

The Washington brief from the Investment Advisory Group

The House passes debt ceiling legislation

April 27, 2023

Editor's note: For prior commentary on the debt ceiling, please refer to [the Washington brief](#) dated March 6, 2023.

Executive summary

- The House passed a debt ceiling increase bill on Wednesday evening. Passage of the bill was a huge win for House Republicans and Speaker McCarthy and the bill's contents reflect their first offer.
- However, this bill is ultimately bringing in an element of chaos into the debt ceiling debate. Oddly, this one "step forward" in the process may amount to two steps back (or worse) for getting a debt ceiling deal done and quickly signed into law. Where only House Republicans were involved before, going forward in negotiations, House Republicans are now joined by the Biden Administration, Senate Democrats, House Democrats and Senate Republicans.
- With a clean extension off the table, the door opens for whatever package of changes that can gather a majority in both houses. The number of combinations of budget and program changes is almost limitless.
- Absent raising the debt ceiling, the U.S. is expected to hit its legal debt limit sometime between June and September (often referred to as the "X date"), depending on the amount of federal tax receipts collected this year.
- We continue to view a default on U.S. debt as unlikely. **However, we also foresee the likelihood that a prolonged debt ceiling debate – and the potential for fiscal austerity – would rattle financial markets.** Ultimately, while it will likely be a rocky road fraught with significant political peril, we expect a debt ceiling extension with modest reforms will be enacted before the August recess.

Our take

The House passed a debt ceiling increase bill on Wednesday evening. Oddly, this one step forward in the process may amount to two steps back (or worse) for getting a debt ceiling deal done and quickly signed into law. While the bill passed the Republican controlled House, it would not pass in the Senate, and it would not pass muster with the Biden Administration. As things stand now, by moving a bill, the **House Republicans merely got themselves a seat at the negotiation table and the bill's contents reflect their first offer.**

Ironically, if the House vote had failed, it is likely that the process to enact a debt ceiling extension would have been shorter and more direct. A failed vote would have resulted in immense pressure for a vote on a clean debt ceiling extension to avoid default. With no other

Past performance does not guarantee future results.

Investment and insurance products:

- Are not FDIC or any other government agency insured
- Are not bank guaranteed
- May lose value

alternatives on the table, House Republicans would have joined Democrats in support of an extension and the Senate would have moved on a bipartisan basis as well. This point is important because the “X” date, when the debt ceiling is reached, is still a key consideration. The process going forward does have a time limit and if a deal is not achievable, passing a clean extension remains a viable alternative.

That said, it is also important to note that the **Senate Democratic Majority could not pass a clean debt ceiling extension on its own**. As much as their leadership professed a desire for a clean extension, they took no action to vote on one. The reality is that if the Senate had tried to move before the House acted, it would have failed as both Republicans and at least a few Democrats would have blocked them. In other words, the Senate was “stuck” with two choices: 1) take up a clean extension bill only after House Republicans failed to pass something and had no other options, or 2) following House passage, begin negotiations on an extension that would contain some number of budget cuts and/or program changes. There are Senate Democrats who want to avoid a clean extension and supported negotiations.

Notwithstanding President Biden’s veto threat and the Leader Schumer’s outright rejection of the House bill, the way forward appears limited. As such, a complicated negotiation is about to start and the direction forward becomes very, very difficult to chart.

- The first complicating factor is the number of groups now sitting at the negotiating table: Where only House Republicans were involved before, going forward, House Republicans are joined by the Biden Administration, Senate Democrats, House Democrats and Senate Republicans.
- The second complicating factor is that with a clean extension off the table, the door opens for whatever package of changes that can gather a majority in both houses. The number of combinations of budget and program changes is almost limitless. In order to meet the “X” date, however, negotiations need to begin immediately and all of the participants, including the Biden Administration, who seemed to bet against the possibility the House could pass a bill and did not seem to prepare for this situation, must reevaluate their position and approach to the process.

Key unresolved questions and our bottom line:

1. *Do the Senate Democrats go through the process of passing their own version of debt ceiling increase? Do they have the votes to pass a debt ceiling increase?*
2. *Does President Biden tell all Democrats to ignore the House bill and try to “wait it out?”*
3. *Does President Biden tell his team to take the lead in negotiations and cut a deal with House Republicans that all Democrats are directed to support?*
4. *Does Speaker McCarthy have the ability to negotiate a bill that a large number of Republicans will not support, relying on some Democratic votes to pass a final bill? (The current bill passed 217-215).*

We will follow-up on these questions as they are addressed, but we want to reiterate the opening message: This was a huge win for House Republicans and Speaker McCarthy but it also opened the entire process up and brought in an element of chaos. Getting a bill completed gives them something to use in negotiations, but will they find negotiating partners? The Biden Administration was against passing anything but a clean extension and seems to have bet against the House getting to this point. The Senate Democrats say this bill is “dead on arrival” yet have no bill of their own and may not have the ability to produce a bill at any point in the near future. This latest development is the first step in starting the negotiation process, not the end.

Disclosures

Advisory managed account programs entail risks, including possible loss of principal and may not be suitable for all investors. Please speak to your advisor to request a firm brochure which includes program details, including risks, fees and expenses.

Truist Wealth is a name used by Truist Financial Corporation. Banking products and services, including loans, deposit accounts, trust and investment management services provided by Truist Bank, Member FDIC. Securities, brokerage accounts, insurance/annuities offered by Truist Investment Services, Inc. member FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products offered by referral to Truist Insurance Holdings, Inc. and affiliates. Investment advisory services offered by Truist Advisory Services, Inc., Sterling Capital Management, LLC, and affiliated SEC registered investment advisers. Sterling Capital Funds advised by Sterling Capital Management, LLC. While this information is believed to be accurate, Truist Financial Corporation, including its affiliates, does not guarantee the accuracy, completeness or timeliness of, or otherwise endorse these analyses or market data.

The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Truist Financial Corporation makes no representation or guarantee as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. The information contained herein does not purport to be a complete analysis of any security, company, or industry involved. This material is not to be construed as an offer to sell or a solicitation of an offer to buy any security.

Opinions and information expressed herein are subject to change without notice. TIS and/or its affiliates, including your Advisor, may have issued materials that are inconsistent with or may reach different conclusions than those represented in this commentary, and all opinions and information are believed to be reflective of judgments and opinions as of the date that material was originally published. TIS is under no obligation to ensure that other materials are brought to the attention of any recipient of this commentary.

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

TIS/TAS shall accept no liability for any loss arising from the use of this material, nor shall TIS/TAS treat any recipient of this material as a customer or client simply by virtue of the receipt of this material.

The information herein is for persons residing in the United States of America only and is not intended for any person in any other jurisdiction. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein.

The information contained in this material is produced and copyrighted by Truist Financial Corporation and any unauthorized use, duplication, redistribution or disclosure is prohibited by law.

TIS/TAS's officers, employees, agents and/or affiliates may have positions in securities, options, rights, or warrants mentioned or discussed in this material.

Asset classes are represented by the following indexes. An investment cannot be made directly into an index.

S&P 500 Index is comprised of 500 widely held securities considered to be representative of the stock market in general.

©2023 Truist Financial Corporation. Truist, the Truist logo and Truist purple are service marks of Truist Financial Corporation.

2023-5651463.1 EXP04-2024