



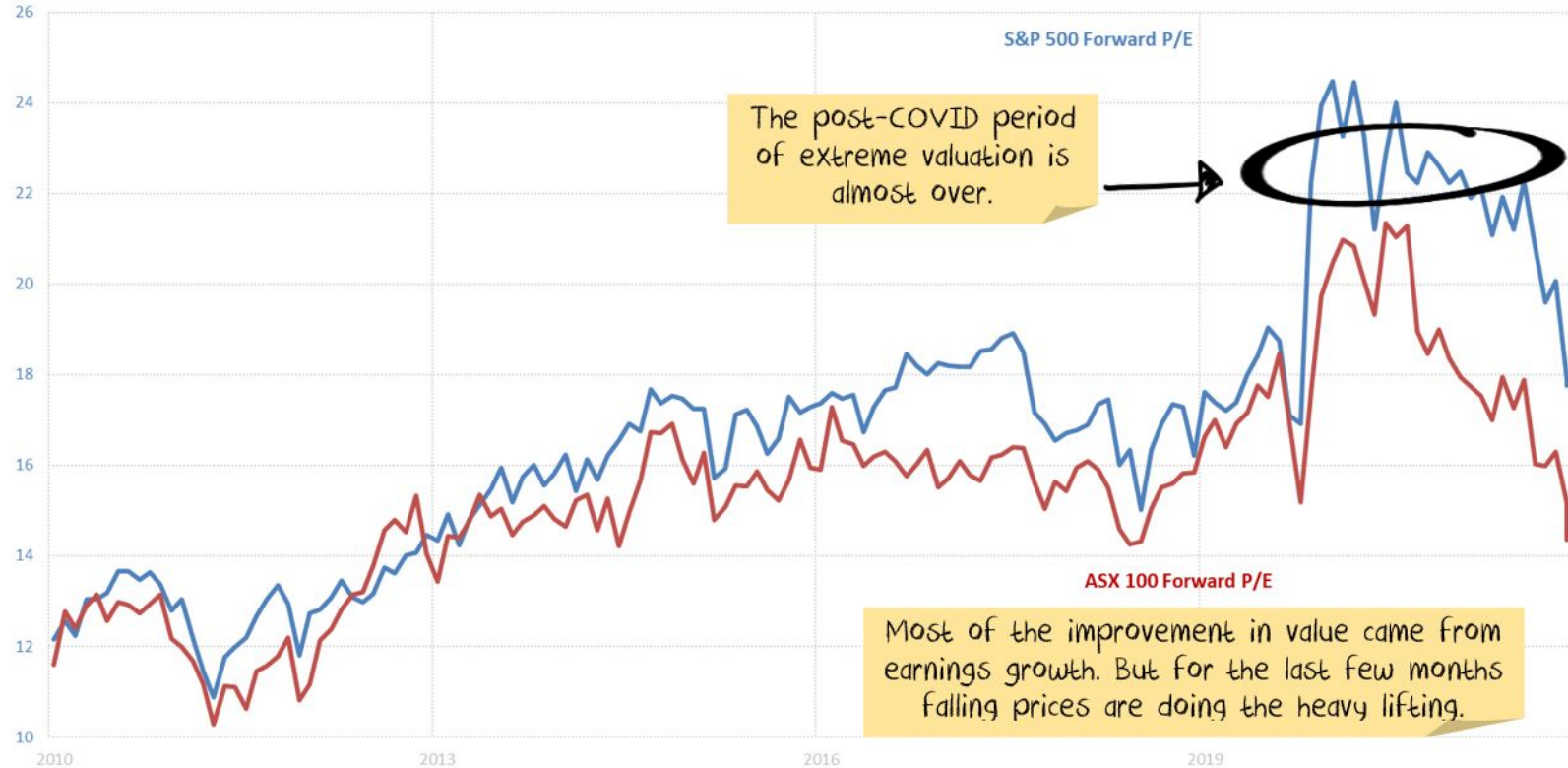
**MARKETS ARE NO LONGER
HISTORICALLY EXPENSIVE...
IS IT TIME TO BUY?**

Agenda: Markets are no longer expensive... Is it time to buy?

- Valuation overview
- Global tightening, fiscal and monetary
- European economy, the war and energy
- Chinese economy, the property bust and COVID
- US economy and the Fed
- Implications for markets

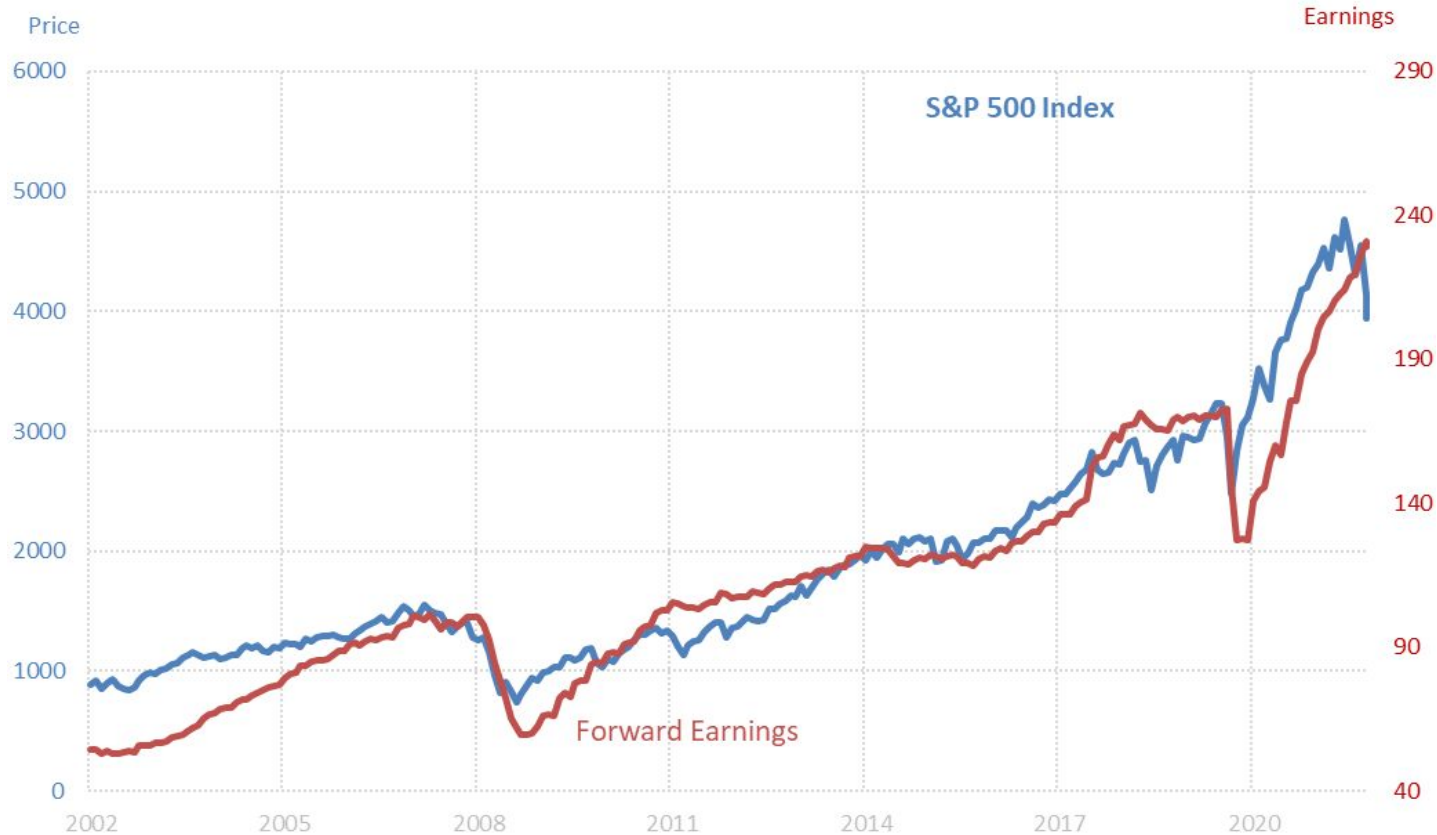
Valuation 101

Price / Earnings



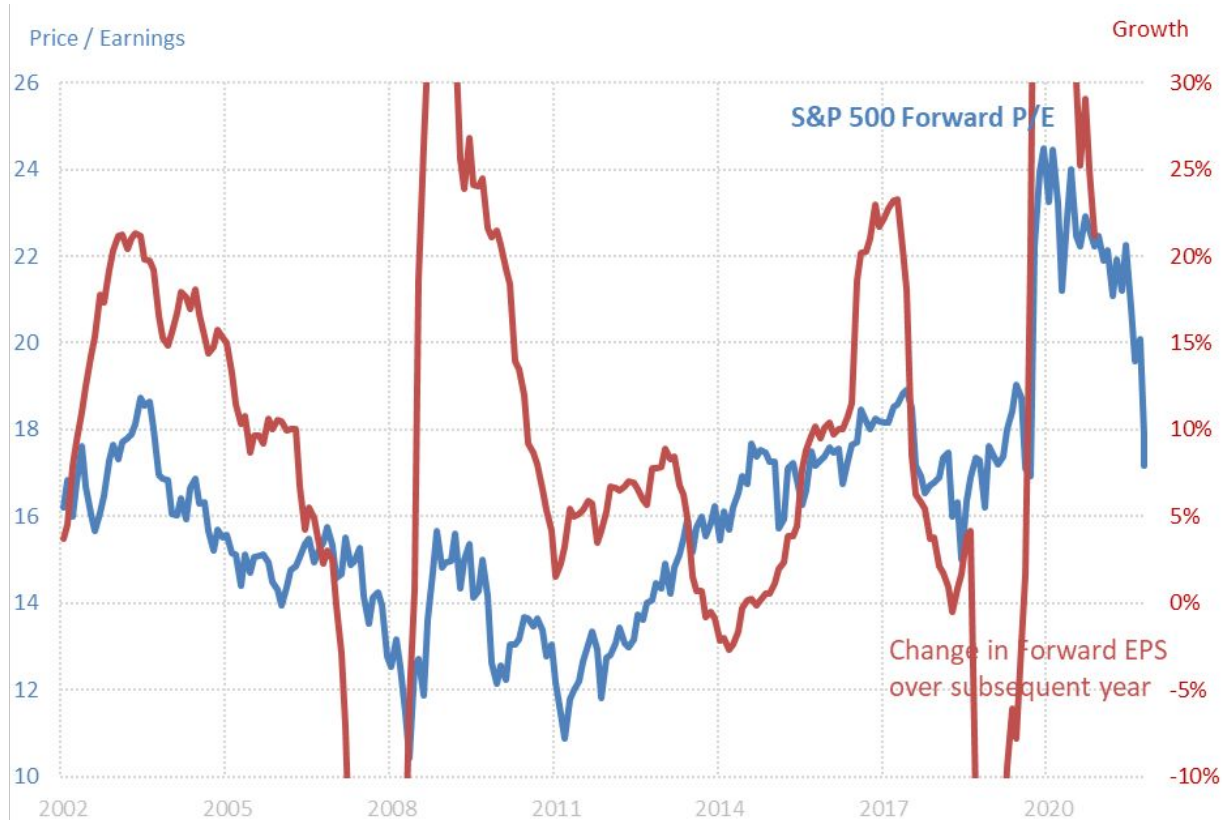
Source: S&P Capital IQ, Nucleus Wealth

Valuation 101



Source: S&P Capital IQ, Nucleus Wealth

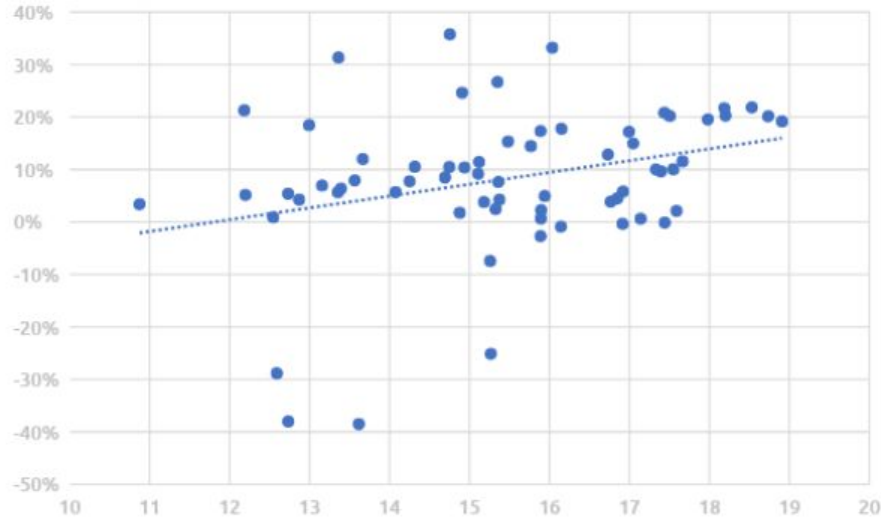
Valuation Exuberance or Prescience?



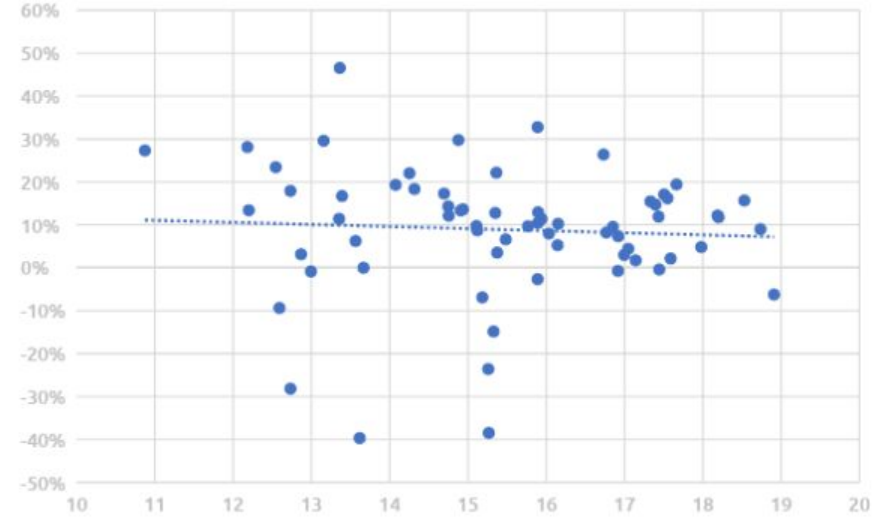
Source: S&P Capital IQ, Nucleus Wealth

Prescient on Earnings, not so much on Price change

Forward Price/Earnings vs Subsequent Earnings Growth

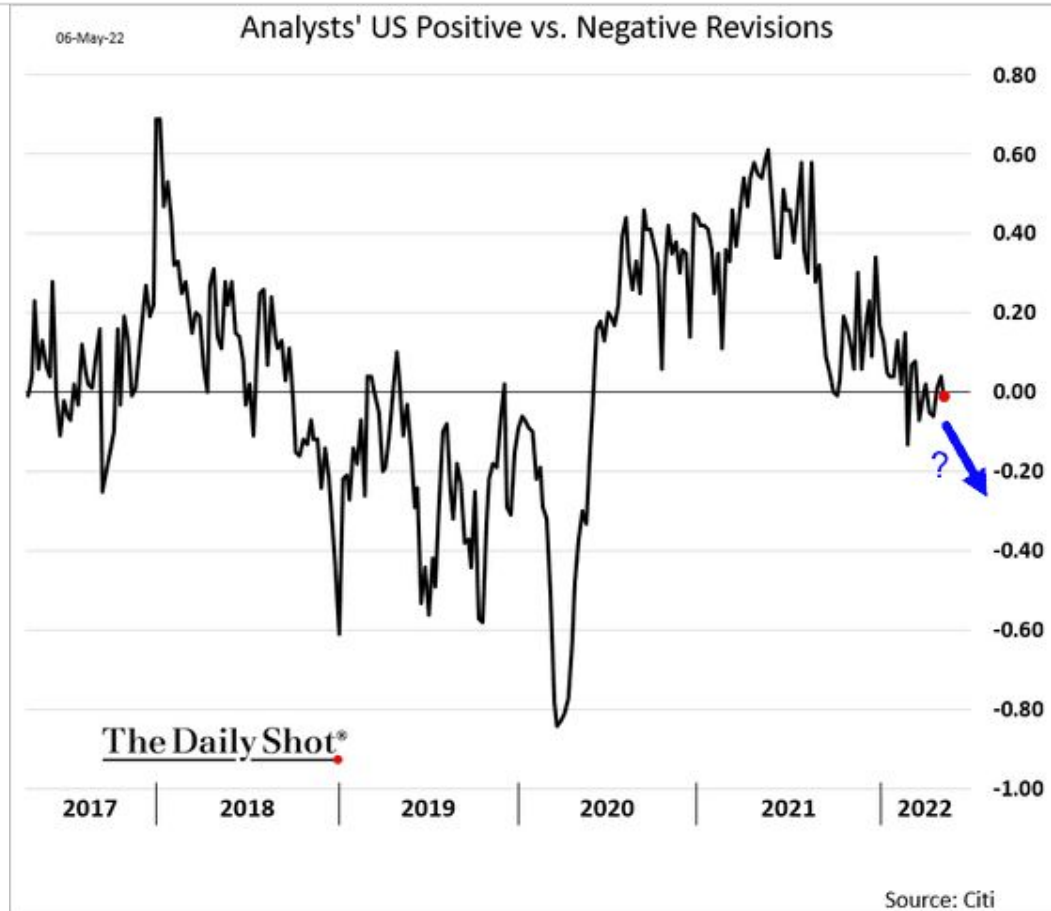


Forward Price/Earnings vs Subsequent Price Growth



Source: S&P Capital IQ, Nucleus Wealth

Analyst revisions no longer a tailwind, will they become a headwind?

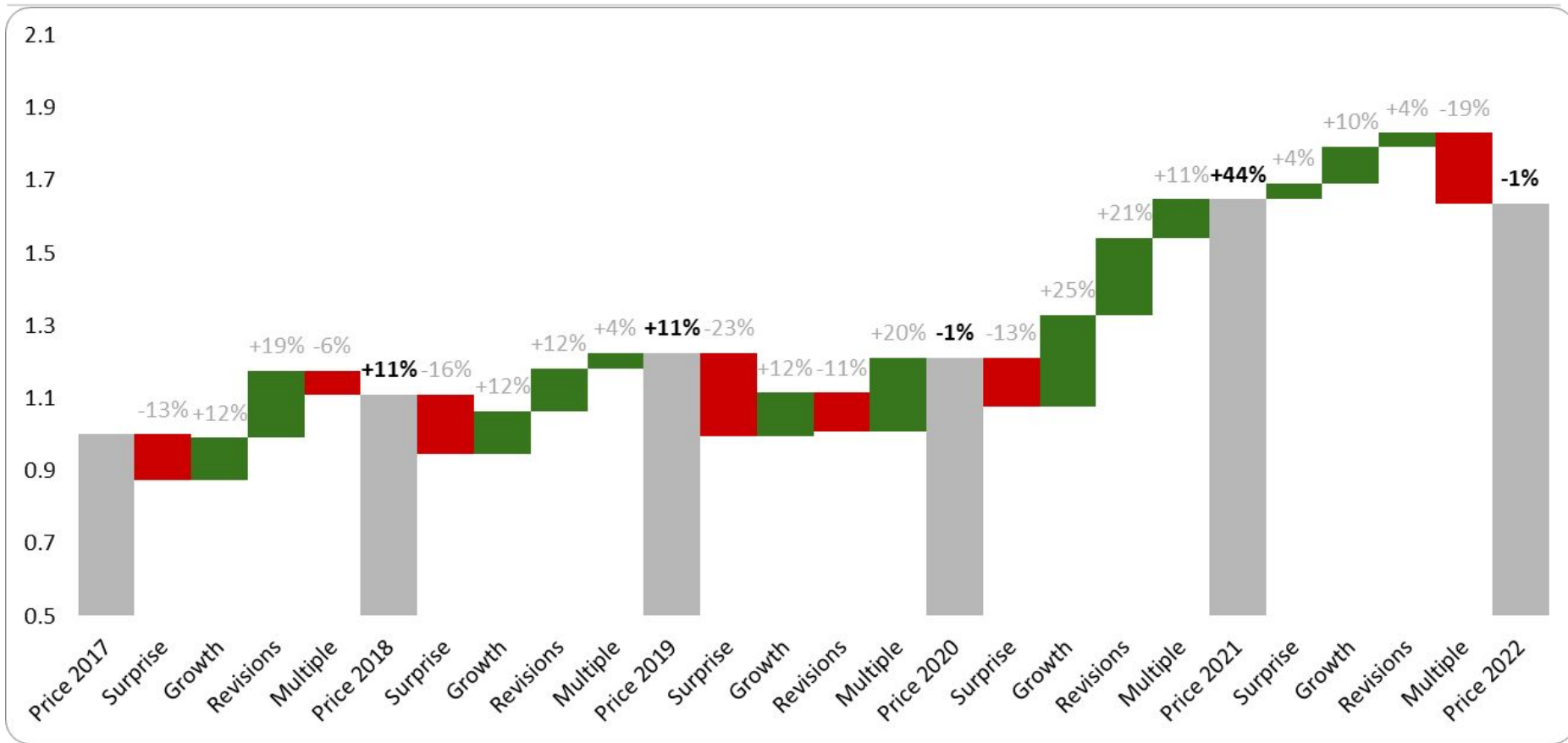


Prescient on Earnings, not so much on Price change

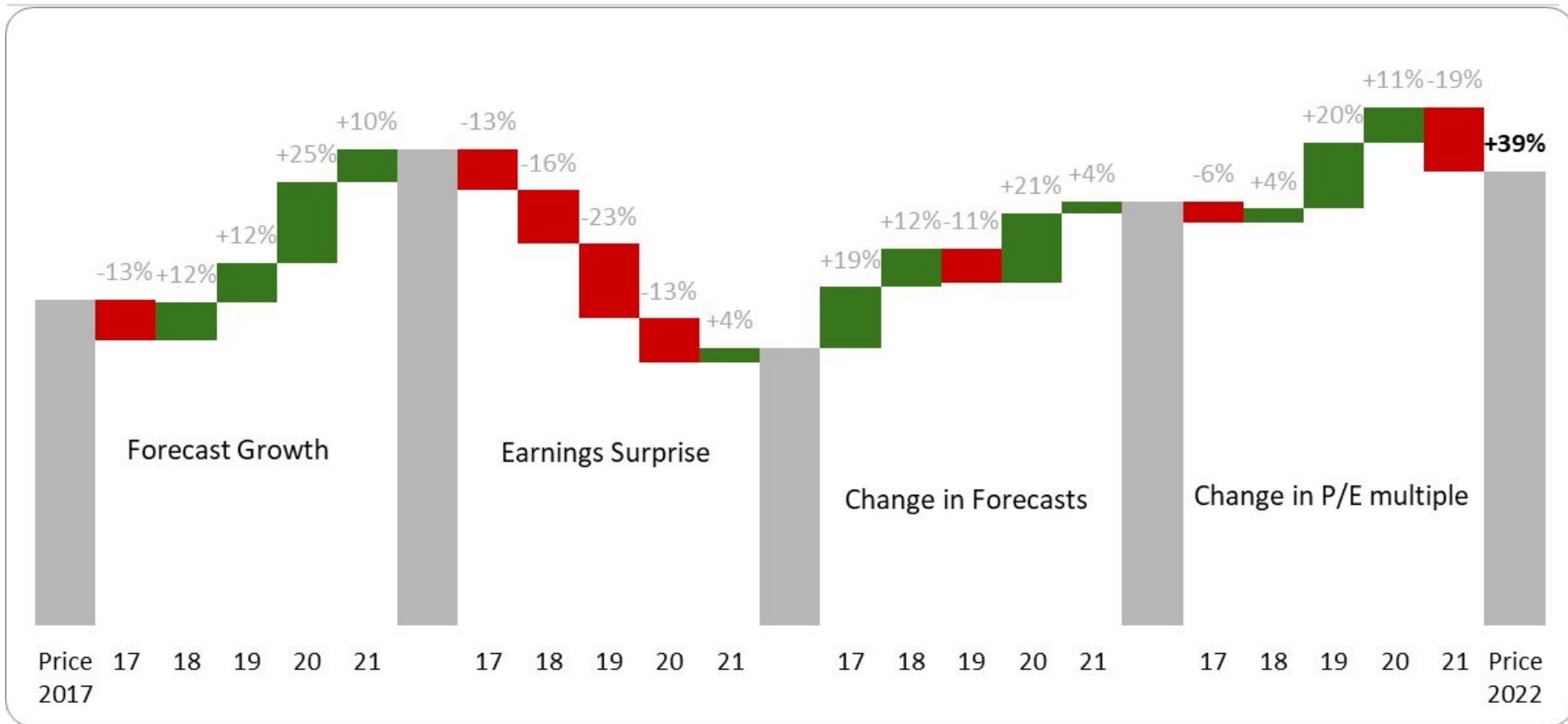
Change in Price =

- +/- **Growth** expected in earnings from the first year to the second year
- +/- **Revisions** in growth expectations from the first year to the second year
- +/- Earnings **surprise** as first-year earnings go from a forecast to an actual
- +/- Change in valuation **multiple**

Price change decomposition: year to 30 April

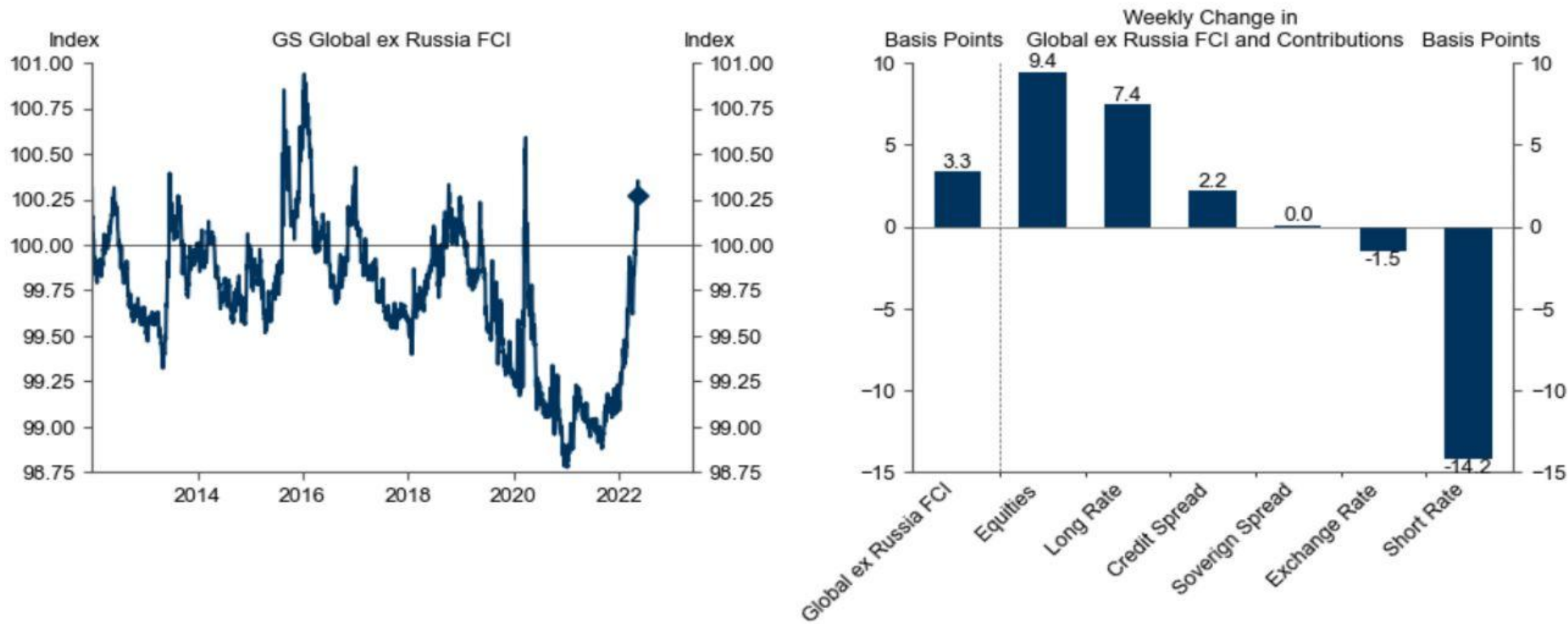


Price change decomposition: year to 30 April



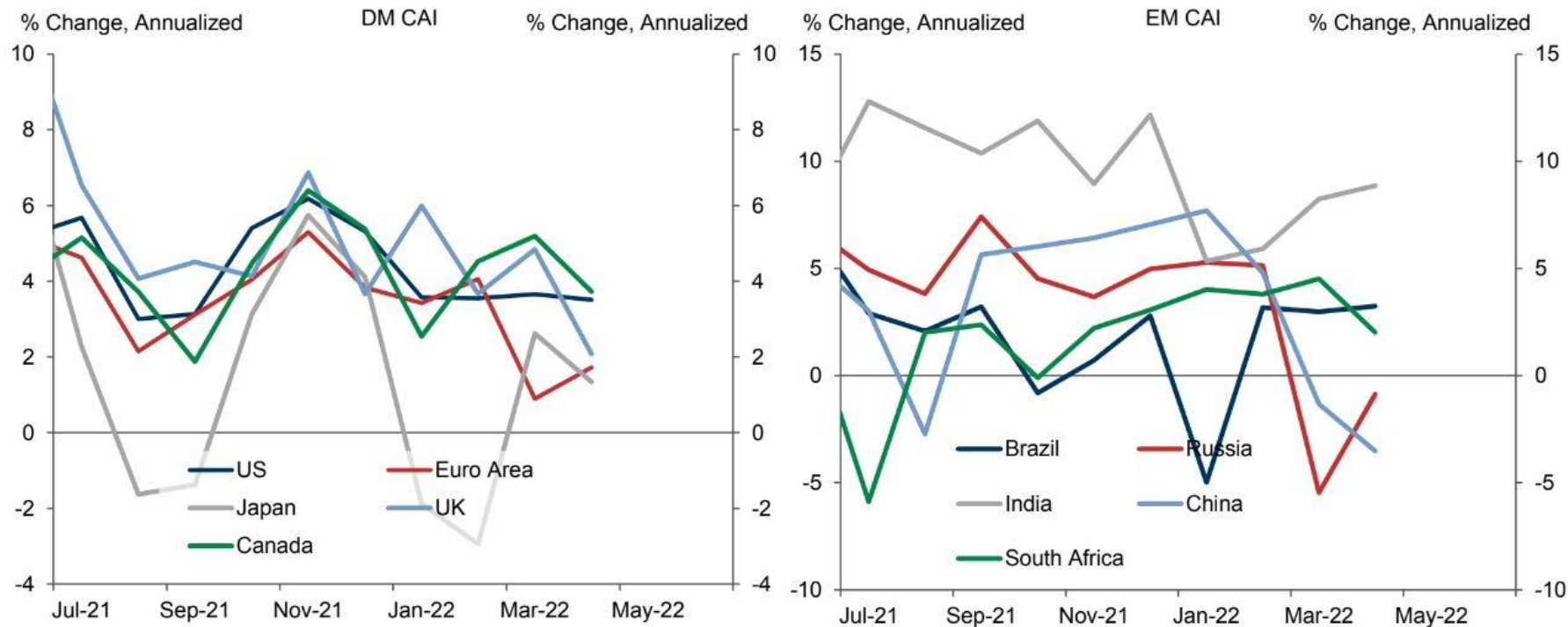
Fiscal and Monetary tightening globally

Exhibit 2: The Global ex Russia FCI Tightened Driven by Equities and Long Rates While Short Rates Eased in China



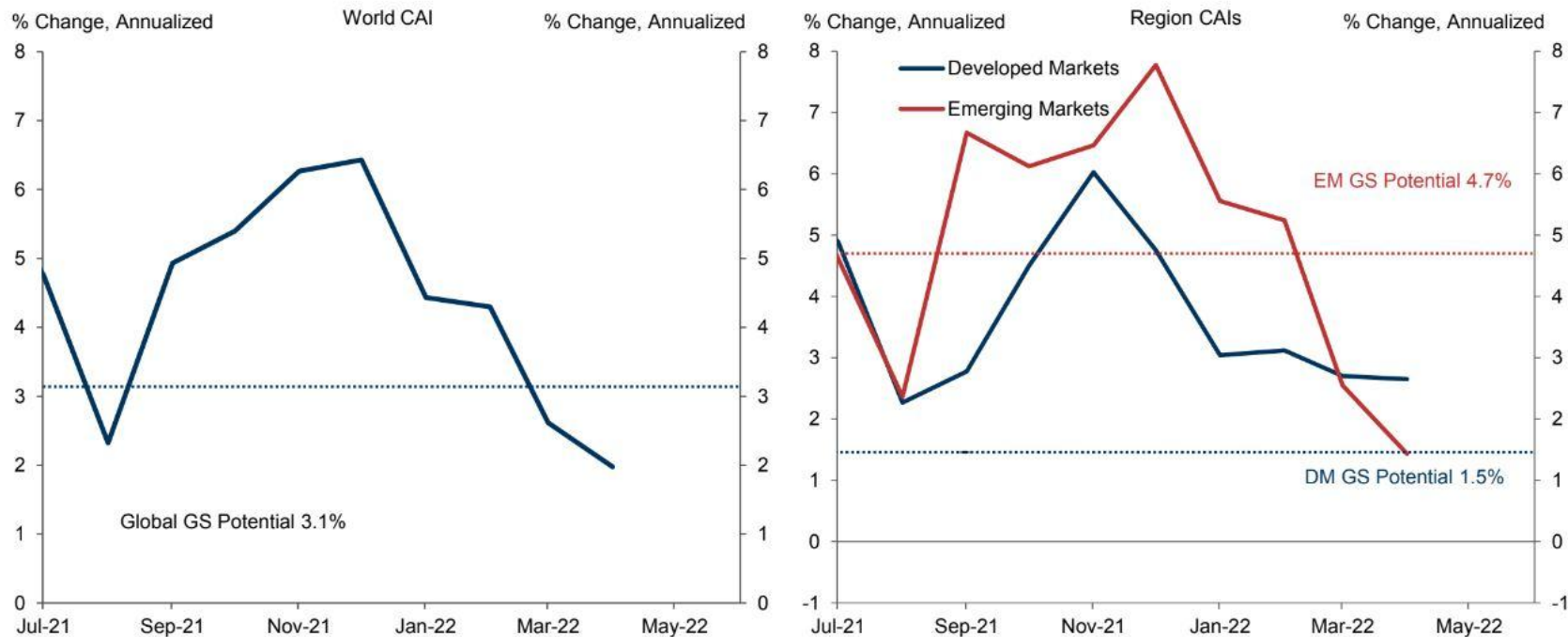
Fiscal and Monetary tightening globally

Exhibit 16: CAIs for Large DMs and EMs



Fiscal and Monetary tightening globally

Exhibit 5: Our Global CAI Dropped to 2.0%—Around 1pp Below Potential—Driven by a Mostly-EM Slowdown

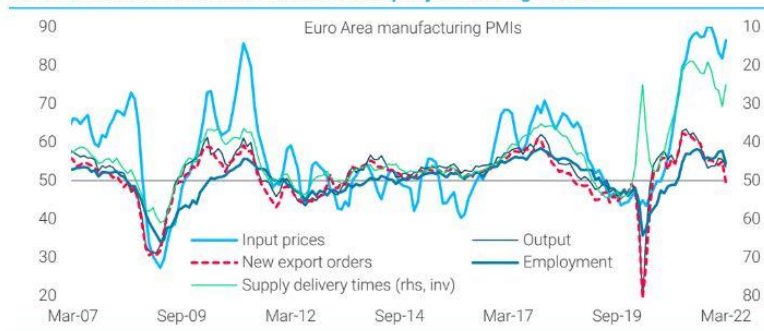


GS DM potential is a PPP weighted average of the US, Germany, France, Italy, Spain, Japan, the UK, and Canada and EM is of Brazil, Russia, India, and China. Global GS potential is an average of all aforementioned countries.

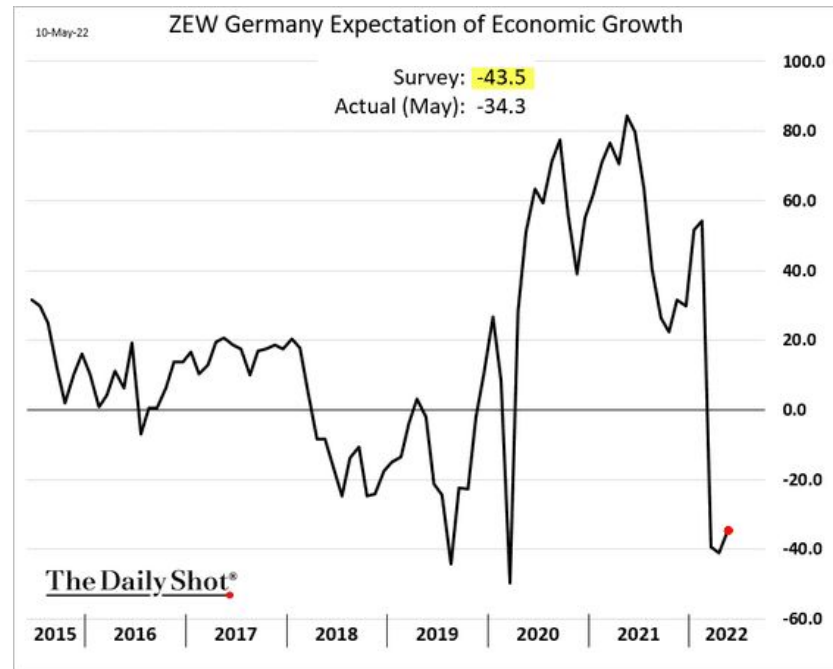
War and energy in Europe

- Gas price surge hits consumers and business
- Russian still choking supply, adjustment to take time
- Confidence collapse in households and business
- Fiscal will lag, ECB worried about inflation

Chart 2: Resilient headline PMIs conceal rapidly worsening outlook



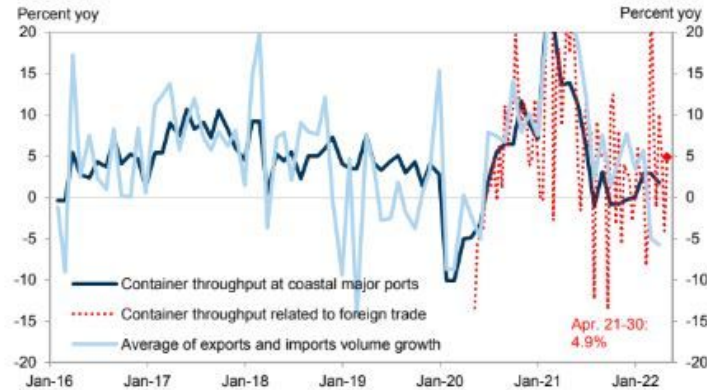
Sources: IHS Markit (latest data collected between 11 and 22 March 2022), Datastream, TS Lombard.



Property bust and COVID in China

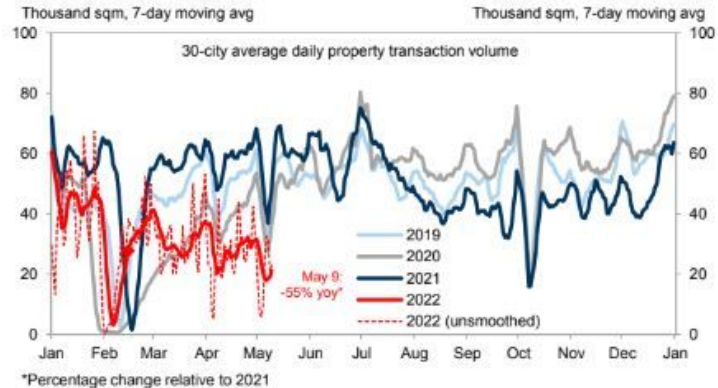
- Chinese domestic demand slumping
- Property bust worse than expected. OMICRON affecting 33% of economy
- Three red lines has fiscal and monetary policy “pushing on a string”
- Next shoe to drop is exports, main source of growth

Exhibit 9: Container throughput related to foreign trade at coastal major ports was around 4.9% above the 2021 level



Source: CPHA, CEIC

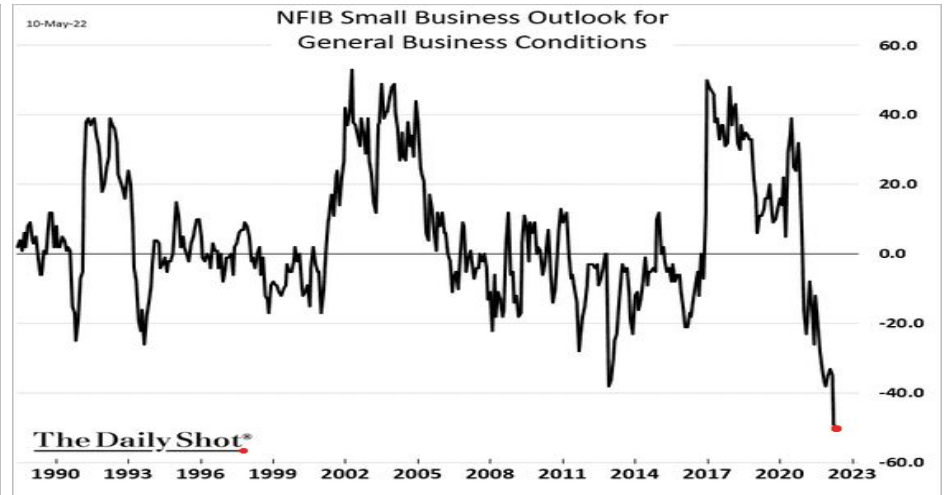
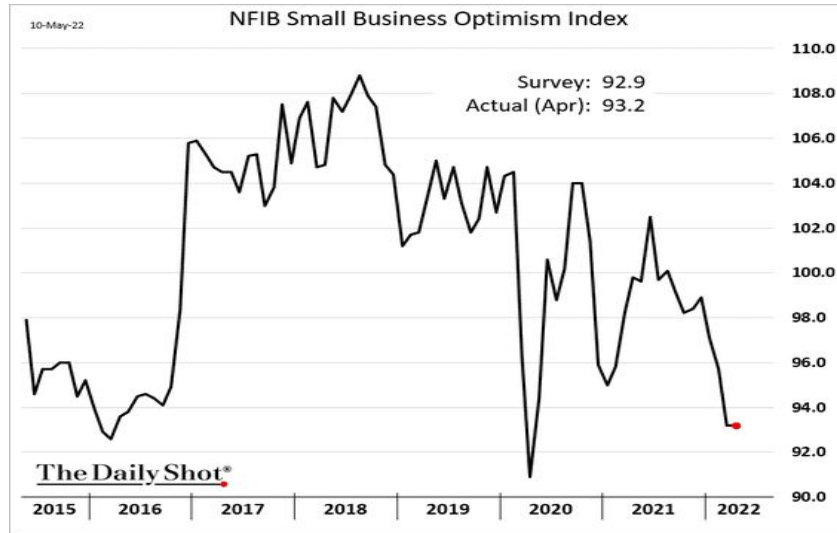
Exhibit 10: 30-city daily property transaction volume was 55% below the 2021 level



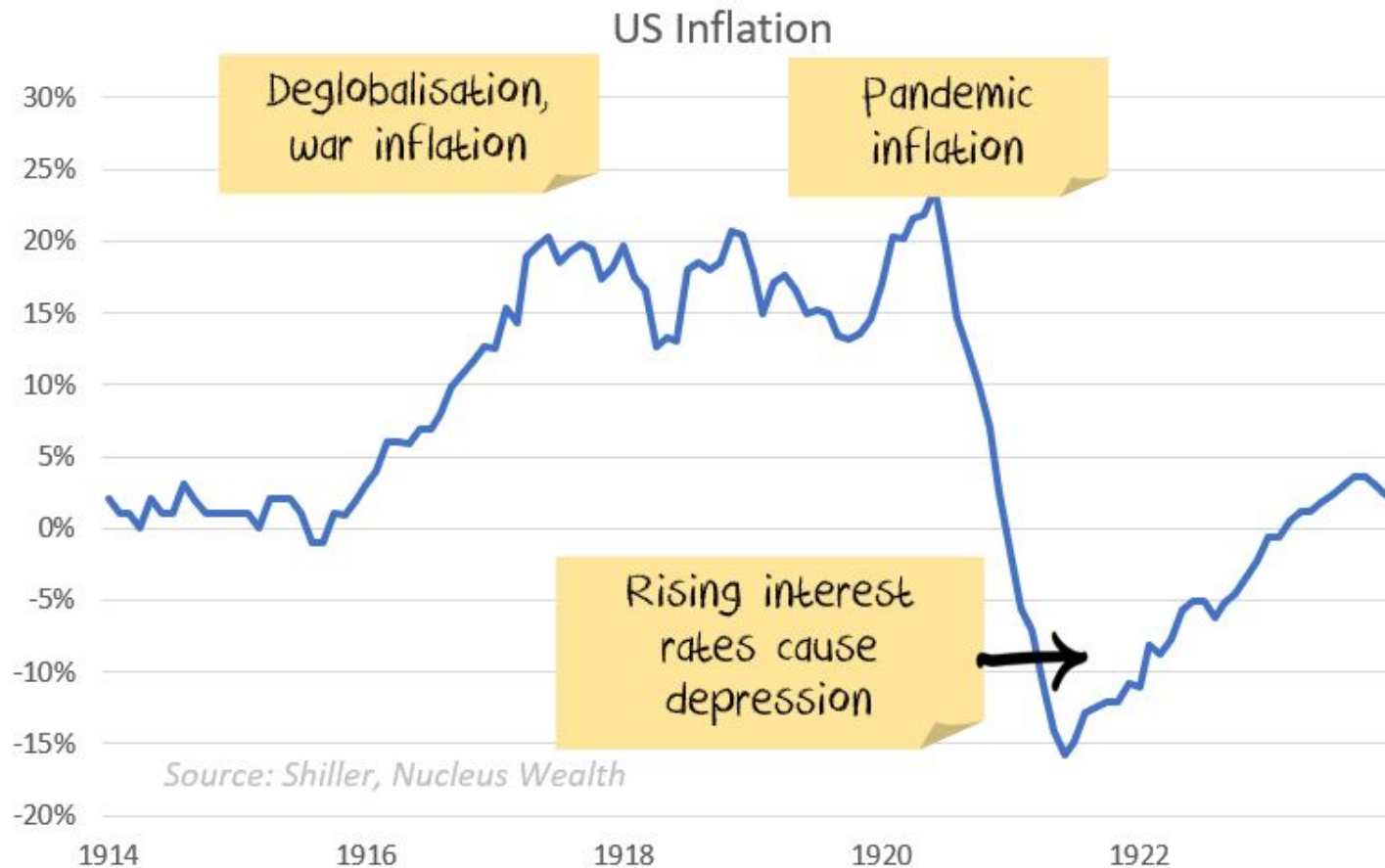
Source: Wind, Goldman Sachs Global Investment Research

US economy and the Fed

- Very hawkish Fed
- Market pricing 9 rate hikes, many 50bps
- Mortgage rate shock already
- Liquidity for stocks to dry up. Credit event?
- Demand crunch and goods normalisation flow out to weak China and Europe



The Spanish Flu analogy



Agenda: Implications for markets

- Inverted yield curve signalling recession
- Stocks very expensive given declining earnings prospects
- Inflation has lowered level of Fed “put” and needs a commodities bust
- DXY bull market to make it worse. AUD to continue falling
- Eventual capitulation of stocks



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Effective

You get the benefits and tax advantages of direct share ownership. While keeping a professionally managed investment solution.

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Viewer question of the week:

Is it a buying opportunity or are we too conservative?

Drop your answers in the comments

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