# The US presidential election – opportunity amongst despair

If US President-elect Donald Trump had campaigned on a platform of total global annihilation his victory could not have prompted more negative opinion and speculation.

Some of the speculation about a Trump presidency has been well-founded and insightful. The majority has been unfounded and ill-informed drivel.

Investors will have no doubt observed that the hand-wringing commentaries have not been confined to social policy. Prophecies of impending financial calamity are almost a daily norm.

That many such warning come from seasoned market operators and commentators is surprising to say the least. In their haste to outdo each other in predicting financial disaster, they appear to have forgotten an age-old truism of investing: markets can tolerate everything except uncertainty.

In the absence of any expectation as to what the future might hold, market sentiment tends to be fickle and often prone to episodes of excessive pessimism. In such times, only a few brave souls typically prosper, while most incur heavy losses. In contrast, once the prospect of a scenario, whether good or bad, becomes more likely, markets soon settle into more stable trading patterns. Consider for example how markets have gradually come to accept the inevitability of higher US interest rates.

Markets and, by implication, business behaviour are underpinned by a strong innate resilience that reflects the human spirit. Businesses don't need a perfect environment to prosper. They are more than capable of making the best with what they have. All they require is a modicum of stability and predictability.

So it is in the current situation. In the build-up to the election, markets had been particularly volatile amid fluctuating opinion poll predictions. This gave way to a sense of optimism that a win by Hillary Clinton would essentially entail a continuation of the status quo. Hence, when this did not eventuate, markets were thrown into a renewed frenzy, reflecting uncertainty as to what the new order might look like and how it may unfold.

Surprisingly, this uncertainty has persisted as market commentators have convinced themselves and others that devising a near-term investment strategy is an impossibility.

Arguably, this is not the case.

During his election campaign, Mr Trump flagged his intention to make infrastructure development a theme of his administration. Cynics would argue that presidential election campaign promises rarely translate into practical implementation amid the gridlock of partisan Washington politics. A fair point, but in this instance the Republican party has won control of Congress. Thus, even if Mr Trump does not entirely fulfil his campaign promises, there is a fair likelihood he will make significant progress.

Accordingly, investors need to ask themselves whether they wait for future clarity, and risk missing out on potential benefits in the interim, or position themselves now for that fair likelihood of upside.

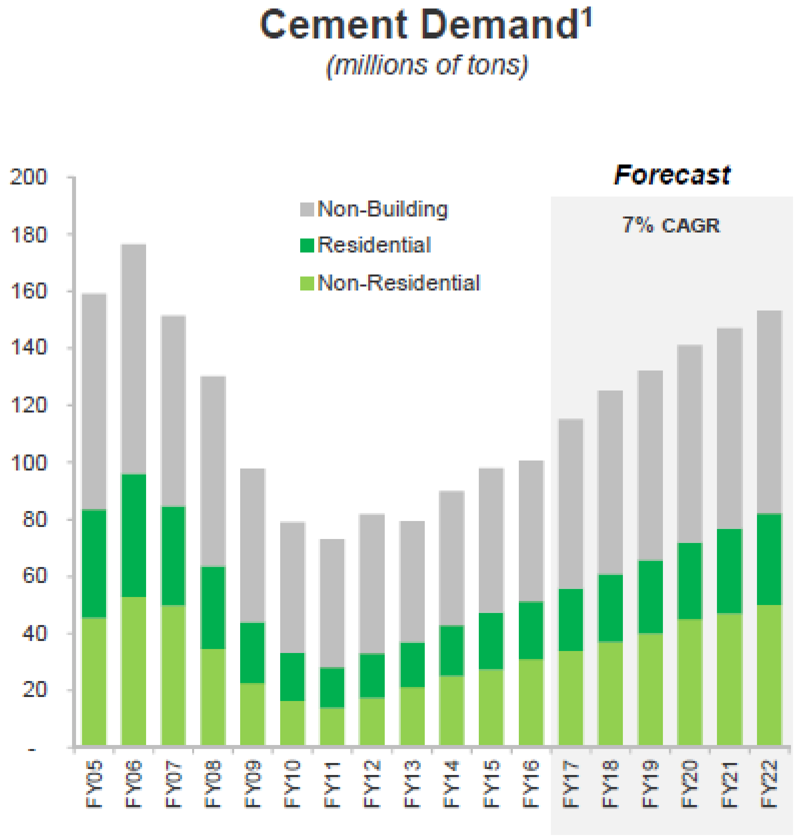
The second alternative seems the better option, so how best to translate this into action?

Australian investors are well placed to capture the benefits of any increased infrastructure investment in the US.

A case in point is Boral, an Australian-based international building and construction materials group. Boral produces and distributes a range of building products and construction materials, and is a major player in the US market.

Boral USA is a leading supplier of bricks, clay tiles, concrete tiles and manufactured stone, demand for all of which may be expected to grow in line with increased investment in infrastructure. Boral USA is also a major supplier of fly ash, which represents a particularly interesting opportunity in the context of infrastructure creation. Fly ash is a by-product of coal-fired power stations, which account for 38 per cent of US energy production. Thus, it is in plentiful supply. Fly ash is used as a supplementary material in cement to enhance the properties of concrete, an essential component of building infrastructure. Company estimates show US cement demand growing at a 7% compound annual growth rate all the way out to 2022. Significantly, this is before any additional demand that will flow from any US government infrastructure initiative.

The Boral 2016 annual report shows that revenue for the US operation amounted to A$1.03 billion last year. Consider that an already sizeable pot of revenue is poised to grow to over A$1.4 billion within seven years, and that's before the addition of a single cent from additional infrastructure expenditure.




1. Portland Cement Association: 2015 Market Intelligence Report
2. Estimated industry Fly Ash ASP, Cement ASP: Bureau of Labor Statistics

*Source: Boral Ltd – Annual Report 2016*

Considering the magnitude of these numbers, the potential cost to investors of inactivity becomes starkly obvious – wait and hope for more certainty, and most likely miss out on a revenue pool that presently amounts to A$400 million, with potential upside.

*Disclosure: The author has an interest in Boral Ltd.*