On The Mark

NOLAN WEALTH MANAGEMENT
WEALTH MANAGEMENT SOLUTIONS

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Can impeachment cause a market crash?

Key Takeaways

- Impeachments are rare events. Limited history shows that the stock markets, over the long term, are less focused on political drama and more on the overall strength of the US economy.
- While it would be unfair to say markets don't care about politics, the latest impeachment saga will likely add to market volatility.
- Investors should tune out the political soap opera and stay focused on the economic indicators that are impactful to their long-term goals.

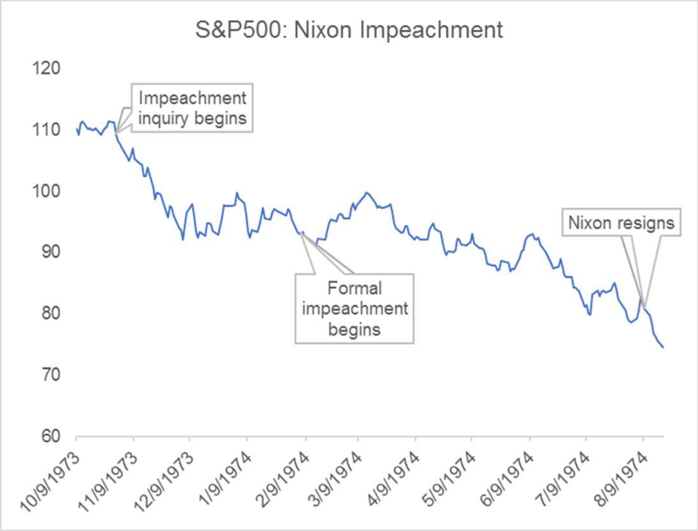
The launch of the official impeachment inquiry into President Trump has added to the laundry list of worries for the market. In addition to the ongoing trade war, Brexit, and global growth slowdown, the impeachment inquiry is one more question clouding the outlook for the longest economic expansion in US history. Impeachment, a process for removing a public official from office, requires a majority vote from the House of Representatives followed by a two-thirds majority in the Senate. Instead of focusing on the validity of the reasons for the latest impeachment, let's see if history provides any guidance for investors on what impeachment means for the markets.

History of past impeachments

Historically, impeachment has been rare. Fortunately for the U.S., there have been just three presidential impeachment inquiries – Andrew Johnson in 1868, Richard Nixon in 1973-74 and Bill Clinton in 1998-99. Andrew Johnson and Bill Clinton were impeached in the House and acquitted in the Senate, while Richard Nixon resigned to avoid impeachment. Each of these cases offers no definitive conclusion of a stock market crash but rather emphasizes that market moves are driven by the strength and state of the economy.

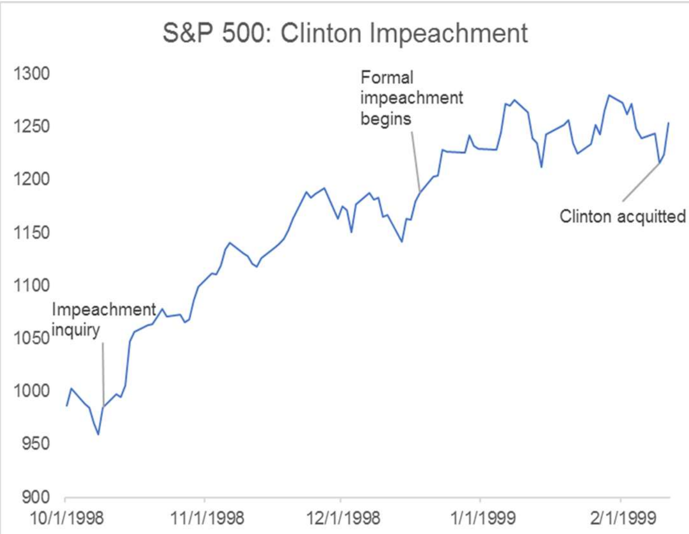
Andrew Johnson's impeachment in 1868 offers little evidence as the stock markets looked drastically different. The Dow Jones Industrial Average and the S&P 500 index did not exist.

What about the resignation of Richard Nixon? The S&P 500 dropped nearly -26% from the start of the impeachment inquiry and his resignation. While markets fell, that was as much—if not more—to do with an oil shock that tipped the U.S. into a recession. Notably, the S&P 500 reached a bottom soon after Nixon departed and a year after Nixon's resignation the S&P 500 was up 12%.



Source: CNN

In contrast, the S&P 500 rose 27% between Clinton's impeachment inquiry and his acquittal. Once again, the stock market's rise had little to do with politics, but rather was led by the technology boom. One year after the acquittal, the S&P 500 rose an additional 18% and continued to soar until the technology bubble finally burst.



Source: CNN

What does this mean for investors?

Uncertainty of any kind, including impeachment, will drive market volatility. However, it does not drive the long-term direction of the market. To date, the markets have largely overlooked the Trump impeachment inquiry. If history serves as a guide, it suggests that stock markets can weather political storm. Markets are more likely to focus on the Fed, progress on the trade war, and corporate earnings to gauge the health of the economy. In conclusion, the health of the economy trumps impeachment.

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