

Fidelity Viewpoints[®]: Market Sense

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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hi there, everybody. Thank you so much for making the time to join us today for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. All right, here we go. It is on to plan B, and perhaps even plan C at some point.

This after the Supreme Court issued its long-anticipated decision on the administration's reciprocal tariffs. So the 6 to 3 ruling stated the president cannot use the International Emergency Economic Powers Act, or IEEPA, to impose tariffs. And following that ruling, the story has only but continued to develop.

The very latest, as of this moment, anyway, is that a 10% global tariff is in effect right now. However, this seems to be a bit of a moving target here. So the White House is reportedly working to formally increase the tariff rate to 15%. We will wait to see what happens there. Meantime, the president also said other tariffs not imposed through IEEPA do remain in place right now.

This was a landmark ruling. And we have two terrific guests today to help us unpack the various political implications of this widely read decision today. So to talk about what this might mean for trade policy next, we are so fortunate to be joined today by one of our Washington insiders, Fidelity Vice President of Advocacy and Policy Communications, Greg Lowman.

Also to help us unpack what this decision could mean for the markets, the economy, and ultimately consumers like you and me, we are thrilled to be joined today by Naveen Malwal. He is a CFA charterholder here at Fidelity, and he's also an institutional portfolio manager whose team manages millions of client accounts at our firm.

So I know you have both been following these developments very closely. Thank you so much for taking the time out of your busy schedules today. And, Greg, thanks for joining us from our nation's capitol.

GREG LOWMAN: Oh, my pleasure, Heather. Great to be here. Thank you.

NAVEEN MALWAL: Yeah. It's good to see you both.

HEATHER: Well, Naveen, wanted to start with you right off the bat here. Let's talk about the market impact of this so far. So initially, on the day that the Supreme Court decision came down, the market reaction was muted. In fact, it was probably more muted than many had expected.

Despite that, though, there's been a lot of uncertainty again. And here we go again with that word "uncertainty" that we talked about so much in 2025, right? We know uncertainty can lead to volatility. So what do you think about the market impact of this decision going forward? Does it remain to be seen right now?

NAVEEN: To me the initial reaction of the market's probably pretty telling. So there's a few things here that lead me to believe we may not see more volatility than before, and perhaps this is something that companies and consumers have gotten used to. So it was almost a year ago, April of last year, the tariffs were first announced. So we've been dealing with these situations, these headlines, these numbers for quite a while at this point. And businesses have adjusted to that, to some degree.

The second thing to consider is that while the IEEPA tariffs are, perhaps, taken out of bounds, there's other tariffs that were put into place. So the overall tariff rate has moved just a little bit—not a dramatic change in the overall tariff rate in most situations. And the last thing I'd point to is the level of uncertainty you talked about, right? That's something that we first got introduced to last year, and it's still here.

So for people who were hoping that the ruling would lead to something more firm and definitive on tariffs, whether they're on or not, what the rate's going to be, it doesn't seem to be the case. It seems to be the case that we're going to have ongoing conversations around the rate, ongoing discussions with different countries and trade deals. So I expect the situation to gradually evolve and move over time. So putting it all together, I think how things look this week versus last week is not all that different. Therefore, I'm not expecting the market to have a big response to that.

HEATHER: Well, Greg, let's bring you in here and talk about those new tariffs. As Naveen mentioned, perhaps not far from what we were experiencing under IEEPA. Just to recap for our audience, because there has been a lot of back and forth over the past couple of days. So after that Supreme Court ruling, the president and administration turned around and announced

other tariffs—Section 122 of the Trade Act of 1974 he said he would use to impose a 15% global tariff. Now, we're hearing it might be 10% for now. Can you talk about where things stand right now and what might be next here?

GREG: Yeah, and I tend to agree with Naveen, even from a policy perspective. When you compare that to the markets, there's a lot of similarities where the more things change, the more they do feel like they stay the same on this front. But I think it's also helpful, Heather, to step back and understand what was ruled upon when the Supreme Court struck down the constitutionality of the president using IEEPA.

This was a broad based lever of tariff policy versus what we're usually familiar with around product specific policy when it comes to tariffs. So that covered roughly 70 countries and gave the president real, for lack of a better expression, aim and shoot leverage over reciprocal tariffs and countries that were negotiating with the US on trade. And I think across three areas that really impacted the tariff policy of the country and those that face those negotiations—one, certainly across the 10% global baseline rate that countries face, and then, two, when it came to the fentanyl-based tariffs that China, Mexico, and Canada faced, ratcheting up to almost 20%.

And then you saw secondary tariffs there when you think of Russia's war in Ukraine and the implications of India doing trading in oil there, there was secondary tariffs applied under IEEPA that were also struck down. So across three specific categories, but reaching roughly 70 countries broadly, a lot of change, but still some more of the same with what we're hearing from the president and him ratcheting up in different avenues to achieve the same ends.

HEATHER: You mentioned those secondary tariffs, Greg. Can you talk a little bit more about what the Supreme Court ruling might mean for them? Specifically, I'm thinking of the deals made between the EU, Japan, and South Korea. Those were secondary tariff deals that he worked on the side to come up with secondary deals with. What could this ruling mean for that?

GREG: Yeah, I think the first word that Naveen mentions as well is "uncertainty." There's a lot of uncertainty in global capitals right now because so many of those negotiations to achieve those bilateral trade agreements hinged upon the underlying authority of IEEPA at that sort of 10% to 15% negotiating rate that those countries accepted from a tariff perspective, to then agree to foreign direct investments in the United States, certain national security parameters and treaties that were being negotiated in real time.

You just even heard in the last several hours that the EU will not be bringing their trade pact to the broader commission for a vote as they dissect what this ruling could mean. You have the Japanese prime minister, due to visit the US in March, already receiving approval from their parliament on \$36 billion in investments directed toward the US due to their agreement, South Korea 15%, and many other countries are trying to understand what implications this will mean moving forward.

So I think they will get back to the negotiating table. But you can begin to see where the emergence of uncertainty will continue to rule the day. And so much of it comes down to the negotiating posture of the White House and what they're able to achieve on a bilateral basis. But I'm fairly confident that those will continue forward in some way, shape, or form as how they look today.

But, certainly, countries that face more restrictions or adversity from the US will be looking at that Supreme Court ruling for some amount of leverage if they're in the negotiation stage still. And I look, particularly, at the USMCA, which will be reopened in the summer between US, Canada, and Mexico as that next fertile ground for those negotiations to take place with this ruling being in the backdrop.

HEATHER: And for those at home who don't know, can you say what the USMCA is, Greg?

GREG: Yeah. That is the new version of NAFTA, actually, signed into law by President Trump or negotiated by President Trump in his first term between the US, Canada, and Mexico, creating a free trade bloc for, arguably, 95% of trade that happens between those three countries.

HEATHER: So a lot still needs to be ironed out. But I do want to switch gears with you, Greg, and talk about another one of the most important areas that still needs to be ironed out following this Supreme Court ruling. And that is the issue of refunds and whether these businesses who already paid tariffs are owed refunds. It's estimated around \$175 billion in tariff revenue was collected already under IEEPA. And that Supreme Court decision didn't address this issue, and thousands of companies around the world started filing lawsuits on the day of that decision to try to get some money back here. How do you think this could all play out, Greg? And how long do you think it could take before this is all resolved?

GREG: Yeah. We're hearing from industry partners, particularly the United States Chamber of Commerce has been really front and center on this, representing a ton of companies, mid-size to large and small in between, on their litigation, on their public posturing around this, saying that this could take months, if not years. You're hearing from the administration that same uncertainty around what process will play out here.

But there's real action happening in the litigation and legal side of things. Just today, FedEx announced that they were going to be taking legal action against the US government to seek those refunds on behalf of their institutional and retail customers. And you've seen a long line of large and small companies before them get in line at the US Court of International Trade.

That seems to be where it's all going to be brokered and handled. Customs and Border Protection keep very detailed records of every duty paid by each participant in a trading situation. So it's all there for them to understand and, potentially, refund. But it does seem like we're heading in the direction of the need to provide some sort of impetus for the government

to act, because without clarity from the Supreme Court, everyone's feeling around in the dark for where the actual legal process behind this decision reflects on refunds and where it goes from here.

HEATHER: All right. So this will likely play out in the lower courts in the days, and weeks, and months to come. Naveen, I'd love to bring you back in here, though. And taking all of these details together that Greg just so capably provided us with here, can you talk about what all of these developments for US corporations might mean now for their profit margins and for their earnings, things we talk about all the time here on Market Sense.

NAVEEN: That's right. And I think Greg just laid out a lot of what's coming up. It's like a long process with a lot of moving parts. So I don't believe this will lead to immediate relief for businesses and companies. There is a potential here for refunds to come to some businesses, right? There is potential for tariff relief, depending on how different countries negotiate. Maybe the rate goes down for some countries. Maybe there's a new limit on level of tariffs that's out there.

So one way to think about this is maybe last year was about as uncertain as things got, maybe as challenging as things got for folks who were, perhaps, caught up in some of the tariff challenges, whether it's countries or businesses. And perhaps from here on out, there is the potential for things to get, perhaps, easier. So potentially, if we do start to see some refunds coming back, yes, that would affect the bottom line for certain businesses that can, then, record that as additional earnings that they didn't have before.

And, in a similar light, if we see tariff rates coming down or getting removed thanks to trade agreements or other factors involved, that, again, could help the bottom line for businesses. But today, right now, there's just so many variables involved, it's hard to specifically call out who the winners and losers might be here.

HEATHER: OK. Too soon to tell, but I heard you use the word "potential" a lot. So we'll certainly be monitoring this. I also wanted to get your thoughts on government debt as well, Naveen. And I appreciate you letting me pick your brain on so many areas where this story continues to develop. And we just can't predict the future, for sure.

But we can say that the markets had seen tariffs as a potential offset to the fiscal balance sheet. And since these tariffs were imposed last April, we can tell you that the Treasury Department had seen a meaningful influx of revenue to help cushion some of the government's borrowing needs. I'm wondering from you, what do we know right now about what the Supreme Court decision and this renewed uncertainty might mean for the US fiscal outlook, and for treasuries, and the bond market?

NAVEEN: Yeah. So big questions here. With the tariff rate relatively unchanged versus last week, things could continue in the trajectory they were on last year or even before last week's decision where we are seeing some of this revenue come in, perhaps helping the fiscal situation. It wasn't that big of a revenue boost compared to the overall size of the US economy, but it was still something that was a positive for the fiscal development.

If some of the tariffs do start to, perhaps, get to lower rates or even get rolled back, then that does shift the equation to some degree. But the national debt isn't just about the tariff situation. At the end of the day, the factors that seem to matter for investors when it comes to things like the US Treasury rate, which is probably where most of us feel this, does come from the level of the debt. And it does come from government revenue like taxes or tariffs.

But it also includes, for bond investors, their outlook on the economic growth for the US and their outlook for the inflation rate here in the US. And those numbers are likely to evolve over the coming years, especially if you start to believe some of the excitement around artificial intelligence technologies developing, perhaps leading to another economic boom.

So I think just on the tariff decision alone, I wouldn't take that to mean something dire or drastic for our fiscal situation or the national debt. I think it's a challenging situation that will probably need to get addressed in the coming years by voters and legislators, by putting people into office who want to address these problems. But I think the tariff situation itself does not lead me to believe that we now have a significant challenge on our hands with the fiscal situation.

HEATHER: Well, putting it all together, Naveen, can we make any sort of assumptions or ideas on what these developments might mean for issues like inflation, and economic growth, and even the Fed's rate-cutting cycle? Or is it too soon to tell, given that this is a moving target, as I said, and this story continues to develop?

NAVEEN: Right. So I'll keep going back to if things were to go in a certain direction—let's say they go in a direction where the tariffs are less of a concern. The rates have come down, maybe heading a bit lower—that would potentially be relief on the inflation outlook for the US.

It doesn't necessarily mean that prices come tumbling down, necessarily. But the rate of inflation, the pace of prices going up, perhaps, does start to slow down. And that winds up being a big factor for the Federal Reserve when it comes to the level of rates they want to set with their overnight borrowing rate, which helps set a level that other rates are based off of. So if tariffs do come down, there's less inflation pressure, it could allow the Federal Reserve, then, to cut rates further. And, historically, lower interest rates have been beneficial for the economy and corporate profit growth.

HEATHER: What about the consumer impact here, Naveen? Because I know, for anybody out there who is watching these developments in the past month and hoping that if the court struck this one down, that consumer goods prices might come down—but now we have these new tariffs. They may be around the same rate as the IEEPA tariffs.

What could be the net net here, Naveen? What does this mean? Are we still going to be feeling the impact of tariffs when we go to the grocery store and when we go to retailers?

NAVEEN: So the tariffs themselves, if the rate were to come down they would literally not be as much of an impact, right? However, there's a couple of challenging situations here. For many consumers, when they're thinking about it's much more challenging to see their dollar go as far as it used to, they're thinking about big items like housing or insurance costs. And, yes, food is part of it, but it's also these bigger ticket situations. The price of education is another example. That doesn't tie back to tariffs nearly as much.

So while some changes to tariff rate may provide some relief on the future pace of inflation, it doesn't necessarily help solve these bigger issues. And the other thing I'm alluding to is, sadly, this doesn't mean that prices will come tumbling down. So typically, the level of inflation is driven by economic activity. And since the US economy is growing at a positive rate, that typically does lead to some level of inflation, which is normally a healthy reflection of positive economic growth.

So the tariffs maybe becoming less of a part of that, yeah, it might affect things on the margin. But for folks who are hoping that this ruling suddenly brings prices tumbling down, that probably isn't something that's likely to occur here. I think what it might mean is what we touched on just in the prior question is, perhaps, inflation pressures ease a bit, perhaps the Fed does cut rates a bit more because of that, and that could support further economic growth.

HEATHER: All right. Well, Greg, since you're here from Washington today, I did want to ask you as well about the midterm elections, which investors may also be wondering about and watching, which, as you know, can shift the balance of power in Washington. And some of the ways the administration may continue to pursue tariffs require congressional approval. So I'm curious about how the midterm elections might affect trade policy for the rest of at least this administration, anyway. What do you think?

GREG: Yeah. The midterms are a critical component to all of this for sure. And I would just say that there are other tariff avenues for the president, where Congress has already, dating back to the '30s, through the '60s and the '70s, explicitly allowed for tariffs under certain circumstances, right? And it's like a numeric word salad we're all dealing with as we read the trade reports on this coverage between 122 and 301.

But, really, there's five options the president has. And the timing is really interesting around that. Because right now, what they're referring to as the 10% which is Customs and Border Protection rate as of today, the president has said it's going up to 15%. But over the weekend, he faced backlash, I think, from some of those trading partners that are in active negotiations, as I mentioned, saying, wait, wait, wait. We agreed to 10%, we're going up to 15%, as well as a ton of other exemptions.

So Section 122 is considered the bridge for the president to maintain that existing current tariff policy up to 15%, but right now at 10%—so, really, replacing that broad based tariff policy with the Section 122 that addresses a deficit of payments between trading partners. And that is only allowed to be in effect for 150 days at a cap of 15%.

So 150 days from when that was proclaimed brings you to the Friday before the August recess of this year, where, basically, Congress goes home and campaigns for the midterm elections, right? So they would need an act of Congress to extend that Section 122 policy. I would have a hard time seeing members of Congress wanting to vote on tariffs before they go home to campaign for the 2026 midterms on both sides of the aisle.

The other element is Section 232, national security tariffs. Those remain in place, right? Those are on steel of upwards of 50%, on autos, on copper, on semiconductors, on wood, of a variety of different percentages. But those continue forward.

And then Section 301 are the tariffs where they're sort of discriminatory trade practices from the counter party. And that is predominantly used against China. And China pays roughly \$77 billion of the \$80 billion we collect in 301 tariffs. So they're the primary target there.

And I think the president's team sees that 122 bridge giving them time to investigate for further 301 actions against countries they believe are providing or creating discriminatory trade practices. The only interesting element to consider, too, though, is in any of these reciprocal arrangements, countries can change their practices now and there would be an appeal or a legal, you would think, remedy for their practices to change. And those tariffs would have to, arguably, go away.

There's just more hearings, rulings, studies, and legal pathways than there were with the broad based authority the president thought he had under IEEPA. So, in many ways, trade policy has been put back into the box to an extent from a long-term perspective. But right now, it feels politically like nothing's really changed. So that's where that timing is interesting bumping up against the midterms.

HEATHER: So much still needs to be ironed out, as we said at the top of the show. We've got to leave it at that, gentlemen. But, like I said, fantastic analysis from both of you on a story that continues to develop. And we know you'll be watching as it does and keeping us informed.

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So on behalf of Greg Lowman and Naveen Malwal, thank you so much for your time today. We will be back here next Tuesday. Remember, we are on every Tuesday at 2:00 Eastern. Take care.

¹Bloomberg News; February 21, 2026: <https://www.bloomberg.com/news/articles/2026-02-21/trump-says-he-will-increase-global-tariffs-to-15-from-10>

²Reuters; February 20, 2026: www.reuters.com/world/us-tariff-revenue-risk-supreme-court-ruling-tops-175-billion-penn-wharton-2026-02-20/

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