

The U.S. House of Representatives made history on Dec. 18, 2019, voting to adopt articles of impeachment against President Donald J. Trump. The House has charged President Trump with abuse of power and obstruction of Congress, even as he has simultaneously delivered Phase I of a trade deal with China and realized the implementation of the U.S.-Mexico-Canada Agreement (USMCA).



## IMPEACHMENT: BOOM OR BUST FOR THE MARKET?

### Overview

While impeachment proceedings dominate headlines, investors don't seem to be very concerned, focusing instead on the trade deals and other economic strengths.<sup>1</sup> But as the impeachment moves forward, questions about the market's future may be raised. Will the wave of market opinion suddenly turn? What has history taught us about the market's reaction to impeachment? Should we be worried about the possible removal of President Trump and a subsequent market downturn in 2020?

### The Market and Impeachment

Since the S&P 500's inception in 1957, the U.S. has brought impeachment proceedings against only two presidents, Richard Nixon and Bill Clinton. Proceedings against President Nixon were initiated in October 1973 and continued through the summer of 1974. He resigned from office on Aug. 9, 1974, before the Senate could officially determine a verdict. In the year following impeachment proceedings, the S&P dropped 33%.<sup>2</sup>

Nearly 25 years later, the market reacted much differently to impeachment proceedings against President Clinton. The House approved articles of impeachment against him on Dec. 19, 1998, and the Senate acquitted him on all charges on Feb. 12, 1999. Throughout the trial, the market remained convinced that President Clinton would not be removed from office. The S&P 500 rose nearly 27% between the start of the impeachment inquiry and acquittal, eventually gaining 39% in the year following the trial.<sup>3</sup>

While the market's reaction in 1974 was very different from its 1999 reaction, neither outcome was a direct result of impeachment proceedings. Instead, it had more to do with the economic climate at the time. The U.S. was in a recession, inflation was high, the oil crisis was in full effect and stocks were in a bear market. Impeachment proceedings against President Nixon were merely one of many factors influencing the S&P 500's drop that year.

Likewise, President Clinton's impeachment also had little to do with the S&P's gains by late 1999. Tech stocks were gaining momentum as the tech bubble started to grow. The Federal Reserve cut interest rates three times between 1995 and 1998, and historical data shows that stocks generally get a boost when the Fed cuts rates three times and then pauses.<sup>4</sup>

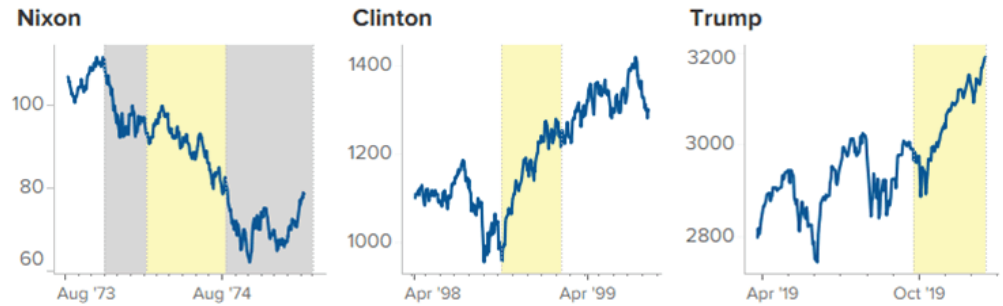
Looking at both situations, the economic climate surrounding President Trump's impeachment seems much similar to the Clinton impeachment. The Fed has cut rates three times in 2019, and the economy has remained strong throughout the past year, with record-low unemployment. As it did in 1998-1999, the S&P 500 has demonstrated its belief that President Trump will not be removed from office, and is up nearly 7% since September.<sup>5</sup>



## Impeachment and the market

S&P 500 during each of the U.S. impeachment processes

Impeachment Process Recession



SOURCE: BofA Merrill Lynch Global Research, FactSet. Data as of close on 12/17/2019.



### A Brief History of U.S. Impeachments

President	Dates of Impeachment Proceedings	Charges	Outcome	S&P 500 Reaction in year following impeachment <sup>7</sup>
Andrew Johnson	Feb. 24, 1868 - May 16, 1868	11 charges, primarily violation of Tenure of Office Act	Aquitted	N/A
Richard Nixon	Oct. 30, 1973 - Aug. 9, 1974	Obstruction of justice, misuse of intelligence agencies, refusal to comply	Resigned	+33%
Bill Clinton	Oct. 8, 1998 - Feb. 12, 1999	Perjury, obstruction of justice	Aquitted	+39%
Donald Trump	Sept. 24, 2019 - Present	Abuse of power, obstruction of justice	TBD	TBD

## What Happens Now?

Now that the House has voted for articles of impeachment, the process moves to the Senate. On Dec. 19, Senate Majority Leader Mitch McConnell expressed his dismay about the developments: “The House’s conduct risks deeply damaging the institutions of American government,” and that impeachment is “the predetermined end of a partisan crusade that began before President Trump was even sworn in.”<sup>8</sup>

Before the Senate can begin its process, the House must pass the articles of impeachment to the Senate. As of Dec. 30, it was questionable when House Speaker Nancy Pelosi would pass those articles through, citing her desire to reach a bipartisan agreement. “We would hope that they can come to some



spectrum  
advisors



conclusion like that, but in any event, we're ready when we see what they have," Speaker Pelosi said.<sup>9</sup>

If Speaker Pelosi decides to turn over articles and allow the Senate to proceed, a trial could begin sometime in January. Key players at a trial will include:

- "Managers" – House-appointed team of lawmakers who act as prosecutors
- Defense team – White House counsel
- Jury – Members of the Senate
- Judge – Chief Justice John G. Roberts Jr.

Opening statements by House managers and White House counsel could take several days. After questioning both sides, senators could take one of two actions: They could ask to examine the evidence, issuing subpoenas and examining witnesses, or they could vote to dismiss the charges. A simple majority vote would determine if the trial continues.

If the Senate voted to proceed, closing statements would be presented by both sides, followed by a closed-session Senate deliberation. The Senate would vote on each article of impeachment separately. The Senate must have a two-thirds vote to reach a conviction or acquittal. President Trump would be removed from office if convicted; if acquitted, the Senate could still vote whether or not to disqualify him from future office by a simple majority vote.

## Final Thoughts

For now, it's a wait-and-see situation, as Congress is adjourned for the holiday. However, it seems unlikely that the Senate will convict President Trump. There are a total of 100 senators — 45 Democrat, 53 Republican and two Independents. A two-thirds vote means that 66 senators must vote for conviction. If the Senate follows the House and votes predominantly along party lines, the numbers aren't there to sustain a conviction.

Amid these challenges, we offer a few reminders. First, the economy is cyclical, so it will rise and fall regardless of partisan politics. The same is true of the stock market. Remember that a president holds office for only four to eight years, which is but a blip in the lifetime of a long-term investment portfolio.

For investors, it is far more important to focus on the basics: Align your asset allocation with your goals, timeline and risk tolerance. Continue to save money and reduce your expenses. Keep an eye on investment fees and engage in strategic tax planning. And finally, consult with an experienced, qualified financial advisor before making any dramatic portfolio moves.



<sup>1</sup> Maggie Fitzgerald. CNBC. Dec. 19, 2019. "Investors bet on a Clinton-like rally with stocks up 7% since Trump impeachment inquiry began." <https://www.cnbc.com/2019/12/19/stocks-rally-through-trumps-impeachment-process-as-investors-bet-on-a-clinton-like-outcome.html>. Accessed Dec. 20, 2019.

<sup>2</sup> Anneken Tappe. CNN Business. Sept. 30, 2019. "This is how the Nixon and Clinton impeachment dramas affected markets." <https://www.cnn.com/2019/09/29/investing/how-impeachment-affects-markets/index.html>. Accessed Dec. 20, 2019.

<sup>3</sup> Ibid.

<sup>4</sup> Maggie Fitzgerald. Oct. 30, 2019. "When the Fed cuts interest rate three times and pauses, it works out great for stocks, history shows." <https://www.cnbc.com/2019/10/30/when-the-fed-cuts-rate-three-times-and-pauses-history-shows-it-works-out-great-for-stocks.html>. Accessed Dec. 20, 2019.

<sup>5</sup> Maggie Fitzgerald. CNBC. Dec. 19, 2019. "Investors bet on a Clinton-like rally with stocks up 7% since Trump impeachment inquiry began." <https://www.cnbc.com/2019/12/19/stocks-rally-through-trumps-impeachment-process-as-investors-bet-on-a-clinton-like-outcome.html>. Accessed Dec. 20, 2019.

<sup>6</sup> Ibid.

<sup>7</sup> Anneken Tappe. CNN Business. Sept. 30, 2019. "This is how the Nixon and Clinton impeachment dramas affected markets." <https://www.cnn.com/2019/09/29/investing/how-impeachment-affects-markets/index.html>. Accessed Dec. 20, 2019.

<sup>8</sup> Grace Segers, et al. CBS News. Dec. 19, 2019. "Lawmakers clash over next steps on Trump impeachment." <https://www.cbsnews.com/live-updates/trump-impeachment-vote-house-of-representatives-articles-of-impeachment-2019-12-19/>. Accessed Dec. 20, 2019.

<sup>9</sup> Lindsey McPherson and Katherine Tully-McManus. Roll Call. Dec. 19, 2019. "Pelosi shrugs off GOP gripes about her holding onto articles of impeachment." <https://www.rollcall.com/news/congress/pelosi-shrugs-off-gop-gripes-about-her-holding-onto-articles-of-impeachment>. Accessed Dec. 20, 2019.

*Investment advisory services offered only by duly registered individuals through AE Wealth Management, LLC. The advisory firm providing you this report is an independent financial services firm and is not an affiliate company of AE Wealth Management, LLC. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. This information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security or insurance product.*

1036403



spectrum  
advisors

