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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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**Tomorrow's New Hampshire primary is the next step towards Donald Trump winning the GOP presidential nomination. Even though Nikki Haley has a one-on-one matchup with Trump, she lacks a realistic chance at beating him in upcoming states.**

**A corporate tax bill has taken an important step towards passing. The bill's prospects have improved, but hurdles remain.**

**Negotiations on a foreign aid/immigration bill continue to move forward in the Senate. We remain bearish about the bill's prospects and explain what the long-term ramifications might be if the bill fails.**

### **NEW HAMPSHIRE PRIMARY PREVIEW**

Tomorrow's New Hampshire primary looks to be another step towards Donald Trump sewing up the nomination. Mr. Trump leads Nikki Haley by 17.5 points according to the RealClearPolitics (RCP) poll average. Ron DeSantis's departure from the race is unlikely to materially improve Ms. Haley's chances. Mr. Trump, rather than Ms. Haley, is the second choice for many DeSantis voters, so a narrowing of the field probably won't make a difference – if anything, it helps Trump. That has been the main flaw with the theory that Haley (or anyone else) could benefit in a one-on-one race with Trump. The second choice of many Republican voters who initially backed candidates other than Trump is Trump. As the field has cleared, Mr. Trump's lead has expanded.

Assuming New Hampshire polling is roughly accurate, Trump is likely to score another big win. This time, it is in a state that is less hospitable to him than many other states. Following New Hampshire, the next contest will be the Nevada Caucuses on February 8 (where Haley is not even on the ballot) and South Carolina on February 24. Mr. Trump currently leads South Carolina by over 22 points according to the RCP average. There is not much polling for subsequent states, but the RCP national poll average shows Trump leading Haley by almost 50 points. The GOP race is effectively over. We would argue that it has been over since the spring of 2023, when the first prosecutions against Donald Trump were announced.

### **TAX BILL MOVES FORWARD**

On Friday, the House Ways and Means Committee passed a corporate tax bill by a wide bipartisan margin of 40-3. The committee vote is a positive sign for the bill's future, but there are several hurdles ahead. In the House, Speaker Mike Johnson (R-Louisiana) has not yet scheduled the bill for a floor vote, and pressure from conservatives who oppose certain provisions (notably an increase in the child tax credit) could result in the bill being blocked. Similarly in the Senate, Majority Leader Chuck Schumer (D-New York) has yet to schedule a vote on the bill. Timing is an issue since the bill would make changes in tax law retroactive to 2023, and filing for 2023 tax year is about to begin. The bill probably needs to pass Congress by the end of January. Failure to do so could kill the legislation for 2024.

The tax bill would make temporary changes to several provisions of the corporate tax code which were passed as part of the Jobs and Tax Cuts Act of 2017. These temporary changes would expire after 2025. This could coincide with the expiration of several

individual income tax cuts and sets up a big tax policy debate in 2025. Congress will also need to increase the debt ceiling in early 2025, so a massive debate focused on fiscal issues looms on the horizon.

Among the bill'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.

## **SUPPLEMENTAL AID BILL**

Senate Majority Leader Schumer indicated that he would like to vote as early as this week on a foreign aid supplemental and immigration bill. As of now, there is no immigration bill, given that negotiations have yet to produce an agreement. It is possible a deal could be struck later this week, which could tee up a vote over the weekend or early next week. Even if Senate negotiations produce an immigration bill, the foreign aid/immigration bill faces significant political hurdles. A Senate deal is unlikely to pass (or even be voted on in) the House. Instead, the House would likely gut the Senate bill and replace the immigration provisions with H.R. 2, the House Republicans' version, which is unlikely to pass the Senate. Furthermore, any immigration deal is likely to be opposed by Donald Trump who, in our view, does not want Congress to give President Joe Biden a political win on this topic ahead of the 2024 election.

If Republicans block immigration reform, Congress would need to pass the foreign aid supplemental as a stand-alone bill. However, increased Republican opposition to additional aid to Ukraine, plus progressive's demands for conditions on aid to Israel (likely opposed by Republicans), makes passage of the foreign aid supplemental bill more difficult. We acknowledge that there is bipartisan support for the bill, but the dynamics in Congress, especially conservatives' pressure on Speaker Johnson, makes the probability of passing the foreign aid supplemental 50/50 at best.

For investors, the fate of the foreign aid supplemental bill does not immediately increase geopolitical risks. There are, however, longer-term risks as the failure to pass this legislation could cause some U.S. allies to question America's commitment to maintain the international order and whether America is a reliable ally. That, in turn, could cause allies to seek protection elsewhere – namely by formulating alliances with China and other powers. How this scenario might play out remains to be seen, but it raises the prospect of diminished U.S. standing and the possible breakdown in the international economic system, which could ultimately impede economic growth. We view this scenario and the prospect of an increase in protectionism, which likely accompany it, as inflationary – maybe not in the short term, but more likely in the long term.

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