

January 5, 2023

WASHINGTON POLICY STRATEGY

Potomac Perspective

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After three rounds of voting on Tuesday, the House failed to elect a Speaker. This process could play out for several days. We look at some possible scenarios and potential implications for financial markets.

After three rounds of voting and failing to elect a Speaker, the House adjourned until noon on Wednesday. Depending on the round, 202 or 203 Republicans voted for Representative Kevin McCarthy (R-California) while 19 or 20 Republicans voted for another Republican. Although there were some talks among Republicans overnight, there were no breakthroughs Wednesday, so what happens next?

When the House meets today, it will hold another vote for Speaker (and the outcome is likely to be the same as yesterday's vote) or it will adjourn until later in the week while talks behind the scenes continue.

Once voting resumes, the key is whether Mr. McCarthy gains or loses any votes. **If McCarthy starts to gain votes (even just a handful), it will justify him staying in the race and pressuring other holdouts to relent. However, if McCarthy makes no meaningful headway, at some point supporters will urge McCarthy to step aside and he would eventually be forced out.**

If Mr. McCarthy withdraws, there are two immediate possibilities. Some Republicans will push for Representative Jim Jordan (R-Ohio). Mr. Jordan has said he does not want the job and there could be moderate Republicans who oppose his candidacy, so it is unclear that he could be elected Speaker. **Another alternative is House Majority Leader-elect Steve Scalise (R-Louisiana).** The Republican rebels might not support Scalise for similar reasons that they opposed McCarthy – they view him as too cozy with “the establishment” and question how aggressively he would push the rebel's agenda or concede to their demands on how they want the House to be run. Also, there could be a faction of McCarthy voters who vote only for McCarthy, which would block the election of Scalise or Jordan. Again, **the path for either Scalise or Jordan is highly uncertain.**

If someone like Jordan or Scalise cannot be elected Speaker, Republicans will continue to search for a candidate who can unify the party – possibly incoming House Financial Services Committee Chairman Patrick McHenry (R-North Carolina). However, this process may take several more days to play out before a compromise candidate can be found.

What is highly unlikely (not impossible, but remote) is the election of a bipartisan compromise candidate. Democrats are unified behind their leader, Representative Hakeem Jeffries (D-New York). No Democrats are likely to support a moderate Republican candidate for Speaker, and no Democrat is likely to emerge who could buck his party's leadership and attract enough Democratic and Republican votes to be elected Speaker. The dysfunction among Republicans serves the interests of Democrats, so the party is likely to remain 100% united behind Mr. Jeffries. **The talk of a bipartisan Speaker is the stuff of Hollywood producers and dorm room debates.**

In sum, the process to elect a Speaker could last several more days, but it will likely end with the election of a Republican Speaker.

All of this has market implications. Although the markets did not react on Tuesday or Wednesday to the political chaos in the House, the dysfunction is a clear signal that House Republicans will struggle to raise the debt ceiling when the time comes in third quarter 2023. Conservatives in the House will likely make demands as part of negotiations over the debt ceiling which their leadership (whoever it is) will not be able to deliver. **Investors should be on guard as the summer approaches as to the possibility**

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that the brinkmanship over the debt ceiling could lead to market volatility and a risk-off trade. The current situation in the House is a clear signal of what to expect later in the year.

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