

## Busy week: Ukraine to SOTU and Fed



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### Key Takeaways

- Ukraine, Russian invasion, world reaction, dominate stories this week.
- State of the Union (SOTU) Tuesday night with Ukraine, Covid, and Economy to be addressed. Ukraine comments should receive bipartisan applause and may include release of oil from US strategic reserve and more aid for Ukraine.
- Fed Chair Powell testifies Wednesday and Thursday.
- Congress approaches March 11 government funding deadline.

Washington and the world have watched in amazement as President Zelensky and the Ukrainian people have stood up to the Russian invaders and won the support and admiration of all.

Nearly every nation participating in the global trading system has isolated Russia stopping their access to the SWIFT global payments system. However, payments for oil and gas appear to be permitted. These complex rules with some payments permitted and others prohibited are likely to cause pause by the major clearing banks as they will need to be sure that prohibited payments are not made.

Bottom line is that the battlefield will be the focus of the world's attention as reports of peace talks emerge.

As I have written for weeks this is a Made In Russia crisis, and only Putin can bring it to an end. What price the people of Ukraine, and indeed the rest of the world will pay is up to the Russian leader.

## **SOTU Tuesday**

Tuesday, President Biden gives his first SOTU address before a joint session of Congress. What a week ago looked like a partisan defense of economic and covid policy is now framed by the Russian invasion of Ukraine. At one point I was a political speech writer, and I believe this speech gives President Biden an opportunity to rise above the sharp partisan divide and express support for the incredible heroism and President Zelensky and the Ukrainian people.

The President is likely to also request emergency aid for Ukraine, release oil from the US strategic reserve, and outline the success he has had at working with global partners to isolate Russia using tools that range from blocking orders to the German decision to withdraw from the gas pipeline. This should be an opportunity for the President to get bipartisan applause from his skeptical audience.

While support for Ukraine will unite the Congress, the President will need to address the twin challenges of the economy and covid. Although the covid story is improving, the economic picture continues to be affected by inflation.

President Biden has near record low approval numbers, despite good economic data ranging from strong consumer spending to low unemployment; but inflation is the issue that haunts Democrats as they head towards the midterm election. The President is likely to sight his accomplishments that range from the bipartisan infrastructure bill, to the large Covid relief package passed in the early days of his Administration, but he will also need to talk about his unfinished agenda led by the demise of his Build Back Better (BBB) legislation. Biden will be under pressure from the progressive wing of the party to give a strong endorsement to a large domestic spending bill modeled after BBB, but that will surely bring out the worst of the partisan divide in Washington.

## Fed Testimony

Wednesday and Thursday Fed Chair Powell goes before the House Financial Services Committee and the Senate Banking Committee to give his semiannual report on monetary policy. Testimony by the Fed Chair always gets a lot of attention from markets and these two days before Congress will be no different. Expect a great deal of attention as to any signal the Chair might provide to the direction of interest rates as the Fed is only two weeks from the meeting of the FOMC and the anticipated rise in rates.

With the Russian invasion of Ukraine and the corresponding economic actions, there are likely to be questions asked of the Chair if the war in Ukraine will have any impact on the Fed's upcoming rate decision. Some market observers have questioned whether or not the uncertainty created by the Russian invasion will change the Fed's thinking and this gives Powell the opportunity to give some guidance, but I would be surprised if he tips his hand.

In recent weeks there has been a vocal minority of Fed Watchers who have talked about a 50bps increase rather than 25bps. Market actions in the coming days will undoubtedly be part of the FOMC decision, uncertainty created by the war in Ukraine will be a factor with respect to the plan to have a 25bps increase, the Ukraine invasion is likely the final nail in the coffin for those thinking it could be larger.

## **Budget crunch time**

Before Congress left for the Presidents Day break, they passed a Continuing Resolution (CR) that runs until March 11; and once again if there is no action it will lead to a government shutdown threat. All the DC leaders have been strong in their comments that there will be no shutdown, and the crisis in Ukraine should assure the avoidance of a fiscal crisis.

The goal of the bipartisan leadership in Congress is to pass an Omnibus Spending Bill to give the various departments of government new spending allocations and priorities. Even before the Russian invasion there was broad bipartisan support to increase defense spending and adopt priorities to the changing threats from Russia and China; clearly those threats have been magnified in recent days increasing the need for new spending legislation.

In the coming days the old partisan debate between defense and nondefense spending will be front and center; though the events in Ukraine should strengthen the hand of those pushing for more defense money. The Transportation Department has pointed out that the road and bridge projects that were authorized by the Bipartisan Infrastructure bill need money appropriated in order to get funding out the door; that is but one of the items on a wish list of programs pushed by Democrats.

Bipartisan Appropriation Committee staffs have been working over the Presidents Day break and we could be getting hints of a deal by late in the week.

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