TRUST & WEALTH MANAGEMENT

PROFIT PULSE: STAY INFORMED, INVEST INGELLIGENTLY

written by: Steven Cook, CTFA *August, 2025*

BIG BEAUTIFUL BILL

WHAT CHANGED AND WHO DOES IT AFFECT?

Permanent Tax Cuts for Individuals and Families
One of the most significant features of the bill is the permanent extension of the 2017 Tax Cuts and Jobs Act. Originally set to expire at the end of 2025, those lower income tax brackets–ranging from 10% to 37%–will now stay in place indefinitely. That means no automatic tax hikes for most American workers.

In addition, the standard deduction remains high:

- $15,750 for single filers
- $31,500 for married couples filing jointly
- $23,625 for heads of household

These amounts will continue to adjust for inflation, offering broader tax shields for most filers.

New and Expanded Tax Breaks
The bill also introduces new deductions and credits aimed at specific groups:
Child Tax Credit. The Child Tax Credit increases to $2,200 per qualifying child in 2025, with $1,400 of that refundable. It's indexed for inflation, making it more valuable over time.
SALT Deduction Cap Raised. The often-criticized cap on the State and Local Tax (SALT) deduction temporarily increases from $10,000 to $40,000 between 2025 and 2029, though it phases out for higher earners and reverts in 2030.
Bonus Deduction for Seniors. Seniors aged 65 and older will receive an extra $6,000 deduction ($12,000 for couples), although this begins phasing out for individuals earning more than $75,000 and couples earning over $150,000.
Temporary Deductions: Tips, Overtime, and Auto Loans
Several temporary provisions, available from 2025 to 2028, offer additional savings for working Americans:

- Tips Deduction: Workers in tipping industries can deduct up to $25,000 per year in tip income from federal income taxes.
- Overtime Pay Exemption: Up to $12,500 (single) or $25,000 (married) in overtime pay is exempt from federal income tax.
- Auto Loan Interest Deduction: Taxpayers can deduct up to $10,000/year in interest on car loans–if the vehicle is assembled in the U.S. and income thresholds are met.

New "Trump Accounts" for Newborns
A headline-grabbing part of the bill is the creation of "Trump Accounts"–savings accounts for children born between 2025 and 2028. The federal government deposits $1,000 at birth, and families can contribute up to $5,000 per year. These accounts grow tax-free and can be used for college, business, or home buying after age 18.

Who Benefits Most?
✓ Middle-Income Families. Households earning under $100,000 will generally see moderate savings of $500–$1,000 per year, and a 21% average tax cut for those earning $15,000 to $30,000. The bill also helps avoid the larger tax hike that was scheduled to occur in 2026.
✓ Seniors. The additional $6,000 deduction is expected to lower taxable income for older Americans–especially retirees who rely on Social Security.
✓ Tipped and Overtime Workers. Those in hospitality, service, healthcare, and shift-based jobs may gain significant benefits from the tip and overtime tax exemptions.

But There's a Catch: Cuts to Safety Net Programs
While many middle-class families will enjoy tax savings, critics argue that the bill disproportionately harms lower-income Americans. Among the most controversial changes:

- Reductions in Medicaid and SNAP funding
- Stricter work requirements for public aid programs
- The end of expanded ACA (Obamacare) subsidies, which could lead to 17 million losing coverage, according to CBO projections

As a result, some low-income households may end up worse off–even with the modest tax breaks–because they lose more in health and food assistance than they gain in tax relief.

MARKET UPDATE

BROADER GROWTH, STICKY INFLATION, AND STRATEGIC SHIFTS

July 2025 was marked by a potent mix of strong market gains, evolving Federal Reserve policy signals, and renewed inflation concerns. With the U.S. stock market nearing record highs–up nearly 9% year-to-date–the landscape is shifting from a tech-dominated rally to one characterized by broader sector participation and increasing international considerations.

From Tech-Led to Broad-Based Growth

For much of the past two years, the U.S. equity market has been led by a small group of tech giants–the so-called "Magnificent Seven": Nvidia, Alphabet, Tesla, Microsoft, Amazon, Meta, and Apple. These firms have been responsible for a disproportionate share of index gains. July showed a significant broadening of market momentum. Sectors previously left behind, such as industrials, financials, and consumer staples, have begun contributing to overall performance. This expansion is a healthy sign for long-term market resilience, suggesting that investor confidence is no longer confined to a few dominant names.

Earnings and Economic Resilience

Corporate earnings across multiple sectors have exceeded expectations, showcasing companies' adaptability in the face of trade disputes and shifting supply chains. The Federal Reserve, in its late-July policy update, acknowledged this continued strength and cited a stable balance between job openings and unemployment–a sign of a labor market that remains tight but not overheated.

PCE Data: Inflation Remains Persistent

The biggest development in July came in the form of updated inflation data–specifically, the Personal Consumption Expenditures (PCE) price index, the Fed's preferred inflation gauge. Recent figures point to inflation that is cooling more slowly than anticipated:

- June 2025 PCE rose 0.3% month-over-month, bringing the annual rate to 2.6%.
- Core PCE (excluding food and energy) rose 0.3% MoM and hit 2.8% YoY–its highest pace since early 2025.

These readings exceeded expectations and signaled that inflation remains sticky, particularly in the services sector. The data complicates the Fed's path forward, casting doubt on the likelihood of near-term interest rate cuts.

Federal Reserve Outlook: Rate Cut Expectations Shift

While the Fed left interest rates unchanged in July, the tone was cautious. Officials recognized signs of economic slowing, but inflation's persistence–fueled in part by tariff effects–has made them hesitant to ease policy prematurely.

Though many analysts had expected two rate cuts by the end of 2025, current data suggest that just one cut is more plausible. In fact, market odds of a September rate reduction have fallen below 40%, down from over 60% earlier this summer.

The Federal Reserve will meet again in September, and their decision will heavily depend on key upcoming reports–especially labor market data, revised GDP figures, and the next round of PCE inflation.

International Perspective: Europe's Steady Ascent

While the U.S. grapples with trade friction and sticky inflation, European markets have quietly delivered similar returns with significantly less volatility. Intra-European trade remains robust, and the region has so far avoided the large-scale tariff battles currently affecting U.S. trade policy.

This relative calm makes European equities an attractive option for investors looking to hedge against potential U.S. market volatility in the second half of the year.

Final Thoughts

July brought a nuanced mix of economic strength and emerging risks. While broader participation in the U.S. equity rally is a positive sign, persistent inflation–especially reflected in June's PCE data–means the Federal Reserve remains cautious. For investors, the current environment calls for thoughtful diversification and a readiness to adjust as more data emerges in the months ahead.

FINANCE 101: SIMPLIFYING THE COMPLEX

SHARPE RATIO

The Sharpe Ratio measures how much extra return you're getting for each unit of risk you take. It helps investors compare the performance of different investments based on risk-adjusted returns. A higher Sharpe Ratio means a better risk-reward tradeoff. It's calculated by subtracting the risk-free rate from an investment's return and dividing by its volatility. Ratios above 1 are considered good, above 2 very good, and above 3 excellent. A ratio below 1 may mean the return isn't worth the risk. It's useful for comparing investments with different levels of risk and return. For example, a lower-return investment might be better than a riskier high-return one. Though it assumes returns follow a normal distribution, the Sharpe Ratio is still widely used in portfolio analysis.