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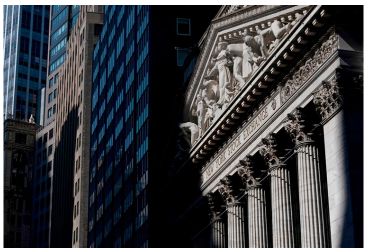
Why Investors Don't Need To Worry About A Potential Trump Impeachment

"It's relatively clear that a Republican Senate is not going to remove President Trump from office. I think markets are largely holding that narrative as the standard," one financial analyst said.

by Martha C. White / Sept.27.2019/ 2:14 PM ET



Given the extent to which President Donald Trump's whistleblower scandal has roiled political circles, the drama engulfing Washington has had little spillover effect on Wall Street. Financial experts say worried investors should stay the course and not react to volatility.

"Frankly, things that happen in the political world have less of an impact than you might think. Right now, trade is the big issue in the markets, and in the economy, for that matter," said Michael Joyce, president of advisory firm Agili.

"So far, it looks like investors are shrugging off the risk that President Trump will be impeached," said George Kiraly, founder and chief investment officer at LodeStar Advisory Group.

Investors have more pressing concerns in the near term, he added. "I'm more concerned with the status of trade negotiations with China and the potential for military action in the Middle East."

On Thursday, the president retweeted Fox Business News' Maria Bartiromo, who said that stocks fell after House Speaker Nancy Pelosi, D-Calif., announced plans for an impeachment inquiry (a drop from which they subsequently recovered).

"If they actually did this the markets would crash," tweeted Trump. "Do you think it was luck that got us to the best Stock Market and Economy in our history. It wasn't!"

Experts dismiss this claim. "It's ridiculous. That's someone who's pulling out all the stops and grabbing any life-saver out there that possibly could turn public opinion back towards him," said Joseph Heider, president of Cirrus Wealth Management. "Trump is making statements that are self-serving and completely factless."

"Crash is very pejorative," said Jamie Cox, managing partner at Harris Financial Group. "It's kind of a hyperbolic word. Markets would fall — a crash is not something I would expect."
"I think there will be some type of selloff," he added, "because there will be more news that comes out and everything is so politically charged right now that you have the potential for headline risk."

Mitchell Goldberg, president of ClientFirst Strategy, also predicted volatility in the short term. "It definitely throws in a high level of uncertainty that will go away pretty quickly, within six to 12 months," he said, but he added that investors and retirement savers should take a measured approach to making any changes in their investments.

"If you already have an appropriate asset allocation model which includes your time horizon, then you really don't have to do anything," he said. "Ultimately, the economics will bear this out. Business spending is getting weak, manufacturing is getting weak, but the consumer is still holding on really well. It remains to be seen how consumers are affected by this."

For most events that trigger an economic shock, investors can look to history to gauge a possible market response, but Trump's whistleblower imbroglio is, in many ways, unprecedented.

There have only been two similar events in modern times: Richard Nixon's resignation in 1974 when the prospect of impeachment became inevitable, and the 1998 vote of impeachment against Bill Clinton by the House of Representatives.

"Markets were horrible in '73 and '74, but that was due to economic factors," Heider said. "From peak to trough, the stock market went down about 40 percent — keep in mind, that was also during the time of a severe recession and an oil shock due to the Arab oil embargo. You can't take Nixon's resignation in isolation," Goldberg said.

In Clinton's case, the market dip was both more shallow and more short-lived.

"The economy's good now, so it looks like it would be more of a Clinton-like reaction," Kiraly predicted. "I would expect that, a year out, the market would not only recover but be substantially higher."

Clinton also remained in office — a prospect experts say is likely for Trump, as well. "It's relatively clear that a Republican Senate is not going to remove him from office," Cox said. "I think markets are largely holding that narrative as the standard."

Even if Trump were to be removed or resign, some suggested Wall Street might welcome more predictability out of Washington. "As long as a Republican remains in the White House, there's little to concern yourself about if you're a market participant," Cox said.

"I'm not sure the financial markets wouldn't be relieved in some way and feel more comfortable with Pence as president, as opposed to the day-to-day drama of Trump," Heider said. "With Trump you don't know what you're getting from hour to hour."

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