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Congressional Agenda and the Lame Duck Session

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While the main focus of the upcoming lame duck session, beginning Nov. 12, is for Congress to address a FY25 government funding bill, we count no fewer than 15 other issues impacting the financial markets that could be considered during this period (see table below). These items range from potential business tax provisions (**R&D tax credit, bonus depreciation, and interest deductibility**), **healthcare** provisions to subsidies for **broadband** and various **tech** issues. There are also reports that a debt limit extension could also be addressed, though we are skeptical.

The current continuing resolution (CR), which funds the federal government at FY24 levels, expires on Dec. 20. If Donald Trump wins – and we give him a slight advantage – and Republicans sweep, which is now our base case, he will no doubt have a big impact on whether Congress passes another short-term CR into Q1 or passes an omnibus spending bill through the end of the fiscal year.

We aren't sure which avenue Trump would direct the GOP to take this time around, though we give a slight edge to him desiring clearing the decks and passing a full fiscal year funding bill in the lame duck, so his administration doesn't have to deal with it as one of their first orders of business. Recall after the 2016 elections, as president-elect, Trump wanted to have his fingerprints on the FY2017 spending bill. Hence, Congress passed a short-term CR into Q1 of 2017. However, that decision ended up delaying work on Trump's main agenda items like elimination of the Affordable Care Act, which obviously didn't pass, and his signature 2017 tax bill. We aren't sure which avenue Trump would take this time around, though we give a slight edge to him desiring clearing the decks and passing a full fiscal year funding bill in the lame duck, so his administration doesn't have to deal with it as one of their first orders of business.

If Harris wins, House Republicans would likely be in the minority in our view. House Speaker Mike Johnson (R-LA), who will still be in that role during the lame duck regardless of the election outcome, may push for a CR into Q1 as opposed to an omnibus. Congressional Republicans loathe omnibus spending deals passed just before Christmas in a take-it-or-leave-it fashion. If Johnson telegraphs such a plan, it could cost him support should he choose to run for Minority Leader in the House. Remember the vote on the GOP party leadership races in the House are scheduled for the week of Nov. 12. If Johnson decides *not* to run, an omnibus seems more likely.

In either event, we continue to believe that the important **defense spending** accounts are likely to rise by ~3% from \$884 billion for FY24 to ~\$912 billion for FY25. In fact, we expect the \$912 billion number to be the floor.

Congress will also very likely pass the National Defense Authorization Act (NDAA) during the lame duck. The NDAA has been passed annually for the last 63 years, and we don't see that streak being broken this year. Both the CR/omnibus and the NDAA are likely vehicles for attaching non-germane measures that are discussed below.

Keep in mind the old adage: lame duck sessions are generally pretty lame. Most of the items bandied about usually aren't enacted, and in many cases, that is likely to be the case this year as well. Nonetheless, the markets could move on consideration or actual inclusion of these items.

ISSUE	DESCRIPTION	SECTOR / COMPANY	OUR VIEW
Restoring the R&D tax credit, bonus depreciation, and interest deductibility provisions back to 2018 levels.	R&D tax credit would be 100% expensed in the year expenditures are made (currently, companies can take 20% each year); bonus depreciation would go back to 100% (currently 60%); and interest deduction would go back to being limited to 30% of EBITDA vs 30% of EBIT today.	Would benefit various sectors, including tech, biotech, pharma, defense and any companies that are able to deduct qualified R&D expenses.	Odds very <i>unlikely</i> tax provisions are passed in a lame duck either as a standalone or attached to the spending bill or NDAA. Expect this to be part of the 2025 debate over the expiration of the 2017 Trump tax bill.
1099-K Changes	The American Rescue Plan of 2021 dramatically lowered the threshold for individuals to receive a 1099-K from \$20,000 to \$600 for transactions on payment sites and online resellers, but the IRS delayed full implementation. For 2024, the threshold goes from \$20,000 to \$5,000. Presumably if Congress doesn't change the law, the threshold will drop to \$600 in 2025.	Lowering the threshold from \$20,000 to \$600 would be negative for Ebay (EBAY), Etsy (ETSY), and PayPal (PYPL) .	We think a 1099-K "fix", taking the threshold to ~\$10,000 for example, is more likely than the above business tax issues to be resolved in a lame duck session but the odds are still pretty low. Expect this to be part of the 2025 debate over the expiration of the 2017 Trump tax bill.

ISSUE	DESCRIPTION	SECTOR / COMPANY	OUR VIEW
Spectrum and National Security Act	Funds the Affordable Connectivity Program (ACP), which expired this summer, by restoring FCC auction authority.	Passage of bill would benefit: Charter (CHTR), Verizon (VZ), AT&T (T), Comcast (CMCSA), Frontier (FYBR).	Very unlikely to pass though odds might improve if Sen. Cruz (R-TX) is defeated, which is unlikely as well.
S. 4753, the Energy Permitting Reform Act of 2024	Bill streamlines the permitting process for U.S. energy project, including, oil/gas, coal, renewable projects, and transmission projects.	Traditional oil/gas and renewable energy would benefit. Transmission companies include Quanta Services (PWR), MasTec (MTZ) and MYR Group (MYRG) also likely to benefit.	Unlikely to pass. There is bipartisan support and opposition to this measure.
Farm bill	The farm law fully expires Dec. 31 and would revert to depreciation era policy, if not extended.	Status quo for the farm complex as passage would extend current year policy.	-A short-term extension into next year is very likely to pass.
De Minimis rule	Legislation would eliminate the current rule that allows, packages with a value of \$800 or less than \$800 to enter the U.S. without import duties and reduced scrutiny.	Would likely negatively impact Temu's parent PDD Holdings (PDD), privately held Shein and Amazon (AMZ). UPS (UPS) and FedEx (FDX) also likely negatively impacted.	Unlikely to pass as there is bipartisan support and opposition to the measure.

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Kids Online Safety Act (KOSA)/COPPA	KOSA imposes on internet companies a “duty of care”, which means they could be held liable for recommending content to kids that harm their mental health. COPPA prohibits companies from collecting users’ data who are 17 or under without their consent.	Passage could be negative for social media companies such as Meta (META), Snapchat (SNAP) and others.	Unlikely to pass as key GOP leaders in the House oppose the measure.
SAFE(R) Banking Act	Bill provides protections for federally regulated banks that serve state-sanctioned cannabis businesses, making it easier for cannabis companies to be banked.	Passage would benefit Tilray (TLRY), Cronos Group (CRON), Canopy Growth (CGC), Aurora Cannabis (ACB), and Cresco Labs (CRLBF).	Extremely unlikely to pass as key GOP congressional leaders oppose the measure.
BIOSECURE Act	Starting in 2032, BIOSECURE limits NIH grantees from passing funds to specific Chinese “companies of concern,” but – in our view – does <i>not</i> preclude grantees from pursuing funds with other contract manufacturers or participating in Medicare / Medicaid.	Market perception of enactment is negative for Chinese Contract Development & Manufacturing Organizations [Wuxi Apptec (2359.HK), Wuxi Biologics (2269.HK)], and tailwind for U.S. competitors [Catalent (CTLT), Thermo Fisher (TMO), Charles River (CRL)].	Enactment unlikely, but take a different view from the market, in that the bill is sufficiently watered down that implementation could be clearing event for Chinese names, whereas lack of action prolongs uncertainty into next year, with little indication that focus on China will wane.

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Healthcare Extenders	Legislative package extends various expiring healthcare spending (like Medicare doc fix and delay in reduced Medicaid hospital bonuses), which are routinely paid for by healthcare savings policies.	Benefitting physician firms Radnet (RDNT) and Pediatrix (MD) and safety-net hospitals . Potential offsets may come from policy changes involving hospices, PBMs, nursing homes, hospitals, and ambulatory surgery centers , but not necessarily negative for them (some remove overhang).	Extension of Medicare doc fix and delay in Medicare hospital bonus cuts is expected since it's done every year. Most likely offsets include Medicare sequestration and hospice change.
AI Legislation	AI bills that promote business/govt. cooperation could pass. However, the ENFORCE Act, would limit AI exports of software and hardware to China.	ENFORCE Act would likely be negative for Nvidia (NVDA), AMD (AMD), SambaNova (private) while cooperation measures are benign to AI industry	The more benign legislation could pass but we doubt the ENFORCE Act passage but it's worth watching.
Ukraine Aid	With the presidential race very close, there will likely be attempts to add additional funding for Ukraine-, given Trump's opposition to the war and low likelihood for aid next year if he wins.	Defense companies would benefit if material funding emerges.	We doubt any material spending is provided for Ukraine in a lame duck session. Any amount would likely be less than \$1 billion.

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Disaster/Hurricane Aid	Recent hurricanes that hit Florida and North Carolina will require probably at least \$100 billion in emergency funding. Expect funding for repair of the Francis Scott Key bridge in Baltimore to be part of a disaster bill.	Home Depot (HD), Lowes (LOW) and the home building complex likely to benefit.	Funds will almost assuredly be provided in a continuing resolution.
Debt Limit Extension	Current, debt limit extension expires on Jan. 1, 2025.	Extension would be status quo. Breaching the debt limit would likely be negative for the equity markets broadly but could be positive in the short-term for the Treasury market.	Since Treasury can use extraordinary measures to manage the debt limit until ~June 2025, we doubt the debt limit is addressed in the lame duck. It's likely to be eventually addressed without much fanfare unless Harris wins and the House stays GOP, which seems very unlikely.

Source: Politico, BGov, TheHill, PunchBowl

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