



REVIEW AND COMMENTARY 3rd QUARTER – 2019

Here we go....

It has become increasingly difficult to predict which way the US administration might turn. Thus, in turn it is difficult to predict the direction of the capital markets. Between trade tensions, immigration detention, the recent rumours concerning President Trump's version of the ideal border wall and his apparent disregard for traditional international relations, it seems the most prudent action is merely to wait rather than anticipate. However, at the end of the most recent quarter the apparent calls to various Heads of State to assist Mr. Trump in his re-election bid seems to have hit a nerve that has caused some Republicans (not many at the time of writing but enough to take notice) to pause. Most importantly, his political foes in congress have formally started an Impeachment Inquiry. Presently, the Republican controlled Senate will continue to support President Trump but there does appear to be some wavering behind the scenes. While it is difficult to predict whether Impeachment will carry both executive branches, the crack in the dam has appeared and it will be interesting to see how many hands will be required to avoid a breach.

Importantly, what will these latest developments have on the upcoming US election? Democrats have rarely been friends to big business *so* the tax breaks received, along with some personal tax relief, will most likely be reversed if Republicans were to lose the election in 2020. Depending on whether trade tensions abate, the US economy, along with the rest of the larger economies, is slowing. If there is no resolution to these trade talks, the most likely outcome would be recession. Interest rates will remain low until the economies return to growth. The one thing that is hard to determine is whether the Impeachment proceedings would force Mr. Trump to make some kind of an agreement or distract his attention away from such matters in order to fight his accusers. While support remains strong among his base there is evidence that there are Republicans who have spoken affirmatively in support of an investigation. As facts unfold, one could wonder whether the Republican party might consider their only chance of winning will be to support another candidate. It is hard to believe that anyone would have the courage to speak openly about this now or is it likely Mr. Trump would accept anyone but himself as leader of the party, however, it may be a scenario worth considering especially if an appropriate candidate was available (and willing).

Impeachment inquiries are tough on the market. According to a Financial Times recent article from the start of Richard Nixon's second term to his resignation the Dow Jones and SP500 fell 25% and 32% respectively. There were some additional pressures such as the Arab – Israeli War, the fall of the Bretton Woods monetary system and an oil crisis that say the price of oil climbed almost 400% from October 1973 to March 1974. Imagine if oil prices quadrupled now? This time oil prices are falling. In 1975 (Nixon resigned in August of '74) the market moved strongly upward as well as in 1976.

During Bill Clinton's impeachment inquiry there was similar weakness as the US equity markets fell approximately 10% prior to the release of the Starr Report and further after the impeachment proceedings were started. However, once Clinton was acquitted by the Senate, losses were erased and the markets moved higher.

Whether Trump is impeached, acquitted or replaced, concern and worry will increase. Democracy gets tested periodically as do investors. Stay the course.