

## BEYOND THE HEADLINES (PART TWO)



22/10/2015

In [Part One](#) of this article I looked at some of the reasons the Perpetual Global Share Fund is concentrated in US shares:

- quality companies are selling at attractive prices
- the US economy is strengthening, with GDP growing at 3.7% in the June quarter this year
- unemployment is just 5.1% - down a whole percentage point in a year
- the US economy is consumption rather than export focused – so weakness in emerging markets and China has less effect.

### **NOT EVERYONE HATES A RATE RISE**

One of the other themes of Part One was that big negative headline issues don't always have the expected effects. Right now, commentators are fretting about the possibility of a US interest rate rise. For many companies a higher cost of capital is a real drag on growth. But some companies we saw on our recent trip to the US will benefit when – after 9 years – the US finally does raise rates.

### **BANKING ON AMERICA**

Bank of America is one such company. It's a seriously large business:

- 48 million consumer and small business relationships
- 4800 branches
- 12% market share in US bank deposits.

Some 80% of the earnings of the bank come from traditional banking and from wealth management – it owns Merrill Lynch and US Trust. On our recent trip I sat down with Brian Moynihan (Chief Executive Officer), Paul Donofrio (Chief Financial Officer) and the head of US Trust, Keith Banks.

### **THE UPSIDE OF HIGHER RATES**

The company is starting to see some good growth in wealth management and traditional retail banking and it's not an expensive stock to own – it's trading at levels significantly below its global peers and its historical averages.

All that is good news but the key driver of revenue growth will likely come from the rising interest rates that so many people are worrying about. Higher rates will boost the margin it earns on deposits and loans and we believe that if US rates were to go up 1%, Bank of America would earn an extra \$3.9billion in net interest income.

The recent ructions in global markets may have delayed that rate rise till 2016, but when the rate rise does come – and it will - Bank of America could well benefit significantly, as could other US financials that we own, such as Wells Fargo.

*Bank of America is currently held in [Perpetual's Global Share Fund](#) and the [Perpetual Equity Investment Company](#).  
Wells Fargo is currently held in [Perpetual's Global Share Fund](#).*