Client Note: Bidenomics in Action

We have a new round of inflation data this week and the outcome everyone has prayed for since the Federal Reserve began its interest rate-hike campaign appears at hand: a hallowed "soft landing".

Headline inflation came in at 3.0 percent on Wednesday, below even optimists' projections, and both "core" and "supercore" measures – which strip out volatile data points like food, energy, shelter and used cars – told the same story of better-than-expected declines. On Thursday, the trend continued with new producer-price index data (the wholesale prices firms pay) showing further declines. All this good news seems to have come at no cost to employment: job growth steadily marches on with the unemployment rate at a historically low 3.6 percent. Even better, wage growth has outpaced inflation for four straight months, while it's been doing that for even longer for lower-wage workers (think restaurant servers, hotel workers, etc.). President Biden and Democrats are crowing from every corner about the state of the economy – Bidenomics, baby!

Here is the White House Council of Economic Advisers' blog post on the inflation news for a deeper dive.

Whether the Fed can achieve a soft landing remains the open question. Chair Jerome Powell's theory of the case has been that to tame inflation we must see a "softening" of the labor market, with the Fed's June economic projections forecasting a nearly 1 percentage point increase in the unemployment rate – or about 2 million jobs lost – over the next year. But, since we haven't seen that "demand destruction" yet, it's worth asking whether it's just late to arrive or if it'll even come at all. One popular answer is that the effect of the Fed's rate hikes are lagged – by as much as two years – and their influence is only just now beginning to course through the economy. If that's the case, then we could still have a rough landing, particularly if the Fed sees the need for additional rate hikes. One warning sign to follow has been the recent increase in the black unemployment rate to 6.0 percent, problematic in its own right, but also typically a leading indicator of more widespread job loss.

This Week in Washington

ESG Hearings Begin

On Wednesday, the House Financial Services Committee held its first of six ESG hearings, titled "Protecting Investor Interests: Examining Environmental and Social Policy in Financial Regulations." While Republicans targeted proxy advisors and the Securities and Exchange Commission (SEC), Democrats reminded their colleagues across the aisle of the negative impacts that anti-ESG legislation has on taxpayers and workers. Moreover, Democrats emphasized that climate risk is financial risk, and that the anti-ESG attacks are supported by the fossil fuel industry. Following the hearing, Representatives

Sean Casten and Juan Vargas, co-chairs of the Congressional Sustainable Investment Caucus, held a press conference, where Rep. Vargas said "Republicans, funded by shady special interests, are launching coordinated attacks to limit Americans' investment options, shrink their pensions, threaten their retirement security, and even damage the environment around them by declaring war on ESG…The public wants to know more about the companies they choose to invest in so they can make the best choice – ESG disclosures deliver this information to the public."

Republicans held three additional ESG hearings this week, and are slated for their final two hearings next Tuesday on "Climate-Risk: Are Financial Regulators Politically Independent?" and "Oversight of the SEC's Division of Corporation Finance" before marking up legislation at the end of the month.

Friction in Farm Bill and NDAA Negotiations
The typically bipartisan National Defense Authorization Act (NDAA), which has passed annually for more than 60 years, is taking a deeply partisan turn in the House. After a nearly unanimous vote out of the House Armed Services Committee, it was held up all week as right-wing members sought a litany of poison-pill culture-war amendments, such as cutting aid to Ukraine and banning the Pentagon from providing reimbursements for abortion-related travel. While Speaker McCarthy initially fought the inclusion of these amendments, late Wednesday he gave in and allowed the amendments to get votes on the floor, many of which ultimately passed (though notably the anti-Ukraine amendments failed dramatically). This ensured almost complete Democratic opposition – the final vote this morning was 219-210, with four Democrats voting yes and four Republicans voting no. It'll now wait to be conferenced with the forthcoming Senate product, at which point these controversial amendments will have to be removed for the bill to become law.

It's no surprise that the Farm Bill, which is always more tenuous, is in worse shape. The Senate Agriculture Committee is working to finalize the bill and hold mark-ups in September, with the House potentially doing the same in October. However, it's already being floated that the continuing resolution (CR) expected in September will include an extension of the Farm Bill to give negotiators more time to come to an agreement. What's interesting is that the CR is expected to go through the end of the year (as is standard), but that the Farm Bill extension could go through the first quarter of next year, indicating that we're nowhere near a passable bill.

Foreign Entity of Concern
The IRA's new EV tax credit, Sec. 30D, includes a prohibition on materials and minerals from any "foreign entity of concern" (FEOC). This is defined as a business that is "owned or controlled by, or subject to the jurisdiction of" China, Russia, North Korea or Iran. Specifically, the bill states that, beginning in 2024, an eligible vehicle may not contain battery components manufactured by an FEOC, or beginning in 2025, may not contain critical minerals that were extracted, processed or recycled by an FEOC.

However, questions remain over the implementation of the FEOC requirements, including: 1) what percentage of ownership amounts to "owned and controlled by," 2) whether it applies to just state-owned companies or also foreign nationals of those countries, 3) defining "subject to the jurisdiction of" and 4) whether intellectual property (IP) can trigger FEOC concerns. If Treasury uses an overly strict interpretation of the requirement when it comes out with its guidance in the coming months, it could block vehicles containing batteries manufactured in a facility that has any exposure to investment or subject to a joint venture with a designated FEOC (which in practice might be nearly all of them).

DOE Funding Opportunity Announcements (FOAs)

This week, the Department of Energy (DOE) announced a $27.5 million voucher program to support commercialization for organizations that play a role in bringing innovative energy technologies to market. The program will open for submission later this summer.

For other information on funding opportunities with DOE, please see this memo.

Clients in the News

On Wednesday, Bobbie announced the acquisition of Nature One, a highly innovative, Ohio-based pediatric nutrition company. The move will allow Bobbie to triple the number of babies they can currently feed, positioning them as the third largest fully integrated brand in the United States.

Also on Wednesday, Brimstone received a third-party certification that its carbon-negative cement is structurally and chemically the same as regular cement. The *Washington Post* spotlighted them as the only company doing this type of work.

Earlier this week, Morgan Harper, Director of Policy and Advocacy at AELP, testified at a Senate Banking hearing on bank mergers and the impacts of consolidation.

Next Week: Hearings to Watch

Tuesday, July 18

House Financial Services Subcommittee on Financial Institutions and Monetary Policy

Climate-Risk: Are Financial Regulators Politically Independent?

(10:00 AM EDT), watch here

House Financial Services Subcommittee on Capital Markets

Oversight of the SEC's Division of Corporation Finance

(10:00 AM EDT), watch here

House Oversight and Accountability Subcommittee on Economic Growth, Energy Policy, and Regulatory Affairs

Canceling Consumer Choice: Examining the Biden Administration's Regulatory Assault on Americans' Home Appliances

(10:00 AM EDT), watch here

Wednesday, July 19

Joint Economic Committee

The Economic Impact of Diabetes

(2:00 PM EDT), watch here

Senate Energy and Natural Resources Subcommittee on Water and Power
Hearings to examine pending legislation
(2:30 PM EDT), watch here

Senate Judiciary Subcommittee on Competition Policy, Antitrust, and Consumer Rights
Trends in Vertical Merger Enforcement
(2:45 PM EDT), watch here

Senate Committee on Agriculture, Nutrition, and Forestry
Rural Water: Modernizing Our Community Water Systems
(3:00 PM EDT), watch here

Thursday, July 20
Senate Environment and Public Works Committee
The Water Resources Development Act: Non-Federal Stakeholder Views
(9:30 AM EDT), watch here

Senate Homeland Security and Governmental Affairs Committee
America's Supply Chain Security: Understanding and Mitigating Threats
(10:00 AM EDT), watch here

Senate Appropriations
Full Committee Markup of Fiscal Year 2024 Energy and Water Development, State and Foreign Operations, Transportation, Housing, and Urban Development Appropriations Acts
(10:30 AM EDT), watch here

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