

RICH FEUER ANDERSON

May 2022 Outlook

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<p>OVERVIEW</p>	<p>Following a relatively quiet April by DC’s standards, Congress is gearing up for a jam-packed May. The Senate will remain in Washington for a four-week stretch before the Memorial Day recess, while the House will return next week with just 11 session days on the docket for the month. Meanwhile, midterm election season will really kick off, with a series of primaries occurring over the next few weeks. With Democrats’ control of both chambers at risk, lawmakers are rushing to pass bills that they can run on in November, and Democratic Senators are working to confirm President Biden’s nominees while their fragile majority holds.</p> <p>One of the major issues Congress will look to tackle this month is a pandemic aid measure to provide the Administration with \$10 billion of previously unspent COVID-19 funds to prepare for potential future variants (think additional Covid tests, vaccines, and PPE). The measure hit a roadblock late last month following a divide over tying it to lifting Title 42 – a Trump-era immigration policy that allows the government to deny entry at the border using a public emergency health order. We can expect the Biden Administration to renew its push for these additional funds as Congressional inaction is already taking its toll across the country. Another area of contention is more aid for Ukraine. Before Congress left town last week, President Biden requested \$33 billion in additional aid, which was followed by a visit to Kyiv led by Speaker Pelosi (D-CA) and members from her caucus. We expect the measure will receive bipartisan approval from Congress once the House returns and if pursued through a stand-alone vote. Challenges could ensue if lawmakers attempt to link the measure to pandemic relief funding or the reversal of the Title 42 policy.</p> <p>There have also been rumblings between Senator Manchin (D-WV) and the White House on a smaller social-spending package, months after Build Back Better Act was left for dead. But the question remains as to when, or if, they’re going to get down to business and reach a compromise that can be passed into law before midterms season dominates the calendar. For now, Congress will continue business as usual on the hearings front, while larger legislation will face a ticking clock. We outline our expectations for the month below.</p>
<p>CONGRESSIONAL ACTIVITY</p>	<p>As mentioned above, we anticipate an initial focus this month on negotiations related to additional COVID-19 and Ukraine aid and hashing out disagreements related to Title 42. That said, there are additional ongoing workstreams in Congress that we’re keeping an eye on. This includes things like the Senate Judiciary Committee’s upcoming hearing on interchange fees (5/4), Democrats’ enhanced focus on surging oil prices, an expected House Agriculture Committee hearing on cryptocurrency and the FTX proposal (May 12th), as well as the potential for a Senate Finance Committee markup on retirement legislation. All the while, the Senate Appropriations Committee will ramp up a series of Subcommittee hearings with Cabinet officials to mull over FY2023 budget requests. We’re monitoring each of these developments, along with the below headliner issues closely.</p> <p>Reconciliation: In the midst of the upcoming May work period, and following a prolonged rest period on reconciliation negotiations, Sen. Manchin has provided some detail on what he could support as Democratic leaders attempt to, yet again, pass a modified budget reconciliation package, formerly known as the Build Back Better Act. Manchin’s priorities, however, seem unlikely to work in concert with those of the majority of the Democratic party. As a result, even a</p>

slimmed-down bill looks unlikely to reach President Biden's desk before Congress leaves town this summer before the August recess, when most (if not all) legislative business will come to a halt before the midterms, except for a likely continuing resolution to keep the government funded through December.

- While neither the White House nor Manchin has indicated formal talks are taking place, the Senator has said he would like to use a portion of any revenue raised by the bill to pay down the federal deficit and that he supports energy incentives, prescription drug reform, and reversing some of the 2017 tax cuts such as raising the corporate tax rate to 25% and raising the long-term capital gains tax rate to 28%. The issue is further complicated because such tax code revisions will likely face opposition from Sen. Sinema (D-AZ), given her continued resistance to tax rate increases. In a 50-50 Senate, Democrats cannot afford to lose any of their Members to be successful.
- In addition to informal reconciliation conversations, a bipartisan group of lawmakers, led by Sens. Manchin and Murkowski (R-AK), is considering the potential for a bipartisan climate and energy security package that could move through Congress via a time-consuming regular order process. If these conversations were to pick up enough bipartisan support to reach 60 votes - which at the time we don't believe they will - it could potentially take the steam out of a partisan, social spending effort.

China competition legislation: Congressional Democrats hope to complete negotiations on the China competitiveness package before the end of this work period (before the Memorial Day holiday) – though that is a fairly ambitious timeline, and we believe it will be challenging to meet. The Senate still needs to take a couple of procedural votes this week before an official conference can even start, which we do expect they will move forward with. That said, given the huge size of the official conference committee (over 100 members) we believe actual decisions will be made at the leadership level.

- We continue to believe that if a bill is to become law it will have to look substantially similar to the Senate-passed bipartisan bill (USICA), rather than the House bill that was passed along party lines and included a number of climate-focused provisions that won't see GOP support (the America COMPETES Act). We still believe the legislation will ultimately pass, but it will be difficult to do so before the end of this month.

Nominations: As we know, positive COVID-19 tests for Democratic Senators and VP Harris last week prevented the Senate from advancing the three outstanding Federal Reserve nominees, as well as Alvaro Bedoya to the Federal Trade Commission (FTC). While (currently Acting Fed Chair) Jerome Powell and Philip Jefferson (nominee for Fed Governor) have bipartisan support, Senate Democrats will wait to hold a vote on the pair until their full caucus returns so there is sufficient support for Biden's other Fed Governor nominee, Lisa Cook. The same goes for Bedoya to the FTC, who will not receive any GOP support. We expect all nominees to be confirmed this month, but timing will be dependent on Democratic attendance. Other less controversial nominees, like Josh Frost to be assistant Treasury secretary for financial markets, will likely move ahead irrespective of these health hurdles.

- The President has also announced picks for Vice Chair for Supervision at the Fed (Michael Barr) and SEC Commissioners (Mark Uyeda and Jaime Lizárraga). So far, Barr's nomination has seen support from both ends of the Democratic political spectrum, including from Sens. Manchin and Warren (D-MA), although will likely see little, if any, Republican support. We expect this confirmation process will not conclude this month and will bleed into later in the summer. *Note: Lael Brainard was confirmed last week as Vice Chair at the Federal Reserve with a few GOP Senators voting in favor.*
- Two major housing nominees also remain stalled due to expected close votes and COVID complications. Julia Gordon, nominee to be Federal Housing Administration (FHA) Commissioner, and Sandra Thompson, nominee to be Director of the Federal Housing Financial Agency (FHFA). Gordon is expected to be a partisan vote, and thus will need to wait until there is both floor time and all Democratic Senators are present. We expect a push to get her done before the Memorial Day recess. Thompson, while

	<p>enjoying bipartisan support, has not been prioritized on the floor partly due to her ability to serve as Acting Director in the interim. We expect she could be confirmed either late May or June depending how large the COVID backlog gets.</p>
<p>SENATE BANKING & HOUSE FINANCIAL SERVICES COMMITTEES</p>	<p>We expect both the Senate Banking Committee (SBC) and House Financial Services Committee (HFSC) to have another robust month, although agendas seem to be still coming together. There will certainly be a number of Congressionally mandated regulatory oversight hearings in both committees over the course of this month and the remainder of the summer, which will take precedent on the limited calendar. This includes appearances by Treasury Secretary Yellen in HFSC this month and SEC Chair Gensler likely in either May or June. Additionally, the committees will continue a focus on housing issues, digital assets, financial inclusion, and racial equity. Chair Waters (D-CA) and Diversity & Inclusion Subcommittee Chair Beatty (D-OH) will also hold a hearing on the recent inquiry into diversity data within the insurance industry once the Subcommittee assesses the data collected (likely after May). Additional hearings expected this month are outlined below.</p> <p>Senate Banking Committee (SBC) SBC will kick off the month with hearings this week on overdraft fees and on examining student loan servicers and protections for borrowers. This reemphasizes Chair Brown’s (D-OH) intense focus on consumer protection issues and comes off the heels of CFPB Director Chopra’s appearances in the Senate Banking and House Financial Services Committees last week. The “Examining Overdraft Fees and Their Effects on Working Families,” hearing will be held in the Financial Institutions and Consumer Protection Subcommittee, which is chaired by Sen. Warnock (D-GA). Some Democrats will call on banks to reduce or fully eliminate overdraft fees while GOP members will focus primarily on consumer choice, emphasizing that consumers can choose zero-fee accounts, and will criticize the CFPB’s overreach into this space. We also understand Chair Brown is looking to potentially hold nominations hearings this month for Michael Barr (nominee for Fed Vice Chair for Supervision), as well as the two nominees for SEC Commissioners.</p> <p>House Financial Services Committee (HFSC) We anticipate Chair Waters (D-CA) will release the full hearing agenda within the next day or so, but know several hearings are already in the works. Next week, Treasury Secretary Yellen will appear before HFSC in her Financial Stability Oversight Council (FSOC) capacity. This is a statutorily required oversight hearing and will cover a whole host of issues and ongoing workstreams within FSOC or at FSOC member agencies (and even those unrelated to FSOC).</p> <ul style="list-style-type: none"> • Additionally, we understand HFSC will have a hearing on S&P’s proposed changes to its global ratings methodology (expected on May 11th), an important component of insurance companies’ ratings. Capital Markets Subcommittee Chair Sherman (D-CA) has called for the hearing, reaffirming his discontent with the large credit rating agencies. Members will discuss the anti-competitive nature of the proposed notching methodology, the treatment of insurance companies’ investments under this framework, and the impact to the U.S.’s insurance capital negotiations on the global stage. • HFSC will also hold a markup this month. As is typical, the list of bills to be included remains in flux (and likely will remain the case up until the week of the markup). We understand Chair Waters will use as a starting point the list of bills floated to be included in the March markup, which were ultimately scrapped for the Russia/Ukraine-themed bills. That said, measures included in late-March and April hearings (like Rep. Sherman’s stock exchanges hearing) are eligible and can be included.
<p>REGULATORY</p>	<p>Despite the nomination holdouts, action will continue at the financial regulatory agencies over the course of this month. Starting this week, the Federal Reserve’s Federal Open Market Committee will hold a two-day meeting where it’s expected to announce another interest rate hike (the meeting also occurs amidst the rollout of company earnings reports and in anticipation of the May Jobs Report). Chair Powell will discuss the Fed’s plans for the remainder of the year</p>

	<p>in a press conference following the meeting on Wednesday (5/4). We also understand the FDIC and OCC have picked back up work to overhaul the Community Reinvestment Act.</p> <p>The CFTC will enjoy its first full month with its new slate of Commissioners, which will include a public roundtable on May 25th focused on non-bank intermediation. Meanwhile, it is clear the SEC will continue in its aggressive push to oversee the digital assets space, announcing this week plans to hire an additional 20 positions within its Crypto Assets and Cyber Unit – the enforcement unit responsible for overseeing crypto markets. In addition, several key rule proposals from the CFTC and SEC will see comment periods end this month, including the SEC’s controversial climate-related risk disclosure proposal. We expect strong pushback from Republicans and an industry push to extend the comment period. Key dates below:</p> <ul style="list-style-type: none"> ○ SEC: Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure – May 9th ○ CFTC: FTX Request for Amended DCO Registration Order – May 11th ○ SEC: Enhancement and Standardization of Climate-Related Disclosures for Investors – May 20th ○ SEC: Removal of References to Credit Ratings from Regulation M – May 23rd ○ SEC: Further Definition of "As a Part of a Regular Business" in the Definition of Dealer and Government Securities Dealer – May 27th ○ SEC: SPACs, Shell Companies, and Projections – May 31st
<p>POLITICAL</p>	<p>Midterm elections tend to heavily favor the party in the minority, and with inflation at a 40-year high, the widespread expectation is that this historical trend will stick. That said, while Republicans may have an early advantage, there are still unforeseen factors that could shape the outcome of the election, including the “Trump factor,” revelations from the Select Committee’s investigation of the January 6th events, as well as Democrats’ ability to advance meaningful legislation before November. Despite these factors, we still believe Republicans will take control of the House. Meanwhile, the race for the Senate remains neck and neck. We won’t speculate too far out at this point but will highlight several upcoming primaries and notable dates in the month of May that we are watching through a close lens.</p> <ul style="list-style-type: none"> ● May 3rd: Today, Ohio and Indiana will both hold their primaries. In Ohio, the race is on to replace retiring Sen. Portman (R-OH) with a crowded GOP field. J.D. Vance, the author of Hillbilly Elegy and a venture capitalist, received President Trump’s endorsement earlier this month, but other more traditional candidates, such as Ohio State Senator Matt Dolan, have seen a last-minute bump in the polls. While Ohio has increasingly trended red in the last few election cycles, Democrats eye this state as a potential pick up opportunity, with moderate Rep. Tim Ryan (D-OH) being the likely Democratic nominee. In Indiana, both Sen. Young (R) and the Democratic candidate, Thomas McDermott, are unopposed in the primary and will face off in November. There is a crowded primary field to replace retiring Rep. Hollingsworth (R) in Indiana’s only vacant House seat, but the district is solidly Republican. ● May 10th: Nebraska and West Virginia will hold their primaries. Due to redistricting, two Republican House members will face off against each other in West Virginia’s 2nd Congressional district. Rep. Mooney, a conservative member of the HFSC, has received the endorsement of President Trump, while Rep. McKinley has been berated by the former President for supporting the bipartisan infrastructure package and the commission to investigate the Jan. 6th Capitol insurrection. That said, Rep. McKinley has picked up the endorsement of WV’s Republican Governor Jim Justice, as well as from Sen. Manchin. The race is highly competitive, and the outcome here will shed light on Trump’s influence in the state. Meanwhile, neither Senator from Nebraska is up for reelection, and the House delegation is seen as an easy keep for Republicans state-wide. ● May 17th: Idaho, Kentucky, North Carolina, Oregon, and Pennsylvania will hold their primaries. In North Carolina, the race to replace retiring Sen. Burr (R) is on, with former Gov. Pat McCrory, former Rep. Mark Walker, and Rep. Ted Budd all vying for the Senate seat. Budd picked up the Trump endorsement, which was followed by a jump in the polls, but McCrory has state-wide name recognition on his side. The Democratic primary is seen as less competitive, as Cheri Beasley is heavily favored to win. This seat, which Trump narrowly won in 2020, is one of the key races that could help determine

control of the Senate. Notably, the state picked up a 14th House district, which is expected to sway Democratic. Pennsylvania is another key state to watch since Sen. Toomey (R), the Ranking Member of the Senate Banking Committee, is retiring. There is no clear front runner in the Republican primary, but candidates include Dr. Mehmet Oz and former hedge fund executive, David McCormick. In the Democratic primary, progressive John Fetterman is the early front-runner to win the nomination, but moderate Rep. Conor Lamb is also in the race.

- **May 24th:** Finally, Alabama, Arkansas, and Georgia will close the month with their primaries. In Georgia, Sen. Warnock (D) is expected to breeze through the primary and face off against UGA Football legend Herschel Walker in November, (Walker has dominated the GOP primary and received the endorsement of President Trump). This will be a key race to watch. In Alabama, there are three front-runners to replace retiring Sen. Shelby (R) – Shelby’s former Chief of Staff, Katie Britt, Rep. Mo Brooks, and retired Army pilot, Mike Durant. Rep. Brooks, who was up early in the polls, has seen a sharp decline after Trump rescinded his endorsement for the Congressman in March. Notably, recent polling has shown Durant with a slight lead over Britt, although he seems to remains shy of the necessary 50% to avoid a runoff in June. The candidate to advance through the GOP primary is expected to fill the Senate seat.