



▲ UPDATE

Washington Report

As we began writing this note, the key themes in D.C. were the political strife of a largely stalled Biden agenda, nominations, rising inflationary pressures, significant regulatory oversight, and the waning (we hope) days of a pandemic ahead of midterm elections. While those themes still exist, they seem somewhat trite through the lens of Russia's invasion of Ukraine.



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Past the Brink

Russian President Vladimir Putin has instantly succeeded in altering the geopolitical map in Europe and globally by launching a long-planned and highly coordinated air/land/sea invasion – in his words a “special military operation” – of the former Soviet republic of Ukraine, which has vowed to defend itself from this invasion. The attack is clearly not limited to the breakaway regions of Eastern Ukraine, nor is it a “peacekeeping” exercise. This is war. The United States and EU/NATO allies must now give a carefully calculated response – likely limited to economic sanctions at first – that must be delivered swiftly. For his part, Putin has threatened immediate and harsh retaliation for outside influence on what he clearly believes to be a manifest destiny following his claims that Ukraine has no right to exist as an independent country.

Many keen observers are watching the sanctions and coordinated response from the West as a crucial litmus test for counter-reactions that sound fanciful but are entirely possible: too stringent and Russia coordinates retaliation via cyberattacks (or worse – they are a nuclear power, after all) on the West; not strong enough and Russia's ally, China, may see an opportunity to similarly invade Taiwan.

Nothing is for certain other than that the game has changed and that multiple decades of peace in Europe have come to an abrupt end.

Blocking and Tackling

Although President Biden's Build Back Better (BBB) agenda is dead – at least as a massive progressive

Blocking and Tackling

package – rumors persist that Democrats are working to find a pathway for certain parts of the tax-and-spend measure. Persistent inflation and now the onset of global conflict decrease the odds that anything gets passed, but never say never.

Congress did recently avoid a calamitous government shutdown by passing a short-term funding measure (the third such action since October) known as a continuing resolution, or CR, which extends fiscal 2021 funding levels to March 11. The point of another CR is to allow appropriators more time for negotiations on a full-year spending bill for fiscal 2022, which ends on September 30. All indications are that Republicans and Democrats have agreed to a framework for defense and nondefense programs, though clarity is still needed on the details. Overall, the feeling in D.C. is bullish on the prospects for a spending package to be passed by mid-March.

Obviously, the near-term congressional focus will include managing foreign affairs and legislation seeking to enhance domestic semiconductor competition with China, followed closely by nominations to key federal positions.

SCOTUS Nomination

News reports indicate that President Biden has stated his intention to nominate Judge Ketanji Brown Jackson to replace Supreme Court Justice Stephen Breyer. Jackson currently serves on the U.S. Court of Appeals for the D.C. Circuit, a position she has held since 2021 after replacing now U.S. Attorney General Merrick Garland. It's important to note that this nomination will not change the perceived ideological balance of the court – which currently stands at 6-3 in favor of Republican-appointed Justices – but will serve as an important political victory for Biden, who repeatedly pledged to nominate a Black woman to the court if a seat became available.

Some believe Judge Jackson could be confirmed easily, as she was already confirmed by this Senate in a bipartisan vote for her D.C. Circuit Court judgeship

(including Republicans Murkowski (AK), Collins (ME), and Graham (SC), who voted in favor of her confirmation). However, many thought other candidates would have faced an easier path to confirmation. The vetting process for a position on the Supreme Court is always more rigorous, and it's possible Jackson may not garner the same bipartisan support and may face a party-line vote this time around.

President Biden has suggested a 40-day timeline for consideration of the nomination, and Majority Leader Schumer (D-NY) has similarly said he aims for a vote by the full Senate by Easter. Judiciary Committee Chair Durbin (D-IL) has suggested, however, that a short timeline might not be feasible. Thus, expect this to be a somewhat longer process than the most expedient estimates.

Two final considerations on timing for a confirmation vote include Sen. Ben Ray Lujan's (D-NM) recovery from a stroke he suffered in late January and what posture Senate Republicans take to the nomination. In the evenly divided Senate, every vote counts. Lujan has said he expects to return to the Senate in a "few short weeks" and is currently recovering in D.C.—suggesting his absence will not be an issue for long. Additionally, Senate Republicans could deploy some tactics to stall the vote. Case in point, Republicans on the Senate Banking Committee recently stymied consideration of Federal Reserve nominees in committee by not attending the vote, causing the committee to fail to reach a quorum (more on that below). While a prolonged delay is possible and a dynamic to monitor, it seems less likely given both statements by Republicans to date on their intention to be open-minded in deliberations and Judge Jackson's recent vetting by the Senate for her seat on the D.C. Circuit. Something new and controversial would likely have to be revealed during the confirmation process to prompt more aggressive actions by Republicans.

Federal Reserve Nominations

A slate of nominees for the Federal Reserve Board (Chair Jerome Powell, Gov. Lael Brainard, and nominees Prof. Sarah Bloom Raskin, Dr. Lisa Cook, and Dr. Philip Jefferson) along with Sandra Thompson, the nominee for FHFA Director, were supposed to have

their nominations voted on by the Senate Banking Committee in mid-February. The vote did not occur as Republicans – who are seeking to delay or block the nomination of Sarah Bloom Raskin for Vice Chair for Supervision over a series of objections – boycotted the meeting and denied Democrats the required procedural quorum, leaving the nominations in limbo and bipartisan relationships on the committee significantly strained.

Republicans, led by Ranking Member Pat Toomey (R-PA), have stated they are willing to move forward and vote on all other nominees in this group besides Raskin. At issue are Raskin's views on climate change and the Fed's ability to make credit allocation decisions, as well as her lack of fulsome answers to questions about ethics charges from Republicans on the panel. Raskin has faced questioning around Reserve Trust, a nonbank fintech company that gained access to the Fed's payment rails during her tenure on its board of directors and which remains the only nonbank fintech company to have a Fed master account. Democrats, led by Banking Chairman Sherrod Brown (D-OH) are thus far focused on moving the nominees as a group. The next steps remain to be seen, and it could take some time to sort out as both sides seem dug in. Directionally, the lack of confirmations to the board doesn't change the anticipated monetary tightening, though the conflict in Ukraine certainly had an immediate chilling effect on prospects for rapid rate increases in the near term.

GOP Measuring the Drapes

Although it is early in the year, 2022 is an election year. Once again, conflict in Ukraine (and beyond) may change the political landscape in the coming months, but it is no secret that Democrats face an uphill battle to retain narrow majorities in the House and Senate. President Biden's approval rating (which continues to hover just over 40%), the usual brutal headwinds against an incumbent president's party, a raft of retirements from incumbents, new House maps based on the 2020 Census, and fallout from the Afghanistan withdrawal, as well as spiking inflation amid the second pandemic election cycle, are all factors that fall into the "not helpful" category for Democrats.

House Republican Leader Kevin McCarthy (CA) must flip five seats to win the majority and become Speaker and is supremely confident that he can do so. Senate Minority Leader Mitch McConnell (R-KY) is working to break the

50–50 Senate split, though the upper chamber's balance is more of a toss-up at this point, as Senate Republicans are defending 20 seats compared to 14 for Democrats.

Although Washington is abuzz with speculation over what will happen if (and some say when) Republicans flip the House and possibly the Senate, we caution that it is still too early to confidently predict any particular outcome. Should the House go for Republicans as many expect, look for increased oversight on Biden regulatory agencies that may border on hostile, as well as efforts to rein in government spending and roll back COVID-19 public health protocols, among other items.

We look forward to updating our thoughts on these topics over the course of the year.

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