

Perennial Perspective

Trump speaks, Market tweets!



It was a welcome turnaround at lunchtime last Wednesday tuning in to see Trump doing the speaking with the market doing the tweeting for a change.

So what was revealed? In all honesty not much that was new at all – lots of “political” statements (similar to many new President’s initial Congress addresses) with still little in the way of detail. Below is a 20 second, headline summary:

- America’s own citizens first, making America great again
- Construction of a “great, great wall”
- “Big, big” cut in corporate tax
- “Massive tax relief for the middle class”
- Belief in free trade “but it has to be fair trade”
- Infrastructure, “\$1 trillion investment” (public and private)
- Child care accessible and paid family leave
- “One of the largest increases in the military budget”
- “Repeal and replace Obamacare”

There was no mention of the Border Adjusted Tax and an apparent softening on trade policy in terms of what was *not* said.

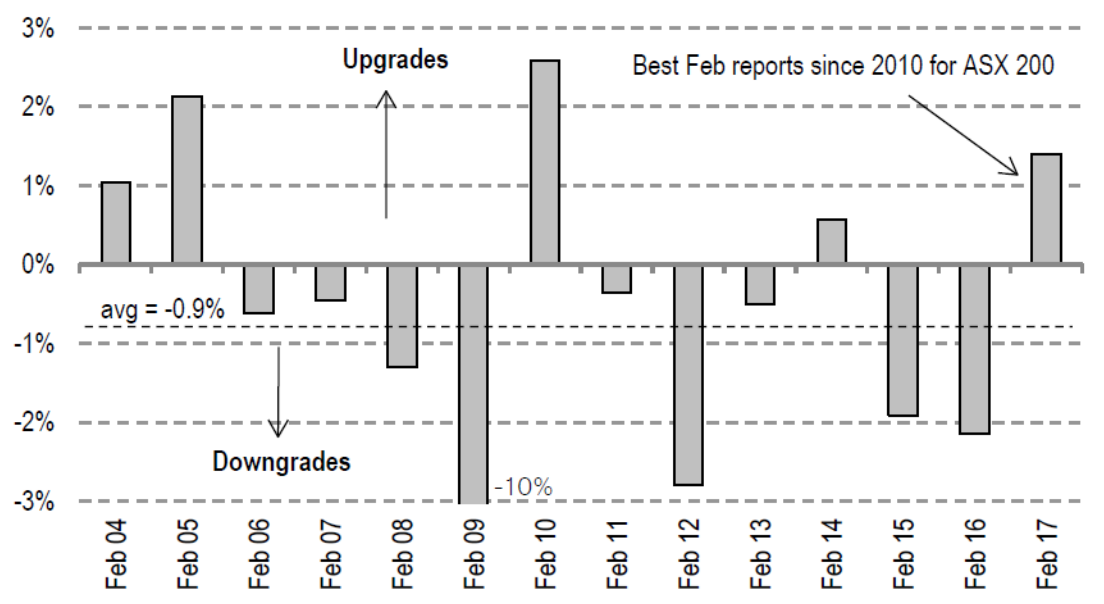
The obvious question here is can these ambitious reforms be enacted and paid for in a way that creates enough growth and prosperity to justify the likely debt/budget burden?

Reporting Season – Proof of what in the Pudding?

The bounce in commodity prices (Iron Ore, for example has bounced over 100% since the start of 2016) was always going to increase the subsequent reported earnings of resource companies and this was delivered with resources earnings up a massive 170%. The massive earnings were a little more than expected although resource share prices generally didn't move positively as most of it had already been priced in, moving the debate around where commodity prices will eventually settle.

The jury was always out however, on whether the earnings turnaround would extend to other parts of the economy. The good news here is that earnings in the industrials also surprised on the upside. Looking to the future it is worth exploring how this February reporting season has led to changes in earnings forecasts for the June reporting season (in August). Credit Suisse have run the numbers (Chart below) and on an Earnings Per Share (EPS) measure this has been the best February since 2010 with earnings upgraded another 1.4%.

ASX 200 bottom-up EPS upgrades for June during interim results periods



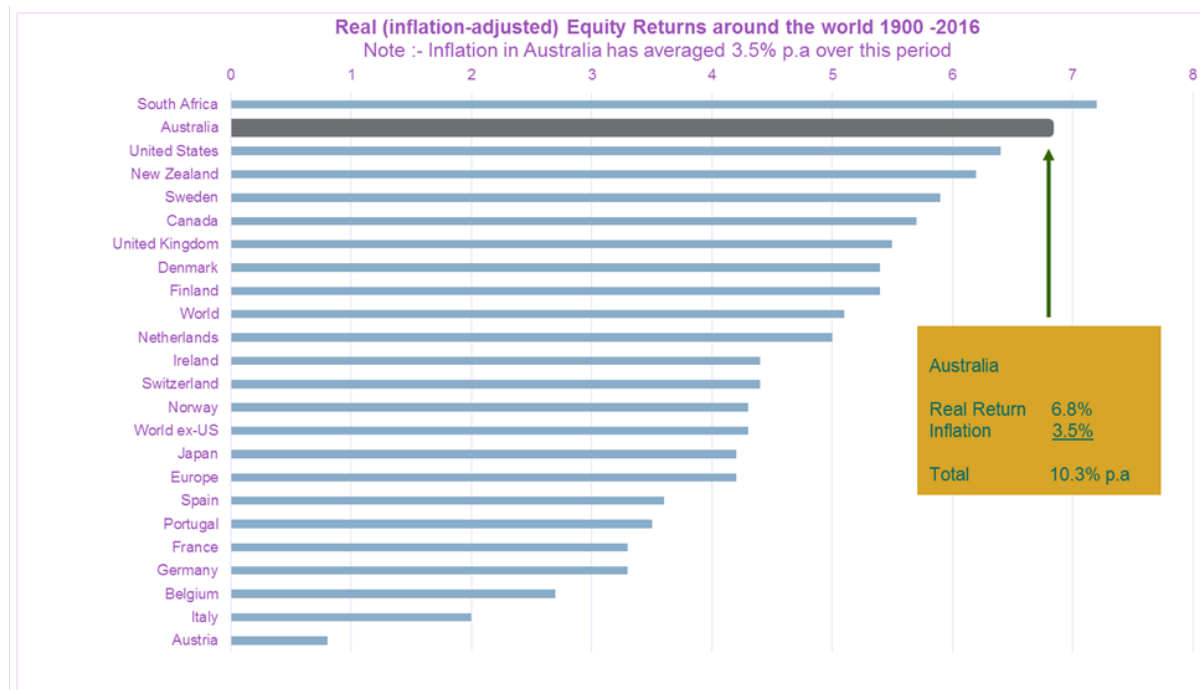
Dividends were also strong (record dividend payouts) and capex subdued with companies focussed on shareholding value rather than expansion.

From a bigger picture perspective this turnaround was also evident in the numbers released by the ABS at the end of the month showing a 20% increase in overall company profits (the largest in 16 years) from both the September and December quarters with non-mining profits also up over 8%, although the retail sector was flat.

So what was the proof in the reporting season “pudding”? – Corporate Australia deserves a pass mark. However we shouldn't get too carried away as a lot of this is from a low base. The overall results do show that there are some green shoots of growth around the World, with the commodities surge in a way exaggerating the level of these green shoots locally as the recent boost in our terms of trade does flow through into more than just mining stocks. Overall good news but watch this space!

Long Term Investing update

Credit Suisse has released their annual investment returns yearbook which is always a good reminder of the benefits in taking sensible long term views on investing. The one thing that always strikes me when I read this report is how well Australia fares in terms of long term performance of our share market, which as you can see from the chart below it is second only to South Africa over the 116 year period shown.



From Credit Suisse Global Investment Returns Yearbook. Source :- Elroy Dimson, Paul Marsh and Mike Staunton, Triumph of the Optimists, Princeton University Press, 2002 and subsequent research.

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