Providence
Independent Investment Advisory

Global Outlook & Strategy

Excerpt from Issue 70: 3rd Quarter 2018

The Calm During the Storm

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1. KEY POINTS

- **Inflation signals are increasing**
- **Markets remain remarkably complacent**
- **Central banks removing liquidity**
- **Interest rates trending higher**
- **Global trade tensions increasing**
- **Cautious stance is warranted**

The Calm During the Storm

"The United States has violated World Trade Organisation (WTO) rules and ignited the largest trade war in economic history. Such tariffs are typical trade bullying, and this action threatens global supply chains and value chains, stalls the global economic recovery, triggers global market turmoil, and will hurt more innocent multinational companies, enterprises and consumers" - The Chinese Commerce Ministry.

Yet markets are calm.

We believe we are close to an inflection point with markets likely to collide with policy and geopolitical events. The US is firing on all cylinders, with GDP growth heading towards 4%. The US Federal Reserve has clearly stated its intention to continue to withdraw liquidity, targeting a Fed Funds Rate of 3.4% in this tightening cycle. Markets don't believe them, pricing in an effective Fed Funds Rate of 2.65% over the same timeline. US unemployment is at a record low of 3.9%, with more job openings than people to fill them; a first for the US economy. With the expansion in the US continuing, inflation is destined to follow (**Figure 1**). The US 10-year bond rate has moved from 2.05% in September 2017 to 2.84% currently, a substantial move. However, any signs of increasing wages pressure will see US bonds rise further to a potential 3.5% plus. As a measure of the risk-free rate, upward moves in bond yields, particularly in the US, will put pressure on the valuation of other assets.

2. INVESTMENT OVERVIEW

Despite the backdrop of strong US economic growth, the yield curve (the difference between the US 2-year bond rate and 10-year bond rate) is flattening **(Figure 2 LHS**). Historically, this is a good predictor of a recession. In effect, the bond market is telling us that the US economy is late in its cycle and ultimately (via the Fed raising interest rates into restrictive territory in an attempt to choke growth and curtail inflation), a slowdown will ensue. Timing, however, remains unknown. The current economic recovery in the US has been the 2nd longest in history and is now late-stage. That said, returns from markets can remain strong at the end of such a cycle. Looking at the past five US recessions, the S&P 500 Index rallied on average 13% once the yield curve inverted and peaked, on average, eight months after inversion (**Figure 2 RHS**).

Figure 1: US inflation is on the march.
Source: JP Morgan

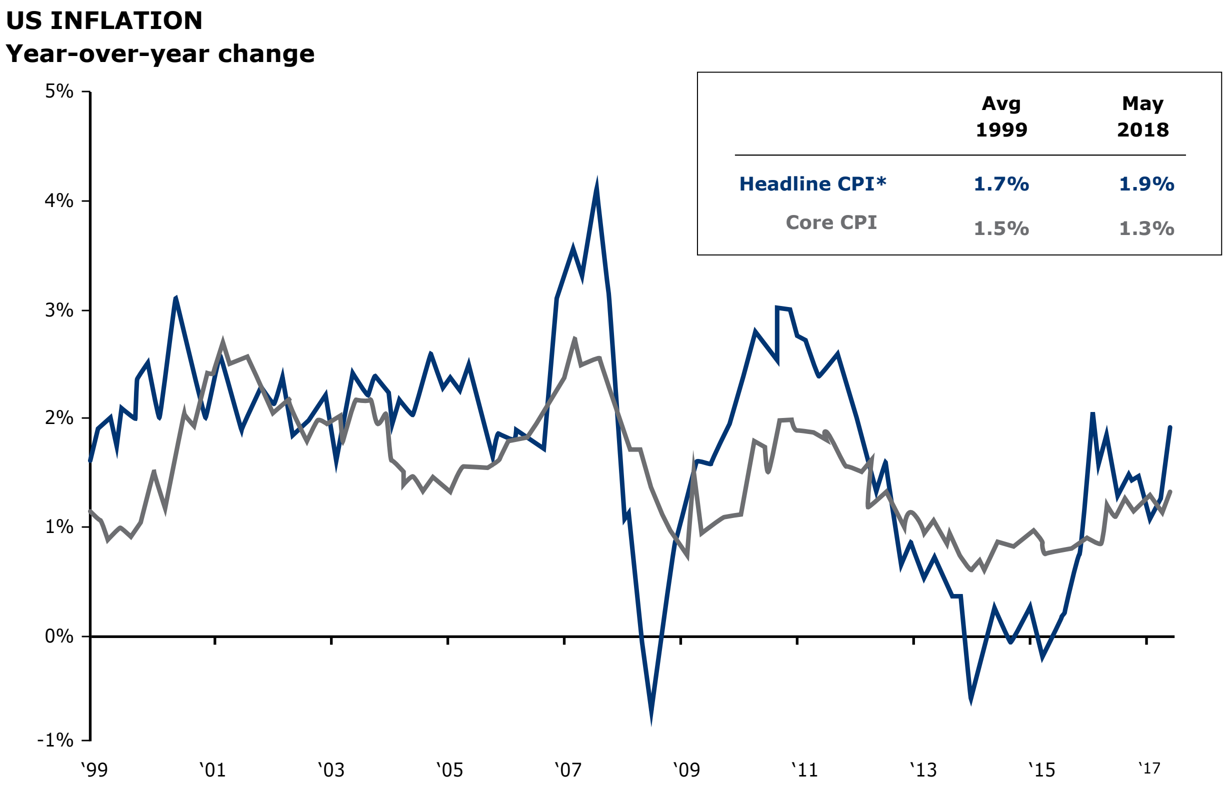
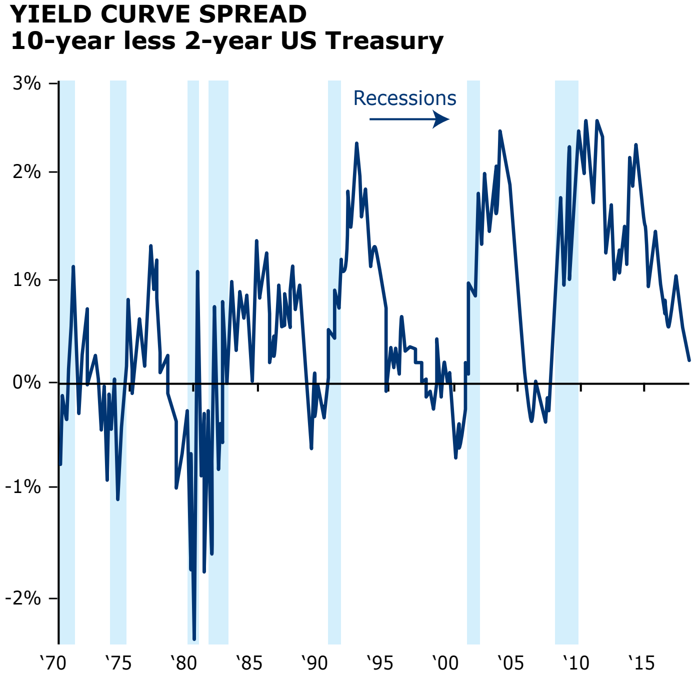


Figure 2: The US yield curve (10-year bond less 2-year bond) is flattening (falling towards zero) indicating the market is expecting a pending recession (LH chart).
Source: JP Morgan



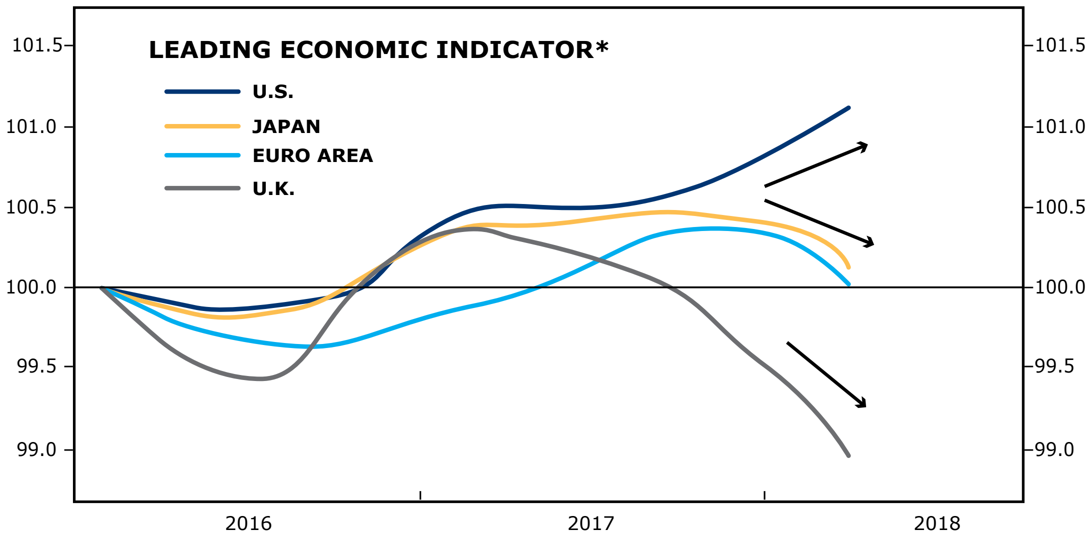
YIELD CURVE INVERSION & RECESSIONS
Number of months

Yield curve inversion date	From curve inversion to S&P 500 peak	From S&P 500 peak to start of recession	From curve inversion to recession
Jan '69	4	8	12
Mar '73	0	9	9
Oct '78	15	0	15
Oct '80	1	8	9
Jan '89	19	1	19
Feb '00	2	12	14
Jun '06	16	3	19
Average	**8**	**6**	**14**

The average number of months in the last 7 US economic cycles from yield inversion (chart to the left above moves into -ve territory) to the start of a recession is 14mths. The average time till the S&P500 index peak from yield curve inversion is 8mths. We are in tricky timing territory.

World economies are still growing, although during the first half of 2018, there is evidence of a slowing in momentum (**Figure 3**). Trade concerns will impact immediately on business confidence and potentially flow through to softer earnings. No-one wins in a trade war.

Figure 3: The US continues to charge ahead, while other countries' economic indicators appear to have stalled.
Source: BCA



*Amplitude adjusted. Rebased to Jan. 2016–100. Source OECD.

The Chinese equity market could be the canary in the coal mine, down 20% from recent highs, reflecting the concerns regarding trade tensions. Emerging markets are now essentially on negative watch by the investment community given their USD denominated debt load (and the USD is rising). Emerging markets are bound to global growth and in particular, to Chinese fortunes. However, the bulk of their debt is USD denominated.

There remains mixed messages for the Australian economy. Headline GDP growth of 3.1% in the March quarter showed a strong rebound from 1.8% a year earlier, and on face value, looks impressive. Net exports (aided by commodity volumes and pricing) and domestic demand have been robust, but household consumption remains soft. Household consumption is still half what it was a decade ago. **The high indebtedness of the household balance sheet, coupled with a continuation of stagnant real wages growth, higher mortgage funding costs and declining house prices, suggest the household sector will remain under pressure.**

By all accounts, the housing sector is now in correction mode with softer dwelling approvals and evidence of significant falls in sections of the apartment market.

Business sentiment and company profits in Australia however, remain robust. The Reserve Bank is unlikely to alter its monetary policy stance, despite rising global interest rates and heavy indebtedness within the household sector. We are also currently seeing many banks and financial institutions increase their mortgage interest rates due to higher global funding costs. The Australian dollar remains vulnerable to further falls given interest rate differentials and a weakening housing sector.

Record global debt levels, worsening credit metrics, elevated valuations in risk assets, rising inflation and bond yields and a full-scale trade war; yet calm and steady equity and credit markets.

Something must give; we have set the storm jib.

Franklin Templeton's Hasenstab says four 'hurricanes' to rock US government bonds.

Excerpt from Australian *Financial Review*, S. Turner, 24th May 2018 (www.afr.com).

A top bond investor has warned "complacent" investors that four "hurricanes" are approaching the US Treasury market and revealed he is positioned for a deeper selloff in the world's largest bond market.

1. Financing hole in the US with the US fiscal deficit exceeding 5% by 2019, only to be exacerbated by the Fed withdrawing its unprecedented stimulus.
2. Buyer beware – Dr Hasenstab is struggling to identify who will be a potential buyer of US debt going forward.
3. Inflation worries.
4. Complacency – US economic growth, he would not be surprised to see 3% growth in the US this year.

He summed up his views on US government bonds by saying growth, inflation, a limited buyer base and growing deficits all add up to a "perfect storm" on rates and justify his "negative rate exposure" stance.

3. ASSET CLASS REVIEW

3.1 Equities

Global forward PEs and price-to-book values are around their 20-year average (**Figure 4**) aided by strong earnings growth in the US. Earnings growth around the globe for the next 12 months is estimated at 10-11% with US growth around 15%, following a 20% increase over the past 12 months. The ASX on the other hand, is at the top of its valuation range on a forward PE basis, trading at 10% above its 20-year average (**Figure 5**).

Figure 4: Global valuations (price-to-earnings and price-to-book) are not far from 20-year averages.
Source: Heuristic Investment Systems, JP Morgan

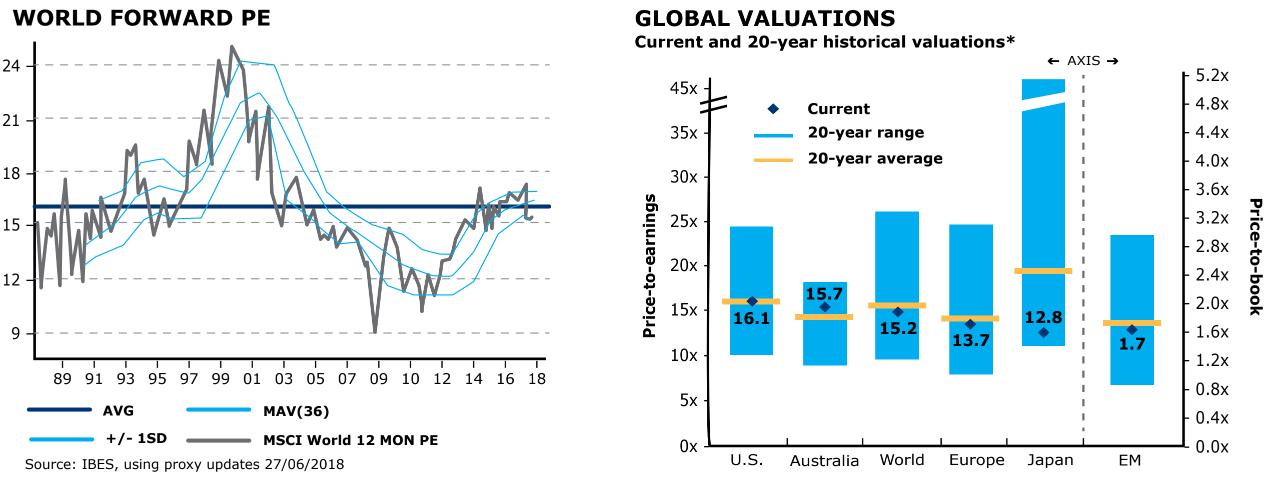
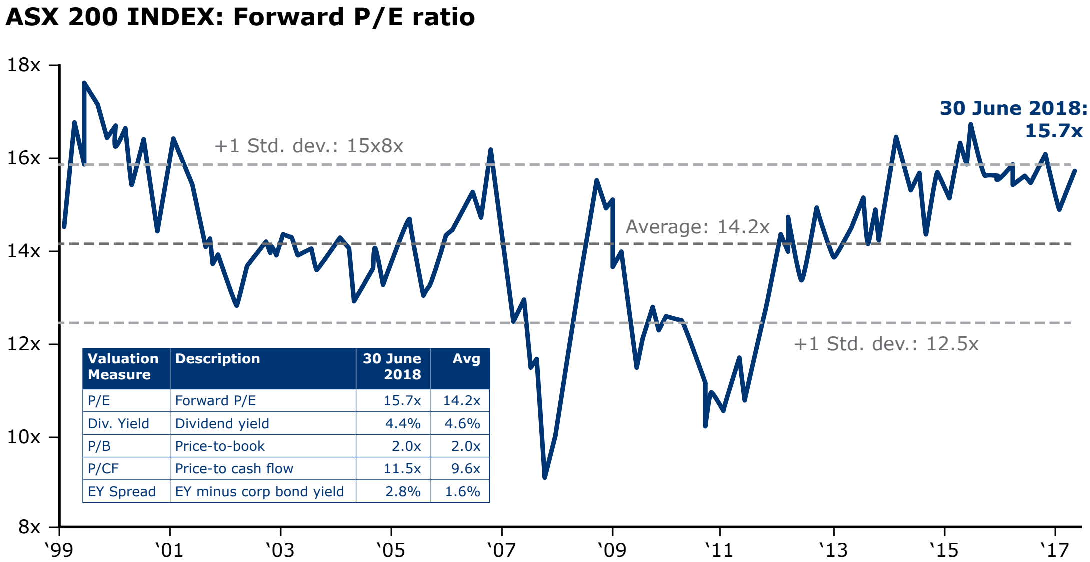


Figure 5: Australian forward price/earnings ratio for the ASX 200 Index is currently 1 std deviation above long-term averages.
Source: JP Morgan



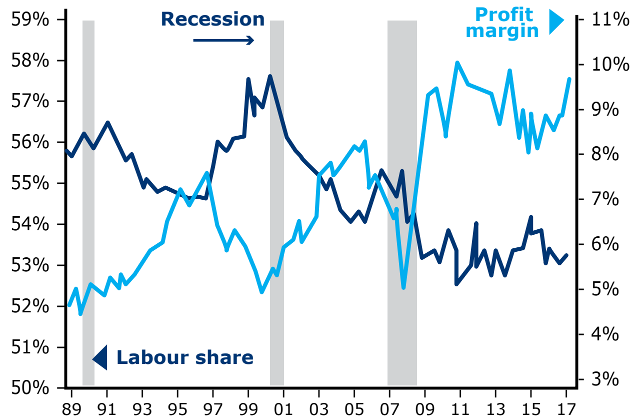
Valuation Measure	Description	30 June 2018	Avg
P/E	Forward P/E	15.7x	14.2x
Div. Yield	Dividend yield	4.4%	4.6%
P/B	Price-to-book	2.0x	2.0x
P/CF	Price-to cash flow	11.5x	9.6x
EY Spread	EY minus corp bond yield	2.8%	1.6%

The strong rise in the US stock market has been driven by both PE expansion (stocks priced on higher multiples by the market) and strong earnings growth. Compared to the rest of the world, this PE expansion has been fueled by a low interest rate, low inflation environment in the US, and strong earnings growth from a robust economy. This has been driven by highly expansionary central bank policies and muted labour costs. As a result, the developed world companies are enjoying record margins. (**Figure 6 RHS**).

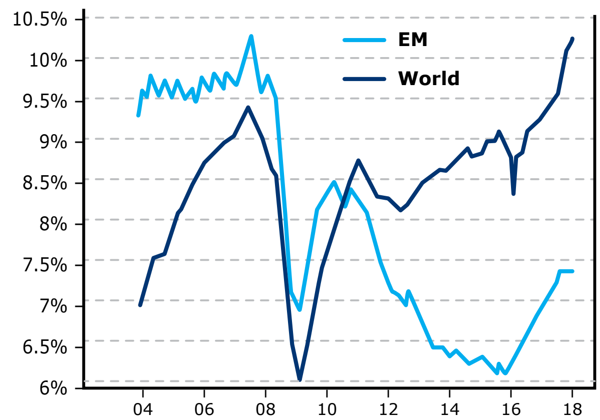
Figure 6: Profit margins have surged in recent years. In the US (LHS) this has been at the expense of the employee. The same can be said for some other economies including Australia (RHS).

Source: JP Morgan, Heuristic Investment Systems

US LABOUR SHARE OF INCOME PROFIT MARGINS

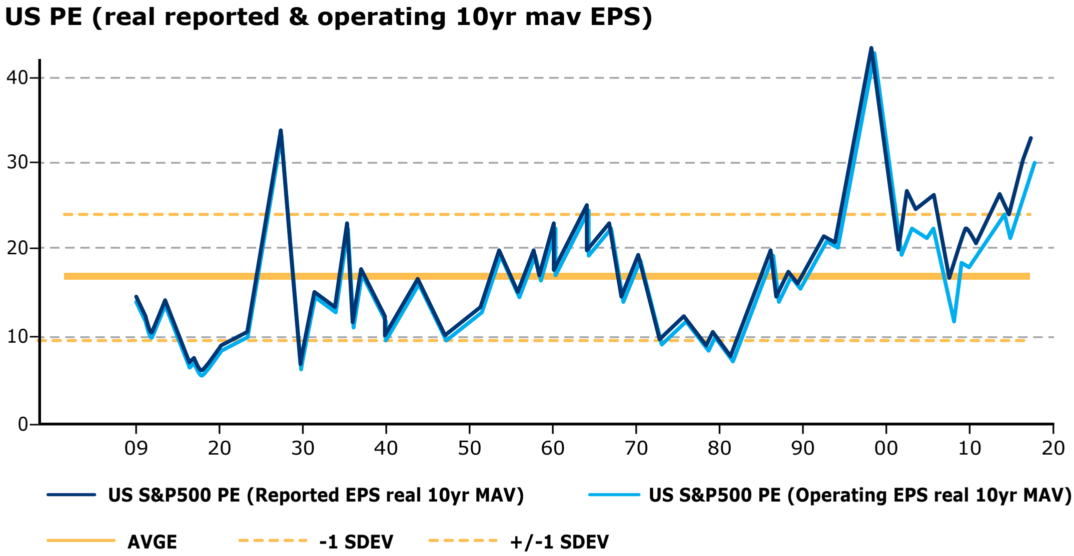


PROFIT MARGINS EM vs. WORLD



Looking forward, higher wage costs are expected to filter through, with record low unemployment in the US, a less accommodative central bank policy and an uptick in inflation given the strong economic backstop. This is at a time when cyclically adjusted PEs (Schiller PE) are close to record levels (**Figure 7**).

Figure 7: Schiller PE (cyclically adjusted earnings multiple over 10 years) remains close to its peak last seen in 2000.
Source: Heuristic Investment Systems



The stimulus and tail wind for equity prices is likely to fade, ultimately leading to a below average performance. This may come from a sharp correction or lacklustre performance over the next few years.

The Chinese equity market is now in bear market territory, down 20% over the last six months or so. Emerging markets are starting to suffer from the stronger USD and there are trade tensions and concerns about a slowing Chinese economy.

One way to offset any major correction in global equity markets is to remain unhedged with global funds. In the event of a large correction, it is more likely the AUD will weaken, cushioning the fall to some extent.

Australian Equity Market Outlook

The Australian equity market has lagged global equities for a considerable time (**Figure 8**) and has recently seen around 30% of the index underperform (Banks -2% and Telecoms -23% YTD). The smaller companies have fared better (**Figure 9**), with a strong relative performance against larger companies over the past 12 months, though they now look expensive.

Figure 8: Australian equities relative underperformance vs. rest of the World.

Source: Heuristic Investment Systems

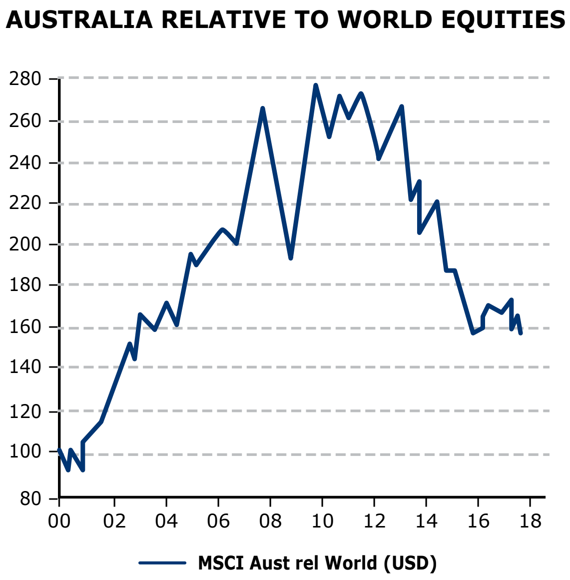
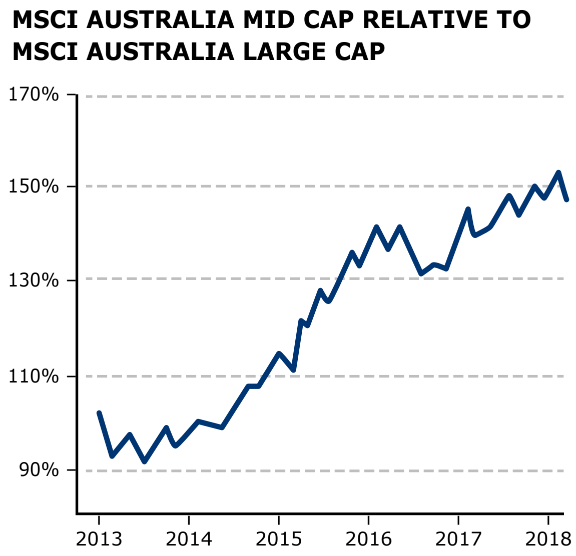


Figure 9: Australian mid cap stocks relative performance against large cap stocks.

Source: Factset



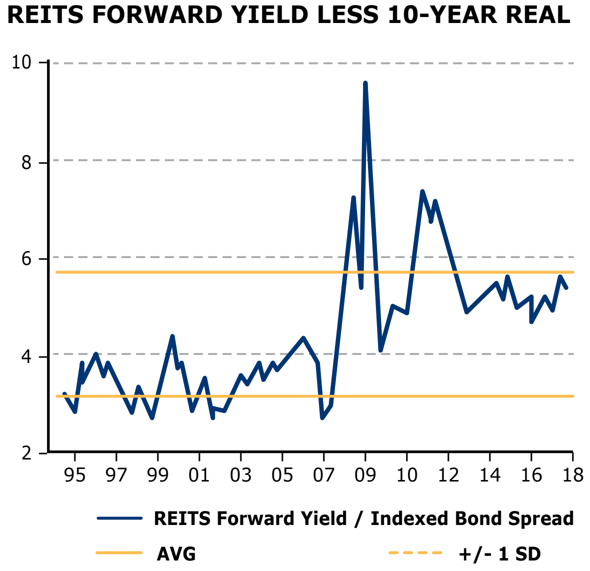
The 12-month earnings outlook for the Australian market at an index level is broadly in line with the 5-year average of 8.2% EPS growth. However, the structure of these returns has shifted from financials and telecommunications to resources and technology. Major bank EPS growth over the next 12 months is only expected to be 2.2% as both tightening lending standards and pressure on net interest margins from rising funding costs makes growth difficult. Conversely, resources are expecting healthy EPS growth of 11% driven by strengthening commodity prices and increasing volumes. We are wary of the outlook for commodity prices in the event of escalating global trade wars.

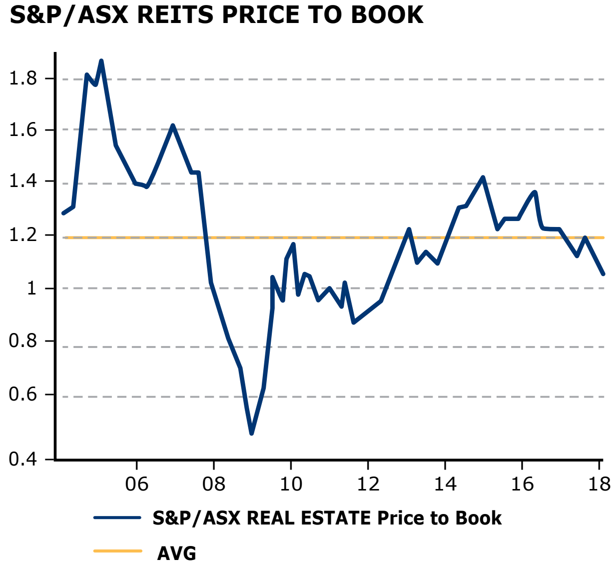
Overall, a continuation of Australian equity underperformance at an index level relative to global equities is likely given the ASX's dominant weighting to financials (currently ~30% of the ASX 200). However, there remains interesting opportunities on a stock-by-stock basis and as such, an active approach to portfolio management is still preferred.

3.2 Property

Valuations for A-REITs are slightly positive with an improvement on a price-to-book basis, attractive relative-to-bonds and neutral to equities. The current risk with A-REITs is a sharp lift in bonds yields. In past bond sell-offs (yields rising), REIT's have lost ground in the first 3-6 months before recovering slightly (in relative terms).

Figure 10: A-REIT forward yield less 10-year bond rate (LHS). A-REIT price/book value (RHS).
Source: Heuristic Investment Systems





As global government bond yields rise, there is the potential for pressure on already tight cap rates. A commercial property on a cap rate of 5% (when US Bonds are 1.5%) is not as attractive when those bonds yields are closer to 3% and moving higher.

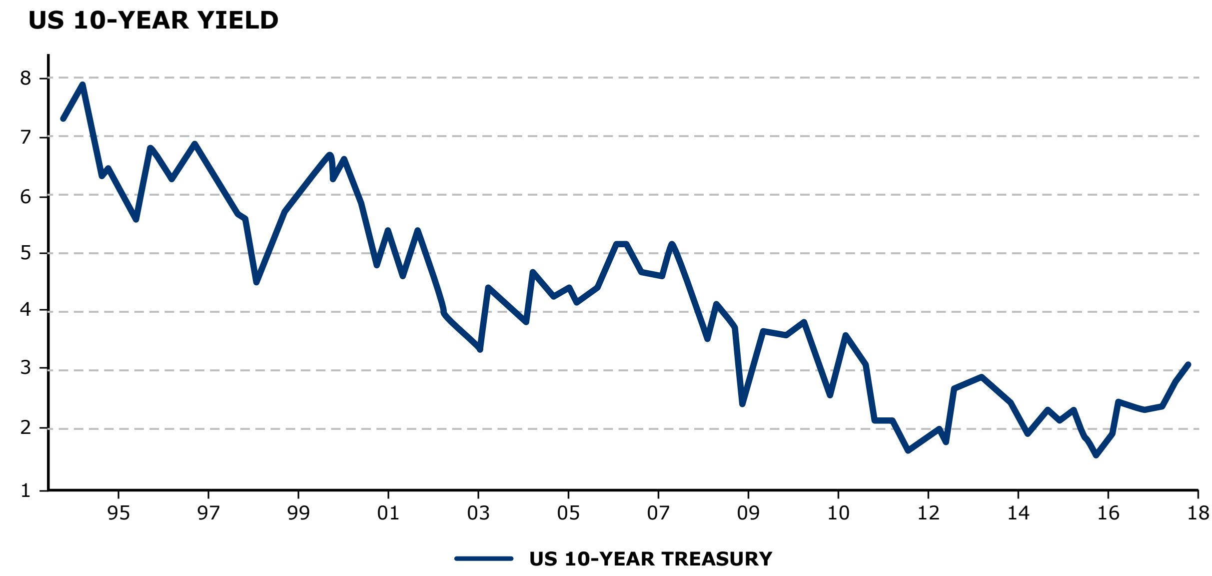
We find it difficult to find value in the traditional a-grade commercial property space. We prefer to invest in assets that require active management or repositioning, or those in "boutique" sectors like student accommodation, healthcare and potentially regional Australia.

As outlined previously, there is evidence of a softening residential housing market in Australia, particularly in the apartment market. Given the high level of household debt and rising funding costs, this remains a potential and likely pressure point for markets and the Australian economy as a whole.

3.3 Fixed Income

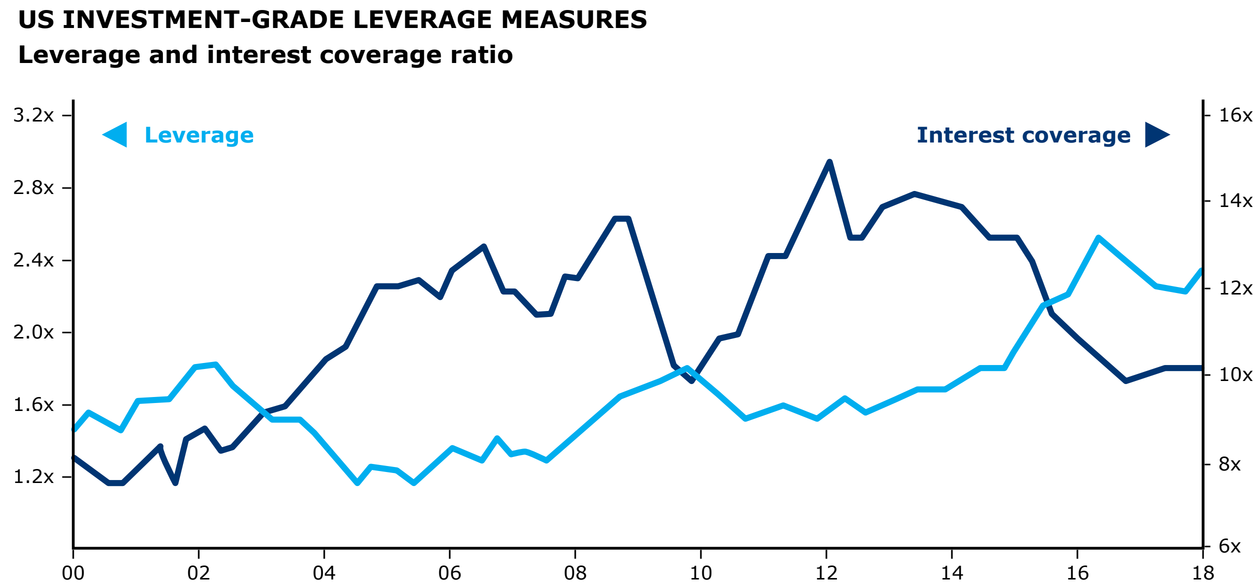
The strength in the US economy along with a modest pickup in inflation has seen the US 10-year bond yield breach 3% for the first time since 2013 (**Figure 11**).

Figure 11: US 10-year bond rate has breached 3% several times this year.
Source: Heuristic Investment Systems



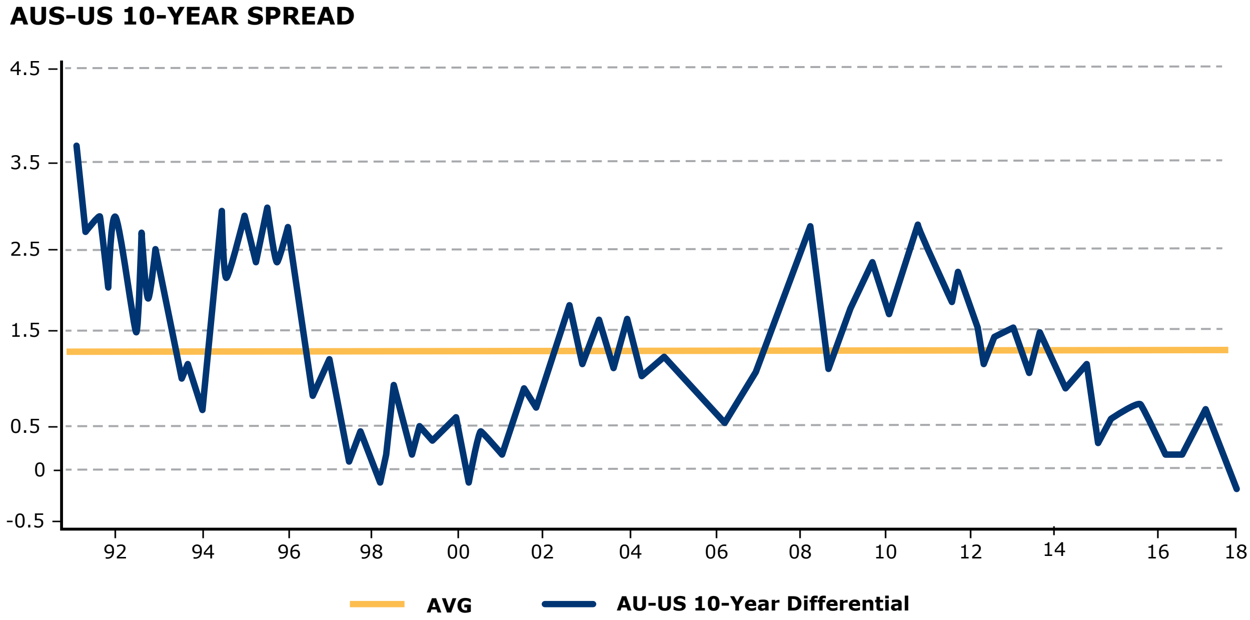
Within credit, corporate leverage is increasing whilst interest coverage is reducing. There is little priced in for any defaults despite the higher leverage. Interest coverage ratios (**Figure 12**) are being flattered by low interest rates. Corporates have feasted on debt this cycle. The only possible saving grace to earnings is that a large proportion of this debt has funded share buy backs in the US.

Figure 12: US interest coverage ratios look ok but are flattered by low interest rates.
Source: JP Morgan



Globally, there is every indication that central banks are looking to unwind their exceptionally accommodative policy. Therefore, we are likely to see upward pressure on global interest rates. We are inclined to remain underweight duration for the moment and increase credit quality within the fixed income allocation. There are longer term concerns regarding global debt levels and the ability for central banks to raise interest rates significantly. The issues facing global fixed income investors is the impact of a rising USD on emerging markets debt, refinancing of European debt and the fiscal deficit looming over the US. We are also concerned about the potential for a mismatch of liquidity within fixed income funds. The spread between US bond rates and those in Australia are as narrow as they have ever been.

Figure 13: The Australian/US bond spread is as narrow as it has ever been. Generally, this leads to a lower AUD.
Source: Heuristic Investment Systems



The last time the Australian / US bond spread was this narrow (Figure 13) the AUD traded between $0.63 – $0.70 USD. We believe the AUD is vulnerable to further weakness on this basis.

3.4 Alternatives

Given the complexity and uncertainty regarding the global investment outlook, we remain attracted to specific alternative funds that are not correlated to risk assets and provide solid risk adjusted diversification.

As previously noted, such investments tend to be focused on global macro, market neutral, risk premia and event driven approaches. Such styles have proven to withstand market volatility over a long timeframe.

Comments from London

Our recent meetings with London-based asset managers has seen three major themes emerge as risks to current markets. These include ongoing strength in the US dollar, risks in investment grade credit and significant inflows to private equity.

On the US dollar, there are multiple forces that will likely see continued strength relative to most major currencies. Cove Capital points to policy divergence between the US Federal Reserve (tightening) and the European Central Bank (remaining accommodative, for now) as the obvious culprit. They expect this impact to be exacerbated by a significant increase in treasury issuance while Trump runs a deficit to fund tax reforms. Both factors are likely to result in higher US Government bond yields leading to a repatriation of foreign US investment and therefore higher demand for US dollars.

Within investment grade credit, the main thesis relates to the debt binge in the sector and the impact that rising interest rates will have on the repayment capacity and refinancing risk of these corporates. 2017 was a record year for US investment grade corporate bond issuance, with $1.4 trillion of bonds issued. 2018 has seen some slowing with year-to-date issuance approximately 10% behind this time in 2017. While much of this issuance is fixed-rate (~82%) and therefore reducing the short-term impact of rising interest rates, it creates significant refinancing risk in a few years' time. As previously mentioned, the US yield curve is suggesting an increasing likelihood of an economic slowdown so there is a risk that refinancing will coincide with a slowing economy. It is potentially these risks that has seen investment grade spreads widen further than their high-yield counterparts.

Finally, on private equity, according to Rothschild there is a record high $2.83 trillion managed globally in the sector and the pace of allocations shows no signs of slowing. This alone is nothing to be concerned by, however, when coupled with record levels private equity purchase multiples (9.9x EV/EBITDA in Europe and 10.6x EV/EBITDA in the US) and leverage at pre-crisis peaks (5.2x net debt to EBITDA in Europe and 5.8x net debt to EBITDA in the US) there appears some reasons to be cautious on the sector. On the other hand, there is still a significant amount of "dry powder" or funds raised but not allocated within the sector which is likely to support multiples for the foreseeable future. Our preferred private equity manager, Partners Group, has taken an extremely cautious approach to their investments with all now expecting multiple contraction at exit and little benefit from increasing leverage.

A brief note on Brexit negotiations is also worthwhile and topical. The deadline for Great Britain's official exit from the EU is now only nine months away and little has been achieved. To be sure, the release of the White Paper is a step in the right direction although this still needs to be put forth to the EU and negotiated. It is unsurprising that Theresa May's proposed Brexit plan resulted in the resignation of two staunch Brexiteers (Boris Johnson and David Davis) as the proposal is a reasonably soft Brexit stance. There is now an increased risk of a leadership challenge given both Davis and Johnson are well respected by pro-Brexit back-benchers, with such a scenario further delaying Great Britain's negotiations with the EU. Some argue that the soft Brexit proposal leaves Great Britain in a weak negotiating position while others believe this approach was required to improve the chances of reaching an agreement by the official leaving date (29 March 2019). Either way, there is still a long way to go and with little clarity it is likely to see a continuation of subdued business investment.

Thoughts from a Contrarian

There's been plenty of talk recently about the Federal Reserve's latest "dot plot" and what it means for markets. For those lucky enough to have never heard of the dot plot it shows the projections of the 16 members of the Federal Open Markets Committee (FOMC) with a dot representing where an anonymous committee member believes the Fed's funds rate will be at various points in the future. The FOMC operates a bit like a Soviet Politburo that sets the price of money so where its members believe interest rates are going is obviously important for asset prices. Even so, there was an extended period where we didn't hear much about the dot plot. The reason; the Fed tends to be chronically overoptimistic about the growth prospects of the US economy and doesn't get many predictions correct. However, as inflation has finally started to stir, economists around the world are euphoric that the Fed may actually get it right and the obsessive focus on dot plots has resumed.

In November 2007 the Federal Reserve began publishing quarterly forecasts for GDP growth. This was probably a bad idea. For the following 10 years (40-plus quarters in a row) they were incorrect. As we move into the 11th year the economy is finally starting to cooperate. A broken clock is correct once every 12 hours and the Federal Reserve once in 11 years. For many of us who've spent the last decade listening to discussions about the Feds economic forecasts this is a surprise. Personally, I would have bet on the broken clock.

Providence Investment Committee

Steven Crane
Steven has over 40 years of investment experience having started in financial markets in the early 1970s. He has held such positions as Senior Portfolio Manager and member of the Asset Allocation Committee at AMP. For seven years he was the Chief Executive of ABN Amro. His current directorships include: Chair of NIB Holdings limited, APA Group, Bank of Queensland and Transfield Services.

Chris Grubb
Chris has held senior fund management and broking positions within the Jardine Fleming Group in Japan, Hong Kong and Singapore. He was also a Director of Jardine Fleming Ord Minnett and Chairman of Investor's Mutual and Investor Web and is currently a Director of several Asian-focused investment funds. He also chairs Boardroom Australia and is a Director of Boardroom Limited in Singapore. Chris also acts as an executive coach.

Stephen Roberts
Stephen has over 40 years of experience as an economist and financial markets strategist in banking, broking and funds management. He has worked as Chief Economist with Equitilink and UBS. He worked on the Secretariat of the Australian Financial System Inquiry (Campbell Committee) in 1980, helping draft recommendations that led to the deregulation of the Australian financial system. He is an honours graduate in Monetary Economics from the London School of Economics.

Peter Hooker
Peter has held such positions as an Industrial Analyst at BZW Australia (now ABN Amro), Director reporting to Head of Research, was on the Equities Executive Committee and Director and Head of Industrial Research. He has a B.Sc. in Chemistry, B.E. in Chemical and Materials Engineering, and Graduate Diploma in Finance and Investment. He has over 25 years of experience in investment markets.

Jonathan Pain
Jonathan has 30 years of international investment experience. He has held such positions as Chief Investment Strategist of HFA Asset Management, Chief Investment Officer of Rothschild Australia Asset Management, Head of Investments at Gulf International Bank in Bahrain and Chair of the International Asset Allocation Committee at Paribas Asset Management in London. He holds a joint honours degree in Economics and Politics from Keele University and a Masters degree in the Economics of Finance and Investment from Exeter University.

Ian Wenham
Ian has over 30 years of experience in equity research, investment strategy and portfolio management. He has held such positions as Equity Analyst with Meares and Philips and Research Director of BZW Australia covering equity strategy and industrial research. He was also Regional Research Director with BZW Asia and Director of Asian Research at Lehman Brothers Asia where he chaired the Investment Policy Committee and was the firm's supervisory Analyst for the Asia-Pacific Region. He has also managed strategic global equity investments for the Lowy Family Private Fund. He currently heads his own investment firm.

Richard Nicholas
Richard has over 30 years of experience in private client portfolio management in London, Hong Kong and Australia. Richard started his career with Deloittes in London before cutting his investment teeth with the Rothschild family. He was the founding Research Director at S&P Fund Research UK and Investment Director at Hill Samuel Pacific in Hong Kong. He has also held senior positions with Hambros Pacific in Hong Kong, Alliance Capital in Asia and ANZ Private Bank. He is currently Director at Peak Investment Partners.

David Croll
David has over 20 years of experience in stock broking and funds management. He has held such positions as a dealer on the options trading floor and manager of the branch office network for stockbroker Rivkin Croll Smith based in Melbourne. Since 1998 he has managed several private companies involved in options trading and investment in listed and unlisted equities. He is currently the Managing Director of Noontide Investments Ltd. He has a Bachelor of Arts majoring in Politics from Macquarie University.

Grant Patterson
Grant has over 30 years of experience in equity markets. Prior to forming Providence he was a Director of ABN Amro and Head of Retail Broking. He has also held other senior positions such as Senior Institutional Dealer, Head of the Sydney Institutional Dealing Desk and also Head of Corporate Liaison.

Michael Ogg
Michael has over 20 years of experience in investments, starting his career at JPMorgan Investment Management in London in the early 90s. In Australia, Michael worked for AMP Asset Management holding senior roles in Institutional Equities and for Deutsche Bank as a Client Advisor in Private Banking. Michael has an MA (Honours) Economics from Aberdeen University.

Stephen Christie
Steve has over 20 years of investment and finance experience, including Director and Head of Private Wealth for Ord Minnett, Chairman of the Ord Minnett Investment Committee and Head of Asset Allocation for Goldman Sachs JBWere Private Wealth Management. Steve holds a PhD in Applied Finance, is an Honorary Fellow at Macquarie University, an Adjunct Professor at Notre Dame University Sydney and a Trustee Director of major industry super fund QSuper.

James Smith
James has over 20 years of investment market experience (cash equities). Prior to joining Providence, he held the position of Deputy Head of Domestic Sales at CIMB Securities (Australia) and was a member of the CIMB Equities (Australia) Management Committee. He has also held positions as Director - Sales at RBS, ABN AMRO and Sales at Deutsche Bank. James was responsible for Melbourne Sales/Account management in his previous roles over the last decade and in the last two years, was also responsible for New Zealand.

Glossary of Terms

Active Managers	A portfolio investment strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index
Alpha	The level of outperformance relative to a benchmark
Alternatives	A non-traditional asset with potential economic value not found in a standard (or traditional) investment portfolio
A-REITS/REITS	Listed Australian real estate investment trusts giving access to property assets
BPS	Basis points
Cap Rates	The rate of return on a real estate investment property based on the income that property is expected to generate
Correlation	A measure of what degree two securities or investments move in relation to each other
CPI	Consumer Price Index
Credit Spread	The margin paid over the risk-free rate (government bonds)
Cryptocurrencies	A digital asset used as a medium of exchange, a source of digital currency
Cyclically Adjusted Price Earnings Ratio (CAPE)	The price of a security or index divided by the moving average of 10 years of earnings, adjusted for inflation
ECB	The European Central Bank
Economy-Agnostic	Unlikely to be impacted by the fluctuations in the economic cycle
ETFs	Exchange Traded Funds
Fiscal Stimulus	Increasing government spending or reducing tax levels to stimulate and/or support economic growth
FOMC/Fed	The US Federal Open Market Committee, the US central bank
GDP	Gross Domestic Product - a measure of an economy's total output
Gearing	A measure of how much debt a company has relative to equity
GFC	Global Financial Crisis
High-Yield Corporate Debt	Debt issued by a corporation that has a credit rating that is below investment grade
IMF	The International Monetary Fund
Inflation	When the inflation rate is above zero and the general price level of goods and services increases
IPO	Initial Public Offering - the first time the stock of a private company is offered to the public
ISM	Institute of Supply Management
Leverage	An alternative term for gearing i.e. a measure of how much debt a company has relative to equity
Long/Short	An investment strategy that involves buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value
Managed Futures	The use of futures contracts as part of an overall investment strategy providing portfolio diversification among various types of investment styles
Monetary Policy	The process by which a country's monetary authority (usually a central bank) controls the supply of money, traditionally by setting short-term interest rates
MSCI	A US provider of equity, fixed income and hedge fund stock market indexes
MSCI World Index	A market cap weighted stock market index of 1652 world stocks maintained by MSCI
NAPM	National Association of Purchasing Managers
Net Asset Value (NAV)	The value of an entity's assets less the value of its liabilities
Non-Correlated	An asset class that does not move in a similar direction to another asset class
Passive Investing	Asset management associated with mutual and exchange-traded funds (ETF) where a fund's portfolio mirrors a market index
PE Ratio	Price Earnings Ratio - the share price divided by the earnings per share of the company
PMI	Purchasing Managers Index
Populism	A belief that the majority of a population is being mistreated by a small circle of elites
Private Equity	Investment in assets that are not publicly traded
Relative Value	A method of determining an asset's value when taking into account the value of similar assets
Sovereign Bond	A bond issued by a government
Systemic (issues)	A problem due to inherent issues in the overall system rather than a specific or isolated factor
Total Return	A measure of return that takes into account capital appreciation and income received by a portfolio
Variable Beta	The ability to significantly change exposure to the market depending on the view of the fund manager
Volatility	The degree of variation of a price over time

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