Skate where the puck is going
Key views to negotiate noisy markets

Core Offerings

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

March 2025

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Key views to negotiate noisy markets

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICE

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A torrent of executive orders, tariff threats (and enactments), press conferences, and social media posts have marked a frenzied, often baffling first six weeks of the second Trump Administration. Amid this cacophony, "muzzle velocity" may very well be the most important term for investors to keep in mind this month. It describes President Trump's deliberate media strategy to "flood the zone" with a hail of activity to overwhelm media outlets and political rivals and shock them into inaction. Astute investors would do well to recognise this purposeful gambit for what it is, block out the irrelevant noise, and focus on what matters—in other words, skate where the puck is going, not where it is now.

In this month's Core Offerings, we do exactly this. Sticking to our disciplined frameworks helps us to see through the clamour of the day-to-day, extract investment-relevant signals from the noise, and maintain the courage of our convictions. Accordingly, we lay out five key views (including some that are well out-of-consensus) to help investors skate where the 'investment' puck is going, and position their portfolios to manage the risks and take advantage of the opportunities that may arise.

Having closed out two successful trades from our tactical positioning last month (trimming our overweights to Australian equities and Australian bonds), we maintain an unchanged and broadly constructive stance this month. We continue to look to harvest tactical alpha in equities and credit as we work through the 'fog of Trump'.

"The media… can only focus on one thing at a time… all we have to do is flood the zone… but we've got to start with muzzle velocity."

Steve Bannon
Former adviser to Donald Trump

Keep your eyes on the (macro) prize—a moderating US but green shoots elsewhere

At the end of the day, it remains our firm belief that macro fundamentals—the economy, inflation, fiscal and monetary policy, and corporate earnings—are what ultimately drive financial market returns. This has held true over multiple cycles and economic regimes and should always be an investor's first port of call in considering their portfolios.

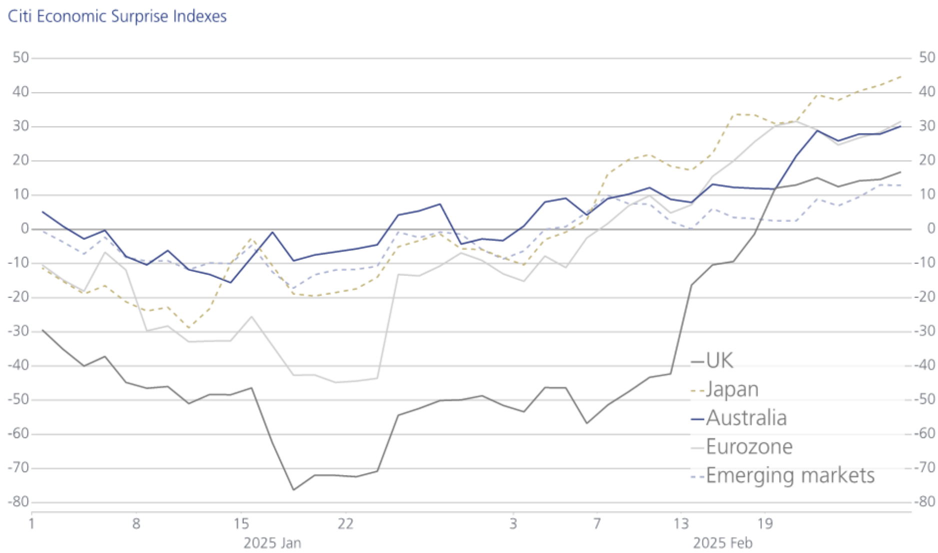
On this front, we continue to assess that 'there's little not to like' as far as the macro is concerned. Global activity still looks set to moderate through 2025 to only a modestly below trend pace near 3% (and may start reaccelerating as 2026 comes into view). Globally, inflation remains on track to gradually moderate toward central bank targets, supporting consumer real income growth and providing further scope for central banks to trim interest rates through the year (a relatively constructive backdrop for markets).

Over the past month, data has revealed an emerging deterioration in US economic exceptionalism, with uncertainty around US federal government spending and job cuts and US trade policy weighing on business activity and consumer sentiment. The US consumer also showed signs of deceleration this month, with weaker retail activity attributable to the impact of weather and the Los Angeles fires. Regional business surveys have pointed to rising uncertainty in the manufacturing sector. That said, US households continue to benefit from historically low levels of household debt, historically high net worth (buoyed by equity and house price appreciation since the pandemic), and still-solid real wages growth.

"Optimism about the coming year slumped… primarily a reflection of increased uncertainty… in relation to domestic spending cuts and tariffs."

S&P Global
February 2025 US PMI report

Economic conditions around the globe are improving relative to the US



Source: Citi, Macrobond, LGT Crestone.

While near-term policy uncertainty is elevated, underlying US economic fundamentals remain constructive, while the prospect of further rate cuts, fiscal easing, and regulatory relief may support a *relative* recovery in Europe and China (as Japan continues to exit secular stagnation).

Elsewhere, we are seeing green shoots that may presage the rest of the world's long-awaited catch-up to the US. In Europe, economic dynamism in southern economies like Italy and Spain may not fully offset the challenges facing Germany and France, but should still provide tactical opportunities to active investors. Longview Economics notes that these southern economies have "undergone painful structural economic adjustments" since 2008, resulting in significant private sector deleveraging and competitive unit labour costs. We are also expecting the European Central Bank (ECB) to deliver more significant rate cuts this year than its US counterpart, providing further support to the region.

In China, despite an ongoing balance sheet recession and property market downturn, two developments have caught our attention. First, the rapid emergence of DeepSeek serves as a reminder that, in its ongoing competition with the US at the pointy end of the artificial intelligence (AI) revolution, Chinese innovation is still alive. Secondly, Chinese President Xi's meeting with tech leaders, including Alibaba's Jack Ma in February, may be a sign that authorities recognise the importance of restoring 'animal spirits' for China's recovery. Meanwhile, markets are continuing to await signs that policymakers will finally follow up on their 'whatever it takes' moment last September with concrete stimulus programmes.

Japan's data over the past month has further supported the notion that it is exiting secular stagnation, with a strong Q4 growth report and a further material lift in wages growth.

Trump's fiscal strategy will drive his trade strategy, not the other way round

We are of the firm belief that the Trump administration's overall fiscal strategy will be the fundamental driver of its internal and external actions this year, and investors that are too caught up worrying about individual tariff announcements risk missing the forest for the trees on a dynamic that may prove critical for financial markets in 2025—The US could have more fiscal discipline (relative to expectations) than Australia or the Eurozone.

Don't miss the forest for the trees—the US could be more fiscally disciplined (relative to expectations) than Australia or the Eurozone this year…

…as Trump balances tariffs, DOGE, and tax cuts amid a fiscally hawkish Congress.

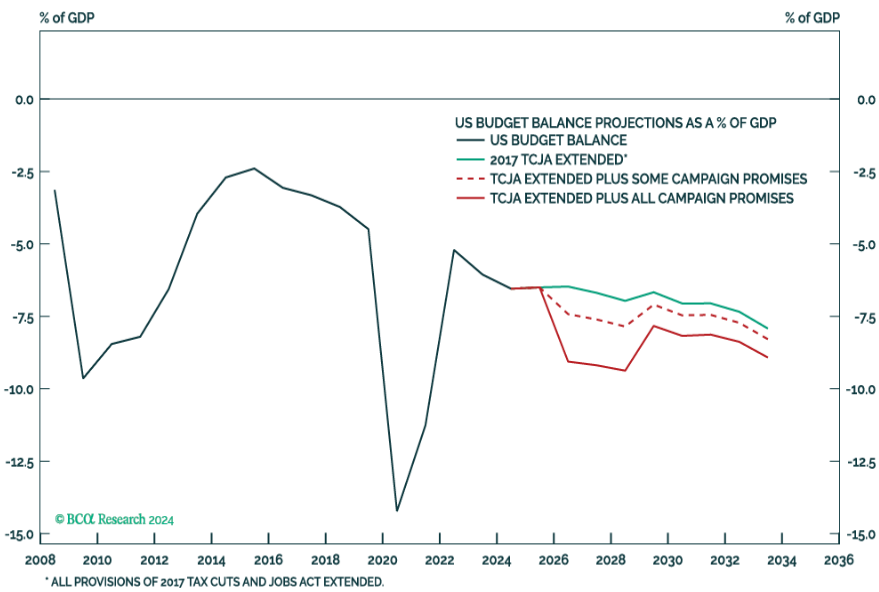
Core to this counter-consensus notion is the historical reality that tariffs are invariably a tax on the consumer. As such, they should be viewed as part of the toolkit of fiscal policy and will likely interact with Trump's other key priority this year—the Department of Government Efficiency (DOGE), which we think investors need to take seriously. Indeed, Trump's efforts to downsize the US government are supported by the American voter, with a recent Ipsos poll showing 61% of respondents supported downsizing the government. Respondents were less supportive of some of the more extreme measures that DOGE has recently taken, but there is no doubting that Trump and adviser Elon Musk are serious about cutting government spending, and they may be able to cut by more than markets are expecting.

This is important because Congressional Republicans (as we expected) are already pushing back on Trump's fiscal campaign promises and spending plans. Given the narrow majority they hold in the House of Representatives, there is a substantive possibility that Trump may struggle to get much more than a simple extension of his 2017 tax cuts through Congress. If he is limited to this (and is potentially pushed to find further fiscal savings to partially offset the tax cuts), the US deficit may be significantly lower than the initial fears that drove the spike up in US yields in the wake of Trump's election win.

"Congress has to reduce the deficit… the bond market is telling Congress that if we don't get our fiscal house in order, everybody's mortgage rates…are going to continue to go up."

Rep Andy Barr (R-KY)
January 2025

US deficit may be smaller than feared if Trump has to relinquish campaign promises



Source: Congressional Budget Office, BCA Research.

In addition, every dollar of fiscal savings is a dollar that doesn't need to be raised via tariffs, giving Trump more leeway to utilise his tariff threats as a negotiating tactic to extract concessions from other countries (such as increased foreign direct investment into the US), rather than relying on them for revenue. We appreciate that there are many moving parts to this calculus. Trump will likely pivot between tariffs and DOGE as conditions change, and for certain countries some base level of tariffs can be expected for geo-political purposes. So, investors should remain nimble and alive to potential swings and roundabouts.

"In short, the direction of US and global financial markets depends on the amount of fiscal tightening required to bring down US interest rates. Can the Trump administration cut fiscal spending just enough to bring down US bond yields but not cause a recession?"

BCA Research
February 2025

Nevertheless, in contrast to Australia's free-spending Federal and State Governments (particularly with Australia's federal election due in coming months), we think that investors should not let individual tariff announcements distract them from the bigger picture, which may see the US proving less fiscally profligate than other regions (including Europe).

The investment implications of a relative US fiscal contraction could be substantial, namely:

- downward pressure on US term premia and a near-term peak in bond yields;
- less upward pressure on US inflation from lower-than-expected fiscal spending;
- more leeway for the Federal Reserve to continue easing monetary policy;
- downward pressure on the US dollar from lower relative interest rates; and
- potential downward pressure on the US economy from relative fiscal contraction.

If this plays out, a peak in bond yields, the US dollar, and US relative economic performance point to potential tailwinds for non-US assets.

In a multi-polar world, real power comes from the barrel of a gun

We wrote extensively about our approach to geo-politics in our recent Observation *The New Great Game: Investing in a multi-polar world*. One of the more immediate realities of this new world order is the return of *Realpolitik* to international relations. This calls for practical or pragmatic approaches to global affairs as opposed to the moral and ideological considerations more common in a uni-polar environment. We are seeing this play out in real-time with US-Russian talks for a potential ceasefire with Ukraine. From a 1990s globalist viewpoint, it is morally 'unfair' that Ukraine and other European nations, that have been affected by this conflict, were excluded from initial talks. But this is the unfortunate reality of an unbalanced multi-polar world without a clearly pre-eminent hegemon willing to enforce a rules-based global system. In the absence of this, power ultimately comes from 'the barrel of a gun', without which it is difficult to earn a seat at the table.

"We're in a new era where, by and large, international relations aren't going to be determined by rules and multi-lateral institutions. They're going to be determined by 'strong men' and deals… and there's an entry ticket to this conversation… it's not our soft power or our values… it's hard power."

Sir Alex Younger, ex Chief of MI6
February 2025

Ultimately, we believe that Trump will be more focussed on addressing his domestic fiscal priorities than being actively expansionist on the foreign front. The US voters' longstanding fatigue with the Iraq/Afghanistan wars has not changed and presents a significant constraint to an activist US foreign policy. As such, we think concern around the US annexing Greenland, Panama, or even Canada is overblown.

Rather, we look to two potential positives on the geo-political front. Firstly, a ceasefire in Ukraine (however unfair it may be) will likely prove beneficial for both Ukraine and the broader Eurozone over the longer term. Indeed, the humiliation of exclusion might finally spur Europe to embark on the further fiscal, military, and political integration that it ultimately needs to compete as a great power in today's world. Indeed, both UK and Germany have made recent steps toward opening their fiscal purses for significantly increased defense spending, likely improving their chances of getting a seat at the table.

And Secondly, another key relationship that straddles both trade and geo-political theatres is the US relationship with China. While investors have increasingly priced an antagonistic, geo-strategic rivalry between the two superpowers, we believe the reality may be more nuanced. Trump has already shown that he is less ideologically driven with regards to China and is more focussed on extracting economic concessions from the Middle Kingdom. He has also flagged the potential for a 'Grand Deal' with China, the seeds of which may have already been sown (staying the shut-down of TikTok in the US, multiple "very good" calls with President Xi, and recent comments calling a deal "possible").

One area that we continue to monitor closely as a potential geo-political tail risk is US relations with Iran. Trump has historically been more antagonistic towards the Islamic Republic, and the regime sits at an important pivot point between Russia, the US, and China. How Trump deals with Iran and its growing uranium stockpile will be a key potential geo-political flashpoint for the investment outlook.

For investors willing to look through the newspaper hysteria around US foreign policy, the investment implications of our view are relatively constructive:

- A ceasefire in Ukraine would remove a significant geo-political headwind to the European economy and European assets;

- While the road to a 'Grand Deal' with China may be rocky, the ultimate outcome could be significantly positive for emerging market assets and the Australian dollar; and
- If Europe is finally spurred to take further action to reclaim its geo-political status, we would expect fiscal easing and greater defence spending there.

Look beneath the surface—The equity market may be broadening as we speak

Our central case remains that equity markets will continue to broaden out this year, across regions, sectors, and market-cap categorisations.

Market strategists have been warning about the growing concentration risks in US and global equity markets for the past five years, as the Magnificent 7 continued to make new highs and looked ever more impregnable. The emergence of China's DeepSeek in January served as a prudent reminder to investors of the risks of betting too much on such a narrow set of companies. Disruption this year will not be contained to just geo-politics.

Indeed, the US equity market was already showing signs of broadening prior to the January spike in yields and recent trade volatility. While near-term risks still remain, our central case is that equity markets will continue to broaden, with the potential for outperformance of equal-weighted S&P 500, mid-cap equities, and potentially small-cap equities vis-à-vis the market-cap weighted S&P 500.

- While long-end rates are likely to settle at higher levels than in past cycles, the most likely path forward continues to be for moderating interest rates, which should spur economic resilience and broaden earnings contributions;
- Never has a US President been more attuned to the equity and bond markets, and we believe that both will constrain Trump's most extreme policy proposals; and
- The most influential longer-term tailwind for broader markets is likely to be the democratisation of AI. DeepSeek brought the prospect of cheaper, more efficient AI integration one step closer to reality. If this occurs, it is possible for the Magnificent 7 to continue to be successful, but it is likely that the relative benefits accruing to other companies will be superior and equity market participation will broaden.

Get active—the scene is set for active managers to take centre stage

The sheer breadth of potential disruptions coming from the top-down and the bottom-up is likely to result in more volatility and more dispersion… which should present rich hunting grounds for the best active managers to add value to portfolios.

Expanding our view of a broadening equity market, we also believe that the opportunity set for active management to deliver outperformance is as large as it has been since 2008. The sheer breadth of potential disruptions coming from the top-down (e.g. Trump) and the bottom-up (e.g. DeepSeek) is likely to result in more volatility and more dispersion across asset classes, geographies, sectors, and single stock positions.

Such an environment should present rich hunting grounds for the best active managers to differentiate themselves from the rest. The right partnerships will be key in navigating an environment where inputs into modelling will require a more rigorous, nimble and active approach. Deep due diligence will be key to aligning with the highest quality managers.

Diversification is one of the few free lunches in investments and constructing portfolios that are not dependant on a single macro outcome to deliver on objectives through a blend of best-in-class active managers is pivotal.

Investment implications—don't get distracted, get ahead of the game, monitor risks

The first six weeks have seen no shortage of "muzzle velocity" developments. Knowing this is a deliberate strategy to confound Trump's opponents, we are looking through the noise…

… don't get distracted, get ahead of the game, monitor risks.

The first six weeks of the second Trump Administration have seen no shortage of "muzzle velocity" developments. Knowing that this is a deliberate strategy to confound Trump's opponents, we are looking through the noise and focussing on five key views to guide us in the period ahead. Reflecting this, we have made no changes to our tactical asset allocation this month, retaining our constructive overweight to equities (trimmed last month).

While we maintain the courage of our convictions, we are nonetheless not oblivious to the risks to our core views and the potential for macro uncertainty to unduly weigh on business and consumer confidence and damage the global growth outlook near-term. Indeed, greater volatility remains a key element of our secular outlook. A sharper than expected pull-back in global growth – and more sustained drawdown in equity markets – is clearly possible over coming months, and we continue to monitor those risks. However, such an outcome would likely also be disinflationary, opening the way for more aggressive rate cuts, that should relatively expeditiously, provide a ballast to markets.

As discussed in our outlook, we continue to believe that truly diversified portfolios will re-establish their importance during 2025, and look to harvest tactical alpha in equities (staying overweight US and Japanese equities) and credit (favouring carry in a higher-for-longer interest rate environment), while also maintaining conviction in the opportunities for active management to add value this year.

What's driving our views

Staying focused on the bigger picture amid "muzzle velocity" distractions

We maintain our broadly constructive macro view and, while we expect further moderation in global growth and inflation, the risk of a sustained economic downturn remains modest. Booking some profits last month on our Australian equity and bond overweights protected portfolios from February's volatility. We make no changes this month, but remain constructively positioned overall and ready to respond to emerging risks and opportunities.

Navigating policy uncertainty: Trump 2.0 heralds potential tailwinds for the US economy but also more political and geo-political uncertainty. Investors will need sound frameworks and steady hands to navigate potential disruptions prudently.

Can central banks secure the soft landing? Benign inflation allowed central banks to cement a global rate cutting cycle in 2024. The challenge for 2025 will be balancing how much they ease to support growth without re-igniting inflation.

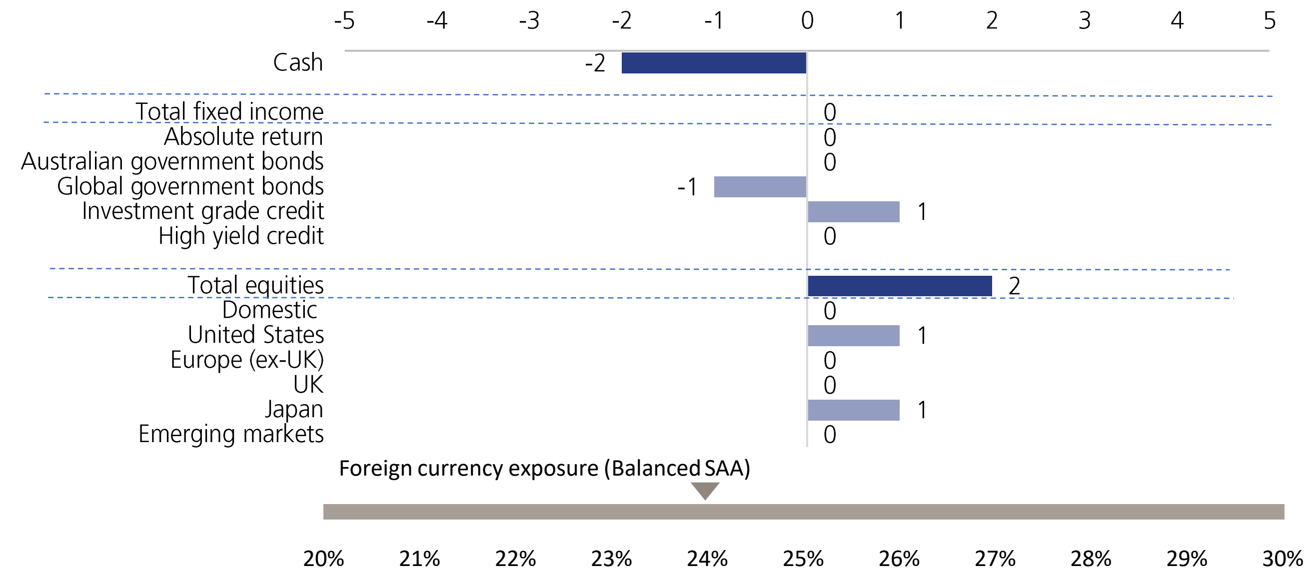
Discovering opportunities beneath the surface: Elevated valuations mean that the best opportunities may lie beneath the broad index level, rewarding more active 'hunter' versus passive 'gatherer' investors.

Fortune favours the bold: 2025 is likely to favour investors who can digest and exploit the opportunities that come with market volatility. Prudent portfolio diversification and active management will be important tools in the astute investor's arsenal.

Structural thematics

Transitioning towards **multi-polarity** will likely create more volatility, presenting growth and opportunities for investors.	Policy uncertainty, cost, energy security, and more extreme physical impacts complicate a **challenging energy transition**.	**Artificial intelligence** presents challenges and opportunities. Advances in pharmaceuticals are a constructive force for the long term.	**Higher rates** increase forward-looking returns across all asset classes, giving investors more options.

Tactical asset allocations (% weights)



	What we like	What we don't like
Equities	▪ Japanese equities with corporate reform tailwinds. ▪ Actively managed small and mid-cap equities. ▪ Broader (non-mega cap) S&P 500 exposure.	▪ Passive or benchmark-aware strategies in concentrated markets. ▪ Expensive defensives in Australia (e.g., CBA and WES).
Fixed income	▪ Actively managed funds investing in higher quality credit. ▪ Fixed/floating rate 4 to 7-year senior and tier 2 bank credit. ▪ Investment grade corporates and Kangaroo issuers.	▪ Longer-maturity bonds, which are vulnerable to rising inflation and term premia risk. ▪ Lower quality credit vulnerable to higher cost of funds.
Alternatives	▪ Multi-strategy hedge funds and other diversifying strategies. ▪ Global venture capital secondaries. ▪ Senior private debt, incl corporate, asset-based finance. ▪ Global infrastructure across the risk spectrum, particularly playing to long-term structural themes.	▪ Long-bias equity hedge fund strategies. ▪ Construction and/or junior lending within real estate. ▪ Carbon-intensive assets/ industries with no transition plan.

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

Economic and asset class outlook

Economic outlook

Global economy

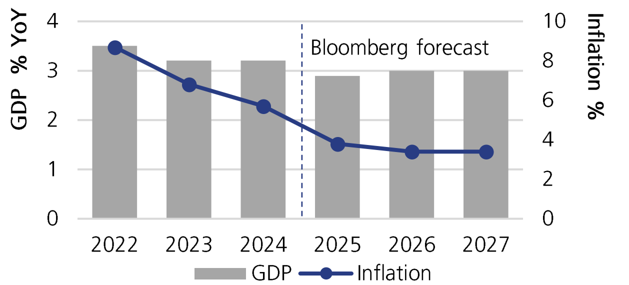
Recent data flow continues to support a relatively constructive economic backdrop for the global economy through 2025. Growth is slowing moderately below trend, while inflationary pressures have eased sufficiently such that most central banks appear likely to modestly trim interest rates further as the year unfolds. Still, the constructive macro backdrop is already being buffeted in early 2025 by volatility in monthly inflation and jobs data that has raised the spectre of limited further progress on disinflation, particularly in the US, where expectations for rate cuts have now been delayed. In the other direction, weaker UK and European data have flagged a faster pace of cuts in H1.

Market anxiety has also recently been raised by escalating global trade tensions between the US and most of its trading partners, as well as (more positively) a mooted ceasefire in the Russia-Ukraine war. Over the past month, US President Trump has announced 25% tariffs on Canada, Columbia and Mexico all of which were ultimately rescinded or delayed. A 10% tariff was added to existing China tariffs, while China retaliated, with targeted US tariffs. Tariffs were also flagged for trading partners with 'value added taxes' (including Australia), with some regions (such as Europe) threatening retaliation. The extent to which these are negotiated away remains to be seen but nonetheless adds near-term uncertainty to the growth and inflation outlook.

Inflation (while still a little above most central bank targets) has eased notably over the past couple of years, and most major central banks have trimmed rates several times from mid-2024, with 2025 portending more disperse actions across regions. After solid jobs growth and higher-than-expected January inflation, US policy is not expected to be eased further until around mid-year. In contrast, the market is expecting multiple cuts in Europe in H1 2025 (and UK in H2). Weak growth and better inflation saw the Reserve Bank of Australia (RBA) cut the cash rate for the first time since late 2020. The global inflation outlook will continue to be impacted by tight jobs markets, any impacts from potential trade tariffs and restrictions.

After 3.2% in 2024, consensus has modestly trimmed the global growth outlook to 2.9% in 2025 and 3.0% in 2026, modestly below the long-term trend of about 3.5%. UBS recently trimmed its 2025 growth to 3.0% and 2026 to 2.7%, below consensus due to the prospect of a trade war from mid-2025.

Global GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Australia

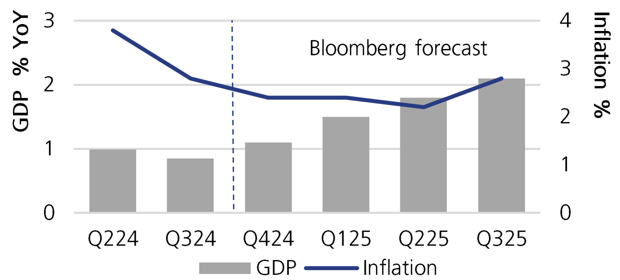
Growth has slowed sharply through 2024, to a well-below trend sub-1% pace, its weakest since the 1990/91 recession (excluding the pandemic). The boom in population growth (at over 2%) masks an even sharper easing in Australia's growth momentum following the significant rise in interest rates through 2022 and 2023. The recent slowing in wage growth and inflation data has now seen Australia join much of the rest of the world in trimming policy interest rates, with any further cuts expected after the imminent Federal election. With a recession avoided, rates being trimmed and significant mid-2024 fiscal stimulus, growth is expected to trend higher ahead.

Growth in Q3 remained weak, at 0.3%, with the annual pace slowing to 0.8% from 1.0% (well below a 2.5% trend). Private demand remains soft at just 0.7% (with consumer spending flat in Q3). Data through Q4 reveal better momentum. Retail sales edged down by only 0.1% in December, after November's strong 0.7% rise, lifting the annual rate to 4.6% (from 3.1%). Jobs growth in January rose another surprisingly strong 44,000 after December's 60,000, albeit unemployment edged higher again to 4.1%, still below its recent peak of 4.2%. Elsewhere, house prices fell modestly for the fourth consecutive month, while consumer sentiment was little changed after two falls.

Inflation continued to step down in Q4, rising 0.2%, with the annual rate easing from 2.8% to 2.4%, near the target mid-point. The key underlying 'trimmed' measure – which abstracts from government subsidies – also printed below expected at 0.5% in Q4, with the annual pace at 3.2% (from 3.5%). This led to the RBA cutting the cash rate by 0.25% to 4.10% at its February meeting, it's first cut since November 2020, and reversing the late cycle 'precautionary' hike of November 2023. The RBA retained a relatively hawkish tone, with Governor Bullock noting that the 'market path of three more cuts is unrealistic'. January's monthly CPI remained in the target, unchanged at 2.5%. CBA expects three further RBA cuts from May (to 3.35%), while UBS expects only two (in May and August), and sees the risk of only one.

After likely growth of just 1.0% in 2024, UBS and CBA both expect growth to strengthen to 1.9% in 2025 and 2.2% in 2026. Key risks to the outlook include the pace of RBA easing as well as the extent of any future China stimulus.

Australian GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Economic outlook

United States

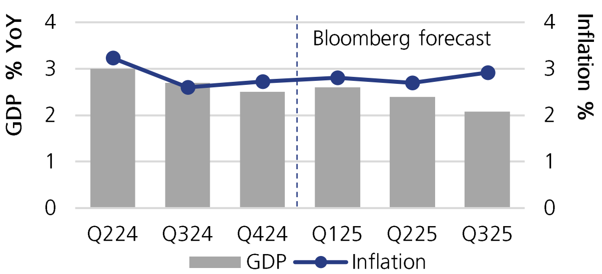
US activity continued to expand at a solid pace into end-2024, albeit there were some signs a materially above trend pace of growth was dissipating into Q4 and early 2025. Notwithstanding this, past strong growth and limited further progress on reducing inflation in early 2025 has lowered market expectations for rate cuts in 2025. In the wake of January's presidential inauguration, trade tensions have escalated, somewhat as expected. Over the past month, US President Trump has announced 25% tariffs on Canada, Columbia and Mexico all of which were ultimately rescinded or delayed. A 10% tariff was added to already existing China tariffs, with China retaliating with targeting tariffs on the US. Tariffs were also flagged for trading partners with 'value added taxes', with some regions threatening retaliation. The extent to which these are negotiated away remains to be seen.

Growth rose by a robust 0.6% (2.3% annualised) in Q4, below Q3's 0.8% pace (3.1%), again supported by solid consumer spending. There was also some softening in January data, with retail sales falling 0.9% (potentially impacted by weather and the Los Angeles fires) with new jobs growth easing to 143,000 from 307,000 (albeit unemployment fell again from 4.1% to 4.0%). Consumer sentiment fell significantly in February, while the composite Purchasing Managers' Index (PMI) dropped sharply to 50.4, from 52.7, flagging softer Q1 2025 growth. Housing activity has also slowed further in early 2025.

Further progress on disinflation remained elusive in early 2025 (and inflation expectations rose), with January CPI rising from 2.9% to 3.0%. Core inflation also edged higher to 3.3%, against expectations for a decline. In January, the US Federal Reserve (Fed) paused its rate cutting cycle, leaving the policy rate at 4.00%-4.25%, as widely expected. Fed Chair Powell noted that "we do not need to be in a hurry to adjust our policy rate." Consensus for a March cut has edged out to mid-year, though most forecasters still expect two or three further cuts this year. Despite speculation of pressure being applied, new Treasury Secretary Bessent stated that the focus is on lowering 10-year Treasury yields, not the funds rate.

After strong growth of 2.8% in 2024, UBS sees slower growth of 2.1% and 1.8% in 2025 and 2026, respectively. The OECD sees less significant slowing to 2.4% in 2025, ahead of 2.1% in 2026. Key risks relate to the speed of future tariff imposts.

US GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Europe

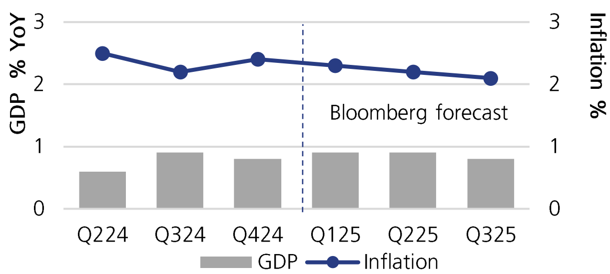
Recent data continue to reveal a loss of momentum in the European economy. Germany finished 2024 with negative annual growth, the first time in 20 years output has declined for two years in a row. The French and German governments also collapsed, with Germany going to the polls in late February. As 2025 unfolds, Europe's growth should lift modestly, led by a still tight jobs market and further rate cuts that lift consumer spending. More positively, an emerging cease-fire in the Russia-Ukraine war, could support a more positive European outlook, via improved confidence, lower energy prices, and reconstruction efforts. According to UBS, this could add 0.5%-1.0% to growth over the three years to 2027. According to Longview Economics, some leading indicators have already begun to move higher (with housing lifting on lower rates)

Growth stagnated (at 0.1%) in Q4, after Q3's 0.4% positive surprise, leaving the annual rate unchanged at 0.9%. Three major economies had negative growth (with Germany at -0.2%, Ireland at -1.3%, and France at -0.1%); the strongest growth was seen in Spain (0.8%). Activity in early 2025 has been soft. Retail sales fell 0.2% in December (after no growth in the prior month). February's composite PMI was unchanged at 50.2 in February (though manufacturing lifted), still down from 52.3 in May. The jobs market remains firm, albeit unemployment edged higher to 6.3% from its 6.2% all-time low. The ECB wage tracker indicates a significant slowdown, projecting a 1.5% pace in Q4 from a 5.3% peak a year ago, supporting lower inflation and further rate cuts.

Inflation retraced in early 2025, falling in January and keeping the annual pace around 2.5% and core inflation 2.7%, still above the ECB's 2% target. As widely expected, the ECB cut the policy rate further in January, by 0.25% to 2.75% (its fifth cut this cycle), with a further cut in March anticipated. The ECB nonetheless reiterated its data dependent view. UBS and CBA both expect a total of four cuts in 2025 (front-loaded to H1 2025), taking the policy rate to 2% by end-year.

After relatively soft growth of 0.9% in 2024, UBS expects a modest pick-up to 1.1% in 2025 and 1.2% in 2026. The OECD is more upbeat, forecasting 1.3% and 1.5% over the next two years. Progress on a Russia-Ukraine ceasefire, lower energy prices and easier policy rates will be key to the outlook.

European GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Economic outlook

United Kingdom

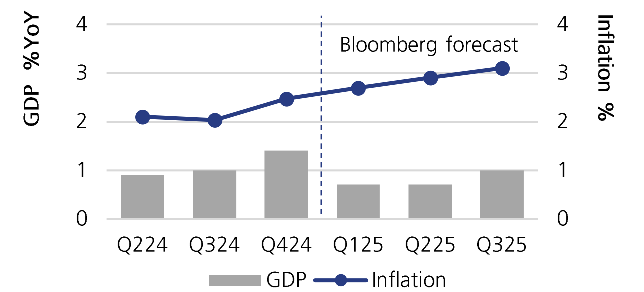
After rebounding strongly from H2 2023's recession, the UK economy appears to have lost some momentum during H2 2024. Nonetheless, while financial conditions remain relatively tight, underlying inflation continues to drift lower and wages growth is moderating, opening the way for further monetary easing through 2025. Easing financial conditions and a tight jobs market (together with some improvement in housing activity) is expected to underpin a pick-up in growth ahead. Headwinds to growth persist from an only gradual easing of rates, a recent business 'unfriendly' budget, and a relatively weak external environment (where tariff hike risks remain).

Growth in Q4 remained weak, rising 0.1% after Q3's 0.0%, signalling almost no growth in the UK in H2 2024. After a modest pick-up in Q3, consumer spending and private capex softened in Q4. Recent data have been mixed. Retail sales fell 0.3% in December, its third decline in four months, while the composite PMI eased in February to 50.5 from 50.6 (still near a 15-month low), with services improving but manufacturing falling almost 2 points. According to UBS, the December jobs report "continued to signal gradual labour market easing, amid still strong wage growth" with unemployment rising to 4.4% in November and December, from 4.0% in August.

The Bank of England (BoE) cut the policy rate by 0.25% to 4.5% in February, a decision supported by seven members, with two members voting for a larger 0.5% cut, a significantly more dovish outcome than expected. Inflation in January surprised to the upside, rising 0.5% to 3.0%. According to UBS, "the details, however, were not as negative as the headline suggests, showing signs of progress in services disinflation". However, with energy prices likely to rise from April, UBS has reduced from five to three its forecast rate cuts in 2025, with the BoE still expected to trim in May, August and November to 3.75% (with further cuts to 3.0% in 2026).

After growth of just 0.9% in 2024, UBS has materially cut its forecasts for 2025, from 1.5% to 1.1% (before a modest lift to 1.3% in 2026), reflecting the weaker growth in H2 2024. CBA continues to expect a more material pick-up to 1.6% and 1.5% across 2025 and 2026. Key upside risks to growth rest with a renewed inflation fall that can foster faster rate cuts.

UK GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Japan

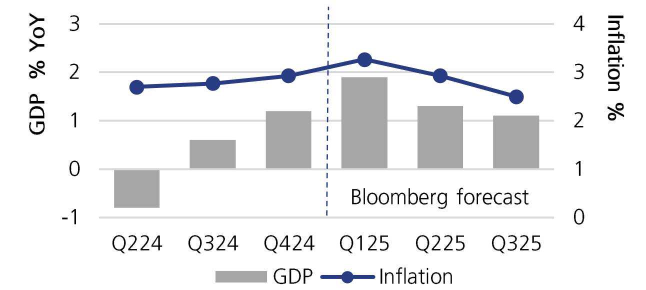
Ongoing better data over recent quarters, led particularly by the consumer, continues to build optimism that Japan is on a path to successfully transition from secular stagnation to nominal recovery. The continued recovery in wages growth is viewed as critical in this process, and key to supporting firmer confidence among corporates and households. Headwinds from aging demographics and high government debt remain, while the now minority government (following the October election) has arguably less capacity to deliver the corporate reforms necessary for ongoing momentum. Still, UBS expects Japan to deliver "middling success" in terms of delivering circa 3% nominal growth, a backdrop that should support further rises in interest rates in 2025 (amidst a global trend lower).

Growth in Q4 beat expectations, rising 0.7% (versus consensus for 0.3%). While private demand was firm (led by capex), much of the growth reflected strong net exports, due to strong tourism arrivals and weaker imports. Recent data has been mixed. Retail sales retraced 0.7% in December after Novembers 1.9% jump. However, the January composite PMI lifted from 50.5 to 51.1, its third month of expansion. The jobs market remains tight, with unemployment easing further to 2.4% from 2.5% in December, regathering its low for the year. Wage growth in December also surprised to the upside, rising from 3.9% to 4.8%, its fastest since 1997.

Inflation jumped further in January to 4.0% (from 3.6%), its highest since January 2023, led again by higher food prices. Having left policy unchanged since July 2024's unexpected hike to 0.25% (from 0.15%), the Bank of Japan (BoJ) raised its policy rate to 0.50% in late January 2025, its highest since 2008. According to the BoJ, "Japan's economic activity and prices have been developing generally in line with the Bank's outlook". The market is expecting two further hikes from October, taking the policy rate to 1.0% in 2026. However, UBS and CBA expect two hikes in 2025 to 1.0% from July, with UBS upgrading its terminal policy rate to 1.5% from 1.25%.

After the recovery disappointed in 2024, with growth a mere 0.1%, recent momentum sees UBS expecting growth to lift to 1.2% in 2025 and 0.7% in 2026 (as tariffs impact exports). The OECD forecasts a stronger rebound to 1.5% for Japan in 2025. The outlook for consumer spending remains key.

Japanese GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Economic outlook

China

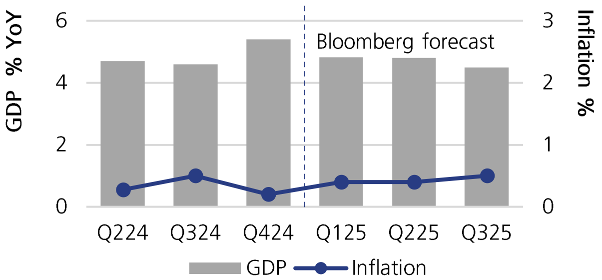
After significant weakness during 2024, China's end-year Q4 data showed stronger momentum, likely on the back of the impact of prior Government stimulus as well as stronger exports on the front-loading of demand ahead of expected US tariffs. However, while further stimulus is anticipated in the year ahead, and analysts continue to expect the authorities to announce in March a growth target of 'around 5%' for 2025 (similar to 2024), China is seen as facing significant growth headwinds during 2025, including the property downturn, subdued consumer, and likely US tariff imposts (with the new administration floating a 10% tariff from 1 February 2025).

China's growth lifted to 5.4% in Q4, from 4.6%, with growth in the quarter strengthening to 6.6% (according to UBS). This left the year-average for 2024 in line with the Government's target of "around 5%". December monthly data improved across retail sales (3.7% after 3.0%), exports (10.7% after 6.7%) and industrial output (6.2% after 5.2%). Property momentum edged back in December, following improvement in October and November, with overall Q4 property sales up relative to Q3, but new starts still weak. Inflation in China edged down to 0.1% in December (from 0.2%) as deflation continues to weigh on economic dynamism, the fourth monthly weakening in inflation since August (at 0.6%). Partial data through January and February has shown mixed momentum, albeit credit data lifted above expectations.

UBS expects the National People's Congress meeting (NPC) starting on March 5 to "follow the policy stances set in the Central Economic Work Conference last December and set 'around 5%' growth target again to anchor expectations, which looks ambitious given the lingering growth headwinds and uncertainties. The NPC meeting is likely to prioritise "stabilising growth" as the central task and emphasise boosting domestic demand with more supportive macro policies, with "reviving household consumption" listed as a top task." The continuing theme of less property-intensive growth may continue to weigh on commodity demand.

After 5.0% in 2024, and despite the expected Government target of 5% for 2025, UBS continues to forecast a slowdown to 4.0% (slowing further to 3.0% in 2026). The OECD sees a more moderate undershoot to 4.7% and 4.4% in both years.

Chinese GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Emerging markets

The greater exposure of emerging markets to the global trade cycle renders the outlook for growth and inflation somewhat more uncertain than is typically the case. Moderating inflation trends should support lower interest rates that together with a 'softer landing' in global activity, underpin ongoing below trend, but still firm, growth for emerging economies. Upside risks reflect stronger-than-anticipated stimulus from China, while downside risks largely rest with a more rapid impost of US tariffs that could slow global and emerging market activity.

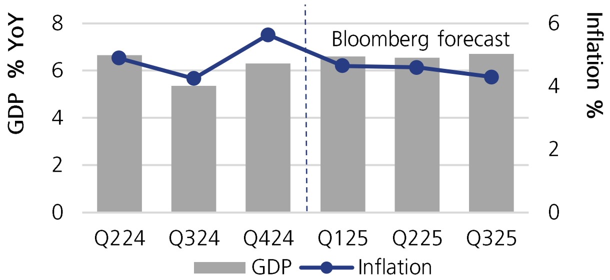
For Asia, absent a trade war, growth momentum was expected to be relatively steady in the year ahead. The more export-oriented economies are likely to bear the brunt of trade weakness, particularly the North Asian economies of Korea and Taiwan. During February, reflecting further slowing in growth, Korea and Thailand's central banks trimmed the cash rate further. Southeast Asia may prove more resilient, as stronger domestic growth in Vietnam, the Philippines and Thailand offset weaker export-led growth in Malaysia and Singapore.

While India is among those less at risk from potential tariffs, "it is not immune" (according to UBS). Lower rates together with 'China+1' supply chain shifts to India should still see it retain its mantle as one of the fastest growing major economies in the world (albeit slowing from 7–8% to 6–7%). Goldman Sachs Asset Management notes India's advantage in supply chains, where its "large labour and consumer markets, edge in digital connectivity, pharmaceuticals, and production-linked incentives position it to be the next global manufacturing hub."

Latin America looks set to deliver another year of below trend growth, masking significant divergence across economies. Brazil, as a relatively closed economy, is likely to be relatively less exposed to a weaker global trade cycle. The recent higher inflation (and despite softer monthly activity) saw Brazil's central bank surprise markets with a 1% interest rate hike to 12.25%. In contrast, Mexico will be at the whim of US trade policy, with the US adding (and then removing) a 25% tariff.

For all emerging markets, UBS expects growth to slow from a likely 4.4% in 2024 to 4.0% in 2025 (ahead of further slowing to 3.6% in 2026). However, ex-China, growth maintains a steadier near-4% pace over the next couple of years.

India GDP growth and inflation



Source: Bloomberg as of 27 February 2025.

Asset class outlook

Absolute return and government bonds

Position: Neutral absolute return; underweight global government bonds; neutral Australian government bonds

Key points

- Markets are now pricing less than two Fed rate cuts for 2025 (targeting a funds rate end-year of 3.92%)
- Uncertainty around Trump's tariff policies is likely to keep volatility in rates markets elevated.
- The RBA delivered a 'hawkish' rate cut with market pricing a terminal rate of 3.85%.

The Fed is expected to cut the funds rate to a more neutral level in 2025, but likely to a higher rate than previously anticipated. The 10-year Treasury yield appears to have peaked at 4.80% mid-January, easing to around 4.30% at the end of February. Future rate movements will depend on US growth, unemployment, and wage data. Fed Chair Powell indicated no urgency to cut rates in Q1 2025, suggesting fixed income returns will be driven more by yield than capital gains. Potential extensions of Trump-era tax cuts and tariff measures pose inflation risks, potentially delaying Fed rate cuts. Yet, Trump's focus on reducing spending and treasury supply should steepen the yield curve further. We do expect global disinflation to continue gradually, allowing central banks to ease rates to neutral levels through 2025. For US Treasuries, the 2 to 4-year segment is recommended as yields are projected to decline over the next 6-12 months.

Outside the US, Europe, the UK, and Canada are likely to maintain an easing bias, closely monitoring inflation and labour market data to guide policy decisions. The central banks in these markets are getting closer to their long term neutral rates and any further cuts are likely data dependent.

The RBA's 0.25% rate cut in February was well anticipated, causing minimal movement in bond yields. The RBA's statement tempered expectations for further cuts, cautioning that "easing too much too soon" could hinder disinflation and keep inflation above target. This cautious stance nudged bond yields slightly higher to 4.50%. The RBA maintained that its policy remains restrictive, signalling limited room for additional easing. The statement balanced caution without committing the RBA's new rate-setting Board to another cut at its first meeting in April, reducing the likelihood of an cut (with markets now expecting the next cut in May). The RBA's forecasts suggest a dovish outlook on growth, tighter labour market conditions, and a trimmed mean inflation rate of 2.70% throughout the forecast period (up from a trough of 2.5% previously). With the 10-year yield at 4.35%, 25 basis points (bps) above the cash rate, and a likely easing cycle later this year, yields are not expected to reach new highs. Buying on price dips is recommended, with expectations of lower yields over the next 3-6 months. Australian Government bonds are favoured over US Treasuries as further RBA cuts seem likely, especially after the upcoming election.

Investment grade credit and high yield credit

Position: Overweight investment grade credit; neutral high yield credit

Key points

- Investment grade and high yield spreads remain at tight levels, but market tailwinds should continue to support credit in 2025.
- Opportunity for investors to buy the dips and add duration as rates volatility remains.

Credit markets have performed strongly in 2024 and into 2025, supported by solid fundamentals, a resilient US economy, and strong market demand. These positive conditions are expected to continue supporting credit markets in the coming quarters. Additionally, pro-growth policies from the new US administration and signs of a soft or no landing scenario for the US economy should further boost credit markets. Investment Grade credit supply has been robust, and demand continues to outpace supply, keeping credit spreads historically tight. High yields have driven this demand, preventing any significant widening of spreads. Although rates and equity volatility may impact credit markets, the easing cycle by global central banks through this year is expected to prevent spreads from widening. In a soft landing, risk-on environment, spreads may tighten further. However, as rates fall, demand for credit could decrease, potentially widening spreads to offset lower interest rates. Any spread widening is expected to be balanced by falling yields.

Domestically, the Australian Prudential Regulation Authority's (APRA) decision to simplify bank capital frameworks and phase out AT1 capital (hybrids) is reshaping the market. ANZ recently announced the first redemption of ANZ Capital Notes 5 (AN3PH) following this decision, replacing it with tier 2 capital. January saw strong issuance activity, including Ausnet's AUD 950 million 30NC5 subordinated bond, which attracted AUD 4.8 billion in demand, and Westpac's AUD 1.25 billion 10NC5 tier 2 transaction, reflecting continued investor appetite in the market.

High-yield credit performed well in 2024 as spreads have continued to tighten and refinancing transactions re-opened the market. The high-yield sector still offers attractive yields, averaging around 7.50% in the U.S. and 6.00% in Europe, drawing in capital despite the historically low credit spreads. The recent data indicates that while many high-yield issuers have improved their financial health by reducing leverage and extending maturities, certain sectors like technology companies remain vulnerable due to high interest repayments impacting cash flows. This could make them more susceptible to widening spreads if economic conditions deteriorate. Overall, the outlook for high yield remains cautiously optimistic, especially in a pro-growth US environment. Despite this, investors are encouraged to focus on higher-quality bonds and diversified portfolios as volatility remains and central banks move towards a slower pace of easing in 2025.

Asset class outlook

Domestic equities

Position: Neutral

Key points

- The S&P/ASX 200 Index fell 3.8% in February, as the major banks suffered their worst monthly fall (-5.2%) since May 2023 (when major banks go ex-dividend).
- With ~80% of market cap having reported earnings at the time of writing, a broadly positive, albeit muted, picture is emerging, with more 'beats' than 'misses' but no major inflection apparent.

There were three dominant thematics for Australian equities over 2024 and it's very likely these will again define the extent of Australian performance over the remainder of 2025:

- accelerating aggregate multiple expansion (with the ASX200 price/earnings (P/E) multiple moving from around 16x to almost 19x);
- major bank outperformance was as extreme as it was during the European recession fears of 2012; and
- a resources sector that posted its worst annual performance since the China capital flight / currency devaluation of 2015.

It's highly possible that these trends reverse in 2025, or at least do not act as the tailwind that they were in 2024:

- the ASX200 has not witnessed three consecutive years of P/E expansion this century;
- for the bank sector to outperform resources, it would need to do so from both unprecedented starting valuations and relative performance; and
- the uncertainty shrouding the China outlook makes timing a resources rebound challenging.

The ASX 200 consensus 2025 outlook trend was broadly negative exiting the last reporting season in August 2024. This negative trend across earnings per share (EPS), dividends per share (DPS) and margins continued through to October. Since guidance re-set, Australian earnings data has been relatively resilient, in keeping with a strong US economy, a very healthy domestic labour force, easing cost pressures, and ahead of RBA rate cuts. With the ASX200 touching record highs earlier in February, this had resulted in further P/E expansion to 18.2x (close to peak levels pre-COVID). Within this, the S&P/ASX 100 Banks Index, until recently, was trading in line with or slightly above a + 3 standard deviation level across the 10- to 20-year horizon and the S&P/ASX 100 Resources trading at a neutral to -1 standard deviation level across the same horizons (i.e. the largest index component was unequivocally expensive, while the next largest constituent is fair to slightly cheap).

Despite a difficult compositional and valuation backdrop, significant downside earnings scenarios for Australia appear less likely, and expectations are suitably anchored, which should allow for moderate guidance upgrades overall over the course of 2025. Globally exposed companies should also benefit from the weaker Australian dollar. For FY26, EPS growth expectations are for +5%, up slightly since November.

International equities

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

Key points

- The MSCI World ex-Australia Index fell 0.4% in February as investors digested uncertainty on the trade front, and in relation to capex plans from major tech companies.
- US equities were particularly weak, offset by continued strength for European equities, and a sharp rebound for Chinese equities, which benefited from a more positive tone between Beijing and major tech companies.

The strength of the current bull market has taken many by surprise, with the US S&P 500 up around 70% (including dividends) since the October 2022 lows. Perhaps even more notable is the lack of a -10% (or worse) correction during this period. Although this run may seem like an outlier destined for mean reversion and materially lower equity prices, history shows that this may not actually be the case. Since 1950, the S&P 500 has experienced nine periods that went even longer without a -10% correction, including four stretches that lasted more than twice as long as the current run. Put differently, the fact that the market hasn't yet seen a correction in over two years doesn't mean one is a foregone conclusion in 2025.

Nonetheless, there are several potential catalysts for a pause, including investor complacency, higher rates (or less cuts), inflation and tariffs (and noting that visibility on the tariff front appears likely to emerge well before the green shoots from deregulation and tax cuts have time to produce meaningful benefit) – that is, potential market headwinds and volatility events may come before possible tailwinds are felt. This progression would be a reversal from the first Trump presidency when the benefits from deregulation and tax cuts were felt first, before giving way to 18 months of tariff-induced choppiness. Of course, tariffs should come as less of a surprise to markets this time around.

S&P 500 bottom-up consensus EPS estimates point to USD 30 of growth in 2025, albeit much of that could be compromised by tariff escalation. JPMorgan estimate that the current tariffs explicitly mentioned could result in an EPS headwind from first order effects of USD 7.50, USD 6.10 and USD 2.60 from Mexico, Canada and China tariffs, respectively. If we were to presume that Europe would face a 10% tariff, that would be another USD 3.60. In short, this could impact up to two-thirds of S&P 500 EPS growth this year just from the currently announced tariffs. Note, the EPS estimates are based on their assumption that 80% of the duties are paid by US large caps that have a larger multinational tilt and that 20% of the costs were passed through to US consumers or businesses.

Indian equities have retraced around 17% from their highs, a level that has historically resulted in very favourable one-year forward returns (investors have lost money only twice from current drawdown levels over the past 115 occasions).

Asset class outlook

Currencies

Key points

- US dollar strength continued on the Trump trade, but it may have peaked near-term.
- The Australian dollar weakens but finds support around USD 0.61.

The US dollar remains elevated, but has noticeably weakened from its early February highs as markets decided to downplay the noise of tariff headlines. Intra-day spikes of US dollar strength following individual tariff announcements over the month grew weaker and weaker as investors instead homed in on a slowing economy, easing inflation, and the Trump Administration's efforts to tighten fiscal policy through the DOGE. On a fundamental basis, the potential weakening of the US economy's outperformance relative to the rest of the world points to modest US dollar weakness from here, though near-term volatility is likely to remain elevated amid Trump's "muzzle velocity" media strategy. Structural factors including a deteriorating US budget deficit and increasing geopolitical multipolarity also point to downside pressures longer-term.

As ever, sentiment around China and global risk assets drove the AUD over the month, this time supporting the currency off its post-pandemic low of around USD 0.61 to trade at around USD 0.64. The RBA's hawkish cut did not significantly impact the currency amid still-strong federal and state government stimulus as we head for a potential early election (April). Our external partners are expecting the Australian dollar to end 2025 between USD 0.60 and USD 0.65, with US trade uncertainty the prime driver of divergence (rather than the path of RBA rate cuts).

The euro also found support relative to the US dollar over the month, rising to around USD 1.05 despite the bloc's vulnerability to threatened tariffs. We continue to expect the Eurozone to face macro risks on a structural basis, with particular uncertainty given the Eurozone's exposure to Trump 2.0 tariffs. That said, the currency may be bottoming out, particularly if the US dollar is peaking.

The Japanese yen also strengthened over the month, buoyed by a strong Q4 growth print that signalled strong consumer and business spending. Japan's internal inflation and macro dynamics remain tilted towards policy normalisation and a 'nominal renaissance' in growth to continue over the next 12-18 months, though it will not be immune to volatility surrounding potential trade and geopolitical tensions as we traverse 2025.

Commodities

Key points

- Global commodity prices rebounded during February. Gold pushed to new all-time highs of around USD 2,900 per ounce.
- Iron ore prices were volatile but broadly higher at around USD 107 per tonne (p/t). Oil prices continued their decline over the month, dragged lower amid the prospect of a Russia-Ukraine ceasefire.

Global commodity prices remained volatile as markets digested the first six weeks of US President Trump's second term. That said, Bloomberg's broad commodity price index is trading roughly 5% higher since the start of February.

Brent crude oil prices continued their decline over the month, dragged lower amid the prospect of a Russia-Ukraine ceasefire and a potential easing of Russian oil sanctions. Brent crude traded at around USD 74 per barrel (p/b) at the end of February, around 3% lower over the month.

Meanwhile, gold prices have continued to push higher amid renewed investor concerns around inflation and US trade policy and are trading at around USD 2,900 per ounce. Uncertainty around the US fiscal and trade policy outlook likely present two-way risk to gold prices from here.

Industrial metal prices staged a strong recovery in February, driven by US tariff escalations (on aluminium and steel) and speculation around Chinese stimulus. Copper is up approximately 7% over the month, while iron ore is still trading around the USD 107 p/t mark.

The evolution of China's economy will continue to play a key role in the near-term outlook for commodities. Markets have grown impatient for further details on the latest stimulus package, and the underlying economy still faces significant debt and demand-side challenges, while also having to navigate renewed trade tensions with Trump 2.0. Markets may gather some direction in the wake of China's NPC meeting in early March.

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

Asset allocation views

Strategic asset allocation views

Why do we believe in strategic asset allocation?

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

Why do we advocate SAAs to our clients?

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

Why strategic asset allocation?

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

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

Strategic asset allocations in models

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

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

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

Active portfolio weights and tactical asset allocation views

Our current tactical asset allocation views

While policy disruption is a key source of uncertainty, the macro backdrop remains fundamentally supportive. Despite disperse growth cycles, progress on inflation remains aligned with an ongoing shallow global rate-cutting cycle through 2025.

We do not see a global recession in the near-term, with still-resilient consumers, tight labour markets, positive secular investment pressures, and easing monetary policymakers. Australia continues to be challenged by stubborn inflation and stagnant growth. We are maintaining a nimble stance in the face of evolving macro and geo-political risks.

Why tactical asset allocation?

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

Cash

We trimmed our underweight to cash last month to preserve dry powder for expected volatility. It may be a bit early to lean into market volatility this month so we maintain our position, reflecting our still-constructive outlook for financial assets overall.

Fixed income

We remain broadly neutral fixed income. At the sub-asset class level, while we believe the near-term peak for bond yields may be in, uncertainty around US fiscal policy remains too high to take a substantive view on this. Rather, we continue to favour investment grade credit to take advantage of attractive carry amid supportive economic conditions.

Alternatives

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

Equities

We remain constructively positioned in equities, reflecting our central case for a soft-ish landing and supportive central banks. We are overweight US and Japan equities and are neutral in other regions.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	-2	2	2	2	2
Fixed income	**0**	52	34	16	13
Absolute return	0	11	6	2	2
Australian government bonds	0	13.5	7	3.5	2.5
Global government bonds	-1	12.5	6	2.5	1.5
Investment grade credit	1	12	13	6	5
High yield credit	0	3	2	2	2
Equities	**2**	25	43	61	40
Domestic	0	10	17	25	11
United States	1	9	15	21	17
Europe (ex-UK)	0	2	3	5	4
Japan	1	2	3	4	3
United Kingdom	0	1	2	2	2
Emerging markets	0	1	3	4	3
Alternatives	**–**	21	21	21	45
FX exposure	-1	14	24	34	29

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

Australian government bonds

We are neutral Australian government bonds. Domestic bond yields outperformed their US counterparts during December as global sentiment around speed of Fed easing shifted. This led us to close our Australian government bond overweight. During February, domestic bonds rallied further to around 4.31%, aided by the RBA's rate cut, albeit reversing some of January's outperformance to the US.

Global government bonds

We are underweight global government bonds. Last month we trimmed our underweight to global government bonds (from -2 to -1). Bond yields are largely priced for further H1 2025 cuts from the ECB, BoE and Bank of Canada, as well as the Fed in H2 2025. The 10-year Treasury yield appears to have peaked at 4.80% mid-January, easing to around 4.30% at the end of February. Future rate movements will depend on US growth, unemployment, and wage data.

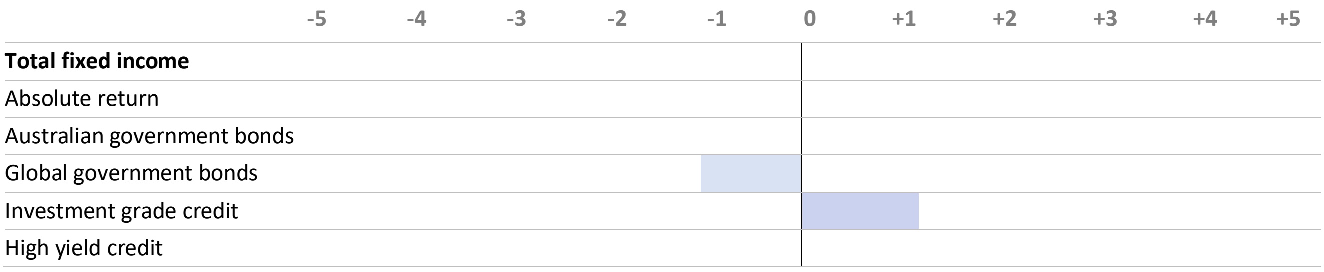
Investment grade credit

We are overweight investment grade credit. While all-in yields are at historically elevated levels, we believe investors should continue to deploy into investment grade credit, both in fixed and floating rate formats. Credit fundamentals remain solid (in-line with a relatively benign global growth backdrop), and we expect market tailwinds should continue to support credit markets in the coming months.

High yield credit

We are neutral high yield credit. Spreads are near historically low levels, brought down by demand from yield-hungry investors and the improvement in the average credit rating, which is currently BB. However, the sector is susceptible to risks around a sharper-than-expected global growth slowdown and there is a potential for a rise in default rates from its current low base.

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



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	65.18	66.34
Australian 3-year yield	3.79%	3.80%
Australian 10-year yield	4.34%	4.38%
Australian 3/10-year spread	53.9 bp	57.1 bp
Australian/US 10-year spread	0.1 bp	-0.10 bp
US 10-year Bond	4.28%	4.51%
German 10-year Bund	2.41%	2.52%
UK 10-year Gilt	4.51%	4.56%
Markit CDX North America Investment-Grade Index	49.4 bp	47.7 bp
Markit iTraxx Europe Main Index	53.26	52.98
Markit iTraxx Europe Crossover Index	287.64	286.75
SPX Volatility Index (VIX)	19.21	15.44

Source: LGT Crestone Wealth Management, Bloomberg as of 27 February 2025. Active fixed income weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on equities

Domestic

We have moved neutral domestic equities. Recent results from the major banks have brought into the spotlight the extended valuations the sector trades on. With iron ore seasonality proving more muted than is typically the case, index-level investing in Australia is proving challenging.

US

We are overweight US equities. Although valuation multiples present a challenge, part of the premium is justified given the higher quality of the US economy, which in turn sees its corporate sector generate a return on equity (ROE) that is amongst the highest in the world. US equities may also provide defense through periods of volatility.

Europe (ex-UK)

We are neutral European (ex-UK) equities. European equities are leading world gains this year, as hopes of a ceasefire in the Russia-Ukraine war rise. Low allocations and better valuations also saw investors reposition from underweight. Potential tariffs – flagged by Trump in late February – present a binary outcome and will be closely watched.

United Kingdom

We are neutral UK equities. FTSE 100 shares are near record highs with the best-performing January (up 6%) in 10 years. However, we expect the next leg of gains to be harder. While the UK may miss the brunt of US tariffs on the EU, they're a threat to sentiment and broader business activity.

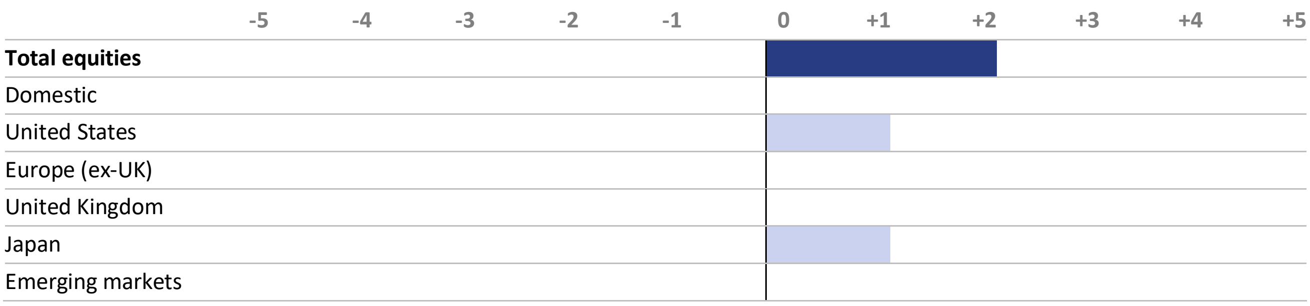
Japan

We are overweight Japan equities. The case for Japan is often mistaken as entirely macro (inflation, real wages, and currency etc) and although they are important, the real case for Japan is bottom-up (M&A, cross shareholdings, dividends, buybacks, improved ROEs, and greater valuation support).

Emerging market equities

We are neutral emerging market equities. With respect to China, there are four intersecting forces at play – trade wars (10% tariff), DeepSeek (tech rally), domestic macro (fiscal and monetary stimulus) and domestic micro (nine point guidelines suggesting a more investor-orientated equity market). The recent correction in Indian equities, given a still positive outlook, is likely to attract the attention of investors.

Active equity weights (%)—We are overweight equities



Equity market summary

Region	Index	Latest price	Consensus 1 yr Target	Consensus 1 yr Upside	Next year P/E [1]	Next year D/Y [2]
Australia	S&P ASX 200	8,268.2	8,576.2	3.7%	17.9	3.5%
New Zealand	S&P NZ 50	12,540.9	13,722.6	9.4%	25.6	3.0%
United States	S&P 500	5,930.1	6,874.9	15.9%	19.7	1.4%
Europe	Euro Stoxx	560.5	613.6	9.5%	13.3	3.3%
United Kingdom	FTSE 100	8,756.2	10,031.9	14.6%	12.4	3.8%
China	CSI 300	3,388.1	3,816.5	12.6%	12.5	2.9%
Japan	Nikkei 225	38,256.2	45,554.2	19.1%	17.6	2.1%
India	Sensex	74,612.4	90,046.5	20.7%	19.6	1.5%

Source: Bloomberg. Data as of 27 February 2025; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield. Active equity weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on alternatives

Hedge funds and diversifiers

High interest rates and greater asset price dispersion continue to support the case for hedge funds, as evidenced by strong performance through 2024. Macro and structural market forces should further increase the divide between winners and losers in coming years, creating a more expansive set of long and short opportunities for unconstrained investment vehicles, like hedge funds. Against this backdrop, hedge funds are well positioned to capitalise on a greater magnitude of market dispersion, given their natural role as both liquidity providers and opportunistic investors. Low-beta, multi-strategy exposures are preferred within hedge funds alongside other so-called ‘alternative alternatives’ including royalties, insurance and litigation, given they collectively offer true diversifiers to traditional risk factors.

Private markets

Private equity remains core as transaction activity shows signs of improving. New deal and exit activity are showing signs of improvement, with industry participants anticipating a greater transaction environment in 2025, which should support valuations, given underlying company fundamentals appear strong. In light of this, we recommend maintaining exposures to private equity and venture capital and building positions where underweight. We prefer new primary commitment structures, or those that can invest in secondary opportunities, but do expect that ‘evergreen’ strategy performance should pick up as private market activity increases. However, regarding secondaries, investors should not be complacent nor be overly focussed on the upfront ‘discount’ at the expense of portfolio quality. The lion’s share of prospective gains should come through post discount, owing to growth opportunities within a high-quality portfolio.

Private debt is preferred, albeit competition is increasing. While base rate cuts in the US have reduced total yields, risk-adjusted returns continue to be attractive relative to other asset classes. However, public markets have re-opened, which has increased competition, and spreads are tightening. Direct, sponsor-backed transactions versus broadly syndicated strategies are preferred, as loan terms can be negotiated directly, but we are also looking at private, asset-backed finance and other means to provide more diversified exposures. As well as being a good diversifier, asset-backed finance has the potential to be a larger, yet less competed, market. We remain cautious on construction and land-focussed real estate lending, whilst also keeping an eye on those lenders converting cash-paying loans to so-called ‘payment in kind’, which could indicate borrower stress.

Real assets

We are more constructive on global real estate. Both US and domestic property indices are now suggesting a shift in sentiment. While they may move further, particularly in lower quality assets, 2025 should present an attractive long-term entry point, particularly as rising replacement costs may limit future supply. Moderating interest rates should also support valuations. Investors should focus on high quality assets without making heroic assumptions about future interest rate moves or value-add initiatives. Trying to pick the bottom of the market will remain challenging but on a medium- to long-term view, core-plus property equity looks attractive. We currently prefer global over local markets.

Infrastructure is the most preferred sub-asset class within alternatives. Infrastructure continues to perform strongly, given its more defensively positioned assets with often long-term, inflation-linked contracts. It also plays to long-term, multi-decade structural growth themes, most notably decarbonisation and digitisation, where we are happy to take on a little more risk through value-add exposures. An attractively priced and growing secondary market is creating opportunities and supporting new investment vehicles, which are more suitable to private clients. Versus institutional clients, private clients remain underinvested in unlisted infrastructure. An increased exposure to this segment should improve long-term portfolio outcomes on both return-enhancing and risk-reduction measures.

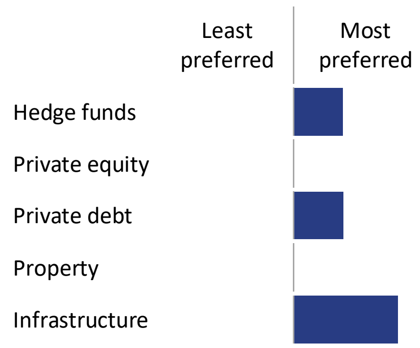
We favour infrastructure, private debt, hedge funds and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

What we like

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

What we don’t like

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



Direct equity

Recommendations: Domestic equities—Best sector ideas

Objective of this list

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

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

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Com. Services	$236.82	$249.69	46.4	1.0%	44%	32%	16%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$74.22	$79.16	24.9	1.2%	30%	26%	11%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.85	$5.44	26.1	3.4%	21%	109%	13%	AA
MTS	Metcash Ltd	Cons. Staples	$3.20	$3.86	11.9	5.5%	18%	17%	8%	AAA
ALD	Ampol Ltd	Energy	$26.55	$31.75	14.2	2.5%	10%	8%	81%	AA
BPT	Beach Energy Ltd	Energy	$1.42	$1.58	6.2	5.1%	16%	13%	12%	AAA
MQG	Macquarie Group Ltd	Financials	$230.78	$225.44	19.9	2.8%	3%	11%	19%	AA
SUN	Suncorp Group Ltd	Financials	$20.31	$23.35	15.5	5.3%	7%	12%	-2%	AAA
COH	Cochlear	Health Care	$262.80	$289.24	36.5	1.7%	27%	22%	15%	A
RMD	ResMed Inc	Health Care	$37.38	$44.18	22.4	0.6%	30%	26%	10%	A
CSL	CSL Ltd	Health Care	$260.29	$319.01	22.0	1.1%	14%	17%	14%	AA
MND	Monadelphous Group	Industrials	$16.21	$16.12	19.7	4.3%	20%	16%	3%	AAA
BXB	Brambles Ltd	Industrials	$21.10	$21.31	19.7	1.8%	21%	27%	10%	AAA
XRO	Xero Ltd	Info. Tech.	$176.53	$195.36	77.5	0.0%	14%	15%	58%	AA
IGO	IGO Ltd	Materials	$4.22	$5.36	22.1	0.5%	-6%	-12%	-280%	AAA
JHX	James Hardie Industries	Materials	$51.33	$56.69	19.4	0.0%	39%	31%	11%	AA
GMG	Goodman Group	Real Estate	$32.10	$37.65	24.5	0.9%	12%	11%	10%	AA
APA	APA Group	Utilities	$7.54	$8.27	36.8	7.6%	6%	7%	59%	AAA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 27 February 2025. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Cochlear Ltd (COH AU) – Buy. COH holds a dominant and growing share in the cochlear implant market, aided by the company's commitment to R&D at 12% of sales and regular new product innovation. COH has a multi-decade runway for high-single digit implant growth, along with growing contribution from system upgrades within its installed base.

REA Group (REA AU) – Buy. Investors have historically done well to buy 15% pullbacks in REA. News of CoStar's DHG bid may result in a refocused and well-funded competitor, but similar efforts in the US by CoStar to disrupt Zillow's dominance have simply reinforced the network strength of an established two-sided online marketplace such as REA.

James Hardie Group (JHX AU) – Buy. The housing downturn in Australia and the US has been prolonged as rate cut expectations are tempered. This impacts near-term earnings, but James Hardie has continued to reiterate its FY2025 guidance. A step-up in costs and investments is indicative of a positive long-term outlook. When US housing turns, James Hardie is positioned to capitalise on this. Consensus still embeds 15-20% EPS growth over financial years 2026 and 2027.

Recommendations: Domestic equities—Sustainable income

Objective of this list

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

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

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Div. yield	1yr DPS growth	MSCI ESG rating
SUN	Suncorp Group Ltd	Financials	$20.31	$23.35	15.2	1.52	100%	5.3%	na	AAA
MQG	Macquarie Group Ltd	Financials	$230.78	$225.44	23.7	2.60	35%	2.8%	15.7%	AA
WBC	Westpac Banking Corp	Financials	$31.62	$28.18	15.7	1.51	100%	5.0%	2.2%	A
QBE	QBE Insurance Group Ltd	Financials	$21.71	$22.62	11.5	1.89	20%	3.3%	4.8%	AAA
COL	Coles Group Ltd	Cons. Staples	$20.38	$20.14	24.8	7.52	100%	3.4%	13.5%	AA
MTS	Metcash Ltd	Cons. Staples	$3.20	$3.86	12.9	2.23	100%	5.5%	9.6%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc	$4.85	$5.44	29.6	36.25	100%	3.4%	10.4%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc	$0.72	$0.71	40.0	1.30	0%	1.9%	28.6%	AA
TLS	Telstra Group Ltd	Com. Services	$4.11	$4.39	21.5	3.21	100%	4.6%	5.2%	AA
CAR	CAR Group Ltd	Com. Services	$37.58	$39.55	37.4	4.61	0%	2.1%	13.2%	A
RMD	ResMed Inc	Health Care	$37.38	$44.18	24.6	6.50	100%	0.6%	9.7%	A
PME	Pro Medicus Ltd	Health Care	$263.08	$257.48	237.2	123.70	100%	0.2%	44.7%	BBB
REP	RAM Essential Services	Real Estate	$0.63	$0.71	12.5	1.45	0%	8.2%	2.0%	-
MGR	Mirvac Group	Real Estate	$2.08	$2.32	17.0	0.89	0%	4.4%	5.5%	AA
IRE	IRESS Ltd	IT	$8.25	$9.49	23.4	4.03	0%	2.6%	24.8%	AA
DBI	Dalrymple Bay Infra	Industrials	$3.82	$4.09	20.0	1.71	65%	6.1%	3.8%	-
ALX	Atlas Arteria Ltd	Industrials	$5.21	$5.46	18.9	1.24	0%	7.8%	5.7%	AA
APA	APA Group	Utilities	$7.54	$8.27	58.4	3.52	0%	7.6%	1.6%	AAA
ALD	Ampol Ltd	Energy	$26.55	$31.75	25.7	na	100%	2.5%	91.6%	AA
BPT	Beach Energy Ltd	Energy	$1.42	$1.58	7.0	0.93	100%	5.1%	31.5%	AAA
BHP	BHP Group Ltd	Materials	$40.02	$44.07	11.4	2.79	100%	2.8%	3.6%	A
AMC	Amcor PLC	Materials	$16.15	$17.39	13.7	3.85	0%	3.2%	2.6%	A

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 27 February 2025. ESG is environmental, social, and corporate governance.

Trade opportunities

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

CAR Group (CAR AU) – Buy. CAR has grown its dividend every year since listing in 2009, growing at a 13.5% compound annual growth rate. It has leveraged its first mover advantage into a significant network effect in the Australian market. There is considerable scope for growth among its international segments, where it is yet to maximise yield from its clear advantage.

The Lottery Corp (TLC)—Buy. The balance sheet is in strong health. Analyst forecasts imply ~AUD1.7bn in debt headroom by FY28, which could see capital management initiatives. If this was to be distributed as a buyback over the next three years, then there a building blocks to a high-teens total return: 10% EPS growth, 3.5% dividend, and ~5% buyback.

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

Recommendations:
International equities—Best sector ideas

Objective of this list

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

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

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
GOOGL US	Alphabet Inc	Com. Services	USD	170.07	219.46	18.8	0.4	2,084,178	BBB
UMG NA	Universal Music Group	Com. Services	EUR	27.27	28.63	29.9	2.2	51,900	AA
DIS US	Walt Disney Co/The	Com. Services	USD	112.45	128.40	20.7	1.0	203,286	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	135.70	160.12	16.1	0.6	331,645	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	80.41	86.01	37.1	2.0	118,937	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	115.19	106.55	39.0	2.3	130,844	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	141.64	157.86	32.1	0.0	90,876	BB
RMS FP	Hermes International	Consumer Disc.	EUR	2714.00	2654.46	57.4	0.9	298,091	BB
COST US	Costco Wholesale Corp	Consumer Staples	USD	1028.83	1057.09	56.3	0.5	456,696	A
288 HK	WH Group Ltd	Consumer Staples	HKD	6.39	7.51	7.8	0.8	10,541	–
SHEL LN	Shell PLC	Energy	GBP	2652.00	3154.08	8.6	0.1	202,200	AA
LSEG LN	London Stock Exchange	Financials	GBP	11775.00	12615.30	29.2	1.4	78,893	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	71.72	71.68	10.0	5.4	54,903	AA
WFC US	Wells Fargo & Co	Financials	USD	77.13	84.71	13.2	2.4	253,684	BB
2318 HK	Ping An Insurance Group	Financials	HKD	48.15	61.04	6.2	5.3	122,353	A
939 HK	China Construction Bank	Financials	HKD	6.70	7.51	4.8	6.1	218,409	AA
MA US	Mastercard Inc	Financials	USD	569.11	627.33	35.9	0.6	518,862	AA
JNJ US	Johnson & Johnson	Health Care	USD	163.19	170.00	15.4	3.3	392,899	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	641.80	820.39	23.3	2.6	399,737	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	574.27	632.79	72.3	0.0	204,817	A
EXPN LN	Experian PLC	Industrials	GBP	3772.00	4350.81	30.3	0.0	43,720	A
DSV DC	DSV A/S	Industrials	DKK	1427.50	1786.71	25.2	0.6	47,879	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	1040.00	1449.50	17.4	1.9	821,756	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	699.10	844.46	28.6	1.2	286,450	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	396.28	506.15	30.1	0.9	2,945,938	AA
ACN US	Accenture PLC	Information Tech.	USD	360.21	405.33	28.2	1.8	225,556	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	359.78	392.08	29.8	0.9	90,488	A
EQIX US	Equinix Inc	Real Estate	USD	911.85	1026.00	68.2	2.2	88,752	AA
ORSTED DC	Orsted AS	Utilities	DKK	315.00	361.62	13.0	3.5	18,472	AAA
		Average Yield:					**1.7%**		

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 27 February 2025. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—Trade wars

Objective of this list

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

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

Supply chain disruption—Select exposures.

A recent convergence of factors has put global supply chains in focus. Trump's bluster around global tariffs, simmering geopolitical tensions, and ongoing military conflicts around the world have emphasised the importance of our logistics networks.

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
AMZN US	Amazon.com Inc	Cons. Disc.	USD	210.38	268.84	25.3	0.0	2,229,550	BBB
BABA US	Alibaba Group	Cons. Disc.	USD	137.35	162.22	13.9	4.4	326,325	BBB
EBAY US	eBay Inc	Cons. Disc.	USD	64.01	66.46	11.1	1.9	30,661	A
WMT US	Walmart Inc	Cons. Staples	USD	97.06	109.38	32.5	1.0	779,680	BBB
SHEL LN	Shell PLC	Energy	GBP	2652.00	3154.08	7.9	0.1	202,232	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.42	1.58	6.2	6.8	2,021	AAA
LLOY LN	Lloyds Banking Group	Financials	GBP	71.72	71.68	8.0	0.1	54,912	AA
DSV DC	DSV A/S	Industrials	DKK	1427.50	1786.71	20.6	0.6	47,884	AA
KNIN SW	Kuehne + Nagel	Industrials	CHF	206.90	217.00	20.3	3.7	27,778	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	37.43	42.42	11.7	5.1	46,735	A
DE US	Deere & Co	Industrials	USD	480.13	488.00	21.7	1.4	130,313	AA
BXB AU	Brambles Ltd	Industrials	AUD	21.10	21.31	19.7	2.0	18,201	AAA
WTC AU	WiseTech Global Ltd	IT	AUD	93.99	121.62	61.5	0.2	19,617	AAA
ACN US	Accenture PLC	IT	USD	358.21	405.33	25.5	1.8	224,304	AA
INTC US	Intel Corp	IT	USD	23.55	22.52	20.2	0.4	101,950	AAA
SAP GY	SAP SE	IT	EUR	267.50	284.39	34.2	1.0	341,934	AAA
GMG AU	Goodman Group	Real Estate	AUD	32.10	37.65	24.5	1.0	40,682	AA
PLD US	Prologis Inc	Real Estate	USD	122.64	129.95	39.4	3.5	116,450	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 27 February 2025. ESG is environmental, social, and corporate governance.

Important information

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