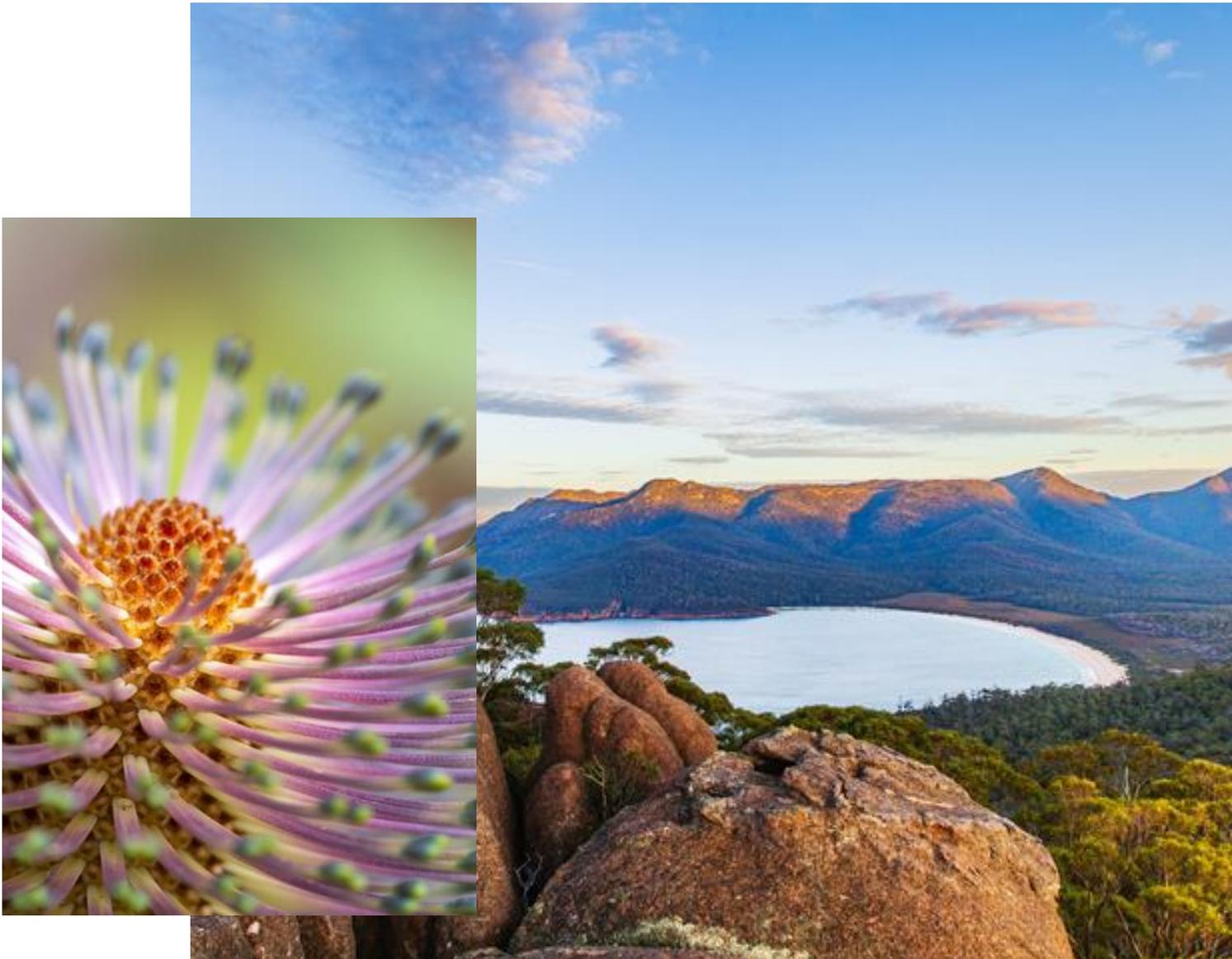




Wealth
Management

Australia's shifting outlook ...but are we asking the right questions?



Core Offerings March 2026

Chief Investment Office, Australia

Our Australian investment team's view of the markets and insights into our latest strategic and tactical positions

| Forward-looking
for generations

Contents

- 3** CIO Monthly update
- 8** What's driving our views
- 9** Tactical Asset Allocation
- 10** Strategic Asset Allocation

Economic outlook

- 12** Global economy
 - Australia
 - United States
 - Europe
 - United Kingdom
 - Japan
 - China
 - Emerging Markets

Asset class update and outlook

- 17** Fixed income
- 19** Alternatives, FX and Commodities
- 21** Equities

Australia’s shifting outlook ...but are we asking the right questions?



Scott Haslem
Chief Investment Officer

“I hope the government turns out to be more ambitious than it currently looks like it will be because if it doesn’t and productivity growth remains weak, the supply capacity of the economy will remain weak. That means that demand growth has to remain weak and real wage growth has to remain weak. That’s the fundamental problem”.

Dr Phil Lowe, former RBA Governor, February 2026

As investors, we are being challenged ferociously in the early months of 2026. While a casual glance at market indexes doesn’t scream alarm, below the surface, at a stock, bond, sector and regional level, volatility is rife. Some of this reflects this year’s relatively ‘hot’ start to geo-politics, as we discussed last month. But increasingly, violent bouts of dispersion are sourced from the uncertainty investors now face in assessing the likely ‘creative destruction’ associated with artificial intelligence’s (AI) pervasive acceleration. Which companies and sectors will lead in this AI apocalypse, how resilient are their moats, and who can reinvent themselves to survive and create value?

These are issues we will undoubtedly revisit – and provide guidance on – as we navigate this year. Markets in Australia, too, are mirroring many of these uncertainties. In this month’s *Core Offerings*, we turn our attention to Australia’s shifting interest rate debate. While we discuss the challenges facing the Reserve Bank of Australia (RBA) as it battles the recent uplift in inflation, we focus on what we believe are the more meaningful questions. Are we comfortable with an economy confronting a now lower 2% speed limit with a much larger government sector, a depressed level of business capex that’s impeding productivity, and an increasingly unaffordable housing sector?

Inside, we also briefly discuss our year-ahead outlook for Australian equities, and how they compare to global developed and emerging markets. We flag our decision to move overweight domestic government bonds where we believe starting yields are now attractive. We also update our latest thinking on the currency, which has the potential to squeeze higher near term.

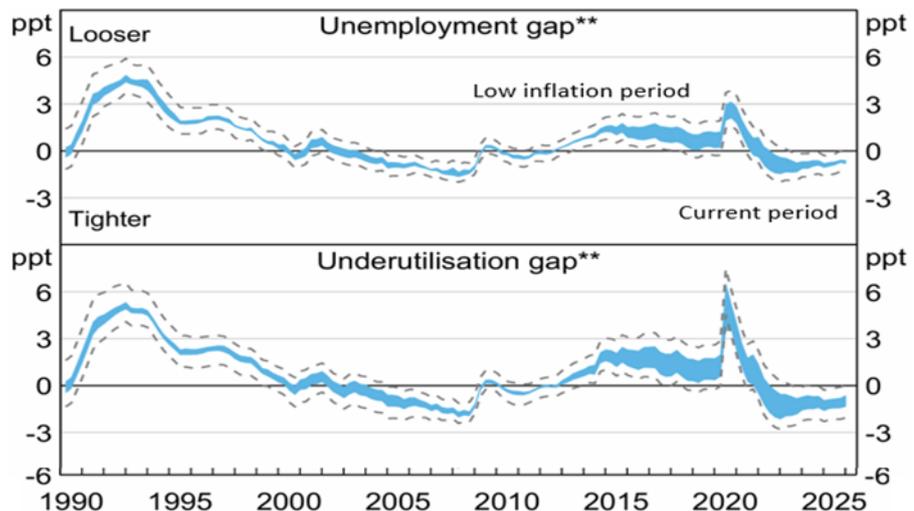
The RBA has fundamentally re-assessed the outlook for growth and inflation

During the second half of 2025, the cyclical recovery in Australia’s economy gathered momentum. The RBA had modestly trimmed their policy rate from a peak of 4.35% to 3.60% between February and August, contributing to stronger demand across housing and consumer sectors. Indeed, the economy’s growth rate accelerated from below 1% mid-2025 to just over 2% by end-2025.

As the narrative goes, 2025 and 2026 are the years where the growth baton will be passed from the public sector (which has been expanding rapidly) to the private sector (which has been in recession), creating room for renewed business capex, potentially spurring productivity with the hope of reinvigorating non-inflationary (near 3%) growth that boosts household living standards.

To date, the government sector – both federal and state – appears to have struggled to release the growth baton. Moreover, while the global economy retains its clearly disinflationary bias (for now), Australia’s cyclical recovery now appears to be supported by an increasingly positive global growth backdrop. As UBS notes, “the key lead indicators of the global cycle, such as PMIs and trade, are tracking higher. This is likely supporting commodity prices, which is important because Australia’s largest export is commodities, and hence Australia’s export values [are being] boosted solidly”.

Figure 1: RBA estimates of the economy’s ‘spare capacity’ have not returned to the ‘low inflation’ period



Source: ABS; ANZ-Indeed; NAB; RBA, LGT Wealth Management (annotations); Blue-shaded region shows illustrative range of central gap estimates from a selection of (RBA) models

“Unit labour costs also continue to highlight the cost pressure on businesses which are paying higher nominal wages and not being compensated by productivity growth. Combined, these dynamics can create margin and inflationary pressures for businesses”.

CBA Research,
February 2026

Economists’ growth models rely on “highly simplified” assumptions that strip away much of the real-world complexity they seek to describe. Their value lies in framing possibilities, not predicting precise outcomes.

Daniel Sussking,
Growth: A Reckoning
(2024)

Together with an unexpected reacceleration in inflation through H25, these factors have led the RBA to reverse course in early 2026, and become one of the first in the developed market (apart from Japan) to hike rates this cycle. Like most economies, Australia’s jobs market has been relatively firm (with unemployment up only modestly). And with inflation reaccelerating above the 2-3% target, the new narrative is, as RBA Deputy Governor Hauser recently enunciated, that inflation is too high, partly reflecting a stronger economy that is operating against capacity constraints.

Hiking rates - the path of least resistance: Given this, the RBA has chosen the path of *least resistance*. It’s hard to be too offended by this (even if one questions how the Bank went from a vote of 9-0 to cut rates in August to 9-0 to hike them just six months later). Growth has reaccelerated; inflation is too high. Of course, there are parallels to other economies that are not hiking rates. In the US, the Federal Reserve’s (Fed) core PCE (it’s preferred inflation measure) is well above its target, growth is running well above trend, yet the market is priced for rate cuts.

Key to the RBA’s reassessment is its focus over the past year on updated models of the economy that suggest a constrained capacity environment (low productivity, see Figure 1), that suggests the economy’s ‘potential’ rate of growth, or speed limit, is closer to 2% (no longer around 2¾%). Moreover, their analysis suggests that the unemployment rate below which inflation rises is about 4½% (not below 4%) and thus the ‘neutral’ or average cash rate might be 3.6% (not toward 3% as previously thought). Given that recipe, with the cash rate only at ‘neutral’, growth near potential and inflation rising, it’s no surprise the RBA hiked rates. Of course, as Daniel Susskind argues in *Growth: A Reckoning* (2024), economists’ growth models rely on “highly simplified” assumptions that strip away much of the real-world complexity they seek to describe. Their value lies in framing possibilities, not predicting precise outcomes. More time will help validate the RBA’s thinking.

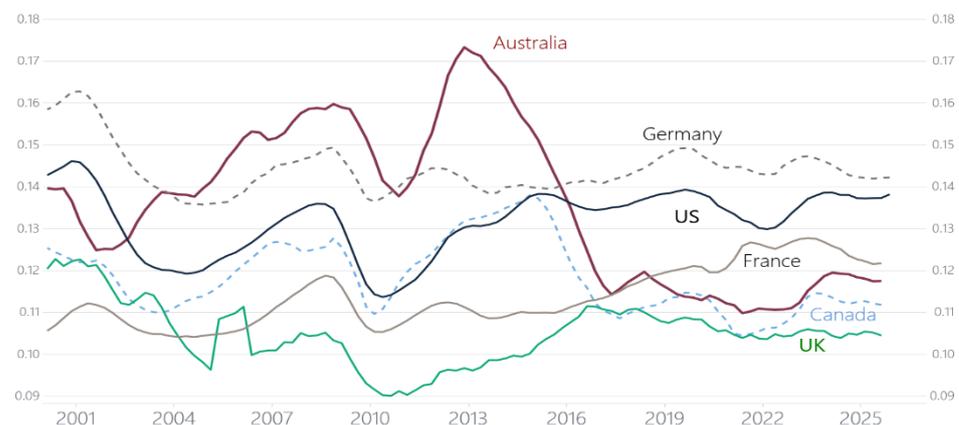
Holding rates (no longer cutting) - the path of least regret: Which then raises the issue of whether the RBA could have taken what might end up being the path of *least regret*. Rather than reversing course to hike rates, the framing could have been more about the next move being higher should inflation trends not improve, holding fire to assess what has been a rapidly changing global and domestic geo-macro and data environment.

There has clearly been a lot of volatility in the inflation data, led by travel prices during the Ashes tour and government electricity rebates. Growth in private demand of 3.1% (recovering only relatively recently from 0.6%) is well below its pace ahead of prior hiking cycles, while employment growth of just 1.0% is half its average pace. With consumer confidence collapsing back to where it was before the first rate cut last year, and recent consumer spending data weakening, there’s a reasonable risk the economy will (regretfully) slow sharply over the rest of 2026.

And as far as the inflation outlook is concerned, there’s a strong case for lower outcomes as we move into H226. As Andrew Ticehurst from Nomura pens, “monetary policy is now tighter, fiscal policy is likely to be tightened a little bit, and the Australian dollar has risen as well...they’re all moving in a way which is going to cause growth momentum to slow this year”.

But is this the right debate, and are these the right questions? Sure, the RBA looks likely to hike rates one more time this year (most likely May), after which growth and inflation should (cyclically) retrace. Longer term, there appears to be more important structural topics to debate.

Figure 2: Australia’s business capex has retraced sharply over past decade (% nominal GDP, 4 quarter ma)



Source: Australian Bureau of Statistics, Statistics Canada, U.K. Office for National Statistics (ONS), French National Institute of Statistics & Economic Studies (INSEE), German Federal Statistical Office (Statistisches Bundesamt), U.S. Bureau of Economic Analysis (BEA), Macrobond, LGT Wealth Management

Source: CBA, LGT Wealth Management, Macrobond

Key questions for Australia’s medium-term outlook

Why has trend growth slowed to just 2% and how can we lift it?

Over various long periods in Australia’s past, growth has averaged 3.3%, and from 2000-20, growth averaged 2.8%. But since mid-25, a range of forecasters – including the RBA, Barrenjoey, and CBA – have independently estimated that our ‘potential’ has collapsed to just over 2%. CBA put Australia’s “speed limit” at 2.1%/2.2%, attributing this to “persistently weaker productivity”.

Productivity, as a key contributor to the economy’s speed limit, also has a significant impact of what our ‘neutral’ RBA cash rate is – the rate above which policy is deemed to be ‘restrictive’. Previously, the RBA viewed a 3.6% cash rate (before last month’s hike) to be restrictive but has since shifted that view given the recent rising in inflation. Productivity also impacts estimates of the NAIRU – the non-accelerating inflation rate of unemployment – the rate above which inflation stops rising. This too has been lifted from around 4.1% by the RBA to 4.8% in its modelling (meaning today’s 4.1% unemployment rate needs to rise for the RBA to be confident inflation is returning to its target).

All of this is wrapped up in the RBA’s assessment that due to low productivity, Australia’s current 2.1% growth rate has consumed our ‘supply capacity’, which in turn is intimately linked to our failure to maintain our past near-3% speed limit via improving productivity. That lack of productivity growth is most frequently attributed to our lack of meaningful supply-side reform (despite our ability to host productivity round tables) as well as the rise in dominance of low-productivity services sectors, which in Australia’s case, has been led by the care economy and public sector more broadly.

Are we comfortable with the collapse in business capex (while it booms elsewhere)?

There’s no doubt the most recent data for Q3 signal a turn higher in Australia’s business investment, not surprisingly led by software investment. This is a pleasing development that provides some hope that the more cyclical elements of productivity will resurface in the period ahead and help support lower inflation and a higher growth ‘speed limit’ for the economy. But there is also little doubt that the collapse in our business capex from high teens as a share of GDP to low teens since 2016 (Figure 2, previous page) has been a critical contributor to Australia’s poor productivity performance (and new lower growth speed limit). Many will argue this reflects the unwind of the extraordinary mining capex boom from the early 2000s to mid-2010s. There is also the trend toward capital-light growth in a services and digitally dominated world (though this is also a global trend).

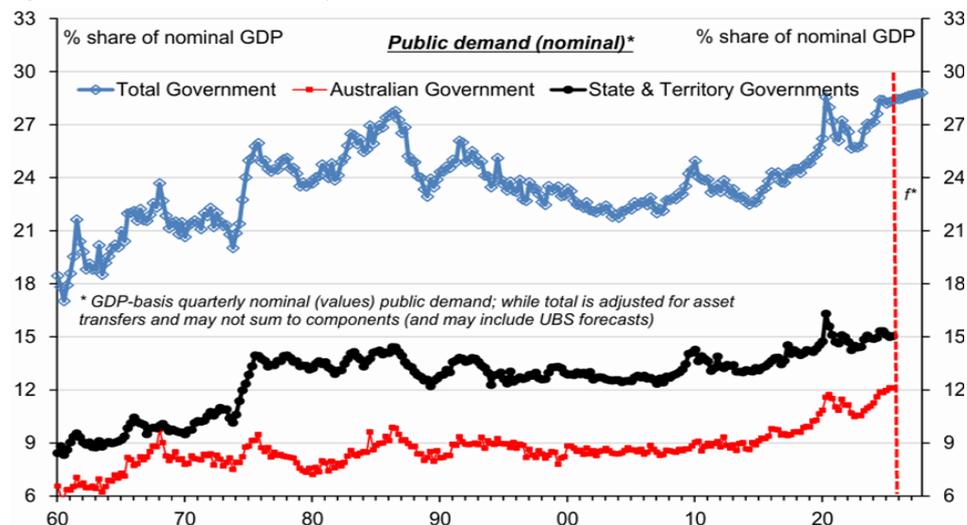
The key question is why the non-mining sector has not been able to fill that productivity gap. This likely reflects a range of factors, and we highlight three. Firstly, there is low expected demand. RBA research late last decade identified ‘expected demand’ as a key driver of firms’ capex plans, and linked business pessimism about the outlook to weak capex, despite low interest rates. Secondly, the Productivity Commission (PC) identified high input costs and regulatory complexities (including regulatory uncertainties) as a key headwind. Thirdly, there are structural factors, such as Australia’s high company tax rate relative our OECD peers (a factor highlighted by the Treasury and the PC). Australian firms’ bias to M&A and buybacks versus ‘risky’ organic expansion has also played a role.

Australia’s current 2.1% growth rate has consumed our ‘supply capacity’ which in turn is intimately linked to our failure to maintain our speed limit through productivity growth.

That lack of productivity growth is most frequently attributed to our lack of meaningful supply-side reform (despite our ability to host productivity round tables).

The key question is why the non-mining sector in Australia has not been able to fill that productivity gap. This likely reflects a range of factors, from business pessimism regarding likely future demand, regulation headwinds and high company taxes.

Figure 3: Public demand – consumption and investment – has risen to a record share



Source: UBS, ABS, Macrobond

"The pace of Government spending is almost unprecedented, in the context of an economy growing above potential, with a very low unemployment rate that is tighter than full employment."

UBS Investment Bank
February 2026

"We haven't built enough housing to meet the needs of a growing population, especially homes in places where people most want to live — that is, in established suburbs close to jobs, transport, schools, and other amenities..

...that is largely because state land use planning regimes have made it too hard to build more homes in the established suburbs".

Grattan Institute
2025

Is a rising share for the government in the economy a cause for concern?

The recent rise to a record-high share for government activity in growth (see Figure 3) largely reflects structural expansions in health, disability and aged-care programs, a sustained public-infrastructure and energy-transition pipeline, higher defence outlays. The relatively weak private sector – both investment and consumption – over the past few years until mid-2025 has also contributed.

It might be argued that a larger 'state' is a necessary response to ageing, climate and security challenges and at least previously, acted as a stabiliser where the private sector was in recession. However, it's also hard not to be more concerned about crowding-out of the private sector, lower productivity (and its consequences for trend growth) and rising fiscal risk.

Ahead of this year's May budget, the government is facing increased calls to slow the pace of its spending. Government revenue in the first half of this budget year is up 5%, led by 7% growth in personal income taxes. However, of concern, as noted by UBS, is that government spending has "mega-boomed" to be running at 15% y/y, its fastest since the COVID-related peak in 2021.

Are we OK with housing's poor social outcomes and persistent inflation pressure?

If there's one structural issue that keeps coming up in our discussions about Australia, it's housing. It's no longer just a social challenge – it has become a macro headwind. We've had very strong population growth, particularly post COVID, for which housing supply has been unable to keep up. There is an argument that too much capital has gone into bidding up the price of existing dwellings and land, and not enough into building new stock or funding more productive business investment.

While debated, it's likely the tax system has (modestly) reinforced that bias – in particular, the combination of negative gearing and the 50% capital-gains tax discount makes leveraged investment in property relatively attractive, so a large share of household savings ends up chasing the same finite pool of established housing rather than being directed toward new, productivity-enhancing projects. This is likely squeezing household budgets, lowering labour mobility, and weighing on productivity and trend growth. It also means that rents and new dwelling costs keep showing up as some of the most persistent elements of inflation, even as other prices start to cool.

The policy debate is gradually converging on three big levers. First, the need to improve planning and zoning so it's easier to build more homes – especially medium-density – in the suburbs where people actually want to live and work. Second, whether we should rebalance tax and policy settings to encourage new supply and other business investment (with the 50% CGT discount a potential target in the upcoming Federal Budget). And third, the need to build capacity in the construction sector so that when demand picks up, more dwellings arrive rather than just higher prices.

The outlook for Australian markets

As discussed last month, we expect global markets to continue to navigate the current geo-political noise. Globally, we are in the first phase of our three-phase macro outlook, namely 'benign growth', ahead of anticipating a re-acceleration of cyclical growth through mid-2026 that still provides a constructive backdrop for markets. Reflecting this, we continue to lean into risk, and remain tactically overweight equities relative to fixed income, with a bias to non-US markets.

In contrast, Australia appears to have landed more quickly into phase three of our macro outlook, where stronger growth leads to a moderate acceleration in inflation, and ultimately sees central banks turning their attention to removing liquidity and tilting rates higher. Reflecting this, our positioning in Australia is now overweight fixed income relative to equities (the opposite to global).

Aussie equities – better earnings improve the outlook, but staying neutral

At the beginning of December 2025, we closed our underweight to Australian equities after an extended period of domestic market underperformance relative to the rest of the world. Since then, the local market has performed better. Indeed, as MST Marquee notes, while the February reporting season is not quite finished, to date, "this is currently the 2nd best reporting season" in 25 years. Earnings expectations for the current year have been revised higher by 2.2%, against a historic average decline of 0.7%. A number of factors lie behind that, from the reacceleration of the private sector economy due to the impact of previous rate cuts, to stronger global commodity prices on the back of a better global manufacturing impulse. Cost control has also been a feature.

Despite the recent stronger performance, we retain our neutral outlook for domestic equities, noting both positive and negative influences. The market is experiencing improved momentum in earnings, largely on the back of stronger commodity prices; stabilising net interest margins are a

While domestic earnings have been upgraded tidily, those upgrades still appear relatively lacklustre compared with other regions, especially Asia, Japan and the US.

With a further rate hike more than priced into markets, and the likelihood that consumer and housing activity may slow quickly over coming months, we believe this makes Australian government bonds incrementally more attractive.

While a rise to USD 0.72-73 appears plausible into mid-year, both UBS (USD 0.67) and CBA (USD 0.63) expect the currency to be lower by end 2026. If the RBA is successful in fighting inflation by slowing the economy, this appears likely.

positive for the banks (with a further rate hike likely), and there is strengthening interest in value and dividend as factors in the year ahead, typically favourable for Australian equities. Countering these positives, valuations remain elevated and now higher cash rates and sticky bond yields leave less room for error if the domestic economy starts to weaken on the back of the recent rate hike (with a further hike likely in May 2026). While domestic earnings have been upgraded tidily, those upgrades still appear relatively lacklustre compared with other regions, especially Asia, Japan and the US. Moreover, at 18.4 times forward earnings, valuations are 1.5 standard deviations on the expensive side. Given that, while we believe the outlook has improved, we retain a neutral stance.

Aussie fixed income – overweight government bonds, focus on quality credit

The significant reassessment of the outlook for the RBA’s policy rate – from rate cuts as recently as November 2025 to the market now pricing the risk of two further rate hikes this year – has seen Australian government bond yields significantly underperform their global peers. The domestic 10-year bond yield rose almost 40 basis points (bps) since 1 October last year to 4.70% by late February, compared with a fall of 5bps for the US 10-year treasury, which was trading at 4.04%.

We expect the RBA will hike the policy rate one more time (to 4.10%), most likely in May this year post the Q1 inflation data, returning close to the 4.35% mark that led to a significant slowing in the private sector economy during 2024. However, with this more than priced into markets, and the likelihood that consumer and housing activity may slow quickly over coming months – creating the ‘spare capacity’ the RBA needs – we believe this renders Australian government bonds incrementally more attractive, and we have moved overweight the sector this month.

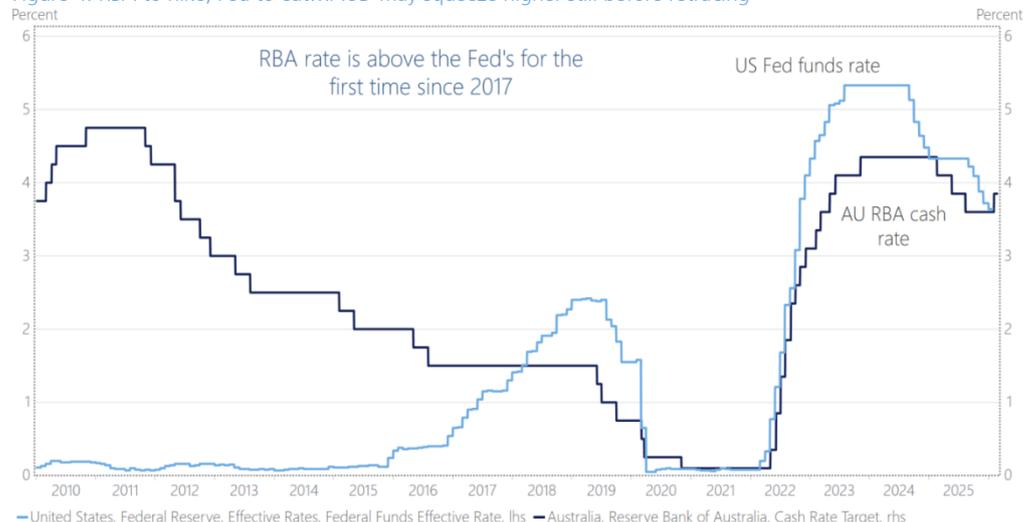
The higher base rate in Australia also improves the relative yield on Australian investment grade credit (with fixed returns on longer duration bonds around 6%) and unlisted credit (where an 8-9% return is achievable), albeit we continue to encourage an increased focus on quality given potential economic weakness ahead.

Australian dollar – squeezing higher into mid-year, retracing lower thereafter

The Australian dollar (AUD) has averaged around USD 0.75 since it floated in December 1983. However, over the recent past, it has been languishing below USD 0.70 (since early 2023), falling to below USD 0.60 briefly during the pandemic. Indeed, until recently, the currency appeared to ‘miss out’ on the appreciation that many currencies experienced, particularly the euro, with the US dollar on a material downward trend. However, with the sharp revision to the RBA rates outlook, the Australian dollar has jumped to USD 0.71 over recent months.

One of the most obvious drivers of the recent currency moves has been the cash rate. As the chart below shows, the local policy rate has been below the US fed funds rate for the past few years. That has now changed and with the RBA expected to hike as the Fed cuts, upward pressure on the AUD is likely to intensify over coming months. While a rise to USD 0.72-73 appears plausible into mid-year, both UBS (USD 0.67) and CBA (USD 0.63) expect the currency to be lower by end 2026. If the RBA is successful in fighting inflation by slowing the economy, this appears likely.

Figure 4: RBA to hike, Fed to cut...AUD may squeeze higher still before retracing



Source: Macrobond, LGT Wealth Management

What's driving our views

Staying constructive as markets navigate geo-politics, AI and reflation

Geo-political noise has continued to fill newspaper headlines this month, but markets have continued to navigate these risks. Beneath the surface, however, we are continuing to see significant dispersion across countries and sectors amid differing policy settings and as investors grapple with the positive and negative disruptive impacts of AI. Broadly speaking, we maintain our constructive positioning, recognising that equity markets are expensive and vulnerable to downside shocks.

The Supreme Court's decision to strike down the Trump Administration's reciprocal tariffs was yet another clear proof point of the constraints facing the President, as well as a reiteration of the strength of the US Constitution. We are closely monitoring the response of the Trump Administration and US trading partners. As it stands, Trump has made it clear that he wishes to replicate the pre-existing tariff regime via other authorities, though these would remain open to legal challenge. More broadly, we continue to expect global central banks to maintain a dovish bias in Q1 2026. We expect this pulse of easier monetary policy to support a cyclical recovery for the global economy, particularly in more interest-rate sensitive areas such as the housing and industrial sectors. That said, we do acknowledge the risk that a stronger-than-expected recovery in global growth could impart upside pressures to inflation, forcing central banks to adopt a more restrictive policy stance late in 2026. Australia (with the RBA's recent hike) may be a bellwether for this risk.

We believe 2026 will be a key proving ground for whether Large Language Models (LLMs) like ChatGPT can ultimately add enough value to the broader economy to justify their expense. We are already seeing increasing dispersion across AI hyperscaler share prices as investors grow more discerning and more insistent on return on investment. We are also seeing widespread volatility across sectors vulnerable to AI disruption, including software and computer services. While we expect significant volatility as investors parse through the negatives and positives of AI, we remain optimistic that AI adoption should support a broadening of the admittedly extended equity rally to smaller and mid-sized companies and to regions outside the US.

In summary, while we acknowledge a pick-up in near-term geo-political shocks amid expensive markets, we continue to see a broadly supportive macro and market environment in early 2026. We believe that investors should use this supportive window to 'make hay while the sun shines' and increase portfolio resilience for potential risks that may emerge later in H2 2026.

Key cyclical views

Policy uncertainty has peaked as a market-relevant risk.

Despite the noise and bluster so far the year, our constraints-based framework tells us that trade and geo-political uncertainty have peaked in the near-term as market-relevant downside risks. While this may seem hard to believe, we judge that the triple constraints of bond markets, US Constitutional checks and balances, and voter support (or lack thereof) have and will continue to prevent worst-case outcomes from occurring. Of course, we recognise that new risks can always emerge, and investors should prepare for further potential shocks as the world increasingly comes to terms with multi-polarity.

Central banks may face hiking pressures in H2 2026. While policymakers should maintain a dovish line into Q1, a resilient US economy and rising reflationary risks may leave central banks on hold as the year progresses and the potential for rate hikes may come into the picture later in 2026.

Opportunities are ripe for 'active' hunters versus 'passive' gatherers: The best opportunities will likely lie beneath the broad index level, rewarding more active 'hunter' versus passive 'gatherer' investors. An active approach should pay dividends amid increasing market concentration and dispersion risks.

Make hay while the sun shines: The near-term macro backdrop continues to look supportive, with fiscal and monetary policy both in various stages of easing. Still, with potential reflationary storm clouds beyond the horizon, we believe investors should use the current 'sunny' environment to interrogate their portfolios and build in adequate resilience ahead of future rainy days. Prudent portfolio diversification and active management will be important tools in the astute investor's arsenal.

Key structural views

Welcome to a multi-polar world: The global community is increasingly adjusting to a multi-polar world, an environment that should create more volatility and uncertainty but also present more growth and opportunities for investors who understand how to navigate and invest in a multi-polar world.

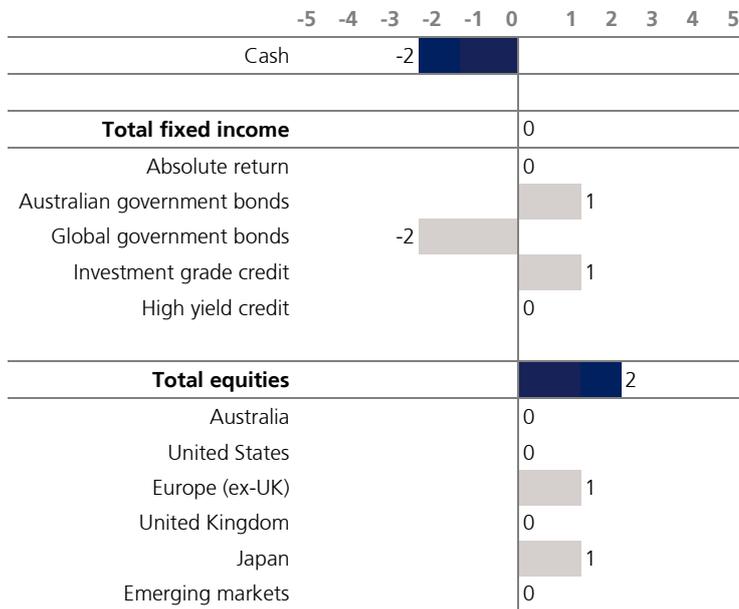
Are you ready for the 'Great Recalibration'? We believe global trade, capital, and investment flows are in the process of a 'great recalibration' towards a more balanced setting with more active fiscal and consumer spending outside the US. This epochal shift carries significant implications for long-term portfolio design and construction.

The rise of artificial intelligence: AI presents key challenges and opportunities for the global economy and human society.

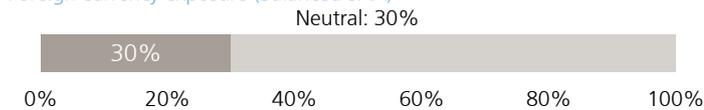
Higher base rates increase investor options: We expect interest rates to remain higher-for-longer. Higher base rates increase forward-looking returns across all asset classes, giving investors more options to build robust, multi-asset portfolios.

Tactical asset allocation

Tactical asset allocations (% weights)



Foreign currency exposure (Balanced SAA)



Our current tactical asset allocation views

We continue to believe that despite the noise and bluster, trade and geo-political uncertainty have peaked as near-term market-relevant downside risks. We assess reflation to be the base case scenario for 2026 which should support risk assets but impart upward pressure on bond yields. This supportive macro backdrop should give investors a window to shore up their portfolio resilience.

The ongoing roll-out of AI presents a potentially enduring tailwind to productivity and earnings, though it brings with it risks longer-term to current labour structures.

Cash: This month, we utilised some of our cash reserves to lean into Australian government bonds.

Fixed income: We have moved neutral fixed income, favouring investment grade credit and Australian government bonds over global government bonds. We believe the RBA's recent rate hike has created a window of opportunity to lock in attractive domestic bond yields.

Equities: We remain overweight equities and retain our preference for European and Japanese equities, where fiscal stimulus, less demanding valuations, and the 'great recalibration' of global trade, capital and investment should favour these regions.

Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
Cash	▼ -2	2	2	2	2
Fixed income	▲ 0	52	34	16	13
Absolute return	0	11	6	2	2
Australian government bonds	▲ +1	14.5	8	4.5	3.5
Global government bonds	-2	11.5	5	1.5	0.5
Investment grade credit	+1	12	13	6	5
High yield credit	0	3	2	2	2
Equities	+2	24	42	60	40
Australia	0	9	16	24	11
United States	0	8	14	20	16
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



Decreased weight this month



Increased weight this month

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

Strategic asset allocation

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 term¹. 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.

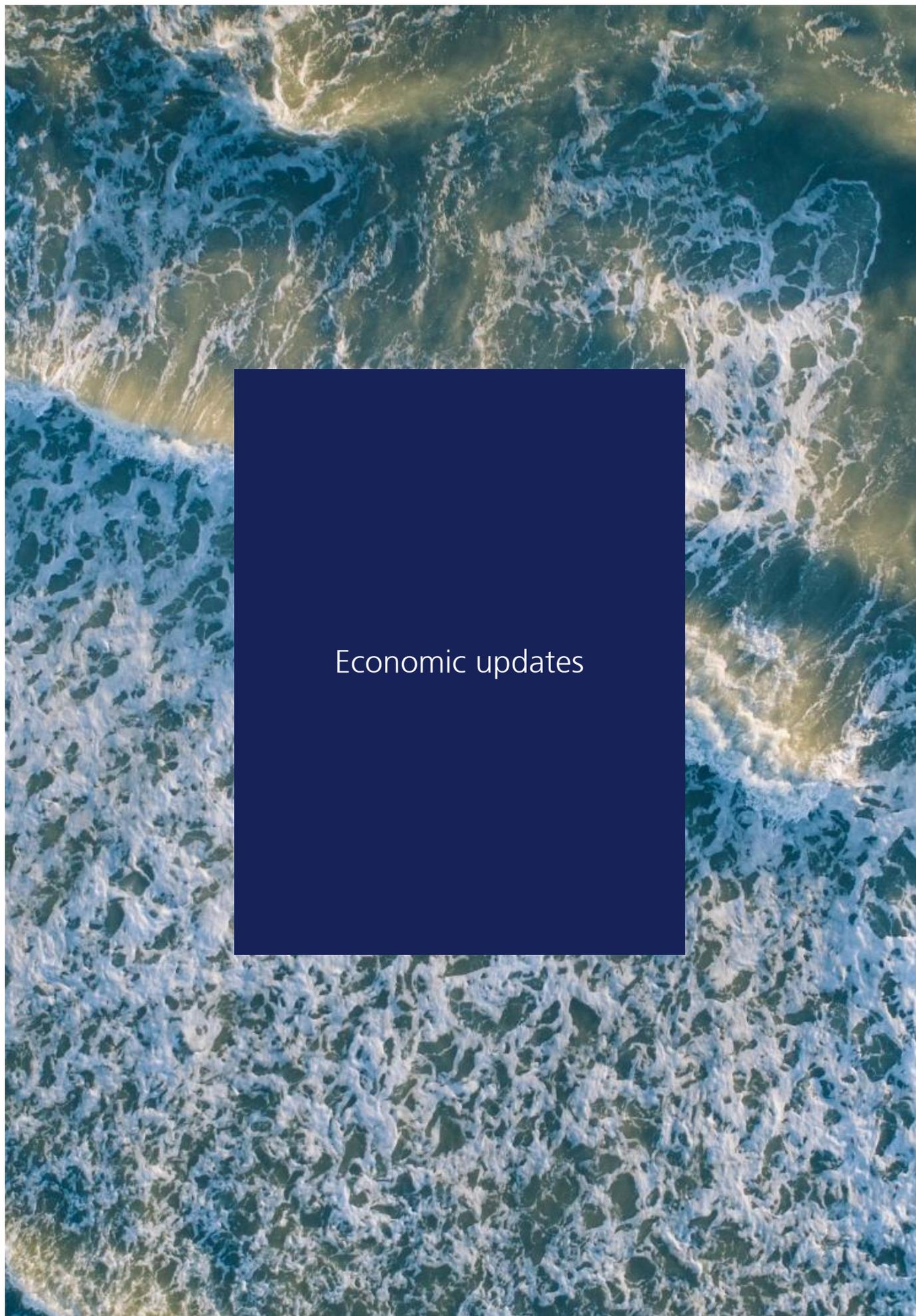
History has shown that a disciplined strategic asset allocation is responsible for around 80% of overall investment performance over the longer term.

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 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).



Economic outlook

Global Economy



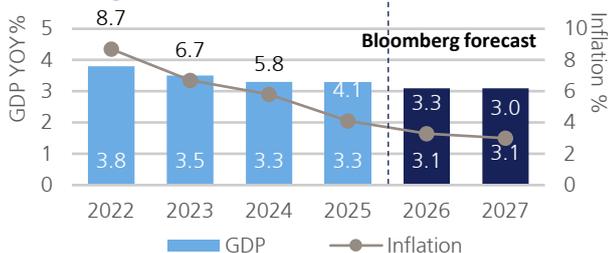
Markets have been buffeted – and again so far navigated – a raft of geo-political shocks in January and February, from President Trump’s incursion into Venezuela and claims to Greenland, through to attacks on Fed credibility and snap elections in Japan. Late February delivered further volatility with the US Supreme Court’s ruling to strike down President Trump’s use of International Emergency Economic Powers Act (IEEPA) tariffs. As expected, Trump has announced new means to impose tariffs, though uncertainty over where tariff rates for each country will settle has increased. Uncertainty over whether the US will engage Iran militarily over coming weeks has also risen.

Despite elevated geo-political uncertainty during Q1, we continue to believe 2025 was the peak of trade uncertainty, particularly with US mid-terms soon coming into view. We continue to expect shifting macro fundamentals will have a more substantive impact on markets ahead. After a period of slower growth and soft inflation in early 2026 – a constructive backdrop for markets – reaccelerating global activity in mid-26 (also market supportive) could reveal a more challenging environment in late 2026, as stabilising inflation sees central banks begin removing liquidity.

While the current easing cycle by global central banks is nearing its end in H126, we expect the usual lagged impact of rate cuts to ensure a credit-led recovery unfolds. Further fiscal easing in the US, Japan, China and Europe should also lift growth. Focus for 2027 will, in time, shift to tighter policy in response (as has been the case recently for Australia). The past month has continued to deliver largely benign inflation outcomes, helping bond yields (and gold prices) lower, despite early-February volatility. However, equities have shown greater dispersion beneath still-resilient headline indices, with leadership shifting sharply, as investors rotated from mega-cap growth (especially software) to cyclicals, value, and macro sensitive sectors (energy, industrials and staples). Regional breadth is also shifting on US tech outflows.

After likely world growth of 3.3% for 2025 (little changed from 2024), consensus expects moderately slower growth of 3.1% for both 2026 and 2027 (up from 3.0%). Barclays forecasts a similar outcome (to 3.2%), while UBS is marginally more upbeat (3.3%).

Global GDP growth and inflation



Source: Bloomberg a

Australia



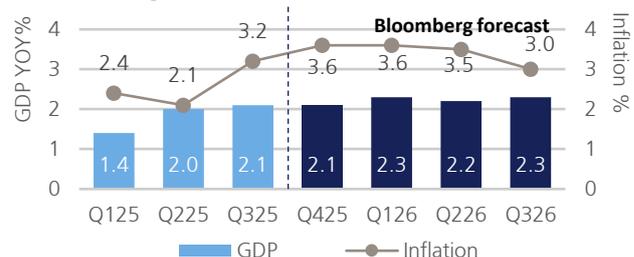
During H225, Australia’s cyclical recovery gathered further impetus. Modestly lower interest rates lifted demand across both housing and consumer sectors, raising growth from below 1% in mid-2024 to a little over 2% by late 2025. We expect a further acceleration during early 2026, as the growth baton is passed from the previously dominant public sector to a recovering private sector. Key to the outlook is whether the recently higher inflation and still tight jobs market is flagging a lower growth rate ‘speed-limit’, due to persistent poor productivity. This pick-up in inflation led the RBA to reverse its policy direction during February, hiking rates (and signalling further hikes ahead). This could potentially shift the growth cycle weaker from H226.

Growth rose by a solid 0.4% in Q3 2025, building on Q2’s strong 0.7% gain, and lifting the annual pace from 1.8% to 2.1%. Domestic activity rebounded strongly (1.2%), led by business capex (3.5%) and housing (1.8%), while consumers continued to recover (0.5%). Recent data have provided more evidence of a better trend into end-2025. Still, recently weaker consumer sentiment (down 13% since November) and a soft December for consumer spending (slowing from 6.3% to 5.0%) – despite a still resilient jobs market – could be signalling vulnerability to now higher rates.

Inflation again surprised higher in Q4, with the key core trimmed mean rising to 3.4% from 3.0% (above the target), having accelerated from 2.7% mid-2025. At their February meeting, the RBA increased the cash rate by 0.25% to 3.85%. The vote was "unanimous" (a 9-0 decision). However, the shift in market expectations since before the RBA’s prior meeting in December 2025 was dramatic, with market pricing already shifting to two more hikes by end-26 (rather than rate cuts). The RBA added the "Board judged that inflation is likely to remain above target for some time and it was appropriate to increase the cash rate target". UBS, CBA and Barrenjoey expect a final further rate hike in May, before an extended period of ‘on hold’ policy.

Growth is generally expected to strengthen modestly in 2026, led by stronger consumer and housing activity, as well as reaccelerating global activity. UBS forecasts a pick-up from an expected 1.9% in 2025 to 2.4% in 2026, while CBA forecasts a pick-up to 2.3%.

Australian GDP growth and inflation



Source: Bloomberg

Economic outlook



United States

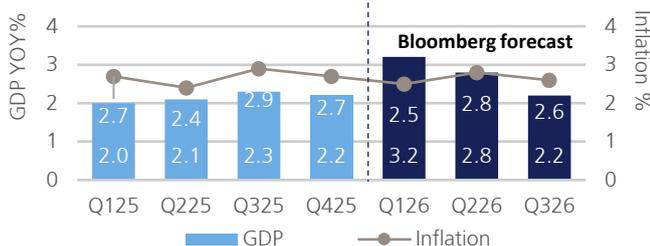
Growth in the US economy slowed by more than expected in Q4, led by a weaker jobs market, with growth still narrowly focused in high-income consumption and AI-related capex. Most forecasters expect this 'softer patch' to persist into early 2026. Thereafter, key will be whether the lagged impacts of recent rate cuts, together with additional fiscal stimulus, fosters a stronger than expected cyclical recovery in consumer and housing activity by mid-year. This has the potential to shift the narrative from further cuts to possible hikes in 2027. Complicating the outlook, after already extensive early-2026 geo-political volatility across a number of issues (Iran, Greenland, Venezuela and the Fed), the striking down by the US Supreme Court of Trump's IEEPA tariffs has raised uncertainty. As expected, Trump has announced new means to impose tariffs, which has the potential to increase volatility near-term.

Growth in Q4 eased to 0.3% (saar 1.4%), after Q3's 1.1% (4.4%), largely due to the US government shutdown cost, albeit consumer spending and non-AI capex also slowed more than expected. Recent data have remained soft. February's composite purchasing managers' index (PMI) eased to 52.3 from 53.0 (still above the key 50-mark), while December's core retail sales fell 0.1%, after 0.2%, and factory orders dropped. January's job report was stronger than expected at 130,000, though downward revisions to 2025 data were material, with most other jobs market indicators signal a weakening trend (even as unemployment stays low).

In January, the Fed left rates unchanged at 3.50-3.75% (post December's cut), with the 'dot plot' still signalling one further cut each for 2026 and 2027 to 3.00-3.25%. Former Fed governor Kevin Warsh was nominated by President Trump as the next Fed Chair, a move seen by the market as removing some of the uncertainty over Fed credibility. Once again, January's CPI remained benign, with the headline at 0.2%, easing the annual rate from 2.7% to 2.4%, while core inflation edged down to 2.4% from 2.5% (down from August's 3.1%).

Growth is expected to be stronger in 2026, led by a broadening of growth beyond high-income consumption and AI capex. After a likely 2.2% in 2025, Barclays forecasts a pick-up to 2.7% (before slowing to 1.8% in 2027), while UBS forecasts 2.5% (and 2.1%).

US GDP growth and inflation



Source: Bloomberg



Europe

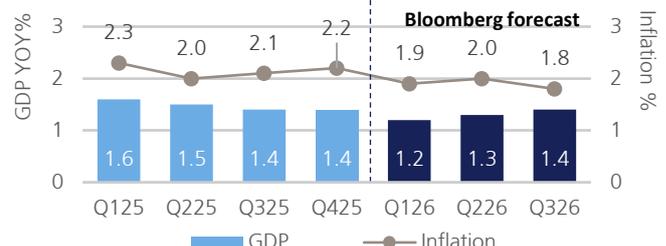
Growth in Europe proved less lacklustre than expected during H2 2025 and we continue to believe renewed fiscal stimulus, and the lagged impact of lower rates, will improve activity further during 2026. As Wellington Management notes, "Europe has started to pivot away from export-led growth and fiscal restraint to a more domestically focused economic model with sustained investment in defence, energy security and other policy priorities that can help it gain greater strategic autonomy. Europe is not leading the AI race in terms of foundational models, platforms or hardware but many European companies are large incumbents with data, scale and established customer bases that can be harnessed".

Growth in Q4 rose by 0.3%, matching Q3's pace, with the well above expected result holding the annual rate at 1.3%. As UBS notes, "among the large Eurozone countries, Spain once again outperformed, with the rest showing moderate but overall better-than-expected growth (Germany and Italy both 0.3%, France 0.2%)". Data for early 2026 remains limited. February's PMI strengthened to 51.9 from 51.3, led by improving manufacturing activity, and flagging stronger industrial output in Q1, after an unexpected weakening in December, post three consecutive gains. Unemployment remains low, falling to 6.2% in December.

Inflation in Europe remains well-behaved, easing 0.3% to 1.7% in January, reflecting lower energy and non-energy goods and services prices, while core inflation eased from 2.3% to 2.2%. As widely expected, the European Central Bank (ECB) kept rates on hold at 2.0% (broadly neutral) at its February meeting, and reiterated, according to UBS, "that it will maintain a data-dependent, meeting-by-meeting approach and not pre-commit to a certain rate path". Absent renewed weakness, the ECB is widely seen to now be 'on hold' at 2.0% in 2026. There was some speculation during February that ECB President Lagarde would exit her term early, though this has not been confirmed.

Growth is expected to ease toward trend in 2026. After growth of 1.5% in 2025, both Barclays and UBS expect growth to ease to 1.1% and 1.3% respectively, before rising toward 1.3% and 1.4% in 2027. Still, both expect improving quarterly growth momentum through H126.

European GDP growth and inflation



Source: Bloomberg

Economic outlook

United Kingdom



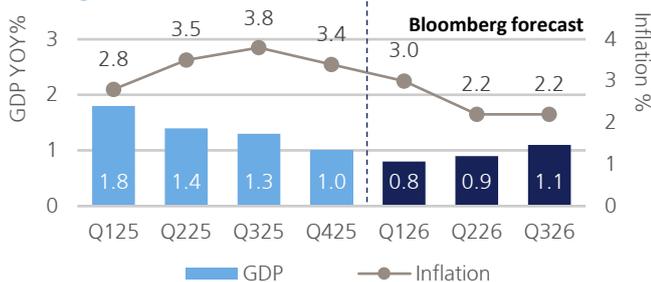
Despite stronger-than-expected H125 growth, recent data have confirmed a significant slowing in UK activity during H2 2025, with a near-term fiscal tightening likely to impede any growth recovery during early 2026. However, with recent data showing “unemployment rising and wage growth continuing to ease”, as noted by Barclays, and with inflation passing its recent peak, further reductions in interest rates seem likely over coming months. As Longview Economics notes, “While political risks remain elevated, underlying dynamics in the UK economy are increasingly positive. That is, absent a fiscal shock, the mix of falling interest rates, slower growth in spending on essential items, and ongoing credit growth should offset the slowdown in wage/income growth. That should result in another year of robust growth in households’ real ‘spare’ cashflow and household consumption outlook remains relatively strong in 2026”.

UK growth rose just 0.1% in Q4, below expected, with a disappointingly soft pace for private demand. While public capex was strong, business capex disappointed and private consumption missed forecasts. Data for early 2026 is limited. February’s PMI moved higher again to 53.9 from 53.7, while retail sales rose 0.4% in December after weakness in October and November. UK jobs fell again in January, for the fifth consecutive decline, while unemployment rose to 5.2%, a four-year high.

Inflation in January retraced lower, falling 0.4% to 3.0%, with lower food inflation offsetting stronger than expected services inflation. As widely expected, the Bank of England (BoE) left the policy rate unchanged at 3.75%. However, as UBS notes, the 5-4 vote “was more dovish than market expectations (for a 7-2 vote split in favour of hold). Overall, the MPC acknowledged that ‘the risk from greater inflation persistence had continued to become less pronounced’”. This reinforced expectations for a rate cut in March, particularly given the weak Q4 data.

Growth is expected to slow moderately in 2026, due to H225 and early 2026 weakness. After growth of 1.3% in 2025, Barclays has lowered its growth outlook to 1.1% in 2026, in line with UBS, before stronger growth emerges in 2027.

UK GDP growth and inflation



Source: Bloomberg

Japan



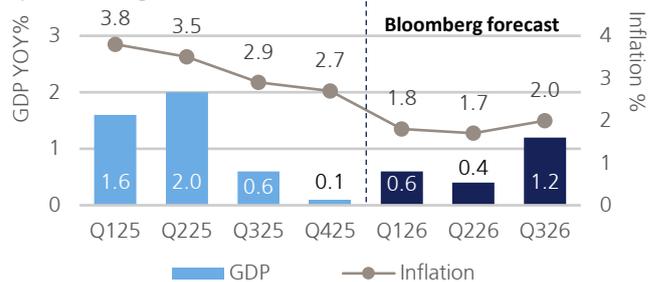
Notwithstanding a soft H2 2025 growth showing, we continue to view Japan as on a recovery path after decades of deflation, with stronger growth likely to re-emerge as 2026 unfolds. Business conditions continue to lift, and the jobs market remains tight. According to UBS, “the outlook for 2026 is supported by three tailwinds. First, the global economic outlook is favourable, [helped by] momentum in AI-related investments, while fiscal policies are supportive for major economies. Second, real wages are finally expected to turn positive. Third, fiscal policy is expansionary”. New Prime Minister (PM) Takaichi won a landslide victory for the Liberal Democratic Party (LDP) in early February, putting the LDP in a position to govern outright and reinforcing expectations for a significant fiscal easing through 2026.

Growth disappointed in Q4, rebounding modestly by just 0.2% (annualised), after Q3’s 2.6% decline. Despite this, the annual rate stayed positive at 0.1%, its sixth consecutive quarter of expansion. While domestic demand eased during Q4, annual growth was 1.1% for 2025, its strongest in three years. Data for early 2026 remains limited. The PMI jumped further to 53.8 in February, its best since mid-2023, while other business surveys also remain upbeat. Unemployment was 2.6% in December, little changed over the past year. Retail sales fell 2.0% in December.

As expected, the Bank of Japan (BoJ) raised rates in December by 0.25% to 0.75%, a multi-decade high. As expected, the BoJ kept rates on hold in January. Further modest hikes are anticipated in 2026. Indeed, UBS does “not think that the BoJ will consider the soft [Q4] GDP report as a hurdle to the next rate hike. The Bank’s preferred measure of the economic cycle, the Tankan’s headline business condition, remained firm through the end of last year.” UBS now expects the BoJ to raise its policy rate in April to 1.0% (to avoid further JPY depreciation), while the ‘terminal’ rate has been raised from 1.5% to 2.0% on expected fiscal stimulus.

Growth is expected to slow moderately in 2026, due to H225 and early 2026 weakness. After growth of 1.1% in 2025, both UBS and Barclays have lowered their 2026 growth forecast to 0.9% (was 1.1%), before anticipating a modest pick-up in 2027.

Japanese GDP growth and inflation



Source: Bloomberg

Economic outlook



China

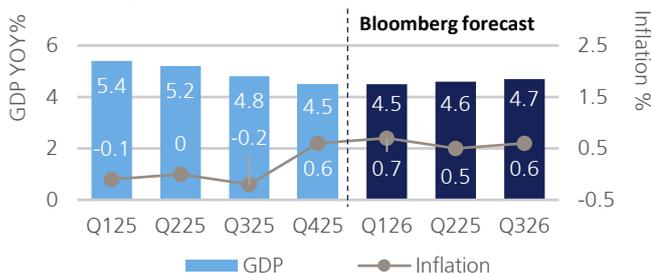
China’s economy continues to face significant challenges, with H2 2025 growth falling well below the key 5% target. The property sector has continued to deteriorate (a trend that is likely to continue in 2026), while H1 2025 fiscal stimulus has faded, leaving consumer demand weaker as 2025 ended. Despite this, China’s growth is expected to remain in a 4-5% range over the next few years, significantly contributing to global growth momentum. Key structural positives include the ongoing offshoring of its manufacturing capacity, the pickup in ‘new economy’ sectors which should mitigate the ongoing property downturn. The involution campaign continues to focus on easing overcapacity, while policy support targets stronger consumption.

China’s Q4 growth slowed to 4.5% from 4.8%, bringing full-year growth to 5%, in line with the government’s target. According to Barclays, trade (net exports) contributed around one-third of 2025’s growth, its highest since the data became available in 2009. In contrast, capex fell to a low of 15%, while consumer spending rose to 52%. But December data revealed little pick-up in momentum. While strong exports lifted industrial output from 4.8% to 5.2%, other indicators of demand disappointed. Retail sales slowed to a multi decade low of 0.9% (was 1.3%), capex fell to -15% (after -11%), while property sales eased to -16%.

Ahead of the Chinese New Year, authorities announced extra easing measures in mid-January, including lower interest rates, lower minimum downpayments, additional lending for tech innovation and private SMEs. According to UBS, “the moves were a positive surprise” as they were not announced in the wake of clear data weakness. The annual work conference outlined key priorities for the coming year. According to Longview Economics, “it plans to (i) maintain currency stability; (ii) keep policy “moderately loose”; and (iii) pursue general goals, including “expanding domestic demand” and “strong financial support”.

After 5.0% growth in 2024 and 2025 (meeting the government’s target), expectations are for growth closer to 4.5% in 2026 and beyond. This is UBS’s forecast, while Barclays are weaker at only 4.0% ahead (though have acknowledged upside risks).

Chinese GDP growth and inflation



Source: Bloomberg

Emerging Markets

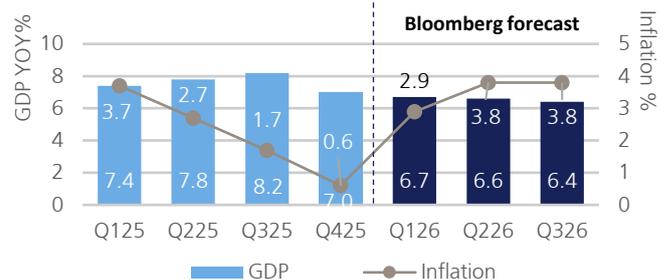
The outlook for Emerging Markets (EM) remain vulnerable near-term to a largely anticipated softening in global growth in early 2026 (as well as now renewed global tariff uncertainty). Still, growth is expected to stabilise and recover through mid-year, led by developed economy fiscal expansion and the lagged impacts of easier monetary policy. These more positive dynamics are likely to be balanced by weak exports outside of the tech sector, limited EM fiscal stimulus and excess manufacturing capacity in China, according to UBS. EM growth ex China is likely to be modestly below trend in 2026, before recovering to trend through 2027.

Recent data for Asia has been stronger, with several countries delivering better Q4 growth, particularly those leveraged to the global tech cycle. Economies like Singapore, Malaysia and Korea, as well as Thailand have improved domestic activity, while the outlook for Taiwan has improved on the back of the recent US trade deal. With deflation pressures easing in China and Thailand, and inflation stabilising elsewhere, UBS sees a more balanced, “Goldilocks”- like environment emerging, “with inflation returning to trend while growth stays resilient...[and] little need for pre-emptive or aggressive tightening”. India’s growth should remain robust, over 6.5% for the next two years, led by domestic demand (helped by a GST rate cut) and global supply chain shifts. Leading indicators suggests momentum picked up in Q4, while the early February India–US trade deal saw US tariffs reduced from 50% to 18%, with India committing shift its energy sourcing from Russia to the US and Venezuela.

Although inflation has fallen within the upper end of the target range in both of LatAm’s largest economies, Mexico’s latest inflation prints surprised to the downside, while Brazil’s were in line. Rate cuts are now expected in both Mexico and Brazil over coming months, and likely to support stronger H2 2026 growth.

For EM ex China, after expected growth of 4.2% in 2025, Barclays expects some further slowing to 3.9% in 2026 before edging up to 4.0% in 2027. In contrast, UBS has EM growth ex China relatively steady around 4.0% for 2026 and 4.2% 2027.

Indian GDP growth and inflation



Source: Bloomberg

An aerial photograph of the ocean with white-capped waves. A dark blue rectangular box is centered over the image, containing the text "Asset class updates" in white. The text is centered horizontally and vertically within the box.

Asset class updates

Fixed income update

Absolute return and government bonds

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

Key points

- US rates saw limited volatility around the recent Supreme Court tariff decision, but a disconnect between central bank guidance and market pricing continues to highlight upside risks to yields.
- Locally, Australian government bonds (ACGBs) stand out more positively, as higher starting yields, supportive carry and attractive cross-market valuations draw in buyers.
- ACGBs are offering value relative to global peers. We move overweight Australian government bonds this month.

The backdrop for global fixed income markets remains fluid as central bank guidance and market pricing diverge, even with surprisingly limited rates volatility around the recent Supreme Court decision on IEEPA tariffs. In the US, recent data, including January CPI and nonfarm payrolls, has reinforced a narrative of moderating inflation alongside still-solid activity, reducing the urgency for the Fed to ease policy. Markets are currently pricing around 55bps of cuts in 2026, which we see as unlikely to be fully realised. We still see upside risks to yields as market expectations gradually converge towards the Fed's own projections, and maintain an underweight stance in US duration.

In Europe and Japan, central banks remain cautious about declaring victory on inflation even as disinflation becomes more established. In the UK and euro area, services inflation and wage dynamics are still running above levels consistent with a rapid return to target, keeping the BoE and ECB wary of easing policy too early. Markets are pricing only a modest amount of easing in the UK over 2026 and very little change from the ECB. Meanwhile, in Japan, recent moves in Japanese government bonds underscore a shift away from the ultra-low yield regime of the past two decades, with the long end of the curve leading the adjustment as markets price gradual BoJ policy normalisation, increased fiscal issuance and a rebuilding of term premium.

Against this backdrop, ACGBs stand out more positively. The RBA has signalled a preference for a gradual, data-dependent approach to policy, aiming to return inflation to target while preserving labour market gains. Earlier upside surprises in inflation and resilient employment have pushed Australian yields higher and kept the market debating the prospect of further tightening in May, but this has also left ACGBs looking relatively cheap in absolute terms. The 10-year sector has traded near cyclical highs, attracting dip-buyers as outright yields and carry have improved. While any renewed push higher in global yields could also lift Australian rates, we see current levels as a good starting point to add exposure. In our view, this combination of higher starting yields, supportive carry and attractive relative value versus other developed markets reinforces the case for favouring Australian duration.

Investment grade credit and high yield credit

Position: Overweight investment grade credit; neutral high yield credit

Key points

- Investment grade (IG) and high yield (HY) credit spreads remain tight and have drifted wider where investors are increasingly attentive to capex and leverage trends.
- Primary market activity has been strong post the February RBA hike, with most of the activity focused on bank issuance.
- We remain overweight IG and neutral HY, as credit benefit from attractive all-in yields and supportive technicals.

Credit markets remain broadly constructive, with solid demand and attractive all-in yields. In Australia, the primary market restarted quickly after the February hike, with a heavy wave of supply compressed into the two weeks before the Lunar New Year break. Notably, demand has been skewed towards fixed-rate tranches following the rates sell-off. Counterparties report that even in senior issues, where demand has historically favoured floating-rate notes, managers have increasingly targeted fixed-rate lines to capture outright carry, despite credit spreads remaining tight.

Bank issuance has been a key theme. Westpac led with a sizeable multi-tranche deal, including senior unsecured 5-year FRN and fixed-rate lines and a 15NC10 Tier 2. UBS took advantage of strong conditions to issue AUD 1 billion of Additional Tier 1 (AT1) capital notes at a 7.125%, its first AUD AT1 deal since September. Macquarie Bank followed with a 10.5NC5.5 Tier 2 transaction, ANZ priced a 11NC6 Tier 2 and CBA priced a 10NC5 FRN/FXD, as well as a 20-year FXD bullet transaction. The later transactions saw demand skewed to the FRN tranche, reflecting the relative scarcity of floating-rate Tier 2 paper.

In US investment-grade markets, performance has softened somewhat, with benchmark indices drifting modestly wider. Primary supply has been strong, led by the big US banks and marquee corporates. Alphabet's USD 20 billion multi-tranche deal, alongside GBP and CHF transactions, underlines the depth of demand. New-issue concessions remain contained, although investors are increasingly attentive to capex and leverage trends, particularly for hyperscalers where more debt-funded investment could pressure spreads from historically tight levels.

High yield has remained relatively firm despite volatility in equities and leveraged loans. HY spreads have widened only modestly, highlighting resilient technicals, but dispersion is elevated. The sharp repricing in software-linked leveraged loans, where several deals were pulled and prices lag the broader loan market, has sharpened focus on leverage, purchase multiples and recovery expectations in more growth-sensitive segments. Software is a much smaller share of the HY bond universe, so the direct index impact has been limited, but flows into HY software names have been volatile and are increasingly seen as a barometer of sentiment towards higher-beta, tech-adjacent risk.

Our outlook and tactical asset allocation

Australian government bonds – we are overweight

Continued upside inflation surprises have pushed Australian government bond yields towards cyclical highs, although the RBA is likely to maintain a gradual, data-driven stance. This dislocation relative to global rates leaves Australian duration relatively attractive, with higher starting yields and supportive carry. Even though a renewed rise in global yields could lift local rates, we see this as an attractive starting point.

Global government bonds – we are underweight

While volatility has been relatively subdued post the Supreme Court tariff decision, recent moves in Japanese government bond yields and persistent fiscal concerns have highlighted upside risks to global yields. Further rate cuts remain possible but are not assured, and markets may need to reprice expectations closer to central bank guidance, leaving yields vulnerable to further upside.

Investment grade credit – we are overweight

Although spreads remain close to cycle tights, they have proven resilient with higher base rates, especially in AUD credit. With outright yields still attractive relative to history, we see value in adding duration through high-quality investment grade issuers, particularly where all-in yields remain compelling in a higher-for-longer environment and the primary market offers compelling opportunities.

High yield credit – we are neutral

The asset class has remained relatively firm despite volatility in equities and leveraged loans, with spreads widening only modestly. However, dispersion is elevated, particularly in software-linked leveraged loans, where recent repricing has made these names a key barometer of sentiment towards higher-beta, tech-adjacent risk.

Active fixed income weights (%): we are underweight fixed income

	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
Total fixed income						0					
Absolute return											
Australian government bonds								1			
Global government bonds				-2							
Investment grade credit								1			
High yield credit											

Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx	68.06	64.69
Australian 3-year yield	4.22%	4.27%
Australian 10-year yield	4.65%	4.84%
Australian 3/10-year spread	42.7 bps	54.3 bps
Australian/US 10-year spread	71.0 bps	0.6 bps
US 10-year Bond	3.94%	4.23%
German 10-year Bund	2.64%	2.84%
UK 10-year Gilt	4.23%	4.51%
Markit CDX North America Investment-Grade Index	56.0 bps	49.2 bps
Markit iTraxx Europe Main Index	55.5	51.6
Markit iTraxx Europe Crossover Index	260.5	247.6
SPX Volatility Index (VIX)	19.9	16.9

Source: LGT Wealth Management, Bloomberg as of 28 February 2026. Active fixed income weights sourced from LGT Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

Alternatives update and outlook

Hedge funds and diversifiers

Hedge funds and diversifiers should be a priority in diversifying risk factors in 2026. Notwithstanding strong markets in 2025 and year to date, higher volatility, greater asset price dispersion, higher interest rates and increasing corporate activity should continue to position hedge funds well should market strength wane. We also continue to focus on other uncorrelated strategies that are diversified and able to capture a broader spread of diversifying return streams – these strategies include insurance, royalties, litigation and life sciences. The key for portfolios here is diversifying risk factors beyond equity and credit beta, which are still dominant in private markets.

Private markets

Venture/growth and secondaries are key to activity. Private Equity returns are improving after a number of muted years albeit there still remains some valuation challenges given pre-2022 excesses. Within that, the secondary market continues to be an attractive place to deploy capital. We prefer more complex GP-led secondaries than discounted LP-stakes which are increasingly competitive amidst excessive evergreen capital flows in the US.

Venture capital and growth equity is really capturing the major AI growth trends outside of the larger public stocks. We expect this to continue but it's not without risks as paper gains are just that – we are looking to appropriately diversify in this space and not get too caught up in the hype to deploy into specific single-asset, brand-name AI winners.

Manager selection remains critical across private markets and the recent public SaaS sell-off may expose this looking forward given private markets' exposure to the sector. There will be winners and losers here – those [SaaS] businesses that have truly embedded workflows and proprietary data, for example are likely to be far more resilient than those without.

Private debt remains core, despite the noise. We continue to believe that private debt remains well positioned, when considering its potential to deliver risk-adjusted returns. While interest rates and spreads have declined, relative to public counterparts – sub-investment grade broadly syndicated loans and high yield bonds – private debt continues to outperform. Like private equity, we believe that manager dispersion will play a more critical role. Secondaries are particularly attractive and asset-based finance should be a strong diversifier to corporate as 2026 progresses.

Real assets

Real estate is recovering despite dispersion across sectors. 2025 year end marks imply that property should continue its positive momentum into 2026, re-enforcing a shift in sentiment following a very challenging period for the asset class. Meaningful dispersion remains across sectors and regions but the case for real estate is far more constructive than it has been in recent years. Supply constraints across sectors locally combined with increasing tenant demand is improving prospects for domestic commercial real estate.

Infrastructure appetite is growing. Private infrastructure is likely to continue to grow given: (1) the recent evolution of evergreen vehicles; (2) ongoing exposure to major mega-trends including digitisation and decarbonisation, both of which have linkages to AI; and critically, (3) contracted and inflation-linked revenue streams generating more defensive and diversifying return streams. We seek to invest across both core assets and core-plus/value-add exposures, which are increasingly becoming more accessible to private clients. On the latter, secondaries globally look attractive, particularly in mid-market assets that have historically been valued at a sizeable discount to large cap assets.

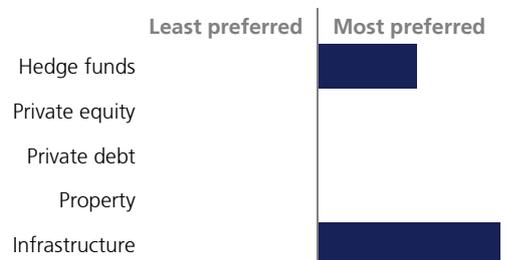
We favour infrastructure, hedge funds and diversifying strategies, and are maintaining private equity and private debt exposures. We are now more constructive on real estate globally.

What we like

- Multi-strategy hedge funds and other diversifying strategies
- Asset-based finance and secondaries within private debt.
- Global infrastructure across the risk spectrum and investment type (including secondaries), particularly playing to long-term structural themes.

What we don't like

- LP-stake private equity secondaries overly focussed on upfront discounts.
- Construction and/or junior lending within real estate
- Carbon-intensive assets and industries with no transition plan.



FX and Commodities update and outlook

Currencies

Key points

- The US dollar shows signs of bottoming out during February.
- The Australian dollar rallied to a three-year high and is trading around USD 0.71.

The US dollar (USD) continued modestly weakening in February amid 'Sell America' sentiment, though it could be bottoming out amid ongoing robust economic data and as negative investor sentiment becomes stretched. We expect the currency to remain volatile in the near-term as these dynamics play themselves out.

Looking further out, our thesis of a modestly weaker dollar remains intact. Fundamentally, the structural drag from US fiscal headwinds relative to many of its peers (e.g. Germany's re-arming, China's stimulus prospects, Japan's easing) still argues for modest dollar weakness in time.

The AUD continued its summer rally in February, and is now trading at a three-year high around USD 0.71. This strength was driven by ongoing global risk-on sentiment, the ongoing 'recalibration' of investor funds away from the US, and local interest rate expectations punctuated by the RBA's February rate hike. Recent market drawdowns have seen the AUD weaken against the EUR but not the USD, in another example of the increasing scrutiny that investors are placing on US holdings. That said, the currency remains sensitive to shifts in the global risk tone (given Australia's commodity / China exposure). On top of this, Australia's long-standing productivity challenges and lack of economic reform likely places a ceiling on the Australian dollar's near-term upside, particularly if the US dollar starts to consolidate and potentially rise from these levels.

The euro (EUR) is trading around USD 1.19, consolidating modestly higher over the month. On the one hand, the currency is being held up by the resilient macro-backdrop in the European Commission's latest forecast which projects growth of around 1.3% in the euro-area for 2025 with inflation easing. On the other hand, the structural risks for the euro remain: cyclical trade exposures persist, geopolitical and global-policy uncertainty remain elevated.

The Japanese yen (JPY) was volatile over the month as investors digested PM Takaichi's snap election on 8 February, which resulted in a landslide super-majority for the PM and a clear mandate for more fiscal stimulus. It is now trading around ¥153 per US dollar, as Takaichi signalled that she was mindful of avoiding market shocks in implementing her policy agenda. Putting the near-term noise aside, the outlook for Japan's inflation and macro dynamics is skewed toward policy normalisation and a "nominal renaissance" as Takaichi seeks to navigate Japan through this new world.

Commodities

Key points

- Global commodity prices volatile as gold prices hover around USD 5,100 per ounce (p/o).
- Iron ore prices were weaker at around USD 96 per tonne (p/t), on rising inventories.

Global commodity markets were volatile but broadly unchanged in February, with Bloomberg's broad commodity price index slightly weaker over the month, with industrial metals and soft commodities offsetting gains in oil and precious metals.

Crude oil prices were volatile but trended higher over the month amid ongoing domestic political tensions in Iran and uncertainty about possible US intervention. Brent crude is currently trading at around USD 72 per barrel (p/b) towards the end of February, up around 1% for the month. We expect oil to remain volatile while these developments play out, though if our deflation thesis proves true, oil prices should base sometime in the first half of 2026 before pushing higher as a cyclical recovery takes hold.

Meanwhile, gold prices stabilised and pushed higher after last month's extreme policy-induced volatility. Gold was trading around USD 5,100 per ounce in late February, up about 5%. Structural considerations around fiscal profligacy and currency debasement should continue to provide a secular support for the precious metal, though stretched technicals may portend ongoing volatility in the near-term.

Industrial metal prices were broadly weaker over the month, amid rising inventories and ongoing uncertainty around US trade policy. Copper prices were down around 2%, aluminium down around 1%, and iron ore is trading around USD 96 p/t.

The evolution of US trade policy, particularly as the US and the rest of the world responds to the recent Supreme Court ruling against Trump's reciprocal tariffs, as well as the trajectory of China's own economy, will likely remain key factors for commodity markets. Furthermore, internal Chinese economic dynamics, particularly around the health of the underlying economy (especially the property sector) and/or signs of further stimulus, will be closely watched by market participants.

That said, market adjustments to a multi-polar world could very well reduce the global commodity complex's reliance on China, as governments and corporations seek to shore up physical access to strategic commodities and prioritise stability of supply over economic efficiency. Market moves since the start of the year seem to corroborate this thesis; investors would do well to monitor these dynamics closely to ascertain whether they might add another secular pillar of price support to commodities and other real assets.

Equities update

Domestic equities

Key points

- Domestic equities had their strongest February since 2019, rising 4.1%, significantly outperforming global equities.
- In contrast to recent times, it was Australia's largest stocks that led gains, with the ASX 20 rising 7.5%. In contrast, the previous market leaders – Small Caps (-2.8%) and Mid-Caps (-0.5%) lagged.
- As was the case globally, 'growth' stocks lagged – rising 0.3% while 'value' stocks had their best February ever.

The RBA hiked interest rates during the month, taking the cash rate 0.25% higher to 3.85%. At a high level, domestic equities have risen an average of 4% in the year after the first RBA hike, with a positive return in 3 of 5 cases where the RBA has embarked on a hiking cycle. This episode is more nuanced in that the hike came just 6 months after they last cut. For context, the 153 days between the August cut and the February hike is the second quickest "about face", just 2 days longer than what was seen at the end of the Dotcom bubble. That period is arguably less relevant as a basis for comparison, given it was still some 9 months before the Dotcom crash would run its course.

Putting it together, this creates a mixed backdrop for Australian equities:

- Commodity prices remain supported by resilient global growth, Fed cuts, and lacklustre supply responses.
- The pivot to rate hikes should be supportive for the banking sector, especially if they look to hold deposit pricing.
- It's logical that upside risk to returns is more constrained, given the valuation headwind (higher cost of capital and risk of slowing growth, especially given the forward P/E of 18.4x is 1.5 standard deviations from the long-term average).
- Value as a style tends to outperform in the lead up to hikes, and this tends to continue after hikes start, but the magnitude of outperformance is smaller. Small caps are likely to lose some of their impetus as well, given an overall easing in risk.

According to MST analysis, ASX 200 EPS expectations for June 2026 have been revised up by 2.2% during the period. During an average reporting period, bottom-up expectations are lowered by 0.7%. As a result, this is currently the second best February or August reporting season this century. Aggregate ASX 200 EPS is now expected to grow by 10.1% for June 2026 and 9.8% for June 2027, a vast improvement from where it was in September – circa 6% growth was expected for FY26 and 8% for FY27. This strong performance is coming from a combination of actual results and better-than-expected forward guidance. There have been five times as many upgrades as downgrades this reporting season, Defensives have the highest net EPS beat (+10%) and the second-highest net upgrades to FY26 (+15%). With higher market volatility, and the fact that most defensive stocks are unlikely to be AI-disrupted, investors are increasing exposure to this space.

International equities

Key points

- Global equity markets were largely unchanged over the course of February, although this belies some significant regional, factor, and size rotation that is occurring.
- Japanese, Asian and broader Emerging Market equities were strong performers, offsetting softness in US equity markets, which is now the 2nd worst major developed market YTD.
- Value stocks (+7.5%) are experiencing their third best start to a year this century.

The only periods this century where Value has performed better was in 2012 and 2019. On both occasions, this factor went on to post double-digit calendar year returns. 2013 went on to become the best year outside of 2003 (and 2020 was COVID-impacted).

The AI thematic has been a major driver of strong investor returns in recent years, and the broader AI buildout still appears to have meaningful runway. For much of this period, investors have preferred to allocate towards those crucial to the infrastructure build out – Mega Cap tech, semiconductor design, Chip manufacturers and tooling companies. However, as Macquarie AM has noted, the next phase may be more focused on businesses outside the core AI cohort that are using AI well enough to deliver real productivity improvements, stronger margins, or incremental revenue growth. It's also likely that the rotation to "AI bottlenecks" – energy, copper, memory etc. continues to gather interest. If sustained, it could support a much wider set of AI-linked winners, rather than them being concentrated in Information Technology and Communication Services, which have captured most of the market's AI attention so far. Healthcare, Industrials, Materials and Financials are all sectors with meaningful potential upside from effective AI implementation, yet they have not attracted the same level of focus as the leading AI infrastructure names.

This also sets up for intriguing factor, size and regional allocation decisions for investors. For example, the STOXX 600 Index has a weighted average capital intensity score of over 50%, and broad capital-intensive exposures comprise ~70% of the index. This makes it a likely beneficiary of AI, rather than at risk of large-scale disruption. Likewise, if one looks at the AI buildout through the lens of bottleneck (e.g. raw materials), then it augers well for the commodity-sensitive Emerging Markets. As JPMorgan note, even small increases in global asset allocations could have a major impact on EM, given their current low positioning. In part, the outperformance of value is a recognition of the capital-heavy preference of the next phase of the AI buildout, as is the outperformance of small and mid-caps, which should be well positioned to see out-sized benefits to both revenue and cost lines as broader AI adoption and technological friction eases (e.g. the ability to "vibe code" components or aspects of previously expensive software to automate workflows and enhance efficiency is no longer the domain of larger companies).

Equities outlook and tactical asset allocation

Domestic – we are neutral

Australia presents a mixed setup. Earnings momentum is improving, helped by resources and a better-than-usual reporting season. But this is offset by a more challenging valuation backdrop and renewed rate sensitivity following the RBA's recent hike (and prospect of another hike ahead). Banks may benefit if higher rates support margins (including deposit pricing discipline), while commodities remain supported by resilient global growth.

US – we are neutral

The US market backdrop remains constructive at the fundamental level. Leadership is broadening and returns are becoming more idiosyncratic, which raises the importance of stock selection. Despite weakness in mega-cap tech, the S&P 500 has held up as other sectors have improved, supported by better macro data (including manufacturing) and a reflationary impulse tied to fiscal support and inventory rebuilding.

Europe (ex-UK) – we are overweight

Europe continues to offer an attractive diversification allocation, supported by multiple structural tailwinds including infrastructure investment, defence spending, energy transition themes (including nuclear), and improving cyclical indicators in key economies such as Germany and Spain. Positioning and relative valuations remain supportive versus the US, and Europe may benefit if global investors continue to look for liquid alternatives to a highly concentrated US benchmark.

United Kingdom – we are neutral

The UK equity backdrop has improved more than many expected, with PMIs back in expansion in early 2026 (despite a soft Q4 growth outcome), and a better 2026 earnings outlook after a softer 2025. Valuation remains the core support for the market, with persistent discounts to Europe across both large caps and SMIDs, including quality businesses.

Japan – we are overweight

Japan remains one of the stronger medium-term equity market opportunities, supported by improving earnings expectations, and a potentially more stable policy environment following the recent landslide LDP election outcome. The structural case is underpinned by expectations for proactive (but more disciplined) fiscal policy, tax and investment initiatives, and the prospect of renewed offshore inflows. A potential BoJ rate hike in April represents only a near-term headwind for further strong gains.

Emerging market equities – we are neutral

Emerging Markets have a credible case for continued strength, supported by stronger 2026 earnings expectations versus developed markets, favourable valuation differentials, improving capital flows, and the potential tailwind from lower US rates and a weaker US dollar. The region also offers a cheaper pathway to AI-related exposure, particularly in technology and supply-chain-linked sectors, while sovereign balance sheets in many EMs compare better than commonly assumed.

Active equity weights (%): we are overweight equities

	-5	-4	-3	-2	-1	0	+1	+2	+3	+4	+5
Total equities								2			
Domestic											
United States											
Europe (ex-UK)							1				
United Kingdom											
Japan							1				
Emerging markets											

Equity market summary

Region	Index	Latest price	Consensus 1 yr		Next year	
			Target	Upside	P/E ¹	D/Y ²
Australia	S&P ASX 200	9,199	9,392	2.1%	18.5	3.4%
New Zealand	S&P NZ 50	13,723	14,999	9.3%	28.6	2.7%
United States	S&P 500	6,879	8,221	19.5%	19.0	1.2%
Europe	Euro Stoxx	651	722	11.0%	14.4	3.1%
United Kingdom	FTSE 100	10,911	11,484	5.3%	14.8	3.0%
China	CSI 300	4,163	4,818	15.7%	14.2	2.5%
Japan	Nikkei 225	58,850	60,293	2.5%	22.7	1.5%
India	Sensex	81,287	97,964	20.5%	20.0	1.5%

Source: Bloomberg. Data as of 28 February 2026; 1 P/E = Price to earnings ratio; 2 D/Y = Dividend yield. Active equity weights sourced from LGT Wealth Management. Units refer to the percentage point deviation from strategic asset allocation.

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	Comm. Services	\$166.39	\$212.58	34.7	1.9%	44%	31%	16.0%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	\$48.08	\$67.45	18.4	2.1%	29%	24%	12.1%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	\$5.51	\$5.79	32.0	3.4%	24%	114%	15.7%	AA
MTS	Metcash Ltd	Cons. Staples	\$3.30	\$3.92	13.4	5.8%	15%	16%	11.0%	AAA
ALD	Ampol Ltd	Energy	\$28.17	\$32.35	15.6	4.1%	14%	13%	21.2%	AA
BPT	Beach Energy Ltd	Energy	\$1.10	\$1.17	7.3	4.1%	15%	11%	12.0%	AAA
MQG	Macquarie Group Ltd	Financials	\$213.48	\$234.95	19.2	3.6%	na	12%	11.1%	AA
SUN	Suncorp Group Ltd	Financials	\$14.63	\$18.21	16.8	5.3%	5%	9%	36.6%	AAA
COH	Cochlear Ltd	Health Care	\$199.01	\$251.70	32.3	2.4%	25%	21%	13.3%	AAA
RMD	ResMed Inc	Health Care	\$36.07	\$46.50	23.2	0.7%	30%	25%	10.8%	A
MND	Monadelphous Group Ltd	Industrials	\$32.41	\$30.56	26.1	3.3%	31%	23%	1.1%	AAA
BXB	Brambles Ltd	Industrials	\$25.08	\$25.66	24.3	1.9%	22%	30%	9.3%	AAA
XRO	Xero Ltd	Info. Tech	\$83.14	\$159.25	70.0	0.0%	10%	7%	4.7%	AA
IGO	IGO Ltd	Materials	\$8.62	\$8.46	na	2.6%	4%	7%	225.4%	AAA
GMG	Goodman Group	Real Estate	\$28.94	\$36.00	22.3	1.1%	9%	11%	10.7%	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 28 February 2026. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Aristocrat Leisure (ALL AU) – Buy. ALL's 35% peak-to-trough drawdown is now approaching the worst outside of COVID. Part of this is because of perceived better value in Light and Wonder. Nonetheless, over the past 15 years, the stock has delivered a positive one-year forward return around 90% of the time from this magnitude of drawdown.

Cochlear Limited (COH AU) – Buy. Despite trading around 35% off its highs, Cochlear's medium-to-long-term growth drivers remain intact - a large addressable market with unmet need, a tight oligopoly with high barriers to entry, low risk of technological substitution, and a growing installed base, giving rise to increase Services revenue that is more akin to recurring.

Goodman Group (GMG AU) – Buy. GMG offers structural growth via logistics and Data Centre (DC) development, with a large Work-In-Progress pipeline, expanding power bank and hyperscaler demand underpinning multi-year earnings visibility. Despite trading above REIT peers, its low gearing, development model and DC exposure justify the premium, with leasing announcements and project commencements potential catalysts into 2H26-FY27.

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	\$14.63	\$18.21	16.8	1.56	100%	5.3%	33.9%	AAA
MQG	Macquarie Group Ltd	Financials	\$213.48	\$234.95	19.2	2.26	35%	3.6%	11.0%	AAA
ANZ	ANZ Group Holdings Ltd	Financials	\$40.04	\$37.32	15.9	1.68	75%	4.2%	2.7%	AA
QBE	QBE Insurance Group Ltd	Financials	\$21.73	\$23.35	11.7	1.99	30%	3.6%	3.8%	AAA
COL	Coles Group Ltd	Cons. Staples	\$20.56	\$22.85	21.9	7.11	100%	4.0%	9.3%	AA
MTS	Metcash Ltd	Cons. Staples	\$3.30	\$3.92	13.4	2.18	100%	5.8%	10.7%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc.	\$5.51	\$5.79	32.0	36.10	100%	3.4%	13.5%	AAA
TAH	Tabcorp Holdings Ltd	Cons. Disc.	\$1.07	\$1.12	38.2	1.93	0%	2.8%	23.1%	AA
TLS	Telstra Group Ltd	Comm. Services	\$5.18	\$5.24	25.0	4.37	90%	4.2%	5.3%	AA
CAR	CAR Group Ltd	Comm. Services	\$26.52	\$35.28	24.5	3.55	0%	3.5%	11.1%	AA
RMD	ResMed Inc	Health Care	\$36.07	\$46.50	23.2	5.91	100%	0.7%	10.2%	A
PME	Pro Medicus Ltd	Health Care	\$130.00	\$208.84	84.3	34.92	100%	0.7%	24.9%	BBB
REP	RAM Essential Services	Real Estate	\$0.55	\$0.78	11.7	1.40	0%	9.3%	0.0%	--
MGR	Mirvac Group	Real Estate	\$2.05	\$2.36	15.8	0.88	0%	4.9%	6.2%	--
IRE	IRESS Ltd	Info. Tech	\$7.46	\$10.08	17.2	3.28	0%	3.8%	11.8%	AA
DBI	Dalrymple Bay Infrastructure	Industrials	\$5.16	\$5.47	25.0	2.47	0%	5.2%	7.1%	--
ALX	Atlas Arteria Ltd	Industrials	\$4.80	\$5.00	16.4	1.20	0%	8.3%	0.8%	AA
ALD	Ampol Ltd	Energy	\$28.17	\$32.35	15.6	2.21	100%	4.1%	41.8%	--
BPT	Beach Energy Ltd	Energy	\$1.10	\$1.17	7.3	0.79	100%	4.1%	38.9%	AAA
BHP	BHP Group Ltd	Materials	\$58.41	\$51.00	16.2	4.20	100%	2.3%	-6.7%	A
AMC	Amcor PLC	Materials	\$67.84	\$78.52	12.0	1.92	0%	3.9%	1.6%	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 28 February 2026. ESG is environmental, social, and corporate governance.

Trade opportunities

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

Pro Medicus Limited (PME AU) - Buy: PME has fallen over 60% from its highs. This drawdown is consistent with the most significant since IPO and brings valuation back to decade lows. Throughout, earnings have remained stable and with 30%+ EPS growth and unmatched profitability, longer-term investors should view this as an opportunity.

Ampol Limited (ALD AU) - Buy: Ampol offers a mix of structural retail growth and cyclical refining recovery, with Convenience earnings proving resilient, and the EG acquisition is likely to shift the business toward higher-quality, steadier returns. On ~6.8x EV/EBITDA with a ~4% yield, the stock looks undemanding if management executes EG synergies and retail expansion, providing scope for earnings growth and a re-rating.

QBE Insurance Group (QBE AU): With a Return on Equity of around 16/17%, a <10x P/E multiple, a dividend yield of around 5.5% now supplemented by a share buyback and stable margins despite a weakening rate environment, there are a number of reasons for investors to buy the 20% peak-to-trough pullback in the QBE share price.

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	Comm. Services	USD	311.76	378.84	25.7	0.3%	3,769,428	BBB
UMG NA	Universal Music Group	Comm. Services	EUR	19.11	28.31	18.8	3.1%	41,420	AA
DIS US	Walt Disney Co/The	Comm. Services	USD	106.04	129.97	16.0	1.5%	187,852	A
9988 HK	Alibaba Group Holding	Cons. Disc.	HKD	142.90	195.07	25.2	0.7%	348,934	BBB
NKE US	NIKE Inc	Cons. Disc.	USD	62.18	75.97	39.4	2.7%	92,050	BB
SBUX US	Starbucks Corp	Cons. Disc.	USD	98.02	97.65	42.7	2.6%	111,674	A
ABNB US	Airbnb Inc	Cons. Disc.	USD	135.11	144.60	26.1	0.0%	82,243	BB
RMS FP	Hermes International	Cons. Disc.	EUR	2049.00	2399.23	43.5	1.0%	255,616	A
COST US	Costco Wholesale Corp	Cons. Staples	USD	1010.79	1057.88	49.7	0.6%	448,659	A
288 HK	WH Group Ltd	Cons. Staples	HKD	9.84	9.60	10.3	0.7%	16,141	--
SHEL LN	Shell PLC	Energy	GBP	3073.50	3080.57	13.4	0.0%	234,268	AA
LSEG LN	London Stock Exchange	Financials	GBP	8860.00	11856.83	19.4	0.0%	60,264	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	102.45	116.10	10.1	0.0%	81,391	AA
WFC US	Wells Fargo & Co	Financials	USD	81.45	102.24	11.7	2.4%	251,325	BB
2318 HK	Ping An Insurance Group	Financials	HKD	68.00	82.75	7.4	4.3%	162,775	A
939 HK	China Construction Bank	Financials	HKD	7.99	9.68	5.4	5.0%	272,110	AA
MA US	Mastercard Inc	Financials	USD	517.21	661.05	26.5	0.7%	461,328	AA
JNJ US	Johnson & Johnson	Health Care	USD	248.43	237.82	21.5	2.2%	598,691	BBB
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	237.90	319.91	11.4	4.7%	168,004	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	503.51	609.41	50.7	0.0%	178,812	A
EXPN LN	Experian PLC	Industrials	GBP	2786.00	4174.47	21.1	0.0%	34,131	A
DSV DC	DSV A/S	Industrials	DKK	1635.50	2044.76	25.2	0.5%	62,197	AA
2330 TT	Taiwan Semiconductor	Info. Tech	TWD	1995.00	2319.61	22.3	1.2%	1,651,674	AAA
ASML NA	ASML Holding NV	Info. Tech	EUR	1233.40	1385.20	41.9	0.7%	565,729	AAA
MSFT US	Microsoft Corp	Info. Tech	USD	392.74	597.34	23.2	1.0%	2,916,342	AA
ACN US	Accenture PLC	Info. Tech	USD	208.72	293.77	15.1	3.2%	128,573	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	362.59	384.54	30.3	0.9%	89,691	A
EQIX US	Equinix Inc	Real Estate	USD	974.26	1021.89	60.7	2.1%	95,726	AA
CEG US	Constellation Energy Corp	Utilities	USD	329.88	394.70	28.6	0.5%	119,534	AAA
Average Yield:							1.5%		

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 28 February 2026. ESG is environmental, social, and corporate governance.

Thematic investing – Heavy Asset, Low Obsolescence (HALO)

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.

HALO: Select exposures

AI is proving both disruptive and transformative. We believe physical assets and capex-intensive business models are likely to be both beneficiaries of its deployment, and disruptive resistance. European and “traditional value” stocks are likely to also do well given their relative capital intensity metrics.

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
NG/ LN	National Grid PLC	Utilities	GBP	1,391.00	1,273.00	15.8	0.0%	93,077	AAA
EQIX US	Equinix Inc	Real Estate	USD	974.30	1,021.90	56.6	2.3%	95,726	AAA
9020 JT	East Japan Railway	Industrials	JPY	3,860.00	4,146.20	15.2	2.3%	28,059	AA
VALE US	Vale SA	Materials	USD	17.20	16.30	8.7	29.3%	77,980	BB
AI FP	Air Liquide SA	Materials	EUR	178.20	196.70	22.7	2.3%	122,034	A
NEM US	Newmont Corp	Materials	USD	130.00	136.40	12.2	0.8%	141,424	A
NEE US	NextEra Energy Inc	Utilities	USD	93.80	92.70	21.4	2.8%	195,372	A
TLS AU	Telstra Group Ltd	Comm. Services	AUD	5.20	5.20	23.7	4.2%	41,487	AA
2330 TT	Taiwan Semiconductor	Info. Tech	TWD	1,995.00	2,319.60	16.6	1.4%	1,651,674	AA
UNP US	Union Pacific Corp	Industrials	USD	265.00	266.30	19.6	2.2%	157,237	AA
WM US	Waste Management Inc	Industrials	USD	240.80	253.20	25.7	1.6%	97,139	BBB
005930 KS	Samsung Electronics	Info. Tech	KRW	217,500.00	226,527.50	7.8	1.1%	894,305	AA
MCD US	McDonald's Corp	Cons. Disc	USD	341.10	344.10	23.6	2.3%	242,289	A
DIS US	Walt Disney Co/The	Comm. Services	USD	106.00	130.00	14.5	1.6%	187,852	BBB
SCCO US	Southern Copper Corp	Materials	USD	218.30	146.60	34.5	2.2%	178,810	BB
CCJ US	Cameco Corp	Energy	USD	118.40	127.60	59.8	0.2%	51,567	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	102.50	116.10	8.5	0.0%	81,391	AA
BHP AU	BHP Group Ltd	Materials	AUD	58.40	51.00	16.5	2.3%	211,103	A
ISRG US	Intuitive Surgical Inc	Health Care	USD	503.50	609.40	44.4	0.0%	178,812	BBB
FDX US	FedEx Corp	Industrials	USD	387.00	372.70	17.8	1.6%	90,993	BBB
BRK/B US	Berkshire Hathaway Inc	Financials	USD	505.00	526.00	23.0	na	1,089,124	BB
SHELL NA	Shell PLC	Energy	EUR	35.00	35.60	11.4	4.4%	234,213	A
GE US	General Electric Co	Industrials	USD	342.30	352.20	40.3	0.6%	358,967	BBB
ASML NA	ASML Holding NV	Info. Tech	EUR	1,233.40	1,385.20	32.6	0.8%	565,729	AAA
HEI GY	Heidelberg Materials AG	Materials	EUR	189.60	237.40	12.4	2.3%	39,504	AA
DE US	Deere & Co	Industrials	USD	629.70	657.10	27.6	1.2%	170,089	AA
HON US	Honeywell International	Industrials	USD	243.60	251.90	21.4	2.0%	154,844	AAA
WMT US	Walmart Inc	Cons. Staples	USD	128.00	137.10	38.8	0.8%	1,019,783	BBB
DSV DC	DSV A/S	Industrials	DKK	1,635.50	2,044.80	18.7	0.6%	62,197	AA
WOW AU	Woolworths Group Ltd	Cons. Staples	AUD	36.00	35.70	24.5	3.0%	31,294	BBB

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. As of 28 February 2026. ESG is environmental, social, and corporate governance.

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