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Corporate U.S. Healthiest in Decades Under Obama With Lower Debt
Bloomberg
By Thomas Black and Matt Robinson
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Oct. 2 (Bloomberg) -- Steve Wynn, founder of the Wynn Resorts Ltd. casino empire, once called President Barack Obama's administration "the greatest wet blanket to business and progress and job creation in my lifetime." Barry Sternlicht, chief executive officer of Starwood Property Trust Inc., said Obamacare was driving down wage growth and "affecting spending and the desire to buy houses and everything else." They are among a chorus of corporate executives and lobbying groups that regularly assail Obama for policies that they say are stifling investment and hurting companies. Corporate and economic statistics almost six years into his administration paint a different picture. Companies in the Standard & Poor's 500 Index are the healthiest in decades, with the lowest net debt to earnings ratio in at least 24 years, \$3.59 trillion in cash and marketable securities, and record earnings per share. They are headed this year toward the fastest average monthly job creation since 1999, manufacturing is recovering and the U.S. has returned as an engine for global growth. The recovery, which stands in contrast to weak growth in Europe and Asia, has underpinned an almost threefold gain in the Standard & Poor's 500 Index since March 2009. Wynn has been part of that recovery. Since Obama first took the oath on Jan. 21, 2009, the shares of his luxury hotel

company have surged fivefold while the S&P 500 Index more than doubled. Starwood Property Trust, Sternlicht's Greenwich, Connecticut-based real estate company, has risen 36 percent since its August 2009 initial public offering, while an index of real estate investment trusts declined.

Accelerating Growth

"The U.S. is leading the way -- we're the only major economy with accelerating growth," said Mark Zandi, chief economist in West Chester, Pennsylvania, for Moody's Analytics Inc. and a registered Democrat who has advised both the Obama administration and Senator John McCain, a Republican. "Obama deserves some credit for that, but he probably won't get it."

Tom Johnson, a spokesman for Sternlicht's closely held Starwood Capital Group who works for Abernathy MacGregor Group in New York, and Michael Weaver, spokesman for Las Vegas-based Wynn, declined to comment. Wynn gets about 70 percent of its sales outside the U.S.

With Democrats fighting to hold control of the Senate in the November elections, Obama will attempt to focus attention on the economy in a speech today at Northwestern University's Kellogg School of Management in Evanston, Illinois.

Parsing Credit

While Zandi lauds Obama's \$787 billion in stimulus spending and auto bailouts as "textbook" responses to the recession, one question for history is whether the Federal Reserve should instead get the credit. The Fed's decision to drive down interest rates to zero allowed companies to refinance debt at lower costs, helping spur corporate growth, said Todd Lowenstein, a fund manager with San Francisco-based HighMark Capital Management Inc.

Barring any major disruptions, the economy is setting up for Obama to leave office on a high note, said Douglas Brinkley, a presidential historian and professor at Rice University in Houston.

"History will eventually show that Obama inherited the Great Recession and resuscitated the economy," Brinkley said in

an interview. "He's going to be seen as much more centrist and even friendly to business."

Profits are showing that. In the second quarter, S&P 500 companies reported adjusted earnings that exceeded \$30 a share for the first time, soaring from a 16-year low of \$5.55 at the end of 2008 as Obama prepared to assume office. Earnings for those companies rose about 5.1 percent in the third quarter from a year earlier, according to average estimates compiled by Bloomberg.

Corporate Earnings

In total, S&P 500 profit as measured by Ebitda -- earnings before interest, taxes, depreciation and amortization -- increased to \$1.84 trillion for the 12 months through the end of last quarter from \$1.2 trillion in 2009.

The jump in earnings has meant that companies can service their debt more easily. In the six years since Obama became president, corporate debt as measured against earnings has fallen to the lowest point since at least 1990. For companies in the S&P 500, the ratio of net debt to Ebitda is currently 1.6, down from a high of 4.9 in 2003, according to data compiled by Bloomberg.

That ratio, a marker of corporate health, has also been helped by the cash that companies are piling up. Those holdings for S&P 500 companies have jumped to \$3.59 trillion from \$2.28 trillion four years ago, a build-up that lowers their net debt.

"When I came into office, our economy was in crisis."

Obama said in an interview aired Sept. 28 on CBS television's "60 Minutes." Now, in addition to a lower unemployment rate and a cut in federal deficits, "corporate balance sheets are probably the best they've been in the last several decades."

General Motors

One example is General Motors Co., which last week regained its investment-grade debt rating from Standard & Poor's only five years after the government-backed bankruptcy. S&P cited GM's \$28 billion of cash and "meaningful" cash generation even with the extra cost of recalls this year. Detroit-based GM is

predicted to post its 16th straight profitable quarter since emerging from bankruptcy in 2009.

Obama's \$49.5 billion bailout of the automaker in exchange for taxpayers owning 61 percent of the company kept it from being liquidated, an outcome that could have crippled parts suppliers and economies throughout most of 50 states, not just the Midwest.

To be sure, not all companies have been able to improve their balance sheets. The riskiest firms are adding debt, according to a Sept. 24 report by Goldman Sachs Group Inc. Net debt for speculative-grade companies, which are rated below BBB- at S&P, climbed to 2.77 times operating income before depreciation last quarter, up from 2.65 times a year earlier.

Economic Conditions

In the broader economy, consumers are buying again and homebuilding is increasing. The unemployment rate has declined to 6.1 percent, the lowest since 2008. The economy expanded at a 4.6 percent annualized rate in April through June, after a 2.1 percent contraction in the first quarter marred by poor winter weather conditions. The last time the economy was growing so fast was in the first quarter of 2006.

Meanwhile, the economies of Europe and Japan are sluggish. The recovery for the euro area -- including the countries France and Italy -- stalled, with gross domestic product unchanged from the first quarter to the second, according to Eurostat, the European Union's statistics office in Luxembourg. Japan contracted by the most in more than five years, with GDP shrinking an annualized 7.1 percent, data from the government Cabinet Office in Tokyo show.

Obama may also leave his eight-year presidency with the resurgence of the U.S. as an oil producer and the reversal of a decade-long manufacturing decline, helping buff his legacy, according to historian Brinkley.

Energy Impetus

The U.S. Energy Information Administration projects oil production will jump to 9.53 million barrels of oil per day next

year, a 45-year high and a 28 percent increase over 2013, as a combination of horizontal drilling and hydraulic fracturing has unlocked resources trapped in shale formations from the Bakken in North Dakota to the Eagle Ford in Texas.

Critics say it's unfair to credit Obama with the oil boom.

The private sector drove the expansion over hurdles erected by his administration, such as delaying the Keystone XL oil pipeline from Canadian crude to the U.S. Gulf Coast, retaining limits on crude exports and imposing stiffer regulations on offshore drilling, said Joseph LaVorgna, chief U.S. economist at Deutsche Bank Securities Inc. in New York.

Still, the drilling is translating into cheap and abundant energy in the U.S. that will spur manufacturing, said Keith Nosbusch, CEO of Rockwell Automation Inc., a Milwaukee-based company that sells factory software to companies including Nestle SA and Ford Motor Co.

Manufacturing Growth

Manufacturing jobs rose to 12.16 million in August from a low of 11.45 million in 2010.

"The U.S. is in the middle of an accelerated growth in manufacturing," said Nosbusch, whose company's cash and marketable securities have more than doubled to \$1.75 billion in about three years and are now larger than its total debt.

The rebounding economy and record profits haven't been enough to win over some business leaders still upset by overhauls of the health-care and financial systems -- the source of much vitriol toward Obama over the years. John Mackey, the co-chief executive officer of Whole Foods Markets Inc. who has described himself as a free-market libertarian, referred to Obamacare as socialism in 2009 -- and in 2013 likened it to "more like fascism."

Mackey promptly wrote a blog post in which he said he regretted using the word fascism, said Kate Lowery, a spokeswoman for Austin, Texas-based Whole Foods.

Medicare Costs

Rising corporate profits are due mainly to cost cutting

that came amid added expenses from new health-care, environmental and banking regulations, said Martin Regalia, the U.S. Chamber of Commerce's chief economist and senior vice president for economic and tax policy.

After doubling in the past two decades, medical expenses rose 2 percent last year, the least in 65 years, helped by Medicare reimbursement cuts, according to data compiled by the U.S. Labor Department. Obama's 2010 health-care program will hold down consumer prices for years to come as millions of Americans obtain coverage, BNP Paribas SA and Credit Suisse Group AG said.

The "Medicare cost miracle" resulted at least in part from Obama's Patient Protection and Affordable Care Act, Nobel-Prize winning economist Paul Krugman wrote in a Sept. 1 New York times article.

While large cash holdings often are viewed as a sign of financial health, they reflect companies' lack of confidence to invest, said Michael Englund, chief economist at Action Economics LLC in Boulder, Colorado.

"We're not making the risky investments needed to achieve a higher level of growth," he said. "So to a certain degree the rebuilding of corporate balance sheets has come at the expense of growth."

Fed Policies

Companies have also refinanced debt at lower cost thanks to the Fed, not Obama, said HighMark Capital's Lowenstein. Corporate bond issues in the U.S. this year have exceeded \$1.2 trillion, topping 2013's record pace, according to data compiled by Bloomberg.

The central bank has kept its target for the overnight interbank interest rate at zero to 0.25 percent since December 2008.

"That's been a huge benefit to their margin structure in terms of lowering the cost of debt," Lowenstein said. "It's been one of the pillars of peak profits."

Ending his tenure with a strengthened economy would put Obama more in line with Republican Ronald Reagan and Democrat Bill Clinton than other recent predecessors. Jimmy Carter was

shackled with stagflation while a slump marred George H.W. Bush's bid for a second term. George W. Bush's presidency, scarred by the Sept. 11 terrorist attacks, ended with the deepest recession in six decades and a global financial crisis.

Presidential Legacy

John Carey, a Boston-based fund manager with Pioneer Investment Management Inc. and a Republican, gives Obama a B+ grade on the economy and business environment. Growth is steady, financial markets are robust and deficit spending has come down, he said.

"I don't think they've done a terrible job," said Carey, whose firm oversees \$230 billion. "My main issue with President Obama is that he just doesn't seem to be enough of a booster -- an enthusiastic advocate of America and our economy."

Such comments reflect how some business executives are likely to see the gains as being in spite of Obama instead of spurred by the president, Moody's Zandi said.

"The perceptions have been solidified in that regard," Zandi said. "It's going to be pretty hard for him to shake that."

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