

FOCUS

POWER IS NOTHING WITH CONTROL

AUTHORS

Fabio Fois

Head of Investment Research & Advisory

fabio.fois@animasgr.it

Chiara Cremonesi

Senior Rates Strategist

chiara.cremonesi@animasgr.it

Cosimo Recchia

Senior Equity Strategist

cosimo.recchia@animasgr.it

Matteo Gallone

Junior Macroeconomist

matteo.gallone@animasgr.it

Francesco Ponzano

Junior Equity Strategist

francesco.ponzano@animasgr.it

In this note, we take stock of the Supreme Court's tariffs ruling and assess its near-term macro and market ramifications.

MACRO – Assuming that 1) the IEEPA-Section 122 tariff swap will be fiscal- and trade-neutral and, 2) the market will refrain, for now, from front-running what might unfold once Section 122 tariffs expire, **we do not expect the ruling to have a meaningful impact on our current macro baseline.** Given the uncertainty, though, we will continue to monitor the situation and update it as needed. The first checkpoint will be at the end of March when fiscal data for March will provide preliminary evidence on whether the new tariff architecture will bring any fiscal slippage compared with the pre-ruling market baseline. In subsequent research, we will provide macro and market scenarios based on what could happen once Section 122 tariffs expire, as, by then, President Trump's trade agenda will be on a collision course with the midterm elections.

RATES – We remain **NEUTRAL but tactically lower the accumulation bar amid a slightly more constructive stance**; strategically, the outlook continues to be uncertain and clouded by risks of fiscal slippage and economic overheating.

USD – Both our tactical (**NEUTRAL**) and strategic (**SHORT**) stances are unchanged. Yet, while more evidence is needed, we take the orderly response of President Trump to the ruling as a further sign that the political risk premium might be close to its peak, suggesting that a more constructive stance should not be ruled out going forward.

EQUITY – The Court's decision is positive for companies' profitability. Still, it brings increased uncertainty about possible future moves by the US administration. Given these risks, we maintain a tactical **NEUTRAL** stance and remain strategically **OVERWEIGHT** and buy the dips.

MACRO

Assuming that 1) the IEEPA-Section 122 tariff swap will be fiscal- and trade-neutral and, 2) the market will refrain, for now, from front-running what might unfold once Section 122 tariffs expire, we do not expect the ruling to have a meaningful impact on our current macro baseline. Given the uncertainty, though, we will continue to monitor the situation and update it as needed. The first checkpoint will be at the end of March when fiscal data for March will provide preliminary evidence on whether the new tariff architecture will bring any fiscal slippage compared with the pre-ruling market baseline. In subsequent research, we will provide macro and market scenarios based on what could happen once Section 122 tariffs expire, as, by then, President Trump's trade agenda will be on a collision course with the midterm elections.

I) THE SUPREME COURT'S RULING IN A NUTSHELL

The Supreme Court struck down President Trump's global tariffs, ruling that he overstepped his authority by acting without congressional permission. The Court rejected Trump's argument that a 1977 law, the International Emergency Economic Powers Act (IEEPA), implicitly authorised the tariffs.

II) PRESIDENT TRUMP'S (RATHER ORDERLY) RESPONSE

President Trump announced he would implement new levies under two separate legal authorities - one short-term, another longer lasting. He signed an order to impose a 15% global tariff under Section 122 (of the Trade Act of 1974), which allows the President to impose tariffs up to 15% for up to 150 days on trading partners that have persistent imbalances with the US. After that time, the tariffs require a Congress vote to be extended. According to the order, products from Canada and Mexico that comply with the US-Mexico-Canada Agreement will be exempt from the tariffs.

Section 122 could act as a stopgap while the administration readies more permanent tariffs under Section 301 (of the Trade Act). That authority is more legally durable than IEEPA actions and is broadly expected to be supported in court, depending on the details of the investigations set to be released in the coming weeks.

III) THE RULING VS ANIMA BASELINE

In this section, we mark to market the ruling compared with our assumptions presented in "Who Shot the Tariff?" (November 2025) to work out discrepancies that might have a meaningful impact on our currently projected macro and market baselines.

1) In line with our assumptions:

- A) The Court made an all-or-nothing decision.
- B) The President decided to substitute IEEPA tariffs with other legal authorities.
- C) The administration will not offset fiscal costs from the missing IEEPA tariff-related revenues via higher taxes and/or lower expenditures.

2) Not in line with our assumptions:

- A) The ruling was released almost two months later than we assumed.
=> This impacts our fiscal slippage and potential UST extra issuance estimates.
- B) We didn't expect President Trump to activate Section 122 as a first line of defence. While it provides an efficient way to immediately re-impose tariffs, through Section

122 tariffs can be imposed for only up to 150 days (and up to 15%), after which they have to be approved by Congress. Although Section 122 might be a quick fiscal stopgap while the administration readies more permanent tariffs under Section 301, the choice brings considerable uncertainty into the macro picture amid implementation and effectiveness risks of the new and upcoming tariff-related fiscal architecture. In steady state (from 2027 onwards), we projected that annual fiscal revenues related to IEEPA tariffs (around USD 250bn) would be matched by those stemming from alternative legal authorities, meaning that the projected increase in the deficit was assumed to be temporary.

=> Will Section 122 be fiscally neutral compared with market expectations built upon IEEPA tariffs? Will Section 122 be extended by Congress? If not, will Section 301 tariffs be fiscal- and trade- neutral compared with market expectations built upon IEEPA tariffs?

3) Pending issues:

A) In our baseline, we assumed the Court would ask the government to pay back the entire amount of IEEPA-related tariffs. The Supreme Court didn't provide guidance on whether, or how, tariffs would be refunded, leaving those issues to lower courts. Reportedly, hundreds of firms have already filed lawsuits to increase their chances of clawing back money.

=> Until either the Court or any other body rules on this subject, we assume this money will need to be litigated bilaterally between businesses and the Internal Revenue Service (IRS). We assume trials will last longer than ten months and that no refunds will be given this year. Accordingly, the Court's decision reduces the maximum ruling-related budget deficit slippage for 2026 from over USD 350bn (which would have taken the deficit from 6.1% to 7.3% of GDP) to around USD100bn (which would take the deficit from 6.1% to 6.4% of GDP). However, we can't stress enough the uncertainty related to our estimate regarding trial length, as well as our associated fiscal gap projections for this year (USD100bn).

IV) FIRST ORDER MACRO IMPLICATIONS

Assuming that A) Section 122 tariffs will be fiscal- and trade-neutral compared with our expectations built upon IEEPA tariffs, and B) the market will refrain for now from front-running what might unfold once Section 122 tariffs expire, **we do not expect the ruling to have a meaningful impact on our current macro baseline.**

We continue to expect the US economy to experience immaculate growth, albeit with risks of overheating. Risks to our baseline are skewed to the upside for both growth and inflation. We think the "trade" leg of our assumption is particularly vulnerable to upside surprises as swapping IEEPA for Section 122 tariffs will disproportionately relieve the largest US trading partners, while hitting more severely less systemic trading partners. At this stage, the net impact on US and global growth is impossible to estimate, but we expect it to be growth-neutral at worst.

The confidence channel could also provide some support however the final impact is very difficult to estimate. On the one hand, there might be positive spillovers amid the market perception that the trade war era is about to end. On the other hand, businesses might take exactly the opposite view amid heightened uncertainty regarding the global tariff backdrop with which they have to deal across several strategies, including pricing policies, investment decisions, etc.

Accordingly, our Fed baseline is unchanged. We continue to expect the FOMC to cut rates three times this year, with risks skewed towards fewer cuts.

RATES

*We remain NEUTRAL **but tactically lower the accumulation bar amid a slightly more constructive stance**; strategically, the outlook continues to be uncertain and clouded by risks of fiscal slippage and economic overheating.*

A fine-tuning. We remain tactically NEUTRAL, **but we lower the bar to increase exposure to 4.30-4.40%** (vs. 4.50-4.60% previously), for the following reasons:

1) While the first checkpoint for investors will be towards the end of March, when there will be more insights into whether the IEEPA-Section 122 tariff swap will be fiscally neutral, we expect investors to preliminarily assess any fiscal slippage as manageable. According to our estimates and assumptions, the 15% universal tariffs imposed on all countries under Section 122 and the likely delay in refunds should make up for the loss of revenues expected from IEEPA tariffs, at least in the near term. This means that, for the time being, investors will likely continue to expect the 2026 budget deficit to remain below USD 2tn (c. 6% of GDP). While the US fiscal outlook remains problematic and President Trump could still pass additional fiscal easing ahead of the midterm elections, the market should, at least for now, rule out the worst-case scenario in which the budget deficit rises above 7% of GDP in 2026 until proven wrong.

2) The Court's decision partially reduces the political risk premium embedded in the UST curve since President Trump took office. While uncertainty around trade policy will remain high and President Trump will likely continue to challenge the institutional order, the message from the Court is that checks and balances on presidential powers are working. Against this backdrop, we still expect the political risk premium to remain high (and possibly even to increase further in the near term), but less aggressively than before.

Why not a lower entry point? For two reasons:

- 1) Our macro baseline for 2026 still foresees solid growth with risks of overheating.
- 2) In the last few weeks, UST yields have continued to move down despite a resilient economy, suggesting that investors continue to be more sensitive to downside surprise in growth and the labour markets data rather than to upside surprises.

Meanwhile, we maintain our bar to turn outright SHORT at 3.95%. We believe that a sudden deterioration in economic growth and/or in the labor market is needed for yields to fall below 4.0%.

Finally, we keep our strategic NEUTRAL stance UNDER REVIEW, with a NEGATIVE OUTLOOK. The reason is threefold:

1) Uncertainty is very high as to whether IEEPA-Section 122 swap will be fiscally neutral. In the medium term, this could open up a sizeable revenue gap, which could lead to higher M/L issuance. Moreover, the Court's decision only temporarily delays the odds of a higher fiscal deficit from lower tariffs. While refunds may not be a theme in 2026, they will likely hit in 2027 (we estimate that total refunds could amount to up to USD 165bn) and the market may begin to take note of that at some point this year.

2) Risks of opportunistic fiscal measures ahead of the midterm elections remain, amid

President Trump's falling popularity, including among key voter cohorts. This could take the deficit-to-GDP ratio to or above 7%.

3) Overheating risks surrounding our already above-consensus macro baseline are on the rise.

FX

Both our tactical (NEUTRAL) and strategic (SHORT) stances are unchanged. Yet, while more evidence is needed, we take the orderly response of President Trump to the ruling as a further sign that the political risk premium might be close to its peak, suggesting that a more constructive stance should not be ruled out going forward.

EUR/USD – Tactically, we remain NEUTRAL on EUR/USD and DXY. We believe that, at the margin, the Court's decision could be dollar-positive, given that political uncertainty has been the main driver of the poor dollar performance since Liberation Day. That said, we expect investors to remain on the sidelines in the near term, as regardless of the ruling, President Trump remains highly unpredictable and trade uncertainty remains elevated. Moreover, on the EUR side, we do not see a positive catalyst in the near term that could turn markets more hawkish on the ECB.

Strategically, we remain LONG on EUR/USD and SHORT on DXY.

We expect the dollar to remain under pressure in the medium term amid:

- 1) Domestic uncertainty in the US.
- 2) Gradually slowing portfolio inflows into US assets, particularly from central banks.
- 3) Continued hedging flows by foreign investors.

Are the tides turning? However, we see the Court's ruling as an additional reason to be structurally less negative on the USD, given its importance in terms of lowering, yet not eliminating, the political risk premium. If evidence were to mount that the political risk premium has peaked, **we would consider turning NEUTRAL or even going straight LONG on DXY (and SHORT on EUR/USD) should market pricing make it a sensible choice by then.**

EQUITY

The Court's decision is positive for companies' profitability. Still, it brings increased uncertainty about possible future moves by the US administration. Given these risks, we maintain a tactical NEUTRAL stance and remain strategically OVERWEIGHT and buy the dips.

No news? Not really. Although the removal of tariffs was widely expected – Polymarket's index indicated just a 25% likelihood that the Supreme Court would uphold the IEEPA tariffs – equity markets responded positively to the news, pricing in improving companies' profitability under the new tariff regime and a likely reacceleration of the restocking phase.

Preliminary estimates suggest that IEEPA tariffs being replaced with 15% tariffs under Section 122 will add 30 bp to S&P 500 EBIT, or USD 12bn on a full-year basis. Consumer sectors, such as Durables & Apparel and Staples Distribution & Retail, should benefit the most, with their EBIT increasing more meaningfully by 8 pp and 4 pp, respectively. The least affected sectors are traditional domestic ones such as Utilities, Telecommunications, and Real Estate. The Auto sector is also unaffected, as Mexican and Canadian imports bypass tariffs, and most other imports from the EU,

Japan, and South Korea face around 15% tariffs due to Section 232, which remains in place. Financials see no direct benefit either.

On the other side of the pond, the lifting of IEEPA has a limited impact on most European companies. The United States represents 22% of their total revenues, while only 1% of these revenues are directly affected by IEEPA. The sectors most impacted include Luxury (primarily Essilor) and Medtech, with a lesser effect observed in Discretionary Retailing, Household & Personal Care, and Food & Beverage. Autos, Pulp & Paper, Tech Hardware, Semiconductors, Capital Goods, and Construction Materials remain covered by other tariffs.

Against this backdrop, we tactically continue to prefer the Rest of Developed World over the US, while keeping a NEUTRAL stance on Emerging Markets. Although the region, especially China, was the most negatively affected by IEEPA tariffs, a less concerning outlook for the USD may weigh on regional valuations. From a sector standpoint, we reiterate our preference for traditional Value Cyclical, such as Banks and Diversified Financials, among the least affected by the tariff concerns, and Materials, which should continue to benefit from the ongoing commodity upcycle. Semiconductors remain our favourite pick in the Growth universe. Telecoms and Food, Beverages, and Tobacco are favourite Defensives. The former are agnostic to trade escalation while the latter is one of the main beneficiaries of the new regime.

We put the current strategic REGIONAL allocation, which currently expects equities' performance to become more aligned across regions over the next 12 months, **under review.** We need more clarity about the next actions to be undertaken by the US administration and Congress. As a preliminary assessment, an ongoing appreciation of the greenback, along with an overheating of the US economy, would make US equities the clear outperformer, while EM would be the main laggard.

ANIMA INVESTMENT RESEARCH**FABIO FOIS**

Head of Investment Research & Advisory
fabio.fois@animasgr.it

CHIARA CREMONESI

Senior Rates Strategist
chiara.cremonesi@animasgr.it

COSIMO RECCHIA

Senior Equity Strategist
cosimo.recchia@animasgr.it

MATTEO GALLONE

Junior Macroeconomist
matteo.gallone@animasgr.it

FRANCESCO PONZANO

Junior Equity Strategist
francesco.ponzano@animasgr.it

IMPORTANT DISCLOSURES

Marketing material for professional clients or qualified investors only. This material does not constitute an advice, an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell, or hold any investment or security or to engage in any investment strategy or transaction. ANIMA can in no way be held responsible for any decision or investment made based on information contained in this document. The data and information contained in this document are deemed reliable, but ANIMA assumes no liability for their accuracy and completeness. ANIMA accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material in violation of this disclaimer and the relevant provisions of the Supervisory Authorities.

This is a marketing communication. Please refer to the Prospectus, the KID, the Application Form and the Governing Rules ("Regolamento di Gestione") before making any final investment decisions. These documents, which also describe the investor rights, can be obtained at any time free of charge on ANIMA website (www.animasgr.it). Hard copies of these documents can also be obtained from ANIMA upon request. The KIDs are available in the local official language of the country of distribution. The Prospectus is available in Italian/English. Past performances are not an indicator of future returns. The distribution of the product is subject to the assessment of suitability or adequacy required by current regulations. ANIMA reserves the right to amend the provided information at any time. The value of the investment and the resulting return may increase or decrease and, upon redemption, the investor may receive an amount lower than the one originally invested. In case of collective investment undertakings distributed cross-border, ANIMA is entitled to terminate the provisions set for their marketing pursuant to Article 93 Bis of Directive 2009/65/EC.