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WASHINGTON POLICY STRATEGY

Potomac Perspective

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A busy week is on tap in Washington, D.C. The U.S. Supreme Court will hear the Colorado ballot access case. We expect the Colorado decision to bar Donald Trump from the state's Republican primary ballot will be overturned. We also discuss how recent economic data might lead to an improvement in President Biden's economic approval rating. If true, the country is headed for a very close election in November.

The Senate will debate a foreign aid/immigration bill. The immigration bill is all but dead. The foreign aid supplemental could be broken into pieces and added to a broader spending bill in March. It is possible Congress will only approve aid for Israel but not for Ukraine. Similarly, the corporate tax bill could be added to the spending bill in March.

Jobs Report and Presidential Race

2024 started with Donald Trump as a slight favorite to win the presidential election, but the January jobs report shows the electoral prospects for the incumbent, President Joe Biden, cannot be ruled out.

Among the reasons we viewed Mr. Trump as a slight favorite were President Biden's low economic approval ratings. According to the RealClearPolitics average of polls, 37.9% of voters approve of Mr. Biden's handling of the economy, while 58.4% disapprove. This signals a weakness for Mr. Biden and an opportunity for Mr. Trump. However, approval ratings and polls are not static, and this far out from an election their predictive value is low. Voters can change their minds.

Last week, the Conference Board released its Consumer Confidence Index, which rose for the third straight month. This trend could continue in the wake of the strong January jobs report (353,000 new jobs). **Increased consumer confidence combined with a strong labor market, rising wages, and disinflation could signal an improvement in Mr. Biden's economic job approval rating (as well as his overall job approval rating).** If this scenario plays out, we would continue to view Mr. Trump as a slight favorite but would emphasize "slight." 2024 could be shaping up as super tight election, which could lead to market volatility as investors start to consider a repeat of a contested election and the possibility of subsequent civil unrest.

Colorado Ballot Access Case

On Thursday, the U.S. Supreme Court (the Court) will hear oral arguments regarding the Colorado Supreme Court's decision to bar former President Donald Trump from the Republican primary ballot. As we have previously written, we expect the Court will reverse the Colorado decision and allow Mr. Trump to remain on the ballot. While the Court tries to keep politics out of its decisions, the political ramifications of potentially barring Mr. Trump are inescapable. If the Court were to uphold the Colorado decision, red states might retaliate by barring President Biden from ballots in those states on the grounds that Mr. Biden's border policy violates the 14th Amendment's prohibition of "giv(ing) aid or comfort to the enemies thereof." We think the Court will want to avoid that type of chaos.

Corporate Tax Bill

Following this week's debate over the foreign aid supplemental/immigration bill (see below), the Senate will be in recess until February 26. Thus, consideration of the corporate tax bill will be deferred until then. When the Senate returns, Congress will need to pass new spending bills to avert a government shutdown in early March. One option for securing a vote on the tax bill is to attach it to the spending bill. There is still some opposition to the tax bill among Senate Republicans, but chances are fairly good the tax bill could pass in early March as part of a deal on the budget.

Supplemental/Immigration

The Senate will vote this week on a foreign aid and immigration bill. The controversial bill would provide additional aid for Ukraine, Israel, and Taiwan and make changes to U.S. immigration policy. The bill's outcome in the Senate is unclear as many conservative Republicans will oppose it, as will some progressive Democrats. Getting to the requisite 60 votes in the Senate will be difficult. It is easier to forecast the bill's prospect in the House – it's DOA.

The House won't consider the Senate bill. Instead, the House will vote on a standalone Israel aid bill. The Senate is unlikely to pass the House bill on Israel funding – at least not immediately. Congress could, however, add Israel funding to a March spending bill. No decisions have been made on Israel aid, but adding it to a March spending bill seems like a reasonable fallback position. Adding Ukraine aid to the spending bills is also possible, but the prospects for Ukraine funding are lower than aid for Israel.

There will be some fear that adding Ukraine aid to a spending bill could lower the odds of passing the budget bill and lead to a government shutdown. However, there is significant overlap among House Republicans who would vote "no" on both aid for Ukraine and against the spending bill. Combining the two bills might not increase the chances the spending will fail (or pass, for that matter) and lead to a shutdown.

The politics of the foreign aid bill could also get wrapped up in the politics of House Speaker Michael Johnson's job security. Including Ukraine funding in any legislation might prompt some Republicans to try and remove Johnson from the Speaker's chair. For now, however, we don't think allowing a vote on Ukraine funding is sufficient to lead to his removal. If this view is correct, it could give Johnson some flexibility, which could be the way forward for the foreign aid bill.

It could take at least a month to finish the debate over the foreign aid supplemental. At this point, it seems possible that the bill will be split apart and that aid for Israel could pass while additional aid for Ukraine would not.

Yellen on the Hill

Treasury Secretary Janet Yellen will testify this week on the Financial Stability Oversight Council's (FSOC) annual report. Secretary Yellen will appear before the House Financial Services Committee on Tuesday and before the Senate Banking Committee on Thursday. The FSOC's annual report highlighted risks to the financial system including risks posed by nonbank financial firms. The report followed FSOC's decision to revise its process for designating nonbank financial firms as "systemically important" which would then subject such firms to Federal Reserve oversight. We expect questions about the designation process which could pose a headline risk for asset managers and private equity firms.

In addition to questions about the nonbank systemically important financial institution process, we expect Q&A will touch on money market fund regulation, shadow banking, private credit markets, the stability of regional banks, bank capital rules, and bank M&A.

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