

Rates Strategy

WHO SHOT THE TARIFF?

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The final decision on whether the use of IEEPA to impose tariffs is legal will be decided by the Supreme Court, which started to hear arguments in the first week of November. The final ruling is expected by the end of 2025, but no fixed date has been set.

Judging from the preliminary hearing, the Supreme Court appears sceptical about the use of the IEEPA as an appropriate tool to impose tariffs. However, oral arguments are not always indicative of the Court's decision. When the Supreme Court takes a case, it usually reverses a lower court's decision.

In this note, we tentatively explore the impact that a ruling against the IEEPA tariffs could have on the outlook for US rates. While our tactical positioning is unchanged, as we do not expect to hear from the Supreme Court before year-end, our NEUTRAL strategic outlook is under review.

Depending on a combination of policy and macro assumptions related to the possibility that the Court will rule against the Trump administration, 10y UST yields may reach 5.0-5.50% area next year.

A word of caution: The impact on the budget could be even more severe if President Trump proceeds with the plan to issue tariff rebate cheques of USD 2,000 to low-and medium-income voters. While future research will examine this issue as more clarity emerges, we believe the risk is real at this stage.

President Trump's popularity is weakening. Ahead of the mid-term elections, we cannot rule out that the President might adopt expansionary fiscal measures, such as tariff rebate checks, to regain popularity.

ALL OVER AGAIN?

On 28 May, a panel of judges at the US International Court of Trade unanimously ruled that the IEEPA tariffs were illegal. The decision was later confirmed by the US Court of Appeals on 29 August.

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The final ruling is expected by the end of 2025, given that the Court has set an expedited procedure for this case, but no fixed date has been set.

Judging from the preliminary hearing, the Supreme Court appears sceptical about the use of the IEEPA as an appropriate tool to impose tariffs. However, oral arguments are not always indicative of the Court's decision.

The reasons could be several, but one statistic is noteworthy. When the Supreme Court takes a case, it usually reverses a lower court's decision. According to SCOTUS blog, since 2007, the Supreme Court has reversed a lower court's decision approximately 70% of the time.

Against this backdrop, it is surprising that Polymarket assigns a meagre 22% probability that the Supreme Court will rule in favour of the IEEPA tariffs.

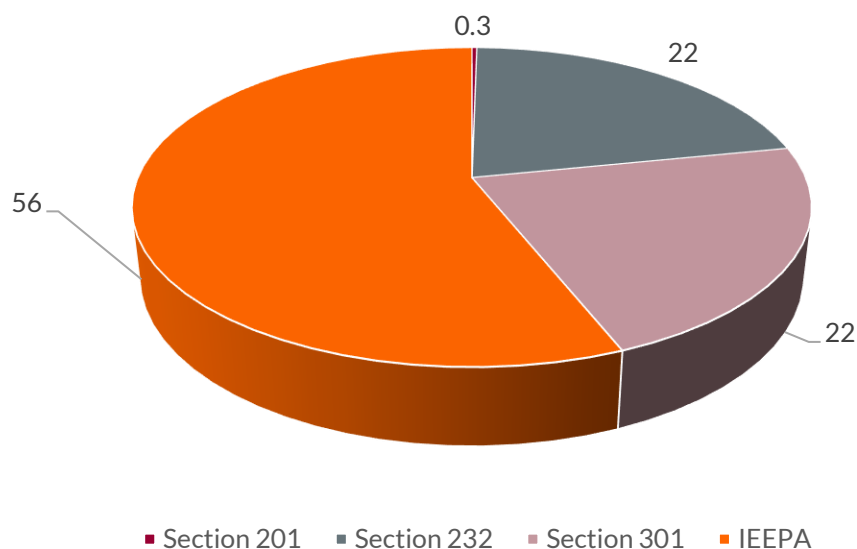
What is at stake

An intricate tariff net.

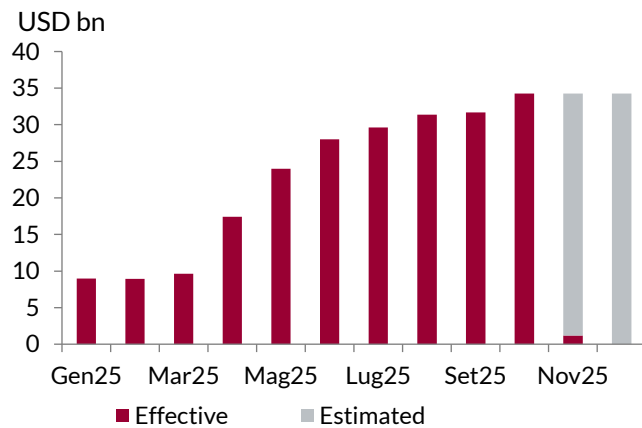
President Trump imposed tariffs using two legal authorities; the International Emergency Economic Powers Act (IEEPA) and Section 232. Figure 1 shows that 56% of total tariff revenues collected this year come from IEEPA and we estimate that, by year-end, they could reach USD 165bn, or ca. 0.6% of GDP in 2025 (Figure 2 and 3) and USD 250bn, or 0.8% of GDP in 2026.

Figure 1

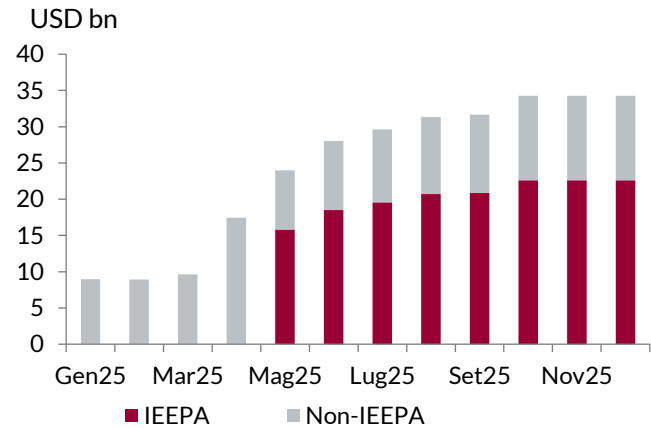
IEEPA represents 56% of current tariffs-related revenues



Source: US Custom and Border Protection, Budget Lab @Yale, ANIMA Research

Figure 2**Monthly tariff flows in 2025: Actual and estimated**

Source: US Custom and Border Protection, Budget Lab @Yale, Bloomberg, ANIMA Research

Figure 3**Estimated IEEPA vs. non IEEPA tariff flows in 2025**

Source: US Custom and Border Protection, Budget Lab @Yale, Bloomberg, ANIMA Research

What happens after IEEPA tariffs are ruled illegal? Our assumptions

It's far from certain that the Supreme Court will rule against the IEEPA tariffs, as high-conviction predictions from oral argument are difficult. Given that four of the nine justices appear to hold the view that IEEPA does not allow the President to impose tariffs, a majority of justices may lean against the IEEPA tariffs. Given our outlook is based on current legislation, we explore alternative scenarios that may emerge if the Court rules against the Trump administration.

In doing so, we assume the following:

- 1) The Court will make an all-or-nothing decision rather than a narrow ruling.
- 2) The ruling will be published by year-end.
- 3) President Trump will substitute IEEPA tariffs with other legal authorities. Against this backdrop, Section 232 and/or Section 301 are the most likely alternatives (**Figure 4**). Section 122 would provide an efficient way to immediate re-impose tariffs, but we think President Trump is unlikely to use it. The reason is that 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, where it could be difficult to get a swift approval,
- 4) It could take between 3 to 12 months before IEEPA tariffs are re-established under alternative legal authorities and the Treasury starts collecting revenues, depending on whether the administration can use the expedited procedure or not (**Figure 4**).
- 5) The administration will not offset fiscal costs from the missing IEEPA tariff-related revenues via higher taxes and/or lower expenditures.
- 6) The Court will ask the government to pay back the entire amount of IEEPA-related tariff revenues (USD165bn).
- 7) In steady state (from 2027 onwards), projected annual fiscal revenues related to IEEPA tariffs (around USD 250bn) will be matched by those stemming from alternative legal authorities, meaning that the increase in deficit will be temporary.

Figure 4**Alternative mechanisms for imposing tariffs if the Supreme Court invalidates IEEPA tariffs**

Section	Case	Process	Time of implementations	
			Regular	Expedited
232	National security threat	Requires an investigation	9-12 months	3-6 months
301	Unfair trade practices/retaliation	Requires identifying the unfair practices	6-12 months	4-8 months or 60-90 days pending full review
122*	B/s surpluses/unjustifiable trade restrictions vs. US	Does not require any investigation	Almost immediate	Almost immediate

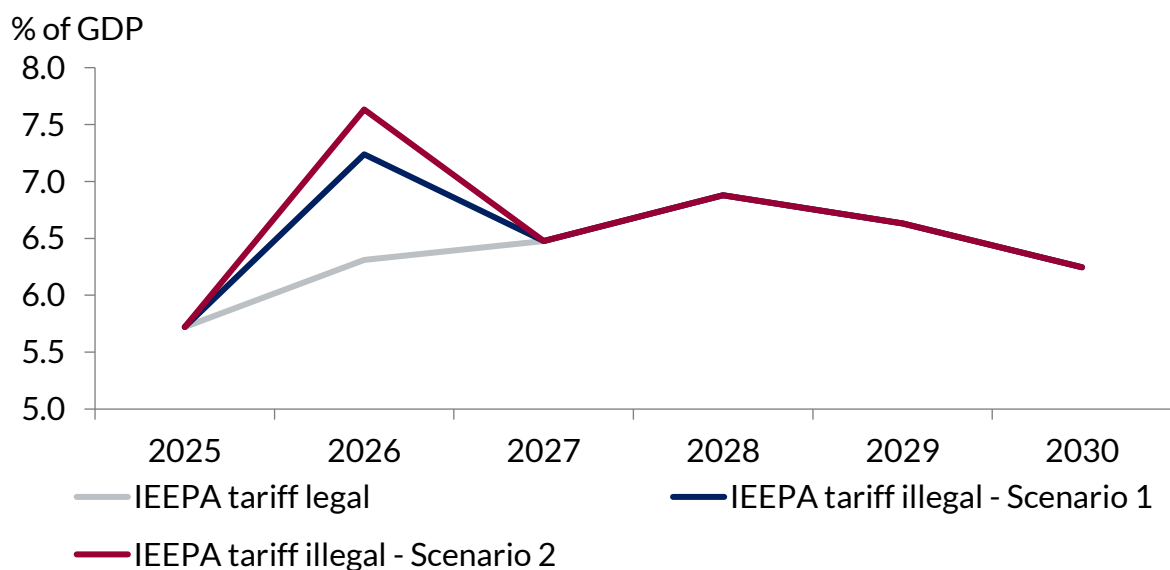
*Through Section 122, tariffs can be imposed almost immediately without any investigation, but only up to 15% for up to 150 days unless extended by Congress.

Source: Congressional Research Services, Bloomberg, Anima Research

Deficit impact

Based on the assumptions discussed in the previous section, the projected impact on the US deficit trajectory of a ruling against the Trump administration will depend on whether the administration is able to expedite procedures to reintroduce tariffs via alternative authorities (Scenario 1) or not (Scenario 2).

Figure 5 shows that in Scenario 1 the deficit will increase from 5.7% of GDP in 2025 to 7.2% in 2026 (vs. 6.3% of GDP in our central scenario), while in Scenario 2 the deficit will increase to 7.6% of GDP in 2026.

Figure 5**Deficit might increase to 7.2-7.6% in 2026 if the Supreme Court invalidate tariffs**

Source: Bloomberg, CBO, ANIMA Research

Impact of the rates market if IEEPA tariffs are ruled illegal

In the event that the Supreme Court invalidates IEEPA tariffs, from a macro standpoint, we expect the following to happen:

- 1) Slightly faster convergence towards core PCE target next year (Q3 rather than Q4). However, consistent with our baseline and evidence so far, the substitution of IEEPA tariffs should not generate much disinflation (all else being equal).
- 2) Domestic demand prospects are expected to improve, possibly taking near-term momentum above potential. Goods spending could increase as consumers and businesses take advantage of the no-tariff grace period by anticipating spending before tariffs under alternative legal authorities are implemented. The longer the grace period lasts, the greater the impact would be. In this respect, the Budget Lab at Yale University estimates that US real GDP growth over 2025 and 2026 is about -0.5pp lower each year owing to new 2025 tariffs.
- 3) Given (a) the weak labour supply environment, and (b) large businesses' budget leeway to use the wage lever to retain/attract workers, wage growth may accelerate.
- 4) As midterm elections approach, the Trump administration could vent its frustration at the Supreme Court's adverse ruling by turning the heat further on the Fed, effectively constraining the Fed's response if the economy re-accelerates.

Against this backdrop, **from strategic standpoint, we expect higher rates.**

The magnitude of the move higher in rates, as well as the shape of the curve will depend on a combination of factors that nobody can control at this stage, including:

- 1) How long it will take the Trump administration to re-establish tariffs under different legal authorities.
- 2) How much growth accelerates vs the baseline.
- 3) The response of wages.
- 4) The response of Trump - in particular, the degree of political interference in the Fed.

At this stage, we tentatively estimate that **10Y UST yields could range between 5.0% and 5.50%. For this reason, we are placing our strategic NEUTRAL stance under review, with a negative outlook.**

A word of caution: The impact on the budget could be even more severe if President Trump proceeds with the plan to issue tariff rebate cheques of USD 2,000 to low-and medium-income voters. While future research will examine this issue as more clarity emerges, we believe the risk is real at this stage.

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