

"With every budget crisis in Congress, I recommend investors to buy back"

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U.S. President Barack Obama arrives today with great pomp in the Netherlands. The leader of the free world is highly thought of abroad.

But at home his power waning.

Congress hopelessly divided

How the president implements his agenda depends on the U.S. Congress – which has been hopelessly divided for years. Republicans and Democrats are diametrically opposed. Bickering between Republicans and Democrats has paralyzed Washington several times in recent years. In October, President Obama was powerless as Congressional disagreement forced the closure of the U.S. government.

Washington monitor

The trench war has also had consequences for investors. The political game on Capitol Hill led to turmoil in financial markets around the world. Investors discovered to their horror that even they need to keep an eye on the political wrangling in Washington. However, anyone who follows American politics well can encounter interesting investment moments. For although Republicans and Democrats seem far from reasonable, there is indeed a logic in their actions. That's according to Andrew H. Friedman, a political analyst in Washington DC.

The rudder

Friedman, author of The Washington Update newsletter, works with the leading U.S. asset manager Eaton Vance, advising clients on the developments in American politics. His analysis is much in demand, and investors readily pay to hear his views. Friedman has lived for decades in Washington. He was a tax attorney for nearly thirty years at the prestigious firm Covington & Burling. In 2007, he changed tack and became a political analyst. Since then he has travelled extensively to explain the vagaries of Washington politics.

From crisis to crisis

For now his work is not finished yet, says Friedman, who earlier this month was in the Netherlands for a presentation for analysts CFA Society. Blinded by self-interest, American politicians drift from crisis to crisis. It gives Friedman plenty to work with. "For me it is the gift that keeps on giving!"

When do you expect the next crisis?

'Likely next year. On March 15, 2015, the U.S. government will reach the debt ceiling that Congress has temporarily increased. And on 30 September 2015, Congress will have to approve a new budget for the U.S. Government. We can expect another crisis then. As long as the structural problems are not solved, that's how it will be.

"What are the structural problems?"

Social spending, for example. Obamacare and social security costs go up sharply in the coming years, as does the interest of the public debt. These expenses will only bring heavier pressures as baby boomers retire and the interest rate rises.

Are these problems solvable?

"Yes, pretty simply. A modest increase in taxes, raise the retirement age from 65 to 67. You and I could solve it in five minutes. But Congress lacks the political will."

When are the U.S. going to solve their problems, then?

"Congress will really only act if all else fails, when something is about to happen that requires radical intervention. I call that a "forcing event".

What would such an event be?

"I foresee a situation where the U.S. can no longer finance their debt at the current low interest rates. There comes a time when investors will not take a return of 3% or 4%, and they no longer see the value in U.S. government bonds. They stop buying treasuries, interest rates go up and the U.S. ends up in a crisis."

When you foresee that happening?

"Not in the short term. The U.S. economy has come out of a recession. But in the longer term, over five years, it is still questionable whether investors will continue to see value in the current US markets."

What should investors do?



"Distinguish between structural crises and the artificial crises caused by politicians. Last October, when parts of the public administration were closed, I advised investors to buy. The financial markets were nervous, the stock market went down, but I knew we would not go bankrupt."

When do you expect the next buying opportunity?

"March next year, when Congress will need to negotiate an increase in the debt ceiling again. That will be another artificial crisis. If the markets are nervous then, then for me the time has come to buy. "

Will the midterm elections in November change things?

"No. I expect that Congress will only polarize. More Republicans seem only to advance further to the right under the influence of the Tea Party.

Does the American political system still work?

"Not effectively, but to change the political system, we will have to amend the constitution. This requires a two-thirds majority in Congress and the amendment is then ratified by a majority of three-quarters of the states. I don't see that happening. "