March 10, 2025

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

Potomac Perspective

We think the chances of a government shutdown at the end of this week are low, although not zero. Even if there is a shutdown, we do not expect a market reaction to it. House Republicans are meeting this week to plan their tax legislation. The situation is fluid and will likely change over the coming months, but this meeting could provide some clarity on the upcoming tax bill. Cryptocurrencies remain in focus in the wake of President Trump's Executive Order (EO) on Bitcoin and digital asset reserves. The House will hold a hearing on stablecoins which could be a precursor to a bill in the coming weeks. Lastly, caps on credit card interest rates have been in the headlines. We think that's as far as it will go.

- <u>Shutdown prospects and market implications</u> – A government shutdown seems unlikely at this point, but we do not rule out the possibility of a short closure. Even if the government shuts down, financial markets tend to ignore the political noise. We expect this will be the case again if there is a shutdown.
  - The current continuing resolution (CR) expires on Friday, March 14 and needs to be extended to avoid a government shutdown. Republicans have released a new CR that would fund the government through the end of the fiscal year (September 30). If it fails to pass, we think Congress could quickly pass a short-term CR to provide time to address the issues that might prevent the longer-term plan from passing.
- <u>House Republicans Plan Tax Bill</u> – This week, Republicans on the House Ways and Means Committee will meet to plan for the tax portion of the reconciliation bill. The meeting is somewhat premature since Congress has yet to finish the budget resolution, which is a prerequisite for a reconciliation bill. The parameters with which the committee will work could therefore change. However, leaks from the meeting could provide some guidance as to what the committee might pass later this year.
  - Under the House-passed budget resolution, the Ways and Means Committee can increase the debt by $4.5 trillion over the next 10 years to cut taxes. That amount is probably not enough to extend the expiring provisions of the Tax Cuts and Jobs Act (Trump tax cuts), much less increase the cap on the State and Local Tax deduction (SALT). Republicans will probably have to consider other policy changes in order to remain under whatever cap a final budget resolution sets.
- <u>Stablecoins</u> - On Tuesday, the House Financial Services Committee will hold a hearing regarding stablecoins. The committee has been working on legislation that would create a framework for the issuance of payment stablecoins. This represents the continuation of efforts from previous Congresses, and there seems to be bipartisan support to pass some form of a stablecoin bill. Because of the Senate's 60-vote requirement, passing a bill through that body will be the bigger challenge. There could be some Senate Democrats who support a stablecoin bill, but Senator Elizabeth Warren (D-Massachusetts), the ranking Democrat on the Senate Banking Committee, will probably oppose this legislation. It remains to be seen how many Democrats will break with her.

STIFEL

    - Members of Congress are also discussing market structure legislation which would clarify the regulatory framework for other digital assets. This is a more controversial issue, and we think compromise legislation is possible, but still several months away.
- Strategic Crypto Reserve – We have reviewed President Donald Trump's EO directing the Treasury and Commerce Departments to establish a Strategic Bitcoin Reserve and a Digital Asset Stockpile. The EO instructs the agencies to use forfeited Bitcoin (BTC) and other digital assets to establish the stockpiles. This seems to be allowed under existing federal law cited in the EO. The authority to acquire additional Government BTC is less clear.
    - Unlike the language on using forfeited assets, the EO does not cite any legal authority for acquiring additional BTC. Instead, it directs the Treasury and Commerce Departments to "develop strategies" for BTC acquisition. If Treasury were to proceed, we think it would likely do so through the Exchange Stabilization Fund (ESF). However, the law that created the ESF does not seem to contemplate BTC, so Congress might have to amend the law in order to allow it. The relevant statute states:
        - *Consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, **may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary*** (emphasis added).
    - "Gold" and "foreign exchange" are straight forward. "Other instruments of credit and securities" is less clear. Bitcoin is not an instrument of credit, but is it a "security"? The law that establishes the ESF does not seem to define "security", so it is unclear if the law means a "security" as defined under the Securities Act of 1933. Former Securities and Exchange Commission Chairman Gary Gensler admitted that BTC is not a security but might be a commodity, but the only commodity listed in the ESF statute is gold. Treasury might decide the term "security" does not refer to the 1933 Act or other securities laws and is broad enough to allow it to use the ESF to acquire BTC. Also, Treasury could use BTC exchange traded funds to build a reserve since they are registered under the Investment Company Act of 1940 and might meet the ESF's requirements.
- Credit card interest rate caps – Republican Congresswoman Anna Paulina Luna (Florida) joined with Democratic Congresswoman Alexandria Ocasio-Cortez (New York) to introduce legislation to cap credit card interest rates at 10%. This is similar to Senate legislation introduced by Senators Josh Hawley (R-Missouri) and Bernie Sanders (I-Vermont) and follows President Trump's campaign proposal to cap these rates. We view the proposal as a headline risk to credit card companies, as the silent majority of Congress opposes a 10% cap since it would result in credit card companies cancelling accounts and restricting the availability of credit to consumers and small businesses. We believe the chances of a 10% cap passing Congress are quite low. The chances are slightly higher that Congress might approve a higher cap (for example, a cap of 25%-35%). However, the prospects for the higher cap are also low. Despite the rhetoric and the political posturing, we do not expect Congress will impose any cap on credit card interest rates.

Subscribe to Our Podcast!

Season 4 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.

DISCLAIMER