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HD **No bull, Highbury retreat a tale to heed**

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It's unusual for investment banks to walk away from corporate fees, so when boutique advisory firm Highbury Partnership cancelled an attempted sale of a $600 million stake in Veda Group for Pacific Equity Partners late on Monday it raised a few eyebrows.

It may have been a bit optimistic for PEP to try and sell another 30 per cent of the listed-credit reporting group at the same price that it sold a 33 per cent stake in the company via Macquarie on August 27. After all, the broader market is more than 5 per cent lower than it was in late August.

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But while the S & P/ASX200 recovered more than 4 per cent in the past week, the market still seems nervous. In a bull market, PEP would have easily sold its remaining stake in Veda.

Investors have been buying the local market recently because they believe it's cheap after it fell 10 per cent from its August peak, and the Australian dollar fell 7 per cent in the same period.

Based on current earnings estimates, the S & P/ASX200 is now trading on about 14 times expected earnings per share for 2015, about 3.5 per cent below the long-term average.

However, if economic growth is weaker than expected, earnings will disappoint. Under that scenario, what looks like a bargain price-to-earnings ratio for the broader market might prove illusory.

Lower energy prices will help the major economies, but global economic growth expectations remain in a downgrade cycle. That's not to say the growth outlook is bleak or that there's anything like the subprime lending crisis on the horizon, but the simple fact is that asset prices globally have been inflated by the most aggressive money printing the world has ever seen, and the final outcome is unknown.

US Federal Reserve minutes recently cautioned that weaker offshore growth and a stronger US dollar could crimp US growth, and while some Fed officials subsequently backed away from plans to end quantitative easing this month and start lifting interest rates next year, the market may now be disappointed if the Fed winds up its QE at next week's meeting.

China does have potential for further monetary easing, but such action hasn't stopped China's slowdown in recent years. The world's No 2 economy is expected to lower its GDP growth rate to 7.0 per cent next year, the lowest since 1990.

China's GDP growth slowed from 7.5 per cent to 7.3 per cent in the third quarter, a touch above market expectations, but extreme pollution probably means China needs to slow further.That leaves the focus on Europe and Japan to try and inspire the world with their own quantitative easing programs, but investors don't seem to have a lot of faith in the ability of European and Japanese officials to keep their respective economies out of a deflationary spiral.

CO datadv : Veda Group Ltd | peprt : Pacific Equity Partners

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