

TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

Rate Cuts & Your Portfolio

The market is now pricing in at least a 0.25% rate decrease by the Federal Reserve after September's meeting, which would mark the first rate cut since December of 2024.

After reducing the Federal Reserve's overnight borrowing rate by a full 1.00% in the last 4 months of 2024, the Fed has taken a wait & see approach in 2025.

Stubborn inflation data, coupled with the uncertainty of tariff policy & a resilient US economy have kept the Fed on hold through the first 8 months of the year. Recent weakness in jobs data, as well as a steady contraction in the ISM manufacturing survey over the last 6 months, is likely to be enough to push the Fed towards action this month.

What does this mean for your financial situation? First things first, the Fed's overnight rate does not directly impact mortgage rates. Mortgage rates are primarily influenced by the 10-year U.S. Treasury yield, which is set by investor demand for 10-year U.S. government debt. That said, further evidence of weakness in the U.S. economy could also push that rate

"OBBBA" Overview

Below is an overview of some of the notable changes to be aware of from this summer's passage of the "One Big Beautiful Bill".

Increased Standard Deduction (Permanent)

- \$15,750 for Single Filers (SF)
- \$31,500 for Married Filing Jointly (MFJ)
- Increases will be indexed to inflation going forward.

Increased Child Tax Credit (Permanent)

- Raised from \$2,000 to \$2,200 per child (under the age of 17).
- Phase out begins at \$200k of income for SF & \$400 for MFJ.

Bonus Senior Deduction for People 65+ (In Effect 2025 - 2028)

- Provides an extra \$6,000 deduction per senior.

New Estate Tax Planning Threshold (Permanent)

- The Federal Estate & Gift Tax Exemption has been increased to \$15mm per individual starting in 2026. Married couples now have a combined \$30mm that they can pass to heirs without estate tax.

Increased State & Local Tax (SALT) Deduction ('25 - '28)

- The so-called "SALT Cap" has been raised to \$40k from \$10k.
- Phase-out starts at \$250k for SF & \$500k for MFJ.

529 Accounts Uses Broadened

down as well, which would likely send mortgage rates lower.

The most direct impact from a rate cut by the Fed is a reduction in what investors can expect to earn from Money Market Funds and short-term U.S. Treasury bills. As of today, a 3-month US Treasury bill yields 4.00% and a 1-year US Treasury bill yields under 3.70%, which indicates the market expects at least one more cut over the next year. Investors in money market funds can expect an immediate reduction in the yield they receive coinciding with any action taken by the Fed.

On the positive side, borrowers with exposure to floating-rate loans will be among the first ones to see a little relief in their interest expenses. This generally includes people with Home Equity Lines of Credit, Securities-Backed Lines of Credit, and Margin Loans. These loans are generally based on either the Prime Rate or the Secured Overnight Financing Rate (SOFR), both of which are closely tied to the Fed Funds rate.

For stock investors, the effects of a rate cut are more mixed. On the positive side, lower borrowing costs are a boon to the U.S. economy and by extension, the stock market. On the negative side, the reason for a rate cut in the first place is evidence of a weakening U.S. economy. Will rate cuts be enough to offset the current weakness in the jobs market & tepid manufacturing backdrop? Time will tell, but it rarely pays to bet against the U.S. economy. Financial markets have a way of “muddling through” bad news until the outlook begins to brighten.

- Parents can now utilize up to \$20k per year from 529s for K-12 education costs, up from \$10k previously.
- Allowable usage has expanded to include curriculum materials, tutoring, standardized test fees, dual enrollment programs & education therapy for students with disabilities.

Charitable Giving Deduction Reduced

- For itemized deductors, charitable deductions are only allowed to the extent they exceed 0.5% of Adjusted Gross Income (AGI).
- For example, a couple with \$400k of AGI would not get any tax benefit for the first \$2,000 donated to charity in that year. If they gave \$10,000, they would receive an \$8,000 deduction.

Overtime Pay Deduction (In Effect from 2025 - 2028)

- Up to \$12,500 for SF (Phased out for income of \$150k+)
- Up to \$25,000 for MFJ (Phased out for income of \$300k+)

Deductible Car Loan Interest for Autos assembled in the USA ('25 - '28)

- Up to \$10k annually of interest paid on vehicles purchased after 12/31/24.
- Must be assembled in the U.S., weigh less than 14k pounds and be for personal use.

Trump Accounts for Children (In Effect from 2025 - 2028)

- Beginning in 2026, all US children born between 2025 - 2028 will be eligible for \$1,000 seeded by the US government into a Trump account.
- If these funds were invested and earned a 7% annualized return, that would be worth ~\$60,000 by the time the child reaches retirement age.

Sources:

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