Providence
Independent Investment Advisory

Global Outlook & Strategy

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The Most Diversified in 20 Years

1. KEY POINTS

- **Global asset valuations are stretched on all measures**
- **Global recession fears have subsided**
- **There are some signs of stress in the operation of markets**
- **Expect higher volatility**
- **Maintain a high level of diversification across portfolios**

The Most Diversified in 20 Years

As Providence enters its 20th year of providing truly independent investment advice, we are reminded of tectonic shifts that can occur over time and the implications for portfolios. Our first Global Outlook and Strategy document in 2000 noted that "*the AUD was bottoming at 50c, that we are at the top of the interest rate cycle, we had some concern regarding a credit a crunch and corporate defaults and we had cash weightings at historically high levels of 12% which we will soon be looking to deploy.*"

Subsequently, the US market fell 14% from its high with the NASDAQ down 47% for the calendar year 2000. By December 2001 we were fully invested, had deployed the cash and rode the recovery.

A decade later the AUD touched $1.10. Two decades later the RBA cash rate has fallen from 6.25% to 0.75%. We presently believe the AUD is bottoming, we are at the low of the interest rate cycle, we are concerned regarding debt levels and the potential for a credit event and we have a historically high cash weighting of 14%.

As the US enters its longest ever economic expansion, Australia records 28 years of uninterrupted economic growth and global interest rates are the lowest in history, we are reminded of complacency that can creep into 'group think'.

It's all fine until it's not.

Global valuations are stretched on all measures except against global bond rates - that changes and the game changes.

There are also some signs of stress in the operation of markets. We have seen liquidity mismatches in credit ETF's, a general drying up of liquidity, herding towards index weightings regardless of valuation or risk and negative interest rate debt from both governments and corporates.

The stunning reversal of central bank policy in the US in early 2019 highlights how reliant assets are on current policy, which remains very much "accommodative".

Make sure you are happy to own that asset in a downturn, ensure a high level of diversity and maintain a margin of safety. Be aware of the possibility of drifting away from your desired portfolio risk to chase returns, a concept known as 'style drift'.

From the current starting point of valuations, it is likely that long- term returns for a balanced portfolio will be lower than the past 20-year return.

2. INVESTMENT OVERVIEW

Global growth, which softened throughout most of last year, appears poised to recover modestly in the months ahead. Lead indicators in China and Europe are starting to pick up (**Figure 1**) and global central bank policy remains very accommodative. **Figure 2** demonstrates this global central bank accommodative stance with net easing back to post-crisis highs.

Figure 1: China and Europe leading indicators are starting to pick up

Source: Factset

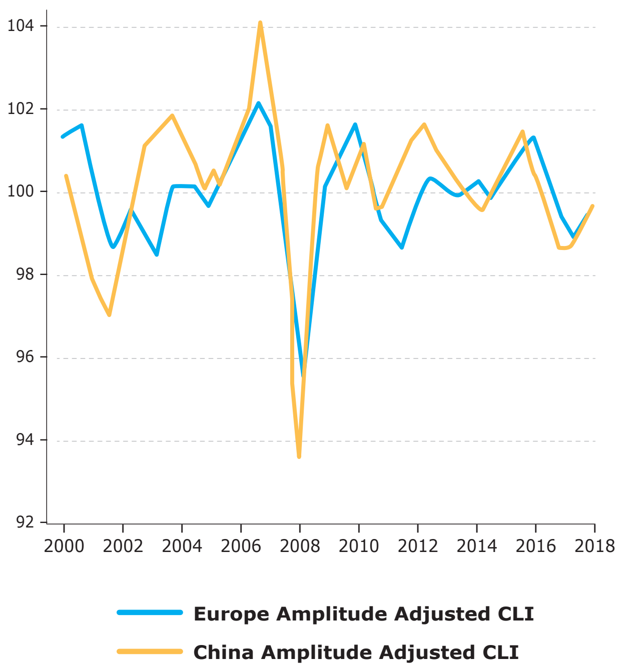
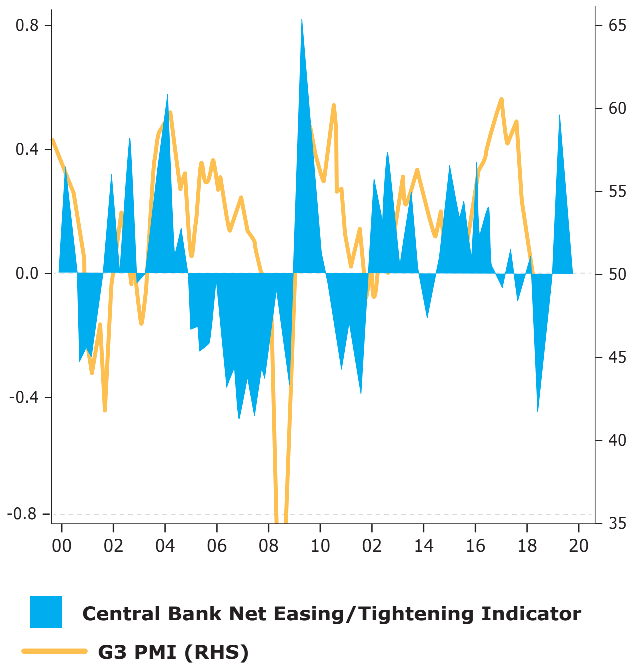


Figure 2: Global central bank policy remains accommodative

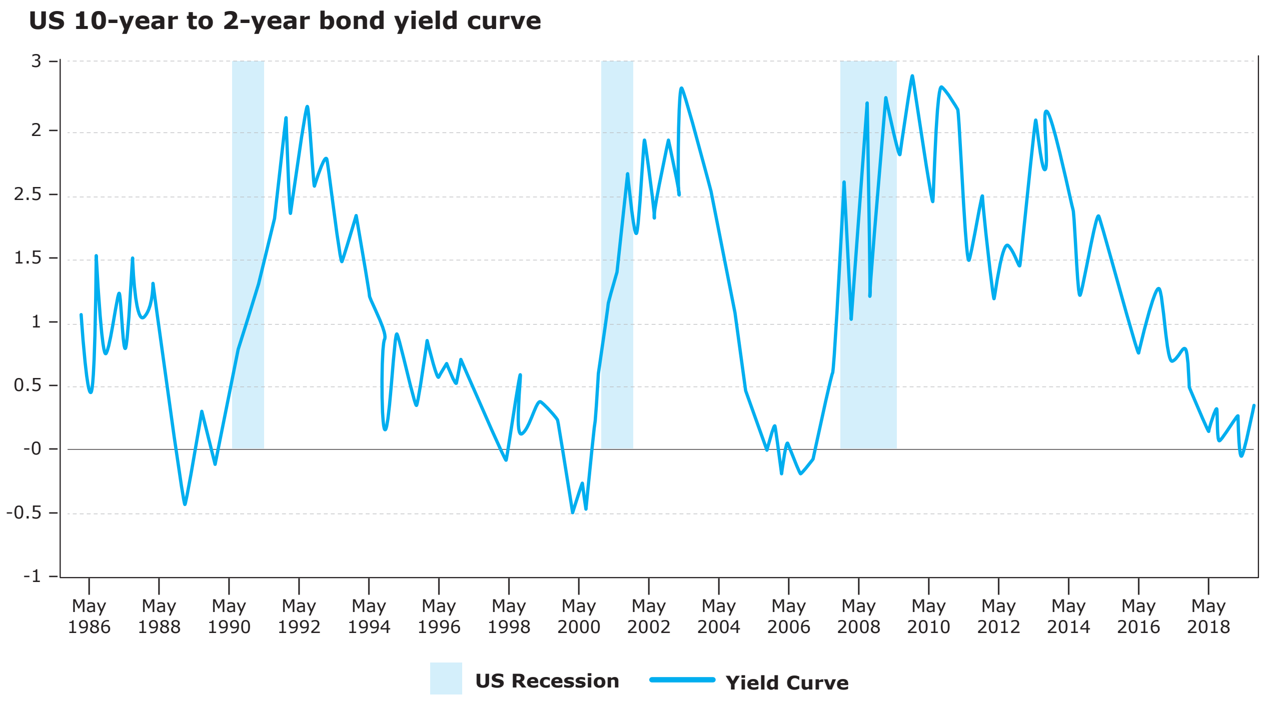
Source: Factset



This expected uptick in global growth has been largely discounted in equity markets which had one of their strongest years ever over the past 12 months despite the slowdown in global growth in 2018. This has also been reflected in the US yield curve which has moved from forecasting a recession (negative yield curve) to modest growth expectations (steepening yield curve) (**Figure 3**).

The proposed partial resolution of the China/US trade war will assist the global economic recovery and remove some uncertainty, however questions are being asked of China's ability to fulfill its aggressive purchase targets in the "Phase One" agreement. The implications for other nations that may lose out as a result of the agreement remain to be seen. Trade tensions between the US and Europe also linger however are unlikely to manifest during a presidential election year.

Figure 3: US yield curve was indicating a forthcoming recession, the recent steepening suggests this risk is abating
Source: Factset



US growth continues to be the strongest of the developed markets driven by full employment, modest wage growth and solid household spending which accounts for 70% of GDP.

The Australian economy faces several hurdles with weak private sector spending, weak retail spending, high household debt, muted wage growth, the impact of the drought and now the bushfires. Offsetting these issues is an increasing government spend via the National Disability Insurance Scheme (NDIS), a bring-forward of infrastructure and disaster relief spending which will be supportive along with the maintained strength of exports and a trade surplus. The recovery in the housing market and strong equity market performance will also assist sentiment. At a minimum, the RBA will keep rates on hold for the foreseeable future particularly given the impact of the bushfires.

Given this backdrop economies should avoid recession and remain on a modest growth path with interest rates remaining low.

However, this is the consensus view and is largely built into asset prices. We need to be cautious of following the crowd and ensure that we have some contingencies in place if this central case does not eventuate.

Notwithstanding the supportive liquidity environment and economic backdrop, there are some clouds on the horizon that the market is complacent to. Valuations of risk assets are stretched on all measures except relative to global bond rates. Any change in expectations to future interest rate increases would dramatically undermine lofty valuations. The adjustment could be swift as there has been a one-way flow into index and ETF funds across thousands of indices and assets. The fear of missing out (FOMO) and search for yield has created the illusion of liquidity with expectations that it will remain if there is a reversal of trend. We are not so sure. Even in the current benign environment it can be very difficult to implement some transactions in the equity market without moving the price due to liquidity constraints.

There is also the illusion of liquidity in credit markets where the search for yield has seen an explosion in global credit ETFs promising daily liquidity despite the underlying investments not trading daily. Human behavior, being what it is, may well see a herd exit in any "stressed" environment. It reminds me of the great migration of buffalo we were fortunate enough to see in East Africa recently. The herd gently moves along in the same direction until they arrive at a cross road, the river. They all patiently wait until one makes the jump and then all hell breaks loose. The crocodiles have a field day although the first buffalo to jump usually survives.

We have seen some signs of stress via CCC rated credit with spreads widening (**Figure 4**) indicating the potential for higher defaults. In addition, the unintended consequences of increased regulatory requirements have seen it necessary for the US Central Bank to inject some $500bn into the overnight funding market (REPO market) to assist with financial market liquidity.

Figure 4: CCC rated credit spreads widened throughout 2019, suggesting some stress in this market
Source: Factset

Longer term the repercussions of negative yielding government bond rates in Japan and Europe undermining global pension liabilities is yet to be addressed.

One way to address a number of these issues, particularly around global debt levels, is to inflate your way out of the mire and weaken your currency. A race to the bottom.

We remain very diversified for client's portfolios, recognising a number of these risks without trying to time the readjustment. Ensuring good quality assets that withstand higher interest rates and a shock to the market is key.

We prefer global equites outside the US on relative valuation basis over Australian equities. Within credit, asset backed securities and first mortgage fully secured debt is our preference. We are wary of A-REIT valuations and prefer direct property outside the normal sectors of commercial, industrial and retail.

20 years of investing has taught us to be wary of consensus and avoid 'style drift'.

Our feeling is any market dislocation is likely to be a financial event (ala 1987) rather that an economic event.

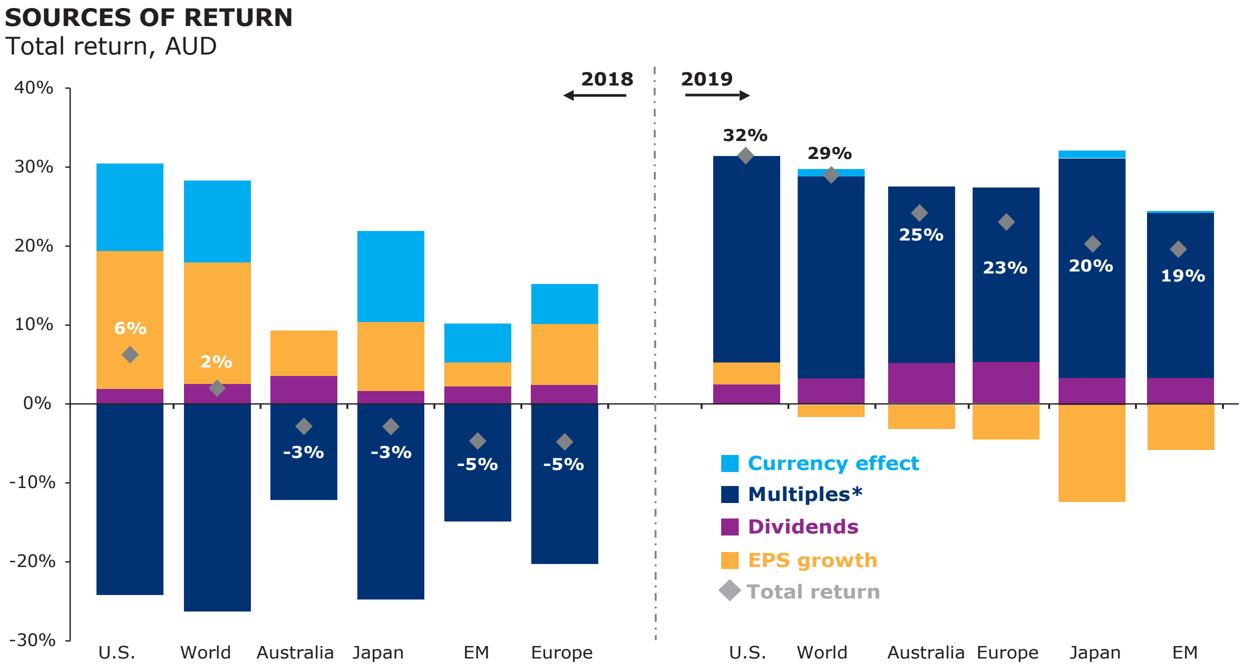
3. ASSET CLASS REVIEW

3.1 Equities

The global equity market has just posted one of the best returns since 2013, with the MSCI World Ex Australia Index up 28.7% for the year ended December 2019. This was primarily due to an expansion in valuation multiples - what you are prepared to pay for a company's earnings rather than earnings growth. This was in stark contrast to meagre returns from equity markets in 2018 which were hampered by a valuation multiple contraction (**Figure 5**). This is clear evidence of the equity markets dependence on loose monetary policy, with 2018 being primarily driven by tightening monetary conditions and 2019 seeing a stark reversal and a return to a more accommodative monetary policy stance.

Figure 5: 2019 return contribution was a mirror of 2018, with multiple expansion the primary driver across all markets

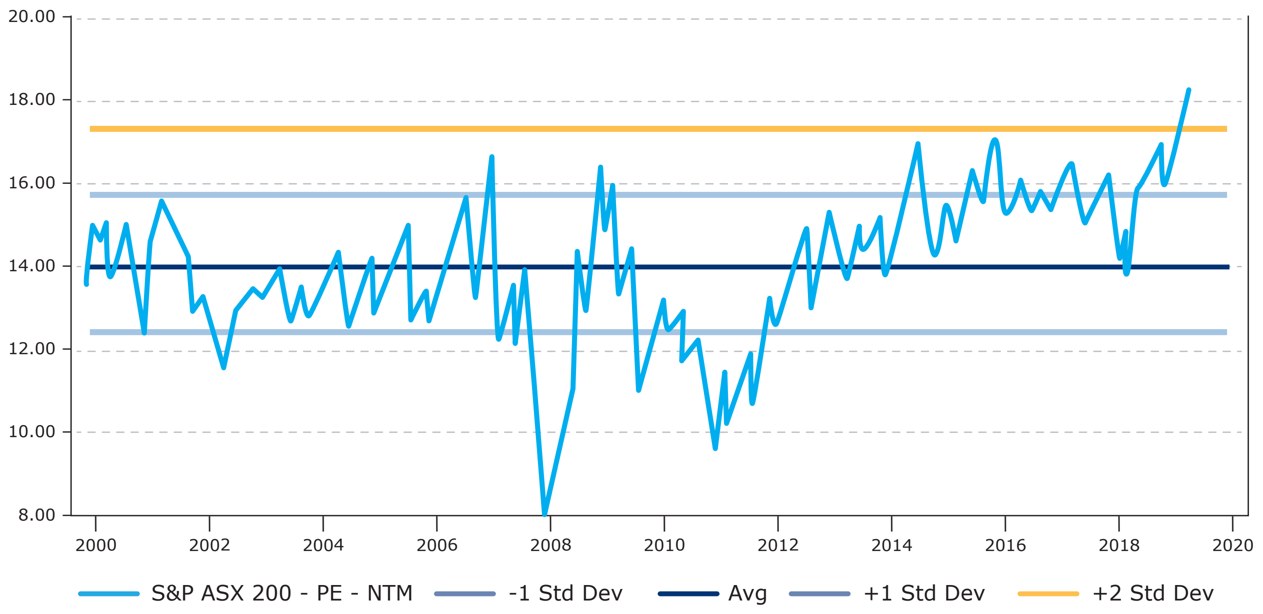
Source: JP Morgan Asset Management



The conundrum is that future returns are now dependent on the market being prepared to maintain the same valuation multiple, and earnings growth continuing to grow above inflation. This is possible in some markets, however the US is already experiencing input cost inflation in the form of wage pressures and tariff impacts. This will likely result in profit margin compression, a phenomenon that was evident in each quarterly earnings reported through CY19 for the S&P500 in the US. With this in mind, our offshore equity exposure is relatively underweight the US equity market.

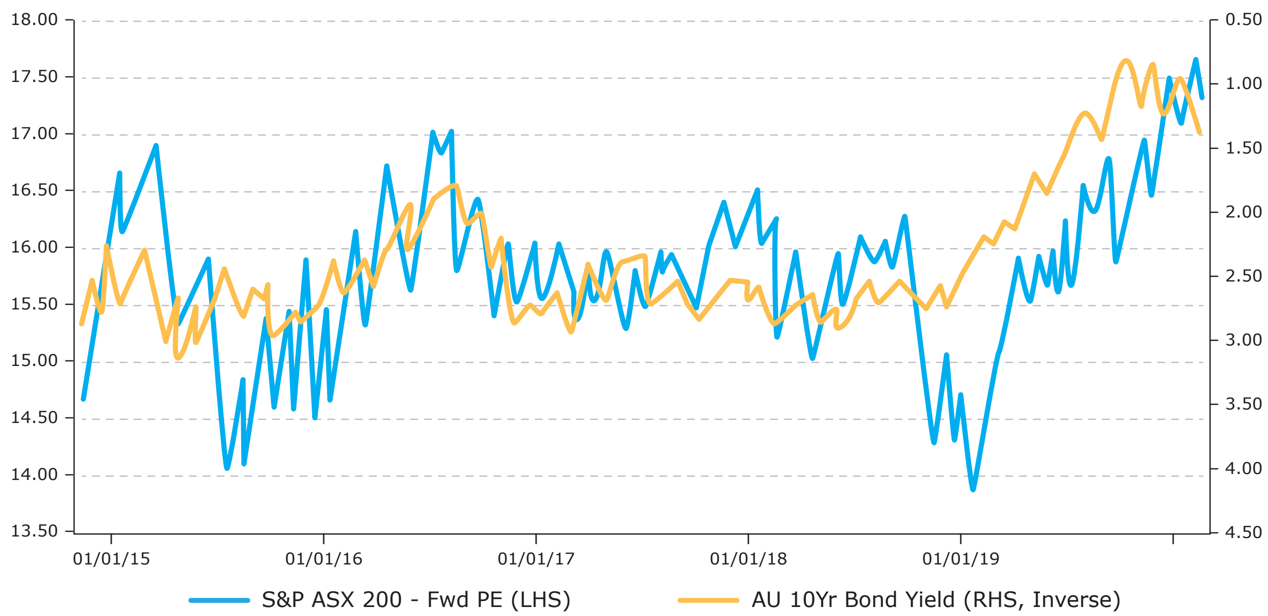
The Australian equity markets forward PE multiple is now trading more than 2 standard deviations above its long-term average (**Figure 6**). Arguably, this can be justified given the ultra-low 10-year bond rates. This suggests to us that the market is expecting a strong recovery in earnings and/or that bond yields will remain at these depressed levels. We believe the latter is a more likely outcome.

Figure 6: The ASX200 forward PE multiple is now more than 2 standard deviations above its long run average level
Source: Factset



As an aside, the interrelationship between bond yields and PE valuations over the past 5 years has been incredible (**Figure 7**). This reinforces the market's ability to look past the recent subdued earnings and place faith in the ability of companies to maintain a steady earnings growth rate into perpetuity. A big call perhaps.

Figure 7: There has been a strong relationship between bond yields falling and PE ratios expanding
Source: Factset



3.2 Property

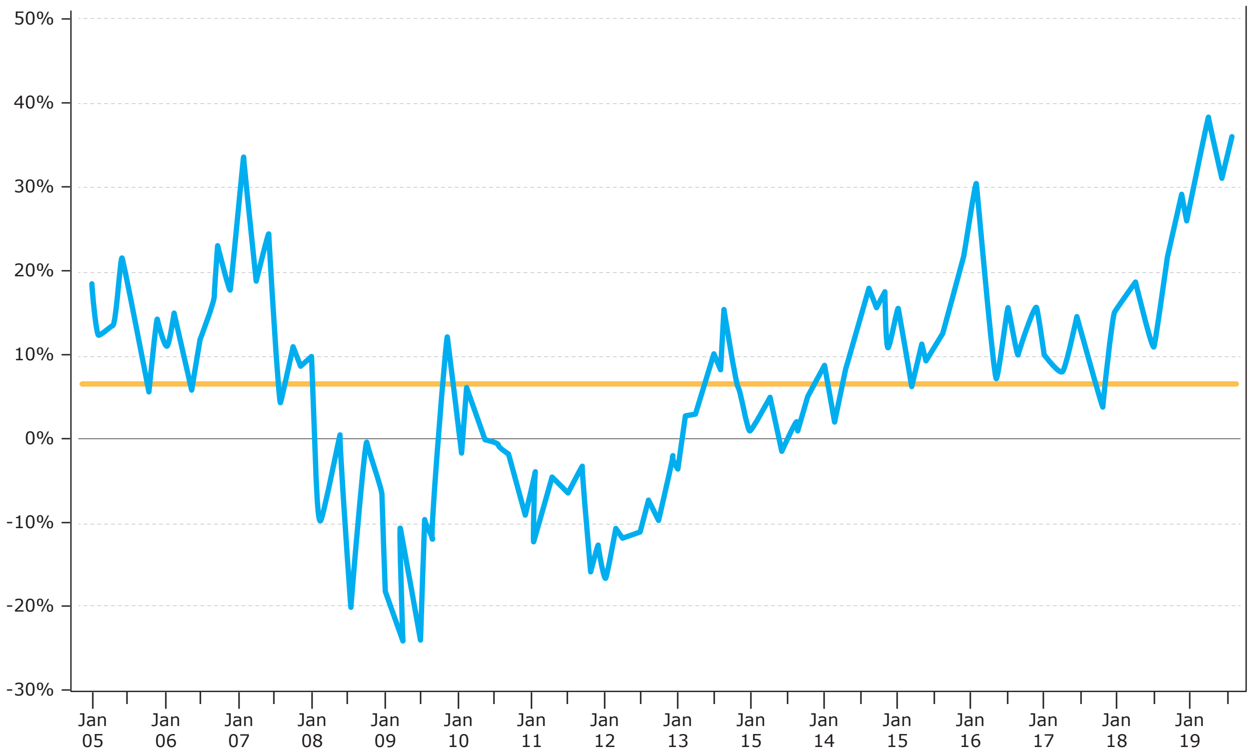
Like most other risk assets, property tends to look expensive on all valuation metrics other than relative to bonds. **Figure 8** shows the capitalisation rate spread to the Australian 10-year government bond yield for prime Australian real estate sectors and suggests that there is potential for further valuation uplift should this spread fall from the current levels (lower capitalisation rate = higher property value). On an absolute basis, this would see capitalisation rates fall further below their long-term historical averages.

Figure 8: Australian real estate capitalisation rate spread to 10-year government bond yields

Source: Charter Hall Research at 3Q19, RBA, JLL

We are cautious on Australian listed property. The Price to Net Tangible Assets (NTA) and Net Asset Value (NAV) is trading at post-GFC highs and well above its long-term average. The premium to underlying assets is 35-40% (**Figure 9**) distorted somewhat by the contribution of management earnings. The added contribution of management earnings suggests there will be a high correlation to the equity market in a correction. Gearing however remains modest and as investors scramble for yield the forecast 4.6% distribution yield has some attraction.

Figure 9: A-REIT price to net asset values (NAV) are around record high levels
Source: SG Hiscock & Co



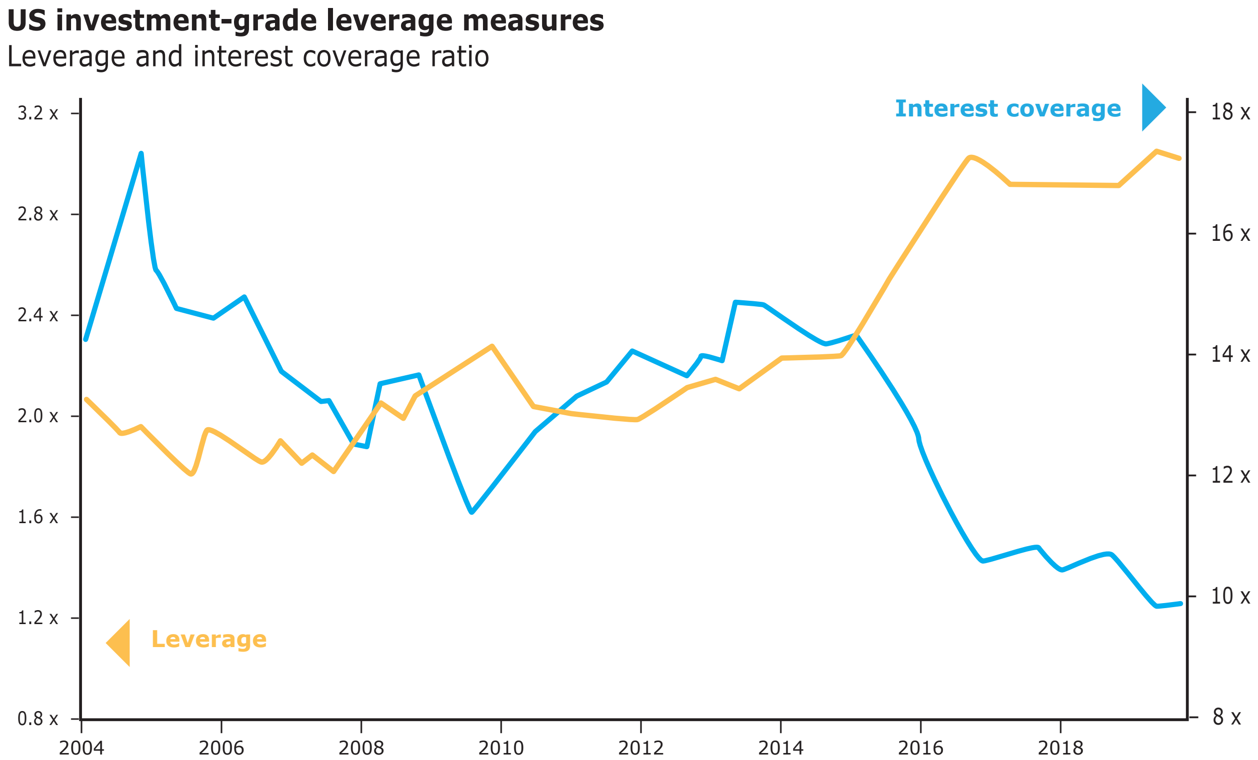
We prefer direct property in boutique sectors that we believe can withstand a market correction i.e. agriculture and motels. Although attracted to the fundamentals of healthcare/medical centres, valuations currently look very tight given investor demand and we have recently removed our exposure to this sector.

3.3 Fixed Income

The chase for yield has seen an abundance of corporate debt issuance with borrowers taking advantage of record low interest rates. Most recently, we noted the APRR toll road in France (part owned by ASX listed Atlas Arteria) issued €500m of 3-year debt at yield to maturity of -0.077%.

Unfortunately, this is not such good news for lenders as a whole in credit as the quality of that debt has been deteriorating with leverage increasing and interest coverage ratios declining (**Figure 10**).

Figure 10: US investment grade leverage measures are deteriorating
Source: JP Morgan Asset Management



In Australia, as retirees look for income above the current term deposit rates, questionable products hit the street with advertisements insinuating that they are a reasonable replacement for term deposits with a higher interest rate. Little is understood by the investors as to the underlying risk of those products.

Although Australian Government bonds currently provide very low income return and carry duration risk, we continue to include an allocation in portfolios for insurance against a major downturn.

Within credit there have been some early warning signs of a potential pickup in defaults. As discussed in the investment overview, the CCC tranche of credit has seen their credit spreads widen to reflect this concern (**Figure 4**).

Within credit we are focused on quality and security. Our preference is for asset backed, first mortgage fully secured, and asset backed securities across many sectors and maturities. Although sacrificing some yield, we prefer to be up the capital structure at this point of the cycle.

3.4 Alternatives

There has been a huge inflow of funds into global private equity. However, there are some question marks surrounding the valuation methodology of the managers, particularly at exit. Recent examples include WeWork which was valued by the owners at $45bn when attempting to float the company only to see the company recapitalised (saved) by their largest shareholder Softbank at a valuation of $8bn.

Recently in Australia there is a growing reluctance of the public market to pay the multiples that private equity are looking for. Warren Buffet was quoted recently as saying "We have seen a number of proposals from private equity where the returns are not calculated in a manner that I would regard as honest". In agreeance with the "Oracle of Omaha", we have reduced our exposure to private equity in client portfolios, preferring a more diversified exposure to the wider subset of private markets including but not limited to private debt, private real estate, private infrastructure, mezzanine financing etc.

We believe gold has a place in portfolios for its diversification benefits in the case of a market downturn. The opportunity cost of owning gold has all but disappeared relative to global government bonds that are offering zero, if not negative, yields.

4. CONCLUSION

A difficult investment climate to navigate given excessive valuations and ultra-low interest rates. Caution is warranted however returns from late cycle can be explosive.

There are some cracks showing in the operation of markets and we are concerned about the complacency and illusion of liquidity currently evident.

The preservation of capital in real terms is paramount. For a high-quality portfolio, we remain disciplined and ensure there is enough diversification. Providence's current stance on behalf of our clients is the most diversified we have been in our 20 years, reflecting our concerns and desire to plot a steady course.

4.1 Opportunities

- First mortgage fully secured property loans
- Direct property Motels and Agriculture
- Gold for protection

4.2 Risks

- Global growth struggles to recover
- Global bond rates move higher on inflation scare
- Credit defaults increase which may undermine the huge flow of funds into ETFs

4.3 Implications

- Longer-term returns from this starting point are likely to be substantially lower than the past 20 years
- It will continue to be difficult to generate yield/income without taking substantially higher risks

Thoughts from the Research Department

Is Higher Volatility on the Horizon?

It is now consensus that the currently stretched equity market valuations (and valuations in general) are wholly justifiable due to low bond yields. This academically makes sense when using the dividend growth model of valuation or any other discounted cash flow methodology. However, there will be significant implications for portfolio construction if this argument is the basis for increasing allocations to equities.

As an extension, we delve into the potential impacts that this assessment of valuation may have on expected equity market volatility should it become the market's primary source for deriving equity market valuations.

We will use the example of a company, creatively named "XYZ Company", that can grow its dividend at 4% p.a. into perpetuity and will retain the equity risk premium of 5%. For relevance, we will use a 10-year bond rate of 1% in this analysis.

At these low levels of bond yield, the impact of changes in the bond yield on the implied valuation of our stock using the dividend growth model are even more significant. The table below demonstrates the impact of a 3.8bp (0.038%) move in the bond yield (the average daily bond yield change over the past 10 years) on our stock's valuation at different levels of the 10-year bond yield. The output is the annualised volatility of this valuation metric and therefore the stock itself (ceteris paribus).

Impact of +/- 3.8bps in 10-yr Bond Yield							
10-yr Bond Yield	3.50%	3.00%	2.50%	2.00%	1.50%	1.00%*	0.50%
Equity Valuation Change +/- 3.8bps	0.84%	0.95%	1.09%	1.27%	1.52%	1.90%	2.53%
Annualised Volatility of Change	13.4%	15.0%	17.2%	20.0%	24.0%	30.1%	40.1%

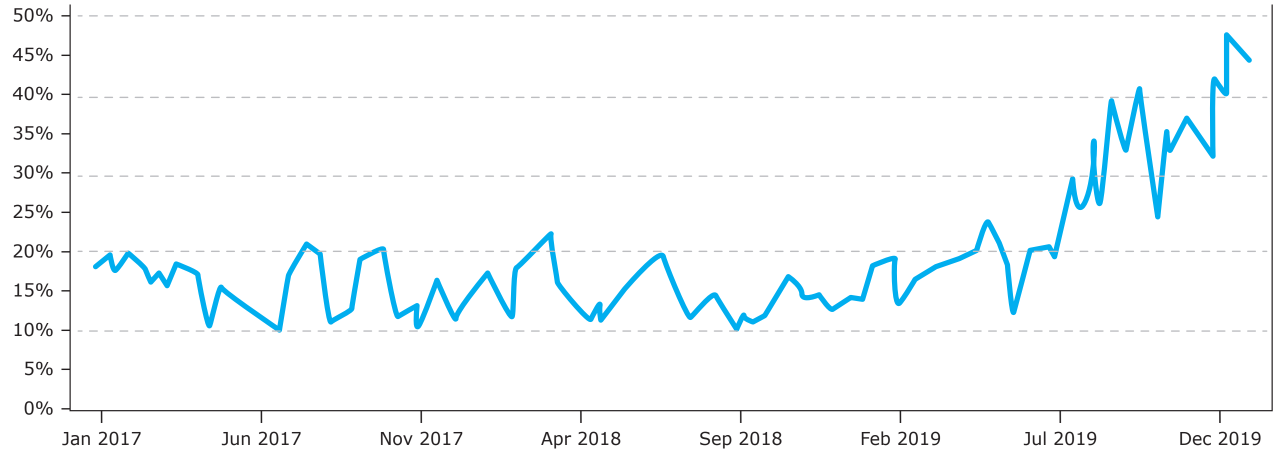
*roughly the current 10-year bond yield

Our priority is to ensure that we are being adequately compensated for the risk that we are taking. At the current 10-year bond yield of 1.00% the expected annual volatility could be assumed at 30.1% based on the dividend growth model. This compares to the experienced volatility of the S&P ASX200 over the past 10 years of 14.2%. If we were to rely on this assessment of fair value and therefore the implications on expected Australian equity volatility, we would require more than double the historical return of the S&P ASX200 over the past years to justify the additional risk.

To put this into the real world, Figure 11 plots the valuation volatility of "XYZ Company" growing dividends at 4% with an equity risk premium of 5%, using the actual daily 10-year bond yield experienced over the past 3 years and calculating the annualised 20-day volatility of that valuation.

Figure 11: Realised Valuation Volatility of "XYZ Company"

Source: Providence

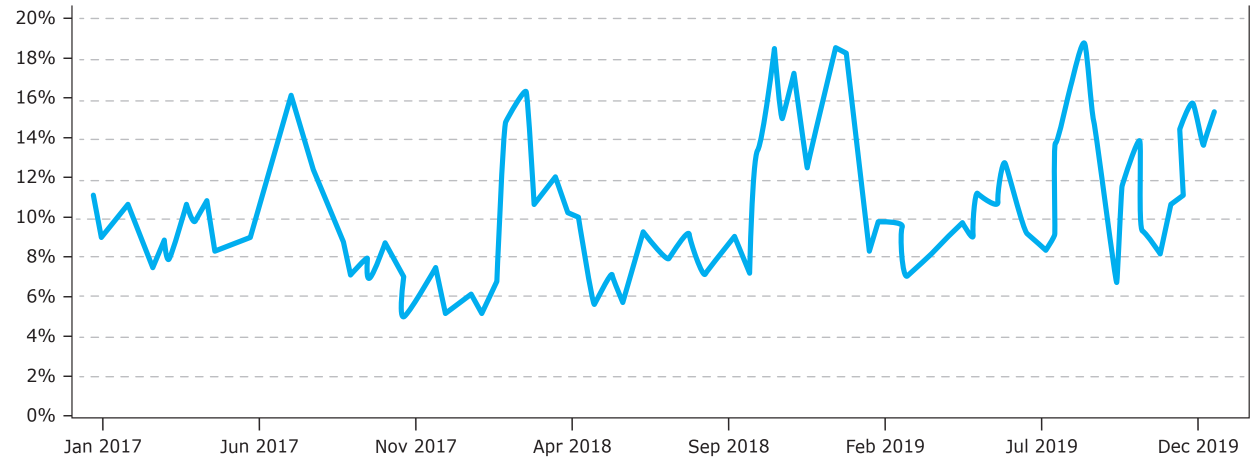


In theory, the annualised 20-day volatility of our portfolio stock's valuation has increased significantly as the bond yield has been volatile at a low level. In reality, we have seen very little movement in equity index volatility in Australia during this volatile period (**Figure 12**). Therefore, we can reasonably conclude that this is not the sole metric that is relied on by the market.

In practice it is unlikely that the 10-year bond yield would be adjusted daily given the volatility that this introduces to the valuation (**Figure 11**). However, if the sole argument for equity exposure relies on a forecast of bond yields, consideration should be given to the underlying risk that is added . It certainly sounds more like adding long duration, but if this is the risk you are trying to capture, there are far purer ways to do so than via equities.

Figure 12: ASX Realised Volatility

Source: Factset



The purpose of this analysis is to suggest that the over-reliance on a single valuation metric can have significant impacts on other inputs that may be useful when constructing portfolios. We agree that lower bond yields can justify the elevated valuations that global equity markets are experiencing, however we need to be aware that if this is the sole reason for elevated valuations we may need to increase our expectations for equity market volatility and measure this against our expected return.

We remain as diversified as we have ever been, both across and within asset classes to try to mitigate the reliance on low bond yields to drive returns. We continue to focus on owning assets or employing managers that have a wide range of options to drive value.

Thoughts from a Contrarian

In our last edition we discussed the growing clamour for unelected bureaucrats to have more input into how governments spend money without pesky notions like democracy getting in the way. We also noted that this was always baked into the Keynesian economic pie by referencing the Forward to the 1936 German edition of Keynes' General Theory. It's worth quoting again:

"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".

Sounds like great fun doesn't it? Plato's idea that kings should be philosophers and philosophers should be kings was always a lot more popular with philosophers than anybody else. Likewise, surely it would be a lot easier to put a few thousand economists out of work rather than subject ourselves to totalitarian rule in the hope their theory might work.

Having quoted the introduction of the General Theory let's turn to the final chapter. If the holy book of the high priests of modern finance begins with a travesty and ends with an absurdity then, quite frankly, we must wonder what we've gotten ourselves into. In his conclusion, having made a case for lowering rates of return on interest in the thousand odd pages I've ignored in the middle, Keynes suggests low interest rates would mean:

"The euthanasia of the rentier, and consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity value of capital".

Yeah sure. In theory maybe, but these theories have an unfortunate tendency to have exactly the opposite effect in practice. No wonder these guys yearn for a system where they could just force people to do what they want. In reality, as guinea pigs in the great Keynesian experiment, we know it didn't quite turn out this way. Rather than being financially euthanised the rentiers, these days referred to as the "one percent", were given a one-way ticket on the gravy train to the land of milk and honey. An outcome more at odds with its original intention is hard to imagine. In fact, if the fate of the world's wealthy over the last few decades is anyone's idea of punishment then I can only hope there's an economist out there somewhere who's got it in for me.

The reason the reality was the polar opposite of the theoretical outcome is quite simple, and simple things tend to pass a genius such as Lord Keynes by. In a nutshell: if you change incentives then people change behaviour. It seems so obvious yet it's a reality that aspiring central planners simply can't come to grips with. Think of the misery that would have been avoided in various communist countries in the twentieth century if only it was understood if you try to make everybody equal nobody will bother doing anything unless you force them.

As is perfectly obvious in hindsight, and should have been in foresight, the rentiers didn't passively wait to be financially obliterated in the name of the greater good. They changed their behaviour to suit the new environment. Rather than idly watch the return on portfolios dwindle lower and lower as rates fell they noted the effect of lower rates on asset prices and changed tack. The money flowed into hedge funds and private equity with ever greater amounts of leverage piled on. The creditors became the debtors and therefore the beneficiaries of ever lower rates rather than the victims.

It seems obvious what needs to be done here. The mandate of central banks the world over needs to be changed to shrinking the economy and increasing inequality. On historical form if they consult their theories and implement the appropriate policies then we can surely expect a surge in economic growth with the spoils spreading beyond leveraged speculators.

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

A-REITS/REITS	Listed Australian real estate investment trusts giving access to property assets
Capitalisation rate	Income yield from a property investment
CCC rated credit	Paper issued by an entity that is rated CCC by rating agencies (Standard & Poors or Fitch). CCC credit is considered non-investment grade and carries a higher level of risk
Credit spread	The margin paid over the risk-free rate (government bonds)
ERP	Equity Risk Premium - the excess return expected from equities over the risk-free rate
ETF	Exchange traded fund
Gearing	A measure of how much debt a company has relative to equity
Leverage	An alternative term for gearing i.e. a measure of how much debt a company has relative to equity
Liquidity	The ability to trade in and out of securities with minimal impact on the price
Net asset value	The value of an entity’s assets less the value of its liabilities
Net tangible assets	The value of an entity's tangible assets (i.e. excluding intangible 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 multiple	Price Earnings Ratio - the share price divided by earnings per share of the company
Recession	A period of economic decline, technically identified by 2 successive quarters of GDP decline
REPO	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
Volatility	The degree of variation of a price over time
Yield curve shape	An inverted yield curve (where the 10-year yield is below the two-year yield) has occurred before most US recessions and is therefore considered a reasonable indicator of a forthcoming recession. Conversely, a steepening yield curve (where the 10-year yield is above the 2-year yield) has signalled a more stable economic environment

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