# Weekly Market Insights

**September 30, 2019**

# Impeachment

"An Empire remains powerful as long as its subjects rejoice in it."[1]

Last week, Speaker of the House Nancy Pelosi announced an official inquiry into the impeachment of Donald Trump.  No one knows how this will turn out but a couple of things seem obvious.  First, it seems highly unlikely that Mr. Trump will be forced from office.  The House has the authority to start impeachment proceedings, but the Senate must have a super majority, two-thirds vote.  Given the fact that the Senate is in the hands of the Republicans, it seems clear that without a shocking revelation, the President is unlikely to be removed from office.

But the mere act can have bad effects on the Republicans, Democrats and certainly the country.  The Republicans, in the absence of the above mentioned shocking revelation, can have reputational damage and wind up with internal battles about whether to defend the President or not.  The Democrats appear to have the most to lose if unsuccessful.  Odds are the former Vice President Biden will suffer badly.  Of course, this isn't terrible news to his Democratic opponents.  Lame duck presidents have not had the good fortune in motivating the party faithful at election time.  This will surely motivate the party base.  Polls tell us impeachment is far from being universally approved of by the Democratic Party faithful, so there is a good chance some middle ground Democrats sit an election out.  In fact, the Democrats, if unsuccessful, may lose the House and Speaker Pelosi may lose her role as Speaker.  This is exactly what happened to Speaker Gingrich when the Republicans tried to impeach President Clinton.

The saddest is the damage to the country.  The great fear is impeachment proceedings become a political tool rather than a tool of justice.

### ***Central Banking***

Central Banks around the world, Chairman Powell in the United States, and the members of the Open Market Committee[2] face an interesting situation.  It appears that the economy is slowing slightly, but the inflation rate has now reached the point where the Fed announced it wanted it.  Therefore, the question is to ease or not to ease.  This problem is made more difficult by the unprecedented pressure the White House is putting on the Chairman to ease.  The Fed, of course, wants the economy to grow at a sustainable pace, but not so fast as to stimulate inflation.  They must wrestle with another question.  Is the apparent slowdown a function of the trade war?  If that is the case, as we have written in the past, recessions most often occur by policy mistakes, whether from the Fed or other government entity.  In this case, tight money is not the culprit.  A trade war almost always hurts the economy, irrespective of monetary policy.

### ***European Central Bank***

Christine Lagarde, newly elected President of the European Central Bank, is starting her reign at an inopportune time.  The European economy is mired in a very slow growth, near recession, economy.  Mario Draghi, outgoing President, in an effort to stimulate the economy, has enforced a very stimulative monetary policy.  It hasn't done much to move the economy to a higher growth path.[3]  Lately, that policy has come under heavy fire from Finance Ministries of some Northern European countries.  Ms. Lagarde is a highly competent, no nonsense manager, so it will be interesting to watch.

### ***China***

Although we don't get a lot of data from China and much of it questionable, we do know a few things that indicate the National Bank of China's dilemma.  Most know that China's vaunted economic growth is slowing and it is vital for the Chinese Communist Party (CPC) to keep the economy growing at a fast pace. The largest of Chinese banks appears to be relatively sound, but the smaller banks, saddled with bad loans from State Owned Enterprises (SOE), are suffering. One way to combat this is to follow an easy monetary policy. One of the consequences of an easy monetary policy is the weakening of the home currency. That, all things being equal, is a positive. A weaker currency makes a country's products cheaper to the outside world and increases exports. Alas, all things are seldom equal. In China's case, they are frightened of currency flight, which is one of the consequences of a loose monetary policy. Therefore, a dilemma.

### ***The International Monetary Fund (IMF)***

As Christine Lagarde leaves her role as head of the IMF, she will be replaced by Kristalina Georgieva. It will be an interesting beginning. Although she is a highly trained and experienced economist and manager, her tasks will be monumental.

Here is a list of just a few of the problems she will deal with simultaneously:

- The global economic slowdown.
- Brexit.
- A massive $57 billion IMF loan to Argentina, which is in jeopardy if the populist candidate for President wins the next election.

Good Luck Ms. Georgieva!

An important question is, has all of this confusion and concern materially changed our view? The simple answer is, no. The U.S. economy, although slowing, remains in good shape. As we, and many others, have pointed out, the American consumer remains vibrant and confident and the Fed remains vigilant. These two should keep the U.S. economy and equity markets stable for our forecast period.

In fact, we, more accurately my colleague, Ryan Schutte, has been working on a model that we were first alerted to by both the Washington Fed and Brookings. It is the Sahm Indicator, named for the Federal Reserve Economist, Claudia Sahm, who brought it to light. The preliminary results point to a 5% probability of a recession within three months, and a 20% probability of a recession in twelve months. This model focuses on the rate of change of unemployment, not the level of unemployment. We remind you this is early in our research. We do want to keep you informed about what we are working on.

Another new addition. This week you will start receiving each month a calendar of what we consider the most important economic announcements. Also, soon after, you will receive a short explanation about each.

We do hope you find it interesting.

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[1] Livy, Born 59BC Died 17BC.
[2] A committee of the Federal Reserve Bank that has the responsibility to direct Monetary Policy.
[3] We have written in the past about how the European economy needs fiscal stimulus, not monetary stimulus.