



Wealth  
Management

# War, what is it good for?

Timeless investor lessons as markets navigate US-Iran



## Core Offerings May 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

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# War, what is it good for?

## Timeless investor lessons as markets navigate US-Iran



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There are increasingly clear signs that we may have passed peak geo-political uncertainty.

Markets don't need to see that things are getting better to bottom ... they just need to see that things have stopped getting worse.

Absolutely nothing! Investors around the world will surely agree, as they deal with ongoing market volatility and the global oil supply shock from the United States (US) and Iran conflict. Near-term uncertainty remains elevated. However, as we noted in our various Special Reports over the past month, there are increasingly clear signs that we may have passed peak geo-political uncertainty – a critical inflection point that allows markets to check an enduring bottom (as happened during the Liberation Day sell-off last year). Indeed, we have seen global equity and credit markets retrace most of their losses in recent weeks, with the US S&P 500 Index marking fresh record highs in April.

As inconceivable as this may seem, there are fundamentally sound theoretical and empirical underpinnings driving this 'heartless' market rally. Below we reiterate our constraints-based assessment of the situation in the Middle East. The recently announced ceasefire in Iran and Lebanon backs our view that the material constraints were pushing all parties towards de-escalation before the disruption of the Strait of Hormuz triggered a catastrophic global recession. If the ceasefire holds and the oil starts flowing again soon (this is now the key variable, not military strikes), we see a narrow but navigable path for the global economy to avoid a worst-case scenario. In support of this, we retain our overweight positioning in global equities, while staying alert to the risks and opportunities that may arise in coming weeks and months.

While we may not be out of the woods yet, in this month's *Core Offerings*, we take a step back and consider some timeless lessons that this shock has delivered for astute investors. From a long-term strategy perspective, geo-political shocks often present buying opportunities for bold investors, an investment framework for navigating geo-politics is no longer optional, and ultimately, it never pays to bet against the human race. From a portfolio management perspective, the more volatile world we are now in requires more thoughtful cross-asset diversification, including the use of alternative assets, and emphasises the value of having dry powder to respond opportunistically in times of high stress.

### US-Iran War: A ceasefire in hostilities but a reopening of the Strait of Hormuz is proving more difficult

The global economy and financial markets have endured another testing period of volatility and extreme policy uncertainty, almost exactly a year on from Liberation Day's market turmoil. Over the course of March, the kinetic and rhetorical conflict between the US, Israel, and Iran continued to escalate, while the physical oil supply shock from the disruption of the Strait of Hormuz has continued to raise angst and uncertainty across the real economy worldwide.

Through this period, we have remained steadfastly focused on our constraints-based framework, which told us with increasingly high conviction over the course of the month that (1) US President Trump had hit the limit of his constraints (elevated domestic energy prices and bond markets) and would be open to a deal, and (2) that Iran faced constraints of its own, primarily that it cannot keep the Strait of Hormuz closed indefinitely in the face of growing global consternation.

Based on this analysis, we believe that we may have reached a peak in local uncertainty, likely marked by the 8 April ceasefire (that admittedly followed Trump's threats of "civilisational" damage to Iran). The near-term road remains highly uncertain, with clear risks on both the downside and the upside, and the global economy may require months (or longer) to adjust and recover from the physical oil shock. However, just like in April 2025, the inflection point where uncertainty stops increasing is the most important point for financial markets, which move off the second derivative, not the first. As investors experienced both last year and during the COVID-19 sell-off, markets don't need to see that things are getting better to bottom. They just need to see that things have stopped getting worse.

If our assessment is correct and a deal is reached to re-open the Strait of Hormuz and avoid a longer-term energy availability crisis, the backdrop for the global economy remains upbeat. The echoes of prior monetary and fiscal policy easing are still supportive for activity and markets, at least outside of Australia. Meanwhile, both household and corporate balance sheets in the US remain in rude health, providing a fundamental backstop that should moderate the impact of any near-term technical recession. Further, while there remains uncertainty around the disruptive impacts of artificial intelligence (AI), we are also seeing increasing real-world evidence that the roll-out of AI is translating into new earnings and revenue streams across the economy. Within the software sector,

which has been hit by indiscriminate selling this year, we are also seeing a recovery as the very best firms lay out plans to adapt their business models for an AI future.

In addition, while we must maintain our vigilant watch for downside risks as the US and Iran 'dance' their way towards a hoped-for deal, we also cannot discount the right-tail risk: it is well within the realms of possibility that the US and Iran could reach a 'grand bargain' that sees a lifting of sanctions and a potential re-integration of Iran into the global economy. With a young, educated, and dynamic population of 90 million, this could be immensely positive for the Iranian and global economy.

Our central case continues to tactically favour equities over fixed income, even with the risk that equity markets deliver more moderate, and potentially choppy, returns over the rest of the year. As such, we re-affirm our modestly overweight position in equities this month, while maintaining a nimble and flexible stance to ensure we can respond to the evolving global environment.

## War will have geo-economic ramifications for the region and the world

Looking (hopefully) to the other side of this conflict, we see a world where Trump has exhausted his political capital, the reality of modern warfare greatly discourages aggressors, and supply responses could see oil prices back under US\$50 a barrel in three years.

While it is still too soon to chart out the near-term geo-political and economic pathway from here, we highlight below several key ramifications that investors and policymakers will have to consider once we (hopefully) get to the other side of the kinetic conflict:

- **Trump has exhausted his political capital:** regardless of how he spins this, US President Trump will likely be marked down severely by the US voter for this expedition. The US electorate is opposed to the war by a large majority, particularly amongst independent voters, as high gasoline prices fuel community inflation concerns. Betting odds of a Democratic sweep in November's mid-term elections have risen substantially, and voter sentiment will only worsen the longer the oil price spike continues. As such, unless he can engineer an incredible turnaround in gasoline prices and/or economic conditions, Trump could be looking at a landslide defeat that would neuter the final two years of his administration. It is likely that this exhaustion of political capital will constrain his executive authority and actions until and unless he can turn his polling around.

That said, there is an important counterargument. If a landslide defeat becomes increasingly inevitable, President Trump may become more emboldened, not less, to project the Administration's ideological convictions abroad. The same political constraints that currently favour resolution could therefore weaken over time: the longer the conflict endures, the closer we move to a point where electoral discipline becomes less binding as a moderating force.

- **Modern warfare greatly favours the defender:** the Russia-Ukraine war has already seen both combatants bogged down into years of stalemate by the advent of mass drone usage and asymmetric warfare tactics. This latest conflict appears to have further highlighted the advantages that a smaller, defending nation has over even a global superpower. Iran's ability to utilise drones, de-centralised military resources, and asymmetric economic warfare has driven even the mighty US military to an effective stalemate. We think the Great Powers of the world, including China, should learn some important lessons from this. In particular, an invasion of Taiwan would be an incredibly daunting task for even the most modern military to undertake. This does not rule such a scenario out, but we imagine the constraints on such a course of action would be swift and brutal (both economically and militarily).
- **Oil could be under US\$50 a barrel in three years:** we are amidst an unprecedented oil supply shock, and investors, policymakers, and the global community are understandably concerned about the prospect of oil prices spiking towards US\$150 a barrel or beyond this year. However, we believe that such a spike (if it occurred) would not last long, because of the simple fact that such high oil prices would trigger a global recession, which would naturally reduce global demand and bring oil prices back down again. Looking further out, we actually see a pathway for oil prices to collapse, perhaps to US\$50 a barrel or below over the next three years.

In response to the disruption to the Strait of Hormuz, we expect governments around the world to (1) accelerate electrification of their economies, and (2) "drill baby drill" to secure domestic oil supplies independent of the Middle East. Both dynamics would affect the demand and the supply side of global oil markets, and like the US shale boom in 2015, could lead to an eventual oversupply of oil which would trigger a collapse in oil prices.

The United Arab Emirates' decision to leave OPEC effective 1 May may be an early sign that cartel cohesion is starting to fracture. If producers increasingly act in their own national interest – producing closer to capacity rather than preserving OPEC discipline – the medium-term risk is that today's supply shock gives way to tomorrow's oversupply.

Apart from these near-term considerations, we also believe there are a set of timeless, crucial lessons that long-term investors need to take away from this crisis.

## Timeless lessons for long-term investors

The weight of historical experience, especially since World War II, points to the cruel truth that geo-political shocks ultimately present buying opportunities

### Geo-political shocks ultimately present buying opportunities for bold investors

The weight of historical experience, especially since World War II, points to the cruel truth that geo-political shocks ultimately present buying opportunities. We see three key reasons why:

- **Geo-political shocks are exogenous to the macroeconomic system:** Like COVID-19, geo-political shocks are external to the economic system. No corporation or economic actor is particularly to blame, and therefore policymakers tend to be much more lenient in their policy reaction functions. In other words, the first reaction of fiscal and monetary policy is to stimulate the economy. We are seeing this already, with the Australian government's fuel excise cut a clear example of this untargeted, broad-based fiscal stimulus (just like COVID, the effectiveness of such policy decisions is for another time!). If the geo-political situation worsens, we expect significantly more stimulus to come across the globe.
- **Constraints reveal themselves quickly in war:** the reality of kinetic conflict very quickly reveals the true constraints and limitations of all parties. This very quickly condenses the realm of possible outcomes to a much smaller set of probable outcomes.
- **Markets are not moral arbiters:** financial markets do not price human suffering directly; they price the implications for growth, inflation, interest rates, earnings and risk premia. That is an uncomfortable distinction, but an important one for investors assessing geo-political shocks. The humanitarian significance of an event can be profound while its investment significance remains limited, unless it alters the economic transmission mechanism.

### An investment framework for navigating geo-politics is no longer optional

The incredible velocity of newspaper headlines, social media hearsay, AI-generated propaganda, and policy announcements has likely given many investors a severe case of whiplash over the past two months. For us, it is yet another clear proof case that to be a successful investor in today's world, you simply must have a framework for navigating politics and geo-politics.

We have spent the last two years adapting and developing our constraints-based framework, which we detailed extensively in our [February 2025 Observation 'The New Great Game'](#). It remains at the core of our tactical asset allocation process and serves as a disciplined north star that keeps us focused on what matters while others panic.

It always pays to believe in the human race, and it never pays to bet against humanity.

### Over the long-term, it never pays to bet against the human race

We are acutely aware of the stream of negativity that has permeated investment commentary and the broader media amidst this conflict. There is a sound commercial reason behind this – as Morgan Housel noted in his book *The Psychology of Money*, "Pessimism sounds smarter and more plausible than optimism... tell someone they're in danger and you have their undivided attention".

We believe this negative mindset does long-term investors – and the broader human community – a deep disservice! To the contrary, there is copious empirical evidence that investors should hold a fundamentally optimistic long-term outlook. In other words, it always pays to believe in the human race, and it never pays to bet against humanity. As a species, we have overcome every single existential challenge we have ever faced, and achieved incredible things over our history including:

- COVID-19, where we achieved a gargantuan scientific, medical, and regulatory feat in developing, testing, and deploying a novel vaccine within six months of the outbreak.
- The Apollo programme, where intrepid humans were walking on the moon a mere seven years after John F Kennedy's famous "We choose to go to the Moon" speech.
- The Marshall Plan, which rebuilt Europe's shattered economy after World War II, gave new hope to a continent, and ultimately laid the foundations for today's European Union.
- The Ancient Greek Pheidippides, who ran 42 kilometres from Marathon to Athens to deliver the good news of victory, sacrificing his life for the greater good.

There are countless tales of humanity’s great achievements against all odds, and we have no doubt that there will be countless more as we face off against the existential challenges of today: multi-polarity, climate change and the energy transition, populism and societal inequity, and the societal and employment implications of the ongoing AI roll-out.

While pessimistic newspapers may decry these problems as unsolvable, we choose to see them as challenges that will catalyse the next generation of human innovators. Rather than cower in fear at an unknown future, we choose to find, support, and finance these pioneers, and ultimately profit along with greater humanity as we add more achievements to the great book of the human story.

**Heightened cross asset volatility leaves multi asset investors exposed**

While every crisis is different, as the dust somewhat settles, it’s important to look in the rear-view mirror and assess what worked and what didn’t work, as well as the response mechanism that ultimately shaped how portfolios responded to the environment. Coming into 2026, markets seemed unflappable having navigated tariffs and ‘Liberation Day’ seemingly successfully with equity markets subsequently posting yet another double-digit return. It was a very benign backdrop with potential rate cuts in the US expected to keep the momentum going as inflation remained under control across most of the developed world. This backdrop was also supportive of diversification as cross asset correlations fell significantly through 2025 and into 2026. We saw early signs of higher dispersion in 2025 and this to an extent continued into 2026. The chart below shows the fall in correlations through 2025 compared to past crises over the last 25 years.

While every crisis is different, as the dust somewhat settles, it’s important to look in the rear-view mirror and assess what worked and what didn’t work.



Source: BCA 2026

With a supportive cross asset correlation backdrop, portfolios seemed well positioned for any bursts of volatility after a period of strong equity market gains. We had seen the ex-US trade begin to gain momentum, market breadth was broadening through sectors and market cap, and the US dollar was declining. This all gave investors ample opportunity to diversify portfolios after a prolonged period of narrow leadership.

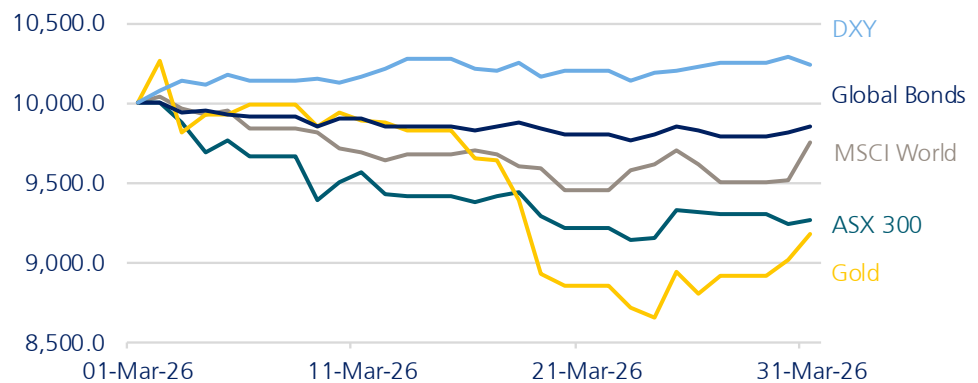
A number of the typical ‘safe haven’ assets did not necessarily behave in a defensive manner which limited the levers allocators tend to rely on in risk off environments.

However, the reaction function to a risk-off environment did not necessarily play out as market participants would have expected. There was a meaningful shift in cross asset correlations from February 2026 to March 2026, significantly reversing the trend seen through 2025. A number of the typical ‘safe haven’ assets did not necessarily behave in a defensive manner which limited the levers allocators tend to rely on in risk off environments. Typical safe haven assets include bonds, the US dollar and gold. This also feeds into the construct of the 60/40 portfolio which is expected to benefit from ‘negative’ correlation primarily between equities and bonds. For an AUD investor, USD exposure provides an additional risk mitigation lever in risk off environments.

## What actually transpired

The volatility in March saw both equities and bonds sell off as cross asset volatility accelerated, presenting challenges for multi asset investors. A sharp repricing in front end rates and a breakdown in correlations across asset classes saw equities lower, yields higher, oil higher and the USD stronger. Investors' response was to seek liquidity elsewhere to fund any rebalancing and/or margin calls experienced in other parts of the portfolio which cause even broader cross asset correlations. In short, any investments that had experienced strong momentum driven returns were used as a funding source in response to liquidity stress elsewhere noting bonds are typically the liquidity source in risk off environments. Gold is a good example of an asset with defensive characteristics that experienced a liquidity driven sell off.

### Asset class performance



Source: LGT Wealth 2026

Macro-economic factors tend to drive equity/bond correlations and historically, inflation has been highly correlated to this relationship.

### Why did bonds sell off with equities

The reality is that the relationship between equities and bonds is not that simple and their correlation has not always been negative. Over time, correlations have been volatile and, at times, positive, as was the case in March 2026. Macro-economic factors tend to drive equity/bond correlations and historically, inflation has been highly correlated to this relationship. Periods of moderate inflation are typically supportive of low to negative correlation and subsequently positive in high inflation environments. Recent events in the Middle East resulted in an oil price rally which consequently triggered a sharp repricing of global inflation risks, resulting in elevated rates volatility across markets. This also occurred at a time when a number of central banks were eyeing further easing which ultimately exacerbated the selloff/move. Given bonds also tend to be a source of liquidity in risk off environments as investors rebalance portfolios, this caused some chaos as investors sought other liquidity sources within the portfolio.

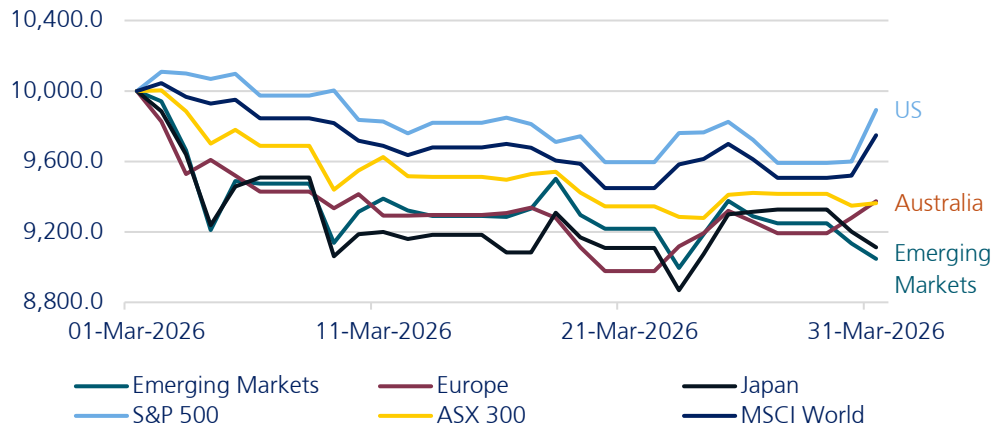
### Beneath the surface

The effectiveness of hedges was tested. While benchmarks were volatile, the moves were even bigger beneath the surface. Significant divergence was experienced across sectors and regions. Within equities as an example, value outperformed growth and quality quite meaningfully. At a sector level, energy, materials and utilities were generally positive whilst information technology struggled. Meanwhile regions with a higher dependency on energy imports (Europe) and those exposed to US dollar volatility (EM) were whipsawed, underperforming other regions. At a market cap level, large caps outperformed small and mid-caps. After a period of underperformance, the US emerged as the most defensive region given it is a net energy exporter. This was a similar story in fixed income where regional and sub asset class dispersion was high. Parts of the credit market were already experiencing a significant repricing of software risk. While these big shifts within

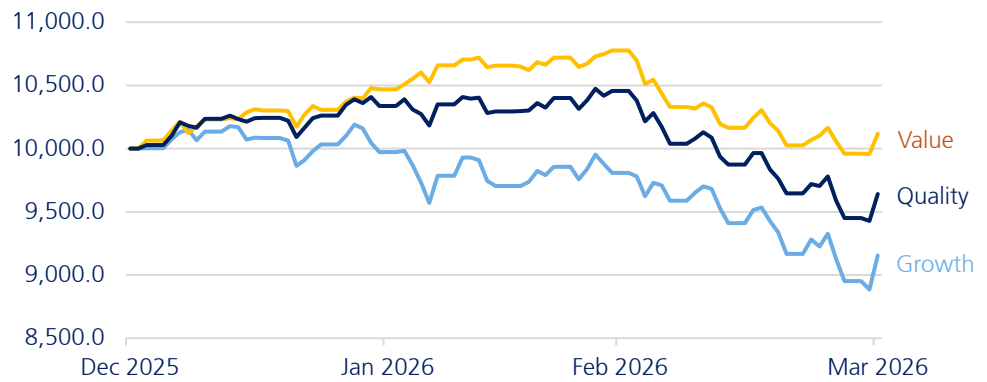
After a period of underperformance, the US emerged as the most defensive region given it is a net energy exporter.

benchmarks made it even more challenging, they did create opportunities to be more selective in allocating and rebalancing.

### Regional divergence



### Equity style



Source: LGT Wealth/Morningstar 2026

### The role of alternatives

Environments where correlations are not supportive of diversification are typically where alternatives can be beneficial and provide real return. However, this environment was not necessarily beneficial for all alternatives. Several hedge funds were caught out by the accelerated cross asset volatility. More specifically, defensive alternatives played a crucial role during the volatility in March, when bond market volatility spiked. Defensive alternatives tend to have more moderate return targets and bond-like volatility profiles and can provide traditional fixed income-like ballast to portfolios with potentially lower correlation.

At LGT Wealth Management, we have embraced defensive alternatives with attractive, reliable and consistent yield to complement the role played by traditional fixed income. As an example, we see opportunities to build long-term core exposures to diversified global infrastructure and private debt as well as investments with limited market and/or economic sensitivity such as insurance/royalties/litigation finance. Additionally, a higher level of dispersion presented opportunities for defensive-orientated hedge funds. Income from some of these strategies presented some dry powder to add to portfolios. Having some liquid alternatives in portfolios is also helpful particularly for rebalancing.

### Dry powder and alternate sources of liquidity ruled in this environment

Given the high cross asset correlation, March was not a conducive environment to sell assets to fund opportunistic purchases and also made rebalancing challenging. In addition, as the selloff was driven by headline geo-political risk rather than systemic issues, holding investments was preferred to avoid realising a loss. Consequently, dry powder ruled. Having a tactical allocation to cash, some liquid alternatives along with income from defensive parts of the portfolio ultimately helped provide liquidity for portfolios. Deploying into higher all-in fixed income yields and discounted parts of equities ended up being the winning trade as markets rebounded significantly towards the back end of March and into April.

Environments where correlations are not supportive of diversification are typically where alternatives can be beneficial and provide real return. However, this environment was not necessarily beneficial for all alternatives.

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# What's driving our views

A peak in geo-political uncertainty may open a path for markets to navigate US-Iran

The US-Iran conflict is deep into its second month and raising the spectre of a historic oil (and related key industrial materials) supply shock. The near-term outlook remains highly uncertain, both in terms of the situation on the ground (will the ceasefire hold; when will the Strait of Hormuz reopen?) and the potential longer-term implications for the broader economy.

However, the ceasefire that was announced on 8 April marked for us a potential peak in geo-political uncertainty. Importantly, it was a signal that both the US and Iran recognised and respected that they both face constraints. For the US, these constraints are high oil prices potentially impacting voter sentiment ahead of this November's mid-term elections, as well as the ever-powerful bond market pushing US Treasury yields higher. Meanwhile, Iran, as we noted last month, cannot unilaterally disrupt the Strait of Hormuz indefinitely. We have already seen a rapidly developing UN coalition that will eventually force the vital passageway open, if only to save the global economy from a disastrous recession. China, Iran's key material constraints, has reportedly been increasing pressure behind the scenes to achieve this outcome diplomatically.

As such, and while we acknowledge extreme levels of uncertainty across the board and clear downside risks, we believe that all sides remain strongly incentivised to reach some form of de-escalatory deal and that we may have passed peak geo-political uncertainty. This is important for markets, which move off the second derivative, not the first. In other words, markets do not need to see that things are getting better in order to bottom, they just need to see that things have stopped getting worse.

That said, we are cognisant that even if a 'deal' is reached, there are rapidly rising second order impacts that are buffeting the global economy, including around supplies of refined petroleum products and fertilisers. We remain humble, nimble and tactically active as we navigate the ongoing situation.

Should we get a resumption of oil flows in coming weeks, we believe the damage to the global economy might be limited, and that the underlying outlook for the global economy remains upbeat, supported by fiscal and monetary tailwinds and a robust US consumer and corporate sector.

More broadly, we are also continuing to monitor the ongoing dynamics of AI and software companies. Despite the negativity around parts of the software ecosystem, we are already seeing evidence of increased revenue and earnings tailwinds from AI, and we are also seeing the very best software firms outlining plans to adapt and thrive in an AI era. These dynamics have already helped the US share market reclaim fresh record highs, and we remain optimistic that AI adoption will ultimately benefit the entire global economy.

## Key cyclical views

**We still expect the macro to be the key market driver in 2026.** While we navigate the near-term US-Iran conflict, where uncertainty clearly remains extremely elevated, our constraints-based framework tells us that the macro should ultimately return to the fore as a prime driver of markets in 2026. While this may seem hard to believe, we judge that local uncertainty may have peaked as material constraints push both the US and Iran towards a de-escalation and re-opening of the Strait of Hormuz. 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:** Even before the oil shock of US-Iran, a resilient US economy and rising reflationary risks were increasingly likely to leave central banks on hold as the year progressed. 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.

**Now is the time to future-proof portfolios:** With reflationary storm clouds potentially accelerated if the current oil shock extends, we believe investors should take the time to interrogate and future-proof their portfolios. This might involve ensuring appropriate exposure to AI, non-US markets, active management, uncorrelated and real assets, and bottleneck thematics including energy resilience, infrastructure and defence.

## 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.

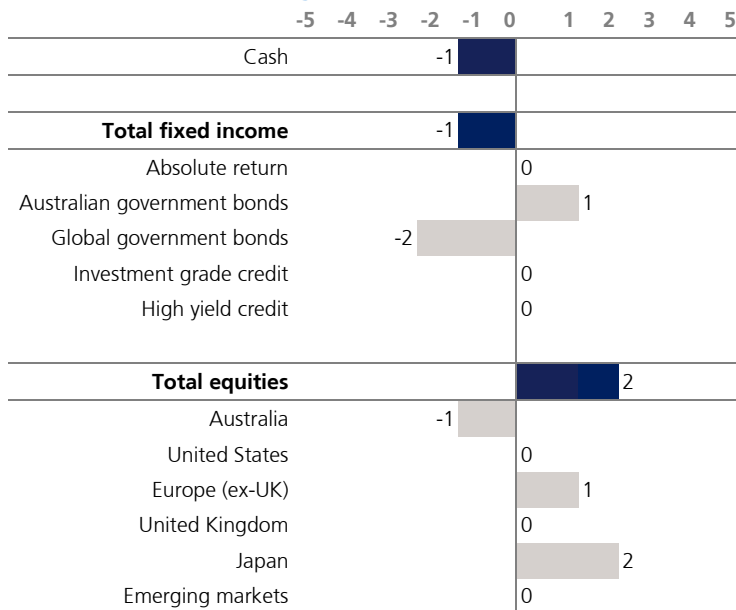
**Are you ready for the 'Great Recalibration'?** We believe global trade, capital, and investment flows are in the process of a 'great recalibration' towards a more balanced setting with more active fiscal and consumer spending outside the US. This epochal shift carries significant implications for long-term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

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

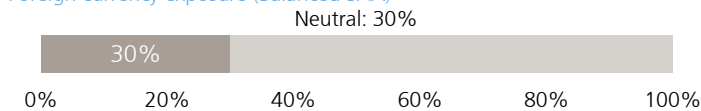
**Higher base rates increase investor options:** We expect interest rates to remain higher for longer. Higher base rates increase forward-looking returns across all asset classes, giving investors more options to build robust, multi-asset portfolios.

# Tactical asset allocation

Tactical asset allocations (% weights)



Foreign currency exposure (Balanced SAA)



Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
<b>Cash</b>	<b>-1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Fixed income</b>	<b>-1</b>	<b>51</b>	<b>33</b>	<b>15</b>	<b>12</b>
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	0	11	12	5	4
High yield credit	0	3	2	2	2
<b>Equities</b>	<b>2</b>	<b>24</b>	<b>42</b>	<b>60</b>	<b>40</b>
Australia	-1	8	15	23	10
United States	0	8	14	20	16
Europe (ex-UK)	1	3	4	6	5
Japan	2	3	4	5	4
United Kingdom	0	1	2	2	2
Emerging markets	0	1	3	4	3
<b>Alternatives</b>	<b>-</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>45</b>
<b>FX exposure</b>	<b>0</b>	<b>20</b>	<b>30</b>	<b>40</b>	<b>40</b>



Decreased weight this month



Increased weight this month

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

## Our current tactical asset allocation views

As we navigate the US-Iran oil shock, we continue to maintain a nimble stance as we respond to the evolving environment. While geo-political uncertainty remains high, we believe it may have peaked in the near-term.

While we do so, we are actively monitoring several key thematics, including the ongoing roll-out of AI which presents a potentially enduring tailwind to productivity and earnings, though it brings with it longer-term risks to current labour structures.

**Cash:** This month, we maintained a slight underweight to cash, continuing to reserve flexibility to respond to evolving market conditions.

**Fixed income:** We maintain an underweight to fixed income, favouring Australian government bonds over global government bonds.

**Equities:** We remain overweight equities and retain our preference for European and Japanese equities. This is balanced by an underweight to Australian equities reflecting our domestic vulnerability to a prolonged oil shock.

# 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 term<sup>1</sup>. 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.

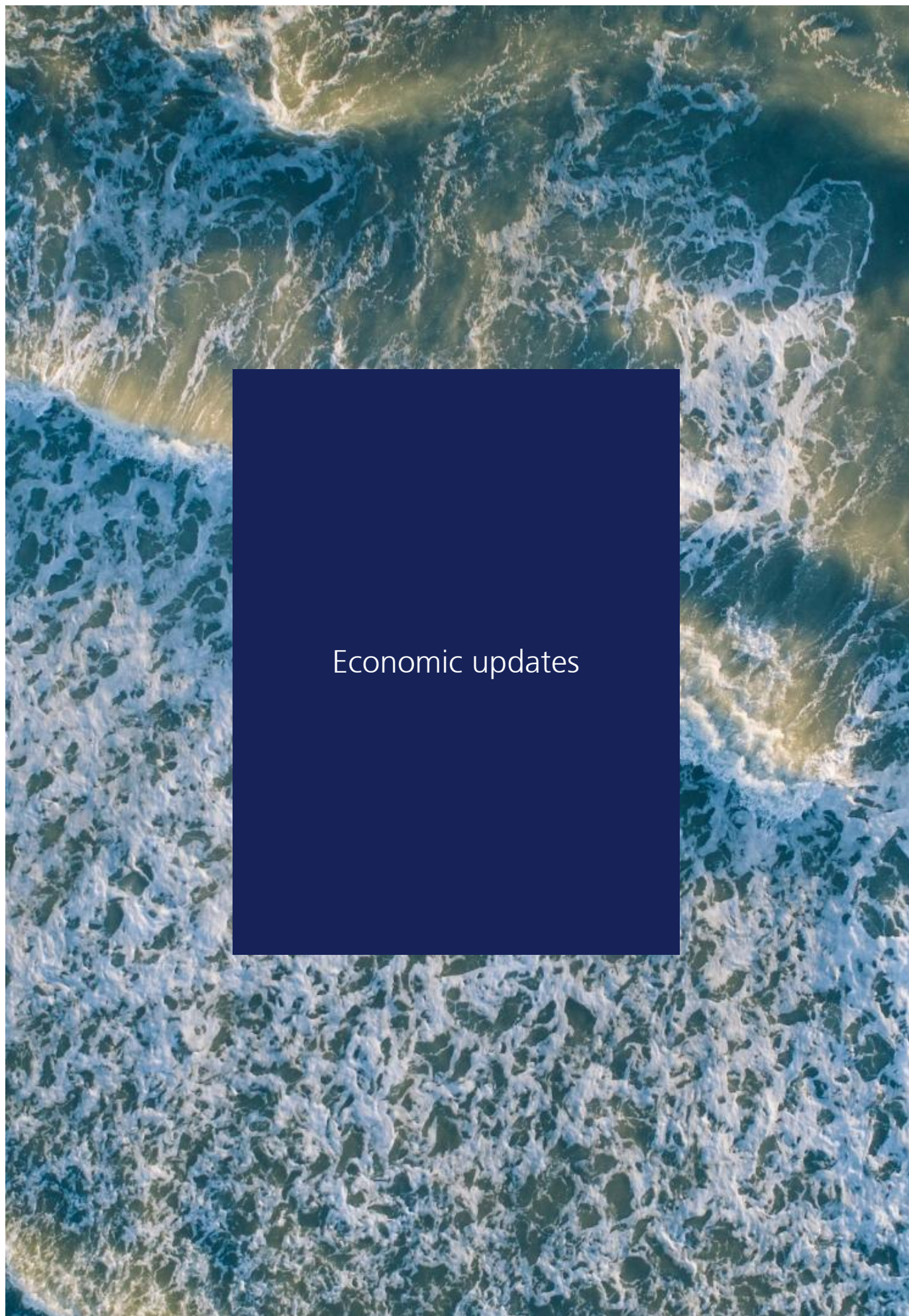
History has shown that a disciplined strategic asset allocation is responsible for around 80% of overall investment performance over the longer term.

### Strategic asset allocations in models

	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
<b>Cash</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Fixed income</b>	<b>52</b>	<b>34</b>	<b>16</b>	<b>13</b>
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
<b>Equities</b>	<b>22</b>	<b>40</b>	<b>58</b>	<b>38</b>
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
<b>Alternatives</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>45</b>
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.

<sup>1</sup> 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



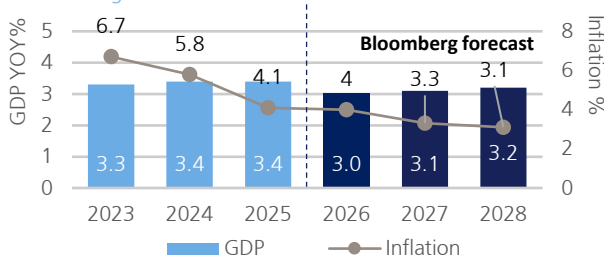
The world economy remains in a period of extreme geo-political uncertainty, with the US-Iran conflict (starting in late February) continuing to escalate and de-escalate during March and April. Positively, early April saw a two-week ceasefire that has eased hostilities and led to a marginal increase in energy traffic through the critical Strait of Hormuz. However, a formal deal is yet to be secured, with key issues relating to Iran’s tolling of shipping and the US’s demands for total nuclear disarmament. However, with the last-minute deal indicating both sides recognise their constraints (and the costs of not playing to them) – and the timeline for a deal extended another two weeks – we retain some confidence that we’ve now passed the peak of uncertainty, albeit with risks remaining. Indeed, as BCA Research notes, “further escalations are likely, with Hormuz remaining the key lever for Iran”.

While a formal ceasefire ‘deal’ remains likely, we are less optimistic on a rapid return to normal flows of energy through the Strait of Hormuz, given disparate military forces and likely residual tension. This could keep oil and gas prices elevated, with the potential for USD 80-90 global oil (up from USD 60 pre-war) to be a headwind of around 0.5% for global growth in the year ahead. With the shock focused on energy, the US is likely most insulated, while the UK, Europe and emerging markets are most vulnerable. Recent growth data remains relatively resilient, with Q1 growth in the US continuing to slow moderately, but surprising positively for the UK and China.

Similarly, the prospect of further central bank rate cuts has evolved to selective rate hikes, given a short-term inflation spike and second round inflation risks. March inflation measures broadly revealed a sharp uplift in headline energy costs – likely a drag on consumer spending – though underlying rates of inflation remained well-contained. While rates may not be trimmed as much as earlier expected, we continue to expect monetary and fiscal policy to remain broadly supportive for growth in 2026.

After world growth of 3.3% for 2025 (little changed from 2024), consensus still expects only moderately slower growth of 3.0% for 2026 and 3.1% 2027. Barclays similarly see resilient growth of 3.1% in 2026 (and 3.0% in 2027).

Global GDP growth and inflation



Source: Bloomberg

## Australia

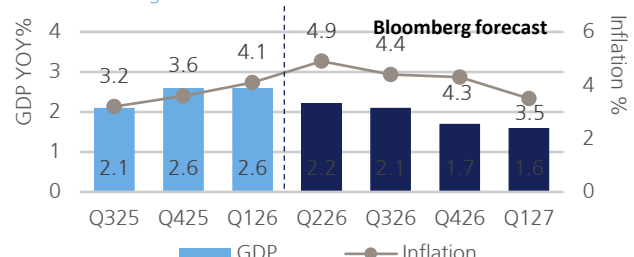


Australia is a net energy exporter (albeit not fuels), and the broader economy is likely to benefit (relatively) from another period of elevated commodity prices associated with the US-Iran war. However, the sharp rise in global oil prices will be a strong headwind for consumer spending, on top of the recent interest rate hikes, while oil-related input cost increases could also weigh on business activity. Together, these pose a risk of reversing some of the cyclical recovery during 2025. Should growth shift weaker in H226, it would likely aid the return of inflation to the target and minimise further hikes. The upcoming May Federal Budget is also expected to target measures to improve productivity and ease inflation pressures from still-strong government spending.

Growth accelerated in Q4, rising 0.8% after 0.5%, lifting the annual rate to 2.6%, its fastest in almost two years. Both private (3.2% y/y) and public (2.1% y/y) demand rose solidly, albeit with consumer spending lifting less than expected (2.4% y/y), while housing continued to recover strongly (5.5% y/y). Business CapEx remained on a recovering trend (4.5% y/y). Recent data have been limited, but on balance weaker. Consumer spending rose just 0.6% across January and February after a 0.5% fall in December. Consumer confidence plunged 12.5% in April to a pandemic low, while business confidence also fell sharply in March. Jobs growth proved resilient in March, holding 1.8% annually, while unemployment was unchanged at a relatively low 4.3%.

As anticipated, the March inflation data came in high, though the underlying detail was less uniformly hawkish than the headline implied. Headline CPI rose 4.6% y/y in March, up from 3.7% in February, while trimmed mean inflation was unchanged at 3.3% y/y - still above the RBA’s 2–3% target band. At their March meeting, the Reserve Bank of Australia (RBA) increased the cash rate 0.25% to 4.1%, its second consecutive hike. In contrast to February’s unanimous decision, the vote was ‘divided’ (at 5-4). The RBA assessed that growth was exceeding supply capacity and with inflation already above the target, and an energy price shock, inflation would be harder to slow if demand didn’t slow imminently. Markets overwhelmingly anticipate a May hike, with the risk of two more to follow. Forecasters now expect growth to lift more modestly in 2026. From 2.0% in 2025, both UBS and CBA have recently cut their 2026 forecasts (from 2.4% and 2.3%) to just 1.9% and 2.1% for 2026.

Australian GDP growth and inflation



Source: Bloomberg

# Economic outlook



## United States

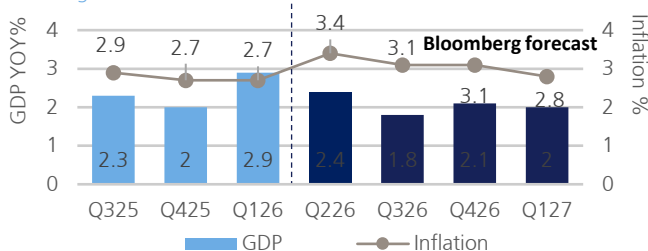
As a net energy exporter, the US economy is likely better insulated from the US-Iran war. Still, risks to the growth outlook have now risen due to the resulting sharp uplift in energy prices, which likely pushes producer and consumer inflation higher over coming months, a headwind to corporate earnings and consumer real incomes. With recent data highlighting a material slowing in growth late 2025 – and ongoing evidence of a weak jobs market in early 2026 – the expectation remains for a further modest cut to interest rates in 2026 and 2027. But with core inflation persisting above the target, and AI-led growth robust, the policy outlook is now more clouded (with geo-macro developments around Trump’s IEEPA tariffs and attacks on the central bank still in the background).

Growth in Q4 was revised lower to just 0.1% (0.5% saar) from its initial release of 0.3% (1.4%), significantly below the 1.0% pace during Q2 and Q3. The annual pace slowed from 2.3% to 2.0%. Weakness reflected the government shutdown and softer services demand. Recent data have remained mixed, but signal only a modestly stronger pace in Q1 2026. April’s composite Purchasing Managers’ Index (PMI) showed surprising resilience, rising to 52.0 from 50.3, boosted by strength in the manufacturing sector. Core retail sales in March lifted 0.7%, after 0.6% in February, pointing to a resilient consumer. March’s job report also showed a strong rebound (+178,000 after -133,000), with unemployment reversing back down to 4.3% from 4.4%. Together, all three prints paint a picture of a robust economy.

The US Federal Reserve (Fed) held policy rates unchanged in March for a second meeting, at 3.50-3.75%. According to BCA, the Fed signalled, “no urgency to move as uncertainty limited forward guidance”. March inflation rose sharply due to energy prices, lifting to 3.3% from 2.4%. Core inflation stayed contained, edging up to 2.6%, with more ‘pass-through’ from energy expected ahead.

The outlook is now somewhat uncertain but expected to prove resilient and led by a broadening of growth beyond high-income consumption and AI CapEx (such as housing). After 2.1% in 2025, Barclays forecasts a pick-up to 2.4% (trimmed from 2.6%), before slowing to 1.8% in 2027, while UBS forecasts 2.1% for both years.

US GDP growth and inflation



Source: Bloomberg



## Europe

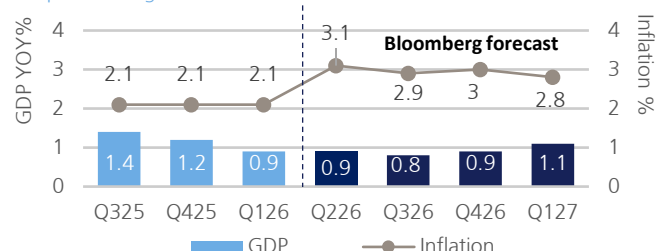
The outlook for Europe is heavily clouded by the US-Iran war, and the extent to which energy prices remain elevated, as well as the extent fiscal policy is put to work to mitigate the negative growth impulse. Like elsewhere, higher energy costs – if they persist – are likely to weigh heavily on activity, as will any increase in interest rates should inflation reaccelerate. Higher energy prices, together with the risk of higher interest costs, are likely to weigh heavily on consumer income over the coming year. Longer term, and as Wellington Management notes, Europe’s shift, “to a more domestically focused economic model with sustained investment in defence, energy security and other policy priorities,” should continue to support activity. Moreover, while Europe is not leading the AI race in terms of foundational models, platforms or hardware, “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 has been mixed, with business confidence noticeably weaker alongside the onset of the war. April’s composite PMI eased to 48.6 from 50.7, while retail sales fell in February for the first time since August. The unemployment rate edged higher to a still low 6.2% in February.

Inflation in Europe jumped in March to 2.6% from 1.9% as higher energy prices made an impact. Core inflation remained well-behaved, easing to 2.3% from 2.4%, albeit there will be further upward pressure likely in the next couple of months. At their March meeting, the European Central Bank (ECB) left rates unchanged at 2.0% as expected. Initially hawkish commentary has eased over recent weeks, although analysts still expect one or two rate hikes ahead (to 2.5%).

The growth outlook has weakened over the past month. After growth of 1.5% in 2025, both Barclays and UBS expect growth to ease to 0.8% in 2026. Barclays sees only a tepid rise to 0.9% in 2027, while UBS forecasts a stronger recovery to 1.2%.

European GDP growth and inflation



Source: Bloomberg

# Economic outlook

## United Kingdom



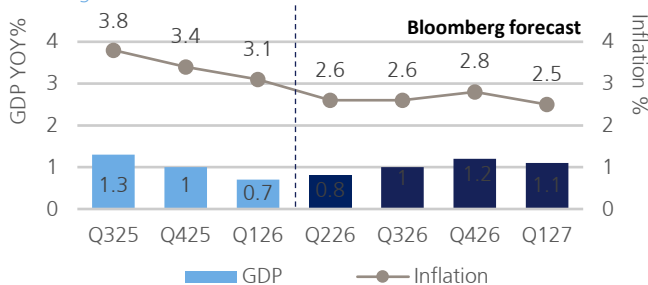
After a period of strong growth in H125, the UK economy slowed sharply during the latter half of last year. Despite the headwind of fiscal tightening, activity has rebounded moderately in early 2026. But the impact of the war in Iran – and elevated energy prices – is now likely to weigh on growth ahead. Renewed energy-led inflation risk may also limit the willingness of the central bank to cut rates in response to still well-below-trend growth. With geo-political uncertainty impacting business activity and the jobs market still weakening, we continue to believe further rate cuts have been delayed, not removed (despite market pricing for mid-year hikes). An expected easing of energy prices later in 2026, together with lower rates, should help contribute to a reacceleration in growth into 2027.

UK growth rose just 0.1% in Q4 (the same as Q3), and with a disappointingly soft pace for private demand. While public CapEx was strong, business capex disappointed and household consumption missed. Data for early 2026 has surprised more positively, ahead of any Middle East conflict impact from March. Monthly growth rose 0.5% in February, ahead of expectations and a 0.1% gain in January. UK jobs rose in the three months to January, stronger-than-expected, with unemployment unchanged at 5.2% (still a four-year high). In contrast, April’s composite PMI surprised to the upside, rising to 52.0 from 50.3, while retail sales fell in February.

Headline inflation accelerated to 3.3% in March, broadly as expected, reflecting the spike in energy prices. As in the US though, core inflation came in below expectations, at 3.1%. In March, the Bank of England (BoE) left the policy rate unchanged at 3.75%. As UBS notes, the BoE discussion focused on the impact of the Iran war, considering upside risk through second round [inflation] effects against disinflationary risk from weaker activity. While the market is pricing rate hikes, analysts have delayed cuts to later in 2026.

Growth is now expected to be weaker. After 1.4% in 2025, Barclays and UBS have lowered their growth outlooks to 0.7% and 0.8% (from 1.1%) for 2026, ahead of a recovery in 2027.

UK GDP growth and inflation



Source: Bloomberg

## Japan



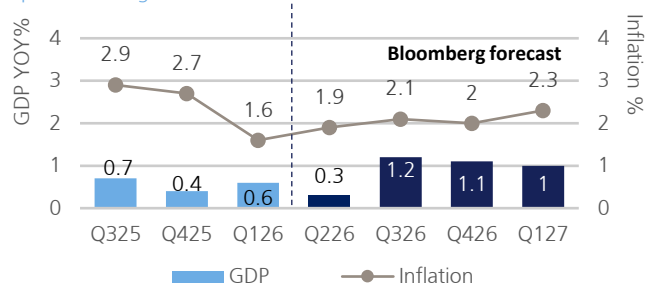
Despite a softer H225 growth showing, we view Japan as on a recovery path after decades of deflation, with stronger growth likely to re-emerge as 2026 unfolds. Business conditions continue to lift, and the jobs market remains tight. Like elsewhere, that outlook is now being impacted by the persistence of the oil price surge and may prove stronger or weaker than expected. Through one lens, higher energy costs will weigh on activity putting downward pressure on core inflation. Through another, it adds to upside inflation risks if it gets built into inflation expectations.

Growth in Q4 was meaningfully upgraded, having initially disappointed, now reported as 0.3%, up from 0.1% and after a -0.7% contraction in Q3. Annual growth stayed positive at 0.1%, its sixth quarter of expansion, with consumer, housing and business CapEx all reported stronger for Q4. Data suggest Q1 will remain solid. As UBS notes, the key, “Tankan survey results were broadly much more positive overall. Overall, firms’ business condition for all firm sizes remained at 18, marking the highest reading since Q3 1991”. Wages growth increased by 3.1% in February, its highest for a number of years, albeit consumer spending remains inconsistent, easing in February.

After keeping rates steady in March, there was much debate over whether the BoJ would hike in April, the odds of which had risen post the US-Iran cease-fire. As UBS notes, “while confidence about the near-term outlook remains low, the BoJ’s intention to move rates closer to the neutral level of at least 1.0% appears firm. Failing to hike against expectations would likely weaken the JPY. At the same time, the BoJ is keen to avoid surprising markets, exacerbating volatility, or clashing with the dovish stance of PM Takaichi”. Core CPI rose to 1.8% in March, from 1.6%, in line with expectations and staying below the BoJ’s 2% target. As it turned out, the BoJ opted to leave its benchmark interest rate unchanged at 0.75%, in a split vote, increasing the probability of a June hike (the market is 65% priced for a hike).

Growth is expected to slow modestly in 2026, due to H225 weakness. After growth of 1.2% in 2025 (recently revised higher), both UBS and Barclays anticipate a modest slowing to 1.1% (was 0.9%) for 2026, before a modest pick-up in 2027.

Japanese GDP growth and inflation



Source: Bloomberg

# Economic outlook

## China



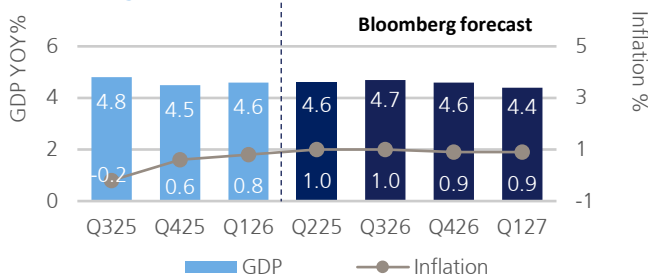
As Longview Economics notes, “China is relatively well insulated from the global oil price shock. Oil intensity is low and declining”. This reflects China’s significant steps over the past decade to reduce their dependency, with both investment in renewable energy sources and a rotation toward electrification, particularly for transport. Recently, the government moved its growth target below the key 5% mark, indicating a tolerance for slower growth near-term. Better growth in early 2026 has increased their chance of achieving this. While the property sector remains a headwind, export activity has improved, while key structural positives such as the offshoring of its manufacturing capacity and pickup in ‘new economy’ sectors should also support growth ahead.

China’s growth surprised positively in Q1, lifting from 4.5% to 5.0%. Deflationary pressures also eased significantly in Q1. The pick-up in activity was helped by solid export growth (15% annually from 4% in Q4), improving retail sales (at 2.4% after 1.7%), and a rebound in fixed asset investment (2% after -13%). On the production side, industrial growth accelerated further to 6% in Q1 (from 5%). March month data also revealed some less negative property trends. The better Q1 data is likely to leave monetary policy makers in a ‘wait and see’ mode, according to UBS, especially given rising energy inflation near-term.

At the much-watched National People’s Congress (NPC), the government softened its growth target from ‘around 5%’ in 2025 to a range of 4.5% to 5.0% in 2026, the least ambitious target since 1991, according to CBA. This signals Beijing’s tolerance for slower growth as it focuses on technological self-reliance. According to BCA, this year’s fiscal stimulus, “is notably modest and suggests no improvement from last year.” They estimate the spending impulse to be about 1.5%, “unchanged from 2025”, with the policy mix emphasising supply-side enhancements (like infrastructure), “with little fiscal aid for consumption.”

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 both CBA and UBS’s forecast.

Chinese GDP growth and inflation



Source: Bloomberg

## Emerging markets

The recent ceasefire is relatively good news for emerging markets. As UBS notes, “if shipping normalises, asymmetric tail risks fall sharply, making scenarios such as fuel rationing, acute energy shortages, a global recession, or aggressive monetary tightening far less likely.” That said, the balance of risks has still shifted toward a more cautious setting, where energy security, trade routes and policy credibility will be key for the region’s resilience.

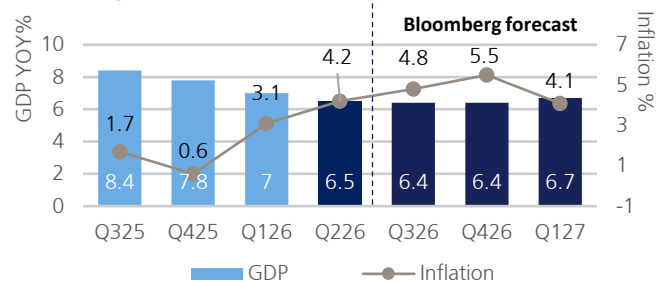
Emerging Asia remains vulnerable to the impacts of a supply shortage from the US-Iran war rather than just through demand. Since the onset of the Middle East conflict, ASEAN economies have deployed fiscal support to varying extents to cushion the impact of the energy shock. While this will likely mitigate some of the growth headwind, growth forecasts for the region have generally been downgraded over the past month. The impact on consumers from higher energy costs has also varied across regions (being significant in the Philippines, but more muted in Thailand and Indonesia), as different subsidies are utilised.

For India, as UBS notes, the “economy remains vulnerable to higher oil prices, given that it imports about 88% of its crude oil, of which half is sourced from the Middle East”. Higher energy prices would weigh on consumer sentiment, real incomes and spending, while adversely affecting industrial growth and squeezing margins for several sectors. As Barclays notes, positively, the central bank, “is not in a rush to tighten policy”.

Latin America’s near-term outlook is shaped heavily by higher energy prices. Some countries benefit from stronger revenues, implying overall activity is likely to moderate rather than contract. Brazil’s monthly growth indicator rose by 0.9% in January, a strong rebound from relatively flat Q4 growth. According to UBS, while “domestic activity indicators do not yet point to growth converging back to potential on a sustained basis”.

For EM ex China, after growth of 4.2% in 2025, Barclays and UBS have both cut their 2026 forecast to 3.8% (from around 4.0%) on the back of the Middle East conflict. UBS expects a solid 2027 rebound to 4.3%, while Barclays is more modest at 3.9%.

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

- Geo-political uncertainty remains elevated, but volatility has eased, with 10-year US yields range-bound around 4.25%.
- Lower energy prices have driven a repricing of policy expectations in Europe, supporting near-term outperformance, but we remain underweight duration given persistent inflation risks.
- Australian rates remain at attractive valuations with markets pricing over two RBA rate hikes for the year ahead.

Fixed income markets remained shaped by geo-politics, energy prices and shifting policy expectations over the past month. In the US, uncertainty around the Middle East and ongoing disruption to the Strait of Hormuz continued to limit conviction, although volatility has eased as markets increasingly look through headline noise. The MOVE Index has retraced toward pre-conflict levels, while 10-year Treasury yields have traded in a relatively narrow range with a modest bias lower, around 4.25%. A further improvement in geo-political risk could see yields move toward 4%, with the 200-day moving average near 4.18% the first key resistance level. However, medium-term inflation risks remain elevated and continue to outweigh the short-term resistance from headline-driven rallies. We therefore maintain an underweight stance in US duration, with a sharper slowdown in activity the key risk to this view.

In Europe, rates markets have been driven by a material repricing in policy expectations as energy prices declined. In the UK, markets now price around two more BoE hikes, down from closer to three last month. A similar adjustment has occurred in Europe, with ECB expectations moderating to around two further hikes from three previously. Lower Brent crude oil prices have eased near-term inflation concerns and supported outperformance in gilts and bunds, with yields moving lower relative to global peers. Despite this, we remain cautious, as the medium-term inflation impulse may prove more persistent given the lagged effects of earlier energy shocks. We therefore remain underweight UK and European duration, with a sustained fall in energy prices or sharper growth slowdown the main risks to this view.

In Australia, policy expectations remain the main driver of local rates, with markets pricing just over two additional RBA hikes by year-end. While domestic inflation remains sticky, we see a meaningful risk that this degree of tightening is not delivered. ACGB yields have traded in a narrow range over the month, with both 3-year and 10-year yields broadly unchanged and near the midpoint of their post-escalation ranges. Valuations appear attractive in outright and relative terms, particularly with Australian 10-year spreads to the US still wide vs. history. We maintain an overweight stance in ACGBs, supported by attractive yields, softer business and consumer activity, and the likelihood that market pricing for further tightening proves too aggressive.

## Investment grade credit and high yield credit

Position: Neutral investment grade and high yield credit.

In April, global credit markets stabilised following the volatility seen in late March, with IG spreads holding firm near year-to-date tight despite ongoing geo-political tensions. Markets showed increasing “headline fatigue” toward developments in the Middle East, supported by strong technicals and persistent demand for yield. US IG spreads were broadly unchanged to slightly tighter over the month, with CDX IG retracing toward early-year lows, while European Main spreads also tightened modestly.

Primary issuance remained a defining feature of April, with global markets highly active as issuers took advantage of windows of stability. In the US, supply was robust, including large multi-tranche deals from major banks ahead of earnings blackout periods. Issuers generally offered modest new issue concessions, which were readily absorbed by investors given strong liquidity and demand for income.

In Australia, credit markets broadly mirrored global trends, with spreads stabilising after the March widening and ending the month, little changed to slightly tighter. The AUD primary market reopened meaningfully following a six-week lull, with one of the busiest issuance weeks since the onset of geo-political tensions. Ten issuers raised approximately AUD 7.2 billion in a single week, led by financials, highlighting strong domestic demand and the market’s capacity to absorb elevated supply. Supportive fundamentals, including strong bank balance sheets, light dealer inventories and relatively attractive yields, continue to underpin AUD credit.

HY credit experienced a more measured recovery in April, following the volatility of the prior month. Early weakness driven by renewed geo-political concerns proved short-lived, with spreads retracing as broader risk sentiment improved. However, dispersion remained evident, with energy credits outperforming while lower-rated software and select financial issuers lagged, reflecting ongoing concerns around leverage, liquidity and structural disruption.

Looking ahead, we remain cautious on HY credit. Despite the stabilisation in spreads, valuations appear to underprice medium-term risks, including tighter financial conditions, refinancing challenges and potential default risks into 2026 and 2027.

# Our outlook and tactical asset allocation

## Australian government bonds – we are overweight

Policy expectations remain elevated, with markets pricing just over two additional RBA hikes by year-end, though we see a meaningful risk this tightening is not fully delivered. With outright yields still at elevated levels and spreads to US Treasuries still wide, ACGBs offer attractive value, supported by carry and demand.

## Global government bonds – we are underweight

While volatility has eased and yields remain range-bound, geo-political uncertainty and inflation risks continue to constrain a sustained rally. In the US, inflation remains sticky, while in Europe and the UK, the recent repricing lower in policy expectations appears overdone, leaving global yields vulnerable to renewed upside pressure.

## Investment grade credit – we are neutral

IG spreads stabilised in April, holding near year-to-date tight despite ongoing geo-political tensions, supported by strong technicals and demand. Primary issuance remained robust globally and in Australia, with elevated supply well absorbed. While yields remain attractive, we see risks of modest spread widening from historically tight levels.

## High yield credit – we are neutral

HY markets also stabilised in April following March volatility, with spreads retracing as sentiment improved, although dispersion remains evident across sectors. We believe current valuations underprice medium-term risks, including tighter financial conditions and refinancing challenges. Limited primary issuance and ongoing liquidity concerns support a cautious outlook for HY spreads.

### Active fixed income weights (%): we are neutral fixed income

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

### Fixed income market summary

Fixed income indices	Current	One month ago
Australian iTraxx CDS	75.44	93.25
Australian 3-year yield	4.78%	4.65%
Australian 10-year yield	5.08%	4.98%
Australian 3/10-year spread	28.9 bp	32.3 bp
Australian/US 10-year spread	64.2 bp	65.2 bp
US 10-year Bond	4.43%	4.32%
German 10-year Bund	3.11%	3.04%
UK 10-year Gilt	5.07%	4.94%
Markit CDX North America Investment-Grade Index	56.1 bp	67.7 bp
Markit iTraxx Europe Main Index	60.3	73.2
Markit iTraxx Europe Crossover Index	297.7	361.5
SPX Volatility Index (VIX)	18.8	30.6

Source: LGT Wealth Management, Bloomberg as of 30 April 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

Increased volatility across markets improves the diversification case for **hedge funds and diversifiers**. While hedge funds can suffer initially from deleveraging from sudden exogenous market shocks (e.g. war), higher volatility regimes can provide ample opportunity for skilled managers to outperform. The current environment also focuses attention on other uncorrelated strategies where traditional risk factors are less or simply not in play – these strategies include insurance, royalties, litigation and life sciences for example. We continue to build exposures in these segments to provide genuine portfolio diversity,

## Private markets

Venture/growth and secondaries are key deployment avenues. As discussed in last month’s CIO letter, **secondary markets** continue to be an attractive place to deploy capital particularly given their somewhat counter-cyclical bias. We prefer more complex GP-led secondaries than discounted LP-stakes which are increasingly competitive amid excessive evergreen capital flows in the US.

**Venture capital** and growth equity are attractive means of 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 be selective around deployment into specific single-asset, AI-related investments.

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 – 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. News flow has accelerated of late, yet we continue to believe that private debt remains well positioned, if investing through the right managers and structures. Institutional investment flows remain strong despite the retail redemption pressures experienced in the US.

While interest rates and spreads have declined, relative to public counterparts, private debt continues to outperform. Secondaries are particularly attractive and can be used to play offence amidst uncertainty, given they can re-underwrite portfolios (including software positions) and provide liquidity at attractive prices. Asset-based finance is already showing relative outperformance and diversification when compared to direct lending, where returns have been more muted year to date.

We continue to monitor the redemption cycles in the US but do note that most firms are acting in the best interests of investors and the ‘liquidity mismatch’ is as much an advice and mis-aligned expectation issue, as a product issue. Private markets are not liquid in a traditional sense.

## Real assets

**Real estate** is recovering despite dispersion across sectors. Property should continue its positive momentum, reinforcing 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. Secondaries within the asset class also 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 focused on upfront discounts.
- Construction and/or junior lending within real estate.
- Carbon-intensive assets and industries with no transition plan.

	Least preferred	Most preferred
Hedge funds		█
Private equity		
Private debt		
Property		
Infrastructure		█

# FX and Commodities update and outlook

## Currencies

### Key points

- The US dollar weakened as markets priced in peak war uncertainty.
- The Australian dollar steadied as risk sentiment, and RBA rate hike pressure build.

The US dollar maintained its 'sole safe haven' status over the course of March but began weakening from the start of April as investors eyed a potential peak in geo-political uncertainty in the US-Iran conflict. This was in line with our view that a potential de-escalation, in this case catalysed by the 8 April ceasefire, would be a potential spark for a weakening in the US dollar.

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-armament, China's stimulus prospects, Japan's easing) still argues for modest dollar weakness over time.

The Australian dollar (AUD) rebounded modestly over the month to trade at around USD 0.72, supported by a recovery in risk sentiment and ongoing domestic inflation issues forced markets to price further RBA rate hikes. That said, the currency remains sensitive to shifts in the global risk tone, and if the conflict extends, downside risks should increase. On top of this, Australia's long-standing productivity challenges and lack of economic reform likely places a ceiling on the AUD's near-term upside.

The euro (EUR) also rebounded over the month to ~USD 1.18 amid hopes for a US-Iran de-escalation and ceasefire. The region is particularly exposed to oil and gas prices, which consequently makes it highly leveraged to a recovery in risk sentiment if the conflict does de-escalate.

For now, we maintain a longer-term constructive view on the bloc – if the US-Iran conflict de-escalates within the next two months, the European economy should be able to avoid lasting damage, providing a potential opportunity to re-leverage into the 'European renaissance' trade. That said, clearly the near-term risks are extremely elevated, and investors would be prudent to await further clarity from the Middle East.

The Japanese yen was steadier over the month and is now trading around ¥157 per US dollar. 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 re-elected PM Takaichi seeks to navigate Japan through this new world.

## Commodities

### Key points

- Global commodity prices recovered; oil prices remain elevated but ease off recession-inducing peaks.
- Iron ore prices are trading at around USD 107 per tonne (p/t).

Global commodity markets continue to be impacted by the ongoing conflict in the Middle East, though have shown signs of stabilising as investors marked the US-Iran ceasefire as a local peak in geo-political uncertainty. Bloomberg's broad commodity price index was about 0.6% higher over the month.

Crude oil prices remain elevated at around US\$100 per barrel (p/b) but have eased off the recession-inducing peaks of near US\$120 p/b from March. Disruptions to the Strait of Hormuz continued for most of April, despite the ceasefire earlier in the month, extending the physical oil supply crisis into uncharted territory for the global economy. The near-term outlook for crude oil remains highly volatile and dependent on a re-opening of the Strait, through which passes around 20% of seaborne crude (as well as significant natural gas supplies). For now, markets are continuing to price in a relatively swift resumption of oil flows, though second order risks (e.g. refined oil products, fertiliser) and non-linear impacts on the global economy build with every day that the disruption continues.

Meanwhile, gold stabilised as risk sentiment recovered in April, trading at around USD 4700 per ounce. Structural considerations around fiscal profligacy and currency debasement should continue to provide a secular support for the precious metal if the crisis de-escalates.

Industrial metal prices recovered over the month, as markets priced in a hopeful scenario of de-escalation and resumption of oil flows. Copper prices are up around 7%, and aluminium rose 4%, while iron ore is trading around USD 106 p/t.

Clearly, the near-term outlook for commodity prices (and most other financial markets) will be dependent on whether the US and Iran can come to a deal and re-opening of the Strait of Hormuz swiftly enough to limit the damage to the global economy and encourage a recovery, while an extended disruption to global oil and gas flows could lead to significant second order and non-linear stagflationary impacts.

Longer-term, market adjustments to a multi-polar world could provide a secular tailwind to the commodity complex, as governments and corporations seek to shore up physical access to strategic commodities and prioritise stability of supply over economic efficiency. 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 in the years ahead.

# Equities update

## Domestic equities

### Key points

- In what was a volatile month for news flow, Australian equities finished the month up 2.2%.
- The IT Sector led the rebound, rising 13%, its second largest April gain in history, after the COVID rally in 2020. Not surprisingly, the energy sector gave back some of its recent strength.
- Healthcare continues to be a material underperformer, with all but three names in a technical bear market, two names in a correction and the other down ~9%.

We are underweight Australia, in part because the RBA seems to have less flexibility than other central banks to navigate the fallout from the US-Iran conflict (i.e. the risk of a policy error is higher here, even if it is not our base case).

UBS' base case is that Australia experiences a 'stagflation light' set of conditions over the coming six months. Under this scenario, inflation spikes and economic growth slows, but we avoid a recession (year-on-year inflation >3.5% and below trend gross domestic product [GDP] growth). Since 1960, Australia has only experienced seven occasions where this economic backdrop (or worse) has played out.

Not surprisingly, equities have never done well during this scenario (and prices fell well ahead of the actual period). Once we see stagflation, equities tend to bottom around six months in. In the two periods of genuine stagflation, equities fell by 48% over an 18-month window. In the stagflation-lite episodes, equities fell only 10% over the same window.

At a sector/stock level, telcos, gold and insurance tended to do well. Banks tend to do poorly and eventually, for the miners and energy stocks, the negative growth shock overwhelms the inflation aspect. Supermarkets, pipelines, healthcare, data centres, toll roads, lotteries, telcos are also places to be invested, in a relative sense.

There are already some signs of a slowing consumer following the pivot to rate hikes. Trading updates for January and February showed comparable sales have slowed for multiple brands compared to last year (e.g. JBH Australia, The Good Guys, Kmart). Some retailers (Nick Scali and Super Cheap Auto) also called out the possible impact of the RBA on slowing spending, while others talked about consumers looking for ways to save (cooking more at home), and focused on value (promotional periods are outperforming). The market has priced at least two more rate hikes.

While Aussie equities appear expensive on P/Es & dividend yields, they are better value on a Free Cash Flow basis (5% vs a 25-year average of 4.5%).

## International equities

### Key points

- Global equity markets rallied ~4% over April, led by a resurgent US equity market that has now cleared to new all-time highs despite AI, private credit, and geo-political uncertainties.
- Volatility declined across global markets, despite the ever-changing headlines around the conflict in the Middle East.
- This suggests that equity markets are looking through this turmoil, consistent with behaviour seen during past geo-political crises.

Equity markets have once again shown incredible resilience against adversity. The ceasefire has lifted investor sentiment and sent most indices back to, or even above, their pre-war levels, with the US and tech now firmly in the lead. P/Es have come off from year-to-date highs, but remain above average, need earnings, fiscal stimulus and AI productivity gains to do the heavy lifting. To this end, corporate fundamentals remain strong, with 66% of announced buybacks for 2026 are yet to be executed.

Again, the traditional playbook that geo-political shocks typically end up as buying opportunities, has (for now) played out. Nonetheless, the surge in oil means lower growth, higher inflation and weaker central banks' put. For every day that Hormuz flows remain minimal, the growth/inflation policy trade-off deteriorates, and financial conditions tighten (albeit they have loosened quite materially of late). Fiscal stimulus and AI-led CapEx have been enough to protect equity investors, while lower oil intensity of GDP means the global economy can cope with ~USD 85 per barrel oil, and rates expectations have already repriced much higher.

Barclays believe that the 'easy' de-escalation gains may be behind us, and as a result, equities need confirmation from oil and rates that the war is indeed over to keep rallying. With that said, there are some tailwinds:

- Earnings estimates have diverged from the typical path - we are seeing positive revisions, not negative.
- The Fed has seen renewed balance sheet expansion - increasing at a 10% annualised rate over the past month.

Bottom-up consensus forecasts +20% global EPS growth in 2026, accelerating from a solid base (+12% in 2025). EM is expected to see the strongest EPS growth (+40%), followed by the US (+18%) and UK (+18%). All major regions are forecast for double-digit EPS growth this year. The MSCI AC World has seen valuations compress by ~10% YTD, with the index now trading on a 12-month forward P/E of ~18x.

# Equities outlook and tactical asset allocation

## Domestic – we are underweight

Australia's high commodity exposure typically supports performance during geo-political crises. However, this also creates relative vulnerability should the ceasefire persist, while valuations remain demanding. Moreover, the inflationary consequences of this conflict present fiscal and monetary challenges that limit economic flexibility.

## US – we are neutral

Strong US earnings put the burden of proof on the bears. The S&P500 has made new highs (amidst low volumes). The pressure to chase will be high and can drive the market further in the near term. However, the drivers of that return may well change. Higher inflation pressures and a weaker consumer may underpin the dominance of tech, help large cap, growth and quality (the reversal of the pre-war period of ex-tech, value, small caps and international outperformance).

## Europe (ex-UK) – we are overweight

Having started the year on a positive note, Europe is now confronted with a new supply shock as the conflict in the Middle East oscillates. At this stage, investors face an increasingly binary set of outcomes: a near-term cessation of hostilities, with relatively limited economic damage, or a drawn-out war that would pose a significant risk to Europe's gradual recovery.

## United Kingdom – we are neutral

The UK continues to show a record valuation discount vs other regions, as well as the highest dividend yield globally, and is, to a large extent, immune to the AI cannibalisation trade. The region continues to serve as an effective geo-political hedge due to its heavy tilt towards the commodity and defensive sectors. However, the market may be more vulnerable should a ceasefire hold or more positive news flow around Russia-Ukraine negotiations emerge.

## Japan – we are overweight

Japanese stocks have rebounded significantly on expectations of a de-escalation of the US-Iran conflict, with the Nikkei average reaching new year-to-date highs (MSCI Japan is still down ~4-5%). We retain our structurally bullish bias to Japanese equities on embedded inflation, rising real wages (albeit we acknowledge some inflationary pressures) and ongoing corporate reform.

## Emerging market equities – we are neutral

Many EMs remain highly vulnerable to physical energy shortages, with headwinds potentially compounded by USD strength. Headline EM EPS growth is increasingly supported by AI-related sectors, primarily from Korea and Taiwan. Within EM, LatAm is best positioned to outperform in the current environment.

### Active equity weights (%): we are overweight equities

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

### Equity market summary

Region	Index	Latest price	Consensus 1 yr		Next year	
			Target	Upside	P/E <sup>1</sup>	D/Y <sup>2</sup>
Australia	S&P ASX 200	8,687	9,372	7.9%	17.3	3.7%
New Zealand	S&P NZ 50	12,770	15,038	17.8%	28.3	2.9%
United States	S&P 500	7,136	8,340	16.9%	21.7	1.2%
Europe	Euro Stoxx	623	731	17.3%	15.2	3.3%
United Kingdom	FTSE 100	10,213	11,932	16.8%	12.9	3.4%
China	CSI 300	4,108	4,929	20.0%	14.3	2.8%
Japan	Nikkei 225	59,917	65,853	9.9%	23.9	1.5%
India	Sensex	77,496	93,456	20.6%	19.3	1.6%

Source: Bloomberg. Data as of 30 April 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	\$168.63	\$212.23	35.1	1.9%	44%	31%	16.0%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	\$46.99	\$63.03	18.3	2.2%	28%	23%	11.0%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	\$5.48	\$5.82	32.0	3.5%	24%	114%	16.4%	AA
MTS	Metcash Ltd	Cons. Staples	\$2.70	\$3.44	11.2	7.0%	14%	16%	9.5%	AAA
ALD	Ampol Ltd	Energy	\$35.25	\$36.77	10.2	5.6%	21%	22%	-34.1%	AA
BPT	Beach Energy Ltd	Energy	\$1.19	\$1.16	6.7	4.6%	17%	12%	28.8%	AAA
MQG	Macquarie Group Ltd	Financials	\$233.46	\$244.38	20.1	3.4%	--	12%	8.7%	AA
SUN	Suncorp Group Ltd	Financials	\$16.99	\$18.87	19.6	4.8%	5%	9%	36.6%	AAA
COH	Cochlear Ltd	Health Care	\$93.00	\$129.19	19.4	4.1%	22%	16%	15.3%	AAA
RMD	ResMed Inc	Health Care	\$29.68	\$44.37	19.1	0.9%	30%	25%	10.7%	A
MND	Monadelphous Group Ltd	Industrials	\$27.85	\$30.94	22.5	3.8%	31%	23%	0.9%	AAA
BXB	Brambles Ltd	Industrials	\$22.50	\$25.50	21.8	2.2%	22%	30%	9.3%	AAA
WTC	WiseTech Global	Info. Tech	\$43.38	\$85.16	42.6	0.5%	20%	13%	42.0%	AA
IGO	IGO Ltd	Materials	\$7.48	\$8.57	36.6	2.8%	2%	5%	251.0%	AAA
GMG	Goodman Group	Real Estate	\$29.45	\$34.92	22.7	1.0%	9%	11%	10.3%	AA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 30 April 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 ~70% 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	\$16.99	\$18.87	19.6	1.81	100%	4.8%	34.6%	AAA
MQG	Macquarie Group Ltd	Financials	\$233.46	\$244.38	20.1	2.47	35%	3.4%	10.1%	AAA
ANZ	ANZ Group Holdings Ltd	Financials	\$36.36	\$36.40	14.6	1.52	75%	4.7%	2.6%	AA
QBE	QBE Insurance Group Ltd	Financials	\$22.25	\$23.91	11.9	2.04	30%	3.5%	4.5%	AAA
COL	Coles Group Ltd	Cons. Staples	\$22.04	\$23.46	23.6	7.62	100%	3.8%	9.6%	A
MTS	Metcash Ltd	Cons. Staples	\$2.70	\$3.44	11.2	1.78	100%	7.0%	8.0%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc.	\$5.48	\$5.82	32.0	35.87	100%	3.5%	14.0%	AAA
TAH	Tabcorp Holdings Ltd	Cons. Disc.	\$1.10	\$1.13	38.0	1.99	0%	2.8%	23.1%	AA
TLS	Telstra Group Ltd	Comm. Services	\$5.31	\$5.26	25.8	4.48	90%	4.1%	5.3%	AA
CAR	CAR Group Ltd	Comm. Services	\$25.31	\$33.87	23.5	3.39	0%	3.8%	10.9%	AA
RMD	ResMed Inc	Health Care	\$29.68	\$44.37	19.1	4.88	100%	0.9%	9.3%	A
PME	Pro Medicus Ltd	Health Care	\$134.24	\$192.95	87.5	36.06	100%	0.7%	27.3%	BBB
REP	RAM Essential Services	Real Estate	\$0.48	\$0.78	10.1	1.21	0%	10.2%	-4.0%	--
MGR	Mirvac Group	Real Estate	\$1.70	\$2.02	13.1	0.73	0%	5.8%	5.3%	--
IRE	IRESS Ltd	Info. Tech	\$6.71	\$10.14	15.1	2.95	0%	4.5%	11.0%	AA
DBI	Dalrymple Bay Infrastructure	Industrials	\$5.43	\$5.56	26.2	2.60	0%	5.2%	7.6%	--
ALX	Atlas Arteria Ltd	Industrials	\$4.78	\$4.83	18.3	1.20	0%	8.4%	0.0%	AA
ALD	Ampol Ltd	Energy	\$35.25	\$36.77	10.2	2.77	100%	5.6%	-25.8%	--
BPT	Beach Energy Ltd	Energy	\$1.19	\$1.16	6.7	0.86	100%	4.6%	61.1%	AAA
BHP	BHP Group Ltd	Materials	\$53.74	\$52.86	15.1	3.86	100%	2.6%	-7.7%	A
AMC	Amcor PLC	Materials	\$53.26	\$74.29	9.5	1.51	0%	4.9%	1.9%	AA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 30 April 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	349.94	388.28	28.4	0.2%	4,224,347	BBB
UMG NA	Universal Music Group NV	Comm. Services	EUR	19.38	25.30	18.2	3.0%	41,545	AA
DIS US	Walt Disney Co/The	Comm. Services	USD	101.30	128.68	15.4	1.6%	179,455	A
9988 HK	Alibaba Group Holding Ltd	Cons. Disc.	HKD	126.40	176.95	26.8	0.6%	309,594	BBB
AMZN US	Amazon.com Inc	Cons. Disc.	USD	263.04	290.93	28.8	0.0%	2,828,005	BB
SBUX US	Starbucks Corp	Cons. Disc.	USD	105.50	106.38	44.8	2.4%	120,238	A
ABNB US	Airbnb Inc	Cons. Disc.	USD	140.28	149.54	27.9	0.0%	84,691	BB
RMS FP	Hermes International SCA	Cons. Disc.	EUR	1607.50	2172.87	35.5	1.3%	197,873	A
COST US	Costco Wholesale Corp	Cons. Staples	USD	998.67	1092.91	48.9	0.6%	443,062	A
288 HK	WH Group Ltd	Cons. Staples	HKD	9.65	11.19	9.8	0.8%	15,801	--
SHEL LN	Shell PLC	Energy	GBP	3280.00	3654.28	9.4	0.0%	247,582	AA
LSEG LN	London Stock Exchange	Financials	GBP	9648.00	12257.65	20.4	0.0%	64,161	AA
LLOY LN	Lloyds Banking Group PLC	Financials	GBP	97.05	119.04	9.6	0.0%	76,428	AA
WFC US	Wells Fargo & Co	Financials	USD	81.51	96.65	11.7	2.4%	249,436	BB
2318 HK	Ping An Insurance Group	Financials	HKD	63.25	80.53	6.7	4.7%	152,697	A
939 HK	China Construction Bank	Financials	HKD	8.85	10.22	5.9	4.5%	302,068	AA
MA US	Mastercard Inc	Financials	USD	525.23	659.00	26.8	0.7%	464,576	AA
JNJ US	Johnson & Johnson	Health Care	USD	227.35	260.41	19.6	2.4%	547,281	BBB
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	255.55	297.94	12.0	4.4%	178,044	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	453.83	577.52	44.0	0.0%	160,730	A
EXPN LN	Experian PLC	Industrials	GBP	2656.00	3966.79	20.1	0.0%	32,186	A
DSV DC	DSV A/S	Industrials	DKK	1600.50	2070.44	25.5	0.5%	60,048	AA
2330 TT	Taiwan Semiconductor	Info. Tech	TWD	2170.00	2583.06	22.1	1.2%	1,776,032	AAA
ASML NA	ASML Holding NV	Info. Tech	EUR	1192.60	1460.07	38.2	0.8%	539,747	AAA
MSFT US	Microsoft Corp	Info. Tech	USD	424.46	565.36	25.3	0.9%	3,153,073	AA
ACN US	Accenture PLC	Info. Tech	USD	180.26	256.81	13.0	3.8%	111,041	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	317.85	381.91	27.0	1.0%	78,393	A
EQIX US	Equinix Inc	Real Estate	USD	1089.07	1150.41	65.2	1.9%	107,409	AA
CEG US	Constellation Energy Corp	Utilities	USD	297.00	376.75	25.8	0.6%	107,602	AAA
<b>Average Yield:</b>							<b>1.4%</b>		

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 30 April 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	1279.8	1387.8	14.3	0.0%	85,679	AAA
EQIX US	Equinix Inc	Real Estate	USD	1089.1	1150.4	59.2	2.0%	107,409	AAA
9020 JT	East Japan Railway Co	Industrials	JPY	3348.0	4160.9	13.6	2.6%	23,656	A
VALE US	Vale SA	Materials	USD	15.9	17.3	8.0	36.7%	67,672	BB
AI FP	Air Liquide SA	Materials	EUR	180.6	198.2	23.2	2.3%	122,005	A
NEM US	Newmont Corp	Materials	USD	107.6	146.8	9.4	1.0%	114,879	A
NEE US	NextEra Energy Inc	Utilities	USD	94.2	98.8	21.5	2.8%	196,377	AA
TLS AU	Telstra Group Ltd	Comm. Services	AUD	5.3	5.3	24.2	4.1%	42,241	AA
2330 TT	Taiwan Semiconductor	Info. Tech	TWD	2170.0	2583.1	17.7	1.3%	1,776,032	AA
UNP US	Union Pacific Corp	Industrials	USD	264.8	292.5	19.3	2.2%	157,203	AA
WM US	Waste Management Inc	Industrials	USD	230.3	257.2	24.8	1.7%	92,487	BB
005930 KS	Samsung Electronics Co	Info. Tech	KRW	221500.0	292066.3	4.7	1.5%	871,827	AA
MCD US	McDonald's Corp	Cons. Disc.	USD	290.1	346.7	20.2	2.7%	206,197	BBB
DIS US	Walt Disney Co/The	Comm. Services	USD	101.3	128.7	13.9	1.7%	179,455	BBB
SCCO US	Southern Copper Corp	Materials	USD	168.4	151.2	25.5	2.9%	139,134	BB
CCJ US	Cameco Corp	Energy	USD	114.3	128.8	58.6	0.2%	49,777	AA
LLOY LN	Lloyds Banking Group	Financials	GBP	97.1	119.0	8.0	0.1%	76,428	AAA
BHP AU	BHP Group Ltd	Materials	AUD	53.7	52.9	15.0	2.5%	194,338	A
ISRG US	Intuitive Surgical Inc	Health Care	USD	453.8	577.5	38.8	0.0%	160,730	BBB
FDX US	FedEx Corp	Industrials	USD	388.6	407.9	17.3	1.6%	92,720	BBB
BRK/B US	Berkshire Hathaway Inc	Financials	USD	475.4	523.4	22.0	--	1,025,298	BB
SHELL NA	Shell PLC	Energy	EUR	37.8	42.3	9.8	4.1%	247,344	A
GE US	General Electric Co	Industrials	USD	283.6	346.7	32.8	0.7%	295,859	BBB
ASML NA	ASML Holding NV	Info. Tech	EUR	1192.6	1460.1	29.2	0.9%	539,747	AAA
HEI GY	Heidelberg Materials AG	Materials	EUR	186.2	230.0	12.5	2.3%	38,290	AA
DE US	Deere & Co	Industrials	USD	560.0	670.7	24.4	1.3%	151,265	A
HON US	Honeywell International	Industrials	USD	210.3	252.6	18.4	2.4%	133,257	AAA
WMT US	Walmart Inc	Cons. Staples	USD	128.0	139.9	39.0	0.8%	1,020,366	BBB
DSV DC	DSV A/S	Industrials	DKK	1600.5	2070.4	18.9	0.6%	60,048	AA
WOW AU	Woolworths Group Ltd	Cons. Staples	AUD	34.7	36.1	23.8	3.1%	30,130	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 30 April 2026. ESG is environmental, social, and corporate governance.

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