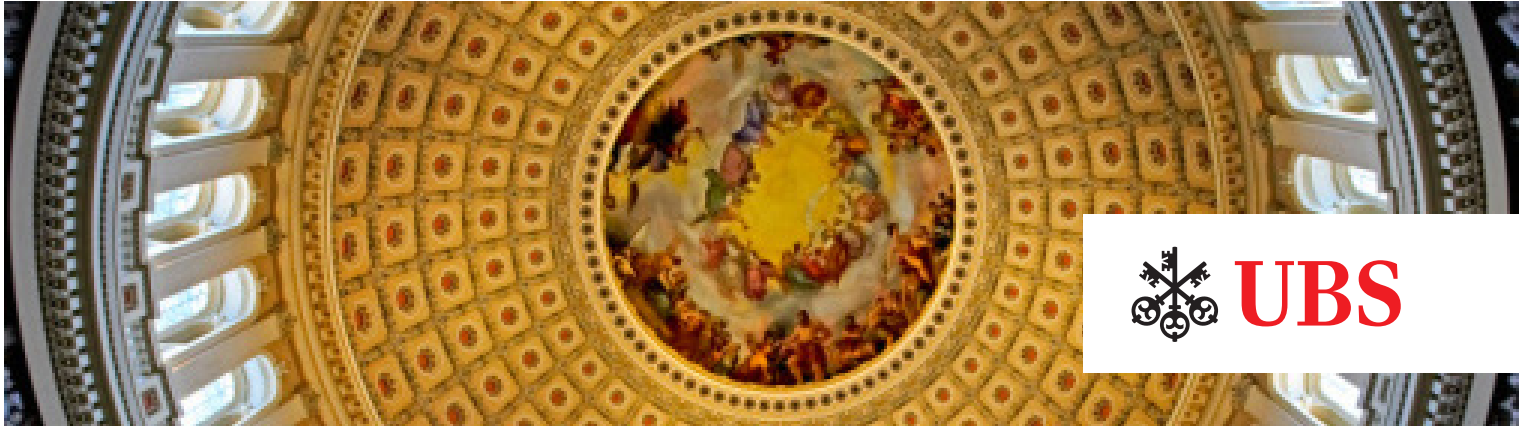


Special Washington Update

What to Expect From Washington in 2026

9 January 2026



President Trump came to office last year with Republicans controlling all the levers of power in Washington, albeit with narrow majorities in both the House and Senate. It was an eventful and tumultuous year punctuated by aggressive executive actions by the Trump administration rather than major legislative milestones (with the exception of the Republican tax bill, dubbed the One Big Beautiful Bill, which passed on a party-line basis through the reconciliation process).

With the calendar turning to 2026, we are now entering midterm election season. Members of Congress will spend more time in their districts and states campaigning for re-election, particularly during and after the summer. Given that, the window for legislating will be small and there will be a rush to tackle priority issues early in the year (particularly in the first quarter). With these election-year dynamics and the slim majorities in both the House and Senate, the prospects this year for significant legislative achievements beyond government funding and other must-pass bills are dim.

Below are our thoughts on the issues and developments that will occupy Washington policymakers' attention this year.

Government Funding. Congress came back to Washington this week with significant unfinished business, particularly on government funding. Coming off the largest government shutdown in history late last year, it needs to pass the remaining nine of 12 government funding bills for fiscal year 2026 by January 30 in order

to avert yet another shutdown. Congress passed the first three bills (Legislative Branch, Military Construction-Veterans Affairs and Agriculture) in November as part of a compromise to end the shutdown. The House this week passed a package of three more spending bills (Energy-Water, Interior-Environment, and Commerce-Justice-Science). The Senate will vote on that package as soon as next week. Passage of these three bills provides some momentum for lawmakers to finish their work. However, the remaining six bills, which include Defense, Labor-Health-Education and Homeland Security, are the most contentious. They also are important since they make up nearly 70% of all federal discretionary spending. Congress has only three weeks to reconcile key differences and pass the remaining bills. *Congress may need to extend current funding for the remaining government agencies through another continuing resolution (that could be a short-term extension to buy some more time or an extension through the end of the fiscal year).*

Health Care. While back at home, many lawmakers heard from constituents about expiring Affordable Care Act (ACA) subsidies. Last month, House Democrats received support from four Republicans to force a vote on renewing the (now expired) ACA subsidies for three years. The House passed that bill in a 230-196 vote, with 17 Republicans joining Democrats. However, the bill's prospects are not good in the Senate, which voted down similar measures last month. With Republican leadership showing little interest in having another vote on a simple extension, a bipartisan group of senators have been working on finding an alternative. That could combine a

short-term extension with income caps and a minimum premium requirement. There are major obstacles. One is timing given that open enrollment for ACA plans ends January 15. Also complicating matters is Republicans' desire to expand the Hyde amendment, which prohibits the use of federal dollars from being used for abortion. In a meeting with Republicans this week, President Trump urged Republicans to be flexible on the issue, though many Republicans disagree. Meanwhile, Democrats are staunchly opposed to any Hyde amendment expansion. *While bipartisan discussions continue, there seems like little chance of a breakthrough.*

Foreign Policy. The Trump administration last year had a more assertive and active agenda on foreign policy than many expected. There was a wide breadth of activity, but key areas of focus included trade, relations with China, diplomacy in the Middle East and efforts to end Russia's war in Ukraine. Late last year, the Trump administration issued a national security report that called for the US to pursue national interests (particularly military and economic strength) while mostly avoiding foreign military entanglements. The report breaks from a longstanding US worldview that positioned the US as an indispensable leader in promoting an international order built around security and economic ties with allies (particularly other democracies), multilateral institutions and international rules. *Seeing a global order where regional powers (including the US) can and will exercise power in their respective spheres of influence, the Trump administration this past week has put its national security strategy into practice and set the tone for another active year with its military action in Venezuela, renewed calls for acquiring Greenland, and withdrawal of the US from dozens of international organizations.*

– **Venezuela.** The Trump administration's actions to capture Venezuelan President Nicolas Maduro quickly became a key preoccupation of Congress. Reactions have fallen mainly along party lines, with most Republicans publicly supporting the President and virtually all Democrats decrying the actions. In addition to concerns about the legality of these actions, there are questions about the US's ongoing role in the country and in its oil sector (Venezuela has a degraded oil infrastructure that will require significant investment, but it also has the world's largest oil reserves). Following the military operation in Venezuela, the Trump administration has thrown out threats for future military action elsewhere in the world and has amped up talk of acquiring Greenland, which is an autonomous territory of NATO ally Denmark. While Republicans have largely brushed this off, there are some simmering concerns. Reflecting that, five Republicans joined all Senate Democrats in a procedural vote to advance a war powers resolution that would prohibit any new military

action in Venezuela without congressional authority. While the resolution is largely symbolic and likely won't pass the House, the vote shows some Republican concerns. Further war powers resolutions (Greenland, Cuba, and others) could follow. *Beyond the immediate questions about Venezuela and any further US actions in the western hemisphere, a big geopolitical question on the horizon concerns the degree to which other regional powers, including traditional US adversaries, will see the US's actions and its overall national security doctrine as a green light to assert their interests and prerogatives in their spheres of influence.*

- **China.** US-China relations last year had a roller-coaster ride, with tensions ebbing and flowing and with cumulative tariffs on goods from China briefly reaching over 160%. They ended on a stable note as the Trump administration worked with urgency last fall to deescalate another brewing trade fight. Those efforts yielded a détente (nominally a one-year reprieve) between the two countries. This year will be punctuated by planned visits between President Trump and President Xi (a visit to China in April and potentially a state visit in the US later in the year). *Given China's dominance in the mining and processing of rare earth metals that are critical for many key technologies, the US will look to maintain the current truce, though there is plenty of risk of bumps in the road.*
- **Ukraine.** A peace deal to end the war in Ukraine continues to be elusive and a key objective of the Trump administration. President Trump has pushed Ukraine to make territorial and other concessions in the interest of having de-escalation with Russia. However, it has been Russia that has shown little interest in ending the war. *While there is a possibility of a breakthrough, the base case remains of quagmire on the battlefield and at the negotiating table.*

Trade Decisions. There will be many key milestones on trade this year. The biggest is the Supreme Court's decision on the Trump administration's use of emergency powers to apply broad-based "reciprocal" tariffs on US trading partners. The court returns next week and is expected to make its decision on an expedited basis. An adverse decision would be a big blow for the Trump administration's trade agenda. If that were to happen, the Trump administration likely would reimpose tariffs through other authorities. Using other broad-based authorities would allow them to keep many of the tariffs in place, but that would be subject to similar legal challenges and vulnerabilities. Alternatively, it could rely more on sectoral and other tariffs that rest on a stronger legal foundation, though the composition of that tariff regime (and the industries and trading partners it would impact) would be different and take time to implement. The administration's efforts on sectoral tariffs are ongoing no matter what the court decision is. It has investigations on establishing new tariffs in the coming months in areas such as semiconductors, pharmaceuticals, critical minerals and civilian aircraft. The US-Mexico-Canada trade agreement is up for review and renewal (by July 2026), and President Trump may use this

deadline as a means to extract concessions by renewing tariff and other threats on these neighbors and trading partners. *The upcoming Supreme Court decision will be the starting point rather than the end point for another active year on trade developments.*

Reconciliation 2.0? As mentioned, Republicans' main legislative achievement last year was the One Big Beautiful Bill. They advanced the bill through the process of reconciliation. The process allows changes to federal tax and spending policies to be considered on a more streamlined basis. The key advantage is only a majority is needed in the Senate instead of the 60-vote threshold applicable to most legislation. Some Republicans are interested in doing another reconciliation bill this year. A Republican plan on healthcare could be an anchor for such a bill, which also could include additional tax measures. President Trump has promoted the idea of using tariff revenue for some sort of stimulus check to Americans and that could be a candidate for inclusion in a reconciliation bill. However, beyond the legal questions regarding many of the tariffs, there are questions about the design of any such plan and concerns about its cost. *We are skeptical of any Reconciliation 2.0 effort moving forward, but we will be paying close attention to developments given that it can't be entirely ruled out.*

Crypto Bill. Digital assets policy will continue to be a major focus for Congress and the administration. Last year, Congress passed bipartisan legislation (called the GENIUS Act) that established a new regulatory framework for stablecoins (digital assets issued by private entities but backed by other assets including fiat currencies like the dollar). The House also passed a crypto market structure bill that would set rules for the trading of digital assets and delineate regulatory authority between the SEC (securities) and the CFTC (commodities). However, despite active bipartisan discussions over months, progress has been slower in the Senate. Market structure legislation is a more complex and contentious undertaking than the stablecoin bill. Differences remain on key issues, including rules around conflicts of interest, decentralized trading, and payment of interest on stablecoins. Senate Banking Chairman Tim Scott (R-SC) plans to move ahead with a mark-up next week, but that may only produce a party-line vote given the lingering differences on key issues. *With many unresolved issues and a ticking political clock before the midterm elections, efforts to pass a crypto market structure bill continue to face stiff headwinds.*

Fed Drama Continues. Last year, President Trump frequently criticized Federal Reserve Chairman Powell's

conduct of monetary policy and the cost of a renovation of the Fed's facilities. Despite frequent threats, he has refrained from attempting to fire Powell (there also are legal protections in place that would prevent Powell from being fired without cause). President Trump did take an unprecedented step last year in trying to fire Federal Reserve Governor Lisa Cook (on the grounds of alleged mortgage fraud). The attempted firing has been subject to litigation, with the Supreme Court scheduled to hear oral arguments on the case on January 21. In September, the Senate confirmed Stephen Miran (former head of the Council of Economic Advisors) to fill a temporary vacancy. The big upcoming development will be Trump's announcement of his choice to place Powell. That person will need Senate approval and won't take over until the end of Powell's term in May, but an announcement is expected in the coming weeks. *With ongoing concerns about the impact of attacks on the Fed's independence, this will be a closely watched transition process.*

Other Policy Issues. President Trump will deliver a **State of the Union** address on February 24, where he will make his pitch on the administration's policies ahead of the midterm elections. Congress faces an April 20 deadline to renew the contentious **Foreign Intelligence Surveillance Act (FISA)**. **Artificial intelligence (AI)** will remain a key interest in Washington but will be more the province of executive and regulatory action than legislative. The Trump administration issued a comprehensive action plan on AI last year and a recent order aimed at thwarting state-level regulation of AI. There are bipartisan efforts on different piecemeal measures to try to address the affordability of **housing** measures in both the Senate and House, but it remains to be seen whether there is sufficient time and inclination to work out differences between the different approaches. Trump recently weighed in with support for a ban on large institutional investors from buying single-family homes, but many Republicans are opposed. There also are a number of end of fiscal year deadlines that Congress will need to tackle. Lawmakers will try to garner momentum to reauthorize US **farm and food aid programs**, but they may need to punt again with an extension before current policies expire on September 30. Congress also will need to pass a five-year reauthorization of **highway and infrastructure** legislation by September 30. Lawmakers are looking to revive bipartisan negotiations around **permitting reform** for energy and infrastructure projects. The House has passed permitting bills, but discussions are stalled in Senate. The aforementioned transportation bill could be a vehicle for any permitting reform package. Congress also must reauthorize the **Export-Import Bank** by

September 30. The Senate will continue to pass Trump's nominees throughout the year. *There will be many issues on Congress's radar screen, but most have little pathway for legislative success this year.*

Midterms Loom. If past is precedent, Congress's focus will shift almost entirely to campaigning by the spring. While the landscape still could shift, both parties already have signaled what their lanes will be in the months ahead. Democrats continue to lean heavily into affordability, arguing that President Trump won on promises to reduce costs but has instead amplified the problem while turning his attention abroad. Republicans, for their part, will try to localize contests and try to distance themselves from Trump's low approval ratings as they confront tough historical headwinds. *With congressional control up for grabs and 2028 hopefuls already maneuvering behind the scenes, the political climate only will intensify from here.*

– **House.** Republicans entered the cycle with a narrow 220–215 majority. In a typical midterm, the party out of power gains seats. This has been true in 18 of the last 20 cycles, with an average pickup of 26 seats. Particularly with positive results in certain elections held last year, Democrats at first blush are in a good position to retake the House. However, middecade redistricting across nearly a dozen states has significantly reduced the number of true tossup districts (now roughly 25). As a result, Democrats would need to win close to 85% of the most competitive seats to reclaim the majority. In today's polarized climate, national swings tend to move districts uniformly. This isn't impossible, but it is far from guaranteed. *The House remains the likeliest chamber to flip, but the path is narrower and more complicated than historical trends would suggest.*

- **Senate.** Republicans hold a 53–47 majority, and the map tilts in their favor. Because Vice President Vance will continue to cast the tiebreaking vote next Congress, Democrats need a net gain of four seats to retake control. Their route begins with holding difficult seats in Georgia, Michigan, and New Hampshire while flipping Republican seats in Maine and North Carolina. Even if they run the table in all of these, they still need to flip two more seats. Their next opportunities in Alaska, Iowa, Ohio, and Florida have grown increasingly challenging. Their last target, Texas, remains the Democrats' perennial white whale. Democrats point to strong 2025 showings and improved candidate quality as signs of momentum, but Republicans remain confident the structure of the map works in their favor. *The Senate majority is not out of reach for Democrats, but it would require a nearperfect night.*
- **Governors.** 36 states will elect governors this fall, with several competitive contests emerging, especially where incumbents are not seeking reelection. Democrats are defending closely watched races in Arizona, Kansas, Michigan, and Wisconsin, with only Arizona featuring a sitting Democratic governor. Republicans have competitive defenses in Georgia, Nevada, and Iowa, with Georgia and Iowa lacking an incumbent. The stakes extend beyond state policy since governors can shape federal delegation dynamics, influence redistricting processes, and provide political coattails. There could be significant downstream effects in states such as Arizona, Georgia, Iowa, and Kansas where Republican legislatures could be checked by Democratic governors and in states like Michigan, Nevada, and Wisconsin where Democratic legislatures could be checked by Republican governors. *These races may draw less national attention than congressional contests, but their impact will be significant.*

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