Video Transcript

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In the second half of the year, we think portfolio performance would be powered by both attractive income levels and solid profit growth. Those are two pillars of fundamental support for portfolio returns, even as geopolitics, the macro data flow and central bank meetings will undoubtedly create some mild and temporary volatility. The bond markets have three assessed the prospects for rate cuts several times now, but the good news is that their assumptions are now quite conservative.

Fed Chair Powell clarified that the next rate action will be a rate cut, not a hike. And so with cuts now just a matter of time. That effectively puts a cap on bond yields and should give investors more comfort to lock in attractive yields. To create that solid income stream. Cash rates will fall at some point and cannot be locked in.

So there is a significant opportunity cost for holding cash for too long. Profits are the other engine of portfolio returns and the earnings momentum is broadening. And that's in part because of economic momentum, which is broadening beyond the U.S., where domestic demand remains strong. Europe has come out of a recession and is accelerating somewhat. While China's economy has bottomed and India continues to see impressive growth in Japan, earning support is complemented by more attention to shareholder value creation and global profits.

Also benefit from easing cost pressures, the prospect of lower interest rate payments, and signs that AI and other tech innovations are starting to help lift productivity, not just in the tech sector but also in other areas. Now the broadening earnings momentum caused us to add to our equity exposure already in the first quarter and to broaden both our sectoral and our geographical exposure.

We continue to like the US tech sector, of course, but there are options outside of the US, too, in Asia and even in Europe and in other sectors such as industrials, financials, consumer discretionary and health care. And those have good fundamentals and more attractive valuations. Now, the broadening of sector and geographical exposure is also reflected in our high conviction themes because trends like disruptive technologies, the climate action that many governments and consumers are taking and the changes resulting from our evolving society are, of course, global in nature.

So where are the risks for investors? Some fears of high for longer inflation and delayed rate cuts could remain, but we think this is linked to stronger than expected activity. And that's why equities are a bigger overweight for us than bonds, even though we maintain, of course, both exposures. And the fed chair Powell seems to agree with us as he talked up economic growth and eased inflation concerns and does not recognise stagflation fears.

Geopolitics, of course, could also add to temporary volatility, but so far any oil price spikes have been brief and there is plenty of spare oil production capacity. As for the US elections, the tight race makes it risky to anticipate and any major trade tariffs could. Of course, weigh on global growth and create somewhat higher inflation even in the US.

But these scenarios in certain and global trade flows are actually picking up. Currently, and as far as markets have shown so far, they can take some of these uncertainties in their stride. As long as the income and growth fundamentals remain supportive. So what are our four priorities in portfolios? First, we broaden our equity exposure across more geographies and sectors to broaden the opportunity set and find attractively priced stocks.

While we maintain our focus on quality and large caps exposure in Europe and Asia. We are happy with a more cyclical approach in the US. Secondly, we put cash to work in bonds and in multi-asset strategies because well balanced portfolios should incorporate a strong income component. We take advantage of the current attractive yield levels on quality bonds to add to portfolio returns and manage volatility and tail risks.

Thirdly, we tap into private assets and infrastructure where appropriate. Private credit markets offer attractive lending conditions and are deepening as more and more companies turn towards private funding. And as for the buildout of global infrastructure, governments are cash strapped and therefore are more than happy with the increased role of private investors. And what's more, infrastructure returns are often linked to inflation, which is, of course, an attractive characteristic in portfolios.

Lastly, we continue to look for the best opportunities in Asia, and those stemmed from corporate governance reforms in Japan, China and South Korea, for example. We also stay bullish on engine stocks because they benefit from French shoring, young demographics and manufacturing upgrades. And last but not least, we capture income in Asian investment grade bonds. So yes, we are constructive for the second half of the year and continue to put our cash to work because we believe that the fundamentals are supportive and a range of attractive investment options continues to broaden.