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WASHINGTON POLICY STRATEGY Potomac Perspective

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President Trump's State of the Union (SOTU) address was full of political theatre but included fewer economic policy proposals than we were expecting. The absence of some proposals was notable. We review a few of the speech's economic policy proposals and discuss the prospects for their enactment. As is typically the case, the SOTU was about political messaging. The reality is that few of these ideas will be enacted ahead of the midterm elections.

- **Tariffs** – It was somewhat surprising that Trump did not ask Congress to codify the tariffs that were recently struck down by the Supreme Court. This may, however, be an acknowledgement of the political reality that Congress is unlikely to approve the tariffs. He also said that tariff revenue could replace income taxes, but the budget math for that switch does not add up. Investors and corporations should not expect a phase out of the current tax code anytime soon.
- **Corporate tax cuts** – It was reported before the speech that Trump would propose a corporate income tax cut. As we noted above, he said income taxes could be replaced by tariff revenue, but he did not propose a corporate tax cut. Regardless, he had proposed a cut during his 2024 election campaign, but Congress did not seriously consider cutting corporate rates further as part of the One Big Beautiful Bill Act. We believe that it is highly unlikely it will do so in 2026.
- **Housing** – Trump reiterated his call to ban “institutional investors” from buying single-family homes. The administration can limit these purchases, but it would take an act of Congress to ban them completely. On Wednesday, Treasury Secretary Scott Bessent is scheduled to meet with Republicans on the House Financial Services Committee. Despite the administration's push, we think there is significant opposition to the proposal among congressional Republicans. Unless the White House can change a lot of minds on Capitol Hill, a full ban is unlikely to go far.
- **Credit cards** – The omission of a proposal to cap credit card interest rates was notable. We have long doubted the administration's legal authority to enact this, so omitting the idea from a speech in which affordability was a major theme likely confirms the view that there is no pathway for this idea under current law. Legislatively, the proposal could be offered as an amendment if the Senate considers housing legislation in the coming months. The odds of an interest rate cap passing are quite low.
- **MFN for drug prices** - Trump asked Congress to codify his “Most-Favored-Nation” drug pricing policy. We are skeptical that Congress will take this up in 2026 since it would be politically complicated for Republicans before the midterms. Some lawmakers might like the idea of voting for Trump's policy, but it could also open the door to Democratic amendments which would go farther than the Trump policy. These amendments might be politically tough votes for Republicans, and the GOP leadership might decide to protect its vulnerable members and not vote on MFN legislation.

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