



Trump's troubles

Introduction

President Trump's administration has been beset by leaks and accusations of wrong-doing since taking office. It now faces its most challenging moment to date after Trump's decision to fire FBI Director James Comey was soon followed by allegations that he sought to shut down an investigation into a former aide.

Not only is this stoking fears among investors that the administration will be distracted from advancing its ambitious pro-business legislative agenda, it has given Trump's political adversaries further cause to call for his impeachment.

The appointment of a special counselor is a make or break moment for the Trump administration

Ex-FBI Director Robert Mueller has been nominated to investigate the following matters:

- Russia's attempts to influence the 2016 election
- Allegations of Russia's collusion with Trump's campaign
- Whether Trump obstructed justice when he allegedly asked the FBI director at the time to drop a criminal investigation into former National Security Adviser Michael Flynn

Mueller's nomination has met with broad support from both Democrats and Republicans. This increases the odds that his findings will be accepted as valid by both political parties and the public.

There is a risk, also, that the investigation will drift towards unrelated matters. In the 1990s, Kenneth Starr was appointed independent counsel to investigate then President Bill Clinton's connections to 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.

What this means is that the political fate of President Trump and congressional Republicans is ultimately in Mueller's hands.

How difficult is it to impeach a President?

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 U.S. history:

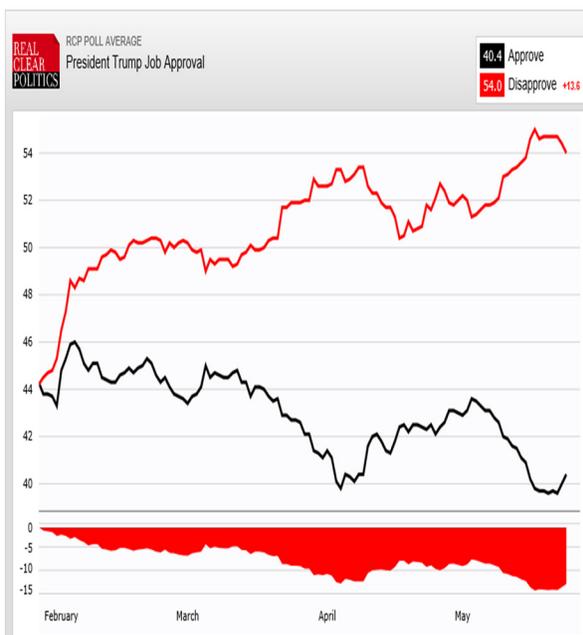
- In 1868, the House voted to impeach Andrew Johnson for firing the Secretary of War. The Senate fell just one vote short of the two-third majority needed for the motion to pass.
- In 1974, Richard Nixon resigned from the presidency when it became clear he would be impeached by the House and convicted by the Senate for crimes primarily related to the Watergate scandal.
- In 1998, the House voted to impeach Bill Clinton for attempting to cover up an affair with intern Monica Lewinsky, but the motion failed to muster sufficient votes in the Senate. Only 50 senators voted in favour of removing Clinton for obstruction of justice and 45 voted in favour of removing him for perjury, both well short of the required two-third majority.

What is standing in the way of Trump’s impeachment?

It is important to note that the majority party in Congress has never sought to remove from office a president elected from its own party. In all three impeachment attempts, the President faced an opposition that controlled both chambers of Congress. Andrew Johnson, a Democrat, faced a huge Republican majority. Richard Nixon was up against a Democratic majority in both houses, while Bill Clinton was confronted with a Republican majority.

Republicans currently hold a comfortable advantage in the House (241-194), but their margin of control in the Senate is much slimmer (52-48 -- if we include the two independents that often vote with the Democrats).

The reluctance among many Republican to move against Trump is reinforced by the fact that, while his approval rating is at only 40%, the vast majority of Republican voters still support him. Attacking the President would be electoral suicide, perhaps jeopardizing even normally safe Republican seats if Trump supporters abstain from going to the polls. However, this reluctance to turn against President Trump could begin to crumble if investigations revealed that Trump committed a major crime.



Donald Trump Job Approval by Party Identification, 2017

Weekly averages from Gallup Daily tracking

	Republicans	Independents	Democrats
	%	%	%
2017 May 15-21	84	31	7
2017 May 8-14	84	35	8
2017 May 1-7	84	40	9
2017 Apr 24-30	87	36	12
2017 Apr 17-23	86	36	9
2017 Apr 10-16	87	36	10
2017 Apr 3-9	87	34	6
2017 Mar 27-Apr 2	81	36	6
2017 Mar 20-26	84	33	8
2017 Mar 13-19	86	35	10
2017 Mar 6-12	88	36	9
2017 Feb 27-Mar 5	88	39	10

If the Democrats regain control of the House of Representatives in the November 2018 midterm elections, they could then vote to begin impeachment proceedings against Trump. However, to do that, they would have to gain 24 seats. The Republican’s hold on the House has been tightened by the gerrymandering efforts of Republican governors in key swing states. Gerrymandering is the process of redrawing legislative districts to favour one’s party. This is essentially done by moving likely non-supporters to electoral districts lost in advance. **In order to overcome the effects of gerrymandering, Democrats would have to win the Congressional popular vote by 7% to 9% to have a chance of regaining control of the House of Representatives.** Recent polling on the midterm elections has Democrats ahead of Republicans by an average of about 6%-7%.¹ Twenty-three Republican congressmen currently represent districts won by Hillary Clinton in the last presidential election.

As for the Senate, Republicans hold 52 seats versus 48 for the Democrats. The Democrats will be defending 25 seats, compared with just eight for Republicans. The situation has been made even more challenging for the Democrats by the fact 10 of their seats up for re-election are in states Trump won, and that five of these ten are in states Trump won by 18% or more. In comparison, only one Republican seat is at stake in a state that Clinton won (Nevada).²

In all, 435 seats in the House of Representatives and 34 of the 100 seats in the Senate will be contested in November 2018.

However, even if Democrats regained control of the House and the Senate, they would still need the support of many Republicans to attain the two-thirds vote required in the Senate to remove a president from office. In addition, Democrats

¹ “2018 Generic Congressional Vote,” Real Clear Politics, May 2017

² “It’s way too early to speculate about the 2018 midterms – so let’s get started,” Vox, May 9, 2017

will be under pressure to wait for Mueller’s investigation to be completed before renewing calls for impeachment, especially since they widely approved of his nomination.

How long does the impeachment process take?

The first vote by the House of Representatives to consider impeaching Nixon was held in February 1974. Nixon resigned August 8 of the same year before the House could vote on the motion. In Clinton’s case, the House first considered impeachment on September 24, 1998. He was actually impeached by the House on December 19 of the same year and then subsequently acquitted by the Senate on February 13, 1999.³

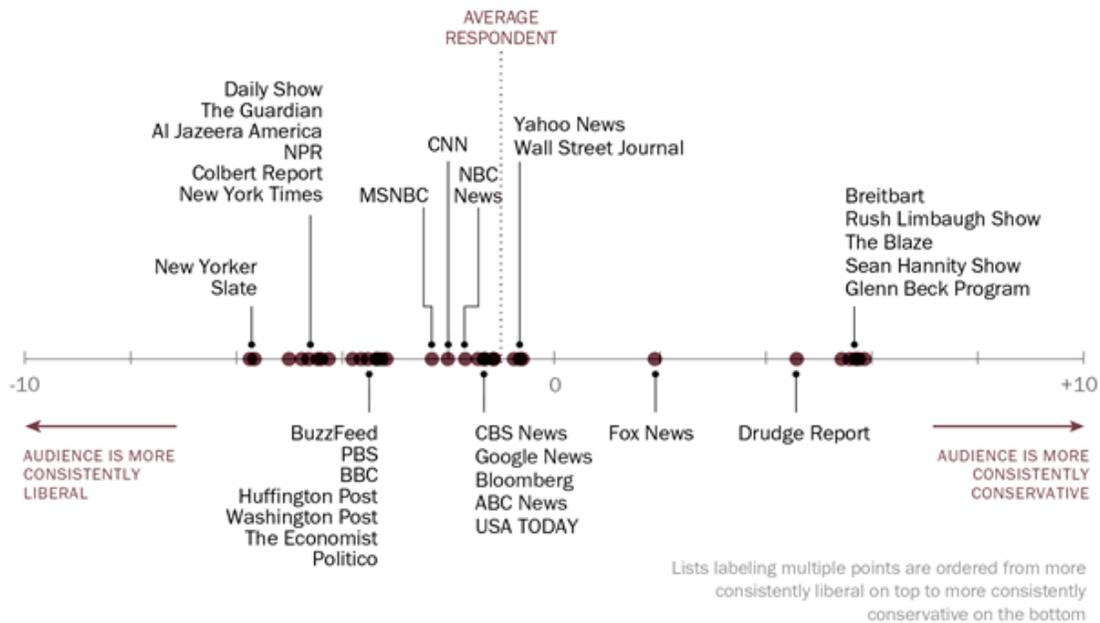
Trump would really be in trouble if the right-leaning media turned on him

Of particular importance to Trump’s political fortunes is whether he is able to maintain the support of the right-leaning news media. The positions of such media outlets as CNN, MSNBC and The New York Times are of much less importance because their audiences are largely made up of people that do not support Trump. Indeed, for a lot of Trump supporters, their attacks are further proof that the mainstream media and the left are trying to undermine Trump’s presidency and overturn the election. Were Trump to lose the support of the right-leaning media, the risk of his electoral base abandoning him would increase dramatically.

Ideological Placement of Each Source’s Audience

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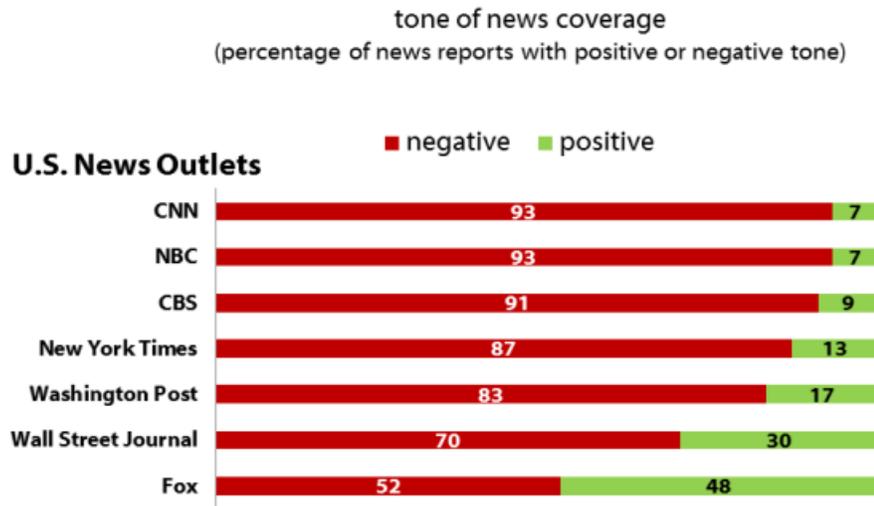
Average ideological placement on a 10-point scale of ideological consistency of those who got news from each source in the past week...



Source: Pew Research, January 2016

³ "Impeachment guide," CNN, May 17, 2017

Tone of Trump's Coverage by News Outlet in first 100 days



Source: Shorenstein Center, Harvard Kennedy School, May 18, 2017

Another important under-reported hurdle facing the administration is the fact that only 4.1% of the electorate in Washington DC voted for President Trump. This overwhelming lack of support renders the Trump administration much more vulnerable than previous ones to bureaucratic resistance (i.e., leaks).

District of Columbia Presidential Race Results: Hillary Clinton Wins

BY THE NEW YORK TIMES FEB. 10, 2017, 4:39 PM ET

CANDIDATE	PARTY	VOTES	PCT.	E.V.
 ✓ Hillary Clinton	Democrat	282,830	90.9%	3
 Donald J. Trump	Republican	12,723	4.1	—
Others	Independent	6,551	2.1	—
 Gary Johnson	Libertarian	4,906	1.6	—
 Jill Stein	D.C. Statehood Green	4,258	1.4	—

100% reporting (143 of 143 precincts)

Market impact

Until recently, most investors ignored Trump's missteps and focused on the potential of his pro-business agenda. Their enthusiasm was bolstered by the fact that Republicans controlled both the House and the Senate.

However, the latest allegations that Trump attempted to obstruct an FBI investigation have for the first time rattled some investors. They are increasingly worried that the administration's troubles will distract Republicans from advancing their legislative agenda before the November 2018 midterm elections, particularly since polls show they could lose control of the House.

There is still a chance that Republicans will step up efforts to pass at least one major piece of legislation so they have something to show voters before the elections. **Ironically, Mueller's appointment to investigate the Trump administration could provide the Republicans a reprieve from having to respond to every headline and thus provide them with a small window of opportunity to focus on passing legislation before the midterm elections.**

This motivation to pass something is strengthened by the Republican leadership's conviction that its control of both the executive and legislative branches of government has opened a window of opportunity that might not happen again anytime soon. The last time it controlled all levers of government was during the presidency of George W. Bush (2003-2007). Before then, it occurred during the presidency of Herbert Hoover (1929-1931).

Traditionally, the minority party in the Senate has resorted to filibustering in order to obstruct legislation. This is a process whereby the opponents of a measure require the other side to obtain a supermajority of 60 votes to pass a bill in the Senate. However, spending and taxation bills (via a process called reconciliation) cannot be filibustered. It is important to note, though, that using reconciliation to get a spending bill passed in the Senate via a simple majority vote entails a drawback. If the law is found to significantly increase the federal deficit more than 10 years down the road, it expires.

Failure to pass -- or to at least be on the verge of passing -- major legislation by the end of 2017 would be a leading indicator of trouble. Both President Reagan (Aug/1981) and President Bush (June/2001) passed major tax cuts in the first year of their mandates.

Would President Pence save the day?

Some Republicans have pointed out that, if Trump left or resigned, Vice-President Pence would take over for him. **The thinking is that Pence would be much more successful than Trump in advancing the Republican agenda of tax cuts, healthcare reform and deregulation, particularly because he would not be distracted by seemingly endless scandals.**

The problem with this scenario is that if Trump did not leave relatively soon, Pence would be hard-pressed to pass major legislation before the midterm elections threaten the Republican majority. Pence and congressional Republicans could also have to deal with blowback from Trump supporters that might feel he was unjustly removed from power.

Conclusion

Even before the latest wave of controversies, the Trump administration was in a difficult political situation. Trump's support base was sufficient to win the election by the thinnest of margins, but not large enough to govern effectively. Attempts to broaden this base of support have been undermined by seemingly never-ending missteps and allegations of wrongdoing.

There is a growing fear that Trump's troubles have undermined his administration's ability to advance its legislative agenda. **Indeed, if the Republicans do not succeed in passing at least one major piece of legislation by the end of the year, investors could see it as a sign that their legislative agenda is dead for all intents and purposes.**

This fear is reinforced by the fact that, historically, presidents have had the greatest success implementing their agendas in the first year or two of their mandate. After that, the odds of signing major bills into law tend to drop off sharply owing, among other things, to the President's party losing control of one or both houses of Congress. President Obama is a perfect case in point. Virtually all of his legislative accomplishments came in the first 18 months of his first mandate: the American Recovery and Reinvestment Act, the Affordable Care Act (Obamacare) and the Dodd-Frank Wall Street Reform Act.

As for the risk of impeachment, barring any new revelations, it still appears unlikely for the reasons explained above.

Finally, investors are advised to closely monitor Trump's support among Republican voters and the right-leaning media very closely as indicators of whether his administration can withstand the political headwinds it faces.

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