Central banks move to embrace 'opportunistic disinflation'

Core Offerings

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

October 2023

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Central banks move to embrace 'opportunistic disinflation'

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER

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Over the past month, central banks have been signalling more clearly that they may have done enough tightening of policy. Yet, longer-term bond yields have risen sharply, breaking through last year's highs and reaching their highest levels since before the GFC. Much of this reflects interest rate markets factoring in the accompanying message from policymakers, that interest rates may have peaked, but cuts are a long way away.

We concur, to a degree. Indeed, one of our key calls for H2 2023 was that fixed income was a multi-year overweight. Easing inflation, but only a mild macro downturn, suggests rates will need to be held higher to ensure inflation returns to target. The typical peak and pivot in rates (and strong equity rally) seems less likely, though not impossible, this cycle.

Markets are also fretting that the pause in hiking will leave policymakers with more hikes to achieve the 'last mile' of the disinflation from 3% to 2%. We see that as unlikely. In this month's *Core Offerings*, we discuss the lesser known thesis of 'opportunistic disinflation' and why we believe this is exactly the path that central banks are now actively embracing.

Orphanides and Wilcox—'a new approach to monetary policy' (1996)

In May 1996, Orphanides and Wilcox, employees of the US Federal Reserve (Fed), explored the foundations of what they referred to as 'a new approach to monetary policy' in a paper titled "The Opportunistic Approach to Disinflation". The key tenet of this thesis is that:

> *"When inflation is moderate but still above the long-run objective, [central banks] should not take deliberate anti-inflation action, but rather should wait for external circumstances—such as favourable supply shocks and unforeseen recessions—to deliver the desired reduction in inflation. While waiting for such circumstances to arise, [central banks] should aggressively resist incipient increases in inflation."* (https://www.federalreserve.gov).

"When inflation is moderate but still above the long-run objective, [central banks] should not take deliberate anti-inflation action, but rather should wait for external circumstances to deliver the desired reduction in inflation."
Orphanides and Wilcox Federal Reserve Board, May 1996

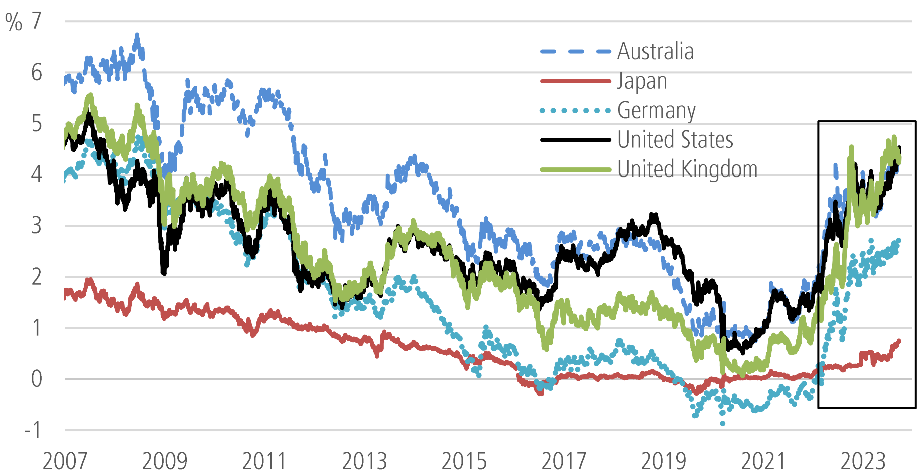
The essence of the thesis is that when inflation is 'moderate' (let's say around 3–4%, but not higher), yet still above the inflation target (which for many countries is around 2%), the 'sacrifice of output' (or likely upswing in unemployment) associated with further hikes to force inflation down to target is seen to be 'too great' to accept.

Here, "the policymaker…views an inflation rate of 3% more favourably if inflation in the previous period was 4% than if inflation was 2%." The policymaker is essentially seen to be 'holding the line' on inflation at the current level and fighting to prevent an earlier and higher level from reoccurring (and likely tightens only if inflation reaccelerates).

Key is that the opportunistic policymaker focuses on getting inflation down when it is high (and well above target), but concentrates on stabilising output (and keeping the economy growing) when inflation is low. And if inflation is a bit above target, the 'path of least regret' is to wait for something other than tighter policy—be that productivity or an unforeseen recession—to ultimately deliver the 'last mile' to the inflation target.

The opportunistic policymaker focuses on getting inflation down when it is high (and well above target) but concentrates on stabilising output (and keeping the economy growing and unemployment low) when inflation is low.

10-year government bond yields rise to their highest since before the GFC



Source: Factset, LGT Crestone

"Of course, given the chequered more recent policy experience of central banks—arguably holding policy too low for too long and having to lift rates rapidly—policymakers may also be quietly questioning whether they have the political capital to pay the price of unemployment if that is required near-term to deliver 'at-target' inflation."

The price for accepting a relatively slow approach of inflation to its target over multiple years, is that policy rates seem destined to remain higher for longer.

Central banks signal little appetite to force inflation lower quickly

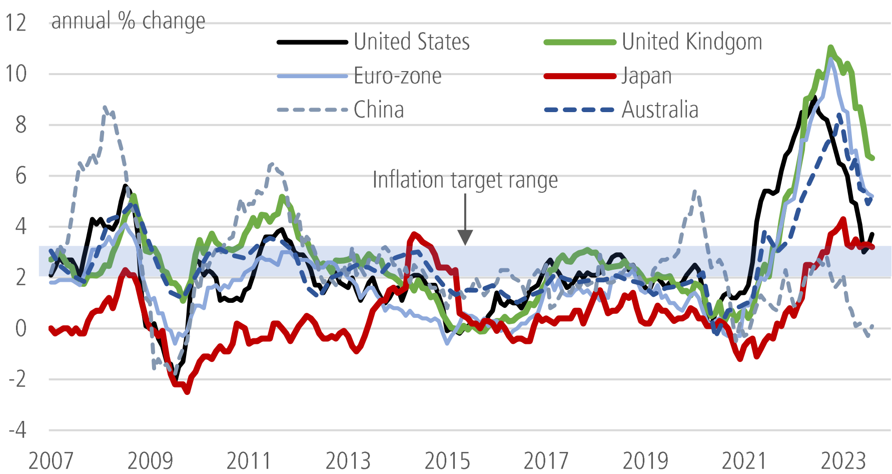
The parallels today to the thesis of 'opportunistic disinflation' seem clear. Over the past couple of months, key central banks have pronounced the likely end of the hiking cycle, with inflation still well above most targets (chart below). And nor is there the usual evidence of emerging 'slack' in jobs markets via rising unemployment. For the Fed, core inflation is now annualising between 2.5–3.0%, close to but still above its target. Elsewhere such as Australia, it is annualising at 3.6%, also moderately above the 2–3% target.

Yet, policymakers are in many cases signalling that policy tightening is likely 'done'. Of course, given the chequered more recent policy experience of central banks—arguably holding policy too low for too long and having to lift rates rapidly—policymakers may also be quietly questioning whether they have the political capital to pay the price of higher unemployment, if that indeed is required near-term to deliver 'at-target' inflation.

Nor does the 'near' end of the current tightening cycle reflect central bank expectations that a return of inflation to target is imminent. Far from it. While central banks continue to commit strongly to their inflation targets, forecasts typically don't have inflation sustainably reaching the respective inflation targets for two years or more.

- For the **United States**, while the Fed retained its option for one final hike, adjustments to the policy statement to recognise slower jobs growth increase the likelihood that the peak of rates is in. This is despite that, as UBS notes "the Fed median participant assumes inflation will [only] return to the 2.0% objective…through the forecast horizon", or by 2026, an historically modest pace of target achievement.
- For **Australia**, Michele Bullock, recently appointed Governor of the Reserve Bank of Australia (RBA), noted in a speech that "the Board has been willing to accept a somewhat more gradual return of inflation to target than many other central banks. A faster return to target would likely mean more job losses in the short term. Our judgement is that if we can return inflation to target in a reasonable timeframe—while preserving as many of the employment gains as we can—that would be a better outcome." The RBA is forecasting inflation to return to within its target in 2025.
- For the **European Central Bank (ECB)**, President Lagarde said that interest rates will remain restrictive for as long as needed to bring inflation back to target. At the same time, the ECB clearly indicated that "interest rates have reached levels that…will make a substantial contribution to the timely return of inflation to the target."
- The **Bank of England (BoE)**, with core inflation unchanged at 5.3% over the past few months, kept policy unchanged at 5.25%, the first 'hold' decision since December 2021. Chief Economist Pill recently argued a "table mountain strategy"—where nominal rates are kept at current levels for a longer period of time—should be sufficient to bring inflation back to target overtime.

Inflation rates continue to moderate but remain well above inflation targets



Source: Factset, Trading Economics, LGT Crestone

Fixed income markets haven't liked the delay in cuts (neither have equities)

Despite central banks signalling more clearly that they are approaching the peak of policy tightening, longer-term bond yields have risen sharply, breaking through last year's highs and reaching their highest levels since before the GFC. As the chart on the previous page shows, US 10-year bond yields have risen from 4.2% to 4.6% through September, while

Australian 10-years have lifted from 4.0% to 4.4%. Equity markets have also corrected, with the US down around 5%, Australia down about 4% and Europe down 2.5%.

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From a secular or medium-term perspective, there are likely two main focuses of concern. *Firstly*, as the chart below shows, there's a large element of the jump in longer-dated yields related to higher term premia (which can be simplistically viewed as the difference between longer- and shorter-term yields, reflecting the compensation to investors for the uncertainty associated with lending long). In other words, 'real yields' are rising to reflect uncertainty about how strong growth might be in the future, and the 'neutral' or average policy rate that will be needed to maintain low inflation against this backdrop.

Key catalysts here likely include the Fed's own September pivot to a slower pace of cutting the Fed funds rate over the forecast horizon (from four planned cuts to only two planned cuts in 2024), as well as the evident underlying resilience of global (and particularly US) growth momentum. The stronger global and US growth (and productivity) backdrop associated with renewable capex and the energy transition may also be a factor, as is the potential for Japan to move away from zero rates given its stronger growth outlook.

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Secondly, bond yields are also likely responding to concerns associated with the risk that inflation over the coming decade may well average a higher level than it did previously. In the seven years prior to the pandemic, US headline inflation averaged just 1.5% (below their 2% target), while in Australia it averaged 1.9% (below the 2–3% target range). This was an environment that led central banks to trend policy interest rates lower (ultimately reaching zero) to attempt to lift inflation to their respective inflation targets.

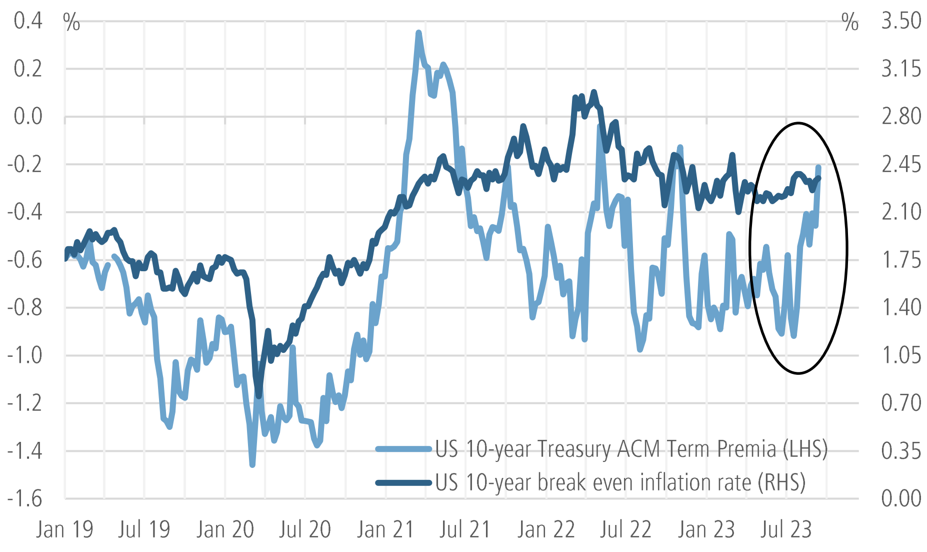
In our August *Core Offerings*, one of our key calls for the year ahead was that fixed income was a multi-year overweight, reflecting our belief that inflation will likely settle at a higher level over the coming decade, limiting the extent to which central banks could return yields to zero while also slowing their likely pace of rate cuts in the period ahead. We identified longer-term 'cost' drivers such as shifting supply chains, ageing workforces, and the energy transition as factors likely to contribute to 'on average' stickier secular inflation.

From a cyclical or shorter-term perspective, yields have also likely risen recently on the back of concerns that inflation remains too high. At the same time, central banks are indicating a lack of desire to tighten further and force inflation imminently back to target, potentially causing inflationary problems down the track. Simmering concerns about China's financial stability as a number of large property firms have proven insolvent, as well as the recent reacceleration in energy prices as producers limit supply has also likely impacted.

Other cyclical factors also include the increasing supply of US fiscal debt (and a potential government shutdown) associated with a worryingly unfettered fiscal position, while the 'long' positioning of many asset allocators into fixed income has also led investors to worry about who the marginal buyers of bonds are in the period ahead.

There's likely a large element of the jump in longer-dated yields related to higher term premia. In other words, 'real yields' are rising to reflect uncertainty about how strong growth might be in the future, and less about rising inflation expectations.

Term premia (real rates) have driven recent rise in yields, not inflation worries



Source: Factset, LGT Crestone

With inflation falling, central banks may not cut, but nor should they hike

One of our key calls remains the likelihood that inflation will settle at a higher level than in the past, arguing for a higher interest rate structure (and income environment) for assets. However, we also believe that we are entering a new phase of slower growth with the likelihood that inflation, while above target, will continue to moderate over the coming year. Indeed, recent monthly data reveal actual inflation rates 'annualising' much closer to their targets than the more widely reported annual CPI measures. US core inflation has averaged 0.2% per month for the past three months, annualising at around 2.5%.

Further improvement in inflation trends should reflect:

- **Monetary tightening has yet to have its full impact**—The lagged impact of last year's rapid increase in policy rates globally is yet to fully weigh on activity. Loan growth is slowing, and delinquency rates are rising. While households and businesses have proved relatively resilient to higher interest servicing costs, the elevated level of financing costs will almost certainly drag on new demand across multiple sectors of economies, from housing to construction through to broader business capex and employment, with commensurate impacts on global trade and activity. A likely shutdown in the US government is also a headwind to late year growth.
- **Leading indicators of inflation more clearly moderating**—Upstream price pressures continue to signal that the recent improvement in inflation is likely to be sustained near-term. In addition to China's well-known deflationary producer prices, down 3% annually in August, Europe is being confronted by similar trends. As BCA Research noted, "collapsing German producer prices continue to indicate that inflationary pressures are moderating in the Eurozone", down a record 12.6% in August. The recent weakening in services activity globally—particularly in the US, Europe and UK—suggests the recent easing of services inflation should continue in the year ahead.
- **Jobs markets remain tight, but greater 'slack' is emerging**—Unemployment rates in most regions remain near 50-year lows. However, there has been some modest uplift in unemployment rates and a slower pace of jobs growth indicating less wage and inflation pressure over the coming year. In the US, the unemployment rate has risen from 3.5% to 3.8%, while in Australia it has risen from 3.5% to 3.7%. The trend in vacancies has also clearly slowed in both economies.

As BCA Research noted, "collapsing German producer prices continue to indicate that inflationary pressures are moderating in the Eurozone."

With inflation moderating, albeit likely to be volatile over coming months, we expect annual rates will continue to trend closer to central bank targets over the coming year. Given this, while central banks don't appear confident to definitively proclaim the peak in rates at this juncture, their comments also suggest they have little appetite to force inflation to target near-term via multiple further hikes. Of course, the price for the pursuit of 'opportunistic disinflation' (in tandem with latent worries about upward secular inflation pressures)—and accepting a relatively slow approach of inflation to its target over multiple years—is that policy rates seem destined to remain more restrictive for longer.

There has been some modest uplift in unemployment rates and a slower pace of jobs growth indicating less wage and inflation pressure over the coming year.

Portfolio implications

Our expectation of a near-term peak in policy rates is coming into view. But the recent sharp rise in government bond yields has clearly moved at odds with our preference for tactical allocating to fixed income relative to equities (albeit equities are also stumbling more recently in the face of higher yields). However, we believe there is growing evidence of a further slowing in global growth over the coming quarters. This should add to recent disinflationary pressures and ensure the next wave of policy moves from central banks is lower, even if that doesn't commence until the middle of 2024.

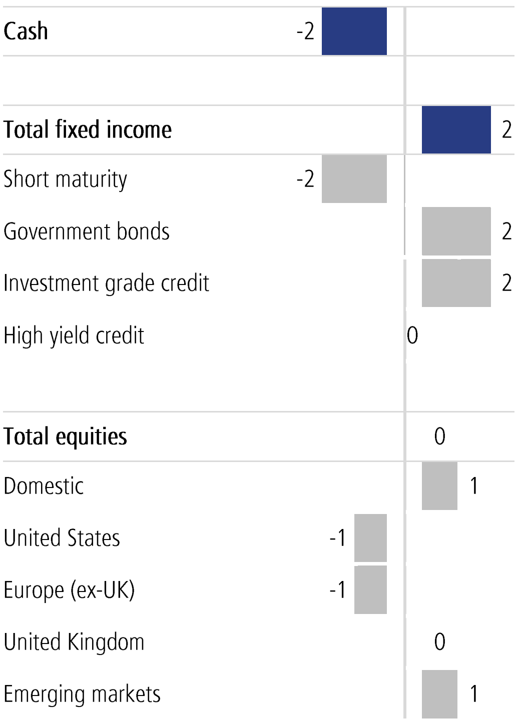
The price for the pursuit of 'opportunistic disinflation' (in tandem with latent worries about upward secular inflation pressures)—and accepting a relatively slow approach of inflation to its target over multiple years—is that policy rates seem destined to remain more restrictive for longer.

To the extent we argue real rates are likely to be higher on average over the coming 5–10 years, they are likely to correlate with steady-state 10-year US and Australia government bond yields between 3.0–3.5%, well above the past decade, but still a full percent below current levels. The relatively resilient global macro backdrop, and absence of further hikes, should also ensure quality corporate credit remains an attractive contributor to portfolios.

Reflecting this, we remain comfortable retaining our overweight to fixed income relative to equities. However, given our longer-term secular concerns, our positioning will continue to be nimble. Key risks to our view for a moderate rally in bond yields over the next year or so is a reacceleration in inflation, that even within an opportunistic disinflation framework requires central banks to recommence policy tightening. A crisis in US fiscal policy is also a risk to lower long-term bond yields over the coming year.

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.

Rates at or near peaks but no swift easing on the horizon

Global growth has continued to slow alongside core inflation, though US economic resilience and a recent spike in oil prices has raised concerns for the outlook of inflation and monetary policy.

However, we continue to believe that we are at—or close to—peak interest rates and risks are skewed to further moderation in growth. We retain an overweight to fixed income, as we expect it to perform well relative to equities in the short term, but we are actively monitoring the balance of potential outcomes as we move into a more uncertain part of the cycle.

Inflation volatility is likely to persist—Inflation is now falling meaningfully. But fading impacts of globalisation, structurally tight jobs markets, and geo-political impacts on supply chains suggest a more volatile inflation outlook.

A return to 'normal' interest rates—Falling inflation is likely to foster a near-term peak in central bank rates. But fewer deflationary forces than in the past are likely to limit a return to a near-zero policy rates environment.

Geo-political risks rise into next year—Russia-Ukraine and elections in Taiwan and the US are near-term risks. Ongoing decoupling of leading-edge technology, political and trade alignment, as well as military and energy security, are all key potential drivers of growth and volatility.

Diversification matters—In a world of heightened volatility and divergence, it is important to maintain portfolio diversification, avoiding over-exposure to individual markets, sectors and other specific return drivers. Unlisted investments are likely growing more attractive.

Structural thematics

The energy transition—The world faces a trade-off between net-zero commitments, cost, and energy security. This is setting the scene for both old and new forms of energy to play a role.

Sustainable investing—As the world becomes more connected, it is also becoming more socially aware. The intersection of finance and sustainability will govern a significant reallocation of capital.

The search for income—The exit of 'zero-bound interest rates' has resulted in a resetting of income expectations across all asset classes, including equities, fixed income, and income-generating unlisted assets.

Deglobalisation—Brexit, trade wars, and Russia's invasion of Ukraine are symptoms we are transitioning to a more multi-polar world order, with impacts spanning geo-politics, supply chains, and demographics.

	What we like	What we don't like
Equities	▪ Energy companies now focused on shareholder returns with an 'OPEC put' in place. ▪ Later-cycle defensive exposures in the consumer staples, telco and healthcare sectors. ▪ Emerging markets due to output and earnings per share (EPS) growth differentials relative to developed markets.	▪ Companies with shorter-term debt maturities at risk of re-pricing into a higher rate environment. ▪ Market-cap weighted S&P 500, where valuations and concentration favour the equally weighted index. ▪ Stocks trading at historically tight dividend yields to the risk-free rate.
Fixed income	▪ Actively managed funds investing in higher quality credits. ▪ Fixed rate three- to five-year senior unsecured banks. ▪ Fixed rate Australian bank subordinated tier 2.	▪ Short maturity bonds with a preference for more duration in portfolios. ▪ High yield corporates vulnerable to higher cost of funds.
Alternatives	▪ Credit-oriented and macro hedge strategies; low-beta exposure more generally. ▪ Senior private debt (strategies excluding real estate). ▪ Core and core-plus infrastructure assets with inflation linkages, and real assets exposed to the energy transition.	▪ 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.

Economic and asset class outlook

Economic outlook

Global economy

Over the past couple of months, there has been increasing evidence that while the US economy remains strong, ex-US global growth has been faltering. China data has at best stabilised after weakness, while outright contraction has begun to emerge in Europe and the UK as H2 2023 gets underway. However, as BCA Research notes, “global growth has not been sufficiently weak to derail the US expansion and may even aid the Fed and other developed market central banks achieve their inflation targets” over coming months (where recent progress has continued). Jobs markets have continued to reveal tentative signs of becoming less tight, even in the US. We expect a near-recessionary period late in 2023 to give way to a patchy recovery from mid-2024.

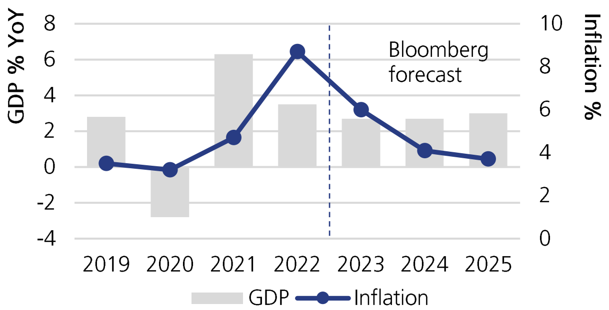
For Q2, growth in the world economy rose solidly, lifting the annual pace from 2.8% to 3.5%, above trend, led by the US, Japan and emerging markets. Recent data suggest the pace of global growth will slow to a below trend 2.5% in H2 2023.

Significantly, recent months have seen a more broad-based easing of underlying (services-driven) inflationary pressures. Falling job vacancies suggest some easing of tight labour demand, as unemployment rates have edged higher. This has aided optimism that we are nearing the peak of interest rate tightening, with central banks in the US, Europe and Australia signalling a more ‘data dependent’ approach, while some central banks in emerging markets have begun easing.

Of course, the more ‘soft-ish’ the economic landing, the more likely that interest rates will be held restrictive for longer to ensure inflation risks are removed over time. However, while consensus does not anticipate interest rate cuts beginning before mid-2024, market yields should begin to moderate over coming quarters. A clearer peak in US policy tightening should also support stronger non-US currencies ahead.

Forecasts for 2023 growth have continued to edge higher, to be around 3% and only modestly below 2022’s 3.4% pace. However, 2024 expectations have drifted lower, with UBS now at 2.5%. Similarly, Société Générale (SG) has recently delayed its forecast mild US recession to late 2024, while cutting the growth outlook for Europe and the UK. CBA also expects a mild global recession in 2024, led by the US.

Global GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

Australia

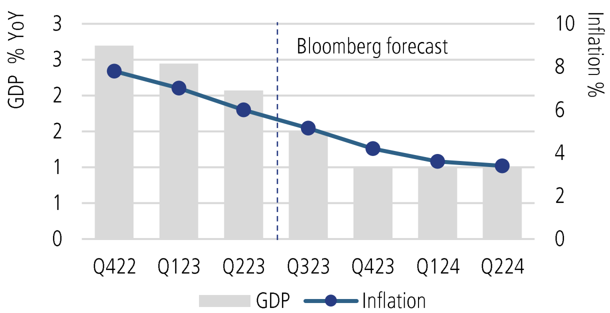
Signs of slowing in consumer spending—together with ongoing easing of inflationary pressures and a modest rise in unemployment—have strengthened the narrative that interest rates have reached their peak in Australia. Better purchasing power (as inflation falls), high levels of employment, the post-pandemic rebound in migration, some stabilisation in both domestic housing and China’s outlook have improved Australia’s growth outlook. However, we still anticipate the lagged impact of policy tightening will see some further slowing in consumer demand over coming quarters, keeping the economy on its subdued sub-trend growth path into 2024.

Growth in Q2 rose 0.4%, repeating the upwardly-revised result for Q1. The annual pace slowed further from 2.4% to 2.1%, masking a sharper drop to an annualised below trend pace of 1.6% for H1 2023. There was a significant easing in consumer demand during Q2, while housing stayed weak, both offset by stronger business capex and government spending. Looking ahead, data for Q3 is expected to show further consumer slowing. In July, retail sales rebounded modestly from June’s weakness, but broader household spending is slowing sharply, according to UBS. More positively, house prices have gained 5% since February, albeit new lending and building approvals remain subdued. The labour market is tight, with jobs rebounding sharply in August, although unemployment has edged higher to a 3.7% rate in July and August (from 3.5%).

Inflation reaccelerated to 5.2% in August, led higher by rising fuel prices, but remains well below prior peaks. Q2 wages growth edged lower to 3.6%, a touch below the RBA’s forecast. In September, Governor Lowe’s last meeting, the RBA held the cash rate steady at 4.10% for a third month. The policy statement further softened the tightening bias, noting that “some further tightening of policy may be required to ensure that inflation returns to target in a reasonable timeframe.” After a peak of 4.10%, UBS has delayed future rate cuts to Q3 2024, while CBA sees the first cut in Q1 2024.

After 3.7% in 2022, UBS expects Australia to avoid a recession, with growth of 1.9% (was 1.4%) in 2023 and 1.6% in 2024. CBA has also raised its growth outlook to 1.8% for 2023 and 1.7% for 2024 (from 1.4% previously).

Australian GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

Economic outlook

United States

US data in early Q3 continues to support those looking for 'no landing', that is, ongoing strong US growth. However, history suggests the lagged impacts of current tight monetary policy will enforce some slowing in growth into end-year, and the extent of weakness in 2024 will depend on the Fed's willingness to easy interest rate policy before credit tightening impacts reach their full measure. But while inflation is easing, it appears unlikely to fall fast enough to drive rate cuts before mid-2024, underscoring the outlook for a mild downturn in US growth in 2024, but a downturn, nonetheless.

Growth for Q2 accelerated to a higher-than-expected 0.5% (from 0.4%) to be 2.1% annualised, with Atlanta Fed's latest GDPNow pointing to growth of just under 5% for Q3. The composite purchasing managers index (PMI) eased to 50.2 in August from 52.0, flagging slower growth. How much excess consumer saving exists remains key. Retail sales remain strong in Q3 strongly, rising 0.6% in August after 0.5% in July. A rise in unemployment from 3.5% to 3.8% in August, with some downward revision to a still-strong pace of jobs growth, nonetheless "suggests that the softening of the labour market is continuing at a steady pace", according to BCA Research.

Inflation pressures have continued to ease. While the annual pace re-accelerated (from 3.0% in June to 3.7% in August), core inflation has continued to fall (now 4.3%) and monthly prints have remained low, consistent with inflation of 2.5–3.0%. The Fed delivered a hawkish 'hold' in September, leaving rates unchanged at 5.50% (and following their 0.25% hike in July). The Fed's 'dots' were unchanged for 2023, but signalled fewer cuts (0.5%, rather than 1.0%) for 2024, showing intent to hold rates more restrictive for longer to get the inflation rate back to target. SG notes that while "a shallow rate cut phase may have some historic context, any true slowing would likely encourage Fed officials to move more abruptly."

After 2.1% in 2022, UBS has edged its 2023 forecast higher again to 2.0% (was 1.9%), ahead of a more material drop in 2024, where growth is 0.4%. This closely mirrors the views of SG, which is forecasting 2.3% in 2023 and 0.7% in 2024.

Europe

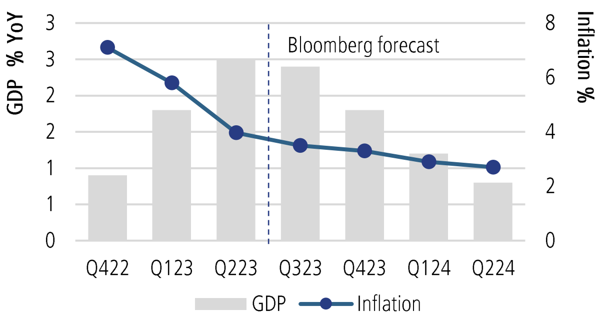
Despite weak near-recessionary growth during H1 2023, prior expectations for a deep recession have given way to a different outlook that embodies sub-potential growth and a period of above-target inflation through 2024. SG believes that "supply, not demand, remains the main drag on the economy…with sluggish growth, high corporate margins, robust pricing power, and a strong labour market and elevated domestic inflation" supporting this view. Some countries, like Germany, are more clearly in recession. However, they are expected to join France, Spain, and Italy on a modest recovery path into 2024, with strong jobs markets (and improving consumer purchasing power as inflation moderates), a key support.

Europe's Q2 growth rose a (downwardly revised) 0.1% (after 0.1%), with the annual pace slowing to 0.5% from 1.1%. France surprised to the upside, Spain grew strongly, while Italy and Germany came in below expectations. For Q3, the data has been mixed, and uncertainty about the pace of activity in H2 2023 has risen. The PMI has relapsed below the key 50-mark in recent months, falling further to 46.7 in August from 48.6, led by weaker manufacturing and services. Consumer sentiment has also begun to deteriorate again. In contrast, the labour market remains very tight, with unemployment easing to a record low of 6.4% in June and July.

Inflation remains the key challenge for the region. While easing upstream price pressures signal relief ahead, recent data has disappointed, with the CPI falling more slowly than expected to 5.2% in August (from 5.3% in July), with core unchanged over three months at 5.3%. Base effects have masked progress on easing price pressures. Reflecting this, the ECB delivered a dovish rate hike to 4.0% in September, suggesting policy had risen enough to see inflation return to target overtime. UBS expects the first rate cut to occur mid-2024, while SG believes the first cut is unlikely before 2025.

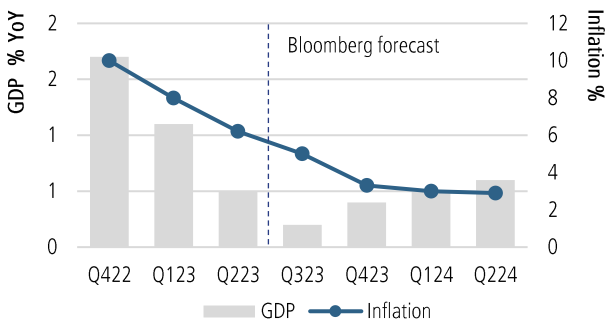
After 3.5% in 2022, UBS expects a sharp slowing in growth to 0.5% in 2023 (was 0.8%), ahead of a limited pick-up to 0.7% in 2024. SG expects better slightly stronger growth of 0.7% and 0.9%, while CBA sees Europe in recession in 2023 (0.0%).

US GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

European GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

Economic outlook

United Kingdom

UK growth proved more resilient than expected during H1 2023, delivering weak positive growth. However, recent data reveal further deterioration as H2 2023 gets underway. As Longview Economics notes, "the UK faces a number of macro challenges in coming months. In particular, monetary policy is 'too tight' and, as a result, company bankruptcies have risen sharply, house prices are falling and linked to that, the consumer is retrenching (with confidence and consumer credit all down significantly)." Elevated inflation is proving stickier than elsewhere (with wages continuing to rise), with this likely to lead to further rate hikes. As such, growth is expected to stay soft in H2 2023 ahead of an only tepid recovery in 2024.

Output grew 0.2% in Q2 after 0.1% for Q1, edging higher the annual pace to a still tepid 0.4% (from 0.2%). However, according to CBA, "the UK economy is losing steam and a recession is expected to begin in Q3 2023." Consistent with that, July output fell a larger-than-expected 0.5%. The PMI continues to re-weaken, easing to 48.6 in August from 50.8 in July. Retail sales fell 1.2% in July, reversing three months of gains. But like elsewhere, the jobs market is tight, with unemployment edging up only slightly to 4.3% in July, while total remuneration accelerated from an already high 8.2% to 8.5%. House prices weakened further to -5.3% in August.

Inflation has been problematic for the UK, albeit recent data took a positive turn. The headline CPI eased further in August from 6.8% to 6.7% (its lowest since February 2022), pleasingly led by core inflation, which fell sharply from 6.9% to 6.2%. The BoE unexpectedly held rates at 5.25% in September, likely reflecting the downside inflation surprise, the first 'on hold' decision since late 2021. Chief Economist Pill recently argued a "table mountain strategy"—where nominal rates are kept at current levels for a longer period of time—should be sufficient to bring inflation back to target.

After 4.1% in 2022, UBS forecasts growth of just 0.2% for 2023 (and a modest lift to 0.6% in 2024), while CBA expects flat growth (and further weakness in 2024). SG sees similar weak growth for 2023 and modest pickup to 0.7% in 2024.

Japan

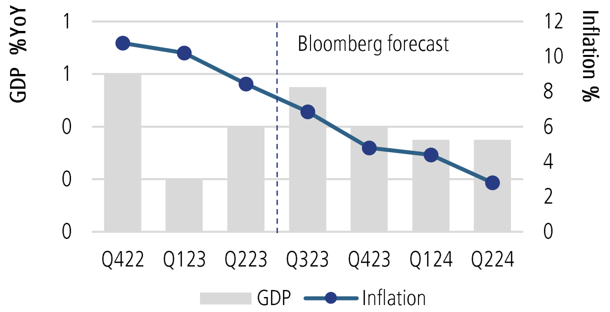
Japan appears on track to deliver somewhat moderate growth over the next couple of years. A key focus is on the expected impact of slowing global growth on exports, and the extent to which it is more than offset by stronger domestic activity—particularly the consumer as the economy continues to open gradually post-pandemic. After a surge in mid-year growth on the back of stronger exports (but also weak imports on soft consumer demand), attention will focus on the extent of pay-back, or slower growth, which will emerge in H2 2023, as well as whether currently weak domestic activity can recover. Despite strong mid-year growth, SG sees pay-back in Q3, with the economy "continuing to follow a gradual recovery trend."

Stronger-than-expected Q2 growth was revised slightly slower to 1.2% (from 1.5%), easing the annual pace of growth to 1.6% in Q2 (from 2.0%). The quarter's gain reflected strong exports and weak imports, with domestic demand weak as consumer spending and capex eased. Early Q3 data point to ongoing, albeit slower, growth. Japan's PMI lifted modestly in July to 52.6—above the key 50 mark—after easing from 54.3 in June. Retail sales remains volatile, jumping 2.1% in July after June's 0.4% fall (to be 6.8% higher than a year ago). The jobs market remains tight, although July unemployment lifted to 2.7%, above the 2.5% level over the past three months, and wage growth recently slowed to 1.3% from 2.3%.

Inflation, after a peak of 4.3% in January, has been remarkably stable at around 3.3% between February and August, ahead of expected further easing. Wages growth also surprised weaker to 1.3% in July (from 2.3%). After a modest tightening and doubling of the yield curve target to 1.0% in July, the Bank of Japan (BoJ) voted unanimously to maintain the current stance of policy, with the key policy rate unchanged at -0.1%. In the absence of wage growth, CBA expects the BoJ to maintain its ultra easy monetary policy this year.

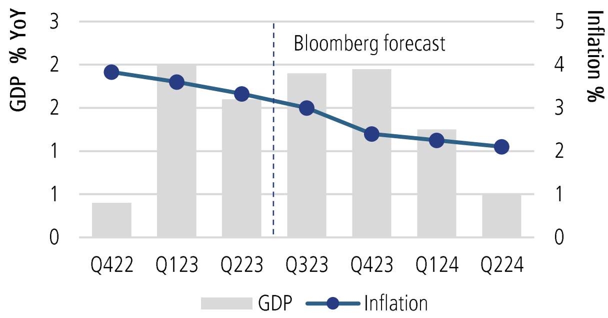
After growth of 1.0% in 2022, UBS expects a pick-up to 2.0% in 2023, before slowing again to 0.8% in 2024. SG forecasts 1.8% in 2023 (was 1.3%), with a similar slowing to 0.7% (was 0.9%) in 2024.

UK GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

Japanese GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

Economic outlook

China

Despite weaker-than-expected activity into mid-year, there are tentative signs that peak pessimism surrounding China's growth outlook may be in sight. Despite a deepening property downturn since April and a number of large property firms proving insolvent, the past month has witnessed a steadying in daily activity data, and also some more aggressive policy easing measures from authorities. While unlikely to sharply reaccelerate growth, the extent of easing may prove sufficient to stabilise activity and improve sentiment. As BCA Research notes, "Beijing [has been] prioritising long term stability over short-term growth and is therefore willing to tolerate some short-term pain." But with consumer spending not rallying post-pandemic and rising youth unemployment, this has raised concerns about economic (and political) stability.

China's output rose by 6.3% over the year to Q2, lifting from 4.5% in Q1. However, momentum between quarters stepped back at just 0.8% in Q2 after Q1's strong 2.2% pick-up. After July's data showed a further loss of momentum, August's data revealed some improvement. Industrial production rose by a better-than-expected 4.5%, accelerating from 3.7% (a post-April high), while retail sales lifted from 2.5% to 4.6%. Fixed asset investments edged lower from 3.4% to 3.2%.

Property has remained a significant drag on overall activity. In late August and September, authorities announced nation-wide property easing policies and interest rate cuts. This included lowering minimum down-payment ratios for first and second time homebuyers and lowering minimum loan rates for the latter. Authorities also announced a personal income tax cut while some large commercial banks cut deposit rates. According to SG, "These are the most meaningful batch of measures so far, offering hope that the stabilisation in housing sales may not be too far away, albeit at weak levels."

China's growth dropped from 8.4% to 3.0% in 2022. After several months of downgrades, forecasts have steadied, with UBS maintaining its 2023 outlook for 4.8% growth, drifting lower to 4.2% for 2024. SG expects a similar pace for 2023, before a more significant loss of momentum to 3.8% in 2024.

Emerging markets

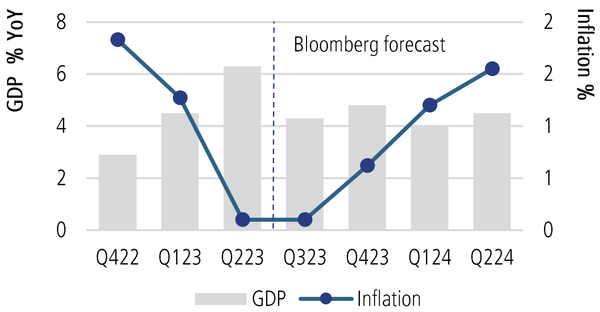
Emerging market growth is expected to stabilise in H2 2023, before a more robust recovery through 2024. This should reflect strong rebounds across Eastern Europe and North Asian economies, as the worst of the global trade slowdown passes over coming quarters. This will be balanced by slower growth across China, Brazil and India (where growth recoveries are more likely through 2025). Overall, a focus on headline inflation is building a platform for central banks to ease interest rates and support consumption over the coming year.

During 2022, central banks in emerging markets mostly realised far earlier than those in advanced economies that the surge in inflation was not 'transitory', but a dramatic change in the behaviour of the global economy. As SG notes, during 2022, "they acted accordingly, raising interest rates by massive margins, at least in LatAm and Central and Eastern Europe, and well beyond what was done in advanced economies. And as a logical consequence, we also expect them to lead the policy rate cycle on its way down." In Asia, central banks acted differently, adopting a more restrained approach, made easier by the fact that inflation came late to Asian economies—and while come it did, it was a rather mild version.

For Asia, recent data reveals some reacceleration in inflation, due to higher food and fuel prices, albeit this is unlikely to trigger further rate hikes. Core inflation remains on a sustained downtrend. UBS recently downgraded growth for a number of countries, given global growth weakness is expected to weigh more heavily on exports, particularly for Malaysia, Thailand and the Philippines. However, they also see some bottoming out in the tech cycle that should stabilise growth in Korea. Growth in India rose strongly in Q2, rising 1.9% and lifting the annual pace to 7.8% from 6.1%. Some slowing in growth is expected from here, due to tighter financial conditions, albeit the recent renewed fall in inflation could foster rate cuts mid-2024.

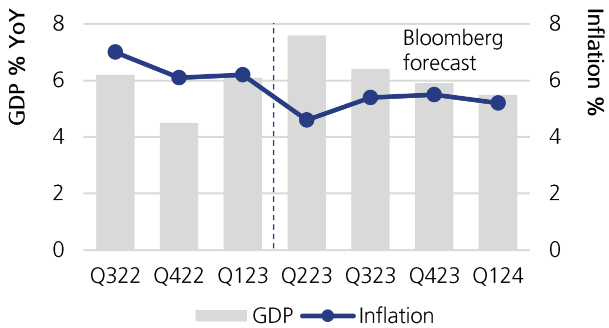
After 4.1% in 2022, UBS expects a similar pace for 2023 and 2024. SG holds a similar view, with growth of 4.0% in 2023 moving only slightly weaker to 3.8% for 2024.

Chinese GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

India GDP growth and inflation



Source: Bloomberg as of 29 September 2023.

Asset class outlook

Short maturity and government bonds

Position: Underweight short maturity, overweight government bonds

Key points

- We recommend adding duration within high grade and investment grade asset classes, with a bias towards fixed rate over floating rate bonds while all-in yields remain at historically elevated levels.
- We maintain a preference for investment grade bonds as inflation cools and downside risks to economic growth remain.

Short maturity—With global central banks at the final stages of their rate-hiking cycles, the market is now turning its attention towards the timing and level of easing in 2024 or whether rates will stay higher for longer. This will depend upon progressive data prints, especially CPI and whether the expectation of below-trend economic growth eventuates.

While inflation is slowing, it remains elevated above central banks' target bands. The market is expecting a hawkish hold at 5.50% from the Fed, with one further hike signalled in November/December this year. Central banks, including the RBA, are maintaining their options to hike again if inflation surprises to the upside. However, the lagged impact of monetary tightening is continuing to flow through the economy and downside risks to economic growth remain.

Any further movement in the cash rate will be data driven, as further tightening in policy may be required, should inflation prove more persistent than expected. Our view is that global policy rates will be lower from mid-2024 onwards. We, therefore, recommend adding duration now.

Government bonds— US growth has stayed above trend, despite Fed tightening and rates remaining at restrictive levels. Central banks need to contend with potentially persistent sources on inflationary pressures, including a tight labour market and relatively sticky services inflation. Rates are, thus, likely to remain higher for longer. A tighter-than-expected labour market and a resilient economy will mean there is less scope for policy easing. The market is now expecting a slower pace of policy easing in 2024, especially in the US.

Nevertheless, as we are seeing signs that inflationary pressures are cooling and growth is slowing, the prospect of falling government bond yields as economic growth slows in the coming quarters is likely to contribute to positive total returns for the fixed income asset class.

Although interest rate volatility will remain elevated, we see a much more even balance in terms of direction. Given the sharp repricing higher in rates, returns should be attractive, considering the shifting balance of risks between high inflation and decelerating growth.

Investment grade and high yield credit

Position: Overweight investment grade, neutral high yield credit

Key points

- We have a preference for investment grade bonds as inflation cools and downside risks to growth remain.
- Within credit, high yield is our least preferred sub-sector, where we are advocating a selective, higher-quality bias.

Investment grade credit—Investment grade credit spreads have stayed remarkably stable, despite the large amounts of primary issuance over the last few weeks. While all-in yields remain at historically elevated levels, we believe investors should continue to deploy into investment grade credit. We believe corporate credit spreads are sitting at fair value, and fundamentals on the US and Australian corporate side remain robust. Staying in high-quality bonds will protect portfolios in a growth slowdown as credit spread widening is usually offset by falling government bond yields. We, therefore, recommend staying in the high-quality investment and high-grade sectors.

Domestically, demand for subordinated tier 2 major bank paper has remained strong. The relative pricing and demand from Australian investors has made it attractive for offshore issuers to consider the Australian dollar market. For example, Lloyds Banking Group issued its inaugural Kangaroo tier 2 subordinated notes in late August, raising $750 million (rated BBB-). The transaction attracted strong demand, offering investors outright yields of around 7%. This has provided a reasonable pick-up for investors versus tier 2 major bank paper (rated BBB+) with yields of around 6%. As major banks are now ahead of their 2023 funding requirements, spreads have tightened back to close to their long-term average of around BBSW+190bps.

High yield credit—Within credit, high yield is our least preferred sector. We are constructive on bonds as an asset class. However, with the more growth-sensitive segments such as high yield, we are advocating a selective, higher-quality bias. Spreads have tightened in the riskier credit segments over the last three months as the market has repriced the risk of recession in light of resilient US economic data. On a technical basis, it is important to note that the lack of new supply and contraction in the size of the high yield market is driving some of the returns this year. The risk is that the high yield sector is more vulnerable to tightening financial conditions, which can translate into higher corporate defaults and widening of spreads over the coming months, especially for leveraged companies. Leverage remains low, although it has been trending higher as debt growth has picked up and earnings growth has declined. Our preference is to move higher up the credit quality curve into investment grade credit on a risk-adjusted basis, despite the 8% returns on offer.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- Domestic equities fell 2.9% in September, performing in line with global equities in AUD terms, although they outperformed in local currency terms. During the month, equities approached their lowest levels of the year.
- There was widespread weakness across the S&P/ASX 200 index, with only the Utilities, Materials and Real Estate sectors posting small (<1%) gains.
- The Real Estate, Healthcare and Information Technology sectors were all down more than 5% on the month as a defensive bias took hold, with Energy, Utilities and Consumer Staples outperforming.

The economic outlook in Australia and abroad remains complex, with lags from material monetary policy tightening proving longer than expected. The US economy is showing remarkable resilience, and in contrast, economic growth is faltering in China, where Australia is very exposed.

Australia's two largest sectors—banks and miners—hold the key to performance into year-end:

Banks: The half yearly and quarterly results drove only minor downgrades to consensus estimates: <1% downgrade for CBA, small (<1%) upgrades for ANZ and NAB. Loan growth forecasts are being upgraded and although inflationary pressures remain a challenge (driven in part by wage and IT vendor cost inflation), consensus Net Interest Margin (NIM) forecasts now appear to be stabilising amid more rational competition on both the asset (mortgages) and liability (deposits) side. Valuation metrics look broadly fair value, and while the earnings outlook is hardly stellar, analysts now expect stocks could see some support into Nov results. The majors trade at 12mth forward P/E of 13.2x (in line with their 5-year average), with CBA richness offsetting WBC's de-rating. Dividend yields are supportive at ~6.4% excluding CBA, with buybacks adding to total returns.

Miners: BHP (+6% YTD), RIO (+6% YTD) and Fortescue Metals (+5% YTD) have been able to broadly keep pace with the ASX 200 on a total return basis, despite the overwhelming pessimism that investors currently have towards China. Australia is very levered to China, and signs of greater stimulus or a stabilisation in the economic data would see the sector perform strongly from a very underheld position. Based on JPM estimates, running spot prices into FY24 sees significant earnings upgrades across the mining complex.

The S&P/ASX 200 index now trades on a forward price/earnings (P/E) ratio of 15.0x (versus a long-run average 14.5x). The ASX200 has been in a trading range between 6,900 and 7,600 since April 2021, excluding Jun–Oct 2022. The path of the China recovery, and RBA Cash rates, which are forecast to be on hold out till 2028, are catalysts for the ASX 200 to break out of this trading range.

International equities

Position: Underweight Europe and the US, neutral UK and overweight emerging markets

Key points

- In September, global equity markets were down 4% in Australian dollar terms. However, in local currency terms, they were 4.5% weaker. This represented the first back-to-back monthly declines since the 2022 lows.
- Japan continued to perform strongly whilst the commodity heavy UK market outperformed over the month.
- Higher global interest rates most acutely impacted the valuation-rich indices—the S&P 500 and Nasdaq both fell more than 4% in local currency terms as real interest rates moved above 2%.

Over the last three months equity markets have shown a strong preference for cyclicals and commodities despite weak China and European data. To UBS, these suggest a strong belief in an extension, perhaps acceleration, of the US expansion. However, the impact of the tightening over the last 18 months is still in train, savings rates have dipped, surplus labour has disappeared, real incomes have stopped growing, and oil prices have risen.

The US Equity Risk Premium (ERP), the relative valuation of bonds to equities, has only been lower on two occasions in the last 100 years: in the late 1920s/early 1930s (prior to the Great Depression) and late 1990s/early 2000s (Nasdaq bubble). With that said, Equity risk premia is not a good measure of expected returns over the short term (<1 year) but it does have a decent relationship to medium-to-long-term equity returns. When they have been as expensive relative to bonds as they are today, US equities have delivered mediocre 3% returns per annum in the decade that followed.

US Equities are up 13% YTD, mostly on multiple expansion while real rates and cost of capital are moving deeper into restrictive territory. History suggests this relationship is becoming increasingly unsustainable, posing risk to the equity multiple, especially since earnings expectations already face a high hurdle for 2024:

- Equity Risk Premia (ERP) is at 4th percentile relative to post-GFC history.
- The Fed Model-based valuation is the most expensive since 2002.
- Furthermore, other traditional valuation metrics are elevated—S&P 500 is trading richly on EV/EBITDA of 14.3x (91st percentile), EV/Sales of 2.7x (88th percentile, and P/B of 4.3x (89th percentile).

Forward multiples assume double-digit earnings growth of 12% for 2024 versus the 9% seen since the 1990s. These levels are consistent with the growth seen in 2022, a period where we saw significant fiscal and monetary stimulus and the prolonged reopening post COVID shutdowns boosted consumption.

Asset class outlook

Currencies

Key points

- The US dollar continued to rally in September, supported by sluggish global growth, a resilient US economy, and a hawkish Fed.
- The Australian dollar showed signs of stabilising around USD 0.64, supported by Chinese stimulus. The outlook for the Chinese economy and US interest rates remains a key driver for the Australian dollar.

The US dollar continued to strengthen in September, buoyed by the resilient US economy. This economic strength compelled the Fed to maintain its hawkish bias. And while it made no changes to monetary policy at its September meeting, the updated Fed 'dot plots' signalled that rates will likely remain in restrictive territory for most of the next year, with only two rate cuts expected by policymakers. The prospect of US interest rates remaining higher for longer further supported the US dollar in the face of ongoing economic weakness, particularly in Europe.

The Australian dollar showed signs of stabilising over the month at around USD 0.64, supported by Chinese policy stimulus and hopes that the Chinese economy might be recovering. The RBA left policy on hold once again in September, and while it signalled a tightening bias, the hurdle to do so is likely high as incoming data continues to suggest a slowing domestic economy and a weakening consumer sector. While higher oil prices may present an upside risk to inflation, the outlook for the Chinese economy will likely be the key driver for the Australian dollar over the coming year. CBA sees it staying around current levels at USD 0.64 at year-end, ahead of a rise to USD 0.74 at the end of 2024.

Elsewhere, weak economic data and a 'dovish hike' from the ECB also weighed on the euro, with the currency trading around USD 1.07. CBA sees downside risks for the euro from a combination of a sluggish near-term global economic outlook, high energy prices, and ongoing US outperformance. Meanwhile, the Japanese yen weakened from USD 146 to USD 149 in line with US dollar strength and amid ongoing dovish rhetoric from the BoJ and easing domestic inflation prints. That said, the yen is at levels that have previously driven policymakers to intervene to support the currency. Weakening global growth and a potential further normalisation in BoJ policy may provide support for the yen in the year ahead.

Commodities

Key points

- Global commodities rose by around 1% in September, primarily driven by a sharp rise in oil prices that ignited broader concerns around inflation and growth.
- Iron ore continued to show strength, supported by improving Chinese activity data, with mixed performance across industrial metals.

Oil prices broke out of their year-to-date trading range over the month, rising around 10% with WTI Crude breaking USD 90/barrel and Brent crude touching USD 95/barrel. This was driven by a combination of higher demand from a resilient US economy and Chinese stimulus hopes and supply impacts as OPEC+ announced an extension of voluntary production cuts. The combination raised market concerns of a demand-supply imbalance in oil markets over the next one to two years that could put uncomfortable upward pressure on headline inflation.

These concerns bled into broader financial markets, putting pressure on both equities and bonds as markets priced in the potential that the sharp rise in oil prices might weigh on economic activity and force central banks to keep policy restrictive for longer than previously thought.

Iron ore continued to show strength over the month, lifting to around USD 120 per tonne, supported by signs that the Chinese economy may be stabilising amid further (targeted) stimulus measures. More broadly, industrial metals were mixed over the month, likely reflecting the further weakness in growth elsewhere in Europe and the UK offsetting supportive Chinese data and the resilient US economy.

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-led growth, while addressing deep structural issues in its property market and debt dynamics.

Looking beyond the cyclical horizon, longer-term themes, including climate change and geo-politics, could 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 likely to see a clearer trend in commodity prices if and when these dynamics align more noticeably.

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 growth and inflation will continue to slow in most developed economies, and we feel that we are at or close to the peak for interest rates this cycle. Expectations for interest rate cuts have now been pushed out through mid-2024, though risks of an earlier easing remain.

In Australia, unemployment remains close to near 50-year lows, though economic growth is being supported by strong population growth. The US economy is displaying remarkable resilience.

We retain the view that if there is a recession, it will be a relatively shallow/soft landing as we approach a new phase of the cycle. Our positioning is unchanged this month and continues to reflect our expectation 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. With equities at neutral, our cash underweight is entirely funding the +2 overweight to fixed income.

Fixed income

At an overall asset class level, fixed income remains our highest conviction position at +2. At a sub-asset class level our positioning remains unchanged from last month. We are neutral high yield, underweight short maturity, and overweight government bonds and investment grade credit. We remain cautious about risk assets in the face of mixed economic and inflation data and tighter credit conditions. If markets experience volatility, we believe fixed income (particularly government bonds and investment grade credit) will hold up well—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.

Equities

We remain neutral equities and continue to prefer some non-US markets. US equities remain expensive and increasingly concentrated, though we are cognisant of potential secular tailwinds behind the US market and its higher quality. We retain an overweight to domestic equities and emerging markets due to attractive relative valuations and potential tailwinds associated with stronger activity in China. We remain underweight Europe amid stagflationary conditions as it enters winter.

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	2	34	17	9	7
Investment grade credit	2	13	13	6	6
High yield credit	0	2	3	3	2
Equities	0	24	42	60	38
Domestic	1	13	20	29	12
United States	-1	5	10	15	12
Europe (ex-UK)	-1	2	3	4	3
United Kingdom	0	2	3	4	3
Emerging markets	1	2	6	8	8
Alternatives	–	20	20	20	45

V Decreased weight this month ^ Increased weight this month

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

Our view on fixed income

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. Our base case is that central banks will be required to ease monetary policy 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 near the end of their rate-hiking cycles, we are tactically overweight government bonds. Although it is difficult to forecast the absolute peak in yields, government bonds have largely absorbed rising rates and we expect yields to be lower in 2024 as inflation cools and downside risks to growth remain.

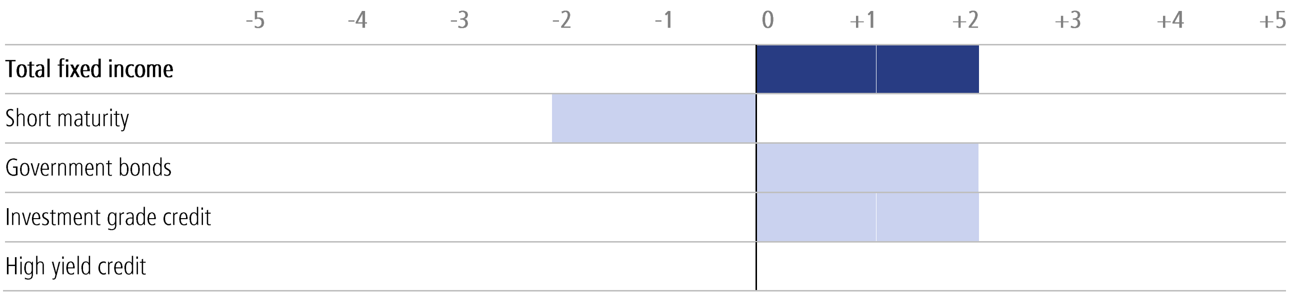
Investment grade credit

We are overweight investment grade credit. While all-in yield levels remain at historically elevated levels, we believe investors should continue deploying into investment grade credit. Staying in high-quality bonds will protect portfolios in a growth slowdown as credit spread widening is usually offset by falling government bond yields.

High yield credit

We are neutral high yield credit. With central banks unlikely to ease near term and unemployment yet to rise meaningfully, high yield credit spreads are vulnerable to some widening over the coming months. But with base rates increasing, and despite tightening spreads, issuers are paying higher funding costs and a higher liquidity premium. High yield remains at risk of a potential acceleration in defaults, with some sectors more vulnerable than others.

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



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	88.66	77.33
Australian 3-year yield	4.11%	3.74%
Australian 10-year yield	4.50%	4.14%
Australian 3/10-year spread	38.3 bp	27.3 bp
Australian/US 10-year spread	-9.3 bp	-0.1 bp
US 10-year Bond	4.59%	4.20%
German 10-year Bund	2.93%	2.56%
UK 10-year Gilt	4.48%	4.36%
Markit CDX North America Investment-Grade Index	73.0 bp	64.0 bp
Markit iTraxx Europe Main Index	80.0	70.5
Markit iTraxx Europe Crossover Index	430.4	396.3
SPX Volatility Index (VIX)	17.3	15.1

Source: LGT Crestone Wealth Management, Bloomberg as of 29th September2023. 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 EPS growth forecast for financial year 2024 for companies in the S&P/ASX 200 index is currently -8%. There is a clear bifurcation here, with the ASX 200 Industrials forecast to see EPS increase 5% whereas the ASX 200 Resources Index is forecast to fall ~10%

US equities

We are underweight US equities. Whilst the S&P 500 has performed strongly, the equally weighted S&P 500 has been largely rangebound (+/-10% since December 2020). This month's performance, in the face of sharply higher interest rates, suggests that valuation is a headwind in the absence of accelerating earnings growth.

European (ex-UK) equities

We are underweight European (ex-UK) equities. European equities have been largely rangebound, and over August cemented the tightest five-month trading range since 1995 and the fifth tightest on record. At 12.2x P/E, European equities are now less than 10% from long-term averages versus 20% 12 months ago.

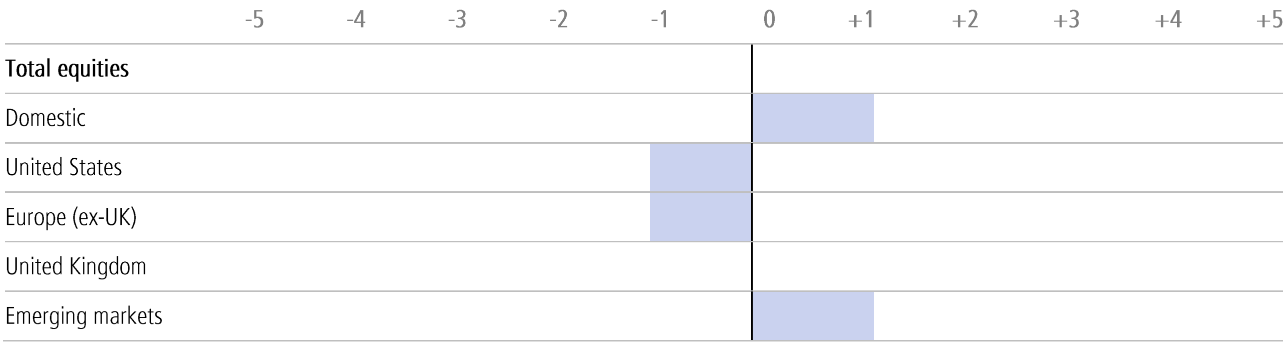
United Kingdom equities

We are neutral UK equities. Compared to a month ago, the rates dynamic has changed markedly in the UK, where expectations for peak rates have fallen from 5.85% to 5.35%. This has allowed UK equities to bounce strongly over the past month, although the FTSE 100 continues to materially outperform the FTSE 250, which is more domestic-orientated.

Emerging market equities

We are overweight emerging market equities. The sharp rise in the emerging market (EM) discount to developed markets (DM) is driven by low China valuations. After sharp downgrades to China output growth, the growth differential between EM and DM has fallen below the 3.1% threshold, which has historically supported EM equity outperformance over DM. Nonetheless, positioning, valuation and a second half weighting to fiscal spend suggest that much of the EM underperformance YTD may already be in the price.

Active equity weights (%)—We are neutral equities.



Equity market summary

			Consensus 1 yr			
Region	Index	Latest price	Target	Upside	Next year P/E [1]	Next year D/Y [2]
Australia	S&P ASX 200	7,024.8	7,689.2	9.5%	15.8	4.3%
New Zealand	S&P NZ 50	11,178.0	12,553.5	12.3%	23.4	3.5%
United States	S&P 500	4,299.7	5,132.2	19.4%	17.6	1.7%
Europe	Euro Stoxx	438.7	539.5	23.0%	11.3	3.7%
United Kingdom	FTSE 100	7,601.9	9,023.5	18.7%	10.5	4.1%
China	CSI 300	3,110.5	3,813.0	22.6%	9.8	3.2%
Japan	Nikkei 225	31,872.5	42,798.3	34.3%	17.8	1.9%
India	Sensex	65,508.3	74,490.4	13.7%	21.5	1.5%

Source: Bloomberg. Data as of 29th September 2023; 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

The new regime in financial markets should improve conditions for hedge fund strategies. A decade of quantitative easing has suppressed volatility and dispersion across underlying securities. The rapid increase in interest rates last year and the increasingly uncertain economic outlook should improve the opportunity set for hedge fund managers. In fact, historical data suggests that hedge funds perform better in environments where risk-free rates are in excess of 2%, rather than below. However, investors should note that hedge fund manager dispersion continues to rise, so manager selection remains key. Across the hedge fund universe, we prefer credit and macro-orientated strategies and maintain a preference for lower beta strategies. This is to ensure our hedge fund portfolios play a more genuinely diversifying role—particularly to equities.

Private markets

The normalisation of valuations should present an attractive deployment opportunity for private equity and venture in financial year 2024. With entry valuations having readjusted meaningfully and secondary (fund) market activity beginning to pick up, we recommend maintaining exposures to private equity and venture capital. Where investors have underweight positions, we recommend adding exposures with a preference for new primary and secondary fund commitment structures. Investors should maintain discipline in partnering with firms that can source high quality opportunities and be a value-added partner—whether a portfolio company or a fund manager (that is, if an allocator).

Private debt looks highly attractive. If investors do not compromise on credit quality and cater for increased debt servicing costs, private debt should be highly attractive due to higher rates, wider spreads, and greater credit protections relative to public market equivalents. Lenders can now attract senior deals with strong covenants 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 real estate lending strategies, particularly those that are often heavily focussed on construction and land.

Real assets

Real estate is our least preferred alternative asset class, given ongoing weakness in certain sectors. Allocations should prioritise core-plus, high-quality assets. We see a meaningful dichotomy across different assets, sectors, geography and investment approaches, and a particular bifurcation between prime office and lower grade assets worldwide. To that effect, we prefer high-grade commercial assets where there is some ability to add value through up-leasing, repositioning, or marking rents to market, for example. These initiatives can help to partially offset ongoing valuation declines arising from interest rate increases. We also like high-quality, overseas, multi-family accommodation and other alternative sectors, such as self-storage, student accommodation and manufactured housing. These are likely to play a growing role in globally diversified portfolios.

Infrastructure is our most favoured sub-asset class. 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. With most COVID-19 related travel restrictions likely behind us, volume-based transport-related assets, such as airports, and contracted assets should play a key role in diversified portfolios. Further, we see attractive investment opportunities focussed on energy transition.

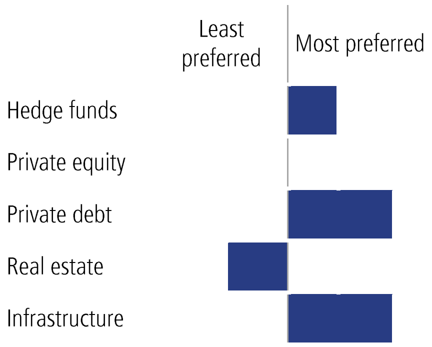
Our most preferred and least preferred exposures—We favour infrastructure, private debt, and low-beta hedge fund exposures while maintaining private equity exposures. We are taking a cautious approach to real estate globally.

What we like

- Credit-oriented and macro hedge strategies; low-beta exposure more generally.
- 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

- Passive private market and/or real asset 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 upside	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Com. Services	$154.76	2%	44.2	1.3%	35%	29%	18.1%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$41.19	13%	20.9	1.5%	22%	21%	7.7%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.74	15%	27.2	3.7%	23%	140%	9.8%	AA
MTS	Metcash Ltd	Cons. Staples	$3.76	14%	12.6	5.6%	19%	26%	1.3%	AAA
ALD	Ampol Ltd	Energy	$34.07	8%	11.9	6.2%	16%	19%	-4.0%	AA
MQG	Macquarie Group Ltd	Financials	$165.95	15%	15.6	3.9%	na	12%	11.3%	AA
IAG	IAG	Financials	$5.70	4%	16.4	4.7%	na	13%	14.1%	AA
RMD	ResMed Inc	Health Care	$23.58	47%	21.4	0.8%	23%	22%	12.9%	A
CSL	CSL Ltd	Health Care	$251.01	30%	26.7	1.1%	13%	17%	16.3%	AA
MND	Monadelphous Group	Industrials	$14.21	2%	20.8	4.2%	18%	14%	18.0%	AAA
ALU	Altium Ltd	Info. Tech	$43.21	1%	44.1	1.2%	39%	26%	20.8%	AA
XRO	Xero Ltd	Info. Tech	$112.35	18%	117.3	0.0%	10%	13%	60.0%	AA
IGO	IGO Ltd	Materials	$12.68	13%	7.8	3.2%	14%	28%	-14.7%	AA
JHX	James Hardie Industries	Materials	$40.74	25%	17.8	0.0%	48%	32%	9.2%	AA
GMG	Goodman Group	Real Estate	$21.62	15%	20.5	1.4%	10%	10%	10.2%	AA
ORG	Origin Energy Ltd	Utilities	$8.76	2%	14.0	4.9%	14%	11%	26.2%	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 29th September 2023. ESG is environmental, social, and corporate governance.

Trade opportunities

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

IGO Limited (IGO)—Buy. IGO is now trading back close to its YTD lows, down ~30% from its 12-month peak. Although their new CEO does not commence until 11 December and updated costs at their Kwinana refinery are pending, the stock screens inexpensive, with capital management upside over the medium term.

CSL Limited (CSL)—Buy. EPS expectations have been lowered by 7–9%, but with the stock having fallen by twice this amount, this means it has de-rated quite aggressively. Its absolute and relative valuation is back at levels that have marked troughs over the past five years.

The Lottery Corp (TLC)—Buy. On the back of higher yields, TLC's share price has retraced ~12% from its highs. Gearing levels, for a defensive cashflow business such as TLC, are forecast to fall well below target levels into next year, which will open the possibility for additional capital management opportunities.

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 upside	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Grossed up yield	1yr DPS growth	MSCI ESG rating
IAG	IAG	Financials	$5.70	4.5%	14.4	2.09	30%	4.7%	13.9%	AA
MQG	Macquarie Group Ltd	Financials	$165.95	14.7%	14.0	1.85	40%	3.9%	8.3%	AA
WBC	Westpac Banking Corp	Financials	$21.13	0.6%	11.4	1.02	100%	6.7%	-7.6%	A
QBE	QBE Insurance Group Ltd	Financials	$15.76	12.8%	8.9	1.68	10%	3.0%	27.2%	AAA
COL	Coles Group Ltd	Cons. Staples	$15.60	5.6%	19.3	6.20	100%	4.0%	7.6%	AA
MTS	Metcash Ltd	Cons. Staples	$3.76	13.7%	12.4	3.38	100%	5.6%	2.4%	AAA
SGR	Star Entertainment Grp	Cons. Disc.	$0.61	62.9%	27.5	0.60	100%	0.0%	n/a	BBB
TAH	Tabcorp Holdings Ltd	Cons. Disc.	$0.97	21.6%	17.6	0.83	100%	2.3%	54.5%	AA
TLS	Telstra Group Ltd	Com. Services	$3.87	20.9%	19.3	2.90	100%	4.6%	5.6%	AA
NEC	Nine Entertainment Co	Com. Services	$2.05	15.2%	13.1	1.98	0%	5.0%	11.7%	AA
RMD	ResMed Inc	Health Care	$23.58	46.9%	19.0	5.34	100%	0.8%	9.2%	A
PME	Pro Medicus Ltd	Health Care	$80.72	-8.1%	83.8	60.74	100%	0.5%	26.1%	BBB
REP	RAM Essential Services	Real Estate	$0.67	27.9%	13.7	1.4	0%	8.4%	-5.4%	--
SGP	Stockland	Real Estate	$3.98	10.6%	12.1	0.9	0%	6.3%	4.4%	AA
IRE	IRESS Ltd	Info. Tech	$5.71	39.2%	20.8	4.00	0%	2.5%	76.4%	AA
DBI	Dalrymple Bay Infra.	Industrials	$2.79	4.6%	16.1	1.20	39%	7.5%	5.3%	--
ALX	Atlas Arteria Ltd	Industrials	$5.50	14.8%	13.3	1.22	0%	7.3%	1.5%	AA
ORG	Origin Energy Ltd	Utilities	$8.76	1.9%	11.1	1.70	100%	4.9%	8.8%	A
ALD	Ampol Ltd	Energy	$34.07	8.1%	12.4	2.43	100%	6.2%	-8.9%	AA
AMC	Beach Energy Ltd	Energy	$1.66	7.9%	5.7	na	100%	3.3%	110.9%	AAA
BHP	BHP Group Ltd	Materials	$44.41	4.7%	11.4	3.2	100%	3.2%	1.5%	A
AMC	Amcor PLC	Materials	$14.29	5.5%	12.3	na	0%	3.4%	1.6%	AA

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 29th September 2023. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Amcor Limited (AMC)—Buy. AMC is now trading at around 13.5x 12-month forward P/E. This is close to the lowest level it has traded at, with the exception of during COVID. Over the past decade, its current multiple would rank in the lowest 6% of multiples recorded over the past decade and is only the third drawdown of over 20% in the past decade.

Coles Group (BPT)—Buy. COL is currently trading at a 17% discount to Woolworths, below its historical 7% average discount. With the stock at 12-month lows and back at levels that have historically yielded support, not to mention a relative strength index that is the lowest in its history, the stock looks over-sold, despite a disappointing financial year 2023 result.

Atlas Arteria (ALX)—Buy. ALX is trading at 52-week lows and its 6.8% dividend yield ranks in the 99th percentile of observations seen over the past decade.

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 upside (%)	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
LSEG LN	LSEG Group	Financials	GBp	8240.00	18.1	22.3	1.6	54,411	AA
LLOY LN	Lloyds Banking Group	Financials	GBp	44.26	34.5	5.9	7.0	34,313	AA
WFC US	Wells Fargo & Co	Financials	USD	40.91	23.6	8.5	3.6	150,046	BB
2318 HK	Ping An Insurance Group	Financials	HKD	44.00	62.2	4.7	6.0	113,011	A
939 HK	China Construction Bank	Financials	HKD	4.36	36.6	2.9	9.5	142,144	A
2330 TT	Taiwan Semi. Manuf.	Info. Tech	TWD	523.00	25.6	14.3	2.4	420,633	AAA
MA US	Mastercard Inc	Financials	USD	399.44	14.8	27.5	0.6	376,357	AA
ASML NA	ASML Holding NV	Info. Tech	EUR	550.80	32.7	25.4	1.3	234,483	AAA
GOOGL US	Alphabet Inc	Com. Services	USD	132.31	14.9	18.9	0.0	1,673,412	BBB
UMG NA	Universal Music Group	Com. Services	EUR	24.30	8.3	25.4	2.2	46,726	AA
DIS US	Walt Disney Co	Com. Services	USD	80.13	36.1	16.3	0.7	146,620	A
9988 HK	Alibaba Group Holding	Cons. Disc.	HKD	83.00	65.7	8.4	0.0	215,685	BBB
NKE US	NIKE Inc	Cons. Disc.	USD	89.63	37.2	20.6	1.8	137,131	BBB
SBUX US	Starbucks Corp	Cons. Disc.	USD	91.08	21.9	22.4	2.5	104,323	A
ABNB US	Airbnb Inc	Cons. Disc.	USD	136.47	6.7	29.3	0.0	88,335	BB
RACE IM	Ferrari NV	Cons. Disc.	EUR	278.30	12.0	37.0	0.9	53,385	BB
BA US	Boeing Co/The	Industrials	USD	190.43	33.2	35.3	0.7	114,868	BBB
DSV DC	DSV A/S	Industrials	DKK	1315.50	13.3	21.8	0.6	40,798	AA
MSFT US	Microsoft Corp	Info. Tech	USD	313.64	26.3	25.0	1.0	2,330,271	AAA
ILMN US	Illumina Inc	Health Care	USD	132.35	56.5	53.5	0.0	20,951	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	651.50	0.0	30.3	1.6	416,096	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	296.15	20.1	46.3	0.0	104,054	A
EL US	Estee Lauder Cos Inc	Consumer Staples	USD	141.95	30.7	25.5	2.0	50,795	A
COST US	Costco Wholesale Corp	Consumer Staples	USD	568.63	4.4	33.3	0.8	251,785	A
288 HK	WH Group Ltd	Consumer Staples	HKD	4.03	49.8	5.1	0.9	6,603	BBB
SHW US	Sherwin-Williams Co	Materials	USD	256.21	17.0	23.8	1.0	65,884	A
SHEL LN	Shell PLC	Energy	GBp	2660.50	9.4	7.9	0.1	215,742	AA
EQIX US	Equinix Inc	Real Estate	USD	720.97	16.0	68.2	2.1	67,458	AA
ORSTED DC	Orsted AS	Utilities	DKK	382.80	52.8	17.5	4.0	22,789	AAA
		Average Yield:					1.9%		

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 29th September 2023. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—Energy transition

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.
- Metaverse.
- Security and safety.
- Supply chain disruption.
- Sustainable investing.

Energy Transition—Select exposures.

The Global Energy Transition has multiple touch points for investors to gain exposure, from energy efficiency to renewable energy, as well as the tools, processes and commodities that will allow the world to move to a Net Zero environment affordably and sustainably.

Code	Company	Sector	Base CCY	Market price	Consensus upside (%)	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
NVDA US	NVIDIA Corp	Info. Tech	USD	$447.82	44.2	26.5	0.0	1,106,115	AAA
KSP ID	Kingspan Group PLC	Industrials	EUR	$69.22	16.3	18.5	0.8	13,202	AA
APD US	Air Products & Chem.	Materials	USD	$279.08	18.5	21.8	2.7	61,997	BBB
FSLR US	First Solar Inc	Info. Tech	USD	$156.34	57.4	12.0	0.0	16,702	AA
GE US	General Electric Co	Industrials	USD	$108.79	17.8	25.5	0.3	118,405	BBB
IFX GY	Infineon Technologies	Info. Tech	EUR	$31.41	49.2	12.1	1.4	42,988	AA
NEE US	NextEra Energy Inc	Utilities	USD	$52.15	54.8	15.4	3.9	105,537	AA
CF US	CF Industries Holdings	Materials	USD	$83.71	5.0	12.5	1.9	16,152	BBB
FCX US	Freeport-McMoRan Inc	Materials	USD	$36.64	31.7	17.2	1.5	52,528	BBB
IGO AU	IGO Ltd	Materials	AUD	$12.73	12.2	9.7	3.2	6,133	AA
ON US	ON Semiconductor Corp	Info. Tech	USD	$93.37	28.9	16.4	0.0	40,292	A
WOR AU	Worley Ltd	Industrials	AUD	$17.50	4.6	18.8	3.4	5,857	--
51910 KS	LG Chem Ltd	Materials	KRW	$496,500	74.7	9.7	2.4	25,804	BBB
RIO AU	Rio Tinto Ltd	Materials	AUD	$114.84	5.1	10.4	3.6	104,576	A
SIE GY	Siemens AG	Industrials	EUR	$134.44	31.8	13.2	3.5	112,714	AA
TSLA US	Tesla Inc	Cons. Disc.	USD	$251.60	6.5	53.5	0.0	798,577	A
ORSTED DC	Orsted AS	Utilities	DKK	$358.40	63.2	16.3	4.3	21,171	AAA
SU FP	Schneider Electric SE	Industrials	EUR	$154.78	13.9	18.3	2.4	92,919	AAA
ENEL IM	Enel SpA	Utilities	EUR	$5.66	31.1	8.7	7.6	60,316	AAA
QCOM US	QUALCOMM Inc	Info. Tech	USD	$111.10	22.8	12.1	2.9	123,988	A
		Average Yield:					2.3%		

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 29th September 2023. ESG is environmental, social, and corporate governance.

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