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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Congress returns to Washington for a busy fall. Some matters, like a government shutdown and potential impeachment proceedings regarding President Biden, could produce smoke but little fire (at least for the markets). Legislation on disaster relief, prescription drugs, corporate taxes, and several bills related to financial services could also be on the agenda. Also, the Biden administration is continuing its review of tariffs on Chinese imports.

LOTS OF POLITICAL NOISE AND DISTRACTION IN THE FALL

Congress returns to Washington and will face a crowded agenda with several “must pass” items – some of which will be on tight deadlines. The following is a brief overview of some of the key issues Congress will confront and which might (or might not) impact markets.

- **Government Shutdown** – Congress returns to Washington in the coming days to try to reach budget deals to keep the government open. As we wrote in a recent note, the market tends to shrug off government shutdowns – even lengthy ones. During a 34-day shutdown that started in December 2018 and ended in January 2019, the S&P 500 rose by just over 10%. Investors have typically looked past the temporary impact of a shutdown and focused on other factors such as monetary policy and economic fundamentals. This time will probably be no different. Even if the market sells off, it is unlikely to be due to a shutdown, but would probably be driven by other factors.
- **Impeachment** – Some House Republicans are pushing to impeach President Joe Biden, and pressure is building on House Speaker Kevin McCarthy to begin the process. This would likely start with a House vote to initiate proceedings, but it is questionable whether there are currently enough votes to move forward. If the House approves a resolution to start impeachment proceedings, we expect little market impact. Investors will likely view the impeachment proceedings as political noise similar to the government shutdown.
- **Disaster Spending/Ukraine Aid** – The Biden administration has requested \$40 billion in supplemental funds for disaster relief for Hawaii and Florida, border security, and additional aid for Ukraine. A fight over whether to consider Ukraine funding along with the other items could slow down passage of the bill, but it is likely Congress will approve disaster assistance and funds for border security. The fate of the Ukraine aid is less clear. A growing number of House Republicans oppose additional aid for Ukraine, so if they succeed in splitting the bill into smaller pieces, the Ukraine portion of the proposal could be in trouble.
- **Health Care/Prescription Drugs** – In a “Dear Colleague” letter, Senate Majority Leader Chuck Schumer (D-New York) indicated that he wants to expand prescription drug price caps. Republican support would be needed, and there might be enough GOP votes, especially in the Senate, to cap prices for insulin under private insurance plans. It is unlikely Congress would cap prices beyond insulin and the drugs recently capped by the Biden administration under Medicare.
- **China Tariffs** – For the rest of the fall, the Biden administration is continuing its review of the 2018 tariffs on Chinese imports. Despite some positive rhetoric following recent trips by Biden administration officials to China, we expect most of the tariffs will remain in place. With the approach of the 2024 election, China policy is likely to be even more politically sensitive than it has been recently. Former President Donald Trump is likely to make China a centerpiece of his campaign if he is the Republican nominee. That would make it difficult for the Biden administration to make significant changes to

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the existing China tariffs. Therefore, it is likely that most of the tariffs will be extended, although the timing of an announcement is unclear.

- **Business Taxes and SALT** – House Republicans have been pushing to ease rules regarding the business interest deduction, research and development expensing, and bonus depreciation rules. The GOP's tax bill has been blocked as some northeast Republicans try to use the corporate tax bill to raise the cap on the state and local tax deduction. A resolution does not appear imminent, but negotiations on the bill are likely to last throughout the fall.
- **SAFE Banking** – Senator Schumer also wrote that he wanted to address cannabis banking this year. This follows a recommendation by the Department of Health and Human Services (HHS) to downgrade cannabis from Schedule I to Schedule III under the Controlled Substance Act (CSA). It is up to the Drug Enforcement Agency (DEA) to decide whether to act on HHS's recommendation. Even if DEA follows HHS's recommendation, cannabis would remain illegal under the CSA, but at a lower level. The Senate Banking Committee could mark up the Secure and Fair Enforcement (SAFE) Banking Act, which would permit depositories to serve cannabis firms in states that have legalized pot (even though it would remain illegal at the federal level). There is some bipartisan support for the SAFE Act. There is also, however, significant Republican opposition, and even Republican supporters of the SAFE Act are wary of moves by some Senate Democrats to expand the bill to include other criminal and social justice reforms.
- **Durbin Credit Card Bill** – Earlier in the year, supporters of a bill authored by Senator Richard Durbin (D-Illinois) to allow merchants to use two unaffiliated credit card networks tried to attach it (the Credit Card Competition Act) to the National Defense Authorization Act. That effort failed, but supporters might try again when the House and Senate negotiate a final bill. Chances of the Durbin bill passing are low, but there could be some headline risk for credit card companies this fall.
- **Executive Compensation Clawback Bill** – Earlier this year, the Senate Banking Committee passed the Recovering Executive Compensation from Unaccountable Practices (RECOUP) Act, which would make it easier for banking regulators to clawback compensation from executives of failed banks. The bill's supporters are pushing for a vote on the Senate floor sometime before year end, although the crowded Senate calendar could make that difficult. Similar legislation has not progressed in the House, where Republican leaders on financial services policy are not supportive of the Senate bill. The House is unlikely to move on the RECOUP Act or similar legislation until the Senate acts.

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