Shifting data to shift central banks

As trade, climate and AI disruption take the lead

Core Offerings

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

February 2025

Contents

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AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICE

Scott Haslem
Chief Investment Officer

In our 2025 Outlook, *Navigating Disruption, discovering opportunity*, penned in early December, we challenged investors to discover opportunities – be active, be nimble (around a core strategic longer-term position) – even as we were likely to face new disruptive forces to navigate as the year ahead progressed. Indeed, as we traverse the first couple of months of this year, the geo-political and trade disruption, as well as the interest rate 'interruption', we identified in our outlook are already forces we are now navigating.

Inside this month's *Core Offerings*, we revisit our key themes for 2025, why we believe a favourable macro backdrop remains on track, but also why it may take some time to reveal itself through this now unfolding volatility. Inside, we highlight the key macro developments over the summer that we believe have the potential to shift the narrative. If 2024 was the year to 'lean into risk', 2025 remains destined to be a year to discover opportunity during dislocation to enhance otherwise expected average-like returns across asset classes.

This month, we have also made some modest changes to our tactical positioning. With both fixed income and equities expected to outperform cash by less than experienced in 2024, we've trimmed our equities overweight (moving back to neutral for domestic equities) and added back to cash. Within fixed income, in the wake of the recent rise in global bond yields, we've added back to global bonds from Australian bonds (which have outperformed recently). We remain constructive, looking to harvest tactical alpha in equities and credit.

"I think the actual cuts that we make next year will not be because of anything we wrote down today. We're, we're going to react to data. That's just the general sense of what the Committee thinks is likely to be appropriate".

Fed Chair Powell
December 2024, post-meeting press conference

Our constructive macro and market outlook remains intact, despite volatility

Market volatility through December and January intensified. This was always a likelihood as the inauguration of President Trump for his second term approached in late January, and a volley of executive orders impacting US trade and immigration, among other things, was anticipated. Using tariffs to drive outcomes desired by the new US Administration has already started to be weaponised. However, this volatility has intensified as stronger US growth data now challenges the disinflation narrative, the rapidly shifting direction of US climate (and social) policy is impacting renewable, nuclear and autos sectors, together with January's disruption to artificial intelligence (AI) norms, with its genesis in China.

Despite this, we believe the fundamentals we outlined in our 2025 Outlook, *Navigating disruption, discovering opportunity*, that condition our constructive macro backdrop, remain very much intact as 2025 gets underway. As we noted at the time, "there's little not to like" as far as the macro is concerned. Global activity looks set to moderate through 2025 to only a modestly below trend pace (and may start reaccelerating as 2026 comes into view). Inflation globally remains on track to continue to moderate toward central bank targets, supporting consumer real income growth and providing further scope for central banks to continue to trim interest rates through the year.

As Longview Economics recently noted, "many of the ingredients for [a growth] upswing, are in place. Across 90 [global] central banks, the majority are in rate cutting mode: the European Central Bank (ECB) is cutting; the US Federal Reserve (Fed) is cutting, the Bank of England (BoE), the People's Banks of China and other central banks are also cutting. That equates to a collective aggressive central bank easing cycle (equal to the highest monthly net cuts since the GFC). Major economic crises in key parts of the global economy tend to occur when money is being tightened and rates hiked (not loosened)."

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Longview Economics
January 2025

We believe that over the course of the year, and in the wake of two years of strong equity market returns, this constructive macro backdrop will still foster 'average-like' (or more normal) returns across asset classes. Equities will continue to be supported by good macro growth and strong underlying earnings (and margins), while fixed income returns will be gleaned more from regular income (and less capital growth) as interest rates normalise.

Yet as we enter 2025, there is an increasing risk that our thesis may take longer to emerge. Stronger-than-expected US growth poses the risk of delayed Fed cuts, as could angst about aggressive US fiscal easing, threatening rising yields. Similar angst about US trade policies and its potential to stymie global growth or delay inflation progress, could also paint a less constructive macro backdrop near-term. Still, for now, we assess the collective weight of global inflation and growth data as signalling a combination of moderating growth and inflation that should secure moderate returns in 2025, amid this volatility.

LGT Crestone's view is that we are in an unbalanced, multi-polar world, with a waning global hegemon (the US) and an assortment of competing powers jockeying for global position…

…investors should expect higher growth and inflation, and look for higher productivity growth as nations compete to get ahead.

For AI to be a legitimate investment thematic (i.e., not a bubble), AI application needs to broaden beyond just the Magnificent 7. Recent developments suggest that greater AI pervasiveness may again see out-performance of equal-weighted S&P500, mid-cap, and potentially small-cap, equities.

Navigating disruption…AI, climate and trade already underway (with more to come)

As we noted in our 2025 Outlook, this year was likely to be a year of navigating new forces of disruption. Already this year, there have been a number for investors to navigate:

- Geo-politics and the weaponising of trade—As widely expected, following President Trump's inauguration, the new administration signed a range of executive orders impacting immigration and energy, among others. And while as CBA notes, there was a 'softer tone' on trade and tariffs, we have already seen announcements of an intended 10% tariffs on China and 25% on Canada and Mexico. These are yet to be formalised. But as Colombia has discovered, Trump will use the threat of tariffs to drive US outcomes (in this case, deportation). This is yet to play out for the key economies.

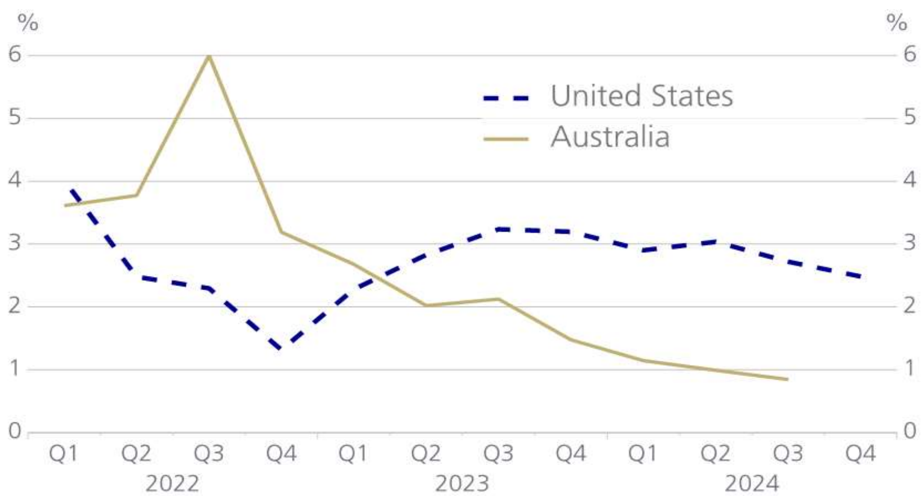
  But as Senior Asset Allocation Analyst, Matt Tan, outlines in his recent Observation, *The New Great Game: Investing in a multi-polar world*, our constraints-based approach to navigating geo-political volatility advocates developing an understanding of the material constraints facing policymakers to determine their most likely or plausible courses of action, rather than relying on their stated preferences or fearful newspaper headlines. As he discusses, this approach was pivotal in our prediction of limited market relevance to the Israel-Iran conflict. Similarly, this approach envisages a range of constraints that should restrain President Trump's more extreme policy preferences, pointing to more moderate risks with regards to fiscal profligacy, trade wars, and geo-political disruption.
- Climate disruption—As our Head of Sustainable Investment, Amanda McDonald, outlines in her January Observation, *2025 Sustainable Investing Outlook*, Trump has withdrawn from the Paris Accord (again), and promised to dismantle key environmental initiatives, to drill for more oil and gas, and to rescind many of the government's diversity, equity and inclusion (DE&I) policies. This will have significant sectoral impacts across energy sectors (renewables versus nuclear) as well as trade, autos and others. But as discussed, despite the shift in the US's political direction, environment, social and governance (ESG) factors will continue to be critical investment criteria, funds flowing to sustainable investments continue to grow, and returns continue to be strong.
- AI disruption—January saw the release of DeepSeek, China's latest AI model that has performed comparably to other leading Large Language Models (LLMs), but seemingly at a fraction of the cost to train. This led to severe volatility in a number of competing companies, such as Nvidia (which fell 18% on the day of release, before recovering 8% the following day). As our equities specialists, Todd Hoare and Tom Martin outline in their Observation *Artificial Intelligence – DeepSeek and the implications of cheaper, open-source AI,* despite this volatility, this 'democratisation of AI' could well be economic growth positive (i.e., a productivity benefit that is more ubiquitous) and have positive implications for broad swathes of the equity market (i.e., the use cases and applications will broaden, become more easily accessed, and at a cheaper cost).

Five key 'summer' macro developments that are shifting central banks

1. US growth resilience sees Fed lower rate cut expectations—four 'dots' become two

Despite consensus that the US economy would slow through 2024 under the weight of high interest rates – with some now predicting that growth slowdown through 2025 – late

US growth has proved resilient, relative to weak growth in Australia



Source: ABS, US BEA, Macrobond, LGT Crestone

January's Q4 data printed growth of 2.3%, moderately below Q3's 3.1% pace (with the annual rate still at an above trend 2.5% rate). Recent data confirms still strong underlying demand, with core retail sales and jobs growth both beating expectations in December.

Good data has suddenly become bad for bonds and equities. Together with little further meaningful progress on disinflation between September and November, this underpinned a relatively hawkish cut from the Fed in December. The 'dots' now signal only two cuts in 2025, against expectations that the prior four would be trimmed to three, leading to a significant lift in bond yields and pull-back in equities through December.

Arguably, some softer data, and renewed moderation in inflation (as was hinted at in the December CPI data) is needed for the Fed to follow-through with further rate cuts. Investors may well have to navigate a 'pause' from the Fed at its March meeting, where most currently expect a further rate reduction. Markets are currently anticipating two Fed cuts this year. We expect some renewed easing of growth and inflation toward the end of Q1 2025 to reinforce that outcome, a positive for both equity and fixed income returns.

"Chair Powell admitted that while it would be speculative to change course based on future policies, the Fed is positioning for higher inflation risks ahead by keeping rates higher for longer."

Northern Trust
December 2024

2. European and UK growth relapse into end-2024—rate cuts to outpace the US

Data through December and January continue to reveal a loss of momentum in the European economy, post a tepid exit from recession earlier last year. European growth stalled (at 0.0%) in Q4 (sharply below Q3's 0.4% pace). Indeed, Germany finished 2024 with negative annual growth, the first time in 20 years output has declined for two years in a row. This loss of momentum is also evident in the UK which, after rebounding strongly from its H2 2023 recession, looks on track for flat Q4 growth at the end of 2024.

Arguably, some softer data, and renewed moderation in inflation is needed for the Fed to follow-through with further rate cuts. Investors may well have to navigate a 'pause' from the Fed at its March meeting.

As Longview Economics recently noted, "Bearishness towards Europe has grown in recent months. The German and French governments have collapsed, Europe's labour market is deteriorating, and weakness in China continues to dampen European activity. Tariffs on European goods into the US (expected this year) will no doubt add to that weakness".

While this makes it difficult to lean into equity markets at an index level in these regions, there is likely still significant value below the surface, such as financials (which are likely to be supported by relatively aggressive rate cuts). Indeed, weaker growth and progress on disinflation suggests the ECB and BoE will be reducing rates significantly through H1 2025, a support for their economies and markets (particularly fixed income). UBS expects the ECB to trim rates four times to 2.00%, and the BoE to trim six times to 3.25%, in 2025.

"Bearishness towards Europe has grown in recent months. The German and French governments have collapsed, Europe's labour market is deteriorating, and weakness in China continues to dampen activity. Tariffs on EU goods into the US (expected this year) will no doubt add to that weakness".

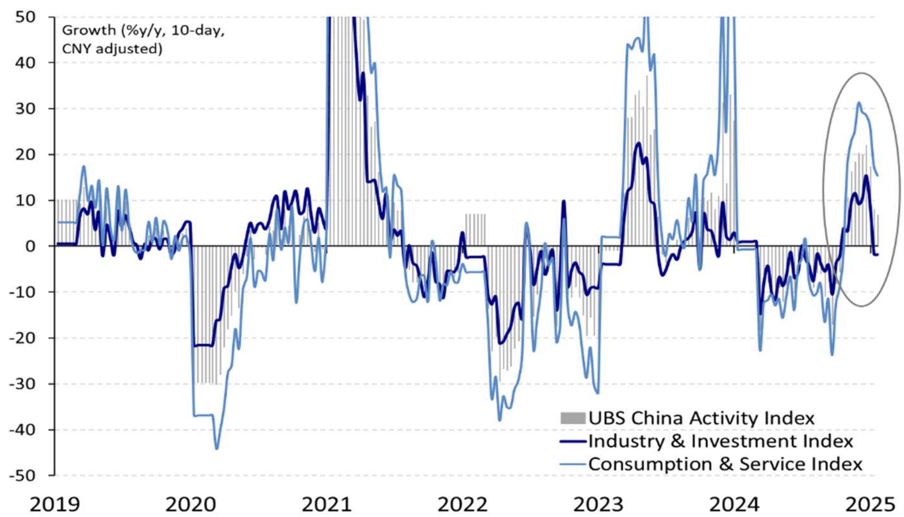
Longview Economics
January 2025

3. China growth rebounds end-2024—but growth and deflation headwinds persist

After much weakness, China's end-year Q4 2024 data showed stronger momentum, likely on the back of prior government stimulus as well as stronger exports on the front-loading of demand ahead of expected tariffs. An unexpectedly strong 6.6% annualised pace in Q4 (according to UBS) surprisingly lifted annual growth to its targeted 5% for 2024.

However, while further stimulus is anticipated in the year ahead, we believe China still faces significant growth headwinds through 2025 including a property downturn, a subdued consumer, and likely US tariff imposts (with the new US Administration floating a 10% tariff from 1 February 2025). Indeed, daily data through January 2025 already point to a loss of momentum across a range of indicators, relative to Q4 2024 (see chart).

Better China Q4 growth…but January (daily) data reveals renewed weakness



Sources: UBS, CEIC

While further stimulus is anticipated in the year ahead, we believe China still faces significant growth headwinds through 2025, including the property downturn, a subdued consumer, and likely US tariff imposts (with the new administration floating a 10% tariff from February).

Reflecting these concerns, there are still likely downside risks to the China growth outlook. While consensus centres around 4.5% in 2025 (after 5.0%), UBS is sticking to its weak 4.0% forecast (slowing to 3.0%) in 2026. While a lack of growth momentum is a negative for the world economy, the ongoing disinflationary impulse suggests little risks of a global inflation reacceleration, supporting our expectations for modest global rate cuts ahead.

4. Australia's growth disappoints, inflation drops—February rate cut comes into view

Against expectations, early December's Q3 growth data for Australia remained weak, at just 0.3%, with the annual pace slowing to 0.8% from 1.0%. As shown in the first chart, this is a third of the pace of US growth. And much of Australia's growth has been sourced from government activity (up 4.1% over the year), while private demand is up just 0.7%.

Indeed, after two quarters of no growth, the Australian consumer is essentially in recession. No surprises the Q4 inflation data has slowed – easing to 2.4%, albeit, helped by Government subsidies. However, the key 'underlying' measure which abstracts from these impacts, also eased to 0.5% in Q4 – annualising at the bottom of the Reserve Bank of Australia's (RBA) 2-3% inflation target. With the RBA targeting 'consumer' price inflation, not 'government-driven' inflation, a consumer recession and core inflation at the bottom of the target suggests the RBA will be under significant pressure to trim rates mid-February, its first cut for the cycle. The subsequent rally in bond yields and Aussie equities contributed to our tactical return to neutral for both domestic equities and bonds this month (see below).

5. Aussie dollar takes a bath—more to come, or fade US dollar strength?

With the RBA targeting 'consumer' price inflation, not 'government-driven' inflation, a consumer recession and core inflation annualising at the bottom of the 2-3% target suggests the RBA will be under significant pressure to trim rates mid-February, its first cut for the cycle.

As CBA noted last year, "the re-election of President Trump will disrupt global trade. His presidency also injects uncertainty…investors [will] seek exposure to US dollar assets". The Aussie dollar, as a 'risk-loving' currency, proved one of the more significant causalities of the US election's 'red sweep', dropping around 10% during Q4 2024 (albeit a more modest 5% drop against a broader basket of currencies).

With global equities experiencing significant volatility as the Fed moved more hawkish, the currency has certainly played its role as a portfolio diversifier. However, on some metrics, the Aussie dollar remains undervalued. Yet analysts do not expect that undervaluation to close before end 2025 (with UBS and CBA targeting USD 0.60 and USD 0.62, little changed from its current range). Still, we retain our modest overweight to the AUD (since early December), on a longer-term assessment that the US dollar is stretched and that our constraints-based geo-political lens suggests much of the US dollar's strength is in the past.

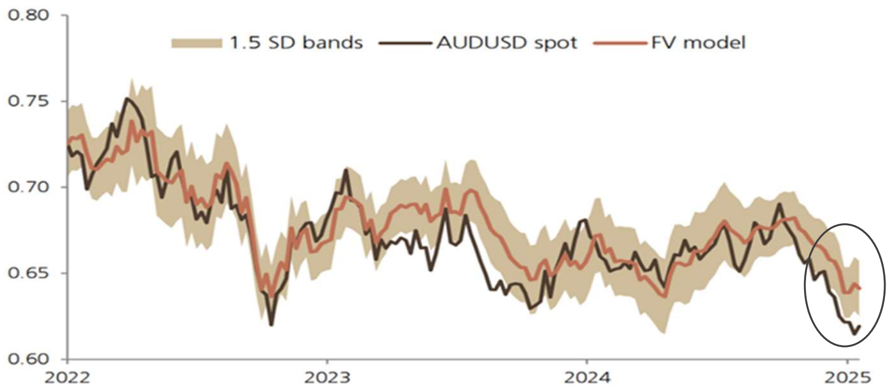
Tactical changes this month—trimming our equities overweight (+3 to +2)

2024 was a year to harvest the beta in markets, given the persistent positive backdrop (that only delivered limited market drawdowns). In 2025, we expect volatility to lead to more meaningful market falls, while also presenting opportunities to be active and nimble through that volatility, rather than chasing rallies (as in 2024). We continue to believe truly diversified portfolios will re-establish their importance during 2025.

With both fixed income and equities expected to outperform cash by less than experienced in 2024, we've trimmed our equities overweight (moving back to neutral for domestic equities and domestic bonds).

Reflecting this, we retain the constructive overweight to equities (+3 from +2) relative to cash (-2 from -3). However, with both fixed income and equities expected to outperform cash by less than experienced in 2024, we've trimmed our equities overweight (moving back to neutral for domestic equities). Within fixed income, given the recent rise in bond yields, we've added back to global bonds (-2 to -1) from Australian bonds (+1 to 0, which have outperformed recently on lower inflation data). We remain constructive, looking to harvest tactical alpha in equities (where we remain overweigh the US and Japan) and credit (where we retain our preference for investment grade over high-yield credit).

UBS Aussie dollar fair-value model – could the AUD rebound toward USD 0.65?



Source: UBS

What's driving our views

Booking some profits and reserving dry powder to navigate potential volatility as we enter 2025

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 our equities and Australian government bond overweights, re-directing them into cash (to reserve dry powder to deploy into potential opportunities) and global government bonds. We remain constructively positioned but ready to respond to emerging risks and opportunities.

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

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

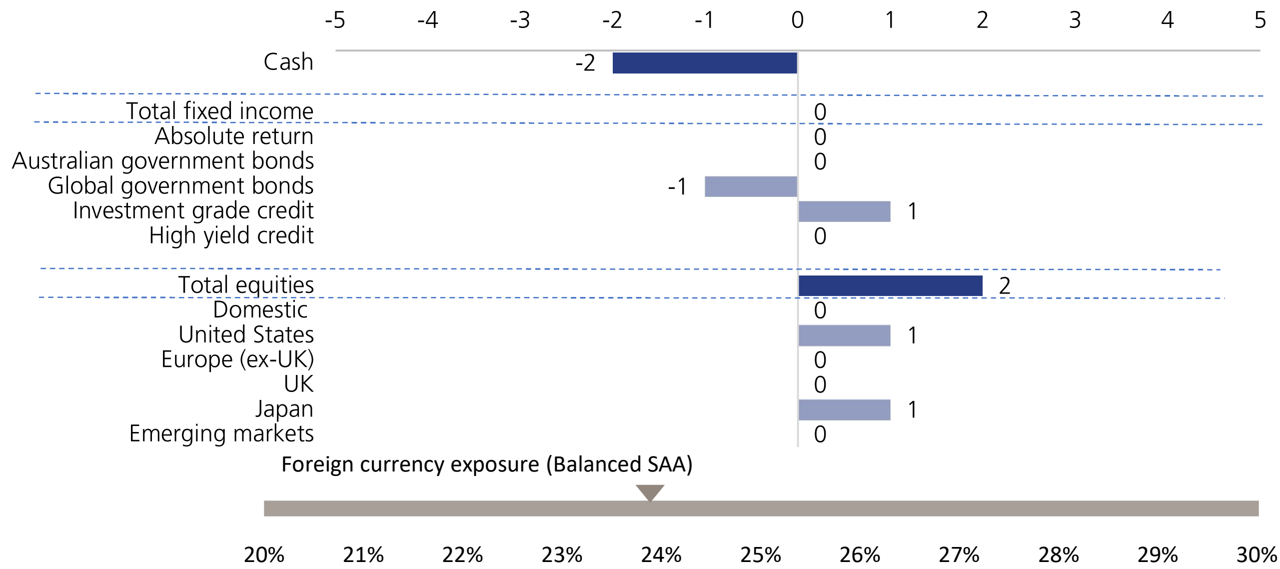
Discovering opportunities beneath the surface: Elevated valuations mean that the best opportunities may lie beneath the broad index level, rewarding more active 'hunter' versus passive 'gatherer' investors.

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

Structural thematics

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

Tactical asset allocations (% weights)



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

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

Economic and asset class outlook

Economic outlook

Global economy

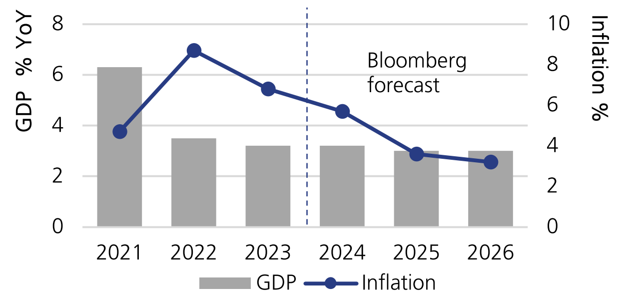
As UBS notes in its 2025 outlook, "the fundamentals of the global economy are improving. The inflation and interest rate shocks of the last two years are subsiding, real incomes are growing at the fastest pace in 20 years, and there are signs that housing markets are starting to turn". Still, the outlook 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 2.7%. 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 January 2025.

Australia

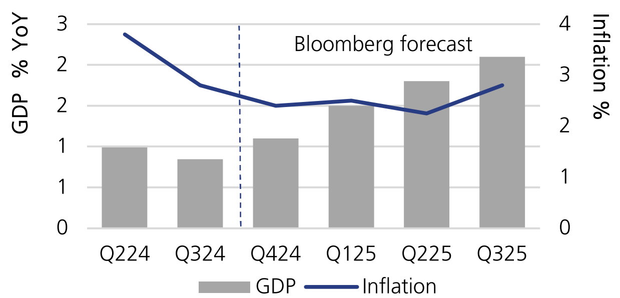
Growth has slowed sharply through 2024, to a well-below trend sub-1% pace, its weakest since the 1990/91 recession (excluding the pandemic). The boom in population growth (at over 2%) masks an even sharper easing in Australia's growth momentum following the significant rise in interest rates through 2022 and 2023. Yet, with a recession avoided, and significant mid-2024 fiscal stimulus supporting household spending, jobs and infrastructure, growth is expected to trend higher in 2025. Soft growth and recently better inflation outcomes – despite a still strong jobs market – have increased prospects for some reduction in interest rates in H1 2025.

Growth in Q3 remained weak, at 0.3%, with the annual pace slowing to 0.8% from 1.0% (well below trend of 2.5%). Much of this growth was sourced from government activity (up 4.1% over the year), while private demand is up just 0.7% (with consumer spending flat). Data through Q4 continues to be mixed. Retail sales rose 0.8% in November (helped by Black Friday sales), with the annual pace easing to a below trend 3.0% (from 3.5%), little changed over the past six months. Business conditions also dropped below average in November, while December consumer sentiment weakened further, as did momentum in house prices. In contrast, after some earlier softness, jobs growth rebounded to 3.1% in December.

Inflation continued to step down in Q4, rising 0.2%, with the annual rate easing from 2.8% to 2.4%, near the mid-point of the target. While government subsidies have contributed, the key underlying 'trimmed' measure – which abstracts from these – also printed below expected at 0.5% in Q4, with the annual pace at 3.2% (from 3.5%). According to UBS, the RBA December statement "was a clear shift in the dovish direction", surprising markets. The RBA noted that "the Board is gaining some confidence that inflation is moving sustainably towards target." This shift in tone, the weaker Q3 growth data and lower Q4 CPI data suggests the RBA will begin trimming rates at its mid-February meeting. CBA expects a 0.25% cut per quarter to 3.35% in 2025, while UBS expects three cuts to 3.60% for 2025 (recently shifting its call early to February).

After expected growth of 1.0% in 2024 (was 1.2%), UBS sees it strengthening to 1.9% in 2025 and 2.2% in 2026. CBA sees slightly slower growth of 1.8% in 2025 and 1.9% 2026

Australian GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Economic outlook

United States

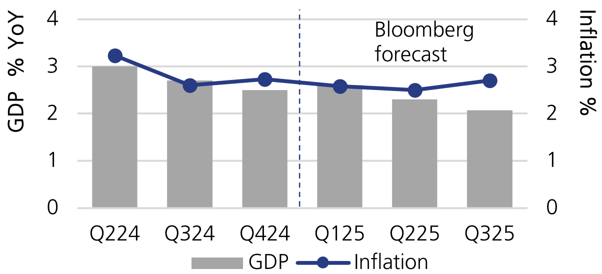
Notwithstanding expectations for growth to moderate, US activity continued to expand at an above trend pace during late 2024, supported by a firm jobs market and a robust consumer. Together with recently less profound progress on disinflation, this has lowered market expectations for rate cuts in 2025. Following President Trump's January inauguration, uncertainty over tariff hikes in 2025, and uncertainty around the success in trimming government spending and cutting taxes (or the inflationary impact of these collective policies) also now clouds the outlook. Still, we expect further slowing in inflation through H1 to open the way for additional moderate easing in 2025.

Growth rose by a robust 0.6% (2.3% annualised) in Q4, moderately below Q3's 3.1% pace, again supported by solid consumer spending. Retail sales (core) rose 0.4% in December, a strong result post the prior month's 0.8% gain. December's jobs data also positively surprised, jumping 256,000 after November's 212,000, with unemployment easing from 4.2% to 4.1%. January's composite Purchasing Managers' Index (PMI) eased after three months of gains, falling to a still solid 52.4 (from 55.4), flagging softer Q1 2025 growth.

Progress on inflation stalled through the final quarter of 2024, albeit December core inflation printed 0.2%, its lowest monthly gain in five months, with the annual rate easing from 3.3% to 3.2%. At its January meeting, the US Federal Reserve (Fed) paused its rate cutting cycle, leaving the policy rate at 4.00%-4.25%, as widely expected. This follows December's meeting where stronger-than-expected growth and inflation saw the Fed 'dots' signal only two cuts in 2025, against expectations that the prior four would be trimmed to three". Following January's pause, Fed Chair Powell noted that "we do not need to be in a hurry to adjust our policy rate." Expectations for a March resumption in rate cutting is now drifting out to the June meeting.

After strong growth of 2.8% in 2024, UBS sees slower growth of 2.1% and 1.6% in 2025 and 2026, respectively. CBA holds a similar view for 2025 but now forecasts a pick-up in 2026 (to 2.4%). However, the OECD sees less significant slowing to 2.4% in 2025, ahead of 2.1% in 2026.

US GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Europe

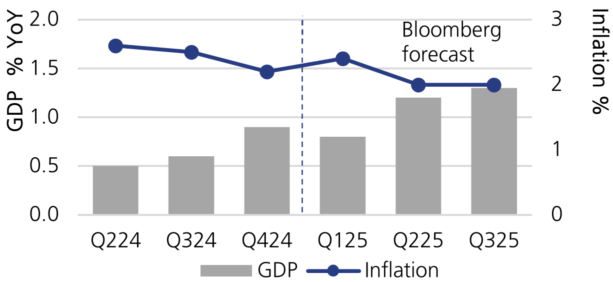
Recent data continue to reveal a loss of momentum in the European economy. Indeed, Germany finished 2024 with negative annual growth, the first time in 20 years output has declined for two years in a row. As 2025 unfolds, Europe's growth should lift modestly, led by a still tight jobs market, solid wage growth and further rate cuts that lift consumer spending. For now, though, as Longview Economics notes, "bearishness towards Europe has grown in recent months. The German and French governments have collapsed, Europe's labour market is deteriorating, and weakness in China continues to dampen activity. Tariffs on European goods into the US (expected this year) will no doubt add to that weakness)". Longview nonetheless notes that "the medium-term outlook for Europe is [still] positive". UBS sees some chance fiscal breaks will be eased across Europe in 2025.

Growth stagnated (at 0.0%) in Q4, after Q3's 0.4% positive surprise, leaving the annual rate unchanged at 0.9%. Three major economies had negative growth rates (with Germany at -0.2%, Ireland at -1.3%, and France at -0.1%); the strongest growth was seen in Spain (0.8%). Activity in Q4 has been soft. Retail sales fell 0.2% across October and November, partly retracing the 0.8% rise in the prior two months. January's composite PMI edged higher to 50.2 in January (from 49.6), still down from 52.3 in May. The jobs market remains firm, with unemployment unchanged at an all-time low of 6.3%.

Inflation has drifted higher through Q4, as prior energy subsidies fade, rising to 2.4% from 2.2%. However, core inflation has been steady at 2.7% with 'flat' monthly gains over November and December flagging further moderation in early 2025. The European Central Bank (ECB), as widely expected, cut the policy rate further in January, by 0.25% to 2.75% (its fifth cut this cycle). The ECB reiterated its data dependent view. UBS and CBA both expect a total of four cuts in 2025, taking the policy rate to 2% by end-year.

After relatively soft growth of 0.9% in 2024, UBS expects a slight acceleration of growth to 1.1% (was 1.3%) in 2025 and 1.2% (was 1.4%) in 2026, shifting more in line to CBA's now similarly moderate growth outlook. The OECD is more upbeat, forecasting 1.3% and 1.5% over the next two years.

European GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Economic outlook

United Kingdom

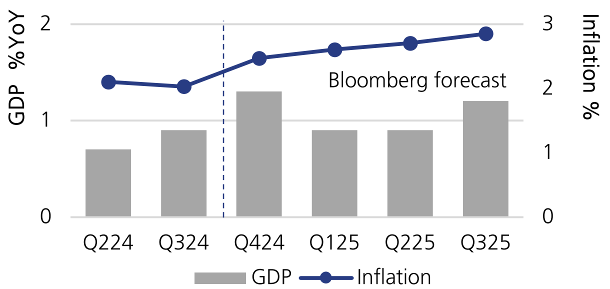
After rebounding strongly from H2 2023's recession, the UK economy appears to have lost some momentum during H2 2024. Nonetheless, while financial conditions remain relatively tight, underlying inflation continues to drift lower and wages growth is moderating, opening the way for further monetary easing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

Growth in Q3 was disappointing, stalling at 0.0% (after Q2's 0.4% gain). Positively, underlying momentum was stronger, with growth helped by a pick-up in consumer spending and private capex, while trade also added to growth. Early Q4 data continues to reveal weaker activity, with monthly output rising just 0.1% in November after two months of contraction. Retail sales unexpectedly fell 0.3% in December, its third fall in fourth months. The composite PMI rebounded in January to 50.9 from 50.4 (a 14-month low), its first rise in five months. According to UBS, the December jobs report "continued to signal gradual labour market easing, amid still strong wage growth" with November unemployment rising to 4.4% from 4.0% in August (its highest rate since May 2024).

While the BoE met consensus to keep rates unchanged at 4.75% in December, a lower-than expected inflation print led to a non-consensus decision, with a number of members voting for a cut. Inflation eased from 2.6% to 2.5% in December, led by a large 0.3% monthly decline in core inflation, lowering its annual pace from 3.5% to 3.2%. The BoE stuck to its previous message of a gradual approach to easing, and limited forward guidance, albeit dovishly, it now judges the jobs market to be "broadly in balance" rather than "relatively tight". A further rate cut is expected in February.

After likely growth of just 0.8% in 2024, UBS has materially cut its forecasts for 2025, from 1.5% to 1.1% (before a modest lift to 1.3% in 2026), reflecting the weaker growth trend in Q4. CBA continues to expect a more material pick-up to 1.6% and 1.5% across 2025 and 2026.

UK GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Japan

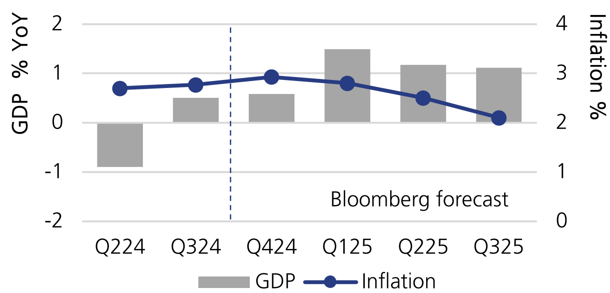
Ongoing better data over recent quarters, led particularly by the consumer, continues to build optimism that Japan is on a path to successfully transition from secular stagnation to nominal recovery. The continued recovery in wages growth is viewed as critical in this process, and key to supporting firmer confidence among corporates and households. Headwinds from aging demographics and high government debt remain, while the now minority government (following the October election) has arguably less capacity to deliver the corporate reforms necessary for ongoing momentum. Still, UBS expects Japan to deliver "middling success" in terms of delivering circa 3% nominal growth 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 in Q3 was revised higher from 0.2% to 0.3%, building on the 0.5% gain in Q2 (led by consumer spending), and lifting the annual pace of growth from -0.9% to 0.5%. Data in Q4 started weak but has improved into end-year. The January composite PMI lifted from 50.5 to 51.1, its third month of expansion. Retail sales jumped 1.8% in November after falling 2.4% across September and October (likely supported by stronger tourist visits). The jobs market remains tight, with unemployment little changed at 2.5% in November, near its lowest in a year, while wage growth remains solid.

Inflation jumped further in December to 3.6% (from 2.9%), its highest since January 2023, led significantly again by higher food prices. Having left policy unchanged since July 2024's unexpected hike to 0.25% (from 0.15%), the Bank of Japan (BoJ) raised its policy rate to 0.50% in late January 2025, its highest level since 2008. According to the BoJ, "Japan's economic activity and prices have been developing generally in line with the Bank's outlook". The market is expecting two further hikes from October, taking the policy rate to 1.0% in 2026. However, UBS and CBA expect two hikes in 2025 to 1.0% from July, with UBS targeting a hike to 1.25% in 2026.

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). The OECD forecasts a stronger rebound to 1.5% for Japan in 2025.

Japanese GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Economic outlook

China

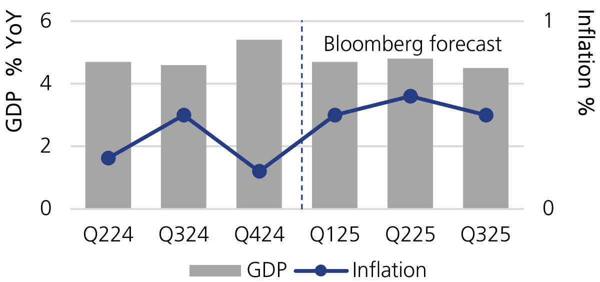
After significant weakness during 2024, China's end-year Q4 data showed stronger momentum, likely on the back of the impact of prior Government stimulus as well as stronger exports on the front-loading of demand ahead of expected US tariffs. However, while further stimulus is anticipated in the year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

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

China concluded its much-awaited annual Central Economic Work Conference (CEWC) in mid-December, setting a more supportive macro policy tone to stabilise growth in 2025, according to CBA. As usual, key growth and policy targets were not announced, but will be released at the National People's Congress in March. As noted by UBS, the CEWC recognised the growth headwinds from domestic demand weakness and external uncertainties, although the potential higher US tariffs was not cited explicitly. The CEWC prioritised "stabilising growth" as the central task and emphasised boosting domestic demand with more proactive macro policies, with "reviving household consumption" listed as a top task, as was a "reasonable rebound" of inflation.

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

Chinese GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Emerging markets

The greater exposure of emerging markets to the global trade cycle renders the outlook for growth and inflation somewhat more uncertain than is typically the case. Moderating inflation trends should support lower interest rates that together with a 'softer landing' in global activity, underpin ongoing below trend, but still firm, growth for emerging economies. 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 from early 2025 could see expected slower growth in 2026 advance earlier into 2025.

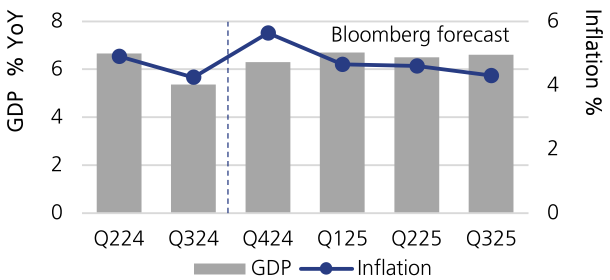
For Asia, absent a trade war, growth momentum was expected to be relatively steady in the year ahead. The more export-oriented economies are likely to bear the brunt of trade weakness, particularly the North Asian economies of Korea and Taiwan. Southeast Asia may prove more resilient, as stronger domestic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

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

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

For all emerging markets, UBS expects growth to slow from a likely 4.3% in 2024 to 4.0% in 2025 (ahead of further slowing to 3.6% in 2026). However, ex-China, growth maintains a steadier near-4% pace over the next couple of years.

India GDP growth and inflation



Source: Bloomberg as of 30 January 2025.

Asset class outlook

Absolute return and government bonds

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

Key points

- Bond markets have been volatile with US Treasury yields ~95 basis points (bps) higher than they were at the September 2024 trough.
- Bond yields globally have risen with stronger than expected labour data in most developed markets, with Australian government bonds outperforming the US.

Rates markets began 2025 with another bout of volatility as the 10-year US Treasury yield peaked at 4.80% in mid-January. Although the 25bps cut by the Fed in December was expected by the market (as was the late January 'hold'), the 'hawkish cut' was less expected, as the Fed signalled a slower pace of easing ahead in 2025. With economic data pointing to a robust US economy, the dot plot was revised higher, with only two cuts in 2025, half of what was expected in September. The market has also had to digest the impact of potential Trump policies, such as the extension of tax cuts, tariff measures and higher fiscal deficits, which could bring a resurgence of inflation.

However, post Trump's inauguration speech, it has been apparent that his first priorities will be to stem inflation pressures and immigration in the near term. We do see the Fed cutting the policy rate to a more neutral level in 2025, but this is likely to be at a higher level than the market had priced in earlier last year. We suspect that the 10-year Treasury yield has peaked at 4.80%, but ultimately, the path of global interest rates will be determined by future data points with the emphasis on growth, unemployment and wage growth. Fed Chair Powell has set the tone for Q1 2025 by highlighting that the economy is not sending any signals that we need to be in a hurry to lower rates. We do not expect, therefore, a meaningful return at the longer end of the curve in the form of capital but more as a yield driver of returns.

The domestic bond curve has outperformed the recent US yield sell off, with the market increasingly expecting an RBA rate cut as early as February. At 4.36%, the Australian 10-year yield is now ~16bps below the US 10-year. The Australian bond curve fell below the US Treasury curve in December 2024, with this inversion marking a shift in investor sentiment around the pace of central bank monetary policy. With monetary policy expected to be eased in 2025, we do not see yields moving substantially higher from here and we recommend buying on price dips with the expectation that yields will be lower over the next three to six-months. We do expect some volatility in the period ahead as the RBA and the market will be following the upcoming data points closely for signs of a weakening labour market, productivity and growth slowdown and fiscal expenditure in an election year. We recommend staying active and adding duration if there are any sell offs in the period ahead.

Investment grade credit and high yield credit

Position: Overweight investment grade credit; neutral high yield credit

Key points

- Investment grade and high yield spreads remain at tight levels, but we believe market tailwinds will continue to support credit in 2025.
- We see opportunity for investors to buy the dips and add to duration as rates volatility remains elevated.

A resilient global economy and strong demand for investment grade credit continued to drive credit spreads tighter during December 2024 and into early 2025. With a gradual pace of easing expected in 2025, this should keep all-in yields elevated and support credit markets in the months ahead. Additionally, the pro-growth policies of the new US administration and further signs of a soft or no landing scenario in the US economy is expected to provide added support to credit markets. Issuers continued to take advantage of strong market conditions in January with significant demand for investment grade bond issuance. With circa USD 150 billion of investment grade issuance year-to-date, this has been absorbed by the market and has driven spreads tighter.

Domestically, in early December, the Australian Prudential Regulation Authority (APRA) confirmed its decision to simplify bank capital framework and phase out bank AT1 capital (hybrids) and replace it with other forms of more reliable capital, namely tier 2 Capital and Common Equity tier 1 (CET1). Hybrid investors have benefited higher yielding franked distributions compared to more traditional forms of fixed income. However, without bank hybrids, investors will need assess the risk/return of other asset classes and fixed income opportunities. ANZ issued an AUD 1.75 billion tier 2 transaction in mid-January at BBSW/ASW +152bps. We are continuing to see the return of the corporate subordinated debt market with names such as Ampol and Scentre Group last year and AusNet being the first issuer this year.

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

Asset class outlook

Domestic equities

Position: Neutral

Key points

- The S&P/ASX 200 Index gained 4.1% in January, outperforming the MSCI World Index, which rose 3.3%.
- The ASX 200, up 7.5% in 2024 (11.5% including dividends), lagged developed markets by 1000bps, China by 900bps and the US by 1600bps.

The ASX 200 P/E multiple expanded by 1.5 points, matching developed markets over the course of 2024. The ASX 200 saw a 2% downward revision in one-year forward earnings estimates across 2024, driven by downgrades in the Communications, Energy and Materials sector.

For FY25, bottom-up expectations are for almost flat earnings for the ASX 200, with tepid 0.7% earnings growth compared expected. Looking ahead to FY26, earnings are expected to expand for the broader market, based on a recovery in the Resources sector. For the broad market, consensus is expecting 7.6%. For the Market ex-resources ex-banks, consensus is forecasting 11.8% EPS Growth.

Earnings are clearly inflecting higher for the market in aggregate, although most of the market's move has been valuation-led – multiples have expanded 17% over the past 12 months versus a decline in EPS expectations.

Valuations for the ASX 200 remain stretched on forward earnings, with the ASX 200 currently trading on 17.9x forward P/E, above its long run average of 14.6x. The delivery of rate cuts this year should bode well for market sentiment, even if some of these market expectations are already priced in. The domestic equity market will continue to benefit from the ongoing flow of money into superannuation funds and thus continual equity market inflows.

Smaller companies have a history of outperforming when rates are cut. MST Marquee think this is for various reasons. First small companies are more highly leveraged than large caps. Small Ordinary Industrials have net debt to EBITDA of 1.7x versus the ASX 100 Industrials at 1.3x. Second, small companies tend to be more domestic focussed and greater beneficiaries of policy which supports domestic demand. Third, we would expect more M&A when rates come down as companies are incentivised to put cash to work and the cost of short-term debt is lower. Small companies have tended to be bigger beneficiaries of M&A.

Once February earnings are completed, investor attention will quickly shift to the upcoming Federal election. Although it will garner much interest, it should not be lost on investors that in the 12 election years over the past 35 years, ASX 200 equity returns have been positive in 10 of them, and by an average of ~14%, significantly better than the 8-9% return per annum through the cycle.

International equities

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

Key points

- The MSCI World ex-Australia Index finished 2024 within 1.5% of a record high with US equities again leading the way, embodying strong gains from the tech sector.
- Developed market P/E multiples expanded 1.5pts over the course of 2024, led by the US which expanded 2pts.

For most of 2024, equities were able to rally in the face of broadly higher bond yields. This was particularly true over the second half of 2024, where a rise in bond yields coincided with not only strong index-level performance, but a broadening of performance beyond just the Mega-cap Tech names. Significantly, however, equities found their threshold, with a breach of ~4.5% on the US 10-year yield (on its way to ~4.8%) in December, culminating in a 5% pullback for global equities. Until then, higher bond yields had been in response to stronger-than-expected economic data, a constructive backdrop for equity performance. In the aftermath of the US election, however, as investor focus switched to the inflationary implications of potential tax cuts, deregulation, and tariffs, real interest rates rose to levels that became a headwind for equities.

Perhaps contributing to this 5% drawdown in equities, valuations once again approached levels that breached 20x P/E. It served as a useful reminder for investors that valuations, stretched sentiment, and implicit growth expectations all set a high bar for ongoing equity performance, one that leaves little room for disappointment. This raises the prospect of heightened volatility and increased drawdown risk, within a broadly constructive investing backdrop.

European equities have posted the strongest gains of any major region into 2025. Eight of the nine best-performing markets year to date are European (with Italy, Sweden, and the Netherlands on top). The Bloomberg European equity aggregate has outperformed the US by 210bps thus far in 2025 and the global ex-US aggregate (in local currency) by 220bps. Importantly, breadth (as measured by the % of stocks trading above their 50 and 200-day moving average) is very strong, with European indices accounting for the top six markets. On the positive side, European equities still trade near their largest discount to global equities (even excluding the US) in the last three years. (The MSCI Europe Index still trades at a forward P/E about 3.9% below global ex-US stocks.) The index's valuation discount to the US is back to a high seen during the 2011 Euro-crisis and fund manager positioning is as negative as it has been since then also. The extent to which that gap closes, if at all, depends on the path of tariff policies, inflation/rates, and ultimately earnings, where growth has been stagnant now for over six months.

Asset class outlook

Currencies

Key points

- US dollar strength has continued over the past month, led by notions of a 'Trump trade'. However, it may have peaked near-term.
- The Australian dollar weakened, but did find support around USD 0.61, rising over USD 0.62 late January.

The US dollar continued to strengthen into early January, hitting a fresh two-year high as markets priced in the 'Trump trade' of ongoing US economic outperformance, potential trade tensions and geopolitical volatility, and higher yields. While there may be further near-term volatility as Trump's initial policy agenda becomes clearer, we suspect that markets may have overshot and a cyclical peak for the US dollar may be close (or already passed). Structural factors including a deteriorating US budget deficit and increasing geopolitical multipolarity point to downside pressures longer-term.

The Australian dollar, with its exposure to China and global trade, was the prime victim of recent US dollar strength, weakening to a fresh post-pandemic low of around USD 0.61 in early January. It seems to have bottomed around the USD 0.61 mark, with a potential US dollar peak and ongoing domestic fiscal stimulus from federal and state governments providing support for the currency in the near-term. Our external partners are expecting modest appreciation in the Australian dollar to end 2025 at around USD 0.65.

The euro continued to trade lower relative to the US dollar, weighed down by ongoing economic and trade policy concerns. We continue to expect the Eurozone to face macro risks on a structural basis, with near-term weakness on the cards given the Eurozone's exposure to Trump 2.0 tariffs. That said, the currency may be bottoming out, particularly if the US dollar is peaking.

The yen has had a volatile few months but also looks to be stabilising at around JPY 155 to the US dollar. Japan's internal inflation and macro dynamics remain tilted towards policy normalisation (the BoJ raised rates for a second time to 0.50% in January) and a 'nominal renaissance' in growth to continue over the next 12-18 months, though it will not be immune to volatility surrounding potential trade and geopolitical tensions as we traverse 2025.

Commodities

Key points

- Global commodity prices fell towards the end of the month on rising tariff concerns. Gold fell from its all-time high to trade around USD 2,630 per ounce, before recovering above USD 2,700 per ounce.
- Iron ore prices were volatile but broadly unchanged at around USD 100 per tonne (p/t) during January.

Global commodity markets remained volatile as markets attempted to digest the potential implications of Trump 2.0. That said, Bloomberg's broad commodity price index is trading roughly 5% higher since the start of December.

Brent crude oil prices rose to 5-month highs in early January, driven by renewed sanctions on Russian seaborne trade, but have pared some of the gains after President Trump declared a national energy emergency and called for lower oil prices. Brent crude traded at around USD 78 per barrel (p/b) at the end of January, around 7% higher since December.

Meanwhile, gold prices have trended higher since December amid renewed investor concerns around inflation, rising debt and US fiscal policy. Currently elevated bond yields and uncertainty around the US fiscal outlook likely present two-way risk to gold prices from here.

Industrial metal prices have been whipsawed by trade uncertainty and Chinese economic data over the past few months, falling on the former and rallying after China's Q4 growth surpassed expectations. Copper is up approximately 4% since December, 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 having to navigate renewed trade tensions with Trump 2.0.

Longer-term themes, including climate change and geo-politics, are likely to support the commodity complex on a secular basis. It is difficult to determine how these competing cyclical and secular forces might evolve over the year ahead, particularly given the shift to a new administration in the US. 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

The macro backdrop remains fundamentally supportive as we begin 2025. Despite disperse growth cycles, inflation remains supportive of a shallow global rate-cutting cycle.

We do not see a global recession in the near-term, with still-resilient consumers, positive secular investment pressures, and easing monetary policymakers. Australia continues to be challenged by stubborn inflation and stagnant growth. This month, we book some profits on our equity and Australian government bond overweights. We are maintaining a nimble stance in the face of evolving macro and geo-political risks.

Why tactical asset allocation?

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

Cash

We have trimmed our cash underweight to -2, reserving a bit of dry powder to lean into potential volatility while maintaining a still-constructive outlook for financial assets.

Fixed income

We remain broadly 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 have trimmed our Australian government bond overweight (back to neutral), booking nearly 40bps of spread compression versus US bond yields. We have trimmed our underweight to global government bonds as we believe the near-term peak for bond yields may be in or close.

Alternatives

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

Equities

We remain constructively positioned in equities, reflecting our central case for a 'soft-ish' landing and supportive central banks. We are overweight US and Japan equities and are neutral in other regions. We have trimmed our Australian equity overweight, reflecting a more complicated outlook for the local bourse relative to global peers and a desire to reserve some dry powder at the total portfolio level.

Active portfolio weights and active tactical asset allocation tilts

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

V Decreased weight this month ^ 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 have moved neutral Australian government bonds. Domestic bond yields have outperformed those in the US over recent months, inverting in December as global sentiment around speed of Fed easing has shifted later (and a near-term cut by the RBA has now been priced). With the AU-US 10-year yield spread falling from +30bps prior to the US election to around -15bps today, we are taking the opportunity to trim our overweight to Australian government bonds (+1 to 0).

Global government bonds

We have trimmed our underweight to global government bonds. Bond yields are largely priced for further cuts from the ECB, BoE and Bank of Canada. With US 10-year Treasury yields peaking at 4.80% in January and currently around 4.63%, we are trimming our underweight to global government bonds at these levels (from -2 to -1).

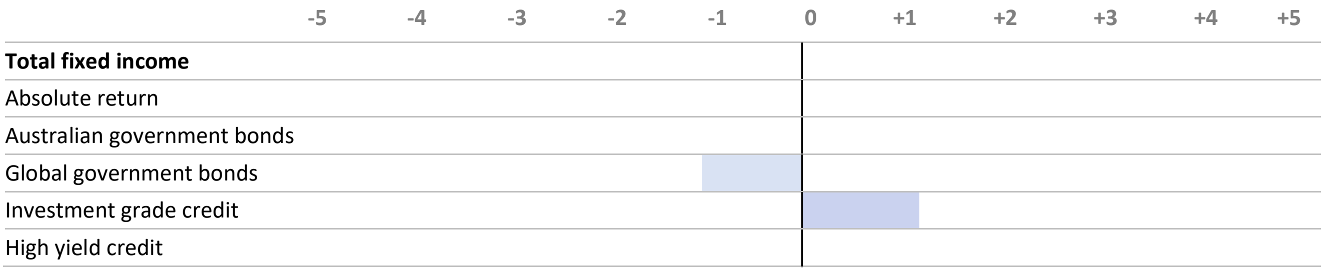
Investment grade credit

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

High yield credit

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

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



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	66.34	69.38
Australian 3-year yield	3.80%	3.82
Australian 10-year yield	4.38%	4.36
Australian 3/10-year spread	57.1 bp	53.22
Australian/US 10-year spread	-0.10 bp	-0.17
US 10-year Bond	4.51%	4.57
German 10-year Bund	2.52%	2.37
UK 10-year Gilt	4.56%	4.57
Markit CDX North America Investment-Grade Index	47.7 bp	49.8
Markit iTraxx Europe Main Index	52.98	57.65
Markit iTraxx Europe Crossover Index	286.75	313.06
SPX Volatility Index (VIX)	15.44	17.35

Source: LGT Crestone Wealth Management, Bloomberg as of 30 January 2025. Active fixed income weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on equities

Domestic

We have moved neutral domestic equities, which are now trading near all-time highs, helped by increased expectations for near-term rate cuts. However, the outlook for Australia is becoming more complicated, with valuations at their highest levels excluding the June 2020–February 2021 period. China's economic response to any tariffs, and major bank earnings will be key for index level returns.

US

We are overweight US equities. Although valuation multiples present a challenge, part of the premium is justified given the higher quality of the US economy, which in turn sees its corporate sector generate a Return on Equity that is amongst the highest in the world.

Europe (ex-UK)

We are neutral European (ex-UK) equities. European equities present a challenging investment backdrop – positioning is very light, valuations are less onerous and the prospect of a resolution to twin wars present upside. However, earnings revisions have been stagnant of late, and an improvement in economic growth (which continues to remain tepid) vis-à-vis the US is required for a sustainable rally.

United Kingdom

We are neutral UK equities. Until recently, ongoing economic malaise had been reflected in a rangebound market, although the past month has seen the FTSE 100 break out of its 9-month trading range. The end result is that the FTSE 100 Index is at an all-time high. This can largely be attributed to foreign currency earnings, as domestic stocks are struggling due to the Labour government's budget and tax hikes.

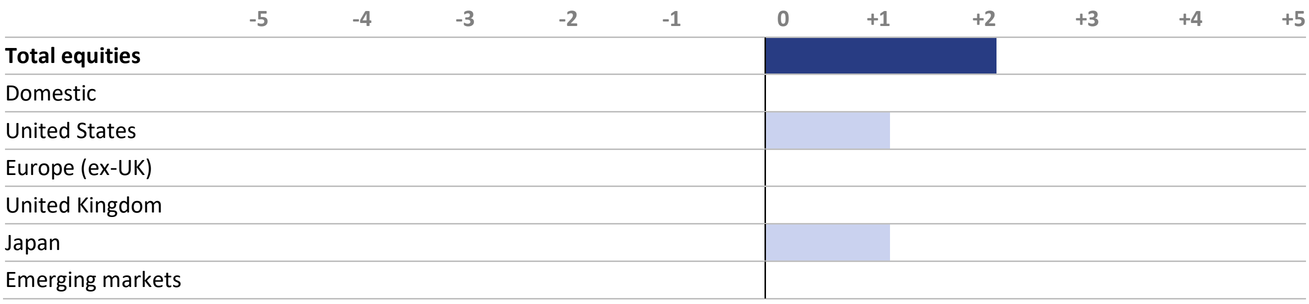
Japan

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

Emerging market equities

We are neutral emerging market equities. While the US-China trade war 1.0 was a surprise to the market, this time it is not. Nonetheless, the MSCI China Index has fallen by 12.6% in US dollar terms from November 5 (the US presidential election) to January 13 (the recent trough), compared with its 10.4% fall over the initial escalation phase of the US-China trade war 1.0 in 2018 (April 2 to August 14).

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	8,493.7	8,512.1	0.2%	20.2	3.4%
New Zealand	S&P NZ 50	12,928.4	13,833.7	7.0%	37.4	2.9%
United States	S&P 500	6,069.6	6,747.5	11.2%	22.3	1.3%
Europe	Euro Stoxx	541.0	594.5	9.9%	14.1	3.2%
United Kingdom	FTSE 100	8,646.9	9,672.6	11.9%	12.1	3.8%
China	CSI 300	3,250.6	3,801.5	16.9%	12.0	3.1%
Japan	Nikkei 225	39,514.0	45,190.1	14.4%	19.9	1.8%
India	Sensex	76,759.8	90,173.7	17.5%	19.4	1.5%

Source: Bloomberg. Data as of 30 January 2025; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield. Active equity weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on alternatives

Hedge funds and diversifiers

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

Private markets

Private equity remains core as transaction activity shows signs of improving. New deal and exit activity are showing signs of improvement, with industry participants anticipating a greater transaction environment in 2025, which should support valuations, given underlying company fundamentals appear strong. In light of this, we recommend maintaining exposures to private equity and venture capital and building positions where underweight. We prefer new primary commitment structures, or those that can invest in secondary opportunities, but do expect that ‘evergreen’ strategy performance should pick up as private market activity increases. However, regarding secondaries, investors should not be complacent 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. While base rate cuts in the US have reduced total yields, risk-adjusted returns continue to be attractive relative to other asset classes. However, public markets have re-opened, which has increased competition, and spreads are tightening. Direct, sponsor-backed transactions versus broadly syndicated strategies are preferred, as loan terms can be negotiated directly, but we are also looking at private, asset-backed finance and other means to provide more diversified exposures. As well as being a good diversifier, asset-backed finance has the potential to be a larger, yet less competed, market. We remain cautious on construction and land-focussed real estate lending, whilst also keeping an eye on those lenders converting cash-paying loans to so-called ‘payment in kind’, which could indicate borrower stress.

Real assets

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

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

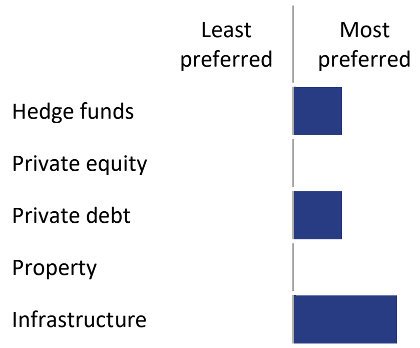
We favour infrastructure, private debt, hedge funds and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

What we like

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

What we don’t like

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



Direct equity

Recommendations:
Domestic equities—Best sector ideas

Objective of this list

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

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

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Com. Services	$249.20	$230.70	58.9	0.9%	43%	33%	19%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$73.99	$71.73	27.4	1.2%	30%	26%	9%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$5.00	$5.35	30.1	3.2%	22%	104%	11%	AA
MTS	Metcash Ltd	Cons. Staples	$3.18	$3.86	12.8	5.6%	18%	17%	8%	AAA
ALD	Ampol Ltd	Energy	$29.10	$32.66	28.0	2.2%	10%	8%	100%	AA
BPT	Beach Energy Ltd	Energy	$1.52	$1.58	7.1	4.9%	17%	13%	13%	AAA
MQG	Macquarie Group Ltd	Financials	$241.02	$224.31	24.1	2.7%	3%	12%	17%	AA
SUN	Suncorp Group Ltd	Financials	$20.57	$19.88	19.1	4.3%	6%	11%	5%	AAA
RMD	ResMed Inc	Health Care	$40.50	$42.82	27.0	0.5%	30%	25%	10%	A
CSL	CSL Ltd	Health Care	$279.73	$328.60	26.2	1.1%	14%	17%	16%	AA
MND	Monadelphous Group	Industrials	$15.55	$14.43	20.7	4.3%	18%	16%	6%	AAA
BXB	Brambles Ltd	Industrials	$19.82	$20.59	19.9	1.9%	22%	28%	12%	AAA
XRO	Xero Ltd	Info. Tech.	$178.80	$185.74	123.7	0.0%	14%	15%	58%	AA
IGO	IGO Ltd	Materials	$5.06	$5.45	na	1.4%	-3%	-1%	-338%	AAA
JHX	James Hardie Industries	Materials	$53.54	$57.38	22.3	0.0%	39%	32%	15%	AA
GMG	Goodman Group	Real Estate	$35.94	$38.85	29.8	0.8%	12%	12%	13%	AA
APA	APA Group	Utilities	$6.85	$8.20	43.6	8.3%	6%	7%	34%	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 January 2025. 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 FY2025 guidance. A step-up in costs and investments is indicative of a positive long-term outlook. When US housing turns, James Hardie is positioned to capitalise on this. Consensus still embeds 15-20% EPS growth over financial years 2026 and 2027.

Recommendations: Domestic equities—Sustainable income

Objective of this list

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

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

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Div. yield	1yr DPS growth	MSCI ESG rating
SUN	Suncorp Group Ltd	Financials	$20.57	$19.88	19.1	1.9	100%	4.3%	-6.9%	AAA
MQG	Macquarie Group Ltd	Financials	$241.02	$224.31	24.1	2.7	35%	2.7%	15.3%	AA
WBC	Westpac Banking Corp	Financials	$33.78	$29.04	16.9	1.6	100%	4.8%	0.0%	A
QBE	QBE Insurance Group Ltd	Financials	$20.75	$21.24	11.7	1.9	20%	3.2%	8.0%	AAA
COL	Coles Group Ltd	Cons. Staples	$19.54	$18.94	23.9	7.2	100%	3.5%	13.9%	AA
MTS	Metcash Ltd	Cons. Staples	$3.18	$3.86	12.8	2.2	100%	5.6%	9.6%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc	$5.00	$5.35	30.1	30.6	100%	3.2%	9.4%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc	$0.67	$0.65	33.3	1.2	0%	1.8%	33.3%	AA
TLS	Telstra Group Ltd	Com. Services	$3.99	$4.38	20.8	3.1	100%	4.7%	5.8%	AA
CAR	CAR Group Ltd	Com. Services	$40.26	$39.59	39.5	5.3	0%	2.0%	13.4%	A
RMD	ResMed Inc	Health Care	$40.50	$42.82	27.0	7.4	100%	0.5%	10.0%	A
PME	Pro Medicus Ltd	Health Care	$271.82	$228.01	253.1	151.2	100%	0.2%	39.8%	BBB
REP	RAM Essential Services	Real Estate	$0.60	na	12.0	1.4	0%	8.5%	2.0%	-
MGR	Mirvac Group	Real Estate	$1.98	$2.23	16.4	0.8	0%	4.5%	6.7%	AA
IRE	IRESS Ltd	IT	$9.30	$10.45	26.3	5.8	0%	1.3%	125.2%	AA
DBI	Dalrymple Bay Infra	Industrials	$3.69	$3.63	21.3	1.7	69%	6.0%	-13.2%	-
ALX	Atlas Arteria Ltd	Industrials	$4.98	$5.52	20.2	1.2	0%	8.1%	1.5%	AA
APA	APA Group	Utilities	$6.85	$8.20	43.6	2.7	0%	8.3%	1.8%	AAA
ALD	Ampol Ltd	Energy	$29.10	$32.66	28.0	2.1	100%	2.2%	127.8%	AA
BPT	Beach Energy Ltd	Energy	$1.52	$1.58	7.1	1.0	100%	4.9%	41.9%	AAA
BHP	BHP Group Ltd	Materials	$39.48	$44.39	11.0	2.8	100%	2.9%	3.9%	A
AMC	Amcor PLC	Materials	$15.71	$16.77	13.2	3.6	0%	3.3%	2.7%	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 January 2025. ESG is environmental, social, and corporate governance.

Trade opportunities

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

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

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	200.83	216.95	24.4	0.4	2,468,683	BBB
UMG NA	Universal Music Group	Com. Services	EUR	27.03	26.98	30.0	2.2	51,572	AA
DIS US	Walt Disney Co/The	Com. Services	USD	114.21	128.09	21.3	1.0	206,544	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	88.30	117.34	10.8	1.0	215,659	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	78.51	85.95	36.3	2.0	116,141	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	108.65	105.68	36.5	2.4	123,416	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	132.19	136.96	33.4	0.0	84,816	BB
RMS FP	Hermes International	Consumer Disc.	EUR	2702.00	2504.21	63.1	0.7	297,514	BB
EL US	Estee Lauder Cos Inc/The	Consumer Staples	USD	84.93	82.69	54.3	1.9	30,488	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	980.79	1034.31	53.8	0.5	435,369	A
288 HK	WH Group Ltd	Consumer Staples	HKD	6.07	8.25	7.3	0.8	9,995	–
SHEL LN	Shell PLC	Energy	GBP	2663.00	3149.68	9.0	0.1	201,876	AA
LSEG LN	London Stock Exchange	Financials	GBP	12045.00	12436.68	34.0	1.2	79,767	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	62.34	65.76	9.2	5.3	47,088	AA
WFC US	Wells Fargo & Co	Financials	USD	78.88	83.67	13.4	2.4	262,630	BB
2318 HK	Ping An Insurance Group	Financials	HKD	43.60	59.06	5.4	5.9	117,174	A
939 HK	China Construction Bank	Financials	HKD	6.33	7.57	4.5	6.4	206,621	AA
MA US	Mastercard Inc	Financials	USD	565.57	583.22	34.9	0.6	519,157	AA
JNJ US	Johnson & Johnson	Health Care	USD	153.66	168.48	14.6	3.5	369,943	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	603.70	818.16	26.5	2.3	376,753	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	584.13	630.39	73.2	0.0	208,055	A
EXPN LN	Experian PLC	Industrials	GBP	3985.00	4312.41	31.7	0.0	45,672	A
DSV DC	DSV A/S	Industrials	DKK	1456.00	1836.58	28.2	0.5	48,932	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	1135.00	1448.07	19.0	1.7	900,663	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	706.70	842.73	29.6	1.2	290,288	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	415.70	503.83	31.6	0.8	3,090,306	AA
ACN US	Accenture PLC	Information Tech.	USD	381.89	398.60	29.8	1.6	239,057	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	367.72	392.68	29.3	0.9	92,611	A
EQIX US	Equinix Inc	Real Estate	USD	922.68	1019.14	81.4	2.0	89,027	AA
ORSTED DC	Orsted AS	Utilities	DKK	277.40	391.45	16.9	0.0	16,299	AAA
		Average Yield:					**1.6%**		

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 January 2025. 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	235.87	250.48	32.8	0.0	2,480,176	BBB
BABA US	Alibaba Group	Cons. Disc.	USD	102.84	119.68	10.6	6.8	244,640	BBB
EBAY US	eBay Inc	Cons. Disc.	USD	67.86	63.81	13.1	1.7	32,505	A
WMT US	Walmart Inc	Cons. Staples	USD	98.80	99.90	35.6	0.9	793,658	BBB
SHEL LN	Shell PLC	Energy	GBP	2663.00	3149.68	8.5	0.1	201,876	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.52	1.58	6.3	6.9	2,156	AAA
LLOY LN	Lloyds Banking Group	Financials	GBP	62.34	65.76	9.3	0.1	47,088	AA
DSV DC	DSV A/S	Industrials	DKK	1456.00	1836.58	24.1	0.5	48,932	AA
KNIN SW	Kuehne + Nagel	Industrials	CHF	209.20	221.60	20.4	3.7	27,809	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	35.06	41.67	11.0	5.4	43,881	A
DE US	Deere & Co	Industrials	USD	482.62	477.55	21.5	1.4	131,442	AA
BXB AU	Brambles Ltd	Industrials	AUD	19.82	20.59	17.9	2.1	17,100	AAA
WTC AU	WiseTech Global Ltd	IT	AUD	123.94	132.46	79.3	0.3	25,863	AAA
ACN US	Accenture PLC	IT	USD	381.88	398.60	27.3	1.6	238,944	AA
INTC US	Intel Corp	IT	USD	20.00	23.68	22.9	0.6	86,282	AAA
SAP GY	SAP SE	IT	EUR	268.05	275.93	35.3	1.0	343,460	AAA
GMG AU	Goodman Group	Real Estate	AUD	35.94	38.85	26.4	0.9	42,864	AA
PLD US	Prologis Inc	Real Estate	USD	120.74	129.08	36.8	3.6	111,826	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30 January 2025. ESG is environmental, social, and corporate governance.

Important information

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