

Mayday: Time Is Running Out for Washington

Key legislation on the fate of trillions in tax cuts and defense spending will be in focus.

May signals the approach of summer, marks six months from the November elections, and appears to be the ideal time for Congress to kick-start the legislative process with a few major must-pass bills left on the docket. It also leaves little time left on the legislative clock before it's all hands on the political deck with 100% of the focus on campaigning (yes, we know, it never stopped).

Both the Senate and the House will be in session for most of May and part of June. The Senate will be focused on floor proceedings for the overdue Federal Aviation Administration (FAA) reauthorization package. The House will be dealing with the FAA measure, a farm bill, and several messaging bills aimed at putting Democrats and the White House on the defensive.

Speaker Mike Johnson has managed to successfully maneuver passage of a number of critical bills, including the US budget and the foreign aid supplemental. But Congress is still grappling with legislation concerning big tech, China, immigration, and legislation that requires reauthorization—namely the FAA bill and farm bill in the short term, and the National Defense Authorization Act in the medium term.

Passage of the major bills is uncertain, but we have more confidence that the FAA proposal will move forward, which will potentially give lawmakers a chance to incorporate their own priorities in the form of amendments to that measure until the fall.

Tax Season Is Just Beginning?

Tax negotiators are shifting their focus to future negotiations that will take place throughout 2025, potentially involving trillions of dollars in tax cuts. The Chairman of the House Ways and Means Committee Jason Smith (R-MO) recently announced 10 separate tax writing teams to explore some of the potential problems that could arise in the wake of the expiration of the tax cuts Republicans passed in 2017. Those tax cuts expire on December 31, 2025.

The November election will determine which party controls the negotiations, as it did in the run-up to the fiscal cliff in late 2012. Outside experts are already speculating on potential factors that will impact the tax measure, such as the high amount of federal debt, and key tax-lobby groups are bringing back key players from the early days of the 2017 tax-cut bill when Republicans passed it at the beginning of former President Donald Trump's term.

This doesn't necessarily mean that the smaller \$78 billion bipartisan tax bill that passed the House late last year is dead. In fact, there has been some recent movement on the bill that extends or reinstates tax credits for research and development, extends the phaseout of the bonus depreciation rate and deduction for business interest expenses, and expands the child tax credit. To pay for these measures, the package terminates a pandemic business aid program that was riddled with fraud.

A sizable contingent of Senate Republicans continues to oppose the tax bill negotiated by Smith and Senate Finance Chairman Ron Wyden (D-OR) as it now stands. Some of this skepticism stems from the expected 2025 negotiations; some



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Key Points

- Speaker Johnson has been able to forge compromise on budget and foreign aid but Congress still has major legislation to pass before Election 2024 kicks into high gear.
- Republicans are prepping for the 2025 tax debate and bumping up defense spending this fall.
- The \$95 billion foreign-aid bill underscores the significant geopolitical threats the US will face in the coming years.

Republican senators think they should wait until after the election because they expect to regain control of the Senate.

Senate sponsors of the tax bill tried to drum up support for the measure during the tax-filing season but made little progress. Now they're looking at an FAA reauthorization that must be passed by mid-May. However, it appears unlikely that the tax bill will be attached to this legislation. I'll preview what Republicans and Democrats are proposing for the 2025 tax bill in a future newsletter.

Defense \$\$\$pending

The House Armed Services committee will hold its annual hearing on the National Defense Authorization Act (NDAA), setting the stage for a battle over defense policy and the Pentagon's budget that's unlikely to be resolved before the election. Republican hardliners and some Democrats worry that the \$895 billion budget for defense programs that was included in last year's debt limit deal won't be enough to cover all of the military's needs.

President Joe Biden's budget follows the contours of that deal, leaving lawmakers stuck with the total for now. Senate Armed Services Chairman Mike Rogers (R-AL) has said his committee will adhere to the debt limits and will move a \$895 billion NDAA, which is likely to exclude many of the lawmakers' priorities that were not originally included in the Administration's budget, including a second attack sub.

This would only increase national defense funding for 2025 by 1% compared to this year but would further strain relations between Republican defense hardliners and fiscal conservatives just before the election. Rogers and others are confident an agreement will be reached after the election that will allow them to increase defense spending beyond the caps.

So far this year, US defense spending has reached \$886 billion, plus an additional \$95 billion for the foreign-aid supplemental that's slated for Ukraine, Israel, the Indo-Pacific, and humanitarian purposes. Brace yourselves for a heated guns vs. butter debate this fall.

Foreign Aid Fulfillment

After months of political delays, handwringing, debates, and even threats, the US Congress passed a \$95 billion military aid bill for Ukraine, Israel, and Taiwan. President Biden immediately signed the legislation into law after Speaker Johnson finally backed the legislation and found a path for it to pass with broad bipartisan support.

The largest portion of military aid (\$61 billion) is designated to support Ukraine and refill American military wartime stockpiles. But the legislation also included \$26 billion for Israel as well as \$8.1 billion to aid Taiwan and "counter communist China and ensure a strong deterrence in the region." In full, the aid package highlights regions of the world that have become central to US national security policy. Each part of the bill has its own political and military implications for the future.

The Biden administration immediately announced a \$1 billion security assistance package for Kyiv shortly after the President signed the legislation, and a few days later the Pentagon announced an additional \$6 billion in weapon purchases for Kyiv: the largest assistance package that the US has provided since the war began. These initial aid packages include air-defense interceptors, artillery rounds, armored vehicles, spare parts, and anti-tank weapons. Altogether, expanded American military assistance could prove the difference between defeat and a slim but more realistic chance at victory.

Shortages of artillery and air defense have severely hampered Ukraine's ability to rebuff Russia's attacks. Moscow's forces have recently been able to fire up to 10 artillery rounds for every one fired by the Ukrainians.

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The bill also includes \$14 billion for Israel to help “defend itself against Iran and its proxies.” Of that, \$4 billion was to replenish Israel’s Iron Dome and David’s Sling air defense systems, \$9 billion for humanitarian assistance in the region, and \$2.4 billion to “reimburse US military operations in response to recent attacks.” The latter is particularly important due to the large-scale naval operations the US has been conducting in the Red Sea in response to attacks by the Houthis in Yemen against commercial shipping. There’s about \$1 billion within the humanitarian aid appropriation that Biden said would be sent to Gaza quickly.

The \$8.1 billion for Taiwan includes \$2 billion for foreign military financing, \$2 billion to restock US arsenals of weapons already sent to Taiwan and other Indo-Pacific countries, and more than \$3 billion “to develop American submarine infrastructure.” This is part of a longer-term effort by the Biden administration to expand the interlocking alliances that the US has across the Pacific region.

The bill also seeks to undermine growing Chinese influence by demanding that social-media app TikTok must be sold by its Chinese owners. Cybersecurity analysts and government officials have warned for a long time that Beijing could use TikTok to mine the data of unsuspecting Americans. The legislation says that the Chinese firm ByteDance has a year to sell the company or else face a total ban. An eventual ban on this social media platform appears increasingly likely, as China has made it nearly impossible for ByteDance to sell TikTok’s valuable algorithm. Without the algorithm, any sale of TikTok would be rendered effectively worthless.

The size and scope of this legislation is clearly staggering, and it underscores the many global challenges the US faces in the months and years to come.

Flight Risk?

The Federal Aviation Administration (FAA) bill is inching toward completion as negotiators from both chambers of Congress are close to an agreement to merge differing versions of the bill. This \$105 billion deal aims to enhance consumer protections related to airline refunds, address air-traffic controller workforce issues, and more. However, the bill fails to address ongoing challenges at Boeing and the FAA’s oversight of the company. Despite the proximity to an agreement, the bill still has a way to go before final approval as members of Congress are looking to add on amendments unrelated to the underlying measure. It must pass through both chambers, and the House could get jammed with the Senate bill as it’s facing delays on its progress.

Down On the Farm

House Agriculture Chair G.T. Thompson (R-PA) is aiming to have his panel vote on a draft of the farm bill by the end of May, indicating potential progress for the legislation that has faced multiple delays in Congress. Thompson recently presented an updated proposal to his Democratic counterparts, outlining funding for bipartisan priorities and increased reference prices for crops. Despite opposition from some Democrats, the committee markup will likely pressure vulnerable Democrats and those from agriculture-heavy districts to make decisions regarding the farm bill.

House Agriculture Republicans are determined to release a draft bill before Memorial Day, even if a full House vote is not in the cards. This move may lead to a confrontation with the Democratic-controlled Senate, where Agriculture Chair Debbie Stabenow (D-MI) is close to revealing her own farm bill framework. Stabenow has stated that Democrats in the Senate will not back Republican suggestions to modify nutrition and climate funding in the bill. The likelihood of passing a farm bill through both chambers and finalizing it by year-end is going to be a longshot in my opinion, with Senate discussions at a standstill and Senate Majority Leader Chuck Schumer excluding the farm bill from recent legislative priorities.

A total ban on TikTok appears increasingly likely.

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 Senior Policy Analyst 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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