THE DEMISE OF RICHARD NIXON AND THE S&P500

Many clients have been asking about whether a Trump impeachment would mean a stock market crash. Even Donald Trump has been saying that it would and that "everyone would be a lot poorer". Naturally investors are concerned and want to understand the likelihood of such an impact on their finances.

The news this week created more uncertainty with the conviction of former Trump campaign manager Paul Manafort for financial fraud and the plea deal of the President's personal attorney Michael Cohen for campaign finance violations. As the Mueller investigation gains steam, Donald Trump looks to fire his Attorney General Jeff Sessions and replace him with someone who could ultimately fire Mueller. But does it really implicate the President? Does the stock market really care? So far it does not appear that it does. Corporate profits are strong, taxes are falling and consumer confidence and the S&P500 are at record highs. Still, interest rates have been rising for two years, a tariff war is intensifying, stocks are at their most overvalued since the 2000 peak and the mid-term elections could shift the balance of power away from Republicans -- an outcome that would increase the probability of impeachment proceedings.

In modern times there have been two impeachment proceedings against a sitting president. In one case, the Watergate investigation resulted in the eventual resignation of Richard Nixon without an outright vote to impeach. The stock market responded negatively over a long period from a high in January 1973 to low in October 1974. In the case of Bill Clinton's impeachment on two charges, one for perjury and one for obstruction of justice, the S&P 500 fell 19% from July until September when the Starr report was released, but actually rose as the impeachment hearing began in December 1998. From the October 1998 low in advance of the proceedings to the eventual acquittal by the Senate in February 1999, the S&P500 rose 30%.

I was curious about the unfolding of events during the Nixon presidency and the Watergate investigation and the behavior of the S&P500 during that period. I have highlighted some of the key developments in the investigation and where the S&P500 was during each revelation. This is not a prediction about impeachment nor is it a claim of guilt or innocence. That is not our job. Our job is to look at what is most relevant in the minds of investors and study historical analogs for likely market response. Notice the grinding process in 1973 and how it produced more of a slow bleed in stock prices than a crash. A grind is far easier to detect in technical indicators than a crash is to predict. From the moment when the Watergate burglars plead guilty to just before Nixon's 2nd inauguration to the time of VP Agnew's resignation, stocks dropped only 8% over nine months. Yet from the time when the impeachment hearings began to the actual resignation, the S&P500 fell nearly 20% more in just 3 months. From high to low in Jan 1973 to Oct 1974, the S&P fell just under 50%.

I have highlighted some of the most memorable news events during this dark time in American history and the corresponding behavior in stock prices. Investor's may find some optimism in seeing that it was NOT a crash and that within just 12 months, stocks had recovered all the losses experienced from the start of the impeachment hearings and within two years had recovered 90% of the losses from 1973. It is also worth noting that the values created by the sell-off were the buying opportunity for a whole generation and served as the foundation for the 1980's and 1990's, two of the strongest decades for stock prices in American history.

Clara Basile

August 22, 2018