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WASHINGTON POLICY STRATEGY

Potomac Perspective

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December will be a busy month in the policy world as Congress races to enact “must-pass” legislation, such as the National Defense Authorization Act (NDAA), before the Christmas holidays. Expiring subsidies for Obamacare healthcare insurance plans could also force a deal on healthcare policy. Also, President Trump could announce Federal Reserve Chairman Powell’s successor. Lastly, a special election in Tennessee could provide another data point about how voters view Republicans and provide another clue about the potential outcome of the 2026 midterm elections.

Washington faces a hectic few weeks as the Christmas holidays and the end of the year approach.

- **National Defense Authorization Act** – The NDAA is among the few “must-pass” bills that Congress will consider before year-end and is often viewed as a vehicle on which unrelated legislation can hitch a ride. Some key provisions that are under consideration include:
 - **The SPEED Act**, which is intended to reform procurement and acquisition process. This proposal’s goal is to make the acquisition process more efficient. It also seeks to broaden the defense industrial base beyond the major contractors and make it easier for smaller firms to compete for contracts. We expect some version of the SPEED Act will be included in the NDAA.
 - **Outbound investments in China** – Proponents of stricter vetting processes for American investments in China, including the sale of some chips, have pushed to include proposed limits in the NDAA. The Trump administration appears less supportive as it fears that Congress could overshoot and damage ongoing trade negotiations with China. We think the chances are less than 50/50 that an outbound investment proposal will be included in the final version of the NDAA.
 - **BIOSECURE Act** – An earlier version of the bill was almost included in last year’s NDAA but was dropped over concerns that it explicitly called out specific firms. The bill, which would restrict access to biotech equipment and services to companies affiliated with the Chinese government, was modified so that it no longer lists firms that would be subject to the ban. Despite the changes, we are skeptical that the new version of the bill will be included in the NDAA, although a last-minute compromise remains possible.
 - **Artificial intelligence (AI) regulation** – The administration is pushing to include a proposal to preempt state regulation of AI. Preemption has some bipartisan support, but it also has some bipartisan opposition. We think it is a toss-up whether AI preemption will be included in the NDAA.
 - **Housing legislation** – The Senate’s version of the NDAA included the ROAD Act, which is a housing bill passed by the Senate Banking Committee unanimously. The housing bill is a collection of over 40 housing bills that seek to expand housing supply and affordability by, among other things, streamlining HUD processes, increasing FHA multifamily loan limits based on market costs, and increasing banks’ public welfare investment cap to 20% from 15% to increase funding for affordable housing projects. The House has not yet passed similar legislation, and

some House Republicans oppose some of the public housing provisions. Without House buy-in, we think the Senate's housing proposal will likely be dropped from the NDAA.

- **Affordable Care Act (ACA) Subsidies and Healthcare** – Lawmakers in both chambers are discussing different proposals to extend the expanded Obamacare healthcare insurance subsidies, which expire at year-end. The White House canceled a pre-Thanksgiving announcement of its plan due to pressure from some conservatives. We think there is some Republican support for extending the subsidies in return for reforms (e.g., means testing), but reaching a deal that will garner broad bipartisan support will be challenging. Conservative Republicans seem to believe that higher healthcare insurance costs are a Democratic problem created by the ACA and therefore should be fixed by Democrats. Other Republicans believe that voters will blame the party in power for the lack of affordability, as was demonstrated in the recent state and local elections.
- **Replacing Fed Chairman Powell** – President Trump has said that he knows who his choice will be to replace Federal Reserve Board Chairman Jerome Powell and that he will announce his decision soon. The nominee might fill the seat currently occupied by Fed Governor Stephen Miran, whose term expires in January 2026. The Senate would need to confirm Miran's replacement, so an announcement before Christmas followed by a January confirmation process seems likely. Chairman Powell's term as Governor expires in 2028, while his term as Chairman ends in May 2026. Therefore, Powell can remain on the Board even after his chairmanship ends. The nominee to replace Miran could be the next Chairman unless Mr. Trump picks Fed Governor Waller, who is already on the Board.
- **Tennessee Special Election** – On Tuesday, a special election will be held to fill the vacancy in Tennessee's seventh district. Former Representative Mark Green (Republican), who resigned earlier this year, won the 2024 election by over 21 points. We expect Republicans will hold the seat. An upset is unlikely, but not out of the question. The margin might be just as significant as the outcome. Special elections held earlier this year to fill two vacancies in Florida showed 19- and 17.5-point swings towards the Democrats (the Republican retained both seats despite the swings). If the Tennessee-7 election shows a similar shift, then – combined with the 2025 election results – would be a clear signal of Democratic strength going into the 2025 midterm elections. We doubt that markets will react to the Tennessee results, but they could impact each party's legislative strategy in 2026. This could lead Democrats to back away from supporting cryptocurrency and energy-related legislation due to the belief that their party will be able to negotiate more favorable policies in 2027.

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