

JULY 9, 2025

THE ONE BRIEF BEAUTIFUL BREAKDOWN

Executive Summary

- Our initial assessment of this legislation centers around three key points: it creates incentives for capital-intensive businesses to strengthen their investment pipeline; it is regressive, with benefits skewed towards higher-income consumers; and it does little to address the long-term sustainability of the U.S. fiscal position.
- The total cost of the Bill over the next decade is likely to be higher than \$4 trillion (after including the additional interest costs), and higher than \$5 trillion if some of the temporary measures are made permanent before expiration. These numbers would be enough to cause the Treasury debt to rise to ~127% of GDP by 2035, relative to the baseline projection of 117%. And the U.S. Treasury could end up paying \$700 to \$800 billion in extra interest costs, an estimate that relies on bond yields staying at current levels or lower over the next decade. These are not examples of fiscal discipline. But they are also likely already reflected in current bond valuations.
- We think that elevated equity valuations might already be reflecting significant optimism about the positive elements of the OBBBA, and that this optimism could be challenged by a few wildcards, including the re-emergence of tariff risks and their impact on economic growth, inflation and labor market conditions. With this in mind, we continue to orient our outlook for the remainder of 2025 around our base-case scenario, which assumes ongoing market and economic volatility and small, yet positive equity gains.
- Our view is that a combination of faster deregulation, ongoing broadening of AI investments and technology adoption, and a revival of “animal spirits” within high-value-add manufacturing industries would constitute the best recipe for a continued acceleration in productivity growth in 2026 and beyond. This is a core thesis supporting our long-term optimism around U.S. equities, which led us to take advantage of the market volatility in April to increase exposure to stocks within our long-term Strategic Asset Allocation (SAA).



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On July 4, 2025, President Trump signed the “One Big Beautiful Bill Act” (OBBBA) into law, following completion of the budget reconciliation process in both the House and Senate. As we explain more in detail below, our initial assessment of this legislation centers around three key points:

- It creates incentives for capital-intensive businesses to strengthen their investment pipeline, thereby providing an offset to tariff-related headwinds. Most of these incentives are contingent on capital being deployed to boost domestic production capacity, in line with the Trump administration’s focus on engineering a U.S. manufacturing renaissance.
- In addition to the extension of most individual tax cuts originally included in the 2017 Tax Cuts and Jobs Act (TCJA), some households receive further support via lower taxes on tips and overtime income, and a higher State and Local Tax (SALT) deduction amount. However, the significant cuts to important government transfers like Medicaid and the Supplemental Nutrition Assistance Program (SNAP) make this bill regressive,¹ with households in lower-income brackets expected to see a decline in disposable

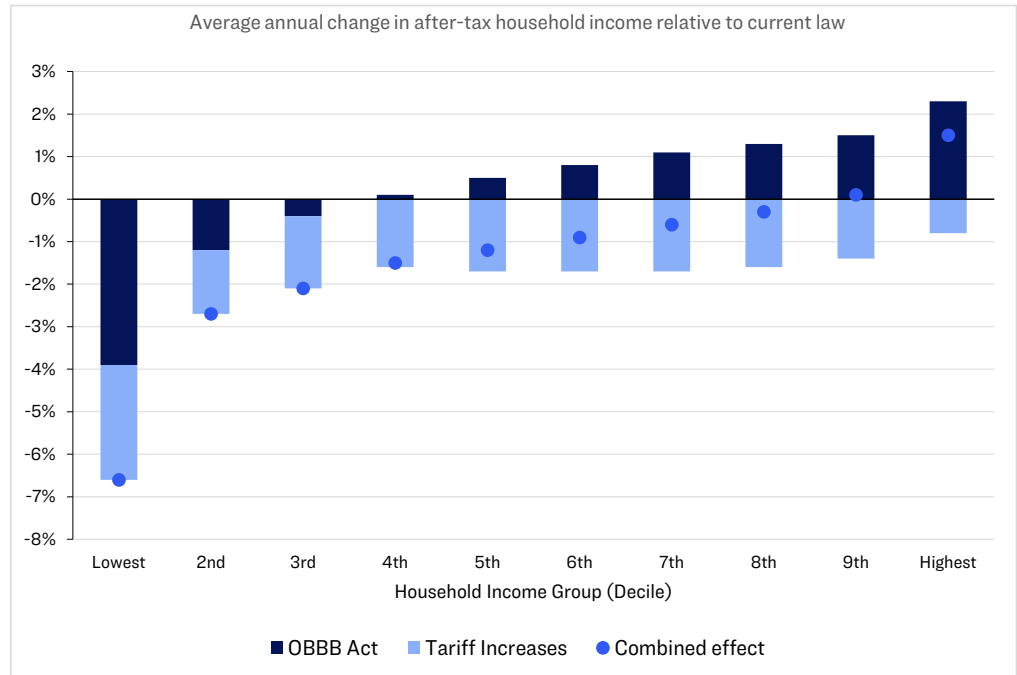
¹ As scored by several independent agencies, including the nonpartisan Congressional Budget Office.

income over the next decade relative to projections based on current law² (Figure 1). The impact of trade tariffs presents an additional challenge that could further water down the positive elements of the OBBBA for many households.

- It does little to address the long-term sustainability of the U.S. fiscal position, and its aggregate impact on Gross Domestic Product (GDP) growth could be rather modest both in the short-term and in the long-term.

FIGURE 1

Distributional effect of the OBBBA across U.S. households.



Source: CBO, Yale Budget Lab, TIAA Wealth Chief Investment Office.

Let's dive into each of these considerations.

U.S. Businesses

The OBBBA reinstates full expensing for Research and Development (R&D) in the year in which they are incurred³ (this provision originally expired in 2022), extends a crucial TCJA business provision that allows businesses to deduct 100% of the cost of acquiring certain depreciable assets (equipment, machinery, etc.) in the year of acquisition, and introduces the ability to write off the cost of certain manufacturing and production-related structures. In addition, the CHIPS Act investment tax credit was raised from 25% to 35%, creating a strong incentive for chipmakers to boost the production of semiconductors in the U.S.

Given the retroactive applicability for some of these measures, their impacts could be felt over the next couple of quarters, with a \$80/\$100 billion stimulus effect (~0.3% of GDP) over the remainder of 2025. Our view is that the main beneficiaries should be capital-intensive companies (manufacturing, small and mid-sized businesses), that now have the opportunity to upgrade their tangible asset base. Coupled with the ongoing strength in artificial intelligence

² Current law projections assumed that the 2017 TCJA provisions would fully expire at the end of 2025.

³ International R&D expenses must still be expensed over a 15-year period.

(AI) investments (which could be further buoyed by the increased CHIPS Act tax credit), productivity growth could experience a renewed impulse.

Faster productivity growth is necessary to offset the secular slowdown in the growth of the U.S. workforce (which engenders upward pressure on inflation and downward pressure on GDP growth) and achieve higher rates of economic growth. In the absence of fiscal discipline, a productivity-led boost to economic growth is also the best available solution to gradually slow and reverse the upward trajectory of the U.S. federal debt.

U.S. Households

The extension of the expiring individual tax cuts originally introduced by the 2017 TCJA avoids a “fiscal cliff” for U.S. consumers that could have otherwise experienced a significant spike in tax rates. However, this extension (which is estimated to reduce federal revenues by \$3.4 trillion over the next decade, ~80% of the total revenue impact of the OBBBA) does not constitute fresh stimulus for households. Instead, fresh support comes in the form of no taxes on tips (up to \$25,000) and overtime income (up to \$25,000 if married filing jointly), with income limits starting to phase in above \$300,000 (for married couples filing jointly); in the form of a hard-fought (by Republicans from high-income states), yet temporary (set to expire after 2029), increase in the SALT deduction amount to \$40,000 (phasing out starting at \$500,000 in income); in the form of a \$1,500 increase to the standard deduction (\$750 for single tax filers) to \$31,500 for 2025; and in the form of an additional \$6,000 (\$12,000 if married filing jointly) temporary boost to the standard deduction for senior tax filers age 65 and older (phasing out starting at \$75,000 in income, of \$150,000 for married couples). The stimulus effect of these measures is likely to be concentrated around Tax Day in April 2026, when households should see larger-than-expected tax refunds.

However, these benefits must be measured against the backdrop of material cuts to crucial and widely used government programs, like Medicaid and SNAP. In the past, the Congressional Budget Office (CBO) estimated that each dollar transferred by the federal government to individuals could produce as much as \$2.10 of additional spending into the U.S. economy, a multiplication effect greater than the one from individual and corporate tax cuts. Moreover, these cuts are projected to skew the distributional effects of the OBBBA in favor of higher-income households, therefore exacerbating income inequalities that have already been stressed by elevated inflation over the past few years.

Finally, trade tariffs remain a drag on consumer income and could largely offset any positive fiscal stimulus stemming from the OBBBA. As Figure 2 shows, the combined impulse (defined as the year-over-year change in the primary budget deficit⁴) of tax cuts, spending cuts and tariff revenue⁵ is projected⁶ to be negative in 2025 and (while to a lesser extent) in 2026.

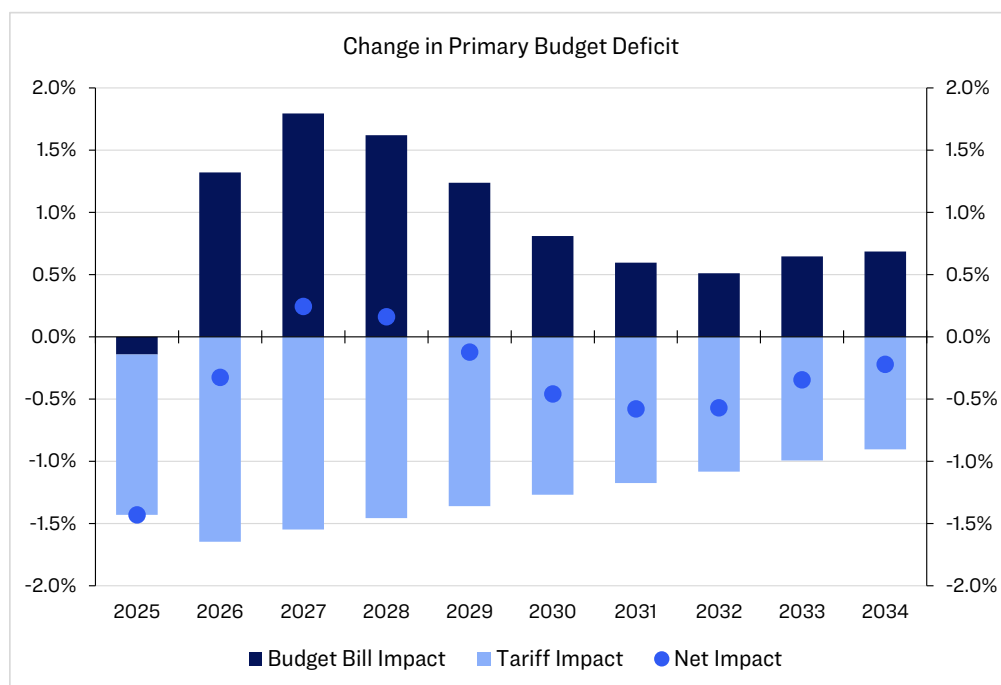
⁴ Difference between government revenue and spending, excluding interest payments.

⁵ Paid either by businesses in the form of higher input costs or by consumers if business pass higher production costs down to their customers.

⁶ Penn Wharton Budget Model and Congressional Budget Office data.

FIGURE 2

The combined effect of tax cuts, spending cuts and tariff revenue is projected to reduce the primary budget deficit in 2025 and 2026.



Source: CBO, Penn Wharton Budget Model, TIAA Wealth Chief Investment Office.

What else is in the bill?

As part of the reconciliation process, Congress also agreed to lift the debt ceiling⁷ by \$5 trillion (from \$36 trillion to \$41 trillion). Based on CBO projections, this new limit would hit between 2029 and 2030. Addressing the debt ceiling before the U.S. Treasury risks depleting its operating cash reduces the risks posed to the normal functioning of short-term funding markets. It also allows the U.S. Treasury to replenish its operating cash account (the Treasury General Account), which over the past few months was drawn down from more than \$800 billion to \$370 billion. This will happen quickly, through the issuance of short-term Treasury bills. While money market funds (the natural buyer of short-term government securities) have some dry powder to absorb this accelerated issuance, it is nowhere near as high as it was in 2023 when the debt ceiling was last lifted, and the Treasury issued \$1.1 trillion in T-Bills between June and August 2023. We will closely monitor how this issuance is received by market participants, and we see some moderate risks to market volatility if liquidity is impacted. As stated, we think the risk is higher than it was in the summer of 2023.

What does it mean for investors?

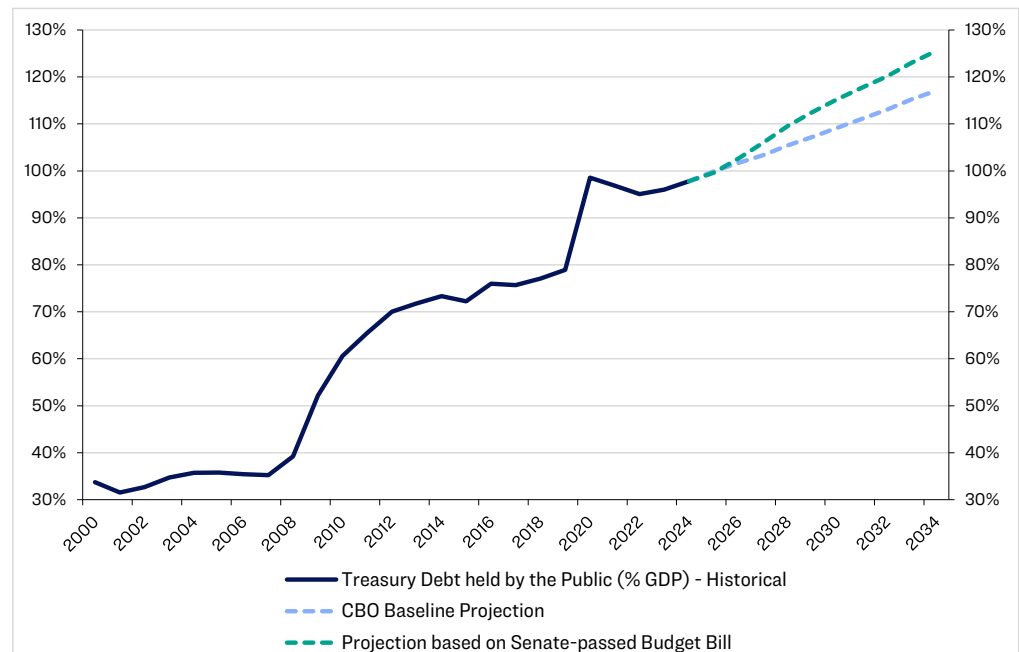
Based on the above assessments, our view is that the impact of this tax bill on aggregate economic growth could be modest, rather short-lived, and concentrated in select household groups and corporate sectors. This aligns with our recently published [2025 Midyear Outlook](#), which emphasizes that the primary impact of fiscal policy on the U.S. economy and markets in the second half of the year would largely be determined by how bond yields react to fiscal sustainability concerns. To this effect, the total cost of the OBBBA

⁷ The limit set by Congress for how much money the U.S. can borrow to meet its legal obligations.

over the next decade is likely to be higher than \$4 trillion (after including the additional interest costs), and higher than \$5 trillion if some of the temporary measures are made permanent before expiration. These numbers would be enough to cause the Treasury debt⁸ to rise to ~127% of GDP by 2035, relative to the baseline projection of 117% (Figure 3). And the U.S. Treasury could end up paying \$700 to \$800 billion in extra interest costs, an estimate that relies on bond yields staying at current levels or lower over the next decade.

These are not examples of fiscal discipline. But they are also likely already reflected in current bond valuations. Since the November '24 election (when it became clear that a large fiscal package would be a key policy priority in 2025), the U.S. Treasury 10-year term premium⁹ has risen from 0.2% to a peak of 0.9% at the end of May and has since declined to 0.65% even as the reconciliation bill neared passage in Congress. Does this mean that bond investors should start dismissing the long-term implications of the U.S. fiscal trajectory? We don't think so. In our view, elevated budget deficits should continue to represent a recurring source of volatility for U.S. and global bonds and limit the extent to which long-term yields can decline in the absence of economic recessions.

FIGURE 3
Projected trajectory of
the U.S. Federal Debt
as a percentage of GDP.



Source: CBO, Penn Wharton Budget Model, TIAA Wealth Chief Investment Office.

On the equity front, the first Trump presidency offers some lessons as to how stocks reacted to the prospect, the passage, and eventually the execution of the 2017 Tax Cuts and Jobs Act. While the 3-month and 12-month equity performance leading up to December 22, 2017 (when the TCJA was signed into law) was solid (7.8% and 21%, respectively), the 3-month and 12-month performance following the signing was much less compelling (-1% and -8%, respectively), as trade tensions (especially with China) became a primary driver of market volatility in 2018.

⁸ Only debt held by the public is used for this calculation. It excludes intragovernmental debt.

⁹ A measure of the extra compensation required by investors to own long-term bonds rather than continuously rolling over short-term maturities.

The key focus, therefore, is on how much is already reflected in equity valuations, and what could drive further upside for U.S. stocks. The S&P 500 has performed strongly since mid-April (+15.5% since April 15, 2025). Over the same period, both industrials (+ 17.2%) and consumer discretionary (+16.3%) stocks have been leading the pack (alongside technology stocks), as tariff relief has been accompanied by growing optimism about a shift towards more market-friendly corporate and individual tax relief. However, year-to-date (YTD), industrials have greatly outperformed the consumer discretionary sector (by 16.7%); this seems to be in line with our view that the positive implications of the OBBBA for capital-intensive, manufacturing-oriented businesses looks more straightforward than the more mixed implications for U.S. households (also against the backdrop of tariff tensions).

For equity markets to continue their march higher, we think that deregulation needs to become the Trump administration's overarching policy priority going forward, and a re-escalation in trade tensions must be avoided. That said, secular AI tailwinds are a key difference relative to the first Trump presidency. They provide a powerful source of support and resilience for earnings growth and are already driving strong capital expenditures that could now find further impetus through the expanded business tax credits included in the OBBBA. Our view is that a combination of faster deregulation, ongoing broadening of AI investments and technology adoption, and a revival of "animal spirits" within high-value-add manufacturing industries would constitute the best recipe for a continued acceleration in productivity growth in 2026 and beyond. This is a core thesis supporting our long-term optimism around U.S. equities, which led us to take advantage of the market volatility in April to increase exposure to stocks within our long-term Strategic Asset Allocation (SAA).

Our short-term tactical view is more nuanced. We think that elevated equity valuations might already be reflecting significant optimism about the positive elements of the OBBBA, and that this optimism could be challenged by a few wildcards, including the re-emergence of tariff risks and their impact on economic growth, inflation and labor market conditions.

With this in mind, we continue to orient our outlook for the remainder of 2025 around our [base-case scenario](#) (page 14), which assumes ongoing market and economic volatility and small, yet positive equity gains. As a result, we keep a neutral tactical allocation to equities (relative to the long-term SAA), and an underweight tactical allocation to high-yield bonds as a hedge against more adverse market outcomes (currently not reflected in historically expensive credit valuations).

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