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THE ONE BIG BEAUTIFUL BILL ACT

A Potential Catalyst for U.S. Value Investing

Christopher Hazelton, Global Investment Strategist, BNY Investments Newton
Carolina Ortega, Investment Strategy Associate, BNY Investments Newton
BNY Investments Newton U.S. Large Cap Value and Equity Income Team
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INTRODUCTION

Legislation can have a powerful effect on investment outcomes. On July 4, 2025, President Trump signed the One Big Beautiful Bill Act (OBBBA) into law. The OBBBA aims to revitalize domestic economic activity by ushering in a series of pro-growth policies. The Act reshapes tax policy and introduces meaningful capital incentives designed to stimulate investment across key industries.

In our view, the combination of the bill's benefits with deregulatory initiatives across many federal agencies may create a number of attractive investment opportunities.

Impactful provisions include:

- The reinstatement of 100% first-year bonus depreciation for qualifying assets (including property, equipment, and machinery) retroactive to January 2025.
- The restoration of upfront and retroactive expensing for domestic research and development (R&D) expenditures, effectively creating a 4% present value (PV) discount on domestic R&D and 9% PV discount versus foreign R&D compared to prior rules.
- Increased interest expense deduction caps from about 30% of earnings before interest and taxes to roughly 30% of earnings before interest, taxes, depreciation, and amortization.

These measures are expected to significantly reduce tax obligations, enhance near-term cash flow, provide long-term certainty for capital-intensive businesses, and accelerate the timing of acquisitions or projects to capture these benefits sooner rather than later. These dynamics may unlock billions in free cash flow over the next few years, encouraging domestic capital investment and innovation with excess capital available for deployment.

KEY POINTS

1. The One Big Beautiful Bill Act (OBBBA) is designed to spur investment in domestic manufacturing with a number of incentives, including tax advantages.
2. The OBBBA allows businesses to immediately and fully deduct domestic capital investments and research and development expenses, while also expanding the amount of interest expense they can deduct.
3. These provisions are expected to lower companies' tax bills and improve cash flow in the near term, with the broader goal of motivating businesses to put more capital to work domestically.
4. In addition to major players in manufacturing and innovation making moves, complementary "pick and shovel" industries are poised to take advantage of the potential increase in development.

Opportunity in the Fine Print?

The One Big Beautiful Bill Act delivers a variety of investment opportunities, with huge scale.

BONUS DEPRECIATION

Production Property

- Time-bound bonus depreciation for production property
- Construction must start pre-2029 and finish pre-2031
- Effective **15%** present value discount on U.S. factories

General Business Property

- Permanent bonus depreciation for qualifying property with <20y recovery periods
- **3-11%** effective present value discount on eligible capex, depending on prior depreciation schedule
- U.S. private fixed investment totaled **$3.5tn** in 2025 (excluding manufacturing structures and R&D).[1]

R&D EXPENSING

- Domestic R&D spend is immediately tax deductible (previously amortized over 5 years)
- Effective **3%** present value discount vs prior rules for domestic R&D
- Effective **9%** present value discount vs foreign R&D (amortized over 15 years)
- **Estimated $600bn** in additional depreciation in the first half of 2025 alone

INTEREST EXPENSE DEDUCTION

- Interest expense cap for tax deductions has increased from **~30% of EBIT to ~30% of EBITDA**
- Certain foreign income exemptions removed
- Enables faster deleveraging and more flexible capital structure

Against this policy backdrop, investment across American businesses is expected to surge as industrial giants ramp up domestic production, communication services companies boost domestic capital expenditure (capex), and pharmaceutical firms accelerate R&D pipelines.

Additionally, opportunities created by the bill may transcend headline companies. Significant upside may also exist in the "pick and shovel" companies that support this expansion, including equipment suppliers and infrastructure enablers.

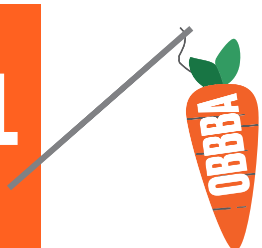
Stimulus for Manufacturing:
A Two-Pronged Approach to Boosting the Sector

The Act delivers two-pronged stimulus to U.S. manufacturing, combining tax incentives with trade protections in a framework with the potential for outsized impact. On the incentive side, the bill reinstates immediate expensing of domestic capex and R&D alongside expanded interest expense deductions, increasing cash savings, providing long-term certainty for capital-intensive businesses, and encouraging accelerated investment in American manufacturing. Over the next ten years, these expensing provisions are projected to reduce tax revenue by $947 billion, with manufacturing, information technology, and mining companies expected to see some of the largest reductions in tax liability.[2]

On the trade side, policy has served as a structural complement, raising the cost of foreign alternatives while the incentive provisions reward domestic investment. The U.S. trade landscape, however, has shifted substantially since early 2025. Following the Supreme Court's February 2026 decision in *Learning Resources, Inc. v. Trump* invalidating IEEPA-based tariffs, which had pushed average tariff levels above 22% following Liberation Day, the administration implemented a temporary 10% import surcharge under Section 122 of the Trade Act of 1974, scheduled to expire July 24, 2026, while longer-term Section 301 replacements are under review.[3, 4, 5] Trade barriers remain significant: China faces a combined effective tariff rate estimated at approximately 25–35% under stacked Section 301, Section 122, and Section 232 measures, while the overall average effective U.S. tariff rate has ranged between approximately 9–12% in 2026, down from a Liberation Day peak above 22%.[6,7,8] The policy environment continues to evolve, and outcomes from ongoing Section 301 reviews or further legal developments may affect these rates.[9]

This dual approach, stimulating domestic production while raising the cost of foreign alternatives, could create a powerful incentive for companies to onshore operations and invest in U.S.-based manufacturing.

BIG BEAUTIFUL CARROTS



- Immediate expensing for domestic capex
- Immediate expensing for domestic R&D
- Heightened interest expense deduction caps

TARIFFED STICKS

- **12%** average effective tariff rate on U.S. imports[10]
- Targeted action against manufacturing competitors

BULLISH IMPACT

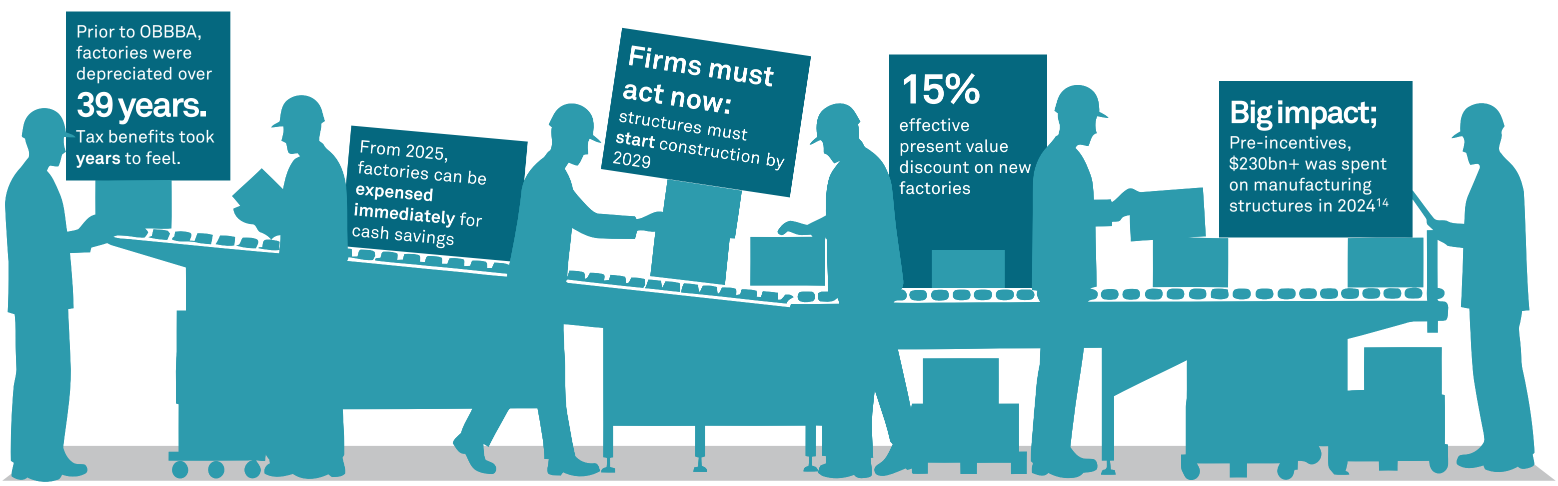
- Expense provisions projected to reduce tax revenue by **$947 billion** over the next 10 years[11]
- Strong incentives for domestic investment now
- Manufacturing spend has a nearly **3x multiplier**, the highest of any sector[12]

Strategic Time to Invest

With tax relief focused on upfront investment deductibility, the Act may unlock free cash flow across capital-intensive industries. This could encourage ongoing reinvestment in innovation—with the added benefit of sufficient residual excess capital to deploy in capex, mergers and acquisitions (M&A) or increased shareholder returns.

The result? Now may be a strategic time to reinvest. With full bonus depreciation reinstated, companies may now immediately expense capital investments as opposed to depreciating them over decades. Tax benefits that previously took years to realize can now potentially turn into direct cash savings. This effectively creates a 15% present value discount on new construction started before 2029, potentially making largescale capex projects much more financially attractive.

Given that over $230 billion was invested in U.S. manufacturing structures in 2024 prior to incentives, momentum heading into 2026—charged by the OBBBA's tax incentives—offers investors a rare opportunity to potentially capitalize on both fiscal incentives and long-term growth potential in industrial expansion. More recently, companies have announced dozens of new or expanded manufacturing facilities, representing approximately $1.4 trillion in potential investment between January 2025 and March 2026.[13]



Industries Are Already Responding

Companies across various sectors are moving quickly to capitalize on the bill's incentives.

Communication Services

One of the nation's largest telecommunications providers has taken a leading role in leveraging the Act's incentives. The company is leveraging new tax incentives offered in the bill to accelerate its fiber network rollout, citing a projected extra $9 billion cash flow benefit over the next 2.5 years.[15]

Healthcare Manufacturing

A global healthcare conglomerate has committed to building four new U.S.-based manufacturing facilities.[16] As the company stands to benefit directly from bonus depreciation, it is also aligning with the Act's objective of bringing jobs and manufacturing back to the U.S.

Pharmaceuticals

Major pharmaceutical companies with robust R&D pipelines may benefit from the Act's reinstatement of immediate expensing for domestic R&D. This may improve cash flow and reduce tax liabilities associated with its innovation investments. The provision is estimated to create an additional $600 billion in depreciation available for 2025. In addition, drugmakers collectively announced more than $500 billion in U.S. project investments in 2025, over the next five years, though only a fraction of total pledges has been tied to specific amounts and locations.[17] This may also support medical product and device companies that provide products and services to these new facilities.

Picks and Shovels

It's not only the large companies with massive R&D and infrastructure investments that may experience uplift. Companies that enable the capex boom—those in aggregates, equipment suppliers, building products, machinery, and construction services—may also be poised to realize multi-year benefits.

Industrials

American manufacturers of industrial machinery may benefit not only from increased demand as infrastructure projects move forward, but also from bonus depreciation rules that allow them to expense upfront capital investments. In February of 2026, a leading global manufacturer of agricultural and construction equipment announced plans to invest $20 billion over the next decade in U.S. expansion, production, and manufacturing, including the onshoring of a machinery factory to the United States.[18]

These moves reflect a broader trend:
Firms are recalibrating their infrastructure plans to capitalize on OBBBA's incentives, signaling a new wave of domestic investment.

Financials

Since many of these projects will likely be financed through borrowing from U.S. banks and capital markets, we think these sectors may also experience rewards from the increase in activity. Furthermore, ongoing deregulation initiatives across the sector should lead to a loosening of capital requirements, potentially leading to greater lending activity.

Many Big Beautiful Opportunities?

Among the OBBBA's primary goals are unlocking capital and accelerating domestic investment across industries. From industrials and telecommunications to pharmaceuticals, companies are already mobilizing to take advantage of the bill's incentives.

For investors, this may be a unique opportunity to get ahead of what could become a multi-year investment cycle. While big-headline names may draw the majority of the attention, we also see potential outperformance in some underappreciated enablers, namely the suppliers, builders, and infrastructure companies fueling the transformation.

2026 Update: Where Are We Now?

More than a year after the enactment of the One Big Beautiful Bill Act, economic indicators suggest the policy may be beginning to translate into measurable activity. Private investment has remained robust, with approximately $3.5 trillion in U.S. private fixed investment in 2025, underscoring the scale of capital deployed during the period.[19]

Signs of momentum are also evident in the broader manufacturing environment. The ISM Manufacturing PMI registered 54 in May 2026, its highest reading since 2022, marking five consecutive months of expansion and the strongest sustained run in four years.[20] "Pick and shovel" companies appear to be among the early beneficiaries, with the combined effects of 100% bonus depreciation and immediate expensing likely supporting demand alongside accelerating reshoring activity. Industrial machinery new orders rose 18% year over year in 2025 and a further 30% in the first quarter of 2026, extending a recovery after years of contraction. Although near-term figures may be subject to some distortion from the U.S.-Iran conflict, the underlying trend appears intact. The healthcare sector has emerged as another area of significant commitment, with pharmaceuticals representing one of the largest categories of announced investment at more than $500 billion since enactment.[21]

Taken together, the framework established by the OBBBA may be creating meaningful incentives for domestic capital formation. While still in the early stages, the combination of sustained investment levels, accelerating project activity, and sector-specific commitments suggests that companies positioned early, both market leaders and the broader ecosystem supporting them, may be well placed to benefit if these trends continue. The recent U.S.-Iran conflict (beginning March 2026) and Strait of Hormuz disruptions further reinforce this thesis, underscoring the strategic logic of domestic production and strengthening the long-term onshoring investment case.

Endnotes

1. Federal Reserve Bank of St. Louis, April 9, 2026.
2. Tax Foundation, September 4, 2025.
3. SCOTUSblog, February 20, 2026.
4. The Budget Lab (TBL), April 1, 2026 (Updated May 9, 2026).
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6. Penn Wharton Budget Model calculations based on data from U.S. International Trade Commission (USITC) DataWeb, June 16, 2026.
7. TariffTax.org, April 17, 2026.
8. The Budget Lab (TBL), April 1, 2026 (Updated May 9, 2026).
9. Skadden, Arps, Slate, Meagher & Flom LLP and Affiliates (Skadden), May 20, 2026.
10. The Budget Lab (TBL), April 1, 2026 (Updated May 9, 2026).
11. Federal Reserve Bank of St. Louis, April 9, 2026.
12. Rhode Island Manufacturers Association. Source: Newton, 2025.
13. Global X ETFs by Mirae Asset, March 26, 2026.
14. Federal Reserve Bank of St. Louis, August 1, 2025.
15. About.att.com, July 3, 2025.
16. Jnj.com, March 21, 2025.
17. CBRE, Pharma Manufacturing, February 2026.
18. Supply Chain Dive, February 3, 2026.
19. Federal Reserve Bank of St. Louis, April 9, 2026.
20. Institute for Supply Management, May 2026.
21. CBRE, Pharma Manufacturing, February 2026.

Important information

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