Market Outlook

July 1, 2025

The second half of 2025 is off to a racing start with President Trump's controversial One Big Beautiful Bill Act (OBBBA), passing the Senate with a 51-50 margin. Vice President JD Vance cast the deciding vote in favor of the bill. No Democrats voted for the bill and 3 Republicans voted against it citing cuts to Medicaid that would drastically hurt their constituents. The bill will now progress back to the House where a majority of Representatives will need to pass the Senate's version before sending the bill on to President Trump for his signature. Trump has requested that the bill be signed by July 4 so the House will move quickly to work through the changes from the version passed in the House on May 22, 2025, to the version passed today in the Senate.

Headlines about the OBBBA have been ample in recent months leading Americans to debate over the effect the act will have on the Country as well as on their individual finances. Though not the largest bill in terms of length, it is a very large bill in terms of its impact on the national debt and changes to various federal programs. The bill is expected to add at least $3.3 trillion to the national debt over the next decade, according to the Congressional Budget Office. The original bill passed in the House of Representatives was determined to add $2.8 trillion dollars to the deficit and the Senate version added an additional $500 billion to that figure.

The legislation includes more spending on border security, defense, and fossil fuel energy production, with cuts to healthcare, nutrition programs, and clean energy initiatives. Of significant importance is the extension of President Trump's 2017 Tax Cuts and Jobs Act, which was set to expire at the end of 2025. If the TCJA was not extended, the result would have been a significant economic hit to consumers and investors. These tax cuts are already in place for both individuals and corporations, so if the cuts were not extended beyond the end of 2025 the effect would have been an increase in taxes. The cuts to spending on healthcare and nutrition, as well as the extension of tax cuts for the very wealthy, drew criticism from Democrats and a few Republicans.

Negotiations in the House leading to the final legislation will be critical in determining the implications of the OBBBA. Investors will see tax cuts to certain industries which may lead to investment opportunities. Increased expenses for the middle and lower classes due to health care cuts, on the other hand, will likely reduce consumer purchases. The significant increase to the federal deficit and debt will undoubtedly lead to higher interest rates, which will increase the cost of borrowing for both businesses and consumers. The increased debt burden and higher interest rates will likely reduce long-term economic growth though we may see a short-term surge in growth as certain sectors receive incentives from the bill.

What else is on the horizon?

- Slower earnings growth is expected. First quarter 2025 earnings growth was 13.3% but consensus suggests a 5% year-over-year growth rate is more reasonable for the second quarter. Analysts note that strong first quarter EPS growth might have reflected a "pull-forward" demand as consumers and businesses bought goods ahead of tariffs. Some of that pull-forward may be reflected in the second quarter but we will not know until we can see the data in retrospect.

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- Energy is in a challenging spot as the OBBBA dramatically phases out federal tax credits for clean energy projects. The provision requiring construction to begin within 60 days of the Bill's passage and be completed by December 31, 2028, will lead to the cancellation of many clean energy projects. With clean electricity becoming less economically attractive, the OBBBA will likely decrease investment in renewables and increase demand for natural gas. Increased demand, in turn, will likely raise prices for consumers. Significant investment has been made since the passage of the Inflation Reduction Act (IRA) in August of 2022 and as currently designed, the OBBBA will cancel those provisions. Continuing tensions in the Middle East may also have an impact on oil prices but that is, as yet, uncertain. Cutting clean energy investment will, of course, eliminate many jobs and thus stymie the growth of US manufacturing but these jobs and the corresponding manufacturing may be picked up in other aspects of the energy market.
- Global Reciprocal Tariffs: The July 9, 2025, deadline for renegotiation of trade deals is fast approaching. On April 2, 2025, President Trump announced "reciprocal" tariffs on imports of goods from every U.S. trading partner, throwing U.S. bilateral trade relations into disarray. The intention was a 10 percent baseline tariff on all imports into the United States with higher reciprocal tariffs for some countries based on trade deficits. After a dramatic stock and bond market reaction, the Trump Administration announced a 90-day pause on the reciprocal tariffs leaving only the 10 percent baseline. Negotiations are ongoing for many of the U.S. trade partners. The coming week will be critical in determining the long-term implications of tariffs and their effect on American consumers as well as our global trade partners.

As the next couple of weeks unfold, we intend to watch both Washington and Wall Street carefully. We continue to feel confident in our portfolio positioning for clients. We are making adjustments for some clients, as appropriate, so please do not hesitate to reach out if you have any questions. We understand that these are challenging times and are happy to talk through various scenarios as it is helpful to you.

Warm regards,

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