

### The Right Direction, For Now

Word came in the final hour of trading on Friday that President-elect Obama would tap New York Federal Reserve Bank President Timothy Geithner to be his Treasury Secretary. One hour later the Dow Jones Industrial Average was up roughly 500 points.

Part of the spike was due to the removal of uncertainty, but we think part of the gain was also due to who Obama picked. As president at the NY Fed, Geithner is already completely up to speed on the issues surrounding the financial market turmoil rocking the US. He will need no “on-the-job” training. In addition, the new SecTreas is known for his excellent managerial skills and humility, a rare combination.

Perhaps most importantly, he will enter his new job with a comprehensive understanding of how the department functions, having worked his way up from being a mid-level civil servant in the early 1990s under President Bush to the very top international position at Treasury in the late 1990s under President Clinton.

Also leaked over the weekend is that former-Treasury Secretary Larry Summers will have a top economic position at the White House at the National Economic Council. This role keeps him in the West Wing and allows him the freedom to take over at the Fed when Bernanke’s term expires in January 2010.

Our favorite leak over the weekend was that the incoming economic team is seriously considering

postponing any tax hikes until 2011. No tax hike on dividends, no tax hike on capital gains, no tax hikes on productive entrepreneurs. This is a huge step in the right direction, and the new team deserves credit for flexibility.

However, it is reported that the Obama Administration is pushing a new stimulus package that includes large increases in infrastructure spending, and other government programs, with the goal of generating 2.5 million jobs. Here, we hope they are very careful. Extra government spending on needed repairs to public infrastructure – roads and bridges, for example – can help raise our standard of living. But creating jobs is another matter.

Every dollar of extra government spending has to come from the pocket of someone else who would have spent the money. True, the private sector may not spend that money in the short run given recent “risk aversion hysteria,” but we sense that much of the extra government spending will occur long after the hysteria has passed.

Moreover, we fear federal rules will require paying above-market, union-level wages, meaning fewer jobs are created than could be. It also runs counter to a long extension of unemployment benefits, which would undermine the incentive for unemployed workers to quickly accept new positions.

Ultimately, economic growth and job creation must come from the private sector. If there is anything that world history has taught, it is that.

| Date/Time (CST) | U.S. Economic Data             | Consensus | First Trust      | Actual | Previous  |
|-----------------|--------------------------------|-----------|------------------|--------|-----------|
| 11-24 / 9:00 am | Existing Home Sales - Oct      | 5.000 Mil | <b>5.080 Mil</b> |        | 5.180 Mil |
| 11-25 / 7:30 am | Q3 GDP Preliminary             | -0.5%     | <b>-0.5%</b>     |        | -0.3%     |
| 7:30 am         | Q3 GDP Chain Price Index       | +4.2%     | <b>+4.2%</b>     |        | +4.2%     |
| 9:00 am         | Consumer Confidence - Nov      | 38.0      | <b>37.5</b>      |        | 38.0      |
| 11-26 / 7:30 am | Durable Goods - Oct            | -3.0%     | <b>-2.1%</b>     |        | +0.9%     |
| 7:30 am         | Durable Goods (Ex-Trans) - Oct | -1.5%     | <b>-3.2%</b>     |        | -1.0%     |
| 7:30 am         | Personal Income - Oct          | +0.1%     | <b>0.0%</b>      |        | +0.2%     |
| 7:30 am         | Personal Spending - Oct        | -1.0%     | <b>-1.2%</b>     |        | -0.3%     |
| 7:30 am         | Initial Claims - Nov 22        | 537K      | <b>531K</b>      |        | 542K      |
| 8:45 am         | U. Mich. Consumer Sentiment    | 57.5      | <b>58.0</b>      |        | 57.9      |
| 9:00 am         | Chicago PMI - Nov              | 37.0      | <b>41.8</b>      |        | 37.8      |
| 9:00 am         | New Home Sales - Oct           | 0.441 Mil | <b>0.456 Mil</b> |        | 0.464 Mil |