Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hello there. Thank you so much for taking the time to join us for *Market Sense* today. I'm Heather Hegedus with Fidelity. So we're coming off the 4th of July holiday, and I'm hoping that many of you took time with friends and family, maybe you even unplugged. So we'd like to take this moment right now to get you up to speed and start with a quick market check, because a lot has happened in the past couple of days.

So yesterday was a down day on Wall Street. Despite that, however, the S&P has surpassed its previous all time high that was set in February and it had its best quarter in two years. As for the bond market, it's pretty strong, too. It had its best six months in five years. And we got a very strong jobs report last week.

So we've got a lot to talk about today. And today, our plan is to talk about two major headlines that the markets are digesting right now. First, of course, the latest on tariffs, as we have a new set of US tariffs and a new trade deal deadline set for August 1 now. And then we're going to get into the President's budget reconciliation, including the tax bill, which of course passed through Congress and was signed into law over the long holiday weekend.

So to talk about what these things might mean for the markets, the economy, and investors, I'm thrilled to be joined this week by my friend Naveen Malwal, a CFA charterholder and an institutional portfolio manager here at Fidelity, whose team manages millions of clients' accounts.

I'm also thrilled to be joined today by Alice Joe down in Washington, DC. Of course, she's a vice president of federal government relations here at Fidelity, and she is our inside source for all things happening inside the beltway. I really appreciate you both making the time to join me today. Good to see you.

ALICE JOE: Yeah, great to join you.

NAVEEN MALWAL: Good to be here.

HEATHER: All right. Let's get it started. Today is Tuesday, July 8. And before we do get into the tax legislation, I do want to talk about the most immediate headlines we've been seeing in the past 24 hours, Naveen. And that would, of course, be the tariffs. Some countries have already negotiated deals with the US. Others have not, though, and so much has developed within the past 24 hours. This news cycle is relentless, Naveen. So first of all, if you catch us up on the latest, I think that would be pretty helpful for our audience.

NAVEEN: Tariff headlines have been on hold maybe since April. That's when the tariffs initially were paused and opened up a negotiation window. And here we are early July. That deadline was coming up. And the latest we have now is the administration has announced potential tariffs on a number of countries that are meant to go into place by August 1. So this is giving countries an additional number of weeks to have further discussions on trade, on tariffs.

To your point, Heather, so far the UK and Vietnam have reached some sort of agreement, but many other countries have not. So the conversations with Europe, with many Asian trading partners, with North American trading partners like Canada and Mexico, those continue. That's a significant portion of the trade that the US does with the rest of the world.

HEATHER: Naveen, so clearly a lot is in flux right now. Where do you think things might go from here? And what might this mean for the markets?

NAVEEN: Story is evolving quickly and there has been back and forth. But it does seem like we're heading closer to some sort of resolution on this. Whether it happens around August 1 or a bit past it, some in the administration a few weeks ago were talking about potentially September 1 being another date. We'll see how things go.

But I think for the markets, to state the obvious, I think more trade agreements would help calm the markets down, as they would get better certainty in what might take place. And then the level of tariffs is going to matter as well. For businesses specifically, tariff levels, the higher they are, the more challenging that might be in terms of costs and profits. So those are the two things to track for investors over the coming weeks. And the bigger trading partners will matter more so than the smaller ones.

Now, as we wait, what's an investor to do? Well, as you said, Heather, so far the markets this year have done probably surprisingly well for many folks considering the tariff backdrop. US stocks up about 6% so far year to date through yesterday, and international stocks up about 17%. So pretty strong start to the year for markets. They have taken this information, there has been volatility. But so far, there have been able to manage to go through that.

So the reminder here is to not assume or guess what tariff headlines might do and/or assume what the markets might do in response to that. I think for most investors, it might feel hard to resist this urge to react, but to just be patient and wait just a few more weeks to see how things go. And as we get more clarity on what the tariff levels might be or what negotiations may carry on, that might help calm markets down. And perhaps after that point, the rest of the year, investors will be able to focus much more on fundamentals like the US economy or earnings over the last few quarters of the year.

HEATHER: So tariffs are worth following. But basically what you're saying, Naveen, is what April taught us, when the tariff announcements were made, then the markets went down, but then quickly recovered, is stick to the plan. Avoid trying to time the market. You can follow it, but don't make any kinds of major decisions based on what's happening with those tariffs.

NAVEEN: Yes. Good recap.

HEATHER: So Alice, let's turn to you. Let's move from tariffs to taxes now, because this tax legislation was a major part of President Trump's fiscal agenda. And with a Republican led Congress, he was able to persuade several holdouts and get it passed by that 4th of July deadline, that self-imposed deadline. And I know you were monitoring developments all along the way for weeks and weeks on this one. Can you walk us through what's inside this mega piece of legislation to start with, please?

ALICE: Yeah, I mean, obviously was called a mega bill because the legislation had a projected price tag of about $3.4 trillion, according to estimates from the Congressional Budget Office. It also allows for a $4.5 trillion in tax reductions over a 10 year period. And, obviously, it's broader than just the tax changes that we're going to focus on today. But we are going to just hone in on some of the changes that are going to impact investors and potentially the bigger picture.

Now, broadly speaking, it includes individual income and estate tax cuts from President Trump's first term back in 2017. But it also would increase border and defense spending as well. And as we've heard a lot in the news about cuts to Medicaid and some other entitlement programs like SNAP, which are the food stamps. But more importantly, this does address the debt ceiling. So we won't be facing a fiscal cliff in the coming months anymore.

HEATHER: Well, I wanted to bring Naveen back in to just talk about the impact of all of this quickly. Naveen, in terms of corporations and businesses and individuals, who stands to benefit the most from all of this? And what kind of impact could this have on the economy?

NAVEEN: The high level, generally speaking, lower taxes can promote some stimulus in the economy. So the extension of existing tax cuts and the addition of several other tax cuts may lead to a small boost. The boost might not be as dramatic as the tax cut we saw back in 2017, 2018, because it's a smaller slice of the population.

But for example, within consumers, folks who perhaps work off of tips or have overtime hours, they might benefit from lower tax rate, as might certain Social Security beneficiaries. So as those folks have more after tax dollars in their pockets, they might be more inclined to spend that. And generally speaking, consumer spending does represent a decent chunk of economic growth here in the US that might lead to stronger economic growth and stronger earnings going forward as well.

In a similar light, looking at businesses, there are some additional tax cuts in place for research and development or buying new equipment in a few other areas. So those companies that may benefit from that, you could see a pickup in their earnings as well. And that could help overall the stock market potentially rise. Because historically, higher earnings have led to higher markets over the long run.

On the flip side, the tax code did also remove a few potential benefits for some businesses. So specifically, certain credits or other ways of promoting green investing, for example, are either going to sunset over the coming months or years, or they've already been removed and might put some pressure on companies that are focused on specific areas tied to green energy, for example.

So I think overall, in terms of economic impact, generally pretty positive. But specific businesses and individuals might see their net impact vary depending on their exact circumstance.

HEATHER: All right. Generally positive. There could be some exceptions or depending on circumstance, there could be some outliers. Let's talk about what it means for you and me come April. So extending the 2017 tax cuts was a big bulk of the bill's price tag. As you mentioned, Alice, an estimated cost of over $4.5 trillion over the next decade.

There are seven marginal tax rates. They range from 10% to 37% and they are now permanent. Beyond their previously scheduled expiration, it had been set to expire at the end of 2025. So can you talk a little bit more, Alice, about what this might mean when we see our tax returns coming in April and how this impacts individual taxes?

ALICE: Yeah, definitely. If you think back to 2017, when we saw the Tax Cuts and Jobs Act passed, it made pretty substantial changes to the tax code by lowering the tax rates for most individuals and modifying income thresholds for the seven tax brackets that you had mentioned. Under this new bill that just passed, the rates for the seven tax brackets as set by the Tax Cuts and Jobs Act with the top rate, as you mentioned, 37% for the higher earners and a bottom rate of 10% for the lower earners, it will remain the same and it does become permanent. So no need to worry about the expiration there.

For the people, though, in the 10% and 12% brackets, they will get to see an additional year of inflation adjustment. So thresholds for those in those brackets will increase.

Now, the standard deduction, which was also doubled in 2017, will be made permanent as well. And it actually will increase to about $15,750 for single filers and up to $31,500 for joint filers. And of course, after 2025, those numbers will be indexed for inflation.

HEATHER: Well, Alice, I know you know from talking to proponents and opponents of this law on the Hill before it was passed was that one of the biggest concerns about this mega bill was the extension of tax cuts. And how do we pay for all of this? And fiscal hawks, of course, not happy with the final price tag of the bill and what it might mean for government debt. So, Naveen, how do you think this could all impact the national debt and how could it also in turn impact the markets?

NAVEEN: This is a question I've been getting a lot from my clients. We've been hearing a lot about this. What does it mean for the deficits, for the debt levels? And we'll have to wait and see how this develops. There are so many views on this. In some cases, the views are it may not make much of a difference. Others believe it might actually cut deficits. Others think they might accelerate the deficits building up. So we'll have to wait and see how that plays out.

It might take actually years for us to know the answer to that. It's not something that will become apparent to us immediately. These things do take time to play out in the environment.

Now, having said that, for investors, the question I get a lot is, hey, I think deficits and the overall debt level might go up. What might that mean? Well, if we do see higher deficits and higher national debt levels, potentially it could lead to eventually higher taxes, perhaps, to help pay down some of that debt. It might also lead to higher interest rates, as bond holders of US treasuries expect to earn more, to hold more of this debt over time.

And then it might also lead to adjustments to government benefits that perhaps many Americans enjoy getting right now, and might see some modest adjustments over time that might have become a bit more intense as things progress. But that might take, again, years, if not decades to play itself out. So I wouldn't think of that as an immediate worry that is coming into effect right away.

As to what an investor might be able to do, I think it just suggests perhaps for the opportunity to just stay invested. Historically, as we look back, the US has generally seen rising deficits and rising debt levels for decades now. And over that time, we have seen stocks and bonds rise and provide generous returns to investors. So their portfolios have grown perhaps faster than the pace of the debt over the long run.

So past performance, of course, can't guarantee future results. But historically, if those trends were to hold, then the investor may, if they stay invested in the market, have perhaps a better opportunity to deal with changes to tax rates, interest rates, and government benefits as well.

So I think the takeaway, let's wait and see. No one really knows what's going to happen with this. And then two, staying invested may provide investors more ability to adapt to changes over time.

HEATHER: Fantastic reminder and words of wisdom there, Naveen. One of the major sticking points as this bill was making its way through Congress revolved around the SALT deduction. Folks may have heard a lot about SALT in the past couple of weeks, and of course, that stands for State And Local Tax. Alice, can you give us an overview of who that applies to, who might benefit from this, and the implications of it?

ALICE: Yeah, absolutely. So obviously, federal taxpayers do get a deduction in their federal tax return for any kind of state and local income taxes and property taxes that they pay. So under the new bill that just passed Congress, the state and local tax deduction, which previously was limited to $10,000, has been increased to $40,000 beginning this year in 2025. But it bounces back down to $10,000 in 2030.

The higher SALT deduction for these five years will basically benefit those taxpayers who live in states with higher taxes, like California, New York, New Jersey, and so forth. This higher SALT cap will begin to phase out for incomes above $500,000. And then, of course, after 2030, the $10,000 SALT deduction limit will be applicable to all filers, regardless of income, and will become permanent thereafter.

HEATHER: And let's talk about seniors, Alice. How will this bill potentially, or law I should say, potentially impact seniors and Social Security?

ALICE: Yeah, so Heather, there's a new additional deduction for many older tax filers. So these are for people who are age 65 or older. And they will be getting an enhanced deduction of $6,000 beginning in 2025. So that's this year. And it's going to run through the end of 2028. Now, this $6,000 deduction begins to phase out when a taxpayer's modified adjusted gross income exceeds $75,000 if you're an individual filer and $150,000 for joint filers.

Now, in order to claim this additional deduction, the taxpayer or taxpayers must include his or her Social Security number on the tax return. And if you recall, last year during the campaign, President Trump talked about eliminating taxes on Social Security income. Obviously, that did not make it into this law. But the additional $6,000 senior deduction that I just talked about is really intended to help offset the taxes on Social Security benefits for some individuals with incomes at the thresholds for the next four years.

HEATHER: And, Alice, let's talk about something that we know Fidelity knows a lot about, saving for health care and education. Can you break down for us the implications of this legislation on HSAs and also on 529 plans?

ALICE: Yeah, so we definitely saw some expansions on both those issues. Now, for health savings accounts, the legislation expands the type of health plans and participants eligible to use an HSA to extend to bronze and catastrophic plans. It also allows for payments of $150 a month or $300 for a family for direct primary care arrangements from an HSA. It also makes permanent certain extensions for telehealth arrangements in conjunction with an HSA as well.

Now, for 529, obviously, we think of that for college savings. But the law now expands the tax free use of these 529 funds to include additional elementary school and secondary school expenses that will now be considered qualified higher education expenses. Now, these are things like testing fees, tutoring outside of the house, and educational therapies for students with disabilities, among many other different expenses. It also allows for the tax free withdrawal for recognized post-secondary credential programs, and it permanently allows contributions to be eligible for the saver's credit.

HEATHER: All right. Well, a lot of things that taxpayers might want to consider before they file next year. Another aspect of the law is a measure that proponents say will assist growing families, and that includes expanding the child tax credit, supporting childcare access, and even creating savings accounts for newborns. Can you talk about those provisions and how they might work?

ALICE: Absolutely. So if you think back to 2017, the child tax credit was doubled in the Tax Cuts and Jobs Act from $1,000 to $2,000. Now that number is going to be permanent. But it will also increase to $2,200 per child starting in tax year 2025.

This is a non refundable credit that begins to phase out with an income threshold of $200,000 for individuals and $400,000 for joint filers. But it would also, again, require a Social Security number for both the taxpayer and the qualifying child for which the tax credit is being taken.

The law also creates a savings account for children. That's when you're referencing the newborns. For children under age 18. And it's being dubbed the Trump account. It is fundable up to $5,000 a year, which would be treated similarly to a nondeductible traditional individual retirement account contribution.

Now, contributions to these Trump accounts can be made by parents. It can be made by relatives or other, quote, "taxable entities," according to the bill, until the child becomes age 18, at which point the account would effectively convert to a traditional IRA.

Now, the one thing they did was they created a pilot program. So parents of newborns who were born after December 31, 2024, but before January 1, 2029, they would also qualify for a $1,000 in federal seed money to start the account.

HEATHER: All right, good information there. Lastly, we're tight on time, I know, but I just wanted to quickly hit on charitable deductions, if you don't mind, Alice. Even if you aren't making significant charitable donations, I think it's worthwhile for our audience to that you'll still be able to write off more now. But there is a floor. So can you talk about that, Alice?

ALICE: Yes. So for those who take the itemized deduction, they've previously been able to deduct the full amount of any qualified charitable contributions. But beginning in 2026, the deduction for itemized charitable contributions would only be allowed to the extent that it exceeds 0.5%, so that's half a percent, of taxable income. So that's the floor there.

So for example, if you've got taxable income of $100,000 you'll basically need to contribute in excess of $500 to take the charitable deduction. But for those who don't take the itemized deduction, you take the standard deduction, you'll be allowed to take an above the line deduction for charitable cash contributions of up to $1,000 for individuals and $2,000 for joint filers. And this also begins in 2026 as well.

HEATHER: All right. A lot of things to be aware of. Alice, terrific job boiling it down to the most important parts of this when it comes to investors and the market and economic impact. So thank you so much, Alice, for your time. Before we close this out, Naveen, what else are you watching this week besides tariffs?

NAVEEN: It does get quiet on a lot of economic fronts, but next week, we'll get some early second quarter results for a handful of companies. We'll also get an update on jobless claims for the job market. And we'll get a measure of small business confidence, how small businesses are feeling about the economy.

HEATHER: Sounds like a plan. Well, we covered a lot of ground today, my friends. Thank you so much again for lending your insights and your expertise. Just a quick note to everybody out there watching and listening, this is important. Be sure to bookmark fidelity.com/marketvolatility.

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On behalf of Naveen Malwal and Alice Joe, I'm Heather Hegedus. Thank you so much for your time. Naveen is going to be back with us next week for his quarterly check in as we look back on the big takeaways and lessons learned from quarter 2, and prepare ourselves for success in quarter 3. Remember, we're live Tuesdays at 2:00 Eastern. Thanks for your time.

[1]Fidelity Viewpoints: July 3, 2025: https://www.fidelity.com/learning-center/personal-finance/one-big-beautiful-bill

[2]CNN: July 3, 2025: https://www.cnn.com/2025/07/03/business/trump-big-beautiful-bill-business-economy

[3]Joint Committee on Taxation: July 1, 2025: https://www.jct.gov/publications/2025/jcx-32-25/

[4]USA Today: July 6, 2025: www.usatoday.com/story/graphics/2025/06/25/big-beautiful-bill-trump-senate-update/84070365007/

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