

What the Recent Supreme Court Tariff Ruling Means for Invested Capital

Kroll Economics provides geoeconomic modeling to clarify how the decision reshapes risk and opportunity.

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The recent U.S. Supreme Court decision curtailing the use of the International Emergency Economic Powers Act (IEEPA) to impose broad based tariffs has marked a turning point in U.S. trade policy, removing the legal foundation for a large share of the tariff regime that has shaped global trade flows since 2025. Most notably, the IEEPA based “reciprocal” tariffs applied across most trading partners, along with the IEEPA “trafficking/fentanyl” tariffs imposed on Canada, Mexico and China, lost their legal footing and were ordered to be terminated “as soon as practicable.”

By contrast, Section 232 national security tariffs, covering key sectors such as steel and aluminum (50%), autos and auto parts (25%), copper (50%), timber and lumber (10%), and certain semiconductors (25%), were unaffected by the ruling and therefore remain in force as the durable hard core of the U.S. tariff wall.

To replace the lost IEEPA wide coverage, the President moved immediately to Section 122, issuing a proclamation imposing a temporary import surcharge initially reported at 10%, subsequently raised to 15% and then reduced again to 10%. These are scheduled to remain in place for 150 days unless extended by Congress.

As highlighted by Kroll’s Trade and Customs Team in its guidance on the Court’s tariff decision ([Kroll Trade and Customs Guidance on Supreme Court Tariff Decision](#)), the ruling does not signal an end to protectionism but instead forces a strategic recalibration of how tariffs can be deployed within the bounds of U.S. law.

Modeling the Trade Policy Pivot

Kroll’s Goeconomic Scenario Modeling takes major geopolitical developments and turns them from qualitative narratives into quantitative estimates, using our global economic model to trace impacts from the macroeconomy through supply chains, prices, production and incomes worldwide. In this case, we focus on a major shift in U.S. trade policy triggered by the Supreme Court decision.

Our counterfactual (“business as usual”) assumes the pre decision tariff settings remain in place through 2026. The post decision case we examine (the “Kroll Tariff Scenario”) assumes:

The IEEPA based “reciprocal” and “trafficking/fentanyl” tariffs are removed and replaced with a 10% import surcharge implemented under Section 122.

The Section 122 surcharge is assumed to persist beyond the initial 150 day window and remain in place for all of 2026, reflecting an effort to sustain tariff revenue and policy leverage.

Section 232 national security tariffs remain unchanged.

Under this scenario, the aggregate headline merchandise tariff falls by **9 percentage points** (over a third of the pre decision rate), marking a significant easing in U.S. trade protection. The reduction is not larger because the Court removed only the countrywide tariff layer. The sectoral measures remain in place, meaning the Section 232 tariff wall is intact. Additionally, the 10% surcharge restores part of what is lost for other goods in 2026.

This scenario isolates the tariff shift itself; it does not incorporate potential tariff refunds, the unwinding of trade deals negotiated since April 2025 or retaliation by trading partners.

Impacts on the U.S. in 2026

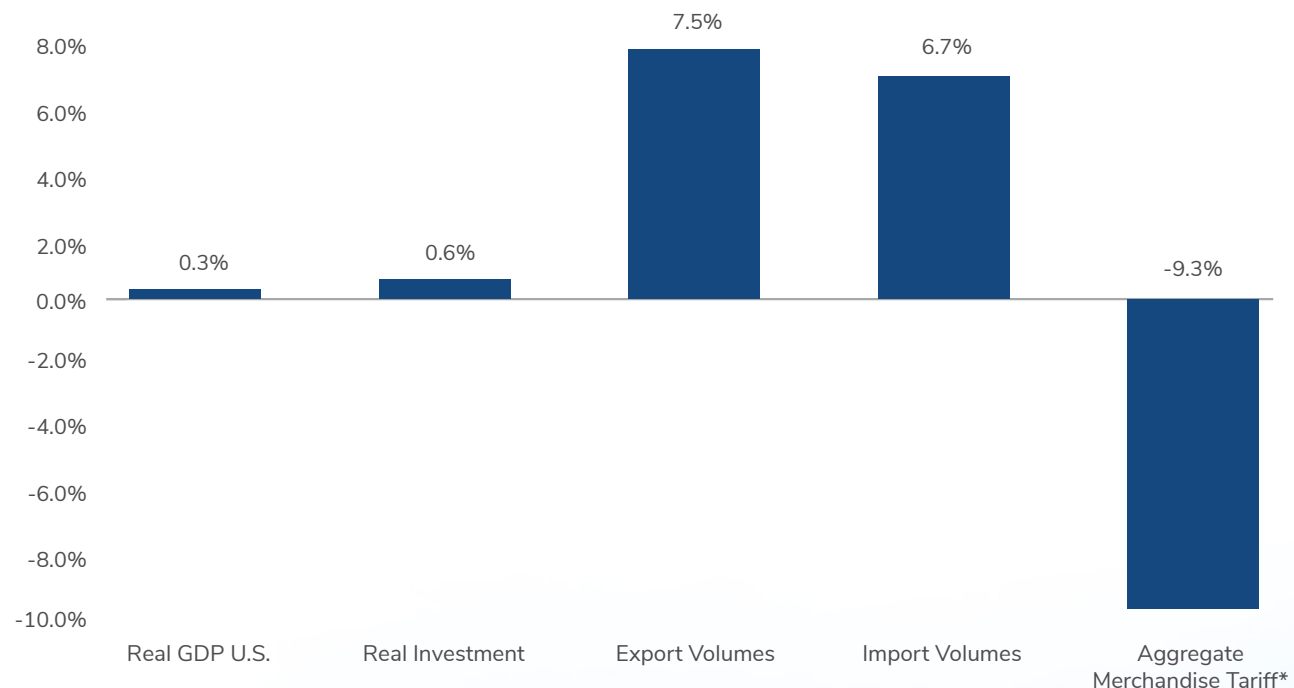
In the short run, most credible estimates suggest that President Trump's 2025 tariff program weighed on U.S. economic growth in the short run by roughly 0.4–0.5 percentage points as higher import and input costs affected consumption, investment and trade during the initial adjustment phase.

For example, the Congressional Budget Office concluded that the 2025 tariff increases would reduce the size of the U.S. economy over time and lift inflation in the near term ([Budgetary and Economic Effects of Increases in Tariffs Implemented Between January 6 and May 13, 2025 | Congressional Budget Office](#)), reflecting channels such as weaker investment and productivity. Similarly, The Budget Lab at Yale University ([State of U.S. Tariffs: October 17, 2025 | The Budget Lab at Yale](#)) estimated that the 2025 tariff package lowered U.S. real GDP growth by roughly 0.5 percentage points in both 2025 and 2026 under its baseline assumptions.

In our scenario, replacing the pre decision tariff structure with a 10% Section 122 surcharge (while keeping Section 232 sectoral tariffs unchanged) eases but does not eliminate those headwinds. In 2026, U.S. real GDP growth is projected to be 0.3 percentage points higher than in the pre decision baseline, alongside a 0.6 percentage point lift in real investment growth. This implies that under the base case, U.S. economic growth was predicted to be 2.3%¹ in 2026, but after the decision the growth rate is projected to rise to 2.6%.

Trade volumes respond more strongly than GDP, as is typical in trade shocks, with the growth in export volumes rising by 7.5 percentage points and import volume growing by 6.7 percentage points, reflecting a partial reopening of market access and lower effective input costs even while high sectoral protection remains in place.

Impact of Kroll Tariff Scenario on the U.S. in 2026



Source: Kroll Economics modeling

*Aggregate merchandise tariff is the trade-weighted change in tariffs on goods coming into the U.S.

¹ S&P January 2026 forecast

Impacts on U.S. Trading Partners

The benefits of the Supreme Court decision are uneven across U.S. trading partners. Countries that had been explicitly targeted by the IEEPA “trafficking/fentanyl” tariffs—Canada, Mexico and China—are the largest short term beneficiaries, as they experience the most substantial reductions in the effective average tariffs applied to their exports to the U.S. market. In our scenario, these reductions (presented as positives in the figure that follows) range from around 10% for Mexico to more than 19% for Canada, driving a partial reopening of U.S. market access and lifting exports and real GDP in 2026. Canada, the largest beneficiary, is projected to see their real GDP growth rate increase by around 0.27 percentage points compared with the pre-decision scenario.

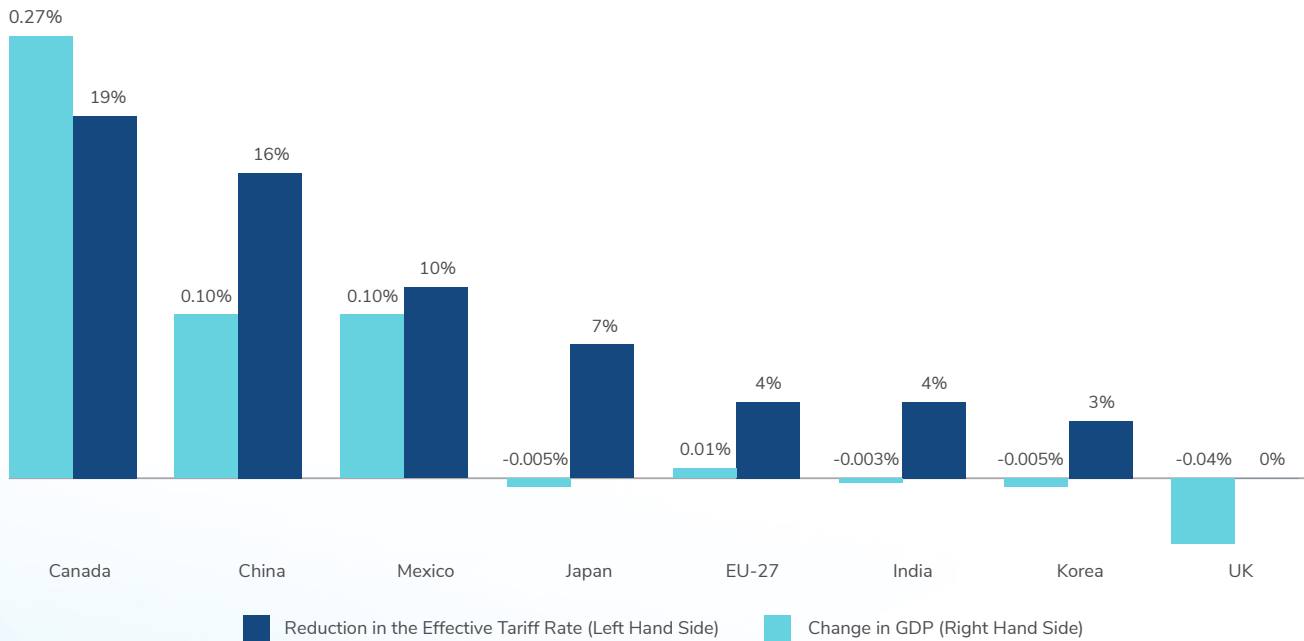
The gains for these countries are matched by milder impacts elsewhere. Trading partners such as the EU, India, Japan and Korea experience fewer material reductions in their effective tariff rates under current settings and

instead lose competitiveness in the U.S. market as Canada, Mexico and China regain share. As a result, these economies see small reductions or no change in the rate of real GDP growth in 2026.

The UK is a notable outlier. Despite having secured a relatively preferential trade arrangement with the U.S., the introduction of a uniform 10% Section 122 surcharge erodes part of that advantage, raising the UK’s average effective tariff and resulting in a projected 0.04 percentage point reduction in real GDP growth rate in 2026.

Overall, the pattern of results reflects trade diversion rather than broad based liberalization: the removal of IEEPA enforcement tariffs reshuffles access to the U.S. market, benefiting previously targeted partners at the expense of those whose relative position deteriorates.

Impact of Kroll Tariff Scenario on the U.S. in 2026



Source: Kroll Economics modeling

Impacts on Key Commodities

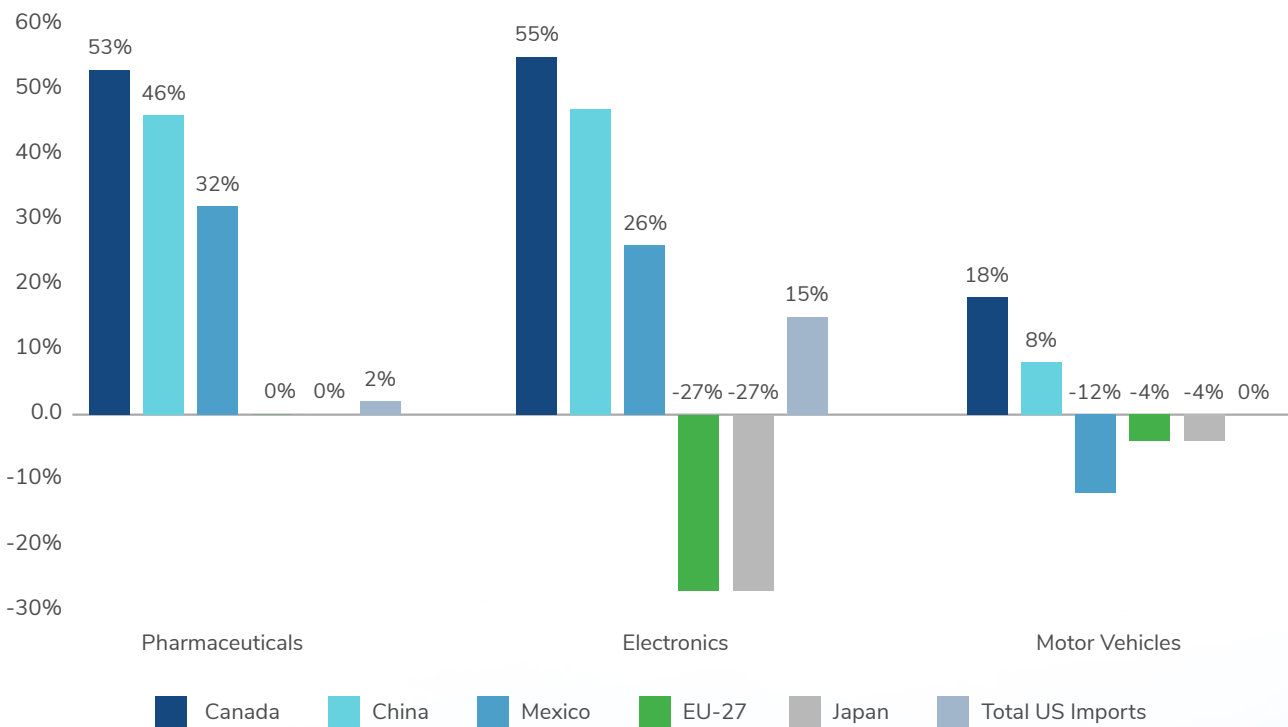
The commodity level results highlight how the Supreme Court decision reshapes U.S. sourcing patterns through trade diversion rather than broad based import growth. The figure that follows shows estimated changes in the growth rate of U.S. imports by source country and product in 2026, relative to the pre decision baseline.

For highly traded and supply chain intensive sectors such as pharmaceuticals and electronics, U.S. imports shift back toward suppliers that had been most affected by IEEPA enforcement tariffs—particularly Canada, China and Mexico. In contrast, exporters from the EU and Japan, which had benefited from relatively more stable access under negotiated arrangements, lose market share as those preferences are eroded by the removal of IEEPA tariffs and the introduction of a uniform 10% surcharge.

The pattern is more nuanced in motor vehicles, where sector specific tariffs under Section 232 and existing U.S.-Mexico-Canada agreement rules remain binding. Canada and China see modest gains in U.S. auto imports, while Mexico experiences a small decline, reflecting the fact that its position in the U.S. auto market was already anchored by preferential access prior to the ruling.

At the aggregate level, total U.S. imports rise only modestly, even as bilateral trade flows shift sharply across partners. This underscores that the Supreme Court decision primarily reallocates trade across suppliers, rather than triggering a large expansion in overall import demand.

Projected Impact of Kroll Tariff Scenario on U.S. imports in 2026



Source: Kroll Economics modeling

Wrapping Up

The central message from our results is that the Supreme Court ruling eases U.S. tariff pressure at the margin but does not dismantle the tariff wall, and the economic effects follow that logic.

In 2026, we project the U.S. will see a modest uplift in real activity (a small rebound in GDP and investment) as the most legally vulnerable IEEPA tariffs fall away, while key sectoral barriers remain in place under Section 232.

For trading partners, the gains are highly uneven. Those previously hit hardest by the IEEPA enforcement layer (notably Canada, Mexico and China) see the largest improvement in effective market access and the clearest near term boost, while partners whose access was already capped or relatively stable (EU, Japan, Korea, India) can lose competitiveness in the U.S. market as trade is diverted toward the newly “reopened” suppliers.

In other words, the ruling reshuffles who sells to the U.S. more than how much the U.S. buys because the sectoral tariff wall remains standing and the replacement surcharge partially restores broad protection on the remaining goods.

What makes this episode especially consequential is how quickly supply chains can respond once the relative tariff map changes, even if the aggregate macro impact looks modest. The legal shift immediately changes incentives at the product and supplier level, prompting importers to reroute orders, reprice contracts and rebalance sourcing toward partners facing the largest relative improvement in access, while manufacturers adjust input choices where feasible.

But the bigger story is that uncertainty has not gone away; it has moved. The Court’s decision was explicit that the IEEPA tariff mechanism was unlawful, but it also left major questions unresolved (including implementation and refunds) while the administration has signaled rapid pivots to alternative authorities and the possibility of broader trade actions.

That uncertainty extends into 2026 and beyond: Negotiated arrangements struck under the prior regime may be revisited or reinterpreted, and the political calendar, especially the midterm election cycle, creates strong incentives for further policy moves that could retighten trade conditions or retarget specific sectors and partners.

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