Implications of the US Supreme Court ruling on tariffs

23 February 2026

Key takeaways

- Having remodelled global trade by using a sweeping tariff sledgehammer in 2025, the United States (US) Supreme Court has now compelled President Trump to re-adjust and re-calibrate his tariff policies.
- While businesses and the financial market will face short-term uncertainty as the Trump administration re-adjusts its tariff policies, there may not be a material impact on the economic outlook so long as new tariffs are not significantly higher.
- With the global economy still expanding and corporate earnings staying resilient, investors should continue to stay invested but maintain a diversified portfolio.

US Supreme Court invalidates President Trump's "reciprocal" tariffs

On 20 February 2026, the US Supreme Court ruled in a 6-3 decision that President Trump lacked constitutional authority to use the 1977 International Emergency Economic Powers Act (IEEPA) to impose sweeping "reciprocal" tariffs on imports from US trading partners, as well as separate levies targeting China, Canada, and Mexico.

The court held that imposing tariffs is fundamentally a taxing power reserved for the US Congress. Tariffs on steel, aluminum, and autos are not affected as they were imposed under a different law.

Market reaction

- US stock markets closed higher last Friday but stock futures and the US dollar have declined today given the renewed trade uncertainty.
- US Treasury yields rose marginally in the aftermath as investors reacted to potentially lower US tax revenues and the potential refunding of tariffs.
- Most Asian stock markets have however started the week with gains due to the temporary reduction in tariffs for many regional countries, led by Chinese stocks listed in Hong Kong.
- In the near term, expect more market volatility but this will slowly abate once there is tariff clarity.

Trump administration quickly re-imposed tariffs under Section 122

- Hours after the ruling, the Trump administration announced a 10% tariff on all countries under Section 122 effective 24 February, before announcing a day later the rate would rise to the 15% legal cap without specifying when it will be imposed.
- Section 122 is a temporary measure as it only allows tariffs to be imposed for 150 days.
- While details of the replacement tariffs are scarce right now, it could effectively raise the average effective tariff rate back up to the levels before the Supreme Court ruling, or even slightly higher if the flat 15% tariff is imposed on all products.
- The main change is a shift in tariff burdens, with countries that previously faced higher tariffs seeing a temporary reduction while others face additional duties.
- Potential beneficiaries:
    - China, India, and some Asian countries that previously faced tariffs above 15%.

    - Canada and Mexico will also benefit, as the US will continue to exempt many goods from the two countries due to the existing US-Mexico-Canada (USMCA) trade agreement.
        - For goods not exempted, the tariff rate will decline from 35% to 15% for Canada, and 25% to 15% for Mexico.
- Potentially worse off:
    - Countries like the United Kingdom (UK) and Singapore which faced 10% tariffs previously.

President Trump's other options ahead

- Beyond Section 122, President Trump has mentioned that his administration is looking to invoke other legal avenues like Section 301 of the Trade Act of 1974 and Section 338 of the Smoot-Harley Tariff Act of 1930, which will allow the enactment of more permanent tariffs.
- Other potential avenues come from Section 232 of the Trade Expansion Act of 1962 and Section 201 of the Trade Act of 1974.

Potential implications

Economy and interest rates

- While short-term uncertainty will be felt by businesses as a result of tariff adjustments, the broader economic outlook is unlikely to change unless new tariff rates are set higher.
- In the short-term, businesses will likely front-load shipments to the US.
- For other businesses, the return of tariff uncertainty may lead these companies to temporarily put investment and hiring decisions on hold, but this will likely abate once there is tariff clarity.
- For the Federal Reserve (Fed), its job could prove more difficult in the near term.
    - The tariff pivot and potential tariff refund could complicate its assessment on inflation, the labour market and overall economic growth, which could cloud its outlook on interest rates.
    - Nonetheless, we still expect the Fed to deliver two 25 basis points (bps) rate cuts, in the second and third quarter of this year.

Tariff refunds?

- It remains to be seen if the estimated USD170 billion in revenue collected under reciprocal tariffs will be refunded. Protracted legal disputes on this appears likely in the coming months, if not years.
- The scale of any tariff refund will be unprecedented as it will involve a broad array of companies.
    - Thus far, more than 1500 companies have already filed lawsuits seeking tariff refunds.
- Encouragingly for the bond market, US Treasury Secretary Bessent recently said that the US Treasury has nearly USD774 billion cash on hand, sufficient to handle tariff refunds if ordered to.
    - This means that US Treasury debt issuance may not need to be ramped up.

What can you do?

- Stay invested as the global economy continues to expand while corporate earnings remain resilient.
- Nonetheless, it will be important to be disciplined and maintain a diversified portfolio.
- Seek income via investment grade bonds and quality dividend-paying stocks.
- Go global to seek opportunities, with a particular focus on Asia ex-Japan and China given attractive stock valuations, corporate reforms and expectations of improving corporate earnings.
- Explore opportunities in the broader technology sector by looking beyond the mega-cap companies.
- Maintain a small exposure to Gold as a portfolio stabiliser.
- Speak to a UOB Advisor on how to position your portfolio according to your risk appetite and goals.

Right By You

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