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The Second Step: Supreme Court

Step Two of our Four Steps to Recovery will happen sometime this week. The wait for the Supreme Court to issue its decision on whether President Obama's health care reform law is constitutional is almost over.

"Obamacare" is the president's signature legislative achievement. His legacy largely hinges on how the case is decided. If the law is fully upheld *and* if the president wins re-election, the odds of fully implementing the law go way up. In combination, these two events would codify the US's move toward a cradle-to-grave social welfare state (emulating much of Europe). This would reduce the growth potential of the US economy and further diminish price-earnings ratios.

As of right now, before the Court issues its decision, we think this combination is highly unlikely. Much more likely is the Court striking down the mandate to buy health insurance as well as other parts of the law that go with the mandate, like the requirement that insurance companies cover all applicants, with no price difference based on health status.

It is entirely possible the Court strikes down the entire law. Oral arguments suggested that the Court understood striking down a major feature of the health care law and letting the rest stand would, in effect, re-write the law in a way Congress never intended. In other words, striking down all the law could be a more restrained decision than striking down just part of it.

If the Court lets most of the law stand, the voters would still get a chance to throw out the rest. Right now, 61% of Americans oppose the mandate, while at the same time supporting other parts of the bill. A new Senate and House, and possibly a new President could use the same special budget procedures that were used to enact Obamacare to repeal what

was left. Even if the GOP does not sweep all races, the law is so unpopular that many parts of it could likely change.

In other words, right now the path to getting the law fully implemented is very narrow. Equity markets do not seem to be pricing this in, while businesses seem to be holding back on investment and hiring decisions temporarily because the Supreme Court ruling is so close. If the Court starts the ball rolling by declaring the mandate unconstitutional, look for the economy and stock markets to take a sharp turn for the better.

Supporters of bigger government and higher taxes have lusted after a federally-dominated national health care system for multiple generations. Losing now, after they had a supportive president and a filibuster-proof majority in the Senate would be demoralizing.

By contrast, the advocates of smaller government and lower taxes would have the winds at their backs. It would be the second step of what we are calling the Four Step Process to Recovery. The first step was Governor Scott Walker's recent victory in Wisconsin. Although many governors of both major parties have taken on government unions, the unions decided to make Walker the poster child and lost badly.

So, step two would highlight a shift in the direction of the American political environment.

In the late 1960s and 1970s, the Great Society programs of President Johnson moved the US to a bigger government. Equity markets went nowhere for 17 years. Then government shrank substantially under Reagan and Clinton, and equities soared once this process got underway.

The stage is being set for government to shrink once again. And, if so, equities are exactly the place to be.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-25 / 9:00 am	New Home Sales– May	0.346 Mil	0.345 Mil		0.343 Mil
6-26 / 9:00 am	Consumer Confidence– Jun	63.5	62.2		64.9
6-27 / 7:30 am	Durable Goods- May	+0.5%	+0.8%		+0.0%
9:00 am	Durable Goods (Ex-Trans) - May	+0.7%	+1.5%		-0.9%
6-28 / 7:30 am	Q1 GDP Final	1.9%	2.0%		1.9%
7:30 am	Q1 GDP Chain Price Index	1.7%	1.7%		1.7%
7:30 am	Initial Claims – Jun 23	385K	385K		387K
6-29 / 7:30 am	Personal Income – May	+0.2%	+0.3%		+0.2%
7:30 am	Personal Spending - May	+0.0%	+0.0%		+0.3%
8:45 am	Chicago PMI –Jun	52.5	55.1		52.7
8:55 am	U. Mich Consumer Sentiment - Jun	74.1	75.0		74.1