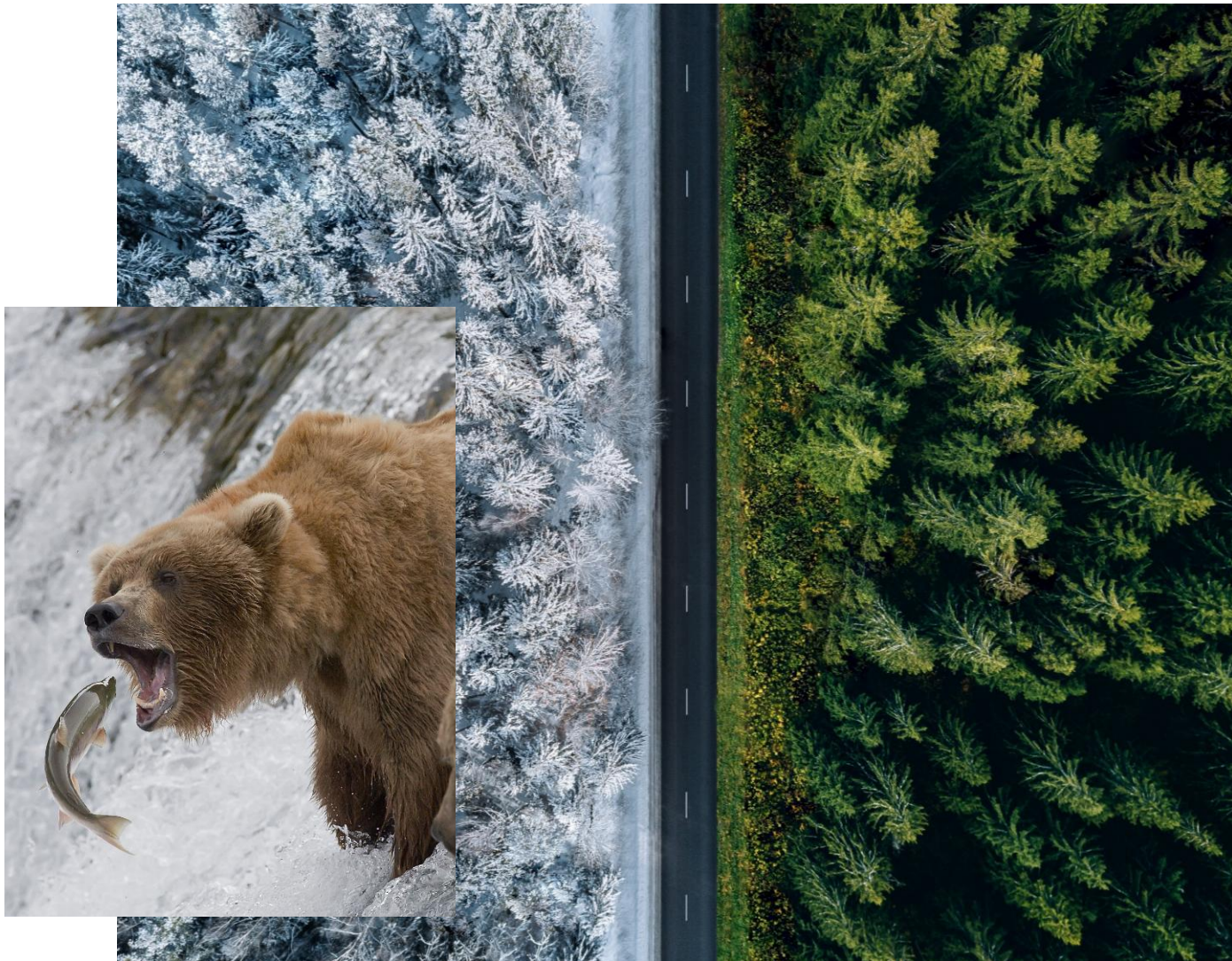




Wealth  
Management

# Private markets: an open and closed case

## Navigating private markets portfolio construction



### Core Offerings June 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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# Private markets: an open and closed case

## Navigating private markets portfolio construction



**Scott Haslem**  
Chief Investment Officer



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Head of Private Markets

Market performance cannot wholly rest on the outcome of geopolitical events. Over the past month, our conviction that the next three to six months will be a more challenging environment for markets has risen. There is a price to be paid for the persistence of elevated energy prices and its impact on the global supply chain.

Market performance cannot wholly rest on the outcome of geopolitical events. In this month's *Core Offerings*, having harvested the positive returns associated with a likely emerging US-Iran peace deal, we take the opportunity to further trim risk. The next three to six months are increasingly likely to be a more challenging environment for markets; there is a (macro) price to be paid for persistent elevated energy prices. Despite this, we are not in favour of underweight equity positions from a multi-year perspective, and continue to advocate a focus on building medium-term resilience into portfolios (both adapted to this multi-polar world and able to capture returns across key thematic).

In this month's *Core Offerings*, we also take the opportunity to dig deeper into one of the asset classes that ticks many of the boxes for building such medium-term portfolio resilience, namely private markets. Yes, we're aware that the idiom is an 'open and shut' case (not an 'open and closed' case, as we've titled it). But our play on words relates to open- and closed-end funds. We've regularly discussed the evolution and proliferation of these so-called evergreen funds, and the extent to which this innovation has significantly broadened exposure to private markets for private clients. But the increasing options across open (and more traditional closed-end) funds now raises the broader question of how a portfolio should balance the inclusion of both these types of structures.

### Trimming risk further, closing our underweight to cash

Over the past month, equity markets have continued to focus on the improving prospects for progress in the US-Iran conflict, and in particular, the opening of the Strait of Hormuz. Without doubt, the constraints that should force a deal have been rising on both sides. For US President Trump, there is the issue of rising oil prices (and a mid-year inventory 'crunch' that will drive prices even higher), while for Tehran, the US naval blockade is crimping Iran's revenues. In the background, risks of a softening economy in China are likely leading China's President Xi to encourage Iran to the table, and quickly. The likelihood of a 'peace deal' that lifts passage through the Strait of Hormuz has risen (even if that deal lacks a longer-term resolution around Iran's nuclear ambitions – a key sticking point for both sides).

Yet, market performance cannot wholly rest on the outcome of geopolitical events. Over the past month, our conviction that the next three to six months will be a more challenging environment for markets has also risen. There is a price to be paid for the persistence of elevated energy prices and its impact on the global supply chain. The macroeconomic backdrop remains constructive, albeit not to the extent we expected. Our forecast *late 2026* demand-led inflation uplift is giving way to a supply shock induced *mid-2026* inflation impulse. It is unlikely the global oil price will revert to USD 60 per barrel (p/b) any time soon. There is also increasing evidence current inflation pressures are threatening previously well-anchored inflation expectations. Central banks, still smarting from their lagged (or arguably late) response to post-COVID inflation, are no longer in the mood to hold or cut rates, but are poised to hold or hike.

Without doubt, our tactical positioning has benefited from the equity market's positive response to the prospect of a peace deal (given our overweight equity stance) as well as the bond market's increased concern about inflation (given our global bond underweight). Arguably, markets continue to follow the geopolitical playbook we have successfully implemented over the past two years. Still, the emerging 'stagflation-lite' environment in H2 2026 warrants some caution, even if only for a time. Equity valuations (after easing through March) have rapidly returned to being 'rich', central banks have turned more hawkish, bond yields have risen. While equity markets – post a peace deal rally – may continue to grind higher, there's reason to expect an element of complacency may lead to choppier returns in both equities and fixed income markets. Moreover, a less buoyant backdrop may also prompt a drawdown that proves advantageous for renewed deployment ahead.

This month we take the opportunity to make some further moves to trim risk (as we did in April), returning cash from underweight to neutral. It's also a time to ensure the recent strong equity market performance hasn't rendered tactical equity positions in portfolios excessively above target. Specifically – and as discussed further across pages 9 and 10 inside – we are moving from +2 to +1 equities (building on the move from +3 to +2 in April). We retain our preference for developed market equities (Japan and US) over emerging markets (where we are neutral) and domestic equities (where we are underweight). We no longer view Europe as preferred given the renewed energy headwinds and a central bank that is likely to lift interest rates from next month.

Globally, we remain mildly overweight equities relative to fixed income (and hold the opposite position for Australia, where recent hikes may slow the economy much more than expected).

Despite this trimming of risk, we are not in favour of underweight equity positions on a one to two year perspective. But we believe a more neutral stance on a three to six month outlook is warranted, as is deploying more cautiously into a less than cheap market, while also retaining more cash on the sidelines than we did this time last year (where we were -2 relative to our now neutral stance). Globally, we remain mildly overweight equities relative to fixed income (and hold the opposite position for Australia, where recent hikes may slow the economy much more than expected).

Finally, we continue to advocate a focus on building medium-term resilience into portfolios. This should reflect the ‘common ground’ between two key drivers, namely adapting portfolios for a multi-polar secular outlook and harvesting returns in the bottle-neck thematic:

- A portfolio that will weather this **multi-polar geopolitical environment** will be one that is biased to growth, protects from sticky inflation, harvests persistently higher interest rates and limits volatility through exposure to truly uncorrelated (and unlisted) assets.
- We also believe that ‘growth focus’ should be directed toward areas where mega-thematics are exposed to more demand than supply, so-called **bottle-neck thematic**. These include the artificial intelligence (AI) enablers (diversified across the entire opportunity set from chips, to cooling, networking, among others), the AI adopters (potentially in non-US markets), while having exposure to energy resilience (such as renewables, nuclear and storage), the future growth in defence industries, and infrastructure (including data centres and other real assets).

In this month’s *Core Offerings*, we take the opportunity to dig deeper into one of the asset classes that ticks many of the boxes for building medium-term portfolio resilience, namely private markets. Below, we examine how investors should navigate the balance between traditional closed-end unlisted alternative investments and the relatively new ‘evergreen’ or open-ended opportunities.

### So how do we compare and contrast open- and closed-end funds?

There are fundamental differences between the two investment structures. Yet – and in keeping up with the legal case rhetoric – it still often feels like the new evergreen contingent plays the role of the defendant, whilst the closed-end funds play the plaintiff. That is to say, that evergreen funds are often viewed negatively in certain circles, which we think misses their most compelling features. So, let’s start there and then take a look at their closed-end siblings.

#### Key terms

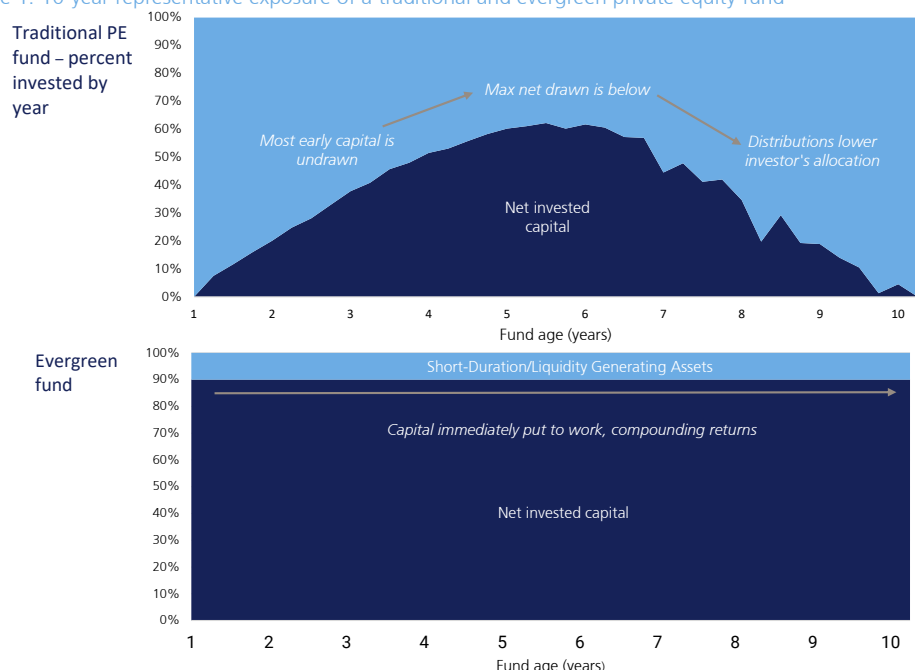
A **closed-end** unlisted alternative fund structure has a fixed pool of capital for a set term. Investors usually commit money upfront, cannot freely redeem, and get capital back when assets are sold or the fund winds up.

An **open-ended** unlisted alternative fund structure allows investors to enter and exit over time. The fund issues or redeems units based on investor flows, typically using periodic valuations and available liquidity.

### Why we won’t stop talking about inbound liquidity

As we’ve repeated tirelessly over the past year or so, inbound liquidity remains the most important innovation and feature of the evergreen (or open-ended) fund. Put simply, this is the ability to deploy capital immediately (and into a diversified portfolio) and have it managed professionally on an ongoing basis. Contrary to popular opinion, outbound liquidity, or the ability to get funds back, is not the primary feature of the evergreen structure, and shouldn’t be wholly relied upon. This inbound liquidity feature is also the most fundamental difference of an evergreen fund relative to a closed-end fund, and it plays the most important role in portfolio construction.

Figure 1: 10-year representative exposure of a traditional and evergreen private equity fund



Source: Hamilton Lane proprietary Horizon Model via Cobalt. Based on historical private equity buyout cash flows over a 10-year time frame. For illustrative purposes only. Not actual allocations.

Inbound liquidity remains the most important innovation and feature of the evergreen fund. Put simply, this is the ability to deploy capital immediately and have it managed professionally on an ongoing basis.

To build a portfolio and actually reach your target portfolio weight, investors need to consistently allocate to new closed-end funds vintage (year) after vintage to grow and maintain exposures as distributions accelerate.

Further, allocating to one or two funds in a given year (for a number of years) can result in a higher likelihood of outsized returns.

Take a look at Figure 1, which depicts a 10-year representation of a traditional and then evergreen private equity fund. In the former, capital is drawn down over numerous years and gradually gets returned as underlying investments are realised. Whilst this is illustrative, net invested capital only reaches about 60% of the commitment or target (before distributions start to impact). In the case of the evergreen, around 90% is immediately invested in private assets.

Why is this so important? Well, it means that 90% (of target) is invested and compounding from day one, as opposed to zero in the case of a closed-end fund. In most cases, evergreen funds are already meaningfully diversified whether in the case of a multi-manager (allocator) offering or a single manager solution. They also seek to maintain that diversity and level of invested capital across each vintage year, which is of critical importance and leads nicely on to what it takes to build the equivalent (portfolio) on the closed-end side.

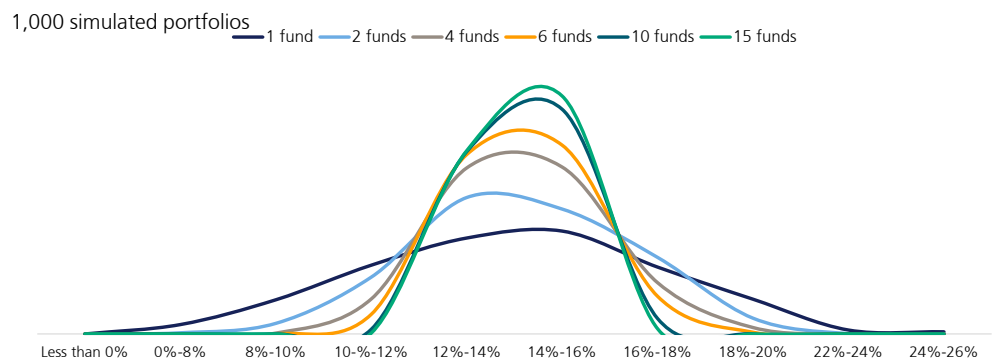
**Closed-end fund portfolio construction is a far more complex endeavour**

The drawdown profile of a closed-end fund depicted on the previous page shows that investors never actually reach their targeted exposure for a single fund position, and the same applies even if you include underlying asset growth. Practically, this means that to build a portfolio and actually reach the target portfolio weight, investors need to consistently allocate to new closed-end funds vintage (year) after vintage to grow and maintain exposures as distributions accelerate. At the outset of a program, investors also need to over-allocate (i.e. commit more than intended to invest) to expedite the journey towards the target portfolio weight.

This is only one complexity to navigate; we also need to consider what appropriate diversity looks like given closed-end funds are typically far more concentrated (by portfolio companies) than public market peers. There are also a lot of factors to consider when diversifying, whether they be geography, sector, market-cap, investment stage and even outright asset class (private equity, private debt, venture capital, real estate and infrastructure all use closed-end funds).

Figure 2 shows a normal distribution of returns by number of funds for a given vintage year. In essence, it's showing that allocating to one or two funds in a given year can result in a higher likelihood of outsized returns on the right, but also a higher likelihood of weaker returns on the left. We call these 'fat tails'. As an investor adds more funds, the probability of outcomes narrows, whilst also collectively edging to the right. We call this positive skew, and it is positive in this context. The key takeaway here is that diversifying across numerous funds each year is a sensible strategy and improves outcomes. Here's the rub: this is particularly true in asset classes (such as private markets) where the dispersion of returns (and thus the risk of poor manager selection) is far greater compared to public equivalents (like listed equities and bonds).

Figure 2: Normal distribution of returns by number of primary funds (1,000 simulated portfolios)



Source: Hamilton Lane Data as at 31 May 2026

Putting this all together, this practically implies that an appropriately diversified, closed-end fund private markets program requires investors to consider allocating to at least five to 10 new funds each and every year to maintain exposure, with an initial period of overallocation. Suffice to say, it's not a simple task.

**Investors should focus on the multiple beyond money/time-weight return measures**

To first summarise, open-end funds enable immediate deployment and compounding and put the highly complex task of closed-end fund portfolio management back onto the fund manager(s). The argument for the clear-added complexity of a closed-end portfolio then typically comes back to the performance and the assertion that open-end performance lags closed-end. This argument often ignores the fact that performance calculations across the two vehicles are not strictly comparable,

and this would warrant a separate paper comparing money-weighted (internal rate of return, IRR) and time-weighted return methodologies.

What we will say for now is that investors should focus as much on the multiple of invested capital as on either the IRR, or time-weighted return of a closed- or open-end solution respectively.

### We feel there is a place in optimal portfolios for both investment types

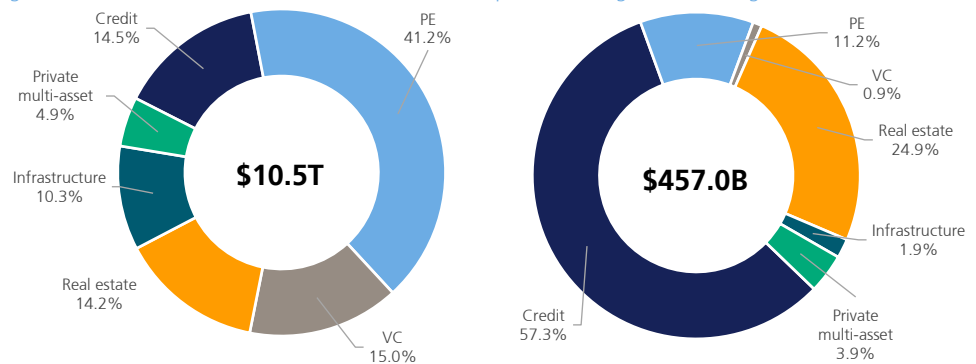
For those starting out on the private markets journey, whilst not the only route, we typically advocate that evergreen is the first port of call given the immediate allocation and compounding. The investment universe of options is growing, which helps in this regard. But there are some limitations, which we will discuss. There really is no right or wrong answer on the pathway towards (or an entire transition to) closed-end funds so we break down a number of considerations below.

### Evergreen building blocks are evolving across asset classes

The growth of evergreen funds, principally utilised by private clients, has been rapid. Pitchbook data (US market) suggests that net assets under management totalled USD 457 billion across 486 evergreen funds as at the end of 2025. Over half of these funds were launched in the last four years. When you look at the breakdown of these funds by asset class (below right), it's clear that private debt (credit) has taken the lion's share, which is in contrast to the institutional funds' community (mostly closed-end), and is arguably more balanced with meaningful exposure to private equity and venture. Australia has been less lop-sided with early growth dominated by both global private equity and domestic private debt.

With the exception of distressed and selected more niche credit strategies, evergreen solutions today enable investors to build well-diversified portfolios catering for geographies, company size and debt type.

Figure 3: Total net assets institutional funds (left) and open-end/evergreen funds (right)



Source: PitchBook. Note: Data was aggregated on December 4, 2025. The most recent dates of the disclosure documents range from June 30 to September 30, 2025. US only. Dollar amounts are in USD.

Allocators, or those firms with hybrid direct / secondary offerings, play the core role in our view given the diversity they can offer across the market.

The point to make here is that we have a growing contingent of evergreen strategies across private equity, private debt, (late stage) venture capital/growth equity, real estate and infrastructure, from which we can build portfolios. The following lays out some portfolio construction considerations:

- **Private debt has most bases covered:** With the exception of distressed and more niche credit strategies, evergreen solutions today enable investors to build well-diversified portfolios catering for geographies, company size and debt type. We advocate for investors building principal exposures across direct lending and asset-based finance sectors, with (private debt) secondaries able to play a core and highly diversifying role across sectors and managers.
- **Large firms and allocators provide the foundation for private equity:** Allocators or those firms with hybrid direct/secondary offerings, play the core role in our view given the diversity they can offer across the market. Larger PE firms with multi-strategy platforms with ample deal flow can then be additive, noting that such solutions typically bias towards larger companies.
- **Further segmentation provides greater optionality:** Regionally biased PE strategies have emerged, as has segmentation into pure-play secondaries and lower-middle market strategies which we feel will complement each other moving forward. Late-stage venture/growth options – critically through those with the right platforms – also warrant an allocation.
- **Single manager, single strategy offerings will likely be challenged:** It will remain difficult to get specific with open-end funds as you typically need broad deal flow to make them work. Whilst some single strategy and/or smaller single manager solutions have emerged, there are structural challenges that need to be managed exceptionally to make them viable long term.

- **Infrastructure is emerging:** While allocators and hybrid platforms are structurally advantaged in providing more core (diversified) solutions in our view, highly credible direct fund managers can be complementary and can be utilised accordingly.

**A practical starting point for closed-end fund usage**

So how does one take a view on a high conviction, capacity constrained, single strategy fund manager, or make a thematic bet on life sciences, or powering the energy and data demands of AI? Closed-end funds can serve this function as a starting point to move away from a pure evergreen portfolio.

Early-stage venture does not work in an open-end format since valuing early-stage companies fairly (for both a buyer and a seller) is notoriously difficult.

We consider three broad categories albeit many strategies can cater for all three:

- **High conviction:** Accessing those consistently top quartile, typically capacity-constrained managers can be used to enhance returns. Sizing still needs to be appropriate, but such managers can certainly be additive.
- **Thematic, tactical, cyclical:** Themes, tactical positioning and cycles change, and thus so do investment views and the means to play them. Implementation options are often more concentrated and/or point in time and thus don't have the depth to warrant an evergreen solution. Strategies such as life sciences, energy transition and AI-linked themes tend to be best played via closed-end funds.
- **Early-stage and/or shallow markets:** Some strategies simply don't work and/or are harder in an evergreen format. Early-stage venture capital does not work in an open-end format since valuing early-stage companies fairly (for both a buyer and a seller) is notoriously difficult. Some markets are also quite shallow and thus while not impossible, can be challenging to invest into in an open-end format.

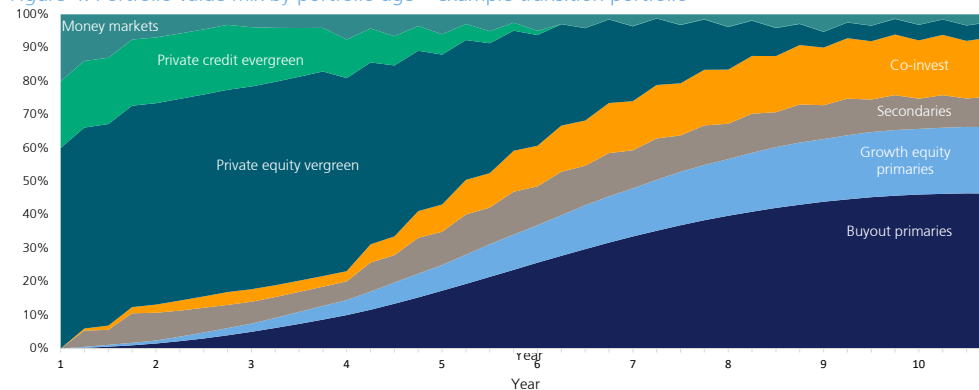
Building an appropriately diversified closed-end fund portfolio requires numerous new commitments each and every vintage year. To facilitate this, investors need to first be able to access sufficient high-quality managers and strategies across market segments

Introducing select managers and funds across these strategies fleshes out the private markets investment universe and thus fills structural gaps that we expect to persist within the evergreen fund landscape. Utilising this starting point for closed-end funds, we would suggest that evergreen vehicles comprise at least 70% of a portfolio's private markets exposure, and higher if the portfolio is biased more toward private debt and yield producing strategies.

**Considerations for a further transition to closed-end fund portfolios**

The below illustration provides an example hypothetical (full) transition from evergreen to a self-funding closed-end private equity portfolio over a period of 10 years. As previously noted, there is no right or wrong answer to how far one then shifts further towards closed-end fund portfolios but there are a number of practical considerations.

Figure 4: Portfolio value mix by portfolio age – example transition portfolio



Source: Hamilton Lane Horizon Model (October 2025). For illustrative purposes only.

**Robust access and a forward-looking pipeline are essential**

As highlighted, building an appropriately diversified closed-end fund portfolio requires numerous new commitments each and every vintage year. To facilitate this, investors need to first be able to access sufficient high-quality managers and strategies across market segments. Ideally, this requires building a pipeline multiple years forward, or else a portfolio can become quite eclectic and often biased towards strategies that investors are shown (as opposed to those they intentionally pursued). A focus on co-investment and secondary strategies can help mitigate this requirement (i.e. reduce the volume of strategies) given the breadth that such strategies offer.

Appropriately priced margin lending facilities can play a very valuable role in both optimising portfolio management, and in improving administrative headaches when it comes to managing regular capital call requirements of more developed closed-end fund programs.

### **Liquidity reduces with closed-end funds in the absence of institutional scale**

Whilst the secondary market is very mature within private equity in particular, the ability to use this market is more constrained within even sizeable private client portfolios. This is due to the fact that commitment sizes are typically smaller (than major institutional allocators) and thus less applicable for active secondary participants. This means that the ability to actively tailor, or generate genuine liquidity, from (closed end) portfolios through the secondary market is limited. A greater focus on portfolio level liquidity requirement is thus more critical as closed-end fund exposures grow.

### **Cash-flow forecasting is imperfect and can be supported by evergreen allocations**

As closed-end portfolios mature, one of the most complex components of portfolio management is to estimate cashflow profiles across a growing number of funds, including both cash needs (to meet capital calls) and cash returns (from distributions). Maintaining target portfolio weights, particularly as public asset classes shift around private, can be challenging.

For this reason, we would typically advocate maintaining a larger allocation to evergreen (than that depicted in the 'closed end' example) across private asset classes to provide more flexibility to adjust exposures over time. In our view, a minimum 30% exposure to evergreen strategies would be appropriate and – as noted in the prior section – more should the portfolio be biased toward private debt and yield producing strategies.

### **There is a clear case for credit in private markets portfolio management**

As a final point, appropriately priced margin lending facilities (credit) can play a very valuable role in both optimising portfolio management, and in improving administrative headaches when it comes to managing regular capital call requirements of more developed closed-end fund programs.

From an efficiency perspective, credit can be used to bridge cashflows when rebalancing illiquid assets into liquid assets. Evergreen structures, whilst not liquid in a traditional sense, have structured liquidity parameters that have broadly been able to meet redemption requests during normal market conditions, yet it can still take time to sell down these assets. Practically, during market dislocations or periods of meaningful cross-asset class dispersion, the ability to rebalance into public markets without having to wait for long notice or pricing periods can be extremely valuable.

From an administrative perspective, credit can be used to finance aggregate capital calls meaning that cashflows can be met as part of the portfolio's typical review and rebalancing cadence (as opposed to ad-hoc per capital call). It also reduces the risk of defaulting on capital call obligations in the case of tight timing, external or portfolio cashflow delays or where unexpected approvals cannot be sought owing to absence.

### **Key points:**

- Inbound – not outbound – liquidity remains the most important innovation and feature of the evergreen fund, and is the main difference between these and closed-end funds.
- An appropriately diversified, closed-end private markets program requires investors to consider allocating to at least five to 10 new funds each and every year to maintain exposure, with an initial period of overallocation.
- Open-end funds enable immediate deployment and compounding, and put the highly complex task of closed-end fund portfolio management back onto the fund manager(s).
- There is a place in optimal portfolios for both open- and closed-end funds, albeit noting that performance calculations across the two vehicles are not strictly comparable.
- The growth of evergreen funds has been rapid; we have an expanding range of evergreen strategies across private equity, private debt, (late stage) venture capital/growth equity, real estate and infrastructure. These can provide the core of a diversified private markets allocation.
- Closed-end funds have a clear role for targeted opportunities, but increasing exposures toward closed-end funds adds complexity around access, liquidity and cash-flow management, which needs to be considered.
- We believe a minimum 30% exposure should be maintained for evergreen strategies to allow flexibility to adjust exposures through time. Moreover, that could be as high as 70% should the portfolio be biased toward private credit and yield producing strategies.
- Credit can play a valuable role in both optimising portfolio management and improving administrative headaches.

# What's driving our views

## AI exuberance and rising bond yields add complications to H2 2026 outlook

The US-Iran conflict remains top of mind for investors, with the global oil supply shock now entering an unprecedented third month. 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.

That said, we continue to assess that near-term uncertainty has peaked and the material constraints of both parties are continuing to push them towards a deal. For President Trump, these are bond markets and mid-term voters, and for Iran they are the US blockade and pressure from China.

Markets certainly seem to agree! Global equities have pushed to fresh record highs, up around 10% since the US-Iran ceasefire was announced on 8 April. In addition to optimism/speculation around US-Iran, markets have also been buoyed by remarkable earnings growth, primarily driven by AI-related exposures, from hyperscalers to the picks-and-shovel memory chip manufacturers fuelling the global data centre boom. In other words, there appear to be fundamental justifications behind the stunning market rally so far.

However, it may not be all smooth sailing as we look to the second half of 2026. Firstly, even if a US-Iran '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.

Secondly, while the AI euphoria could keep markets constructive for a time, at some stage markets will need to see clear evidence of the concrete benefits of all of this capital expenditure, whether it be via new markets (and new revenue streams), increased efficiency and cost-cutting, and/or improved productivity. Our base case is that we will see these benefits flow through, though we acknowledge that markets are pricing in a very optimistic picture on this front already.

Thirdly, the rise in bond yields over the course of May has highlighted a key risk of our 2026 outlook. Namely, the resilience of the US economy, coupled with the ongoing oil supply shock, is lifting inflation and causing markets to re-price central bank rate expectations – shifting from a modest easing cycle to potential rate hikes. This can very quickly disrupt markets and the broader economy, which we are seeing in Australia.

The global economy will have to navigate these three great crosscurrents (US-Iran, AI, and central bank tightening pressures) over the course of H2 2026, with significant uncertainty around the net implications for financial markets, particularly as valuations (and investor complacency) grind ever higher.

For now, we maintain a modestly constructive stance, though we acknowledge rising two-sided risks to the outlook. We continue to advocate the importance of future-proofing portfolios for a potentially volatile, inflation-driven second half.

### 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 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 it.

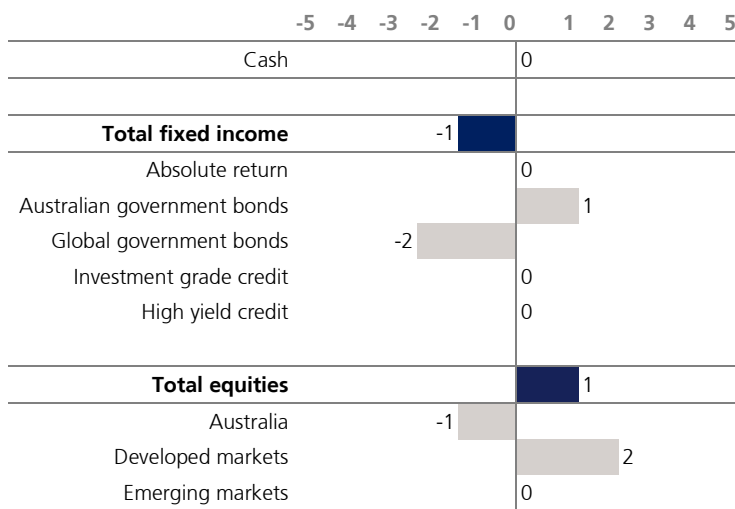
**Are you ready for the 'Great Recalibration'?** We believe global trade, capital, and investment flows are in the process of a 'great recalibration' towards a more balanced setting with more active fiscal and consumer spending outside the US. This epochal shift carries significant implications for long-term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

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

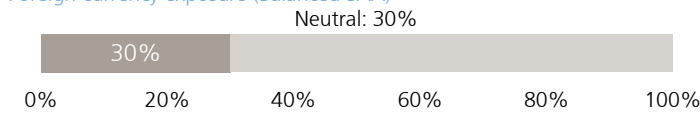
**Higher base rates increase investor options:** We expect interest rates to remain higher for longer. Higher base rates increase forward-looking returns across all asset classes, giving investors more options to build robust, multi-asset portfolios.

# Tactical asset allocation

## Tactical asset allocations (% weights)



## Foreign currency exposure (Balanced SAA)



Sub-sector views	U/W	N	O/W
Australian equities	■		
US equities			■
European equities		■	
Japan equities			■
UK equities		■	
EM equities		■	

## Active portfolio weights and active tactical asset allocation tilts

	Active tilt	Yield (%)	Balanced (%)	Growth (%)	Endowment (%)
<b>Cash</b>	▲ 0	4	4	4	4
<b>Fixed income</b>	-1	51	33	15	12
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>	▼ +1	23	41	59	39
Australia	-1	7	14	21	10
Developed markets	▼ +2	15	24	34	26
Emerging markets	0	1	3	4	3
<b>Alternatives</b>	-	22	22	22	45
<b>FX exposure</b>	0	20	30	40	40



Decreased weight this month



Increased weight this month

## 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 geopolitical uncertainty remains high, we believe it may have peaked in the near term.

That said, markets have rallied strongly over recent weeks, raising the risk that they may have over-extended in the near-term, particularly in the context of an ongoing oil supply shock, a resilient US economy potentially adding to inflationary pressures, and ongoing concentration in key indices.

As such, we believe it is prudent to lock in some profits from the recent rally and trim our equities overweight. While we do so, we are actively monitoring several key themes, 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 moved to a neutral position in cash, locking in some profits from the recent rally and 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 developed market equities but have trimmed our position to lock in some profits. We have a preference for US and Japanese equities, where the earnings and macro backdrop have thus far proven more resilient.

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

# Strategic asset allocation

## Why do we believe in strategic asset allocation?

We believe that the central component of successful long-term performance is a well-constructed strategic asset allocation (SAA). Empirical evidence suggests that a disciplined SAA is responsible for around 80% of overall investment performance over the long 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.

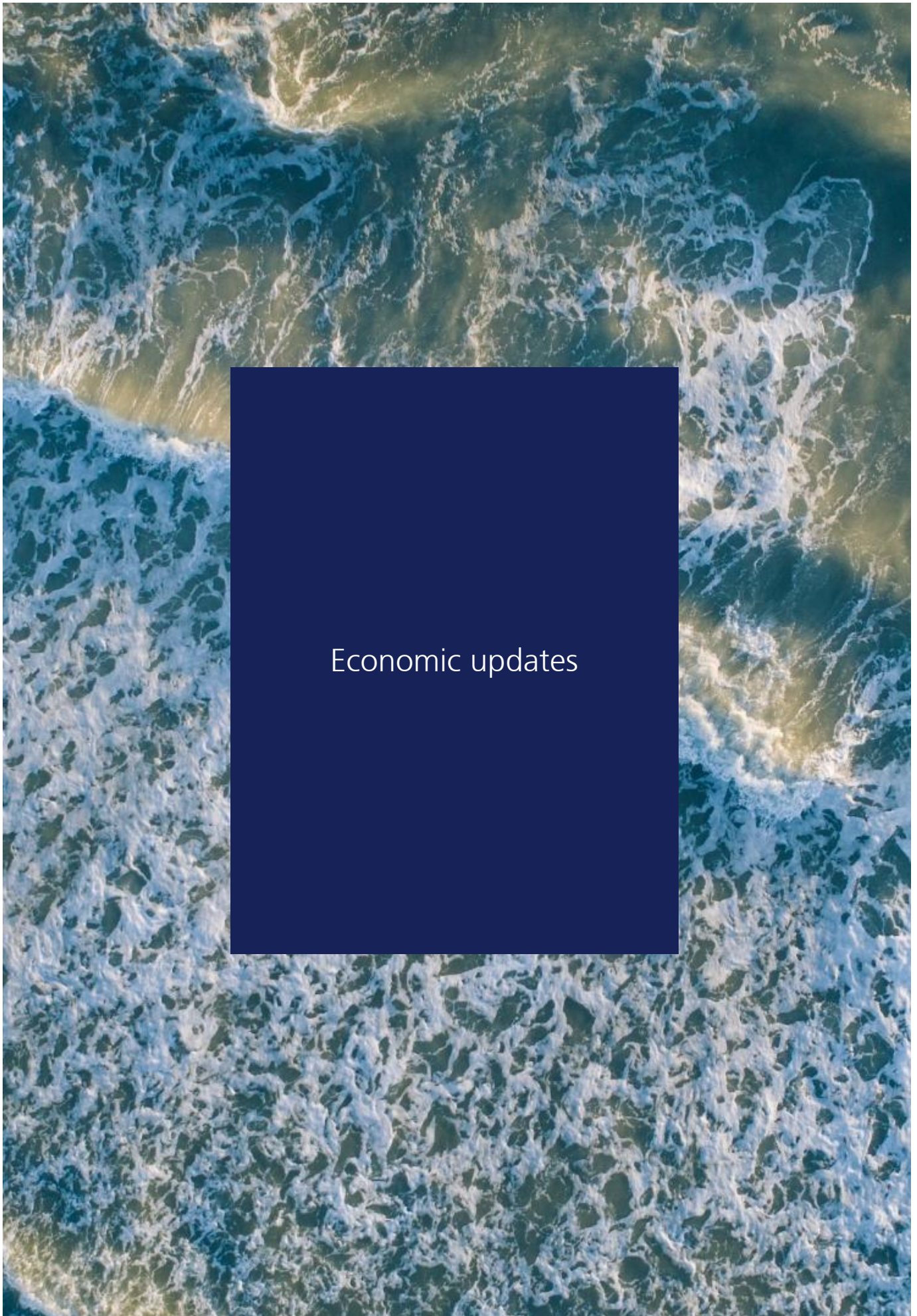
History has shown that a disciplined strategic asset allocation is responsible for around 80% of overall investment performance over the longer term.

### 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	8	15	22	11
Developed markets	13	22	32	24
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 updates

# Economic outlook

## Global economy



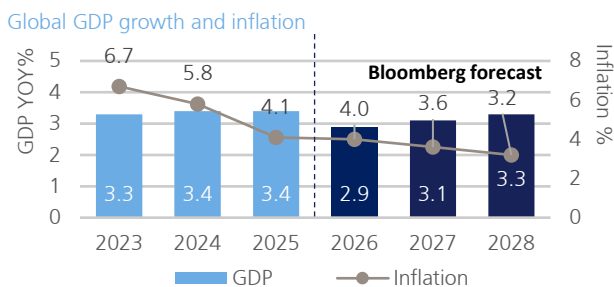
The world economy remains in a period of elevated geopolitical uncertainty, with a formal peace deal (in the wake of the US-Iran hostilities) remaining elusive, and energy flows through the Strait of Hormuz remaining restricted. Nonetheless, we continue to anticipate an imminent peace deal, not least due to escalating constraints on both Iran (falling global oil inventories and threats of renewed military action) and President Trump (surging US bond yields and declining voter sentiment).

The latest gathering between President Xi and President Trump proved overtly cordial, but as Barclays notes, with “little tangible progress, and no formal announcements”. While both agreed on the need for a rapid reopening of the Straits of Hormuz, ongoing signs of resilient global demand – driving oil consumption – has nonetheless led oil prices back above USD 100 p/b. In May, the US Senate approved the appointment of Kevin Warsh as the new US Federal Reserve (Fed) Chair, replacing Jerome Powell (most likely from the mid-June Fed meeting).

Global growth has remained relatively resilient during H1 2026, particularly reflecting a solid rebound in US and Japan growth, while growth in Europe and China has slowed only moderately. The persistence of elevated energy prices well beyond the initial conflict is now, as we had flagged, started to impact core inflation pressures, and shifting the balance of risks more clearly from rate cuts to rate hikes. Even were a peace deal to emerge imminently, it is likely oil prices will remain above their pre-conflict levels, and headwind for growth and tailwind for inflation and bond yields.

Prospects for further modest central bank rate cuts through 2026 are rapidly evolving to selective rate hikes, most likely in Europe but also potentially the US, UK and Japan (and a further hike in Australia). Fiscal support is likely to remain in play through 2026, albeit with elevated energy prices (and higher rates) posing a risk to growth later this year. We anticipate resilient growth through mid-year, with the risk of rate hikes potentially driving a period of weaker, below trend growth through 2027.

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% for 2027 (unchanged over the past month). Barclays has trimmed growth forecast for 2026 from 3.1% to 2.9%, with a further slowing to 2.3% in 2027 (was 3.0%).



Source: Bloomberg

## Australia

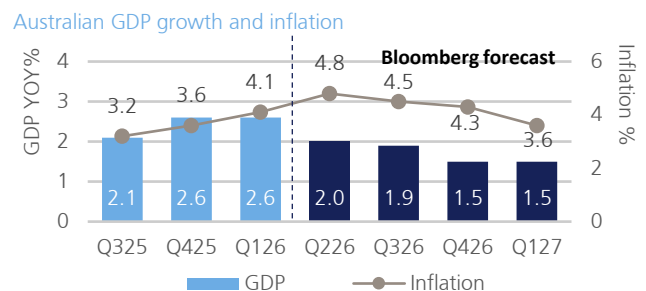


Australia is a net energy exporter (albeit not fuels), and the broader economy is likely to benefit (relatively) from another period of elevated commodity prices associated with the US-Iran conflict. However, the economy is now facing a number of intensifying headwinds, including the impact of the sharp rise in oil prices on consumer spending and business activity, three recent interest rate rises (back to the prior rate peak), while the recent federal budget has announced significant changes in tax policy that have the potential to deem less attractive future investments in both property and other assets. With the risk of further rate hikes remaining, a sharper-than-expected downturn could emerge through H2 2026.

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. Q1 gross domestic product (GDP) data is due early June, and is expected to reveal only moderately slower growth (given it pre-dates the US-Iran conflict and higher rates were just announced). Further slowing is expected through Q2. Consumer confidence recovered slightly in May (up 3.5%), after collapsing post rate hikes, but remains at a level consistent with flat real spending. The Comm-Bank Insights series fell by 1.2% in April after a 2.9% rise in March, with non-transport related consumer spending showing a soft 0.2% fall. April saw the first signs of weakness in the jobs market, with unemployment rising to 4.5%, its highest since November 2021.

Inflation in April eased to 4.2% from 4.6%, mostly due to the temporary cut to fuel taxes. Core inflation edged higher to 3.4% from 3.3%, with some signs of higher energy prices passing-through to core prices. At their May meeting, the Reserve Bank of Australia (RBA) increased the cash rate 0.25% to 4.35%, its third consecutive hike. In contrast to March’s divided decision (at 5-4), the vote was 8-1 for a hike. According to CBA, “the crux of the decision to lift the cash rate was due to upside risks to inflation and inflation expectations”. CBA now sees the RBA as on hold, while UBS and Barrenjoey expect a final August hike, with the risk of an additional move in June forestalled by the latest weak jobs report.

Forecasters now expect softer growth ahead. After 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, with a further slowing expected in 2027 to 1.5% and 1.6%, respectively.



Source: Bloomberg

# Economic outlook

## United States



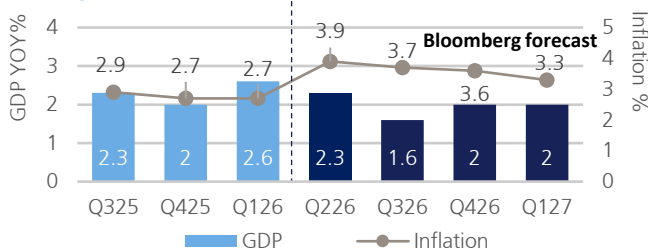
Despite renewed growth headwinds – most notably from elevated energy prices – US activity has remained resilient during H1 2026, led particularly by the consumer as well as faster industrial output on the back of rising business capex. While a material slowing in growth at the end of 2025 initially supported a further modest easing of monetary policy in H2 – particularly given a still relatively soft jobs market – higher-than-expected inflation data have shifted risks more toward steady (or rising) interest rates later in the year. During May, the Senate approved the appointment of Kevin Warsh as the new Fed Chair, replacing Jerome Powell (most likely from the mid-June meeting). President Trump also met with President Xi to discuss trade and geopolitical events. As noted by Observatory Group, “a cordial atmosphere was maintained,” however there was limited progress made on any meaningful deal.

Growth in Q1 lifted to 0.4% (1.6% seasonally adjusted annual rate [saar]) from Q4’s 0.1% (0.5%) pace, led by a post-shutdown rebound in government spending as well as surging equipment capex (up 2.5% in Q1, its fastest in three years). Recent data point to a further pick-up in Q2, led by a resilient consumer. April retail sales (core) rose 0.5%, building on March’s 0.8% gain. May’s composite Purchasing Managers’ Index (PMI) proved resilient at 51.7, boosted by manufacturing. April’s job report also showed renewed strength, with new jobs up 115,000 after an upwardly revised 185,000 in March (the two strongest months in two years), with unemployment unchanged at 4.3%.

At the Fed’s late April meeting, rates were left unchanged at 3.5-3.75%, with an 8-4 vote in favour of a largely unchanged statement. However, dissents were two-sided, with Governor Miran favouring a cut, and three regional presidents voting against the easing bias in the statement. As BCA notes, “a majority decided to keep that easing bias...meaning hikes were not considered for now”. Still, April inflation data ultimately surprised higher, led by a spike in the headline rate (from 3.3% to 3.8%).

While the outlook is more uncertain, growth should prove resilient through mid-2026 before some slowing in 2027. After 2.1% in 2025, Barclays now forecasts similar growth of 2.2% (was 2.4%) for 2026, before slowing to 1.7% (was 1.8%) in 2027, while UBS has lifted growth to 2.2% in 2026 and 2.1% for 2027.

US GDP growth and inflation



Source: Bloomberg

## Europe



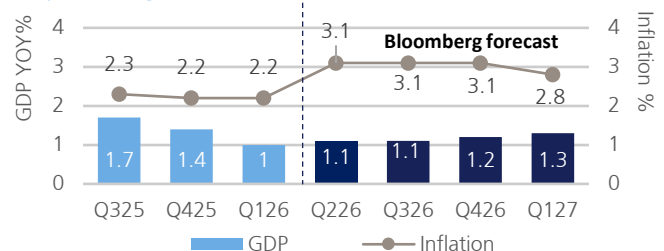
The outlook for Europe is heavily clouded by the US-Iran conflict, and the extent to which energy prices remain elevated, as well as the extent fiscal policy is put to work to mitigate the negative growth impulse. Like elsewhere, persistent higher energy costs will weigh heavily on activity, as will any increase in interest rates on the back of the recent inflation pick-up. Higher energy prices, together with 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. However, arguably, these tailwinds are now being confronted by significant headwinds near-term.

Growth in Q1 rose by just 0.1%, slightly below expectations, as well as the 0.3% gain in Q4. Despite this, three of the largest four economies beat expectations. Data for early Q2 has been on the weaker side, with business confidence noticeably softening to a below-trend level through the onset of the US-Iran war. May’s composite PMI was also particularly weak, falling to 47.5 from 48.8, its lowest since October 2023. Retail sales fell again in March. Jobs growth remains modest, albeit the unemployment rate eased from 6.3% to 6.2% in March.

Inflation in Europe climbed further to 3.0% in April, from 2.6% in March (and 1.9% in February), led by rapidly rising energy prices. Core inflation remains well-behaved, easing to 2.2% from 2.3%. The European Central Bank (ECB) in April kept their key policy rate unchanged at 2.0%, and continued to stress that it will maintain its data-dependent and meeting-by-meeting approach. However, according to UBS, the ECB has subsequently sent out signals, “suggesting that the Governing Council has already made up its mind that a rate hike will be necessary [in] June”. They did not meet in May; most analysts expect one to two hikes in 2026 (to 2.5%).

The growth outlook has weakened over recent months. After growth of 1.5% in 2025, both Barclays and UBS expect growth to ease in 2026 (to 0.7% for Barclays and 0.8% for UBS). 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



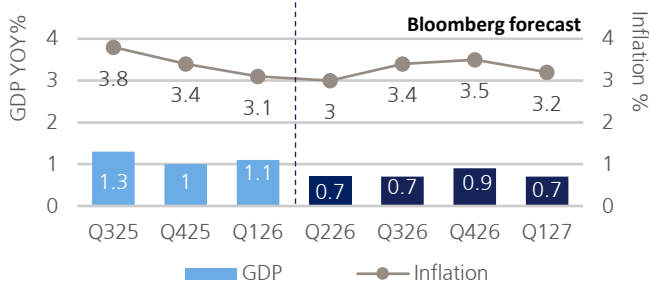
After a period of strong growth in H1 2025, the UK economy slowed sharply in the latter half of the year. Despite the headwind of fiscal tightening, activity has rebounded strongly in early 2026. But the impact of the US-Iran war – and elevated energy prices – is now likely to weigh on growth ahead (and reinforce a weakening job market). The recent uplift in inflation has also shifted the debate from rate cuts to rate hikes, a potential further headwind for growth – as is the recent political turmoil that is likely to see a new Prime Minister installed over coming weeks. The fiscal uncertainty has driven a significant uplift in bond yields (outpacing the rise in the US). While there is now a risk of near-term interest rate increases in H2 2026, a weakening growth outlook may see a renewed focus on rate cuts in 2027.

UK growth was robust in Q1, rising 0.6% after just 0.2% in Q4. But as Barclays notes, “multiple factors suggest that underlying growth is weaker,” with some of the growth due to residual seasonality, while much reflects activity prior to the Iran war. Recent data has remained mixed. Retail sales dropped 1.3% in April, taking the annual pace to ‘flat’ after 4.6% in January. May’s composite PMI collapsed to 48.5 from 52.6, led by services activity which fell to its weakest in five years. Jobs gained in March surprised on the high side, but the unemployment rate rose to 5.0% from 4.9%, while wages growth continues to drift weaker.

Headline inflation saw a renewed easing to 2.8% in April, from 3.3%, while core inflation eased to 2.5% from 3.1%, continuing its trend lower from mid last year. In April, the Bank of England (BoE) left the policy rate unchanged at 3.75%. While the market is pricing rate hikes ahead, starting as soon as June (they did not meet in May), comments from Deputy Governor Breeden were less hawkish, noting that; “we’ve got time to understand firstly the size of the shocks and secondly, how the economy is evolving...obviously, we can’t wait forever, but we don’t need to do it in June or July”.

While the outlook for growth is now viewed as weaker, the strong Q1 data has driven modest upgrades. After 1.4% in 2025, Barclays and UBS now see growth at 1.0% (was 0.8% and 0.7%) for 2026, ahead of 1.1% in 2027.

UK GDP growth and inflation



Source: Bloomberg

## Japan



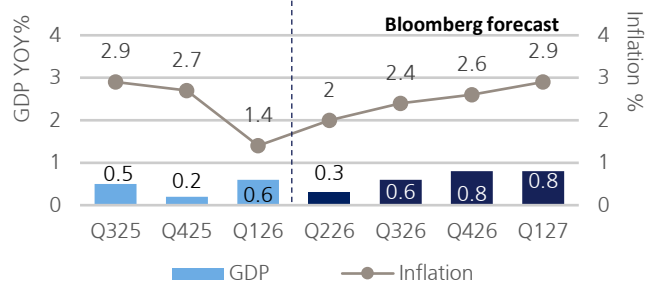
Growth remains on a structurally better trend, notwithstanding the typical cyclical ebbs and flows. After slower growth in H2 2025, H1 2026 is revealing stronger growth momentum, led by improving business conditions and strong export growth. While this is reinforcing the scope for policy rates to continue recovering toward more neutral levels, the H2 2026 outlook (like elsewhere) is being impacted by the persistence of the oil price surge, putting downward pressure on activity and raising inflation risks. Still, Japan continues to possess positive structural drivers, including the end of structural deflation, improving domestic demand, export strength related to AI thematics as well as an ongoing focus on improved corporate governance and capital allocation.

Growth in Q1 beat expectations, rising by 0.5% (2.1% saar), led by stronger-than-expected business capex, exports and consumer spending. Limited data to date suggest ongoing growth, albeit at a slower pace in Q2. Japan’s PMI eased further in May to a still solid 51.1 (from 52.2), and from a peak of 53.9 in February. Retail sales remain volatile month to month, rising 1.3% in March after a 1.8% fall in February, to be almost 2% higher annually, a solid result. Wages growth eased to 2.7% in March from 3.4% in February, still above the pace of much of the past year.

The Bank of Japan (BoJ) kept rates steady at their April meeting, while also revising down their growth outlook and revising up their inflation outlook. They did not meet in May. Policy guidance increasingly flagged a desire to maintain its rate-hiking path, despite the US-Iran conflict (according to Barclays, who expect a June hike to 1.0%). In mid-May, Policy Board Member Masu delivered comments consistent with the hawkish tone in the BoJ statement, stressing the need for an early hike out of concern over upside inflation risks. Inflation trended weaker in April, with core consumer price index (CPI) data easing to 1.4%, from 1.8%, below expectations and staying below the BoJ’s 2% target.

Growth is expected to slow modestly in 2026, due to H2 2025 weakness. After growth of 1.2% in 2025 (recently revised higher), Barclays anticipates a slowing to 0.8% (was 1.1%) for 2026, before a modest pick-up to 1.0% in 2027. UBS expects a similar slowing in 2026 (to 0.7%), and similar pick-up in 2027 (0.9%).

Japanese GDP growth and inflation



Source: Bloomberg

# Economic outlook

## China



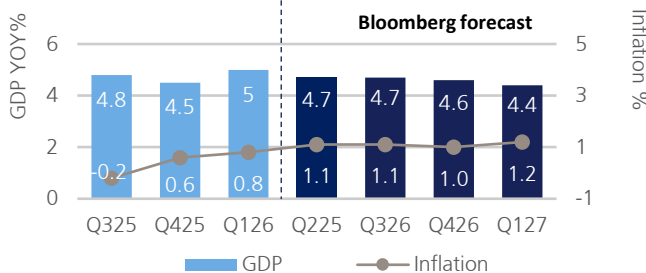
China has made significant steps over the past decade to reduce its dependency on global energy supplies, with investments in both renewable energy and a rotation toward electrification, particularly for transport. However, recent data suggest higher energy prices (and uncertainty related to the US-Iran conflict) may still be beginning to weigh on activity. This has the potential to see China play a more significant role in encouraging Iran toward a resolution (potentially reflected in the cordial tone of the recent Xi-Trump summit). It may also see more targeted support provided to the domestic economy via fiscal and monetary stimulus. While the property sector remains a headwind, China’s ongoing focus on offshoring its manufacturing capacity by investing in ‘new economy’ sectors should provide a structural growth tailwind 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, improving retail sales, and a rebound in fixed asset investment. However, data for April delivered a significant negative surprise, led by weaker retail sales (easing to 0.2% from 1.7%), a renewed collapse in fixed asset investment (-8.0% from +1.6%) while there was renewed weakening in property activity as well. In contrast, exports remained robust (led particularly by tech exports).

Importantly, 2026 is the start of the next five-year plan, and China’s leaders typically target a strong start, according to UBS. The uplift in activity during Q1 likely reflected a front-loading of activities that then drove a less stimulatory policy backdrop (with credit provision slowing more than expected in April). The recent weaker data are likely to see policy evolve less restrictive given the risks to a renewed weaker trend in activity over coming months.

After 5.0% growth in 2024 and 2025 (meeting the government’s target), expectations are for growth closer to 4½% in 2026 and beyond. Both Barclays (4.6%) and UBS (4.5%) are in line with consensus for 2026, with UBS expecting similar growth in 2027 (4.6%) but Barclays seeing a further slowing to 4.0% for 2027.

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.

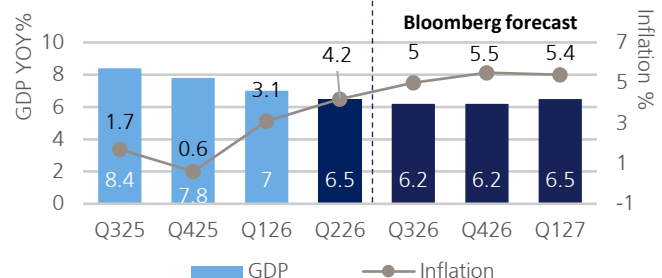
Emerging Asia remains vulnerable to the impacts of a supply shortage (as well as weaker demand). Since the onset of the conflict, ASEAN economies have deployed fiscal support to varying extents to cushion the impact of the energy shock. Over the past month, UBS has downgraded its Philippines growth outlook as inflation pressures dampen consumption, while Indonesia’s Q1 growth was stronger than expected, supported by front-loaded fiscal spending. The impact on consumers from higher energy has also varied across regions, being significant in the Philippines, but more muted in Thailand and Indonesia.

For India, as UBS notes, the “economy remains vulnerable to higher oil prices, given that it imports about 88% of its crude oil”. Higher energy prices would weigh on consumer sentiment, real incomes and spending, while adversely affecting industrial growth and squeezing margins for several sectors. Barclays expects the Reserve Bank of India (RBI) to look through the supply shock and, “persist with a pause [rather than hike] through the remainder of 2026.”

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. In Brazil, the monthly activity indicator fell 0.67% in March, but given revisions, this still points to a softer Q1 rebound after stagnation in 2H25. UBS estimates Q1 GDP growth at 0.9% and keeps its 2026 forecast unchanged at 1.5%.

For EM ex China, after growth of 4.3% in 2025, Barclays and UBS have both further cut their 2026 forecast to 3.9% (was 4.0%) and 3.6% (previously 4.0%) on the back of the US/Iran conflict. UBS expects a solid 2027 rebound to 4.3%, while Barclays is more modest, with growth unchanged 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

- US rates have repriced materially higher as geopolitical uncertainty and elevated oil prices reinforce concerns around inflation persistence and second-round effects.
- European rates have outperformed relative to US Treasuries, although medium-term inflation and fiscal risks continue to support an underweight stance toward duration.
- Australian rates remain supported by attractive relative valuations, with current market pricing already reflecting much of the remaining RBA tightening cycle.

In the US, Treasury markets have moved from the range-bound environment seen through April into a more decisive bearish repricing, with the 2-year yield returning to 4-handle territory for the first time since mid-2025 and the 10-year yield moving through 4.50%. Markets increasingly appear focused on the inflationary implications of higher oil prices and the risk of second-round pass-through effects into the broader economy, rather than downside risks to growth. At the same time, resilient retail sales, stable labour market conditions and increasingly hawkish Fed rhetoric have reinforced the view that the bar for policy easing has moved higher. While periodic relief rallies have emerged on signs of progress in US-Iran negotiations, we expect these moves to remain limited absent a clear resolution. We therefore maintain an underweight stance toward US duration, with medium-term risks still skewed toward higher yields.

In Europe, rates markets have also been caught in the global sell-off in duration, although Gilts and Bunds outperformed relative to US Treasuries. The 10-year UST-Bund spread widened toward 155bps during the month, leaving Treasuries at their cheapest levels relative to Bunds since August 2025, reflecting growing investor concern around US-specific inflation and fiscal risks. In the UK, political uncertainty has also contributed to increased volatility in Gilts, as markets assess the government's ability to balance elevated borrowing requirements and ongoing cost-of-living pressures. Despite softer growth dynamics, we remain alert to second-round pass-through effects and therefore maintain a bias toward being underweight UK and European duration.

In Australia, the rates market has continued to be shaped by local inflation and evolving RBA expectations. Post the May rate hike, markets continue to price around one more hike over the rest of 2026, although expectations for an immediate follow-up move have quelled. Local yields have remained sensitive to developments in oil markets, although ACGBs have generally outperformed on a cross-market basis. The spread between Australian and US 10-year yields has narrowed materially since the federal budget, supported by Australia's comparatively stronger fiscal position and contained issuance outlook. We maintain an overweight stance toward Australian duration, reflecting the view that current market pricing already captures a meaningful portion of the remaining tightening cycle while valuations remain attractive relative to global peers.

## Investment grade credit and high yield credit

Position: Neutral investment grade and high yield credit.

- Investment Grade (IG) credit remained resilient throughout May, with spreads holding near year-to-date tightness despite higher global bond yields and persistent inflation concerns.
- Australian dollar (AUD) credit markets lagged the global tightening, as elevated primary issuance and a heavy Kangaroo pipeline weighed on spread compression despite supportive fundamentals.
- High yield (HY) markets continued to recover, although valuations appear increasingly stretched amid elevated rate volatility and growing late-cycle risks.

Global IG credit markets demonstrated notable resilience throughout May, with spreads holding near their tightest levels of the year despite the continued sell-off in global rates markets. Robust investor demand for carry and elevated all-in yields continued to support the asset class, with steady inflows and real-money demand underpinning longer-duration credit exposure despite increasingly rich valuations. Both US and European IG indices finished May near year-to-date tight ranges, reflecting continued confidence in fundamentally strong high-grade issuers and supportive technicals. While market sentiment remained constructive, tight valuations leave limited room for further spread compression should inflation or policy uncertainty intensify.

In Australia, credit markets broadly mirrored the stability seen in global IG, although spread performance modestly lagged the tightening observed in the US. Spreads finished the month largely unchanged to slightly tighter, with the relative underperformance driven primarily by elevated primary issuance rather than weaker fundamentals. Australia's comparatively attractive funding levels continued to attract offshore borrowers, resulting in a busy Kangaroo pipeline and elevated supply across financials and corporates. Despite this heavier issuance backdrop, local market technicals remained supportive, underpinned by strong bank balance sheets, healthy liquidity and persistent demand for income.

Primary market activity remained a defining feature of May. NAB's AUD 1bn 15NC10 subordinated transaction attracted strong investor demand and priced at 6.55%, reinforcing continued appetite for higher-yielding bank capital securities. QBE also launched a non-call 7-year AT1 transaction at BBSW+250bps plus franking, while Barclays priced an AUD-denominated perpetual non-call 6 AT1 at 8%. Although demand remained constructive, investor selectivity has started to increase as multiple transactions compete for capital within compressed issuance windows.

High yield credit extended its recovery through May, with spreads retracing much of the widening seen during March's volatility and moving back toward cycle tightness. However, valuations appear increasingly stretched, with spreads offering limited protection against renewed macro volatility, tighter financial conditions and refinancing risks into 2026 and 2027.

# Our outlook and tactical asset allocation

## Australian government bonds – we are overweight

Markets continue to price around one additional RBA rate hike through 2026 following the May tightening, although we believe a meaningful portion of the remaining cycle is already reflected in valuations. ACGBs remain attractive relative to global peers, supported by stronger fiscal fundamentals, contained issuance and resilient demand for duration.

## Global government bonds – we are underweight

The recent bearish repricing across global rates markets reflects persistent inflation concerns, elevated energy prices and ongoing geopolitical uncertainty. In the US, markets remain focused on second-round inflation risks and restrictive policy settings, while in Europe and the UK, recent outperformance appears difficult to sustain given lingering inflation pressures.

## Investment grade credit – we are neutral

IG spreads remained resilient throughout May, holding near year-to-date tight despite higher global bond yields and persistent inflation concerns. Strong technicals, elevated all-in yields and steady investor demand continued to support spreads, while elevated primary issuance across Australia and offshore was generally well absorbed despite signs of increasing investor selectivity.

## High yield credit – we are neutral

HY markets extended their recovery through May, with spreads retracing much of the widening seen during March volatility. Supportive technicals and resilient risk sentiment underpinned performance, although valuations appear increasingly stretched. We continue to see medium-term risks from tighter financial conditions, refinancing pressures and elevated rate volatility supporting a cautious outlook.

### 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	72.41	75.44
Australian 3-year yield	4.48%	4.78%
Australian 10-year yield	4.83%	5.08%
Australian 3/10-year spread	34.5 bp	28.9 bp
Australian/US 10-year spread	39.2 bp	64.2 bp
US 10-year Bond	4.44%	4.43%
German 10-year Bund	2.94%	3.11%
UK 10-year Gilt	4.81%	5.07%
Markit CDX North America Investment-Grade Index	50.5 bp	56.1 bp
Markit iTraxx Europe Main Index	52.7	60.3
Markit iTraxx Europe Crossover Index	259.0	297.7
SPX Volatility Index (VIX)	15.3	18.8

Source: LGT Wealth Management, Bloomberg as of 31 May 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.

**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 highly 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.

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 over the last twelve months and particularly through Q1.

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 (USD) stabilised and gained modestly as investors weighed a lack of US-Iran progress, higher bond yields, and a resilient US economy.
- The AUD steadied as the RBA hiked rates for the third consecutive meeting.

The USD stabilised and pushed higher over the month of May, as investors grew wary of a lack of progress on US-Iran negotiations and higher bond yields provided a further tailwind for the currency. This upward shift in yields over the month bears watching as a potential harbinger for broader markets, and reflects a combination of concerns over a prolonged oil supply shock, the resilience of the US economy and ongoing economic tailwinds from the AI capex roll-out.

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

The AUD was also broadly stable over the month and is trading at around USD 0.72, supported by the RBA's third consecutive hike of the cycle. The latest federal budget contained further tax-and-spend measures that do not significantly move the dial on the productivity side, though should support incomes and aggregate activity in the near-term. We still believe Australia's long-standing productivity challenges and lack of economic reform likely place a ceiling on the AUD's near-term upside.

The euro (EUR) fell over the month to ~USD 1.16 amid investor jitters over the US-Iran ceasefire. The region is particularly exposed to oil and gas prices, a fact highlighted by recent disappointing Q1 GDP growth. For now, we are growing more cautious 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 (JPY) was volatile over the month, bounding off the psychologically important ¥160 level (JPY vs USD) that raised investor concerns of government intervention, and is now trading around ¥159 per USD. 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 Sanae Takaichi seeks to navigate Japan through this new world.

## Commodities

### Key points

- Global commodity prices recovered; oil prices remain elevated but eased 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 US-Iran conflict, with the fragile ceasefire supporting a sharp fall in oil prices and a recovery in industrial metals. Bloomberg's broad commodity price index was about 1.3% lower over the month.

Brent crude prices fell over the month to around USD 97 p/b but remain extremely volatile and headline-driven having touched recession-inducing levels above USD 120 p/b in late April. Disruptions to the Strait of Hormuz continued for most of May, despite April's ceasefire, 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 weakened about 2% over the month, trading at around USD 4500 per ounce. Structural considerations around fiscal profligacy and currency debasement should continue to provide a secular support for the precious metal if the US-Iran crisis de-escalates.

Industrial metal prices continued their recovery over the month, amid ceasefire hopes and ongoing resilience in the US economy. Copper prices are up around 7%, and aluminium rose 5%, 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

- Australian equities delivered a total return of 1.2% in May, again significantly underperforming global equities for the second consecutive month.
- The materials sector is benefitting from resilient commodity prices, but in light of the federal budget, it's also one of the few relative "safe havens" for investors.
- The healthcare sector continues to defy its traditional safe haven status, falling ~10% for the month. Twenty-one of 23 stocks in the ASX 300 Healthcare Index are in a bear market, with the remaining two in a correction (down at least 10%).

Australia's underperformance versus the MSCI ACWI Index in April was the second largest in 30 years. May compounded that underperformance, and yet the ASX 200 still trades at almost 17x forward earnings, with 10-year bond yields at 5%. This is a combination that presents some challenges for multi-asset portfolios (i.e. equities are cheaper in absolute terms but still challenged vs the yields on offer in fixed income).

The RBA has delivered three hikes since February 2026 and is expected to hike again in August to a cycle high of 4.60%. They have less flexibility than other major developed-market central banks. With no technology sector to offset, fuel-import dependence, and the lagged impact of prior hikes still working through household balance sheets, Australia lacks the buffers that have protected global equities through the same period.

The Federal Budget adds a structural headwind that exacerbates these issues. Putting aside the political and philosophical debate around negative gearing and capital gains tax (CGT), the scaling back of the favourable tax treatment for residential property changes the investor demand equation permanently, not cyclically. Investor mortgages are ~56% of mortgage flow, and ~33% of all mortgages outstanding. They carry higher margins than owner-occupier loans, and it comes at a time where the banks are increasing their collective provisioning and still trade expensively vs global peers.

The onus is on the much smaller industrials sector (construction, AI capex, infrastructure income) to drive the ASX200 higher, which is difficult when consumer and business confidence are at recessionary lows. However, over recent weeks, the earnings upgrade cycle has already lost momentum, with energy being the only remaining key support. The ASX Industrials earnings per share (EPS) revisions slid -2.5% in April against upgrades of 3-4% across most developed market peers.

## International equities

### Key points

- Global equities have posted back-to-back 4% gains over April and May, eclipsing the early January record.
- Performance was led by Asian, Japan, and emerging market equities, as the NASDAQ's strong performance permeated those companies and regions most exposed to AI capex.
- This leaves global equities at ~18x price to earnings (P/E), still below the 19x they began the year. US equities are trading at ~21x P/E, ~1pt below where they began the year, as earnings have driven a larger share of the year-to-date (YTD) gains than valuation multiples.

Broadly we retain a pro-risk stance towards global equities, but not indiscriminately pro-beta, with several important variables that require monitoring:

- Fiscal policy is supportive, with the "One Big Beautiful Bill" providing a fiscal impulse worth around 1% of US nominal GDP in 2026, fading to roughly 0.5% in 2027-28 (higher energy prices offset part of this, but not all of it).
- The AI capex cycle is a major support. Hyperscaler capex is expected to rise 4.6x over the five years following ChatGPT's release, with consensus estimates for 2026 and 2027 capex revised up by USD 363bn and USD 429bn respectively over the past 15 months. The current AI investment remains below the peak capex intensity seen in earlier US technology buildouts such as railroads, autos, electric motors and the 1990s tech/telecom cycle.
- Higher oil prices should drag on consumption, but the drag is lower than in prior oil shocks because energy goods and services now represent a materially smaller share of consumption.

Nonetheless, investors must not become complacent:

- Although well off their peak, regional (i.e. Middle East) oil prices remain elevated above USD 100/bbl.
- Passage through the Strait of Hormuz is effectively blocked.
- Bond yields are reflecting the possibility that the next move for central banks could be to hike. Real yields are also reflecting some unease regarding the shape of fiscal budget deficits, not just inflationary pressures.
- Positioning and cash levels remain cautionary
- So dominant has the AI/tech narrative become, that the S&P 500 now has 53.8% market-cap overlap with NASDAQ 100, meaning many investors who believe they own broad US equity exposure may in practice own a growth/technology-heavy allocation.

# Equities outlook and tactical asset allocation

## Domestic – we are underweight

The federal budget's secondary impacts on the equity market may be underappreciated from the perspective of an expensive banking sector that has been a beneficiary of significant residential investor mortgage flow. At a time where consumer and business confidence are at crisis lows and the lagged impact of RBA rate hikes are yet to impact, the outlook for Australian equities is very challenged.

## US – we move overweight

Most research houses remain constructive towards US equities, although few are arguing for a simple "buy the S&P 500" mentality. Crowded positioning, full valuations and AI commoditisation risk (e.g. software) are offset by a strong macro backdrop, a less exposed economy to ongoing Middle East uncertainty, and an AI build out that seems to be gaining steam.

## Europe (ex-UK) – we move neutral

Europe screens better than the US on valuation, positioning and prospective earnings recovery, but the investment case has clearly become more difficult. Eurozone fiscal stimulus, German infrastructure spending and improving credit impulse provide a plausible path to better domestic demand, but the impact of the US-Iran conflict on consumer sentiment, inflation, and rates are a headwind.

## United Kingdom – we are neutral

Strategists view the UK local elections as less about immediate policy mechanics and more about the market's appetite for risk, credibility, and flows. Fiscal headroom is limited, the OBR (Office for Budget Responsibility) has flagged that even modest yield rises, or small growth misses, would materially worsen the deficit, and any deviation from the current fiscal tightening path risks a repricing in gilts and sterling.

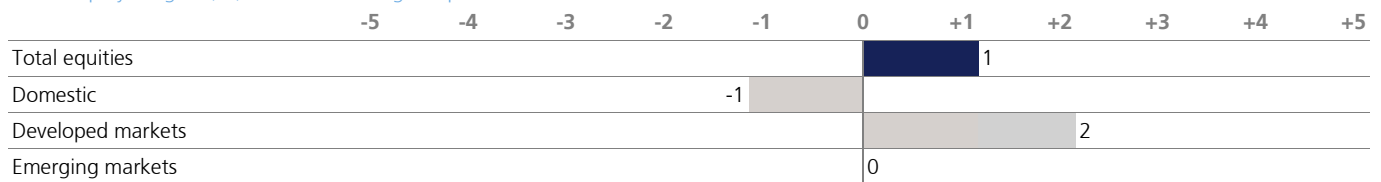
## Japan – we are overweight

The near-term outlook for high crude oil prices due to the disruption of the US-Iran conflict looks negative for Japan at first glance, given the country's reliance on resource imports. However, Japanese companies are more readily able to pass through costs in prices than in the past, meaning the "margin crunch" associated with higher import prices should be manageable (and lay a foundation for stickier profitability when import costs fade).

## Emerging market equities – we are neutral

2026 EPS estimates for emerging markets (EM) are being revised up aggressively, outpacing other parts of the world. EM sits at the nexus of several key themes – the AI infrastructure build out (memory, semiconductors), and the bottlenecks to the AI build out (commodities and energy).

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



## 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	8,732	9,268	6.1%	17.7	3.7%
New Zealand	S&P NZ 50	13,245	14,941	12.8%	27.1	3.2%
United States	S&P 500	7,580	8,707	14.9%	22.4	1.1%
Europe	Euro Stoxx	649	740	13.9%	15.7	3.1%
United Kingdom	FTSE 100	10,409	12,015	15.4%	13.1	3.4%
China	CSI 300	4,069	4,997	22.8%	14.4	2.8%
Japan	Nikkei 225	66,330	70,124	5.7%	23.8	1.4%
India	Sensex	74,776	93,457	25.0%	18.9	1.9%

Source: Bloomberg. Data as of 31 May 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 GICS Industry Group for longer-term investors. While we also overlay valuation, companies are included based on anticipated three to five-year performance. When analysing companies to add to the list, some metrics we consider are:

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

Code	Company	Sector	Market price	Consensus price target	P/E 1yr fwd (x)	Dividend yield	ROIC	ROE	1yr EPS growth	MSCI ESG rating
REA	REA Group Ltd	Comm. Services	\$149.00	\$212.03	30.7	2.2%	45%	31%	15.8%	AA
ALL	Aristocrat Leisure Ltd	Cons. Disc.	\$50.10	\$63.16	19.5	2.1%	28%	24%	11.3%	AA
TLC	Lottery Corp Ltd/The	Cons. Disc.	\$5.42	\$5.89	32.8	3.4%	23%	112%	9.1%	AA
MTS	Metcash Ltd	Cons. Staples	\$3.07	\$3.56	12.6	6.0%	15%	16%	5.7%	AAA
ALD	Ampol Ltd	Energy	\$33.56	\$36.77	9.7	5.7%	21%	22%	-34.1%	AA
BPT	Beach Energy Ltd	Energy	\$1.08	\$1.14	6.4	5.4%	16%	12%	34.5%	AAA
MQG	Macquarie Group Ltd	Financials	\$238.55	\$256.93	18.0	3.2%	--	13%	4.4%	AA
SUN	Suncorp Group Ltd	Financials	\$17.38	\$18.88	20.0	4.8%	6%	9%	36.7%	AAA
COH	Cochlear Ltd	Health Care	\$100.50	\$129.19	21.2	3.7%	20%	16%	13.4%	AAA
RMD	ResMed Inc	Health Care	\$28.75	\$42.91	18.6	0.9%	30%	25%	10.0%	A
MND	Monadelphous Group Ltd	Industrials	\$31.06	\$29.70	25.1	3.5%	31%	23%	0.7%	AAA
BXB	Brambles Ltd	Industrials	\$16.57	\$21.42	17.3	2.8%	20%	28%	9.4%	AAA
WTC	WiseTech Global Ltd	Info. Tech	\$36.01	\$79.40	36.4	0.6%	20%	13%	43.1%	AA
IGO	IGO Ltd	Materials	\$9.58	\$8.66	49.6	2.6%	3%	6%	316.6%	AAA
GMG	Goodman Group	Real Estate	\$31.67	\$35.07	24.5	1.0%	9%	11%	10.6%	AA

Source: Bloomberg Analyst consensus and MSCI Research. This list does not constitute research and is the output of material prepared by our research providers. To obtain a copy of the underlying research, please contact your investment adviser. Data as of 31 May 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.

**WiseTech Global (WTC AU) – Buy.** The market is pricing WTC as though AI is a threat to its business - we believe the opposite is true, and that the 70% drawdown represents a compelling entry point for a structurally advantaged compounder that is deploying AI offensively, not defending against it. Built on government-certified customs connections across dozens of countries, a single-database architecture that competitors cannot retrofit, and a regulated, auditable, mission-critical workflow that customers cannot easily replicate elsewhere, WTC is fundamentally more defensible than the horizontal SaaS businesses that have been indiscriminately sold off alongside it.

# 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	\$17.38	\$18.88	20.0	1.86	100%	4.8%	34.8%	AAA
MQG	Macquarie Group Ltd	Financials	\$238.55	\$256.93	18.0	2.42	35%	3.2%	5.8%	AAA
ANZ	ANZ Group Holdings Ltd	Financials	\$35.20	\$35.69	14.2	1.49	75%	4.8%	2.2%	AA
QBE	QBE Insurance Group Ltd	Financials	\$22.64	\$23.95	12.0	2.10	30%	3.5%	2.8%	AAA
COL	Coles Group Ltd	Cons. Staples	\$21.72	\$23.70	23.9	7.51	100%	3.9%	9.3%	A
MTS	Metcash Ltd	Cons. Staples	\$3.07	\$3.56	12.6	2.03	100%	6.0%	4.6%	AAA
TLC	Lottery Corp Ltd/The	Cons. Disc.	\$5.42	\$5.89	32.8	35.51	100%	3.4%	11.5%	AAA
TAH	Tabcorp Holdings Ltd	Cons. Disc.	\$0.77	\$0.98	25.7	1.39	0%	4.0%	19.2%	AA
TLS	Telstra Group Ltd	Comm. Services	\$5.21	\$5.24	25.3	4.40	90%	4.2%	5.3%	AA
CAR	CAR Group Ltd	Comm. Services	\$24.84	\$32.50	23.0	3.33	0%	3.9%	10.9%	AA
RMD	ResMed Inc	Health Care	\$28.75	\$42.91	18.6	4.26	100%	0.9%	8.6%	A
PME	Pro Medicus Ltd	Health Care	\$132.26	\$191.33	87.6	35.53	100%	0.8%	27.0%	BBB
REP	RAM Essential Services	Real Estate	\$0.47	\$0.78	10.0	1.19	0%	10.2%	-4.0%	--
MGR	Mirvac Group	Real Estate	\$1.69	\$2.01	13.0	0.73	0%	5.9%	4.2%	--
IRE	IRESS Ltd	Info. Tech	\$6.01	\$10.11	13.4	2.64	0%	5.1%	11.0%	AA
DBI	Dalrymple Bay Infrastructure	Industrials	\$5.54	\$5.67	26.6	2.65	0%	5.2%	7.6%	--
ALX	Atlas Arteria Ltd	Industrials	\$4.93	\$4.99	19.3	1.23	0%	8.4%	0.5%	AA
ALD	Ampol Ltd	Energy	\$33.56	\$36.77	9.7	2.63	100%	5.7%	-25.8%	--
BPT	Beach Energy Ltd	Energy	\$1.08	\$1.14	6.4	0.78	100%	5.4%	84.8%	AAA
BHP	BHP Group Ltd	Materials	\$62.31	\$55.25	17.2	4.52	100%	2.3%	-5.3%	A
AMC	Amcor PLC	Materials	\$54.94	\$68.85	9.9	1.57	0%	4.7%	-0.1%	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 31 May 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.

**RAM Essential Services Property Fund (REP AU) - Buy:** REP listed in late 2021, right at the bottom of the rate cycle and just before the RBA's sharpest hiking cycle in decades - the key reason the stock has de-rated so heavily since. As a yield vehicle, it lost appeal as risk-free rates and term deposits climbed, while higher rates simultaneously lifted property cap rates (lowering asset valuations) and raised the cost of gearing, prompting management to sell assets and reduce debt. Importantly, the decline reflects the rate environment rather than the assets themselves. REP is a pure-play commercial landlord REIT anchored by essential services tenants, being supermarkets and healthcare operators with ~98% occupancy. They have no house-and-land exposure, meaning no CGT or negative gearing headwinds. It now trades on a forward dividend yield of ~10%, and with rate expectations possibly peaking, the primary headwind behind the de-rating may now be easing.

**QBE Insurance Group (QBE AU) - Buy:** With a Return on Equity of around 16/17%, 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	380.34	431.29	26.6	0.2%	4,585,232	BBB
UMG NA	Universal Music Group NV	Comm. Services	EUR	19.50	25.49	18.2	2.9%	41,846	AA
DIS US	Walt Disney Co/The	Comm. Services	USD	101.83	131.86	14.9	1.6%	176,829	A
9988 HK	Alibaba Group Holding Ltd	Cons. Disc.	HKD	120.90	182.21	17.9	0.8%	296,088	BBB
AMZN US	Amazon.com Inc	Cons. Disc.	USD	270.64	314.75	26.3	0.0%	2,911,304	BB
SBUX US	Starbucks Corp	Cons. Disc.	USD	99.16	106.43	41.6	2.6%	113,013	A
ABNB US	Airbnb Inc	Cons. Disc.	USD	133.31	157.41	26.1	0.0%	80,347	BB
RMS FP	Hermes International SCA	Cons. Disc.	EUR	1620.00	2102.43	36.0	1.3%	199,617	A
COST US	Costco Wholesale Corp	Cons. Staples	USD	956.32	1103.52	46.6	0.6%	424,141	A
288 HK	WH Group Ltd	Cons. Staples	HKD	9.05	11.18	9.0	0.8%	14,816	--
SHEL LN	Shell PLC	Energy	GBP	3118.00	3776.48	8.5	0.1%	234,563	AA
LSEG LN	London Stock Exchange	Financials	GBP	9022.00	12233.13	18.9	0.0%	59,617	AA
LLOY LN	Lloyds Banking Group PLC	Financials	GBP	101.90	120.67	10.1	0.0%	80,126	AA
WFC US	Wells Fargo & Co	Financials	USD	77.54	96.60	11.1	2.6%	237,287	BB
2318 HK	Ping An Insurance Group	Financials	HKD	60.05	80.86	6.4	5.0%	141,357	A
939 HK	China Construction Bank	Financials	HKD	8.49	10.75	5.5	4.8%	291,632	AA
MA US	Mastercard Inc	Financials	USD	493.98	647.32	25.1	0.7%	436,567	AA
JNJ US	Johnson & Johnson	Health Care	USD	225.33	261.96	19.5	2.4%	542,418	BBB
NOVOB DC	Novo Nordisk A/S	Health Care	DKK	292.95	308.16	13.7	4.0%	204,273	AAA
ISRG US	Intuitive Surgical Inc	Health Care	USD	424.64	570.14	41.1	0.0%	150,392	A
EXPN LN	Experian PLC	Industrials	GBP	2573.00	3882.72	17.2	0.0%	31,070	A
DSV DC	DSV A/S	Industrials	DKK	1609.50	2079.42	25.7	0.5%	60,437	AA
2330 TT	Taiwan Semiconductor	Info. Tech	TWD	2355.00	2650.52	24.0	1.1%	1,947,284	AAA
ASML NA	ASML Holding NV	Info. Tech	EUR	1384.80	1481.78	44.1	0.7%	627,378	AAA
MSFT US	Microsoft Corp	Info. Tech	USD	450.24	560.86	26.3	0.9%	3,344,578	AA
ACN US	Accenture PLC	Info. Tech	USD	187.07	255.81	13.5	3.7%	114,981	AA
SHW US	Sherwin-Williams Co/The	Materials	USD	303.84	381.42	25.9	1.1%	74,938	A
EQIX US	Equinix Inc	Real Estate	USD	1068.04	1202.47	61.8	2.0%	105,335	AA
CEG US	Constellation Energy Corp	Utilities	USD	287.75	370.20	24.6	0.6%	104,250	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 31 May 2026. ESG is environmental, social, and corporate governance.

# Thematic investing – Supply chain disruption

## Objective of this list

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

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

## Supply chain disruption - Select exposures.

A recent convergence of factors has put global supply chains in focus. Volatility around the US election, the threat of global tariffs, labour strikes, and ongoing military conflicts around the world have emphasised the importance of our logistics networks.

Code	Company	Sector	Base CCY	Market price	Consensus price target	P/E 1yr fwd (x)	Yield (%)	Market cap (USD bn)	MSCI ESG rating
AMZN US	Amazon.com Inc	Cons. Disc.	USD	270.6	314.7	23.3	0.0%	2,911,304	BBB
BABA US	Alibaba Group Holding	Cons. Disc.	USD	124.2	187.8	12.9	7.8%	298,020	BBB
EBAY US	eBay Inc	Cons. Disc.	USD	109.3	110.3	16.4	1.2%	48,516	A
WMT US	Walmart Inc	Cons. Staples	USD	115.8	140.9	35.2	0.9%	921,148	BBB
SHEL LN	Shell PLC	Energy	GBP	3118.0	3776.5	9.2	0.1%	234,372	A
BPT AU	Beach Energy Ltd	Energy	AUD	1.1	1.1	4.8	5.6%	1,767	--
LLOY LN	Lloyds Banking Group	Financials	GBP	101.9	120.7	8.4	0.1%	80,060	AAA
DSV DC	DSV A/S	Industrials	DKK	1609.5	2079.4	19.0	0.6%	60,344	AA
KNIN SW	Kuehne + Nagel International	Industrials	CHF	180.4	184.1	21.0	3.8%	27,874	AAA
DHL GY	Deutsche Post AG	Industrials	EUR	51.2	51.5	14.0	4.0%	68,613	A
DE US	Deere & Co	Industrials	USD	542.2	649.8	23.7	1.4%	146,355	A
BXB AU	Brambles Ltd	Industrials	AUD	16.6	21.4	15.7	2.8%	15,972	AAA
WTC AU	WiseTech Global Ltd	Info. Tech	AUD	36.0	79.4	25.3	0.7%	8,679	A
ACN US	Accenture PLC	Info. Tech	USD	187.1	255.8	12.5	3.8%	114,981	AAA
INTC US	Intel Corp	Info. Tech	USD	114.7	89.7	74.1	0.0%	576,382	AA
SAP GY	SAP SE	Info. Tech	EUR	155.3	209.6	18.4	1.9%	222,266	AAA
GMG AU	Goodman Group	Real Estate	AUD	31.7	35.1	22.1	1.0%	46,438	BBB
PLD US	Prologis Inc	Real Estate	USD	143.5	153.3	37.0	3.1%	137,097	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. As of 31 May 2026. ESG is environmental, social, and corporate governance.

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