



Passing peak inflation risk

Core Offerings

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

February 2023



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Passing peak inflation risk

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER



Scott Haslem
Chief Investment Officer

"December's US inflation data was another example ...that is, another demonstration that we have had peak inflation and, with that, peak Fed hawkishness."

Longview Economics,
January 2023

"Participants concurred that the Committee had made significant progress over the past year in moving toward a sufficiently restrictive stance of monetary policy."

Fed minutes for
December 2022,
released 4 January 2023

In our first edition of *Core Offerings* for 2023, we take a look at how the outlook has evolved over the recent festive months. While we've made no changes to the cautious but constructive recommended tactical asset allocation adopted in December, we highlight a number of positive developments. Early 2023 has revealed clearer signs we are passing the peak in inflation and central bank hawkishness, while China's accelerated re-opening and Europe's warmer-than-expected winter have both improved the macro outlook. For equities, we remain neutral, highlighting the risk of near-term weakness, while encouraging portfolio rebalancing where equity allocations have drifted above their tactical targets.

2023 has started with less surprises than 2022

This time last year, virtually all 2022 outlook documents were struggling for relevance, damaged by unanticipated January events. The US Federal reserve (Fed), in its 5 January minutes, had signalled imminent near-term rate hikes, previously slated for much later in the year. And by late January, Russian troops were amassing on Ukraine's border (albeit most geo-political strategists at the time viewed an actual incursion as unlikely).

As the end of the first quarter approached, hopes of a 'soft landing' for growth as post-pandemic inflation peaked were already giving way to the reality that sharply higher energy prices and more rapidly rising rates were on course to deliver a stagflation-like shock for 2022, with inflation and rates sharply higher and growth (potentially) sharply lower.

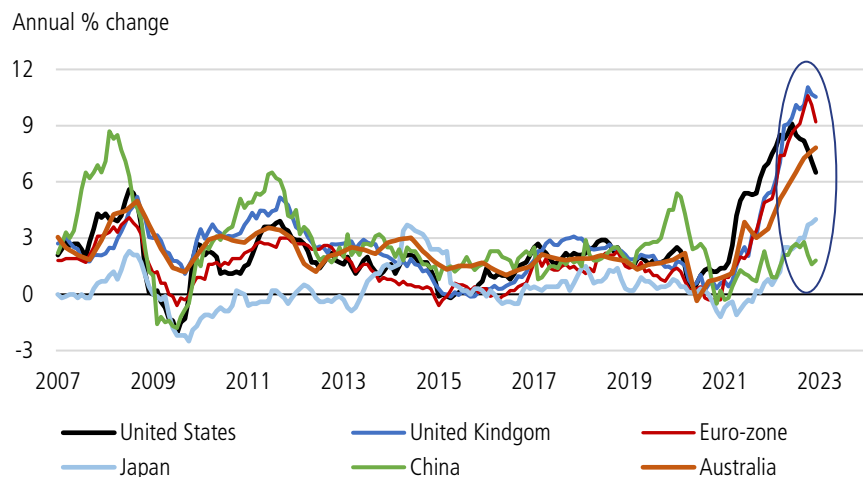
The unfolding global spike in energy costs would, together with the now increasingly obvious over-stimulatory monetary and fiscal policy through 2021, render the task of slowing growth (to ease inflation risks) a challenge. This is despite the seemingly unending and larger-than-expected monthly rate hikes across most economies.

So far, key aspects of our 2023 outlook have increasingly come into view

As 2023 gets under way and the end of January approaches, the broad gambit of most macro outlooks appears intact, at least as much as it ever does. Indeed, our own macro views, largely unchanged since mid-last year, have also weathered the festive season relatively well. Inflation appears to be passing its peak, central banks appear on the cusp of a pause from raising rates in Q1, and geo-politics have a touch of calm, with China taking a more inclusive tone at January's World Economic Forum in Davos.

Indeed, this year's January Fed minutes—while still noting inflation remains too high and rates have further to rise—recognised risks in both directions. While there is a risk that policy may end up being insufficiently tight, the Fed is now also balancing this against the risk, for the first time, that "the lagged cumulative effect of policy tightening could end up being more restrictive than necessary". Other central banks are raising similar concerns.

Global inflation shows signs of passing its peak



Source: LGT Crestone, UBS, FactSet.

Inflation has also started to come down in the UK and Europe, several months behind the pace of improvement in the US.

Inflation has also started to fall in the UK and Europe, several months behind the pace of improvement in the US. As the chart above shows, US (headline) inflation has eased from 9.1% in June to 6.5% in December. European inflation has eased from 10.6% to 9.2%, while in the UK, it has fallen more modestly from 11.1% to 10.5%.

While Europe and UK central banks retain a hawkish tone, the likely ongoing downward trend in inflation still argues for a **pause in policy tightening soon**. Even Australia's Federal Treasurer Chalmers is hoping that this month's higher-than-expected rise in Australia's Q4 inflation to 7.8% (its highest since early 1990) will be the peak, allowing the Reserve Bank of Australia (RBA) to pause its rate rising cycle at 3.35% after a likely February hike. The table below shows that central bank rate expectations (from UBS and CBA) are nearing their peak, likely to pause around Q1, before only tentatively beginning an easing cycle late this year. This follows the sharp rate hikes through 2022 (also shown in the table).

Central bank rate expectations

	1 Jan 2022	Current	Q1 2023 (%)		Q2 2023 (%)		End 2023 (%)		End 2024 (%)	
			UBS	CBA	UBS	CBA	UBS	CBA	UBS	CBA
US	0.25	4.50	5.00	5.25	5.00	5.25	3.25	4.75	1.25	2.75
Europe	-0.50	2.00	3.00	3.50	3.00	3.75	3.00	3.50	2.00	3.00
UK	0.10	3.50	4.25	4.25	4.25	4.25	3.75	4.25	2.50	2.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	0.00	0.10	0.00
China	2.20	1.95	1.80	1.90	1.90	1.90	1.90	1.90	2.00	1.90
Australia	0.10	3.10	3.35	3.35	3.35	3.35	3.10	2.85	2.60	2.35*

Source: LGT Crestone, UBS, CBA (* mid-2024), FactSet.

Early 2023 has also delivered two further positive developments that strengthen the case for a 'soft-ish' landing for the global economy over the coming year, rather than a deep global recession, that had had favour at times through 2022.

- Firstly, **China has been rapidly accelerating its easing of COVID-19 restrictions** that have, among other things, negatively impacted global supply chains and driven much weaker China growth. From late last year, mobility restrictions have eased, local lockdowns have ended, and vaccinations have ramped up. By early January, borders had re-opened for inbound and outbound travel. Global supply pressures have eased.
- Secondly, **a warmer-than-expected European winter** has underpinned a more positive outlook. Europe has been very successful in filling its gas storages in recent months to well above five-year averages. According to UBS, current levels of 83% are almost 15 percentage points above the 70% five-year average. The milder weather has also unleashed a wave of cuts to energy price forecasts, a contrast to this time last year.

2023—Worse macro still the right call

In the 1980s and 1990s, getting inflation under control proved difficult for central banks. It required a huge increase in the so-called 'sacrifice ratio'—an economic metric of how much unemployment needs to rise (or how much output needs to be lost) to get inflation down. Unemployment rose from 6% to 11% in the US in the 1980s and did broadly the same in Australia in the 1990s, as both countries sought target inflation closer to 2%.

Relative to a few months ago, it appears that the extent of 'sacrifice' needed in 2023 could be lower than previously feared. If ongoing falls in inflation can encourage a pause in hikes before still resilient economic growth momentum is dashed, then the risk of a softer landing for both economies and markets is probably higher than it was when we exited 2022.

Yet, history lands firmly on the side of a worsening economic backdrop during 2023. The full weight of rapidly rising interest costs is yet to be felt by households and businesses (albeit housing markets have been showing clear weakness). It is likely that a level of sacrifice (i.e. some rise in unemployment both here and offshore) will be needed, if only to give central banks confidence that inflation is on a sustained path back to normal.

Still, recent positive developments have led to some modest upgrades to the global economic outlook. Late last year, the Organization for Economic Cooperation and Development (OECD) cut its 2023 forecast from 2.8% to 2.2%—a near-recessionary outlook after a likely 3.0% rise in 2022. This year, CBA has lifted its outlook from 1.8% to 2.0% on a stronger China and Europe outlook, rising to 2.6% in 2024. UBS sees a similar pace of 2.2% (was 2.1%) for 2023, rising to 2.7% in 2024. UBS has also raised its China forecast from 4.5% to 4.9% and flagged upside risks to its European outlook.

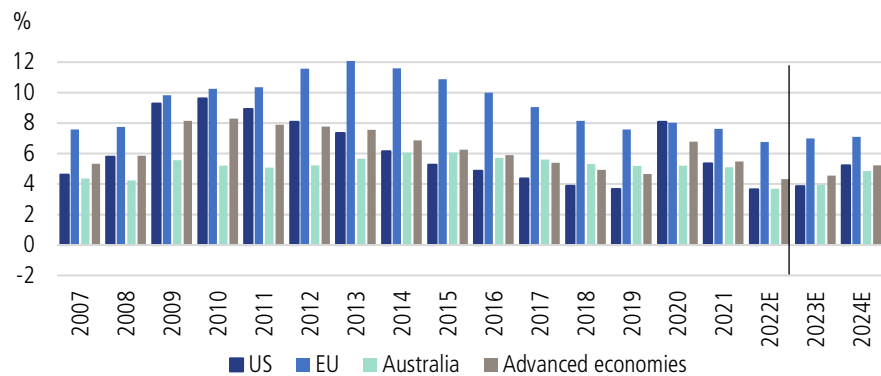
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... Yet, history still lands firmly on the side of a worsening economic backdrop during 2023.

While far from certain, developments as we enter 2023 suggest a softer landing is now more plausible. And while markets are unlikely to be great, there's now some chance they may be better as we move through 2023.

Unemployment set to rise in 2023 and 2024



Source: LGT Crestone, UBS forecasts.

2023—Better (but not great) markets still the right call

For markets, despite a likely poor macro backdrop, there's every chance that a steadier rate environment proves somewhat of a panacea. Yes, current earnings expectations remain too high and a headwind to returns (as discussed below). And the downside of a softer economic landing is that central banks may pause their hikes but are less likely to pivot to cuts (reflected in the only modest rate cuts at the end of this year in the table above).

Still, while far from certain, developments as we enter 2023 suggest a softer landing is now more plausible. And while markets are unlikely to be great, there's now at least some chance they may be better as we move through 2023.

So, as we enter 2023, we maintain our relatively defensive (but not bearish) portfolio positioning that we've maintained for much of H2 2022. This involved resisting the temptation to move underweight equities from mid-year as the market bottomed, while moving progressively more in favour of fixed income through the year as central banks lifted interest rates. In our 2023 outlook, we tilted our view somewhat more constructively, and most of those decisions have added value (see our tactical positioning on page 7).

- **Cash—We remain underweight**, a position adopted in December last year. This was to reflect an improving investment outlook and a more favourable view toward fixed income returns for 2023, as well as markets generally for 2023.
- **Fixed income—We remain overweight, recently adding to credit**. We maintain our current overweight to government bonds, given our view that we are passing the peak in inflation and central bank hawkishness. We recently moved overweight investment grade credit. While we expect a default cycle and that credit spreads may widen, we see investors as now being adequately compensated through elevated yields.
- **Equities—Still neutral**. In December, we remained neutral equities, largely on valuation grounds. However, we reallocated some of our overweight to Australia to emerging markets, given both the recent stellar outperformance of domestic equities and now more compelling emerging market valuations (and positive China news). Both decisions have added significant value between early December and now.

The downside of a softer economic landing is that central banks may pause their hikes, but they are less likely to pivot to cuts.

Four key signals for turning more constructive on risk—still waiting on equity earnings

	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Inflation shows clear signs of trending lower	Negative	Negative	Neutral	Neutral	Neutral	Positive	Positive
Central banks reveal less hawkish tone	Negative	Negative	Negative	Neutral	Positive	Positive	Positive
China re-opening/property stabilisation	Negative	Negative	Negative	Neutral	Neutral	Positive	Positive
Equity earnings adjust to align with macro	Negative	Negative	Negative	Negative	Neutral	Neutral	Neutral

Source: LGT Crestone Chief Investment Office.

For equities, the extent of the market weakness that will force a central bank pivot (or pause), the magnitude of that pivot and subsequent macro and market recovery remain key uncertainties in early 2023.

Given the recent rally in equity markets, it is possible that portfolio equity allocations have drifted above their tactical and strategic targets ...

... where this is meaningful, the opportunity to rebalance portfolios via trimming equity positions near term should be considered.

Still a challenging backdrop to equities, particularly given recent gains

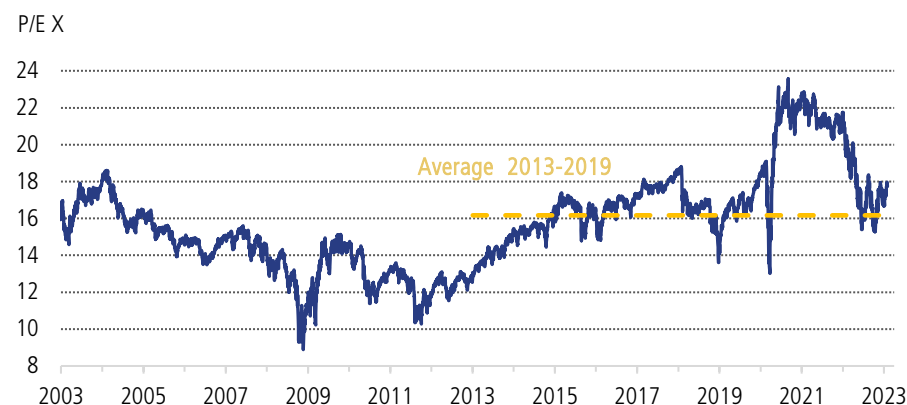
If history is any guide, a likely material slowing in economic growth, with still elevated inflation and interest rates, is yet to be adequately reflected in equity market earnings. And the US market remains one of the most stretched on these metrics. As shown in our signals table (previous page), we are yet to fully achieve the four signals required to take an overweight equity view. The final earnings signpost is likely to be clearer by end-February, as US, European and domestic equity reporting seasons wrap up.

For now, we continue to see 2023 as a game of two halves. Firstly, a period of market turbulence amid rate-induced macro weakness that leads to cuts to the earnings outlook. An ongoing re-allocation by market participants from equities to bonds (given bonds are now an attractive asset class) is likely to add to this volatility. The 'other half' should be a period of stabilisation as the earnings backdrop steadies and moderately improves.

We expect this initial market weakness will eventually force central banks to pause hiking rates around the end of Q1, and for the most advanced (and aggressive) central bank, the Fed, we expect a so-called 'pivot'. However, the extent of the market weakness that will force such a central bank pivot, the magnitude of that pivot, and subsequent macro and market recovery remain key uncertainties. It is hard to give a precise answer, but we believe that:

- **Equity markets could retest previous lows** (or move meaningfully toward them). This would reflect a further decline in corporate earnings and renewed pressure on profit margins, as well as the recognition that rates are higher than at the lows in 2022 (implying lower price/earnings (P/E) ratios now), and the likelihood that interest rates will be, on average, higher than before COVID. This suggests pre-COVID peak P/E ratios are a significant return hurdle in the future.
- **The market decline could happen between now and the end of Q1**, or soon thereafter, as the market digests a likely lower earnings outlook.

US P/E valuations are above average and not far below pre-pandemic peaks



Source: UBS, LGT Crestone.

A final word—Focus on rebalancing

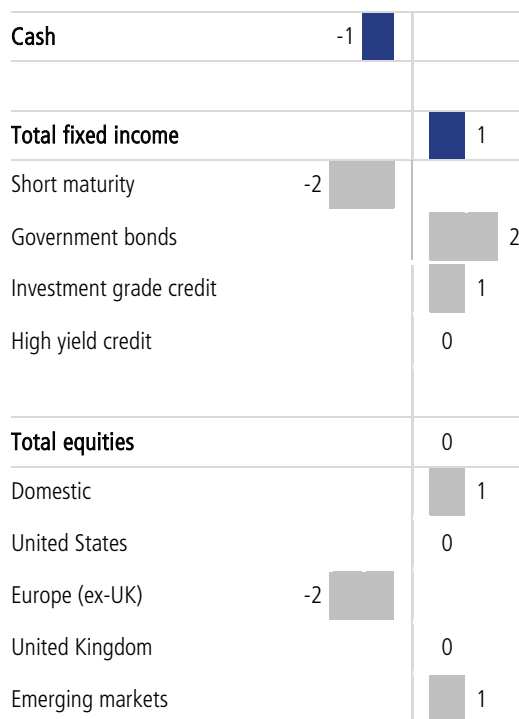
As we enter 2023, developments suggest a softer landing is now more plausible—but it's certainly far from certain. And while markets are unlikely to be great, there's now at least some likelihood they may be better than in 2022—and less bad than first feared.

We continue to favour fixed income and alternative investments, given immediate inflation protection, competitive expected returns, and the likelihood that only a steady decline in inflation (rather than collapse) will underpin only modest reductions in rates over the coming year. For equities, we remain constructive (neutral), with a preference for some non-US markets (such as Australia and emerging markets). Upside risks to this view include continued consumer and corporate resilience, or a sharp near-term decline in inflation that could prompt a Fed pivot without significant economic damage (a true soft landing).

Given the recent rally in equity markets, it is possible that portfolio equity allocations have drifted above their tactical and strategic targets. Where this is meaningful, the opportunity to rebalance portfolios via trimming equity positions near term should be considered. This could also be an opportunity to further rebalance within asset classes. For example, within equities, investors can reduce prior high exposures to growth (particularly given the strength in the NASDAQ market) and reduce tracking error through benchmark-aware managers, while ensuring a sufficient exposure to value managers through the cycle.

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.

Passing peak inflation, slower growth and profits ahead

Growth is likely to slow materially in 2023, as the lagged impact of 2022's energy cost spikes and monetary policy tightening weigh. While a peak in interest rates will support only a relatively moderate growth slowdown this cycle, it also underpins only a modest recovery in growth through 2024. Geo-politics and all things 'security'—from energy, food, technology, and supply chains—will be increasingly important drivers to economies and company earnings. Key questions centre on the level to which inflation will settle over the next couple of years, which will impact the willingness of central banks to re-engage zero bound rates in the years ahead.

Inflation volatility is likely to persist—Inflation is falling near term. But fading impacts of globalisation, structurally tight labour markets, and geo-political impacts on supply chains suggest less deflation and more inflation.

A return to 'normal' interest rates—Peaking inflation is likely to foster a near-term peak in central bank hikes. But stickier inflation than over the past two decades is likely to limit a return to near-zero interest rates.

Geo-political volatility likely to be enduring—Russia's invasion of Ukraine has ended a long period of benign globalisation. 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 profits.

Diversification may matter more—In a world of heightened volatility and fewer long-cycle trends, it is important to maintain portfolio diversification, avoiding over-exposure to individual markets, sectors and other specific return drivers. Unlisted investments are likely to grow in favour.

Structural themes

The energy transition—As the world faces a trade-off between net-zero commitments, cost, and energy security, it 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 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, from equities to fixed income, to income-generating alternative unlisted assets.

Deglobalisation—Brexit, trade wars, COVID-19, and Russia's invasion of Ukraine have up-ended a relatively harmonious world order, with impacts spanning geo-politics, military spend, supply chains and demographics.

	What we like	What we don't like
Equities	<ul style="list-style-type: none"> Companies with pricing power/resilient revenues Later-cycle defensive exposures in the consumer staples, telco and utilities sectors Emerging markets due to China re-opening, improving earnings and better valuation metrics 	<ul style="list-style-type: none"> Sub-market EPS growth companies, which are vulnerable to valuation headwinds S&P 500 companies, where valuations are now back above pre-COVID average valuations Continental Europe, where inflationary pressures suggest significant earnings headwinds
Fixed income	<ul style="list-style-type: none"> Green bonds and ESG-oriented strategies Fixed-rate three to five-year senior unsecured banks Fixed-rate Australian bank subordinated tier II 	<ul style="list-style-type: none"> Short maturity bonds with a preference for more duration in portfolios
Alternatives	<ul style="list-style-type: none"> Multi-strategy, credit-oriented and discretionary macro hedge funds High-grade, core-plus commercial real estate and infrastructure Private market and real assets exposed to the global energy transition 	<ul style="list-style-type: none"> Carbon-intensive assets with no transition plan Pre-IPO strategies Passive private market and/or real asset strategies Construction and/or junior real estate lending

Economic and asset class outlook

Economic outlook

Global economy



The global economy appears on track for a material slowing in economic activity this year, as the post-pandemic rebound in growth strains under the lagged impacts of 2022's rapid rise in central bank rates and borrowing costs. Debate about the depth of any recession in 2023 is likely to persist over coming months as the near-term path of inflation and central bank policy tightening—as well as the resilience of households and corporates to those higher rates—becomes clearer.

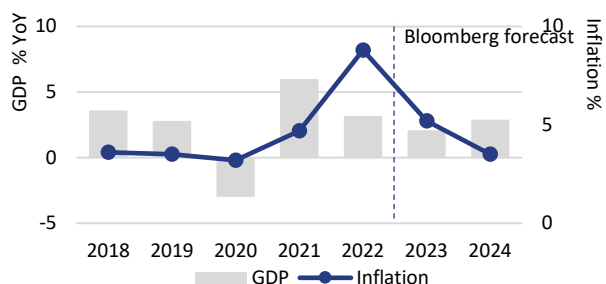
In early 2023, inflation data have taken on a relatively positive bent. According to BCA Research, late 2022 inflation surprise indices “have come down from stratospheric levels in advanced economies, indicating that inflation figures are surprising by smaller margins.” Moreover, as actual inflation has peaked, central banks in the US, Europe, UK, and Canada have been downshifting “the pace of rate hikes” and, according to BCA Research, will continue to slow the tightening process at upcoming meetings before ultimately pausing.

A number of other developments have also fostered modest upgrades to the outlook for 2023. China has been rapidly accelerating its easing of COVID-19 restrictions, ending lockdowns, ramping up vaccinations, and opening borders to travel. In Europe, a warmer-than-expected winter has led to above-average gas storage levels, which along with easing supply-chain pressures, have supported stronger industrial output into early 2023. Milder weather has also led to cuts to energy price forecasts, a positive for the inflation outlook.

Despite this, growth is expected to slow materially, leading to some rise in unemployment during H1 2023. But a peak in inflation should increase the likelihood that central banks cease policy tightening by end-Q1, or shortly thereafter. This should pave the way for a modest recovery through 2024. Peaking US rates, and easing fears of a deep global recession, are likely to reverse some of the US dollar's strength in 2022.

Late last year, the OECD cut its 2023 growth forecast from 2.8% to 2.2%—a near-recessionary outlook after a likely 3.0% in 2022. This year, CBA has edged up its outlook from 1.8% to 2.0% on an improving China and Europe outlook, rising further to 2.6% in 2024. UBS sees similar growth at 2.3% (was 2.1%) in 2023 and 2.7% in 2024.

Global GDP growth and inflation



Source: Bloomberg as at January 2023.

Australia



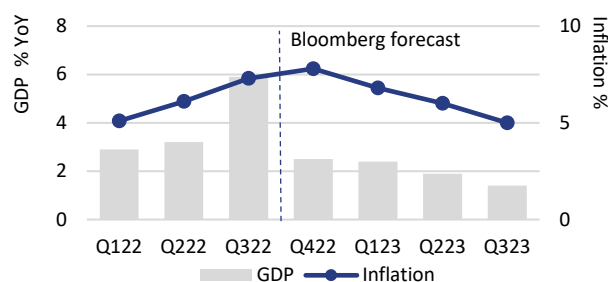
The Australian economy retained significant momentum in late 2022, with only tentative signs of a forecast growth slowdown ahead this year. The lagged impacts of sharply higher policy rates are expected to weigh heavily on housing and consumer spending, as interest servicing costs jump. Unemployment is expected to start rising through Q1 2023. Still, the tempering in the pace of rate hikes in the final quarter of 2022 and China's re-opening have added to confidence that while growth will likely slow materially ahead, Australia can avoid recession and should outperform growth in other developed economies.

Growth in Q3 rose by a solid 0.6% after a strong 0.9% gain in Q2, lifting annual growth from 3.4% to a well-above-trend 5.9%. Consumer spending drove much of the gain, as housing activity and business capex proved relatively flat. The latest data suggest ongoing positive but slower growth in Q4. While retail sales jumped 1.4% in November to be 7.7% higher than year-ago levels, December credit card data point to a loss of momentum. Consumer confidence, while weak, has started to recover, rising 8% during December and January. The labour market remains tight, with strong jobs growth of 3.5% over the past year, while the unemployment rate was at 3.5% in December, near a 50-year low. House prices continue to fall.

Inflation rose by a stronger-than-expected 7.8% in Q4 (from 7.3%), a new high since Q1 1990. Despite the rise, it printed below RBA forecast of 8.0%, and by end-2023, consensus still expects inflation to moderate to around 4%. The RBA lifted the cash rate 0.25% in December to 3.10%, as expected, and reiterated that it “expects to increase rates further”, albeit policy is not on a “pre-set path”. Both CBA and UBS have recently raised their terminal rate forecasts to reflect a 0.25% hike to 3.35% in early February. The risk of a further hike to 3.6% remains following the inflation data.

Growth is expected to be around 3.5% in 2022 (after 2021's strong 5.2% rebound post-pandemic). UBS expects Australia to avoid a recession in 2023, with the lagged impacts of the increase in rates slowing growth to 1.4% in 2023, while CBA forecasts a sharper slowing to 1.1%. UBS expects growth to recover modestly to a 1.7% pace in 2024.

Australian GDP growth and inflation



Source: Bloomberg as at January 2023.

Economic outlook

United States



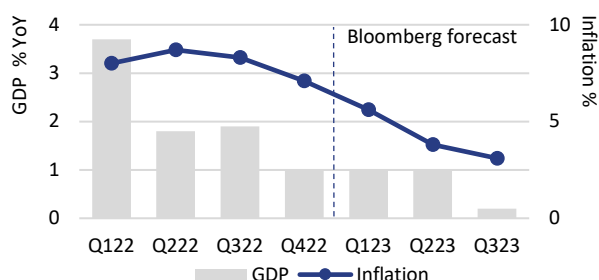
Data through late December and early January portray a US economy that may be slowing more quickly than expected. The ongoing and rapid increase in interest rates continues to weigh heavily on housing activity, while trends in consumer spending and industrial output have slowed in recent months. A sharp pull-back in growth is expected over the coming year, with the US economy either in or near recession by mid-2023. While any recession is likely to be mild, the lagged impact of rising rates should see unemployment lift through H1 2023, in turn continuing to pressure inflation lower during H2 2023.

Growth proved robust at 0.7% (2.9% annualised) in Q4, after a 0.8% rebound (3.2%) in Q3, highlighting a solid 3% pace of US growth in H2 2022. However, some recent data have been weakening. The US composite purchasing managers leading index (PMI) remains in contractionary territory (below 50), albeit improving to 46.6 in January from December's 45.0 low. Household spending is slowing as excess saving balances decline (and credit balances rise), with retail sales falling around 1% in both November and December. In contrast, the jobs market appears tight, with strong new jobs growth and unemployment at cycle lows of 3.5% in December. However, sharply slowing job openings data and employment intentions suggest that tightness may be overstated.

Inflation has continued to surprise weaker over recent months, with the headline rate falling to 6.5% in December (after 7.1% in November). While this is still high, it is below the 9.1% mid-year peak. Core inflation has eased from 6.0% to 5.7%. Both are expected to continue slowing in H1 2023. The Fed hiked by a smaller 0.50% in December to 4.5%. The December meeting minutes confirm the Fed believes it has more work to do (with analysts expecting rates to rise to around 5% in Q1 2023). But as UBS notes, the minutes also reveal that the Fed believes "the risks of raising rates too little might be coming into balance with the risks of raising rates too high, and unnecessarily tightening too much".

After a post-pandemic rebound of 5.9% in 2021 and growth of 2% in 2022, UBS expects a sharp slowing to just 0.6% (was 0.2%) in 2023 (and a similar pace in 2024). JPMorgan also sees a mild recession in 2023, albeit with higher growth of 1.0%.

US GDP growth and inflation



Source: Bloomberg as at January 2023.

Europe



A warmer-than-expected winter has recently underpinned a more positive outlook for Europe over recent weeks (as have easing supply chain issues for industrial output). Growth in Q4 now appears closer to flat, reducing the risk of a recession by early 2023, ahead of what is likely to still be a very tepid recovery over the balance of the year. Moreover, elevated inflation suggests the impact of tightening rates (likely to rise through to mid-year) is yet to be felt by European households and businesses. Geo-political risks surrounding the ongoing war in Ukraine also remain a significant uncertainty.

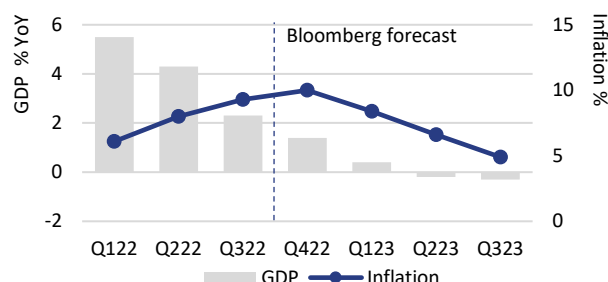
According to UBS, Europe has been very successful in filling its gas storages in recent months (now at around 83% capacity). "This has greatly reduced fears of gas rationing this winter and alleviated concerns about Europe's ability to replenish storages ahead of the winter 2023/24." Milder weather has increased usage of coal and oil and led to the more efficient use of gas.

Europe's Q3 growth beat expectations again, up 0.3% and led by a stronger-than-expected German economy. The annual pace still halved from 4.2% to 2.3%. Retail sales have been volatile month-to-month, up 0.8% in November after -1.5%, though annual growth has been steadily negative (near -3%). More positively, January's PMI data added to an improving trend, rising to 50.2 from 49.3. The jobs market is also tight, with unemployment at a record low of 6.5% in November.

Inflation has eased over the past couple of months, from a peak of 10.6% in October to 9.2% in December. However, according to BCA Research, "The European Central Bank (ECB) is very worried about inflation, especially with core CPI bucking the trend of lower headline inflation while service CPI continues to climb, despite the softening in goods inflation." The ECB slowed the pace of hikes to 0.5% in December, lifting the rate to 2.0% year-end. UBS expects two further 0.5% hikes in Q1, taking the policy rate to 3.0% for the rest of 2023.

After a post-pandemic rebound of 5.3% in 2021 and growth of about 3% in 2022, UBS expects a sharp slowing to just 0.2% in 2023, a moderate recession. UBS now sees upside risks to those forecasts. Société Générale (SG) expects higher growth of 1.1% in 2023, while CBA upgraded to -0.5%.

European GDP growth and inflation



Source: Bloomberg as at January 2023.

Economic outlook

United Kingdom



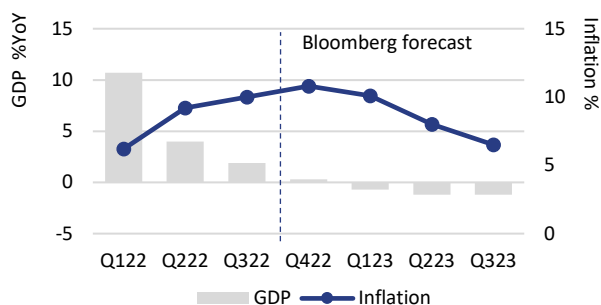
Recent data suggest growth has slowed in the UK over recent months, as elevated energy costs, rising inflation, and tighter monetary policy weigh on domestic activity (including the key housing sector). Growth has nonetheless been more resilient than expected, inflation has eased more slowly than elsewhere, and the jobs market remains tight, pointing to further rate hikes ahead. Thus, the likelihood of recession in H1 2023 remains elevated and “households are in the throes of a triffecta of shocks (real income, energy, and interest rate shocks)”, according to Longview Economics.

Growth in Q3 fell 0.3%, more than halving the annual pace from 4.0% to 1.9%. Domestic activity deteriorated, led by weaker consumption and business capex. The UK’s PMI fell to 47.8 in January, from 49.0, its lowest level in two years. Retail sales fell again in December, with a 1.0% decline adding to November’s 0.5% fall. More positively, November’s jobs report showed ongoing tightness, with unemployment edging up to 3.7%. Still, January’s data reveals further gains in new jobs, high vacancy rates and continued gains in wages growth.

Price pressures remain significant, and according to UBS, recent labour market data are “unlikely to have provided relief to the Bank of England’s (BoE) concerns around the strength in wage growth and the risk of inflation persistence.” Inflation declined for the second month in December, though only from 11.1% in October to 10.5%. The BoE hiked rates 0.50% to 3.5% in December, slowing its pace, and two members voted to leave rates unchanged. However, incoming data has been more consistent with BoE comments that “further increases may be required” and it stands ready to respond “forcefully” to more persistent inflationary pressures. UBS expects a further 0.50% hike in February and 0.25% in March, peaking at 4.25% (was 4.5%) by end-Q1 2023.

Growth is expected to be around 4% in 2022 (following the strong 7.5% rebound post-pandemic). For 2023, UBS expects growth to fall by 0.5%, while CBA and SG also expect a significant slowing to -0.9% for 2023. For 2024, growth is expected to rebound modestly, with UBS forecasting 0.6% and CBA expecting just 0.3% for 2024.

UK GDP growth and inflation



Source: Bloomberg as at January 2023.

Japan



In contrast to other key advanced economies, Japan looks on track to deliver steady, if not somewhat modest, growth over the next couple of years. The eventual (stop-start) re-opening of the domestic economy following the pandemic, as well as the opening of international borders, a weak currency, and high consumer savings, are all likely to support modest growth. A material slowing in global activity will be a headwind via weaker exports and manufacturing capex. However, the recent easing of fiscal policy and reluctance to tighten very stimulative monetary policy will continue to support activity.

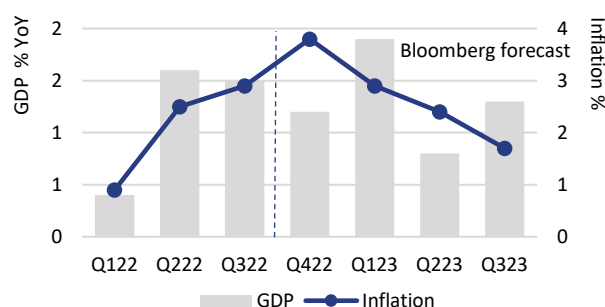
In December, the Bank of Japan (BoJ) unexpectedly took a hawkish pivot, widening the band on its 0% 10-year bond yield target from +/- 0.25% to +/- 0.50%. But although this has increased expectations for tighter policy, the BoJ left policy unchanged in January. Instead, as BCA Research notes, “the policy statement contained dovish elements, leaving the door open for ‘additional easing measures’ and stating expectations for ‘policy rates to remain at their present or lower levels’.”

Growth unexpectedly contracted 0.2% in Q3, the first fall since late 2021 (keeping annual growth little changed at 1.5%). While consumption proved slower than expected, a sharp rise in imports contributed to the contraction, with domestic activity proving relatively resilient in Q3. Growth is expected to rebound solidly in Q4, with Japan’s January PMI rising to 50.8 (from 48.9). But mixed consumer trends continue (given still subdued wages growth), with retail sales jumping 1.1% in December after an identical fall in November.

While BoJ commentary suggests it does not expect inflation pressures to persist, headline inflation jumped to 4.0% in December (from 3.8%), its fastest pace since 1991. However, most forecasts suggest inflation will peak well below other economies, and likely moderate from early 2023 as import prices begin correcting lower (and the currency rebounds). UBS forecasts a peak of 4% inflation with no policy hikes in 2023.

Growth has been relatively steady around a 1.5% pace in 2021 and 2022. UBS expects a moderately slower pace of growth of 1.1% in 2023 (and 1.2% in 2024). SG expects a stronger pace of 1.4% in 2023.

Japanese GDP growth and inflation



Source: Bloomberg as at January 2023.

Economic outlook

China



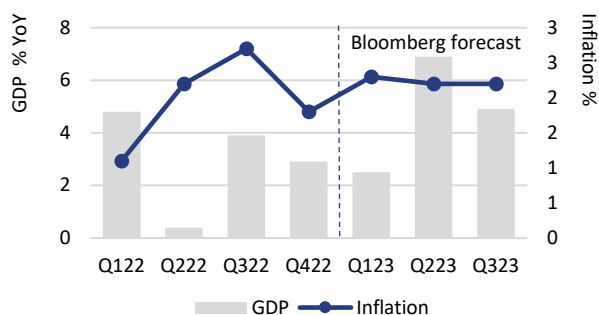
China's recovery stalled in Q4, as renewed COVID outbreaks weighed on consumer spending and the property sector remained historically weak. However, forecasts for 2023 have been lifted over the past month, as China announced a clear rolling-back of COVID-zero restrictions and borders re-opened for travel. While a large-scale stimulus remains unlikely, ongoing modest policy support points to a stabilisation in China's property sector beyond Q1, while easing mobility restrictions should support a domestic spending recovery. With slowing domestic capex and global export demand, China's pick-up in growth will remain moderate, but contrasts with typically slowing growth elsewhere in major economies.

Output in China slowed by less than expected in Q4, stalling in the quarter against expectations for a contraction. Annual growth eased to 2.9% from Q3's 4.0% pace. According to UBS, the December month data "showed a mixed picture, with retail sales beating expectation despite the sharp COVID outbreak, infrastructure capex remaining solid, property activities slightly less bad, exports declining further, and manufacturing capex edging up". Daily data on passenger turnover, city congestion and truck movements through the first two weeks of January suggest a further pick-up in activity. A UBS survey also suggests some improvement in China's jobs market during late 2022, reflected in improved hiring plans.

Credit growth continues to slow and by more than expected, easing in December to 9.5% from 10.6% in September. The authorities are expected to continue boosting credit (aiding a modest pick-up in growth in 2023), as recently highlighted in December's key Central Economic Work Conference. Credit is being targeted at infrastructure, innovation, and the green economy. Positively, trend inflation continues to cool, easing to 1.8% in December, from September's peak of 2.8%.

After 8.4% in 2021, China's growth slowed to 3.0% in 2022. But in contrast to most other key economies, UBS expects growth to accelerate to 4.9% in 2023 (upgraded from 4.5%). SG recently cut its 2023 forecast from 5.7% to 4.8%, while CBA recently lifted its forecast from 4.9% to 5.5%.

Chinese GDP growth and inflation



Source: Bloomberg as at January 2023.

Emerging markets

After a H2 2022 rebound in activity led by Asia, the emerging market region is expected to continue recovering moderately through 2023, as Asian growth strengthens and emerging Europe stabilises. China's accelerated re-opening provides further growth support to Asia. Nonetheless, the region will continue to face headwinds from a slowing global economy through 2023, particularly North Asia's export-orientated economies. Inflation has started to broaden beyond just food and energy, suggesting elevated rates into mid-year, before rate cuts in H2 2023 as inflation pressures recede.

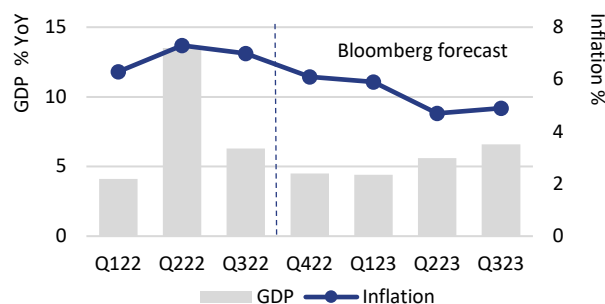
In Southeast Asia, growth is expected to slow in 2023, even after accounting for China's improved outlook. The dissipating boost from pent-up demand makes for a smaller consumption contribution to growth, and the looming global recession will weigh on exports. According to SG, "given India's low share in global exports, the impact of the global growth slowdown on output is unlikely to be of any great magnitude, especially as net trade responds less than proportionately [given] imports also slow as commodity prices drop." UBS expects growth to remain solid at 5.5% in 2023, down from a likely 7% in 2022.

In North Asia, the impact of slowing export demand will weigh more significantly, with Taiwan and South Korea likely to slow from around 3% to 1-2%, albeit China's re-opening does suggest some upside risks to the forecasts. In Q4, South Korea's growth slumped to 1.4% from 3.1%, led by weaker consumer spending, and Taiwan's Q4 growth slumped to -0.9% from 4.0% due to weak export demand.

For Latin America, the key headwind will be the slowing global economy impacting external demand for exports. UBS expects growth to slow from 3.6% in 2022 to 1.0% in 2023. In Brazil, fiscal policy has been tightened amid peak central bank rates. Q3 quarterly growth slowed from 1.0% to 0.4%, adding to expectations that interest rates will be cut in H2 2023 (after three steady months), as inflation moderates more clearly.

After 7.5% in 2021, UBS expects emerging market growth to have halved to 3.8% in 2022. Further slowing is expected in 2023 to 3.7% (was 3.5%). Growth in emerging Europe is forecast to be flat at 0.3% in 2023, from 1.8% in 2022.

India GDP growth and inflation



Source: Bloomberg as at January 2023.

Asset class outlook

Short maturity and government bonds

Position: Underweight short maturity, overweight government bonds

Key points

- We expect central banks to continue to tighten monetary policy in Q1 2023—but at a slower pace.
- Global bond yields have fallen as markets price in lower terminal rates.
- We expect rate volatility to remain elevated in Q1 2023, with the transition from inflation risk to growth and recession risk.

Short maturity—Markets have been reacting positively to the lower-than-expected US CPI data, suggesting that inflation has peaked and the aggressive pace of rate increases from central banks will start to slow. The Fed has increased the target cash rate to 4.50% (top of its range) in response to high inflation, but the market is now expecting it to only move 25 basis points (bps) at the next Federal Open Market Committee meeting in January. In December, the RBA moved for the eighth time in 2022, lifting the cash rate by 25bps to 3.10%. We expect the RBA to continue at a similar pace at the next meeting, pausing for a longer period at a terminal rate of around 3.35%. The current three-year government bond yield of 3.00% has fallen 50bps since the beginning of the year, reflecting the lower terminal rate.

With signs that inflation is peaking (e.g., lower commodity prices and easing supply chains) and a greater concern of a global recession led by higher interest rates, we believe markets have now mostly priced in the terminal overnight global cash rates. We are underweight short maturity debt, which aims to hedge against rising interest rates. High-grade and investment grade bond yields now offer a reasonable risk-adjusted return. We recommend investors look to implement some duration in portfolios by ensuring a more balanced position between fixed rate and floating rate notes.

Government bonds—Our base case is that bond yields are likely to fall over the next six to 12 months as growth decelerates because of tighter financial conditions, elevated energy costs, and general macro uncertainty. The 10-year Treasury yield, now around 3.50%, is pricing in rate cuts and fears are growing of an imminent recession, which is characteristically seen in the inversion of the yield curve. Given the balance of risks between high inflation and slowing growth, we believe the asset class presents an attractive asymmetric return prospect. Bond yields may remain volatile in the short term as markets will be influenced by macro data, but we see any rise in bond yields as a buying opportunity. Above-target inflation numbers are likely to reverse and drop quickly enough for central banks to take out insurance against a recession, predicting lower energy prices, a weaker labour market, and ultimately lower cash rates. Government bonds are our most preferred sector within fixed income.

Investment grade and high yield credit

Position: Overweight investment grade and neutral high yield credit

Key points

- Domestic subordinated Tier II debt is our most preferred segment within investment grade credit.
- Investment grade credit spreads are now lower, in line with a more stable government bond market.
- We prefer investment grade credit over high yield. High yield is vulnerable to an increase in default risk.

Investment grade credit—With more stable bond yields and reduced equity volatility, US investment grade bond spreads have been falling, driven by attractive outright yields. Domestically, with the three-month Bank Bill Swap index (BBSW) now around 3.30% and a steeper swap curve at the front end, we recommend investing in fixed rate assets around the three to five-year part of the curve. Senior unsecured bank spreads have remained elevated at around BBSW+115bps, offering a yield to maturity of 4.75% for five years. We expect issuance to remain high in both subordinated Tier II and senior unsecured, which should keep spreads elevated. We see this as an investment opportunity, particularly in Tier II, as outright yields are offering attractive returns of around 6.00%.

Spreads in the hybrid market have been remarkably stable and have remained at historically low levels over the last 12 months. The average trading margin for major banks that have a first call date greater than five years is BBSW +260bps. As ANZ is the only major bank that needs to refinance this year, spreads are likely to remain low due to limited expected supply. However, on a risk-adjusted basis, we see more value higher up the capital structure in subordinated Tier II debt, where spreads are around BBSW +250bps, yielding approximately 6.00% for five-year fixed rate debt.

High yield credit—The culmination of lower volatility in rates and outright yields of around 8.00% have led to high yield spreads being more stable. However, we remain cautious about the high yield market and expect a widening of spreads over coming months. This is consistent with less supportive liquidity conditions, an increase in defaults to a more normalised level, and high yield spreads coming under further pressure from likely interest rate rises.

Tactically, before we become more positive on the broader high yield market, we need to see further evidence that inflation is coming under control, which will provide confirmation that central banks do not need to hike as aggressively as anticipated and recession can be avoided.

Yields for US and European high yield debt of around 8% provide a level of protection against falling prices. With a large part of the investment universe now trading at a discount to par, there are select opportunities available for investors. Our preference is to be higher up the credit quality curve in investment grade credit.

Asset class outlook

Domestic equities

Position: Overweight

Key points

- Domestic equities rose 6.2% in January, the best start to a year since 1986. The S&P/ASX 200 index is now down less than 2% from its all-time highs in August 2021.
- The January rally erased the 3.4% fall seen in December, which had been the largest December pull-back in almost 50 years (only 1974 was worse).
- Excluding the utilities sector, which saw all its constituents fall, each sector rallied at the beginning of the year. Materials led the way (up 11%), followed by consumer discretionary (+9%) and REITS (+8%).

The S&P/ASX 200 index delivered a total return of just 0.5% in 2022, comprising a 5.5% fall in prices, which was offset by stronger-than-expected dividends. Implicit in the capital loss of 5.5% was a decline in valuations from a P/E ratio of 17.0x to 13.5x (approximately 20%). At the same time, earnings growth largely offset most of this valuation de-rating. With valuations more reasonable, yet interest rates higher, the outlook for multiples (up or down) is muted. This puts the performance for the market squarely on the shoulders of corporate earnings, and their path through 2023.

As is the case with most global markets, we believe that much of the valuation risk has now been priced into equities. With less upward pressure on bond yields and two more rate hikes priced in, this means the 'baton' will be passed to corporate earnings. The S&P/ASX 200 P/E for financial year 2024 is in line with its 20-year average at around 14.5x. Although this is not cheap, it also not unreasonable.

There was a decidedly risk-on sentiment to begin the year with materials the stand-out sector. It rallied 9% in January as China's emergence from its zero-tolerance approach to COVID-19 prompted investors to look for China re-opening beneficiaries. Interestingly, the likes of RIO Tinto (+45%) and Fortescue Metals (+54%) were almost able to keep pace with the more than 50% gain in mainland China stocks since their October lows. This suggests there is some doubt over the validity of China's re-opening and that investors were looking for 'proxy exposures', rather than up-weighting very low overall China/emerging market exposures.

One of the key themes likely to emerge this year is income. Almost all dividend strategies perform better as bond yields fall. In previous years, investors have been attracted to the equity market in their search for income. Now, that income can be derived from other sources, such as government and corporate bonds, and this is likely to be a headwind for equity investors. The S&P/ASX 200 is trading at a dividend yield almost double that of the MSCI World index, providing a greater buffer for investors. However, at a single stock level, retail favourites, such as CBA and Transurban, no longer offer compelling value as 'bond proxies' when bonds are providing commensurate yields.

International equities

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

Key points

- In December, global equity markets suffered their third-worst December in 20 years (2002 and 2018 being worse), falling 4.3%. However, the global equity market's gain of 6% in January was its second-best start to a year in almost 30 years.
- All sectors rallied in January, but market positioning was clear—quintessential defensive exposures, such as consumer staples, utilities, and healthcare, were significant laggards to more cyclical sectors.

China's emergence from severe COVID-related lockdowns, combined with a less aggressive approach from regulators and authorities towards China's tech industry, have sparked a furious short-covering rally towards China and emerging markets more broadly. The MSCI China index is up 55% from its 31 October lows, whilst the broader emerging markets complex is up around 23%.

Indeed, China's 'pivot' was one of several factors that have given investors hope at the start of 2023. A warm European winter has eased energy supply/pricing concerns; a further easing of inflationary pressures in the US has brought into view terminal Fed funds rates (and consequently less valuation pressure); and labour markets remain generally strong. To this extent, the rally in equity markets clearly has some merit.

According to UBS estimates, falling inflation and declining interest rates have supported an 11% S&P 500 rally since October, whilst China's reopening have added 2%. However, weaker economic activity and EPS downgrades have represented a headwind of approximately 7%, suggesting the S&P 500 has overshoot its fundamentals by around 4% (i.e., the index level should be closer to 3,800 rather than 4,000). This suggests equity markets are implying a goldilocks or soft-landing scenario, as evidenced by the strong performance from transport, semi-conductor, cyclical, and housing stocks.

The fundamental drag from higher interest rates, which only moved from 0% in March 2022 (May for the RBA and July for the ECB), is yet to be felt in consumer credit and real estate markets. Significantly, although we do not portend a GFC-style impact on balance sheets, we do believe that the impact of higher rates will impact interest expense, and lead to a general slowdown in top line growth. Ultimately, this should lead to earnings and margin pressure, with forward EPS declines thus far only signalling a very benign deterioration.

There is likely to be an ongoing re-allocation from equities to bonds (as bonds become more attractive at higher levels of interest rates), which will prove to be a headwind in terms of allocating to equities at current levels.

Asset class outlook

Currencies

Key points

- Fading inflation concerns and an improving global growth outlook, driven by China's re-opening and Europe's warm winter, have been the focus points for currency markets.
- The US dollar gave up some of its strength as markets considered whether inflation was peaking.

The USD index has been on a steady decline since reaching its peak of 114 in October, falling back towards the 102 level in January. This occurred as markets priced in a slowdown in rate hikes by the Fed, amid the trend of growing disinflationary forces. We are now approaching the market-implied terminal rate, which is expected to reach 5.00% by the end of Q1 2023. From there, exactly how long the Fed keeps rates in restrictive territory is yet to be seen and will be the key driver of US dollar sentiment in the year ahead. In the near term, the risk of global economic data continuing to deteriorate into early 2023 has been on the rise and, given the counter-cyclical nature of the US dollar, we expect further downside to be somewhat limited by an increase in safe-haven flows. Looking further ahead, US dollar sentiment should change in a more meaningful way once the Fed transitions to a cutting cycle, which the market has currently priced for Q4 2023.

The Australian dollar has strengthened significantly since its trough of USD 0.62 in October. It rose back above the USD 0.70 level in January, buoyed by a weaker US dollar, as well as an improving global growth outlook, primarily driven by China. The abandonment of China's Covid-zero policy at the end of 2022, and the continued re-opening of the Chinese economy early in 2023, is expected to be a tailwind for the Australian dollar in the near term. Interest rate differentials between Australia and the US should also be less of a headwind, given the Fed has tempered its pace of rate increases and may pause its increases. That said, ongoing concerns of stalling global growth and the forecast for a US (and global) recession have the potential to see a renewed bout of US dollar strength, which would weigh on the local currency and limit further upside. For end-2023 both CBA and UBS expect the Australian dollar to remain around its current level, and target USD 0.67 and USD 0.70, respectively.

After falling to a 20-year low in September, the euro has regained some ground, lifting back towards USD 1.09 in January. The outlook for the euro has improved recently, after a surprisingly warm winter across the region saw natural gas prices plummet. This means that the negative terms of trade shock that had been so bearish for the currency has now reversed. The ECB's hawkish pivot in December also means it is likely that the bank will keep the policy rate higher until late 2024, which should lead to some substantial compression in Europe/US interest rate differentials. Forecasts have largely been revised higher for the euro.

Commodities

Key points

- The macro backdrop for commodities has improved meaningfully since November when the Chinese government began to ease COVID restrictions.
- The near-term demand outlook remains uncertain, as the markets weigh up China's re-opening with global recession fears and increased supply in some areas.

Oil prices traded sideways in December and January as the market balanced concerns around a potential US recession and optimism around China's demand recovery. Oil markets should remain turbulent in the months ahead, and UBS expects prices to remain within USD 80-100/ per barrel (bbl). Growing expectations that the Fed is coming to the end of its rate-hiking cycle, and the weakening of the US dollar since October, have been supportive of prices. Additionally, China remains one of the top oil importers, and the rapid re-opening of its economy should boost energy demand. However, global recession concerns are mounting in other regions. Meanwhile, the supply-side response has been quite muted, and the European Union's (EU) embargo on Russian oil and associated sanctions have been less restrictive than initially envisaged, with Russian production remaining resilient to date. UBS recently cut its Brent oil price forecasts for end-2023 and end-2024, to USD 90/bbl and USD 85/bbl respectively.

Iron ore has surged nearly 70% since November, lifting a further 10% in January to USD 127 per tonne (p/t)—however, prices remain approximately 20% below the peak reached in March 2022. China remains the key driver, where the easing of strict COVID-zero policies and the rapid re-opening of its economy have fuelled optimism over a demand surge, as the economy finally begins to recover from pandemic disruptions. Policymakers have reaffirmed their commitment to stimulating infrastructure spending to restore economic growth, boosting expectations for higher demand for iron ore. Longer term, the over-arching trends of recovering supply, as well as the decarbonisation of the steel sector (particularly China's efforts to control its carbon emissions), are expected to limit price upside. UBS has recently lifted its iron ore forecasts, now targeting USD 103 p/t for end-2023 (previously USD 94 p/t) and USD 85 p/t for end-2024 (previously USD 80). Its long-term view is for prices to settle around USD 60 p/t.

Base metal prices have lifted since November, reflective of more positive sentiment following China policymakers' abandonment of the restrictive COVID-zero policy. Optimism that the Fed is nearing the end of its rate-hiking cycle and a weaker US dollar have also been supportive of prices. Longer term, de-carbonisation trends are bullish for most metal and mineral demand profiles as the world transitions away from fossil fuels. Nickel, copper aluminium and lithium graphite all face significant under-supply, which should support prices over the longer 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 term¹. 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 maintain our relatively defensive, but still more constructive, positioning that we adopted from 1 December last year. We remain overweight fixed income relative to equities, and we have put some additional cash to work in credit to recognise an imminent peak in policy tightening. Should inflation continue to moderate, and equity earnings rebase, we will look to reallocate toward equities through H1 2023. The key headwind to a more constructive outlook remains renewed concerns about the inflation and rates outlook that point to an ongoing adjustment lower in the equity earnings outlook in 2023.

Within equities, we remain neutral overall, with overweights to Australia and emerging markets and an underweight to European ex-UK equities. Within fixed income, where yields remain attractive versus cash (and we are underweight), investors are now being compensated for the risk of further rate increases, particularly within investment grade (overweight) and high yield credit (neutral).

Cash

We are underweight cash, reflecting the stronger risk adjusted income opportunities in fixed income.

Fixed income

At the broad asset class level, we are overweight. Within fixed income, we are underweight short maturity and overweight government bonds and investment grade, and neutral high yield, where yields have risen.

Alternatives

We favour increasing allocations to hedge funds and real assets, with deployed private equity least preferred.

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.

Equities

We remain cautious equities but have a preference to better valued non-US markets. We are underweight Europe ex-UK (due to a weaker earnings outlook) and continue to be overweight Australia and emerging markets. We have a relatively positive view towards Australia and emerging markets, given their stronger growth outlook and a peaking US dollar, which should drive relative outperformance in 2023. Relative to history, companies in these regions have stronger balance sheets and domestic spending is stronger, so there is less reliance on developed markets.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	-1	2	2	2	2
Fixed income	1	54	36	18	15
Short maturity	-2	6	4	1	1
Government bonds	2	34	17	9	7
Investment grade credit	1	12	12	5	5
High yield credit	0	2	3	3	2
Equities	0	24	42	60	38
Domestic	1	13	20	29	12
United States	0	6	11	16	13
Europe (ex-UK)	-2	1	2	3	2
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 now favour a more balanced position in duration-related bonds and credit securities, as aggressive monetary policies from central banks have sufficiently repriced bond yields. Market pricing for easier monetary policy through 2023 could also see short-dated floating rate returns underperform in the period ahead.

Government bonds

We are overweight government bonds. With expectations for further central bank rate hikes over the next three months largely priced into markets (both domestically and offshore), and yields elevated, we remain overweight government bonds. Although it is difficult to forecast the absolute peak, government bonds have largely incorporated an aggressive rate hiking cycle (which we expect to peak around Q1 2023).

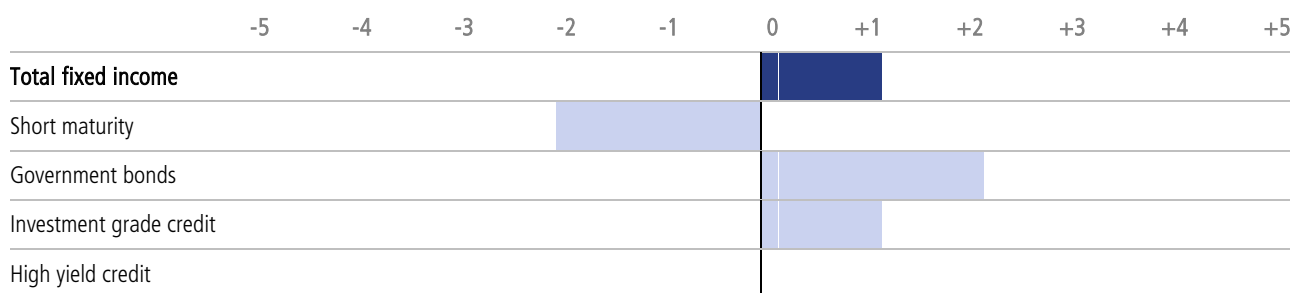
Investment grade credit

We are overweight investment grade credit. Investment grade credit spreads have moved closer to fair value, and we have now moved overweight. We are comforted by higher outright yields. Helped by a wider swap curve, they now provide a reasonable cushion to any further spread widening.

High yield credit

We are neutral high yield credit. Although we are neutral high yield credit, we still prefer investment grade credit relative to high yield. We believe high yield credit spreads have not widened sufficiently enough to compensate for a liquidity premium and for a potential acceleration in defaults as an expected material slowing in the global economy unfolds. The risk of a recession this year also suggests a selective positioning toward high-yield credit.

Active fixed income weights (%)—We have moved overweight fixed income relative to equities



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	79.04	90.79
Australian 3-year yield	3.16%	3.24%
Australian 10-year yield	3.53%	3.63%
Australian 3/10-year spread	36.5 bps	38.0 bps
Australian/US 10-year spread	-1.5 bps	-11.3 bps
US 10-year Bond	3.54%	3.74%
German 10-year Bund	2.32%	1.92%
UK 10-year Gilt	3.34%	3.10%
Markit CDX North America Investment-Grade Index	73.7 bps	81.0 bps
Markit iTraxx Europe Main Index	79.8	91.0
Markit iTraxx Europe Crossover Index	415.5	459.0
SPX Volatility Index (VIX)	19.9	21.9

Source: LGT Crestone Wealth Management, Bloomberg as at 30 January 2023. Pricing based on UBS Global Research. 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. In a relative sense, Australia remains a preferred regional allocation. With its leverage to a re-opening in China (via education, tourism, real estate, and commodities demand), and a dividend yield almost twice that of the MSCI World index, Australia remains an overweight, albeit the valuation support has diminished.

US equities

We are neutral US equities. Earnings expectations are beginning to fall, a pre-requisite to becoming more positive on the US market over the long term. However, markets have been quick to price in a soft landing ahead of actual earnings, which continue to deteriorate. EPS expectations for calendar year 2023 have likely not fallen enough. They are now at \$224 per share versus \$235 in November and \$249 in June.

European (ex-UK) equities

We are underweight European (ex-UK) equities. European equity markets have been very resilient, largely underpinned by an easing of energy concerns. 2023 may prove more hostile, as the ECB is earlier in its hiking cycle than other central banks. Also, euro weakness may give way to euro strength, providing a headwind to corporate earnings.

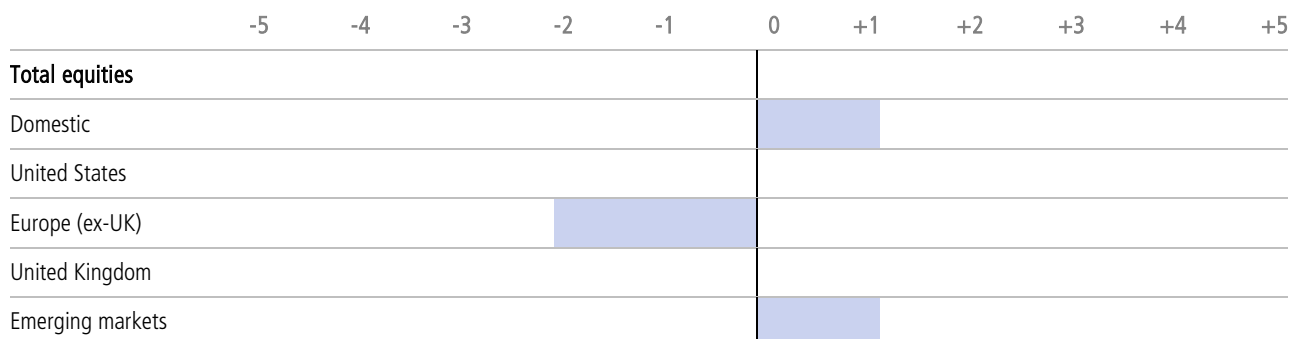
United Kingdom equities

We are neutral UK equities. The FTSE 100's P/E of 10x is so depressed that it is now approaching its 2008 and 2011 lows. Heavyweight energy and metals groups are trading at trough multiples, with the market unwilling to pay an average valuation for what is perceived to be peak earnings. China's re-opening may change that view, whilst very well capitalised financials should benefit from higher-for-longer interest rates.

Emerging market equities

We are overweight emerging market equities. Earnings gains in China and India may stand out this year in a world where growth is shaping up to be a scarce commodity. Consensus expects both markets to post double-digit 2023 EPS growth, which can extend across the region and into broader emerging markets. China's emergence from COVID-zero restrictions has caught global investors off-guard, given their significant underweight to the region.

Active equity weights (%)—We are overweight domestic equities and emerging markets



Equity market summary

Region	Index	Latest price	Consensus 1 yr		Next year P/E ¹	Next year D/Y ²
			Target	Upside		
Australia	S&P ASX 200	7,481.7	7,715.6	3.1%	15.2	4.07%
New Zealand	S&P NZ 50	12,034.2	12,673.4	5.3%	22.9	3.20%
United States	S&P 500	4,017.8	4,520.6	12.5%	16.4	1.72%
Europe	Euro Stoxx	447.5	509.8	13.9%	11.8	3.38%
United Kingdom	FTSE 100	7,784.9	8,905.9	14.4%	10.3	4.10%
China	CSI 300	3,269.3	3,780.7	15.6%	9.4	2.86%
Japan	Nikkei 225	27,433.4	32,115.2	17.1%	15.2	2.20%
India	Sensex	59,500.4	70,131.2	17.9%	22.1	1.40%

Source: Bloomberg. Data as at 30 January 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

Low beta hedge fund strategies are preferred, but credit is now also looking attractive. Market volatility continues to provide a ripe hunting ground for hedge funds, where mis-pricing has created opportunities across asset classes for skilled managers. Heightened macro-economic and geo-political uncertainty is also presenting attractive opportunities for discretionary macro strategies, while idiosyncratic credit strategies should provide increasingly attractive risk-adjusted return opportunities in 2023. We are, therefore, focusing on satellite exposures in those areas, alongside diversified multi-strategy solutions that can take advantage of the wider investment universe.

Private markets

This year's re-calibration should present an attractive deployment opportunity for private equity and venture coming into 2023. While private equity is least preferred on a relative risk-adjusted basis when compared to other alternative asset classes, we believe 2023 will be an attractive year in which to deploy new capital. 2022 has served as a re-calibration with regards to private market valuations, particularly within the venture sector. As such, entry valuations are now starting to re-adjust, while secondary (fund) market activity is beginning to pick up. When partnering with the right private markets platform, the latter is a compelling option for private clients. In summary, we recommend maintaining exposures to private equity and venture capital. However, investors should consider new primary and secondary fund commitment structures through early 2023, rather than growing exposures in evergreen strategies where they are already fully invested.

Private debt looks increasingly attractive as yields reset higher on the back of interest rate increases. If investors do not compromise on credit quality and cater for increased debt servicing costs, private debt should be attractive due to wider spreads, credit protections relative to public market equivalents, and their floating rate structures. We prefer direct lending versus broadly syndicated strategies, as loan terms can be negotiated directly, offering greater protection to the end investor. We also prefer corporate and sponsor-backed transactions relative to real estate lending strategies that are often heavily focussed on construction. Increased input costs arising from supply-chain disruption are further impacting builders and their contractors, alongside rising rates.

Real assets

We favour core-plus, high-quality real estate. Real estate continues to be one of our favoured asset classes within alternatives, but we see a meaningful dichotomy across different assets, sectors, and investment approaches. 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. When in the right assets, these initiatives can and have been able to offset and exceed valuation declines, resulting from interest rate increases. We also like high-quality, overseas, multi-family accommodation. This can benefit during periods of higher inflation, as shorter lease terms allow rents to mark to market more often.

Investors should seek to build infrastructure exposure. Infrastructure has been notably absent from private client portfolios in the past, yet can provide more defensively positioned core assets on long-term, typically inflation-linked contracts. This can provide both a defensive ballast and inflation protection. 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. According to Brookfield Asset Management, the next 30 years will require in excess of USD 100 trillion of investment, presenting an unprecedented commercial opportunity.

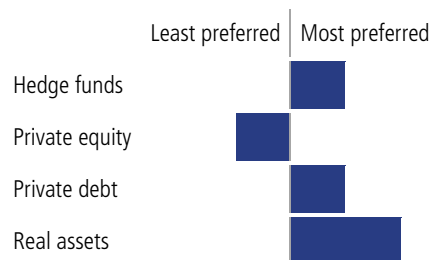
Our most preferred and least preferred exposures—We continue to favour core real assets and private debt, while maintaining private equity and low-beta hedge funds exposures

What we like

- Multi-strategy, credit-oriented and discretionary macro hedge funds
- Domestic private debt and asset-backed securities (excluding real estate)
- High-grade, core-plus commercial real estate and infrastructure
- Private market and real assets exposed to the global energy transition

What we don't like

- Passive private market and/or real asset strategies
- Pre-IPO strategies
- Construction and/or junior lending within real estate
- Carbon-intensive assets and industries with no transition plan



Direct equity

Recommendations: Domestic equities—Best sector ideas

Objective of this list

The objective is to identify the best business models or best in breed by GICs 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
NEC	Nine Entertainment	Com. Services	\$2.03	36%	11.1	6.3%	15%	16%	4.4%	A
ALL	Aristocrat Leisure	Cons Discret	\$33.91	24%	18.1	1.9%	22%	19%	7.7%	AA
TLC	Lottery Corp	Cons Discret	\$4.71	1%	30.4	2.9%	21%	187%	9.0%	AA
MTS	Metcash	Cons Staples	\$4.17	5%	13.5	5.3%	21%	27%	-2.6%	AA
ALD	Ampol	Energy	\$30.67	15%	9.5	6.6%	24%	22%	-15.0%	AA
MQG	Macquarie Group	Financials	\$186.87	5%	16.7	3.5%	na	14%	1.0%	AA
IAG*	Insurance Australia Group	Financials	\$4.87	9%	14.9	5.0%	na	14%	15.0%	AA
RMD	ResMed	Health Care	\$32.10	14%	38.4	0.5%	28%	23%	14.6%	AA
CSL	CSL	Health Care	\$295.96	11%	39.9	0.8%	15%	17%	27.7%	A
MND	Monadelphous Group	Industrials	\$13.99	-4%	23.7	3.7%	16%	13%	23.1%	AA
ALU	Altium	IT	\$38.57	0%	54.6	1.2%	34%	23%	23.9%	A
IGO	IGO	Materials	\$14.79	4%	7.2	2.4%	25%	38%	12.5%	AA
JHX	James Hardie Industries	Materials	\$31.55	18%	14.9	0.7%	44%	44%	-8.9%	AA
GMG	Goodman Group	Real Estate	\$20.00	9%	21.4	1.5%	10%	10%	8.7%	AA
CHC	Charter Hall Group	Real Estate	\$13.82	8%	14.6	3.1%	15%	13%	-5.0%	AAA
ORG	Origin Energy	Utilities	\$7.49	7%	27.0	4.1%	8%	5%	84.8%	A

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 30 January 2023. ESG is environmental, social and corporate governance. * Added this month.

Trade opportunities

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

ResMed (RMD)—Buy. As major sleep apnoea competitor Philips falls to GFC and Eurozone crisis lows (~75%), the product recall that will limit its ability to sell its products, and may negatively impact customers' longer-term perception, paves the way for RMD to take permanent market share.

IAG Group (IAG)—Buy. IAG trades cheaply in absolute (13.5x P/E for financial year 2024) and relative (7% discount to the market versus an average 3% premium) terms. Its leverage to higher rates, combined with an eventual easing in claims inflation, should result in solid earnings growth, complemented by ongoing buy-backs as business interruption reserves are released.

CSL Limited (ALU)—Buy. Issues over plasma supply are abating, with Mexican border supply set to resume, allowing the average donor payment to be reduced. Margins at CSL Behring contracted from 59.3% to 54.8% between financial years 2020 and 2022, but these are expected to improve, given an expected increase in plasma per donor; more plasma collected per collection centre; and more immunoglobulin extracted from each litre of plasma.

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	Insurance Australia Group	Financials	\$4.87	8.9%	13.0	1.95	70%	5.0%	16.8%	AA
MQG	Macquarie Group Ltd	Financials	\$186.74	4.7%	16.5	2.20	40%	3.5%	3.1%	AA
WBC	Westpac Banking Corp	Financials	\$23.70	4.3%	10.9	1.18	100%	6.0%	5.5%	A
QBE	QBE Insurance Group Ltd	Financials	\$13.63	17.1%	9.3	1.67	10%	1.8%	118.5%	AA
COL	Coles Group Ltd	Cons Staples	\$17.75	-1.5%	21.6	7.56	100%	3.7%	3.7%	AA
MTS	Metcash Ltd	Cons Staples	\$4.18	4.6%	13.8	3.74	100%	5.3%	-2.3%	AA
SGR	Star Entertainment Grp	Cons Discret	\$1.93	43.6%	16.1	0.54	100%	4.9%	-19.1%	A
TAH	Tabcorp Holdings Ltd	Cons Discret	\$1.06	1.4%	25.2	0.87	100%	2.2%	13.0%	AA
TLS	Telstra Corp Ltd	Com. Services	\$4.09	12.6%	22.1	3.08	100%	4.1%	6.0%	A
NEC	Nine Entertainment Co	Com. Services	\$2.03	35.7%	10.7	1.84	0%	6.3%	4.7%	A
RMD	ResMed Inc	Health Care	\$32.03	14.2%	33.4	8.75	100%	0.5%	1.9%	AA
PME	Pro Medicus Ltd	Health Care	\$66.78	-16.1%	96.6	68.45	100%	0.4%	23.7%	BBB
REP	RAM Essential Services	Real Estate	\$0.77	28.8%	0.5	1.43	0%	7.5%	na	na
SGP	Stockland	Real Estate	\$3.95	-3.2%	12.7	0.91	0%	6.8%	-3.0%	AAA
IRE	IRESS Ltd	IT	\$9.83	19.8%	22.9	3.95	25%	4.5%	5.5%	AA
DBI	Dalrymple Bay Infra.	Industrials	\$2.48	na	14.6	1.16	0%	7.7%	6.8%	na
ALX	Atlas Arteria Ltd	Industrials	\$6.83	-0.7%	19.0	2.06	0%	5.9%	0.2%	AA
ORG	Origin Energy Ltd	Utilities	\$7.48	5.3%	14.6	1.28	75%	4.1%	2.3%	A
ALD	Ampol Ltd	Energy	\$30.62	15.0%	11.2	1.95	100%	6.6%	-15.7%	AA
BHP	BHP Group Ltd	Materials	\$49.36	-6.3%	12.1	3.90	100%	4.0%	-1.6%	A
AMC	Amcor PLC	Materials	\$16.75	4.8%	14.3	na	0%	2.9%	2.3%	AA

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 30 January 2023. ESG is environmental, social and corporate governance.

Trade opportunities

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

QBE Insurance (QBE)—Buy. The premium rate environment is now more positive than it has been for a decade. Combined with the benefits of higher investment portfolio yields due to higher interest rates, QBE stands to be a significant outperformer in 2023. In absolute terms, the stock's P/E of less than 9x is two standard deviations from its long-term average.

RAMS Essential Services (REP)—Buy. Year-to-date, REP has outperformed the S&P/ASX Property index. This is a trait that is expected to continue, given its multiple defensive characteristics—essential services-orientated, long WALE (weighted average lease expiry), and a low level of gearing.

Ampol (ALD)—Buy. ALD is trading at 9.6x 2023 earnings, a 37% discount to its historical average (of 15.3x) and largely in line with global peers (at 9.7x). The business is now structurally better positioned and recent weakness presents a buying opportunity.

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	London Stock Exchange	Financials	GBP	7388.00	25.7	22.1	1.5	50,429	AA
LLOY LN	Lloyds Banking Group PLC	Financials	GBP	52.98	19.8	7.5	5.1	43,987	AA
WFC US	Wells Fargo & Co	Financials	USD	46.29	14.5	8.7	3.4	177,467	BB
2318 HK	Ping An Insurance Group	Financials	HKD	60.60	19.6	6.8	4.4	140,119	A
939 HK	China Construction Bank	Financials	HKD	5.10	27.6	3.3	7.9	164,457	A
2330 TT	Taiwan Semiconductor	IT	TWD	525.00	16.6	12.6	2.4	453,995	AAA
MA US	Mastercard Inc	IT	USD	371.12	14.1	25.5	0.6	354,791	AA
ASML NA*	ASML Holding	IT	EUR	603.40	18.8	26.1	1.3	263,736	AAA
GOOGL US	Alphabet Inc	Comm Services	USD	96.94	27.9	17.0	0.0	1,261,288	BBB
UMG NA	Universal Music Group NV	Comm Services	EUR	23.64	12.8	27.1	2.0	46,471	AA
DIS US	Walt Disney Co/The	Comm Services	USD	107.59	16.1	20.3	1.5	196,200	A
9988 HK	Alibaba Group Holding Ltd	Cons Discret	HKD	106.50	34.5	13.3	0.1	287,845	BBB
NKE US	NIKE Inc	Cons Discret	USD	126.37	2.4	31.9	1.1	195,945	BBB
SBUX US	Starbucks Corp	Cons Discret	USD	108.40	-0.5	26.7	2.1	124,504	A
ABNB US*	Airbnb Inc	Cons Discret	USD	109.48	14.2	36.3	0.0	70,327	BB
RACE IM	Ferrari NV	Cons Discret	EUR	232.40	-1.6	38.2	0.8	45,834	BB
BA US	Boeing Co/The	Industrials	USD	209.67	8.5	35.8	0.9	125,433	BBB
DSV DC	DSV A/S	Industrials	DKK	1126.00	22.0	19.9	0.6	35,941	AA
MSFT US	Microsoft Corp	IT	USD	242.71	15.9	22.3	1.2	1,806,686	AAA
ILMN US	Illumina Inc	Health Care	USD	210.10	16.0	103.4	0.0	33,049	AA
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	961.50	2.2	31.8	1.5	319,519	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	242.23	13.0	39.3	0.0	85,600	A
EL US	Estee Lauder Cos Inc/The	Cons Staples	USD	271.21	0.5	37.6	1.0	96,771	A
COST US	Costco Wholesale Corp	Cons Staples	USD	503.28	9.1	31.7	0.8	223,320	A
288 HK	WH Group Ltd	Cons Staples	HKD	4.83	58.4	5.8	1.0	7,908	BBB
SHW US	Sherwin-Williams Co/The	Materials	USD	230.88	7.0	22.5	1.2	59,831	A
SHELL NA	Shell PLC	Energy	EUR	27.05	27.3	5.6	4.5	204,518	AA
EQIX US	Equinix Inc	Real Estate	USD	724.86	2.7	79.4	1.8	67,077	AA
ORSTED DC	Orsted AS	Utilities	DKK	605.00	25.2	31.8	2.3	37,069	AAA
Average Yield:							1.8%		

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 30 January 2023. ESG is environmental, social and corporate governance. * Added this month.

Recommendations: Thematic investing—Climate change

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

Climate change—Select exposures

As the world grapples with how, when, and where to tackle climate change, a range of risks will almost certainly impact governments, industries, and companies. The transition to a lower-carbon economy is expected to present opportunities across a broad range of industries.

Code	Company	Sector	Base CCY	Market price	Consensus upside (%)	P/E 1yr fwd (x)	Yield 22E (%)	Market cap (USD bn)	MSCI ESG rating
KRX	Kingspan Group PLC	Industrials	EUR	\$59.82	15.5	19.3	0.8	11,788	AA
ALO	Alstom SA	Industrials	EUR	\$27.65	13.8	13.9	1.6	11,278	AA
ORSTED	Orsted AS	Utilities	DKK	\$605.00	25.2	31.8	2.3	37,069	AAA
NEE	NextEra Energy Inc	Utilities	USD	\$75.05	25.8	22.2	2.7	149,137	AA
EAF	GrafTech Int'l	Industrials	USD	\$6.15	5.7	7.7	1.8	1,578	B
VWS	Vestas Wind Systems	Industrials	DKK	\$193.94	5.9	200.6	0.0	28,546	AAA
HON	Honeywell Int'l	Industrials	USD	\$205.78	7.4	22.5	2.0	138,350	AA
APD	Air Products & Chem	Materials	USD	\$313.90	5.6	25.1	2.5	69,682	BBB
KNEBV	Kone Oyj	Industrials	EUR	\$50.12	1.4	24.0	3.9	28,767	A
ILMN	Illumina Inc	Health Care	USD	\$210.10	16.0	103.4	0.0	33,049	AA
RWE	RWE AG	Utilities	EUR	\$40.92	29.0	12.0	2.2	30,001	A
ENPH	Enphase Energy Inc	Info Technology	USD	\$212.22	42.9	40.2	0.0	28,846	A

Source: UBS Global Research, Bloomberg Analyst consensus and MSCI Research. Data as at 30 January 2023. ESG is environmental, social and corporate governance.

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Contact us

LGT Crestone Wealth Management Limited

ABN 50 005 311 937
AFS Licence No. 231127

info@lgtcrestone.com.au
lgtcrestone.com.au

Adelaide

Level 26, Westpac House
91 King William Street
Adelaide SA 5000

+61 8 8403 9400

Brisbane

Level 18, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

+61 7 3918 3600

Melbourne

Level 17
101 Collins Street
Melbourne VIC 3000

+61 3 9245 6000

Sydney

Level 32, Chifley Tower
2 Chifley Square
Sydney NSW 2000

+61 2 8422 5500