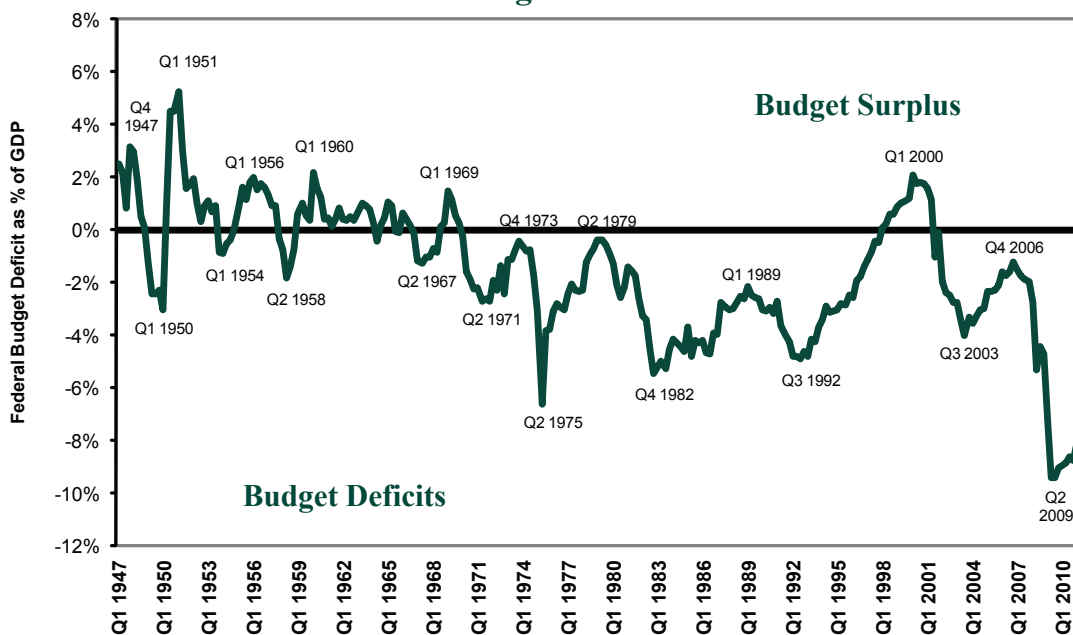


Budget Deficits Are Good for Stocks

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.

Federal Budget Deficit as % of GDP



Budget Surplus / Decreasing Deficits

Date		Subsequent S&P 500 Price Return		
		12 mo	24 mo	36 mo
Q4 1947	Annualized	-0.7%	4.7%	10.1%
	Cumulative	-0.7%	9.5%	33.4%
Q1 1951	Annualized	13.9%	8.7%	8.0%
	Cumulative	13.9%	18.2%	25.9%
Q1 1956	Annualized	-9.0%	-6.8%	4.6%
	Cumulative	-9.0%	-13.2%	14.4%
Q1 1960	Annualized	17.6%	12.1%	6.4%
	Cumulative	17.6%	25.7%	20.3%
Q1 1969	Annualized	-11.7%	-0.6%	1.8%
	Cumulative	-11.7%	-1.2%	5.6%
Q4 1973	Annualized	-29.7%	-3.8%	3.3%
	Cumulative	-29.7%	-7.5%	10.2%
Q2 1979	Annualized	11.0%	12.9%	2.1%
	Cumulative	11.0%	27.5%	6.5%
Q1 1989	Annualized	15.3%	12.8%	11.0%
	Cumulative	15.3%	27.2%	36.9%
Q1 2000	Annualized	-22.6%	-12.5%	-17.3%
	Cumulative	-22.6%	-23.4%	-43.4%
Q4 2006	Annualized	3.5%	-20.2%	-7.7%
	Cumulative	3.5%	-36.3%	-21.4%
Average	Annualized	-1.2%	0.7%	2.2%
Average	Cumulative	-1.2%	2.6%	8.8%

Budget Deficits

Date		Subsequent S&P 500 Price Return		
		12 mo	24 mo	36 mo
Q1 1950	Annualized	23.8%	18.7%	13.5%
	Cumulative	23.8%	41.0%	46.3%
Q1 1954	Annualized	35.8%	34.1%	17.9%
	Cumulative	35.8%	80.0%	63.7%
Q2 1958	Annualized	29.2%	12.2%	12.6%
	Cumulative	29.2%	25.8%	42.9%
Q2 1967	Annualized	9.9%	3.8%	-7.1%
	Cumulative	9.9%	7.8%	-19.8%
Q2 1971	Annualized	7.5%	2.3%	-4.8%
	Cumulative	7.5%	4.6%	-13.7%
Q2 1975	Annualized	9.5%	2.7%	0.1%
	Cumulative	9.5%	5.6%	0.4%
Q4 1982	Annualized	17.3%	9.0%	14.5%
	Cumulative	17.3%	18.9%	50.2%
Q3 1992	Annualized	9.8%	5.2%	11.8%
	Cumulative	9.8%	10.7%	39.9%
Q3 2003	Annualized	11.9%	11.1%	10.3%
	Cumulative	11.9%	23.4%	34.1%
Q2 2009	Annualized	12.1%	19.9%	??
	Cumulative	12.1%	43.7%	??
Average	Annualized	16.7%	11.9%	7.7%
Average	Cumulative	16.7%	26.1%	27.1%

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

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