crestone.

Will Trump force the Fed's hand...
as the macro-backdrop darkens?

Core Offerings

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

April 2025

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Will Trump force the Fed's hand…
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AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICE

Scott Haslem
Chief Investment Officer

In this month's *Core Offerings*, we discuss the emerging risk that President Trump will test his constraints by taking the economy to the edge of recession in "a period of transition". This could manifest in a sharp weakening in the global economy and equity markets which could force the US Federal Reserve (Fed) to cut rates much more aggressively than it expects. For now, markets continue to price two to three Fed rate cuts but remain worried about rising inflation expectations. But this may be a 'red herring'. Fed Chair Powell is talking tough on inflation and not flinching for now, but he ultimately has a jobs mandate too. And if Trump slows growth sharply on reduced fiscal spending and a tariff-induced confidence collapse, Powell knows he's going to be cutting rates. We believe that the Fed's dual mandate will force its hand. The end game of Trump's tax cuts will then be in sight.

The first week of April is shaping up as a key pinch point for markets. A likely 'hot' inflation print will frame a week where Trump may well spray the world with reciprocal tariffs, further escalating the global trade war, ahead of key business confidence and US jobs indicators. Reflecting this, we are tactically adding some 'defence' to our portfolios, by trimming investment grade credit and moving overweight government bonds. With uncertainty heightened through April, tactical positioning may need further adjustment. As we've tirelessly stressed, 2025 is a year not to panic but to lean on well-diversified portfolios, amid this volatility. We believe markets can navigate modestly higher this year. There will be times to buy the dip, and one of those will likely be when a Fed pivot comes into view.

Early April headlines a lot of signposts, and we're keen to assess the wash-up

Neither our lives, nor markets, are path independent. Monetary and fiscal policy matters, the geo-political framework in which we exist matters and the state of our psyche (confidence) matters. And like Fed Chair Powell commented in January, "*we don't know what's going to be a tariff. We don't know for how long or how much, what countries. We don't know about retaliation. We don't know how it's going to transmit through the economy. Just so many variables. So, we're just going to have to wait and see*".

"We don't know what's going to be tariff. We don't know for how long or how much, what countries. We don't know about retaliation. We don't know how it's going to transmit through the economy. That's, that really does remain to be seen…

…You know, there are lots of places where that price increase from the tariff can show up between the manufacturer and a consumer. Just so many variables. So, we're just going to have to wait and see".

Fed Chair Powell
January post meeting press conference

Early April is shaping up as a key pinch point for markets, with some key signposts to watch for signs of just what path we might be on.

- US inflation data – due late on the second last day of March. While February's inflation data surprised a little lower than expected, the key components flowing through to the Fed's preferred inflation measure – 'core PCE' – suggest a hot inflation print (rising from 2.6% to 2.7%) that's well above the Fed's 2% target. While this is well-flagged to the market, it nonetheless is a difficult 'set-up' for the following week of 'news'.
- Reciprocal tariffs – on April 2, Trump is due to announce a swathe of new reciprocal tariffs on a broad range of trading partners. These are designed to match the tariff rates and non-tariff barriers imposed by other countries on US goods. Countries may have the opportunity to negotiate and potentially avoid some of these tariffs. They may also retaliate by increasing tariffs on US goods, further escalating trade wars and further threatening weaker global growth due to increased uncertainty.
- US jobs data – later in the week, the next instalment of US jobs data will be released – a key variable for markets and the Fed. A print meaningfully away from the current gradually slowing trend of around 170,000 – either significantly weaker (deflationary) or stronger (inflationary) – could also add to volatility in markets.

Of course, as at any time, there are other key developments, such as the seemingly failing ceasefire in Gaza, or partial ceasefire in Ukraine, which could also significantly lift volatility at a time of heightened uncertainty.

We add some near-term 'defence' to portfolios but also 'insurance' to buy the dips

We remain comfortable with our key market themes for 2025, communicated regularly since our year-ahead piece, *Outlook 2025 – Navigating disruption, discovering opportunity*, published in early December last year. Within the frame of our 6–12-month tactical window, we continue to hold a constructive view on markets.

This is characterised within three key themes. **Firstly,** the macro backdrop remains relatively benign, with global growth slowing below trend (but not collapsing). Inflation is also continuing to moderate—although with work still to be done, its moderation opened the way for modest rate cuts in 2024 (and the likelihood of further modest cuts in 2025).

"The benefits of a tariff are visible. Union workers can see they are 'protected". The harm which a tariff does is invisible. It spreads widely. There are people that don't have jobs because of tariffs but they don't know it."

Milton Friedman, Economist
"Capitalism and Freedom"
1962

Secondly, despite that constructive macro backdrop, this year is still going to embody greater volatility than we've seen for a number of years, as the new US administration out-works its agenda. This suggests a bumpier ride, and the risk of more meaningful (and more extended) drawdowns than we have experienced over the past two years.

And **thirdly**, after two years of around 20% equity market returns, that constructive view of markets still aligns with more 'average-like' returns for the year ahead. Yes, we still believe markets can deliver positive returns in 2025, but the ride will be bumpier, and while 2024 was a year to 'lean into risk', 2025 may be the 'realm of the brave' where we are prepared to 'buy the dips' through periods of volatility.

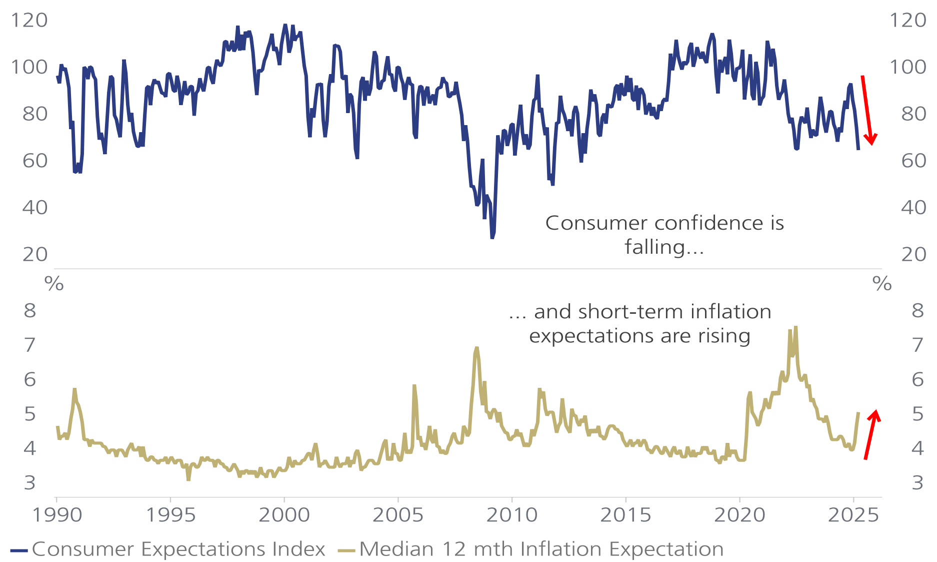
However, we also need to recognise when the facts change. By all accounts, as we wrote about last month in '*Skate where the puck is going – key views for navigating noisy markets*', the cacophony of noise form the US administration, arguably to 'flood the zone' and create confusion – as well as the aggressiveness with which it's pursued its fiscal (and related trade and tariff) agenda – has created some short-term risks to US and global growth (as discussed below) which we feel warrants some near-term portfolio protection.

Indeed, the elevated 'noise' is already weighing on business and consumer confidence. US consumer spending has slowed noticeably in early 2025, with Q1 growth on track for around 1%, a significant shift below trend after the 2.7% pace in H2 2024. Elsewhere globally, growth momentum continues to be positive in Japan, while Australia's growth appears to have passed its worst. But China has lost momentum in early 2025, and the risk remains that US tariffs may weigh heavily on European and UK growth before the positive impacts of the recent significant fiscal stimulus has time to impact activity.

While we remain moderately overweight equities with a bias to non-US markets through a US dollar underweight and Japan equities overweight— we have added to global bonds, where we are now slightly overweight (while closing our overweight to investment grade credit)

Reflecting this, and as discussed in our Tactical Asset Allocation section (page 18), while we remain moderately overweight equities (with a bias to non-US markets through a US dollar underweight and Japan equities overweight), we have added to global bonds, where we are now slightly overweight (while closing our overweight to investment grade credit). With a dovish Fed pivot a key signpost that our positioning is appropriate, a modest overweight to fixed income will protect portfolios in the shorter term if the current 'risk-off' period extends, while adding to our 'insurance' to engage equities more forcefully should the Fed cut faster, bonds rally or some resolution to the global trade dispute emerges.

US consumer confidence has collapsed as (near-term) inflation expectations spike



Source: Conference Board, Macrobond, LGT Crestone

Will Trump force the Fed's hand – could rates be cut much more than expected?

It's almost like a game of prisoners' dilemma. Both the accused end up pursuing their individual – arguably rational – goals (to be acquitted), but in the process deliver a worse outcome (a heavier sentence) than if they had mutually cooperated.

It's almost like a game of prisoners' dilemma. Both the accused end up pursuing their individual – arguably rational – goals (to be acquitted), but in the process deliver a worse outcome (a heavier sentence) than if they had mutually cooperated.

President Trump wants lower interest rates, but he is spraying the world with 'reciprocal' tariffs that could push inflation higher in the short-term. Jay Powell, Chair of the Fed wants lower inflation and appears in no rush to appease Trump with rate cuts until the evidence of such appears. It's not exactly pistols at 12 paces, but lines have been drawn.

Yet unlike prisoners' dilemma, we think one of these players will ultimately concede and (seemingly) cooperate. And while it could be Trump – worried by a falling equity market –

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we are guessing it will be the Fed. And it almost certainly won't be due to political pressure, despite no shortage of pressure being applied by the Trump administration.

So, what are the goals each are pursuing? As we've written before, Trump's fiscal strategy is ultimately driving the administration's current actions. He currently needs to find between USD 1.5 and 2 trillion of fiscal savings (according to the House) to extend the 2017 tax cuts (and avoid significantly widening an already wide US deficit, at 6% of GDP).

"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

Three tools at Trumps disposal to deliver his tax cut agenda

Trump seemingly has three tools at his disposal to deliver the savings he needs.

- **Tariffs** – raising revenue through tariffs. Sure, Trump is also annoyed that China and others have circumvented his North American Free Trade Agreement 2.0, renegotiated during his first term, diverting low-cost goods through Mexico and Canadian borders. And the tariff disputes with his closest neighbours are also about illegal drugs and immigration – both key concerns for voters. We strongly believe – be it non consensus – that much of this tariff 'game' is about raising revenue to fund the tax bill.
- **DOGE** – cutting spending through the DOGE. Here, scepticism is rightly elevated. And we'll acknowledge avenues for trimming expenditures when 80% of budget spending is being allocated to welfare programs, defence and the debt bill. Most observers will appreciate that delivering worthy policies and delivering worthy policies 'efficiently' are two very different things. We suspect the extent of DOGE-led fiscal contraction will be somewhere between 'not much' and Trump's goal, but that it could still be material.
- **Lower interest rates** - reducing the budget interest bill. While reducing expenditure will contribute some, by far the biggest impact will be lowering the interest rate across the entire budget 'mortgage'. And this is why Trump wants to lower market interest rates.

The Fed's goals are simpler. They have a 'legislated' dual mandate of low unemployment and 2% inflation. Given the US jobs market is already tight, Powell's focus is on reducing inflation, and he's reluctant to further trim rates from their 'restrictive' position until inflation appears to be heading in that direction and not heading higher on tariff fears (as shown in the lower panel of the prior chart).

"The Trump administration is flirting with high risk/low reward. Triggering a [US] recession may be the end goal of the White House, but borrowing costs are not declining as much as they ought to be while President Trump's political capital is on thin ice. Most recessions are caused by a 'murder weapon'. It is rare that this weapon can be holstered. This may be one of those times.

BCA GeoMacro
March 2025

Interestingly, at the most recent meeting, the Fed's forecasts reveal the expectations for a worsening growth and inflation trade-off for the period ahead, with growth revised lower and inflation revised higher. And while the widely followed 'dot plot' still showed a 'median' of two cuts for the rest of the year, there were four governors who moved to expecting only one cut, most likely due to growing inflation fears, with eight out of 19 now supporting only one cut this year, rather than two.

Still, there were early signs of Powell's willingness to respond if required, with his post-meeting press conference including language that sounded 'dovish', noting that the Fed can ease should the jobs market weaken unexpectedly, or inflation fall more than expected.

Back to the game…only economists know the outcome!

And to use one last analogy, Trump and Powell are now playing 'chicken'. Trump is moving forward with reciprocal tariffs, to be announced in the first week of April, and with the likelihood of more trade measures to come in the months ahead. For now, Trump is pushing forward despite an 'around 10%' correction in equity markets. Indeed, in recent media comments, Trump declined to rule out a recession, warned of a period of economic "transition" and cautioned "you can't really watch the stock market". It is always dangerous to taunt the equity market, which Trump now appears to have done.

Moreover, to Chair Powell's likely annoyance – after his near-success at reducing inflation over the past year – we are now seeing some signs of inflationary pressure, through rising consumer inflation expectations (bottom panel of the prior chart) as well as rising upstream materials prices for businesses (reflected in business surveys).

"The trouble with tariffs, to be succinct, is that they raise prices, slow economic growth, cut profits, increase unemployment, worsen inequality, diminish productivity and increase global tensions. Other than that, they're fine."

John Authers Bloomberg,
Financial Author

Of course, neither Trump nor Powell want a recession. For Trump, a recession will almost certainly scuttle any hoped-for fiscal improvement as rising unemployment and falling economic activity will almost certainly reduce tax revenue across corporate and personal income tax. Expenses would also balloon on rising welfare payments. It would also threaten Trump's slim majority at next year's mid-terms.

Nor does Chair Powell want a recession, not least because he would be slashing rates (and delivering what Trump wants), but the Fed may wear more of the blame for any rise in unemployment, given they will have 'held onto' 4.5% of interest rate firepower which many would perceive could have been utilised earlier. And lastly, Powell will miss his

‘full employment’ mandate if unemployment starts rising and then the Fed could be confronted by sub-target inflation, which proved difficult to rectify in the 2010s. Recessions are devilishly hard to reverse. Powell’s term also expires mid-2026, and he’s likely keen to exit with the economy expanding, unemployment low and inflation near the target. Who will blink first?

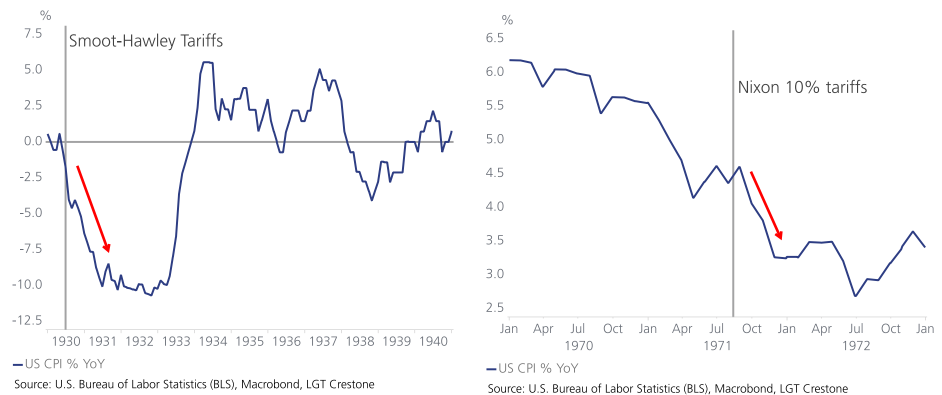
Powell’s term also expires mid-2026, and he’s likely keen to exit with the economy expanding, unemployment low and inflation near the target. Who will blink first?

But economists know that that’s not how the game of tariffs plays out. Tariffs have almost always been deflationary as far as underlying or core inflation is concerned which is what most central banks’ target, once the initial ‘headline’ inflation shock has passed through.

As noted in The Economist (2019), during the first trade war of 2018–2020, “In theory, tariffs should boost inflation in the country that sets them. However, the recent trade war between America and China sparked fears about global growth, leading to a rush into safe assets and a deflationary impact on the global economy”. Tariffs have always been deflationary. That was true with the Smoot Hawley tariffs in the 1930s, Nixon’s tariffs in the 1970s (see the chart below). Growth slows and unemployment rises.

Indeed, recent ‘soft data’, including business and consumer confidence, new order and capital investment intentions, both in the US and globally have weakened materially during Q1 2025. Near-term, there is the risk that the ‘muzzle velocity’ with which tariffs are being implemented and fiscal policy being tightened that businesses and consumers may just react by doing nothing. The global economy could rapidly approach ‘stall speed’ in H1 2025, rapidly changing the ‘tariffs are inflationary’ narrative impacting markets.

Historically, tariffs have been ‘deflationary’ as they damage demand and activity



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, LGT Crestone

Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, LGT Crestone

We think the Fed will fold first…skate where the puck is going!

And this is where the odds are more in favour of the Fed acquiescing. Sure, inflation at a headline level may still be above the target. While Trump may sweat a few bullets if recession seems imminent and equity markets collapse, he also knows bond yields will fall making his fiscal financing task easier. Trump also knows that Powell knows that he’s got 450bp of rate cuts and society expects him to use it (even if he’s being forced to do it by Trump’s growth-reckless policies).

Time will tell which ‘gentleman’, prisoner or chicken flinches first. We believe that the greater constraints on the Fed will force its hand. As such, in a scenario that is weaker than our central case of a ‘constructive macro backdrop’, rapidly falling interest rates (that improve the forecast growth outlook), should at the very least, stabilise risk markets. And there would still be some prospect that markets end the year modestly higher. Nearer-term, as noted, we have added some defence via an overweight to government bonds to hedge portfolios against the risk of this weaker than expected near-term outcome.

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How markets respond to a period of weaker-than-anticipated growth rate in H1 2025 will also depend on events surrounding any Fed pivot. There is great uncertainty over where things will land in terms of the Ukraine war, a ‘grand deal’ between Trump and Xi, a ceasefire in Gaza or rising concerns about Iran’s nuclear stockpile.

For markets, we want to skate where the puck is going over the next year, which is likely moderately higher given our constructive macro backdrop. However, a more meaningful Fed pivot on weaker growth may still deliver a similar outcome in time, though the volatility may be greater, as could the opportunity to buy the dips.

What's driving our views

Tilting to government bonds on a view that inflation fears are overdone

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. This month, we back in our conviction that tariffs and US fiscal policy will be ultimately disinflationary by shifting to an overweight position on government bonds, which also provides relatively cheap downside risk protection in the case of ongoing equity market volatility. We 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.

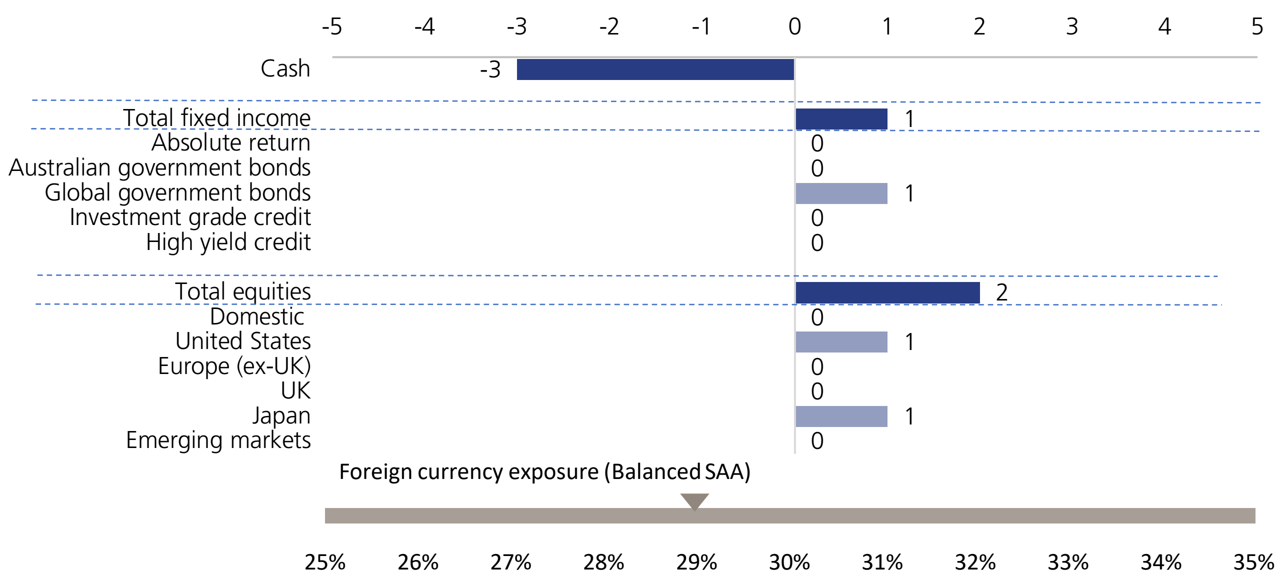
Can central banks secure the soft landing? Falling inflation allowed central banks to cement a global rate cutting cycle in 2024. The challenge for 2025 will be balancing how much they ease to support growth without re-igniting inflation.

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.



	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 diversifiers. ▪ 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

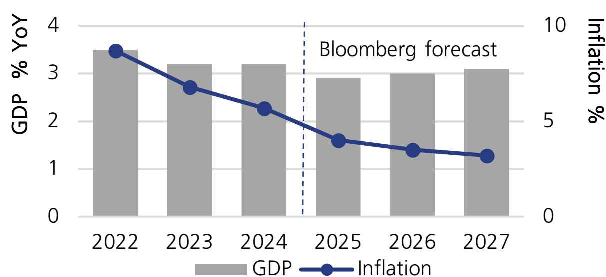
Recent macro data has begun to reflect uncertainty associated with the rapidly shifting policy announcements coming from the new US administration. While tariffs have been imposed selectively to date across countries (China, Mexico, and Canada) and sectors (aluminium and steel, and recently autos), early April will see the release of the US's 'reciprocal' tariff report, with new tariffs for a broad array of trading partners anticipated. Weaker business and consumer confidence in the US, and softer capex plans globally, have begun to emerge over the past month. President Trump's stated tolerance for an adverse economic fallout from tariffs has also clouded the outlook.

The outlook is also being buffeted by additional uncertainties from the likely response of key US trading partners to new tariffs, the unravelling ceasefire in Gaza, disappointing momentum in China's economy and limited further progress on inflation in many regions, with expectations of rate relief being revised lower for 2025. More positively, a partial ceasefire in Ukraine has been negotiated, as has meaningful additional fiscal support in Europe, and jobs markets are yet to flag weakness. In March, the Organisation for Economic Co-operation and Development (OECD) modestly trimmed its growth outlook noting "a series of recently announced trade policy measures will have implications for the economic outlook if sustained".

Central banks have continued to ease policy rates in those regions where inflation progress has been achieved. During Q1, rate cuts took place in Europe, Australia, Canada, UK and India, while policy remained unchanged in the US. Further modest rate reductions are anticipated around mid-year, including the US, though this will continue to be impacted by the future path of inflation (which in turn will be impacted by potential future tariffs and currently tight jobs markets on services prices). We continue to expect developed market policy rates to settle at around 3%, down from their 'around 5%' peaks in 2023.

After 3.3% in 2024, consensus has recently 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 has again trimmed its 2025 growth to 2.9% and 2026 to 2.7%, with 2026 below consensus due to the prospect of a trade war from mid-2025 that weighs on growth across a range of economies.

Global GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Australia

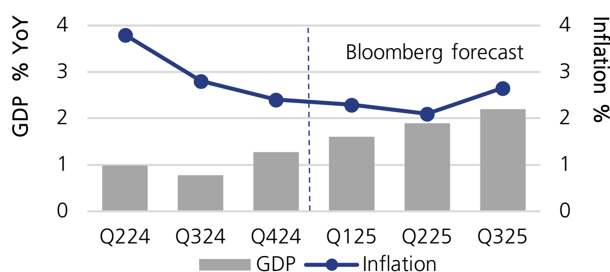
The Australian economy has shown signs of recovery in late 2024, after slowing sharply mid last year to a well-below trend sub-1% pace. While growth continues to be significantly driven by activity in the public sector, consumer spending showed improved momentum for the first time in several quarters. Falling inflation, mid-2024 fiscal easing and the lagged impact of significant wage gains over the past year or so are likely stabilising consumer activity. Lower interest rates from early 2025 are likely to further support consumer and housing activity. Nonetheless, the outlook will continue to be heavily conditioned by global developments, from trade imposts to the potential for China to further stimulate growth.

Growth rebounded solidly in Q4, rising 0.6% and lifting the annual pace from 0.8% to 1.3%, its fastest in a year. Public demand continues to be the most significant contributor, rising 2.1% annually, led by capex (7.7%) and consumption (2.1%). However, while overall private demand remains weak (just 0.8% annually), Q4 saw a moderate recovery in consumer spending (to 0.7% from 0.3%). Early 2025 data have been mixed. Retail sales edged up only 0.3% in January after a 0.1% decline. After three months of strong average jobs gains of 38,000, employment slumped by 53,000 in February, albeit unemployment has been little changed at 4.1% over the past year, still signalling a firm jobs market.

Inflation continued to step down in Q4, rising 0.2%, with the annual rate easing from 2.8% to 2.4%, below 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 saw the Reserve Bank of Australia (RBA) cut the cash rate by 0.25% to 4.10% at its February meeting, it's first cut since November 2020. The RBA retained a relatively hawkish tone, with Governor Bullock noting the "market path of three more cuts is unrealistic". February's monthly CPI edged lower to 2.4% (from 2.5%). CBA expects three further RBA cuts from May (to 3.35%), while UBS expects only two (May and August).

After growth of just 1.0% in 2024, UBS and CBA both expect a pick-up to 2.1% in 2025 (was 1.9%). For 2026, UBS sees growth steadying at 2.1%, while CBA expects a further pick-up to 2.4%, on the back of further interest rate cuts.

Australian GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Economic outlook

United States

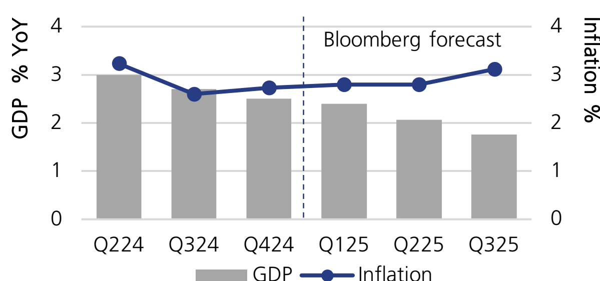
Growth in the US appears to have stepped down in early 2025, led by a softer consumer and still constrained housing activity. The extent of announcements and changes from the new US administration, and associated uncertainty, now also looks to be weighing heavily on business and consumer confidence. Indeed, as Barclays Research notes, "Trump and his administration have expressed more tolerance for an adverse economic fallout from tariffs", raising the spectre that a more significant slowing in growth may be tolerated to deliver Trump's agenda. While tariffs have already been deployed selectively (on countries and sectors), early April will culminate in a more extensive report targeting reciprocal tariffs on a broad cohort of trading partners.

Growth rose by a robust 0.6% (2.4% annualised) in Q4, below Q3's 0.8% pace (3.1%), again supported by solid consumer spending. Further slowing, to around 1%, is now anticipated for Q1. Retail sales rebounded only 0.2% in February after January's 1.2% fall, with a 22% fall in consumer sentiment over the past three months flagging further weakness. Housing remains weak, with building approvals falling for three consecutive months. New jobs growth was 151,000 in February after 125,000, down from the 209,000 average in Q4. March's composite Purchasing Managers' Index (PMI) recovered to 53.5 from 51.6, albeit still below end-2024.

Further progress on disinflation remains elusive in Q1 2025, with February data remaining mixed. While core inflation was below expected at 0.2%, key components flag a strong 0.4% rise for the Fed's preferred core PCE measure at the end of March. In March, the Fed remained on hold again as widely expected, with the policy rate at 4.25%–4.50%. Tariffs were viewed as transitory not inflationary, and the Fed trimmed its growth outlook and retained its two planned cuts for 2025. In the press conference, Chair Powell maintained his data-dependent focus but noted the potential to ease should the jobs market weaken. This suggests several quarters of weak growth could prompt deeper Fed cuts than are currently priced in the market.

After strong growth of 2.8% in 2024, UBS sees slower growth of 2.0% and 1.8% in 2025 and 2026, respectively. The OECD recently trimmed its US growth outlook for 2025 from 2.4% to 2.2% and for 2026 from 2.1% to just 1.6%.

US GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Europe

Recent data continues to paint the picture of weak growth in Europe, headlined by Germany and France, which in turn masks more buoyant activity in the southern states, such as Italy and Spain. Europe's outlook has become significantly more positive on the back of a new sizable fiscal package, as well as rising hopes for a ceasefire in Ukraine. This must be balanced against the increasing prospect of tariffs being imposed on Europe by the Trump administration. UBS notes, "that the downside from US tariffs which might be announced in early April, would come hard and fast while potential benefits from fiscal expansion and Ukraine would likely take at least a number of quarters to unfold".

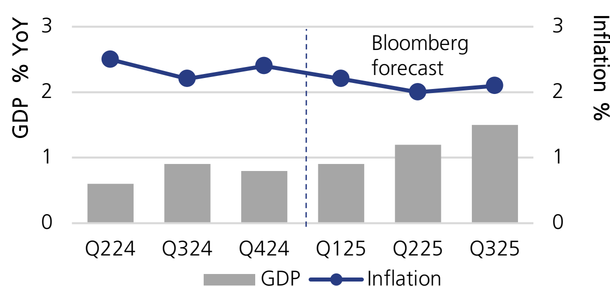
Growth stagnated (at 0.0%) in Q4, after Q3's 0.4% positive surprise, edging annual growth higher to 1.2% from 1.0%. Negative growth was recorded in Germany (-0.2%) and France (-0.1%) with stronger growth across Spain (0.8%) and Italy (0.1%). Activity in early 2025 has been soft. Retail sales fell 0.3% in January (after no growth in November or December). March's composite PMI was little changed at 50.4 (was 50.2), still down from 52.3 in May. While the jobs market remains tight, key wage measures reveal a significant slowing in Q4.

Germany's fiscal package passed Parliament's lower house in mid-March, ahead of a vote in the Senate. As noted by CBA, "the fiscal package exempts defence spending above 1% of growth from constraints. The new law also includes a 12-year budgetary euro 500bn package to fund infrastructure, climate policy, and deficit spending at both state and local levels".

Inflation eased further in February, to 2.4% from 2.5%, in early 2025, while core inflation edged lower to 2.6%, still above the 2% inflation target. As expected, the European Central Bank (ECB) cut the policy rate in March by 0.25% to 2.50% (its sixth cut this cycle). While the ECB reiterated its data dependent view, President Lagarde reiterated the disinflationary process is "well on track" and described the policy stance as "meaningfully less restrictive", signalling the ECB is nearing neutral, according to BCA Research.

After relatively soft growth of 0.7% in 2024, UBS expects a modest pick-up to 0.9% in 2025 and 1.1% in 2026. Barclays Research is more pessimistic, looking for a weaker 0.7% pace in 2025 and a similar recovery in growth to 1.1% in 2026.

European GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Economic outlook

United Kingdom

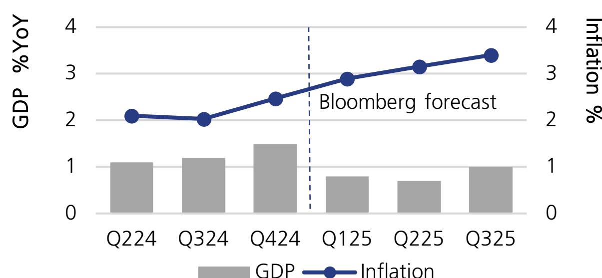
Growing threats of US tariffs, together with weaker-than-expected data (including a softer jobs market) in early 2025, has darkened the outlook for the UK economy. Despite rising inflation expectations on tariff concerns, we anticipate that further easing of underlying inflation will open the way for monetary easing through 2025 and should stabilise growth. Still, a relatively weak external environment suggests any pick-up might disappoint expectations. The UK's new Chancellor, Rachel Reeves, delivered the budget update in late March, returning the UK to within its fiscal rules, providing scope for future stimulus. Policy focused on new defence, infrastructure, housing spending and reforms to boost productivity.

Growth in Q4 remained weak, rising 0.1% after Q3's 0.0%, signalling almost no growth in the UK in H2 2024. Monthly data revealed a further downside surprise with a contraction of 0.1% for January (albeit UBS still sees this as consistent with a tepid 0.2% rise for Q1). Recent data have been mixed. Retail sales jumped 1.7% in January, largely reversing the four prior months of declines. Positively, the PMI in March rose to 52.0 from 50.5 (near a 15-month low). According to UBS, the jobs data "continue to signal gradual labour market easing, amid still strong wage growth".

The Bank of England (BoE) held rates steady in March at 4.5%, as widely expected. According to CBA, "the vote leaned in a more hawkish direction with three members who had supported a rate cut at the previous meeting now voting for no change." However, Governor Bailey said "interest rates are on a gradually declining path" despite elevated uncertainty. Inflation in January surprised to the upside, rising 0.5% to 3.0%. According to UBS, "the details 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, supported by lower rates.

UK GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Japan

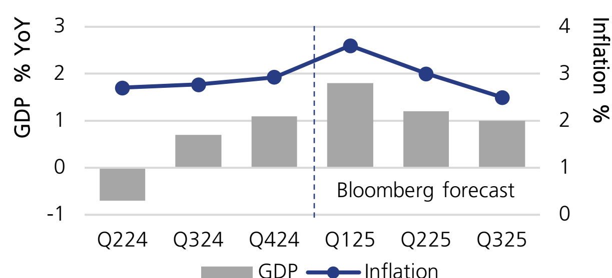
Recent data continues to point to an improving outlook for Japan's economy, and a sustained transition from secular stagnation (a persistent headwind for decades) to nominal growth of about 3% in the years ahead. However, uncertainty has increased over the past month in regard to both the pace of that domestic economic recovery as well as the impact of domestic and global geo-politics. US President Trump recently cited currency manipulation as a justification for imposing tariffs on Japanese products. This is fostering significant debate around the pace of interest rate increases over the coming year, albeit ongoing better growth and rising wage outcomes continues to point to suggest hikes from mid-year.

Growth in Q4 beat expectations, rising by 0.6% and lifting the annual pace to 1.2%, its fastest since mid-2023. Over the past month, this was revised lower from an initial 0.7%, due to a weaker (but still robust) estimate of consumption. However, capex stayed firm with further support from net exports due to strong tourism arrivals and weaker imports. Recent data has remained relatively positive. January retail sales recovered modestly by 0.5% after December's 0.8% drop. March's PMI surprised weaker, dropping to 48.5 from 52.0, reversing three months of expansion. The jobs market remains tight, with unemployment edging higher to 2.5%, albeit little changed over the past year. The 2025 Shunto spring wage negotiations beat, with wages up 5.5%, a touch above expectations and higher than last year's 5.1% result, a positive for growth.

Inflation partly reversed its recent strength in February, easing from 4.0% to 3.7%, as energy and food prices gave back some of their recent strength. 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. As Barclays expected, the BoJ keep its "on track" assessment at its March meeting. Both UBS and CBA expect two further hikes by the BoJ in 2025 to 1.0% from July, with UBS upgrading its terminal policy rate to 1.5% from 1.25% during February.

After the recovery disappointed in 2024, at just 0.1%, the better momentum has seen UBS lift its growth forecasts to 1.2% in 2025 and 0.7% in 2026 (on tariffs impact). Barclays see stronger growth of 1.5% in 2025 (before 0.9% in 2026).

Japanese GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Economic outlook

China

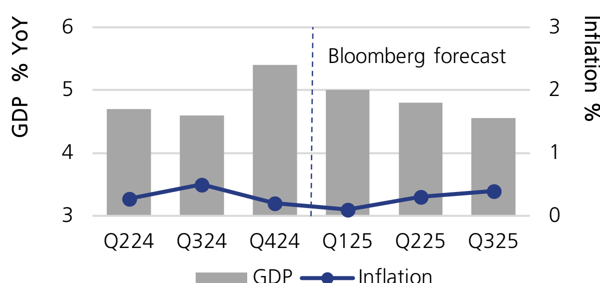
Despite the relatively strong finish to 2024, likely on the back of prior government stimulus and pre-tariff export demand, China's growth momentum has shown signs of renewed weakening in early 2025. However, as noted by Garnaut Global, there are likely to be "ongoing initiative" to boost consumption and business capex over the coming year, as authorities "forcefully boost" the economy towards the 5% growth target, the same as 2024, announced by the National People's Congress (NPC) in March. However, China is still seen facing significant growth headwinds ahead, including the property downturn and likely US tariff imposts which were doubled from 10% to 20% in early March.

China's growth lifted to 5.4% in Q4, from 4.6%, leaving the year-average for 2024 in line with the Government's target of "around 5%". Data released for January-February (combined) showed mixed momentum. Retail sales (4.0% after 3.7%) and overall fixed asset investment (4.1% after 2.2%) improved modestly, while property sales (-5.1% after -0.5%) and new starts (-29.6% after -23.0%) softened again, while export growth disappointed (2.3% after 10.7%). Adding to the weaker tone, both inflation (-0.7% from +0.5%) and upstream price (-2.2%) data printed weaker than expected. According to Barclays Research, "the job market is also deteriorating as companies hold back from hiring".

At the NPC in mid-March, Premier Li Qiang characterised the "macro policy settings [as] broadly unchanged" from those flagged at the Politburo meetings in September and December 2024 and the Central Economic Work Conference (CEWC) at the end of last year. Li set the growth target as "about 5%", the same as last year, with authorities identifying "forcefully boosting" consumption as its top priority for 2025.

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). Barclays Research holds a similar view, expecting a slowdown to 4.3% in 2025 and 4.0% in 2026. The extent of renewed stimulus will be key to whether growth can retain the 5% growth target.

Chinese GDP growth and inflation



Source: Bloomberg as of 31 March 2025.

Emerging markets

Heightened volatility in international trade, including the recent escalation in US tariffs, likely presents a headwind for growth across emerging markets. That said, there are likely to be a mix of headwinds and tailwinds over the coming year (with the potential for more renewed China stimulus). Emerging market central banks may also have scope to ease further should US interest rates be cut on weaker US growth. However, while the impact of US tariffs imposts to date are unlikely to have a marked impact, more severe tariffs could disrupt global export growth, and prove a headwind to emerging economies.

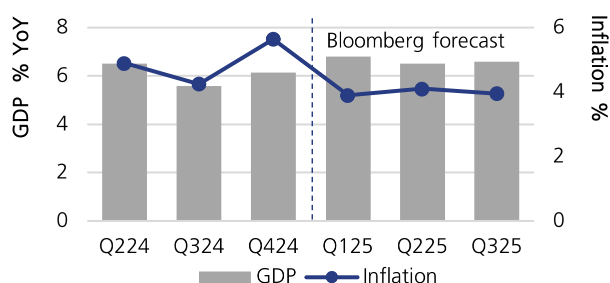
For Asia, the recent steel and aluminium tariffs are unlikely to prove a significant headwind, though more severe tariffs could disrupt export growth meaningfully. According to Barclays, "Taiwan and Vietnam are more exposed to these tariffs, but the overall impact remains modest". However, Malaysia, Taiwan, Vietnam and Thailand are particularly vulnerable to potential tariffs on semi-conductors, pharmaceuticals, and autos, while Korea is exposed to auto import tariffs. Despite this, for now, Barclays believes the regions exports are still in an "upcycle", and their export tracker "indicates a marginal pickup in February from already above-trend levels in January".

India's Q4 growth accelerated to 6.2% after 5.6%, largely led by stronger (rural) consumer spending and better net exports, while capex remains relatively soft. UBS's leading indicator suggests further uplift in early 2025 albeit growth should stabilise around the Q4 pace, given headwinds of likely US reciprocal tariffs, a stabilising consumer but supportive housing (helped by another likely interest rate cut in April).

Latin America looks set to deliver another year of below trend growth, masking significant divergence across economies. In Brazil (where growth eased from 4.0% to 3.6% in Q4), tight jobs markets are supporting wages growth and services inflation, with the central banking hiking rates 1% in mid-March to 14.25%. In contrast, Mexico's growth appears to be moderating (after just 0.5% through 2024), with a sharp slowing in December and January's industrial output.

For all emerging markets, UBS expects growth to slow from a likely 4.4% in 2024 to 3.9% 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 31 March 2025.

Asset class outlook

Absolute return and government bonds

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

Key points

- Signs of slowing US growth and negative investor sentiment keeps 10-year Treasuries under 4.25%.
- Uncertainty around Trump's tariff policies will keep volatility elevated in the near term.
- A hawkish rate cut from the RBA with market pricing terminal rate of 3.50%.

Market sentiment changed swiftly in March as concerns over the trade war and other Trump policies dampened investor sentiment and the outlook for global growth. The market expects tariffs to be inflationary in the near term, as prices will increase in the US goods market. Uncertainty around tariffs may also impact businesses and consumer demand and eventually weigh on economic growth. The market has been pricing in more cuts to the Fed rate as the US yields declined further than the Australian government bond curve. However, there was some relief after the March Fed meeting left the dot plots at two rate cuts this year, unchanged from December, albeit with a bias to cut less compared with December. The Fed left the policy rate at 4.25%–4.50%, as expected. Chair Powell said inflation had made progress but remained above target and that surveys suggested tariffs are impacting inflation expectations. The US yield curve has been steepening as the market expects the Fed may be forced to cut rates if growth slows more aggressively than expected.

Sentiment has diverged between US and European markets. In particular, the announcement in Germany of new fiscal spending has boosted growth prospects in the region. This includes substantial investments in defence and infrastructure via a EUR500 billion fund and a lifting of the debt brake. European yields rose on the expectation of increased issuance over the next 10 years, with German 10-year bunds rising by 40bps immediately post the announcement, their worst performance in around 40 years.

Despite the near-term inflationary impact of tariffs, we believe global disinflation will continue. We are looking to increase our allocation to global government bonds as impacts to global growth from the trade wars could move global rates lower. We believe central banks will remain data dependent, albeit the Fed and Chair Powell may be forced to ease sooner than expected if growth slows dramatically.

Notwithstanding the global sentiment shifts, the narrative around the RBA's gradual pace of rate cuts still remains on track. The RBA delivered a hawkish 0.25% cut in February, as expected. The Statement indicated "the Board remains cautious on prospects for further easing" and noted that "if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range". Australian rates have slightly underperformed global, with the 10-year Government bond yield at 4.35%.

Investment grade credit and high yield credit

Position: Neutral investment grade credit; neutral high yield credit

Key points

- Investment grade and high yield spreads remain at tight levels despite some widening over the last few weeks on the back of elevated equity and rates volatility.
- To mitigate against potential downside risks to global growth, our preference is to increase exposure to global government bonds over credit.

Credit markets started the year with issuance at annualised record levels, driven by a resilient macro backdrop in the US and expectations that Trump's policies would be economically supportive. However, this honeymoon period has worn off and US policy uncertainty impacted sentiment in March and contributed to wider credit spreads. However, despite the recent sell-off, credit spreads have remained near historic lows.

The strong supply of investment grade credit this year has not deterred investors with demand outstripping supply, keeping credit spreads historically tight. The ongoing demand for outright yields helped to cushion credit markets in February, before capitulating in March and nudging credit spreads wider. Until US policy certainty and investor sentiment improves, we don't expect credit spreads to re-tighten in the near term. Credit spreads will need rates and equity volatility to reduce in order to tighten modestly.

Primary markets continued to see strong demand with Transgrid pricing an AUD 1.4 billion subordinated note across two tranches: a AUD 1 billion 30NC5 FRN at BBSW +205 and AUD 400 million 30NC8 FXD-to-FRN at ASW +225 (6.28%). The final order-book was in excess of AUD 7.0 billion. Kangaroo (offshore) issuers remain attracted to the AUD market with HSBC Holdings also pricing an AUD 1.5 billion 10NC5 tier 2 deal across two tranches: AUD 950 million FRN and AUD 550 million FXD-to-FRN. The margin was set at BBSW/ASW +187bps (5.72% coupon).

High yield credit spreads remained tight in February before climbing steadily, as uncertainty and equity volatility took hold. High yield spreads are now around 40bps wider since last month. As spreads are close to historically tight levels, we see risks of spread-widening and decompression from here. The technical backdrop remains constructive for now, and default risk remains low, supported by sound fundamentals. The high-yield sector still offers reasonably attractive all-in yields, of around 7.0% in the US and 5.5% in Europe, drawing in capital despite concerns over a potential growth slowdown.

The recent data indicates that while many high-yield issuers have improved their financial health by reducing leverage and extending maturities, certain sectors, such as pharmaceuticals and retail, remain vulnerable due to high leverage and low interest coverage. This could make them more susceptible to widening spreads if economic conditions deteriorate as policy uncertainty continues. Investors are encouraged to focus on higher-quality bonds and diversified portfolios.

Asset class outlook

Domestic equities

Position: Neutral

Key points

- The S&P/ASX 200 Index fell -3.2% in March, the first-time investors have been faced with back-to-back monthly declines since September 2023.
- At a sector level, there were no discernible macro trends although the quality, small cap and dividend yield factors outperformed, while momentum detracted.
- Materials (cyclical), utilities (defensive) and property (rate sensitive) performed well. IT (valuation risk), consumer discretionary (cyclical) and consumer staples (defensive) underperformed during the month.

This reporting season in Australia showed just how positioning matters, with many high-quality companies experiencing sell offs on valuation concerns, while various value orientated companies sold off on earnings concerns. For the first time in 18 months, valuation support became an important driver of share price performance, as opposed to the previously successful style bias of growth and momentum. It appears we may be in the midst of a regime change, where valuation might matter more than it has done.

The February reporting season marked the most volatile results season in at least 20 years. By JPMorgan's reckoning, more stocks than ever moved up or down by more than three standard deviations. The intensifying impact of passive flows, which is evident in persistently declining turnover-to-market cap ratios, explains a lot of this, as do extended valuations and index concentration. Although companies pointed to 'the worst being behind them', they were unwilling to upgrade guidance. The caution from both analysts and management now seems justified given the re-emergence through February of geopolitical risks, and the reduced scope for RBA rate cuts given: 1) the still strong jobs growth, 2) the uptick in Q4 GDP, and 3) recent hawkish comments from the RBA.

The consumer (aka voter) was clearly at the top of the list of winners in March's pre-election federal budget. The additional tax cuts are initially worth AUD 268 per year from 1 July 2026, rising to AUD 536 from 1 July 2027. The Government will also cut 20% off all student loan debts, raise the minimum repayment threshold and reduce repayment rates to help ease cost pressures for university students. Given a greater propensity for lower income cohorts to spend, these will modestly assist the consumer discretionary sector. Although the consumer will not see the additional AUD 5-10 per week until mid-next year, when combined with prospective rate cuts, it should entrench the recovery in consumer confidence, at its highest since March 2022. Barrenjoey Research estimates that it will boost household incomes by 0.14% in FY27 and just 0.3% in FY28. In aggregate, the budget seems unlikely to materially influence domestic equity markets, as viewed through its impact on the aggregate economy, inflation, or monetary policy.

International equities

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

Key points

- The MSCI World ex-Australia Index fell 5.6%, its largest pullback since October 2023.
- US equities bore the brunt of the weakness, with the S&P500 and NASDAQ down 5.5% and 8.1%, respectively.
- European equities continued their strong performance, rebounding to close higher on the month, in both local currency and AUD terms. Japanese equities were another notable performer, rising to their highest levels since the August 2024 sell-off. Asian equities were mixed.

The US equity market fell into 'correction' territory in March (i.e. a fall of 10% or more). Meanwhile, ex-US equities have been far more resilient, aided by Europe's defence spending plans and DeepSeek's boost to China Tech. The question for investors from here is whether recent volatility is a precursor to a pending US recession, or simply a rotation away from the more expensive parts of the US stock market? Several factors have made this sell-off a little atypical. Firstly, it has not been accompanied by a broader rally in the US dollar, which is down more than 3% over the same period. Secondly, despite volatility in the US market, ex-US equities have been more resilient. The last time the US underperformed the rest of world (RoW) peers by ~9% into a similarly sized market correction was almost two decades ago. Finally, the underperformance of US cyclicals versus defensives is not globally consistent. Cyclicals have meaningfully outpaced defensives in Europe, EM, and Japan this year. In fact, the internals of the US don't scream recession – the main drivers of US weakness have been growth/tech stocks as opposed to traditional cyclicals.

Explaining the recent enthusiasm for European equities – despite a lack of earnings momentum – includes an expected recovery due to lower ECB rates, a large fiscal stimulus from Germany following the election, the French budget approval removing short-term political risk and the potential benefits of a truce in Ukraine and its reconstruction. The path to continued European outperformance requires a combination of the following: A slowdown in US growth but not a recession. If markets become more worried about a deeper US growth slowdown, this would likely spill over into the RoW. Secondly, equites need to see an improvement in RoW growth, with follow-through on corporate fundamentals (i.e., earnings).

Société Generale believe that the Chinese equity market exhibits several features of an early-stage bull market: earnings are stabilising, valuations are low, and positioning is light, due to a lack of conviction among sell and buy side alike. Positively, India can now join the rally after its recent correction, with valuations now more reasonable, having fallen closer to their long-term average. The relative under-performance of Indian equities versus global equities now sets up more attractively for future outperformance, based on history.

Asset class outlook

Currencies

Key points

- US dollar weakened amid relative US fiscal contraction.
- The Australian dollar is traded in a relatively tight 0.62-0.64 range versus the US dollar.

The US dollar continued its post-inauguration trend of weakening against a broad range of currencies in recent weeks, as investors reacted to a slowing US economy as well as significant fiscal contraction relative to expectations and relative to other regions. This fiscal tightening is largely being driven by the Trump administration's efforts to pass its tax cuts extension bill, which will likely require significant fiscal cuts that the administration appears to be trying to achieve via a combination of spending cuts from the DOGE and raising revenue via tariffs. 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 increasing geopolitical multipolarity also point to downside pressures longer-term.

As ever, sentiment around China and global risk assets drove the Australian dollar over the month, driving significant intramonth volatility between USD 0.62-0.64 range. Still-strong federal and state government stimulus as we head into our federal election could continue to provide support in the near-term. Our external partners are expecting the Australian dollar to end 2025 between USD 0.62 and USD 0.65, with US trade uncertainty (and the ensuing impacts on global growth) the prime driver of divergence.

The euro was the standout performer over the month, rising to around USD1.09 on the back of the historic fiscal spending bill passed by the German Parliament in March, including EUR 500 billion for an infrastructure fund and the potential for hundreds of billions more euros for defence spending. We continue to expect the Eurozone to face macro risks on a structural basis, though the scale and speed of Germany's fiscal shift may herald the start of a paradigm shift for Europe.

The Japanese yen also strengthened over the month, buoyed by the flow-on impact of euro strength and US dollar weakness. It received further support following strong wage growth announcements from Japan's largest union Rengo in March. 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 were modestly higher in March, buoyed by industrial metals as gold pushed to new all-time highs of around USD 3,080 per ounce.
- Iron ore prices are trading around USD 102 per tonne (p/t).

Trade policy uncertainty continued to buffet global commodity markets over the month. That said, Bloomberg's broad commodity price index is trading roughly 2% higher since the start of March.

Geo-political developments drove crude oil prices in March, with the on-again, off-again ceasefire talks in Ukraine and the Middle East driving intra-month volatility. Brent crude is currently trading at around USD 73 per barrel (p/b) towards the end of March, broadly unchanged over the month.

Meanwhile, gold prices have continued to push higher amid renewed investor concerns around inflation, geo-political risks and US trade policy and are trading at around USD 3,080 per ounce. Uncertainty around the US fiscal and trade policy outlook likely present two-way risk to gold prices from here.

Industrial metal prices continued their recovery in March, buoyed by speculation around US tariffs on commodities such as copper that have led to significant dispersion in prices between US and London exchanges, as well as optimism around Chinese stimulus. Copper is up approximately 15% over the month, while iron ore is trading around the USD 102 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.

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	**22**	**40**	**58**	**38**
Domestic	9	16	24	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	**22**	**22**	**22**	**45**
Private markets	8	10	11	20
Real assets	9	8	7	14
Hedge funds and diversifiers	5	4	4	11
Target foreign currency exposure	20	30	40	40
Indicative range for foreign currency	15–25	25–35	35–45	35–45

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 a modest global rate-cutting cycle.

We do not see a deep global recession in the near-term, though extreme policy uncertainty could spark a mid-cycle slowdown. 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.

Cash

We have increased our underweight to cash this month, utilising the dry powder we reserved in February to lean into global government bonds, reflecting our conviction that inflation fears are overdone, risks of a near-term global growth pause and our still-constructive outlook for financial assets overall.

Fixed income

This month, we back in our conviction that the near-term peak for bond yields is in and purchase some relatively cheap downside risk protection by shifting our underweight position in global government bonds to a slight overweight.

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.

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 beyond the near-term 'Fog of Trump'. 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	**-3**	1	1	1	1
Fixed income	**1**	53	35	17	14
Absolute return	0	11	6	2	2
Australian government bonds	0	13.5	7	3.5	2.5
Global government bonds	1	14.5	8	4.5	3.5
Investment grade credit	0	11	12	5	4
High yield credit	0	3	2	2	2
Equities	**2**	24	42	60	40
Domestic	0	9	16	24	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	**–**	22	22	22	45
FX exposure	-1	19	29	39	39

Decreased weight this month Increased weight this month

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

Our view on fixed income

Australian government bonds

We are neutral Australian government bonds. Domestic bond yields have underperformed the US as a higher budget deficit and increased Australian Commonwealth Government Bond (ACGB) issuance over the next few years is likely to keep yields elevated.

Global government bonds

We have moved overweight global government bonds. To mitigate against potential downside risks to global growth, our preference is to increase exposure to global government bonds. We believe that despite the near-term inflationary impact of tariffs, global disinflation will continue. The Fed remains data dependent and may need to act sooner if growth slows dramatically.

Investment grade credit

We have trimmed neutral investment grade credit. Investment grade credit spreads remain close to historically tight levels with record bond issuance a reflection of issuers taking advantage of spreads at these levels. Until US policy certainty and investment sentiment improves, we don't expect credit spreads to tighten in the near term.

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 global growth slowdown and there is a potential for a rise in default rates from its current low base.

Active fixed income weights (%)—We have increased our exposure to global bonds, overweight fixed income overall

	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
Total fixed income											
Absolute return											
Australian government bonds											
Global government bonds							+1				
Investment grade credit											
High yield credit											

Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	87.81	65.18
Australian 3-year yield	3.70%	3.79%
Australian 10-year yield	4.38%	4.34%
Australian 3/10-year spread	67.9 bp	53.9 bp
Australian/US 10-year spread	0.2 bp	0.1 bp
US 10-year Bond	4.22%	4.28%
German 10-year Bund	2.74%	2.41%
UK 10-year Gilt	4.68%	4.51%
Markit CDX North America Investment-Grade Index	61.4 bp	49.4 bp
Markit iTraxx Europe Main Index	63.63	53.26
Markit iTraxx Europe Crossover Index	327.88	287.64
SPX Volatility Index (VIX)	22.11	19.21

Source: LGT Crestone Wealth Management, Bloomberg as of 31 March 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 are 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 defence 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.

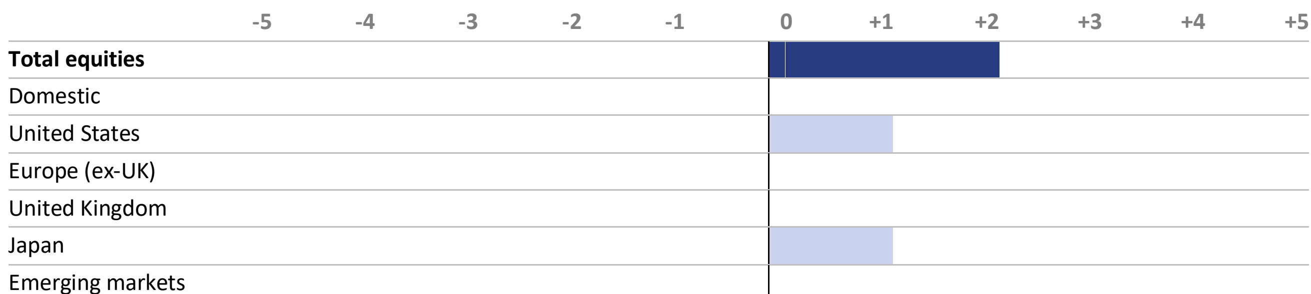
Japan

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	7,843.4	8,536.9	8.8%	17.1	3.7%
New Zealand	S&P NZ 50	12,270.0	13,747.6	12.0%	26.0	3.1%
United States	S&P 500	5,614.4	6,834.3	21.7%	18.3	1.5%
Europe	Euro Stoxx	542.5	625.2	15.3%	12.8	3.4%
United Kingdom	FTSE 100	8,582.8	9,996.5	16.5%	11.4	3.8%
China	CSI 300	3,335.7	3,854.1	15.5%	12.4	3.4%
Japan	Nikkei 225	35,617.6	45,266.2	27.1%	16.6	2.3%
India	Sensex	77,414.9	89,424.6	15.5%	20.3	1.5%

Source: Bloomberg. Data as of 31 March 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.

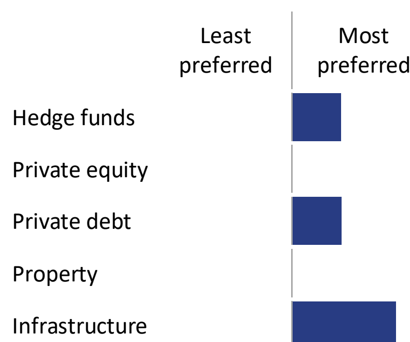
We favour infrastructure, private debt, hedge funds and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

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	$219.55	$251.44	50.0	1.1%	44%	33%	16%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$64.15	$76.66	24.0	1.4%	30%	25%	12%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.76	$5.44	29.2	3.4%	21%	109%	13%	AA
MTS	Metcash Ltd	Cons. Staples	$3.16	$3.80	12.7	5.6%	18%	17%	8%	AAA
ALD	Ampol Ltd	Energy	$23.42	$31.58	12.8	5.3%	14%	14%	22%	AA
BPT	Beach Energy Ltd	Energy	$1.44	$1.58	7.0	5.1%	16%	13%	11%	AAA
MQG	Macquarie Group Ltd	Financials	$196.64	$219.57	20.1	3.2%	3%	11%	17%	AA
SUN	Suncorp Group Ltd	Financials	$19.23	$21.70	15.8	5.3%	7%	12%	-3%	AAA
COH	Cochlear	Health Care	$262.30	$288.99	41.8	1.7%	27%	22%	14%	AAA
RMD	ResMed Inc	Health Care	$34.96	$44.41	23.0	0.6%	30%	26%	10%	A
CSL	CSL Ltd	Health Care	$249.28	$318.70	23.9	1.2%	14%	17%	13%	AA
MND	Monadelphous Group	Industrials	$15.33	$16.12	19.2	4.5%	20%	16%	3%	AAA
BXB	Brambles Ltd	Industrials	$20.03	$21.31	20.5	1.9%	21%	27%	11%	AAA
XRO	Xero Ltd	Info. Tech.	$154.75	$183.93	107.5	0.0%	14%	15%	55%	AA
IGO	IGO Ltd	Materials	$3.96	$5.32	na	0.7%	-6%	-12%	-275%	AAA
JHX	James Hardie Industries	Materials	$38.48	$49.49	16.1	0.0%	39%	32%	8%	AA
GMG	Goodman Group	Real Estate	$28.43	$37.34	23.8	1.1%	11%	11%	10%	AA
APA	APA Group	Utilities	$7.90	$8.27	64.2	7.2%	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 31 March 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. It has a multi-decade runway for high-single digit implant growth, along with growing contribution from system upgrades within its installed base.

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.

James Hardie Group (JHX AU) – Buy. The recent $14bn AZEK acquisition led the stock off ~20% in the following 2 days. It now trades at a single digit EV/EBITDA multiple not seen since COVID and 2022 during a rate hiking cycle. The current trough in US housing is the right time to be executing such an acquisition, and JHX has historically been an astute allocator of capital.

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	$19.23	$21.70	15.8	1.4	100%	5.3%	-10.7%	AAA
MQG	Macquarie Group Ltd	Financials	$196.64	$219.57	20.1	2.2	35%	3.2%	14.2%	AA
ANZ	ANZ Group Holdings	Financials	$29.09	$29.38	12.4	1.2	100%	5.8%	1.2%	AA
QBE	QBE Insurance Group Ltd	Financials	$21.90	$22.83	11.5	1.9	20%	3.4%	5.0%	AAA
COL	Coles Group Ltd	Cons. Staples	$19.53	$20.57	23.9	7.0	100%	3.5%	12.6%	AA
MTS	Metcash Ltd	Cons. Staples	$3.16	$3.80	12.7	2.2	100%	5.6%	9.6%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc	$4.76	$5.44	29.2	35.6	100%	3.4%	10.4%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc	$0.59	$0.71	32.8	1.1	0%	2.4%	28.6%	AA
TLS	Telstra Group Ltd	Com. Services	$4.21	$4.38	22.0	3.3	100%	4.5%	6.8%	AA
CAR	CAR Group Ltd	Com. Services	$31.49	$39.36	31.4	3.9	0%	2.5%	13.2%	A
RMD	ResMed Inc	Health Care	$34.96	$44.41	23.0	6.3	100%	0.6%	9.7%	A
PME	Pro Medicus Ltd	Health Care	$199.79	$253.95	182.5	93.9	100%	0.3%	41.4%	BBB
REP	RAM Essential Services	Real Estate	$0.58	$0.73	14.1	1.3	0%	8.6%	2.0%	-
MGR	Mirvac Group	Real Estate	$2.09	$2.32	17.1	0.9	0%	4.4%	5.5%	AA
IRE	IRESS Ltd	IT	$8.10	$9.45	22.9	4.0	0%	2.7%	24.8%	AA
DBI	Dalrymple Bay Infra	Industrials	$3.85	$4.09	20.2	1.8	65%	6.1%	3.8%	-
ALX	Atlas Arteria Ltd	Industrials	$4.85	$5.43	17.4	1.1	0%	8.2%	-0.7%	AA
APA	APA Group	Utilities	$7.90	$8.27	64.2	3.7	0%	7.2%	1.4%	AAA
ALD	Ampol Ltd	Energy	$23.42	$31.58	12.8	1.8	100%	5.3%	27.9%	AA
BPT	Beach Energy Ltd	Energy	$1.44	$1.58	7.0	0.9	100%	5.1%	31.5%	AAA
BHP	BHP Group Ltd	Materials	$38.20	$44.30	10.8	2.7	100%	2.9%	5.4%	A
AMC	Amcor PLC	Materials	$15.34	$17.42	13.0	3.7	0%	3.3%	2.4%	A

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

Pro Medicus (PME AU) – Buy. The stock is back ~30% with no change to the fundamental outlook. It is long duration, and so sell-offs are not rare, however, they have always been an excellent time to allocate. Growth is accelerating (+30%) and EBITDA margins expanding (>80%) as PME continues to announce contract wins and its TAM expands to new verticals.

Ampol (ALD AU) – Buy. Its drawdown is now approaching that of COVID, which was the catalyst for the Fuel Security Services Payment and a minimum refining margin. On a relative basis to the ASX, this is the cheapest since the GFC. A recovery in refining margins should reduce leverage to target range of 2.0-2.5x and increase payout ratio to the high end of the range.

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	154.79	217.00	16.9	0.5	1,896,607	BBB
UMG NA	Universal Music Group	Com. Services	EUR	25.43	30.02	24.2	2.5	50,332	AA
DIS US	Walt Disney Co/The	Com. Services	USD	98.51	126.67	18.0	1.1	178,085	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	128.00	164.31	14.8	0.6	312,551	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	63.63	81.34	29.7	2.5	94,117	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	98.00	107.00	33.3	2.7	111,318	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	119.09	159.33	27.0	0.0	76,411	BB
RMS FP	Hermes International	Consumer Disc.	EUR	2411.00	2659.50	51.4	1.0	275,297	BB
COST US	Costco Wholesale Corp	Consumer Staples	USD	945.13	1063.88	52.1	0.5	419,338	A
288 HK	WH Group Ltd	Consumer Staples	HKD	7.14	8.49	7.9	0.8	11,772	–
SHEL LN	Shell PLC	Energy	GBP	2825.00	3205.40	10.0	0.1	219,585	AA
LSEG LN	London Stock Exchange	Financials	GBP	11460.00	12864.85	28.2	1.4	78,516	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	72.08	77.70	9.7	5.5	56,342	AA
WFC US	Wells Fargo & Co	Financials	USD	71.55	83.50	12.3	2.6	233,720	BB
2318 HK	Ping An Insurance Group	Financials	HKD	46.30	61.74	5.7	6.1	120,882	A
939 HK	China Construction Bank	Financials	HKD	6.88	8.18	4.8	6.1	224,227	AA
MA US	Mastercard Inc	Financials	USD	547.63	627.33	34.5	0.6	499,279	AA
JNJ US	Johnson & Johnson	Health Care	USD	165.90	170.05	15.7	3.2	399,794	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	469.80	780.05	17.2	3.5	304,105	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	494.58	620.63	62.7	0.0	177,195	A
EXPN LN	Experian PLC	Industrials	GBP	3568.00	4338.31	29.8	0.0	42,318	A
DSV DC	DSV A/S	Industrials	DKK	1332.50	1811.00	23.8	0.7	46,448	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	910.00	1440.66	15.2	2.1	710,850	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	606.00	844.60	24.9	1.4	258,136	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	375.94	505.16	28.6	0.9	2,794,917	AA
ACN US	Accenture PLC	Information Tech.	USD	311.51	365.79	24.5	2.0	195,063	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	348.46	386.96	29.0	1.0	87,641	A
EQIX US	Equinix Inc	Real Estate	USD	813.14	1019.43	61.0	2.5	79,145	AA
ORSTED DC	Orsted AS	Utilities	DKK	301.40	360.29	na	3.6	18,369	AAA
		Average Yield:					**1.9%**		

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 March 2025. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing - Inflation

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	235.87	250.48	32.8	0.0	2,480,176	BBB
BABA US	Alibaba Group	Cons. Disc.	USD	102.84	119.68	10.6	6.8	244,640	BBB
EBAY US	eBay Inc	Cons. Disc.	USD	67.86	63.81	13.1	1.7	32,505	A
WMT US	Walmart Inc	Cons. Staples	USD	98.80	99.90	35.6	0.9	793,658	BBB
SHEL LN	Shell PLC	Energy	GBP	2663.00	3149.68	8.5	0.1	201,876	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.52	1.58	6.3	6.9	2,156	N.S.
LLOY LN	Lloyds Banking Group	Financials	GBP	62.34	65.76	9.3	0.1	47,088	AA
DSV DC	DSV A/S	Industrials	DKK	1456.00	1836.58	24.1	0.5	48,932	AA
KNIN SW	Kuehne + Nagel	Industrials	CHF	209.20	221.60	20.4	3.7	27,809	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	35.06	41.67	11.0	5.4	43,881	A
DE US	Deere & Co	Industrials	USD	482.62	477.55	21.5	1.4	131,442	AA
BXB AU	Brambles Ltd	Industrials	AUD	19.82	20.59	17.9	2.1	17,100	AAA
WTC AU	WiseTech Global Ltd	IT	AUD	123.94	132.46	79.3	0.3	25,863	AAA
ACN US	Accenture PLC	IT	USD	381.88	398.60	27.3	1.6	238,944	AA
INTC US	Intel Corp	IT	USD	20.00	23.68	22.9	0.6	86,282	AAA
SAP GY	SAP SE	IT	EUR	268.05	275.93	35.3	1.0	343,460	AAA
GMG AU	Goodman Group	Real Estate	AUD	35.94	38.85	26.4	0.9	42,864	AA
PLD US	Prologis Inc	Real Estate	USD	120.74	129.08	36.8	3.6	111,826	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 31 March 2025. ESG is environmental, social, and corporate governance.

Important information

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