Commentary

Tariff Reversal Brings New Uncertainties

- Investors took the Supreme Court ruling in stride since the outcome was widely anticipated.
- Uncertainty persists around future tariff actions and potential refunds.
- Ongoing tariff headlines are likely to add volatility to markets, especially bonds.

The U.S. Supreme Court's ruling today struck down most of the Trump Administration's global tariffs. The market reaction has been somewhat muted, however, as investors have been warming up to this outcome. Lower court rulings along with comments made by the Supreme Court in November arguments pointed to this conclusion. Tariffs created a lot of uncertainty from the beginning as investors tried to gauge the scope, durability, and impact. Additionally, tariffs kept changing as countries tried to negotiate trade deals.

While the court ruling does provide investors more clarity, there is still much uncertainty remaining. The Trump Administration will likely seek different legal avenues to implement some of the tariffs. It will be harder to implement broad sweeping global tariffs under different legal avenues, and we would expect more narrowly focused trade tools to be attempted. For example, sector-specific tariffs (e.g., steel and aluminum) put in place under other trade laws were not part of this case and remain in effect.

The other question on investors' minds is whether the duties already collected will be refunded. The Supreme Court did not answer this question, leaving it for the lower courts to litigate. If the U.S. Treasury was forced to issue refunds, London-based research firm, Capital Economics, expects that bill to run to about $120 billion or 0.5% of GDP. The resulting refunds would cause the federal deficit to rise, as the government would have less revenue. Assuming the administration is unable to find legal avenues to get many of the tariffs to stick, this could have impacts on both the stock market and especially the bond market.

For companies, tariff reductions lower input costs. Some businesses may lower prices, helping ease inflation pressures; others may keep prices steady and rebuild profit margins. Many will do a mix of both, depending on their competitive environment and supply-chain dynamics. If refunds are ultimately issued, they would further support corporate earnings, especially for multinationals that bore (or passed along) significant tariff costs.

The biggest impact is likely going to be on bond investors. With a widening fiscal deficit, bond investors are going to want more yield on their U.S. Treasury bonds. When bond yields rise, bond prices fall. We mentioned that this court ruling was largely expected by markets, but it is a little surprising that bond yields have not risen more on this initial market reaction.

Uncertainty around tariffs remains even after the court decision today. This is still a fluid situation and headlines around tariffs will remain as refunds get litigated and the Trump administration looks for different ways to implement the tariffs. Diversification remains critical, and market volatility can create opportunities for long-term investors. As always, investors should avoid being distracted by short-term swings and work with their financial professional to determine strategies aligned with their goals and risk tolerance.

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