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WASHINGTON POLICY STRATEGY Potomac Perspective

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The situation in the Middle East will impact the Trump administration's domestic economic agenda as Congress's attention has now been diverted to international developments. Although Republicans had planned to focus on affordability-related legislation such as a housing bill, the attack on Iran will take priority in Congress. How long domestic economic issues are set aside will be determined by the evolution of events abroad.

- **Sucking the oxygen out of the room** – The Iran situation is likely to consume Congress's attention this week and possibly longer. The Senate had planned to debate a housing bill, which we wrote about on Friday. However, briefings for Senators on Iran, and a possible vote on a War Powers Act resolution, will probably preempt work on the housing bill.
- **Shutdown of DHS** – The Department of Homeland Security remains shutdown, but the politics around the shutdown have shifted. Prior to this weekend, Democrats felt that the recent headlines related to shootings of protesters on Minnesota by Immigration and Customs Enforcement and U.S. Customs and Border Protection agents (both part of DHS) gave them the political upper hand in the shutdown debate. The situation in Iran and the potential for terrorist acts on American soil could change the political calculus. This could lead to a deal to reopen the agency, especially if the public feels that the shutdown is impacting Americans' safety.
- **Crypto legislation** – Similar to the housing bill, the Iranian situation will probably impact negotiations on the CLARITY Act, a cryptocurrency bill that senators have been working on for months. The calendar is becoming the enemy of this bill. Further delays caused by other matters taking precedence make passing the bill in 2026 even more challenging. The lack of any mention of crypto in President Trump's State of the Union address was not a positive sign either.
- **Long-term political fallout** – The situation in the Middle East is fluid so the American public's response to it is also fluid. Early polling suggests that voters are taking a "wait and see" attitude regarding the U.S. attacks. We have not yet, however, seen a typical "rally around the flag" response in early polling. That can change and could pose a challenge for Democratic candidates in the November midterm elections if support for the attacks increases and boosts Trump's approval ratings. Conversely, voters have already been concerned about the economy and affordability. A sustained increase in oil prices could be a risk for Republican candidates in November especially if last week's Producer Price Index report was a harbinger of more stubborn inflation data to come.

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