Investment Insight

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Nobody likes a recession: *Or do they? You are probably familiar with the well-known statistic that, on average, the US stock market performs significantly better when a Democrat rather than Republican occupies the White House.*

PIMCO's economic advisor Joachim Fels had always dismissed this factoid, which usually makes the rounds during presidential election campaigns, as one of the many spurious correlations that equity strategists like to dwell on. However, some recent research, not to mention the election of Donald Trump, has caused him to reassess. In this week's ***Inside Track*** *we take a closer look.*

Sell Sell Sell: *In* ***Pic of the Week*** *we...well, you'll get the picture!*

From all at Aria Capital may we take this opportunity to wish you and yours a wonderful Christmas.

Quoted...

"Why is Christmas just like a day at the office? You do all the work and the big guy in the suit gets all the credit." – Anonymous

The Inside Track

Joachim Fels is Global Economic Advisor at PIMCO. He recently took a somewhat light-hearted look at how the US economy fares under Democratic and Republican presidents. The following are some extracts.

Guess what? Comparing the official NBER recession dates with the terms in office of American presidents produced a stunning result: Democratic presidents usually don't do recessions. No less than nine of the last ten U.S. recessions occurred under a Republican president. And the one Democratic recession (in 1980) happened when Jimmy Carter sat in the oval office, but it only lasted six months. What about President Obama – didn't he preside over the Great Recession? Yes, but when he inherited it from George W. Bush it was already one year old and it ended six months into his Presidency. Moreover, not only do Democratic presidents not do recessions, Republican presidents seemingly cannot do without them. Fathom this: Each of the six Republican Presidents since the second world war presided over at least one recession during his term(s) in office.

Why is it that Republicans presidents and recessions are so intricately linked? If you are a Democrat, you may say that this just serves to show that Republicans are either economically incompetent or simply don't care about main street and the permanent scars created by periods of high unemployment, or both. If you are a Republican, you may say (or tweet) that it is because Republican presidents usually have to clean up the mess created by their Democratic predecessors. And if you are an economist, you might suspect that Republicans have better understood the theory of political business cycles pioneered by Yale economist William "Bill" Nordhaus (who ironically served on the Council of Economic Advisors in the Carter administration). In his classic 1975 The Review of Economic Studies article "The Political Business Cycle", Bill uses a lot of impressive math and equations to demonstrate that it makes sense for a freshly-inaugurated president to engineer a recession early on and then ride the following recovery to maximize employment towards the end of his tenure when he stands for re-election. Well, it seems that Eisenhower, Nixon, Reagan and George W. Bush had read the Nordhaus paper, and some of them even before it was published!

So what does all of this tell us about the likelihood of a recession under President Trump? Based only on the post-war empirical evidence discussed above, and at the risk of becoming a target of Twitter abuse by the real one, the probability of a recession under President Trump is precisely 100%. Put differently, if we don't see a recession in the next four years, Donald Trump would break with the tradition established by the previous six Republican presidents that have held office during his lifetime. In one respect, his chances to avoid a recession are better than those of Nixon, Reagan and George W. Bush: Trump is neither inheriting runaway inflation and large deficits from President Obama, nor a financial sector that is building up huge leverage.

Pic of the Week

Week ahead: Key events

26/12 Japan Leading Index
26/12 Lose money at Leopardstown!
27/12 Japan Industrial Production & Retail Sales
28/12 US Mortgage Applications
29/12 US Initial Jobless Claims
30/12 Chicago Purchasing Managers' Index

Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-0.0%	+6.6%	+7.2%	+9.6%
US equities	-0.0%	+9.5%	+10.6%	+12.3%
European equities	-0.1%	-1.1%	-0.9%	+7.7%
EM equities	-1.6%	+4.9%	+6.1%	-1.9%
Irish equities	-0.1%	-4.2%	-4.5%	+17.8%
Commodities	-1.0%	+5.7%	+9.8%	-9.4%
Hedge funds	+0.4%	+3.2%	+2.6%	+1.7%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.8%	-0.1%	+6.9%
Germany	+0.3%	+0.8%	+1.7%
USA	+2.6%	+1.7%	+1.7%
China	+3.1%	+2.3%	+6.7%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.04	-3.9%
EUR:GBP	0.85	+15.3%
EUR:CNY	7.26	+2.3%
GBP:USD	1.23	-16.6%
Bitcoin	908.93	+110.3%

Commodities	*Current*	*YTD Δ*
Gold	1,131.30	+6.6%
Copper	5,504.00	+17.0%
Oil	54.80	+20.4%
Wheat	398.00	-23.4%

Central Bank rates	*Current*
Eurozone	0.00%
USA	0.75%
UK	0.25%

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