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WASHINGTON POLICY STRATEGY Potomac Perspective

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The selection of Scott Bessent to be the next Secretary of the Treasury bolsters our view that financial regulation in the next Trump administration will be less populist than other areas. In our view, his nomination is yet another signal that the incoming Trump administration will pursue a pro-growth, deregulatory agenda. Still, Mr. Bessent, who seems to be a free trade advocate, will have to be supportive of the incoming administration's push for new tariffs. His nomination also includes a clue about Elon Musk's influence in a Trump administration.

President-elect Donald Trump's selection of Scott Bessent to be the next Secretary of the Treasury is consistent with our expectation that a second Trump administration will push a pro-growth, deregulatory agenda. This theme is consistent with Trump's selections of Doug Burgum to be Secretary of the Interior and Chris Wright to be Secretary of Energy. Mr. Bessent brings private sector experience we think will benefit him in his new role. Bessent needs to be confirmed by the Senate. Based on publicly available background information, we think this is likely. Bessent will probably focus on the following issues:

- **Tax** – Mr. Bessent will be one of the administration's key players on tax policy and will be directly involved in negotiations to extend the expiring provisions of the Tax Cuts and Jobs Act of 2017 (TCJA). He has been a vocal supporter of extending the TCJA, but he also has acknowledged some congressional Republicans will want to offset at least some of the estimated \$4.6 trillion cost (according to the Congressional Budget Office) and that the upcoming tax debate will be a negotiation with Congress.
- **Trade/tariffs** – We view Mr. Bessent as more supportive of free trade policies than other members of Mr. Trump's inner circle, and we suspect that one reason why the announcement of his nomination followed other key personnel announcements was in order to get commitments from Mr. Bessent that he would support President-elect Trump's trade agenda. Although Treasury does not have a direct role in imposing tariffs, it has typically had an influential voice within past administrations regarding international trade. We think Mr. Trump may have wanted assurances from Mr. Bessent that he will not use his position to block or slow down the incoming administration's tariff proposals. Despite whatever misgivings Mr. Bessent might have on tariffs, we expect he will be supportive of the incoming administration's trade agenda.
- **Debt ceiling** – The suspension of the debt ceiling ends at the start of 2025 and will need to be increased at some point in the first half of 2025. Treasury will need to employ "extraordinary measures" to manage the debt ceiling until it is raised. Raising the debt ceiling is politically unpopular among the Republican base, and congressional Democrats will undoubtedly enjoy watching Republican squirm while they tackle the issue. Mr. Bessent will be front and center in convincing enough Republicans to support a debt ceiling increase, but he might have to spend considerable political capital to do so.
- **Federal Reserve** – Jerome Powell's term as Federal Reserve (Fed) Chairman does not expire until January 2026. In the past, Mr. Trump has floated the possibility of firing Powell before his term expires, but we think that is unlikely (and would

probably be blocked by the courts). Mr. Bessent has, however, suggested the possibility of appointing a “shadow” Fed chairman. Some reports indicate that he has backed away from this idea, but we think Bessent could be more outspoken than most Treasury Secretaries regarding monetary policy. He is likely to be a key player within the administration in choosing Mr. Powell’s successor.

- **Financial services regulation** – Treasury Secretaries typically influence the selection of the heads of the financial services regulatory agencies. With Mr. Bessent at Treasury, we expect the Trump transition team will nominate typical Republican appointees who will pursue deregulatory agendas at the relevant agencies and is consistent with our expectations for financial services policy in the incoming administration.
- **Government Sponsored Enterprises** – Fannie Mae and Freddie Mac have been in conservatorship since 2008, and there has been considerable speculation that these the government sponsored enterprises (GSEs) will be privatized in a second Trump term. Steps taken during Mr. Trump’s first term have created the conditions under which the GSEs can be privatized again, but Treasury would have to agree to sell its stake in the two companies. We are unaware of Mr. Bessent’s views on doing so, but we doubt this will be a top priority of his, and we will be looking for additional clues about how he might proceed on the GSEs.
- **Elon read-through** – Clients frequently ask about Elon Musk’s influence with Mr. Trump. It is worth noting that Musk opposed Bessent’s nomination before it was announced. This suggests there are limits to Elon Musk’s influence within the Trump administration. Musk and Vivek Ramaswamy will lead the Department of Government Efficiency effort in the coming months and will make numerous recommendations to reduce the size and scope of the federal government. Mr. Bessent’s nomination, however, should serve as a signal to investors that just because Elon Musk proposes some idea, it does not follow that his proposal will be enacted.

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