

Are the wheels falling off the Trump presidency?

Even by Trump administration standards, the past month or so was especially chaotic. The period was marked by the exodus of more top presidential aides, criticism of Trump’s sudden announcement of the withdrawal of U.S. troops from Syria and Afghanistan, Trump’s public disapproval of the Federal Reserve Chair’s decision to raise interest rates, and a partial government shutdown over Trump’s demand for border wall funding.

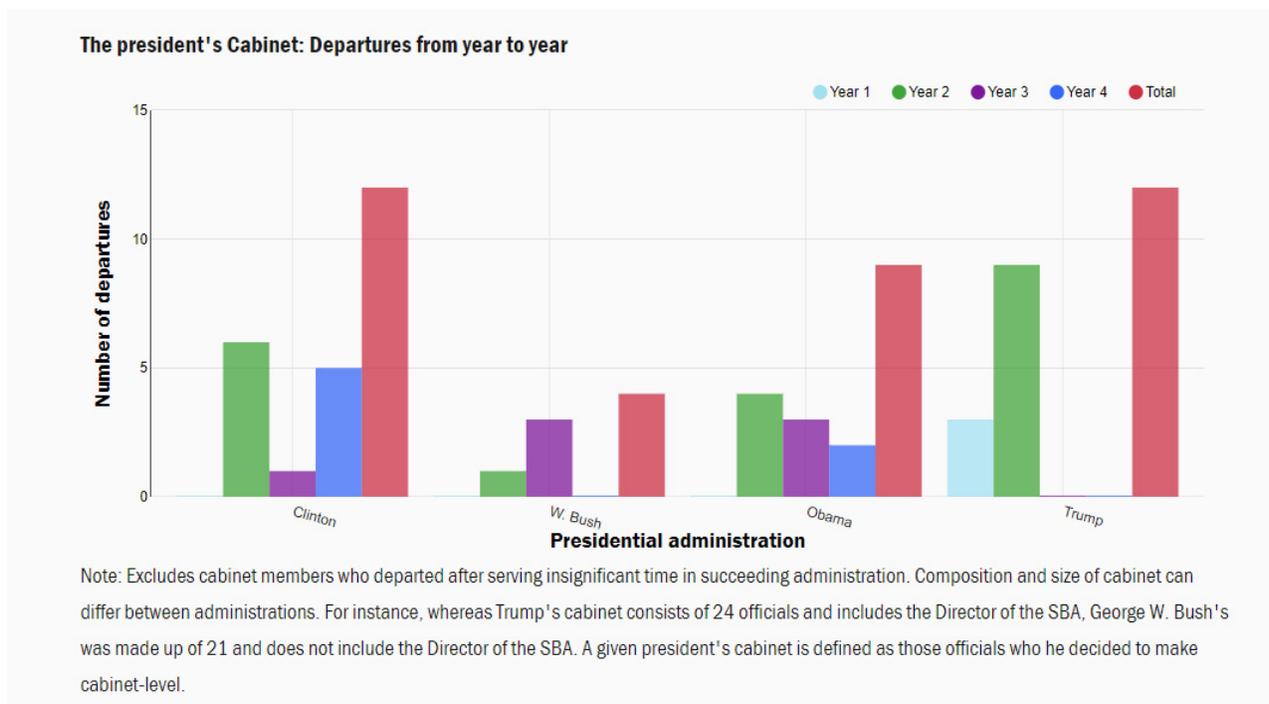
This came on top of the intentions of Congress, now controlled by the Democrats, to intensify investigations into Trump’s taxes and business dealings, not to mention reports that Special Counsel Robert Mueller’s probe into Russian electoral interference could be nearing completion.

Challenges faced by Trump administration magnified by high turnover rate

The Brookings Institution has estimated that over 60% of Trump’s top aides left in the first two years of the administration, a turnover rate that far exceeds what the previous five presidents experienced over the same period. This means that several departments are understaffed.

The pool of potential candidates is limited for two main reasons. First, many Republican policy analysts simply refuse to work for the Trump administration. Second, the manner in which certain people have been let go is dissuading many people from stepping forward (e.g., former Secretary of State Rex Tillerson found out he was fired on Twitter).

The following chart illustrates how many cabinet members have left to date.



Source: “Tracking turnover in the Trump administration,” Brookings Institution, December 2018

The departure of former Secretary of Defense Jim Mattis, one of the few cabinet members with strong bipartisan support, caused a particular stir in Washington. He resigned over two issues: Trump’s plans to withdraw troops from Syria and reduce the U.S. presence in Afghanistan, and Trump’s confrontational approach towards America’s NATO allies. (Trump has since reportedly put his plans to withdraw troops from Syria on hold.)

It is important to note, however, that despite the backlash against Trump’s proposed Middle East troop withdrawal from the foreign policy establishment in Washington, D.C., the announcement has met with much greater support outside the beltway. According to a recent Harvard CAPS/Harris poll, 52% of respondents were in favour of winding down the troop presence in Syria and Afghanistan, versus 48% that opposed.

Trump administration departures

Notable resignations and terminations since President Donald Trump took office in 2017.



											 James Mattis Defense secretary Dec. 20	 Ryan Zinke Interior secretary Dec. 15
 John Kelly White House chief of staff Dec. 8	 Mira Ricardel Deputy national security adviser Nov. 15	 Jeff Sessions Attorney General Nov. 7	 Nikki Haley U.S. ambassador to the U.N. Oct. 9	 Don McGahn White House counsel Aug. 29	 Marc Short White House director of legislative affairs July 12	 Scott Pruitt EPA Administrator July 5	 Kelly Sadler White House communications aide June 5	 Tom Bossert White House homeland security adviser April 10	 Michael Anton National security council spokesman April 8	 David Shulkin Veterans Affairs secretary March 28		
 H.R. McMaster National security adviser March 22	 Andrew McCabe FBI deputy director March 16	 Rex Tillerson Secretary of state March 13	 John McEntee Special assistant to the president March 12	 Gary Cohn National Economic Council director March 6	 Hope Hicks White House communications director Feb. 28	 Rob Porter White House staff secretary Feb. 7	 Omarosa Manigault Newman Office of Public Liaison Dec. 13, 2017	 Dina Powell Deputy national security adviser Dec. 8, 2017	 Tom Price Health and human services secretary Sept. 29, 2017	 Keith Schiller Oval Office operations director Sept. 13, 2017		
 Sebastian Gorka Counterterrorism adviser Aug. 25, 2017	 Steve Bannon White House chief strategist Aug. 18, 2017	 Anthony Scaramucci Communications director July 31, 2017	 Reince Priebus White House chief of staff July 28, 2017	 Sean Spicer White House press secretary July 21, 2017	 Michael Dubke Communications director May 30, 2017	 James Comey FBI director May 9, 2017	 K.T. McFarland Deputy national security adviser April 10, 2017	 Katie Walsh Deputy chief of staff March 30, 2017	 Michael Flynn National security adviser Feb. 13, 2017	 Sally Yates Acting attorney general Jan. 30, 2017		

SOURCES: AP reports; White House

Dates reflect when announcements were made or disclosed in news accounts.



Source: “Jim Mattis resigning as Pentagon chief after Trump disagreements,” Associated Press, December 21, 2018

The Mueller investigation

The recent convictions of President Trump’s former campaign chairman Paul Manafort and his long-time lawyer Michael Cohen highlight the partisan divide over this investigation. To Trump’s detractors, the two men can provide valuable information on Trump’s alleged Russian dealings in exchange for a lenient plea deal. To Trump’s supporters, however, the fact they were both charged over matters unrelated to the Russian investigation is proof Mueller is nowhere near proving that Trump colluded with the Russians.

One plausible scenario is that Mueller will not find evidence that Trump conspired with Russia but, instead, federal prosecutors in New York’s Southern District will press charges against him for unrelated matters, such as hush-money payments to alleged former mistresses or tax infractions related to his family business.

How would Democrats react?

This scenario would place Democrats in a tough position. On the one hand, their base could demand that the new Democratic House majority begin impeachment proceedings against Trump even if the charges have nothing to do with Russia. On the other hand, many Americans could disapprove of efforts to remove the President over matters unrelated to collusion with the Russians.

The situation is similar to when Republicans made the mistake of seeking to impeach President Bill Clinton in 1998. An independent Council was appointed at the time to investigate his alleged involvement in a failed real estate investment deal. The probe ultimately led to impeachment proceedings against Clinton for lying under oath about his affair with an intern.

Thereafter, Clinton and the Democratic Party enjoyed a bump in the polls because the public widely felt that the Republicans had overreached. This helped Democrats gain five house seats in the subsequent midterm elections, one of the few times the President's party gained seats in a midterm election in the post-war era.

However, one thing is certain. The Democrat-controlled Congress and the subpoena power that comes with that control mean much greater legal scrutiny will be focused on the Trump administration.

Will Republicans turn on Trump?

While many congressional Republicans do not like Trump, they are kept in line by the fact that the vast majority of Republican voters still support him. Attacking the President would be electoral suicide for them. **However, their reluctance to turn against Trump could begin to crumble if investigations reveal that Trump committed a major crime and/or if his popularity with the Republican base collapses (see chart below). If his approval rating among the Republican rank and file were to drop below 70% for a prolonged period of time, Trump would have reason to worry.**

Donald Trump Job Approval by Party Identification

Weekly averages from Gallup Daily tracking

	Republicans	Independents	Democrats
	%	%	%
2018			
2018 Dec 17-22	89	39	8
2018 Dec 10-16	86	37	7
2018 Dec 3-9	89	38	7
2018 Nov 26-Dec 2	89	39	6
2018 Nov 19-25	86	34	9
2018 Nov 12-18	90	37	6
2018 Nov 5-11	91	34	5
2018 Oct 29-Nov 4	88	39	6
2018 Oct 22-28	89	37	6
2018 Oct 15-21	91	39	8
2018 Oct 8-14	88	36	9
2018 Oct 1-7	86	39	7
2018 Sep 24-30	87	37	6
2018 Sep 17-23	87	34	8
2018 Sep 10-16	88	33	6
2018 Sep 3-9	85	36	8
2018 Aug 27-Sep 2	85	36	9

The process of removing a president from office for an alleged criminal offence begins in the House of Representatives. If a simple majority (50+1) votes to begin impeachment proceedings, the matter proceeds to the Senate, where a two-third majority (67 votes) is then required to actually remove a president from office. Impeachment has been attempted only three times in the history of the United States. The closest America ever came to a successful impeachment was in 1974 when Richard Nixon resigned the presidency when it became clear he would be impeached by the House and convicted by the Senate for crimes related to the Watergate scandal.

Is partial government shutdown a dress rehearsal for bigger showdown to come over the debt ceiling?

The partial shutdown begun December 22 involving 25% of the federal government is a perfect example of how partisan tensions are making it increasingly difficult for the two sides to compromise. Some 800,000 federal employees have been forced to go on unpaid leave or to work without pay.

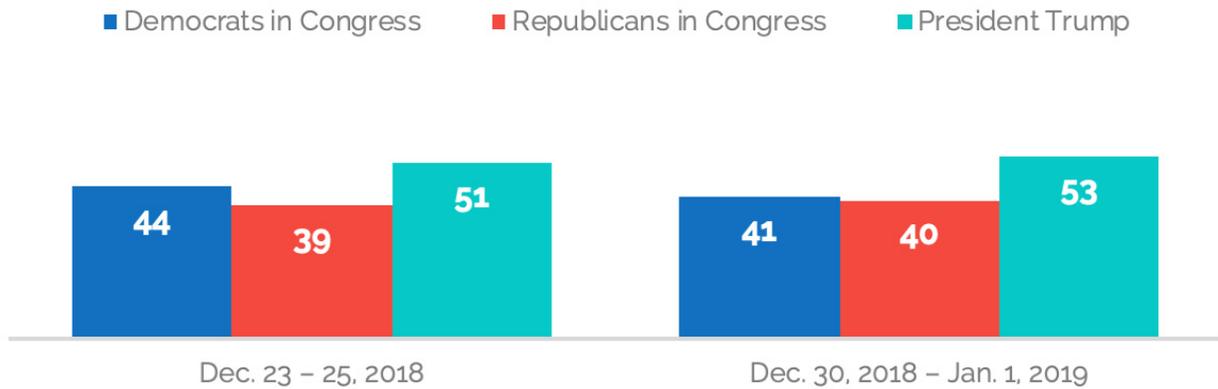
Historically, Wall Street has shrugged off shutdowns because they typically have no long-lasting negative effect on the economy and/or the financial markets. However, we can expect public pressure to end the shutdown to mount as the focus turns to workers not getting paid, mortgage applications being delayed, growing line-ups at airports, delays receiving tax refunds, and cuts to food stamp benefits. It is already the second-longest shutdown in history, behind a 21 day shutdown in December 1995. **Ultimately, the shutdown will likely be resolved with a vaguely worded statement on border security that will allow both sides to claim victory.**

For the moment, the public appears to be placing the blame more on President Trump and the Republicans than on the Democrats.

Blame for the potential shutdown

How much do you blame each of the groups listed below for causing the shutdown of the federal government?

% of Americans who say 'a lot' of the blame falls on...



YouGov | yougov.com

Dec. 23, 2018 – Jan. 1, 2019

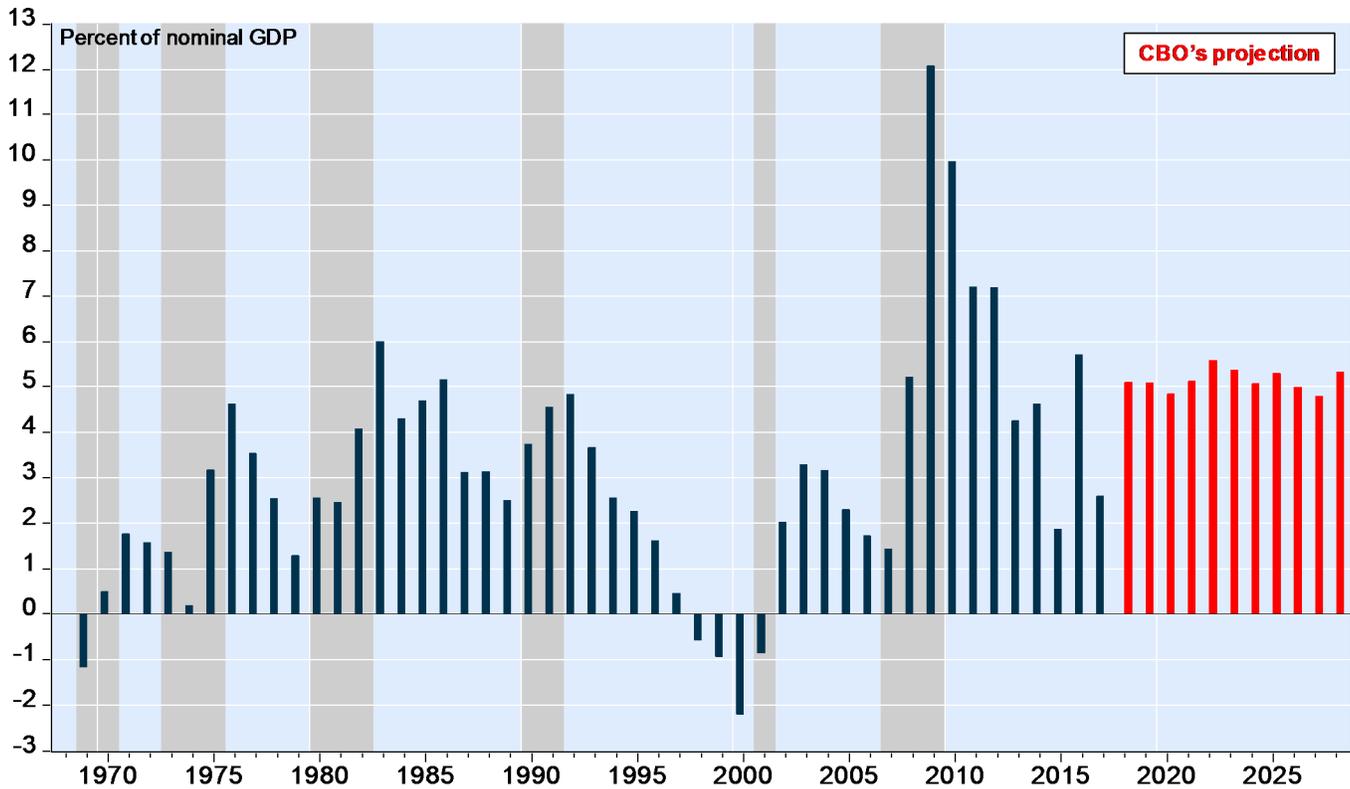
This partial shutdown is also a preview of over the deadlock poised to occur when the government reaches its borrowing limit. The official date is March 2, but the government will likely be able to save enough cash to keep paying the bills until at least midsummer. After that, the Treasury Department will not be able to access bond markets to raise cash to fund government operations without a new deal from Congress. **While Congress has never failed to reach an agreement, concern is mounting among financial analysts that the 2019 clash could rival, or even surpass, some of the more bitter showdowns of past years.** A compromise could be made even more difficult by the fact the 2020 presidential campaign will have entered into high gear, with both sides wanting to rile up their base.

In 2013, Republicans held the debt limit hostage in order to gain concessions from President Obama and the Democrats on spending cuts. In 2018, the Republicans made a 360 degree U-turn and agreed to a bipartisan budget deal that hiked spending. A similar agreement in 2019 could mean even higher spending levels at a time when deficit spending is becoming an increasing worry.

US: Make the deficit great again

Net change in debt held by the public, end of the fiscal year

Bigger deficits !



NBF Economics and Strategy (data CBO's April 2018 report The Budget and Economic Outlook: 2018 to 2028)

Conclusion

Despite the chaos surrounding the Trump administration and barring major new revelations, a successful impeachment of Trump still remains unlikely. However, investors are advised to monitor Trump's support among the Republican rank and file and the right-leaning media very closely. Were Trump to lose this support, he would be in serious political trouble and much more vulnerable to impeachment.

The bad news for Trump, regardless of whether he is successfully impeached, is that several aspects of his life will be under increased scrutiny. In our opinion, the biggest risk that Trump faces is not being found guilty of collusion with Russia but being targeted by New York Prosecutors for something completely unrelated, such as campaign finance violations or tax irregularities.

Possible geopolitical events that could buoy markets in 2019

While geopolitical events, including the recent instability surrounding the Trump administration and the U.S. partisan gridlock, have contributed to financial volatility, the markets have paid much less attention to the possibility of geopolitical stars aligning to surprise markets on the upside. In order for this to happen, most of the following scenarios would have to be realized.

- A trade deal is signed with China, even though it does not rule out further tensions down the road. (75% probability)
- North Korea continues to refrain from testing missiles. (75% probability)
- The turnover in Trump's cabinet finally begins to finally subside. (50% probability)

- Cheating by OPEC countries on their production limits and rising oil production in the United States contribute to keep oil prices down, which acts as a tax cut for consumers and businesses. (50% probability)
- Against all expectations, the Congress and President Trump find common ground on areas such as infrastructure and prescription-drug pricing. Even in these very polarized times, Democrats and Republicans recently managed to cooperate on criminal justice reform. Others argue Democrats will be reluctant to give Trump a victory that he could use to advance his re-election chances in 2020. (40% probability)
- The Mueller investigation finds no evidence of collusion between the Trump campaign and Russia. (Unknowable, though some say that if there was evidence of collusion, it would have been leaked by now.)
- The United States-Mexico-Canada Agreement is approved by the Democratic-controlled Congress (65% probability)

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