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Berkeley Center for Law and Business
University of California, Berkeley
School of Law
Boalt Hall #7200
Berkeley, CA 94720-7220

Stock Slump Threatens Favorite Presidential Bragging Point…Albeit Too Little, Too Late

By: Joshua Trosch, J.D. Candidate 2020 | October 24, 2018

Stocks dropped significantly these past two weeks, as market indices recorded major losses. The S&P 500 is down over 5% in October and at the time of this writing recorded its 12th consecutive loss over 14 days. In addition to the imminent threat of rising interest rates and market volatility abroad, the President's ongoing trade war with China may be a major culprit for a lack of confidence in future market performance. However, it is unlikely that these losses will phase the President, who has often boasted about market growth during his tenure.

Despite coming a mere two weeks before mid-term elections, this recent downturn appears unlikely to sway voting results, which see Republicans retaining control of the Senate. While a shift in the House may impede some of the administration's future plans, control of the Senate means current policies are unlikely to be overturned and may embolden the administration to maintain its current course, a proxy of the perceived confidence the American public holds in a President whose approval rating is on the rise. As a result, this current slump seems unlikely to bring an end to the economic policies of the past two years.

This is problematic, as although the cause and duration of this slump are complex and up for debate (however obvious or intuitive it might seem, timing the market is rarely that simple in reality), the dangers of the policies that many credit with its inception are all too real. Although the administration's corporate tax cuts are at least partially responsible for the long-running stock surge preceding this slump, they could have disastrous effects. Tax cuts increased corporate profits but also increased the budget deficit, now at a six-year high, which endangers the government's ability to respond effectively if and when a lasting downturn arrives.

Moreover, the administrations inability to curb potential increasing volatility in foreign markets threatens market health. Slowing growth in China moving into the fourth quarter, by no means improved by tariffs on trade, could have a profound effect on U.S. markets. In addition, rising geopolitical tensions, most recently in Saudi Arabia, worry investors, as a long list of power players, including J.P. Morgan CEO Jamie Dimon and BlackRock CEO Larry Fink, have pulled out of "Davos in the Desert" following the murder of Saudi journalist Jamal Khashoggi and what is perceived by some as a complacent response from the President. Even if economic sanctions do not follow, corporate boycotts, both real and symbolic, do little to inspire confidence.

Therefore, this midterm slump, however deleterious to the President's bragging rights, is unlikely to sway policy in the near future. That being said, how this administration plans to sell a possible down market to voters two years from now when Presidential elections come around, remains to be seen.