TrendMacrolytics

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The Kerry Trade

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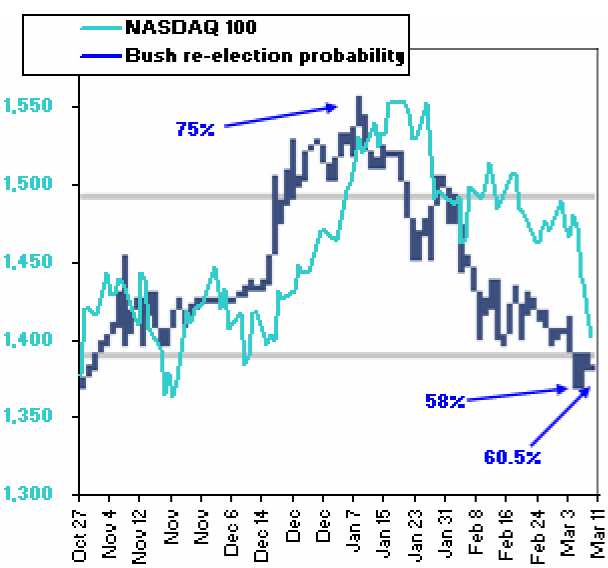
Political uncertainty is opening up an interesting value opportunity.

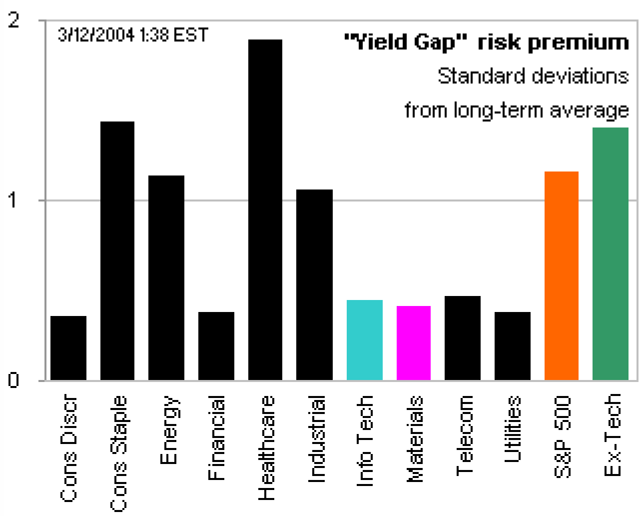
Today is the one-year anniversary of the birth of the new bull market, triggered by the **Bush administration's** decision to invade **Iraq** and the gathering momentum for pro-growth tax cuts. What a difference a year makes. Gross domestic product has grown by somewhere between 5% and 6%. S&P 500 earnings are at an all-time record high. Household wealth is at an all-time record high. Interest rates are the lowest in modern history. Jobs have grown by between 122 thousand (the "establishment survey") and 983 thousand (the "household survey"), and the unemployment rate has fallen from 5.9% to the long-term average of 5.6%. Inflation measured by the Consumer Price Index is non-existent.

Yet yesterday the ***Wall Street Journal*** reported a poll showing that only 45% of Americans approve of Bush's handling of the economy, down from 49% one year ago.

As we pointed out on Monday, the stock market strongly prefers that Bush be re-elected -- especially the tech sector, which is the most sensitive to changes in tax policy (see the chart at below left, and "Tough Times for Tech" March 8, 2004).

With this week's steep decline tracking the downtick in Bush's re-election chances, values are getting quite attractive in every equity sector (see the chart at below right). For investors who think this might be the low water mark for the Bush re-election campaign, the market is paying you a greater-than-usual risk premium to take the other side of the **Kerry** trade.





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