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Morning Briefing

On 100% Depreciation & Brazil

Check out the accompanying [chart collection](#).

Executive Summary: One of the perks in the One Big Beautiful Bill Act is 100% bonus depreciation. Melissa analyzes why this tax break might have less of a macroeconomic impact than some anticipate. Bonus depreciation changes when an asset is expensed, not how much of it is expensed. That said, a small tax break is better than no tax break at all. We believe capital-intensive industries will benefit. ... William looks at why Brazil continues to underperform, despite robust trade with China. The country needs to address its skyrocketing inflation and crushing debt levels, especially now, when it's likely to get caught in the crosshairs of Trump's Tariff Turmoil. ... Q2 earnings season is underway and Joe reports that the traditional earnings hook is forming. More unexpected: Earnings forecasts for the second half of this year are rising.

Fiscal Policy: Is 100% Depreciation Overhyped? Some of our accounts have asked us about bonus depreciation in the One Big Beautiful Bill Act (OBBBA), wondering if it is as good as it sounds. I asked Melissa, our in-house certified public accountant and investment strategist to respond. She notes that investors might want to curb their enthusiasm.

The OBBBA's permanent 100% bonus depreciation for specific business property strengthens existing capital incentives—but it doesn't fundamentally reshape the economic playbook. The long-run macroeconomic impact is [expected](#) to be modest: The accounting change is projected to boost GDP by around 0.6% and capital stock by around 1.0% over the long-term, according to the *Tax Foundation*. Meanwhile, the policy could add an [estimated](#) \$362 billion to the deficit over the next decade, per the *Joint Committee on Taxation's* scoring. In the long-run, the impact to the deficit should balance out as companies are taking upfront deductions and not taking them later on.

In short, this is a tax timing tool—not an economic growth revolution. Traditionally, depreciation is expensed over the life of an asset, which can range from roughly 5 to 30 years, depending on the asset. Permanent 100% bonus depreciation changes *when* certain business property can be fully expensed, not *how much* is deducted over the life of an asset. It front-loads the benefit, allowing the company to expense the entire cost of the

asset on year one. Doing so also offers a cash flow advantage by lowering upfront tax liability. But again, it won't increase the total tax break. On its own, this change is unlikely to spark an investment boom—and the benefits will be uneven, favoring capital-intensive sectors over others.

The sectoral effects may unfold gradually, as companies need time to analyze potential capital investments, secure approvals, and complete procurement. Over time, the benefits will show up in earnings guidance, capital expenditure forecasts, and the share performance of capital-intensive industries. But for the broader economy, the provision is more tax tweak than tectonic shift. And don't forget the political risk. Even a "permanent" law can be changed when politicians need to raise revenue or when a new administration with different priorities enters the Oval Office.

Let's be clear: While the economic effects and market response to 100% bonus depreciation are likely to be steady rather than spectacular, that doesn't mean the policy lacks merit. In fact, we see clear advantages—especially for businesses that rely on upfront cash flow. The provision becomes most meaningful in a high inflationary environment, where the time value of money carries greater weight.

Here's how this all plays out:

(1) *OBBBA brings back a familiar tool.* Full and immediate expensing of assets isn't new. Before the 2017 Tax Cuts and Jobs Act (TCJA), Congress had already [offered](#) bonus depreciation for 13 of the prior 16 years. The TCJA made it a centerpiece—allowing businesses to immediately expense 100% of the cost of qualifying short-lived assets in the year the asset was placed into service, rather than deducting it over time.

However, that provision began phasing out in 2022 and was scheduled to fully sunset by 2026. OBBBA reversed course, halting the phase-out and locking in full expensing "permanently."

Sounds powerful. But here's the catch: pulling a tax deduction forward doesn't change how much you deduct—just when the tax is owed.

(2) *Permanence offers less incentive.* The permanence of bonus depreciation under OBBBA will likely make it less stimulative than it was as a temporary bonus under TCJA. There's no need to rush to buy an asset because the 100% bonus depreciation will still be there next year.

As Yale Budget Lab [puts it](#): “Temporary bonus depreciation has ... been used as a countercyclical policy tool in the past, most notably during the Great Recession. ... The temporary version increases the amount of investment and potentially moves future investment. A permanent provision may increase the amount of investment [over time] but there is no incentive to move future investment forward.”

(3) *It's not always beneficial.* There's also a practical quirk: Many firms—especially those trying to smooth book earnings—may prefer deductions spread over time, so they don't front-load expenses. For these firms, especially those that are unprofitable, [opting out](#) of 100% bonus depreciation may make more sense. A company that's losing money or sitting on net operating losses doesn't need additional deductions to reduce income. It might prefer to save the deductions for when it has taxable income to offset.

This is likely a big reason why companies took advantage of the initial bonus depreciation on only 60% of eligible investments, the Yale Budget Lab reports.

(4) *And there's a cap.* The bonus only applies to equipment with a recovery period of 20 years or less. That includes things like tools, machines, and vehicles—but not buildings unless more a more complicated accounting approach, cost segregation, is performed, as a blog by the accounting firm Schwartz & Schwartz [explains](#) in detail. (Software and intellectual property have their own treatment.)

It isn't as if businesses were able to deduct 100% of all their capital investments in 2018 under the TCJA, as one unfamiliar with the tax code might assume. Companies were able to deduct 84% of new investment compared with 76% of their investment costs if bonus depreciation were not part of the tax code, according to a Tax Foundation analysis.

That's a sizable jump, but it isn't huge. Why? Other depreciation tax rules, such as [Section 179](#), were in place before the TCJA and they provided avenues for deducting capital expenses immediately. (See technical note.)

(5) *Some will gain more than others.* Even if macro effects are muted, the micro-level shifts could be meaningful. Asset-intensive industries, such as manufacturing, transportation, logistics, and AI infrastructure, stand to benefit the most. These firms purchase a significant amount of qualifying equipment, tend to be profitable, and prioritize cash flow.

Sectors with intangible-heavy models—such as technology, media, and finance—won't gain as much from 100% bonus depreciation. They're less likely to have qualifying purchases. That's why there is a classic political debate about the tradeoff between bonus

depreciation and a lower corporate tax rate. Early-stage firms or cash-burning growth companies may not use the deduction at all.

(6) *On the margins, it helps beat inflation.* One overlooked benefit of 100% bonus depreciation is its ability to counteract inflation. Before full expensing was available, businesses had to stretch their depreciation deductions over many years—sometimes decades. In an inflationary environment, that meant future deductions were worth less in real terms. By allowing firms to deduct the full cost of qualifying investments up front, bonus depreciation helps preserve the real value of the deduction. In other words, because you don't get the full net present value of your tax deductions, you are effectively paying a higher tax rate on your capital income. (See [Table 1](#) for a good example of this from the Bipartisan Policy Center.)

The provision also reduces the opportunity cost of tying up capital, which is especially relevant when interest rates are high and the time value of money is more pronounced.

Another benefit: accounting simplicity. Expensing eliminates the need to track depreciation schedules and estimate salvage values. Smaller businesses, in particular, appreciate this.

For now, 100% expensing is a sweetener—but likely not the sugar rush hoped for by some investors.

Technical note: Our friend James Lucier at Capital Alpha notes that Section 179 is aimed at small businesses, with a \$2.5 million cap and \$4 million phaseout under OBBBA. Public companies can use it, but the limits make it irrelevant for those spending tens or hundreds of millions. It's macro-helpful but likely won't boost large public stocks.

It's also worth noting that under the OBBBA, Section 174A [restores](#) immediate expensing for domestic R&D costs beginning in 2025, with retroactive relief for small firms and accelerated catch-up for larger ones—although foreign R&D still requires 15-year amortization. Sectors like pharma, tech, software, and advanced manufacturing companies like aerospace will benefit from this accounting change.

Brazilian Economy I: On the Frontlines. Few major economies are more on the frontlines of the US-versus-China histrionics than Brazil. In 2024, the [\\$2.1 trillion economy](#) shipped [\\$94.4 billion](#) of goods to China, nearly one-third of its exports, and \$40.6 billion worth to the US.

A key reason why Brazil's trade relationship is so lopsided toward the East is China's voracious demand for its soybeans, iron ore, and meat. It's also the result of a

decision made in the 2000s, during Luiz Inácio Lula da Silva's first presidency, to hedge bets vis-à-vis the US and pivot toward the BRICS bloc — Brazil, Russia, India, China, and South Africa.

Brazil now faces headwinds from all directions amid President Donald Trump's tariffs, China's reluctance to fast-track a trade deal with the US, and the resulting global economic turmoil. Yet as the Lula 2.0 government looks for scapegoats for Brazil's troubles, it also should be looking in the mirror.

Let's explore why Brazil finds itself more vulnerable to the trade war than many peers:

(1) *The Brazilian Paradox*. South America's economic superpower faces a "[Brazilian paradox](#)." Brazil is endowed with abundant natural resources, a sizable population of [212 million](#), and an enviable geostrategic location, yet it perennially falls short of its potential. More specifically, Brazil entered 2025 with its inflation and fiscal trajectories careening in the wrong direction.

Last month, when Brazil's central bank raised its key interest rate by a quarter-point, it was to the [15% level](#) ([Fig. 1](#)). Even though Banco Central do Brazil has delivered seven consecutive hikes totaling 4.5 percentage points since September, inflation is running [above target](#) at 5.35% y/y and well above the 1.4% m/m GDP [growth rate](#) in the first quarter ([Fig. 2](#)). The [50% tariff](#) Trump threatens to impose on Brazil would hardly help.

(2) *Crushing debt*. Another chronic pre-existing condition: government debt. In April, the International Monetary Fund warned that Brazil's gross public debt is expected to surge to [92% of GDP](#) this year, from 87.3% in 2024, and will likely reach 100% by 2029. Even before this year's trade war, Brazil had a high debt burden compared to [emerging-market peers](#).

Now, that trajectory is colliding with the global turmoil of the moment. According to the Brazilian Treasury, Brazil faces a triple whammy of rising interest rates, exchange-rate volatility, and high inflation ([Fig. 3](#)). Though the Ibovespa Brazil Sao Paulo Stock Exchange Index is [up 11.5% ytd](#) through Tuesday's close, Trump's tariff threat has caused foreign investors to pull capital out of the market for [eight consecutive days](#) through Monday ([Fig. 4](#)).

Inefficiency also plagued Brazil Inc. well before the US and China locked horns. High production costs and limited industrial capacity hobble its competitiveness.

Brazilian Economy II: Trade War Opportunity. Yet trade tensions also offer opportunities—if Lula 2.0 steps up to the challenge to raise Brazil’s economic game. A [recent report](#) from the Institute for Industrial Development Studies highlighted 2,863 Brazilian products with scope to compete with the Chinese goods on which the US relies.

Lula isn’t known to possess strong acrobatic skills. Yet retooling his economy in ways that won’t get blowback from both Washington and Beijing might require Cirque du Soleil-caliber balancing acts.

(1) *China’s dominance.* Trump is already gunning for Brazil, with a prohibitive tariff that could start [on Aug. 1](#). Yet the bigger challenge might be Brazil stopping the influx of low-cost Chinese goods redirected its way from the US. The inflows, particularly in electronics and textiles, add to the pressure facing local industries struggling to boost competitiveness.

Too often, when Team Lula looks for ways to increase productivity and reduce shipping costs, Beijing is staring back at them. Case in point: [giant infrastructure projects](#) connecting Pacific Ocean ports with the Amazon also pull Brazil deeper into China’s Belt and Road Initiative.

Last month, [Reuters reported](#) on how Brazil’s auto industry is lobbying the government for tariffs on Chinese electric vehicles flooding the nation. As the globe’s [sixth-largest car market](#), Brazil is a top target as China Inc. seeks to diversify away from the US.

(2) *Reforms needed.* Even so, trade war effects remind Brasilia that it’s high time policymakers address chronic structural weaknesses to increase the nation’s footprint in global trade. Priorities include increasing productivity and reducing Brazil’s over-reliance on commodities for growth.

The key is to multitask. The impeachment of Lula’s predecessor [Jair Bolsonaro](#) is preoccupying the government just as the US-China brawl complicates the global scene. The trade war may be the wakeup call Brazil needed to get its act together.

Earnings: Usual Quarterly Surprise. At Monday’s close, the S&P 500’s Q2-2025 earnings season was just under 15% complete. So far, 66 S&P 500 companies have reported an aggregate earnings surprise of 6.6% and y/y earnings growth of 12.1%. We think final y/y earnings growth will settle down into the high single-digit percentages, and the earnings surprise should remain strong.

Companies are currently discussing how they navigated the changing landscape of Trump’s Tariff Tantrum (TTT) during Q2 and what they expect going forward. As Q2’s earnings

surprise hook begins to form, a positive development has occurred in the S&P 500's H2-2025 consensus forecasts. They are rising instead of falling as is typical. Furthermore, many sectors' H2-2025 consensus forecasts are moving higher as well, as Joe discusses below.

(1) *Q2 blended EPS hook.* With the S&P 500's Q2 earnings season under 15% complete, the early results were strong enough to help boost Q2's blended EPS estimate/actual to \$62.98 last week, up from \$62.50 a week earlier ([Fig. 5](#)). Q2's blended y/y growth rate improved too, from 3.5% a week earlier to 4.3%.

Ten weeks ago, analysts expected Q2 earnings to fall below the Q1 level due to Trump Tariff Turmoil. Instead, Q2's blended EPS of \$62.98 is on track to move higher as more companies report and should easily exceed Q1's actual of \$63.07. Leading the way so far is the early-reporting, but tariff-free Financials sector, which has higher blended earnings than at the start of the quarter ([Fig. 6](#)).

(2) *S&P 500's consensus H2-2025 EPS Forecasts Are Rising!* During the latest week ending July 17, the S&P 500's consensus EPS forecasts for Q3- and Q4-2025 EPS also rose from a week earlier to their highest levels in 10 weeks. Worried investors may still be expecting Q3 to be the worst quarter of the year, but analysts are thinking differently. They expect S&P 500 earnings growth to rise from 4.3% y/y in Q2 to 6.8% in Q3 and 7.5% in Q4 ([Fig. 7](#)).

(3) *Upbeat sectors outlook.* A look at Q3-2025's consensus EPS forecast since June 30 shows analysts have increased their estimate for seven of the 11 sectors ([Fig. 8](#)). Energy and Materials are the strongest performers, with their Q3 estimates rising 3.3% and 1.8%. Only two sectors have their Q3 forecast still in a downtrend: Health Care (-1.2%) and Real Estate (-0.5%).

Analysts are more bullish about Q4 earnings. Since June 30, the consensus Q4 EPS estimate has risen for ten of the 11 sectors ([Fig. 9](#)). Energy and Materials were among the top performers too, for Q4. Tariffs appear to be helping the Materials sector in H2-2025. Health Care is the only lagging sector with its Q4 EPS down, but only by 0.7% so far.

Calendars

US: Wed: Existing Home Sales 4.01mu; MBA Mortgage Application. **Thurs:** Initial Claims 229k; New Home Sales 651k; S&P M-PMI & NM-PMI 52.7/53.0; Chicago Fed National Activity Index. (Source: FX Street)

Global: Wed: Eurozone Consumer Confidence -15.0; Japan Core CPI 2.5%/y; Japan M-PMI 50.2; Bullock. **Thurs:** ECB Interest Rate Decision 2.15%; Germany & France M-PMIs 49.5/48.5; Germany & France NM-PMIs 50.0/49.7; Spain Unemployment Rate 11.2%; UK M-PMI & NM-PMI 48.1/52.9. (Source: FX Street)

US Economic Indicators

Regional M-PMIs ([link](#)): Three regional Fed banks have reported on manufacturing activity for July, New York, Philadelphia, and Richmond, and show manufacturing activity picked up in both the New York and Philadelphia regions, while deteriorated in the Richmond region. The *New York Fed* was the first regional Fed bank to report on manufacturing activity for July, and showed activity picked up, posting its first positive reading since February. The *headline general business conditions* index climbed 21.5 points (to 5.5 from -16.0), with both the shipments (to 11.5 from -7.2) and new orders (2.0 from -14.2) measures moving from contraction to expansion, while *employment* (9.2 from 4.7) in the manufacturing sector moved higher again in July—after posting its first positive reading since January during June, while the average workweek (4.2 from -1.5) also rose in July—the first time both these measures have been positive since 2022. Manufacturing activity in the *Philadelphia region* was also impressive, with the *current general activity* jumping 19.9 points (to 15.9 from -4.0) during July, its first positive reading in four months, with both the new orders (18.4 from 2.3) and shipments (23.7 from 8.3) measures posting solid gains, climbing 16.1 and 15.4 points, respectively this month. The current general, new orders, and shipment measures were all the highest since February. Turning to the labor market, the *employment* (10.3 from -9.8) measure showed factories hiring again in July, rebounding 20.1 points. Meanwhile, the *Richmond Fed* reported a deterioration in its manufacturing sector, with the current general activity index slumping 12 points (to -20 from -8). New orders (-25 from -12), shipments (-18 from -5), and employment (-16 from -6) all deteriorated sharply during the month. *Turning to pricing*, the *New York* region showed and acceleration in prices-paid (56.9 from 49.5), while prices-received held steady at 29.4. *Philadelphia's* price-paid (58.8 from 41.4) measure accelerated, while the gain in prices received (30.7 from 29.8) was subdued. *Richmond* price measures, which are

measured as percentage changes over the last 12 months, showed a slight easing in July from June: Prices paid slowed to 5.65% from 6.10% and prices received to 3.16% from 3.57%.

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