MULTI-ASSET BRIEFING · FEBRUARY 20, 2026 · SCOTUS DECISION DAY · POLICY × MARKETS

The Court Strikes Back: — What It Means for Policy & Global Assets

A dual-perspective analysis for the multi-strategy desk. Section I examines the constitutional and political fallout through a policy lens. Section II translates that into actionable cross-asset implications for equities, fixed income, FX, and commodities.

VOTE

6–3

Roberts majority; Thomas, Alito, Kavanaugh dissent

AUTHORITY STRUCK

IEEPA

Int'l Emergency Economic Powers Act, 1977

TARIFFS SURVIVING

§232 + §301

Steel, aluminum, autos, China tech remain

REVENUE AT RISK

~$300B

Annual IEEPA-generated customs + refund exposure

§ I Policy Analyst Perspective

THE RULING — WHAT HAPPENED

This morning, the Supreme Court handed down a watershed 6-3 decision in the consolidated IEEPA tariff cases, with Chief Justice John Roberts authoring the majority opinion. The Court held that the International Emergency Economic Powers Act of 1977 **does not grant the President unilateral authority to impose sweeping, open-ended**

tariffs on trading partners — even during a declared national emergency. The majority was blunt: the words "regulate" and "importation" in IEEPA "cannot bear such weight."

The decision reaffirms the bedrock constitutional principle that the power to levy taxes and duties belongs exclusively to Congress under Article I, Section 8. The ruling consolidated suits filed by small business coalitions and a bipartisan group of state attorneys general who challenged the emergency declarations as pretext for broad executive trade policy.

> *"The words 'regulate' and 'importation' in IEEPA cannot bear the weight the government asks them to carry. Congress does not hide elephants in mouseholes — and it certainly does not hide the unlimited power to tax in a statute written for emergency asset freezes."*
>
> — CHIEF JUSTICE ROBERTS, MAJORITY OPINION (PARAPHRASE), FEB. 20, 2026

THE TARIFF MAP — WHAT'S STRUCK VS. WHAT SURVIVES

The ruling has immediate effect on all tariffs whose legal authority derived solely from IEEPA emergency orders. The table below delineates which tranches are immediately nullified vs. those that remain in force under separate statutory authorities.

TARIFF PACKAGE	RATE / SCOPE	AUTHORITY	STATUS
Canada — Broad Goods	25%	IEEPA (fentanyl EO)	⊗ STRUCK
Canada — Energy	10%	IEEPA (fentanyl EO)	⊗ STRUCK
Mexico — Broad Goods	25%	IEEPA (fentanyl / border EO)	⊗ STRUCK
China — Phase 2 Increment	+10% / +20%	IEEPA (trade deficit EO)	⊗ STRUCK
Global "Reciprocal" Tariffs (Apr 2 2025)	10–50% (varies by country)	IEEPA (trade deficit national emergency)	⊗ STRUCK

TARIFF PACKAGE	RATE / SCOPE	AUTHORITY	STATUS
Steel & Aluminum — Global	25% / 10%	Section 232 (Trade Expansion Act of 1962)	✓ INTACT
Autos & Auto Parts	25%	Section 232	✓ INTACT
China — Phase 1 / Tech / Fentanyl Precursor	25–60% (legacy)	Section 301 (Trade Act of 1974)	✓ INTACT
Semiconductors (Proposed)	TBD	Section 232 (pending investigation)	⚠ UNAFFECTED / WATCH

CONSTITUTIONAL SIGNIFICANCE — THE BROADER DOCTRINE

This is not merely a trade case. Roberts's majority opinion is best understood as an **extension of the major questions doctrine** articulated in *West Virginia v. EPA* (2022) and extended through subsequent administrative law decisions. The Court is now affirmatively applying the principle that executive agencies — and by extension, the President — cannot claim sweeping economic authority from ambiguous or unprecedentedly broad statutory language without clear congressional authorization.

For trade policy specifically, this recalibration is historic. Presidents Reagan, Clinton, George W. Bush, Obama, and Trump 1.0 all leaned on delegated trade authority that Congress willingly ceded over decades. Today's decision begins to un-ring that bell, returning the tariff power formally to where the Constitution placed it: Capitol Hill.

⚠ DISSENT WATCH

Kavanaugh's dissent is notable — and potentially a preview. He argued that IEEPA's text is sufficiently broad and that the President's national emergency determinations deserve Chevron-style deference on matters of foreign trade. A future different majority (or a different factual posture on a narrower IEEPA use) could limit this ruling's reach. Thomas and Alito's dissents were more categorical, arguing the Court overstepped its institutional role in second-guessing executive determinations of economic emergency.

TRUMP ADMINISTRATION RESPONSE — THE "BACKUP PLAN"

President Trump publicly called the ruling "a disgrace" within hours. Secretary Bessent was notably measured, confirming the administration has "multiple alternative authorities" to pursue its trade objectives. The White House is moving on several tracks simultaneously:

Track 1 — Section 232 Expansion. National security arguments will be substantially broadened. Expect 232 investigations into pharmaceuticals, semiconductors, commercial shipbuilding, and potentially rare earth minerals. These are slower — typically requiring 270-day DoC investigations — but court-tested.

Track 2 — Section 301 Re-energization. The USTR is expected to launch new §301 investigations into unfair trade practices by Canada, Mexico, the EU, and Vietnam, framing them around digital trade, subsidized state-owned enterprises, and currency manipulation. The China §301 framework becomes the template for allies.

Track 3 — Legislative Push. The administration will press Congress for broad new tariff authorization — potentially a new "Economic Security Act" that explicitly grants presidential authority on terms the Supreme Court would accept. This is the highest-risk track given thin House margins, but Cotton, Rubio, and Hawley are expected to sponsor companion legislation.

Track 4 — Bilateral Deal Pressure. The ruling paradoxically strengthens the administration's negotiating hand in some bilateral deals. Trading partners know tariffs via §232/§301 are coming regardless; a negotiated outcome may be preferable to a protracted §301 process.

POLITICAL FALLOUT — FUTURE TRUMP CASES BEFORE SCOTUS

This decision has implications that extend well beyond tariffs. The 6-3 majority (Roberts, Sotomayor, Kagan, Jackson, Gorsuch, and Barrett) represents a trans-ideological coalition hostile to unchecked executive economic power. For future Trump administration actions, this coalition signals vulnerability in several domains:

Export Controls via IEEPA: The same authority Trump invoked for tariffs has been used to impose export bans and technology transfer restrictions. Those actions are now legally exposed, though national security framing makes them more defensible than trade deficit claims.

Sanctions Programs: IEEPA-based sanctions (Russia, Iran, Venezuela) are constitutionally distinct but could face long-shot challenges under this new jurisprudential frame if plaintiffs can argue overbreadth.

Immigration / Border IEEPA Uses: The administration has floated invoking IEEPA for border security economic measures. Today's ruling gives adversarial states and advocacy groups a clear doctrinal pathway to challenge those measures.

Budget / Spending Authority: The Court's appetite for curbing executive overreach may embolden Congress to litigate impoundments or executive rescission of appropriated funds.

THE REFUND LITIGATION TSUNAMI

The Court directed the U.S. Court of International Trade (CIT) as the appropriate venue for refund claims from importers who paid IEEPA tariffs. Based on import data from the first year of IEEPA tariff imposition (April 2025 – February 2026), we estimate total duty paid under struck IEEPA orders potentially exceeds **$280–320 billion**, representing one of the largest potential government liability items in U.S. legal history.

The CIT refund process will be methodical, not instantaneous — think years, not weeks. However, the pipeline of claims will affect customs bond markets, logistics company balance sheets, and the Federal budget baseline immediately on a forward-looking basis.

Watch for Congressional action to *limit retroactive refund eligibility* — this is a bipartisan political backstop play regardless of party, given the fiscal implications.

§ II Multi-Strat Trading Desk — Global Asset Implications

📊 **DESK FRAMEWORK**

Markets have had ~10 months to partially price tariff uncertainty. The ruling does *not* restore a pre-tariff world — §232 and §301 remain, and the administration's §301/§232 expansion is a matter of "when," not "if." The primary trade here is

UNCERTAINTY-PREMIUM COMPRESSION

on affected trade corridors, with second-order plays in currencies, commodities, and rate spreads. JPM's pre-ruling scenario matrix assigned a 64% probability to "struck down and quickly replaced" — markets in the initial pop may be pricing an unrealistically clean resolution.

CROSS-ASSET IMPACT MATRIX

ASSET CLASS / INSTRUMENT	DIRECTIONAL BIAS	TIMEFRAME	CONVICTION	KEY DRIV
S&P 500 (SPX)	↑ Modest +0.5–1.0%	Intraday	MEDIUM	Buy-the-r pop; marg relief in ir heavy se
S&P 500 (SPX) — Forward Week	→ Fades	5–10 sessions	HIGH	Admin. §2 pivot reintrodu uncertain premium
Russell 2000 (IWM)	↑ Outperform SPX	1–3 weeks	HIGH	Domestic facing SM dispropor tariff cost
Consumer Discretionary (XLY)	↑ +1.5–2.5%	Intraday–1 week	HIGH	Direct im cost bene pricing p restored i apparel, electronic

ASSET CLASS / INSTRUMENT	DIRECTIONAL BIAS	TIMEFRAME	CONVICTION	KEY DRIV
US Steel / Aluminum (X, AA, NUE)	↓ −3–6%	Immediate	HIGH	§232 on s survives, global competiti enters on inputs
Auto OEMs (F, GM, STLA)	→ Mixed	Intraday	MEDIUM	Part-cost offset by auto §232 effect; ne short-terr
Retailers (AMZN, WMT, TGT, COST)	↑ +1–3%	1–2 weeks	HIGH	Supply ch cost normaliza pass-thro margin re
US 10Y Treasury Yield	↑ +5–12bps	Intraday–1 week	MEDIUM	Fiscal rev loss (tarif income d widens d path; infla relief part offsets
US 2Y Treasury Yield	↓ −5–8bps	Intraday	MEDIUM	Re-pricin Fed rate c probabilit supply-ch inflation premium
Yield Curve (2s10s)	↑ Steepening	1–3 weeks	HIGH	Stagflatio risk remo front-end end fisca
US Dollar Index (DXY)	↓ −0.5–1.2%	Intraday	HIGH	Tariff-pre unwind; r

ASSET CLASS / INSTRUMENT	DIRECTIONAL BIAS	TIMEFRAME	CONVICTION	KEY DRIVI
				reduces s haven flo USD
Canadian Dollar (CAD)	↑ +0.8–1.5%	Intraday	HIGH	Largest d relief: 25 goods & energy ta struck; B rate expe shifts
Mexican Peso (MXN)	↑ +0.7–1.3%	Intraday	HIGH	25% IEEF Mexico ta struck; ne shoring tl reinforce
Chinese Yuan (CNH/CNY)	↑ Mild appreciation	1–5 sessions	MEDIUM	IEEPA inc struck; §3 legacy sti 60%; PB likely stay hand
Euro (EUR/USD)	↑ +0.4–0.8%	Intraday	MEDIUM	Reciproc risk relief US 15% b deal pote renegotia lower
Gold (XAU)	↓ −0.5–1.2%	Intraday–1 week	MEDIUM	Risk-on, dip partia offset; structural central b buying p
Crude Oil (WTI / Brent)	↑ +0.8–1.5%	Intraday	MEDIUM	Canadian energy ta struck; C

ASSET CLASS / INSTRUMENT	DIRECTIONAL BIAS	TIMEFRAME	CONVICTION	KEY DRIVI
				denomina crude co: normaliza
Agricultural Commodities (Soybeans, Corn)	↑ Modest	1–2 weeks	LOW–MED	China ret: ag tariffs soften; bu regime st effect
EM Equities ex-China (EEM, VWO)	↑ +1–2.5%	1–3 weeks	HIGH	Global tra friction re DXY weal = strong l tailwind; Vietnam, beneficia
China Equities (FXI, MCHI)	↑ Mixed–Positive	Intraday	LOW	Incremen IEEPA tari removed; legacy wa remains; escalatio not zero
Volatility (VIX)	↓ Compression	Intraday–1 week	HIGH	Known ta event res vol seller: should be near-term

HIGH-CONVICTION TRADE IDEAS — NEAR-TERM (1–21 DAYS)

Long CAD / Short USD (USD/CAD Short)

LONG CAD

CONV: HIGH

Canada's 25% goods tariff and 10% energy tariff were the largest bilateral IEEPA exposure per trade volume. The CAD was demonstrably suppressed by the overhang. Immediate relief on ~70% of Canada-US trade volume is unambiguous.

Entry: near 1.4350–1.4380. Target: 1.40–1.41 within 15 sessions. Stop: 1.4500. Also consider CAD/JPY cross for carry dimension.

Long IWM / Short QQQ (Pair Trade)

PAIR TRADE

CONV: HIGH

Small and mid-caps are net importers of consumer inputs and benefit disproportionately from tariff relief. Large-cap tech (QQQ) has already partially priced out tariff overhang via supply chain diversification. The pair represents a cleaner expression of domestic import-cost relief vs. the rerating story already embedded in mega-caps.

Entry: ratio near current levels. Target: +4–6% IWM outperformance over 3 weeks. Size with 2:3 ratio to account for beta differential.

2s10s Yield Curve Steepener (Rates)

STEEPENER

CONV: HIGH

The front-end (2Y) benefits from reduced near-term inflation expectations as supply chain inputs normalize. The long end (10Y) faces mild widening pressure from the fiscal backdrop — the government loses a meaningful revenue stream projected at $250–300B/year from struck IEEPA tariffs. The curve steepener plays both dynamics simultaneously.

Express via 2Y futures long / 10Y futures short or swaps. Neutral on DV01. Duration neutral structure. Key risk: recession fears could flatten on flight to quality.

Long Consumer Discretionary (XLY / Sector Long)

LONG

CONV: HIGH

The most direct beneficiary sector. Apparel (CPRI, PVH, HBI), footwear (NKE, ONON), and consumer electronics (AAPL supply chain) all faced direct IEEPA tariff cost burdens on Chinese and Mexican manufactured goods. With those IEEPA tranches struck, gross margin recovery potential is 80–200bps for high-SKU importers within 2 quarters.

Prefer individual name selection over XLY ETF — overweight ONON, NKE, PVH within sector. Underweight auto-adjacent XLY holdings.

Short US Steel / Aluminum Producers (X, AA)

A subtle but powerful second-order effect: while §232 keeps steel and aluminum tariffs in place, the removal of IEEPA Canada/Mexico tariffs means Canadian steel (now freely competitive again on CUSMA terms) can compete more aggressively. The domestic producer "moat" narrows. Additionally, the administration's political capital for steel-sector protectionism is complicated by the Court loss.

Short X and AA on a risk-adjusted paired basis. Pair with long Cleveland-Cliffs (CLF) mini-hedge to isolate the Canada reentry dynamic vs. domestic integrated producers.

SHORT

CONV: MED-HIGH

Short VIX (Vol Compression) — Tactical

SHORT VOL

CONV: HIGH

Known event risk is now resolved. The market spent months pricing an unknown binomial outcome (ruling vs. no ruling). That vol premium collapses today. VIX is likely to drift toward its 30-day realized vol floor as the "replacement tariff" risk is more diffuse and slower-moving (§301 investigations take 6–12 months; §232 requires 270-day DoC process).

Sell front-month VIX calls or enter short VIX futures. Tight stop above any Trump escalation press conference or surprise executive action. Maximum 5 session hold — this is a tactical, not structural, vol short.

Long EM ex-China ETF (EEM / VWO / Select Names)

LONG EM

CONV: HIGH

The convergence of DXY weakness, removal of reciprocal tariff overhang on EM trading partners (Vietnam, India, Indonesia, Thailand), and improved global trade sentiment creates a meaningful tailwind. Vietnam in particular had faced 46% IEEPA reciprocal tariffs — their removal is transformational for FDI and export competitiveness. India, ASEAN broadly benefit from trade diversion dynamics remaining intact under normalized tariff regime.

Long EEM or VXUS (ex-US all world). Pair with short DXY for currency give-back hedge. Overweight Vietnam exposure (VNM ETF). Hold through month-end rebalancing.

KEY RISKS TO THE THESIS

SWIFT §232 EXPANSION

If the Trump admin moves within days to launch new §232 investigations using national security declarations covering Canada, Mexico, and "allied" goods — markets partially re-price trade uncertainty. Probability: 65% within 30 days.

CONGRESSIONAL TARIFF AUTHORIZATION

A fast-tracked bill granting broad tariff authority to the President — even if not immediately passable — changes the political risk calculus and caps the rally in tariff-sensitive names.

CHINA RETALIATORY ESCALATION

Beijing may view the ruling as an opportunity to test the administration's resolve with new retaliatory measures. §301 tariffs on China remain intact — China could respond to that continuation with commodity export controls (rare earths, germanium, gallium).

FISCAL / BUDGET DEFICIT RE-PRICING

IEEPA tariff revenue was not baked into the baseline CBO projection — but deficit hawks and bond markets will note the $250–300B/year revenue hole. 10Y yields could gap wider on fiscal concern, capping equity multiple expansion.

REFUND CLAIM PIPELINE SHOCK

If customs refund litigation moves faster than expected and the CIT issues broad injunctive relief for interim refund processing, the

EXECUTIVE NON-COMPLIANCE SIGNAL

If the Trump administration signals it will delay implementation or use creative executive maneuvers to immediate fiscal liability recognition could cause a Treasury market dislocation.

resist the ruling (historically unprecedented but not inconceivable), a constitutional crisis premium would enter all markets.

MACRO REGIME CONTEXT — WHERE DOES THIS FIT THE BIGGER PICTURE?

This ruling does not eliminate the tariff regime — it *architecturally restructures it*. The process-based constraints of §232 and §301 translate to: (1) **slower implementation**, (2) **more vulnerable to challenge**, and (3) **more narrow in scope** than IEEPA's blank-check emergency model. For markets, this is net positive for the medium-term inflation outlook.

The **Fed's calculus shifts modestly at the margin.** The IEEPA tariff complex was the primary driver of the "bad inflation" (cost-push, no growth premium) that prevented the FOMC from cutting in Q1 2026. With that complex partially dismantled, Warsh and the FOMC have more optionality — though structural §301 China tariffs at 25–60% remain a persistent inflation floor for import categories that constitute roughly 15% of core goods CPI.

DXY secular trend: The tariff-driven USD have had a unique prop — the view that trade surpluses would be forcibly restructured toward the U.S. That narrative softens today, aligning with MUFG's 2026 forecast for a weaker dollar driven by Fed optionality and reduced safe-haven demand. EUR, CHF, and JPY all likely gain structurally as the USD's "trade fortress" premium deflates.

Commodities and energy: The Canadian energy tariff removal is the sharpest direct commodity signal. WCS (Western Canadian Select) crude — which trades at a structural discount to WTI — compresses. Canadian natural gas flows normalize. Midstream operators (ENB, TRP) recover. Long WCS vs. short WTI is a clean, near-term commodity spread play.

📈 30-DAY SCENARIO TREE

BULL (30% PROB):

Admin takes measured approach to §232 expansion; Congress fails to quickly craft new authorization; markets price a durable tariff relief window. SPX +3–5%, DXY −2%, EM equities +5–8%, CAD +3%.

BASE (50% PROB):

Admin immediately pivots to §232/§301 expansion, partial re-tariffication within 60–90 days slows but doesn't reverse relief. SPX +1–2%, DXY −0.5%, EM +2–3%, CAD +1.5%.

BEAR (20% PROB):

Executive confrontation signals / Congress fast-tracks broad tariff authorization / China retaliates on rare earths. Constitutional crisis premium enters. SPX −2–4%, VIX +20–30%, gold +3–5%, USD mixed.

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 Sources: SCOTUS opinion (Feb 20, 2026), SCOTUSblog, Thompson Hine Smart Trade, JPMorgan scenario matrix, MUFG FX Research, EY Trade Advisory, BrookingsInstitution, CRFB, Morningstar, CBO.