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June 2022 Outlook

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<p>OVERVIEW</p>	<p>Congress returns to Washington this week following the Memorial Day recess and to kick off the two-month sprint before they leave town for the month of August. There are only 24 days that both the House and Senate will collectively be in D.C. before the extended recess (the Senate has 9 additional session days without the House). Not to mention, this is the last long stretch before much of the focus will shift towards the midterm elections. All of that to say, June will be another busy month with several outstanding legislative items still on the table, along with additional new issues to tackle that have sparked from recent events.</p> <p>As is standard in D.C., one major event can quickly shift the focus for lawmakers and change the trajectory of the expected legislative agenda for the month. In this case, the recent shootings in Texas and Buffalo have reignited a policy debate around gun control – one that often goes without a resolution. However, there is renewed effort in the Senate to see if there can be a bipartisan agreement on some form of a gun control package (more below). We expect this will be first on the agenda as Congress returns this week. Additionally, the unprecedented, leaked draft opinion suggesting the Supreme Court is poised to overturn <i>Roe v. Wade</i> created quite the uproar in D.C. and across the country last month. The final decision is expected to be released this month. In addition, the House Select Committee on January 6th will present findings in a public hearing later this week. Each of these contentious topics will capture at least some of the attention of lawmakers in June and will have ripple effects as the November midterm elections loom.</p> <p>In addition, reconciliation still remains on the table. While Senate Democrats had hoped for a deal on a package by Memorial Day weekend, no real progress was made in May. This month, we expect negotiations between Majority Leader Schumer (D-NY) and Sen. Manchin (D-WV) to continue and be more narrowly focused on issues such as drug pricing, funding for certain climate provisions, and lowering the deficit. That said, as the legislative calendar continues to tick forward, chances for big and bold legislation are dwindling.</p> <p>While these various issues have struck a partisan divide in Congress, there are still a few outstanding issues that could see some bipartisan movement over the course of the month. For example, Congress will continue to reconcile differences between the Senate’s United States Innovation and Competition Act (USICA) and the House’s America COMPETES Act and begin markups for the 2023 National Defense Authorization Act (NDAA). The Senate is in session for 14 days this month, while the House is in session for 12. Committees in both chambers of Congress are expected to hold several hearings, and there are several primaries slated for this month as well. More below.</p>
<p>CONGRESSIONAL ACTIVITY</p>	<p>As mentioned above, outstanding issues like reconciliation and China competition legislation are still in the works, although they may take a temporary backseat as Congress works on gun reform legislation. Meanwhile, Committees are continuing their regular hearing cadence including expected markups in the Senate Finance and HELP Committees on retirement legislation (although we do not expect them to take up the House’s SECURE 2.0 as is), a continuation of FY2023 budget request hearings including appearances by Treasury Secretary Yellen in Senate Finance Committee today (6/7) and House Ways & Means tomorrow (6/8), as well as hearings in</p>

both House and Senate Homeland Security Committees on the use of cryptocurrency by terrorists and in cyberattacks. Also on the crypto front, sweeping legislation led by Sens. Lummis (R-WY) and Gillibrand (D-NY) is expected to be formally unveiled as early as today. Additionally, work will begin on FY2023 NDAA this week in the House Armed Services Subcommittees, with a full Committee markup scheduled for June 22nd. The Senate Armed Services Committee will begin the process next week. Two other issues that will also see the spotlight this month following the release of draft legislative measures, are efforts to address rising oil prices and data privacy legislation. Although it's highly unlikely we see substantial progress on either effort anytime soon. We are watching each of these issues closely.

Reconciliation

As the new congressional work period starts this week, Democrats will attempt to resurrect their climate and social spending reconciliation package. Over the past few weeks, Sens. Manchin and Schumer have met several times on the matter, with seemingly little progress truly made. Sen. Manchin has also convened a bipartisan group to discuss a potential energy and climate bill, but talks have stalled, and we understand those negotiations may very well have ended after last week's meeting. The group is nowhere near drafting a bill.

- In order to make an honest attempt to get a bill on the President's desk by the August recess, a far more modest agreement than the \$1.7 trillion "Build Back Better Act" needs to be reached pretty quickly and put on paper by the end of the June work period. Democratic reconciliation instructions for fiscal year 2022 expire on Sept. 30th, meaning they would then need to adopt a new budget resolution to pass a filibuster-proof package beyond that date. This would likely prove to be quite challenging.
- Manchin has outlined a path to a deal that includes climate and energy, drug pricing, and tax reform. "Build Back Better" included roughly \$300 billion in clean energy and electric vehicle tax incentives. Still, Senator Manchin has been focused on more limited policies to boost fossil fuels and address high energy prices without further igniting inflation.
- Notably, Sen. Sinema (D-AZ), who still remains key to advancing any measure, has not made much public comment on ongoing discussions. Nonetheless, we suspect she may have concerns regarding some specific language discussed, especially regarding certain tax provisions intended to raise revenue and address drug pricing. As we all know, her stamp of approval would be critical in passing anything.

China competition legislation

House and Senate negotiators will continue work on the China competitiveness package, with the goal of finalizing an agreement before the July 4th recess - though we think this timeframe could easily slip. Committees have been negotiating items within their jurisdiction and a fair amount of progress has been made, but several outstanding items will need to be decided at the leadership level. This includes provisions related to trade and tariffs, tax breaks, immigration and how to address counterfeit goods, among others.

We continue to believe that there is a greater than 50% chance an agreement will be reached this summer, and that the final package will closely resemble the bipartisan package that the Senate has already passed.

Gun control

House Democrats are expected to vote on some type of broad reform package, likely this week, although eyes will be on what, if anything, the Senate can develop that would have any chance of reaching the 60-vote threshold. There seem to be areas of potential common ground between a group of bipartisan Senators led by Sens. Cornyn (R-TX) and Murphy (D-CT) – things like minor changes to background checks, enhancing school safety protocols and the application of “red flag” laws that allows law enforcement to seize firearms from certain individuals deemed as potentially dangerous. Gun control will remain in the spotlight for the next few weeks at least, although serious legislation will be extremely difficult to advance this summer given the varying positions of lawmakers across the board and the political interplay as we inch closer to the midterms. That said, pressure from the public to enhance safety will certainly play a role here as

	<p>well. We believe that while the House will likely act first, any final measure would have to be much narrower than anything passed out of that Chamber.</p>
<p>SENATE BANKING & HOUSE FINANCIAL SERVICES COMMITTEES</p>	<p>Both the Senate Banking Committee (SBC) and House Financial Services Committee (HFSC) will have a relatively busy month, although agendas seem to be still coming together. We expect SBC Chair Brown (D-OH) and HFSC Chair Waters (D-CA) will begin to feel the pressure of the limited remaining schedule for the year, and the potential for Republicans to take back control of one or both Committees and will look to hold hearings on their key priority issues for the remainder of this Congress. Things like housing, racial equity and reigning in Wall Street will remain top of mind. Additionally, congressionally mandated regulatory oversight hearings will continue, including an appearance by Federal Reserve Chair Powell in both Committees later this month. Both Committees will have a lighter agenda this week, with the majority of hearings backlogged in the latter half of the month. Expected activity this month is outlined below.</p> <p>Senate Banking Committee (SBC) SBC will start off this week with a vote on the nominations of Jaime Lizárraga and Mark Uyeda to be SEC Commissioners, and Michael Barr to be Vice Chair for Supervision at the Fed. We expect the SEC nominees to advance through the Committee and to likely be confirmed this summer. As for Barr, it is more likely he sees a tie vote in SBC and wedges his way to confirmation on partisan lines later this summer. A few other hearings of note are outlined below, with the possibility for an additional hearing to be added to the agenda.</p> <ul style="list-style-type: none"> • Interestingly, SBC is expected to hold at least one, and potentially two, hearings on flood insurance this month – one with stakeholder witnesses and one with the Federal Emergency Management Agency (FEMA). Much like the recent HFSC hearing on the matter, we expect a large focus on FEMA’s Risk Rating 2.0 proposal and a push to ensure the National Flood Insurance Program (NFIP) avoids a lapse following its September 30th expiration date. There is a general understanding that a long-term reauthorization is not plausible this year and that this will be kicked down the road on a short-term basis, again, until likely next Spring. • Also potentially on the docket, in addition to an appearance by Fed Chair Powell later this month, is a hearing on the voting power of passive asset managers of index funds. If the hearing is officially noticed, discussion is expected to center around legislation led by Sen. Sullivan (R-AK), the Investor Democracy is Expected Act. The Republican-led bill would, in essence, seek to require that the power to vote shares resides with the fund investors, not advisors. We understand that Republicans are granted the ability to request a hearing given the 50-50 Senate split, which would allow for this hearing to take place. <p>House Financial Services Committee (HFSC) HFSC will have a quieter week this week, followed by a markup next week (6/14) and a handful of hearings scheduled for the last fews week of the month. This includes the appearance by Fed Chair Powell, which we expect many Members will use to raise questions all across the map. Inflation and the state of the economy will undoubtedly be the most common theme, particularly from Republicans, but a variety of other issues are all on the table. We anticipate there will be questions regarding cryptocurrency, the Fed’s progress on a central bank digital currency (CBDC), the Community Reinvestment Act, Michael Barr’s impending confirmation vote, climate change, international insurance issues, FedNow, and the economic impacts of the conflict in Russia/Ukraine, just to name a few. Additional expected hearings are outlined below.</p> <ul style="list-style-type: none"> • First on the agenda is a June 22nd Subcommittee hearing on the Community Reinvestment Act (CRA) – this follows a joint proposal from the FDIC, Fed, and OCC last month to modernize the rule. The recent proposed rulemaking makes substantial changes to the CRA regulation, although does not address its application to non-bank financial institutions. We expect this will be a key area of discussion at the hearing. Republicans will likely voice concerns that the rule proposal imposes onerous reporting rules and regulations to lenders during ongoing economic stress.

	<ul style="list-style-type: none"> • The Committee will hold two housing-focused hearings – one in the Oversight & Investigations Subcommittee on private equity’s role in the housing market, and one full Committee hearing on housing inequality. We expect no major surprises in either of these hearings – Chair Waters is a vocal critic of private equity and has continuously prioritized addressing gaps in homeownership during her time leading HFSC, so neither hearing comes as much of a shock. • Finally, the Task Force on Financial Technology will close the month with a June 30th hearing on “Understanding the Obstacles to Investments in Diverse-Owned Fintechs.” We expect Democratic members to raise concerns that minority-owned firms face a more challenging path to acquire funding than non-minority-owned firms and startups, ultimately stifling their ability to compete with others in the industry. Other Members may bring up the need for greater inclusion of women and minority individuals into the fintech space more generally.
REGULATORY	<p>Federal Reserve: The Fed will enjoy its first month with an almost-full Board, following the confirmations of Lael Brainard as Vice Chair and Governors Phillip Jefferson and Lisa Cook late last month. The agenda will include an FOMC meeting from June 14-15. At last month’s meeting, Fed regulators agreed that they need to raise rates by half-points at the June and July meetings to continue to address inflation and to allow for a potential pause in the fall. The FOMC meeting falls a week before Chair Powell’s appearances in SBC and HFSC, so we expect Powell will be pressed on how markets react to any Fed decisions.</p> <p>SEC: The biggest item from the SEC this month is the deadline for the climate-related disclosures rule proposal on June 17th. Despite the extension of this deadline from its original May 20th date, we still expect some time before the SEC moves into final rulemaking stage, particularly given the announcement of the newly released proposed rules late last month regarding greenwashing and the naming of ESG funds. Although we still anticipate Chair Gensler will want to proceed before the end of the year. There is also an Investor Advisory Committee meeting this week (6/9) and the climate disclosure rule proposal is on the agenda for discussion. The focus is on how it compares to requirements in other countries and where there may be areas for improvement.</p> <p>CFTC: The new CFTC Commissioners are keeping busy in various speaking engagements over the coming weeks, from which we will continue to get an idea of where each will be focused during their time at the Commission. Last week the CFTC issued a Request for Information (RFI) on climate-related financial risk, as directed by the FSOC 2021 Climate Report. The RFI will seek public input on questions related to how the CFTC can engage in terms of data, scenario analysis/stress testing, risk management, disclosure, digital assets, product innovation, greenwashing and more. The comment period ends August 1.</p> <p>FHFA/FHA: The FHFA is expected to release the GSE’s equitable housing plans as soon as this week, which are intended to create action plans for addressing sustainable homeownership opportunities over the next three years. In addition to the action plans, the GSEs are required to identify barriers to equitable housing. On the FHA front, with Julia Gordon now confirmed as Commissioner, industry awaits an anticipated decision on FHA premiums. FHA had announced it would consider a decrease after Q1 2022.</p> <p>Treasury: Secretary Yellen will appear this week for budget related hearings in the Senate Finance Committee and House Ways & Means Committee. While budget-focused in title, the hearings will provide important opportunities for updates on the international tax debate at OECD, work on digital assets, sanctions developments, and other financial policy initiatives. Also of note, the Federal Insurance Office is expected to release a response to Senate Banking Committee Chair Brown on private equity and insurance. This comes on the heels of a response from the National Association of Insurance Commissioners (NAIC).</p>

POLITICAL

As we've previously highlighted, midterm elections historically heavily favor the party in the minority. While the Biden Administration continues to face serious obstacles, such as high inflation and gas prices, the November election is still months away, which gives Democrats at least opportunities to address pressing kitchen table issues, such as the cost of prescription drugs or the baby formula shortage. As of now, RFA continues to believe that Republicans will take control of the House, and the race for the Senate remains tight. Below we've highlighted several upcoming primaries and notable dates in the month of June that we are watching closely.

Additionally, we recap some of the more prominent outcomes from the May primaries.

- **June 7th:** California, Iowa, Mississippi, Montana, New Jersey, New Mexico, and South Dakota will hold their primaries. California has several hotly contested House primary races that we will be looking out for – there are three Republican-held seats considered toss-ups and four seats that only slightly favor one party over the other. Meanwhile, Sen. Padilla (D-CA), who was appointed to the Senate in 2021 to replace VP Harris, is heavily favored to keep his seat. Notably, California has a jungle primary system, which means the top two vote-getters, regardless of party, will advance to the general election. In other news, senior Senators Grassley (R-IA) and Thune (R-SD) are both up for reelection. Both are expected to easily win their party's nomination this month. That said, Grassley could face a tougher general election in November, likely against former Democratic Rep. Abby Finkenauer, who lost her seat in 2020 after losing in the general election by under 3%. Iowa is still considered a red state, although not one Republicans can take for granted.
- **June 14th:** Maine, Nevada, North Dakota, and South Carolina will hold their primaries. Incumbent Senators Hoeven (R-ND), Scott (R-SC), and Cortez Masto (D-NV) are expected to easily win their party's nominations. Although Cortez Masto's general election in November will be among the most hotly contested and is considered a pickup opportunity for the GOP. One House primary we are watching closely is South Carolina's 1st Congressional District, where incumbent Rep. Mace (R) faces off against Trump-backed former South Carolina Representative Katie Arrington. In Maine, former Congressman, Bruce Poliquin, is expected to win his primary and attempt to win his former seat back from Rep. Golden (D) in November.
- **June 21st:** D.C. and Virginia will hold primaries on June 21st, while Arkansas, Georgia, and Alabama will all hold runoff elections on this day as well. In Alabama, we are closely watching the race to replace retiring Sen. Shelby (R). Former Chief of Staff to Sen. Shelby, Katie Britt, faces off against Rep. Mo Brooks (R) after neither candidate was able to reach the 50% threshold during their primary last month. Britt is the favorite, after leading Brooks by almost 15% in the primary. Runoffs in Arkansas and Georgia are for House and state-level races.
- **June 28th:** Colorado, Illinois, New York, Oklahoma, and Utah will hold their primaries on June 28th, while Mississippi and South Carolina will hold their runoff elections. No big surprises expected this day – Senators Bennet (D-CO), Duckworth (D-IL), Majority Leader Schumer (D-NY), Lankford (R-OK), and Lee (R-UT) are each expected to win their party's nominations. Additionally, Oklahoma will also have a special election to fill the seat of retiring Sen. Inhofe (R-OK). The GOP primary is crowded with candidates such as T.W. Shannon, the former speaker of the Oklahoma State House, State Senator Nathan Dahm, Rep. Markwayne Mullin, and Luke Holland, Senator Inhofe's former Chief of Staff. Rep. Mullin seems to be the front-runner, but with a field this large, a runoff is expected.
- **May Recap:** Trump-backed candidates came out of May with a winning record, indicating that the former President still holds influence over the GOP. In Ohio, Trump-endorsed J.D. Vance easily sailed to victory in the Republican senatorial primary. Similarly, Rep Mooney (R-WV) a conservative member of the HFSC, handily won his primary over Rep. McKinley in West Virginia's 2nd district, and Rep. Ted Budd (R-NC) won the Republican senatorial primary in North Carolina by a significant margin. In Pennsylvania, Trump-backed candidate for Senate Dr. Mehmet Oz claimed victory over the weekend in that state's Republican primary, after his opponent, David McCormick,

conceded before the recount scheduled for June 7th. While some Trump-endorsed candidates didn't fare as well in Georgia (Gov. Kemp won by a large margin over former Sen. Perdue and Secretary of State Raffensperger comfortably won his battle over a Trump-endorsed candidate), former football star Herschel Walker, who had the support of Trump, easily won the Republican primary for Senate there.

On the Democratic side, liberal John Fetterman handily won the Democratic senatorial nomination in Pennsylvania, defeating moderate Rep. Conor Lamb, while Rep. Tim Ryan won the Democratic senatorial nomination in Ohio. Recent polling shows the race between Ryan and J.D. Vance in a virtual deadlock. In North Carolina, former Chief Justice of the NC Supreme Court Cheri Beasley cruised to victory to set up the general election battle with Rep. Budd. In Georgia, current Sen. Warnock (D) didn't have a real primary challenge, and is now set for a crucial face off with Walker in November.