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## What's in the One Big Beautiful Bill Act (OBBBA)?

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### Higher debt and deficits may create a floor on government bond yields as investors demand better compensation for debt underpinned by unbalanced federal finances.

While tariff uncertainty has dominated the headlines, the One Big Beautiful Bill Act (OBBBA), a budget reconciliation package containing tax and spending cuts, was delivered with considerably less fanfare, broadly adhering to the original timeline outlined. In the short run, the OBBBA could boost growth and profits, but widen deficits and prop up yields over time.

To better assess the potential impacts of the OBBBA, it is important to first understand what's in it. A few key provisions include:

- **Tax cuts:** Extends 2017 Tax Cuts and Jobs Act (TCJA). Implements deductions (up to certain limits) on tips, overtime and auto loan interest. Raises SALT deduction from \$10,000 to \$40,000. Raises estate tax exemption to \$15 million. Establishes savings accounts for newborns, expands child tax credit and tax credit for seniors. Revives key corporate tax provisions (e.g. R&D expensing, bonus depreciation, interest deduction) from 2017 TCJA.
- **Spending:** \$170 billion border security (border enforcement, deportations); \$150 billion defense spending (e.g. Golden Dome missile defense, shipbuilding, military innovation and nuclear deterrence).
- **Spending cuts:** \$1.2 trillion in cuts to Medicaid and additional work requirements for SNAP (Supplemental Nutrition Assistance Program) benefits, phases out certain renewables and electric vehicle (EV) credits from Inflation Reduction Act and reforms aspects of student loans.
- **Debt ceiling:** Raises the debt ceiling by \$5 trillion.

Given those components, there are several important implications to the economy:

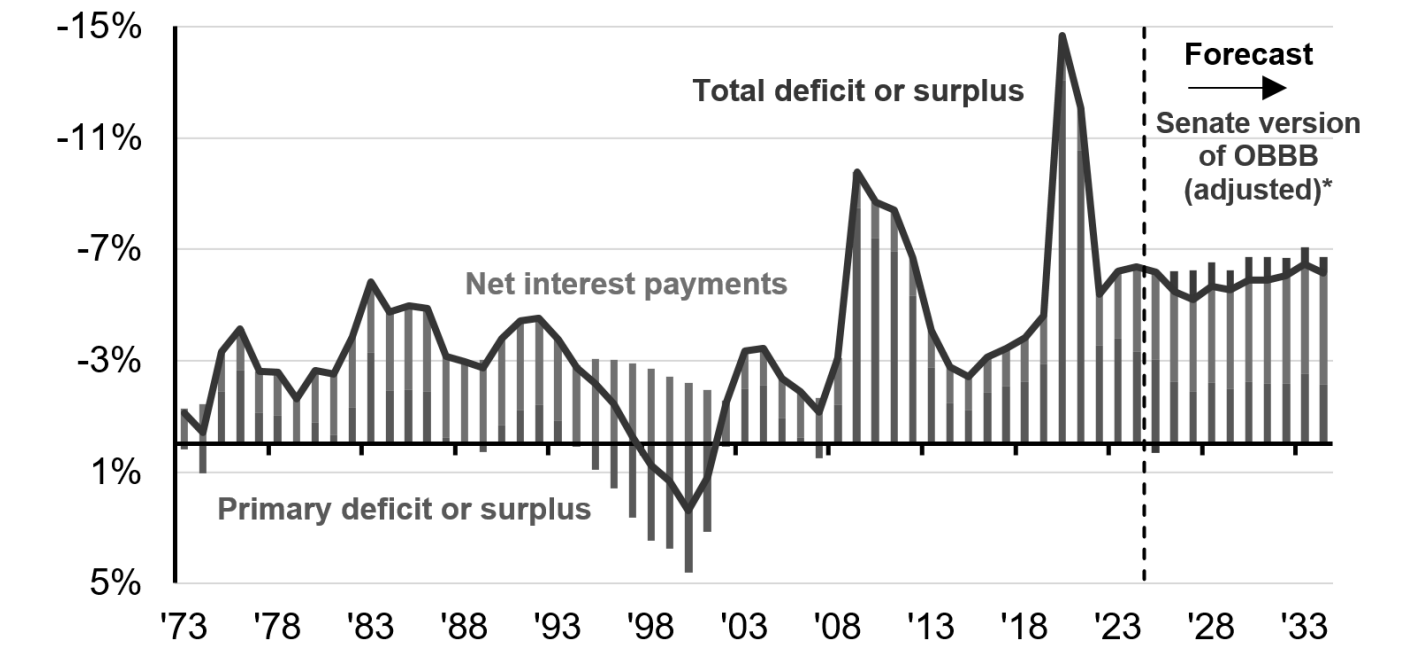
- **Growth:** Many of these new tax cuts take effect January 1st, 2025, so taxpayers could see income tax refunds early in 2026, boosting growth and consumption. The **drag on consumers from higher tariffs could exceed the value of new tax breaks** in 2H25 and 2H26, but not 1H26.
- **Deficit:** This could add **\$3.3 trillion to deficits over the next decade**. Adding additional interest costs could raise the price tag to \$4.0 trillion, and extending the tax cuts, many of which expire at the end of 2028, could add another \$1.5 trillion. Even with additional tariff revenue, the deficits could exceed 6% of GDP and debt/GDP could reach 130%.
- **Profits:** Revived corporate tax cuts could boost profits in early 2026, offsetting some of the increased costs from tariffs.
- **Inflation:** A boost to growth and consumption could be accompanied by slightly hotter inflation, compounded by higher costs due to tariffs.
- **Jobs:** Increased border security and deportations could reduce the labor supply. Wages could face upward pressure as foreign-born workers earn lower median wages.
- **Rates:** Stronger growth coupled with slightly higher inflation could prompt the Fed to slow the pace of cuts in 1H26.



Thus far, the market reaction has been limited. Stocks have shrugged off deficit implications and may celebrate growth and profit impacts in early 2026. However, higher debt and deficits may create a floor on government bond yields as investors demand better compensation for debt underpinned by unbalanced federal finances. For investors, the OBBBA brings both opportunities and risks to portfolios, suggesting a balanced and diversified stance.

## Federal deficit and net interest payments

% of GDP, 1973-2034, CBO Baseline Forecasts



Source: CBO, BEA, Treasury Department, J.P. Morgan Asset Management. Years shown are fiscal years. OBBB refers to the "One Big Beautiful Bill Act." \*Adjusted by JPMAM to include estimates from the CBO June 2025 report "Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act." Figures are also adjusted to include JPMAM estimates of tariff revenues and the estimated cost of extending expiring tax cuts beyond 2028, based on CBO estimates prepared for the version of the OBBB proposed by the House of Representatives on May 22, 2025. Data are as of July 15, 2025.

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