

Global Asset Allocation: The View From Europe

February 2024

1 Market Perspective



- Global growth expectations have stabilised, near the same levels as last year, with disinflation gaining momentum hinting at a global 'soft landing'.
- US growth remains most resilient amongst developed economies, while European growth remains weak. The emerging markets growth outlook is improving, with hopes for stabilisation in China driven by policy support.
- Progress on inflation and stable growth give support for the US Fed and other central banks to pivot towards rate cuts. The European Central Bank (ECB) is moving closer to easing as it balances fragile growth and inflation. The Bank of Japan (BoJ) cautiously eyes exiting its negative rate policy in the first half of this year.
- Key risks to global markets include impacts of geopolitical tensions, central banks' policy divergence, a retrenchment in growth, a resurgence in inflation and the trajectory of Chinese growth and policy.

2 Portfolio Positioning

As of 31 January 2024



- We maintain a balanced view on equities supported by positive earnings trends and loosening financial conditions against a backdrop of elevated valuations.
- We trimmed our overweight to Japanese equity, taking profits, and added to US large-cap value as we think a firming cyclical environment, where both growth and inflation stabilise from here, could favour value stocks.
- Within fixed income, we remain underweight government bonds and overweight cash relative to bonds. We believe bond yields are likely to rise because of a resilient economy and central banks not cutting rates as soon as the market expects. Cash continues to provide attractive yields and liquidity to take advantage of potential market dislocations.
- Within fixed income, we remain overweight high yield and emerging market bonds on still-attractive absolute yield levels and reasonably supportive fundamentals.

3 Market Themes

No Quick Fix

Despite a range of stimulus measures rolled out since the second half of 2023, China's economy remains challenged as little so far has led to a meaningful turnaround in activity or its stock market's decline. While Chinese officials pledge more aggressive support, investors are becoming increasingly concerned as there seems to be a disconnect with consumer confidence sliding along with stock prices—slipping to five-year lows. While China's troubled property sector remains at the crux of the country's current issues, record youth unemployment above 20%, a declining population and deflationary pressures caused by weak domestic and export demand have added to the list of headwinds. And while recent data have shown somewhat of a stabilisation in declining home prices in response to stimulus measures, sales remain weak and recent news surrounding the forced liquidation of Evergrande—the country's largest property developer—is yet another challenge to the beleaguered sector. While policymakers look to shore up the foundation of the world's second-largest economy this year, a 'quick fix' is unlikely to be enough, leaving investors hopeful for more substantial policy changes to bring more sustainable growth to China.

Chinese Equities Seeing Weakness Amid Policy Uncertainty¹

As of 31 January 2024



Past performance is not a reliable indicator of future performance.

¹ Source: Bloomberg Finance L.P. Data represented by the CSI 300 Index.

² Source: Bloomberg Finance L.P. Data represented by the S&P 500 Index. Please see Additional Disclosures.

Keep On Keeping On

After a strong fourth-quarter rally on rate cut hopes, investors turned a bit skittish at the start of 2024 on better-than-expected economic data pushing out those hopes—but it has since rallied back sending the S&P 500 Index to record highs. It is not surprising to see equity markets cheering the growing prospects of a 'soft landing' with growth intact and inflation easing, giving the Fed the green light to loosen financial conditions in the coming months. Companies too are proving resilient, with earnings expectations improving and easing costs helping to boost margin expansion this year. Big Tech earnings and artificial intelligence euphoria are also lending support. While the momentum may continue, extended valuations and complacency could leave markets ripe for correction. There is a lot riding on the Fed keeping the course on easing that remains vulnerable to incoming data, geopolitical flashpoints are increasing across the globe and the US is nearing another contentious election in the coming months. But for now, it looks like stocks could keep on keeping on, looking through the risks, pointing to the positives on both the economic and earnings front.

S&P 500 Index Hits New High in 2024²

As of 31 January 2024

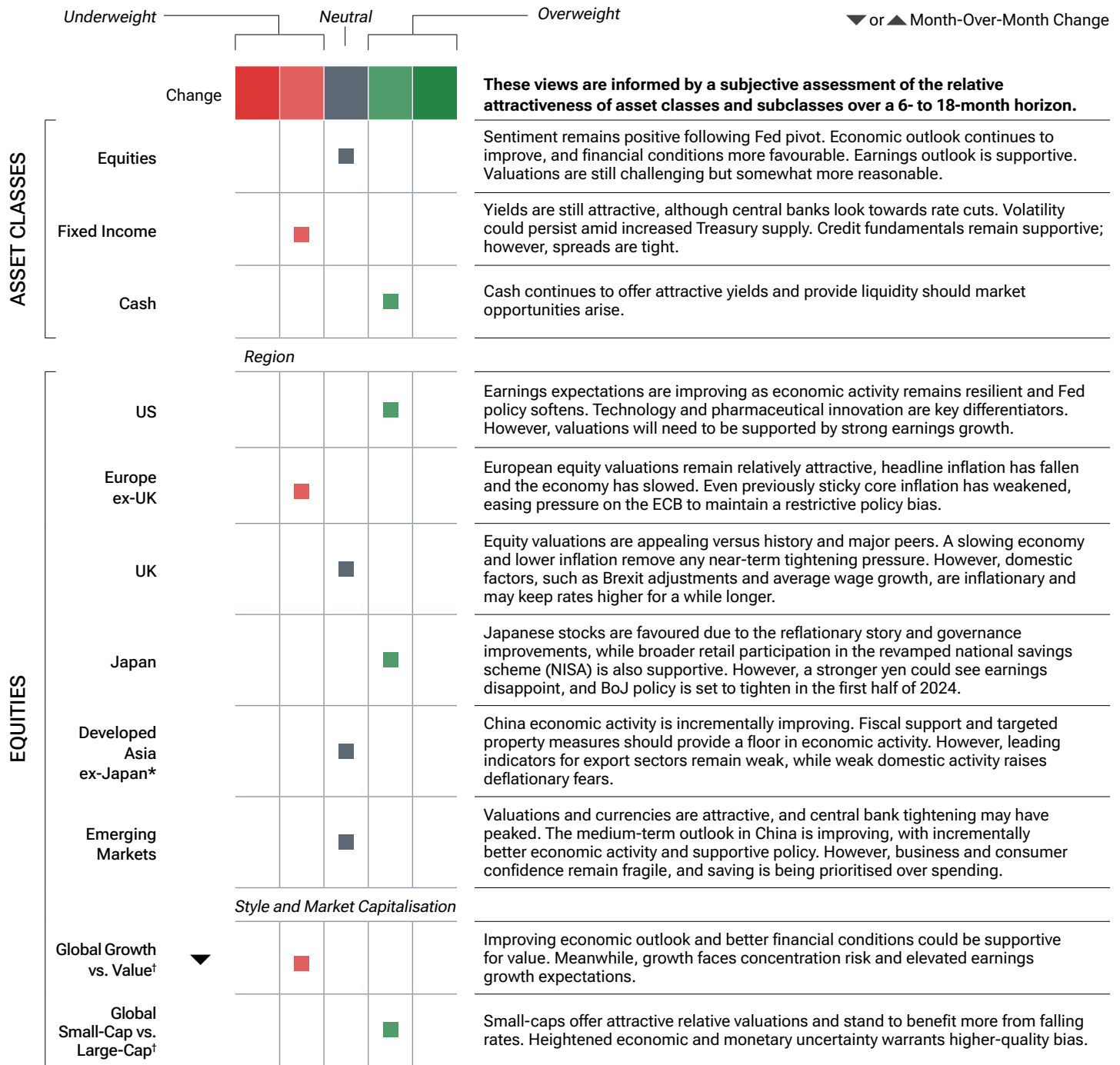




	Positives	Negatives
Europe U	<ul style="list-style-type: none"> – Inflation is continuing to cool – ECB is likely finished hiking – Labour market has been resilient 	<ul style="list-style-type: none"> – Inflation remains elevated, particularly core inflation – Monetary policy is restrictive – Economic growth is slowing
United Kingdom N	<ul style="list-style-type: none"> – Inflation has begun to moderate – Bank of England (BoE) may be finished hiking – Labour market has been resilient 	<ul style="list-style-type: none"> – Fiscal consolidation may need to be accelerated – Tight labour markets could keep wage inflation elevated – BoE may be forced to keep rates higher
United States O	<ul style="list-style-type: none"> – Federal Reserve is expected to cut soon – Consumer spending remains strong – Labour market has been very resilient – Earnings expectations are increasing 	<ul style="list-style-type: none"> – Lagged effects of monetary policy remain a risk – Stock valuations have become challenging – Wage growth could pressure corporate margins
Japan O	<ul style="list-style-type: none"> – Economy is benefitting from an uptick in inflation – Corporate governance continues to gradually improve – Equity valuations remain attractive 	<ul style="list-style-type: none"> – Monetary policy is becoming incrementally tighter – Yen weakness has weighed on equity market returns – Earnings expectations may need to be revised lower
Asia Pacific ex-Japan N	<ul style="list-style-type: none"> – China economic activity is incrementally improving with supportive policies expected to underpin activity moving forward – Sentiment remains bearish towards China, suggesting that contrarian investors could benefit from cheap valuations – In Australia, a resilient housing market is supporting the wealth effect, while elevated wage growth is a fillip for consumer spending 	<ul style="list-style-type: none"> – In China, property deleveraging remains an overarching goal, which dampens domestic activity – China consumer and business confidence are fragile, and saving is being prioritised over spending – Higher interest payments in Australia will negatively impact consumer spending with a lag. Corporate earnings may disappoint due to weak company pricing power
Emerging Markets N	<ul style="list-style-type: none"> – Monetary tightening in most emerging markets (EM) has peaked – Equity valuations are attractive relative to the US – Chinese stimulus is expected to continue 	<ul style="list-style-type: none"> – Chinese property deleveraging continues to weigh on activity – Chinese consumer and business confidence are fragile

U Underweight N Neutral O Overweight

Views are informed by the Asset Allocation Committee and regional investment committees (United Kingdom, Europe, Australia, Japan and Asia) and reflect the equity market.



Past performance is not a reliable indicator of future performance.

*Includes Australia.

[†] For pairwise decisions in style and market capitalisation, positioning within boxes represents positioning in the first-mentioned asset class relative to the second asset class.

The asset classes across the equity and fixed income markets shown are represented in our multi-asset portfolios. Certain style and market capitalisation asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.



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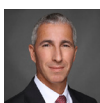
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