VOGEL GROUP

# The State of Politics In Washington

## The Full Faith and Credit of Politics, Partisanship, and Bank Runs

# 2023: Macro Political & Economic Snapshot

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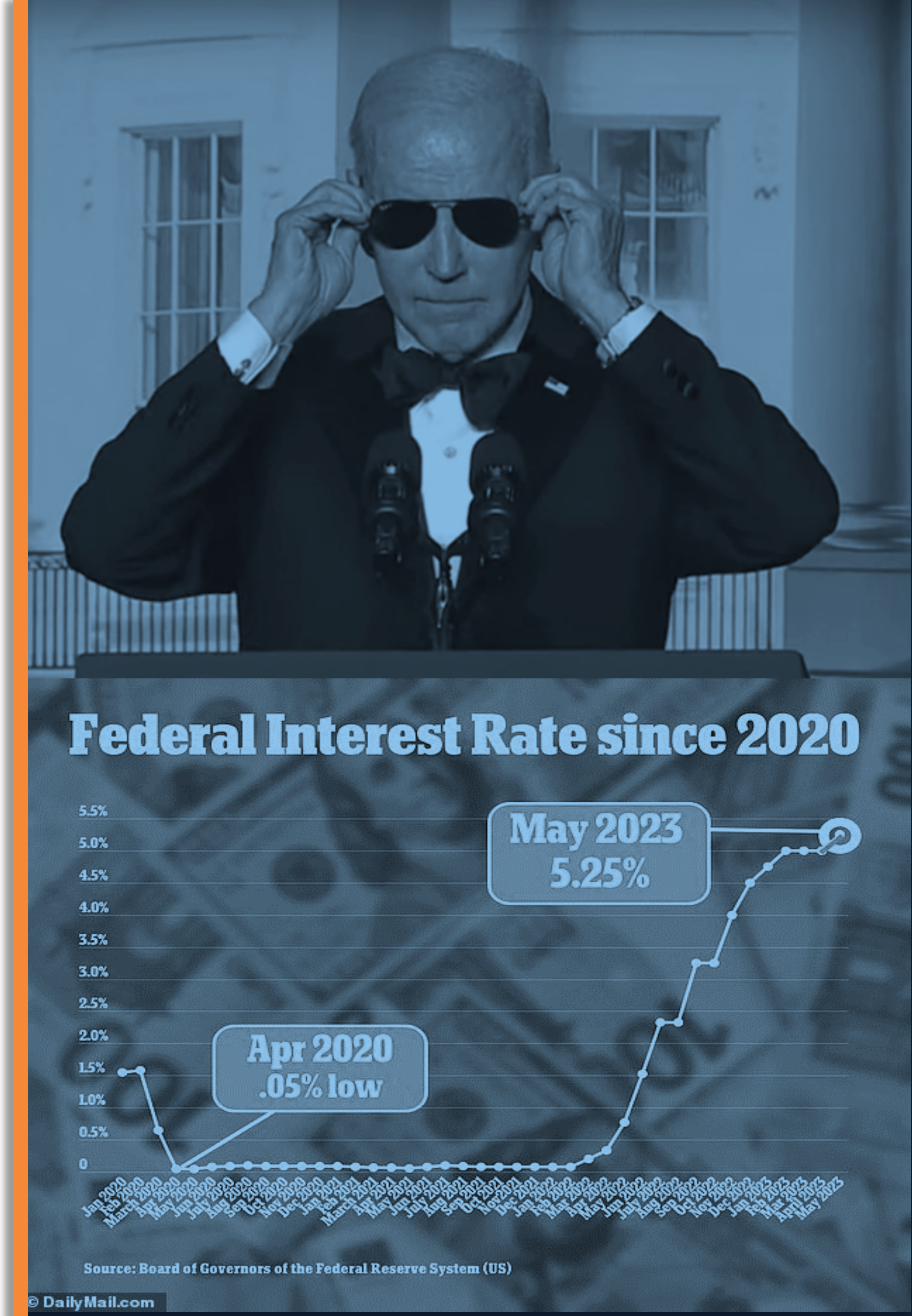
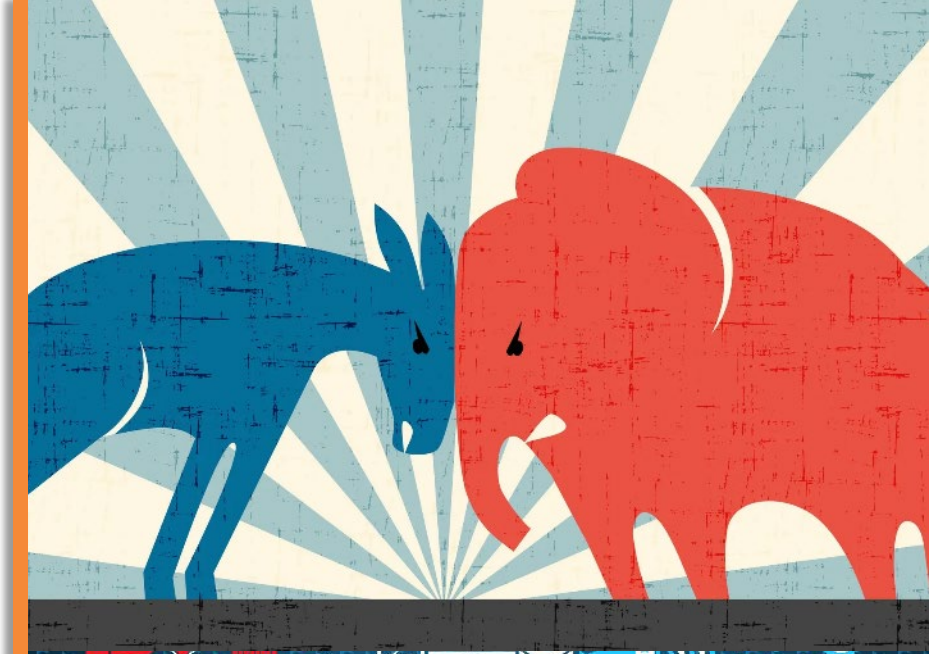
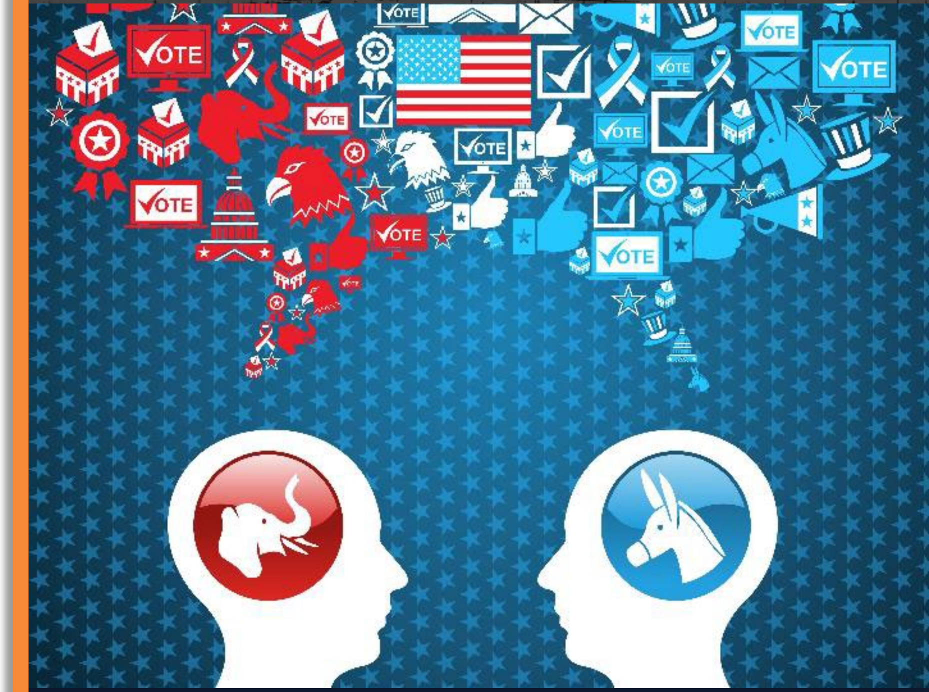
- We are in **day 511** of the Biden Presidency (As of June 15th).
- The 2024 elections are **518 days** away.
- As of June, The **S&P** returned **11%** since January 2023; the **Dow Jones Industrial Average returned 1.29%** and the **Nasdaq** has returned **27%**.
- In January 2023, the **unemployment** rate was **3.4**, the lowest rate since May of 1969. As of June 2023, the unemployment rate stood at **3.7%**.
- In April, the **consumer price index** was **4.9%**— the first time annual inflation has landed below **5%** in two years.
- In May, The Federal Reserve approved its **10th interest rate increase** in just a little over a year and dropped a hint that the current tightening cycle is at an end.
- In June, The Fed hit a pause on rate increases, but did indicate 1 or 2 additional increases later in the year.



# 2023: Macro Political & Economic Snapshot

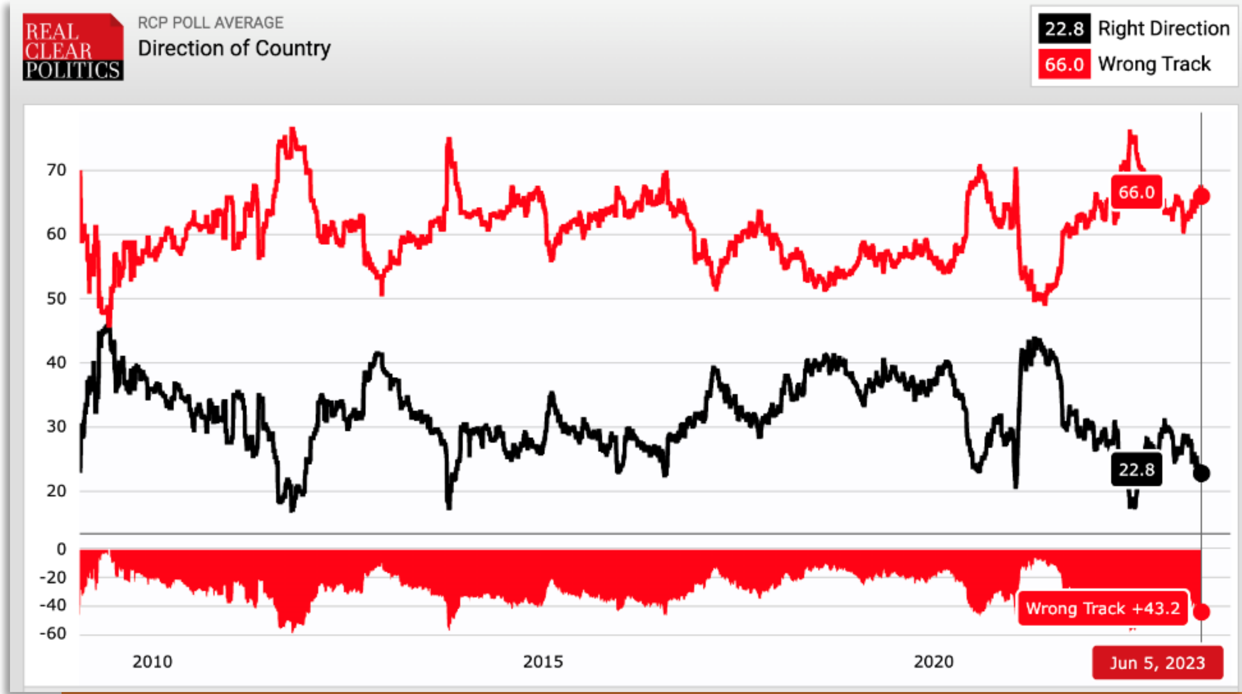
- In the 118th Congress, approximately **6,400 bills have been introduced, and 5 have become law**.
- As of June 1, **Biden** had signed **115 executive orders, 142 presidential memoranda, 453 proclamations, and 89 notices**.
- Biden has issued an **average of 48 executive orders** per year in office, which is tied with **Ronald Reagan** for the second highest average among presidents who have held office since 1981.
- In recent months, political oxygen has been consumed by the **debt ceiling, bank failures, US/China driven economic tensions, Russia/Ukraine war, gun violence, oversight of the Biden Admin, Title 42.**
- The House and Senate are expected to be in session for **61 days for the remainder of 2023.**





# Is The United States Headed In The Right Direction?

- Overwhelming majorities of Americans believe the country is headed in the wrong direction.
- Views of the economy remain negative, and nearly half of Americans expect economic conditions to worsen over the next year.
- There has also been a sharp rise in the share of Americans who say the country cannot solve many of its important problems.
- People may not follow politics closely, but they know that **Democrats are in charge at the moment** - and, therefore, responsible for the state of the country.



# Fever Pitch Public Opinion

- Economic conditions continues to dominate as the most important issue facing the country. Much of the economic concerns in recent months have been driven by **inflation, high interest rates, and rising consumer prices**.
- The electorate also remains concerned about **lack of leadership from the government, immigration, crime, and gun control**.

**What do you think is the most important problem facing the country today?**

Recent trend

| | Apr-2023 | Mar-2023 | Feb-2023 | Jan-2023 | Nov/Dec-2022 | Oct-2022 | Sep-2022 |
|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % |
| **ECONOMIC PROBLEMS (NET)** | **29** | **33** | **35** | **34** | **40** | **46** | **38** |
| Economy in general | 14 | 12 | 13 | 10 | 16 | 18 | 12 |
| High cost of living/Inflation | 9 | 12 | 13 | 15 | 16 | 20 | 17 |
| Unemployment/Jobs | 2 | 1 | 1 | 2 | 1 | 2 | 2 |
| Federal budget deficit/Federal debt | 2 | 3 | 3 | 3 | 2 | 2 | 1 |
| Gap between rich and poor | 2 | 1 | 2 | 2 | 2 | 2 | 2 |
| Lack of money | 1 | 1 | 1 | 1 | 2 | 1 | 2 |
| Wage issues | 1 | 1 | 1 | 1 | * | 1 | 1 |
| Taxes | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Fuel/Oil prices | 1 | 1 | * | 1 | 2 | 2 | 3 |
| **NON-ECONOMIC PROBLEMS (NET)** | **71** | **67** | **67** | **70** | **65** | **61** | **66** |
| The government/Poor leadership | 18 | 20 | 14 | 21 | 15 | 14 | 22 |
| Immigration | 8 | 11 | 10 | 11 | 8 | 8 | 6 |
| Guns/Gun control | 7 | 1 | 2 | 1 | 2 | 2 | 1 |
| Crime/Violence | 6 | 3 | 4 | 4 | 5 | 4 | 4 |
| Unifying the country | 5 | 4 | 4 | 6 | 6 | 4 | 4 |

**Percentage of Americans Mentioning Economic Issues as the Nation's Most Important Problem**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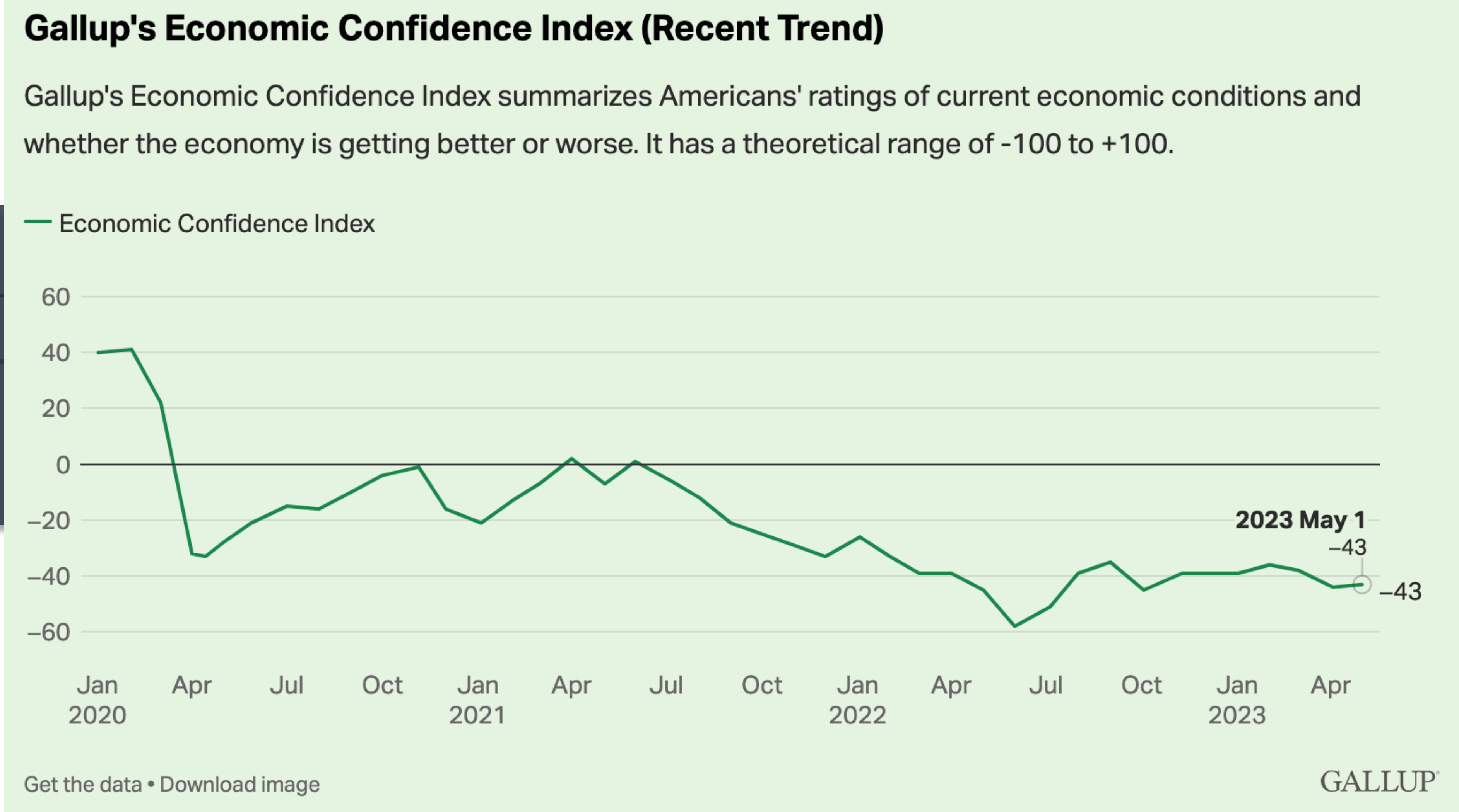
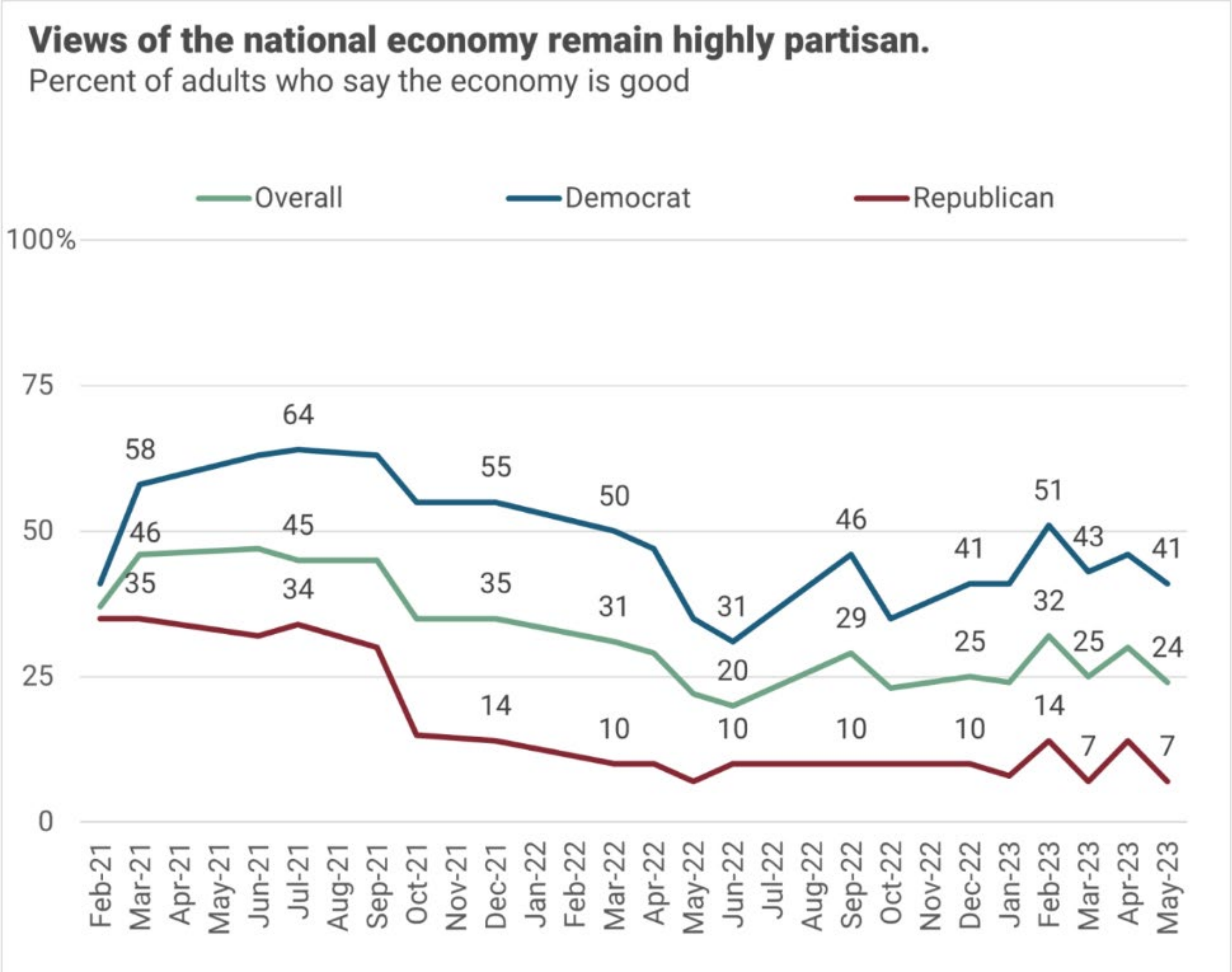
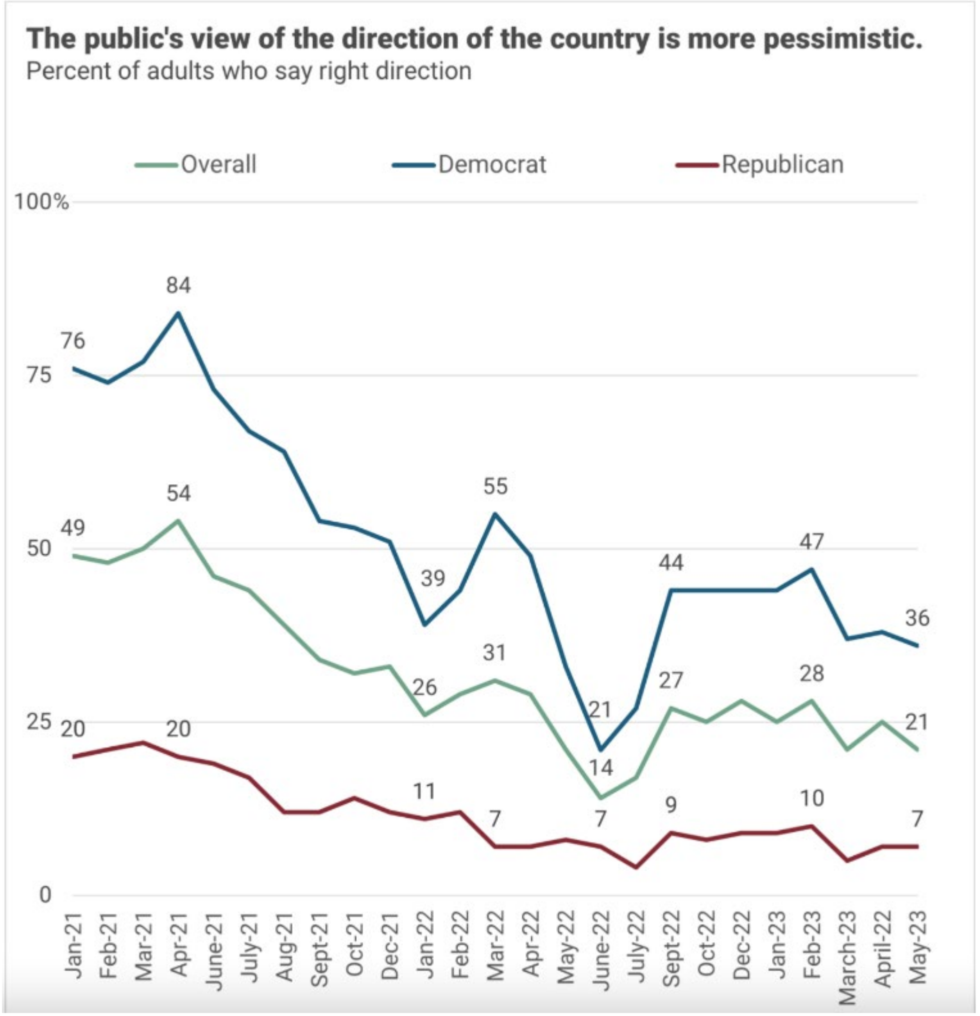
# Voters Remain Increasingly Concerned About the Economy



# Democrat & Republican Lenses On The Economy




AP Poll conducted May 15.

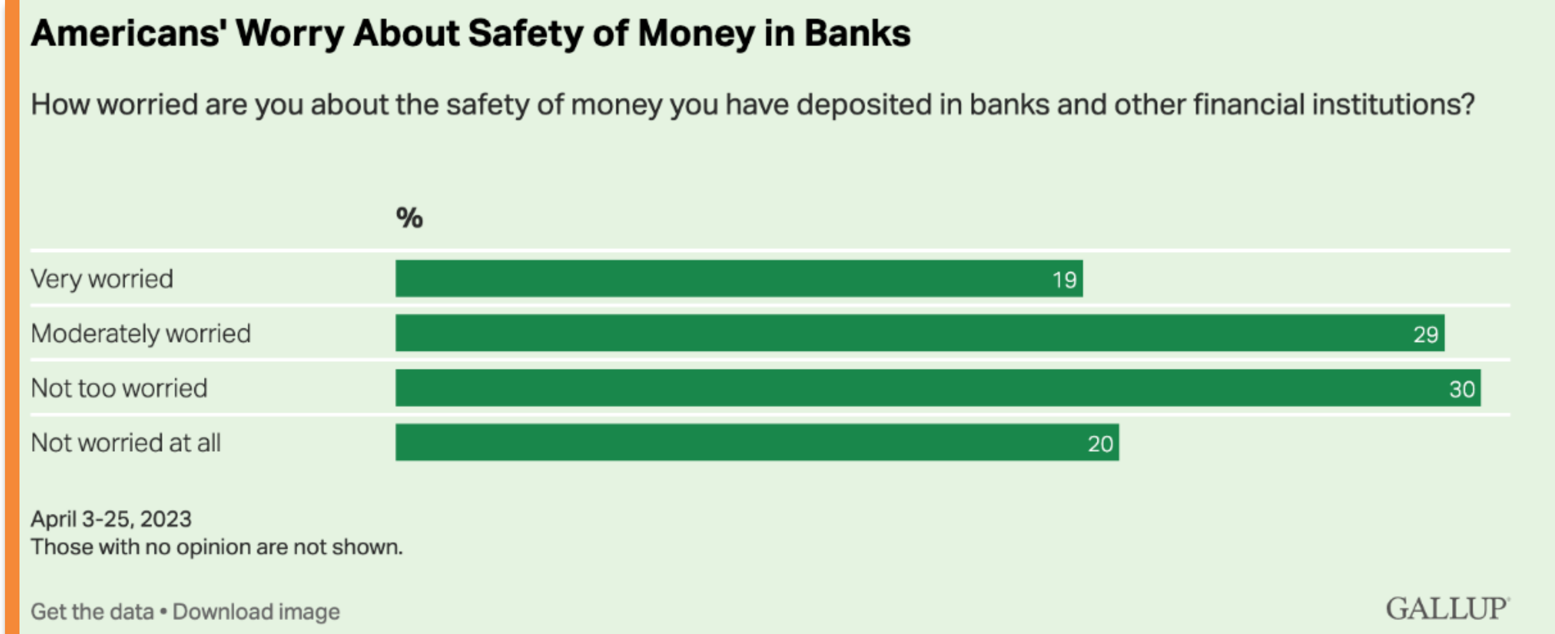


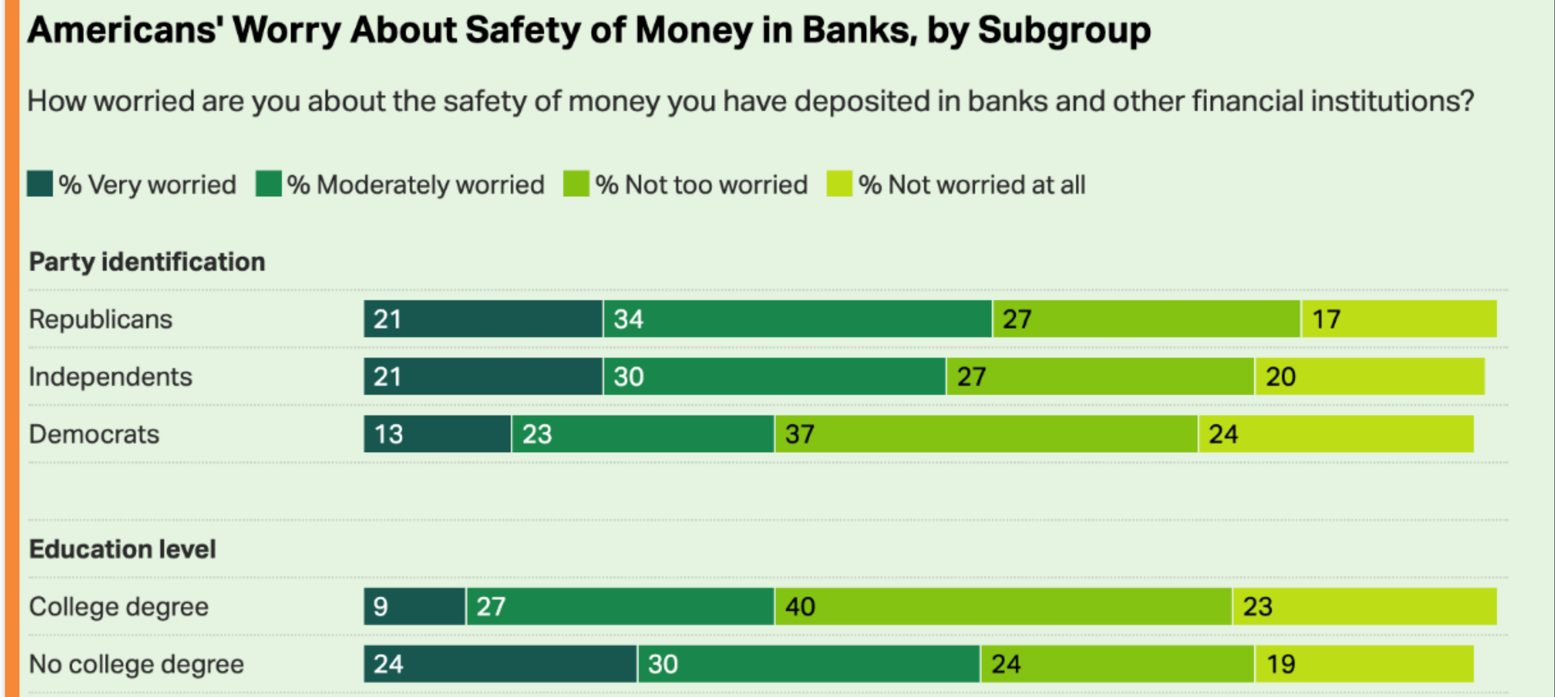

AP Poll conducted May 15.

# Confidence In Financial Institutions & Banks (Post SVB & Signature)

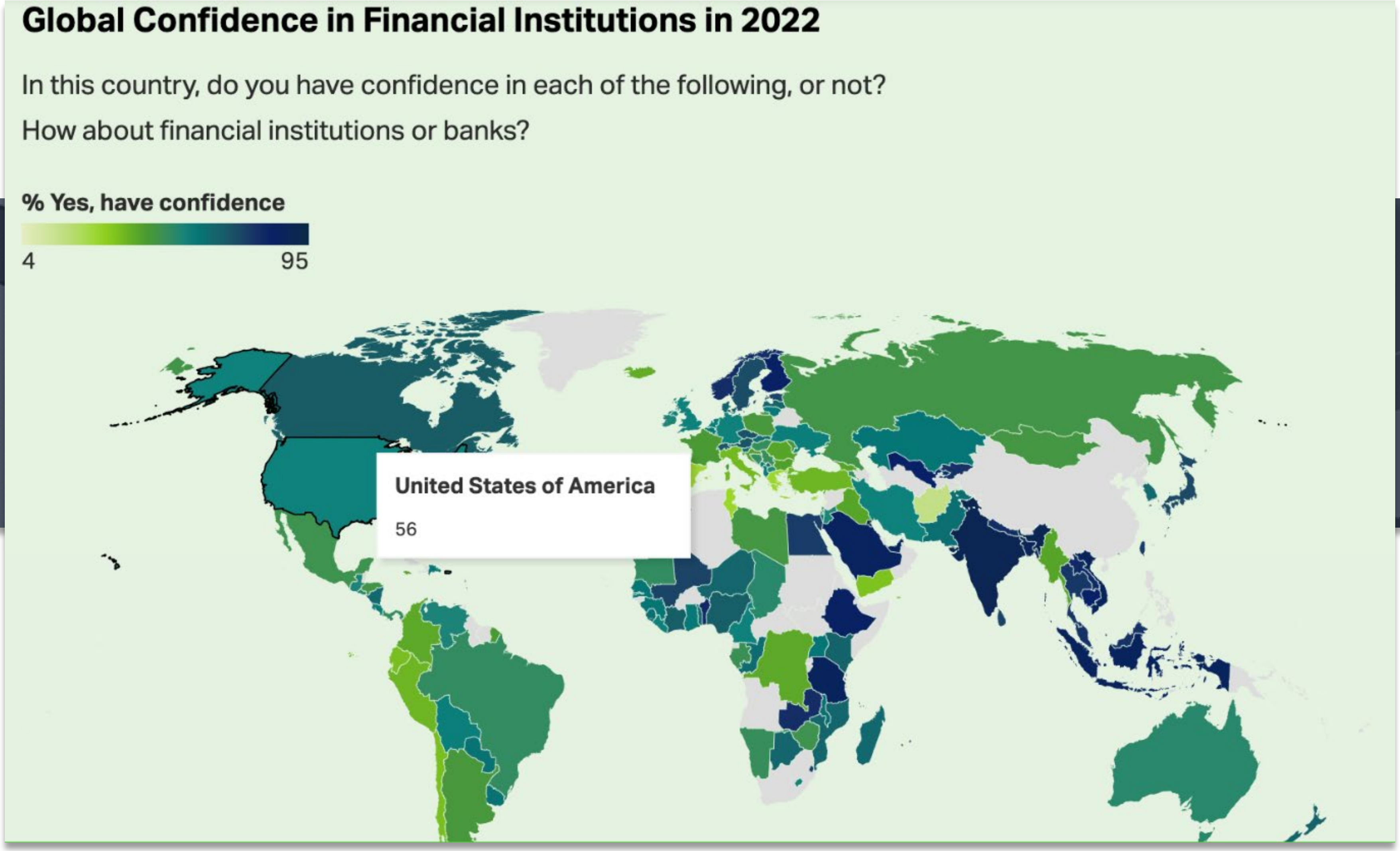
- A poll conducted by the AP in March (During the height of bank failures), **found that 10% of U.S. adults said they have high confidence in the nation's banks and other financial institutions - down from 22% in 2020**.

- Another poll conducted by Gallup in late April found nearly **half of Americans are anxious about the safety of the money** they have in accounts at banks or other financial institutions.



# Global Confidence In Financial Institutions Varies, US Confidence Remains at Approximately 56%

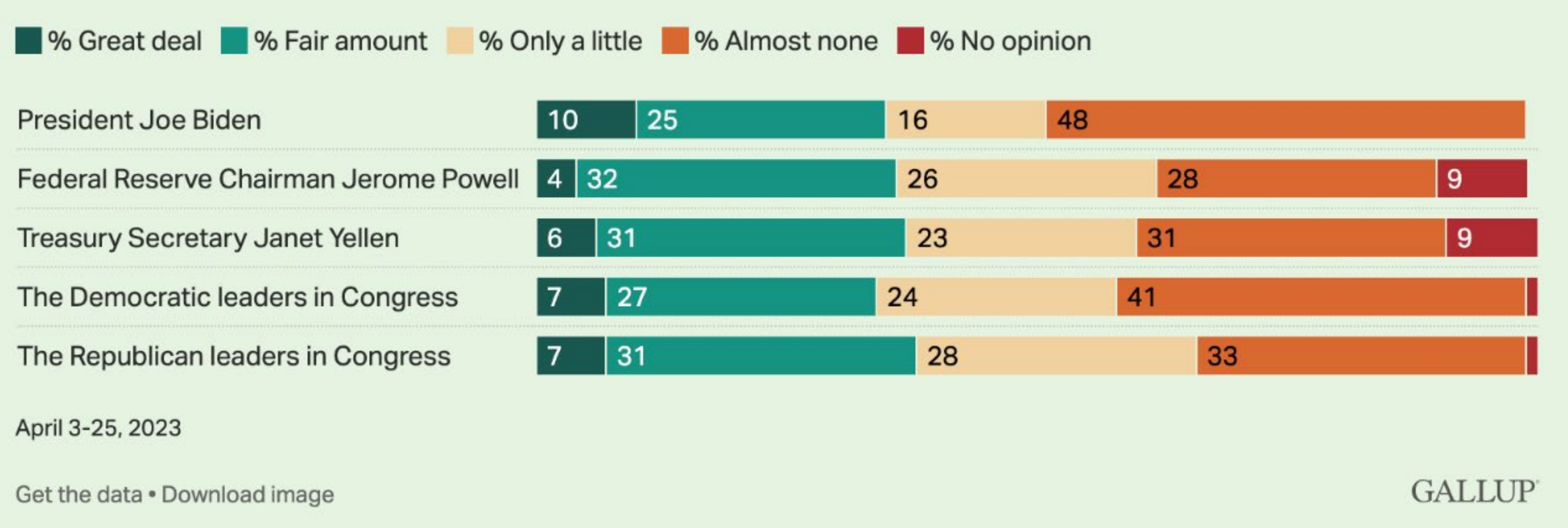



**Gallup – May 2023**

# Concerns About Banks: 2008 & 2023

# Confidence In Federal Reserve & Treasury Leadership

- Amidst high consumer prices, debt ceiling fights, and a looming economic slowdown, **Americans lack confidence in key economic decision makers**.
- Confidence in all leaders is at least marginally lower than a year ago, **including significant declines for Biden and Powell**.




**Changes in Confidence in Economic Leaders, 2022-2023**

Figures are the percentage with a great deal or fair amount of confidence in each to do or to recommend the right thing for the economy

| | 2022 % | 2023 % | Change pct. pts. |
|---|---|---|---|
| Federal Reserve Chairman Jerome Powell | 43 | 36 | -7 |
| President Joe Biden | 40 | 35 | -5 |
| The Democratic leaders in Congress | 38 | 34 | -4 |
| The Republican leaders in Congress | 40 | 38 | -2 |

Get the data • Download image

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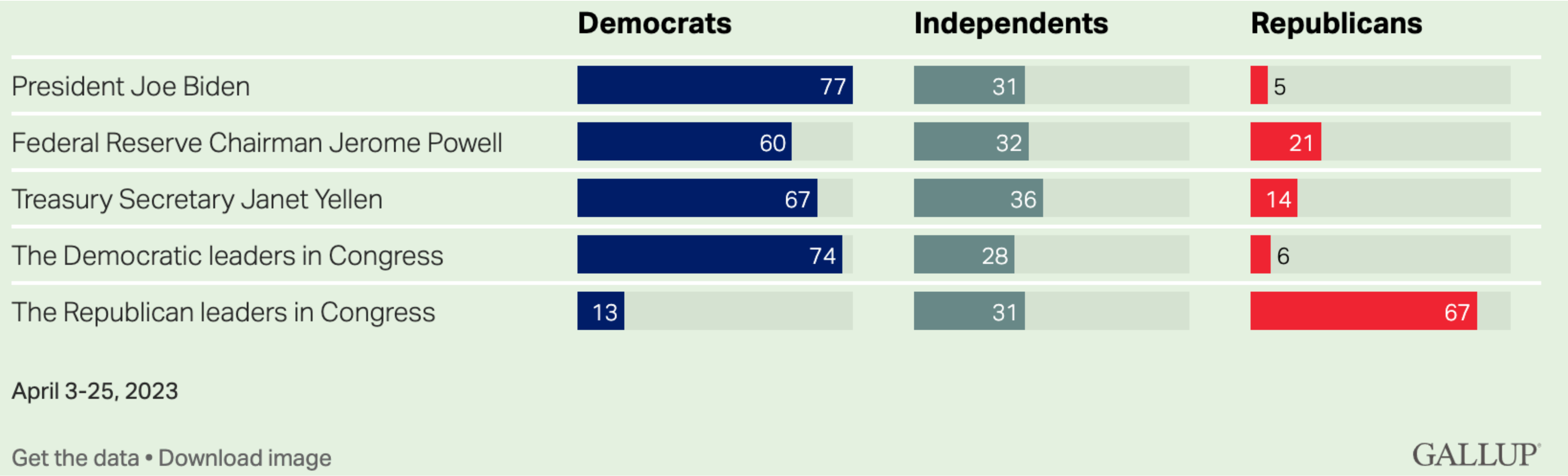
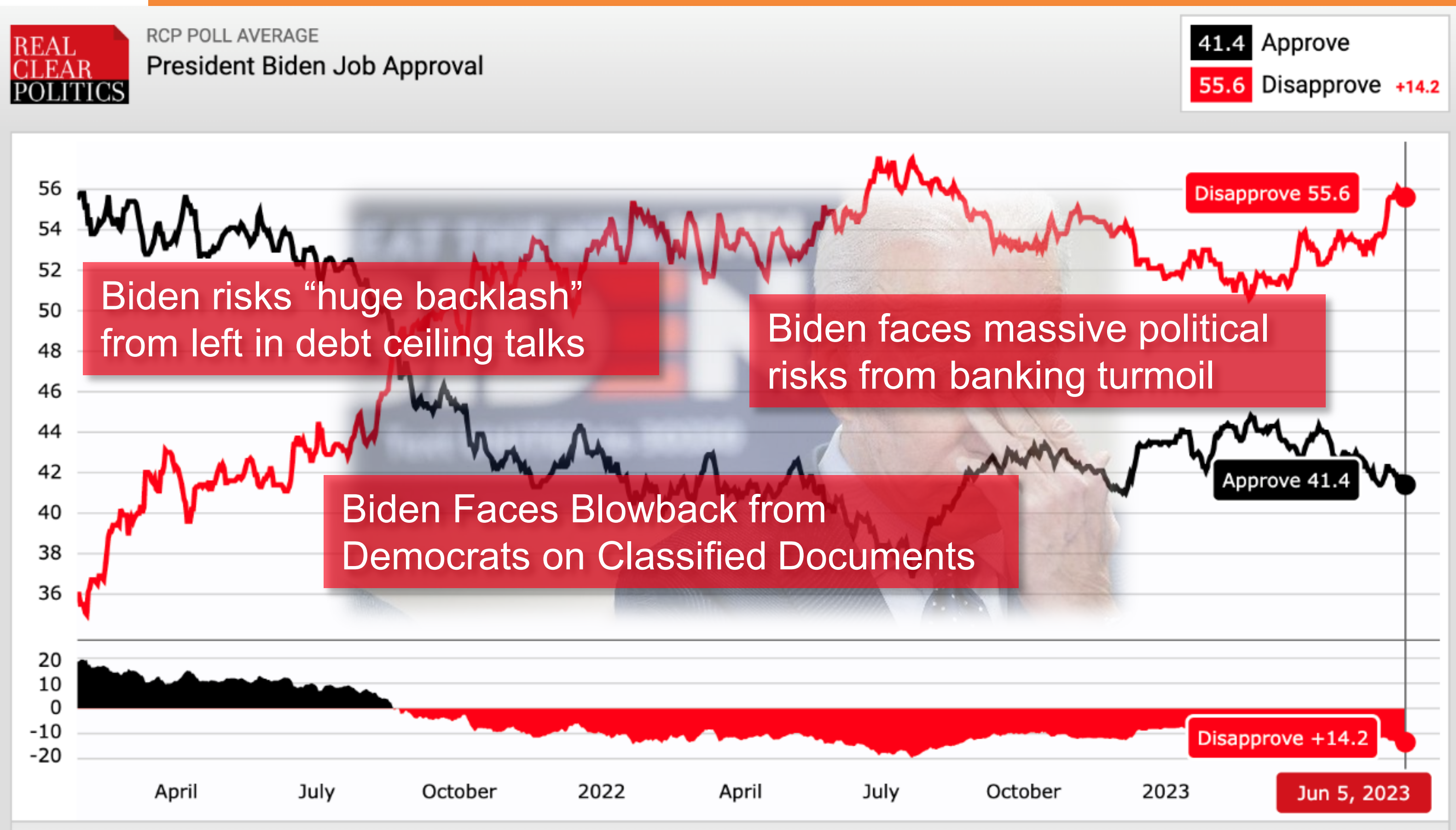
# Confidence In Federal Reserve & Treasury Leadership - By Party Affiliation




- **In typical political patterns** – Democrats remain more confident with their own leadership, however - independents do not express confidence one way or the other in any economic decision makers.
- **This is important** – Consensus in May found that 49% of Americans see themselves as politically independent.

# President Biden's Approval Rating

- Biden's public approval was approximately **41 percent** in early June.
- With a divided government in Washington and after launching his 2024 re-election campaign, **55 percent disapprove of Biden's**.
- Biden's disapproval has seen an uptick since December 2022 – driven by general economic conditions, inflation, rising interest rates, crime, and immigration.

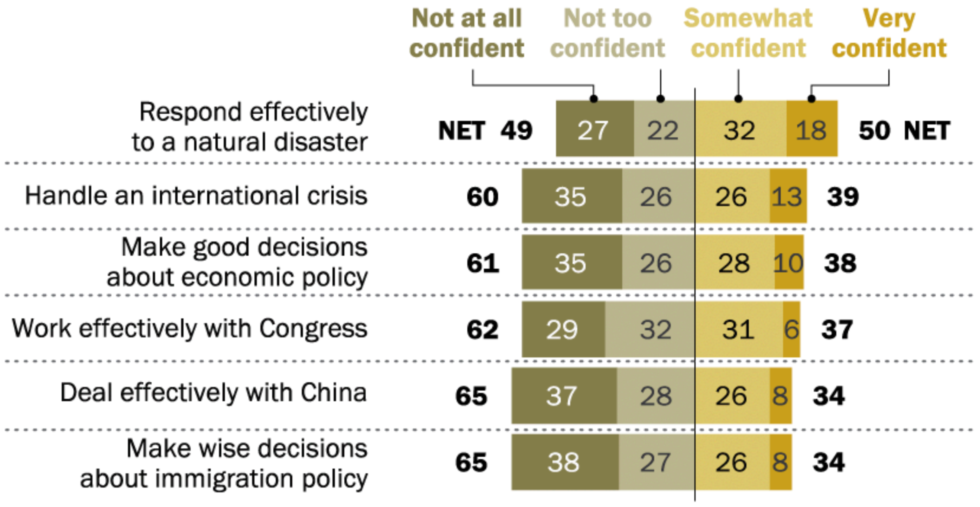


# Polarization Continues to Drive Biden's Approval

- The public continues to express skepticism in Biden's ability to handle numerous issues – **both domestic and foreign policy related.**

**Majorities of Americans express little or no confidence in Biden on economy, immigration, foreign policy**

*% who say they are ____ Joe Biden can do each of the following*




Note: No answer responses not shown.
Source: Survey of U.S. adults conducted March 27-April 2, 2023.

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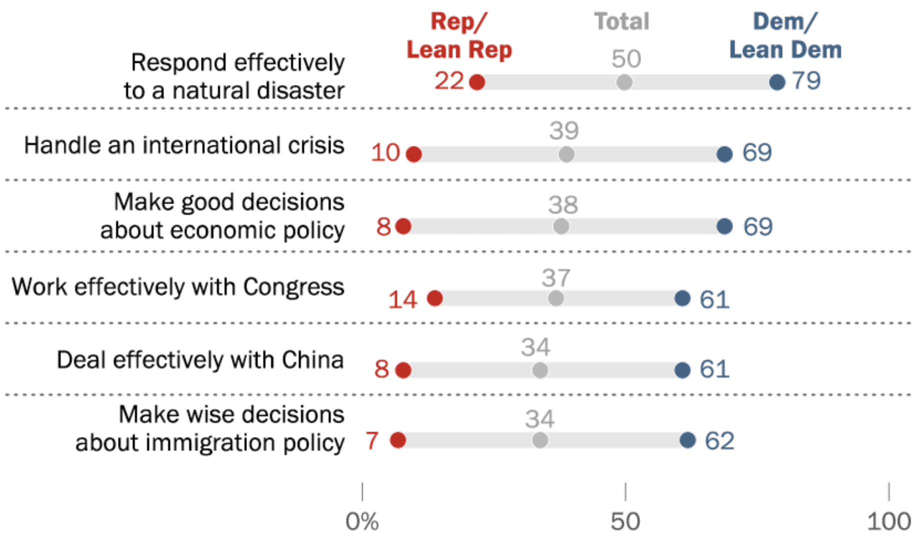
- **Democrats** remain confident in Biden's ability to manage and respond to various issues.

**Democrats continue to express confidence in Biden, while few in GOP have confidence in him**

*% who say they are **very/somewhat confident** Joe Biden can do each of the following*




Source: Survey of U.S. adults conducted March 27-April 2, 2023.

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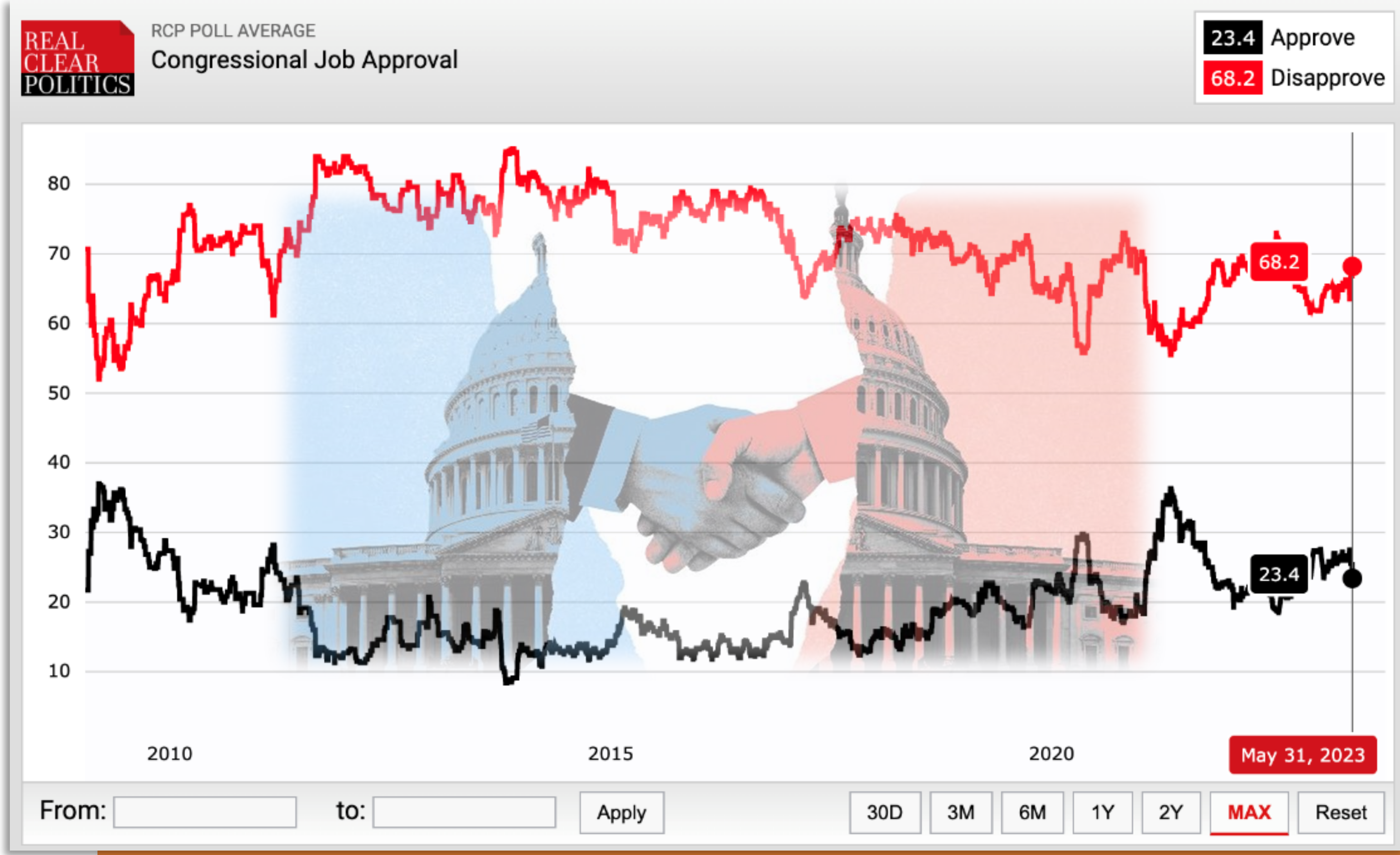
# Congress Approval Rating *(Nothing Has Changed)*

- Only **23 percent** of Americans approve of Congress.
- Despite averting a default and serving as a check on the Administration, Congress has long been unpopular with the public.
- According to polling from Gallup – With House Republicans continuing their investigations into Biden and his administration, a majority of Americans have expressed doubt in the fairness of these probes. **59 percent of Americans say they are not confident that investigations will be fair and reasonable, including 26 percent who are not at all confident**.

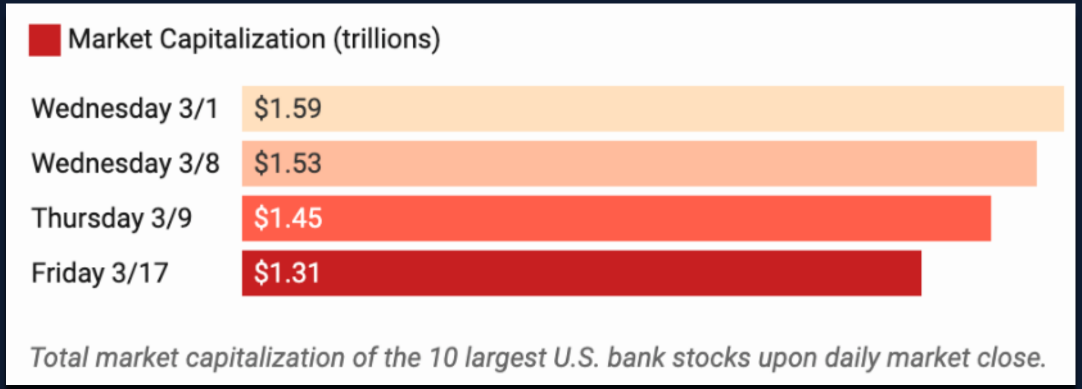


# March 2023…

- **Silicon Valley Bank, First Republic Bank, and Signature Bank** — accounted for 2.4% of all assets in the banking sector.
- By contrast, **Washington Mutual** had more than 2.7% of the sector's assets when it failed in 2008.
- $275 billion - Loss in market capitalization of the 10 largest US bank stocks between March 1 and March 17.
- **$4.6 billion (March 9) to $152.9 billion (March 15), and back $67 billion (April 12)** – Bank borrowing at the discount window.

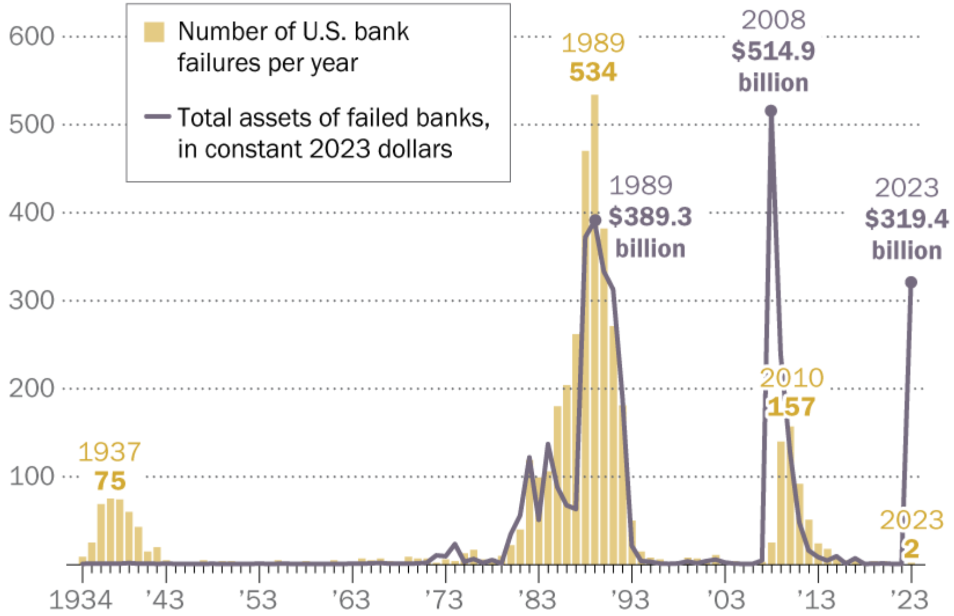
## S&P 500 Banks Industry Group Index


## March Sadness: Top Banks' $275 Billion Loss



# Historical Context

### Number of U.S. bank failures peaked in the 1980s, but 2023 is a standout year for big collapses




Note: As of April 11, 2023. "Failures" includes federal assistance transactions. "Banks" includes savings-and-loans and other similar insured deposit-taking institutions.
Source: Pew Research Center analysis of data from Federal Deposit Insurance Corp.

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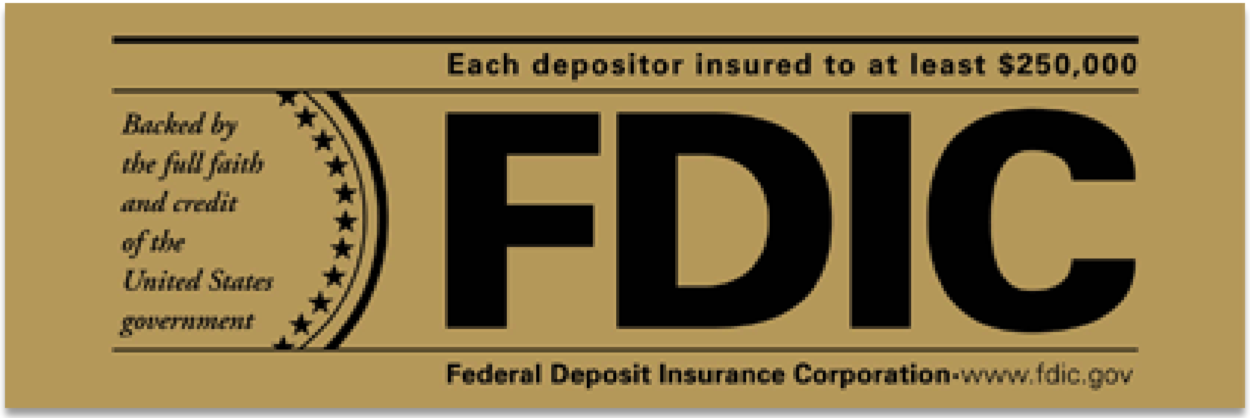
### 10 largest U.S. bank failures, by total assets

*In constant 2023 dollars, as of April 11, 2023*

| INSTITUTION | HEADQUARTERS | FAILURE DATE | TOTAL ASSETS | TOTAL DEPOSITS |
|---|---|---|---|---|
| Washington Mutual Bank | Henderson, NV | 9/25/08 | $424.4 billion | $260.2 billion |
| Silicon Valley Bank | Santa Clara, CA | 3/10/23 | $209.0 | $175.4 |
| Continental Illinois National Bank & Trust | Chicago, IL | 5/17/84 | $111.1 | $79.5 |
| Signature Bank | New York, NY | 3/12/23 | $110.4 | $88.6 |
| American Savings and Loan Association | Stockton, CA | 9/7/88 | $73.2 | $37.4 |
| IndyMac Bank | Pasadena, CA | 7/11/08 | $42.2 | $26.0 |
| First Republic Bank-Dallas | Dallas, TX | 7/29/88 | $41.9 | $18.8 |
| Colonial Bank | Montgomery, AL | 8/14/09 | $35.7 | $28.1 |
| Gibraltar Savings | Simi Valley, CA | 3/31/89 | $31.9 | $18.1 |
| Bank of New England | Boston, MA | 1/6/91 | $29.4 | $20.6 |



# Response From Regulators - Hearings

1) **House Financial Services** - The Federal Regulators' Response to Recent Bank Failures

2) **House Financial Services** - Federal Responses to Recent Bank Failures

3) **House Financial Services** - Oversight of Silicon Valley Bank and Signature Bank: GAO's Preliminary Review

4) **House Financial Services** - Oversight of Prudential Regulators

5) **House Financial Services** - Continued Oversight Over Regional Bank Failures

6) **Senate Banking** - Recent Bank Failures and the Federal Regulatory Response

7) **Senate Banking** - Holding Executives Accountable After Recent Bank Failures

8) **Senate Banking** - Examining the Failures of Silicon Valley Bank and Signature Bank

9) **Senate Banking** - Oversight of Financial Regulators: Financial Stability, Supervision, and Consumer Protection in the Wake of Recent Bank Failures


# Response From Regulators

- In April, **The Federal Reserve** released it's review of the supervision and regulation of SVB. **The FDIC** followed and released its report detailing an internal review of the agency's supervision of Signature Bank.

- **GAO** released its preliminary review of the federal banking agencies' actions related to the failures of SVB and Signature.

- **Policy under consideration in Congress:**
  - **Raising the FDIC deposit insurance limit - (unlikely)**
  - **Tightening capital and liquidity requirements and put in place more rigorous stress testing for regional banks - (Slim)**
  - **Strengthen oversight of the Federal Reserve and bank governance (executive compensation, clawbacks, preventing bank executives from serving on regional Fed boards) – (Better odds)**

- **Legislative business in Congress is calendar and event driven.** Following the hearings before the House Financial Services and Senate Banking, Congress has diverted some attention from the recent bank failures due to the **debt ceiling fight.**
  - *"There's not been consensus"* – **Senator Brown**
  - *"We've gone from the overreaction to a period of time where we're thinking it through,"* – **Senator Tillis**

- **Despite a split Congress,** there is bipartisan interest in some reform. **Chairman Brown** is planning to hold markup on bank executive accountability legislation before July 4th recess.

# Response From Regulators

- **Warren, Warner, Vance, Britt, Hawley, Cramer - Bipartisan Group of Senators Renew Push for Legislation to Claw Back Failed Bank Executive Pay**
  - **The Failed Bank Executives Clawback Act** –Legislation that would require federal regulators to claw back up to three years of compensation received by big bank executives, board members, controlling shareholders, and other key decision-makers in the event of a failure or resolution.
- **Sinema & Tillis - Financial Regulators Transparency Act**
  - The bill increases transparency and allows congressional oversight of the Federal Reserve and other banking regulators' activities around bank supervision, examination, and regulation. The bill follows federal regulators' apparent failure to identify clear mismanagement ahead of the Silicon Valley Bank and Signature Bank collapse.
- **Porter and Warren Lead 50 Lawmakers to Introduce Legislation Repealing 2018 Financial Deregulation**
  - The Members introduced the Secure Viable Banking (SVB) Act, legislation would repeal Title IV of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018, a bill that allegedly contributed to the collapse of Silicon Valley Bank (SVB) and Signature Bank.
- **Sanders Introduces The Federal Reserve Independence Act**
  - The bill would prevent bank executives from serving on regional Federal Reserve boards that regulate the banks they run. The bill also prevents Federal Reserve employees and board members from owning any stock or investing in any institution that the central bank is in charge of regulating.

# Chairman Brown & Ranking Member Scott - Recovering Executive Compensation Obtained from Unaccountable Practices (RECOUP) Act.

- The Senate Banking Committee last week passed the RECOUP Act, only 2 Republicans – **Tillis and Hagerty opposed** the bill.

- The legislation would protect the American taxpayer and hold senior executives of failed banks accountable **by clawing back their compensation, penalizing them for their misconduct, and directing banks to strengthen corporate governance standards.**

- **Specifically – the RECOUP Act would:**
  - Strengthen regulators' ability to bring actions against executives who fail to appropriately oversee and manage their bank.
  - Require banks to adopt corporate governance and accountability standards that promote responsible management.
  - Provide the FDIC authority to claw back compensation of failed bank senior executives.
  - Increase and strengthen certain penalties against bad actors.

- **The Brown/Scott bill differs from the Warren/Hawley/Vance legislation:**
  - Warren's bill would make it a **requirement** that the FDIC claw back pay, while the Brown-Scott bill would just **enable** such a move.

  - Warren's bill would cover three years of compensation, while the Brown-Scott plan would only go back two.

- **The politics behind the RECOUP Act:**
  - **Scott** is running for President, and **Brown** faces a tough re-election in 2024;

  - RECOUP Act may get through the Senate, but **will receive a chilly reception on the House Financial Services Committee.**

  - Waters and Democrats on the House Financial Services Committee released their own package of banking reform bills, and it appears **Brown** and **McHenry** have not discussed the RECOUP Act yet.
  - **This will boil down to timing and priorities.**

# Response From Regulators

- **Industry groups** and **third party stakeholders** (Americans for Tax Reform, Heritage) are also pushing back against several policy proposals – warning they would cause excessive risk taking.

- Irrespective of Democrats and Republicans coming together to pass legislation, **regulators have put large banks on notice that stringent oversight is coming.**

- *"Our first area of focus will be to improve the speed, force, and agility of supervision,"* **- Fed Vice Chair of Supervision Michael Barr.**

- Barr also proposed tougher rules related to capital and liquidity requirements, as well as the format of periodic **stress tests.**

- Some Fed officials are confident that regulatory recommendations would be approved but new rules regarding **liquidity requirements wouldn't take effect for several years.**


# Other Influencing Dynamics

- The **House and Senate** are in session for approximately **56 days before adjourning for Christmas.**

- The June work period will be consumed by the **NDAA** and **Appropriations**.

- Congress has a host of major legislative deadlines looming on Sept. 30, **creating a big policy cliff** that will consume attention from House and Senate Leadership.
  - FAA Reauthorization
  - Farm Bill
  - Coast Guard Reauthorization
  - Pandemic and All-Hazards Preparedness and Advancing Innovation Act.
  - **Government Funding Deadline – September 30th.**

- **The 2024 Elections are 510 days away.**

# Meet The 2024 Candidates *(As of June 22, 2023)*

Confirmed Potential

## Republican


Trump


Haley


Ramaswamy


Scott


Hutchinson


Elder

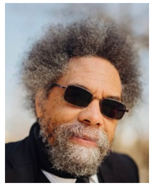

DeSantis


Pence


Christie


Burgum


Youngkin


**West**


**West**

## Democrat


Biden


Williamson


Kennedy Jr.

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# Thank you!

**Nashville, Tennessee**
4515 Harding Pike
Suite 110
Nashville, TN 37205

**Washington, D.C. Headquarters**
2445 M St. NW
Suite 500
Washington, D.C. 20037

**Tallahassee, Florida**
119 South Monroe St.
Suite 500
Tallahassee, FL 32301