January 19, 2025

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

Potomac Perspective

Expect a flurry of action from the new administration following President-elect Trump's swearing in on Monday. Some of the moves could have an impact on financial markets, but most will not. It might take several days before some of Mr. Trump's top priorities are announced – just because they do not happen on Day 1 or Day 2, does not mean they are not happening.

Also, Treasury is about to start using "extraordinary measures" to manage the government's debt. We explain what that means.

On Monday, Donald Trump will be sworn in as President of the United States. Following the ceremony, the new administration will hit the ground running by issuing numerous executive orders and proposing new policies. We think three policy areas – immigration, trade, and taxes – will be the Trump administration's top priorities. There are some trade and border policies that Trump can implement unilaterally, and we expect that he will lead with them.

Regarding taxes, Congress will have to pass legislation, which will be a time-consuming endeavor.

Here are a few events we expect to take place over the coming days:

Immigration

The first day and week of the Trump administration will focus on ramping up deportations, with an initial focus on illegal immigrants with criminal backgrounds. This should surprise no one since the Trump transition team has been hinting for some time that it will prioritize deporting those with criminal records here in the U.S. as well as their home countries. The administration will need additional funds, however, to administer broader deportations and Congress is still a few weeks away from authorizing those expenditures.

Tik Tok

President-elect Trump has said he will issue an Executive Order (EO) to delay the law requiring ByteDance to sell Tik Tok's U.S. business. Technically, the law allows for a delay but requires there be tangible steps towards a sale. Currently, no such steps have been announced. However, we think it is unlikely that any litigation will successfully block Trump's EO. Tik Tok has subsequently announced it is restoring service in the U.S. based on the Trump statement. Our base case is the app will remain functioning and accessible until a resolution of its status in the U.S. is reached.

Nippon Steel

Mr. Trump has been relatively quiet about Nippon Steel's bid to buy U.S. Steel in the wake of President Joe Biden's decision to block to merger. Although the United Steelworkers Union opposes the merger, we think there could be support for a re-worked deal among the union's membership. We therefore think there is a chance the incoming administration could announce that it will try to restructure the sale. If Trump tries to rework the merger and succeeds in saving it (presumably with workers' support), this could help him politically among union voters as well as with Japan.

STIFEL

It is worth noting that the Trump administration apparently also wants to hold a meeting this week of the Quad alliance (U.S., Japan, India, and Australia), which signals the importance that the incoming administration will put on Asia/Pacific relations. Negotiating a deal on the steel company acquisition that satisfies both American workers and a key ally (Japan) would help efforts in that region.

Trade

The exact details of President-elect Trump's trade proposals remain murky. He might issue a tariff proposal this week, but he might also wait until key economic policy appointments (including for the U.S. Trade Representative, the Department of Commerce, and the Department of the Treasury) are confirmed by the Senate. Among the unknown details are:

1. What country(ies) or region(s) would be prioritized
2. Whether a specific tariff would be imposed all at once or phased in over time
3. Whether some products and services would be exempt from a tariff

Trade hawks among the administration are pushing to impose tariffs all at once rather than phasing them in, but some economic advisers will point out the possibility that tariffs contribute to inflation. The Tik Tok situation may be a signal that the administration will adopt the phase-in approach. Trump was initially in favor of a Tik Tok "ban" but was convinced the app helped his election campaign among younger voters. The evolving Tik Tok situation suggests Trump can be swayed on policies if they are shown to have either positive or negative impact among his supporters. This could mean that he might phase in tariffs and might exempt key products such as energy if he thinks such tariffs would raise prices on consumers or somehow offend one of his constituencies.

DOGE

Mr. Trump's Department of Government Efficiency could provide him with several EOs to reduce inefficiencies at some agencies. The early DOGE-related orders will probably address how the group operates within the government as well as some changes to government contracting rules. More far-reaching proposals could be released in subsequent weeks.

DOGE co-head Vivek Ramaswamy is expected to run for Governor of Ohio in 2026. His co-leadership of DOGE may be a temporary engagement, as he would be expected depart to run his campaign at some point. We do not think his departure would have a material impact on DOGE's work (and might even accelerate it to the extent there were differences of opinion between Ramaswamy and Elon Musk), but we are also not as sanguine about the impact that DOGE will ultimately have.

It will be easier to make some administrative changes than it will be to make changes on policy that require congressional approval. The former changes will probably be modest because the agencies' hands are tied by congressional statutes, and recent Supreme Court decisions have limited their discretion in interpreting these laws. The latter changes will probably require bipartisan support, and the more sweeping the proposal, the less likely it is that Congress will approve it.

Personnel

Some Biden administration officials, such as Consumer Protection Bureau Director Rohit Chopra, have not yet resigned. Among the incoming administration's first acts will be to fire these holdovers and name temporary replacements while the administration considers nominees who will need Senate confirmation. These personnel moves will let the administration implement parts of its deregulatory agenda quickly as the new heads of agencies will have an immediate impact on enforcement policies at their departments. For example, financial regulators will implement a new approach for supervision (i.e. the oversight and examination of banks, etc.). These changes will occur behind the scenes but will be just as impactful as the formal changes in regulations that will follow later.

Debt Ceiling

On Friday, outgoing Treasury Secretary Janet Yellen announced that on January 21, the Treasury Department will start using extraordinary measures to manage the U.S. debt to remain under the statutory limit. It is unclear how much time these temporary measures can provide Congress before it needs to raise the debt limit. At some point in the next few months, Congress will need to pass legislation to either raise the cap or suspend it, as was done as part of the 2023 debt ceiling agreement between President Biden and then-House Speaker Kevin McCarthy.

The debt ceiling debate is likely to occur sometime in the spring, at which point Republicans will consider adding it to a Continuing Resolution in March or as part of the upcoming reconciliation debate to extend the expiring Trump tax cuts from 2017. Either way, this vote will be a controversial one for congressional Republicans, as some of them have never voted to increase the debt limit. This means House Speaker Johnson might need Democratic support to pass it. These votes could come at a high price.

Regardless of how the political debate plays out, we expect the debt ceiling will either be raised or suspended, and the odds of a default on federal government debt are quite low. We see the political risks of the debt ceiling debate as a matter of headline risk rather than the risk of a default.

Subscribe to Our Podcast!

Season 3 of the Potomac Perspective podcast is underway. To access a broader discussion of these and other topics, please download and listen to the latest episode of our Potomac Perspective podcast.

0125.7549096.1