

February 14, 2023

## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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Pop go the chances of big tariff relief. The recent sightings and takedowns of Chinese surveillance balloons over the U.S. will make the already long odds of repealing the 2018 tariffs on Chinese imports even longer.

Also, in this note, we take an early look at the 2024 presidential race.

**Balloons and China Tariffs** – The Biden administration review of tariffs on Chinese imports has continued over the past few months, but the recent incidents involving high-altitude surveillance balloons deployed over U.S. airspace by China probably shoots down the chances that a significant portion of the tariffs will be repealed.

As a reminder, in 2018, the Trump administration imposed tariffs under Section 301 of the Trade Act of 1974 on roughly 1,300 Chinese imports. Under Section 301, the tariffs must be reviewed after four years. The review process has been ongoing since last year. The review's public comment period ended last month, so the time for the U.S. Trade Representative to announce a decision on the tariffs has been drawing closer. The base case expectation had been that most tariffs would be retained but that a small number of tariffs, limited to those on finished goods which could provide direct relief to inflation, might be modified or repealed.

In the background of the review of the China tariffs has been an ongoing competition between the two political parties over which party can look toughest on China. Wide scale repeal, and even modifications, of the tariffs would have been difficult given the current climate. However, the multiple sightings of Chinese surveillance balloons over the U.S. in the past week probably kills the chances of ending the tariffs – even tariffs on the furnished items that some in the administration wanted to end in order to address inflation.

These incidents also increase the likelihood that the U.S. will impose new sanctions on Chinese technology companies identified as technology providers for the spyware. Chances of the U.S. imposing additional governmental reviews of outbound investments in China have also increased in the wake of the balloon incidents.

**2024 Early Look** – Last week's State of the Union address served as a soft launch for the 2024 presidential campaign. President Joe Biden used the speech to test several themes and messages that are likely to reemerge during the campaign. The following is a quick look at how the race is starting to shape up.

### **Democrats**

All signs suggest that President Biden will run for reelection in 2024. If he runs, no credible Democrat is likely to challenge him, despite polls indicating that Democratic voters question whether Biden should run again. History suggests that challenging an incumbent president (ex. 1976 (Reagan versus Ford), 1980 (Kennedy versus Carter), and 1992 (Buchanan versus Bush)) leads to the incumbent losing the general election, and Democrats, despite their reservations about Mr. Biden's age, will likely forgo a challenge.

If President Biden reverses course and decides not to run, the primary will likely be wide open and could include Vice President Kamala Harris, Transportation Secretary Pete Buttigieg, Governors Gavin Newsome (California), Gretchen Whitmer (Michigan), and Senators Cory Booker (New Jersey), and Amy Klobuchar (Minnesota) among others. The names of Senators Bernie Sanders (Vermont) and Elizabeth Warren (Massachusetts) will likely be floated, but both are up for reelection in 2024 which would

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complicate any decision to run for president (if Biden does not run). Both would also face concerns over their age (Sanders and Warren would be 83 and 75, respectively, if elected).

Even if Mr. Biden decides not to run, an announcement would likely come later rather than sooner for two reasons. First, an announcement that Biden would not run would immediately turn him into a lame duck. Second, it is possible that Mr. Biden would like to help Vice President Harris succeed him since it would validate his choice of Harris as his running mate in 2020. Also, as a former vice president himself, Mr. Biden is likely sympathetic with the position in which Ms. Harris finds herself

### **Republicans**

Former President Donald Trump and former U.N. Ambassador and South Carolina Governor Nikki Haley (South Carolina) are the first Republicans to have officially announced their candidacy. They could be followed in the coming months by Governors Ron DeSantis (Florida), Chris Sununu (New Hampshire), and Glenn Youngkin (Virginia), former Governor Chris Christie (New Jersey), former Secretary of State Mike Pompeo, former Vice President Mike Pence, and Senator Tim Scott (South Carolina) among others.

While more candidates could potentially enter the race, the field is currently shaping up to be smaller than the 2016 Republican field or the 2020 Democratic field. Polls might differ about who currently leads the GOP race but consistently show a two-man race between former President Trump and Governor DeSantis. A smaller field should help DeSantis and a larger field should aid Trump on the theory that although Republican voters might be looking for a fresh face (i.e., DeSantis), Mr. Trump should be able to keep a solid hold on 30-35 percent of the Republican primary vote. In a large field, the non-Trump vote would be widely dispersed and could allow Mr. Trump to win merely by retaining his base – similar to how he won the 2016 nomination. In a smaller field, someone, like DeSantis, could consolidate the non-Trump vote and win the nomination. Obviously, there is a long way to go. Candidates make mistakes and commit gaffes. Exogenous events occur that can change voters' minds and the direction of an election, but this campaign begins as a two-man race between Trump and DeSantis.

For investors, the main thing to watch for is how economic policies of Republicans evolve. Populist economic views have been gaining traction in Republican circles as it tries to position itself as a more working-class party. Populist economic policies can lead to lower economic growth and can be inflationary. However, recent election losses suggest that Republicans struggle with suburban voters who eschew populism and might be open to a more traditional conservative message. Republicans seem to be at an inflection point on various economic policies including taxes, trade, and general regulatory policy. How the 2024 campaign plays out could hold some signs of how Republicans will handle the expiring 2017 tax cuts (sunset in 2025) and other economic policies that could impact markets in future years

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