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Congress-White House Fiscal Cliff Discussions: No Deal

The quiet discussions between the U.S. Congress and the White House about the upcoming fiscal cliff ended last week with no deal and no date to meet again, a not particularly auspicious beginning.

Congressional leaders, senior White House staff and the Treasury Secretary met to talk about a budget deal to forestall a government shutdown on October 1; remove budget caps that would mandate \$120 billion in budget cuts, and increase the debt ceiling.

Congress wants a two year agreement with the White House, to remove the threat of a government fiscal crisis past the 2020 elections. Apparently, the Administration wants a one-year deal. And while pushing for more money for defense, it appears willing to keep existing spending levels with a “continuing resolution” rather than a broad spending agreement.

Unfortunately, this strategy is not the best one for markets; it would—if agreed to—at least delay a government crisis.

Investors should focus on the G-20 meeting in Japan between Presidents Donald Trump and Xi Jinping. The American president reported that the two talked this past week and that it was a good conversation that led to the agreement to meet. President Trump also reported that the two directed staff to meet this week, though there haven’t been any reports of progress at the staff level.

With little in the way of pre-meeting progress, I find it hard to foresee a major breakthrough any time soon, but both sides appear willing to repeat the progress they made last year when they met at the G-20 in Buenos Aires and agreed to a trade war standstill. This would delay the tariffs President Trump is considering on \$300 billion of Chinese imports into the US.

Investors can only hope for some advancement in the talks.

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