Providence
Independent Investment Advisory

Global Outlook & Strategy

Issue 78: 3rd Quarter 2020

There is No Road Map

1. KEY POINTS

- **Valuations matter**
- **Market exuberance remains; patience, liquidity and diversity required**
- **Attractive stressed opportunities will present themselves**
- **There is little transparency of future earnings**
- **Focus will shift from liquidity to solvency**

There is No Road Map

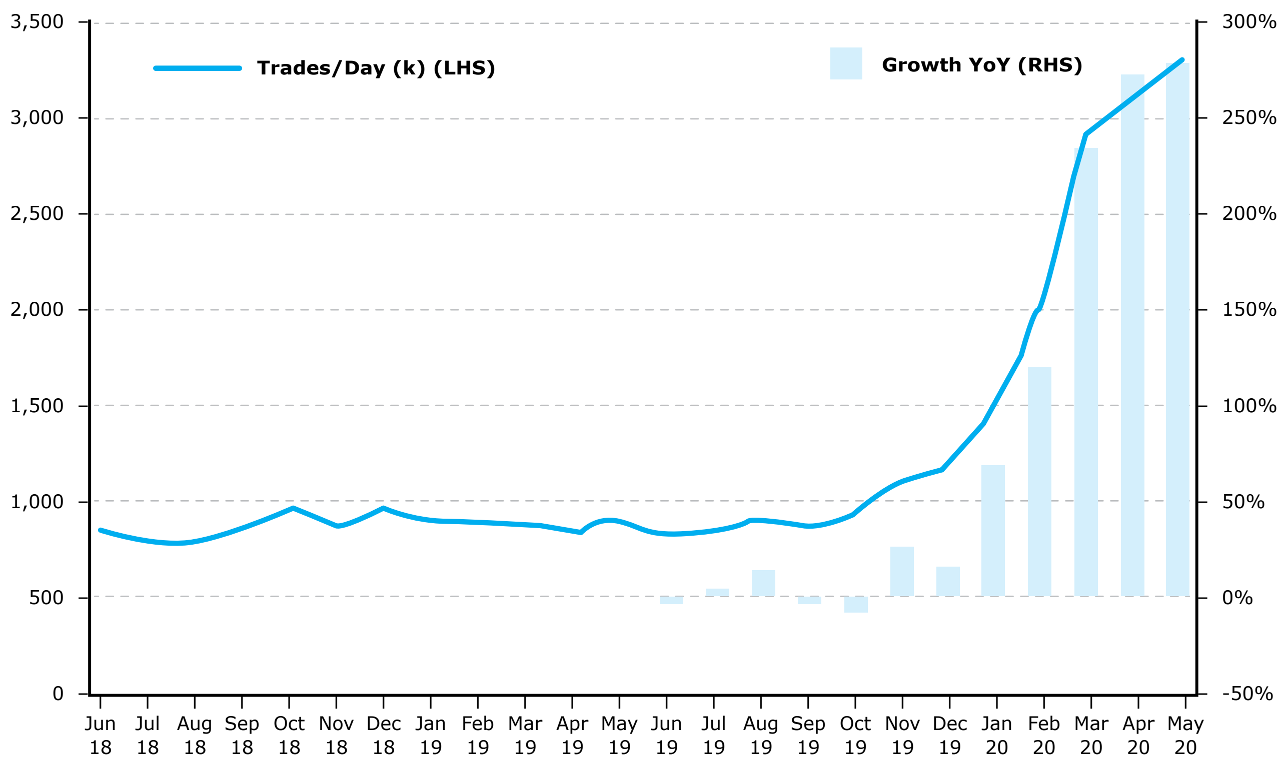
"Everything is a little upside down…as a matter of fact the wheels have fallen off." Bob Dylan

Credit: AAP Image

After filing for Chapter 11 protection on the 22nd of May, the share price of Hertz fell to US$0.59 and the bonds, which rank higher than equity in the capital structure fell to US 10 cents in the dollar. This is not untoward; it is what followed that has most investors baffled. Despite the Hertz bonds trading at levels suggesting investors were unlikely to get their money back, the share price of the common stock (while in Chapter 11 mind you) rose almost 10x to close at US$5.53 on the 8th of June. While the bond pricing had also recovered somewhat, the price of the bonds still suggested that bondholders expect to only receive ~50% of their face value, leaving absolutely nothing for equity holders. Despite this fact, Hertz used the rally in their share price to gain (unbelievably) approval to issue up to US$1bn in fresh equity which included many references to the Chapter 11 issues that the company faces such as "may render our common stock worthless". Fortunately, we have seen some rational regulatory oversight with the Securities and Exchange Commission (SEC) stepping in to put a halt to the issue of worthless equity.

If nothing else, this reminds us that we are indeed in unchartered waters. To highlight this point further, the Covid-19 induced lockdown and commensurate closure of gaming and wagering outlets for those who choose to 'punt', has seen the entry of a new investor in risk assets. Buoyed by the material sell-off of equities in the first half and egged on by a new breed of investor 'mavericks', day-trading (**Figure 1**) has risen dramatically in the US and other global bourses.

Figure 1: Stunning increase in the average number of trades per day through Ameritrade
Source: Ameritrade

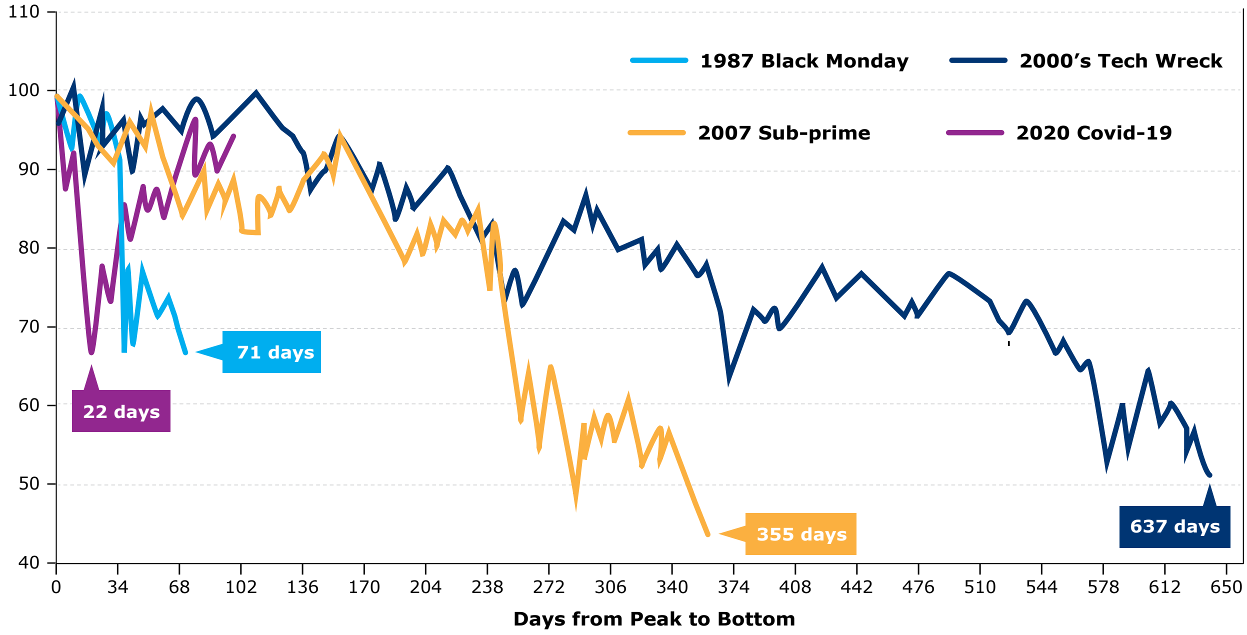


The new normal is indeed not normal. Traditional investor techniques appear to have been cast aside as this new wave of investor blindly 'punts' the market. It is a good time to hold excess cash.

We are reminded of the remarks from our CIO, Grant Patterson in the depth of the Covid-19 sell-off in March... "The sell-off appeared to yield value on most traditional long-term valuation metrics however, there was zero visibility". No one knew what the ultimate economic cost of the Covid-19 pandemic would be, and arguably no one does to this day. Without any visibility on 'earnings' it was and is impossible to accurately value a market.

What we do know is that central banks and governments have pump-primed the system with unimaginable liquidity (QE infinity). How do you value that? The remarkable rally in equities, and it is remarkable versus historical corrections (**Figure 2**) has been on the back of a massive injection of liquidity. The ultimate economic cost and the duration of the Covid-19 'hang-over' may last for many years. Indeed, the World Health Organisation (WHO) on the 29th of June went as far as to say that 'The worst is yet to come'. **Valuations matter.**

Figure 2: Remarkable rebound in the S&P relative to historical corrections
Source: Factset



On reflection, the US Federal Reserve's announcement on the 12th of May that it will commence buying exchange-traded funds holding corporate bonds for the first time ever, to support the credit markets pressured by the coronavirus crisis was a watershed moment. So concerned was the central bank that the system was not functioning properly, that they decided there were no restraints on what they would do. The system was showing signs of immense stress and at the coal face, this could be seen in the form of huge daily and intra-day price moves coupled with an alarming spike in volatility. The perception of liquidity had been quashed. The Fed had to act. All in.

Subsequently the Fed extended this program to buying corporate bonds directly. Importantly for risk markets, this watershed moment was further evidence that the Fed would do 'whatever it takes' to provide a backstop to the financial system, or more importantly, to aspects of the system that were losing stability. The market sought comfort and the Fed once more prevailed. How risk markets are ultimately weaned off the Fed's and other central banks' lifeline in time remains to be seen.

Financialisation has firmly taken control of the system.

Global liquidity pressures have eased, and systemic risk has been addressed via immense intervention and liquidity support. However, valuations matter in the end and with the huge amount of corporate debt around the globe, a question of solvency will arise. As governments around the globe attempt to unwind various support mechanisms that have been put in place, expect heightened volatility to prevail. Insolvencies will continue as businesses at the coal face of the economy grapple with such a monumental supply and demand shut down and income shock. The renewed lockdown in Victoria this month is a prelude to this looming solvency issue.

Reflecting on the points raised above, this was a global supply and demand shutdown. For the first time ever, governments around the world have stepped in with material income support for their constituents. This created a very different dynamic compared to other economic shocks as a vast percentage of the global population in developed markets has received income support. A grab-all support mechanism, no, however without the support mechanisms that have been in place to date, the outcome would have been far more dire. That said, the support still needs to unwind and there will be casualties along the way.

Using Australia as an example, we have seen many listed companies come to the market to raise capital and shore up their balance sheets. All the while, there is essentially a bank 'moratorium' on enforcing corporate and household defaults. This has been coupled with the passing of the Omnibus Act (2020), which has removed personal liabilities for directors for any debt incurred in the ordinary course of business for the six months following the 25th of March, even if the company is trading while insolvent. Effectively there is now legal, regulatory and financial relief to increase debt regardless of solvency. These relief packages are all due to roll-off at the same time at the end of September which certainly creates a cloudy outlook for that period.

This has been a liquidity and speculative rally driven by an explosion in money supply. The intraday volatility is truly amazing and likely to be around for some time. We share the thoughts of Hamish Douglass who was recently quoted as per below:

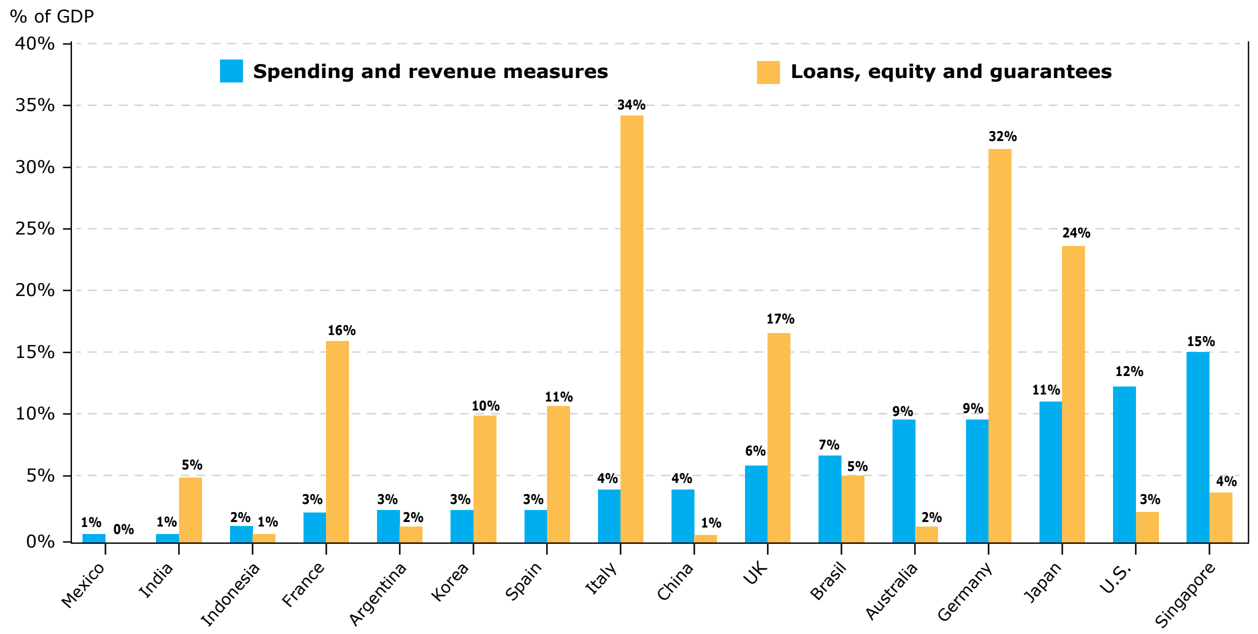
"We don't know whether the world is on a bridge to recovery or on a bridge with a cliff at the other end. As we don't know, we will not speculate or gamble with our clients' money. We understand the limits of our knowledge. We have no fear of missing out."

We remain disciplined, diversified and defensive.

2. INVESTMENT OVERVIEW

One factor that differentiates this global recession to those of the past is that there has not been an income hit to workers' pay packets as government wage support has filled the void of income loss. Therefore, there is a belief that once we see an easing of restrictions on lockdowns, the economic recovery will be V-shaped. This may be the case in the short term, but the market is not looking much beyond the next 6 months. We expect governments to be cautious in withdrawing support and will taper current handouts over time. The scale of fiscal response is truly stunning (**Figure 3**).

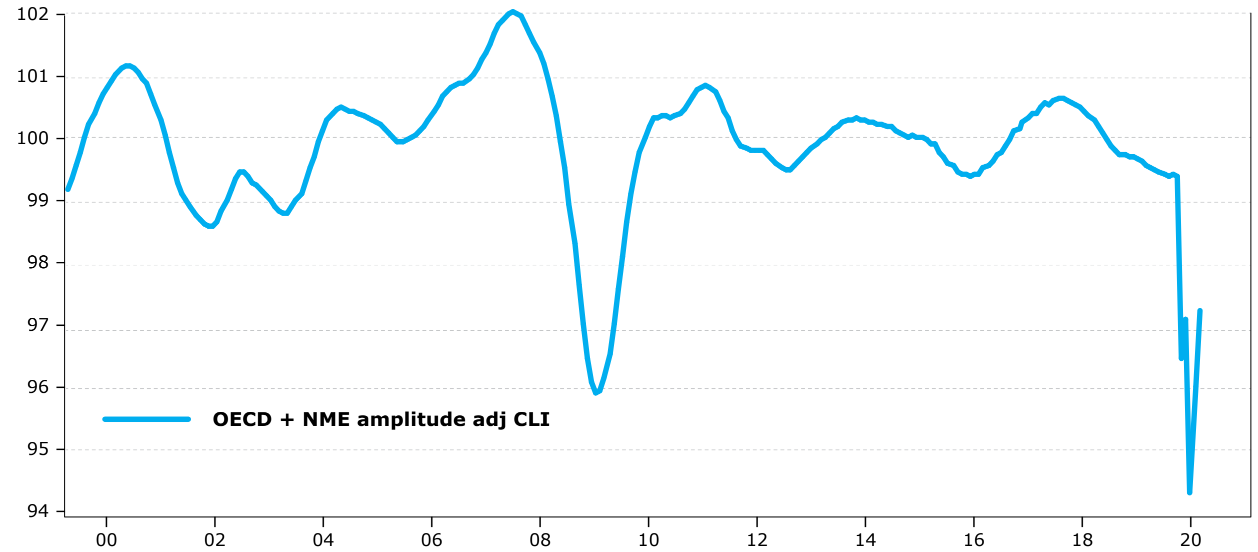
Figure 3: The global fiscal response to Covid-19 as a percentage of GDP by country
Source: JP Morgan Asset Management



Global Leading Indicators are starting to improve but remain below expansionary territory (**Figure 4**). Unemployment levels are elevated around the globe, however, include many adjustments to reflect the monetary and fiscal support. In Australia for example, the official unemployment rate has moved from 5.1% in January to 7.1% in May. When fiscal measures are excluded the number is likely closer to 11%. What remains to be seen is the number of those jobs that are lost for an extended period as the economy grows off a contracted base.

Figure 4: Global Leading Indicators improving, but not expansionary yet

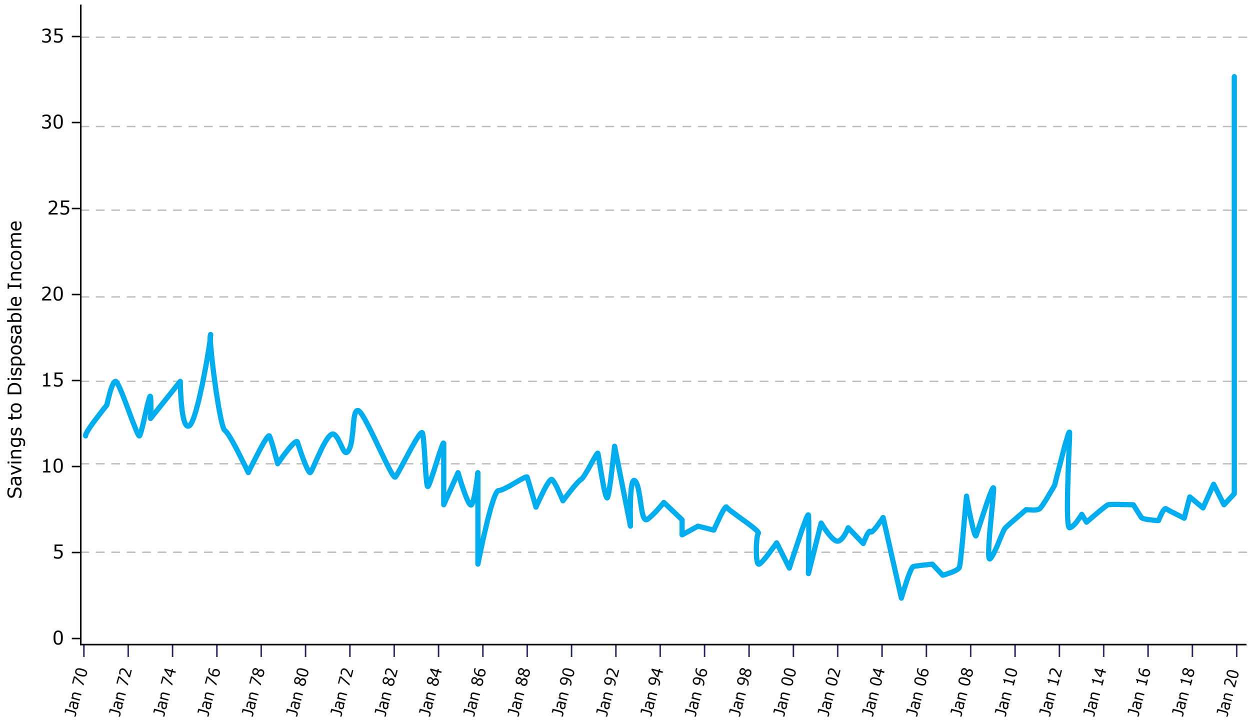
Source: Heuristic investment systems



Disturbingly, as some economies have been reopening, the Covid-19 daily case rates have spiked dramatically. The recent example of Melbourne suburbs being locked-down again attests to that. This is likely to continue in fits and bursts around the globe and reminds us that this pandemic is here to loom large for some time. Indeed, until a vaccine is produced it is difficult to fathom what normal now is.

Counter to this negativity, we must weigh the prospects of a potentially stronger consumption-led economic recovery. In the US for example, the personal savings rate is at its highest level ever recorded (**Figure 5**). This likely reflects an inability to spend given restrictions, significant fiscal and monetary stimulus and some hoarding of savings that reflects the uncertain economic environment. While we hope this can provide the green shoots for a resumption of economic growth, we must consider the potential that a higher savings rate is sustained as economic uncertainty prevails for some time.

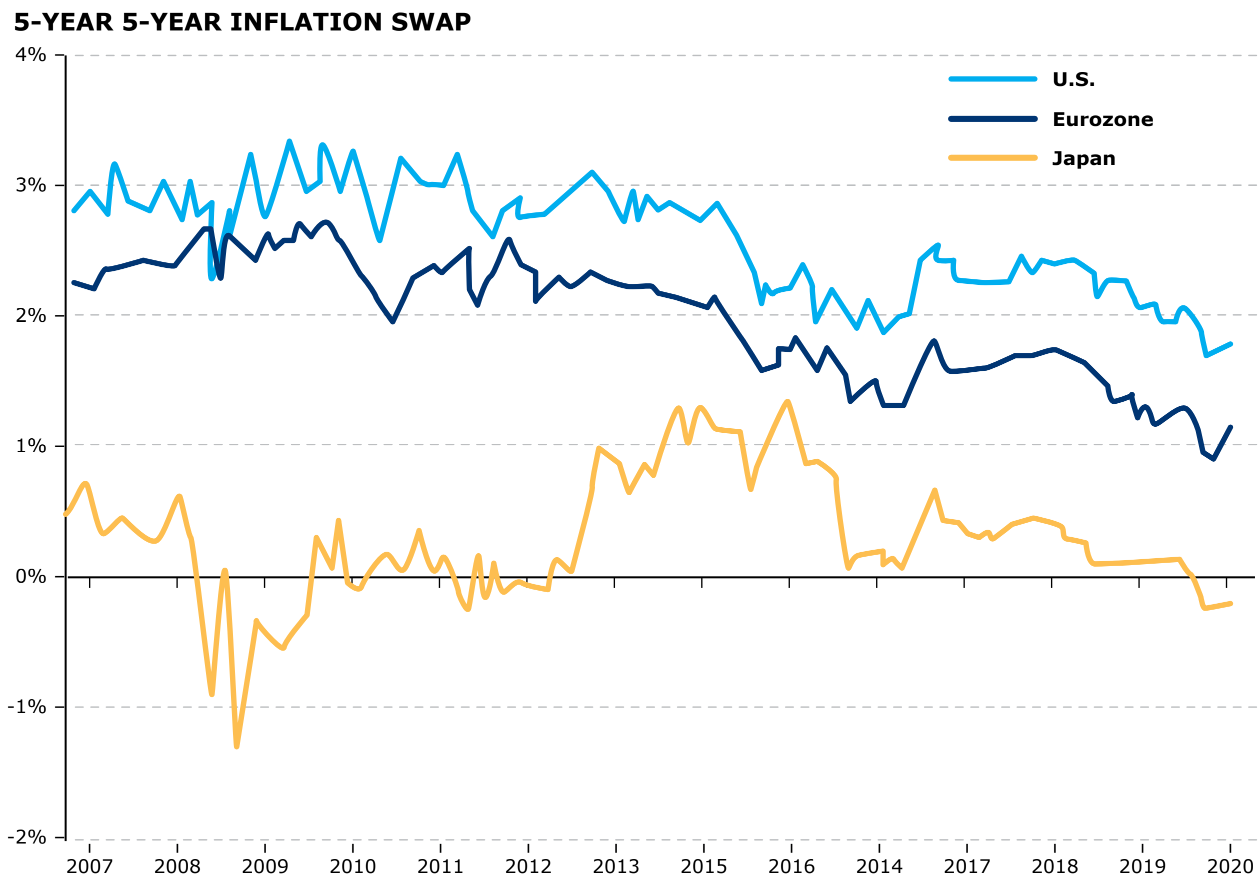
Figure 5: US personal savings rate at record highs
Source: Factset



Global inflation remains elusive with expectations continuing their downward trend (**Figure 6**). Suppressed inflation leading into the Covid-19 crisis was already raising the spectre as to whether central bank mandates needed to be re-written in response to a prolonged period of below average inflation. Was this the price to pay for rampant globalization over the last two decades? Covid-19 only magnifies this conundrum. The quantum of monetary and fiscal stimulus now delivered, with the possibility of more to come, may trigger a lift in inflation. The issue in the short to medium term however, is that material levels of excess supply are now in the system, pushing the likelihood of any meaningful inflation spike out to later years.

While initially a portfolio buffer and balancing tool in light of the opportunity cost of holding excess cash, gold continues to have its place in portfolios for those reasons alone but does have the added attraction of an inflation hedge should our view of there being excess supply in the system prove wrong.

Figure 6: Market based inflation expectations remain subdued
Source: JP Morgan Asset Management

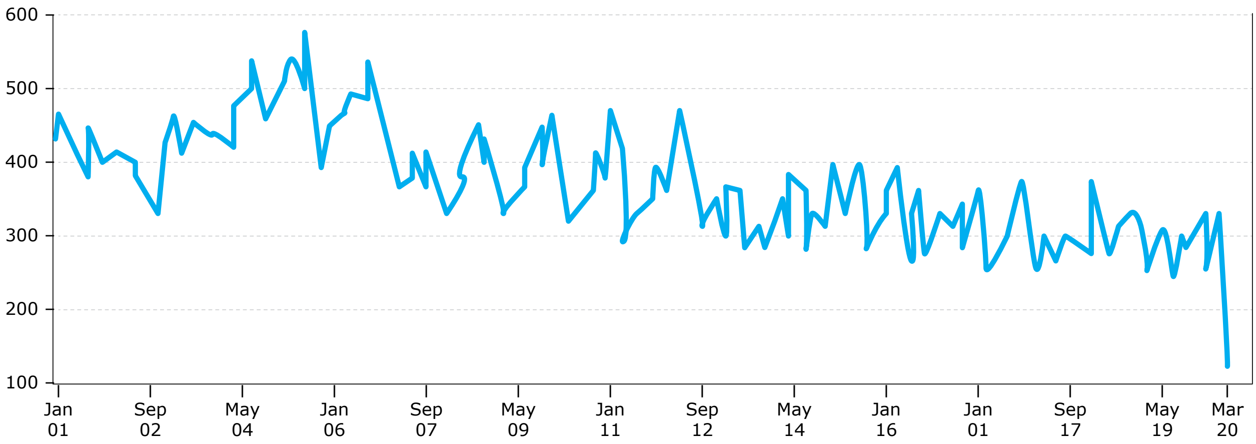


3. ASSET CLASS REVIEW

3.1 Equities

At this stage, there is very little clarity offered by corporates for near-term earnings. In fact, there is currently the lowest level of earnings guidance offered by corporates since 2001 with only 20% of the S&P 500 companies providing any guidance at all to investors (**Figure 7**). With that in mind, and as stewards of our clients' capital, it is unfathomable for us to passively increase weightings to global equity markets when the prices we would have to pay are now at or marginally higher than before the pandemic began. It appears no discount is being applied for the extreme levels of uncertainty that the companies themselves are broadcasting to investors through this lack of guidance.

Figure 7: Guidance provided by S&P 500 companies at lowest level in 10 years
Source: Factset



Forward price to earnings (P/E) valuations are currently stretched across most markets (**Figure 8**), however, forward price to book (P/B) valuations look slightly more palatable in some regions (**Figure 9**). We agree that lower bond yields allow for higher P/E multiples to be paid on the same earnings stream, however, we question whether the same earnings stream still exists given the global levels of uncertainty.

Figure 8: Global market forward P/E
Source: Factset

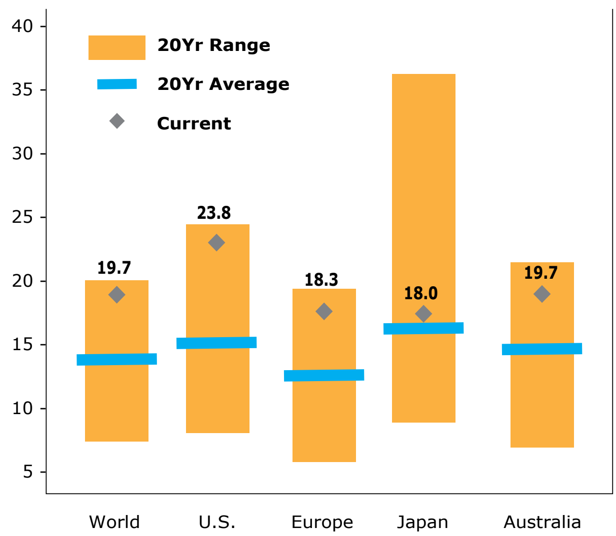
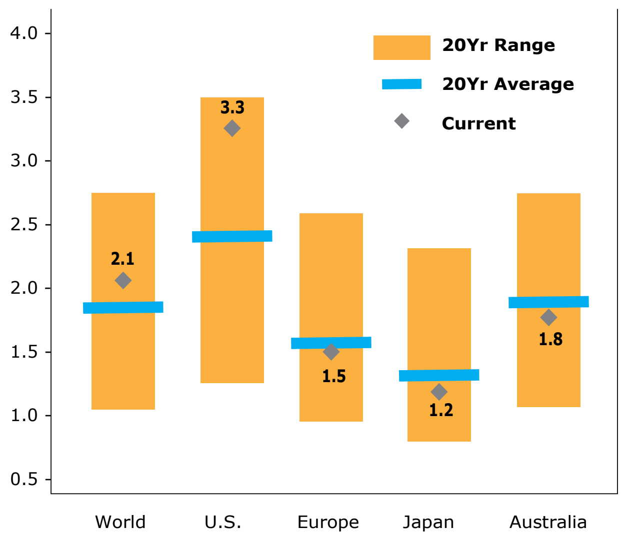
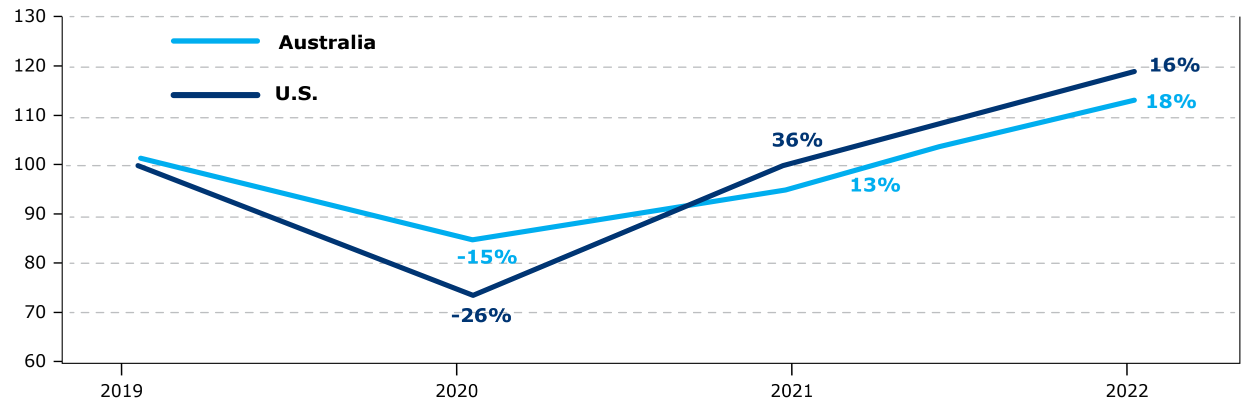


Figure 9: Global market forward P/B
Source: Factset



Beyond 2020, we believe there remain risks to growth forecasts. Current expectations are for a rapid recovery in corporate earnings in 2021 and 2022 (**Figure 10**). There are some bright spots and some sectors of the economy that have fared very well during the pandemic. Productivity is also expected to improve where possible, as companies and individuals develop new workplace practices. New industries have and will be been born out of a post-pandemic world and companies are now required to make tough decisions regarding costs. However, assuming a carte blanche earnings recovery appears premature. Valuations matter.

Figure 10: US and AU EPS forecasts
Source: Factset

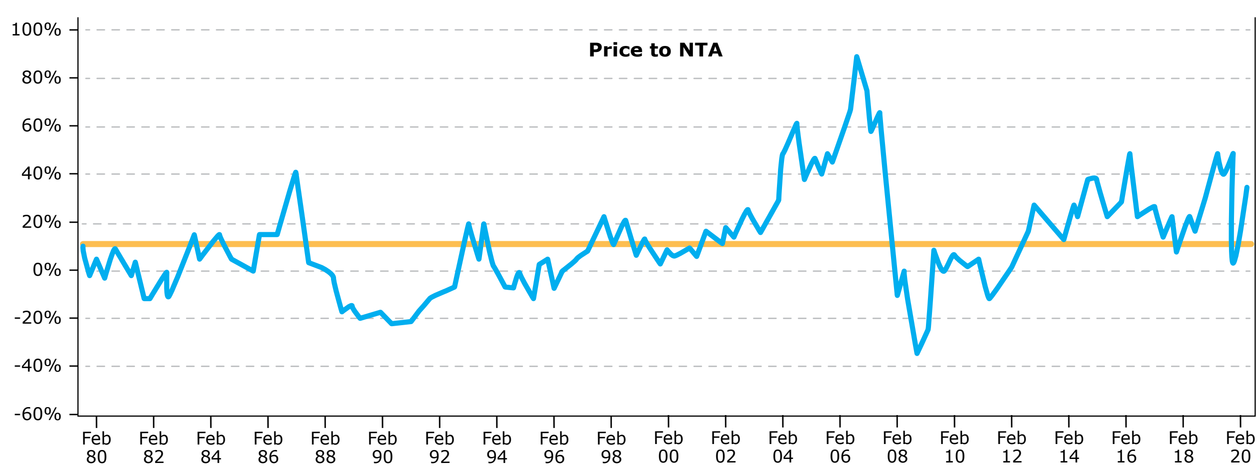


As at today we expect volatility in both share price and company earnings for the foreseeable future. These metrics are on an aggregated market level. Providence prefers to use active managers to gain exposure to equity markets and in the current market environment we believe this approach is more important than ever.

3.2 Property

Post the Covid-19 sell-off we see certain AREITs as attractive ex-management earnings (focussing on those AREITs that derive their income from landlord rentals rather than from management rights/fees). In aggregate, the index is back to trading at a significant premium to NTA (**Figure 11**) but is skewed by the significant portion of AREITs that derive earnings from management fees rather than passive rental income. Gearing levels are well within covenants and nothing like the excessive levels that they were leading into the GFC. Some AREITs have bolstered balance sheets via equity raisings over the last few months to assist with the migration through the lockdown and the gradual adjustment back to the new normal. Initial foot traffic data for retail post-lockdown has been encouraging however, we acknowledge that it is early days. Distribution expectations have been lowered and are also now reflected in share prices.

Figure 11: AREIT index is trading at a significant premium to NTA
Source: SG Hiscock & Co



We expect domestic tourism to be a net beneficiary of the post Covid-19 and/or no vaccine world, supporting our interest in regional hospitality investments. We remain cautious towards office in the medium term due to likely oversupply and the fallout from business balancing between more staff working from home, the demise of shared workstations and space between desks etc. Residential may see a shortage of supply looking further out.

3.3 Fixed Income

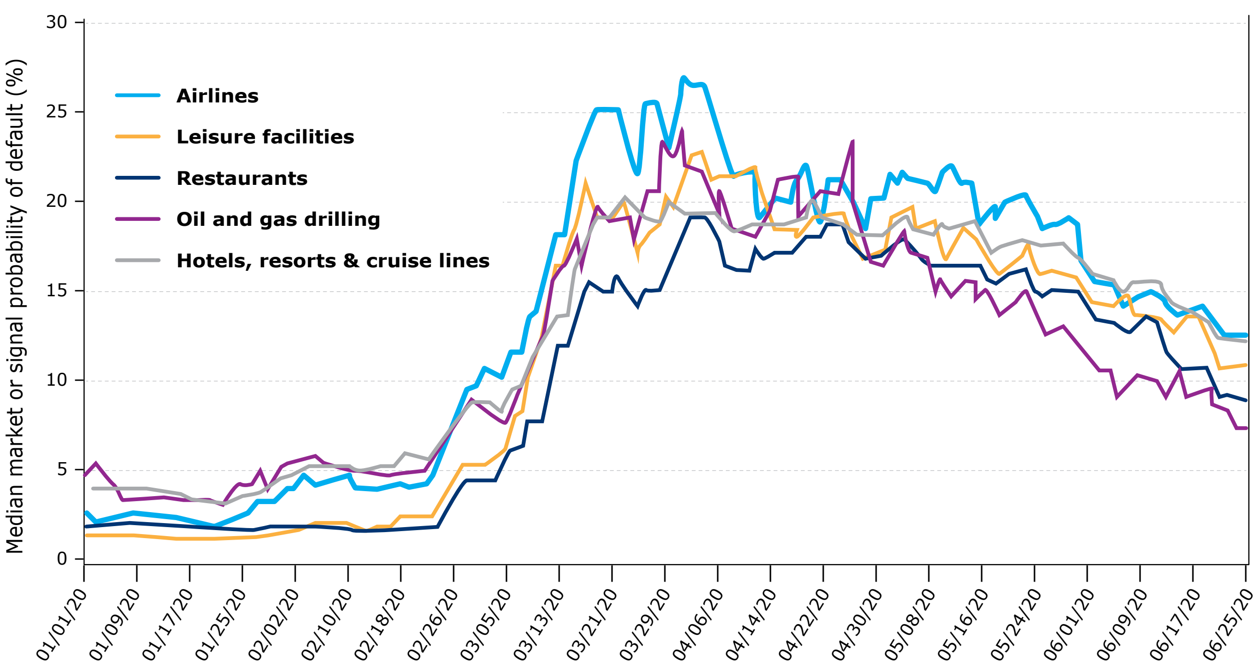
Despite record debt and a surge of covenant-lite credit offerings over the last five years or so, credit spreads have narrowed due to the Fed put (the Fed indicating and actively buying certain grades of corporate debt to support the credit market). The yield curve is gradually steepening, indicating some level of confidence in what the future holds, although the level of central bank intervention in most markets is distorting this measure.

After a tumultuous first quarter where bond market volatility was at extremes and arguably at a breaking point, central bank-induced yield curve controls at the short end have helped stabilise the system. To supplement income, due to record low interest rates, investors are required to take on more risk if they wish to keep income steady. First mortgage fully secured loans to developers for residual completed stock still has some attraction on a risk/reward basis taking advantage of the reluctance of banks to lend in this area.

Credit spreads have moved in-line with equity markets, although not quite to the levels that we saw before the coronavirus outbreak. Like our view on equity markets, we are surprised to see a willingness to purchase credit at such tight levels given the uncertain outlook. We continue to pursue conversations with distressed credit managers who should be able to capitalize on any dislocation that would occur in credit markets if uncertainty continues to increase.

There remains divergence across sectors in credit markets and despite probability of defaults reducing somewhat in the hardest hit sectors (airlines, leisure facilities, restaurants, oil and gas drilling, hotels, resorts and cruise lines), they remain at high levels (**Figure 12**).

Figure 12: Probability of default for hardest hit sectors remains wide
Source: S&P Market Intelligence



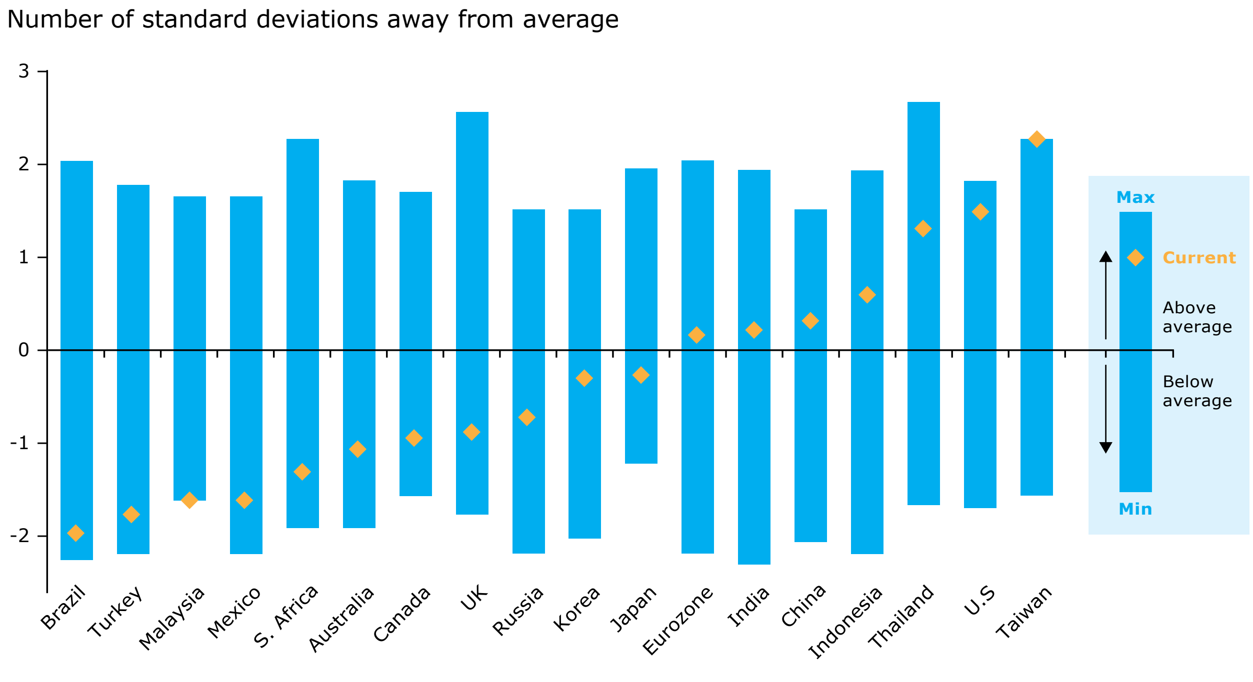
3.4 Alternatives

Our focus with alternative investments is to provide diversification to the rest of the portfolio. We continue to hold gold for this reason and are pleased that it has provided defensive characteristics in the recent market volatility.

In addition, we are exploring equity market neutral strategies. Such strategies aim to remove or largely reduce any equity market exposure from within such a portfolio strategy and provide returns by exploiting price discrepancies between individual companies. The due diligence required on these funds is extensive to be sure the return provided by such a strategy is separate to the underlying investment market.

Providence does not profess to be able to actively forecast the direction of the Australian Dollar (AUD). That said, there are times in the economic cycle when the AUD warrants greater attention. Such a period occurred after the Global Financial Crisis (GFC) when the AUD, supported by a strong demand for Australian commodities by China, traded above parity with the US Dollar (USD). During this period, we removed any hedging to offshore currency as we expected a falling AUD in any 'risk off' environment would provide a cushion to the value of our international investments. When the AUD fell below 0.60 to the USD, we felt that the AUD was in extreme undervalued territory and accordingly, we took the counter view and hedged a proportion of our international exposure. This undervaluation still exists (**Figure 13**) so we will continue to have a proportion of our international exposure hedged to reduce the impact of a rising AUD.

Figure 13: Currency deviation from 10-year average real effective exchange rate
Source: JP Morgan Asset Management



4. CONCLUSION

4.1 Opportunities

- First mortgage fully secured property loans
- Distressed direct property
- Regional hospitality assets
- Selected AREITs
- Gold for protection

4.2 Risks

- Anything is on the table; inflation/stagflation/depression/recession/social unrest
- Geopolitical tensions
- US Presidential election
- Unwind of fiscal and monetary stimulus package

4.3 Implications

- Visibility is still lacking
- Stay the course
- Patience and diversification
- Expect volatility in markets to continue
- Excess cash is warranted for future investment opportunities

Thoughts from the Research Department

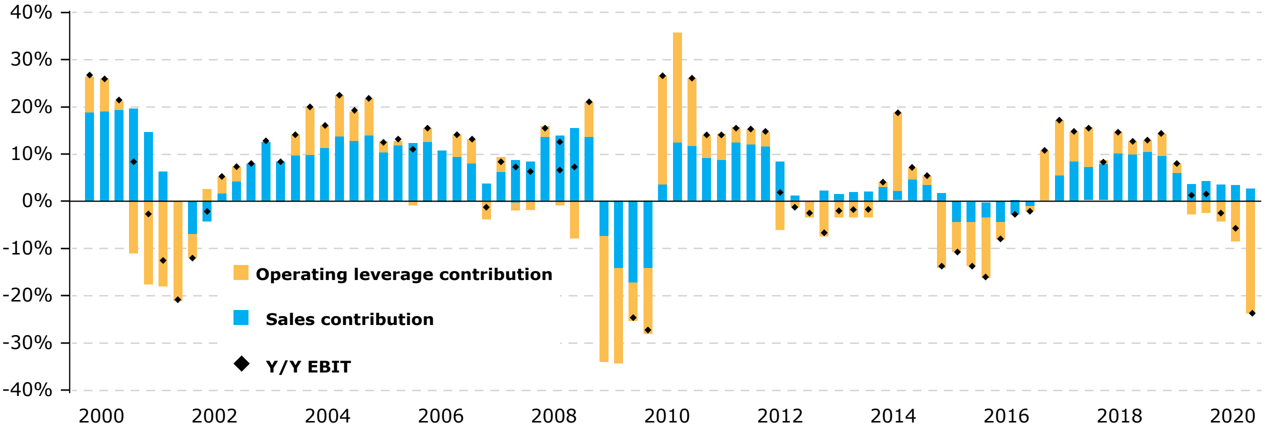
To V, or Not to V

With a broad consensus 'on the street' that markets are overvalued, or that equity markets have 'run ahead' of historical valuations we, in the equities research department find it important to keep earnings forecasts in perspective, if only to better understand what a recovery trajectory might look like.

One of our more interesting observations has been from research conducted by Morgan Stanley, who asked the question 'when is the impact of operating leverage on earnings at its greatest?'. Perhaps counter-intuitively, the answer is, immediately after a recession. In **Figure 14**, we can see strong periods of "operating leverage contribution" (yellow bars) post periods of recession.

Figure 14: Operating leverage drives earnings growth following recessions
Source: FactSet, Morgan Stanley Research

Quarterly data from 2000 – 2020 S&P 500 ex-Fins: Drivers of Y/Y Change in Op Profit



The reasoning behind this changes with each recession's and subsequent recovery's drivers, but speaking very broadly the overwhelming findings point to a right sizing (i.e. shrinking) of cost bases to a point that allows for survival, while also allowing the business to absorb incremental revenues without any incremental costs. Part of this is reflective of decreased tension in labour markets, which may involve lower overall initial wage growth. Separately though, as earnings begin to recover, companies are understandably reluctant to add to their cost base, and hence revenue growth accelerates at a faster pace than incremental cost growth, and greater operational leverage helps drive improved corporate profitability both sequentially and compared to pre-crisis levels.

We would point this out not because we are supremely bullish on equity markets or because we think current valuations are easily justifiable, but more so to better understand what a recovery may look like, and how that would impact our direct equity portfolio. The Morgan Stanley analysis is of course purely relating to the US experience, but the lessons are easily applied to Australia. Where companies survive, or even thrive in a downturn, we expect their recovery to indeed be 'V' shaped. CarSales is an example of a company that has invested in its network, its platform and its capability and whose share price has reflected its resilient earnings performance to date.

The path forward is littered with stumbling blocks, not least of which is the September stimulus 'cliff' which heavily occupies mainstream media reporting and which we are particularly cautious of. Despite the caution we do see select value in Australian equity markets, and are particularly focused on essential industries (supermarkets, waste management, fuel supply, agricultural support, infrastructure, resources & energy), which combined with well capitalised balance sheets we feel provides us with scope to both 'scale the cliff', and to potentially extract any rapid improvement in operating leverage, should it present itself.

Thoughts from a Contrarian

The day traders are back, or more correctly, they are back as a force in the market because unfortunately they never really went away. Individual traders come and go as they run out of money or come to their senses, but they're replaced by a never-ending procession of dreamers chasing the illusion of effortless wealth. These guys have been around since the Dutch Tulip boom, they played a central part in the bull market of the late 1920's where they were mercilessly fleeced by the bucket shops that lined the periphery of financial districts all over the US. Who can forget the dotcom boom where they piled into the likes of Pets.com? The answer, it seems, is millions of people if the number of brokerage accounts setting up with trading platforms is any guide.

We've seen this movie before, so we know how it ends. What we don't know of course is when. In the interim we're in for a wild ride. The lessons of history and the advice of anyone with experience of a few cycles would be to keep your money in the bank. History these days is yesterday's Twitter feed. In the past we've been guilty of failing to learn the lessons of history. These days we're not even aware of it. As for leaving your money in the bank, it's not exactly a compelling argument. The fear of missing out on the apparent easy pickings in the stock market is amplified by the reality of getting nothing as an alternative.

If anything, in the absence of a short-term crash, day traders are likely to become an even bigger force in markets over the months ahead. This is the first time we've entered the retail trader stage of the cycle since the proliferation of social media. Facebook, Twitter and the like have simultaneously reduced our ability to think and increased the conviction of our beliefs. What was once a marketplace for ideas has become a monopoly where one opinion on any given topic gains ascendency based on the power of the idea rather than the merits of the argument itself. Let's face it, earning large profits without much effort from the comfort of your own home is a very powerful idea, even more so currently, and is not going to lose momentum simply because it's contradicted by every single historical example.

This leaves us with a self-reinforcing cycle that is likely to send the stock market on a roller coaster ride. Firstly, we have ultra-low interest rates and the growing realisation they are staying that way for a long time, combined with central bank printing presses running at full steam. Secondly, there's a market that has become hardwired to reinforce momentum. Algo's and ETF's now dominate, and both are pro-cyclical. If the market is going up, they will simply chase it higher. Finally, we have the arrival of the day traders. While not as sophisticated as the algo's they have essentially come to the same conclusion…buy the dips. As markets have surged higher, more money flows into ETF's from active managers who take account of valuation and more day traders catch the bug as FOMO spreads with even greater speed than previous cycles due to the advent of social media and it's tendency to induce mob-like behaviour. To top it off, technology allows for instant low-cost transactions from any location. It's been hard to escape the conclusion in recent years that the world has gone a bit mad. It looks like the madness has finally reached the stock market.

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

Chapter 11 protection	Bankruptcy filed by a corporate, with Chapter 11 referencing the US Bankruptcy Code 11
Covenant	In debt terms, levels of liquidity that must be maintained by the borrower to avoid the debt being "called" or repaid in full
Credit spread	The margin over a benchmark (generally government securities) that a credit issuer pays on debt
Default	Failure to fulfil an obligation on a loan, e.g. a missed interest or principal repayment
Earnings guidance	Reference to corporates providing an estimate of their expected upcoming earnings
Gearing	The value of a company's debt to the value of its equity
Inflation	The rate at which average prices increase over a period
Liquidity (economic context)	The use of fiscal and monetary measures to support the economy
Liquidity (trading context)	The ability to transact in securities with limited impact on price
NTA	Net Tangible Asset - total assets of a company minus intangibles and all liabilities
P/B	Price to Book Ratio - the current share price divided by the book value of their assets per share
P/E	Price to Earnings Ratio - the current share price divided by the earnings per share
Probability of default	An estimate of the likelihood a company will default on their loans
QE	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
Risk assets	Higher risk investments - Providence generally considers Equities, Property and Credit as risk assets

DISCLAIMER: General Advice Only

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