

One Big Beautiful Bill: Why It's "Buy Now, Pay Later" For Markets

Trump's new tax bill is set to deliver immediate growth perks for businesses, but punts tough fiscal choices to the future.

The One Big Beautiful Bill Act (OBBBA) is now law. Considering the bill's heft—almost 1,000 pages—the long-term economic and market implications are still being weighed and debated. I see two initial takeaways that allocators can incorporate into their investment decisions.

First, I expect the OBBBA to be a net positive for economic growth and company earnings over the next 12 months due to its pro-business stance. Second, the clear negative for markets is the postponement of meaningful spending cuts. According to the Congressional Budget Office, this will put US debt on a trajectory toward 125% of GDP by 2034—a level that could increase long-term US Treasury yields and further weaken the US dollar.

Front-Loaded Benefits

The OBBBA reinstates and/or makes permanent changes that should benefit businesses and boost economic growth, including:

- Increasing the bonus depreciation rate for qualified property (e.g., certain machinery and equipment) from 40% to 100%;
- Providing an immediate ability to deduct research and development expenses; and
- Returning to a more generous EBITDA-based¹ limit for interest deductibility on loans.

Combined, these and other changes may help increase cash flow for companies and encourage investment spending. Independent estimates suggest these measures could boost growth in the medium term by as much as 0.7%. However, as I explain below, I see potential for the effects to be felt sooner—and to a greater degree.

Back-Loaded Spending Cuts

Spending cuts, estimated at a net \$1.1 trillion and phased in over 10 years, are concentrated in Medicaid, Medicare, and SNAP (Supplemental Nutrition Assistance Program), with most changes becoming effective after the US mid-term elections in 2026. Clean-energy tax credits are also scheduled to sunset by the end of 2027.

While these cuts are designed to offset the cost of the tax breaks and other provisions, the OBBBA is still expected to add \$3.4 trillion to the federal deficit over the next 10 years. In addition, it's uncertain whether the spending cuts will ultimately be implemented. Legal challenges could delay implementation, and Congress could amend or repeal parts of

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Key Points

- The OBBBA delivers immediate economic stimulus through pro-business tax incentives, potentially boosting corporate earnings and growth in the near term.
- Spending cuts are delayed and uncertain, raising concerns about long-term fiscal sustainability and the potential for higher Treasury yields and a weaker dollar.
- Markets may be underestimating the OBBBA's growth impact, which could delay Federal Reserve rate cuts and create a more volatile but opportunity-rich environment for investors.

the OBBBA before full implementation, especially if political control of the White House and Congress shifts. Similarly, some provisions set to expire could become permanent, further increasing the deficit.

It's worth noting that the US isn't alone in increasing government spending: Europe and Japan are actively loosening fiscal policy, which has implications for inflation and yields.

What Does it Mean for the Economy and the Markets?

While the OBBBA's enactment on July 4 likely avoided a market hiccup, I don't think it meaningfully reduced policy uncertainty. Tariffs remain the most significant policy-driven risk for markets, with the August 1 deadline approaching and President Trump continuing to signal potential trade actions toward various countries. Still, risk assets² seem to have become hardened to tariff threats, assuming they will once again be walked back or postponed.

As for the OBBBA, the business-focused provisions of the legislation could deliver a strong growth impulse—something the market may be underappreciating. To date, the assumption has been that tariffs will hurt US growth and elevate inflation. But Wellington Macro Strategist Mike Medeiros thinks the new law could add up to a full percentage point in aggregate to GDP in 2025 and 2026 from the corporate side, offsetting the negative growth impact of tariffs. We're also hearing about productivity gains from AI at the company level, which could be a noninflationary source of growth.

Deregulation efforts by the Trump administration could be another boost to growth. For example, liquidity rules have hindered US banks' efforts to lever their excess capital, constraining credit creation in the banking system and shifting activity to the nonbank financial system. Less restrictive capital rules could make it easier for banks to lend and further spur US growth.

If growth surprises to the upside, what about inflation? Growth-induced inflation is better than supply-shock-induced inflation and would be more likely to be tolerated by businesses and consumers. And, as noted, improved productivity could be a limiting factor for inflation.

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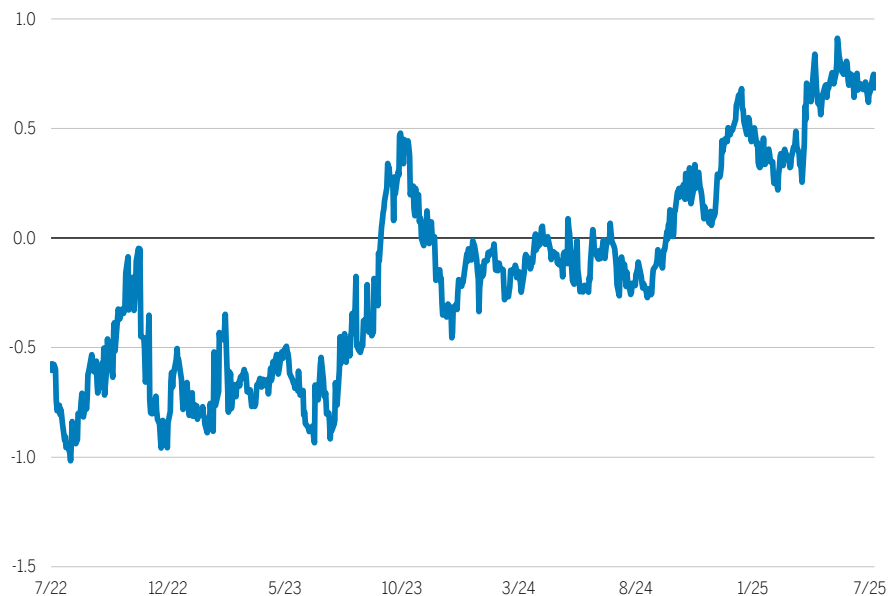
Investment Implications

- **Bond markets may not be sufficiently pricing in the risks of stronger nominal US growth** – This may translate into higher nominal bond yields.
- **Stronger growth may mean that rate cuts by the Federal Reserve are delayed** – Expectations for two 25 basis-point³ rate cuts this year may not be met if nominal growth surprises to the upside.
- **The backdrop for US equity returns is more balanced, in my view, with two-sided risks** – On the downside, they may be vulnerable if higher-than-expected tariffs spark supply-induced inflation. On the upside, the incentives for greater business spending and deregulation could spur growth and offset the adverse effects of tariffs.
- **Keep watching the term premium⁴ on US 10-year Treasuries** – Markets are likely to express dissatisfaction with fiscal policy through a rising term premium—a trend already underway (**FIGURE 1**) and one that has historically accompanied concerns over government spending.

FIGURE 1

Tracking the Term Premium

10-Year US Treasuries Term Premium (%)



Daily Data: 7/14/22-7/9/25. Term premium calculated using the ACM Model, a statistical model developed by the Federal Reserve Bank of New York to isolate the term premium component of US Treasury yields. Data Source: Federal Reserve Bank of New York.

Talk to your financial professional about how to position your portfolio amid a changing economic landscape.

¹ EBITDA, or earnings before interest, taxes, depreciation, and amortization, is an alternate measure of profitability to net income. It's used to assess a company's profitability and financial performance.

² Risk assets refer to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate, and currencies.

³ A basis point is a unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

⁴ The term premium is the amount by which the yield on a long-term bond is greater than the yield on shorter-term bonds. This premium reflects the amount investors expect to be compensated for lending for longer periods.

Important Risks: Investing involves risk, including the possible loss of principal. • Fixed income security risks include credit, liquidity, call, duration, and interest-rate risk. As interest rates rise, bond prices generally fall.

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