S&P 500 Sends Greetings to President Trump

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Whether Trump will be in a position to return the greeting depends on the continued hundred percent accuracy of Strategas Research Partners discovery that the candidate of the incumbent party has since 1984 lost if the S&P 500 is in the red at the end of the three months leading to the election. As of Friday's close it's down 4.46% making it virtually impossible with only one business day left (two for voters deciding after the market's Tuesday close) that the negative could be transformed into a positive. This fun fact relationship between the S&P and the presidential election has had an 86% accuracy rate since 1928 (19 of 22 elections).

It's hardly surprising that the electorate will blame the party in power if they don't like he way things are going. Since few have any investments, and therefore any interest in Wall Street (except hatred), the accuracy of the S&P trading reflects investor recognition of the same problems that disturb the masses. American markets have had their longest losing streak since 1980 and all the major indices are at 52 week lows.

No matter how much the major media tries to shine up economic reports with a positive gloss, they still can't keep the stains from showing. The most common trick is to compare current data with the most minimal recent data. Today the BLS Establishment Survey for October came in a 161,000 jobs. This was whooped up as a strong number. Usually October picks up from the summer doldrums. The figure for October 2015 was 295,000. The four month average from August through October was about 217,000. The same four months this year average 195,000. The last six months averaged 179,000. The period from July 2014 through February 2015, when "full employment" was declared, the average was about 260,000. The trend clearly shows a weakening employment situation.

Recessions and depressions produce social effects similar to a some wars. The loss of jobs means less consumption and the human experience of what is called a recession or depression. Recovery in its first years does not merely mean a return to the growth rate immediately preceding the downturn. There needs to be a 'catching up' to account for what was lost during the down period. After World War 2 there was a massive catching up by consumers for what couldn't be purchased during the war which was followed by the economy leveling out. Prior to our Great Recession the GDP was above 6% from 2003-2005, 5.12% in 2006, 4.40% in 2007 with the downturn showing itself in August of that year. Then the bottom fell out – 0.92% in 2008, 0.11% in 2009. An actual recovery from such depths would mean growth rates of 8-10 percent for the initial years. Instead we had 4.56% in 2010 – and that has turned out to be a peak (!). The following years have been less, most recently much less. 3.00% in 2015 and probably around 2.5% this year. Clearly this shows a weakening in the overall economy.

Finally there is wages. A big deal was made that in October wage growth was an annualized 2.8% – the fastest growth since 2009 (the year the GDP was 0.11%!). Wage growth in an actual recovering economy would be in the 5% range. Thus the very weak growth in consumer spending.

Yet during all these years of stabilization (meaning no recovery but the absence of an outright collapse) the markets have repeatedly hit new highs. The novelty of this bubble is that it's based on nothing real -- there is no new life altering product stimulating the markets, nor has the economy picked up civilian duties following a major war. This one is strictly a financial bubble based on the use of low credit costs to artificially boost the value of financial assets -- mainly equities.

Everybody knows that it's a bubble. The mainstream media frequently acknowledges it as such and worries that there seems to be no way to safely bring the economy back down to reality because that reality just may be a collapse of the black hole type -- something we'd never get out of.

In the Britain of the 1840's there was a massive bubble based on an important new industrial development -- the railroad. Dozens of companies were registered in a month often never getting any closer to building a railroad than selling shares for that purpose. The mainstream media frankly called the speculation a dangerous mania that must be reined in. The Bank of England was made to limit the value of notes issued to a specific sum above its bullion holdings. That didn't work because by that time there were vast sums of paper wealth already available for speculative purposes. Raising interest rates wouldn't work for the same reason and only risked creating a panic. The only alternative was to allow the bubble to run its course, which it did with the railway speculative collapse of 1847. The period from 1847 to 1849 was when virtually every European country and some in the Western Hemisphere erupted in popular uprisings due to economic depression.

This country and the world is in no better position to control money volatility. Limiting credit by raising interest rates may cause panic. Paul Krugman recently came out in opposition to a rate rise in December. Yet not doing so tends to lower Fed credibility in that its assertions that the economy has steadily gotten stronger is being undermined by their fearful restraint in raising the Fed Funds rate a tiny bit because it might trigger a disaster.

Politics may soon bring a cleanup of this gigantic mess. Whoever is president come November eight will be one of the most despised to ever serve in that office. Even so, if Clinton wins handily, the markets will be pleased for a bit longer. A Trump presidency will be a black cloud over the world at least until there is a common understanding that many major nations have been ruled by idiots. There also might be something worse -- an indefinite mess like 2000. That would likely burst the bubble creating the black hole crisis out of which may come an Occupy like movement that forces an alteration in our form of government, perhaps into something much more like a participatory government. And then out of that a wide range of ways of living and governing will have a forum for discussion and decision making.

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