

Quick Thoughts

BBB—Investment grade



STRATEGIST VIEWS

Stephen Dover, CFA
Chief Market Strategist
Head of Franklin Templeton Institute

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**.

WF: 6054469

IMPORTANT LEGAL INFORMATION

This material is intended to be of general interest only and should not be construed as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. It does not constitute legal or tax advice. This material may not be reproduced, distributed or published without prior written permission from Franklin Templeton.

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. Past performance is not necessarily indicative nor a guarantee of future performance. **Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.**

Any research and analysis contained in this material has been procured by Franklin Templeton for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Data from third-party sources may have been used in the preparation of this material and Franklin Templeton ("FT") has not independently verified, validated or audited such data. Although information has been obtained from sources that Franklin Templeton believes to be reliable, no guarantee can be given as to its accuracy and such information may be incomplete or condensed and may be subject to change at any time without notice. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase, hold or sell any securities, and the information provided regarding such individual securities (if any) is not a sufficient basis upon which to make an investment decision. FT accepts no liability whatsoever for any loss arising from use of this information and reliance upon the comments, opinions and analyses in the material is at the sole discretion of the user.

Franklin Templeton has environmental, social and governance (ESG) capabilities; however, not all strategies or products for a strategy consider "ESG" as part of their investment process.

Products, services and information may not be available in all jurisdictions and are offered outside the US by other FT affiliates and/or their distributors as local laws and regulation permits. Please consult your own financial professional or Franklin Templeton institutional contact for further information on availability of products and services in your jurisdiction.

Brazil: Issued by Franklin Templeton Investimentos (Brasil) Ltda., authorized to render investment management services by CVM per Declaratory Act n. 6.534, issued on October 1, 2001.

Canada: Issued by Franklin Templeton Investments Corp., 200 King Street West, Suite 1400 Toronto, ON, M5H3T4, Fax: (416) 364-1163, (800) 387-0830, <http://www.franklintempleton.ca>.

Offshore Americas: In the US, this publication is made available by Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906. Tel: (800) 239-3894 (USA Toll-Free), (877) 389-0076 (Canada Toll-Free), and Fax: (727) 299-8736. US: Franklin Templeton, One Franklin Parkway, San Mateo, California 94403-1906, (800) DIAL BEN/342-5236, franklintempleton.com. Investments are not FDIC insured; may lose value; and are not bank guaranteed.

Issued in Europe by: Franklin Templeton International Services S.à r.l. – Supervised by the Commission de Surveillance du Secteur Financier – 8A, rue Albert Borschette, L-1246 Luxembourg. Tel: +352-46 66 67-1 Fax: +352-46 66 76. **Poland:** Issued by Templeton Asset Management (Poland) TFI S.A.; Rondo ONZ 1; 00-124 Warsaw. **Saudi Arabia:** Franklin Templeton Financial Company, Unit 209, Ruben Plaza, Northern Ring Rd, Hittin District 13512, Riyadh, Saudi Arabia. Regulated by CMA. License no. 23265-22. Tel: +966-112542570. All investments entail risks including loss of principal investment amount. **South Africa:** Issued by Franklin Templeton Investments SA (PTY) Ltd, which is an authorized Financial Services Provider. Tel: +27 (21) 831 7400 Fax: +27 (21) 831 7422. **Switzerland:** Issued by Franklin Templeton Switzerland Ltd, Stockerstrasse 38, CH-8002 Zurich. **United Arab Emirates:** Issued by Franklin Templeton Investments (ME) Limited, authorized and regulated by the Dubai Financial Services Authority. Dubai office: Franklin Templeton, The Gate, East Wing, Level 2, Dubai International Financial Centre, P.O. Box 506613, Dubai, U.A.E. Tel: +9714-4284100 Fax: +97144284140. **UK:** Issued by Franklin Templeton Investment Management Limited (FTIML), registered office: Cannon Place, 78 Cannon Street, London EC4N 6HL. Tel: +44 (0)20 7073 8500. Authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Australia: Issued by Franklin Templeton Australia Limited (ABN 76 004 835 849) (Australian Financial Services License Holder No. 240827), Level 47, 120 Collins Street, Melbourne, Victoria 3000. **Hong Kong:** Issued by Franklin Templeton Investments (Asia) Limited, 62/F, Two IFC, 8 Finance Street, Central, Hong Kong. **Japan:** Issued by Franklin Templeton Investments Japan Limited. **Korea:** Issued by Franklin Templeton Investment Advisors Korea Co., Ltd., 3rd fl., CCMM Building, 101 Yeouigongwon-ro, Yeongdeungpo-gu, Seoul, Korea 07241. **Malaysia:** Issued by Franklin Templeton Asset Management (Malaysia) Sdn. Bhd. & Franklin Templeton GSC Asset Management Sdn. Bhd. This document has not been reviewed by Securities Commission Malaysia. **Singapore:** Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E, 7 Temasek Boulevard, #38-03 Suntec Tower One, 038987, Singapore.

Please visit www.franklinresources.com to be directed to your local Franklin Templeton website.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

