

Global Asset Allocation: The View From Europe

November 2024

1 Market Perspective



- Economic data continue to show signs of resilience, and inflation remains on a moderating path, providing room for further easing.
- US data are holding up, confirming a soft landing as inflation nears the target. European growth remains modest and bolstered by services, while manufacturing lags. Japanese growth is modestly slowing as manufacturing output has softened. Chinese stimulus is expected to continue to bolster growth, though impacts so far have been modest. UK growth has slowed, but surveys indicate re-acceleration.
- The path of Fed cutting is largely dependent on incoming data, while the European Central Bank (ECB) looks to advance easing as inflation data provide support. The Bank of Japan (BoJ) signals commitment to their divergent path of rate hikes. The Bank of England (BoE) is likely to continue to cut its policy rate.
- Key risks to global markets include elevated geopolitical tensions, central bank policy missteps and the path of Chinese growth.

2 Portfolio Positioning

As of 31 October 2024



- We remain modestly overweight to equities on a favourable outlook centred around easing monetary policy, Chinese stimulus measures and potential for broadening earnings growth.
- Within equities, we remain overweight large-cap value based on more attractive valuations and potential for broader market participation, and modestly overweight to large-cap growth as it should continue to see durable earnings growth from several high-quality companies.
- Also, within equities, we remain neutral in emerging markets following the recent rally in China. Although Chinese stimulus should continue to provide a tailwind, potential policy shifts create uncertainty.
- We neutralised the overweight to cash relative to bonds. While cash yields remain attractive even as the ECB embarks on easing, we used cash to reduce the underweight to government bonds to add resilience should economic growth slow more than expected.
- Within fixed income, we neutralised the overweights to global high yield bonds and emerging markets bonds because spreads are tight and we used to proceeds to reduce the underweight to government bonds.

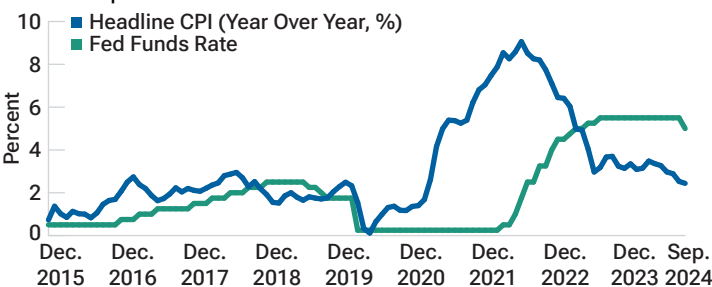
3 Market Themes

Checks and balances

The markets' immediate reaction to President Donald Trump's victory has, for the most part, played out as if his new term will take off where his last ended. A lot, however, has changed in the past four years, and executing on many of his campaign promises—including higher tariffs and deregulation—could bring about inflationary pressures. When the president first took office in 2016, inflation was low and central banks had policy rates anchored at near zero levels in an effort to increase inflation. That's not so today, as inflation is just finally nearing central bank targets, policy rates and bond yields are at much higher levels and deficit spending has only grown. Because it is now looking increasingly possible that Republicans may also sweep both houses of Congress, market reaction is reflecting the increasing likelihood that Republicans will be able to quickly act on their agenda. While there will undoubtedly be significant changes in policy coming, it may be the forces of higher inflation and rates that prove to be the checks and balances that keeps some discipline in policy.

Facing higher inflation and rates today

As of 30 September 2024



Past performance is not a reliable indicator of future performance.

Source: Bloomberg Finance L.P.

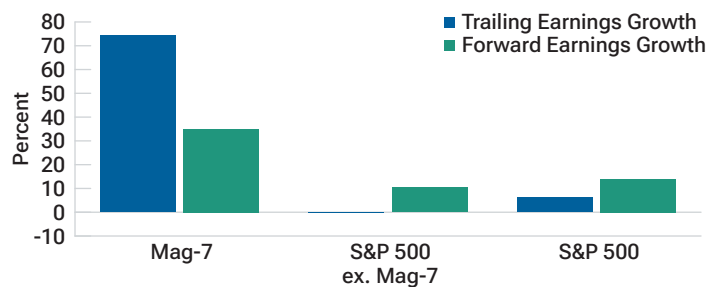
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Earning their share

While the S&P 500 Index has continued to deliver strong earnings, it has been primarily driven by the performance of the 'Magnificent 7', which has reflected that versus the broader market. And with their earnings now starting to slow from extreme levels on moderating spending in artificial intelligence (AI), investors are beginning to look at the 'other 493', which are seeing encouraging signs of earnings growth. This broadening began in the second quarter and has continued into the third quarter on the back of better economic growth and easing monetary policy. And while the direction is encouraging, their earnings are only moving up to low single digits from negative levels, while the Magnificent 7 are still expected to deliver growth near 20% levels. Despite the earnings backdrop still favouring the Magnificent 7, still resilient economic growth, easing monetary policy and now potential changes in fiscal and regulatory policies could provide tailwinds to companies beyond the Magnificent 7—giving them a better shot at earning their share.

Earnings growth differentials beginning to compress

As of 31 October 2024





REGIONAL BACKDROP



Positives

Negatives

Europe

U

- Monetary policy is expected to ease further
- Unemployment remains low
- Equity valuations are attractive

- Economic growth remains weak
- Geopolitical uncertainty remains heightened
- Earnings growth is structurally weak

United Kingdom

N

- Monetary policy is expected to ease further
- Inflation concerns have moderated
- Economic growth outlook has stabilised

- Fiscal consolidation may need to be accelerated
- While the labour market is slowly becoming less tight, it could keep wage inflation stubbornly high
- Domestically generated inflation is too persistent

United States

O

- The Fed has begun cutting rates
- Resilient corporate earnings
- Recent inflation reports have been favourable
- Earnings have been boosted by AI infrastructure spending

- Stock valuations have become challenging
- Consumption trends are weakening

Japan

O

- The reflationary environment continues
- Corporate governance continues to improve
- Weaker yen is boosting earnings forecasts

- 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

- A coordinated policy response in China creates a short-term rally opportunity from extreme bearish sentiment and cheap valuations
- More fiscal measures are expected by year-end to support Chinese domestic consumption
- In Australia, government support to the economy continues to be a net positive

- China's housing sector faces structural challenges that will take time to recover
- China's corporate earnings prospects may undermine the rally as policy measures will take time to flow through
- Australian market pricing appears too optimistic about future rate cuts; elevated valuations and weak earnings forecasts are not supportive of the domestic market

Emerging Markets

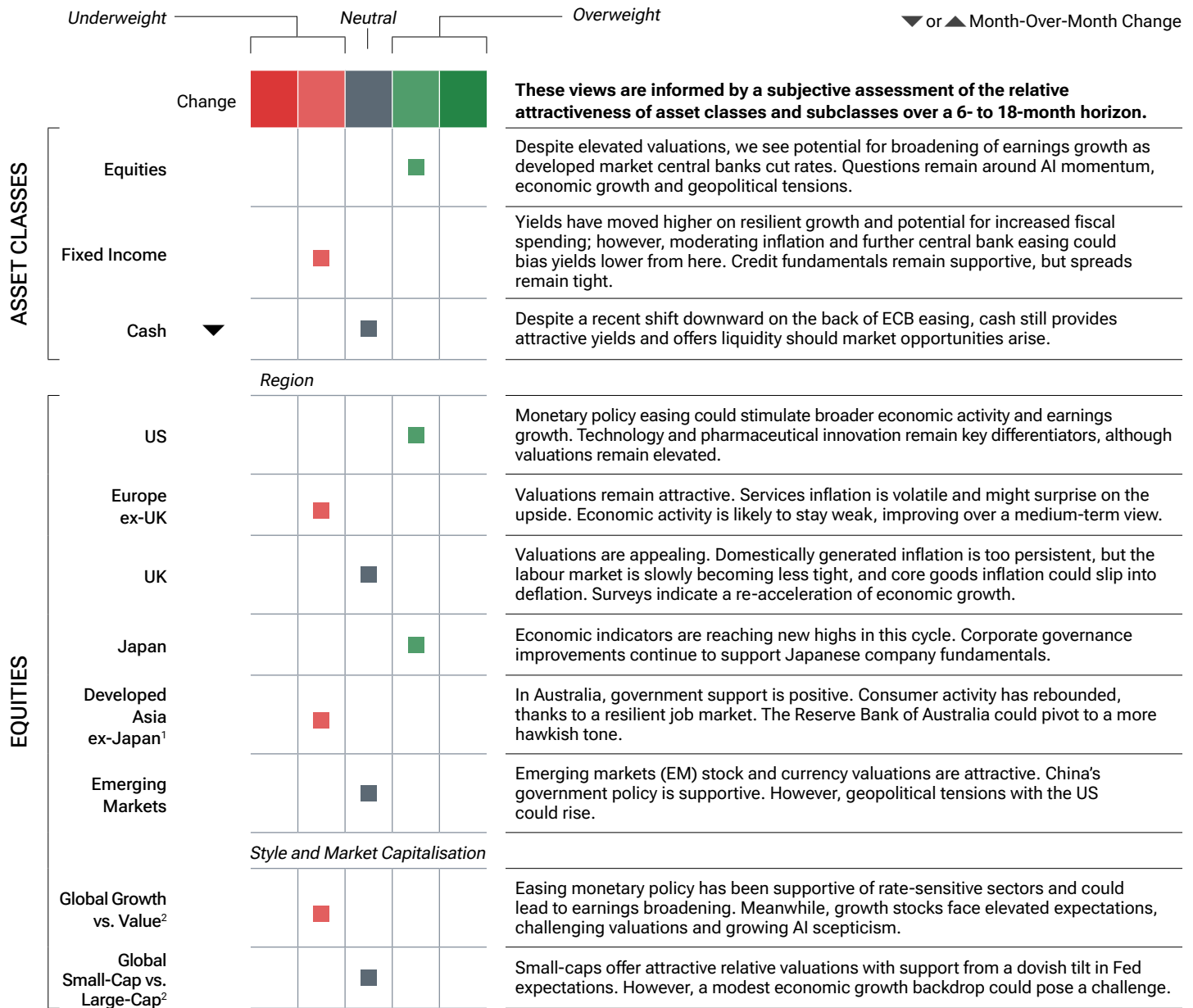
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- China has enacted coordinated stimulus efforts
- Chinese stimulus has positively impacted investor sentiment
- Monetary policy is loosening in many emerging markets

- Chinese property deleveraging continues to weigh on activity
- Export demand from developed markets remains muted
- Geopolitical risks are rising

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.

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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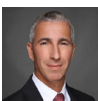
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