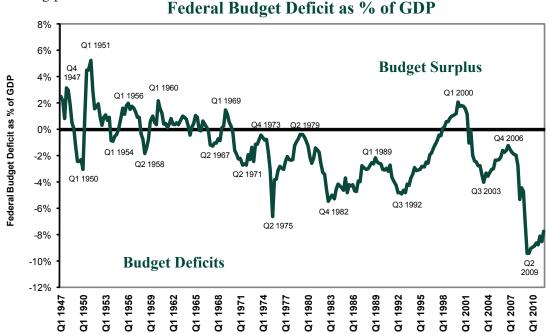
Budget Deficits Are Good for Stocks

People respond to the notion of federal budget deficits with hand-wringing. But the counterintuitive truth is stock market returns following periodic deficit extremes have been much higher than surplus peaks or decreasing deficits. If you think of the government as a corporation, using leverage to spur growth doesn't seem like such a strange dynamic. When you look at the budget as a percent of GDP, its peaks and troughs have been fairly well aligned with US stock market cycles. Below are returns following budget turning points.



Dudget Sui pius / Deci casing Denens	Budget	Surplus /	Decreasing Deficits
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Bud	σet]	Defi	cits
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		bsequent S&P 500 Price Return			Subsequent S&P 500 Price Retu			
	12 mo	24 mo	36 mo	Date		12 mo	24 mo	36 mo
Annualized	-0.7%	4.7%	10.1%	Q1 1950	Annualized	23.8%	18.7%	13.5%
Cumulative	-0.7%	9.5%	33.4%		Cumulative	23.8%	41.0%	46.3%
Annualized	13.9%	8.7%	8.0%	Q1 1954	Annualized	35.8%	34.1%	17.9%
Cumulative	13.9%	18.2%	25.9%		Cumulative	35.8%	80.0%	63.7%
Annualized	-9.0%	-6.8%	4.6%	Q2 1958	Annualized	29.2%	12.2%	12.6%
Cumulative	-9.0%	-13.2%	14.4%		Cumulative	29.2%	25.8%	42.9%
Annualized	17.6%	12.1%	6.4%	Q2 1967	Annualized	9.9%	3.8%	-7.1%
Cumulative	17.6%	25.7%	20.3%		Cumulative	9.9%	7.8%	-19.8%
Annualized	-11.7%	-0.6%	1.8%	Q2 1971	Annualized	7.5%	2.3%	-4.8%
Cumulative	-11.7%	-1.2%	5.6%		Cumulative	7.5%	4.6%	-13.7%
Annualized	-29.7%	-3.8%	3.3%	Q2 1975	Annualized	9.5%	2.7%	0.1%
Cumulative	-29.7%	-7.5%	10.2%		Cumulative	9.5%	5.6%	0.4%
Annualized	11.0%	12.9%	2.1%	Q4 1982	Annualized	17.3%	9.0%	14.5%
Cumulative	11.0%	27.5%	6.5%		Cumulative	17.3%	18.9%	50.2%
Annualized	15.3%	12.8%	11.0%	Q3 1992	Annualized	9.8%	5.2%	11.8%
Cumulative	15.3%	27.2%	36.9%		Cumulative	9.8%	10.7%	39.9%
Annualized	-22.6%	-12.5%	-17.3%	Q3 2003	Annualized	11.9%	11.1%	10.3%
Cumulative	-22.6%	-23.4%	-43.4%		Cumulative	11.9%	23.4%	34.1%
Annualized	3.5%	-20.2%	-7.7%	Q2 2009	Annualized	12.1%	19.9%	??
Cumulative	3.5%	-36.3%	-21.4%		Cumulative	12.1%	43.7%	??
Annualized	-1.2% 1.2%	0.7%	2.2%	Average	Annualized	16.7%	11.9%	7.7% 27.1%
	Cumulative Annualized Cumulative	Annualized Cumulative -0.7% Annualized 13.9% Cumulative 13.9% Annualized -9.0% Cumulative -9.0% Annualized 17.6% Cumulative 17.6% Annualized -11.7% Cumulative -11.7% Annualized -29.7% Cumulative -29.7% Annualized 11.0% Cumulative 11.0% Annualized -22.6% Cumulative -22.6% Annualized -22.6% Cumulative -25% Annualized -22.6% Cumulative -25% Annualized 3.5% Cumulative 3.5% Annualized 3.5% Cumulative 3.5% Annualized -7.2%	Annualized Cumulative -0.7% 4.7% Cumulative -0.7% 9.5% Annualized Cumulative 13.9% 8.7% Cumulative 13.9% 18.2% Annualized -9.0% -6.8% Cumulative -9.0% -13.2% Annualized Cumulative 17.6% 12.1% Cumulative -11.7% -0.6% Cumulative -11.7% -1.2% Annualized Cumulative -29.7% -3.8% Cumulative 11.0% 12.9% Cumulative 11.0% 27.5% Annualized 15.3% 12.8% Cumulative 15.3% 27.2% Annualized -22.6% -23.4% Annualized 3.5% -20.2% Cumulative 3.5% -36.3% Annualized -1.2% 0.7%	Annualized	Annualized Cumulative -0.7% 4.7% 10.1% 9.5% 33.4% Q1 1950 Annualized 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Cumulative -0.7% 9.5% 33.4% 10.1% 21.950 23.8% 18.7% 23.8% 41.0% Annualized Innualized Cumulative 13.9% 8.7% 8.0% 25.9% Q1 1954 Annualized 35.8% 34.1% 35.8% 80.0% Annualized Cumulative 13.9% 18.2% 25.9% 25.9% 25.9% 25.8% 25.8% 80.0% Annualized Power P

Source: Bureau of Economic Analysis; Global Financial Data, Inc., as of 11/25/2011.

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