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House Republicans continue to progress slowly with their efforts to pass the "One Big Beautiful Bill." A fractured House GOP makes the prospects of the House passing the bill this week a toss-up. As currently written (which could change when the Senate produces its own version of the bill), we think the bill could provide a slight economic boost but would not significantly change the trajectory of the federal government's debt. We explain why the Moody's downgrade probably won't change the political calculus regarding the bill.

The Senate could vote as soon as this evening on a Stablecoin bill. The bill's prospects have improved, but the outcome of the vote remains in doubt because of possible Republican defections.

- **Multiple Thoughts on One Big Beautiful Bill** – The Republicans' reconciliation bill, which would extend the Tax Cuts and Jobs Act of 2017 (JCTA or the Trump Tax cuts), continues to evolve as Republicans search for the 218 votes needed to pass the bill through the House. The House Rules Committee was scheduled to meet at 1 a.m. Wednesday morning. That is not a typo, and there are procedural reasons for the timing. The main takeaway is that investors should have more clarity on the bill's prospects soon.
    - **Primary Issues** – We are still relatively early in the process, and the bill is likely to change when the Senate votes on its version. There are, however, three primary areas currently driving the debate: ***Medicaid spending cuts, Inflation Reduction Act (IRA) tax credits, and the State and Local Tax (SALT) deduction***. All three issues highlight divisions within the GOP between conservatives (who want cuts to Medicaid to start sooner rather than later, deeper cuts in the IRA tax credits, and oppose raising the cap on the SALT deduction) and moderates (who generally favor smaller reductions in Medicaid, support some IRA tax credits, and want a higher cap on the SALT deduction).
    - **Political Math** – Because Republicans can only lose four votes on the House floor (assuming all Members are present and vote), each faction effectively has a veto on the bill. Failure, however, is not an option for Republicans, as this is likely to be their signature legislative achievement before the 2026 midterm elections. No Republican wants to be blamed for killing President Trump's economic agenda, or for raising taxes (if the TCJA's tax cuts were to expire after 2025). Therefore, a deal is still likely at some point, but the timing for passing the bill remains unclear. Each Republican faction in the House realizes that its leverage will probably never be as great as it is now, so there is little to be gained by compromising too soon. We note the situation remains fluid. Before yesterday morning's meeting between President Trump and House Republicans, we had been modestly more confident that the House would pass its bill this week, but that meeting may not have had the desired effect of uniting Republicans. Still, much can change in the coming hours.
    - **Economic Impact** – The bill, as currently written, might provide a small boost to the economy. The primary goal of the bill is to extend the expiring tax cuts, but an *as-is* extension will likely not impact the economy, since income tax rates would remain unchanged. The spending cuts could be contractionary. Those effects, however, could be offset by some modest changes in corporate tax policy, such as a reinstatement of rules for bonus depreciation

    and R&D expensing, as well as a broadening of the formula used to calculate the Business Interest Deduction. On the individual side, the House bill would increase the standard deduction for senior citizens, expand the Child Tax Credit, and exempt income from tips and overtime for some workers — all of which could increase demand. Estimates from the Congressional Budget Office and private sources show that the bill will add to the debt over the next 10 years and will increase the federal government's interest costs.

- **Moody's Downgrade** – We will leave it to others to comment on what impact Moody's decision to downgrade the credit rating of the U.S. will have on interest rates and the economy. It will have no impact, however, on the political debate regarding the "One Big Beautiful Bill," in our view. Certainly, Democratic and Republican budget hawks have cited the downgrade in their criticism of the bill, but debt and deficits lack political potency. Most polls suggest government debt ranks down the list of the public's primary concerns. Simply put, most voters do not care about deficits. They actually like government programs, but they don't want to pay for them, so they vote for lawmakers who will support government spending and keep taxes low. Until that changes, Congress will not change policies to address the federal government's debt regardless of what the rating agencies say. Perhaps the bond markets will nudge Congress to change direction, but large fiscal deficits have not significantly impacted bond yields despite 40+ years of doomsday predictions. Maybe this time will be different.
- **Stablecoin Vote** – The Senate voted to begin debate on a Stablecoin bill (GENIUS Act). This debate might not occur this week and might be punted until after Memorial Day. Surprisingly strong support from Democratic senators signals that Congress could finish work on a bill by August, although work on the reconciliation bill could impact the timing of Stablecoin legislation.
    - **Potential Headline Risk for Financials** – It appears the Senate will consider the GENIUS Act under an open amendment process, which raises headline risk for banks and credit card companies. We think it is possible (if unlikely) that the Credit Card Competition Act (aka Durbin 2.0) and credit card interest rate cap legislation could be offered as part of this process. We doubt these amendments will pass, but if they do, they could not only impact credit card and bank stocks, but they could also act as poison pills to the underlying bill.

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