» Print

Wall Street puts its money behind Obama

By Emily Kaiser

Thu, Jun 5 2008

WASHINGTON (Reuters) - Wall Street is putting its money behind Democrat Barack Obama for president, despite worries that his administration would raise taxes and take a tougher line on trade and regulation.

The signs Wall Street reads point to Democrats prevailing in the November presidential and general election as voters punish the incumbent Republican Party for a flagging economy and lengthy Iraq war.

And the fact that Obama began raking in a bigger share of the cash as his campaign picked up steam suggests that investors simply want to back the eventual winner.

Illinois Sen. Obama, who captured the Democratic presidential nomination on Tuesday after a lengthy primary battle against New York Sen. Hillary Clinton, has received $7.9 million (4.1 million pounds) n contributions from the securities and investment industries, according to the Center for Responsive Politics.

His opponent, Republican Sen. John McCain of Arizona, banked a little under $4.2 million, putting him behind fellow Republicans Rudolph Giuliani and Mitt Romney, who have long since dropped out of the race.

Overall, Democrats garnered 57 percent of the contributions from the securities and investment industry. If that trend continued through November, it would mark the first time since 1994 that they have drawn more Wall Street cash than Republicans in a presidential election year, according to the data complied by the Center for Responsive Politics.

Although the money flow has shifted dramatically this year, that Democrats have raised more than Republicans may say more about the nature of this race than Wall Street's allegiances. Obama and Clinton needed more cash to fund their protracted battle for their party's nomination.

At the end of 2007, Clinton topped the cash list from Wall Street with $6.3 million. Obama was third, behind Giuliani, CRP data shows. McCain was a distant sixth.

Robert Boatright, a professor at Clark University in Worcester, Massachusetts, who studies campaign finance, said McCain's numbers could be distorted if Wall Street were making donations to the Republican National Committee, instead of his campaign, out of concern that campaign finance rules would restrict his access to the cash.

COLLISION COURSE

Investing is all about betting on what the future may hold, and presidential elections are no exception, and traders are giving the Democratic candidate an edge in November. Dublin-based Intrade, a Web site where contracts tied to real world events are bought and sold, gives Obama a healthy advantage over McCain.

That also helps explain why Wall Street cash is piling up in his coffers, even though many of his policy positions are less than popular among big investors.

The Securities Industry and Financial Markets Association, which represents more than 650 securities firms, banks and asset managers, has come out in favor of making permanent the tax cuts implemented during President George W. Bush's tenure. Obama has vowed to let them expire.

If Obama picked Clinton as his running mate, that might ease Wall Street's fears that his administration would hike capital gains and dividend taxes, said Michael Darda, chief economist at MKM Partners in Greenwich, Connecticut.

Not only has Clinton proposed less aggressive increases in those taxes, but when her husband Bill Clinton was president, he lowered them, Darda noted.

"If those taxes go up sharply, that would be a significant blow not only to the stock market but to the economy and productivity and living standards. It would be a real mistake and hopefully Obama will change his view on it," he said.

The other hot-button issue is trade. SIFMA supports passing free trade agreements with countries including South Korea, something Obama has opposed.

Trade is particularly important to Wall Street now because it is by far the healthiest segment of the U.S. economy. Exports accounted for the bulk of economic growth last quarter, and virtually all of U.S. corporate profits.

"Without international trade, the economy would be in significantly worse condition," said Joseph LaVorgna, chief U.S. economist with Deutsche Bank.

Obama and Clinton sparred over who would be tougher on trade as they battled over manufacturing-heavy states such as

Ohio and Pennsylvania, where many voters blame globalization for job losses. Both said they would renegotiate the North American Free Trade Agreement, or NAFTA, to add more labor protections.

Andrew Busch, a global foreign-exchange strategist with BMO Capital Markets in Chicago, said the campaign rhetoric about trade could cool now that the long primary season is over.

Rewriting NAFTA "would be a disaster," Busch said. "We can't go back to our trade partners and say we don't like this or that aspect of it. Our trade partners will have a few things to say about what they don't like."