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Quick Thoughts

BBB—Investment grade

STRATEGIST VIEWS

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As expected, the "Big Beautiful Bill" (BBB) has cleared its final legislative hurdles and will soon be signed into law by US President Trump. In what follows, we assess the implications for global capital markets and investment strategy.

In sum, and in the parlance of credit markets, we would dub **the new law is "investment grade"—BBB or even higher**. To be sure, the market has long anticipated much of the legislation's provisions, and therefore we believe **the positive impacts are more likely to be felt over time** rather than in a single large move.

Nevertheless, the initial market reaction has been positive, with US equities, Treasury yields and the US dollar moving higher. Largely, that outcome reflects the **removal of uncertainty**, a plus for investors. While the odds that the bill would not pass were always remote, investors can now plan with some confidence about US taxation and spending.

It is also worth underscoring more durable positive aspects of the BBB.

- While the statutory corporate income tax rate of 21% remains the same, provisions **for accelerated depreciation** will reduce the effective corporate tax rate to as low as 14%–15% for the median firm. Not only will that help promote capital expenditures, the reduction in the tax burden should also **help offset some probable margin pressure from companies unable to fully pass along higher import costs from tariffs. Small- and mid-cap firms are most likely to benefit** from the reduction in effective tax rates, in our analysis.
- Reduced uncertainty, alongside improved after-tax profits (and cash flows), may **revive moribund mergers and acquisitions and initial public offerings**, which would potentially provide a **lift to financials and alternatives**.
- Tax relief without corresponding spending reductions suggests the legislation will likely support the economy via a modest form of **fiscal stimulus**. In addition, the favorable tax treatment of capital expenditures depreciation should **boost business outlays**. From a macroeconomic perspective, the estimated contribution to US real gross domestic product (GDP) growth is probably in the range of 0.2%–0.3% over the coming year, with some drag occurring from higher tariffs and smaller transfer payments (e.g., Medicaid and welfare cuts), where negative multiplier effects are apt to be significant.

- By market sector, **the beneficiaries of accelerated depreciation and higher capital expenditures include information technology (given its leading role in innovation), industrials and pharmaceuticals.** Together with higher tariffs, which will likely incentivize manufacturing investment in the United States, the prospects for capital spending have brightened, reflecting a trend already evident in announcements from various firms in the semiconductor (including via a 35% tax credit), industrials and autos sectors.
- **The removal of Section 899** provisions to implement stepped up taxation for tax residents of countries deemed to impose "unfair" taxes on US businesses **is a significant plus and reinforces the structural attractiveness of US capital markets.**

Conversely, here are some potential less favorable aspects:

- The **biggest losers are the solar and wind subsectors of alternative energy** (hydrogen and nuclear retain favorable tax and investment treatment). That said, the imposition of new taxes on solar was removed from the final version of the legislation.
- The legislation ensures the **continuation of large US fiscal deficits** over the coming years. According to fiscal scoring from the independent Congressional Budget Office (CBO), the increase in US debt over the next 10 years from the legislation will range from $2.4 trillion–$3 trillion. Thus far, **the US Treasury market has responded with equanimity**, partly reflecting cyclical expectations for moderating inflation and subdued economic activity in 2025. Over time, however, we believe larger US deficits, higher capital expenditures and fiscal expansion elsewhere (e.g., in Germany or China) will likely put upward pressure on global real interest rates.

On balance, therefore, the BBB legislation is, in our opinion, justifiably being greeted with an "investment grade" from the capital markets. It may not be AAA, but we believe the bill should help underpin the positive momentum in markets underway since mid-April.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets.**

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