Trend Macrolytics, LLC
Donald Luskin, Chief Investment Officer
David Gitlitz, Chief Economist
Thomas Demas, Managing Director

POLITICAL PULSE

It Ain't My Job

Monday, November 10, 2008

Donald Luskin

Good news for markets -- Obama's meeting of economic icons produced exactly nothing.

We don't relish the prospect of playing the Kremlinological game of interpreting every emanation of Barack Obama before he even takes office as president. But considering the importance to fragile markets of both policy risk and sentiment, we have little choice. At the moment it's an easy job, since with his first press conference as president-elect on Friday, Obama effectively absented himself from the economic policy process until further notice.

Update to strategic view
US STOCKS: President-elect Obama is taking the best course to help deeply undervalued stocks find their footing -- conducting symbolic public displays designed to inspire confidence, rather than hastily inserting himself into policy decisions.
[see Investment Strategy Dashboard]

The press conference followed a closed-door meeting with Obama's economic transition team. According to a press release from the Office of the President-elect, "Obama Meets with Economic Advisers, Calls for 'Swift Action' on the Economy." But calling for swift action is different than swiftly taking action. Though flanked at his press conference by his economic team -- in a "lite" version of the public display of iconic expertise we suggest two weeks ago (see "Bearack Obama" October 31, 2008) -- Obama made it clear that nothing specific would be forthcoming from him until he is inaugurated. He said, "Immediately after I become president I will confront this economic crisis head-on by taking all necessary steps to ease the credit crisis, help hardworking families, and restore growth and prosperity."

If it were as simple as "taking all necessary steps," surely Obama would push to have those steps taken as soon as possible. But it's *not* that simple --

http://www.trendmacro.com
don@trendmacro.com
dgitlitz@trendmacro.com
tdemas@trendmacro.com

Offices:
Menlo Park CA
Parsippany NJ
Charlotte NC

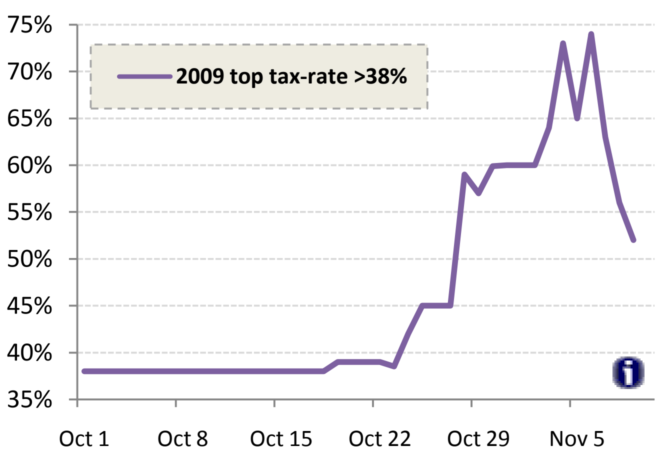
Phone:
650 429 2112
973 335 5079
704 552 3625

tackling the credit crisis is no simpler for Obama and his team than it has been for George W. Bush, Henry Paulson and Ben Bernanke. So Obama has apparently made the political calculation that there is little to gain and much to risk by putting his stamp on policy any sooner than he absolutely has to -- especially with stocks having fallen 10% in the two days following his election. He probably figures that if things improve from here through his inauguration, the media will give him credit for it anyway -- for having been such a confidence-inspiring political phenomenon. If things worsen from here, he can blame the previous administration.

One reporter asked, "Do you think it's important for you to move especially quickly to fill key cabinet posts such as Treasury secretary?" Obama responded, "When we have an announcement about cabinet appointments, we will make them." Another reporter asked, "Do you still intend to seek income tax increases for upper-income Americans, and if so, should these Americans expect to pay higher taxes in 2009?" Obama began, "My tax plan represented a net tax cut…" and then continued for several minutes without answering the reporter's question.

Then after the press conference, Obama's office announced that the president-elect has decided not to attend next week's G-20 meeting, despite having been invited by President Bush. It is unclear whether he will send a representative. An Obama spokesman said, "I don't know whether someone will actually be in the building. I don't expect in the room."

If the lame duck session of Congress attempts to enact some sort of stimulus plan, Obama may find it difficult to remain entirely aloof. But in the meantime, markets can breathe a sigh of relief that the worst-case scenario for policy risk under Obama is not yet materializing. Despite very high expectations among his voters for immediate "change," Obama is letting pass the opportunity to use the momentum of his election to work with the already Democrat-controlled Congress to try to quickly force an anti-growth policy agenda.



For markets, danger deferred is not necessarily danger avoided. And uncertainty still reigns. But at this point, every act or failure to act is a clue to the extent of policy risk -- and Friday's failure to act is a clue that Obama may take a more moderate policy approach than might otherwise have been feared. The consequent relaxation in the market's policy risk expectations can be seen in the futures contracts on tax rates traded online at Intrade. As an Obama/Democrat electoral sweep became increasingly certain in late October, the probability of a 2009 top marginal personal income tax rate greater than 38% -- as implied by the price of the futures contracts -- doubled from about 37% to almost 75% by election day. In the aftermath of Obama's press conference, the probability has fallen back to about 52%.

BOTTOM LINE: President-elect Obama is taking the best course to help deeply undervalued stocks find their footing -- conducting symbolic public displays designed to inspire confidence, rather than hastily inserting himself into policy decisions.