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Trump’s Tax and Spending Law: Short-Term Relief, Long-Term Risks for UK Investors

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President Donald Trump’s latest tax and spending legislation, signed into law on 4 July, has brought a fleeting sense of stability to global markets, including for UK investors with exposure to US assets. Dubbed the “One Big Beautiful Bill,” it offers short-term certainty by extending tax cuts and raising the US debt ceiling by $4 trillion. However, analysts and economists warn that the law’s long-term implications could spell trouble for the US economy, with ripple effects for global markets, including the UK.

The bill averts an imminent tax hike by making permanent most provisions of Trump's first-term Tax Cuts and Jobs Act, which were set to expire at the end of this year. This provides immediate relief for investors, as noted by Jay Hatfield, chief executive at Infrastructure Capital Advisors, who said in a recent interview, "We've still got tariff noise, but at least we don't have to worry about something terrible happening with the tax bill. It's more like the absence of pain than pleasure." For UK investors, this clarity reduces uncertainty in US markets, a key destination for British capital.

However, the legislation's failure to address America's ballooning debt has raised red flags. Forecasts suggest the bill will exacerbate the US debt-to-GDP ratio, potentially destabilising the economy over time. Michael Green, chief strategist at Simplify Asset Management, described the law as "a very regressive tax programme" in a recent interview, noting its modest tax benefits and cutbacks in household support. For UK investors, this raises concerns about the sustainability of US economic growth, which could dampen returns on US-focused portfolios.

The bill's passage has also drawn criticism from deficit hawks and economists. Alan Auerbach, a professor of economics at UC Berkeley, warned in an interview that unchecked debt accumulation could push US interest rates higher in the long run. "If the Federal Reserve's independence is compromised, this will exacerbate the upward impact on Treasury yields," he said. Higher yields could increase borrowing costs for Americans, potentially slowing economic activity and affecting UK investors holding US bonds or equities.

For Wall Street, the bill offers little in the way of stimulus: it maintains the corporate tax rate at 21%, without advancing earlier campaign suggestions to cut it to 15%. Investors at UBS Global Wealth Management noted in a 4 July report, "Markets had already priced in much of the expected fiscal impact, but the longer-term outlook is clouded by persistent deficits." This lack of stimulus could limit upside potential for UK investors betting on US market growth.

The increased US debt ceiling and projected deficits mean the US government will issue more bonds, potentially flooding the market. Brian Rehling, head of global fixed income strategy at Wells Fargo Investment Institute, explained, "As supply increases in the Treasury market, yields generally rise to attract sufficient demand." Higher US bond yields could pressure UK bond markets, where investors are already grappling with domestic economic challenges under the current Labour government’s policies, which have been criticised for lacking fiscal discipline.

BlackRock stated in a June 30 fixed-income outlook, “We view debt as the single greatest risk to the U.S.’s privileged status in global financial markets.” For UK investors, this underscores the need for caution when allocating capital to US assets, particularly long-term government bonds, which are increasingly seen as less “risk-free” amid rising deficits.

While the bill provides short-term clarity, its long-term risks higher deficits, rising interest rates, and muted economic growth, could weigh heavily on global markets. UK investors, already navigating domestic uncertainties, should remain vigilant, as the US economy’s trajectory will undoubtedly influence their portfolios.