



Trade Ruling Adds Uncertainty, May Boost Earnings

2/23/2026

Friday started with the markets digesting a softer GDP report but then focused on a policy pivot that should boost the earnings landscape. Fourth-quarter GDP came in at 1.4%, a sharp markdown from early estimates that were inflated by a temporary collapse in the trade deficit. Once November and December trade data normalized, so did growth expectations. Yet when we account for the 40-plus-day government shutdown that shaved roughly 1 to 1.5 percentage points off output, underlying private demand ran closer to 2.5% to 3%. That is not recessionary—it is trend-like growth in an economy that faced tariff headwinds and policy uncertainty.

Inflation data told a similar story. The PCE deflator came in slightly above expectations, but there was nothing surprising beneath the surface. Housing, which carries a smaller weight in PCE than CPI, continues to cool, while medical services, more heavily weighted in PCE, ran firmer. These compositional effects explain the modest upside surprise.

But all of that was overtaken by the Supreme Court's 6–3 decision striking down the use of IEEPA as a tariff mechanism. This was not a narrow procedural ruling. It was definitive. IEEPA, as a blanket tariff authority, is gone. There was no grace period, no remand for refinement. The mechanism was ruled illegal.

The implications are profound. First, companies that paid tariffs under this authority do have a credible path to refunds, but the Court did not specify how the restitution should proceed.

Trump has already invoked Section 122 tariffs, first at 10% but then quickly raised to 15%, the maximum specified by the statute. We don't know if this rate is on all goods or just reciprocal goods; if the former, the general level of tariffs is actually higher than before the Court decision. However, Trump likes to bring out the biggest stick, start at the max he is allowed by law, and then negotiate down. This tariff can only be maintained for 150 days, and it will be very hard for Congress to extend it without extensive log-rolling, and just before the midterms this is very unlikely. My feeling is that deals negotiated will be honored, and the final outcome may not be much different in many cases. Recent information implies, that only reciprocal goods will be involved, which does lower the average tariff rate, particularly from China and some other Asian countries, although Trump has authority to levy other tariffs on them. After 150 days, when the current tariff law expires, Trump can use Section 228, the nearly one hundred-year-old Smoot Hawley Tariff, that actually gives him blanket authority for a tariff as high as 50%. But use of that Act would be viewed as extreme and is unlikely.

The best part of the ruling is that it puts a limit on the executive branch. I imagine that some Republicans welcomed this, as the tariffs are not at all popular. Trump's favorability readings are down. He needs to shift if he wants to avoid the loss of the House and potentially the Senate. This may be a catalyst to shift away from tariffs.

I would use any decline brought about by this uncertainty to be an opportunity to accumulate equity. The outlook for 2026 is still excellent, and the ruling limiting wild swings in the tariff rate is a positive.

Importantly, the ruling, if anything, favors the other 493 stocks in the S&P 500—industrials, small caps, and globally exposed companies that bore the brunt of tariff uncertainty. We have already seen rotation this year: small caps and international markets outperforming while the headline index treads water. A less adversarial trade regime strengthens that rotation. Korea and other export-oriented markets responded immediately, and I suspect Europe and parts of emerging markets will benefit as well.

Geopolitics remains a swing factor. Tensions with Iran have lifted oil prices, and any military escalation would temporarily tighten financial conditions. But it is worth recalling that the U.S. economy is far less oil-intensive than in the 1970s. Even a

significant oil spike today has a smaller GDP impact than in prior decades. Unless supply disruptions are prolonged, I would view energy-driven volatility as a recalibration, not a cycle-ending shock.

Put it all together: trend growth near 2.5%, inflation easing toward target, a Fed that will likely resume cuts, and some cap on tariffs. That combination clears the runway for stronger earnings growth and market momentum.

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Professor Jeremy Siegel is Senior Economist to WisdomTree. This material contains the current research and opinions of Professor Siegel, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.