



32 optimistic charts right now

June 2023



A Bennelong boutique

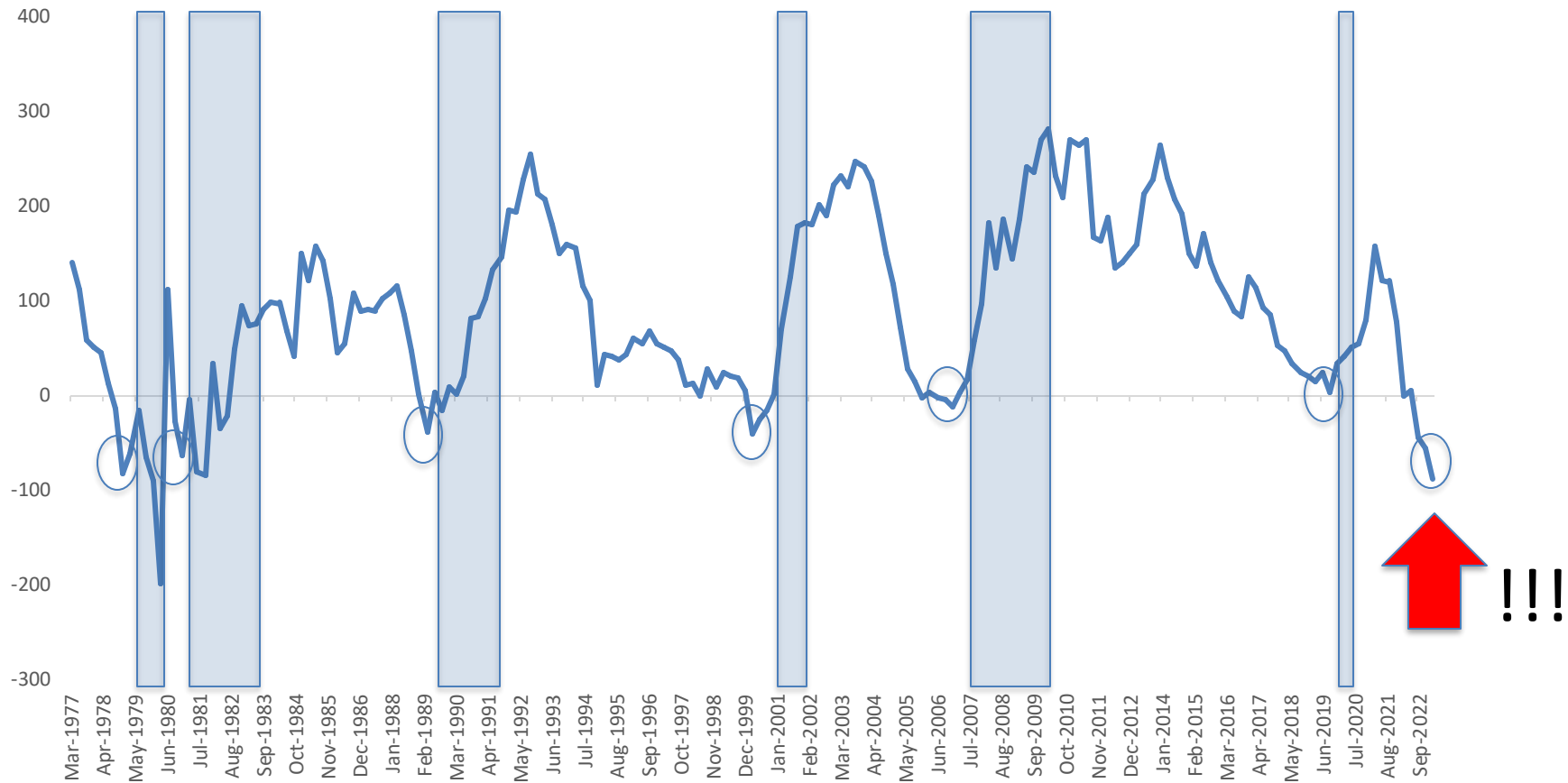
Agenda

- Why rising interest rates are not delivering on the promised recession and low inflation
- Is the US Banking Crisis a crisis?
- Why are global residential prices rising?
- Do interest rates actually matter for long term investors?

Macro-Economic environment

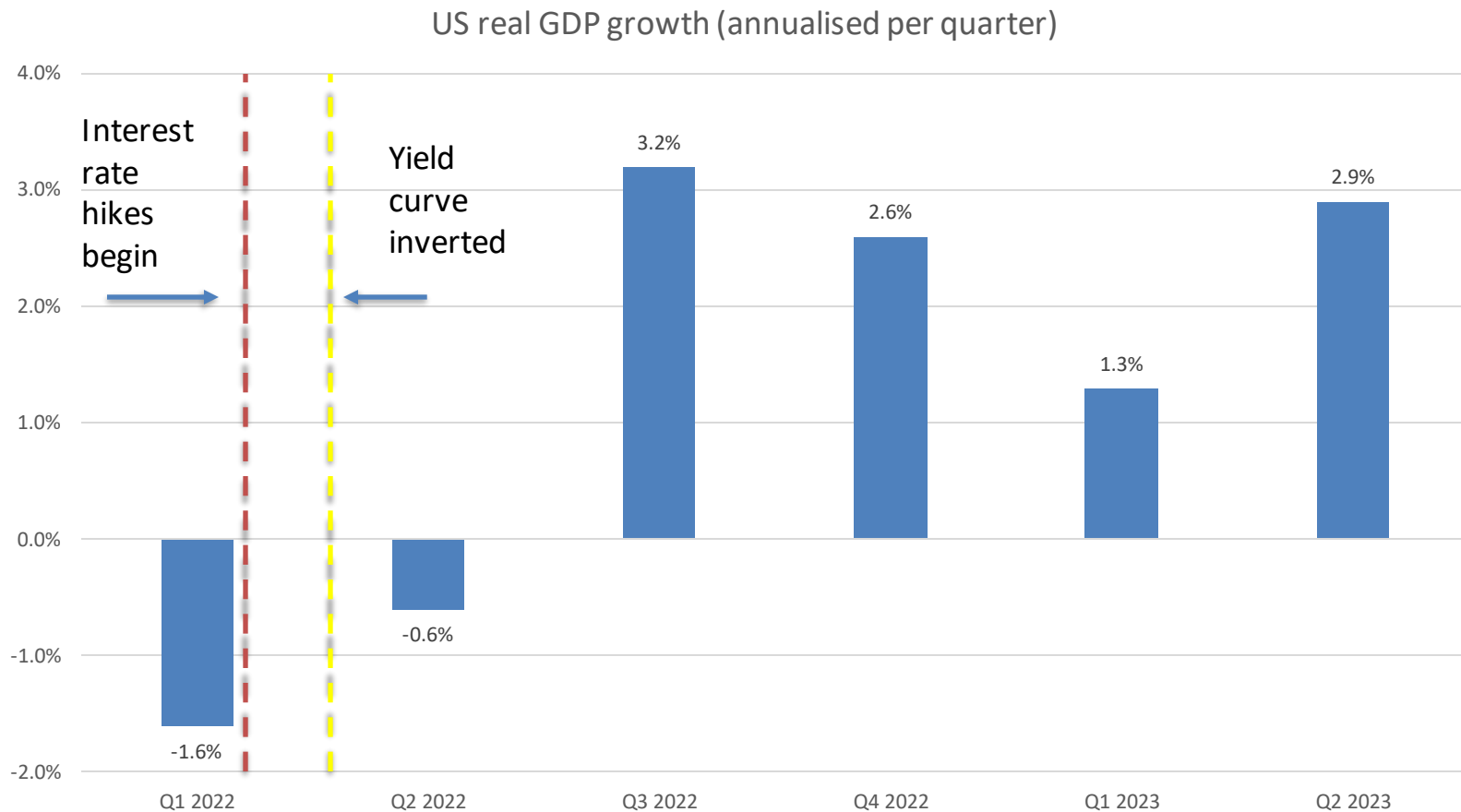
Inverted for a year without recession?

US Yield Curve - bpts (10yr - 2yr yield) & recessions



Source: Bloomberg, St Louis Fred, Quay Global Investors

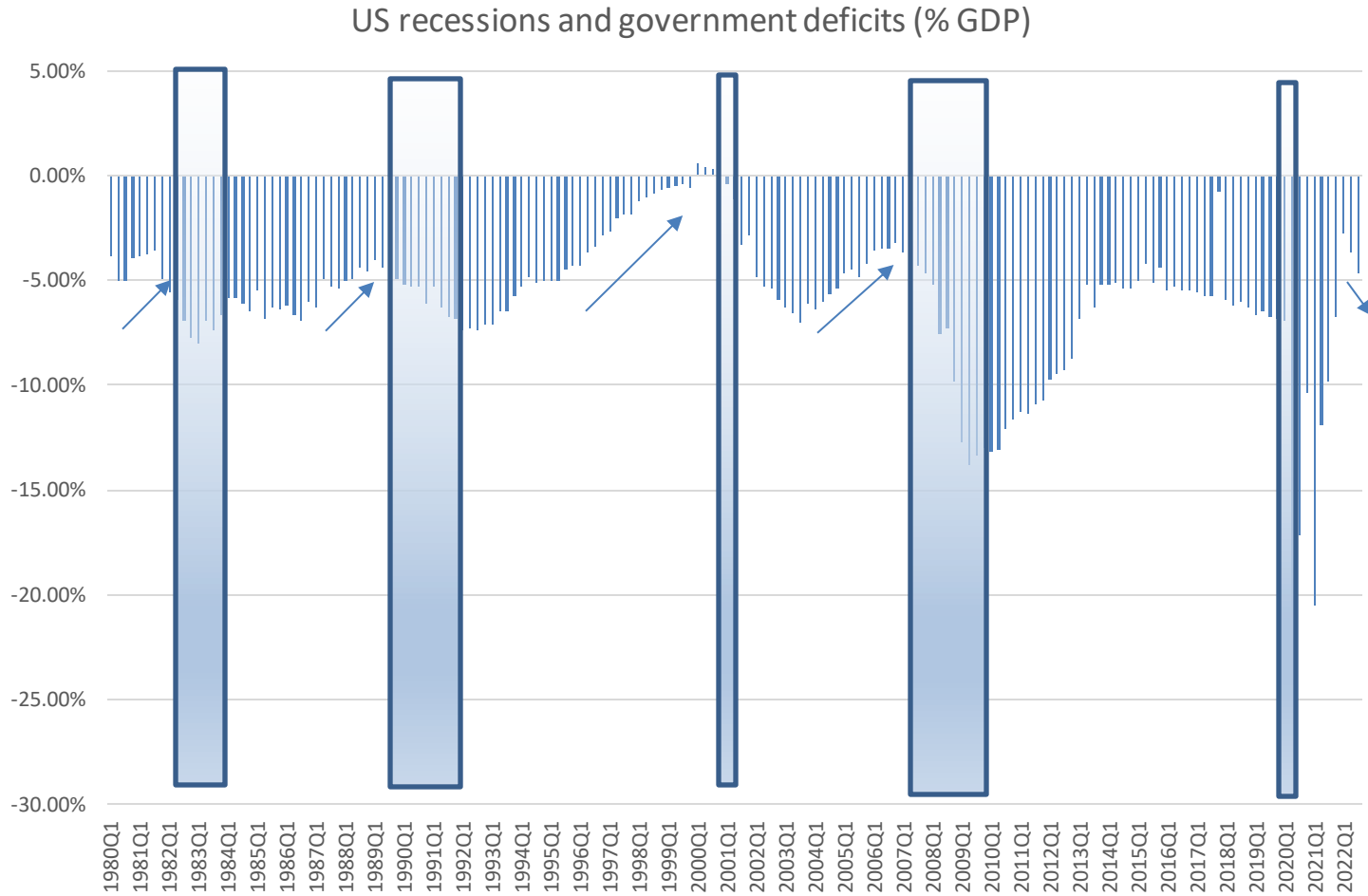
Maybe this time is different?



Source: Bloomberg, St Louis Fed, Atlanta Federal reserve, Quay Global

* Q2 2023 Est. Source: Atlanta Fed GDPNow (as at May 26)

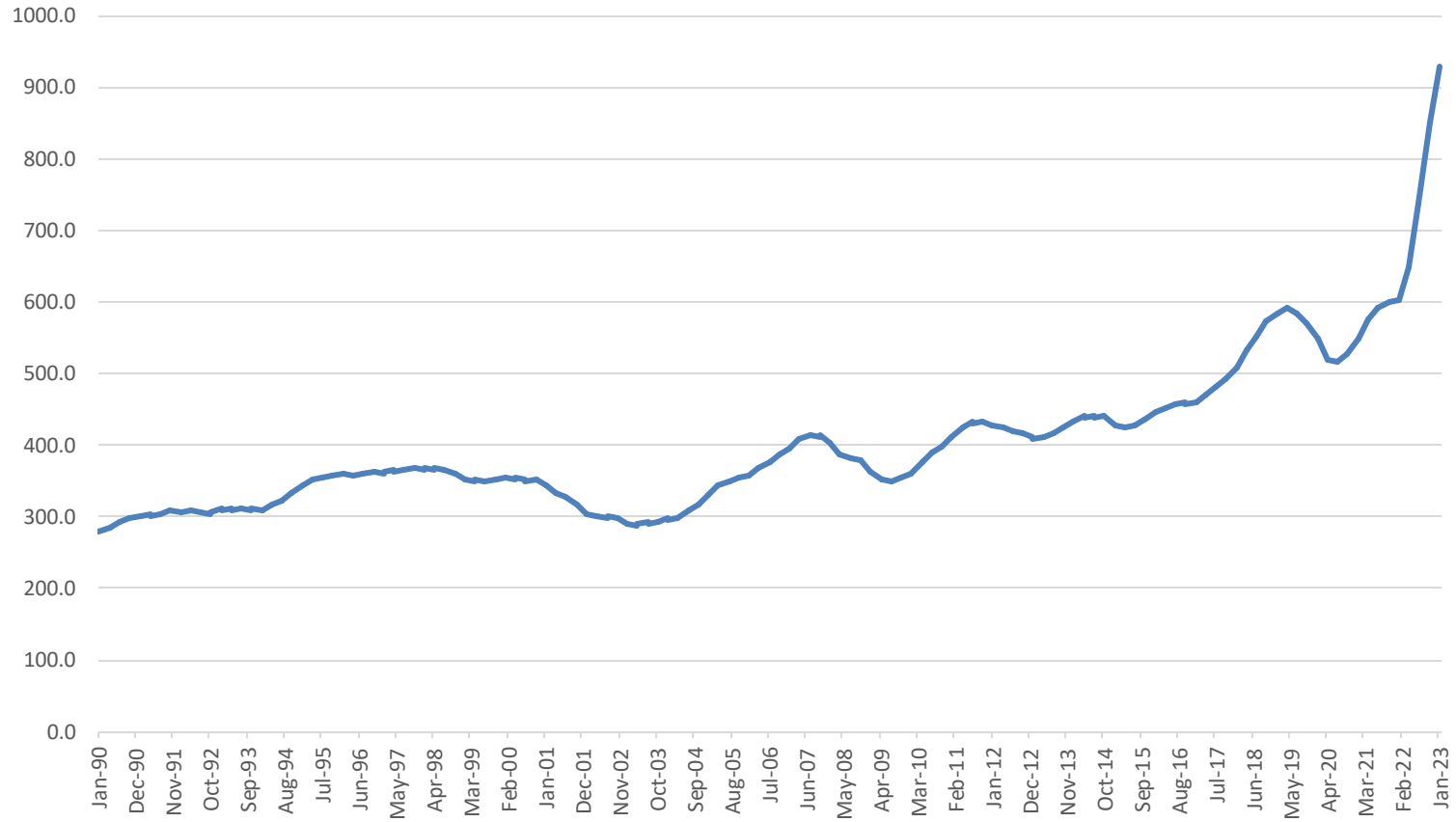
The US does not enter recession when fiscal deficits expand



Source: St Louis Fed, Quay Global

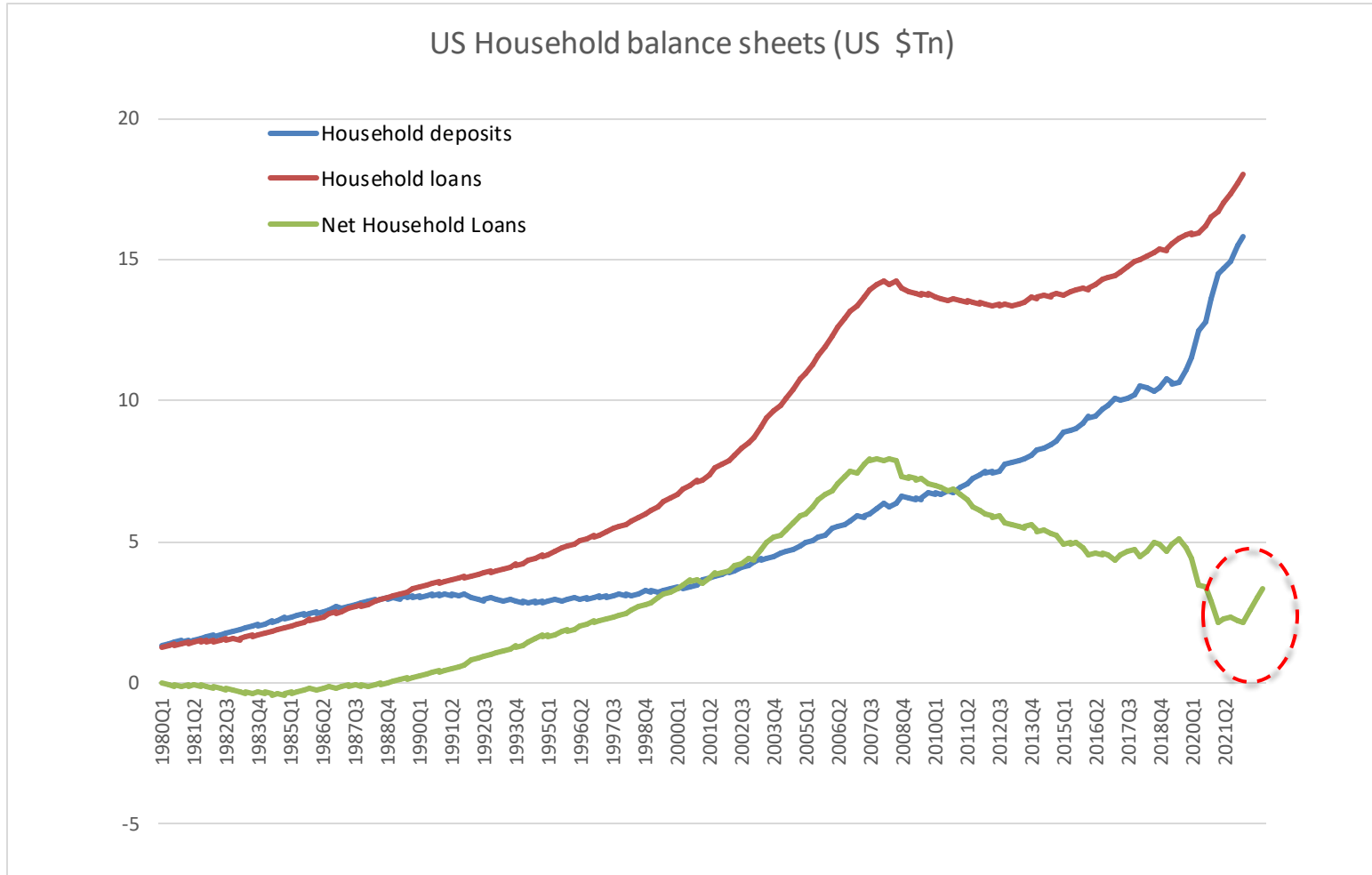
And the deficit isn't declining any time soon

Federal Govt current exp: Interest payments



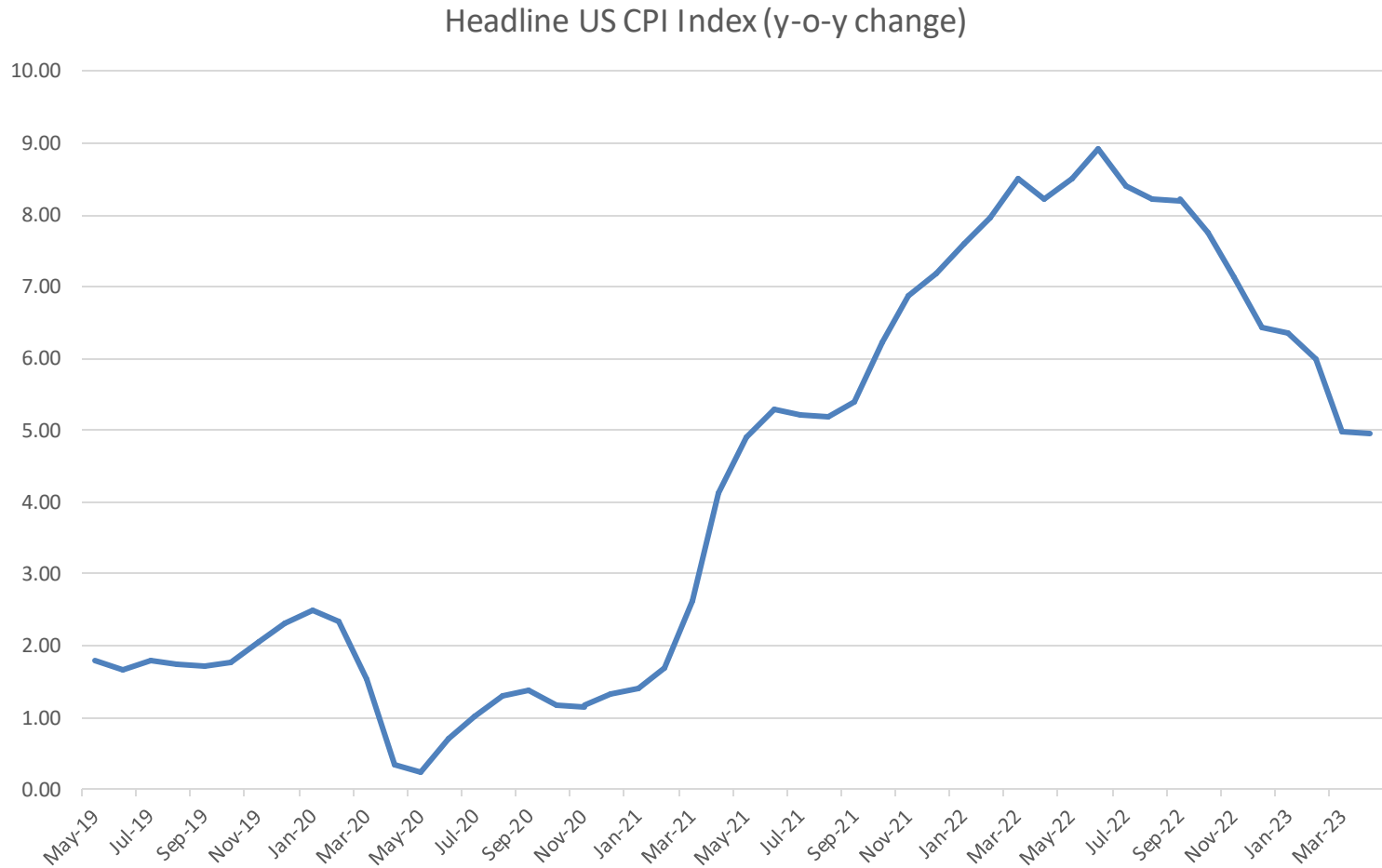
Source: St Louis Fred, Quay Global

And balance sheets are in their best shape in 25 years



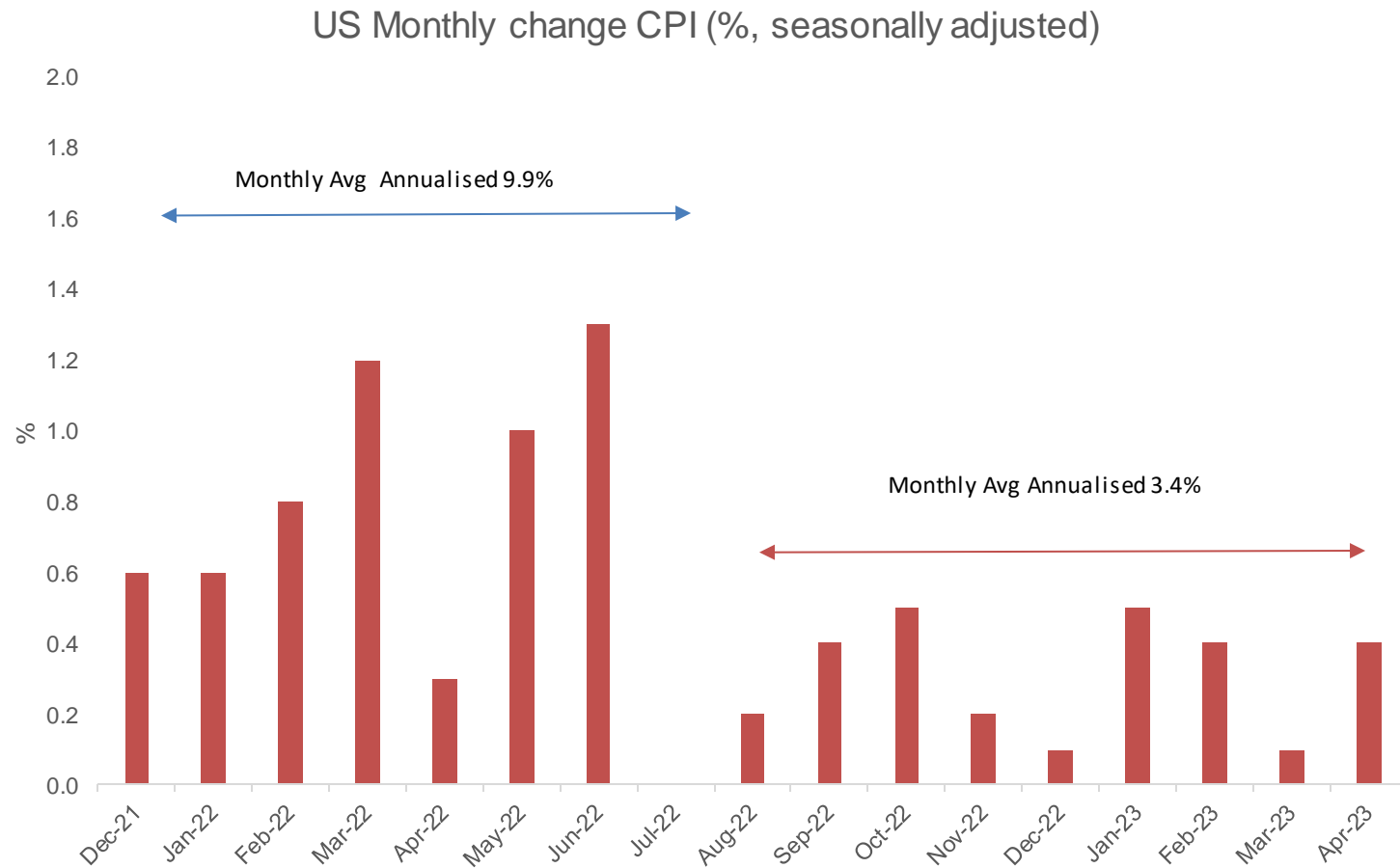
Source: US Federal Reserve, Quay Global

But inflation looks sticky...right?



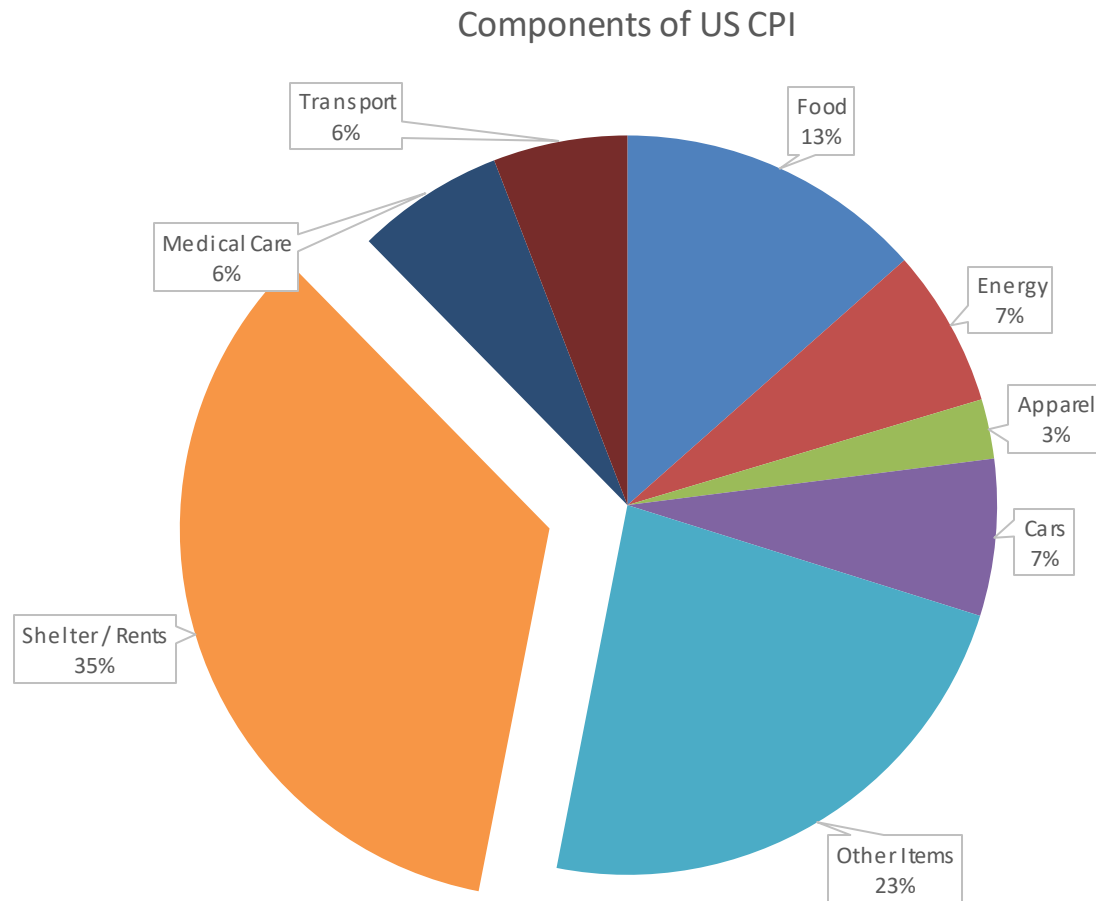
Source: US Bureau of Economic analysis (BEA), Quay Global

However since June '22 inflation much closer to Fed target



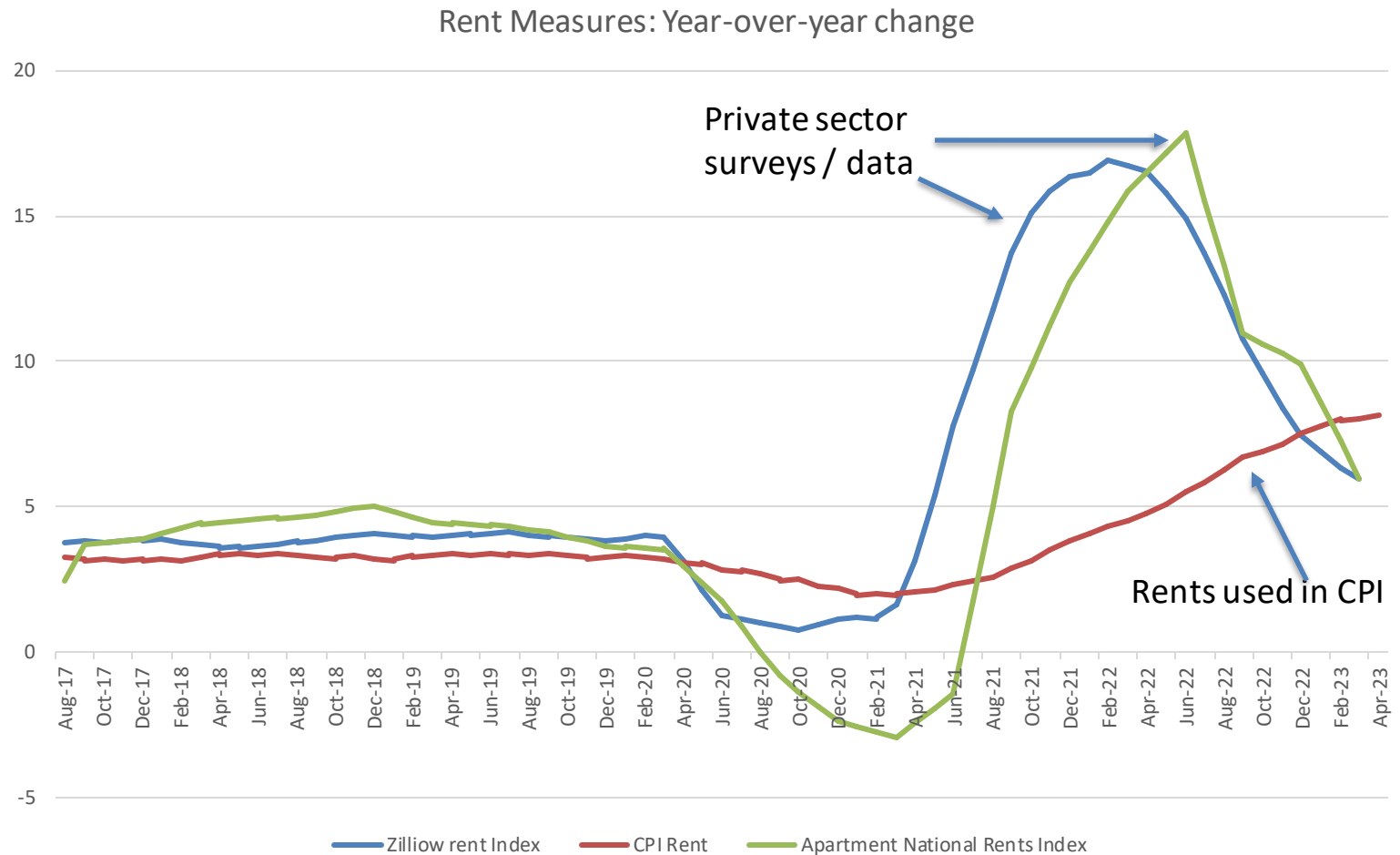
Source: US Bureau of Economic analysis (BEA), Quay Global

Residential rents make up over 1/3rd of US CPI



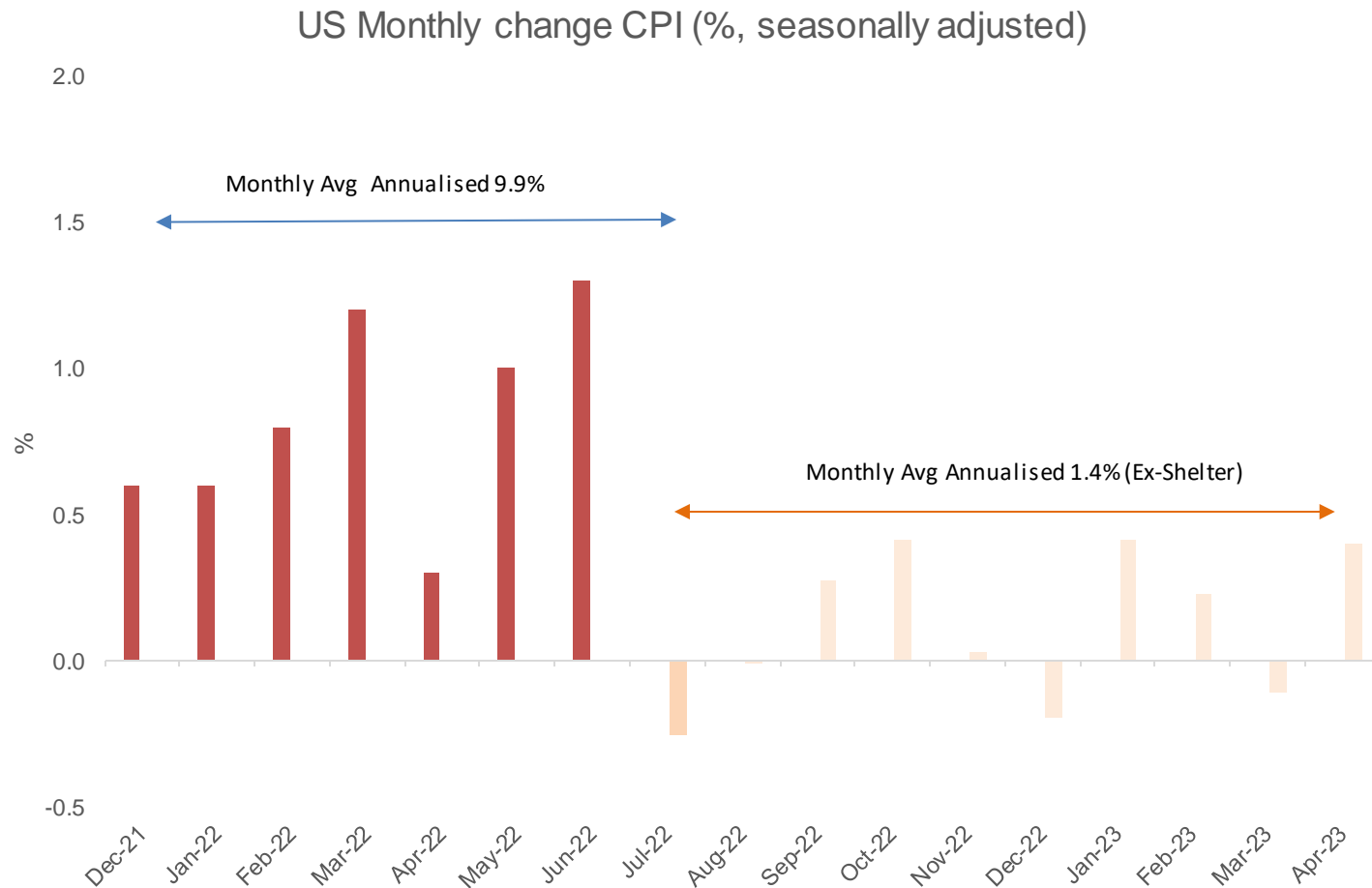
Source: BLS, Quay Global

Residential rents are normalising – yet the CPI rent index is lagging....



Source: Zillow, BEA, Bloomberg, Quay Global

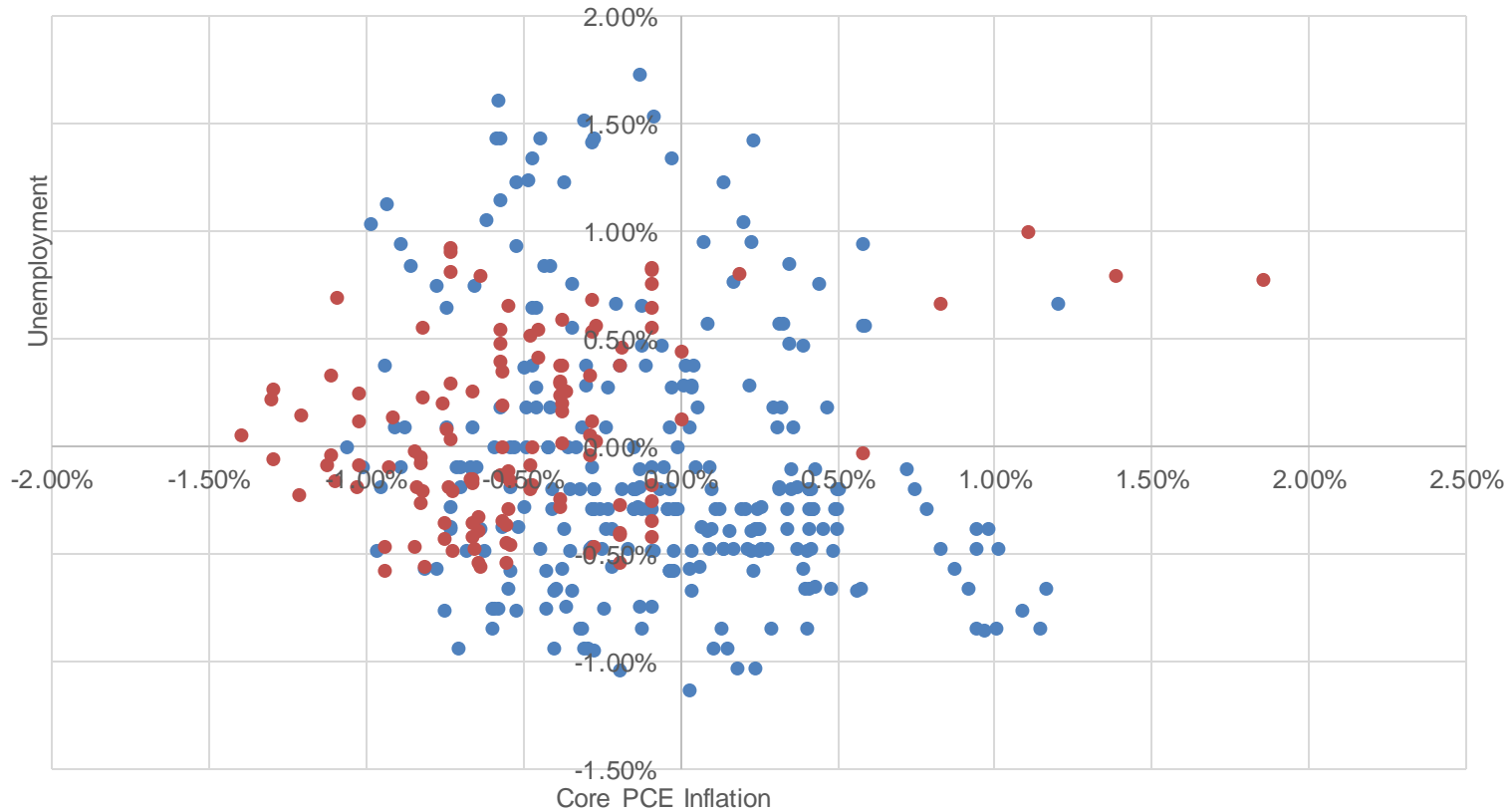
Which means underlying prices look near deflationary



Source: US Bureau of Economic analysis (BEA), Quay Global

Inflation could subside without substantial unemployment

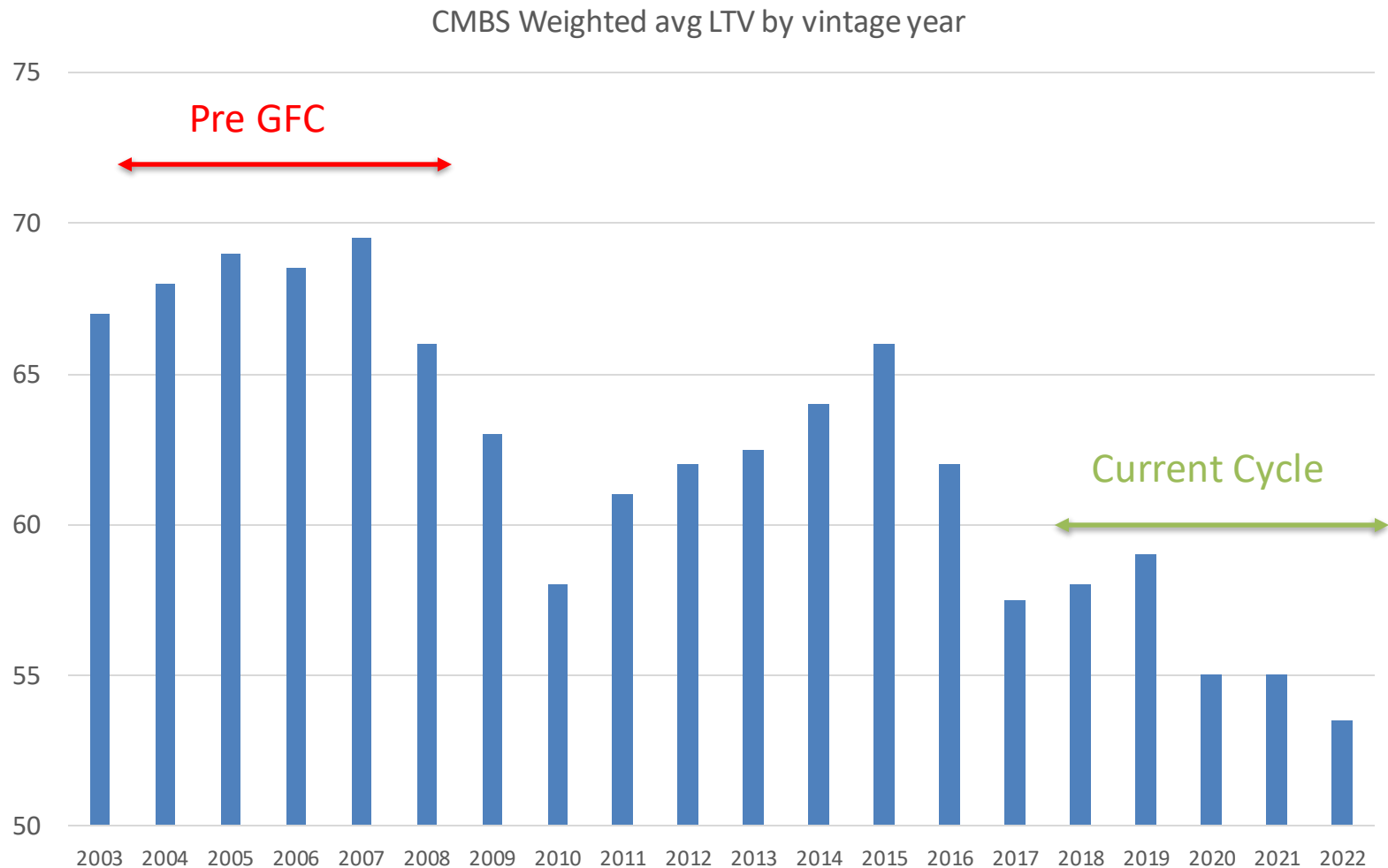
Yearly changes in core inflation vs yearly changes in unemployment, Jan 1985 - Mar 2020



Source: Financial Times, St Louis Fred, Quay

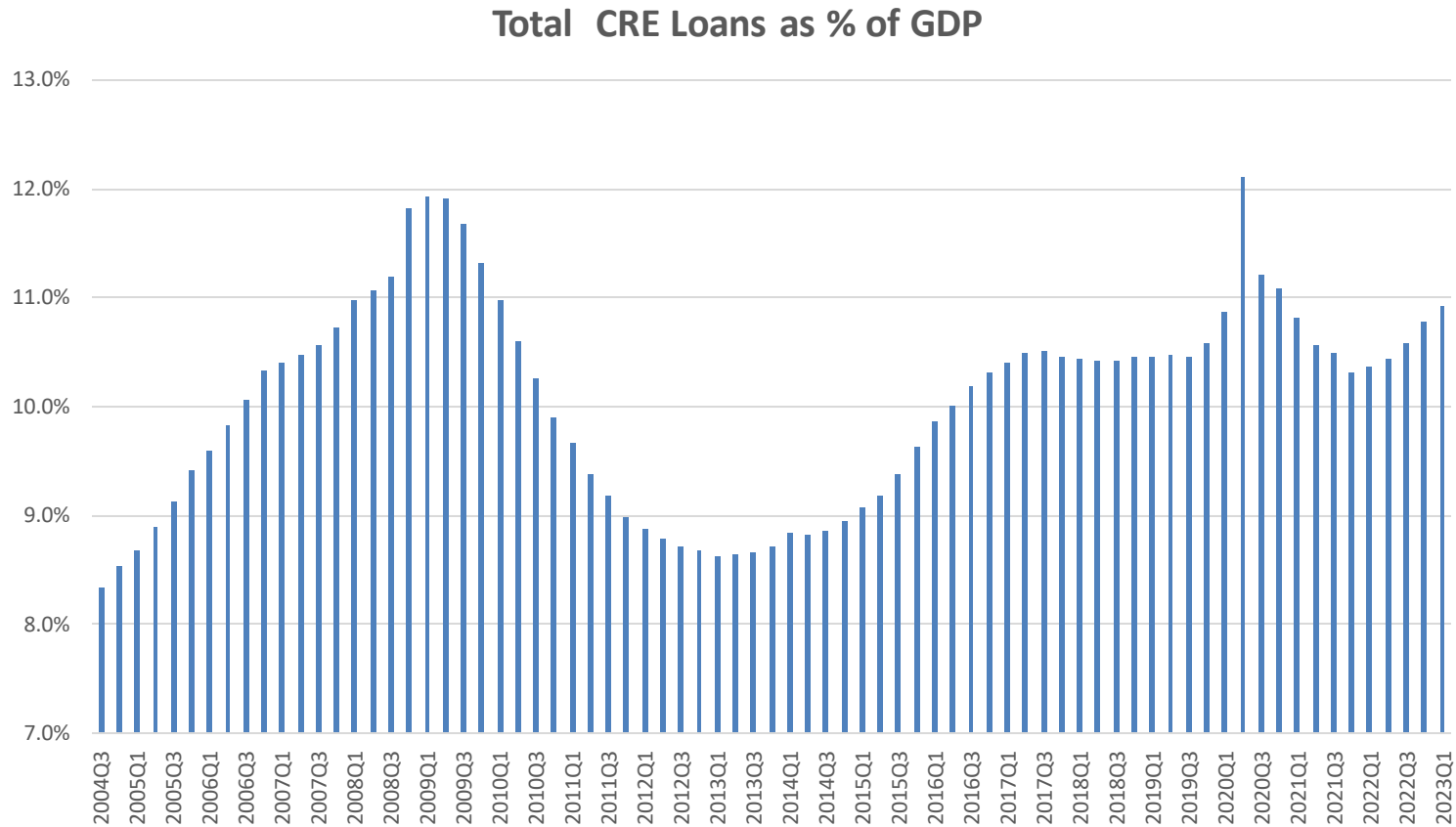
Commercial Lending “Crisis”

Lenders have been far more conservative this cycle



Source: JP Morgan

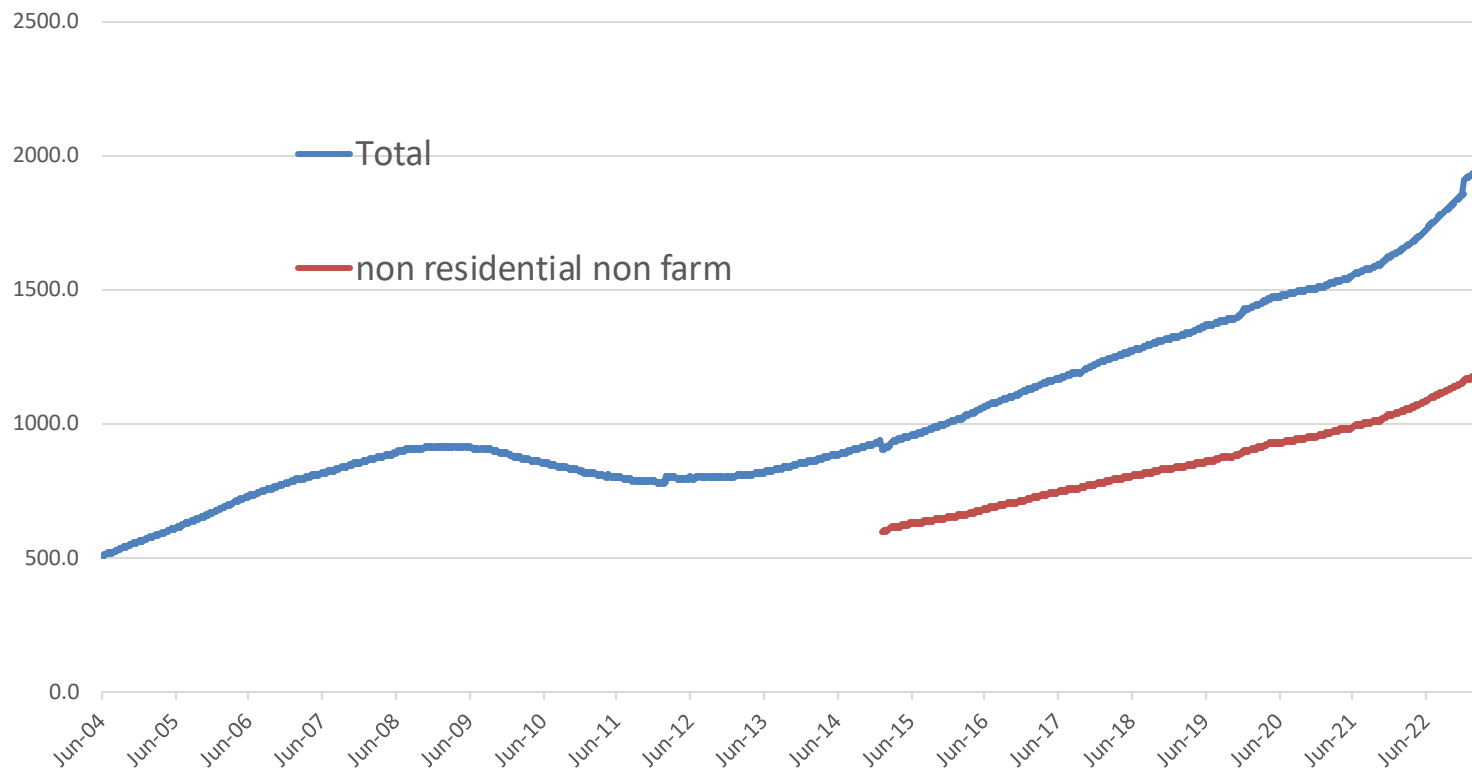
No sign of excessive lending even during years of low interest rates



Source: Fed H8 Tables, BEA, Quay Global Investors

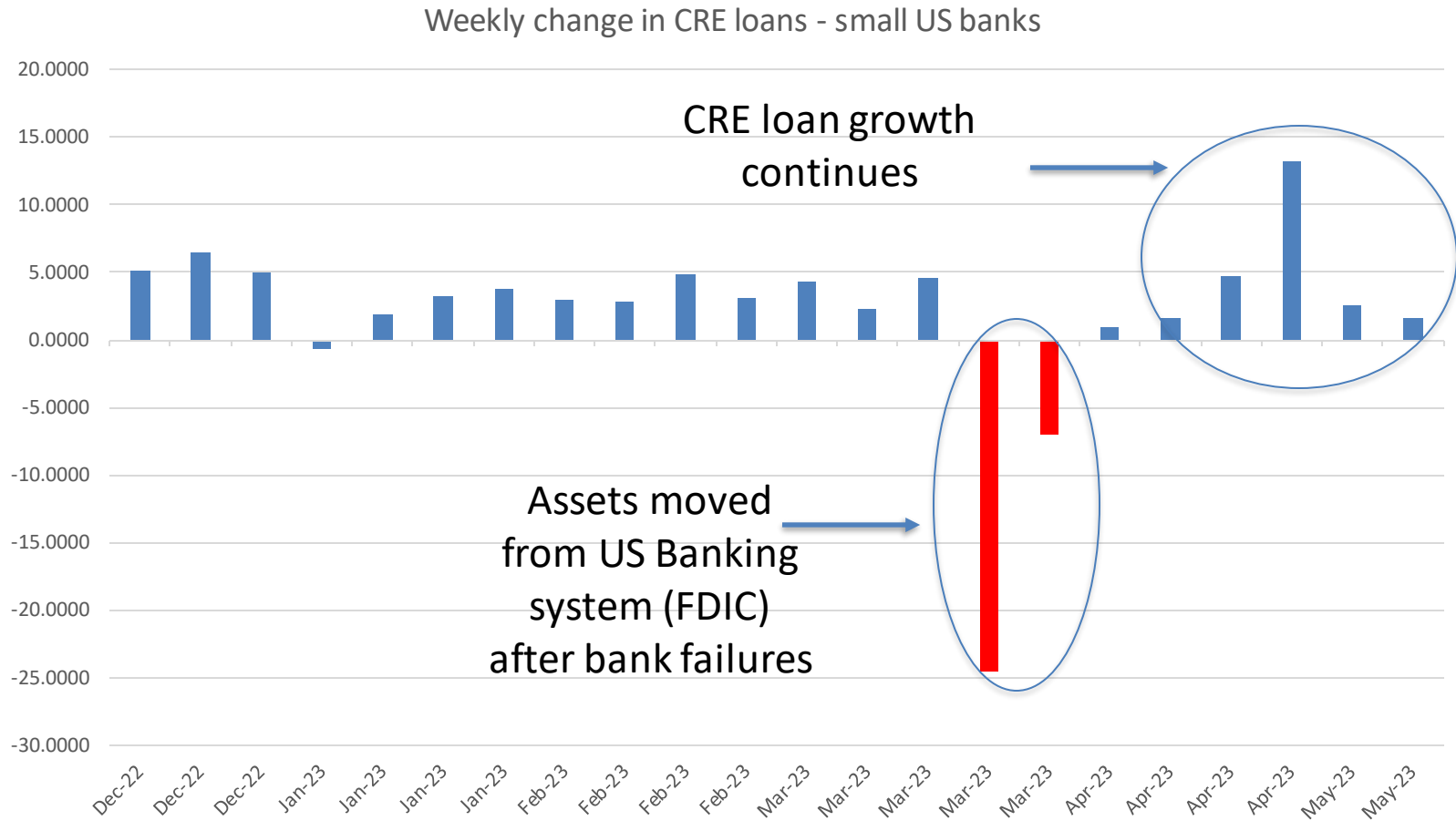
Exposure not as significant as headlines suggest

Total CRE loans - small domestically chartered banks (\$bn)



Source: US Federal Reserve, St Louis Fed, Quay Global Investors

After removal of recent failed banks, loan growth has continued

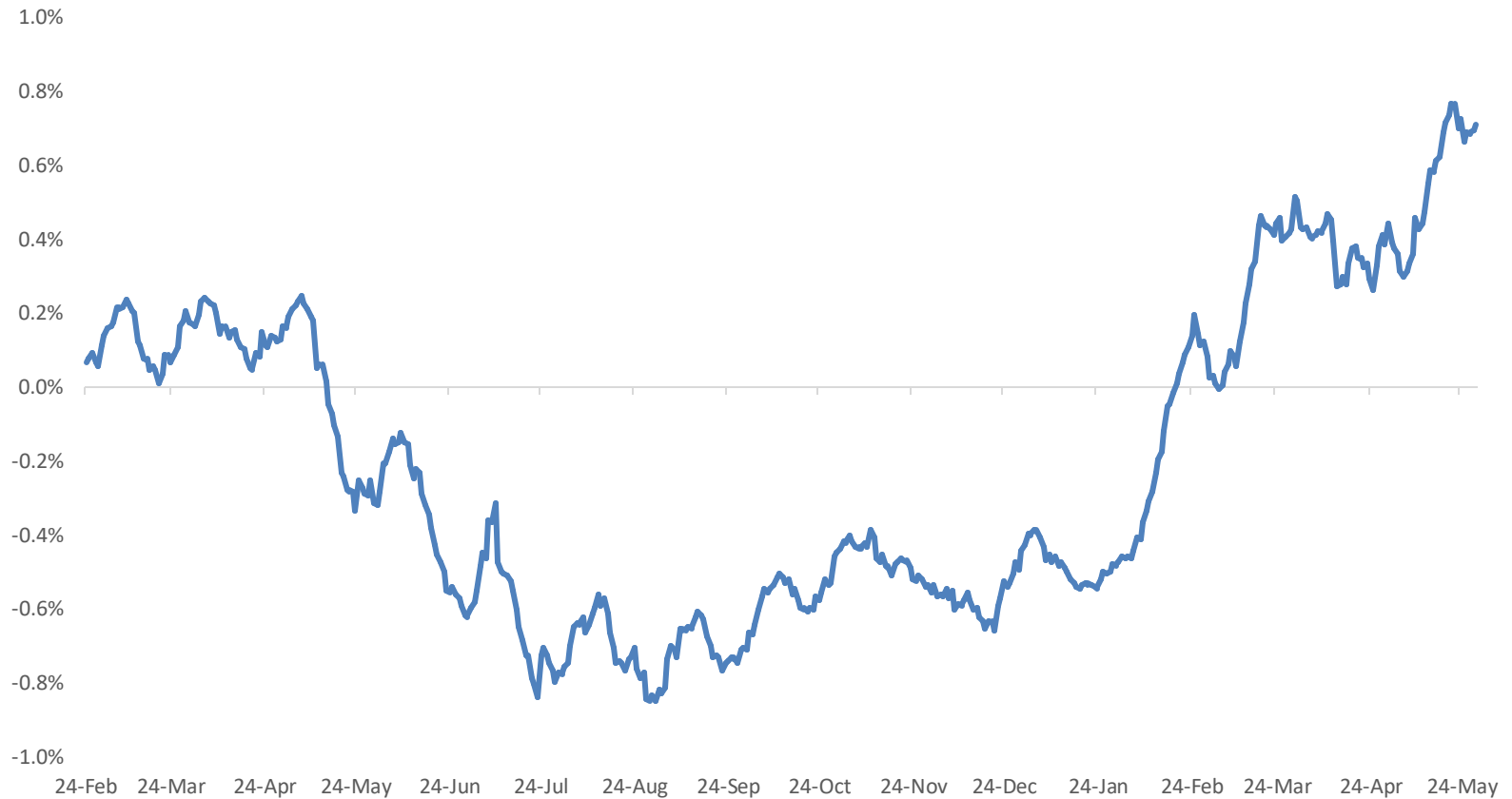


Source: US Federal Reserve, St Louis Fred, Quay Global Investors

Residential

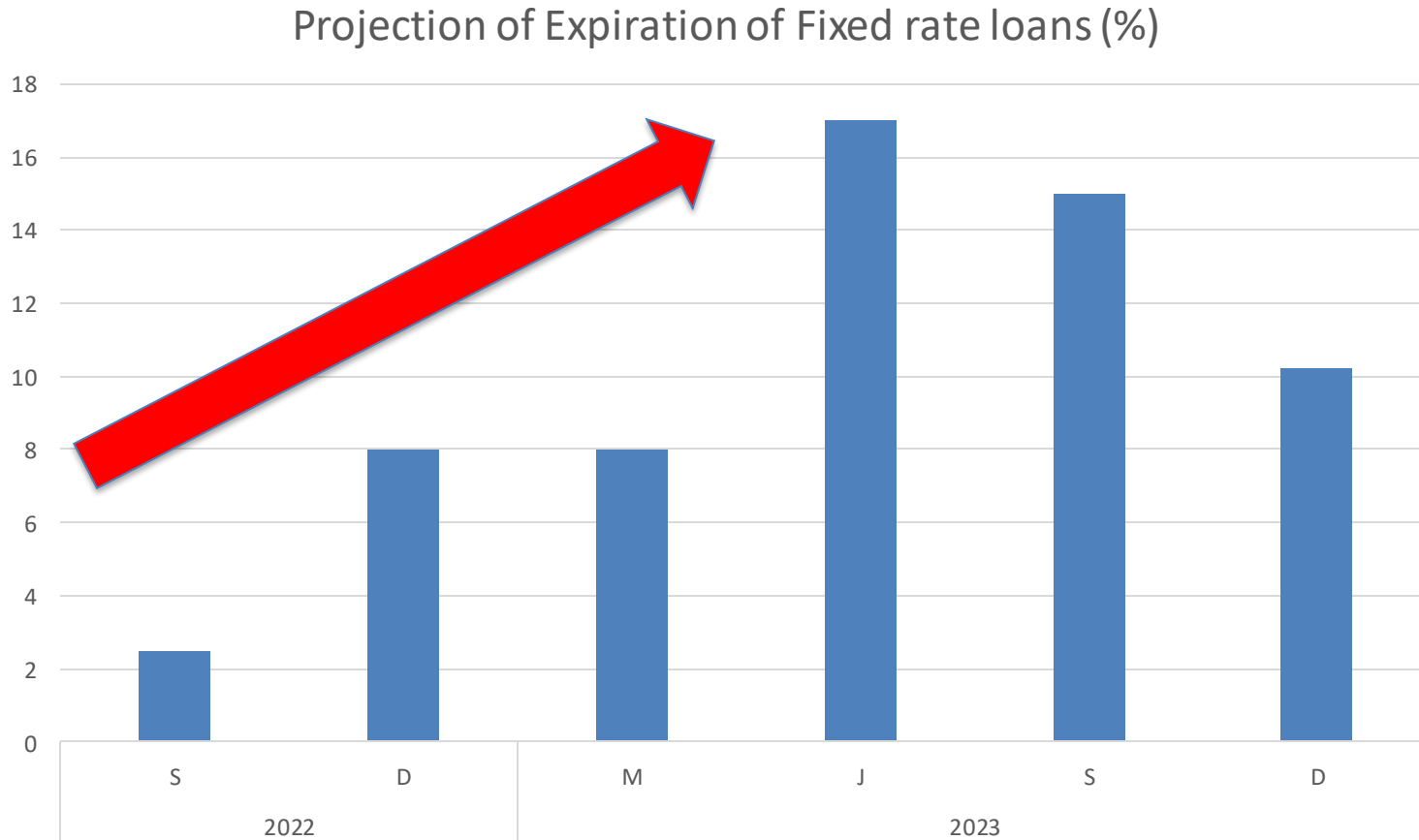
Are domestic dwelling prices bottoming?

Rolling fortnightly change Aust house prices



Source: CoreLogic, Quay Global

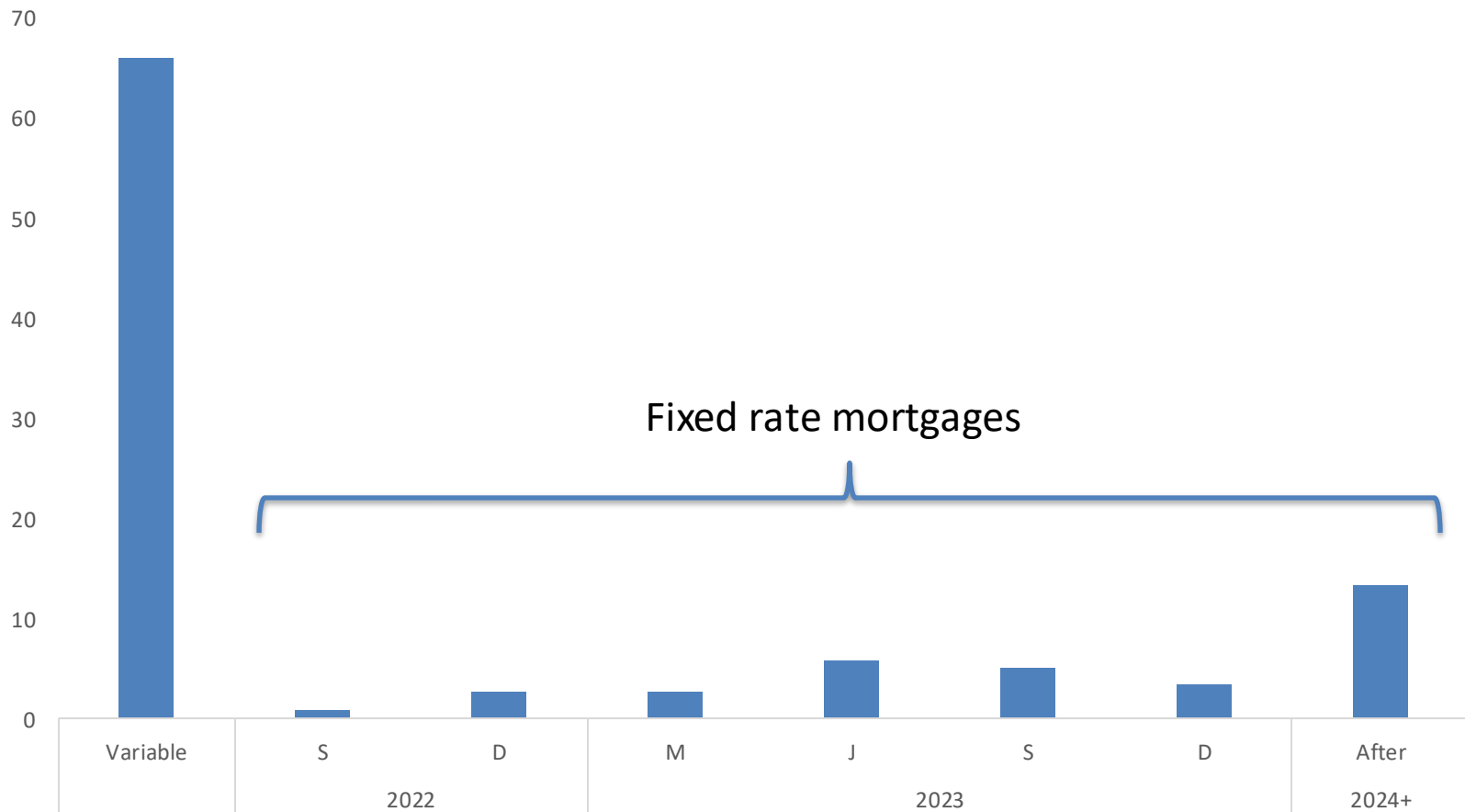
What about the great Aussie fixed rate mortgage cliff?



Source: RBA, Bloomberg, Securitised System

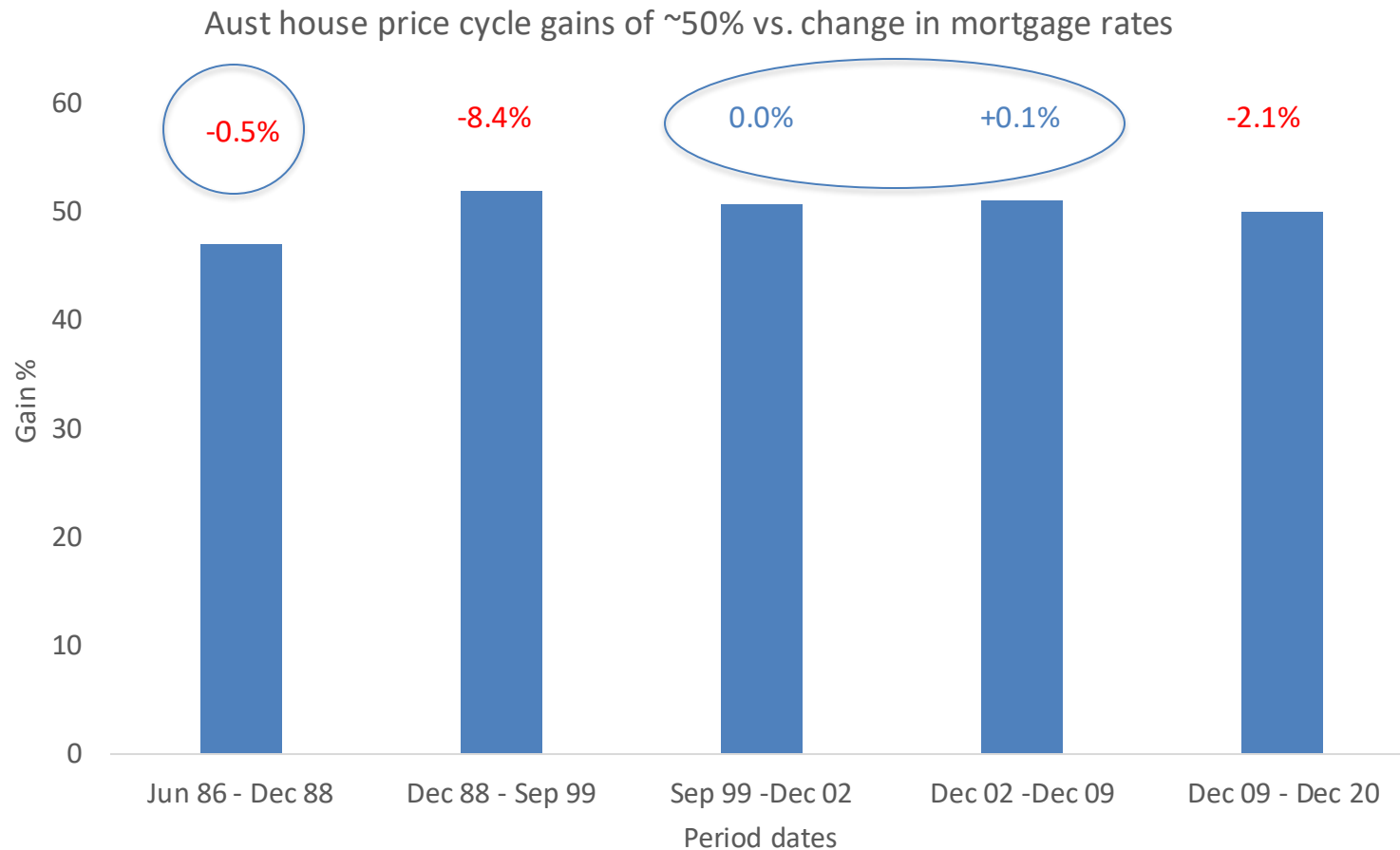
Looks more like a mortgage gully...

Structure of Australian mortgage industry (% of loans)



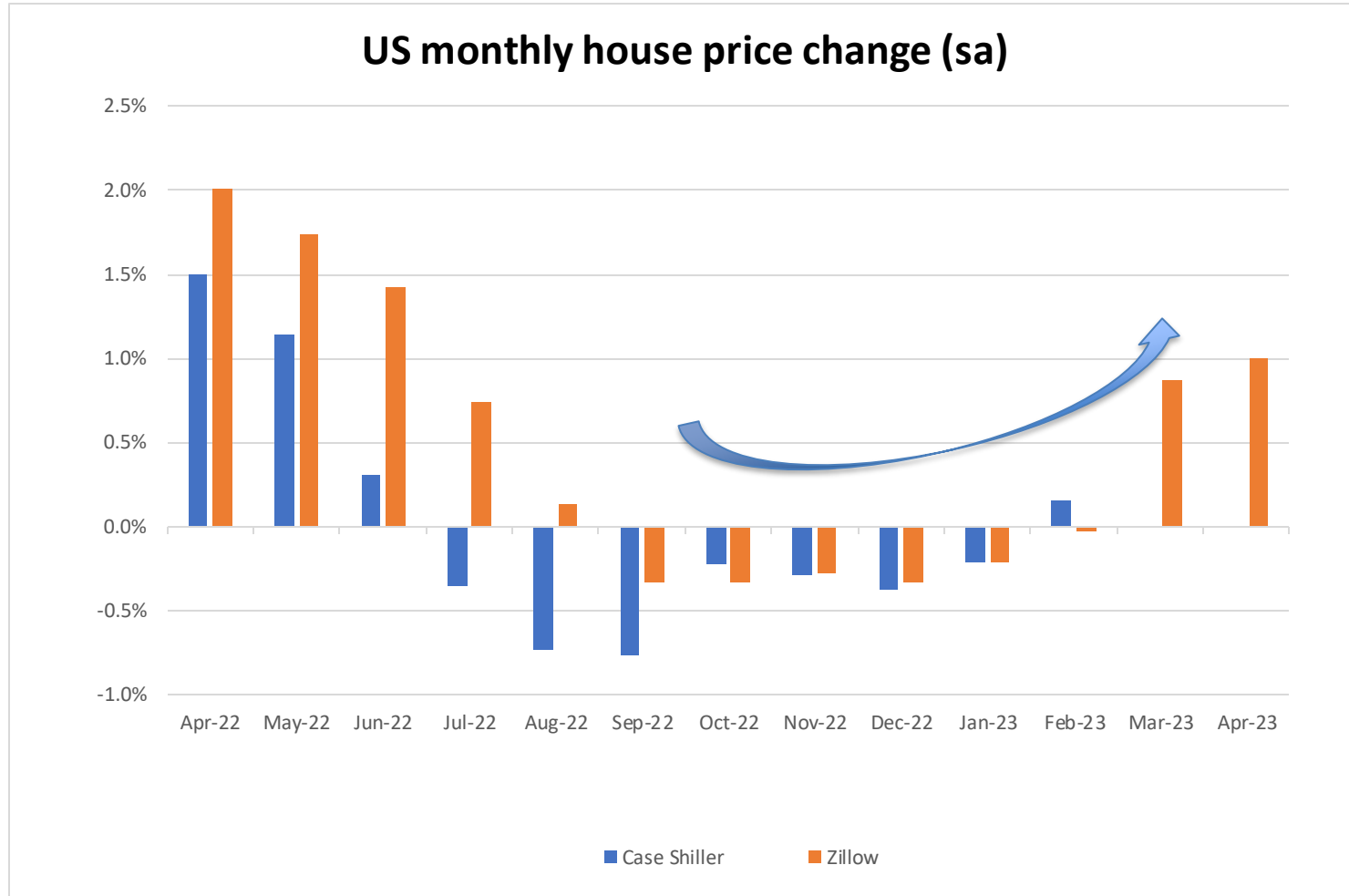
Source: RBA, Bloomberg, Securitised System, Quay Global

It's not always about interest rates



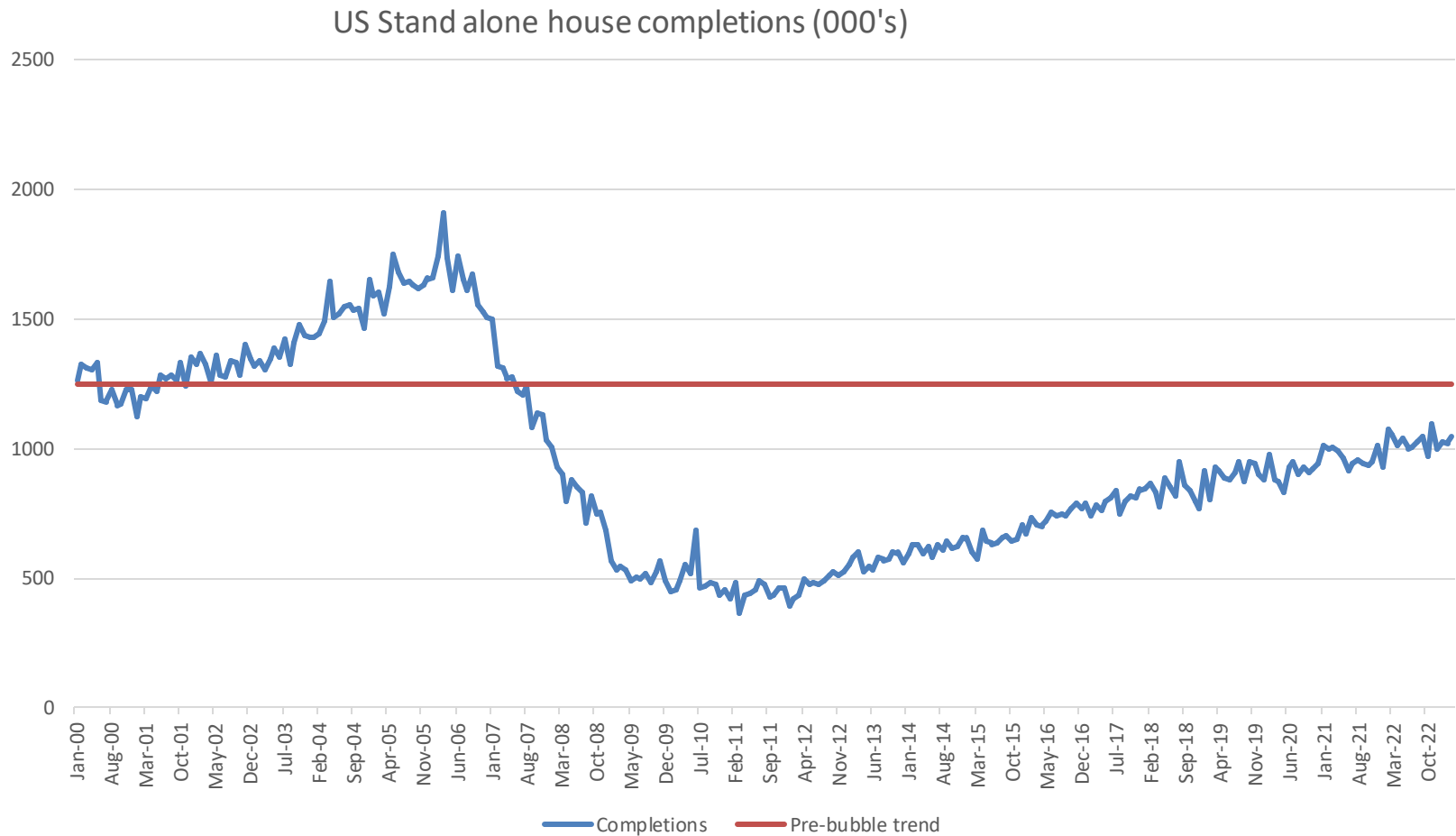
Source: ABS, RBA, Quay Global

Global property prices now recovering – despite high interest rates



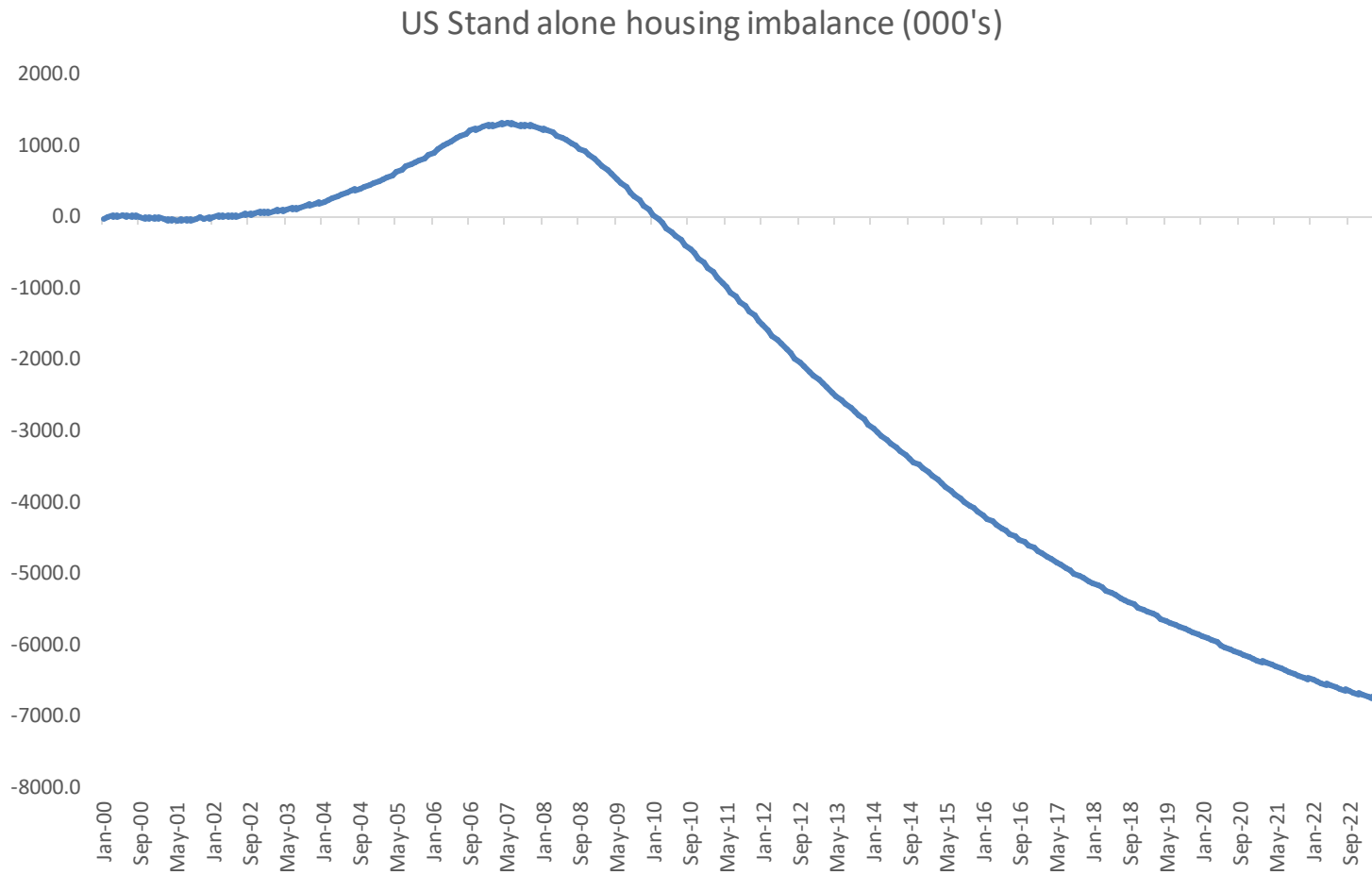
Source: Case Shiller, Zillow, Quay Global

US Housing construction has not recovered from the GFC



Source: St Louis Fed, Quay Global

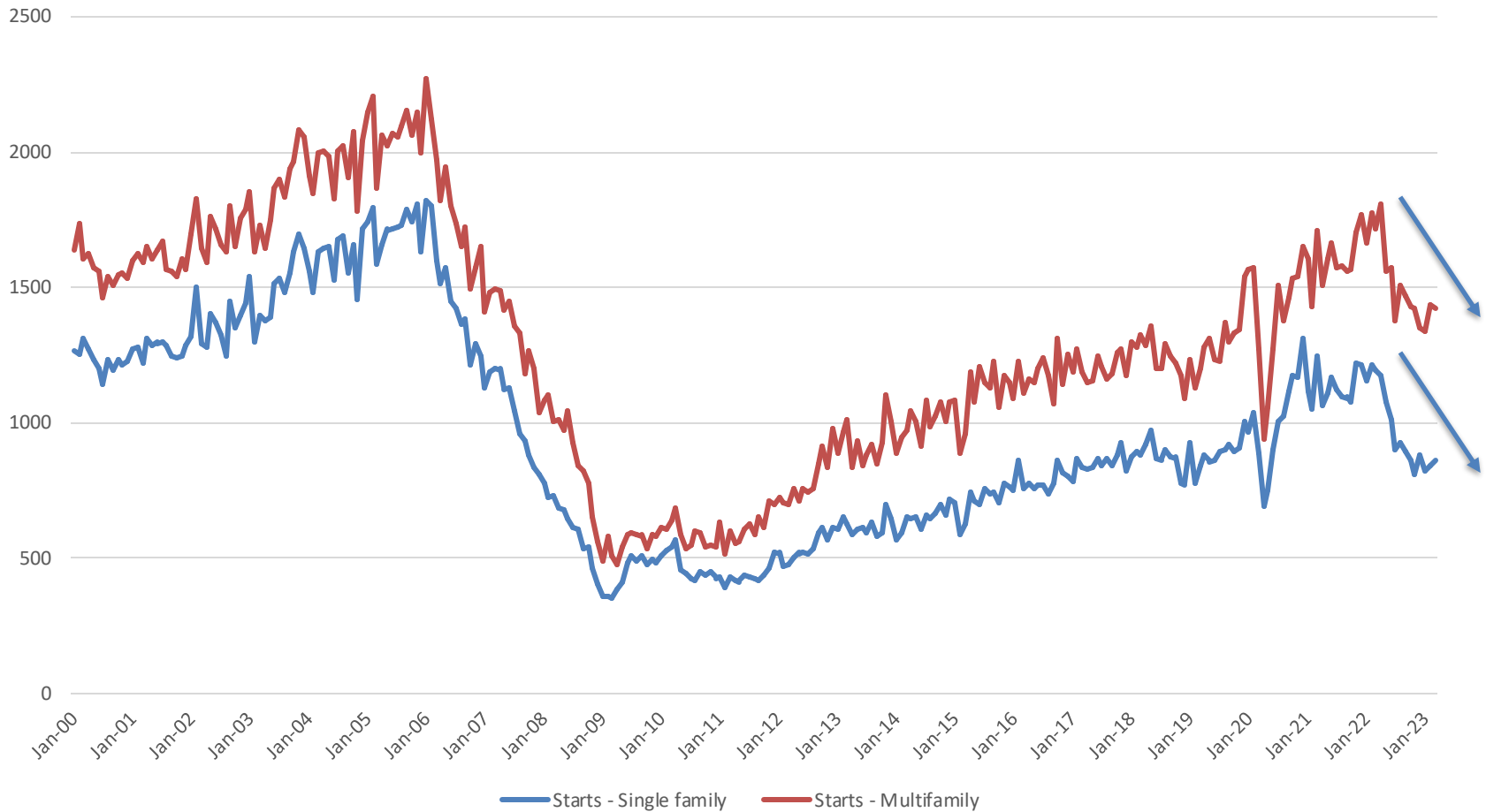
Resulting is a significant undersupply



Source: St Louis Fed, Quay Global

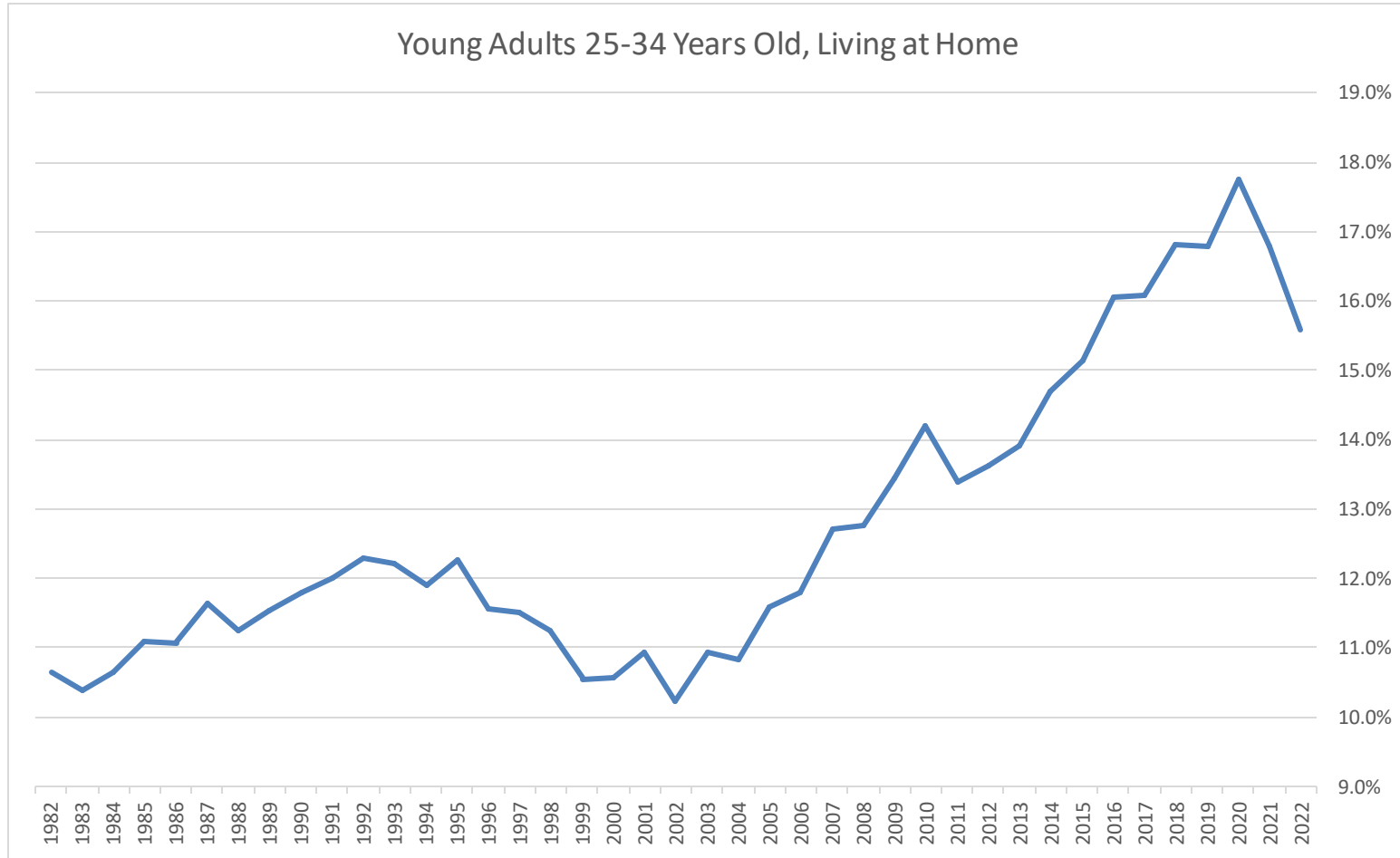
Central bank policy is supporting higher house prices via limiting new supply

US Housing starts



Source: St Louis Fred, Quay Global

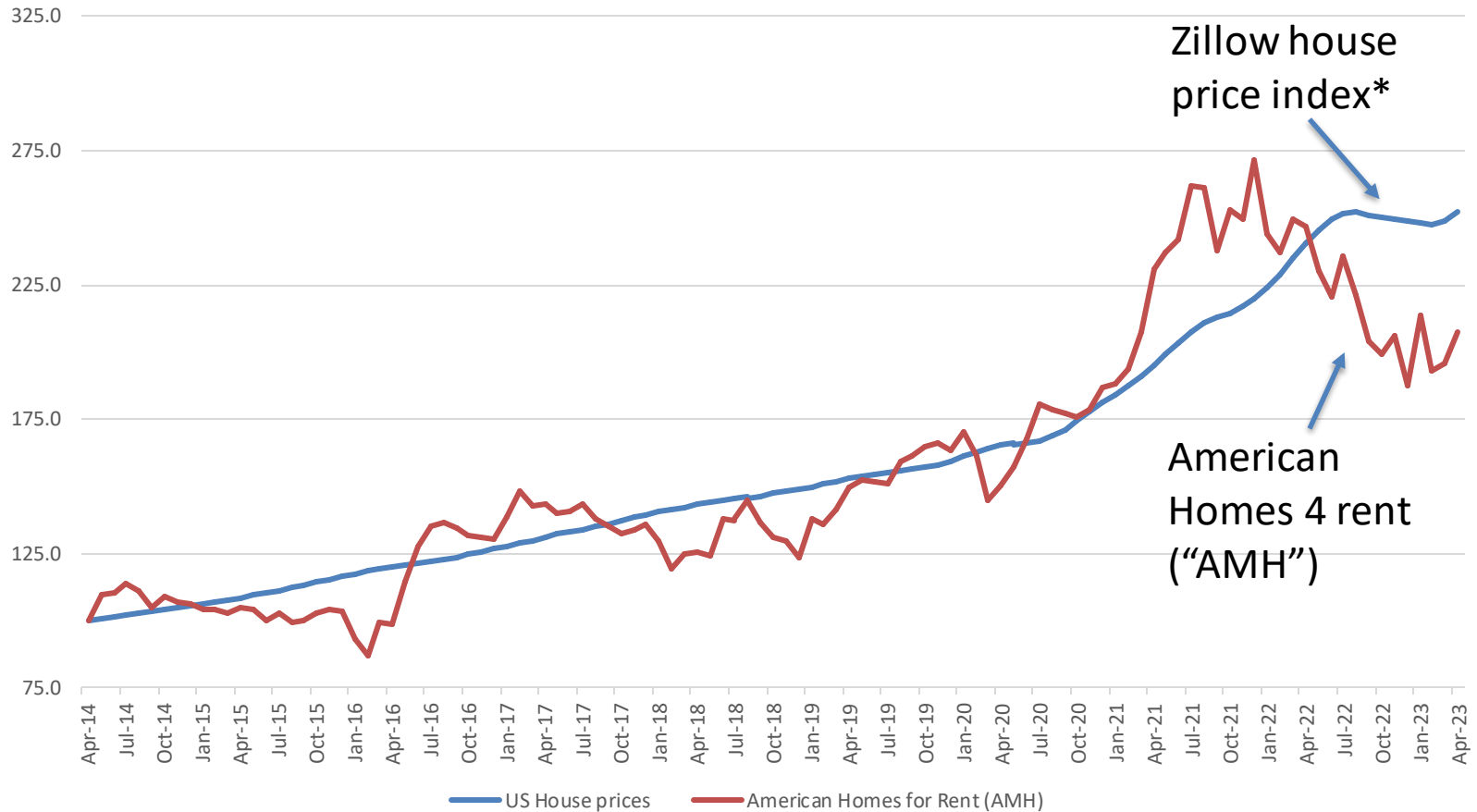
While there remains pend-up housing demand



Source: US Census, Quay Global

Offering significant opportunities

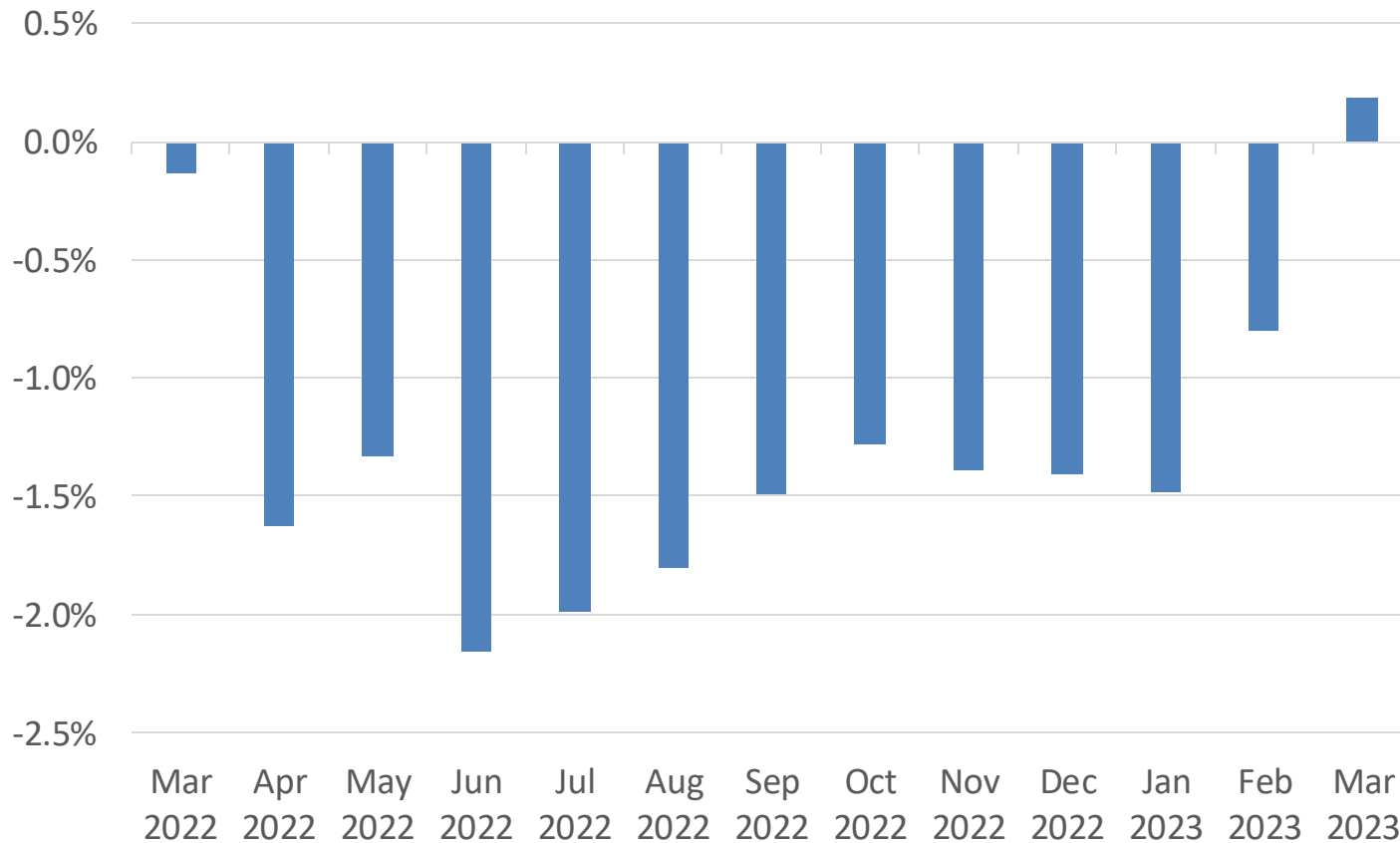
AMH share price versus Zillow Home Price Index*



Source: Zillow, Bloomberg, Quay Global
* Index adjusted to match AMH leverage

Global property prices now recovering – despite high interest rates

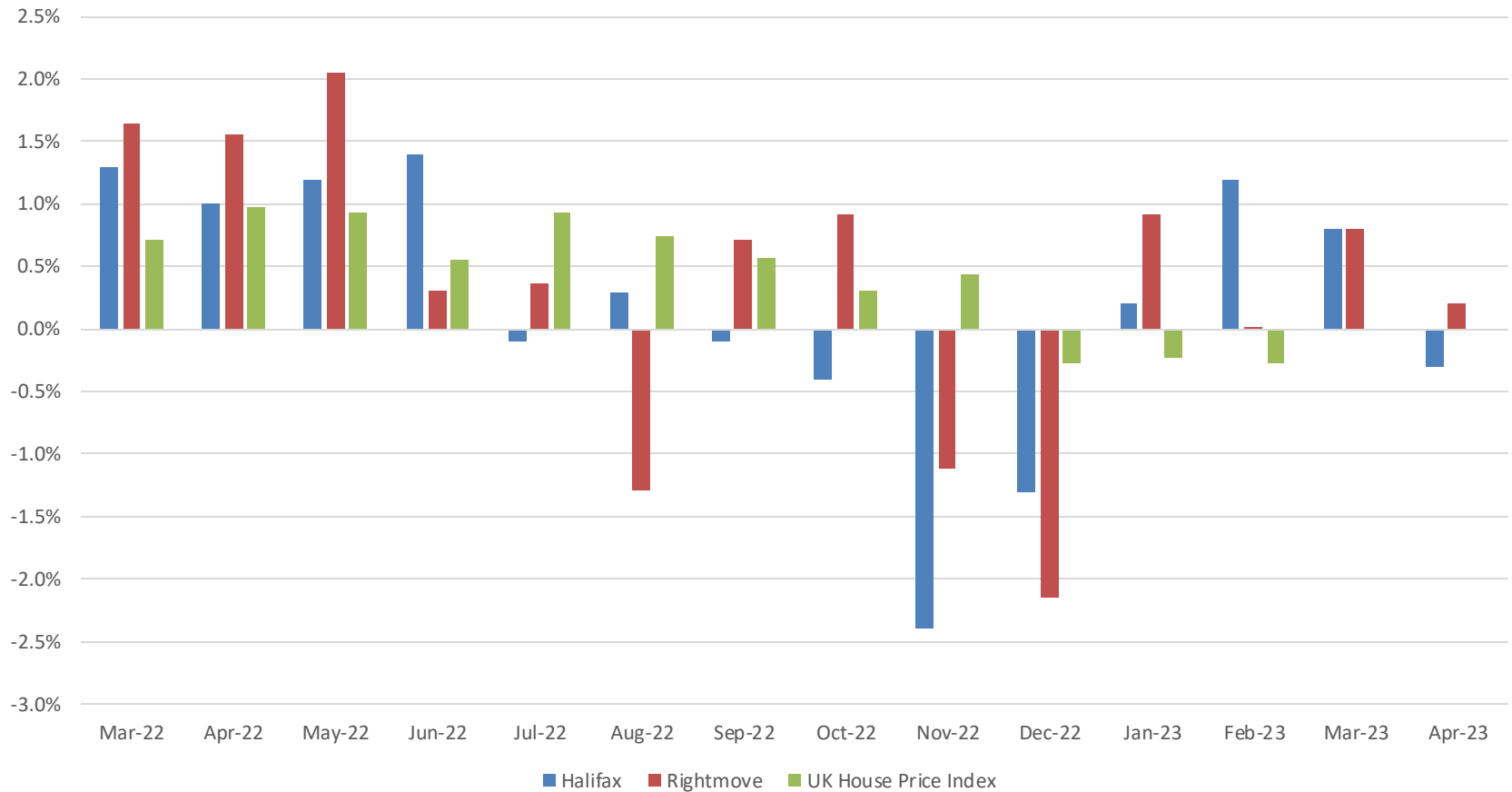
Canada monthly change house prices



Source: Canada Real Estate Association

Global property prices now recovering – despite high interest rates

Monthly change UK house prices

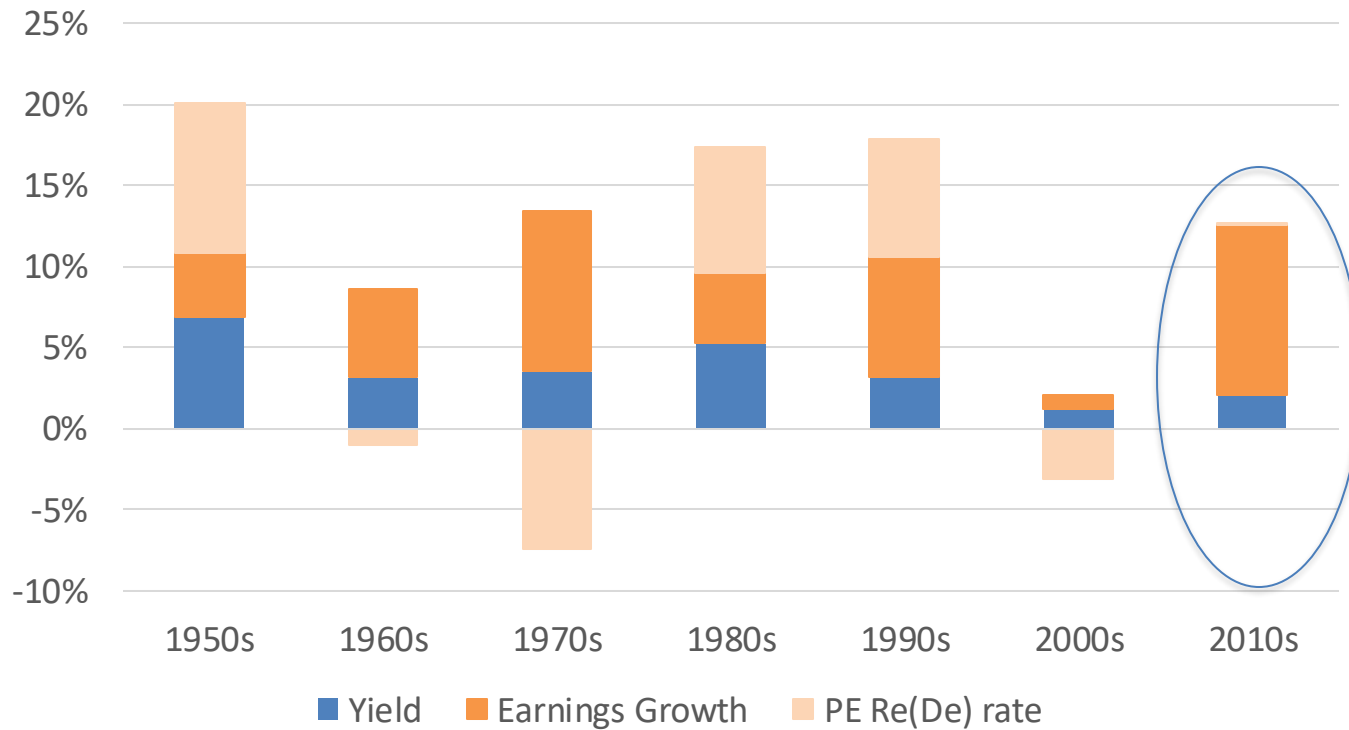


Source: Office of National Statistics, Halifax, Rightmove

Markets

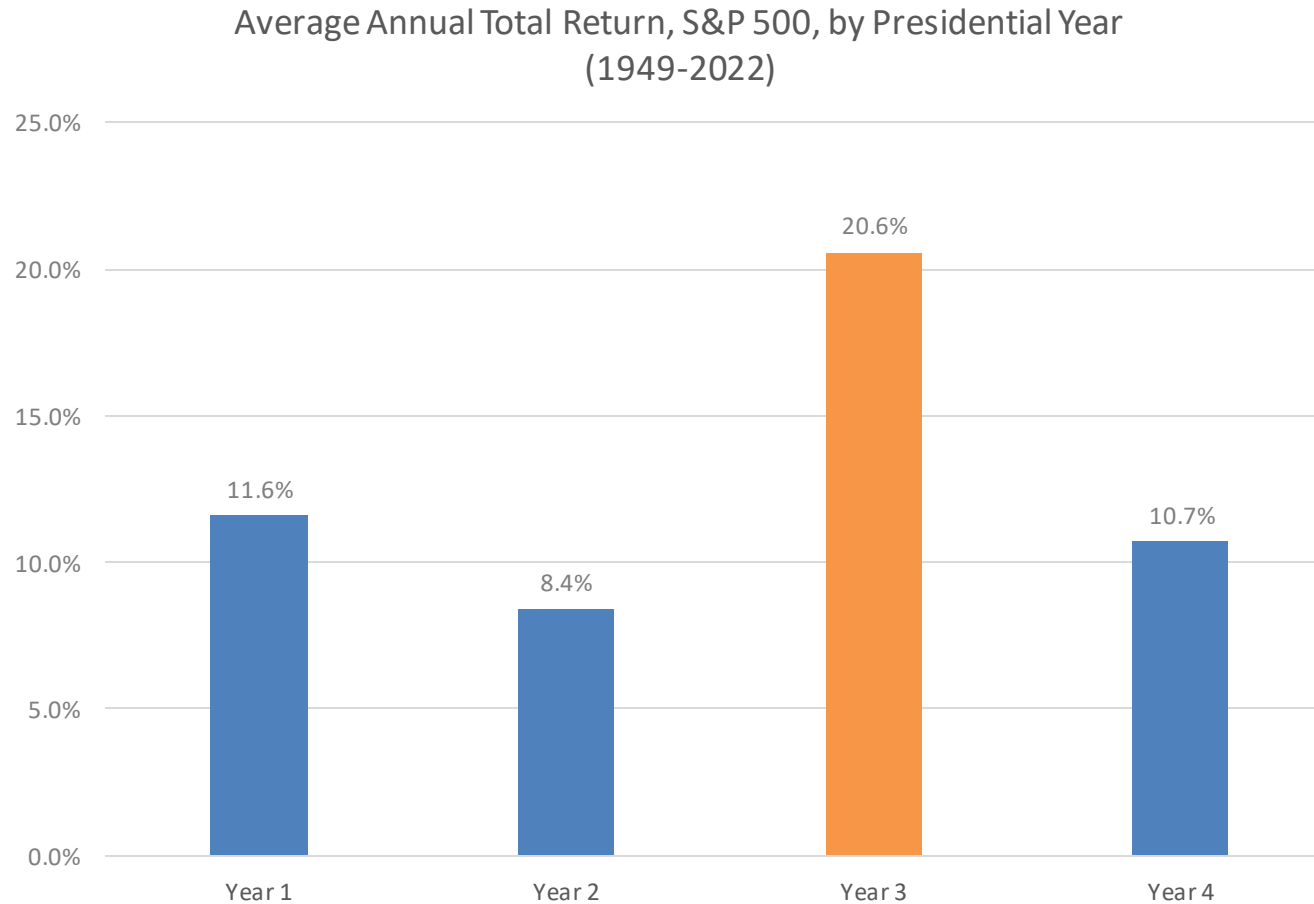
Long term, interest rates matter less than initial yield and earnings growth

US stockmarket sources of returns by decade



Source: Jack Bogle, Ben Carlson, Quay Global

Third year presidential terms are best



Source: slickcharts.com. Quay Global Investors

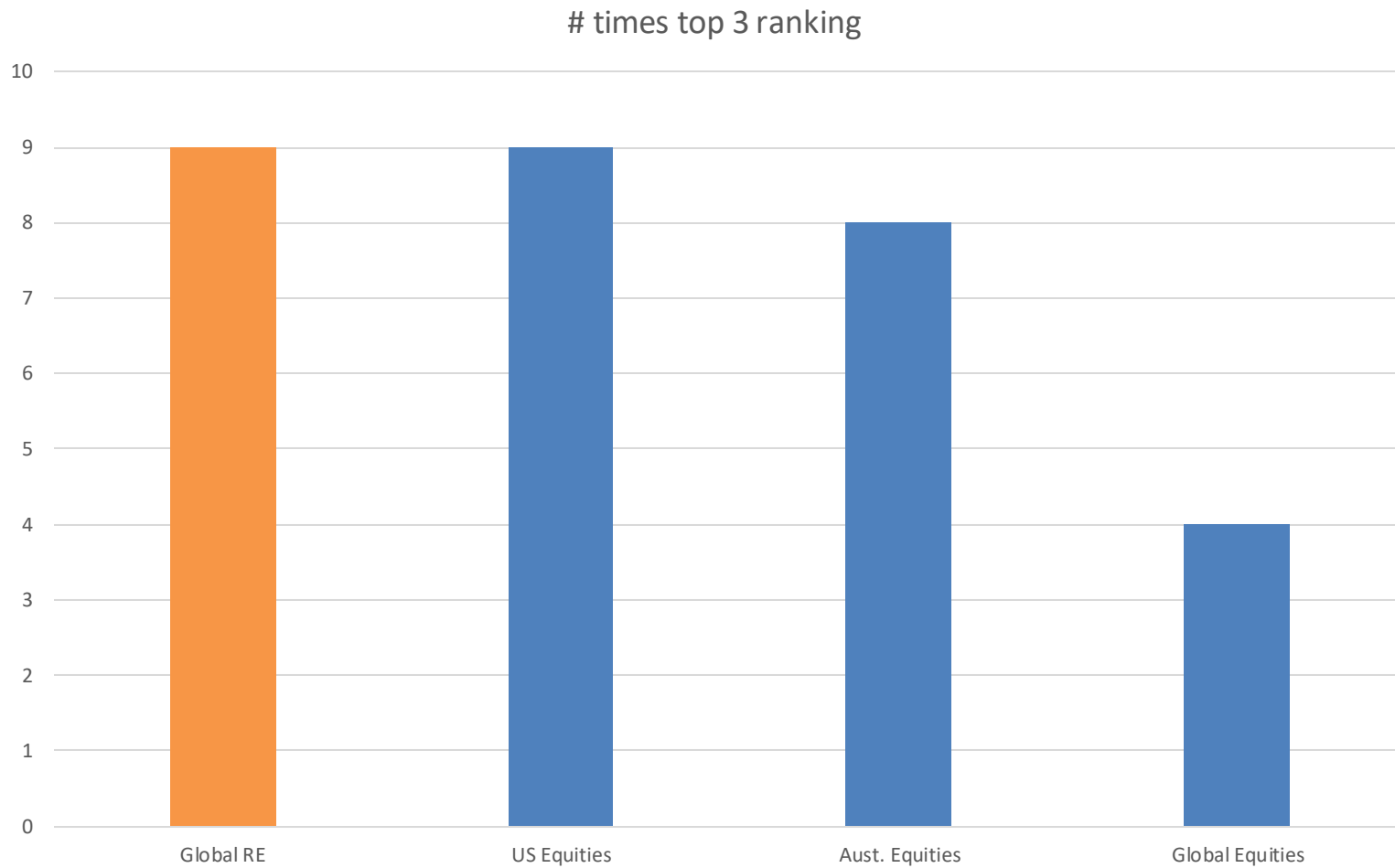
The relative underperformance typically does not last...

Select asset class returned ranked by calendar year

Rank	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Global RE	A-REITS	Gold	Aust. Small Cap.	Global RE	Gold	Aust. Small Cap.	Gold	Global Fixed Inc.	Aust. Small Cap.	Gold	Gold	A-REITS	US Equities	A-REITS	A-REITS	Aust. Small Cap.	Aust. Small Cap.	Global Fixed Inc.	US Equities	Gold	US Equities	Gold
2	Global Fixed Inc.	Gold	A-REITS	Aust. Equities	A-REITS	Aust. Equities	A-REITS	Aust. Small Cap.	Gold	Aust. Equities	Aust. Small Cap.	Global Fixed Inc.	Global RE	Global Equities	Global RE	US Equities	US Equities	Global Equities	Gold	Global Equities	Aust. Small Cap.	Global RE	Global Infra.
3	Gold	Aust. Equities	Global Fixed Inc.	A-REITS	Aust. Equities	Global RE	Global RE	Aust. Equities	US Equities	A-REITS	Global RE	US Equities	Aust. Equities	Global Infra.	US Equities	Global RE	A-REITS	US Equities	US Equities	Global Infra.	US Equities	Global Equities	Aust. Equities
4	US Equities	Global Fixed Inc.	Global RE	Global RE	Aust. Small Cap.	Global Infra.	Global Infra.	Global Infra.	Global Infra.	Global RE	Aust. Equities	Global Infra.	US Equities	Global RE	Global Infra.	Global Equities	Global Infra.	Aust. Equities	Global RE	Global RE	Global Equities	A-REITS	Global Fixed Inc.
5	Aust. Equities	Global RE	Aust. Equities	Global Infra.	Global Infra.	Aust. Small Cap.	Aust. Equities	Global Fixed Inc.	Global Equities	Global Equities	US Equities	A-REITS	Global Equities	Aust. Equities	Global Equities	Aust. Small Cap.	Aust. Equities	Global Infra.	A-REITS	Aust. Equities	Aust. Equities	Global Infra.	US Equities
6	Global Equities	Aust. Small Cap.	Aust. Small Cap.	Global Equities	Global Equities	Global Equities	Gold	Global Equities	Global RE	Gold	A-REITS	Global Equities	Global Infra.	Global Fixed Inc.	Global Fixed Inc.	Global Fixed Inc.	Gold	A-REITS	Global Equities	Aust. Small Cap.	Global Fixed Inc.	Aust. Equities	Global Equities
7	Aust. Small Cap.	US Equities	Global Infra.	US Equities	US Equities	A-REITS	Global Equities	US Equities	Aust. Equities	US Equities	Global Equities	Global RE	Aust. Small Cap.	A-REITS	Gold	Aust. Equities	Global Equities	Gold	Global Infra.	A-REITS	A-REITS	Aust. Small Cap.	Aust. Small Cap.
8	N/A	Global Equities	Global Equities	Gold	Global Fixed Inc.	US Equities	US Equities	A-REITS	Aust. Small Cap.	Global Infra.	Global Fixed Inc.	Aust. Equities	Gold	Aust. Small Cap.	Aust. Equities	Gold	Global RE	Global RE	Aust. Equities	Gold	Global Infra.	Gold	Global RE
9	N/A	N/A	US Equities	Global Fixed Inc.	Gold	Global Fixed Inc.	Global Fixed Inc.	Global RE	A-REITS	Global Fixed Inc.	Global Infra.	Aust. Small Cap.	Global Fixed Inc.	Gold	Aust. Small Cap.	Global Infra.	Global Fixed Inc.	Global Fixed Inc.	Aust. Small Cap.	Global Fixed Inc.	Global RE	Global Fixed Inc.	A-REITS

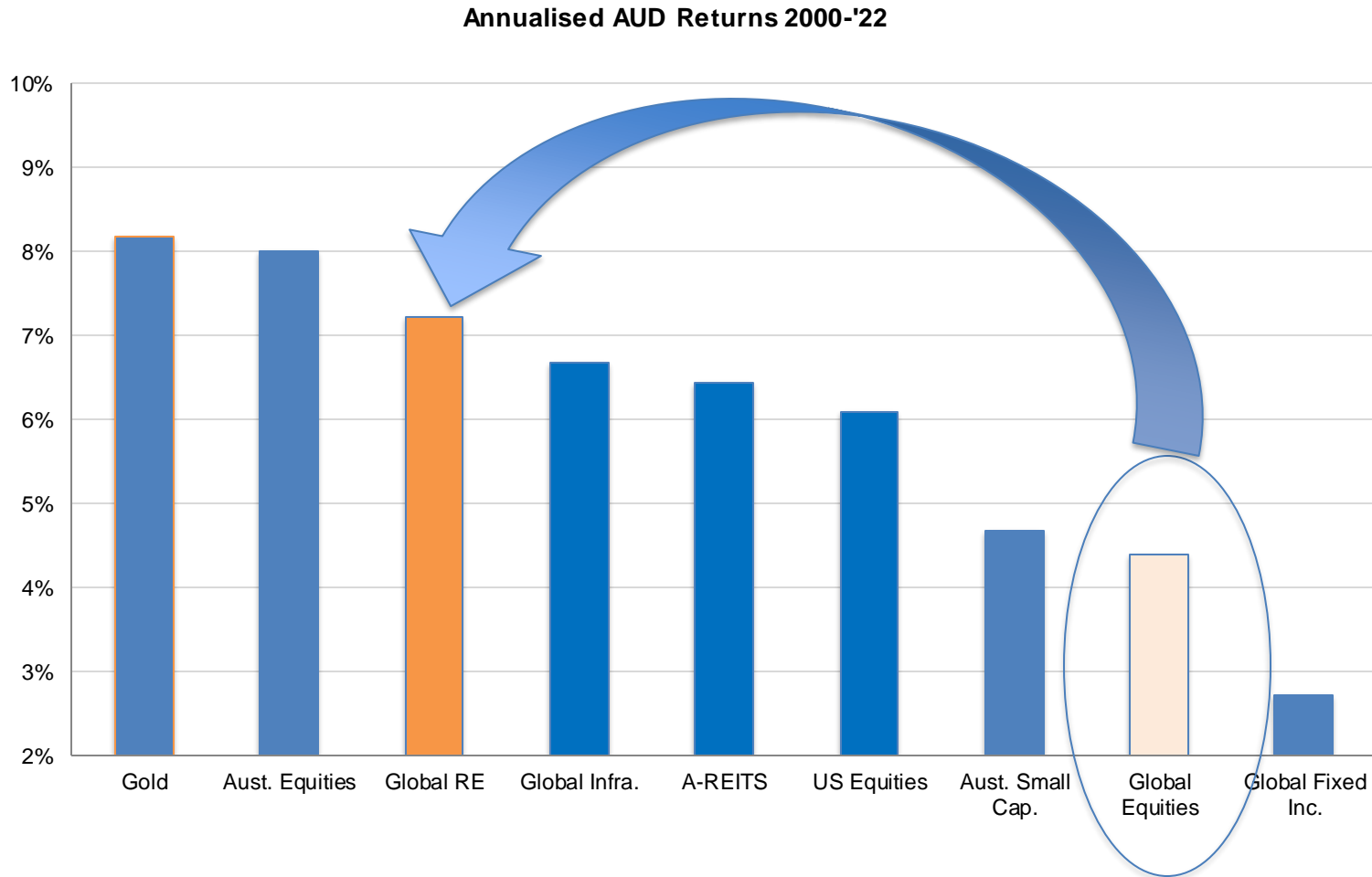
Source: Bloomberg, Quay Global

Leading to consistent performance



Source: Bloomberg, Quay Global

And outperformance relative to preferred international sectors



Source: Bloomberg, Quay Global

Ending question

- What's driving residential property prices right now – interest rates or demand and supply?



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Thank you



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