

Crosscurrents: Quarterly Policy Review

Policy Moves, Market Consequences

Underappreciated developments with cross-sector implications



CAPSTONE

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Sector Overviews

TRADE & TARIFF POLICY

President Trump's trade agenda suffered a setback when the Supreme Court struck down tariffs he had imposed under the International Emergency Economic Powers Act (IEEPA). However, we expect President Trump to replace them using another statute, Section 301 of the Trade Act of 1974, limiting any tailwinds for importers resulting from the Supreme Court decision. Separately, the Trump administration has taken a more cautious approach to Section 232 tariffs, declining to impose the kinds of sweeping tariffs that products like steel, aluminum, and autos are already facing. We believe this is due in part to growing concerns around affordability within the White House, coupled with broader concerns about the impact of tariffs on US businesses.

GLOBAL RESOURCES AND SUSTAINABILITY

Geopolitical events, including US military actions against Iran and Venezuela, have shaped energy markets during the first few months of 2026. These actions add to existing affordability concerns driven by data center buildout and challenges in bringing new generation online. The market impact of these events is already shaping federal energy policy and is likely to continue to influence both federal and state energy policy in the coming months.

FINANCIAL SERVICES

States have increasingly begun to weigh in on financial services regulation, either in response to a pullback from Trump-appointed leadership at agencies like the Consumer Financial Protection Bureau (CFPB) or to pursue policy goals that cannot gain bipartisan support on the federal level. In early 2026, states sought to address affordable housing reforms, national bank preemption, and credit card interchange fees – fees that have historically been considered in the federal domain. Meanwhile, Congressional lawmakers have not fully abandoned efforts to achieve bipartisan progress on housing initiatives and stablecoin oversight, the latter of which we believe could have an underappreciated impact on financial institutions' deposit bases. While Congress pursues compromise, we expect states to continue taking more aggressive policy positions, creating an increasingly fragmented regulatory environment for scaled operators.



Sector Overviews

HEALTHCARE

States are largely absorbing near-term OBBBA impacts without major Medicaid cuts, but meaningful budget pressure is expected by 2028 as provider taxes begin phasing down, though we believe state-directed payment cuts will help offset the majority of losses. On the payor side, Medicare Advantage rate changes are less negative than markets reacted, with dual-eligible dynamics and risk adjustment reforms creating selective opportunities. HCIT interoperability is reaching an inflection point as TEFCA adoption surges and OIG information blocking enforcement appears imminent. In pharma, regulatory uncertainty has largely stabilized, but IRA implementation (particularly the shift in 2028 from ASP to MFP for Part B drugs and expanding 340B liability risks) continues to create unresolved gross profit pressure across manufacturers and supply chain intermediaries.

PUBLIC SERVICES

The FY27 defense budget outlook points to meaningful spending growth, though Trump's \$1.5 request, to be funded through a combination of \$1.15 trillion in base funding and \$350 billion funded through budget reconciliation, is unlikely to be fully appropriated by Congress. Political headwinds in Congress, particularly tight House margins and midterm pressures, make defense spending significantly more than \$1 trillion unlikely, but the administration's more activist foreign-policy posture and major modernization priorities will create durable demand drivers for the defense industry. The FCC's December 2025 decision to ban foreign-built drones (unmanned aerial systems, or UAS) and components is a major catalyst for domestic manufacturers, creating supply chain investment opportunities. Counter-drone technology (C-UAS) will also see increased demand, setting up a fast-growing civilian and federal market for soft-kill systems and airspace awareness tools.



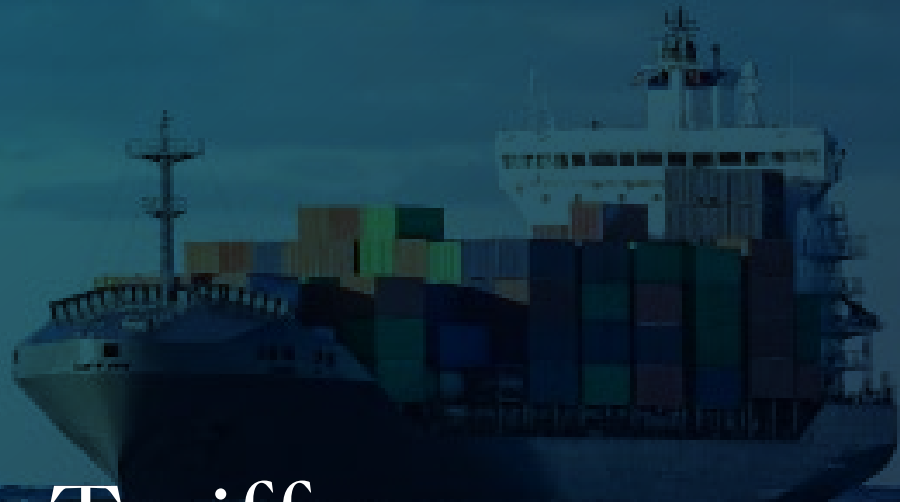
Sector Overviews

COMMUNICATIONS, MEDIA, AND TECHNOLOGY

Capstone believes that the Trump administration's deregulatory posture delivered tangible wins for businesses across the technology, media, and telecom sectors in Q1 2026. The newly released White House Artificial Intelligence (AI) Framework calls for light-touch regulation and federal preemption of restrictive state laws. Also notable were two regulatory approvals—antitrust clearance for the Nexstar Media Group Inc. (NXST) acquisition of Tegna, and the granting of US licenses to Nvidia Corp. (NVDA) to export H200 integrated circuits to China. However, looking ahead the outlook appears more mixed. On the one hand, we expect tailwinds from Trump administration policy to address rising concerns over memory shortage, and increased demand for cybersecurity certification organizations from the CMMC rollout. On the other hand, we expect H-1B visa reforms to pose significant labor cost risks for exposed employers, and states to pick up the regulatory baton through more active scrutiny of mergers and acquisitions.

EUROPE

Over a year into President Trump's second term, European countries face mounting geopolitical and trade pressures. Against this backdrop, we expect policymakers to accelerate efforts to enhance digital sovereignty, economic competitiveness, and security resilience. As the Trump administration pushes its "America First" agenda, the EU is moving to strengthen its long-term competitiveness through a simpler regulatory framework. The EU has so far submitted six omnibus packages for adoption, supporting policy goals that include sustainability, EU investment, digitalization, defense readiness, and energy security. While companies and investors face risks from persistent geopolitical tensions, and any re-escalation of trade disputes with the US or China, we believe the policy environment will remain supportive of strategic sectors, particularly AI and digital infrastructure.



Trade & Tariffs

President Trump's trade agenda suffered a setback when the Supreme Court struck down tariffs he had imposed under the International Emergency Economic Powers Act (IEEPA). However, we expect President Trump to replace them using another statute, Section 301 of the Trade Act of 1974, limiting any tailwinds for importers resulting from the Supreme Court decision. Separately, the Trump administration has taken a more cautious approach to Section 232 tariffs, declining to impose the kinds of sweeping tariffs that products like steel, aluminum, and autos are already facing. We believe this is due in part to growing concerns around affordability within the White House, coupled with broader concerns about the impact of tariffs on US businesses.

NOTABLE DEVELOPMENTS

- SCOTUS strikes down IEEPA - WL
- President Trump launches a tariff backup plan, limiting relief for importers
- Affordability concerns hold back further 232 actions

WHAT WE'RE WATCHING THIS QUARTER

- How do U.S.-Mexico-Canada Agreement (USMCA) negotiations evolve - BC
- Does the China truce hold - BC
- Do the 232s result in tariffs BC

Supreme Court strikes down Trump's IEEPA tariffs, refunds in flux

On February 20th, the Supreme Court held in a 6-3 decision that the International Emergency Economic Powers Act (IEEPA) did not authorize President Trump's widespread tariffs, invalidating the reciprocal tariffs on all trading partners and fentanyl-based tariffs on Canada, Mexico, and China. Following the decision, federal courts have rejected the Trump administration's initial efforts to delay \$165 billion in refunds to importers.

Most recent developments on tariff refunds stem not from the V.O.S. Selections case, which was one of the cases that prevailed at the high court, but from *Atmus Filtration Inc. v. US*, which now serves as the lead case on tariffs. In a March 4th order, Court of International Trade Judge Richard Eaton said that "the Chief Judge has indicated that I am the only judge who will hear cases pertaining to the refund of IEEPA duties" and ordered that all unliquidated entries previously entered into the US subject to IEEPA duties be reliquidated without the duties.

Customs and Border Protection has since filed several declarations detailing its development of the refund system, with a stated expected effective date of mid-April 2026. However, the refund process faces several hurdles, the largest being that most importers who paid IEEPA-based duties have not set up the required process for electronic refunds. According to CBP's declaration, only about 6% of importers (21,423 of 330,566) have set up these systems, which increases the time required for broad refunds. Another major hurdle for CBP is that the system still requires input from importers. Under the planned system, importers must file a declaration for all tariffed entries under IEEPA, disadvantaging firms without tight processes to track imports and entries, and creating an awareness gap, as firms may not know they need to file with CBP to receive a refund. The tariffs once again, stating that products entering the United States under the United States–Mexico–Canada Agreement (USMCA) would be fully exempt from the tariffs.

President Trump launches a tariff backup plan, limiting relief for importers.

Within hours of the Supreme Court's February 20th ruling, Trump invoked powers under Section 122 of the Trade Act of 1974 to impose a 10% tariff for 150 days on all US trading partners, limiting the relief to importers from the ruling.

With the 10% Section 122 tariff set to expire on July 24th, absent a congressionally-authorized

extension, the administration has begun laying the groundwork to transition to Section 301 tariffs as a long-term solution to impose reciprocal tariffs. On March 11th and March 12th, the Office of the US Trade Representative (USTR) initiated two new investigations under Section 301 of the Trade Act of 1974, one targeting structural manufacturing overcapacity across 16 trading partners and the other targeting forced labor import violations across 60

trading partners. The investigations cover major US trading partners, including countries that have trade deals with the US.

The Trump administration aims to complete the Section 301 investigations, propose remedies, and implement the remedies by July 24, 2026, to avoid a gap between the expiration of Section 122 tariffs expiring and new Section 301 tariffs taking effect.

Reciprocal tariffs, first levied under IEEPA, were designed to 1) lower the US trade deficit, 2) raise revenue, and 3) give the US leverage over trading partners. The Trump administration's commitment to reciprocal tariffs, whether under IEEPA, Section 122, or Section 301, demonstrates the importance of these tariffs to the administration's domestic and foreign policy.

▶ Affordability concerns prompt Trump to scale back tariff ambitions

As of Q4 2025, the Trump administration has taken a more restrained approach to Section 232 and reciprocal tariffs, a shift we believe is primarily driven by growing affordability concerns, particularly around consumer-facing products. In the most recent Section 232 investigations into critical minerals, semiconductors, and their derivative products, very limited to no tariffs were applied, a notable departure from the previous expansive 25%+ Section 232 tariffs imposed in 2025 on steel, aluminum, copper, automobiles, etc. The Trump administration has also reportedly been considering lowering steel and aluminum derivative tariffs for several weeks and has deferred the second round of the novel inclusions process for months as

affordability concerns mount.

The administration has also provided reciprocal tariff carveouts for goods compliant with the U.S.-Mexico-Canada Agreement (USMCA), select agricultural products, and consumer electronics. The exemptions for agricultural products, specifically, come after increasing public and congressional dissatisfaction with tariffs on products with limited domestic production such as bananas, coffee, cacao, and pineapples. We believe tariff exemptions on industrial-focused products are likely to persist, however, affordability concerns for consumer-facing goods have begun to influence the Trump administration's tariff policy.

USMCA to be renewed in 2026 joint review with tighter guidelines for preferential tariff treatment

Capstone believes the Trump administration is likely to renew the US-Mexico-Canada Agreement (USMCA) through the 2026 joint review, though with tighter restrictions on preferential tariff treatment for USMCA-compliant goods containing non-USMCA content. As part of

upcoming negotiations between the US and Mexico, the US is likely to propose measures to limit Chinese content within USMCA-compliant products from Mexico. Simultaneously, Mexico and Canada are likely to prioritize seeking exemptions to Section 232 tariffs, most importantly on imports of steel,

aluminum, and autos. We believe it is unlikely the US will withdraw from USMCA altogether, despite threats from President Trump, which may lead to some headline risks.

The USMCA took effect on July 1, 2020, and was approved for 16 years until 2036. The agreement required the three countries to convene after six years, in 2026, to review the state of the agreement and propose changes, if necessary. At the end of the

review, the three countries can elect to renew the program for another 16 years. This would restart the clock on the USMCA, approving the program for an additional 16 years, with a joint review scheduled six years afterward. If all three countries agree on an extension in July 2026, the new program deadline would be 2042, with the next review set in 2032. Even if an extension is not reached by July, the USMCA agreement will remain unchanged, maintaining the status quo.

US-China trade truce likely to hold as Trump administration works to preserve deal

In October 2025, President Trump and Chinese President Xi Jinping reached a one-year trade truce under which the US lowered tariffs on Chinese imports in exchange for China revoking export controls and committing to purchase US soybeans. Since the temporary trade agreement was struck, Trump and his officials have remained positive in their rhetoric toward trade with China. Treasury Secretary Scott Bessent has confirmed China's compliance and has repeatedly reassured US markets that the US-China relationship is stable and built on ongoing communication between the two countries. Since the agreement, the administration has also backed off on imposing significant tariffs that may be seen as escalatory to China, including on critical minerals, semiconductors, and their derivative products.

We believe the administration will continue to act with caution to preserve the one-year truce. This includes avoiding new tariffs on products commonly imported from China, as the Chinese government would likely perceive tariffs as a targeted provocation. We believe the US and China will continue to prioritize preserving the truce until October 2026. However, the Trump administration may raise tariffs if China is unable to meet its purchase commitment of US soybeans or if US companies face difficulty sourcing Chinese rare

earth products. Similarly, we expect the Chinese government to raise tariffs if the US imposes new escalatory tariffs on China, whether through Section 232 or Section 301 investigations. If either side raises tariffs, it will create significant risks for a renewed tit-for-tat trade war.

Future Section 232 tariffs likely to be tailored to limit supply disruption to sensitive sectors and China truce risks

The Trump administration has launched an unprecedented number of Section 232 investigations in its second term. Of the 12 investigations initiated, five have officially concluded, with four cases (copper, lumber, trucks, and semiconductors) resulting in some form of tariffs. The magnitude and scope of the duties have varied significantly, although there are some similarities in the administration's tariff decisions. The administration appears hesitant to apply tariffs on sectors that are complex or particularly sensitive to disruption, as reflected in its decision to defer tariffs on critical minerals and to apply only minimal levies on some semiconductor products. Moreover, the administration has consistently delayed a decision on whether to impose pharmaceutical tariffs, reflecting the complexity of that sector and the potentially adverse impacts of tariffs.

We believe the administration has also refrained from raising tariffs on sectors that have a direct bearing

on decoupling with China. The US and China agreed to a one-year tariff truce in late October 2025, and neither side has implemented significant new duties since then. We believe the administration hesitated to impose tariffs on critical minerals, semiconductors, and pharmaceuticals to avoid signaling a breach of the truce with China.

We believe, however, the administration will not take the same approach for ongoing Section 232 investigations into products with less direct Chinese exposure. For example, we believe Section 232 tariffs will be imposed on polysilicon. Future Section 232 measures, however, will likely be complex, reflecting the approach the administration took on lumber imports. To minimize the impact on US manufacturing and consumers, the administration may choose to implement different rates for different products to limit burdensome shortages.

Trump 2.0 Section 232 Investigations	Outcome	Tariff Rate
Copper	Tariffs	50%
Lumber	Tariffs	10%-25%
Semiconductors	Tariffs	25%
Pharmaceuticals	Ongoing	-
Critical Minerals	No tariffs	-
Trucks	Tariffs	25%
Commercial Aircraft and Jet Engines	Ongoing	-
Polysilicon	Ongoing	-
Unmanned Aircraft Systems	Ongoing	-
Wind Turbines	Ongoing	-
Medical Devices	Ongoing	-
Robotics and Industrial Machinery	Ongoing	-

Global Resources and Sustainability

Geopolitical events, including US military actions against Iran and Venezuela, have shaped energy markets during the first few months of 2026. These actions add to existing affordability concerns driven by data center buildout and challenges in bringing new generation online. The market impact of these events is already shaping federal energy policy and is likely to continue to influence both federal and state energy policy in the coming months.

NOTABLE DEVELOPMENTS

- Iranian Strikes and Subsequent Market Turmoil Drive Regulators to Rethink Climate Goals, Push Countries to Tap Affordability Levers Amid an Unclear Outlook
- State legislators fall short of passing measures adverse to data centers, putting state regulators in the driver's seat. Affordability concerns hold back further 232 actions
- Federal support for thermal and backup generation (the Federal Energy Regulatory Commission [FERC], fast lanes, PJM reliability backstop procurement, the Environmental Protection Agency [EPA] backup generation rules)

WHAT WE'RE WATCHING THIS QUARTER

- Concerns about energy affordability will play a key role in the 2026 election cycle.
- The Treasury Department released foreign entity of concern guidance for key energy tax credits, but key questions remain.
- Permitting reform remains at the top of Congress's agenda, but the midterm campaign season could stall progress.
- The Trump administration is setting the stage for federal financing of new nuclear reactors.

Iranian Strikes and Subsequent Market Turmoil Drive Regulators to Rethink Climate Goals, Push Countries to Tap Affordability Levers Amid an Unclear Outlook

The Trump administration's military operations in Venezuela and Iran are testing the efficacy of domestic and international emergency policy tools, undermining political will to implement climate policies, and driving revived interest in alternatives to Middle Eastern hydrocarbon production.

To address oil, gas, and refined product supply disruptions caused by the Iran conflict, the White House has tapped most of the emergency policy measures available, including releases from strategic crude reserves; a waiver for foreign-owned and operated ships transiting between US ports; higher ethanol content in gasoline; and sanctions waivers for Venezuelan, Russian, and even Iranian crude.

Other countries, particularly European and Asian countries highly dependent on maritime trade, have

also implemented subsidies, price controls, export restrictions, and demand-reduction schemes. As in the aftermath of Russia's invasion of Ukraine, national and regional governments are also reconsidering ambitious climate policies.

The conflict is driving companies and countries to reconsider hydrocarbon production in the European Union, Russia, and South America, as well as their willingness to pay premium rates for geopolitically secure North American and Australian supplies. The underappreciated, multi-year timeline for fully restoring Persian Gulf energy and product flows after the conflict is resolved will support at least partial follow-through on rebalancing away from Middle Eastern energy.

Federal policymakers take action to retain and expand the thermal generation fleet

The Trump administration has leveraged various federal agencies in order to retain existing thermal generation and incentivize the buildout of new natural gas capacity, largely in the service of AI data center driven load growth. The most direct example of this has been the Department of Energy's use of its 202(c) authority which it has used to retain a number of individual coal power plants that would otherwise have been retired. These 202(c) orders can keep a plant online for 90-days

at a time and have been used sequentially for the same plants.

In 2025, President Trump also appointed two new commissioners to the Federal Energy Regulatory Commission, Laura Swett (as chair) and David LaCerte. These new commissioners are aligned with the administration's goals of supporting energy infrastructure buildout needed to support AI data centers. Over the course of 2025, FERC approved

three generation interconnection queue “fast lanes” that allow certain generation to be studied and be interconnected to the grid faster than projects in the main queue, with the goal of addressing near-term reliability concerns. While the approach is ostensibly technology neutral, we have seen these be used most by dispatchable generation such as natural gas (including uprates) and energy storage. So far in 2026, regional transmission organizations have also pursued additional expedited interconnection processes for generation that will directly serve data

centers, FERC has been similarly receptive to these additional processes.

Overall, we expect continued support for natural gas and coal generation from the federal government going forward, through FERC approvals, Department of Energy (DOE) actions, and EPA emissions regulation rollbacks.

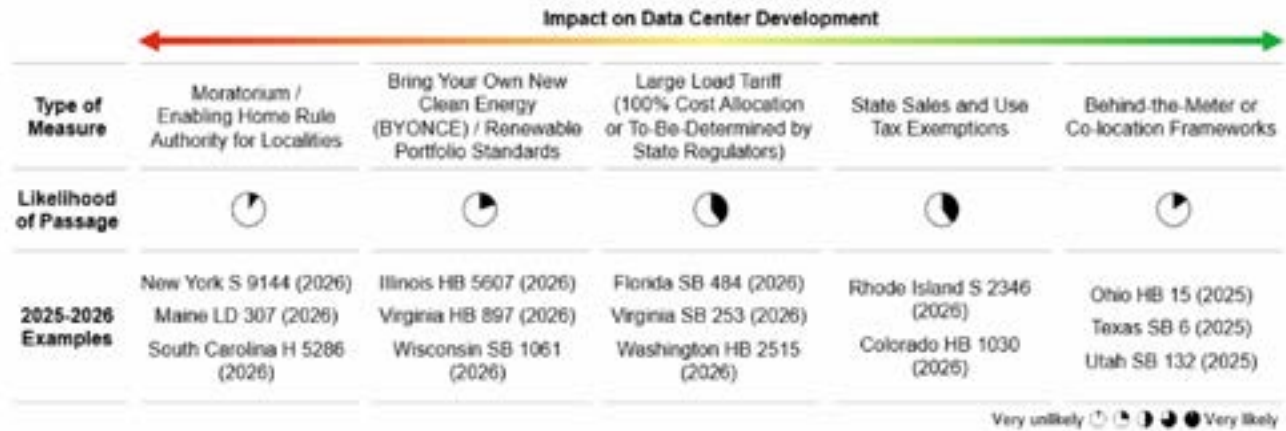
State legislators fall short of passing measures adverse to data centers, putting state regulators in the driver’s seat

In Q1 2026, over 200 bills related to data centers have been proposed at the state level, many of which would implement measures that would reduce the volume of data centers in the project pipeline. Compared to 2025, when data center policy was causing intra-party rifts, Democrats at the state level have largely united to focus energy affordability rhetoric against the industry. However, this political messaging has failed to translate into enacted legislation that would significantly stunt data center development (such as moratoria or enabling Home Rule authority for localities).

While lawmakers have struggled to pass legislation, many officials have agreed in principle that utilities ought to propose large-load tariffs to prevent cost-shifting from data centers onto ratepayers. From the developer’s perspective, these proposals provide the most near-term and material regulatory clarity by creating policy imbalances between states that hyperscalers can capitalize on. In other words, data centers are more likely to be sited in a state where a utility’s large load tariff has less stringent requirements. This deference positions state regulators as the key policymakers who will play a

leading role in determining how data center demand progresses across the United States.

In 2025, Ohio, Texas, Utah, and West Virginia passed measures that provided data center developers with clear rules or guidelines for behind-the-meter or microgrid arrangements. These new frameworks uniquely provide developers with the most flexibility and expediency for powering sites, positioning such states as key data center markets for off-grid generation providers to target. Similar measures in Virginia, Maryland, and South Carolina were proposed this year, but all have yet to gain traction in their respective legislatures.




Energy affordability concerns will play a key role in the 2026 election cycle

Primary races across the country are setting the table for a competitive 2026 election season, and both parties are taking steps to convince voters that they can deliver lower energy prices. Buoyed by state-level victories in New Jersey and Virginia last November, national Democrats believe they have found a winning message amid rising electricity bills and prices at the pump to reclaim majorities in the House and Senate. Republicans have focused on taking regulatory action to provide price relief, but candidates for federal elections may find themselves playing defense as voters press for solutions. The jockeying extends to the state level, where governors and legislative bodies have taken various steps to convince voters they are able to meet the moment.

In anticipation of the midterms, Northeastern states are backing off from climate ambitions and using the adversarial federal approach to energy policy as the scapegoat. Rhode Island Governor Dan McKee (D) pointed to the Trump administration’s disruption of offshore wind as a reason why the state is reconsidering delaying its 100% renewables target to 2050 from 2033. New Jersey has again frozen its

annual Renewable Portfolio Standard increase, and Democratic lawmakers in Massachusetts came close to scaling back the state’s program. We expect to see Democrat-run states reconsider aggressive climate policies to appeal to voter concerns.

Key 2026 statewide elections will significantly influence energy policy outcomes in 2027 and beyond. These elections will be a stress test for data center policy, including in Michigan, where leading Democratic gubernatorial candidate Jocelyn Benson has vowed to ban data centers that use the state’s water and raise electricity costs for residents. It also provides an opportunity for candidates to scrutinize investor-owned utilities for artificially raising electricity bills, such as in California, where gubernatorial candidate Tom Steyer is advocating for utility municipalization. Beyond gubernatorial elections, utility commissioner elections, especially in Arizona, Georgia, and Louisiana, are proving grounds for whether traditionally pro-growth regulatory environments are at risk of being disrupted.



The Treasury Department released foreign entity of concern guidance for key energy tax credits, but key questions remain

On February 12th, the Treasury Department released subregulatory guidance addressing some of the foreign entity of concern (FEOC) rules for the Section 45Y, 45X, and 48E tax credits, as introduced under the One Big Beautiful Bill Act (OBBBA). The guidance establishes compliance pathways for the new supply chain restrictions, but does not address new restrictions on Chinese ownership or debt issuance. Instead, it announces that these will be addressed in an upcoming proposed rule. The Treasury Department prioritized creating administrable pathways for FEOC compliance, a positive for renewable energy manufacturers and developers relative to a worst-case scenario. This is the second piece of subregulatory guidance from Treasury that puts forward a moderate approach to regulating renewables since the passage of the OBBBA.

While this guidance is positive for the industry compared to a worst-case scenario, material assistance and other FEOC rules will still create new compliance costs for players in this space as the industry assesses supply chains and adjusts as needed. Moreover, the rules will increase due diligence costs for firms looking to enter the renewables industry.

The detailed guidance is a subregulatory document, not a proposed rule. Treasury will include the subregulatory guidance alongside new ownership and debt provisions in a formalized proposed rule in the future. This process will let industry weigh in via a public comment process, allowing the future rule to be further calibrated toward administrable industry preferences. Such a process will be welcomed by industry and is another indication that Treasury is prioritizing administrability over punishment in its FEOC rulemaking.

Permitting reform remains at the top of Congress's agenda, but the midterm campaign season could stall progress

Permitting reform legislation is a top energy and environmental policy priority for both Republicans and Democrats in Congress; negotiations over changes to the National Environmental Policy Act (NEPA) and other environmental review and energy statutes continue in the Senate, led by the “four corners”: Senators Shelley Moore Capito (R-WV) and Sheldon Whitehouse (D-RI) on the Senate Environment and Public Works Committee as well as Senators Mike Lee (R-UT) and Martin Heinrich (D-NM) on the Senate Energy and Natural Resources Committee. These talks come after the House passed the Standardizing Permitting and Expediting Economic Development (SPEED) Act, a NEPA reform bill, on December 18th by a vote of 221-196.

Senator Capito has said she hopes permitting talks will conclude in “late spring,” which would likely be followed by the release of bipartisan legislative text. A permitting reform bill would need to pass through regular order legislation, giving the Senate

the upper hand over the House in the drafting process. Capstone believes that if a permitting reform bill can pass, it will likely be the one emerging from the Senate.

Aside from NEPA reform, we also expect the issues of “permit certainty” and transmission reform to be addressed in the Senate’s permitting bill. Senate Democrats on the Energy and Natural Resources Committee recently drafted their own proposed legislative language on transmission; we expect that these provisions will be debated for inclusion in the final bill.

The upcoming midterm election season creates a timing challenge for permitting reform negotiators: the House and Senate will need to pass a bill, likely as an addendum to a larger “must-pass” legislative package, either before the midterm campaign season begins in the summer or after the elections in November. Overall, this creates a challenging picture for the passage of a permitting reform bill in 2026.

The Trump administration is setting the stage for federal financing of new nuclear reactors

The US Department of Energy’s Office of Energy Dominance Financing (EDF, formerly the Loan Programs Office) is expected to finance new nuclear reactor projects as soon as this year. Over the course of the second Trump administration, the office has repeatedly signaled

its intent to support the nuclear industry. Starting with the most near-term projects, EDF focused on financing reactor restarts, as highlighted by the continuation of the Biden-era loan to Holtec International for its Palisades project in Michigan. More recently, EDF announced a \$26.5 billion loan

to Southern Company to, in part, uprate existing reactors by a total of 6.3 gigawatts.

Looking toward the rest of 2026, EDF is likely to start evaluating projects aimed at building new large reactors and small modular reactors (SMRs). The office is estimated to have approximately \$175 billion in loan authority left to finance projects, and nuclear energy remains one of the most politically favored technologies under this administration.

Congress has also revived the Accelerating Reliable Capacity (ARC) Act, which would create a \$3.6 billion federal backstop program under EDF to offset cost overruns on at least three projects. If established, this program would help financially derisk “first-of-its-kind” projects when developers likely go over budget due to supply chain constraints. The nuclear industry has long advocated for cost overrun insurance, whether it be through a backstop program or the Section 48E clean electricity tax credit.

Beyond federal loans, the Trump administration has also been in advanced negotiations with Japanese companies to facilitate foreign investments in the US nuclear industry. On March 19th, a new tranche of the US-Japan trade deal was announced. It included up to \$40 billion from GE Hitachi to build SMRs in Tennessee and Alabama. While the commitments are a creative solution to the financing problem, the commitments outlined in trade deals may not be realized and lack enforcement mechanisms. Nevertheless, this development is a positive indication that the DOE will potentially tee up an EDF loan for an SMR developer soon.

Financial Services

States have increasingly begun to weigh in on financial services regulation, either in response to a pullback from Trump-appointed leadership at agencies like the Consumer Financial Protection Bureau (CFPB) or to pursue policy goals that cannot gain bipartisan support on the federal level. In early 2026, states sought to address affordable housing reforms, national bank preemption, and credit card interchange fees – fees that have historically been considered in the federal domain. Meanwhile, Congressional lawmakers have not fully abandoned efforts to achieve bipartisan progress on housing initiatives and stablecoin oversight, the latter of which we believe could have an underappreciated impact on financial institutions' deposit bases. While Congress pursues compromise, we expect states to continue taking more aggressive policy positions, creating an increasingly fragmented regulatory environment for scaled operators.

NOTABLE DEVELOPMENTS

- Depository Institutions Deregulation and Monetary Control Act (DIDMCA) opt-out gets traction after some legal clarity
- Affordable housing gets a push on the federal and state levels, in dramatically different forms
- Banking and crypto industries clash over stablecoin, as yield threatens deposit base

WHAT WE'RE WATCHING THIS QUARTER

- States moving to further constrain interchange
- Bipartisan housing legislation likely to go to conference
- Court decision on CFPB likely but it won't provide finality

DIDMCA Opt-out Gets Traction After Some Legal Clarity

Colorado passed legislation in 2023 to opt-out of the Depository Institutions Deregulation and Monetary Control Act (DIDMCA), effectively preventing state-chartered banks from exporting interest rate limits into Colorado. We believe industry participants took notice at the time, but breathed a sigh of relief when it was blocked by a federal district court later that year. However, the Tenth Circuit Court reversed that decision in November 2025, a decision that is being appealed to an en banc hearing that is likely to occur in 2026.

We believe Colorado's legal victory in 2025 has encouraged other states to follow suit in the latest step to continue to restrain bank partnership programs that may result in financial products with

interest rates exceeding state limits. Along with a steady flow of "true lender" proposals, both Rhode Island and Oregon proposed DIDMCA opt-out bills. In March, Oregon passed HB 4116, sending the bill to the Governor for signature, which remains pending. If signed, we expect the bill to face an immediate legal challenge. Of note, Oregon is not within the Tenth Circuit, so while the Colorado decision could provide some clarity, it would not provide binding precedent for the latest law. We expect more states will pass DIDMCA opt-out legislation if courts allow these bills to go into effect, leading to a more fragmented environment for state-chartered banks unless Congress chooses to intervene.

Affordable Housing Gets a Push on the Federal and State Levels, in Dramatically Different Forms

State lawmakers have sought to use a relatively blunt tool to limit steadily increasing costs for home renters in a move to improve affordability, which is the bipartisan rallying cry going into the 2026 midterm elections. Through the first quarter of 2026, over 20 states have introduced rent freeze or cap legislation, and the National Apartment Association is now tracking more than 190 active state bills alongside 25 local ordinances. Much of this momentum traces back to New York City Mayor Zohran Mamdani's successful campaign centering rent control policies. Massachusetts and Washington, DC are now considering measures to cap all rent increases — Massachusetts' proposal is currently polling at 62% support. Santa Barbara already enacted a freeze through the end of this year

and Los Angeles capped increases at 4%, replacing a formula that would have allowed increases at up to 10%.

Meanwhile, on March 13, President Trump signed two Executive Orders (EO) on housing, "Removing Regulatory Barriers to Affordable Home Construction" and "Promoting Access to Mortgage Credit." We believe the primary beneficiary of the EOs will be the manufactured housing industry, as this approach has gained increased traction as a solution to affordability challenges. The affordable home construction EO directs FHFA to review its guidelines and regulations regarding chattel lending, reforms energy efficiency requirements for manufacture homes, and directs HUD to produce zoning best

practices that allow for manufactured housing. The second EO, on promoting access to mortgages, creates targeted FHLB liquidity programs for small-dollar mortgages and directs the CFPB to consider exempting small-mortgage loans (<\$100,000) from qualified mortgage points-and-fees caps.

The varying approaches show a broad desire to address housing affordability, with limited consensus

on solutions. We believe this has created challenges in advancing bipartisan housing solutions, which will result in watered down provisions around contentious issues like restrictions on institutional purchases of single-family homes, although we expect legislation to pass this year.

Banking, Crypto Industries Clash Over Course of Stablecoin, as Yield Threatens Deposit Base

The US Treasury's Office of the Comptroller of the Currency (OCC) is implementing the GENIUS Act, which formalizes the regulation of stablecoin issuers. As a result, digital asset firms are applying for and receiving conditional approval for national trust bank charters from the OCC, and the Fed will likely continue to stand up "skinny" Federal Reserve Master Accounts, like the Kraken account approved by the Kansas City Fed in early March. Capstone concludes that, small and community bank incumbents are exposed to deposit reallocation risks as deposits flow up the system, with estimates of reallocation ranging from hundreds of billions to all transaction deposits held at banks.

We view ongoing CLARITY Act negotiations, the digital asset market structure legislation pending in Congress, and the ultimate compromise between banks and digital asset firms on yield as a critical input into the scale of potential deposit reallocation dynamics. Congress appears content to allow industry trade groups representing the banking and cryptocurrency interests to negotiate an agreement and prospects for the legislation have swung accordingly. Most recently, Senator Mark Warner (D-VA), indicated he believed there was a 50%-60% chance of the bill passing this year, below his previous optimism that there was an 80% likelihood.

States Moving to Further Constrain Credit Card Interchange Fees

As the proposed settlement in the merchant litigation against credit card networks remains pending (and large merchants file formal objections against it), President Trump endorsed the Credit Card Competition Act (CCCA). Our research indicates at least 22 states have proposed legislation variously targeting card network practices and interchange fees. Approval

of the proposed settlement in the merchant litigation itself would rewire card network rules to loosen surcharging, discounting, honor-all-cards, and other rules, supporting merchant bargaining power and strategic use of surcharging and other tools across business-to-business, e-commerce, and retail channels.

However, we believe market participants do not fully appreciate the potential of increased fragmentation in the payments architecture as states explore action, following a federal district court opinion upholding the Illinois Interchange Fee Prohibition Act. Similar legislation will cause payments regulation to grow muddy, complicated, and filled with compliance headaches for the card networks, bank issuers, and other market participants. While we do not expect Congress to pass CCCA, increasing fragmentation

could eventually lead to action from Congress to protect national payments architecture. Though bank issuers and consumers (via credit card rewards) are most exposed to pullback in interchange receipts, card networks might also be pressured on other network and transaction processing fees, especially as Visa and MasterCard adopt stablecoin-enabled payments architecture, potentially driving significant efficiency enhancements.

Congress Looks to Pass Bipartisan Housing Legislation

On March 12d, 2026, the US Senate passed the 21st Century ROAD to Housing Act, a bill combining affordable housing legislation from the US House and Senate. The bill is now headed to conference, but Capstone believes there is an 80% chance the bill passes before the end of the second quarter. The version of the bill passed by the Senate contains a provision banning large investors (investors that own 350 or more homes) from purchasing single family homes, although it includes various exemptions including: manufactured homes, build-to-rent (BTR) , renovate-to-rent (with minimum rehab thresholds), homeownership programs, senior housing, foreclosure-related acquisitions, and portfolio transfers. Some of these exemptions, including BTR, carry a 7-year disposal requirement, but are likely to be amended during the upcoming conference committee.

We believe the House will take a more industry-friendly approach to the limitations on institutional home ownership while still providing President Trump with a win on an issue he has made a centerpiece of his affordability messaging. As a result, while we think the final compromise will include an investor “ban,” the exemptions, already likely in the Senate version of the bill, will be wide enough that the legislation is unlikely to seriously impact institutional buyers or housing affordability.



Court Decision on CFPB Likely but it Won't Provide Finality

We expect the United States Court of Appeals for the District of Columbia will provide its opinion in National Treasury Employees Union (NTEU) v. Vought in the second quarter of 2026 after en banc hearings in the case on February 24th. The NTEU is seeking to block a reduction in force (RIF) that would reduce the CFPB workforce by around 90% relative to the end of the Biden administration. If the RIF proceeds, the CFPB would be constrained not only through the current administration but likely the better part of a future Democratic administration. However, we believe the court ruling is unlikely to be definitive. We anticipate the court will remit the case back to the district court with some additional guidance, leaving the RIF, and many CFPB employees, in limbo for the foreseeable future.

Despite the efforts to defang the CFPB, we note the more than 20 rulemakings on the beleaguered agency's agenda and recent reporting suggesting internal efforts to staff up the division that writes regulations. With four larger participant rules, Equal Credit Opportunity Act rulemaking, the statutorily required open banking rule, loan originator, and mortgage rules all on the table, we think the agency may begin making policy, even if it continues to abdicate its enforcement and supervisory activities. Increasing fragmentation across states is another theme we are monitoring closely – especially with respect to fintech products like earned wage access (EWA) and buy now, pay later (BNPL). At least ten states have adopted EWA rules in recent years, and plenty of others have pending legislation. New York has led on maturing BNPL regulation, with the state's Department of Financial Services proposing BNPL-specific licensing, interest rate, and disclosure rules following enactment of a 2025 law. Meanwhile, a coalition of seven state attorneys general have sent inquiries to the largest BNPL operators as other states potentially explore legislation.

Healthcare

States are largely absorbing near-term OBBBA impacts without major Medicaid cuts, but meaningful budget pressure is expected by 2028 as provider taxes begin phasing down, though we believe state-directed payment cuts will help offset the majority of losses. On the payor side, Medicare Advantage rate changes are less negative than markets reacted, with dual-eligible dynamics and risk adjustment reforms creating selective opportunities. HCIT interoperability is reaching an inflection point as TECCA adoption surges and OIG information blocking enforcement appears imminent. In pharma, regulatory uncertainty has largely stabilized, but IRA implementation (particularly the shift in 2028 from ASP to MFP for Part B drugs and expanding 340B liability risks) continues to create unresolved gross profit pressure across manufacturers and supply chain intermediaries.

NOTABLE DEVELOPMENTS

- **Providers:** Most of the way through the first state budget cycle under the OBBBA, very few states are cutting Medicaid. Idaho is a notable exception due to fiscal shortfalls. Otherwise, states are performing well and have growing certainty about fiscal performance.
- **Payors:** The Advance Rate Notice drew sharply negative reactions. If provisions are finalized, vendors with clinical data assets, provider behavior tools, and payor enablement platforms will benefit.
- **HCIT:** ASTP/ONC's updated data exchange report showed substantial growth in national network utilization for summary of care record exchange, suggesting commoditization of the connectivity layer is approaching. Data normalization and analytics vendors could benefit.
- **Pharma:** Uncertainty around IRA implementation in Medicare Part B is underappreciated and the circular ASP calculation will affect commercial plans with ASP-based contracts. Providers, payors, and pharmacies will need to renegotiate contracting models, while infusion centers operating under AWP-based methodology will be insulated.

WHAT WE'RE WATCHING THIS QUARTER

- **Providers:** The Trump administration's adoption of Minnesota's Corrective Action Plan signals it will pursue headline Medicaid wins, but that same CAP is likely to serve as a template other states copy.
- **Payors:** The White House's expressions of MA support and escalating False Claims Act and audit activity have left investors uncertain about the administration's intentions. The Final Rate Notice and Policy and Technical Rule will be key bellwethers for the administration.
- **HCIT:** ASTP/ONC and OIG have signaled they will begin enforcing information-blocking prohibitions, and we are watching for OIG's first move amid ongoing state-court litigation. Enforcement is likely to have ripple effects on data access from systems of record.
- **Pharma:** The administration will pursue 340B surveying as groundwork for converting the program to a rebate model, a structure more likely to survive APA legal challenges. If successful, third-party administrators could be disintermediated, and pharmacies would lose revenue, elevating the value of data-driven rebate capture and claims locator tools.

Providers

Following the One Big Beautiful Bill Act, which was signed in July 2025, states have been preparing for changes to their Medicaid programs, including implementing work requirements and phasing down provider taxes in expansion states. Capstone believes \$700 billion of the approximately \$900 billion in savings from OBBBA will likely be neutral-to-positive for state budgets. The loss from provider taxes will be offset by gains from cutting enrollment through work requirements and increased eligibility checks. As states begin negotiating new budget cycles this year, few are making notable Medicaid eligibility or reimbursement rate cuts for providers. States that have introduced cuts so far faced overall budget shortfalls, including Idaho and Colorado, or politically motivated cuts, including North Carolina. We expect primary state budget pressure from OBBBA-related funding shortfalls to begin in 2028, due to the implementation of provider taxes and the phase down of state-directed payments. During the next year, however, work requirements and increased eligibility checks in 2027 will have a net positive impact on state budgets.

During the next quarter, Capstone will continue to assess impacts as states finalize their budgets for the next fiscal year. At the federal level, we expect the Trump administration to continue to concentrate its efforts on the war on fraud and focus on headline wins rather than enforcement actions that will impact Medicaid provider reimbursement rates. For Minnesota Medicaid, we continue to believe the Centers for Medicare & Medicaid is unlikely to withhold federal funding but instead ensure that state-led reforms on fraud are in place (CMS approved Minnesota's CAP on March 19th, which addresses the deficiencies the agency identified). In addition, CMS sent letters seeking information about Medicaid program integrity to California, Florida, Maine, and New York. We will closely follow the service categories previously highlighted for fraud, including HCBS, applied behavior analysis (ABA), substance use disorder (SUD), and non-emergency medical transportation (NEMT). Capstone's base case is that CMS will continue to target blue states in a push for headline wins as opposed to pushing for structural reform or substantial provider rate cuts.

Payors

Both private- and public-market investor clients have expressed confusion about the Trump administration's stance on the Medicare Advantage program. The announcement of a flat (0.09%) change in total payment for MA payors earlier this year in the 2027 Advance Notice, coupled with continued verbal "support" for the program from key stakeholders such as CMS Administrator Mehmet Oz and CMS Director Chris Klomp, appears to paint a story of the White House saying one thing then doing the opposite. However, Capstone believes the negative public market reaction to the Advance

Notice is overblown given the market behaviors of MA payors. The effective growth rate of 4.97% is the second-most positive proposed effective growth rate update in the past decade. While the impacts of the v28 risk model changes (-3.32%) will flow through to all MA payors, the "chart de-linking" provision, scored at a (-1.53%) hit to annual payments, will unlikely affect large publicly traded insurers that link charts as a matter of course. Both risk adjustment reforms force MA payors to be highly concerned with clinical data and provider behavior. Certain vendors within the MA ecosystem stand to benefit, namely

those centered on or around provider/beneficiary interactions. Release of information vendors, prospective risk adjustment tools, and mediator “enablement” tools that facilitate relationships between MA payors and providers will see increased value from payors if these changes are finalized. Additionally, while changes to the v28 risk model are negative for the “average” aged in MA beneficiary, they actually raise both demographic and diagnostic risk scores for dual-eligible beneficiaries. Capstone believes this will improve the attractiveness of the already sought-after dual-eligible market, as MA payors seek to enroll dual-eligibles to offset capitation hits in the more generic MA market.

During the next quarter, CMS will release the 2027 Final Rate Notice and the 2027 Final Policy and Technical Changes Rule. Both rulemakings will act as litmus tests for how the Trump administration truly

feels about MA. Given the recent volatility in the 2026 MA annual enrollment period, which saw growth of only ~1 million new members and high rates of plan switching from existing members in plans such as UnitedHealthcare, Humana, and CVS, lobbying from industry groups such as the America’s Health Insurance Plans (AHIP), Alliance of Community Health Plans (ACHP), and the Better Medicare Alliance (BMA), the administration could show some leniency to stabilize the program. Capstone is closely watching CMS’s response to industry comments citing profitability concerns in books of business, such as preferred provider organization plans, which most beneficiaries have enrolled in during the past two years. Capstone’s base case is that all provisions of the proposed rules will be implemented.

HCIT

The 21st Century Cures Act is the basis for most modern-day technology-related regulation and policy impacting healthcare data exchange. Notably, it prohibits information blocking, directs the establishment of application programming interface (API) requirements for easy data exchange, and mandates convening public and private stakeholders to develop and support a trusted exchange framework and common agreement for exchange among health information networks, such as the Trusted Exchange Framework and Common Agreement (TEFCA). Most of the data exchange requirements from the 2016 legislation have been largely theoretical, as the first qualified health information networks were not designated until late 2023, the OIG has yet to impose penalties for information blocking violations, and many of the required APIs have yet to be implemented, including provider access API, payor-to-payor API, and prior authorization API. Still, the directional support has led to a long on-ramp to greater interoperability and data liquidity. The Trump administration has materially accelerated this process through broad

calls to action for industry, including a request for information on the health technology ecosystem and a voluntary CMS interoperability framework. The agencies recently released compelling data to support the previous year as an inflection point for interoperability. First, TEFCA adoption and utilization grew from about 10 million records exchanged by January 2025 to nearly 500 million records by February 2026. This volume growth is further supported by recently released ASTP data, which show substantial growth (34% to 76% from 2018 to 2025) in the percentage of hospitals that sometimes or often send summary of care records outside their system via a national network such as TEFCA. Data further support a growth (41% to 67% from 2018 to 2025) in the percentage of hospitals that sometimes or often receive summary of care records from outside their system via an electronic health record vendor-based network. Growth in both these exchange types signals an impending commoditization of the connectivity layer. Capstone believes this will 1) lead state-based health information exchanges to pivot to data aggregation

and analytics platforms for Medicaid-centric use cases, state reporting requirements, and community-level care coordination; and 2) benefit the data normalization and analytics layer that is vital to support the transition from data availability to data usability.

During the next quarter, Capstone expects an enforcement crackdown on information blocking. The 21st Century Cures Act prohibited providers, certain health IT developers, HIEs, and HINs from interfering with access to electronic health information for approved treatment, payment, or healthcare operations purposes. This materially impacts the historic competitive moat that EHRs held as systems of record that restricted data availability. Despite prohibitions taking effect in 2021, with official enforcement beginning September 1, 2023,

for HIEs/HINs and certified health IT developers, and January 1, 2025, for a subset of providers, the OIG has taken no enforcement actions. This creates a dynamic where plaintiffs sue EHRs for data access restrictions under state tort law. In September 2025, OIG and the ASTP/ONC jointly issued an enforcement alert the day after Health Secretary Robert F. Kennedy Jr. directed the agency to increase resources dedicated to information blocking enforcement. Given ASTP/ONC and OIG have signaled enforcement is coming, and amid growing state court cases, we are tracking who the OIG targets first, the broader impacts on systems of record (e.g., EHRs) and point solutions in the space, and how the resulting precedent reshapes data access. Capstone's base case is the OIG targets one large vendor, making that enforcement an example for other vendors.

Pharma

Capstone believes much of the uncertainty surrounding the future of pharmaceutical regulation is behind us. President Trump has largely abandoned his tariff threats, and proposed Most Favored Nation pricing models—GUARD, GLOBE, and GENEROUS—have largely insulated much of the industry from further disruption. However, we continue to believe there is meaningful uncertainty about the implementation of already-codified policies, namely the Inflation Reduction Act.

Beginning in 2028, the Trump administration for the first time will negotiate Medicare Part B drugs. Unlike pharmacy-dispensed products, physician-dispensed products have traditionally relied on a government benchmark—ASP—which closely tracks market acquisition costs. In 2028, ASP will no longer be published; instead, it will be replaced by the maximum fair price (MFP) determined under the IRA. Questions remain as to how the industry will navigate this shift, with likely outcomes ranging from incorporating the MFP as the operative benchmark to independently calculating ASP, to adopting the

fixed benchmarks used in the pharmacy benefit. Absent the ability to modify contract terms, both manufacturers and providers will likely see decreases in gross profit. Although industry lobbies continue to advocate for a change in methodology, the Trump administration remains silent on the implementation mechanism.

Also related to the Inflation Reduction Act, manufacturers are grappling with growing liabilities associated with the 340B program, which requires them to sell products at steep discounts to covered entities. The overlap between 340B virtual inventory chargebacks and MFP true-up payments creates a heightened risk of duplicative discounting obligations. The administration has considered converting the program to a rebate-based structure, which would eliminate this risk but disintermediate TPAs and contract pharmacies. In parallel, some manufacturers have independently pursued reductions to their wholesale acquisition cost (WAC) to mitigate these exposures—a move that similarly compresses gross profit for intermediaries across

the supply chain. As both programs continue to expand, questions remain about the administration's willingness to intervene and the industry's appetite to implement change on its own.

Public Services

The FY27 defense budget outlook points to meaningful spending growth, though Trump's \$1.5 request, to be funded through a combination of \$1.15 trillion in base funding and \$350 billion funded through budget reconciliation, is unlikely to be fully appropriated by Congress. Political headwinds in Congress, particularly tight House margins and midterm pressures, make defense spending significantly more than \$1 trillion unlikely, but the administration's more activist foreign-policy posture and major modernization priorities will create durable demand drivers for the defense industry. The FCC's December 2025 decision to ban foreign-built drones (unmanned aerial systems, or UAS) and components is a major catalyst for domestic manufacturers, creating supply chain investment opportunities. Counter-drone technology (C-UAS) will also see increased demand, setting up a fast-growing civilian and federal market for soft-kill systems and airspace awareness tools.

NOTABLE DEVELOPMENTS

- Trump teasing a \$1.5 trillion defense budget
- FCC regulations to spur domestic drone supply chains

WHAT WE'RE WATCHING THIS QUARTER

- Release of the President's Budget Request
- More government policies related to UAS and C-UAS

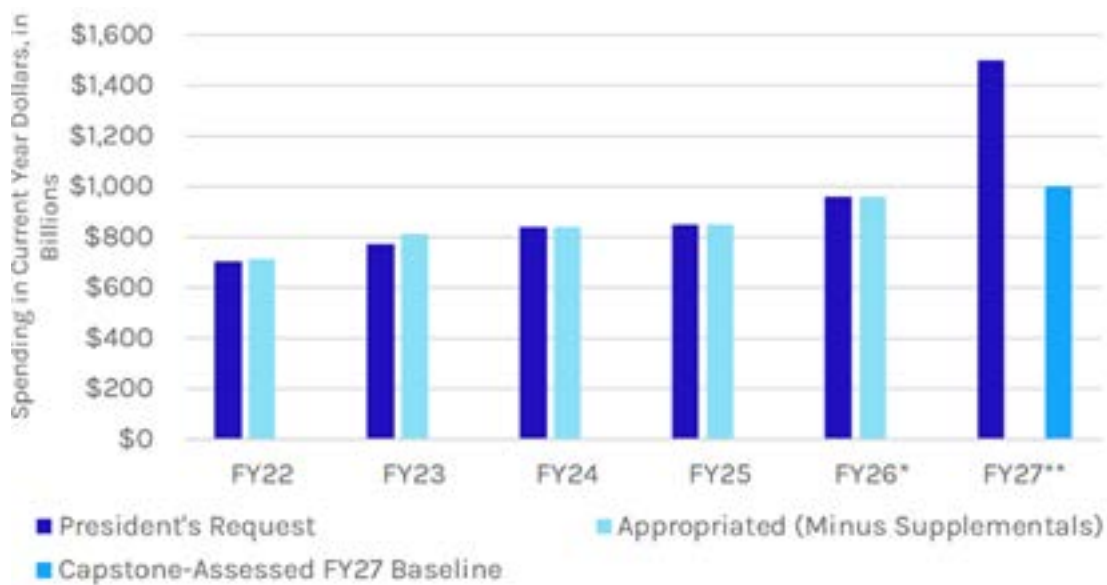
FY27 Defense Budget: Expecting A \$1.5 trillion Defense Budget Over 5 Years, Providing a Lift for All Defense Contractors

Total defense spending is generally the best metric of performance for the aerospace and defense (A&D) industry, and the annual President’s Budget Request (PBR) generally sets expectations for what Congress ultimately appropriates. While Congress has the final say, growth in the PBR is a strong positive indicator for the industry. President Trump has set expectations for the FY27 defense budget to be \$1.5 trillion, which, if true, would represent a 50% year-on-year increase in defense spending from FY26. Capstone believes that this figure is not realistic, but does believe that a \$1.5 trillion budget is more likely to be achieved over the five-year Future Years Defense Plan (FYDP), implying a 10.7% compound annual growth rate during that period.

This expected PBR represents a marked shift from the first year of the second Trump administration, when the Pentagon was not only a target of traditional deficit hawks but also of the Department of

Government Efficiency (DOGE), whose cuts resulted in significant disruptions to procurement and execution. An extended Continuing Resolution (CR) also kept the FY26 base budget effectively flat. While the One Big Beautiful Bill (OBBBA) allocated \$150 billion to defense, of which \$113 billion was loosely earmarked for FY26, this funding was outside the regular appropriations process.

Given the dynamics with OBBBA, the base budget request for FY27 must reflect a significant increase to avoid an effective cut in defense spending from FY26. Regardless of whether the final number will even approach the \$1.5 trillion as proposed by Trump, this suggests the Trump administration is looking to increase the base defense budget by more than \$113 billion to maintain continuous growth in spending. If Congress agrees and appropriates more than \$961 billion for defense, it will provide significant funding stability for the defense industry, rather than one-time reconciliation funding.



Capstone's analysis suggests that DOGE-style DOD cuts may have reduced spending across the department in 2025 by approximately 1.5%. DOGE, as an outside organization run out of the Office of Management and Budget (OMB), never had a serious presence in the department, but the secretary of defense implemented a series of reviews and cuts that mirrored DOGE's efforts in civilian agencies. This included efforts to downsize the DOD's workforce and reduce "advisory and assistance" services, which DOGE personnel viewed as low-value consulting.

In the second year of the Trump administration, Capstone observes a noticeable reversal of many of the original anti-interventionist principles on which the president campaigned in 2024. Instead, under Trump, the US has reshaped the core of its defense policy, which has been largely constant for the past 30 years. For example, the bombing of Iranian nuclear facilities in 2025 and the war with Iran that began in February 2026, as well as the military buildup in the Caribbean, major law enforcement operations against sanctioned vessels, and the operation to remove Nicolas Maduro as head of state in Venezuela, stand in stark contrast to Trump's promise of reduced foreign intervention.

These actions, combined with rising geopolitical tensions globally and heightened rhetoric around key strategic locations such as Greenland, suggest only an increased mission load for the DOD. A more activist foreign policy is also layered atop major and costly defense priorities that will require years of consistent funding, such as the Golden Dome missile defense shield, the new "Golden Fleet" for the Navy, and the much-needed modernization of the nuclear triad. In this context, the White House's proposal to meaningfully increase defense spending for FY27 makes sense.

Instead, we believe the president's \$1.5 trillion requested budget could reflect total defense spending at the end of the Future Years Defense Program (FYDP)—a five-year projection released alongside the defense budget to provide forward-looking guidance to Congress. FYDP numbers in the out-years generally carry little weight, as money is appropriated annually, but the FYDP might be a convenient mechanism for the administration to

claim it is growing the defense budget substantially. Growing defense spending from \$1 trillion in FY27 to \$1.5 trillion in FY31 would require an annual growth rate of 10.7%, representing an unprecedented peacetime expansion.

Programs that have received attention from major policymakers also include next-generation combat aviation projects, such as the F-47 and the Collaborative Combat Aircraft, a new advanced drone fighter for the US Air Force. There is also a major push for the military to increase munitions production rates. In the FY26 budget, the US Space Force saw a lower-than-expected budget, and the FY27 budget might provide an opportunity to reverse this trend by increasing investment into the critical space domain.

Deputy Secretary of Defense Stephen Feinberg has also focused the department on shoring up critical vulnerabilities across the defense supply chain, from lower-value chain items, such as critical minerals, to components such as solid rocket motors. All these efforts will likely receive increased government funding if defense spending grows.

The detailed PBR is expected in late April, which will then kick off congressional deliberations on the defense budget. As in most years, we expect congress to focus on key programs rather than reviewing and resetting funding levels for every line item in the defense budget. For most line items, congress will defer to the DOD, which has a sophisticated mechanism for building the annual budget. This is both a function of congressional staff bandwidth and expertise, and a deference to the department on matters of national security and defense. Items that most animate members of congress are often tied to their districts and pecuniary interests, alongside major issues and developments in US foreign policy, which are often, in part, reflected in defense priorities and programs.

The most important factor for shaping the final FY27 defense budget is the political dynamics in Congress over the coming months. Midterm elections will take place in November, and historically the party that controls the presidency performs poorly in the midterms. Early polling suggests the GOP will face a

difficult election season and likely lacks the political capital to raise defense spending substantially.

This situation is exacerbated by the extremely close margin in the House of Representatives. While many Democratic lawmakers support increased defense spending, the Democratic Party has frequently

conditioned increases in defense spending on higher social spending, which the GOP strongly opposes. This underpins our assessment that it is extremely unlikely that defense spending will see even a double-digit percent increase, and that the pathway to a \$1.5 trillion defense budget is over a five-year period.

Demand for US-Made Drones and Counter-Drone Technology Will Increase with Ban on Foreign Imports, Threats to Public Safety

Capstone believes the US-based unmanned aerial systems (UAS) manufacturing base represents a significant investment opportunity, particularly for private capital that can expand UAS production capacity for key component parts and create economies of scale across the supply chain. We similarly believe that the counter-UAS (C-UAS) market is poised for significant growth. Both the UAS and C-UAS opportunities are driven by strong, durable US federal policy and regulatory tailwinds.

The FAA recently identified UAS as the fastest-growing segment of US aviation. However, to date, Chinese-manufactured UAS systems and components have captured a majority of the US market, with some estimates suggesting that as much as 70% to 90% of drones used across domestic commercial, government, and consumer sectors come from a single Chinese company, DJI. The Trump administration wants to drive out Chinese-made UAS and has made strengthening the American UAS industry a key policy priority, exemplified by the June 2025 Executive Order 14307, titled “Unleashing American Drone Dominance.”

Capstone believes that the most impactful UAS regulatory driver to date is the December 2025 Trump administration decision to add foreign-built UAS and critical UAS components to the Covered List. The Covered List is maintained by the Federal

Communications Commission (FCC) and designates communications equipment deemed to pose a national security risk. The inclusion of foreign-manufactured UAS and components will cause a dramatic rise in demand for domestic UAS and parts. This FCC action effectively ends the certification of new foreign UAS or critical UAS part designs, with some exceptions, for domestic sale and operation through at least January 1, 2027. Capstone believes the ban will be extended for the foreseeable future based on the Trump administration’s rhetoric in support of building out the domestic UAS industrial base.

Domestic UAS manufacturers like Skydio, AeroVironment, Inc., and Red Cat Holdings, Inc. are already meeting military needs. However, they still overwhelmingly rely on Chinese or other foreign sources for their critical inputs—the same components that the FCC explicitly added to the Covered List in December 2025.

Practically speaking, the new FCC rules mean that all commercial and defense market users of UAS will need to shift their sourcing of UAS and component parts to domestic producers. Demand should therefore materially increase for US producers of key components such as data transmission devices, communications systems, flight controllers, ground control stations and UAS controllers, navigation systems, sensors and cameras, batteries and battery

management systems, and motors. This presents an opportunity for smaller parts manufacturers who will see a substantial increase in demand, or to create more integrated platform suppliers, given the significant reordering of supply chains that is now beginning.

The rapid expansion of UAS access is also raising concerns about the ability to defend against their use by malign actors, both on the battlefield and in civilian settings. Recent US federal policies and funding sources to support the adoption of C-UAS technologies represent a second major UAS-related investment theme. C-UAS encompasses a range of systems that can shoot UAS out of the sky. Examples include “hard kill” systems, like lasers and other directed- energy weapons, as well as interceptor drones and missiles. “Soft kill” systems like jammers confuse drones or make them land, and air domain awareness sensors like radars, communications interception equipment, and infra-red cameras are used to detect and track drones.

While the US military has long been interested in C-UAS capabilities and is taking steps to rapidly field them, interest among US law enforcement has been comparatively small. However, a set of provisions in the fiscal year 2026 National Defense Authorization Act (NDAA), known as the Safer Skies Act, granted new, permanent C-UAS authorities to state, local, territorial, and tribal (SLTT) law enforcement bodies for the upcoming 2026 World Cup and America250 celebrations. These new authorities substantially expand the potential customer base for C-UAS systems, which we believe represents a new and durable market for manufacturers of C-UAS systems and components. Nationwide, state and local law enforcement spending totaled over \$150 billion in 2023 (the latest information available), a \$22 billion increase since 2020. Spending in World Cup host states, as well as in Washington, D.C., totaled \$86 billion alone that same year.

These new local and state law enforcement authorities arrived just a month after the creation of a new federal grant program to help states fund counter-drone operations. The Federal Emergency Management Agency (FEMA) launched the C-UAS

grant program in November 2025 and has since awarded \$250 million in grants to 11 states that will host World Cup events in the summer of 2026, as well as to the National Capital Region (NCR). This program has been publicized as the fastest non-emergency grant disbursement in the agency’s history. The 11 World Cup host states and the NCR received at least the statutory minimum funding, with additional funds competitively awarded based on specific event security risk levels. The top three recipients included California at \$34 million, Texas at \$30 million, and the NCR at \$28 million.

FEMA plans to dedicate an additional \$250 million in grants in the next fiscal year, spread between all states and territories. Grant funding alone will not be enough to close the C-UAS capability gap; however, states will almost certainly begin allocating additional funding of their own. As a result, we expect state-level purchases of C-UAS technologies to begin to increase significantly.

Initial SLTT law enforcement C-UAS users will be concentrated in the metro areas hosting World Cup 2026 games: Atlanta, Boston, Dallas, Houston, Kansas City, Los Angeles, Miami, New York City, Philadelphia, Seattle, and San Francisco. Together, these metro areas account for approximately 25% of the US population. Capstone believes these metro areas will likely provide additional funding for C-UAS technology and that nationwide state, local, territorial, and tribal C-UAS procurement will substantially expand in the coming years, funding some degree of C-UAS capability across the country.

Separately, funding for new federal law enforcement C-UAS capabilities has also increased. In December 2025, the Department of Homeland Security (DHS) concluded a major new competition to contract with multiple C-UAS providers, with a projected maximum potential value of \$1.5 billion across all selected providers. The contract will be managed by the new Program Executive Office for Unmanned Aircraft Systems and CounterUnmanned Aircraft Systems. This contract, to be awarded after DHS completes its evaluation of competitors’ bids, will allow all DHS components (e.g., Customs and Border Protection) to procure C-UAS capabilities. While this competition has already ended, Capstone believes it

clearly indicates that federal law enforcement C-UAS opportunities are only increasing.

Law enforcement C-UAS capabilities will differ from military capabilities due to law enforcement's need to prevent collateral damage and maintain long-term persistence near critical infrastructure, therefore shaping the demand landscape. Capstone believes these law enforcement customers will prioritize mobile C-UAS systems capable of performing "soft" kills, such as signal jamming to neutralize a drone threat, rather than physically destroying hostile UAS, as well as systems that provide localized airspace domain awareness, such as radar. These law enforcement requirements are likely to increase demand for radio-frequency detection equipment, radar systems, and jamming systems.

Communications, Media, and Technology

Capstone believes that the Trump administration’s deregulatory posture delivered tangible wins for businesses across the technology, media, and telecom sectors in Q1 2026. The newly released White House Artificial Intelligence (AI) Framework calls for light-touch regulation and federal preemption of restrictive state laws. Also notable were two regulatory approvals—antitrust clearance for the Nexstar Media Group Inc. (NXST) acquisition of Tegna, and the granting of US licenses to Nvidia Corp. (NVDA) to export H200 integrated circuits to China. However, looking ahead the outlook appears more mixed. On the one hand, we expect tailwinds from Trump administration policy to address rising concerns over memory shortage, and increased demand for cybersecurity certification organizations from the CMMC rollout. On the other hand, we expect H-1B visa reforms to pose significant labor cost risks for exposed employers, and states to pick up the regulatory baton through more active scrutiny of mergers and acquisitions.

NOTABLE DEVELOPMENTS

- The newly released White House Artificial Intelligence Framework.
- The \$41 billion annual revenue opportunity for Nvidia Corp. (NVDA) from receiving US and Chinese licenses to export H200s.
- The second revised settlement proposing to modify the permanent injunction in the Epic Games and Alphabet Inc. (GOOGL) Android app distribution and payments antitrust case.
- The Federal Communications Commission (FCC) and US Department of Justice’s (DOJ) approval of Nexstar Media Group Inc.’s (NXST) acquisition of Tegna.
- The release of federal infrastructure funding for broadband under Broadband Equity Access and Deployment (BEAD).

WHAT WE’RE WATCHING THIS QUARTER

- The US Department of Defense’s (DOD) rollout of Cybersecurity Maturity Model Certification (CMMC) as a demand driver for certified third-party assessment organizations (C3PAOs).
- What policies the Trump administration pursues to address the growing concerns surrounding memory shortage.
- The underappreciated increase in skilled non-immigrant labor costs for employers from the administration’s H-1B reforms.
- States taking a more active role earlier in blocking mergers and acquisitions.
- Guidance from the National Telecommunications and Information Administration (NTIA) on how states can spend the remaining \$21 billion in BEAD funds to support broadband adoption.

FY27 Defense Budget: Expecting A \$1.5 trillion Defense Budget Over 5 Years, Providing a Lift for All Defense Contractors

On March 20, 2026, the White House released its National Policy Framework for Artificial Intelligence. The framework reflects the administration's light-touch regulatory posture towards AI, and bolsters efforts to strengthen US AI leadership by prioritizing innovation and competition with China.

Capstone believes that although the framework sets an ambitious and comprehensive legislative agenda, significant disagreements between political parties (and even within the majority Republican Party) pose material barriers to momentum for AI legislation in the next year. Looking ahead, three core areas stand out as potential flash points in negotiations:

- First, the framework recommit to previous calls from the administration and Republican lawmakers for federal preemption of state AI laws to avoid a geographic patchwork of AI regulation. We believe this will be a prerequisite for Republican endorsement of any comprehensive AI legislation, particularly as it relates to state laws regulating AI development or burdening the use of AI in otherwise lawful contexts. However, there are exceptions; the framework does not endorse preemption of state regulations tied to policing (particularly around child safety) and does not signal any attempt to hinder states' zoning laws or other means of controlling the placement of AI infrastructure.
- Second, with regards to intellectual property rights, the framework does not commit to an approach on fair use and large language model (LLM) training, instead deferring to the courts. While the administration signaled its view that training on copyrighted material does not inherently violate the Copyright Act, recent rulings have favored content holders, particularly



where AI companies relied on unlicensed or pirated material. While the framework encourages Congress to consider establishing collective licensing systems that would enable content owners to negotiate compensation from AI providers, this is likely years down the road. On the output side, the framework also emphasizes protecting individuals from the unauthorized use of AI-generated digital replicates (or deepfakes) of their voice or likeness, while preserving free speech.

- Third, the framework urges Congress to pass legislation that ensures AI services and platforms protect children and empower parents. While this may increase momentum for pending federal children's privacy bills, many impactful provisions (e.g., age verification, duty of care) would be unlikely to survive constitutional scrutiny.

H200 Export Rule

In March 2026, Nvidia received licenses from both US and Chinese regulators to export H200 integrated circuits (ICs) to China. Nvidia CEO Jensen Huang later confirmed these clearances, and announced that the company has received H200 purchase orders from “many customers in China” and is in the process of “restarting... manufacturing.” Separate reporting also indicates that Chinese regulators have formally extended licenses to a broader set of customers, beyond the preliminary approvals previously granted to Alibaba Group Holding Ltd. (BABA), Tencent Holdings Ltd. (0700 on the Hong Kong exchange), and ByteDance.

Capstone believes that China’s willingness to grant the licenses signals that regulators recognize the limitations of domestic alternatives. From the US perspective, we view the decision as consistent with a more transactional approach to export controls

under the Trump administration, where continued access to advanced chips may be conditioned on economic concessions (e.g., revenue-sharing agreements) rather than a strict presumption of denial, despite ongoing pressure from China hawks in Congress to further tighten restrictions.

Additionally, Capstone believes the China-related H200 market presents both an enormous and underappreciated opportunity for exporters. Capstone analysis indicates that Nvidia alone could realize an increase in annual revenue of between \$10 billion-\$41 billion, depending on several factors that may constrain shipment volumes (security reviews, production capacity, China-side sourcing requirements, etc.). This would represent unanticipated new revenue, as management has consistently guided to zero China revenue in its most recent earnings presentations.

Epic v. Google

On March 4, 2026, Epic Games and Alphabet Inc.’s (GOOGL) Google submitted a second revised settlement to modify the existing permanent injunction from October 2024. Their proposal comes after Judge James Donato raised concerns at a January hearing that the parties’ earlier proposal risked undermining the scope and intent of the injunction. The Epic v. Google case, which began in 2020, centers on antitrust claims against Google and its Android app distribution and payments policies. A jury found Google unlawfully maintained monopolies in Android app distribution and in-app billing. The parties are seeking to settle the terms of the permanent injunction imposed by the court in 2024.

Capstone believes the revised settlement responds to Judge Donato’s primary concern about preserving third-party catalog access but leaves unresolved questions around service fees. The settlement signals a shift to 15%-20% service fee rates—higher than the zero-fee interim period under the injunction but down from the 15%-30% rate structure in place previously. The parties have requested further proceedings for April 9th, which Capstone will be monitoring. In the interim, Google must continue to comply with the injunction order.

In terms of readthrough to the Epic v. Apple case, we expect the fee structure emerging from Epic v. Google to serve as a benchmark for what constitutes a reasonable commission on out-of-app transactions.

However Apple is subject to a stricter standard around commissions for alternative billing. In Apple's appeal of the district court's injunction, the Ninth

Circuit affirmed the contempt finding but ruled Apple may still charge some commission, with the district court tasked with setting a reasonable rate.

Nexstar Tegna

Capstone believes mergers and acquisitions that are approved despite the objections of states and with few required concessions, such as Nexstar's acquisition of Tegna, will become increasingly common under the Trump administration.

FCC Chair Brendan Carr, the US DOJ's Antitrust Division, and the Federal Trade Commission appear to be taking a very pro-industry stance toward consolidation. In line with our expectations, companies that are willing to align with the Trump administration's views on issues such as abandoning corporate policies on Diversity, Equity, and Inclusion (DEI) have faced little scrutiny and have moved through the merger/acquisition approval process easily. Even transactions that raise concerns over excessive market concentration, or where the FCC's ownership limits are exceeded, are likely to face little scrutiny and secure approval.

State attorneys general appear to be pushing back on the Trump administration's accommodative stance

and lax enforcement of antitrust laws. We saw this first when DOJ settled an antitrust case against Live Nation Entertainment Inc. (LYV) mid-trial and three dozen states refused the settlement terms, opting to continue litigating the case independently. This was quickly followed by eight states filing an antitrust complaint and an emergency motion for a temporary restraining order to stop the \$3.5 billion Nexstar acquisition immediately after regulators approved that transaction.

In the absence of meaningful antitrust enforcement by the federal government, states are increasingly going to have to play a role in investigating anticompetitive business practices and blocking transactions that lead to excessive concentration in certain markets. States can no longer defer to the DOJ and FTC, and they will have to actively investigate announced mergers and acquisitions and quickly mobilize to block those they find problematic. Failing to act early would leave states trying to block a deal already approved by federal regulators, as was the case with Nexstar's acquisition of Tegna.

BEAD

The Broadband Equity, Access, and Deployment (BEAD) Program is a \$42.45 billion federal grant program administered by the National Telecommunications and Information Administration (NTIA) that aims to ensure universal high-speed internet access across the US. The program was authorized in 2021 and the NTIA only began to approve state grant programs to distribute

the funds for high-speed broadband deployments in unserved communities in late 2025. Roughly half the funds available will be spent by states, with most funds going toward either fiber-based deployment projects or to support the availability of broadband service provided either by low-Earth-orbit (LEO) satellites or fixed wireless broadband service using terrestrial wireless networks.

In 2025, NTIA rescinded its guidance on how states can spend the remaining \$21 billion available under the BEAD program. NTIA Administrator Arielle Roth has promised to release updated guidance shortly. Under the Infrastructure Investment and Jobs Act (IIJA), states are required to spend the funds on workforce development and promote broadband adoption, but the law is silent on exactly how states can meet these criteria. This \$21 billion could represent a sizeable investment by states in broadband adoption and we will be closely monitoring how states end up using the funds.

Capstone believes the new guidance will set some guardrails around how states spend funds and likely will ban their use to support programs perceived as being too “woke” or related to DEI. However, we see scope for the funds to be used to support broadband service in schools, subsidized broadband service for impoverished people, and workforce training—all consistent with Congress’s intent that unspent

deployment funds be directed toward expanding broadband access nationally.

The NTIA could also allow states to run a second round of bidding for deployment funds in areas that failed to receive any bids, even from LEO broadband providers like Starlink. The Advanced Communications Law and Policy Institute estimates that nearly one million locations eligible for funding were not included in the BEAD process or were included but received no bids. Some received no bids because the cost of providing service is too high (even with federal subsidies), while others were mistakenly classified as served by high-speed broadband and have since been reclassified. It would be consistent with congressional intent for the NTIA to solicit bids for these locations and perhaps substantially increase the amount of federal subsidies to incentivize companies to bid for the right to provide service in these locations.

Cyber CMMC

Capstone believes that the three-year rollout of the DOD’s CMMC program will drive demand for the services of accredited C3PAOs. The program, more than half a decade in the making, is designed to protect the defense industrial base (DIB) from cyberattacks via a tiered compliance framework. Ultimately, it will require all contractors and subcontractors handling controlled unclassified DOD information to achieve certification. DOD estimates that ~77,000 contractors will require CMMC certification, though this is likely an underestimate as it only reflects the organizations with which DOD has a direct relationship (as opposed to all Tier 2+ subcontractors).

This certification is conducted by C3PAOs, which stand to benefit from both an initial surge in demand for assessments as well as sticky recurring revenues

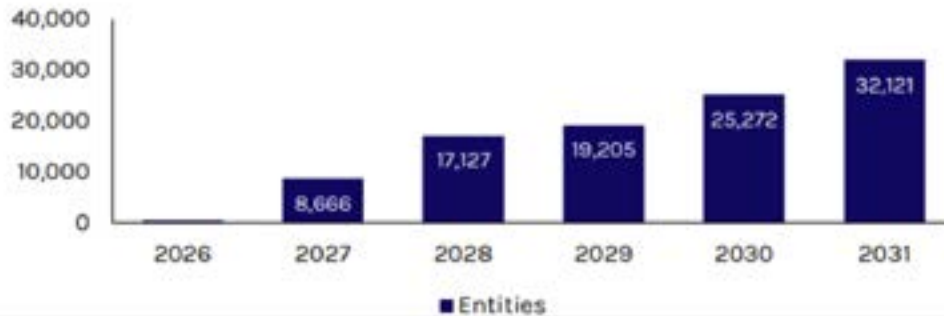
from contractor recertifications every three years. Today, the C3PAO market remains highly fragmented. We anticipate significant consolidation, driven largely by the emergence of winners and losers from the expected surge in demand.

Capstone believes the ability to attract and retain high-quality CMMC assessor staff will be a primary and underappreciated determinant for C3PAO competitive success. Throughout the rulemaking process, industry has warned that C3PAO and assessment team staffing shortages pose a meaningful bottleneck to certification for DIB contractors. For example, assessment teams are required to have (at least) a Lead CMMC Certified Assessor (CCA) and one other CCA. These roles require tier 3 background checks (equivalent to Secret-level security clearances) that can take anywhere from 30 days to over six months.

Crucially, these staffing and timeline requirements are likely here to stay because they are enshrined in regulations through the rulemaking process.

Changing them would require DOD to pursue a new rulemaking, likely a year-long process.

Exhibit 1: DOD's Level 2 Certification Estimates by Year



Memory Shortage

The AI boom has driven a surge in global demand for memory products that is increasingly outstripping supply, creating constraints across a host of downstream industries. The shortage spans both conventional memory—including dynamic random access memory (DRAM) and Not AND (NAND) flash memory used in smartphones, PCs, and servers—as well as high-bandwidth memory (HBM) used in data centers for AI inference, training, and other high-performance computing applications. Industry executives have characterized the situation as unusually severe; global memory chip capacity for 2026 is already largely sold out, and most projections suggest that incremental capacity additions are unlikely to materially ease shortages until at least 2028.

Capstone believes these memory shortage concerns will gain traction within the Trump administration, and we expect the next six-to-12 months to be pivotal in shaping the government's response. The administration has a clear incentive to address the issue, given the potential implications for several of its policy priorities. This includes affordability (as manufacturers of consumer electronics will likely

pass on spikes in the cost of memory to consumers) as well as AI infrastructure buildout (as memory shortages may increase project costs and delays).

While the White House has yet to outline a clear strategy, we believe it may consider several policy levers to incrementally alleviate the issue.

- **Antitrust Enforcement:** The Trump Department of Justice could pursue antitrust investigations against the major memory chip manufacturers—Micron Technology Inc. (MU), Samsung Electronics Co. Ltd. (005930 on the Korea exchange), and SK Hynix Inc. (000660 on the Korea exchange). Such action could pressure memory suppliers to increase supply or reduce prices, potentially offering relief to downstream buyers facing elevated memory costs.
- **Export Controls:** The Trump administration could ease restrictions on Chinese memory suppliers like ChangXin Memory Technologies and Yangtze Memory Technologies, and relax the conditions attached to the individual export licenses for Samsung and SK Hynix to operate their existing Chinese fabs.

Tariffs and Industrial Policy: The Trump administration could also seek to leverage CHIPS and Science Act awards to secure additional supply commitments or pricing concessions for US consumer electronics and data center customers. That said, the degree of

leverage would depend on how much of each award has already been disbursed, and any incremental capacity expansion would be unlikely to deliver immediate relief given the extended timelines associated with fab construction and ramp-up.



Visas

Unsurprisingly, immigration continues to be a defining issue in year two of the second Trump administration. The US Department of Homeland Security (DHS) has pursued increasingly aggressive internal enforcement tactics in cities across the US, in line with its stated mission of achieving one million annual deportations. While the administration previously enjoyed near-unanimous Republican support in this area, tragic events such as the two fatal January shootings in Minneapolis have driven increased scrutiny across the board. Most recently, this has culminated in a partial government shutdown due to disagreements about DHS funding levels, as well as the removal of Kristi Noem as Secretary of Homeland Security.

But while headlines have focused on mass deportations, Capstone believes that the market continues to underappreciate developments on the other side of the immigration coin—specifically regarding skilled labor entering the country via H-1B non-immigrant visas. Although comprehensive visa reform has eluded Congress for decades, the Trump administration has pursued three key H-1B visa reforms that will continue to play out over the coming year.

- **Petition Fee:** US Citizenship and Immigration Services (USCIS) has pursued rulemaking to impose a new \$100,000 fee for H-1B visa petitions.
- **Prevailing Wage Reform:** The US Department of Labor has pursued rulemaking to update prevailing wage levels for H-1B visa holders.
- **Selection Rule:** USCIS has pursued rulemaking to impose a new weighted selection rule to favor the allocation of H-1B visas to higher-skilled and higher-paid aliens.

If fully implemented, these changes would significantly increase the costs associated with H-1B labor, posing a material headwind to a broad cross-section of H-1B-dependent sectors (healthcare staffing, IT outsourcing, higher education institutions, etc.). However, their fate remains unclear given ongoing and potential future legal challenges. On balance, Capstone believes that the prevailing wage reform and the selection rule are likely to survive, while full implementation of the petition fee is more at risk given the strength of ongoing litigation.

Europe

Over a year into President Trump's second term, European countries face mounting geopolitical and trade pressures. Against this backdrop, we expect policymakers to accelerate efforts to enhance digital sovereignty, economic competitiveness, and security resilience. As the Trump administration pushes its "America First" agenda, the EU is moving to strengthen its long-term competitiveness through a simpler regulatory framework. The EU has so far submitted six omnibus packages for adoption, supporting policy goals that include sustainability, EU investment, digitalization, defense readiness, and energy security. While companies and investors face risks from persistent geopolitical tensions, and any re-escalation of trade disputes with the US or China, we believe the policy environment will remain supportive of strategic sectors, particularly AI and digital infrastructure.

NOTABLE DEVELOPMENTS

- EU approves July 2025 EU-US trade deal, but ratification outlook remains uncertain.
- The Council of the EU and two parliamentary committees agree on their revisions to the proposed streamlined AI rules.
- European Council rejects wholesale electricity price reform; signals openness to ETS and state aid flexibility.
- European Commission opens consultation on EU taxonomy revisions
- The collapse of talks for the UK to join the SAFE defense fund represents a setback for the UK-EU reset.

WHAT WE'RE WATCHING THIS QUARTER

- Negotiations between the EU Parliament and EU Member States on the EU-US trade deal conditions.
- The EU Cloud and AI Development Act will attempt to address shortcomings in cloud and AI capacity by encouraging the permitting of new data centers.
- European Council measures, including ETS recalibration and electricity price reduction measures (near-term) and wider ETS reform (July 2026).
- SFDR 2.0 Trilogue negotiations to progress following publication of the legislative proposal.
- Disbursements from the EU's flagship SAFE financing instrument will begin to be spent at scale.

EU Approves July 2025 US-EU Trade Deal with Safeguards; Ratification Outlook Remains Uncertain

The EU has actively pursued a series of free trade agreements to diversify its trade relationships, while seeking to preserve the tariff compromise negotiated with President Donald Trump last year.

On March 26th, the European Parliament voted to advance the US-EU trade deal, overwhelmingly approving it 417 to 154, and resumed the ratification of the framework agreement reached in July 2025.

Implementation had been on hold since January, when the US Supreme Court ruled against Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose tariffs, which were subsequently replaced with a 10% tariff regime. Concerns over US trade policy, combined with the President's earlier threats to annex Greenland, had led Europe to suspend the ratification process.

Under the July 2025 agreement, Europe would remove tariffs (which were never put into effect) on a range of US goods, including aircraft, chemicals,

and agricultural products. In exchange, the US would apply a 15% tariff on many European imports while maintaining 50% duties on steel and aluminum. The deal also obliges the EU to purchase \$750 billion in US energy products by 2028.

Although the Parliament voted to implement the EU-US trade deal, it introduced additional safeguards, including: 1) a suspension clause pausing the agreement if US tariffs on EU goods exceed 15%, 2) a sunrise clause making the deal effective only after the US lowers its tariffs on EU products with steel and aluminium content below 50% to 15%, and 3) a sunset clause setting an expiry date of March 31, 2028.

Going forward, we believe EU implementation of the EU-US trade deal still faces uncertainty, as the EU Parliament must now negotiate these safeguards with EU Member States. EU Member States are motivated to stabilize US trade relations as soon as possible. The EU has expressed a political ambition to implement the deal by May 2026.

Digital Sovereignty Rises on the EU's Political Agenda, Reshaping the Digital Services Landscape in Europe

Capstone believes digital sovereignty has moved to the forefront of the EU's political agenda and will increasingly shape the competitive landscape for digital services in Europe throughout 2026.

The European Commission (EC) is expected to propose the Cloud and AI Development Act (CAIDA) in the coming months as a flagship initiative under its AI Continent Action Plan and Data Union Strategy. CAIDA is designed to address a widening gap

between available computing infrastructure and AI-driven demand, while also reducing the EU's strategic dependence on non-European cloud providers.

The proposal is expected to promote research and innovation, target the tripling of EU data center capacity within five to seven years, and ensure that critical use cases can be supported via secure, EU-based cloud infrastructure. CAIDA is also likely to set binding rules and targets and establish a "buy European" mandate encouraging the use of secure, local cloud capacity.

A Franco-German Digital Sovereignty Summit in November 2025 showed strong political consensus for advancing digital sovereignty at the Member State level. France and Germany established a joint task force to define European digital sovereignty across key sectors, including cloud services, artificial intelligence, and cybersecurity, with findings expected in 2026. We believe these findings will carry political weight, shaping the direction of ongoing legislative digital sovereignty initiatives.

EU policymakers are also working to streamline the digital rulebook. On November 19, 2025, the

EC published the Digital Omnibus, a package of targeted amendments to the EU's digital rulebook spanning the AI Act, the General Data Protection Regulation (GDPR), the Network and Information Security 2 (NIS2) Directive, the Data Act, and the Data Governance Act. The EC projects administrative cost savings of c.€6 billion for businesses by the end of 2029. While the Omnibus represents a meaningful push for simplification, we note that it does not reopen fundamental regulatory standards. Adoption is targeted for end of 2026, with reforms likely taking effect in 2027.

Launched alongside the Digital Omnibus, the Digital Fitness Check represents the second stage of the EC's simplification agenda. It is a broader stress-test of the coherence and cumulative impact of EU digital legislation. The public consultation closed on March 11, 2026, with stakeholders invited to identify overlapping obligations, conflicting definitions, and areas of unnecessary compliance complexity. The EC will assess submissions and propose next steps.

Iran Conflict Drives Fresh Gas Volatility; European Council Rejects Electricity Market Reform but Mandates Action on Prices and Carbon

The first quarter of 2026 brought the most sustained political challenge to EU electricity market design since the 2022 energy crisis, further compounded by gas price volatility triggered by escalating tensions with Iran.

The political pressure centered on the merit order, the EU rule under which all electricity generators are paid the same wholesale price, set by the most expensive source on the grid at any given moment, typically gas. As a result, wind and solar developers

earn a gas-derived price that far exceeds their own production costs.

Energy-intensive industries argue this is structurally unfair, and the numbers give them ammunition: average EU industrial electricity costs reached approximately US\$105/MWh in 2025, more than double comparable US levels. Germany and Italy, both heavily reliant on gas-fired generation, backed calls for wholesale reform, while a broad industry coalition pushed for suspension or weakening of

the EU Emissions Trading System (EU ETS), Europe's carbon pricing mechanism. The ETS affects electricity bills because gas-fired generators pass their carbon allowance costs into the wholesale price they set.

The March 19th-20th European Council ruled out any reform of wholesale price formation, but left room for national measures that do not distort the single market. On the ETS, leaders called for targeted measures by July 2026 to reduce carbon price volatility, while preserving the market-based price signal, language that we believe rules out suspension or sector exemptions. The Council also cited the Commission President's intention to increase the Market Stability Reserve (MSR), the buffer mechanism governing allowance supply, as a near-term instrument to dampen price spikes. Italy's Decreto Bollette, an emergency law reimbursing gas plants for their ETS carbon costs to compress wholesale prices, sits precisely on the boundary between permissible national measures and incompatible

state aid. The Commission's state aid review will determine which side it falls on.

Two Commission deadlines now shape the outlook. Near-term, we expect a package of electricity price measures, covering network charges, taxes, levies, and emergency gas interventions, alongside the MSR adjustment. By July 2026, we expect a broader ETS reform proposal should follow. We view this upcoming carbon market reform as the defining regulatory test of the year. The investment case for industrial decarbonization, low-carbon hydrogen, and carbon capture rests on a credible EU carbon price, and structural dilution would reprice long-term assumptions across all three. The White Paper on electricity market integration will signal how far the Commission is prepared to go on existing reforms, including faster Contract for Difference (CfD) auctions, stronger Power Purchase Agreement (PPA) frameworks, permitting acceleration and deeper interconnections, without touching the market's underlying architecture.

Sustainable Finance Simplification Gathers Pace; Taxonomy Revision and SFDR Both Progress

Simplification of the EU's sustainable finance framework is advancing on two fronts. On March 17, 2026, the Commission launched a consultation on draft revisions to the EU Taxonomy's technical screening criteria (TSC), while the legislative proposal to overhaul the Sustainable Finance Disclosure Regulation (SFDR) has entered trilogue negotiations.

The draft Taxonomy revisions cover two delegated acts amending the Climate Delegated Act (CDA) and the Environmental Delegated Act (EDA), with the feedback window open until April 14, 2026. The common thread across both acts is simplifying how companies demonstrate compliance, with Do No Significant Harm (DNSH) changes including broader acceptance of existing permits as proof of

compliance on water and biodiversity criteria, and further simplification of chemicals requirements.

We do not expect the procedural path for these revisions to be contentious. As delegated acts, the revisions require no co-decision with the European Parliament and Council. Instead, once adopted by the Commission, legislators have a two-month scrutiny period during which they can only accept or reject the acts, but opposition here is limited.

The SFDR proposal is a more ambitious reform. The Commission is proposing to replace the existing Article 8 and 9 disclosure framework - which functioned in practice as an informal labeling system - with three formal product categories: Transition, ESG Basics, and Sustainable, each with a 70%

minimum investment threshold. Entity-level principal adverse impact reporting would be removed, the concept of “sustainable investment” deleted entirely, and financial advisers taken out of scope.

We do not expect the SFDR proposal to be adopted before late 2026. In the Council, the Cypriot Presidency has signaled ambition to reach a common position by end of summer, and while there is broad

support for the 70% threshold, several member states are expected to push for a higher bar. In Parliament, the ECON committee has appointed its negotiating team, though discussions remain at an early stage. We expect the core architecture of three product categories to emerge from trilogues largely unchanged, reflecting wide political support and the significant market input the Commission drew on in designing the framework.

SAFE Scheme Unlocks Defense Funding for 18 EU Member States; EU Council President Revives Hopes of UK Participation

Actions taken by several EU Member States in the opening months of 2026 confirmed that European rearmament has shifted from political commitment to operational execution, prompting fresh scrutiny of whether delivery can meet the lofty ambitions set out this time last year.

Seventeen EU countries activated the “national fiscal escape clause” under EU budget rules by February 2026, permitting an additional 1.5% of the GDP in flexibility for defense spending through 2028. Among all, Germany is the most important success story: its 2026 combined defense budget of approximately €108 billion is actively deploying, with military procurement receiving the largest uplift.

Security Action for Europe (SAFE), the EU’s primary funding instrument for rearmament, transitioned from policy design to a live facility during the first quarter of 2026. The scheme was oversubscribed, with collective requests from 19 countries exceeding the €150 billion ceiling. This prompted the Commission to hint at the possibility of future expansion. In March 2026, the Commission submitted a proposal to the Council to approve financial assistance for Czechia and France as part of the third batch of countries to be approved. The Council has

already adopted the defense plans for 16 Member States in the first and second waves.

However, politics seems to be getting in the way for two countries. Poland’s president has vetoed the country’s bill to implement SAFE, and Hungary’s bid has been informally frozen by the Commission due to Budapest’s blocking of a €90 billion loan for Ukraine (which includes €60 billion for defense-related matters).

Moreover, the industry remains in the dark about the direction of travel for this funding. It remains to be seen how interoperable SAFE spending will be in practice, given the EU’s desire for this to lead to more cross-EU procurement, or whether it will just be spent on each country’s domestic champions.

Late last year, the UK’s plans to join the SAFE fund fell through after the Labour government, led by Prime Minister Keir Starmer, declined to make a financial contribution. However, EU Council President Antonio Costa has stated he is confident the EU and the UK would reach a deal on the latter’s participation.

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