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WASHINGTON POLICY STRATEGY

Potomac Perspective

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Washington has a busy week on tap. We discuss our expectations for Trump's trip to China, a renewed focus on housing legislation, as well as the possibility that a gas tax holiday might pass. We also follow up on today's earlier note on the CLARITY Act.

- **Trump's China Trip** – We have mixed expectations for this week's meeting in Beijing between Donald Trump and Xi Jinping. A temporary trade deal between the U.S. and China (which suspended certain tariffs and eased export restrictions on rare earth minerals) expires in November. The two leaders might make positive statements about the status of talks to reach a permanent trade deal, but an actual announcement about a new deal is unlikely this week. A group of American CEOs is accompanying President Trump on the trip, and announcements related to the companies and industries represented on the trip are possible.
- **Housing Bill** – The Trump administration seems to be trying to breathe new life into housing legislation but its messaging on the bill has been muddled.
 - **Build-to-Rent (BTR) confusion** – Recently, reports suggested that Mr. Trump had concerns over the build-to-rent provisions in the Senate bill. That bill would restrict institutional investors in the single-family rental (SFR) sector but created a carve-out for build-to-rent. The Senate bill provides a seven-year divestment period of BTR properties. A group of House Republicans opposes the SFR restrictions generally and thinks the BTR divestment window is too short. Yesterday, Trump urged Congress to pass the Senate's version of the housing bill. It includes the BTR provisions about which he seemed to have some misgivings.
 - **Renewed focus is a positive for a housing bill** – The fact that Trump is reengaging on the housing bill is a positive sign for the bill's prospects. Currently, Kalshi estimates that there is a 76% chance that the Housing for the 21st Century Act (the House bill) will become law this year. It also indicates that there is a 67% chance that the restrictions on institutional investors owning SFR will be enacted this year. These estimates seem to indicate that a compromise between the Senate and House is likely. We generally agree with those assessments. These odds seem a bit high to us, but we think probabilities have improved that Congress will pass a housing bill that includes some restrictions regarding SFR. We also think that modifications to the Senate's language on BTR are likely.
- **Reconciliation and the Gas Tax** – Work on a reconciliation bill continues but has become slightly more complicated in the wake of Trump's proposal to suspend the gas tax. The underlying legislation (still being drafted) is a pretty straightforward effort to approve spending levels for the immigration enforcement agencies. There has been some political drama over whether to include funds for security features for Trump's proposed White House ballroom, but because of its focus, the reconciliation bill has not impacted the markets. That could change slightly in the wake of Trump's proposal to suspend the gas tax.
 - **Congressional Republicans have yet to coalesce around a gas tax holiday. If they do, then the reconciliation bill seems like a logical place to add it.** Kalshi estimates a gas tax suspension before July 1, 2026, at 58%. We think that's a little high given that Republicans have opposed such holidays in the past. Lost revenue would have to be

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replaced by money from the general fund and budget hawks will oppose that. However, the fact that Trump has proposed a suspension is a positive development for it. What remains to be seen is how much effort he will put into convincing Republicans to agree with him once he returns from China.

- **More on the Crypto Bill** – After Monday’s close, Senate Banking Committee Chairman Tim Scott (Republican-South Carolina) released an [updated version of the CLARITY Act](#). We have not read the entire 309-page bill, but it includes Senator Thom Tillis’s (Republican-North Carolina) proposal on the Stablecoin yield issue. It also includes language intended to protect cryptocurrency software developers from being prosecuted for illicit activity committed by other parties on platforms that they create. We doubt these changes will be enough to secure Democratic votes for the bill in the Banking Committee, but talks will continue ahead of Thursday’s markup.
 - **Explaining our skepticism** – As we wrote in today’s earlier note, we think the odds of the bill passing this year are around 40%. By contrast, Kalshi currently indicates that the odds of the CLARITY Act becoming law in 2026 are 68%. In order for the bill to pass the full Senate (where 60 votes would be needed), at least seven, and probably more, Democrats would need to support the bill. We doubt that there are enough Democratic votes for this to happen. Thursday’s markup should clarify this. If the bill passes the committee on a party-line vote, then the bill’s prospects will be weak. If one or two Democrats cross the aisle and support the bill, then it would have a fighting chance of passing this year.
 - **Why we might be wrong** – Despite our skepticism regarding the bill’s chances, we acknowledge there is a 40% chance that it could pass this year. We base this opinion on our view that there is a generational divide among Democrats. Younger Democrats are more crypto-friendly than older Democrats and the former might be willing to cross the aisle and vote for the bill. Part of this divide is explained by the fact that the crypto industry is an emerging political force. Younger Democrats want to be on the right side of a powerful group as their careers evolve. Still, collaborating with the Trump administration and Republicans is politically risky for Democrats. Spending fights during the past year have shown that Democrats who vote with Republicans incur the wrath of the Democratic base. Also, Democrats stand a strong chance of flipping the House in the midterms (and a decent chance at winning the Senate, too). Therefore, Democratic lawmakers might think that it is in their interest to block the CLARITY Act now and wait for 2027 when they will have more influence on drafting crypto legislation.

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