
Greg Valliere Monthly Commentary

Update as of June 4, 2013



Greg Valliere
Chief Political Strategist
Potomac Research Group

GREG VALLIERE: Well, hello, everybody. It's Greg Valliere at the Potomac Research Group recording on June 4th.

Two subjects I thought I would spend a little bit of time with on today's call... the first is all the scandals and how they're affecting the agenda in Washington. The second is a very different subject, and that is what we see coming ahead from the Federal Reserve in terms of its very accommodative policies.

Well, let's talk about scandals first. I think you've got to say there are at least three that will continue to bedevil this administration for months and months to come. The big one, obviously, is the IRS scandal. I think there will be many, many more hearings, perhaps more allegations that this administration tried to intimidate people on the right. Whether there's a smoking gun really connecting this scandal to the White House is still very much up in the air. I would guess probably not, but there's an awful lot of emails and testimony to come, and I think this will continue to be a big irritant.

Is this the equivalent of Watergate? Well, I remember Watergate, and I don't think it's exactly the same. This president is so famously non-hands on, very much detached from what's happening, whereas Richard Nixon, of course, was not. But there is one similarity, and that is that many Democrats are now moving away from Barack Obama, just as many Republicans during the summer of 1974 moved away from Richard Nixon. And this movement by Democrats is a real concern at the White House. So the IRS scandal, by far, is the most serious.

There are three others, however. One is a percolating scandal that could become serious involving the head of HHS, Kathleen Sebelius, who strong-armed companies that she regulates to get contributions from them for the Obamacare Education Fund. I think there will be many more hearings on that. And we also have this scandal involving the wiretapping of journalists, including some who were perhaps opposed to this administration. Eric Holder, I think, is in real trouble. He has said some things that come dangerously close to perjuring himself. Close call, but I think there's going to be a continued focus on Holder, and whether he can continue on is up in the air. And then the final scandal, of course, is one that seemingly never will go away, and that's

Benghazi. I think the White House can survive Benghazi, but this will be a dark cloud over Hillary Clinton for quite some time to come. I think it could inhibit her presidential ambitions in 2016.

So what do all these scandals mean? What are the implications? I'd say two or three things. The first is the impact on the Obama agenda. Frankly, I think most columnists and commentators have overplayed this. The Obama agenda was dead before the scandals. The Obama agenda really died when he couldn't get a vote on the background check for guns through the Senate, which the Democrats control. And his inability to get the Senate to approve something that 90% of the public wanted I think really spoke volumes about this president's inability to get very much done. He does not have, in my opinion, the political DNA to cut deals.

I'm not an Obama basher, but I agree with Maureen Dowd and many commentators who feel that he just lacks the political skill, and I think that showed even before the scandals. I think now rather than having his agenda dead the bigger risk for him is having things shoved down his throat that he would prefer not to see, and by that I mean the Keystone Pipeline, which many moderate Democrats would like to see, and sequester. At the end of the year, I think there's a good chance that it will be forced on Obama and we'll have another year in 2014 of deep spending cuts.

So what's the impact on the 2014 election? I think you've got to say that Republican chances of keeping the House have gone from good to very good. I think that a month or two ago, we were all talking about whether the Democrats could win the 17 net seats to take the House. Now I'd say there's a chance the Republicans might even add seats. The other big political story is in the Senate, where there's a chance that the Republicans could get just enough seats to regain control of the Senate. It would take six seats. That's a tall order, but there are seven seats the Democrats have to defend in states that Mitt Romney won comfortably. So at the very least, the Republicans, I think, will gain two, three, four, maybe five seats. They could come very close to the six to take the Senate.

The final point I'd make on the scandals is I think the only hope that the President has right now is that the Republicans overplayed their hand, and that could happen. Darrell Issa has been famous in this town for the last few years for being a publicity hound, for perhaps overstating his case. And, as I record this, I note that yesterday, Issa said that Jay Carney, the White House spokesperson, is a paid liar. That just doesn't really help the cause, in my opinion. John McCain repudiated what Issa had to say. Issa is saying that this goes right to the White House. Maybe it does, but I'm not sure he has proof. And I think this president, as Bill Clinton did several years ago, could benefit if he starts to look like a martyr if the Republicans go after him too hard. But barring that, I do think that this really presents a president adrift, and in many respects this administration has entered lame duck status earlier than just about any administration that I have followed.

Well, let's move on to another subject, totally different, and that, of course, is Federal Reserve policy and where Ben Bernanke may be headed. I'm very fortunate in my job in that I get to work with a former Fed official who is a former vice chairman of the Fed, who tells me

repeatedly that the media loves to stir up controversy and make it sound as if there are great divisions within the Fed, and that there are many dissenters from the policy of Ben Bernanke, which is quite accommodative. In truth, many of the dissenters who were quoted in the press are not voting members. The real power at the Fed is concentrated in the triumvirate of Ben Bernanke, Janet Yellen, and Bill Dudley in New York. All three of them are exceptionally dovish on monetary policy. And, therefore, I think it's highly unlikely that the Fed will really significantly change its QE 3 at the upcoming June FOMC meeting.

The Fed, I think, doesn't feel the time is ready for them to begin pairing back, scaling back their \$85 billion in monthly purchases. Many reasons for that-- you know, a couple are headwinds, headwinds from Europe, headwinds from what still looks like mediocre growth in the US, maybe some fiscal headwinds as the deficit falls sharply. But the other big factor for them taking their time is that there's no real inflation to worry about. In fact, their favorite indicator, the PCE Deflator, the Personal Consumption Expenditures Deflator—that's quite a mouthful—but their favorite indicator is dropping. They think inflation is still remarkably well contained.

There is a concern, I would add, at the Fed about bubbles. There's a new Fed governor named Jeremy Stein, who has been quite outspoken, I'm told, internally, in particular, at the Fed, talking about real estate bubbles, maybe a stock bubble. And there is legitimate concern about that, but I don't think there's any legitimate concern right now about inflation. So I think the Fed is inclined to wait until the next big meeting, the next two-day meeting that has a press conference by Bernanke, and that won't come until September.

It's possible if the data between now and September shows the economy continuing to gain some strength that they will decide in September to cut back a bit on the \$85 billion in monthly purchases. Maybe they would go to \$60- or 65 billion, but they would still be adding to the balance sheet. And I think this addition to the balance sheet will continue through the end of 2013, maybe going into 2014. So, again, they are not in any great hurry. And some people would suggest that if Bernanke leaves, perhaps policy might change. It's worth noting that if he does leave, and I think he will in January—I think he'd like to go back to Princeton to write and teach—if he does, he will be replaced by Janet Yellen, who is even more dovish than Bernanke.

So I think this policy of Fed accommodation, without any possibility of a hike in the Federal Funds rate will persist for at least a couple of more years. So I think that the Fed outlook is fairly clear, even though the markets have been getting jittery over pairing back, scaling back, and the press has really played up the possibility that the Fed may switch. They may switch at some point this fall, but it's going to be a very gradual change, and, again, I still think they will be adding assets well into next year.

So those are the two big stories, scandals and the Fed. More to come next month and I look forward to talking to all again then. Enjoy June, everybody.

Not FDIC insured. Not bank guaranteed. May lose value, including loss of principle. Not insured by any state or federal agency.

About WealthTrust-Arizona

WealthTrust - Arizona is a fee based investment advisory firm that specializes in integrating portfolio management with estate planning for high net worth individuals and families. Services include portfolio management, estate planning, asset and lifestyle preservation, taxation concerns, access to trust and estate documentation preparation, business succession planning and more.

The professionals at WealthTrust - Arizona are frequently sought out by the national media such as *The Wall Street Journal*, *Forbes*, *New York Times*, *CNBC*, *BloombergRadio*, and others to share their thoughts on matters that impact our clients.

WealthTrust – Arizona, LLC
www.wealthtrustarizona.com
Phone: 480-483-7300

**8434 E. Shea Boulevard
Scottsdale, AZ 85260
FAX: 480-443-4810**

**1035 W. Queen Creek Rd. #101
Chandler, AZ 85248
FAX: 480-993-1439**

Securities offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC headquartered at 18 Corporate Woods Blvd, Albany, NY 12211. Investment advisory services are offered through WealthTrust – Arizona LLC, a registered investment advisor not affiliated with Purshe Kaplan Sterling Investments.