

The Telegraph

Trump train-crash is ominous for hyper-inflated asset markets



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If Donald Trump's team conspired with the Kremlin, it is worse than Richard Nixon's offences during Watergate

The risks of a White House impeachment crisis and months of Washington paralysis are rising exponentially. You do [not fire the head of the Federal Bureau of Investigations lightly](#).

Donald Trump's sacking of James Comey in the midst of an expanding counter-espionage investigation - on patently bogus grounds - is a political assassination. It is comparable to the Saturday Night Massacre in the [Watergate saga](#), and arguably worse.

For all his faults, Richard Nixon was at least a foreign policy statesman. Few ever suggested that his inner circle had joined forces with a hostile power to subvert a US election.

The presumption has to be that the Oval Office is trying to obstruct [a probe of Mr Trump's campaign team](#) for suspected collusion with Kremlin. As the *New York Times* states today in a front page editorial: "Mr Comey was fired because he was leading an active investigation that could bring down a president." It is as simple as that.

Whether the escalating constitutional crisis poses a risk to inflated global equity and credit markets is far from clear. There is no historical template for this. It is certainly the sort of catalyst that could shatter complacency, even if [VIX volatility index for now remains eerily becalmed at a 24-year low](#).

As a Washington correspondent in the 1980s and 1990s, I covered both the Iran-Contra affair and the scandals leading to the impeachment of Bill Clinton by the House of Representatives, and had own my brushes with the FBI along the way.

In both episodes, markets shrugged off events. Nothing perturbed Wall Street. We journalists at the coal face of the Clinton saga were often asked to give talks in Washington to financial institutions eager to learn whether events might spin out of control.

There was a cottage industry of investor newsletters and talk-radio hosts convinced that political Armageddon was coming, and with it a cathartic stockmarket crash. Those who "shorted" Wall Street on such advice lost a lot of money.

With hindsight you could say that Bill Clinton's trouble was a storm in a tea cup. Even if he had been convicted by the Senate - on DNA evidence - of lying under oath it would not have ruffled markets. Vice-President Al Gore was waiting in the wings. He was a safe pair of hands.



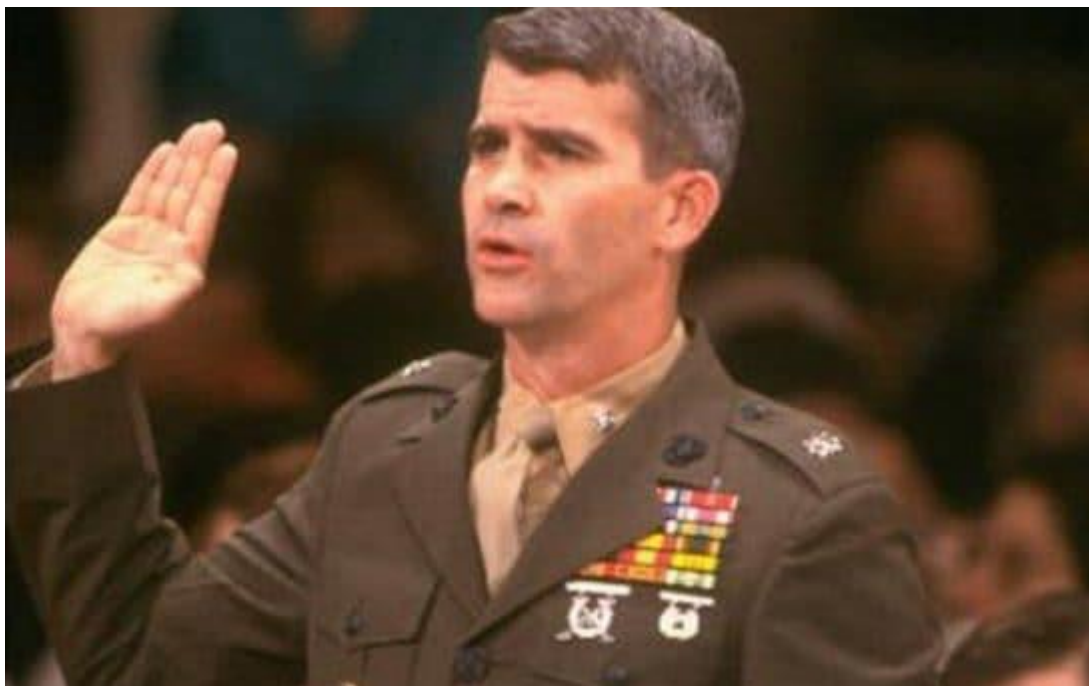
Monica - Happy Birthday! Bill Clinton  
7-23-97

The Starr probe into Bill Clinton became a farce once it was reduced to a sex scandal over Monica Lewinsky

Things were not quite so clear at the time, of course. There were deeper questions over whether Mr Clinton had misused the FBI and Justice Department to cover up a trail of mischief.

It was only when special prosecutor Kenneth Starr took the decision to steer clear of this minefield and confine his probe to sexual trivia that it became a hollow exercise.

In the Iran-Contra affair we forget now how tense it was when Lt-Col Oliver North erupted like a volcano on Capitol Hill in July 1987, spilling the beans under immunity (though not all beans) on a covert operation conducted off-books to supply the Nicaraguan Contra rebels with weapons in breach of a prohibition by Congress.



Lieutenant Colonel Oliver North electrified Congress during the Iran-Contra affair in 1987. It was a constitutional clash of the first order

It was a constitutional showdown of the first order, yet the S&P 500 index of equities rose by 35pc over the ten months that revelations seemed to be engulfing the Reagan presidency. Some argue that Washington gridlock and the hobbling of Ronald Reagan set the stage for the crash in October 1987. But this is implausible.

By then the Iran-Contra affair had subsided. The Democratic Congress never found the smoking gun proving that the Central Intelligence Agency was directly involved - or more likely did not want to find it once documents came to light showing that the illicit weapons were shipped to Nicaragua through Democratic-controlled Arkansas. The tangle of complicity went too far.

There are better reasons for the 1987 crash. The dollar was in free-fall. Inflation was surging. The Fed was tightening hard. Germany precipitated Black Monday by forcing up interest rates across Europe. New forms of 'programme trading' then turned the slide into a self-feeding downward spiral.

Wall Street did crumble in 1973 and 1974 as the secret Oval Office tapes caught up with Richard Nixon, and America woke up to a "cancer upon the presidency". But this coincided with the Arab oil embargo and a 'stagflationary' recession, made worse by after-shocks from the demise of the Bretton Woods currency system. It

would have been a traumatic time for markets even if G. Gordon Liddy and his comical burglars had never broken into the Watergate building.

It is too early to tell whether Donald Trump's actions imperil democracy and the US constitutional order but there are good reasons why FBI directors are appointed for ten years, beyond political control, like federal judges.

Without wishing to rehearse the micro-details of what has happened over recent days, some of Washington's best reporters have established beyond much doubt that Mr Trump's inner circle came to regard the FBI chief as their nemesis. The White House became increasingly alarmed, and conspired to eliminate him.

The attempt to dredge up last year's botched probe of Hillary Clinton and make it look fresh does not pass any smell test. "Trump wanted to do it, and they created a paper trail," says Bill Kristol from the Weekly Standard.

What is ominous for the Trump administration is that Republicans are peeling away and joining the call for a special prosecutor. "I've spent the last several hours trying to find an acceptable rationale for the timing of Comey's firing. I just can't do it," said Senator Jeff Flake from Arizona.

To varying degrees, Republicans on Capitol Hill regard Mr Trump as an interloper who hijacked their august party for his vainglory. They will neither go down with his ship - should that occur - nor deplete their political capital defending his agenda.

This matters because the Trump 'reflation rally' on global asset markets is driven by mere prospect rather than anything in the pipeline. Investors have already 'pocketed' a future deal in Congress for a [\\$2 trillion tax shake-up](#) and a [\\$1 trillion infrastructure blitz](#), a Keynesian stimulus that would push the budget deficit to 4pc or 5pc of GDP later this decade.

The more that the White House is embroiled in crisis and fighting for survival, the less likely that this reckless, ill-timed, late-cycle, populist, fiscal debauchery will actually occur. It would then be hard to justify a Shiller 'CAPE' price-to-earnings ratio of 29.19 on the S&P 500, the highest in 130 years other than the two anomalies of 1929 and the dotcom bubble in 2000.

Larger matters are at stake of course. Mr Trump has shown that he is an irascible demagogue, with abysmal strategic judgment and prone to impetuous acts. We are dealing with a man all too capable of abusing American military power for almost any purpose and at any moment.

In the thirty-five years that I have been covering US and global affairs, I cannot recall a more dangerous confluence of circumstances.







