	AAA

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 28 February 2023. ESG is environmental, social and corporate governance.

Important information

About this document

This document has been authorised for distribution to 'wholesale clients' and 'professional investors' (within the meaning of the *Corporations Act 2001* (Cth)) in Australia only.

This document has been prepared by LGT Crestone Wealth Management Limited (ABN 50 005 311 937, AFS Licence No. 231127) (LGT Crestone Wealth Management). The information contained in this document is provided for information purposes only and is not intended to constitute, nor to be construed as, a solicitation or an offer to buy or sell any financial product. To the extent that advice is provided in this document, it is general advice only and has been prepared without taking into account your objectives, financial situation or needs (your 'Personal Circumstances'). Before acting on any such general advice, LGT Crestone Wealth Management recommends that you obtain professional advice and consider the appropriateness of the advice having regard to your Personal Circumstances. If the advice relates to the acquisition, or possible acquisition of a financial product, you should obtain and consider a Product Disclosure Statement (PDS) or other disclosure document relating to the product before making any decision about whether to acquire the product.

Although the information and opinions contained in this document are based on sources we believe to be reliable, to the extent permitted by law, LGT Crestone Wealth Management and its associated entities do not warrant, represent or guarantee, expressly or impliedly, that the information contained in this document is accurate, complete, reliable or current. The information is subject to change without notice and we are under no obligation to update it. Past performance is not a reliable indicator of future performance. If you intend to rely on the information, you should independently verify and assess the accuracy and completeness and obtain professional advice regarding its suitability for your Personal Circumstances.

LGT Crestone Wealth Management, its associated entities, and any of its or their officers, employees and agents (LGT Crestone Group) may receive commissions and distribution fees relating to any financial products referred to in this document. The LGT Crestone Group may also hold, or have held, interests in any such financial products and may at any time make purchases or sales in them as principal or agent. The LGT Crestone Group may have, or may have had in the past, a relationship with the issuers of financial products referred to in this document. To the extent possible, the LGT Crestone Group accepts no liability for any loss or damage relating to any use or reliance on the information in this document.

Credit ratings contained in this report may be issued by credit rating agencies that are only authorised to provide credit ratings to persons classified as 'wholesale clients' under the *Corporations Act 2001* (Cth) (Corporations Act). Accordingly, credit ratings in this report are not intended to be used or relied upon by persons who are classified as 'retail clients' under the Corporations Act. A credit rating expresses the opinion of the relevant credit rating agency on the relative ability of an entity to meet its financial commitments, in particular its debt obligations, and the likelihood of loss in the event of a default by that entity. There are various limitations associated with the use of credit ratings, for example, they do not directly address any risk other than credit risk, are based on information which may be unaudited, incomplete or misleading and are inherently forward-looking and include assumptions and predictions about future events. Credit ratings should not be considered statements of fact nor recommendations to buy, hold, or sell any financial product or make any other investment decisions.

The information provided in this document comprises a restatement, summary or extract of one or more research reports prepared by LGT Crestone Wealth Management's third-party research providers or their related bodies corporate (Third-Party Research Reports). Where a restatement, summary or extract of a Third-Party Research Report has been included in this document that is attributable to a specific third-party research provider, the name of the relevant third-party research provider and details of their Third-Party Research Report have been referenced alongside the relevant restatement, summary or extract used by LGT Crestone Wealth Management in this document. Please contact your LGT Crestone Wealth Management investment adviser if you would like a copy of the relevant Third-Party Research Report.

This document has been authorised for distribution in Australia only. It is intended for the use of LGT Crestone Wealth Management clients and may not be distributed or reproduced without consent.

Contact us

LGT Crestone Wealth Management Limited

ABN 50 005 311 937
AFS Licence No. 231127

info@lgtcrestone.com.au
lgtcrestone.com.au

Adelaide

Level 26, Westpac House
91 King William Street
Adelaide SA 5000

+61 8 8403 9400

Brisbane

Level 18, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

+61 7 3918 3600

Melbourne

Level 17
101 Collins Street
Melbourne VIC 3000

+61 3 9245 6000

Sydney

Level 32, Chifley Tower
2 Chifley Square
Sydney NSW 2000

+61 2 8422 5500