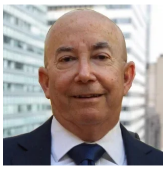
US Policy

July 6, 2026

TRUMP NATO TRIP, BUDGET BATTLES LOOM, FED UNDER NEW CHAIR



L. Thomas Block

WASHINGTON POLICY STRATEGIST

- President to NATO meeting
- Congress and the FY 2027 budget
- DoD arms replenishment
- Fed new Chair speaks
- Congress July 4 break continues

President Trump travels this week to Turkey for a NATO meeting where the wars in Iran and Ukraine will top the agenda. Trump is scheduled to meet with Ukrainian President Volodymyr Zelensky. Trump has had strained relations with some of the NATO members, thanks to his views that they should be spending more on defense and should have had a stronger level of support for U.S. and Israeli war efforts in Iran. Additionally, the president believes that NATO should have done more to support the efforts to open the Strait of Hormuz.

Whenever the president is on an official trip, the chance of headline making news is enhanced.

Both the House and Senate are out of town on their July 4 recess, but they return next week on July 13 and will work on the budget for the new fiscal year. The US government's fiscal year begins on Oct. 1, so Congress must pass some funding legislation if a government shutdown is to be avoided.

Since 2026 is a midterm election year, House and Senate Republicans are running to keep their very narrow majorities. The leaders of Congress will want to show that they are working with Trump to deliver programs that help the American people, whereas a government shutdown sends a message that could hurt Republicans.

The highest priority for the administration is getting Congress to act on the military budget. The Department of Defense has told Congress that they need a record budget for new systems that are being developed, and it's equally important to replace munitions and equipment that were given to Ukraine during the Biden administration and those used during the war with Iran under Trump. Defense and industry officials have cautioned Congress that the very sophisticated drones, missiles, and other arms have a long lead time to build.

With the usual August break, and the election year need to be home campaigning in October, the days for budget action are limited.

The coming weeks should see debates on government spending being a focus of Washington news. The alternative to Congress passing budgets for each department for the new fiscal year is to pass a so-called Continuing Resolution (CR) that maintains spending at current year levels until Congress can pass new budgets. For DoD, with the impacts from the Iranian War, it is believed that a new FY 2027 budget will be needed. However, for the other federal Departments a CR may be the result.

Federal Reserve

Last week, the Justices ruled on the effort of Trump to fire a member of the Federal Reserve, Lisa Cook. The court ruled that the president doesn't have the right to short circuit due process and fire a member of the Federal Reserve Board. The ruling will allow Governor Cook to remain on the board and denies the president the opportunity to fill a vacancy who might be more friendly to his desire to cut rates and support his new chair.

However, in another ruling on the powers of the president to dismiss appointees to federal agencies, the court affirmed the right of the president to fire a member of the Federal Trade Commission, and other agencies that don't have the extra level of Congressional protections that Congress has given to the Federal Reserve.

Last week, Fed Chair Kevin Warsh gave his first speech. In the speech, he recommitted to the goal of 2% inflation and stated that achieving the goal remained the focus of the board. He also emphasized that he would push the task forces he created at the last FOMC meeting to develop new tools for the board. The board is likely to have less forward guidance.

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