Anthony Aboud: Three tests for investing through uncertainty

By Perpetual Asset Management

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It's tempting to retreat to safety during times of uncertainty, but a better approach can be to assess the quality of your current portfolio. ANTHONY ABOUD and SEAN ROGER explain.

- Three tests in uncertain times

- Defensive stocks look expensive
- Find out more about Perpetual's Australian equities capabilities

Investors can keep capital at work through geopolitical and macro uncertainty by applying a three-part test to every stock they own, says Anthony Aboud, Perpetual's deputy head of Australian equities.

With energy markets swinging on the US–Iran conflict, rate expectations rising and the rise of AI forcing a reassessment of earnings durability, investors who respond by crowding into traditional defensives are paying higher multiples for safety than history says is wise.

Instead, Aboud says three things matter more than paying up for safety: decisive, founder-minded management, a strong balance sheet to keep options open in a drawdown, and a business model that generates cash.

A company that passes all three tests will hold up through most market conditions, says Aboud.

"It doesn't matter what happens in the short term – at least you'll be in good stead. You won't lose all your capital, and you won't be forced into a discounted capital raising in periods of volatility," he says.

Aboud and Roger co-manage Perpetual's Perpetual Pure Equity Alpha Fund.

Aboud was speaking alongside Perpetual's Sean Roger on the webinar Where to find value in uncertain times.



Safe havens get crowded

Roger says during times of uncertainty, defensive-style stocks like supermarkets and telcos are attractive to many investors because they can offer relatively secure earnings amid economic stress.

"In periods of uncertainty, investors flock to those sorts of companies for the relative safe haven they present with their earnings – and that's something that we're certainly seeing at the moment," he says.

Passive investing flows are reinforcing the shift to the point that many traditional defensives now look expensive.

“They may have near-term earnings certainty, but Telstra (ASX:TLS) is trading at 20-25 times price to earnings multiple, Woolworths (ASX:WOW) is 26 to 27 times,” he says.

“These are historically very elevated multiples relative to the growth that the companies offer.

“The multiple and the price you’re paying for that earning stability brings in another level of risk, which is capital risk – of ultimately the share prices falling over time, be it through an unforeseen hiccup in their earnings or whatever was causing the original uncertainty fades,” he says.

Growth on sale

The flip side of investors crowding into defensives is that quality companies have been sold off.

“I have never, since I’ve been at Perpetual, even looked at Cochlear (ASX:COH) – it’s been too expensive,” says Aboud.

“Now it’s at a cheaper multiple than Telstra, cheaper multiple than CBA (ASX:CBA). But it’s ungeared, it’s got 50 per cent of a global market, it’s got global growth.

“We’re seeing non-fundamental forced selling.”

Roger points to three more quality names where the market has sold off too hard.

News Corp was caught up in the February-March AI sell-off.

“We think the market’s wrong on News Corp,” Roger says. “Both REA (ASX:REA) and the data business have defensibility against what AI and the large language models can replicate. But also what News Corp is, as a big media database, is an input company into AI. They’ve done big deals with OpenAI and Meta to feed their data into those models, which is driving revenue and earnings for the company.

“The stock’s derated back to a valuation we think that’s really appealing.”

Aspen Property Group (ASX:APZ), a developer of land-lease communities and apartments, is down about 25 per cent on rate concerns.

“They’re very well placed within a market that’s got structural tailwinds to deliver really strong growth over a multi-year period,” says Roger.

Nick Scali (ASX:NCK), the furniture retailer, has fallen from the low $20s to $15-16 on consumer softness.

“Nick Scali has delivered excellent financial and shareholder returns over a long period of time,” says Roger. “They’ve got an emerging business in the UK where we think they’ve made a smart acquisition, and that platform looks like it could be a really good foundation to set it up as the next sort of growth driver for the business.”

About Anthony Aboud and Perpetual equities

Anthony is the deputy head of equities and portfolio manager – Perpetual Industrial Share Fund, Perpetual SHARE-PLUS Long-Short Fund and Perpetual Pure Equity Alpha Fund.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

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