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## WEEKLY HORIZON

September 17-21, 2018

### This Week's Driving Events

**CHINESE TARIFFS ANNOUNCEMENT IMMINENT:** President Trump is reportedly ready to announce tariffs on \$200 billion worth of products from China as early as today or tomorrow. According to multiple reports, the tariff rate will likely be set at 10 percent, rather than the 25 percent that was under consideration, in recognition of the effect a 25 percent tariff could have on consumers leading into the midterm elections and holiday season. We do not expect the tariffs announced to take effect immediately, but they will likely go into effect within several weeks. China is expected to announce tariffs on \$60 billion US goods in retaliation, and there are also reports that Chinese officials are considering instituting “export restraints” against the US if it moves forward with this next round of tariffs, essentially preventing Chinese companies from selling materials, equipment, and other goods that are needed by US companies.

US Treasury Secretary Steven Mnuchin and China’s Vice Premier Liu He were close to scheduling a meeting on September 27th and 28th in Washington, DC, in an attempt to reinstate high level dialogue and avoid an all out trade war. **Chinese officials had hoped that Trump’s threatened tariffs would not be announced until after the meetings scheduled for next week, and are now threatening to cancel the trip if Trump goes through with his decision to impose tariffs.**

However, that is exactly what the nationalists in the administration -- particularly US Trade Representative Robert Lighthizer and Trump’s trade whisperer Peter Navarro -- hope will happen. These advisers believe that Mnuchin will not bargain hard for economic structural changes to the Chinese economy, and that the Chinese need to be forced to feel more pain before they are willing to give in to such demands.

**With the nationalist and globalist camps within the administration continuing to feud, Trump appears inclined to side with the nationalists, reportedly believing that announcing tariffs before Vice Premier Liu’s visit will show that the US will not give in on its demands.** When the meetings were originally reported in the *Wall Street Journal* last week, Trump tweeted in response, “The Wall Street Journal has it wrong, we are under no pressure to make a deal with China, they are under pressure to make a deal with us. Our markets are surging, theirs are collapsing. We will soon be taking in Billions in Tariffs & making products at home. If

we meet, we meet?" While there is always the possibility of changes to the expected announcement, any deviations from the latest media reports are likely to be more protectionist, not less.

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**FTC CONTINUES ANTITRUST RETHINK:** The Federal Trade Commission (FTC) will hold its [second hearing on Friday](#) to examine the state of US antitrust law, mergers, and whether competition law should take into account public policy concerns aside from price and consumer choice. The discussion will also focus on whether the consumer welfare standard is adequate to deal with the competitive challenges of the new economy, and, if not, whether a new standard or standards should be considered.

So far, FTC Chairman Joseph Simons has been quite receptive to the concerns raised by some that the current approach to antitrust is not capable of policing the new digital economy. "The broad antitrust consensus that has existed within the antitrust community, in relatively stable form for the last 25 years, is being challenged," Simons said during last week's hearing. "I approach all these issues with a very open mind, very much willing to be influenced by what we see and hear at these hearings." **As such, we believe these hearings could eventually lead to adjustments in the FTC's approach to competition and consumer protection enforcement. The hearing series could also possibly spur Congress to act legislatively in the event that the FTC finds it needs more powers.** However, we do not think the FTC will target big tech companies just on the basis of their size. Without giving specific company names, Simons recently said, "They produce terrific products and one of the reasons that at least some of them are so big is that they do it well and are meeting consumer demand. We don't want to attack people because they're big and successful."

This point was conveyed a number of times during last week's hearings. In addition, panelists stressed the importance that antitrust regulators avoid making decisions based on politics. "And on process, I would caution against injecting politics into antitrust enforcement," said Jonathan Baker, a former chief economist at the Federal Communications Commission.

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**OPIOID LEGISLATION COULD BENEFIT FOR-PROFIT ADDICTION TREATMENT PROVIDERS:** After weeks of back-and-forth and often contentious negotiations as well as a weather-related delay from Hurricane Florence, the Senate is now ready for a long-awaited floor vote later today on its opioid crisis legislation. The last outstanding issues that needed resolution, including grants that could benefit advocacy groups funded by the drug industry trade association, PhRMA, have been addressed. Thus, we expect that the overall bill will pass easily with broad bipartisan support.

The Senate bill currently does not have even a partial repeal of the institutions of mental disease (IMD) exclusion, which, we believe is the most important part of any new law. A repeal of the IMD exclusion either broadly or only for opioid addiction would allow federal dollars to be used for widespread in-patient drug treatment via the Medicaid program, which is the fastest way to reach the largest number of people. Under the current exclusion, **Medicaid can only pay for such treatment in settings with fewer than 16 beds, effectively creating limits on treatment accessibility as well as profits for companies such as Universal Health Services, Inc. (UHS), Acadia Healthcare Company, Inc. (ACHC), Universal Health Realty Income Trust (UHT), and AAC Holdings, Inc. (AAC).**

**The House-passed bill includes a partial IMD exclusion repeal for opioids and we expect that the lower chamber will fight hard to maintain it in the final version of the bill that will be sent to President Trump.** As much as other elements of the respective bills are positive, we believe it is this one that will have the chance to make the greatest difference for those already addicted to opioids.

Since the money would flow through an existing program, it would begin being allocated nearly as soon as the president could sign the bill into law and states choose to begin offering such a change in coverage. **This rapid implementation period is also of note for investors, as often changes in demand or new public policies are implemented over a year or longer — we do not expect this to be the case for any IMD exclusion repeal as politicians want to point to its success well in advance of the 2020 elections.**

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**HOUSE OUT CAMPAIGNING AS GOP FACES GROWING HEADWINDS:** After only two days in session last week after returning from August recess, the House is again not in session this week as most representatives hit the campaign trail ahead of the November 6th midterm elections. **While Democrats were seen as the nominal favorites to win the 23 seats necessary to take over the House majority, their advantage has only increased in recent weeks.** Democrats hold an 8.9 point lead in the congressional generic ballot, which is well above the 5.5 point advantage [FiveThirtyEight estimates](#). Democrats need to be favored for winning the House. As such, FiveThirtyEight currently gives Democrats an 83.1 percent chance of winning the House.

Midterm elections are always a referendum on the president and party in power, and with Republicans in control of the White House and Congress, they were in a position to face headwinds, given that the party in power historically loses seats. But there were thoughts that the strong topline economic growth numbers, the low unemployment rate, and the natural districting advantage Republicans have would make the GOP strong contenders to keep control of the House, albeit with a smaller ruling majority.

**Despite the hope from Republican congressional leaders to run on the economy, GOP incumbents are having difficulties delivering a message that will break through to the electorate.** The [New York Times reported](#) that America First Action, a pro-Trump political committee, found in focus groups that Republicans have a "severe voter-turnout problem," as many are complacent around the economy and the threat that Democrats could actually win the House majority. As such, Republicans are seeking to bolster their base of voters by turning away from the economy and focusing on the threat of a potential Democratic takeover to President Trump and the Republican cultural agenda (e.g., immigration).

**But such a messaging campaign by the Republicans is dwarfed by the anti-Trump enthusiasm Democratic and many Independent voters have this election cycle.** Already an unpopular president, Trump's approval ratings have only dropped in recent weeks to 40.2 percent, according to the latest [FiveThirtyEight presidential approval tracker](#). And it's the intensity of such disapproval that is driving voters to the ballot box: a [Quinnipiac University poll this month](#) showed that while 27 percent of voters strongly approve of Trump's performance, 48 percent strongly disapprove. A [Quinnipiac University poll](#) also revealed that 58 percent of voters believe Congress should be more of a check on the president, while only 27 percent believe Congress is doing enough. This is likely particularly relevant in the 25 GOP seats that voted for Hillary Clinton in 2016, as well as several seats where Trump's approval ratings have gone below water since the election.

**There are also several competitive House seats in historically safe Republican districts, as the House GOP brand is not popular and Democrats have recruited top-tier challengers.** Given such a wide breadth of pickup opportunities, Democrats are making sure their message is more inclusive and less Trump-specific. Democratic Congressional Campaign Committee (DCCC) Chair Ben Ray Luján (D-NM) last week emphasized that their messaging is specifically omitting the president, saying, "Our candidates don't have to talk about him, because he's going to talk about himself for us. He'll remind the American people of every investigation he's involved with, of every disgusting tweet that is out there, of all the positions the Trump administration has taken." In lieu of directly talking about Trump or impeachment, Democrats are honing their message around healthcare and a Republican "culture of corruption." Additionally, several Democratic candidates have openly disavowed supporting national Democrats, particularly House Minority Leader Nancy Pelosi (D-CA), giving them some independence and separation in conservative districts. **While we believe this is more campaign rhetoric than a serious challenge to Pelosi's position atop leadership in the near term, this localized messaging, along with national anti-Republican and anti-Trump currents, creates a large electoral map for Democratic pickup opportunities.**

## House

The House is not in session this week. The chamber will return Tuesday, September 25th.

## **Senate**

Today, the Senate will convene at 2:00 p.m. and will begin consideration of the Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act and the Patient Right to Know Drug Prices Act. At 5:30 p.m., the Senate will vote in relation to both bills.

## **White House**

Today at 11:00 a.m., President Trump receive an emergency preparedness and response update. At 11:30 a.m., the president will receive his daily intelligence briefing. At 12:45 p.m., he will have lunch with Vice President Pence. At 2:15 p.m., Trump will hold the inaugural meeting of the President's National Council for the American Worker. At 5:00 p.m., the president will participate in a Hispanic Heritage Month celebration. At 7:15 p.m., he will later attend a fundraising dinner with supporters.

On Tuesday, President Trump will host Polish President Andrzej Duda at the White House.

On Thursday, President Trump will attend a political rally in Las Vegas, NV.

## **Macroeconomic**

On Thursday at 6:00 p.m., the National Economists Club will hold a discussion titled "Globalization in Reverse: What the Return of Borders Means for Business Leaders and Policy Makers."

## **Antitrust**

On Friday at 9:00 a.m., the Federal Trade Commission will hold the second session of its hearings titled "Competition and Consumer Protection in the 21st Century."  
[More information here.](#)

## **Defense**

On Tuesday at 10:00 a.m., the Center for Strategic and International Studies will hold a media briefing titled "Analysis of the FY2019 Defense Budget."

## **Energy**

On Thursday at 10:00 a.m., the Senate Energy and Natural Resources Committee will hold a hearing titled "The Process of Returning Energy to the Power Grid after System-Wide Blackout."

## **Financial Services**

Today at 8:15 a.m., the Bureau of Consumer Financial Protection will hold a day-long symposium titled "Building a Bridge to Credit Visibility." This event will explore challenges many consumers face in accessing credit. Sessions also will highlight strategies and innovations to overcome barriers and expand consumer credit access. [More information here.](#)

On Tuesday at 10:00 a.m., the Senate Banking, Housing and Urban Affairs Committee will hold a hearing titled "Fintech: Examining Digitization, Data, and Technology."

On Tuesday at 12:30 p.m., Commissioner of the US Commodity Future Trading Commission Brian Quintenz will give a keynote address at ICDA 39th Annual European Summit. [More information here.](#)

On Wednesday at 10:00 a.m., Securities and Exchange Commission (SEC) Commissioner Robert Jackson Jr. will participate in George Mason University and the Healthy Markets Association's event titled "Rethinking Exchange Regulation." [More information here.](#)

On Thursday at 6:00 p.m., the SEC will hold an investor roundtable to discuss the commission's recently proposed rules regarding the obligations of financial professionals to investors. Commissioners Kara Stein and Robert Jackson are expected to join Chairman Jay Clayton and senior SEC staff at this event. [More information here.](#)

On Friday at 9:10 a.m., the SEC and New York University will hold a discussion titled "Dialogue on Securities Market Regulation: High-Frequency Trading and Liquidity Resiliency." [More information here.](#)

On Friday at 11:05 a.m., SEC Commissioner Hester Pierce will give the keynote address at California State University Fullerton, Center for Corporate Reporting and Governance's 17th Annual SEC "Hot Topics" Conference.

## **Geopolitical**

Today at 2:00 p.m., the Brookings Institution will hold a discussion titled "Japan in Asia: Economic Diplomacy in the New Geopolitics."

On Wednesday at 2:00 p.m., the Henry L. Stimson Center will hold a discussion titled "Post-Election Priorities for Japan and the United States." [More information here.](#)

On Thursday at 9:30 a.m., New America will hold a discussion titled "China, America, and the New Competitive Space." Expected participants include:

- Randy Schriver, assistant secretary, Asian and Pacific Security Affairs at Department of Defense

## **Healthcare**

Today at 12:00 p.m., the Centers for Medicare and Medicaid Services will hold an event followed by media availability on the Trump administration's "efforts to reform the healthcare system by reducing burden and focusing on patient care." Expected participants include:

- Seema Verma, administrator, Centers for Medicare and Medicaid Services

Today at 2:30 p.m., the Centers for Medicare and Medicaid Services will hold a background conference call on the Trump administration's "efforts to reform the healthcare system by reducing burden and focusing on patient care."

On Tuesday at 10:00 a.m., the Senate Health, Education, Labor and Pensions Committee will hold a hearing titled "Reducing Health Care Costs: Examining How Transparency Can Lower Spending and Empower Patients."

On Tuesday at 12:00 p.m., Families USA will hold a media conference call briefing titled "What's at Stake for Medicaid in 2018 Elections." [More information here.](#)

On Thursday at 9:00 a.m., the Food and Drug Administration will hold a meeting titled "Expanding Access to Effective Treatment for Opioid Use Disorder: Provider Perspectives on Reducing Barriers to Evidence-Based Care." [More information here.](#)

## **Judicial**

Today at 1:00 p.m., the American Bar Association will hold a webinar titled "On the Docket: Previewing the 2018 Supreme Court Term." [More information here.](#)

On Tuesday at 12:00 p.m., the Heritage Foundation will hold a discussion titled "Supreme Court Preview of the 2018 Term." [More information here.](#)

On Tuesday at 12:30 p.m., the Washington Legal Foundation will hold a briefing titled "The U.S. Supreme Court: October Term 2018 Preview." [More information here.](#)

## **Political**

Today at 9:30 a.m., Attorney General Jeff Sessions will deliver remarks at a forum titled on "Free Speech in Higher Education" at the Department of Justice.

On Tuesday at 2:30 p.m., the Harkin Institute for Public Policy and Citizen Engagement and the Cook Political Report will hold a discussion titled "Drawn Out: How Iowa Got Redistricting Right."

On Tuesday at 2:45 p.m., the American Enterprise Institute will hold a discussion titled "Special Counsels and the Presidency: A Conversation with Ken Starr on the Role of the Constitution and the Ongoing Mueller Investigation."

## **Tax**

On Thursday at 12:30 p.m., the Tax Policy Center will host a discussion titled "Costs and Benefits of Tax Regulations: Exploring Treasury's and OMB's New Responsibilities." [More information here.](#)

## **Tech-Media-Telecom**

Today at 10:00 a.m., the American Enterprise Institute will hold a discussion on "Clearing Obstacles to America's 5G Wireless Future." Expected participants include:

- Brendan Carr, commissioner, Federal Communications Commission

On Wednesday at 2:00 p.m., the Commerce Department's National Telecommunications and Information Administration will hold a webinar to engage the public and stakeholders with information to accelerate broadband connectivity, improve digital inclusion, and strengthen policies and support local priorities, as part of the Broadband USA Program. [More information here.](#)

On Thursday at 8:00 a.m., *Politico* will host a discussion titled "The New Age of Innovation: The State of Play in 5G in the U.S." Expected participants include:

- Brendan Carr, commissioner, Federal Communications Commission
- Shireen Santosham, chief innovation officer, San Jose, CA
- Sandra Rivera, senior vice president and general manager, Intel Corporation Network Platforms Group

On Thursday at 9:30 p.m., the Bipartisan Policy Center will hold a discussion titled "Social Media in the 2018 Campaign." [More information here.](#) Expected participants include:

- Katie Harbath, global politics and government outreach director, Facebook
- Tara McGowan, co-founder and CEO, Acronym
- Nate Persily, professor, Stanford Law School
- Tad Rupp, partner, Targeted Victory

On Thursday at 12:30 p.m., the Federal Communications Commission will hold a meeting of its Technological Advisory Council.

## Trade

Today at 9:00 a.m., the Peterson Institute for International Economics will hold a conference titled "Sino-U.S. Economic and Trade Relations in the Global Economy." Expected participants include:

- Jack Lew, former secretary, Department of Treasury

Today at 10:00 a.m., the Center for Strategic and International Studies will hold a discussion titled "A Conversation with Six Former USTRs." [More information here.](#)

On Tuesday at 9:00 a.m., the Washington International Trade Association will hold a discussion titled "National Security & International Trade: Investment, Sanctions and the Future of Export Controls." [More information here.](#)

On Tuesday at 9:30 a.m., the US International Trade Commission will hold a meeting to determine whether an industry in the US is materially injured or threatened with material injury, or the establishment of an industry in the US is materially retarded, by reason of imports of sodium gluconate, gluconic acid, and derivative products from China,

On Tuesday at 10:00 a.m., the US-China Business Council holds a discussion on the US-China commercial relationship. [More information here.](#)

On Wednesday at 11:00 a.m., the Heritage Foundation will hold a discussion titled "Brexit at the Crossroads: Why US Support for a Far-Reaching Agreement Is Vital." [More information here.](#)

On Friday at 11:00 a.m., the US International Trade Commission will hold a meeting to vote on a trade review case involving steel trailer wheels from China.



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