crestone.

Outlook for 2024

The path ahead points to lower rates

Core Offerings

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

December 2023 / January 2024

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Outlook for 2024

The path ahead points to lower rates

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER

Scott Haslem
Chief Investment Officer

Much progress has been made. Inflation risks have eased, with core measures annualising nearer central bank targets. There are clearer signs global growth will be slower in 2024, led by a less buoyant consumer confronted by a less favourable jobs market. For most central banks, the peak in rates is in. Yet, more time is needed to ensure residual inflation risks, mainly in services, can be abated through 2024. Global (and US) growth now appears less likely to collapse, making the task of returning to a low inflation environment a little more challenging, particularly given the less disinflationary medium-term backdrop.

Interest rates should be lower by end-2024, as central banks commence trimming rates from mid-year. Slowing growth, and rising real rates as inflation falls, are the probable calls to action. The US is likely to lead the shift, followed by the UK and Europe. Australia may well lag, given a stronger macro backdrop, helped by a stabilising China. Meanwhile, policy in Japan will likely remain stimulative. The consumer, as was the case in 2023 given excess cash balances, remains key to whether rates are trimmed earlier or later than mid-2024.

Thus, 2024 holds the prospect of being more supportive for markets as a path toward lower rates comes into view. This should support fixed income returns (where we retain our strong overweight) relative to equity returns (where we remain constructive but neutral). A more favourable equity environment may emerge during 2024. Yet, 2024 also has the potential for renewed volatility, as twin wars in Europe are joined by elections in the US and Taiwan and the evolving structural forces of artificial intelligence (AI) and the energy transition.

Looking beyond 'higher for longer'

The UK's Monetary Policy Committee tweaked its forward guidance, adding that "policy was likely to need to be restrictive for an extended period of time", reinforcing its commitment to keep policy "sufficiently restrictive for sufficiently long to return inflation to the 2% target".

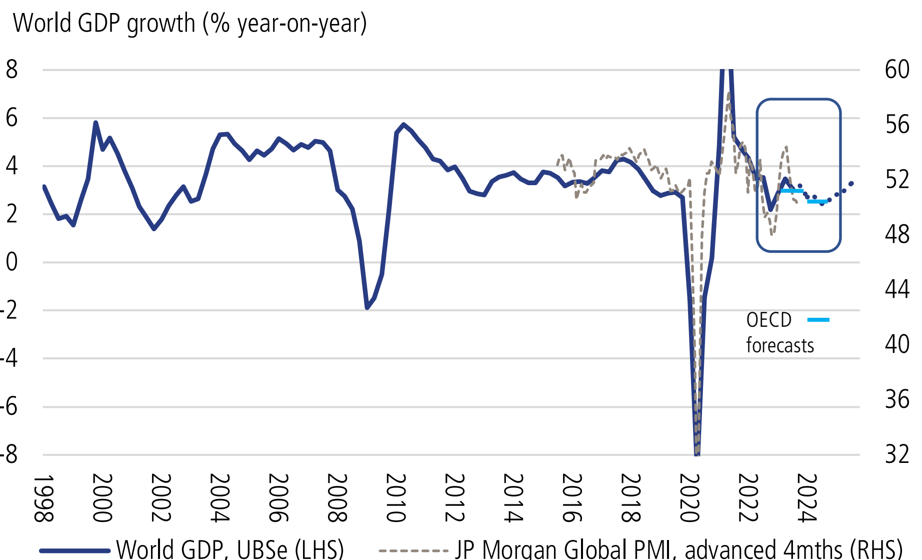
UBS, November 2023

When we first flagged a 'higher-for-longer' theme in mid-2023, it was less of a consensus view than it is now. In 2023, the combination of structurally tight jobs markets and excess post-pandemic cash has helped to mute the impact of 2022's rapid hikes in interest rates. Together with structural 're-inflation' forces (including ageing, elevated geo-political volatility, and shifting global supply chains), central banks are likely to need to hold policy tighter for longer to avoid the mistakes of the 1970-80s. This is likely to see policy rates in the US, Australia, the UK, and Europe being held in restrictive territory until mid-2024.

But in positioning portfolios for 2024—and regarding what we believe to be the main game—we need to look beyond the 'higher-for-longer' theme, which is likely to dominate in early 2024. The final months of 2023 have furnished clearer evidence that the global economy is slowing, and inflation is moving gradually lower. As the chart below shows, the Organization for Economic Cooperation and Development (OECD) expects growth to slow further from 3.0% in 2023 to 2.7% in 2024. UBS, who similarly forecasts 2.6% for 2024, views recent data as flagging a meaningful further slowing of growth into mid-2024 from around 3% to 2%, ahead of a patchy recovery through 2025.

In positioning portfolios—and regarding what we believe to be the main game—we need to look beyond the 'higher-for-longer' theme, which is likely to dominate in early 2024. The path ahead points to lower interest rates by end 2024.

Further modest slowing ahead before a patchy recovery unfolds from mid-2024



Source: OECD forecasts (September 2023), UBS forecasts, Factset, LGT Crestone.

"As such, and as the 'stimulus cliff' is reached, it will soon become clear whether the US economy is exceptional, or simply that it's been overstimulated."

Longview Economics, November 2023

The US economy has proved supremely resilient through 2023, benefitting from markedly higher levels of fiscal stimulus and policy activism to support growth. However, after accelerating through Q3 2023, data more clearly reveals a slower pace of growth into year-end, with most forecasters predicting either a moderate or sharp slowing in growth into mid-2024. A stalled housing sector, the run-off of pandemic stimulus, and some modest weakness in the jobs market (with unemployment already rising from 3.4% to 3.9%) are seen as the key drivers of some softer US growth in H1 2024, even if recession is avoided.

Outside the US, as Longview Economics notes, "growth in the rest of the West (where stimulus levels have been much lower) is poor. The UK, Germany and the Eurozone economies are stagnating, while the Chinese economy is suffering from a housing bust". The run-off of pandemic stimulus and higher interest rates are also likely to contribute to slower growth in Australia in 2024, with recent consumer spending data slowing significantly. However, as discussed in the November edition of *Core Offerings*, we expect Australia to be a macro-outperformer during 2024.

"The euro area's prospects would be stronger if the world were peaceful, but the outlook is complicated by two conflicts near its borders."

Northern Trust, November 2023

Lower inflation should mean moderately lower rates in H2 2024

For central banks, the near-term challenge is finding comfort that policy has already been tightened sufficiently to ensure inflation returns, over time, to its respective targets, mostly around 2% (or 2-3% in Australia). Thereafter, the focus will turn to how long restrictive settings should be maintained to avoid unnecessarily damaging the growth outlook.

We believe the recent progress on inflation is key to the former. As the chart below shows, inflation has clearly passed its peak globally. While still above targets, it is now clearly annualising materially lower than a year ago. In the US, the Federal Reserve's (Fed) preferred core inflation measure (the personal consumption expenditure price index) has moderated from an annual pace of around 4.5% in H1 2023 to a little less than 2.5% in the most recent three months. Similarly, after Australia's higher-than-expected rise in inflation in Q3, monthly data showed some improvement to 4.9% in October (having unexpectedly risen to 5.6% in September), down from 8.4% at the end of 2022.

Of course, holding rates restrictive as inflation continues to moderate ultimately increases the 'real' policy tightening. The recent moderation in inflation has already led to greater real effective policy tightness. We expect that likely weaker growth through H1 2024 that supports further inflation moderation will ultimately lead central banks to start trimming policy rates around mid-2024. This will serve to avoid policy getting unnecessarily tight, even if inflation is not yet cemented in the inflation target. We expect central banks to trim rates by 0.5-1.0% during H2 2024, relatively modest in an historic context, albeit consistent with an outlook where inflation is likely to settle higher than in the recent past.

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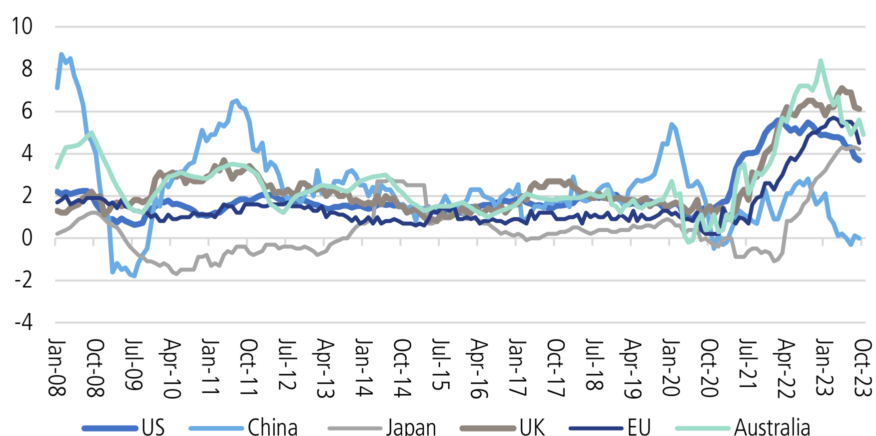
Headline and core inflation is now more clearly trending lower

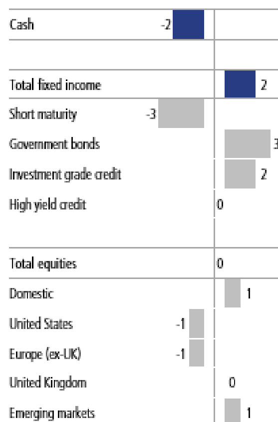


Source: Macrobond, LGT Crestone (Australia & China headline, US core PCE, others core).

Positioning for 2024: Fixed income is preferred for now, while equity strength may emerge as 2024 unfolds

We expect H1 2024 to favour fixed income returns over equity returns, as growth and inflation continue to moderate. This should set the scene for lower interest rates in H2 2024. If major central banks start signalling the next move in rates is down, as we expect in H1 2024, government bonds and investment grade credit should deliver strong returns.

Our latest tactical asset allocation positions (%)



Source: LGT Crestone Wealth Management. Data as at 30 November 2023.

For equities, while the prospect of lower interest rates removes one of the headwinds to performance, we suspect the impact of slowing growth on the current buoyant outlook for equity earnings will present new challenges. We favour non-US markets like Australia and emerging markets, where valuations and earnings risks appear less troublesome ahead.

Indeed, as the turning point to a new phase of slower growth and lower inflation evolves through early 2024, we expect market disruption and volatility to persist. This suggests that a focus on quality and tactical opportunism may prove more rewarding than traditional asset class positioning. Within the fixed income asset class, this might look like capturing the 6.25-6.50% yields, fixed for five years, which are on offer in subordinated tier 2 major bank paper. In equities, it might look like focusing on unloved sectors of the market, such as Australian healthcare. In unlisted alternatives, it might be getting exposure to distressed assets as the lagged impact of policy tightening comes through.

The opportunity to take a more positive view on equities may emerge as 2024 progresses. This is likely to depend on the extent that confidence surrounding a 'softish' landing for the global economy grows, and the extent to which this leaves the earnings outlook only modestly damaged. However, it may also depend on the extent to which equities experience a correction in H1 2024.

Of course, our outlook for moderating growth and inflation (arguably a 'muddle through' for the world economy) is not without risks. At a macro level, more time is required to be assured that inflation will not re-accelerate in the near term. In the other direction, the consumer could stumble more aggressively in early 2024 as a 'stimulus cliff' emerges. 2024 also holds the potential for renewed geo-political volatility, as twin wars in Europe are augmented by elections in the US and Taiwan, and the evolving structural forces of AI and the energy transition impact markets and economies.

The outlook for fixed income: Attractive yields and elevated issuance ahead

2023 will likely be remembered as a year of heightened volatility in bond yields. Markets tried to price in both aggressive central bank tightening, while also searching for a future (now delayed) path of easing that would avoid significant slowdown in the economies.

As we enter 2024, our tactical allocation to fixed income is overweight, with an emphasis on adding duration within high quality, investment grade asset classes. We now believe that the terminal cash rate for most economies has been reached, and 2024 will be a year where markets look to price the timing of central banks easing. Moreover, as inflation cools, downside risks to growth remain, with restrictive rates continuing to transmit into the real economy and excess savings evaporating post the pandemic.

As we enter 2024, our tactical allocation to fixed income is overweight, with an emphasis on adding duration within high quality, investment grade asset classes.

- Current **government bond yields** of 4.5-5.0% are close to their decade highs, and with central banks likely easing in H2 2024, this should see significant positive total returns for the year ahead. Weak economic data will be good news for bond holders, and we expect the US Treasury yield curve to normalise. Domestically, stubbornly high inflation may create a more difficult path for the Reserve Bank of Australia (RBA). This suggests the domestic government yield curve may remain positive, with more attractive yields at the longer end of the curve, ahead of a later-year rally. Investors should continue to add duration while all-in yields are close to 15-year highs.
- We favour **high grade and investment grade bonds** in 2024. Defaults are likely to rise as higher funding costs and rising liquidity risk premiums impair fundamentals, particularly the lower quality high yield sector. We have a home bias to domestic banks, which are all highly rated. Issuance across their capital structures will remain elevated, which is likely to keep spreads wide and will offer attractive outright yields. We believe that in 2024, the higher levels of issuance from major banks will be driven by a pipeline of around AUD 6.5 billion of additional tier I hybrids. Each major bank will also need to issue AUD 4-5 billion of tier 2 capital in order to refinance existing tier 2 bonds and meet their 2026 total loss-absorbing capital requirements. The refinancing of the Term Funding Facility will support wholesale senior unsecured bond issuance.

The outlook for equities: Tactically neutral with pockets of opportunity

From a tactical perspective, the outlook for equities, at least for H1 2024, remains challenging. A number of countervailing forces have seen us retain our neutral tactical positioning in an absolute sense, and a less preferred stance relative to fixed income.

Headwinds for equities include ongoing tight monetary policy, and consumers faced with a fading savings buffer and tightening lending standards. Additionally, valuations are rich (if not in absolute terms, then relative to fixed income). As discussed earlier, a likely further

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slowing in consumer demand, driving weakening pricing power and margin pressure for corporates, argues that consensus expectations for 10% earnings per share (EPS) growth for global equities in 2024 are already on the optimistic side.

Given the now comparatively attractive returns on offer from other asset classes, the compensation equity investors are demanding above the yields on offer in risk-free government bonds and investment grade credit has been historically low. Indeed, the equity risk premium is at its lowest level seen since the turn of the century.

More constructively for equities, perspectives on valuations are being impacted by concentration bias. Global indices, both in the US and Europe, are being distorted by extreme concentration among just a handful of stocks. In the US, the so-called Magnificent 7 explain the majority of 2023 returns. Without them, the S&P 500 index would be up just 8% this year (not 20%). As such, valuations are not as stretched as they may seem at face value. The S&P 500, excluding the Magnificent 7, trades at 17.2x, which is below its five-year average of 17.7x. This suggests that there are significant opportunities beyond the mega-cap cohort. Global small and mid-cap equities are unchanged over the past 18 months, and now trade at a 12% discount to the MSCI World index, their largest discount since the GFC.

Some non-US equity markets also portray value. For domestic equities, the relative price/earnings (P/E) ratio of the S&P/ASX 200 versus the MSCI World ex-Australia index is -12%. This is more than one standard deviation from its 10-year average and close to its maximum 15% historic discount. Looser financial conditions in China may support resources, while peaking rates should aid a previously underperforming banking sector.

The outlook for alternatives: Favouring more defensive and diversifying exposures

The opportunity set for alternatives favours exposures that are more defensive and diversifying.

For 2024, and in a similar vein to the current value dynamic between public equities and bonds, the opportunity set for alternatives favours more defensive and diversifying exposures. We particularly favour **private debt**, where total returns have been bolstered by sharp increases in policy rates, spreads (the margin paid to lenders above the policy rate), and upfront fees, all of which flow through to end-investors. Investors may be able to secure unlevered yields in excess of 10% for senior private debt with a meaningful equity cushion backed by credible private equity sponsors. With private debt now around 12% of the USD 12.2 trillion alternative investment market, we expect the asset class to play a more prominent, long-term role in portfolios, with today a highly attractive entry point.

Elsewhere, ongoing economic uncertainty and greater asset price dispersion support the case for diversifying **hedge fund strategies**, with higher rates also likely to drive higher risk-adjusted returns through underlying strategies. While more mid-risk, **infrastructure assets** with long-term, inflation-linked contracts, typically monopolistic positions and greater offshore investment flows, also look attractive, particularly those backed by the significant tailwind of the transition to a net-zero economy. Conversely, **real estate** looks more challenged at this juncture, though pockets of value may emerge as valuations normalise.

For growthier segments, namely **private equity** and **venture**, the valuation environment has improved materially since early 2022. As such, we favour maintaining exposures. The secondary market is poised to provide attractive opportunities for skilled allocators that can assess the true value of funds or direct company positions and not focus solely on discounts. This is of particular importance in venture secondaries, which could present one of the highest return opportunities of 2024, albeit not without commensurate risk.

The outlook for sustainable investments: Favour proven and mature technologies

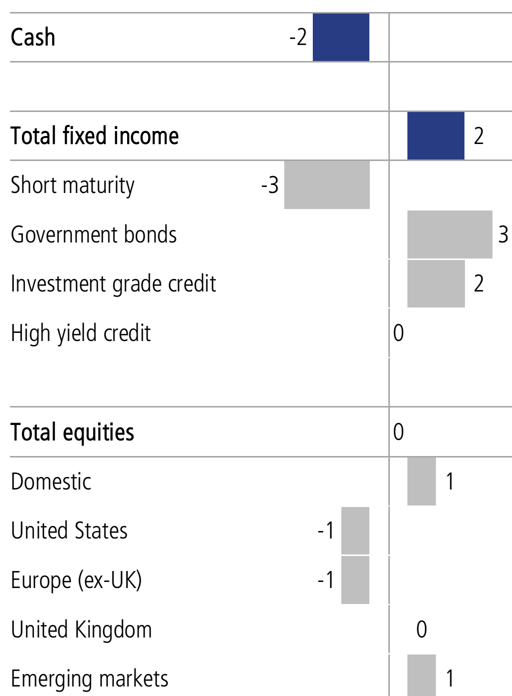
We still see good sustainable investment opportunities in the energy transition. We favour net-zero infrastructure in proven mature technologies like solar, wind, and battery storage.

Sustainable Investing faced significant headwinds in 2023, including an energy crisis, surging fossil fuel prices, and the rise of the anti-ESG (environmental, social and governance) movement in the US. But despite this, sustainability has remained firmly entrenched in government policy and regulation, corporate sustainability commitments, and shareholder demands. Legislation is pushing for more, not less, sustainable solutions. We have seen that in the US via the *Inflation Reduction Act,* and globally via the European Union sustainability taxonomy, as well as various commitments in China and Japan.

There is no doubt, however, that heightened geo-political risk remains, with twin wars in Europe, augmented by elections in the US and Taiwan, and the tail risk of oil prices remaining higher for longer in 2024. All of these could provide further headwinds to the sector next year. However, we still see good sustainable investment opportunities in the energy transition. We favour net-zero infrastructure in proven, mature technologies like solar, wind, and battery storage. We are also bullish on the outlook for many of the critical minerals required in the transition to net zero.

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.

Staying overweight bonds as economic momentum slows

In November, there were signals that the global economy may be approaching an inflection point, with growth and inflation likely to continue moderating as we enter 2024.

This backdrop supports our view that we are at—or close to—peak interest rates. Additionally, risks are skewed to further moderation in growth over a 6-12 month horizon. We increased our overweight to government bonds in October when yields were near 5%, and retain our conviction in this position, despite the rally in bonds in November. We continue to monitor for opportunities as we navigate the uncertain investment environment.

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

'Sticky' interest rates—Falling inflation is likely to foster a near-term peak in central bank rates and bond yields. However, fewer deflationary forces than in the past are likely to limit the extent to which rates can fall.

Geo-political risks on the horizon as we enter 2024—Israel-Gaza, Russia-Ukraine, and elections in Taiwan and the US are near-term risks. Ongoing decoupling across technology, 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 return drivers. Alternative assets look increasingly attractive from this perspective.

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.

Multi-polar world—Brexit, trade wars, and conflicts in Eastern Europe and the Middle East are symptoms that we are entering a more multi-polar world order, with significant implications for economies and markets.

	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. ▪ Commodity exposures on greater China stimulus, relative valuation, and earnings upgrades based on spot pricing.	▪ 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	▪ Australian government bonds between 4 and 7 years ▪ 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	▪ Low-beta credit-oriented and macro hedge strategies. ▪ 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. ▪ 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

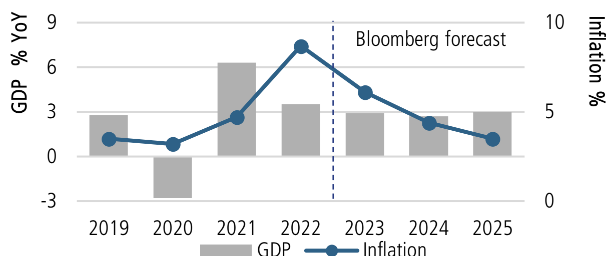
In November, there were signs that the global economy may be approaching several key inflection points as we enter 2024. Firstly, the delayed transmission of tighter monetary policy and financial conditions may finally be slowing the robust consumer (especially in the US). Secondly, with the exception of Australia, there have been encouraging signs about inflation, leading markets to expect that major central banks have finished their tightening cycles. Finally, markets are accepting that we have entered a new phase for the economy, where interest rates may have peaked, but are unlikely to fall to extremely low pre-pandemic levels. The outlook for 2024 will likely be driven by how these dynamics evolve and interact over the year.

Signs of softening growth, labour demand, and inflation in the US supported a significant pull-back in long-term interest rates, with US 10-year Treasury yields falling from October's cycle high of 5.0% to around 4.4%. While progress on inflation has been encouraging, core inflation remains above central bank targets, and policymakers have remained strongly committed to maintaining rates at restrictive levels for most of next year. As such, there is likely a near-term limit to how low yields can go from here, until and unless the macro data breaks more convincingly in either direction.

The retreat in bond yields supported a substantial rally in equity markets over the month, and despite increasing signs of economic vulnerabilities under the surface, consensus continues to back a 'softer' landing for the global economy in 2024. Steady jobs growth and consumer spending in the US suggest the economy has peaked, with tighter credit conditions likely to encourage further slowing. Macro conditions in Australia are being supported by population growth with weak per-capita outcomes, while Japan gave back some of its Q2 strength in Q3. There are renewed signs of steadying in China's growth outlook, with policy expected to continue to be supportive but not excessive. In contrast, outright contraction has begun to emerge in Europe and the UK as we end the year.

The International Monetary Fund expects global growth to stabilise at 2.9% in 2024, though it cautioned growth may slow and be uneven, and forecasts are well below the long-term average. In contrast, both UBS and Société Générale (SG) expect a mild recession in 2024, led by the US.

Global GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

Australia

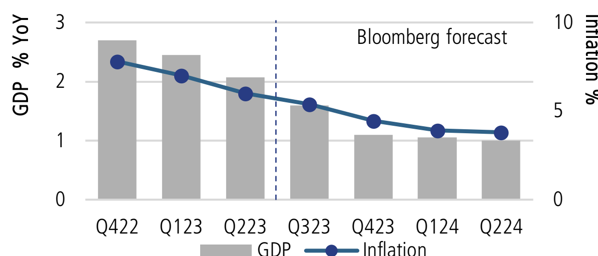
Australia's economy appears on track to continue expanding at a sub-trend pace as we close out 2023. However, the bulk of this growth will come from rising population growth and stubborn inflation, while weak sentiment and a hawkish central bank persist. The RBA's latest rate hike is likely to further slow consumer and housing activity in the year ahead. However, strong population growth and signs of stabilisation in China's growth outlook continue to suggest a low likelihood of recession and the potential for outperformance against other key economies through 2024.

Growth in Q2 rose 0.4% (repeating Q1's outcome), with the annual pace slowing further from 2.4% to 2.1%. Q3 data suggest a similar sub-trend pace has continued. While retail sales bounced in September, October data revealed a weaker negative trend, particularly across discretionary sectors. Consumer sentiment remains near pandemic lows. House prices have continued to rise, but far from supporting sentiment this is adding to societal stresses and inflationary pressures. October business conditions stabilised at +13, but business confidence fell into negative territory (and some key inflation gauges pointed to less inflationary pressure ahead). The labour market remains tight, albeit under-employment has begun to trend higher from lows of 3.5% to 3.7%.

Inflation rose 1.2% in Q3, above Q2's 0.8% pace, albeit slowing the annual pace to 5.4% from 6.0%. While higher fuel prices contributed, core measures (1.2% and 5.2% annually) were also above consensus and the RBA forecasts, leaving Australia with the highest headline inflation rate among major developed markets. These dynamics saw the RBA raise the cash rate to 4.35% in November, while maintaining a hawkish bias. Positively, the new monthly inflation data moderated more than expected (to 4.9%) for October. Forward-looking indicators point to further easing of price pressures, with the Q3 wages broadly in line with RBA forecasts. However, the RBA faces a more difficult forward inflation outlook compared to its major peers.

After 3.7% in 2022, UBS expects Australia to avoid a recession, with growth of 1.9% in 2023 and 1.6% in 2024. CBA has also recently raised its growth outlook to 1.9% for this year, and 1.6% for 2024 (was 1.5%).

Australian GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

Economic outlook

United States

There have been tentative signs that the US economy is at last starting to show the lagged impacts of tight monetary policy, with softer activity, employment, and inflation data over the past month. If these signs of moderation continue, markets will likely gain greater confidence that the risks of further policy tightening are behind us. While inflation is easing, the Fed will likely remain reluctant to cut rates before mid-2024, underscoring the outlook for a mild downturn as a politically fraught election campaign kicks into high gear.

While growth in Q3 accelerated to a very strong 4.9% annualised pace, higher frequency GDP trackers point to a more modest 2.0% annualised pace thus far in Q4. The composite Purchasing Managers Index (PMI) held steady at 50.7 in November, still around the 'break-even' mark. Retail sales gave back their Q3 strength, and were modestly lower in October, while jobs growth also slowed, with non-farm payrolls rising only 150,000 in October. Unemployment ticked up to 3.9% (from 3.5% a few months earlier), while average hourly earnings also showed clearer signs of slowing. Consumer sentiment has also weakened more recently.

After a set-back in September, inflation continued to moderate in October, with headline inflation easing to 3.2% and core inflation slowing slightly to 4.0%, its slowest pace since September 2021. While the journey for inflation will likely continue to be bumpy, these latest prints were an encouraging sign that progress is being made. The Fed left rates on hold in November and retained a tightening bias. However, recent Fed speeches indicate that peak Fed hawkishness may be behind us, so long as economic and inflation data continue to move in the Fed's direction.

After 1.9% in 2022, UBS expects growth of 2.4% in 2023 to slow meaningfully to just 1.2% in 2024. SG is forecasting a slightly sharper slowdown from 2.4% to 0.9% in 2024.

Europe

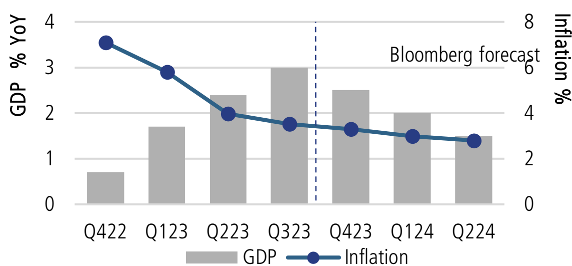
The outlook for Europe remains weak, and the region is vulnerable to downside risks from the two wars in the region. Tight monetary and fiscal policy is likely to weigh on activity going forward, with risks of a technical recession. However, strong downward progress on the inflation front may enable more flexibility from the European Central Bank (ECB), and the ensuing rise in real wages amid a tight employment market should support household consumption.

Europe's Q3 growth showed a modest contraction (-0.1%), with the annual pace slowing to 0.1% from 0.5%. The Belgian and Spanish economies expanded, while Italy showed no growth and Germany's economy contracted 0.1%. The PMI has relapsed below the key 50-mark in recent months, thought it rose slightly to 47.1 in November from 46.5 (a near three-year low). In September, retail sales fell a further 0.3% after a 0.7% decline in August, while consumer sentiment remained deeply negative. In contrast, the labour market remains tight, with unemployment at near record lows of 6.5% in September.

Encouragingly, inflation outcomes have continued to moderate sharply in recent months. In October, headline inflation fell to 2.9% from 4.3% (its lowest since July 2021), while core inflation dropped to 4.2% from 4.5%. These encouraging prints mean the ECB is likely to remain on hold in December and may have reached the end of its rate-hiking cycle. UBS expects the first rate cut to occur mid-2024, while SG believes the first cut is unlikely until late 2024. CBA also sees the first ECB cut in mid-2024, while expecting an acceleration in quantitative tightening in early 2024 as the central bank ceases to reinvest maturating debt.

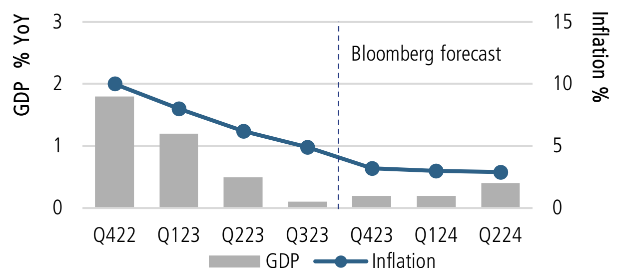
After 3.4% in 2022, UBS expects the sharp slowing in growth during 2023 to average in at just 0.5%, ahead of a limited pick-up to 0.6% in 2024. SG expects slightly stronger growth of 0.6% in 2023 and 0.8% in 2024, while CBA sees Europe skirting recession in 2024 at 0.2%.

US GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

European GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

Economic outlook

United Kingdom

The UK appears to have defied expectations of a recession in 2023. Modest expansion of about 0.6% is expected, boosted by surprisingly resilient household consumption and investment. However, the outlook remains muted, with consumption growth likely to continue to slow as higher mortgage rates weigh on consumers and fiscal policy turns restrictive into next year. More positively, inflation has continued to moderate, so that the monetary policy tightening cycle is likely finished. Still, growth is expected to stay weak in H2 2023 ahead of an only tepid recovery in 2024.

Output was unchanged in Q3 after growth rose 0.2% in Q2, marking a tepid 0.6% annual pace from a year ago. With this modest print, the UK economy appears to have just skirted a recession in 2023. The composite PMI remained anaemic at 50.1 in November, though it has been on an uptrend in recent months. Retail sales fell again in October by 0.3% after a downwardly revised 1.1% decline in September. However, like elsewhere, the jobs market is tight, with unemployment edging up only slightly to 4.3% in July. While still high, average weekly earnings growth moderated in September to 7.7% from 7.9%. House price growth remains weak, unchanged at -4.7% in September.

Inflation has been problematic for the UK, but like in the Eurozone, recent data has shown strong progress on reducing inflation. Inflation decelerated significantly to 4.6% in October to a two-year low. Core inflation edged lower to 5.7% (from 6.1%) in October. The Bank of England looks likely to remain on hold as it pursues its 'table-top' strategy (keeping rates 'high for longer') to bring inflation down.

After 4.3% in 2022, UBS and SG see growth of 0.6% for this year (and 0.6% in 2024), while CBA expects 0.4% growth (was 0.5%) and recession in 2024, with growth of -0.2%.

Japan

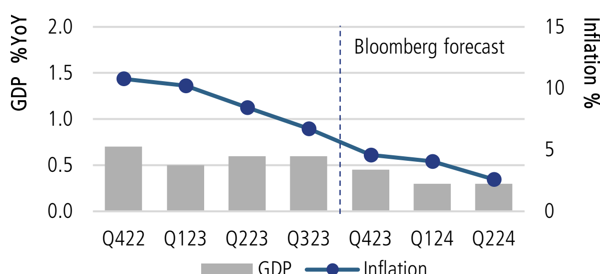
Japan's economy expanded more strongly than expected in H1 2023, with recent business surveys suggesting momentum has continued into early H2. However, there are tentative signs of slowing in the domestic economy, which suggests some pay-back in growth over coming quarters. This is likely to leave Japan on a gradual expansion path through 2024. Inflation, while steady, appears likely to slow over coming months. Nonetheless, focus remains on whether a higher inflation path than the Bank of Japan (BoJ) has been targeting will see it signal modestly tighter policy in the months ahead.

Q3 growth contracted by 0.5% (from +1.1% in Q2), easing the annual pace of growth to 1.2% in Q3 (from 1.7%). This was a larger retracement from Q2's solid result than markets were expecting, with weakness noted in private domestic demand and investment. Japan's composite PMI declined moderately to 50.0 in November from 50.5—and is right at the 50 mark that separates expansion from contraction. Retail sales rose 0.4% in September. The jobs market remains tight, with the unemployment rate ticking back down to 2.6% in September. Wages growth has recently retraced, albeit BoJ Governor Ueda raised the strength in real wages as a concern.

After a peak of 4.3% in January, inflation has been remarkably stable at around 3.3% between February and August, easing to 3.0% in September. Average cash earnings grew 1.2% over the year to September, a slight pick-up from 0.8% in August. The BoJ made another tweak to its yield curve control policy in October, and will now treat its 1% upper limit for the 10-year yield as a reference rather than a hard constraint. CBA expects the BoJ to maintain a negative cash rate next year, while UBS expects gradual policy normalisation, including an end to yield curve control and a positive 0.25% cash rate, by the end of 2024. Wages growth is likely to be the key determinant.

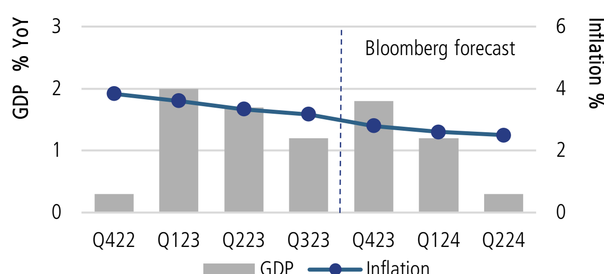
After growth of 1.0% in 2022, UBS expects growth to bounce to 1.8% (was 1.9%) for 2023, before slowing again to 0.7% in 2024. SG forecasts 1.6% in 2023 (was 1.8%), with a similar slowing to 0.7% in 2024 (unchanged).

UK GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

Japanese GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

Economic outlook

China

Recent data have confirmed that peak pessimism surrounding China's growth outlook has most likely been reached, with early Q4 activity data revealing ongoing stabilisation, while renewed policy support has led to optimism that the economy will continue to post moderate growth through 2024. The consumer remains the key source of strength, while property activities remain depressed and are the key downside risk to China's growth (and global commodity prices) for 2024.

China's annual output rose by 4.9% in Q3, below Q2's 6.3% pace but beating expectations. More importantly, sequential growth accelerated to over 5% in Q3 from around 1% in Q2. October activity data also revealed some further moderate improvement. Industrial production retained its recently faster pace of 4.6% (up from 4.5% in September), while annual retail sales growth lifted from 5.5% to 7.6%. Fixed asset investments growth was steady at 2.9% from 3.1%. In contrast, property activities have remained weak, with sales at -11.0% and new starts at -21.1% in October. Property sector weakness remains the largest downside risk to the Chinese economy over the next year. On the positive front, UBS does expect a continued post-COVID recovery in consumption and services in 2024, with a modest fiscal expansion to help support infrastructure investment and overall growth.

In late October, China announced an additional RMB 1 trillion in special central government bonds for Q4 2023 to support natural disaster prevention, post-disaster recovery, and related infrastructure investment. UBS expects further moderate policy support, but with a more explicit focus as authorities continue to seek a balance between stabilising the economy and dealing with China's longer-term debt restructuring challenge.

China's growth dropped from 8.4% to 3.0% in 2022. After several months of downgrades, UBS has now lifted its 2023 growth forecast from 4.8% to 5.2%, and its 2024 outlook from 4.2% to 4.4%. SG expects 5.3% growth for 2023 before a similar slowdown to 4.5% in 2024.

Emerging markets

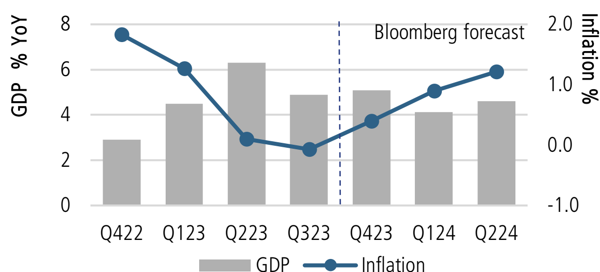
Emerging market growth is expected to stabilise in H2 2023 before a more robust recovery through 2024. This should reflect strong rebounds across emerging Asian and European economies in 2024. This is likely to be balanced by slower growth across China and Brazil (where growth recoveries are more likely through 2025). Overall, favourable progress on inflation and earlier hiking cycles for emerging central banks should support easing monetary policy over the coming year. Notwithstanding this, the emerging market complex remains vulnerable to a global growth slowdown and/or further escalation in current geo-political risks, which could feed through to slowing activity, reduced risk sentiment, and a stronger US dollar (pressuring emerging market currencies).

With inflation continuing to moderate, central banks in Brazil, Chile, Hungary, and Poland have already started to cut rates over recent quarters. And with real rates still well above neutral (and disinflationary trends expected to continue), UBS expects there is further room for policy easing into 2024, which should be supportive for economic activity. Asian central banks, which adopted a more restrained approach in hiking, are likely to have a more modest easing cycle in 2024.

The 2024 outlook for Asia will be more closely linked to China and the global economic cycle, while UBS expects robust labour markets and domestic demand to provide Latin America with some cushioning from a slower global backdrop. Growth in India rose strongly in Q2, rising 1.9% and lifting the annual pace to 7.8% from 6.1%. UBS India's leading indicator suggests sequential economic momentum has been holding up, rising 2.7% in Q3 (versus 3.9%). UBS expects economic momentum in India to hold up into next year, despite global headwinds, with structural reforms likely to promote a further uplift to potential growth in the subcontinent.

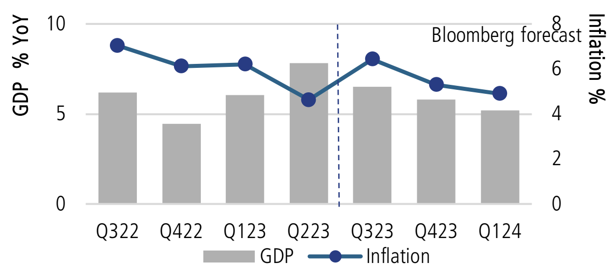
After 4.1% in 2022, UBS expects a similar pace for 2023 and 2024 emerging market growth, albeit a touch stronger in 2023 and weaker in 2024. SG holds a similar view, with growth of 4.2% in 2023, moving only slightly weaker to 3.9% for 2024.

Chinese GDP growth and inflation



Source: Bloomberg as of 30 November 2023.

India GDP growth and inflation



Source: Bloomberg as of 30 November 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. We have 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—Global central banks are now at the final stages of the rate hiking cycle. The rise in bond yields over the past 24 months, in particular longer-dated US Treasuries which rose above 5.00% in October 2023, has helped to tighten financial conditions. As such, the Fed looks set to remain on hold for the rest of the year and will continue to assess conditions. We expect inflation data will continue to show that the aggressive tightening cycle witnessed over the last 18 months is working. However, continued economic resilience, sticky services inflation and jobs data will keep rates elevated in the near term and may keep rates higher for longer in 2024. While our tactical asset allocation to short term maturity 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 duration now. We see value in the five to seven-year part of the curve, as well as the longer end, depending on the portfolio's maturity profile.

Government bonds—At the long end of the curve, we have seen bond yields fall from their highs of 5.00%, driven by recent inflation data, which came in lower than expected at 3.2% year-on-year. The US 10-year Treasury bond is now at 4.26%, which is still at a restrictive level and will continue to tighten monetary conditions going forward. The volatility in rates is expected to ease in the near term. There have been less days of 10-15 basis point (bps) moves, and the yield on the 10-year Treasury has been more range bound, moving between 4.20% and 4.60%, due to limited macro data. We expect a softening of the labour market and a sharp pull-back in aggregate growth, which should justify the Federal Open Market Committee remaining on hold in December and January. The degree of further improvement in inflation will subsequently dictate the timing and scale of cuts in 2024 and beyond. We are seeing signs that inflationary pressures are cooling and expect economic growth to slow in coming quarters. As a consequence, we have a high conviction that government bond yields will be lower in the coming months and recommend adding duration. We remain overweight this segment of the market.

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 been remarkably stable, despite volatility in the bond markets. Investors continue to be attracted to the outright yields on offer—and while all-in yield levels 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 for US and Australian corporates are robust. Staying in high-quality bonds should protect portfolios in a growth slowdown, as credit spread widening is usually offset by falling government bond yields.

Domestically, demand has centred around subordinated Tier 2 and BBB-rated corporates. The largest new issue was launched by Westpac, pricing at an attractive BBSW+240bps and a yield to call of 7.199% for AUD 1.5 billion 15NC10 Tier 2. The issue attracted approximately AUD 2.4 billion in demand. Contact Energy, rated BBB, is one of New Zealand's largest listed companies. It issued a seven-year green bond at around 6.40%, and Coles Group, rated BBB+, priced a seven-year senior unsecured bond at around 5.80%.

High yield credit—We are constructive on fixed income as an asset class but remain neutral on high yield. For 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 recent months as the market has repriced the falling risk of recession in light of resilient US economic data. However, we believe the market is discounting a benign default environment in 2024, consistent with above-trend growth, with US dollar high yield debt yielding 400bps above Treasuries. However, on a technical basis, it is important to note that the lack of new supply, as well as a shrinking leveraged loan and high yield market, have played a key part in this year's positive performance. The risk is that the high yield sector will be more vulnerable to tightening financial conditions, which can translate into higher corporate defaults and spread widening in the coming months, especially for leveraged companies. While leverage remains low, it has been trending higher as debt growth has picked up and earnings growth has declined. The higher-for-longer interest rate thematic should benefit those invested in floating rate loans. However, our preference is to move higher up the credit quality spectrum into investment grade debt, despite the 8.50% returns on offer.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- Domestic equities rose 4.4% in November, underperforming global equities.
- The S&P/ASX 200 index is currently trading in the middle of its three-year trading range of 6,400–7,600.
- Long bond yields fell ~60bps in November, underpinning strong performance for long duration and rate-sensitive segments of the market. Healthcare rose 11%, A-REITS were up 9.6%, and IT rose by 5.8%.

Although the RBA hiked by a further 25bps on Melbourne Cup Day, there has been a notable shift in pricing. The market has now only partially priced for one more rate increase—and although rates are forecast to remain on hold through most of 2024, the scope of future easing is now being priced more quickly. This should help alleviate some of the valuation pressure on equities from higher bond yields.

Bottom-up consensus expectations are for the EPS for the S&P/ASX 200 index to contract by 6% for the 12 months to December 2023. This is expected to be the trough in profitability. From there, earnings are expected to return to growth over the ensuing 12 months. The weakness in market-wide EPS forecasts is concentrated amongst the commodity producers, and this is where there is scope for upgrades. The current iron ore price is around 20% above the sell-side consensus forecast for both the December 2023 and March 2024 quarters. The three big iron ore companies generate 22% of profits from S&P/ASX 200 constituent companies. Additionally, there are signs of greater China stimulus, with the China credit impulse (the change in new credit issued as a percentage of GDP) moving sharply higher over the past quarter or so. On previous occasions, this has resulted in a positive backdrop for the major mining companies.

Consumers have continued to show resilience, with goods spend steady as we head into the key Black Friday and Christmas trading periods. Energy and petrol prices continue to present a headwind, and the lagged impact of higher rates is starting to be felt. Within age cohorts, there is a clear dichotomy emerging. Older cohorts are spending more year-on-year (and seemingly accelerating), while younger cohorts are showing greater signs of spending discipline.

Although a slowing consumer presents a headwind for the economy, there are several factors that support a more positive positioning toward Australia. This includes the relative P/E ratio of the S&P/ASX 200 versus the MSCI World ex-Australia index. At -12%, the domestic market is more than one standard deviation from its 10-year average, and close to the maximum 15% discount we have ever seen. In fact, the relative valuation of the S&P/ASX 200 index is in the bottom 10% of observations over the past decade and the bottom 7% of observations since 2006.

International equities

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

Key points

- In November, global equity markets rose 4.2% in Australian dollar terms. A better-than-expected US inflation print, and lower global bond yields provided a supportive backdrop.
- November represented the strongest monthly gain year-to-date, and largest gain since October 2022. In Australia, the IT sector led the rebound, while the consumer discretionary and property sectors took relief from the move lower in bond yields.

Equities (and bonds) sold off in late October but rebounded strongly in November. A significant part of this move was technical in nature, driven by momentum strategies and short covering. However, in general, we believe that the risk-reward for equities is unattractive at current levels for several reasons. Firstly, restrictive monetary policy is likely to remain in place for some time. Secondly, equity valuations are rich (if not in absolute terms, then relative to fixed income and alternative assets). Thirdly, consumers are likely to begin to weaken their demand, given a fading saving buffer, high rates across a range of consumer loan products, tightening lending standards, and rising delinquencies.

This is likely to drive demand destruction and weakening pricing power and margins for corporates in the coming quarters and suggests that consensus expectations that look for 12% EPS growth next year are already priced for an optimistic outcome, and vulnerable to disappointment.

The US equity market is becoming increasingly problematic due to its compositional concentration. At an aggregate level, the S&P 500 trades at almost 19x 1-year forward P/E. Outside of the post-COVID era, this has marked the peak level in valuations since the post dot-com bubble. In contrast, the equally weighted S&P 500 index is much more reasonably valued, trading at 15.5x P/E, which is below its post-GFC average of 16.1x and below its five-year pre-COVID average of 16.8x. Additionally, the index is trading just 10% above what has previously been considered trough valuations of just under 14x P/E (this occurred in 2018, 2020, and 2022). When looking at the S&P 500 index but excluding the 'Megacap 7' stocks, a similar picture is revealed. In this situation the index is trading in line with its five-year pre-COVID average of 16x, and is slightly below its 10-year average. Versus past troughs of 14x, the broader market is trading 15% above what has historically been considered trough multiples. If we look at the market excluding the Megacap 7 stocks versus the Megacap 7 stocks, the current 44% discount is not far removed from the 50% discounts that have marked a trough in the data on six separate occasions over the past four years.

Asset class outlook

Currencies

Key points

- The US dollar's momentum finally weakened in November, as encouraging signs of inflation saw markets re-price significant rate cuts for 2024.
- The Australian dollar found support at USD 0.63 and rose 4.7% over the month on US dollar weakness (to above USD 0.66), as stubborn inflation led the RBA to hike rates in November and enhance their already hawkish tones.

The US dollar's momentum finally weakened last month. It fell against most major trading partners, following US bond yields lower. This was against a backdrop of easing inflation and economic data prints that allowed markets to re-price significant rate cuts (approximately 100 bps) next year. While there were likely also some technical aspects behind the reversal, the macro outlook is tilted towards the downside, which would likely provide some support to the US dollar on safe haven flows. Heading into next year, political risks around the US election and the ongoing evolution of the global economic cycle are likely to be key drivers for the US dollar. Structural factors, including a deteriorating US budget deficit and increasing geo-political multi-polarity, point to downside pressures longer term. However, these will not likely be front of mind for markets for some time.

The Australian dollar found support at USD 0.63 and bounced back to USD 0.66 in November, supported by US dollar weakness and relatively stubborn local inflation. With inflation decelerating meaningfully in most other developed markets, Australia's unique backdrop of strong population growth (driven by immigration) and sticky demand have seen the RBA maintain a more hawkish stance relative to its major peers. This is likely to support the Australian dollar, despite a challenging macro outlook. CBA sees the Australian dollar retracing to around USD 0.64 at the end of 2023, ahead of a renewed rise to USD 0.74 at the end of 2024.

Elsewhere, the euro benefitted from the US dollar's reversal, rising 3% and back to USD 1.09 levels. CBA sees downside risks for the euro from a combination of a sluggish near-term global economic outlook and high energy prices.

Meanwhile, the Japanese yen failed to rally, despite US dollar weakness, with the lack of any meaningful normalisation in central bank policy weighing on the currency. The BoJ softened its 1% yield curve control target at its late October meeting, but gave no major hints with regards to the policy outlook. We continue to see risks skewed to the upside for the yen. Weakening global growth and a potential further normalisation in BoJ policy should provide some support for the yen through 2024.

Commodities

Key points

- Global commodities had another mixed month in November, with sharp declines in oil prices offsetting a recovery in industrial metals prices, while gold held at around USD 2,000 per ounce.
- Iron ore strengthened significantly in November, buoyed by hopes that the Chinese economy may be bottoming, as authorities consider further support measures.

Fading geo-political risk premia and concerns over global demand prompted a 5% decline in oil prices in November. However, the extent of any further correction will likely be limited by OPEC+ supply cuts, though a global slowdown would see further downside risks. Gold prices were supported during the month by falling real yields. At the time of writing, gold was trading at a little over USD 2,000 per ounce, despite the recent decline in geo-political risk premia.

Industrial metals prices rose in November, supported by growing hopes for Chinese stimulus and a weaker US dollar. Copper prices were up 3%, and iron ore rose 9%, rallying strongly towards 18-month highs on strong optimism around the Chinese economy and further policy support for the consumer and the property sector.

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 (and services-led) growth, while addressing deep structural issues in its property market and debt dynamics. That said, with Chinese activity showing signs of bottoming into ed-2023, a cyclical upswing in China may independently support commodity prices in the absence of a broader global slowdown.

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, and there is increasing evidence that (outside Australia) we are at the peak in interest rates this cycle. Central banks continue to signal an intent to stay restrictive through most of 2024, though risks of an earlier easing remain.

In Australia, stubborn inflation and strains from strong population growth are weighing on the outlook, while there are tentative signs that US economic momentum has peaked.

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 as we position for 2024 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, reflecting our view that rates have likely peaked, favouring fixed income assets 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 retain a strong +3 overweight to government bonds, funded from short maturity. We remain neutral high yield credit and also hold a strong overweight to investment grade credit. We are more cautious about risk assets in the face of slowing growth and tighter credit conditions. 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.

Equities

We remain neutral equities and continue to prefer some non-US markets. US equities are once again expensive and increasingly concentrated, though we are cognisant of potential secular tailwinds behind the US market and its generally more defensive nature. We retain an overweight to domestic equities and emerging markets due to attractive relative valuations and likely tailwinds associated with stronger activity in China. We remain underweight Europe on 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	-3	5	3	0	0
Government bonds	3	35	18	10	8
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

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 elevated, given ongoing restrictive policy.

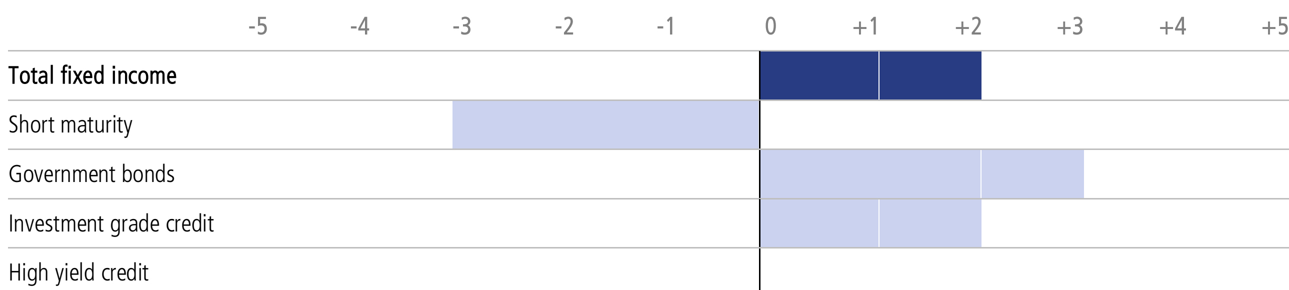
Investment grade credit

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. Easing risks of an economic hard landing should also support returns through 2024.

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 into H1 2024. With policy rates increasing, and despite tightening spreads, issuers are paying higher funding costs and a higher liquidity premium. High yield returns remain at risk of a potential acceleration in defaults in the year ahead, 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	75.68	97.55
Australian 3-year yield	3.97%	4.40%
Australian 10-year yield	4.35%	4.87%
Australian 3/10-year spread	37.5 bp	53.6 bp
Australian/US 10-year spread	8.9 bp	0.0 bp
US 10-year Bond	4.26%	4.89%
German 10-year Bund	2.43%	2.82%
UK 10-year Gilt	4.10%	4.56%
Markit CDX North America Investment-Grade Index	63.0 bp	81.2 bp
Markit iTraxx Europe Main Index	66.7	88.5
Markit iTraxx Europe Crossover Index	367.1	464.9
SPX Volatility Index (VIX)	13.0	19.8

Source: LGT Crestone Wealth Management, Bloomberg as of 30th November 2023. 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 index has traded towards the middle of its three-year trading range. Valuations are now fair in aggregate, following downgrades to earnings in the bank sector. However, commodities are cum-upgrade at spot pricing (and likely to benefit from any stabilisation in China's outlook), while the healthcare sector is attractively priced.

US equities

We are underweight US equities. Recent moves in US bond yields, the US dollar, and equities have eased financial conditions over recent months. The S&P 500 index is once again expensive and priced for double-digit earnings growth. This makes the hurdle for outperformance challenging. We believe that investors should position outside the Megacap 7 for future performance.

European (ex-UK) equities

We are underweight European (ex-UK) equities. European equities rebounded in November, in line with global equities. This belies the weakening European economic backdrop, with renewed recession risk and manufacturing indices moving into contractionary territory. Corporates have issued very cautious guidance during the recent earnings season.

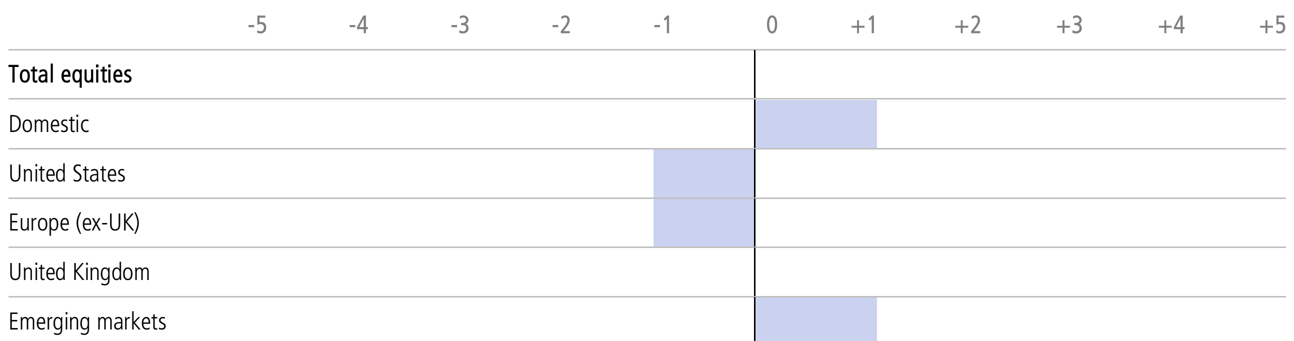
United Kingdom equities

We are neutral UK equities. Although the benchmark FTSE 100 index remains mired in a years-long trading range, the more domestic-orientated FTSE 250 has kept pace with the offshore-dominated FTSE 100 index year-to-date. The rebound in November was especially stark, with the 250 index climbing 8% versus the FTSE 100, which rose just 2%.

Emerging market equities

We are overweight emerging market equities. Emerging markets rebounded strongly in November, although they did so without a material move in Chinese equities. Latin American equities saw their greatest rebound since November 2020. In terms of valuations, the MSCI Latin American index is offering a material 28% discount to its 10-year average with 6% EPS growth. We particularly favour Asia emerging markets.

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	7,035.3	7,589.5	7.9%	16.0	4.2%
New Zealand	S&P NZ 50	11,235.9	12,311.3	9.6%	23.7	3.5%
United States	S&P 500	4,550.6	5,037.9	10.7%	18.8	1.5%
Europe	Euro Stoxx	458.2	529.3	15.5%	11.9	3.5%
United Kingdom	FTSE 100	7,423.5	8,984.1	21.0%	10.5	4.1%
China	CSI 300	3,021.7	3,741.8	23.8%	9.9	3.3%
Japan	Nikkei 225	33,321.2	36,304.9	9.0%	19.0	1.9%
India	Sensex	66,901.9	75,793.1	13.3%	22.6	2.8%

Source: Bloomberg. Data as of 30th November 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

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 securities. The rapid increase in interest rates in 2023 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 2%. However, investors should note that hedge fund manager dispersion continues to rise, so manager selection remains key. Across the hedge fund universe, we continue to favour credit-orientated strategies where outright yield increases further support the investment case, and we maintain a preference for lower beta strategies.

Private markets

Private equity remains core, with secondaries looking likely to drive strong returns. 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 that remain in play since 2022. However, investors should maintain discipline and partner with a portfolio company or fund manager that has 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 now attract senior deals with strong covenants and an equity cushion of more than 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 protections 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, 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. Offshore industrial assets and multi-family accommodation are favoured alongside alternative sectors, such as self-storage, student accommodation, and manufactured housing. While Australia appears to be lagging due to a lack of transactions, we anticipate that 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.

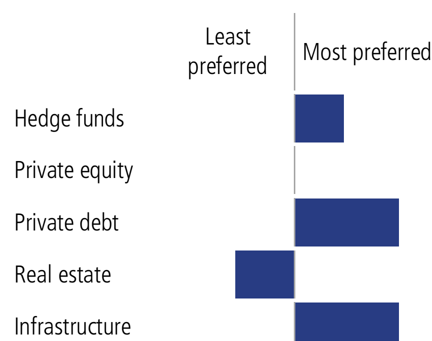
Our most preferred and least preferred exposures—We favour infrastructure, private debt, and low-beta hedge fund exposures while maintaining private equity exposures. We are taking a cautious approach to real estate globally.

What we like

- Credit-oriented strategies; 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

- 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	$154.96	$159.51	44.4	1.3%	34.7%	29%	21%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	$39.66	$47.42	18.3	1.9%	22.7%	20%	9%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.49	$5.24	26.4	3.7%	22.3%	139%	11%	AA
MTS	Metcash Ltd	Cons. Staples	$3.59	$4.16	12.0	5.9%	19.5%	26%	1%	AAA
ALD	Ampol Ltd	Energy	$33.80	$37.45	10.8	6.8%	17.0%	20%	-10%	AA
MQG	Macquarie Group Ltd	Financials	$167.59	$181.47	17.5	3.8%	na	11%	20%	AA
IAG	IAG	Financials	$5.87	$6.03	16.5	4.6%	na	13%	15%	AA
RMD	ResMed Inc	Health Care	$24.12	$31.66	22.1	0.8%	23.7%	23%	13%	A
CSL	CSL Ltd	Health Care	$259.80	$319.02	28.2	1.0%	13.4%	17%	15%	AA
MND	Monadelphous Group	Industrials	$14.20	$14.87	21.3	4.1%	17.7%	15%	18%	AAA
BXB	Brambles Ltd	Industrials	$13.17	$15.42	16.6	2.3%	19.1%	24%	11%	AAA
ALU	Altium Ltd	Info. Tech	$44.30	$47.15	46.8	1.2%	38.5%	26%	25%	AA
XRO	Xero Ltd	Info. Tech	$101.06	$118.91	108.6	0.0%	9.8%	13%	60%	AA
IGO	IGO Ltd	Materials	$8.43	$11.79	7.1	4.0%	12.0%	23%	-18%	AA
JHX	James Hardie Industries	Materials	$48.64	$53.09	20.3	0.0%	51.9%	37%	7%	AA
GMG	Goodman Group	Real Estate	$22.69	$24.71	21.6	1.3%	10.1%	11%	8%	AA
APA	APA Group	Utilities	$8.43	$9.03	38.3	6.6%	7.1%	13%	9%	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30th November 2023. ESG is environmental, social, and corporate governance.

Trade opportunities

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

APA Group (APA)—Buy. APA has fallen over 25% from its 52-week highs and now offers attractive compensation in absolute terms and relative to fixed income. The stock trades at a 7% dividend yield, a 250bps premium to the index and 230bps premium to 10-year bond yields. This is not far removed from its 10-year average of 270bps.

CSL Limited (CSL)—Buy. CSL has fallen by 25% from its year-to-date highs as concerns over the impact of obesity drugs weighs on confidence. This is despite earnings estimates being largely resilient. This has seen CSL's financial year 2024 P/E ratio fall to its lowest level since 2016.

IGO Group (IGO)—Buy. IGO's 40% share price fall is its largest since 2019, but is 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	Grossed up yield	1yr DPS growth	MSCI ESG rating
IAG	Insurance Australia Group	Financials	$5.87	$6.03	14.4	2.2	30%	4.6%	14.2%	AA
MQG	Macquarie Group Ltd	Financials	$167.59	$181.47	14.6	1.9	40%	3.8%	10.3%	AA
WBC	Westpac Banking Corp	Financials	$21.31	$21.59	11.6	1.0	100%	6.6%	0.6%	A
QBE	QBE Insurance Group Ltd	Financials	$15.29	$17.79	8.8	1.7	10%	3.0%	33.9%	AAA
COL	Coles Group Ltd	Cons. Staples	$15.16	$15.98	18.9	6.0	100%	4.1%	6.7%	AA
MTS	Metcash Ltd	Cons. Staples	$3.59	$4.16	11.9	3.2	100%	5.9%	2.4%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$4.49	$5.24	23.9	37.7	100%	3.7%	9.0%	AA
TAH	Tabcorp Holdings Ltd	Cons. Disc.	$0.72	$1.06	14.9	0.6	100%	2.4%	76.5%	AA
TLS	Telstra Group Ltd	Com. Services	$3.78	$4.49	19.0	2.8	100%	4.7%	5.6%	AA
NEC	Nine Entertainment	Com. Services	$1.91	$2.28	12.6	1.8	0%	5.1%	11.2%	AA
RMD	ResMed Inc	Health Care	$24.12	$31.66	19.7	5.5	100%	0.8%	10.3%	A
PME	Pro Medicus Ltd	Health Care	$88.68	$76.28	89.2	66.7	100%	0.4%	26.4%	BBB
REP	RAM Essential Services	Real Estate	$0.67	$0.82	13.9	1.4	0%	8.4%	-7.1%	--
SGP	Stockland	Real Estate	$4.05	$4.34	12.4	0.9	0%	6.3%	4.0%	AA
IRE	IRESS Ltd	Info. Tech.	$7.01	$7.29	25.9	4.9	0%	2.8%	22.2%	AA
DBI	Dalrymple Bay Infra.	Industrials	$2.75	$2.85	15.9	1.2	39%	7.6%	5.8%	--
ALX	Atlas Arteria Ltd	Industrials	$5.68	$6.09	12.1	1.3	0%	7.0%	1.3%	AA
APA	APA Group	Utilities	$8.43	$9.03	35.1	5.2	30%	6.6%	1.8%	AAA
ALD	Ampol Ltd	Energy	$33.80	$37.45	11.9	2.4	100%	6.8%	-14.2%	AA
AMC	Beach Energy Ltd	Energy	$1.48	$1.79	4.9	na	100%	3.6%	109.4%	AAA
BHP	BHP Group Ltd	Materials	$46.36	$47.25	11.8	3.5	100%	3.1%	-0.1%	A
AMC	Amcor PLC	Materials	$14.35	$14.94	12.9	na	0%	3.5%	2.0%	AA

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30th November 2023. 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. On the back of higher yields, TLC's share price has retraced around 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.

Stockland Group (SGP)—Buy. Stockland shares have fallen around 20% from their year-to-date highs, which now puts the stock on a 7% dividend yield and an 11.8% P/E ratio (one standard deviation below long-term averages). The company recently reiterated financial year 2024 guidance. Its residential business is high quality, and its land bank is well in-the-money.

Amcor (AMC)—Buy. Although AMC's acquisitive nature will be hampered by higher interest rates, outside of COVID, the stock has now suffered its largest drawdown since the GFC. This stock's P/E is around 14x, which is near the lows of the past decade (excluding COVID). Its 5.5% dividend yield is its highest in a 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 Price Tgt.	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
LSEG LN	LSE Group	Financials	GBP	8910.00	10,004.65	24.1	1.4	61,256	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	43.45	58.32	6.1	6.9	35,080	AA
WFC US	Wells Fargo & Co	Financials	USD	43.78	49.34	8.9	3.4	158,993	BB
2318 HK	Ping An Insurance Group	Financials	HKD	35.65	67.64	4.2	7.5	95,678	A
939 HK	China Construction Bank	Financials	HKD	4.49	6.06	3.0	9.1	146,800	A
2330 TT	Taiwan Semi. Man. Co.	Info; Tech.	TWD	571.00	675.44	15.1	2.3	473,861	AAA
MA US	Mastercard Inc	Financials	USD	409.82	443.86	28.8	0.6	384,319	AA
ASML NA	ASML Holding NV	Info. Tech.	EUR	629.20	697.91	32.1	1.1	278,411	AAA
GOOGL US	Alphabet Inc	Comm. Serv.	USD	134.99	153.29	19.0	0.0	1,698,223	BBB
UMG NA	Universal Music Group	Comm. Services	EUR	24.19	27.17	25.4	2.2	48,366	AA
DIS US	Walt Disney Co/The	Comm. Services	USD	92.50	106.76	17.1	0.9	169,304	A
9988 HK	Alibaba Group Holding	Cons. Disc.	HKD	72.15	123.13	7.4	0.2	188,009	BBB
NKE US	NIKE Inc	Cons. Disc.	USD	110.37	118.72	25.3	1.4	167,973	BBB
SBUX US	Starbucks Corp	Cons. Disc.	USD	99.85	112.35	20.7	2.5	113,499	A
ABNB US	Airbnb Inc	Cons. Disc.	USD	126.48	134.07	27.0	0.0	82,014	BB
RACE IM	Ferrari NV	Cons. Disc.	EUR	335.40	332.57	43.7	0.8	66,203	BB
BA US	Boeing Co/The	Industrials	USD	224.43	244.44	54.4	0.3	135,775	BBB
DSV DC	DSV A/S	Industrials	DKK	1053.50	1,374.24	18.1	0.7	33,964	AA
MSFT US	Microsoft Corp	Info. Tech.	USD	378.85	408.97	29.2	0.8	2,815,713	AAA
JNJ US	Johnson & Johnson	Health Care	USD	152.11	174.21	14.1	3.2	366,171	AAA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	689.40	722.71	30.8	1.6	457,712	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	310.76	316.26	49.5	0.0	109,410	A
EL US	Estee Lauder Cos Inc/The	Cons. Staples	USD	125.60	135.23	31.0	2.3	44,946	A
COST US	Costco Wholesale Corp	Cons. Staples	USD	587.86	601.31	34.6	0.7	260,269	A
288 HK	WH Group Ltd	Cons. Staples	HKD	4.97	5.95	6.9	0.7	8,166	BBB
SHW US	Sherwin-Williams Co.	Materials	USD	273.72	288.69	24.5	1.0	70,063	A
SHEL LN	Shell PLC	Energy	GBP	2553.50	3127.96	7.4	0.1	212,926	AA
EQIX US	Equinix Inc	Real Estate	USD	808.31	831.00	72.3	2.1	75,887	AA
ORSTED DC	Orsted AS	Utilities	DKK	316.00	421.00	14.8	4.8	19,556	AAA
		Average Yield:					2.0%		

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30th November 2023. ESG is environmental, social, and corporate governance.

Recommendations: Thematic investing—Healthcare and genomics

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

Healthcare and genomics—Select exposures

Healthcare and genomics sit at the intersection of several other major long-term investment trends – ageing, population growth, finance, and technology. The ageing of societies is one of the easiest predictions to make about the future.

Code	Company	Sector	Base CCY	Market price	Consensus Price Tgt.	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
NKE US	NIKE Inc	Cons. Disc	USD	110.37	118.72	25.3	1.4	167,973	BBB
JNJ US	Johnson & Johnson	Health Care	USD	152.11	174.21	14.1	3.2	366,171	A
UNH US	UnitedHealth Group Inc	Health Care	USD	534.98	590.28	19.2	1.5	494,817	AA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	689.40	722.71	30.8	1.6	457,645	AAA
DHR US	Danaher Corp	Health Care	USD	222.52	232.21	28.2	0.5	164,426	AA
ISRG US	Intuitive Surgical Inc	Health Care	USD	310.76	316.26	49.5	0.0	109,410	A
ILMN US	Illumina Inc	Health Care	USD	101.57	138.90	93.1	0.0	16,129	A
CSL AU	CSL Ltd	Health Care	AUD	261.16	319.02	24.6	1.1	83,718	AA
RMD AU	ResMed Inc	Health Care	AUD	24.16	31.66	19.7	0.9	23,583	A
COH AU	Cochlear Ltd	Health Care	AUD	270.88	243.22	42.7	1.6	11,775	AAA
PME AU	Pro Medicus Ltd	Health Care	AUD	88.62	76.28	89.1	0.6	6,142	--
A US	Agilent Technologies Inc	Health Care	USD	127.59	130.62	21.1	0.8	37,272	AA
FRE GY	Fresenius SE & Co	Health Care	EUR	28.57	37.94	9.2	3.5	17,661	A
MRK US	Merck & Co Inc	Health Care	USD	101.13	124.56	11.9	3.2	256,266	A
EXAS US	Exact Sciences Corp	Health Care	USD	65.06	87.36	n/a	0.0	11,766	A
CRSP US	CRISPR Therapeutics AG	Health Care	USD	69.09	88.17	n/a	0.0	5,488	--
PFE US	Pfizer Inc	Health Care	USD	30.08	39.71	9.5	5.5	169,844	A
ROG SW	Roche Holding AG	Health Care	CHF	236.40	302.67	11.7	4.2	220,804	A
NOVN SW	Novartis AG	Health Care	CHF	84.84	94.75	13.6	4.4	221,432	AA
AZN LN	AstraZeneca PLC	Health Care	GBP	10032.00	12,869.52	15.3	0.0	197,500	AA

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30th November 2023. ESG is environmental, social, and corporate governance.

Important information

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