

## Two Presidential Administrations After Six Years

I love watching the State of The Union address. Where else this side of Davos can you see that ratio of ego to accomplishment combined with a level of sincerity Hollywood award shows cannot match?

Market analogs are great fun. I am particularly fond of those that overlay one market crash or bubble against one another and then extrapolate conclusions. I am partial as well to the analysis of presidential cycles, including but not limited to the times when we had rightward-leaning left-handed Presidents such as Gerald Ford and George H.W. Bush. How did the market do in the third year of their first term under a divided government here in the land of *e pluribus unum*? I wonder.

### Six Years, Seven Speeches

Let's compare four different financial markets and one index, the Bloomberg correlation-weighted dollar, over periods ending two days prior to the seventh SOTU speeches of George W. Bush and Barack Obama. As markets are discounting mechanisms, we need to select startdates when we could say confidently who was going stand behind the Presidential Seal on the presidential podium. That would be the December 2000 Supreme Court decision in *Bush v. Gore* and the September 2008 debate between Senators Obama and McCain.

I think it is fair to say both major political parties have self-identified themselves around issues of wealth, income and taxation. Democrats are proud, proud I tell you, to tell you how much they love the little guy as they fly across the country, tie up the Los Angeles expressways even further and collect massive checks from show-business luminaries. Republicans seem to cherish the days when they were the party of business interests even as their so-called base shifts toward what used to be called the working class.

So, this must mean financial markets must have done better six years into the Bush-43 administration than they have during the first six years of the Obama administration, right? Not a chance. In each and every case, the average annual financial market return has been higher in the Obama administration. You do not have to wonder whether the administration is pleased with it or not; they usually take credit for lower gasoline prices even though they are not to thrilled with the energy industry as we have known it.

|               | Average Annual Return |        |
|---------------|-----------------------|--------|
|               | Bush                  | Obama  |
| Russell 3000  | 3.29%                 | 10.46% |
| 7-10 Year UST | 5.22%                 | 5.97%  |
| IG Bonds      | 5.80%                 | 9.29%  |
| HY Bonds      | 5.10%                 | 8.91%  |
| USD           | -5.03%                | 1.77%  |

I am not imputing causality to any of this, mind you. We all should train ourselves to ignore candidates who tell us of their plans and speak of "growing the economy" and "creating jobs" as if this is something they can do. Very few concerted actions produce positive results as good concepts and policies must intersect with a good environment and good fortune.

Far better was the wisdom of the late British Prime Minister Harold Macmillan who said simply he would address issues as they arise. In other words, listen to someone humble enough to recognize markets and economies move in tidal fashion and all of us are along for the ride.