

## US healthcare failure leaves less room for tax cuts

Donald Trump's efforts to repeal and replace Obamacare have been abandoned, for now, meaning at the minimum a dilution and delay to tax cuts.



### Taking the "replace" out of "repeal and replace"

Donald Trump's efforts to repeal and replace Obamacare have failed given that two more Senators announced that they would not support the bill in addition to two others who had already stated their opposition. As a result, the Republican Senate majority leader Mitch McConnell found himself short of the votes needed to get it passed.

Instead, Republicans took the decision to repeal, but with a two-year delay, which should theoretically give them enough time to come up with the replacement that has so far eluded them. This will be voted on "in the coming days".

### Implications for tax and the Fed

Given Donald Trump's linking of healthcare reform with "meaningful" tax cuts this development suggests that there is even less scope for aggressive fiscal stimulus being approved in the near-term. At the very least it implies a dilution and delay.

Several Fed officials had already factored out aggressive fiscal loosening in terms of their own forecasts, but the market is clearly of the mindset that this reduces the prospect of Federal Reserve rate hikes given that growth is not going to be as strong as it might have been.

In our view, it makes it more likely that the next Fed rate hike will be in December rather than September, but it does not necessarily impact on the timing of the Fed's balance sheet reduction programme, which could start as soon as September.

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