Q&A with Investment Strategy

Tariffs Deferred, Not Defeated

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ALL COUNTRY-LEVEL TARIFFS ARE BLOCKED, BUT THIS IS *NOT* THE FINAL WORD

Late yesterday, the US Court of International Trade blocked all of the Trump administration's country-level tariffs, stating that the president lacks the power to impose them. This decision does *not* cover the sectoral tariffs on steel/aluminum and autos. The White House has already filed an appeal and may also try to use other legal avenues to impose new tariffs. While the situation remains in flux, the news is a short-term positive for risk assets and the dollar. Until we see how the legal process plays out, we are maintaining our economic and financial market forecasts.

WHAT IS THE COURT RULING ON TARIFFS?

After the Trump administration unveiled its country-level tariffs, a group of businesses filed a legal challenge, and an alliance of states did so as well. In response to both of those lawsuits, the US Court of International Trade ruled late yesterday that the president cannot impose wide-ranging tariffs under the International Emergency Economic Powers Act of 1977 (IEEPA). Thus, all of the country-level tariffs—what the White House calls 'reciprocal' tariffs—must be set aside within the next ten days. As it stands, these tariffs are 10% across the board, except for China at 30%.

To clarify, these lawsuits did *not* challenge the sectoral tariffs, because they were crafted under a different legal basis, known as Section 232. Thus, the sectoral tariffs—25% on steel/aluminum and autos—can remain in place. The same applies to the not-yet-unveiled tariffs on semiconductors and pharmaceuticals.

WHAT HAPPENS NEXT?

The White House has already filed an appeal with the US Court of Appeals for the Federal Circuit. Regardless of the outcome, it's likely the case will ultimately reach the Supreme Court. Should the court rule that the IEEPA cannot be used to impose country-level tariffs, the administration is expected to pursue alternative legal avenues—given how integral tariffs are to its broader policy strategy. Among the options are Section 122, which permits tariffs of up to 15% for a duration of 150 days, and Section 338, which allows tariffs of up to 50% against countries deemed to be discriminating against US products.

Title	Can it be Declared by the President?	When can it be Used?	Process	Maximum Tariff Rate
~~IEEPA~~	~~Yes~~	~~National/Economic Emergency~~	~~President declares "economic emergency" and can implement remedies in response.~~	~~No~~
Section 301	No	Country-specific trade practices	Begins with USTR investigation and recommendations to the president. President then decides whether to impose tariffs.	No
Section 232	No	Product-specific trade practices	Begins with Commerce Department investigation. President then decides whether to impose tariffs.	No
Section 201	No	Industry-specific trade practices	Begins with ITC investigation. President then decides whether to impose tariffs.	No
Section 122	Yes	Uneven balance of payments	President can declare tariff for up to 150 days for any country with whom the US has a payments imbalance.	Up to 15%
Section 338	Yes	"Unreasonable" policy limiting growth	President can declare tariff responding to "unreasonable" policy and has burden of proof.	Up to 50%

Source: Raymond James Policy Research

IF THE TARIFFS TRULY GO AWAY, HOW WOULD IT CHANGE OUR VIEW OF THE US ECONOMY?

A permanent end to country-level tariffs strikes us as a highly unlikely scenario. But, hypothetically, eliminating all of these tariffs would result in a weighted average effective tariff rate of approximately 6%, much lower than the 17% that we have been assuming since early April after 'Liberation Day.'

In this scenario, inflation concerns would ease, introducing downside risk to our 3.5% forecast. Applying our rule of thumb—that a 1% increase in the effective tariff rate adds ~0.1% to inflation—the inflation impact would be limited to just 0.5% (vs. 1.5% currently), potentially reducing our inflation forecast. If these tariff-related inflationary pressures fail to materialize as previously anticipated, it would be welcomed by the Fed. Similarly, the drag on economic growth would likely be more moderate, with the reduced effective tariff rate limiting the impact to ~0.5%, thereby introducing upside risk to our 2025 GDP forecast of 1.3%. Meanwhile, this latest development keeps the trade landscape uncertain, and if this uncertainty persists, the greater the potential drag on business investment, consumer confidence, and overall economic growth.

WHAT ARE OUR LATEST THOUGHTS ON EQUITIES?

Following the tariff escalation in early April, we revised our year-end 2025 base case target for the S&P 500 downward from 6,375 to 5,800. Similarly, our bull case scenario was adjusted from 7,000 to 6,375. These revisions were primarily driven by a reduction in our earnings estimate, which we lowered from $270 to a range of $250–$255. Tariffs impact earnings in two key ways: (1) by dampening sales growth due to a weaker economic backdrop, and (2) by compressing margins through increased tariff-related costs.

In the near term, these headlines suggest the court decision could be a positive catalyst for equities, as it raises the possibility of reduced tariffs and a more favorable outlook for full-year earnings. Indeed, a more constructive trade environment remains key for our S&P 500 bull case. However, as we've previously noted, this story is far from resolved. While the ruling limits the administration's flexibility to impose new tariffs, numerous trade-related risks still linger. As such, we are cautious about revising our target upward at this stage. Although the market has rallied in response to the court decision, we anticipate continued volatility. This is due to several factors: (1) valuations appear stretched following a strong six-week rally; (2) bond yields are elevated; and (3) uncertainty persists around the timing and scope of the proposed tax bill.

WHAT ARE OUR LATEST THOUGHTS ON BONDS?

The recent trade court ruling may keep bond yields elevated as markets assess its broader implications. On the surface, the decision suggests a more favorable growth-inflation mix, which could encourage the Fed to remain on hold a bit longer—something markets had already begun to price in following the recent tariff de-escalation with China. However, the potential loss of tariff revenue introduces new concerns around debt and deficits—issues that have been front and center for investors, especially as President Trump's tax bill advances through Congress. Despite the headline, the bond market's initial reaction has been relatively muted, with long-term yields up only a few basis points. This suggests that much of the bearish news (e.g., robust growth, burgeoning deficits, Fed on hold) may already be reflected in current yield levels—a view we share. Given that the court decision likely represents a temporary detour rather than a definitive end to the trade conflict, we are maintaining our 4.25% year-end forecast for the 10-year Treasury yield.

THE BOTTOM LINE

Yesterday's court ruling against country-level tariffs adds yet another layer of uncertainty. What remains clear, however, is that the White House is unlikely to abandon its pursuit of such tariffs, which remain a cornerstone of the administration's trade policy agenda. In our view, any meaningful and sustained reduction in tariffs will ultimately need to come through negotiations with key trading partners. Given the current lack of clarity around the trade policy path, we are maintaining our base case assumptions. We continue to expect the US economy to narrowly avoid a recession in 2025. There is no change to our year-end forecasts: we project a 10-year Treasury yield of 4.25% and an S&P 500 level of 5,800.

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