

Politics and Policy in 2024: A Challenging Year Ahead

As the 2024 election season begins taking shape, what can we expect from Washington?

In 2024, there's likely to be no shortage of issues in the policy, political, and geopolitical arenas. Control of the White House and Congress may come down to the wire with voter sentiment as volatile and unpredictable as ever before. Consequences for major policy issues hang in the balance, from the snowballing national debt to federal-spending levels and the expiration of the 2017 Tax Cut and Jobs Act in 2025.

After one of the most tumultuous and unproductive years we've ever seen in Washington, lawmakers left town in December with plenty of unfinished business, a long list of issues to confront, and new deadlines looming. We take a look below at the big-ticket policy items that need to be addressed before campaign 2024 subsumes Washington and legislating comes to a grinding halt.

Federal Spending

As of the end of 2023, the federal government was still operating under a continuing resolution (CR). Congress has had months to complete the appropriations process, and not only did they fall short, they passed the buck into the next fiscal year for the first time in recent memory. Even more, the government has actually divvied up the 12 appropriations bills into two separate tranches, leaving them considering extending two funding deadlines this winter to March 1 and March 8.

Speaker of the House Mike Johnson (R-LA) and Majority Leader Chuck Schumer (D-NY) have been able to reach a compromise on topline federal-spending numbers that track Fiscal Responsibility Act (FRA) mandated defense and non-defense spending figures set back in the spring of 2023. Non-defense domestic spending is \$772 billion, and defense spending held firm at \$886 billion. While Schumer and Democrats notched a victory on keeping domestic spending roughly the same as agreed to in the FRA, Johnson was able to find approximately \$30 billion in cuts and kept a number of policy riders in play.

Hardline conservatives in the Freedom Caucus aren't buying the compromise, so Johnson will have his work cut out for him when it's time to move the spending measures forward on the House floor. Lastly, border-security negotiations could upend the bipartisan budget compromise as hardliners are also threatening a government shutdown if border security isn't included in the final agreement.

Foreign Assistance

The Biden administration requested approximately \$110 billion in a foreign-assistance supplemental spending package back in November: \$61.4 billion for Ukraine; \$14.3 billion for Israel; \$14 billion for border security; and the remaining amount targeted to Indo-Pacific and humanitarian aid. While the crisis at the border is critical and in dire need of action, the Biden administration made a tactical mistake in tying the most vexing issue in Washington to the broader foreign-policy debate with overseas assistance in global hotspots drying up rapidly. The White House and a bipartisan group in the Senate continue to grind on a border compromise, but progress has been incremental.

Speaker Johnson doubled down on the House Republican supplemental approach insisting that strong border-security provisions must be included in any deal, boxing in Biden and the Democrats. We hope we're wrong, but as long as they remain tethered, we don't see much foreign-aid movement anytime soon.



JT Taylor
Senior Policy Analyst,
Hedgeye Potomac Research

Key Points

- The first half of 2024 will see efforts concerning critical unfinished 2023 business with federal spending at the top of the list.
- This election year is likely to be as unpredictable, volatile, and uncertain as ever, with a potential presidential rematch and a potential House/Senate flip.
- Geopolitics will have a significant effect on democracy, security, and economics for billions as 70 countries hold elections this year.

Bipartisan Spotlight

One bright bipartisan spot in the Washington maelstrom is the passage of the National Defense Authorization Act that authorizes annual funding and sets the policy agenda for the Department of Defense. An \$886 billion agreement was reached on the defense measure that makes significant investment in the military and defense capabilities, and ensures the US remains competitive with global adversaries. Passage of the federal-budget agreement is the final impediment.

We expect the Biden administration to complete its review of Trump-era tariffs on China in the first few months of the year. Prevailing wisdom is that the administration won't alter the tariffs much and instead will make some adjustments: raising tariffs on electric vehicles and other high-tech products and lowering tariffs on consumer products in the manufacturing supply chain. Congress could move other trade legislation before the summer, and members of the House Ways and Means Committee may prod the administration into action by unveiling an Indo-Pacific trade bill in late January or February.

We could see some bipartisan collaboration throughout the year on legislation aimed at China, but partisan fissures and electioneering could stymie that effort. Look for hawks on both sides of the aisle to press hard for a vote to repeal China's "permanent normal trade" status (a legal designation certifying free trade between the US and a foreign nation); this could put Biden in the hot seat in the middle of the presidential campaign.

In regards to tax policy, we could see some bipartisan efforts around the Childcare Tax Credit. The deal would be coupled with three business tax breaks: research and development, phaseout of the bonus depreciation rate, and deduction for business interest expenses. This debate is likely to be a precursor to the 2025 expiration of the more significant 2017 Tax Cut and Jobs Act.

Slim Margins

Speaker Johnson's majority in the House is about to be slimmed down by two. Former Speaker of the House Kevin McCarthy (R-CA) resigned effective January 1, and Bill Johnson (R-OH) will be resigning on January 21. Until special elections are held for both open seats, Johnson will need near total cooperation when attempting to pass party-line measures, or he'll need to appeal to some of those on the Democratic side of the aisle. On the policy front, we think the latter scenario will be in play given resistance to compromise that is prevalent within Johnson's far-right flank.

Schumer is also working with a very slim majority in the Senate—a whopping one seat. Vice President Kamala Harris surpassed an almost 200-year-old record last year by casting the most tie-breaking votes in the history of the Senate (#33 and #34).

To make legislating even more challenging this year, the election-year calendar is designed to allot Congress more time away to campaign in their home districts and states. This means more time away from the Capitol, longer holiday breaks, and recesses during the entire months of August and October.

Race for the White House

The stage is set, but not assured, for a likely Biden-Trump rematch. Coming off a stronger economy in 2023 than expected, President Joe Biden has been gifted with favorable economic indicators that many politicians would envy. But he's been hard-pressed to assimilate that sentiment and dispel voter's concerns about his age and abilities—both of which are reflected in his abysmal poll numbers. Former President Donald Trump has a firmer grip on the Republican Party, but having to split his time between rallies and the courtroom could prove troublesome to his campaign. Barring a surprise ruling from the Supreme Court in February or March, Trump could have the Republican nomination wrapped up by Super Tuesday on March 5.

The Supremes

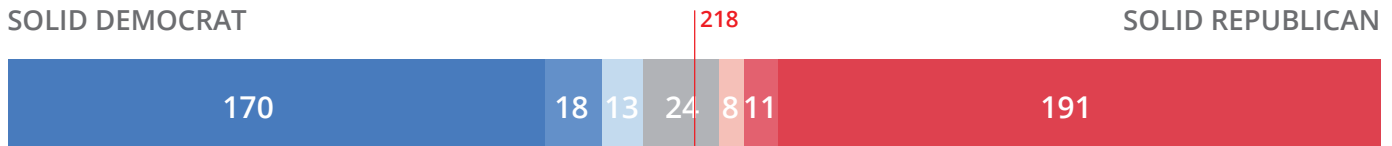
We turn our attention to the Supreme Court as the nine justices are now poised to resolve disputes with potentially massive election consequences as the presidential primary season gets underway. A closely divided Colorado Supreme Court disqualified Trump from the state’s primary ballot, ruling Trump engaged in insurrection against the Constitution and triggered the Fourteenth Amendment prohibition on insurrectionist office holders.

The Supreme Court has yet to address the insurrection provision of the Fourteenth Amendment, but there’s no relevant High Court precedent. In the end, the Court could craft a defensible opinion that upholds or reverses the decision by the Colorado Supreme Court. Until oral arguments are presented on February 8, outcome predictions, no matter how logical, are pure guesswork. The Court has granted the petition for review and put the case on a fast track. Separately, a decision awaits on whether he’s immune from prosecution for actions he took while president.

House and Senate

Unless there’s a significant shift, we’re currently looking at a potential flip in both chambers: the House from Republican to Democrat and the Senate from Democrat to Republican, with more confidence in the Senate scenario. There are only 24 “toss-up” seats in the House with 14 of those seats held by Republicans and 10 by Democrats (FIGURE 1). In the Senate, 34 seats are up for grabs. Twenty-three of those seats are held by Democrats and 11 by Republicans with Democrats playing defense in red states such as Montana, Arizona, and Ohio (FIGURE 2).

FIGURE 1
House Seats

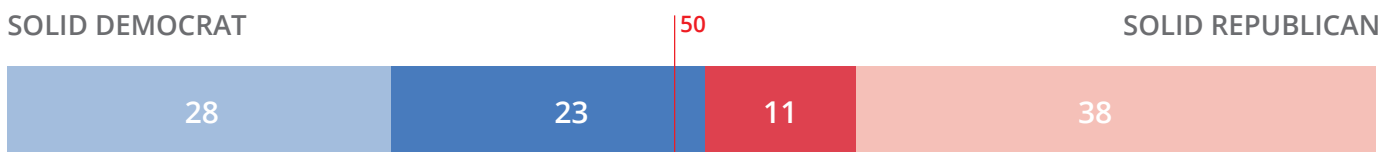


- **Solid:** These races are not considered competitive and are not likely to become closely contested.
- **Likely:** These races are not considered competitive at this point but have the potential to become engaged.
- **Lean:** These races are considered competitive races, but one party has an advantage.
- **Toss Up:** These races are the most competitive; either party has a good chance of winning.

Source: Cook Political Report.

FIGURE 2
Senate Seats

Includes seats not up for re-election. Control of Senate marked at 50 seats.



There are currently 48 Democrats, 49 Republicans, and 3 Independents in the Senate. The 3 Independents caucus with the Democrats, giving Democrats a 51-49 seat majority.

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Taking Stock of Washington

The Geopolitical Stage

With 70 elections being held in countries that are home to approximately 4.2 billion people, 2024 will be a historic election year. In 2024, more than half of the global population will be represented by leaders chosen at the polls. Major elections will occur across the globe: the European Union (EU), India, Mexico, South Africa, Taiwan, and possibly the United Kingdom. Most of the ballots will be cast in Asia, however, with voters in the continent's biggest democracies—Indonesia, Bangladesh, and India—heading to the polls. These contests will have a significant and lasting effect on politics, security, and economics for many years to come.

EU elections could decide how unified it remains and where it invests in the future. Since the start of the Russia-Ukraine war, the EU has debated whether its economic and political pact should be expanded to include a common foreign and security policy. This election could decide whether there is greater cooperation in defense spending and procurement.

2025 and Beyond

As we look ahead to January 2025, we're predicting divided government will be the lay of the land with continued slim margins in the House and Senate, and gridlock jamming up both ends of Pennsylvania Avenue. A lot can (and will) change between now and then, but whatever the outcome, our elected leaders will be confronted with major tax, debt, and deficit spending issues—not to mention global commerce and conflicts both known and unknown.

Talk to your financial professional to help make sure your portfolio is prepared for whatever happens in Washington D.C.

About the Author:

James R. (JT) Taylor serves as Senior Policy Analyst at Hedgeye Potomac Research. JT has extensive experience in both government and business in Washington, D.C., with a career spanning the legislative and executive branches as well as the financial-services industry. Prior to joining Potomac Research Group, he ran Pelorus Research, the US public-markets division of the Holdingham Group based in the United Kingdom. He previously led a policy research team as Managing Director at DeMatteo Monness. From 2002-2009, he was Managing Partner of Kemp Partners, a Washington, D.C.-based strategic consulting, business development, and marketing firm he founded with former Housing and Urban Development Secretary Jack Kemp in 2002. At Kemp Partners, he oversaw day-to-day operations and business development while managing client relationships in both the corporate arena and financial-service industries.

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