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House Republicans have finally elected a new Speaker of the House. Speaker Mike Johnson (R-Louisiana) is a political conservative but with a moderate temperament. He is generally low-key and wonkish. He is also inexperienced and does not have a clear record on economic policy, although he seems to be near the center of the current Republican Party.

Mr. Johnson proposed extending the current spending bill, so chances of a government shutdown next month continue to remain low. The election of a Speaker from Louisiana should benefit the energy sector. We think the defense sector also wins.

The election of Rep. Mike Johnson (R-Louisiana) as the new Speaker of the House has a few policy consequences.

First, in a letter to House Republicans, Mr. Johnson proposed extending the current Continuing Resolution (CR) to either January 15 or April 15, 2024. Although some conservatives might not back this approach, the political honeymoon that is likely to follow Mr. Johnson's election as Speaker could lead to an extension of the CR. **The odds of a government shutdown next month are low.**

We see energy and defense as two sectors likely to benefit the most from Mr. Johnson's election as Speaker. The Speaker of the House and the House Majority Leader, Representative Steve Scalise, are both from Louisiana which should benefit the energy sector, one of the state's most important industries. Mr. Johnson represents Louisiana's Fourth Congressional District, which includes Barksdale Air Force Base and Fort Johnson (formerly Fort Polk). We expect Mr. Johnson will support increases in defense spending, although shifting priorities among some populist Republicans could limit potential increases.

Although we see Mr. Johnson as a supporter of larger defense budgets, he has voted against additional aid for Ukraine. The Biden administration and the Senate appear to agree on bundling aid for Ukraine, Israel, and additional border funding into a single package. We expect Mr. Johnson and House Republicans will try to unbundle the proposal. Ukraine funding has bipartisan support, but it faces key opposition in the House including from the new Speaker.

Blocking additional U.S. aid to Ukraine increases geopolitical risks. In our view, China could interpret the suspension of U.S. aid to Ukraine as a sign that America is becoming increasingly isolationist and will be more reluctant to intervene in Taiwan if China decided to invade.

Regarding the legislative agenda for the rest of 2023, in addition to the spending bills, Congress will need to pass the annual National Defense Authorization Act (NDAA), reauthorize the Farm Bill, and reauthorize the Federal Aviation Administration. **The NDAA is often a vehicle for other legislation. However, given the compressed timeframe for this year (given the situation in the House), adding unrelated legislation to the NDAA will be more difficult than usual. The following are a few items that could be considered for NDAA inclusion:**

- **Corporate tax** – House Republicans have been working on a package of temporary changes to three corporate tax policies: **1. An adjustment to the formula used to calculate the business interest deduction; 2. The deductibility of R&D spending; and 3. A suspension of the changes in bonus depreciation rules.** Democrats have tried to tie these tax proposals to an extension of the expanded Child Tax Credit (CTC). Republicans oppose the expansion, so the CTC issue might scuttle the tax proposal especially given the compressed timeframe during which Congress will have to finish the NDAA.
- **Cryptocurrency legislation** – The House Financial Services Committee passed two cryptocurrency bills earlier this year, and Chairman McHenry might try to add one or both (especially a bill on stablecoin regulation) to the NDAA. Speaker Johnson does not have a discernible track record on digital assets, so it is unclear whether or not he would be supportive of addition either of these bills to the NDAA. Even if Johnson supports this, however, the chances of including cryptocurrency legislation in a final NDAA bill are remote given opposition to cryptocurrencies among key Senate Democrats.
- **Cannabis banking** – The Senate could add a cannabis banking bill to its version of the NDAA, however, opposition to the bill has been growing among Senate Republicans, and the election of Speaker Johnson makes it even more unlikely that the House will include the bill in its version of the NDAA. Mr. Johnson has voted against cannabis banking legislation twice, so he will not be an ally for attaching cannabis banking legislation to the NDAA. Given House Financial Services Committee Chairman Patrick McHenry's opposition to cannabis banking, the odds of this legislation passing were low. The election of Speaker Johnson seems to raise hurdles for cannabis banking even higher.

It is possible lawmakers could reach an agreement to include both cannabis banking legislation (something Senate Democrats want) and cryptocurrency legislation (something House Republicans want), but these types of compromises are rare in the current political environment.

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