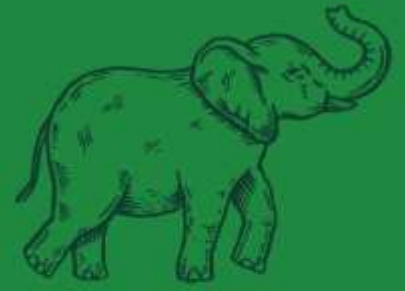


Investment Markets Report



5 October 2021



StanfordBrown

Private
Wealth

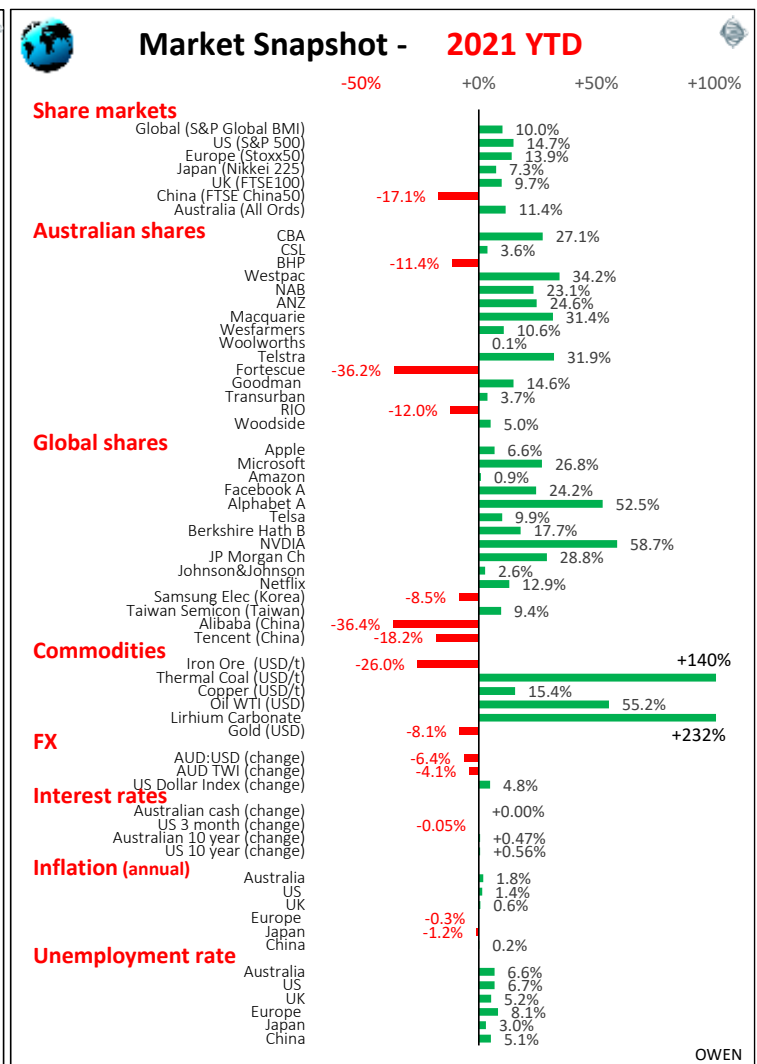
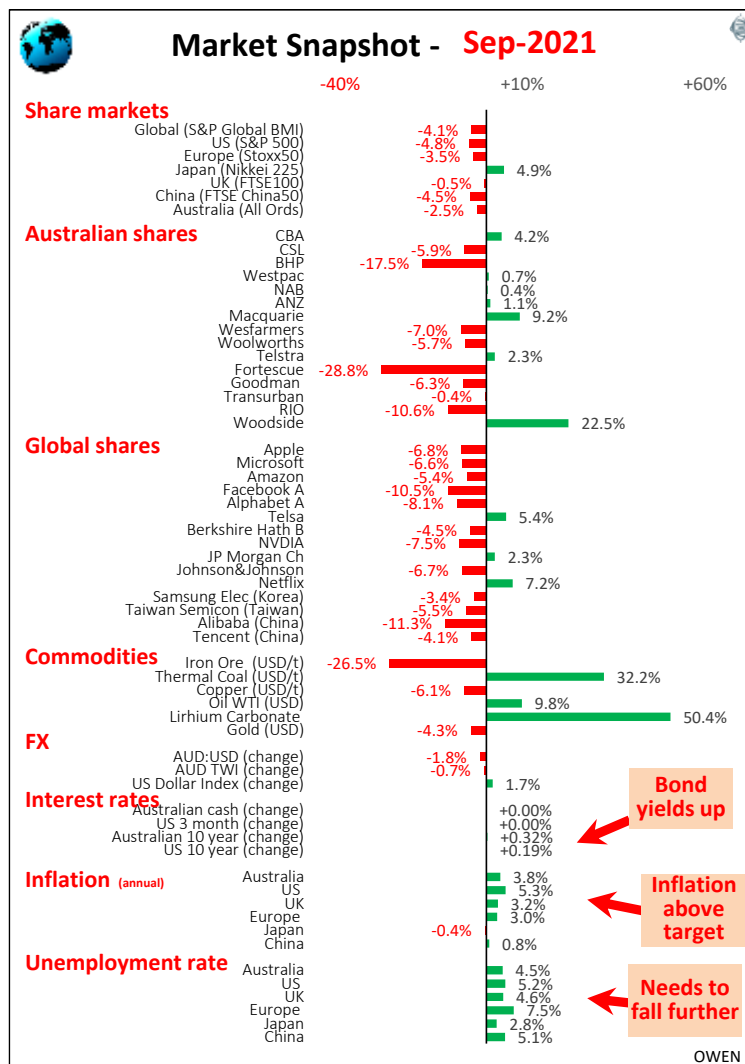
Investment markets take a breather in September

Australian shares - In last month's report we noted that the Australian share market was not likely to extend its long run of eleven consecutive positive months (the longest since the middle of World War 2), because record dividend payouts would reduce share prices when they went ex-dividend. In the end, the local market ended 2.5% lower in September. Banks were up a little, but the big miners were down – with most players following their commodities prices – iron ore (down -26% due to China's construction slowdown and steel curbs), gold (down -8%), but fossil fuel producers were boosted by strong price rises in oil (+10%) and coal (+32%). For the 2021 year to date, the local market is ahead 11%, or 15% including dividends.

International shares – Global markets were down in September (with the exception of Japan, assisted by a weaker Yen). Most of the global tech-based giants were down (with the exception of Tesla and Netflix), and most other sectors were also weaker for the month. There were several contributing factors – including a revival of inflation fears, US debt ceiling / shutdown concerns, and slowdown in China, heightened by the 'Evergrande' crisis. We cover these in this edition.

Interest rates – Short term rates remained at their covid-era zero/sub-zero levels, but central banks everywhere have continued to prepare the market for rates starting to return to more 'normal' levels once inflation has taken hold and full employment has been reached. Toward the bottom of the left chart, inflation is now running well above target levels (likely to be temporary, recovering from last year's negative inflation). Unemployment rates have also been falling, but are still well above 'full employment'. The US Federal Reserve and RBA have well-signalled their program to scale out of QE asset buying. Norway was the first 'developed' country to hike rates, but several 'emerging' markets including Brazil have also started.

Bond markets – Despite central banks being extremely cautious and careful to flag their intentions, global investors suffered another 'inflation scare' in September, selling off bonds, which hurt returns on fixed rate bonds. We have very little fixed rate bonds in portfolios. Instead we favour high-grade floating rate bonds, which benefit from rising inflation and interest rates.

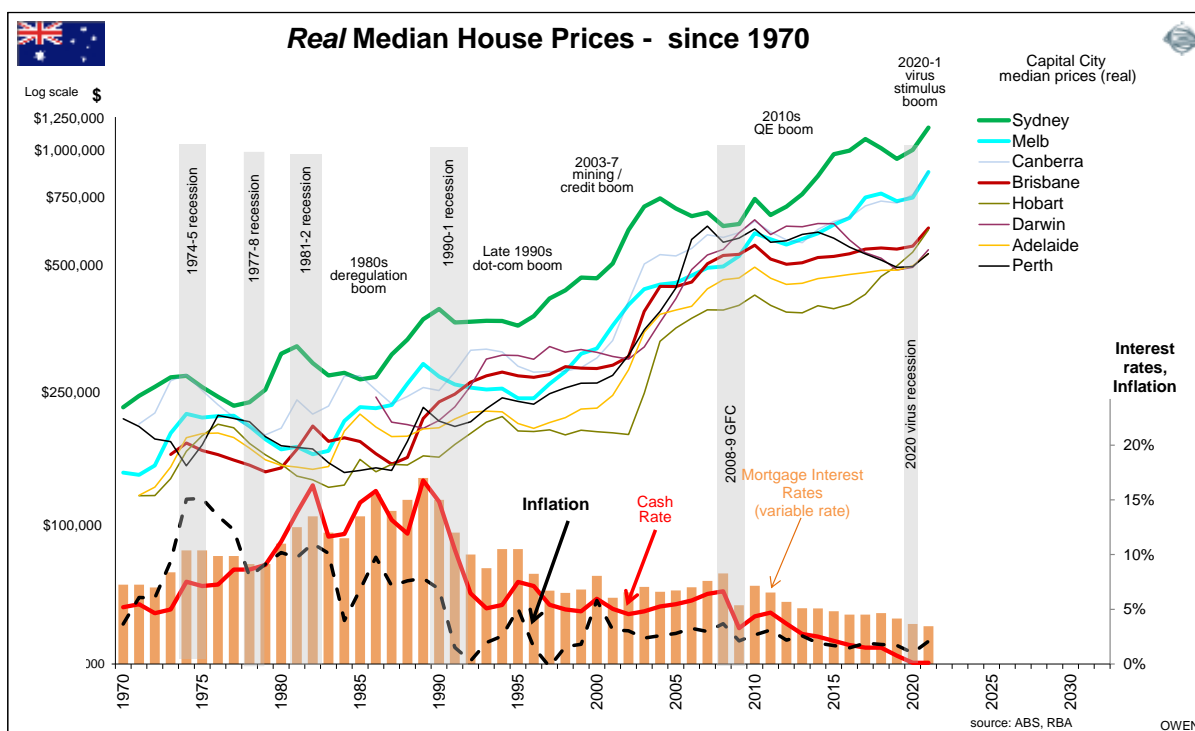


This month's edition is all about housing. First we look at Australia, as housing the is largest asset class owned by Australians, and it is being propped up by a mountain of debt at ultra-low interest rates, which are set to rise soon.

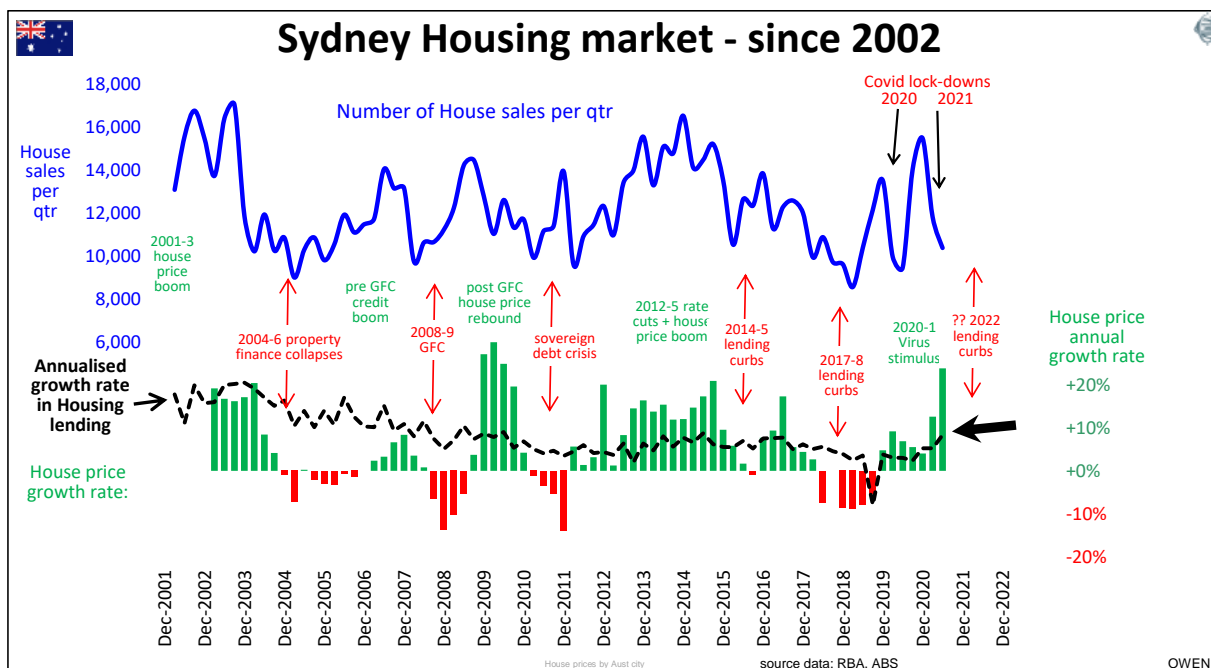
We also look at housing in China. For the past two decades, housing construction has been the engine of Chinese growth that has taken it from poverty to the second largest economy in the world (largest by some measures). The Chinese housing market is teetering on the edge of a crisis that presents risks not only for Australia (as it's largest export supplier), but it also has potential domino effects across global markets, including shares, bonds, interest rates, commodities and currencies.

Australian house prices surging back above pre-covid highs

Prices have surged well above pre-covid levels, despite lock-downs, high levels of under-employment, and jobs uncertainty.



The next chart shows the Sydney housing market pulse in more detail. The blue line tracks the number of house sales per quarter, swinging widely between 16,000+ house sales per quarter in the booms, and then halving in the slowdowns. The green/red bars in the lower section show the annual rate of growth in median prices. It is currently running at 24% growth.



Prices slowed/contracted during the 2001-5 property finance collapses, the 2008-9 GFC, and the 2010-11 sovereign debt crisis. More recently, prices were also brought down by government-imposed lending curbs – first with the 2014-5 curbs and then with the 2017-8 curbs. In recent editions we have been predicting another round of lending curbs to bring down prices. New Zealand and several other countries have introduced lending curbs in recent months to try to slow runaway house prices fuelled by debt at ultra-low interest rates. In Australia, the regulator APRA is likely to do the same very soon.

The black dotted line in the lower section of the last chart is the annual rate of growth in housing lending. To the right we see that in 2021, lending growth shot up again to levels that are above those right before the 2014-5 lending curbs, and above the level right before the 2017-8 curbs. Direct lending curbs are dressed up in a fancy name these days ('macro-prudential policy'), but they are nothing more than old-fashioned pre-deregulation lending controls in the 1950s to 1970s. Direct lending controls are better than general interest rate rises, because they affect the *volume* of money for the lenders, not the *price* of money for everyone else, including business borrowers, who should be borrowing more, not less.

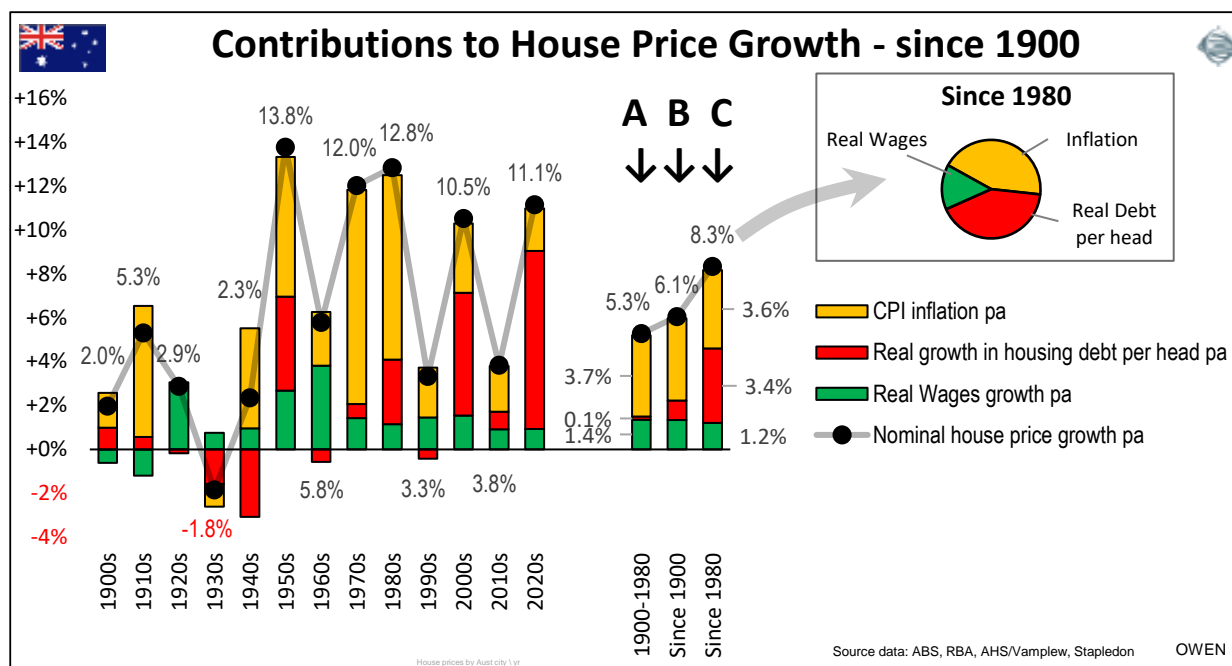
House prices rising – but why?

House prices are rising because buyers are paying more for them, of course. But where does the extra money come from?

In 1900, the median house price in Sydney was A£890 (A\$1,780), and the Australian capital city median house was A£730 (A\$1,460). In the most recent figures (ABS June 2021) the Sydney median was \$1,187,500 and the capital city median was \$888,000. Over 120 years, that represents average price growth of 6.1% pa for both Sydney and the capital city median.

The extra money buyers pay today has come either from their own pockets (higher incomes), or from other peoples' pockets (debt). If we strip out inflation from each of these, we can separate the sources of house price growth into three components: (i) real wages growth above inflation, (ii) real growth in the level of debt above inflation, and (iii) inflation.

The next chart breaks out the overall growth in median capital city house prices into these three components, by decade since 1900. The three bars in the middle show the summary periods. Column 'B' shows the overall average contributions since 1900; column 'A' is for the period 1900 to 1980, and column 'C' (and the pie chart) is for the period since 1980.



More than half of the overall growth in house prices has been due to inflation, but this has remained relatively flat over the whole period. CPI inflation has averaged around 3.6% pa from 1900 up to now, and also for both the pre-1980 era and the post-1980 era. This may come as a surprise because the pre-1980 era included the WW1 and post-WW1 inflation spikes, the WW2 and Korean War inflation spikes, and the high inflation 1970s. However, the pre-1980 period also included periods of deep price deflation: in the post-Federation drought years, the early 1920s, and in the 1930s depression.

With inflation being the same during the pre-1980 and post-1980 eras, the differences in the house price growth picture are in the other two components – wages and debt. Wages in Australia grew by an average of 1.4% pa above inflation in the pre-1980 era, but this has fallen to 1.2% pa above inflation since 1980. This not insignificant 12% fall in the rate of real wages growth above inflation has been the result of several forces at work in the post-1980 era, including: dismantling of industry protection, privatisation of government businesses, deregulation, globalisation, declining union membership, automation, technology, outsourcing of work to low-wage countries, casualisation, and the 'uberisation' of jobs. These are here to say.

By itself, declining real wage growth should *reduce* the rate of real house price growth (because people have relatively less money to spend), but this has been more than offset by a dramatic rise in housing debt. The red bars in columns A (pre-1980) and C (post-1980) show that real (ie after inflation) level of housing debt per head of population did not increase at all from 1900 to 1980 but, since then, it has grown by 3.4% pa *above inflation*. *Since 1980, three-quarters of the growth in real house prices has come from increases in debts, and only one quarter of the growth has been due to higher incomes.*

Will house prices continue to rise? Looking at the outlook for each of these three components of house price growth –

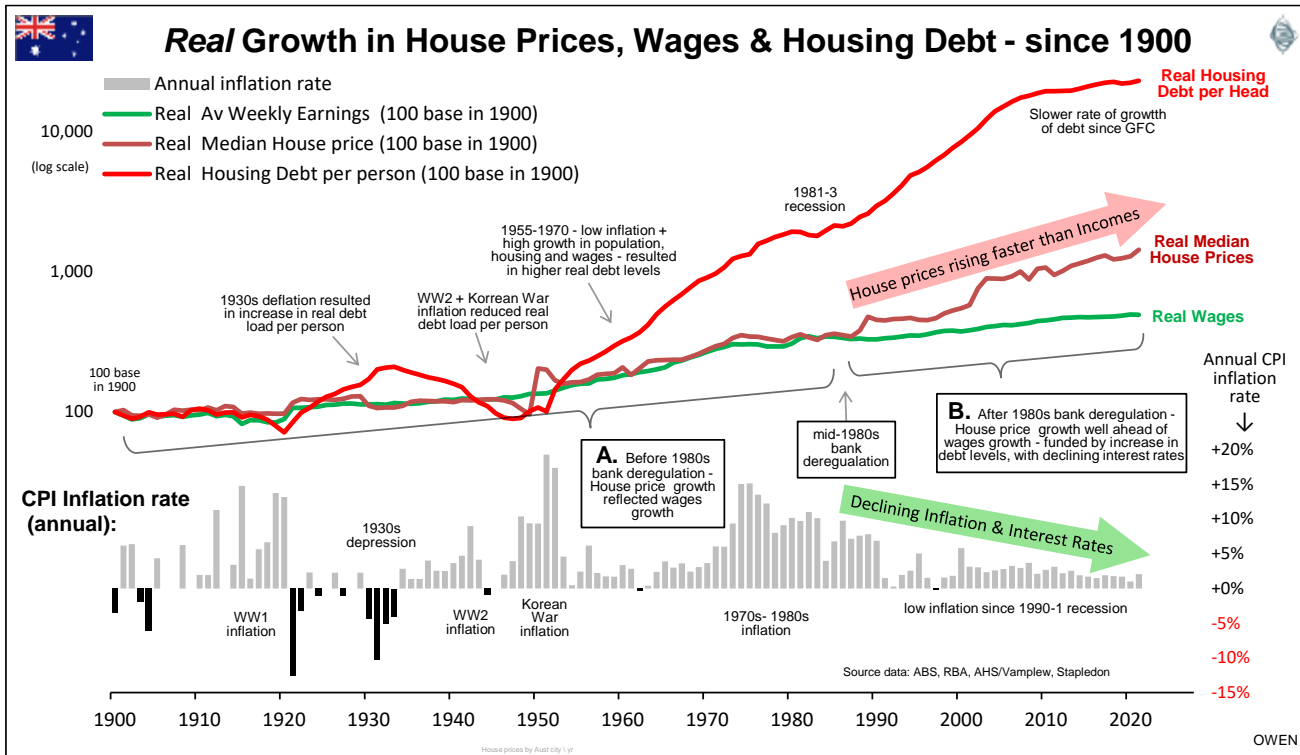
For inflation - we estimate around 2-3% pa in the coming years, which is lower than the 3-4% average since 1900.

For real wages growth – we are unlikely to see a reversal of the post-1980 trend of lower real wages growth. Although we are starting to see signs of a return to protection and re-onshoring of some jobs in some industries (deemed critical since covid), it is unlikely to reverse the effects of technology, automation, casualisation and 'uberisation' of work.

For debt – house prices can only keep on rising at the same rate if buyers keep increasing their level of housing debt. We consider this next.

House price growth driven mainly by increase in debt

The next chart shows the growth in Australian capital city median house prices since 1900 (maroon line), and the three main components of price growth – real wages (green line), real debt per head of population (red line), and inflation (grey bars).



Up until the 1980s (box 'A'), house prices (maroon line) followed wages (green line) in almost in lockstep, which is logical because people can spend more money on housing only if they have more money to spend. However, from the 1980s onward (box 'B'), house prices and wages started to diverge onto different paths. What happened in the 1980s?

First, real wages growth (green line) slowed, as a result of the factors outlined in the last story – removal of protection barriers, privatisation, deregulation, globalisation, declining union membership, automation, technology, outsourcing, casualisation and 'uberisation' of jobs. Despite the RBA pinning over illusory wages growth, the trend will not reverse.

Second, the key turning point in the 1980s was bank deregulation, in particular the removal of government controls on interest rates, lending volumes, and the entry of foreign banks. Banks have only been regulated in Australia since World War Two. Prior to that, the banks operated a tight cartel that constrained lending to prevent speculative lending sprees. Their over-zealous conservatism was a result of the 1893 property/banking crash when half the banks in Australia closed their doors and many never re-opened. Lessons from the 1880s speculative lending binge that ended in the 1893 bank collapses kept the surviving banks ultra-prudent for the next 100 years. Alas, memories only last so long, and the banks went mad again in the 1980s post-deregulation lending binge that ended in Westpac and ANZ's big losses, and the failure of the State Banks of Victoria and South Australia, Pyramid, and numerous other lenders, in Keating's 1990-1 'recession we had to have'.

Third, inflation and interest rates fell (grey bars), allowing much larger loans per dollar of repayment. For example, in the late 1980s, I had a \$240k, 25-year 'principal and interest' mortgage. In 1989 the rate was hiked up to 18% (inflation was 8%). This increased repayments to \$3,640 per month, which was more than half of my net income. This year, my daughter bought her first house, borrowing \$475k from ANZ at 2.0% 'interest-only' with repayments of \$791 per month, which is a small fraction of her net income. At the same age as I was, she borrowed twice the amount of my loan, but her repayments are one fifth of what mine were. Inflation and interest rates are much lower now, and the structure of her loan was not available in the 1980s. Also, a single female would never have obtained a loan in the 1980s without a husband, guarantor or co-signatory.

This huge expansion of debt (red) at lower interest rates, pushed up house prices (maroon) at a greater rate than wages growth. The chart only shows official housing debt, but there is now a sizeable amount of 'bank of mum & dad' debt on top. Every dollar 'bank of mum & dad' money pushes up prices by another dollar – creating an upward spiral fuelled by 'FOMO'.

The 30-year boom in house prices rising well ahead of income growth is nearing an end. House prices can continue to keep on rising at rates above incomes only if interest rates continue to decline further. Interest rates have not only ended their 30-year decline, they are now certainly more likely to rise than fall from here. The only question is when - and it will be soon.

(We have not discussed some other elements in housing – population/immigration, home ownership and supply constraints – we cover these in future editions. The most importantly, Australia's heavy reliance on immigration took a hit in the lockdowns, but is likely to remain favourable for housing in the medium term, especially from China, Hong Kong and Taiwan).

China builds another 'Sydney CBD' every 3 days!

In China, it is also a story of 'growth by debt', but the implications are very different, and much more immediate.

In the five minutes you will take to read this story, China will build the equivalent of one 50-story apartment block.

Chinese construction activity has been the single largest component in China's incredible economic growth since the start of the 21st century. In just two decades, more than half of China's 1.4 billion people have been 'urbanised' – shifted from farms, villages and obsolete factory towns, into hundreds of newly built cities. It has been the largest mass migration in human history. It also lifted one billion people out of poverty, making it by far the greatest increase in aggregate wealth in history.

The construction of these new cities – including all of the residential apartments, factories, warehouses, offices, shopping centres, restaurants, hotels, schools, hospitals, train stations, airports, government buildings, etc – has also been the main driver of global commodities demand and prices, and also the largest contributor to the growth in Australia's export revenues, government tax receipts, and corporate profits. Not just from mining, but also across a host of other industries exporting directly or indirectly to China.

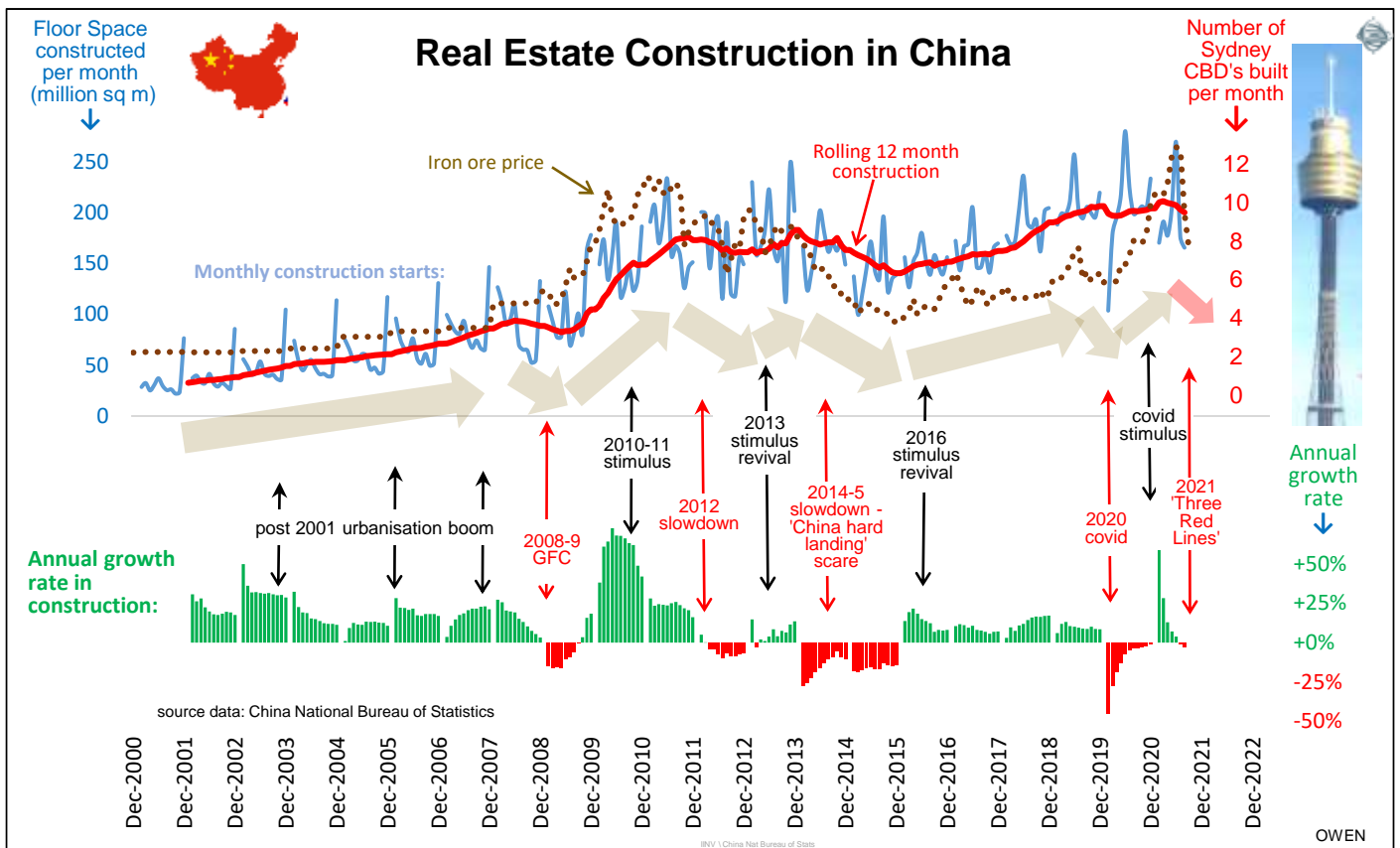
As Chinese construction activity is so critical for Australian investors, and Australia's prosperity as a whole, we track it closely. Construction activity tends to be highly cyclical in nature – driven not just by supply and demand, but also by interest rates, lending policies and government controls to try to slow speculative bubbles and boost employment.

Here are the broad numbers - Since the turn of this century, China has built a total of 30 billion square metres of floor space (in apartment blocks, offices, schools, etc). That is the same as the land area of Belgium, or half of Tasmania. Annual construction has averaged 1.5 billion square meters per year, but the pace has increased over time, and is currently running at about 2.3 billion square metres of floor space per year, or about 200 million square metres of floor space per month.

These numbers are so large they are incomprehensible, so we have come up with a more meaningful unit of measurement of construction – a 'Sydney CBD'.

Sydney's 'Central Business District' - from Circular Quay in the north to Central Station in the South, from Darling Harbour in the west to Hyde Park in the east - contains about 20 million square metres of building floor space – including every floor in all of the office blocks, apartment blocks, hotels, shops, restaurants, hospitals, car parks, etc. It took 230 years to build all of this in Sydney, and much of it has been re-built, some several times over.

At China's current rate of building of around 200 million square metres of floor space per month, it means China is building the equivalent of ten 'Sydney CBDs' worth of buildings per month, or one 'Sydney CBD' every 3 days!



One 'Sydney CBD' of buildings is the equivalent of 400 fifty-storey blocks with 1,000 square metres per floor. China is building the equivalent of one fifty-storey building every 5.4 minutes, working 12 hours per day, seven days per week.

The chart shows Chinese construction since 2001, when China joined the World Trade Organisation, which accelerated its urbanisation, industrialisation and export booms. In the upper section, the blue line shows monthly construction, and the red line shows the 12-month average rate, in millions of square metres per month. The red scale to the right shows construction rising from a little over 1 Sydney CBD per month initially, to around 10 Sydney CBDs per month in recent years.

The rate of building activity has been increasing over time, but there have been several cyclical slowdowns and stimulus rebounds along the way, highlighted by changes in the rates of growth in construction in the lower section of the chart.

The chart also shows iron ore prices (brown dots) which follow the ups and downs in construction activity. (The exception to this pattern was the iron ore price spike in 2019-20 after the Vale mine disaster and then covid lockdowns took Brazil out of the market. Australia overtook Brazil as the world's top iron ore exporter, and China's largest supplier).

As Chinese construction cycles are the biggest driver of commodities prices, export revenues, mining company profits and dividends, two key questions for investors include:

- Where are we now in the current cycle?
- Can Chinese construction continue on its upward march forever, or will it slow?

On the second question – China is probably past its peak growth rate and into a new phase of slower growth. A major milestone was reached in 2019 when China passed the point of 50% of its population being urbanised, and the pace is likely to be slower in the latter stages of urbanisation and construction from here.

A second reason for slower growth is demographics. China's population is aging rapidly and will soon start to decline. This is a consequence of Deng Xiaoping's 'one-child policy' from 1979. The policy was abandoned in 2016, but it has not halted the trend, nor is it likely to, despite a host of programs and incentives to try to increase birth rates. Throughout human history, there has been a persistent trend for birth rates to decline as societies urbanise and increase in wealth.

A third reason for slower growth is the fact that all of this construction activity has led to a huge over-supply of residential housing blocks. Construction has run well ahead of demand. There are several estimates of the extent of the over-supply, but it appears there may be up to some 90 million units – either completed and vacant, or un-completed and abandoned by failed property developers. This surplus equates to around 500 'Sydney CBDs' worth of buildings, or about 5 years' worth of construction in over-supply. Here is an example of 15 abandoned apartment blocks being blown up after the bankruptcy of the developer and numerous failed government revival attempts <https://www.youtube.com/watch?v=M9b9V2mUziU>

The existence of debt turns over-supply from a mild headache (lower prices and returns), into a potential financial nightmare (fire sales and price collapses causing bankruptcies for highly geared developers, lenders and buyers).

This highly leveraged over-supply crisis places a dampener on our first question: – 'Where are we now in the current cycle?'

The chart on the previous page highlights several cycles of construction slowdown and stimulus re-boots along the long term path. First there was the slowdown in the 2008-9 GFC, that was ended by the 2009-10 stimulus boost; then the 2011-12 slowdown ended by the 2013 stimulus boost; the 2014-5 China 'hard landing' slowdown ended by the 2016 stimulus kick-start; and the 'long' 2017-19 boom. That ended with the 2020 covid lockdowns, when construction activity fell by 45% in early 2020. Activity rebounded sharply and rapidly with the stimulus boost, cities re-opening and vaccine roll-out.

We are now into the 5th slowdown phase. From the start of 2021, property developers have been subject to harsh government-imposed leverage limits – known as the 'Three Red Lines'. The government finally came down hard on developers that are highly leveraged and completely reliant on high growth rates forever, and also heavily reliant on debt to fund their persistent negative operating cash flows.

The government was also trying to slow the speculative housing boom to reduce prices for lower wage earners as part of Xi's 'common prosperity' plan. This sudden and savage de-leveraging drive in 2021 triggered a rapid contraction in construction. Thousands of developers are unable to borrow more to pay workers and suppliers to complete their projects so they can collect payments from purchasers. There is now mounting pressure for more stimulus and support to avoid a potential domino effect of collapses of highly-leveraged property developers.

This brings us to the 'Evergrande' crisis that has been dominating headlines and rattling markets in recent weeks.

Evergrande

Evergrande Real Estate Group is (soon to be 'was') one of China's big-three property developers that drove China's construction boom, and economic growth, for the past two decades (the big-three being Evergrande, Vanke, and Country Garden). Evergrande started out in 1996 as Hengda Group in Guangzhou (Canton) and rapidly expanded across China. It also bought up a string of other businesses in a wide range of related and unrelated industries, including a soccer team called Evergrande, which inspired the name change for the group, Hengda to the much more attractive sounding 'Evergrande'.

Evergrande listed in Hong Kong ([3333.HK](#)) in 2009 after raising US\$720m. Its share price peaked in 2017 at HK\$30 (making its founder and 70% owner, Xu Jiayin, the third richest billionaire in China), but it is now down 90% to just HK\$3 per share.

The company has been posting nice-looking accounting profits but in reality it has always made operating losses, and has relied on an ever-increasing pile of debt. It's latest [annual report](#) shows liabilities of RMB1.95 trillion (US\$300b) but only RMB350b (US\$54b) of equity, so it is leveraged up 5.5:1. That's if you believe the accounts. In reality, the assets are almost certain to be over-valued (for example they don't include the heavy discounting of unit prices to shift unwanted stock), and their liabilities are also bound to include a host of off-balance-sheet debts, contingencies and side-deals. In reality, the company almost certainly has negative equity and is insolvent because it can't raise more money to complete developments so it can collect payments from unit buyers.

Of its 800 current construction projects all over China, about 500 have been boarded by suppliers due to non-payment of debts owed. Even on its fancifully over-stated accounts, it is in breach of the government's 'Three Red Lines' rules on debt (Maximum 70% liability-to-asset ratio excluding advance receipts; Maximum 100% net gearing ratio; and at least 1 times cash-to-short-term debt ratio), so it is prevented from borrowing more to pay suppliers or complete projects.

On 15 September the company announced that it had hired advisers to work through its debts, and that it would not be able to make repayments of interest or principal from 21st September. It was trying to sell off businesses, and was discounting units by up to 40% to try to raise cash, but with little success. In the last week of September it missed interest payments due to foreign bond holders, and it has also reportedly missed payments on debts owed to Chinese banks (most of which are also listed in Hong Kong, and controlled by the government). The government's forced deleveraging rules have certainly hit hard.

Evergrande has been considered 'too big to fail' because of its sheer size and scale in such a critical industry in China's growth, and its huge impact on employment, suppliers, and home buyers.

In a liquidation there are strict rules dictating the order in which different classes of creditors and investors are paid. In this case it will probably be determined more by politics. Here are the main types of creditors/investors and how they may fare:

- Chinese (government controlled) banks are owed about US\$35b that we know about. They probably have the best security and they can repossess construction sites. Even if they can find other developers to buy them, it will probably require lending more money for completion. The banks are highly leveraged themselves and therefore vulnerable to losses. They are also inter-connected to other banks, so the banks will be favoured to lose least in the Evergrande mess.
- 1.5 million depositors on apartments under construction are owed at least \$25b (their deposits are liabilities until completion). The government is unlikely to allow such large numbers of buyers to lose money. The only option will be to allow the completion of the units, meaning more money must come from somewhere. Competing developers are not an option at that scale, so the only way out probably is the government putting in more money to fund completion.
- Local suppliers probably make up the largest proportion of the liabilities. The government will be keen to avoid losses here, given the potential knock-on effects on employers and other development companies.
- Around 80,000 retail investors are owed about \$50b in Evergrande's 'Wealth Management Products' (WMPs). This has become a popular form of 'shadow banking' finance for many Chinese companies, including property developers. WMPs are like money market trusts that pay 'interest' of 5-8%, which is well above the low rates paid on bank deposit accounts. The government does not like WMPs as they take away a cheap funding source from the government controlled banking system, so it may not mind WMP investors being taught a lesson. Evergrande WMP investors have been rioting in the past month and this has probably unnerved the government. Despite WMP investors probably ranking lower than unsecured balance sheet creditors (like suppliers and unit deposits), the government will want to avoid the civil unrest that might break out if they were left with nothing.
- Domestic ('on-shore') bond holders are owed around \$10b – although ranking higher than WMPs, these are mainly owned by institutions (Chinese funds), and the government may decide they can afford to take losses.
- Foreign ('off-shore') bond holders - owed about US\$16b. The government has shown no interest in helping foreigners.
- Shareholders rank last in the order of payment if there is anything left. In this case the shareholders are 70% owner-founder Xu Jiayin and foreigners via Hong Kong. Xi has no interest in saving foreign shareholders, nor local billionaires. He has demonstrated increasing hostility toward both over the past year (eg. Alibaba, ANT, Didi, TAL, New Oriental, etc).

What Lies Ahead?

One common question doing the rounds over the past month has been: 'Is Evergrande China's Lehman moment?' The short answer is 'probably not'. When the US government and Federal Reserve allowed Lehman Brothers to fall into bankruptcy in September 2008, it triggered a 'global financial crisis' in which every bank in the world suddenly refused to deal with each other for fear of what they were holding on their balance sheets, because the US sub-prime crisis had suddenly revealed that 'AAA' rated bonds were far from 'risk-free' as they were dressed up to be.

In the case of Evergrande, the amount of Evergrande's debts to the Chinese Banks is very small (around 0.1% of Chinese loans, but even if we multiply that by ten for a contagion effect, it is still insignificant). The security they hold is not complex derivatives made up of toxic sub-prime debt dressed up as safe 'AAA' bonds. The security they hold is construction sites in China – probably worth a lot less than they once were, but very transparent and simple. They have not packaged up the Evergrande debt (nor the construction sites) into complex derivatives and sold them around the world to other banks. Allowing a bankruptcy and liquidation fire-sales of Evergrande assets would certainly create knock-on effects to other Chinese developers, suppliers, and unit buyers, but that is an unlikely outcome.

The most likely outcome is that the Chinese government will take over the company and pump in more money (directly or by instructing other government-controlled firms to inject money) to complete the units and pay suppliers, and then collect payments from the buyers on completion. Shareholders will certainly be wiped out, and probably so will foreign bond holders and possibly domestic bond holders as well. The Chinese banks (which are essentially just another arm of the Chinese government) will be paid out of the proceeds of sales of completed units.

There are two very recent Chinese 'too big to fail' precedents - HNA Group in January this year, and Huarong in August.

HNA started out as Hainan Airlines and diversified into a host of other businesses – mostly on debt via a complex web of tricky deals and structures. It collapsed at the start of 2021 after several restructuring efforts failed. The government took back the main asset – Hainan Airlines – sold off the other assets and businesses and wiped out the billionaire founders.

Huarong Asset Management was another 'too big to fail' rescue. Huarong was actually one of the main 'bad' banks set up by the Chinese government in 1999 to take over bad debts from other government-controlled banks when they collapsed after their orgy of bad lending in the state-sponsored credit-fuelled speculative bubble of the 1990s. Huarong was majority government-owned but it also went on a mad spending spree into unrelated businesses. Its Chairman Lai Xiaomin refused to toe the Party line so he was rounded up, charged, convicted and executed in January 2021. Huarong defaulted on its bonds in March, so the government took over in August, directed other government-controlled firms to chip in more money (Citic Bank, China Life, China Insurance Investment), and handed operational control to Citic (government-controlled).

Likewise, in 2019 the government bailed out mid-sized **Baoshang bank**, and handed it over to China Construction Bank, also government-controlled. You see the common thread here – government control of almost everything. This is a plus in a crisis.

On the subject of defaults – the seemingly never-ending US debt ceiling saga has been back in the news in recent weeks. The current US debt ceiling suspension was due to expire on 30 September, but the Republicans have been playing hard ball over Biden's \$3.5trillion spending package. Treasury Secretary and former Fed Chair Janet Yellen stated in a Congressional hearing this week that the spending package would be funded by 'revenue measures' (tax hikes – ouch!), and that the spending would be 'deficit reducing beyond the next ten years' (double-ouch!). At the last minute, the House approved a bill to extend the suspension to 3 December, when Congress will have to deal with it all over again. This raises the prospect of a US government shut-down (again!), and also the prospect of the US government defaulting on its debts (again!).

We have written many times about previous debt ceiling crises, previous government shutdowns (eg. in 1995-6, and 2012-13), and even previous US government defaults (yes, the US government has defaulted on its own treasury bills in the past).

See for example:

- on previous US government shutdowns - <https://www.firstlinks.com.au/us-government-shut-done/>
- on previous US government defaults - <https://www.firstlinks.com.au/us-government-previously-defaulted-risk-free>

The most recent government shut-downs were accompanied by the usual yawns – museums and national parks were closed, and government staff went on 'furlough' leave for a few weeks (that will hardly be noticed this time compared to the Covid lockdowns). Legislators soon returned to the negotiating table and extended the ceiling because they wanted to get paid!

Meanwhile the vaccine roll-outs are progressing steadily around the world, and in Australia finally, providing hopes of a restoration of some freedoms by Christmas. It would not be Christmas in Australia without transport strikes and wharfie strikes, so it is encouraging to see they are getting in early – it demonstrates confidence in the coming easing of lock-downs!

Happy investing!

Ashley Owen, CFA
Chief Investment Officer

Ashley Owen

Chief Investment Officer

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Ashley is one of Australia's leading portfolio managers of diversified investment funds for long term investors. His mission is to manage portfolios that provide investors with confidence that their investments will generate the wealth they need to live the life they wish to lead for the rest of their lives – for themselves, their families and as a legacy for future generations.

His primary focus is protecting investors from losses and risks, rather than chasing high returns from the latest hot funds or fads.



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