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Stocks go up as agenda slides

By Ian Swanson

The Democratic agenda in Washington has gone off the rails just as markets are enjoying their best run of the Obama presidency, and there’s a school of thought on Wall Street that its no coincidence.

While a string of better-than-expected earnings reports from U.S. companies has been credited for the upswing, analysts such as Axel Merk, the portfolio manager of Merk Investments, said the stalled agenda in Congress has also helped the Dow Jones Industrial Average spike above 9,000.

In general, I do think its a positive its slowing down in Washington, Merk said.

Brian Gardner, an analyst with Keefe, Bruyette & Woods, explains that when markets cratered in March, investors worried the Obama administration would nationalize the countrys banks, impose punitive rules on credit card issuers and allow judges to lower the principal and interest payments on mortgages. They saw ever-widening deficits and buckets of debt set to increase with massive healthcare legislation.

Since then, the bankruptcy bill has fizzled and nationalization talk has died out. President Barack Obama did sign a credit card bill into law, but its provisions were much weaker than the industry feared.

Separately, healthcare reform has slowed while a climate change bill imposing taxes on businesses that emit pollutants has stalled in the Senate.

Stock markets, meanwhile, have rallied to their highest levels of the year. The Standard & Poors 500 Index began this week within striking distance of 1,000 points.

Its very much a factor in whats driving the market over the last couple weeks, Gardner said of the slowed agenda Washington.

Dan Alpert, managing director, of Westwood Capital sees more of an indirect link: As financial companies have paid back government bailouts, the sense has grown that the sector is out of the woods.

Though talk of curbing executive compensation remains on the table, theres also a feeling that the huge political backlash against financial firms has been avoided, he said.

Still, Alpert thinks its a stretch to see a link between a rising market and stalling healthcare legislation. He also thinks the market rally may be premature.

It still seems likely that some version of a healthcare reform bill will emerge from Congress this year, and regulatory reform of the financial sector, something that will be keenly watched by Wall Street, is expected to be on the agenda this fall.

The rally also creates some opportunities for Obama, as millions of voters start to feel more optimistic about their 401(k)s. Gardner said this should provide some grounds for Obama’s administration to argue it saved the economy from utter collapse.

Realtors want longer stimulus.The National Association of Realtors is launching an all-out effort to extend an $8,000 tax credit for first-time homebuyers set to expire at the end of November.

The move will put pressure on members of Congress, who may not want to extend a credit that was supposed to be a short-term stimulus for the economy.

The Realtors want the credit, which was included in the $787 billion stimulus bill, to extend into 2010 and to be expanded to all homebuyers.

Its a high priority for us, said Mary Trupo, a spokeswoman for the group.

She said members are busy setting up meetings with lawmakers returning to their districts for the August recess. Newhome sales rose 11 percent in June, and while falling prices have stimulated sales, Trupo said the tax credit also has had an impact.
Theres no data available to assess the credits use. The Treasury Office of Tax Administration Inspector General is set to issue a report in mid-August, but was not ready to provide data this week.

A spokeswoman for Sen. Ben Cardin (D-Md.), a vigorous supporter of extending the credit until December 2009, was cool to the idea of extending the tax credit further.

If you keep extending it and keep extending it, people arent going to think its going to run out said spokeswoman Walitsky. She said Cardin wanted to ensure that the tax credit really was a stimulus. If its extended, that might not be the case.

Exec pay debate bad for GOP

The ranking Republican on the House Financial Services Committee on Tuesday said executive compensation limits are tough for his colleagues to oppose. Rep. Spencer Bachus (R-Ala.) made the comments during a testy exchange with the panels chairman, Rep. Barney

Frank (D-Mass.), at a markup of legislation imposing new rules on executive pay. The committee subsequently approved the bill in a party-line vote.

The two were arguing about a private exchange in which they discussed a possible hearing on legislation. Bachus said he was explaining to Frank why holding a public hearing on executive compensation was difficult for his members, not that he was opposed to having a hearing shared with the chairman that doing something about executive compensation would be very popular with the American people. Bachus said he told Frank.

Opposing this puts our members in a very difficult position.

Frank suggested he came away from the conversation believing Republicans didn’t want a hearing on the legislation and that they wished the subject would go away.

Bachus added said, politically, having a hearing and opposing executive compensation limits was very unpopular and would put my members at a disadvantage.

While the panel didn’t hold a hearing on the bill, it did have a hearing on the topic of executive compensation. Franks legislation would allow shareholders a vote on executive pay, and would allow regulators to put limits on certain compensation packages at financial firms.