

Global Asset Allocation: The View From Europe

December 2024

1 Market Perspective



- While global growth remains broadly resilient, with inflation trending lower, paths forward may vary as policy impacts create divergence.
- US growth expectations are higher on the back of hopes for pro-growth policies, while inflation remains moderately above target. European, UK and Japanese growth remain soft. Chinese policy is expected to remain supportive to bolster growth.
- The US Fed policy easing is expected to lag other central banks amid a better growth backdrop, while the European Central Bank (ECB) and the Bank of England (BoE) are likely to act faster amid economies facing weaker growth and lower inflation. The Bank of Japan (BoJ) is expected to remain on its divergent path, with incoming inflation data supporting further hikes.
- Key risks to global markets include elevated geopolitical tensions, central bank policy missteps and uncertainty around trade policies leading to a reacceleration in inflation or hampering of growth.

2 Portfolio Positioning

As of 30 November 2024



- We have a modest risk-on stance through our overweight to stocks versus bonds.
- Despite broadly elevated equity valuations, we find opportunities in a widening market—supported by easing monetary policy and resilient growth—while bonds remain vulnerable to higher rates.
- Within equities, we favour more cyclical, value-oriented areas of the market as we expect a broadening of participation away from mega-cap technology companies.
- We modestly overweight cash relative to bonds. Cash yields remain attractive even as the ECB embarks on easing as we expect a more gradual path.

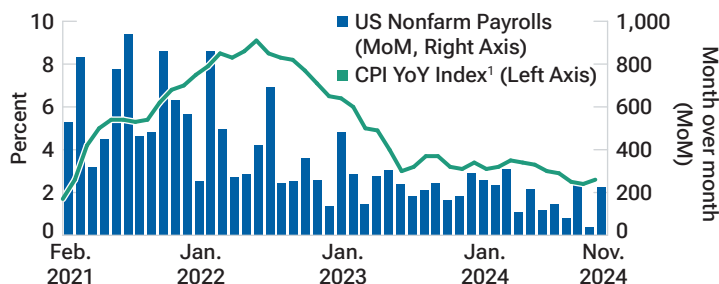
3 Market Themes

Here comes Santa pause

The resiliency of economic growth and rising expectations for pro-growth policies seem to be having an impact on Fed policymakers. Chairman Jerome Powell and other Fed members' recent comments have been notably more upbeat, highlighting the strength of the economy and labour markets, as inflation moves closer to target, calling into question how many more cuts are really needed. While we expect an additional cut this month, it seems likely they will take a 'wait and see' approach from here amid heightened policy uncertainty, some of which could reignite inflation. And while expectations of this easing cycle have moved dramatically up and down over the past few years given the mixed data, it's unlikely to get any clearer anytime soon. So while some investors may be disappointed if they get a pause in their stocking this holiday, they may really not like what ultimately could come at the end of it—a potential hike?

Who needs a rate cut?

As of 30 November 2024

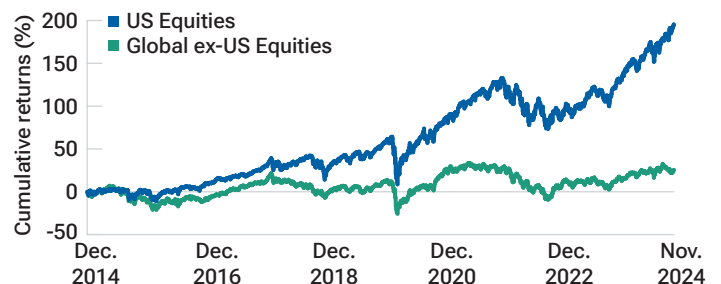


Joy to the world?

As we enter the new year, consensus is even stronger that US economic and market exceptionalism will continue their dominance. US election results have fuelled that view as pro-growth policies are expected to boost the domestic economy, while the rest of the world may face headwinds from US trade policies and a stronger dollar. This comes on top of several factors that have been holding back markets outside the US, including weaker growth, political instability, regional wars, demographics and fiscal consolidation, to name a few. But what if all that is going against these markets just happens to not be as dire next year? While it is hard to weigh the risk amid the current policy uncertainty, relative valuations are on their side, and consensus seems extremely bearish, which if things do show some signs of improvement could quickly bring some joy to world equities beyond the US for a change.

Due for reversal²

As of 30 November 2024



Past performance is not a reliable indicator of future performance.

¹ Data to 31 October 2024.

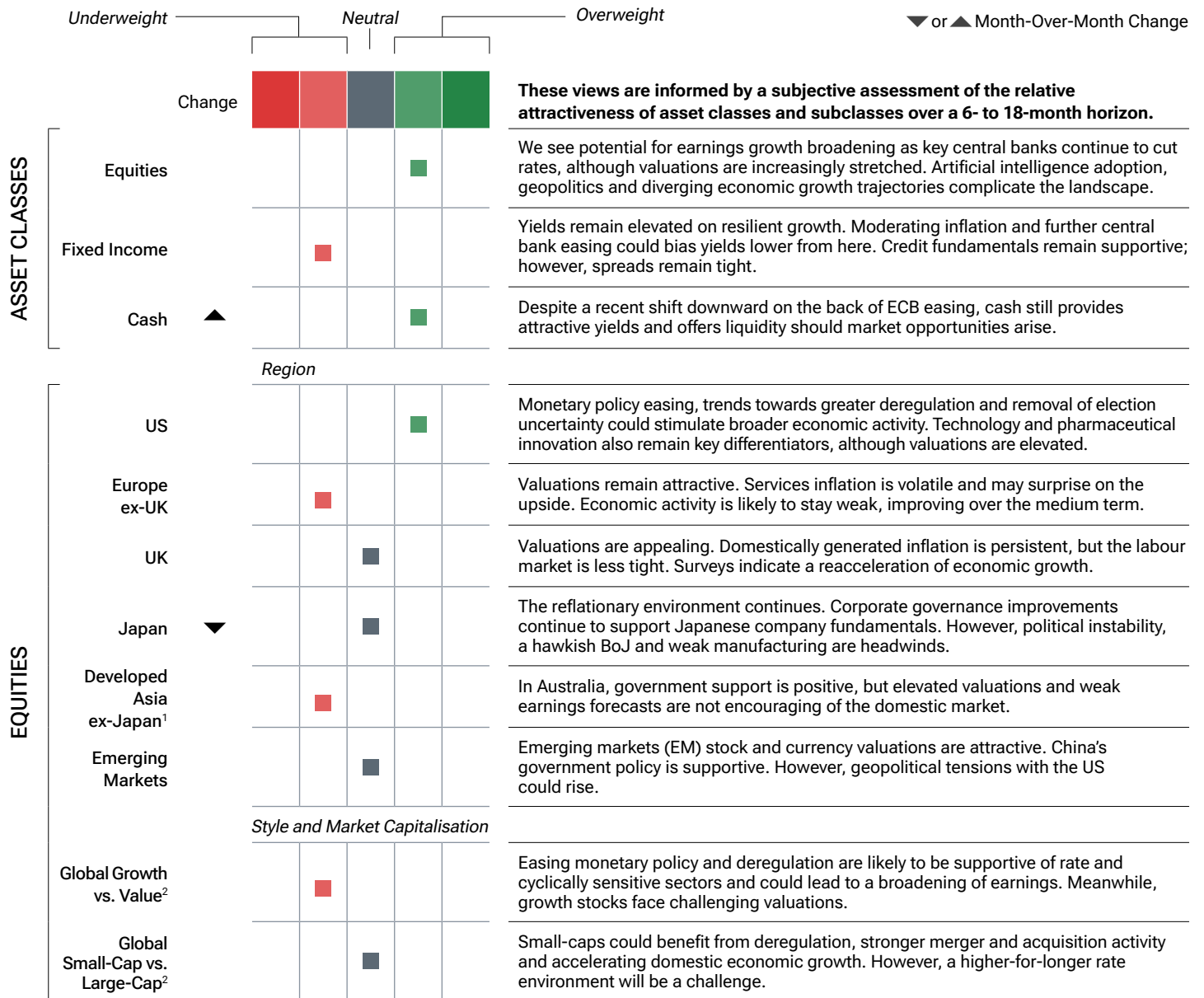
² US Equities are represented by the S&P 500 Index. Global ex-US Equities are represented by the MSCI ACWI ex-US Index. Sources: Bloomberg Finance L.P., S&P and MSCI. Please see Additional Disclosures for more information.



	Positives	Negatives
Europe U	<ul style="list-style-type: none"> — Monetary policy is expected to ease further — Unemployment remains low — Valuations are reasonable 	<ul style="list-style-type: none"> — Economic growth remains weak — Geopolitical uncertainty is heightened — Earnings growth is structurally weak
United Kingdom N	<ul style="list-style-type: none"> — Monetary policy is expected to ease further — Inflation has moderated — Economic outlook is improving 	<ul style="list-style-type: none"> — Fiscal consolidation may need to be accelerated — Earnings growth is structurally weak, with minimal tailwinds from innovative technologies
United States O	<ul style="list-style-type: none"> — Corporate earnings are resilient — The Fed is cutting rates — There is potential for deregulation and lower corporate taxes 	<ul style="list-style-type: none"> — Stock valuations have become challenging — Credit trends are weakening — Political uncertainty is heightened
Japan O	<ul style="list-style-type: none"> — The reflationary environment continues — Corporate governance continues to improve — Valuations are supportive 	<ul style="list-style-type: none"> — Political instability is impacting foreign investment flows — The BoJ will maintain a hawkish bias due to strong wage growth — Manufacturing indicators are weak due to a drop in global demand
Asia Pacific ex-Japan N	<ul style="list-style-type: none"> — More stimulus announcements are expected in China, further boosting the equity market — An evident policy shift in China may support domestic sentiment — Australia may also continue to reap benefits from China stimulus measures in the form of increased resources demand 	<ul style="list-style-type: none"> — China's housing sector faces structural challenges that have yet to be addressed — China earnings prospects could undermine the equity rally as policy measures will take time to feed through to the economy — In Australia, government support is positive, but elevated valuations and weak earnings forecasts are not encouraging of the domestic market
Emerging Markets N	<ul style="list-style-type: none"> — Further stimulus efforts from China are likely — Monetary policy is loosening in many emerging markets — Valuations are attractive 	<ul style="list-style-type: none"> — Export demand from developed markets remains muted — Geopolitical risks are rising — US tariffs could provide an additional headwind to global trade

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.

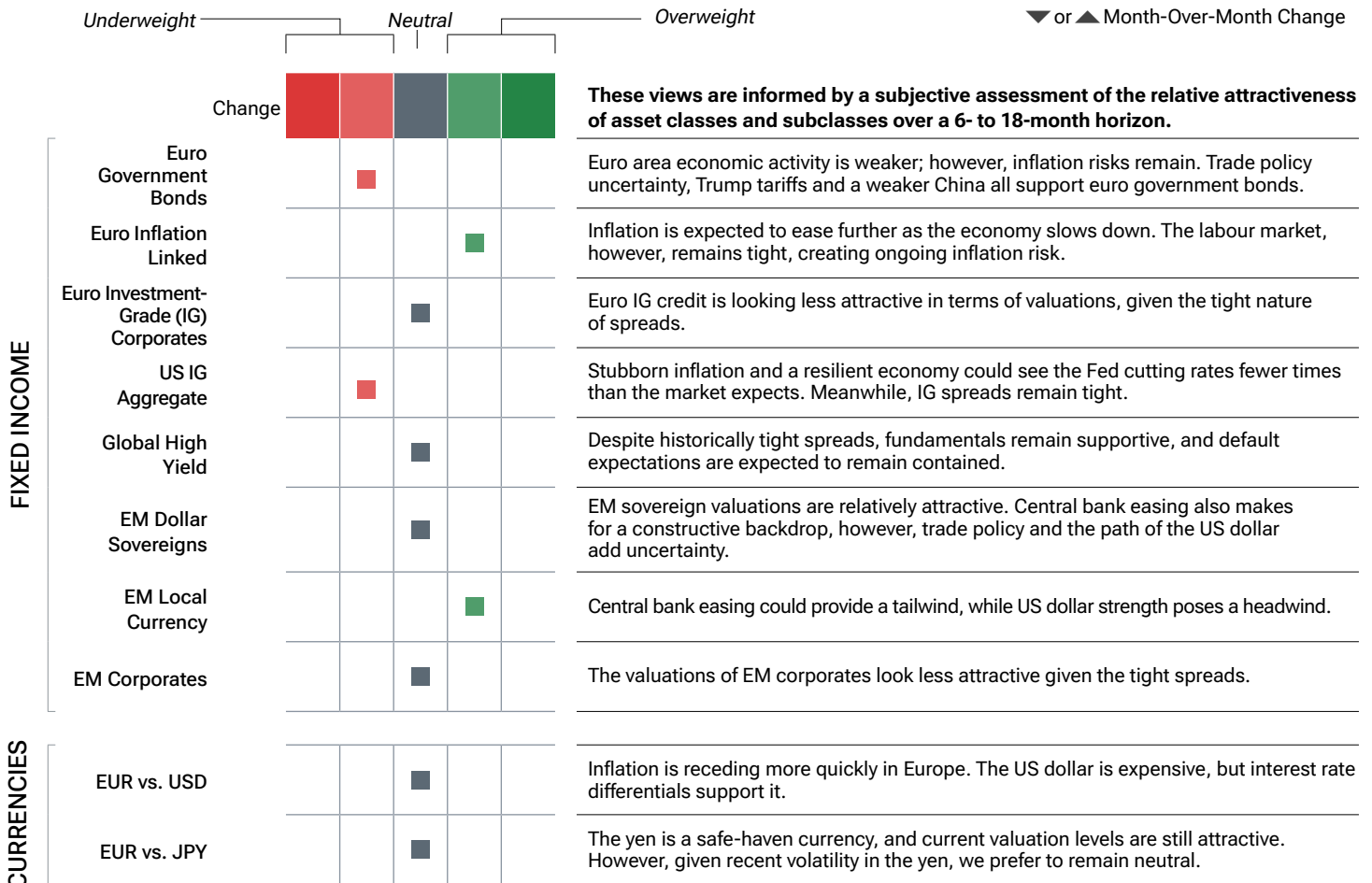


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¹ Includes Australia.

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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