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Morning Briefing

The Impacts Of Tariff Liberation Day II On Asia & Canada

Executive Summary: Asian economies that would have been hard-pressed to thrive under President Trump's tariffs can celebrate the Supreme Court's ruling that they're unconstitutional. While that's a net positive for these and other affected nations, William explains, tariff-related uncertainties remain. Sector-specific tariffs, versus country-specific ones, are permissible under the ruling, and Team Trump has a Plan B. … Also: Canada's Prime Minister Mark Carney faces difficult challenges given Trump's desire to renegotiate the trade agreement that shields Canada from US tariffs and Trump's "Donroe Doctrine" ambitions to assert US primacy in the Western Hemisphere.

YRI Weekly Webcast. There will be no webcast this week. Dr Ed's live webcast with Q&A will resume next Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

Trump's Tariffs: Supreme Court Makes Asia's 2026 Great Again. Last week, the US Supreme Court answered Asia's prayers by striking down President Donald Trump's tariffs. And yet officials in Beijing, Tokyo, New Delhi, and Seoul still aren't sure whether to celebrate or take cover. The answer is both.

There's certainly cause for celebration in Asia: The *6-3 ruling* invalidated tariffs on Asian export powerhouses from China and South Korea to Japan and India, upholding a lower court's decision that the 1977 Emergency Economic Powers Act (IEEPA) doesn't give presidents the power to impose tariffs.

But there's also need to prepare for what comes next: Trump officials are already pivoting to Plan B. The White House quickly retaliated with a 10% worldwide tariff under *Section 122*, which allows presidents to impose import tariffs or quotas for up to 150 days to address serious balance-of-payments deficits. A day later, on Saturday, Trump *bumped* the universal tariff up to 15%, increasing the odds that inflation remains elevated and the Federal Reserve throttles back on interest-rate cuts.

Some justices seemed to *encourage Trump's tariffs*, albeit in another form. Brett Kavanaugh, writing the dissent with Justices Clarence Thomas and Samuel Alito, signaled that the ruling doesn't bar Trump "from imposing most if not all of these same sorts of tariffs under other statutory authorities." The decision, Kavanaugh wrote, "is not likely to greatly restrict presidential tariff authority going forward."

As Bob Schwartz of Oxford Economics puts it, "Trump's swift announcement" of a "replacement tariff underscores that trade uncertainty is not fading—it's merely shifting form."

Yet the decision "sharply curtails the President's ability to weaponize emergency statutes to negotiate bilateral deals or impose discriminatory tariffs across partners," write analysts at Janus Henderson. "Sector-specific tariffs imposed under other authorities, such as *Section 232* national security measures on steel and aluminum, remain untouched, but the era of rapid, across-the-board tariff escalation now faces much higher legal barriers."

The bottom line, Janus concludes, is that the Supreme Court decision "underscores a shift toward slower, more procedurally constrained trade policy, reducing headline volatility, but increasing the importance of fiscal mechanics and supply considerations for fixed-income markets."

The globe already has, for better or worse, adjusted to the idea of 15% US tariffs, which is likely the ceiling going forward. This brushback limiting Trump's ability to expand his trade war could alter Asia's 2026 calculus for the better. Let's explore what Trump's big loss means for Asia's biggest economies:

(1) *China.* The John Roberts-led court just vindicated President Xi Jinping's string-Trump-along strategy. Throughout 2025, Xi's Communist Party secured several delays in trade talks. The most recent pause, in October, is good for a year. Now, though, China braces for the next wave of Trump policies aimed at hobbling Asia's biggest economy. The Kavanaugh loophole is sure to have Trump World getting creative with claims of tariff authority. There's also the risk that Trump acts on his long-time goal of weakening the dollar.

The trouble for China is that its economy is hardly state-of-the-art. China is now in its fourth year of deflation, and the property crisis shows no signs of ending. Last week, the International Monetary Fund implored Beijing to scrap its model of huge state support across industries, warning of "adverse spillovers to trading partners." There's no telling whether China's posting a record $1.2 trillion trade deficit in 2025 might trigger Team

Trump.

(2) *Japan.* Fresh off a resounding election victory, Prime Minister Sanae Takaichi's government is grappling with a flatlining economy. Q4 GDP rose just 0.1% q/q. As Stefan Angrick of Moody's Analytics puts it: "The broader picture looks no better. GDP has barely advanced since early 2023, and the 1.1% full-year expansion in 2025 looks far less impressive when set against the 0.2% contraction in 2024."

This has Takaichi rallying her Liberal Democratic Party to cut taxes and increase public spending. That's triggering the bond bears. Yet uncertainty abounds about where Trump might take his trade war next. There's every reason to take Trump World at its word when telegraphing new, blunter mechanisms to reassert trade pressure. Also, the Supreme Court just gave Tokyo more reason to slow-walk coming up with the $550 billion "*signing bonus*" that Trump demanded. This, along with a weaker yen, might anger the White House.

(3) *India.* Over the last month, Prime Minister Narendra Modi's economy has positioned itself as an unlikely protector of free trade. During that time, India closed the "*mother of all deals*" with the European Union and another with Team Trump. For Modi, it was a chance to get India out from under the yoke of 50% tariffs.

India is another country that wouldn't be up to the challenge of a Trump Trade War 2.0. The rupee was Asia's worst-performing currency in 2025—*down 5%*—for a reason: New Delhi's chronic trade deficit. Efforts to support the rupee have led India to sell US Treasuries. Also, Modi's bold talk of morphing India into a manufacturing giant has met with limited success. Manufacturing's share of GDP is *now 17%*, a long way from the 25% envisioned back in 2014.

(4) *South Korea.* Last week, the Seoul Central District Court sentenced former President Yoon Suk Yeol to *life in prison* for his 2024 martial-law declaration. The stunt shocked the nation, triggered its most severe political crisis in decades, and left newish President Lee Jae Myung with a mess to sort out. The reality check the Supreme Court just delivered could ease Seoul's way forward.

The court's decision provides Korea with a respite from the risk of higher tariffs (Trump recently *threatened to hike* the 15% rate to 25%) and from pressure to fork over the $350 billion bonus Trump demanded from Seoul. Though Lee's economy could be in harm's way under Trump's Plan B, a calmer trade scene could give Lee latitude to implement reforms to help justify the Kospi stock index's *123% surge* over the last 12 months.

(5) *Bottom line: net positive.* The shift in focus to sectoral tariffs should make the impact of Trump's tariffs "less widespread and less harmful than in 2025," says Asia Decoded's *Priyanka Kishore*. Sectoral investigations are part of Trump's Plan B; some already underway include semiconductors, pharmaceuticals, critical minerals, aircraft and parts, and polysilicon. Suppliers of advanced technology products to the US—such as those from China, India, Japan, Korea, Malaysia, Singapore, Taiwan and Vietnam—will remain at risk.

But "on the whole," Kishore explains, "we view the IEEPA ruling as a positive development for Asian economies. It should help broaden last year's strong export performance to more countries and sectors and lift investment prospects in some areas. This, in turn, should put the region on track for another year of resilient growth, provided the global tech cycle remains supportive."

Canadian Economy: US Trade Negotiations Complicate Carney's Year. As Canada entered a wildly uncertain 2026, Prime Minister Mark Carney called it a "*hinge moment*" in the nation's history. With Trump upending the US-led global order and China's trade surplus at record proportions, Carney's economy sits squarely in the collateral damage zone.

On Friday, Canadian stocks gyrated after the Supreme Court ruling. Though Trump swiftly imposed new tariffs, the US justices did reduce the ferocity of the headwinds blowing Ottawa's way.

Yet the US's largest *trading partner* after Mexico is less interested in the level of tariffs than in Trump's plans to renegotiate the USMCA—i.e., the 2020 US-Mexico-Canada Agreement, negotiated by the Trump 1.0 White House to replace the 1994 North American Free Trade Agreement (NAFTA). Now Trump 2.0 wants to replace that with a NAFTA 3.0. Exemptions under the USMCA have shielded Canada from Trump's tariffs. But on July 1, the sixth anniversary of the pact, all parties are mandated to do a *joint review*. Welcome to Carney's hellish 2026.

Let's look at Carney's options as 2026 unfolds:

(1) *The 'Donroe Doctrine' challenge*. Carney is a *former central banker* who chaired both the Bank of Canada (2008-13) and the Bank of England (2013-20) but now faces the biggest challenge of his career: Facing off against Trump. The US President, arguably the most mercantilist US leader in *125 years*, has revived the Monroe Doctrine in the form of his "*Donroe Doctrine,"* an aggressive foreign policy to assert US primacy in the Western Hemisphere.

(2) *Pivot to China.* Canada, which does *$2 trillion* of business with the US annually, worries that the upcoming USMCA process will be light on negotiations and heavy on ultimatums, with more than a pinch of score-settling tossed in. Trump wasn't happy with Carney's mid-January visit to Beijing, the first by a Canadian prime minister since 2017.

There, Carney struck a tariff-reduction deal on Chinese electric vehicles (EVs) and Canadian canola products. That prompted Trump to threaten a 100% tariff. Asked by reporters whether Canada now views China as a more reliable counterpart than the US, Carney responded: "Yes, in terms of the way that our relationship has progressed in recent months with China, it is *more predictable*, and you see results coming from that."

(3) *Great power rivalry*. Days later, at Davos, Carney *spotlighted* the "rupture" in the US-Canada relationship and mourned what he termed the death of the rules-based international order. As Ottawa prepares to sit down with US trade officials, Carney must balance local anger toward the Trump White House. A new poll by Politico finds that 69% of Canada's 40 million people have a *dark view* of the US in the Trump 2.0 era.

(4) *Different speeds*. Speaking on USMCA talks earlier this month, US Trade Representative Jamieson Greer suggested that the Canadians were dragging their feet. As he *told Fox News*: "With the Canadians, it's more challenging. They continue to have certain barriers."

One big US-Canada sticking point is speed. Ottawa wants to move much slower than Washington to ensure equitable conditions. The auto industry alone exemplifies why the USMCA process is anything but straightforward. "The industry is marked by extremely *complex supply chains* across North America, where parts for a single car might cross the national borders of the three USMCA members *multiple times*," notes geoeconomics expert Karthik Sankaran of the Quincy Institute.

(5) *Planning for the worst*. To Sankaran, Canada's decision to risk Trump's retaliation by welcoming Chinese EVs suggests that Team Carney is bracing for US talks to get "even more acrimonious" and is "planning for the worst."

That's why Ian Bremmer's Eurasia Group *listed* USMCA talks among its top 2026 risks. Trump World, Eurasia argues, "does not like Canada's tough, detail-oriented approach to trade negotiations." So, it predicts, the "CUSMA," as Canada calls it, "will not be formally renegotiated, extended, or terminated in 2026—it will stagger on as a 'zombie,' neither fully dead nor alive."

An Oxford Economics review assigns a *50% probability* to a new USMCA deal being reached by Q3, with 10% targeted on Canadian steel, aluminum, and dairy products. It puts 35% odds on a status quo scenario, 10% odds on the USMCA crashing and burning, and 5% odds on all three governments joining forces on a "Fortress North America" open trade bloc.

The year ahead hardly seems the best moment for uncertainty about US trade. On Friday, GDP data are likely to show that the Canadian economy didn't grow y/y during Q4—not what investors in a S&P/TSX Composite Index that's *up 38%* over the last 12 months want to see.

Carney will have to dig deep and harness all that central banking experience to stabilize growth over the short run and Canada's global market share over the long run. That's easier said than done amid confusion over Trump 2.0 policies.

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index rose 1.0% during the February 20 week to 1.2% below its January 12 record high. The AC World ex-US underperformed with a 0.9% gain for the week, but ended at a new record high. The AC World ex-US has been outperforming the US MSCI since December 24, 2024 and hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021.

EM Latin America was the best performing region last week, with a gain of 2.1%, followed by EMU (2.0%), Europe (1.6), and the AC World ex-US. EMEA was the worst regional performer, with a decline of 0.6%, followed by EM (0.8), EAFE (0.8), and EM Asia (0.9). The Korea MSCI index, with a gain of 5.6%, performed the best among country indexes, ahead of Brazil (3.3), Spain (2.6), Australia (2.0), and France (2.0). The Japan MSCI index was the worst performer w/w, with a decline of 1.8%, followed by China (-1.0), India (-0.2), Mexico (-0.2), and Taiwan (0.0).

In terms of ytd performance rankings, the 0.7% gain for the US MSCI index ranks as the third worst performer among the 18 MSCI countries that we follow and trails the 9.3% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 20.40%, followed by EM (11.6), EM Asia (11.2), and the AC World ex-US. EMU is the worst ytd performer, albeit with a gain of 6.5%,

followed by Europe (6.9), EAFE (8.6), and EMEA (9.0). Korea is the best ytd performer among the country indexes, with a gain of 42.4%, followed by Brazil (22.8), Taiwan (18.3), Mexico (16.7), and Japan (12.8). The worst performing countries ytd: India (-3.1), China (-0.6), the USA (0.7), Germany (3.9), and Spain (4.9).

US Stock Indexes (*link*): Forty-seven of the 48 major US stock indexes that we follow rose during the week ended February 20, compared to just seven rising a week earlier. The S&P 500 Transportation index was the best performer for the week, with a gain of 2.8%, ahead of Dow Jones 20 Transports (2.6%), S&P 400 MidCap Pure Growth (2.4), S&P 400 MidCap Growth (2.1), S&P 500 LargeCap Growth (1.7), and S&P 500 LargeCap Pure Growth (1.7). The Dow Jones 15 Utilities index was the worst performer, with a decline of 0.8%, followed by S&P 100 Equal Weighted (0.1), S&P 500 LargeCap Pure Value (0.2), and S&P 600 SmallCap Pure Growth (0.2).

SMidCaps, a.k.a. the SmallCaps and MidCaps, still dominate the top of the ytd gainers list of 48 indexes, but fewer indexes are higher ytd now—39 versus 45 several weeks earlier.

With a gain of 14.3%, the Dow Jones 20 Transports index has moved into the top spot as the best performer so far in 2026, ahead of S&P 600 SmallCap Pure Value (13.1), S&P MidCap 400 Pure Growth (11.2), Russell 2000 Value (10.7), and S&P 600 SmallCap Value (10.3). The worst performing major US stock indexes ytd: Russell 1000 Growth (-4.2), Russell 3000 Growth (-3.8), S&P 500 LargeCap Growth (-1.8), S&P SuperCap 100 (-1.6), Nasdaq Composite (-1.5), and Nasdaq Industrials (-1.5).

S&P 500 Sectors Performance (*link*): Six of the 11 S&P 500 sectors rose during the week ended February 20, and seven were ahead of the S&P 500's 1.1% gain. That compares to six sectors rising week earlier when seven were ahead of the S&P 500's 1.4% decline.

The outperformers last week: Communication Services (2.3%), Consumer Discretionary (1.7), Industrials (1.7), Financials (1.5), and Information Technology (1.5). The underperformers last week: Consumer Staples (-2.3), Health Care (-0.6), Utilities (-0.5), Materials (-0.3), Real Estate (0.0), and Energy (0.5).

Seven of the 11 sectors are positive ytd, and the same seven are ahead of the S&P 500. Their average outperformance is 11.8%, well above the 0.9% gain for the index.

Energy continues to pull away as the best ytd performer, now a gain of 22.0%, followed by Materials (16.2), Industrials (14.1), Consumer Staples (12.9), Real Estate (8.4), Utilities

(8.2), and Health Care (1.1). These four sectors are lagging the S&P 500 so far in 2026: Financials (-4.5), Information Technology (-3.5), Consumer Discretionary (-3.4), and Communication Services (-0.2).

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