

## **Syllabus change, yet answer stays intact**

24<sup>th</sup> February 2026

In the 2 months since 2026 began, much has happened in the world of trade and geopolitics. Complexities of even the simplest issues continue to grow, **creating widespread confusion around anything related to the US and the Trump administration.**

From the initial trade deal proposal announced on 5<sup>th</sup> February 2026 — discussed in our note [“Headline Optimism, Fine-Print Risks”](#) — to the subsequent Interim Trade Deal announced by both India and the US — covered in our note [“Progress alongside Revisions – India-US Interim Trade Deal”](#) – the landscape has shifted materially. The current situation is such that the very foundation of the **originally proposed tariff framework has been struck down by the US Supreme Court**, fundamentally altering the basis of the negotiations.

### **Executive Summary:**

#### **The Current Situation →**

The U.S. trade landscape has shifted to an uncertain following a landmark constitutional clash between the Executive and Judicial branches.

- **The SCOTUS Ruling** (Feb 20, 2026): In a 6-3 decision, the Supreme Court struck down President Trump’s initial broad-based tariffs. The Court ruled that the IEEPA (1977) does not authorize the President to impose taxes/tariffs under the guise of "regulating commerce."
- **Section 122 implementation:** Within 24 hours of the ruling, the Trump administration pivoted to Section 122 of the Trade Act of 1974. This allows for a temporary global surcharge (now set at 15%) to address “balance-of-payments emergencies.”
- **Limitations:** Section 122 is a temporary and only valid for 150 days. To maintain it, the administration must prove a genuine monetary crisis, not just a trade deficit. Furthermore, these 15% surcharges are layered on top of existing Section 232 (Steel/Alumini) and Section 301 (China-specific) duties.

#### **How does this impact the US →**

The administration's broader economic agenda is now at risk.

- **Revenue Gap:** The "Big Beautiful Bill" (tax cuts) costs ~\$400B/year. With the court potentially forcing the refund of ~\$175B in collected tariffs and the future of tariff revenue in doubt, the U.S. fiscal deficit can widen significantly.
- **Structural Headwinds:** Increasing interest costs and declining revenue as a % of GDP are creating a "weaker dollar" narrative, accelerating global de-dollarization trends.

#### **Implications for India →**

The outlook for India has shifted from being "blocked" to slightly positive as the punitive 50% tariff wall collapses.



Sector	Impact	Outlook
Textiles & Footwear	High Positive	Previously paralyzed by 50% rates; trade flows are now resuming as effective rates drop.
Pharma & Chemicals	Stable	Vital supply chains are recovering from the "punitive" era.
IT Services	Neutral/Negative	Faces dual headwinds: trade volatility and structural AI-led disruption.
Metals/Energy	Positive	These sectors act as a hedge against a structurally weaker USD and de-dollarization.

**The Three Strategic Narratives for India →**

1. **Bilateral Deal (50% Probability):** Trump’s claim that India’s specific trade deal remains "unchanged" holds. This is the most favourable outcome but remains legally murky.
2. **Legal Challenge (20% Probability):** Section 122 is successfully challenged in court, and Trump is not able to prove its validity leading to the total removal of the 15% surcharge tariffs.
3. **Section 122 continues (30% Probability):** Section 122 holds for the full 150 days and possibly beyond, keeping trade alive but at higher costs than pre-2025 levels.

**Investment takeaways →**

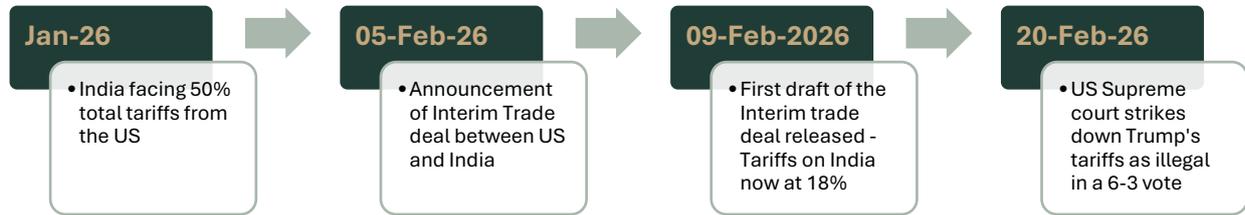
We remain committed to the ICM+S (Infrastructure, Consumption, Manufacturing + Services) framework.

- **Portfolio Strategy:** We are positioned to benefit from volatility via Metals, Commodities, and Energy – themes that thrive as de-dollarization plays out.
- **Bottom Line:** While U.S. policy remains erratic, India’s real-economy sectors are resilient. Current market levels offer a "ripe" opportunity to allocate into themes that are decoupled from U.S. legal drama.



**Detailed Note**

**Timeline of US tariffs:**



The legal basis for the initial tariffs was the 1977 International Emergency Economic Powers Act (IEEPA) – which allowed the President to regulate commerce during a declared national emergency. Trump declared ongoing trade deficits with most nations to be an economic emergency – and used the IEEPA to justify the tariffs.

This might be unusual as the IEEPA is meant for sanctions on specific countries – **not broad-based tariffs**. However, if we were to look at US Presidents’ relationship with tariffs, it doesn’t look unusual. **Historically, whenever a US President has needed to push their agenda, tariffs have been used, no matter the law.**

President	Year	Legal Authority / Action	Purpose & Outcome
Herbert Hoover	1930	Smoot-Hawley Act	A Congressional act that raised tariffs on 20,000 goods; triggered a global trade war the Depression
Franklin D. Roosevelt	1933	Gold Reserve Act / TWEA	Tariff Equivalent: Devalued the dollar by 40% by ending the gold standard, making U.S. exports cheaper
Richard Nixon	1971	Trading with the Enemy Act (TWEA)	Imposed a 10% global surcharge to force allies to revalue their currencies and end the gold-backed dollar
Ronald Reagan	1987	Section 301 (Trade Act of 1974)	Imposed 100% tariffs on specific Japanese electronics to punish Japan for "dumping" semiconductors
Donald Trump	2018	Section 232 / Section 301	Imposed steel/aluminum tariffs (National Security) and China-specific tariffs (Unfair Trade Practices)
Donald Trump	2025	IEEPA (1977)	First-ever use of IEEPA for tariffs (25% on Canada/Mexico, 10% global)
Donald Trump	2026	Section 122 (Trade Act of 1974)	A 15% global surcharge limited by law to a duration of 150 days

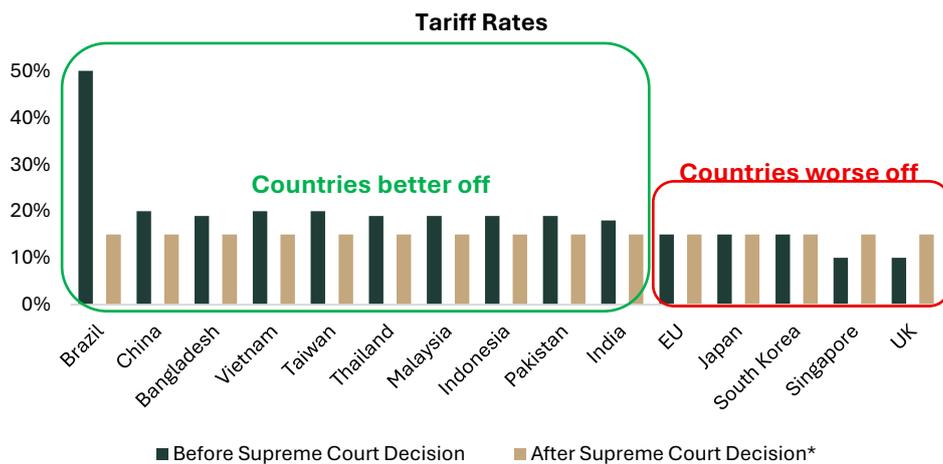
**The US Supreme court on the 20<sup>th</sup> of February ruled a decision declaring Trump’s tariffs as illegal** (6 Justices ruling the initial tariffs as illegal v/s 3 ruling it as legal).

**Section 122**

- Post the Supreme Court decision, Trump implemented **Section 122 – a temporary balance of payments surcharge** which comes from the trade act of 1974, that allows a temporary tariff to address trade/payment issues.
- However, this is a **temporary measure**, and can last only **up to 150 days**. Under the Section 122, the Trump administration **initially announced a broad-based global tariff of 10%** - to all the countries in the world. *The initial 10% tariffs were a quick response to the Supreme court decision.*



- But since the Trump administration wanted to use the maximum 15% tariff limit applicable under the section, it revised the global tariff from 10% to 15% just a day later, on 21<sup>st</sup> February, 2026.
- **Section 122 doesn't require congressional approval – but is only a temporary solution for 150 days (~5 months). However, having a trade deficit isn't the same as having a balance of payment crisis.**
- **If Trump wants to keep these 15% surcharges, he has to prove the U.S. is in a genuine balance-of-payments emergency, rather than just using it as a loophole to bypass the Supreme Court's ruling on trade.**



*\*Tariffs post Supreme court decision are tariffs **excluding tariffs implemented via Section 232 and 301 – Hence the final effective tariff rate would be higher than the base of 15%***

**Since Section 122 operates as a temporary global surcharge layered on top of existing duties – including Sections 232 and 301 – effective tariff rates in several sectors now exceed 15%. Unless explicitly exempted, countries such as the UK, Singapore, Japan and the EU may face tariff levels above what they had negotiated in bilateral arrangements, thereby diluting the economic value of those agreements.**

### **Section 232**

- Section 232 of the Trade expansion act of 1962 allows the US president to implement tariffs for imports which are **deemed to be a threat to the country's national security.**
- **These tariffs are on top of the baseline of 15% implemented via Section 122.**
- Products tariffed under Section 232:
  - Steel
  - Aluminium

### **Section 301**

- Section 301 of the Trade Act of 1974 is usually used to impose tariffs for unfair trade practices, intellectual property violations and forced technology transfers.
- **These tariffs are on top of the baseline of 15% implemented via Section 122.**
- These tariffs are usually imposed on China and they affect: Electronics, Machiner, Consumer goods and Industrial inputs



## **Current Tariffs for India**

If we were to assume that the current Section 122 were to hold (given Trump is able to prove its validity), there is a mixed outlook for India. While Trump himself may have said that the trade deal with India's deal will be unchanged, there is no confirmation of the same from any Indian officials yet. Additionally, India has postponed its meeting with the US for further trade deal finalization given the Supreme court development.

The current tariff rate is calculated as follows:

### **Most Favoured Nation (MFN) Rate + Section 122 Surcharge + Section 232 US security-related tariffs + Section 301 tariffs (not applied to India)**

→ MFN applies to countries which don't have a Free Trade Agreement (FTA) with the US. Since India doesn't, MFN applies to the country. MFN rate is sector dependent.

Sector	U.S. MFN Rate
Electronics / IT	0–1%
Industrial machinery	~2%
Cars & transport	~2.5%
Textiles / Apparel	~8–11%
Furniture / Appliances	~2–3%
Leather / Footwear	~10%
Agriculture (avg)	~5%
Dairy / Sugar / Tobacco	High

Source: Approximate averages from US government (HTS)

→ For India, it becomes confusing as there are multiple narratives which are in place at the moment with our predicted probabilities:

1. **Narrative 1 (50% probability)** – This gets a 50% probability because it was spoken by Trump himself – that India continues with the Trade deal as is → However, this seems tricky legally as the earlier Tariffs were found to have no basis in the first place

Here, for India, this is a favourable outcome as tariffs are lesser v/s other Emerging markets

2. **Narrative 2 (20% probability)** – Trump administration will be challenged, yet again, regarding the validity of Section 122 → Which will invalidate the 15% surcharge tariffs

Here, for India, this is a favourable outcome as tariffs will be removed

3. **Narrative 3 (30% probability)** – Section 122 remains in place and Trump is able to prove its validity to Congress.

Here, for India, trade still continues, however in absolute terms, size of trade will be impacted negatively as tariffs can remain high (increasing price of goods)

The de-escalation of trade tensions has provided a vital lifeline for Indian exporters. Following the removal of the 50% 'punitive' tariff regime, trade flows have resumed in critical labour-intensive sectors such as textiles, footwear, and gems and jewellery – sectors that were previously paralyzed by high costs.

**Our View:**

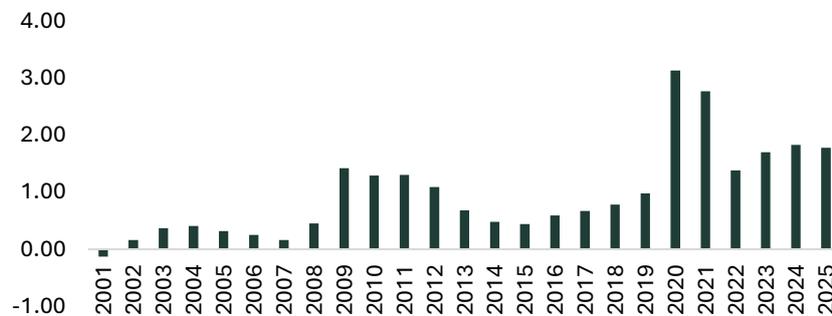
We believe the Supreme Court decision puts a lot of pressure on the Trump administration. We will have to monitor this dynamic situation carefully as the actions of the current US administration have a direct impact on the perception and value of the USD as a reserve currency and ultimately a safe haven.

If we were to take a step back and analyse the actions of the Trump administration – their motive seems to be clear, but it is doubtful if they will achieve it. The Big Beautiful Bill was announced on the 4<sup>th</sup> of July, with promises of major tax and legislation cuts – **which meant lesser revenue for the US government – who is already struggling with finding ways to lower debt to decrease interest payments.**

If the Trump administration has to give back the USD ~175 billion collected via tariff revenue (*total collection, not annual figure*), and Section 122 doesn't hold, the Trump administration **loses the basis of passing the Big Beautiful Bill – because it will have effectively lowered tax revenue without being able to generate the equivalent or higher revenue via tariffs.**

The US government collected ~USD 195 billion in 2025 through tariffs ([Yale research lab](#)). The Big Beautiful Bill is expected to cost the US government USD ~400 billion a year. No tariff revenue + lesser tax revenue will cause significant pressure on the US Fiscal deficit – which is already on an uptrend.

**US Fiscal Deficit (USD Tn)**



Source: FiscalData.treasury.gov

Category	Average 1976–2025 (% of GDP)	2025 (% of GDP)	2026 (% of GDP)	2027 (% of GDP)	2036 (% of GDP)
<b>Total revenues</b>	<b>17.30</b>	<b>17.20</b>	<b>17.50</b>	<b>17.70</b>	<b>17.80</b>
Individual income taxes	8.00	8.70	8.60	8.80	9.10
Payroll taxes	6.00	5.80	5.70	5.70	5.70
Corporate income taxes	1.70	1.50	1.30	1.30	1.20
Customs duties	0.20	0.60	1.30	1.30	0.90
Other revenues	1.20	0.60	0.60	0.60	0.90
<b>Total outlays</b>	<b>21.20</b>	<b>23.10</b>	<b>23.30</b>	<b>23.30</b>	<b>24.40</b>
Mandatory programs	11.20	13.70	14.20	14.40	15.00
Social Security	4.50	5.20	5.20	5.30	5.90
Major health care programs	3.50	6.00	6.00	6.00	6.70
Other mandatory	3.20	2.50	3.00	3.10	2.50
Discretionary	7.80	6.20	5.90	5.60	4.80
Defense	4.10	2.90	2.80	2.70	2.40
Nondefense	3.70	3.30	3.10	2.90	2.40
Net interest	2.10	3.20	3.30	3.30	4.60
<b>Total deficit (-)</b>	<b>-3.80</b>	<b>-5.80</b>	<b>-5.80</b>	<b>-5.70</b>	<b>-6.70</b>
<b>Debt held by the public</b>	<b>51.20</b>	<b>99.40</b>	<b>100.60</b>	<b>102.10</b>	<b>120.20</b>

Source: Congressional Budget Office; this was released before the Supreme court ruling, hence future revenue can be even lower



**The US is going to face structural headwinds –**

- Flat/declining revenue as % of GDP
- Increasing expenditure as a % of GDP
  - Due to increasing interest cost
  - Which leads to lower spending for growth and safety – as we can see with lower spending in healthcare and defence
- Questionable tariff revenue going forward

**All of the above make the case for a structurally weaker dollar, and hence, dedollarization.**

**Implications for India:**

We continue to be positive on the Infrastructure, Consumption, Manufacturing + Services (ICM+S) framework that we mentioned in our [Budget Note](#). We also believe we have positioned portfolios to take advantage of the Trump-inflicted volatility via investment into themes which will benefit greatly as dedollarization plays out (via investment into [Metals, Commodities](#) and [Energy](#)).

We like Textiles as a sector in this volatile scenario given favourable valuations and a constructive growth narrative. Further, we are positive on real-economy facing sectors and continue looking for such themes for allocation (lot of which are benefitting from dedollarization).

We also continue to believe current levels in the Indian market are ripe for allocation into favourable themes, broad-based markets and our choice of Direct Equity Ideas. We believe the themes we have picked for allocation are bound to do well regardless of the outcome in the US. Any further volatility in the US markets can be an opportunity for India in the long term.

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