



# To the point!

Cross-Asset- and Strategy-Research

## Turmoil on Capitol Hill

### Republican infighting could prop up Biden's reelection prospects

This is no way to run a country. And certainly not the world's largest economy and the supposed leader of the "free world". Once again, a national crisis was averted in Washington, D.C., at the eleventh hour. Only to immediately instigate the next crisis.

Last weekend, a compromise between the Republican House Speaker Kevin McCarthy and the Democrats made a temporary budget deal possible and prevented an immediate government shutdown. On Tuesday, McCarthy was swiftly voted out of office. His offense? Seeking – and finding – pragmatic bipartisan solutions. His ouster happened at the behest of a small band of radical members of his own Republican Party.

But first things first. You ask yourself: wasn't there something just earlier this year? [Debt ceiling](#) and all that? Yes and no. Back in May, Congress had denied the government the right to issue new federal debt. Because of the high current budget deficits, this would have led to a default by the U.S., by far the world's largest debtor. The consequences would have been dire and much more devastating than had the budget talks collapsed.

Last week's conflict was "only" a matter of the national budget. The US budget year ends in September. In order to meet current expenditures, the Biden administration needed spending authorization from Congress. This was held back until the last moment. The agreed compromise keeps government open at least until mid-November. A mere six weeks.

#### Republicans consumed by fratricide

The resolution of the budget-standoff triggered the wrath of some fanatical "Trumpistas" around the far-right Matt Gaetz from Florida. They had wanted to use a shutdown to humiliate the



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One political crisis chases the next

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Next budget battle is looming in November

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Biden administration in the slowly warming presidential election campaign and thus pave the way for Donald Trump to return to the White House.

A battle is now raging between the moderate and the radical wings of the Republican Party. Expect the acrimonious battle within the so-called “Grand Old Party” (GOP) to dominate Washington for weeks to come. It may be complicated to find a majority for a new speaker. Remember, it had taken McCarthy in January fifteen rounds of voting to get elected. Of course, over everything falls the shadow of Donald Trump, who considers any compromise with Democrats akin to treason. The Republican cacophony will please the Democrats. It is also likely to increase the chances for Biden's re-election.

### The dogs bark, the caravan moves on

Initially, the capital markets did not dwell long on the squabbling on Capitol Hill. Although the at least temporary avoidance of the shutdown was good news, they turned to the usual concerns about interest rates and the economy early in the week. Stock-brokers hang on the lips of Jay Powell, not Matt Gaetz's motley crew of Republican rebels.

But the risks can't be ignored either. The more divided the politicians are, the more difficult it will be to find a way to develop a plan to pass, let alone consolidate the federal budget. Even more so as the leaderless House is unable to act for the time being.

Political differences are often papered over with more spending or tax cuts. That would be risky. The US government's debt bearing capacity is high, but infinite it is not. Even the most elastic rubber band snaps if overstretched. And it tends to do so rather suddenly and surprisingly. As interest rates rise, that tipping point may get closer. The stakes are high.

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## Stakes are high

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