

# FireSide: Bet on change—What's next in policy and markets?

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At the EPA, the Department of Energy, the Department of Labor, particularly for many of our viewers, Department of Labor, the fiduciary rule is going to go away as a result of this election. And a lot of work at the SEC that our business has had to deal with over the last four years—there's going to be a lighter touch, one. And two, potential opportunities to make some meaningful shifts in things that need to get done to bring funds to market quicker to give investors additional options, to increase the universe of investors and products that we offer, through the changes to the accredited investor rule. All of this stuff I expect to be on the table and openly discussed as we get into 2025.

[00:00:54] **Lara Rhame:** Welcome back to FireSide, a podcast from FS Investments. I'm Lara Rhame, Chief U.S. Economist, and you won't want to miss this one. I'm sitting down with Jason Cole, our Head of Public Policy, and it's the Friday after the election. We're going to break down what it means for markets, policy and the economy. Jason, welcome.

[00:01:14] **Jason Cole:** Thanks Lara. Great to be here.

[00:01:16] **Lara Rhame:** On Tuesday, President Trump was reelected the 47th President of the United States, and he roundly beat Vice President Harris. I know that votes are still being counted, markets are moving rapidly. There's a lot to break down, Jason. The podcasts that we record with you are just often our most listened to content.

Your nuance and ability to talk us through these complicated times and events is so valuable. So, first of all, tell us what happened. I know what happened. We know the headline of what happened. But there's so much more...

[00:01:53] **Jason Cole:** Yeah, we know what...

[00:01:55] **Lara Rhame:** As we've talked, Congress matters, these little races; really, give us from your seat what happened.

[00:02:03] **Jason Cole:** We obviously know at a very high level what happened. President Trump was reelected. In this day and age with close elections, that's—I don't want to use the L word, landslide—but that's a pretty decisive victory. And for the first time since 2004, a Republican will have won, or it's shaping up to be this way. There's still a lot of vote out in California and the overall national vote is going to narrow. But it looks like he's going to win the overall national popular vote as well, again, the first time since 2004.

Now, unpacking what happened here, I've been doing events live and webinars with advisors and others around the country in the lead-up to the election. And the first slide I always had in those presentations was, and maybe this is the headline for our podcast today, "Bet on Change." And this is now the 11th election in the 13 we've had since 2000, where there was a change of control of the White House, the House, and/or the Senate. And in this case, we're going to have a change of control of the White House. We'll talk about, in a second, a change of control in the Senate. And maybe a change of control in the House

for a triple flip. I don't think that's likely, but it is still mathematically possible, and we'll talk about that in a minute. But undergirding all of this is this sort of sense of unease in the electorate. And I think it was really turbocharged by the pandemic and post-pandemic policies that...

[00:03:36] **Lara Rhame:** ...inflation, both policies and the economy from the pandemic.

[00:03:40] **Jason Cole:** And it unsettled populations, not just in the United States, but around the world. In 2024, more people on planet Earth voted than at any other time in human history and in elections around the world. And in almost every case, incumbent parties were ejected because of uncertainty around their politics and I think because of just outright anger because of inflation.

Inflation, it turns out, is a politician killer and it turned out young, frustrated working-class voters in droves that propelled Trump to victory. At the end of the day, fundamentals won on this election. You entered this election with 26% of the country believing that we were on the wrong track or on the right track. When two-thirds of the country thinks we're going in the wrong direction and you're the top of the ticket—in this case, President Biden had under 40% approval rating. That's a recipe for change. And we probably should have seen the writing on the wall all along that there were significant headwinds that Vice President Harris was running into, and I don't think anybody should be surprised at Tuesday's outcome.

I was a little surprised at the breadth and depth of the outcome, but at the outcome in general, I generally wasn't surprised. I thought it was a coin toss. I thought the coin toss might go 51 times toward Trump, and here we are. His coattail was also extended into the Senate.

In the Senate there were—Democrats had a terrible map. We've talked about it on here in the past, and when it's all said and done, I think Republicans will end up with Senate control of around 53 seats. That's sort of where they sit today. There's two seats outstanding in Arizona and Nevada.

John Ralston—who is the Nevada guru of politics—thinks Jackie Rosen, the Democrat incumbent, is going to hold on there. I was in an event last night with a Republican congressman from Arizona who says there's about a half a million votes out still in Arizona. Carrie Lake, the Republican nominee, would need to get 53% of those in order to eke this out. I don't think they think it's fair. And so my best guess right now is that Republicans have a 53-seat majority in the Senate. Really significant, right. Because that makes life a lot easier for President-elect Trump, and soon to be President Trump, to get his nominees confirmed to the cabinet.

He won't have to deal with Lisa Murkowski of Alaska or Susan Collins of Maine. Two people that really don't like him and that could have created a lot of problems if it was a 51- or 52-seat majority. But 53 gives the president cushion to start moving his agenda through the Senate.

Over in the House, it's on the razor's edge right now. There are 25 seats still outstanding. Most of them are in the west: Oregon, Arizona, California, one in Colorado. Right now the Republicans lead with 211 seats to Democrats 199. You need 218 for a majority. Republicans, of those 25 that are remaining, Republicans are leading 11 of them, Democrats in 14.

And so if that all held—Democrat—or Republicans would maintain their majority, 212 to 213. By the way, that's exactly where we are right now. And so the House—after all of this Sturm and Drang—won't change at all. Or likely won't change at all. Now again, a mathematical chance is Democrats could flip the House. That would be monumental. Really significant. We'd have to do a whole other podcast to talk about the implications of that. But right now, my expectation is Republicans maintain a slim majority in the House of Representatives. And again, we've talked about here before, and probably again today, that thin margin is going to matter.

[00:07:37] **Lara Rhame:** And I think one of the things that was a recurring story over the last two years was the very thin Republican majority in the House that made governing the House in general just totally impossible. And the question is, if we get a similar magnitude, tiny margin, in the favor of the Republicans, does it get just meaningfully easier because you're sort of red up and down the entire system? Or are you still going to have some people with a microphone who don't want to fall in line and would rather have the microphone?

[00:08:19] **Jason Cole:** It gets easier. It doesn't get meaningfully easier.

[00:08:23] **Lara Rhame:** Okay.

[00:08:23] **Jason Cole:** And so, which was your wording, but it does get easier because winning tends to heal a lot of wounds. That said, four seats is tough. And if some of these members in California win, a couple that won in New York, Republican members, they're still in blue states, still in blue areas. They're going to be looking ahead to 2026 when policies come down the pipe. And if they want to raise their hand or have their voices heard, they can hold things up with a four-seat majority. And then on the other end of the spectrum, there's those who like to tweet and be performative and do disruptive things.

And that can certainly happen as well. Look, I think the key here and the thing to really watch out for is can Speaker Johnson, heading into January, and really the first thing that House Republicans will need to do is pass a rules package. Can he get a deal? And they'll have to negotiate this in the coming weeks. Can he get a deal where he can eliminate that motion to vacate? That was the rule change that McCarthy negotiated to say that one member of Congress could bring the sword of Damocles down on the Speaker and say, you're out of here. And if that could get meaningfully moved up or eliminated altogether, that would give the Speaker a lot of maneuverability into 2025 and really help. That would meaningfully change the ability of the Speaker to navigate in a four-seat majority. It may take President-elect Trump publicly saying, hey, you need to make this thing go away. And that would take Johnson going to Trump and saying, hey...

[00:10:03] **Lara Rhame:** ...help me.

[00:10:04] **Jason Cole:** I'm here...help me...

[00:10:05] **Lara Rhame:** ...under the sword.

[00:10:06] **Jason Cole:** Help me help you.

Yes. And so I think that's something that folks ought to really pay attention to, to see if that rules change goes into effect. It's a really big deal.

[00:10:14] **Lara Rhame:** Yeah, that's great. And what I hear is less chance of the debt ceiling being a problem and some of the things that were just terrible distractions to us, to markets, maybe over the next two years, we're not sort of dealing with.

[00:10:32] **Jason Cole:** I think that's right. Debt ceiling is a great example. Debt ceiling expires before the new president comes into office, before the new Congress. The expiration is January 1. The new Congress is January 3. My expectation, given the trifecta, is that Johnson tries to work with Schumer and get something done in the lame duck on the debt ceiling.

It's probably not a number, it's probably another suspension some date certain in the future. But my expectation is that debt ceiling probably gets managed in the lame duck. So it's not hanging over anybody's head. Even if it is hanging over heads, it's a lot easier to get done with single-party control. Because Republicans won't want to be blamed for roiling markets.

[00:11:13] **Lara Rhame:** Sure, all right. I want to turn now to a topic that I know you get asked about a ton. I get asked about a ton. The Tax Cut and Jobs Act, which is set to expire at the end of 2025. And I think was, really, to me, the source of so much fear and uncertainty for a lot of voters around the election and for a lot of investors because everybody that's listening today is going to be impacted by that. Will it get extended? Will it get extended as it is? And I think, underlying all of this is the fact that during the election, there's so much rhetoric out there. And I think we noticed, both candidates, really a race to the bottom and promising more tax cuts and more tax credits.

And Trump took away the SALT tax deduction in his first term. One of the things he said on the campaign, he was going to bring it back again, which I would love because in Pennsylvania, that would just be great. I think this is something that impacts everybody. And I'm curious what you see for this policy and how we think it will align with rhetoric versus what there actually will be appetite for in a Republican Senate and a Republican House.

[00:12:42] **Jason Cole:** So lots to unpack there. I think the short answer headline is my expectation is the path of least resistance here with a Republican sweep is a straight extension with some potential nips and tucks, maybe some additions coming off the campaign trail. No tax on tips probably is at the top of that list, which is interesting because I don't know how you write that, but folks will figure that out if there is a desire to move in that direction. I think, in general, the four corners of the 2017 TCJA remain intact and in place with a straight extension again with some nips and tucks around places.

SALT's an interesting one. You raise SALT. This gets to my point about a four-seat majority in the House. And New Yorkers and California Republicans making that majority. And if SALT gets extended as is with the 10% or \$10,000 limitation, they're going to squawk about that because they ran on, we're going to fix the SALT problem. And again, with a four-seat majority, how you do the math on that and get something through, is going to be an interesting discussion. Now, if you raise the deduction to \$20,000, does that help them? Maybe. It also costs a lot of money. And now, all of a sudden, you've introduced debt and deficit into the conversation where you get a lot of Republicans beginning to wring their hands around large deficit numbers.

And so, there's going to be some push and pull here and doing tax is kind of like squeezing a balloon. When you squeeze one end and the other end pops out and vice versa. And so some of this stuff is going to be negotiated. But again, I think that the best expectation is more or less current law, particularly around the big things. Corporate rates, individual rates...

[00:14:47] **Lara Rhame:** So you don't see a big corporate tax coming.

[00:14:49] **Jason Cole:** No, I really don't. Individual rates, estate tax, I know is important to investors. The 199A deduction is important to investors. I think the broad contours of that stuff stays the same. You're not going to get a radical departure from 2017. But there will be a debate. The House majority leader, likely House majority leader, said yesterday, he wants to try to move a bill out of the House in the first hundred days. I think that's extraordinarily optimistic, but the desire here is to move this pretty quickly and by pretty quickly in Congress terms is by the summer.

[00:15:31] **Lara Rhame:** Correct. Okay, it's good to hear. Alright, another tax is the other T word, tariffs. Let's talk about tariffs because this, to me, has been fascinating. As an economist, I think given that tariffs fly in the face of all of the economic orthodoxy that is so prevalent in the educational underpinnings of the profession. Yet, we saw President Trump put tariffs in place in his first administration. President Biden did not walk back a single tariff. In fact, he put more tariffs in place. And I would say it's been interesting because while tariffs on paper are supposed to be very inflationary, they actually were not terribly...they did not prove to be inflationary.

You're really talking about goods. Goods prices today are back in deflation. They were where they were once supply chains renormalized. Tariffs also did not help narrow the deficit at all. So the other point of the tariffs was that we would start importing less and that really has not happened at all.

The reality is the strength of the U.S. economy is really what dictates how much we import. When it's really strong, we import more. When it's weak, we import less. But we're always importing as a net importer. It's why we have a trade deficit. And the magnitude of that deficit post-tariffs did not really change significantly at all. And yet it was back, featured so significantly in the campaign. And I'm eager to hear if you feel like this time was different and how the proposed tariff policies will go down relative to what we already have.

[00:17:24] **Jason Cole:** Look, I think the tariff talk is real. And it was a centerpiece of the president and president-elect's campaign. It spoke directly to that economic angst that I talked about at the top that the really macro level piece of what decided this election and it was really speaking directly at that angst. Whether or not it's the right cure is another matter but people believed that it was and so I think the tariff piece is real. What's going to be interesting to watch and what has been interesting to watch since Wednesday morning—when the bond market reeled—because it took your textbook economic point of view and said tariffs, inflationary, big tax cuts that may be deficit-financed inflationary. That ultimately could mean rates higher for longer. And I think that's reflected in the bond market.

[00:18:28] **Lara Rhame:** And I think what you're talking about is we saw the 10-year spike as high as 447. Remember in September over the summer, it was 362, so that's a huge shift. As of today, it's come back down 10 basis points, but the upward trajectory is clear. And I hear what you're saying. We can look to the bond market to some degree to get a sniff test of how scared markets are that some of these policies could cause inflation.

[00:19:01] **Jason Cole:** Well, and the bigger question is, will policymakers look to the bond market and respond to it like they did in the U.K. two years ago when, when Liz Truss proposed things, like they did in France two years ago.

[00:19:11] **Lara Rhame:** Classic example. Yeah.



[00:19:12] **Jason Cole:** Where there was a just a whiplash reversal and policy as a result of bond vigilantes coming in and say, no, we don't like this now. And if that happens here, it'd be interesting to watch whether or not there's a natural policy response. And it's interesting, your world and my world may ultimately collide here where there's a clear market signal and an immediate policy response. We'll see. But I think for the moment, tariffs and an aggressive trade policy, vis-à-vis our trading partners, are very much on the table as recently as today. There is active conversation among House Republicans of repealing permanent normal trade relations for China, for example. Now, that directly relates to tariff policy because it resets a lot of tariffs at a higher level automatically, and then Congress would have to vote every year to reduce those.

If that comes to pass, I think that can have significant implications. And so there's support for this on the Hill. There's support for this in the administration. And the other thing that's getting bandied around is, hey, can we use revenue generated from tariffs to help pay for some of the tax.

[00:20:25] **Lara Rhame:** That is interesting. And I just try to remind people that imports are only 13% GDP, for as much as we talk about trade and the deficit, our trade deficit is only 3% of GDP. Our economy is more closed than people realize. I'd be interested to see what, to me, the realistic expectation that we're going to be able to fill our coffers with tariff revenue is unrealistic. But just the size of the imports aren't there.

[00:21:05] **Jason Cole:** I agree. I think the scorekeepers at the Congressional Budget Office and others will ultimately agree on that as well. But that's the talk...

[00:21:13] **Lara Rhame:** ...for sure. Got it.

[00:21:15] **Jason Cole:** ...going around right now. And there's a lot of enthusiasm, and rightfully so. The Republicans just won, and there's a lot of enthusiasm. They're like, hey, let's get to work and let's go do what we said we were going to do. And so that's some of what's going on right now.

[00:21:29] **Lara Rhame:** And unlike waiting until summer to pass a new tax package, tariffs are something that the president can enact fairly unilaterally and fairly quickly.

[00:21:37] **Jason Cole:** Relatively so, I mean, 232—which is the provision he'll use—it requires a finding from the Department of Commerce. There's a process involved. He's not going to be able to walk in January 20 at noon and say, 60% tariffs on China. There will be a process that will have to occur. The market will get strong signals when they see that process unfolding. And so maybe my final word on this is I also don't think at the end of the day, 60% on China is coming.

I don't think 10[%] and 20[%] on the rest of the world is coming. I think that's a campaign piece as a negotiating ploy because the other thing, in the first Trump administration, he used trade policy, frankly to great effect, was bringing friends and adversaries to the table to negotiate other stuff.

And that may be part of what's going on here as well, where you're bringing people to the table to deal with other [things]. That was the whole genesis of renegotiating NAFTA, for example. And so bear in mind there may be other global geopolitical policy objectives that are at play here, that tariffs are being used as a carrot-stick approach.

[00:22:58] **Lara Rhame:** That is absolutely fascinating and I think is something that can help us get a deeper appreciation for all the strategy that goes behind how all these different policies fit together. It's just incredible. Let's talk about other regulation.

[00:23:11] **Jason Cole:** I'm a lot more bullish. Personnel is policy. You're going to get across-the-board personnel shifts. And I think that's going to create a lot of opportunities for a lot of regulated industries.

At the EPA, the Department of Energy, the Department of Labor, particularly for many of our viewers, Department of Labor, the fiduciary rule is going to go away as a result of this election. And a lot of work at the SEC that our business has had to deal with over the last four years—there's going to be a lighter touch, one. And two, potential opportunities to make some meaningful shifts in things that need to get done to bring funds to market quicker to give investors additional options, to increase the universe of investors and products that we offer, through the changes to the accredited investor rule. All of this stuff I expect to be on the table and openly discussed as we get into 2025.

[00:24:14] **Lara Rhame:** It's really exciting. I think one of the last questions that I wanted to dive into is what Biden's big pieces of legislations, where they are in the pipeline and if those automatically get rolled back or pushed away. And I ask this because, as someone who's adding up the GDP forecast, the CHIPS Act is still a powerful tailwind to economic growth. It's pumping a lot into the U.S. economy right now. Does that just go away? Is that a goal of President Trump to somehow try to squash that?

[00:24:53] **Jason Cole:** I don't think so is the short answer. Now the Speaker of the House, a week or two ago, I think misspoke, and said that may be on the table. He quickly...

[00:25:05] **Lara Rhame:** Could they take it away?

[00:25:07] **Jason Cole:** Yeah, I mean they could change the law. The other issue is, but the belts and suspenders on this is, my understanding is there's about 40 billion dollars left in that bill to be obligated. And I've heard that the current administration is working feverishly to get that [?????] obligated.

[00:25:25] **Lara Rhame:** Yeah. Okay.

[00:25:26] **Jason Cole:** Right. So to, for lack of a better word, protect that law and make sure that those funds get deployed, as that law intended. So I don't think that one is at risk. The really horribly named Inflation Reduction Act...

[00:25:43] **Lara Rhame:** I know, right.

[00:25:44] **Jason Cole:** That's a different matter. There are a lot of provisions and that was an energy bill, a green energy bill, and there were billions; and I don't remember the final tally, but tens, if not hundreds of billions of dollars of energy subsidies for EVs and batteries and green technology. And that stuff very well could be on the table, particularly in the context of a tax bill where Republicans may be eyeing that as a source of revenue...is to claw back some of those subsidies.

And so I do think some of that stuff is at risk. What's interesting is I'm aware of some public letters and some private conversations among rank-and-file Republicans in the House to the

Speaker saying, please don't touch this, because I've got a battery factor in my district in Georgia.

[00:26:41] **Lara Rhame:** That's how Washington works, right.

[00:26:43] **Jason Cole:** Yes, it's the defense industrial complex that Eisenhower feared. It's now the green energy industrial complex, right, where...

[00:26:54] **Lara Rhame:** And what's the impact of Elon Musk in all this? If he's really in the administration, and obviously he's passionately committed to EVs and battery construction improvement.

[00:27:07] **Jason Cole:** It's anybody's guess. But I do think that there are provisions of that bill that could be on the line. The other big Biden package was the infrastructure bill, and I think most members of Congress benefit in some form or fashion from funds that flow to their districts for highways, bridges, water systems, so on and so forth. So I don't think that that's probably on the table, and a lot of that money has already been obligated and pushed out the door. So I think the one to watch is the Inflation Reduction Act. Again, maybe we can rename it...

[00:27:46] **Lara Rhame:** ...I hope so.

[00:27:48] **Jason Cole:** ...after the inauguration. But I think that's the one where programs and policies may be at risk.

[00:27:56] **Lara Rhame:** Well, Jason, I know we've only scratched the surface on a lot of these issues, and I know that there's going to be so much more to come. As final votes are tallied, control of the House is better understood and clearer. And as policy actually gets moving at the start of the new year.

Thank you, as always, for such an interesting conversation. I think when I wrote, in my Q4 Outlook that the economy is strong, we've had a lot of tailwinds and momentum and growth. I'm expecting an incremental slowdown. I think all of that really applies going into next year. And when I see the market reaction to the election, what I really see is expectations of higher growth, higher inflation. I think when we dig into where it comes from and why, you and I are going to be just continuing these conversations for, for many months. I hope so.

[00:29:03] **Jason Cole:** And it's always fun to get together.

[00:29:06] **Lara Rhame:** Absolutely. Jason, thank you so much. Really appreciate your time.

[00:29:10] **Jason Cole:** Thanks so much. Take care.