

Five questions on the US election result—November 2016

Video transcript

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Danielle Clarke (DC): Welcome to *Five questions on the US election*. I'm Danielle Clarke, UniSuper's Communications Manager, and I'm here with our Chief Investment Officer, John Pearce. John, I think it's fair to say that yesterday's outcome came as a surprise to many of us watching around the globe. Does this spell another Brexit-type situation?

John Pearce (JP): There are some similarities, Danielle. There are a lot of disenfranchised and angry people around the world. It seems to me that the vote is as much 'anti-status quo' as it is 'for' anything. Now obviously, initially anyway, it took the market by surprise and there was quite a drastic reaction—markets selling off quite dramatically. What surprised me, though, is how quickly it's recovered. Here's a graph of the Dow Jones. What a V-shape recovery—at one stage down close to 800 points, and now it's actually trading above the levels we saw before the election. And of course, after Brexit, too, we saw a recovery in the stock markets—although that did take a bit longer.

DC: So calm has returned pretty quickly, can we expect it to stay that way?

JP: I'd like to think so, Danielle, but personally, I wouldn't be surprised to see more volatility. To me what is critical now is the language that Trump uses. Obviously, along the way, he's managed to upset a number of groups—countries even—and it's important to me that we see some olive branches, in particular with respect to the major trading partners. All eyes are also on who Trump puts in his administration. I think it's fair to say that everyone has got huge doubts on his qualifications to be the President and those doubts could be somewhat alleviated if he employs some very competent people around him. Secretaries of State, Defence, and Treasury are critical positions and we need to see some really highly-competent people in those positions.

DC: As an investor, John, what are your main concerns with the outcome and on the flip side, can you talk us through any positives?

JP: Well, let's leave aside geopolitical concerns because there's too many unknowns there. The biggest issue I have, or the biggest concern I have, is with trade policy. And the US President has a lot of power when it comes to anything international. Not only can the President walk away from potential trade agreements, he can actually rip up existing ones. Now Trump has convinced his supporters that trade has cost jobs so he almost has to do something. He's talked about increasing tariffs. China, for example, he's talked about accusing China of being a currency manipulator. The last thing we need to see is a trade war sparked by the largest economy in the world. Trade wars are just not good for economic growth, period. Having said that, all politicians when they're running for office use rhetoric to get elected and when they find themselves in office, they do tone it down. Even Clinton was a protectionist in some of the things that she was saying. So I'm hoping that candidate Trump turns out to be a different person than President Trump.

In terms of positives, one thing we have to bear in mind is that the US economy is doing pretty well. Unemployment is low, and it's got on to this self-sustaining path and it's difficult to see a change in presidency disrupting its natural growth. Furthermore, if you look at Trump's platform, it was all about increasing spending, reducing taxes. Now he's also promised to reduce the debt and the maths doesn't work—but at least in the short term, you can make a case for positive influence on the US economy and I think that's what the equity market is focusing on at the moment.

The other thing to bear in mind—unlike foreign policy, there are quite a few checks and balances on presidential power when it comes to domestic policy. The President has a very powerful right of veto, but to actually enact legislation, he needs the support of Congress. He's made a few enemies on the way so he's probably not going to have a particularly smooth path there, which is not a bad thing because it means that some of his far-fetched ideas are probably not going to see the light of day.

DC: John, the most pressing question for our viewers will be what this means for them and their super balance. How do you think our viewers and members might be impacted?

JP: Look if the bounce in the market is sustained, there'll be absolutely minimal impact. And we also have to keep coming back to our portfolios and the resilience of the companies in the portfolios. I've got here our top 20 holdings of our Balanced option and you see it's very diversified. If you just focus on the top two, for example—once again, it's Transurban and Sydney airport. Similar to the sort of story that we talked about post-Brexit, the advent of Brexit, the advent of Trump—is it actually going to stop people from traveling on our toll roads, visiting Sydney airport? Of course not. So we have to keep coming back to that. Over the next year, we're going to have more elections in Europe and we could see more volatility. But once again, I can't see that impacting the operating performance of our key holdings, and that's what we have to bear in mind.

DC: So are you and the team going to make any changes to our investment strategy as a result of yesterday's outcomes?

JP: The short answer is no, Danielle. Having said that, we are holding more cash than we usually hold, and one of the reasons was in anticipation of a potentially upset result of this election. And that cash is giving us a bit of flexibility to take advantage of some opportunities. We're also finding a lot more members switching from growth options to defensive options, including cash, because members are nervous—and I will say this is a perfect time if you're feeling nervous to see one of our financial advisors. But while members are switching and effectively selling, we're not. And we don't have to sell into a weak market because we've got cash. The bottom line is I'm pretty comfortable with the shape of our portfolios.

DC: That's good to hear. Well, thanks, John. If you've got any questions for John or feedback for us, please email us at superinformed@unisuper.com.au. Thanks for watching.

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