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Woodhall's Wrap

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It's all about Trump

Trump-fuelled global growth
Aussie jobs not that great
Oil prices move markets

The Big Picture

Love him or hate him, everyone needs to know what Donald Trump means for their investments. He will soon be President of the United States of America.

When we bypass his views on various non-economic issues we see a man who is prepared to stand up for real economic change and growth. Trump will not be more of the same. He will boost US growth through quality infrastructure spending – and that will flow through to global growth.

Governments around the world have become more and more indebted since 2008 in an attempt to prevent economic collapse and then promote some economic growth. Some say these policies didn't work. But you would need a time machine to take us back to 2008 and change the policies to make a definitive assessment. Since we can't do that we must rely on the fact that economies did a lot better than many economists were predicting in 2008 and 2009.

A couple of Nobel Laureates and a lot more were then predicting a recession as deep – or deeper – than the Great Depression of the 1930s. What we got wasn't great but it certainly wasn't anywhere near that bad. Australia didn't even experience any sort of recession.

But most analysts now agree that such monetary policy has run its course. The world is not in dire straits – not even slightly. But a common problem in developed economies is that measured unemployment is low only because people on average are working fewer hours and in lower paying jobs.

No one has stood up to the plate and presented a solution to the problem of underemployment – until Trump came along! He plans – amongst other things – to renew old US infrastructure and build new projects. Not only will the spending flow through the whole economy, it will provide jobs to the sort of people who lost them as manufacturing declined in the west.

But there's more! Better infrastructure means increased productivity as, for example, transport times fall. And then there is the positive impact of a rapidly growing US economy on the world! It is a gift that keeps on giving.

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China reported good economic data during November and before. If they have a bigger market for their exports, a mini resources boom 'Mark II' might flow – which is arguably why iron ore prices doubled over 2016.

On the negative side, Trump is also talking about trade restrictions. But he is not a fool and so he may only tinker at the edges of this policy to placate his electorate. The US needs trade just as do we (and everybody else).

Our employment data really disappointed again. It is now 10 straight months that we have experienced falls in full-time employment. We need infrastructure spending too. But our governmental system isn't working well enough to do a Trump here. It doesn't matter if one looks at the Labor governments of Rudd and Gillard, or the Coalition governments of Abbott and Turnbull, all we see is squabbling with few decent policies being enacted.

Discussions about oil supply restrictions have seemingly moved markets while alternative views got aired. But part of the oil price increases is not OPEC related. The almost euphoria over 'Trumponomics' has fuelled speculation about world growth and the commodities the 'old normal' will then need.

Since it is a couple of months before Trump sits in the Oval Office, and a lot longer before he gets any bills through Congress, we are all jumping the gun a little. 2017 economies should be much like we thought before Trump. But markets should lead the 2018 expected economic growth and beyond. At last things are starting to take shape. Put the champagne on ice!

Asset Classes

Australian Equities

The ASX 200 dipped down to about 5,050 during the election counting on the Wednesday the 9th but rallied to 5,500 after a few days. Volatility is quite reasonable again.

The index was up +2.3% on the month led by Energy (+3.7%), Materials (+2.3%) and Financials (+4.3%).

We have the market priced at just under fair value compared to having being cheap by about 6% earlier in the month.

Foreign Equities

All four Wall Street indexes hit all-time highs on the day after Thanksgiving. Before that, Wall Street suffered nine consecutive days of losses leading into the election – the worst run since December 2008 when markets were in melt-down!

Europe experienced 11 consecutive days of losses but, by and large, all markets rallied into the November close.

Market volatility has also subsided leaving investors increasingly comfortable about getting back into the market.

Bonds and Interest Rates

Bond yields rose dramatically on Trump's victory. That means the price of the bonds fell.

The US Fed is almost certain to hike rates for the first time in a year come mid-December. While the market has a hike priced in with about a 100% chance, there is no reason for the Fed to rush, especially as Trump may not ignite the economy until 2018. We think the Fed will move slowly until stronger growth takes hold. There is an outside chance the Fed is on hold in December!

The Reserve Bank of Australia kept rates on hold at 1.5% and some are now saying the next move is up. Until our government can do something positive on infrastructure spending or the like we need cuts – yes, more than one. Analysts are divided but after next week's economic growth data, the deal may be done.

New Zealand cut its rate to 1.75% in November while the Fed, the Bank of England, the Bank of Japan and the RBA were all on hold.

Other Assets

Commodity prices are, in general, so much higher than most were predicting in the early-2016 slump. Our dollar moved around a little. Gold has been on the way down. OPEC agreed to oil supply restrictions but will they work?

Regional Analysis

Australia

In November, Australia reported the lowest wage growth (1.9%) since data started being collected – nearly a quarter of a century! That means no demand pressure. Unemployment was a very reasonable 5.6% but full-time employment continues to fall. It is now almost impossible to record a gain in full-time employment for 2016.

Our growth results are out in the first full week in December. After a strong quarter two, some are actually expecting a negative result for quarter three. Everyone seems to be expecting a weak result at best.

China

China started November with the best monthly manufacturing number in two years and well above that needed to signify expansion. Mid-month data met expectations but the mini-boom in resource stocks in Australia and elsewhere is largely due to expectations about China's future.

USA

The US, having recovered from the shock of having Donald Trump as its next president, is awash with positivity. US inflation expectations surged on the result. And quarter three economic growth just got revised upwards to 3.2% beating analysts' expectations.

Since both the House of Reps and the Senate are to be controlled by Republicans, Trump has a good chance of getting his policies to work. He still needs to work across the spectrum of opinions within his own ranks – they are less than united. And the US system also requires some support from the Democrats.

Europe

The UK is still struggling with the problem of how to 'Brexit'. A number of countries are facing government elections or referenda and the 'perverse' results of Trump and 'Brexit' weigh heavy on combatants in the elections.

But UK quarter two economic growth was revised up to 0.7% from 0.6% making it about 3% pa. Not bad.

Rest of the World

Japan suffered another major earthquake nearly six years after the big one that destroyed the nuclear plant. Thankfully this one had less impact.

Japan recorded economic growth at 2.2% but inflation fell for the eighth successive month.