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WASHINGTON POLICY STRATEGY

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Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

Pressure has been building among House Republicans to pursue the impeachment of President Biden based on revelations connected to the investigation of the business affairs of his son, Hunter. While the recent appointment of a Special Counsel for the Hunter Biden investigation will probably delay the beginning of a formal impeachment inquiry, questions about the potential impact of such an inquiry on financial markets are likely to pop up. Based on two impeachments over the past 25 years, it appears that markets will ignore the political noise and focus on other factors.

IMPEACHMENT AND THE MARKETS

Last week's announcement that the Department of Justice has appointed a Special Counsel in the Hunter Biden investigation probably punts impeachment proceedings in the House until 2024 or later. Prior to the announcement, pressure had been building among House Republicans to pursue impeachment. However, some House Republicans, especially those representing districts carried by President Joe Biden in 2020, have been reluctant to support impeachment. The appointment of a special counsel probably gives these members enough political cover to continue their opposition to impeachment.

Although it looks like impeachment proceedings will at least be delayed, what if this view is wrong and the House pursues impeachment against President Biden in the coming months? **How might markets react if the House were to impeach the President? The most likely market reaction would be to ignore it.**

Impeachment is essentially an indictment and does not directly result in the removal of a President (or other official) from office. Following an impeachment, the Senate holds a trial on whether or not to remove the President from office. The House has impeached three presidents (Presidents Andrew Johnson, Bill Clinton, and Donald Trump (twice)), but the Senate has never removed a sitting president. Given the current makeup of the Senate, it currently seems safe to assume that if the House impeaches President Biden, it is unlikely the Senate will vote to remove him. Investors seem to understand this, which is why we expect no market reaction to a possible impeachment. The markets would see impeachment as political noise and ignore it.

As noted above, there is limited history on the markets and impeachment. **In 1998, the impeachment process for President Clinton lasted about four months from the time the House voted to pursue impeachment (October 8, 1998) to the acquittal vote in the Senate (February 12, 1999). During that time the S&P 500 rose approximately 28%.** It should be noted that the market sold off on the same day that Independent Counsel Kenneth Starr released a report regarding his investigation of President Clinton. The Starr Report led to the House's vote to impeach President Clinton. However, investors looking at this incident as a guide for how markets might respond to political developments should consider that certain events (specifically the Russian ruble crisis) coincided with the release of the Starr report and probably had a greater impact on markets than noneconomic political events.

On October 31, 2019, the House voted to pursue an impeachment inquiry against President Trump which resulted in his acquittal by the Senate on February 5, 2019. During this time, the S&P 500 rose by just under 10%.

In both of these instances, the markets ignored the political noise and focused on other factors (NB: we ignore the second Trump impeachment since the Senate trial occurred after he left office and could not have resulted in a removal from office).

Depending on what occurs over the next few months, investors are likely to consider the impact the possible impeachment of President Biden might mean for financial markets. Recent history suggests that an impeachment inquiry would have little to no impact.

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