Global Outlook & Strategy

Issue 81: 2nd Quarter 2021

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- **There is a high level of speculation evident in markets**
- **Debt is uncomfortably high in the event of rising interest rates**
- **Inflation concerns dominate investment committee deliberations**
- **Housing market booming at low point in interest rate cycle concerning regulators**

"Sometimes it's better to travel than to arrive."

Robert M. Pirsig, 2006

Global growth is expected to rebound strongly as the vaccination rollout gathers pace. This is the widely held (consensus) view. Underpinning the narrative is the huge global fiscal stimulus led by the US, coupled with excess savings, compliments of government handouts across developed markets. This has largely been reflected in investment markets with elevated PEs (price to earnings ratio), strong earnings growth expectations and rising bond yields, all predicated on the successful global rollout of the above-mentioned vaccine program. Sometimes the journey can be more enjoyable than the ultimate destination.

The current market narrative has changed from too slow growth (lockdown) to the potential of too fast growth leading to higher inflation and bond yields, as evidenced by pockets of inflation flaring up and bond yields rising (bond prices falling) through the quarter. Intertwined is the sometimes politically painful exercise of governments trying to turn the fiscal support measures off and steering economies toward a more normalised, albeit COVID-normal, economic scenario.

In the current environment, we believe a highly diversified portfolio will navigate best through the many plausible scenarios. We remain underweight duration (bonds) and credit, and have a preference for equities, with a bias towards value over growth.

2. INVESTMENT OVERVIEW

Global growth is expected to rebound strongly in 2021, projected by the IMF this month to grow by 6%, led by the US and China before moderating to 4.4% in 2022. Vaccination rollout success is key to the timing of the recovery. All forward forecasts, assumptions and indeed favourable views towards risk, and for that matter, risk-taking, are predicated on a successful global vaccine rollout and mutations of the virus remaining contained. We have seen more recently that bumps in the road will arise, with back-peddling in some regions of the AstraZeneca vaccination due to health-related risks in certain demographics, coupled with ongoing lockdowns and rising COVID case numbers across many parts of Europe and South America. The road forward remains littered with potholes. That said, we are certainly encouraged to see that 100 days into the Biden administration, the US has picked up the pace and is the new posterchild for vaccinations. Take note rest of the world.

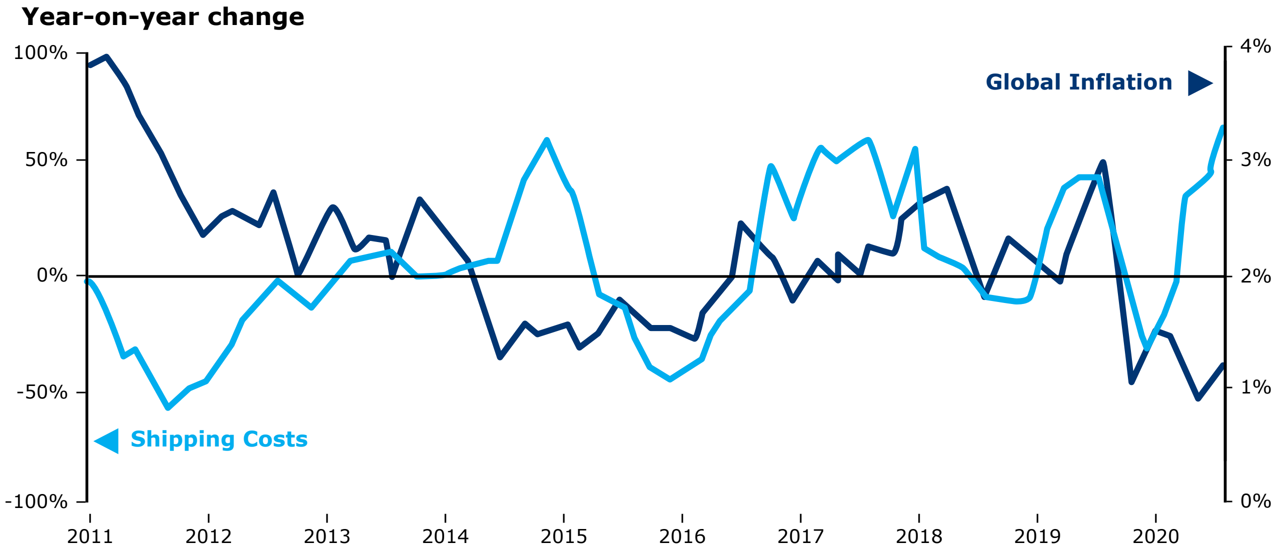
Combined with the reopening of economies is the backdrop of huge global government fiscal stimulus throughout 2020 and into 2021, coupled with central banks' unwavering accommodative policy stance. This is despite pockets of disquiet in investment markets that inflation is on the march. Central banks remain steadfast in their resolve. Previous cycles would see markets question rising government debt and the interdependence of central banks and government across that globe, but not this time!

Renewed global growth, accommodative central bank policy and government fiscal spending is supportive of risk assets, as we have seen in equity and property markets. However the question remains, is this already factored into valuations? Valuations are defiantly full as there is no alternative given the level of interest rates. All the while, investor appetite for income/ yield/ returns remains robust and very much anchored to the belief that a global recovery is on the way and that central banks have 'got their backs'. The broad consensus is that whatever happens, central banks will remain accommodative, thus supporting risk appetite. Meanwhile, after a flurry of excitement during February and into March, the bond market is starting to stabilise, reflecting expectations of higher global growth and a hint of inflation as investors 'recalibrated' their thinking entering 2021. Perhaps we have seen the worst, and economies and markets can start to normalise, or at least point in that general direction. We stated at the outset of 2021 to expect volatility and that view remains.

And indeed, there are (not surprisingly) pockets of inflation emerging as the global engine starts to crank over and reemerge from its enforced hibernation (**Figure 1**). With economies beginning to normalise, we will see a rising discount rate, which will put pressure on valuations, particularly in the growth sectors.

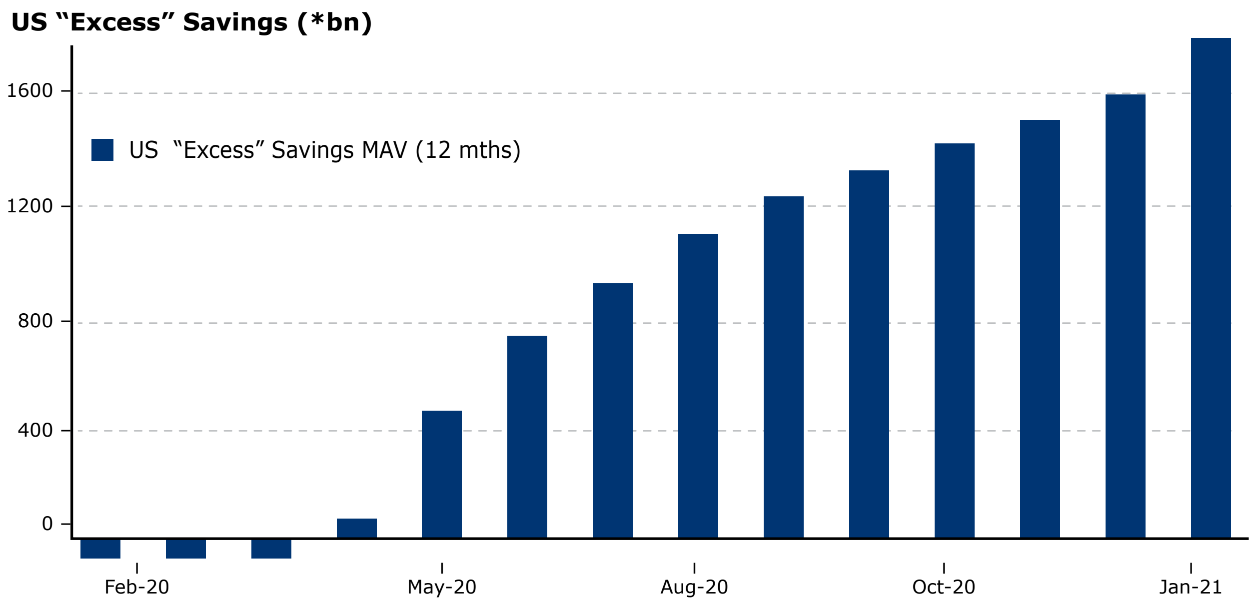
Therefore, our preference is to be highly diversified, short duration, with a focus on quality value.

Figure 1: Inflation flare ups are present as the global economy reopens (in this instance via higher shipping costs as the globe restocks).
Source: JP Morgan Asset Management



To recount on measures enacted to date and the scale of the 2020 pandemic response, it is worth reflecting on the quantum. Fiscal spending from the US government for example, is a staggering $5.3tn. The FY2021 federal deficit will likely reach 15% of GDP, replicating the FY2020 deficit as a percentage of GDP. This level of spending was last seen following World War II. Government handouts have also seen a massive $2tn of excess savings accumulate in US household pockets (**Figure 2**). Real personal incomes rose 14% during the recession compliments of government support. This time is certainly different.

Figure 2: Excess savings in the US have built up significantly. Will this excess be spent or saved?
Source: JP Morgan Asset Management



Will these excess savings be spent and combined with the government stimulus thus leading to an overheating US economy? Yes and No.

Data in the US, whilst mixed, certainly points to an improving economic environment. We note the ISM Manufacturing index (a lead indicator for US manufacturing output) for March rose to 64.7, a level not seen since the early 80's. The same reading for Services was also touching record levels. This raises the question of inflation. Headline inflation numbers will move higher given the base effect (rising energy prices and rebound from recession). More broadly, the globe will also experience a flurry of demand as industries seek to restock and build depleted inventory, and perhaps even revisit their supply chain and inventory management practices. This will certainly foster pockets of inflation as a shift to new COVID-normal business contingency practices are put in place.

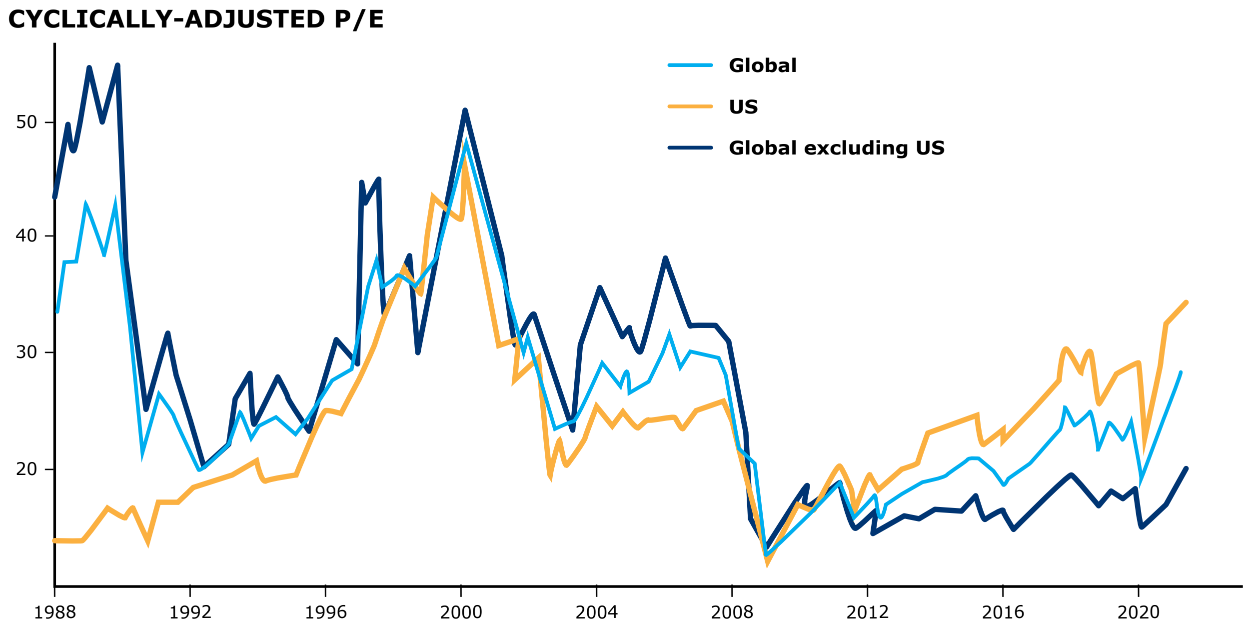
However, with regards to the household and the savings windfall courtesy of government handouts across the globe, we are not convinced the excess savings will be spent in full. After a near death financial experience because of the pandemic, struggling households are likely to boost their safety net, building wealth not consumption. Call it the "just in case", bottom drawer accumulation effect.

In addition, a higher corporate tax rate proposed by the Biden administration will put pressure on US profit growth and margins.

We are also encouraged by the dramatic turnaround in political process within the US and note the significant progress that the Biden administration has made with regards to the vaccine rollout.

Equity valuations in the US however are full compared to other markets and therefore we have a preference elsewhere (**Figure 3**).

Figure 3: The US equity market on many valuation measures is stretched versus the rest of world. Cyclically adjusted valuations (last 10 years historic earnings) are depicted here.
Source: BCA Research



Europe is struggling with a renewed wave of COVID infections and a slow vaccination rollout and will lag the US by some months (**Figure 4 & 5**).

Figure 4: Europe is lagging the vaccine rollout.
Source: BCA Research

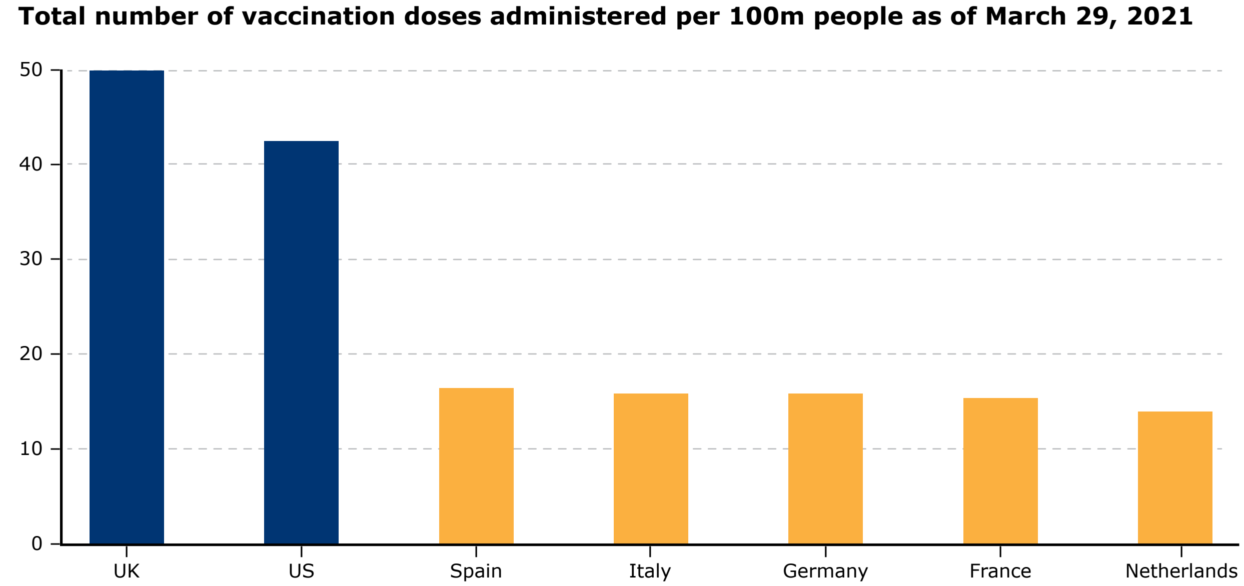
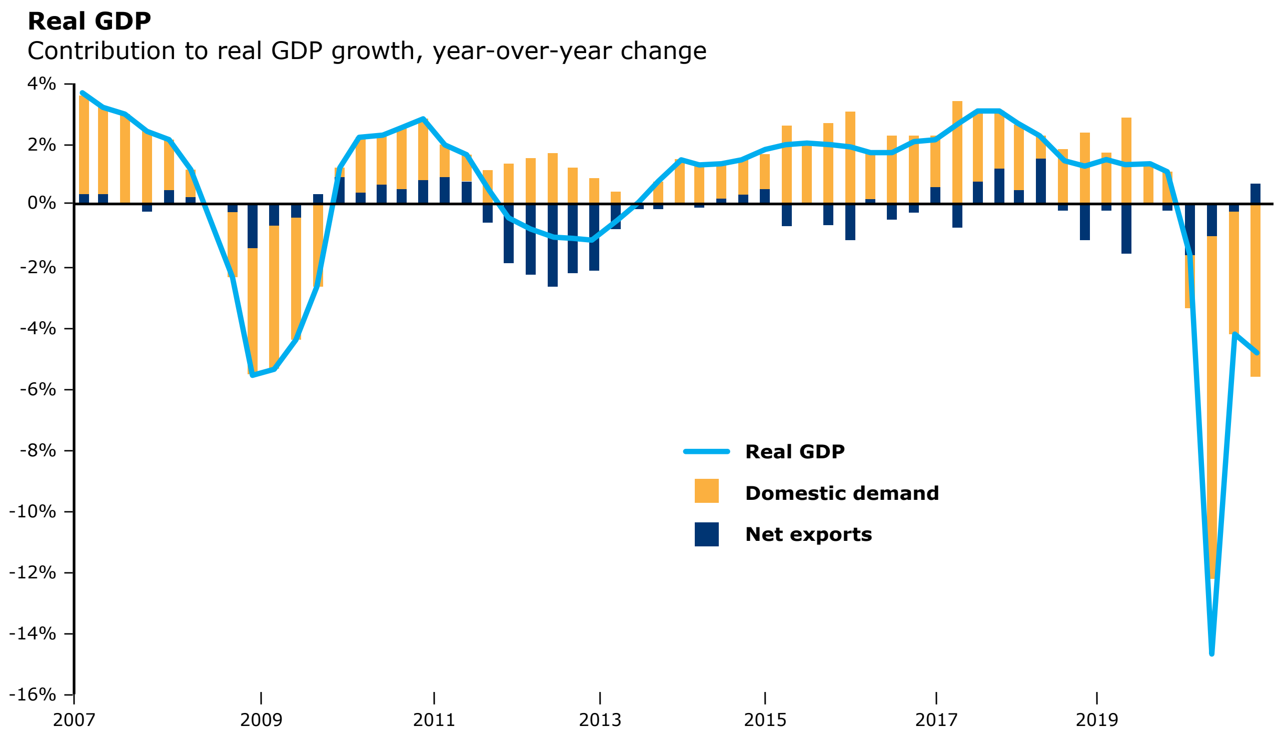
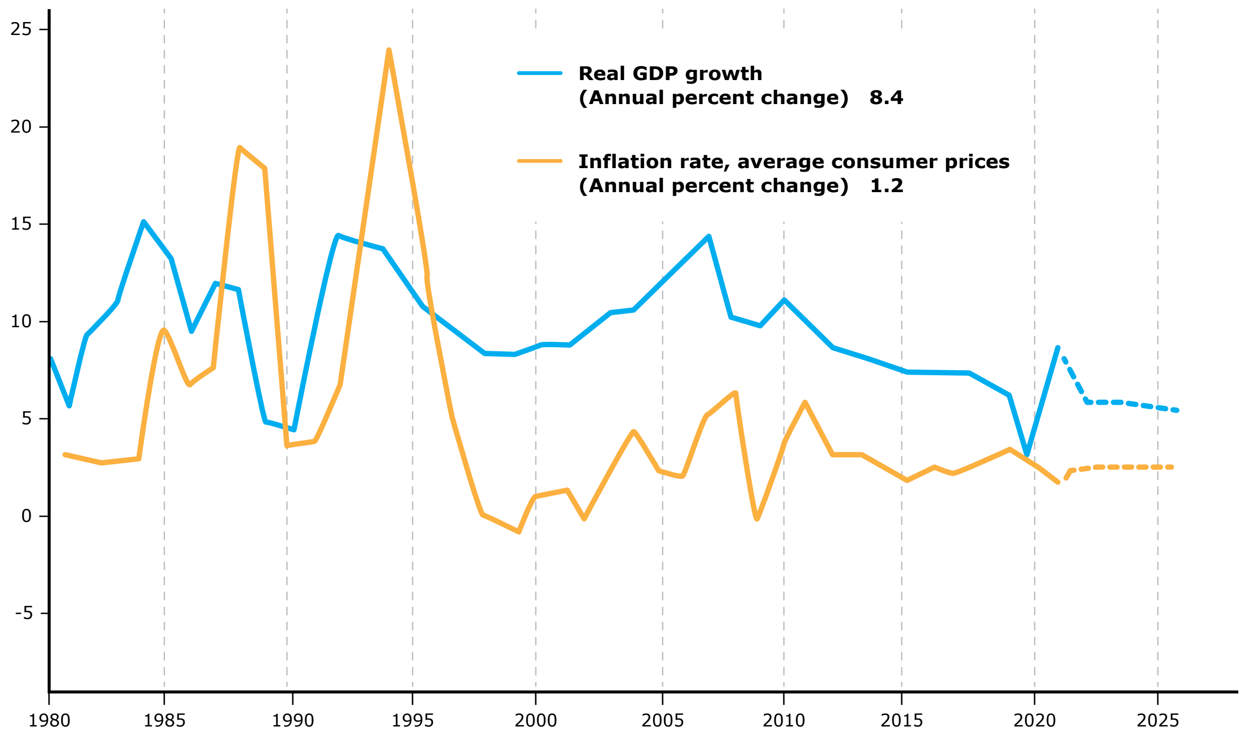


Figure 5: European domestic demand remains significantly depressed by virtue of the rolling lockdowns. Exports are helping.
Source: BCA Research



Chinese growth is expected to be around 8.4% (IMF) in 2021 before normalising somewhat, underpinning the demand for commodities (**Figure 6**). However, the recalcitrant stance of Xi Jinping to the Western world may see Chinese companies penalized regarding their global intentions.

Figure 6: China to experience a very solid recovery in 2021, inflation is expected to remain contained.
Source: IMF



The Australian economy seems in good shape with export income strong, a robust and recovering agricultural sector coupled with very strong domestic spending, all assisting in offsetting the lack of inbound tourism and educational dollars. Australians spend ~$65bn on overseas travel each year. Given the lack of international travel, some of these dollars are pleasingly making their way into the domestic economy.

Looking forward, longer-term returns are likely to be lower given the high starting point for valuations and a normalisation of monetary policy and thus interest rates, albeit at a tempered pace if one is to believe the rhetoric from central banks - a coordinated "dovish-coo" if you like. The enormous global debt pile has to be addressed at some stage either by raising taxes, defaulting on debt obligations or rising inflation, or quite possibly, a combination of all three. This debt overhang may even lead to a "Japanification" of the global economy and a renewed bout of disinflation.

Shorter term, risk assets are likely to be supported by excess monetary supply, enormous fiscal spending and the reopening of the global economies. However, volatility is expected to be higher given the many moving parts and therefore we remain highly diversified in order to protect portfolios whilst also allowing portfolios to participate in the higher grind.

We favour cyclicals/value in this environment and remain underweight duration. This will be an active manager's market as the divergence between and within asset classes widens and the herd will distort pricing in certain assets.

3. ASSET CLASS REVIEW

3.1 Equities

After a scarcely believable last 12 months, the first quarter of 2021 provided more of what we are becoming accustomed to - extreme levels of unpredictability. As various global vaccine rollouts find issues in blood clot incidence, whose rates of occurrence (at 0.00009% for the J&J variety) are markedly lower than the incidence in blood clots resulting from the highly contagious disease they are designed to prevent, or say, pharmaceuticals that have already met widespread adoption like the contraceptive pill (0.1%), we think this presents a microcosm of the issues currently facing equity investors.

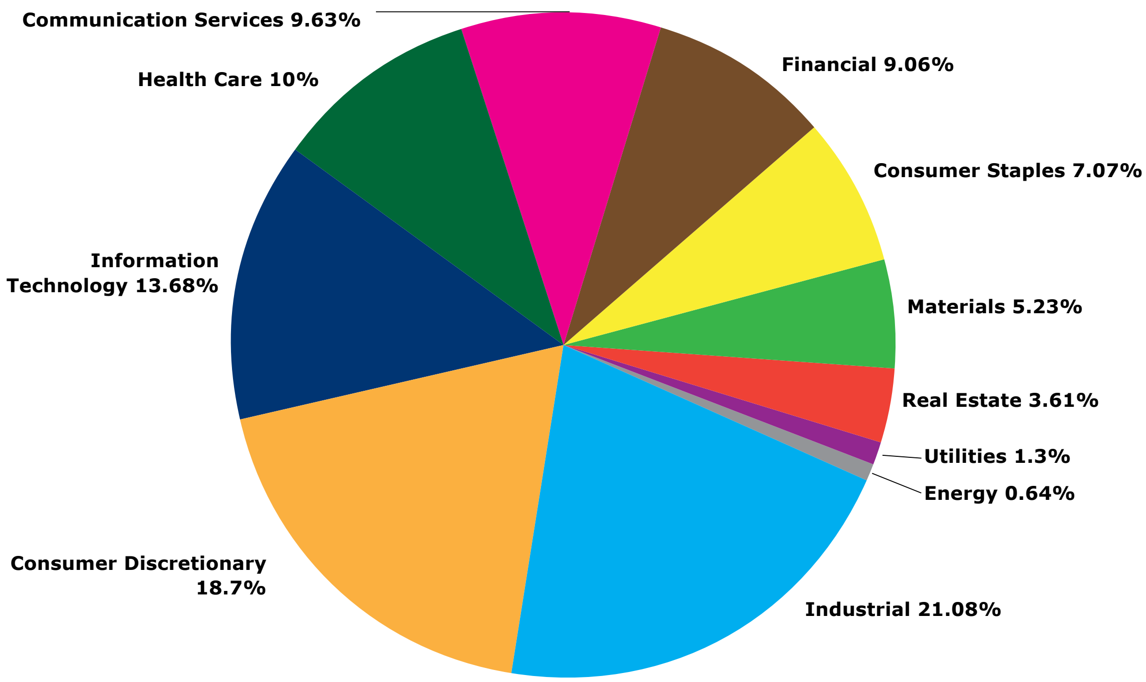
Much like the odds of incidents from COVID or vaccines, equity investors are now weighing important upside and downside considerations, largely on the back of uncertainty around global monetary policy. As George Soros put it 'It's not whether you're right or wrong that's important, but how much you make when you're right and how much you lose when you're wrong'.

As you might expect for a team with a primary focus on capital preservation, the Providence Direct Equities team is drawn particularly to the latter part of that quote. In a year filled with extreme lows, historic levels of volatility and now consistently expanding valuations, we are increasingly drawn to potential downside risks. For that reason, we have intentionally chosen to focus our portfolio framework on a diversified collection of companies that provides us with a breadth of earnings from a range of industries. We are content with our leverage to a successful global reopening post mass vaccination rollout through exposures (amongst others) in Sydney Airport, Energy/LNG (OSH and WPL), refined fuel (ALD and VEA), copper (OZL) and logistics players in Qube and Brambles. Outside of the reopening trade we have made key allocations to a range of Australian-focused domestic cyclicals that provide us with comfort around earnings certainty in a tier 1 jurisdiction and have maintained or added to holdings in Uniti Group (UWL), Nufarm (NUF) and Cleanaway (CWY).

From a broader market perspective, the Australian ASX 200 is trading at 19x profit and a 3.8% dividend yield (against longer-term averages of 14.8x and 4.7% respectively), so the easy assumption is that the market is expensive, which at a headline level relative to history it almost certainly is. We take a different view and while focusing on maintaining sector diversification to protect against uncertainty we still see elements of value, but only in pockets of the market. Resources are trading at 12x earnings, financials are at 16.2x, but industrials (ex-financials) are at 29.3x – easily the highest mark in over two decades. Importantly though these valuations are occurring while both FY2021 and FY2022 earnings (and very recently the early guesses on 2023 earnings) are all climbing and it is that dynamic that leads to upside risk. As employment figures continue to improve and company earnings continue to lift, there really is a scenario worth acknowledging, where risk assets could continue to climb higher for the foreseeable future. How much higher, we cannot know, but with our own leverage to a global reopening in place, and importantly at a price we are comfortable with, we are content in our positioning for now, acknowledging that much like March 2020 and more recently in December (when we were forced to work for weeks on end from a small kitchen table in Sydney's northern beaches!) things can change quickly, and with it the need for diversification has never been clearer.

As previously mentioned, an environment of stronger global growth, easy monetary policy and increased fiscal spending is a perfect environment for equities. It is just a matter of what price you pay for that growth. We have a preference for value and cyclically exposed equities. Addressing valuation differentials across geographies, we prefer international equities ex the US. With regards to our preference for cyclicals, we have recently included Japanese equities in our allocation. The Japanese equity market has a high exposure to global growth via the country's stock indices which are heavily weighted toward companies that benefit greatly from a global economic recovery. Many of the businesses are in economically sensitive sectors, and given Japan's dependence on exports, they bring in revenues from all around the globe. The MSCI Japan index by market capitalisation is ~55% exposed to cyclicals (**Figure 7**), with large weightings in consumer discretionary and manufacturing/industrials. The MSCI US index, by comparison, has only about a third of its market cap from cyclical sectors. Importantly for Japan, in the order of 70% of revenues for companies in the Japan index come from abroad, compared with about 40% of revenues for the US index. As a result, with a 12-month performance since 2010 beta to World Industrial Production of 1.67, Japan has more to gain from the global economic recovery.

Figure 7: Japan (MSCI Japan index) is well positioned to benefit from a recovering global economy by virtue of its cyclical industries.
Source: MSCI



The Australian equity market with its heavy weighting to Materials and Banks looks well placed to benefit from stronger housing conditions and demand for commodities. In addition, the strong domestic tourism market and improving agricultural sector should support economic growth.

Given that credit spreads have narrowed to such low levels we would prefer to take equity risk rather than credit risk. We have increased our exposure to Australian equities and have 50% of our offshore equity exposure hedged back into AUD.

3.2 Property

Residential property prices in Australia have surprised most with very strong price gains across major cities and regional Australia. The price gains have been a result of increased demand from expats particularly from Hong Kong, and the desire to live outside of cities, noting that remote working in a COVID-safe world is now seen as more acceptable to some businesses. This is coupled with the underwriting of ultra-low interest rates and the expectation by investors and the broader populous that low rates are here for some time.

It is inconceivable that the Reserve Bank of Australia has doused the property market with rocket fuel with the statement that the cash rate of 0.1% will remain in place until at least 2024. Boom! The RBA has underwritten the next bubble in property prices at a time of record low interest rates, lower immigration, and rising vacancy rates in investment property. What could possibly go wrong?

We remain attracted to select retail sector exposures, such as specialist disability housing, logistics and regional hospitality sectors. Within commercial property there is still not enough clarity of what the workplace will look like in the future and with rising vacancies, and incentives in the order of 30-40% we are avoiding this sector.

The A-REIT index is heavily influenced by corporate earnings from a limited set of companies that arguably do not represent a traditional 'landlord' type real estate investment. Roughly 30% of the A-REIT index is exposed to a more corporate style earnings stream rather than a landlord, rental style income stream. Therefore, the broad A-REIT index is not a good proxy for genuine listed property exposure and our preference remains via an active manager who is index unaware.

We continue to find the first mortgage fully secured completed property loan market attractive on a risk-adjusted basis with income of 6-8% available.

3.3 Fixed Income

According to the well-respected fund manager Jeremy Grantham from GMO, the current level of global bond markets is suggesting the greatest bubble in the history of mankind. At the end of December 2020, there was still $18tn of negatively yielding government bonds on issue (Bloomberg). Duration risk could have a major negative return on investment portfolios. It is prudent to remember a 1% increase in a 10-year government bond results in a -6.2% capital loss. In addition, risk asset valuations are based on the risk-free rate of government bonds. One could argue that every asset class, or indeed investment as of today very much has duration risk attached to it (sensitivity to rising interest rates).

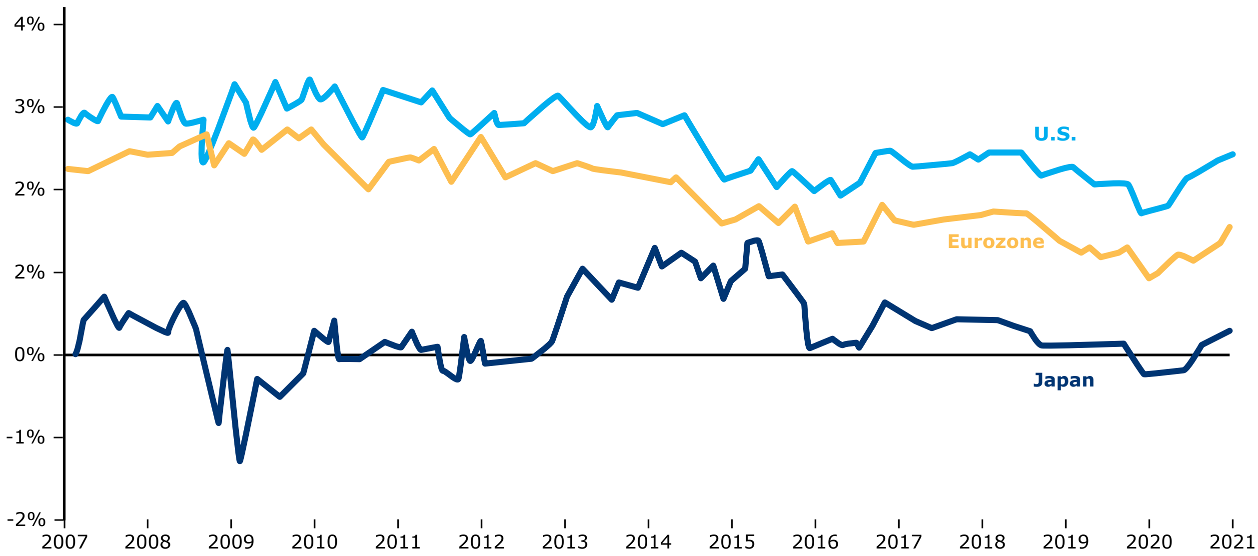
Inflation is the worst enemy of bond markets. Although there is significant debate regarding the reemergence of inflation, we believe this is only a transitory risk, off a low base. It is interesting to note that the 5-year, 5-year forward inflation curve indicates, whilst somewhat elevated from the start of the year, that longer-term inflation rate expectations are still considerably below longer-term averages (**Figure 8**).

Figure 8: Whilst key economy inflation expectations have risen for 5-year, 5-years (five-year inflation expectations in five years), the levels still remain low relative to post GFC.

Source: JP Morgan Asset Management

Inflation expectations

5-year 5-year inflation swap rate

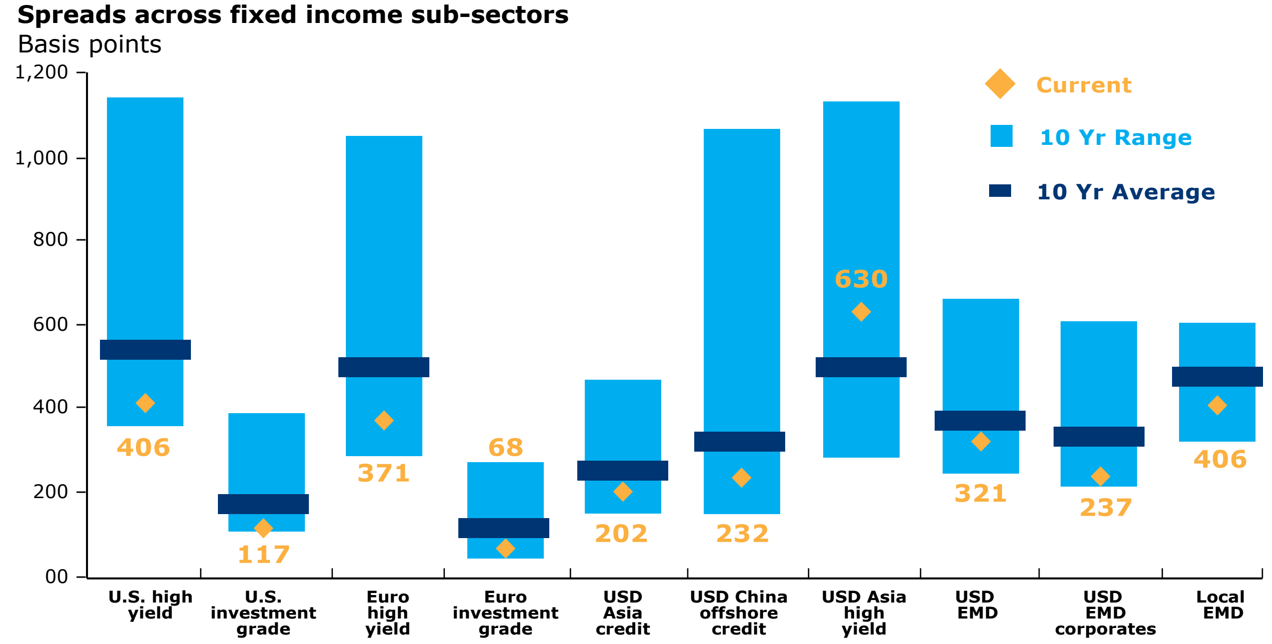


We have no exposure to global government bonds but do include an underweight position in Australian government bonds as a diversifier and protection from an unforeseen global event that might impact on growth expectations.

We struggle to find value in global credit with spreads so low and little factored in for higher defaults once government support is removed. We are firmly of the belief that at current levels, you are not being paid for the risk you are undertaking (**Figure 9**).

Figure 9: Spreads in fixed income suggest elevated valuations and little expectation for default.

Source: JP Morgan Asset Management



Therefore, we are underweight duration, have little or no credit investments and prefer the loan market for income.

3.4 Alternatives

Alternatives continue to provide a diversifying component to portfolios via private markets and via a direct holding in physical gold. The allocation to gold provides defensive characteristics, firstly, in the event of a market sell down (as evidenced in Q1 2020), and secondly, in the event of unforeseen inflation over and above the expected flare ups that are likely this year as the global economy reopens. Gold has a robust historical correlation to bouts of inflation. Private markets (via well-diversified portfolio) provide exposure to global investments that are not priced daily, thus providing an element of volatility smoothing in portfolios whilst still adding to the broad portfolio performance.

4. CONCLUSION

4.1 Opportunities

- Selective property loans, first mortgage and fully secured
- Regional hospitality assets, specialist disability housing, agricultural land
- Active managers over passive, value bias
- Japanese equities for cyclical exposure
- Gold for protection

4.2 Risks

- A sharply rising government bond interest rate
- Unwind of fiscal and monetary stimulus packages
- An unexpected inflation flare up
- Defaults and insolvencies impacting credit markets
- Variant of COVID immune to vaccinations
- Geopolitical tensions over Taiwan

4.3 Implications

- Stay the course and remain very diversified and disciplined
- Expect an increase in volatility
- Lower income generated for portfolios

Asset Class	Strategic*	Range	Tactical	Overweight/ Underweight
Australian Shares	23%	10% – 50%	22%	Neutral
International Shares	26%	10% – 40%	25%	Neutral
Property/ Infrastructure	11%	0% – 25%	14%	Neutral
Government Bonds	35%	0% – 50%	13%	Underweight
Corporate Bonds/Credit	0%	0% – 50%	5%	Neutral
Cash (term deposits)	5%	2% – 50%	13%	Overweight
Alternatives/Hedge Funds	n/a	n/a	8%	n/a

*Strategic Benchmark is the Lonsec Balanced Strategic Asset Allocation, updated in October 2018.

Thoughts from the Research Department

The rapid rise of Crypto

Cryptocurrencies have been a speculative asset which are difficult to value for several reasons. At this stage, it has yet to achieve broad legal tender status but can be used as payment by certain online platforms and businesses (most recently, Tesla vehicles). Consider there are 180 world currencies recognised as legal tender in circulation and recognised by United Nation member states (i.e. fiat currencies backed by governments and controlled by central banks). There are currently over 8,000 variants of cryptocurrencies today, with close to 2,000 having failed over the past decade. A reasonable question is, how do you value these if another new digital variant could appear tomorrow?

Dogecoin, which features the face of a Shiba Inu dog, is one such crypto variant that was started as an internet parody. The humble beginnings of Jackson Palmer purchasing the website domain dogecoin.com and placing the Shiba Inu image with comic sans text, is now worth a cool US$36bn. Thanks to the help of Redditors and Elon Musk tweets, Dogecoin can show jumps of +68% over the course of a day.

In an open letter by co-founder Billy Markus that programmed the dogecoin digital currency in about 3 hours, he wrote "People are talking about Dogecoin going to $1 - that would make the "market cap" larger than actual companies that provide services to millions, such as Boeing, Starbucks, American Express, IBM. Does Dogecoin deserve that? That is not something I can comprehend, let alone answer".

To have benefitted from cryptocurrencies, you would need to have remained invested through the thick and thin. To have made the 10x return in Bitcoin over the past year, you would have similarly needed to have held on while it fell -83% during 2018.

You would also need to make sure you don't lose your password, unlike Stefan Thomas who lost $220m and now has his Bitcoins inaccessible. Also, you better hope you're in a secure cryptocurrency and not get phished from fraud crypto exchanges. We haven't even started talking about the energy usage and CO2 emissions required to mine them (hint: Bitcoin mining consumes more energy than Argentina).

Today, cryptocurrencies represent US$2tn collectively. The gold market is about $11tn, global equities $50tn and treasuries/bonds around $130tn. It is early days to call it an investible asset class given their lack of wide adoption - sharp volatility of cryptocurrencies would make it stressful to go to the shops and buy groceries with them.

For our clients that seek reasonable investment returns above inflation but also focus on protection and preservation of wealth, cryptocurrency volatility in combination with the inability to properly assess value, make it impossible to invest in.

The value of Bitcoin and other cryptocurrencies cannot be determined, and we contend given its volatility and lack of regulation, cannot be considered as a legitimate asset class. They are worth what someone else is prepared to pay. Given the recent rise, people are prepared to pay a lot. Can cryptos be included in investment portfolios? Yes of course! But only as a speculative bet, not as an investment or asset allocation decision.

Who would have guessed that in 2021 tulip mania returns were to be made in a failing video game retailer and a hyper volatile dog-themed cryptocurrency? Tulips, South Sea Bubble, Crypto. Maybe different this time but the result will be the same.

Thoughts from a Contrarian

It seems the consensus view is slowly moving towards inflation emerging as a threat at some point. When future generations look back on all the extraordinarily wacky things that happened during our time, surely the fact that several decades into an epic inflationary cycle most people were not even aware of it, will rank near the top of the list. In fact, most experts have focused on deflation as a more immediate threat. Luckily, central bankers are there to save us from the horror of things being a little bit less expensive than they were the previous year. As commentator Jim Grant puts it "if deflation is so bad, why do we spend all weekend driving around looking for it".

The disconnect between reality and consensus can be explained by the exclusion of asset prices from inflation calculations. If you make the point that inflation is out of control, an economist will try to patiently explain to you in simple language that asset price inflation is not included in the CPI calculations. So, if your significant other tells you that the mortgage repayments on your $5 million cottage are eating into the family budget, they are obviously incorrect.

Back in the real world, having somewhere to live is actually part of the cost of living. Frankly, it's beyond belief that intelligent educated individuals actually take the CPI number seriously and spend hours of valuable time discussing and analysing it. The CPI is, in many ways, a score card for how politicians, and the boffins they appoint to centrally plan the economy, are managing their currency. Allowing them to create an index to measure their own performance is, to put it mildly, open to abuse. As a fund manager, being measured against an index that I could put together myself seems like nirvana. Why anyone would take it seriously is another question. An index of thermal coal producers and AMP seems good, how about an index comprised entirely of companies chaired by retired politicians? Or, my personal favourite, an index made up of fast-growing fund management groups based in Queensland. MFS, City Pacific, Blue Sky, they all go to zero. As an aside I still can't believe they called a company Blue Sky. I'm not entirely convinced it wasn't a joke all along.

In the past, before we were brainwashed to accept the CPI as the relevant measure, inflation was defined as too much money chasing a limited number of things. Leaving things like the houses we live in and the assets we need to buy to provide a retirement income out of the equation makes no sense. My local Woolworths has a large mural on the wall of the building in the early 1960's. In the window you can clearly read the prices of various goods on sale. On my (admittedly rough) numbers, Sydney house prices, the ultimate poster child of rampant asset price inflation, have performed roughly in line with lamb chops. The question therefore is; if the price of everything from houses and shares to gold, bitcoin and lamb chops have risen dramatically in recent decades, are things really going up in value or is money going down in value. The latter, by the way, is called inflation.

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

Australian household savings ratio	The ratio of household income saved relative to the net disposable income of that household during a certain period of time.
Cap Rate	The ratio of the operating income generated from an asset relative to its value.
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
Equity risk premium	What an investor is prepared to pay for equities and take that ownership risk vs. investing in secure government bonds
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
Real effective exchange rate	The ratio of a currency relative to a basket of foreign currencies on a trade weighted basis.
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
Sharpe ratio	A ratio of the return relative to the risk taken. In this document, it is calculated as the return of a portfolio divided by the volatility of those returns.

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