Providence
Independent Investment Advisory

Global Outlook & Strategy

Issue 71: 4th Quarter 2018

Bad Moon Rising

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1. KEY POINTS

- **We are late in the cycle and expect volatility to increase**
- **Valuations remain stretched coupled with optimistic long-term US earnings expectations**
- **Global debt levels are elevated in an environment of increasing interest rates**
- **Inflation signals are increasing and underestimated by the market**
- **US/China economic tensions to start causing concerns**

Bad Moon Rising

"I see a bad moon a-rising
I see trouble on the way
I see earthquakes and lightnin'
I see bad times today"

Creedence Clearwater Revival

The winds of change are starting to be felt with strong US growth and the lowest unemployment rate since the 1960s feeding into higher US interest rates. Additionally, the rhetoric between the two largest global economies has moved up a notch causing significant concern around US/China relations.

Although not discounting the potential for a "melt up" in asset prices (given the strong global growth picture) we believe that caution is warranted.

Global debt to GDP is twice the level it was in 2008 whilst the US 10-year bond yield has risen 80% over the past year. Within US equities the price-to-sales ratio remains at the same level as it was in 2000, while price-to-book valuations are higher than 2007.

We believe the market remains too complacent about the potential for higher inflation in the US resulting in higher US bond rates and the flow-on effect this has on valuations.

Different this time? Maybe, but the result may be the same.

One way to look at the current environment, while acknowledging it is impossible to accurately predict turning points, is to determine what you don't want to bet against and where you don't want to invest on a risk/reward basis.

We would not discount the potential for:

- Significantly higher inflation expectations and higher US bond rates
- A deterioration of US/China relations and disruption to global trade
- A sharp negative readjustment to equity markets
- A widening of credit spreads
- A recession in the US in the next couple of years
- Further decline in Australian house prices

A repricing of risk premia is warranted and volatility is likely to increase.

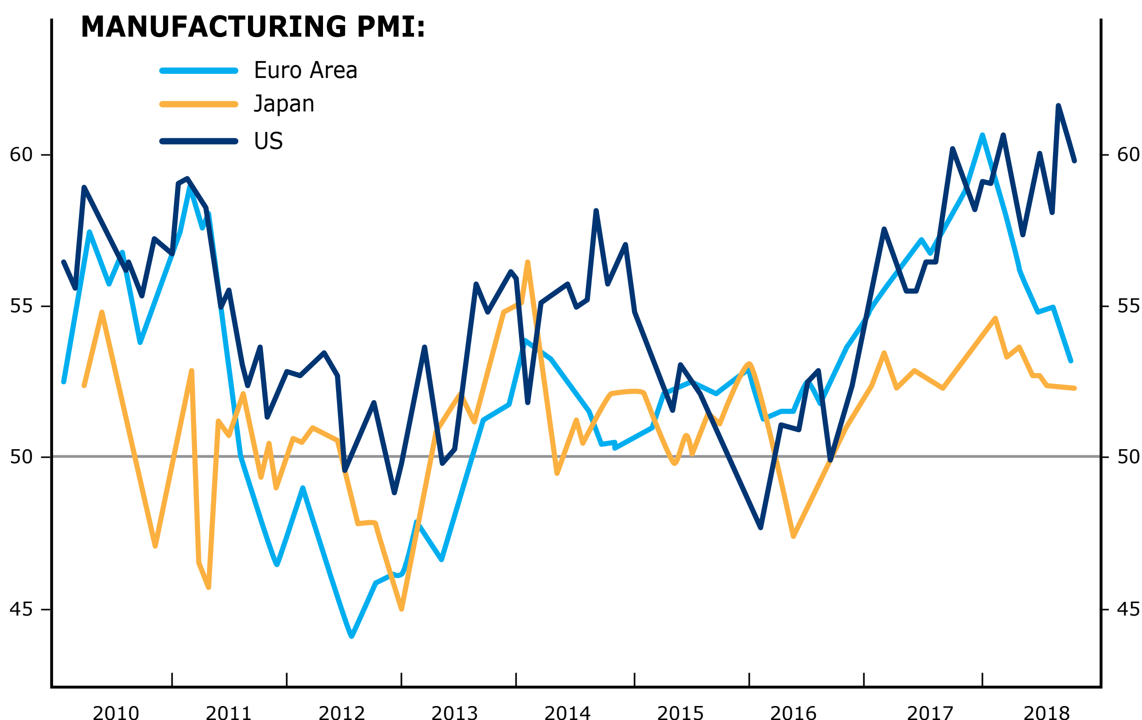
At this late stage of the cycle, we believe it prudent for portfolios to be defensively positioned.

2. INVESTMENT OVERVIEW

Global growth remains strong at 4% with central bank policy still accommodative, although reducing. Growth in the US remains very strong and is broad-based, with leading indicators exhibiting positive momentum. This strong growth could not only result in rising interest rates and inflation within the US, particularly given the extremely low unemployment rate, but also a late stage rally in equity markets due to strong earnings growth and continued momentum. This is the second longest US expansion in history, albeit one of the slowest.

However, there is divergence in growth momentum in other economies (**Figure 1**).

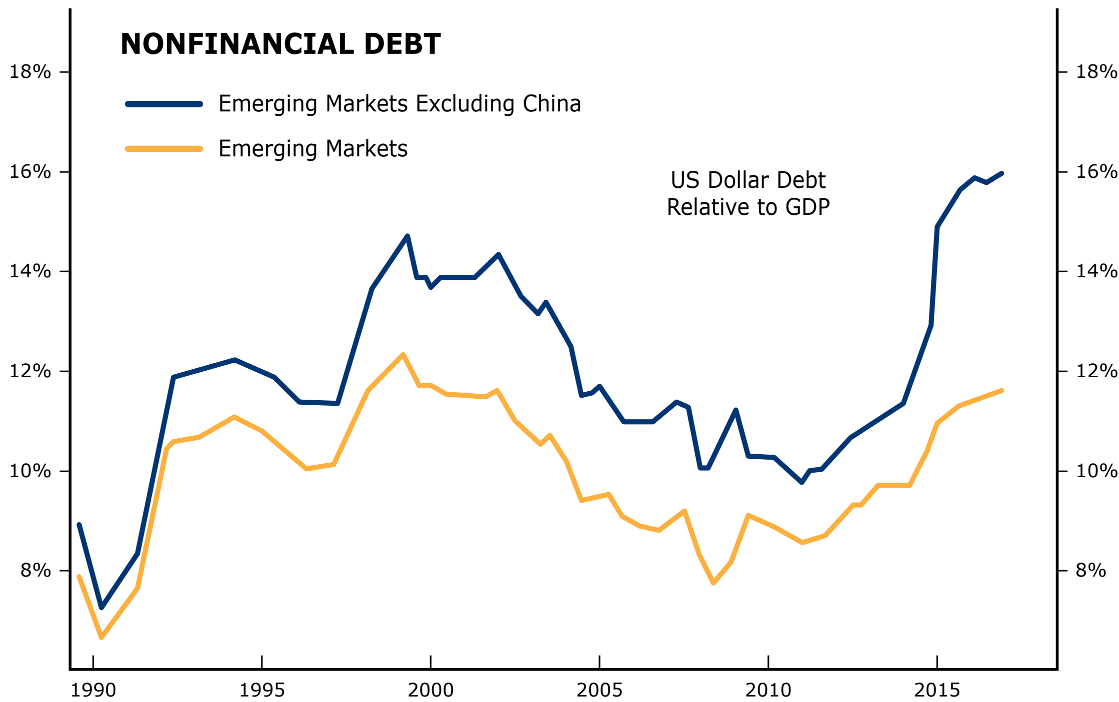
Figure 1: Growth divergence in key developed economies is very evident
Source: BCA



Despite a substantial share market correction this year (China's Shanghai Composite Index is down ~23 % year-to-date), the Chinese economy appears remarkably sound and is still growing by over 6.5% year-on-year. While there has been a slight pickup in retail sales recently, manufacturing PMI (an index measuring the level of manufacturing) currently sits at 50, indicating a flat outlook. A recent vehicle sales report (down 11% year-on-year) is perhaps more telling, indicating some slowing and evidence of the real-time impact of the government engineered efforts to stem elements of financial leverage. Chinese corporate debt to GDP remains problematic and deleveraging is starting to bite. A blessing in disguise for China may be that their debt burdens are largely contained to internal debt. This cannot be said for many emerging market (EM) economies which are laced with USD denominated debt (80% of EM foreign debt is in USD) (**Figure 2**) and may explain the recent sell-off in some of the more challenged EM countries. The USD appears wedded to the path-of-least-resistance (up) and this will continue to put pressure on the overly leveraged EM economies. Ultimately, the rising USD will put the pinch on the US multi-nationals that export. But that's a story for another day and remains 'on watch'.

Figure 2: USD denominated debt in emerging markets is elevated and feeling the pinch with the rising USD

Source: BC

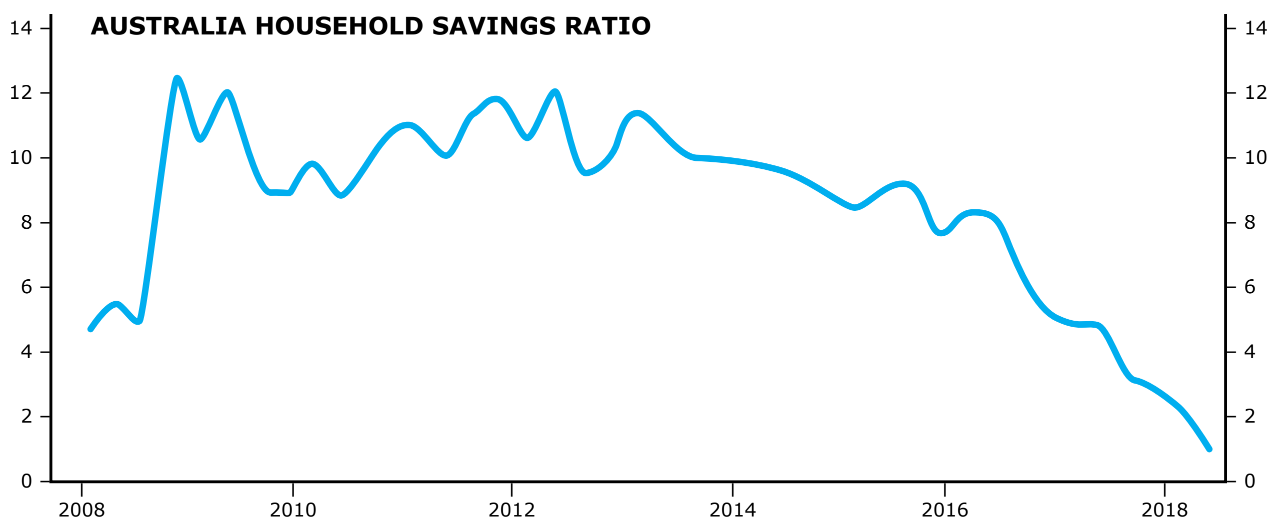


Japan's economy has improved substantially, at 3% annualised growth. Along with a slightly better wage outcome, Japan is one of the few countries experiencing real wages growth. The Euro area is struggling to maintain the momentum of 2017, although still above trend, with core inflation starting to rise.

Australian GDP growth has been higher than "it feels" with the June quarter GDP running above trend at 3.4 %. A solid clip. This was driven partly by strong employment growth and a reduction in savings. The savings rate has declined from around 12% to 1% (**Figure 3**) at a time when household debt has risen to 120% of GDP. It appears Australians have become accustomed to funding their lifestyles via their balance sheet.

Figure 3: Australian household savings ratio is now at a 10-year low

Source: ABS



However, the headlines sometimes ignore the impact of compulsory superannuation to net wealth. The value of assets held by Australians continues to grow faster than debts, resulting in average per capita net wealth being 30.5% higher in 2017 than 2007 (adjusted for inflation). Average personal assets are now worth 7.9 times average debts, compared with 7.2 a decade ago.

Despite this, there are real concerns regarding the sustainability of current growth rates in Australia (household debt levels, lack of wage growth, falling property prices, election uncertainty and trade tensions). It is likely there will be no increase in official interest rates in the next 12 months in Australia given the potential fallout from trade disruption, US/China tensions and the pressure in residential property prices. The caveat here is if the Australian dollar goes into free fall.

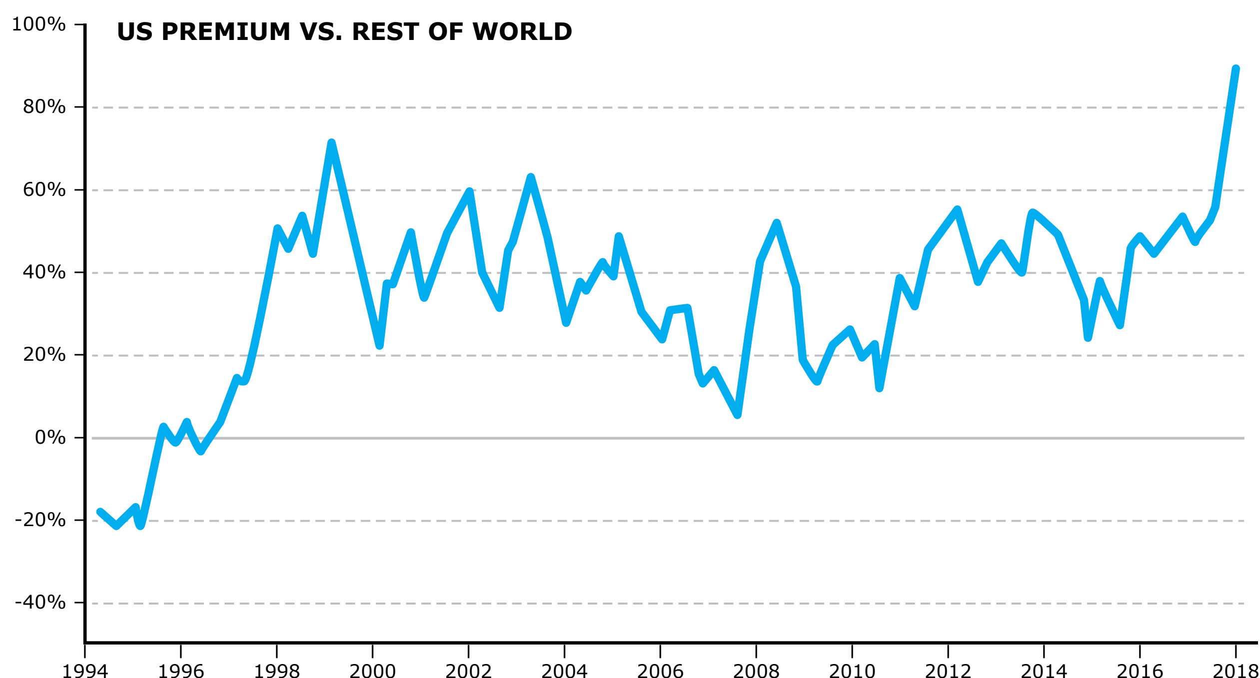
The election and potential for a Labor victory creates greater uncertainty for Australian assets with the possible removal of negative gearing, a reduction in the capital gains tax concession for property and the removal of franking credits. There is already pressure in the housing sector with substantial falls in some apartment markets and defaults as a result of tighter lending standards by the banks.

3. ASSET CLASS REVIEW

3.1 Equities

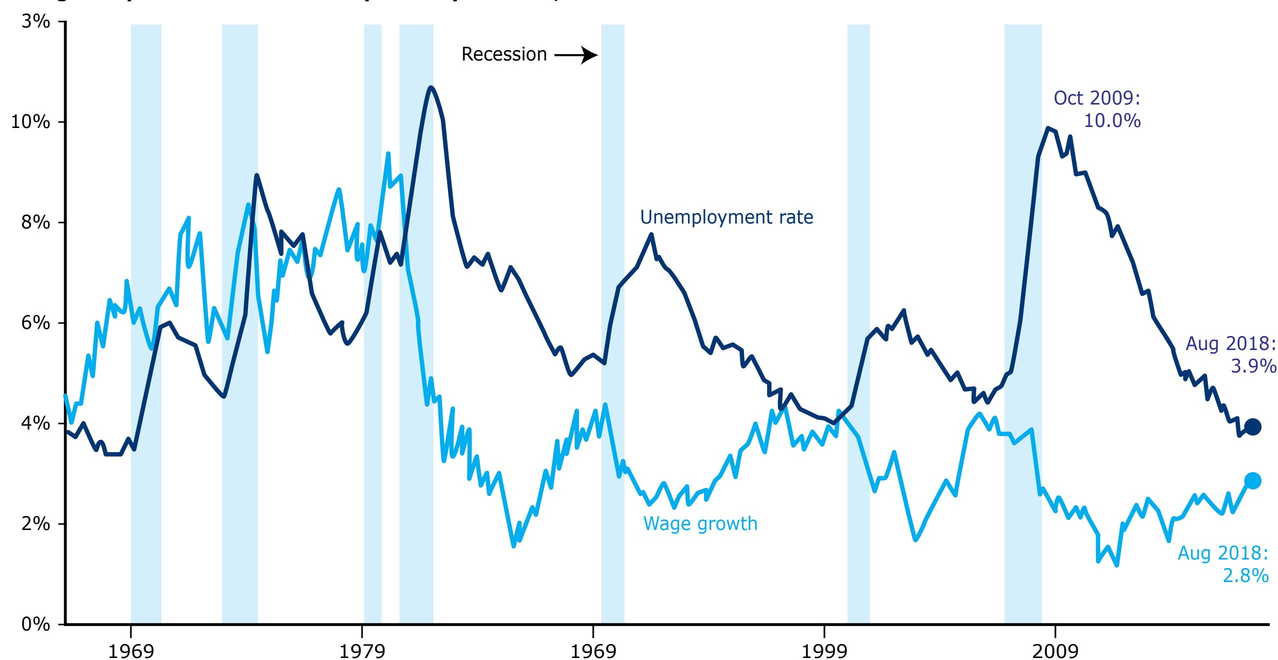
The US equity market bull run is one of the longest on record (9.5 years) with the S&P 500 Index up 310% from its March 2009 low. US equities have never been more expensive compared to other global markets and are now at levels eerily similar to the 2000 dot com boom/bust (**Figure 4**).

Figure 4: US equities remain very expensive relative to rest of the world
Source: Platinum Asset Management



However, the equity risk premium (ERP) of 4.85% which is still above the long-term average of 4%, suggests investors are still being adequately compensated for owning equities vs bonds on this measure. Assuming US bond yields continue to rise, this risk/reward compensation for US equities will be tested. The well-followed and much revered Shiller PE ratio (based on average earnings over the past 10 years) is still elevated at 31x. For this to mean-revert-back to long-term averages, the US equity market would return a modest 1-5% p.a. nominal over the next decade (source: BCA Research). Forward earnings assumptions in the US also look particularly optimistic, at 16% p.a. forecast growth over the next five years. This appears especially ambitious, given record margins, a rising USD and the potential for significant wage growth now that unemployment is at all-time lows. The elusive but looming pincer moment where a tight labour market and rising wages scenarios plays out, is coming (**Figure 5**). There is plenty of anecdotal evidence in the US of employees changing jobs and achieving higher wages.

Figure 5: US unemployment is at historical lows. Wages growth is set to follow
Source: JP Morgan



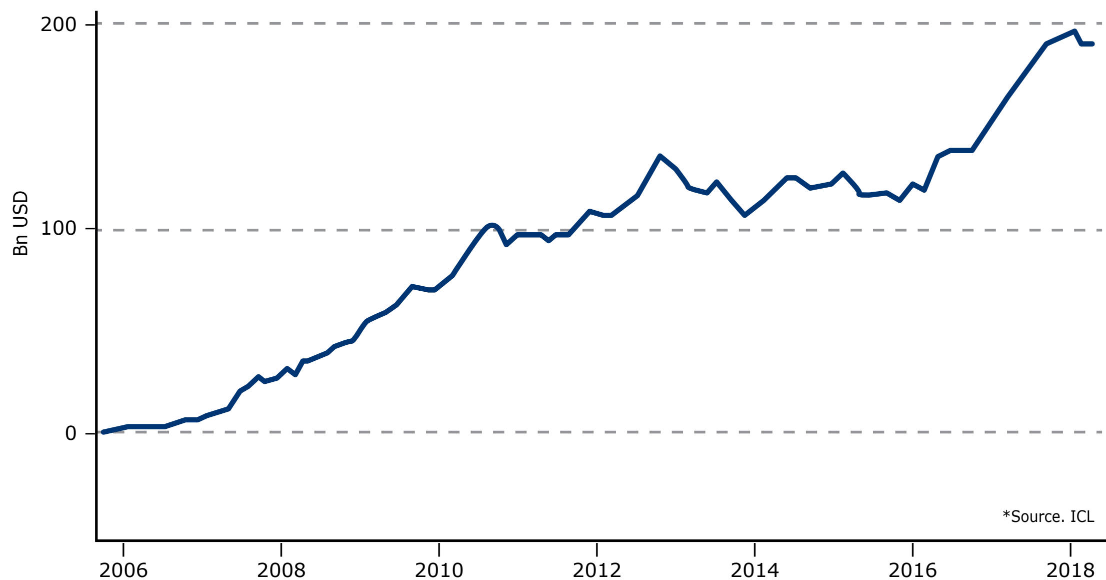
Why this remains such an important factor is that it could test John Maynard Keynes' theory about the *Marginal Propensity to Consume*. Many workers in the US saw their salaries and take-home pay decimated in the GFC. If these lower paid workers start to enjoy higher pay-packets, the likelihood of that extra money being spent is very real. Hence the inflation train may have left the station already.

The recent sell off in emerging markets equities has been mild compared to other major turning points. It is tempting to reweight into those markets given the recent sell off. However, given the quantum of corporate debt in the US in a rising interest rate and USD environment, coupled with potential trade tensions, we do not believe now is the right time.

Investor money flow into EM is still very elevated (**Figure 6**), and the risk to emerging markets and economies considering the above-mentioned factors plus trade tension fall out also remains elevated. Emerging markets may be the cause for de-risking to continue.

Figure 6: Emerging market investment flows have been significant and at risk should any EM economies tip over. ETF flows reflect money invested into EM share markets via exchange traded funds

Source: BCA



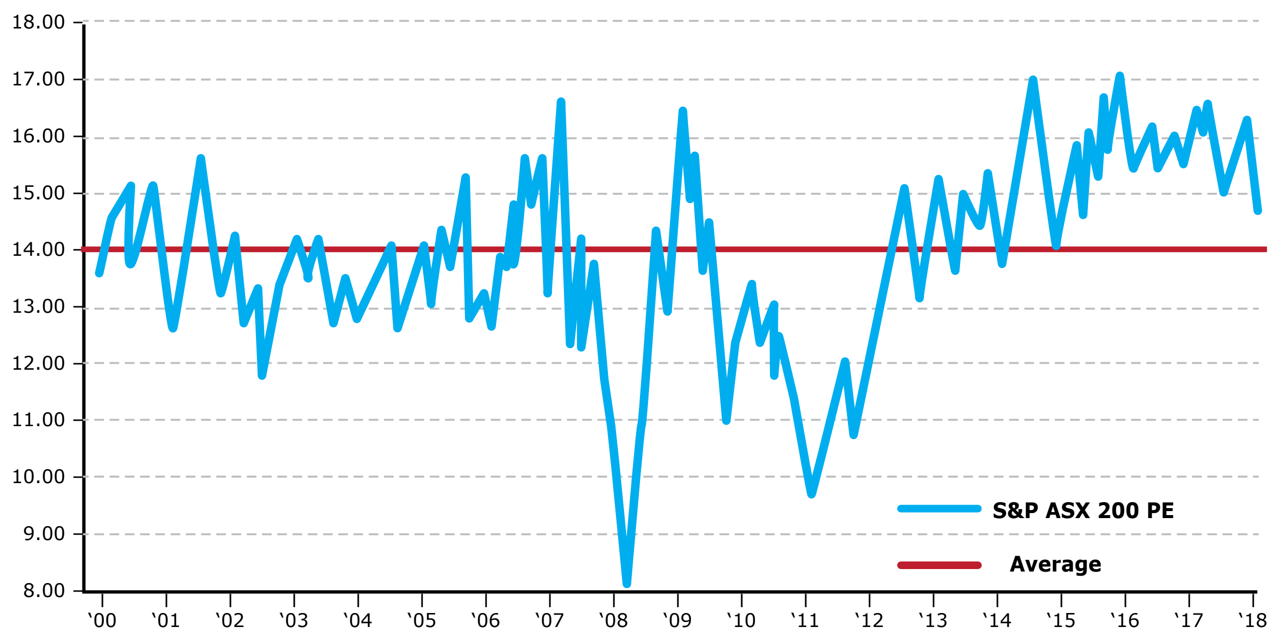
European equites are better relative value but do not have the earnings growth of the US.

The Australian equity market's future direction, in many ways, rests with the view on the banks. We have seen substantially under-weight Australian banks for some time. The bank sector is now down 10% in price trems over the past 12 months. The four major banks, however, do offer a current prospective grossed up dividend yield of ~9.4% and a lot of bad news appears factored into share prices post Royal Commission. With that in mind, the sector may have found a floor in the short-term. The extent of any material housing-related stress and the implications for Australian banks as a result does however remain an unknown.

We can only lament the poor corporate governance and board direction of the Australian financial services sector. We have always held the view that there is an inherent conflict of interest in manufacturing of product and the provision of financial advice along with commissions. We are proud of always providing truly independent investment advice.

The ASX has underperformed global equity markets for some years and we have maintained a greater exposure to overseas equities during that time. Looking ahead, PE multiples in Australia have retracted and do not look as excessive, trading closer long-term averages of 14.0x (**Figure 7**), offering a dividend yield of 4.9% and with EPS growth forecasts (ex-resources) at a modest 2-7%. It may be time to revisit Australian equities vs global equities once the housing sector stabilises and the Federal election is out of the way.

Figure 7: Australian forward price/earnings ratio multiples are now close to long-term average
Source: Factset



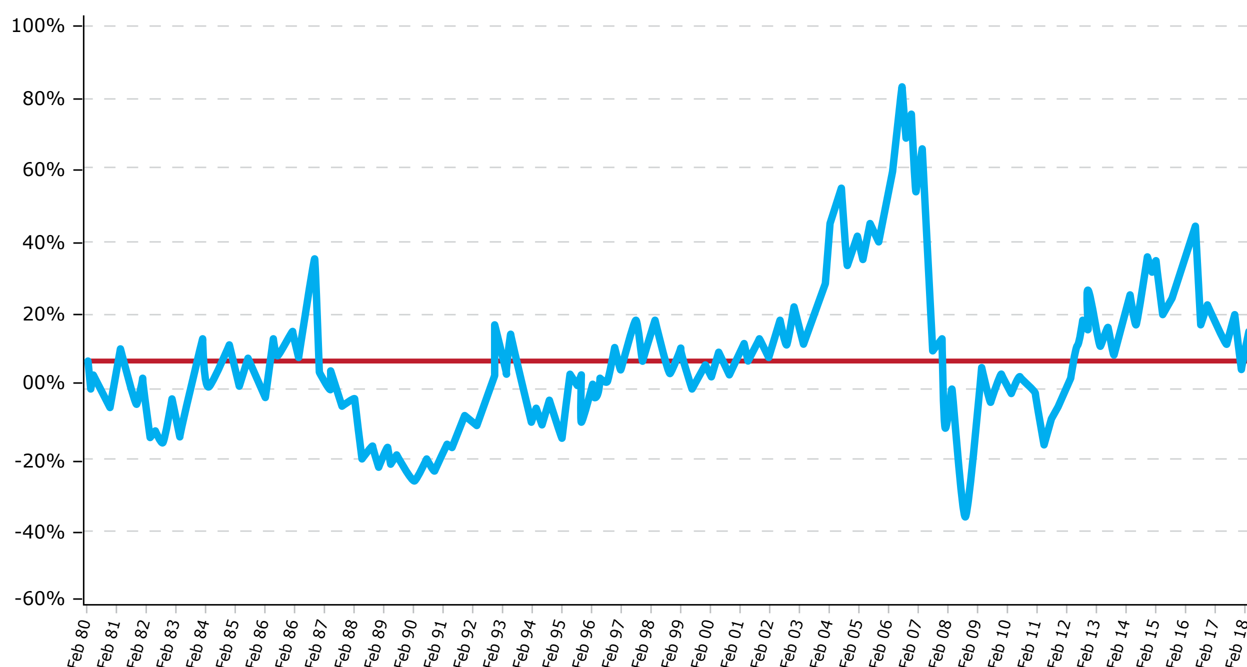
For our international equity exposure, we are maintaining a stance of not hedging back into the Australian dollar given the potential for further weakness.

3.2 Property

The press is currently focused on falling Australian residential property prices. To date this has largely been confined to recently completed apartments in certain areas. There is evidence that settlement risk is starting to be felt in several developments as purchasers have been unable to raise the required debt on the same terms as previously approved by the banks. This slowdown has some way to run, although given strong population growth, will work its way through over the next couple of years. Australian bank funding rates are going up which will be passed on to borrowers.

With regards to listed REITs, we note the sector is currently trading at a premium to NTA above its long-term average (**Figure 8**). We gain some comfort given the low levels of gearing within the sector relative to history (current gearing within the sector is ~27%). Interest cover is a solid 5.7x and the forecast dividend yield is just above 5%. Any material weakness in REIT share prices is likely to be met with buy-backs given the strong balance sheet position that most REITs are currently in.

Figure 8: REITs long-term price to NTA
Source: SG Hiscock



3.3 Fixed Income

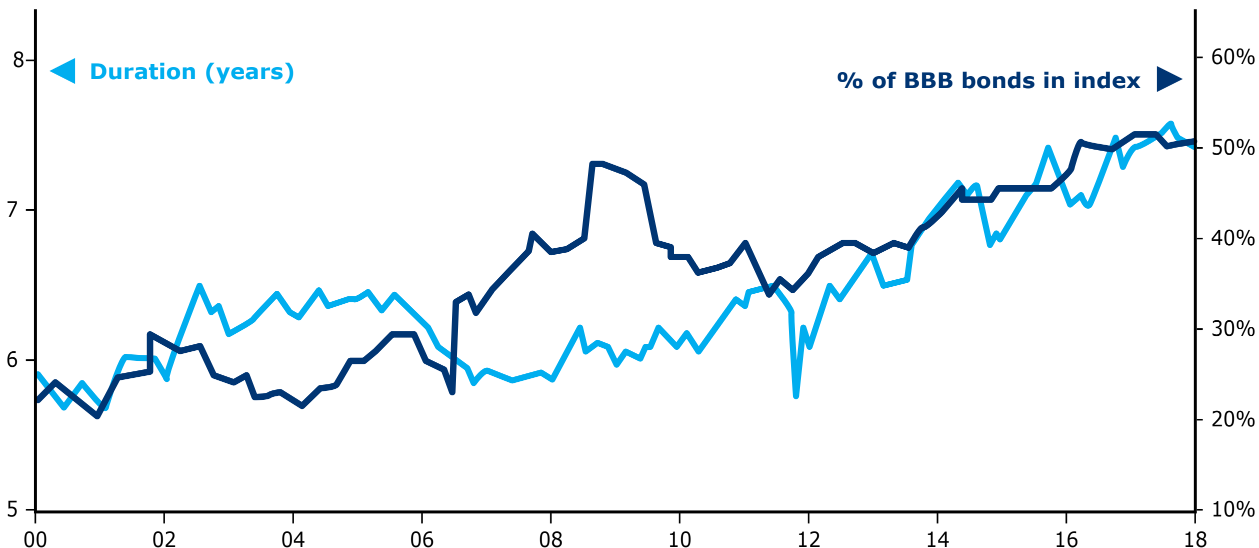
Leverage levels across the globe remain elevated after a decade of steady, albeit anaemic, growth. In addition, there is some evidence of a relaxation of lending standards with covenant light loans becoming more prevalent. In investment grade credit, the proportion of BBB loans now account for 48% of the index (**Figure 9**). Credit spreads have tightened, although not back to pre-2008 levels. Long-term interest rates are rising which undermines the value of fixed interest rate loans (see *Insights from the Research Department* at the end of this report).

There has been a plethora of loan funds launched in Australia over the past six months looking to replace reticent bank funding (especially in property). At this stage of the cycle, we are cautious to invest in this area although there will be attractive opportunities for managers that have a strong discipline and risk management process.

We have little duration in our fixed income portfolios given our stance of potential higher interest rates which would undermine the value of longer duration assets. There will be a time to reweight here in the near future.

We have been moving up the credit curve to asset-backed securities, reducing long duration Hybrid exposure and retain a zero weighting to international government bonds.

Figure 9: US BBB rated loans are now a far greater proportion of investment grade loans
Source: JP Morgan



3.4 Alternatives

Alternatives continue to provide a source of diversification across assets, geography and strategies for portfolios. Many strategies are not correlated to equities or credit and provide an adequate return above cash with lower volatility of risk assets. We have a preference for market neutral, long short equity funds and private equity. Those managers that benefit from higher volatility should now have their time in the sun.

4. CONCLUSION

We retain our cautious view regarding the outlook for risk assets given the tailwind of excess liquidity and ultra-low interest rates reversing. We do acknowledge, however, that there can be powerful rallies late in the cycle. We believe markets are underestimating the threat of inflation and much higher interest rates in the US and the seriousness of US/China economic "cold war".

We believe that a recession in the US is a real possibility in the next three years with lacklustre global growth returning.

As we see increased volatility and potential weakness in asset prices we will look to deploy the cash that has been built up over the past 18 months.

4.1 Opportunities

- Deployment of excess cash where opportunities arise from market weakness
- Select direct property investments in boutique sectors or special opportunities
- Possibly value managers vs. growth managers in equities at this part of the cycle
- Uncorrelated alternative assets

4.2 Risks

- Trade tensions spill over to economic growth and have broader implications longer term (such as being inflationary)
- USD continues to rise, putting pressure on emerging markets with significant debt burdens
- US inflation materialises in a meaningful way and catches the US FED off-guard (requiring rates to move higher, faster)
- US bond yields rise much faster and further than the market currently anticipates
- More severe downturn in Australian residential property prices

4.3 Implications

- Expect heightened volatility
- Very selective deployment of cash
- Patience and discipline required, no free ride
- Solid diversification

Insights from the Research Department

Changes in the Fixed Income landscape

In a "normal" economic environment, Government bonds are safe haven assets. The old 70% growth/30% income portfolio provided enough diversification such that in negative markets, Government bonds would outperform and cushion portfolio drawdowns. Correlation between equities and bonds became negative during market shocks. This was a reliable expectation as investors would sell risk assets and flood to the safety of Government bonds.

Ten years after the Global Financial Crisis and the Federal Reserve's experiment of Quantitative Easing (QE) which commenced from Dec 2008, central banks around the world have coordinated monetary policy to suppress front-end interest rates to the floor. Real interest rates remain negative for much of the developed world. There are several consequences to this:

- All assets have been repriced to a much lower risk-free rate (US 10-year bond), which has led to an incredible rally in almost all investment assets
- Rational investors, which seek positive real returns, are forced into riskier assets where returns are greater. They are not being rewarded by holding low yielding government bonds
- The diversification benefit of bonds is much less likely, as bond yields have less scope to go lower from a low base (e.g. the RBA was able to cut interest rates from 7.25% to the current 1.5%). There is less manoeuvring range for central banks to operate when the next crisis hits
- Certain fixed income alternatives have come to market as unconventional proxies for bonds. Property providing rental income yield, high yielding equities, infrastructure assets, high yield bonds. The chase for yield has led to other yielding assets looking more attractive relative to low yielding Government bonds
- Duration has been extended out as corporates and governments take advantage of cheap borrowing rates. A recent bond issuance by Comcast Corp sold US $27b of unsecured bonds, the longest duration component being 40yrs at 1.75% above US Treasuries
- We are witnessing the emergence of style drift. Investors are being lured further and further outside their normal risk appetite to achieve their expected returns, without understanding that they are taking more risk within their portfolio

After 10 years of Quantitative Easing, we are no longer in a "normal" economic environment.

For the first time in history, around 50% of US bonds are rated BBB, just one notch above junk bonds. Corporate leverage is on the way up and there is strong concern that BBB debt is now riskier with US interest rates rising, as corporates pay a margin above swap. Net leverage with BBB investment grade is close to 3x, this is worse than where it was through the GFC between 2-2.25x. Despite lower interest rates, interest rate coverage for BBB corporates have declined from a peak of 11.4x in 2013, to 8x.

There is an increasing risk that corporate debt instruments (which are at the lower end of the investment grade spectrum) can lead to 'fallen angels' that are stripped from investment grade to junk bonds. This, in turn, can cause an exodus from institutional investors that cannot invest in that area.

Another issue is the creation of Exchange Traded Funds (ETFs) that rely on trading of underlying investment grade bonds. The problem here is that the majority of corporate bonds issuance are Over The Counter (OTC) instruments. There aren't natural buyers of OTC instruments, these are typically reserved for institutional investors, sophisticated investors and large insurance/ pension funds. They are not Exchange Traded, trading visibility is difficult to determine and

market liquidity can quickly dry up. With ETFs dependent on reliable pricing of the underlying bonds, gapping is likely to occur with large bid/offer spreads if corporate bond liquidity falls off. This could be at the same time as corporate defaults start rising due to increased rate hikes by the Federal Reserve, particularly for those which have feasted on cheap debt.

We have been wary of these changes and remain vigilant within fixed income. The next crisis may not start from equities. It may start from bonds. Bonds which are meant to be "safe" income producing assets.

Thoughts from a Contrarian

The long-awaited pullback in Australia's residential property market appears to have finally arrived. Most believe prices will remain subdued for a time but dramatic falls from current levels are unlikely. In the spirit of trying to find flaws in the prevailing consensus it's worth examining potential scenarios where a dramatic fall could eventuate.

In a typical boom bust cycle forced sellers ultimately trigger a crash. Buyers of inflated assets with leverage are compelled to offload, the value of collateral plummets and a self-reinforcing cycle sets in. The Australian property market is not exactly short of overleveraged buyers holding overpriced assets. Many, however (particularly younger people with families), are unlikely to sell in a falling market. The toxic combination of evaporating equity and exorbitant transaction costs makes downsizing difficult and jumping off the property ladder with equity diminished or gone means you may never climb back on. The only thing that would force this group to sell would be rising interest rates and that's unlikely if there's a significant fall in house prices. It's not like the economy is going to be overheating if everybody's major asset is in freefall.

Property is different to the stock market. In the latter we are forced to accept the price that a given company trades at as its value. When it comes to property, we tend to just decide what our house is worth and go with that number. With prices currently about 10% off their peaks in parts of Sydney and Melbourne try to find anyone who thinks they are underwater. If prices were down 25% you may find one or two who admit to a small loss.

Where then are our forced sellers? In answer, you could make a case that there are potentially hundreds in most suburbs. I'm referring, of course, to the army of people at or near retirement still living in the family home with the children long gone. Most are not particularly well off. They have built up an amount in super but ultimately need to sell the family home, downsize and top up their super for a comfortable retirement. With a rising property market there has been no particular reason to sell and many have delayed the decision to downsize.

In planning retirement, a minimum amount is required in super to maintain a given lifestyle. When stock markets and property were going up this hurdle would have seemed easily achievable. However, with super funds overweight in underperforming bank shares, property on the skids and transaction costs chewing up a portion of funds released, the minimum amount required is probably getting uncomfortably close for some. Will this demographic behave like forced sellers or simply nominate the price they think their house is worth and wait for a buyer? It could be a long wait during which any one of the dozens of people in a given suburb in the same boat decide to accept the lower price.

Comments from London

The number of issues to discuss within Europe and the UK continue to grow. To some extent they are all interrelated, either directly or indirectly.

Brexit negotiations are ongoing with the likelihood of a "hard Brexit" increasing, a prospect that many believe the UK is not prepared for. So how did we get here? Starting with the UK, they have a staunch "remain" supporter as Prime Minister coupled with a "remain" cabinet trying to negotiate an exit from the EU. This is an unnatural stance from which to negotiate the wishes of the staunch and democratically elected "leave" contingent.

From the EU perspective, we need to view the Brexit negotiations within the context of what is occurring in wider Europe. There are several more pressing issues that are currently engulfing the minds of the European Commission. Firstly, the newly formed Italian populist government has submitted an expansionary budget plan that breaches their previous commitment to reducing their budget deficit. In fact, the budget forecasts a deficit that is three times higher than the EU mandated target. Approval of such a budget by the EU could also create backlash from other nations within the bloc who have committed to abiding by these rules and therefore creating more instability and anti-EU rhetoric in the region.

Secondly, Angela Merkel has historically been responsible for solving complex issues that face the EU, however she is now coming from a weakened position. The Grand coalition that she formed only six months ago is losing ground quickly to populist parties and, as such, she is now under pressure as leader of the existing coalition. And finally, and somewhat related to the issues in Germany, the rise of populist parties is spreading. Since 2008, the growth of such far-right political parties has been astounding and unsurprisingly the most significant growth has occurred in countries who have struggled with economic growth. Greece and Italy top this list with each country having a 17% and 8% populist vote in 2008 respectively, which has now grown to 54.6% for Greece and just over 50% for Italy.

The political realm is no doubt interesting to watch, but the implications for financial markets are more concerning.

Once again starting with the UK, they are well behind the curve regarding monetary policy given a ~4% unemployment rate. To be sure, unemployment has remained low in the UK for some time without any impact on wage growth, however recent developments suggest that this may be turning. Much like in the US, Amazon in the UK increased their minimum wage by approximately 28%. While only one employer, the September reading of wage growth noted a 2.9% annual increase (up from 2.7%) at the prior reading in June. However, the Bank of England is unlikely to raise rates without clarity around how Brexit will unfold. Especially given their own forecasts for a hard or "cliff edge" Brexit have the UK "GDP falling by 5%, commercial and residential property falling over 30%, the bank rate increasing by 4% and unemployment rising to 9.5%". As previously mentioned, the preparations for such a scenario are lacklustre to say the least.

Finally, on Italy. The financial system is stuck in what is widely termed the "doom-loop". That is, the banks hold a sizable portion of their own Governments debt (10.4% of their assets in the case of Italian banks) whose value falls when yields rise therefore limiting the amount they can lend hence slowing economic growth. As such, increasing government bond yields rise, reducing their value held as bank assets. You can see how the loop unfolds. The move in Italian 10-year bonds to over 3.5% from roughly 1.75% should not be underestimated especially when considered in the context of the budget which intends to further increase government borrowing. Contagion risk in the Eurozone has reduced somewhat since the Greek crisis, however, how this unfolds is of great interest to the stability of the region.

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

Term	Definition
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
ERP	Equity Risk Premium
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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