

Global Asset Allocation: The View From Europe

September 2024

1 Market Perspective



- Trends in recent data are more decisively pointing to slowing growth alongside easing inflation pressures, with a soft landing still within grasp as central banks pivot to easing.
- In the US, economic data are showing signs of cooling, particularly in the labour market. European growth remains modest and bolstered by services, whilst manufacturing lags. Japanese growth rebounds from contraction earlier in the year are supported by exports. Chinese growth remains stagnant, with policymakers remaining measured with stimulus support.
- A US Federal Reserve (Fed) cut this September is highly anticipated as focus shifts from inflation to the labour market. The European Central Bank (ECB) looks to advance easing as inflation data provide support. The Bank of Japan (BoJ) signals commitment to its divergent path of rates hikes, with a cautious eye on currency impacts.
- Key risks to global markets include a steeper decline in growth, central bank policy missteps, election calendars, geopolitical tensions and the trajectory of Chinese growth.

2 Portfolio Positioning

As of 31 August 2024



- Whilst valuations are broadly extended, we remain modestly overweight equities that should benefit from easing monetary policy and still resilient, albeit slowing, economic growth.
- We maintain an overweight to cash relative to bonds. Cash yields should remain at attractive levels even as the ECB embarks on easing as we expect a gradual path.
- Within equities, we remain overweight value based on more attractive relative valuations, whereas narrowly led growth equities are extended and susceptible to weakness on earnings disappointments. Supportive global central bank easing should provide a backdrop for broader market participation.
- Within fixed income, we continue to favour higher-yielding sectors, including high yield and emerging markets (EM) bonds as fundamentals remain broadly supportive.

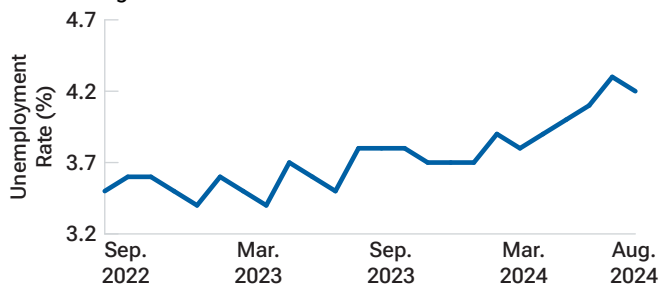
3 Market Themes

What Lies Beneath?

US consumer confidence rebounded in August on optimism about the resilience of the economy and easing inflation pressures. And whilst markets cheered the rosier outlook of the all-important US consumer, a deeper dive into the survey data suggests there are growing concerns, particularly about declining labour market conditions. Employment data have turned decisively cooler recently, with the unemployment rate climbing and jobs becoming less abundant. With the survey data also showing consumers remaining very concerned about their personal finances, any further deterioration in jobs could lead to a quickening pullback in spending. This is particularly weighing on lower-income consumers facing higher prices and now turning more to credit cards as excess savings accumulated during the pandemic have been depleted. And whilst higher-income consumers have been buffered by rising 401(k) balances and elevated home prices, their propensity to consume could turn quickly as well if layoffs broaden. Let's hope that rate cuts have been well timed to allow for a cooling of the labour market rather than too late and already facing the risk of a sinking US consumer.

US Unemployment Rate Has Been Ticking Up¹

As of 31 August 2024



Past performance is not a reliable indicator of future performance.

¹ U-3 US Unemployment Rate total in labour force is seasonally adjusted.

² Assets are sourced from ICI Money Market Funds Assets.

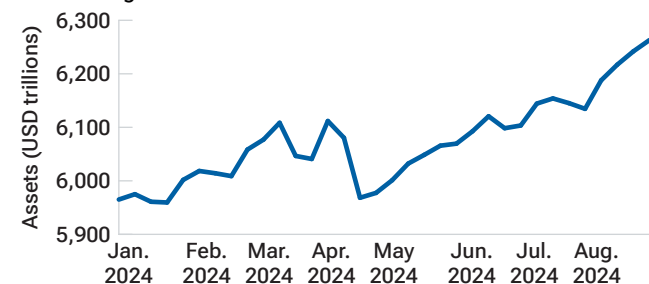
Source: Bloomberg Finance L.P.

Sideline

Despite market expectations for an unwinding of the huge pile of money market assets to provide a tailwind as they flow back to risk assets, the category has continued to garner flows, hitting an all-time high of USD 6.6 trillion in August. Whether it's extended equity valuations, concerns over bond market volatility or simply still attractive 5% yields keeping investors on the sidelines, they have seemed wary to jump back into risk assets. Unfortunately, those investors parked in money markets awaiting an opportunity have missed out on a huge equity rally, with the S&P 500 returning more than 20% over the past year. And for those more conservative investors who may have considered inching out into longer-maturity bonds, they too have missed out more recently on a major rally in yields. Perhaps the start of rate cuts on the horizon could entice some investors to come off the sideline, but with a gradual path priced in, it is unlikely to have a huge impact. And for those who remember earning 0% in money markets not too long ago, still getting over 4% could remain compelling for a while longer.

Money Market Assets Reaching New Highs²

As of 31 August 2024





REGIONAL BACKDROP



Positives

Negatives

Europe

U

- Monetary policy expected to ease further
- Inflation has been steadily declining

- Economic growth remains weak
- Geopolitical uncertainty remains heightened
- Earnings growth remains weak, with minimal tailwinds from innovative technologies

United Kingdom

N

- The Bank of England (BoE) has begun cutting rates
- Inflation has been steadily declining
- Economic growth outlook has stabilised

- Fiscal consolidation may need to be accelerated
- Tight labour market could keep wage inflation stubbornly high

United States

O

- Monetary policy expectations are improving
- Resilient corporate earnings
- Wage growth is moderating to sustainable levels
- Recent inflation reports have been favourable

- Stock valuations have become challenging
- Economic data have been surprising to the downside
- Consumption trends are weakening
- Political uncertainty is heightened

Japan

O

- Economic indicators are pointing to a reflationary environment
- Corporate governance improvements are resulting in stronger company fundamentals
- Stock valuations are attractive

- Heightened volatility may reduce investor appetite
- The BoJ may maintain a hawkish bias due to inflation
- The unwind of the carry trade positions highlights the risk of the extreme positioning in the yen

Asia Pacific ex-Japan

N

- China macro data are showing resilience, especially export sectors
- Monetary easing in China is part of an incremental loosening approach
- In Australia, government support to the economy continues to be a net positive

- Prolonged China deflation remains a concern whilst property market issues challenge growth
- Consumer spending in China tier 1 cities is depressed, and earnings forecasts are unattractive
- Australia market pricing appears to be too optimistic about future rate cuts

Emerging Markets

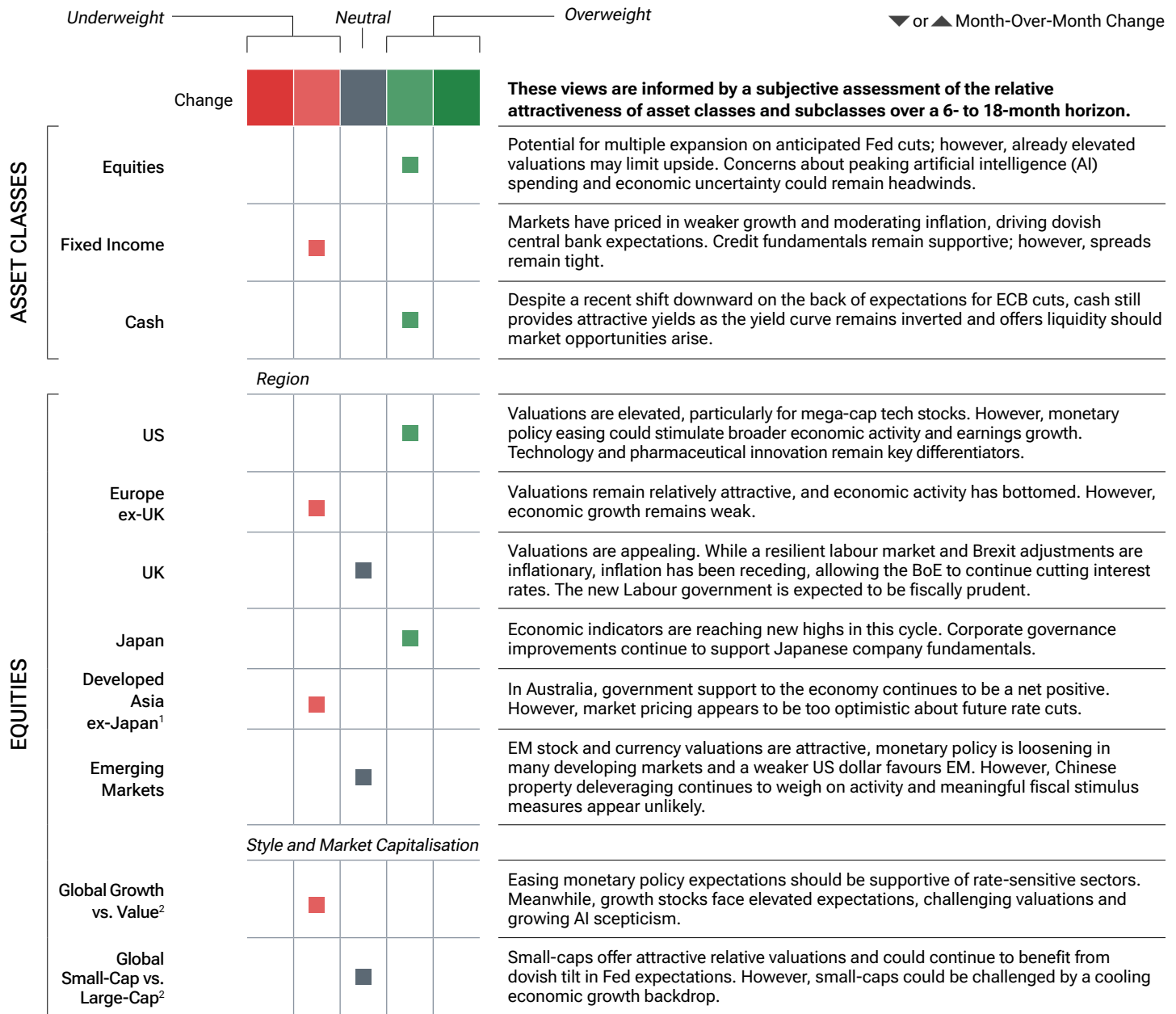
N

- Monetary policy is loosening in many emerging markets
- A weaker US dollar favours emerging markets

- Chinese property deleveraging continues to weigh on activity
- Meaningful fiscal stimulus measures appear unlikely
- Export demand from developed markets has slowed

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.

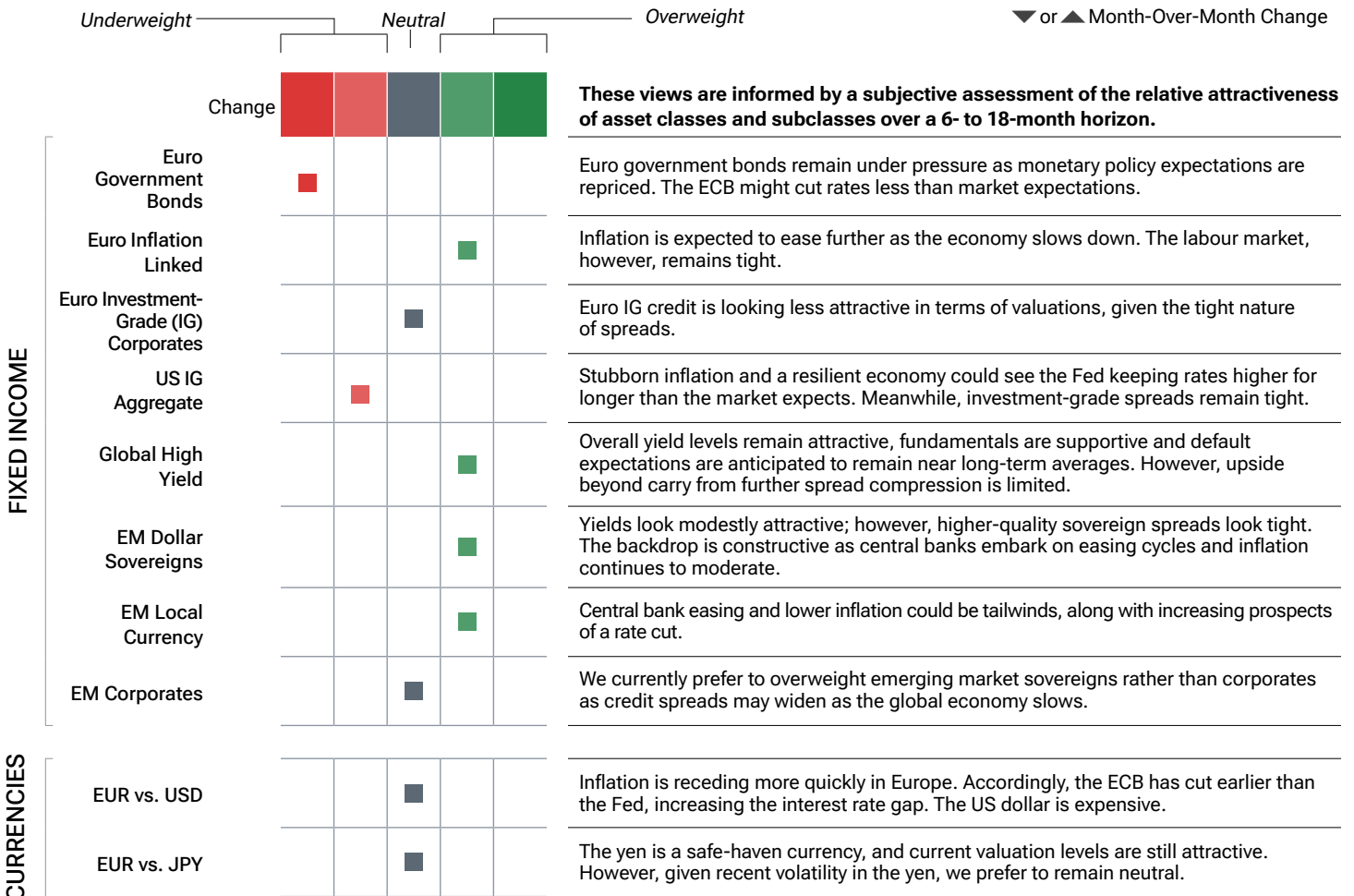


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¹ Includes Australia.

² 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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The specific securities identified and described are for informational purposes only and do not represent recommendations.



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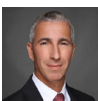
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