"Impeachment Proceedings"

Key Takeaways

- An attack on Saudi oil installations has ratcheted up tensions between the U.S. and Iran again, possibly leading to higher longer-term oil prices and inflation
- Speaker Nancy Pelosi announced that the House would initiate a formal impeachment inquiry against President Trump
- Past data regarding impeachment proceedings suggest that the market movements were more tied to external economic events and financial shocks than news surrounding the impeachments

Clients,

The geopolitical equilibrium has grown more unsteady in recent years, and the escalation of conflicts in any number of areas could cause an economic shock. Perhaps the most notable of late has been the persistent ratcheting up of U.S-Iran tensions as well as notions of a possible impeachment.

On September 14th crude-processing plants at the world's largest oil refinery in Saudi Arabia were attacked using precision drone strikes, which as one may have guessed, caused a massive spike in oil prices the following Monday.

Oil prices, represented by Brent oil futures, rose from $60 a barrel to roughly $72 a barrel virtually overnight! That's a 20% increase in the price of a barrel of oil from a single attack—one of largest spikes recorded on record. The U.S. blamed Iran even though a Yemen rebel group claimed responsibility. The price of oil has since come back down due to a faster than expected recovery in oil capacity, but time will tell whether prices will stay lower or cause an uptick in inflation.

Below is a chart of Brent crude futures with the spike in oil highlighted by the red circle:

Source: Bloomberg

As if there wasn't enough geopolitical news needed to cause more volatility in the markets, Speaker Nancy Pelosi announced on the 24th of September that the House would initiate a formal impeachment inquiry against President Trump on the grounds of betraying his oath to office and the nation's security. News came out reporting President Trump repeatedly pushed for the Ukrainian President to investigate Joe Biden—a potential presidential contender in the

2020 election—and his son, Hunter. President Trump responded by releasing the transcript of a phone discussion between him and the Ukrainian President.

While we certainly have our opinions surrounding the ongoing saga, we find time better spent on researching past occurrences of similar situations and their implications on the financial markets. Three separate times U.S. presidents have faced impeachment proceedings, and each time the investment climate was clouded with other events taking place at the same time.

Andrew Jackson was the first to face impeachment proceedings. Stocks did little while bonds rallied, according to calculations by Craig Botham, and economist at Schroders. Granted, this took place in 1868, and it is safe to say the economy and market were extremely different at this point in time and may not be the best representation of how the market would react today should an impeachment make its way to the Senate.

The next instance and arguably better reference than Andrew Jackson, was Richard Nixon's impeachment process in 1974. Due to the Watergate scandal, the House Judiciary Committee recommended that Nixon be impeached and removed from office, but Nixon resigned before actually being removed from office. So, how did the markets fare during these turn of events? The U.S. market actually outperformed compared to the rest of the world after the House committee forwarded the articles of impeachment, but then the U.S. market underperformed shortly after Nixon resigned[1].

Taking a step back and looking at the bigger picture we find a multitude of other factors at play. For starters, there were wage and price controls imposed coupled with a larger budget deficit causing massive inflation, oil-price increases, and a devaluation of the dollar. The S&P 500 Index lost over 45% of its value between January 1973 and October 1974! It may certainly be the case that Nixon's resignation caused some hiccups in the market, but there is no doubt that the factors mentioned above were the main source of the market's downfall during that time period.

Moving forward, the third and final president to go through impeachment proceedings was Bill Clinton. Much like Richard Nixon, other economic events and financial shocks were taking place around the same time making it difficult to truly see the impact on the market. From the time news of the affair had first been reported in 1998 through President Clinton's acquittal in 1999, the S&P 500 rallied 28%[2].

Even though the market had rallied 28% during that time frame, it still dropped almost 20% at one point in between. Why? Well, Russia had a currency crisis which caused a devaluation of their currency and a default on public and private debt, and Long-Term Capital Management, a prominent hedge fund at the time led by Nobel Prize-winning economists, blew up due to highly leveraged trading strategies that didn't pan out. Once again, it seems the market was driven more by economic factors than by news of an impeachment.

Putting this all together, would President Trump's impeachment move the markets significantly? Not likely. It would be unlikely the Senate would convict President Trump and he would remain in office just as Mr. Clinton did. A close watch regarding this saga will continue, but we believe a focus on the underlying drivers of the market that may cause larger bouts of volatility than an impeachment are more important.

Please feel free to reach out with any questions,

Nova R Wealth Team

[1]"How Impeachment Could Matter for Markets", James Mackintosh, WSJ (9/26/2019)
[2]Bespoke Investment Group, Chart of the Day (9/24/2019)

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