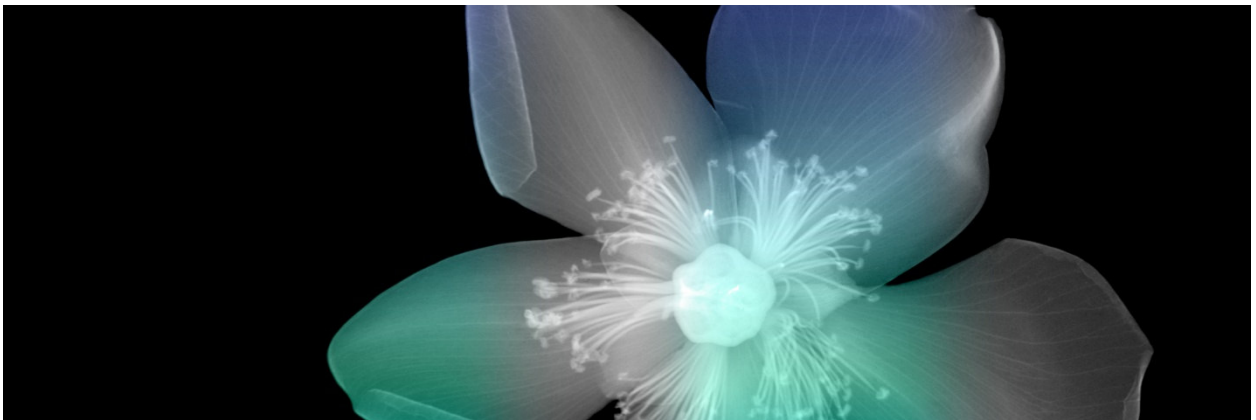


# SYGNIA COMMENTARY

## BARACK OBAMA TAKES THE WHITE HOUSE

# NOVEMBER 2008



*"If there is anyone out there who still doubts that America is a place where all things are possible, who still wonders if the dream of our founders is alive in our time, who still questions the power of our democracy, tonight is your answer,"* Barack Obama, Chicago, 4 November 2008

Barack Obama (47) was yesterday elected America's first African-American president. In a sweeping victory over the Republican candidate, John McCain, Obama won the most votes since the former President Bill Clinton in 1996. Most markedly he won the key states of Florida, Ohio, Colorado and New Mexico, all staunch Republican supporters just four years ago. Obama's campaign raised the most donations in history, overwhelming his opponent.

Riding on a promise of widespread "change", he attracted millions of new voters, including a large percentage of the American youth. Viewed as the candidate most likely to be able to deal with the economic crisis facing the country, Obama comes to the White House promising to pursue universal health-care coverage, alternative sources of energy, reassessment of the US government's free-trade deals, greater oversight and regulation and shifting of the tax burden back to the wealthy, while cutting middle-class taxes.

And yet, once the euphoria dissipates, he will face many daunting challenges:

- The worst financial crisis since the Great Depression in 1929
- An economy battered by falling corporate profits and the highest unemployment levels in five years
- Double wars in Afghanistan and Iraq

The task ahead of him has been compared to the biggest overhaul of the US economy since Franklin D. Roosevelt's New Deal.



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# 2009 and Beyond

Some of Obama's election proposals and promises include:

- Investing US\$150 billion over the next 10 years in clean energy initiatives to create 5 million jobs
- Pressing automakers and consumers to get a million fuel-efficient hybrid vehicles in use by 2015
- Creation of a fund to invest in manufacturing research and new job training programs, and an infrastructure investment bank to create up to 2 million jobs
- Development of a network of business incubators and the deployment of broadband Internet infrastructure across the country
- Looking at ways to help homeowners renegotiate mortgages
- Overhaul of the financial industry oversight agencies, and giving the Fed unprecedented ability to monitor financial institutions' books (including the formation of a financial-market oversight commission responsible for identifying risks on a pro-active basis)

Apart from the explicit promises, he also needs to devote substantial time to pressing global issues. On the political front he needs to redefine the terms of US's relationship with the UK (regarded as having been bullied into submission by Bush), with France, which is rapidly emerging as spearheading reform in the Eurozone and, most importantly, with the co-dependant China.

## Remainder of 2008

Obama assumes office on 20 January 2009. He will have the support of a Democratic House and Senate behind him. In the meantime, however, as president-elect, his challenge will be to work with the Bush administration in a collaborative manner. Bush, at the request of European leaders, will hold a summit on 15 November to discuss longer-term strategies to prevent a follow up of the current credit crisis. Obama will need to find a diplomatic way of participating in the debates which will shape his own roadmap going forward, without having any official standing at the meeting. He is also likely to urge speedy recapitalisation of the financial system using the US\$700 billion relief package.

## Market Reaction

Stock market reactions have been varied, and overshadowed somewhat by the broader economic fundamentals. Stocks in Asia surged on the general optimism associated with the US election, and some signs that the credit market may be thawing. The US dollar gained against the euro on speculation that Obama's victory will accelerate policies aimed at dealing aggressively with the recession. By the time the European bourses opened however, poor earnings numbers from ArcelorMittal and Carlsberg A/S eclipsed the jubilation associated with the US presidential election victory.

In terms of a longer term impact on the equity markets, the driving forces will, unfortunately, remain weak economic fundamentals. Obama's victory in no way affects those. He may speed up resolution of the current credit crisis, but his era will invariably bring with it more regulation, greater intervention in the free markets and a general redistribution of wealth. US's liberal, and often biased, trade policies will also come under review. Although not against free trade, Obama supports "fair trade" and takes a more protectionist approach towards the US labour and the environment. Protectionism has never supported growth.

After today, the election will become stale news fairly quickly. The Herculean tasks of stimulating economic growth and fixing a broken financial system remain.

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Sygnia offers the following services to the institutional and retail clients in South Africa and globally:

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Sygnia currently administers approximately R15 billion and has offices in Cape Town and Johannesburg.

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