

Global Asset Allocation: The View From Europe

October 2024

1 Market Perspective



- Economic data are showing resilience as inflation is nearing central banks' targets, providing room for further easing.
- US data are holding up, confirming a soft landing as inflation nears its target. European growth remains modest and bolstered by services, while manufacturing lags. Japanese growth rebounds from earlier in the year contraction, supported by exports. Surveys indicate re-acceleration in UK growth. Chinese policymakers take decisive action to support growth.
- 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 a commitment to its divergent path of rates hikes. The Bank of England (BoE) is likely to cut rates gradually. China cuts rates as part of broad stimulus measures to shore up the economy.
- Key risks to global markets include elevated geopolitical tensions, the upcoming US election, central bank policy missteps and the path of Chinese growth.

2 Portfolio Positioning

As of 30 September 2024



- We remain modestly overweight equities. While valuations are elevated, easing monetary policy, Chinese stimulus measures and potential broadening earnings growth should be favourable for equities.
- Within equities, we remain overweight value based on more attractive relative valuations and as global central bank easing should provide a backdrop for broader market participation.
- We maintain an overweight to cash relative to bonds. Cash yields remain attractive even as the ECB embarks on easing as we expect a gradual path.
- Within fixed income, we continue to underweight government bonds and favour higher-yielding sectors, including high yield bonds and emerging markets bonds.

3 Market Themes

Out of the Woods

The Chinese equity market is up nearly 30% since announcing a larger-than-expected stimulus package intended to help stave off further deterioration in growth and quell concerns about its troubled property sector. The coordinated efforts of the People's Bank of China and financial regulators span across monetary and fiscal measures, including lower rates to support housing and loans to encourage share buybacks. Chinese equities have been a notable laggard this year, reflecting the struggles of policymakers to reverse slumping growth and falling well short of their 5% growth target. And with the potential threats of a shift in US policy on the horizon, their export-heavy economy could find itself under more pressure. So, while the far-reaching measures are a step in the right direction and have been cheered by emerging market investors, the structural headwinds facing China are vast, leaving many skeptical that China is out of the woods just yet.

From Laggard to Leader¹

As of 30 September 2024

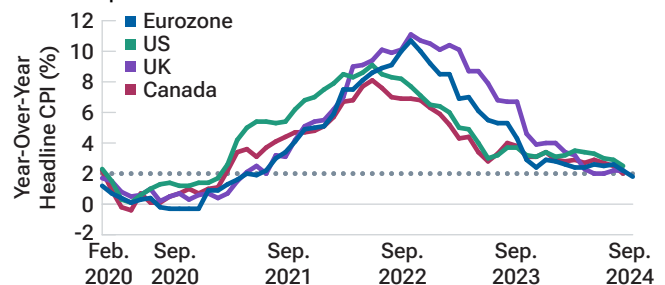


Hold the Bubbly

Amongst major central banks, the ECB just saw its first read on inflation below its 2% target, down from an 11% peak in September 2022, freeing up the path to lowering rates further. This is welcome news for other central banks as well, which are seeing similar progress toward their targets. Notably, this progress is being achieved while global growth is holding up, with some areas showing surprising resilience. The forces that had driven inflation higher, including COVID-related supply shortages, excess savings supporting consumer spending and unleashed pent-up demand driving services inflation, have faded. By all measures, it is looking like central bankers may have pulled off the once unthinkable 'soft landing' and should be celebrating. But, unfortunately, the current backdrop of geopolitical tensions and the threat of policy shifts having an impact on growth and possibly reigniting inflation concerns has them holding off on popping the bubbly, for now.

Nearing Their Inflation Targets²

As of 30 September 2024



Past performance is not a reliable indicator of future performance.

¹ Source: MSCI. Emerging Markets ex-China and China are represented by the MSCI Emerging Markets ex-China Index and MSCI China Index, respectively. Please see Additional Disclosures for more information about this sourcing information.

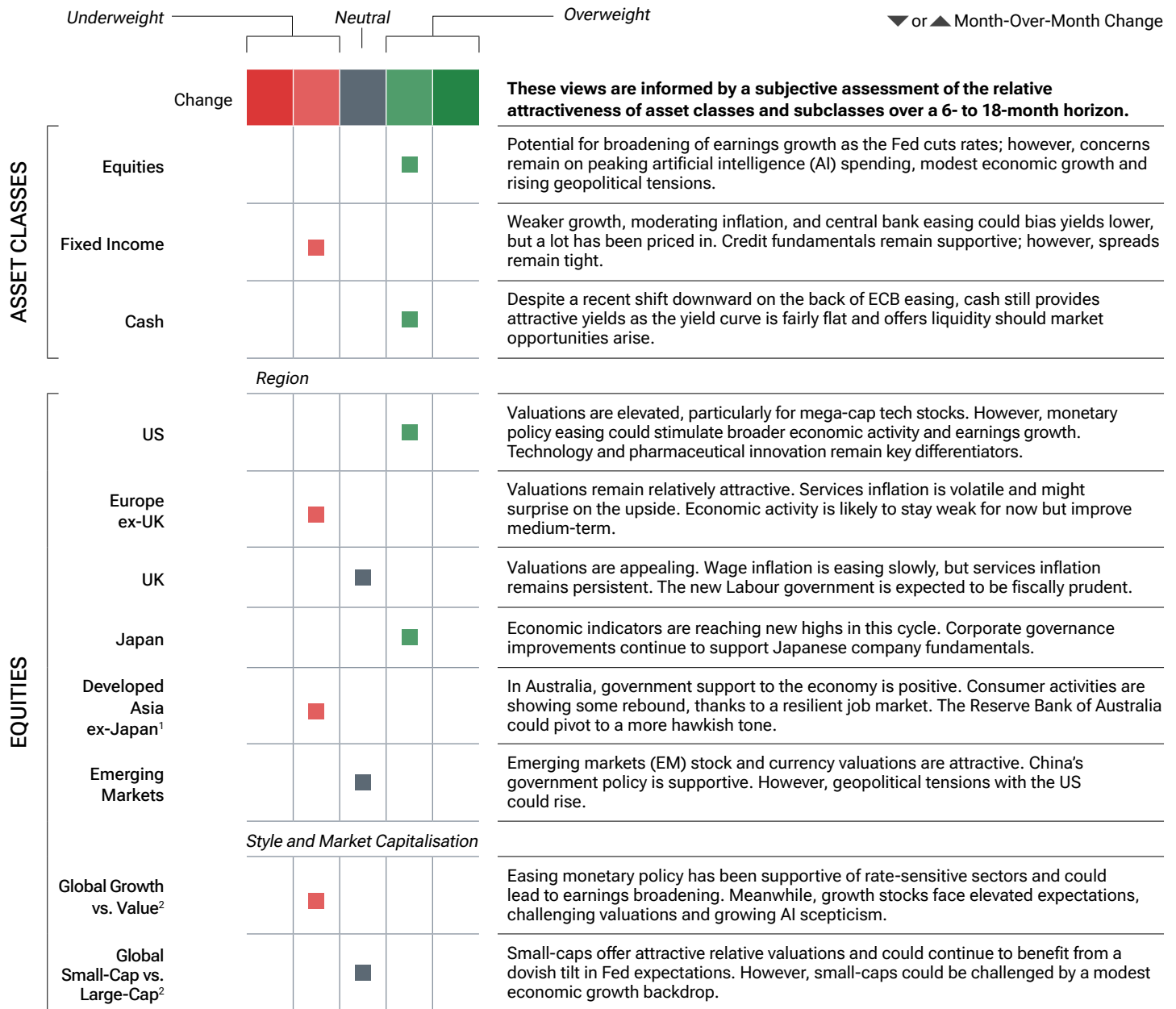
² Source: Bloomberg Finance L.P.



	Positives	Negatives
Europe U	<ul style="list-style-type: none"> – Monetary policy is expected to ease further – Inflation has been steadily declining – Unemployment remains low – Equity valuations are attractive 	<ul style="list-style-type: none"> – Economic growth remains weak – Geopolitical uncertainty remains heightened – Earnings growth is structurally weak, with minimal tailwinds from innovative technologies
United Kingdom N	<ul style="list-style-type: none"> – The BoE has begun cutting rates – Inflation has been steadily declining – Economic growth outlook has stabilised 	<ul style="list-style-type: none"> – Fiscal consolidation may need to be accelerated – Tight labour market could keep wage inflation stubbornly high
United States O	<ul style="list-style-type: none"> – The Fed has begun cutting rates – Corporate earnings are resilient – Wage growth is moderating to sustainable levels – Recent inflation reports have been favourable 	<ul style="list-style-type: none"> – Stock valuations have become challenging – Economic growth is modest – Consumption trends are weakening – Political uncertainty is heightened
Japan O	<ul style="list-style-type: none"> – The reflationary environment remains intact – Corporate governance continues to improve – Valuations are again supportive after a soft third quarter 	<ul style="list-style-type: none"> – The BoJ is maintaining a hawkish bias due to inflation – Equities may face headwinds from a stronger yen
Asia Pacific ex-Japan N	<ul style="list-style-type: none"> – 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 China domestic consumption – In Australia, government support to the economy continues to be a net positive 	<ul style="list-style-type: none"> – China’s housing sector faces structural challenges that will take time to recover – China corporate earnings prospects may undermine the rally as policy measures will take time to flow through – Australia market pricing appears to be too optimistic about future rate cuts. Elevated valuations and weak earnings forecasts are not supportive of the domestic market
Emerging Markets N	<ul style="list-style-type: none"> – China has enacted coordinated stimulus efforts – Monetary policy is loosening in many emerging markets – A weaker US dollar favours emerging markets 	<ul style="list-style-type: none"> – 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.

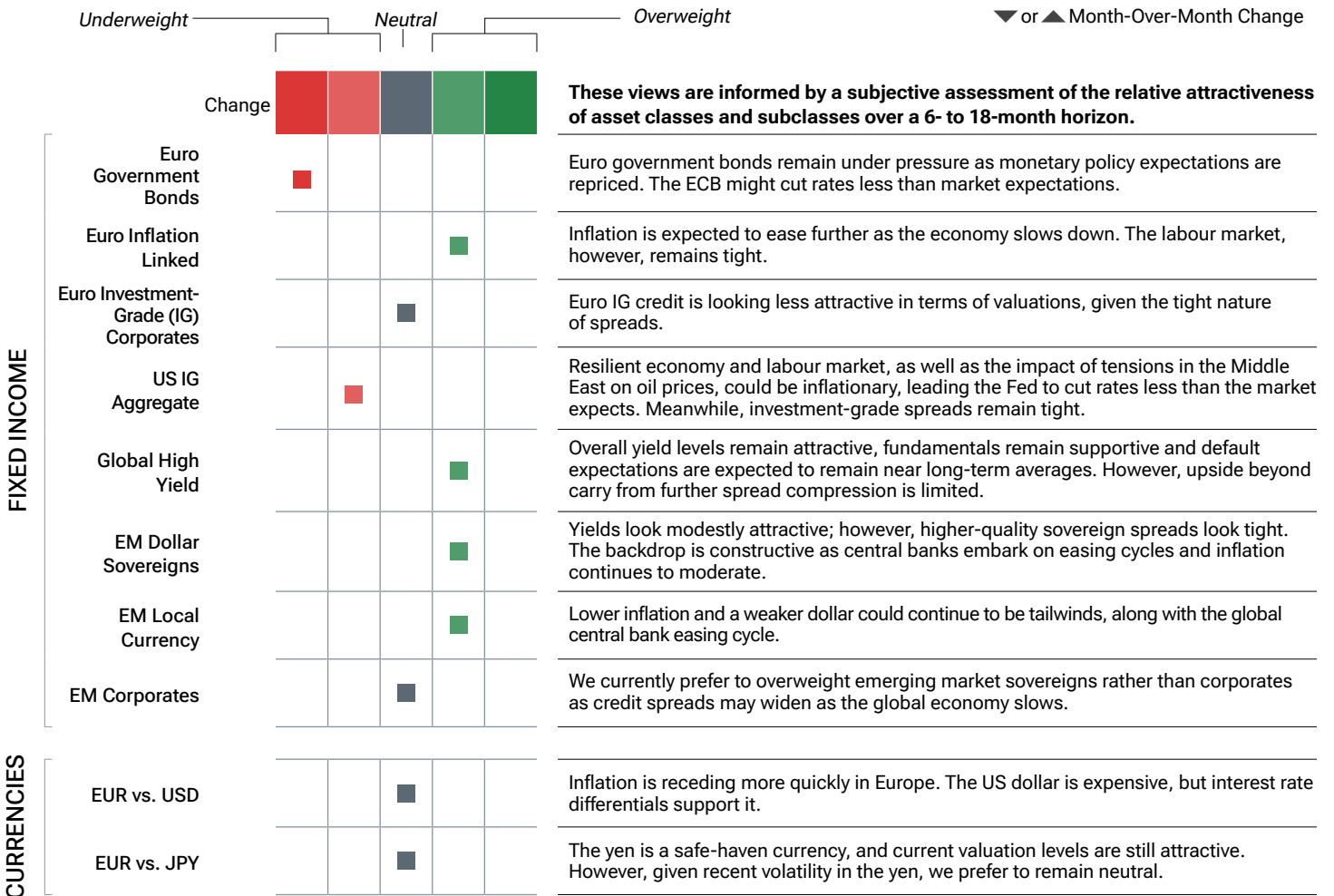


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¹ Includes Australia.

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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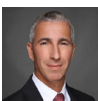
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