The pandemic is still raging in America. Both Democrats and Republicans held their nominating conventions in the last month and we are now fully in campaign mode in a presidential race like none other. A government shutdown looms on the horizon and COVID-19 relief and stimulus legislation appears stalled on Capitol Hill. Federal Reserve Chairman Jerome Powell says interest rates will stay low for years and put aside their traditional concern about inflation as the economy continues to take a beating. Relations with China deteriorate even further and a $200 million trade deal between the U.S. and EU was announced.

2020 Election Update

Joe Biden has tapped California Senator Kamala Harris as his running mate—the two accepted their nominations at a virtual convention in mid-August. President Trump accepted the Republican nomination from the White House, a move that drew criticism and raised legal questions, leading the Office of the Special Council to **launch an investigation** into potential violations of the Hatch Act. The Republican Convention also **reused the platform from the 2016 convention**, which meant that party members did not deliberate over politics and principles to determine what the party stands for in 2020. As of this writing, **polls** show Biden leading Trump in a number of key battle ground states—but the race is tightening. In the month of August, Biden had a huge cash haul, **raising over $360 million**, dwarfing Trump's fundraising by over $150 million. Due to the coronavirus pandemic, this election will be like none other in American history as millions of Americans who normally vote in person on Election Day will turn to early voting or mail-in ballots this fall. Beyond the presidential contest, control for the U.S. senate is in play with 35 seats up this cycle, as well as all 435 House seats. In the states 11 gubernatorial races, 9 lieutenant governships, 10 state-attorney-general posts and 5,879 state legislative seats on the ballot.

Shutdown Showdown

Congress must pass appropriations measures to fund the government before the end of this fiscal year, which closes September 30. The House has **passed 10 of the 12 individual appropriations bills**, but the Senate has passed none, due to both a partisan dispute over what amendments to allow and disagreement among Republicans. It is therefore understood that the federal government must once again be funded at the start of the next fiscal year by a Continuing Resolution (CR) carrying forward current spending levels. There are reports that House Speaker Nancy Pelosi (D-CA) and Treasury Secretary Steve Mnuchin reached a **deal** to pass a clean CR, devoid of controversial policy riders or funding shifts. The primary motivation was to assure that government funding would move ahead even in the absence of an agreement on pandemic relief. Questions remain on the duration of the stopgap funding measure.

More Pandemic Relief?

While government funding is the most important agenda item on Capitol Hill, more fraught is the situation surrounding pandemic relief and stimulus. Some components of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March, which include additional unemployment benefits and payroll protection have expired, and others, including aid to airlines, expire October 1. President Trump sought to renew some programs via executive order, but that effort has largely been **ineffective**. There is immense political pressure on Congress and the White House to agree to a new broad package, but the sides appear far apart. Democrats insist that Republicans bring their bottom line up to at least $2.2 trillion. It's currently at $1.3 trillion, a concession the President offered in late August, up from the Republicans' original $1 trillion ceiling. The House passed its own **$3.4 trillion relief package** in May, setting off negotiations between the Democratic leadership and the White House. Those talks broke down in early August. Revived in early September by Mnuchin and Pelosi, it is not clear they can close the gap. Senate Majority Leader Mitch McConnell recently released his own "skinny" **package**, the measure failed to get the 60 votes necessary to advance in the Senate.

The Pandemic Economy

Top officials from the U.S. Federal Reserve have been asserting two things for months: that the economy's trajectory depends on the pandemic's trajectory, and that Congress must step up with more fiscal stimulus. While this could appear to be a way to shift blame for the economy's challenges onto the congressional and White House response to the health crisis, the Fed has itself made clear that it will carry monetary stimulus forward as long as necessary. Now, it has gone further. It has put aside traditional concerns about inflation and is prioritizing job-creation. Speaking at the annual Jackson Hole monetary policy summit, **Fed Chair Jerome Powell unveiled the shift**. In essence, it amounts to a declaration that monetary policy will be kept unusually accommodative into the indefinite future, with a higher tolerance for inflation and greater focus on suppressing unemployment. Under the new policy the Fed won't raise interest rates to head off anticipated inflation and won't necessarily act if inflation goes above the 2% target it set eight years ago. As Powell explained, "This change reflects our appreciation for the benefits of a strong labor market, particularly for many in low- and moderate-income communities." Ultimately, the Fed hopes that inflation will rise enough to preclude any risk of deflation and so that it has room to lower rates if faced with a new downturn in the future.

The second estimate of second quarter U.S. GDP growth confirmed the bleak picture from the first estimate. It reported slightly less contraction than the first reading, **declining 31.7% (annualized),** but it is still the worst quarterly drop on record. The August nonfarm **payrolls report** released September 4 showed a net jobs gain of 1.4 million, while the unemployment rate fell to 8.4% (from July's 10.2%). These numbers beat expectations and showed that hiring continued to pick up, albeit at a slower pace than the preceding three months and distorted by census hiring. They also showed a troubling rise in "permanent job losers," increasing the pressure on Congress and the Fed for stimulus.

Tensions with China

Relations between Washington and Beijing continue to deteriorate. This past month, the **Department of Commerce blacklisted 24 Chinese firms** for their involvement in China's activities in the South China Sea. The blacklisted entities include an array of communications, construction, engineering, research and tech groups. Escalating matters further, China fired two missiles into the disputed South China Sea area as a **"warning to the United States."** That move comes after China said a U.S. U-2 spy plane entered a no-fly zone without permission during a

Chinese naval drills. The U.S. also **imposed new restrictions** on Chinese diplomats in retaliation for China limiting the actions of U.S. diplomats—Chinese diplomats will now be required to seek permission to engage in a number of activities, including organizing cultural events. The U.S. also revoked more than 1,000 visas of Chinese nationals under a **proclamation** by President Trump, aimed at student researchers suspected of having links to China's military. Nevertheless, American and Chinese officials carried out a **successful review** of the **U.S.-China Phase One Trade Agreement**. The top negotiators that met said they are satisfied with implementation. This is a rare bright spot in a relationship with increasing confrontations over technology, trade and strategic issues.

U.S.-EU Trade

In late August, the United States and the European Union a **reached a trade agreement** valued at approximately $200 million, cutting tariffs on a range of products. Under the agreement, the EU will remove tariffs of 8%-12% on imports of lobsters, while the United States will halve its duties on imports of certain glassware, ceramics, disposable lighters and prepared meals. The agreement will still need approval from EU governments and the European Parliament. However, transatlantic relations regarding trade are still rocky. In an August 20 ***Wall Street Journal*** **op-ed U.S. Trade Representative Robert Lighthizer** denounced the EU for aggressively pursuing FTAs, noting they undermine the WTO's Most-Favored Nation principle by cutting tariffs for only selected trading partners. Additionally, amid increased **U.S. restrictions against companies involved in the Russian-backed Nord Stream 2** oil pipeline project and the EU considering retaliations to America's perceived extra-territorial reach.

Personnel Moves

Department of Commerce – **Gregory Kalbaugh** is deputy undersecretary for policy at the International Trade Administration.

Department of Defense – **Michael C. Ryan** is the acting assistant secretary for international security affairs. **Thomas Williams** is the principal deputy assistant secretary for strategy, plans and capabilities. **Dr. Victoria Coleman** is director of the Defense Advanced Research Projects Agency (DARPA).

Export-Import Bank - **Bradley McKinney** is vice president for economic security and operations.

Department of State - **Aaron Ellis Ringel** is the intended nominee for assistant secretary for global public affairs. **Andrew Lawler** has been nominated as assistant secretary for oceans and international environmental and scientific affairs.

White House – **Kellyanne Conway** has left. **Dr. Scott Atlas** and **Michael Bars** have joined the Coronavirus group. **Henry Haggard** has been appointed as director of European Affairs on the National Security Council staff.