Where to now for the global economy?

Regional dispersion grows as H2 gets underway

Core Offerings

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

June 2025

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Regional dispersion grows as H2 gets underway

AN UPDATE FROM LGT CRESTONE'S CHIEF INVESTMENT OFFICER

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Chief Investment Officer

It's been a volatile two months since 'Liberation day'. The ebb and flow of sharply different US tariff regimes, as President Trump continues to bully the world for a better trade deal, has whipsawed economists' forecasts for the year ahead. Our initially constructive outlook turned near recessionary as the US and China went head-to-head, before de-escalation. The US imposts on the rest of the world via 'reciprocal' tariffs also added to the gloom, before they too received a stay of execution. With markets rebounding to levels prior to 'tariff day', now stretched US equity valuations imply the earnings outlook is once again benign.

But is this true, or even likely? Over coming months, the global outlook will undoubtedly be impacted by key geo-political events, from the unknown outcome of tariff negotiations and progress on Trump's 'Big, Beautiful (tax) Bill' to the impact of Japan's election on bond yields. What is known, however, is the existence of significantly greater dispersion in the growth outlook across economies and regions for the year ahead. The US is deteriorating, Europe is navigating, Japan is reinvigorating, and China is stimulating. For now, Australia is vacillating, hoping for courage from a re-elected government with the political capital to spur growth.

There are some key signposts ahead that will impact the macro outlook

The ebb and flow of sharply different US tariff regimes, as President Trump continues to bully the world for a better trade deal, has whipsawed economists' forecasts for the year ahead.

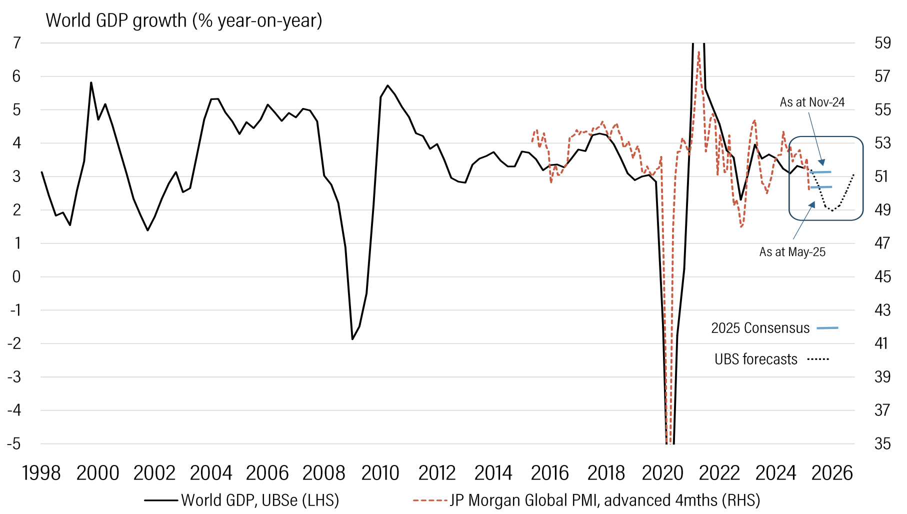
Coming into this year, we held a constructive macro view. Global growth was slowing but not collapsing and while inflation needed to fall further, its steady progress lower was still giving central banks scope to continue their modest interest rate cutting cycles. Not the worst backdrop for markets, even if we suspected volatility was going to be elevated under a newly elected President Trump. After 3.3% growth in 2024 (a touch below its 3.5% trend), the health of the consumer and corporate sector (even as high rates were weighing and fiscal impulses were fading) suggested growth was destined to slow only modestly further toward a still decent pace of 3% for both 2025 and 2026. Policy rates for most of the major central banks were likely to transition from peaks near 5% to settle near 3%.

The blow-by-blow of the past two months' historic tariff and market volatility is well-covered elsewhere. It is fair to argue, as we do, that we've passed 'peak trade uncertainty', and the outlook has improved from its darkest moments immediately after 'Liberation day'. Yet, the remarkable near-unprecedented V-shaped recovery in risk markets, in the space of about 21 trading days, begs the question of whether everything is as 'back to normal' as markets seemingly suggest? Consensus growth has recovered back to 2.7% for 2025 (only 0.4% below forecasts at the start of the year). And while the risk of US recession has receded, 2025 growth forecasts have been significantly trimmed to around 1% from 2%.

We've passed 'peak trade uncertainty', and the outlook has improved from its darkest moments immediately after 'Liberation day'. Yet, the remarkable near-unprecedented V-shaped recovery in equity markets, begs the question of whether everything is as 'back to normal' as markets seemingly suggest.

Reflecting this, and after adding to risk in early April near market lows, we trimmed risk in early May after markets rebounded. We remain relatively constructive on the outlook—albeit less so than at the start of the year and expect positive (though 'average-like') returns in the year ahead. Nonetheless, we'd still argue there are some key signposts over coming months that will have a material impact on what remains a quite uncertain outlook.

Global growth expectations have whipsawed from 3%, to low 2%, and back to 2.7%



Source: LGT Crestone, UBS, Bloomberg Consensus

Unless tariffs are reduced below the current 'minimum 10%'—which seems unlikely—we remain in the 1930s, a likely significant drag on global and US growth.

Market angst has risen surrounding just how stimulatory the Trump tax bill will be, and is reflected in a rising 10-year bond yield…

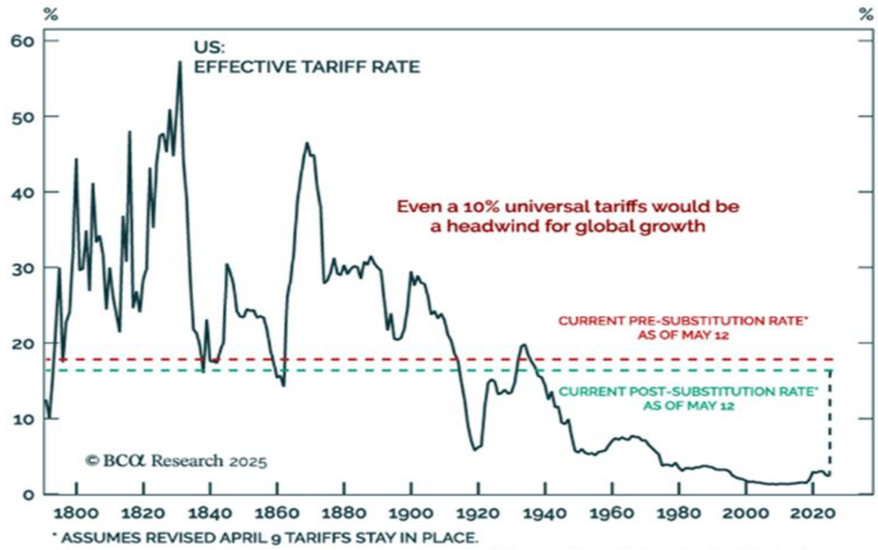
…concern about undesired fiscal stimulus ahead of July's election has also been driving Japan's bond yields to their highest in almost 17 years.

"The combination of government employee lay-offs, negative migration and, the increase in trade barriers will be too much for the US economy."

MST Marquee, May 2025

- **Trade negotiations** – there appears a long road ahead in terms of where negotiations between the US and its key trading partners will 'settle' (ahead of the 9 July deadline), with the recent question over the legality of the US Administration's policies adding complexity. As the recent unexpected 50% tariff announced for Europe on 23 May, then delayed on 25 May attests, volatility will persist. But we highlight that unless tariffs are reduced below the current 'minimum 10%'—which seems unlikely—we remain in the 1930s, a likely significant drag on global and US growth (see the chart below).
- **The 'Big, Beautiful, (tax) Bill'** – market angst has risen surrounding just how stimulatory the Trump tax bill will be, and is reflected in a rising 10-year bond yield (up from around 4.1% to 4.5% during May). The risk that tax cuts are front-loaded, and budget savings are backloaded (and may not eventuate) has the potential to destabilise bond and equity markets. PIMCO expects the tax bill debate to come to ahead around August, and stimulus could drive US growth (and interest rates) higher through 2026.

US tariffs – unless the minimum 10% is dropped, a large growth headwind persists



Source: BCA Research, Monthly Treasury Statement, US BEA, The Budget Lab Analysis

Other signposts that could impact the macro outlook include **Japan's July election**, where concern about undesired fiscal stimulus has been driving Japan's bond yields to their highest in almost 17 years, and weighing on global bond markets (and Japan's equity market). Timing around when the sharp collapse in **US 'sentiment' (or soft) data** reveals itself (or doesn't) in the US's real activity (or hard) data. And if and when this leads the now 'patient' **US Federal Reserve (Fed)** to start trimming interest rates to support growth. Finally, there are a raft of **geo-political hot spots**, from Russia-Ukraine and Iran's nuclear position that have the potential to impact the macro scene over the year ahead.

Around the 'macro' grounds – outlooks for 2025 and 2026

US is deteriorating: recession risks remain, and the US Fed likely cuts slowly

The US economy was already slowing ahead of tariffs. Assuming tariffs aren't fully removed, growth is likely to slow materially during H2 2025, though a recession should be avoided. The Fed cuts twice in H2 to avoid making matters worse (helping supporting equities higher and bond yields lower) and may takes rates lower toward 3% in 2026…but tax cuts and 'certainty' could be antidotes to growth from mid-2026 (and see yields reverse higher).

The US economy was already slowing into early 2025 as income growth pulled back and the prior fiscal stimulus was fading. While Q1 growth contracted (for the first time in three years), this largely reflected a boom in imports to beat *expected* tariffs. As Q2 got under-way, unexpectedly large 'Liberation day' tariffs caused disruption to businesses and pushed consumer sentiment more than 30% below end-2024 levels. While recent dispute de-escalation and modest progress on trade negotiations has eased some of the worst fears for the US macro outlook, significant damage has likely already been done. This suggests US growth will slow significantly (and unemployment rise) during H2 2025.

Pleasingly, US inflation was slowing noticeably ahead of tariff impacts, with the Fed's preferred inflation measure – core PCE – revealing near-zero monthly inflation across March and April. However, with the weighted average tariff now being applied to US imports roughly 15% (up from 2.5% at the start of the year), there is likely to be a sharp

"For the time being, we're well-positioned to wait for greater clarity before considering any adjustments to our policy stance."

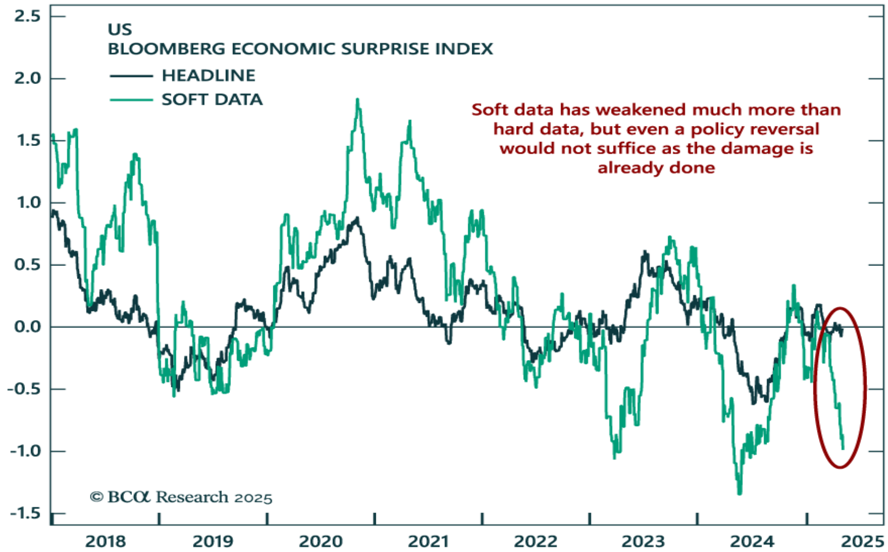
Fed Chair Powell, May 2025

(albeit 'transitory') spike in inflation over the next several months. With the US economy still delivering 'firm' activity data (for now), the Fed has time to be patient, with Chair Powell in early May noting that "for the time being, we're well-positioned to wait for greater clarity before considering any adjustments to our policy stance."

While we suspect the damage has already been done for growth over the rest of 2025, the outlook for 2026 will reflect where tariff negotiations settle, the extent tax stimulus supports growth and the time it takes for the Fed to judge lower rates are warranted.

While we suspect the damage has already been done for growth over the rest of 2025 (see the chart below), the outlook for 2026 will reflect where tariff negotiations settle, the extent tax stimulus supports growth and the time it takes for the Fed to judge lower rates are warranted. Barclays expects year average growth for the US economy of just 1.3% for both 2025 and 2026, while UBS forecasts 1.5%, slowing to 1.2%, respectively.

US 'soft' data flag slower real growth in H2 2025…tax stimulus may drive 2026



Source: Bloomberg, BCA Research

Europe is navigating: high trade tension and a more activist approach to future growth

After a strong start to 2025, European growth is likely to slow (even contract) in mid-2025 as trade headwinds build. But Europe's longer-term outlook has significantly improved as Germany's fiscal belt has been loosened, easing inflation drives interest rate support for households, and lower energy prices (and China stimulus) should support industrial activity.

Europe is at risk of not securing a US tariff deal by the 90-day deadline, given it suffers from a "collective action problem", according to US Treasury Secretary Scott Bessent.

European growth beat expectations in Q1, holding at 1.2%, above its trend since the GFC. However, recent data is revealing the impact of the rising trade tension (as businesses pause activity). Tariffs of at least 10% are now in place (amidst higher auto tariffs) and absent successful negotiations by early July, tariff rates could ratchet higher to 50%.

But Europe is navigating Trump's impatience, while the new multi-polar and populist world appears to have spurred the region to embrace a more activist approach to future growth. Not only could Europe benefit from an eventual Ukraine-Russia ceasefire and a multi-decade construction stimulus, the prospect of lower energy prices as global energy demand cools, as well as China stimulus, should support Europe's significant industrial sector. More importantly, UBS expects "higher spending on defence and German infrastructure to lift Eurozone growth by [an additional] 0.3% in 2026 and 0.4% and 2027".

The near-term slowing in Europe's growth, as well as easing inflation, is expected to see the European Central Bank (ECB) cut rates below 'neutral' over coming months. After pick-up to 0.8% growth in 2024, UBS expects growth to slow to 0.7% in 2025, before rebounding on fiscal and monetary stimulus to 1.0% in 2026.

"Beijing's goal is to prevent further deterioration rather than engineer a rebound".

BCA Research, May 2025

China is stimulating: to offset property 'recession' and US trade headwinds

China's property sector is showing more weakness, as April data reveals a consumer losing momentum. In the wake of April's Politburo meeting, May has seen more stimulus. But the goal appears focused on preventing further deterioration than engineering a rebound.

China's outlook remains highly uncertain in the wake of the unfolding US-China trade war. However, the 'roll-back' of the recent tariff spike during negotiations is at least a positive for China's near-term growth and export demand. But as Barclays Research highlights, after earlier stabilisation in the housing sector, there are now "emerging risks to property investment amid a more rapid deterioration in April-May". Recent announcements suggest

While China should remain a significant contributor to global growth, the ongoing trade dispute with the US is likely to see global trade channels evolving over coming years (with 'excess' US goods imparting deflation elsewhere).

further policy easing is being delivered. Where the trade war settles, and the extent of renewed China stimulus, will impact China's growth outlook for H2 2025 and 2026.

For now, analysts are writing up China's growth outlook from the lows at the peak of the trade tensions in April. That said, at around 4% for 2025 (according to Barclays and UBS) and risk of slower growth in 2026 (with UBS at 3.5%), China's growth is significantly slower than the 6% prior decade average. While remaining a significant contributor to global growth, the ongoing trade dispute with the US is likely to see global trade channels evolving over coming years (with 'excess' US goods imparting deflation elsewhere).

Japan is reinvigorating: emerging from 30 years of disinflation

Japan is emerging from three decades of secular stagnation. While 2025 growth is likely hit by the global trade and tariff dispute, better domestic activity on renewed wage growth, as well as fiscal stimulus and corporate reforms, should see an improving growth trend ahead.

Confidence remains that Japan is exiting three decades of secular stagnation, driven by a structural uplift in wages growth. Fiscal stimulus and corporate reforms are further enhancing productivity and investment.

Growth in Japan is likely to take a step back in mid-2025, as it faces tariff headwinds (estimated to be currently around 14%) and the potential impact of reduced global trade (more than 20% of Japan's annual output). Nonetheless, confidence remains that Japan is exiting three decades of secular stagnation, driven by a structural uplift in wages growth. Fiscal stimulus and corporate reforms are further enhancing productivity and investment.

Expected annualised growth of more than 1% in Q2 2025 (according to UBS) is likely to give way to weaker H2 growth. While official interest rates were raised to 0.5% over the past year, weaker near-term growth likely delays any further rate hikes into 2026. After just 0.2% in 2024, UBS expects growth to rise to 0.6% in 2025 and 0.5% in 2026.

Australia is vacillating: a 'muddle through' recovery in the absence of reform

Australia's outlook remains heavily conditioned by global events such as tariff outcomes and China's stimulus, and by the extent that global growth slows. That said, we expect signs of recovery since late 2024 to strengthen and for growth to pick-up to a sub-trend pace, as interest rates are reduced, supporting housing and consumption. Faster growth that drives higher living standards require reform and more business investment.

For Australia, sustainably faster growth will require a re-elected ALP government, armed with significant political capital, to deliver long-term reforms that drive greater competition, productivity, and efficiency.

Australia's growth slowed sharply into mid-2024 on the back of elevated interest rates. The private sector was arguably in recession and overall growth was a well-below trend sub-1% pace. The economy has shown signs of recovery in late 2024, with Q4 growth rebounding 0.6%, and annual growth rising from 0.8% to 1.3%. Falling inflation, fiscal stimulus and the lagged impact of significant wage gains are likely stabilising consumer activity.

Looking ahead, despite some recent loss of momentum in the domestic activity data during April and May, an expected two further RBA rate cuts to 3.35% in 2025 should also aid stronger consumer and housing activity in the year ahead. House price growth is also expected to lift from around 3% to 6%, while the Australian dollar rises toward USD 0.68. In the 15 years to 2015, Australia averaged annual real growth of 3.0%. For 2025, CBA forecasts growth of just 1.8% (after 1.0% in 2024), while UBS forecasts 1.9%. For 2026, this rises to 2.3% and 2.0%, both still below trend. Sustainably faster growth will require a re-elected ALP government, armed with significant political capital, to deliver long-term reforms that drive greater competition, productivity, and efficiency across our tax system, industrial relations, energy delivery, housing planning and infrastructure, business.

Key takeaways

- We believe we've passed 'peak trade uncertainty', and the outlook for global growth has improved from its darkest moments immediately post 'Liberation day'. Consensus has recovered to 2.7% for 2025 and 2.8% for 2026 (moderately below a 3.5% trend), and the risk of US recession has receded.
- Given markets are rebounding to levels prior to 'tariff day', arguably stretched US equity valuations imply the earnings outlook is benign. But is this true, or even likely? Over coming months, the global outlook will undoubtedly be impacted by key geo-political events, from trade to the US tax bill.
- Amid an uncertain global outlook, greater dispersion across economies and regions seems assured. The US's 'own goal' on tariffs should see it bear the brunt of weaker global activity. In contrast, Japan and Europe appear poised for brighter structural growth outlooks, as stimulus in China stabilises growth.
- Australia's outlook is set to improve only moderately as falling interest rates more than offset slower global growth. Faster growth that drives higher living standards will require productivity reforms and more business capex.

What’s driving our views

We trimmed our equity overweight as we take stock of the outlook following an historic rally

It has been a volatile eight weeks in markets, sparked by US President Trump’s ‘Liberation day’ tariff salvo in early April. Amidst this volatility, our constraints-based framework helped us to chart a course through the chaos. We identified a peak in US policy uncertainty in mid-April which we took advantage of by increasing our equity overweight. Since then, the speed and scale of the market rally has been historic, and we believe markets have started to over-price the good news and underprice the still-substantial level of uncertainty and risks to the outlook. As such, we trimmed our equity overweight in May from +3 to +1. We remain cautiously optimistic and ready to respond to emerging risks and opportunities.

Navigating policy uncertainty: Trump 2.0 heralds potential tailwinds for the US economy but also more political and geo-political uncertainty. Investors will need sound frameworks and steady hands to navigate potential disruptions prudently.

Can central banks secure the soft landing? Benign inflation allowed central banks to cement a global rate cutting cycle in 2024. US policy uncertainty presents a key challenge in balancing downside risks to growth with perceived inflation fears.

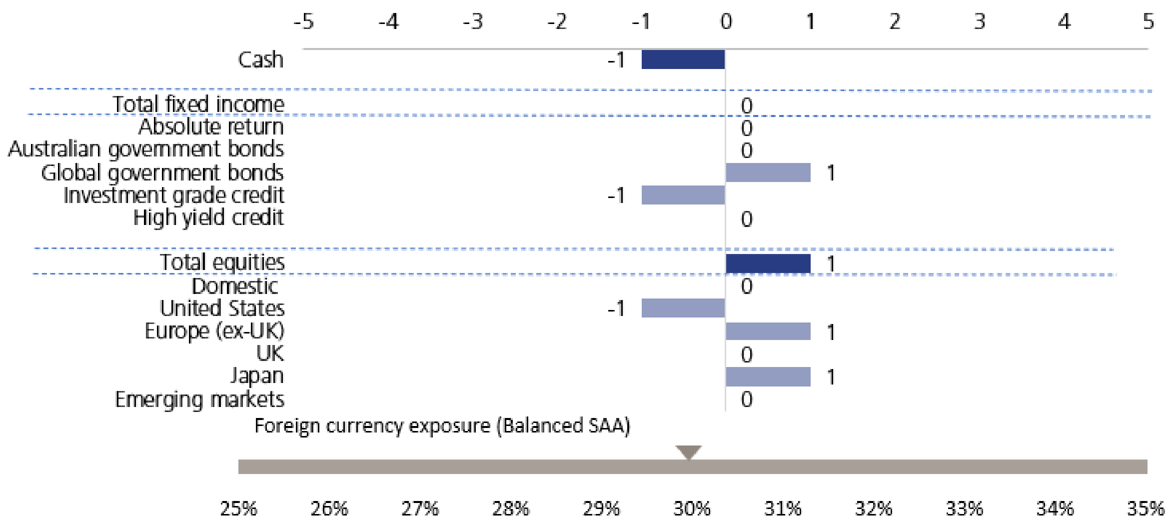
Discovering opportunities beneath the surface: The best opportunities will likely lie beneath the broad index level, rewarding more active ‘hunter’ versus passive ‘gatherer’ investors. This has proven particularly true so far this year.

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

Structural thematics

The reality of a **multi-polar** world will likely create more volatility, presenting growth and opportunities for investors.	Policy uncertainty, cost, energy security, and more extreme physical impacts complicate a **challenging energy transition**.	**Artificial intelligence** presents challenges and opportunities. Advances in pharmaceuticals are a constructive force for the long term.	**Higher base rates** increase forward-looking returns across all asset classes, giving investors more options.

Tactical asset allocations (% weights)



	What we like	What we don’t like
Equities	▪ Japanese equities with corporate reform tailwinds ▪ Actively managed mid-cap equities ▪ Broader (non-mega cap) S&P 500 exposure	▪ Passive or benchmark-aware strategies in concentrated markets ▪ Expensive defensives in Australia (eg CBA and WES)
Fixed income	▪ Actively managed funds investing in higher quality credit ▪ Fixed/floating rate 4 to 7-year senior and tier 2 bank credit	▪ Longer-maturity bonds, which are vulnerable to rising inflation and term premia risk ▪ Lower quality credit vulnerable to higher cost of funds and economic disruptions
Alternatives	▪ Multi-strategy hedge funds and other diversifying strategies ▪ Global venture capital secondaries ▪ Senior private debt, incl corporate, asset-based finance ▪ Global infrastructure across the risk spectrum	▪ Long-bias equity hedge fund strategies ▪ Construction and/or junior lending within real estate ▪ Carbon-intensive assets/ industries with no transition plan

Source: LGT Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocations. Investment grade credit includes Australian listed hybrid securities. Foreign currency exposure is representative of the balanced strategic asset allocation.

Economic and asset class outlook

Economic outlook

Global economy

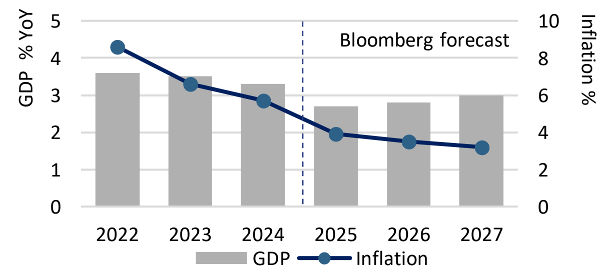
Over the past month, tariff-related headwinds facing the global economy have swung from bad to worse, and back to 'less bad' (compared with pre-'Liberation day'). With tariffs on China having been sharply escalated, largely offsetting the impact of President Trump's earlier pause on reciprocal tariffs for other trading partners, global growth forecasts were being swiftly downgraded during early May. But the recent news of relatively vague 'deals' and negotiations with Europe, the UK and China —together with a reversal in China's tariff's to 'just' 30%—have led to a raft of country forecast upgrades. Market focus has also now turned to the US tax bill. As Barclay's Research notes, "clarity is so close, yet so far…significant disagreements remain, especially on whether the spending cuts go far enough". It could nonetheless be an uplift for sentiment. The tax bill has passed the US House and has moved to the Senate.

Still, growth remains destined for a sub-trend 2.0–2.5% pace in 2025—below the consensus forecast for 3% at the start of the year. Moreover, the risk the US economy goes close to recession in coming quarters remains elevated. As Garnaut Global notes, "Trump [has] continued to back down, delaying US-China tariffs …though with no concessions Trump looks to have blinked as China stayed firm". In the background, "the messaging coming out of Xi Jinping's ongoing four-day state visit to Moscow signals a strengthening of the Beijing-Moscow axis". Despite recent tariff delays, existing tariffs remain the highest since the 1930s and will weigh on near-term global growth.

Surveys of business conditions have softened in April and May, flagging weaker global growth ahead. Nonetheless, for now, 'hard' data (such as jobs and retail sales) have only indicated a modest weakening, particularly in the US, while a likely spike in inflation over coming months has yet to emerge. While a range of central banks, including in Europe, Australia, the UK and India, have trimmed rates over recent months, inflation fears in the US have seen the Fed tilt more hawkish.

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

Global GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Australia

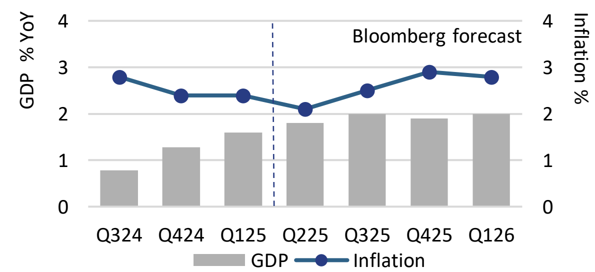
Australia's economy showed signs of recovery in late 2024, after waning sharply mid last year, to a well-below trend sub-1% pace. While the public sector remains the main growth driver, consumer spending revealed better momentum for the first time during Q4. Falling inflation, mid-2024 fiscal easing and the lagged impact of significant wage gains over the past year are likely stabilising consumer activity. Recent interest rate cuts during H1 2025 should support consumer and housing activity further. Still, the outlook remains heavily conditioned by global events, tariff outcomes, China's efforts to stimulate growth, and the extent of any global growth deceleration. The headwind of tariffs for Australia is likely to be less significant than for other countries. The Albanese Labor government was re-elected during May with an increased majority. CBA notes that "this should deliver policy continuity".

Growth rebounded in Q4, up 0.6%, and lifting the annual pace from 0.8% to 1.3%, its fastest in a year. Early 2025 data have been mixed, with soon-to-be released Q1 growth likely to print below Q4's pace (albeit the annual rate should lift). UBS notes that "the recent domestic data signals some fading of momentum. Business conditions in April fell further to the lowest since COVID; and consumer sentiment in May remains notably below average. That said, the level of this 'soft data' remains consistent with real growth growing modestly positively". April retail sales fell 0.1%, signalling a loss of consumer momentum. The jobs market remains firm, with unemployment unchanged at 4.1% over the past year.

Inflation was unchanged in Q1 at 2.4%, comfortably within the 2–3% target. The core 'trimmed' measure was 0.7% for Q1, easing the annual pace to 2.9% from 3.2%, in line with the RBA's 0.7% forecast. Reflecting this, the RBA trimmed the cash rate in May by 0.25% to 3.85%, as expected. However, it surprised with more 'dovish' commentary, trimming its outlook for growth and inflation, while noting that "Inflation is in the target band and upside risks appear to have diminished as international developments are expected to weigh". Both UBS and CBA now expect two more cuts in 2025 (in August and September, with some risk of an earlier July cut).

After growth of just 1.0% in 2024, CBA in May cut its 2025 outlook from 2.1% to 1.8%, while UBS cut its outlook from 2.1% to 1.9%. Both expect stronger growth in 2026.

Australian GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Economic outlook

United States

US growth fell in Q1, its first contraction in three years. This largely reflected a surge in imports to beat tariff imposts. Otherwise, solid domestic activity in Q1 is showing increasing signs of losing momentum in early Q2. Business and consumer confidence continues to weaken, albeit recent de-escalation and modest progress on trade negotiations has eased the worst fears for the macro outlook. As Northern Trust notes, "the Administration has demonstrated a sensitivity to the risks that economic isolationism presents to the economy."

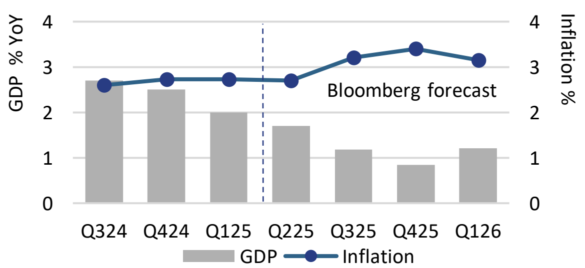
President Trump's trade agenda has led to unmatched volatility in expected tariff rates. 'Liberation day' on 2 April unleashed sharply higher 'reciprocal' tariffs across more than 50 trading partners. China's retaliation saw an escalation that left tariffs at 145%. The US Administration has since paused these tariffs for several months (including those in China), though the 'effective' rate near 15% remains a significant headwind. Indeed, MST Marquee "continues to forecast recession beginning in 2H25…lay-offs, negative migration and, the increase in trade barriers will be too much for the economy".

Growth during Q2 will likely rebound somewhat from Q1's 0.2% annualised fall. However, recent data suggest domestic activity continues to weaken. April retail sales rose 0.1% (after a 1.7% surge), though core sales fell. Consumer confidence in May eased for the fifth consecutive month (down 31% since end-2024). The housing sector remains under pressure "from elevated mortgage rates and rising construction costs tied to tighter immigration policy", according to BCA Research. May's composite purchasing managers' index (PMI) rebounded to 52.1 from 50.6, recovering from its lowest level in 16 months.

Inflation proved benign in April, easing from 2.4% to 2.3%. Tariff impacts appear to be a couple of months away. The Fed kept the policy rate steady for the third consecutive meeting, in a range of 4.25% to 4.50%, as widely expected. The Fed noted that the 'risks of higher unemployment and higher inflation have risen', and post-meeting, Chair Powell repeated his view that the Fed is not in a hurry to change rates.

After strong growth of 2.8% in 2024, UBS has sharply cut its 2025 forecasts from 2.0% to 1.5% (with Barclays Research at 1.3%), with 2026 sliced even further to 1.2% (was 1.8%).

US GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Europe

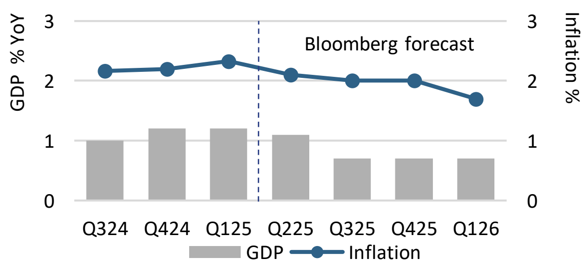
The recent de-escalation of global trade tensions (and their ability to navigate away the latest 50% US impost) is likely to provide some positive support for Europe's growth outlook, albeit it also argues for less rapid ECB interest rate relief. Data has proved more positive during early 2025, but the outlook remains uncertain given global trade tensions and potentially weaker global activity. While lagged, the impact of Germany's sizeable fiscal package and China's latest stimulus should support growth in time. However, Europe is at risk of not securing a US tariff deal by the 90-day deadline, given it suffers from a "collective action problem", according to US Treasury Secretary Bessent, underpinning recent moves to forecast a slowing trajectory for growth through 2025 and early 2026.

Growth rebounded by a solid 0.3% in Q1, around twice the consensus expectation, and maintaining the annual pace at 1.2%. Europe's domestic demand remained resilient, while some front-loading of export demand also supported growth. Growth in Germany and France rebounded after prior declines, while stronger growth in the southern regions of Spain and Italy continued. Retail sales fell 0.1% in March, after 0.2%, easing the annual pace to a tepid 1.5%. May's PMI fell further to 49.5 from 50.4 as recent tariff uncertainty began to weigh. Despite a tight jobs market, wages growth is slowing.

Progress on disinflation was limited in April, as inflation was unchanged at 2.2% and core inflation rose 0.3% to 2.7%. But Easter timing is expected to have contributed to volatility, while there was some moderation in core services inflation. Renewed progress is anticipated for May, despite recent tariff changes. At its most recent meeting in April, the ECB cut the policy rate by 0.25% to 2.25% (its seventh cut this cycle). While the ECB reiterated its data dependent view, President Lagarde noted the dis-inflationary process is "well on track" and described the policy stance as "meaningfully less restrictive", signalling a near neutral stance. The ECB is expected to cut again in early June to 2.0%, especially given recent softer data.

After growth of 0.8% in 2024, UBS recently trimmed its forecast for 2025 from 0.9% to 0.7% (recovering to 1.0% in 2026). Barclay's Research has also lowered its growth forecast to just 0.6% for 2025, before a pick-up to 0.7% in 2026.

European GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Economic outlook

United Kingdom

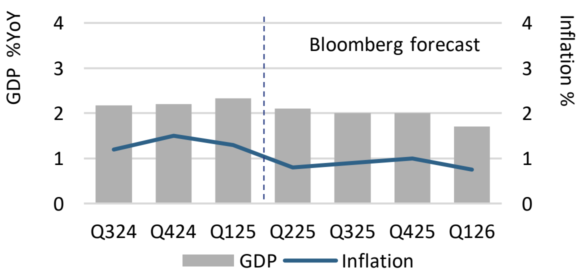
The UK economy continues to surprise positively, with better than expected consumer spending driving strong activity in Q1, while inflation has also surprised higher over the past month. While falling interest rates have been supporting activity, including in the housing sector, recent data may temper the extent to which interest rates can fall, albeit a cooling jobs market and a weaker global backdrop still point to slower growth over the year ahead. Little clarity has emerged about the proposed US-UK trade deal, which according to UBS, maintains tariffs as a significant impost (at circa 9% prior to 1% before the trade tariff upheaval began).

Growth jumped by a stronger-than-expected 0.7% in Q1, led by a pick-up in consumer spending and business investment, together with stronger exports on a likely front-loading of demand ahead of tariffs. Recent data has been more mixed. Retail sales rose by a strong 1.2% in April, surprising forecasts, its fourth rise after four months of weakness. The composite PMI recovered to 49.4 from 48.5, following last month's sharp decline. April jobs fell by 33,000, marking a third consecutive monthly drop. According to BCA Research, "slower labor demand is translating into weaker wage pressures, with private-sector earnings ex-bonus, the Bank of England's (BoE) preferred wage metric, slipping to 5.6% y/y from 5.9%".

The BoE, as widely expected, cut the policy rate by 0.25% to 4.25% in May. However, the decision was more hawkish than anticipated, with two members voting for unchanged rates (on the back or concerns about rising inflation expectations). Nonetheless, the BoE downgraded its outlook for both growth and inflation. After the BoE's rate cut, inflation data for April proved significantly higher than expected, rising from 2.6% to 3.5%. The jump was driven largely by services, especially for regulated utilities and travel (rather than tariff-related goods price increases). Core inflation also rose from 3.4% to 3.8%. UBS expects two further reductions in H2 2025 to 3.75%.

After growth of just 1.1% in 2024, UBS has maintained its recently reduced 0.8% forecast for 2025 (was 1.1%), albeit noting significant uncertainty around the outlook. In contrast, Barclay's Research has recently lifted its forecast for the UK to 1.1% for 2025 and 1.3% for 2026, reflecting recent strength and ongoing attempts to fast-track exports ahead of tariffs.

UK GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Japan

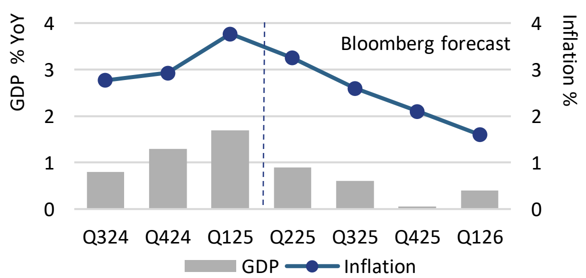
While confidence that Japan's economy is amidst a sustained transition to exit secular stagnation (a persistent headwind for decades), recent developments have led to expectations of a near-term reversal in growth momentum, and the risk of a H2 recession. While persistently stronger wage growth should support consumer spending, business confidence has deteriorated, and the outlook for exports is now weaker, even post the US-China trade war de-escalation. According to UBS, "the effective tariff rate is [still] estimated at 14%". These new headwinds have led to reduced expectations of rate hikes in Japan in 2025. Speculation of additional fiscal easing ahead of the July election has led to a significant rise in market interest rates, also a headwind for investment in the period ahead.

Growth contracted 0.2% in Q1, following Q4's strong 0.6% gain, albeit lifting the annual pace from 1.3% to 1.7%. The decline was led by weaker exports and a jump in imports, in part payback for a strong contribution in Q4. Meanwhile, domestic demand, especially capex, was firm. Recent data has become more mixed. The Q1 Tankan business remained solid, reflecting better inflation expectations and financial conditions. Retail sales fell by a significant 1.2% in March, the first decline in four months. The PMI in May eased from 51.2 to 49.8, on weaker services as manufacturing edged higher. The jobs market remains tight, with unemployment edging higher to 2.5% in March, albeit little changed over the past year.

Inflation has partly reversed its recent strength (on weaker food and energy prices), remaining unchanged in April at 3.6% (its lowest print since January's 4.0%). Having raised rates to 0.50% in late January 2025, the Bank of Japan (BoJ) has held rates steady, including at its May meeting. Most analysts have now delayed forecasts for further hikes into 2026 or 2027, in the wake of the US tariff announcements. At its May meeting, the BoJ was somewhat more dovish than anticipated, with Governor Edua mentioning downside risks to both the growth and inflation outlook in the next two years, according to UBS.

Despite better momentum in early 2025, UBS has now trimmed its forecast growth for 2025 from 1.2% to 0.6% (after 0.2% in 2024). Barclays Research has also trimmed its 2025 outlook from 1.5% to 0.8% (and just 0.5% in 2026).

Japanese GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Economic outlook

China

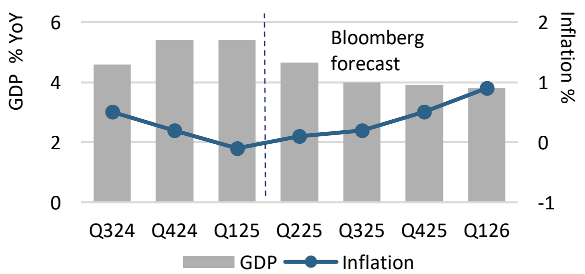
China's outlook remains highly uncertain in the wake of the unfolding US-China trade war. However, the 'roll-back' of the recent tariff spike during negotiations is a positive for China's growth and export demand. However, as Barclays Research notes, after earlier stabilisation in the housing sector, there are now "emerging risks to property investment amid a more rapid deterioration in the housing market in April-May". Recent announcements suggest policy easing is occurring (including rate cuts). But as BCA Research notes, "Beijing's goal is to prevent further deterioration rather than engineer a rebound". Where the trade war settles and the extent of new stimulus, will impact China's growth. Analysts have been reversing prior cuts to China's growth for the year ahead.

China's Q1 growth maintained its Q4 momentum, steady at 5.4%, up from 4.6% in Q3 last year. After a strong finish to the quarter, April's data showed weaker trends. Retail sales growth eased to 5.1% (from 5.9%). Infrastructure and manufacturing both decelerated modestly to high-single-digit robust growth (9.6% and 8.2%). Property sales and new starts declined further to below Q1 levels. Export growth slowed less than expected, although tariff impacts saw shipments to the US dropped 21% while those to ASEAN jumped by 21%. Weaker construction activities (outside the export sector) and a high base weighed on overall industrial production growth (which slowed to 6.1% after 7.7%).

Following the policy settings at the April Politburo meeting, China's regulators held a joint press conference on 7 May to announce additional support measures to stabilise economic growth and bolster market sentiment. According to UBS, "key measures include a policy rate cut by 10bp, relending & PSL rate cut by 25bp, RRR cut by 50bp, new relending facilities to support consumption and innovation, and additional measures to support housing market and exporters". Further rate cuts and additional fiscal stimulus are expected in H2 2025, with potential new fiscal stimulus around end-Q2 or early Q3.

After 5.0% in 2024 (and noting a 5.0% government target), UBS has lifted its forecast for 2025 growth back to 4.0% (after 3.4%) in the wake of the tariff de-escalation. Barclays Research holds a similar view, expecting a slowdown to 4.0% (was 4.3%) in 2025 and 4.0% in 2026.

Chinese GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Emerging markets

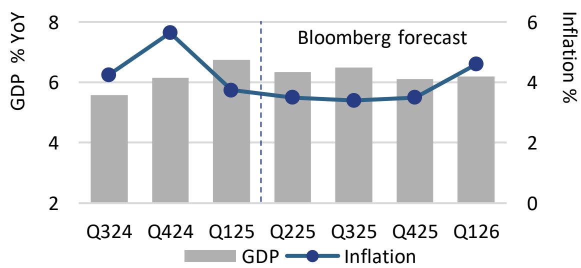
De-escalation of the US-China tariff war undoubtedly provides support to the outlook for emerging market growth, on track for moderately (but not materially) below trend growth over the next couple of years. After the initial 'reciprocal tariffs' (which appeared quite high for the Asian region) were delayed, and now with analysts upgrading growth for China in the wake of de-escalation, the headwinds for emerging market growth, relative to before 'Liberation Day', look closer to an annualised 0.25% than the initial 0.5% or more. With uncertainty persisting about where trade outcomes will settle, emerging economies may also benefit during Q2 from stronger trade and manufacturing activity as demand is front loaded. Moreover, as UBS notes, "governments in Asia are expected to introduce fiscal expansions and targeted fiscal policies to offset [any] growth drag". Economies in Latin American should also benefit from a better trade outlook post the US-China détente.

Central banks in Asia are expected to trim rates several times this year. In May, the Bank of Thailand cut rates for the second time this year (to 1.75%) on a weaker growth and inflation outlook. A now stabilising currency has given the Bank of Indonesia confidence trim to 5.5%, given slower Q1 growth, while Malaysia cut its reserve ratio by 1.0% to support activity. Stable growth and easing inflation are expected to support further rate cuts in the Philippines from next month. Elevated tariff uncertainty is supporting exports in North Asia, where growth surged to 30% in April for Taiwan. High-frequency activity data in India, from tax collections to scooter sales and the manufacturing PMI, suggest growth remains resilient.

Latin America looks set to deliver another year of below trend growth, masking significant divergence across economies. Brazil's growth in February accelerated modestly to a 4.1% pace, ahead of the 3.6% growth recorded for Q4. After hiking by 1% in March, the central bank kept rates on hold at 14.25% in April. Mexico's growth appears to be moderating (after just 0.5% in 2024), albeit February industrial output jumped.

For all emerging markets, after 4.5% in 2024, UBS has lifted the 2025 growth outlook from 3.5% to 3.8%, with 2026 forecast around 3.7%, both below a 4% trend. Barclays Research remains moderately more upbeat with forecasts of 3.9% for both 2025 and 2026.

India GDP growth and inflation



Source: Bloomberg as of 26 May 2025.

Asset class outlook

Absolute return and government bonds

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

Key points

- The US 10-year Treasury yield was trending higher in May, the bond sell-off reflecting concerns around fiscal policies (both in the US and Japan).
- Uncertainty around Trump's tariff policies will keep volatility elevated in the near term.
- The RBA cut 0.25% in May, as the market expected, with opportunities for further rate cuts this year as inflation continues to ease.

Global bond markets have been rattled by ongoing tariff negotiations and concerns over US fiscal policy. Investor concerns are now playing out at the longer end of the curve which is influenced by fiscal policy rather than monetary policy. Yields on US Treasuries surged, with the 10-year exceeding 4.5% and the 30-year exceeding 5%—levels not seen since 2023. At the front end of the curve, the temporary pause in tariff talks led markets to scale back expectations for Fed rate cuts, now anticipating only one or two this year.

Moody's recent downgrade of the US credit rating from Aaa to Aa1, citing rising debt and fiscal imbalances, has added pressure. This downgrade pushed borrowing costs higher and further elevated long-term yields, reflecting investor concern over US debt sustainability. The ripple effects reached Japan, where a poor 20-year government bond auction saw the lowest bid-cover ratio since 2012. This drove the 30-year yield to 3.1%, and broader concerns pushed the 40-year yield to 3.6%. Higher US yields and the BoJ's shift away from ultra-easy monetary policy—along with reduced bond purchases—have driven up domestic yields, especially on longer maturities. Meanwhile, the weak US 20-year Treasury auction further fuelled concerns, pushing the 30-year yield near 5.1%. This reflects unease over the budget outlook and the appropriate long-term premium for US rates.

Global bond markets hinge on policy decisions and economic data. While a pause in tariff tensions offers short-term relief, uncertainty around fiscal policy and trade continues to dampen investor appetite for longer-dated US debt.

The RBA cut the cash rate by 0.25% in May to 3.85%, the first time it has dropped below 4% since 2023. This move reflects easing inflationary pressures, with headline inflation falling to 2.9%, driven in part by global factors such as softening trade tariffs. The RBA remains cautious, closely monitoring labour market conditions and external risks stemming from ongoing global trade negotiations. We anticipate a further two to three rate cuts this year as inflation continues to moderate. The 3s–10s yield curve has remained stable around 85 basis points. In this environment, we see value in the 4–10 year segment of the curve, which offers exposure to the steepest part of the curve and potential for capital appreciation as the easing cycle progresses.

Investment grade credit and high yield credit

Position: Underweight investment grade credit; neutral high yield credit

Key points

- Investment grade and high yield credit spreads have largely retraced the April drawdown.
- There has been strong demand seen in recent Australian dollar primary issues.
- To mitigate against potential downside risks to global growth, our preference is to increase exposure to global government bonds over credit.

Investment-grade credit spreads have largely recovered from April's volatility, with sentiment improving and the volatility index (VIX) falling below 20. Issuers are taking advantage of calmer conditions to accelerate issuance. Issuers had been sidelined during recent volatility, leaving dealer inventories low and recent primary deals well supported. If equity market volatility remains contained, we anticipate a continued flow of issuance as issuers take advantage of the stable conditions.

Macquarie Bank launched dual tranche subordinated tier 2 transaction, a 10.5NC5.5 floating rate tranche at BBSW +185bps and a 15NC10 fixed rate tranche at ASW +195bps (circa 6.15% yield). The bookbuild was well supported, with $6 billion of demand across both tranches and $4 billion interest in the fixed tranche alone. On the back of a successful Macquarie transaction, Westpac launched a 15NC10 fixed rate tier 2 transaction, pricing at ASW +178bps (circa 5.815%). The bookbuild received $3 billion of demand with the issuer printing a $1.5 billion issue size. While yields remain slightly elevated in the near term, we are seeing demand for longer dated fixed rate bonds.

We expect continued stability in the investment-grade credit market, supported by robust corporate fundamentals and sustained investor appetite. However, risks from prolonged geo-political tensions and economic slowdown persist. We remain slightly underweight investment-grade credit and recommend a balanced approach, emphasising quality assets and prudent portfolio rebalancing.

High-yield credit spreads have rebounded sharply, retracing much of April's widening. Spreads peaked near 451bps during heightened trade tensions but have since narrowed to around 311bps as sentiment improved and global negotiations eased. Index yields fell about 70bps to 7.9%, returning to August 2024 levels. Primary issuance slowed as volatility kept issuers on the sidelines, though activity is gradually resuming. Sector dispersion remains pronounced, with energy, consumer products, and retail—more exposed to tariffs—under-performing telecom and services. Despite ongoing geo-political and economic uncertainties, we remain cautiously optimistic on high yield. Strong fundamentals and continued demand for higher yields support the market, but increased credit risk highlights the need for selectivity and disciplined risk management. Discerning investors may still find compelling opportunities amid the volatility.

Asset class outlook

Domestic equities

Position: Neutral

Key points

- The S&P/ASX 200 Total Return Index gained 4.0% in May, underperforming global equities.
- All sectors except for Utilities posted positive returns over May, with the IT sector posting a strong 20% return, its biggest monthly gain since April 2020.
- WiseTech, Life360, Xero and Technology One all posted double-digit percentage gains.

A slightly lower inflation profile and higher global trade uncertainty has led some economists and markets to lower their terminal cash rate view for this year from around 3.5% to 3.1%. The RBA lowered the official cash rate by 0.25% in May to 3.85%. Economists have pencilled in a further 2–3 cuts through to the end of the year.

Historically, the market P/E has tracked the RBA cash rate relatively well. There has been evidence of a widening gap during the last interest rate up cycle, with market P/Es remaining well above their long-run average. However, although still high by domestic standards, the ASX 200 P/E is easily surpassed by the US with its concentration of high-tech growth stocks. Lower rates generally support equity valuations by supporting corporate earnings through various monetary policy transmission channels, as well as making risk-free investment options less compelling.

The impact on equities will vary from sector to sector, but it's logical to expect that consumer spending across both discretionary and non-discretionary items should be supported. According to Citi economists, at a terminal rate of 3.1%, this equates to a around $5 billion increase in household spending capacity over FY26 from reduced net interest payments.

As global manufacturers grapple with trade uncertainty and higher barriers into the US, companies will seek to divert and diversify their end markets, resulting in a disinflationary impulse as items like cars and consumer appliances are diverted away from the US, at the margin. Lower import costs will provide the RBA with the cushion it needs to continue its rate cutting cycle.

At a sector level, the consumer discretionary sector should see margins well supported, as demand is underpinned by greater disposable income and as import costs fall. Residential property exposures, and the REIT sector are expected to benefit from rate cuts, via lower finance costs and a better risk-adjusted comparison to alternative investment options, such as the risk-free government bond.

Despite sub-trend economic growth and waning earnings momentum, the ASX200 index is now up year to date, and within 3% of its all-time high from February. Relief on avoiding a worst-case scenario on tariffs has been the main driver, but valuations now tell us that returns from equities going forward will need to be earnings (not valuation) based.

International equities

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

Key points

- The MSCI World ex-Australia Index gained 5.2% over May, halting three consecutive monthly falls.
- As in Australia, the IT sector led gains in May. Healthcare was a major drag, as uncertainty over drug pricing policies weighed on the sector.
- Regionally, the U.S. was a strong performer, but all major markets moved higher.

The Equity Risk Premium (ERP), the excess return that investors demand from stocks over the risk-free rate, has strong predictive power for equity performance. After studying 100 plus years of data, UBS found that its predictability heavily depends on the current stage of the business cycle, as well as the starting levels of rates and earning yields. Considering those macro regimes, UBS made several conclusions around asset class implications.

- S&P500 expected 10-year total returns have slightly improved, from 6.1% pa in October last year, to 7.2% pa today. This is below its average realised returns historically.
- In the last 12 months, UBS' ERP measure for China has moved from 10.1% to 7.2%, a 2.9 percentage point (ppt) decrease, by far the biggest reduction among the 18 countries that UBS are monitoring
- Elsewhere, the Eurozone screens favourably among even the most attractive developed markets, Japan is attractive, while within emerging markets, Taiwan exhibits the highest expected returns (12.4% pa), helped by low real rates.

Since 8 April, markets have surged back, with both the S&P and Russell 1000 turning positive on a year-to-date basis. While measures of economic policy uncertainty remain high, measures of market risk have calmed and equity markets have turned risk-on. Markets have been quick to shrug off apparent risks to the economy and investors are gravitating back to what worked in 2024—the Magnificent 7 and AI beneficiaries are some of the best performing stocks.

The US lowered tariffs on China during May, to a level closer to 40%, a material step back from the prohibitive 145% rate. This action lowered the effective US tariff rate by nearly 10% ppt. However, at roughly 14% globally, the rate is still a spike from 3.5% at the beginning of this year. It seems logical that this tax will weigh on the outlook for US growth, albeit it removes the tail risk of a contraction in growth. How quickly negotiated trade deals can be implemented remains to be seen. This détente in the trade war has removed, or significantly lowered most strategists' recession call for the US. Nonetheless, global growth is still expected to remain weak over H2 2025. The trade war is not over but from here, US fiscal stimulus (and the US tax bill) might be a more important driving factor for equity markets.

Asset class outlook

Currencies

Key points

- The US dollar stabilised in May following the April sell-off, helped in part by a more hawkish Fed and stabilising rate expectations.
- The Australian dollar is back at the top of its recent USD 0.62–0.65 trading range, benefitting from a modest improvement in risk sentiment during the month.

The US dollar weakened modestly, but looks to have stabilised against most major trading partners in recent weeks, stemming some of its steep post-'Liberation Day' losses. The extent of volatility across financial markets in recent weeks suggests it is too soon to reliably assess whether markets can move on from the US trade shock, or whether the April 'exodus'-like rebalancing out of US assets may continue. Regardless, it is clear to us that the US's extreme policy actions have done significant reputational damage to its standing as an economic, diplomatic, and financial counterparty.

On a fundamental basis, concerns over the US fiscal position relative to the rest of the world points to modest US dollar weakness from here though near-term volatility likely remains elevated. Structural factors including increasing geopolitical multipolarity also point to downside pressures longer-term.

The Australian dollar continued to grind higher over the month, and still trades at the top of its USD 0.62–0.65 range since the start of the year. A dovish RBA cut in May saw the Australian dollar rebound off its USD 0.65 high point. Strong federal and state government spending, a stabilisation in risk sentiment, and potential China stimulus should continue to provide support in the near-term. Our external partners are expecting the currency to end 2025 between USD 0.65–0.68, with US trade uncertainty (and the ensuing impacts on global growth) the prime driver of divergence.

The euro looks to be consolidating in the 1.11–1.14 range against the US dollar as Trump's tariff walk-backs have improved the global outlook and moderated US sovereign risks. We continue to expect the Eurozone to face trade risks on a cyclical basis and macro risks on a structural basis. The scale of the US's own goal on trade aggression and the extent of Germany's fiscal shift may herald the start of a paradigm shift for Europe as it looks to earn its 'seat at the table' in a multi-polar world.

The yen had a volatile month, with recovering global risk sentiment and the stabilising US dollar driving the currency to around 146 vs the US dollar before a swift bounce lower back to around 142. Japan's internal inflation and macro dynamics remain tilted towards policy normalisation and a 'nominal renaissance' in growth to continue over the next 12–18 months, though it will not be immune to volatility surrounding potential trade and geopolitical tensions as we traverse 2025.

Commodities

Key points

- Global commodity prices rose in May amid Trump's tariff walk-backs, as gold hovered near record highs of around USD 3,430 per ounce
- Iron ore prices drifted lower during May, from USD 100 per tonne (p/t) to around USD 97, a near 3% decline that largely reflected a seasonal softening in demand.

Moderating US trade policy supported a bounce back in commodity markets over the month, lifting Bloomberg's broad commodity price index up around 1.8% for the month.

Crude oil prices rose over the month as recession fears eased and geo-political tensions between Israel, the US, and Iran flared. Brent crude is currently trading at around USD 65 per barrel (p/b) towards the end of May, up about 3%.

Meanwhile, gold prices met resistance after setting a fresh record of USD 3,430 per ounce in early May. Moderating downside concerns and easing geo-political concerns saw a partial unwind of safe-have positioning in the previous metal, though it still hovers at around USD 3,340. Uncertainty around the US fiscal and trade policy outlook likely present two-way risks to gold prices from here.

Industrial metal prices were also supported by easing downside concerns. Copper prices are approximately 5% higher over the month while iron ore is trading slightly below the USD 100 p/t mark, down 3% during the month on softer pig iron output and seasonal demand easing.

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

Longer-term themes, including climate change and geo-politics, are likely to support the commodity complex on a secular basis. It is difficult to determine how these competing cyclical and secular forces might evolve over the year ahead. We are particularly cognisant of the risk that a cyclical downturn could outweigh secular tailwinds in the near term.

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

Why do we advocate SAAs to our clients?

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

Why strategic asset allocation?

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

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

Strategic asset allocations in models

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

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

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

Active portfolio weights and tactical asset allocation views

Our current tactical asset allocation views

We believe US trade policy uncertainty has peaked though we don't expect a smooth ride back to pre-'Liberation Day' tariff levels. There are rising downside risks to the macro backdrop but progress on inflation should allow central banks to continue cutting rates, particularly if growth weakens.

We do not see a deep global recession in the near-term, however the likelihood of a mid-cycle slowdown has increased. Australia continues to be challenged by stubborn inflation and stagnant productivity. We are maintaining a nimble stance in the face of evolving macro and geo-political risks.

Why tactical asset allocation?

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

Cash

While we remain underweight cash, we trimmed our position earlier in May following the aggressive market rally from mid-April. This also replenishes our optionality to respond to future buying opportunities should they emerge.

Fixed income

We remain neutral on fixed income, with a slight overweight to global government bonds as a downside risk hedge and to reflect a view that global central banks have more leeway to cut rates than is currently priced.

Alternatives

We favour infrastructure, private debt, hedge funds and diversifying strategies. We are becoming more constructive on real estate globally and anticipate that the next three to six months should present an attractive long-term entry point for those looking past short-term volatility.

Equities

After leaning into equities in mid-April, we made a further intra-month change to trim our +3 equity overweight down to +1 equity in May. This change was to reflect the speed and scale of the market rally and the still-substantial levels of uncertainty relative to market pricing. We remain constructively positioned in equities and favour ex-US regions, particularly Europe and Japan equities.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	^ **-1**	3	3	3	3
Fixed income	**0**	52	34	16	13
Absolute return	0	11	6	2	2
Australian government bonds	0	13.5	7	3.5	2.5
Global government bonds	1	14.5	8	4.5	3.5
Investment grade credit	-1	10	11	4	3
High yield credit	0	3	2	2	2
Equities	v **1**	23	41	59	39
Domestic	0	9	16	24	11
United States	v -1	7	13	19	15
Europe (ex-UK)	1	3	4	6	5
Japan	1	2	3	4	3
United Kingdom	0	1	2	2	2
Emerging markets	0	1	3	4	3
Alternatives	**–**	22	22	22	45
FX exposure	^ **0**	20	30	40	40

v Decreased weight this month ^ Increased weight this month

Source: LGT Crestone Wealth Management. Investment grade credit includes Australian listed hybrid securities. Tactical portfolio changes were made intra month, refer to Special Report "*Prepare for landing - we trim our equity overweight as markets rally*", 7 May 2025.

Our view on fixed income

Australian government bonds

We are neutral Australian government bonds. Domestic bond yields have outperformed the recent volatility in US Treasuries with yields at the front end of the curve reflecting a more rapid shift in monetary policy. While we now like the longer dated bond yields due to the steepness of the curve, our preference is to add duration to global government bonds as central banks continue to trim policy rates.

Global government bonds

We are overweight global government bonds. To mitigate against potential downside risks to global growth, our preference is to increase exposure to global government bonds. We also believe that despite the near-term inflationary impact of tariffs, global disinflation will continue in the medium term and central banks will make further modest policy rate cuts over the coming year.

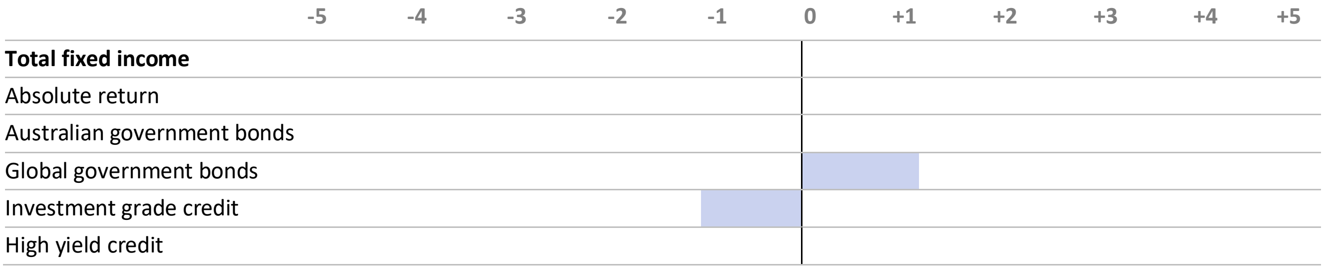
Investment grade credit

We are underweight investment grade credit. Investment grade credit spreads have largely retraced the April drawdown and remain near historically tight levels. However, downside risks to global growth from tariff negotiations persist and we remain slightly underweight.

High yield credit

We are neutral high yield credit. High yield credit spreads have widened sharply. Sector dispersion in the high yield sector remains pronounced with underperformance from more tariff exposed industries. While uncertainty persists, we will stay neutral to higher risk assets. Expectations that the worst of the global recession risks has passed should support some re-narrowing of spreads in the year ahead.

Active fixed income weights (%)—we have increased our exposure to global bonds, neutral fixed income overall



Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	74.66	91.56
Australian 3-year yield	3.34%	3.32%
Australian 10-year yield	4.26%	4.16%
Australian 3/10-year spread	91.5 bp	83.8 bp
Australian/US 10-year spread	-15.7 bp	0.0 bp
US 10-year Bond	4.42%	4.16%
German 10-year Bund	2.51%	2.44%
UK 10-year Gilt	4.65%	4.44%
Markit CDX North America Investment-Grade Index	56.1 bp	67.1 bp
Markit iTraxx Europe Main Index	57.7	68.2
Markit iTraxx Europe Crossover Index	300.0	350.2
SPX Volatility Index (VIX)	19.2	24.7

Source: LGT Crestone Wealth Management, Bloomberg as of 30 May 2025. 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

We are neutral domestic equities. Expectations for the terminal cash rate have been lowered to around 3.1%, providing up to $5 billion in additional household spending capacity. However, with valuations now above 18x P/E, the onus rests with earnings to drive markets higher, with valuation-driven gains likely exhausted.

US

We moved underweight US equities. A détente in the trade war has removed, or significantly lowered most strategists' recession call for the US. Nonetheless, global growth is still expected to remain weak over H2 2025. The trade war is not over but from here, US fiscal stimulus (and the US tax bill) might be a more important driving factor for equity markets.

Europe (ex-UK)

We are overweight European (ex-UK) equities. The historical long-term (negative) picture for Europe has rested on a disinflationary backdrop for its largest export market (China), German fiscal prudence, zero interest rates and energy dependence. All these headwinds are at worst neutralising, and at best becoming a tailwind for a more enduring economic recovery.

United Kingdom

We are neutral UK equities. The valuation of the FTSE 100 Index appears elevated versus US, Japanese, Canadian and most European peers, and could be at risk without stronger earnings prospects. The UK's price-to-growth multiple (forward P/E divided by 24-month-forward EPS growth) at 2.7x is one of the highest among its peers, due to the lowest EPS expectation at 4.6% versus a median of 8.4% for the group.

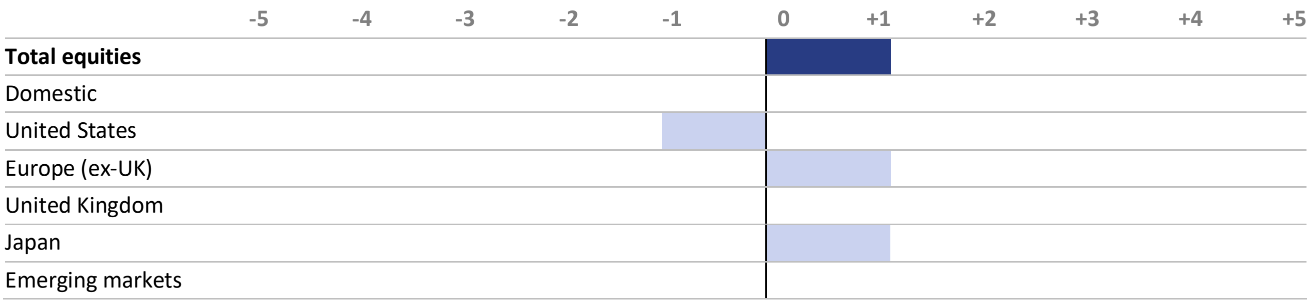
Japan

We are overweight Japan equities. Having corrected sharply in late March and early April, Japanese stocks have subsequently rebounded, returning largely to their pre-correction levels. Corporate governance reform in Japan has been steadily progressing for several years now, notwithstanding macroeconomic machinations

Emerging market equities

We are neutral emerging market equities. The evolution of trade negotiations, and the probability of a US recession will be a key determinant for emerging markets. Simply put, emerging markets do not do well in a US recession. The sweet spot is when the US is growing but not too much (US exceptionalism) or slowing, but not too much (relative growth differentials narrow but do not presage a recession).

Active equity weights (%)—We have increased our overweight to 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	8,409.8	8,516.3	1.3%	18.9	3.4%
New Zealand	S&P NZ 50	12,281.3	13,702.3	11.6%	27.5	3.2%
United States	S&P 500	5,912.2	6,534.0	10.5%	20.1	1.4%
Europe	Euro Stoxx	566.4	620.7	9.6%	13.7	3.3%
United Kingdom	FTSE 100	8,716.5	9,832.9	12.8%	12.2	3.6%
China	CSI 300	3,363.4	3,893.8	15.8%	11.8	3.0%
Japan	Nikkei 225	38,433.0	43,614.8	13.5%	18.2	2.1%
India	Sensex	81,633.0	89,825.6	10.0%	22.2	1.4%

Source: Bloomberg. Data as of 30 May 2025; 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 and diversifiers

High interest rates and greater asset price dispersion continue to support the case for hedge funds, as evidenced by their strong performance through 2024. Recent volatility has served as a strong test case for hedge fund positioning, particularly for long/short and long-biased strategies, many of which struggled going into ‘Liberation Day’ announcements. The test case proved successful with low-beta diversified strategies performing well through to 30 April. Ongoing volatility and longer-term macro and structural market forces should support a more expansive set of long and short opportunities for unconstrained investment vehicles, like hedge funds. Against this backdrop, hedge funds are well positioned to capitalise on a greater magnitude of market dispersion, given their natural role as both liquidity providers and opportunistic investors. Low-beta, multi-strategy exposures are preferred within hedge funds alongside other so-called ‘alternative alternatives’ including royalties, insurance and litigation, given they collectively offer true diversifiers to traditional risk factors.

Private markets

Private equity remains core but policy uncertainty is likely to limit transaction activity. While new deal and exit activity was showing signs of improvement, policy uncertainty is now likely to slow transaction and exit activity in the near term. Company fundamentals remain strong however, and secondary markets are likely to benefit as fund managers and investors seek other forms of liquidity via either GP-led (fund manager) or LP-led (investor) transactions. We prefer new primary commitment structures, or those that can invest in secondary opportunities. Regarding secondaries, we continue to re-iterate that investors should not be complacent nor be overly focussed on the upfront ‘discount’ at the expense of portfolio quality.

Private debt is preferred, albeit competition is increasing. While base rate cuts in the US have reduced total yields, risk-adjusted returns continue to be attractive relative to other asset classes. However, public markets have re-opened, which has increased competition, and spreads are tightening. Direct, sponsor-backed transactions versus broadly syndicated strategies are preferred, as loan terms can be negotiated directly, but we are also looking at private, asset-backed finance and other means to provide more diversified exposures. A particular area of interest currently is private debt secondaries, a relatively nascent market but one with favourable pricing and supply/demand dynamics, combined with the benefit of enabling far greater diversification relative to single strategy/manager solutions. We remain cautious on construction and land-focussed real estate lending and keep an eye on those lenders converting cash-paying loans to so-called ‘payment in kind’, which could indicate borrower stress.

Real assets

We are more constructive on global real estate. Both US and domestic property indices are now suggesting a shift in sentiment. While they may move further, particularly in lower quality assets, 2025 should present an attractive long-term entry point, particularly as rising replacement costs may limit future supply. Moderating interest rates should also support valuations. Investors should focus on high quality assets without making heroic assumptions about future interest rate moves or value-add initiatives. Trying to pick the bottom of the market will remain challenging but on a medium- to long-term view, core-plus property equity looks attractive. We currently prefer global over local markets.

Infrastructure is the most preferred sub-asset class within alternatives. Infrastructure continues to perform strongly, given its more defensively positioned assets with often long-term, inflation-linked contracts. It also plays to long-term, multi-decade structural growth themes, most notably decarbonisation and digitisation, where we are happy to take on a little more risk through value-add exposures. An attractively priced and growing secondary market is creating opportunities and supporting new investment vehicles, which are more suitable to private clients. Versus institutional clients, private clients remain underinvested in unlisted infrastructure. An increased exposure to this segment should improve long-term portfolio outcomes on both return-enhancing and risk-reduction measures.

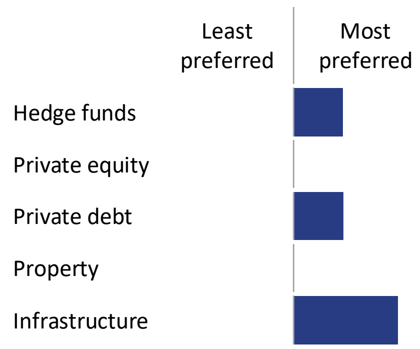
We favour infrastructure, private debt, hedge funds and diversifying strategies, and are maintaining private equity exposures. We are becoming more constructive on real estate globally.

What we like

- Multi-strategy hedge funds and other diversifying strategies
- Senior private debt, including corporate and asset-based finance. Private debt secondaries
- Global infrastructure across the risk spectrum, particularly playing to long-term structural themes.

What we don’t like

- Long-bias equity hedge fund 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 GIC's Industry Group for longer-term investors. While we also overlay valuation, companies are included based on anticipated three to five-year performance. When analysing companies to add to the list, some metrics we consider are:

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

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Com. Services	$242.21	$250.69	55.7	1.0%	44%	33%	17%	AA
ALL	Aristocrat Leisure Ltd	Con. Disc.	$62.18	$71.18	25.3	1.4%	28%	23%	14%	AA
TLC	Lottery Corp Ltd/The	Con. Disc.	$5.20	$5.44	32.0	3.1%	21%	109%	14%	AA
MTS	Metcash Ltd	Con. Staples	$3.41	$3.77	13.7	5.2%	18%	17%	8%	AAA
ALD	Ampol Ltd	Energy	$25.39	$30.69	15.8	4.0%	13%	13%	38%	AA
BPT	Beach Energy Ltd	Energy	$1.35	$1.45	6.7	5.1%	17%	13%	3%	AAA
MQG	Macquarie Group Ltd	Financials	$212.98	$212.12	19.7	3.4%	3%	11%	8%	AA
SUN	Suncorp Group Ltd	Financials	$20.82	$20.75	16.8	4.6%	7%	12%	-3%	AAA
COH	Cochlear Ltd	Health Care	$271.26	$285.95	43.3	1.6%	27%	22%	14%	AAA
RMD	ResMed Inc	Health Care	$38.07	$44.48	25.7	0.6%	30%	26%	7%	A
CSL	CSL Ltd	Health Care	$249.59	$319.64	24.6	1.2%	14%	17%	13%	AA
MND	Monadelphous Group	Industrials	$17.21	$16.44	21.5	4.0%	20%	16%	4%	AAA
BXB	Brambles Ltd	Industrials	$23.07	$21.37	25.0	1.6%	21%	27%	11%	AAA
XRO	Xero Ltd	Info. Tech.	$183.63	$198.30	87.6	0.0%	13%	14%	37%	AA
IGO	IGO Ltd	Materials	$3.99	$4.89	na	0.2%	-7%	-3%	-186%	AAA
JHX	James Hardie Industries	Materials	$35.63	$44.02	15.3	0.0%	35%	29%	16%	AA
GMG	Goodman Group	Real Estate	$31.90	$36.41	27.0	0.9%	11%	11%	10%	AA
APA	APA Group	Utilities	$8.24	$8.72	67.5	6.9%	6%	7%	59%	AAA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 30 May 2025. ESG is environmental, social, and corporate governance.

Trade opportunities

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

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

Goodman Group (GMG AU) – Buy. Goodman has de-rated due to a large capital raising, uncertainty over data centre capex own history and peers, and is cheaper now than it was before it announced its data centre pipeline.

Aristocrat Leisure (ALL AU) – Buy. ALL has fallen 25% from its all-time highs, exacerbated by a weak 1H result where its key Fee Per Day, a key indicator of recurring revenue, disappointed relative to expectations. Over the past 13 years, buying the stock after a 25% fall has resulted in a positive one-year forward return ~98% of the time.

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 price target	P/E 1yr fwd (x)	P/B 1yr fwd (x)	Franking	Div. yield	1yr DPS growth	MSCI ESG rating
SUN	Suncorp Group Ltd	Financials	$20.82	$20.75	16.8	1.6	100%	4.6%	-10.6%	AAA
MQG	Macquarie Group Ltd	Financials	$212.98	$212.12	19.7	2.2	35%	3.4%	7.5%	AA
ANZ	ANZ Group Holdings Ltd	Financials	$28.99	$28.22	12.6	1.2	100%	5.7%	-0.5%	AA
QBE	QBE Insurance Group Ltd	Financials	$23.58	$24.14	13.0	2.1	20%	3.3%	5.1%	AAA
COL	Coles Group Ltd	Cons. Staples	$21.68	$21.09	26.4	7.7	100%	3.2%	13.8%	AA
MTS	Metcash Ltd	Cons. Staples	$3.41	$3.77	13.7	2.4	100%	5.2%	9.6%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc.	$5.20	$5.44	32.0	38.8	100%	3.1%	10.5%	AAA
TAH	Tabcorp Holdings Ltd	Cons. Disc.	$0.70	$0.75	39.0	1.3	0%	2.0%	28.6%	AA
TLS	Telstra Group Ltd	Com. Services	$4.78	$4.79	25.0	3.7	100%	4.0%	6.3%	AA
CAR	CAR Group Ltd	Com. Services	$35.43	$37.90	35.9	4.3	0%	2.2%	12.9%	AA
RMD	ResMed Inc	Health Care	$38.07	$44.48	25.7	6.5	100%	0.6%	8.8%	A
PME	Pro Medicus Ltd	Health Care	$280.00	$231.96	256.2	131.7	100%	0.2%	40.5%	BBB
REP	RAM Essential Services	Real Estate	$0.61	$0.74	14.8	1.4	0%	8.3%	2.0%	-
MGR	Mirvac Group	Real Estate	$2.30	$2.35	19.0	1.0	0%	4.0%	5.5%	-
IRE	IRESS Ltd	Info. Tech.	$8.61	$9.43	24.3	4.2	0%	2.6%	24.0%	AA
DBI	Dalrymple Bay Infras.	Industrials	$4.05	$4.35	20.9	1.8	59%	5.8%	3.8%	-
ALX	Atlas Arteria Ltd	Industrials	$5.26	$5.51	21.9	1.2	0%	7.7%	2.0%	AA
APA	APA Group	Utilities	$8.24	$8.72	67.5	3.8	0%	6.9%	1.4%	AAA
ALD	Ampol Ltd	Energy	$25.39	$30.69	15.8	1.9	100%	4.0%	57.1%	-
AMC	Beach Energy Ltd	Energy	$1.35	$1.45	6.7	0.9	100%	5.1%	5.8%	AAA
BHP	BHP Group Ltd	Materials	$38.17	$42.67	11.4	2.7	100%	2.8%	-1.4%	A
AMC	Amcor PLC	Materials	$14.12	$17.01	12.5	3.4	0%	3.6%	3.5%	AA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 30 May 2025. ESG is environmental, social, and corporate governance.

Trade opportunities

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

CAR Group (CAR AU) – Buy. CAR has grown its dividend every year since listing in 2009, growing at a 13.5% compound annual growth rate. It has leveraged its first mover advantage into a significant network effect in the Australian market. There is considerable scope for growth among its international segments, where it is yet to maximise yield from its clear advantage.

Metcash Limited (MTS AU) – Buy. Earnings revisions have turned positive over the past several months and the stock still trades 10% below its long-term average multiple. As rate cuts permeate the economy, MTS's slightly more cyclically exposed business (hardware in particular) should have it well placed to perform.

Atlas Arteria (ALX)—Buy. The company is forecast to distribute 7.6% in dividends in the coming 12 months. A new concession tax, which is being imposed on traffic networks, is fully priced, yet there is a chance it will be overruled by the French constitutional court. Even if the tax is upheld, Atlas may seek compensation, which is all upside to its current price.

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 target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
GOOGL US	Alphabet Inc	Com. Services	USD	171.86	201.74	17.5	0.4	2,091,997	BBB
UMG NA	Universal Music Group	Com. Services	EUR	27.95	29.95	26.8	2.3	58,209	AA
DIS US	Walt Disney Co/The	Com. Services	USD	112.02	123.31	19.6	1.0	201,384	A
9988 HK	Alibaba Group Holding	Cons. Disc.	HKD	113.90	161.57	11.9	0.7	277,308	BBB
NKE US	NIKE Inc	Consumer Disc.	USD	61.44	74.45	28.6	2.6	90,685	BB
SBUX US	Starbucks Corp	Consumer Disc.	USD	84.05	88.59	34.3	3.1	95,514	A
ABNB US	Airbnb Inc	Consumer Disc.	USD	128.36	138.71	30.1	0.0	80,590	BB
RMS FP	Hermes International	Consumer Disc.	EUR	2383.00	2562.50	52.6	0.9	285,660	BB
COST US	Costco Wholesale Corp	Consumer Staples	USD	1008.74	1063.30	55.6	0.5	447,561	A
288 HK	WH Group Ltd	Consumer Staples	HKD	7.15	8.40	8.0	0.9	11,701	–
SHEL LN	Shell PLC	Energy	GBP	2441.50	2973.79	10.6	0.1	195,619	AA
LSEG LN	London Stock Exchange	Financials	GBP	11365.00	12798.80	28.4	1.4	81,094	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	77.22	80.65	10.4	5.3	62,460	AA
WFC US	Wells Fargo & Co	Financials	USD	74.51	77.68	12.9	2.5	242,469	BB
2318 HK	Ping An Insurance Group	Financials	HKD	45.65	61.36	5.9	6.1	122,607	A
939 HK	China Construction Bank	Financials	HKD	6.99	8.28	4.9	5.8	226,364	AA
MA US	Mastercard Inc	Financials	USD	577.78	625.38	36.2	0.6	524,652	AA
JNJ US	Johnson & Johnson	Health Care	USD	153.58	171.71	14.5	3.5	369,525	A
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	453.65	622.74	17.0	3.4	308,321	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	555.75	574.72	71.5	0.0	199,191	A
EXPN LN	Experian PLC	Industrials	GBP	3683.00	4334.69	28.5	0.0	45,584	A
DSV DC	DSV A/S	Industrials	DKK	1548.00	1751.32	28.0	0.6	56,656	AA
2330 TT	Taiwan Semiconductor	Information Tech.	TWD	967.00	1221.70	16.3	2.0	842,045	AAA
ASML NA	ASML Holding NV	Information Tech.	EUR	665.50	766.01	28.5	1.3	297,608	AAA
MSFT US	Microsoft Corp	Information Tech.	USD	458.68	513.08	34.2	0.8	3,409,159	AA
ACN US	Accenture PLC	Information Tech.	USD	317.73	358.17	25.0	2.0	199,130	AA
SHW US	Sherwin-Williams Co	Materials	USD	355.75	381.32	29.9	1.0	89,151	A
EQIX US	Equinix Inc	Real Estate	USD	887.43	1013.82	61.6	2.3	86,808	AA
ORSTED DC	Orsted AS	Utilities	DKK	268.30	297.55	12.7	3.8	17,168	AAA
		Average Yield:					**2.0%**		

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 30 May 2025. ESG is environmental, social, and corporate governance.

Recommendations:
Thematic investing – Supply Chain Disruption

Objective of this list

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

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

Supply chain disruption—Select exposures.

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

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
AMZN US	Amazon.com Inc	Consumer Disc.	USD	187.39	247.51	22.5	0.0	1,988,651	BBB
BABA US	Alibaba Group Holding	Consumer Disc.	USD	118.88	164.94	11.8	5.3	283,873	BBB
EBAY US	eBay Inc	Consumer Disc.	USD	67.20	64.50	11.9	1.8	31,315	A
WMT US	Walmart Inc	Cons. Staples	USD	96.04	106.83	32.6	1.0	768,405	BBB
SHEL LN	Shell PLC	Energy	GBP	2443.00	3106.00	8.5	0.1	195,635	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.18	1.51	5.6	6.6	1,719	--
LLOY LN	Lloyds Banking Group	Financials	GBP	73.18	77.80	7.7	0.1	58,937	AA
DSV DC	DSV A/S	Industrials	DKK	1288.50	1679.43	19.5	0.7	47,194	AA
KNIN SW	Kuehne + Nagel	Industrials	CHF	186.85	207.33	18.6	4.2	27,392	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	37.03	43.86	11.0	5.2	50,528	A
DE US	Deere & Co	Industrials	USD	460.64	490.86	21.0	1.5	125,024	AA
BXB AU	Brambles Ltd	Industrials	AUD	20.50	21.56	20.0	2.0	18,005	AAA
WTC AU	WiseTech Global Ltd	Info. Tech.	AUD	88.22	120.93	59.8	0.2	18,884	AAA
ACN US	Accenture PLC	Info. Tech.	USD	298.47	354.04	21.8	2.1	187,059	AA
INTC US	Intel Corp	Info. Tech.	USD	20.34	21.14	24.6	0.3	88,723	AAA
SAP GY	SAP SE	Info. Tech.	EUR	254.60	273.77	34.6	1.1	355,659	AAA
GMG AU	Goodman Group	Real Estate	AUD	29.70	36.79	22.7	1.0	38,590	AA
PLD US	Prologis Inc	Real Estate	USD	103.10	119.61	27.9	4.1	97,896	A

Source: Bloomberg Analyst consensus and MSCI Research. Data as of 30 May 2025. ESG is environmental, social, and corporate governance.

Important information

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