Providence
Independent Investment Advisory

Global Outlook & Strategy

Issue 73: 2nd Quarter 2019

Jib Set

1. KEY POINTS

- **Global growth has clearly slowed - expect a rebound second half**
- **Mixed messages regarding outlook from investment markets**
- **Current central bank policies supportive of risk assets in the short term**
- **Near the end of the US cycle, wary of longer-term outlook**
- **Struggling to find value**
- **Positioning for next downturn**

Jib Set

Storm jibs are a necessity when sailing off-shore in areas with a risk of high winds and heavy weather.

Global growth has weakened over the course of the past 6 months giving rise to the stunning reversal of a tightening bias to a more neutral stance from the US Federal Reserve.

There are currently mixed messages from investment markets regarding the global growth outlook. We have noted volatile and somewhat misleading data points across key economies throughout the first quarter of 2019. That said, trade volumes are now showing a tepid sign of stabilizing. What we do know is that the data in Europe remains sluggish, data in the US may still be impacted by the Government shutdown at the beginning of the year and overall, the signals that we rely on to gain an understanding of how the global economy is tracking remain blurred. The US economy, however, remains late cycle and the labour market data appears to remain robust. Yet inflation remains subdued across the globe. This in many ways has set the scene for the more dovish tilt from central banks yet again, led by the US FED's fascinating backflip on their interest rate narrative over a matter of months.

Risk assets have rallied strongly since the December lows, with investors content that global growth will pick up in the second half and interest rates will remain low. The message from central banks in the first quarter has essentially supported this return to risk-on. The "can has been kicked down the road" once more and has reopened a window for risk appetite.

Government bonds are however sending a more bearish signal, indicating looming economic weakness and a potential US recession via the much-publicized yield curve inversion.

We are of the view that global growth will bottom this quarter and rebound modestly throughout the year. The Fed will remain on hold until there is a clear sign of a pickup in global growth and a resumption in the upward trajectory of US inflation, thus providing a supportive framework for risk assets in the short term. The equity risk premium (see glossary) is providing a more favourable backdrop for investing in the equity market for now, driven predominantly by lower government bond yields. What we don't know is how willing the FED is to allow the US economy to overcook in an attempt to spur inflation, and if so, how far are they prepared to stretch the rubber band.

We are mindful that we may be near the end of the strong investment cycle driven by unprecedented central bank liquidity. The combined influences of Quantitative Easing and Quantitative Tightening coming together after a decade of favourable asset revaluations remains untested. The volatility and market performance seen in the fourth quarter of 2018 and the first quarter of 2019 may well become the norm for the foreseeable future as central banks continue to test the waters in their attempts to unwind these unconventional policies from the post-GFC era.

It is prudent to be investing with this in mind rather than trying to time any correction/downturn.

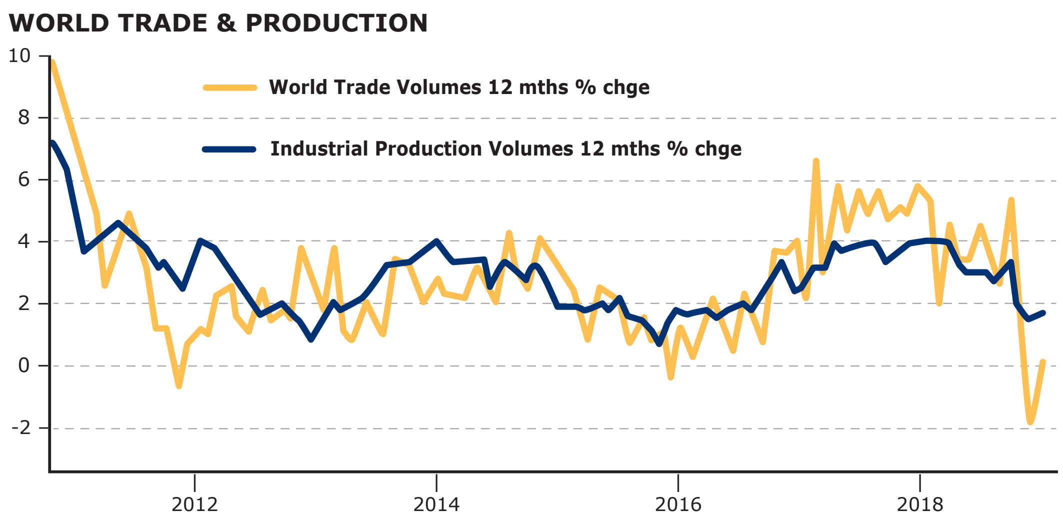
The questions to ask are: what don't I want to own in a correction, how can I limit the drawdown, what liquidity do I need? Are the foundations being laid for an ultimate clash between those who set the policies and those who invest (the markets)?

2. INVESTMENT OVERVIEW

Global growth has weakened over the last 3-6 months and we noted in April the International Monetary Fund (IMF) lowered their Global growth forecast for 2019 to 3.3%, down from their previous forecast of 3.5% set in January. The IMF appears to have been caught on the hop, much like many in the investment community, adjusting growth assumptions down over the latter part of 2018 and into 2019. Interestingly, the IMF are now projecting a slowdown in growth in 2019 for 70% of the world economy. This makes the task of the "data dependent" central banks even more difficult. The data, especially inflation, is just not presenting itself in any meaningful way. A significant contributor to the current spell of weak data has been a result of falling global trade volumes, partially due to US/China trade tensions. However, there is now some tepid sign of stabilization to trade volumes (**Figure 1**). A resolution of the trade tensions between the US and China would also add to the current central bank aided risk-on revival.

Interestingly, the IMF also touched on the credit markets in their most recent global update, indicating that leveraged loans to highly indebted borrowers was "an area of particular concern". We will address this point in section 3.2.

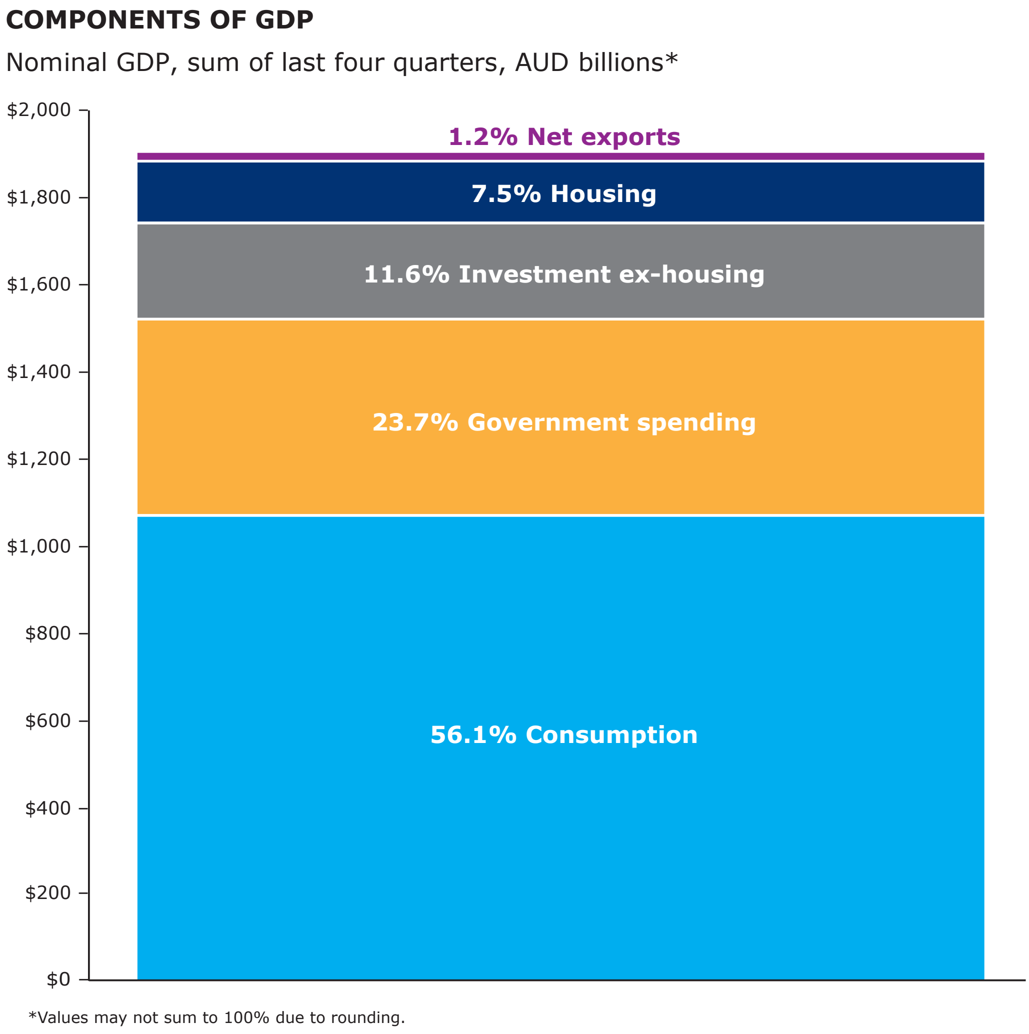
Figure 1: World trade has been particularly weak in the latter part of 2018 and into 2019, impacting production. Tepid signs of a recovery appear to be emerging.
Source: Heuristic Investment Systems



HOME CONTENTS CONTACT

Within Australia, falling housing construction approvals (down 32.6% over 12 months), high household debt levels and lack of wages growth has begun to impact household consumption which dominates Australian GDP (**Figure 2**). The significance of the fall in construction-related activity for Australia should not go unnoticed. Construction is the 3rd largest industry in Australia, producing 7.5% of Australia's GDP and employing 10% of the work force. We are yet to see the multiplier effect of a drop off in construction activity, although we expect this will take time to filter through.

Figure 2: Australian consumption is a dominant component of Australian GDP.
Source: JP Morgan



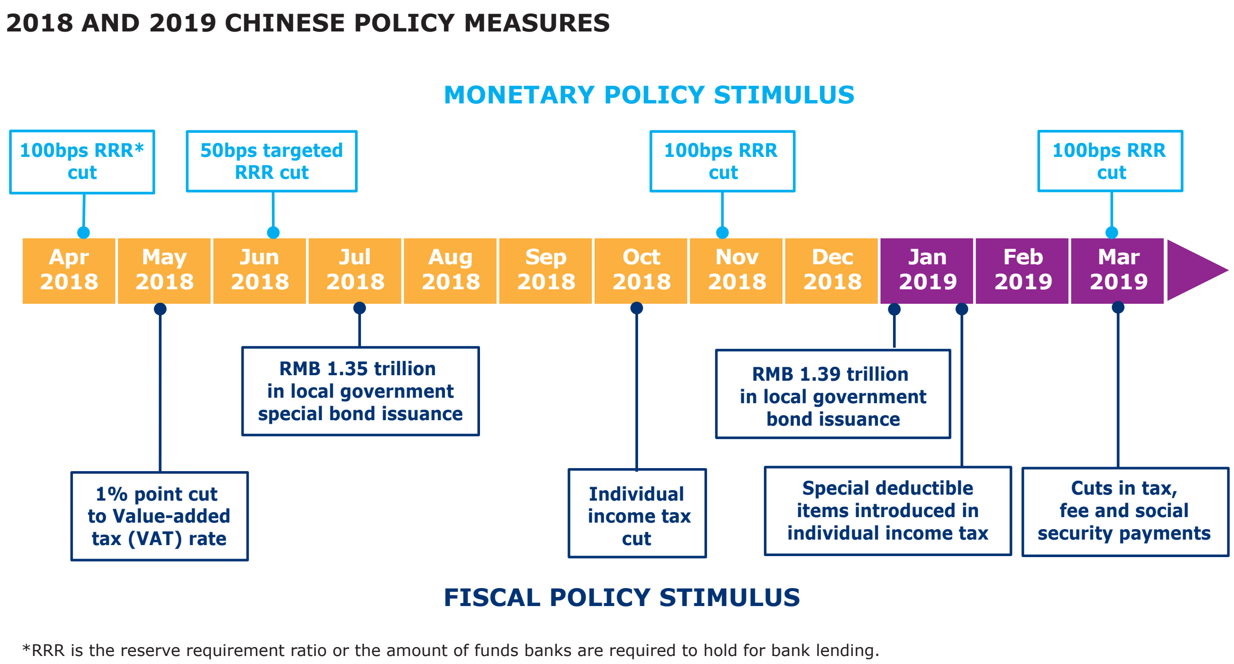
Last year we commented that the slowing housing market and the commensurate slowdown in consumer spending resulted in us allocating to Australian government bonds to provide some protection to portfolios. We remain concerned as the housing downturn develops. Offsetting this weakness, has been strong exports and public infrastructure spending, with more of the spend likely to come through via a stronger Australian budget position (perhaps a saving grace) and both sides of politics throwing cash around to woo the marginal voter in the pending Federal Election. This increase in spending may provide an element of buffer within the construction sector, as those laid-off from housing-related construction can migrate to jobs via the government-lead infrastructure spending surge. That said, interest rates in Australia are on hold for now and the next move may well be down. The Australian bond market would certainly give you that impression by the aggressive nature of the yield collapse over the last 6 months.

We are expecting another mini cycle in global growth, with a pick-up in trade volumes and a relaxation of restrictive Chinese policy, coupled with a likely resolution to the US/China negotiations. Investors appear to share this view, with the Chinese share market up a staggering 24% in the first quarter of this year.

Supporting this thesis are some very tentative signs of a pick-up in a number of leading indicators. Specifically, Eurozone retail sales and Eurozone services PMI have been improving; German 10-year Bonds are back trading 'just' above zero; An increase in Chinese fixed asset investment for infrastructure and state-owned enterprises and Chinese exports; and the Atlanta FED GDPNow gauge for US Quarter 1 GDP has improved to suggest a reading of 2.8%. Despite this collection of encouraging data, it is at this stage inconclusive that global growth has bottomed with each positive data point coupled with another that suggests otherwise. There remains a lot of weight on the expectation that China has concluded their financial de-leveraging "exercises" and whether the stimulus measures (**Figure 3**) that the government implemented in 2018 and again in 2019, will have the impact that similar measures have had in the past. Will a resumption of Chinese growth, coupled with a favourable trade negotiation conclusion with the US provide the global economy with a much-needed boost in the second half of this year?

Figure 3: China has been quite active with their stimulus measures in the last 12 months. However, the collective impacts may not carry the firepower that they have had in the past.

Source: JP Morgan



The global interest rate environment is likely to remain favorable for risk assets; equities, credit and property; in the short term.

The bigger picture, however, remains concerning.

Record global debt, ageing demographics, unsustainable government fiscal stimulus, poor quality loans, peak company margins in the US and a plethora of structured product that may mismatch expected liquidity still looms large.

It may be different this time, but the result will be the same.

We are struggling to find value in traditional assets, remain wary of the wall of money in certain asset classes (private equity and credit for example) and we are conscious of the structural issues outlined above.

Most of all, we are conscious of the quality of assets that are in portfolios at this stage of the cycle. There are opportunities, but a forward-looking mentality is key.

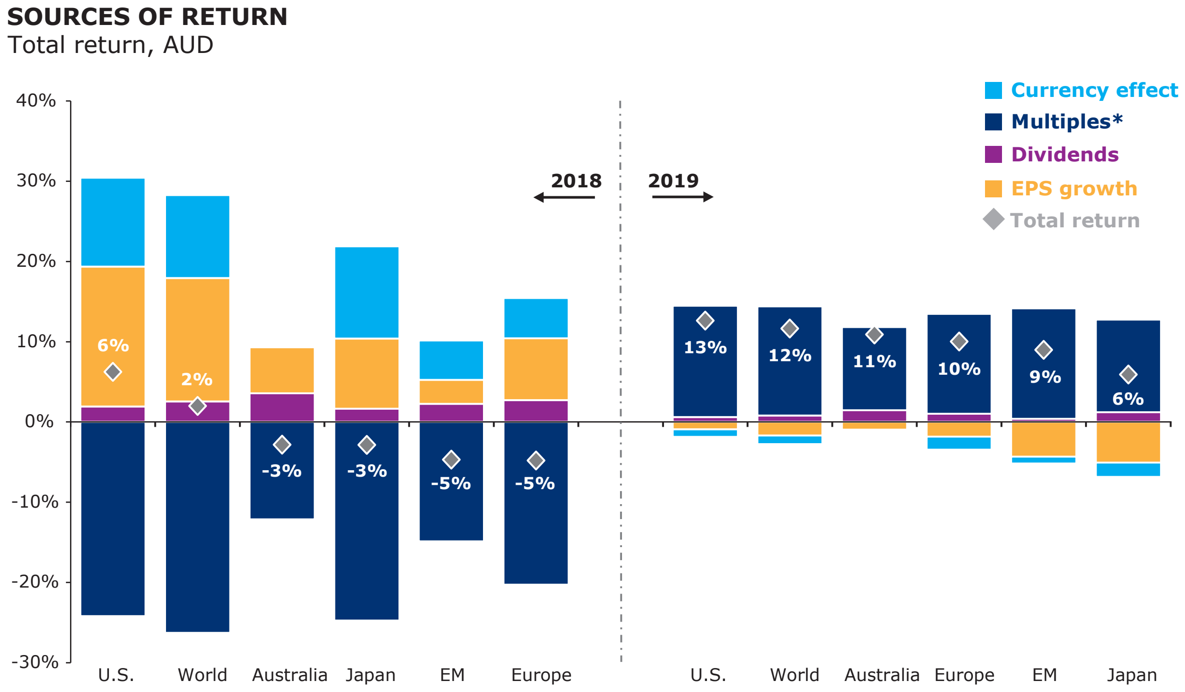
3. ASSET CLASS REVIEW

3.1 Equities

It has been a remarkable rebound by global equity markets over the past quarter, once the US FED blinked and put on hold further interest rate increases. The market now assumes that there are no more rate rises this year in the US and that the FED may have even concluded their interest rate hikes for this cycle. Global equities were up 12% in the quarter, with the Chinese equity market up 24% despite the lingering trade dispute and the slowdown in global economic growth. Markets are clearly looking through the current weakness on the expectation of a rebound in growth in the second half, aided by a very dovish message from central banks.

After 2018 saw multiple contraction drive share price returns, 2019 has thus far seen a resumption of multiple expansion for equity markets (**Figure 4**), pushing markets around the world higher throughout the first quarter of 2019. There was no share market of significance around the globe that closed the first quarter with a negative return. Risk-on was prevalent.

Figure 4: Multiple expansion drives 2019 year to date returns, a complete reversal from 2018.
Source: JP Morgan



*Multiple expansion is based on the forward P/E ratio and EPS growth outlook is based on NTMA earnings estimates.

Valuations on a forward PE basis are now close to longer term averages with Australia looking slightly expensive and Japan being the exception, with Japanese equities still very undervalued relative to long-term pricing. If banks and resources are excluded from the Australian index, the industrials sector is trading on a forward PE multiple of 22.8x vs. a long-term average of 18.6x. On a historical earnings basis, valuations remain elevated, particularly in the US, which is important given the late cycle nature of the US economy. Margins remain elevated relative to their history, at over 30% EBITDA driven by low wage costs and enhancements in technology. If margins in the US were to revert to longer term averages, the Shiller PE would skyrocket from an already expensive 30x to 38x. On this measure, the US market would be just as expensive as it was at the beginning of 2000. The current slowdown in global growth, record debt levels, rising wage costs and the potential for the Fed to start raising rates again in late 2019 or into 2020, will likely see a decline in margins in the US and the market will correct accordingly.

This presents a 'timing of the market' risk. Investors are assuming the FED does not raise rates again, but what if they do? What if the FED allows the US economy to overheat and lets inflation run…and then plays interest rate catchup?

This is the current conundrum.

Short term, any rebound in global growth and the Fed remaining on hold will see equities finding continued support. Longer term, structural risks remain, and the day of reckoning will be painful. Timing of markets is fraught with danger.

Ensuring a good quality diversified portfolio, focussing on value will be key in limiting the downside in a correction.

As mentioned above, the Australian equity market, excluding resources and banks looks expensive on a global basis. Upside in the local market relative to the globe is likely to be impacted by a potentially weaker economy, uncertainty regarding the election, pressure on banking revenues and the flow on effects from a slowing residential construction cycle coupled with likely pressures at a consumer level.

Any possibility of a significant slowdown in the Chinese economy combined with falling house prices would put severe pressure on the Australian economy. The resilience of the iron-ore price since the middle of 2018, in particular the first quarter of this year, has possibly been a saving grace for the Australian Dollar, the Federal Budget and indeed the Australian economy.

Potential franking credit amendments following a change in government at the pending Federal Election may see investment flows away from banks and Telstra to higher yielding securities like A-REITs and infrastructure.

We maintain a bias to offshore equites unhedged, which on a relative basis has served portfolios well over the years.

3.2 Property

Capitalization rates (cap rates) for traditional direct property assets have fallen to a level that we do not find attractive. Therefore, we continue to assess direct property investment where we feel the manager can add significant value either through an asset being distressed or repositioned.

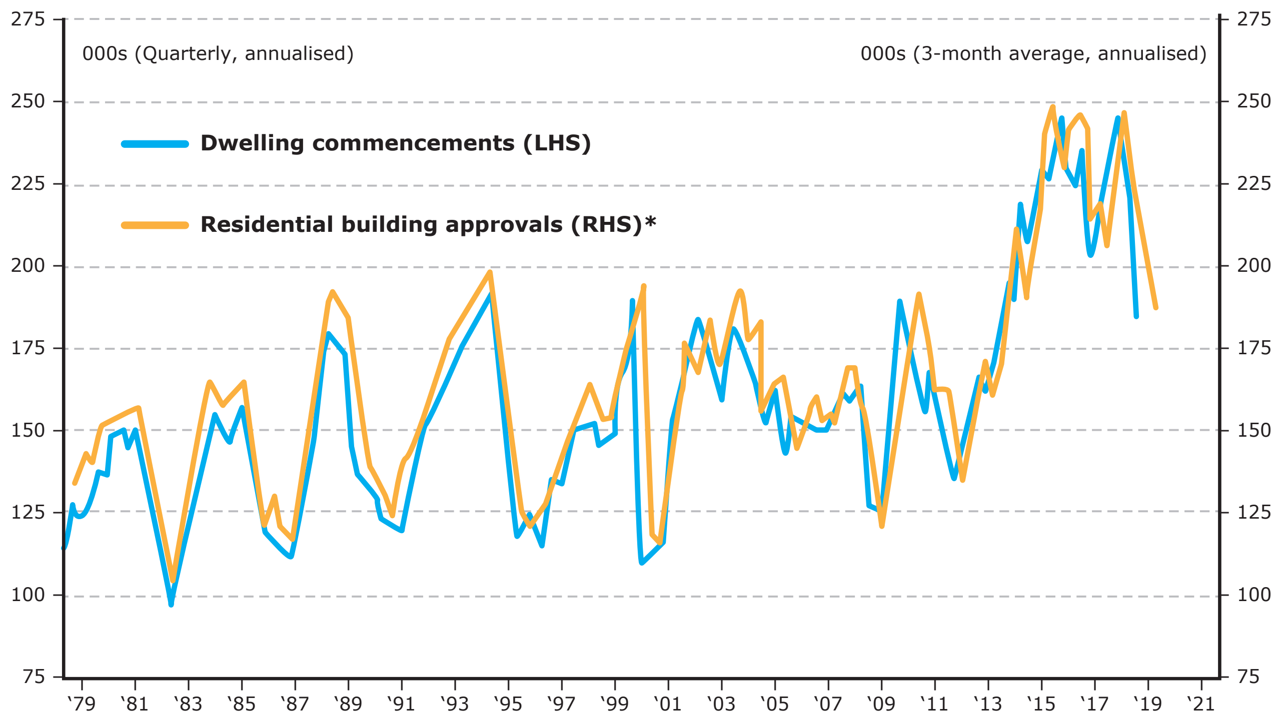
We are attracted to non-traditional sectors within this asset class. Amongst others, we see opportunities in medical, communal living, disability housing and regional motels. These assets tend to perform well outside the normal business cycle and give some protection to any expansion in cap rates.

Residential property has recently undergone a well-publicized downturn with further stress anticipated as some developers will no-doubt find themselves stuck with unsold apartments or land banks and possibly be crimped by their financiers. We will keep a close eye on this distressed assets sector for opportunistic investments.

Residential construction approvals have fallen a massive 32.6% over the past 12 months (**Figure 5**) which will limit new supply. Funding may also dry up also as investors become wary of the risks within property development and funding despite the sometimes-heady returns that are being proffered by some operators. With population growth expected to remain strong, longer-term shortages of property will likely eventuate. Over-supply in the multi-dwelling space (apartments) is evident in certain pockets of the eastern seaboard capital cities.

There is little scope for interest rates to rise in the current environment.

Figure 5: Australian building approvals and dwelling commencements have fallen sharply.
Source: Australian Bureau of Statistics



*Latest is quarter to date when applicable

AREITs (listed property) have performed strongly up 26% for the 12 months to March 2019. This performance is distorted by a couple of key names in the sector that have a large weighting in the index (Goodman 18.2%, Dexus 10.9%, GPT 9.5% and Mirvac 8.7%). It is questionable whether some of these companies are traditional REITs given their financial leverage and contributions to profitability via their business operations.

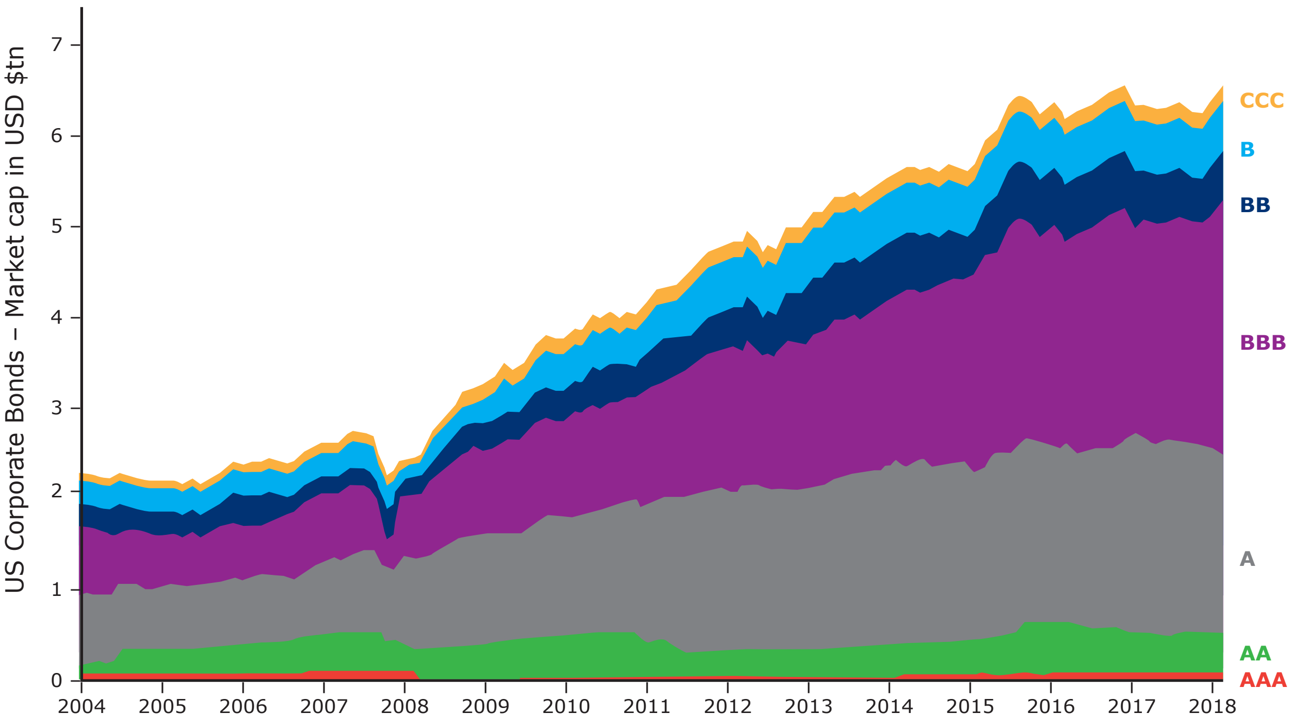
The changes to franking credit rules, which are far from certain at this stage, may also attract investor interest to this sector, seeking to boost income in their portfolios via this sector.

3.3 Fixed Income

It is highly likely that the next financial crisis stems from the credit area of this asset class. We stated in our Q1 Global Outlook that investment grade credit may be the X-factor for markets in the latter part of 2019 and into 2020 and we stand by that view. This is, and remains, the crowded trade to be wary of.

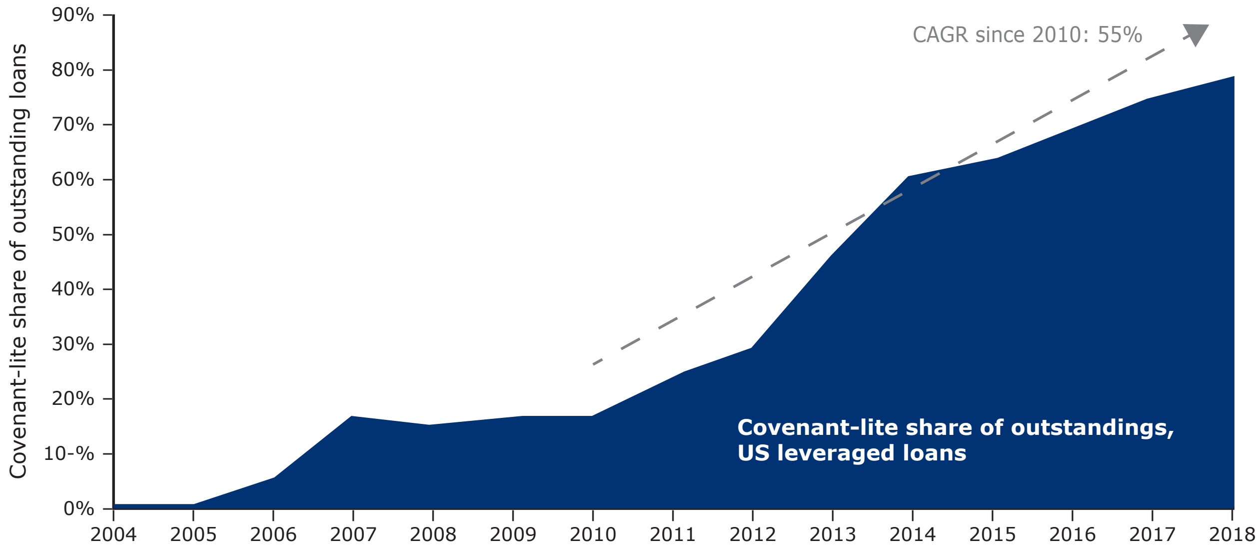
The fundamentals behind credit are disturbing, although currently masked under a low interest rate environment. Global non-financial corporate debt is at record levels, twice that preceding 2007. The quality of investment grade and high yield debt has deteriorated over recent years with more than half of the US investment grade index now one notch away from junk (**Figure 6**). The US Institute of International Finance has picked up on this narrative in the last couple of months, noting that US non-financial corporate debt now stands at 73% of GDP. Further, the first quarter of 2019 saw S&P Global Ratings record the most credit-rating downgrades for US companies relative to upgrades since early 2016.

Figure 6: More than 50% of investment grade US corporate bonds are one notch away from junk.
Source: Jamieson Coote Bonds



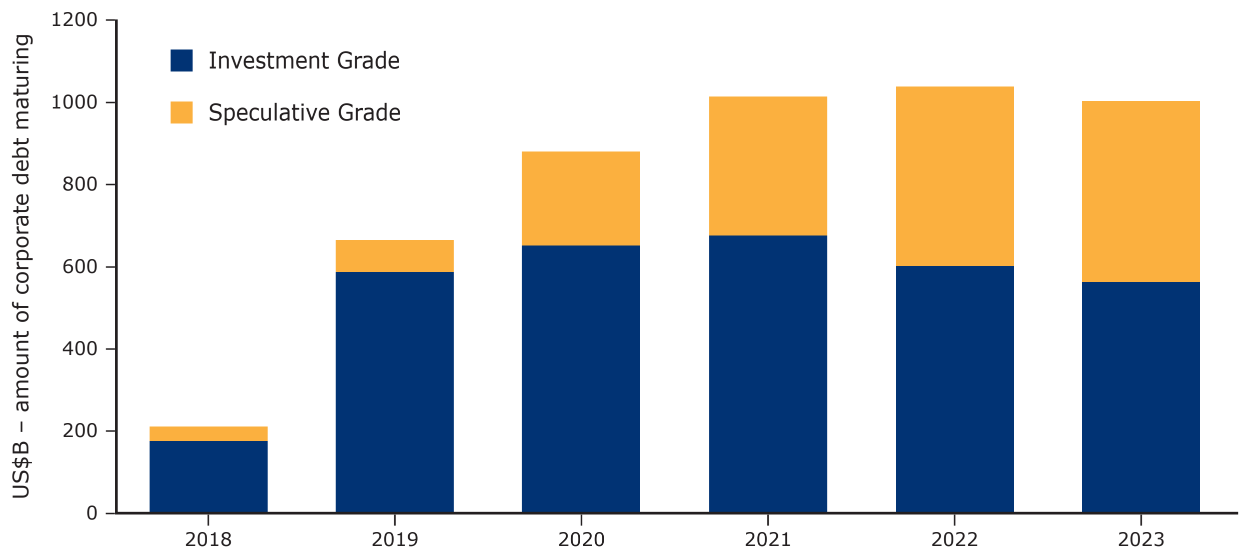
The covenant-lite share of outstanding US leveraged loans has soared to over 50% in the past 8 years and now represents over 70% of all loans (**Figure 7**).

Figure 7: The share of US leveraged loans that is covenant-lite is at disturbing levels.
Source: Jamieson Coote Bonds



There is a huge amount of debt to be refinanced over the coming years (**Figure 8**) at rates that will be significantly higher than originally set in many instances. All quite possibly as the FED resumes interest rate hikes on the basis that inflation does finally present itself in the US.

Figure 8: There is significant corporate debt refinancing coming through the system over the next four years.
Source: Jamieson Coote Bonds



Global Government bonds have rallied strongly (lower yield, higher price) given the backdrop of weakening global growth and the resumption of dovish central bank messaging. Australian 10-year Government bond yields for example, have fallen from 2.80% a year ago to 1.94% now. The bond markets are collectively concerned about global growth and the potential for a US recession, as evidence by the much-touted US yield curve recently inverting. We think this signal may prove to be a little premature and expect global growth to stage a mini-recovery and yields to rise later this year.

The US FED has indicated that rates are on hold for the rest of this year. They were clearly spooked in December with the falloff in global growth coupled with the virtual freeze of new issuance of higher yielding debt. To put this freeze of credit issuance into perspective, the number of junk bonds issued in the US in December 2018 fell to 6 issuances only, totaling US$3bn. For comparison, December 2017 saw US$43bn of issuances of junk debt and December 2016 US$32bn. The fourth quarter of 2018 saw monthly issuances of junk debt of US$44bn in October, US$11.8bn in November and then US$3bn for December. It appears that the appetite for issuance and investing in junk-bond debt at the tail end of last year just froze. No doubt something that alarmed the FED and likely contributed to their 180 degree change in interest rate narrative at the start of 2019.

Any reversion to a tightening policy stance will put significant strain on the highly indebted non-financial corporate landscape.

We prefer asset backed securities and high grade Australian corporate bonds for income, a small weighting to Australian Government bonds for insurance and are attracted to the opportunities available in 1st mortgage property debt.

Given the Australian banks significant tightening in lending standards, developers are struggling to find finance to complete projects. Attractive opportunities can be sourced by lending to completed or partly completed projects with leverage around 50% and securing 1st mortgage protection. If you are happy to own an asset at levels 50% below valuation if the loan fails, yields of 8-10% can be found. Banks will no doubt re-enter this space in the future, however, at present we believe this provides an attractive investment option.

We would be wary of more recently issued, unseasoned Australian RMBS (residential mortgage backed securities). These securitized assets with a pool of mortgages are starting to experience a higher proportion of loans in arrears. This is not surprising given the highly indebted household and falling property prices. Following the recent fall in property prices, an increasing portion of RMBS that were securitized in 2017-2019 are now showing LVR’s (loan to value ratios) of over 90%.

3.4 Alternatives

There has been an enormous amount of funds directed toward private equity over the past few years. This has resulted in substantial levels of cash waiting to be deployed and competitive pricing for transactions. As a result, valuations have tightened and arguably will become an issue when looking to exit the investment and are likely to have a bearing on the return metrics as investments are ultimately unwound. Given the illiquid nature of private equity, coupled with high debt levels with most of the investments, we are more cautious of this asset class at the current late stage of the cycle.

Thoughts from the Research Department

The findings in a recent OECD report titled "Corporate bond markets in a time of unconventional monetary policy" resonate with our views. Here we summarise the key points from the report.

- The total outstanding debt in the form of corporate bonds reached USD 13 trillion as of end-2018. In real terms, this is twice as much as in 2008.

- Non-financial companies in the next three years will have to pay back or refinance about USD 4 trillion worth of corporate bonds. This is close to the total balance sheet of the US Federal Reserve.

- While in the 2000-2007 period, BBB rated bonds constituted on average 38.9% of global investment-grade issuance, they averaged 44.1% in the 2008-2018 period and reached 53.8% in 2018. This is the highest share that BBB issuance reached in our dataset which goes back to 1980.

- The OECD's "Global Corporate Bond Rating Index" level has now remained below BBB+ for 9 years. This is the longest period of sub-BBB+ rating in the history of the index. This points to the risk that a future downturn may result in higher default rates than in previous credit cycles.

- The OECD highlights a marked reduction in covenants when compared to pre-2008. Historical data shows that low quality covenants have a significant negative effect on recovery rates.

- Issuers that downgrade from the BBB rating scale to non-investment grade, the so-called "fallen angels", must face an amplified increase in borrowing costs, due to a sudden loss of a major investor base.

- In 2009, 7.5% of corporate issuers rated BBB at the beginning of the year had been downgraded to non-investment grade by the end of the year. Considering that the current stock of BBB rated bonds amounts to USD 3.6 trillion, this would be the equivalent of USD 274 billion worth of non-financial corporate bonds migrating to the non-investment grade market within a year. If financial companies are included, the number would rise to nearly USD 500 billion.

- For emerging market companies, the amount due for refinancing/repayment within the next 3 years has reached a record of 47% of the total outstanding amount; almost double the percentage in 2008.

- The average AAA/AA rated issuer now is more leveraged than the average A rated issuer was a decade ago, and the average A rated issuer today is as leveraged as the average BBB rated issuer was a decade ago. Similarly, the US Federal Reserve notes in its latest financial stability report that the ratio of debt to assets for publicly traded non-financial companies in the US is near its highest level in 20 years. Furthermore, in contrast to previous years when high-earning firms with relatively low leverage were taking on most of the additional debt, in 2018 companies with high leverage, high interest expense ratios, and low earnings and cash holdings increased their debt levels the most (Federal Reserve, 2018a).

- At the 1-, 2- and 3-year horizons, advanced and emerging market companies alike have the highest corporate bond repayment requirements since 2000.

- High quality issuers managed to lengthen their bond maturities in the post-crisis period, issuers of lower quality - namely non-investment grade and emerging market issuers, have failed to do so. Hence, their cushion against rising interest rates is weaker, since they will need to fulfil refinancing needs earlier than their high-quality counterparts.

- Significant default clustering takes place during crisis times that moves long-term default rate averages upward. Hence the relatively low percentage of defaults (2.44%) among non-investment grade issuers in 2017 may not be indicative of how things may unfold if servicing debt becomes more difficult in the case of an economic downturn or a rising interest rate environment.

- The default of one company cannot be seen as an isolated event due to the complex web of relationships that company has in the economy. Indeed, Azizpour et al. (2018) show that upon a default event of USD 173 million outstanding debt (the average in their US data set), the default rate increases by 2.8 events per year. Importantly, the authors note that the models used to estimate risk capital in financial institutions typically ignore default clustering arising from default contagion, and that this approach may leave them holding inadequate capital to withstand large losses in a default clustering period such as the 2008 financial crisis.

Source: Çelik, S., G. Demirtaş and M. Isaksson (2019)

Thoughts from a Contrarian

Climate change is a serious subject, but it would be a pity to deem it beyond humour and ignore people and events that truly deserve to be laughed at. World War 2 is also a serious subject but it's hard not to laugh watching Basil Fawlty trying to avoid mentioning the war when some German guests arrive.

Surely the recent United Nations Climate Change Conference held in Poland is a case in point. An unseasonable cold snap arrived during discussions on global warming and it was necessary to crank up an army of diesel generators to keep the delegates at a temperature they deemed comfortable. As the assorted dignitaries discussed the threats of rising temperatures and cutting-edge renewable energy technologies they were kept warm utilising on a massive scale the same power source we used on family camping holidays in 1985. For the duration of the conference there would have been no room full of people on the entire planet with a larger carbon footprint.

In Australia, well remunerated RBA decision makers face a problem. For the last 32 meetings there has been no change in interest rates. If nobody had turned up to any meetings for the best part of three years nothing would be any different. Employees have kept themselves active by making speeches and writing hundreds of reports. Would the world be any different if none of these speeches or reports had ever seen the light of day? Short answer…no. Almost three years of waffle about when they are going to raise rates and here we are with an imminent rate cut on the horizon. These guys need to 'look busy' and change the subject quickly.

Recently, RBA Deputy Governor Guy Debelle stepped up to the podium for a speech to the Centre for Policy Development on the effects of climate change on monetary policy going forward. Guy kicked off his speech with a reference to Dorethea Mackella's poem about our sunburnt country with it's 'droughts and flooding rains'. He then proceeded to pontificate on how we would deal with droughts and flooding rains in the future. Its almost like he thinks those lines were written in late 2018 by Tim Flannery. His main concern is around insurance companies facing large payouts and the reputational damage that could be faced by companies with exposure to certain industries. As anyone living within one kilometre of the shoreline who's recently tried to insure contents knows, the chances of any insurance company under-pricing risk from climate change is about zero. Those paying premiums may have a problem, but the insurance companies will be fine. As for reputational risk, given the outcome of the recent royal commission and general community attitude towards big business, it's a bit like saying Shayne Warne faces reputational risk.

Now that economists have entered the fray, the solution to climate change is obvious. We simply replace climate scientists with economists who can then assume that temperatures aren't rising. If the numbers don't cooperate then they can change the way they measure temperature. That's worked fine with inflation calculations for the last 30 years. Why not global temperatures? In the future we could have some very hot days with economists walking around in beanies and scarves telling us how cold it is.

Providence Investment Committee

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.

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.

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.

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.

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.

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.

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.

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.

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.

Marc Wait

Marc has over twenty years of investment experience. He began his career in Sydney with HSBC and Citigroup Global Asset Management (CGAM) managing Fixed Income and Money Market portfolios. Marc has also held positions in London with CGAM as a Fixed Income Portfolio Manager and Fidelity International where he was the Group Leader, Short Dated Bonds and chaired the Fixed Income Asset Allocation meetings for the firm. Marc was subsequently the Head of Treasury at the Abu Dhabi Investment Authority. Marc has a B.Agr. Ec (Honours) from the University of Sydney and is a Chartered Financial Analyst.

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.

Glossary of Terms

Capitalisation Rate	Income yield from a property investment
Credit	Within the context of this document, debt issued by corporates
Dovish	Within the context of monetary policy, a "dovish" stance implies an easing policy bias (lower interest rates)
Loan Covenant	Condition in a loan agreement that requires the issuer fulfil certain conditions
Equity Risk Premium	What an investor is prepared to pay for equities and take that ownership risk vs. investing in secure government bonds
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
Gearing	A measure of how much debt a company has relative to equity
High-Yield corporate debt	Debt issued by a corporation that has a credit rating that is below investment grade. Also known as "Junk"
Inflation	When the inflation rate is above 0 and the general price level of goods and services increases
Investment Grade Credit	Corporate debt that has a credit rating provided by S&P of BBB or above.
Junk Grade Credit	Corporate debt that has a credit rating provided by S&P of BB or below. Also known as High Yield Corporate Debt
Leverage	An alternative term for gearing i.e. a measure of how much debt a company has relative to equity
Multiple Expansion	Within the context of PE ratios, an increase in the ratio of the share price to the earnings per share of a company
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
PE Ratio	Price Earnings Ratio - the share price divided by the earnings per share of the company
Quantitative Easing	An increase in the money supply by a central bank
Quantitative Tightening	A reduction in the money supply by a central bank
Shiller PE	A PE ratio where the earnings per share component is calculating using the 10-year moving average of earnings.
Sovereign Bond	A bond issued by a government
Monetary Tightening	Generally an environment of rising interest rates
Volatility	The degree of variation of a price over time
Yield Curve Inversion	When shorter date bonds yield more than longer dated bonds

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