THE WASHINGTON – WALL STREET CONNECTION

Raymond James Equity Research

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Overview

DC AGENDA OUTLOOK

PRIORITY AREAS

Government Funding

Lawmakers have finalized an omnibus government funding deal through rest of FY2022.

Nominations

Supreme Court, Federal Reserve, FTC/FCC nominees will be a focus for Congress through the spring.

Reconciliation Bill

Biden's SOTU address previewed a Building a Better America agenda – a potential revised BBB bill. Manchin has laid out provisions he can ultimately support.

Competition/China Bill

House/Senate to settle differences and pass final bill with semi funding/supply chain security/domestic manufacturing investment.

Senate to accelerate legislative agenda through Memorial Day – new push for reconciliation bill?

- The return of Sen. Lujan (D-NM) from medical absence, rising geopolitical threats, and government funding work accelerate legislation before Congress transitions to midterm elections.
- Democrats are looking to build momentum behind a potential revised BBB reconciliation bill covering prescription drugs, tax changes, and climate/energy policy.

Near-term focus: nominees, economic competition bill, Russia threat response.

- Fed nominees (Powell, Brainard, Cook, Jefferson) advanced out of committee and are heading to a floor vote. Supreme Court confirmation hearing process ongoing. FTC/FCC nominees also advancing.
- Domestic R&D/semiconductor funding bill being negotiated on a Memorial Day target timeline. Russia actions/response also dominates policymakers' attention near-term, and policies to raise pressure on Russia being debated (blocked energy imports, increased U.S. energy output).

What to watch:

- **How much can Dems get done prior to Memorial Day?** Senate agenda/floor time will be packed between now and Memorial Day, with nominees, a Supreme Court pick, competitiveness bill, and Russia sanctions. Question of how much can get done before Memorial Day, as political forces pick up into the midterms after, making legislative work much harder.

Ukraine/Russia

CRISIS IN UKRAINE

WHAT WE KNOW

- **Ukraine under attack:** Ukraine is facing a full-scale invasion, but resistance to Russian forces is proving more effective than expected – extending the conflict.
- **Negotiations taking place:** Contacts between Ukrainian and Russian officials have so far not led to significant breakthroughs.
- **Severe sanctions impacting markets:** Financial and energy sanctions have led to secondary effects of divestment from Russia/commodity price spikes.

WHAT WE DON'T KNOW

- **Putin's endgame:** The conflict has not progressed as Putin likely intended/expected, and an off-ramp is not yet clear.
- **What can Ukraine accept?** Russia has suggested neutrality guarantees/territorial conditions can be discussed, but unclear if/when Ukrainian officials/public would accept this outcome.
- **How high a cost is Russia willing to bear?** Economic costs quickly mounting, as well as military losses – domestic unrest brewing.

WHAT WE'RE WATCHING

- **Signs of shifting positions:** Putin's rhetoric may be softening on invasion goals, but negotiating positions have so far not materially shifted.
- **Will Putin escalate?** Overhang of cyber threats/shift in tactics to bio/chemical weapons or environmental disaster.
- **NATO involvement:** NATO continues to take defensive posture, but at what point does calculus shift toward greater/overt support for Ukraine?

U.S. – China

CONGRESS TO ACCELERATE CHINA COMPETITION LEGISLATION

NOTABLE CHINA COMPETITION BILL PROVISIONS
CHIPS Act Semiconductor Funding
• $52 billion in overall appropriated funding for Commerce Department domestic semiconductor manufacturing program, with $39 billion in grants available over 5 years to semiconductor industry.
• $19 billion is allocated for FY22, and $2 billion of this is set for legacy chip production for supply chains facing shortages.
Endless Frontier Act
• Roughly $120 billion over 5 years authorized for National Science Foundation, Department of Commerce, Department of Energy, and NASA for R&D, manufacturing, and supply chain investment in next-gen technologies.
• Funding aims to boost U.S. research and development in AI, quantum science, critical minerals, bioeconomy, and energy production.
Strategic Competition Act
• Broadly defines U.S. foreign policy to combat China's influence abroad – including expanding cooperation with Indo-Pacfiic allies in tech, defense, infrastructure issues.
• Emphasizes human rights and civil society measures, focusing on forced labor, Taiwan, Hong Kong, Tibet, and human rights issues in Xinjiang – all stress points in the U.S.-China relationship.
Meeting the China Challenge Act of 2021
• Urges intensified sanctions against China on economic, cyber, intellectual property, and human rights issues.
• Includes directives to study China's presence in U.S. capital markets and exposure of the U.S. financial system to China – a prelude to further capital markets actions.

Source: Raymond James Research

Congress to focus on U.S. Innovation and Competition Act (USICA) legislation through Memorial Day.

- House and Senate to work out differences to produce a final bill on China competition policy. Bill could be completed 1H22.

Continued support for domestic industrial development.

- Strengthening of the U.S. domestic manufacturing base is a priority tied to Biden's China strategy.
- Materials manufacturing, photovoltaic cell production, semiconductors, and emerging tech are specifically targeted sectors.
- Congress continues work on grants and tax credits for domestic semiconductor manufacturing tied to Biden's China policy, which could be fast-tracked later this year.

What to watch: enhanced tech/capital markets restrictions and outbound investment review.

- New export or capital markets restrictions could rise in prominence with growing geopolitical tensions and measures restricting Russia's access to the global financial system.
- Outbound investment review mechanism as currently written would focus on larger capital projects for supply chain security, but could be expanded if implemented.

Domestic Manufacturing

HOUSE PASSES ECONOMIC COMPETITION BILL (COMPETES ACT)

Next Steps and Outlook

- **Geopolitical crisis adds new tailwinds:** Lawmakers are renewing focus on economic competition and supply chain security, boosting prospects of legislation. Lawmakers are also looking to build pressure on China, and the bill lays the groundwork for enhanced capital markets/export controls should China be seen as siding with Russia on the Ukraine invasion.

- **Process from here:** House and Senate continue to conference the bill toward a compromise package. Current expectations remain that a bill is possible by Memorial Day, and more attention could shift to this bill once government funding is settled.

Notable Provisions

- **CHIPS Act semiconductor funding:** $52 billion in incentives for private sector onshoring and semiconductor fabrication, assembly, testing, advanced packaging, and research and development.

- **Bolstering supply chains**: $45 billion for supply chain improvements and shortage prevention for critical goods with increased domestic production. Funding allowed for key components and products for public health and biological preparedness, information and communications technology, the energy and transportation sector's industrial base, and agricultural commodities and food product supply chains.

- **Outbound investment review:** Whole-of-government screening process for outbound investments and offshoring of critical capabilities, establishing reporting requirements for companies seeking to expand supply chains in high-risk nations (China, Russia).

- **Shortening China equity delisting timeframe to two years from three years:** The timeframe for delisting of Chinese equities identified as being out of compliance with PCAOB inspection rules is shortened from three to two years. Expands scrutiny of PCAOB violations to all jurisdictions.

- **Funding boost for competition agencies**: $418m is authorized for the FTC and $252m is authorized for the Department of Justice Antitrust Division for FY2022.

- **Cannabis banking bill:** The SAFE Banking Act has been added to the House legislation, but we continue to expect it will not pass until closer to year-end.

QUESTION #1

What is your expectation for the State and Local Tax Deduction?

A: The $10,000 cap per household remains

B: Congress increases the cap to $80,000 without an income limit (House-passed bill)

C: Cap is increased to $80,000 with an income limit

D: Other/Don’t Know

Reconciliation Bill

RECONCILIATION STATE OF PLAY

Democrats looking for new momentum behind revised reconciliation bill, but many policy questions remain.

- Senator Manchin (D-WV) has raised prescription drugs, tax code changes, and climate/energy policies as policy priorities that could earn his support in a reconciliation bill after the President's State of the Union address.
- Over/under on total new funding trending closer to $500-600b range, with payfors as deficit reduction measures. Recent letter from Majority Leader Schumer highlights new push and energy concerns/consumer prices are becoming a new core foundation for a bill.
- However, Manchin is indicating support for provisions that Senator Sinema (D-AZ) has drawn red lines on, creating questions on how sustainable a new legislative push can be. Sinema (D-AZ) has put limits around what corporate/individual tax changes she will support, and prescription drug changes have been a sticking point. SALT inclusion also unclear, which has been a top priority area for vulnerable House Dems.

Timing considerations.

- Manchin has previously noted he would like to see a "committee process" to rework the bill. Currently there are no real timing constraints, which ultimately make the path forward uncertain (no clear deadline and other priorities take away legislative time).
- Memorial Day can be seen as an informal target. Legislation becomes more difficult after this point in a midterm election year.

What to watch:

- **Other Congressional priorities set to dominate in the near-term.** Military escalation in Europe, manufacturing/supply chain legislation, and the process of vetting/confirming a Supreme Court nominee also prolong any timeline. Inflation/geopolitical concerns also add barriers, as Manchin has been hesitant to support additional spending given uncertain economic outlook.

Tax Agenda

NOTABLE PROVISIONS OF HOUSE-PASSED BILL (AKA What Almost Passed)

Childcare and Education

~$600B

- Extended advancement payment child tax credit (1 year)
- Universal pre-K for 3-4 year olds
- School modernization and repair
- Job training programs

Climate/R&D

~$555B

- Extended clean energy tax credits
- Clean-tech deployment
- Electric vehicle infrastructure
- Water infrastructure
- Domestic R&D

Healthcare

~$340B

- Expanded ACA tax credits
- Expanded home and community health services
- Medicare hearing benefit
- Healthcare workforce investment

Housing

~$150B

- Down payment assistance program
- Public housing repair
- Increasing low-priced housing supply
- Expanding low-income rental assistance

Transportation

~$40B

- High-speed rail
- Transit access/pollution reduction funding
- Alternative aviation fuel investment

Tax and Revenue

~$1.3T

- **Global minimum tax/other international tax reforms:** 15% minimum tax on foreign income for international corporations (Estimate: $350 billion)
- **Corporate minimum tax:** 15% minimum tax established with allowances for certain tax credits (Estimate: $325 billion)
- **High-income surcharge**: New surcharge of 5% for income above $10 million, with additional 3% for income above $25 million (Estimate: $230 billion)
- **Medicare tax expansion:** Expanded Medicare tax collected on earnings (Estimate: $250 billion)
- **Limitation on business loss tax reduction:** Limits ability for businesses to reduce tax liability with loss deduction (Estimate: $170 billion)
- **Stock buyback tax:** 1 % tax on corporate stock buybacks (Estimate: $125 billion)
- **IRS enforcement:** $80 billion for IRS to address “tax gap” (Estimate: $200-$400 billion)
- **SALT cap increase:** State and Local Tax deduction raised from $10,000 to $80,000
- **IRA/Roth limits:** IRA accounts with balances exceeding $10m for individuals with incomes above $400k are restricted from further contribution, new ROTH conversions prohibitions

What’s Out

- **Corporate tax rate:** Top rate of 26.5%, with tiered system for income below $5m (tax cut to 18% to small businesses below $400k)
- **Top individual taxes:** Top rate increased to 39.6% (same level pre-Trump tax cut), 3% surcharge on income $5 million+
- **Capital gains rate/stepped-up basis adjustment:** Top rate of 25% (28.8% with net investment income tax) effective 2021, with blended rate based on date of transaction
- **Estate tax exemption:** Unified credit exemption reduced to $5m, indexed for inflation

Source: Raymond James Research, Congressional Budget Office

Regulatory Dynamics

PROGRESSIVE REGULATORY SHIFT

Gary Gensler
Chair - SEC

Sandra Thompson
Acting Dr. - FHFA

Rohit Chopra
Director - CFPB

Tim Wu
White House NEC

Lina Khan
Chair – FTC

Jonathan Kanter
DoJ Antitrust

- **Progressive trend on regulatory selections.** Selections for key regulatory posts indicate a looming progressive shift.
- **Financials and antitrust policy.** Concentrated in the financial regulatory space, however also seen on competition/antitrust policy.
- **Expanded antitrust actions/pressures expected.** Broadly expect increased scrutiny of firm size (big = bad) and industry concentration.
- **More central consideration of climate policy.** Climate objectives also set to be elevated.

Regulatory Agenda

COMPETITION POLICY/ANTITRUST OUTLOOK

FTC CHAIR

Lina Khan

DOJ ANTITRUST

Jonathan Kanter

Seismic Shifts at Agencies, Glacial Pace on the Hill:

- **Seismic shifts at the FTC/DOJ, but resource constrained.** For now, the FTC has devoted attention to increasing merger scrutiny through second requests, specifically prioritizing labor market impacts and supply chain resiliency – factors that the agency views as seeing less emphasis in previous enforcement efforts.
- **Merger review guideline update a key catalyst.** Agencies are in the process of updating vertical/horizontal merger review to account for “market realities” and areas previous guidelines “underemphasize or neglect” – including rules around nascent competitor acquisition, digital market factors, and data. Guidelines can influence court litigation process.
- **FTC return to Democratic majority timeline uncertain.** Sen. Lujan (D-NM) – who had been absent from the Senate due to a medical emergency – is a pivotal vote in advancing FTC nominee Alvaro Bedoya.
- **Congressional outlook.** Boosted funding likely the key legislative victory for agencies this year (possibly around $500m for both FTC and DOJ). Tech legislation continues to gain momentum, but more likely a 2023 event. Tech legislation serves to focus agencies on scrutinizing large tech firms with political cover.

QUESTION #2

What is your expectation for the Federal Reserve in 2022?

A: Limited increase to Fed Funds rates due to macro uncertainty

B: Moderate increases to Fed Funds rate balancing inflation and macro uncertainty

C: Aggressive action to tame inflation

D: Other/Don't Know

The Future of the Fed

FED LEADERSHIP SELECTIONS

FED CHAIR	FED VICE CHAIR	VC FOR SUPERVISION	GOVERNOR	GOVERNOR
				
Jerome Powell	Lael Brainard	TBD?	Lisa Cook	Philip Jefferson

Signals from Confirmation Process:

- **Fed maintaining overall hawkish shift.** Biden nominees Cook and Jefferson broadly supported the Fed's current monetary policy stance. We do not see a material shift in the Fed's monetary policy trajectory if the current slate of nominees are confirmed.
- **Powell serving as "acting" chair takes some pressure of final votes.** The Senate will attempt to move all current nominees at once. Powell is serving in an acting capacity, and Dems are looking to advance nominations prior to mid-April (Easter Congressional recess).
- **Regulatory impact.** Longer term, we view a continued vacancy for the supervision VC post (after Sarah Bloom Raskin withdrew) as a sign that significant changes are less likely and the timeline for other regulatory adjustments is being extended. We will be watching if the White House quickly nominates a new VC candidate (Nellie Liang, Raphael Bostic, a senior career Fed official) or whether the post remains open and led in an unofficial capacity.

Regulatory Agenda

SEC: Disclosure, Disclosure, Disclosure (but trying to change behaviors)

Gary Gensler
Chair of the SEC

BACKGROUND

- Sworn in as Chair of the Securities and Exchange Commission on April 17, 2021 (53-45 vote in the Senate).
- Former Chair of the Commodities Futures Trading Commission (CFTC) under President Obama and Under Secretary for Domestic Finance/Assistant Secretary at the Treasury Department.
- Private sector background prior to public service – former M&A partner at Goldman Sachs.
- Most recent position prior to SEC nomination as Professor of Global Economics and Management at MIT.
- Academic work explored digital assets and cryptocurrencies – currently a leading figure of the Biden administration's digital currency scrutiny.

VIEWS AND PRIORITIES

- **Market structure, function, and disclosure:** Disclosure leads the agenda, including on performance fees and compensation. We still expect a focus on platform broker trading prompts and the payment for order flow (PFOF) model. Regulatory attention could expand customer best interest regulations to emerging trading platforms.
- **Cryptocurrency:** Gensler views the digital asset space as "rife with fraud, scams, and abuse" with many tokens functioning as unregistered securities. Longer term, regulations are a critical steps for the legitimization of certain products and technologies that are likely to see further integration in key sectors and government functions.
- **Climate:** The SEC is preparing an enhanced climate risk disclosure rule for publicly-traded companies, which may be proposed in 2022, and could place additional data gathering and reporting requirements on U.S. financial institutions.
- **U.S.-listed Chinese firms:** The SEC is leading implementation of the Chinese equity delisting bill, which is gaining increased attention given recent actions taken by the government of China cracking down on certain industries with U.S. investor impact.
- **SPACs:** The SEC is pursuing enhanced disclosures for SPAC listings with an investor protection angle.

Regulatory Agenda

CFPB: Enforcement & "Junk Fees"

Rohit Chopra
Director of the CFPB

BACKGROUND

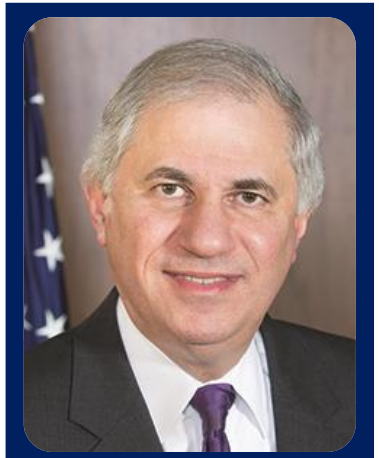
- Sworn in as Director of the CFPB on October 12, 2021 (50-48 party-line vote in the Senate).
- Most recently served as a commissioner on the Federal Trade Commission (FTC), nominated by former President Trump.
- Chopra is considered a close ally of Sen. Elizabeth Warren (D-MA), and helped establish the CFPB before serving as the CFPB's assistant director and overseeing student loan enforcement.
- Private sector consulting experience in various industries prior to public service.
- Received his B.A. from Harvard University and MBA from the University of Pennsylvania.

VIEWS AND PRIORITIES

- **Enforcement Actions:** We expect most of the action out of the CFPB to focus on taking enforcement actions against financial institutions, especially to garner the most headline attention.
- **"Junk Fees":** The CFPB has released a "request for information" on what they call "junk fees." Overdraft, credit card late fees, title insurance are seen as most at risk from this exercise.
- **COVID-related consumer protections:** Expect heightened enforcement of consumer protections as pandemic-related mortgage forbearance and foreclosure/eviction protections expire.
- **Big Tech (or Fintech).** Chopra comes to the CFPB from the FTC and his first action were on the financial products being offered by large tech companies, highlighting an expansion beyond traditional targets.
- **Buy Now Pay Later.** The explosion of options for BNPL has garnered the attention of the CFPB, we expect ongoing inquiries into the business model, but limited regulatory changes (absent enforcement).

Regulatory Agenda

FDIC: M&A Updates in Focus



Martin Gruenberg
Acting Director - FDIC

BACKGROUND

- Gruenberg previously served as FDIC Chair under Obama administration, and is set to become Acting Director with the resignation of Trump-era FDIC Director Jelena McWilliams.
- Gruenberg and other FDIC board members (CFPB's Chopra and OCC's Hsu) exercised majority power on the FDIC board, advancing the process on a bank merger guideline revision, leading to McWilliams' resignation.
- Gruenberg has served on the FDIC board since the expiration of his term as FDIC Chair, and has previous experience working for the Senate Banking Committee.
- Per vacancy rules, Gruenberg can serve until a full-time appointment is confirmed.

VIEWS AND PRIORITIES

- **Impact on M&A:** We continue to expect pending deals will be approved. Timing expectations may need to be extended, however, and additional regulatory scrutiny may raise the incidence of enforcement actions tied to Community Reinvestment Act (CRA) and other penalties to secure regulatory approval.
- **Beginning of merger review revamp:** Longer term, we expect greater scrutiny for banks that would form a combined entity with assets over $100 billion (the threshold suggested by the recent agency request for information as posing systemic risk).
- **Climate focus:** Gruenberg has called for data gathering on climate exposure risks and the consideration of climate risks in stress tests, saying "we are behind the curve and we have a lot of ground to make up" – a further sign of accelerating actions that is likely to commence under acting leadership.
- **More unified regulatory personnel:** The resignation of McWilliams and control shifting to a Democratic regulator at the FDIC provides the Biden administration with more flexibility on regulatory adjustments, but we expect changes to be moderated with the Fed broadly taking a leading role.

Regulatory Agenda

FHFA: An Exit Can Wait

Sandra Thompson
(Nominee) Director - FHFA

BACKGROUND

- Appointed Acting Director of FHFA on June 23 after Supreme Court ruling allowed President Biden to remove FHFA leadership at will, and has been nominated to serve in a formal capacity.
- Thompson has extensive experience at FHFA, having previously served as deputy director of FHFA's Division of Housing and Goals (DHMG) overseeing regulatory and capital policy as well as fair lending activities.
- Prior to FHFA, served as Director of FDIC's Division of Risk Management and Supervision during peak of the financial crisis.

VIEWS AND PRIORITIES

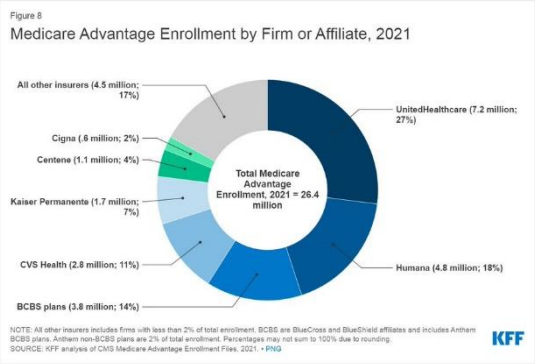
- **Extending COVID-19-related consumer protections:** The FHFA under Thompson has moved to extend foreclosure protections for single-family homeowners and forbearance provisions for multifamily properties.
- **Increasing housing access and affordability:** FHFA is taking steps to expand mortgage access by including rental payment history in underwriting, lowering risk-based fees on loans backed by the GSEs, and adjusting GSE affordable housing goals with more actions expected.
- **Lessened focus on GSEs exiting conservatorship:** The capital position of the GSEs and preparations for an exit from government conservatorship was a top priority of former Director Calabria. Thompson has adjusted GSE capital standards to free up additional capital toward loan purchases – signaling decreased emphasis on the GSEs building up a capital cushion. Thompson sees significant input from Treasury and Congress needed before GSEs can meaningfully move toward conservatorship release.

Coverage

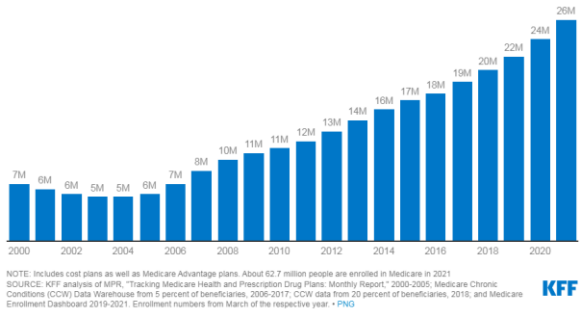
MEDICARE ADVANTAGE

Lives Insured

Total: 26.4 million (out of 62.7 million total Medicare enrollees)



Total MA Enrollment, 2000-2021

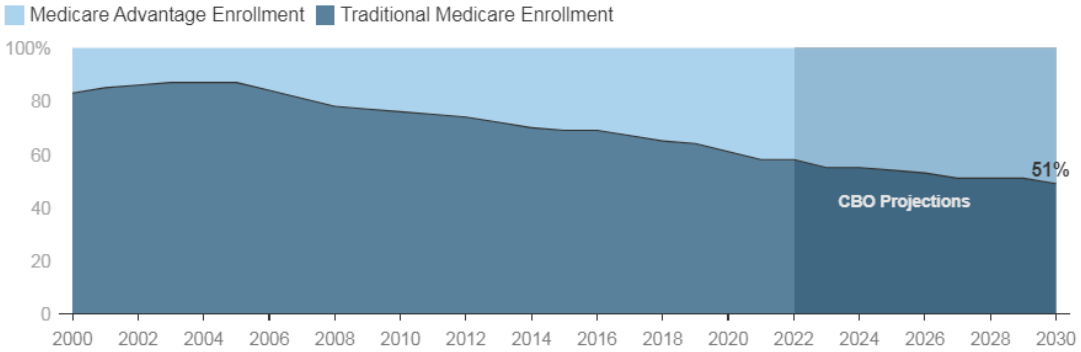


Sources: KFF, Raymond James Research

Policy Issues

- Will the Biden administration take action to make cuts or technical changes to the Medicare Advantage program?
- Will Congress allow the sequester to return or make other cuts to the MA program?
- Democrats, including HHS Secretary Becerra, have discussed creating a "fair playing field" between MA and traditional Medicare. How will increased benefits in Traditional Medicare impact MA adoption?

Medicare Advantage Enrollment vs. Traditional Medicare, Past and Projected



SOURCE: KFF analysis of MPR, "Tracking Medicare Health and Prescription Drug Plans: Monthly Report," 2000-2005; Medicare Chronic Conditions (CCW) Data Warehouse from 5 percent of beneficiaries, 2006-2017; CCW data from 20 percent of beneficiaries, 2018; and Medicare Enrollment Dashboard 2019-2021. Enrollment numbers from March of the respective year. Projections for 2022 to 2030 are from the March Congressional Budget Office (CBO) Medicare Baseline for 2020. • PNG

KFF

Coverage

ACA EXCHANGES

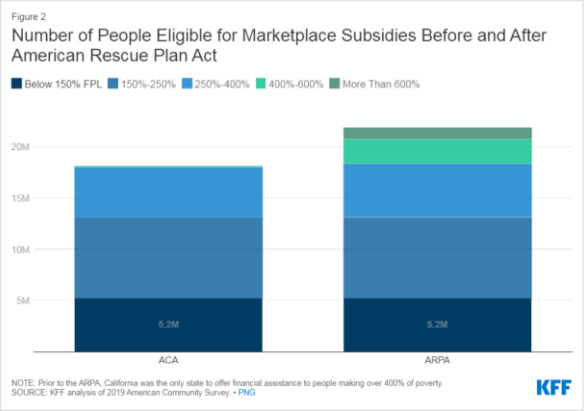
Quick Facts

The Biden team helped dramatically increase ACA enrollment with more than **2.8 million additional people** signing up for health coverage during the Biden-Harris Administration's 2021 Special Enrollment Period (SEP) (February 15, 2021 to August 15, 2021), and with increases during the annual enrollment period, ACA enrollment surpassed **14.5 million**.

Lives Insured

14.5
million

Newly Eligible Since ARP



Sources: KFF, Raymond James Research, CRFB, CBO

Policy Changes Biden Administration Could Make

- The administration is planning to address the **"family glitch"**—currently, under the ACA, families of an employee whose employer offers family coverage cannot access exchange subsidies, even if family coverage is not affordable—through new guidance.
- It could provide additional funding for **Navigators** and/or implement additional **Special Enrollment Periods (SEPs)**.
- The No Surprises Act directs HHS to implement **provider nondiscrimination** protections through regulation; the administration plans to issue a proposed rule.
- The administration plans to propose amendments to the definition of **short-term, limited-duration insurance;** it is expected that short-term plans will return to a previous Obama-era three-month limit.

Subsidies Before & After American Rescue Plan

Changes in the **maximum percentage of household income paid for Silver Health Plan insurance premiums**: Original ACA vs. American Rescue Plan Act of 2021:

Income as % FPL	Original ACA	American Rescue Plan Act of 2021
Up to 150%	2.07% - 4.14%	0.00% - 0.00%
150-200%	4.14% - 6.52%	0.00% - 2.00%
200-250%	6.52% - 8.33%	2.00% - 4.00%
250-300%	8.33% - 9.83%	4.00% - 6.00%
300-400%	9.83% - 9.83%	6.00% - 8.50%

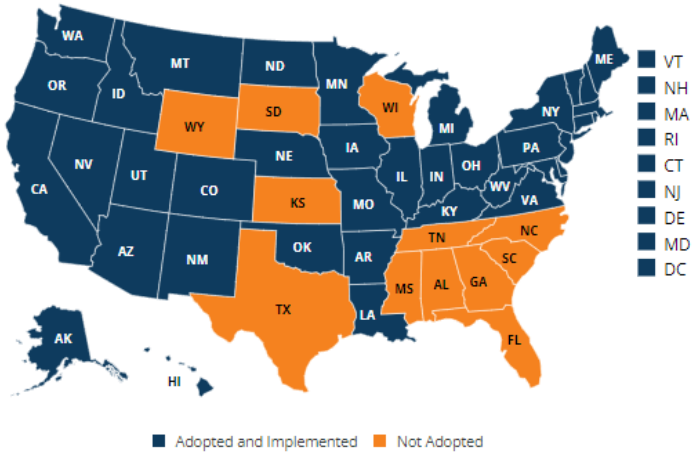
Coverage

MEDICAID

Lives Insured

Total: 75.9 million

State Expansion Status



Sources: KFF, Raymond James Research

Medicaid Redeterminations

- States are required to keep Medicaid beneficiaries enrolled through the Public Health Emergency (PHE) in order to receive more federal Medicaid funding (continuous coverage). Experts say that as many as 30% of Medicaid beneficiaries may be removed from the program after the PHE.
- To limit fallout, CMS announced that states will have 14 months after the COVID-19 public health emergency ends to remove Medicaid beneficiaries from their programs through Medicaid redetermination. Furthermore, states cannot remove anyone from Medicaid until they have completed a new redetermination after the PHE.
- In September 2021, Urban Institute released a report that projects that 15M people could lose Medicaid coverage once the public health emergency (PHE) ends, including 8.7M adults and 5.9M children. Job loss during the pandemic led to an increase in Medicaid enrollment, and the continuous coverage requirement contributed to the rise. The report finds that by the end of 2021, Medicaid enrollment will have increased by an estimated 17M people since the start of the pandemic. It notes that one-third of adults losing Medicaid coverage would be eligible for Marketplace premium tax credits (PTCs) if the enhanced tax credits in the ARP Act were made permanent; 57% of the children losing coverage would be eligible for the CHIP, with an additional 9% eligible for Marketplace coverage with tax credits.

Policy Issues

- How will the Biden administration address the population of individuals who will lose Medicaid coverage once the PHE ends?
- Will Congress provide coverage for those eligible for Medicaid expansion in non-expansion states?
- How will the redetermination process proceed following the end of the PHE? What steps will be taken to overcome administrative and other hurdles?

QUESTION #3

What is your expectation for the Midterm Elections?

A: Status Quo (Democratic House & Senate)

B: Republican House/Democratic Senate

C: Republican House/Republican Senate

D: Democratic House/Republican Senate

E: Other/Don’t Know

Summary

THE STATE OF THE RACE

- **Unsettled Nation.** Americans are experiencing “issue fatigue” with multiple “crises” on a wide range of issues that are weighing on households. Spiking gas, household staples, and services prices, Russia invading Ukraine, what feels like the never-ending COVID pandemic, disruptions in education and childcare adding to stress, and just overall news fatigue is resulting in voter dissatisfaction with the direction of the country reaching the highest level in 40 years.

- **Unpopular President.** President Biden’s approval rating has dropped and hovers at or below 40%. History shows that a President’s approval rating nearly always drops or remains the same from this point in time through the election. When a President’s approval rating is this low, his party nearly always loses seats in at least one chamber.

- **GOP Strong Tailwinds.** Americans unhappy with the direction of the country and disapproving of the job the Democratic President is doing, a depressed Democratic base, turned off independents, and an early lead in fundraising are setting up strong tailwinds for the GOP heading into the Fall that are already showing up in the GOP routinely leading the generic congressional ballot polling.

- **Outcome Probabilities.** We see three plausible outcomes that produce an 85% likelihood the GOP takes control of the House of Representatives. The lower odds (currently 55%) for a Republican Senate represents the unsettled outcome in Senate primaries and the somewhat favorable map for Democrats (where they are defending/have pickup opportunities won by Biden in 2020). That said, the outcome for a Republican Senate majority is biased upward form here, at the current time. In the report we outline arguments in favor and against each outcome and what the market/policy implications are for each.

    - GOP Sweep (55%) – Republicans control the House and the Senate.
    - Split Decision (30%) – Republicans take the House and Democrats maintain control of the Senate.
    - Status Quo (15%) – Democrats maintain control of the House and Senate.

- **Potential Changes.** Ratings are a snapshot in time and there remain 8 months until Election Day which is an eternity in politics. We are watching a handful of areas for developments that could lead us to adjust our ratings. These areas include topics like: Republican divisions and potential nomination of candidates viewed as unacceptable to voters; whether Biden’s approval rating goes up or down; the rate of inflation as the election approaches; how front of mind COVID remains; and developments in ongoing foreign crises.

THE NATIONAL ENVIRONMENT

National Political Mood

AN UNSETTLED NATION

Americans experiencing "issue fatigue" with multiple "crises" weighing on households

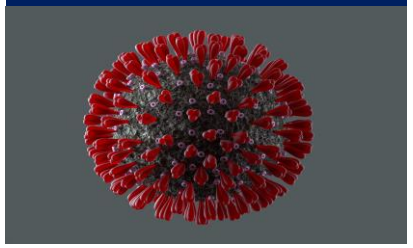
GAS PRICES

Record gas and energy prices weighing on consumers

PUBLIC SAFETY

Rising concerns about crime and safety issues in communities

COVID



A multi-year pandemic sinking Americans' overall sense of life satisfaction

FOREIGN CRISES

Heightening geopolitical tensions further adding to fears and uncertainty

INFLATION

Spiking prices across household staples and services

EDUCATION

Education disruptions and childcare uncertainty adding to stress

NEWS FATIGUE

Americans tuning out national media across the political spectrum

Right Track/Wrong Track

VOTERS SEEKING CHANGE IN DIRECTION

Share of voters dissatisfied with the direction of the country is at a 40-year high

- The share of voters that view the country as being on the "wrong track" can be a good predictor of whether control of Congress will shift in an election cycle.
- The current share of voters dissatisfied with the direction of the country is **at the highest level in the past 40 years – currently at 82%**.
- Since 1994, there has been a shift in control of Congress **in every midterm cycle** where the share of voters dissatisfied with the direction of the country has been above 50%.

Year	President's Party	% Dissatisfied w/Direction of the Country	Party in Power +/- House Seats	Party in Power +/- Senate Seats	Shift in Control of Congress?
1982	R	72%	-26	+1	No: Split Congress
1986	R	38%	-5	-8	Yes: Democratic Congress
1990	R	64%	-8	-1	No: Democratic Congress
1994	D	66%	-54	-8	Yes: Republican Congress
1998	D	34%	+5	0	No: Republican Congress
2002	R	33%	+8	+1	Yes: Republican Congress
2006	R	61%	-31	-6	Yes: Democratic Congress
2010	D	79%	-64	-6	Yes: Split Congress
2014	D	77%	-13	-9	Yes: Republican Congress
2018	R	62%	-42	+2	Yes: Split Congress
2022	D	82%	TBD	TBD	TBD

Source: Raymond James Research, Gallup "Satisfaction With the United States" historical polling data

What Approval Tells Us

PRESIDENTIAL APPROVAL AND MIDTERM RESULTS

Biden fighting history to improve approval rating and limit midterm losses

- History shows us that a President's approval rating at this point of the year in a midterm election year is **typically locked in or prone to drop through the election**.
- Presidents have seen their approval rating drop or remain the same in **9 out of the past 10 midterm election cycles** going back to 1982.
- In cycles where a President's approval is below 50%, **significant House and Senate seat losses** have occurred since 2006 (the 2018 Senate race being an exception, where Republicans picked up two seats).

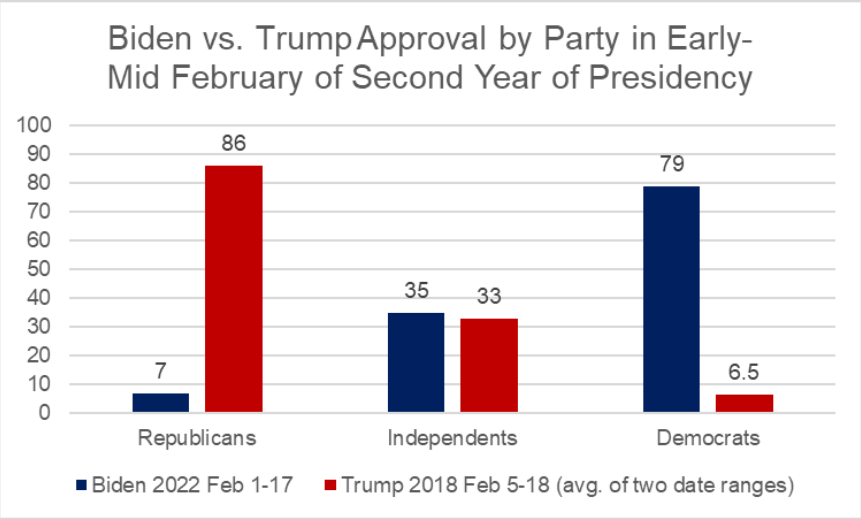
Year	President	Approval: March	Approval: November	House Outcome	Senate Outcome	Control of Congress
1982	Ronald Reagan	46%	43%	-26	+1	Status Quo: Split Congress
1986	Ronald Reagan	63%	63%	-5	-8	Democratic Congress
1990	George H.W. Bush	68%	58%	-8	-1	Status Quo: Democratic Congress
1994	Bill Clinton	50%	46%	-54	-8	Republican Congress
1998	Bill Clinton	63%	59%	+5	0	Status Quo: Republican Congress
2002	George W. Bush	77%	63%	+8	+1	Republican Congress
2006	George W. Bush	36%	40%	-31	-6	Democratic Congress
2010	Barack Obama	48%	45%	-64	-6	Split Congress
2014	Barack Obama	43%	40%	-13	-9	Republican Congress
2018	Donald Trump	39%	40%	-42	+2	Split Congress
2022	Joe Biden	40%	TBD	TBD	TBD	TBD

Source: Raymond James Research, Gallup "Presidential Job Approval Center" data

STATE OF THE MIDTERM RACE

State of the Race

DEMOCRATIC BASE DEPRESSED, INDEPENDENTS TURNED OFF

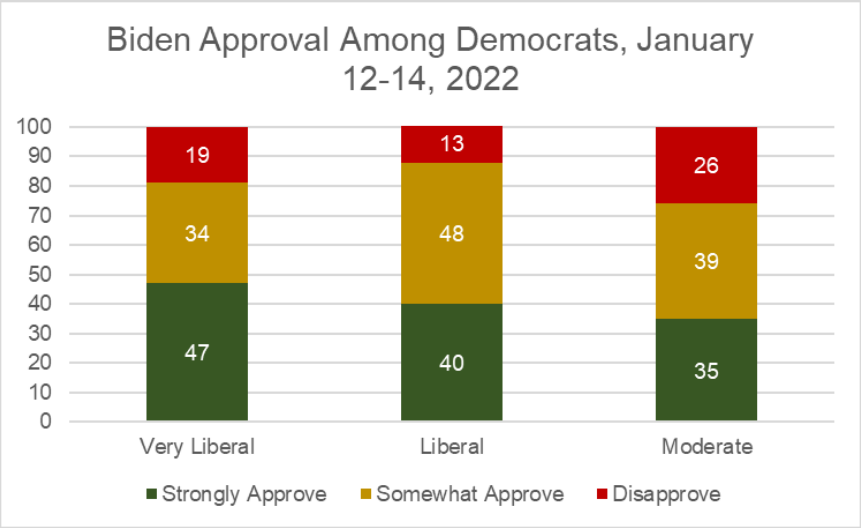


Sources: Gallup, Raymond James Research

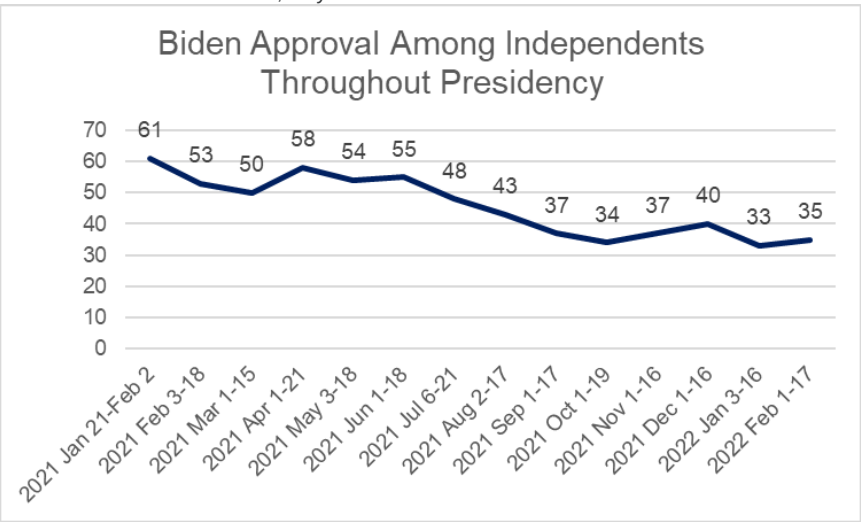
Biden's presidency has **not maintained the level of support from the Democratic base** that was achieved by Trump from Republicans.

Biden's presidency and the Democratic Party have **alienated independents,** and their approval of the President has declined.

These factors could **negatively impact turnout and support for Democratic candidates** during the midterms.



Sources: CBS News/YouGov, Raymond James Research



Sources: Gallup, Raymond James Research

State of the Race

TOP ISSUES BY PARTY

The **top priorities for independents align more with Republicans than Democrats**.
This could impact independent voter direction during the midterm elections.

Democrats

1. Climate Change
2. Election Laws
3. Inflation

Independents

1. Inflation
2. Immigration
3. COVID and climate change

Republicans

1. Inflation
2. Immigration
3. Crime

Sources: Quinnipiacc University Poll, Raymond James Research

State of the Race

BATTLING FOR THE FUTURE OF GOP

While the GOP is united in their opposition of Biden, they are **divided over the future of the GOP.** More specifically, the Republican Party is divided into those who are **allied with Trump vs. those who are more traditional GOP supporters.**

Percent of Republican/Republican-leaning individuals who: (January 14-18, 2022)

Define themselves more as a **supporter of the Republican Party** — **56%**

Define themselves more as a **supporter of Donald Trump** — **36%**

Sources: NBC News, Raymond James Research

Republican/Republican-leaning individuals: Which of the following comes closest to your opinion? The Republican Party should (February 12-13, 2022):

move on from former President Donald Trump's claims of fraud in the 2020 presidential election — **50%**

continue to focus on former President Donald Trump's claims of fraud in the 2020 presidential election — **35%**

Source: Morning Consult + POLITICO, Raymond James Research

State of the Race

CANDIDATES MATTER

- The Republican Party's divisions have contributed to **missed recruitment opportunities** and **disagreement on favorable candidates**.
  - The governors of **NH, VT, AZ, MD**, relatively "strong" choices, declined to run.
- Lesser-known and/or candidates viewed as more extreme are running in some states, a move that could **further split the party's base.** Some races are still missing a clear GOP candidate.

Repeat of 2010 and 2012?

In 2010 and 2012, the GOP arguably lost five prime opportunity Senate seats in part due to **weak or controversial candidates.**

2010 DE	Chris Coons (56.6%)	Christine O'Donnell (40.0%)
2010 NV	Harry Reid (50.3%)	Sharron Angle (44.6%)
2010 CO	Michael Bennet (48.1%)	Ken Buck (46.4%)
2012 MO	Claire McCaskill (54.8%)	Todd Akin (39.1%)
2012 IN	Joe Donnelly (50.0%)	Richard Mourdock (44.3%)

Source: Raymond James Research

As high-profile, well-established candidates decide not to run, and candidates that could be perceived as "more extreme" enter the fray, could we see **continued division of the GOP and damage to their odds in some competitive/open seats**?

Fundraising

FUNDRAISING (CASH ON HAND)

There is **plenty of money available to both parties** for the 2022 elections. **Republicans show an early lead** on contributions overall.

Democratic Senatorial Campaign Committee	Democratic Congressional Campaign Committee	Senate Majority PAC	House Majority PAC	Democratic National Committee
$29.3M	$87.4M	$32.9M	$40.2M	$63.1M
vs.	vs.	vs.	vs.	vs.
National Republican Senatorial Committee	**National Republican Congressional Committee**	**Senate Leadership Fund**	**Congressional Leadership Fund**	**Republican National Committee**
$39.1M	$82.0M	**$47.4M** (not yet filed for January)	**$61.2M** (not yet filed for January)	$51.7M

Sources: FEC data, Raymond James Research

RACE FOR THE HOUSE

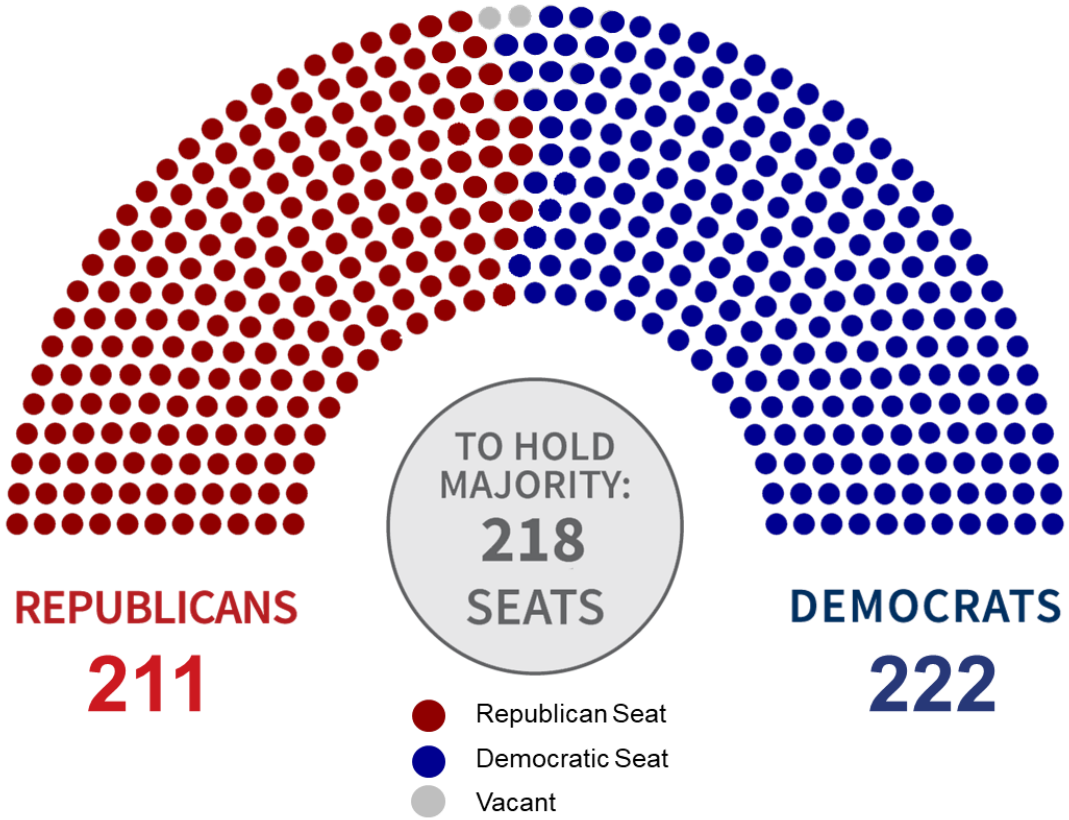
House of Representatives

THE RACE FOR THE HOUSE

Republicans flipping 5 seats wins the House majority

Congressional Generic Ballot: Republican + 3.6%

Source: Real Clear Politics "2022 Generic Congressional Vote" average data



Over the last 40 years, the party in power has lost an average of **23 House seats** in the midterm elections

Year	President's Party	Party in Power Change in House Seats
1982	R	-26
1986	R	-5
1990	R	-8
1994	D	-54
1998	D	5
2002	R	8
2006	R	-31
2010	D	-64
2014	D	-13
2018	R	-42
AVERAGE		**-23**

Source: Raymond James Research, Brookings Institution data

House of Representatives

THE RACE FOR THE HOUSE

2020 "Toss Up" Race Ratings	2020 "Toss Up" Races Won
REPUBLICANS: 18	**REPUBLICANS: 27**
DEMOCRATS: 9	**DEMOCRATS: 0**

Could over-performance in 2020 limit the extent of Republican gains in 2022?

- In 2020, Republican candidates saw a **100% victory rate in "toss-up" rated competitive races**, in addition to winning 7 seats in districts that favored Democrats – a historical outlier result.
- Since 2008, the winning party has averaged a win rate of around 67% in competitive races.
- This over-performance could produce a "revert to the mean" dynamic in which Republican wins are **less extensive than forecasted**.
- Political polarization could support this dynamic, where voter engage in less ticket splitting depending on the district preferences for higher office, overall **limiting the degree of House majority swing potential**.

House of Representatives

REDISTRICTING

2021-2022 Cook Redistricting Scorecard as of 2/28/22

State	Estimated Dem Change	Estimated GOP Change
Arizona	-1	1
California	0.5	-1.5
Colorado	0.5	0.5
Florida	-1.5	2.5
Georgia	-1	1
Illinois	1	-2
Kansas	-0.5	0.5
Maryland	0.5	-0.5
Michigan		-1
Montana		1
Nevada	0.5	-0.5
New Hampshire	-0.5	0.5
New Mexico	0.5	-0.5
New York	3	-4
North Carolina	1.5	-0.5
Ohio	1	-2
Oregon	1.5	-0.5
Pennsylvania	-0.5	-0.5
Tennessee	-1	1
Texas		2
West Virginia		-1
Total Change in Seats	**4.5**	**-4.5**

Sources: The Cook Political Report, Raymond James Research

Democrats are over-performing against redistricting expectations ahead of the midterms. As a result, the **House majority may not swing as much** as it has in the past.

Another notable development is a **decline in the number of competitive or swing districts**.

House of Representatives

HOUSE RETIREMENTS

The 2022 elections already feature the largest number of House Democrats to retire since 1992, when 41 House Democrats retired.

Retirements and Outcomes in Years the House Flipped, 1994-2018

Year	Democratic Retirements	Republican Retirements	Election Outcome
2022	**31 (so far)**	15 (so far)	TBD
2018	18	**34**	**D+41**
2010	**17**	15	**R+64**
2006	9	**17**	**D+32**
1994	**28**	20	**R+54**

Sources: Brookings Institution, History.house.gov, Raymond James Research

Historically, open seats are more likely to switch parties than a seat in which an incumbent is seeking re-election. When the House has flipped majority parties in the past, **the party losing the majority has generally had a greater number of retirements.**

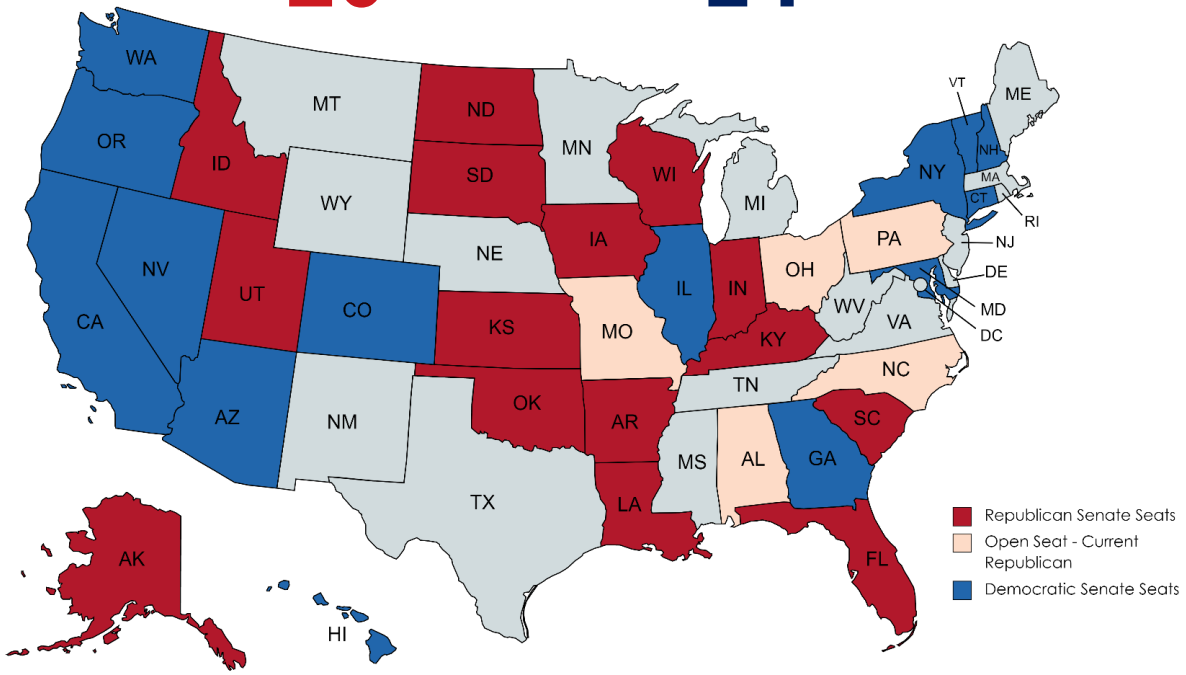
RACE FOR THE SENATE

Senate Overview

THE RACE FOR THE SENATE

CURRENT SENATE: 50 DEM, 50 GOP

REPUBLICANS	DEMOCRATS
20	14



Source: Raymond James Research

KEY RACES

Arizona	Mark Kelly
Georgia	Raphael Warnock
New Hampshire	Maggie Hassan
Nevada	Catherine Cortez Masto
Florida	Marco Rubio
Ohio	Open
Pennsylvania	Open
Wisconsin	Ron Johnson

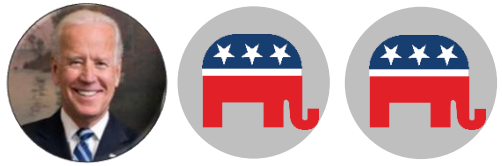
LIKELY SCENARIOS AND IMPACT

2022 Election

OUTCOME 1: REPUBLICAN SWEEP (55%)

What This Means

- **REP** House
- **REP** Senate



Arguments In Favor

- The national mood supports momentum behind challengers versus incumbent candidates as voters look for a change in direction.
- Democrats are facing historic headwinds with narrow majorities.
- Biden is facing a referendum election with low approval and low satisfaction from voters on the direction of the country.

Arguments Against

- Midterm election could become a rehashing of 2020, in which Democrats were favored by voters.
- GOP over-performance in the 2020 House race may limit the extent of gains.
- GOP infighting/primary process may limit the benefit of the national political atmosphere.

Market/Policy Implications

- **Divided government with a Democratic President raises market risk via the regulatory agenda as the legislative/confirmation process slows down. The Biden administration would accelerate a focus on regulatory outcomes to drive domestic policy. On the fiscal side, the Democratic reconciliation agenda will be sidelined. Macro volatility may rise, with greater odds of fiscal battles and restrained fiscal spending under a Republican Congress. Budget deals would heighten defense spending.**

More Likely

- Advancing of the regulatory agenda even if confirmations slow
- Battles over the debt limit or funding for domestic programs/government funding for regulatory agencies
- Heightened defense spending
- Domestic manufacturing investment accelerated
- Increased pressure on China policy
- Enhanced scrutiny of large tech platforms
- Oversight and investigations of federal agencies

Less Likely

- Continued fiscal relief/spending
- Significant changes to the tax code
- Expansion of health coverage
- Market risk from budget reconciliation

2022 Election

OUTCOME 2: R HOUSE, D SENATE (30%)

What This Means

- **GOP** House
- **DEM** Senate

Arguments In Favor

- Republicans are in a strong position to recapture the House with tailwinds behind Republican challengers.
- GOP Senate primary process could produce weaker general election candidates.
- AZ, GA, PA, WI (competitive Senate races) all won by Biden in 2020.

Arguments Against

- 50-50 split Senate leaves little room for error across several close election states.
- Ticket splitting is a phenomenon of the past, and macro factors favor Republican candidates.
- Voters looking to send a message to Biden on progressive policy shift.

Market/Policy Implications

- **Divided government with a Democratic Senate would likely bring gridlock and produce the largest regulatory risk scenario with Dems retaining confirmation ability. Headline risk would be elevated and must-pass legislation could see Republican priorities added. Biden's regulatory agenda would continue with Dems retaining confirmation ability. Tax changes would likely be off the table, but compromise issues could emerge across tech, domestic manufacturing policy, and trade/capital markets issues (focused on China).**

More Likely

- Supercharged regulatory actions with relatively easy confirmations to key roles
- Compromise legislation on antitrust/tech issues
- Spending remains elevated, but budget battles remain (net + for defense)
- Scrutiny of China capital markets ties likely accelerates

Less Likely

- Tax increases
- Expansion of healthcare coverage
- Climate legislation

2022 Election

OUTCOME 3: STATUS QUO (15%)

What This Means

- **DEM** Senate
- **DEM** House

Arguments In Favor

- Democrats may have hit the low point in terms of public support and metrics improve from here on.
- Democrats outperformed in the redistricting process.

Arguments Against

- National mood favors referendum on Democratic candidates/policies.
- Voters' attitudes on current political climate unlikely to significantly shift between now and Election Day.

Market/Policy Implications

- **A "Status Quo" midterm result would maintain focus on tax changes and policies that can be driven through reconciliation. Momentum behind social policies supported by tax adjustments would be revisited if voters endorse the continuation of Biden's domestic agenda. Climate funding, domestic manufacturing efforts benefit, while risk of tax changes and potential super-charging of regulatory agenda adds risks with Democrats emboldened.**

More Likely

- Tax code changes
- Spending remains elevated
- Child Tax Credit/UBI policies
- Regulatory changes are supercharged
- Healthcare coverage expansion
- Aggressive tech/antitrust regulations

Less Likely

- Fiscal battles
- Significant cuts to domestic spending
- Regulatory easing

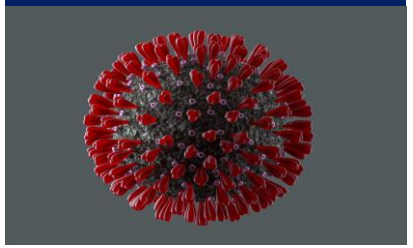
Ratings Change

WHAT COULD CHANGE OUR RATINGS

INFLATION

If inflation rates decline, this can improve public opinion of Biden and Dems

COVID



If COVID falls off voters' radar, this could improve Biden and Dems' ratings

FOREIGN CRISES

The U.S. response and crises outcomes can impact voter concerns/confidence

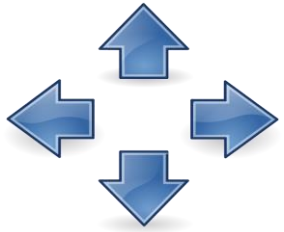
BIDEN APPROVAL

If Biden's approval ratings rise, this can help Dems in the midterms

SUPREME COURT

Would a controversial ruling on abortion rights impact the Democratic base?

GOP DIVISIONS



Intensifying GOP divisions could negatively affect the party's odds in some races

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	Coverage Universe Rating Distribution*				Investment Banking Relationships			
	RJA		RJL		RJA		RJL	
Strong Buy and Outperform (Buy)	597	64%	205	79%	171	29%	58	28%
Market Perform (Hold)	320	34%	52	20%	39	12%	6	12%
Underperform (Sell)	19	2%	2	1%	4	21%	0	0%
Total Number of Companies	936	100%	259	100%	214		64	

** Columns may not add to 100% due to rounding.*

** Total does not include companies with a suspended rating.*

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