Market Strategy
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The slate facing policymakers in Washington is as large and significant as any in recent memory. While the proposed spending bill and tax increases are the headline-grabbers, the federal budget and debt ceiling debates loom, while multiple issues at the Federal Reserve must be addressed. The ramifications from these decisions will be critical for markets.

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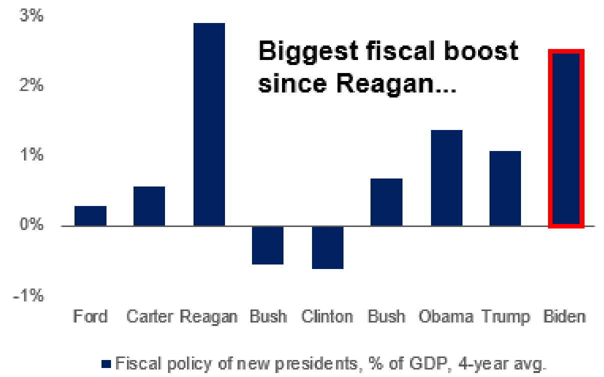
THE SEPTEMBER TO REMEMBER

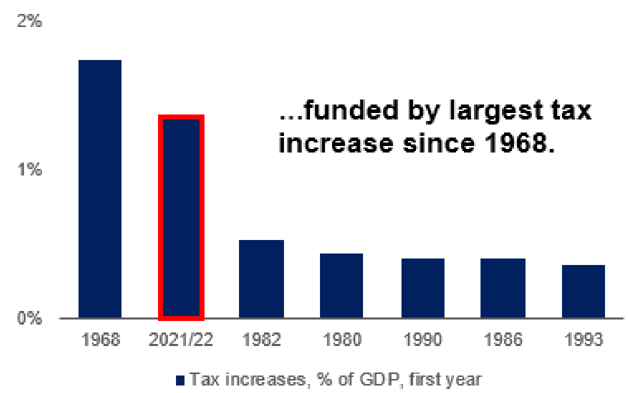
Summer vacation is officially over. As Congress returns from recess, there's a huge number of fiscal and monetary decisions to be dealt with, all of which will impact markets: the federal budget, the infrastructure bill, the debt ceiling, Fed tapering, Fed appointments, and of course, the massive $3.5T spending bill.

Infrastructure Bill: The House is set to vote on this bill by September 27. It has already passed the Senate with bipartisan support and would provide $548B in new spending for roads, bridges, drinking water, ports, the electric grid, & broadband. Progressive Democrats are pushing to have Biden's $3.5T package passed at the same time, while moderates want the bipartisan measure to move first. The tension between these two factions will be key on many issues.



Federal Budget & Debt Ceiling: Federal government spending expires September 30 and the debt ceiling has technically expired (though the Treasury can use "extraordinary measures" to keep the US fulfilling its debts for another few months). Democrats want to pass a short-term continuing budget resolution to keep the government open and plan to include the debt ceiling in this measure as a means to secure Republican support. Republicans, however, don't want to vote for the debt ceiling; they believe Democrats should raise it in their reconciliation bill since they are, after all, proposing trillions in new spending. This stand-off could lead to a government shutdown or headline risk of US default, which could negatively impact markets. Though there are options to resolve this, none are great.

$3.5T Spending Package: Democrats can pass this measure with just 51 votes in the Senate (using the budget reconciliation process), avoiding the need for Republican votes entirely. As originally envisioned, the bill would include the largest tax increase since 1968 and the largest spending package in more than 100 years, but moderates argue the current package is too big. We expect a smaller (but still sizable) bill that includes tax hikes on corporations, individuals, capital gains/dividends, and estates to ultimately pass.



Fed Tapering & Appointments: While the Fed planned to begin tapering asset purchases this fall, the underwhelming August jobs report likely gave them cushion to delay until the fiscal issues being debated are resolved. Elsewhere, Fed Chair Powell's term expires in February. While progressives want a new Fed chair who will focus on regulation, President Biden could likely satisfy the faction with favorable candidates in other vacancies.

All of this as the economy slows, inflation persists, and fiscal drag builds. **It will be a consequential few weeks for markets.**

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