Allianz Global Investors

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"Big" fiscal risks?


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President Donald Trump's "big, beautiful bill" may boost consumer optimism – but will it come at the expense of higher risk premia for US assets and a weaker dollar?

After a marathon session, the Republican-controlled US House of Representatives passed President Donald Trump's budget reconciliation bill in a vote of 218-214. The bill – better known as the "big, beautiful bill" – provides the federal government with a budget for fiscal year 2026.

With its extra spending on border security and defence, cuts to Medicaid, and extension of existing tax cuts, the final text reflects the core of Mr Trump's political platform.

According to the Congressional Budget Office (CBO), the plan would increase the US deficit by around USD 3.3 trillion over 10 years, with USD 4.6 trillion in new spending and only USD 1.2 trillion in savings and revenues (excluding any additional tariff-related revenues).

Some of the stimulus measures contained in the bill – such as tax breaks on tips for serving staff – are set to expire in 2028 at the end of Mr Trump's term in office. This is likely so they can be used as a dividing factor at the next presidential election. If all the bill's measures became permanent, the CBO calculates a total increase in the deficit of just north of USD 5 trillion.

The cuts to Medicaid – which provides health insurance to low-income Americans – are backloaded, with larger cuts coming in future years. These are also likely to be an election issue, highlighting the extent to which US fiscal policy has become dependent on the electoral cycle.

Boost for consumer spending?

With US consumer spending having slowed in recent months, it is possible that optimism over the tax cuts causes consumers to become more willing to spend. Furthermore, companies may use the depreciation allowances – in areas including commercial real estate – as a reason to bring forward investment spending.

Both moves might boost economic activity and cause the Federal Reserve to defer interest rate cuts. However, we note that the stimulatory effects of the bill will compete with the contractionary effects of higher tariffs. In Mr Trump's first term in office, improved depreciation allowances did not stop companies from reducing investment spending in the wake of tariff increases.

What are the risks?

Our multi asset teams are monitoring the risks associated with the bill in two key areas:

- **The potential strengthening of fiscal risk premia on US Treasuries** (and indeed other longer-dated government bonds) given the passing of the bill. When fiscal spending is set to increase, markets typically demand higher yields as compensation for increased supply and risk – a dynamic we are also seeing in UK Gilts and some European sovereign bonds. So far, however, the market impact has been contained. Investors are buoyed by better-than-expected inflation figures and, to some degree, speculation over lower interest rates under the new Fed Chair in 2026. This is helping to keep yields relatively low and reduce the level of uncertainty priced into the market, although the underlying risks have not gone away.

- **The potential for further downward pressure on the US dollar** as foreign investors become more reluctant to hold unhedged US assets and may actively reduce exposure to US fixed income in anticipation of higher fiscal risk premia.

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