

February 3, 2026

WASHINGTON POLICY STRATEGY
Potomac Perspective

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A partial government shutdown is likely to last at least a few more days. Markets, however, are unlikely to react to closure headlines. While the economic impact of the shutdown will be limited and temporary, the IPO market will likely stay closed until the Securities and Exchange Commission reopens.

Treasury Secretary Bessent is scheduled to testify this week on the Financial Stability Oversight Council's Annual Report. His appearance could be delayed due to the shutdown, but when he testifies, he is expected to cover a lot of ground on economic policy. We preview some of the topics that he might discuss.

- **Shutdown 2.0** – The federal government partially shut down over the weekend and could remain closed for several days.
 - In the wake of shootings in Minnesota in late January, Senate Democrats refused to support a package of spending bills that would have appropriated money for the remaining parts of the government that have not been funded for the entire fiscal year. Instead, the Senate passed a bill that stripped out the Department of Homeland Security, passed a temporary spending bill (continuing resolution – CR) for that agency, and approved full-year appropriations for the other five funding bills.
 - The House must now pass the package passed by the Senate - the CR and the five full-year spending bills. However, passing this package will not be easy and the agencies funded by this legislation could remain closed for several days.
 - There might be enough votes to pass the bill through the House. Many, if not most, Democrats seem opposed to the bill, but there could be a sizable block of Democrats who might join with Republicans to reopen the closed agencies. However, getting to a vote will be challenging.
 - All Democrats will oppose the vote on rule (which is what the minority party typically does), and there could be enough Republican defections on the rule to block a vote to reopen the government. Once the rule passes, the spending bill could pass relatively easily.
 - The White House will likely pressure House Republicans to support the rule and the bill, but given the narrow GOP majority, there is no room for error. If the administration fails to win enough Republican support for the rule, the impacted agencies could remain closed for several days.
 - **The markets are unlikely to react to a shutdown. During the 43-day shutdown in the fall of 2025, equity markets rose during the event. Market performance was driven mostly by fundamentals rather than closure headlines and impacts. That is likely to be the case again.**
 - Despite the lack of an impact on the financial markets, there could be a negative impact on the capital markets as initial public offerings will probably be paused as long as the Securities and Exchange Commission remains shut down.
- **Bessent on the Hill** – Treasury Secretary Scott Bessent is currently scheduled to testify before the House Financial Services Committee tomorrow and the Senate Banking Committee (Thursday). The hearing might be postponed if the government shutdown continues. If the hearing takes place as scheduled, we expect the following topics could be discussed:

- **Dollar policy** – Given the recent selloff in the dollar, we expect committee members will ask Bessent about the administration’s policy on the dollar. We anticipate that he will defend a strong dollar policy, as have past Treasury Secretaries.
- **Federal Reserve independence** – Recent events, including the announcement of Kevin Warsh’s nomination to the Federal Reserve Board, will make this a popular topic during Q&A. Bessent will surprise no one by defending the administration’s stance on the Fed and by arguing in favor of central bank independence while simultaneously questioning the Fed’s record.
- **Trade policy** – Bessent has been one of the administration’s key officials on trade policy. He could provide some status updates regarding ongoing trade talks, but he will probably break little new news on tariffs and trade.
- **Housing** – This might be the area where Bessent makes the most news. The White House is clearly leaning into the “affordability” issue. Bessent could use this hearing as an opportunity to clarify what actions Treasury might take regarding the single-family rental industry, as well as other actions the administration might take. Trial balloons have been floated regarding tapping into retirement accounts to help buyers make down payments on homes. President Trump has backed away from this idea, but it could be raised in Q&A. Also, Bessent could be asked about the administration’s plans for the government sponsored enterprises. He is likely to give boilerplate answers about the government-sponsored enterprises. The market will likely hear that plans for a capital raise are on track without a commitment to a window of when this might happen.
- **Credit card interest rates** – Progressive Democrats on the committees could troll Bessent regarding President Trump’s proposal to cap credit card interest rates at 10% for one year. The proposal is unlikely to go far, other than companies voluntarily announcing new low-rate cards. It would be surprising to hear Bessent announce specific steps that the administration could take on credit cards (mostly because its options are limited).
- **Financial regulation** – Democrats might attack the administration’s bank regulatory policy as favoring the largest banks over smaller institutions. Bessent will defend the policy and highlight changes that have benefited smaller firms. Cryptocurrency policy will likely be a flash point. Bessent will urge Congress to pass the CLARITY Act, but the battle over that bill is devolving into trench warfare, and his testimony is unlikely to break the impasse.

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