

## US Viewpoint

## Remember, remember the 5th of November

**IEEPA tariffs face the highest court**

The Supreme Court will hear oral arguments on the legality of tariffs imposed under the International Emergency and Economic Powers Act (IEEPA) today. These tariffs account for about 9.5pp of our estimated 14.7pp effective tariff rate after the reduction in fentanyl tariffs on China. Therefore, the Supreme Court's decision could have important implications for activity, inflation, deficits, debt, interest rates, and the dollar.

**If reversed, we expect lower tariff rates & higher deficits**

If the Supreme Court reverses some or all IEEPA tariffs, we would expect the administration to turn to other trade authorities (Sections 122, 232, and 301) to limit the loss in revenue. Still, we would expect the effective tariff rate to settle 3-5pp below current levels. That would lift deficit-to-GDP ratios by 0.2-0.4pp on average, excluding the effect from tariff refunds, compared to our current forecast.

**Near term: upside risk to growth, downside to inflation**

We see an unlawful ruling for all/some IEEPA tariffs as a slight positive for near-term growth. Refunds and lower tariffs would be a positive fiscal impulse that would be offset in part by increased uncertainty. Inflation, meanwhile, would likely be softer than we expect due to fewer supply-driven factors, although the positive fiscal impulse could generate more demand-driven inflation.

**Rates: IEEPA decision risks cheaper long end**

IEEPA tariff reversal would imply cheaper 30y USTs due to higher deficits. UST can lean on bills but higher deficits pull forward timing of coupon growth. We would expect modest 30y spread tightening (< 5bp) given what may already be priced. More tightening could result from sentiment shift given the historical relationship of spreads to supply.

**FX: a potential net-negative for USD**

Our base case is for the net effect of greater uncertainty coupled with less upside inflation risks and greater fiscal challenges as being net-negative for the USD, but with a high margin of error. The USD has seemingly found some form of equilibrium with the current state of tariffs, resulting in potential downside risks as uncertainty rises. Over time, one could argue this result would be USD supportive on the basis of greater US institutional resilience/independence and less power concentration in the executive branch. However, we would not expect that to be a first order driver of price action.

05 November 2025

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## US economics: Elevated tariffs even without IEEPA

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The Supreme Court’s hearings on IEEPA tariffs start today. While there will not be a decision today (December is likely the earliest), we should learn more about how each justice views the case. If some or all IEEPA tariffs are reversed, we would expect the administration to use other trade authorities to limit the decline in effective tariff rates.

On net, an adverse ruling for IEEPA tariffs would likely be a slight positive for near-term growth owing to refunds and a lower effective tariff rate, although elevated uncertainty and slightly higher rates would be offsets. Meanwhile, inflation could come in below our current forecast due to less supply-driven inflation, but that would be limited by more demand-driven inflation owing to a more positive fiscal impulse.

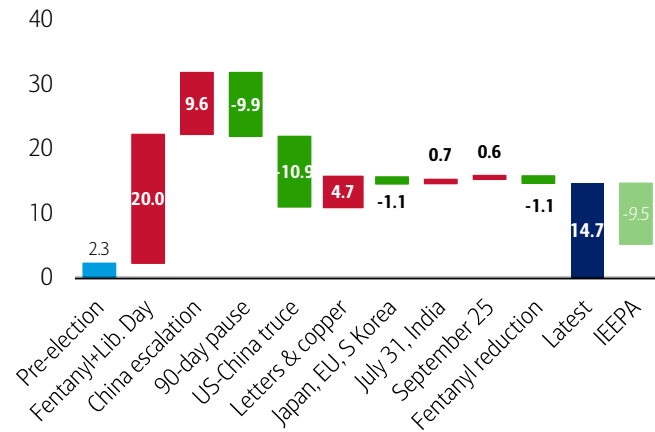
### All eyes on the court

The Supreme Court will hear oral arguments for and against the legality of tariffs imposed using the International Emergency and Economic Powers Act (IEEPA) today. In this note, we refine our views from previous notes on the topic (See: [US Economic Viewpoint: Tariffs: one way to shrink the deficit 15 September 2025](#) and [US Economic Viewpoint: IEEPA tariffs: What if? 16 September 2025](#)).

The court’s decision could have broad-sweeping implications for activity, inflation, Fed policy, rates and the dollar. This is because IEEPA accounts for 9.5pp of the 14.7% theoretical effective tariff rate. Therefore, it should come as no surprise that IEEPA tariffs accounted for 45% (\$89bn) of customs duties, fees and taxes collected in FY 25 despite being in place for only part of the year (Exhibit 2).

**Exhibit 1: After a period of volatility, we estimate the effective tariff rate stands at 14.7%, of which 9.5pp is due to IEEPA actions**

Evolution of theoretical US effective tariff rate (%)

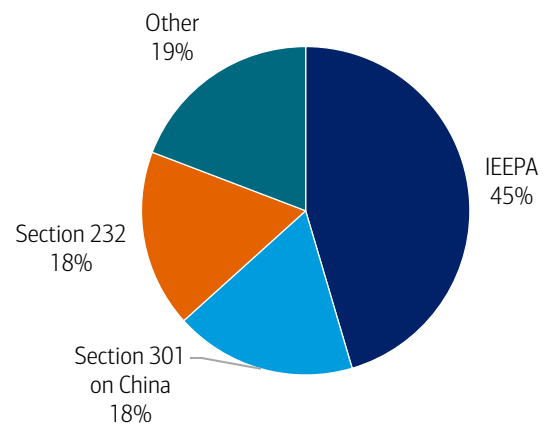


**Source:** BofA Global Research, Haver. Note: 90-day pause includes the electronics exemption. US-China truce includes UK deal. July 31, India includes Vietnam and Indonesia deals. IEEPA ruling assumes fentanyl/reciprocal tariffs are deemed invalid and trade deals are renegotiated upon

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**Exhibit 2: IEEPA accounted for 45% of customs duties, fees and taxes collected in FY 25**

Breakdown of FY25 customs revenue by major trade action (%)



**Source:** Customs and Border Patrol

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### Wednesday hearings will shed light on Justices’ views

The Supreme Court has taken this case on an expedited basis after the Court of International Trade and the U.S. Court of Appeals at the Federal Circuit found that IEEPA did not allow for tariffs. The court is set to hear from both sides today (Nov 5). There will not be a decision today, but we do think we will gain some valuable insight into how



each justice views the case. Outside experts have recommended that we pay close attention to Justice Roberts and Justice Barrett, as either could be the swing vote.

### **Legality: is it a tax, or is it a national emergency**

According to legal experts, there are three central issues to the case. The first is whether IEEPA grants the power to tariff or not. The second is whether broad-based tariffs are akin to a tax, a power that constitutionally rests with Congress. The third is whether the court has the power to decide what is and is not a national emergency, a decision that traditionally lies with the executive branch.

### **Timing: anyone's guess, but likely faster than normal**

Outside experts have suggested that December would be the earliest a ruling could be handed down. The court has taken up this case faster than it normally does, which suggests a ruling may be expedited too. But this is a significant case, and legal experts have suggested to us that many of the justices would want to publish their own opinions. That could slow things down, so a decision may not come until early next year. Either way, the court is likely to give at least one day of notice when it has reached a decision.

### **Three potential rulings by the court**

Legal experts generally see three potential outcomes for the case: (1) like the lower courts, the Supreme Court could rule that IEEPA does not allow for tariffs; (2) the court could find some middle ground, such as judging that some tariffs are legal (e.g., fentanyl) but others are not (e.g., reciprocal); or (3) the court could defer to the executive branch and its power to determine what is and is not a national emergency.

Only the first two outcomes would affect our outlook, and the effects would depend on the administration's response and where the effective tariff rate would settle in each.

### **Expectations if all or part of IEEPA tariffs are struck down**

To calculate the economic effects of a ruling that strikes down some or all IEEPA tariffs, we first need to make some assumptions.

#### **1) The administration will turn to other trade authorities**

It has always been our assumption that the administration will turn to other trade authorities if IEEPA tariffs are reversed (Exhibit 3). We believe the administration will want to guard against losing too much tariff revenue and values the leverage tariffs have given it in negotiations.

#### **Immediate response: A 15% tariff using section 122 to buy time**

Based on conversations with outside experts, we think the administration will most likely turn to Section 122 immediately following an adverse ruling. This allows for a broad-based tariff of up to 15% to be put in place for a maximum of 150 days. At the end of this period, the tariffs expire unless they are extended by an act of Congress.

Section 338 may seem more useful than Section 122 because the former allows for tariffs up to 50%, with no expiry date. But we do not think the administration will use it since it will be harder to meet the legal justification. For 338 to be employed, the US needs to have been unfairly discriminated against compared to other countries. Since most countries apply the same trade enforcements and tariffs to most trading partners, it would be hard for the US to argue it has been discriminated against relative to others.

#### **After 122: Section 232 likely to be the primary tool to implement tariffs**

During the 150-day period that Section 122 is in place, we would expect the administration to conclude ongoing Section 232 investigations (Industrial Machinery & Robotics, PPE (personal protective equipment) and medical consumables and equipment, wind turbines, polysilicon, drones, semiconductors and aircraft). We assume that tariff rates for these investigations would be announced at 25% and that the US would no



longer exclude consumer electronics and apply tariff rates of 25% to computers and communication equipment.

It's possible that the administration could decide to leave these goods exempt from tariffs given the impact on the consumer and instead target other goods (e.g., chemicals ex pharma) and/or countries. The upshot is that the White House can rely on Sections 232 and 301 to prevent a steep drop in the effective tariff rate after Section 122 tariffs expire.

**Exhibit 3: If the Supreme Court finds IEEPA tariffs illegal, the White House could likely use other trade authorities to enact tariffs**

Statutory authorities that the executive branch can use to impose tariffs

	<b>Section 232</b>	<b>Section 201</b>	<b>Section 301</b>	<b>Section 122</b>	<b>Section 338</b>
Subject Matter	Threats to national security	Injury to domestic industry	Trade agreement violations; certain other practices	International payments problems	Discrimination against U.S. commerce
Agency Required to Make Findings	Secretary of Commerce	ITC	USTR	None	None
Limit on Duration of Action	None	4 years; may be extended to 8 years in total	4 years; may be extended with no upper limit	150 days	None
Limit on Tariff Rate	None	50%; note phasedown requirement	None	15%	50%
Selected Tariff Examples	Steel and aluminum, 2018–;	Solar cell products, 2018–2026	Certain imports from PRC, 2018–	Never used to impose tariffs	Never used to impose tariffs

**Source:** Compiled by CRS based on U.S. Code and CRS analysis of selected tariff actions

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## 2. Uncertainty over fate of deals, but we assume they are voided

We have had mixed responses from legal experts on what an unlawful ruling from the Supreme Court would mean for trade deals. Some think that the deals would be voided since they rely on IEEPA and they are not yet fully fledged. Others think that since Congress has delegated authority to the president to negotiate trade deals, the deals could remain in place.

Certain countries may also prefer to maintain the negotiated trade deals instead of facing higher sectoral tariffs. In our analysis, we assume the trade deals would be voided. But we admit this is a risk to our takeaways that could result in lower tariff rates than we estimate below.

## 3. Timing of ruling: we assume January, but it could be earlier or later

The Supreme Court is operating at warp speed by its standards. Experts have suggested a ruling could come as early as December, and if not then early next year. We assume the ruling will be handed down in January. The timing matters for two reasons: (1) it affects the size of potential refunds; and (2) it determines when we move from IEEPA to 122, and from 122 to 232 tariffs in our projections.

## A reversal of IEEPA tariffs = lower tariff rates...

Given these assumptions, we estimate the effective tariff rates for each of the two scenarios where some or all IEEPA tariffs are found to be unlawful.

### Scenario 1: All IEEPA tariffs are reversed

The effective tariff rate would fall by around 3pp during the transition from IEEPA to 122 tariffs. Then when 122 expires, our assumptions mean a further decline of the effective tariff rate by ~2pp.

### Scenario 2: Fentanyl tariffs remain, reciprocal are reversed

We would expect the effective tariff rate to fall by ~1.5pp during the 122 period, and then decline by another 1pp after 122 expires.



The upshot is that in each scenario, the effective tariff rate would decline but only by about 2.5-5pp, which would leave tariff rates elevated. Admittedly, the risks to these estimates are likely skewed to the downside.

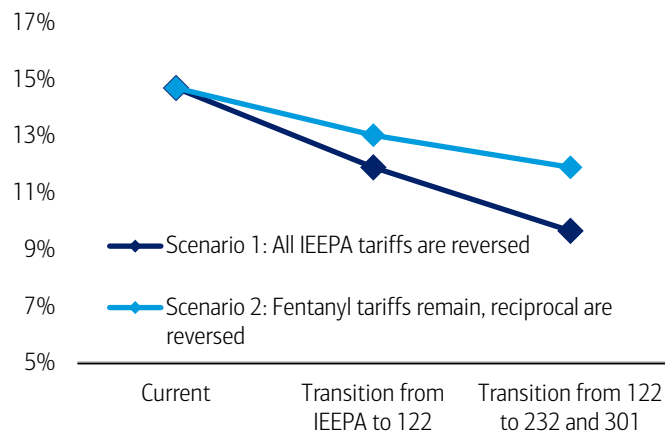
**...higher deficits and higher debt to GDP...**

Given the decline in effective tariff rates, deficits should be higher relative to our baseline in both scenarios (Exhibit 5). In terms of the cumulative impact, we would expect scenarios 1 and 2 to increase deficits over the FY 26-FY 35 period by \$1.3tn and \$800bn, respectively.

The largest change to the deficit is in FY 26 since we assume refunds would be paid out in a fairly timely fashion. Excluding refunds, scenarios 1 and 2 would lift deficit-to-GDP ratios by an average of 0.4pp per year and 0.2pp per year, respectively. Debt-to-GDP in FY 35 would be about 3pp above the baseline in scenario 1 and around 1.8pp higher in scenario 2, which may not be enough to mark a notable shift in bond buyer sentiment.

**Exhibit 4: If the Supreme Court finds some/all IEEPA tariffs to be illegal, then the effective tariff rate should decline from its current level**

US effective tariff rate on goods imports (%)

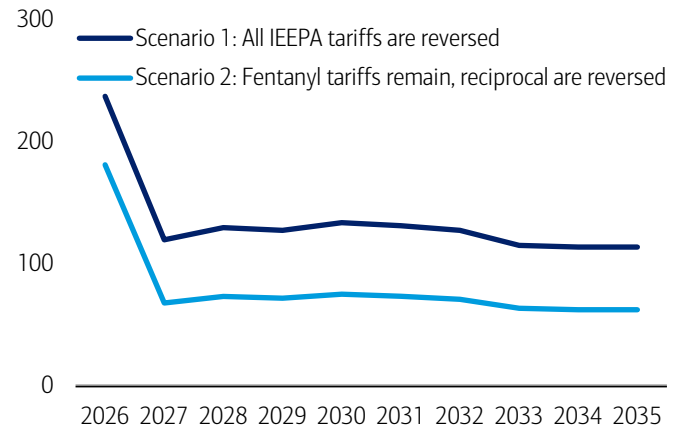


Source: BofA Global Research

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**Exhibit 5: If the Supreme Court reverses some/all IEEPA tariffs, then deficits we expect persistently higher deficits**

Change in deficit based on potential scenarios if the Supreme Court reverses some or all IEEPA tariffs (\$bn, FY)



Source: BofA Global Research

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**...Small positive for near-term growth**

If the tariffs are fully or partially struck down, there would be positive and negative effects on near-term growth. A positive fiscal impulse due to the decline in the effective tariff rate and refunds would be the primary positive for growth. In our first scenario, the impulse in FY 26 could be up to seven-tenths of GDP, and closer to four-tenths in FY 27+. This should lead to greater nonresidential investment and potentially hiring.

On the negative side, uncertainty is likely to spike in response to the ruling and remain elevated until clarity emerges on the profile of Section 232 and 301 tariffs. Additionally, the yield curve may steepen in response to higher deficits, although this may not be significant based on our two scenarios given a modest rise in debt-to-GDP ratios.

On net, we think the impulse from refunds and a lower tariff rate is likely to outweigh uncertainty and higher borrowing costs in the near term. Therefore, growth over the next couple of years could end up higher if IEEPA tariffs are ruled illegal than if they remain in place. In the long run, higher deficits should put modest downward pressure on growth through crowding-out effects, but less restrictive trade may offset this drag.

For inflation, we see a full or partial reversal of IEEPA as likely a small downside risk to our near-term outlook. We would expect to see less supply-driven inflation in the near term as businesses get margin relief through refunds and lower tariff rates. However, the risk is that the stronger fiscal impulse leads to more demand-driven inflation, which could prove more persistent.



**Bottom line:** The administration's ability to pivot to other trade authorities in the absence of IEEPA limits the risks to our growth, inflation, and deficit outlooks.



## US rates: IEEPA decision risks cheaper long end

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## SC decision against IEEPA tariffs= cheaper USTs

The IEEPA tariff ruling creates upside risk to UST rates and downside risk to swap spread. Lower tariff revenue and potential refunds would mean higher deficits and more UST supply. The rates response could be mainly via cheapening of longer-term USTs on asset swap rather than a response to market pricing of Fed path. We detail below how we dimension the UST supply impact based on the two different scenarios for IEEPA tariff SC decisions outlined above.

### Higher bills today, more coupons in FY 28 & beyond...

We anticipate that UST will increase bill supply in coming fiscal years as discussed in [November Refunding Preview](#). While this postpones additional duration supply, higher deficits pull forward timing of eventual coupon auction size growth. In Exhibit 6, we show estimated additional bill vs coupon supply under scenarios where all IEEPA tariffs are deemed unlawful (Scenario 1) and where fentanyl tariffs remain, but reciprocal tariffs are reversed (Scenario 2).

We assume that UST funds the tariff refunds through bills and the lower effective tariff revenue over 10y through a split between coupons and bills. In Exhibit 6 we average funding path for 50/ 50 bills/ coupons split and 20/ 80 bills/ coupons split. While 20/ 80 split is more consistent with 10y funding composition history, UST may decide to lean more heavily on bills. In the case where all IEEPA tariffs are deemed unlawful, coupon supply shock vs base case equates to around \$770bn over 10y. In case the where fentanyl tariffs remain legal and reciprocal is reversed, 10y coupon shock would equate to roughly \$440bn using our estimates.

#### Exhibit 6: Supply impact of different IEEPA tariff scenarios vs deficit base case (\$bn)

In the case where all IEEPA tariffs are deemed unlawful, coupon supply shock vs base case equates to around \$770bn over 10y (Scenario 1). In case where Fentanyl tariffs remain legal & reciprocal reversed, 10y coupon shock equates to roughly \$440bn using our estimates (Scenario 2).

	Scenario 1		Scenario 2	
	Bills	Coupons	Bills	Coupons
Refunds (100% bills)	170	0	128	0
Lower effective tariff over 10y (50% bills; 50% coupons)	589	589	337	337
Lower effective tariff over 10y (20% bills; 80% coupons)	236	943	135	539
Assumed 10y total (refunds + average of effective tariff funding paths)	583	766	364	438

Source: BofA Global Research

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## Back-end spreads tighter on more supply

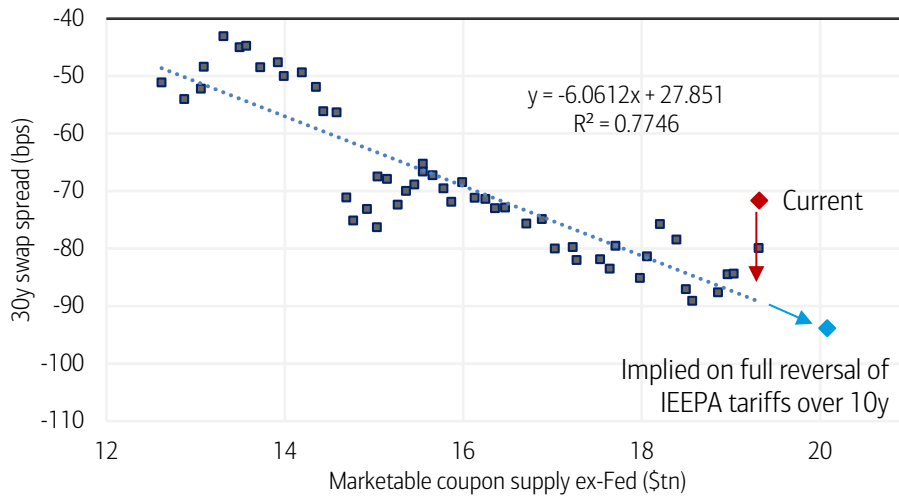
Historically we see a strong relationship between 30y swap spreads and coupon supply to the public (Exhibit 7). The data imply a 6bps spread decline (higher 30y Treas rate vs swaps) per \$1tn increase in marketable coupon supply. This relationship implies a 4.5bps spread move on \$766bn more coupon supply. Polymarket implied probability of a Supreme Court ruling in favor of tariffs is about 38%, so lower effective tariff revenue may be somewhat expected. Therefore, we could see a more muted move than historical relationships imply. We might guess a full reversal of IEEPA tariffs = 4.5ps \* roughly



40% probability for ruling for tariffs implies around 1.8bps cheapening in 30-year spreads.

**Exhibit 7: 30y swap spread & marketable coupon supply ex-Fed**

Strong historical relationship between 30y spreads & coupon supply



Source: BofA Global Research, Bloomberg. Note: data shown monthly since July '21; Implied on full reversal of IEEPA tariffs over 10y adds \$1tn to end FY '25 marketable coupon supply and applies relationship depicted to approximate 30y spread level

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Spreads currently appear rich vs the relationship to public coupon supply (Exhibit 7). This richening has likely been driven by factors including: expectations of reduced Treasury WAM, demand for carry amidst lower vol, reduced long-end corporate supply, a repositioning away from bearish long-end spread views, smaller deficit forecasts, and for now, greater UST funding through bills. If we layer a correction to the historical relationship, perhaps driven by a sentiment shift on “bond vigilante risk,” a more extreme move could be warranted (Exhibit 8).

**Exhibit 8: Potential 30y impact from IEEPA tariffs (bps)**

30y spread beta probability weighted implies 1-2bps higher 30y rates but larger cheapening possible on correction to historical supply relationship

	Spread beta-implied	Probability weighted beta	Correction to historical relationship
Scenario 1	4.6	1.8	22.0
Scenario 2	2.6	1.1	20.0

Source: BofA Global Research

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**Two-way risk for Fed/ OIS pricing**

We think the larger risk for rates repricing is related to asset swap spreads, as we see more two-way/ muted risk to implied Fed path. On the one hand, lower effective tariff risks imply stronger growth. On the other, it suggests lower risk of inflation. The market might imply higher policy rates near term given the Fed’s capacity to look through tariff-related inflation and focus on labor weakness as a motive for recent cuts. We also still see the market largely long rates, and so, positive growth impact may be more pronounced. (see: [What de-dollarization?](#)).

**Bottom line on rates:** IEEPA tariff reversal implies cheaper 30y USTs vs swaps due to higher deficits and larger supply. Near term, UST can lean on bills but higher deficits on lower tariff revenue pull forward timing of coupon growth. We expect relatively muted 30y spreads impact (< 5bp) given what may be already priced. However, larger impact could result should sentiment shift and levels correct to where the historical relationship to supply suggests.



# FX: IEEPA ruling: a winter surprise?

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The upcoming Supreme Court ruling on the International Emergency Economic Powers Act (IEEPA) tariffs will be a key focal point for FX markets. However, the timetable for this is murky. The case is set to be argued before the SC on November 5<sup>th</sup>, but it could take months for the final ruling to be announced.

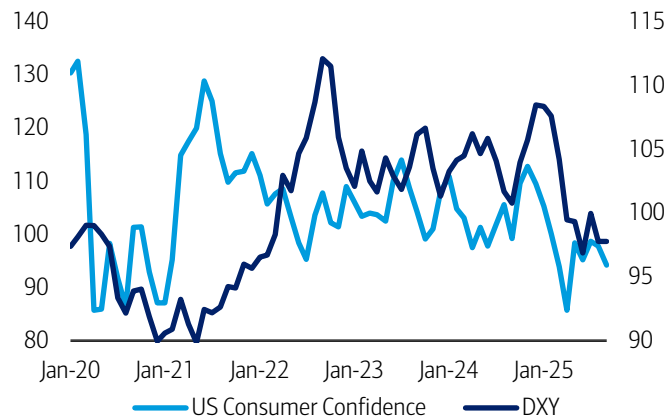
If these tariffs are upheld, it would likely be interpreted as mostly status quo for markets, though some short-term event-related volatility would be expected. If the administration receives an unfavorable ruling, the implications are less clear. Beyond the obvious practical challenges of refunding tariff revenue, we see several, and mixed, factors for the USD.

## USD positive aspects of IEEPA tariffs being struck down

- Windfall for US corporates. While the process of identifying and refunding tariffs paid by US corporate importers would be messy, it would ultimately be analogous to a corporate tax cut to the importers who have been paying the tariffs already. This could support business investment and labor market conditions on the margin.
- Relatedly, this could ultimately improve business and consumer confidence, which was one component of the USD's added risk premium from "Liberation Day" (Exhibit 9).
- Strengthening US institutional credibility and independence. This is more of a longer-term (and less tangible) factor than a near-term one, but such an event would challenge the more structural concerns related to longer-term demand for US assets that percolated around "Liberation Day".

**Exhibit 9: A rise in US consumer confidence could boost USD**

Consumer Confidence & the DXY index



Source: Bloomberg; BofA Global Research

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**Exhibit 10: Trade uncertainty on the rise, but well below Q2 peak**

Bloomberg Global Trade Uncertainty Index



Source: Bloomberg; BofA Global Research

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## Potential USD negative aspects

- Despite the factors above, a ruling against IEEPA tariffs would likely increase (not decrease) overall trade uncertainty (Exhibit 10). It is unclear how long or in what form the revenue refunds would occur, what form the presumed "replacement" tariffs would take, and how long the process could take. This again could have a

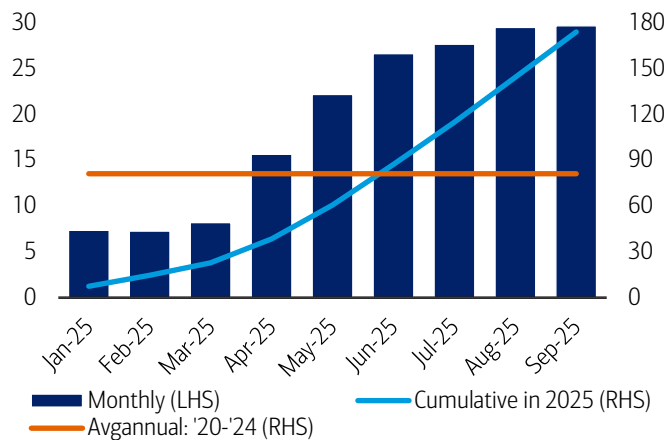


chilling effect on business decisions on investment and hiring. In April, this was a clear USD-negative driver.

- If the effective tariff rate were to be reduced, this would undercut some aspect of Fed’s sticky inflation outlook. To the extent that some of the more hawkish FOMC members cite tariff passthrough as a reason to resist a more aggressive cutting cycle, this could pave the way for an even greater emphasis on labor market risks by committee members.
- Refunding tariff revenue would put further pressure on the fiscal outlook. So far this year, the US government has reported ~\$175bn in customs receipts (Jan-Sept), compared to an average annual intake of ~\$80bn. (Exhibit 11) A reversal of this would add directly to the deficit. Intensifying fiscal concerns this year have driven bouts of back-end UST curve steepening, which has correlated negatively with the USD (Exhibit 12).

**Exhibit 11: Tariffs have resulted in substantial revenues for the US government this year**

Customs receipts (\$bn) in 2025: monthly and cumulative vs. '20-'25 average annual

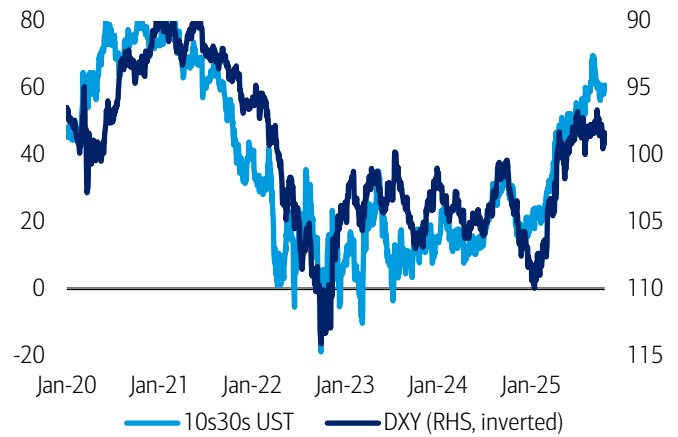


Source: Bloomberg; BofA Global Research

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**Exhibit 12: Steeper UST curves have been associated with USD weakness on fiscal concerns**

10y30y UST curve & DXY index



Source: Bloomberg; BofA Global Research

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**Bottom line: Adverse IEEPA ruling = net-negative for USD but low**

It is difficult to say exactly how to weigh the above factors in terms of FX impact. Base case, we would envision the net effect of greater uncertainty overall coupled with less upside inflation risks and greater fiscal challenges as being net-negative for the USD, but with a high margin of error. The USD has seemingly found some form of equilibrium with the current state of tariffs, resulting in potential downside risks as uncertainty rises. Over time, one could argue this result would be USD supportive on the basis of greater US institutional resilience/independence and less power concentration in the executive branch. However, we would not expect that to be a first order driver of price action.



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