

Supreme Court Says No to Reciprocal Tariffs

In a 6-3 vote, the U.S. Supreme Court announced this morning it had struck down President Trump's "reciprocal tariffs," ruling that the International Emergency Economic Powers Act (IEEPA) does not give the executive branch unilateral authority to impose broad global duties. The majority opinion, written by Chief Justice John Roberts, concluded that no other president had invoked IEEPA to impose tariffs of this scale, calling the administration's interpretation of the near 50-year old statute a "transformative expansion" of presidential power that exceeded congressional intent.

The Court upheld lower court rulings that had previously declared the reciprocal tariffs unlawful, reaffirming that the Constitution *reserves taxing powers to Congress unless explicitly delegated*. It was made clear that emergency powers cannot substitute for Congress's constitutional role in setting national trade policy. The justices noted the reciprocal tariffs had *no historical precedent and failed established legal tests applied in prior executive power disputes*.

While the ruling will prohibit the Administration from using the broad powers under IEEPA, existing tariffs on steel, aluminum, automobiles and other specific industries will remain intact as authorized in the Trade Expansion Act of 1962, which specifically authorizes the President to restrict or adjust imports *if they are determined to threaten to impair U.S. national security*.

U.S. companies who paid reciprocal tariffs are now expected to seek refunds, estimated at nearly \$200 billion. This is where things get complicated as there is currently no mechanism to reverse the collection. Justice Brett Kavanaugh, one of the three minority votes, expressed concern that the refund process *was likely to be a mess*. Still, the financial markets were granted a welcomed dose of certainty, *at least for the time being*. The implications of the decisions are many – a wider budget deficit given reduced import tax revenue, a reduction in goods inflation for consumers, and increased certainty and lower input prices for small businesses implying some improvement in economic growth.

From the Fed's perspective, the decision provides desired clarity and will be a positive factor when considering future rate cuts. Stocks rose in early trading, surrendered their gains, then rallied again. Bond yields are slightly higher. Neither reaction makes complete sense, although there are multiple catalysts driving investors this morning, and the President is expected to immediately pursue alternative legal means to replace lost tariff revenue.

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Emergency powers cannot substitute for Congress's constitutional role in setting national trade policy.

Market Indications as of 11:07 A.M. Central Time

DOW	Up 44 to 49,439 (HIGH: 50,188)
NASDAQ	Up 197 to 22,879 (HIGH: 23,958)
S&P 500	Up 42 to 6,904 (HIGH: 6,979)
1-Yr T-bill	current yield 3.51%; opening yield 3.47%
2-Yr T-note	current yield 3.48%; opening yield 3.46%
3-Yr T-note	current yield 3.50%; opening yield 3.49%
5-Yr T-note	current yield 3.66%; opening yield 3.64%
10-Yr T-note	current yield 4.09%; opening yield 4.07%
30-Yr T-bond	current yield 4.74%; opening yield 4.70%

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