Digital Assets - Comments

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CLARITY FACES MOUNTING POLITICAL HEADWINDS, BUT A COMPROMISE REMAINS POSSIBLE, REAL YIELDS CONTINUE TO TIGHTEN FINANCIAL CONDITIONS

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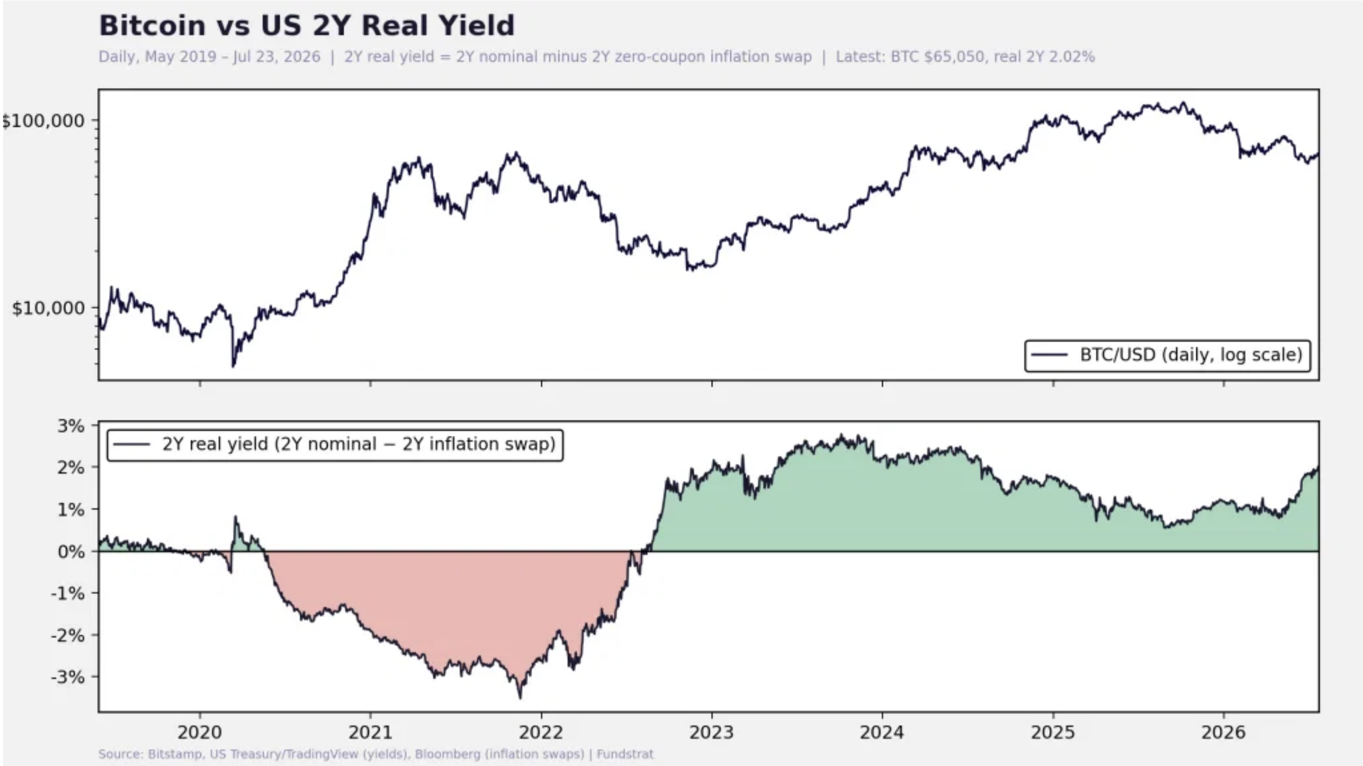
- **Capitol Hill Dialogue Turns More Negative:** Sentiment around the Clarity Act deteriorated today following public pushback from several Democratic senators and comments from Senate Majority Leader John Thune suggesting the legislation is unlikely to reach the President's desk before the August recess. The market responded accordingly, with several Clarity-sensitive assets weakening into the close.

- The remaining point of contention continues to center on the ethics provisions, specifically who should enforce them. Republicans currently favor the federal Attorney General, while Democrats prefer state attorneys general, reflecting concerns over potential conflicts of interest. At this stage, the debate appears to be centered more on enforcement than on the underlying ethics provisions themselves.
- While today's headlines were clearly a negative development, I do not think they eliminate the possibility of a compromise. Senators from both parties indicated discussions remain ongoing, with revised language expected to be sent back to the White House.
- One possible interpretation is that Republicans intentionally began negotiations with a version of the ethics language that strongly favored their preferred outcome, anchoring expectations before ultimately negotiating toward a middle ground. Whether that proves to be the case remains uncertain, but it would be consistent with a traditional negotiating strategy. Given the limited time remaining before the August recess, we will need to see some progress tomorrow to think that this can get to a vote.
- **Real Yields Continue to Tighten the Liquidity Screws:** Beyond Clarity, rising real yields remain my primary macro concern. Inflation expectations continue to imply a broadly disinflationary backdrop despite higher oil prices, while nominal Treasury yields continue to push higher, particularly at the front end of the curve. That creates a challenging setup ahead of next week's FOMC meeting. Fed Chair Warsh has emphasized the importance of restoring and maintaining price stability, and recent geopolitical developments in the Middle East could make it more difficult for the Fed to shift its focus toward the recent run of encouraging inflation data.



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