When will lower rates come?

Why Australia may lag the world

Core Offerings

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

April 2024

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When will lower rates come?

Why Australia may lag the world

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER

Scott Haslem
Chief Investment Officer

Recent resilient global jobs data and the stalling of inflation's progress toward central bank targets have stirred notions of a 'no-landing' scenario for some economies. Together with the reality that the 'last mile' of the disinflation journey was always likely to be difficult, fears have grown that forecast rate cuts in 2024 may be delayed until 2025. In this month's *Core Offerings*, we argue that when viewed through the lens of 'real rates', moderate H2 2024 global rate cuts remain on track. Arguably, the hurdle for further cuts in 2025 is higher.

For Australia, the risk of delayed cuts in 2024 is also higher. Reasons include industrial relations changes that hamper productivity, through to likely additional cost-of-living relief in next month's federal budget on top of now more stimulatory third-stage tax cuts. We discuss the case for and against delaying cuts until next year, and why we still expect some rate reductions this year. However, we also consider why those rate cuts may lag other key economies, as well as the likely implications for the Australian dollar and house prices.

Global central banks are still on track to trim rates 50-100 basis points in H2 2024

Equity and bond markets came into 2024 laser-focused on ascertaining that moment when key global central banks would deliver their first rate cut. Peak inflation risk had passed, and peak policy tightening had been reached in 2023. If (modern) history were any guide, rapid-fire rate cuts would soon follow. Entering 2024, this was clearly on the market's mind.

Yet, the monetary policy outlook—and the timing of the first interest rate cut—was always going to be a battle between when global central banks gained confidence that they had done enough (revealed by slower economic growth and some rise in unemployment) and the risk they hadn't done enough (evidenced by a stalling of inflation's progress toward their inflation targets). Inflation's journey lower was never going to be a straight line.

There was extreme optimism around the turn of the year that all was on track for March/April rate cuts, driving bond yields lower and equity prices higher. But, as in all epic battles, the underdog fights back. Jobs markets proved resilient to signs of slowing growth (particularly in the US, but also in the UK and Europe) and progress on disinflation stalled in early 2024 (levelling out in Europe and Australia, while reaccelerating in the US).

The market narrative has now shifted to worries about 'no landing' in the US economy, where growth and inflation doesn't slow. And worries have also shifted to focus on the so-called 'last mile' for inflation, where getting inflation from a little 'above' target to actually 'within' target proves surprisingly difficult.

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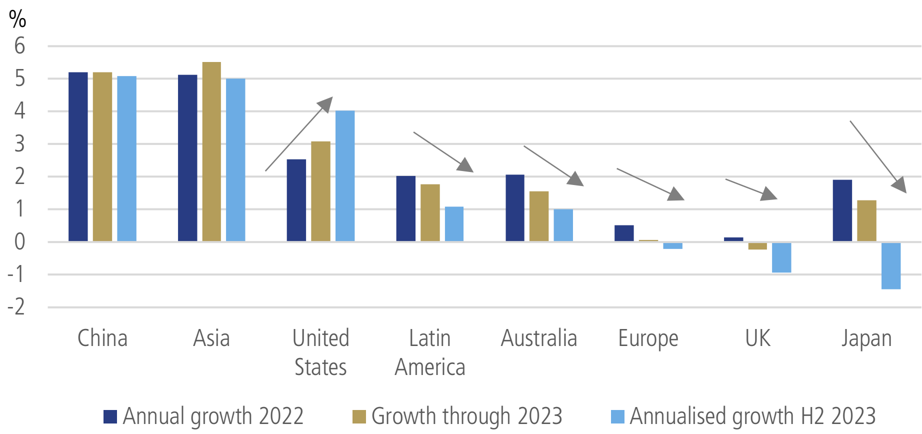
Could rates cuts be delayed until 2025 in the US and elsewhere? This concern has led bond markets to partly reverse their stellar gains around end-year, seeking evidence that rate cuts are still on the cards. Equities, in contrast (and not unusually), have continued to trend higher, 'looking across the valley' in the hope cuts are still coming. Notwithstanding strong bond and equity returns through Q4 and Q1, investors could be forgiven for lamenting a 2024 outlook—at least for traditional assets—where they are trapped between now less compelling fixed interest returns and uncompelling (and vulnerable) equity returns.

Investors could be forgiven for lamenting a 2024 outlook—at least for traditional assets—where they are now trapped between less compelling bond returns and uncompelling (and vulnerable) equity returns.

Despite 'no landing' claims, there's plenty of 'slower growth' outside the US economy



Source: Macrobond, LGT Crestone.

We continue to expect enough progress on inflation toward targets and sufficient (though moderate) softening of jobs markets to create the comfort central banks need to begin trimming rates modestly from mid-year.

No doubt, excess pandemic savings and relatively tight jobs markets will deem this one of the milder growth downturns historically. That, however, appears still quite a distance from the no-landing thesis.

Markets have mirrored central bank signals, targeting around three cuts in H2 2024 and about the same in 2025. We would argue the risk of disappointment is greater in 2025 than in 2024.

As forecast, the tussle over the timing of the first cuts will continue in H1 2024

Still, as we discussed in our 2024 outlook, *The path ahead points to lower rates*, published in December last year, we expect this tussle to continue through much of H1. However, battles typically end. We continue to expect enough progress on inflation toward targets and sufficient (though moderate) softening of jobs markets to create the comfort central banks need to begin trimming rates modestly from mid-year.

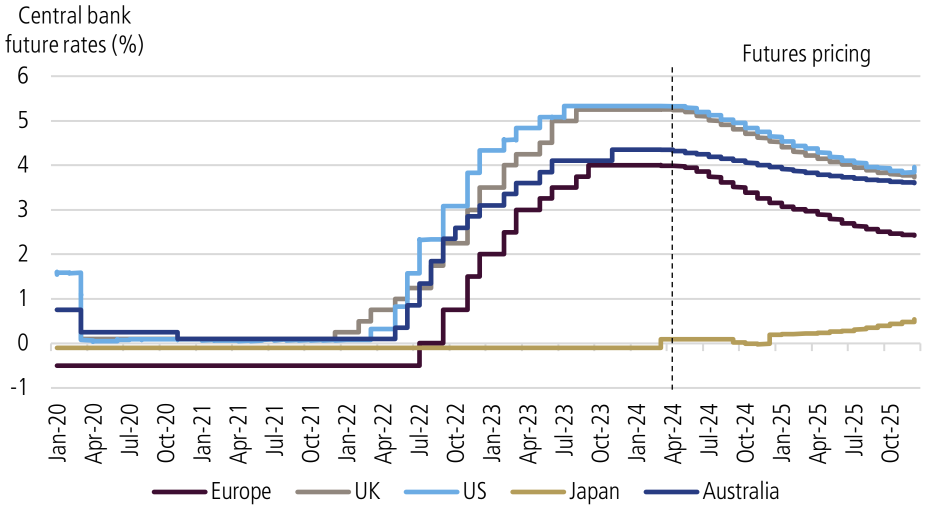
- Global growth should continue to slow through 2024, as the long and variable lags of policy tightening squeeze consumer spending power and encourage firms to slow hiring and engage less capex. No doubt, excess pandemic savings and relatively tight jobs markets will deem this one of the milder growth downturns historically. That, however, appears still quite a distance from the no-landing thesis. Recently, many forecasters have jettisoned their US recession call on stronger-than-expected growth. But, growth is still slowing, with 5% in Q3 2023, easing to 3% in Q4. And as yet unpublished Q1 2024 data, according to high frequency nowcasts like the Atlanta Fed, show growth at 2%. This focus on the US also mistakenly ignores developments elsewhere in the world (see chart on previous page), with the UK in recession, growth flatlining in Japan and Europe, and China struggling to stabilise growth near its 5% target. Slower growth is likely to persist into mid-year before a patchy recovery ensues.
- Inflation should continue to fall closer to targets through 2024, as softer jobs markets weaken household spending power at a time when excess pandemic savings have dwindled. While this cycle has lacked the typical jump in unemployment rates, they are edging higher, accompanied by falling vacancies and slowing wage growth. A more discerning consumer should do ‘just enough’ to keep the downward inflation trend intact (absent geo-political shocks that still warrant monitoring as the year progresses).

Looking through the lens of central banks, the ‘softer’ landing for economies does not preclude some trimming of currently ‘restrictive’ rates, given how far inflation has corrected lower. Central banks focus on real (not nominal) interest rates. By their own admission, policy is now restrictive (see chart on next page). When rates are near their peak, the risk of holding rates too high for too long (and causing recession) exceeds that of not being high enough. As such, trimming rates is the path of least regret when inflation falls.

Through that lens, a modest 0.5-1.0% reduction in rates during H2 in 0.25% increments still seem the most likely course of action. Indeed, this is broadly what most major central banks have indicated. During March, the US Federal Reserve (Fed) re-signalled three rate cuts in H2 2024, and European Central Bank (ECB) President Lagarde reiterated that by June the ECB would have more data on wages and inflation and could begin its rate-cutting cycle. Bank of England (BoE) Governor Bailey noted in his commentary that “we are not yet at the point we can cut rates but things are moving in the right direction.”

Markets have mirrored central bank signals, targeting around three cuts in H2 2024 and about the same in 2025. Whether the ‘path of least regret’ argument extends to 2025 remains to be seen, and will require further moderation in inflation toward targets. We would argue the risk of disappointment around rate cuts is greater in 2025 than 2024.

The path to lower rates remains…modest cuts ahead for H2 2024



Source: Macrobond, LGT Crestone.

Inflation risks potentially more problematic in Australia

Much of the above parallels to the situation in Australia. The Reserve Bank of Australia's (RBA) has recently taken courage from a softer trend in jobs and underemployment and inflation correcting closer to target, moving its policy guidance broadly neutral. Still, compared to the ECB, BoE and Fed, this appears a less 'cut-ready' position than offshore.

We have also seen a cavalcade of credible commentators arguing that despite offshore developments, interest rate cuts in Australia should be delayed until 2025. With the timing seemingly more contentious in Australia, we take a look at arguments for and against moving this year and delaying the start of the rate-cutting cycle until 2025.

"In Q4, real household consumption continued a trend of sharp slowing, to only +0.1% q/q, after a contraction in Q3 (-0.2%). Momentum remains weak, but is stabilising, with y/y growth holding 0.1%, albeit the weakest since the GFC (excluding COVID lockdowns)."

UBS
March 2024

The case for the RBA trimming rates in 2024

Policy is restrictive and has been for some time: As the RBA recently noted, "financial conditions were considered to be restrictive overall. The tightening of policy had led to a significant rise in household debt payments, which, in combination with other factors, was weighing on disposable incomes and consumption". As shown in the chart below, real rates are positive and around levels the RBA has begun trimming rates in the past.

Modest policy easing only avoids policy getting tighter in H2: With inflation expected to moderate further, from 3.4% now to 3.1% by end-2024 (based on RBA forecasts), the real rate will become even tighter ahead. For a forward-looking central bank, modest rate cuts in H2 2024 will work to avoid policy becoming even tighter than it is at present.

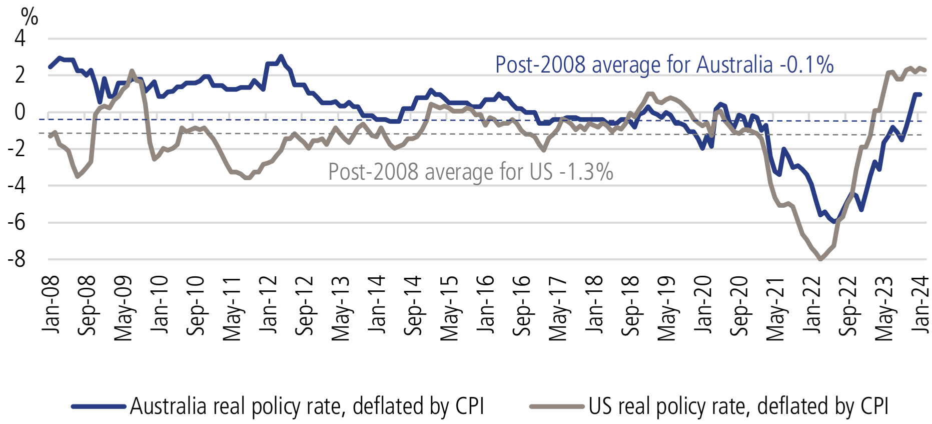
Consumer spending is already at its weakest since the GFC: As the RBA has previously discussed, due to the high floating-rate exposure of Australian borrowers, the rapid rise in policy rates (13 in 19 months and up by 4.25% to 4.35%) suggests they are more potent than rate hikes in the US (where rates rose to 5.50% and among the most potent among key economies). While excess pandemic cash flows have helped households adjust, latest data reveals a significantly weak consumer environment. As UBS recently noted, consumer spending growth "is holding +0.1% y/y, the weakest since the GFC (excluding COVID)".

Spare capacity in the jobs market should ease wage growth concerns: Despite the volatility and strong gain in jobs in the recent print, there is still a trend softening in the jobs market. The three-month trend in jobs gains has slowed to 23,000 from almost 40,000 previously. Underemployment has also risen from below 6% to 6.6%, implying some easing in the jobs market. A 0.5% rise in the unemployment rate has typically been the trigger for RBA rate cuts. Unemployment has risen from 3.4% to 3.7%, a 0.3% gain.

"We expect the $9bn of additional and redirected tax cuts will result in an additional ~$5bn being spent. Equivalent to 0.4% of consumption and 0.2% of GDP. While incrementally positive for growth, such a small cash injection is unlikely to drive a material increase in inflation in FY25."

Barrenjoey Capital
January 2024

Through a 'real rates' lens, policy is moderately restrictive



Source: RBA, Australian Bureau of Statistics, BLS, Macrobond, LGT Crestone.

The case for the RBA to hold fire until 2025

Planned stage-three tax cuts are now more stimulating: Inflation is not yet in the RBA's target band and unlikely to be there before next year. While the stage-three tax cuts were always on the horizon, they are now more stimulatory, given the changes shifting them to lower-income cohorts that have a higher propensity to consume. This will make it harder to slow demand and return inflation to target as planned.

The federal budget will likely add further cost-of-living relief: The Government has flagged more cost-of-living relief (fiscal stimulus) in the May budget. This is likely to further offset the impact of restrictive monetary policy, requiring it to be retained for longer.

Productivity will not improve in line with RBA's forecast requirement: As widely reported, the recent Productivity Commission report highlighted Australia's productivity growth is now the worst in 60 years. However, the RBA's forecast for inflation to return to around 2.5% (mid-target) by mid-2026 requires productivity to return to long-term averages. The required 1% improvement in productivity may not seem insurmountable.

As discussed in our recent *The astute investor* podcast with Business Council of Australia Chief Economist Stephen Walters, the Government's recent changes to the industrial relations landscape are working against previously hard-won gains to labour market flexibility embedded in the earlier Hawke-Keating enterprise-bargaining reforms.

However, as discussed in our recent *The astute investor* podcast with Business Council of Australia Chief Economist Stephen Walters, the Government's recent changes to the industrial relations landscape are working against previously hard-won gains to labour market flexibility embedded in the earlier Hawke-Keating enterprise-bargaining reforms. Persistent annual minimum wage increases in line with inflation—without needed productivity offsets—also make the task of lifting productivity more difficult.

House prices will accelerate if rates are cut: Lowering borrowing costs will put upward pressure on house prices, accentuating an already significant social problem and potentially stimulating inflationary wealth effects. There is already a sharp supply-demand imbalance in housing construction, with building approvals recently declining to a 160,000 rate, well below average and also below the Government's 240,000 per year new build target over five years. Rising house prices could make an already stressed rental market even worse.

Poor productivity may limit further RBA cuts in 2025

We find the arguments 'for' modest rate cuts in 2024 compelling, particularly the risk that allowing real rate tightening to intensify could drive a weaker growth and consumer outcome than the RBA desires. There are, however, wide-ranging views amongst forecasters, with some expecting the RBA to delay until 2025. While UBS and Barrenjoey have the first cut in November 2024, CBA expects the first cut in September 2024.

There are wide-ranging views amongst forecasters, with some looking for the RBA to delay until 2025. While UBS has the first cut in November 2024, CBA expects September 2024, and Barrenjoey forecasts August 2024.

However, the arguments 'against', to our mind, raise concerns that the hurdle for further cuts in 2025 may be higher than many expect. We see these developments—along with the potential for another significant minimum wage decision in July (in line with inflation but absent any productivity enhancements)—as an upside threats to end-2025 cash rate targets (at 3.10% for Barrenjoey and CBA, and 3.35% for UBS).

Housing may also be a headwind to further cuts in 2025

How the RBA views the housing market will also likely impact the outlook for rates in 2025. In many respects, the failure of government planning around land supply, the decision to allow a sharp rebound in immigration—together with the structural bias of the tax system toward housing—have divorced activity and prices from the monetary policy cycle. Even after 13 hikes and moderate correction, housing prices are once again rising due to more demand than supply. Notwithstanding lower rates may help developers increase supply, or that the RBA would view this as 'not its problem', H2 2024 rate cuts that accelerate price growth may still become a further headwind to cuts in 2025.

Outlook for the Australian dollar—whatever narrows the policy rate spread

In the pre-pandemic period—with inflation trending below target—the RBA partly rationalised its penchant for following global rates lower to zero (0.1% in Australia's case) from a currency perspective, i.e., supporting growth and inflation higher. A similar argument could now be made for the RBA to lag cuts in interest rates globally, supporting the Australian dollar higher. While the transmission mechanism from a higher exchange rate to lower imported prices (and weaker growth) to inflation is modest at best, it nonetheless would make a necessary contribution, given Australia's greater inflation risks.

While the elevated level of commodity prices argues the Australian dollar should already be above the USD 0.75 level, it's likely that the historically less-typical situation of Australia's cash rate being below the US Fed funds rate is currently the key catalyst for our sub-USD 0.70 exchange rate. Anything that narrows that spread—such as the RBA moving rates at a lag to the US (and by less)—should support the Australian dollar higher. However, interestingly, over the past month or so, forecasters have typically been trimming their weaker US dollar and stronger Australian dollar views. This reflects the revised stronger outlook for the US economy, and commensurate slower Fed rate cut cycle, together with the risk of heightened geo-political volatility that may also support the US dollar.

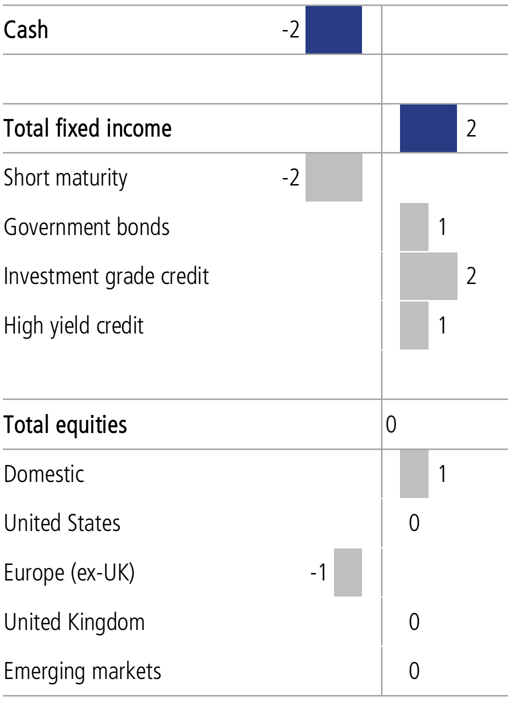
Outlook for the Australian dollar

		End-2024 (USD)		End-2025 (USD)	
		Latest	Previous	Latest	Previous
UBS		0.70	0.70	0.70	0.73
Barrenjoey		0.69	0.69	0.71	0.70
CBA		0.71	0.74	0.77	0.77
Société Générale		0.65	0.72	0.70	0.76
Current/average forecast	0.655	0.69	0.71	0.72	0.74
% from current		5.0%	8.8%	9.9%	13.0%

Source: UBS, Barrenjoey Capital, Société Générale.

What's driving our views

Tactical asset allocations (% weights)



Source: LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocations. Investment grade credit includes Australian listed hybrid securities.

Remaining overweight fixed income amid a balanced outlook

Economic growth continued to moderate in March. However, stubborn services inflation indicated that running down the 'last mile' of getting inflation back to central bank targets is likely to be a challenge.

We maintain a slight risk-on bias via our high yield overweight, and bond yields are stabilising at the 4.2% to 4.3% range, attractive levels for long-term investors. As a result, we retain our preference for fixed income assets.

Can policymakers stick the landing? After a fast and steep tightening cycle, central bankers now need to calibrate policy to continue lowering inflation without triggering a recession. While consumer sentiment is still healthy, there are political and geo-political risks, financial markets are hyperactive, and the secular inflation outlook is more volatile.

Politics takes centre stage in 2024: After the geo-political shocks of the past two years, politics will be a key market driver this year. More than 64 elections will take place in 2024, headlined by the US in November.

Diverging cycles: The US economy is resilient, but momentum may be peaking, while Europe may be bottoming, and China faces key cyclical and structural challenges. How these macro dynamics play out will be a key driver for markets this year.

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

Structural thematics

Positioning for multi-polarity: As the world order continues to transition towards multi-polarity, we expect more volatility and more geo-political shocks, but also more growth and opportunities for astute investors.

A challenging energy transition: Amid rising political and geo-political tensions, the world faces an increasingly challenging trade-off between net-zero commitments, cost, and energy security.

Innovative upside: AI presents a key challenge and opportunity, while advances in pharmaceuticals show that human ingenuity remains potent and is a key constructive force for the long term.

Higher rates increase investors' options: The resetting of interest rates at a higher level increases forward-looking returns across all asset classes, and gives investors more options to construct robust, diversified portfolios.

	What we like	What we don't like
Equities	▪ Broader S&P 500 exposure over mega-cap (long equally weighted S&P 500 over market cap-weighted S&P 500). ▪ Value and quality-tilted active strategies. ▪ Actively managed small and mid-cap equities.	▪ Companies with shorter-term debt maturities at risk of re-pricing into a higher rate environment. ▪ Stocks trading at historically tight dividend yields to the risk-free rate.
Fixed income	▪ Actively managed funds investing in higher quality credit. ▪ Fixed rate three- to five-year senior and tier 2 bank credit. ▪ Shorter maturity high quality bonds (two to five years). ▪ Higher quality issuers and actively managed funds within high yield credit.	▪ Longer-maturity bonds, which are vulnerable to rising inflation and term premia risk. ▪ Lower quality credit vulnerable to higher cost of funds.
Alternatives	▪ Credit-oriented strategies including corporate/asset-backed. ▪ Senior private debt (strategies excluding real estate). ▪ Real assets with inflation linkages and/or exposure to secular themes (e.g., multi-polarity and energy transition).	▪ Lower grade real estate assets (particularly office). ▪ Assets that have not adjusted to a higher rate environment. ▪ Assets and industries with no transition plan.

Economic and asset class outlook

Economic outlook

Global economy

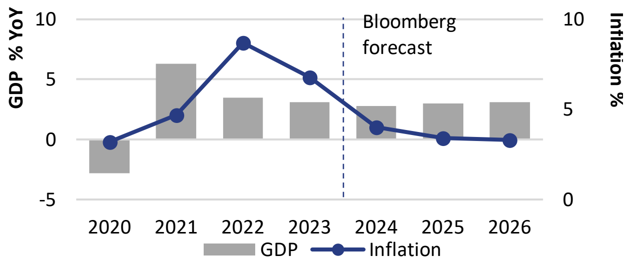
Recent data have broadly supported expectations for a relatively mild global growth slowdown through 2024. Still, this 'softish' landing for the world economy should embody a period of below-trend growth (particularly in H1 2024), even as elevated net wealth, high levels of saving, and cyclical support from low unemployment continue to mitigate the impacts of higher interest rates and tighter credit conditions. Moreover, top-line growth masks divergence between ongoing economic resilience in the US and Asia, and a confirmed recession in the UK, and relatively flat recently growth in Europe and Japan.

Slower global growth should set in train a new phase for the world economy, where interest rates have peaked, inflation moderates and interest rates fall, albeit not to their extremely low pre-pandemic levels. Recent signs that core inflation is annualising nearer central bank targets have led several central banks, including the US and Europe, to become open to cutting rates around mid-year. However, we expect the bulk of the policy easing to occur in H2 2024, in part due to ongoing low unemployment and robust wages growth. This has created a more positive backdrop for financial markets. Residual concerns of a hard economic landing have given way to concerns of a 'no-landing' scenario that could delay initial cuts into 2025.

Politics remains a focus in 2024, potentially driving geo-politics, given elections impacting more than half the world's population. Ballots have already been cast in Taiwan, Indonesia, and Russia, with elections ahead in India, the US, the UK, and Europe (Parliament). US President Biden and former President Trump have secured their respective party's nomination for the November presidential election (with formal announcements around July). During the year, markets may turn their attention to the implication of a Trump victory on US-China relations, US support for Ukraine (and treaties like NATO), US tax and fiscal policy, and implications for the Red Sea shipping and inflation.

Consensus expects global growth to slow in 2024 to a pace modestly below long-term averages. The International Monetary Fund recently upgraded its 2024 outlook (lifting growth from 2.9% to 3.1%), noting that a 'soft landing' was in sight. Similarly, Société Générale (SG) and UBS have stepped away from their US and global recession outlook. BCA Research still expects a US recession in 2024.

Global GDP growth and inflation



Source: Bloomberg as of 31 March 2024

Australia

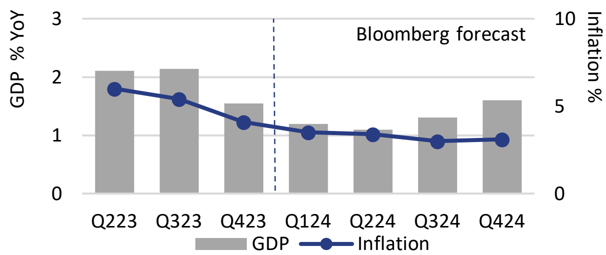
Recent data have confirmed Australia's economy expanded at a significantly below-trend pace through H2 2023. Moreover, private demand has been even weaker, supported only by strong capex activity, while some signs of trend softening in the jobs market have emerged. However, concerns about resilient inflation pressures have resurfaced in the wake of recent industrial relations changes, stronger-than-expected wage growth, and renewed acceleration in house prices. News that the May federal budget will embody additional cost-of-living relief, on top of already significant personal income tax cuts, has fostered speculation that H2 2024 interest rate cuts may be delayed into 2025. Visibility on the near-term strength of consumers and the jobs market will be key to the outlook.

Growth in the economy eased to 0.2% in Q4 2023 (after 0.3%), with the annual pace slowing to 1.5% from 2.1%. For H2, growth annualised at just 1%, down sharply from H1's 2% pace. In Q4, a weak consumer and housing sector were modestly offset by stronger trade, as well as capex and public spending. Early 2024 data have been volatile, with retail sales up just 0.3% in February after January's strong 1.1% rebound (post December's -2.7%); CBA assesses consumer trends as 'weak'. Housing building approvals moved weaker in early 2024, with jobs rebounding after weakness, and unemployment retracing from 4.1% to 3.7%, albeit still above its low of 3.5%.

Inflation eased from 5.4% to 4.1% in Q4. This was below the RBA's 4.5% year-end forecast, while core inflation slowed to 0.8% in Q4 from Q3's unexpected lift to 1.2%. February month CPI stayed lower, unchanged at 3.4%, flagging a further Q1 improvement. But Q4 wages proved 'sticky', slowing less than expected (to 0.9% from 1.3%), with the annual pace little changed at 4.2%. The RBA left policy unchanged at its mid-March meeting, further softening an already weak tightening bias, shifting largely 'neutral'. Modest cuts of 0.50% to 0.75% remain likely in H2 2024. UBS and Barrenjoey recently delayed their first forecast cut from August to November, while CBA continues to see the first cut in September 2024.

After growth of 2.1% in 2023, UBS expects Australia to avoid a recession, growing 1.5% in 2024, ahead of a recovery to 2.1% in 2025. CBA sees slightly slower growth of 1.2% for 2024, ahead of a similar rebound to 2.1% in 2025 (was 2.5%).

Australian GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Economic outlook

United States

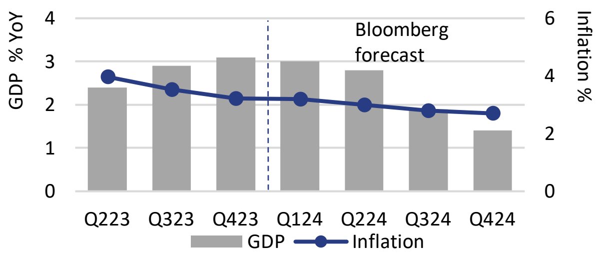
While consensus has continued to 'step away' from forecasts for a near-term US recession, recent data has more clearly revealed some moderation in the pace of US activity in early 2024, after the strong finish to 2023. Retail spending has softened, as have trends in the jobs markets. With policy makers claiming 'data dependency', expectations continue to centre around mid-year for the start of any rate-cutting cycle. With progress on inflation having stalled in early 2024, this has given voice to the advocates of a 'no-landing' scenario and the risks that rate cuts could slip into 2025. President Biden and former President Trump have both secured party nominations for the November presidential election.

Q4 growth rose by an above-trend 0.8% (3.4% annualised), slowing moderately from Q3's sharp acceleration to 1.2% (4.9%). Data have remained relatively resilient in early Q1, though high-frequency estimates flag a slowing toward 2% annualised. In March, the composite Purchasing Managers Index (PMI) eased to 52.2 from 52.5, February's eight-month high. Retail sales rebounded 0.6% after January's 0.8% fall, though underlying measures were relatively flat. Non-farm payrolls rose a still strong 275,000 in February, though revisions lower to history, together with less buoyant hiring conditions, suggest "that consumers' perception of the labour market is softening", according to BCA Research.

After several months of moderation, inflation surprised higher in January and February. The headline rate edged up to 3.2% in February, little changed since October last year, while core rose 0.4% for the second month, albeit easing to a three-year annual low of 3.8%. In his Senate testimony, Chair Powell said the Fed was "not far" from having the confidence that inflation is on track to settle at 2%, while the March Fed meeting retained the prior three telegraphed rate cuts for 2024). UBS has again delayed its 'first cut' expectations from May to June (was March), a similar view to SG, which also expects three cuts for 2024, in line with the Fed.

After 2.5% in 2023, UBS now expects a 2024 slowdown (not recession) with stronger growth of 2.2% (was 1.6%), delaying further slowing (to 1.4%) in 2025. SG also no longer expects a US recession, upgrading 2024 growth to 2.5% (was 0.9%) for 2024, but sees ongoing solid 2.3% growth for 2025.

US GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Europe

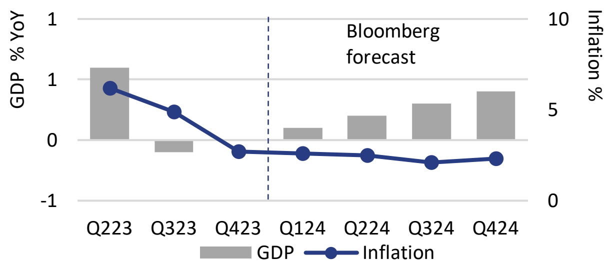
European activity has remained weak in early 2024, particularly in Germany, where growth fell sharply in late 2023. According to Longview Economics, Europe's outlook for growth remains under pressure, given ongoing tight monetary policy, some signs of labour market softness, and the demise of households' spare cash. Twin wars in the region, Red Sea supply impacts, and tighter German fiscal policy have added to the negative European growth outlook. However, while the consumer remains soft, BCA Research notes that "other data suggest the Eurozone industrial cycle is experiencing a mini upturn", given the recent improvement in manufacturing PMIs. Further, the recent improvement in inflation, but weak growth, have raised the spectre of lower policy rates in Europe, ahead of the US.

Europe's Q4 growth was 'flat', after Q3's -0.1% print, narrowly missing a technical recession. The annual pace was unchanged, also 'flat' and down from 0.6% in mid-2023. Early Q1 data signal stabilisation, at best, with retail sales edging up just 0.1% after December's 0.6% fall and March's PMI edging higher to 49.9 from 49.2 (albeit still just below the break-even 50-mark). According to UBS, "Eurozone retail sales have been weak, driven by the squeeze in real incomes, rotation of consumption away from goods towards services, weak consumer confidence, and the rise in interest costs for households". In contrast, consumer confidence has trended higher over recent months, aided by a peak in rates and improving real wage growth. Unemployment remains at its record low of 6.4% (signalling a tight jobs market).

Inflation has continued to trend lower into early 2024, easing to 2.6% from 2.8% in February. Core inflation fell to 3.1% (from 3.3%), albeit still above the 2% target. At its March meeting, the ECB left interest rates unchanged, as was widely expected. President Lagarde reiterated that by June the ECB would have more data on wages and inflation and could begin its rate cutting cycle. The ECB also revised down its growth and inflation forecasts a touch, while a review of operations left the deposit rate as the key policy variable.

After relatively weak growth of 0.5% in 2023, UBS expects a soft recovery in H2 2024, with year-average growth of 0.6% for 2024 (albeit with some downside risks), and 1.2% in 2025. SG now expects similar growth of 0.6% (was 0.8%) in 2024, while CBA sees ongoing recession and just 0.2% in 2024.

European GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Economic outlook

United Kingdom

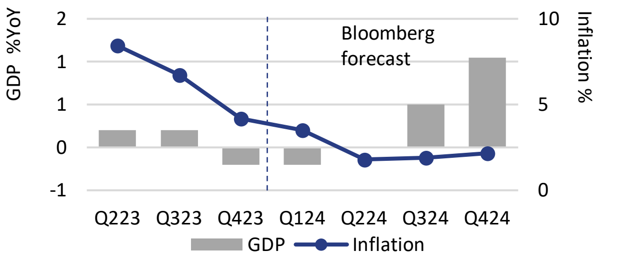
The UK entered a technical recession during H2 2023, with tighter financial conditions, higher mortgage payments, and external sector weakness the key drivers. Still, the economy has defied expectations for a sharper 2023 contraction, helped by a resilient consumer, solid capex, and a relatively tight jobs market. Signs of stabilisation have emerged in early 2024, led by improving business activity and stronger housing, while the Chancellor's Spring Budget delivered additional spending and tax cuts (worth about 0.5% of output, according to UBS).

Growth dropped 0.3% in Q4, much weaker than expected. With Q3 -0.1%, the UK's economy has technically entered recession. Consumer spending continued to decline, but at a slower rate, a sequential drop in exports accelerated, while government consumption declined (all partly offset by stronger capex). Early 2024 data point to a stabilisation in activity, with January's monthly output rising 0.2%, led by services and construction, despite a weak industrial sector. The PMI was little changed in March at 52.9 (from 53.0), near its strongest level since May 2023. Positively for the inflation outlook, wages growth slowed to 6.2% in January (from 8.5% mid-last year). The unemployment rate increased to 3.9% (from 3.8%) and jobs decreased by 21,000 in the three months to January.

Inflation has continued to trend lower, albeit it at a slower pace. In February, the headline rate eased from 4.0% to 3.4%, while core inflation fell from 5.1% to 4.5% (its lowest since January 2022). Once again, the BoE kept policy steady at 5.25% in March, although this was the second meeting where a single vote to cut was recorded. BoE Governor Andrew Bailey noted in his commentary that "we are not yet at the point we can cut rates but things are moving in the right direction." The Monetary Policy Committee statement also noted rates can be changed at any meeting (according to Lazard) and "the Committee recognised that the stance of monetary policy could remain restrictive even if [the] Bank Rate were to be reduced." UBS has shifted the first cut from May to August, in line with CBA.

After growth of just 0.1% for 2023, UBS sees a weak recovery to 0.2% for 2024, ahead of stronger growth of 1.5% in 2025. CBA expects a recession in 2024, with activity growth falling 0.2% before recovering to 0.7% in 2025.

UK GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Japan

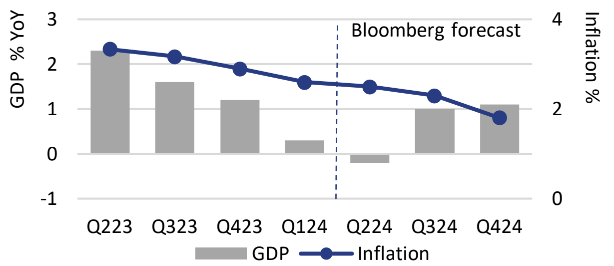
After a stronger-than-expected expansion in H1 2023, Japan's economy narrowly avoided recession in H2 following revised data. A weaker-than-expected consumer is raising concerns about the likely strength of the economy in 2024. Still, there are reasons to be optimistic for improved activity ahead, given relatively robust business conditions, solid tourist arrivals, and rising wage growth. This is supporting expectations of a moderate rebound in consumer spending, while a lift in global trade should also incrementally support the growth outlook. Stronger wage growth has also led to an exit from Japan's long-held negative interest rate policy during March.

Japan's real growth was revised higher from -0.4% in Q4 2023 (annualised) to 0.4%, reflecting stronger estimates for capex, amid relatively weak housing investment, consumer and public spending. Annual growth remains weak at just 0.1%. Data support a tepid pick-up in Q1, though uncertainty is elevated. Japan's PMI rose to 52.3 in March (from 50.6), its strongest level since August last year. Japan's unemployment rate for January remained unchanged at 2.4% and in line with the consensus forecast. At the same time, the job openings-to-job seeker ratio has been unchanged for three months. Overall, the data suggest the labour market in Japan remains tight and likely to put upward pressure on wages. Retail sales recovered 0.8% in January after collapsing 2.9% in December.

After falling quickly over recent months, reaching 2.2% in January (its lowest since March 2022), February headline inflation lifted to 2.8%. While core inflation continues to trend lower (from 3.5% to 3.2%), evidence suggests a more persistent inflationary environment is being secured. Together with recently stronger wage growth, the BoJ exited its negative rate policy (lifting rates from -0.1% to 0.0%) and its yield curve control in March, as widely expected. This was the first hike in interest rates in 17 years, and will see the BoJ return to the more familiar policy of targeting its overnight 'cash' rate (now 0%). It will no longer seek to manage the 10-year bond yield, which will be driven by the market.

After strong growth of 1.9% in 2023, UBS expects retracement to a near-trend 0.8% in 2024 (was 0.3%), before steadying at around a 1.2% pace in 2025. SG forecasts a weaker pace of just 0.2% for 2024, but similar rebound to 1.3% for 2025.

Japanese GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Economic outlook

China

Uncertainty remains elevated over whether China will be able to achieve its recently announced 'around 5%' growth target for 2024. Latest data, however, have provided some modest optimism, with some indicators, post the Lunar New Year, beating expectations and lifting above the end-2023 level. Still, property activities continue to weaken and challenge the outlook, with most forecasters flagging the need for more stimulus to stabilise the outlook. Additional stimulus, focused on consumers, is expected to support activity into mid-2024, after some likely moderation in growth below 5% in Q1.

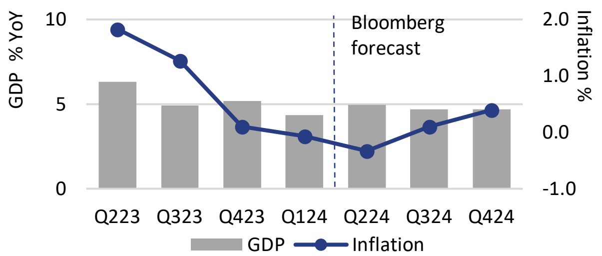
China's annual output rose to 5.2% in Q4 from 4.9%—in line with expectations and slightly above the 5.0% government growth target for 2023. Despite this, sequential growth disappointed, slowing in Q4 to about 4% from Q3's 6%. Early 2024's post Lunar New Year combined January-February data surprised positively. While retail sales were largely in line (5.5% after December's 7.4%), industrial production (7.0% after 6.8%), fixed asset investment (4.2% after 4.0%) and exports (7.1% after 2.3%) all beat. Property sales and starts, however, weakened further through Q1. February credit growth also slowed more than expected, with BCA Research suggesting this may be signalling weak credit demand.

Deflationary pressures eased moderately in Q1, with headline inflation rebounding more than expected to +0.7% in February from -0.8% in January. Food prices saw a much smaller decline, while non-food prices improved. In February, authorities cut the five-year benchmark loan rate by 0.25% to 3.95% to support new housing activity, according to Lazard.

At last month's National People's Conference, targets provided were largely in line with market expectations, though striking a 'supportive tone', according to Bank of America. For 2024, the target for growth was 'around 5%' and for CPI inflation it was 3%. The fiscal deficit was slated at 3%, while the issuance of local government special bonds was CNY 3.8 trillion and central government special bond was CNY 1 trillion, with the latter used to support public spending.

After 5.2% in 2023, UBS expects China's 2024 and 2025 growth to slow to 4.6% (lifted from 4.4%). SG expects a similar slowdown to 4.7% in 2024 (was 4.5%), while CBA expects stronger growth of 4.9% for 2024 and 5.1% in 2025.

Chinese GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Emerging markets

Emerging market growth is now expected to decelerate by almost 0.5% (including and excluding China) through 2024, albeit mostly through H1 2024. In contrast, H2 2024 should embody modest recoveries in Latin American and emerging European growth. Asia is expected to strengthen into mid-year, helped by ongoing disinflation that paves the way for some renewed central bank easing in H1 2024 (as well as support via the tech export recovery for North Asia). However, China's mixed growth outlook and potential US dollar strength on geo-political and political concern could weigh on the emerging market export and currency outlook.

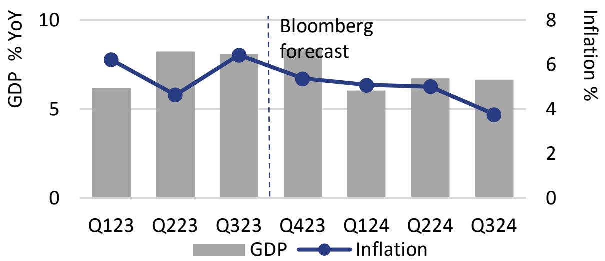
Tech remains a key driver for the Asian region. UBS expects "Korea, Taiwan, and to a smaller extent Singapore, Vietnam, and Malaysia, to benefit from tech cycle improvements." Still, recent data show uneven trends. Korea's 20-day export growth accelerated to 9.8% year-on-year in February, led by semi-conductors, while Taiwan's exports fell. Singapore's monthly data have been choppy, with industrial production falling sharply in January. Malaysia's electronics exports are yet to inflect up, as of early 2024. But, on the back of strong exports and investment, Vietnam's growth rebounded to 6.7%.

Consumer spending is also showing resilience and likely to be supported by moderate interest rate cuts in H2 2024. A UBS survey suggests the share of spending on food in India has been gradually falling, shifting toward durable goods and services. Philippine's Q4 output surprised on the upside due to consumption. In contrast, an uneven labour market recovery is driving weaker consumption in Indonesia, while consumer spending in Korea continued to slow in late 2023.

For Latin America, growth is expected to slow in 2024, particularly into mid-year. Brazil's Q4 growth disappointed expectations, rising just 0.1% and revealing stalled H2 2023 activity (albeit still 2% higher than a year ago). Moderating inflation should support significant rate cuts by early 2025 (SG forecast 3% reduction), which should underpin some recovery in growth in 2025 (2.2% versus 2.0%, according to UBS). UBS expects rate cuts in Brazil to start earlier in H2 2024.

After 4.6% in 2023, UBS expects a moderate slowing to 4.1% in 2024 for the emerging market economies before a moderate pick-up to 4.4% in 2025.

India GDP growth and inflation



Source: Bloomberg as of 31 March 2024.

Asset class outlook

Short maturity and government bonds

Position: Underweight short maturity, overweight government bonds

Key points

- We recommend maintaining a diversified portfolio of fixed and floating rate bonds.
- The market now expects the Fed to begin its rate-cutting cycle in July, with a further three cuts by year-end.
- As central banks provide a clearer outlook on rates, we expect the government bond curve to steepen.

Short maturity—Markets remain focused on inflation and economic data to determine the timing of rate cuts. Decade-high interest rates have helped slow inflation, but stronger-than-expected economic data (particularly employment) points to a relatively soft landing. This has created uncertainty about when the easing cycle will start. The timing and level of easing will depend on progressive data prints. Higher-than-expected January US CPI and less dovish tones from the Fed have stalled falling bond yields and moved the pricing of the first rate cut to July. Continued economic resilience, sticky services inflation, and job data will likely keep volatility elevated near term.

While our tactical asset allocation to short-term maturities is underweight, we recommend adding fixed-rate bonds to complement existing floating rate positions. Global central banks are likely to start easing from mid to late-2024, so we are recommending adding fixed rate exposure now. We see value in the four to seven-year part of the Australian curve, depending on the portfolio's maturity profile. We note that the three-month Bank Bill Swap Rate (BBSW) is 50 basis points (bps) above the five-year swap rate. This will make floating rate coupons higher in the short term than fixed rate, attracting investor demand for this structure.

Government bonds—Global rates rallied significantly at the end of 2023 as inflation prints came in lower and more rapidly than expected. Further dovish statements from Powell post the November Federal Open Market Committee (FOMC) meeting added fuel to the positive momentum. Following the meeting, the 10-year US treasury rallied 120bps to 3.80% at end-December, although it is now back above 4.20%. Markets are pricing an easing path for the FOMC this year, with around 75bps of cuts. However, with the latest CPI print, labour data and Fed speakers cooling rate cut hopes, the bond market may have overextended its rally.

The degree to which inflation improves will dictate the timing and scale of cuts in 2024 and beyond. We are seeing signs that inflationary pressures are cooling and we expect economic growth to moderate in coming quarters, with a relatively soft-landing making recession unlikely. We have a high conviction that government bond yields at the front end of the curve will be lower over the next six to 12 months, in line with central banks easing at a moderate pace. We are overweight on an outright yield basis, expecting less capital upside at the longer end as the curve steepens. We have moderated our overweight to this segment of the market but will look to increase exposure if weakness persists.

Investment grade and high yield credit

Position: Overweight investment grade, overweight high yield credit

Key points

- We prefer investment grade bonds as inflation cools and downside risks to growth moderate.
- High yield credit quality has improved and demand for outright yields has risen, driving spreads lower.

Investment grade credit— Investment grade credit spreads are now fully priced for a soft landing, with limited upside from here. Despite the volatility in bond markets, investors have continued to be attracted to the outright yields, driving spreads lower. Issuance in the US and Europe has been at record highs in Q1, and higher outright yields have contributed to demand. Corporate credit spreads are sitting at historically low levels, but as fundamental economic data remains robust, spreads should remain tight. As global central banks start to ease later in the year, spreads are likely to widen. However, total return should remain positive as bond yields fall. An exposure to high-quality bonds should protect portfolios in a growth slowdown, as credit spread widening is usually offset by falling government bond yields.

Domestically, issuance has also been high and dominated by financials. Macquarie Bank issued AUD 1.25 billion subordinated Tier II fixed and floating rate tranches at BBSW +195bps. There was over AUD 5 billion of demand across both tranches, with the first floating-rate coupon expected to be 6.30%. Spreads for subordinated Tier II tightened a further 10bps in March, with the major banks pricing at around BBSW +180bps for a 5 non-call 10 structure. Following ANZ's transaction in February, both Bendigo Bank and IAG issued additional Tier 1 at BBSW +320bps, attracting above-average demand due to outright returns greater than 7.50%.

High yield credit—Despite global economic risks, high-yield investments continue to attract long-term investors due to their total return potential. The end of the rate-hiking cycle, coupled with robust consumer spending and labour market strength, have tightened credit spreads. While concerns exist around the sustainability of high-yield spreads, there is a continued belief there will be a soft landing in the US. Corporate earnings improved in the latter part of 2023 and early 2024. Irrespective of the sector's sensitivity to interest rates, leverage, and cyclicality, the overall credit quality of the high-yield market has improved, with most US issuers now rating BB. Encouragingly, many high-yield issuers have strengthened their financial positions, maintaining low leverage and manageable interest coverage. With limited near-term maturities and a higher credit quality profile, default rates are expected to remain stable in the near to medium term. While volatility may persist, higher-rated bonds and loans are favoured for potentially attractive total returns. Although yields on BB-rated bonds and loans have tightened recently, they are still compelling. The loan asset class stands out for its higher-than-average coupons, contributing to potentially above-average total returns.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- Domestic equities posted their fifth consecutive monthly increase in March, rising 3.3% and to an all-time high towards the 8,000 mark.
- A reasonably constructive reporting season, easier global financial conditions, and more dovish expectations for RBA rate cuts (two cuts are now priced for the end of the year) saw cyclical sectors outperform.
- A risk-on bias saw underperformance from defensive sectors, such as telcos (-1.0%), consumer staples (+1.6%) and healthcare (+1.1%).

This strong performance is, however, bringing with it a valuation headwind. Aside from the COVID period, domestic equities have never been as expensive in absolute terms as they are now. Fortunately, in relative terms, the S&P/ASX 200 index's 11% discount to the MSCI World ex-Australia index is still in the bottom 10% of observations over the past 20 years.

Following the S&P/ASX 200's 17% gain since the end of October 2023, the 12-month forward price/earnings (P/E) ratio for the S&P/ASX ex-Resources index is now 18.5x. This is 40% above its long-run average of 13.5x, 12% above its May 2007 pre-GFC peak, and 5% higher than where it peaked in April 1999, at the height of the dot-com bubble. On an ex-resources' basis, Australia now commands a 20% premium to the world ex-resources. Although this is well above its 40-year average, on a post-GFC basis, it is less stretched (albeit still at a record premium).

UBS counters the view that higher valuations are cause for alarm. It believes there is justification for higher multiples, as earnings are now more reliable and higher quality, across several sectors. Banks are more prudent with credit standards, retailers are more adept at managing inventory levels, and miners no longer pursue aggressive expansion plans etc. UBS believes that a structural driver may also be at play—i.e., investors are no longer demanding the same level of compensation to take on equity risk. The reason is that equity earnings now appear more dependable than we had previously assumed.

Over the short term, domestic equities have several drivers that are providing a 'bridge' to eventual RBA rate cuts. With the February reporting season just completed, earnings appear to be stabilising and moving higher; the federal budget, scheduled for May, will likely be electorate-friendly, given next year's election; stage three tax cuts should provide income relief to households; and the feared fixed-to-floating rate 'mortgage cliff' is occurring against a housing market that has been delivering almost double-digit gains over the past 12 months. Finally, the first rate cut is expected in September, with another in December. If CBA is correct (three cuts in H2 2024 and three in H1 2025), the backdrop for domestic equities should be positive for 2024 and into 2025.

International equities

Position: Underweight Europe. Neutral the US, UK and emerging markets

Key points

- The MSCI World ex-Australia index returned 3.0% in Australian dollar terms in March. The Index is up 23% from its October lows.
- As witnessed in Australia, there was a cyclical bias to returns over the past month, with energy and materials performing strongly, up 8.4% and 5.4%, respectively.
- Healthcare (+1.7%) and consumer staples (+1.7%) were laggards. The only other sectors to trail the index were the Consumer Discretionary (+0.3%) and Tech sectors (+1.2%).

Much has been made of the expensive valuation that the S&P 500 index currently trades at. With a 12-month forward ratio of 21.1x, the index is less than 3% away from what it averaged in the 18 months to end-2021. This was a period characterised by 0% interest rates, massive fiscal stimulus, and excess household savings. However, it is possible that the index may overshoot if its new highs coincide with new highs in the profit cycle. There are several things for bullish investors to consider: The NASDAQ, the epicentre of the S&P 500 index, has easy earning comps until the end of Q2; inflation is falling, and real rates are very restrictive (which should allow the Fed to cut rates, even though inflation has not returned to its target band); an AI-driven earnings per share (EPS) upgrade cycle may be in its early stages, with productivity benefits (cost and revenue) allowing for a higher plane of earnings. Furthermore, its disinflationary implications may allow central banks scope to cut rates more than they otherwise might. Additionally, the ongoing US fiscal and reshoring boom offers a buffer against high rates; and balance sheets among larger caps are very strong. Interest coverage is at 20-year highs (e.g., Microsoft has more debt maturing from 2040 onwards than it does over the next two years).

With a market cap of USD 21 trillion, the Nasdaq-100 is now virtually equal in size to the tradeable US Treasuries market. This raises the question of whether the Nasdaq-100 is now an asset class—or simply in bubble territory. Concentration risk in US stocks is high and supports being long the Nasdaq-100 equal-weighted or S&P 500 equal-weighted indices versus their market-cap-weighted counterparts.

Year-to-date, emerging markets have returned 2.2% (in US dollar terms), underperforming MSCI developed markets by 4.9%. Emerging markets Asia has returned 3.4% and is outperforming the broader MSCI emerging markets complex by 1.2%. The evolution of relative economic growth rates (emerging versus developed markets) is key from here. EM GDP growth is forecast at 3.9% for 2024 and 3.6%for 2025, which should provide a more supportive backdrop for EM equities given the slowdown expected in developed markets.

Asset class outlook

Currencies

Key points

- The US dollar had a volatile month as tentative signs of economic softening contrasted with stubborn underlying inflation.
- The Australian dollar is trading at around USD 0.655.

The US dollar had a volatile month as markets processed the conflicting messages from tentative signs of softening economic data and stubborn underlying inflation. After weakening as much as 1% in early March following a disappointing manufacturing ISM print, upside surprises to consumer price and producer price inflation saw the US dollar (and bond yields) retrace higher. Looking out over the year ahead, political risks around the US election and the ongoing evolution of the global economic cycle and inflation are likely to be the key drivers for the US dollar. Structural factors, including a deteriorating US budget deficit and increasing geo-political multipolarity, point to downside pressures longer term, but these will not be in markets' minds for some time.

The Australian dollar was broadly unchanged in March, trading around USD 0.65, though this also masked intra-month volatility, which saw it trade as high as USD 0.662. Current levels remain in line with or at the low end of longer-term fair value estimates, and the stubbornness of inflation could provide some support. However, the RBA has signalled a shift to a more neutral stance compared to its tightening bias in February. A significant Chinese stimulus program is a key upside risk for the Australian dollar. Our external partners are forecasting moderate upside risks to the currency for the year ahead, to around USD 0.70.

The euro generally strengthened over the month, supported by signs that economic conditions may be bottoming in the region. However, it pared its gains as the US dollar strengthened and easing inflation outcomes supported market views that the ECB may need to commence an easing cycle before the Fed. We continue to expect the Eurozone to face macro risks going forward, which are likely to weigh on the currency. However, like Australia, the currency may benefit from a significant Chinese stimulus program.

The Japanese yen depreciated against most major currencies in March, despite the BoJ raising interest rates for the first time since 2007 and confirming an exit from its long-held negative interest rate policy. Yen weakness was likely driven by an expectation that, given a still uncertain macro outlook, any further policy normalisation in Japan is likely to be gradual. There is potential upside support for the Japanese yen as a downside risk hedge, and Japan's internal inflation and macro dynamics remain tilted towards policy normalisation to continue over the next 12-18 months.

Commodities

Key points

- Global commodity prices recovered in March, supported by positive Chinese economic data. Gold is trading around USD 2,200 per ounce.
- Iron ore prices are around 11% lower and trading at USD 107 per tonne.

Positive Chinese economic data post Lunar New Year provided some support to the global commodity complex in March, while WTI crude oil prices rose to around USD 80 per barrel, supported by OPEC+ supply cuts and strong US demand.

Meanwhile, gold prices rose to record highs and are trading around USD 2,190 per ounce, as markets pared back rate cut bets and the US dollar strengthened.

Industrial metals prices also rose, with copper and aluminium up between 2% and 3% for the month. However, iron ore remained a weak performer, down around 10% as Chinese property market weakness continued.

The evolution of the Chinese economy will continue to play a key role in the near-term outlook for commodities. We expect that authorities will continue to emphasise targeted and limited stimulus packages to support, but not ignite, China's growth pulse. This approach reflects China's multi-year efforts to rebalance its economy towards more sustainable consumer- and services-led growth, while addressing structural issues in its property market and debt dynamics.

Recent data suggests that the Chinese economy continues to face significant cyclical and structural challenges, which present fundamental headwinds to commodity prices. The key upside risk for commodities is that economic stresses threaten social stability and force authorities to pursue more aggressive stimulus, which could support a cyclical rebound in commodity prices in the absence of a broader global slowdown. This backdrop is likely to lead to ongoing elevated volatility in commodity prices.

Looking beyond the cyclical horizon, 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, and we are particularly cognisant of the risk that a cyclical downturn could outweigh the secular tailwinds in the near term.

Asset allocation views

Strategic asset allocation views

Why do we believe in strategic asset allocation?

We believe that the central component of successful long-term performance is a well-constructed strategic asset allocation. Empirical evidence suggests that a disciplined strategic asset allocation (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 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 throughout the cycle.

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	3	3	3	3
Fixed income	53	35	17	14
Short maturity	8	6	3	3
Government bonds	32	15	7	5
Investment grade credit	11	11	4	4
High yield credit	2	3	3	2
Equities	24	42	60	38
Domestic	12	19	28	11
United States	6	11	16	13
Europe (ex-UK)	3	4	5	4
United Kingdom	2	3	4	3
Emerging markets	1	5	7	7
Alternatives	20	20	20	45
Hedge funds	6	6	5	14
Private markets	7	7	9	17
Real assets	7	7	6	14

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

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

Active portfolio weights and tactical asset allocation views

Our current tactical asset allocation views

We expect that growth and inflation will continue to slow in most developed economies this year, and we remain strongly convicted that cash rates have peaked this cycle. Central banks have more clearly signalled an intention to ease policy gradually over 2024, with risks to the outlook broadly balanced.

In Australia, inflation is moderating in line with peers, while there are increasing signs that tight policy is weighing on consumer activity. The US economy is also showing tentative signs of peaking momentum, though excitement about AI remains high. We retain the view that the near term looks supportive for a 'softer' economic landing. Overall, we continue to believe that fixed income will perform well relative to equities under several scenarios in the short term.

Why tactical asset allocation?

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

Cash

Our underweight cash position remains at -2, reflecting our view that rates have likely peaked, favouring fixed income over cash.

Fixed income

At an asset class level, fixed income remains our highest conviction position at +2. At a sub-asset class level, we are positioned in favour of investment grade and high yield credit. This positioning takes advantage of still attractive all-in yields and reflects a slight risk-on bias. If markets experience volatility, we expect fixed income (particularly government bonds and investment grade credit) to prove relatively defensive—particularly if the growth outlook deteriorates.

Alternatives

We favour infrastructure, private debt, and low-beta hedge fund exposures, while maintaining private equity exposures. We are taking a cautious approach to real estate globally, albeit 2024 may present an attractive long-term entry point for those that can look past short-term volatility.

Equities

We are neutral equities overall, reflecting the ongoing resilience of the US economy and corporate earnings. We are overweight domestic equities due to attractive relative valuations and potential tailwinds from economic outperformance. We are underweight Europe due to its weaker macro and earnings outlook.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	-2	1	1	1	1
Fixed income	2	55	37	19	16
Short maturity	-2	6	4	1	1
Government bonds	1	33	16	8	6
Investment grade credit	2	13	13	6	6
High yield credit	1	3	4	4	3
Equities	0	24	42	60	38
Domestic	1	13	20	29	12
United States	0	6	11	16	13
Europe (ex-UK)	-1	2	3	4	3
United Kingdom	0	2	3	4	3
Emerging markets	0	1	5	7	7
Alternatives	–	20	20	20	45

Decreased weight this month   Increased weight this month

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

Our view on fixed income

Short maturity

We are underweight short maturity. We favour a more balanced position in duration-related bonds and credit securities, as aggressive monetary policies from central banks have sufficiently repriced bond yields for now. Our base case is that central banks will be required to ease monetary policy moderately from mid-2024. This will contribute to the positive total returns from adding duration with fixed rate relative to floating rate over time.

Government bonds

We are overweight government bonds. With expectations that central banks are at the end of their rate-hiking cycles, we remain tactically overweight government bonds. However, we have continued to trim this overweight as yields have rallied. Markets are now pricing modest rate cuts through 2024, which continue into 2025. We expect yields to move moderately lower as cuts come through and inflation falls.

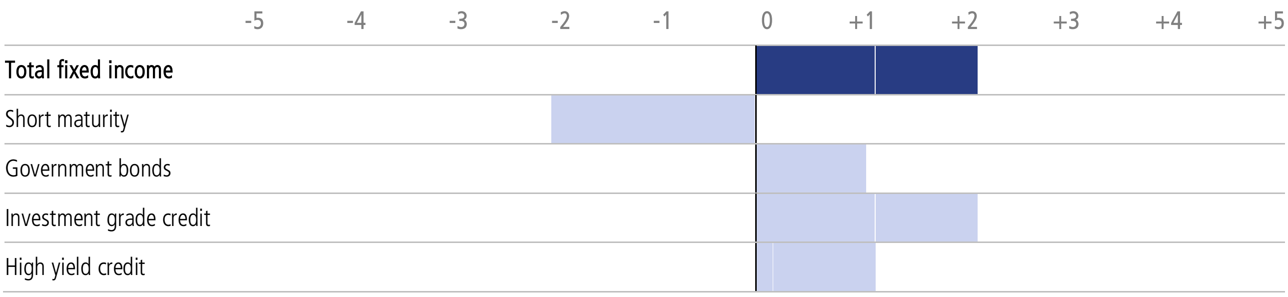
Investment grade credit

We are overweight investment grade credit. While all-in yields are at historically elevated levels, we believe investors should continue deploying into investment grade credit. Staying in high-quality bonds should protect portfolios in a growth slowdown, as credit spread widening is usually offset by falling government bond yields. Easing risks of an economic hard landing should also support returns through 2024.

High yield credit

We are overweight high yield credit. Although high yield credit spreads are near historically low levels, the credit quality of high-yield issuers has improved. The average rating of high-yield US issuers is now BB. Many issuers have strengthened their financial positions and are maintaining low leverage and manageable interest coverage. We believe that high interest rates make all-in yields attractive.

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



Fixed income market summary

Fixed income indices	Current	One month ago.
Australian iTraxx	64.85	64.27
Australian 3-year yield	3.62%	3.69%
Australian 10-year yield	3.96%	4.13%
Australian 3/10-year spread	32.6 bp	43.0 bp
Australian/US 10-year spread	-0.4 bp	-0.1 bp
US 10-year Bond	4.32%	4.28%
German 10-year Bund	2.30%	2.46%
UK 10-year Gilt	3.93%	4.19%
Markit CDX North America Investment-Grade Index	52.1 bp	53.1 bp
Markit iTraxx Europe Main Index	54.25	55.61
Markit iTraxx Europe Crossover Index	297.03	308.02
SPX Volatility Index (VIX)	14.00	13.84

Source: LGT Crestone Wealth Management, Bloomberg as of 31st March 2024. Active fixed income weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on equities

Domestic equities

We are overweight domestic equities. The S&P/ASX 200 has broken above all-time highs. The prospect of stronger returns is reasonable given a likely electorate-friendly budget, the stage three tax cuts, resilient earnings, and expected interest rate cuts. Greater China stimulus is also a potential tailwind.

US equities

We are neutral US equities. The S&P 500 is trading within 2-3% of its post-COVID average multiple – 21.2x versus 21.6x. The macro regime, however, is vastly different (higher rates, less fiscal stimulus, and greater geo-political uncertainty). While a lower rate outlook should support, we favour the equal-weighted S&P 500 and small and mid-cap equities.

European (ex-UK) equities

We are underweight European (ex-UK) equities. Constituents of the MSCI Europe index could return EUR 620 billion to shareholders this year, versus the EUR 612 billion returned in 2023. This would be the highest level since at least 2014. Investors are focusing on the prospect of earlier-than-anticipated rate cuts from the ECB to weaken the euro and support a stabilisation in economic growth.

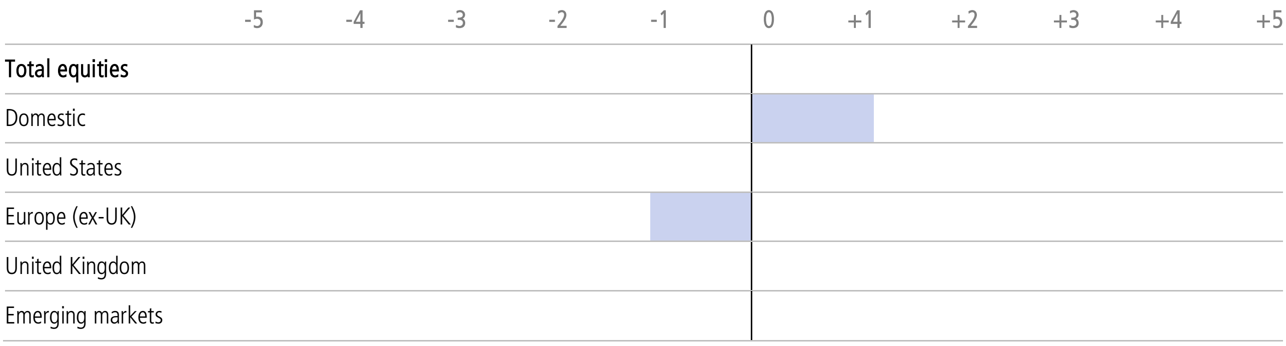
United Kingdom equities

We are neutral UK equities. In a European context, after outperforming strongly in 2022 (the only large developed market to end the year in positive territory), the UK lagged significantly in 2023. This has left the market at levels that are close to record discounts versus Europe, and the MSCI World ex-US index. The UK is a typical low beta play, and in 2023 equity indices rose strongly. If equity markets become more volatile and challenge the Goldilocks narrative, the UK will likely outperform other markets, as it did in 2022.

Emerging market equities

We are neutral emerging market equities. Year-to-date, emerging markets have returned 2.2% (in US dollar terms), underperforming MSCI Developed Market index by 4.9%. Emerging market Asia has returned 3.4% and is outperforming the broader MSCI Emerging Market complex by 1.2%. Consensus is expecting MSCI Emerging Market earnings growth of 16.1% for 2024 and 15.4% for 2025. This puts the MSCI Emerging Market index forward P/E ratio at 12.1x and price/book value at 1.7x

Active equity weights (%)—We are neutral equities



Equity market summary

Region	Index	Latest price	Consensus 1 yr Target	Consensus 1 yr Upside	Next year P/E [1]	Next year D/Y [2]
Australia	S&P ASX 200	7,896.9	7,839.3	-0.7%	17.2	3.8%
New Zealand	S&P NZ 50	12,105.3	12,695.0	4.9%	27.2	3.4%
United States	S&P 500	5,238.6	5,642.1	7.7%	19.2	1.4%
Europe	Euro Stoxx	520.2	562.3	8.1%	12.7	3.3%
United Kingdom	FTSE 100	7,952.6	8,999.1	13.2%	11.1	4.0%
China	CSI 300	3,077.4	3,510.7	14.1%	10.9	3.1%
Japan	Nikkei 225	39,803.1	41,657.8	4.7%	20.8	1.7%
India	Sensex	74,014.6	81,220.2	9.7%	21.2	1.4%

Source: Bloomberg. Data as of 31 March 2024; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield. Active equity weights sourced from LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Our view on alternatives

Hedge funds

Higher rates and greater asset price dispersion should support the case for hedge funds. A decade of quantitative easing has suppressed volatility and dispersion across underlying industries and securities, which is now shifting. Combined with the higher interest rates regime, the opportunity set for hedge fund managers has improved materially. Across the hedge fund universe, we continue to favour idiosyncratic credit-orientated strategies, where outright yield increases further support the investment case and pockets of dislocation across both corporate and asset-backed sectors provide a ripe opportunity set for more flexible strategies with broader mandates.

Private markets

Private equity remains core, with venture secondaries looking particularly attractive. With entry valuations having re-adjusted meaningfully, we recommend maintaining exposures to private equity and venture capital and building positions where underweight. We maintain a preference for new primary and secondary fund commitment structures, with venture secondaries looking particularly attractive, given the ongoing market dislocations and heightened discounts relative to buy-out equivalents. However, investors should maintain discipline and partner with fund managers that have sufficient data and qualitative insights to source and assess high quality opportunities.

Private debt is our favoured alternative asset class. Higher base rates and increased spreads on private debt offshore mean that risk-adjusted returns look highly attractive relative to other asset classes. Lenders can attract senior deals with strong covenants and an equity cushion of more than 50-60% at unlevered double-digit yields. We prefer direct, sponsor-backed transactions versus broadly syndicated strategies, as loan terms can be negotiated directly, offering greater protection to the end investor. Investors can also further diversify through private, asset-backed securities, albeit we remain cautious on construction and land-focussed real estate lending. We anticipate significant product proliferation across global direct lending exposures in 2024. As such, we are taking a prudent approach to research, given existing offshore exposures typically have both significantly higher fees (management and performance) and leverage.

Real assets

Real estate is our least preferred alternative asset class, yet 2024 may present an attractive long-term entry point. There remains a meaningful dichotomy across different assets, sectors, geography and investment approaches. To that effect, we prefer high-grade assets, where there is some ability to add value through up-leasing, repositioning, or marking rents to market. Offshore industrial assets and multi-family accommodation are favoured alongside alternative sectors, such as self-storage, student accommodation, data infrastructure and manufactured housing. Valuer sentiment in Australia has finally shifted resulting in meaningful downgrades in valuations, but we anticipate that both local and global valuations may settle in 2024 and present an attractive long-term entry point for those that can look past the noise.

We favour growing infrastructure exposures in portfolios. Infrastructure can provide more defensively positioned core assets on long-term, typically inflation-linked contracts. This can provide both a defensive ballast and inflation protection, both of which are in high demand currently. We see attractive investment opportunities focussed on energy transition, but where scale investors are able to build on established platforms and be prudent on entry valuations.

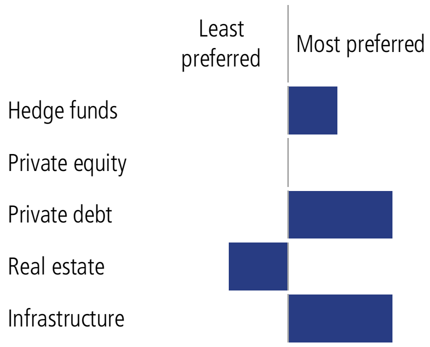
Our most preferred and least preferred exposures—We favour infrastructure, private debt, and low-beta hedge fund exposures while maintaining private equity exposures. We are taking a cautious approach to real estate globally.

What we like

- Credit-oriented strategies including corporate and asset-backed sectors.
- Senior private debt (strategies excluding real estate).
- Core and core-plus infrastructure assets with inflation linkages.
- Private market and real assets exposed to the global energy transition.

What we don't like

- Long-bias equity hedge fund strategies.
- Lower grade and/or buy-and-hold real estate assets (particularly office).
- Construction and/or junior lending within real estate.
- Carbon-intensive assets and industries with no transition plan.



Direct equity

Recommendations: Domestic equities—Best sector ideas

Objective of this list

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

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

Code	Company	Sector	Market price	Consensus Target Price	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Com. Services	$185.47	$174.18	54.4	1.0%	34.1%	28%	21%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$43.00	$48.76	19.7	1.7%	22.9%	21%	10%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$5.15	$5.48	29.6	3.2%	22.5%	126%	5%	AA
MTS	Metcash Ltd	Cons. Staples	$3.91	$4.22	14.0	5.1%	19.6%	22%	2%	AAA
ALD	Ampol Ltd	Energy	$39.79	$38.74	13.8	5.6%	17.0%	20%	-2%	AA
MQG	Macquarie Group Ltd	Financials	$199.70	$190.47	21.3	3.2%	2.7%	11%	21%	AA
SUN	Suncorp Group Ltd	Financials	$16.38	$16.39	15.6	4.5%	1.5%	10%	1%	AAA
RMD	ResMed Inc	Health Care	$30.15	$33.02	26.3	0.7%	23.9%	24%	11%	A
CSL	CSL Ltd	Health Care	$287.92	$311.72	30.3	0.9%	13.6%	17%	16%	AA
MND	Monadelphous Group	Industrials	$14.18	$14.75	22.4	3.8%	16.9%	13%	16%	AAA
BXB	Brambles Ltd	Industrials	$16.15	$15.97	19.5	1.8%	20.0%	25%	12%	AAA
ALU	Altium Ltd	Info. Tech	$65.22	$67.35	71.9	0.8%	35.6%	25%	29%	AA
XRO	Xero Ltd	Info. Tech.	$133.32	$133.63	140.6	0.0%	9.9%	13%	57%	AA
IGO	IGO Ltd	Materials	$7.07	$7.82	10.5	2.4%	5.6%	14%	-48%	AA
JHX	James Hardie Industries	Materials	$61.61	$59.87	24.7	0.0%	52.0%	38%	10%	AA
GMG	Goodman Group	Real Estate	$33.81	$30.40	31.7	0.9%	10.3%	11%	10%	AA
APA	APA Group	Utilities	$8.41	$9.04	45.0	6.7%	6.7%	9%	5%	A

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 March 2024. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Suncorp Group (SUN)—Buy. Having received approval for the divestment of its banking division to ANZ, SUN is set to become a focused general insurer. This paves the way for a more disciplined capital allocation policy, greater focus, and ultimately, greater returns. Demergers in Australia have a history of outperforming.

Goodman Group (GMG)—Trim. Although a long-term holding, GMG has performed strongly recently, and is now approaching 30x P/E. Index-buying and a lack of credible ways to gain AI exposure have resulted in it gaining more than 65% since October.

IGO Group (IGO)—Buy. IGO's 40% share price fall is its largest since 2019, but in line with its average drawdown since 2015. As the world's lowest cost producer of lithium with a large net cash position, IGO is well positioned to weather the current weakness in lithium prices.

Recommendations: Domestic equities—Sustainable income

Objective of this list

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

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

Code	Company	Sector	Market price	Consensus Target Price	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Div. yield	1yr DPS growth	MSCI ESG rating
TLS	Telstra Group Ltd	Com. Services	$3.86	$4.46	20.1	2.9	100%	4.7%	4.4%	AA
NEC	Nine Entertainment Co	Com. Services	$1.71	$2.06	13.4	1.6	0%	4.6%	15.4%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$5.15	$5.48	28.3	32.9	100%	3.2%	5.4%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc.	$0.76	$0.85	15.7	0.9	100%	2.5%	52.6%	AA
COL	Coles Group Ltd	Cons. Staples	$16.94	$17.13	20.3	6.4	100%	3.9%	5.0%	AA
MTS	Metcash Ltd	Cons. Staples	$3.91	$4.22	13.6	3.4	100%	5.1%	2.5%	AAA
ALD	Ampol Ltd	Energy	$39.79	$38.74	14.1	2.7	100%	5.6%	-2.9%	AA
AMC	Beach Energy Ltd	Energy	$1.84	$1.95	6.6	1.2	100%	2.8%	119.2%	AAA
SUN	Suncorp Group Ltd	Financials	$16.38	$16.39	15.4	1.5	100%	4.5%	13.9%	AAA
MQG	Macquarie Group Ltd	Financials	$199.70	$190.47	17.6	2.3	40%	3.2%	10.6%	AA
WBC	Westpac Banking Corp	Financials	$26.10	$23.55	14.2	1.3	100%	5.5%	0.6%	A
QBE	QBE Insurance Group Ltd	Financials	$18.13	$18.28	9.9	1.8	10%	3.2%	4.7%	AAA
RMD	ResMed Inc	Health Care	$30.15	$33.02	23.7	6.3	100%	0.7%	10.2%	A
PME	Pro Medicus Ltd	Health Care	$103.75	$91.01	105.1	68.1	100%	0.4%	26.4%	BBB
DBI	Dalrymple Bay Infra.	Industrials	$2.74	$2.91	15.0	1.2	68%	8.0%	4.5%	-
ALX	Atlas Arteria Ltd	Industrials	$5.33	$5.80	11.4	1.2	0%	7.5%	0.2%	AA
IRE	IRESS Ltd	Info. Tech.	$8.29	$9.12	21.0	5.5	0%	1.2%	166.0%	AA
BHP	BHP Group Ltd	Materials	$44.27	$46.73	10.5	3.5	100%	3.5%	0.1%	A
AMC	Amcor PLC	Materials	$14.44	$15.09	12.8	3.4	0%	3.4%	2.4%	AA
REP	RAM Essential Services	Real Estate	$0.68	$0.78	14.8	1.4	0%	8.1%	-5.5%	-
SGP	Stockland	Real Estate	$4.85	$4.77	14.7	1.1	0%	5.2%	6.3%	AA
APA	APA Group	Utilities	$8.41	$9.04	42.7	3.0	0%	6.7%	2.0%	A

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 March 2024. ESG is environmental, social, and corporate governance.

Trade opportunities

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

The Lottery Corp (TLC)—Buy. Gearing levels for a defensive cashflow business such as TLC are forecast to fall well below target levels into next year. This should open the possibility for additional capital management opportunities. With CBA forecasting six rate cuts over the next 15 months, the valuation pressure from higher rates could turn into a tailwind.

Iress Group (IRE)—Buy. IRE has announced the sale of its UK mortgage business. The proceeds should enable it to de-lever financial year 2024 net debt to EBITDA to 0.9x, now below its target range of 1.0-1.5x. In turn, this should allow for a resumption of dividends. Net debt should fall even further in financial year 2025 to just 0.7x.

APA Group (APA)—Buy. APA is trading close to nine-year lows, and with easing bond yields, valuation pressure has moderated. This makes its decade-low enterprise value/EBITDA of around 11.5x attractive—not to mention a 7% dividend yield for a company whose dividend per share has increased every year for 20 years.

Recommendations: International equities—Best sector ideas

Objective of this list

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

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

Code	Company	Sector	Base CCY	Market price	Consensus Price Tgt.	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
GOOGL US	Alphabet Inc	Com. Services	USD	155.22	166.75	19.2	0.0	1,936,662	BBB
UMG NA	Universal Music Group	Com. Services	EUR	27.88	29.20	26.6	2.1	54,550	AA
DIS US	Walt Disney Co/The	Com. Services	USD	121.29	124.27	22.1	0.8	222,483	A
9988 HK	Alibaba Group Holding	Consumer Disc.	HKD	70.25	103.66	8.3	1.0	182,650	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	92.45	110.77	23.0	1.7	140,073	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	91.22	106.13	19.3	2.6	103,279	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	163.22	145.00	30.7	0.0	105,614	BB
RACE IM	Ferrari NV	Consumer Disc.	EUR	404.00	368.38	46.7	0.7	77,739	BB
EL US	Estee Lauder Cos Inc/The	Consumer Staples	USD	151.51	159.74	35.5	1.8	54,312	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	720.54	776.09	41.3	0.6	319,562	A
288 HK	WH Group Ltd	Consumer Staples	HKD	5.16	6.23	6.7	0.8	8,460	BBB
SHEL LN	Shell PLC	Energy	GBP	2625.00	2,960.03	8.1	0.1	211,899	AA
LSEG LN	London Stock Exchange	Financials	GBP	9490.00	10,307.65	23.3	1.5	63,759	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	51.76	57.00	6.7	6.4	41,369	AA
WFC US	Wells Fargo & Co	Financials	USD	57.48	58.60	10.7	2.8	203,502	BB
2318 HK	Ping An Insurance Group	Financials	HKD	33.05	53.02	4.1	7.9	92,851	A
939 HK	China Construction Bank	Financials	HKD	4.72	5.99	3.1	9.0	154,170	AA
MA US	Mastercard Inc	Financials	USD	478.62	512.66	28.5	0.6	446,496	AA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	881.30	923.14	30.5	1.6	572,199	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	393.23	404.33	54.5	0.0	139,378	A
BA US	Boeing Co/The	Industrials	USD	189.98	240.48	27.0	0.8	115,926	BBB
DSV DC	DSV A/S	Industrials	DKK	1122.00	1,422.17	17.5	0.7	35,374	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	770.00	800.01	16.3	1.9	624,725	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	892.20	885.86	30.8	0.9	382,820	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	422.95	469.57	31.7	0.8	3,142,666	AA
ACN US	Accenture PLC	Information Tech.	USD	339.27	384.96	25.9	1.6	227,691	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	338.72	338.19	26.6	0.9	86,191	A
EQIX US	Equinix Inc	Real Estate	USD	800.64	923.64	55.9	2.4	75,758	AA
ORSTED DC	Orsted AS	Utilities	DKK	384.40	460.03	12.7	3.7	23,263	AAA
		Average Yield:					1.9%		

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 01 April 2024. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—Artificial intelligence

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

Artificial intelligence—Select exposures

Artificial intelligence is only in its nascent stages, but already we have seen signs of its potential to transform wide-ranging industries by driving innovation, efficiency, cost savings, and productivity.

Code	Company	Sector	Base CCY	Market price	Consensus Price Tgt.	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
NVDA US	NVIDIA Corp	Info. Tech.	USD	902.16	978.27	30.1	0.0	2,255,400	AAA
MSFT US	Microsoft Corp	Info. Tech.	USD	422.95	469.57	31.7	0.8	3,142,666	AA
GOOGL US	Alphabet Inc	Com. Services	USD	155.22	166.75	19.2	0.0	1,936,662	BBB
2330 TT	Taiwan Semiconductor	Info. Tech.	TWD	770.00	800.01	16.3	1.9	624,725	AAA
ASML NA	ASML Holding NV	Info. Tech.	EUR	892.20	885.86	30.8	0.9	382,820	AAA
GMG AU	Goodman Group	Real Estate	AUD	33.81	30.40	28.9	0.9	41,635	AA
EQIX US	Equinix Inc	Real Estate	USD	800.64	923.64	55.9	2.4	75,758	AA
LSEG LN	London Stock Exchange	Financials	GBP	9,490.00	10,307.65	23.3	0.0	63,759	AA
ISRG US	Intuitive Surgical Inc	Health Care	USD	393.23	404.33	54.5	0.0	139,378	A
PME AU	Pro Medicus Ltd	Health Care	AUD	103.75	91.01	105.1	0.5	7,025	N.S.
SIE GY	Siemens AG	Industrials	EUR	176.96	194.04	15.5	3.0	152,016	AA
AMD US	Advanced Micro Devices	Info. Tech.	USD	184.59	199.39	34.0	0.0	298,258	AA
PANW US	Palo Alto Networks Inc	Info. Tech.	USD	279.00	334.53	45.2	0.0	90,145	AA
ACN US	Accenture PLC	Info. Tech.	USD	339.27	384.96	25.9	1.6	227,691	AA
AVGO US	Broadcom Inc	Info. Tech.	USD	1,344.65	1,513.68	23.5	1.7	622,827	A
CRWD US	Crowdstrike Holdings Inc	Info. Tech.	USD	318.44	402.11	65.8	0.0	77,021	BBB
6861 JP	Keyence Corp	Info. Tech.	JPY	69,950.00	76,102.22	42.7	0.5	112,189	BBB
SNOW US	Snowflake Inc	Info. Tech	USD	161.34	216.84	118.0	0.0	53,920	BBB
ADSK US	Autodesk Inc	Info. Tech	USD	258.67	286.58	28.4	0.0	55,333	AAA
CRM US	Salesforce Inc	Info. Tech	USD	301.76	334.00	27.2	0.1	292,705	AA

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 01 April 2024. ESG is environmental, social, and corporate governance.

Important information

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