Trump’s seemingly never-ending impeachment saga
By Angelo Katsoras

The effort to impeach President Trump is now in its third year with no end in sight. First there were allegations of Russian collusion, followed by obstruction of justice, then the Stormy Daniels pay-off controversy, and now allegations that Trump withheld military aid to pressure Ukraine to investigate Joe Biden. To date, President Trump has withstood the onslaught, but not without suffering plenty of collateral damage.

This report explains and analyzes:
- How impeachment works
- Past impeachment episodes
- The odds of President Trump overcoming the latest impeachment challenge
- The potential market impact of launching official impeachment proceedings

How impeachment works

The Constitution allows for Congress to remove a president and other high-ranking public officials for “treason, bribery, or other high crimes and misdemeanors”. While the document fails to specify the exact definition of these crimes, they generally refer to a significant abuse of power.

The process of removing a president from office begins in the House of Representatives. If the House goes ahead and votes on articles of impeachment, a simple majority (218 votes) is needed to begin proceedings. If such a majority is obtained, the process passes to the Senate where a much higher bar is set. There, a two-thirds majority (67 votes) is required to find the President guilty and remove him from office.

This high bar explains why impeachment has only ever been attempted three times in U.S. history:
- In 1868, the House voted to impeach Andrew Johnson for firing the Secretary of War. The Senate fell just one vote short of the two-thirds majority needed for the motion to pass.
- In 1974, Richard Nixon resigned from 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.
- In 1998, the House voted to impeach Bill Clinton for attempting to cover up an affair with a White House intern, but the motion failed to muster sufficient votes in the Senate.

Would an impeachment of Trump be more like 1974 or 1998?

Richard Nixon: 1974

President Nixon had won a landslide re-election victory in 1972 and began his second term with an approval rating in the high 60s. But the Watergate scandal—which included an attempt to bug the Democratic National Committee Office at the Watergate Hotel—eventually turned public opinion and the Republican Party against him. He resigned before almost certainly being found guilty and removed from office.
Bill Clinton: 1998

The Republicans went after President Clinton for lying under oath about having an affair with a White House intern and allegedly trying to influence the testimony of certain other witnesses. The Republican-controlled House impeached Clinton on those charges, but in February 1999 the Senate—also led by Republicans—acquitted him. The perjury charge was defeated 55 to 45, while on the obstruction of justice charge, the chamber was evenly split 50–50.

While many Democrats were not happy with his behaviour, they did not believe it constituted an impeachable offence. Even more important, most Americans believed that impeachment was a mistake. Indeed, when the House approved two articles of impeachment against him in late 1998, his approval rating rose to over 70%. In the midst of Clinton’s impeachment process, the Democrats even managed to pick up five congressional seats in the midterm elections held at the time. Clinton thus became the first president since Franklin D. Roosevelt to pick up Congressional seats in a second-term midterm.¹

¹“Five impeachment questions,” Brookings Institution, October 7, 2019
Trump's impeachment firewall appears to be holding

Thanks to their control of the House of Representatives, the Democrats have more than the simple majority (218 votes) needed to begin impeachment proceedings.

The Senate, however, is another matter. Given that 53 of 100 senators are Republicans, getting two-thirds of the Senate to vote to remove Trump from office requires the support of 20 Republicans.

The reluctance of many Republicans to move against Trump is reinforced by the fact that, though his approval rating is hovering around 43%, the vast majority of Republican voters still support him. Attacking the President would be electoral suicide: Anyone who does so would likely be challenged in the next primary election by a Trump-backed opponent. Further, even normally safe Republican seats would be vulnerable in a general election if Trump supporters abstained from going to the polls.
However, Republican reluctance to turn against President Trump could begin to crumble if investigations reveal that Trump committed a major crime and/or if his popularity among the Republican base collapsed (see chart below).

### Support for impeaching Trump

While support for impeachment has risen to near 50% levels and is not far from the 57% that supported impeaching Nixon just before he resigned, there is one important difference: most of those who have turned on Trump are Democrats. For the proceedings to be successful, a majority of Republicans and independents would have to turn on Trump as well.
Barring game-changing revelations, the most likely scenario is a largely party-line vote in the House to impeach followed by a mostly party-line vote in the Senate not to convict Trump. However, given the heavily charged partisan environment, failure to convict would likely result in only a small boost in the polls for Trump.

Some analysts argue that this impeachment inquiry is more about damaging Trump politically for 2020 than actually trying to remove him from office. However, should this potential strategy fail, even a small boost in the polls for Trump could jeopardize Democrat chances of regaining the White House.

Is Joe Biden the impeachment inquiry’s first victim?

Biden has until recently benefitted from the perception that he is the only moderate candidate able to seriously challenge Trump in Republican-leaning states. However, allegations that Trump tried to get dirt on Biden’s son, Hunter, from the Ukraine President have increased media coverage of allegations that Hunter used his dad’s influence to win lucrative overseas deals.

This has hurt Biden’s polling numbers and helped Elizabeth Warren emerge as his main rival. Bernie Sanders’ recent heart attack, which could cause some of his supporters to look elsewhere, has likely added to her momentum. Biden’s lead over Warren has gone from a high of over 30 points last May to just over 6 points today.
Conclusion: The potential market impact of impeachment

History indicates that impeachment alone is not sufficient to negatively impact markets (see charts below). During Nixon’s impeachment process in 1973-1974, the main drivers behind the bear market at the time were the oil crisis, the collapse of the dollar-gold peg and sharp interest rate hikes to rein in inflation.

Clinton’s impeachment episode in 1998, instead, was marked by a brief market correction caused by the Asian crisis, the Russian debt default, and the failure of the giant hedge fund firm Long-Term Capital Management. Interventions by the Federal Reserve and the IMF were required to set the markets back on an uptrend.

It is important to note, however, that while impeachment alone might not be enough to create market instability, it can add to the gloom if other negative factors are already looming in the background.

Finally, for the time being at least, the markets appear to be pricing in the likelihood that the Senate will not vote to remove Trump from power. Investors are advised to monitor Trump’s support among the Republican rank and file and the right-leaning media. Should Trump lose their support, he would find himself in serious political trouble. This would increase the chances of Trump being removed from power and a Democratic victory in the 2020 presidential election.
S&P 500: Perspective on Nixon’s impeachment process
S&P 500 Composite Index

S&P 500: Perspective on Clinton’s impeachment process
S&P 500 Composite Index

NBF Economics and Strategy (data via Datastream)
General

This Report was prepared by National Bank Financial, Inc. (NBF), (a Canadian investment dealer, member of IIROC), an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on the Toronto Stock Exchange.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete and may be subject to change without notice. The information is current as of the date of this document. Neither the author nor NBF assumes any obligation to update the information or advise on further developments relating to the topics or securities discussed. The opinions expressed are based upon the author(s) analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein, and nothing in this Report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient’s individual circumstances. In all cases, investors should conduct their own investigation and analysis of such information before taking or omitting to take any action in relation to securities or markets that are analyzed in this Report. The Report alone is not intended to form the basis for an investment decision, or to replace any due diligence or analytical work required by you in making an investment decision.

This Report is for distribution only under such circumstances as may be permitted by applicable law. This Report is not directed at you if NBF or any affiliate distributing this Report is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that NBF is permitted to provide this Report to you under relevant legislation and regulations.

National Bank of Canada Financial Markets is a trade name used by National Bank Financial and National Bank of Canada Financial Inc.

Canadian Residents

NBF or its affiliates may engage in any trading strategies described herein for their own account or on a discretionary basis on behalf of certain clients and as market conditions change, may amend or change investment strategy including full and complete divestment. The trading interests of NBF and its affiliates may also be contrary to any opinions expressed in this Report.

NBF or its affiliates often act as financial advisor, agent or underwriter for certain issuers mentioned herein and may receive remuneration for its services. As well NBF and its affiliates and/or their officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. NBF and its affiliates may make a market in securities mentioned in this Report. This Report may not be independent of the proprietary interests of NBF and its affiliates.

This Report is not considered a research product under Canadian law and regulation, and consequently is not governed by Canadian rules applicable to the publication and distribution of research Reports, including relevant restrictions or disclosures required to be included in research Reports.
UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 71 Fenchurch Street, London, EC3M 4HD.

NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out above. To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only.

This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to, those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates’ businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc, is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.