

Policy and Politics in 2025: Implications for Investors

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Lay of the Land: The New Congress

- Senate: 53 Republicans, 47 Democrats (including 2 Independents).
 - Confirmation hearings for Cabinet nominees dominating schedule.
- House of Representatives: Republicans begin with a 218–215 margin (two vacancies).
 - Rep. Elise Stefanik (R-NY) will resign from House once she is confirmed as UN Ambassador, creating a third vacancy.
 - Republicans will have a one-seat 217–215 margin until April.
 - Razor-thin margin will be a major headache for Republican leaders.

Key Issues for the Economy and Investors

- Fed monetary policy
- Tariffs
- Immigration
- Taxes
- Debt Ceiling
- Government spending/deficit reduction

Federal Reserve

- January 2025 meeting: Fed holds rate steady 4.25-4.5%.
 - Follows rate cuts at final three meetings of 2024.
 - Statement notes that “inflation remains somewhat elevated.”
- Powell: Fed waiting to see what policies are enacted by Congress and their impact on economy.
- Next meeting March 18-19.
 - Odds of no rate cut in March are 84.5%.*
 - Market is anticipating 1-3 rates cuts in 2025.

* CME FedWatch tool, 2/4/2025.

2025 Policy Outlook: Tariffs

- A cornerstone of Trump's campaign.
 - President has considerable authority to impose tariffs.
 - 10-20% across-the-board tariff on all imports; 60% on Chinese imports.
 - But...broad tariffs likely to spark a global trade war that could impact economic growth, raise costs for Americans and increase inflation.
- Early executive orders show restraint.
 - Departments ordered to study trade situation and report by April 1.
 - Trump imposes tariffs on Canada and Mexico, then pauses them.
 - 10% tariffs on China; China retaliates.
 - Trump sees tariff threats as part of a negotiating strategy.

2025 Policy Outlook: Immigration

- Another pillar of Trump's campaign.
 - Series of executive orders on border security and immigration policy.
 - Logistics of mass deportations will be daunting.
- Uncertain impact on economy.
 - Estimated 10-11 million illegal immigrants – 8.3 million are working.
 - Industries that depend heavily on immigrant workers – agriculture, construction, hospitality – could be most impacted.

What is “Budget Reconciliation?”

- Parliamentary process used to pass major tax and budget bills when one party has control of Congress.
 - Bills can be approved by simple majority in both House and Senate.
 - Cannot be filibustered in Senate.
 - Provisions can be struck if they don’t have budget impact.
- Commonly-used process.
 - 2017 (Republicans): Tax Cuts and Jobs Act.
 - 2021 (Democrats): American Rescue Plan.
 - 2022 (Democrats): Inflation Reduction Act.
- 2025: Will there be one gigantic bill that combines most of President Trump’s policy priorities, or two bills?

2025 Policy Outlook: Taxes

- Gigantic tax fight looms in 2025, when 2017 tax cuts expire.
 - Lower income-tax rates.
 - Higher standard deduction.
 - Higher exemption amount for estate tax.
 - Dozens of other provisions.
- Most, if not all, expiring provisions are likely to be extended.
- Price tag is steep: Estimated \$4.6 trillion over 10 years*.
 - Shorter extension (4 years?) is possible.

* - Source: Congressional Budget Office

2025 Policy Outlook: Taxes

- What about all the Trump campaign proposals?
 - Corporate tax cut.
 - End taxation of tip income.
 - End taxation of overtime hours.
 - No taxes on Social Security benefits.
 - Make interest on auto loans tax deductible.
 - State and Local Tax Deduction (SALT) cap.
 - Capital gains and dividends.

2025 Policy Outlook: Debt Ceiling

- Debt ceiling suspended in mid-2023 until January 2, 2025.
 - US cannot accumulate more debt until debt limit is raised.
 - Treasury started “extraordinary measures” to prevent default on January 21.
 - Congress will have to raise debt ceiling by mid-2025.
- Debt ceiling vote will be tricky in an all-Republican Congress.
 - Trump wants debt ceiling off the table for remainder of his term.
 - 71 House Republicans voted against debt ceiling increase in 2023.
 - A handful of Republicans have NEVER voted for a debt ceiling increase.
 - Could be attached to emergency aid for California wildfire victims?
- Expect market volatility as US approaches potential default.

2025 Policy Outlook: Government Spending

- Current government funding agreement expires March 14.
 - Congress must pass an extension or the 12 appropriations bills to avoid a government shutdown.
- Department of Government Efficiency (DOGE).
 - Effort headed by Elon Musk.
 - Scaled back initial promises of cutting \$2 trillion; \$1 trillion would be “epic.”
 - Change in initial vision: Instead of an outside agency making recommendations, small teams will be embedded in every federal agency.
- Why deficit reduction is hard: Members of Congress are all for cutting government spending as long as it doesn't affect their constituents.

2025 Policy Outlook: Cryptocurrency

- Significant momentum toward creating regulatory framework for digital assets.
 - Presidential Working Group on Digital Asset Markets.
 - Senate and House now both have a Subcommittee on Digital Assets.
 - SEC Working Group on Digital Assets.
- Key goals:
 - Regulatory clarity: Who (SEC? CFTC?) is in charge?
 - Investor protections.
 - Study creation of a national digital asset stockpile.

Change is a feature of today's politics

Change in Control of House, Senate and/or White House

<u>1960's</u>	<u>1970's</u>	<u>1980's</u>	<u>1990's</u>	<u>2000's</u>	<u>2010's</u>	<u>2020's</u>
1960	1970	1980	1990	2000	2010	2020
1962	1972	1982	1992	2002	2012	2022
1964	1974	1984	1994	2004	2014	2024
1966	1976	1986	1996	2006	2016	2026
1968	1978	1988	1998	2008	2018	2028

* - Source: Bruce Mehlman, Mehlman Consulting

Markets and the Political Parties

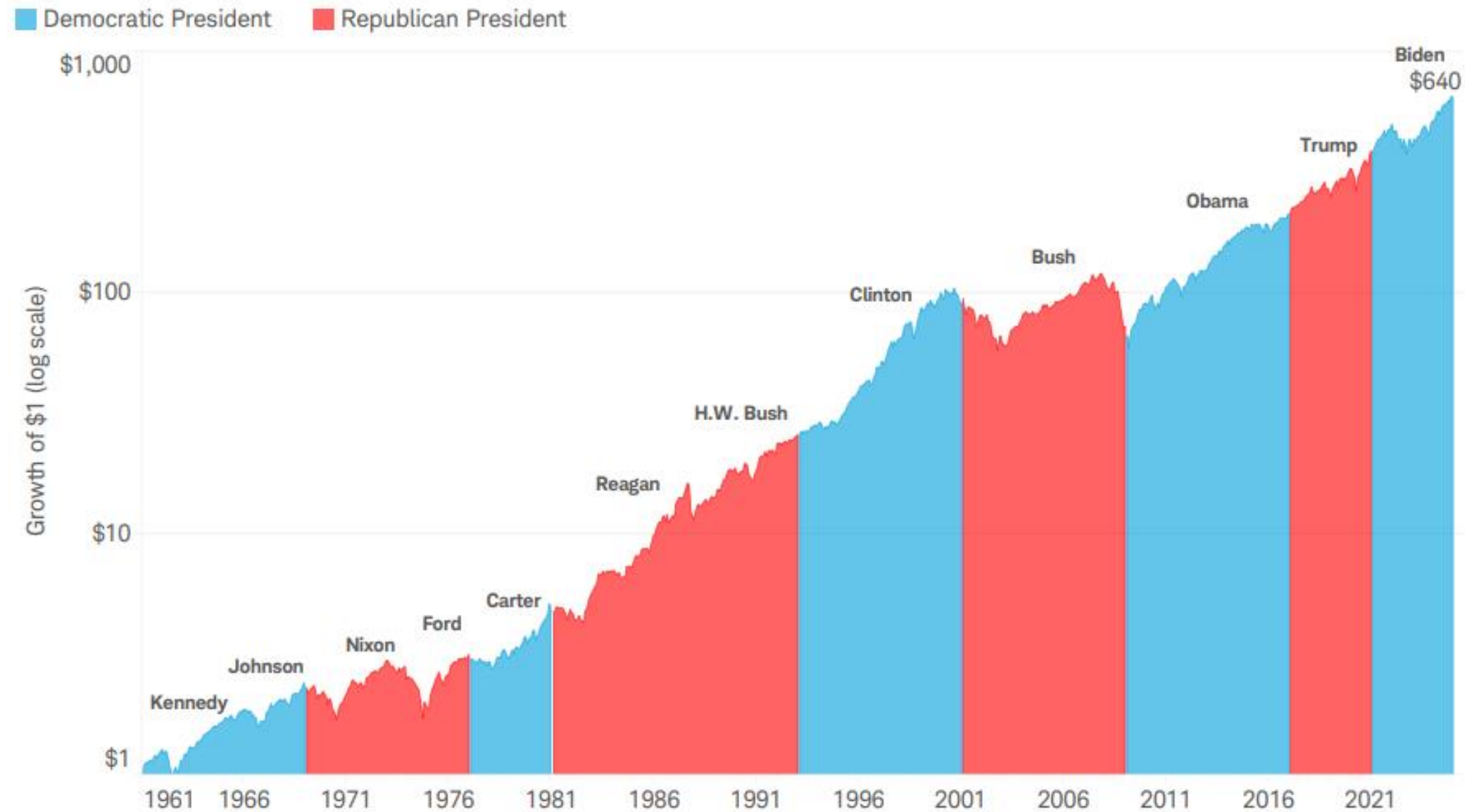
Dow Jones Industrial Average Performance (3/4/1901-12/31/2024)		
When US government has:	Annualized Gain	% of time
Democratic President, Republican Congress	9.1%	9.7%
Democratic President, Split Congress	11.2%	4.8%
Democratic President, Democratic Congress	7.0%	33.8%
Republican President, Republican Congress	7.3%	22.6%
Republican President, Split Congress	-2.0%	11.3%
Republican President, Democratic Congress	2.4%	17.8%



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Markets have historically rewarded long-term investors regardless of the presidential party

Growth of \$1 (1961 - 2024)



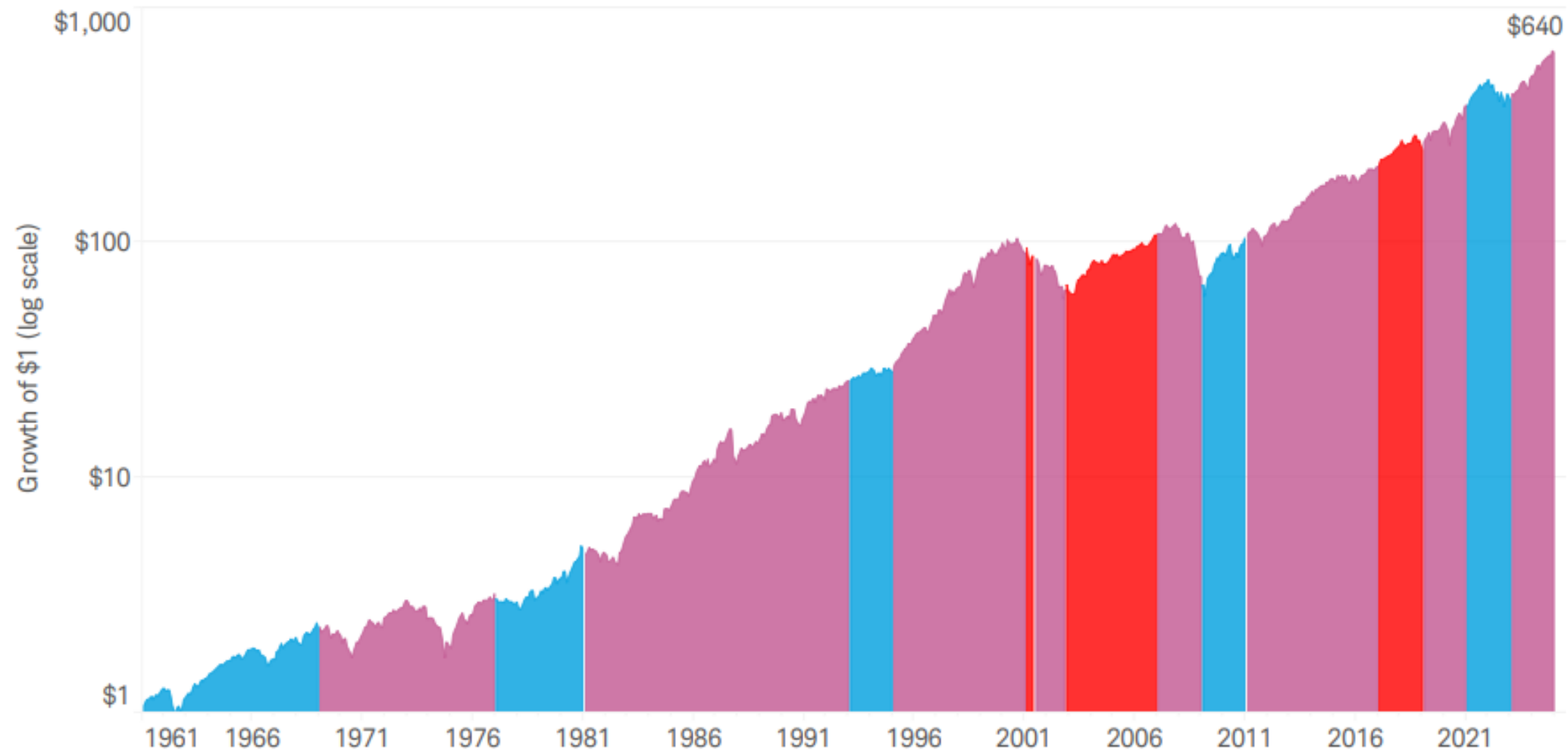
Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart above shows the growth of \$1 invested in a hypothetical portfolio that tracks the Ibbotson US Large Stock Index on January 1st, 1961. January returns in inauguration years are assumed to be under the party that is being inaugurated. Returns include reinvestment of dividends and interest. The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. For more information on indexes please see Schwab.com/IndexDefinitions. **Past performance is no guarantee future results.**



Markets have historically rewarded long-term investors regardless of the parties in Congress and the White House

Growth of \$1 (1961 - 2024)

■ Democratic full majority ■ Republican full majority ■ Mixed majority

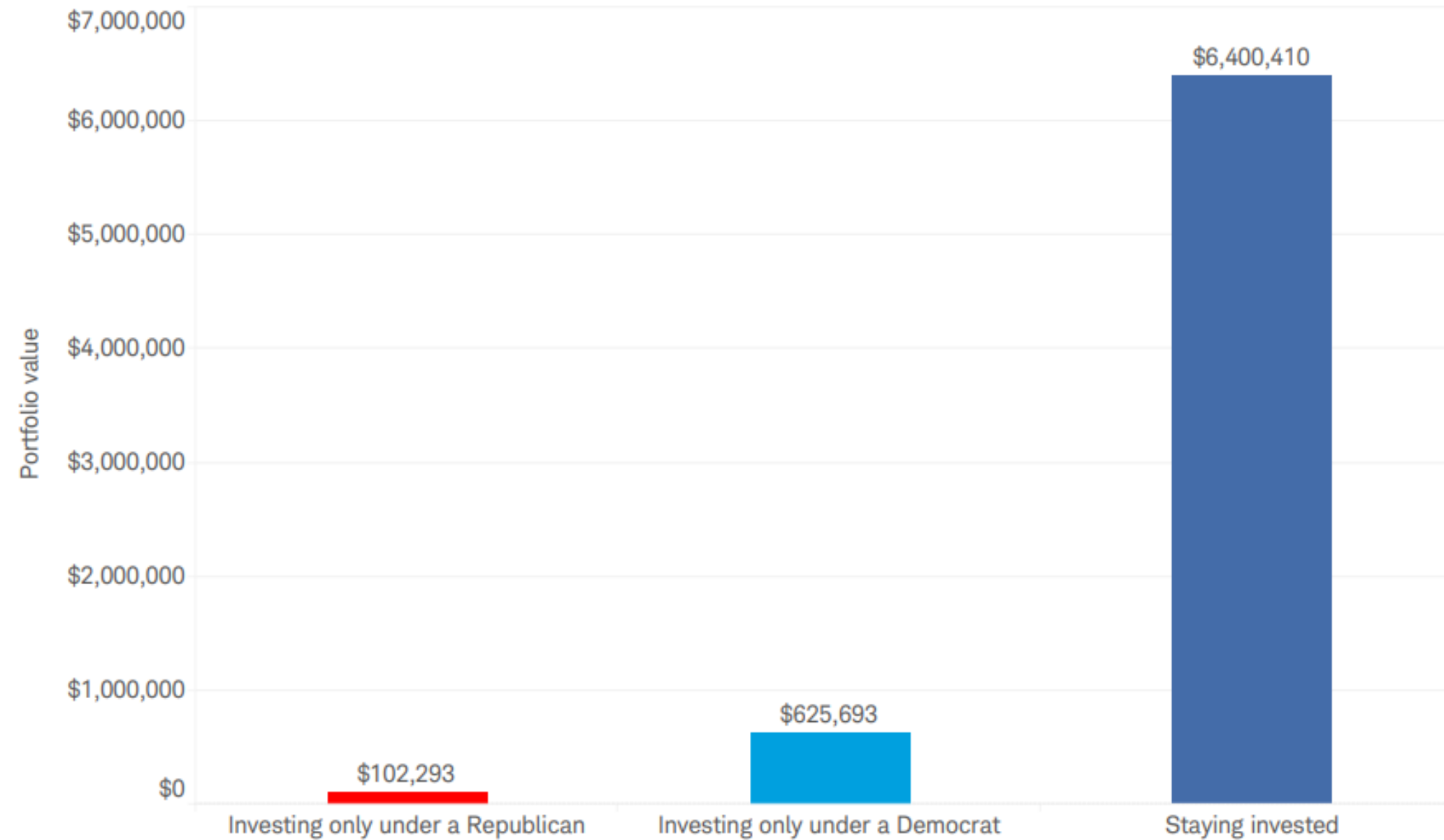


Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The chart above shows the growth of \$1 invested in a hypothetical portfolio that tracks the Ibbotson US Large Stock Index on January 1st 1961. Blue areas represent periods when there was a Democratic president, and Democrats had a majority in both chambers of Congress. Red areas represent periods when there was a Republican president, and Republicans had a majority in both chambers of Congress. Purple areas represent periods when there was some combination of both parties as president or the majority party in Congress. January returns in inauguration years are assumed to be under the party that is being inaugurated. Returns include reinvestment of dividends and interest. The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. For more information on indexes please see [Schwab.com/IndexesDefinitions](https://www.schwab.com/IndexesDefinitions). **Past performance is no guarantee future results.**



Staying invested has historically been the best course of action

Growth of \$10,000 (1961 - 2024)



Source: Schwab Center for Financial Research with data provided by Morningstar, Inc. The above chart shows what a hypothetical portfolio value would be if an investor invested \$10,000 in a portfolio that tracks the Ibbotson US Large Stock Index on January 1st, 1961 under three different scenarios. The first two scenarios are what would occur if an investor only invested when one particular party was president. The third scenario is what would occur if an investor had stayed invested throughout the entire period. Returns include reinvestment of dividends and interest. The example is hypothetical and provided for illustrative purposes only. It is not intended to represent a specific investment product. Indexes are unmanaged, do not incur management fees, costs, and expenses and cannot be invested in directly. For more information on indexes please see [Schwab.com/IndexDefinitions](https://www.schwab.com/IndexDefinitions). **Past performance is no guarantee of future results.**

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