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Impeachment Inquiry and Shifting Political Landscapes

October 29, 2019

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Percent of polled Americans who approve of the House of Representatives beginning an impeachment inquiry for President Trump: 52%

Source: NPR/PBS NewsHour/Marist Poll, poll conducted October 3-8, 2019.

President Trump's current job approval rating: 40%

Source: Gallup, poll conducted September 16-30, 2019.

Key takeaways

- While it is yet to be seen if the House will bring any impeachment articles against President Trump, the inquiry may impact progress of high-profile legislative items awaiting congressional action.
- Although the impeachment inquiry should continue to attract attention, we believe that it is important for investors to remain focused on their financial goals and on fundamentals. Bouts of volatility are likely as more impeachment-related information emerges from Washington. Generally, we believe that political risks are more likely to increase and become periodic market headwinds as we enter a presidential election year.

The impeachment inquiry—impact on the legislative agenda

Impeachment-related headlines have been a constant in recent weeks. On September 24, House Speaker Nancy Pelosi announced that the House of Representatives would launch a presidential impeachment inquiry. This followed a whistleblower complaint regarding allegations that President Trump requested that Ukrainian President Zelensky investigate former Vice President Joe Biden's son, Hunter Biden, and his business dealings in Ukraine.

President Trump is not the first president to face an impeachment inquiry—he is the fourth. The House of Representatives voted to impeach Presidents Andrew Johnson and Bill Clinton, and President Richard Nixon resigned before a House vote could take place. However, no sitting president has been removed from office due to impeachment, which sets a high bar for Democrats in the Republican-controlled Senate.[1] In order for President Trump to be impeached, at least 20 Senate Republicans would have to move across party lines and vote to convict him of what the Constitution calls "treason, bribery, or other high crimes and misdemeanors."[2]

While impeachment is possible, if not likely, in the House, we believe that eventual conviction by the Senate has a relatively low likelihood. Yet, the House's impeachment inquiry (and any House or Senate action) may disrupt the flow of legislation in Congress. With only 20 legislative days left for this session in the House of Representatives—and an election year ahead—the impeachment inquiry could quash completion of various legislative agenda items. With the House inquiry (and any follow-on congressional action) possibly taking months to complete, it is becoming less likely that Congress will pass any major bipartisan legislation before the 2020 presidential election.

Legislative items still on Congress' docket

The U.S.-Mexico-Canada Agreement (USMCA) on trade and President Trump's unfulfilled campaign plans for an infrastructure program are both legislative items that may find themselves unexpected victims of the impeachment inquiry. Impeachment-related delays reduce the chances that Congress will have the time to debate and ratify these comprehensive legislative items prior to the 2020 election. Likewise, there had been hope that Congress would pass a prescription drug pricing bill before the end of the session—as President Trump and Speaker Pelosi agree that it is an important policy issue (which garners bipartisan support). With impeachment proceedings causing delay and distraction, prescription drug prices should become an even more important issue, alongside health care, in the 2020 presidential election campaign.

[1] Wells Fargo Investment Institute, "Q&A: Impeachment and the Growing Equity Market Headache," September 25, 2019.
[2] Two-thirds of lawmakers present in the Senate must vote to convict in order to remove a sitting president.

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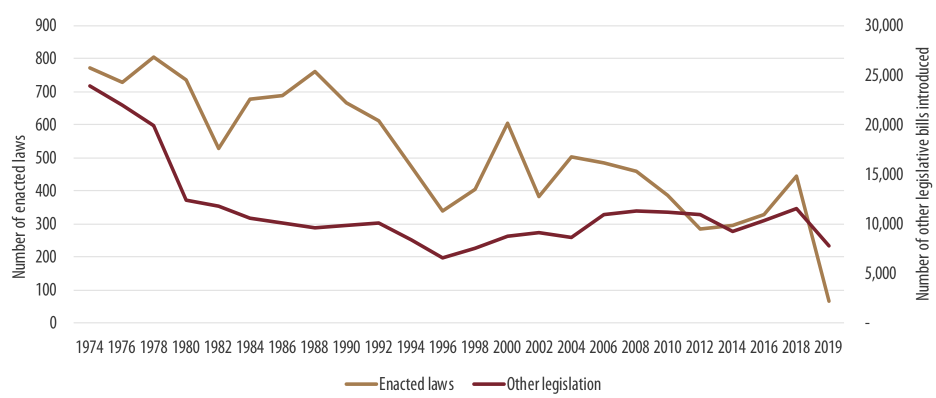
Comparing today's impeachment inquiry with President Clinton's House impeachment in 1998

Although the political climate and economic backdrop during the impeachment of President Clinton differed from today's political and economic landscape, there also was a lot on the congressional legislative agenda when the House of Representatives launched its impeachment inquiry in 1998. Before impeachment investigations began, President Clinton and the Republican-held Congress had successfully passed major bipartisan legislation. Together, they had created the Children's Health Insurance Program,[3] introduced Roth IRAs, and passed the comprehensive Balanced Budget Act & Taxpayer Relief Law, which included tax cuts and reforms to help balance the federal budget by 2002. From the start of the impeachment inquiry in October 1998 to the end of the Senate trial in February 1999, little else garnered more attention than impeachment in Washington, D.C. However, President Clinton continued to work with House Speaker Newt Gingrich to achieve a balanced federal budget (and later a surplus) and to eventually repeal the Glass-Steagall Act later in his second term. Comparatively, President Trump has suggested that he will not work with House Speaker Pelosi—nor with Congress—to pass major legislation until the impeachment inquiry has ended.

Today, Congress is also in a more partisan position than it was 20 years ago. Bipartisan agreements are harder to achieve as there are fewer moderate lawmakers on either side of the aisle than there were two decades ago. Additionally, President Trump is preparing to enter an election year, making it even more challenging for impactful legislation to pass through Congress, unless it is the subject of a crisis.

Chart 1. Congressional session activity has fallen over time



Sources: GovTrack, Wells Fargo Investment Institute, data as of October 16, 2019.

[3] The Children's Health Insurance Program (CHIP) expands low-cost health insurance coverage to low-income families with children that earn too much money to qualify for Medicaid benefits. CHIP is offered through a partnership between federal and state governments.

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Amount of Middle Eastern oil moved through the Strait of Hormuz daily: 21 million barrels

Source: Energy Information Administration, October 2019.

The Strait of Hormuz is an important oil transport "choke point." This can make it a magnet for attacks.

Key takeaways

- We believe that the Middle East still matters to global oil prices.
- Yet, the impact of Middle Eastern crises on oil prices has typically been short-lived—as it was for the recent disruption from the attack on Saudi oil facilities.
- Middle East turmoil does not typically influence stock markets over time, but spiking oil prices could have an impact on the 2020 presidential election.

What impact do Middle East crises have on oil and equity markets?

Over the weekend of September 14-15, 2019, one of the world's largest oil-processing facilities, located in Saudi Arabia, was attacked. The facility represents roughly 5% of the world's oil supplies. Oil prices initially jumped by 13%. The Saudi oil-processing facility has since recovered most of its production—which spared the world from potentially painful shortages—and oil prices have fallen back below preattack levels. The attack, however, was a reminder to investors that the Middle East continues to hold great sway over global oil prices.

Some investors had thought that perhaps the Middle East was losing its influence over global oil markets. We understand this thought. After all, the U.S. surpassed Saudi Arabia as the largest petroleum producer in 2013, and its lead has only grown larger. In fact, the U.S. has grown its production of the world's petroleum from 10% in 2006, to 20% today. On the flip side, OPEC (Organization of the Petroleum Exporting Countries)—which is largely composed of countries from the Middle East—has slipped from 43% of global oil production in 2006, to 34% today.

Oil-price volatility after Middle East crises

Our view is that the Middle East still matters greatly to oil markets. Yes, its overall percentage of global oil supplies has slipped a bit over the past decade, but Middle East oil production is still significantly higher than that of the United States. Additionally, oil fields in the Middle East are often large and concentrated (as compared to those in the United States). The point is that—when Middle East turmoil hits—investors should expect to see volatile oil prices. Yet, on average, oil-price volatility that stems from Middle East crises historically has not lasted very long. The vertical black dashed line in Chart 2 represents the start of 20 Middle East crises, since 1990. The orange line highlights that the initial oil-price spikes have lasted, on average, about three months.

Economic impact of oil-price spikes

Not each Middle East crisis has been the same, of course. Some have had larger impacts on oil prices than others. For those that have led to significant oil-price spikes, there has typically been a corresponding economic impact. A $3.00 per gallon gasoline price is a level that has led to slower U.S. gross domestic product (GDP) growth in the past. In mid-October 2019, the average U.S. retail gas price was $2.66.[4] Based on this metric, the U.S. economy would appear to be in the clear for now. For U.S. GDP growth to slow further due to higher oil prices, today's gas prices

[4] American Automobile Association, October 17, 2019.

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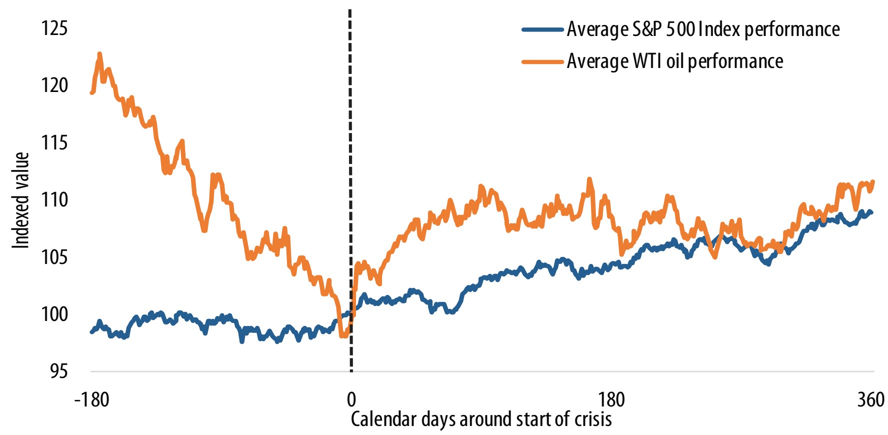
would need to rise by an additional 13% to reach the key $3.00 level. This would equate, roughly, to a $70 per barrel West Texas Intermediate (WTI) crude-oil price. In mid-October, WTI traded at $53.

Middle East crises' impact on stock market performance

As for the impact on stock markets, we have found that past Middle East crises have had little lasting impact. The blue line in Chart 2 represents the average performance of the S&P 500 Index. Notice that the stock market has typically tended to shrug off Middle East oil crisis turmoil over time, regardless of whether oil prices are rising (Chart 2, orange line).

Chart 2. Performance of stocks and oil after Middle East crisis events



Sources: Bloomberg, Ned Davis Research Group, Wells Fargo Investment Institute, October 17, 2019. "0" indicates the start of the crisis. Indexed to 100 as of start date. Lines indicated the average performance of the S&P 500 Index and the West Texas Intermediate (WTI) oil price. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** Please see the end of this report for a list of crisis events.

Oil's impact on the 2020 presidential election

One interesting tidbit is that oil prices could impact the 2020 presidential election. Presidential approval ratings have been known to track the direction of gasoline prices. Spiking oil prices, heading into next November's election, could potentially sway some Americans to vote against the incumbent.

The bottom line

We believe that the Middle East still matters to global oil prices. This was proven, once again, after the attack on Saudi oil facilities in September. With that being said, the impact of Middle East crises on oil prices has typically been short-lived, and it was again for the September 2019 oil-price disruption that stemmed from the attack on the Saudi oil-processing facility. We do not anticipate significant market impacts as a result of recent attacks against oil infrastructure in the Middle East.

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Senator Bernie Sanders

Polling average in September 2019:

16.7%

Source: RealClear Politics, 2020 Democratic presidential nomination polling data averages, as of October 7, 2019.

Mentions on CNN, Fox News, and MSNBC so far this year:

36,576

Source: Data from the Internet Archive's Television News Archive processed by the GDELT Project, as of October 19, 2019.

Senator Sanders' third-quarter fundraising total:

$25.3 million

(the largest amount of any Democratic candidate in 2019)

Source: Bloomberg, October 3, 2019.

This is the third in a series of spotlights on the five highest-polling candidates for the Democratic presidential nomination.

Democratic presidential candidate spotlight—Bernie Sanders

Vermont Senator Bernie Sanders, a self-described "Democratic socialist," is campaigning again for the Democratic presidential nomination, following his failed bid against Hillary Clinton in 2016. Senator Sanders' 2020 campaign has focused on his view that Wall Street, multinational corporations, and private health insurers hold too much power over the middle class. Based on RealClear Politics poll averages, he currently polls third overall in the race, behind former Vice President Joe Biden and fellow progressive candidate, Senator Elizabeth Warren.[5] Despite a recent health scare, Senator Sanders continues to push a progressive platform across policy issues, such as Medicare for All and the promotion of a federal minimum wage of $15 per hour, which are measures that have begun to gain traction with Democratic voters in recent years.

Health care

As the original sponsor of the Medicare for All bill introduced to Congress in 2017, Senator Sanders has long emphasized the need for a comprehensive single-payer health care system that provides universal coverage. On the 2020 campaign trail, Senator Sanders has framed the need for universal health coverage as a moral issue: "guaranteeing health care to all people as a right, not a privilege."[6] His Medicare for All plan advocates a government-sponsored system that would cut out private and employer-sponsored health insurers by banning duplicative coverage. The single-payer plan would eliminate all premiums, co-payments, and deductibles for patients, and give the federal government greater bargaining power with manufacturers in order to lower prescription drug prices.

Since the introduction of his Medicare for All bill, Senator Sanders frequently has been asked how he proposes to pay for the plan. Analysis by the Urban Institute concluded that his revenue proposals to finance the single-payer health care system would only cover approximately half of the program's estimated cost (totaling $32 trillion over 10 years).[7] However, during this campaign cycle, Senator Sanders has recently proposed a list of additional financing options for his Medicare for All plan, including different ways to tax the ultra-wealthy. Senator Sanders also has acknowledged that taxes would need to increase for the middle class in order to pay for Medicare for All. Yet, he notes that the tax increase would be less than the amount that many individuals currently pay for private health insurance.

[5] According to RealClear Politics poll averages, October 6 - 16, 2019.
[6] BernieSanders.com, "Health Care as a Human Right - Medicare For All," as of October 21, 2019.
[7] The Urban Institute, "The Sanders Single-Payer Health Care Plan," May 2016.

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Key takeaways

- Senator Bernie Sanders' support for "Medicare for All" has concerned pharmaceutical, insurance, hospital, and other industries enough to form a coalition to oppose the single-payer platform and possible universal health care legislation. If this plan gains traction, we would likely see increased volatility in the Health Care sector of the U.S. equity market.
- Taking aim at income inequality, Senator Sanders proposes an extreme wealth tax on high-income households that would progressively increase the individual income tax rates of high earners. We believe that this passage is unlikely, given the breadth and scale of the plan.
- Senator Sanders' proposed Inclusive Prosperity Act—taxing all Wall Street financial transactions—would, in our view, hurt individual investors and their retirement portfolios, by making longer-term saving more difficult.

Taxes

Senator Sanders has published numerous policy plans to raise taxes on the wealthy and on corporations, in order to fund new social programs. His Income Inequality Tax Plan proposes the introduction of progressive corporate tax rates for private and public corporations that report large pay gaps between company CEOs and median workers.[8] Similar to Senator Warren, Senator Sanders has proposed the creation of a tax on extreme wealth that he would implement on the top 0.1% of U.S. households. Senator Sanders outlines in his policy proposal that this tax would incrementally increase from 1% of net worth above $32 million to 2% of net worth between $50 and $250 million.[9] Further, it would rise progressively to 8% above $10 billion of net worth for a married couple.[10] Revenue generated from both his corporate and extreme wealth tax plans would go toward funding Medicare for All and other social program plans.

In tandem with these two plans, Senator Sanders has noted that he supports closing tax loopholes, introducing a progressive estate tax on the wealthy, removing the income cap on Social Security payroll taxes, and abolishing tax breaks on capital gains.[11] Senator Sanders also has stated that he would pass the Inclusive Prosperity Act to impose a tax on all stock, bond, and derivative transactions, along with other Wall Street reforms.

Climate change

Senator Sanders' climate change plan is one of the largest of the Democratic candidates. It calls for greater speed, investment, and structural changes to accomplish the carbon-neutral target it sets out. Like most other Democratic candidates, Senator Sanders supports the Green New Deal. His own climate change proposal highlights $16.3 trillion of public investment over 10 years toward initiatives that include nationwide adoption of clean energy and expanded renewable energy research and development. Further, his plan would address climate change across all areas of domestic and foreign policy. His plan aims to bolster conservation efforts and create 20 million jobs in renewable energy sectors (according to his estimates).[12] Senator Sanders proposes that his comprehensive climate change initiative would take 15 years to pay for itself. The fossil fuels industry would be greatly affected by the enactment of Senator Sanders' plan; his proposal includes the removal of energy industry subsidies and the introduction of larger penalties on fossil-fuel-related pollution. Republicans also would likely oppose the introduction of Senator Sanders' plan, due to the expanded role of federal organizations in his proposal.

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[8] BernieSanders.com, "The Sanders Income Inequality Tax Plan," as of October 8, 2019.
[9] BernieSanders.com, "Tax on Extreme Wealth," as of October 8, 2019.
[10] Ibid.
[11] BernieSanders.com, "Making The Rich Pay Their Fair Share in Taxes," as of October 8, 2019.
[12] BernieSanders.com, "The Green New Deal," as of October 8, 2019.

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The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

List of Middle East crisis events referenced in Chart 2 on page 5.

8/2/1990 – Gulf War	7/11/2006 – India, Israel, and Lebanon Bombings	12/30/2013 – Anbar Clashes
3/1/1991 – Uprisings in Iraq	5/7/2008 – Lebanon Crisis	6/13/2014 – Iraq Civil War begins
12/16/1998 – Bombing of Iraq (Operation Desert Fox)	12/27/2008 – Israel Invades Gaza	3/21/2015 – Yemeni Civil War
10/12/2000 – U.S.S. Cole Bombing	4/27/2009 – South Yemen Insurgency	7/15/2016 – Turkish Coup attempts
10/7/2001 – War In Afghanistan	12/18/2010 – Arab Spring Begins	6/19/2019 – Iran shoots down U.S. drone
3/20/2003 – Iraq War	10/20/2011 – Muammar Gaddafi Overthrown	9/14/2019 – Attacks on Saudi oil processing facilities
3/12/2004 – Al-Qamishli Riots	7/3/2013 – Islamic Unrest in Egypt	

Definitions

An index is unmanaged and not available for direct investment.

S&P 500 Index is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies.

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