Donaldson
CAPITAL MANAGEMENT

The Outlook

DCM Weekly Market Brief

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Political Storm

Another phase of corrective action appears to be underway in the market. After failing to make a new all-time high off of last week's strength, the S&P 500 has fallen roughly 2%. This is actually quite impressive considering the headlines that hit throughout the week. Democrats in the House started a strong push to impeach the President, a largely anti-corporate candidate surged in the polls, and China trade developments took an interesting and unexpected turn. As the latest contribution to the market's din is sorted out in the coming weeks, we could expect consolidation to continue. The good news is that there is a strong base of support under the market and the Fed continues to lend a great deal of support. We sit at 2961 and there is only about 3.5% of downside to the next serious level of support around 2880.

The political whirlwind is certainly picking up as we move closer to 2020. Armed with a whistleblower complaint alleging improper use of power for political gain, Democrats have hit the impeachment trail hard. Odds are rising that the House will move to impeach President Trump in the coming weeks. This would lead to a trial before the Senate where 2/3 of the chamber would have to support the removal of the President. With Republicans controlling the chamber, this seems to be an unlikely feat as it stands today. Nonetheless, the political and market implications are real. Counter to what you might think, history says that voters rally around the President during impeachment proceedings. In 1998, President Clinton was on pace to lose 30 House seats in the mid-term elections. Astonishingly, with the Senate trial looming, Clinton actually managed to pick up 5 House seats. Now it is far from a certainty that history repeats itself, but investors should at least be open to the possibility that impeachment could be a boon to the President's re-election chances.

This is especially true as Elizabeth Warren surges in the polls and Joe Biden slides. Biden has long been considered the most electable of the Democratic candidates up for nomination. Warren is closing that gap, but is still not seen as favorably as Trump vs. Biden. But even as the market remains comfortable that Trump will be president, certain sectors of the economy appear fearful of a Warren presidency. Managed care and pharma stocks are sliding in unison with Warren's rise. We should have this on our radar and keep a close eye on performance in other sectors that might indicate Trump's chances are falling. This is not to favor one party or candidate over the other, but rather to be aware of the opportunities and risks that will present themselves on the other side of 2020.

Late Friday, news hit that the Trump administration was weighing a ban on U.S. investment into China. It's possible that this is a strategic move to increase leverage going in to October's planned trade meetings, but it's important that these meetings actually take place. We've long said a trade deal could go a long way in restoring confidence and shoring up the pace of economic growth in the U.S.

This becomes more apparent each day. Progress is pivotal and the administration has to be careful that the Chinese don't pull back and decide to wait out the election. In the meantime, inflation readings are coming in tame enough that the Fed ought to be able to continue its easing. This will provide support to the market, but a trade deal is the ultimate prize.