MUFG

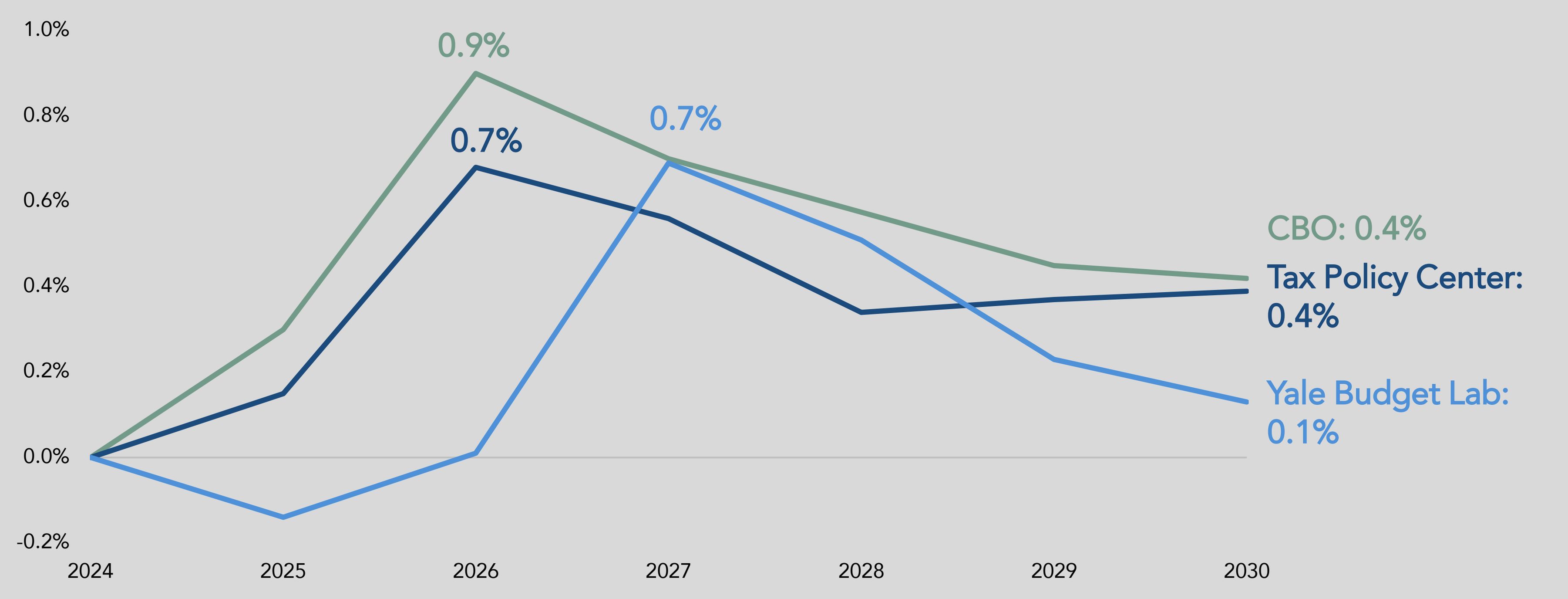
Chart of the Day

At a time when the US consumer and labor markets appear to be weakening, three notable structural forces should provide strong support for the US economy in 2026: (1) lower oil prices; **(2)** increased tech & AI spending; and **(3)** sizable and front-loaded OBBBA fiscal & tax stimulus.

Sizable & Front-Loaded OBBBA Stimulus in 2026

The OBBBA is expected to deliver a sizable and front-loaded boost to US growth in early 2026 by virtue of the formidable fiscal and tax stimulus included in the bill. For corporations, the OBBBA codified permanent corporate tax cuts and incentives that will facilitate long term strategic planning and increased domestic investment. For individuals, and with consideration to consumption driving nearly 70% of US GDP, US consumers will receive a substantive tax refund in early 2026 due to numerous new individual tax provisions, many of which were passed retroactive to January 2025.

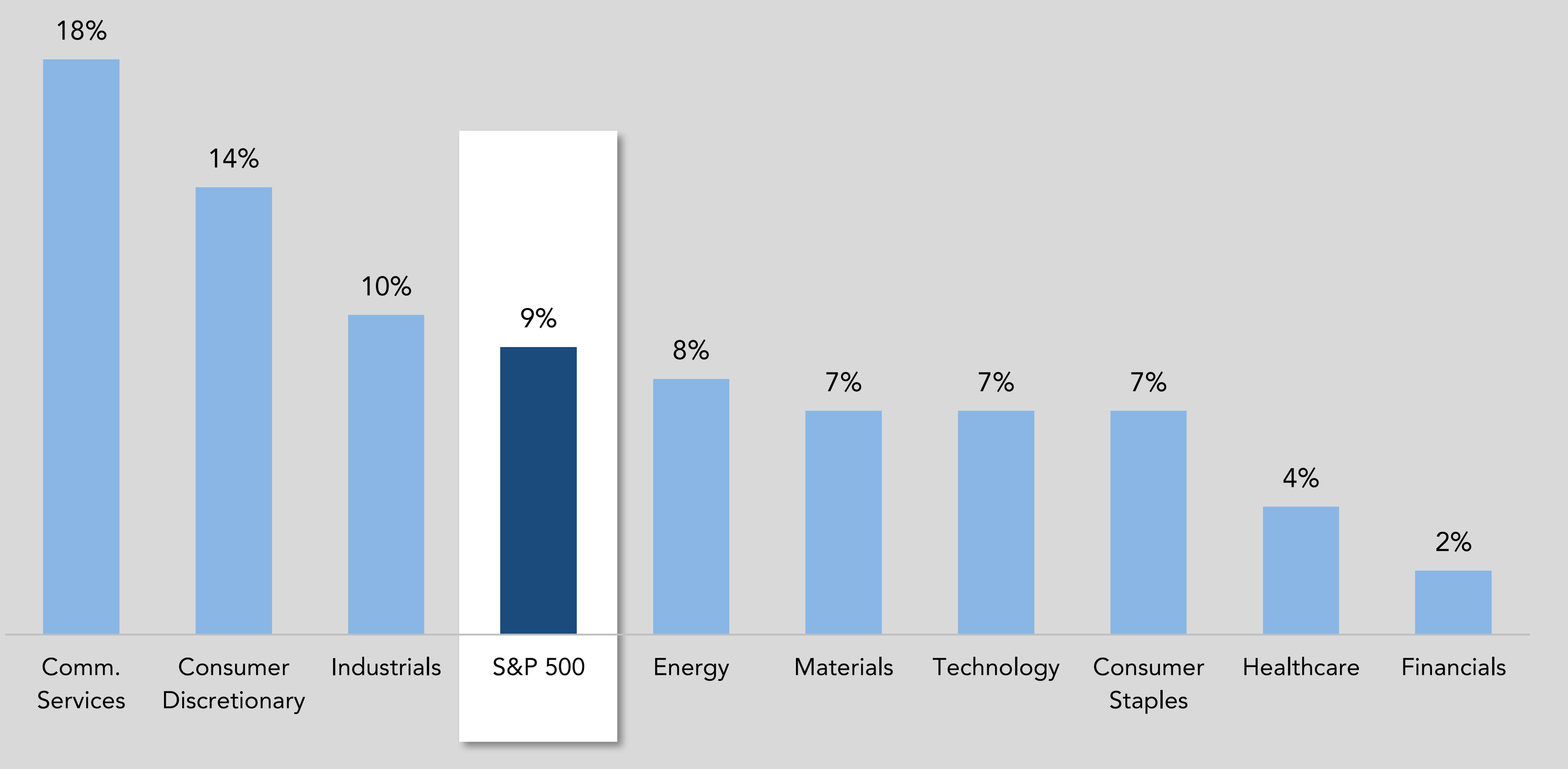
Estimated GDP impact of OBBBA, % change from baseline



Boost to Corporate Free Cash Flow

The OBBBA includes a number of tax cuts and incentives intended to boost capex investment and lower the overall tax burden on US businesses. These benefits will disproportionately boost free cash flow (FCF) in larger firms, especially companies in capex and R&D intensive sectors such as communication services, consumer discretionary, industrials and energy.

OBBBA estimated boost to free cash flow, by S&P sector



OBBBA Incentivizing US CapEx Supercycle

The 2025 OBBBA includes numerous tax credits and incentives that provide permanent change to the US tax code, 100% upfront expensing and numerous acceleration incentives to expedite construction timetables.

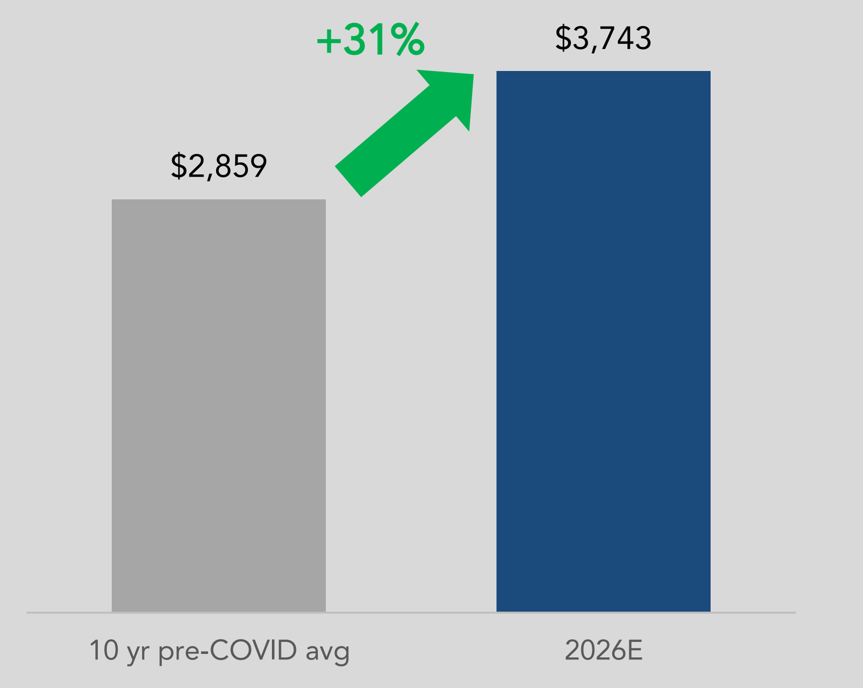
Provision	One, Big, Beautiful Bill
Bonus depreciation (short-term investments)	100% depreciation *(permanent change)*
Domestic R&D expensing	100% upfront expensing restored *(permanent change)*
International R&D expensing	15-year amortization *(unchanged)*
Manufacturing structures	100% expensing for qualifying structures *(in year of service, if built 2025 -28)*
Semiconductor manufacturing	35% tax credit *(effective Jan 2026)*
Business net interest expense deduction	Capped at 30% EBITDA *(permanent change)*

US Consumer Tax Refunds in Early 2026

As a result of the OBBBA, enacted in July 2025 but with many provisions effective retroactively to Jan 2025, US consumers are projected to receive an additional $150bn in tax refunds in early 2026. This influx, driven by an increased standard deduction, new deductions for tips and overtime and an increase in both the child tax credit and the SALT deduction, should provide a boost for consumer spending in early 2026.

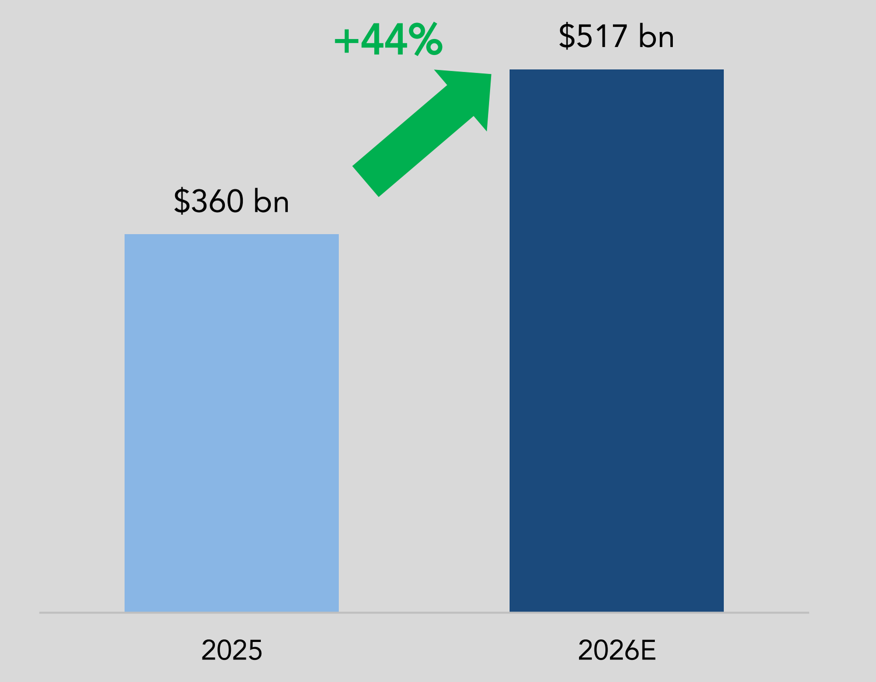
On an individual basis

Average income tax refund



In aggregate

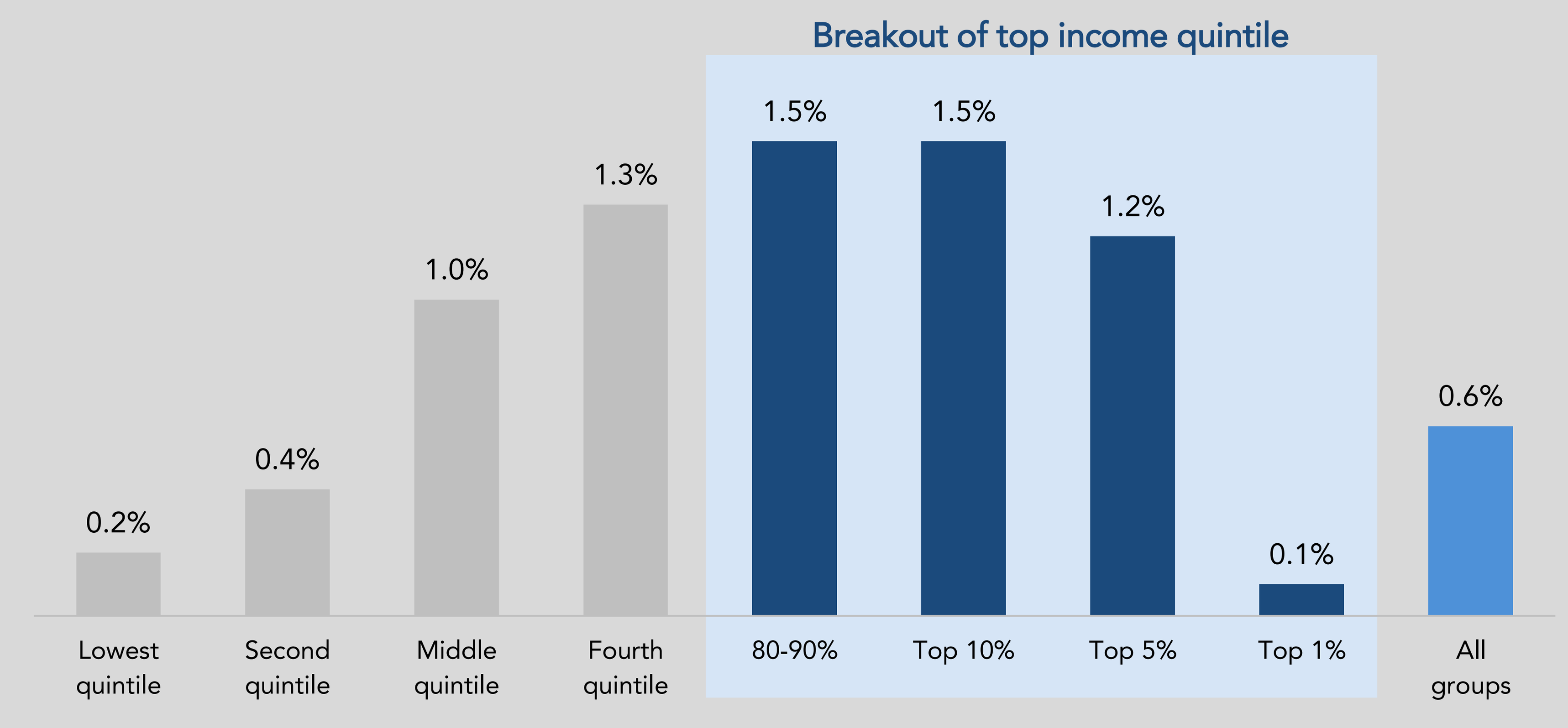
OBBBA estimated federal tax refunds



Impact of OBBBA Stimulus by Income Group

The OBBBA will provide a near-term boost to households in the form of increased tax refunds early in 2026. However, these benefits are not distributed evenly across the income spectrum. For those businesses more exposed to the lower end of the US consumer income spectrum, the OBBBA will not provide as strong a floor for formidable 2026 headwinds which will include sticky inflation, weakening labor markets and social safety net spending cuts (i.e., healthcare, food assistance).

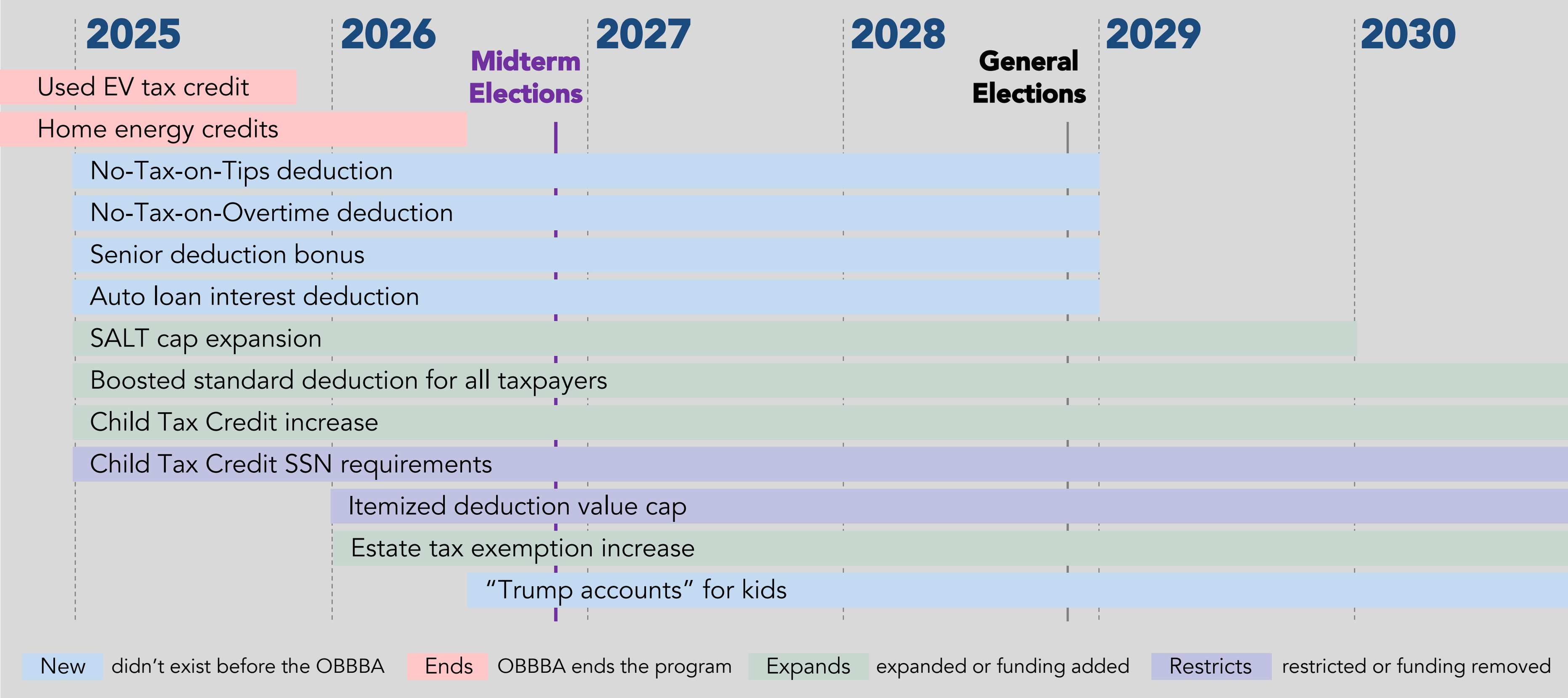
OBBBA impact on 2026 income, % change in after-tax income



Timing Considerations on OBBBA Tax Provisions

The OBBBA reinstated many of the "expired" provisions from the 2017 TCJA, added numerous new provisions, and made many of them permanent features of US tax law. Most of these provisions, including no taxes on tips and overtime, the expanded SALT cap deduction and the increase in the child tax credit apply retroactively to Jan 2025, while others become effective in 2026.

Effective dates for tax policy changes in the OBBBA



Source: Center for a Responsible Federal Budget. Tax Policy Center. Yale Budget Lab. CBO. CBO estimate is dynamic scoring based on House bill passed on May 22, 2025. Baird Private Wealth Management. US Treasury. Strategas. JPMorgan Asset Management. IRS. Date is by filing year. 2026 estimate is JPM. Principal Asset Management. Zion Research Group. Data as of July 17, 2025. Principal Asset Management. Tax Policy Center. Data as of July 4, 2025. USA Facts. US Congress. Excluding continued TCJA programs that were otherwise unchanged. Tax policies dated before the bill's signing reflect changes taking effect in the 2025 tax year.

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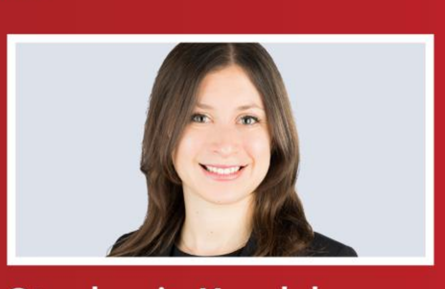

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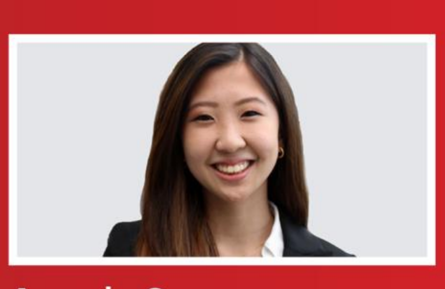

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"Macro stability isn't everything, but without it, you have nothing."