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Cross-Asset- and Strategy-Research

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Tariffs in tatters

The Supreme Court's recent decision is not the last word

What a bombshell last Friday. The Supreme Court, the highest court in the U.S., ruled that the tariffs imposed by President Donald Trump under the 1977 International Emergency Economic Powers Act (IEEPA) are unconstitutional. The “Liberation Day” tariffs are covered by the ruling as well.

Measures under IEEPA are subject to a strict legal precondition: there must be an unusual and extraordinary emergency whose cause lies outside the U.S. What kind of emergency is that supposed to be, exactly? Trump has, of course, been insisting all along that every other country is ripping off the U.S. and that only he can stop it. But an emergency? According to the ruling, Washington collected [USD 160bn](#) in tariff revenues illegally – almost 75% of last year's total take.

Donald Trump digs in – and lashes out

The decision did not come completely out of the blue. But that two justices Trump himself put on the bench during his first term would vote against his tariffs was anything but a given. After the ruling, they became targets of furious attacks on Truth Social – including from the president himself. They “should be ashamed” and were denounced as, “fools and lapdogs” and “traitors bought by foreign interests”, among other things. Amy Coney Barrett, in particular, was smeared in such an aggressive way that, in her shoes, I would be inclined to lie low for a while. A woman who dares to contradict and assert independence apparently triggers even more rage than a man. That seems to be the world view of the MAGA crowd. Among Trump's supporters, any understanding of the point of democratic separation of powers is widely absent. Vice-president J.D. Vance called the Supreme Court's decision “[lawlessness](#)”.

U.S. democracy
is still working

Separation of
powers, a
foreign concept

What the ruling does not conclusively settle is whether, and how, the unlawfully collected tariffs must be repaid. Trump is digging in his heels. This will be fought over in the courts for the next five years, he said. Handing back the cash is clearly not his plan. FedEx has already filed an [initial lawsuit](#) demanding reimbursement. Instead, Trump decreed fresh, universal tariffs of 10% on the very same day. The next day, he raised that to 15%. In his dissent, the ultra-conservative justice Brett Kavanaugh – another Trump appointee – effectively supplied a step-by-step guide to tariffs that would pass constitutional muster. Even so, the new tariff is also likely to face a lengthy court battle.

Little reason for German exporters to breathe easy

German companies heavily reliant on exports to the U.S. are particularly hard hit by the tariffs. In the third quarter of 2025, their exports to the U.S. shrank by almost 16% compared with the same period a year earlier (see fig. 1). The automotive, chemical and mechanical engineering industries were especially hard hit. There is no reason to cheer, even after the ruling. As outlined above, the tariffs will initially remain in place – only the legal basis is changing. And since they are borne by importers, any repayments, if they happen at all, are unlikely to offer German exporters much relief.

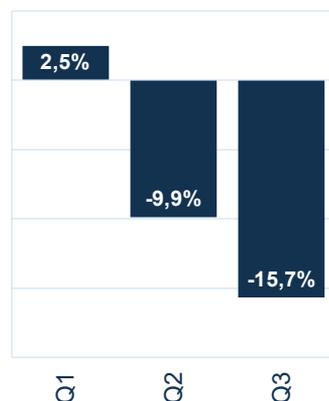
Dollar weakness will also persist for now, albeit not as dramatically as in 2025. It is eroding price competitiveness in the U.S. market. Following the euro's appreciation against the dollar so far, LBBW Research is forecasting a further, though more moderate, weakening of the dollar to 1.22 USD/EUR by year-end (see fig. 2). That would mean roughly another 3.5% drop from the current exchange rate. In our reading, the pressure on the dollar reflects a loss of confidence in an economic policy that is no longer predictable and stability-oriented, as well as worries about the central bank's independence. So, there is no let-up for German exporters.

Trump's expectation that tariffs would induce foreign companies to build production facilities in the U.S. has not been borne out. Last year, German firms' direct investment in the U.S. dropped by 43% compared with the previous year. The president's erratic economic and trade policy is simply destroying the predictability needed for long-term investment decisions.

Much ado about nothing

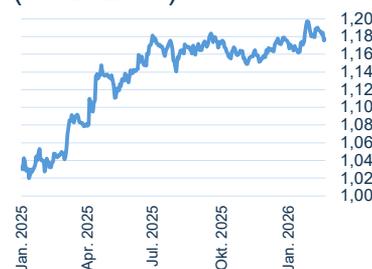
The ultimate irony is that all this tariff tinkering has not brought Trump a single step closer to his central goal of reducing the U.S. trade deficit. In fact, the trade gap may even have widened by another [2%](#) last year, reaching a new record high (see fig. 3). But drawing lessons from experience and changing course is not Trump's style; for him, it is damn the torpedoes, full speed ahead.

Fig. 1: German Exports to the U.S. in 2025 (% change vs. same period 2024)



Source: [Institut der Deutschen Wirtschaft](#), LBBW Research

Fig. 2: Exchange Rate (USD/EUR)



Source: [Deutsche Bundesbank](#), LBBW Research

Fig. 3: Trade balance U.S. (goods, USD billions)



Source: [Federal Reserve Bank St. Louis](#), LBBW Research

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