Entering the new phase
Our key calls for H2 2023

Core Offerings

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

August 2023

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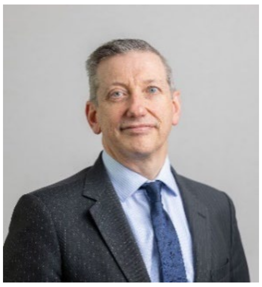
Our key calls for H2 2023

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER



Scott Haslem
Chief Investment Officer

We believe the world economy is now entering the next phase of the cycle. H2 2023 should be more clearly characterised by slowing growth, falling inflation, and a peak in central bank policy rates. Yet, the underlying resilience of the global economy (with still tight jobs markets) suggests interest rates will be held higher for longer as only a mild recessionary backdrop delivers a more gradual decline in inflation from here. Modest rate cuts are likely a 2024 story, while renewed geo-political tensions remain a risk for later in the year.

In this month's *Core Offerings*, we outline our key calls for H2 2023 across economies, markets, and portfolio construction. We retain our strong overweight to fixed income relative to equities, and believe the former is likely a multi-year view. As we approach the end of the rate-hiking cycle, there are increased odds of a 'soft landing' globally. Although this is not our central case, we have closed our modest underweight to equities (and high yield credit). We continue to favour quality and non-US equity markets, including Australia.

Growth is slowing, inflation is falling, and the peak of rates is now…

Sometimes things change a lot and sometimes they change a little. That's the nature of life, and often the nature of markets and economies. And over the past couple of months—deep winter in Australia and a holiday season in the northern hemisphere that many Aussies seemed to have availed themselves of—some things haven't changed that much.

This would include the resilience of the global growth picture, with the much-heralded global recession of H1 2023 failing to appear in any great measure. The same would apply to Australia, where the mid-year housing mortgage reset avalanche is only just starting to reveal itself in changed consumer buying patterns and weaker retail sales. Of course, global growth did approach a near-recessionary pace of 2% in late 2022. But only a mild recession in Europe and resilient growth in the US, together with an arguably faltering rebound in China, have steadied global activity closer to a sub-trend 3% pace in H1 2023. Jobs markets globally have remained stubbornly tight, with unemployment rates near 50-year lows. They show little response to steadily rising interest rates in virtually every key economy, and the fastest pace of rate increases in 40 years for Australia and the US.

"The world is flooded with confusion and change. The S&P 500 Index and the US economy have defied consensus pessimism this year. Investment hype surrounding artificial intelligence (AI) has gone manic."

Brandywine Global
July 2023

Some things have changed a lot, however. One of those is the pace at which inflation has been moderating, together with clearer signs core inflation is easing. This is especially true in the US and Australia, and tentatively in Europe and the UK. Those expecting a hard landing for the world economy—and a sharp retracement in risk assets—frequently point to the stickiness of core inflation to claim the notion of 'immaculate disinflation' as falsehood, with the necessity of a sharp rise in unemployment to bring salvation to the inflation outlook.

This debate is hardly over. Growth seems destined to slow further as the impact of credit tightening weighs. But the comfort central banks are likely to have garnered from the recent faster pace of inflation moderation (even if most of easier gains are behind us), does increase the chances that they are at the peak of their respective rate-hiking cycles. A peak in rates is likely to happen by September in Australia and the US, and by year-end in Europe and the UK. Indeed, emerging market central banks are already cutting rates, with more to come as the rest of the year unfolds.

There also remain grave concerns that inflation will only reach central banks' target ranges after an extended period of sustained high interest rates. This will challenge the ability of risk assets to leap higher, as they sometimes do when central banks reach their peak.

"It may well be a "jobloss-less" recession, where growth, spending, and investment contract modestly, but unemployment rises barely above 4%. This is not much different from what a soft landing would look like."

UBS Investment Bank
July 2023

Moving neutral equities, but staying cautious US equities and overweight fixed income

This month we close our small underweight to equities. We have maintained a mild recession view for some time, and that may still eventuate over the coming year. However, the faster pace of inflation moderation (and somewhat resilient growth) increases the likelihood that peaking central bank tightening underpins a softer landing for growth.

As UBS recently penned for the US economy, it may well be a "jobloss-less" recession, where growth, spending, and investment contract modestly, but unemployment rises barely above 4%. This is not much different from what a soft landing would look like". This may well be a theme persisting across many economies over the coming year.

Despite this move, we prefer some non-US equity markets, such as Australia and emerging markets, but retain a strong preference for fixed income over equity returns. On the following pages, we outline our key macro and tactical calls for the rest of this year.

Key calls for 2H 2023

1 We are entering a new phase of the cycle now.

"It has been a full year since the US leading economic indicator turned negative on a year-over-year basis…from this perspective, it is genuinely surprising that the US economy has not yet tipped into a recession."

BCA Research, July 2023

"The war will escalate due to Ukraine's counteroffensive and become relevant to investors again in the second half of 2023, likely causing significant equity volatility."

BCA Research, July 2023

"The biggest pricing anomaly in the fixed income markets is the U.S. yield curve, more extremely negative than at any time in modern history except for the early 1980s."

Brandywine Global
July 2023

The past year has been characterised by high inflation that has corrected lower by less than expected, together with persistent monetary tightening. Looking ahead to H2 2023, growth is slowing, inflation is falling, and thus we expect interest rates to peak. With more work to do on returning inflation to central bank targets, a key defining feature of this new phase is that interest rates are likely to be held higher for longer than in prior periods.

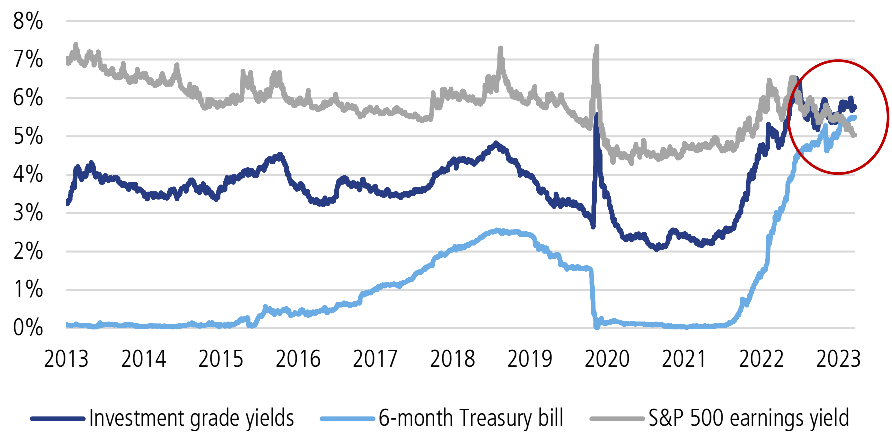
We continue to view the global outlook as one of mild recession, notwithstanding it is likely to have elements of a 'soft-ish landing'. At times, concerns of a harder landing may also emerge. Jobs markets remain tight, and thus supportive. However, the lagged impacts of rapidly tightened credit conditions are yet to fully weigh (as we discussed in June's *Core Offerings, Central bank outlook—Skip, hike or pause as cuts delayed to 2024).*

Reflecting this, and as discussed below, while equities typically start to appear favourable as growth reaches its nadir, their valuations, which can at best be described as fair, leave them tactically neutral. Still, a horizon promising lower rates and lower inflation cautions against an overly pessimistic view given our six to 12-month tactical timeframe. When rate cuts eventually come—most likely in 2024—interest rates may linger at or above neutral (or normal) until central banks feel comfortable the war has been won. A return to uber-easy rates seems unlikely without first experiencing more unemployment than is now expected.

The renewed escalation of geo-political events is also likely to feature in the period ahead. This includes potential shorter-term escalations in H2 2023 that caution against adding too much risk, given the vulnerability current equity valuations embody. It also plays into the longer term, where shifting global alliances and periodic trade wars underpin a steady re-adjustment of supply chains. Added to this are other factors (such as labour shortages) that support our long-held view that inflation is unlikely to trend near the lows of the past decade.

One key area of geo-political tension is the ongoing war in Ukraine. A ceasefire toward year-end is possible, though this is likely to require escalation around a Ukraine offensive. And too great a victory could increase the chances or irrational actions from Russia. Another key area is Iran, seen by BCA Research as "one of the most underrated geopolitical risks". With the prior 'Iran nuclear deal' inactive, Iran now has the capacity to enrich its stockpile of uranium to weapons-grade levels, with estimates suggesting that the stockpile is large enough to create five nuclear weapons in one month.

Yields have compressed across asset classes to 5-6%, making fixed income competitive.



Source: Bloomberg, LGT Crestone.

2 Fixed income is likely a multi-year overweight.

Often in history, central banks have found themselves reversing prior rate hikes quickly post their peak. Sometimes this is because the extent of positive momentum in growth and inflation is so strong that finding the appropriate peak requires 'breaking something'. At other times, central banks face shocks that were, by definition, unanticipated. This can lead to rapid performance for fixed income, as markets reprice the outlook for multiple rate cuts.

Looking ahead, this is a plausible scenario, should we find that central banks have already done enough to provoke a deeper-than-expected recession (most likely through the credit channel), or inflation unexpectedly reverses higher, requiring more significant tightening.

However, given our base case of falling inflation and only a mild economic downturn, it's likely our overweight to fixed income will deliver moderate returns over a number of years, rather than a short, sharp profit. This largely reflects our view that part of the 'new phase' is inflation settling at a higher resting place, not well below central bank targets as in the past. Shifting supply chains, ageing workforces, and the energy transition are all factors likely to limit inflation's ability to return to rates below central bank targets.

Central banks are likely to cut rates in 2024, but only toward, or above, neutral. This lends itself to less aggressive outperformance of fixed income than would otherwise be the case in a sharper downturn—but it is also a less positive outlook for equities, given valuations.

In this scenario, central banks are likely to cut rates in 2024, but only toward or above neutral. This lends itself to less aggressive outperformance of fixed income than would otherwise be the case in a sharper downturn—but it is also a less positive outlook for equities, given valuations.

3 Equity valuations are challenging.

The postponement of US recession risk, clear signs of peak inflation, and the closeness of peak monetary policy, have prompted investors to abandon recession trades. Equities are focusing on stronger-than-expected growth and softer-than-expected inflation via a cyclical, growth-led rally.

The thesis is that inflation is decoupling from growth, allowing for a more supportive backdrop to corporate earnings. With less aggressive interest rate moves and, consequently, higher valuations, the one year forward price/earnings (P/E) ratio for global equities is now 17.5x. This is a level that would have been considered 'peak' prior to COVID. A key question for H2 2023 is whether growth and inflation recouple, resulting in central banks staying restrictive for longer. Alternatively, central banks could gain enough confidence to outline a path of easier monetary policy in 2024.

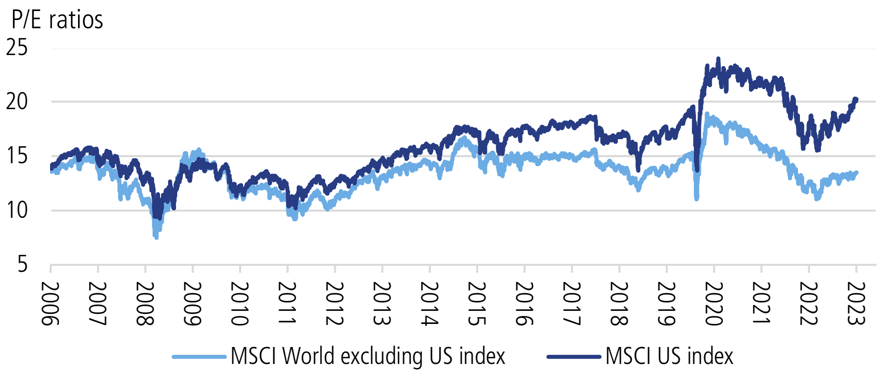
Looking ahead, dwindling excess consumer savings will meet lower inflation pressures and improve purchasing power. The relative importance of each to the consumer will be a key determinant in how equity markets perform in the face of 4-5% cash rates.

"The difference in performance between the S&P 500 and the equal-weight index, broadly-defined tech sector outperformance – driven by extreme optimism about the potential for AI products to meaningfully boost tech sector earnings growth – has accounted for the majority of the outperformance of US stocks versus bonds."

BCA Research, July 2023

Our neutral equity stance is governed by this uncertainty and a preference for value-orientated markets—i.e., we favour Australia and emerging markets versus the US and Europe. We still favour later-cycle, defensive exposures, under-levered balance sheets, and sectors exposed to higher-for-longer rates (e.g., insurance). Once greater clarity on the above questions emerge, investors may need to adjust their cyclical/growth exposures.

Equity regional valuations favour non-US markets.



Source: Bloomberg. Data as at 31 July 2023.

4 Stay underweight US equities.

So far this year, a potentially peaking US Federal Reserve (Fed), fundamental earnings (and economic) resilience, and a new longer-term growth engine via generative AI have all contributed to performance. Yet, valuations are increasingly putting pressure on the mega-caps to deliver on implicit growth expectations.

Much has been made of the 'narrow' leadership of US equities year-to-date. To some extent, an optically expensive S&P 500 (almost 20x 12-month forward P/E) is misleading. Whilst mega-cap tech trades at forward multiples not far removed from COVID highs, an equally weighted S&P 500 trades on a much more reasonable 16x.

Nonetheless, investors are being confronted with a new reality—with the S&P 500 offering an earnings yield of just 5%, they can earn better yields on the risk-free six-month government bond and investment grade credit (which are currently yielding 5.5% and 5.8% respectively—see chart on previous page). This reversal of conventional finance, whereby investors are seemingly demanding little to no risk premium for investing in US equities, suggests that forward- looking return expectations should be tempered.

5 Embrace the new phase in portfolio construction.

Some of the key challenges to solve moving forward are potentially prolonged volatility, persistent inflation, heightened default risks as valuations adjust to a permanently higher levels of interest rates, ongoing multiple expansion resulting in heightened (but vulnerable) valuations, and narrow leadership as investors scavenge for growth.

Ample diversification, rebalancing, quality, and active management will be key pillars of portfolio construction going forward.

With this in mind, it is prudent to construct portfolios with resilience to these elements, but to also ensure that portfolios can still capture opportunities in high dislocation environments. Ample diversification, rebalancing, quality, and active management will be key pillars of portfolio construction going forward.

Within asset classes:

Equities: Portfolios should avoid factor build-up, particularly after the recent strong run in growth equities. Diversifiers should be introduced, such as style-neutral or value strategies with lower exposure to mega-caps in favour of underrepresented or undervalued parts of the market. Portfolios should also lean into regions where valuations are less extreme.

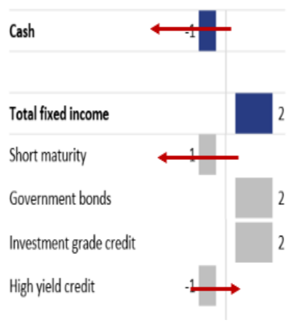
Fixed income: Adding duration via high grade bonds, which offer higher yields for relatively low risk, can provide a ballast to portfolios. Credit (including in private markets) should play a more significant role, now there is more adequate compensation for risk. Given interest rates may stay elevated for longer, a bias toward quality is recommended.

Alternative assets: Assets with inflation linkage, such as real assets, provide inflation protection. Infrastructure is our most favoured sub-asset class as it 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.

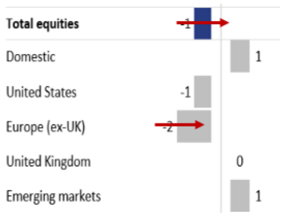
Across all asset classes:

In the new phase, it is paramount to embrace active management to avoid a build-up of risk and capture dislocations. Active managers have the ability to add significant value in this environment. Additionally, quality will be important. It is prudent to trim lower quality exposures that have rallied, as a high-rate environment could lead to heightened financial stress and defaults.

Closing high-yield underweight, staying firmly overweight fixed income



Closing equities underweight but staying cautious on the US



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

We have moved neutral equities and closed our underweight in high yield.

We have made three active decisions this month, in addition to remaining overweight fixed income relative to equities, which is core to our current positioning:

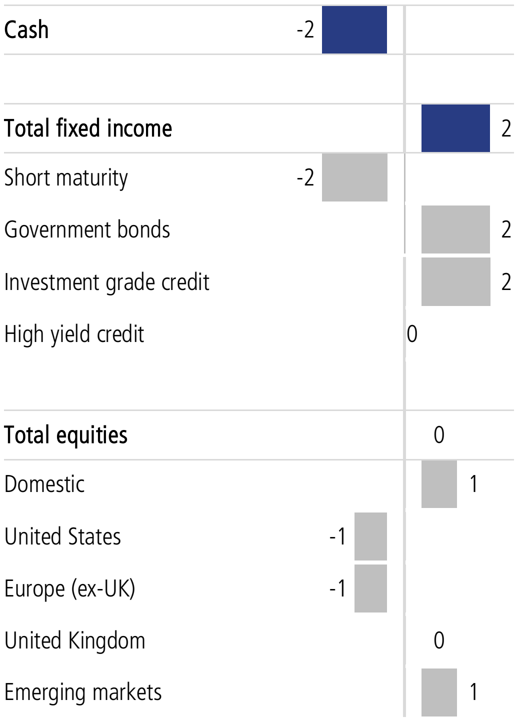
- Moved equity positions back to neutral: From a tactical perspective, moderating inflation is likely to confirm a peak in global policy rates in most regions in H2 2023 (first the US and Australia, then Europe, and UK later in the year). This may limit the extent to which equities can correct lower for any meaningful time period, despite valuation headwinds. H1 2024 rate cuts could also be a support for equities.

  Indeed, from an investment cycle perspective, the time to adopt a maximum underweight in equities is typically following the first few rate hikes, not at the end of rate cycle, as now appears to be emerging. Given the ongoing debate between hard landing, soft landing, and no-landing, harvesting tactical alpha in fixed income, where confidence levels are greater, seems prudent.
- Maintained underweight to US equities (added back to Europe): US equity valuations remain at or above their pre-pandemic peak. At best, they are at fair value, excluding those sectors responsible for extremely narrow leadership. The US economy, given solid H1 growth, remains vulnerable to a slowdown as credit tightening weighs. In contrast, valuations look more attractive in Europe (where we have trimmed our underweight) and other more value-orientated markets, such as Australia and emerging markets. Evidence of a US recession, which may be delayed to H1 2024, could lead us to increase our US equity underweight.
- Closed our high-yield credit underweight: Spreads have tightened in the riskier credit segments over the past month, as the market has repriced the risk of a global recession in light of resilient US economic data. The market appears to be discounting a benign default environment in the year ahead, consistent with above-trend growth.

  While the high-yield sector is vulnerable to tightening financial conditions, which can lead to higher defaults, we have closed our modest underweight to this sub-sector, as running yields are likely to compensate for a modest re-widening in spreads (relative to equities). We retain our preference for investment grade on a risk-adjusted basis.

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.

Peak rates nearer as inflation slows.

Although growth is slowing, it is still positive, with jobs markets remaining tight. Core inflation is continuing to slow, and there are expectations that global credit markets will continue to tighten.

Our views have changed to reflect a move closer to peak interest rates and slowing inflation. We retain an overweight to fixed income, as we expect it to perform well relative to equities under several scenarios in the short term, but we have moved our equities underweight to a neutral position.

Inflation volatility is likely to persist—Inflation continues to fall, though services inflation remains sticky. However, 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 matters—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, this 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, including equities, fixed income, and income-generating 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	▪ Energy companies now focused on shareholder returns with an ‘OPEC put’ in place. ▪ Later-cycle defensive exposures in the consumer staples, telco and healthcare sectors ▪ Emerging markets due to China re-opening, improving earnings and better valuation metrics	▪ Companies with shorter-term debt maturities at risk of re-pricing into a higher rate environment ▪ S&P 500 companies, where valuations are now back above pre-COVID average valuations. ▪ Stocks trading at historically tight dividend yields to the risk-free rate
Fixed income	▪ Actively managed funds investing in higher quality credits. ▪ Fixed rate three- to five-year senior unsecured banks ▪ Fixed rate Australian bank subordinated tier 2	▪ Short maturity bonds with a preference for more duration in portfolios ▪ High yield corporates vulnerable to higher cost of funds
Alternatives	▪ Multi-strategy, credit-oriented and discretionary macro hedge funds ▪ Senior private debt (strategies excluding real estate) ▪ Core and core-plus infrastructure assets with inflation linkages, particularly exposures to the energy transition	▪ Lower grade and/or buy-and-hold real estate assets (particularly office) ▪ Construction and/or junior lending within real estate ▪ Carbon-intensive assets and industries with no transition plan

Economic and asset class outlook

Economic outlook

Global economy

The contours of the global outlook have been changing over recent months. The UK and Europe appear to have avoided recessions for now and debate has intensified over whether a delayed downturn in the US will eventuate in H2. Still, while growth is proving more resilient than many had expected (led by still tight jobs markets), leading indicators—from credit tightening to consumer spending patterns—strongly suggest there will be a further slowing in H2 growth. The relatively mild global recession we have been anticipating is likely to give way to a modest 'rocky recovery' in 2024, according to the International Monetary Fund.

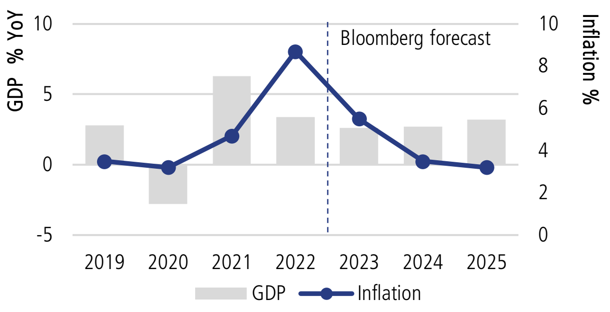
For Q1, growth in the world economy bounced strongly, up by around 0.9% (after just 0.2% in Q4 last year), lifting the annual pace of growth from 2.1% to 2.8%. However, recent data suggest the pace of global growth has slowed again through Q2, led by weaker activity in the UK and China. However, activity has remained resilient in the US, and to a lesser extent Australia, while stabilising in Europe.

Yet, the corollary of more resilient growth and still tight jobs markets in many regions (including the US, Europe, the UK, and Australia) is that inflation has fallen only slowly in H1 2023. However, there are now tentative signs that inflation has moderated more quickly mid-year, aiding optimism that central banks are nearing the peaks of their tightening cycles. This has led to an uplift in consumer confidence across the US, Europe, and Australia in June and July, reflecting improved purchasing power as rates peak and inflation moderates.

Of course, the more 'soft-ish' the economic landing, the more likely that interest rates will be held high for longer to ensure inflation risks are removed over time. Markets do not anticipate significant interest rate cuts until mid-2024.

Forecasts for 2023 have recently lifted. UBS raised its growth forecast to 2.8% (from around 2%) and expects a similar pace for 2024 (at 2.7%). In contrast, while Société Générale (SG) has added around 0.5% to its latest 2023 outlook for the US, Europe, UK, and China under the banner of "recession must wait", it expects (like CBA) a global recession in 2024, led by a recession in the US from early 2024.

Global GDP growth and inflation



Source: Bloomberg as at July 2023.

Australia

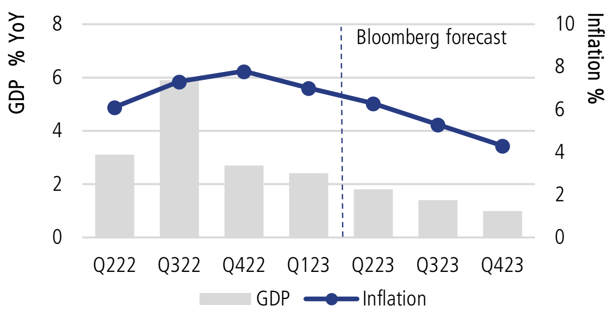
Slowing growth and a renewed easing in inflation (that drives a near-term peak in the cash rate) has strengthened as the key narrative for Australia's economy over recent months. Even with a still very tight jobs market, evidence continues to mount that the consumer has been slowing spending quickly around mid-year. While business conditions remain favourable, supporting profitability, rising borrowing costs are dampening activity, particularly in the housing market. This suggests a likely further moderation in growth to a further below-trend pace during H2 2023. Still, we expect falling inflation, the recent strong uplift in immigration, and China's moderate rebound to support growth sufficiently to avoid a near-term recession.

Growth in Q1 slowed further to 0.2% after Q4's 0.5% gain, its weakest since mid-2021. The annual pace eased from 2.6% to 2.4%, masking a sharper drop to an annualised pace of just over 1% over the past two quarters. Data through Q2 reveals further slowing led by the consumer. In June, retail sales surprised weaker, down 0.8%, and broader household spending (including services) is on a sharply slowing trend according to UBS. More positively, house prices and building permits rebounded in May, albeit housing activity remains on a downward trend. The jobs market remains tight, with May and June data delivering over 100,000 jobs and unemployment returning to 3.5% after rising to 3.7% in April.

Inflation has moderated in recent months, falling to 6.0% in Q2 from 7.0%, with core inflation edging below 5.9% (from 6.6%). After hiking in May and June to 4.10%, the Reserve Bank of Australia (RBA) stayed on hold in July, noting recently lower inflation, albeit still maintaining a tightening bias. The Treasurer appointed long-serving Deputy Governor Michele Bullock as next RBA Governor, replacing Phil Lowe from September. Both UBS and CBA expect a further final hike to 4.35% in August, though whether the RBA is on hold remains finely balanced, given signs of inflation moderation.

After 3.7% in 2022, UBS expects Australia to avoid a recession in 2023, with growth slowing to 1.4% before a modest recovery to 1.6% in 2024. CBA expects below trend (non-recessionary) growth of 1.4% during both 2023 and 2024.

Australian GDP growth and inflation



Source: Bloomberg as at July 2023.

Economic outlook

United States

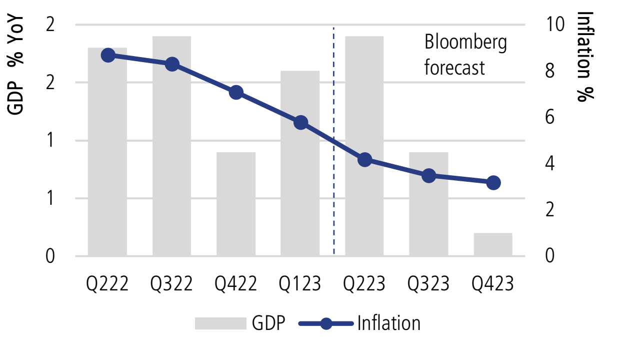
Debate continues to rage over whether the persistent resilient US growth picture (now augmented by a clearer decline in inflation) supports a soft-landing, no-recession outlook for the economy—or whether that recession is merely delayed due to the lagged impact of financial tightening. Either way, a relatively mild downturn now appears to be central to most theses. As UBS notes, "it may well be a "jobloss-less" recession, where growth, spending, and investment contract modestly, but unemployment rises barely above 4%. This is not much different from what a soft landing would look like." Key will be consumer spending trends and whether rates peak soon.

Growth for Q1 was revised higher to 0.5% (from 0.3%) to be 2.0% annualised, with Atlanta Fed's latest GDPNow pointing to growth also near 2% for Q2. The composite purchasing managers index (PMI) eased further to 52.0 in July from 53.2, flagging expansion—albeit key data suggest the manufacturing sector is weak. How much excess consumer saving exists remains key to the outlook. Retail sales edged higher in Q2 after Q1 weakness, up 0.2% in June and 0.4% in May, and the housing sector appears to be bottoming. While claims for unemployment trend higher, solid gains in jobs suggest the labour market is only gradually cooling, with unemployment little changed at 3.6% over the year.

The easing of price pressures accelerated in June. The CPI fell from 4.0% to 3.0% (its lowest since March 2021), while core inflation rose just 0.16%, less than half of any gain in the past six months, according to UBS. The report revealed weaker price trends in used cars, and airfares. Reflecting this, while the Fed hiked rates again in late July, it signalled a clear move to being more data-dependent, suggesting the signalled follow-up hike in September is less certain. UBS and CBA believe the Fed has now finished.

After 2.1% in 2022, UBS has revised its 2023 forecast higher from 0.8% to 1.8%, ahead of a more material downturn in 2024, where growth is 0.2%. This closely mirrors the views of SG, which is forecasting 1.7% in 2023 and 0.4% in 2024. CBA also sees H2 2023 weakness and recovery through 2024.

US GDP growth and inflation



Source: Bloomberg as at July 2023.

Europe

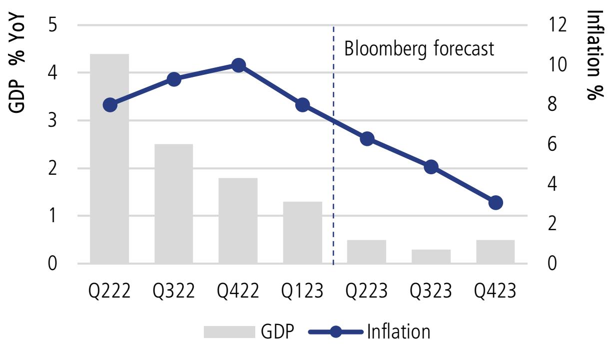
Despite a slight technical recession unfolding, early expectations for a deep recession in 2023 are giving way to an alternative outlook that embodies a year of sub-potential growth married with persistently high inflation. According to SG, this stagflationary environment suggests, unlike in the US and elsewhere, interest rates have much further to rise in H2 2023. Some countries, like Germany, are more clearly in recession. However, they are expected to join France, Spain, and Italy on a modest recovery path into 2024, with strong jobs markets a key support. Interestingly, most expect growth in 2024 to exceed 2023 in contrast to a delayed US slowdown.

Europe's Q1 growth fell by 0.1% (against initial estimates of a 0.1% rise). With Q4 2022 also revised to show -0.1% (from flat), a technical recession has now been recorded. Weaker consumer spending and softness across public spending and exports have weighed over the past couple of quarters. For Q2, the data has been mixed. The PMI has relapsed below the key 50-mark in recent months, falling to 48.9 in July from 49.9. According to BCA Research, retail sales "appear to be turning the corner, unchanged on a month-to-month basis in April and May after declining in the prior two months". In contrast, the labour market remains surprisingly tight, with unemployment easing to 6.5% in April and May from 6.6% in Q1.

Inflation remains the key challenge for the region. While easing upstream price pressures signal relief ahead, recent data has disappointed, with the CPI falling less than expected to 5.5% in June, and core inflation reaccelerating to 5.5% from 5.3%. While base effects have masked progress on easing inflationary pressures, ongoing hawkish commentary from the European Central Bank (ECB) suggest it believes it has little choice other than to further hike rates. Following a 0.25% hike in late July to 3.75%, both UBS and CBA expect a further rise to 4.0% in September, albeit the ECB sounded more 'data-dependent'.

After 3.5% in 2022, UBS expects a sharp slowing in growth to 0.5% in 2023 (was 0.8%), ahead of a limited pick-up to 0.7% in 2024. SG expects better growth of 1.1% in 2024, while CBA retains its recession view, with growth of just 0.5% for 2024.

European GDP growth and inflation



Source: Bloomberg as at July 2023.

Economic outlook

United Kingdom

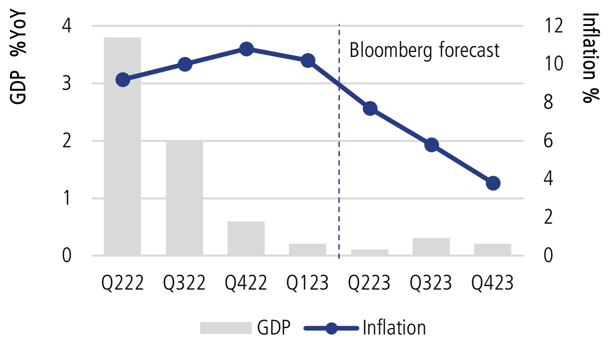
UK growth proved more resilient around the turn of the year and early 2023, delivering weak positive growth. Recent data suggest the economy is trending even weaker into mid-year and likely to be close to flat. Expiring government energy support, tightening financial conditions, as well as a wave of mortgage resets in H2 2023 will increasingly weigh on consumer spending. Together with elevated inflation that is proving stickier than elsewhere, leading to further near-term rate hikes (and denting sentiment), growth is expected to stay near flat in H2 2023 ahead of an only tepid recovery in 2024.

Output grew by just 0.1% in Q1, the same pace as in the prior quarter, slowing annual growth to just 0.2% (from 0.6%). May monthly growth contracted 0.1%. Together with April data, this suggests flat growth for Q2. "The UK economy is losing steam and a recession is expected to begin in Q3 2023", according to CBA. The UK's PMI continues to lose steam, easing to 50.7 in July from 54.0 in May. Like elsewhere, the labour market remains tight, with May's average hourly earnings rising to 6.9% from 6.7% last month (and 7.3% excluding bonuses). According to BCA Research, the last two wage prints match the record highs of mid-2021. However, it also believes the recent rise in unemployment to 4.0% from 3.8% "suggest the labour market is starting to loosen".

Inflation has been problematic over recent months. Some relief emerged in the June data, with headline inflation easing to 7.9% after 8.7% (and down from March's 10.1%). After rising unexpectedly through April and May from 6.2% to 7.1%, core inflation eased to 6.9% in June. Despite weak growth, ongoing inflation risk will likely see the Bank of England (BoE) hike rates by 0.5% in early August to 5.5%, with a further 0.25% hike in September. BoE Governor Bailey said that it is "crucial we see the job through on inflation".

After 4.1% in 2022, UBS forecasts growth of just 0.2% for 2023 (and a modest pick-up to 0.6% in 2024), while CBA expects flat growth (and further weakness in 2024). SG sees similar weak growth for 2023 but a solid 1.2% lift in 2024.

UK GDP growth and inflation



Source: Bloomberg as at July 2023.

Japan

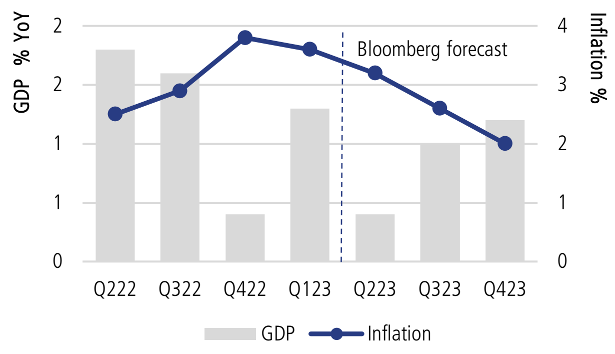
Japan appears on track to deliver steady, if not somewhat modest, growth over the next couple of years. A key focus is on the expected impact of slowing global growth on exports, and the extent to which it is more than offset by stronger domestic activity—particularly the consumer as the economy continues to open post-pandemic. Since early May, COVID-19 has been treated the same as seasonal flu and the movement toward normalisation from COVID-19 has intensified. According to SG, "this relaxation could ease consumers' cautious stance". Stronger wages growth should encourage policy makers to continuing tightening policy during H2 2023.

Growth rose by a stronger-than-expected 0.7% in Q1 (2.7% annualised), leading to an acceleration in annual growth from 0.4% to 1.3%. Stronger consumer spending (led by services) led the rebound. Early Q2 data point to ongoing, albeit slower, growth. Japan's PMI was unchanged in July at 52.1—above the key 50 mark—after easing from 54.3 in June. Retail sales rebounded 1.3% in May after a decline in April. Japan's Tankan sentiment index for all firms increased to a post-pandemic high of 8 in Q2 from 5 in Q1, while capex plans accelerated. With labour supply tightening and wages growing to their highest level in decades, it is not surprising firms also expect profits to fall in financial year 2023. After rising to 2.8% in March, unemployment retraced to 2.6% in April and May, where it has been for the past year, signalling ongoing tight conditions.

Inflation remains on a modest downward trend, edging higher to 3.3% in June, though still below January's 4.3% peak. Full-time wage growth rose 1.9% in May after 1.6% in April (and 1.3% in financial year 2022). Most expect a further pick-up in financial year 2023, delivering a slower-than- expected decline in inflation. The Bank of Japan (BoJ) surprised markets, making a modest tightening of policy at its late July meeting, adding flexibility to its 0.5% yield curve control target by allowing flexibility out to 1.0%, which saw the yen strengthen.

After growth of 1.0% in 2022, UBS expects a similar modest annual pace to unfold for 2023-2025. SG forecasts 1.3% in 2023 but slowing again to 0.9% in 2024.

Japanese GDP growth and inflation



Source: Bloomberg as at July 2023.

Economic outlook

China

Despite outpacing growth in much of the rest of the world in H1 2023, China's recovery lost significant momentum in Q2. This has raised questions over the durability of its pick-up, with key activity data showing only weak stabilisation as Q3 gets underway and deflationary pressures intensifying. Debate is focused on whether the softer data will lead to extra policy support after July's Politburo Bureau meeting. The less commodity-intensive nature of China's pick-up has also recently been a focus, and as SG notes, "the service-led nature of the recovery is also why China's spillover effects on global demand and inflation have been less visible this time".

China's output rose by 6.3% over the year to Q2, lifting from 4.5% in Q1. However, momentum between quarters stepped back at just 0.8% in Q2 after Q1's strong 2.2% pick-up. Most data for June improved modestly, with retail sales (3.1%) in line with expectations, and stronger results for fixed asset investment (3.8%) and industrial production (4.4%). But property activities slid further in June, with annual sales down -18.2% from -3%, new starts falling by 30.3% (versus -27% in May), while property investment declined again by 10%.

Attention is focused on the potential for further modest policy stimulus. This is particularly in the wake of flat inflation and falling upstream producer prices, which mark the sharpest deflationary impulses since late 2015. The late July Politburo meeting set a more supportive tone for policy easing in H2 2023. The meeting called for stronger 'counter-cyclical' macro policies to boost domestic demand (and no-longer referred to housing as just for 'living'). Despite better-than-expected credit availability in June, the annual pace continued to slow, dropping below 9% for the first time in more than a decade.

China's growth dropped from 8.4% to 3.0% in 2022. However, in contrast to most other economies, growth is expected to strengthen in 2023 and 2024. UBS recently trimmed its 2023 growth outlook from 5.7% to 5.2% before a 5.0% pace is seen for 2024. SG expects a similar 5.5% pace for 2023—it then expects renewed slowing to 4.5% in 2024.

Emerging markets

Growth in emerging markets is expected to strengthen through H2 2023 and remain relatively robust in 2024. While Southeast Asian economies will continue their modest recovery this year, Northeast Asia's sharper-than-expected decline in 2023 is expected to give way to a strong 2024 rebound, along with Latin America and emerging Europe. A focus on headline inflation, now falling on weaker food and energy prices, is building a platform for central banks to ease interest rates and support consumption over the coming year.

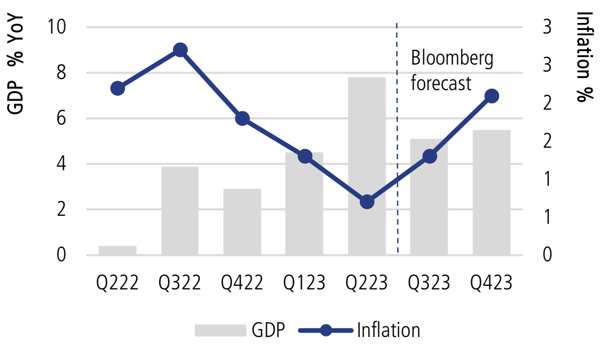
Across Southeast Asia, inflation continues on a relatively rapid descent, according to UBS. In June, inflation fell by a further 0.3% to 0.2% in Thailand, 0.5% to 3.5% in Indonesia, and by 0.7% to 5.4% in the Philippines. For Singapore, it fell 0.7% to 5.1% and in Malaysia by 0.4% to 2.8%. While rates may stay on hold for several months, as uncertainty about the growth and inflation trajectory linger, central banks are expected to begin cutting late in 2023 and early 2024.

Growth in India rose 1.9% in Q1, lifting the annual pace to 6.1% from 4.5%. Recent data is consistent with a sustained 6% growth rate over the coming couple of years. According to UBS, "high-frequency indicators, both car and two-wheeler sales were up [in May], while tractor volumes recovered after a dip in April. The services sector remained robust, with services PMI expansion sustained in May and domestic air passenger traffic holding up well. UBS sees 2023 growth slowing to 6.2% (revised higher from 5.5%) after 7.2%, with 6.0% in 2024.

UBS expects growth in Latin America to slow from 3.6% in 2022 to 1.5% in 2023 on the back of weak external demand for exports. In Brazil, falling inflation is cementing peak central bank rates, with policy held steady in June for the second time since the cycle began in early 2021. For emerging Europe, weak consumer spending is a key driver of weaker growth.

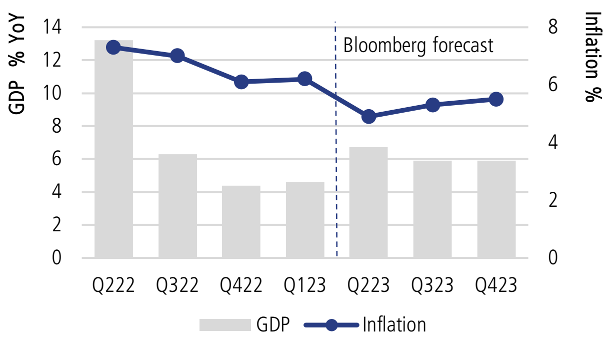
After 4.1% in 2022, UBS expects a similar pace for 2023 and 2024. Growth in emerging Europe is expected to weaken to 1.5% in 2023 (was 0.9%) after 3.2% in 2022, before a solid rebound to 2.2% in 2024.

Chinese GDP growth and inflation



Source: Bloomberg as at July 2023.

India GDP growth and inflation



Source: Bloomberg as at July 2023.

Asset class outlook

Short maturity and government bonds

Position: Underweight short maturity, overweight government bonds

Key points

- We recommend adding duration within high grade and investment grade asset classes with a bias towards fixed rate over floating rate bonds.
- Bond volatility remained elevated in July as we approach the end of global rate-hiking cycles. We anticipate yields will be lower over the next six to 12 months.

Short maturity—Our base case is that central banks are now entering the final stages of their rate-hiking cycles. Recent inflation data continues to show the aggressive tightening cycles over the past 15 months are working. Softer-than-expected UK CPI inflation data in July marked the first decline in 15 months. In the Eurozone, inflation continued its sharp retreat, largely due to energy prices.

While inflation is slowing, it is elevated above central banks' target bands. The Fed's 25 basis points (bps) hike in July was expected and priced in by markets. Additional hikes will likely depend on data releases, including jobs and CPI reports, but there is a risk that central banks may become over-restrictive, which could lead to weaker economic data.

Domestic bond yields at the front end of the curve have risen. The two-year bond yield peaked at 4.3% in early July but has since retraced under 4.0% after the RBA's decision to leave rates unchanged at 4.1%. The market has fully priced one more hike in August with a 50% probability. We are tactically underweight short maturity debt to help protect against rising interest rates. Our six to 12-month view is that global policy rates will be lower and, thus, recommend adding duration now. Inflation has already shown signs of falling, recent turmoil is likely to tighten liquidity and slow economic growth, so central banks are likely to ease in H1 2024.

Government bonds—US growth has stayed above trend, despite Fed tightening. The jobs market remains strong and broader economic data is positive. Rates are, therefore, likely to remain higher for longer, having already reacted negatively. The 10-year Treasury yield rose to 4.07% in early July, the highest since October 2022. We see current levels as a buying opportunity. Growth will likely decelerate under tighter financial conditions as uncertainty persists about whether the US economy will experience a mild or deeper recession. Although interest rate volatility will remain elevated, we see a much more even balance in terms of direction. Given the sharp repricing higher in rates, returns should be attractive, considering the shifting balance of risks between high inflation and decelerating growth.

Domestic high-grade bond yields have been influenced by the global offshore markets, particularly in the US. While the RBA is expected to hike once more, we are overweight high grade. We recommend investing in the three- to five -year part of the curve, as we expect steepening trades, as the RBA reduces rates to a more unrestrictive level in mid-2024.

Investment grade and high yield credit

Position: Overweight investment grade, neutral high yield credit

Key points

- Investment grade bonds have attracted strong buying, driven by outright yields and tightening credit spreads.
- Within credit, high yield is our least preferred sub-sector, where we are advocating a selective, higher-quality bias.

Investment grade credit— Investment grade credit spreads have been remarkably stable. Unfortunately, rising interest rates have more than offset the income over the tightening cycle. But with rates now close to their highs and likely to fall in 2024, income along with capital returns should be captured. We believe corporate credit spreads are at fair value, and fundamentals for US and Australian corporates are robust. The banking sector seems to have recovered, with stable earnings results from the larger US banks also helping to contain any widening within investment grade credit. The sensitivity of lower-rated asset classes towards an economic slowdown is likely to increase default risk. We, therefore, recommend staying in the high-quality investment and high-grade sectors.

Domestically, demand for subordinated tier 2 major bank debt has been strong, outstripping supply. Demand has been driven by wider-than-average credit spreads. Banks have issued debt to meet their regulatory total loss absorbing capital requirements, with outright yields in excess of 6.50%. With banks now ahead of their 2023 funding requirements and the market now relatively short of supply, we anticipate that this sector will outperform both senior unsecured and additional tier 1 hybrids. Spreads on additional tier 1 hybrids are around BBSW +280bps, representing of more than 7.00%—however, this is expensive on a historical basis. Any new supply in this sector is likely to be met with strong demand due to the outright yields.

High yield credit—Within credit, high yield is our least preferred sector. We are constructive on bonds as an asset class. However, in more growth-sensitive segments, such as high yield, we are advocating a selective, higher-quality bias. In July, spreads tightened in the riskier credit segments, as the market repriced the risk of recession in the face of resilient US economic data. At current spreads of around 420bps in US dollar high yield debt, the market appears to be discounting a benign default environment in the year ahead, consistent with above-trend growth. The risk is that the high yield sector is more vulnerable to tightening financial conditions, which can translate into higher corporate defaults—especially in leveraged companies. Our preference is to move higher up the credit quality spectrum into investment grade on a risk-adjusted basis despite, the 8.00% returns on offer.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- Domestic equities rose 2.9% in July, underperforming global equities in Australian dollar terms, albeit only marginally.
- Like global equities, energy and banks stocks (which have been laggards recently) outperformed. The healthcare sector was dragged lowered by CSL Ltd.
- The materials sector has been rangebound year-to-date, as uncertainty over China's post-COVID trajectory persists, and absent significant post-Politburo stimulus.

Over the past four weeks, consensus estimates for S&P/ASX 200 earnings have been lowered by 0.6% for financial year 2023 and 1.4% for financial year 2024. Consensus now expects financial year 2024 earnings per share (EPS) to fall 3.2% versus financial year 2023 levels. However, this comprises a sharp fall in the energy sector (due to much lower oil and gas prices), a small fall in materials EPS, and a 3% fall in financials EPS (dominated by the banks, where EPS is projected to fall 4-8%). UBS prefers the less cyclical parts of the index that are detached from the consumer slowdown (e.g., technology and insurance), as well as exposure to companies that offer high and stable dividends (e.g., infrastructure, utilities, and insurance).

UBS' base case is that domestic banks will avoid a hard landing, but it acknowledges that the risks of an economic recession are non-trivial and will continue to weigh on the equity market. Recent developments (e.g., RBA rate hikes, weak retailer updates) reinforce its view that soft landing hopes are sliding and that an increasingly defensive investment stance is warranted.

Valuations of domestic macro sectors are not priced for a recession, with P/E ratios still sitting above mid-cycle levels. During previous periods of recession risk, consumer and banking stocks have traded with single-digit multiples. Although we do not expect to see valuations compress to similar levels in this cycle (as bond yields are still low by historical standards), current ratios look unrealistically optimistic and ill-prepared for further earnings downgrades.

Contrary to popular perception, the end of an RBA rate hiking cycle does not typically herald a revival from cyclical equities. When looking at the performance of domestic equities through previous RBA 'rate-plateau' periods, the market has declined overall, with stocks most exposed to the domestic economy underperforming defensive sectors. The most cyclical sectors and investment styles begin to perform more strongly closer to the period when the RBA begins to cut rates.

This leaves a preference for the less cyclical components of the index that are detached from the consumer (technology and insurance, healthcare, as well as infrastructure and utilities).

International equities

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

Key points

- In July, global equity markets rose 3.0% in Australian dollar terms. The UK and Europe outperformed, while the NASDAQ and S&P 500 underperformed slightly.
- Financials and energy (which have been laggards recently) were the best performers in July. IT, consumer discretionary and telcos underperformed.
- Interest in artificial intelligence, which has driven much of the gains in the NASDAQ year-to-date, has lost some momentum, with value stocks outperforming growth since June.

The postponement of US recession risk, clear signs of peak inflation, and the closeness of peak rates policy have prompted investors to abandon recession trades. Except for commodities, markets are now broadly pricing in a low probability of a US recession. This benign and potentially complacent pricing of recession risk, along with increasing signs that a credit cycle is emerging, should make for an interesting H2 2023.

Equities are focussed on stronger-than-expected growth and softer-than-expected inflation via a cyclical growth-led rally. The thesis is that inflation is decoupling from growth, allowing for a more supportive backdrop to corporate earnings, with less aggressive interest rate moves. A key question for H2 2023 is whether growth and inflation 'recouple', resulting in central banks staying restrictive for longer.

Despite the central bank 'put' being priced out, equities have rallied strongly in the face of much higher real interest rates—their highest levels since the GFC. There are several (valid) reasons for this, albeit the magnitude of the rally has surprised many. Reasons include declining inflationary pressures, more resilient economic growth (particularly in labour markets), an expansion of the Fed's balance sheet post the collapse of Silicon Valley Bank (SVB), and high levels of consumer excess savings that have sustained spending.

The key for equity markets in H2 2023 is the extent to which H1 2023 tailwinds turn into headwinds. We no longer have easy comparable data for US inflation—the lagged impact of 500bps of monetary tightening suggests it may be difficult for economic growth to accelerate from here. The Fed's balance sheet is already below where it was pre-SVB's collapse and is forecast to erase the COVID-pandemic expansion by the end of the year. According to BCA Research, the stock of excess savings is forecast to have evaporated by year's end.

While developing markets are still struggling with sticky (albeit past-its-peak) inflation, China's economy is facing deflationary concerns as the post-reopening recovery has lost momentum. June headline CPI inflation eased further to 0% year-on-year, with muted core CPI inflation at 0.4% year-on-year. This was amid concerns of an uneven recovery in consumption and softness in domestic demand (outside of sectors exposed to the re-opening trade).

Asset class outlook

Currencies

Key points

- A more data-dependent Fed may see the US dollar re-engage a downward trend. August's Jackson Hole central bank conference is the likely next key US dollar signpost.
- The Australian dollar has not changed much from USD 0.67 in recent months. It rose in early July to around USD 0.69 on the back of weak US inflation data but retraced later in the month on the back of weaker Australian inflation (and some strong US data).

The US dollar weakened sharply in early July, on the back of weaker-than-expected US inflation data, reinforcing forecasts that the Fed may be near its peak of rate tightening. However, ongoing strong growth data over the balance of the month, including for the jobs market and Q2 growth (coming in both above 2% and expectations), led to a US dollar rebound into month-end. According to UBS, the US dollar remains "expensive", by around 4%, albeit "down from 11% over-valuation flagged last November". Key for the US dollar ahead will be signs of some loosening in the US jobs market (US dollar negative), while August's Jackson Hole central banker 'talk-fest' will give Fed Chair Powell opportunity to shift views ahead of the Fed's next meeting (and potentially final hike) in September. Signs the Fed has finished its tightening cycle will likely see the US dollar re-engage its downtrend that has been under way since November (-11% to date).

The Australian dollar faced downward pressure early in July on the back of the RBA holding the cash rate unchanged—against evenly split expectations for a hike. Lower-than-expected US inflation data led the local currency to around USD 0.69 by mid-month. However, strong US data, in conjunction with a lower-than-expected Australian Q2 inflation report, saw the currency retrace to a little below USD 0.67. The RBA's August rate decision, once again only partly priced by markets, is likely to impact the near-term outlook for the Australian dollar. Longer term, the outlook for US monetary policy, in tandem with the strength of China's economic recovery over the coming year, will be key. UBS expects it to lift to USD 0.75 by year-end on a relatively weaker US dollar outlook. CBA sees it at USD 0.64 at year-end, ahead of a rise to USD 0.74 (similar to UBS) a year later.

Elsewhere, the euro has continued to trend modestly stronger over recent months, albeit a rise over USD 1.12 into mid-July was relatively quickly reversed on both stronger US data and some tentative signs of easing European inflation pressure. CBA expects the euro to rise over time from its current USD 1.10 to USD 1.22 by end-2024, as the US dollar weakens. The BoJ's largely unexpected modest tightening in policy in late July also saw the yen strengthen from its peak of around USD 145 to USD 141. This only partially reversed its sell-off in recent months (from USD 128) as the BoJ resisted pressure to begin tightening policy, while other central banks hiked rates.

Commodities

Key points

- In July, global commodities rose 5.8%, delivering their strongest monthly performance since March 2022.
- There were strong gains across the energy and metals complex, with oil prices especially strong on tentative signs that global markets are tightening.

Commodities appear caught between several countervailing forces. Although equity markets are signalling an economic 'soft landing', global central banks are still increasing interest rates, inflationary pressures are abating, and China remains mired in an anaemic post-COVID recovery. What has been positive for stock markets (i.e., disinflationary pressures from lower producer prices) has been negative for commodities in H1 2023. Collapsing commodity prices are reflected in the Producer Price Finished Goods Index, which fell 0.9% in May year-on-year—its fastest pace of decline since 1948.

Key from here is whether the 4-5% devaluation in the US dollar over the past several months can be sustained, as it has allowed for the commodity complex to catch a bid in recent months, despite lacklustre demand trends.

Oil has remained rangebound between USD 70 and USD 90 per barrel (bbl) year-to-date, and Brent has broken above USD 80 bbl for the first time since April. OPEC+ output cuts are designed to protect against a weakening economic outlook and any slowdown in energy-demand growth. It is possible that Saudi Arabia may extend its additional unilateral reduction beyond August if prices hover around USD 75 bbl. The group's policy also aims to provide a price floor by tightening supply, with several analysts suggesting a supply deficit relative to demand may occur in H2 2023. Recessionary fears may limit price gains in the short term, as well as ongoing Russian supply. However, a proactive approach to supply management from OPEC+ could be favourable, particularly if China growth also rebounds.

UBS believes that the risk-reward for metals is improving. Fundamentals are broadly stable, with volatility driven by weak China data and a still hawkish central bank narrative. Physical markets are still generally balanced with prices above cost-support and incentive levels.

China economic data has been weak in recent months. This has led the market to anticipate more stimulus, including further property policy easing, fiscal expansion (more infrastructure investment), and additional policy rate cuts and credit support. However, the government is focused on keeping property prices stable and minimising investment demand to address structural issues (affordability and inventory) in the property market. Analysts, therefore, expect a less commodity-intense recovery in China than in previous cycles, especially for early-cycle commodities (steel/cement). The boost from infrastructure will likely be moderated by ongoing weakness in China property and exports.

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

Growth and inflation continue to slow in most developed economies, and we feel that we are close to the peak for interest rates this cycle. Expectations for any interest rate cuts have now been pushed out to mid-2024, though risks of an earlier easing remain.

In Australia, recent (core) inflation data is easing, while unemployment remains close to near 50-year lows. The US is displaying a similar level of inflation and tightness in the jobs market.

We retain the view that if there is a recession, it will be a relatively shallow/soft landing as we approach a new phase of the cycle. Our positioning reflects our expectation that fixed income will perform well relative to equities under several scenarios in the short term.

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 our underweight cash position from -1 to -2. With equities now neutral, our cash underweight is entirely funding our +2 overweight to fixed income.

Fixed income

At an overall asset class level, fixed income is our highest conviction position. At a sub-asset class level, we have closed out the underweight position in high yield, funding this by moving further underweight short maturity (from -1 to -2). We remain cautious about risk assets, as they continue to grind higher in the face of mixed fundamental and economic data and tighter credit conditions ahead. If markets experience volatility, we believe fixed income (particularly government bonds and investment grade credit) will hold up relatively well—particularly in a situation where inflation is 'stickier' than expected and if the growth outlook deteriorates.

Alternatives

We favour infrastructure, private debt, and low-beta hedge fund exposures, while maintaining private equity exposures. We are taking a cautious approach to real estate globally.

Equities

We have closed our underweight in equities by moving neutral and continue to prefer non-US markets. US equities remain expensive and driven by advances in the largest seven (growth) stocks. We retain an overweight to domestic equities and emerging markets due to attractive valuations (on a relative basis) in Australia and China, as well as the potential for tailwinds associated with stronger activity in China. The slight upweight to Europe reflects its recent underperformance.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt		Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	-2	V	1	1	1	1
Fixed income	2		55	37	19	16
Short maturity	-2	V	6	4	1	1
Government bonds	2		34	17	9	7
Investment grade credit	2		13	13	6	6
High yield credit	0	Λ	2	3	3	2
Equities	0	Λ	24	42	60	38
Domestic	1		13	20	29	12
United States	-1		5	10	15	12
Europe (ex-UK)	-1	Λ	2	3	4	4
United Kingdom	0		2	3	4	3
Emerging markets	1		2	6	8	8
Alternatives	--		20	20	20	45

V Decreased weight this month Λ 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 by mid-2024, making a duration play in fixed rate outperform floating rate over time.

Government bonds

We are overweight government bonds. With expectations central bank are near the end of their rate hiking cycles, we are tactically overweight government bonds. Although it is difficult to forecast the absolute peak in yields, government bonds have largely absorbed rising rates and we expect yields to be lower over the next three to nine months.

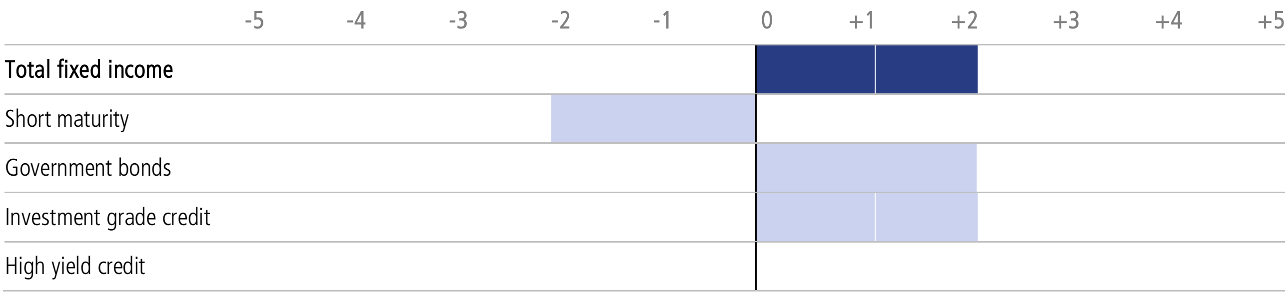
Investment grade credit

We are overweight investment grade credit. Investment grade credit spreads are tightening, driven by outright yields and demand for quality issuers. Investors should look to move higher up the credit quality spectrum to protect against a potentially weaker corporate earnings season.

High yield credit

We are neutral high yield credit. With central banks unlikely to ease near term and unemployment yet to rise, high yield credit spreads are vulnerable to some widening. But with base rates increasing, and although spreads have tightened, issuers are paying higher funding costs and a higher liquidity premium. High yield remains at risk of a potential acceleration in defaults, with some sectors more vulnerable than others.

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



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	76.95	80.75
Australian 3-year yield	3.87%	4.05%
Australian 10-year yield	4.06%	4.02%
Australian 3/10-year spread	18.7 bp	-3.0 bps
Australian/US 10-year spread	9.6 bp	0.2 bps
US 10-year Bond	3.96%	3.84%
German 10-year Bund	2.49%	2.39%
UK 10-year Gilt	4.31%	4.39%
Markit CDX North America Investment-Grade Index	63.0 bp	66.2 bps
Markit iTraxx Europe Main Index	67.8	73.72
Markit iTraxx Europe Crossover Index	380.4	400.25
SPX Volatility Index (VIX)	13.7	13.59

Source: LGT Crestone Wealth Management, Bloomberg as at 31 July 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. The 12-month forward P/E for the S&P/ASX 200 is 15.2x and is now back in line with its pre-COVID 5-year average. With its leverage to a re-opening in China (albeit volatile) and a dividend yield almost twice that of the MSCI World index, Australia remains an overweight.

US equities

We are underweight US equities. With valuations on the S&P 500 now back to 20x, and 26x for the NASDAQ, US equities appear vulnerable to any earnings disappointments that may emerge. The banking sector continues to tighten credit conditions, which should ultimately pressure revenue growth.

European (ex-UK) equities

We are underweight European (ex-UK) equities. We are also less negative the region. Inflation appears to have passed its peak in Europe, albeit the ECB still retains a tightening bias. European equities have stayed rangebound year-to-date in local currency terms as relative valuation support, earnings resilience, and cheaper commodity prices provide an offset.

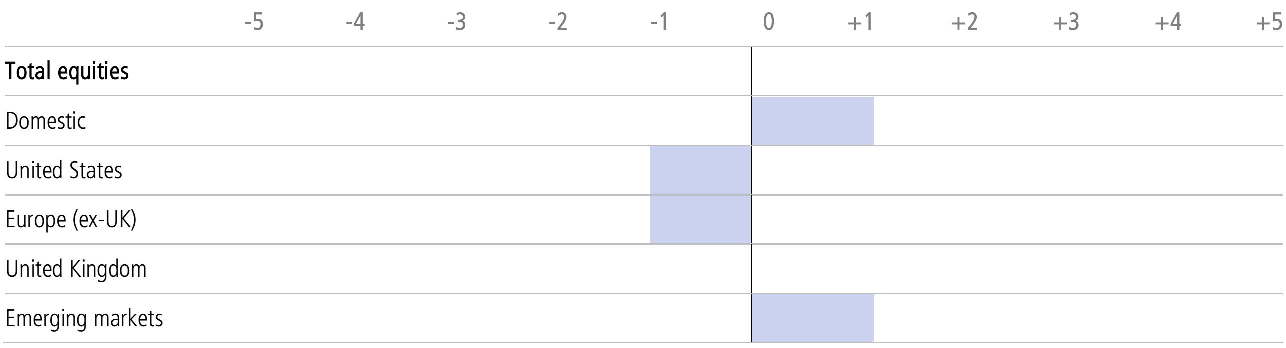
United Kingdom equities

We are neutral UK equities. The UK is a deep-value market with a defensive bias. It has the highest correlation to 'value as a style' among all the major regions. Like Australia, its China-related exposure (mining and energy) and its large healthcare exposure (which provides defensive qualities) should offer a degree of comfort in an uncertain market.

Emerging market equities

We are overweight emerging market equities. We believe the recent pull-back in emerging market equities is a correction that should be bought. China remains a key focus for investors and appears to be amid a 'savings boom'. Its excess consumer savings currently stand at a record 10% of output. COVID outbreaks remain an issue, as they were when the Western world abandoned strict COVID protocols.

Active equity weights (%)—We are neutral equities.



Equity market summary

			Consensus 1 yr			
Region	Index	Latest price	Target	Upside	Next year P/E [1]	Next year D/Y [2]
Australia	S&P ASX 200	7,410.4	7,629.0	2.9%	15.7	4.84%
New Zealand	S&P NZ 50	12,056.2	12,543.1	4.0%	24.4	3.34%
United States	S&P 500	4,580.5	4,988.4	8.9%	19.0	1.52%
Europe	Euro Stoxx	470.2	541.2	15.1%	12.1	3.43%
United Kingdom	FTSE 100	7,699.4	8,988.6	16.7%	10.8	4.00%
China	CSI 300	3,291.0	3,908.9	18.8%	10.0	3.10%
Japan	Nikkei 225	33,172.2	35,321.7	6.5%	18.4	1.84%
India	Sensex	66,527.7	72,874.1	9.5%	21.5	1.47%

Source: Bloomberg. Data as at 31 July 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 remains 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. Despite weak performance year-to-date, ongoing macro-economic and geo-political uncertainty should continue to present attractive opportunities for discretionary macro strategies, while idiosyncratic credit strategies should provide attractive risk-adjusted return opportunities in financial year 2024. 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

The normalisation of valuations should present an attractive deployment opportunity for private equity and venture in financial year 2024. With entry valuations having readjusted meaningfully and secondary (fund) market activity beginning to pick up, we recommend maintaining exposures to private equity and venture capital. Where investors have underweight positions, we recommend adding exposures with a preference for new primary and secondary fund commitment structures. Investors should maintain discipline in partnering with firms that can source high quality opportunities and be a value-added partner—whether a portfolio company or a fund manager (i.e., if an allocator).

Private debt looks highly attractive. If investors do not compromise on credit quality and cater for increased debt servicing costs, private debt should be highly attractive due to higher rates, wider spreads, and greater credit protections relative to public market equivalents. Lenders can now attract senior deals with strong covenants at unlevered double-digit yields. We prefer direct lending and sponsor-backed transactions versus broadly syndicated strategies, as loan terms can be negotiated directly, offering greater protection to the end investor. We also prefer corporate transactions relative to real estate lending strategies that are often heavily focussed on construction, a sector with greater headwinds.

Real assets

Real estate is our least preferred alternative asset class, given ongoing weakness in certain sectors. Allocations should prioritise core-plus, high-quality assets. We see a meaningful dichotomy across different assets, sectors, geography and investment approaches, and a particular bifurcation between prime office and lower grades worldwide. To that effect, 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. These initiatives can help to partially offset ongoing valuation declines arising from interest rate increases. We also like high-quality, overseas, multi-family accommodation and other alternative sectors, such as self-storage, student accommodation and manufactured housing. These are likely to play a growing role in globally diversified portfolios.

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.

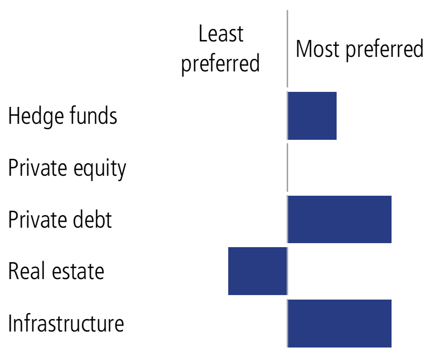
Our most preferred and least preferred exposures—We favour infrastructure, private debt, and low-beta hedge fund exposures while maintaining private equity exposures. We are taking a cautious approach to real estate globally.

What we like

- Multi-strategy, credit-oriented and discretionary macro hedge funds
- Senior private debt (strategies excluding real estate)
- Core and core-plus infrastructure assets with inflation linkages
- Private market and real assets exposed to the global energy transition.

What we don't like

- Passive private market and/or real asset strategies
- Lower grade and/or buy-and-hold real estate assets (particularly office)
- 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
REA	REA Group Ltd	Com Services	$157.53	-12%	56.3	1.0%	29%	27%	25.2%	AA
ALL	Aristocrat Leisure Ltd	Con. Disc	$39.33	14%	20.0	1.6%	22%	20%	7.5%	AA
TLC	Lottery Corp Ltd/The	Con. Disc	$5.17	5%	33.1	2.9%	21%	127%	16.7%	AA
MTS	Metcash Ltd	Con. Staples	$3.60	13%	12.0	5.9%	19%	26%	1.3%	--
ALD	Ampol Ltd	Energy	$32.85	10%	12.3	5.7%	16%	18%	2.2%	AA
MQG	Macquarie Group Ltd	Financials	$175.01	7%	16.1	3.7%	na	12%	9.8%	AA
IAG	Insurance Australia Group	Financials	$5.93	-6%	28.0	2.7%	na	10%	75.5%	AA
RMD	ResMed Inc	Health Care	$33.64	13%	34.7	0.5%	28%	25%	14.3%	A
CSL	CSL Ltd	Health Care	$268.52	20%	35.4	0.9%	14%	16%	20.6%	AA
MND	Monadelphous Group Ltd	Industrials	$13.62	0%	25.2	3.5%	15%	13%	22.4%	--
ALU	Altium Ltd	Info. Tech	$38.21	1%	51.3	1.2%	34%	23%	24.2%	--
XRO	Xero Ltd	Info. Tech	$122.21	-7%	129.2	0.0%	10%	13%	60.6%	AA
IGO	IGO Ltd	Materials	$13.80	12%	6.8	2.7%	37%	38%	-14.6%	AA
JHX	James Hardie Industries	Materials	$43.48	-1%	23.0	0.0%	41%	31%	11.0%	AA
GMG	Goodman Group	Real Estate	$20.54	10%	21.8	1.5%	10%	10%	10.4%	AA
ORG	Origin Energy Ltd	Utilities	$8.47	5%	23.3	4.6%	10%	6%	42.3%	A

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 31 July 2023. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Metcash Limited (MTS)—Buy. MTS is now trading at a 12-month forward dividend yield of 5.8%, which is not far removed from the 6% yield that marked previous share price lows in 2017 and financial year 2018/19.

CSL Limited (XRO)—Buy. EPS expectations have been lowered by 7-9%, but with the stock having fallen by twice this amount, this means it has de-rated quite aggressively. Its valuation is back at average levels in absolute terms and is arguably cheap in relative terms.

Altium (ALU)—Buy. ALU has fallen around 10% and has been largely rangebound for 12 months. Earnings have been revised higher over the same time, which means the stock is now back to its lowest P/E relative to the S&P/ASX 200 since 2018.

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	$5.93	-6.2%	15.9	2.24	30%	2.7%	77.2%	AA
MQG	Macquarie Group Ltd	Financials	$175.01	7.2%	14.7	1.95	40%	3.7%	7.5%	AA
WBC	Westpac Banking Corp	Financials	$22.34	0.8%	11.6	1.08	100%	6.3%	0.7%	A
QBE	QBE Insurance Group Ltd	Financials	$15.77	11.6%	9.1	1.75	10%	3.1%	20.5%	AA
COL	Coles Group Ltd	Con. Staples	$18.19	4.3%	21.9	7.20	100%	3.7%	1.5%	AA
MTS	Metcash Ltd	Con. Staples	$3.60	13.4%	11.9	3.24	100%	5.9%	1.4%	AAA
SGR	Star Entertainment Grp	Con. Disc	$1.05	22.2%	25.6	0.50	100%	0.0%	--	BBB
TAH	Tabcorp Holdings Ltd	Con. Disc	$1.06	15.2%	27.1	0.90	100%	1.9%	15.0%	AA
TLS	Telstra Group Ltd	Com. Services	$4.26	9.8%	22.9	3.25	100%	4.0%	5.9%	AA
NEC	Nine Entertainment Co	Com. Services	$2.14	11.4%	13.0	1.91	0%	5.1%	6.4%	AA
RMD	ResMed Inc	Health Care	$33.64	13.0%	30.4	8.31	100%	0.5%	186.0%	A
PME	Pro Medicus Ltd	Health Care	$68.79	-10.9%	98.8	61.45	100%	0.4%	23.0%	BBB
REP	RAM Essential Services	Real Estate	$0.75	14.1%	13.3	1.4	0%	7.7%	0.0%	--
SGP	Stockland	Real Estate	$4.22	-0.9%	13.6	1.0	0%	6.3%	-3.4%	AA
IRE	IRESS Ltd	Info. Tech	$10.38	-0.1%	25.3	4.34	0%	3.7%	9.3%	AA
DBI	Dalrymple Bay Infra.	Industrials	$2.76	5.6%	15.5	1.18	0%	7.5%	5.3%	--
ALX	Atlas Arteria Ltd	Industrials	$6.28	7.0%	13.7	0.93	0%	6.1%	6.8%	AA
ORG	Origin Energy Ltd	Utilities	$8.47	5.0%	16.4	1.68	100%	4.6%	-2.8%	A
ALD	Ampol Ltd	Energy	$32.85	10.2%	12.0	2.16	100%	5.7%	3.1%	AA
AMC	Beach Energy Ltd	Energy	$1.62	13.6%	7.6	na	100%	2.5%	70.0%	AA
BHP	BHP Group Ltd	Materials	$46.01	-1.0%	12.5	3.7	100%	4.0%	-16.7%	A
AMC	Amcor PLC	Materials	$15.31	-0.2%	14.1	na	0%	3.1%	3.2%	AA

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 31 July 2023. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Amcor Limited (AMC)—Buy. AMC is now trading at less than 14x its 12-month forward P/E. This is close to the lowest level it has traded, with the exception of during COVID. Over the past decade, its current multiple would rank in the lowest 6% of multiples recorded over the past decade.

Beach Energy (BPT)—Buy. Based on the outlook for gas pricing, peak capex in financial year 2023/24, and production growth that is greater than 20%, Beach Energy is expected to generate around AUD 850 million in free cash flow from financial year 2025. This should lead to a free cash flow yield of almost 30% and a dividend yield of over 8%.

Ampol (ALD)—Buy. ALD is trading at around 12x 2023 earnings, a 15% discount to its historical average of 15.3x and largely in line with global peers. 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	8462.00	12.5	22.7	1.5	59,812	AA
LLOY LN	Lloyds Banking Group PLC	Financials	GBP	44.94	34.0	5.9	6.9	37,116	AA
WFC US	Wells Fargo & Co	Financials	USD	45.89	11.2	9.5	3.2	168,311	BB
2318 HK	Ping An Insurance Group	Financials	HKD	56.25	26.0	6.0	4.9	132,972	A
939 HK	China Construction Bank	Financials	HKD	4.53	45.2	2.9	9.3	147,919	A
2330 TT	Taiwan Semi. Manuf. Co	Info. Tech	TWD	565.00	16.2	15.2	2.3	465,796	AAA
MA US	Mastercard Inc	Financials	USD	393.02	15.5	27.0	0.6	370,311	AA
ASML NA	ASML Holding NV	Info. Tech	EUR	652.20	13.7	29.5	1.1	289,114	AAA
GOOGL US	Alphabet Inc	Comm. Services	USD	132.20	17.0	19.4	0.0	1,668,781	BBB
UMG NA	Universal Music Group NV	Comm. Services	EUR	23.33	7.2	24.6	2.3	46,709	AA
DIS US	Walt Disney Co/The	Comm. Services	USD	88.49	30.4	17.6	0.8	161,701	A
9988 HK%	Alibaba Group Holding Ltd	Consumer Disc.	HKD	97.50	37.7	10.6	0.0	254,711	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	110.31	15.6	25.1	1.4	168,764	BBB
SBUX US	Starbucks Corp	Consumer Disc.	USD	101.62	12.0	24.9	2.3	116,497	A
AMZN US	Airbnb Inc	Consumer Disc.	USD	151.76	-10.4	36.7	0.0	97,063	BB
RACE IM	Ferrari NV	Consumer Disc.	EUR	291.40	2.2	40.3	0.9	58,100	BB
BA US	Boeing Co/The	Industrials	USD	237.34	6.5	42.9	0.6	143,164	BBB
DSV DC	DSV A/S	Industrials	DKK	1357.00	12.2	22.3	0.5	43,854	AA
MSFT US	Microsoft Corp	Info. Tech	USD	334.52	17.4	26.5	0.9	2,485,405	AAA
ILMN US	Illumina Inc	Health Care	USD	191.60	22.2	62.0	0.0	30,292	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	1092.20	7.1	26.5	1.8	363,443	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	323.36	8.8	50.6	0.0	113,614	A
EL US	Estee Lauder Cos Inc/The	Consumer Staples	USD	179.40	26.3	35.7	1.5	64,120	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	560.29	-1.0	36.4	0.7	248,293	A
288 HK	WH Group Ltd	Consumer Staples	HKD	4.22	28.1	5.1	0.9	6,942	BBB
SHW US	Sherwin-Williams Co/The	Materials	USD	275.46	5.9	25.9	1.0	70,834	A
RDSA NA	Shell PLC	Energy	EUR	27.99	21.1	7.0	5.1	206,098	AA
EQIX US	Equinix Inc	Real Estate	USD	807.22	1.1	72.4	1.8	75,494	AA
ORSTED DC	Orsted AS	Utilities	DKK	591.20	23.8	24.3	2.6	36,675	AAA
		Average Yield:					1.9%		

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 31 July 2023. ESG is environmental, social, and corporate governance.

Recommendations:
Thematic investing—Electric vehicles

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

Electric vehicles—Select exposures.

Global penetration of electric vehicles is accelerating, offering investment opportunities across the value chain – from raw material commodities to auto component manufacturers and infrastructure providers.

Code	Company	Sector	Base CCY	Market price	Consensus upside (%)	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
NVDA US	NVIDIA Corp	Info. Tech	USD	$401.11	9.9	43.2	0.1	990,742	AAA
INTC US	Intel Corp	Info. Tech	USD	$29.99	6.6	18.4	2.3	125,088	AA
AMD US	Advanced Micro Devices	Info. Tech	USD	$125.27	-17.6	31.1	0.0	201,730	AA
MU US	Micron Technology Inc	Info. Tech	USD	$71.69	-2.3	109.6	0.6	78,457	A
NXPI US	NXP Semiconductors NV	Info. Tech	USD	$182.07	10.5	12.8	2.3	47,291	AAA
IFX GY	Infineon Technologies	Info. Tech	EUR	$35.10	35.2	13.4	1.3	49,182	AA
APTV US	Aptiv PLC	Con. Disc	USD	$91.23	38.4	15.3	0.4	24,678	AA
FR FP	Valeo	Con. Disc	EUR	$19.09	19.5	7.6	4.2	4,988	AAA
FCX US	Freeport-McMoRan Inc	Materials	USD	$34.23	36.2	15.4	1.6	49,061	BBB
IGO AU	IGO Ltd	Materials	AUD	$14.58	7.8	8.4	2.8	7,194	AA
QCOM US	QUALCOMM Inc	Info. Tech	USD	$116.00	15.4	11.9	2.8	129,224	A
300750 CH	Contemporary Amperex	Industrials	CNY	$224.99	42.2	16.0	0.9	139,708	A
51910 KS	LG Chem Ltd	Materials	KRW	$702,000	36.8	12.4	1.7	37,538	BBB
AAPL US	Apple Inc	Info. Tech	USD	$177.30	2.1	27.1	0.6	2,788,699	BBB
GOOG US	Alphabet Inc	Com. Services	USD	$124.64	5.6	18.2	0.0	1,576,364	BBB
TSLA US	Tesla Inc	Con. Disc	USD	$201.16	-4.8	41.8	0.0	637,577	A
VOW GY	Volkswagen AG	Con. Disc	EUR	$146.35	22.5	4.5	6.6	72,636	B
HON US	Honeywell International	Industrials	USD	$194.55	14.3	19.3	2.3	129,507	AA
		Average Yield:					1.7%		

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 31 July 2023. ESG is environmental, social, and corporate governance.

Important information

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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