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Lame Duck Session Update

Roughly a month ago, we published our outlook for the lame duck session, which included a laundry list of issues ranging from **healthcare**, **business tax provisions**, **tech items**, **trade issues** (de minimis rule), and **cannabis**.

While our views on most of the items in that note remain the same, we do want to provide an update on a few items. First, it looks increasingly likely that Congress will pass another short-term funding bill potentially through the end of March before the current continuing resolution (CR) expires on Dec. 20. We see very little chance of a shutdown on Dec. 20.

There are less than three weeks until that funding deadline, and congressional leaders haven't even settled on top-line numbers for defense and non-defense discretionary spending, let alone decided how to divide those top lines up among the hundreds of various federal programs and agencies. Add to that the likelihood that Speaker Mike Johnson (R-LA) probably doesn't want to pass an omnibus spending bill, which Freedom Caucus members hate, just a couple of weeks before he faces re-election as Speaker. Resorting to an omnibus could risk some GOP members voting against Johnson and result in potentially a multi-round vote for Speaker and the ensuing chaos like what occurred with prior Speaker elections during 2023.

Regarding **defense** funding, we expect spending to rise some ~3% from $884 billion to roughly $912 billion for FY25.

Second, since we see another CR passing, the various **healthcare** extenders and payfors are unlikely to be enacted until the final spending bills are passed in late Q1. We previously wrote about our healthcare package expectations of what is most likely to be included (a partial physician fix, further delay of cuts to Medicaid disproportionate share hospital bonuses, telehealth extenders, PAYGO waiver, etc. to be paid for by a combination of Medicare provider sequestration extension, rollback of nursing home minimum nurse staffing rule, tweaks to hospice rates etc.).

We continue to believe that Congress will *not* increase the debt limit in the lame duck, forcing Treasury to use extraordinary measures beginning on January 2. The Treasury Department will have to draw down its Treasury General Account (TGA) until the debt limit is extended. We see the debt limit being extended either in late March as part of a final government spending bill or around June when the "X" date occurs.

One upside is that drawing down the TGA provides more liquidity to the financial system until the debt limit is extended and Treasury has to once again replenish the TGA.

Importantly, we do not see a **debt limit crisis** emerging next year with Republicans controlling the House, Senate and White House.

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