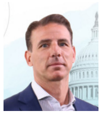
The Shutdown is Over, But Are Aftershocks Just Beginning?

As lawmakers return to work, unresolved battles over healthcare, trade, and political power continue to shape Washington.



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Key Points

- Congressional leaders face mounting pressure to resolve the expiration of ACA subsidies and a backlog of critical legislation, with partisan divides threatening further gridlock.
- The Supreme Court's upcoming decision on presidential trade authority could reshape economic policy and force lawmakers to reconsider their approach to tariffs and international commerce.
- With the 2026 elections approaching and redistricting battles underway, both parties are navigating shifting political landscapes that could redefine control of Congress.

Congress returned from a two-month government shutdown having resolved one crisis—only to ignite another: the looming expiration of Affordable Care Act (ACA) subsidies. Speaker Mike Johnson (R-LA) secured passage of the Senate's compromise continuing resolution (CR) by addressing Republican hardliners, who hailed the short-term funding bill as a "major win" for avoiding a bloated year-end omnibus and excluding the ACA subsidy extension.

But that victory sets up a high-stakes internal clash. Johnson now faces a potential rebellion from Republicans who may join Democrats in signing a discharge petition to force a vote on extending the expiring healthcare credits. In the meantime, the House must race to clear a massive backlog: the ACA subsidies expire December 31, 2025; the National Defense Authorization Act awaits action; nine full-year spending bills (three passed with the CR) must be completed by January 31, 2026; and bipartisan legislation banning congressional stock trading is still pending, among other priorities.

The shutdown ended only after Democrats dropped their demand to extend ACA tax credits—a concession many in the party view as a mistake, though the eight Senate Democrats behind the compromise argued it was necessary to keep Republicans at the table.

History suggests shutdowns have had limited success in achieving major policy changes: the 35-day 2018–2019 standoff failed to secure funding for President Donald Trump's border wall; the 2013 shutdown didn't defund the ACA; and the 1995 shutdown didn't deliver deep spending cuts. Still, some Democrats contend the recent shutdown spotlighted rising healthcare costs and shifted pressure onto Republicans, given the millions affected in both red and blue states.

The nine remaining spending bills are the most contentious, not just because of partisan divides, but also friction between the Senate and House. Late January could bring déjà vu as the risk of another shutdown looms.

Congressional Divide Deepens Over Healthcare Costs

The affordability crisis has reignited the healthcare debate, leaving House Republicans scrambling to catch up. Weeks behind their Senate counterparts, they've only just begun discussing soaring insurance costs and the looming expiration of ACA premium subsidies—a flashpoint in the recent shutdown.

Their immediate challenge: decide whether to work with Democrats to extend the subsidies or pursue a separate conservative healthcare agenda. Johnson is planning a series of meetings to define principles and an action plan, but GOP leaders admit the task is daunting. As House members begin their discussions, Senate Republicans are already weighing proposals aligned with Trump's vision of redirecting health funds directly to consumers to lower costs.

This gap in progress is creating internal concern among House members about being forced to accept a Senate-drafted plan. As we've mentioned in the past, the legislative process is complex, in this case involving the coordination of the Ways and Means, Energy and Commerce, and Education and Workforce committees, all while navigating stark internal political divides: Hardline conservatives oppose the subsidies entirely, while vulnerable moderates see their extension as politically essential.

The House faces a mid-December deadline tied to the Senate's CR agreement. Policy ideas circulating include block grants to states for ACA marketplaces, expanded health savings accounts (favored by conservatives and the White House), and stricter credit rules to curb fraud.

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Trade Authority Tested in the Supreme Court

The Supreme Court is expected to rule that the International Emergency Economic Powers Act (IEEPA) doesn't give the president sweeping authority to impose tariffs. Based on November oral arguments, at least five Justices (including Chief Justice John Roberts and Justices Neil Gorsuch, Sonia Sotomayor, Elena Kagan, and Ketanji Brown Jackson) appear poised to reject the administration's broad interpretation of presidential authority under the statute. The core legal question: Does IEEPA's authorization to regulate imports extend to unilateral tariff authority, and would such a delegation violate Congress's constitutional power over taxation and foreign commerce? Justice Brett Kavanaugh signaled likely dissent, arguing that if IEEPA permits blocking imports, taxing them should be permissible.

A ruling against the president will likely hinge on the "Major Questions Doctrine," which requires clear congressional authorization for actions of vast economic and political significance. Because IEEPA never mentions tariffs and no president has invoked it this way in nearly 50 years, the Court is expected to interpret the statute narrowly, concluding that regulating imports doesn't include imposing tariffs. This approach would sidestep a broader constitutional ruling on delegation.

A decision could come before year-end. The expedited schedule signals urgency, though the real outcome will be shaped in private deliberations, not based only on the oral arguments already heard. Importantly, this case doesn't involve existing Section 232 tariffs on steel, aluminum, autos, wood products, and, potentially, pharmaceuticals and semiconductors.

In the event tariffs are struck down, the Court must address refunds that could exceed $100 billion, though applying the decision prospectively (avoiding refunds) was discussed. A loss of IEEPA authority would likely push Trump and future administrations toward greater reliance on Section 232 of the Trade Expansion Act to advance trade agendas.

Election Stakes and Redistricting Battles Ahead

With the 2026 midterms less than a year away, the stakes couldn't be higher. Historically, the out-of-power party tends to gain ground, but this cycle is shaping up as a test of political alignment and a fierce battle for control.

The Senate map is particularly challenging for Democrats: They're defending fewer seats overall, but many in competitive states. In the House, Democrats need a net gain of just three seats to flip control—a possibility amplified by recent redistricting shifts that could upend historical patterns. National factors such as Trump's approval rating and economic conditions will heavily influence voter behavior and the balance of power in the 120th Congress.

Republicans' early redistricting advantage has eroded after a wave of Democratic wins and court rulings. A Utah judge's surprise decision to create a safe Democratic seat in Salt Lake County forces four GOP incumbents to compete for three Republican districts. Similar setbacks include California's loss of up to five GOP seats under Prop 50, an Ohio compromise map preserving Democratic chances in swing districts, and a Virginia plan likely to add three Democratic seats. While Republicans secured favorable maps in North Carolina and Missouri, their push in Texas was blocked, and efforts in Indiana and Kansas have stalled despite White House pressure. Florida's upcoming redistricting could deliver GOP gains, but the party will need to tread carefully to maximize gains without overstretching its voter base.

While the GOP's early advantage has diminished, the landscape remains fluid. An upcoming Supreme Court decision on the Voting Rights Act in Louisiana could further reshape the balance of power in unexpected ways.

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James R. (JT) Taylor serves as Chief Political Strategist and Macro Policy Sector Head 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.