# Yardeni Research

**January 6, 2026**

# Morning Briefing

## Trump's Tariffs:
## More Bark Than Bite

*Check out the accompanying chart collection.*

**Executive Summary:** The bark of President Trump's harsh tariff policy has been worse than its bite. While many of the rates are punishingly high, Trump's tariffs have not hobbled the global economy or saddled the domestic economy with runaway inflation. William attributes this to the tariffs' on-again-off-again nature, their many carveouts, and the workarounds that US trading partners have found to keep their export activity aloft. … Also: The Supreme Court soon may strike down the tariffs, ruling that the justification used for them is unlawful. If so, the administration has other justifications up its sleeve. … And: No "grand bargain" between the US and China is likely anytime soon, which suits China just fine.

**Weekly Webcast.** If you missed Monday's live webcast, you can view a replay *here*.

**Trade War I: How 'Swiss Cheese' Tariffs Saved Global Economy.** When assessing where President Donald Trump's tariff policy stands as 2026 begins, all roads lead to Swiss cheese. Not the Alpine-style dairy product itself but the cautionary analogy served up by US Trade Representative Jamieson Greer.

In April 2025, Greer *assured lawmakers* that the Trump 2.0 trade war strategy would avoid tariff carveouts for countries and companies. A patchwork approach like that would do little to address a *$1.2 trillion* US trade deficit (*Fig. 1*). "If you have Swiss cheese in the action," Greer told the Senate Finance Committee, "it can undermine the overall point—which is to get rid of the deficit and achieve reciprocity."

In practice, though, the Trump 2.0 effort has indeed been more like Swiss cheese than the "*tariff wall*" that the White House "wants to build around the United States," in the words of Eurasia Group's Ian Bremmer. As a result, Trump's tariffs have been less of a global growth killer than feared (*Fig. 2*).

Let's take stock of where the Trump 2.0 tariff policies stand now and how they might change as 2026 unfolds:

(1) *Carveouts galore*. Recent weeks saw fresh headlines about carveouts and delays. On New Year's Eve, a Trump executive order *delayed a planned* increase in the import tax on kitchen cabinets from 25% to 50% until January 1, 2027. Import duties on upholstered furniture also received a reprieve from plans to increase tariffs from 25% to 30%. The news calmed nerves in China and Vietnam. Italy got calming news too: The Commerce Department is *scaling back* planned tariffs on 13 pasta makers.

That followed moves in November to *exempt* Brazilian coffee, beef, and dozens of other food items from 50% tariffs. It fit a pattern of Trump's trade team exempting critical goods—from electronics to oil—or cutting initial tariff rates. Sometimes, these policy reversals came in response to adverse market reactions; at other times, they were triggered by negative feedback from US households. On December 8, Trump unveiled a *$12 billion bailout* for farmers to backstop the financial fortunes of some of his most loyal supporters (*Fig. 3*).

(2) *Lower tariffs than feared*. The porous nature of the tariff wall explains why it's had a smaller economic impact than conventional wisdom expected. On paper, the US tariffs announced since early April—when President Trump began announcing double-digit rates on countries worldwide—are the highest since the days of *President William McKinley* 125 years ago and higher than the levels of the 1930s *Smoot-Hawley Tariff Act* presaging the Great Depression.

Yet "currently, the actual tariff rates on US imports are not nearly as large as policy announcements suggest," argue Harvard's Gita Gopinath and the University of Chicago's Brent Neiman. They cite myriad exemptions, shipping lags, enforcement gaps, and nimble moves by countries and multinational companies alike to front-run or outright evade tariffs. Gopinath and Neiman conclude that the effective rate of the tariffs, when they *are* paid, is 14.1%.

(3) *The 15% comfort zone*. By year-end, most US tariffs were clustered around the *15% level*, including those imposed on the European Union (EU), Japan, South Korea, and Switzerland. The UK, with which the US has a trade surplus, pays the *baseline 10% reciprocal tariff*, as does *Australia*. Canada faces a 35% levy for goods outside the United States-Mexico-Canada Agreement (USMCA). Mexican goods outside the USMCA are taxed at 25%.

While tariffs on China have been a moving target, the *average levy* is 47.5%, which exceeds the 40% level deemed to do real damage to exporters' profit margins.

The real outliers to the upside among major economies are Brazil and India, which pay 50% levies. Smaller Asian economies like Laos and Myanmar face 40% tariffs.

Several *major economies* have yet to reach new agreements with the Trump administration, including Canada, India, Mexico, Taiwan, and of course China, which is the real economic prize.

(4) *Reshaping world trade*. These levies remain a significant headwind for the world's leading trading nations. They also "have been significantly reshaping global trade," as Gopinath and Neiman argue. Case in point: China's share of US imports declined to 8% in late 2025, down from 22% in late 2017.

That said, Trump's tariffs haven't squelched the export activity of many heavily affected nations as much as feared. China has rebalanced exports to Southeast Asia and the EU (*Fig. 4*). Accordingly, it seems on track to meet this year's "around 5%" GDP growth target. What's more, China's export engine is still humming. In the first 11 months of 2025, its trade surplus hit a *record $1.08 trillion*, up from $993 billion for all of 2024. As of November, Japan's trade balance was in the black, with overall exports *rising 6.1% y/y*. In October, the Eurozone economies remained in surplus, with exports *gaining 1.0% y/y*.

Nor has the domestic collateral damage been anywhere near as great as feared. The US economy grew at a faster-than-expected *4.3% y/y* during Q3, as consumer spending increased by 3.5% y/y. Also, the rate of increase in consumer prices in November was the same *2.7% y/y* as it was in November 2024 (*Fig. 5*). Tariffs have boosted consumer durable goods inflation, but the overall inflation rate remained around 3.0% over the past year. It probably would have fallen closer to 2.0% had it not been for the tariffs (*Fig. 6*).

(5) *Highest US tariff rates since 1943.* This isn't to say that the tariffs haven't hurt. As of December 1, the nonpartisan Tax Foundation *estimates* that the *tariffs would result* in an average tax increase of $1,100 per US household in 2025 and $1,400 in 2026. Trump's tariffs—both those imposed and those scheduled as of November 1—amount to a weighted average applied rate on all imports of 15.8%, while the average effective rate "reflecting behavioral responses" is 11.2%. This is the highest since 1943.

In a recent report, Tax Foundation analysts Erica York and Alex Durante argue that the Trump 2.0 tariffs are the largest US tax increase relative to GDP—0.47% in 2025—since

1993. They also calculate that Trump's imposed tariffs could raise $2.1 trillion in revenue over the next 10 years, reducing overall GDP by 0.5% (*Fig. 7*). This, importantly, is before factoring in retaliation by foreign governments. Accounting for these adverse effects, revenue would fall to $1.6 trillion over the next decade.

**Trade War II: Might the Supreme Court End Tariff Pain?** The real wildcard is the US Supreme Court, which soon will rule on whether the tariffs pass constitutional muster. On *August 29*, a US federal appeals court struck down most of the tariffs, arguing that Trump unlawfully invoked the International Emergency Economic Powers Act (IEEPA) to impose import taxes.

Here's more:

(1) *Roberts court wildcard*. Odds are good that the court of Chief Justice John Roberts will rule against Trump, striking a massive blow to his trade strategy. Hopes of that help explain why China has sought delay after delay in trade talks and why Japan has been slow to wire portions of the $550 billion "*signing bonus*" Trump demanded in exchange for a lower tariff rate. The same applies to the $350 billion Trump expects from Korea and the $750 billion in US energy purchases he's awaiting from the EU.

(2) *Race for refunds*. After such a ruling, however, regulatory chaos would ensue. In December, several household-name companies—including *Costco*, Revlon, Ray-Ban, and Bumble Bee Foods—sued for tariff refunds in the US Court of International Trade. Even if the Supreme Court rules against Trump, it's unclear whether the justices will detail how the refund procedure might work, which firms are entitled to refunds, and the timeframe for making companies whole.

In a report last month, analysts at TD Cowen wrote that US Customs and Border Protection has been "fast-tracking the tariff dollars to Treasury, which puts the question of potential rebates into question."

(3) *Trump's 'game two' plan*. Odds are, if the Supreme Court rules against him, Trump simply will pivot to a different rationale for the tariffs, including invoking *Section 122* of the Trade Expansion Act. Trump's current tariffs lean on Section 232. Perhaps seeing the writing on the judicial wall, Trump has been publicly lobbying the Supreme Court to side with his administration, warning that a ruling against tariffs would be a "*terrible blow*."

Yet since the Supreme Court heard oral arguments in the trade case in early November, Trump has discussed a "*game two plan*" to preserve tariffs. Case in point: Section 122 might permit import taxes as high as 15% for 150 days amid "fundamental international payments problems." There's also *Section 338*, which, based on discrimination against US commerce, might permit tariffs of up to 50%.

(4) *Fingers crossed for process uniformity.* From an investment perspective, constraining Trump to more uniform ad hoc tariff processes would be a good thing. The policy volatility of tariff rates and exemptions coming and going with such velocity as they have been contributes to economic uncertainty that hinders investment.

The US's net haul from tariffs under more regular processes might drop only modestly, according to J.P. Morgan's Nora Szentivanyi: "Replacing IEEPA tariffs with a blanket 15% rate could lead to a modest short-term reduction in the effective rate, but much will depend on whether current trade agreements and sectoral exemptions are upheld. … For countries hit with the largest IEEPA tariff hikes (e.g., India, Brazil, China, Indonesia), revoking IEEPA would bring short-term relief and could even prompt a renewed round of front-loading before other tariffs are put in place. For Mexico and Canada, impacts should be limited, provided USCMA exemptions survive a new tariff regime replacing IEEPA."

**Trade War III: China/US 'Grand Bargain' Remains Elusive.** In late October, Chinese leader Xi Jinping secured a *one-year truce* on US/China trade negotiations. This means that the earliest Trump could probably hold a White House victory celebration over a "grand bargain" with Asia's largest economy is in early 2027.

President Xi has good reason to drag his feet on striking a deal for a couple of reasons. Firstly, Trump has acted surprisingly conciliatorily toward China recently: He *greenlit* China's access to Nvidia's powerful H200 artificial intelligence chip without reciprocal concessions from Beijing. That surprised China hawks who fear that Xi's economy now has a technological edge over the US. The win might reduce Xi's urgency to strike a trade deal.

Secondly, China's troubled economy might make the Communist Party less open to lowering trade barriers. Even if top-line GDP appears robust, China's deflation challenge has entered its fourth year, with no end in sight to a large property crisis that's undermining consumer confidence (*Fig. 8* and *Fig. 9*). Roughly 70% of *Chinese household wealth* is in real estate. Stopping the financial bleeding is vital to getting households holding *$22 trillion* in savings to spend more and save less.

In the waning days of 2025, China's retail sales growth dropped to its *slowest pace* since the Covid-19 lockdowns, while fixed-asset investment looked headed for its first *contraction* since 1998 (*Fig. 10*). In the first 11 months of 2025, new home sales declined 11.2% y/y. Lulu Shi at Fitch Ratings notes the weakness "is primarily due to *subdued homebuyer confidence* amid a weak economic environment, labor market softness and expectations of further price declines"

Without greater fiscal and monetary stimulus, maintaining GDP growth near China's 5.0% annual goal in the face of US tariffs will be increasingly difficult. The People's Bank of China is reluctant to cut interest rates because a weaker yuan might anger the US. As Xi fights domestic battles, he might be inclined to string Trump along.

What comes next is anyone's guess. Perhaps Trump, facing declining approval ratings, will double down on Chinese tariffs. Trump's Republicans arguably need a big, splashy trade pact more than Xi, whose party doesn't face midterm elections this November.

There's a risk that US-China relations could hit a political wall if Xi sees Trump's capture of Venezuelan President Nicolás Maduro as a *green light to move* against Taiwan. If so, the Beijing-Washington narrative in 2026 could be more about guns than butter.

Only time will tell whether Trump missed his window to bring China's export prowess to heel.

## Strategy Indicators

**S&P 500/400/600 Forward Earnings** (*link*): During the January 1 week, forward earnings rose simultaneously for all three of these indexes for a fourth straight week. LargeCap's forward earnings rose for a 33rd straight week, its longest winning streak since it did so for 38 weeks through the September 13, 2024 week. MidCap's recovery has slow-walked at times but has risen in 28 of the 33 weeks since it bottomed during the May 16 week. SmallCap's has risen in 29 of the 32 weeks since it bottomed during the May 23 week. LargeCap's forward earnings rose 0.3% w/w to its 31st straight weekly record high. MidCap's has been gaining momentum recently, rising 0.8% to its sixth straight weekly record high; the index has now recorded 15 record highs in the past 10 months. SmallCap's rose 0.1% w/w to a 38-month high and improved to 5.2% below its June 2022 record. Forward earnings had bottomed in early 2023 for these three indexes following 2022's year of cost-cutting. Since then, LargeCap's forward earnings has soared 39.3% from its 54-week low during the week of February 1, 2023; MidCap's has slowly gained 13.8% from its

55-week low during the week of March 10, 2023; and SmallCap's has quickly rebounded 11.1% from a very recent 42-month low during the May 23 week. These three indexes' forward earnings downtrends from mid-2022 to early 2023 and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 11.9%, 15.6%), MidCap (0.4, -1.4, 20.0), and SmallCap (-10.2, 6.1, 15.5).

**S&P 500/400/600 Valuation** (*link*): Valuations fell for these three indexes during the January 2 week for the first time in three weeks and to six-week lows. LargeCap's forward P/E dropped 0.3pt w/w to a six-week low of 21.8 and is now 1.0pt below its 25-year high of 22.8 during the October 31 week. It's up 4.8pts from a seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E fell 0.3pt w/w to a six-week low of 16.0 from 2025's high of 16.3. It's also 1.1pts below its 40-month high of 17.1 during the November 29, 2024 week and 3.8pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E dropped 0.2pt w/w to a six-week low of 15.3 and is now 0.5pt below the nine-month high of 15.8 during the October 24 week. It's 2.4pts above its 17-month low of 12.9 during the April 4 week and 4.7pts above its 14-year low of 10.6 in September 2022, but it remains 1.8pts below its 41-month high of 17.1 during the November 29, 2024 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed and a record low of 10.2 in November 2009 during the Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E improved w/w to a six-week-high 27% discount to LargeCap's P/E, and is up from a 26-year low 30% discount during the October 31 week. That compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. SmallCap's P/E was unchanged w/w at a six-week-high 30% discount to LargeCap's P/E, up from a 25-year-low 34% discount during the November 20 week. That compares to a 23% discount during the November 29, 2024 week, which was its best reading since the March 2, 2023 week. SmallCap's P/E improved w/w to a 4% discount to MidCap's, which is up from an 18-month low 7% discount during the November 20 week and above its 20-year-low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

---

Contact us by *email* or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-241-6502
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
William Pesek, Contributing Editor, 516-277-2432
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-228-9102