NAPATREE CAPITAL

Viewpoints | November 7, 2019

MAKING SENSE OF THE NEWS

- Impeachment & Trade War
- Interest Rates & Yield Curve
- Fake Meat & Stocks at All-Time Highs

A brief summary of recent headlines and what they mean for investors (if anything). We have grown quite tired of hearing the phrase "Quid pro Quo"? We assume you have too. Let's discuss some hot topics making recent headlines.

IMPEACHMENT. Will President Trump be impeached or not? Does the market care either way? The media is bombarding us with discussions and opinions about impeachment. Who's right? That would depend on which biased news source you choose. There are only two precedents and you can see how the market reacted below. We would label this an incomplete data set and nothing to which we can apply any predictive analysis.

Impeachment Proceedings and the Stock Market

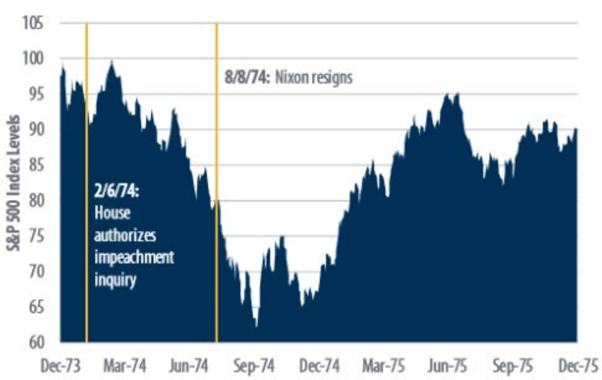
First Trust

Historically, how have impeachment proceedings affected stock market performance?

The impeachment of a president is a rare event. To date, there has not been a single president removed from office as a result of impeachment proceedings. Four presidents have faced impeachment, though Congress only voted twice to impeach. Each of the instances below were very different from each other in terms of the economy at the time. We believe it's probably safe to say this time is different as well. But what's clear to us is that over time, the stock market has ultimately reflected what's been going on in the economy, not the White House.

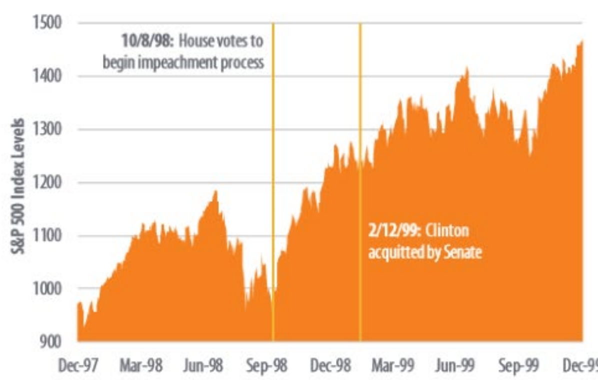
RESIGNATION OF RICHARD NIXON (12/31/1973 – 12/31/1975)

Richard Nixon is the only President to leave office because of impeachment proceedings. The House Judiciary Committee began formal impeachment hearings in May of 1974. The first article of impeachment was passed on July 27, 1974. Nixon announced his resignation on August 8, 1974.



IMPEACHMENT OF BILL CLINTON (12/31/1997 – 12/31/1999)

The Starr report was released on September 11, 1998. In December of 1998, the House voted to impeach the President. In February 1999, he was acquitted.



Source: Bloomberg Finance L.P.

For illustrative purposes only and not indicative of any investment. Past performance is not a guarantee of future results.

TRADE WAR. There does appear to have been progress in the US-China trade deal. The two sides stated that *Phase One of the Deal* is close to being completed. Hopes are increasing that a deal will be ready to be signed by Presidents Donald Trump and Xi Jinping ahead of the Asia-pacific Economic Cooperation summit in Chile on Nov. 16-17. So far, the market has been reacting favorably.

INTERST RATES. The Federal Reserve Board met last week. Here's some of what was said: *"We think the current stance of policy is likely to remain appropriate, as long as incoming information remains broadly consistent with our outlook."* The current Fed Chairman, Jerome Powell, stated: *"The Fed isn't planning on cutting rates any time soon. "The reason why we raise interest rates is generally because we see inflation moving up or in danger of moving up significantly, and we really don't see that now."* Our conclusion, the Fed is not raising rates any time soon either. The Federal Reserve Bank has a dual mandate: control inflation and maximize employment. Both of which seem to be well maintained. We don't see any compelling reason for the Fed to take further action in the near term.

YIELD CURVE. It was all over the news not too long ago but seems to have lost its luster with the media. We heard a chorus of "all recessions are preceded by an inverted yield curve". The yield curve did, in fact, invert a few months back (longer term rates were lower than short term rates) and prompted an unwarranted sell off in stocks. But NOT all inverted yield curves indicate a recession. What was the result? For us it was an opportunity to take advantage of short-term market volatility. We see some signs of a strong economy starting to cool, but the yield curve has since normalized, and our interpretation is the economy should continue on its current path.

FAKE MEAT. As one of the legendary rap groups, Public Enemy, once said, ***"Don't Believe the Hype"***. Hot stocks cause something of a fever in the financial media. For example, Beyond Meat (Symbol: BYND) is an innovative food company which recently went public. The stock has had a wild ride, up 859% from its initial public offering price of $25 in May of this year, but now down 191% from a high of nearly $240 per share. Discussion of the company has dominated CNBC. It is the type of hype that draws investors in. At Napatree Capital we stick to our discipline of value investing to avoid such volatility, however stocks like BYND can be fun to watch.

STOCKS AT ALL TIME HIGHS. OK, that's the recent news. But what if we just focused solely on the price action of stocks, or more specifically the stock market as a leading indicator (not a recommendation, but an interesting exercise). As the S&P 500, Dow, and Nasdaq notch all-time highs, it is likely an indication that progress is being made in a trade deal with China, that Jerome Powell and the Fed board may know what they're doing, and that impeachment of a sitting president may have nothing to do with investing.

A History of Declines (1949-December 2018)

Type of Decline	Average Frequency[1]	Average Length[2]	Last Occurrence[3]
-5% or more	About 3 times a year	44 days	December 2018
-10% or more	About once a year	114 days	December 2018
-15% or more	About once every 4 years	270 days	December 2018
-20% or more	About once every 7 years	431 days	December 2018

Source: RIMES, Standard & Poor's.

[1]Assumes 50% recovery rate of lost value.

[2]Measures market high to market low.

[3]The average frequency and average length rows exclude the most recent decline in December 2018 because the 50% recovery of lost value occurred after 12/31/18.

The behavior of markets is powerful; gut reactions to headlines can cause investors to veer from their long-term objectives. Our job is to maintain discipline and keep you from committing emotional errors. From October to December last year the stock market contracted 19%. According to the chart, the magnitude of that type of sell off occurs once every four years . . . there's always something to worry about but if history is our guide, maybe we can breathe easy for the next three years.

Mike Moses, CMT
Investment Strategist