

crestone.

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

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

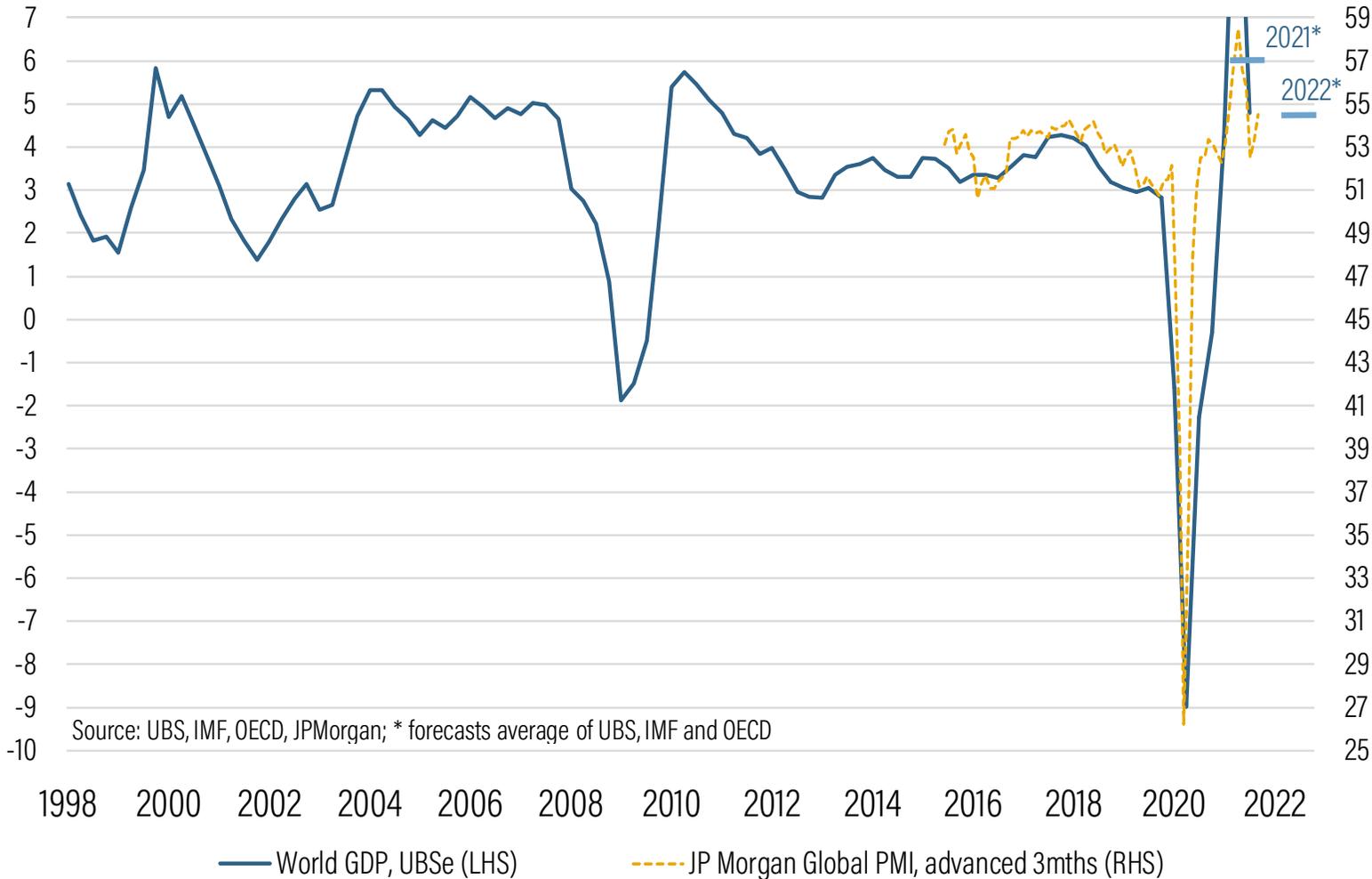
November 2021



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

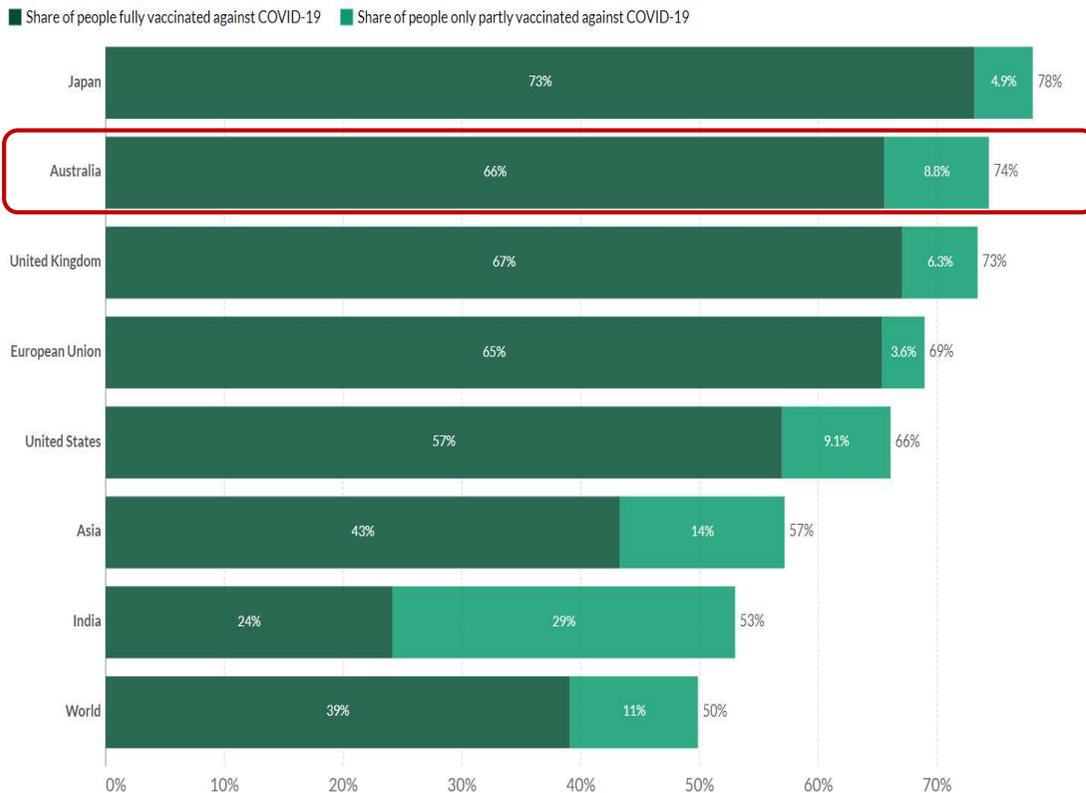
RECOVERY DRIVERS (1) - RISING VACCINATIONS

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

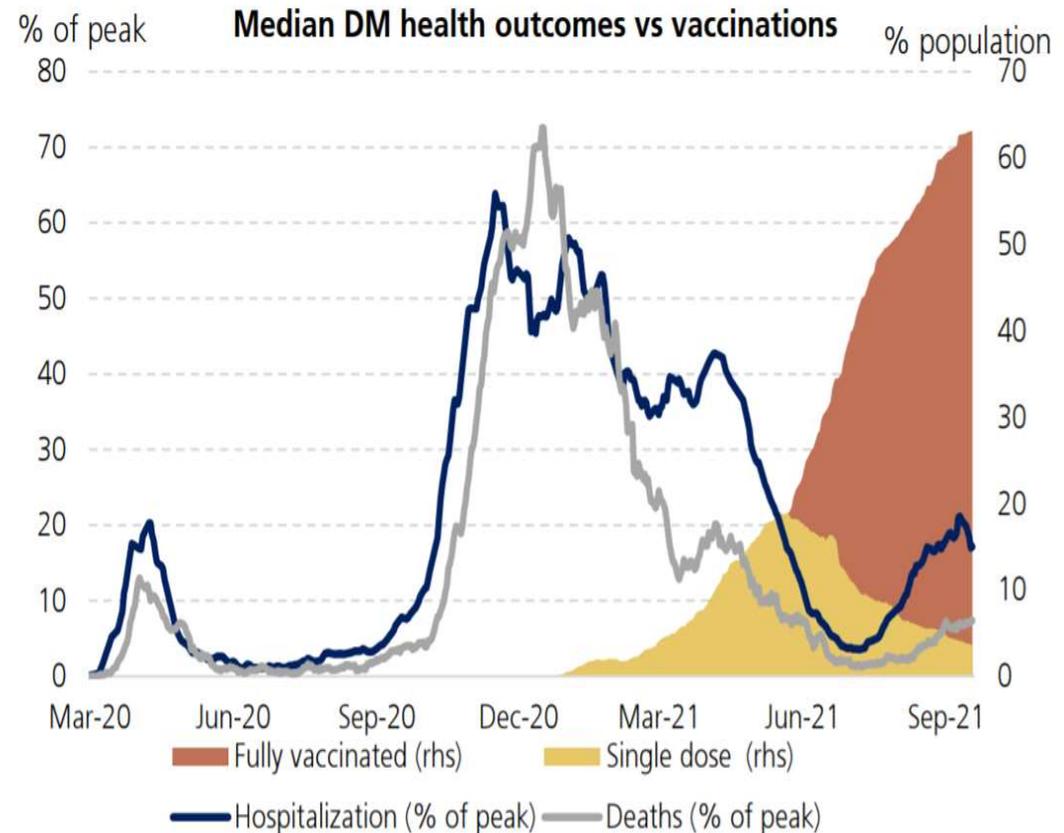
Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.



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

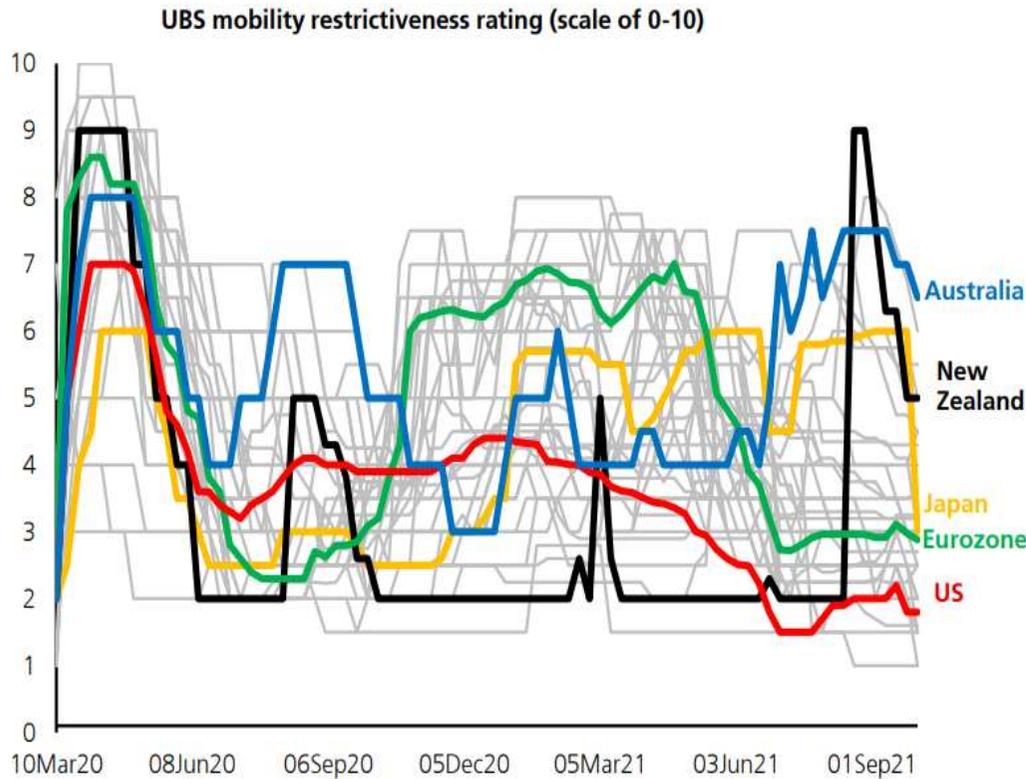


Sources: UBS, Crestone

RECOVERY DRIVERS (2) - EASING LOCKDOWNS

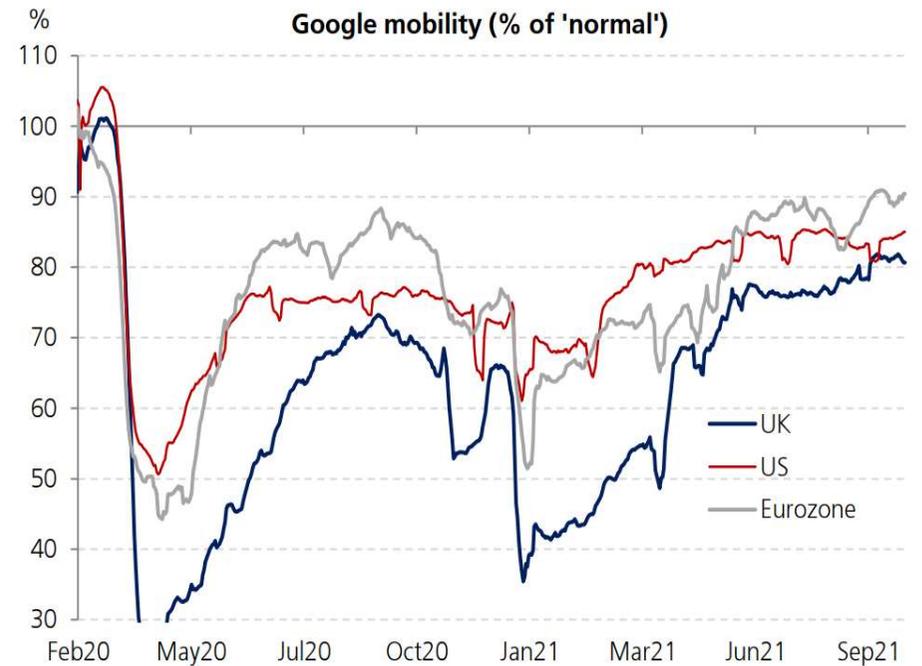
Restrictions being removed significantly in US, EU & UK...and now also in EM/AU. Rising Delta variant driving new cases, not deaths

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

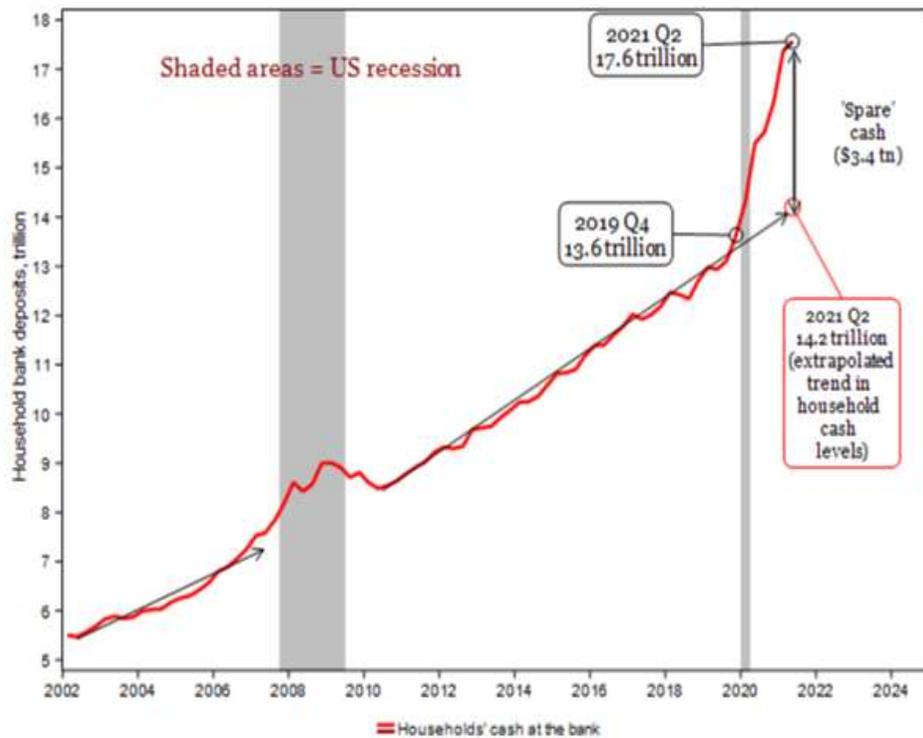


Source : UBS Evidence Lab, Google LLC "Google COVID-19 Community Mobility Reports", UBS ([Access Dataset](#)), [Note that mobility is defined as the average of retail/recreation, workplace and transit stations]

RECOVERY DRIVERS (3) - CASHED-UP CONSUMERS

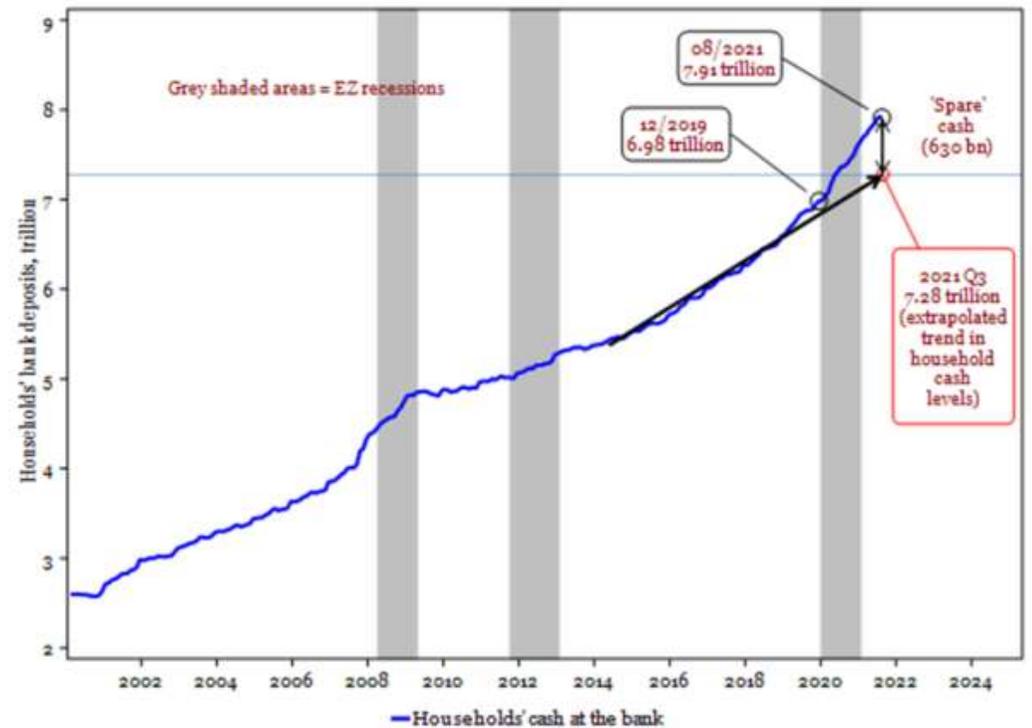
Consumer savings and wealth in a very strong position to drive global growth

US Consumers have a lot of buying power



Source: Longview Economics, Macrobond

Euro consumer set to fire

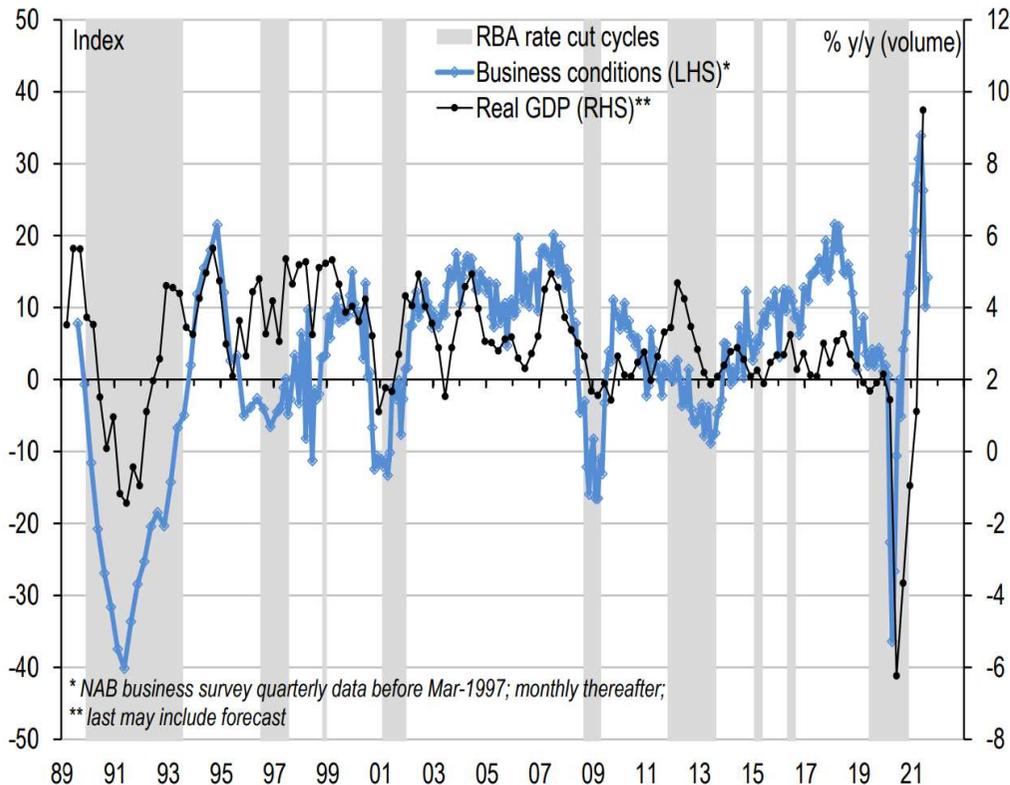


Source: Longview Economics, Macrobond

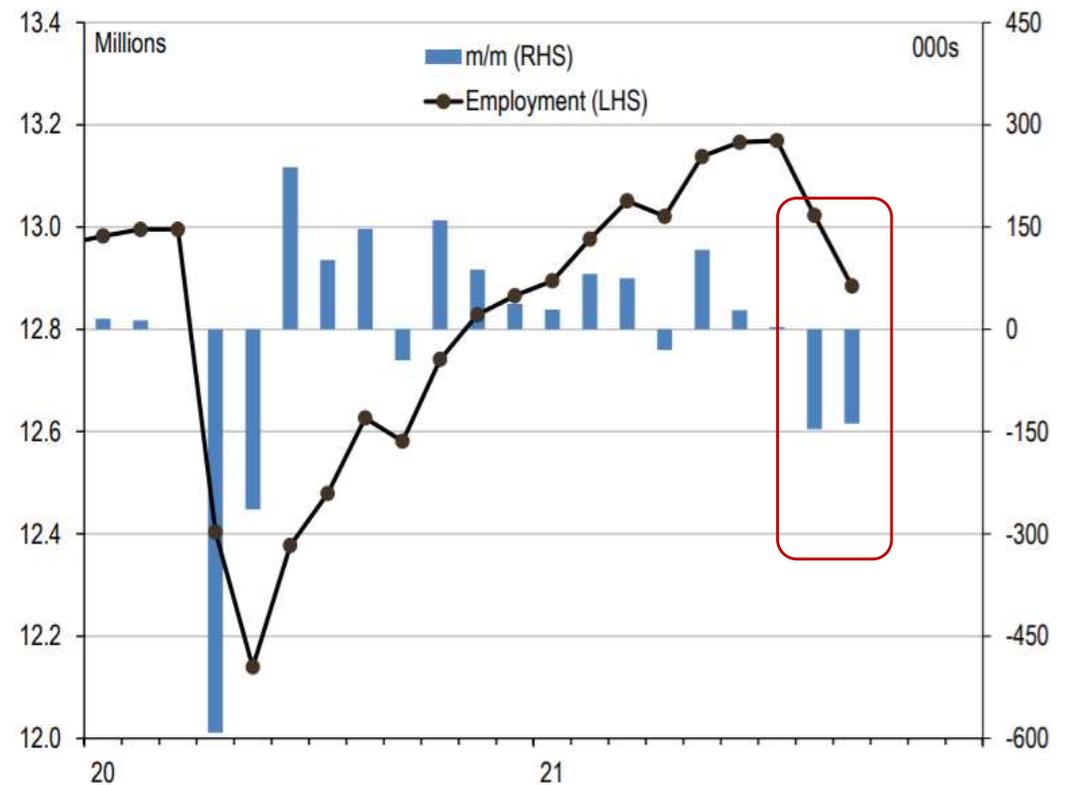
AUSTRALIA'S STRONG RECOVERY TO MID-2021

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**

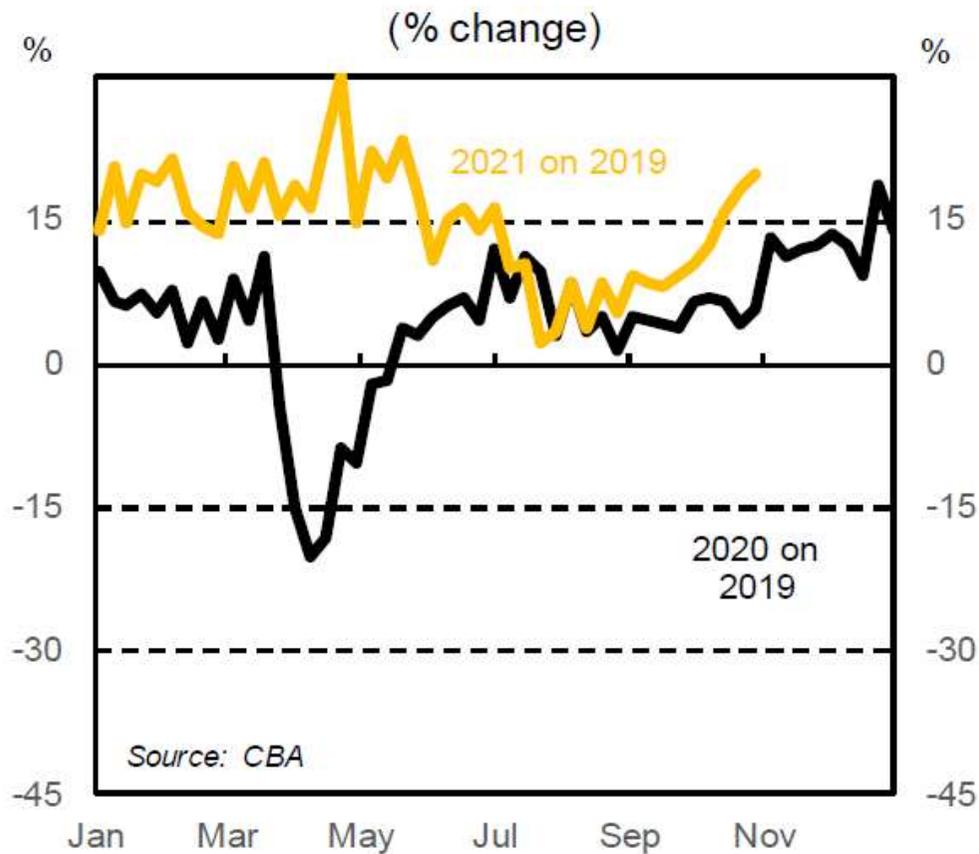


Sources: ABS, UBS, NAB, RBA.

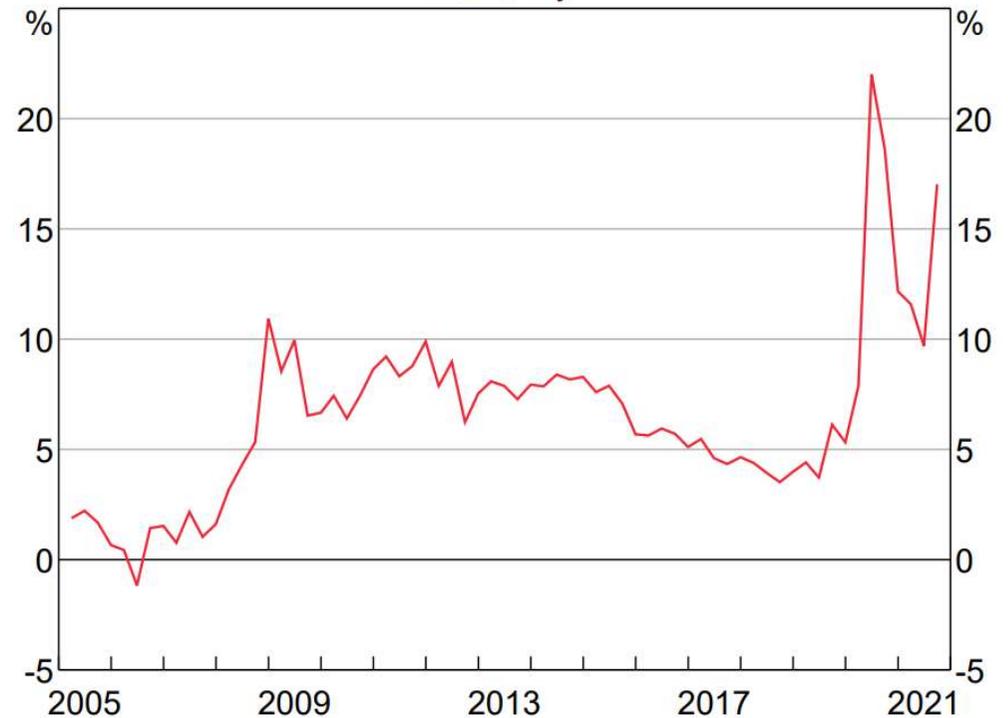
AUSTRALIA OFF COURSE...WEAK Q3, BUT SIGNS OF A Q4 REBOUND

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



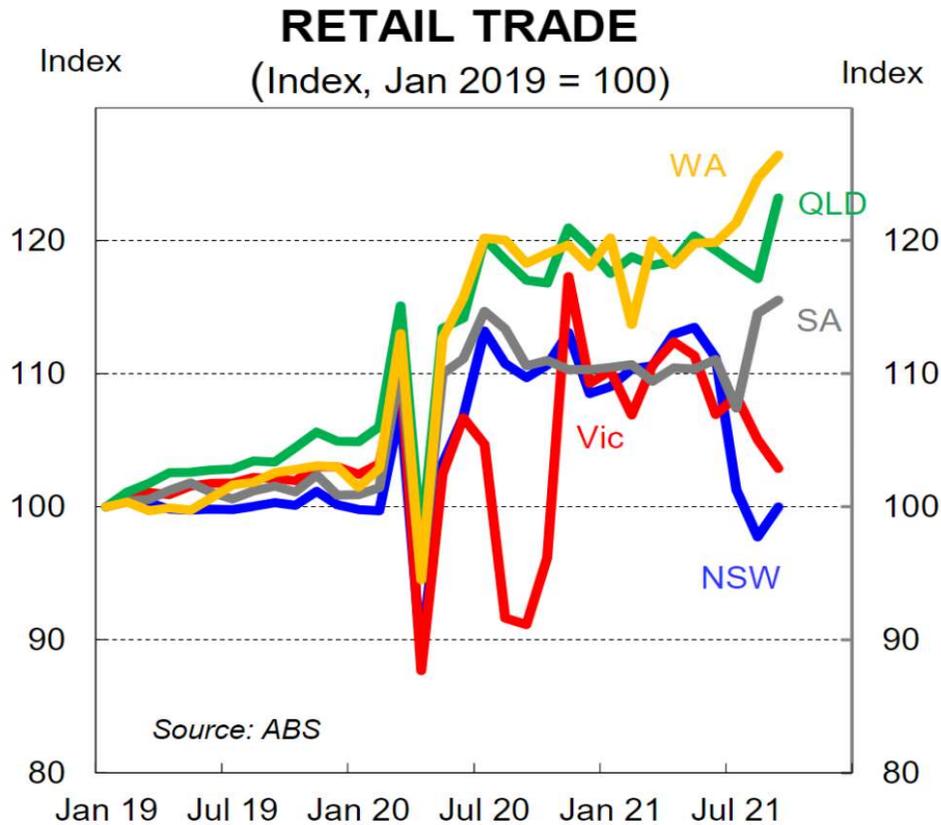
* Estimate for the September quarter 2021; saving as a share of disposable income, net of depreciation

Sources: ABS; RBA

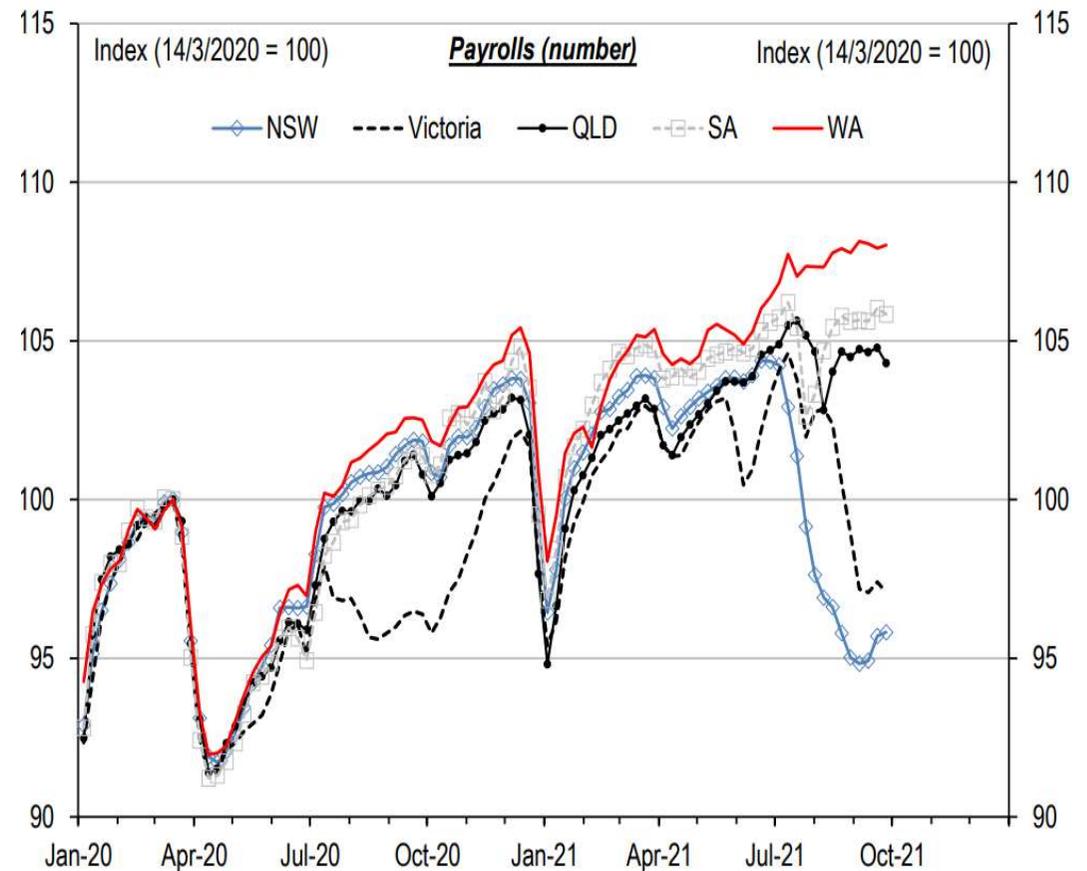
QUEENSLAND...AVOIDING MOST LOCKDOWNS

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

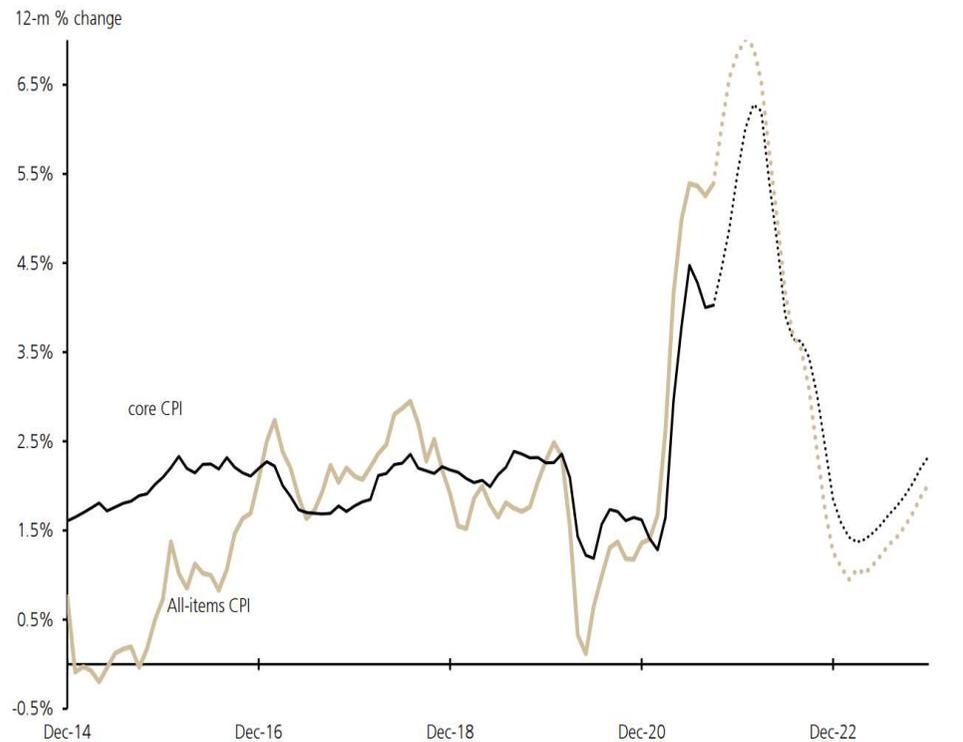


Source: Crestone.

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!

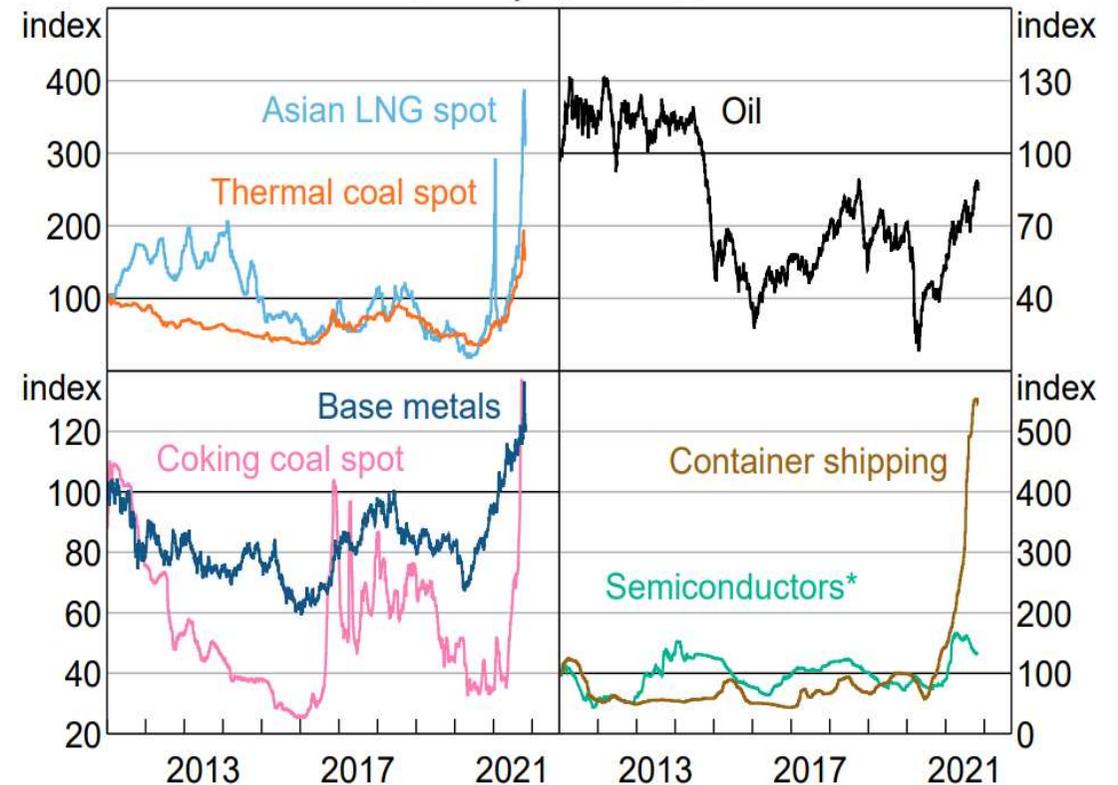
US inflation spikes...July-Sep monthly ebb backs ‘transitory’ case?



Source : BLS, UBS forecasts

Commodity and Input Prices

January 2011 = 100



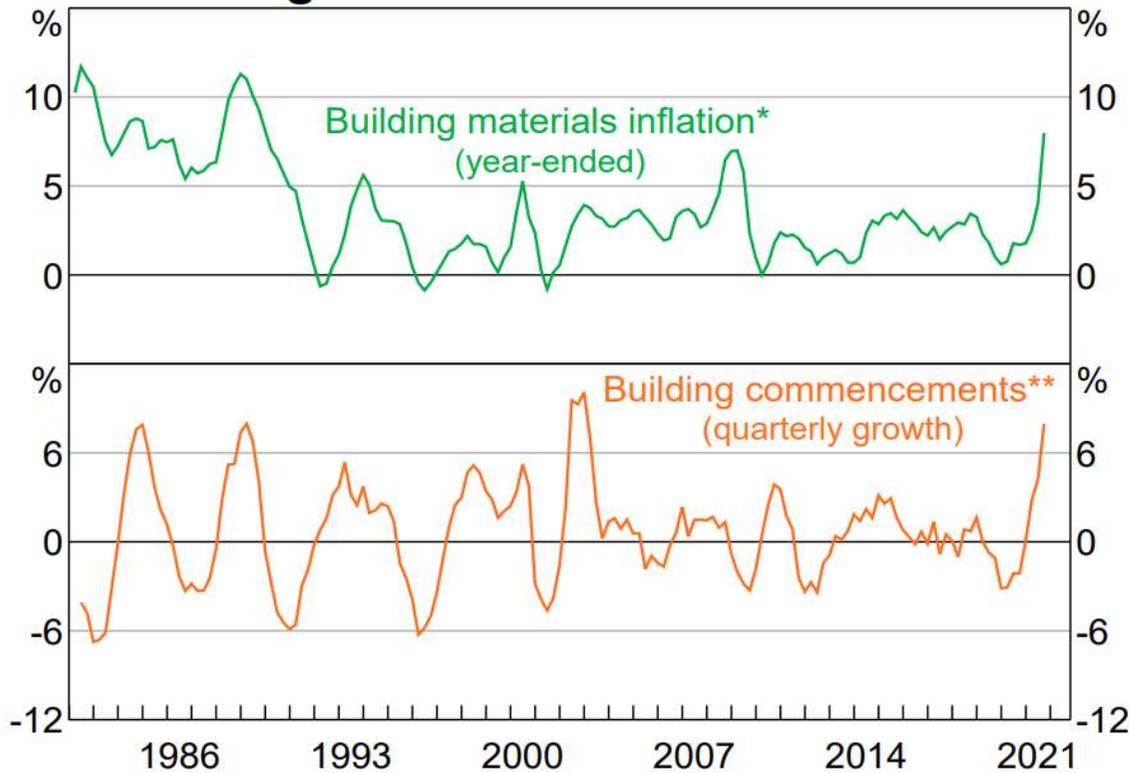
* Dynamic Random Access Memory (DRAM) chips

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?

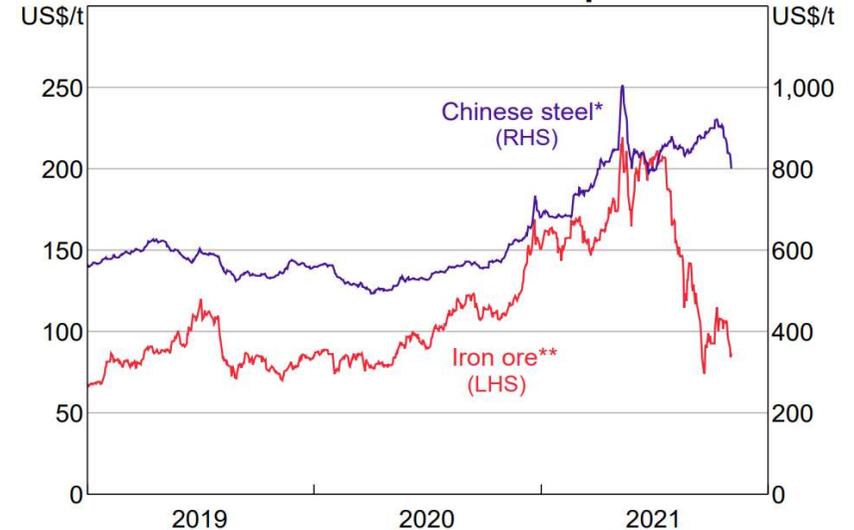
Building Costs and Commencements



* 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

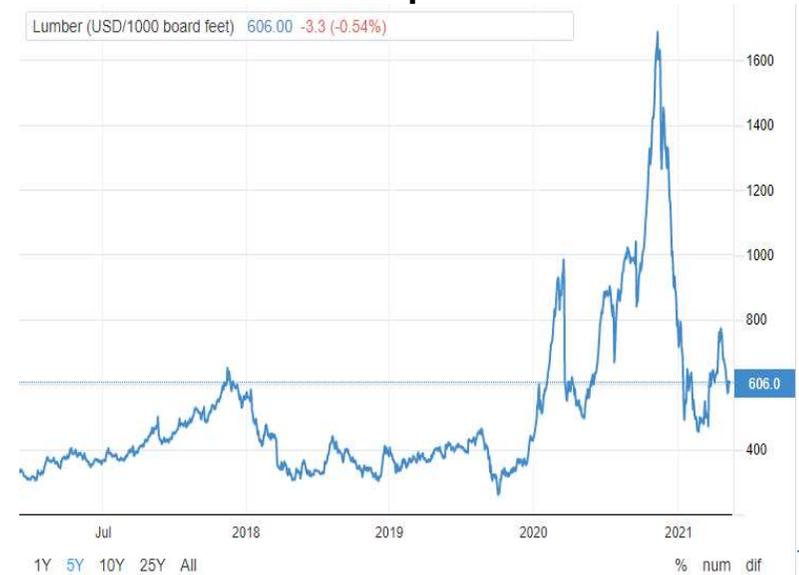
Chinese Steel and Iron Ore Spot Prices



* Average of hot-rolled steel sheet and steel rebar prices
 ** 62% Fe fines index; free-on-board basis

Sources: Bloomberg; RBA

Global lumber prices re-trace

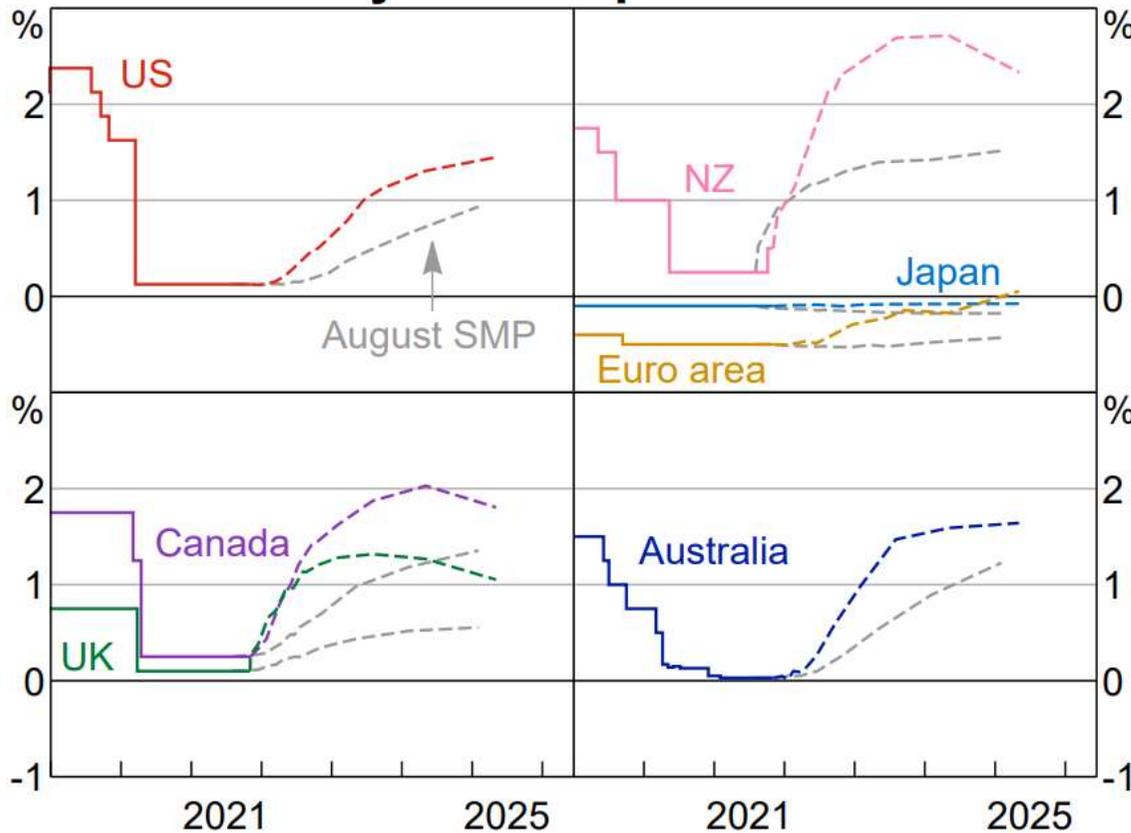


1Y 5Y 10Y 25Y All
 Source: TradingEconomics

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*

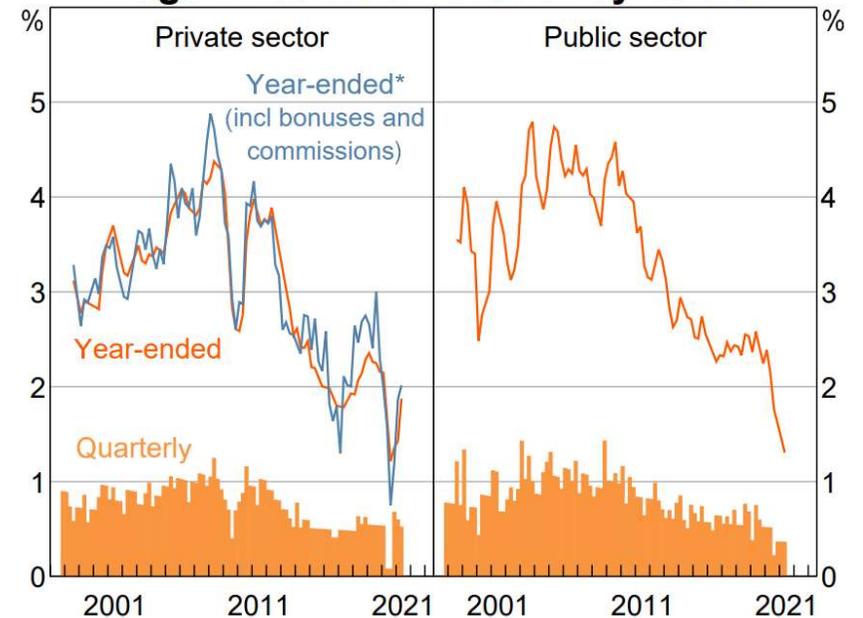


* Dashed lines show expectations implied by overnight indexed swap rates

Sources: Bloomberg; RBA

RBA maintains 2024 tightening tone given wages trends contained

Wage Price Index Growth by Sector



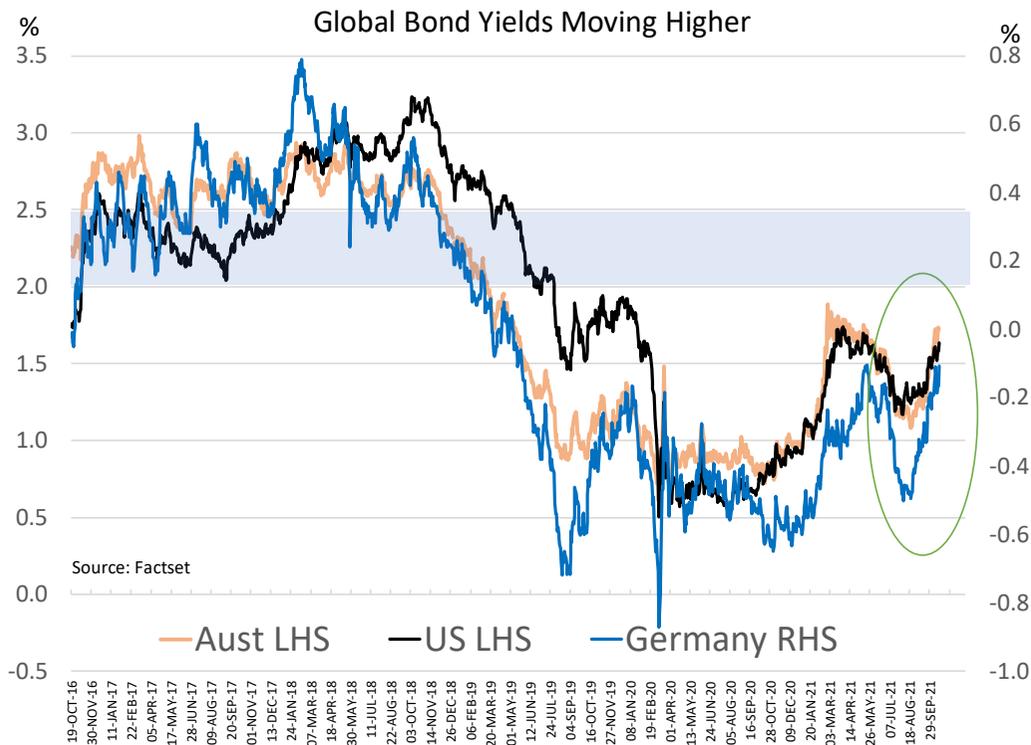
* Non-seasonally adjusted

Source: ABS

RECOVERY RISKS (2) – POLICY TIGHTENING

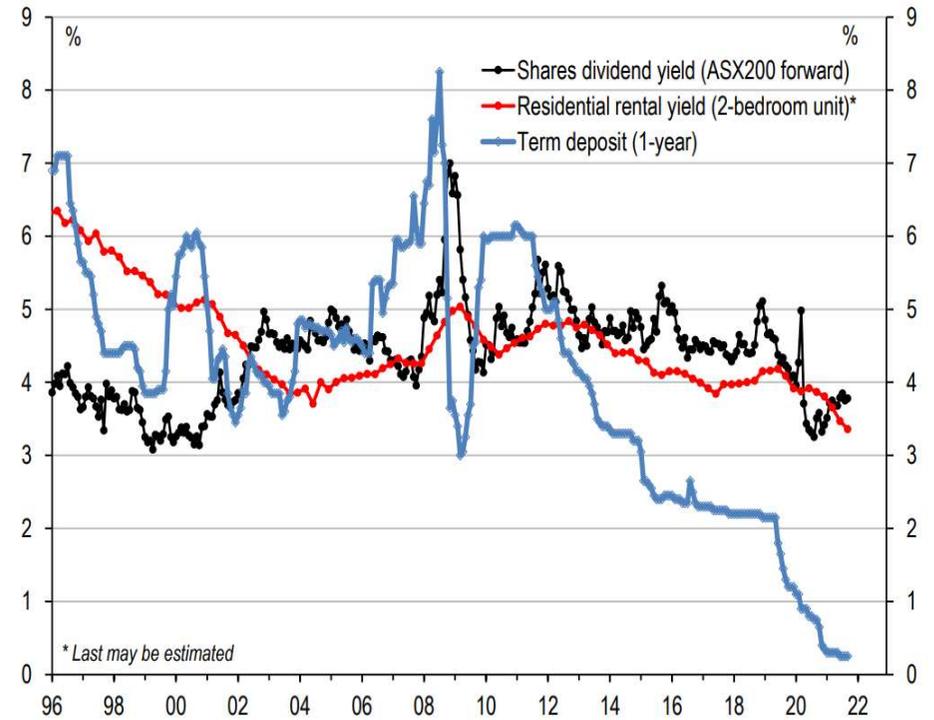
Bond yields have been rising...further increases are ahead, as central banks normalise policy and global growth reaccelerates

Global government bond yields rising again



Sources: FactSet, UBS, Crestone

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

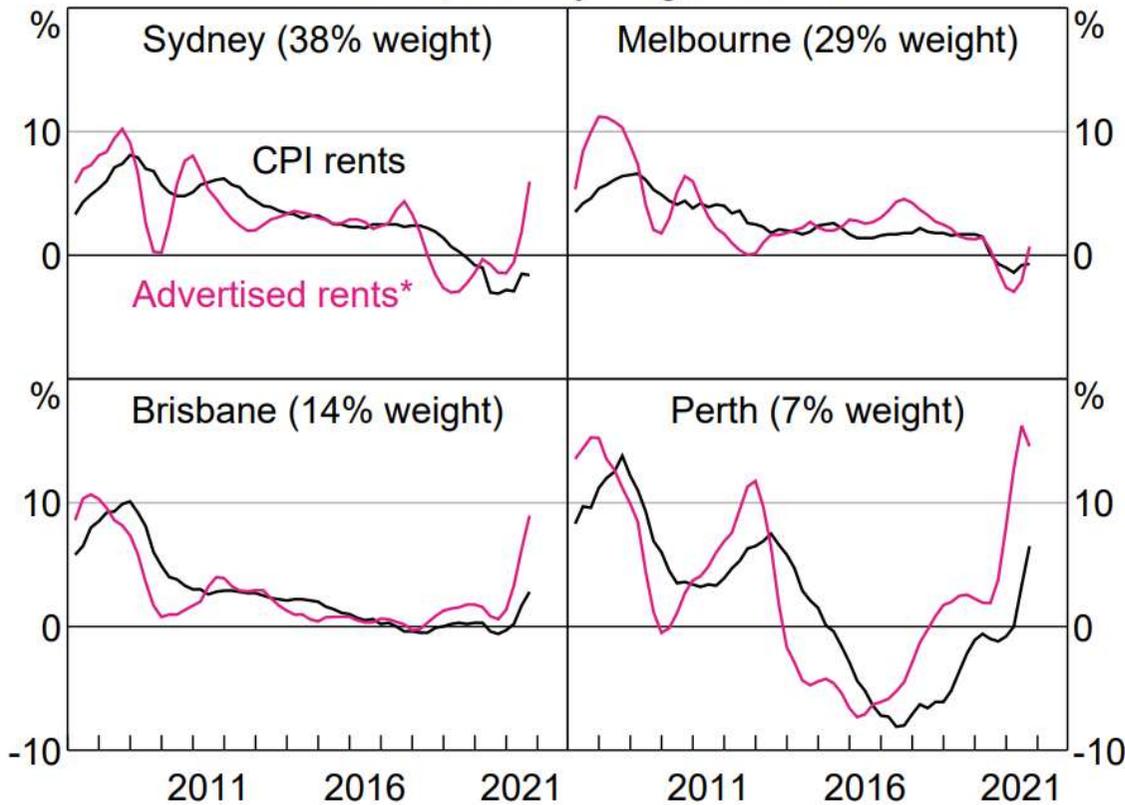


RECOVERY RISKS (2) – HOUSING AND MIGRATION

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

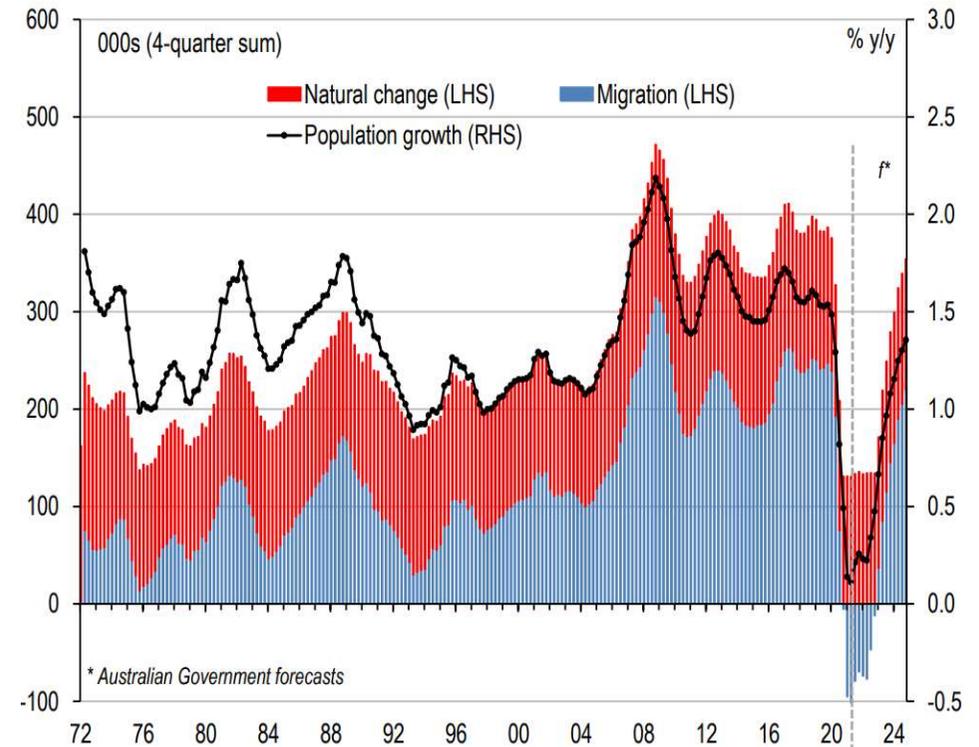
Year-ended, with city weights indicated



* Hedonic three-month average

Sources: ABS; CoreLogic; RBA

Migration – a hole in 2020-22?



Sources: UBS, Crestone

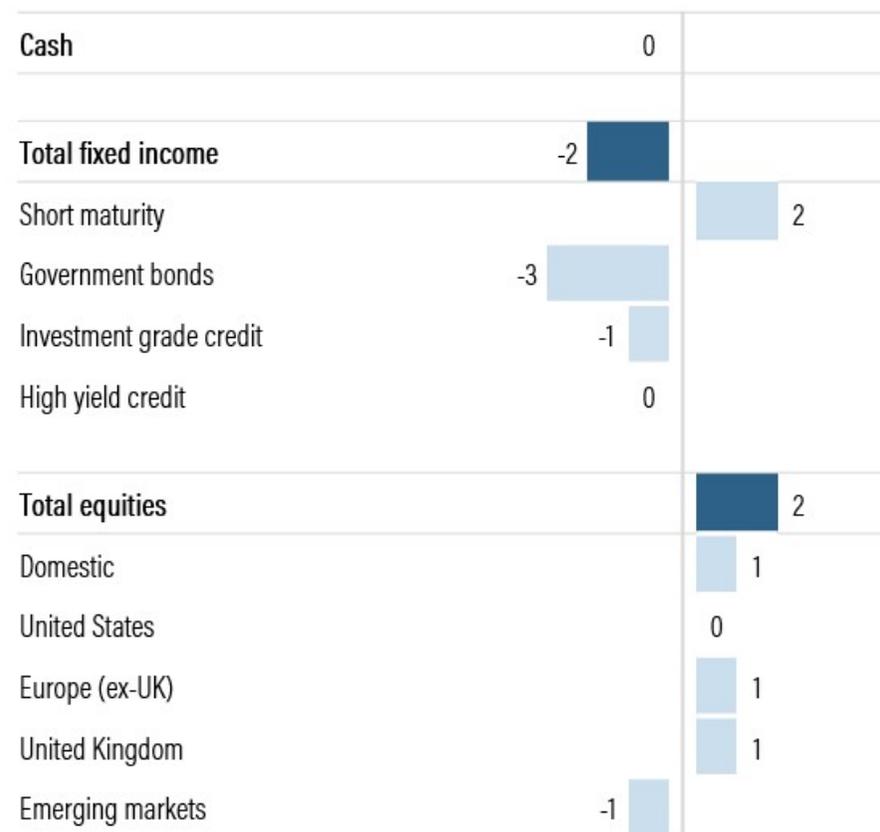
Tactical asset allocation—equities over bonds

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

Current Tactical Asset Allocation

Around the asset classes:

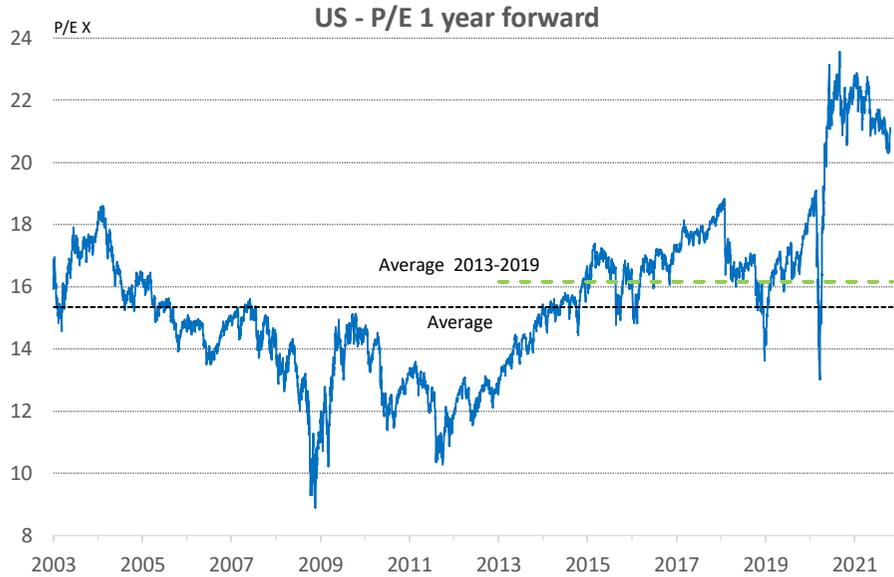
- **Cash** – limit excess cash given near zero yields. In a 2-3% inflation environment, losing real value.
- **Fixed income** – with higher yields, bonds now provide a greater degree of defensive ballast. We've recently trimmed our government bonds underweight and initiated an underweight to investment 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.



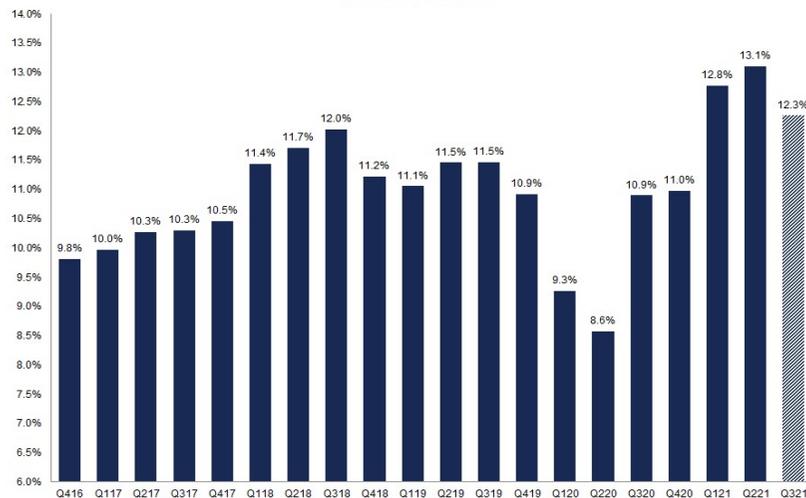
Source: Crestone Wealth Management. Units refer to the percentage point deviation from strategic asset allocations. Investment grade credit includes Australian listed hybrid securities. Data as at 31 October 2021.

Equities - market valuations

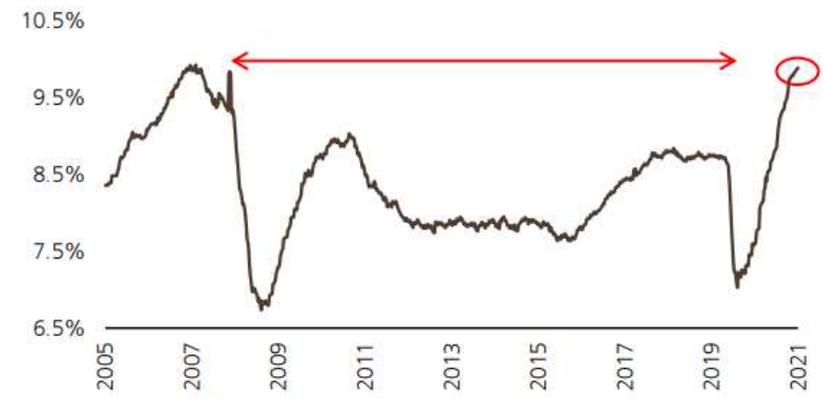
The “bullish de-rating” continues - where E rises more than P!



S&P 500 Net Profit Margins: Q416 - Q321
(Source: FactSet)



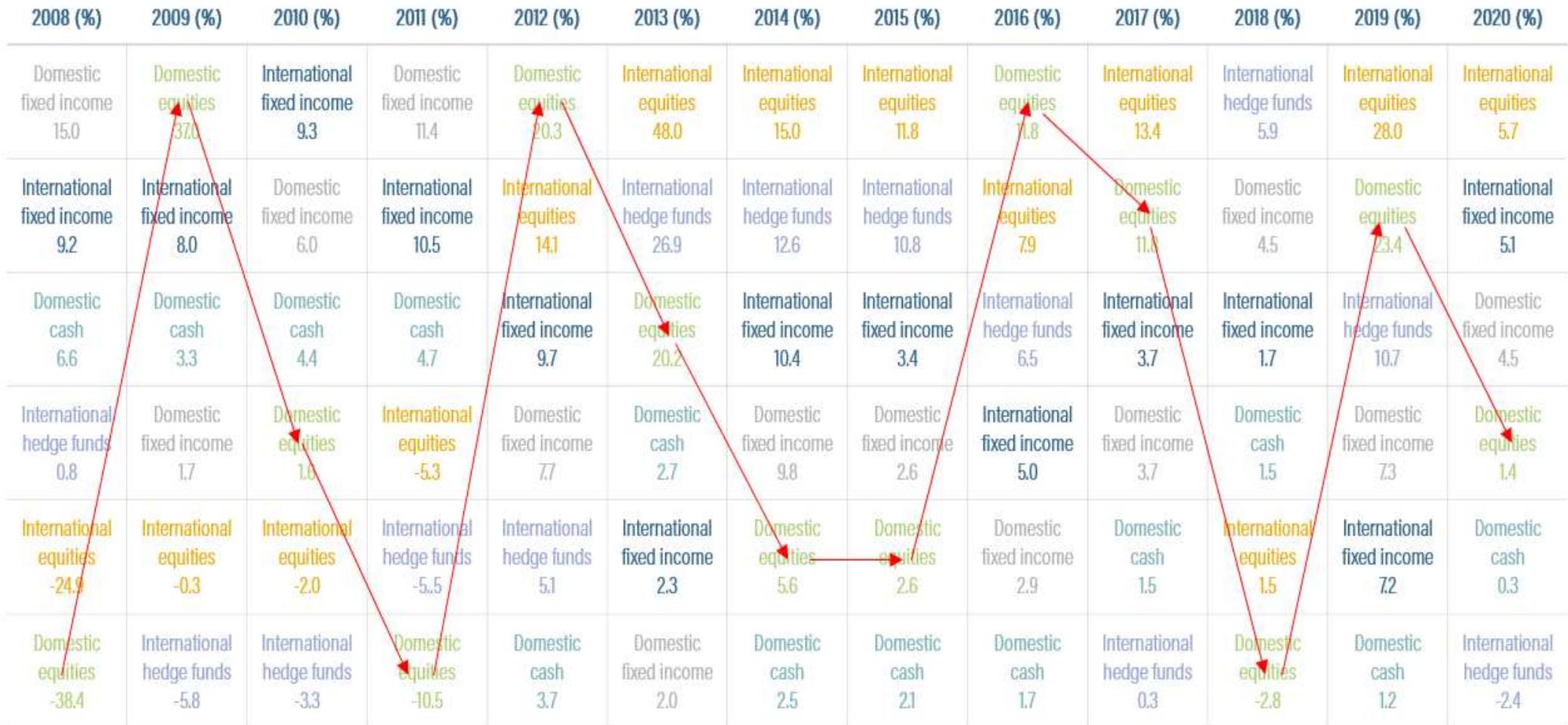
EU margins - halfway through Q3 and margins appear resilient to rising input costs



Source : MSCI, Thomson Datastream, UBS European Equity Strategy

Asset Allocation – key to successful LT investing

Allocate efficiently between asset classes with unpredictable performance



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.

Important information

This document has been prepared by Crestone Wealth Management Limited (ABN 50 005 311 937, AFS Licence No. 231127) ("**Crestone Wealth Management**"). The information contained in this document is of a general nature and is provided for information purposes only. It is not intended to constitute advice, nor to influence a person in making a decision in relation to any financial product. To the extent that advice is provided in this document, it is general advice only and has been prepared without taking into account your objectives, financial situation or needs (your "**Personal Circumstances**"). Before acting on any such general advice, we recommend that you obtain professional advice and consider the appropriateness of the advice having regard to your Personal Circumstances. If the advice relates to the acquisition, or possible acquisition of a financial product, you should obtain and consider a Product Disclosure Statement ("**PDS**") or other disclosure document relating to the financial product before making any decision about whether to acquire it.

Disclaimer and conflicts of interest

Although the information and opinions contained in this document are based on sources we believe to be reliable, to the extent permitted by law, Crestone Wealth Management and its associated entities do not warrant, represent or guarantee, expressly or impliedly, that the information contained in this document is accurate, complete, reliable or current. The information is subject to change without notice and we are under no obligation to update it. Past performance is not a reliable indicator of future performance. If you intend to rely on the information, you should independently verify and assess the accuracy and completeness and obtain professional advice regarding its suitability for your Personal Circumstances.

Crestone Wealth Management, its associated entities, and any of its or their officers, employees and agents ("**Crestone Group**") may receive commissions and distribution fees relating to any financial products referred to in this document. The Crestone Group may also hold, or have held, interests in any such financial products and may at any time make purchases or sales in them as principal or agent. The Crestone Group may have, or may have had in the past, a relationship with the issuers of financial products referred to in this document. To the extent possible, the Crestone Group accepts no liability for any loss or damage relating to any use or reliance on the information in this document.

Use of credit ratings

Credit ratings contained in this report may be issued by credit rating agencies that are only authorised to provide credit ratings to persons classified as 'wholesale clients' under the Corporations Act 2001 (Cth). Accordingly, credit ratings in this report are not intended to be used or relied upon by persons who are classified as 'retail clients' under the Corporations Act. A credit rating expresses the opinion of the relevant credit rating agency on the relative ability of an entity to meet its financial commitments, in particular its debt obligations, and the likelihood of loss in the event of a default by that entity. There are various limitations associated with the use of credit ratings, for example, they do not directly address any risk other than credit risk, are based on information which may be unaudited, incomplete or misleading and are inherently forward-looking and include assumptions and predictions about future events. Credit ratings should not be considered statements of fact nor recommendations to buy, hold, or sell any financial product or make any other investment decisions.

Distribution

This document has been authorised for distribution in Australia only and is not intended or permitted to be distributed, or otherwise directed, made available to, or used by, any person in any jurisdiction where the distribution, publication or use would be contrary to law or regulatory requirements or which would require Crestone Wealth Management or any associated entity to be registered or licensed in that jurisdiction. In particular, this document may not be distributed directly or indirectly in the United States or to any US Person (as defined in the Securities Act 1933 (USA)). It is intended for the use of Crestone Wealth Management clients and may not be distributed or reproduced without consent.

© Crestone Wealth Management Limited 2021

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