US Policy

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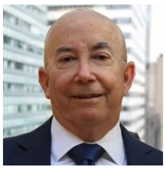
SEN. GRAHAM PASSING, WARSH TESTIFIES, BUDGET FOCUS



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- Death of Senator Graham gives Republicans problems
- McConnell and Graham out brings R total to 51
- Warsh gives testimony this week
- Congress faces budget deadlines

This weekend saw the passing of South Carolina Republican Senator Lindsey Graham, creating another headache for Senate Republicans. The Senate Republican leadership, with its narrow 53 to 47 margin was already faced with the illness of Kentucky Senator Mitch McConnell, as he lays in the hospital, which reduced the number of Republican Senators to 52. Now with the loss of Graham, their numbers are cut to 51.

The 51 includes Senators who are now lame ducks—having lost primaries to candidates endorsed by President Trump. Senators John Cornyn and Bill Cassidy have already made clear that after their primary defeat, they are free agents with no concern about presidential reprisals. Additionally, North Carolina Senator Thom Tillis, who is not running for re-election, has made clear he is a free agent in his final months in the Senate.

The Governor of South Carolina, Henry McMaster, will likely pick a replacement for Graham's seat in the coming days, but he has a tough choice to make as there are several candidates who would like the nod.

As the seat was up this year and the Senator was running for re-election,
the governor needs to decide if he wants a caretaker while several candidates vie for

the opening in November or does he try to narrow the field with a selection of who will be the November candidate.

One thing is for sure—Trump and Republican Leader Senator John Thune need a quick decision.

Warsh front and center

The new Federal Reserve governor has the first of his bi-yearly reports to Congress.

On Tuesday, he will testify before the House Banking Committee, and on Wednesday, to the Senate Committee.

From my Capitol Hill staff days, I remember interest groups and some academics giving me tough questions for a witness, and I would expect tough questions for the chair. For many members and staff, the measure of the questioning is whether your member's question is tough enough to make the evening news. The chair should expect two days of sharp questioning ranging from interest rates to the state of the economy.

On both days, the sessions will begin at 10 and go at least to noon, these sessions can often produce market-moving answers during the trading day.

Budget focus

The Congress only has about 20 legislative days to act on the U.S. government budget for fiscal year 2027 that begins on Oct. 1. In recent years, Congress has not had much success in passing the budget in a timely fashion and has funded much of the government on Oct. 1 with a continuing resolution (CR) that avoids a government shutdown by maintaining spending at current levels.

However, there have been times when agreement on a CR couldn't be reached, and we had a government shutdown. With the election in November, most are expecting a CR to avoid a government shutdown.

However, there is considerable pressure to pass new funding for the Department of Defense. The administration and many in Congress are anxious to replenish supplies that have been expended both in the Ukraine War and in the last few months in the war against Iran. In a May Senate hearing, the head of Central Command reported that in the early days of the war, prior to the ceasefire, the U.S. fired over 13,000 strike munitions at Iran, leading to a cost of over $11 billion. Since the ceasefire, the U.S. has used less expensive munitions; but the sophisticated weapons that have been used need to be replaced.

That message has been received loud and clear since the renewal of fighting in recent days.

While some departments of government may be able to survive for several months on a CR, there is growing concern that the U.S. must start the process of replenishing military equipment used in the war.

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