November 2022

The Biden Effect

Joe Biden's Effect on the Market

Herbert M Barber, Jr, PhD, PhD serves as the Managing Partner and Chief Investment Officer of Xicon Economics. Intersecting the fields of engineering, finance, econometrics, and statistics, Dr. Barber is an expert in computational financial economics as it relates to the management of random walk theory and navigation of constructs surrounding efficient market hypotheses, especially within assets operating under extreme uncertainty. For over 30 years, he has provided advisory, consulting, and management of large capital investments in the private and public sectors, totaling over $100 billion. Additionally, Dr. Barber has published numerous scientific papers in refereed journals. Dr. Barber holds 5 academic degrees, including two research doctorates.

General Concerns

With no argument, the US has spiraled to new lows politically, economically, and socially the last several years. With any glimmer of hope of having a sound leader politically, economically, and socially the next few years gone, the US faces issues we may never resolve, let alone overcome. Consider where we are as a nation today. First and foremost, we have a leader in office who has serious mental deficiencies, not to mention Alzheimer's disease, no leadership skills, no business savvy, and no political clout. Our leader has taken from the back of the American worker his entire life, not once earning his own way in the private sector. For more than 62 years, his entire adulthood, Biden has expected private sector taxpayers to house, feed, and clothe him, like much of the US population. A child running a lemonade stand has a stronger understanding of economics. Subsequently, it is foolish for us to expect a president with Biden's background to right a sinking ship when he has yet to pilot a rubber raft.

Politically, the US would face chaos should Putin of the Soviet Union, Jinping of China, Raisi of Iran, or Jong-un of North Korea push against the US today; the US would potentially unravel, if not crumble, especially under our current leadership. As has been recently proven by Putin's movement against Ukraine and Jong-un's firing of missiles across the bow of our friends in Japan, Biden is in no position to ensure the necessary steps are taken to protect US citizens from our enemies. As we learned under Obama's reign, such leaders make us appear as a joke globally.

That said, fault for weak political leadership does not fall on the backs of politicians; it falls on the people who elect them, for with each step we decline as a nation, we elect weak leaders. So, before we blame the presidents and other politicians we elect, perhaps we should look in the mirror, for our electees are by and far a reflection of their voters, good or bad.

To this end, ponder just these few economic issues we currently face as a nation:

- National debt — $31.2 trillion
- Federal budget deficit — $1.1 trillion
- US trade deficit — $7.5 trillion
- New debt spending — $4.8 trillion[a]
- Student loan debt — $1.2 trillion
- Federal employees — 23.3 million
- Median US worker income — $54,000[b]
- Median federal income — $94,000[c]
- Median DC federal income — $130,000[d]
- Median home price — $440,800
- Inflation rate — 8.2%
- Working population — 37%

a. New debt spending recently approved at Biden's request.
b. Includes private sector and public sector incomes; excludes public sector lifelong retirements and benefits.
c. Includes federal incomes across the US; excludes lifelong federal retirements and benefits and all state and local incomes, lifelong retirements, and benefits.
d. Includes only federal employees in Washington, DC; excludes lifelong retirements and benefits and all state and local incomes, lifelong retirements, and benefits.

Is it possible for a dwindling working population of only 37 percent with a median income of only $54,000 to overcome such indebtedness? And worse, remember that this dwindling 37 percent of workers also incudes those employed by the federal, state, and local governments; these incomes do not add to the economy, rather, they drain the economy. The private sector worker provides everything—all monies necessary to house, clothe, feed, transport, educate, train, and entertain persons employed at the governmental level. And worse, private sector workers are forced to house clothe, feed, transport, educate, train, and entertain the grossly increasing volume of persons on welfare and other handout programs. And even worse, the same private sector workers are forced to house clothe, feed, transport, educate, train, and entertain the grossly increasing volume of persons in this country illegally—those who also drain the US economy. What the average private sector employee is asked to fund is simply untenable, not to mention foolish. We are the greatest country every developed, and it has all come about by the private sector. But unfortunately, what is the private sector worker asked to do by these listed when they have given every nickel they have earned? Just a little more.

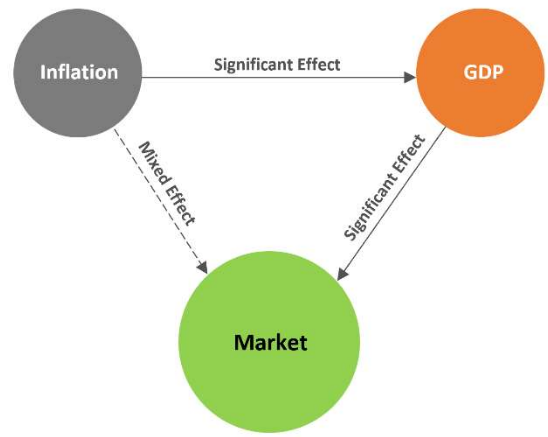
Of course, then we enter our social woes into the mix, where everyone has feelings today, and far be it for anyone to step on those feelings, especially with the truth. Indeed, we are facing the greatest challenges in the US today socially. We have turned our backs on God, and now we are reaping what we sowed. Consider acts that should have grave consequences, the George Floyd riots. Thousands of rioters destroyed billions of dollars in property, all with no recourse, no consequences. They destroyed and looted entire cities, and nothing happened to them, no arrests, no prison. When we turned our backs on God, we removed any standard considered constant. Now, truth is a moving target that exists only to fit the current narrative.

Biden's Effect on the Market

Under Biden we experienced our first decline in GPD in more than a decade (2020 over 2019: dy/dx_{GDP}=-2.24%), and though we had an increase in output 2021 over 2020, it appears we will again suffer a loss in output 2022 over 2021. Similarly, GDP per capita experienced a loss 2020 over 2019 of -4.32%, also our greatest loss in more than a decade. We expect GDP per capita to suffer a loss 2022 over 2021, as well. When Biden assumed office in January 2021, the inflation rate was nearly negligible. Since Biden's arrival, inflation has skyrocketed by over 500 percent. Currently we are holding inflationary rates between 8-9 percent. The last time inflation was in this range many investors were children (early 1980s), if born.

To this end, and as we have noted in other papers, inflation has a mixed statistical effect on the market (S&P 500 Index). For example, previously we found inflation having no significant effect, $F(1,18)=0.046$, $p=.832$, on the market, while over other periods, we found inflation to have a significant effect on the market, $F(1,48)=63.6$, $p<.001$ and $F(1,630)=103.8$, $p<.001$.[1] Inflation simply presents mixed findings when considering its effect on the market directly. However, inflation may have a mixed effect on the market, but it has a strong significant effect on GDP, $F(1,48)=433.4$, $p<.001$; as well as a strong practical effect using Cohen's d (Cohen's d=8.16), and its effect can neither be overlooked nor considered lightly as the relationship between inflation and GDP is approaching perfection ($r=.900$, $p<.001$).

We also found US GDP to have a significant effect the market, $F(1,48)=83.9$, $p<.001$; as GDP increases, the market increases, and vice-versa ($r=.800$, $p<.001$). Refer below to review these effects on the market graphically.



<u>**Effects on the Market**</u>

While such sounds obvious to persons without the abilities to conduct these analyses, remember, when we are dealing with millions and billions of dollars of other people's money (OPM) like us, we do not have the luxury of guessing; we must econometrically *prove* our work as fact. Nonetheless, the graphic above single-handedly demonstrates why Biden's handling of the economy, along with the Fed, is crucial. Poor economic performance on Biden's part apparently is our problem. In fact, GDP explains 63.6 percent of the variance in the market; in this case, this is huge! Consider it this way; when production in the US decreases due to poor decisions by Biden and other policy makers, GDP is not the only variable to decrease. GDP per capita often decreases along with GDP, of course, but so does the market. This, friend, is not obvious; rather, it is telling. For this reason alone, we should concern ourselves with every move Biden and other politicians make. Biden foolishly shuts down a pipeline making us buy oil elsewhere, increases our debt load by $4.8 trillion without even thinking, shows not a basic understanding of economics via pathetic handling of inflation, dumps billions of private sector taxpayer dollars into the wastelands of welfare and other handout programs, wastes $1.9 trillion on a "stimulus" bill that will amount to nothing but additional wasteful spending, all while continuously punishing achievers and over-achievers, the so-called "wealthy," by forcing them to pay more and more in taxes; these spending pleasures destroy the US economy in more ways than one. With very few exceptions, government spending is always a drain on the economy, and while one may see Biden's spending as increasing total GDP, remember, those monies were already in the money supply—in the private sector, where the money is made!

1. Barber, H., (2022, October). The market and inflation. Xicon Economics.