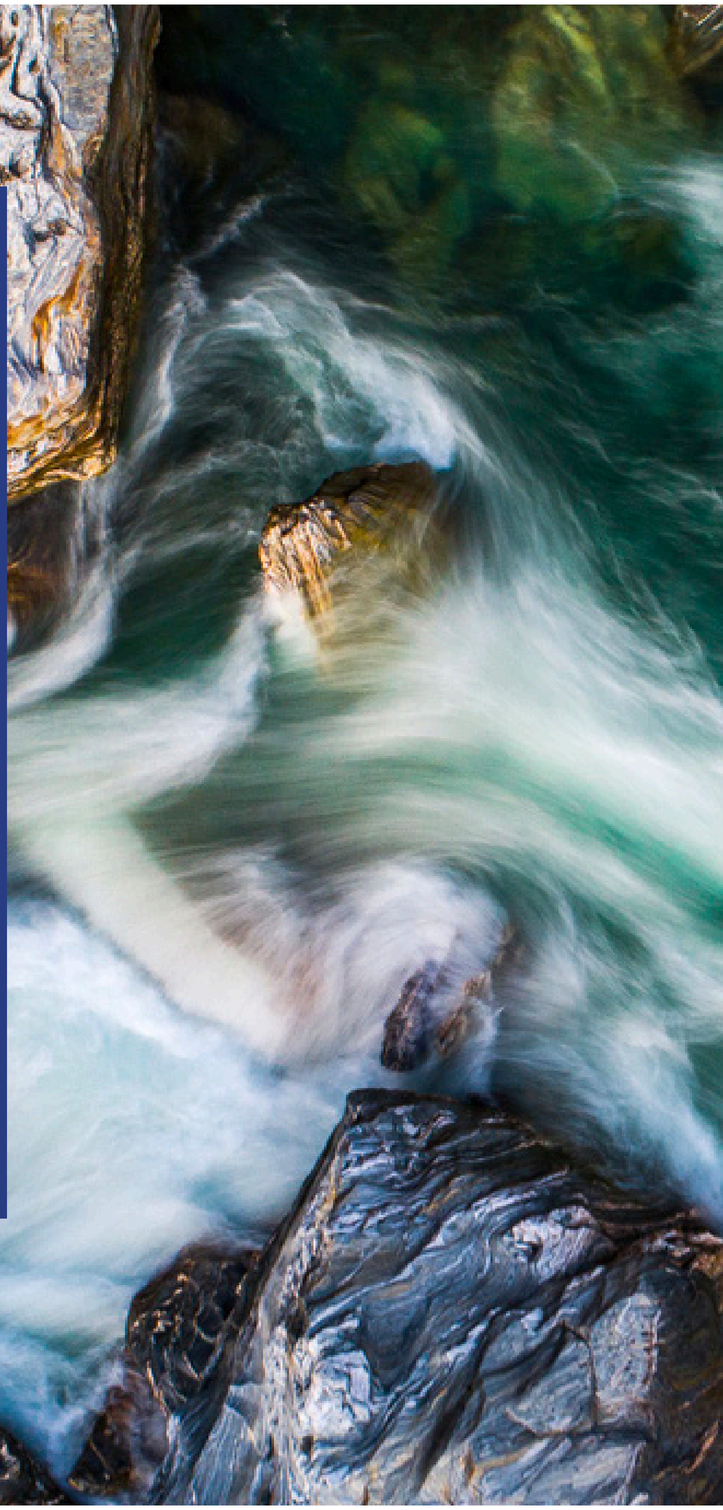
Outlook 2025

Navigating disruption, discovering opportunity



Core Offerings

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

December 2024 / January 2025

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Navigating disruption, discovering opportunity

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICE

Scott Haslem
Chief Investment Officer

Our call to arms at the outset of 2024 was to 'lean into risk'. Many of the positive market drivers that encouraged that perspective will, fortuitously, continue as 2025 gets under way—growth is slowing but not collapsing, inflation continues to moderate toward targets, and most central banks are now lowering interest rates. Such a benevolent 'macro' backdrop delivers a strong foundation for what could be another year of robust returns.

Yet, 2025 will see investors confronted by a new set of forces to navigate. As this year of elections draws to a close, the 'red wave' across the US has undoubtedly proved the most impactful. Uncertainties surrounding US trade policy, immigration, fiscal spending, tax cuts, and deregulation are set to challenge this otherwise benign macro outlook.

Thus, we enter 2025 still tactically leaning into equities, a posture that has heartily protected returns as we have traversed 2024. But we also recognise that the sequence and substance of new US policies (and the world's response to them) has the potential to deliver a year of more meaningful market volatility and less buoyant returns. Indeed, 2025 may be less about leaning into risk (to harvest upward market trends) and more about a willingness to actively discover opportunity during dislocation across a (likely needed) diversified portfolio.

There's little not to like with the macro backdrop…

"The fundamentals of the global economy are improving. The inflation and interest rate shocks of the last two years are subsiding, real incomes are growing at the fastest pace in 20 years, and there are signs that housing markets are starting to turn".

UBS Investment Bank
November 2024

As UBS notes in its 2025 outlook, "the fundamentals of the global economy are improving". That said, the outlook remains for slower world growth, even as the moderation proves more tepid than earlier forecast by many (as policy eases gradually and the threat of a trade war looms). To this end, 2025 has the potential to deliver modest sub-trend growth, moderately lower interest rates, and more modest investment returns than 2024. Consensus has coalesced around a 3.1% world growth forecast for 2024, 2025 and 2026, a little below the long-term average near 3.5%. This view is also reflected in the 'steady growth' outlook of Société Générale (SG). In contrast, UBS targets a more definitive call for weakness later in 2026 (at just 2.6%), as the impacts of a trade war weigh on activity.

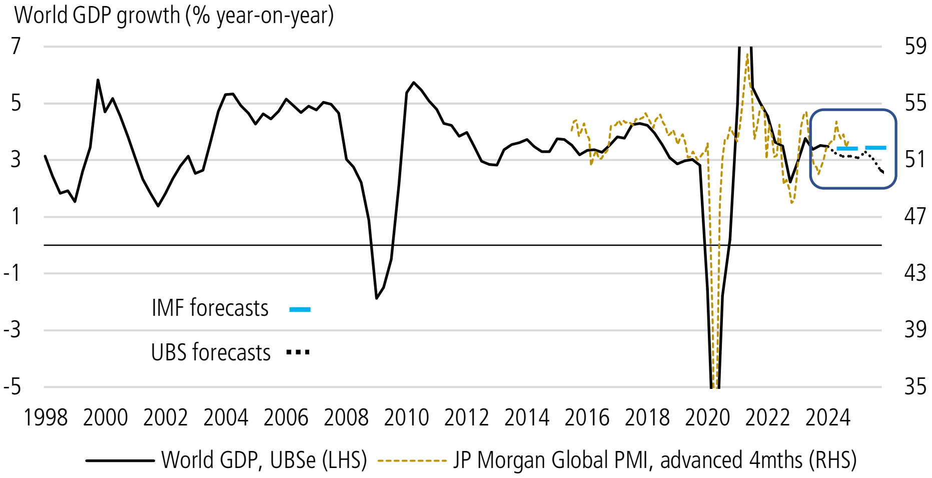
There is also greater regional dispersion than we have become accustomed to. The US economy is on a slowly slowing path, while Europe and the UK face patchy recoveries post their late 2023 recessions. Optimism regarding Japan's ability to sustainably exit from decades of deflation is mirrored by concerns surrounding China's persistent property headwinds (and the prospects for sharply higher US tariffs). For Australia, a stalled (private) economy may deliver improving sub-trend growth through 2025, as lagged rate cuts arrive. For emerging markets, their vulnerability to a trade war during 2025 is hard to ignore.

While inflation remains a little above most central bank targets, slower growth should foster further rate cuts in H1 2025, albeit markets have begun to fret that the extent of any easing may disappoint. Uncertainties surrounding a Trump presidency (a mix of positive and negative forces) must also be viewed in tandem with the positive secular themes in artificial intelligence (AI) and the energy transition, along with the potential for more China stimulus.

"The new incoming [Trump} Administration is business friendly and will implement deregulation, fiscal stimulus and deliver smaller government, while the US private sector is primed to grow."

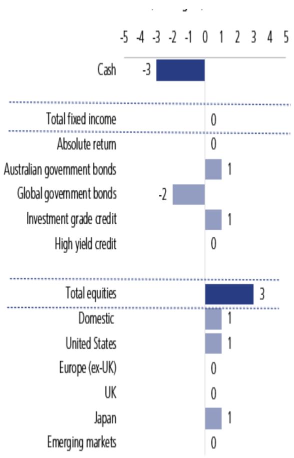
Longview Economics
November 2024

The inflation and interest rate shocks of the last two years are subsiding



Source: LGT Crestone and Macrobond, IMF, UBS.

Our latest tactical asset allocation positions (%)



Source: LGT Crestone.
1 December 2024.

Tactically constructive as we enter 2025…but we are on watch

While expectations through 2024 largely centred on the November US election delivering a Republican Trump presidency, the extent to which this could shift the narrative was widely anticipated to be constrained by a close contest and a split Congress. However, former President Trump's strong showing across both the popular vote and Congress has laid the foundation for a more significant policy upheaval post Trump's January 2025 inauguration.

There is a range of policies that have the potential to disrupt, including heightened tariffs that could spark a global trade war, initially reversing disinflation trends and challenging the outlook for lower rates. There are other policies that promote tax cuts, which will likely drive consumer and business activity stronger than originally anticipated, but may also add to the angst about fiscal ill-discipline, ultimately threatening the ire of the bond market. Whether 'talk' of government efficiency actually eventuates, or the reality that tariffs ultimately do destroy consumer demand, will also impact market outcomes (as could a slower pace of immigration, over time). Policies targeting climate transition will likely remain largely unscathed, but particular measures for selected sectors may be under threat.

For investors, sequencing the impact (and announcement) of these policies will be key to market outcomes. We expect the first half of 2025 to be focused on tariff announcements and measures to target (and slow) immigration, with the impact on growth and inflation likely to be evident only from mid-year. In contrast, legislation around lower taxes is unlikely to be formalised until the northern Autumn (Q3 2025), and the impacts (apart from confidence) more likely evident from to appear from 2026.

Former President Trump's strong showing, across both the popular vote and Congress, has laid the foundation for a more significant policy upheaval post Trump's January 2025 inauguration.

Notwithstanding Trump's strong electoral mandate, we still expect constraints to influence outcomes. The incoming president remains sensitive to equity market movements (which are, in turn, vulnerable to decisions that create inflation risk), while the bond market will play a key role in constraining poor fiscal decisions. There are procedural matters associated with introducing tariffs, which take time and allow for negotiations. And as the chart below reveals, Trump has shown his willingness to shift the narrative—in this case toward focusing on fiscal efficiency—as the consumer mood toward ballooning deficits sours.

As discussed below, there remains some chance the market may only experience political 'flesh wounds' as 2025 progresses, ducking and weaving through the various policy ups and downs, announcements and likely un-announcements, tweets and such.

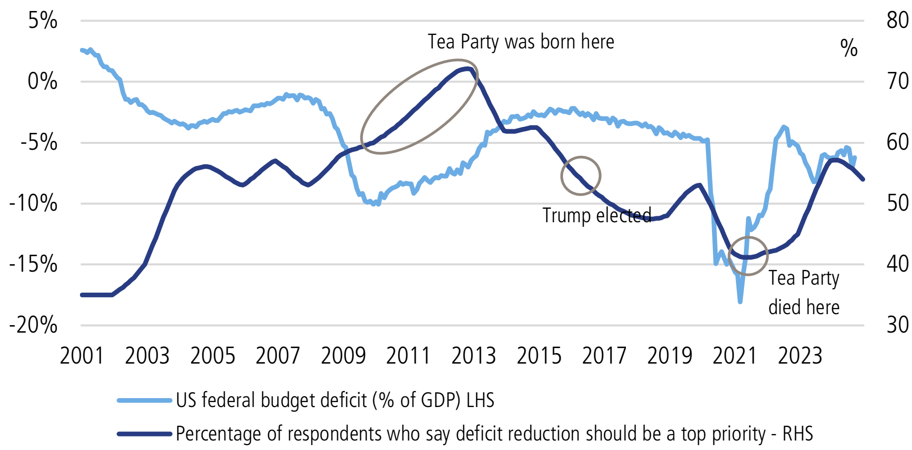
For now (as shown above left), we stay tactically constructive, remaining overweight US, Japan and domestic equities as central banks remain proactive in trimming interest rates and economic growth remains resilient (albeit slowing). While we are slightly underweight government bonds, we are conscious the peak in yields has likely been set. However, given a near-term concern about US fiscal largesse, we are choosing to seek return in investment grade credit, supported by a soft-ish economic landing. Alternatives remain a favoured destination for limiting volatility in the year ahead, as well as mitigating the impacts of inflation, which we continue to expect to settle at a pace higher than past decades.

Navigating disruption – abstracting from the noise will be key

As noted, there is a range of disruptions investors will need to navigate through 2025 and 2026. In each case, we suggest the opening salvo will typically be at the extreme end of outcomes, and the constraints and the 'learnings' by the administration will likely result in outcomes that, at the margin, may have less material ongoing market impacts.

For investors, sequencing the impact (and announcement) of these policies will be key to market outcomes. We expect H1 2025 to be focused on tariff announcements and measures to target (and slow) immigration, while legislation around deregulation and lower taxes is unlikely to be formalised until H2 2025.

Trump is flexible and reacting to consumer concerns about deficits



Source: Pew Research, BEA, USS Department of Treasury, Macrobond.

“I would recommend that tariffs be layered in gradually. If you take that price adjustment coupled with all the other disinflationary things that president Trump is talking about, we’re going to be at or below the 2% inflation target again”

Scott Bessent, Treasury nominee on CNBC October 2024

Notwithstanding the market has already removed arguably ‘too much’ Fed easing, we do anticipate the risk that around mid-2025, US Fed Chair Powell will get ‘stopped out’ on the full extent of his planned rate cuts. But we expect that to be largely driven by better-than-expected growth not reaccelerating inflation.

Geo-political disruption—The opening salvo from the Trump presidency is undoubtedly ‘isolationism’. Make America Great Again—MAGA. This aligns with the US playing a reduced role in regional ‘police-keeping’, perceptions of dysfunction in the Middle East, and aggressive mercantilistic trade tactics toward China (and just about everyone else).

However, the underlying geo-political environment may be less disruptive than consensus assumes, providing buying opportunities at moments in time. Trump has a penchant to focus on ‘deals’ and while disruption will likely be the initial event, more market-friendly solutions (trade deals, military truces, and energy agreements) may also be forthcoming.

Trade disruption—The opening salvo is tariffs for everyone, reversing globalisation to the 1920s. This will likely involve retaliatory tariffs from key trading partners that escalate to a tit-for-tat global trade war. An initial inflation spike that limits further rate cuts (or even drives US rate hikes) sends bond yields soaring and leads the world into recession.

Clearly possible. Yet, the reality is more likely to reflect that Trump was elected largely in response to cost-of-living pressures. Tariffs are paid by US consumers and inflation will emerge relatively quickly if they are put on. This suggests a more measured approach may arise. Tariffs at 60% for China may be introduced in stages to dilute the inflationary impact, while also making room for an early deal to be done. Similarly, the proposed 10% tariff on other nations is already being re-shaped to target selected industries instead. Trump’s use of tariffs as a negotiating tool also favours our equity bets of Australia and Japan.

Trump’s late November nomination of Scott Bessent for Treasury Secretary, who’s previously flagged ‘layering’ tariffs to reduce their inflationary impact, is an example of the evolution of Trump’s policies. Bessent’s hedge fund background and revealed bias toward deregulation to help business and mitigate inflation have been well received by markets, with bonds yields falling sharply on his nomination. This volatility may well continue.

Interest rates interruption—Here, the opening salvo is fiscal largesse and rising deficits, led by unfunded tax cuts, that drive inflation and bond yields higher, short-circuiting US rate cuts. Clearly, term premium has already risen as Trump was elected, and there is a risk of further increases. A steeper yield curve remains likely as fiscal pressure persists for years.

Still, notwithstanding the market has already removed arguably ‘too much’ easing from the US Federal Reserve (Fed, a positive for equities, should they be reinstated), we do anticipate the risk that around mid-2025, Fed Chair Powell will get ‘stopped out’ on the full extent of his planned rate cuts. However, we expect that to be largely driven by better-than-expected growth not reaccelerating inflation, a support for ongoing corporate earnings growth.

Moreover, Trump may be less fiscally profligate than first believed, especially with such a narrow Republican House majority and given the nature of his popular (cost-of-living and inflation) mandate. As a result, term premia may not rise as much as feared, moderating a potential headwind for financial markets.

Could it be a CMA year?...we think so.

In 2024, we focused on leaning into risk. Despite the benign macro backdrop, 2025 might be more attuned to ‘average’ returns – those aligned with our ‘capital market assumptions’ (CMAs), which for equities is around 7% (compared with 20% to date in 2024) and 4% for fixed income (only 2% year-to-date). 2024 was a year to harvest the beta in markets, given the persistent positive backdrop (that delivered short and limited market drawdowns). In 2025, volatility could lead to more meaningful market movements, while also presenting opportunities to be active and nimble through that volatility, rather than chasing rallies (as in 2024). Truly diversified portfolios are likely to re-establish their importance during 2025.

The outlook for equities – focus on a resilient earnings backdrop

For 2025, the set-up for global equities remains constructive, albeit complicated by the lack of a valuation cushion. This time last year, the MSCI World ex-Australia Index was trading at less than 17.0x 12-month forward earnings, broadly in line with its 10-year average. It's now at ~19.5x, and ranks in the top 15% of observations over the past decade. US equities have a price/earnings (P/E) ratio of 22x, ranking in the top 5% of readings over the past decade.

Despite this, we retain our overweight to equites, punctuated by an ongoing positive stance towards US equities. The benefits to the stock market under a Trump/Republican Congress are a lighter regulatory burden for many areas (real estate, energy, and financials), a reduction in the corporate tax rate, potentially to 15% from 21%, and a relatively closed economy that will prove more defensive in a world of escalating trade tensions (i.e. elevated tariffs). The extent to which the fiscal deficit can be contained, if at all, could go a long way to determining how much pressure the bond market puts on equity valuations.

For now, investors are right to focus on a resilient equity earnings backdrop, expanding use cases for Generative AI, tailwinds from lower front-end rates and a banking sector that may

We continue to advocate for an approach that invests 'beneath the index'. In H2 2024, the equal-weighted S&P outperformed the market-cap weighted S&P 500, value outperformed growth, and small and mid-cap equities outperformed their large-cap counterparts. We believe this outperformance can continue.

After a strong sell-off during Q4 2024, the 10-year US Treasury at 4.50% provided a good entry point for investors as global growth should slow below trend and inflation improve further…

…investment grade credit spreads are at decade tights, but should still return positive attribution to portfolios. Any widening of spreads should be more than offset by falling interest rates during H1 2025.

find itself with more excess capital under a Republican Administration than a Democratic one (and thus a greater willingness to extend credit at a time 'animal spirits' are resurfacing).

We continue to view Japan as a key overweight, driven most importantly by ongoing corporate governance reforms and an improving domestic macro environment and relative insulation from trade wars. Japan's valuations also sit around average levels. In contrast, while we are overweight Australia, the position is more challenged, reflecting a stretched banking sector, while the other 'barbell' of resources is confronted by fading hopes of a 'big-bang' China stimulus. Investors have recalibrated local rate cut expectations as well, with only two rate cuts priced for all of 2025. With a federal election looming in May, it's likely that the strongest gains for domestic equities may be behind us for the time being.

From a factor perspective, we continue to advocate for an approach that invests 'beneath the index'. In H2 2024, the equal-weighted S&P beat the market-cap weighted S&P500, value outperformed growth, and small and mid-cap equities outperformed their large cap counterparts. We believe this outperformance can continue during 2025, as lower rates, and more attractive valuations support continued rotation away from index-level investing.

Fixed income – a supportive environment

Bond markets in 2024 found it difficult to predict the path of easing, hindered by a strong US economy and sticky inflation locally. It was thus a year of peaks and troughs without an aggressive easing cycle. For 2025, Trump's re-election could create uncertainty and further near-term volatility as markets await action around trade, tax cuts, and immigration. But we believe these risks will not be as extreme as some predict. We expect markets will re-focus on macro data and monetary policies, with bonds likely to be less volatile in 2025, suggesting yields are close to their peak, a supportive environment for fixed income.

After a strong sell-off during Q4 2024, the 10-year US Treasury at 4.30% provided a good entry point for investors, as global growth should slow, and inflation improve further. While potential fiscal changes and tax cuts may re-ignite inflation fears down the track, the risk-reward of adding duration over the next six to 12 months is favourable. We have a bias towards domestic government bonds over global to take on duration, as the curve is positive and yields remain at or above the cash rate, the highest in the G10 countries.

Investment grade credit spreads are close to their tightest levels in the past decade, but should still return positive attribution to portfolios, particularly through any periods of potential market volatility. The emphasis will remain on the single A-rated subordinated tier II major banks as they continue to issue (replacing additional tier I hybrids). While we expect another year of robust issuance, attractive outright yields above 6% will be met with equal or greater demand. Any widening of spreads due to growth concerns should be more than offset by falling interest rates, as the focus will remain on rate cuts over H1 2025.

Alternatives – will private equity transaction activity improve

A key conversation for 2025 will be the extent to which private equity activity improves. According to Bain & Company, global deal count and exit count look set to equal the strong experience of 2023, while deal and exit values have seen marked increases of 18% and 17%, respectively. With interest rates falling, activity appears to be picking up, and should continue to do so through 2025. For investors, crucial will be whether increased activity translates to increased valuations. Data suggests holding values are relatively conservative immediately prior to exit, while look-through portfolio analysis of our core open-end positions implies meaningful (multiple) discounts to public comparables. While a single data point doesn't set a trend, we continue to advocate for maintaining and building private equity exposures.

Beyond private equity, private debt continues to offer attractive risk-adjusted returns, despite the falling interest rate trajectory. The excess returns of 2023 have passed, but prudently allocating to diversified exposures across both corporate and broader asset-based sectors is sensible. Private infrastructure also remains a key preference across risk spectrums, providing exposure to major structural themes, including decarbonisation and digitisation. We are also more constructive on real estate looking forward with data across both the US and Australia turning positive. Whilst sentiment is still mixed, particularly within office, 2025 presents an attractive deployment opportunity for long-term real estate positioning.

Moving to broader diversifiers, hedge funds have fared better in 2024 and have benefited from pockets of dislocation and dispersion in addition to higher interest rates. We believe it is important to maintain exposure to true diversifiers than can generate long-run equity-like returns (i.e., 6-10%), with lower correlation to traditional risk factors (equity and credit beta, and duration). So called, 'alternative alternatives', such as royalty and litigation finance, are also gaining traction given their return profile and lack of correlation to traditional and mainstream alternative assets.

What's driving our views

Maintaining a constructive stance as markets prepare for Trump 2.0

We maintain a broadly constructive macro view and, while we expect further moderation in global growth and inflation. The risk of a deeper slowdown remains modest. We are booking some profits this month on the post-election rally in the US dollar by closing our foreign currency overweight. As markets prepare to navigate Trump 2.0, we are constructively positioned but ready to respond to emerging risks and opportunities.

Can policymakers stick the landing? After a fast and steep hiking cycle, central bankers now need to calibrate policy to lower inflation without triggering a recession. There are political and geo-political risks, and the secular inflation outlook is volatile.

Four more years: Trump 2.0 heralds potential support for the economy but more political and geo-political uncertainty.

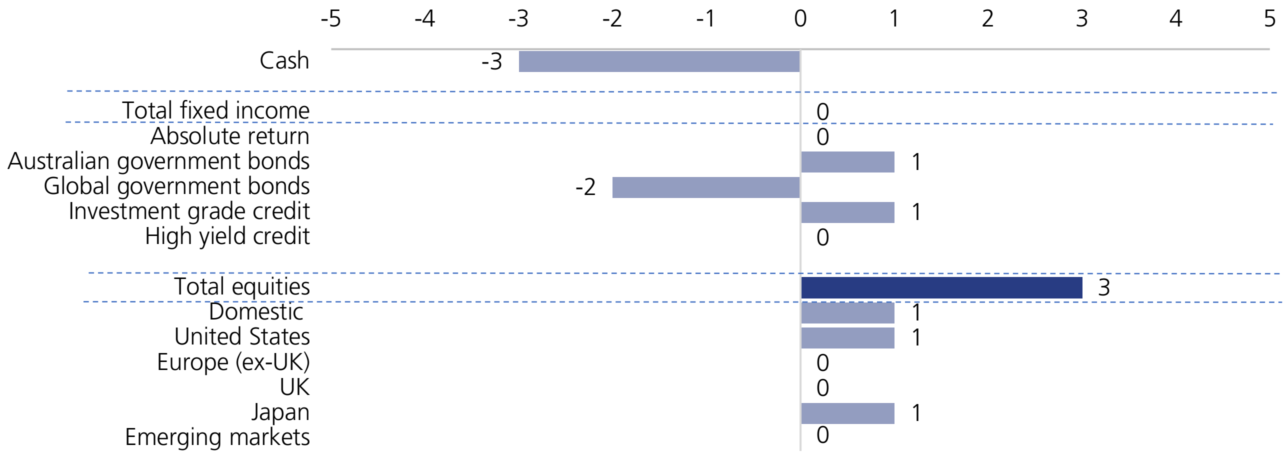
Diverging cycles: The US economy is resilient, but momentum has peaked, while Europe is struggling to emerge from recession. China faces key cyclical and structural challenges. How these macro dynamics play out will be a key driver for markets this year.

Fortune favours the flexible: With ongoing volatility and uncertainty, we believe it pays to be diversified, nimble, and flexible over the year ahead. Investors will benefit from prudently managing liquidity and investing with high quality active managers.

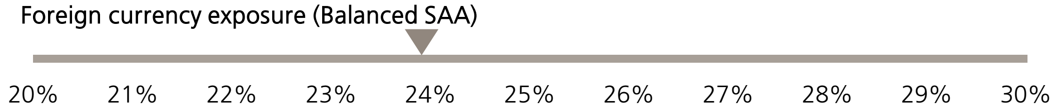
Structural thematics

Transitioning towards **multi-polarity** will likely create more volatility, presenting growth and opportunities for investors.	The trade-off between net-zero commitments, cost and energy security creates a **challenging energy transition**.	**Artificial intelligence** presents challenges and opportunities. Advances in pharmaceuticals are a constructive force for the long term.	**Higher rates** increase forward-looking returns across all asset classes, giving investors more options.

Tactical asset allocations (% weights)



Foreign currency exposure (Balanced SAA)



	What we like	What we don't like
Equities	■ Japanese equities with bottom-up corporate reform tailwinds. ■ Actively managed small and mid-cap equities. ■ Broader (non-mega cap) S&P 500 exposure.	■ Passive 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 fixed-rate 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. ■ 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

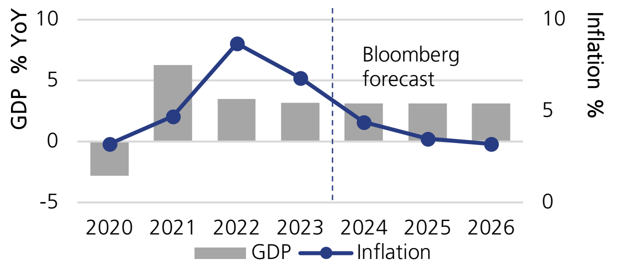
As UBS notes in its 2025 outlook, "the fundamentals of the global economy are improving. The inflation and interest rate shocks of the last two years are subsiding, real incomes are growing at the fastest pace in 20 years, and there are signs that housing markets are starting to turn". Still, the outlook remains for slower world growth, even as the moderation proves more tepid than earlier forecast by many (as policy eases gradually and the threat of a trade war looms). To this end, 2025 may deliver modest sub-trend growth, moderately lower interest rates, and more modest investment returns than 2024.

The US is on a slowing growth path, while Europe and the UK face patchy recoveries post their late-2023 recessions. Improving optimism regarding Japan's ability to sustainably exit decades of deflation is mirrored by concerns that headwinds for China from its still weakening property sector will be further hindered by the impact of sharply higher US tariffs. This is in the wake of former president Donald Trump's recent US election victory. For Australia, a still-strong jobs market masks a soft consumer, while in emerging markets, a recent slump in tech-sensitive trade is slowing exports and weighing on growth.

Inflation had come down notably over the past couple of years, and central banks have started cutting rates. However, inflation remains above most central bank targets. A further moderation in global growth and inflation in H2 2024 should foster ongoing easing into 2025, albeit markets have begun to fret that the extent of cutting may fall well short of expectations, given the threatened inflationary impacts of a trade war. As recently noted by the International Monetary Fund, despite a relatively constructive growth backdrop, the world faces rising geo-political risks and growth headwinds as it enters 2025. Downside risks include conflict in the Middle East, a deeper China property market contraction, and rising protectionism in global trade. These downside risks should be viewed in tandem with more positive secular themes around AI and the energy transition, and the potential for more China stimulus.

After a likely 3.1% in 2024, consensus expects global growth to be little changed at 3.1% in 2025 and 2026, modestly below the long-term average of around 3.5%. UBS has trimmed 2025 growth to 3.0% and 2026 to 2.6%. This is below consensus and driven by the prospect of a trade war from mid-2025.

Global GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Australia

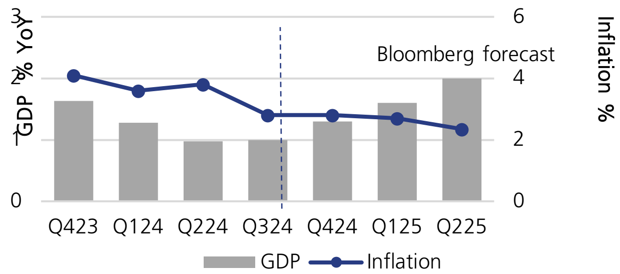
Growth has slowed sharply into mid-2024, to a well-below trend pace of around 1%, its weakest since the 1990/91 recession (excluding the pandemic). The boom in population growth (at over 2%) masks an even sharper easing in Australia's growth momentum following the significant rise in interest rates through 2022 and 2023. Yet, with a recession avoided, and significant mid-year fiscal stimulus supporting consumer spending ahead (and government spending also driving infrastructure and a strong jobs market) growth is expected to trend higher in 2025. However, the risk of persistent above-target inflation and slower-than-anticipated interest rate cuts suggest growth may stay below trend. A weak China backdrop and risks of a tariff war could also expose growth to more significant headwinds.

Growth in Q2 remained weak, at just 0.2%, with the annual pace slowing to 1.0% from 1.3% (well below trend of 2.5%). Much of this growth is sourced from government consumption (up 1.4% over the year). Q3 data retains a mixed tone, though likely shows some improvement. Retail sales edged up only 0.1% in September (after a strong 0.7%) and according to UBS, "still improving in recent months". Similarly, jobs data missed expectations, rising just 15,900 in October – its slowest since March 2024 (albeit unemployment remained unchanged at 4.1%). Q3 wages growth also slowed more than expected, easing to 3.5% from 4.1%, its slowest since early 2022.

Government subsidies have driven a marked deceleration in Q3 headline inflation, which fell to 2.8% from 3.8%, placing it within the Reserve Bank of Australia's (RBA) 2-3% target for the first time since 2021. However, core inflation remained elevated at 3.5% in Q3 (down from 3.9%). Comments from RBA officials remain hawkish. Nonetheless, after holding rates steady in November, the RBA noted that "it is important to remain forward looking, avoiding an excessive reliance on backward-looking information". This may reflect the recently weaker jobs and wages print. CBA expects the first cut in February 2025, while UBS and Barrenjoey have recently delayed until May, with only 0.75% of cuts forecast in 2025.

After expected growth of 1.2% in 2024, UBS sees it strengthening to 2.0% in 2025 and 2.2% in 2026. CBA sees slightly slower growth of 1.8% in 2025 and 1.9% in 2026.

Australian GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Economic outlook

United States

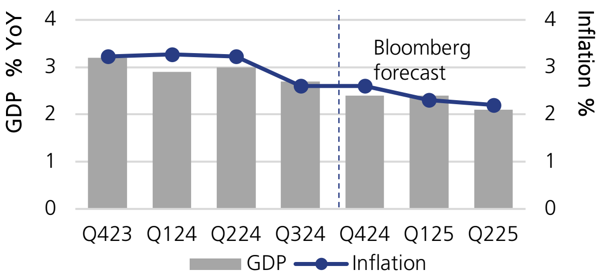
The outlook for the US, and arguably the global economy, has become somewhat more uncertain for 2025 and beyond in the wake of a 'red wave' in the US presidential election. In terms of current trends, recent soft jobs data reinforce our assessment of a slowing US economy, but one that remains on track to 'soft land'. Inflation looks set to move sideways into year-end, as widely expected, before further easing toward the target for core inflation during H1 2025. This should open the way for additional moderate interest rate easing. But uncertainty over US trade policy (tariff hikes) in 2025, potential retaliation from trading partners, and uncertainty around any success in trimming government spending, cutting taxes or the inflationary impact of these collective policies, flag the risk of alternative economic outcomes as the year unfolds.

Growth rose by a robust 0.7% (2.8% annualised) in Q3, little changed from Q2's 3.0% pace. The consumer was the key driver, up a 'punchy' 3.5%, led by spending on goods. Retail sales (core) rose 0.1% in October, a strong result post the prior month's 1.2% surge. Jobs reports continue to be volatile, though trending slower, with just 12,000 jobs in October after 233,000, with unemployment unchanged at 4.1%. October's composite Purchasing Managers' Index (PMI) moved higher to 55.3 (from 54.1), and the manufacturing indicator edged higher to a still subdued 48.8. UBS expects growth in the next several quarters to drop below 2%, supporting a slower 2025.

Progress on inflation has somewhat stalled over September and October, lifting from 2.4% to 2.6%, while core was unchanged at 3.3%. At its November meeting, the Fed cut the policy rate by 0.25% to 4.25-4.50%, its second cut for the cycle. The Fed maintained its assessment that "the risks to achieving [its] employment and inflation goals are roughly in balance". Subsequent comments by Chair Powell suggested a degree of patience had reemerged, adding some uncertainty around whether the next cut would be in December, ahead of a still likely lower path through 2025.

After likely strong growth of 2.7% in 2024, UBS sees slower growth of 2.0% and 1.6% in 2025 and 2026, respectively. CBA holds a similar view for 2025, but now forecasts a pick-up in 2026 (2.4%). SG expects a less marked slowing in 2025 to 2.2%, before easing to 1.8% in 2026.

US GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Europe

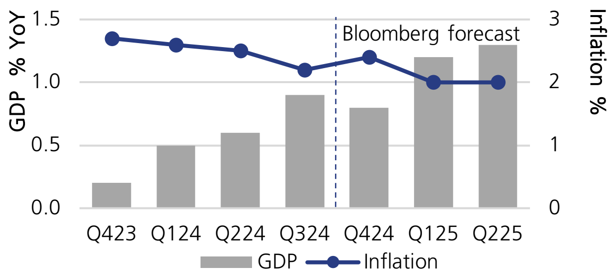
Recent data continue to reveal a loss of momentum in the European economy, post the exit from recession in H1 2024. Over coming quarters, activity will continue to be pressured by still restrictive monetary policy, tightening fiscal policy, and a subdued external environment (including weak China demand). However, as 2025 unfolds, a still tight jobs market and solid wage growth is expected to aid consumer spending and growth more broadly. Further reductions in interest rates, as inflation trends lower, are also likely to assist growth higher into 2026. While Europe remains exposed to geo-political risks (including a trade war), growth should steady at around its current trend before lifting further during 2025 and into 2026.

Growth surprised positively in Q3, up 0.4%, a little above Q2's tepid 0.2% pace, and lifting the annual pace to 0.9% from 0.6%. The biggest upside surprises came from Spain (at 0.8%) and Germany (at 0.2%, against expectations for a contraction). However, early Q4 data has been mixed. The composite PMI eased to 48.1 in November (from (50.0), while consumer confidence fell. Retail sales rose again in September by 0.5% - its third consecutive gain – lifting the annual pace to almost 3%, its fastest since mid-2022. The jobs market remains firm, with unemployment unchanged at an all-time low of 6.3%.

Inflation continued to trend lower, albeit moving higher to 2.0% (from 1.7%) in October, to be in line with the European Central Bank's (ECB) 2% target. The core measure was unchanged at 2.7%. The ECB cut rates for the second month in October, taking the key (deposit) policy rate to 3.25%. According to CBA, "the post meeting statement noted downside surprises to the Eurozone economic activity data", while SG notes that "there was no particular attempt by President Lagarde to push back on the market's expectations for continued cuts over the coming months." Still, post the US election, ECB Governing Council member Nagel said trade tension could lead to higher inflation and the need for higher interest rates, seeing some hawkish repricing of ECB rates.

After relatively soft growth of 1.0% in 2024, UBS expects a modest acceleration of growth to 1.3% in 2025 and 1.4% in 2026. SG and CBA have a mildly more modest outlook, with growth expected to strengthen to only around 1.0% in 2025.

European GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Economic outlook

United Kingdom

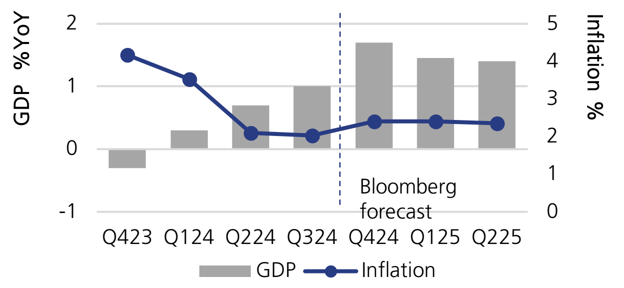
After rebounding strongly from H2 2023's recession, the UK economy appears to have lost some momentum during H2 2024. Nonetheless, while financial conditions remain relatively tight, underlying inflation continues to trend lower and wages growth is moderating, opening the way for further monetary easing 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 Q3 was disappointing, rising just 0.1% (after Q2's 0.5% gain). Positively, underlying momentum was stronger, with growth underpinned by a pick-up in consumer spending and private capex, while trade also added to growth. Early Q4 data continues to reveal weaker activity. Retail sales fell 0.7% in October, reversing gains over the prior two months. The PMI eased further to 49.9 from 51.8 in November, trending lower (and drifting below the key breakeven 50 mark). And November's jobs report revealed further easing, with jobs growth slowing as unemployment rose to 4.3% from 4.0%.

Inflation, in underlying terms, continues to trend gradually lower, albeit it remained above the Bank of England's (BoE) 2% target in October at 3.3% (up from 3.2% prior). At a headline level, inflation jumped from 1.7% to 2.3% as tariff hikes on gas and electricity impacted, while services gave back some of their recent improvement. Inflation is expected to remain elevated into year-end before a further moderation in 2025. The BoE, as widely expected, cut the policy rate by 0.25% to 4.75% in early November. However, consistent with no further cuts in 2024, the BoE reiterated its message of gradualism, noting that "based on the evolving evidence, a gradual approach to removing policy restraint remains appropriate". UBS expects 1.5% of cuts in 2025 (to 3.25%), with markets pricing a more modest easing near 0.75% (largely on the back of the inflationary threat of a trade war).

After likely growth of 0.9% in 2024, UBS expects an ongoing recovery to 1.5% in 2025 (and 1.3% in 2026), similar to SG at 1.6% and 1.3%, respectively. CBA also expects similar growth of 1.6% and 1.5% across 2025 and 2026.

UK GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Japan

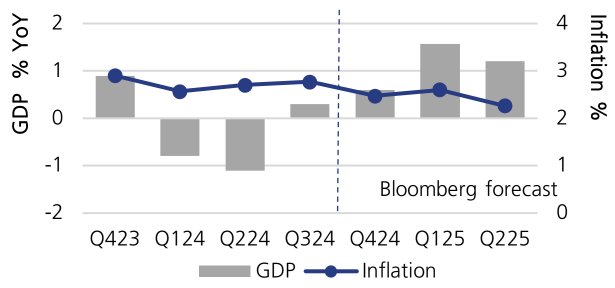
Ongoing better data over recent quarters, led particularly by the consumer, continues to build optimism that Japan is on a path to successfully transition from secular stagnation to nominal recovery. The continued recovery in wages growth is viewed as critical in this process, and key to supporting firmer 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 comprising of 2% inflation and 1% real activity, a backdrop that should support further increases in interest rates during 2025 (amidst a globally lower trend).

Growth rose by 0.2% in Q3, building on the 0.5% gain in Q2, and lifting the annual pace into positive territory (to +0.3% from -1.1%). Consumer spending was stronger than expected, rising 0.5%, offset in part by weaker-than-expected exports (falling 0.4%). Early Q4 data has been mixed. After weakening in October, the November PMI remained below the key break-even 50 mark (edging up to 49.8 from 49.6). Retail sales also fell 2.3% in September after five months of gains. In contrast, the jobs market remains tight, with unemployment edging lower to 2.4%, its lowest in a year and wage growth is solid.

Inflation fell to 2.3% in October (from 2.5%), its lowest since January (core fell from 2.4% to 2.3%). Following an unexpected policy hike to 0.25% from 0.15% in July, the Bank of Japan (BoJ) has stayed on hold. At the late October meeting, BoJ Governor Ueda fell short of hinting at a rate hike in December. Instead, he repeated that the timing of rate hikes will "depend on developments in economic activity and prices as well as financial conditions". Markets have priced less than one hike in 2025, albeit UBS expects three hikes to 1.0%.

After the recovery disappointed in 2024, with growth easing by a likely 0.2% on early-year weakness, recent momentum sees UBS expecting growth to lift to 1.1% in 2025 (and 0.6% in 2026 as tariffs impact global trade). SG expects stronger demand from the consumer and better capex activity to drive a stronger pick-up to 1.3% for 2025 (and 1.1% in 2026).

Japanese GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Economic outlook

China

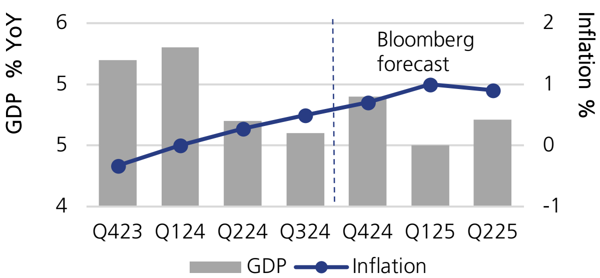
As SG notes in its outlook, "China's economy is in a fair amount of trouble". The continued deterioration in China's activity data in Q3 culminated in authorities announcing their most significant stimulus this cycle across both monetary and fiscal policy. Still, it remains unclear whether enough has been done to stabilise a still deteriorating property sector, and whether more support will be forthcoming as 2025 unfolds. Indeed, China's growth outlook has also likely deteriorated in the wake of the US presidential election. The prospect of sharp tariff hikes from the US is seeing analysts downgrade their forecasts. According to UBS, "a 60% tariff hike on about three quarters of US imports from China, announced in Q1 2025 but implemented in stages between Q325 and Q226" will lower growth by 1.5% across 2025 and 2026.

China's output eased to 4.6% in Q3 (after 4.7%), slightly better than the 4.4% consensus expected. Recent data has revealed a degree of stabilisation, with official October data building on the strength seen late in Q3, while daily high-frequency data continued that improvement through the first half of November. In October, retail sales picked up more than expected (from 3.2% to 4.8%), capex stabilised (unchanged at 3.4%, with slightly stronger manufacturing), while export activity also rebounded. While property sales also improved, starts and investment weakened further during October. On the inflation front, pressures remain weak, easing slightly to 0.3% from 0.4%, while producer prices stayed weak (-3%).

The anaemic economy has seen authorities recently announce a fresh set of more substantive measures, including a raft of monetary support (through reduced interest burdens) and, importantly, a significant shift in fiscal tone, including easing within the property sector. The Chinese government is likely to intensify policy support in 2025-26 to boost domestic demand and offset the negative impact of any tariff hikes. A weaker exchange rate may also eventuate through 2025 and 2026.

After a likely 4.8% in 2024, UBS has now reversed recent upgrades to the outlook, lowering 2025 from 4.5% to 4.0%, before flagging a relatively weak 3% pace for 2026, as the impact of tariffs plays through. SG has factored in a less sharp growth deterioration in 2026, with growth trending more gradually weaker to 4.7% in 2025 and 4.5% in 2026.

Chinese GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

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. However, in one direction, stronger-than-anticipated stimulus from China during 2025 could deliver an upside surprise for developing economies (and the global economy more broadly, including Australia and Europe). However, in the other direction, a more rapid impost of high US tariffs (likely from mid-2025) could see expected slower growth in 2026 advanced earlier into 2025.

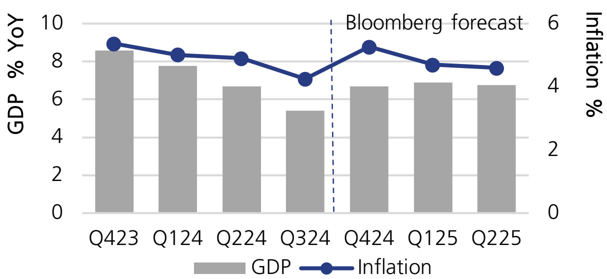
For Asia, absent a likely trade war, growth momentum was expected to be relatively steady in the year ahead. The more export-oriented economies are likely to bear the brunt of trade weakness, particularly the North Asian economies of Korea and Taiwan. Southeast Asia may prove more resilient, as stronger 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 relative to Asia's more open economies, "it is not immune" (according to UBS). Still, 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 a 7-8% to 6-7%). Overall, UBS expects Asia ex-China growth to slow from 5.4% in 2024 to 5.1%.

Latin America looks set to deliver another year or so of below trend growth, masking significant divergence across its key economies. Brazil, as a large relatively closed economy, is likely to be relatively less exposed to a weaker global manufacturing and trade cycle (though growth may still slow moderately as 2024's fiscal stimulus fades). In contrast, Mexico will be at the whim of US trade policy (and any potential tariff carve-out). Growth is stabilising elsewhere, but remains below trend.

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, reflecting below-trend growth in Latin America near 2%, emerging Europe near 3%, and Asia ex-China near 5%.

India GDP growth and inflation



Source: Bloomberg as of 30 November 2024.

Asset class outlook

Absolute return and government bonds

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

Key points

- We recommend maintaining a diversified portfolio of fixed and floating rate bonds.
- Bond yields have risen with stronger-than-expected data. We prefer Australian government bonds versus US Treasuries.

US markets contended with a lot in November - Donald Trump's re-election, as well as slower normalisation of global monetary policy influenced by CPI revisions and wage growth. Bond yields were volatile, with the 10-year US Treasury yield climbing 90 basis points (bps) from September lows, peaking at 4.50% in mid-November. While near-term inflation risks appear contained, potential tax cut extensions and tariff measures under Trump could reignite inflation down the line. The Fed is expected to cut the funds rate to a neutral level by 2025, but this is likely to be at a higher level than the market had priced in earlier this year. Current pricing reflects a 60% chance of a 25bps cut in December and one cut per quarter in 2025, bringing the terminal rate to approximately 3.50%. Despite peaking yields, the trajectory of global rates will hinge on data around growth, unemployment, and wages. Fed Chair Powell signalled a cautious approach to rate cuts, emphasising no urgency, given resilient economic signals.

Global disinflation is likely to persist, allowing central banks to gradually lower cash rates to neutral levels. For US Treasuries, the two to four-year segment is attractive, given its bull steepening trend, with yields expected to decline over the next six to 12 months as central banks ease moderately. Outside the US, central banks like the Reserve Bank of New Zealand and the ECB are cutting rates to counter weak growth. European bond yields remain lower, having already priced in rate cuts. Globally, monetary policy will remain data-driven, focused on inflation and labour markets to ensure a soft landing. High interest rates have helped tame inflation, with stronger labour markets pointing to a relatively smooth economic adjustment.

Domestic government bond yields are influenced by US rates, particularly at the longer end of the curve. However, as the RBA was less aggressive in raising rates and is likely to remain on hold for longer, the domestic yield curve has slightly outperformed the recent US Treasury sell-off. At 4.30%, the Australian 10-year yield is 15bps higher than its US equivalent. The RBA is unlikely to cut while services inflation is sticky, the labour market remains strong, and additional fiscal expenditure is expected in an upcoming election year. We do not expect rates to move till at least Q1 2025 (potentially as late as June 2025). With the 10-year yield also 14bps above the cash rate, in an expected easing monetary cycle early next year, we do not see yields hitting new highs. We recommend buying on price dips with the expectation that yields will be lower over the next three to six months.

Investment grade credit and high yield credit

Position: Overweight investment grade credit; neutral high yield credit

Key points

- We prefer investment grade bonds as inflation cools and downside risks to global growth moderate.
- High yield credit spreads are vulnerable to widening, but the quality has improved and demand for outright yields has risen, which is driving spreads lower.

Investment grade credit: In November, investment grade credit spreads remained stable after a spike in early August due to weaker US employment data. Concerns of growth and a hard landing have subsided following stronger data. Investment grade credit has reacted well with the investment grade bond index at historically tight levels of 77bps over US Treasuries. The impact of the US election on credit spreads has been minimal. Issuance in both the US and Europe has been healthy in November due to outright yields returning investor demand, with issuance increasing post the first week of November. As global central banks pick up the pace of easing later next year, spreads are likely to fall further in line with a more risk-on, soft landing environment. Staying in high quality bonds should protect portfolios if there is a significant growth slowdown as credit spreads may be at risk of widening, particularly in high yield sector. However, these are usually offset by falling interest rates.

Domestically, Tier II issuance was healthy in November as issuers took advantage of tightening credit spreads as higher yields drove investor demand. CBA issued a 15NC10 capturing AUD 4 billion of demand at swaps +165bps. Barclays issued a 10NC5 structure at swaps +200bps and a yield to call of 6.158%. We have seen a return of corporate issuance with names like Iberdrola, Scentre Group, and Port of Melbourne (Lonsdale Finance) issuing in Australian dollars.

High yield credit spreads have reacted well to recent economic conditions tightening 120bps since the recent highs in September. The threat of a potential economic slowdown disappeared after strong employment data, with economists forecasting a soft landing. This saw investor demand return and refinancing activity increase. The high yield sector still offers attractive yields, averaging around 7.50% in the US and 5.75% in Europe. This has attracted capital, despite historically low credit spreads. Recent data indicates that while many high yield issuers have improved their financial health by reducing leverage and extending maturities, certain sectors like communications remain vulnerable due to high leverage and low interest coverage. This could make them more susceptible to widening spreads if economic conditions deteriorate.

Overall, the outlook for high yield remains cautiously optimistic, especially in the BB-rated space, which has seen increased investor preference. However, risk-off investors are encouraged to focus on higher quality bonds and diversified portfolios as central banks move towards easing monetary policy in late 2024 and beyond.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- The S&P/ASX 200 Index gained 3.4% in November, elevating the index to a record high.
- At a sector level, performance was bifurcated and idiosyncratic. The cyclical materials sector was the worst performing sector, as China's lack of fresh stimulus weighed on sentiment towards the major miners.
- Conversely, the IT, utilities and financials sectors performed very strongly.

Unlike in the US, earnings revisions in Australia have been negative. This means index returns have been driven solely by multiples expansion. Analysis by JPMorgan indicates the primary driver of domestic returns has been a shrinking equity risk premium (ERP). In the US, it has been earnings-driven. Based on its research, the S&P/ASX 200 is baking in either a risk-free rate of 3.4% (currently 4.35%), an ERP of 4.7% (versus 3.3%), or earnings growth of approximately 10% (currently low single digit). For the index's P/E multiple to revert to historical 10-year averages, a three-year earnings per share (EPS) growth rate of 8.7% would be required, broadly in line with what the index is already factoring in.

Phrased differently, over the past two years there has been a distinct detachment between equity prices (moving up) and profit estimates (which have moved down). UBS notes that, historically, earnings downgrade cycles in Australia have exhausted themselves after two years. Consequently, it sees scope for upgrades next year. However, with valuations now stretched, in aggregate, the onus is on earnings doing the 'heavy lifting', as opposed to valuations expansion.

The breadth of negative revisions was less bad in September (-10%) relative to August (-22%). Unfortunately, aggregate earnings have continued to fall, with consensus 2025 EPS down 2.3% since results (after falling 6.5% in August). All but three sectors (technology, consumer staples, and utilities) have been downgraded since August. Health saw the largest EPS downgrades for 2025, partly due to the stronger Australian dollar (which has since weakened). Mining was second worst.

How the RBA responds to external conditions remains important. MST Marquee believes the probability of a February rate cut is materially higher than market pricing (40%) and believes investors need to position for a change now. In its opinion, US tariffs will put further pressure on the RBA to cut rates. Not only can tariffs on China be a potential terms-of-trade headwind for Australia, but Australia's exports to the US (worth approximately AUD 20 billion) could also attract a 10-20% tariff. This will be an additional growth shock for Australia and require further domestic stimulus, in MST Marquee's view. For now, investors are pricing a first rate cut in May and a follow-up cut in November.

International equities

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

Key points

- The MSCI World ex-Australia Index rose 4.5% in November, as optimism around the US economy under presidential nominee Donald Trump and Treasury Secretary Scott Bessent saw US equities rise to record highs.
- The appointment of Health Secretary nominee Robert F Kennedy Junior, as well as higher bond yields, weighed on the healthcare sector.

The initial reaction to Donald Trump's victory in the US presidential election was in line with expectations, and saw Japanese equities rise, boosted by a weakening yen. Emerging market equities moderately declined, with offshore Chinese equities underperforming. The clear benefits to the US stock market under a Trump presidency are a lighter regulatory burden for many areas (real estate, energy, and financials) and a reduction in the corporate tax rate, potentially to 15% from 21%. This has been costed as a $598 billion benefit over 10 years, or 1.4% of market cap.

In line with Trump 1.0, offshore Chinese equities were sharply down and underperformed the mainland market. Small caps (CSI 500 +0.3%) outperformed large caps. The difference this time is that tariffs could be introduced more quickly. In the first Trump administration, the US only implemented the first USD 50 billion tranche on 15 May 2018. This time, it is expected to be of a different magnitude: 60% versus 20% during Trump 1.0. The tariff threat is expected to exert downward pressure on Chinese growth. The mitigating factor would be a Chinese policy response, which is more focused on consumption. Tariffs could also accelerate China's policy push towards advanced manufacturing.

Investors are increasingly downbeat on European equities, citing pressures on the Eurozone economy, sizeable EPS downgrades, and geo-political risks. As such, the Stoxx 600 Index has lagged the S&P 500 Index by approximately 15% over the past five months, and 4% (8% in US dollar terms) since the US election. This is a historically large run of underperformance and on par with major crises. It is possible that bearish sentiment (and an underweight positioning) could pose upside risk for European equities. However, in order for this to occur, a less combative backdrop around trade negotiations, more targeted China stimulus, or a lower delta to US corporate earnings growth would be required. Investor confidence that this will happen is low, for now, but it is worth watching.

Most equity markets are trading on P/E multiples above their 10-year averages, with the exception of Europe and China. The US ranks among the most expensive (the S&P 500 Index is 2 standard deviations above its decade average, with Australia not far behind at 1.4).

Asset class outlook

Currencies

Key points

- In November, the US dollar rose further on the back of higher yields and Trump's electoral victory.
- The Australian dollar weakened to below USD 0.65 due to US dollar strength and concerns around tariffs.

The US dollar continued to push higher in November as markets reacted to Trump's election victory. Initial market expectations are for ongoing US economic outperformance, potential trade tensions, geo-political volatility, and higher yields, all of which have helped the greenback reach its strongest levels in a year. While there may be further near-term strength in the US dollar, we suspect that markets may have priced in most of the post-Trump implications. Structural factors, including a deteriorating US budget deficit and increasing geo-political multi-polarity, point to downside pressures longer term, and may come to the fore as markets continue to digest Trump 2.0.

The Australian dollar weakened further in November as the Trump trade combined with ongoing concerns over China's stimulus policy. The Australian dollar appears to have found a near-term floor at the USD 0.6450 mark, before recovering to around USD 0.65, with ongoing domestic fiscal stimulus from federal and state governments working against the RBA cutting interest rates, and providing support for the currency as we enter 2025. Trump 2.0 uncertainty is affecting currency forecasts, with the Australian dollar expected to end 2025 in the range of USD 0.65 (lower than previously) to USD 0.71

The euro also traded lower over the month relative to the US dollar. Economic concerns (particularly in Germany) relative to ongoing US outperformance saw the price differential between the ECB and Fed increase further (i.e., markets priced more ECB cuts and less Fed cuts). We continue to expect the Eurozone to face macro risks on a structural basis, with near-term weakness possible, given the Eurozone's exposure to Trump 2.0 tariffs.

The Japanese yen continued to fall over the month alongside other non-US currencies, and is now trading around USD 150. Japan's internal inflation and macro dynamics remain tilted towards policy normalisation and a 'nominal renaissance' in growth is expected to continue over the next 12 to 18 months. However, it will not be immune to volatility surrounding potential trade and geo-political tensions as we enter 2025.

Commodities

Key points

- Global commodity prices fell towards the end of the month on tariff concerns. Gold fell from its all-time high to trade around USD 2,650 per ounce.
- Iron ore prices were broadly unchanged at around USD 100 per tonne (p/t).

Global commodity markets were volatile in November, with ongoing geo-political concerns in the Middle East, as well as rising fears of trade tensions following former president Trump's electoral victory, driving significant intra-month volatility. That said, Bloomberg's broad commodity price index is trading roughly unchanged over the month.

Brent crude oil prices were volatile over the month but have most recently traded sharply lower, driven by a combination of fading geo-political risk premia (with an Israel-Lebanon ceasefire expected to have been agreed by the end of November) and concerns for global growth if Trump instigates a global trade war. Brent crude traded at USD 72 per barrel (p/b) at the end of November, broadly unchanged over the month.

Meanwhile, gold prices bounced lower over the month as US Treasury yields rose in the immediate aftermath of the US election. More recently, they were also impacted by the nomination of Scott Bessent to the post of US Treasury Secretary. Bessent is expected to act as a moderating influence on fiscal spending, putting less pressure on the US federal deficit. At the margin, this is expected to reduce the allure of gold as a hedge against US dollar depreciation.

Industrial metal prices weakened as traders parsed ongoing Chinese weakness with the prospect of trade tensions with the new US administration. Copper was down approximately 6% in November, while iron ore is still trading around the USD 100 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 needing 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	23	41	59	38
Domestic	10	17	25	11
United States	8	14	20	16
Europe (ex-UK)	2	3	5	4
Japan	1	2	3	2
United Kingdom	1	2	2	2
Emerging markets	1	3	4	3
Alternatives	21	21	21	45
Private markets	8	10	11	20
Real assets	7.5	7	6.5	14
Hedge funds and diversifiers	5.5	4	3.5	11
Target foreign currency exposure	15	25	35	30
Indicative range for foreign currency	10–20	20–30	30–40	25–35

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

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

Active portfolio weights and tactical asset allocation views

Our current tactical asset allocation views

We expect a relatively smooth pathway for growth and inflation as we end an eventful year. Across different growth cycles, inflation is easing with most central banks now engaged in a moderate rate-cutting cycle.

We do not see a global recession in the near term, with still-resilient consumers, positive secular capex pressures, and central banks that are increasingly cutting rates. Australia continues to be challenged by stubborn inflation and stagnant growth. This month, we close out our overweight position to foreign currency and move overweight the Australian dollar, booking profits from the post-election rally in the US dollar (and positioning for a stronger Australian dollar through 2025). 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

Our cash position is -3, reflecting our view that a global easing cycle favours fixed income and equities over cash.

Fixed income

At a broad asset class level, we are neutral fixed income. At a sub-asset class level, we favour investment grade credit to take advantage of attractive yields and supportive economic conditions. We are overweight Australian government bonds, as we believe markets are under-pricing the potential for RBA cuts over the coming year, even if it chooses to hold rates steady near term. We see risks of higher term premia overseas and are underweight global government bonds. That said, we acknowledge that the near-term peak for bond yields may be in.

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 domestic, US, and Japan equities and are neutral in other regions. In addition to a supportive macro backdrop, we believe these three jurisdictions are best positioned to weather any potential trade tensions in 2025.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	-3	1	1	1	1
Fixed income	0	52	34	16	13
Absolute return	0	11	6	2	2
Australian government bonds	1	14.5	8	4.5	3.5
Global government bonds	-2	11.5	5	1.5	0.5
Investment grade credit	1	12	13	6	5
High yield credit	0	3	2	2	2
Equities	3	26	44	62	41
Domestic	1	11	18	26	12
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	V -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 overweight Australian government bonds. Domestic bond yields have been underperforming the US as sticky inflation and labour data delay the RBA from easing. We view any weakness in domestic government bonds as a buying opportunity, as it is likely the RBA will need to cut rates by more than is currently expected by markets.

Global government bonds

We are underweight global government bonds. Bond yields are largely priced for further cuts from the ECB, BoE and Bank of Canada. However, we see value at the front end of the US curve as it steadily steepens, reflecting the initial rate cuts from the Fed. The longer end of the curve has priced in future rate cuts, so we see limited upside for capital growth.

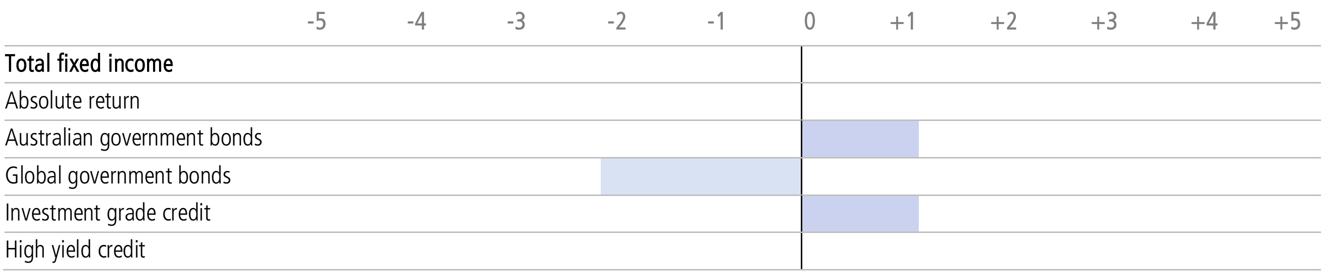
Investment grade credit

We are overweight investment grade credit. While all-in yields are at historically elevated levels, we believe investors should continue to deploy into investment grade credit, both in fixed and floating rate formats. Credit fundamentals remain solid, and we expect limited credit quality deterioration.

High yield credit

We 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 adverse economic outcomes 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	66.06	66.37
Australian 3-year yield	3.91%	4.02%
Australian 10-year yield	4.34%	4.50%
Australian 3/10-year spread	41.9 bp	47.4 bp
Australian/US 10-year spread	0.2 bp	0.2 bp
US 10-year Bond	4.17%	4.27%
German 10-year Bund	2.09%	2.39%
UK 10-year Gilt	4.24%	4.45%
Markit CDX North America Investment-Grade Index	47.6 bp	53.7 bp
Markit iTraxx Europe Main Index	55.74	58.59
Markit iTraxx Europe Crossover Index	297.87	314.09
SPX Volatility Index (VIX)	13.51	22.87

Source: LGT Crestone Wealth Management, Bloomberg as of 30 November 2024. Active fixed income weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on equities

Domestic

We are overweight domestic equities, which rose to an all-time high in November. The outlook for Australia is becoming more complicated, with valuations now at their highest levels excluding the June 2020 – February 2021 period. China's economic response to any tariffs, as well as the path of domestic interest rates ahead of a likely May 2025 federal election, will be key macro variables to monitor.

US

We are overweight US equities, as a Trump presidency will likely mean tax cuts, de-regulation, and a policy to disproportionately help America versus its peers. Scott Bessent's nomination as Treasury Secretary, as well as the Department of Government Efficiency, has also raised hopes for a greater focus on fiscal discipline, potentially limiting upward pressure on bond yields.

Europe (ex-UK)

We are neutral European (ex-UK) equities. Despite valuations which appear reasonable, there are emerging headwinds for this market. Growth is being downgraded and earnings are barely growing. Stimulus in China is an upside risk, as are widening valuation and performance measures.

United Kingdom

We are neutral UK equities. The relative underperformance of UK equities over the past several months is likely related to the US election. The FTSE 100 Index's 28% US revenue exposure is greater than in Europe (which is 28% US and Latin America combined). Its heavy pharma and consumer-related exposures are susceptible to drug re-pricing risks and tariffs.

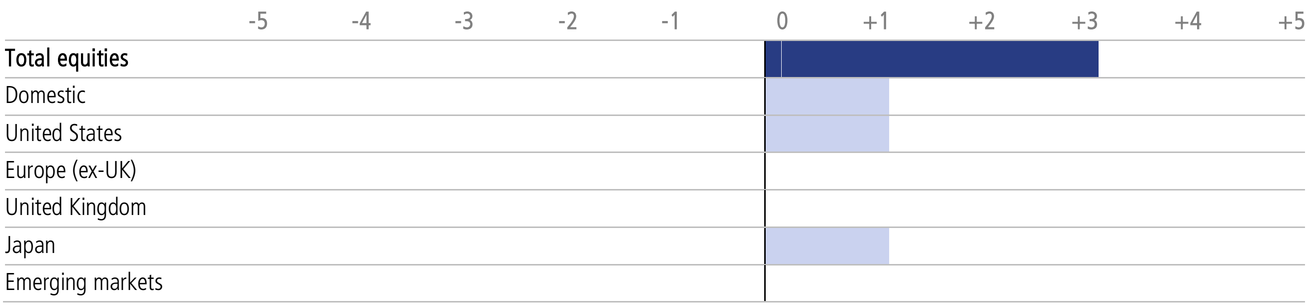
Japan

We are overweight Japan equities. The case for Japan is often mistaken as only macro (inflation, real wages, US dollar/Yen, etc), but it is largely bottom-up factors (merger and acquisition activity, cross shareholdings, dividends, buybacks, improved return on equity, and greater valuation support).

Emerging market equities

We are neutral emerging market equities. Overall, valuations in emerging markets are not cheap. The price/earnings (P/E) ratio for the MSCI Emerging Markets Index is at the 60th percentile of its 10-year history (and close to pre-covid peaks), and 10% higher than at the start of Trump's first presidency. Although emerging markets have underperformed developed markets over the past decade, this is largely explained by weaker fundamental performance. It is, therefore, difficult to conclude that this region is cheap.

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	8,436.2	8,355.8	-1.0%	20.4	3.4%
New Zealand	S&P NZ 50	13,066.9	13,694.4	4.8%	34.8	2.9%
United States	S&P 500	6,032.4	6,551.2	8.6%	22.2	1.3%
Europe	Euro Stoxx	498.8	584.6	17.2%	12.8	3.5%
United Kingdom	FTSE 100	8,287.3	9,504.0	14.7%	11.7	3.9%
China	CSI 300	3,326.5	3,746.9	12.6%	12.1	3.0%
Japan	Nikkei 225	38,208.0	45,052.2	17.9%	19.1	1.8%
India	Sensex	79,802.8	90,312.4	13.2%	23.0	1.4%

Source: Bloomberg. Data as of 30 November 2024; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield. Active equity weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on alternatives

Hedge funds and diversifiers

Higher rates and greater asset price dispersion continue to support the case for hedge funds, as evidenced by strong performance year-to-date, relative to 2023. Macro and structural market forces should further increase the divide between winners and losers in coming years, creating a more expansive set of long and short opportunities for unconstrained investment vehicles, like hedge funds. Against this backdrop, hedge funds are well positioned to capitalise on a greater magnitude of market dispersion, given their natural role as both liquidity providers and opportunistic investors. Low-beta, multi-strategy exposures are preferred within core hedge funds, while we have also introduced alternative diversifying strategies into portfolios through royalties, insurance and litigation, due to higher equity/bond correlations.

Private markets

Private equity remains core 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. However, regarding the latter, investors should not be complacent and 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. Whilst base rate cuts in the US have reduced total yields in relation to US private debt, 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. As well as being a good diversifier, this has the potential to be a much larger, yet less competed, market. We are cautious on construction and land-focussed real estate lending, 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, and 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.

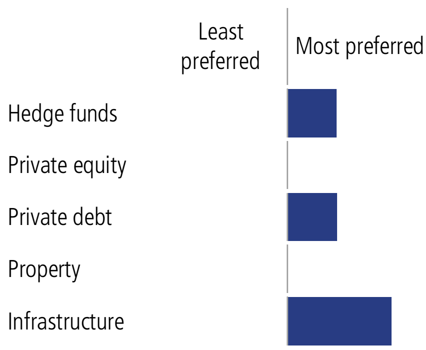
We favour infrastructure, private debt, hedge fund and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

What we like

- Multi-strategy hedge funds and other diversifying strategies.
- Senior private debt, including corporate, 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	$251.53	$228.78	59.4	0.9%	43%	33%	18%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$67.75	$69.81	25.3	1.3%	29%	26%	9%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$5.18	$5.47	29.9	3.2%	22%	108%	9%	AA
MTS	Metcash Ltd	Cons. Staples	$3.12	$3.79	12.4	5.7%	18%	17%	8%	AAA
ALD	Ampol Ltd	Energy	$29.09	$33.09	20.5	3.0%	11%	10%	55%	AA
BPT	Beach Energy Ltd	Energy	$1.23	$1.52	6.5	5.0%	15%	11%	23%	AAA
MQG	Macquarie Group Ltd	Financials	$231.11	$221.57	23.0	2.8%	3%	11%	17%	AA
SUN	Suncorp Group Ltd	Financials	$19.70	$18.87	19.6	4.1%	6%	11%	11%	AAA
RMD	ResMed Inc	Health Care	$38.40	$40.24	26.7	0.6%	29%	25%	4%	A
CSL	CSL Ltd	Health Care	$282.22	$329.58	27.5	1.0%	14%	17%	17%	AA
MND	Monadelphous Group	Industrials	$12.76	$14.22	17.7	4.9%	17%	15%	8%	AAA
BXB	Brambles Ltd	Industrials	$19.03	$18.84	20.2	2.0%	22%	28%	12%	AAA
XRO	Xero Ltd	Info. Tech.	$173.85	$186.82	121.4	0.0%	14%	15%	57%	AA
IGO	IGO Ltd	Materials	$4.85	$6.02	48.0	1.9%	1%	2%	111%	AAA
JHX	James Hardie Industries	Materials	$56.21	$56.10	24.5	0.0%	39%	32%	15%	AA
GMG	Goodman Group	Real Estate	$37.91	$37.96	31.4	0.8%	12%	12%	13%	AA
APA	APA Group	Utilities	$7.22	$8.12	43.8	7.9%	6%	8%	30%	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 30 November 2024. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Metcash Ltd (MTS AU) – Buy. MTS's hardware segment is experiencing cyclical headwinds relating to the Australian housing cycle. Assessing when the cycle will turn is challenging, but indications are that we are closer to the bottom than the top. The current dividend yield (5.4% fully franked) and valuation give investors sufficient compensation to wait until the cycle turns.

Brambles Ltd (BXB AU) – Buy. BXB is compensating investors with a 4.5% free cash flow yield and providing guidance for double-digit EPS growth. Return on invested capital for financial year 2025 is forecast to stay above 20%, and inventory optimisation and reduced loss are pointing to sustainably higher free cash flow generation.

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 financial year 2025 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	$19.70	$18.87	19.6	1.8	100%	4.1%	0.1%	AAA
MQG	Macquarie Group Ltd	Financials	$231.11	$221.57	23.0	2.6	35%	2.8%	15.3%	AA
WBC	Westpac Banking Corp	Financials	$33.36	$27.80	16.7	1.6	100%	4.8%	0.2%	A
QBE	QBE Insurance Group Ltd	Financials	$20.00	$20.19	12.3	1.9	20%	3.1%	9.1%	AAA
COL	Coles Group Ltd	Cons. Staples	$18.59	$18.52	22.8	6.9	100%	3.7%	14.7%	AA
MTS	Metcash Ltd	Cons. Staples	$3.12	$3.79	12.4	2.2	100%	5.7%	7.9%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc	$5.18	$5.47	29.9	31.7	100%	3.2%	9.0%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc	$0.54	$0.56	25.5	1.0	0%	2.6%	21.4%	AA
TLS	Telstra Group Ltd	Com. Services	$3.94	$4.18	20.3	3.1	100%	4.8%	5.9%	AA
CAR	CAR Group Ltd	Com. Services	$41.50	$39.56	40.8	5.4	0%	1.9%	14.3%	A
RMD	ResMed Inc	Health Care	$38.40	$40.24	26.7	7.0	100%	0.6%	10.1%	A
PME	Pro Medicus Ltd	Health Care	$251.89	$178.95	238.8	140.1	100%	0.2%	36.0%	BBB
REP	RAM Essential Services	Real Estate	$0.59	$0.80	11.8	1.4	0%	8.6%	2.0%	-
MGR	Mirvac Group	Real Estate	$2.16	$2.32	17.9	0.9	0%	4.2%	10.0%	AA
IRE	IRESS Ltd	IT	$9.29	$10.50	26.2	5.8	0%	1.2%	136.3%	AA
DBI	Dalrymple Bay Infra	Industrials	$3.44	$3.63	19.9	1.5	69%	6.4%	-13.2%	-
ALX	Atlas Arteria Ltd	Industrials	$4.80	$5.51	20.0	1.1	0%	8.4%	0.7%	AA
APA	APA Group	Utilities	$7.22	$8.12	43.8	2.9	0%	7.9%	1.8%	AAA
ALD	Ampol Ltd	Energy	$29.09	$33.09	20.5	2.1	100%	3.0%	86.5%	AA
BPT	Beach Energy Ltd	Energy	$1.23	$1.52	6.5	0.8	100%	5.0%	66.1%	AAA
BHP	BHP Group Ltd	Materials	$40.57	$44.48	11.1	3.0	100%	3.1%	-0.5%	A
AMC	Amcor PLC	Materials	$16.51	$16.63	14.6	4.0	0%	3.1%	3.3%	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 30 November 2024. 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.

APA Group (APA AU) – Buy. Recent share price weakness has pushed the net dividend yield to 7.9%. Dividends have grown consecutively for 22 years, and now that regulatory risk around its Southwest Queensland Pipeline has abated, there appears to be no near-term risk to earnings. There is a meaningful organic growth pipeline in the Pilbara.

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	168.95	210.43	20.6	0.4	2,077,305	BBB
UMG NA	Universal Music Group	Com. Services	EUR	22.81	26.65	25.1	2.5	44,159	AA
DIS US	Walt Disney Co/The	Com. Services	USD	117.47	122.58	21.8	0.9	212,731	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	83.65	119.95	9.8	1.0	205,555	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	78.77	91.79	28.1	2.0	117,249	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	102.46	102.00	33.0	2.6	116,169	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	136.11	136.71	34.1	0.0	87,331	BB
RMS FP	Hermes International	Consumer Disc.	EUR	2065.00	2236.04	48.9	0.9	230,710	BB
EL US	Estee Lauder Cos Inc/The	Consumer Staples	USD	72.12	79.68	43.6	2.2	25,889	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	971.88	940.49	54.4	0.5	430,614	A
288 HK	WH Group Ltd	Consumer Staples	HKD	6.17	7.95	7.5	0.9	10,175	–
SHEL LN	Shell PLC	Energy	GBP	2531.50	3112.42	7.7	0.1	198,537	AA
LSEG LN	London Stock Exchange	Financials	GBP	11270.00	11623.75	32.0	1.2	76,321	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	53.06	64.95	7.6	6.2	40,981	AA
WFC US	Wells Fargo & Co	Financials	USD	76.17	70.72	14.3	2.2	253,607	BB
2318 HK	Ping An Insurance Group	Financials	HKD	44.80	60.97	5.5	5.8	122,043	A
939 HK	China Construction Bank	Financials	HKD	5.85	7.29	4.1	7.0	191,351	AA
MA US	Mastercard Inc	Financials	USD	532.94	561.93	36.9	0.5	489,205	AA
JNJ US	Johnson & Johnson	Health Care	USD	155.01	177.91	15.6	3.3	373,206	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	757.30	950.87	33.1	1.9	479,766	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	542.00	537.86	79.6	0.0	193,049	A
EXPN LN	Experian PLC	Industrials	GBP	3751.00	4331.76	30.2	0.0	43,963	A
DSV DC	DSV A/S	Industrials	DKK	1507.00	1756.52	29.1	0.5	51,412	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	996.00	1559.21	22.2	1.7	794,616	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	658.40	851.54	34.1	1.2	278,425	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	423.46	500.27	32.4	0.8	3,148,375	AA
ACN US	Accenture PLC	Information Tech.	USD	362.37	380.85	28.3	1.7	227,237	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	397.40	395.38	35.1	0.8	100,086	A
EQIX US	Equinix Inc	Real Estate	USD	981.48	982.85	86.6	1.9	94,701	AA
ORSTED DC	Orsted AS	Utilities	DKK	391.80	460.31	18.1	0.0	23,369	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 30 November 2024. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—Supply chain disruption

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. Volatility around the US election, the threat of global tariffs, labour strikes, 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	202.61	233.59	28.7	0.0	2,130,446	BBB
BABA US	Alibaba Group	Cons. Disc.	USD	88.59	124.82	9.0	8.1	211,969	BBB
EBAY US	eBay Inc	Cons. Disc.	USD	61.43	62.73	11.8	1.9	29,425	A
WMT US	Walmart Inc	Cons. Staples	USD	84.25	88.74	30.9	1.0	677,223	BBB
SHEL LN	Shell PLC	Energy	GBP	2561.00	3121.03	8.1	0.1	199,387	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.27	1.52	5.6	8.1	1,864	AAA
LLOY LN	Lloyds Banking Group	Financials	GBP	56.48	65.00	7.7	0.1	43,266	AA
DSV DC	DSV A/S	Industrials	DKK	1465.50	1717.35	24.2	0.5	49,758	AA
KNIN SW	Kuehne + Nagel	Industrials	CHF	208.90	236.11	19.8	3.6	28,407	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	35.29	42.73	10.8	5.4	44,605	A
DE US	Deere & Co	Industrials	USD	398.95	414.00	18.2	1.6	109,153	AA
BXB AU	Brambles Ltd	Industrials	AUD	19.31	18.99	18.2	2.2	17,408	AAA
WTC AU	WiseTech Global Ltd	IT	AUD	134.73	123.83	82.6	0.2	29,111	AAA
ACN US	Accenture PLC	IT	USD	353.57	380.65	25.2	1.8	221,718	AA
INTC US	Intel Corp	IT	USD	24.35	24.49	25.7	1.1	105,022	AAA
SAP GY	SAP SE	IT	EUR	217.30	230.42	35.0	1.1	281,183	AAA
GMG AU	Goodman Group	Real Estate	AUD	37.50	39.06	27.3	0.8	46,308	AA
PLD US	Prologis Inc	Real Estate	USD	113.42	134.04	30.7	3.6	105,017	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30 November 2024. ESG is environmental, social, and corporate governance.

Important information

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Contact us

LGT Crestone Wealth Management Limited

ABN 50 005 311 937
AFS Licence No. 231127

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

Adelaide

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

+61 8 8403 9400

Brisbane

Level 18, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

+61 7 3918 3600

Melbourne

Level 17
101 Collins Street
Melbourne VIC 3000

+61 3 9245 6000

Sydney

Level 32, Chifley Tower
2 Chifley Square
Sydney NSW 2000

+61 2 8422 5500