Magellan – In The Know: Episode 52

How Trump's Presidency Could Shape Financial Markets

Announcement (00:00):

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Host (00:14):

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Arvid Streimann (00:20):

I would say that Donald Trump's going to angle for a trade deal. Why not? I think Xi Jinping's going to push back on that. I would say that this is simply a negotiation, and I'd say that this is going to get noisy. You're going to see this in the papers on TV because that's exactly what Donald Trump's negotiating style is, he wants to be noisy, he's trying to scare people. And I would also say that the Chinese are going to be a little bit more assertive than they were the first time around when Donald Trump was president. So, this process, this negotiating process, I would say it would be longer and noisier than last time, and that'll impact investment markets. So, you can see some market volatility coming through.

Host (00:54):

That's Magellan's Head of Global Equities and Portfolio Manager, Arvid Streimann, outlining his expectations for the US-China relationship and that a full-on trade war with China may be avoided, but there will still be volatility. Welcome to Magellan In the Know. In this episode, Arvid discusses this most profound American election result with investment director, Elisa Di Marco. Together, they have a deep, fascinating and quite optimistic discussion about the election and its implication for inflation, deregulation, trade and investment, as well as geopolitics. It's a frank and independent assessment that cuts through the speculative noise. First, here's a warm welcome from Elisa Di Marco.

Elisa Di Marco (01:44):

Welcome to Magellan's In the Know podcast. My name is Elisa Di Marco, investment director at Magellan. And in the studio today, I'm joined by Arvid Streimann, our head of Global Equities and Portfolio Manager. Welcome, Arvid.

Arvid Streimann (01:56):

It's great to be here with you, Elisa.

Elisa Di Marco (01:58):

So, today I'm really excited. We're going to do a deep dive into the recent US election, touching on Donald Trump's win and the Republican clean sweep. And importantly, we're going to be delving into our expectations of the Trump presidency and the implications to markets. So, before going into the future and our expectations for markets during the Trump presidency, let's first set the scene. So, in the lead up to the election, we saw a number of firsts, we had the late switch of the Democratic nominee from Biden to Harris, we had unprecedented pledges to the Harris campaign, there was the attempted assassination of Donald Trump, and Elon Musk was a key personality on the Republican campaign trail. In the days before the election, the polls were a coin toss, however, the results couldn't be anything further than those predictions. Trump is president-elect and the Republicans have control over the House and the Senate. So, Arvid, why did Trump and the Republican party win so convincingly?

Arvid Streimann (02:57):

Well, Elisa, yeah, it was very interesting. The polls were, as you were saying, it was a bit of a coin toss, but Trump did win quite convincingly and got the popular vote as well, which I think is very interesting. Now, coming into the election, we were thinking there was about a 55% probability that Donald Trump was going to win, and we'd reduced that when he was going against Joe Biden, we had that at about 70%. So, it was a lot closer than it would've been under Joe Biden. But in terms of what actually caused Donald Trump to win, I think there's a couple of things we need to think about here. Number one, Donald Trump benefited from what I would say is the curse of the incumbent, and you're seeing this in elections around the world. And really those incumbents are having a very tough time getting re-elected. And if you asked me why that's occurring, I would say it's because people's standards of living is not quite where they want it to be.

(03:41):

And let me just define what a standard of living is. It's really your after inflation wage, okay? So, your real purchasing power of your wages, and that's not quite as high as where people thought it should be or where they would like it to be. And that's really one thing that Trump benefited from, the wave of inflation that went across the world, and in particular America, reduced those standards of living, it hurts the incumbent, and so it benefited Donald Trump. So, that's number one. Number two is that when we're thinking about what Kamala Harris did, she played a small target strategy. I think that she was sitting there not really revealing what her policies were going to be and really hoping that Donald Trump would blow himself up. Now, when it came to the crunch, I think that the American public said, "You know what? I want someone here who's going to lead the country. And if you're playing that small target strategy, you're not really showing leadership."

(04:28):

And Donald Trump, you can love his policies or you can really hate his policies, but he had policies and he was showing leadership. And I think that when it comes to the crunch, voters sit there and go, "We're electing a leader," and I think Donald Trump did a little bit better than that. So, let's just unpack a little bit more about this standard of living idea 'cause I think it's quite important. So, if we're thinking about what's happened during the Biden administration, when Kamala Harris was vice president, you've had a spike in inflation and you've had nominal wages growth, not quite keep up with inflation. And when we think about where people's standard of living would've been if inflation wasn't a problem, I think there's a one- to two-year deficit, and people are one to two years lower in their standard of living compared to where that otherwise would've been.

(05:12):

And that may not seem a lot, but people feel it and there's a lot of discontent, and I think that's one thing that Donald Trump really benefit from. One thing that you should also bear in mind with regards to this election, we talked a lot about Donald Trump, the Republican party also is getting control of the House of Representatives and the Senate. So, they've got a clean sweep, and that makes it a lot easier to pass legislation. At the end of the day when we think about why the

Republicans did well and Donald Trump did well, I think you've got to go back to an old American political slogan, which is, "It's the economy, stupid."

Elisa Di Marco (05:45):

Thanks, Arvid. I think just recapping everything that you have said then, there was a lot of uncertainty leading into the election. Part of that was from the parties, the people, but it also was the uncertainty in the economy. So, let's dive straight into that now, thinking about those investment implications, thinking about the economy. And what really is our expectation now that we have that Trump presidency confirmed, what should it mean for the consumer?

Arvid Streimann (06:10):

Well, I think it would be a slight positive for the consumer. And let me explain why. And Elisa, I think in terms of frameworks, and you've heard my consumption framework, but I'll spell it out and maybe take the listeners through it. When you think about consumption, I think there's two components. There's the fundamentals and then there's sentiment on top of that. And the fundamentals, I'll start with, it really comes down to how much people are getting paid and how many jobs are out there, okay? That's the fundamental driver of consumption. And if we think about Donald Trump, I would say that he pro-growth. I think that most people would agree with that statement. And I think that he's going to get the economy going, so there's going to be higher wages because when we think about the labour market, if you get the economy going, there's going to be increased labour demand.

(06:52):

But I would say that on the other side, labour supply is probably not going to be where it was, okay? It might be a little bit lower than it otherwise would be. You think about immigration, we know he's thinking about deportations, and I would say that there's going to be less people coming into America than it otherwise would be. Let's call that visa restriction. So, if we're thinking about the labour market and you say there's going to be more demand for labour, but there's going to be less supply of labour, I would say that ends up in a situation where people's wages go up. And so, inflation in general is going to go up. I would say that the level of employment is going to be more or less where it was before. So, if we multiply those two things together, wages, time, employment, to think about the total labour income, and this is the fundamental part, I would say that it's going to be better than it would otherwise be under Kamala Harris.

(07:34):

So, that's the fundamental part that's going to improve. The sentiment part is interesting. We talked a lot about sentiment before in that previous question where sentiment I would say is not quite where it should be given how strong that labour market is. Usually sentiment is tied to the labour market, but the sentiment amongst consumers, which are voters, is not quite as strong as it should be. Now, if we're thinking about those drivers of what caused that sentiment to be low and the standard of living, well, it was inflation. And unless you get people's nominal wages to rise as much as inflation rose in the next little while, then I think people are still going to be a little bit annoyed about their standard of living. So, I wouldn't expect sentiment to materially change. I think you've already seen that sentiment amongst Republican voters has improved and Democratic voters has gone down.

(08:17):

But on average, I'm not sure that the core issue is really going to get addressed here. So, if we put those two components together, fundamental slightly improved, maybe the sentiments doesn't really move that much, I would say it's a slight improvement to the overall consumer and their spending power and how that's going to play out. One other thing I'd say here is there's been a very big difference between consumption of lower income wage earners and high income wage earners or the wealthy people. I would say that the things that we're talking about are probably going to benefit the low income earners more because if we think about who Donald Trump is thinking about getting out of the country, there are probably more people who are at that lower end part of the labour market. So, that lower end part of the labour market is probably going to tighten up a little bit more. And so, you get more wage pressures at that lower end of the market. So, maybe that lower end consumer will feel a little bit better than the higher end consumer.

Elisa Di Marco (09:05):

Really pleasing to hear, Arvid. So, sounds like a soft landing is probably quite a firm outcome of what we should be thinking about in the economy. I want to switch to another area that we've been focusing on here, and that is the likelihood of deregulation under Trump. Why is it so important from an investment perspective?

Arvid Streimann (09:23):

Well, Elisa, it's important because companies that we look for, which we call these high quality companies, they have competitive advantages which they've built over time, or at least they may be even been conferred upon. The issue with regulation is that it can actually just break that down, okay? So, that fundamentally may go to the earnings and cash flow streams that these companies can produce. And so, let's use tech as an example. I would say that they're facing regulatory pressures on three vectors, on content, on antitrust, or what we would call competition policy here, and also on privacy. And I wouldn't say that Donald Trump is going to deregulate everything. If we think about those three regulatory issues that are facing the tech sector, I would say that he's actually probably going to increase regulation on content because if you think about what the Republicans and Donald Trump has been very loud about, it's that they feel as though their opinions have been suppressed by social media companies and the, let's call it the mainstream media.

(10:19):

So, I would say that he's going to deregulate some things. Maybe oil and gas is something that he would deregulate, but when it comes to that content and having his opinions heard, it's probably something where he's going to make sure that that can occur, and maybe that means more regulation. And in particular, when we are thinking about particular companies, which may face more re-regulation, I would say you also have to think about who Donald Trump personally likes and dislikes. And I think it's pretty clear that there's one company and person which he has a little bit of a beef with, which is Mark Zuckerberg at Meta platforms, 'cause if you remember, he was kicked off the platform. This is Donald Trump, he was kicked off the platform, and he didn't take that too well.

(11:01):

So, I would say that in this whole deregulatory or re-regulatory phase, when we're talking about regulations, Meta is something which I think is an interesting case study because of that content. But remember we're talking about regulation, Elisa, when we think about what the government can do to companies, regulation I would put in one bucket. Regulation is really using the existing laws to influence company behaviour. What's really interesting is to think about, can the government also change the laws? And so, what would call changing the laws legislative risk as opposed to regulatory risk, which is enforcing the existing laws. And there it's quite important to think about how you can change laws in America with the filibuster, which means that you need 60 out of a 100 votes in the Senate to pass legislation, which is not budget-related.

(11:47):

It's going to be hard to get that legislative risk to occur. It's more a regulatory risk. Now, there's going to be a debate, I would imagine, about whether that filibuster or that 60-vote hurdle, which is a super majority as opposed to a 50-vote hurdle in the Senate or a simple majority is going to last. I think Donald Trump would like that to go away. Our view is that the filibuster will be maintained 'cause there's a lot of senators which are traditionalists, and they like that filibuster because it just reduces the noise in terms of the legislation. So, I'd expect there to be a lot of debate around that. That's where we sit on our view on the filibuster. It'll exist, which means that legislative risk is probably not as high as the regulatory risk.

Elisa Di Marco (12:27):

So, it sounds like on the deregulation front of that, you are positive, but there are some risks that you're monitoring.

Arvid Streimann (12:33):

Yep, that's right.

Elisa Di Marco (12:34):

Great. All right. So, one topic that I imagine everyone's eager to unpack here is how Trump is thinking about, this time around, their US China relationship as well as his positions towards the Middle East and Russia. So, how do you expect the next four years to play out on that geopolitical front? And then, how does that feed into your view on risk?

Arvid Streimann (12:57):

Yeah, very interesting question. And I like how you mentioned that this is a four-year issue, not a 20-year issue, but let's talk about those three areas, China, the Middle East, which I think is really Iran, and Russia. And when I frame this up in my mind, I think there's two questions you've got to think about. Number one is what does Donald Trump want to do? What's his goal? And the second is, well, as investors, what's the investment risk that we're actually facing here? So, I'm going to talk a little bit about in each of those scenarios what his goal is and what is the investment risk that we're actually talking about here. So, when it comes to China, I would say that Donald Trump's goal here is to improve US economic security. And you can think of that as self-sufficiency. By the way, the Chinese are trying to do the same thing.

(13:38):

Now, there's a lot of talk about a potential US-China trade deal. I think that that would help us economic growth, but I don't think it really would guarantee self-sufficiency, and I think that's an important distinction. Now, what I think that would help self-sufficiency, which is his ultimate goal is relying less on US adversaries, such as China. So, this is where the trade deal is very different to what Donald Trump's ultimate goal here is. So, I think that he would do a trade deal, and just remember, it would have to be even bigger than the one that he signed in his first administration, but that's not his ultimate goal. And also remember that the strength in the US economy is the prime source of US diplomatic power and US military power. So, I think he's thinking through it through that lens, "I want self-sufficiency, so that our diplomatic power and our military power is preserved."

(14:25):

So, that's setting it up. What is the investment risk here? Well, the investment risk here I think is that this decoupling, which we all know is occurring between the US and China, happens too fast.

And when I think about risks, we can know which way a risk is going. But what's really dangerous is if it happens faster than what you expect. And so, that is what I think the risk is here. Now, the reason why situations where things happen too fast are dangerous is because when you get into that situation, people who are part of that process, they can become a little bit emotional, maybe they won't make rational decisions, and those decisions may not be well thought out. So, for us, the risk is that a trade war ensues. Maybe the US and China begin targeting each other's companies. Willy-nilly they've already started doing this, but maybe it gets even worse.

(15:11):

And if you think about it's actually not in either country's interest to decouple in a fast way, okay? If you think that it's inevitable, they should actually do it in a slow way, and this is where that emotion might come in and derail what is actually what they both want. So, with that set up, what we think is going to happen, I would say that Donald Trump's going to angle for a trade deal. Why not? I think Xi Jinping is going to push back on that. I would say that this is simply a negotiation. And I'd say that this is going to get noisy. You're going to see this in the papers on TV because that's exactly what Donald Trump's negotiating style is, he wants to be noisy, he's trying to scare people. And I would also say that the Chinese are going to be a little bit more assertive than they were the first time around when Donald Trump was president. So, this process, this negotiating process, I would say it'd be longer and noisier than last time, and that'll impact investment markets. So, you can see some market volatility coming through.

Elisa Di Marco (16:01):

Wow. So, there's a lot going on there with the US-China relationship. How are you thinking about the Middle East?

Arvid Streimann (16:06):

When it comes to Iran, we're really thinking here about what Donald Trump's goal is. I'd say it's regime change, to be perfectly honest. I think that with that regime change, I think that he thinks that would improve energy security. So, there would be a lower probability of a negative oil shock, so to speak. I think he wants to fundamentally reduce conflicts in the Middle East, particularly as it pertains to threatening Israel's national security. And I think most personally, I think that he wants to teach the Iranian leadership a lesson because they were plotting to kill him. So, I think that this is now getting personal. Now, when we are thinking about the investment risk here, it's really what I mentioned earlier. When he's doing this, what's the risk that there's a negative energy supply shock? And we always think about the Middle East in terms of that when it comes to investment risk.

(16:52):

Now, as I mentioned, it's worse for markets if there's a change and it's quick rather than slow. So, as he's doing what he's doing in the Middle East, if it's fast, then that's going to be a bad thing. And when we are thinking about what could go wrong here, everyone's talking about Iran targeting the Saudi oil fields or the Gulf oil fields, that's more likely if it's happening fast because that's an emotional decision. And we do know that Iran's been trying to improve its relationships with Saudi Arabia. They're not great, but they're trying to get them off the mat here and improve them. And so, I think that that's actually not in their interest to bomb those targets. So, that's the fundamentals. It's really around the sentiment and the emotion which could derail that. If the Ayatollah, which is the supreme leader of Iran, is assassinated or targeted himself, I think all bets are off and it becomes a harder thing to predict because then that emotional response comes out.

(17:46):

And that's something, if it happens, then I think investors need to pay attention to. When it comes to Russia, I think it's pretty clear what Trump's goal here. He wants to end the war, not make it worse. And the investment risk, quite frankly, is that it doesn't work, and then the war gets worse. I would say that most trade that's coming out of Ukraine and Russia has been diverted or ended. And I always tell people, just look at those flight tracking websites and look how many planes fly over Ukraine, not many. And that's a very good example of how much trade diversion has occurred. The risk here is that the conflict spreads to neighbouring countries, those NATO countries, I think that's unlikely or economic sanctions are tightened as Trump, in his negotiation process, tries to force and into the war overall. I don't think that what's happening in Russia is that pertinent to the global economy unless there's nuclear bombs flying in every direction. But I think that's a very much a tail risk scenario.

Elisa Di Marco (18:34):

Thanks, Arvid. Really interesting discussion and a lot for us to be monitoring and thinking about over the next few years.

Arvid Streimann (18:40):

Yeah, there's certainly a lot going on and I just wanted to say there's a lot going on in your space because you are part of the ESG team. You've been working with them for a number of years. Let me ask you a question. What do you think about the investment risk from changes to the ESG outlook on Donald Trump? I know he said a lot of stuff in public about this, and it's been quite loud as well. We know he has strong views about carbon intensive energy sources such as oil, and that's the E in ESG of course. And there've also been some allegations about his own governance in his personal business and behaviours. Let's call that the G in ESG. What are you thinking under Donald Trump? How does this unfold?

Elisa Di Marco (19:16):

Look, it's a very fair question, Arvid. In true Donald Trump style, he had a nice catchphrase related to this with drill, baby drill going through a lot of the podiums along the election campaign. So, overall, when we are thinking about this in the short term, we think it is very positive for energy markets and for energy stocks. And then, it's slightly negative for your climate transition stocks with respect to the investment that will be put behind these stocks within that kind of short term. But overall, the long term, there's evidence there. We've got the rising temperatures. This thematic isn't going away anyway. And we do view that over the long term, there's still a material opportunity to invest behind these climate transition stocks.

(19:56):

But why is it, I think the interesting point here that we are not too bearish in the short term. The first really is on the regulatory environment. So, around 50% of US states have already set some form of net zero commitment. And then, when we look to Europe, they continue to be really strong advocates for environmental policies going forward. And from our conversations with our companies and regulators so far, we don't see any of this changing, and they're quite firm on their commitments and investments in this short term period under Trump. Second point that I think is important to make here is that our companies have already made significant investments towards this net zero transition and moving away from fossil fuels.

(20:39):

And one of the reasons that they did this wasn't just because of the advocates for climate under the Biden administration, it was also because it made economic sense. So, when we are thinking about some of our utility companies, they have had coal-fired energy infrastructure for a really long time.

Investments needed to be thrown behind that now, but instead they're investing behind renewables. And the reason for that is the return profile. It's more economic in most regions to invest behind renewables. I think one final point here is that as we've mentioned, Trump;s in for four years. The climate transition and what we need to be doing with respect to climate, this is a long-term game. Our companies and countries and states have been setting 5, 10, 20, 30-year targets. So, we've got a long runway here and we view that the investments will continue.

Arvid Streimann (21:29):

Yeah, it's interesting you bring up that four-year thing. I know I brought it up before, but I think investors need to remember that this guy, assuming that he doesn't change the constitution, gets a third term. This is his last term. So, it's really just the four-year issue that we're talking about and we're valuing companies, we're valuing more than four years worth of cash flows.

Elisa Di Marco (21:46):

Yep, that's absolutely right, Arvid. I suppose, now, I wanted to kind of bring a few points together here. So, we've touched on interest rates, we've touched on inflation, the impact to consumer taxes, deregulation. Now, when I'm kind of doing the pros and cons in my head here, it does seem like that there's going to be more government spending than the revenue collections. So, Arvid, are you worried about US debt levels from an investment perspective?

Arvid Streimann (22:11):

It's a very good question. I think that the US debt level is going to increase under Donald Trump. I think that the government's own forecasts say that that's going to increase. So, the question is how much you have to worry about this. And when we are thinking about what the impact on investment risk is from higher debt levels in America, it's really higher interest rates, and interest rates are going to impact equity returns either through the valuation impact or through higher interest expense that businesses will have to pay. So, that's really what we're talking about here. And so, how much do you have to worry? I'm not that worried about it for a couple of reasons. The first is that I don't think that any interest rate increases on the back of higher debt levels is going to be extraordinary or even material.

(22:54):

And the reason is because the US is the reserve currency of the world, and quite frankly, there's no currency which even comes close. A lot of people talk about the reserve currency being under threat, but to be under threat, you need someone that's going to replace it. I don't think it's going to be the Euro, and I don't think it's going to be the yen, and I don't think it's going to be the Chinese renminbi. So, that's number one. Number two is there's always the potential for some volatility in treasury markets and market interest rates. But I think that the Federal Reserve is going to act a little bit differently in the future as to what it's been doing in the past. And this is a bit of a counter consensus view, but this is what I think we have some precedent for which was happening during Covid.

(23:30):

So, when we are thinking about why interest rates can be volatile, particularly around treasury issuance states, when the government is putting its hand out and wants some cash from investors, it's really a liquidity event. And the issue can arise that there's not enough people willing to supply that money. Now, during Covid, the government really wanted to borrow a lot of money. And you know who supplied that money in large part? The US federal Reserve. Now, by doing so and printing money triggered a global inflation problem, but I think that the mechanics actually worked. If they're not printing too much money, so the impact of inflation is not too high, then I think that there's some ridgeline here, there is some balancing act, where the federal Reserve can incrementally finance more of these larger US deficit and not have too much impact on inflation.

(24:16):

And I think that the way that they'll do that is through their balance sheet. Obviously that's the quantitative easing, and they won't do it too much. Just remember when they did it during Covid, they got a little bit of experience on how the market works. And so, I think that they'll be a little bit better at it this time. And they know certainly what they shouldn't do and how much bonds and money supply they shouldn't do 'cause they started at global inflation problem, but I think this is what's going to happen. And so, I always think about that Covid experiences, it didn't not work as opposed to it did work in terms of the Federal Reserve financing the US government. And because it didn't not work, I think they'll give it another go.

Elisa Di Marco (24:51):

So, a little bit more volatility in our future, but happy to buy into some of the weakness that we might be seeing. One thing I would like to us to touch on now, Arvid, is a bit of a noise that we've been seeing in the media since Donald Trump has been elected, and that's really around his cabinet appointees. So, from your decades of now following US politics and then Trump's first term, why these cabinet picks so important? And what concerns you the most?

Arvid Streimann (25:19):

Yeah, it's really interesting. I think there's been a lot of talk about his cabinet picks, and I would say that Donald Trump chooses cabinet secretaries who are loyal to him personally. I say that he also chooses people that share his views. And I would also say that he people who he thinks look good on TV. So, this is one thing which I think is different to previous presidents, that TV piece and that loyalty piece. I think that people have always chosen cabinet secretaries that share your view, so it's different. I would say that Donald Trump relies on these cabinet secretaries to do the work on a day-to-day fashion. I don't think he's micromanaging them. In fact, I would think he would just put them in there. They're aligned, they're loyal, and then he'll hit the golf course. So, I don't think that there's much risk that he's going to be daily or weekly manipulating outcomes here or forcing outcomes.

(26:08):

I think that he's got, in his mind, better things to do. Now, as I said, many of these picks are controversial. They're not traditional. They might be inexperienced in government. I think this is one of the criticisms that a lot of these people have, but I would say that in general, they're experienced people in their field of expertise and they're highly performing people. I don't think that he's just picking random people off the street here. I think these are people in general who are highly experienced if we look through those political considerations. Now, I would also say, you asked me what I'm concerned about, let's think about what these cabinet secretaries can do. They cannot change laws. That requires an act of Congress, and we sort of talked about that a little bit before. What they can do is that they can implement policy. So, I would call this more of a regulatory risk than a legislative risk. I kind of used that terminology that I used before.

(26:57):

So, let's think about where that could crop up. Well, regulation in the Department of Justice or the DOJ and the FTC, I would say that we are seeing that already in the tech sector, and I laid out before where I think that might progress a little bit further on the content side. So, that is concerning from an investment perspective. And it's something that we're spending a lot of time thinking about more generally to the extent that the government bureaucracies are becoming, let's call it more partisan.

We heard under Trump version 1.0 that there are many civil servants that left the civil service. Maybe that leads to less effective policy making going forward and less effective policy design. I would say that that's more of a medium to long-term issue. I would say that the issues that we're more concerned about now are those regulatory issues.

Elisa Di Marco (27:42):

So, Arvid, we've had a very broad discussion today, so let me just kind of bring it all together on how we're thinking about markets. So, our base case here is that markets will continue to grind higher, given Trump's expansionary platform, but this is likely to be coupled with a little bit more volatility. There's going to be some beneficiaries and laggards from Trump's policies. However, a company's ability to generate a sustainable return does extend beyond that four year presidential term. So, earnings growth, management quality, the underlying business quality are still really important when we're thinking about the long-term performance of a company. Arvid, would you say that's a fair characterization? And do you have any concluding remarks on how you're thinking about markets over the long term?

Arvid Streimann (28:25):

Yeah. Look, I completely agree with you. When I'm thinking about markets and how they unfold and the market outlook, I generally think that markets move higher over time. But of course, we all know it doesn't happen in a straight line. I would say there's always swings in sentiment around some baseline earnings growth, let's call that valuation shifts. And investors can lean into those or lean out of those. Some people really like to lean in and out of those, some people just forget about it and just trust the trend line. That's really up to your investment philosophy. But I would say that that's one thing that you need to pay attention to. When it comes to what we've really been talking about today, which is the US election, I don't think it's so much the sentiment, which is really driving that. I would say that people are thinking about, are there any changes to the fundamentals?

(29:07):

Remember, we were talking about fundamentals versus sentiment earlier when it comes to consumption. You can do the same thing when you're thinking about the market outlook. Now, when we're thinking about the fundamentals, what can really change the fundamentals? Well, some of the stuff that we talked about, energy supply shocks, we were talking about the Middle East, we talk about that a lot. That's really what we're talking about. Changes in global trade, which is why we talk a lot about the US-China relationship, and we talked a little bit about it today. It's also why China's entry into the World Trade Organisation and the global economy was such a big event from a different direction, from a positive direction. And then, we can also think about things like asset price bubbles. When you say maybe there's something like that happening in China with the housing market, of course, it happened in America prior to the GFC.

(29:47):

These are things which change the fundamentals, and these are the things that we think about. And when we're analysing and assessing these risks to the fundamental market outlook, it's our assessment right now that, sure, there's always going to be some uncertainty, some risk around, but I would say that they're not flashing red. I would say that they're more amber level risks in the sense that there's always risk around, but they're not something which is imminently going to destroy the fundamental trajectory of the earnings growth profile for the market and companies in general. So, when we are thinking about our global equities funds, they're fully invested for that very reason. Now, valuations, I would say, are on the higher side, but until we get conviction that there's something imminent, that something's about to break from a fundamental perspective, or valuations are just so crazy high like they got in the early 2000s, or at least the late 1990s, then I think it's fair to stay fully invested.

(30:39):

And I always tell people we are fully invested, but it's really about the shape of the risk that we're taking. There are some things that we like and some things that we don't like. We don't like Chinese economic risks right now, because I think the Chinese economy's got a fair bit of pain ahead of it because going through this housing collapse, quite frankly. And so, it's all about the shape of the risk, not so much the level of risk that we're taking we're fully invested. So, overall, we've talked a lot about the election. I'm going to say, again, look, Trump's only going to be around for four years, but I would say that he's not going to change the core advantages of the US system and US economy. And those advantages are its size, it's diversity, it's innovation, and the property rights that are in the legal code.

Host (31:20):

That was Magellan's Head of Global Equities and Portfolio Manager, Arvid Streimann, in discussion with investment director Elisa Di Marco. We trust you've enjoyed this episode. For more information on previous episodes, visit magellangroup.com.au/podcast, where you can also sign up to receive our regular investment insights programme. Thanks for listening.