MILLENNIUM FINANCIAL GROUP

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It's All About the Money

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As an undergraduate political science major at Washington University, Bob's particular interest was in American presidential politics and voting behavior. From what he studied then, and we have since observed, certain factors remain consistent in how people vote. The power of the purse is, in our opinion, the most consistent thread. Bill Clinton's 1992 campaign statement on the economy speaks truth to this concept: "Are you better off today under George Bush than you were four years ago?"

In 1949, American political scientist V.O. Key stated in his landmark work, "Southern Politics in State and Nation," that the electorate rewards or punishes the party in power (the incumbent) based upon its performance – with economic outcomes being a significant factor.[1] During Clinton's 1992 campaign, political strategist James Carville simplified that theory with the expression, "It's the economy, stupid!," which became the theme of Clinton's team. A Gallup poll published in October 2024 found that for a majority of voters, the economy was the ***only*** issue they rated a candidate's position on as "extremely important".[2]

This trend of voters favoring their feelings on the economy probably goes back at least to the election of 1832, when Andrew Jackson defeated Henry Clay over the issue of rechartering the Second Bank of the United States.[3] One hundred years later, the 71st Republican Congress' passage of the Smoot-Hawley Tariff Act and Herbert Hoover's economic policy failures after the 1929 stock market crash led to the Great Depression. The Democrats occupied the White House for the next 20 years. When you impoverish people, they remember it. Ronald Reagan's landslide victory over Jimmy Carter in 1980 was a direct result of continuing sky-high inflation and interest rates that began under Gerald Ford, who was himself defeated by Carter in 1976 for the same reasons.

Coming back to 1992, if any President should have been reelected, it was George H. W. Bush, given the stunning performance of the U.S.-led coalition over Saddam Hussein's Iraq in Operation Desert Storm in 1991 - the war lasted only 42 days with minimal casualties and ended in a near-total victory.[4] However, recession and rising unemployment heading into the 1992 election resulted in a dissatisfied electorate that voted for Clinton instead. Finally, the 2008 financial crisis resulted in Barack Obama and the Democrats winning both the presidency and Congress, repudiating George W. Bush's previous two terms. H.L. Mencken said, "When somebody says it's not about the money, it's about the money." He could have easily been referring to the American voter.[5]

Given this history, is it really a surprise that the election of 2024 turned out as it did? Biden's $1.9 trillion American Rescue Plan, while initially welcomed by voters, came with a cost. Along with persistent supply chain shortages due to COVID-19 restrictions, this excess stimulus and spending contributed to skyrocketing inflation, culminating in 2022 with the highest year-over-year price increases in 40 years. To combat this, the Federal Reserve instituted one of the fastest interest rates tightening cycles in U.S. history.[6] After peaking at 9% in mid-2022, the Fed's aggressive actions had helped bring inflation back down to 2.7% by late 2024. However, prices don't always follow inflation back down, and they remained significantly elevated for the remainder of Biden's time in office.

Biden did have some notable economic successes. The U.S. experienced faster growth than its G7 peers and pre-pandemic forecasts. Unemployment averaged its lowest rate in 50 years, while nearly 16 million jobs were created. Industrial policies increased manufacturing investment. Wage growth outpaced inflation for much of his term.[7] The stock market posted an annualized rate of return of 13.49% which, while less than Donald Trump's 15.57% in his first term, is still quite good in an environment of rapidly rising rates that produced one very difficult year in 2022 (with bonds posting a historic decline and the S&P down 19.4%).[8] In 2024 itself the S&P 500 returned over 23%, and this capped two consecutive years of 20+% returns for a combined gain of 53%. This was the strongest run by the market since the 1990s.[9]

The problem is that none of these accomplishments were as immediately impactful to the average voter as the increases in the cost of food, fuel, and housing. Americans were reminded of these constantly rising prices each time they went out to eat, filled up their cars, or bought a home -- not exactly the way to their hearts. This made retaining the White House an uphill battle for anyone the Democrats nominated, made even more difficult by Biden's disastrous debate performance and last-minute withdrawal from the race.

So, "the businessman" Donald Trump has thus returned to office, with Republicans also having won both chambers of Congress (albeit by narrow majorities). Given the sensitivity of Americans towards the economy, however, it would be inadvisable if they took these victories as a sign of a paradigm change. They only need to look back to Ronald Reagan's first term to see how quickly the wind can shift.

President Reagan came into office having won 489 of 538 electoral votes and Republicans picking 34 seats in the House and capturing control of the Senate (the first time they had control of either chamber since 1954).[10] However, Reagan immediately found himself combating long-term, persistent inflation, which hit a high of 14.8% in March 1980. Federal Reserve Chairman Paul Volcker, a Jimmy Carter appointee, was determined to restore the financial market's confidence in the Central Bank's ability to get inflation under control. He did this by raising the Federal Funds rate until it hit a record of 20% in June of 1981.[11]

This was done with Reagan's full support (though not the Congress or his staff), despite the potential consequence of recession. What indeed resulted was what came to be known as the "Reagan Recession" -- a severe economic downturn beginning in July 1981 and lasting until November 1982. It was marked by unemployment hitting a peak of 10.8% with borrowing costs soaring and widespread business failures. By the summer of 1982 Reagan's job approval rating had sunk to 42% and it would bottom out at 35% by early 1983. There was widespread belief that Reagan would be a one-term president.[12]

The Congressional elections of 1982 saw the Democrats win the nationwide popular vote for the House of Representatives by a margin of 11.8 points and gain 26 seats, cementing their existing majority. They picked up one additional seat in the Senate and had a net gain of 7 governorships nationwide.[13] The blame for these losses was laid squarely at Reagan's feet. The solid Democratic House limited the President's ability to push through his conservative agenda over the remaining two years of his first term.

However, the Volcker harsh interest rate medicine was beginning to take effect, and the economy was starting to turn. Heading into the 1984 election, inflation had come down to 5%, unemployment was falling, and according to the Reagan campaign, it was "morning in America".[14] Reagan would be re-elected in a landslide and is now often credited as one of the most successful presidents in U.S. history.

Shifting back to the present day, we believe the most pressing issue facing our clients is the one no candidate or party attempted to address this last election – the ever-increasing U.S. national debt. If the deficit continues to grow without meaningful solutions, there may be severe consequences, such as:

Economic Growth Slowdown: Rising debt reduces private investment, slowing economic and income growth.

Higher Interest Costs: Interest payments could become the largest federal expenditure, crowding out investments in education, infrastructure and R&D.

Inflation and Rising Rates: Persistently high deficits may drive inflation and interest rates higher, increasing borrowing costs for households and businesses.

Fiscal Crisis Risk: A loss of market confidence could trigger a fiscal crisis, devaluing bonds and causing global financial instability.[15]

Since the early 2000s, these deficit risks have always been problems of the future. The future, however, is a lot closer, the problem a lot bigger and finally it is a major topic of discussion by financial professionals and the news media. It seems the only group not concerned about our national debt is politicians when they run for office.

Sooner rather than later, the "bond vigilantes" may have something to say about this. This is a term coined by the economist Edward Yardeni in the 1990s, and it refers to bond market investors who protest government fiscal or monetary policy which they consider irresponsible or inflationary. They do so by selling bonds, forcing interest rates up and producing a corresponding drop in the stock market. Troublingly, the bond market already seems to be expressing its concern: Since Donald Trump's election, the yield on the 10 Year U.S. Treasury Bond has risen from 4.28% to 4.77%.[16]

Inflationary fears also have not dissipated: The strong job growth market growth, Trump's widespread tariff proposals and his threatened mass illegal immigrant deportation plans could reignite inflation. The new administration's solution to these fears is to lower taxes, reduce regulations and lessen business legal challenges by the Justice Department. The hope is that will stimulate investment and business growth, and that tariff payments will generate significant government revenue. The envisioned immigration fix will be merit-based, favoring highly skilled workers who will be much more productive than unskilled workers. Yet, this fails to address how to replace the vast number of illegal unskilled immigrants working in industries like agriculture, construction and hospitality.[17]

Behind all this is Trump's claim to be open to all negotiations and that many of these statements are mere starting points. However, Trump now walks into the ever-growing issue of the U.S. deficit much like Reagan inherited the constantly rising inflation of the 1970s. The past shows if the problem gets worse on your watch, you pay for it at the ballot box in two years. According to the bond market, the clock started running on November 4, 2024.

Since we began with Professor Key, we will end with a quote from his later book, "The Responsible Electorate." He famously stated, "Voters are not fools," emphasizing their capacity to act thoughtfully when presented with clear choices and political leaders.[18] While we are not yet at an inflection point on the level of U.S. debt, we aren't that far away either. The major financial players here and around the world are now very much aware of the proximity of that inflection point. A misstep, or more likely a series of missteps by the new Trump administration, could set off the rising inflation/interest rates march which could then push the economy into recession. If this occurs it is likely that the stock market already will have rolled over into a correction or worse a bear market. None of this will be good for investors. Should that happen, the ghost of Ronald Reagan knows something about what lies ahead for the Republicans in the 2026 elections. Then Trump's job gets a lot harder. We intend to keep "our heads on swivel," as they say in the service. So should you.

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