

KEY MARKET DEVELOPMENT

US Supreme Court Strikes Down IEEPA Tariffs

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Key insights

01

By 6-3 vote, Supreme Court upended Trump's IEEPA tariffs.

02

The issue of whether refunds will be required was left unaddressed.

03

Case now sent back to lower court, which could order refunds.

04

If refunds are ordered, would equate to about \$150 billion in economic stimulus.

The US Supreme Court has ruled that the International Emergency Economic Powers Act (IEEPA) does not authorize US President Donald Trump to impose tariffs; the 6-3 opinion strikes down duties the president imposed on countries via IEEPA and has upheld lower courts' rulings that determined his actions were unlawful.

The Court's decision does not restrict the President's tariff authority under other statutes, however, such as the Tariff Act of 1930 and the Trade Expansion Act of 1962. The administration is therefore acting quickly to put new tariffs in place under existing laws that should roughly equate to those imposed under IEEPA, at least temporarily.

Decision upsets the status quo, could boost volatility

The ruling may create uncertainty around recently agreed-to trade agreements with countries such as China, Japan, India, and South Korea, as well as with the European Union. US importers stand to benefit if the US Court for International Trade orders refunds to be paid, as seems likely, though logistical challenges are probable and the government may move slowly in processing claims.

On Friday afternoon, President Trump announced he will sign an executive order setting a 10% global tariff under Section 122 of the Trade Act of 1974 while maintaining all Section 232 and 301 tariffs already in place. This move could temporarily advantage countries like China and Brazil, which are currently subject to higher tariff rates.

In the near term, big importers, such as retailers, industrials, apparel makers and luxury goods purveyors, stand to benefit from the court's ruling, as they could receive sizable refunds for tariffs already paid. In the medium-to-longer run, however, tariffs are likely to be reinstated under different authorities, muting the benefits of the judgement.

Emerging markets could also see a boost as a result of the court's decision, especially countries such as China and Brazil, which faced high IEEPA tariffs.

Yields on US Treasuries could be pushed higher if the hundreds of billions of tariff dollars collected under IEEPA are refunded, worsening, at least temporarily, what had been a slight improvement in the US fiscal outlook in recent months. According to analysts at Piper Sandler, the effective tariff rate under Section 122 will fall to approximately 10% from the 11.5% level prior to the court's ruling. ▲

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