

Q: Will House impeachment hearings impact the markets?

Brian Lockhart, CFP®: Yes, they most certainly will. The important question, however, is HOW will the impeachment hearings impact the markets? There is probably little to be learned by Andrew Johnson's impeachment in 1868 over the disagreements on reconstruction after the Civil War. When Bill Clinton was impeached by the Republican-controlled Congress in 1998 the markets soared 29.63% in just 4 months (October 1998 - January 1999) and gained around 33% over the proceeding 12 months. (Source: Peak Capital Management.) Often overlooked in the discussion is that impeachment of Nixon was approved at the Committee level, but the President resigned before it was voted on by the full House. The S&P 500 fell 33% in the aftermath of the Nixon scandal.

There are some things we can assume are true: Trump is not going to resign, and the Senate will not vote to convict. Removing the potential of an actual change in the government, the issue is really about the state of the economy and whether growth will be sustained. Fortunately, political shenanigans are correctly ignored by the markets in almost all cases.

The initial reactions of the markets tend to be almost universally wrong. When Trump was elected in 2016 the futures crashed but the markets soared following the election. When Brexit passed the market's initial reaction was equally wrong. The drop in equity futures when Pelosi announced impeachment hearings would commence was probably a strong short term buy signal.

Clint Pekrul, CFA: I think there will be some noise in the short-term, but the most likely scenario is that the market more-or-less shakes it off. My guess is that the impeachment hearings are nothing more than political posturing during an election year, and that it's unlikely that Trump will actually be removed from office (67 senators would need to side with impeachment). We've had a couple of impeachment episodes in recent memory. In 1974, president Nixon ultimately resigned amid the Watergate scandal. Equity markets fell sharply as the S&P 500 declined more than -30%. However, we were in the middle of a recession and rising inflation. The economy wasn't on very solid footing. Conversely, in 1998, the House impeached president Clinton, who was then later acquitted by the Senate. Despite the Asian currency crisis and Russian default at the time, the economy was riding high on the dot com boom. Markets held up reasonably well and ended the year higher. Bottom line is that today, the fundamentals supporting the market would likely override the noise coming out of Washington.