Tariff Uncertainty

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Tariff uncertainty reigns. The US Supreme Court has again delayed its ruling on the constitutionality of the tariffs the US has imposed that are based on "The International Emergency Economic Powers Act of 1977." In addition to the delayed Supreme Court decision on tariffs, President Trump has recently issued warnings to several European countries that more tariffs are coming if the European Union does not negotiate with the US over control of Greenland.

The equity market reaction to these recent tariff uncertainties have been negative yet modest as compared to the initial reaction to the "Liberation Day" tariff announcements back in April 2025. In part, the current negative response may not have been more severe because the situation is extremely fluid, rhetoric can change in an instant, and new announcements may be forthcoming at any time. What is clear, though, is that the tariff debate is not going away any time soon.

In this research post, we will provide a brief overview of "The International Emergency Economic Powers Act of 1977" being consider by the US Supreme Court; then discuss potential market reactions along with the intersection with other market-moving debates which are in progress.

The International Emergency Economic Powers Act of 1977

While not all of the US tariffs announced in 2025 were based on The International Emergency Economic Powers Act of 1977 (IEEPA), most of the tariffs levied against imports to the US from specific countries were justified by this act. Other tariffs related to specific goods, for example, such as copper or other metals, fall under a different law.

Of critical note, the IEEPA does not mention tariffs specifically as it is focused on economic sanctions, freezing assets, and the like. This law was invoked by past Presidents related to the Iran hostage episode of 1980, the September 11, 2001, terrorist attack on the U.S., and the Russian invasion of Ukraine in 2022. For those Supreme Court justices that rely heavily on the concept of original intent, this will be a difficult ruling to make, given the absence of specific wording regarding tariffs and the way the law was used and interpreted in the past.

Another point that will receive critical attention by the Supreme Court justices is the question of what defines an emergency of the scale that justifies invoking this law as well as other laws Congress has passed that are supposed to be utilized only in emergencies. The US Congress has passed a number of laws that give the President emergency powers, including laws affecting immigration policies and responses to domestic unrest. President Trump has been unusually willing to invoke emergency powers compared with all of his predecessors.

There is no way of telling if the eventual Supreme Court decision on the IEEPA will address the definition of an emergency of the scale needed to invoke the law. But if the Supreme Court does tackle the definition of an emergency, any ruling could have far-reaching implications well beyond tariffs. And, in the case of Greenland, the Trump Administration has asserted that it can invoke the IEEPA even in the case of future emergencies, as it sees Russia and China's potential actions in the Arctic in that way.

In any case, it is not surprising that the Supreme Court is taking its time in making a judgement on the constitutionality of the IEEPA given the complexity of the issues and the potential economic impact. We would be cautious about expecting a clear cut, yes/no decision. There are many possible permutations. The Court could affirm the law yet limit its use by narrowing the definition of an emergency. The Court could deny using the law to justify tariffs going forward but not require refunds to companies that have paid the tariffs. And even if using the law for tariffs is ruled unconstitutional, President Trump has a number of tariff-related laws on which he can fall back. Tariff uncertainty may not go away, even after a Court decision.

Market Risk Challenges

Dissecting the instant market reactions to tariff announcements can be dicey, since they often fade or may even be reversed, as were the "Liberation Day" tariff reactions. Or market reactions can be complicated by other simultaneous events. Our interpretation of the market moves on Tuesday, January 20, 2026, in response to the combination of several risk challenges illustrates the complexity. Not only do we have the tariff escalation related to Greenland, but we also have the ongoing debate over Federal Reserve (Fed) independence, and the geopolitical implications of the US tilt toward a Latin American focus raises questions about US policy regarding the Middle East or Asia. Regarding the Fed, we are still awaiting a Supreme Court decision on whether President Trump can remove a Fed Governor (Lisa Cook) from office and who President Trump may appoint to be the new Fed Chair. In the Middle East, major issues remain for both Iran and Gaza.

The net impact of these market challenges has worked to raise long-term US Treasury bond yields, with the 30-year Treasury yield approaching 5% again. In the currency markets, the euro and the Chinese yuan appreciated a touch, while the Japanese yen did not. Japan was impacted by its own debt markets, with long-term government bond yields rising. At the same time oil prices have been creeping higher, despite the probability of more Venezuelan oil eventually coming to market. We would consider the FX moves too small to consider, and the oil moves are in the range of typical volatility.

Most importantly, when US Treasury note and bond yields are rising while equities are selling off is a warning sign to markets. As fans of the 60% equities and 40% fixed income portfolios know all too well, the bond market may not serve as a hedge against a falling equity market if the economic worry is about rising inflation pressures. Both tariffs and the Fed independence debates are intertwined with fears of upward inflation pressures, even if we are not seeing rising inflation in recent data. Transition periods can be highly volatile times for markets, and the uncertainties from tariffs, plus the complicated issues related to the Fed and geopolitics suggest that risk managers should be especially worried about tail risk from unanticipated announcements and events that could come at any time. Diversification as a primary risk management approach may not work in these uncertain times with complex and interrelated challenges.

Sterling Trading Tech

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