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WASHINGTON POLICY STRATEGY

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Tuesday's presidential debate is shaping up as a "make or break" moment in the upcoming election. The race could be among the closest in history. With time running out in the campaign, the debate could be the most consequential event between now and November 5.

Congress returns to Washington, D.C. this week. In the coming weeks, it will need to pass a funding bill to avert a government shutdown on October 1. We think a shutdown is highly unlikely despite the political drama which could ensue on Capitol Hill.

Pre-Debate State of the Race

Going into Tuesday's presidential debate, Vice President Kamala Harris holds a razor-thin lead over Donald Trump in most national and key battleground state polls. According to the RealClearPolitics average of polls, Harris leads Trump nationally by 1.4 points. Her lead is consistent with our earlier expectations when she entered the race. At that time, we expected a bounce in her poll numbers, and that scenario has generally played out. However, the most recent polls suggest that the Harris surge occurred before the Democratic National Convention and the convention does not appear to have provided her with an additional bump. These polls suggest her momentum has stalled (at least for the moment) and that the race is statistically tied. A narrow lead and lack of momentum in the polls are not necessarily good news for Harris.

In the past two elections, polls have consistently underestimated Trump's support. CNN reported that polls underestimated his support in the key battleground states of Michigan, Pennsylvania, and Wisconsin by an average of nine points in 2016 and by five points in 2020. According to the RealClearPolitics average of polls, Harris leads in Michigan by 1.2 points, in Wisconsin by 1.5 points, and is tied in Pennsylvania. If history repeats itself, this suggests that Trump may be in a good position to win these key states and the election. Given the close state of the race, Tuesday's debate looms as a "make or break" moment.

In a campaign that has included the shooting of one candidate (Donald Trump) and the withdrawal of the incumbent President (Joe Biden), it is difficult to declare a single event as the defining moment in the campaign. This week's Harris/Trump debate, however, has the potential to be "the" event of the election. As Election Day draws closer (58 days) and with early voting set to begin in some states, it might, however, be determinative – especially if there is only one debate.

The debate presents risks and opportunities for both candidates. For Harris, it presents the opportunity to look presidential and refute criticisms that she is not up to the job of being President. For Trump, it offers the chance to raise questions about Harris's trustworthiness given the shifts in some of her policy positions and to portray her as a California liberal who is out of touch with the rest of the country.

Although we hope to hear a discussion during the debate about the candidate's economic policies, we are keeping our expectations in check. Presidential debates rarely get into detailed conversations about economic policy. There might be some high-level discussion about taxes and tariffs and anything beyond a brief mention would be a bonus for investors.

Congress's September Agenda

Congress returns to Washington, D.C. this week and must pass a Continuing Resolution (CR) by September 30 in order to avoid a government shutdown. We think a shutdown is unlikely because neither party wants one ahead of the November elections. That does not mean there will not be any drama ahead of the deadline. House Republicans want to add election security legislation to the bill, a move Democrats will oppose. Also, some conservative Republicans want a longer CR that lasts into 2025. This is based on their hope that Donald Trump will win the presidency and would sign a smaller spending bill for the remainder of fiscal year 2025.

The details of what the CR will ultimately look like are unclear, but we think Congress will probably pass a CR that lasts into December. This would then set up another spending fight during the lame duck session. A December spending bill could also include an increase in the debt ceiling, which was suspended until December 31, 2025 as part of the Fiscal Responsibility Act of 2023. The Treasury Department has the tools to manage the debt ceiling for several months before Congress needs to raise it again, but Congress might opt to raise the debt ceiling in 2024 and avoid a messy fight in 2025. Decisions on the timing of a debt ceiling increase will likely be made after the November elections.

During September, House Republicans will also hold a "China week," which is intended to highlight the party's stance on security and trade with China. Also, the House GOP intends to vote on environmental, social, and governance (ESG) and diversity-related bills during the current month. The House might also vote on a bill to limit the ability of the Securities and Exchange Commission to mandate ESG-related disclosures. The China and ESG-related bills are, in our view, political messaging ahead of the upcoming elections and unlikely to pass. We will continue to monitor some of the China-related legislation for possible inclusion in the National Defense Authorization Act legislation, which will probably be completed in December.

Also, while not yet scheduled, the Senate Banking committee might vote on Christina Goldsmith-Romero's nomination to replace Martin Gruenberg as the Chairman of the Federal Deposit Insurance Corporation (FDIC). Even if the Banking Committee approves of her nomination, we doubt the full Senate will vote on it until the lame duck session at the earliest. If Mr. Trump wins the presidential election, we expect Senate Republicans would probably try to block a vote in order to set up the opportunity for him to nominate his own FDIC Chair. If Harris wins, Senate Democrats might schedule a vote on Goldsmith-Romero's nomination. It is also possible that Harris might want her own nominee, in which case the current nomination could be scrapped. Regardless, it is highly unlikely the full Senate will vote on the FDIC nomination until after the election.

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