ECONOMY

Trump pressed Ukrainian counterpart to investigate Hunter Biden

THINK STRATEGICALLY:

The Tyranny of the Inbox

Speaker Pelosi Initiates Impeachment Inquiry Against President for Betraying Nation's Security, Seeking Foreign Power for Political Gain

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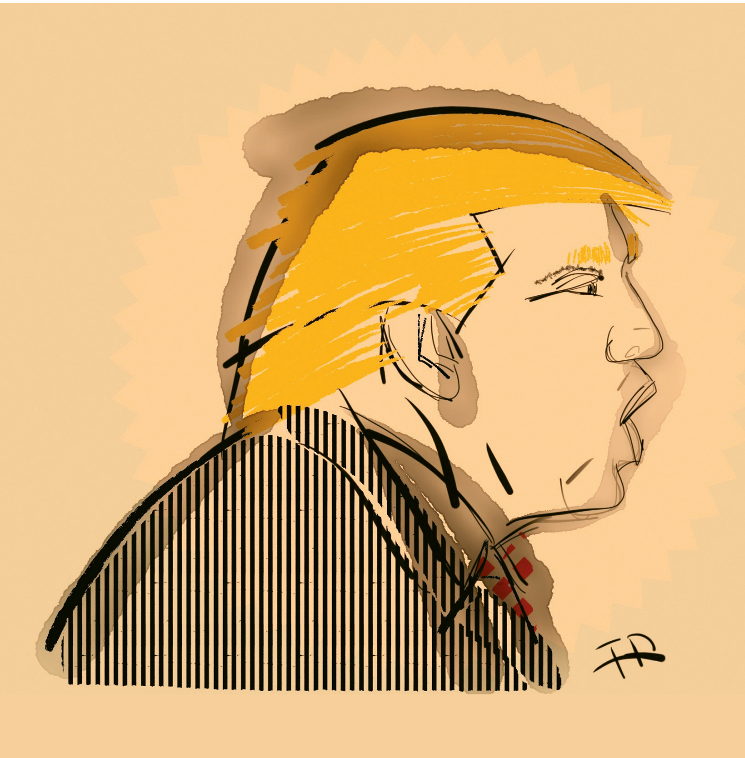

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Quid pro quo foreign policy

When Samantha Power was U.S. Ambassador to the United Nations, she would use the "Tyranny of the Inbox" to describe hasty, ill-advised foreign policy, and we found it quite fitting. At the beginning of September, the chairman of the U.S. House Intelligence Committee, Congressman Adam Schiff, a Democrat from California, learned that Joseph Maguire, current acting director of national intelligence, had blocked the inspector general from sharing the nature of a "critical" whistleblower complaint with Congress.

What are the details?

On July 25, President Trump made a congratulatory phone call to the new Ukrainian president, Volodymyr Zelensky. During the call, Trump pressed his Ukrainian counterpart to work with the U.S. president's lawyer, Rudy Giuliani, to investigate Hunter Biden, the former vice president Biden's son, who in 2014 had taken a board position with Burisma Holdings, a Ukrainian energy company. According to reports, Hunter Biden was indeed investigated, and nothing came of his Ukrainian involvement.

Mick Mulvaney, acting White House chief of staff, was said to have been instructed to withhold military aid to Ukraine despite the fact Congress had approved its disbursal. This fact has raised eyebrows in Congress as the President allegedly used millions in U.S. taxpayer dollars as leverage to push a foreign leader into investigating the Democratic Party's presidential frontrunner, and this allegation of requesting a foreign power to involve itself with the U.S. electoral process is an act of treason that is impeachable. For that reason, House Speaker Nancy Pelosi (D-Calif.) announced that the House had initiated an impeachment inquiry, charging Trump of betraying his oath of office and the nation's security by seeking a foreign leader to help him to blemish Joe Biden and his family for the president's political gain.

There are rules of engagement with foreign leaders that must be followed and, moreover, this action may very well cost him the presidency since once the impeachment proceedings begin, who knows what direction the investigation will take.

In the past 100 years, the U.S. has seen two impeachments and the results have been as follows:

- **1974:** President Richard Nixon resigned before impeachment was concluded, and the markets then dropped close to 10 percent in the six months following the impeachment process. However, other forces were at play then, such as high unemployment, inflation, the oil crisis, increased rates and the Vietnam War.
- **1998:** President Bill Clinton was acquitted by the Senate on Feb. 12, 1999, with 45 votes for and 55 against. Following the proceedings, the stock market rose 38 percent in the following six months. In that period, the U.S. had 4 percent unemployment, low inflation and stable growth rates.

Week in markets: Initiation of impeachment rocks markets

The stock markets declined last week with the impact of U.S. political headlines reporting the start of an impeachment inquiry against the president by the U.S. House. Impeachment of President Trump would require the Republican-controlled Senate to seek a supermajority vote, and this fact may derail the chances of conviction. The Senate vote is not confidential and is public, so most Republican senators would be less tempted to vote out the president unless the evidence found is treasonous. While this is another list to add to the headline risks that the markets suffer, it is just one among many to include in our investment analysis.

An array of political headlines have had an impact on 2019:

- The U.S.-China trade war;
- Brexit;
- And finally, there's the risk of the president's impeachment inquiry.

Political risks have not had an impact on the economy and have only added volatility to the market.

Let us examine how resilient the U.S. economy is:

- Gross domestic product is at 2.0 percent;
- Unemployment rate is at 3.7 percent;
- Per capita income is $50,266;
- Household equity ownership stands at $18.69 trillion;
- Total consumer debt stands at $4.12 trillion;
- Total consumer debt to household equity rate of 22.0 percent.
- Corporate growth for fourth quarter 2019 was 6.7 percent.

The U.S. economy is well-positioned to end 2019 strong and begin 2020 on a high positive note. Now, the phrase being used was coined by James Carville, "It's the economy, stupid."

Reviewing the week, it is noted that the Dow Jones Industrial Average closed this period at 26,820.25, for a loss of 114.82 points, or minus-0.43 percent, and a year-to-date (YTD) return of 15.00 percent. In addition, the S&P 500 closed the week at 2,961.79, for a loss of 30.28, or minus-1.01 percent, and a YTD return of 18.10 percent. The Nasdaq closed the week at 7,939.63, for a loss of 178.04, or minus-2.19 percent, and a YTD return of 19.70 percent. Meanwhile, the U.S. Treasury's 10-year note rose during the week, closing at 1.68 percent, or a loss of minus-2.33 percent, with a YTD return of minus-1.00 percent. The U.S. Treasury's 2-year note decreased during the week to 1.64 percent, a decline of minus-2.38 percent for the week.

Weekly Market Close Comparison	9/27/19	9/20/19	Change	YTD
Dow Jones Industrial Average	26,820.25	26,935.07	-0.43%	15.00%
Standard & Poor's 500	2,961.79	2,992.07	-1.01%	18.10%
Nasdaq	7,939.63	8,117.67	-2.19%	19.70%
U.S. Treasury 10-Year Note	1.68%	1.72%	-2.33%	-1.000%
U.S. Treasury 2-Year Note	1.64%	1.68%	-2.38%	-1.060%

Final word: FOMB adjustment plan

The adjustment plan proposed by the Financial Oversight & Management Board (FOMB) provides a framework to reduce Puerto Rico's debt and sets a path to exit bankruptcy.

The plan restructures the following bonds:

- General obligation (GOs) bonds;
- Public Building Authority (PBA);
- Employees Retirement System (ERS);
- General unsecured claims

With the adjustment plan presented, these are the highlights:

- Reduces $35 billion of the commonwealth's total liabilities, a reduction of more than 60 percent.
- Debt-service reduction from $4.2 billion to less than $1.5 billion.
- Puerto Rico's taxpayer funds spent on debt payments fall to less than 9 percent from 28 percent.
- Puerto Rico's total debt service falls from $82 billion to $44 billion over 30 years, ensuring long-term sustainability.
- Pensions are strengthened for more than 30 years through an independently managed pension reserve trust.
- More than 74 percent of current and future retirees experience no reduction to their retirement funds, and no retiree sees a decrease of more than 8.5 percent.

What are the next steps?

- The U.S. District Court now needs to confirm the proposed adjustment plan is viable and considers the best interests of all creditors.
- The adjustment plan must provide creditors, bondholders and retirees a balanced outcome, considering the circumstances of Puerto Rico's bankruptcy.
- To dictate if the plan is sustainable, the court must consider the outcome of protracted litigation that may leave little or no recovery versus this plan.

These are the scenarios that Judge Laura Taylor Swain must now review to set Puerto Rico on the path to emerge from bankruptcy ending a sad period for the island.

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