

## David Rosenberg on Obama's Victory

By David Rosenberg

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### Cause for Pause

So today I try my utmost to reveal some silver linings in the very latest data points. The economy is still on such fragile ground that every opportunity should be taken to highlight the rare piece of good macro news when it arrives. No different than my approach yesterday when I attempted to strike up a hopeful tone for compromise on the political front (though admittedly this will come down to whether the GOP is going to be prepared to raise revenues and the extent to which the

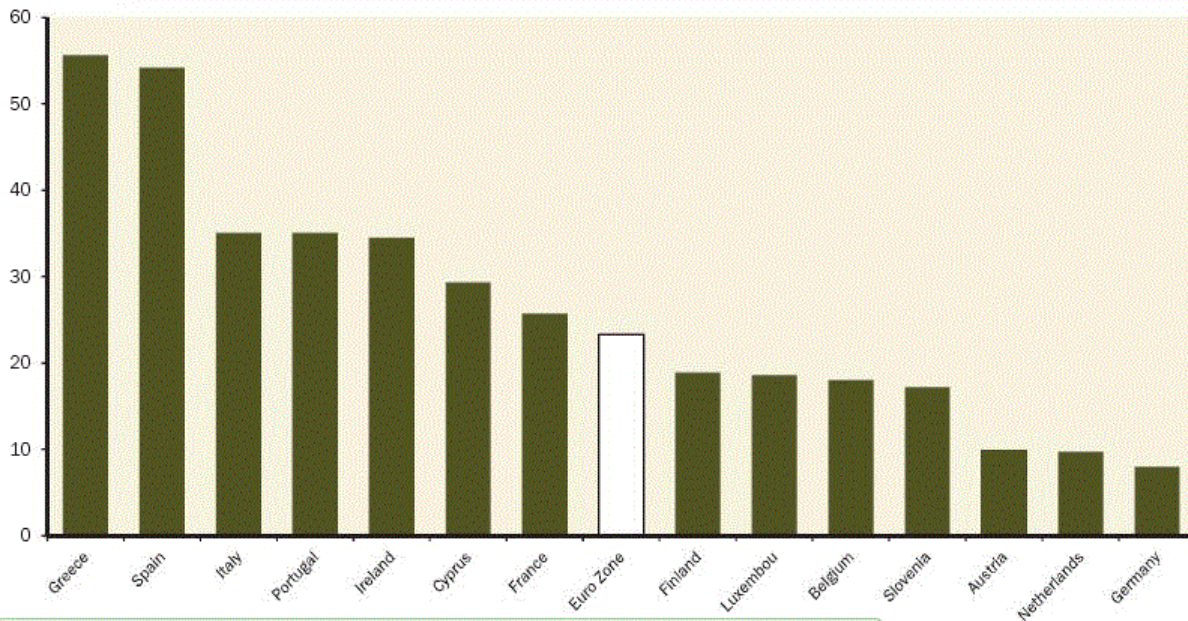
President recognizes that he does not really have a meaningful mandate with half the voting population either splitting their ballots or opting for Mitt Romney. As the *Economist* points out, the 2.4 percentage point gap in the popular vote that pushed Mr. Obama back into the White House was the lowest spread ever for a successfully re-elected president [Ed. note: According to other [data](#), more recent than the *Economist's*, Obama's winning percentage in 2012 (2.68%) was actually higher than Bush's winning percentage in 2004 (2.46%).]. I retain an extremely cautious view on the economy and the stock market as an asset class. The election is behind us. The Fed has spent its last bullet. We are at an inflection point of the earnings and sales cycle. The fiscal cliff, the Chinese political transition and the spread of the euro zone recession to the north lie ahead.

It is interesting to see the action in the equity markets, to be sure. We just endured the sharpest two-day decline of the year. The credit markets have behaved much better, and while spreads have widened in recent weeks, for the BBB space, they still narrowed in some 30 basis points since mid-September while the stock market has been wobbly at best. Then again, you buy equities for the earnings and you buy corporate bonds for the balance sheet – with \$1.7 trillion of cash sitting on business balance sheets, I'm less worried about the fiscal cliff negatively affecting default risks than the impact it will have on profits.

After QE3+ was announced on September 13<sup>th</sup>, the widespread consensus view was that the lagging hedge funds were going to be forced into the market and that the major averages were going to hit new highs going into the end of the year. And that it would be perfect timing to have the election uncertainty behind us too, irrespective of who took the keys to the Oval Office.

Well, QE3+ has been a bit of a dud in the sense that the S&P 500 peaked for the cycle on September 14<sup>th</sup>. We have not seen a new high in nearly two months. And it has been the defensive sectors that have outperformed, basically spinning the same tale of sub-par economic growth that the Treasury market has been busy doing for several weeks now. The bottom line is that reality is forcing its way back into the market now that short-term stability is no longer required for an Obama victory. It definitely felt like the euro zone was trying to keep the wheels from falling off until the U.S. election was completed – and now we have the European Commission, Draghi and Merkel talking down the regional economy and Greece being forced to adopt more austerity policies to prevent an exit from the monetary union – policies which have failed. How can anyone reasonably believe the solutions put in place are succeeding when Greek youth unemployment is rising from an astronomical 54% to 58% in a single month! As I have said before, I don't claim to be a political guru, but as an economist I can tell your that jobless numbers like this in the past signaled the start of social breakdown (as if we aren't already witnessing rolling strikes, power blackouts, increasingly violent protests and the rise of fascism in Greece).

**Euro Zone: Youth Unemployment Rate\***  
(percent)



Back to the U.S. for a moment. I said several months ago that I could certainly have been convinced to shift to a more constructive stance. But I was expecting change. We didn't get it. We got the status quo, Obama as President. The Senate in Democrat hands. The House in GOP hands. We even have the same number for Tea Party reps. Six billion U.S. dollars were spent on this election by both parties – and to achieve the same result. Mind boggling. I can watch my neighbor's dog try to catch his tail for free, thank you very



much. “Don’t ‘settle’ for four more years” was Mitt Romney’s pitch, and the country settled when all was said and done.

So I’m now having to hope – we all are – that one of the two sides will have a ‘Khrushchev moment’ behind closed doors, and end up blinking first. But at the same time, to rectify a fiscal gap that is becoming increasingly intractable, there will have to be tax increases, the question is in what form. There are going to be domestic discretionary spending cuts, the question is in what areas. And there will have to be entitlement reforms, and done in a progressive manner. The case for a Canadian-style parliamentary system, where majority governments (when they occur) can usher in legislation, has rarely been stronger than it is now (note that I am not talking about the splinter groups we see in European parliaments). Put simply, the mantra that I have heard so often that ‘gridlock is good’ is proving to be little more than a relic – a remnant of days gone by when dogma was simply not tolerated.

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