

Taking Stock of Washington

Washington's 2026 Playbook

Gridlock in Congress, surging executive orders, and election-year power plays are set to reshape Washington's policy landscape in 2026.

After a year in which the executive branch significantly broadened its role, lawmakers entered 2026 looking to reassert congressional authority. Throughout 2025, the Trump administration advanced its agenda through executive actions—canceling appropriated spending, restructuring federal agencies via DOGE, imposing tariffs, and authorizing military strikes in the Middle East and Caribbean—often without waiting for legislative approval.

The One Big Beautiful Bill Act, passed in July, stands as the primary legislative achievement for Republican leadership. It delivered on tax cuts, defense spending, immigration enforcement, and energy production, but also underscored how limited opportunities for major legislation have become. With fewer than 40 bills enacted last year, the 119th Congress is on pace to be among the least active in a president's opening years.

As midterms approach, the key question for 2026 is whether Congress can reclaim a stronger role, or whether executive action becomes the prevailing mode of governance. Republicans are considering a second reconciliation bill focused on affordability, though expectations remain modest. The year begins with debates over Affordable Care Act (ACA) subsidies and the risk of another government shutdown—issues likely to consume political capital early. Without a clear strategy to strengthen its influence, Congress may continue to see policymaking driven by executive orders and regulatory action.

Inside Capitol Hill: What's Next for Lawmakers

Reconciliation in Focus

Republicans remain split on whether to pursue another reconciliation bill to bypass the Senate filibuster. Some senators favor starting the year with a budget resolution that includes military funding, healthcare provisions, and immigration enforcement grants. While President Donald Trump and party leaders have shown hesitation, Sen. Majority Leader John Thune (R-SD) and others view reconciliation as a fallback if bipartisan healthcare talks stall. And although Trump favors abolishing the filibuster altogether, that's not on the table. In the near term, an affordability-focused reconciliation package is the most viable route to significant legislation before the midterms.

Shutdown Watch

Congress faces the risk of another shutdown if a funding deal isn't reached by the end of January. While Senate appropriators have agreed to higher spending levels than the House for the remaining nine of 12 appropriations bills (three passed last fall along with a continuing resolution that ended the 43-day shutdown), those bills must clear by January 30 to keep the government running.



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Key Points

- Congressional gridlock has led to a surge in executive orders and agency rulemaking, shifting the center of policy action away from Capitol Hill.
- Defense spending and global tensions are prompting rapid innovation and expansion in the US defense industry, with new priorities for contractors and startups.
- The expiration of ACA subsidies and aggressive redistricting efforts are reshaping both healthcare coverage and the balance of political power ahead of the 2026 midterms.

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The biggest obstacle: Conservative House Freedom Caucus members insist on holding spending flat, particularly for the Pentagon and major non-defense agencies, which could derail negotiations. Leaders in both chambers aim to finalize a deal before the deadline, but policy details remain unsettled, and recent objections from Colorado senators have added friction. Given the election-year stakes, both parties have strong incentives to avoid another crisis, but the risk of a stalemate still looms.

Defense Dollars

As 2026 begins, the global security environment shows little sign of easing. The US has launched a military operation against Venezuela, resulting in airstrikes and the capture of President Nicolás Maduro in early January. This follows ongoing conflict in Ukraine, a fragile cease-fire in Gaza, and persistent tensions in the Indo-Pacific.

Amid this heightened geopolitical climate, the Trump administration is reportedly urging defense contractors to boost capital spending and research and development to accelerate production and technological innovation. Another key question is whether the rise in international defense sales will continue.

Prime contractors now seem more agile than a decade ago, backed by a growing number of equity-funded startups. The US defense industrial base appears more resilient than many expected—but whether it can deliver rapid, large-scale innovation remains to be seen. And with US defense spending topping \$1 trillion last year, we expect that trend to persist.

Regulatory Shifts and Tech Trends

As partisan tensions and a narrow House majority likely stall legislative progress through 2026, policy focus will shift toward the regulatory bodies where Trump's agency heads have been in place for almost a year. We're entering a period in which agency-led rule changes will provide the primary tailwinds for industry and with significant developments already surfacing in sectors such as cannabis, energy, and prediction markets. It's clear that executive and agency actions—rather than congressional votes—will be one of the main catalysts for market volatility and growth this year. If you aren't watching the regulators, you're missing out on the action.

Federal AI Oversight

The White House is moving to streamline AI oversight. In December, Trump signed an executive order aimed at preventing states from imposing their own "onerous" AI rules. The plan calls for a single national standard, enforced through a new federal task force and funding leverage to keep states aligned. It's an assertive push for US AI dominance—but expect significant legal challenges before it takes hold.

Crypto Regulation

After major legislative progress in 2025, Washington's crypto policy has shifted from debate to implementation, with a market-structure framework now on the horizon. Current efforts center on clarifying regulatory authority between the Securities Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), as the Senate Banking Committee prepares for a pivotal hearing to determine whether digital assets should be classified as securities (SEC) or commodities (CFTC).

Along with that, the GENIUS Act (passed in 2024) has entered the rulemaking phase, focusing on stablecoin regulations with a July 2026 deadline for issuer guidelines. On Capitol Hill, the Parity Act aims to simplify crypto taxation for small transactions and set rules for staking and lending, with an August 2026 vote targeted.

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Media Consolidation

Consolidation will be a major theme this year, with deals involving Warner Bros. Discovery, and major broadcast TV groups moving forward. At the same time, monopolization cases are set to dominate headlines as federal courts weigh remedies for Google's ad-tech dominance, Apple's commission structure for linked-out App Store transactions, and the government's push to force Live Nation to divest Ticketmaster.

Social-media giants such as Meta and TikTok also face mounting legal pressure, defending against massive damages claims tied to alleged social-media addiction harms.

Washington's Social and Economic Agenda

Healthcare: ACA at Risk

The lapse of enhanced premium subsidies under the ACA has pushed the US over the "Obamacare cliff," leaving millions facing coverage loss or steep premium hikes—and even conservative media outlets are sounding alarms. In response, the House plans to vote on a clean three-year extension, expected to pass despite likely resistance in the Senate. Bipartisan talks in the Senate continue, with proposals for a two-year extension that include income caps and anti-fraud measures.

Still, divisions run deep. Sen. Minority Leader Chuck Schumer (D-NY) remains skeptical of a bipartisan deal, while the White House hopes for a compromise that incorporates House-passed reforms. Within the GOP, opinions range from doing nothing to pursuing sweeping healthcare changes—underscoring the complex dynamics shaping this debate as leaders navigate the fallout from subsidy expiration.

Affordable Housing Push

Congress' financial policy committees face the challenge of reconciling two bipartisan housing bills aimed at boosting new housing development: one from the Senate Banking Committee and the other from the House Financial Services Committee. The sticking point is aligning the Senate's more ambitious proposal with the House version, amid White House concerns over affordability for voters. Expect housing to remain a priority on both ends of Pennsylvania Avenue through the first half of the year.

Midterm Battles and Landmark Court Cases

Midterm Elections

With Congress largely gridlocked and Republicans defending a narrow majority, the real battle for power in the 2026 midterms has shifted to state-level redistricting. Both parties are aggressively pursuing map redraws rather than policy wins. Republicans have secured new maps in Texas, North Carolina, and Ohio. In Texas alone, a Supreme Court stay in December cleared the way for changes that could net up to five additional GOP seats. Democrats are countering with Proposition 50 in California to eliminate safe Republican districts and pushing mid-decade redraws in Maryland and Virginia.

Supreme Court Decisions

The Supreme Court is set to weigh several high-stakes cases this year, including challenges to Trump administration policies. Among them: an executive order invoking a national emergency to impose tariffs (Liberation Day) without congressional approval, and a birthright citizenship case that could reshape interpretations of the 14th Amendment. The Court will also review actions with sweeping implications for the Voting Rights Act and the autonomy of independent agencies—potentially redrawing legislative maps and overturning decades-old protections against political firings at commissions and regulatory bodies.

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Midterm power plays are shifting from policy wins to map redraws.

Key Takeaways for the Year Ahead

Legislative output is stalled, and the 2026 cycle will likely hinge on mid-decade redistricting and the economy. Republicans are increasingly concerned about Trump's low approval ratings and negative perceptions of his economic management as the midterms approach. Historically, the president's party loses seats in midterms, and with the House split 218-213, Democrats need only a few gains to reclaim control. Democrats hope to leverage fights over healthcare and affordability, while Trump is expected to counter aggressively.

Still, with razor-thin margins and an election year in play, major legislation looks unlikely. Instead, expect a continued surge in executive orders (including the record-breaking 225 issued by Trump in 2025), sweeping regulatory shifts, and Supreme Court decisions that could reshape the policy landscape. For businesses and investors, the real action in 2026 will come from regulators, the courts, and the White House—not Capitol Hill.

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 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.

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