

AUGUST 2025

# ONE BIG BEAUTIFUL MIXED BAG FOR INVESTORS

## Executive Summary

- In our view, the One Big Beautiful Bill Act (OBBBA) centers around three key points: it creates incentives for capital-intensive businesses to strengthen their investment pipelines; it provides additional tax benefits for consumers but also weakens some key federal transfer programs like Medicaid and the Supplemental Nutrition Assistance Program; and it does little to address the long-term sustainability of the U.S. fiscal position.
- We expect its impact on financial markets to develop along four key themes:
  - » We expect economic fundamentals to drive Treasury bond yields in the near term. (Bond yields move in the opposite direction of prices.) However, lack of fiscal discipline in Washington creates a structural source of long-term volatility in fixed income markets, and it may limit how low bond yields can go, even during economic slowdowns.
  - » The news is better for corporate bonds. The provision allowing first-year deductibility of qualifying capital expenditures should boost business cash flows, further strengthening already healthy corporate balance sheets. Although credit spreads are already historically tight, strong corporate fundamentals make both investment-grade and high-yield corporate bonds attractive.
  - » OBBBA's stock-market impact will likely be modest, short-lived, and concentrated in specific sectors rather than broadly distributed. Current elevated equity valuations may already reflect optimism about positive elements in the legislation, and this optimism could fade if tariff risks resurface and stifle growth. Capital-intensive, manufacturing-oriented businesses stand to gain most directly from the legislation.
  - » The Trump administration's imposition of large tariffs on all major trading partners diminishes the attractiveness of U.S. markets compared to international alternatives, and we expect this to cause a gradual depreciation of the U.S. dollar from historically expensive levels. However, the dollar's long-term position as the global reserve currency is still supported by superior productivity growth and the long-term appeal of the U.S. as an innovation hub attracting global investment, which is reinforced by 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.



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Signed into law last month, the One Big Beautiful Bill Act (OBBBA) is definitely big—nearly 900 pages—but beauty may be in the eye of the beholder. Our own opinion is that OBBBA is poised to benefit manufacturers and high-income taxpayers, may disadvantage low-income consumers, and will likely have mixed impacts for stocks and bonds. As we first covered in our July *FocusPoint*, "[The One Brief Beautiful Breakdown](#)," our viewpoint centers around three key economic insights:

- The budget act creates strong incentives for capital-intensive businesses (manufacturing, technology, etc.) to accelerate their investment pipelines, thereby providing an offset to tariff-related headwinds. Most of these incentives are contingent on capital being deployed to boost domestic production capacity, and the tax benefits only apply when companies spend money to build or expand in the U.S.—in line with the Trump administration's goal of bringing manufacturing jobs back to America.
- In addition to the extension of most individual tax cuts originally included in the 2017 Tax Cuts and Jobs Act (TCJA), households receive some further support via a higher State and Local Tax (SALT) deduction amount, an enhanced

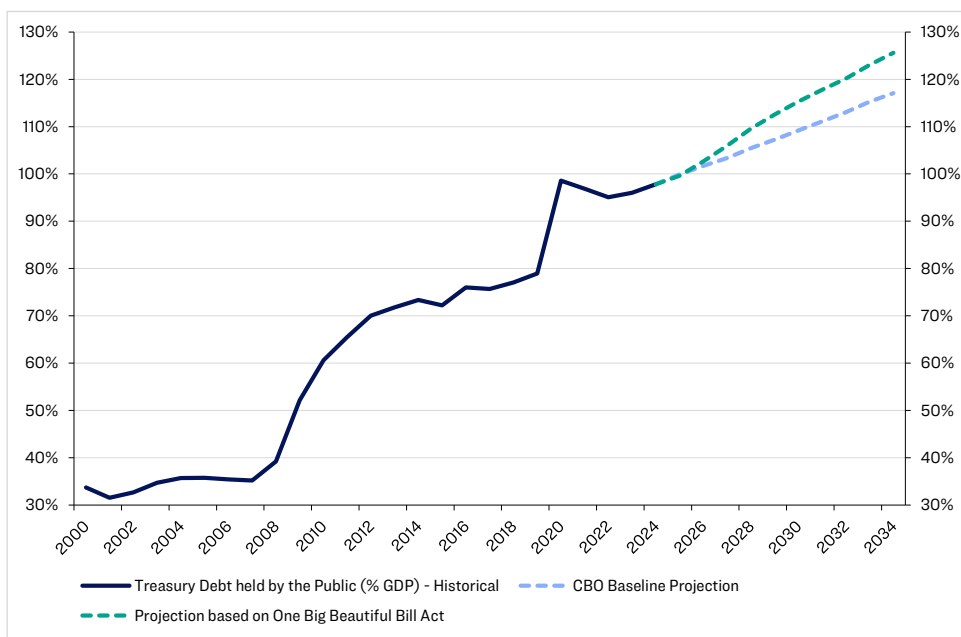
standard deduction, and lower taxes on tips and overtime income. However, significant cuts to important government transfers like Medicaid, and the Supplemental Nutrition Assistance Program (SNAP), in addition to the impact of tariffs could offset the benefits of these tax breaks for many households.

- The impact of tariffs presents an additional challenge that could further dilute the positive elements of the OBBBA for many households. OBBBA fails to improve the U.S.'s fiscal position or address the long-term sustainability of federal debt, which is one reason why the legislation's impact on economic growth could be rather modest in the short and long terms.

In this month's CIO Perspectives, we expand on some of the key provisions included in OBBBA, focusing on how the economy and financial markets could be impacted over coming months and years. Below, we break down what we view as the most consequential elements of this new legislation for investors.

**OBBBA makes permanent several key provisions included in the 2017 TCJA,** including changes to individual tax rates and brackets, the increased standard deduction, and the increased estate and gift tax exemptions. This avoids a “fiscal cliff” for U.S. consumers who otherwise could have experienced a significant spike in tax rates. However, this extension of the tax cuts (which is estimated to reduce federal revenues by \$3.4 trillion over the next decade, ~80% of the total revenue impact of OBBBA) does not constitute fresh stimulus for households. It also adds significantly to the long-term trajectory of the federal budget deficit and debt. The total cost of OBBBA over the next decade is likely to be higher than \$4 trillion (after including the additional interest costs), and perhaps higher than \$5 trillion if some of its temporary measures are made permanent. U.S. debt would rise to ~127% of gross domestic product (GDP) by 2035, relative to the baseline projection of 117% (Figure 1). The U.S. Treasury could end up paying \$700 to \$800 billion in extra interest costs, and that estimate assumes bond yields stay at or below current levels over the next decade.

**FIGURE 1**  
Projected trajectory of  
U.S. federal debt as a  
percentage of GDP.

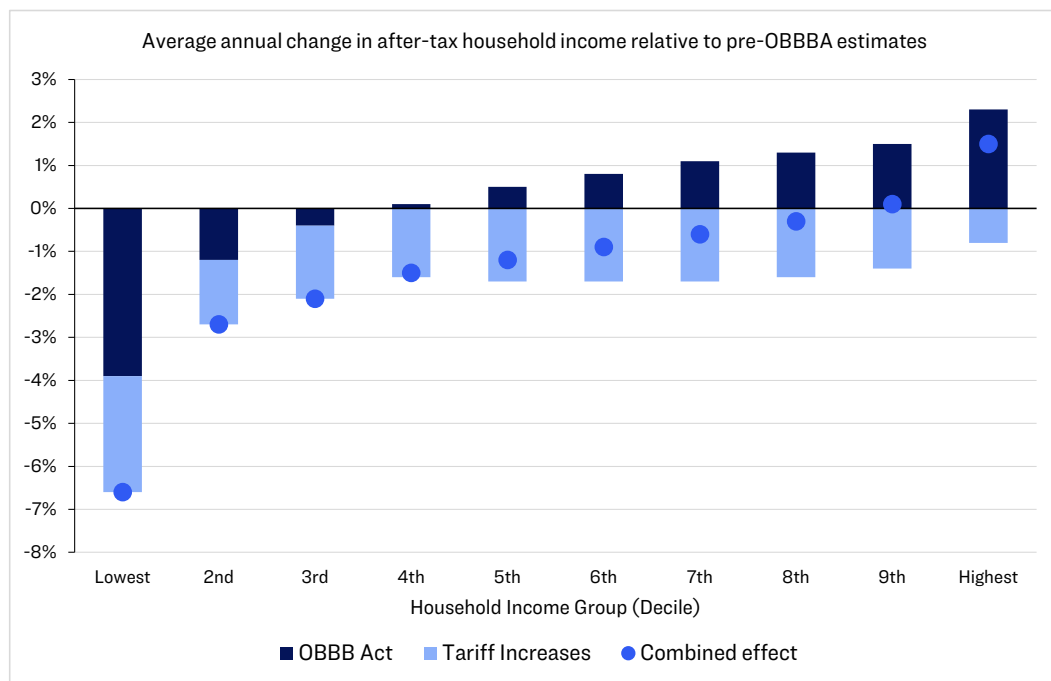


Source: CBO, Penn Wharton Budget Model, TIAA Wealth Chief Investment Office.

In addition to extending the TCJA tax cuts, OBBBA introduces some **new tax breaks too**: reduced taxes on tips and overtime;<sup>1</sup> a higher State and Local Tax (SALT) deduction cap (rising from \$10,000 to \$40,000);<sup>2</sup> a higher standard deduction beginning in 2025 for all taxpayers, and an enhanced standard deduction—\$6,000 extra—for senior citizens<sup>3</sup> (age 65 and older). Both the higher cap for SALT deductions and the income tax breaks on tips and overtime expire after 2028.

However, these benefits must be measured against the backdrop of material cuts to important government programs like Medicaid and SNAP, in addition to the impact of tariffs on consumer prices (Figure 2). In the past, the Congressional Budget Office (CBO) has estimated that each dollar transferred by the federal government to individuals could produce as much as \$2.10 of additional spending for the U.S. economy—a multiplication effect greater than that provided by individual and corporate tax cuts. Moreover, these cuts are projected to skew the distributional effects of OBBBA in favor of higher-income households, exacerbating income inequalities already deepened by high inflation over the past few years.

**FIGURE 2**  
Distributional effect  
of OBBBA across U.S.  
households.



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

**OBBBA expands, reinstates, or extends several business provisions aimed at boosting domestic manufacturing investments.** It restores the ability to immediately deduct domestic research and development (R&D) expenses in the year in which they are incurred (this provision expired in 2022). It extends a valuable 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. It introduces the ability to write off the cost of certain manufacturing and production related buildings and structures. Additionally, it raises the CHIPS and Science Act investment tax credit from 25% to 35%, creating a strong incentive for chipmakers to increase production of semiconductors in the U.S.

1 With a phase out starting at \$150,000 in gross income for single filers, or \$300,000 for married couples filing jointly.

2 The cap is reduced by 30 cents for every \$1 of modified adjusted gross income above \$500,000, with a minimum cap of \$10,000 for income above \$600,000.

3 The deduction is reduced by 6 cents for every \$1 of modified adjusted gross income above 75,000 for single filers (or \$150,000 for married couples filing jointly), until fully phased out (at \$175,000 for single filers and \$250,000 for married couples filing jointly), and the senior deduction is only for 2025-2028.

There are three main implications stemming from these tax benefits:

- By allowing businesses to deduct the full value of R&D and fixed asset investments in the year in which they are incurred, businesses now have a strong incentive to increase capital expenditures. This boost in business spending could help support the economy during a time when trade policies are creating uncertainty and tariffs are putting pressure on consumer spending and corporate profits. **We believe these provisions favor small cap and cyclical stocks, which have been hit hardest by tariff turmoil but now stand to benefit from increased business investment.**
- Most of these tax incentives specifically target domestic R&D investments and capital expenditures. Much like elevated tariffs, these tax policies align with the Trump administration's economic agenda to boost American production and revitalize domestic manufacturing.
- The expanded tax incentives for qualifying U.S. semiconductor investments could accelerate the already fast-paced growth of investments in artificial intelligence (AI). This potentially provides immediate support to the build-out of AI technologies. It could also hasten the deployment of AI across industries and help accelerate the productivity benefits that we expect from broadening AI adoption.

**OBBBA preserves the tax exemption granted to municipal bonds and expands it to new sectors.** Prior to the legislation's passage, there was concern that the federal tax exemption for municipal and private activity bonds might be reduced or eliminated. The final legislation preserved full tax-exempt status and further increased the annual volume cap for private activity bonds by \$3 billion through 2029. Private activity bonds are typically used to finance private projects that serve a public purpose, such as building hospitals, housing, or airports. OBBBA extends eligibility to new infrastructure sectors, including spaceports and certain energy facilities, allowing states and local governments to finance innovative projects through tax-exempt bonds.

Here are other OBBBA provisions affecting issuers of tax-exempt bonds:

- **Elite universities are hit with an endowment tax hike, while public and smaller private universities are exempted.** OBBBA significantly raises the endowment excise tax on wealthy private universities; institutions with endowments exceeding \$2 million per student now face an 8% rate (up from 1.4%), while those with \$750,000 to \$2 million are taxed at 4%. Public universities and smaller private institutions with fewer than 3,000 tuition-paying students remain exempt. While elite universities may have the financial flexibility to absorb the increase, many mid-sized colleges face tighter margins and greater financial pressure amid a highly competitive and challenging higher education environment.
- **OBBBA reduces federal Medicaid spending by up to \$1.1 trillion through fiscal year 2034,** including a moratorium on new provider taxes, caps on state-directed payments, and stricter eligibility rules requiring work or community service. States will face financial pressure to adjust to capped payments and reduced federal funding, potentially increasing their own support for healthcare providers. Hospitals—especially safety-net and rural providers—face heightened financial strain. Many not-for-profit hospitals, already challenged by rising costs and thin margins, may see increased uncompensated care. A \$50 billion fund aims to support rural hospitals but may not fully offset these pressures.

- **Affordable housing incentives support municipal bond issuance.** OBBBA permanently increases the 9% Low-Income Housing Tax Credit (LIHTC) allocation by 12%, lowers the tax-exempt bond “threshold test” to 25%, and makes permanent \$5 billion annually in New Markets Tax Credit authority. These changes expand access to tax-exempt financing for affordable housing projects, strengthening municipal bond issuance tied to community development amid a slowdown in housing starts.

### What does it mean for investors?

Based on our analysis of OBBBA, we expect its impact on financial markets to develop along four key themes:

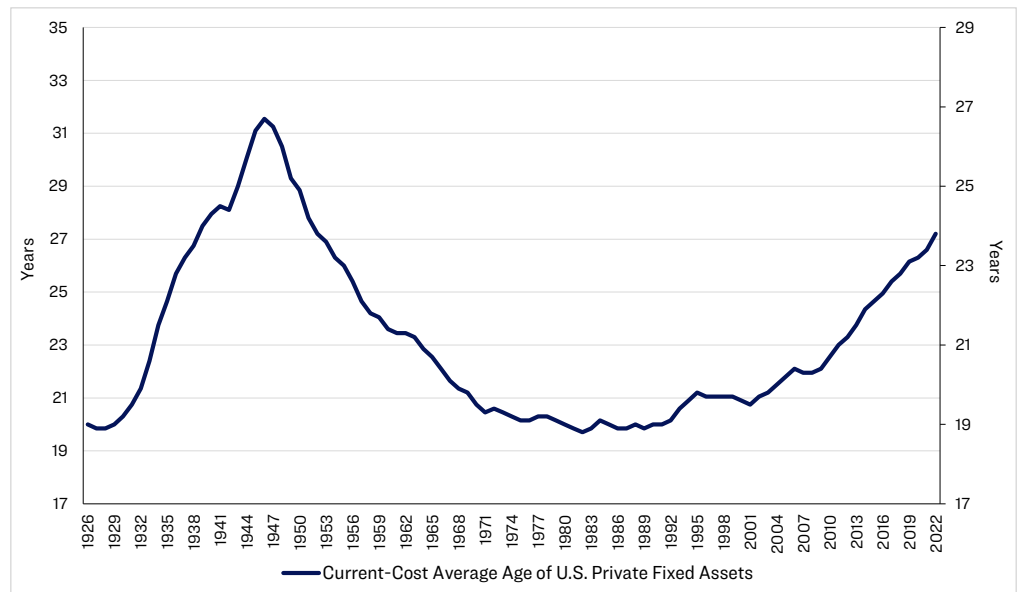
- **Treasury bonds.** This legislation worsens the U.S. fiscal outlook (Figure 1, again). Current bond market pricing likely already reflects this, as evidenced by the 10-year Treasury term premium<sup>4</sup> increasing from 0.2% before the November ‘24 election to 0.8% as of July 22, 2025. Thus, we expect economic fundamentals to drive bond yields in the near term. (Bond yields move in the opposite direction of prices.) However, lack of fiscal discipline in Washington creates a structural source of long-term volatility in fixed income markets, and it may limit how low bond yields can go, even during economic slowdowns.
- **Corporate bonds.** The news is better for corporate bonds. The provision allowing first-year deductibility of qualifying capital expenditures should boost business cash flows, further strengthening already healthy corporate balance sheets. Although credit spreads<sup>5</sup> are already historically tight—and, in our view, vulnerable to near-term economic disappointments—strong corporate fundamentals make both investment-grade and high-yield corporate bonds attractive.
- **Equities.** OBBBA’s stock-market impact will likely be modest, short-lived, and concentrated in specific sectors rather than broadly distributed. Current elevated equity valuations may already reflect optimism about positive elements in the legislation, and this optimism could fade if tariff risks resurface and stifle growth. Capital-intensive, manufacturing-oriented businesses stand to gain most directly from the legislation. As discussed earlier, we also believe its provisions may favor small cap and cyclical stocks—companies that have been hit hardest by tariff turmoil but now stand to benefit from increased business investment. The implications for companies that rely on consumer spending—already dampened by tariff concerns—are decidedly more mixed. Longer term, we expect productivity improvements driven by three key factors: expanded adoption of AI, deregulation, and OBBBA-incentivized modernization of aging corporate infrastructure (Figure 3). Productivity enhancements should ultimately support economic growth and thus corporate earnings and equity prices too.

<sup>4</sup> The excess compensation received from investing in long-maturity bonds rather than continuously rolling over short-maturity holdings.

<sup>5</sup> The difference between corporate bond yields and comparable-maturity Treasury bond yields.

**FIGURE 3**

U.S. fixed assets  
are getting older, on  
average.



Source: Bureau of Economic Analysis, TIAA Wealth Chief Investment Office.

- The dollar.** The Trump administration's imposition of large tariffs on all major trading partners diminishes the attractiveness of U.S. markets compared to international alternatives, and we expect this to cause a gradual depreciation of the U.S. dollar from historically expensive levels.<sup>6</sup> Nevertheless, the dollar's long-term position as the global reserve currency is still supported by two drivers, both reinforced by OBBBA: 1) superior productivity growth (aided by more favorable demographic trends for the U.S. relative to Europe and China) and 2) the long-term appeal of the U.S. as an innovation hub attracting global investment. That said, we are monitoring two significant risks to this outlook: 1) potential threats to the independence of the Federal Reserve, which could undermine the dollar's global appeal as a store of value and 2) concerns about the sustainability of federal debt and whether it will impact foreign investment in U.S. financial markets.

<sup>6</sup> The U.S. Dollar "Real Effective Exchange Rate," a metric that benchmarks the dollar against an inflation-adjusted basket of currency peers, remains ~10% higher than its long-term average.

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