Trump fought the law, and the law won (TBC). Also, unwanted bill in the Big Beautiful Bill

Friday rounds off a dramatic couple of days for the trade tariff saga. Late on Wednesday evening, the US Court of International Trade issued a judgement that overturned Donald Trump's "Liberation Day" tariffs, stating that

"[the executive orders] are declared to be invalid as contrary to law" and that they "*exceed any authority granted to the President ... to regulate importation by means of tariffs*".

In effect the Court stated that the use of Executive Orders, on the grounds of a National Emergency, to issue trade tariffs is significantly outside the President's limit of authority.

A less reported case on Thursday also reached the same conclusion, although the impact of that case was limited as it only applied to one specific company.

The decision of the Court of International Trade gave the President 10 days to bring its decision into effect.

Predictably there were howls of protest from the White House and the Trump Administration. Amongst the various claims made, the most ironic was that the Courts "overreached their authority".

A swift claim was then made by the President's team to a Federal Appeals Court which last night suspended the ruling from the Court of International Trade, pending the passage of the case to the higher courts. The next hearing in this matter is set for Wednesday 5th June.

Whilst the mainstream media were celebrating the initial victory against Trump, and are only slightly less euphoric today, what they have missed is that there are many other routes open to the President and the Republicans to impose tariffs. Admittedly some of these require the support of Congress, or place caps on the level of tariffs that can be imposed or only apply to specific circumstances.

Even if the ruling from the Court of International Trade goes all the way to the US Supreme Court and is upheld, this does not mean the end of tariffs.

What it does show, as we noted a few weeks ago, is that the current Administration is now going to be embroiled in dealing with the many legal challenges that have been lodged against Trump's various Executive Orders.

Indeed, on another policy strand, the "Taming of the U" aka the effort to stop Universities and the education establishment from being a "hotbed of radical activism", a Federal Judge barred the Trump administration from rescinding Harvard University's ability to enroll foreign students, granting the school's emergency request to stave off "*immediate and irreparable injury*."

The other factor that comes into play as a result of these rulings is the stance of the global community and the need and / or desire to continue with the trade deal negotiations. Does the Trump have the ability to play hard ball? Is the worst-case scenario now significantly better than it was? Do we need to rush into doing a deal now? This just adds to the uncertainty that the world is facing.

ERRATUM: in last week's update we noted that Trump's "Big, Beautiful Bill" (the tax cutting / benefit slashing Bill) has passed through the House of Representatives but faced a tougher challenge in the Senate, given that the approval of the Bill required a 60% majority.

It turns out that under a parliamentary process called "budget reconciliation", the Bill can pass in the Senate with a simple majority – the Republicans hold a 53 – 47 majority and so in reality any checks or amendments need to come with the support of at least 4 Republican Senators, as in the event of a tie, the Vice President, JD Vance has the casting vote.

It appears that currently there are indeed 4 Republican Senators who are asking for changes in order to vote for the Bill and so all eyes are now on how co-ordinated those Senators will act in order to achieve the changes the wants to see, which range from reducing the amount of deficit that the tax cuts will incur to some localised issues in Alaska.

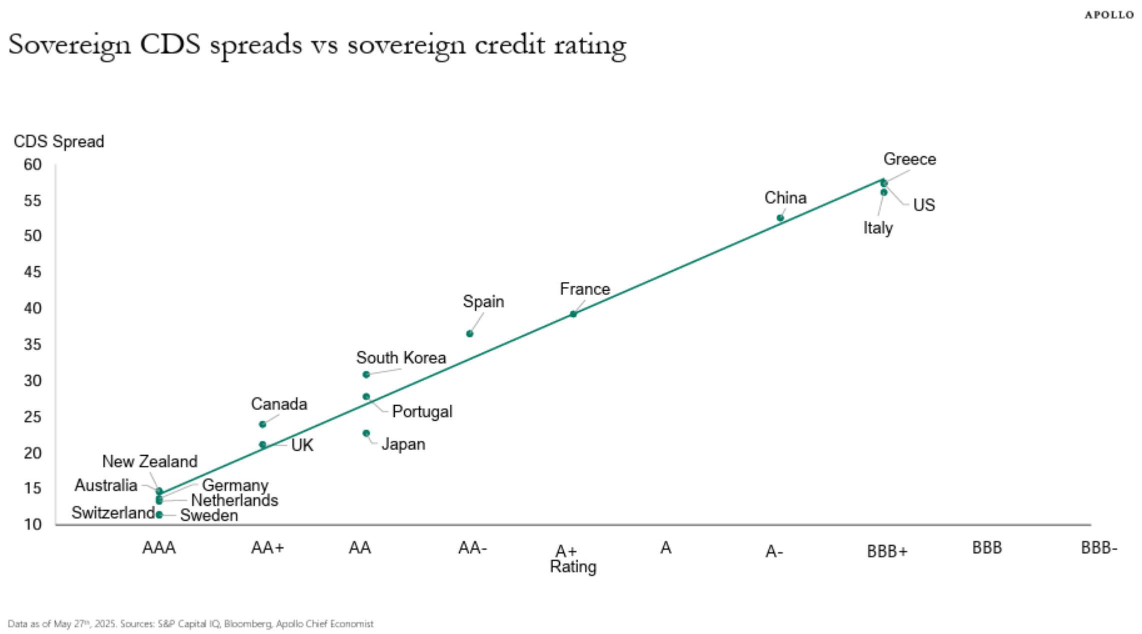
Another issue in respect of the Bill that we became aware of earlier in the week and is now becoming a major talking point is a small paragraph in the Bill at Section 899, which allows the US to levy taxes on US assets held by investors from non-US countries that are deemed to have "unfair" taxes.

It is widely interpreted that countries and territories that are deemed to have unfair taxes are the EU, UK Canada, Australia and Japan.

The obvious problem is that this could deter non-US investors from investing in US assets and also cause them to sell their existing US assets, creating a potential headwind for a market that is already rattled by trade tariffs and tax cuts.

Applying any such tax to US Treasuries would also technically cause them to be in default, as they won't then pay the holder what was promised in the first place.

The culmination of all of these issues shows itself in the following chart about Credit Default Swaps ("CDS") from Appollo Asset Management:



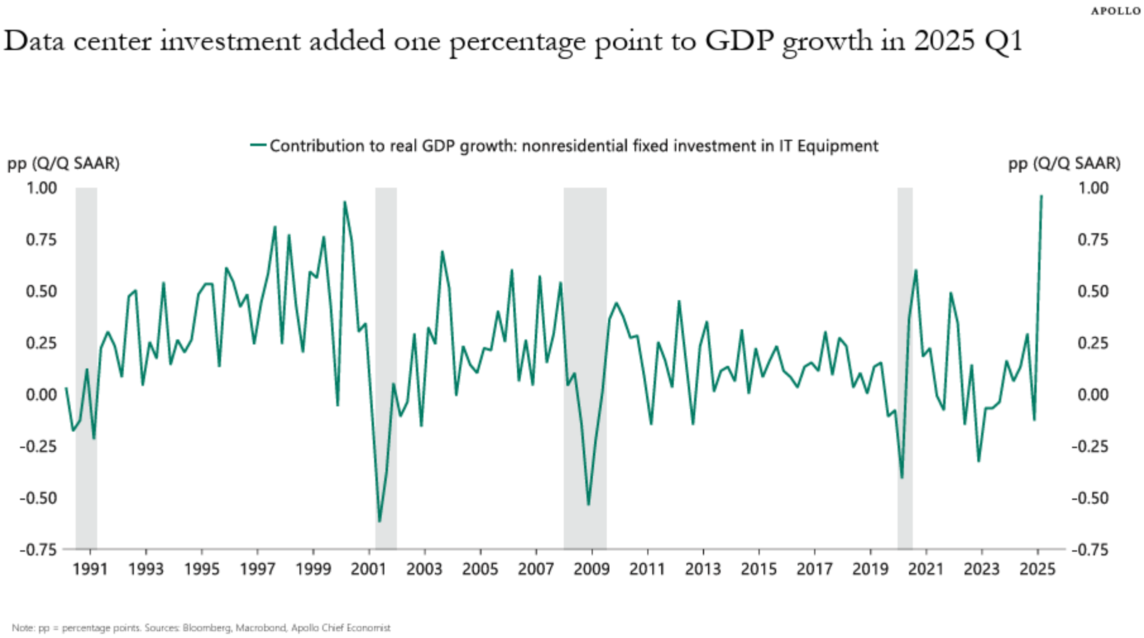
This chart tells you that the risk premium attached to insuring against a US bond default (the CDS) is now the same as Greece and Italy, both of whom carry a BBB+ credit rating (versus the US credit rating of AA+), meaning that the market for CDS is currently assessing that US is as likely to default as either of those countries.

Looking at some of the other things happening this week we had a number of inflation reports around the globe, none of which suggest an increasing trend in the headline or underlying rates, including one of the US Federal Reserve's preferred measures, the Personal Consumption Expenditure index.

The minutes of the Federal Reserve's meeting at the start of May were also released, and showed a cautious and even hawkish stance, noting that trade tariff policies, if carried through, represent a significant tailwind to inflation and as such they stand ready to increase rates should they observe any data that suggests this is happening.

Whilst all of this news is being taken as negative for the US economy and markets, it is also worth noting that the impact of bringing back some of this trade and investment to the US is having a positive impact as well.

This chart shows that during the first 3 months of 2025, the building of more data centres in the US has increased US GDP by 1%:

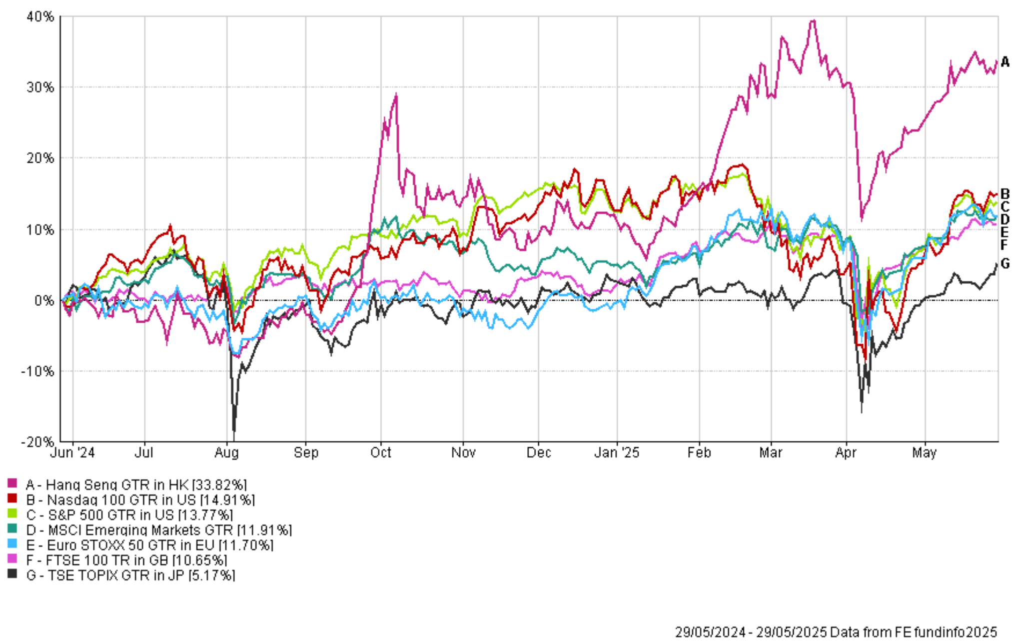


In other good news, Nvidia's results were simply stunning, especially given the collapse in its trade with China. Earnings raced ahead, growing by 70% in the quarter to USD 44.1bn, whilst at the same time reporting that it had taken an impairment charge of USD4.5bn and estimating that it had lost out on USD2.1bn of sales as a direct result of the curbs placed by Trump on dealing with China.

Finally, India's GDP growth figure of +7.4% came in significantly higher than expected and reminds us of the opportunities that exist in global markets. Having seen a significant downturn in the Indian equity markets, is this point at which we see a recovery start to take shape?

Where are markets up to?

The rolling 12 month % cumulative returns in local currency from various indices is shown in the following chart:



Where are the portfolios up to?

The portfolio performance, net of fees, to close of business on Thursday is as follows:

	1 week	1 month	3 months	12 months
Cautious	+0.93%	+2.21%	-2.16%	+2.54%
Balanced	+1.22%	+3.95%	-2.37%	+1.82%
Adventurous	+1.39%	+4.85%	-2.39%	+1.15%

As ever, if you would like to discuss any aspect of your portfolio, please do not hesitate to contact us on service@blythefinancial.com.

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