Quarterly Insights

What Fed Easing Means for Your Portfolio

By Kevin Grogan, CFA, CFP®

After the most aggressive rate-hiking cycle in four decades, the Federal Reserve has resumed cutting interest rates. The natural question is: What does this mean for my investments?

Why the Fed is Cutting Now

The Fed raises rates to slow inflation and cool the economy; it cuts rates to stimulate growth when inflation is under control, or when the economy is losing momentum. In this case, inflation has come down from the highs we saw in the early 2020s but remains stubbornly above the Fed's long-run 2% inflation target. However, leading indicators point to a moderation in economic growth. By lowering borrowing costs, the Fed aims to support business investment, consumer spending, and overall confidence.

Historically, the Fed has cut rates in a variety of economic environments. For example, in 1995, the Fed began cutting rates and the economy continued to expand for several years, supporting strong market returns. In contrast, in 2001 and 2007, cuts arrived as recessions were already unfolding. This range of outcomes highlights why it's difficult to draw a simple conclusion about how markets will respond.

Impact on Stocks

Over longer periods, lower interest rates tend to support equities by making borrowing cheaper for companies and by making bonds less competitive relative to stocks. But the average historical reaction hides a lot of variation, which is why trying to time stock moves around Fed actions is risky. Lower rates can affect sectors differently. Interest-rate sensitive areas like housing have been among the most sluggish areas of the economy recently, and these areas may benefit from cheaper borrowing costs. That said, sector leadership often shifts unpredictably. A diversified equity portfolio remains the best way to capture growth over time, regardless of the rate cycle.

Impact on Bonds

When interest rates fall, the prices of existing bonds typically rise. The market typically begins pricing in future moves by the Fed months in advance of the actual decision and announcement, so investors are best advised to not attempt to time the market around Fed decisions. With interest rates lower, new bonds will be issued at lower yields, which means reinvestment will occur at lower interest rates.

Impact on Cash

For savers, the downside of rate cuts is obvious: Yields on savings accounts, CDs, and money market funds will likely drift lower. While cash plays an important role in emergency reserves and near-term spending needs, relying on it for long-term growth becomes even less attractive when rates fall.

Staying Disciplined

It's tempting to see the start of a rate-cutting cycle as a signal to overhaul your portfolio. But Fed policy is only one piece of the economic puzzle, and its effects often unfold in unpredictable ways. The most reliable path is to stay invested in a diversified mix aligned with your goals, risk tolerance, and time horizon. This helps ensure your portfolio remains positioned for a variety of possible outcomes.

Fiscal Implications of the One Big Beautiful Bill Act

By Aaron Huey, CFA

On July 4, 2025, Congress passed the One Big Beautiful Bill Act (OBBBA), one of the most significant fiscal measures in recent years. The law extends many provisions from the 2017 Tax Cuts and Jobs Act (TCJA), which were set to expire at year-end. By making those tax cuts permanent, OBBBA provides households, businesses, and investors with welcome clarity about the tax environment.

The trade-off, however, is lower government revenue and higher projected deficits. For investors, the question becomes what rising debt might mean for the economy and financial markets.

Bigger Deficits Ahead

The Bipartisan Policy Center estimates that OBBBA will add about **$3.4 trillion to deficits over the next decade.** That figure reflects three changes:

- **Reduced tax revenue:** Roughly $4.5 trillion less, due to extending tax cuts and adding new ones.
- **Increased spending:** About $325 billion more, largely for defense and immigration.
- **Reduced spending elsewhere:** Roughly $1.4 trillion less, mostly through changes to Medicaid, food assistance, and student loans.

When interest payments on this additional debt are included, the projected cost rises to **over $4.1 trillion**. If temporary provisions are later made permanent, the total could reach **$5 trillion**.

Debt Projections

Even before OBBBA, U.S. debt was on the rise. In January, the Congressional Budget Office projected that debt held by the public would grow from **$29 trillion (98% of GDP)** to **$52 trillion (118% of GDP)** by 2035. Updated forecasts that account for OBBBA now expect debt closer to **$53 trillion (120% of GDP)** by then.

For perspective, the highest debt level in U.S. history was **106% of GDP** during World War II. Current trends suggest the U.S. will exceed that record within the next decade. Some scenarios point to debt reaching **134% of GDP** by 2035, depending on tax policy, tariffs, and interest rates.

Why Investors Should Care

Rising government debt can create challenges:

- **Higher borrowing costs** if investors demand greater returns on U.S. bonds.
- **Potential future tax increases** to help reduce deficits.
- **Less flexibility** for the government to respond to economic downturns.
- **Reduced investment** in long-term priorities like infrastructure or education.

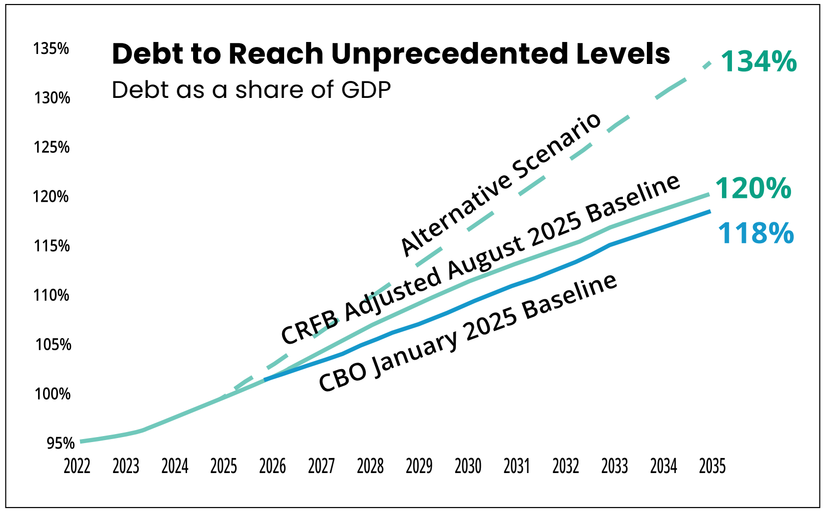
That said, debt does not automatically spell trouble for markets. Other developed nations, such as Japan, have operated with much higher debt-to-GDP ratios for decades without experiencing financial collapse. And research shows there isn't a clear link between high government debt and weaker stock market returns.

Staying Grounded

The passage of OBBBA will shape fiscal policy for years, but its long-term impact on markets remains uncertain. For investors, the key takeaway is not to react to alarming headlines about deficits or debt levels. Markets tend to adapt to fiscal changes over time, and disciplined strategies usually outperform short-term reactions.

The most effective way to manage this uncertainty is through **broad diversification, a long-term perspective, and a financial plan tailored to your goals.** Working with an advisor ensures your portfolio remains resilient—regardless of how the debt story unfolds in Washington.

[1] What Does the One Big Beautiful Bill Cost? | Bipartisan Policy Center
[2] CBO Releases January 2025 Budget and Economic Outlook -2025-01-17
[3] An August 2025 Budget Baseline-2025-08-20
[4] How Much Is the National Debt? What Are the Different Measures Used?
[5] General government gross debt for Japan (GGGDTAJPA188N) | FRED | St. Louis Fed
[6] https://www.dimensional.com/us-en/insights/is-22-trillion-a-tipping-point



Source: CRFB estimates based on data from CBO, U.S. Census Beueau, and Centers for Medicare & Medicaid Services.

5 Tax Updates For Wealth Planning

The One Big Beautiful Bill Act includes a wide range of changes for taxpayers of all income levels. For high-income individuals and families, the provisions that matter most involve new limits, estate planning opportunities, and charitable giving rules. Here are some key changes:

New Caps on Itemized Deductions

Beginning in 2026, taxpayers in the top 37% bracket will face a significant change: Their itemized deductions will be capped so that the effective benefit is reduced to 35%. In practice, this means that even if a taxpayer has substantial deductions, they will not fully offset income at the 37% marginal rate.

For high earners with large state and local taxes (SALT), charitable gifts, or investment-related deductions, this effectively diminishes the tax value of those write-offs. Advanced planning—such as front-loading charitable contributions through donor-advised funds or structuring deductions strategically across years—may help offset the impact.

Charitable Giving Changes

Charitable giving strategies will need to be revisited. Starting in 2026:

- Contributions must exceed 0.5% of adjusted gross income (AGI) to qualify as deductible. For households with very high incomes, this creates a new "floor" for deductions.
- At the same time, non-itemizers will gain a small charitable deduction ($2,000 for married couples), but this is less relevant for affluent households already itemizing.

Combined with the deduction cap, these changes reduce the immediate tax benefit of giving. However, high earners may still maximize long-term value by leveraging charitable trusts, private foundations, or bunching strategies.

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Estate and Wealth Transfer Planning

Beginning in 2026, the federal estate tax exemption rises to $15 million per person, with portability for married couples and future inflation adjustments. This is a substantial increase from current levels and offers more room to transfer wealth free of estate tax.

That said, with estate tax thresholds frequently targeted for adjustment in future legislation, this window of opportunity may be temporary. Families with significant estates may want to review gifting strategies, trust structures, and valuation discounts to take advantage of the higher exemption.

Retirement and Savings Provisions

The tax bill introduces “Trump Accounts,” a new form of savings vehicle for dependents under 18. While the accounts have strict contribution limits and are seeded with Treasury funding for children born between 2025–2028, high earners may view them as a supplemental planning tool alongside 529 plans, which also see expanded benefits (now covering up to $20,000 annually in K–12 and higher education costs).

Unchanged: Social Security Taxation

Despite political promises, the taxation of Social Security remains the same—up to 85% of benefits are taxable. For higher earners, this means existing planning strategies around timing of distributions and Roth conversions remain relevant.

The Bottom Line

For high-income households, the tax bill is a mix of new restrictions and planning opportunities. The cap on itemized deductions and the AGI floor for charitable contributions will diminish the tax value of long-standing strategies, while the increased estate tax exemption creates a significant, but potentially temporary, window for wealth transfer. As always, careful modeling and proactive planning will be essential to protect wealth and optimize outcomes under the new rules.