



What Does A Presidential Impeachment Mean To The Market?

Keith Richards

In this article, I'd like to look at America's two presidential impeachment enquiries, and the market's reaction to these events. I wanted to explore just how much impact an impeachment enquiry of President Trump might have on the stock market. Here goes:

Richard Nixon ("Tricky Dick")

On Feb. 6, 1974, an impeachment inquiry was launched against President Nixon—"Tricky Dick" himself. Initially, the news was shrugged off by the stock market. But, as the inquiry drew closer to an eventual impeachment decision and resignation by the President, the market fell by more than a third of its value. Yikes! The Dow Jones Industrial index fell from almost 1000 to around the mid 600s. It's easy to pin the decline of the market to the impeachment of the president. You might conclude that this event was the exclusive cause of the stock market crash. However, other factors came into play during that time.

Nixon had suspended the gold standard (the monetary system in which the standard economic unit of account is based on a fixed quantity of gold). Moreover, the economy was in the midst of a recession. It was also recovering from the 1973 oil crisis, which began in October 1973 when the members of the Organization of Arab Petroleum Exporting Countries proclaimed an oil embargo. I was a highschool teenager with a full head of hair, rockin' out to Rush & Led Zeppelin at the time. I didn't pay much attention to markets back then, but I do recall my dad's concerns with the economy and the future of gasoline availability. My point is (beyond giving away how old I am) the market had more to worry about than the impeachment. It was part of the secret sauce that spoiled the markets, but not the entirety.

Bill Clinton ("Slick Willie")

Fast forward to October 8, 1998. The house voted to begin an impeachment inquiry against President Clinton, sometimes referred to as "Slick Willie". The markets initially reacted with a minor 1% draw down on the day the impeachment was announced. Less than a year later (February 1999), Clinton was acquitted by the Senate. The market climbed 30% (the Dow rose from the low 9000s to near 11,000). That's a bull market rally if I ever heard of one. Again, it might be easy to conclude that the market rises, or at worst pays no attention to impeachments after hearing of this market rally. This, given the bullishness from the get-go upon the announcements of Clinton's impeachment inquiry.

Again, the market rally was not inspired by the potential impeachment of a President any more than the market decline during Nixon's impeachment inquiry. Back in 1998, I was an investment advisor with Merrill Lynch Canada. Many readers will recall the tech bubble of those years, which took until 2001 (coinciding with the terrorist attacks in the United States) to end. Markets were far more interested in jumping on the next dot-com story than worry about Slick Willie's sexual adventures in his White House office.

Donald Trump ("The Donald")

The impeachment enquiry of President Trump, also known as "The Donald", was announced recently. Congressional House Speaker Nancy Pelosi has announced a formal impeachment inquiry of President Donald Trump following reports that he asked a foreign government to investigate a potential 2020 election opponent. So far, the market has reacted with a sub-1% decline. This might line up with the market's initial

reaction to Clinton's impeachment enquiry. Like Clinton's enquiry, the market has pretty much shrugged it off.

Conclusion

"It's the economy, stupid" was a campaign slogan of sorts during Bill Clinton's successful 1992 presidential campaign against President George H. W. Bush. He was right. It is the economy, um, stupid (hopefully he was not referring to you and me). Given the history behind the last two impeachment enquiries, it might be logical to assume that the market will pay more attention to the economy than Trump's impeachment proceedings. Trade deals, job numbers, GDP growth, and other economic factors will be translated into either bullish or bearish chart patterns on a forward-looking basis. For this reason, I'll be paying more attention to stock market patterns than the ongoing enquiry investigations when looking for clues to remain invested in the markets. At this juncture, we are holding some 30% cash in our VT Equity Platform and expect to become fully invested in the coming weeks as the seasonably favorable period for the stock market begins.

Keith on BNN

Keith will be on BNN's popular call-in show "Market Call" on Friday November 22nd at 12:00 noon.

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