Market Strategy
by STRATEGAS A BAIRD COMPANY

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Just before the July 4 holiday, Congress passed a significant piece of tax legislation, coined the One Big Beautiful Bill Act. Importantly, the bill was enacted before new tariffs come into effect, as the bill contains provisions to mitigate the impact of the tariffs for both consumers and businesses.

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KEY TAKEAWAYS FROM THE TAX BILL

There are five key components of the tax bill: 1) Extension of $400 billion of expiring tax provisions; 2) Passage of President Trump's campaign promises; 3) Pro-growth provisions to boost business investment; 4) Spending cuts; and 5) A $5 trillion increase in the debt ceiling.

Extension of Expiring Tax Provisions. Regardless of which party was in power, Congress was most likely going to act by the end of the year to extend expiring tax provisions in order to prevent a $400 billion tax increase on middle-class families in 2026. Congress chose to extend these tax cuts permanently, which means that it will require another act of Congress to change the tax rates in the future. Several tax changes were also included, such as an increase in the state and local tax deduction (on a temporary basis) to $40,000 a year for individuals earning $500,000 or less and an increase in the estate tax exemption (on a permanent basis) to $15 million beginning in 2026, with the threshold indexed to inflation in future years.

President Trump's Consumer Aid Campaign Promises. Trump campaigned on ending taxes on tips, on overtime, on Social Security, and on auto interest payments. Each of these four campaign promises was included in the bill in some form. However, each of these provisions was made temporary and they will not apply beginning in tax year 2029 unless extended in the future.

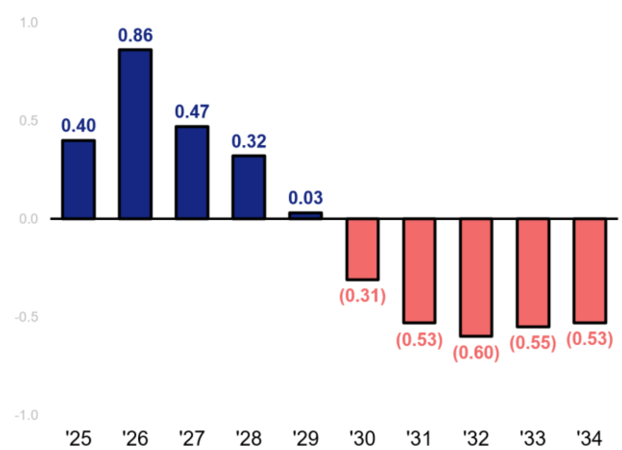
Pro-Growth Provisions. The new tax law allows for:

1) 100% expensing of capital equipment purchases
2) 100% expensing of research and development (R&D) costs
3) A more generous corporate interest deduction
4) Full expensing for the building of factories

Together, these policies should create a building boom in the U.S. When combined with the consumer tax provisions in the bill, they provide a net fiscal stimulus of 0.4% of GDP in FY25 and of 0.9% of GDP in FY26, helping to offset the impact of tariffs in those years.

Net Fiscal Stimulus from Senate Tax Bill

Ex-Tariffs, as a Percent of GDP (FY), Source: Strategas Calculations



Spending Cuts. The tax bill includes various spending cuts in an effort to reduce federal expenditures and to pay for the tax cuts. While the Congressional Budget Office has not yet provided its final cost estimate of the legislation, we estimate that the cuts will amount to $1.3 to $1.6 trillion over the next 10 years. These include major changes to renewable energy spending, Medicaid, food stamps, and student loans. Some of these cuts to federal spending will also have a ripple effect on state budgets, requiring states to either cut programs or find alternative sources of funding for affected programs.

Debt Ceiling. The tax bill, upon enactment, lifted the U.S. debt ceiling by $5 trillion. The U.S. hit the debt ceiling in January 2025, which prohibited Treasury from issuing net new debt. Now that the debt ceiling is lifted, Treasury can begin reissuing debt. By lifting the debt ceiling well in advance of the debt ceiling "X date" (the date when the Treasury Department would have exhausted its cash reserves *and* extraordinary measures), this also avoids any financial market volatility that would normally be expected to occur if the US came close to defaulting on its debt.

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