Core Offerings
August 2025
Chief Investment Office, Australia

Could the next shock be disinflation?

…a risk to an otherwise constructive outlook

Our Australian investment team's view of the markets and insights into our latest strategic and tactical positions

Our minds have turned to the ‘next big (beautiful)’ thing, or more accurately, that which is ‘unexpected’ that could materially influence asset markets ahead (we acknowledge that, predicting the ‘unexpected’ is by definition paradoxical).

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Scott Haslem
Chief Investment Officer

As we set sail into the second half of 2025, many (though not all) of the geo-political head winds we flagged just a few months ago—across peak trade uncertainty, a heated Middle East and the One Big Beautiful Bill—have somewhat calmed. Equity markets have responded favourably (and bond yields have not spiked), a helpful backdrop to our still-constructive portfolio positions. In calibrating the compass for the period ahead, we've chosen to maintain our modest overweight to equities and have added risk in fixed income via investment grade credit. Yet, the outlook is not without angst, particularly in the US, leaving us favouring non-US global equity markets, while anticipating steeper bond curves and persistent volatility.

Our minds have also turned to the 'next big (beautiful)' thing, or more accurately, that which is 'unexpected' that could materially influence asset markets ahead. Tariff-induced inflation risks are arguably well considered, while central banks poised to further trim policy rates suggests a recessionary surge in unemployment is a bridge too far. In this month's Core Offerings, we ask whether the next year could witness a disinflationary shock (despite a structurally higher trend). US tariffs are forcing exporters to trim prices or ship elsewhere, while China's recent export surge may intensify competition with emerging Asia production. While not the worst 'shock' for market risk, it could heighten regional and sector dispersion.

Disinflation refers to a slowing in the rate of inflation—it means that prices are still rising, but at a slower pace than before (and is not 'deflation', where prices are falling outright).

There are (now more) reasons to be constructive…

Many of the signposts we canvassed in our June Core Offerings, *Where to now for the global economy*, have pointed more positively over the past month (despite numerous episodes of heightened volatility). Renewed US tariff imposts as the 9 July negotiation deadline passed (extended to 1 August for some) have not exceeded the 'shock' rates of Liberation Day, supporting our thesis that we have now passed peak trade uncertainty. President Trump's One Big Beautiful (tax) Bill was also enacted without excessive bond market reaction. While arguably less 'irresponsible' than first thought, the greater near-term fiscal easing ahead of delayed (and dubious) tightening has been embraced by equity markets.

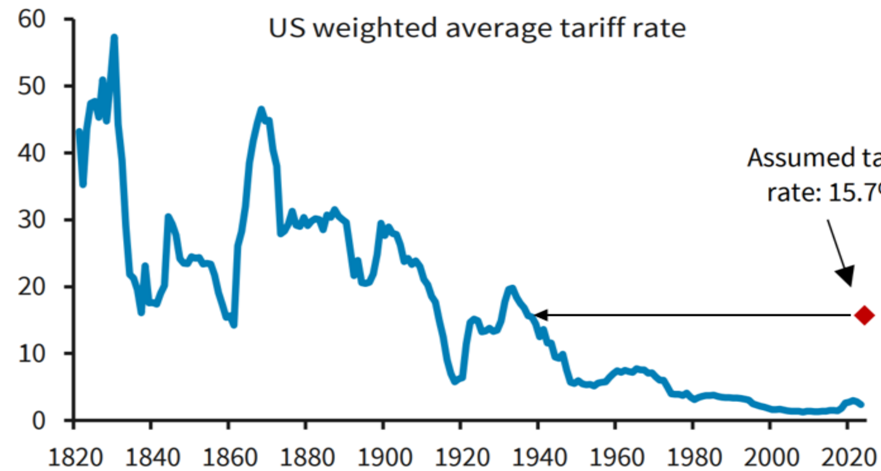
Many of the signpost we canvassed in our June Core Offerings, *Where to now for the global economy*, have pointed more positively over the past month (despite numerous episodes of heighted volatility).

Moreover, threats of nuclear and oil price instability were also relatively swiftly dispatched as Trump summarily forced Iran to 'stand-down' and negotiate before an Isreal-Iran war was able to threaten a wider conflict. Indeed, the return of US 'deterrence'—with actions that were both impactful (bombing Iran nuclear facilities) but also avoided the US getting bogged down in a drawn out conflict—has allowed the US to retain its 'optionality' and signal it's lack of willingness to permit other potential geo-political hotspots to flare, including China's dalliance with Taiwan (and Russia's delay in ending its Ukraine war).

Recent data has also confirmed a subdued global inflationary environment before any tariff impacts have passed through to US goods prices, increasing the willingness of the US Federal Reserve (US Fed), and other central banks, to 'look through' the initial (hopefully one-off) price shock (before weaker US demand comes to bear in H2 2025). The market is expecting central banks to cut a further 0.5–1.0% over the coming year, and there's little in the recent macro data that argues against this.

Yet, while markets have clearly been buoyed by an emerging window of seemingly geo-political calm, there remains some significant challenges on the macro and markets front that have impacted the way we are positioning our portfolios for H2 2025.

Past peak trade uncertainty—but will the 1930s-like tariffs weigh on global growth?



Source: LGT Crestone, USITC, US Dept of Commerce, Bureau of Census, Historical statistics of the US 1789-1945, Barclays Research

Finally, in contrast to past periods of severe economic distress, the current environment has the advantage of being underpinned by relatively strong consumer and corporate balance sheet positions that limit their vulnerability to shocks (and still above average interest rates in the US, Australia and UK). Housing sectors globally are not goosed on rampant credit growth, and thus less vulnerable to collapse, and investment opportunities across thematics such as climate, defence and supply-chain logistics all argue a relatively low risk of a global growth collapse.

The outlook is not without angst…impacting our portfolio positions

We've chosen to maintain our modest overweight to equities and added risk in fixed income via investment grade credit.

Reflecting these constructive developments—and a positive start to our tactical attribution as the new financial year gets underway—we've chosen to maintain our modest overweight to equities and have added risk in fixed income via investment grade credit.

Yet, while markets have clearly been buoyed by an emerging window of seemingly geo-political calm, there remains some significant challenges on the macro and markets front that have impacted the manner in which we are positioning portfolios for H2 2025. These challenges also suggest renewed volatility is unlikely to be long-absent over the coming year. Should some of these concerns rise to the markets' 'surface' over coming months, we stand ready to deploy capital into any 'risk-off' period, in line with our still constructive medium-term outlook.

Over recent weeks, both Europe and Japan have secured trade deals (at 15% tariffs) ahead of the 1 August deadline, toward the lower end of expectations.

- **We remain cautious US equities**—While maintaining a healthy strategic weight to US equity markets (and a tactical overweight to equities overall), we find it hard to ignore the macro growth risks associated with imposing a 15–20% tax on your own economy (and consumers). It is not clear the market has fully embraced the potential for a significant slowing in US growth during H2 2025. Moreover, with price/earnings (P/E) valuations at peak historic levels (22 times), we view US markets as more vulnerable than other markets to a drawdown over coming months.

  We are nonetheless mindful of the "potential upside from US fiscal and deregulation efforts", as Goldman Sachs Asset Management notes, together with the attractive thematic opportunities, especially in AI (where a shift from AI model training to AI application could confirm a still buoyant capex cycle). Falling US interest rates in H2 2025, and regulatory relief could also support mid-cap equities after a lacklustre H1. Reflecting this, we have closed our underweight to US equities (to neutral) this month, within an overall modestly overweight equities stance.

- **We continue to favour non-US equity markets (Europe and Japan)**—A previously negative long-term picture for Europe has rested on a disinflationary backdrop for its largest export market (China), German fiscal prudence, zero interest rates and energy dependence. These headwinds are now at worst neutralising, and some are becoming a macro tailwind, which we believe will support improved equity performance in the years ahead. We also continue to maintain our overweight to Japan equities. Having corrected sharply in late March and early April, Japanese stocks have subsequently rebounded and now exceed their pre-correction levels, briefly making new all-time highs in July. Over recent weeks, both Europe and Japan have secured trade deals (at 15% tariffs) ahead of the 1 August deadline, toward the lower end of expectations.

With elevated fiscal issuance and more 'normal' inflation, a reduced ability for bonds to rally also lowers (but doesn't entirely negate) their diversification qualities, a nod to the need to allocate to defensive alternatives within multi-asset portfolios.

- **We expect steeper curves and more 'income' in fixed income**—We continue to view fixed income as an attractive asset class, albeit this is more aligned with its 'income' characteristics than a belief we can benefit from being long (or short) duration. For government bonds, we are tactically neutral, balancing the downside risks to global growth against medium-term concerns about rising debt issuance. Even with Trump's arguably 'balanced' tax bill, little progress is being made to improve an arguably unsustainable US debt position, while fiscal stimulus is being added across Europe, China and possibly Japan. While central banks are likely to be able to trim rates moderately further towards 'normal'—say 2–3%—our secular outlook for inflation nearer (rather than below) inflation targets suggest curves are likely to remain steeper to reflect elevated fiscal issuance (and higher term premia). More 'normal' short rates (as opposed to those near zero) suggest fixed income will deliver steadier and higher returns than over the past decade.

- **A more positive bond-equity correlation argues the role of defensive alternatives**—History suggests that in periods of higher average inflation—before the great inflation moderation of 1990–2020, and arguably now—the diversifying benefits of bonds to equity risk are much lower than the construct of the 60/40 equity/bond portfolio would suggest. Indeed, periods like present often reflect positive correlations, where both bonds and equities are doing well (moderating inflation where central banks are trimming rates) or both are doing poorly (as inflation is surprising higher and central banks are tightening). With elevated fiscal issuance and more 'normal' inflation, a reduced ability for bonds to rally also lowers (but doesn't entirely negate) their diversification qualities, a nod to the increasing need to allocate to defensive alternatives (and private markets) within multi-asset portfolios, such as infrastructure, quality private credit (global) and other portfolio diversifiers.

Two drivers of a potential disinflationary shock…

"Outside the US, tariffs generally reinforce disinflation. In China, manufacturing overcapacity, weak domestic demand, and demographic headwinds point to continued deflation. Conversely, a domestic upswing and wage growth are driving inflation in Japan".

GSAM July 2025

Our minds have also turned to the 'next big (beautiful)' thing, or more accurately, that which is 'unexpected' that could materially influence asset markets in the year ahead; of course, we acknowledge that, predicting the 'unexpected' is by definition paradoxical. Tariff-induced inflation risks are arguably well considered, while central banks poised to further trim policy rates suggests a recessionary surge in unemployment is a bridge too far.

Instead, we ask whether the next year could witness a disinflationary shock. US tariffs are forcing exporters to trim prices or ship elsewhere, while China's recent export surge may intensify competition with emerging Asia production (a negative impulse to world growth). While not the worst 'shock' for market risk, it could heighten regional and sector dispersion.

(1) US tariffs driving a material global trade redirection

While US tariff outcomes surrounding the 9 July, and then 1 August, deadlines are proving less aggressive than those announced (and then delayed) at early April's Liberation Day, they are nonetheless material. Most analysts are estimating the US tariff average will be 15–20% moving forward, with obviously higher rates for some sectors, such as autos, steel and aluminium. For many exporters to the US, the negative impact on demand for their products—as well as pressure from US importers to reduce import prices—may lead to significant changes in the global direction of trade over the next couple of years. Moreover, there are essentially three key channels through which we expect US tariffs to impart a (potentially mild) disinflationary shock, on average, across the world.

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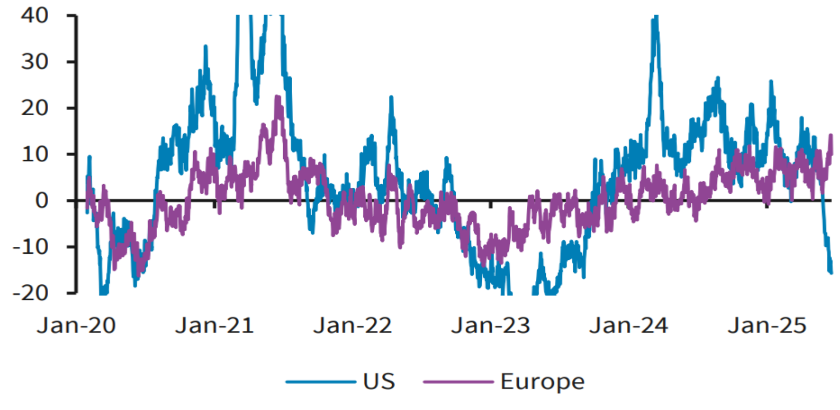
- **Slower US growth should foster lower core inflation**—to the extent tariffs are a tax on US consumer demand (and a real tightening of US fiscal policy via duties collected from US importers), this is likely to be a headwind for US growth. Indeed, according to the US Congressional Budget Office, tariffs could raise USD 2.4 trillion over the next 10 years, money that no longer will be spent by US consumers. Once the initial inflationary impact of higher prices has come through—most likely evident from July-September 2025—weaker demand would typically be expected to then put downward pressure on core prices over the coming period. Moreover, weaker consumer demand is then likely to feed into weaker business employment and investment. History suggests weaker US growth begets weaker US inflation, in time.
- **Exporters to the US may end up reducing their prices**—for now, recent US import price data has remained relatively flat. While this suggests little new inflationary impulses, it also suggests that on average, exporters to the US are not yet cutting their prices to effectively 'share' some of the tariff impost, to limit the US domestic price hike and potential impact on their demand. The evidence suggests, though, that this is starting to occur. In June, Japanese automakers slashed prices on vehicles exported to the US by up to 20%. It seems unlikely demand elsewhere will be sufficiently robust to offset this with higher prices in otherwise still competitive markets. Such moves are likely to impact exporters' profitability, and their ability to invest. Pressure to deliver productivity offsets may also see lower prices in non-US markets.
- **Increased supply pushing down prices in non-US markets**—as Barclays Research notes, "we are starting to see the effects of the higher customs duties already in place, most notably a sharp drop in US container imports" (chart below). But there has been no drop in China's container exports, suggesting it is diverting goods to other economies. According to Barclays, one of those regions is Europe, where there are "anecdotal reports of congestion" (and container imports remain elevated and import prices have trended negative). It seems likely that reduced demand from the US as higher prices take hold will see exports from China, Europe, Japan and other significant exporters redirected to other markets, a potential global disinflationary shock.

Container volumes reveal falling exports to the US market, and rising exports to Europe



Source: IMF PortWatch, Haver Analytics, Barclays Research (annual %, 30 day average)

(2) China’s surging export volumes deflating global prices

Since 2023, China’s export volume growth has accelerated sharply, to be up around 20% (compared with just 6% for the rest of the world). Consequently—and as shown in the Chart below—China’s share of world trade has lifted markedly over the past couple of years, and to well above its prior decade trend. Indeed, as UBS notes in its research, “this is China's strongest outperformance since the years following World Trade Organisation accession”. China remains an increasing export powerhouse.

Interestingly, the vast majority of the additional exports, according to UBS, are finding their way to emerging (rather than developing) markets. The most significant increases have been to Russia, Africa, Vietnam and Singapore, partially offset by falling exports to the US, Europe, South Korea and Japan. Emerging markets now represent over half of China’s exports, compared with only 40% in 2015. Key areas of increasing China export penetration include autos (particularly for Latin America), and household appliances (air conditioners, fridges and laundry appliances), particularly for Asia.

While China has undeniably been successful at re-directing exports to access many developed economies, like the US, via third markets, this absolute strength in exports goes much deeper than any ‘trans-shipping’ exercise, reflecting the establishment of new sources of demand for China’s goods. UBS also argues that surveys suggest the (improved) quality of China’s production is playing an increasing role in driving demand from emerging market consumers.

China is already experiencing significant domestic deflation pressure, with flat consumer prices and producer prices falling almost 4% a year in Q2. The bigger issue, however, is the impact on emerging market (ex-China) growth—also significant manufacturers—where there is evidence China’s increasing penetration is deflating other countries prices and pressuring corporate margins. Reduced domestic production has the potential to weigh on local employment and activity more broadly.

While China’s government has recently announced policies to focus on containing China’s ‘over capacity’, this is unlikely to have a meaningful impact over the coming year, and with China’s own policies targeting at boosting Chinese consumption proving slow to impact, there is an increasing chance that China’s deflation will spillover in a more extreme manner in the year ahead.

China’s share of world exports has surged since 2023

Source: Haver, UBS estimates. 3mma shown. Latest data point is Apr-25.

Key takeaways

- Many of the signposts we canvassed in our June *Core Offerings* have pointed more positively over the past month. We’ve chosen to maintain our modest overweight to equities, adding risk in fixed income via investment grade credit. We remain favouring non-US global equity markets, while anticipating steeper curves and persistent volatility.
- In turning our attention to that which is ‘unexpected’ – and could materially influence asset markets ahead – we ask whether the world could be on the cusp of a disinflationary shock, from both US trade re-direction and/or China’s recent export surge.
- We highlight the disinflationary risks from US tariffs via a) slower US growth as tariff’s tax consumer spending power, b) exporters to the US having to ‘eat’ some of the tariff increases, while c) goods previously destined for the US are redirected to other markets.
- We also highlight the recent rapid uplift in China’s share of world exports, reflecting its increased export penetration. These new sources of demand for China’s goods increase the risk that China’s deflation spills over, with emerging market economies most at risk.

What’s driving our views

We move overweight fixed income and stay positive as markets climb the wall of worry

Global equity markets continued to rally over the past few months, surprising many commentators who have highlighted ongoing trade/tariff uncertainty, geo-political volatility, US fiscal concerns, and a slowing US economy. We appreciate these legitimate concerns but also recognise that there are genuine constructive factors driving this rally. Our constraints-based framework helped us identify a peak in US trade uncertainty in mid-April (which we believe still holds) and a peak in geo-political uncertainty in mid-June (when US airstrikes ended the ’12 day war’ between Israel and Iran). If our thesis proves out, this will imply a significant reduction in negative tail risks to global markets and the global economy over the coming year or so.

We continue to believe that tariffs are ultimately disinflationary, particularly outside the US, and that ongoing progress on bringing inflation back to target will allow global central banks to continue modestly cutting rates into the back end of 2025. We also hold an out-of-consensus view that the recently passed ‘One Big Beautiful (tax) Bill’ in the US is more fiscally disciplined than first feared and is broadly balanced over the next 10 years once tariff revenues are included. This should support global fixed income markets, which are offering attractive all-in yields to investors. Resilient corporate earnings and the promising potential upside from the artificial intelligence (AI) roll-out could add another feather to the admittedly extended equity rally.

Downside risks remain, with still-high levels of overall policy and geo-political volatility, and growing signs of underlying frailty in the US economy. While many market commentators remain concerned about stagflation, our view is that the most likely downside scenario is actually a disinflationary negative growth shock. If such a scenario occurs, fixed income should reclaim its role as a portfolio diversifier.

Reflecting our view these negative tail risks have moderated and our conviction in fixed income, we have moved overweight investment grade credit this month, while maintaining our cautiously optimistic overweight to global equities. We have neutralised our US underweight via initiating a small underweight in Australian equities, to reflect the superior earnings growth and potential in the US market. We remain ready to respond to emerging risks and opportunities.

Key cyclical views

Has policy uncertainty peaked? Our frameworks tell us that trade and geo-political uncertainty have peaked, pointing to moderating (though still-present) tail risks to the global economy.

Tariffs are disinflationary: while we expect to see a mechanical lift in US goods inflation over coming months as tariffs work through the system, we continue to believe that as a tax that weighs on consumer and business demand, tariffs are ultimately disinflationary both for the US and the rest of the world.

Can central banks keep cutting? Progress on inflation and the ultimately disinflationary impact of tariffs should allow central banks to continue the global rate cutting cycle they started in 2024. US policy uncertainty presents a key challenge in balancing downside risks to growth with perceived inflation fears.

Opportunities are ripe for ‘active’ hunters vs ‘passive’ gatherers: the best opportunities will likely lie beneath the broad index level, rewarding more active ‘hunter’ versus passive ‘gatherer’ investors. This has proven particularly true so far this year.

Fortune favours the bold: 2025 is likely to continue to favour investors who can digest and exploit the opportunities that come with market volatility. Prudent portfolio diversification, across both traditional and alternative asset classes, and active management, will be important tools in the astute investor’s arsenal.

Key structural views

Welcome to a multi-polar world: The global community is increasingly realising that we have entered a multi-polar world, an environment that will likely create more volatility and uncertainty, but also present more growth and opportunities for investors.

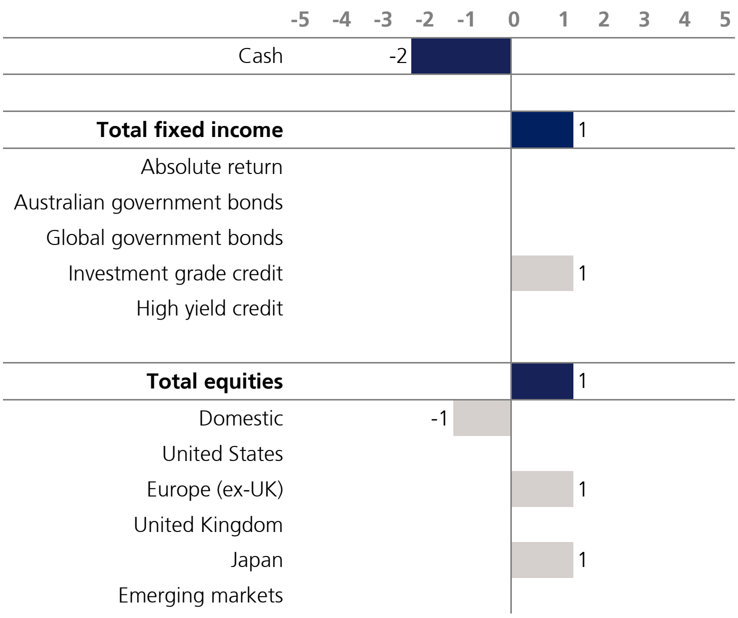
The energy transition is growing more challenging: Policy uncertainty, cost, energy security, and more extreme physical impacts are likely to complicate an already-challenging energy transition.

The rise of artificial intelligence: AI presents significant challenges and opportunities for the global economy and human society.

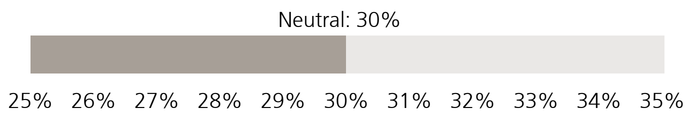
Higher base rates increase investor options: We expect interest rates to remain higher-for-longer, particularly relative to the post-GFC zero interest rate policy environment. Higher base rates increase forward-looking returns across all asset classes, giving investors more options to build robust, multi-asset portfolios.

Tactical asset allocation

Tactical asset allocations (% weights)



Foreign currency exposure (Balanced SAA)



Our current tactical asset allocation views

We believe that trade and geo-political uncertainty have peaked, reducing left-tail downside risks to markets and the global economy. We also believe that tariffs are ultimately disinflationary, and that progress on inflation should allow global central banks to continue cutting rates.

That said, the likelihood of a mid-cycle slowdown has increased, and a disinflationary negative growth shock is a key downside risk on our radar. Australia continues to be challenged by stagnant productivity.

The ongoing roll-out of AI presents a potentially enduring tailwind to productivity and earnings, though it brings with it clear societal risks.

Cash

We deployed more cash this month into fixed income to reflect our conviction in duration at these levels. We retain optionality to respond to evolving market conditions.

Fixed income

We moved overweight fixed income, closing our global government downside risk hedge and moving overweight investment grade credit, reflecting a more constructive stance that is also aligned to further rate cuts.

Equities

We remain overweight equities but have closed our US underweight via introducing an underweight to domestic equities. We retain our preference for European and Japanese equities.

Active portfolio weights and active tactical asset allocation tilts

		Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	V	**-2**	**2**	**2**	**2**	**2**
Fixed income		**1**	**53**	**35**	**17**	**14**
Absolute return		0	11	6	2	2
Australian government bonds		0	13.5	7	3.5	2.5
Global government bonds	V	0	13.5	7	3.5	2.5
Investment grade credit	Λ	1	12	13	6	5
High yield credit		0	3	2	2	2
Equities		**1**	**23**	**41**	**59**	**39**
Domestic	V	-1	8	15	23	10
United States	Λ	0	8	14	20	16
Europe (ex-UK)		1	3	4	6	5
Japan		1	2	3	4	3
United Kingdom		0	1	2	2	2
Emerging markets		0	1	3	4	3
Alternatives		**–**	**22**	**22**	**22**	**45**
FX exposure		**0**	**20**	**30**	**40**	**40**

V Decreased weight this month   Λ Increased weight this month

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

Strategic asset allocation

Why do we believe in strategic asset allocation?

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

Why do we advocate SAAs to our clients?

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

Why strategic asset allocation?

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

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

Strategic asset allocations in models

	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	**4**	**4**	**4**	**4**
Fixed income	**52**	**34**	**16**	**13**
Absolute return	11	6	2	2
Government bonds	27	14	7	5
Investment grade credit	11	12	5	4
High yield credit	3	2	2	2
Equities	**22**	**40**	**58**	**38**
Domestic	9	16	24	11
United States	8	14	20	16
Europe (ex-UK)	2	3	5	4
Japan	1	2	3	2
United Kingdom	1	2	2	2
Emerging markets	1	3	4	3
Alternatives	**22**	**22**	**22**	**45**
Private markets	8	10	11	20
Real assets	9	8	7	14
Hedge funds and diversifiers	5	4	4	11
Target foreign currency exposure	20	30	40	40
Indicative range for foreign currency	15–25	25–35	35–45	35–45

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

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

Economic updates

Economic outlook

Global Economy

Over the past month, global growth has slowed somewhat less than signalled by the earlier sharp falls in business and consumer confidence. However, evidence is mounting that growth in Q2 has still slowed, and weaker activity is widely forecast for most regions during H2 2025, including the US, Europe and Japan. Uncertainty about the outcome of 1 August trade negotiations and its impact on capex and exports, is weighing on the outlook, as is early signs of slowing labour markets across the US, UK and Australia. A combination of still-sticky services inflation in some regions, together with a reluctance to further trim interest rates ahead of an assessment of the initial impacts of tariff-induced inflation, has also led some central banks to delay rate cuts, adding further downside risk to the growth outlook through the rest of 2025.

Elsewhere, geo-political developments have evolved in a broadly favourable manor, to the extent prior heightened uncertainty has reduced. Many key regions—including Europe and Japan—have struck deals with the US on a new level of tariffs, the Iran nuclear crisis has been mitigated, President Trump's tax bill was passed, while the return of US 'deterrence' has likely paved the way for a calmer year ahead in terms of the potential for geo-political flare-ups. Together with the likelihood that tariff-induced inflation impacts will be temporary and central banks are expected to trim cash rates further, this should lay a foundation for a moderate cyclical recovery through 2026, from well-below trend growth in H2 2025, to closer to a trend pace by end 2026.

Consistent with our secular outlook that embraces an increasingly multi-polar geo-political backdrop, ongoing volatility in (and dispersion across) economies and markets is likely to persist over the coming year. Moreover, the US-only impost of sharply higher trade barriers is likely to drive dispersion across regions, impacting US inflation (higher) and growth (slower) more materially than other economies, at a time Europe and China (and potentially Japan, post the ruling party losing power) are stimulating growth. This likely supports the ongoing weaker trend in the US dollar, albeit future declines are likely more modest given recent sharp falls.

While risks have recently receded, the outlook for global growth remains uncertain. We anticipate growth slowing sub-trend (but not collapsing), with central banks continuing to trim rates in H2 2025 despite a temporary inflation spike. After 3.3% in 2024, consensus has recently cut the global growth outlook to 2.7% in 2025 and 2.8% in 2026 (from 3.1% at year's start).

Australia

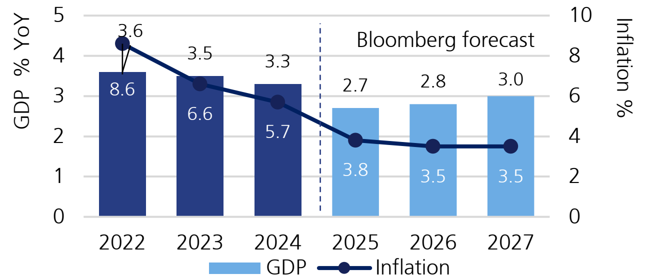
Over the past couple of quarters, the Australian economy has continued to recover modestly, annualising near 1.7% compared to just 0.9% in the prior six months. Disappointingly, from this already below-trend pace, the recovery appeared to lose momentum in early 2025, as consumers and businesses remained subdued and the public sector showed signs of slowing from its previously frenetic pace. Pleasingly, inflation has continued to trend lower toward the central bank's inflation target, providing room for some modest rate cuts in H1 2025. This appears to have stabilised private sector growth into mid-year, albeit a now weakening jobs market (and higher unemployment rate) is expected to foster further rate cuts in H2 2025. The newly elected Labor government is returning to parliament in late July, with a stated focus on lifting housing activity and boosting Australia's lethargic productivity performance.

Growth disappointed in Q1, edging only 0.2% higher, and leaving the annual pace at a significantly sub-trend pace of just 1.3%. Expectations centre around some improvement in activity during Q2, though as Barrenjoey Research notes, the "economy [is] struggling to get out of second gear". Retail sales rose just 0.2% in May, below expected, and slowing the annual pace to 3.3% from 4.3% two months earlier. Jobs growth has also stagnated, with the unemployment rate rising from 4.1% to (a still relatively low) 4.3%. In contrast and likely reflecting some global tariff de-escalation and domestic rate cuts, business confidence rebounded in June for the third straight month to its highest since January and housing prices have started to re-accelerate, supporting household wealth.

Inflation fell more than expected to 2.1% (from 2.4%) in Q2, at the bottom of the 2–3% target. The core 'trimmed' measure also eased from 2.9% to 2.7%. The Reserve Bank of Australia (RBA) took a relatively 'dovish' tilt in May when they trimmed the cash rate from 4.10% to 3.85% (their second cut this cycle), noting downside risks to the outlook and reducing their estimate of the 'normal' policy rate. But surprising markets, they held policy unchanged in July, suggesting a less uncertain global backdrop had shifted their thinking. Subsequent weak jobs and below expected inflation should result in a further cut in August (with UBS and Barrenjoey forecasting further rate cuts to 3.10% by early 2026).

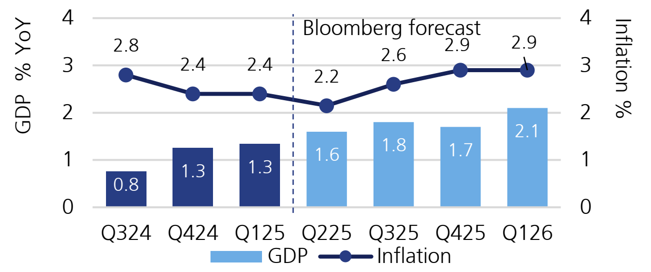
After just 1.0% in 2024, UBS expects growth to strengthen to 1.7% in 2025 and 2.1% in 2026, an arguably still below trend pace. CBA is marginally more upbeat, expecting growth to pick up to 1.8% and 2.3%, respectively. The global backdrop and the extent of any China stimulus, will be key to Australia's near-term growth outlook.

Global GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Australian GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Economic outlook

United States

US growth has slowed significantly during H1 2025. The extent of that slowing has been masked by pre-tariff induced volatility in imports, overstating Q1 weakness and likely understating the slowing in Q2. Despite this clear slowing in domestic activity, the past month has been characterised by declining geo-political and trade uncertainty from the peaks of Liberation Day and the conflict in Iran. This has begun to reverse some of the earlier severe weakness in the 'soft' data (business and consumer sentiment), while some of the 'hard' data in late Q2 (retail sales and industrial output) have proved better than expected. This has supported expectations that despite a likely further slowing in H2 2025, the US economy will avoid recession with only a moderate slowing.

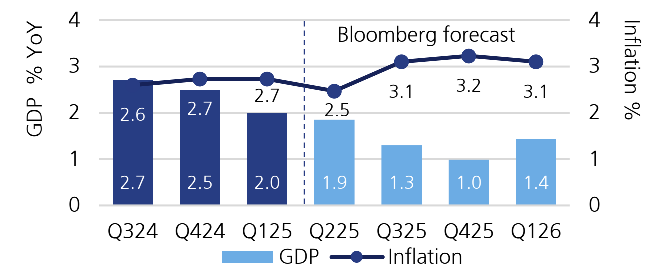
During July, President Trump's 'One Big Beautiful Bill' was passed, likely increasing fiscal deficits through 2034 by over USD 3.4 trillion. The bond market broadly navigated the outcome, avoiding a significant sell-off, likely aided by Congressional Budget Office estimates that tariff revenue could be virtually offsetting at USD 2.8 trillion. The 90-day pause on reciprocal tariffs ended on 9 July but extended for many until 1 August. Deals were effectively inked with most key trading partners (at around a 15-20% mark) except for China, although negotiations are believed to be ongoing.

Growth in Q2 rebound by 0.7% (annualised 3.0%), after Q1's 0.1% fall (-0.5%). However, domestic activity continued to weaken, rising just 0.2%, well below the 0.8% pace in H2 2024. Recent monthly data has been mixed. While retail sales rebounded 0.6% in June, Q2 still saw an outright decline in spending due to falls in April and May. The housing sector also remains under pressure "from elevated mortgage rates and rising construction costs tied to tighter immigration policy", according to BCA Research. In contrast, July's composite purchasing managers' index (PMI) jumped to 54.6 from 52.9, its highest level for 2025, led by strong services activity.

While inflation has been broadly benign (with core edging higher from 2.8% to 2.9%), June revealed clear evidence of some early pass-through of tariff-led inflation into goods prices. US Federal Reserve (US Fed) Chair Powell has used tariff-inflation uncertainty to delay rate cuts, holding policy unchanged in July, with dissent emerging as two members argued for a July rate cut. Markets still largely anticipate one-two rate cuts later this year, likely supported by further slowing in the jobs market and consumer spending.

After strong growth of 2.8% in 2024, UBS has sharply cut its 2025 forecasts from 2.0% to 1.5% (with Barclays Research at 1.4%), with 2026 sliced even further to 1.4% (was 1.8%).

US GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Europe

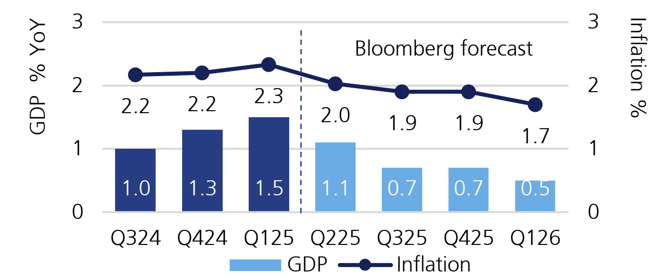
The de-escalation of trade tensions in late May proved relatively short-lived, with US President Trump announcing 30% tariffs on European goods from 1 August. However, in late July, the US and Europe announced a preliminary trade deal, with tariffs around 15%, well below the feared 30% rate. Details remain unclear, and while some sectoral rates remain unannounced, the deal is widely seen to be a positive in terms of deescalating tensions between the US and Europe. While there is a risk that growth could stall during H2 2025, there remains reasons to anticipate an improved growth outlook to emerge through 2026, led by the lagged impact of lower interest rates, Germany's sizeable fiscal package and the potential for additional stimulus from China, a key European export destination.

Growth in Q2 rose by 0.1%, a touch above expected following Q2's strong 0.6% gain. The annual pace edge higher again, rising to 1.4% from 1.5% (and 1.2% at the end of 2024). Europe's domestic demand remains relatively resilient, while some front-loading of export demand also supporting growth. Recent data has been more mixed, consistent with the moderation from Q1's above trend pace. Retail sales fell 0.7% in May, after 0.3%, easing the annual pace to a modest 1.8% (from 2.7%). July's PMI lifted further to 51.0 from 50.6 (and 50.2 in May)—led by manufacturing—signalling ongoing modest growth in Q2. Despite a tight jobs market, wages growth is slowing, providing scope for further modest rate cuts.

Inflation in Europe remains relatively well-behaved, despite little further disinflation over the past couple of months. Headline inflation edged slightly higher in June to 2.0% (from 1.9%), while core inflation was unchanged at 2.3%. At is June meeting, the European Central Bank (ECB) lowered its 2025 and 2026 inflation forecasts by 0.3% to 2.0% and 1.6%. According to the ECB, "most measures of underlying inflation suggest that inflation will settle at around the 2% medium-term target on a sustained basis". China's industrial overcapacity (and rising US trade barriers) could see additional goods supply from China, adding to Europe's disinflation. While uncertainty about trade negotiations saw the ECB stay on hold in late July (at 2.0%), rates are expected to be trimmed one or two more times this year, supporting the 2026 growth outlook.

After growth of 0.9% in 2024, UBS recently trimmed its forecast for 2025 from 0.9% to 0.7% (recovering to 1.0% in 2026). Barclay's Research has also lowered its growth forecast to 0.8% for 2025, where growth is expected to remain in 2026. A US-Europe trade deal has the potential to drive upgrades to the growth outlook.

European GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Economic outlook

United Kingdom

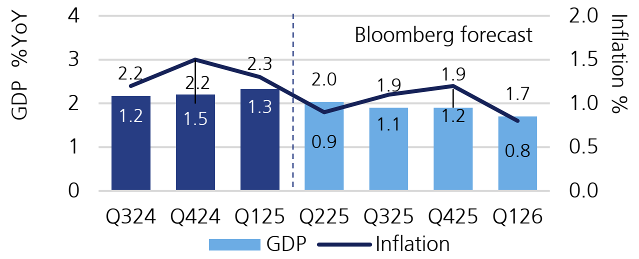
After a strong rebound in Q1, growth in the UK economy has slowed noticeably during Q2, with further weakness anticipated for H2 2025. Weaker industrial and construction activity has weighed on Q2 activity, while a weaker trade and global growth backdrop is seen weighing on activity over the rest of the year. Recent cuts in interest rates are expected to support domestic activity. While inflation recently printed higher than expected (led by sticky core services prices), a softening jobs market (and a difficult fiscal position with limited room to support growth) is still expected to lead to further rate cuts during H2 2025. Little clarity has emerged about the proposed US-UK trade deal, which according to UBS, maintains tariffs as a significant impost (at circa 9% prior to 1% before the trade tariff upheaval began). Growth is nonetheless expected to stabilise and improve through 2026, on the back of lower rates and renewed European and China stimulus.

Growth jumped by a stronger-than-expected 0.7% in Q1, led by a pick-up in consumer spending and business investment, together with stronger exports on pre-tariff demand. Recent data has been weaker. Monthly output contracted 0.1% in May (after -0.3%), consistent with flat Q2 growth. Retail sales collapsed 2.7% in May after a strong 1.3% jump, leaving the trend negative for the quarter to date. The composite PMI eased to 51.0 (from 52.0) in July, led by weaker services activity and flagging a soft Q3. Jobs in May fell by 109,000 (after -55,000 in April). According to BCA Research, “slower labour demand is translating into weaker wage pressures, which will allow the Bank of England (BoE) to ease” in the months ahead.

Inflation accelerated in June to 3.6% (from 3.4%), and core inflation rose to 3.7% from 3.5%, as services inflation failed to moderate. But as UBS notes, “leading indicators point to disinflation in the coming months. The UK labour market has weakened, prices in manufacturing appear to have peaked and should ease as global trade tensions weigh on demand.” As widely expected, the BoE left rates unchanged at 4.25% in June. The minutes note that "there was clearer evidence that a margin of slack had opened up over time in the labour market". The BoE reiterated a “gradual and careful” approach to easing, stressing that monetary policy was not on a pre-set path, especially given an uncertain global outlook.

After growth of 1.1% in 2024, UBS has maintained its recently reduced 0.8% forecast for 2025 (rising to 1.1% in 2026), albeit noting significant uncertainty around the outlook. In contrast, Barclay’s Research maintains a stronger forecast of 1.1% for 2025, rising to 1.2% for 2026.

UK GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Japan

Structural recovery forces impacting Japan’s economy appear likely to take a back seat over the coming year. Despite relative strong growth in recent quarters, confirming Japan’s exit from secular stagnation, a deteriorating global trade backdrop (together with higher tariffs from the US) suggest cyclical headwinds will deliver relatively flat growth for Japan over the rest of 2025. According to Barclays Research, current US tariffs are estimated to cost Japan’s economy about 0.7% of growth this year. While persistently stronger wage growth should support consumer spending, business confidence has stalled, and the outlook for exports is now weaker. Having moved away from negative interest rates, expectations for further rate hikes this year have largely been shelved.

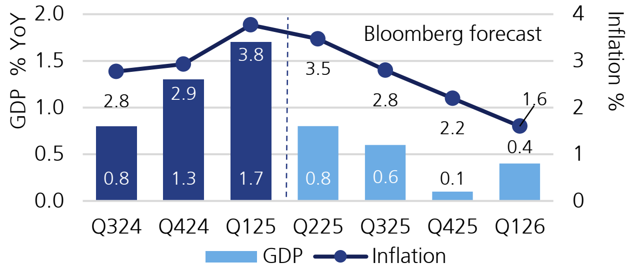
After early July’s threat of higher 25% tariffs, the US and Japan announced on 22 July a trade deal, including US tariffs on Japan at 15% (including autos), with Japan agreeing to buy USD 8 billion of additional US goods per year. This has removed a key uncertainty for the economy. However, Japan’s ruling Liberal Democratic Party (LDP) also lost control of the upper house in July, while Prime Minister Ishiba flagged his resignation by the end of August.

Growth was flat in Q1, following Q4’s strong 0.6% gain, albeit lifting the annual pace from 1.3% to 1.7%. The decline was led by weaker exports and a jump in imports, in part payback for a strong contribution in Q4. Meanwhile, domestic demand, especially capex, was firm. Recent data has become more mixed. Retail sales fell 0.2% in May, its second fall in three months, slowing the annual pace from 3.5% to 2.2%. Japan’s PMI was unchanged in July at 51.5, below levels in February, and with manufacturing softening and services improving. The jobs market remains relatively tight, with the unemployment rate unchanged at 2.5%, near its 5-year lows and little changed over the past year.

Inflation has gradually reversed some of its early-year strength, easing to 3.3% in June (from 3.5%), its lowest point since January’s 4.0%. Having raised rates to 0.50% in late January 2025, the Bank of Japan (BoJ) has held rates steady, including at its July meeting, with further rate hike expectations delayed into 2026 or 2027.

Despite better momentum in early 2025, UBS has trimmed its growth forecast for 2025 from an initial 1.2% to just 0.5% and is anticipating a H2 recession. Barclays Research has reversed its recent reduction to the growth outlook, lifting 2025 to 1.0% from 0.8% for 2025. For 2026, both expect growth to rebound modestly as the global backdrop likely turns more positive.

Japanese GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Economic outlook

China

China's economy continues to face significant challenges, not least the ongoing deterioration in its key property sector, as well as lingering uncertainty surrounding its export outlook and where trade negotiations with the US will ultimately settle over coming months. Growth in H1 2025 has been supported by pre-tariff export demand as well as stronger spending on the back of government 'trade-in' subsidies for consumer durables. These tailwinds are likely to turn into headwinds during H2 2025, with growth slowing significantly below the government's 5% target, with some analysts forecasting just 3%. Still, we expect further fiscal stimulus over coming months to lay a foundation for growth to stabilise during 2026. As Longview Economics notes, "the case for a cyclical recovery in the Chinese economy continues to build … a 'mini cycle' upswing on a 12–18-month view", on the back of additional near-term stimulus.

China's Q2 growth remained robust at 5.2%, only modestly below Q1's 5.4% pace. Strength in the quarter reflected consumer spending (5.4% after 4.6% in Q1) and exports (6.2% after 5.7%). Elsewhere, property weakness continued, with floor sales down 4% and new floor space started still 16% below year-ago levels. Capex also weakened through the quarter across manufacturing and infrastructure. Indeed, June month data also revealed a slowing trend in retail sales (4.8% after 6.4% in May), while property is not expected to stabilise until late year. UBS expects growth to slow from over 5% in H1 2025 to around 4% in H2 2025.

At the government's late July Politburo meeting, any new stimulus measures (according to Barclays Research) are likely to continue at the same rhythm as recently, namely "reactive, targeted and incremental, while monitoring and closely gauging the impact of tariff shocks on the economy". Additional stimulus should emerge at a faster pace during September and October in response to weakening growth momentum. This is likely to take the form of further easing in the official policy rate (by 0.1%) and bank reserve requirements (0.5%), together with additional fiscal stimulus.

After 5.0% in 2024 (and noting a 5.0% government target), UBS has lifted its forecast for 2025 to 4.7% (from 4.0%) in the wake of the stronger Q2 growth print. Barclays Research has also revised higher its 2025 outlook from 4.0% to 4.5%. Both UBS and Barclays expect a significant loss of momentum through H2 2025, ahead of stabilising growth of around 4% for 2026.

Emerging Markets

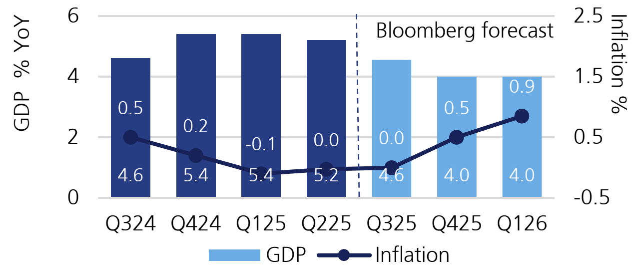
The post Liberation Day de-escalation in the global tariff war, with the ebb and flow of tariff deals largely landing below those in April, provide some support to the medium-term outlook for emerging markets. Into 2026, emerging markets could also benefit from additional stimulus by China and Europe. Nearer-term, US tariff imposts and the likely moderation in growth across most regions in H2 2025 (not least due to the likely pull-forward of trade flows into H1 2025), brings challenges. As UBS notes, "governments in Asia are expected to introduce fiscal expansions and targeted fiscal policies to offset [any] growth drag". Latin American should also benefit from a better trade outlook post the US-China détente.

For emerging Asia (ex-China), the past month has seen a flurry of individual trade deals with the US, ahead of the delayed 1 August deadline. According to Barclays Research, these "seem to be gravitating towards 15–20% instead of 10%." As UBS notes, any bilateral framework agreements likely mitigate uncertainties associated with higher tariff risks. "Increased purchases of US goods (particularly of agriculture, aircraft, and energy products) and more tariff cuts on US imports" are likely features of final deals. Vietnam (20% tariff) and Indonesia (19% tariff) secured trade deals over the past month, with the latter agreeing to buy more energy, agriculture and aircraft from the US. UBS notes "that as a percentage of output, exports to the US are highest for Vietnam (25%), then Taiwan (14%), Malaysia (10%) and Thailand (10%)".

Economic momentum in India has remained firm, despite the headwinds of the trade war, albeit May data flag some sequential softening in domestic activity. Likely reflecting this, and in a surprise move, India's central bank trimmed rates 0.5% in June to 5.5%, which should support future growth. India is yet to establish a trade deal with the US. For Latin America, growth in the region remains relatively well supported over the past couple of months, according to Barclays Research, "despite a myriad headwinds, including domestic and external politics, tighter financial conditions, fiscal challenges and other balance sheet adjustments". Still, growth in Brazil has started to slow during May.

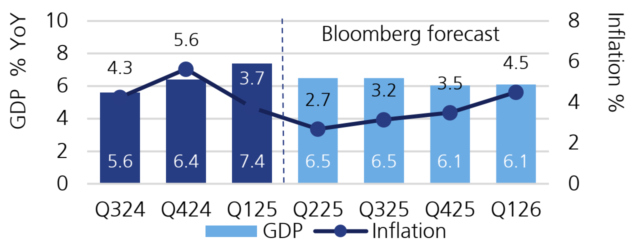
For emerging markets ex China, UBS forecasts a slowing in 2025 growth from 4.2% to 3.8%, with 2026 expected to strengthen modestly to 4.0%. Barclays Research holds a similar view for 2025, though growth is seen little changed at 3.8% for 2026.

Chinese GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Indian GDP growth and inflation



Source: Bloomberg as of 30 June 2025.

Asset Class updates

Fixed Income
Update

Absolute return and government bonds

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

Key points

- Major central banks are currently in a 'wait and see' mode and have slowed their easing while they await further data and policy implications from the tariff negotiations
- The RBA ignored market pricing and held at 3.85% even though a 94% chance of a cut had been priced in. We believe we are still on track for 2–3 rate cuts this year
- We are moving to a neutral position in government bonds, as we expected yields to be range-bound in the near term.

Global bond markets have remained relatively stable despite recent policy shifts, including the potential for substantial fiscal expansion in the US through the proposed Big Beautiful Bill Act. Over the past month, bond yields have been range-bound, suggesting the market is adopting a wait-and-see stance, awaiting further economic data and updates on tariff negotiations. Major central banks have slowed their easing efforts as they await more clarity on how tariffs are influencing inflation. Currently, markets are pricing in a 55% chance of a US Fed rate cut in September, with the possibility of a pause extending into October. For the ECB, which is nearing the end of its easing cycle, rates are expected to remain close to neutral.

The Treasury yield curve has steepened over the past three months, with short-end yields around 4.30% and the 3-year yield at 3.80%. Volatility has been muted, supported by a relatively benign macroeconomic environment that is showing early signs of slowing growth and disinflation. Although markets are watching the long end of the curve for signs of fiscal expansion, the US 10-year yield has remained around 4.35%, suggesting that these concerns are already priced in. Markets are still anticipating two US Fed rate cuts totalling 50bps in 2025, though this remains highly contingent on inflation trends and incoming economic data. We expect yields to remain range-bound in the near term unless there are significant inflation surprises or material changes in fiscal policy.

In Australia, the RBA surprised markets by holding rates at 3.85% in July, despite a 94% chance of a rate cut priced in. The RBA has emphasised caution, framing its decision as one focused on timing rather than direction, and signalling a need for more data that confirms that inflation is easing. As inflation moderates and the labour market softens, markets are now nearly fully priced for a rate cut in August, with expectations for two to three more cuts by year-end. The 3s–10s curve has steepened to around 93bps, and we recommend positioning in the 4–8-year part of the curve to take advantage of the steepest portion.

Overall, bond markets are in a waiting phase, with fiscal policies, inflation trends, and central bank actions remaining key drivers of future movements. We remain neutral on global government bonds, expecting a stable yield environment unless new economic data or fiscal shifts trigger volatility.

Investment grade credit and high yield credit

Position: Overweight investment grade credit; neutral high yield credit

Key points

- Investment grade (IG) and high yield (HY) credit spreads remain close to year-to-date lows
- There has been strong demand seen in recent Australian dollar primary issues
- Our preference is to increase our exposure to investment grade credit to protect against downside risks.

Credit markets saw a slowdown in momentum in July, though investment-grade credit spreads remain near year-to-date lows. The quieter issuance environment typical of July has benefited secondary credit spreads, with positive momentum expected into August. Notable transactions during this period included the Port of Newcastle's AUD 300 million senior secured deal which was 10x oversubscribed and tightened 25bps in the secondary market. Similarly, Macquarie priced an AUD 2 billion 5-year senior unsecured bond, with a record book size of AUD 7 billion, ultimately pricing at BBSW +82bps, 8bps tighter than initial guidance. NAB also priced an AUD 1.5 billion 15NC10 Tier 2 subordinated transaction with strong demand of over AUD 3 billion.

In the Australian market, we continue to see strong issuance growth as cash chases higher yields, and demand for quality assets remains robust. This trend should help sustain stability in the IG credit market, supported by strong corporate balance sheets. Despite rising inflation expectations, markets are still anticipating rate cuts in the near term which is keeping sentiment relatively positive. However, rising tariffs and signs of slowing economic growth warrant caution, prompting us to recommend a focus on high-quality IG credit as a safer investment in this environment, relative to HY exposures.

On the high-yield side, spreads remain near recent lows (~282bps), but issuance has slowed following a refinancing surge at the end of Q2. Despite compressed spreads and yields around 7%, market uncertainty, especially around trade negotiations, has led to sector-specific dispersion. Sectors impacted by tariffs, such as energy, consumer products, and retail, are lagging, while telecom and services sectors remain more resilient. This divergence underscores the importance of selectivity and prudent risk management when navigating the high-yield market.

Overall, while the high-yield market faces increased volatility and credit risk amid geopolitical tensions and economic uncertainties, opportunities exist for investors who can navigate sectoral risks. However, high-yield spreads may face further vulnerability if growth slows and costs rise. In IG credit, most sectors are trading at their tightest levels in a year, with Energy and Autos being exceptions. The current environment calls for a balanced approach, focusing on quality and selectivity across both IG and HY credit markets.

Fixed Income

Outlook and tactical asset allocation

Australian government bonds—we are neutral

Markets have largely priced in two to three RBA rate cuts (with August now fully priced). We prefer to add duration via investment grade bonds and harvest income by adding credit to portfolios (with limited risk of spread widening).

Global government bonds—we moved neutral

Central banks are currently in wait and see mode. Despite the near-term inflationary impact of tariffs in the US, global disinflation will continue in the medium term and central banks will make further modest policy rate cuts over the coming year. We expect yields to remain range-bound unless there are inflation shocks or data surprises ahead.

Investment grade credit—we moved overweight

Although investment grade credit spreads remain close to year-to-date lows, yields remain elevated, and we see value adding some duration to portfolios via quality investment grade companies as we expect rates to continue to fall.

High yield credit—we are neutral

High yield credit spreads are also close to year-to-date lows, and we prefer to be in investment grade credit as there is higher risk of spreads widening if growth slows. Sector dispersion in the high yield sector remains pronounced with underperformance from more tariff exposed industries. While uncertainty persists, we will stay neutral to higher risk assets.

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

	-5 … +5
Total fixed income	
Absolute return	
Australian government bonds	
Global government bonds	
Investment grade credit	1
High yield credit	

Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	68.7	71.0
Australian 3-year yield	3.4%	3.3%
Australian 10-year yield	4.3%	4.2%
Australian 3/10-year spread	83.4 bps	85.8 bps
Australian/US 10-year spread	-11.7 bps	-0.1 bps
US 10-year Bond	4.4%	4.4%
German 10-year Bund	2.7%	2.6%
UK 10-year Gilt	4.6%	4.5%
Markit CDX North America Investment-Grade Index	51.3 bps	49.3 bps
Markit iTraxx Europe Main Index	53.6	53.0
Markit iTraxx Europe Crossover Index	268.5	278.3
SPX Volatility Index (VIX)	16.7	16.4

Source: LGT Crestone Wealth Management, Bloomberg as of 31 July 2025. Active fixed income weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Alternatives, FX and Commodities

Alternatives update

Hedge funds and diversifiers

Hedge funds have proven attractive year to date thereby warranting their inclusion in portfolios. 2025 has been a volatile period for traditional asset classes despite equity markets returning to all-time highs. Markets have been impacted by volatility, greater asset price dispersion, higher interest rates and the need for liquidity provision. Hedge funds navigated and took advantage of these challenging market conditions. We believe market conditions should remain conducive for hedge funds. As such, we expect hedge funds with low-beta, multi-strategy vehicles, to continue providing differentiated source of returns.

Other diversifying strategies including insurance (life run-off), royalties and litigation demonstrated resilience. The European insurance market is undergoing a significant wave of consolidation, driven by increasing regulatory pressures, the need for capital efficiency, and the operational challenges of managing closed books. Those with licensed and regulated platforms across key European jurisdictions are primed to take advantage and provide a unique source of returns through acquisitions of legacy books. We continue to highlight the true diversifying role of these asset classes relative to private markets, where underlying risk factors still align to equity, credit and interest rates.

Private markets

Private equity liquidity remains an issue—secondaries are key to activity. Strong 2024 momentum saw activity pick-up meaningfully in Q1 which faded through Q2 following uncertainty around tariffs. Transactions are still occurring however institutional investors are taking matters 'into their own hands' via the secondary (Limited Partners) market. Private equity firms are also using General Partners-led secondaries to generate liquidity. We believe both private equity and venture capital secondaries are attractive but caution that investors should not be complacent nor overly focussed on the upfront 'discount' at the expense of portfolio quality. Manager selection remains critical.

Private debt remains preferred, despite the noise. There has been significant noise associated with private debt, particularly in the local market (centred around real estate lending), we continue to find the asset class attractive on a risk-adjusted return basis. Declining interest rates will reduce absolute returns but spread pick-up over public equivalents combined with conservative underwriting warrants the reduced liquidity. We currently favour building highly diversified exposures via the nascent debt secondaries market, which we expect to grow meaningfully.

Real assets

Global real estate continues to shift to the positive. Both US and domestic property indices are now positive year to date and over the last 12 months re-enforcing a shift in sentiment following a very challenging period for the asset class. Moderating interest rates should further support valuations, albeit we caution investors not to focus declining interest rates as the primary driver of forward-looking returns. We expect there to be meaningful dispersion across sectors and thus continue to prefer strategies that can allocate across such, where they see the best relative value.

Infrastructure is the most preferred sub-asset. 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. Whilst new product in the space is enabling wider access outside of institutional investors, we are cautious of the future liquidity of such vehicles given infrastructure assets are typically longer life in nature and portfolios are expected to be more concentrated that peer private equity vehicles.

Alternatives Asset Allocation

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
- Global private debt, including both corporate and asset-based finance, including private debt secondaries
- Global infrastructure across the risk spectrum and investment type (including secondaries), particularly playing to long-term structural themes.

What we don't like

- Domestic construction and/or junior lending within real estate
- Carbon-intensive assets and industries with no transition plan.

Alternatives, FX and Commodities

FX and Commodities update

Currencies

Key points

- The US dollar continued to drift lower in June and July amid a recovery in global risk appetite.
- The Australian dollar is back at the top of its recent trading range, though it has hit resistance around USD 0.66.

The US dollar has drifted lower against most major trading partners since June, as investors process ongoing US policy uncertainty around trade and tariffs, geo-politics, and fiscal policy. The moderation in Middle East tensions and the passage of the One Big Beautiful Bill Act (OBBBA) have likely lessened extreme left-tail risks. Coupled with relatively aggressive short investor positioning, the stage is potentially set for a tactical reversal or 'pain trade' that leads to a stronger US dollar in coming weeks or months. Longer-term, it is clear that the US' extreme policy actions have done significant reputational damage to its standing as an economic, diplomatic, and financial counterparty.

On a fundamental basis, the ongoing relative US fiscal drag (driven by Trump's requirement to find fiscal savings to fund his tax cut extension) compared to the rest of the world (Germany re-arming, China potentially stimulating, Australian stimulating etc) points to modest US dollar weakness from here, though near-term volatility is likely to remain elevated. Increasing geopolitical multi-polarity also points to downside pressures longer-term.

The Australian dollar drifted higher over the last few months, and trades at the top of its USD 0.62–0.65 range since the start of the year. A hawkish RBA 'mistake' in holding rates in July saw the Australian dollar trade briefly in the USD 0.66¢ range, though it has faded back into USD 0.65 territory. Our external partners are expecting the currency to end 2025 between USD 0.66 and USD 0.68, pointing to further modest upside from here.

The EUR has continued strengthening since June and now trades in a USD 1.16–1.18 range against the US dollar amid ongoing investor anticipation for European fiscal stimulus (Germany re-arming as well as new infrastructure) and as investors continue to right-size their US allocations. We continue to expect the Eurozone to face trade risks on a cyclical basis and macro risks on a structural basis, though the scale of the US' own goal on trade aggression and the extent of Germany's fiscal shift may herald the start of a paradigm shift for European growth.

The JPY weakened over the past few months, as recovering global risk sentiment and growing concerns around Japan's fiscal sustainability drove government bond yields to multi-decade highs and drove the currency to around 147–149 vs the US dollar. The recent Upper House elections saw Prime Minister Ishiba lose control of both houses of Parliament, tilting risks towards greater fiscal easing which could prompt a further rise in bond yields and weakness in the yen. Japan's internal inflation and macro dynamics remain tilted towards policy normalisation and a 'nominal renaissance' in growth to continue over the next 12–18 months, though it will not be immune to volatility surrounding potential trade and geopolitical tensions as we traverse 2025.

Commodities

Key points

- Global commodity prices rose in volatile trading over the past few months, as gold hovers around USD 3,340 per ounce.
- Iron ore prices lifted higher, to around USD 103 p/t, largely supported by Chinese supply side reforms.

Geo-political and US trade policy uncertainty continued to drive commodity markets over the month, with Bloomberg's broad commodity price index experiencing a volatile two months, though it is up around 1.5% since June.

Crude oil prices are higher over the past two months, spiking over a two-week period in June as US-Israel-Iran tensions culminated in direct US airstrikes on Iranian nuclear facilities. The relatively swift denouement to the conflict saw oil prices give back most of these gains—Brent crude is currently trading at around USD 69 per barrel (p/b) towards the end of July, up about 7% from early June.

Meanwhile, gold prices continued to struggle at the USD 3,430 per ounce level over the past few months. Moderating downside concerns and easing trade and geo-political concerns weighed on the previous metal, which still hovered at around USD 3,340 per ounce during July.

Industrial metal prices were also supported by easing downside concerns, as well as 50% US sectoral tariffs announced on copper. Copper prices are approximately 21% higher since June while iron ore is trading slightly below the USD 103 p/t mark, boosted by Chinese supply side reforms aimed at reducing low price competition and phasing out outdated industrial capacity.

The evolution of US trade policy, particularly with respect to China, as well as China's economy itself, will continue to play a key role in the near-term outlook for commodities. In mid-April, the Trump Administration ordered a Section 232 review on a range of critical minerals with a focus on rare earths (in which China dominates global processing capacity). This review may open a further dimension to US-China trade tensions. It will also likely further accelerate a longer-term bifurcation of the supply chain in these critical minerals.

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.

Equities
Update

Domestic equities

Position: Underweight

Key points

- The ASX 200 Total Return Index gained 1.4% in June, underperforming global equities.
- Rotation within the market has caused a reversal of fortunes with laggards such as Materials, Energy and Healthcare posting high-single digit gains for the month.
- Banking stocks bore the brunt of this rotation, falling by 4% for the month, with CBA falling by 6% for the month and 10% from its peak.

Over the past month, there has been a tentative reversal of fortunes, with the Healthcare and Materials sectors outperforming. In the three months prior, both sectors lagged materially. If this continues, this could set up well for an active exposure in Australia, given a large number of ASX200 managers are overweight these sectors, and underweight banks.

The sharp rotation from banks sector to resources towards the end of the month resulted in the YTD underperformance of resources sector vs. banks completely unwinding. Citi believes it should remind investors of the vulnerability of the bank sector's valuation risk, especially with the earnings outlook soft. The obvious funding source for a rotation out of banks and into resources is CBA, given its near 90% valuation premium to peers. It remains to be seen whether this rotation will sustain, noting a prior false start back in September 2024. The strong performance of the banks sector in recent years, and weakness in the other half of the 'barbell' i.e. resources has created the notion that for the market to trade higher, the banks need to trade higher. The mini rotation in Sep/Oct last year saw banks underperform and resources outperform, yet the market treaded water.

Interestingly, the equal-weighted ASX 200 has outperformed the market-cap weighted ASX 200 YTD (and over the past 12 months) and with the market-cap weighted ASX 200 expensive at ~19x P/E, investors may well consider whether the equal-weight ASX 200 is a better risk-adjusted exposure to Australia.

FY25 was a difficult year for active managers; just six stocks accounted for 800bps of FY25 portfolio drag (if unowned), according to analysis from JPMorgan. These stocks are CBA (-502bp), WES (-117bp), WBC (-83bp), CPU (-37bp), PME (-37bp) and TCL (-34bp). With that said, neatly 50% of the ASX200 was up by more than 15% over the financial year, in excess of the 10% return generated by the index, suggesting that there remains significant scope for alpha generation is stock selection is sound.

The Commonwealth Bank of Australia has been the focus for investors of later. From late 2023, CBA has rallied >100%, outperforming the three other major banks by over 40% and the other 199 stocks in the index by over 70%. For FY25 alone, CBA accounted for an unprecedented 42% of the ASX 200's return, following on from FY24, where it explained more than a quarter of the index's gains.

International equities

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

Key points

- The MSCI World ex-Australia Index gained ~2.5% (as at 28 July). This return underplays the strength, however, with a stronger Australian dollar limiting local-currency gains that would otherwise have been 4.8%.
- US equities continue to lead global markets higher, gaining 3%. Asian markets were also strong in July, with Japanese equities gaining after the country secured a break-through 15%-tariff trade deal with the US.

Equity markets appear unperturbed by the potential risk to economic activity from the tariff-related uncertainty. The US S&P 500 reached new record highs on more than ten occasions over the past month, led by Nvidia (which became the first company ever to reach a valuation of USD 4 trillion). The explanation for the optimism could be three-fold:

- First, the absence of any visible negative effect from the tariffs. Recent US inflation and employment data prints have remained benign, neither showing the feared pass-through from tariffs into US consumer prices nor reflecting the much-touted negative uncertainty effect on firms' hiring (yet). This contributes to the narrative that Trump's tariff policies may create a lot of noise, but their ultimate effect on the economy may be limited.
- At the same time, the OBBBA (One Big Beautiful Bill Act) will deliver additional tax relief and further deregulation should also be growth supportive.
- Third, given that all the tariffs are 'self-imposed,' or better 'president-made', they in principle can also be reversed. Hence, if the tariffs were to inflict adverse consequences on the US economy, Trump could always adjust them again and reduce those pains (the so-called TACO trade).

Earnings may well hold the key—the combination of an earlier build-up of inventories, and very high policy uncertainty, should result in companies waiting a little longer before passing on tariff increases to the consumer (i.e. they eat the margin impact initially). Consequently, tariff effects may well take some time before they show up fully in consumer prices, but it would seem unlikely that a very large increase in the effective tariff rate does not show up at all.

Optimism around Europe has turned more structural, aided by increased fiscal spend and 'cracks' in US exceptionalism. The Pan-European Stoxx 600 index currently trades on a 12-month forward consensus P/E of ~14.5x, slightly above the long-run median of 14x. Stepped up fiscal spend in Europe might support a higher long-term PE of 16x—Despite the recent rally, European equities still trade near a record forward P/E discount of 30% to the US, far below the historical median of 15%.

Equities

Outlook and tactical asset allocation

Domestic—we move underweight

With Australian equities trading at all-time highs and over 19x P/E, further gains must now rest with earnings upgrades. These look more difficult outside of a significant China stimulus, or a more aggressive domestic rate cutting cycle.

US—we move neutral

US equities have been able to ‘climb a wall of worry’ regarding trade uncertainty, as still-resilient earnings and ongoing AI-investment from mega cap tech keep investors optimistic. US equities are now trading 22.5x P/E, close to the peak levels seen in the post-COVID era, suggesting that earnings (in a slowing economy) are required to drive returns from here.

Europe (ex-UK)—we are overweight

Optimism around Europe has turned more structural, aided by increased fiscal spend and ’cracks‘ in US exceptionalism. According to Citi strategists, consensus European EPS estimates are now consistent with ~20% tariffs already. Although considerable uncertainty remains, these risks must be framed against the backdrop of relatively negative positioning on Europe vs. Nasdaq and the US, with large ‘de-grossing’ to levels last seen in mid-2020.

United Kingdom—we are neutral

The UK has a mixed outlook, with hard data vs sentiment indicators pointing in opposite directions. Despite a potential UK-US tariff agreement, the UK economy remains at risk of trade conflict spillovers to other economics (especially the EU).

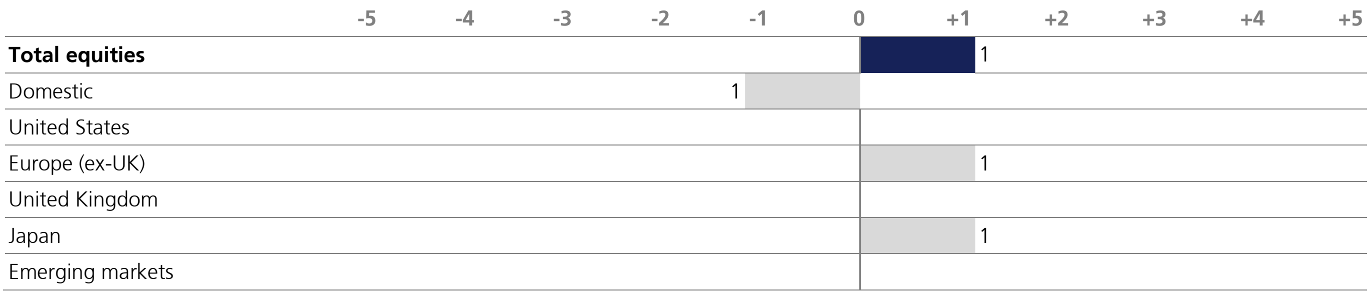
Japan—we are overweight

Historical levels of buybacks by corporates, and strong inflows from foreign investors has been a tailwind for Japan following the “Liberation Day” correction. Foreign inflow in particular diverges from past trends as cheap JPY is not the driving force this time but rather corporate fundamentals and reform

Emerging markets– we are neutral

While dollar weakness has been a tailwind, tariff risks for the broader region remain a real risk, especially after the latest announcements. Meanwhile, EPS forecasts have been only downgraded slightly YTD. Within the EM space, India should be less exposed to trade tensions and benefits from an incrementally improving domestic macro story.

Active equity weights (%)—we are overweight fixed income



Equity market summary

			Consensus 1 yr		Next year	
Region	Index	Latest price	Target	Upside	P/E[1]	D/Y[2]
Australia	S&P ASX 200	8743	8587	-1.8%	19.9	3.2%
New Zealand	S&P NZ 50	12824	13899	8.4%	29.6	3.1%
United States	S&P 500	6339	6891	8.7%	21.4	1.3%
Europe	Euro Stoxx	567	629	11.1%	13.9	3.3%
United Kingdom	FTSE 100	9133	10017	9.7%	12.6	3.5%
China	CSI 300	3573	3964	10.9%	12.4	2.9%
Japan	Nikkei 225	41070	45190	10.0%	19.3	2.0%
India	Sensex	81186	93262	14.9%	22.9	1.6%

Source: Bloomberg. Data as of 31st July 2025; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield (%). Active equity weights sourced from LGT Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Equities

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	$239.5	$249.1	55.4	1.0%	44%	33%	16.8%	AA
ALL	Aristocrat Leisure Ltd	Consumer Disc.	$70.0	$71.4	28.6	1.3%	28%	23%	13.4%	AA
TLC	Lottery Corp Ltd/The	Consumer Disc.	$5.4	$5.5	33.9	2.9%	21%	108%	13.8%	AA
MTS	Metcash Ltd	Consumer Stap.	$3.9	$4.2	14.6	4.9%	16%	17%	9.4%	AAA
ALD	Ampol Ltd	Energy	$27.4	$30.8	17.5	3.5%	12%	11%	32.9%	AA
BPT	Beach Energy Ltd	Energy	$1.2	$1.4	5.9	5.8%	17%	13%	-5.6%	AAA
MQG	Macquarie Group Ltd	Financials	$217.4	$219.6	19.9	3.3%	3%	11%	8.3%	AA
SUN	Suncorp Group Ltd	Financials	$21.0	$21.7	16.1	4.7%	7%	12%	-10.4%	AAA
COH	Cochlear Ltd	Health Care	$318.5	$292.5	52.3	1.3%	26%	21%	15.4%	AAA
RMD	ResMed Inc	Health Care	$42.5	$44.9	25.8	0.9%	33%	25%	9.9%	A
CSL	CSL Ltd	Health Care	$270.9	$314.7	26.7	1.1%	14%	17%	12.8%	AA
MND	Monadelphous Group Ltd	Industrials	$19.5	$17.5	24.4	3.6%	20%	16%	4.6%	AAA
BXB	Brambles Ltd	Industrials	$23.9	$23.1	25.9	1.6%	21%	27%	12.1%	AAA
XRO	Xero Ltd	IT	$181.0	$201.9	97.3	0.0%	12%	11%	21.4%	AA
IGO	IGO Ltd	Materials	$4.4	$4.7	na	0.5%	-7%	-3%	-68.2%	AAA
JHX	James Hardie Industries	Materials	$41.3	$44.5	19.4	0.0%	38%	23%	18.9%	AA
GMG	Goodman Group	Real Estate	$35.2	$37.3	29.8	0.9%	11%	11%	10.1%	AA
APA	APA Group	Utilities	$8.4	$8.4	68.2	6.8%	6%	6%	59.3%	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 31st July 2025. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Cochlear Limited (COH AU)—Buy. JPMorgan believe that Cochlear's new implant will offer exciting new features and potentially superior hearing outcomes, supporting a material boost in market share. This next-generation cochlear implant is coming to market in mid-2025 and is the first significant new platform since 2009 (there have been processor and implant upgrades, but nothing of this overarching scale).

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

CSL Limited (CSL AU)—Buy. CSL is poised to announce significant R&D spending reductions, lifting NPATA by ~9% amid current uncertain market conditions. Trump has threatened ~200% tariffs on pharmaceuticals, but are expected to be quite low and allow a grace period, to try and coax more manufacturing into the US. There is a perception CSL will be mostly exempt as large tariffs would force CSL to redirect plasma away from the US and it's hard to see that happening as its front line in saving lives.

Equities

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	$21.0	$21.7	16.1	1.6	100%	4.7%	-14.8%	AAA
MQG	Macquarie Group Ltd	Financials	$217.4	$219.6	19.9	2.2	35%	3.3%	7.3%	AA
ANZ	ANZ Group Holdings Ltd	Financials	$30.7	$27.9	13.4	1.3	100%	5.3%	0.4%	AA
QBE	QBE Insurance Group Ltd	Financials	$23.2	$24.5	12.5	2.1	20%	3.2%	3.3%	AAA
COL	Coles Group Ltd	Consumer Stap.	$20.7	$21.4	25.3	7.4	100%	3.3%	13.7%	AA
MTS	Metcash Ltd	Consumer Stap.	$3.9	$4.2	14.6	2.6	100%	4.9%	8.9%	AAA
TLC	Lottery Corp Ltd/The	Consumer Disc.	$5.4	$5.5	33.9	40.5	100%	2.9%	12.6%	AAA
TAH	Tabcorp Holdings Ltd	Consumer Disc.	$0.8	$0.8	40.8	1.4	0%	1.8%	28.6%	AA
TLS	Telstra Group Ltd	Com. Services	$5.0	$4.9	26.0	3.9	100%	3.8%	5.8%	AA
CAR	CAR Group Ltd	Com. Services	$38.2	$39.8	38.1	4.7	0%	2.1%	12.2%	AA
RMD	ResMed Inc	Health Care	$42.5	$44.9	25.8	7.2	100%	0.9%	9.3%	A
PME	Pro Medicus Ltd	Health Care	$321.9	$276.5	295.6	151.3	100%	0.2%	39.5%	BBB
REP	RAM Essential Services	Real Estate	$0.6	$0.8	14.4	1.4	0%	8.5%	4.0%	-
MGR	Mirvac Group	Real Estate	$2.3	$2.4	18.9	1.0	0%	4.0%	5.5%	AA
IRE	IRESS Ltd	IT	$7.9	$9.6	22.4	3.9	0%	2.8%	24.0%	AA
DBI	Dalrymple Bay Infrastructure	Industrials	$4.5	$4.3	22.6	2.0	59%	5.4%	5.4%	-
ALX	Atlas Arteria Ltd	Industrials	$5.2	$5.6	22.4	1.2	0%	7.8%	3.0%	AA
APA	APA Group	Utilities	$8.4	$8.4	68.2	3.9	0%	6.8%	1.4%	AAA
ALD	Ampol Ltd	Energy	$27.4	$30.8	17.5	2.1	100%	3.5%	58.0%	AA
AMC	Beach Energy Ltd	Energy	$1.2	$1.4	5.9	0.8	100%	5.8%	4.4%	AAA
BHP	BHP Group Ltd	Materials	$39.3	$41.5	12.3	2.8	100%	2.7%	0.5%	A
AMC	Amcor PLC	Materials	$14.8	$17.4	13.1	3.6	0%	3.5%	3.9%	AA

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 31st July 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.

Ampol (ALD AU)—Buy. Ampol recently bounced 10%, after a draw down comparable with Covid levels. On a relative basis to the ASX, it still trades at a ~20% PE to the ASX200. A recovery in refining margins should reduce leverage to target range of 2.0-2.5x and increase payout ratio to the high end of the range.

Amcor (AMC AU)—Buy. On a relative basis to the ASX, ACM is trading at its largest PE discount of ~40%. During the GFC it reached a discount of ~37%. Market consensus expects from FY25 to FY27, FCF increase ~2.3x, EPS increase by ~20% and EBITDA margins to go from 12.5% to 16.5%. With more cash and less leverage, AMC's dividend per share is expected to further increase from 0.5 in FY24 to 0.55 in FY27. There is limited downside remaining and in FY26, strong EPS growth is expected to occur from the Berry merger synergies.

Equities

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	191.9	218.7	18.3	0.4	2,326,458	BBB
UMG NA	Universal Music Group NV	Com. Services	EUR	25.4	29.7	24.9	2.4	53,150	AA
DIS US	Walt Disney Co/The	Com. Services	USD	119.1	130.9	20.6	0.9	214,130	A
9988 HK	Alibaba Group Holding Ltd	Cons. Discretionary	HKD	115.7	148.9	13.5	0.8	281,284	BBB
NKE US	NIKE Inc	Cons. Discretionary	USD	74.7	77.5	44.4	2.3	110,310	BB
SBUX US	Starbucks Corp	Cons. Discretionary	USD	89.2	96.3	39.0	2.9	101,348	A
ABNB US	Airbnb Inc	Cons. Discretionary	USD	132.4	139.1	31.1	0.0	83,133	BB
RMS FP	Hermes International SCA	Cons. Discretionary	EUR	2151.0	2548.0	48.9	1.0	259,280	A
COST US	Costco Wholesale Corp	Cons. Staples	USD	939.6	1073.5	51.8	0.6	416,709	A
288 HK	WH Group Ltd	Cons. Staples	HKD	7.9	8.1	8.8	0.8	12,929	-
SHEL LN	Shell PLC	Energy	GBP	2711.0	2970.8	11.5	0.1	210,414	AA
LSEG LN	London Stock Exchange	Financials	GBP	9260.0	12756.1	23.5	1.7	64,573	AA
LLOY LN	Lloyds Banking Group PLC	Financials	GBP	77.8	85.9	10.2	5.3	61,515	AA
WFC US	Wells Fargo & Co	Financials	USD	80.6	87.2	13.5	2.4	262,385	BB
2318 HK	Ping An Insurance Group	Financials	HKD	54.0	64.2	7.0	5.1	138,918	A
939 HK	China Construction Bank	Financials	HKD	8.1	8.8	5.7	4.9	274,249	AA
MA US	Mastercard Inc	Financials	USD	566.5	633.9	35.2	0.6	512,096	AA
JNJ US	Johnson & Johnson	Health Care	USD	164.7	176.9	15.2	3.2	396,750	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	314.5	518.1	12.3	4.5	214,792	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	481.1	584.0	59.4	0.0	172,459	A
EXPN LN	Experian PLC	Industrials	GBP	4004.0	4423.3	30.3	0.0	48,588	A
DSV DC	DSV A/S	Industrials	DKK	1464.5	1796.5	27.1	0.6	53,862	AA
2330 TT	Taiwan Semiconductor	IT	TWD	1160.0	1357.7	19.6	1.9	1,006,793	AAA
ASML NA	ASML Holding NV	IT	EUR	613.1	747.6	25.8	1.3	275,696	AAA
MSFT US	Microsoft Corp	IT	USD	533.5	604.1	34.7	0.8	3,965,594	AA
ACN US	Accenture PLC	IT	USD	267.1	331.4	20.7	2.4	167,398	AA
SHW US	Sherwin-Williams	Materials	USD	330.9	372.6	29.2	1.0	82,499	A
EQIX US	Equinix Inc	Real Estate	USD	785.2	960.6	53.7	2.6	76,840	AA
ORSTED DC	Orsted AS	Utilities	DKK	308.3	304.3	15.7	3.4	19,824	AAA
			Average Yield:				**1.8%**		

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 31st July 2025. ESG is environmental, social, and corporate governance.

Equities

Thematic investing—Trade wars

Objective of this list

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

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

Supply chain disruption—Select exposures

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

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
AMZN US	Amazon	Consumer Disc.	USD	234.1	252.5	26.5	0.0	2,485,394	BBB
BABA US	Alibaba Group Holding	Consumer Disc.	USD	120.6	150.7	11.7	6.2	287,745	BBB
EBAY US	eBay Inc	Consumer Disc.	USD	91.8	83.3	15.6	1.3	42,297	A
WMT US	Walmart Inc	Cons. Staples	USD	98.0	110.1	33.5	1.0	781,921	BBB
SHEL LN	Shell PLC	Energy	GBP	2,711.0	2,970.8	10.7	0.1	210,414	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.2	1.4	6.3	6.1	1,715	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	77.8	85.9	8.1	0.1	61,515	AA
DSV DC	DSV A/S	Industrials	DKK	1,464.5	1,796.5	20.9	0.6	53,862	AA
KNIN SW	Kuehne + Nagel	Industrials	CHF	166.3	182.8	17.8	4.4	24,699	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	39.5	44.7	11.7	4.9	54,053	A
DE US	Deere & Co	Industrials	USD	524.4	543.5	23.6	1.3	142,014	AA
BXB AU	Brambles Ltd	Industrials	AUD	23.9	23.1	23.1	1.8	21,007	AAA
WTC AU	WiseTech Global Ltd	IT	AUD	119.4	140.6	79.8	0.2	25,674	AA
ACN US	Accenture PLC	IT	USD	267.1	331.4	19.3	2.4	167,398	AA
INTC US	Intel Corp	IT	USD	19.8	21.9	30.1	0.1	86,665	AAA
SAP GY	SAP SE	IT	EUR	250.8	293.7	34.3	1.1	351,799	AAA
GMG AU	Goodman Group	Real Estate	AUD	35.2	37.3	27.1	0.9	45,925	A
PLD US	Prologis Inc	Real Estate	USD	106.8	119.2	28.1	4.0	101,390	AA

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 31st July 2025. ESG is environmental, social, and corporate governance.

Important information

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