

State of the Legislation

Activity in Washington is down to the wire as looming deadlines, recess, and the November election encroach on lawmakers.

As the first quarter of 2024 wraps up, Congress hasn't quite lived up to the low bar we established earlier in the year, and they have continued to grapple with a critical task: funding the US government for the remainder of the current fiscal year. After passing four stopgap measures since the fiscal year began on October 1, Congress passed a \$1.2 trillion package of spending bills on March 23, putting an end to government shutdown threats.

This year's window for legislating major policy initiatives is closing much sooner than most previous presidential cycles. Washington is left with a tight deadline on a number of measures, and, as members of Congress are set to leave town through early April, there's little room left for error or delay in the decision-making and deal-cutting processes. We don't expect to see much activity (other than reactionary) after Memorial Day. Until then, here's what we're watching:

When This Year's Budget Talks Becomes Next Year's

While the 2024 budget and appropriations cycle is in its final throes on Capitol Hill, Biden has introduced his proposal for the fiscal year 2025 budget. Some highlights of his plans seek to:

- Reduce the federal deficit by \$3 trillion over a decade, achieved through tax increases on wealthy Americans and businesses (raising the corporate rate from 21% to 28%)
- Reduce child poverty via tax cuts for low- and middle-income families while also lowering the costs of childcare and bolstering the child tax credit
- Make healthcare and prescription drugs costs more affordable and increase the number of drugs subject to negotiation in Medicare
- Address the housing-affordability crisis with tax credits for first-time and middle-class homebuyers

It is, however, important to note that this budget proposal is more of a wish list and a blueprint for what the future could hold should Biden land a second presidential term in November. Just as the 2024 budget has faced considerable opposition, this proposal would also face significant hurdles in becoming law.

Foreign Objectives

Amidst the backdrop of legislative deadlines, the impending recess, and the elections, another challenge muddies the picture: a \$95 billion security supplemental package aimed at shoring up the nation's posture in multiple foreign conflicts. The bill includes funds for both Ukraine and Taiwan; humanitarian aid for the Israel-Hamas war; and funds for US military combat operations in the Red Sea. Despite finding success in the Senate in February, Speaker of the House Mike Johnson (R-LA) has, thus far, refused to bring the funding bill to the floor for a vote. Johnson is now intimating plans for a vote in early April, after Congress returns from recess.

While the bill remains at in impasse in the House, the Biden administration has been able to provide Ukraine an additional \$300 million more in ammunition and other weapons made available through presidential drawdown authority. This provision is used to provide military assistance in crisis situations and pulls from existing US stockpiles. This stopgap measure is intended to ease some of Ukraine's setbacks and shortfalls while Congress continues debating a new aid package.



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Key Points

- Given the early start to the presidential race, the window for legislative wins is likely to shut before Memorial Day.
- While the overdue 2024 government funding debate nears completion, the 2025 federal-budget cycle is already underway.
- A number of critical foreign-aid and tax-credit measures have found bipartisan support in the House or Senate respectively, but hurdles remain as they await action from their counterparts in the other chamber.

Tax Triumph or Trouble?

In January, the House passed a \$78 billion bipartisan tax package aimed at restoring some pandemic-era business tax breaks. The bill would expand the child tax credit; restore tax breaks related to research costs, capital expenses, and interest; as well as additional tax breaks for the development of low-income housing, relief for disaster victims, and more. To finance these measures, the package would terminate the Employee Retention Tax Credit, a pandemic-era program that has been riddled with fraud.

While the bill drew bipartisan support in the House, its path forward in the Senate remains uncertain. Key Republican Senators object to expanding the child tax credit without work requirements and are looking to address technical fixes to retirement-savings laws.

Altering the bill risks losing Democratic support, while inaction deprives Biden of a legislative win before the midterms. Negotiations continue, but time is running short to enact changes before tax season concludes. The bill's fate may hinge on whether partisan presidential politics ultimately prevails over bipartisan policymaking.

CHIPS ... No Science

The CHIPS and Science Act is a bipartisan bill signed into law in 2022 that was intended to substantially invest in the microchip industry as well as support scientific research and development. While the bill has managed to support the domestic semiconductor industry with \$53 billion, it has fallen short on the science side of things. The authorized funds from this law fall under the appropriations acts that Congress must pass each year, a struggle in and of itself, but Congress has also gone so far as to scale back its plans for foundational research and development. Recent cuts to the National Science Foundation are contrary to the main focuses of the law—maintaining America's lead over China and other rivals in critical areas such as artificial intelligence.

Potshots

With Sen. Minority Leader Mitch McConnell's (R-KY) plans to step down from his leadership post after the November elections and with several policy proposals still hanging in the balance, Republicans are teeing up for contest. The passage of initiatives such as the SAFE Banking Act looms large, potentially ushering in an era of financial legitimacy for cannabis enterprises, and, perhaps, a future for federal decriminalization or outright legalization.

The spectrum of cannabis policy positions among the other aspirants signals a road pocked with hurdles and ambiguity for the industry, contingent on the leadership baton's final bearer. Among the contenders are Sens. John Cornyn (R-TX), John Thune (R-SD), Steve Daines (R-MT), and Rick Scott (R-FL), each bringing their vision for the future of cannabis legislation.

Daines could be a beacon of progress in the field, as he advocates for policies that could bolster the industry. Yet, his reluctance to endorse federal decriminalization and his aim to curtail the executive branch's rescheduling authority casts a shadow of complexity over his candidacy.

Cornyn treads a nuanced path, championing the cause of cannabis research while standing firm against the VA Medicinal Cannabis Research Act of 2023. His ambivalence towards the SAFE Banking Act, juxtaposed with a willingness to reform federal cannabis laws, paints a picture of cautious optimism.

Thune remains an enigma, with sparse commentary on cannabis policy, reflecting perhaps the tumultuous stance of his home state, South Dakota, toward marijuana legalization.

Rick Scott's narrative intertwines with Florida's evolving cannabis landscape, where medical marijuana enjoys legality and recreational use teeters on the brink of

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Taking Stock of Washington

acceptance. His gubernatorial legacy includes a contentious ban on smokable medical marijuana, a decision that was later overturned, but highlights the fluid dynamics of cannabis policy within his sphere of influence.

Political Snapshot

The 2024 presidential race is now gaining momentum as the two candidates begin to court voters in the swing states critical for victory. Looking ahead, Biden and former President Donald Trump will hold dueling events in battlegrounds such as Michigan, Pennsylvania, Wisconsin, and Georgia.

Some traditionally red or blue states, however, could prove more competitive than expected. For instance, Trump aims to win his new home state of Florida again, which has swung between parties in the past. Democrats also see opportunity in Florida given the role abortion has played in prior elections. Even in Democratic strongholds such as Minnesota and Michigan, Biden will need to shore up support as many primary voters have protested his Middle East policies.

With polls showing tight contests in swing states, both campaigns will need more direct voter outreach compared to 2020's mostly virtual race. The 2024 presidential election could be exceptionally close, and minor shifts in voter sentiment coupled with third-party spoilers could be the final determinants of victory.

As the days tick down, the pressure to pick up a few wins mounts. Lawmakers must navigate a particularly fraught terrain of policy, partisanship, and procedural hurdles to find a consensus. Domestic and foreign policy stakes are high, and the impasse over the security supplemental package underscores the broader challenges of governing.

While Congress wrestles with these funding dilemmas, the eyes of the nation will begin to focus more closely on our elected officials—and the economy. The decisions made in the coming weeks will not only impact government and foreign policy in 2024 and 2025, but also reflect the broader dynamics of power, negotiation, and compromise in Washington as November 5 draws closer.

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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