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The next man up for Speaker of the House for House Republicans is Judiciary Committee Chairman Jim Jordan (R-Ohio). He faces an uphill fight similar to previous Republican nominees. The impasse in the House has not impacted financial markets, nor do we think it should. Chances of a government shutdown seem to have declined, but the chaos on the House also reduces the chances of passing other legislation relevant to various sectors.

This week, House Republicans could hold a vote on the House floor for their new nominee for Speaker of the House. On Friday, the House Republican Conference nominated House Judiciary Committee Chairman Jim Jordan to be the next Speaker. Mr. Jordan beat Representative Austin Scott (R-Georgia), a last-minute entrant into the race, 124-81. In a subsequent vote, 55 House Republicans indicated that they would not support Jordan on the House floor, which leaves him well short of the 217 votes needed to win the Speakership.

Next steps are unclear, **but it appears Mr. Jordan will force a vote on the House floor and then try and pressure holdout Republicans to flip.** Opposition to Jordan is comprised of an amalgamation of centrists, who think Mr. Jordan is too conservative and polarizing and could hurt their reelection chances in 2024, and holdout supporters of former Speaker Kevin McCarthy (R-California) who want only McCarthy. Jordan's strategy seems to be based on a view that many of the 55 who said they would not vote for him on the House floor will actually fall in line, and then he can try and win over the remaining holdouts by granting concessions to win their support. The irony is that Jordan comes from a group of House Republicans who have criticized backroom deals struck by congressional Republican leaders, but he might have to strike such deals in order to become Speaker (not to mention that he also will have to compromise with Democrats if he wins).

If Jordan fails, Republicans could look at other options including giving Speaker Pro Tempore Patrick McHenry (R-North Carolina) more power to run the House, but that option could involve a power sharing agreement with Democrats which many conservative Republicans might reject. The longer the House remains leaderless, the more possible a "West Wing" fantasy scenario of a bipartisan consensus Speaker will be chosen becomes, but the House is not there yet.

The dysfunction in the House has not impacted financial markets yet, and we do not expect that to change even if the House is unable to elect a Speaker for another week or longer. Despite the impasse in the House, the current situation has several policy implications which could have short- and long-term economic impacts:

- Odds continue to increase that the current Continuing Resolution (CR) will be extended when it expires in mid-November. **Most lawmakers seem to understand that passing the necessary appropriations bill by November 17 is unrealistic and support another CR in order to avoid a government shutdown.**
- The chances of passing appropriations bills by year end have also decreased, which could lead to a year-end omnibus bill (an outcome that conservatives loathe, but which their tactics have made more likely). **If no spending bills are in place**

by January 1, 2024, provisions in the debt ceiling legislation would take effect, resulting in a one percent cut in defense spending.

- Dysfunction diminishes the chances of other legislation getting through including: **corporate tax legislation regarding R&D expensing, bonus depreciation, and changes in the formula used to calculate the business interest deduction.** We view this as a missed opportunity to change tax policy in a pro-growth manner.
- The chances for passing **pharmacy benefit management legislation, energy permitting reform, and cannabis banking legislation** (all of which could have been included in year-end legislation) have also decreased. The chaos related to the vacant Speaker's chair has effectively sucked all the oxygen out of the room and made it more difficult to negotiate legislation.
- The chaos in the House also has **longer-term geopolitical implications:**
 - The ongoing battle of the Speakership could make it difficult for the eventual Republican Speaker to consider additional aid for Ukraine. The White House and Democrats might try to tie an aid package for Ukraine to aid for Israel, the latter being more politically popular. However, tying the two packages together might not be acceptable to some House Republicans.
 - Cutting off aid to Ukraine might be politically popular with some voters, but it could result in consequences similar to those potentially caused by the U.S. withdrawal from Afghanistan. It could be viewed as sending a signal to China about American's willingness to engage internationally. This could embolden China vis-à-vis Taiwan. We do not expect the market to price in a potential invasion of Taiwan just yet, but we think it is a risk that should be on investors' radar.

The week ahead looks like a repetition of last week's wrestling match, with the legislative agenda confined to the bleachers for the foreseeable future.

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