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WASHINGTON POLICY STRATEGY

Potomac Perspective

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A busy week is on tap for policy events. Federal Reserve (Fed) Chairman Jerome Powell will testify before Congress regarding monetary policy but is likely to face numerous questions on economic policy as well as financial regulation. Numerous financial regulators will speak publicly this week on digital assets.

The White House will release President Biden's fiscal year 2024 budget on Thursday. Investors should discount headlines following the budget's release. Presidents' budgets are typically dead on arrival, and this one is likely to be no different. Lastly, President Biden indicated that he will sign legislation to block changes to Washington, DC's criminal code. This provides a clue regarding future prospects for action on China tariffs.

Powell on Capitol Hill – Fed Chairman Jerome Powell will testify before Congress twice this week. Chairman Powell will appear before the Senate Banking Committee on Tuesday and before the House Financial Services Committee on Wednesday. While the stated purpose of his appearances is to deliver the Fed's semi-annual monetary policy report, numerous questions will be asked about bank regulatory issues.

In a recent speech, Federal Reserve Vice Chairman for Supervision Michael Barr cited academic studies which found that bank capital requirements are too low. Committee members could ask Powell about whether he agrees with this assessment.

In the past, Chairman Powell has said that he would look for political support from Congress and the administration about **whether the Fed should create a Central Bank Digital Currency (CBDC)**. Committee members are likely to revisit the topic of a CBDC as well as the regulation of digital assets, particularly Stablecoins and bank liquidity requirements. U.S. banking regulators recently issued a "Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities," and Powell is likely to be asked about the statement.

Committee members could also ask Powell about bank mergers. Questions will likely not mention specific transactions, but there could be questions about a review of bank merger rules as well as why there has been an increase in the time to dispose of bank merger applications.

Crypto Events – In addition to Chairman Powell's appearance on Capitol Hill, which will probably include questions on cryptocurrencies, several other regulators will speak in public this week on digital assets.

- Monday
 - FDIC Chairman Martin Gruenberg and SEC Commissioner Hester Peirce speak at an Institute of International Bankers conference.
 - SEC Chairman Gary Gensler speaks at a Council of Institutional Investors conference.
- Wednesday
 - CFTC Chairman Rostin Behnam testifies at a CFTC oversight hearing in Senate Agriculture Committee.
- Thursday
 - Fed Vice Chairman for Supervision Barr will give remarks on crypto activities to the Peterson Institute.

Biden Budget – On Thursday, the White House will release President Biden’s fiscal year 2024 budget. As a reminder to investors, budgets are loaded with policy proposals, most of which will never see the light of day. This budget will likely be no different.

The President’s State of the Union address previewed several tax proposals that are likely to be included in the budget including taxes on unrealized capital gains and an increase in the stock buyback tax. The proposal to tax unrealized capital gains will be dead on arrival. Although an increasing number of Republicans have criticized stock buybacks, GOP critics of buybacks are still a minority within the party. There seems to be insufficient support among Republicans to raise the buyback tax, so chances of the House even voting on the Biden proposal appear to be remote.

Vote on DC Crime Bill and Read Through to China Tariffs –

Last week, President Joe Biden announced that he would not veto congressional legislation to overturn the changes to Washington, DC’s criminal code which would reduce penalties for some violent crimes. (The City Council has subsequently announced it will withdraw the planned revisions). President Biden’s decision reflects a political strategy to not allow Republicans to paint him as soft on crime ahead of the 2024 election. Although there are no direct market implications from the president’s decision, this move will likely be repeated regarding policies towards China, including the extension of the Trump administration’s tariffs on Chinese imports.

As we have previously written, the two political parties are engaged in a competition on which party can be seen as toughest on China. Just as Biden does not want to be painted as “soft on crime,” he also does not want to be painted as “soft on China.” **The announcement on the Washington, DC crime bill reinforces the view that the administration will likely extend most, if not all, of the 2018 tariffs on Chinese imports.**

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