Venn Brown
Investment Research

Markets and Economics

Discussion with Global Portfolio Manager: John Moorhead

Thinking beyond the ASX

21st May 2025

Venn Brown sat down with Global Portfolio Manager John Moorhead, to discuss his investment process and his views on the current market outlook.

Too small a pond: Australia makes up just 3% of the global equity benchmark, yet many local portfolios are heavily concentrated in domestic stocks. Moorhead sees this as a material risk: the ASX lacks scale and sector diversity, and its highest-priced companies often show the weakest earnings growth. For investors seeking meaningful returns, this concentration may prove limiting. For domestic investors, he believes tech offers a better growth profile than traditional sectors like banks and resources, but selectivity is key.

Global lens, refined focus: Moorhead's investment process applies three filters, quality, valuation and change, to narrow the vast global universe. He targets long-term trends like demographics and de-globalisation, and uses quantitative tools to uncover high-return companies showing performance shifts.

A world of valuation gaps: While US markets dominate headlines, Moorhead highlights opportunities in Europe, Japan and select emerging markets. These regions trade on far lower earnings multiples than the US but are undergoing structural shifts, like infrastructure spending in Germany or fiscal reform in Brazil, that could drive future growth.

Macro with a mandate: Moorhead's experience in emerging markets reshaped his view of macroeconomics. Political shifts, fiscal policy and currency volatility often override company fundamentals. As global governments grow more interventionist, macro factors are no longer peripheral; they're central to managing risk and spotting opportunity.

Volatility as a strategy tool: In a world of macro and market uncertainty, Moorhead sees volatility not as a threat, but as a tool. With government bonds and cash yielding real returns for the first time in a decade, investors can wait and deploy capital when markets dislocate. He stresses the importance of aligning asset allocation with long-term goals and staying nimble enough to act when opportunity arises.

Signals of change: For those without institutional tools, Moorhead suggests tracking valuation and earnings momentum to spot opportunity. Markets showing analyst upgrades or rising returns on capital may be in the early stages of outperformance. ETFs offer accessible ways to align portfolios with long-term global trends.

ASX All Ordinaries

ASX:XAO

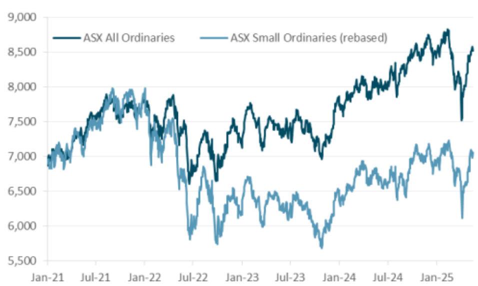
Sector	All
Num. constituents	498
Date	20-May-25
Value	8,573
52-week range	7,524 / 8,825
Market cap	$2,859b
Yield	3.2%

ASX Small Ordinaries

ASX:XSO

Sector	All
Num. constituents	199
Date	20-May-25
Value	3,158
52-week range	2,751 / 3,254
Market cap	$272b
Yield	2.5%

3-year Price Chart



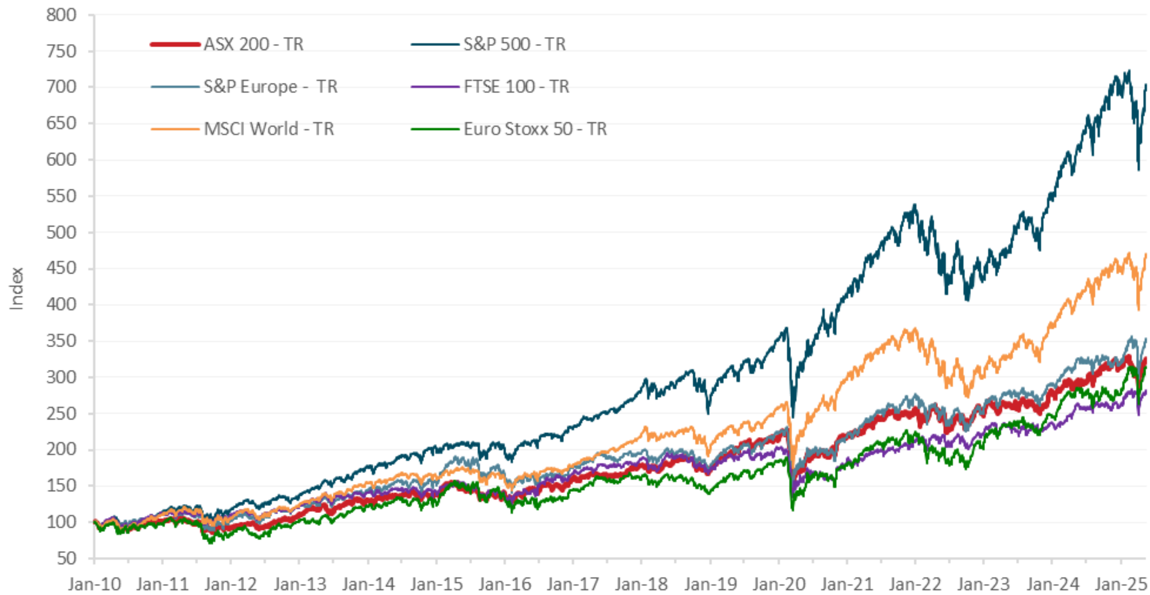
Analysts

Andrew Wilkinson awilkinson@vennbrown.com

Thanks for being with us today, John. I'd like to open by asking, as a Global Portfolio Manager, how do you narrow your investable universe down from thousands of companies to a manageable number?

I rely on a set of core beliefs and a strategic philosophy that guides my decision-making. I focus on long-term trends, such as demographics and de-globalisation, which help identify sectors poised for growth. I then use quantitative screens to identify high-return companies with reasonable valuations and look for changes in their financial performance. This approach helps me find opportunities at the intersection of quality, valuation, and change. By focusing on these factors, I can efficiently narrow the vast array of global companies to a more manageable number.

Figure 1: By only investing domestically, Australian investors are missing significant growth



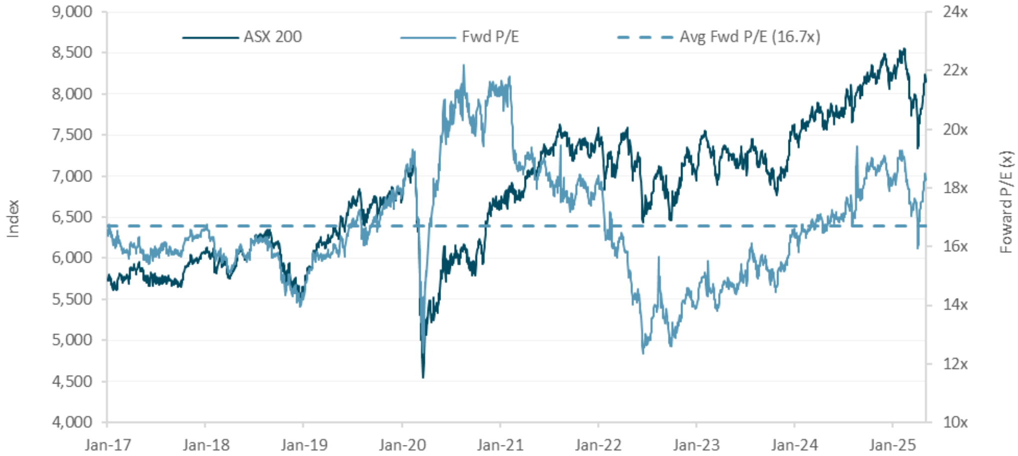
Source: S&P Global, Venn Brown

Which Australian sectors or themes are best positioned for growth over the next three to five years?

Having spent the majority of my career investing globally, I don't focus heavily on specific Australian sectors. However, if I look at the track record of listed tech in Australia, it might be small, but it has delivered meaningful returns for investors above the local market. If I were investing in Australia, I'd lean towards tech over traditional sectors like banks and resources.

The Australian market is relatively small, so it's crucial to be selective, potentially focusing on individual companies rather than sectors. Moreover, I think Australian investors often underestimate the importance of global diversification. Australia represents just 3% of the global equity benchmark, yet many portfolios have significant exposure to Aussie equities. There's a broader world of opportunities beyond Australia, with larger markets offering more potential for growth, which I think investors should consider seriously [see Figure 7 for 5, 10 and 15-year performance].

Figure 2: The ASX200 forward PE is currently above the long-term average

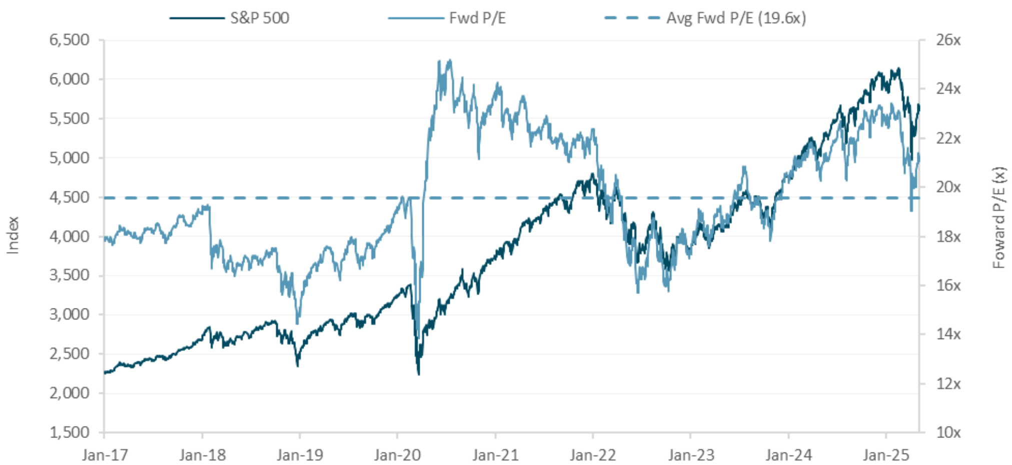


Source: S&P Global, Venn Brown

How do you think about equity valuations globally in Australia, particularly in sectors like tech and financial?

When evaluating equity valuations globally, I'm sure you have seen the press around the premium pricing of the US market – I see the S&P 500 is trading at about 21 times earnings, which is elevated compared to its history. That said, we have never been in a period where the largest companies are generating such high margins and growing at such a fast pace. Companies like Nvidia demonstrate how high-quality, fast-growing companies can justify higher valuations due to their robust margins and cash flow generation. If you go back two years, Nvidia was trading on a 70x forward P/E, but despite the 4.5x jump in share price, the 20x increase in earnings has left it now trading on a forward P/E of around 26x.

Figure 3: S&P500 has spent most of the period since COVID trading above average



Source: S&P Global, Venn Brown

Meanwhile, Australia is not far behind the US at 18 times earnings, with a lot less earnings growth. Interestingly, certain Australian companies, like the Commonwealth Bank, are trading at even higher multiples, around 27 times earnings. And those CBA earnings have grown a total of about 10% over the last 3 years. In comparison, global markets such as Europe, Japan, and the UK, which all might have lower growth than the US, at least trade on much lower valuations, often between 11 and 14 times earnings. Emerging markets like China have been in the doldrums for the last decade and often trade on lower valuations again. This suggests that Australia may have downside risk while other regions have more room for valuation growth.

Table 1: The ASX 200 and S&P500 are trading above long-term averages

Index	Region	12mth forward P/E
ASX 200	Australia	18.3x
S&P 500	USA	21.1x
S&P Europe	Europe	14.7x
FTSE 100	UK	12.8x
Nikkei 225	Japan	14.4x

Source: S&P Global

What are some areas of the market that you're excited about and may be underappreciated or misunderstood?

I find the global investment opportunities beyond the US to be underappreciated by many Australian investors. Despite the narrative of US exceptionalism, there are burgeoning opportunities in markets like Europe, which appears to be turning a corner, and emerging markets that have been underperforming for some time.

Figure 4: Europe recovered strongly from COVID. Is US exceptionalism over?

Source: S&P Global, Venn Brown

I'm particularly interested in the potential of countries like Brazil, which offers high-yielding government bonds, and regions in Europe like Germany, which is increasing infrastructure and defence spending. The German government's shift to deficit spending is the kind of change I believe investors need to be perceptive to. It has the potential to kick-start corporate earnings growth as the spending washes through the economy. While perhaps overlooked, these areas could offer significant growth potential, especially when currencies are factored into the investment equation.

What's your advice to retail investors, financial advisors, and family offices navigating today's uncertainty?

Navigating today's uncertainty requires having a well-thought-out plan for asset allocation over the long term. Volatility is inevitable, so aligning these periods with your strategic plan is vital.

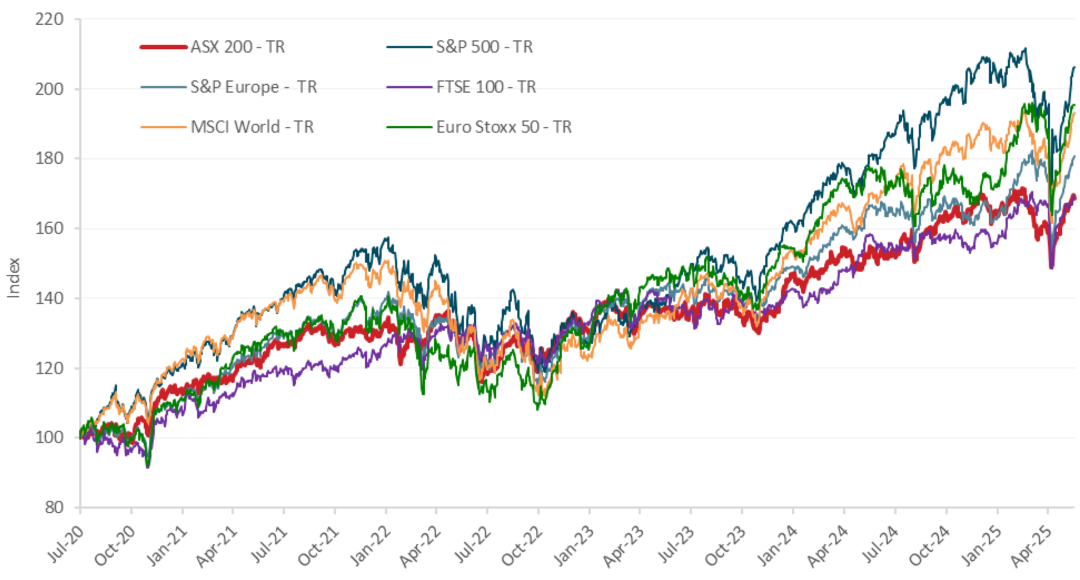
For the first time in over a decade, investors can benefit from holding government bonds or cash, which offer reasonable returns and allow investors to be opportunistic when market downturns present buying opportunities.

It's crucial to remain disciplined, as no one can predict the market accurately. Instead, focus on your long-term goals and be ready to adjust your portfolio when the market presents favourable conditions. Volatility creates opportunity.

Do you have a method for people to identify which regions are going to offer opportunities?

Identifying regions with investment potential can be challenging, especially for retail investors. I typically look at regional valuations, price movements, and, crucially, the earnings trends. The direction of change in a company's or region's performance often signals potential opportunities. Analysts' upgrades and improved returns on capital can be indicators of positive change. However, without access to advanced tools, retail investors might consider focusing on broad market indices or ETFs that expose them to regions or sectors that align with their long-term trends and personal beliefs about market opportunities.

Figure 5: Over the last five years, Australia has underperformed global markets*



* Total return in AUD
Source: S&P Global, Venn Brown

What's the most important global risk that Australian investors are currently underestimating?

Echoing what I said before, I believe Australian investors are underestimating the importance of looking beyond their borders for investment opportunities. Australia's equity market is relatively small and concentrated, limiting the potential for finding the world's best companies.

Table 2: International markets offer broader investment opportunities

Total index returns (AUD)	YTD	1yr	3yr	5yr	10yr
ASX 200	**3.2%**	**9.9%**	**32.3%**	**80%**	**121%**
S&P 500	1.9%	14.0%	60.1%	120%	235%
S&P Europe	10.5%	8.6%	42.9%	93%	88%
Euro Stoxx 50	13.2%	10.6%	64.0%	119%	105%
FTSE 100	8.4%	7.2%	33.5%	74%	83%
MSCI World	5.4%	13.6%	55.3%	108%	169%

*Total returns in AUD
Source: S&P Global, Venn Brown

In contrast, global markets offer a wider range of opportunities for growth and diversification. Additionally, there's a risk of currency fluctuations, particularly with the Australian dollar, which could impact returns if investors are not diversified globally. The potential for geopolitical events, such as tensions involving China or other global powers, also poses a significant risk and needs to be considered in investment strategies.

How has your experience in emerging markets shaped your view on global macroeconomic uncertainty?

Like many entering the finance industry, I started as a company analyst with a focus solely on businesses and their valuations. My experience in emerging markets has made me more attuned to global macroeconomic factors and the impact of political and currency risks on investments. In emerging markets, the macro environment can significantly influence company performance, often overshadowing the fundamentals of individual companies. This has taught me to be more aware of macroeconomic and geopolitical factors, even when investing in developed markets. These considerations are becoming more relevant globally with increasing government involvement, regulations, and geopolitical tensions. Incorporating macro awareness into investment strategies is essential to navigate these uncertainties effectively.

You've previously spoken about Australia's high consumer debt. Can you outline your position?

Australia's got a problem. We have way too much household debt. It currently sits at around 110% of GDP, significantly higher than the rest of the world [see Table 3 and Figure 6]. There are several implications of this:

1. Any interest rate rise will have a greater impact on Australian households than a similar rise in other countries, so it constrains what the RBA can do on interest rates.

2. Higher debt levels also restrict consumer spending. If the world is deglobalising, then GDP growth will be more reliant on domestic consumption. Consumption makes up around 52% of Australia's GDP, placing it in the mid-range compared to other developed economies. If exports decline, Australia will be more reliant on domestic consumption to make up the shortfall, but this is more difficult when the local consumer is already so highly indebted.

Table 3: Australia's high consumer debt limits the RBA's options on interest rates

Region	Household debt as % of GDP	Consumption as % of GDP
Australia	**112%**	**52%**
Canada	100%	55%
South Korea	91%	48%
New Zealand	90%	57%
United Kingdom	77%	62%
USA	71%	68%
France	61%	55%
Euro area	52%	52%
Germany	50%	53%
Singapore	44%	31%
Average	**77%**	**53%**

Source: Bank for International Settlements, TheGlobalEconomy.com

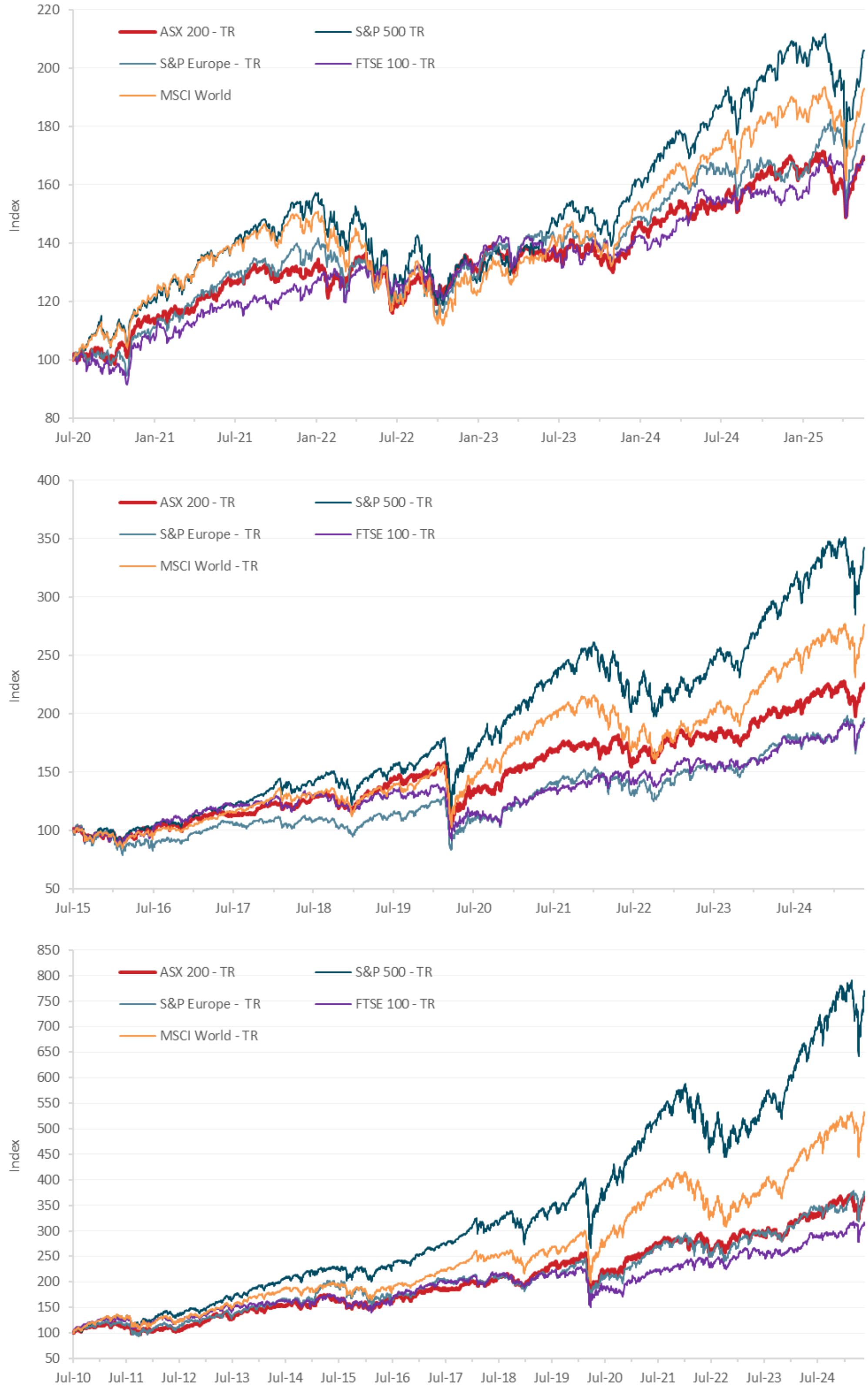
What's worse is that this debt is largely tied to housing, which contributes little to the long-run productive growth of the economy and inflates house prices, which is difficult to unwind. There is a lot of talk on housing affordability, but there is no simple answer to this, when 66% of people in Australia own homes and are reluctant to see new supply pressuring prices of existing homes. Yet, aside from wage growth (which is difficult without productivity growth), declining house prices are the only way to improve affordability.

As for the currency outlook, I don't have Australia's full terms of trade to hand, but we can look at some of the larger items. Iron ore prices have been under pressure and will probably continue to be as large volumes of new, low-cost supply come to the global market from Guinea in West Africa. You've also got downward pressure on some energy prices, including thermal coal and oil. So our export prices are weakening, and our levels of consumer debt limit the ability to raise interest rates. This combination makes it tough to see the Australian dollar strengthening from here. If US growth weakens, the Australian dollar might strengthen against the US dollar, like it has over the last few months, but it's weakening against other currencies and moving more in line with commodity-exporting currencies like Brazil or South Africa. Your readers' summer holidays in Europe are looking a little more expensive this year.

Figure 6: Australia's consumer debt to GDP is one of the highest in the developed markets

Source: Bank for International Settlements, TheGlobalEconomy.com, Venn Brown

Figure 7: The US has significantly outperformed other markets over the last 5, 10 and 15 years*



* Total return in AUD

Source: S&P Global, Venn Brown

Share price performance

Source: S&P Global

Disclaimers

Disclaimer

Venn Brown Pty Ltd ("Venn Brown" ABN 24 665 561 900, AFS Representative No. 001305730) is a Corporate Authorised Representative of True Oak Investments Pty Ltd (ABN 81 002558 956, AFSL 238184). The information, opinions and commentary provided by Venn Brown ("Content") is prepared by Venn Brown. Any person receiving the Content represents, warrants and confirms that it accepts the qualifications, limitations and disclaimers set out in this Disclaimer.

All Content is only available for distribution within Australia.

All Content is intended to reflect a summary of the matters described with respect to a particular company that is covered by the Content (Investment) at a specific point in time. The Content is general only and is not intended to constitute an opinion or recommendation with respect to the Investment. Anyone viewing the Content must obtain and rely upon their own independent advice and inquiries.

Past performance is not a reliable indicator of future performance. Any reference to past performance is intended to be for general illustrative purposes only.

The Content does not purport to be complete, accurate or contain all of the information that a person may reasonably require to make an informed assessment with respect to a particular Investment. The Content may contain forward looking statements in relation to future matters which are subject to known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Investment to be materially different from those expressed or implied by the Content.

The Content has been prepared based on information available to Venn Brown at the date the Content is published. All information is believed to be reliable. However, none of Venn Brown or its related entities (as defined in the Corporations Act 2001 (Cth)) nor any of their respective directors, officers, employees, advisers or representatives (together "Beneficiaries") make any express or implied representation or warranty as to the fairness, accuracy, completeness or correctness of the information in the Content (including, but not limited to, the accuracy, likelihood of achievement or reasonableness of any forecast milestones, returns, yields, future income or other statements in relation to future matters). Nothing contained in the Content can be relied upon as a promise or representation by any Beneficiary.

The Content does not constitute an invitation, recommendation or offer by any Beneficiary in relation to the Investment. The Content is not a prospectus, product disclosure statement or other disclosure document (as each of those terms are defined in the Corporations Act 2001 (Cth)) and does not contain all of the information that would be contained in a prospectus or other disclosure document prepared under the Corporations Act 2001 (Cth).

To the maximum extent permitted by law, the Beneficiaries will have no liability for any loss or liability of any kind: (i) arising in respect of information contained or not contained in the Content; or (ii) arising from a person relying on any information or statement contained herein.

General Advice Warning

The Content may contain general advice, which is prepared without taking your personal objectives, financial situation or needs into account. Before acting on any general advice, you should consider the appropriateness of it having regard to your personal objectives, financial situation and needs. You should obtain and read any prospectus, product disclosure statement or other disclosure document (as each of those terms are defined in the Corporations Act 2001 (Cth)) before making any decision to acquire a financial product referred to in the Content. We suggest you seek independent professional advice if in doubt. Please refer to our Financial Services Guide (available at www.vennbrown.com/disclaimer) for contact information and information about remuneration and associations with product issuers.

Investing in small and medium-cap companies carries inherent risks, with companies being affected by events that may be unforeseeable and out of management's control. As an investor, you are solely responsible for your investment decisions.

Financial products are complex and involve a risk of loss, may rise and fall, and are subject to a range of market and economic factors. It is recommended that you seek professional advice to ensure that trading or investing in such products is suitable for your specific circumstances and that you obtain, read and understand any applicable prospectus, product disclosure statement or other disclosure document (as each of those terms are defined in the Corporations Act 2001 (Cth)).

Disclosures

Venn Brown may be engaged and compensated by the companies featured in its Content for ongoing research coverage. In such instances, Venn Brown receives fees from the company mentioned in the Content for research services and other financial services or advice it may provide to that company. Venn Brown does not receive commissions or other performance based-fees from companies. Please refer to our Financial Services Guide for information about remuneration we may receive in relation to our services. The company has facilitated communication with senior management and provided information on the company and industry. As part of our due diligence, we have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in the report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in authoring this report and making any recommendations.

Beneficiaries may, from time to time, hold interests, transact or hold directorships in, or perform paid services for companies mentioned herein. Beneficiaries may hold securities in the companies mentioned herein and may trade in those securities as principal, potentially contrary to recommendations mentioned in the Content.

Privacy Policy

Venn Brown takes your privacy seriously. This Privacy Policy outlines the types of personal information we collect, how we use it, and how we protect your privacy.

We collect personal information such as your name and email address when you subscribe to our financial research service. We may also collect information about your browsing behaviour and IP address when you visit our website.

We use the personal information we collect to provide you with financial research and market analysis that we believe will be of interest to you. We do not share your personal information with any third parties. We may use your email address to send you updates about our services and promotional offers.

We take appropriate technical and organisational measures to protect your personal information from unauthorised access, disclosure, alteration, or destruction. We limit access to your personal information to authorised personnel who need to know the information in order to provide our services to you. You have the right to access, correct, or delete your personal information at any time. You may also object to the processing of your personal information or request that we restrict the processing of your personal information. To exercise any of these rights, please contact us.

We may update this Privacy Policy from time to time to reflect changes in our practices or for other operational, legal, or regulatory reasons. We will notify you of any material changes to this Privacy Policy by posting the revised policy on our website.

Terms of Service

By using our website and services, you agree to the following terms and conditions. Venn Brown provides issuer sponsored Content on an as is basis. This Content is intended for informational purposes only and should not be considered as a recommendation or advice to invest. The research provided by Venn Brown should be read in conjunction with our Disclaimers and Privacy Policy.

You are solely responsible for any investment decisions you make based on the information provided by Venn Brown. All content provided by Venn Brown is the property of Venn Brown and may not be reproduced or distributed without our permission. Venn Brown may modify or update these terms and conditions at any time without notice.