

MORNING COLOR

February 4, 2025

Today's Driving Events

- **Trump's Real Tariff Threats Still Lurk:** For as much attention as President Trump's threatened tariffs on Canada and Mexico have garnered over the last few days, these duties were never likely to last long if enacted. However, tariffs intended to be permanent and not just leverage, particularly the president's planning for a universal baseline tariff, are still coming. [Read more here.](#)
- **Shutdown Risk Rising:** Frustration among Democrats over a lack of a forceful response to President Trump and the GOP's aggressive policy offensive could raise the risk of a government shutdown next month as congressional Democratic leadership looks for a way to rally their rank-and-file members. [Read more here.](#)
- **The Dawn of the US Super App:** A more permissible regulatory environment under the Trump administration could open the doors for Elon Musk to convert his social media platform, X, into an "everything app." [Read more here.](#)

Trump's Trade War Postponed (for Now): The first new tariffs of President Trump's second term took effect earlier this morning, but in a late twist yesterday, the duties imposed against Mexico and Canada were delayed for 30 days. However, Trump did not reach similar agreements with Chinese leadership, and the 10 percent duties took effect on all imports. **In our view, these tariff threats against Mexico and Canada were always intended as sources of leverage to force perceived concessions on which Trump could declare victories. These were not tariffs that Trump planned to keep in place for the long term, and we expect resolutions to the threats by the end of the extension.** Trump valued pushing these threats to the brink to underscore the seriousness of his threats and show that he is not just bluffing. Doing so is essential to maintain the credibility of his tariff threats and ensure they remain valuable sources of leverage. However, **what is critical to remember about Trump's tariffs is that not all of them will be intended as sources of leverage; some will be designed to be put in place for the long term and serve as revenue raisers** that can be argued to offset the

deficit impact of the budget reconciliation bill Republicans will pass. **The best way to distinguish whether one of Trump's proposals falls in the leverage camp or is intended to be imposed long-term often comes down to the purpose of the tariffs.** In the case of leverage tariffs, the threat will usually be tied to a more narrow objective, and relief will simply require Trump to feel that he has sufficiently achieved the goal such that he can claim a win publicly. However, the duties that will be imposed and intended to remain in place will be motivated by more strategic goals, such as reshoring specific strategic industries, reducing trade deficits, or, especially in the case of China, pursuing a strategic decoupling between the world's two largest economies — which is why the 10 percent tariff imposed on China is likely only an opening salvo. **The most prominent tariff though we see being imposed and falling into this category of long-term measures is Trump's plan for a universal baseline tariff.** Trump has not specified when this duty could be enacted, but it will likely come at some point this spring and not start at less than five percent, with a plan to incrementally rise to as high as 10 or 20 percent. **Other tariffs that likely fall in this category of new duties that Trump may impose and intend to remain in place include tariffs on strategic goods such as steel, aluminum, semiconductors, pharmaceuticals, and oil and gas.** Trump [said on Friday](#) that the new duties on oil and gas could come as soon as February 18th and that tariffs on steel and aluminum would likely follow later in February or March. Steel and aluminum imports are still covered by Trump's first-term tariffs of 25 and 10 percent, respectively. However, the new round of duties could see Trump increase these rates and potentially revoke some of the current exemptions. Oil and gas tariffs would likely be set at 10 percent, as was the threat in the case of the tariffs on Canada and Mexico and the ones imposed on China. **These tariffs, which are intended to be permanent rather than a source of negotiating leverage, will be more difficult for Trump to simply reverse. Nevertheless, there are still likely to be avenues for relief through exclusion processes and exemptions.** However, there is uncertainty over how much of those processes may begin before the tariffs take effect or if Trump's advisors who favor a more targeted and incremental approach to tariffs will need to wait until they see whether those tariffs will trigger a sufficient adverse equities market reaction to provide an opportunity to convince Trump to institute a liberal exemptions process after the tariffs are imposed. We believe an important governor on the boundaries to which Trump is willing to push his tariffs is his sensitivity to the equities markets indices, which he views as a key gauge of his performance. However, after announcing the tariffs on Canada, Mexico, and China, his remarks indicated that he is willing to accept periods of "pain." **The question is just where is Trump's pain threshold on each of these issues, as it will likely vary depending on how committed he is to the plans and how far he feels a need to push to be able to declare victory in the case of the tariffs he uses for negotiating leverage.** Others around Trump, such as Treasury Secretary Scott Bessent, appear more market-sensitive than Trump, particularly, in the case of Bessent, since his primary responsibility is to make investors comfortable with Trump's economic policies. Still, the reality is that Trump will have the final say, and the focus of any efforts to mitigate his policies is not about stopping Trump but rather reducing the shock factor for investors. **We will**

publish a Spotlight Report later today that will provide a more in-depth analysis of Trump's tariff plans, including a deeper discussion of the different policy and market implications of tariffs intended to be used as leverage and those intended to remain in effect indefinitely.

Democrats in Array?: Politico reported late last month that FY25 spending talks between top Democratic and Republican appropriators were [underway](#), but bipartisan negotiations could break down in the wake of President Trump's eventful first few weeks. **Frustrations among Democrats over a lack of a forceful response to Trump and the GOP's aggressive policy offensive could endanger bipartisan cooperation on spending.** In a "Dear Colleague" letter [released](#) yesterday, House Minority Leader Hakeem Jeffries (D-NY) drew a line in the sand, suggesting that FY25 spending bills will need to include language to prevent Trump from freezing federal spending as the White House sought to do last week. "I have made clear to House Republican leadership that any effort to steal taxpayer money from the American people [...] must be choked off in the upcoming government funding bill," he wrote. The Trump White House has indicated that it believes congressional restrictions on budget impoundment to be unconstitutional, so regardless of what Congress may do, the issue is likely to wind up before the Supreme Court. **The energy of the 2017 "Resistance" that opposed Trump from the beginning of his first presidency has been largely absent among elected Democrats this time, angering many rank-and-file members of the party who desire more forceful pushback against the White House.** Trump's unprecedented moves to reshape the federal government as his second term begins, often under questionable legal authority, have alienated Democrats and his funding freeze provided an initial rallying point for Democrats relegated to the political wilderness after last year's election. Pressure from the base could make compromise in Congress challenging. In the minority in both chambers, Democrats have little leverage except via the appropriations process, which must be bipartisan, and in messaging, which has been a weak point for the party. Unlike the GOP, Democrats traditionally don't threaten government shutdowns as a political tactic, but this time could be different. While past shutdowns have not exactly been messaging successes, lawmakers also haven't paid a price at the polls. **If rank-and-file Democrats are spoiling for a fight with Trump, it could be difficult for Jeffries and other Democratic leaders to back down before the March 14th funding deadline, raising the risk of a shutdown. The current political environment could also make it harder to reach a FY25 topline spending deal.** In remarks to Punchbowl News, Senate Appropriations Committee Vice Chair Patty Murray (D-WA) indicated that Trump's moves to challenge the limits of executive power as an impediment to a funding deal before current funding runs out on March 14th. "Democrats are, as always, committed to responsibly funding the government, but it is extremely difficult to reach an agreement on topline — much less full-year spending bills — when the president is illegally blocking vast chunks of approved funding, when he is trying to unilaterally shutter critical agencies, and when an unelected billionaire is empowered to force his way into our government's central,

highly-sensitive payments system,” she [said](#). **As a result, yet another short-term continuing resolution may be required before a final deal on FY25 spending can be reached, if one is reached at all. Ultimately, a more drawn out fight over funding the government creates another conflict distracting Republicans from pursuing their reconciliation agenda, potentially extending the duration of that process as well.**

Everything Elon Everywhere All At Once: Last week, Elon Musk’s X took its most significant step yet toward Musk’s long-promised goal of turning the social media platform into an “everything app.” On Tuesday, X CEO Linda Yaccarino [announced](#) that the social media company will partner with **Visa (V)** to offer X users peer-to-peer payment options and allow users to make transfers to their bank accounts from X. Musk has previously [suggested](#) that X could eventually branch into banking, food delivery, video, audio, and other services, making it the US equivalent of China’s **WeChat**. Yaccarino’s announcement came only days before President Trump’s **Trump Media and Technology Group (DJT)**, best known for its Truth Social media company, [announced](#) its own plans to move into the fintech space. **The pivot of social media companies, and Big Tech more generally, into the payments space has long received skepticism from Washington, but the more permissible regulatory environment ushered in by the Trump administration could improve the prospects of Big Tech’s super app dreams becoming a reality. Trump’s own companies’ shift to fintech services could help further grease the regulatory wheels.** For social media companies, and X in particular, moving into the payments space is among the lighter lifts on the road to becoming an everything app, at least as far as regulatory scrutiny goes. Prior to the announcement, X had already obtained money transmitter [licenses](#) in 39 states, a necessary prerequisite to transferring funds across state lines. X has also already [filed](#) required paperwork with the Treasury Department’s Financial Crimes Enforcement Network. Even with a handful of licenses missing in certain states, the New York Times [reports](#) that X can implement the recently announced peer-to-peer payment features without obtaining the outstanding licenses because the new payment features will operate on Visa’s existing payment rails. **Where Musk’s efforts, and those of Big Tech companies’, could see a bigger boost is on the banking side.** As Barron’s [reported](#) last year, most Big Tech companies are wary of moving into the banking space for fear of the federal regulatory scrutiny that comes with it. So far, only **Apple (AAPL)** has strayed ever so slightly closer to offering banking services with its credit card and savings account offerings through its partnership with **Goldman Sachs (GS)**. A more permissive environment around fintechs could change that. **As Barron’s notes, one option for companies like X would be to file as an industrial loan company (ILC), a state-issued charter that requires approval from the Federal Deposit Insurance Corporation (FDIC).** Former President Biden’s prudential regulators were wary of novel charters such as the ILC, but Banking Dive [notes](#) that incoming Trump administration regulators will likely take a more permissive approach to ILCs and could even go as far as to revive a first-term effort to establish a special fintech-charter.

Notably, Trump's FDIC [approved](#) ILCs for **Block (XYZ)** and **Nelnet (NNI)** in March of 2020. **General Motors (GM)**, which filed for and later withdrew its application for an ILC under the Biden administration, [announced](#) yesterday that it had resubmitted the paperwork for FDIC approval. **Relatedly, federal privacy concerns around social media companies' collection of consumer financial data likely won't abate, but the effort to regulate on that front was largely spearheaded by former Consumer Financial Protection Bureau (CFPB) Director Rohit Chopra. With Chopra removed and Treasury Secretary Scott Bessent in his place, the prospects for continued regulatory oversight in this area are significantly lower.** Chopra's larger market participant rule, which would allow the CFPB supervisory oversight of Big Tech's digital wallet arms, is tied up in a legal battle. We will need to learn the permanent replacement for Chopra before we can fully assess the fate of the rule outside of the pending court litigation, but it's clear that the Trump administration is much less eager to use novel interpretations of consumer finance law to regulate private companies. **Antitrust issues could ultimately crop up as one additional challenge, but for now, the issue is far off, and as we've previously written, Trump's Federal Trade Commission leadership is expected to be more willing to work with industry, even if some commissioners harbor skepticism of Big Tech companies.**

House

The House will reconvene at 2:00 p.m. and is expected to consider measures under expedited procedures.

Senate

The Senate will reconvene at 11:00 a.m. and will resume consideration of the nomination of Pamela Bondi to be attorney general. At 12:15 p.m., the chamber will hold a final confirmation vote on Doug Collins' nomination to be secretary of Veterans Affairs. The Senate will then recess until 2:15 p.m. for respective weekly caucus policy lunches.

White House

President Trump will sign executive orders at 2:00 p.m. At 4:00 p.m., the president will meet with Israeli Prime Minister Benjamin Netanyahu at the White House. At 5:10 p.m., Trump will hold a press conference with Netanyahu. At 5:40 p.m., the president will host Netanyahu for dinner.

Macroeconomic

At 7:30 p.m., Federal Reserve Board Vice Chair Philip Jefferson will address Lafayette

College.

Antitrust and Consumer Protection

At 1:00 p.m., the American Bar Association will hold a virtual discussion on the antitrust agenda of Rep. Scott Fitzgerald (R-WI) who was recently named chairman of the House Judiciary Committee Subcommittee on Administrative, Regulatory Reform, and Antitrust. [More information here](#). Expected participants include:

- Thomas Blanford, legislative director for Rep. Fitzgerald

Cybersecurity

At 12:00 p.m., the Washington Space Business Roundtable will hold a discussion titled “New Year, New Look at Space Cyber Security Issues.” [More information here](#).

Defense

At 2:00 p.m., the Senate Select Committee on Intelligence will hold a closed hearing to vote on the nomination of Tulsi Gabbard to be the director of national intelligence.

Energy, Environment, and Natural Resources

At 10:00 a.m., Inter-American Dialogue will hold a virtual discussion titled “Frontiers of the Energy Transition.” [More information here](#).

At 10:00 a.m., the Atlantic Council will hold a discussion titled “U.S.-Canada Energy Cooperation.” [More information here](#).

Financial Services

At 2:30 p.m., White House AI and Crypto Czar David Sacks, Senate Banking Committee Chair Tim Scott (R-SC), Senate Agriculture Committee Chair John Boozman (R-AR), House Financial Services Committee Chair French Hill (R-AR), and House Agriculture Committee Chair G.T. Thompson (R-PA) will host a press conference to discuss how the Trump administration and Congress will work together to secure the US as a leader in the digital asset ecosystem. [More information here](#).

Geopolitical

At 8:30 a.m., the Center for Global Development will hold a virtual discussion titled “Official Development Assistance at a Crossroads: Pathways to Reform.” [More information here.](#)

At 9:00 a.m., the Wilson Center’s Mexico Institute will hold a virtual discussion on a new report titled “Ten Political Risks for Mexico in 2025.” [More information here.](#)

At 9:00 a.m., the Carnegie Endowment for International Peace will hold a virtual discussion titled “Standoff at the Border: Rebuilding the India-China Relationship.” [More information here.](#)

At 11:00 a.m., the Center for Strategic and International Studies will hold a virtual discussion titled “North Korean Troops in Russia: Comrades in Arms or Cannon Fodder?” [More information here.](#)

At 12:00 p.m., the Quincy Institute for Responsible Statecraft will hold a virtual discussion titled “Europe and the Trump Administration.” [More information here.](#)

At 5:00 p.m., the Asia Society Policy Institute will hold a discussion titled “A New Era for US-Japan Economic Cooperation: Opportunities and Challenges Under New Leaders.” [More information here.](#)

Healthcare

At 10:00 a.m., the Senate Finance Committee will hold a markup to vote on the nomination of Robert F. Kennedy, Jr. to be secretary of Health and Human Services.

At 2:00 p.m., Justice in Aging will hold a virtual discussion titled “Protecting Medicaid for Older Adults: What’s at Risk and What Advocates Can Do.” [More information here.](#)

At 4:00 p.m., the House Rules Committee will meet to formulate a rule on the “Halt All Lethal Trafficking of Fentanyl Act.”

Housing

At 2:00 p.m., the Urban Institute will hold a forum titled “Manufactured for the Future: Building a Climate-Resilient Manufactured Housing Stock.” [More information here.](#)

Immigration

At 2:30 p.m., the Federalist Society for Law and Public Policy Studies will hold a virtual discussion titled “What’s Next for Birthright Citizenship?” [More information here.](#)

Judicial

At 10:30 a.m., the Senate Judiciary Committee will hold a hearing titled “The Poisoning of America: Fentanyl, its Analogues, and the Need for Permanent Class Scheduling.”

Labor

At 1:00 p.m., the Bipartisan Policy Center will hold a summit titled “America’s Workforce: Creating a Blueprint for the Future.” [More information here.](#) Expected participants include:

- Rep. Tim Walberg (R-MI)

Tech-Media-Telecom

At 9:15 a.m., the Institute for Trustworthy AI in Law and Society will continue their conference titled “AI at work: Building and Evaluating Trust.” [More information here.](#)

At 11:00 a.m., the Government Executive Media Group will hold a virtual discussion titled “AI Services to Citizens.” [More information here.](#)

At 12:00 p.m., the Washington Space Business Roundtable will hold a discussion titled “New Year, New Look at Space Cyber Security Issues.” [More information here.](#) Expected participants include:

- Dianne Poster, senior adviser, National Institute of Standards and Technology



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