Edition 369, 7 August 2020

Contents

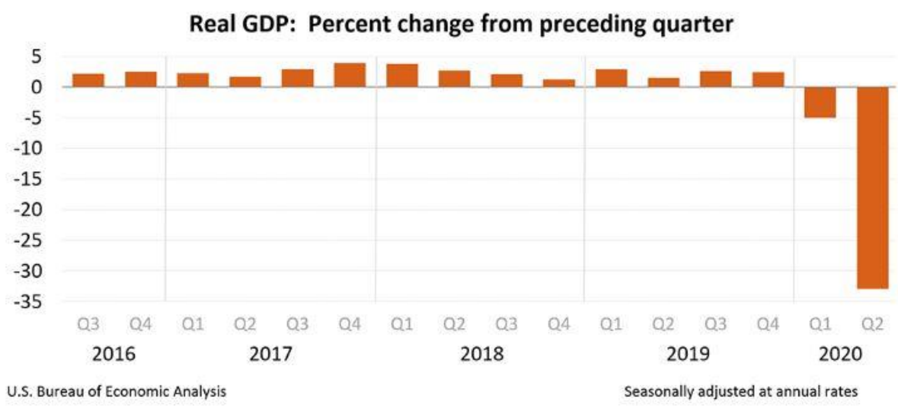
Editorial

Imagine you had perfect foresight about COVID-19 at the start of the year, when the S&P/ASX200 opened at about 6,700. You correctly foresaw that by August 2020, the global pandemic with no vaccine on the horizon would kill over 700,000 people among 20 million infections. In Australia, borders would close, cities would be locked down with nighttime curfews, loan deferrals would reach $270 billion, most mortgagors would be on income support and companies would be allowed to trade while insolvent. Thousands of businesses would never recover. The expected budget surplus would become a $200 billion deficit in 2020/21, government debt would head to $1 trillion and unemployment would exceed 10%.

What would be your prediction of the level of the S&P/ASX200? Down 30%? Down 40%? At time of writing, it is 6,037, a fall of less than 10%. In fact, the index falls historically by 10% or more at some stage in every couple of years, so the correction is normal. What happened to the 'unprecedented pandemic'?

We don't know the economic impact. Australian Treasury forecasts were outdated as soon as Victoria shut down. The fiscal cliff has been kicked down the road to 31 March 2021 but thousands of people and businesses will no longer qualify for support, or go onto reduced payments, from September 2020.

In the US, the June quarterly fall in GDP of 9.5% is annualised in the official data releases, creating a headline-grabbing 32.9% decrease.



Before last week's release, the consensus forecasts from professional analysts had a massive 40% range, as shown below, changing significantly month by month. These are all experts at analysing economic data. **Michael Metcalfe** of **Macro Strategy** said:

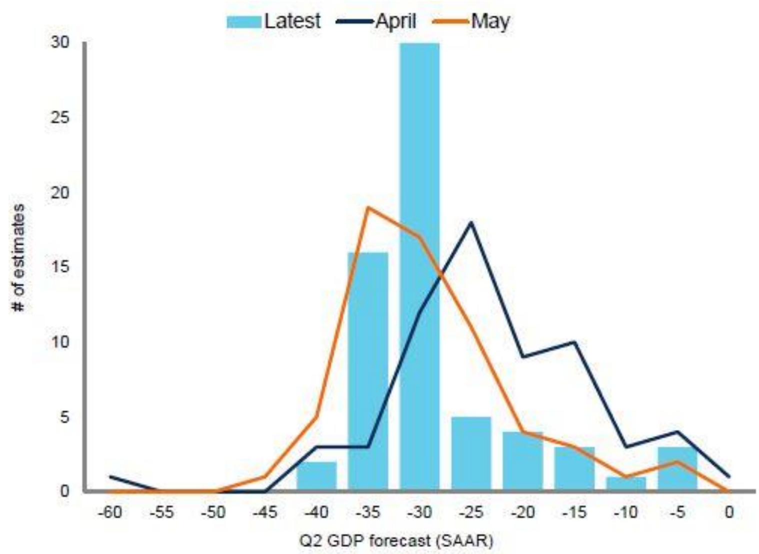
"US second-quarter GDP will provide the most comprehensive measure yet on the depth of the recession. Monthly data has swung wildly during the quarter, prompting first a lurch to a more negative distribution of forecasts, before correcting again. The median - or what used to be known as the consensus estimate - is

around negative 30%. However, the fact that the range of forecasts is a full 40% says all that needs to be said on the uncertainty surrounding the release."

This week, **Marcus Padley** explains how to handle this uncertainty in the coming profit (or loss) company reporting season. Marcus correctly predicted the buying opportunity in March and his fund is currently 100% in cash. How will he handle investing in the coming months?

Far less uncertain is **Emanuel Datt** with his view on **Afterpay**. Although other analysts have a massive range of forecasts on this company, Emanuel sees a bright future for a brilliant business mode.

Similarly, **Andy Budden** sees excellent opportunities in the rollout of 5G. This week's ABC TV 4 Corners focussed on different opinions on 5G, but the groundbreaking technology will change our lives. Is it investable?



Source: State Street Global Markets, Bloomberg

Then **Steve Bennett** dives into the subject on many minds, about whether work in office buildings will ever be the same. What are the advantages of working together versus WFH?

Geoff Parrish shows why quality investment grade bonds played a strong role in a diversified portfolio during the recent sell off.

With such close attention on the impact of COVID-19 on residential property prices, **Chris Rands** breaks the debate into two pieces: while he's relatively sanguine about the short-term impact, he sees more clouds in the medium to long-term bigger picture. Maybe housing is not the usual safe place to hide.

This week's White Paper is **Brandywine Global**'s study of what the post-Covid-19 recovery may look like based on a selection of charts.

Thanks for the lively debates last week with around 100 comments across most articles. Firstlinks is a community where your views adds to our knowledge.

How to handle the riskiest company results in history

Marcus Padley

We are into the results season and these days, for equity investors, the results month is like being on a battlefield during an artillery barrage wearing fluoro orange. You never quite know when you are going to get blown up and this results season will take that risk to the extreme as companies report on the most unpredictable quarters in stock market history.

The dangers in results season

It's not just COVID-19 that creates the risk. Results seasons have been getting progressively more dangerous for a couple of reasons.

The first is **continuous disclosure requirements** which mean that a company can't quietly feed a message into the market. Instead, it has to dump it. When a company hasn't said anything to the market for six months, their results can easily surprise.

Firstlinks
a Morningstar company

Before continuous disclosure, companies would feed changing expectations into the market through select brokers. They would 'seep' their guidance in, not crash it in. It was called 'managing expectations' and this selective briefing method, far from being unfair, was seen as a company's professional duty.

But it is no more. Now listed companies have no choice but to dump information in, either in a pre-results confession or on the day of the results. They aren't managing expectations as well as they used to, making the odds of a surprise much higher than they used to be.

The other volatility-inducing factor during the results season is **high-frequency trading** (HFT). HFT identifies market activity, exaggerates it, and when it comes to the results season, if a stock was going to move 1% on the news, high-frequency trading means it moves 2%, or 5%, or 10%.

The algorithms run by HFTs are designed to detect other people's orders moving in and out of the screen, even before they are executed. They also respond to executed trades and in so doing detect short-term price trends, in nanoseconds, and respond to them by placing their own orders in nanoseconds without any consideration for fundamentals.

The algorithms are also now electronically scanning the words of results announcements, no humans involved, and are picking up on adjectives and phrases like 'profit warning' and 'lowered guidance' or 'raised guidance'. And they instantaneously start placing orders in response.

That algorithm activity is then picked up by the vanilla activity-matching algorithms, and on the back of all that, a few years ago we saw big stocks WorleyParsons open down 21.8% on the day of its results, only to bounce 11.5% from the low before the end of the day. Company CEOs now get lessons on how not to 'do a WorleyParsons', how to phrase their announcements so as not to trigger the algorithms.

Notably, all this ridiculous HFT happens before any analysis is done by the brokers or the big institutional fund managers, otherwise some sanity might prevail. But it's not possible for the big funds to do the research, revalue a company and make their decisions between 8:30am when the results are announced and 10am when they start trading the shares. The prices gap anyway.

And don't expect this situation to change. ASIC's study into HFT concluded that while it may be exaggerating short-term price movements, HFT was not disrupting the integrity of the market or materially raising the costs of execution enough to ban it. It is here to stay, and the ASX has no interest in limiting it, because they are making money from HFT customers paying for high-speed data feeds with terabytes of information provided by the exchange at a huge cost.

The bottom line is that results seasons are now high-risk periods for investors, and with a COVID quarter to report on, this results season is the riskiest on record.

How to handle results season risk

Running the Marcus Today SMA, a $75 million fund, we have had to adapt to results risk and have done so using this mantra: '**If in doubt, get out.'** If we have concerns about one of our stocks having bad results, especially if it is a mid-cap stock, we often sell it before results. We prefer to avoid big risks and come back later, than go into the results announcement with our fingers crossed.

Some of the signs that set off the 'results risk' alarm bells are:

- trending down into results
- no recent guidance
- disappointment in previous results announcements
- operating against industry headwinds
- downgrading by brokers ahead of results
- a volatile stock
- a smaller or mid-cap stock
- liquidity issues (will move a lot on a surprise)
- a popular trading stock
- a 'disaster' stock (don't bet on a resurrection).

Spotting stocks with low-risk results is the opposite. They are stocks that:

- are trending up into results
- have recently put out guidance (de-risked)
- have a share price that rose on their last results/guidance/trading update
- are swimming with the tide (good industry trends)
- have been upgraded by brokers ahead of results
- are a big, well-researched stock
- have a history of good results
- have consistent earnings growth
- have consistent dividend growth.

It is much better to miss a bounce on results and buy after the company has cleared the air than it is to step on a landmine. The market takes no prisoners these days, so caution rather than bravery will win the day. Far better you go to bed with no exposure than you go to bed worrying about some mid-cap results the next day.

After the results are out, that's the time to jump on board, when the stock is de-risked for the next three to six months. Many uptrends will start the day of the results. And downtrends.

Some results survival techniques

- **Undertake basic vigilance**. Find out when results are due for the stocks you are holding or trading. If you find a stock you hold is down 10% one morning after announcing results you didn't know were due, it is a bit negligent. There are plenty of results calendars around. Marcus Today has one.

- **Check the announcement history**. Go back and look at the latest earnings announcement, an AGM maybe, a trading statement. Hopefully it was recent. If it was, the tone of these results is likely to be the same. Find out whether it was positive or not, if the share price went up or down, whether brokers upgraded the next day or not. It is unlikely a company that has seen an earnings announcement running into results (good or bad) will disappoint.

- **Avoid the bad ones.** More than half the game these days is avoiding the disasters. Don't bet on the unlikely, on resurrection, on a falling stock. Don't swim against the tide. It's not clever, it's dumb. It's a game of odds, not heroics.

- **Watch the share price trend.** Another indicator of whether a stock is likely to surprise on the upside or downside is to look at the share price trend running into the results. The market is rarely wrong. Good stocks tend to do good things and bad stocks tend to do bad things, and the results announcements are unlikely to turn the current trend on a sixpence.

- **Look for dividend stripping.** The traditional trade is to buy big income-paying stocks some 50 days or more before the dividend ex-date. Usually, this allows income-chasing investors to sell on the day it goes ex-dividend and still qualify for the franking under the 45-day rule. One broker published a chart last year showing that income stocks tend to outperform in the 50 to 70 days before the ex-dividend date suggesting you buy 50+ days out from the dividend and catch the statistically typical run to the results and the dividend. I have another technique. Wait for the results from CBA or Telstra, and if they are good you can still buy the stock before the dividend in full possession of all the facts and catch the next 45 days rather than gamble on the pre-results trend. If the results are good, quite often, the stock will trend up after the announcement anyway.

- **Buy the bounces, sell the shock drops**. An academic study once showed that a shock move up or down continues in that same direction for the next nine days. In other words, if a stock has a good set of results and pops up 5%, don't say 'I've missed it', buy it because it is likely to keep going in that direction for a while. Sharp moves tend to start trends, not end them, presumably because after a company announces good results, sentiment improves, not for a day but for a while. The research the next day will be upbeat. Brokers will raise target prices and recommendations over the next week and it takes a while for good news to be factored into the price. Your risk is lower than punting ahead of the results.

- **Check the numbers.** Fundamentals are an obvious starting point for ranking stocks on potential risk. Broadly speaking, companies with consistent earnings and high regular return on equity are more likely to produce good, low-risk results. The bigger well-researched companies with higher yields and consistent (rather than high) ROE trends are the safest. The mid-cap and small-cap growth stocks and recovery stocks with no yield, high PEs, weak balance sheets, possibly loss-making concept stocks, are riskier.

Don't be afraid to sit in cash

Traders will try to make money out of this results season while investors will try to avoid the extraordinary risk. That's what we are doing. We run our $75 million fund as we would our own money, and sometimes that means getting out of the market altogether.

We did it on 20 February 2020, we got back in on 24 March, we got out again on 12 June and as of today, the main fund is 100% in cash in this extraordinary market. We can't see the reasons to be "All in" so we're "All out". Due to our current market view, we have no risk going into this results season. That seems the better play than being fully invested, hoping we've got it right.

We are always looking to make money for our investors but with an appropriate level of risk. With a COVID backdrop, and with the results season imminent, the market has rarely been so dangerous. In the next three weeks, the results season will reveal it all, clarify earnings, reduce the risk and provide certainty where there is mystery.

With cash we have power and are ready to use it.

I can see us buying individual stocks in the next three weeks, but only after they sound the 'All clear'. We're not going to 'bet' on one the most dangerous results seasons in history, we're going to 'invest' afterwards. We'll leave the results to people far smarter, braver, luckier or foolish than us.

Marcus Padley is the author of the daily stock market newsletter Marcus Today and the Co-Manager of the Marcus Today Separately Managed Accounts. If you would like to invest with Marcus or sign up for a free trial of the newsletter, see marcustoday.com.au. This article is for general education purposes only and does not address the personal circumstances of any individual, nor does it cover all possible events. Professional advice should be sought before taking any action, including taxation and financial advice.

The rise of Afterpay and emergence of a new business model

Emanuel Datt

Afterpay has been the absolute standout global growth story on the Australian markets over the past few years. This article explores the attributes that have allowed the company to become such a rip-roaring success.

Afterpay commenced operations in early 2015 and listed on the ASX via an IPO raising $25 million in mid-2016 at a share price of $1. Today the company's shares trade at over $70, an astonishing 190% per annum return over the past four years for participants in the IPO who have held on through thick and thin.

We were relatively late to the party, first purchasing Afterpay shares around the $7 mark in mid-2018. At that time, we shared what was then a controversial view that the company could be worth between $25 to $50 within 12 months. Then the company only took 10 months to reach the $25 mark. We recall being so excited by the company's potential that we sent hard copies of our research and letters to a number of prominent US investors such as Berkshire Hathaway.

Product features

Afterpay's features are by now well known. They provide a tweak to the traditional lay-by model by allowing consumers to pay for products in four instalments while being able to use the product straight away. Afterpay removes the need for retailer to track and hold stock and payments in return for a small percentage-based fee. Afterpay then 'owns' the customer who pays the instalments to Afterpay rather than the retailer.

Effectively, Afterpay then becomes the 'destination' for the consumer who can efficiently compare product offerings at the Afterpay website. It leads to a virtuous cycle of lower customer acquisition costs, better credit quality over time and greater brand awareness and loyalty.

Strategically, we feel the value proposition Afterpay bring to the table is nothing short of brilliant. By being a 'no-cost' payment method to the consumer, it circumvents any claims of usury and reduces consumer costs via a no-interest model, driving incremental demand for retailers.

The datasets of consumers and their behaviours are also extremely valuable intellectual properties that are not reflected on Afterpay's balance sheet. We view the platform as an equalising tool that independent retailers can use to differentiate themselves against the might of Amazon and other large online aggregators. In a nutshell, Afterpay is the antithesis of the traditional finance business model predicated on 'screwing the customer' to a business model that empowers customers to responsibly spend and budget without incurring a cost.

Business model

The core driver of the Afterpay model is its extreme capital efficiency and the uniqueness of its model to capture value. Conventional lenders turn over their loan books one to three times a year, depending on the nature of their lending activities. They typically charge an interest charge solely based on the time duration that a loan is drawn down.

Conversely, Afterpay has historically turned over its loan book approximately eight times a year whilst collecting a fixed return per cycle. This allows the company to squeeze a much higher return out of a much smaller capital base.

The company enjoys strong and scalable unit economics driven by a high level of automation. Its initial core target markets were skewed towards discretionary consumer markets, which typically have high gross margins thereby making Afterpay's merchant fees supportable. It also makes incremental demand from the Afterpay system especially valuable. Interestingly, we have seen significant extension into other industry verticals (with similar dynamics) such as health services over time, as the service has become more mainstream.

The viral nature of the product is a strong attraction with demand from both customers and merchants alike. Customers are attracted by the cost-free nature without the stigma of conventional lay-by. Merchants are attracted by increased customer spending via larger basket sizes as well as higher repeat purchase rates. In addition, the use of Afterpay draws new customers to merchants as well as reducing the financial risk of charge-backs and fraudulent payments as Afterpay bears the financial risk post transaction.

A dynamic we have observed in real time has been the 'peer pressure' in terms of merchants' deployment of the service. For example, we noticed that early merchant adopters of the service quickly obtained a competitive advantage versus competitors who did not offer Afterpay. This forced merchants to adopt the service or risk losing business to competitors. It has resulted in a huge, long-tail of merchants who have adopted the service over time and leading to near ubiquitous offering in its target markets and sectors.

Management team

The story goes that Afterpay's two founders, Nick Molnar and Anthony Eisen, met fortuitously when Eisen noticed another night owl across the road from his residence working late into the night and introduced himself to Molnar one morning.

Molnar at the time was selling and distributing jewellery from his family business on eBay, whilst Eisen was a seasoned corporate executive. The two got along well with Eisen mentoring and introducing Molnar to a variety of individuals in his business network. By 2015, Molnar had built his business into one of the largest local distributors of jewellery online. Molnar was frustrated by the low conversion rate of website visitors and ruminated on how to increase sales via larger and increasing repeat orders. After rolling out a basic instalment plan option on his website, he noticed that a large improvement in the specific metrics that were key drivers of his business. He noted that breaking down a $100 purchase into four instalments of $25 was perceived as a more attractive proposition for his customers than paying a single lump sum. This was the genesis of the Afterpay system, with the company launched in mid-2015.

The two founders had the perfect blend of skills: Molnar the young entrepreneurial talent coupled with Eisen the experienced and street savvy corporate executive. Joined by a talented supporting team consisting of Craig Baker (technical lead), David Whiteman (product), Fabio De Carvalho (Sales), Barry Odes (COO) and David Hancock (finance), the company was impeccably positioned to support hyper-growth.

Molnar and Eisen fostered an excellent culture within the company founded on humility, agility and focus. We noted uniquely that both founders have been the CEO, with Molnar initially holding the position and being replaced by Eisen once the company reached a certain scale. This demonstrates the good working relationship and lack of ego between the founders, which we consider to be the ideal dynamic. The company have been open to ideas put forth by its customers, merchants and investors; as well as being sensitive to the needs of regulatory changes in a novel industry. The focus the company has demonstrated can be exemplified by the single product status of the company. The temptation to monetise its customer base in the short-term has been overcome by focusing on the key longer-term value drivers.

Risk management

Given that Afterpay transfers the credit risk from the merchant to itself and bears the subsequent credit risk, prudent risk management is essential for long-term survival.

Afterpay rewards users who comply with the terms and conditions of the offering, by allowing continued use of the service which provides utility to the user. Non-compliant users, such as users who default on payments, are now banned in contrast to the earlier approach of charging late fees to ensure compliance.

This stricter adherence approach has been hugely beneficial to the company for a variety of reasons. By weeding out bad players continually in real-time, Afterpay increases the quality and therefore value of the existing user base. A harsher compliance regime also ensures that bad players bear a real opportunity cost, as being banned means paying for competing services versus Afterpay's free service. This opportunity cost also ensures that the user base is sticky and compliant. Over time this leads to superior outcomes in terms of risk and shareholder value.

The vanilla product offering makes mathematical risk modelling very simple. The system can be viewed as a large number of small transactions on fixed terms, providing alignment with mathematical theorems such as the Law of Large Numbers (LLN), a core element in the insurance industry.

This principle holds that the average of a large number of independent identically distributed random instances tends to fall close to the expected value. The entry of additional instances to a pool tends to reduce the variation of the average loss per instance to around the expected value. Thus, an increase in the number of instances strengthens the pool by reducing the probability that the pool will fail. This is the 'magic' of insurance, increasing predictability and reducing risk via the principle of LLN. Insurers have learned the wisdom of insuring the largest number of similar risks possible, and Afterpay investors appear to have recognised this dynamic at work within its business model.

Novel industry

Understanding that Afterpay was the first mover in a novel industry, now branded 'buy-now-pay-later', was the first building block of our investment thesis. We were familiar with the notion of novelty and how quickly it may spread throughout a society. In this case, we had a novel, technology-driven service that was convenient and without stigma. The multiple angles of utility provided by the service were self-reinforcing and was recognised by the typical early adopters in any society, young adults—branded millennials in our era.

Securing its first-mover advantage involved Afterpay capturing as much of this demographic as possible, as quickly as feasible in a straight out 'land-grab' scenario. Organically as expected, we saw later adopters in the older demographics adopt the use of the service as its use became increasingly more mainstream. Its ubiquity in Australia now is a testament to the formation and execution of the business strategy.

Considering the industry segment and the business model itself, the company's 'moat' is the size of its user base. The ability to continue to grow this user base until maturity is a core part of the bull thesis.

The novelty of the business model and the development of the industry sector has not been without its regulatory challenges. To its credit, Afterpay has made the necessary amendments to remain compliant with regulations as well as making contributions to the development of the regulatory environment. We will discuss these issues in future articles.

Emanuel Datt is the founder of [Datt Capital] and Managing Director of Datt Group, a Family Office based in Melbourne. This article contains general information only and does not consider your personal circumstances.

WFH and its impact on Australian offices and tenants

Steve Bennett

The world is beginning to come to terms with the COVID-19 pandemic and the broad range of potential impacts for the Australian commercial real estate sector. Ultimately, the nature of human interaction during and post COVID-19 will impact real estate demand and drive change in some sectors.

When will people return to the office?

For the office sector, short-term shifts in demand will relate to how the virus outbreak continues to unfold and the extent to which employees feel comfortable returning to the office. More importantly for investors is how this pandemic will impact the long-term demand for office space. This will depend on the trade-off between the cost of occupation and the productivity trade-off between working from home (WFH) and working in an office.

WFH is not a new concept, especially for large corporate tenants that strive to provide flexible working arrangements for their employees. Until now, shared workstations (or 'hot-desking') has enabled employers to decrease their office space over time. The arrival of COVID-19 will further evolve WFH policies and has most employers thinking about what is best for their business. Many global firms have already announced changes to their WFH policies, and collaborative working technologies such as Microsoft Teams, Zoom, GoToMeeting and Webex have advanced in the wake of the virus-induced lockdown.

Notwithstanding these changes, several factors are likely to limit the impact on office floorspace demand. In the short term, workplace densities have decreased to enable social distancing. The longer-term trend of office densification could be reversed if organisations implement measures to mitigate the potential risks of future outbreaks. Shared workstations will be less appealing, and in some instances may even be regulated against. There are also many roles that are unable to be shifted to a home location for various reasons, including for security and insurance purposes.

Most businesses though, will have productivity and risk management at the centre of any decision about future office space requirements. WFH has never been trialled to this scale, and the productivity results and risk outcomes from this forced experiment will not be fully understood for some time.

Productivity and office design

Historically, providing well located, quality office space has been a means to attract and retain talent. Firms have invested large amounts of capital on office fit-outs to promote productivity and enable higher office densities (i.e. more people per floor). Studies have found a very clear relationship between indoor environments and employees' attitudes, behaviours, satisfaction and work performance.

A wide range of factors are taken into account when considering office design and include room temperatures, air and water quality, lighting, noise, layout of individual workspaces and workplace colour schemes, to name a few. Workplace design is not a perfect science, and the process to plan a new office building can take years and millions of dollars in design and consulting fees. New office plans typically look to quantify the behaviours firms want to encourage in their staff and team, building out one floor of an existing office as a test, and confirming or disproving its hypothesis that the design will prompt those behaviours.

Organisations in Australia and Japan were found to have the greatest investment in workplace design globally. The WFH/office trade-off will be influenced by the level at which these factors of productivity gains can be replicated in a home office environment.

Collaboration and creating a buzz

Over recent years, organisational analytics software has been used to better understand how teams interact. A study conducted by Humanyze revealed that people on the same team were six times as likely to interact if they were on the same floor in a building, and people on different teams were nine times as likely to interact if they were on the same floor. While undeniably cost-effective, remote work tends to significantly inhibit collaboration, even over digital channels. Thoughts can occur anywhere and in any environment, but offices generally bring out the best innovating and ideating. The energy and buzz that comes from being in the same physical space is hard to replicate virtually.

Other benefits of working in an office include team building, bonding, relationships, talent mentoring, corporate culture building, efficiency, management oversight and creative collaboration—all things that contribute to the entities' corporate culture.

We believe many businesses will consider these aspects as well as allowing employees to WFH. Leaders understand workplace culture isn't about individual performances, personalities or attitude. It's about how the team works together as a cohesive unit, and this is hard to create remotely, especially when building a new business, going through a period of growth or dealing with complex events.

Business clusters

There is a close and complex relationship between a city's built environment, geography and economy, and quantifying the benefits of industry clustering was first noted as far back as 1890.

The concept of 'knowledge spill over' is well recognised as workers and business are likely to learn from one another when in close proximity. Business clusters, for example Silicon Valley, have traditionally played an important role in forging and shaping these networks, by encouraging the sharing of knowledge, generating social capital and, in turn, driving regional growth. An important WFH consideration here is how digital networks can replicate these relationships or contributing events like an 'accidental encounter'. There will be a continued need for industry-wide networking and collaboration opportunities.

What to expect

1. Greater workplace location flexibility

Some firms will continue to expand their WFH capabilities, with workplace cultures and technology potentially providing further flexibility. When COVID-19 occupancy restrictions are fully eased, we anticipate that certain firms could move to arrangements such as a one-day-from-home strategy. However, we expect this to be an extension of the office workspace rather than a direct substitution of location.

Importantly, these solutions may not have a direct impact on office footprints. Many flexible work strategies were traditionally implemented through 'hot-desking' solutions, with buffer workstations required to deal with spikes in demand. Strategies had to account for 'peak' demand periods. During certain occasions, employees would come into work to find no free desks available, while others would spend valuable time searching for a free workstation. This was inherently more complex in larger organisations, where establishing exact workstation requirements was more challenging. The lagged and disconnected nature of exact headcounts, particularly for firms with a higher prevalence of consultants, casual labour and diverged business units, pose greater challenges.

2. Flight to quality

The new environment will likely drive polarisation across the office market, with a reduction in office demand for lower-grade and peripheral office assets. Given the absence of a broadly available vaccine, leasing conditions in the near-term will be more challenging for lower-quality office buildings, and assets with smaller floorplates, poorer ventilation systems, shared facilities and less appealing amenities.

This compounds the typical divergence that occurs during an economic downturn as higher quality office assets typically benefit from having better quality tenants, longer leases that extend through periods of volatility, and locations that attract staff and profitable business clusters.

Moving forward

Given the long-term nature of office leases at Charter Hall, any potential impacts to office demand arising in the short term will be somewhat muted, with long-term impacts managed in advance. Over 70% of Charter Hall's Direct Office Fund (DOF) and Direct PFA Fund lease expiries are longer than seven years.

We believe that WFH will complement the traditional office set-up, with issues such as productivity, risk management and the creation and progression of company culture all being key reasons why the office environment will continue to be an integral piece of business infrastructure over the long term.

Steve Bennett is CEO of Charter Hall's Direct Property business. Charter Hall is a sponsor of Firstlinks. This article is for general information purposes only and does not consider the circumstances of any person, and investors should take professional investment advice before acting.

For more articles and papers from Charter Hall, please click here.

Firstlinks
a Morningstar company

Why 2020 has been the year of the bond market

Geoff Parrish

The year 2020 will be marked in history by a pandemic that had devastating effects on global health and economic activity. In financial markets, the pandemic set forth a rollercoaster of volatility that spotlighted the fundamental role of bonds in investment portfolios.

Making the case for bonds just 12 months ago would have been a difficult task. In June 2019, the share market was experiencing its eleventh straight year of growth following the GFC, and the ASX200 was a mere 500 points from its all-time record of 7,145. Equities were on an unbelievable bull run, and what would make anyone believe that it would not continue? Investor portfolios had not been tested in any serious fashion for more than a decade.

Lulled into a false sense of security

When markets feel at their best is perhaps when it is most paramount for investors to keep a perspective on their long-term goals. Whether those goals be for life in retirement, to ensure a well-being for others, or for philanthropy, an investment portfolio often entails a multi-decade horizon. It needs the ability to withstand the machinations of markets over various periods.

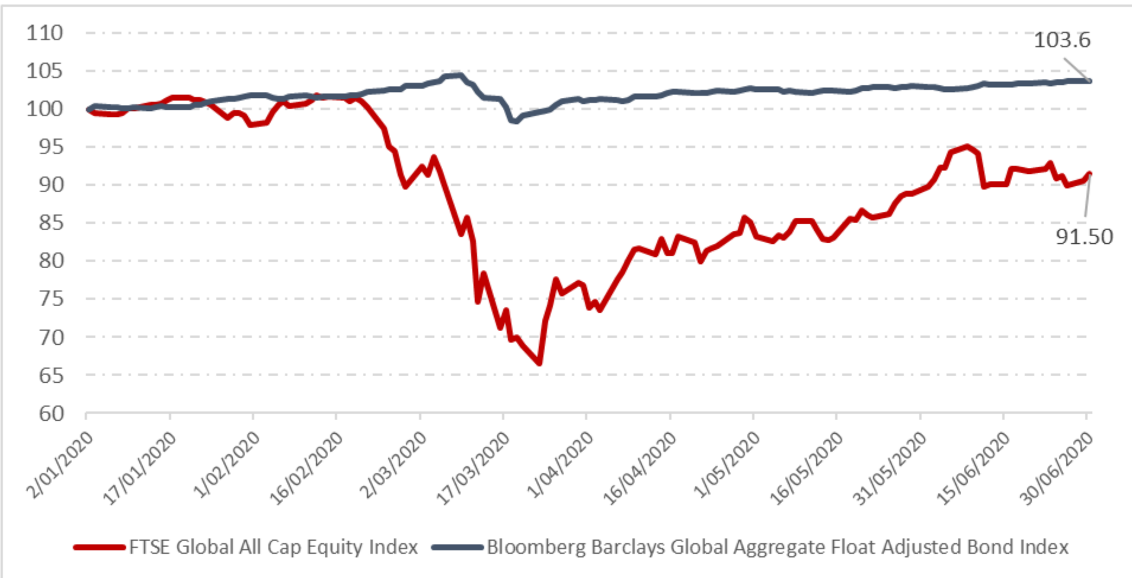
Going back to June 2019, many an investor considering a rebalance of their portfolio would have questioned the logic of diversifying away from outperforming growth assets—equities—and reallocating to bonds. High-quality bonds are *boring*—they are often synonymous with stability and income. It would have felt like leaving money on the table.

The vanilla nature of high-quality, investment-grade bonds would have lulled many an investor into overlooking one of their most alluring qualities. Bonds are a diversifier in an investor's portfolio, serving as ballast to equities in a market downturn. While there is a spectrum of bond offerings in the market, we are focusing this conversation on investment-grade bonds and the role they play in a diversified portfolio.

The market volatility during the first half of 2020 starkly displayed the differing characteristics between equities and other growth assets and bonds. This period provides valuable insights into how bonds can reduce all-in losses versus an all equity asset mix.

The chart below compares the daily return of a global bond and global equity portfolio between January and June 2020, scaled to 100 at the start of the year. The first thing that jumps out is the deep 'V' of equities in March relative to the muted dip in bonds. Both asset classes experienced a period of negative returns, but of significantly different magnitudes.

Equities have yet to fully recover. Equity optimists may point to the recovery of equities over a longer horizon, however, this article is not an argument against the long-term benefits of equity exposure, but rather how the two asset classes complement each other in a portfolio.



The wild, daily swings in March and April were enough to unnerve any investor, and the trap for investors was selling equities when things felt their worst—participating in the downswing, locking in losses, and missing the opportunity to partake in the recovery. Exposure to investment-grade bonds during this period served as a cushion, dampening overall portfolio volatility and potential losses, leaving an investor better placed to ride out the volatility and experience the equity rebound.

The diversifying impact of bonds

The table below compares global and local equity and investment-grade bond returns over the first half of the year. This period was exceptionally volatile, but it does a nice job at illustrating the diversifying effect of bonds. Over longer, less volatile periods, while the balancing benefit of bonds is more subtle, they still produce value for a long-term investor, especially if short-term market conditions trigger the need for realisation of losses in an overweight equity position.

While the prima facie return from bonds is modest across different phases of the first half of 2020, the differential with equities is large, as seen with the far-right columns. The comparative outperformance of bonds is in double digits for the half year, the first quarter and the month of March.

	Global Bond	Australian Bond	Global Equity	Australian Equity	Bond vs Stocks (Global)	Bond vs Stocks (Australian)
1H 2020	3.81%	3.53%	-7.81%	-11.76%	11.62%	15.29%
1Q 2020	1.28%	2.99%	-22.65%	-24.05%	23.92%	27.03%
March 2020	-1.86%	-0.21%	-14.51%	-21.18%	12.65%	20.97%

Global Bond: Bloomberg Barclays Global Aggregate Float Adjusted Index
Australian Bond: Bloomberg AusBond Composite Index
Global Equity: FTSE Global All Cap Index
Australian Equity: S&P/ASX 200 Index

So here we are, in the second half of 2020, post one of the shortest and sharpest bear markets in history. Many investors who were overweight in higher risk asset classes would have coveted the downside protection that high-quality bonds would have provided. Even though equities have partially rebounded, most markets are sitting on losses year-to-date. Those with little diversification away from equities are probably feeling better now than in March, although the sting may not have fully worn off.

Check the role of different types of bonds

Recent history has shown there is no better time to appreciate and utilise the benefits of investment-grade bonds in your portfolio. There are different types of bonds available for investment, and each type and class play a role in a diversified portfolio depending on your investment goals, risk aversion, and time horizon.

High yield, lower quality bonds might fit in one person's portfolio but not another's. High-yield bonds do not provide the same degree of diversification from equity behaviour as investment-grade bonds. For this reason, investors must ensure they understand what their portfolio's bond allocation is exposed to.

For those uncomfortable making the asset allocation between growth assets and bonds, there are diversified fund options to ensure you can still include a bond component in your portfolio, whether index investing, active investing or a mix of both.

As always, this should entail a consideration of your long-term goals, risk appetite and the fees you will be paying. That way, the lessons of 2020 will ensure bonds will be an important part of helping you achieve your investment goals, whatever they may be.

Geoff Parrish is Head of Vanguard's Asia-Pacific Fixed Income Group. Vanguard Australia is a sponsor of Firstlinks. This article is for general information only and does not consider the circumstances of any individual.

For more articles and papers from Vanguard Investments Australia, please click here.

Is 5G all hype or real investable opportunity?

Andy Budden

The impact 5G will have on a wide range of industries is likely to be bigger than we've seen with any previous generation of mobile telecoms. Each previous new generation of network has produced a big jump in speed. And we will certainly see this with 5G, which is estimated to be between 10 and 100 times faster than 4G. But 5G is about much more than quicker phone downloads. It brings lower latency, greater network capacity, and significantly extends battery life. In time, this will produce a robust network in which millions more devices will communicate with one another remotely 10 to100 times faster than at present, and it is what opens the door to 5G's full potential: the capacity for machine-to-machine communication.

What is the timeframe for 5G?

The initial impact will be gradual. Most countries are not yet actively rolling out 5G infrastructure. However, there has been initial build-out in the US, the UK and other parts of Europe, and much more extended implementation in China, South Korea and Australia. China now has at least partial 5G networks in 50 cities and is accelerating 5G implementation. Part of its unannounced fiscal stimulus as a result of COVID-19 could be accelerated spending on 5G infrastructure, and there may also be 5G phone subsidies.

Why is global adoption slow? To some extent, this is an inevitable lag—it took 4G six years to achieve 90% penetration. In the case of 5G rollout, it is partly down to physics: 5G is a high-performance network because of its high frequency, but its shorter wavelengths are more readily absorbed by objects, meaning that the 5G signal doesn't travel well through buildings and is even absorbed by plants and rain. In practical terms, it needs more base stations much closer together.

Putting a 5G system in place will take some time. It's not going to be the immediate revolution that some expect. So what are the opportunities in 5G at the moment? Is it really investable?

Three levels of 5G beneficiaries

A helpful framework for the journey through 5G investment over the next five years is to think of 5G companies in three layers:

5G providers

These are the telecom companies that provide 5G services. While research suggests incremental revenues for telecoms will grow, they are expected to remain relatively small in dollar terms until the middle of the coming decade, when a real acceleration is anticipated, which could in principle be attractive.

But there is a problem: building the infrastructure to access those revenues is going to require massive, upfront capital expenditure, compressing the margins of telecom companies and making them a less-than-compelling 5G investment.

5G enablers

This second layer comprises the organisations building infrastructure and providing the components necessary to take part in 5G. I believe this is currently a much more attractive area than the providers. The demand for cell towers, network equipment, devices, components and data storage requirements over the next few years could see very significant growth.

Examples of the 'enablers' include tower providers, which supply sites to telecom companies for their infrastructure. The logistics behind providing a vast interconnected network, particularly in cities, is a huge undertaking, and companies such as American Tower Corporation have an extensive network of tower sites providing coverage and capacity for telecom companies.

The semiconductor industry is likely to be another beneficiary of 5G. High-performance applications such as 5G require even smaller semiconductors. The essential technology required to manufacture these semiconductors is highly specialised, and ASML, which is the global leader in manufacturing the machines that produce the 7nm (nanometer) and lower-node chips, could be a key beneficiary.

Device and component makers that produce memory chips, OLED display screens, mobile phones and consumer electronics (or the Internet of Things) are positioned to benefit from the increased connectivity of 5G. Companies like Samsung have been leading the market developing end-to-end 5G offerings.

Data centre providers are also likely to see growing demand from 5G adoption. These data storage centres allow enterprises to take advantage of 5G mobile networks when accessing cloud infrastructure, while improving network and application performance over low latency connections. Companies like Equinix enable connections between digital ecosystems globally.

5G users

These comprise the third level of beneficiary, and this is the area where 5G is potentially a gamechanger because it will enable devices and machines to talk to each other with accuracy and speed. Known as Machine Type Communication (MTC), this technology comes under two main headings.

Massive MTC is where lots of devices exchange large amounts of data but do not necessarily require exceptionally fast response times. Applications could include logistics or smart agriculture. The second category is critical MTC, where not only ultra-reliability is needed but also speed—think of factory automation, autonomous vehicles and traffic safety.

While some of these themes such as factory automation are already familiar to the market, 5G could accelerate the trend. Similarly, autonomous vehicle development is already making significant headway, but 5G could enable autonomous vehicles to start communicating with one another more effectively, allowing greater safety, efficiency and reducing emissions.

I believe MTC is a really exciting part of 5G—it is going to create disruption and enable new services.

Across industries, 5G is expected to lead to a flood of innovation. In health care, it could allow not just online consultations with doctors but monitoring health conditions and remote surgery. In the energy sector, 5G could enable remote facility inspection or repair, and smart grids. Then there is telebanking—being able to speak with a bank teller securely using 5G and, in addition, establishing vastly enhanced security for accessing financial services.

Virtual and augmented reality—VR and AR—are usually associated with entertainment, but they have massive potential in the maintenance of industrial facilities, where they could improve efficiency through faster repairs.

Where are the possible investable opportunities?

There are a number of listed companies that fall under the '5G enabler' category. Importantly, though, they are positioned not just for the growth associated with 5G but for wider secular growth trends around digital disruption. We believe many of these companies represent attractive investment opportunities right now for long-term future growth.

While the real game-changing opportunity could be among the companies that become the ultimate 'users' of 5G, this segment is still in its infancy. That means we must be very careful about how we invest in 5G and for that reason, the concept of a fund overly reliant on 5G has limited appeal. The ability to flexibly invest across different themes and ensure that the investment theme evolves over time, just as the investment opportunity evolves, should be more robust.

Capital Group New Perspective Fund (AU) focuses on investing in companies benefiting from a range of secular trends, and one key theme is digital disruption. This includes companies across industry sectors that are using technology to disrupt their markets, and 5G comes squarely under that heading.

Within the fund, we estimate that our total allocation to companies with exposure to 5G, in one form or another, could be as high as 40%. It's no surprise that companies like Microsoft and Amazon, which are featured in the cloud and artificial intelligence sectors, are important 5G exposures in our portfolio. The same is true of Netflix and semiconductor-related companies

TSMC and ASML. Less obvious examples are companies in the health care sector, such as Boston Scientific, which produces diagnostic monitoring devices, and a leader in robot surgery, Intuitive Surgical. Both of these could potentially leverage 5G technology in the future.

Andy Budden is an Investment Director at Capital Group, a sponsor of Firstlinks. This article is general in nature and does not take into account your objectives, financial situation or needs.

For more articles and papers from Capital Group, click here.

Australian house prices: Part 1, how worried should we be?

Chris Rands

The current housing figures have been remarkably resilient given the circumstances, as house prices in Australia have fallen by 1.6% nationally in the three months to end July, according to CoreLogic. This is occurring through some of the worst economic conditions the country has seen in the past 70 years. Most forecasts suggest there will be more declines but of a magnitude that is similar to 2019.

This article focuses on the short-term indicators to help determine if this relatively benign outlook should hold. The following article, [Part 2](), then examines the longer-term drivers.

Short-term forward indicators: the usual suspects

Three key indicators are particularly useful for the short-term outlook:

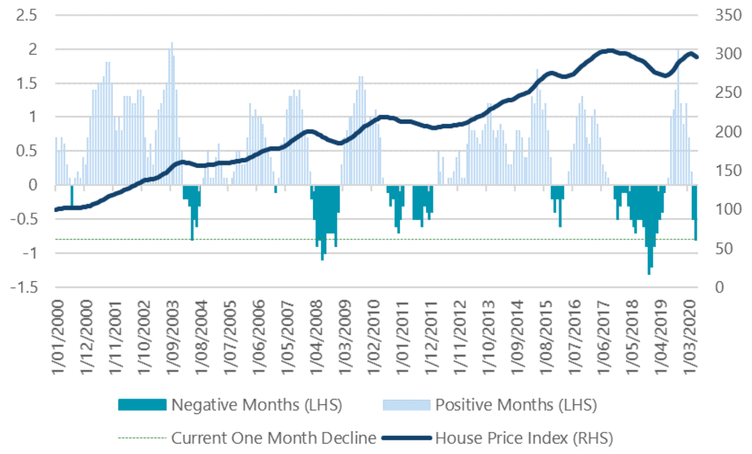
1. Auction clearance rates

When the Australian economy was in total lockdown during April 2020, auction clearance rates plummeted. They have since recovered into the mid-60% range, however weak outcomes persist in Victoria. From a historical perspective, this would imply house price outcomes are slightly better than the declines seen in 2010 or 2018, making prices flat when compared to this time last year. To end up flat year-on-year over the next few months, we would need to see a 5% fall in prices to offset the late 2019 strength.

2. Mortgage finance

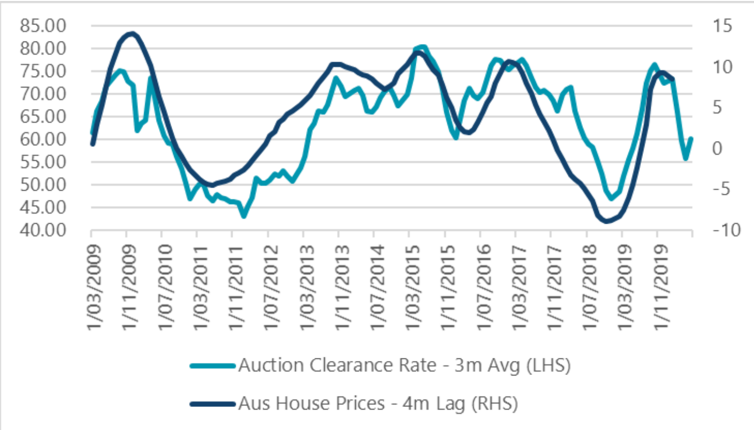
The most recent data point for mortgage finance is from May 2020, which was highly affected by the lockdown, but nevertheless showed some of the largest declines in finance of the past 20 years. This paints a bleaker picture than the auction clearance rates, with prices pointing slightly negative year-on-year. Mortgage finance has fallen from its lofty levels during late 2019 and we expect this should weigh on prices, potentially in the 5 to 10% range over the next few months.

Chart 1: Australian house price index



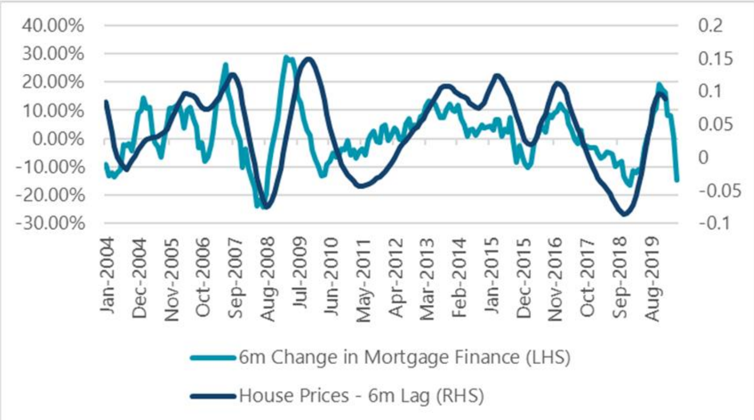
Source: Bloomberg, CoreLogic, Nikko AM

Chart 2: Auction clearance rates and house prices



Source: Bloomberg, Nikko AM

Chart 3: Mortgage finance and house prices

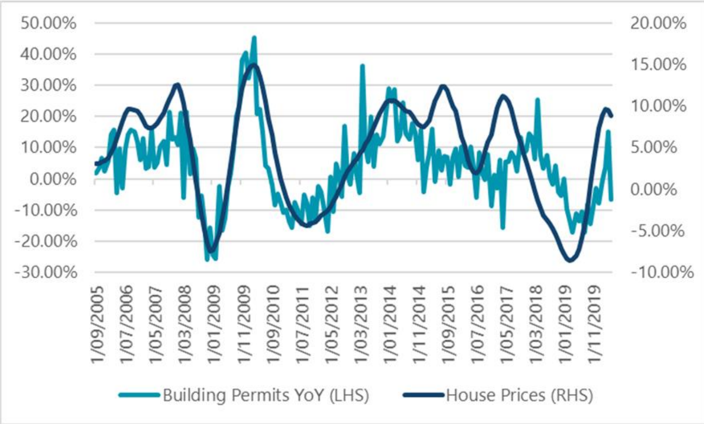


Source: Bloomberg, Nikko AM

3. Building permits for new homes

This indicator typically moves in the same manner as house prices. The most recent figures for building permits show there's been a quick decline in the intention to build, which signifies house price weakness in the near term as developers expect sales will be harder to achieve.

Chart 4: Building permits, new houses and house prices



Source: Bloomberg, Nikko AM

In the short term, all three indicators are pointing to the same outcome: house price declines of approximately 5% to 10%. When answering our original question - "How concerned should we be?" - these indicators tell us that we should be at least mildly concerned.

Yet this outlook only reflects what is already known and observable, providing only a 3- to 6-month outlook without making much reference to what could be in store in 12 months' time.

So we must also think about how these indicators could move in the bigger picture environment, and whether they generate greater concern. The longer-term analysis is included in the next article.

Australian house prices: Part 2, the bigger picture

Chris Rands

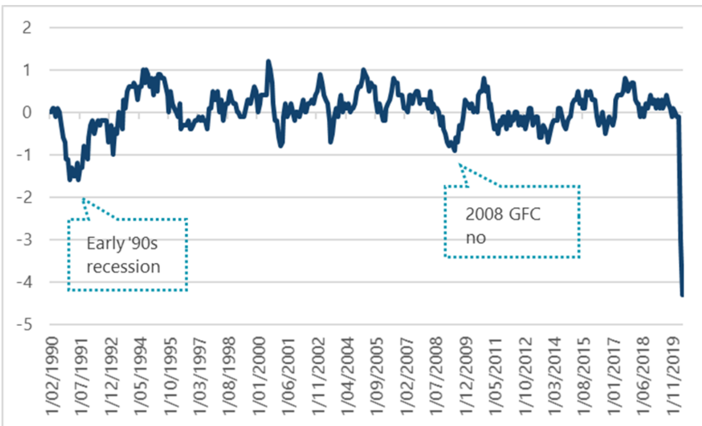
Typically, when discussing Australian housing, the narrative goes along these lines: "*Yes, our house prices are some of the most expensive in the world, but we have strong migration, good affordability and limited supply compared with other countries, which justifies the high prices*."

Under 'normal' conditions, the argument holds water, but in the current climate it becomes questionable. This article looks at the bigger picture indicators -unemployment, immigration, fiscal support and interest rates - to glean the potential direction of the housing market.

1. Unemployment

The largest risk to the property market at the moment comes from unemployment. While the official unemployment statistics can show some noise, due to how those who have lost their job are classified, the statistic of the percentage of the working age population that is employed shows how drastic this change has been. Around 3.5% of the working-age population have lost their jobs since March, which does not include those who are currently on the JobKeeper programme (~3 million people). This is a decline of close to 700,000 jobs and is two times larger than in the early 1990s recession and four times larger than the 2008 recession.

Chart 1: Employment to population change



Source: Bloomberg

While the economic damage was bad globally in 2009, it was muted in Australia as we avoided the worst of the fallout, registering only a benign slowdown in employment.

This huge level of unemployment in 2020 has brought with it economic hardship that has required relief from the banking system. The Australian Banking Association has said that almost 500,000 borrowers have been granted loan deferrals, with *The Australian Financial Review* stating that about one in five of these "*are in deep financial strife*". Australian Prudential Regulation Authority (APRA) states that deferrals across home loans account for about 10% of all loans.

The problem that this unemployment situation creates is two-fold.

Firstly, APRA announced in July that it would extend the deferral process for another six months, until March 2021, but that the temporary capital measures given to the banks can only be applied:

"Where the ADI has undertaken an appropriate credit assessment of the borrower and is satisfied that they have a reasonable prospect of being able to repay the loan … when the repayment deferral period ends".

APRA additionally stated that "*in some cases, banks will need to recognise that loans are permanently impaired*".

There is a risk that some loans become impaired in September, as a more complete picture of the potential for employment outcomes will be known. If a sizeable amount of those one in five who are in deep financial strife are deemed not able to repay, then there could be tens of thousands of forced sellers hitting the market in the back end of this year.

While we do not expect this is the most likely outcome, as the new deferrals shift this risk to March 2021, CoreLogic statistics show that over the past two years about 30,000 to 40,000 properties sell each month in Australia. This means these borrowers alone could account for three months' worth of volume, coming at a time when volumes have been lower than usual.

Secondly, with 700,000 Australians having lost their job and another 3 million facing some uncertainty with how long JobKeeper will run, it's hard to envision who will be stepping up to buy properties that are sold by those in financial distress. If the unemployment problem persists longer than the market currently expects, which is a distinct possibility now that Victoria has shut down Melbourne and Sydney COVID-19 cases are rising (at the time of writing), there will be pressure for prices to move lower. Australia has not faced a situation like this for almost 30 years. The only way this can be spun as a positive is that APRA is buying time for a recovery to take hold, yet even then household leverage will only be rising through this time.

2. Fiscal stimulus

The current iteration of the government's higher-than-usual unemployment benefits were recently rolled for an additional six months, but with lower benefits. This will be important for the housing market.

Currently in Australia, there are two forms of stimulus to provide everyday Australian's with support: JobKeeper and JobSeeker. These programmes provide $1,500 and $1,115 a fortnight respectively, which is almost two to three times higher than the previous $500-$600 Newstart payments and are set to reduce to $1,200 and $815 respectively in October.

In Australia, the average mortgage balance is $400,000, which on a 30-year term with 3% interest would cost about $780 per fortnight. The bare minimum living expense for a person in Sydney, as calculated using an example lenders Household Expenditure Measure (HEM) is $546 per fortnight.

We can compare how the typical household would fare living with an average mortgage using an estimate of the different government benefits:

	Single JobSeeker	Couple JobSeeker	Single JobKeeper	Couple JobKeeper	Oct Single JobSeeker	Oct Couple JobSeeker	Oct Single JobKeeper	Oct Couple JobKeeper
Benefits per fortnight	$1,115	$2,210	$1,308	$2,616	$815	$1,630	$1,082	$2,164
Av. mortgage per fortnight	$780	$780	$780	$780	$780	$780	$780	$780
Av. mortgage as % of benefits	70%	37%	60%	30%	96%	48%	72%	36%
Remaining after av. mortgage	**$335**	**$1,340**	**$528**	**$1,836**	**$35**	**$850**	**$302**	**$1,384**
HEM living costs*	$546	$1,023	$546	$1,023	$546	$1,023	$546	$1,023
Remaining after living costs	**-$211**	**$318**	**-$18**	**$814**	**-$511**	**-$173**	**-$244**	**$362**

*Source: Australian Government, Nikko AM, home loan experts. *HEM living expenses used the lowest income estimate for the Sydney area, assuming no dependants. This is likely an underestimate of the true cost of living for the average person.*

The shaded boxes in the table show the current forecast financial position. While certainly not ideal, a **single person** on JobKeeper may just be able to cover their mortgage and bare minimum living expenses. **For couples** on JobSeeker or JobKeeper, the fortnightly income covers a typical mortgage and the minimum living expenses, although this would not look anywhere near as healthy when using the ABS average household expenditure (excluding housing) of around $2,300 per fortnight.

This highlights just how important the increased spending from the Australian government has been for enabling households to continue meeting their minimum living expenses.

Compare this to the outcome in October, when the payments are reduced, shown on the right-hand side of the table. The typical household will start experiencing financial stress, especially those on JobSeeker, as the $815 payment for a single person would only just cover the typical fortnightly mortgage payment, without accounting for any other living expenses.

This analysis also holds true for Australians who are renting, paying on average $872 per fortnight. Should these people be unable to afford rent, property investor income will be jeopardised and the demand for housing will fall.

The numbers and potential for financial distress are startling, without even accounting for the fact that unemployment benefits are set to fall even further in January. The financial bill that the government will incur if these policies continue means that we should now expect them to slowly be wound back, setting up a worrying outlook as stimulus declines.

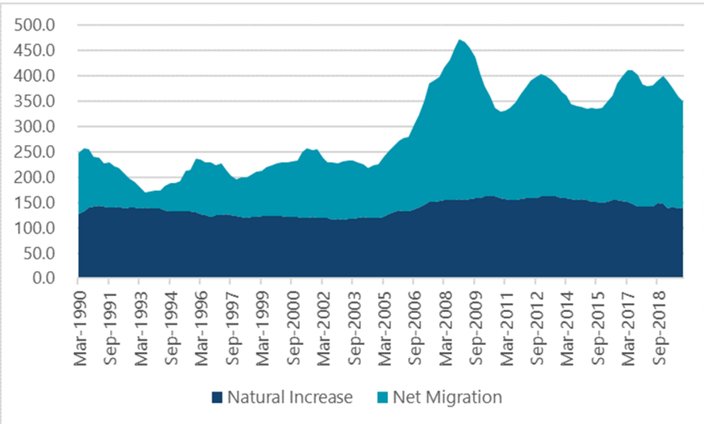
3. Immigration and population growth

Over the past five years, the Australian population has been increasing by approximately 350,000 people per year, with roughly 220,000 of those coming from overseas. Given the borders are expected to be shut until 2021, immigration will be weak for at least the next six months—moving population growth closer to the natural increase of 140,000 people, a reduction of ~60% vs a normal year.

Since the average Australian household has 2.6 people living in it, this will be a reduction in demand of around 80,000 properties per year while the borders remain closed.

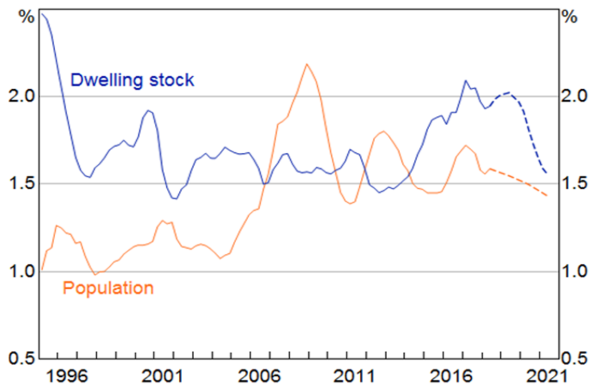
Over the past five years, rising house prices and lower interest rates have encouraged higher levels of building, with the number of new dwellings increasing by around 2% per annum. As Chart 3 shows, new dwelling stock was running well above population growth for the past few years. The supply was so large in 2019 that there were constant fears of oversupply in new apartments. This year, that narrative is likely to be exacerbated as population growth is set to fall to around 0.5% (one third of its

Chart 2: Australian population growth



Source: Australian Bureau of Statistics

Chart 3: Population and dwelling stock growth* (year ended)



*Source: Reserve Bank of Australia (Mar 2019). *Dotted lines represent forecasts* prior levels), much lower than the 1% growth seen through the late '90s, creating a picture of oversupply.

This should lead to a weakening in mortgage approvals, particularly for investors, as it will be harder to have certainty around the investment implications of a property. Rents will be weaker than usual and with no international tourism, short-term stay properties have been locking in tenants leading to greater supply in the rental market.

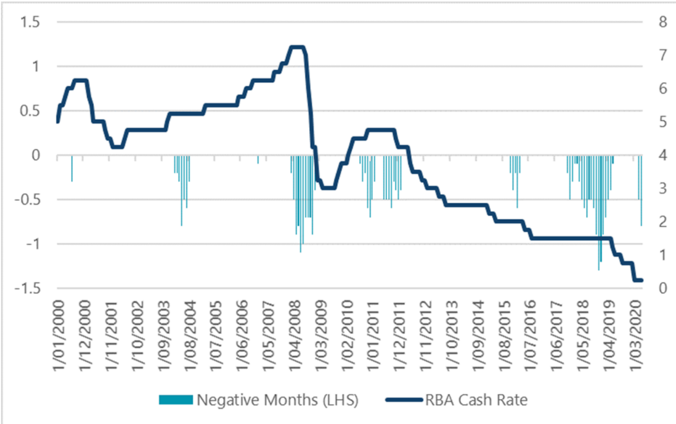
Overall, this is one of the more concerning big picture issues over the next 12 months. A traditional source of demand from population growth will be slowing at a time when unemployment is high and the ability for Australians to buy housing is lower than usual.

4. Interest rates

Interest rates have consistently fallen whenever the housing market showed any signs of stress. Chart 4 shows the months with negative house price changes against the cash rate. In 2008, 2011, 2015 and 2019, the house price declines stopped as the cash rate fell. This has been no different over the past few months, with the cash rate falling 0.5% this year. Unfortunately, the Reserve Bank has little room to continue easing via traditional methods.

The strategy of cutting rates to keep prices rising looks like it could be coming to an end.

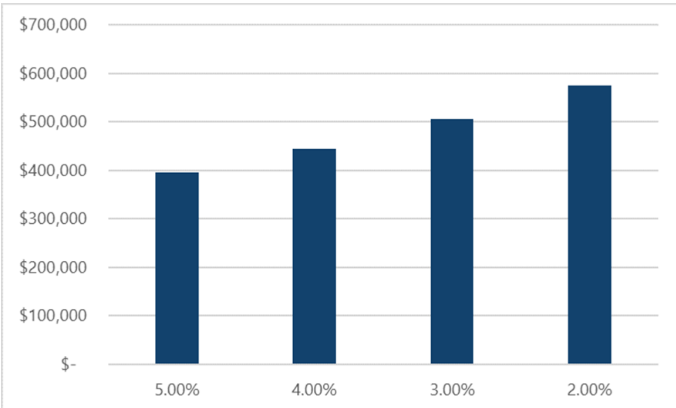
Chart 4: Australian house price index



Source: Bloomberg, CoreLogic, Nikko AM

A simple measure to see the effects of interest rates on house prices is to determine how the average borrowing size will be affected by falling mortgage rates. In Australia, the average household income is $1,652 per week, which equates to roughly $1,250 after tax. Assuming a person spends 40% of their post-tax income on mortgage repayments, this gives them the ability to service about $500 per week. Here is the borrowing capacity under different interest rates on a 30-year loan, assuming the borrower pays $500 per week (chart 5).

Chart 5: Borrowing capacity at different mortgage rates



Source: ABS, MoneySmart.gov, Nikko AM

A 1% reduction in interest rates would lead to about a 14% increase in borrowing capacity at current levels. As rates have fallen by 0.5% since the pandemic began, this would imply that the average household could take on about $30,000 more debt this year. Assuming of course, that they have not lost their employment.

While the recent rate cuts are a positive driver for the housing market, there is a looming question of whether it will be enough to offset the other negatives described above. The RBA would want to cut more if they could, but given interest rates have hit the zero lower bound, they are reluctant to provide the normal amount of easing that would be required in these circumstances.

Where does that leave us?

Overall, these big-picture drivers can be split into three broad categories - the 'good', the 'bad' and 'it depends'.

The category of the **good** is the swift action taken from the Reserve Bank. With interest rates falling a little over 1% over the past 12 months, housing became more affordable. If all else were equal (note: all else is not equal) then prices would be set to rise over 15% from their mid-2019 levels. This action will help stave off some of the negative outcomes.

The category of the **bad** is the high unemployment and drop in immigration. Given Australia has some of the highest household debt and house price-to-income ratios in the world, it does raise questions about where the demand will come from.

The category of it **depends** is related to both the fiscal support and loan deferrals. At the moment, unemployment benefits are two to three times higher than they usually would be and close to 500,000 borrowers have had their payments deferred. However, many are receiving less income than is required to meet minimum living standards.

How worried should we be based on these big-picture issues? The answer to this question falls on government support and how long it will last.

There is good reason to believe that the negatives will continue to outweigh the positives over the next 12 months as the expansionary polices are slowly unwound. This means house prices could fall further than the forecast 5–10% that most expect over the short term and into the 10–20% decline range. That certainly calls for more concern than the short-term indicators would suggest.

The short-term analysis is included in the previous article.

Chris Rands is Portfolio Manager, Fixed Income at Nikko AM Limited. The information contained in this material is of a general nature only and does not constitute personal advice, nor does it constitute an offer of any financial product. Figures, charts, opinions and other data, including statistics, in this material are current as at the date of publication, unless stated otherwise. This is not a recommendation in relation to any named securities or sectors and no warranty or guarantee is provided.

The full paper can be viewed here.