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July 2022 Outlook

July 12, 2022

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| <p>OVERVIEW</p> | <p>Both the House and Senate are back today with a short window of time and a seemingly endless agenda ahead. The Senate technically returned yesterday and will remain in session through the first week of August (20 days total). The House, on the other hand, is currently scheduled to be in Washington for just twelve days before leaving for the full month of August. Given the extended August recess, the FY2022 fiscal year ending September 30th, and the ramping up of midterm elections, Congress will have to make meaningful progress on a number of legislative items in the July/August work period for any chance of successes this year. While post-Roe discussions, gun reform and continued hearings from the House Select Committee on the January 6th attack on the Capitol will continue to create headlines, work on other pressing issues will take up much of the energy this month (reconciliation, China legislation, NDAA). Notably, Majority Leader Schumer’s (D-NY) positive Covid test over the weekend could stifle immediate action on these items, but he’ll continue discussions remotely and likely return next week. Other pressing items, the regulatory agenda, and midterms outlook for July and August is included below.</p> |
| <p>CONGRESSIONAL ACTIVITY</p> | <p>While the Senate may face a setback on other items given the absence of Leader Schumer and others (Sen. Blumenthal (D-CT) also recently tested positive for COVID and Sen. Leahy (D-VT) continues to recover from surgery), the chamber is still expected to move forward with several key nominees this week – most prominently Michael Barr to be Vice Chair for Supervision at the Federal Reserve. Other confirmations expected this week include Steven Dettelbach to be Director of the Bureau of Alcohol, Tobacco, Firearms, and Explosives, and Ashish Vazirani to be Deputy Under Secretary of Defense. Also on the nominations front, the Senate Finance Committee will consider the nominations of Jay Shambaugh to be a Treasury Under Secretary for International Affairs and Richard Frank to be Assistant Secretary of Health and Human Services.</p> <p>The House will kick off the work period with a vote on several bills, including two intended to protect abortion access in response to the Roe decision – one of which would fully codify Roe v. Wade into law. Both bills will meet resistance in the Senate and ultimately won’t pass into law, but they follow the recent White House executive order, and will be used by Democrats as a campaign tool this fall. Similarly, there are six hearings across both the House and Senate on the matter this month, so access to abortion will continue to be a focus of Democrats. There will also be a vote on a gun-related bill this week, the “Active Shooter Alert Act”, which has bipartisan support in the House. Other notable events include a continuation of the January 6th investigative hearings, a House Small Business Committee hearing on fintech and small business lending, and a Senate Energy & Natural Resources Committee hearing to discuss rising energy prices. We also understand a House Energy & Commerce Committee markup on privacy legislation will occur this week. Otherwise, the big-ticket items of the month will mirror those of the last several months – reconciliation, China competition legislation and defense spending. More below.</p> <p>Reconciliation: Notably, we saw the first real sign of progress towards a slimmed down Build Back Better Act (BBBA) package last month with Democrats’ drug pricing plan announcement. Although that’s just one piece of a larger puzzle, and Democrats still seem far from a deal on other aspects of the package, including on energy and tax provisions. And while the budget</p> |

resolution enabling reconciliation will not expire until September 30th, it is widely accepted that if Democrats were to introduce a bill, it will have to occur before the August recess. If significant progress is not made this month, we don't expect a package to ultimately come together. A few notable factors below.

- It is customary for September to be a relatively quiet month and will focus primarily on government funding and avoiding a shutdown, and any reconciliation agreement, if it occurs, will require at least a week of floor time. Additionally, there will be the drafting and transformation of the bill into legislative text, as well as the scoring of the bill. These timing and process constraints pose significant hurdles in Democrats' agenda here.
- Looking back, last month Senate Democrats introduced a proposal allowing Medicare to negotiate drug prices and the Senate parliamentarian is currently reviewing the language before they can move forward on this piece. Democrats still need to decide on various other issues, such as a 15% global minimum tax, alternative minimum tax on book income, a surtax on high earners, expanded electric vehicle tax credits, and extending ACA subsidies before they can move forward.
- It is predicted that the new bill will raise roughly \$1 trillion in revenue, half of which will be used for new spending and the other half to reduce the deficit over ten years. In order to attract moderate support, the climate portion of the deal has already been significantly trimmed. Also of note, new inflation numbers will come out this week – any impact to inflation or the deficit has been a sticking point for Sen. Manchin during the BBBA talks.
- While there has been some concern that Sen. Sinema (D-AZ) is not been directly involved in the Manchin and Schumer talks, she will need to take a stance on the reconciliation package this month. It is worth noting that Sinema was previously vocal in support of the \$1 trillion in revenue options the White House presented in its proposed Build Back Better framework last fall, and her office has reiterated that in recent weeks. We expect it should be clear soon whether her position has changed as talks intensify.

China legislation: Following slowed progress on the package, Minority Leader McConnell (R-KY) threatened last month to tank the USICA legislation if Democrats continue efforts to move forward with a partisan reconciliation bill. While the statements caught headlines, we don't believe the two sides were especially close to a deal before he made them, and Republicans don't feel much pressure to reach a deal in the short-term. As a result, we expect Leader Schumer will prioritize reconciliation negotiations this month. That said, Schumer is continuing to press on and is hosting an all-Senators briefing tomorrow with officials from Department of Commerce and Department of Defense to try and up the pressure on his colleagues to act. The focus will be on semiconductors and chip production – provisions of the bill which enjoy strong bipartisan support.

FY2023 NDAA: The House Rules Committee is meeting today on the National Defense Authorization Act for Fiscal Year 2023 (FY2023 NDAA) with the goal of passing the final package by Thursday night. A record 1,200+ amendments have been filed – many of which won't ultimately be included but display the difficulty of moving forward with the process and advancing any one-off measure without broad support. Various provisions including those relating to crypto and cyber are likely to be included in the House bill, although we don't expect real negotiations between House and Senate on a final package to happen until after the elections. We do not anticipate the Senate to move any time soon on their version given various other priority issues taking precedent.

Retirement legislation: Last month, the Senate finally moved on their version of retirement reform legislation after receiving the 10-year budgetary effect from the Joint Committee on Taxation. Both the Senate Finance and Senate HELP Committees marked-up and advanced their elements of the bill, the EARN Act and RISE & SHINE Act, respectively. The Senate's bill would cost \$39 billion and is completely offset – Senators indicated a willingness to increase this to \$41 billion so long as the cost remains offset. Now begins work to hash out differences

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| | <p>between the Senate’s package and the House-passed SECURE 2.0. While there is significant overlap between the House and Senate versions, there are several variations, including a key element relating to auto-enrollment. Generally, the bills have widespread bipartisan support, including the backing of the Chairs and Ranking Members of relevant committees. We expect negotiations will continue through the month of July and still view retirement reform legislation as likely to pass this year, so long as the calendar allows.</p> |
| <p>SENATE BANKING & HOUSE FINANCIAL SERVICES COMMITTEES</p> | <p>Senate Banking Committee Both the Senate Banking Committee (SBC) and House Financial Services Committee (HFSC) have lighter agendas for July than we’ve seen in previous months. To start, this morning SBC will hold a hearing to hear an update from the Federal Transit Administration (FTA) on new programs created by the Bipartisan Infrastructure Law, as well as how other existing programs within FTA have changed or improved under the law. Later this week, the Committee will convene for a Bureau of Industry and Security oversight hearing focused on export controls. We expect the Outbound Investment Review proposal included in the House’s America COMPETES Act to come up in the hearing. The sole witness will be Alan Estevez from the Department of Commerce. We expect Chair Brown (D-OH) will likely schedule an additional hearing or two for later in the month, although the schedule seems to still be coming together.</p> <p>House Financial Services Committee Chairwoman Waters (D-CA) released the House Financial Services Committee (HFSC) agenda late last week, which includes just four hearings, followed by a markup at the end of the month on July 27th. We anticipate the list of bills to be included in the markup will come together over the next several weeks and will include the Overdraft Protection Act, which was pulled from last month’s markup.</p> <ul style="list-style-type: none"> • The Committee will kick off the month tomorrow morning with a hearing on Community Reinvestment Act (CRA) modernization. The hearing, held in the Consumer Protection and Financial Institutions Subcommittee, was postponed last month. Three legislative proposals have been attached to the hearing, including one to expand CRA lending and investment activities to cover both bank and non-bank firms. While we expect Democrats to commend the joint proposal released by the FDIC, Fed and OCC in May, given that there are no regulatory witnesses, we don’t expect the hearing to significantly move the needle in terms of advancing the proposal. Republicans will likely voice concerns that the proposed changes to CRA will impose onerous reporting rules and regulations to lenders during ongoing economic stress. • Next week, HFSC will start off with two hearings on the 19th. First, the Investor Protection, Entrepreneurship and Capital Markets Subcommittee will hold an oversight hearing with representatives from the SEC’s Division of Enforcement (DOE), including Director Gurbir Grewal. We expect Republicans will heavily scrutinize the DOE and broader SEC generally for its aggressive enforcement agenda and will ask specifically about the recent increase in crypto-focused staff within the DOE, as well as about Staff Accounting Bulletin 121. Later in the day, the Subcommittee on Oversight & Investigations will hold a hearing on the impact of mass shootings on local economies and economic growth. • On July 20th, the full committee will hold a Federal Housing Finance Agency (FHFA) oversight hearing with an appearance by newly confirmed FHFA Director Sandra Thompson. This is Thompson’s first appearance before HFSC, so we expect a broad array of questions regarding her vision for the Agency – which is responsible for oversight of Fannie Mae and Freddie Mac in conservatorship and the Federal Home Loan Bank System. We expect equitable housing plans, appraisal bias, GSE capital and liquidity, and third-party oversight are all issues likely to come up |

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| <p>REGULATORY AGENDA</p> | <p>Department of Treasury Treasury remains active on a number of policy fronts including digital assets. Over the last two weeks, Treasury released one report outlining ways to improve international regulatory coordination on digital assets, and a request for comment on how to promote responsible development of digital assets. In other areas of the market, Treasury released a request for information on how to improve Treasury market resilience with the comment period ending in late August. Looking forward, we anticipate a quarterly FSOC meeting to be announced this month with crypto market volatility expected to be an area of focus. Internationally, as previously mentioned, Under Secretary for International Affairs nominee Jay Shambaugh will have his Senate Finance Committee nomination hearing this week. This key position has been vacant since the beginning of the Administration. We expect Shambaugh to receive bipartisan support. However, Republicans are likely to press him hard on international tax commitments.</p> <p>Securities Exchange Commission (SEC) The SEC is expected to finalize a rule on July 13th that will roll back requirements for proxy advisory firms to share their voting recommendations with issuers before distributing them to investors. The agency is expected to finalize the rule without major modifications. Also on July 13th, the SEC is expected to propose amendments to the shareholder proposal rule (Rule 14a-8) by clarifying how and when companies can exclude shareholder proposals from their proxy materials. The proposed rule will likely clarify – and narrow – the bases that companies can use to exclude shareholder proposals, including the so-called “ordinary business” exception. Prior to testifying in front of HFSC on July 19th, DOE Director Grewal is scheduled to give a speech at the 2022 South Asian Bar Association Conference on July 16th. We also expect Jaime Lizárraga to be sworn in this month as a Commissioner.</p> <p>Commodity Futures Trading Commission (CFTC) Like last month, the new Commissioners have a number of speaking engagements lined up and are beginning the process of filling out advisory committees. Commissioner Pham is reviewing nominations for the Global Markets Advisory Committee (GMAC) and Commissioner Mersinger for the Market Risk Advisory Committee (MRAC) – submissions for both were due last month. Also, the CFTC’s Request for Information on climate-related financial risk, as directed by the FSOC 2021 Climate Report, will end August 1st. We don’t expect a decision on the FTX proposal to be released this month – we still anticipate this is an end of Q3 or Q4 exercise.</p> |
| <p>POLITICAL</p> | <p>July will be a slower month on the elections front, with Maryland as the only state holding its primary elections, followed by a packed August, with 10 states holding their primaries including several pivotal states, like Arizona, Wisconsin, and Missouri. The primary season will then close out in September with four remaining states (MA, DE, RI, and NH) before the real countdown to the midterms is on. The recent Supreme Court ruling regarding women’s reproductive rights, along with multiple recent shootings and rising crime, have sent waves throughout the country and could impact upcoming elections. That said, it is unclear how significantly these issues will sway voters this fall, as most polls still show that inflation and the state of the economy outpace all other issues for a majority of voters. Additionally, as we’ve previously stated, midterm elections generally favor the party in the minority, which also fares well for Republicans. Although while the Biden Administration faces historically low poll numbers, Democrats were able to secure a victory on gun reform last month and July and the coming months could prove pivotal for Democrats, particularly if they are able to yield any concrete progress on a reconciliation package. At this point, we still believe Republicans will retake control of the House, while the Senate remains too close to call. Below we’ve highlighted the upcoming July and August primaries and recapped some of the more prominent outcomes from June.</p> <ul style="list-style-type: none"> • July 19th: Maryland is the only state that will hold its primaries this month, with all eight congressional districts on the ballot, along with the Senate seat held by Sen. Van Hollen (D). Additionally, Marylanders will vote to replace outgoing Republican Gov. Larry Hogan, who is term limited. We expect Sen. Van Hollen will advance and ultimately keep his seat in November. Leader McConnell attempted to recruit Gov. Hogan to run |

against Van Hollen, given his deep popularity in the state, but those efforts never came to fruition. Many political pundits view Hogan as a potential Presidential candidate come 2024. In the House, Republicans are targeting the seat held by Rep. David Trone (D) as a possible pickup opportunity after redistricting shed many reliably Democratic voters in Montgomery County. Otherwise, the remaining seven seats are considered safe for the incumbent party (six Democratic, one Republican).

- **August 2nd:** Arizona, Kansas, Michigan, Missouri, and Washington will hold their primaries. We are paying close attention to the election in Arizona, where Sen. Mark Kelly (D) is up for reelection. This is the second time Kelly faces the state's electorate in two years, and while he's expected to win the Democratic nomination, his seat is a GOP target in November. Although Republicans do not have a clear frontrunner yet, which helps Kelly. Contenders include businessman Blake Masters, businessman Jim Lamon, and Attorney General Mark Brnovich. A recent poll showed Masters leading, but that same poll showed that 35% of Arizona voters were still unsure of who they would cast their ballot for. Meanwhile, Sen. Moran (R-KS) and Sen. Murray (D-WA) are expected to win their parties' nominations in their respective states and will likely win their general elections this fall. That said, Sen. Murray and Democrats are spending millions on advertising in Washington as fear grows that Republicans can build national momentum in the state. In Missouri, Democrats see a potential pick up opportunity to replace retiring Sen. Roy Blunt (R). The current GOP front runner, Eric Greitens, is plagued with scandals and has maintained his lead against Attorney General Schmitt and Rep. Hartzler (R-MO) for some time now. Democratic candidates include Lucas Kunce and Busch Valentine. Kunce, a former Marine, has substantially narrowed the gap against Greitens in recent polling for the Senate seat. Michigan does not have any Senate seats up for reelection.
- **August 4th:** All nine of Tennessee's House seats will hold their primaries, and there should be little surprises in these races as the GOP continues to dominate the electorate.
- **August 9th:** Connecticut, Minnesota, Vermont, and Wisconsin will hold their primaries. We expect Sen. Blumenthal (D-CT) to win his party's nomination and the general election in November. In Vermont, Sen. Leahy (D) is retiring, and Rep. Peter Welch (D) is presumed to replace him. In Wisconsin, Sen. Johnson (R) is expected to win the Republican nomination but will face an uphill battle to maintain his seat. Two Democrats are vying for their party's nomination, Mandela Barnes and Alex Lasry. Barnes maintains a narrow lead and is backed by progressive firebrands like Sen. Warren (D-MA). Lasry is considered a more center-left candidate and has won the endorsement of local labor unions. While Sen. Johnson has recently been mired in controversy regarding the January 6th insurrection, he has confounded Democrats for two straight Senate races and will still be a difficult candidate to oust. Minnesota does not have any Senate seats up for reelection this cycle.
- **August 13th:** Both of Hawaii's congressional districts will hold primaries, and there will be little surprises in the solidly blue state. Sen. Schatz (D) is also up for reelection, and we expect him to safely maintain his seat.
- **August 16th:** Alaska and Wyoming will hold their primaries. In Alaska, Sen. Murkowski (R) is seeking reelection to the ire of former President Trump, who has been active in his opposition of her after she voted to impeach him. That said, ousting Murkowski won't be an easy feat. Alaska voters approved a ballot initiative in 2020 establishing a top-four primary election field, meaning all candidates for a given office run in a single primary election and the top four advance, regardless of party affiliation. The initiative also established ranked choice voting for general elections, which is expected to prove favorable for Murkowski, a moderate Senator who often bucks her own party. The state will also hold a special election to fill the seat for the remainder of the late Rep. Don Young's (R) term. Notably, the regular primary to determine candidates for the general election will be held on the same day. Former Vice-Presidential candidate Sarah Palin has secured the Trump endorsement and leads the other two candidates, Democrat Mary Peltola and Republican Nicholas Begich. While Wyoming does not have any Senate seats

up for reelection, it will feature a hotly contested Republican primary for its at-large congressional district. Rep. Liz Cheney (R) is fighting off a primary challenge against several Republican challengers, including Trump-endorsed candidate Harriet Hagerman. Former President Trump has made ousting Cheney a key priority for him this election cycle, given her role as Vice Chair on the House panel investigating the January 6th riot.

- **August 23rd:** Florida will close out the month with its primaries. Sen. Rubio (R) is expected to advance and face off against Rep. Demings (D) in November. While the race was once thought to be competitive, Rubio has maintained a strong lead in early polling, and considering how Florida voted the last two presidential elections, it is worth asking if the Sunshine state has lost its status as a key battleground state. After being delayed because of controversy over the district maps, New York also holds its congressional primaries on August 23rd, including the contest between two long-term Democratic incumbents – Reps. Carolyn Maloney (D) and Jerold Nadler (D). Rep. Mondaire Jones (D) also faces a tough primary in a new district, where several prominent New York Democrats, including former Mayor de Blasio, have signed up to compete for the seat. Additionally, Rep. Sean Patrick Maloney (D) is facing a primary challenge from a progressive candidate endorsed by Rep. Ocasio-Cortez (D).
- **June Recap:** Sixteen states and Washington D.C. held primaries in June. As expected, sitting Sens. Padilla (D-CA), Bennet (D-CO), Grassley (R-IA), Duckworth (D-IL), Hoeven (R-ND), Cortez Masto (D-NV), Schumer (D-NY), Lankford (R-OK), Scott (R-SC), Thune (R-SD), and Lee (R-UT) all won their party’s nominations. Nevada, where Sen. Cortez Masto will face off against former state Attorney General Adam Laxalt, is considered a pickup opportunity for Republicans. Many polls show Cortez Masto with a slight edge on Laxalt, but the President’s increasing unpopularity in the state paired with a generally solid GOP candidate give Republicans a strong chance of flipping the seat. Meanwhile, Katie Britt won the Republican nomination in Alabama, likely handing her the seat of her former boss, retiring Sen. Shelby (R-AL). Former President Trump also made his presence known in the June primary cycle. Trump-backed candidate state Rep. Russell Fry easily beat Rep. Tom Rice (R-SC), one of the 10 House Republicans who voted to impeach Trump after the Capitol riot. Trump-backed firebrand Rep. Miller (R-IL) also swiftly beat five-term Rep. Rodney Davis (R-IL) in Illinois’ 15th district. That said, incumbent Rep. Mace (R-SD) defeated Trump-backed former South Carolina Rep. Katie Arrington. On the Democratic side, Rep. Sean Casten (D-IL) defeated Rep. Marie Newman (D-IL), while Rep. Danny Davis (D-IL) was able to fend off a strong primary challenge.