Trade Policy 2026 Preview

THE TARIFF PILEUP

LAYERED POLICIES, RISING PRICES, AND GROWING RISKS

CAPSTONE

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Trade Policy 2026 Preview:

THE BOTTOM LINE

Capstone expects tariff policy to remain front and center for the Trump administration in 2026, even as affordability pressures mount and the Supreme Court is likely to weigh in unfavorably. A slate of high-stakes negotiations with China looms, alongside multiple Section 232 investigations that will force near-term decisions. We expect the US-Mexico-Canada Agreement (USMCA) to be renewed by Q2 2026, delivering tailwinds for US automakers, steel producers, and agricultural companies.

Outlook at a Glance

- TRUMP WILL DIG IN ON HIS TRADE POLICY EVEN AS TARIFFS CAUSE SOME PRICES TO RISE AHEAD OF THE 2026 MIDTERM ELECTIONS
- THE TRUMP ADMINISTRATION WILL TAKE A TAILORED APPROACH TO SECTION 232, IMPOSING TARIFFS ON A SMALLER PORTION OF GOODS THAN THOSE COVERED BY THE SCOPE OF INVESTIGATIONS
- US-CHINA TRADE RELATIONS WILL BE UNSTABLE IN 2026 DESPITE THE ONE-YEAR TRUCE
- THE US-MEXICO-CANADA TRADE AGREEMENT WILL BE RENEWED BY THE END OF Q2 2026, WITH BILATERAL DEALS ADDRESSING SOME SECTION 232 TARIFFS
- EXPECT MORE US-EU TRADE FRICTION, WITH EUROPE'S DIGITAL AND ENVIRONMENTAL REGULATIONS BECOMING TENSION POINTS
- THE ADMINISTRATION WILL DEPLOY A BACK-UP PLAN TO IMPOSE TARIFFS AFTER THE SUPREME COURT RULES AGAINST IEEPA; OUTLOOK FOR REFUNDS IS NEGATIVE

Trump Will Dig In on His Trade Policy Even as Tariffs Cause Some Prices to Rise Ahead of the 2026 Midterm Elections

Winners	Cleveland-Cliffs Inc. (CLF), Century Aluminum Co. (CENX), Crown Holdings Inc. (CCK), First Solar Inc. (FSLR), MasterBrand Inc. (MBC)
Losers	Wayfair Inc. (W), RH (RH), Target Corp. (TGT)

THE ADMINISTRATION REMAINS FOCUSED ON TRADE DEFICIT, REVENUE, AND MANUFACTURING

The Trump administration continues to believe that tariffs are a critical tool for reshoring US manufacturing capacity in key sectors and for solving the persistent US trade deficit. Capstone maintains its belief that the long-term outlook for US tariff policy will continue to revolve around:

- A baseline tariff on all imports to raise revenue and reduce the US trade deficit, rooted in the principles of reciprocity;
- Sectoral tariffs to reshore manufacturing in key industries that have a national security nexus; and
- Higher tariffs on China and attempts to bring other countries into alignment with US tariffs on China.

INCREASED SENSITIVITY TO AFFORDABILITY

Recent modifications to the reciprocal tariff indicate the administration is becoming more sensitive to the impact of tariffs on consumer goods, particularly food. On November 14th, the White House issued an executive order (EO) granting reciprocal tariff relief to imports of agricultural products. More than 200 unique HTS codes, representing more than $62 billion in agricultural imports in 2024, were added to Annex II, thereby exempting them from reciprocal tariffs. The administration also reduced certain food tariffs on Brazil.

The focus on affordability sets up uncomfortable choices for the administration ahead of the 2026 midterms. Section 232 tariffs, which have thus far been durable for the administration, may be further tailored as Trump tries to lower prices, including electricity costs. If the US Supreme Court (SCOTUS) strikes down the reciprocal tariffs (see more below), we do not expect the administration to use that as an opportunity to remove all tariffs on a broad range of products.

The Trump Administration Will Take a Tailored Approach to Section 232, Imposing Tariffs on a Smaller Portion of Goods Than Those Covered by the Scope of Investigations

Winners	Critical minerals: Albemarle Corp. (ALB), Lithium Americas Corp. (LAC), Standard Lithium Inc. (SLI), Corning Inc. (GLW), Wacker Chemie AG (WCH on the German exchange) Pharmaceuticals: Dr. Reddy's Laboratories Ltd. (RDY), Teva Pharmaceutical Industries Ltd. (TEVA), Sandoz Group (SDZ on the Six Swiss exchange or SNZNY in the US)
Losers	Polysilicon: Sunrun Inc. (RUN), Clearway Energy Inc. (CWEN)

TRUMP HAS A TRACK RECORD OF TAKING A TAILORED TARIFF APPROACH TO SECTION 232

In Trump's second term, his administration completed Section 232 investigations into imports of copper, lumber, and trucks. In the tariffs on copper and lumber, the administration demonstrated a more tailored approach than in previous investigations into steel, aluminum, and autos. Notably, the administration has adopted a more targeted application of tariffs, in some cases with delayed phase-ins.

For example, the investigation into copper resulted in tariffs on only semi-finished copper products. The investigation's scope, however, was much broader and included copper ore and copper scrap, which were not initially included in the tariff announcement. Instead, the Commerce Department was tasked with monitoring imports of copper and its derivatives over the next year. By June 30, 2026, Commerce must issue a report to the president providing a recommendation on whether to impose a 15% tariff on refined copper starting in 2027. Instead of imposing baseline tariffs on all products, the administration has built in provisions to increase tariffs over time if necessary.

During the lumber investigation, the administration applied different tariff rates to imports of softwood lumber and to derivative products. Additionally, the administration imposed tariffs only on cabinets, vanities, and upholstered furniture, with duties scheduled to increase in 2026. The administration also asked Commerce to produce a report on hardwood lumber by October 2026 for potential inclusion.

This signals a tailored approach to Section 232 tariffs, rather than applying a broad-based tariff to all products in the scope of the investigation. We expect that strategy to continue.

ONGOING SECTION 232 TARIFFS

While we expect the administration to exercise greater restraint in ongoing Section 232 investigations into products such as pharmaceuticals, semiconductors, and critical minerals, we still expect the process to result in the imposition of tariffs. Possible outcomes following investigations include:

1. Critical minerals: We believe the Trump administration will likely implement a tiered tariff approach, in which critical minerals with substantial domestic supply chains and/or that have received US government investment are expected to be subject to 25% tariffs or greater on day one. Critical minerals with limited domestic supply chains, such as rare earths, could face no or lower tariffs initially, with future tariff increases possible.
2. Pharmaceuticals: The administration has confirmed that tariffs will apply only to branded drugs. Generics will receive carve-outs due to concerns about pricing.

INCLUSIONS PROCESS LIKELY TO EXPAND SCOPE

The inclusions process, introduced by the current administration, allows companies to petition the Commerce Department to include goods in Section 232 duties. In the only such process completed so far, covering steel and aluminum derivatives, Commerce accepted all requests except those seeking tariffs on goods subject to other Section 232 duties or investigations. If domestic manufacturers across Section 232-exposed sectors petition for the inclusion of a good, it is likely to be included, thus increasing the reach of products subject to tariffs over time.

US-China Trade Relations Will Be Unstable in 2026 Despite the One-year Truce

Winners	N/A
Losers	Cargill Inc., Archer-Daniels-Midland Co. (ADM), Bunge Global SA (BG), Ford Motor Co. (F), Rivian Automotive Inc. (RIVN)

CONTOURS OF THE US-CHINA DEAL

In late October, Presidents Trump and Xi agreed to a one-year trade deal intended to provide tariff certainty. As part of the deal, the US agreed to reduce fentanyl-related tariffs by 10% and to postpone Section 301 shipbuilding duties. In return, China agreed to roll back critical mineral export restrictions and committed to purchasing soybeans through 2028.

KEY PAIN POINTS FOR 2026

Although an agreement has been reached between the two countries, we believe significant risks of re-escalation remain in 2026. If China is unable to uphold its purchase commitments, as it did during the Phase One agreement in 2021 and 2022, we believe the Trump administration would likely—and can quickly—impose new tariffs. Similarly, if US companies, such as car manufacturers, experience difficulties sourcing Chinese rare earth products, we expect a similar escalation. The US government will continue its engagement with US farmers and manufacturers to ensure China honors its commitments under the deal.

If the US imposes new Section 232 tariffs on key Chinese exports, such as semiconductor derivatives, active pharmaceutical ingredients, and polysilicon, China could perceive these actions as a provocation, threatening the current deal. If the US places new export controls on items such as high-performance chips, ethane, or jet engines, we would expect a similar escalation on the Chinese side.

US TRADE AGREEMENTS WITH THIRD COUNTRIES COULD TRIGGER CONFLICT

As part of the US-Malaysia and US-Cambodia agreements, if the US imposes a duty or other import restriction on a good or service from a third country due to national security concerns, the US will notify Malaysia and Cambodia that the action is being taken, and each country shall adopt a measure with a similar restrictive effect. This suggests that each country could mirror the Section 232 tariffs the US has imposed on imports of products in sensitive sectors, including steel, aluminum, and semiconductors.

We expect the US to seek to include similar provisions in future trade deals. If the US elects to trigger these provisions, it would create new strains on China's economy and create a new risk to the current trade deal between the two countries.

The US-Mexico-Canada Trade Agreement Will Be Renewed by the End of Q2 2026, With Bilateral Deals Easing Some Section 232 Tariffs

Winners	Ford Motor, General Motors Co. (GM), Alcoa Corp. (AA), Nucor Corp. (NUE), Archer-Daniels-Midland
Losers	N/A

USMCA REVIEW

Capstone expects the review of the USMCA trade deal will lead to a continuation of the agreement by July 2026. As part of the review, the three USMCA countries will decide whether they want to renew the agreement for another 16 years. If any country opts not to renew, the decision will trigger an annual review of the deal for the next 10 years. If, at the end of that period, the countries decide not to extend the agreement, it will terminate.

Capstone believes it is unlikely that the administration will withdraw from the USMCA. Trump has touted the agreement's success, and withdrawing from it would effectively condemn a deal his administration negotiated in his first term while harming many US industries. USMCA-compliant products are already exempt from the 35% tariff on imports from Canada and the 25% tariff on imports from Mexico.

OUTLOOK FOR BILATERAL DEALS

The Trump administration will likely pursue side agreements with Canada and Mexico that address a variety of trade disputes. Once those are struck, the US may be willing to reduce the Section 232 tariffs imposed on Canada and Mexico. Aluminum, steel, and critical minerals are the sectors most likely to be addressed in the bilateral deals, but it is unlikely that tariffs will go to zero for these products. Mexico is better positioned than Canada to strike a deal, given the positive relationship between Presidents Trump and Sheinbaum and Mexico's progress in addressing US trade and investment concerns.

EXPECT RULES OF ORIGIN (ROO) MODIFICATIONS

Current rules of origin (ROO) and limitations on transshipment from Canada and Mexico are likely to play a large role in the USMCA review. During the first Trump term, US trade negotiators focused on raising the USMCA content requirement for USMCA-eligible vehicles to 75%, and we expect negotiators to try to increase that percentage during the USMCA review. US negotiators are particularly interested in doing this to keep Chinese content out of USMCA vehicles as Chinese companies invest more heavily in Mexico. The administration's concessions on the autos Section 232 to USMCA-eligible vehicles and parts indicate it is prepared to tariff non-USMCA content in USMCA vehicles.

This trend may extend into other sectors where the US wants to exclude Chinese content. By overhauling the USMCA ROO more broadly, the deal parties could determine a product's origin based on the origins of its components rather than where the product is substantially transformed. Under the current regime, even if a product's components are sourced from a third country, and it is assembled and substantially transformed in Mexico, it is considered a Mexican product.

Updates to the rules of origin would limit companies' ability to strategically shift assembly to third countries to mitigate tariff exposure. The focus of such updates would be China, given longstanding US concerns about Chinese content receiving preferential treatment under the USMCA. We believe the US will eventually seek to address Chinese content in other bilateral trade deals, though ROO modifications are technically challenging and take years to work through.

Expect More US-EU Trade Friction, With Europe's Digital and Environmental Regulations Becoming Tension Points

Winners	Cleveland-Cliffs, General Motors, and domestic manufacturers with limited exposure to the EU.
Losers	LVMH Moet Hennessy Louis Vuitton SA (MC on Euronext Paris), Capri Holdings Ltd. (CPRI), Pernod Ricard SA (RI on the Euronext Paris)

TRADE AGREEMENT

Increasing tension over the implementation of the US-EU trade agreement, EU digital and environmental regulations, and US Section 232 tariffs will likely create trade friction between the US and EU in 2026.

The US will likely react negatively to the EU's implementation of new digital or environmental regulations, viewing them as a breach of commitments made to the US. On the other hand, the EU has objected to the increasing US reliance on Section 232 investigations outside the scope of the US-EU deal, including the use of the inclusions process.

The US and EU have taken positive steps to implement the trade agreement signed in July 2025. While regulations or new tariffs may complicate implementation, we do not expect a wholesale abandonment of the trade agreement. Instead, the US may walk back some commitments made in the agreement, such as tariff reductions on auto exports and pledges to further discuss steel and aluminum tariffs.

ROLE OF IEEPA IN US-EU TRADE

If the Supreme Court strikes down the reciprocal tariffs, as Capstone expects, the US could quickly launch a Section 301 investigation into the EU to restore tariffs under a more legally durable framework. The US could also cite EU tech regulations as a justification for imposing blanket tariffs under Section 338, though we believe this is less likely. The administration's desire to maintain trade leverage over the EU makes Section 301 action appealing, particularly if IEEPA is struck down.

The Administration Will Deploy a Back-up Plan to Impose Tariffs After the Supreme Court Rules Against IEEPA; Outlook for Refunds Is Negative

Winners	Beneficiaries of the universal IEEPA tariffs, domestic producers of products not deemed to be strategically significant enough for a Section 232 investigation.
Losers	Import-exposed retailers, such as Walmart Inc. (WMT), Target Corp. (TGT), Lowe's Cos. Inc. (LOW), and Dollar Tree Inc. (DLTR).

IEEPA LITIGATION

Capstone assigns a 70% likelihood that SCOTUS will find Trump's use of the International Emergency Economic Powers Act (IEEPA) unlawful by July 2026. During oral arguments in November, most justices appeared to doubt the government's claim that Trump has the authority to impose tariffs on national security grounds. Removing the tariffs would create tailwinds for retailers and other import-exposed firms.

We believe the outlook for refunds is negative for importers that are not plaintiffs in the SCOTUS case. During the oral arguments, the plaintiff's counsel conceded to Justice Amy Coney Barrett that refunds would be difficult to administer and said that the plaintiffs would only seek forward-looking tariff relief. Moreover, the plaintiff's counsel did not advocate for broad tariff relief to all impacted parties.

If SCOTUS requires the government to refund collected tariffs, the process would be cumbersome. Additionally, importers would not necessarily be obliged to pay refunds to downstream customers unless a private agreement was reached between those parties. While a class action may offer the potential for refunds, it would likely be several years before cash is available to importers.

Capstone believes that if the Court of International Trade finds Trump's use of IEEPA to impose tariffs to be unlawful, Trump maintains a variety of other trade authorities that could be used to replace his original measures, although they would present him with constraints. Section 122 of the Trade Act of 1974 and Section 338 of the Tariff Act of 1930 give the president tariff authorities that Trump can use to replicate the universal tariff. We believe the Trump administration may consider using these authorities as a stopgap measure while implementing new tariffs under Section 301 and Section 232 if the court prohibits the use of IEEPA.

SECTION 232 LITIGATION RISK IS UNDERAPPRECIATED

The risk of a lawsuit against the administration's Section 232 tariffs is underappreciated. Section 232 is a legally durable statute, but the administration has introduced a novel inclusions mechanism that creates legal risk. The inclusions process, introduced by the current Trump administration, allows companies to petition the Department of Commerce for goods they want covered by Section 232 duties. In the only such process completed so far covering steel and aluminum derivatives, Commerce accepted all requests except those seeking tariffs on goods subject to other Section 232 duties or investigations.

Importers that were not originally subject to Section 232 duties but find themselves tariffed via an inclusions process may point to the administration's 100% acceptance rate of inclusions petitions as alleged evidence of an illegal process or may otherwise sue over the structure and introduction of the inclusions process itself.

The Trump administration is currently expanding the list of goods covered by a variety of Section 232 tariffs. That increases the odds that importers sue. The Commerce Department is currently running the second inclusions process on steel and aluminum derivatives and launched a separate one on auto parts in October. Section 232 is correctly understood to be legally sturdy, but the inclusions process is new and therefore exposed to litigation risk.

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