

## CONGRESS RETURNS, MIDTERMS IN FOCUS, NEW FED CHAIR



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### Key Takeaways

- Congress is back in session.
- Next fiscal year is coming into focus.
- Republicans move to defend narrow majorities.
- Federal Reserve looks to next FOMC meeting.

Congress returns this week after its two-week Memorial Day break. The House and Senate will have a month of work before they leave again for the July 4 holiday. This has always been a time for senators and representatives to return home and speak at Independence Day ceremonies, and on the nation's 250<sup>th</sup> anniversary, this will be a busy period for events back in their states and districts.

The Congressional agenda is full. A range of issues, including the war in Iran and the government budget for the fiscal year that begins Oct. 1, are expected to move front and center.

The White House sends nearly daily signals that an end to the war is close, with leaks about opening the Strait of Hormuz and the need to act on Iranian enriched uranium. The president continues to stress that removing weapons-grade uranium from Iran remains his highest priority. Republicans running for seats in the House

and Senate believe that ending the war and reducing prices on gas and food are the keys to holding their own in the midterm elections.

The House current makeup is 217 Republicans and 212 Democrats, along with one independent and five vacancies. The average midterm loss for the party controlling the White House is 22 seats, placing the narrow Republican House majority in real danger. In the Senate, Republicans' chances of holding onto their majority look slightly better. Democrats believe they have a realistic chance of flipping seats in North Carolina, Maine, Ohio, and Alaska, and after last week's primary win by Texas Attorney General Ken Paxton, the race in Texas may also be in play. The Democrats need a net gain of four seats, which means they can't afford to lose any of the seats where polling shows close races for incumbent Democrats – Georgia and Michigan. Both states were carried by President Trump in 2024.

The Republican Congress and the White House will start to get busy on the federal budget that needs to be put in place by Oct. 1 to avoid an embarrassing government shutdown. A shutdown weeks before the November election would likely hurt Republicans looking for voters to keep them in power.

In the coming weeks, members of the Trump Cabinet will be testifying before the appropriate Congressional Committees on their fiscal year 2027 budgets. Perhaps no budget will be scrutinized as closely as the Defense Department. The Trump administration is asking for a record amount of \$1.5 trillion. This total represents a 42% increase over the current year's budget, and Secretary of Defense Pete Hegseth and the leaders of the military services will need to defend the amount of that record request. DoD budget hearings will also give Democrats the ability to make election-year headlines by putting a spotlight on the war with Iran.

## **Federal Reserve**

The next meeting of the Federal Open Markets Committee (FOMC) is fast approaching for June 16/17. The meeting will be complex, covering mixed macroeconomic data, the status of the war, and Kevin Warsh's first interest rate-setting meeting as chair. There will also be the added dynamic of former Fed Chair Jerome Powell participating in the meetings. A Fed chair has not remained on the

Board since 1951, so in this respect, the June meeting will be a new experience for every governor and member of the Fed staff.

As the new chair, Kevin Warsh has indicated that he would like to make some changes in announcing future policy moves, and the June meeting will be the first test of his strategy. The Fed is also awaiting the Supreme Court's decision on whether the president can fire a governor. The case involves Fed Governor Lisa Cook, who President Trump has tried to fire.

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