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**Legislative process and procedures usually bore investors, but these factors are key to passing part of the Trump administration's economic agenda. A vote to advance the process of extending the Trump tax cuts is scheduled for this week, and while the vote is a procedural one rather than directly on the tax cuts, it could have implications for the timing and scope of a tax bill. We explain why this vote (or a postponement of it) could signal a longer legislative process than investors have been expecting and that this risk could provide a headwind for the markets this week.**

The House is currently scheduled to consider a budget resolution this week, which would lead to a reconciliation bill that includes an extension of the expiring provisions of the Tax Cuts and Jobs Act of 2017 (JCTA) or Trump tax cuts. As we have written in previous notes, passing the budget resolution is not guaranteed, and its failure might send a signal to investors that the Trump tax cuts are at risk. Our base case remains that most of the JCTA sunsets will be extended, but the process could take longer than investors expect.

Prior to recent market weakness, we thought the equity market had been priced to perfection from a policy perspective. Investors have expected that Congress would act quickly to extend the tax cuts, tariffs on foreign imports would be delayed indefinitely, and a deregulatory agenda would lead to increased economic growth. So far, investors have been mostly correct on the tariffs. The deregulatory agenda takes time to enact, but most people realize it is coming. Many investors, however, seem to have ignored the political dynamics of extending the JCTA. The complexity of passing a tax bill, and the length of time that it could take to do so, could come into focus this week and might lead to additional volatility in the markets.

In order to extend the Trump tax cuts, Congress must first pass a budget resolution, and this week's House vote is a key step in that process. There are three possible outcomes for this week's House vote, and we list them in what we think is the order of likelihood: postpone the vote because Republican leaders think it will fail, pass the budget resolution and keep the process going, or defeat the resolution (based on a handful of Republicans joining all House Democrats in voting against it).

Assuming all House members are present and vote, Republicans can afford to lose only one vote. It currently appears at least one of their members is prepared to do so. Given that several Republicans are concerned about potential cuts in Medicaid, which might be included in the reconciliation bill, it appears the leadership might lack enough votes to pass the resolution. If this is correct, we think the leadership could postpone the vote and either amend the budget resolution or promise wary Republicans that Medicaid will be spared the depth of cuts they fear.

A postponement would not generate the same headlines as a defeat of the resolution, but the message would be essentially the same – extending the tax cuts will take longer than investors anticipate, and some expiring provisions will not be extended. It is also possible there could be other changes, such as an increase in corporate income taxes or the stock buyback tax, to offset extending the TCJA.

There are other debates related to extending the TCJA, such as which baseline to use (current policy versus current law). The resolution of those questions could be useful to extending the Trump tax cuts, but we think the outcome of this week’s scheduled House vote on the budget resolution could signal that this effort will last into the summer or even the fall. We do not think investors have factored in that timeline yet.

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