

[Markets](#)[Equity Markets](#)[Investing](#)

Banks are 'not the right place to have your money'

Vesna Poljak *Markets Editor*



Oct 18, 2019 — 12.00am



Magellan chairman Hamish Douglass and Platinum boss Andrew Clifford agree negative interest rates have crippled European banks, but the biggest risk to the equity market is that a negative rates mentality is so embedded that investors think there's no way back.

"This belief about zero interest rates is I think a very, very strong consensus amongst investors the world over," Mr Clifford, the chief executive and chief investment officer of [Platinum Asset Management](#) told Morningstar's conference in Sydney on Thursday.



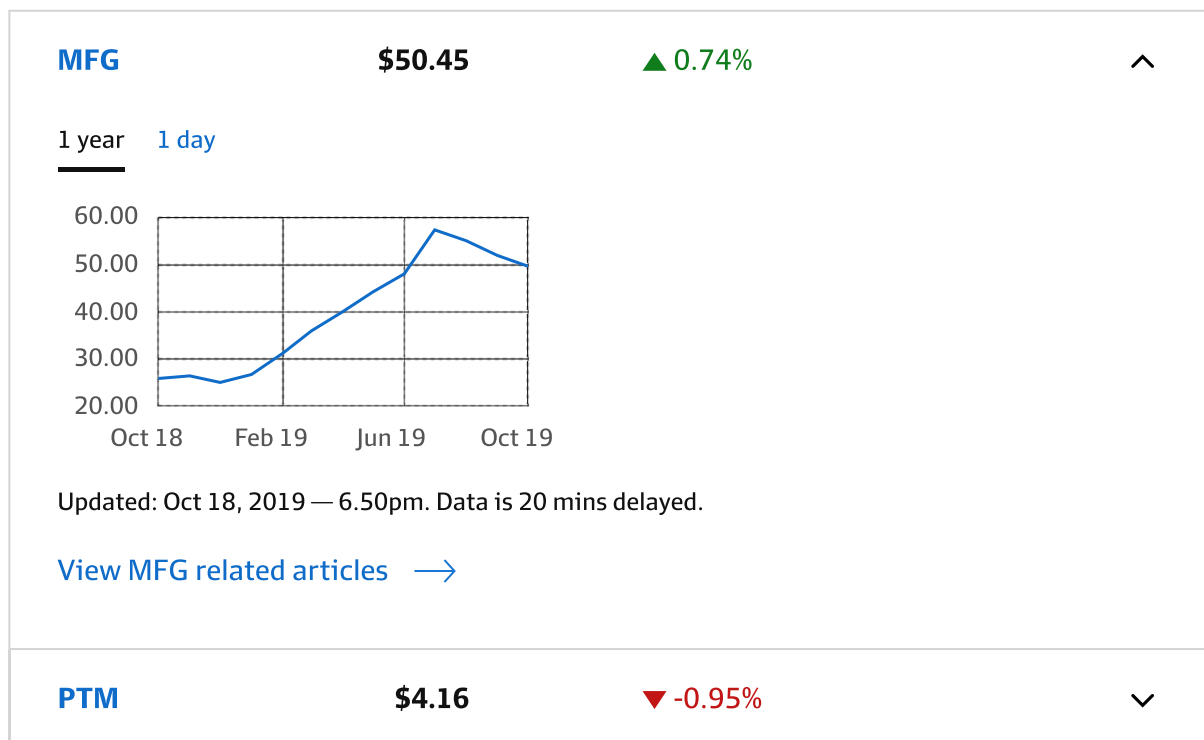
Hamish Douglass, middle, volunteered that Microsoft was "the best software as a service company in the world". Andrew Clifford, right. **Dominic Lorrimer**

He shared the stage with Magellan Financial Group's co-founder, who doesn't own any banking stocks in his global fund. **Even though risk-free rates have fallen**, Mr Douglass was unwilling to rule out a scenario where US wage inflation increases to around 4 per cent and consumer price inflation increases to more than 2 per cent.

That would force a rethink of the dynamic which has dominated shares in the era of ultra-easy monetary policy, and unleash a violent correction.

"I'm not enamoured if I look out the next decade that banks are the right place to have your money yet 25 per cent of [Australia's] equity market is in banks," Mr Douglass said. "Very low interest rates aren't good for savers and it's not good for banks."

RELATED QUOTES



Mr Clifford said the rally in German bunds meant an investor could lend the German government \$100 and get \$93 back in 10 years' time on a yield of negative 0.7 per cent.

"Here's the problem, we've already re-rated the stocks for low interest rates, now maybe more money's yet to arrive, you can never judge these things entirely, but this is history now," Mr Clifford said. "So if interest rates go to zero there will probably still be more people brought into the market and it will probably elevate a

little bit higher, but as Hamish said, the big risk is the opposite.

"The big risk is for some reason rates go the other way."

Co-ordinated fiscal spending could be the source of an inflationary pulse, he suggested. But the other source of resistance was the health of the banking sector itself.

"The problem is the business of being a bank is getting deposits in, that's normally what most banking businesses are about.

"When rates go to zero, banks still have to maintain their cost bases and extensive branch networks.

"You start driving the cost of lending down but their cost of money is not going down, and it is the fear of this that has resulted in the European banks trading at half book value and below," he said.

Bank of Ireland and Intesa Sanpaolo were terrific banks which dominate their markets, but are experiencing "appalling" returns on equity.

"What I can tell you in the case of Intesa is in the worst possible business conditions they're paying you a dividend of 10 per cent. So all we need there is a little flip, interest rates, a little bit of credit growth [and the stock would re-rate]," the fund manager said.

Mr Douglass rubbished suggestions that the US equity market is expensive, saying: "It's the biggest load of nonsense I've ever heard." Some sectors had uneasy valuations, he agreed.

The fund managers discussed software as a service (SaaS) stocks, which Mr Clifford thought were "starting to look like they're in a good bear market".

"The most scary ones are in Australia, because there's only a small number to choose from. The US ones are much better quality, prospects," Mr Clifford said. "They're on very high valuations there too, but not as high as some of the ones here."

Mr Douglass volunteered that Microsoft was "the best software as a service company in the world" but it was not trading at comparable multiples.

"We own it in a big way."



Save



Share

License article

READ MORE[Investing](#)[Wall Street](#)[Magellan Financial Group](#)[Hamish Douglass](#)[Andrew Clifford](#)[Platinum Asset Management](#)

Vesna Poljak is The Australian Financial Review's Markets Editor. She covers equities, bonds, currencies and the economy with a special interest in the investment industry, hedge funds and accounting. Vesna is based in the Sydney newsroom. *Connect with Vesna on [Twitter](#). Email Vesna at vpoljak@afrc.com*



MOST VIEWED IN MARKETS

- 1 Banks are 'not the right place to have your money'**
- 2 WiseTech tests the wisdom of the ASX**
- 3 Wisetech calls short report 'unfounded', 'untrue'**
- 4 Australian shares in weekly advance as IOOF, CYBG rally**
- 5 ASX dips; WiseTech hits back at fraud allegations**

LATEST STORIES[Visual art](#)**Pill popping on a grand scale**[Philanthropy](#)

[View all articles](#)

Why this billionaire gave \$20m to a private school

Opinion [The AFR View](#)

BCA's New Generation

Opinion [The AFR View](#)

Johnson must add one last Brexit feat

SPONSORED

RECOMMENDED

Treasury Wine CEO defiant on share sales



Design's influence on luxury



Time to 'get out': Architect's pay hit by slump



Why Ahmed Fahour is a target



powered by plista

PROMOTED

Why this billionaire gave \$20m to a private school



Leadership is not easy in an age of uncertainty



Johnson must add one last Brexit feat



How personal style can help shape your career



CBA hit with second class action lawsuit in 2 days



Boris is Brexit's Rocky Balboa: often down, but never yet...



powered by plista

THE AUSTRALIAN Financial Review Magazine

Celebration of the seasons in a culinary theatre

Adam Scott glimpses future through the business of golf

How woodworking helps this hedge fund manager

High-flying designer David Caon on the books that keep him grounded

The reluctant vintner who became Winemaker of the Year

BOSS

We're ready to boom, says Incitec Pivot's Jeanne Johns

Company directors wrestle with competing demands

Why this CEO refuses to get up at dawn

Company boards need directors with entrepreneurial flair

A third of boards say CEOs are too optimistic

Life & Leisure

Sanjeev Gupta buys Potts Point trophy home

We road-test the long-awaited, all-electric Porsche Taycan

Why the first all-electric Porsche is not an SUV

Swimming with sharks off Ningaloo Reef

LA rock meets Scandi cool at Anine Bing's first Australian outpost

Special Reports

The brands driving a sustainable future

Generating yield in a low interest rate environment

Start-ups offer enormous rewards but skill and patience required

Property investors thinking beyond the home

Social impact integral to entrepreneurial success, say young

[My Premium AFR](#)

[Subscription Terms](#)

[Contact & Feedback](#)

[Markets Data](#)

[Brands](#)

[Our Network](#)

© Copyright 2019 The Australian Financial Review

[Reprints & Permissions](#)

[Privacy Policy](#)

[Terms & Conditions Of Use](#)

