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US Policy

July 27, 2026

FED MEETING, CLARITY ACT STATUS

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The Federal Reserve meets this week to consider interest-rate policy. Despite inflation hovering above the Fed's 2% target, the general expectation is that the committee will leave rates unchanged. This will be the second meeting chaired by the new Fed Chair Kevin Warsh.

Warsh has set up five task forces to review Fed policies and operations. One of the task forces is to focus on communications as Warsh has been outspoken in his view that the Fed should speak less. However, while Warsh has been critical of the practice of having press conferences after each meeting, the Fed has announced on its website that there will be a press conference on Wednesday at 2:30 p.m. ET after the FOMC decision is announced at 2 p.m. It will be interesting to listen to what guidance Warsh may give on future communications, or other announcements of the task forces he has created.

The Fed will not have any interest rate setting meeting in August when much of Washington is on vacation. The Fed members will meet next on Sept. 15-16.

War and Budget

The U.S. and Iran have an undeclared ceasefire as both sides stopped bombings over the past weekend. There are reports that talks between the two sides have made progress. In Washington, the focus has been on the budget where there has been increased talk of the Department of Defense needing more money to resupply diminished ammunition supplies.

Senate Leader John Thune has made clear that he wants to take the threat of a government shutdown prior to the midterm elections off the table. To achieve this goal, Thune wants Congress to pass a Continuing Resolution (CR) that would fund the government at current levels of spending. However, to deal with the military shortfalls, the CR may increase spending for weapons systems. Indeed, the House has passed a version of the CR that includes increases for the Department of Defense.

Clarity Act

The Senate leadership is under mounting pressure to act on the Clarity Act, which is designed to create a higher level of certainty as to the regulatory structure of crypto instruments in the U.S. The Clarity Act, which has passed the House in a different version, is designed to clarify the roles of the CFTC and the SEC, with respect to rule-making authority.

While the House version passed with a bipartisan majority earlier this year, the president's recently announced billion-dollar gains for him and his family have added a new level of partisanship to the debate.

Democrats are arguing that there needs to be tough ethics rules and strict enforcement, and the Senate Republicans recently met with the president to work on language he could support.

The deal put a block on government officials buying crypto through Jan. 20, 2029, which is the official end of the Trump administration.

For the Clarity Act to pass the Senate and avoid a filibuster will require 60 votes.

The current makeup of the Senate is 53 Republicans to 47 Democrats. However, Republican Senator Mitch McConnell has been hospitalized for several weeks and is not expected to return to the Senate until at least the end of the August recess. Additionally, there are reports that at least two Republican Senators may vote no.

To reach 60 votes to stop any Democratic filibuster will require at least eight Democrats, and maybe more to support the bill. While there is general agreement that the U.S. needs to add regulatory clarity for the structure of crypto oversight, the ethics issues caused by the president's large gains has added a partisan issue as the midterm elections approach. Under the agreement reached between Senate

Republicans and the White House, there would be a ban on government officials buying crypto, but all enforcement will be handled by the Department of Justice. With the president's former personal attorney nominated to be new permanent Attorney General, Democrats are stating they will oppose the bill with the current ethics language.

Bottomline: The resolution of this issue may have to wait until after the midterm elections.

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