

TRENDMACRO LIVE!

On GOP Wins in New Jersey and Virginia

Wednesday, November 4, 2009

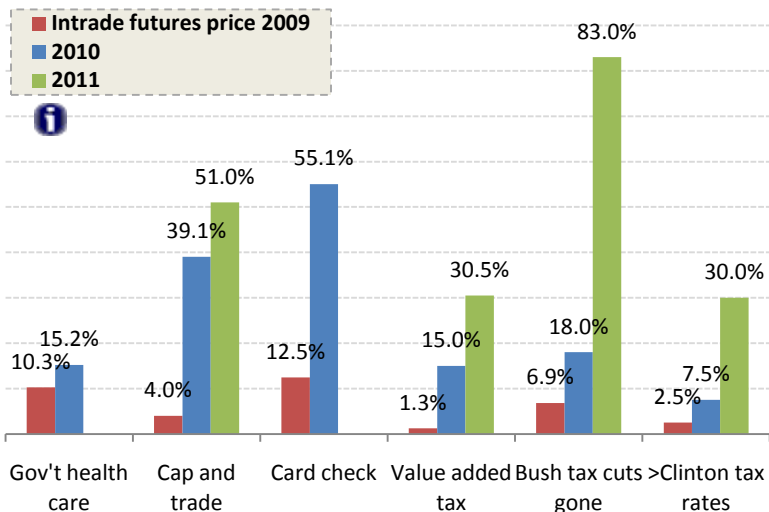
Donald Luskin

This move back toward political balance underscores the durability of the March bottom.

Yesterday's election of Republican candidates for governor in New Jersey and Virginia -- in the face of massive intervention by the Obama administration -- demonstrates the ongoing vitality of a key theme that enabled stocks to find a bottom in March. At that time, after a 1000-

page \$787 billion stimulus bill had been rushed through Congress before anyone could have possibly read it, it seemed that a lurch to the political Left was a runaway train powered by the [Rahm Emanuel doctrine](#) -- "you never want a serious crisis to go to waste." Setting aside the anti-growth implications of the many policy initiatives then in rapid motion, altogether they were simply too much "change" too fast, destabilizing an economy already destabilized by a systemic banking crisis and a severe monetary deflation. The rally in stocks gained momentum in mid-March as, one by one, key Democrats withdrew support for those initiatives (see ["Number of the Beast"](#) March 18, 2009).

The second leg up in the rally began when the signature initiative of government health insurance started to fall apart (see ["Health Care Deform"](#) July 16, 2009).



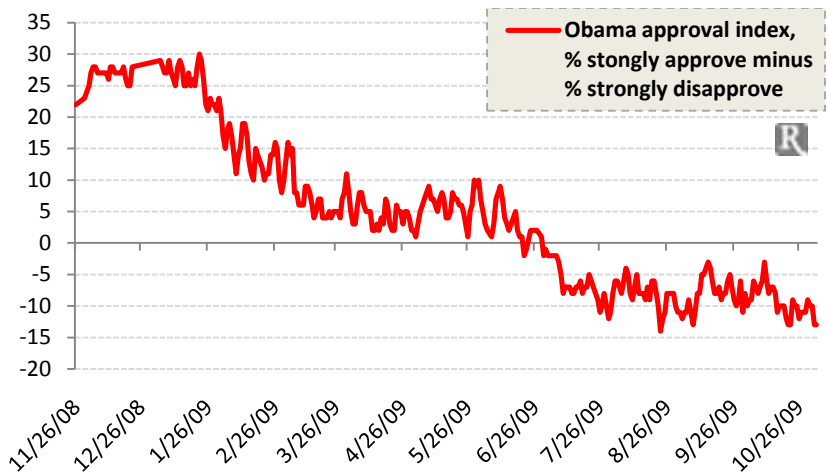
Now that there is no longer a serious crisis to not waste, every one of those initiatives is dead in the water (see the chart at left, depicting the probabilities of several key initiatives based on online political futures contracts at Intrade), President Obama's approval index has gone negative on a sustained basis (see the chart

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at right), and yesterday's election shows that the Democrat's hold on single-party rule is vulnerable. *The runaway train of excessively rapid "change" has been firmly arrested.* With the systemic banking crisis resolved (see ["The Stress Tests' Hidden Mickey"](#) May 4, 2009), the monetary deflation replaced by inflation (see ["Gold at All-Time Highs"](#) October 7, 2009), and now this further evidence of a return to a more



deliberate and balanced political process -- whatever doubts we may have about the robustness of recovery -- we are more confident than ever that the recession is over, and that the March low for stocks is a durable cycle bottom.

BOTTOM LINE: We still think a significant correction or consolidation is overdue. But yesterday's GOP victories in the New Jersey and Virginia governors' races underscore a critical theme assuring that the March lows will be a durable bottom -- the re-establishment of political balance. ▶