

Vince Pezzullo: What Trump's America means for Australian investors

By Perpetual Asset Management

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Donald Trump promises sweeping deregulation and a re-industrialisation of America. That has important implications for Australian investors. VINCE PEZZULLO explains.

- Trump win means higher economic growth
- Deregulation, energy impact
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THE return to a Trump presidency in the US will usher in a new era of stronger global economic growth, and investors should consider lifting their allocation to offshore equities, says Perpetual's head of equities Vince Pezzullo.

Donald Trump delivered a resounding victory at last week's US election, sweeping the so-called battleground states and winning the popular vote in a stunning political comeback that promises to reshape the US economy for decades to come.

Key among Trump's likely policy changes are sweeping deregulation, a move to energy independence, increased use of tariffs as a trade tool, and higher targets for real domestic GDP growth, says Pezzullo.

"We're going to see a realignment of growth around the world," he told shareholders at last week's [Perpetual Equity Investment Company Fund \(ASX:PIC\)](#) AGM.

"The new administration is pushing for a higher real US GDP number of 3 per cent – this is significant given it's the largest economy in the world.

"They're also talking about significant deregulation in the US.

"If you look at the last several years, we've been living in a world of regulation of many different industries, putting rules in place to try and direct money into certain industries.

"We've seen the cost of that in the higher cost of living. Regulations make costs higher – I suspect that is going to revert."

Wave of deregulation

Pezzullo says US policy changes will unlock a global wave of deregulation.

"Deregulation in one market eventually will bleed into the rest of the world, because you're going to have to lower your cost – and the easiest way lower your cost is to deregulate."

He says banking could be the first industry to benefit.

"They are trying to get the US banking system to start lending again – quite interesting in 10 years' time, but it's going to be good in the next five years," he says.

US energy independence

Another important shift will be the new US intention to achieve "oil independence" which has the potential to provide a competitive advantage to American industry and allow for a re-industrialisation of the US economy, says Pezzullo.

“They’re going for a system of energy which is self-dependent [and] low cost, which allows them to invest in other industrial assets and petrochemicals,” he says.

“Using natural gas as more of an energy source, rather than an export material, might put pressure on oil prices in the rest of the world.”

The shift to energy independence will also likely lead to a recalibration of the previous administration’s emphasis on climate change and environmental issues and dampen enthusiasm for electric vehicles.

This means there could be less demand for the minerals associated with clean energy technologies which will have implications for Australia, says Pezzullo.

Fragile Australia

By contrast, Australia’s fragile energy system leaves the economy exposed to higher import prices for energy, particularly gas, meaning local energy prices are higher than needed, says Pezzullo.

This disadvantages Australian businesses.

Pezzullo also cautions that the inflexible Australian labour market is adding to wages costs and putting upwards pressure on inflation.

That means Australia is likely to have a higher level of persistent inflation than the US, putting it at a disadvantage to a fast-growing US economy.

“The US is setting itself up to be a low cost, higher output economy.

“If I compare that to Australia, we’ve got a very fragile energy system and a pretty inflexible labour market, which adds up to high cost.

“These are all feeding inflation – we will have a higher level of persistent inflation in Australia because we have these rigidities.

“The US is saying ‘we’re going to remove these rigidities, allow the market to work on itself, have less government direction and directed investment, and have the market do the job itself’.



Look offshore for returns

So, how can Australian investors position for the change?

Pezzullo says a key step is to position more of a portfolio overseas to capture the higher growth and the benefits of US deregulation.

“Australia is going to be a high-cost economy with more embedded inflation in it, which means our rates probably stay a little bit higher for longer.

“So, for a portfolio, we need to be a little bit more exposed internationally.”

PIC’s benchmark is the S&P/ASX 300 Accumulation Index, but it has the flexibility to invest up to 30 per cent of its portfolio in global listed securities.

Pezzullo says balance sheet strength will be a key feature to look for as higher interest rates put pressure on domestic businesses.

“It’s not just the cost of debt, but also taking advantage of any opportunities when there’s accidents in the economy.”

And he says the ability to reinvest at a high rate of return is important so businesses can find growth.

Diversification also remains important.

“A spread of investments across multiple sectors – and having the international exposure – gives us a lot of flexibility to protect the portfolio that we’re not locked into resources and banks, which

in Australia is half the market.”

About Vince Pezzullo and Perpetual Equity Investment Company (ASX:PIC)

Vince is Perpetual’s head of equities and portfolio manager of Perpetual Equity Investment Company (ASX:PIC).

Vince has more than 20 years of experience in financial services including global experience as an analyst and portfolio manager.

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PIC is managed to provide investors with an income stream and long-term capital growth.

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

We have a track record of contributing value through “active ownership” and deep research.

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