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The great policy unwind begins...how will mkts navigate?

Scott Haslem
Chief Investment Officer
Crestone Wealth Management
scott.haslem@crestone.com.au

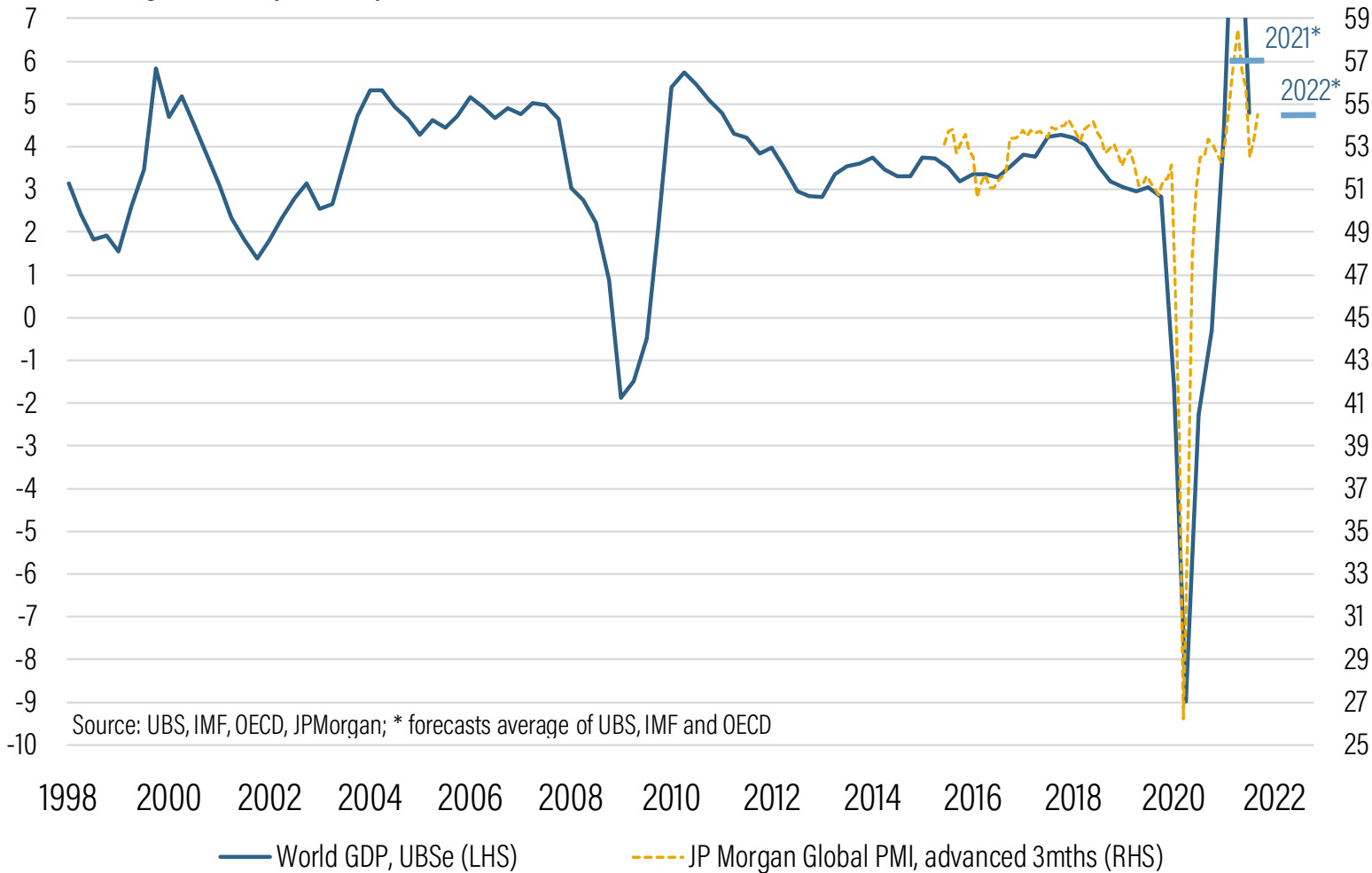
November 2021



GLOBAL MACRO – STRONG (BUT PEAKING) GROWTH...

Recent data continues to flag very strong 2021-2022 growth recovery

World GDP growth (% year-on-year)



WORLD

	2020	2021	2022
UBS	-4.0	6.0	4.7
IMF	-4.4	5.9	4.9
OECD	-4.5	5.6	4.0

AUSTRALIA

	2020	2021	2022
UBS	-3.9	3.8	3.4
CBA	-3.3	3.6	3.3
OECD	-4.1	5.1	3.4

Sources: Markit, FactSet, UBS, Crestone

RECOVERY DRIVERS (1) - RISING VACCINATIONS

The pace of inoculation has picked up rapidly in Australia, Japan and Asia...driving a more synchronised H1 2022 global recovery

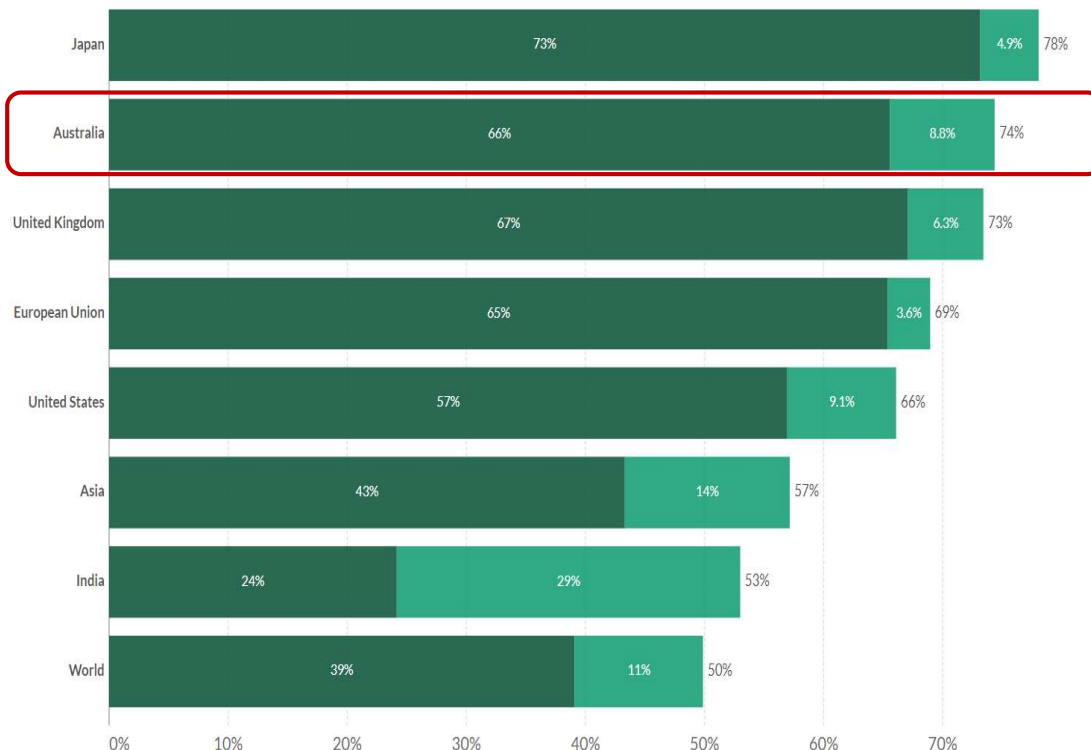
Full vaccination rates trending higher

Share of people vaccinated against COVID-19, Nov 3, 2021

Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

Our World in Data

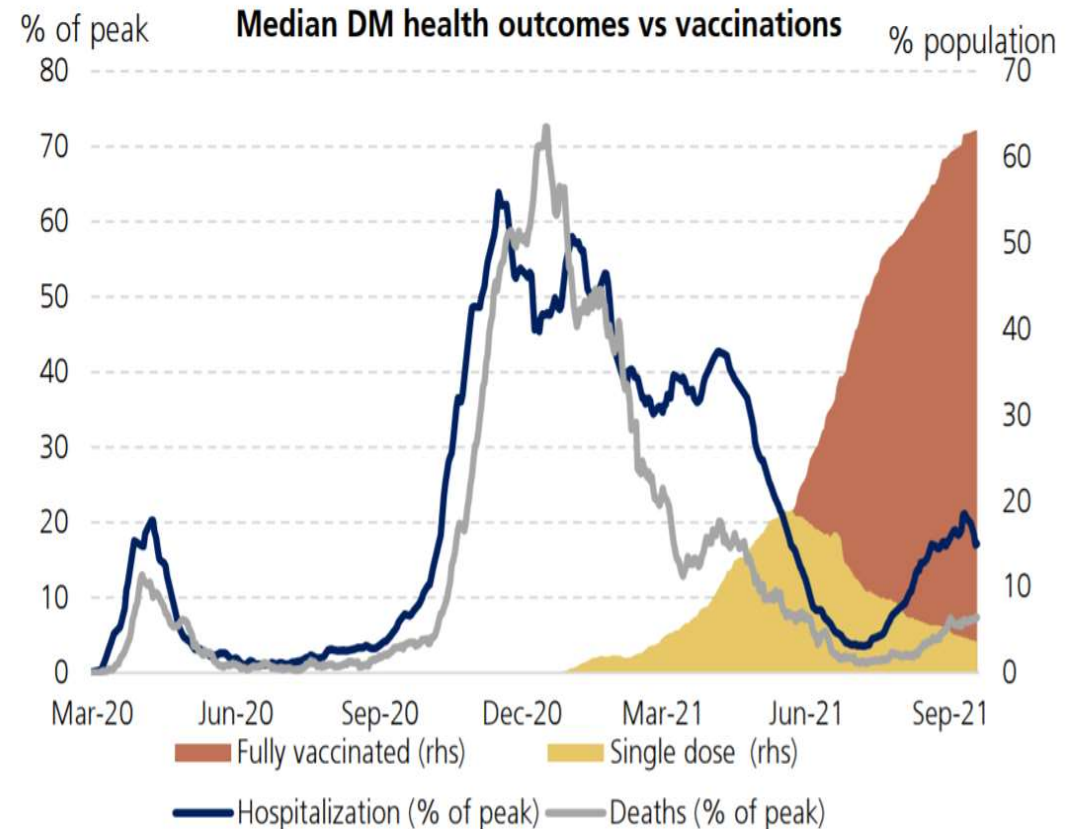
■ Share of people fully vaccinated against COVID-19 ■ Share of people only partly vaccinated against COVID-19



Source: Official data collated by Our World in Data. This data is only available for countries which report the breakdown of doses administered by first and second doses in absolute numbers.

CC BY

Delta resurgence, but not hospitalisations

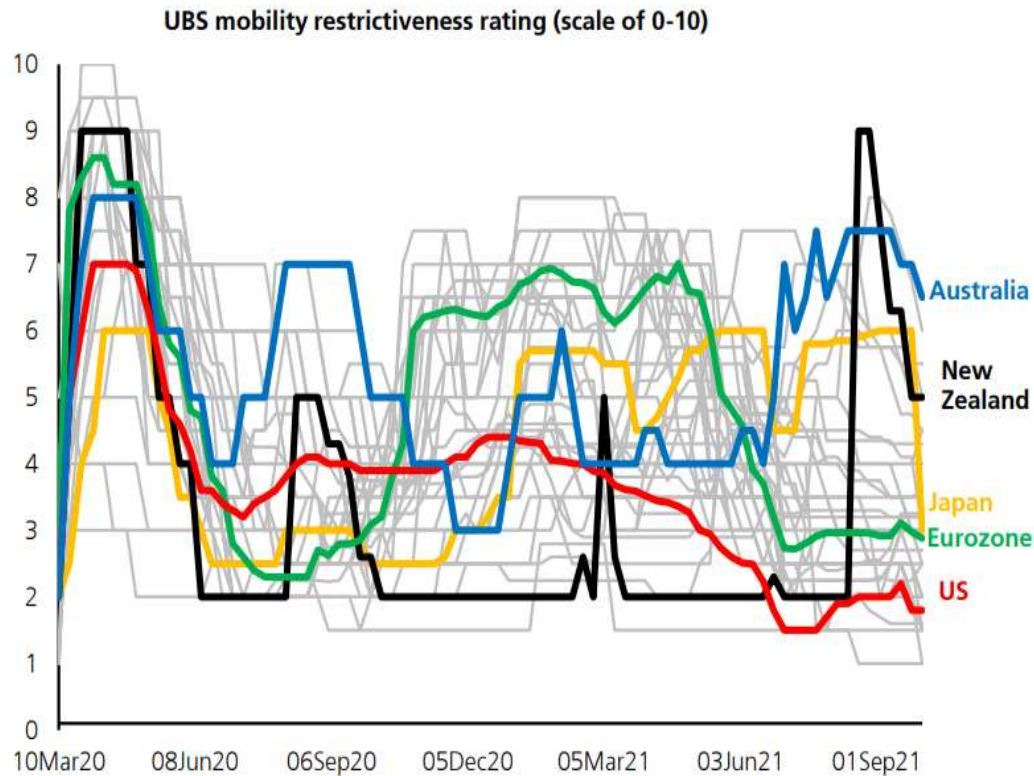


Sources: UBS, Crestone

RECOVERY DRIVERS (2) – EASING LOCKDOWNS

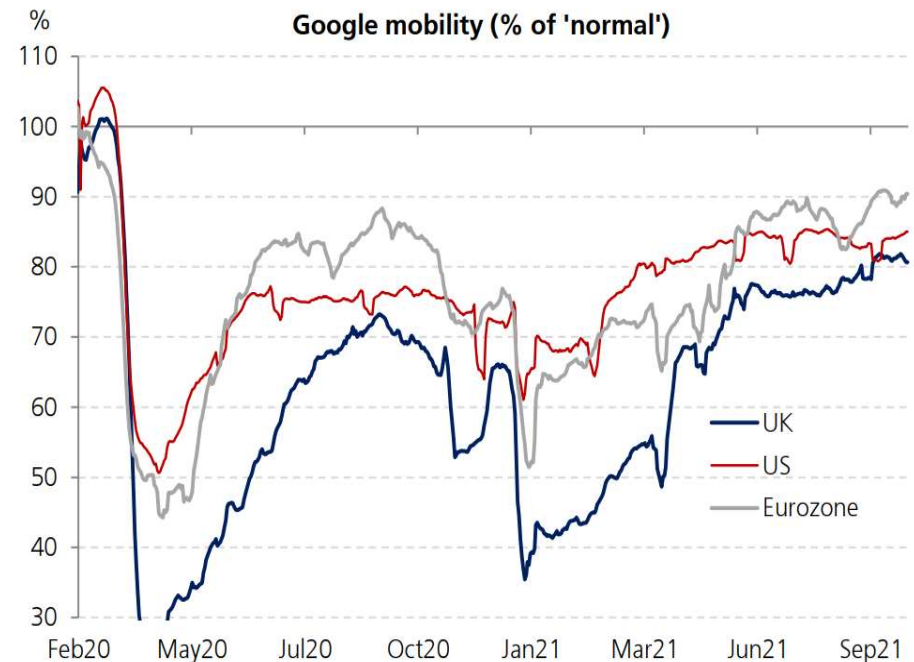
Restrictions being removed significantly in US, EU & UK...and now also in EM/AU. Rising Delta variant driving new cases, not deaths

Mobility restrictions ease as world moves to 'living with COVID-19'



Source : UBS [0 is least restrictive and 10 is most restrictive]

Mobility still 15%-20% below pre-pandemic levels

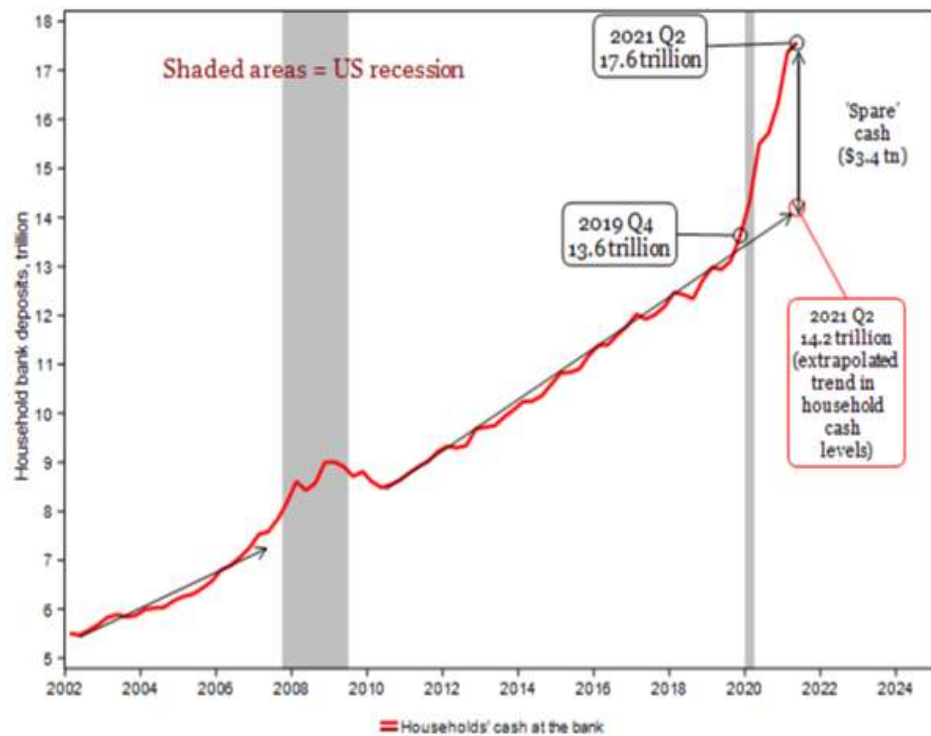


Source : UBS Evidence Lab, Google LLC "Google COVID-19 Community Mobility Reports", UBS ([Access Dataset](#)), [Note that mobility is defined as the average of retail/recreation, workplace and transit stations]

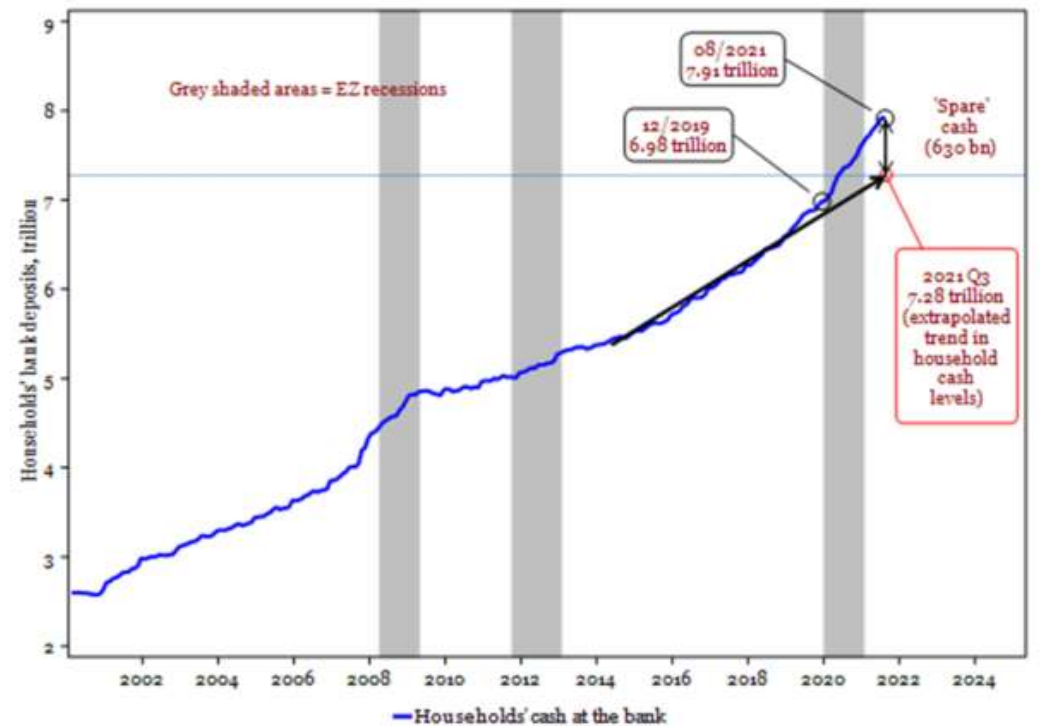
RECOVERY DRIVERS (3) – CASHED-UP CONSUMERS

Consumer savings and wealth in a very strong position to drive global growth

US Consumers have a lot of buying power



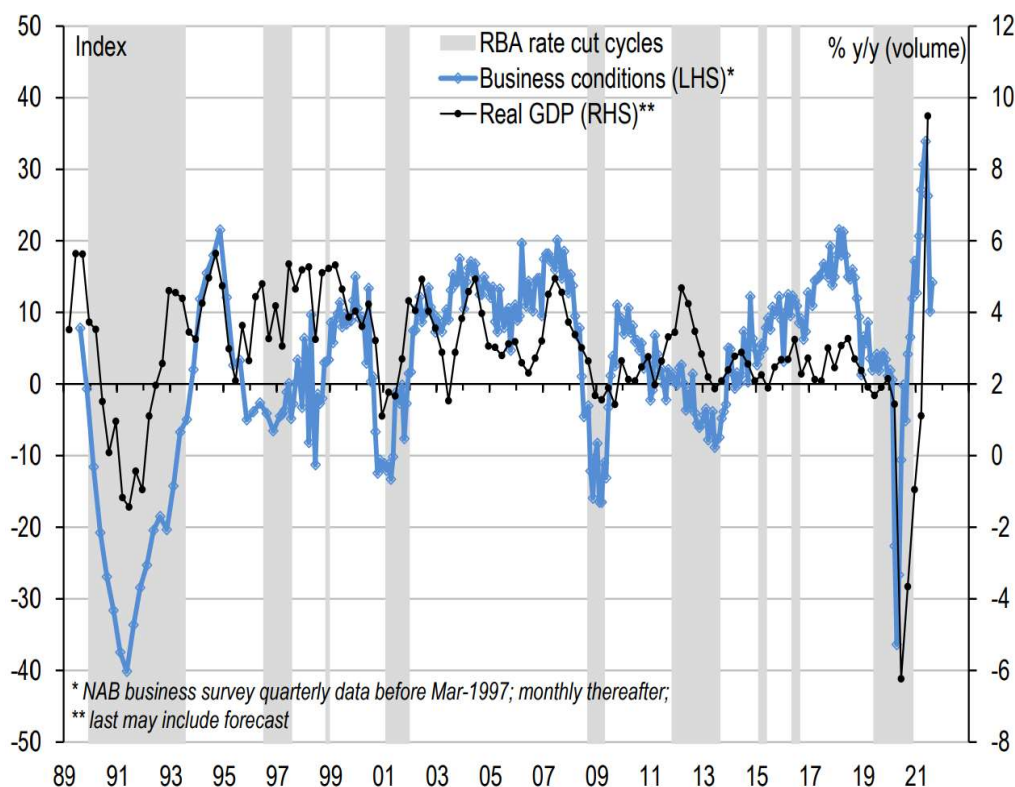
Euro consumer set to fire



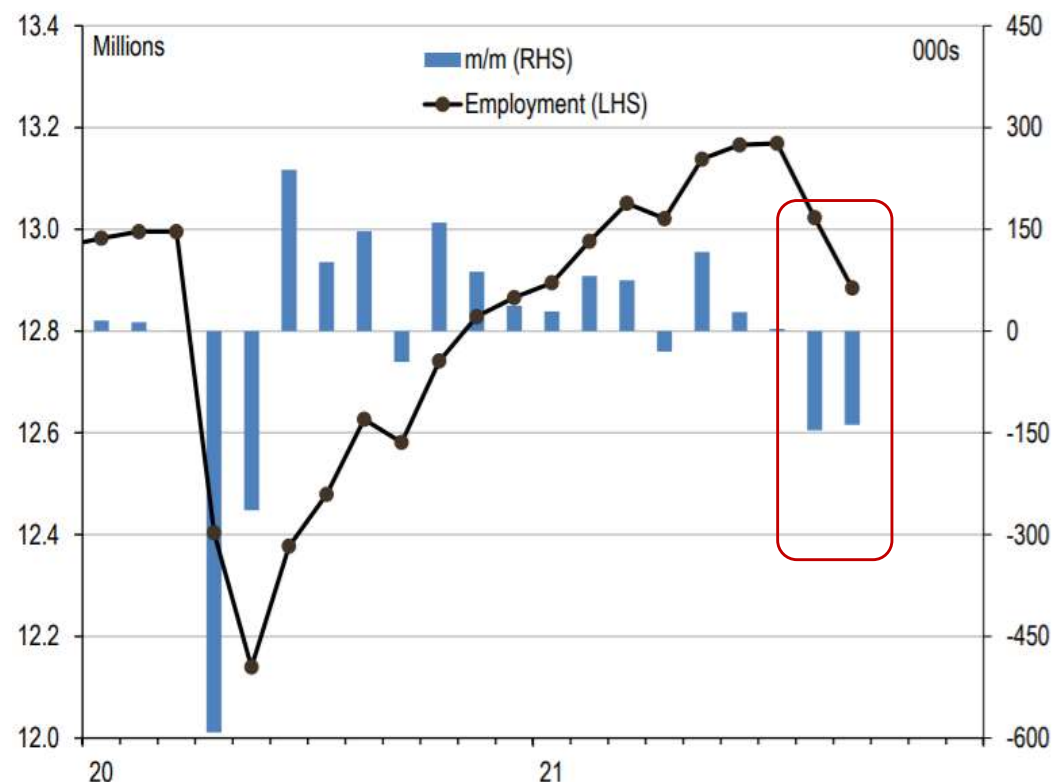
AUSTRALIA'S STRONG RECOVERY TO MID-2021

FY21 sharp rebound...but Delta outbreak drives weak Q3, ahead of strong H1 2022 rebound

**Pre-recent outbreak, momentum was very strong...
but the story now delayed**



**Jobs/hours collapse in August
as lockdowns bite**

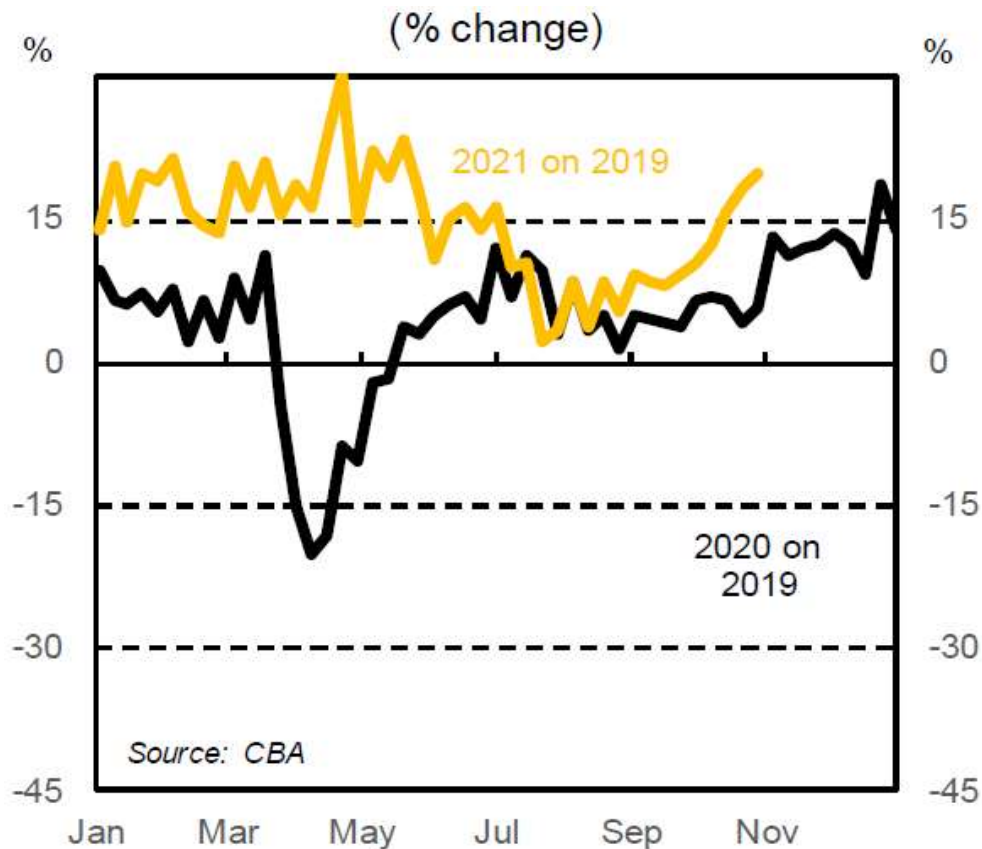


Sources: ABS, UBS, NAB, RBA.

AUSTRALIA OFF COURSE...WEAK Q3, BUT SIGNS OF A Q4 REBOUND

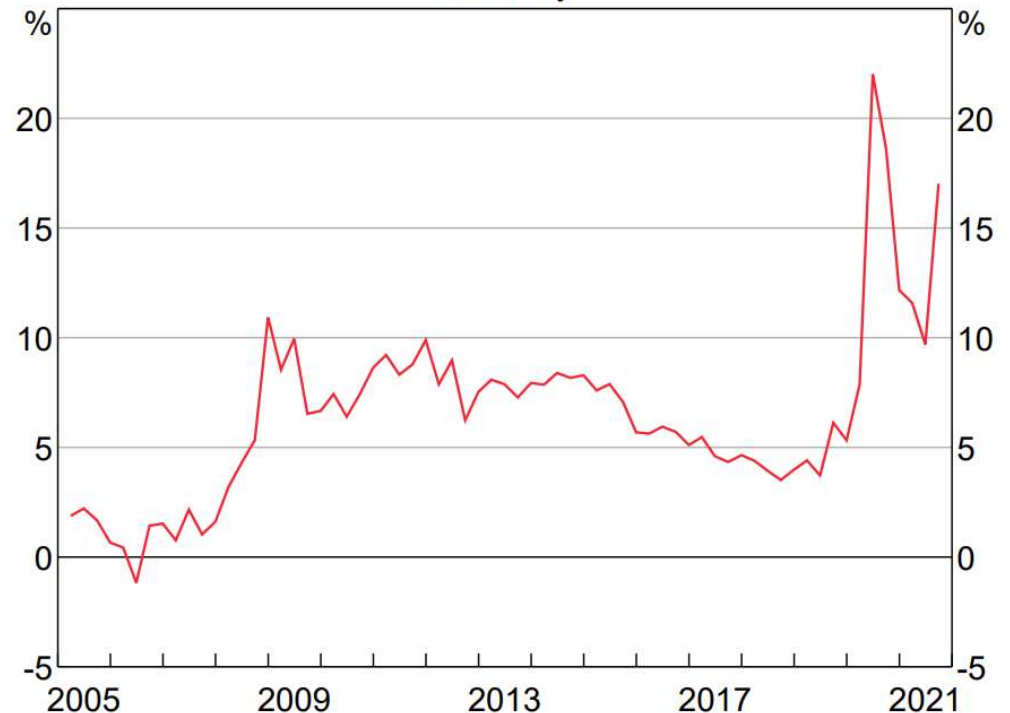
Early indicators point to strong Q4 recovery, extending into H1 2022

Pre-recent outbreak, momentum very strong...
but the story now delayed



Household Saving Ratio*

Quarterly



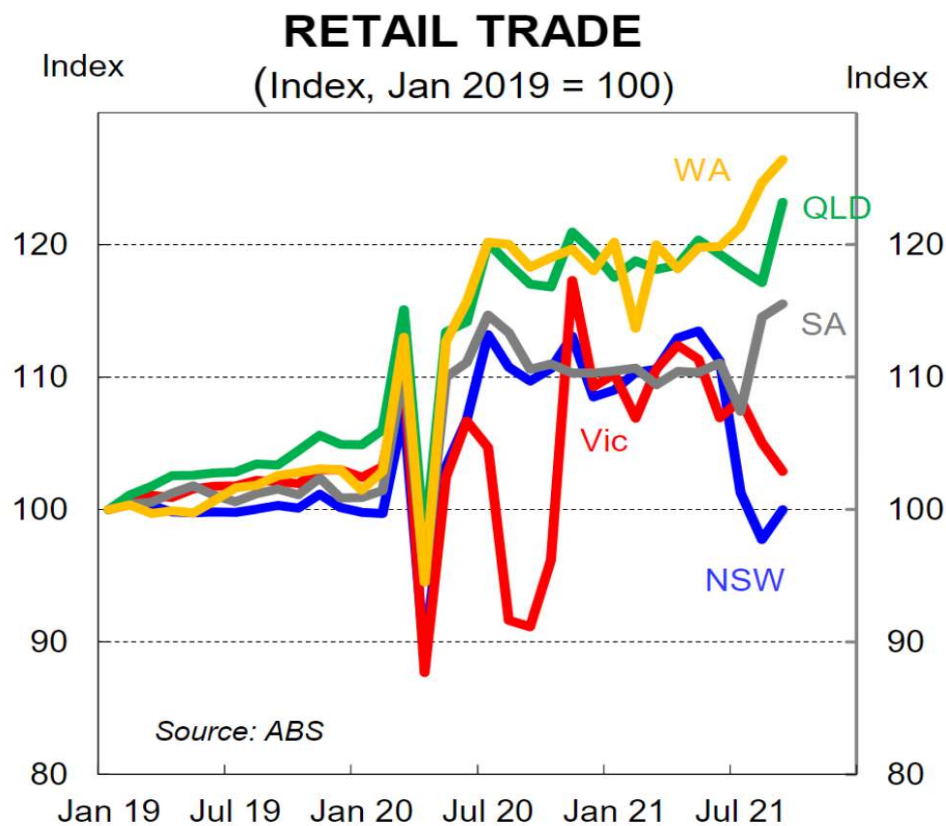
* Estimate for the September quarter 2021; saving as a share of disposable income, net of depreciation

Sources: ABS; RBA

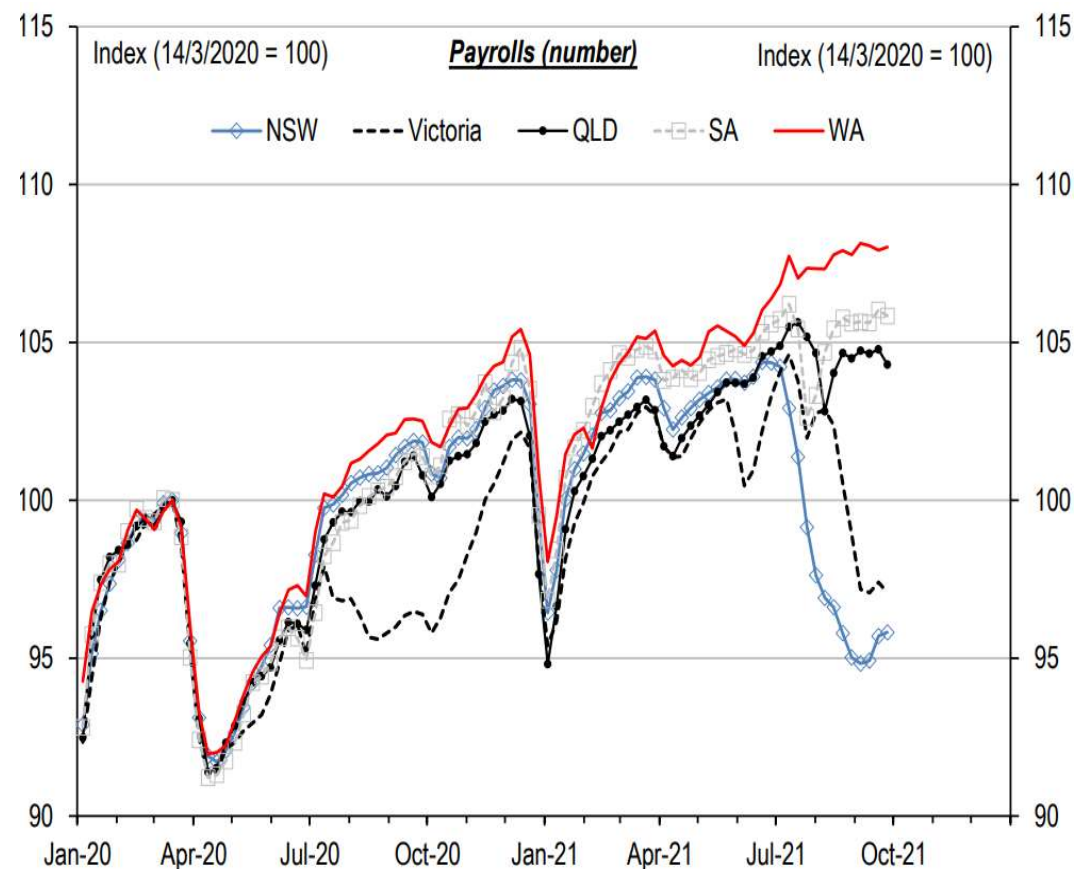
QUEENSLAND...AVOIDING MOST LOCKDOWNS

Relatively strong performance reflecting little time in lockdown...

Non-lockdown States outperforming in activity...
expect a momentum shift in H1 2022



Employment and hours-worked trends
also reflect lockdown divergences



Sources: ABS, UBS, CBA.

RECOVERY RISKS

H2 2021 has a plethora of risks...we believe some will fade during 2022

1. **Inflation** persistent—we think supply pressures will ease into 2022
2. **Central banks** tapering—but interest rates to remain very low
3. **Delta** resurgence—no appetite for lockdowns, moving to 'living with COVID-19'
4. **China** continues to have eyes for Taiwan, with risk of 'event'...
5. **China** property—Evergrande stability risks and also broader growth slowing

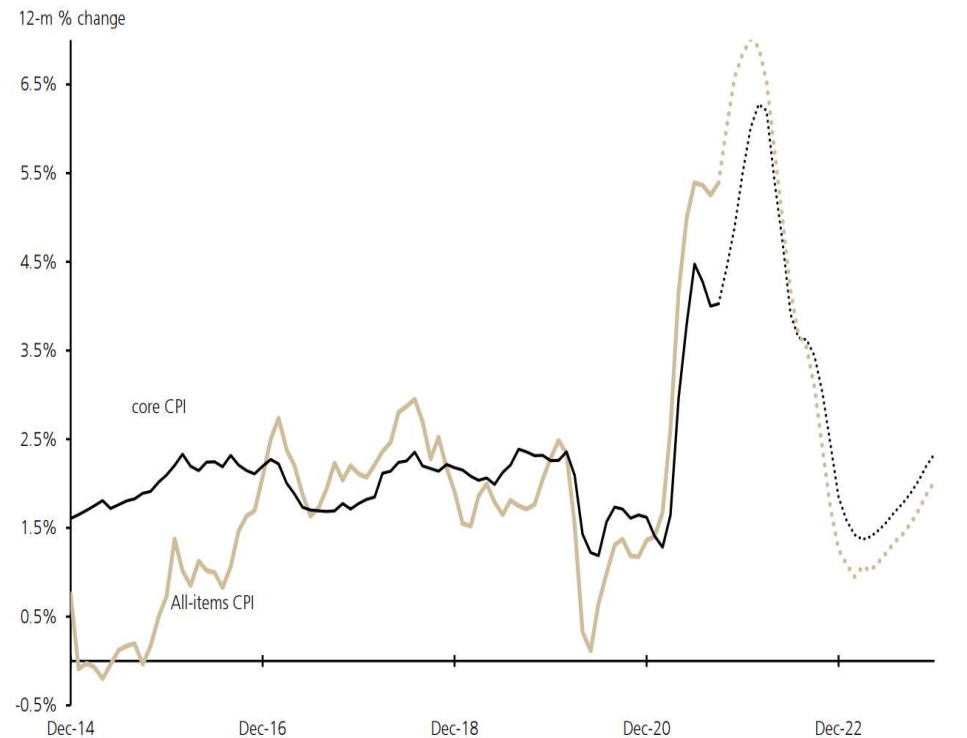


Source: Crestone.

RECOVERY RISKS (1) – STAGFLATION (GLOBAL)

The pickup in inflation has proved less 'transitory' than expected, proving persistent through H2 21 on supply gridlock and energy crisis...but this doesn't make it structural!

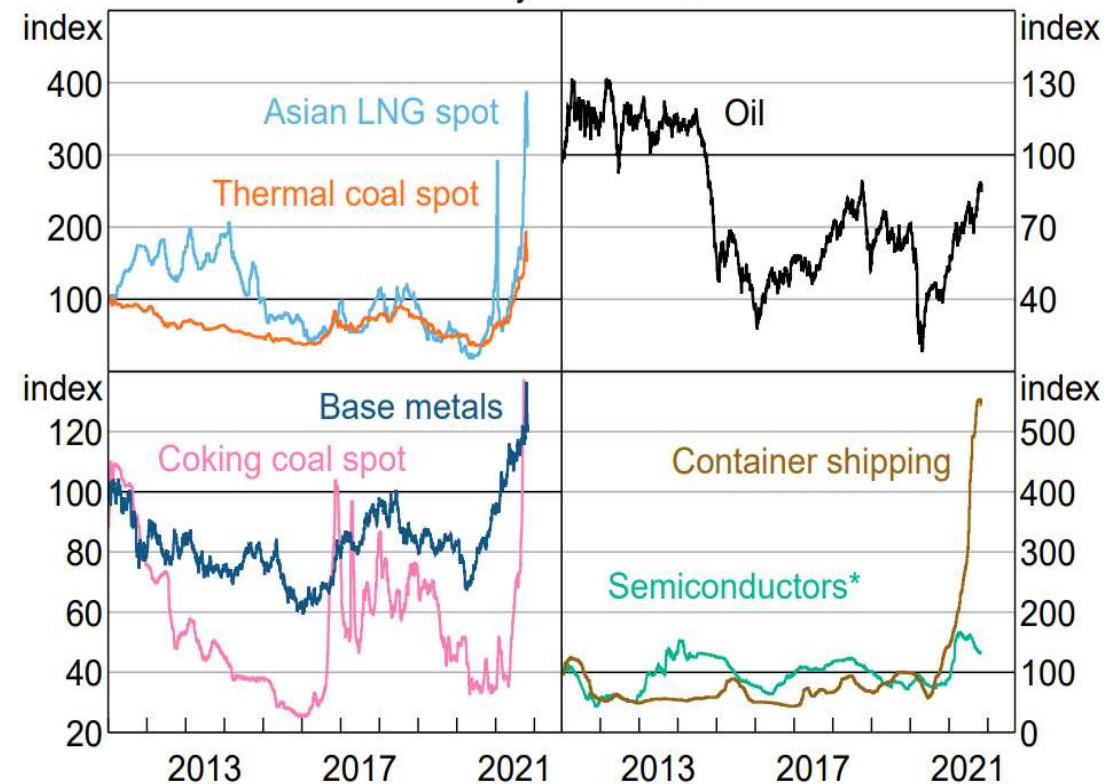
US inflation spikes...July-Sep monthly ebb backs 'transitory' case?



Source : BLS, UBS forecasts

Commodity and Input Prices

January 2011 = 100

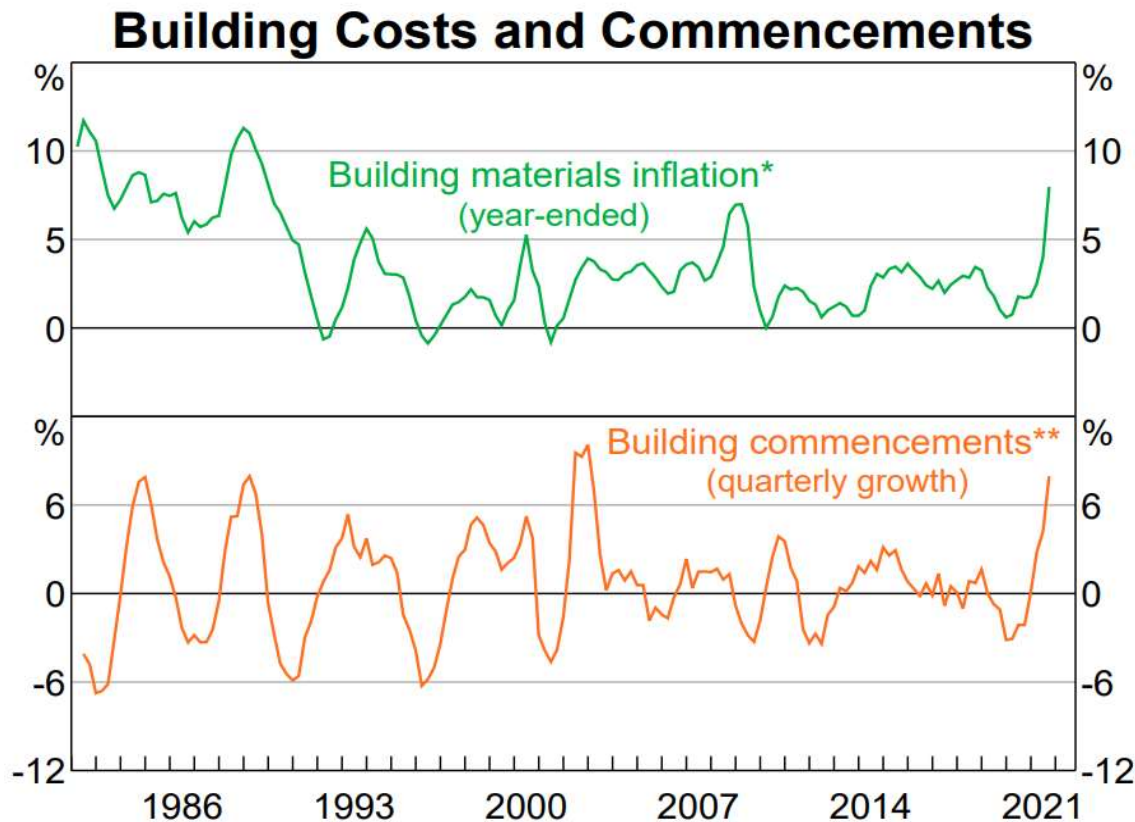


* Dynamic Random Access Memory (DRAM) chips

Sources: Bloomberg; IHS Markit; RBA; Refinitiv

RECOVERY RISKS (1) – STAGFLATION (LOCAL)

Local costs, especially in construction, have risen...will global commodity price falls eventually flow through to Australia?



* Year-ended change in producer prices for inputs to house construction
 ** Volumes; six-quarter average lagged by one quarter; detached only prior to 2017; thereafter attached included with a 20 per cent weight

Sources: ABS; RBA

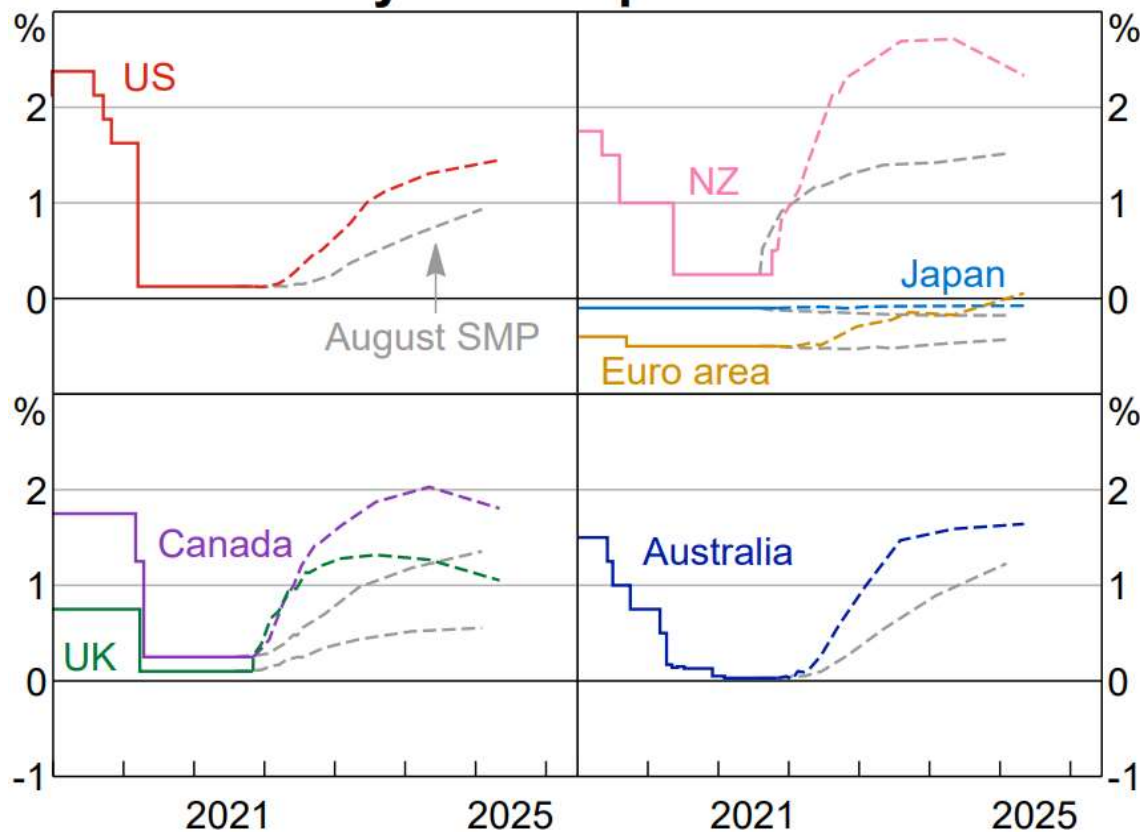
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RECOVERY RISKS (2) – POLICY TIGHTENING

Global tightening expectations have increased about 50bp over the past 3 months...wage growth will be key to the hawks & the doves

Policy Rate Expectations*

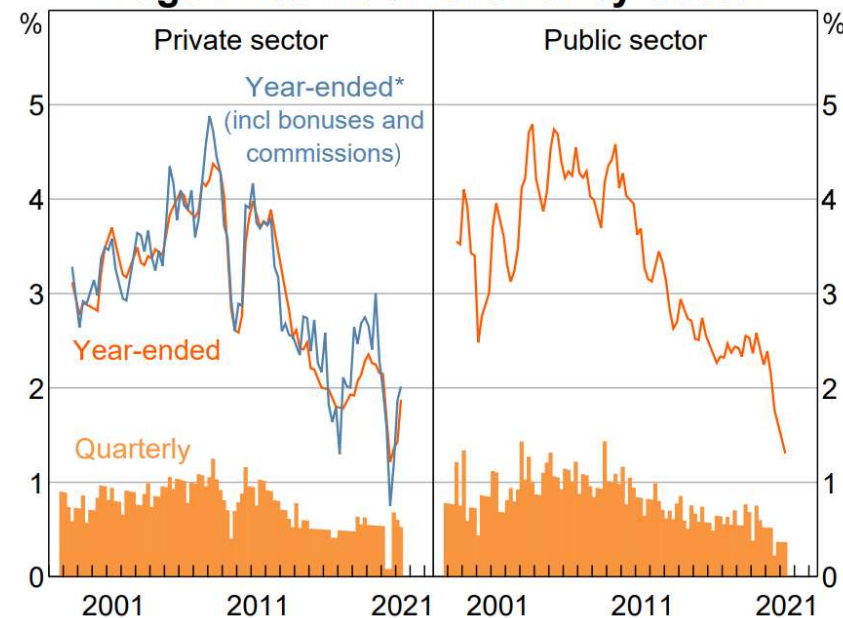


* Dashed lines show expectations implied by overnight indexed swap rates

Sources: Bloomberg; RBA

RBA maintains 2024 tightening tone given wages trends contained

Wage Price Index Growth by Sector



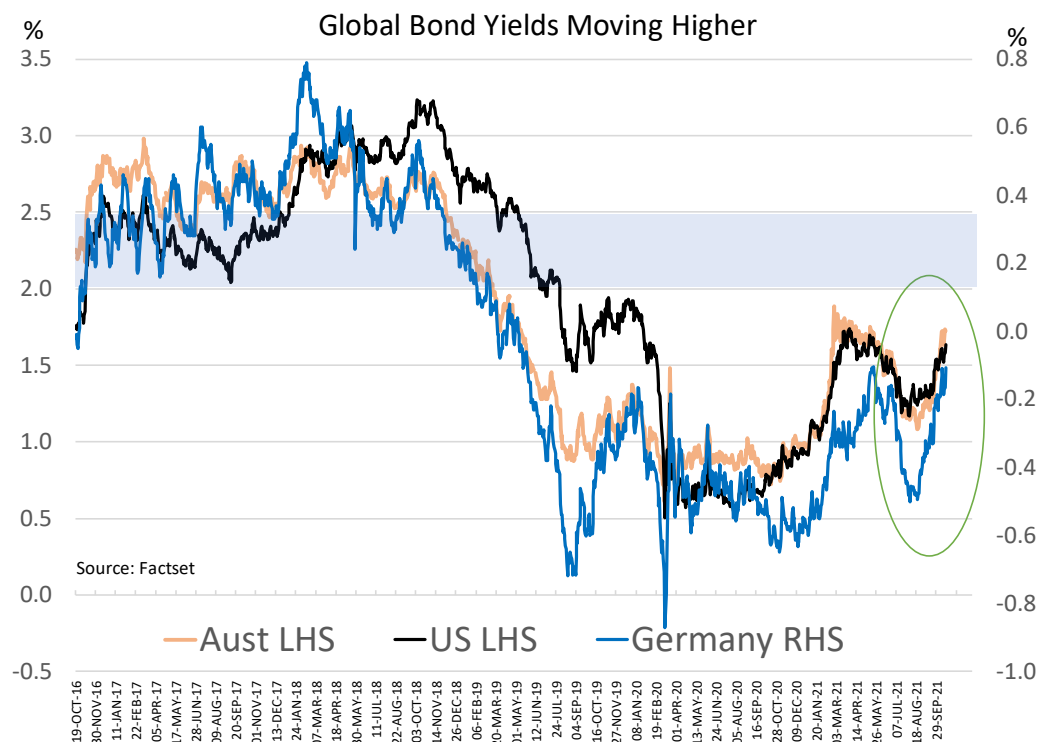
* Non-seasonally adjusted

Source: ABS

RECOVERY RISKS (2) – POLICY TIGHTENING

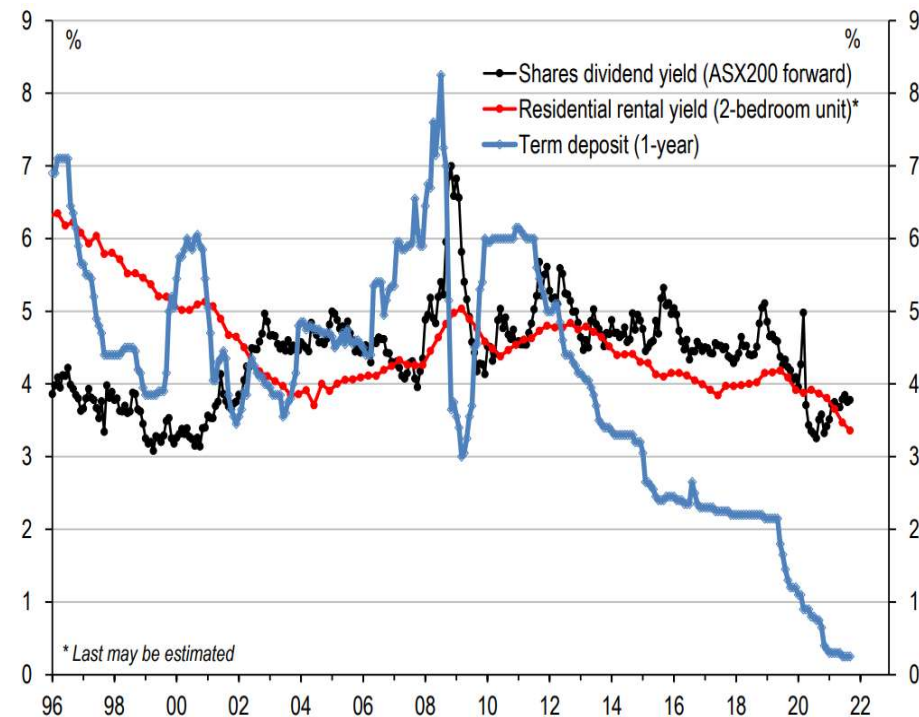
Bond yields have been rising...further increases are ahead, as central banks normalise policy and global growth reaccelerates

Global government bond yields rising again



Sources: FactSet, UBS, Crestone

Resi yields trend lower...but compared to what?

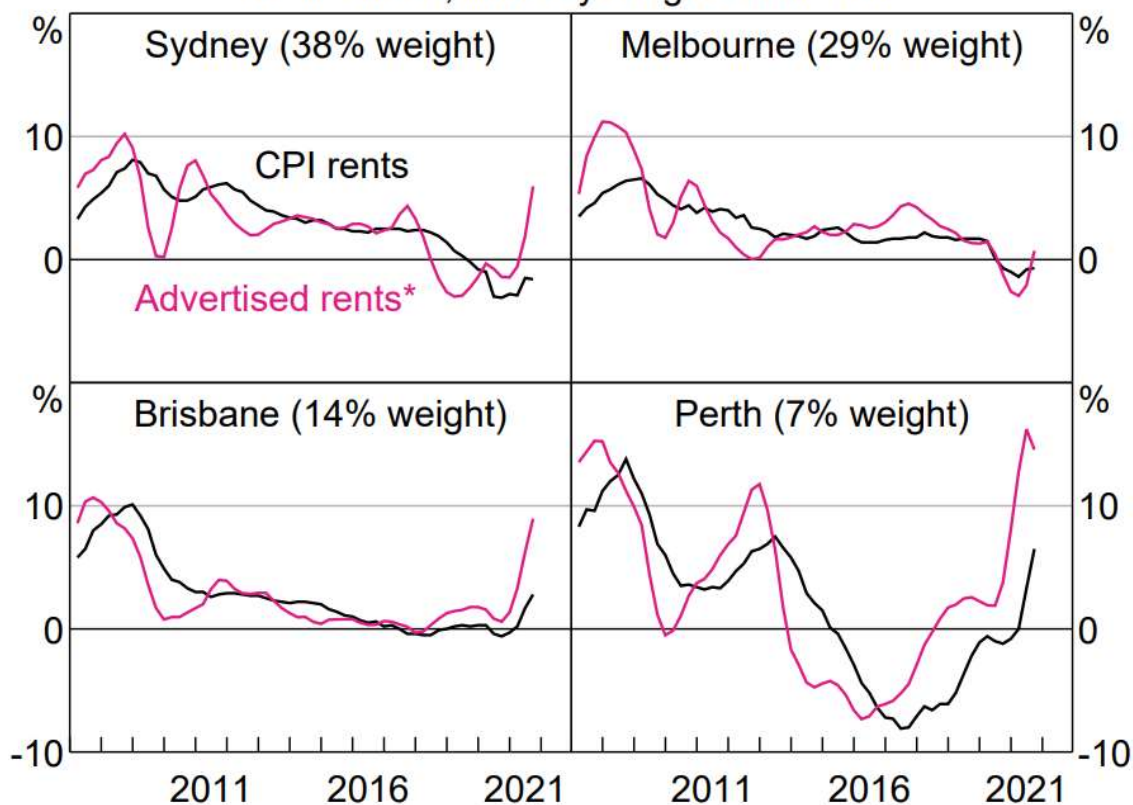


RECOVERY RISKS (2) – HOUSING AND MIGRATION

Pent-up activity will support a very strong 2022 housing sector (as well low rates). Into 2023, much will depend on migration and the extent borders are open (& people come).

Rent Inflation

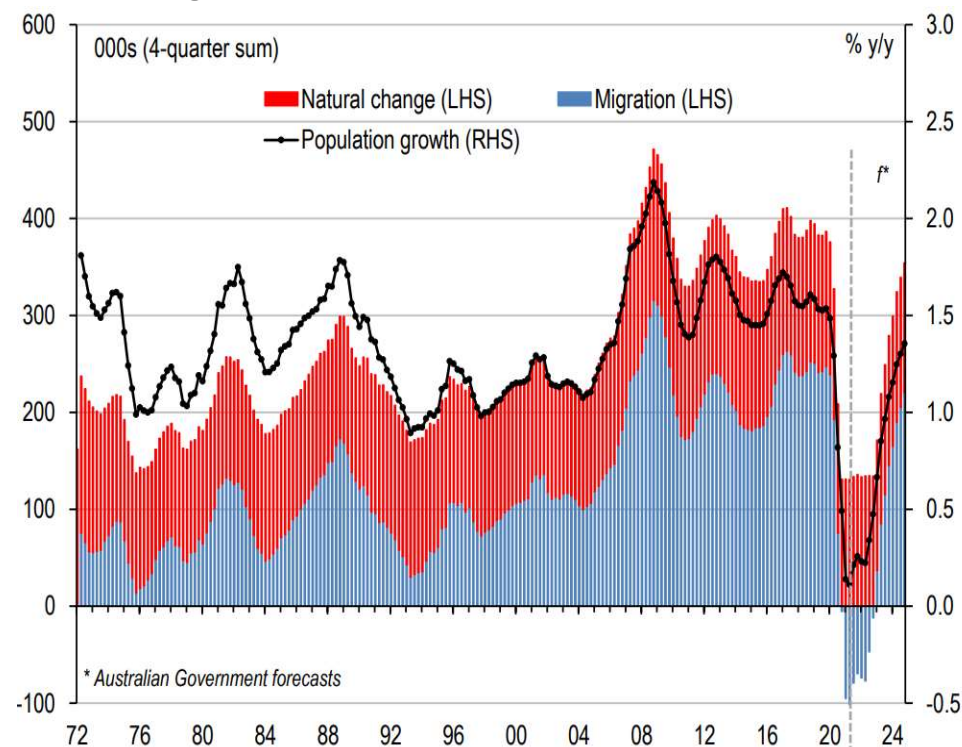
Year-ended, with city weights indicated



* Hedonic three-month average

Sources: ABS; CoreLogic; RBA

Migration – a hole in 2020-22?



Sources: UBS, Crestone

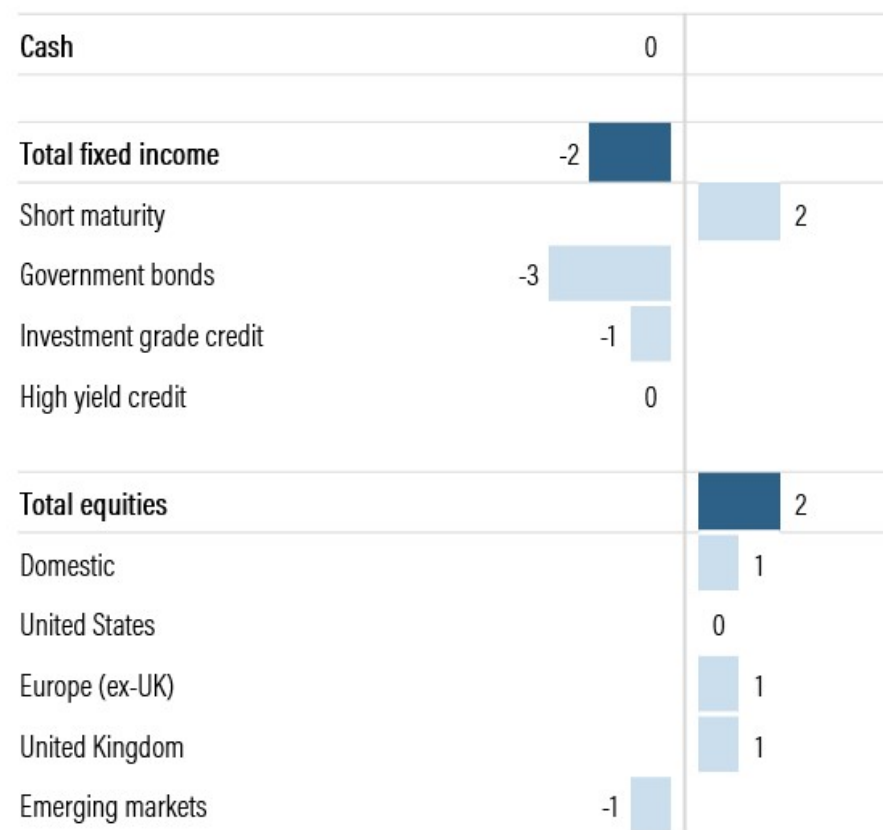
Tactical asset allocation—equities over bonds

We have moved u/w IG bonds, reduced cyclicality in equities

Around the asset classes:

- **Cash** – limit excess cash given near zero yields. In a 2-3% inflation environment, losing real value.
- **Fixed income** – with higher yields, bonds now provide a greater degree of defensive ballast. We've recently trimmed our government bonds underweight and initiated an underweight to investment grade credit, where we believe spreads are vulnerable as yields rise. We remain overweight short maturity and neutral high yield credit.
- **Equities** – We expect equity markets to perform well over our tactical 6-12mth time horizon and remain overweight equities. We favour equity exposures in the domestic market, in the UK and in Europe, while geo-political risks and an uncertain COVID-19 outlook support our emerging market equity underweight. We remain neutral US equities.
- **Alternatives** – ensure a full allocation to unlisted assets. We favour core real assets and private debt, while increasing allocations to multi-strategy hedge funds, venture capital and growth equity.

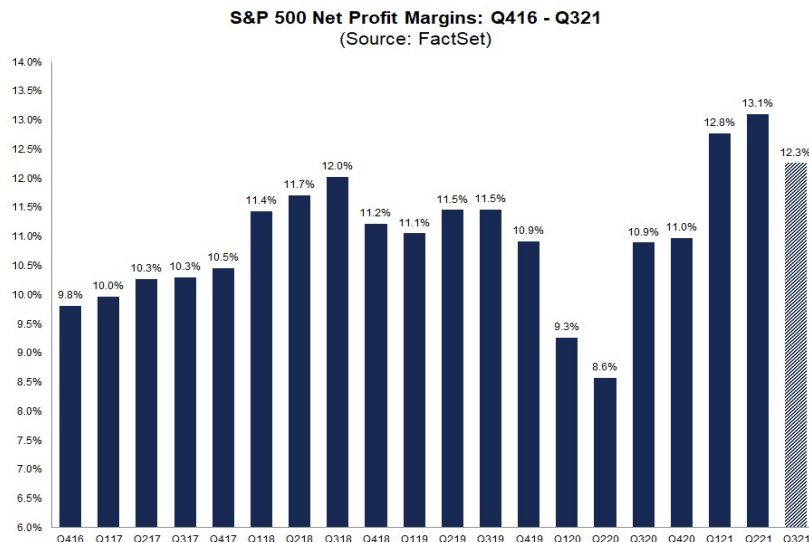
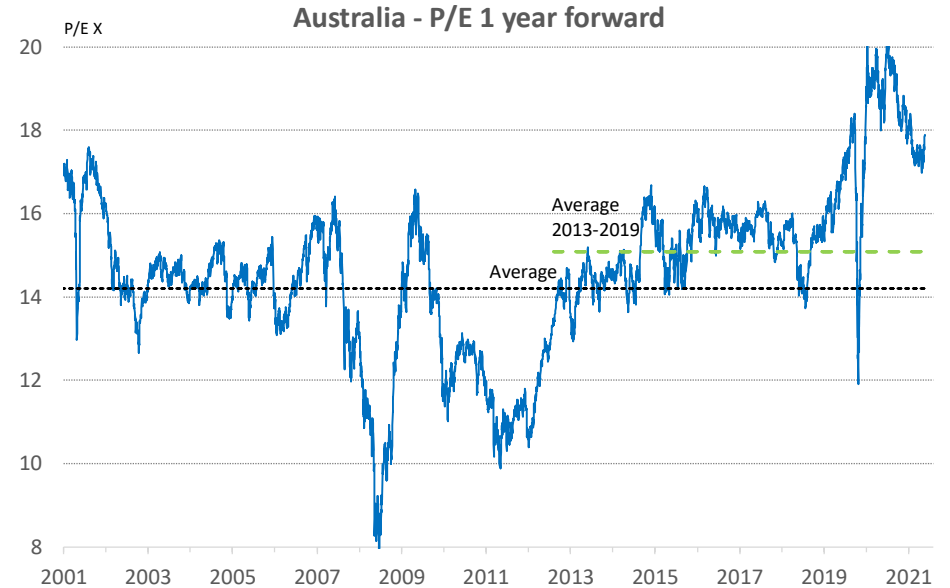
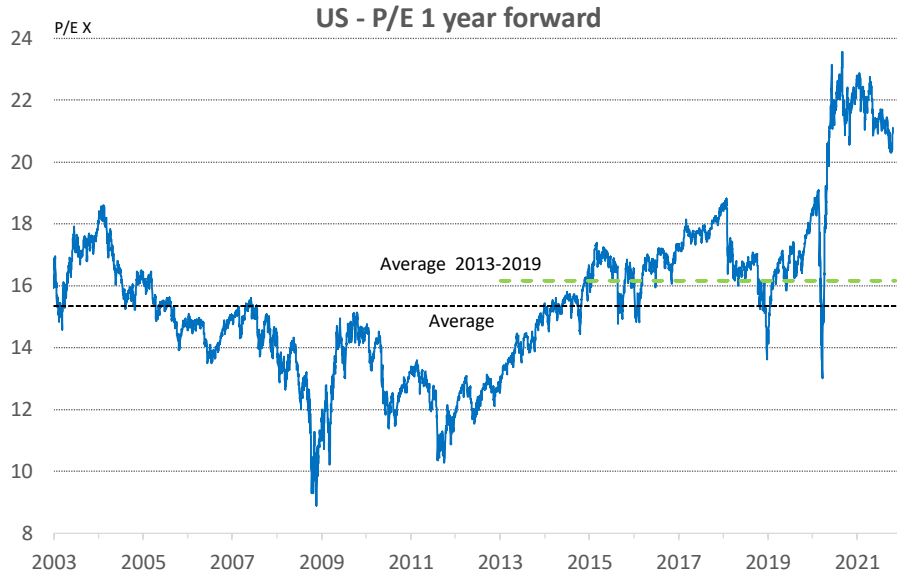
Current Tactical Asset Allocation



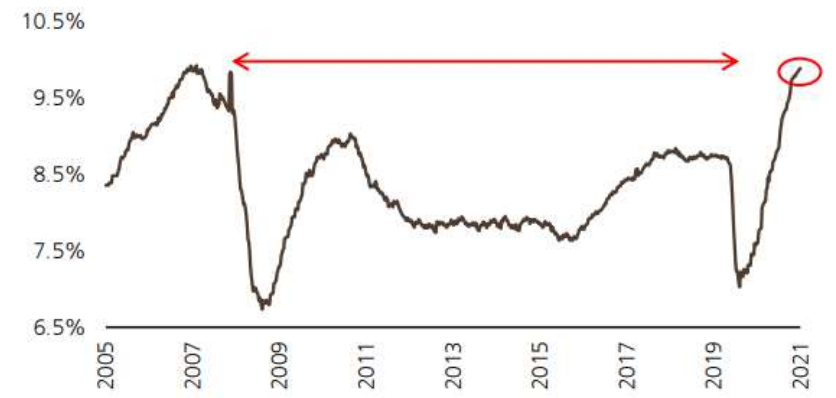
Source: Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocations. Investment grade credit includes Australian listed hybrid securities. Data as at 31 October 2021.

Equities - market valuations

The “bullish de-rating” continues - where E rises more than P!



EU margins – halfway through Q3 and margins appear resilient to rising input costs



Source : MSCI, Thomson Datastream, UBS European Equity Strategy

Asset Allocation – key to successful LT investing

Allocate efficiently between asset classes with unpredictable performance

2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)
Domestic fixed income 15.0	Domestic equities 37.8	International fixed income 9.3	Domestic fixed income 11.4	Domestic equities 20.3	International equities 48.0	International equities 15.0	International equities 11.8	Domestic equities 11.8	International equities 13.4	International hedge funds 5.9	International equities 28.0	International equities 5.7
International fixed income 9.2	International fixed income 8.0	Domestic fixed income 6.0	International fixed income 10.5	International equities 14.1	International hedge funds 26.9	International hedge funds 12.6	International hedge funds 10.8	International equities 7.9	Domestic equities 11.8	Domestic fixed income 4.5	Domestic equities 23.4	International fixed income 5.1
Domestic cash 6.6	Domestic cash 3.3	Domestic cash 4.4	Domestic cash 4.7	International fixed income 9.7	Domestic equities 20.2	International fixed income 10.4	International fixed income 3.4	International hedge funds 6.5	International fixed income 3.7	International fixed income 1.7	International hedge funds 10.7	Domestic fixed income 4.5
International hedge funds 0.8	Domestic fixed income 1.7	Domestic equities 1.0	International equities -5.3	Domestic fixed income 7.7	Domestic cash 2.7	Domestic fixed income 9.8	Domestic fixed income 2.6	International fixed income 5.0	Domestic fixed income 3.7	Domestic cash 1.5	Domestic fixed income 7.3	Domestic equities 1.4
International equities -24.9	International equities -0.3	International equities -2.0	International hedge funds -5.5	International hedge funds 5.1	International fixed income 2.3	Domestic equities 5.6	Domestic equities 2.6	Domestic fixed income 2.9	Domestic cash 1.5	International equities 1.5	International fixed income 7.2	Domestic cash 0.3
Domestic equities -38.4	International hedge funds -5.8	International hedge funds -3.3	Domestic equities -10.5	Domestic cash 3.7	Domestic fixed income 2.0	Domestic cash 2.5	Domestic cash 2.1	Domestic cash 1.7	International hedge funds 0.3	Domestic equities -2.8	Domestic cash 1.2	International hedge funds -2.4

Source: Morningstar, Bloomberg, Crestone. Calendar year returns relate to total returns in Australian dollars for the S&P/ASX 200 Accumulation Index, Bloomberg Aus Bond Composite 0+Y TR Index, Barclays Global Aggregate TR AUD Hedged Index, and MSCI World ex-Australia NR Index AUD and the HFRI Fund Weighted Composite index AUD. Data as at February 2021.

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crestone.

Adelaide

Level 30, Westpac House
91 King William Street
Adelaide SA 6000

Brisbane

Level 11, Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Melbourne

Level 18
120 Collins
Melbourne VIC 3000

Sydney

Level 32, Chifley Tower
2 Chifley Square
Sydney NSW 2000

E info@crestone.com.au

W crestone.com.au