Special Coverage:
Big Beautiful bill: more fiscal policy clarity, but still awaiting results from tariff agreements

Key takeaways

- On 3 July 2025, the US Congress passed the landmark One Big Beautiful Bill Act (H.R.1), a sweeping package that brings significant tax changes, new border security funding, major spending cuts, and broad policy shifts across Energy, Healthcare and more. This historic legislation reflects the current administration's policy priorities and is already reshaping expectations for households, businesses and markets.
- While the bill increases the deficit and could cause some bond market nervousness, we think bond valutions adequately compensate for this risk. The rising deficit could also weigh on the USD but this should be limited if the tax cuts help economic growth.

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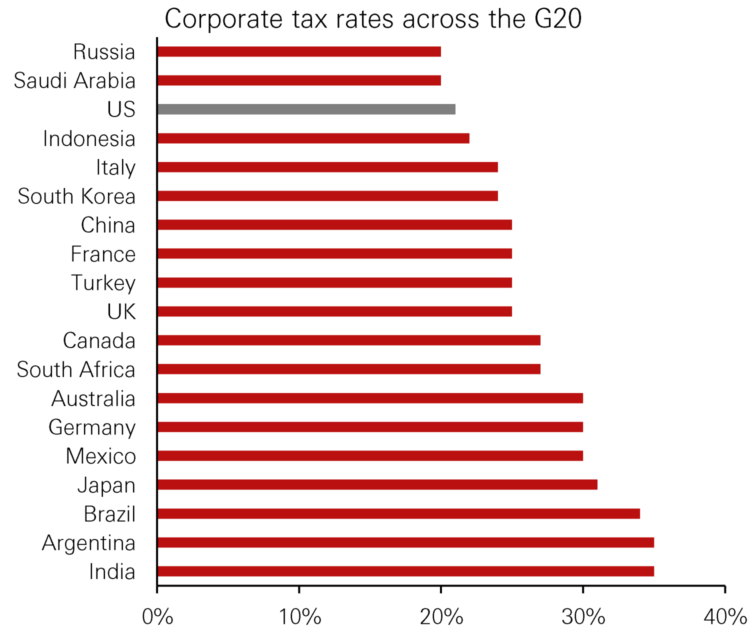
- We maintain our overweight US equity positioning. This is mostly because earnings remain strong even as economic growth slows somewhat. However, the US government's policy shifts remain a source of volatility as trade negotiations are ongoing. Tariffs are the first leg of President Trump's "three-legged" policy agenda. The second leg, which has now been concluded, includes extending the debt ceiling, cutting personal and corporate taxes, and providing fiscal stimulus. The third leg focuses on deregulation, targeting the Financial, Healthcare, Technology and Energy sectors, which could be another positive for stocks. Regardless, implementation risks remain, so we continue to focus on building resilient portfolios through diversification and a focus on quality assets.

What happened?

- The One Big Beautiful Bill Act is a sweeping budget reconciliation package encompassing tax cuts, border security funding, spending reductions, and various policy changes. It was narrowly approved by the Senate on 1 July 2025, in a 51-50 vote (with Vice President J.D. Vance casting the tie-breaker). The House of Representatives concurred on 3 July 2025, by a 218-214 vote to adopt the Senate's amended version. The legislation now is on its way to President Trump's desk and is expected to be signed on 4th of July.
- Below is a comprehensive overview of the bill's key provisions:
  - **Permanent 21% corporate tax rate:** The bill would ensure the 21% corporate tax rate, established in the 2017 tax cuts, remains in place, preventing a return to the previous 35% rate.
  - **Individual tax cuts:** New targeted tax benefits include eliminating federal taxes on tips and overtime pay (a temporary relief for workers), and a deduction of USD6,000 for seniors over 65 with income up to USD75,000 (phased out above that). The Child Tax Credit is increased from USD2,000 to USD2,200 per child, though the increase is not fully refundable for lower incomes.
  - **State and Local Tax (SALT) deduction:** The cap on SALT deductions is raised four-fold to USD40,000 for joint filers (under USD500,000 income) for five years. After 2030, the cap would revert to USD10,000 in absence of further legislation. This provides temporary relief to high-tax state filers.
  - **Other tax measures:** The bill allows a deduction for automotive loan interest, expands a tax credit for metallurgical coal, and repeals the USD200 federal excise tax on firearm silencers. It also creates a tiered excise tax on large private university endowments, above certain per-student thresholds. Additionally, it imposes an excise tax on foreign purchases of US farmland (to deter Chinese land acquisitions).

- **Potential impact on effective tax rates:** While the corporate tax rate would remain at 21%, the bill's provisions could lead to lower effective tax rates for some businesses due to expanded deductions and tax breaks.
- **Business investment incentives:** It restores 100% bonus depreciation for business property and allows immediate expensing of R&D costs. These changes, aim to spur capital investment and innovation.
- **Changes to FDII and GILTI:** The bill would also make permanent the deductions for Foreign-Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI), potentially lowering the effective tax rates on these types of income.
- **Provisions for manufacturers:** The bill includes provisions that would allow businesses to fully and immediately deduct the cost of building new manufacturing facilities.

Among the G20 nations, the US has one of the most competitive corporate tax rate



Source: Trading Economics, HSBC Private Bank and Premier Wealth as at 3 July 2025.

- On the flip side, the bill tightens work requirements for Medicaid and Supplemental Nutrition Assistance Program (SNAP), which could mean millions can lose access to health or food benefits in the years ahead. The law also raises the federal debt ceiling by USD5 trillion, adding to long-term debt concerns.

Investment implications

- For fixed income investors, given higher than anticipated deficits, long-term yields could rebound, pressuring bond prices and elevating borrowing costs. If demand falters, we can expect higher rates, which could impact mortgage, corporate, and consumer loans, potentially cooling broader markets. This pressure is offset by rising expectations of Fed rate cuts and inflation for now being more benign than investors feared. As a result of the tug-of-war between those factors, fixed income volatility may continue. That said, the real yield and the term premium remain relatively elevated, so there is value in high quality fixed income.
- While any rise in yields may temporarily buoy the dollar, growing deficits and twin deficits (fiscal + current account) could be potential headwinds, but most of the USD weakness is probably priced in. The removal of section 899 from the bill will also ease some investors' reservations to hold USD assets.
- For US equity investors, there's near-term support for Technology, Defense, Industrials and Energy, thanks to tax relief and boosted spending. Rollbacks on green energy credits dampen the investment outlook for renewables. Cyclical and value stocks could benefit, as well as the secular themes of the technology revolution, the re-industrialisation of the US, and the near/onshoring of jobs in the US.
- The Big Beautiful Bill delivers near-term boosts, especially in cyclical sectors and some more investment certainty for corporates (trade uncertainty remains an obstacle). However, the bill also potentially magnifies long-term fiscal and inflation pressures, stickier long-term yields, and a weaker dollar.
- We maintain our overweight US equity positioning. This is mostly because earnings remain strong even as economic growth slows somewhat. However, the US government's policy shifts remain a source of volatility as trade negotiations are ongoing. Tariffs are the first leg of President Trump's "three-legged" policy agenda. The second leg, which has now been concluded, includes extending the debt ceiling, cutting personal and corporate taxes, and providing fiscal stimulus. The third leg focuses on deregulation, targeting the Financial, Healthcare, Technology and Energy sectors, which could be another positive for stocks.
- Regardless, implementation risks remain, so we continue to focus on building resilient portfolios through diversification and a focus on quality assets.

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