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Bracing for a long, hot summer

Tariff challenges, a one big, beautiful bill, and taxes on foreign investment

- There are no signs of a summer break from tariff drama as the US Court of International Trade (CIT) ruled to block US tariffs imposed under IEEPA last week, while a federal appeals court moved to temporarily reinstate the tariffs a day later.
- Legislatively, the "One Big, Beautiful Bill Act" (OBBBA) narrowly passed the House and is now with the Senate for review, where modifications are anticipated, but full passage seems likely before the August summer recess.
- The OBBBA, as it is currently written, will add around $3trn to the deficit over 10 years including interest according to the CRFB, but Senate instructions in the budget resolution passed earlier this year allow up to $5.7trn increase to the deficit.
- In the short term, our US economists see a negligible lift to fiscal thrust from the bill with an increase to the adjusted primary deficit by slightly less than $150bn between FY25 and FY26 (0.4% of GDP).
- Treasury Secretary Bessent has warned Congress that it will need to increase the debt ceiling in July, while our US rates strategists estimate the X-date at August 13.
- Beyond the ongoing tariff saga and concerns on the added fiscal cost of the OBBBA, markets are now focused on proposed US foreign taxes under Section 899, which could reduce the appeal of US assets by increasing rates of income tax on foreign entities by 5%-pts annually, up to 20%-pts, while also expanding the base erosion and anti-abuse tax (BEAT) from 10% to 12.5%.
- Our economists continue to see US tariff levels going higher, settling in a 15-18% range, while the tariff ruling by the CIT does not alter our FX strategy team's view to remain short USD vs EUR, JPY, and AUD.
- Term premium is likely to remain elevated, but the risk of a "Truss moment" in the US is relatively low; our US rates strategists turn tactically bullish on implied volatility due to constant news flow, tariff headlines, elevated policy uncertainty, and the recent decline in implieds.

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Higher tariffs, weaker US dollar, and higher term premium to endure

There are few signs that there will be much of a summer break as court rulings have contributed to ongoing trade uncertainty, while concerns over the size of the fiscal deficit are intensifying as the budget reconciliation process advances. The final week of May was marked by a flurry of activity—the House passed Trump's large tax bill, which is now being considered by the Senate, the US Court of International Trade ruled to block US tariffs imposed under IEEPA, only to have a federal appeals court move to temporarily reinstate the tariffs a day later, and Trump announced plans to double steel and aluminum tariffs from 25% to 50%. In this note, we highlight key events and dates to monitor related to trade negotiations and the prospects of passage for the One Big, Beautiful Bill along with market implications, highlighting key macro and market views from our Global Research team. While the court order likely delays the completion of ongoing bilateral deals before the July 9 deadline, our economists expect the US tariff rates to move higher with an average effective rate likely to eventually settle in the 15-18% range (see *Still looking for US tariff rates to move higher*, Jahangir Aziz, 29 May).

An ample set of provisions remains available to the administration to deliver their desired results. There is a commitment to maintaining a minimum US tariff rate of at least 10% and imposing further sector tariff increases. For example, Section 122 allows the president to impose up to a 15% tariff for 150 days (extendable by Congress), including in cases "to deal with large and serious United States balance-of-payments deficits." In addition, Section 338 allows the president to set up to a 50% tariff when a foreign country is discriminating against US imports compared to other countries, although using this approach could put the administration back on shaky legal ground. A more likely longer-term solution is the ongoing use of Section 232 sector tariffs, such as those applied to autos, steel, and aluminum, and Section 301 tariffs to remedy unfair trade practices, which were already being used to set some tariffs on China. Work is in progress to use Section 232 to tariff semiconductors, pharmaceuticals, copper, lumber, heavy trucks, critical minerals and related derivatives, and aircraft and jet engines (see *US Focus: Tariffs, interrupted again*, Abiel Reinhart, 29 May). While China tariffs might be modestly lowered (reflecting progress on fentanyl traffic), an increase in ASEAN tariffs to discourage transshipment looks likely, and the bias for higher tariffs on US-EU trade persists.

Figure 1: Key dates for trade and tariff announcements and summits

Date	Announcement
2-Apr	Trump announced 'Liberation Day' tariffs
3-Apr	US Section 232 tariffs of 25% imposed on automobiles
8-Apr	Increased the rate on goods from China from 34% to 84%, effective April 9
9-Apr	90-day suspension of country-specific tariffs (except for China), keeping rates at 10% for most countries
9-Apr	The rate on goods from China increased to 125% from 84%, effective April 10
11-Apr	Excludes certain semiconductors and consumer electronics from the reciprocal tariffs
15-Apr	Section 232 investigation into imports of processed critical minerals and their derivative products announced
4-May	Announces 100% tariff on foreign-made films
8-May	US-UK announced the framework of a trade agreement, known as the 'Economic Prosperity Deal' (EPD)
12-May	White House announces an agreement with China for a 90-day reduction in tariffs
14-May	Reduces rate on China from 125% to 10%, for a 90-day period.
16-May	Moody's downgrades US sovereign credit rating from Aaa to Aa1
23-May	Announced plans to impose a 50% tariff on the EU and a 25% tariff on foreign-made smartphones starting June 1
28-May	US Court of International Trade blocks global tariffs imposed through IEEPA
29-May	US Court of Appeals for the Federal Circuit ruling restores Trump's ability to levy tariffs using IEEPA
30-May	Announced plans to hike steel and aluminum tariffs from 25% to 50%
15-17 Jun	G-7 Leaders' Summit in Kananaskis, Alberta
24-25 Jun	The Hague NATO Summit
9-Jul	US 90-day pause on reciprocal tariffs expires (including 50% on EU)
10-Aug	US and Chinese tariff reductions expire
12-Oct	Final report and recommendations on critical minerals 232 investigation due to President
31 Oct to 1 Nov	APEC Summit in Gyeongju, Korea

Source: Various news articles, Atlantic Council Trump tariff tracker, J.P. Morgan Strategic Research

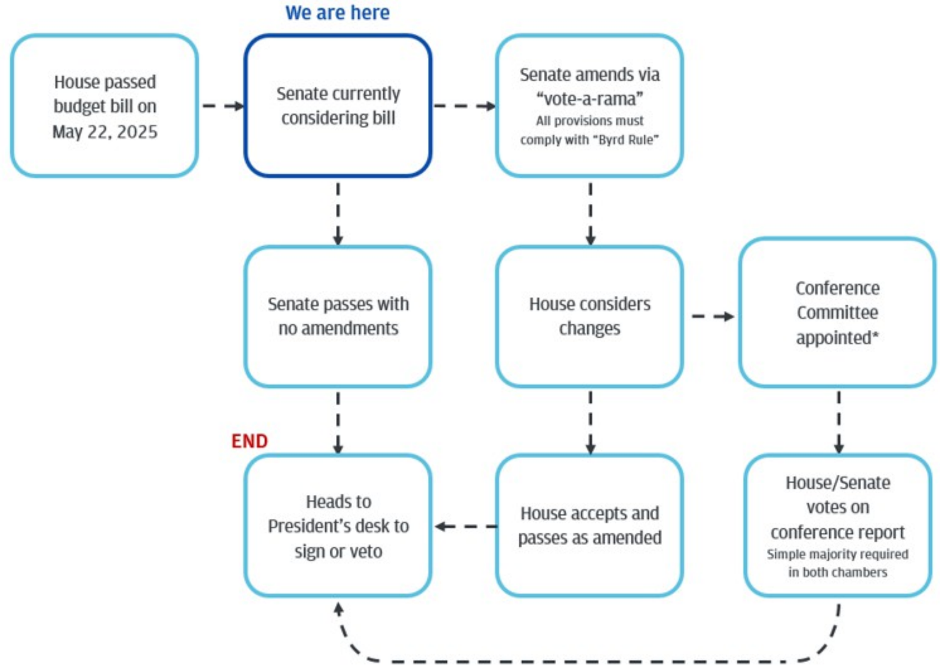
One big, beautiful bill: Senate debate intensifies with goal for passage by August recess

The Senate debate over Trump's One Big, Beautiful Bill Act (OBBBA) will be contentious, but we hold the view that by the August summer recess is a realistic target for full passage, with September 30, which is the end of the 2025 fiscal year, being the hard deadline (see *Trump's One Big, Beautiful Bill Update: Big, Not Yet Beautiful*, Amy Ho, 16 May). The OBBBA narrowly passed the House with a vote of 215 to 214, with one lawmaker voting present. All Democrats voted against the measure along with two Republicans, Reps. Warren Davidson of Ohio and Thomas Massie of Kentucky, who argued that the bill failed to adequately address deficit spending. Rep. Andy Harris (R-MD) voted present, expressing concerns about deficits and Medicaid, while Reps. Andrew Garbarino (R-NY) and David Schweikert (R-AZ) missed the vote. Schweikert indicated that he would have voted in support of the bill.

Modifications to the House bill are expected in the Senate. Under budget reconciliation rules, Republican Senate Majority Leader John Thune will need only a simple majority to pass the bill, allowing every Democrat and up to three Republicans to vote against it. Vice President JD Vance would cast the tie-breaking vote if there is a 50-50 split. If the bill clears the Senate, but with amendments, it will be sent back to the House for consideration. At that point, House Republicans will have a choice—pass the bill with changes from the Senate and send it to the President's desk or create a conference committee to resolve differences. Under a conference committee, the House Speaker and Senate Majority leader appoint members to negotiate a compromise bill (also called a conference report) that adheres to original reconciliation instructions and the Byrd Rule (i.e., rule prevents the inclusion of matters considered "extraneous" to the budgetary goals of the legislation).

Once the conference report is passed by both chambers (debate on a conference report is limited to 10 hours in the Senate), it heads to the president's desk for signature. According to the Congressional Research Service, instead of a conference committee, the House and Senate may also negotiate an agreement through an exchange of amendments between the houses; however, this approach has historically not been used in the case of reconciliation legislation. See Figure 2 flowchart to see where we are in the current process.

Figure 2: Advancing the budget reconciliation process: Next steps



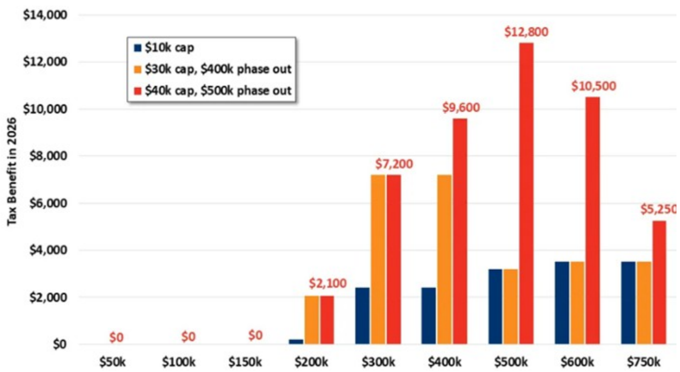
Note: According to the CRS, the House and Senate may also negotiate an agreement through an exchange of amendments between the houses. Although such an approach may be taken as an alternative to conference, historically it has not been used in the case of reconciliation legislation. According to the Congressional Research Service, of the 23 reconciliation bills enacted into law since 1980, the length of time between adoption of a congressional budget resolution and enactment of the resulting reconciliation bill ranged from 28 to 385 days, with an average of 152 days.
Source: J.P. Morgan Strategic Research, Congressional Research Service

The bill's passage in the House followed last-minute changes to secure necessary votes from ultraconservative Freedom Caucus members, particularly on Medicaid and clean energy tax credits. Key amendments included accelerating the implementation of new Medicaid work requirements to December 2026 from 2029 and expediting the phaseout of clean energy tax credits. The revision removed a three-year phase-down schedule for certain clean energy tax credits and instead cuts off projects that do not start construction within 60 days of the bill's passage. Those projects would also have to start operating before 2029. In particular, certain tax credits for wind energy and solar energy would end by 2028 instead of a slower phaseout through 2031 while EV tax credits would be eliminated at the end of 2025. Instead, a tax break for auto loan interest on US-built vehicles was added.

Additional provisions were added to garner support from various factions within the Republican Party, such as the SALT Caucus. The bill introduced an increase of the State and Local Tax (SALT) deduction to $40,000 for households earning up to $500,000 annually, up from a $30,000 cap in the prior plan and the current $10,000 cap. According to the Committee for a Responsible Federal Budget (CRFB) and Tax Policy Center, the SALT cap relief would only benefit high earners, concentrated in a smaller number of communities (Figures 3 and 4). In its models, the CRFB estimates that couples earning up to $300,000 with homes worth $1.5 million in DC gain no extra benefit from a SALT cap above $30,000, while those earning $150,000 or less with homes valued at $600,000 are unlikely to benefit from the SALT deduction at all and would opt for the standard deduction instead. Meanwhile, upper-income couples making $500,000 with a $2.5 million home would receive a $9,600 tax cut in their model.

Figure 3: Higher SALT Caps benefit the highest earners

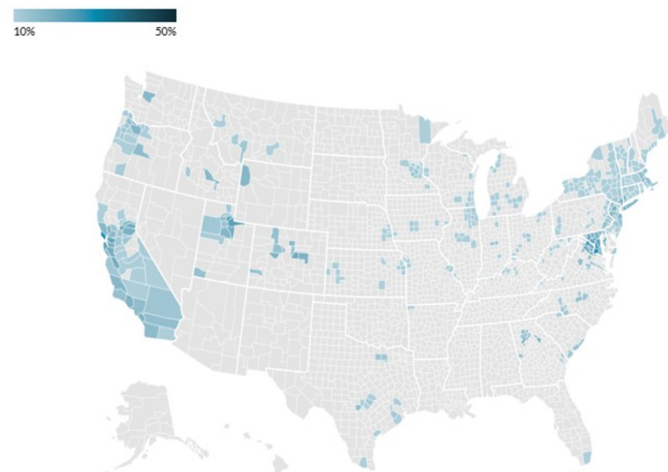
Tax benefit from different SALT caps for illustrative married couples in Washington D.C., by income.



Note: Assumes SALT cap reverts to $10k above the income phase-out. Assumes a married couple in Washington D.C., owning a house worth 5 times their annual income. Assumes the couple has a combined charitable and mortgage interest deduction worth 12% of their yearly income.
Source: CRFB calculations

Figure 4: Share of tax filers claiming the SALT deduction in 2022

Counties above national average

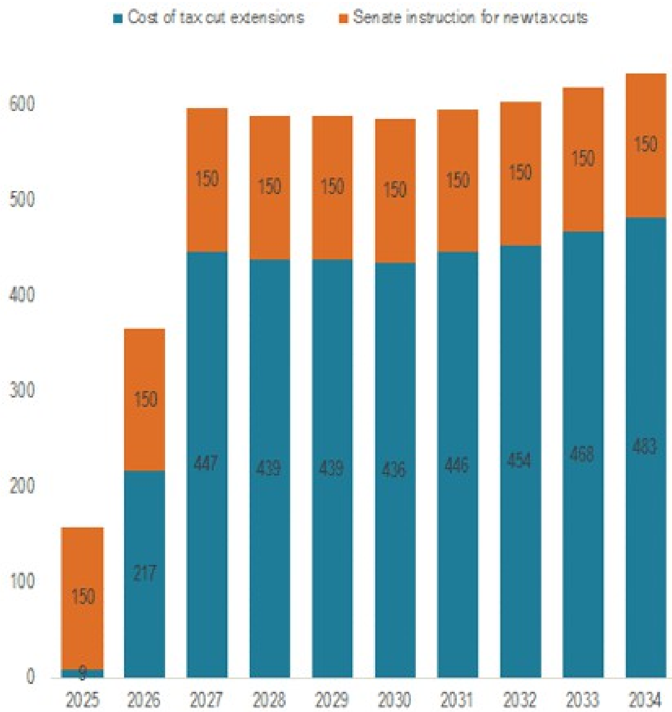


Source: IRS Statistics of Income, Tax Policy Center

The package also imposes tax increases on universities and immigrants. Private universities with large endowments would pay a 21% tax versus the current rate of 1.4% on net investment income. Meanwhile, immigrants would face a new excise tax of 5% on remittance transfers. The bill also proposes new savings accounts funded with $1,000 from the government called "Trump" accounts for babies born during President Trump's second term in office.

In the budget resolution passed earlier this year, the Senate had instructions for a higher ceiling for total tax cuts ($5.3trn) than the House ($4trn). Some members in the Senate want to make the TCJA extensions permanent, while the House version extends certain provisions of TCJA for a five-year period. The Bipartisan Policy Center points out that while the Senate Finance Committee's instructions from the budget resolution passed earlier this year are to increase deficits by no more than $1.5trn, the Senate budget resolution uses a "current policy" baseline, which assumes that all temporary policies are made permanent. According to the Bipartisan Policy Center, extending the TCJA permanently would cost $3.8trn over 10 years, but when considering the Senate's instruction for an additional $1.5trn in tax cuts, that takes the actual cost closer to $5.3trn (Figure 5). Due to overlapping instructions between Senate committees over immigration and the use of a current policy baseline, the actual top line is an up to $5.7trn deficit increase (Figure 6).

Figure 5: Extending tax cuts and expanding on them costs more than $5trn



Source: Bipartisan Policy Center, Senate Budget Republicans, Congressional Budget Office

Figure 6: Senate reconciliation instructions may allow for $5.7trn in deficit increases

Senate Committee	Reconciliation Instruction (billions of dollars; negative = deficit reduction, positive = deficit increase)
Agriculture	-$1
Banking	-$1
Energy	-$1
Health, Education, Labor, and Pensions	-$1
Environment & Public Works	$1
Commerce	$20
Armed Services	$150
Homeland Security & Governmental Affairs (HSGAC)	$175* (instructions overlap with Judiciary)
Judiciary	$175* (instructions overlap with HSGAC)
Finance	$1,500* (on current policy baseline; actual = $5,336)
Current Policy Total	*$2,017*
Current Law – Finance Committee	**$5,336**
Current Law – Total (also deconflicts overlapping instructions between HSGAC and Judiciary)	**$5,678**
Debt Limit Increase	**$5,000**

Source: Bipartisan Policy Center

Senate Majority Leader John Thune (R-SD) now faces the challenge of rallying enough support as at least five Republican Senators have stated that they are prepared vote against the House version of the bill. The Big 6 (i.e., Scott Bessent, Kevin Hassett, John Thune, Mike Johnson, Mike Crapo and Jason Smith) have been in close collaboration, anticipating necessary changes to the bill. The more contentious items in the bill such as Medicaid cuts, clean energy tax credits, and spending cuts, threaten to disrupt the Republican legislative agenda. Some of the additional early opponents so far are:

- **Energy Tax Credit Advocates:** House Republicans' move to bring up sunset dates for several clean-energy tax credits has raised concerns from several Republican Senators, who fear it may deter future investments. At least four Republican senators, led by Sens. Lisa Murkowski (R-Alaska), are advocating for the continuation of energy tax credits, supporting both traditional and renewable energy sources.
- **Fiscal Hawks and Spending Cut Advocates:** Sens. Ron Johnson (R-Wis) and Rand Paul (R-KY) have expressed that spending cuts do not go far enough. Paul also opposes the debt ceiling increase in the bill. Thune said he's aiming for closer to $2 trillion in reductions, above the $1.5 trillion the House passed.
- **Opponents of Medicaid Cuts:** Sens. Josh Hawley (R-Mo) and Jim Justice (R-W.Va) have indicated they do not want any Medicaid cuts along with Sens. Susan Collins (Maine) and Lisa Murkowski (Alaska). Collins has expressed concerns about the bill's impact on rural hospitals, and Murkowski is conscious of potential impact on tribal communities in Alaska.

Figure 7: Key players and potential Senate holdouts for Trump's one big, beautiful bill

The Big 6 Budget Negotiators	Energy Tax Credit Advocates	Fiscal Hawks and Spending Cut Advocates	Opposes Medicaid Cuts
House Speaker Mike Johnson	Lisa Murkowski (R-Alaska)	Ron Johnson (R-Wis)	Josh Hawley (R-Mo.)
Senate Majority Leader John Thune	**Thom Tillis (R-N.C.)***	Rand Paul (R-Ky.)	**Susan Collins (R-Maine)***
Senate Finance Chair Mike Crapo	John Curtis (R-Utah)	Rick Scott (R-Fla.)	Lisa Murkowski (R-Alaska)
House Ways and Means Chair Jason Smith	Jerry Moran (R-Kan.)	Mike Lee (R-Utah)	Jim Justice (R-W.Va)
NEC Director Kevin Hassett			
Treasury Secretary Scott Bessent			

Note: Senators up for reelection in 2026 midterms
Source: J.P. Morgan Strategic Research, various news sources

The Senate hopes to wrap up its version by July 4, returning it to the House for conference, but Senate leaders have indicated that the federal borrowing limit determines the real deadline. The Treasury Department warns of a potential shortfall in borrowing authority by August. The budget bill also includes a $4trn increase in the US debt ceiling. Given strong tax filings this April, our US Rates Strategy team extended their x-date forecast to August 13 but expect new debt ceiling legislation to be passed in the next two months (see *US Treasury Market Daily*, Jay Barry et al., 28 Apr).

Figure 8: Timeline for passage of Trump's One Big, Beautiful Bill is well underway

Date	Event
13-May	Key House committees advanced their portions of Trump's economic package.
22-May	House passes the reconciliation bill by a vote of 215-214, sending it to the Senate.
26 May - 30 May	Senate on Memorial Day recess
2-Jun	Senate returns to session
By 4 July	Republican target to pass Trump's one big, beautiful bill (OBBBA)
Mid-July	Secretary Bessent urges Congress to raise or suspend the debt limit by mid-July.
Aug	Secretary Bessent notes that debt limit measures could run out in August.
1-Aug	Senate's last day in session before August recess
13-Aug	J.P. Morgan US Rates Strategy team's x-date forecast.

Source: Various news sources, J.P. Morgan Strategic Research

Small stimulus, uncertain tariff revenue, elevated fiscal deficits, and taxes on foreign investment and remittance transfers

Our US economics team sees a negligible lift to fiscal thrust for FY26 from the House version of the reconciliation bill, although according to the CRFB, as written, it will add around $3trn to 10-year deficits including interest, but if made permanent it would add $5trn. The Senate had already seemed to be leaning toward smaller budget cuts, and the bill's provisions contain many of Trump's campaign promises to increase spending for defense and immigration enforcement. The current bill includes a boost to military spending by $150bn and allocates $175bn for immigration enforcement. As written, it would increase the adjusted primary deficit by a bit less than $150bn between FY25 and FY26 (0.4% of GDP). Considering that some of this comes from the revival of TCJA business tax provisions and factoring in new tariff revenue and possible DOGE savings, our US economics team now see little fiscal impulse to GDP growth in 2026.

The most recent CBO cost estimate, reflecting the legislation as of May 18, estimates that relative to current law the bill would increase cumulative primary

deficits by $2.4trn over fiscal years 2025-34 and would lead to the primary deficit increasing by ~$375bn between FY25 and FY26 (1.1% of GDP, Table 1, Line 2). However, our US economics team points out that this uses a standard CBO accounting convention in which changes in the net present value of student loan costs are reflected immediately, even though changes in borrower payments are spread across time. This convention reduces the deficit by close to $200bn in FY25. If instead, those savings are spread evenly over the following years of the forecast, then the primary deficit only increases by ~$150bn from FY25 to FY26 (0.4% of GDP, Table 1, Line 3). They estimate that accounting for changes made since the May 18 version of the bill will only have a small additional impact on the change in the primary deficit in FY26, reducing the increase to about $140bn (Table 1, Line 4) (see *US Focus: Another fiscal update*, Abiel Reinhart, 23 May).

Table 1: Primary deficit under reconciliation bill, FY25-26 ($bn)

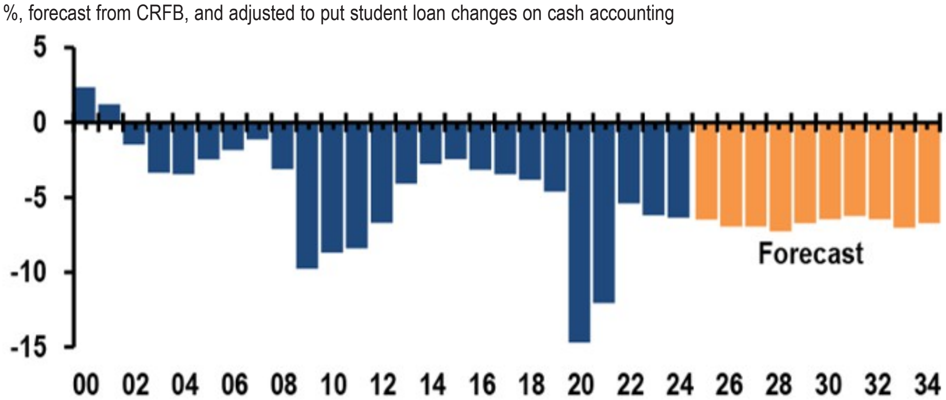
Line #		FY25	FY26	Change	Ch., % of GDP
1	CBO: Jan 2025 baseline	−913	−703	210	0.8
2	CBO: May 18	−801	−1175	−373	−1.1
3	CBO: May 18, cash accounting	−999	−1153	−153	−0.4
4	JPM: May 23, cash accounting	−999	−1142	−143	−0.3

Source: CBO, CRFB, J.P. Morgan US Economics Research. The cash accounting line takes the FY25 savings attributable to the Education and Workforce Committee and spreads them evenly across FY26-34. The change as % of GDP is calculated by scaling by CBO fiscal year GDP in each year and then differencing

Our economists estimate that the fiscal drag from tariffs is likely somewhere between $100bn and $200bn, largely or fully offsetting the increase in the deficit from the reconciliation bill. Note that tariffs are not scored in the reconciliation bill since they are not part of that law. Congress has not put much emphasis on tariff revenue in its public communication about the bill. Daily tariff collections have been running at around a $270bn annualized rate over the last month, but the Court of International Trade ruling highlights their uncertainty (see *US Weekly Prospects*, Michael Feroli et al., 30 May). The team does not currently have an estimate of full DOGE savings, but the federal government could save around $15bn in compensation for each 100k reduction in employment. A 100k reduction is plausible once deferred resignations are complete, further diminishing the impulse from the reconciliation bill. Despite Treasury Secretary Bessent's desire for 3% deficits, the bill, as currently written, keeps deficits elevated for the foreseeable future.

Figure 9: Federal fiscal balance as percent of GDP

%, forecast from CRFB, and adjusted to put student loan changes on cash accounting



Source: CBO, CRFB, J.P. Morgan

Alongside last-minute amendments, the OBBBA also contains a mechanism under Section 899 to retaliate against unfair foreign taxes, while also expanding the base

erosion and anti-abuse tax (BEAT). As currently written, the language appears to establish retaliatory taxes targeting countries that impose certain taxes on the US. Overall, Section 899 could disrupt foreign corporations operating in "discriminatory foreign countries," increasing their tax liabilities and compliance burdens. US corporations may face increased withholding rates on payments to foreign persons, potentially affecting intercompany transactions and shareholder dividends.

The ultimate impact of Section 899 provisions will depend on the final language and Treasury's discretion in implementation, but concerns are mounting that a tax on foreign investment will make international investors reluctant to buy US assets. According to theTax Foundation, these provisions would apply to any country that the US deems to have extraterritorial or discriminatory taxes (e.g., countries that have an undertaxed profits rule (UTPR), digital services taxes (DSTs), and diverted profits taxes (DPTs)). Section 899 would increase rates of income tax on foreign entities, including on passive or active investment income, by 5%-pts a year, up to a maximum of 20%-pts. Meanwhile, BEAT, which was adopted as part of the 2017 TCJA that was meant to curb base erosion, would increase from 10% to 12.5%. Our US credit analysts believe this would mostly impact foreign corporations with substantial US subsidiaries and would not impact foreign investors buying US-issued debt. The provision includes significant carve-outs for companies that roll up to a US parent, mitigating the impact on US-parented companies (see *Section 899: Potential implications for corporate credit*, Nathaniel Rosenbaum, 28 May).

The Tax Foundation highlights that many countries, including France, Italy, the UK, Canada, and Australia, have what the Trump administration considers to be discriminatory taxes (UTPR, DSTs, or DPTs) and could face potential retaliatory taxes under Section 899. They also highlight that China has none of these policies currently in place, while Japan has a UTPR that is not yet in effect. Under Section 899, Treasury will provide a quarterly list of "discriminatory foreign countries" at their discretion.

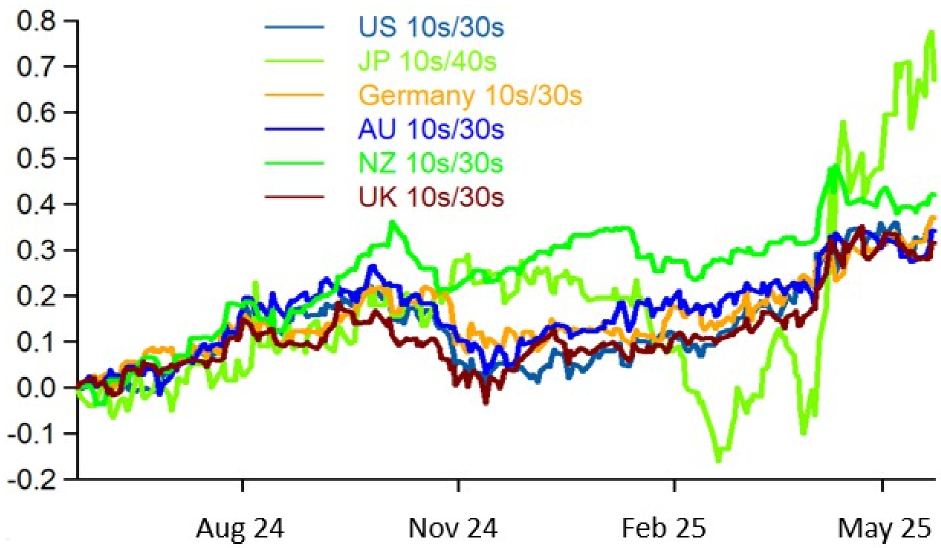
The House version of the reconciliation bill also includes a 3.5% excise tax on remittance transfers by anyone who is not an American citizen or national. The Joint Committee on Taxation estimates that this provision will raise $22.2bn in revenue between 2025 and 2034 (roughly between $1bn and $3bn per fiscal year). In 2022, the top countries receiving remittances (both from the US and other countries) were India ($111bn), Mexico ($61bn), China ($51bn), and the Philippines ($38bn), according to the World Bank.

Our FX strategists point out that capital repatriation or more FX hedging present some near-term downside risks to the USD. Foreign investors hold sizable positions in US financial assets worth $56.6trn by the end of 2024, up from $2.2trn at the end of 1990. This total includes $16.5trn (29%) of equities, $14.5trn (26%) of debt securities, and $16.5trn (29%) of FDI. Foreign investors now hold ~20% of US equities (including public/private/closely held) and ~30% of both US Treasuries and corporate bonds separately (see *Long-term Strategy: Foreign Ownership of US Financial Assets: Strategic questions*, Alex Wise, 9 May).

Our FX strategists maintain their strategic call for a weaker dollar as fiscal concerns, term premium dynamics, and taxes on foreign investment serve as more critical bearish drivers than the bullish impact of the fiscal thrust. The long ends of DM bond curves are influenced by a "buyers strike" amid concerns surrounding US fiscal plans and selective weak auctions demand. The feedback loop from "bond vigilantes" may be tested soon if fiscal prudence does not improve the supply outlook, even if the supply/demand imbalance remains (see *FX Outlook: Has fiscal* *differentiation finally become relevant for DM FX?*, Meera Chandan et al., 30 May and *The J.P. Morgan View: Shifting horizons*, Fabio Bassi, et al., May 23).

Figure 10: Term premium is going up and yield curves are steepening as several governments are gearing up to increase fiscal spending

Cumulative change in long-end yield curves for select DMs (T-1y = 0); %



Annual 2024 values (or prior latest)
Source: J.P. Morgan, Haver Analytics

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