Providence
Independent Investment Advisory

Global Outlook & Strategy

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Cracks are Starting to Appear

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1. KEY POINTS

- **Global growth continues to soften but expected to plateau at the end of 2019**
- **Not expecting global recession on the immediate horizon**
- **Australian economy vulnerable to a further downturn**
- **Income from diversified portfolios expected to be lower**
- **Remain nimble (cash) and very diversified**

Cracks are Starting to Appear

There are cracks starting to appear in credit and bond markets as the great recovery starts to mature. According to the National Bureau of Economic Research (NBER), the US economic expansion, albeit muted, has now been running for 124 months (>10 years) and has outlasted the previous 1990's record of 120 months. Europe is also approaching 24 consecutive quarters (~6 years) of rising GDP growth despite varying economic performance by the individual countries that make up the European Union. It is late in this cycle.

Central Bank policies around the globe have done little to maintain this stellar run in economic growth recently nor have they attained their target inflation rates, despite record low interest rates and quantitative easing (printing of money).

What these policies have done is inflate asset prices, distort traditional valuation metrics and fuel years of momentum-led investing across all monetary asset classes. Negative government bond yields, US$1.8 trillion of dry powder sitting in private equity funds, Australian tech stocks (WAAAX index – Wisetech, Altium, Appen, Afterpay and Xero) trading on a multiple 17 times revenue, and cyclically adjusted PE ratios in the US at 29.6x versus long term average of 16.7x, are just some examples.

The US Repurchase Agreement (REPO) market that provides short term liquidity for banks all but dried up in September, sending overnight borrowing rates to multiples of the cash rate set by the Federal Reserve. This led the US Central Bank to intervene and create stability by injecting additional funds off the Federal Reserve balance sheet. While much of the market suggests tax payments and regulatory requirements created a one-off liquidity squeeze, we can't help but think that these predictable payments should have been anticipated and as such the instability should not have occurred - if this truly was the basis of the issue. Stability has been restored to the REPO market at this stage, however it joins a long list of concerns that are plaguing us.

The recent failed WeWork IPO (USA), the failed Latitude IPO (Australia), Aston Martin (UK) being forced to pay 12% to secure lending, Sirius Minerals (UK) failure to secure project finance and Metro Banks (UK) failure to find buyers of senior bonds even at yields of 7.5% are examples of companies failing to refinance their stretched balance sheets despite low interest rates and a global search for yield. The relative underperformance of the Wilshire Index (a broad-based index of all actively traded US stocks) also suggests that there is stress in the system that is perhaps masked by the more concentrated performance of the S&P500.

Combined with these stresses we find ourselves in a damaging trade dispute between US and China, a trade dispute between Japan and South Korea, slowing global economic growth and a recession in the global manufacturing sector. All this despite record low unemployment rates in many regions.

We have never been more diversified for portfolios in our 20 years of investing on behalf of clients.

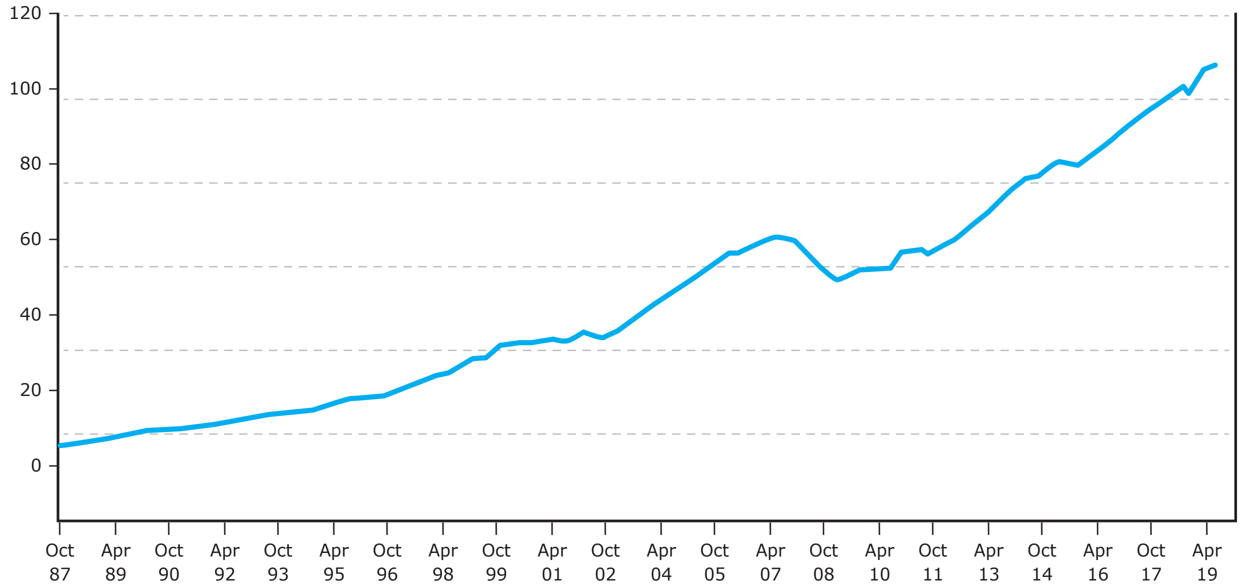
2. INVESTMENT OVERVIEW

The global manufacturing slowdown continues to dominate most economic commentary. The trade dispute and reduction in global trade is contributing to increasing speculation of a global recession next year. However domestic demand in most global economies, besides Australia is strengthening. In the US, consumer confidence is running at a very high level and forward indicators in housing are also strengthening. This is not surprising given full employment and wages growth along with exceptionally low interest rates, low household debt and increasing household wealth (**Figure 1**). The FED considers the US economy is currently experiencing a "mid cycle slowdown."

We tend to agree and are of the view that global growth will likely bottom over the next 6 months, backed by ultra-low interest rates and strong employment growth. However, the slowdown we have experienced so far will start to be seen in corporate earnings and will put pressure on central banks to keep policy very accommodative (low interest rates for longer).

Figure 1: US household net worth (US$tn) suggests ongoing strength from the US consumer

Source: : JP Morgan, Markit



Australia however faces some bigger hurdles. Despite a reasonably constructive outlook for economic growth by the RBA of 2.4% for 2019 and 2.8% for 2020, the IMF recently slashed the forecast growth rate for Australia to 1.7% for 2019 (from 2.1%) and to 2.3% for 2020 (from 2.8%). We side with the IMF, noting anemic consumer spending with high household debt levels, low wages growth and a fall in house prices all contributing to the softer outlook. The only real area of support has been from the Resource sector resulting in a surge of exports and the first current account surplus since 1975.

For the surplus to be maintained, we are reliant on continuing demand from China, however Chinese growth has been slowing. The trade dispute with the US is impacting exports (**Figure 2)** which are flat to negative, and imports are down some 6% (**Figure 2**). Chinese official GDP growth may come in below the 6% target. Chinese industrial production is at its weakest level since 2000 (**Figure 3**), retail sales have slowed, and some regional areas are showing signs of unrest. We would expect further stimulatory polices to attempt to manage the slowdown, however the Chinese-led tail wind supporting the Australian economy is expected to moderate. Therefore, with the scope of slowing demand for our exports, a weak household sector and low wages growth, the RBA is expected to cut interest rates again by at least 25bp. This should see the Australian Dollar remain under some pressure, trading between 63-67c, supporting our decision to remain unhedged to offshore investments.

Figure 2: Chinese Import and Export growth remains subdued post tariff impost

Source: Factset

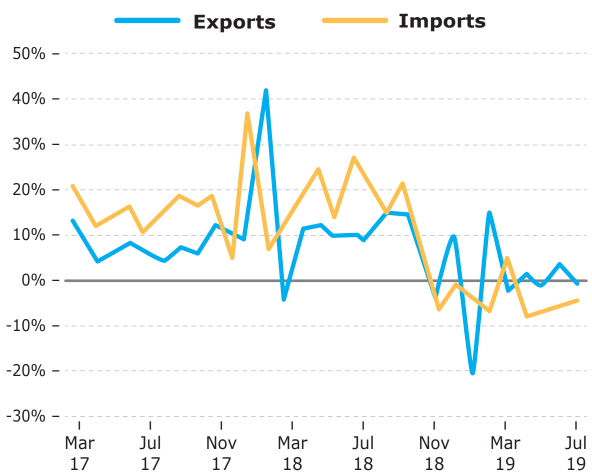
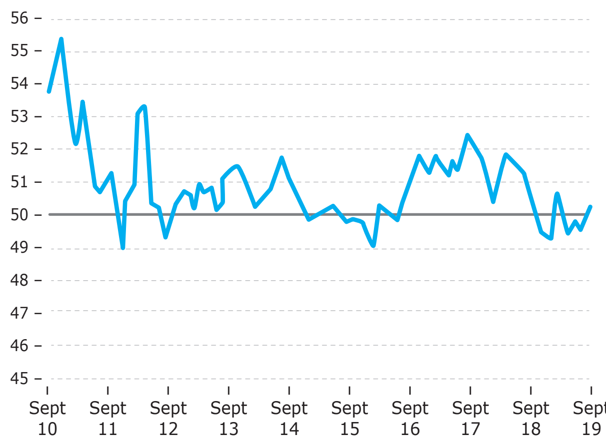


Figure 3: Chinese Manufacturing PMI remains subdued which may flow to lower GDP

Source: Factset



It is not clear to us how reducing interest rates from these ultra-low levels will generate higher growth. It is a tax on retirees' income, puts pressure on bank earnings, increases the unfunded liabilities of pension schemes, inflates assets and likely flatters the over-leveraged household balance sheet. The demographic shift to a population skewed to savers has limited the amount of investment achieved from each rate cut and the potency to deliver economic prosperity.

Monetary policy has lost its effectiveness and there is little Central Banks can do unless governments step up to the plate. An increase in fiscal spending by governments around the globe is required, particularly with such low funding costs.

There is little we can add regarding the trade war and BREXIT that isn't already known by markets. The trade war is damaging to trade volumes, negatively impacts global economic growth (IMF estimates by 0.8% by 2020) and with BREXIT unresolved, business confidence and spending is also negatively impacted. This is already discounted in global bond markets but not necessarily in US corporate earnings expectations which we believe peaked in 2018.

A stabilization of global growth is required to justify current lofty valuations for equities and credit. The bond market has already spoken, raising the probability of a global recession inferred by the compression of global bond yields. Risk assets however are having none of this, focusing on negative yielding government bonds yields and benefiting from no other alternative to generate income.

We are maintaining a defensive stance with high diversity across portfolios.

3. ASSET CLASS REVIEW

3.1 Equities

Given the muted growth outlook, current valuations of US equities look expensive on a cyclically adjusted basis (**Figure 4**). However, with the discount rate (risk free government bonds) and cash rate at such ultra-low levels, dividend yields on stocks and the equity risk premium look relatively attractive. Absolute valuations in the US remain extended however our international equities exposure reflects this with a relative underweight to US equities.

Figure 4: US Shiller PE suggests equities are expensive relative to history...

Source: Heuristic Investment Systems, S&P, St Louis Fed

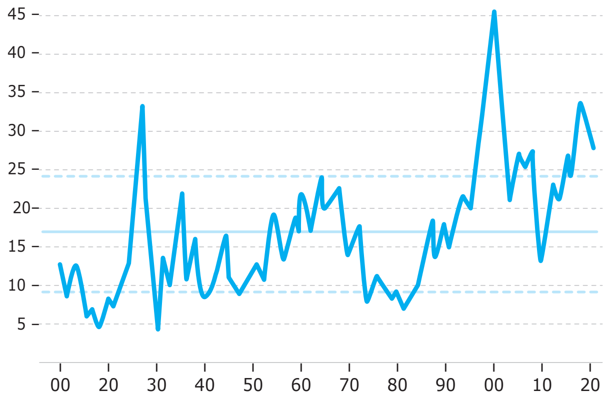
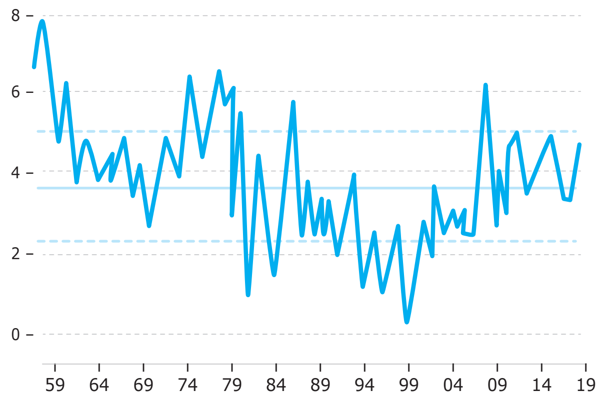


Figure 5: ...But the US Equity Risk Premium still suggest equities are attractive relative to bonds

Source: Heuristic Investment Systems, RBA



The Australian equity market looks less stretched than the US on a Shiller PE valuation (**Figure 6**), however, this is masked by an index that is weighted heavily to Financials and Resources. From a PE ratio perspective, Financials have been re-priced to a lower multiple to reflect the ongoing regulatory scrutiny and risk, coupled with ongoing earnings pressure from a low interest rate environment. Resource company PE's are also deflated by the expectation of a sustained higher level of commodity prices and lower AUD. We see stretched valuations within the Industrials sector of the market, currently trading on a forward PE multiple of 24x which is 1.7 standard deviations above their 10-year average. They are also 1.6 standard deviations above their 10-year average Price to Book ratio at 3.5x.

Figure 6: Australian Shiller PE looks less stretched than in the US...

Source: Heuristic Investment Systems, ABS, IBES

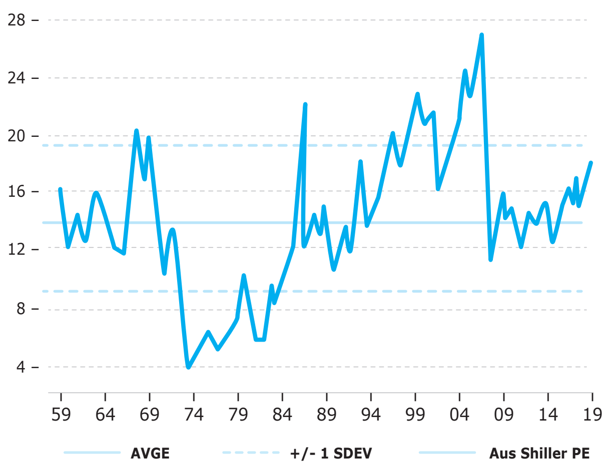
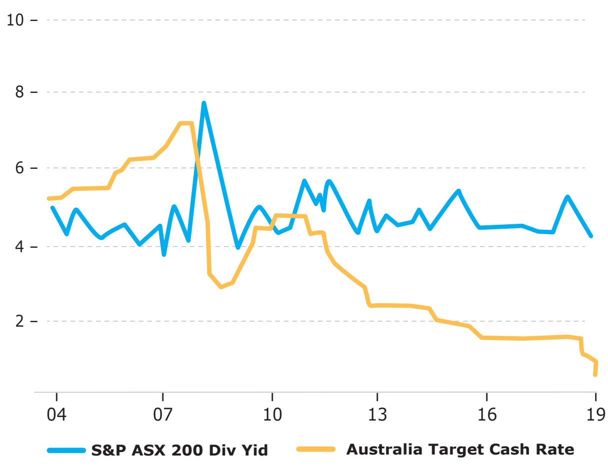


Figure 7: ...and the high dividends relative to cash is attractive

Source: Heuristic Investment Systems, RBA



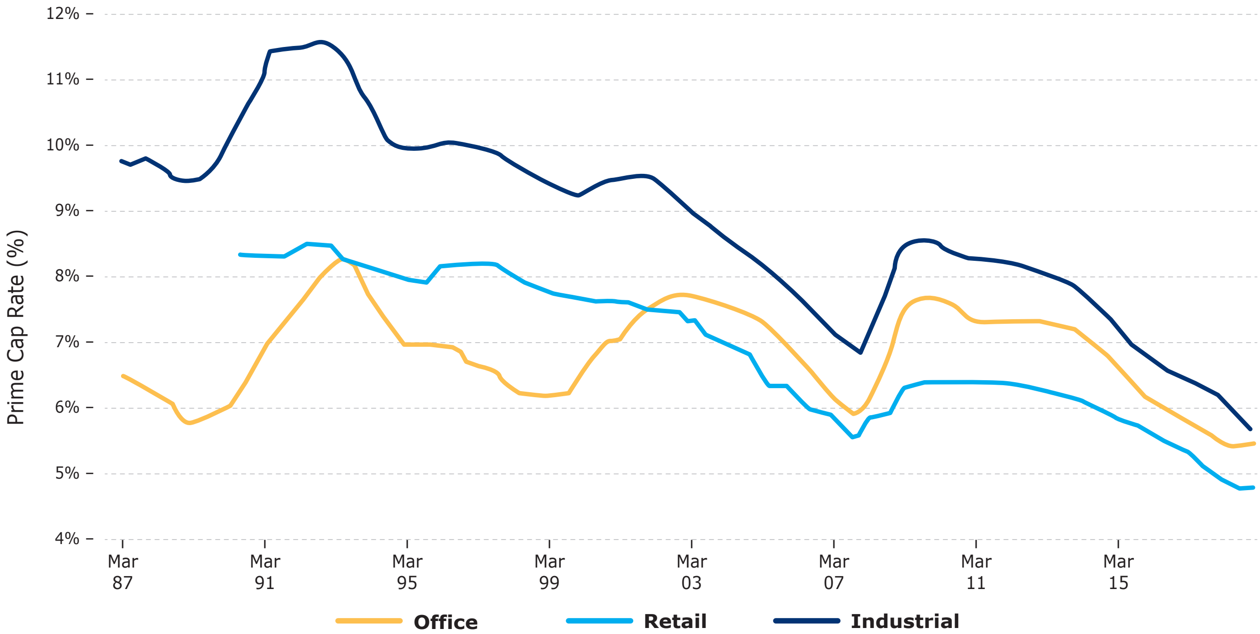
We have a bias towards value-oriented managers, focused on capital preservation whose portfolios will likely better withstand a major correction. **We continue to prefer International equities unhedged over Australian equities, predominantly due to the diversification benefits offered offshore.**

3.2 Property

Capitalisation rates are at historically low levels across all segments of the market (**Figure 8**). The most explosive move in capitalisation rates has been evident in the Industrial sector, reflecting higher asset prices being paid. We agree that the digitalisation of retail creates significant tail winds for the Industrial sector, however we believe that the current capitalisation rate of between 5% to 5.5% and spread to Office of only 50bps is discounting the Industrial sectors link to economic activity.

Figure 8: Prime Cap rates at historical lows

Source: SG Hiscock, JLL, Macquarie



In direct property we are focussed on less traditional sectors to find value. These include regional motels and agriculture. The attraction here is the low correlation to traditional property sectors which are quite expensive. We also feel the managers can add value to the asset and build a portfolio which, once large enough, will be attractive to a larger player.

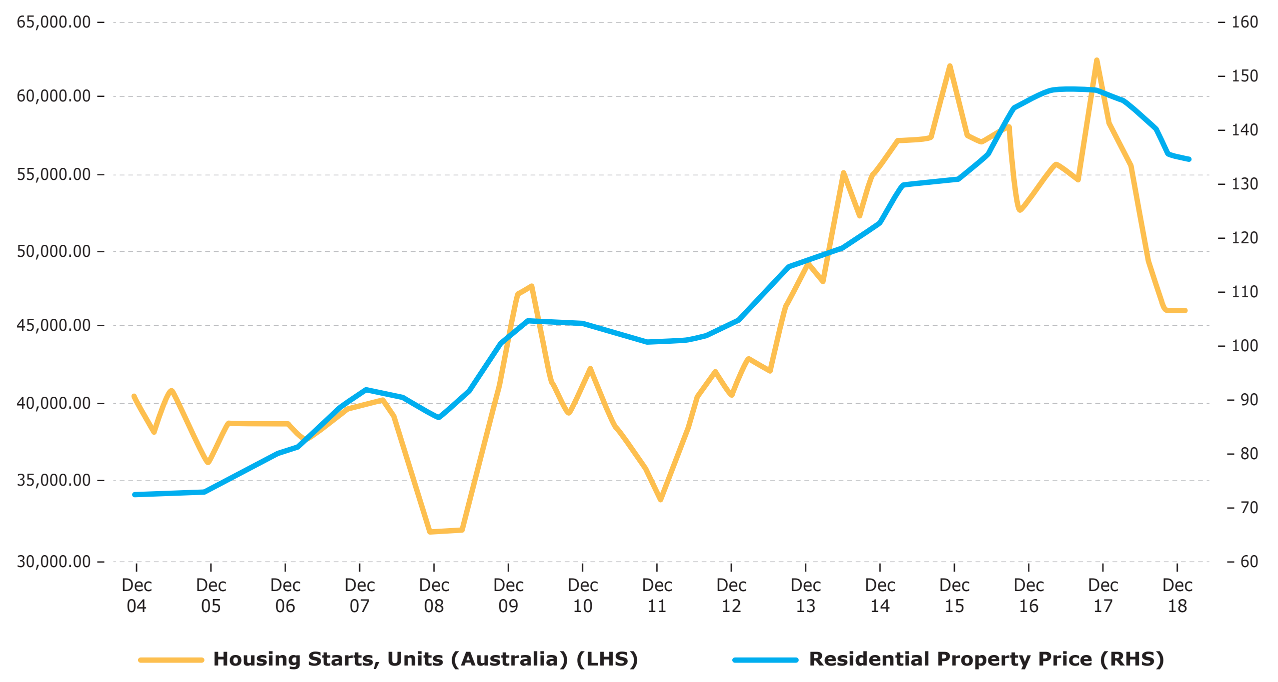
Some boutique sectors have been in strong demand resulting in valuations becoming full. We are reducing our exposure to medical centres given the contraction in cap rates driven by strong investor interest.

There are some early concerns regarding the absorption rate in the Sydney commercial property market. In addition, there is some valuation pressure on large retail shopping centres given slow retail sales and a large amount of stock currently on the market. Smaller regional centres are still attractive being supported by the income they can generate above the cash rate.

We have commented in the past about whether some Australian REITs are still appropriate in the A-REIT index. Some confirmation of this view has occurred with FTSE Russell removing Goodman Group (GMG) from their Global Real Estate Index because it derives less than 75% of their earnings from relevant real estate activities. Relevant activities are defined by FTSE Russell as ownership, trading and development of income-producing real estate. As we have previously referenced, we do not have a view on the quality of GMG although do not believe it should be considered an A-REIT and certainly not the largest weighting to the ASX200 A-REIT index at 18%.

We do not normally comment or forecast on residential property although our narrative for some time indicated an inevitable correction. Sizeable falls (20-30%) in off the plan apartment developments in the capital cities follows an extended high period of unit development starts (**Figure 9**). There remains an enormous amount of construction still to be completed and despite falling interest rates it is difficult for us to see a meaningful upturn over the next few years.

Figure 9: Housing Starts (Units) peaked in early 2018, with this stock still to come on-market. Housing prices have fallen but remain relatively resilient
Source: Deutsche Bank



We are attracted to the property loan sector as banks have withdrawn from certain tranches of debt. It is possible to provide direct loans to developers on a first mortgage, fully secured basis over completed or near-completed developments, with pre-committed sales and gearing of 50-60% attracting an interest rate of 7.5 – 8%. If the loan is not repaid the investor owns the property at 40% below current valuation. Importantly these select exposures are on completed or near-completed projects, not on speculative development.

3.3 Fixed Income

There is now over $15 trillion of negative yielding government bonds around the globe which suggests a race to the bottom. Madness! We wonder how an investment manager justifies their remuneration when investing to guarantee a loss?

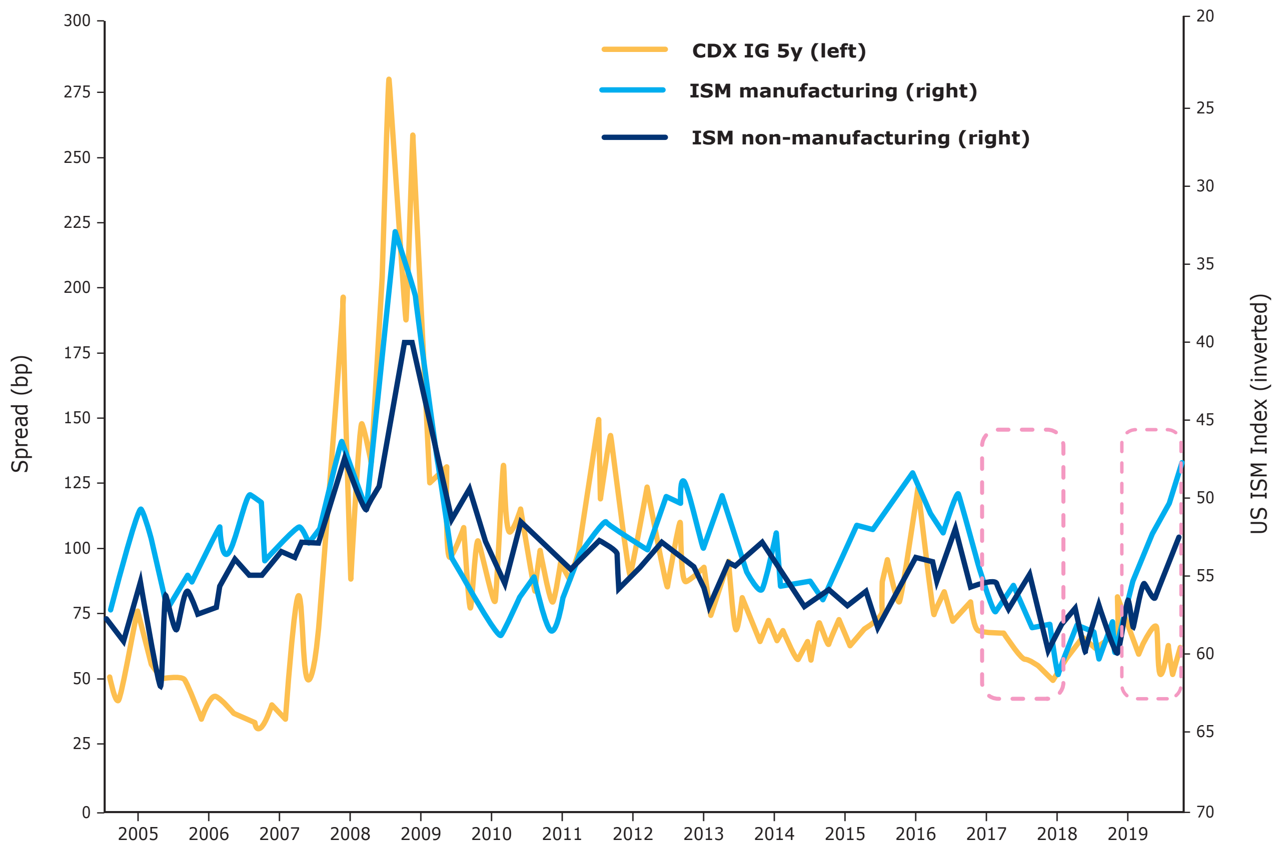
So, as the global search for income stampedes into credit there is little regard to the potential of a loss via defaults. Some early warning signs are developing in this asset class, with global corporate debt at record levels and the quality of covenants declining. Slower global growth, declining EBITDA and the issuance of covenant lite loans and a depressed default rate are flashing amber warning signals. We have seen some evidence of this in the "CCC or Lower" end of the market, where returns are back to the levels seen in the December 2018 sell-off (**Figure 10**).

Figure 10: ICE BofAML US High Yield (CCC or Lower) index is back at the levels seen in the December 2018 market correction

Source: Deutsche Bank

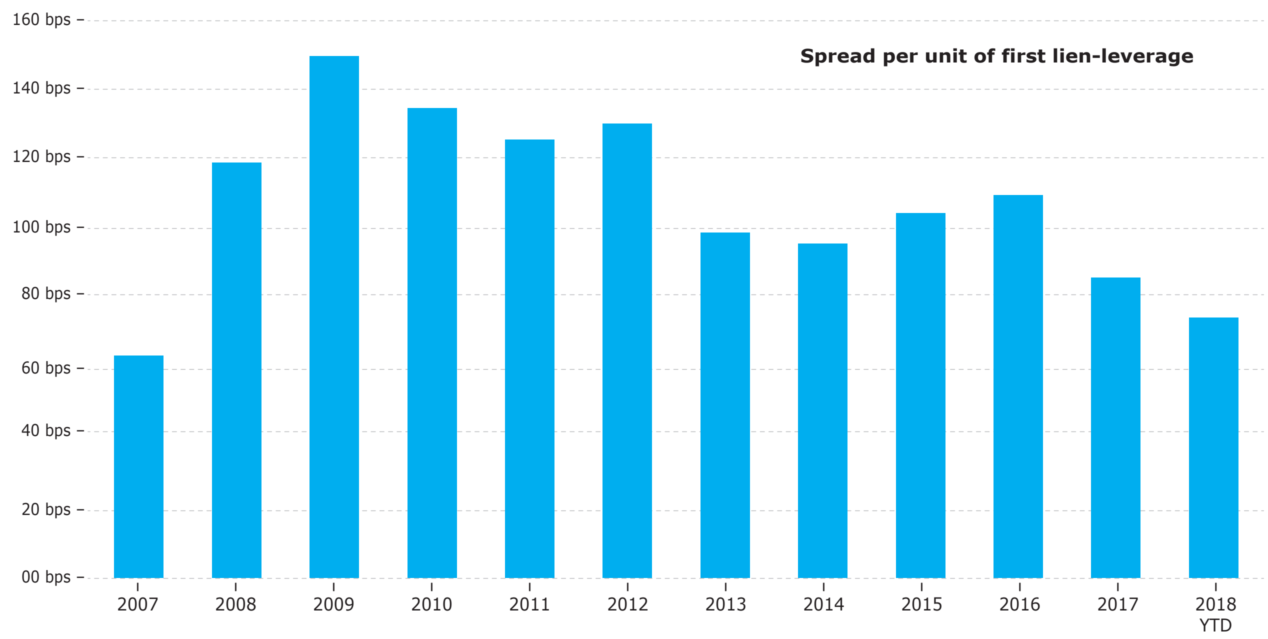
We watch with great interest as US and European credit default spreads decouple from their historic relationship to PMI indices (**Figure 11**). The current PMI would suggest that credit spreads should be at almost double their current level.

Figure 11: Credit Default Swap spread vs PMI's (inverted). As PMI's fall, one would expect Credit Default Swap spreads to widen – this is yet to occur
Source: Deutsche Bank



We are also concerned about the level of return paid relative to the amount of leverage in the underlying investment. **Figure 12** shows the "spread per turn of leverage" which essentially takes the credit spread you are paid above the prevailing reference rate (usually LIBOR or a government bond) and divides it by the multiple of debt to EBITDA in a leverage buyout transaction. As the number falls, it suggests that the investor is getting paid less as debt is added. We believe this is evidence of the global search for yield that has resulted in a disregard for the underlying fundamentals of investment opportunities and a sole focus on the potential yield. While not quite at Pre-GFC levels, we are not far off.

Figure 12: Investors are being paid less per unit of leverage that is used in Leveraged Buyout deals i.e. more risk, less return!
Source: LCD (an Offering of S&P Global Market Intelligence)



Given our concerns regarding the softer outlook for the Australian economy and desire to be very diversified we retain a weighting to Australian government bonds which at this stage, is providing a positive yield and provides some protection in a downturn.

We prefer asset backed securities or direct loans in the current environment.

We continue to be concerned regarding the flow of funds into global corporate bond exchange traded funds (ETFs) that promise daily liquidity yet hold investments that have limited daily liquidity and future maturity dates.

"Liquidity is a coward; it's never there when most needed" – John Maynard Keynes

3.4 Alternatives

With declining cash rates and negative yielding government bonds, the argument against owning gold is no longer applicable. We have included gold in portfolios as risk insurance that arguably no longer has a cost of carry.

Given negative yielding government bonds and governments debasing their currencies by issuing huge volumes of bonds, even cryptocurrencies are becoming an option (but not for us yet!).

There have been huge inflows of capital into global private equity funds which has seen a chase for assets at very lofty valuations. Exit strategies tend to be via an Initial Public Offering (IPO) or trade sale. Valuations are now being tested for many of these privately-owned companies as the unsuccessful IPO of WeWork showed. This company was valued at $45bn by the private markets but after the failed float is now valued at $15bn. We expect other valuations in private equity will need to be readjusted suggesting future returns in some private markets may not reflect the returns seen over the last 3 to 5 years

Thoughts from the Research Department

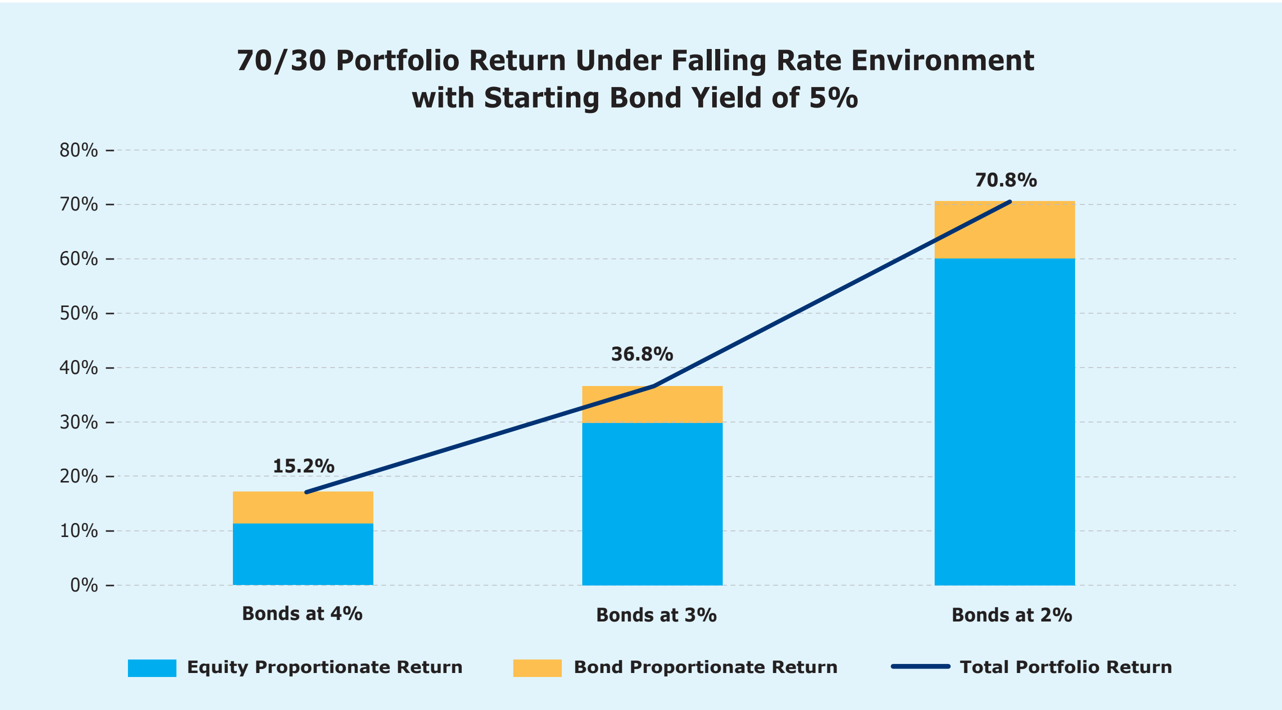
Beware Your Correlations in a Multi-Asset Portfolio

We have seen several highly regarded equity commentators recently justify stretched equity market valuations based on depressed government bond yields. Magellan, a manager that we highly regard and respect, recently used the dividend growth model of valuation to demonstrate that lower bond yields can easily justify higher equity valuations. Academically we certainly agree and in a single asset portfolio, such as the Magellan Global Fund, this makes sense. Within our equity allocations, we are happy for Magellan to take this risk on behalf of our clients.

From a broader Asset Allocation perspective, we have issues with the implications of these justifications. Our primary concern of these statements is the inferred positive correlation between equities and bonds. To demonstrate this point, we have deconstructed Magellan's analysis and applied this to a portfolio consisting of 70% equities and 30% bonds.

For simplicity, we have also been very fortunate to find a company that can grow dividends at 4% p.a. into perpetuity and have applied an equity risk premium of 5%. We have also been extremely fortunate and allocated our bonds in a 10-year bond with a coupon of 5%!

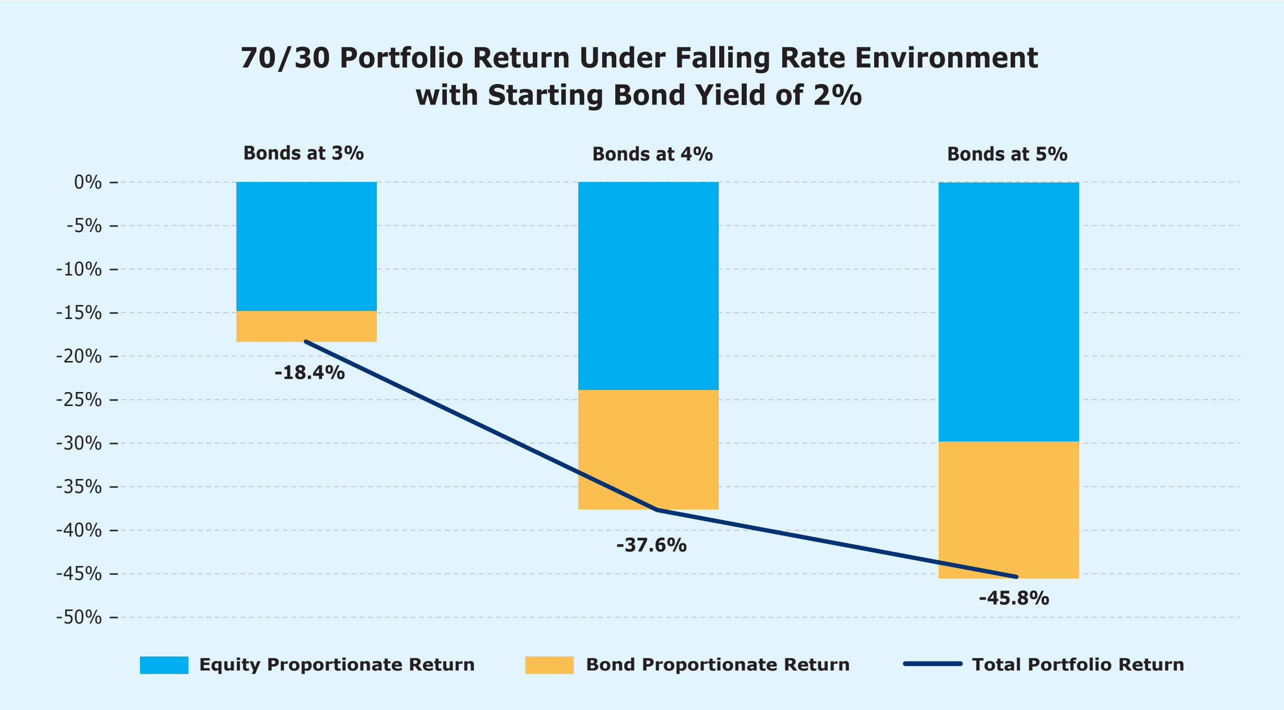
Below we have outlined the capital returns to this portfolio assuming various reductions in the market rate of our bonds from their current 5% and the assumed multiple uplift implied by the dividend growth model:



Portfolio returns look very attractive. As the bond yield falls, we get a large valuation uplift from our equities (assuming multiple expansion implied by the dividend growth model) and a nice valuation uplift from the bond as the present value of the 5% coupon adjusts to the prevailing lower bond rate.

This sequence of returns seen above would somewhat mirror the stellar returns that portfolios have been able to achieve over the past few years.

Where we become concerned is that current bond yields are not at 5%. US 10 Year bonds are just under 2% which justify valuation multiples for our 4% perpetually growing equity of around 33x when using the dividend growth model. For simplicity, we will say that the bond yield is at 2% and demonstrate the impact of bond yields rising from here below again assuming the valuation impact on equities implied by the dividend growth model:



Not quite as pretty a picture, noting that this is a spot in time valuation change so not quite an accurate reflection to the real world.

However, within a wider asset allocation or portfolio construction context we would disagree with adding equity beta to portfolios at the current impasse based off an assumption that low bond yields justify high equity valuations. This is primarily because the inference of the analysis is a perfect correlation exists between bonds and equities.

We do not believe we can forecast the direction of correlations, nor do we believe that we can forecast the direction of interest rates with perfection. However, this analysis demonstrates that justifying equity valuations based on the view of a perpetually low or falling bond yield environment exposes a portfolio to an unbalanced exposure to the counter – a rising bond yield environment.

We are aware of the nuances of bond yields falling (prices rising) in periods of high equity volatility, however, this assessment demonstrates that a period of high equity volatility may well be caused by the increase in bond yields. Perhaps this is an impossibility in the age of QE, MMT or any other acronym for extreme monetary policy or economic theory. Although increasing economic and political uncertainty leaves room for policy error and thus rapid shifts in bond yields and subsequent equity value destruction under this justification.

We prefer to take a different approach, with the protection and preservation of capital at the forefront of our investment decisions. As such, our client portfolios are more diversified than ever across and within asset classes to reduce the reliance on single factors driving return. We remain focused on owning assets or employing managers that have multiple options to drive value.

The Magellan Global fund fits within this mandate for a portion of our equity exposure and couldn't be happier with their performance and approach, however, this analysis suggests caution when extrapolating single asset valuation justifications to a multi-asset portfolio.

Thoughts from a Contrarian

There is a going realisation that the blunt instrument of trying to manipulate economic growth by fiddling with interest rates and the money supply is not working particularly well. Faced with the slightly embarrassing evidence that central planning of monetary policy has been a failure of the boffins working in central banks, government departments and the mainstream commentariat have developed an almost unanimous consensus that the answer is, you guessed it, more central planning. This time it's fiscal policy. Apparently, despite a recent debt crisis that almost blew up the system, record levels of peace time government debt and a growing number of nations teetering on the brink of insolvency, the logical thing to do is borrow more money. This, we're told, makes perfect sense because of record low interest rates. The people telling us this are the ones who lowered rates to absurdly low levels in the first place and will also presumably have important roles directing how the money will be spent. They remind me of the volunteer firefighter exposed as the serial arsonist.

We're quite literally on Frederik Hayeks "Road to Serfdom" where he postulated central planning would trigger a crisis prompting the planners to demand more authority causing even more damage which once again requires more centralised power. We've had central planning of interest rates. Now we're clambering for more government spending to stimulate the economy. What's next? Government control of how we spend our money. This isn't necessarily a joke. In the Foreword to the 1936 German Edition of the General Theory, John Maynard Keynes, the intellectual godfather of modern central bankers suggested that, to quote his own words:

"The theory of aggregate production, which is the point of the following book, nevertheless can be much easier adapted to the conditions of a totalitarian state".

There you have it, if only we were prepared to subject ourselves to a totalitarian regime everything should work out as the economic textbooks suggest. I don't know about you, but as a non-economist, I see a downside.

In the spirit of offering a contrarian view to the growing calls for growing government spending I'd like to put forward the idea that the chances of increased fiscal intervention by governments in developed countries having any impact is about zero. In the US or Australia at an earlier stage of development or in a developing country, maybe, but at the current time in a developed economy…no chance. The reason is quite simple. In our country and other similar examples, more than half the citizens are on the take. They are, to be frank, not doing anything remotely productive. Building better infrastructure doesn't achieve much when the people using it aren't contributing to the economy. Also, its worth noting that governments aren't really all that good at spending money in an efficient manner. More spending doesn't necessarily lead to better outcomes when the funds are channeled through a labyrinth of bureaucracy. The original draft of the US Constitution consists of precisely 4,543 words. The Declaration of Independence consists of just 1,458 words. Healthcare regulations in the US add up to approximately 11 million words. The US government healthcare website www.healthcare.gov was estimated to have cost somewhere between two and four times more than the development cost of the original iPhone yet it didn't work. Obviously, we need more of this. Maybe 15 million words would do the trick. The only stimulus you get out of this stuff is the privileged group that gets to write all these rules, but then the Washington economy is already going just fine.

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

Absorption Rate	The rate at which new square footage of lettable space is leased by tenants.
Capitalisation rate	Income yield from a property investment.
Correlations	A measure of how things move together. Values close to 1 suggest a strong positive relationship (i.e. they move together), values close to -1 suggest they move in opposite directions.
Covenant	Condition in a loan agreement that requires the issuer fulfil certain conditions.
Credit Default Swap	An instrument that compensates the owner of the CDS in the event of a debt default by the underlying issuer of a debt instrument.
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
Equity Risk Premium	What an investor is prepared to pay for equities and take that ownership risk vs. investing in secure government bonds.
IMF	International Monetary Fund
Inflation	When the inflation rate is above 0 and the general price level of goods and services increases.
PE Multiple	Price Earnings Ratio - the share price divided by earnings per share of the company.
PMI	Purchasing Managers' Index. A survey of purchasing managers at a diverse range of businesses that are reflective of the underlying economy. A number above 50 indicates an improvement in their outlook for purchases.
Quantitative Easing	An increase in the money supply by a central bank.
Recession	A period of economic decline, technically identified by 2 successive quarters of GDP decline.
Repurchase Agreement	A form of short-term borrowing in government securities whereby a dealer sells securities to an investor (usually on an overnight basis) and repurchases them the following day at a slightly higher price. They are typically used to raise short term capital.
Shiller PE	A PE ratio where the earnings per share component is calculated using the 10-year moving average of earnings.
Stimulus	Using monetary policy or fiscal policy to attempt to stimulate economic growth.
Tariffs	Imposing a tax to be paid on specific imports or exports.
Value Investing	Buying securities or assets that appear under-priced based on fundamental analysis.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