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Talks to raise the debt ceiling have not progressed meaningfully, and a pathway forward seems rocky. One option that might gain some traction in the coming weeks is a temporary suspension of the debt ceiling. This option also faces some political opposition, but it could buy investors some breathing room.

What a Temporary Debt Ceiling Suspension Could Mean – The federal government breached the debt ceiling in January 2023. Since then, the Treasury Department has been using "extraordinary measures" to managing the debt ceiling. Estimates indicate that Treasury will exhaust their extraordinary measures in the summer or early fall (i.e. the "X-date"). Recently, there has been little progress towards reaching a debt ceiling agreement and some lawmakers might start looking at options such as a temporary suspension of the date ceiling (e.g. a six month suspension).

Theoretically, a suspension of the debt ceiling could give Congress and the administration more time to negotiate a deal. However, Congress typically only acts under the pressure of a crisis or a deadline, so a temporary debt ceiling suspension might not be as useful as it seems.

A temporary debt ceiling suspension might also face some political opposition. Conservatives in Congress and the media might oppose a deal if they think that House Speaker Kevin McCarthy is getting too little in return for a suspension or is not fighting hard enough, in their view, against the White House and Democrats.

Despite potential Republican opposition to a temporary suspension of the debt limit, a suspension might pass as a "break glass in case of emergency" option if it becomes clear at the last moment before the X-date that a deal is unachievable. If Washington gets to that point, markets could stage a relief rally based on a view that catastrophe has been averted and that a temporary suspension of a deal signals that Congress lacks the stomach to go over a possible cliff. However, investors should consider that: 1. before getting to a last minute debt limit suspension, markets will likely experience volatility, which could lead to a temporary suspension; and 2. a temporary suspension might give Washington more time to negotiate, but it also might be a one-time option. A suspension could be interpreted by some as a signal that Washington will kick the can down the road. However, political opposition among Republicans to additional temporary suspensions will probably grow. This could mean added volatility at year end (or whenever the temporary suspension ends).

What Could be Part of a Debt Ceiling Deal? – Looking forward to a possible long-term debt ceiling agreement, there is not an exhaustive list of concessions that House Republican will pursue. A few months ago, House Budget Committee Chairman Jody Arrington (R-Texas) issued a list of budget cuts that could be part of a Republican plan. The cuts included on that list were limited and did not represent deep cuts in government spending. That raises the question of what else House Republicans could seek as part of a debt ceiling deal. While most of the focus has been on budgetary items, Congress could adopt non-budget policy changes as part of a debt ceiling bill.

Neither party has yet to engage meaningfully in debt ceiling talks, so these are early days, and it is too soon to say with confidence what items could be added to a debt ceiling bill, but two areas are worth mentioning.

Energy policy is a key area for Republicans and they could seek to add energy permitting reform legislation as well as some parts of H.R. 1, the Lower Energy Costs Act. Democrats will not agree to all of H.R. 1, but there could be talks on some less controversial parts of the bill.

Depending on how the situation in the banking industry evolves, some banking legislation could be added to a debt ceiling bill. There is bipartisan support for legislation to make it easier to claw back compensation from a failed bank's management which could be added to a debt ceiling bill. There could be efforts to add other banking legislation, but that could be a poison pill and doom the claw back bill unless the situation in the banking system deteriorates. If the current stability in the banking industry fails to hold and there are additional failures between now and the conclusion of negotiations on the long-term debt ceiling deal, chances would rise that additional banking-related legislation could become part of the negotiations.

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