



STIFEL

WASHINGTON OUTLOOK: **Policy & Politics**

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Learning Objectives

- ▶ Short-term -- to gain a greater understanding on potential economic policy changes and what they could mean for the US economy and the banking system.
- ▶ Longer-term – The old economic and political orders are being discarded. We will discuss at various points how a new framework might be emerging.

Q&A

- ▶ Polling Question: There will also be time for Q&A at the end, but feel free to ask questions throughout the presentation.

Tariffs and Changing Economic System

- ▶ Reciprocal tariffs – Liberation Day
 - ▶ 10% baseline and reciprocal tariffs (90-day pause).
 - ▶ Deals possibly imminent with Japan, S. Korea, India, Vietnam.
- ▶ Canada (2024 – Exports: \$349B; Imports: \$413B. (Source: U.S. Trade Representative)) and Mexico (Exports:\$334B; Imports:\$506B).
- ▶ China (Exports: \$144B; Imports: 439B).
 - ▶ Retaliatory tariffs announced on April 2 and 4 are paused until August, but US tariffs announced before April 2 remain in place.
- ▶ European Union (Exports: \$370B; Imports: \$606B).
 - ▶ President Trump: 50% tariff effective June 1; paused to July 9.
- ▶ Sectoral tariffs – steel, aluminum, autos. Pharmaceuticals and film TBD.

One Big Beautiful Bill -- Extending the Trump Tax Cuts

- ▶ The House passed its version on May 22.
- ▶ Next step – the Senate which will aim to pass its version of the bill by mid-June.
- ▶ Goal is to have a final bill to Trump by July 4.
 1. Ambitious but doable (50% chance).
 2. Finish by early August (30% chance).
 3. September – Complicated if X-date is before Labor Day (10% chance).
 4. End of 2025 – a possibility if Republicans struggle to reach compromises (5% chance).
 5. 2026 – worst case scenario for Republicans. This would probably mean that Democratic votes would be needed which would alter the substance of the bill (<5% chance).

Key Issues -- TCJA Sunsets (Individuals)

- ▶ Expiration of parts of the TCJA.
 - ▶ Individual income tax rates.
 - ▶ Cap on State and Local Tax deduction. House increased the cap to \$40k.
 - ▶ Alternative minimum tax relief.
 - ▶ Qualified business income deduction (for pass-throughs).
 - ▶ Estate tax threshold.

Key Issues – Corporate Taxes

- ▶ The corporate income tax rate does not reset, but an increase could be on the table if the debate over the bill drags out until the end of the year.
- ▶ Increasing the stock buyback tax.
- ▶ Expanding the limits on the deductibility of executive compensation.
- ▶ Expanding the Business Interest deduction and Bonus Depreciation.
- ▶ Credit union taxation.
- ▶ Domestic production credit.
- ▶ Carried interest.

Key Issues – Inflation Reduction Act Tax Credits

- ▶ Some IRA tax credits have more support than others.
- ▶ EV credit could be eliminated or capped.
- ▶ Other tax credits have key Republican backers and could survive although they might be capped.
 - ▶ Advanced Manufacturing Tax Credit.
 - ▶ Advanced Energy Project Credit.
 - ▶ Clean Energy Production and Investment Tax Credit.
 - ▶ Clean Fuel Production Credit.

Key Issues – Municipal Finance

- ▶ Complete repeal of the municipal interest exemption is unlikely but could come in at the last minute. A cap on the exemption, rather than full repeal, is more likely but still a long shot.
- ▶ Congress is looking at limits on Private Activity Bonds used to finance sports stadiums and is considering changing depreciation rules for sports teams.

Banking Regulation

- ▶ Personnel is policy and the Trump Administration has made key moves at the bank regulatory agencies.
 - ▶ Jonathan Gould nominated to be the Comptroller of the Currency.
 - ▶ Michelle Bowman nominated to be the Vice Chair for Supervision.
 - ▶ Travis Hill -- Acting Chairman of the Federal Deposit Insurance Corporation.
 - ▶ Russ Vought – Acting Director of the Consumer Financial Protection Bureau.
 - ▶ Bill Pulte confirmed to be Director of the Federal Housing Finance Agency.
- ▶ Treasury is coordinating changes in banking regulation and supervision in a more aggressive way than usual.

Key Bank Regulatory Issues

- ▶ Supervision – the first thing that changes.
 - ▶ OCC shift on reputational risk.
- ▶ Prudential regulation – changing the rules under which banks operate. Recent Supreme Court decisions could complicate changes in banking regulation.
 - ▶ Loper Bright v. Raimondo (end of Chevron) and West Virginia v. EPA (major questions doctrine).

Key Bank Regulatory Issues

- ▶ Mergers and acquisitions.
- ▶ Liquidity.
 - ▶ Discount window.
 - ▶ Federal Home Loan Banks.
 - ▶ Deposit insurance reform.
- ▶ Capital.
 - ▶ Basel III Endgame.
 - ▶ Supplemental Leverage Ratio.
- ▶ De Novo banks.

Key Financial Services Regulatory Key -- CFPB

- ▶ Significant changes in supervision. Much smaller budget.
- ▶ Reopen Section 1071 rule.
- ▶ Open question about open banking rule.
- ▶ Overdraft fee rule overturned.

Key Financial Services Regulatory Key – Capital Markets

- ▶ Cryptocurrency and fintech.
 - ▶ Regulators will be more flexible re: banks relationships with fintech.
 - ▶ Stablecoin legislation.
 - ▶ Broader “market structure” legislation.
- ▶ Securities and Exchange Commission and Chairman Paul Atkins agenda.
 - ▶ Making it easier to remain a public company.
 - ▶ De-emphasis of ESG rules and DEI policies.

Government Sponsored Enterprises

- ▶ Ending the conservatorships of Fannie Mae and Freddie Mac are part of the Trump administration's agenda but not one of its highest priorities.
 - ▶ Despite President trump's recent tweet, this is still a 2026 agenda item after tariffs, taxes and the debt ceiling are addressed.
- ▶ Stifel and KBW have proposed that the US establish a sovereign wealth fund which could invest in Fannie and Freddie.
 - ▶ Trump administration had been sympathetic but might be backing away.
 - ▶ Privatization might not mean major changes in the mortgage finance system.

Q&A

- ▶ No holds barred!

Disclosures

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Thank You

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