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WASHINGTON POLICY STRATEGY

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Donald Trump's rout in Iowa signals an early end to the Republican nomination process. The results from the Iowa Caucuses were as expected and do not provide much of a path forward for Trump's remaining rivals.

In Washington this week, Congress is expected to vote on a short-term spending bill to avert a government shutdown. The vote could undercut Speaker Mike Johnson's political standing. A corporate tax deal was unveiled, but its prospects continue to look murky.

Lastly, the comment period for the Basel 3 Endgame proposal ends today. Ideally, regulators would like to finish the rule before the election, but that looks increasingly difficult.

Iowa Rout

Donald Trump's sizable win in the Iowa Caucuses sets him up to be the Republican nominee. Trump's convincing win in Iowa combined with large leads in national polls and states following New Hampshire suggest the race for the GOP nomination could be over by early- to mid-March.

New Hampshire will hold its primary next Tuesday, and while it is possible that Nikki Haley could beat Mr. Trump there, her third place finish in Iowa deprives her of momentum for next week. A win next week seems like a longshot and, even if she pulls off an upset there, a win in New Hampshire is unlikely to reset the race. Exit polling in Iowa suggested Haley performed best with less conservative, suburban, and college-educated voters. There are not enough Republican voters who fit this description in states other than New Hampshire for her to make a serious run at the nomination. Some might see Haley's home state of South Carolina (February 24) as another state she could possibly win, but Trump leads Haley by over 30 points in the current RealClearPolitics average, and it is worth noting that Ms. Haley has not been on a South Carolina ballot since 2014. Her ties to the state are unlikely to be enough to overcome Mr. Trump's popularity there.

As for Ron DeSantis, he may have avoided a knockout punch by not finishing third in Iowa, but he has no realistic path forward. He will not compete in New Hampshire, where he trails Trump and Haley by over 20 points according to the RCP average. Instead, Governor DeSantis will focus on South Carolina but, like New Hampshire, he trails both Trump and Haley by double digits. DeSantis will face calls for him to drop out following a disappointing finish in Iowa, where he spent significant time and resources. He might not drop out immediately, but we think that not doing so is only delaying the inevitable.

The breadth of the Trump win in Iowa lived up to expectations and signals an early end to the Republican primary.

Week Ahead in Washington

Continuing Resolution – No Shutdown

Congressional leaders have agreed to another short-term spending bill which, if it passes, will avert a partial government shutdown at the end of the week. The plan would continue the laddered approach, so that four agencies (approximately 20 percent of the federal government) would be funded through March 1, and the remaining agencies would be funded through March 8.

It seems likely that the Continuing Resolution (CR) will pass. However, conservative Republicans will probably vote against the CR *en masse*, so the bill might pass the House with more Democratic than Republican votes. That could undercut Speaker Mike Johnson's standing among Republicans and increase the chances of another motion to vacate the Speaker's chair. Such a move might not have a direct market impact, but continued government dysfunction could be a stronger headwind with which markets and investors may have to contend.

Tax Deal but Not a Done Deal

Senate Finance Committee Chairman Ron Wyden (D-Washington) and House Ways and Means Committee Chairman Jason Smith (R-Missouri) have announced an agreement on corporate taxes and the Child Tax Credit. The positive headline belies the fact that the two ranking members of the tax writing committees have not yet supported the deal and there seems to be bipartisan opposition to the agreement. Some Democrats think the increase in the Child Tax Credit is too low, while some Republicans are reluctant to give President Joe Biden a political win ahead of the 2024 election. There is also bipartisan support for the Wyden-Smith deal, but it is unclear whether enough lawmakers think passing the bill is in their political interests. The tax bill's outlook remains murky.

Among the deal's notable provisions:

- Immediate R&D expensing through 2025;
- Bonus depreciation through 2025;
- Expansion of the formula used to calculate the business interest deduction;
- An increase in the Low-Income Housing Tax Credit;
- A reduction in the Employee Retention Tax Credit; and
- An increase in the Child Tax Credit.

Basel 3 Endgame Comment Period Ends

The comment period for the Basel 3 Endgame proposal ends today, which would normally start the clock on finalizing the proposal late in the year. The Basel 3 proposal would increase capital requirements for banks over \$100 billion.

While the regulators probably would like to wrap things up by the end of summer, the complexity of the proposal combined with opposition from the banking industry will make achieving that goal difficult. Furthermore, subsequent to the release of the Basel 3 proposal, the regulators issued a request for a quantitative impact study from the banks about how the proposal would impact their businesses. This will complicate finishing the rule before the election. Last week, Federal Reserve Vice Chairman for Supervision Michael Barr said the regulators would also invite public comment on the results the study. These added requests could make it difficult for the regulators to finish the Basle 3 rule by the end of the year. Also, if there is a change in administrations due to the 2024 election, regulators might have to rework or scrap the proposal.

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