



Tariffs: A revenue win—but not a deficit fix

Kelly Bogdanova – San Francisco

After a year of uncertainty, tariff rates have stabilized at lower levels than feared—and become a significant U.S. government revenue source. We assess the tariff landscape ahead of the Supreme Court’s important ruling.

After many months of tariff angst in 2025, we’re right back near the level that then-presidential candidate Donald Trump originally campaigned on in 2024.

The U.S. average effective tariff rate on other countries hovers around 9.9 to 10.5 percent, according to estimates by the Tax Foundation and Penn Wharton Budget Model, which consider actual tariffs paid to U.S. customs and consumers’ changes in purchasing patterns when confronted with higher-priced goods.

This range is well below the 20-plus percent estimates that were penciled in by many economists following the sky-high “reciprocal” tariff levels announced in April 2025, the peak period of market angst. Since then, the rate has dropped following U.S. trade deals with key partners such as the EU, Japan, and South Korea, among others, and an important trade truce with China.

Although the roughly 10 percent level is lower than feared, it represents a sea change compared to the declining and low tariff rates during much of the post-World War II era. **Currently, it is the loftiest level since 1946 and well above 2.4 percent in 2024**, before President Trump’s second term began.

It would be in keeping with the administration’s character to issue additional tariff threats periodically this year, including ahead of the United States-Mexico-Canada Agreement (USMCA) mandatory review in July.

But we doubt the average U.S. effective tariff rate will rise much—if at all—ahead of the November midterm elections given the political sensitivities associated with the affordability issue and the desire to pull down inflation further.

Who is actually paying the tariffs?

RBC Global Asset Management economists assess that foreign and domestic companies have been sharing the tariff burden by a roughly 50/50 percent split.

Within that balance, about one-third of tariff costs have been passed on to American consumers via higher goods prices, based on an analysis of data through September 2025.

RBC economists anticipate tariff pass-through will continue this year, which should keep the Consumer Price Index (CPI) and other consumer inflation measures somewhat elevated above the Federal Reserve’s preferred level.

“On the whole, however, the impact of tariffs on growth and CPI looks like it will ultimately be less than models originally suggested,” according to RBC Global Asset Management Inc. Senior Economist Josh Nye.

What does this mean for Americans’ wallets? Assessments vary.

For perspectives on the week from our regional analysts, please see [pages 3–4](#).

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The Tax Foundation estimates that tariffs represent an **average tax increase of \$1,000 in 2025 and \$1,300 in 2026 per household**, based on tariff rates through the latter part of January.

The Tax Policy Center, a joint effort by the Urban Institute and Brookings Institution, sees a greater hit in its recently updated forecast. It estimates the Trump 2.0 tariffs will represent an **average \$2,100 burden per household in 2026**.

SCOTUS to weigh in soon

The U.S. Supreme Court is expected to rule on the administration's use of the International Emergency Economic Powers Act (IEEPA), the instrument by which the bulk of the Trump 2.0 tariffs have been implemented.

Even if the Court were to rule against the administration's IEEPA use, RBC Global Asset Management Inc. Chief Economist Eric Lascelles wrote, "...the reality is that the U.S. can virtually instantaneously introduce temporary 15% tariffs and then, after some obligatory research and hearings, impose just about whatever tariff rate it desires at a later date. Thus, **the White House should be able to get where it wants to go even without the convenience of IEEPA tariffs.**"

Lascelles believes **the Court is "quite unlikely" to require tariff reimbursements** as this would be "chaotic as most businesses have passed at least a portion of their tariff costs up and down the supply chain, with no clear way to properly compensate other parties."

Are tariffs here to stay?

Polls show the Trump 2.0 tariffs lack popularity, with 60 percent of Americans disapproving of them, according to Pew Research.

Ahead of the midterm elections, Congress is pushing back. The House of Representatives recently voted by a very narrow margin to terminate the IEEPA tariffs on Canada. More tariff votes in the House and Senate seem in the offing this year; Trump holds the veto pen, however.

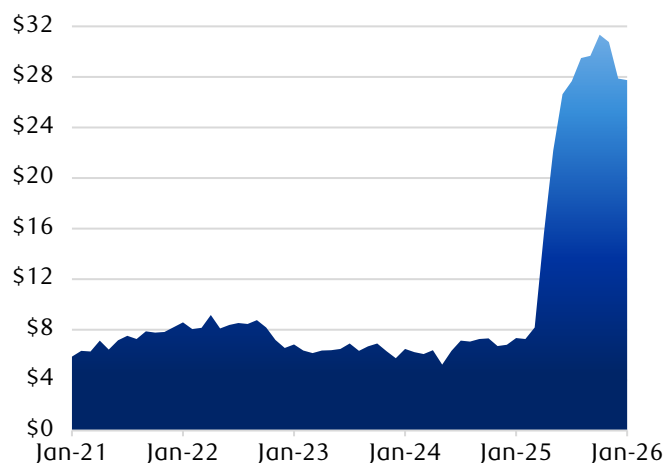
We think it will be tempting for the next president—regardless of party—to keep in place at least some or most of the Trump 2.0 tariffs, as they are now an important federal government revenue stream.

In January 2026, the \$27.74 billion in tariff revenue was almost four times the average from 2021 to 2024, as the chart shows, according to customs data compiled by the U.S. Department of the Treasury, calculated on a "conventional basis"—meaning the actual dollars coming into customs, without negative side effects being taken into consideration.

The government collected \$264 billion in net customs revenue in 2025, and the amount should be a lot higher in 2026, the first full year under the Trump 2.0 tariff framework.

Tariff revenue has surged

Net customs receipts to U.S. government by month (\$ billions)



Source - RBC Wealth Management, U.S. Department of the Treasury, Bloomberg; monthly data through 1/31/26

If the current tariffs remain in place, the Tax Foundation forecasts they will raise over \$2.1 trillion in federal revenue on a conventional basis from 2026 through 2035 (or \$1.44 trillion on a "dynamic basis" when negative side effects are considered).

Some deficit relief but not a panacea

The tariff revenue surge helped decrease the U.S. fiscal deficit. It declined to 5.4 percent of GDP in 2025 from 6.9 percent in 2024, based on preliminary data.

But this is still a relatively big number—far from Treasury Secretary Scott Bessent's goal of around three percent of GDP by 2028 and well above the two percent level we would consider palatable.

The Congressional Budget Office forecasts a 5.8 percent deficit-to-GDP ratio in 2026, an increase to 6.0 percent in 2028, and an even higher level in 10 years.

It would take a lot more than tariff revenue to right-size the deficit given spending is high and growing on Medicare, Medicaid, Social Security, and defense, among other programs. Also, net interest payments on the federal debt remain sizeable, at 13.9 percent of expenditures so far in fiscal year 2026.

The country hasn't seen spending discipline since a brief period in the 1990s, and unfortunately, we don't think this will change anytime soon, regardless of which party is in power—unless the Treasury market forces Washington's hand.

Our fixed income team anticipates that institutional investors around the world will keep a closer eye on the U.S. federal deficit and debt levels than they did in previous years and that sizeable deficits will keep long-term Treasury yields, particularly the 30-year maturity, higher than they would be otherwise.

UNITED STATES

Tyler Frawley, CFA – Minneapolis

■ **Small caps are showing signs of sustained relative strength after years of underperformance.** From February 2021 through October 2025, the S&P SmallCap 600 Index underperformed the S&P 500 Index by more than 65%, the most prolonged and pronounced stretch of small-cap underperformance since the late 1990s. This underperformance was driven by multiple factors including rising interest rates, valuation compression, and narrow equity market leadership concentrated in mega-cap growth stocks. Smaller companies, which typically have higher leverage and more cyclical earnings streams, were structurally disadvantaged in that environment. Since October, however, performance dynamics have shifted. The SmallCap 600 has outperformed the S&P 500 by more than 11%, making this one of the more durable periods of relative strength in years. We believe the improvement is grounded in fundamentals rather than sentiment alone. Stabilizing interest rates have eased pressure on corporate balance sheets, earnings revisions for small caps have started to turn higher, and market leadership has broadened beyond a concentrated group of large-cap stocks. As RBC Capital Markets, LLC Head of U.S. Equity Strategy Lori Calvasina noted recently, the fundamental backdrop has become more constructive, supported by stronger earnings beat rates and resilient job growth—though small caps remain sensitive to Federal Reserve policy shifts and positioning risk, which could keep performance uneven in the near term. Furthermore, the SmallCap 600 currently trades at a discount of roughly 28% to the S&P 500, in terms of forward price-to-earnings ratio, a meaningful departure from the roughly 3% premium it has averaged over the past 20 years. In our view, the combination of improved

Relative performance: Small caps outperforming large caps to start the year



Note: Large caps represented by the S&P 500 Index, small caps represented by the S&P SmallCap 600 Index; weekly price return data as of 2/18/26.
Source - RBC Wealth Management, FactSet

fundamentals, broader leadership, and lower relative valuations suggests this move could prove to be durable, even if the path forward is not linear.

■ **Housing market remains weak as builder sentiment falls again.** The NAHB Housing Market Index fell one point to 36 in February, marking its second straight monthly decline and 22 consecutive months in the contractionary zone below 50. Affordability pressures have kept demand weak amid declining sales expectations and buyer traffic. In response, 36% of builders have cut prices and 65% have offered incentives. Yet with the median new home value now over \$450,000 and mortgage rates remaining above 6%, many buyers remain on the sidelines.

CANADA

Nguyen Dang, CFA & Claudia Humbert, CFA – Toronto

■ **Canada's headline inflation in January came in slightly below consensus expectations, edging down to 2.3% y/y from 2.4% in December,** according to Statistics Canada. Lower energy prices helped soften inflation, with gasoline prices down nearly 17% on a yearly basis, partly owing to the removal of the consumer carbon tax last April. Meanwhile, the federal tax holiday on restaurant meals and select household goods in January 2025 exerted some upward pressure on 2026 price growth. The cost of eating out rose over 12% y/y, contributing to food inflation accelerating to 7.3% y/y, up from 6.2% a month earlier. **Grocery store inflation remains elevated at 4.8% y/y,** pushed higher by rising import costs due to extreme weather globally and tariffs. Providing some relief to consumers, shelter inflation dropped below 2% for the first time in five years, slowing to 1.7% y/y driven by lower rent prices and mortgage costs. **Overall, the data shows that Canadian inflation continues to move in a constructive direction while supporting the Bank of Canada's inclination to pause monetary policy easing** as it monitors how the trade environment is affecting the economy.

■ **Prime Minister Mark Carney on Tuesday unveiled a new defence industrial strategy aimed at reducing Canada's reliance on U.S. suppliers** by doubling the share of domestic procurement for military equipment, targeting 70% by 2035 from roughly one-third today. Backed by CA\$6.6 billion over five years and framed as "build-partner-buy", the plan prioritizes Canadian production across 10 key sovereign capabilities, including aerospace, ammunition, drones, and AI, while still allowing selective use of U.S. technologies. **The government expects the strategy to create up to 125,000 jobs over the next decade, lift defence exports by up to 50%, and boost industry revenues by more than 240%.** Officials emphasized that deeper domestic capacity and diversified global partnerships, including with Europe, aim to enhance supply chain resilience amid rising geopolitical uncertainty and protectionism.

However, structural factors such as **longstanding equipment orders and existing integration with U.S. defence systems imply that any changes in Canada's defence strategy will likely be incremental**, in our view.

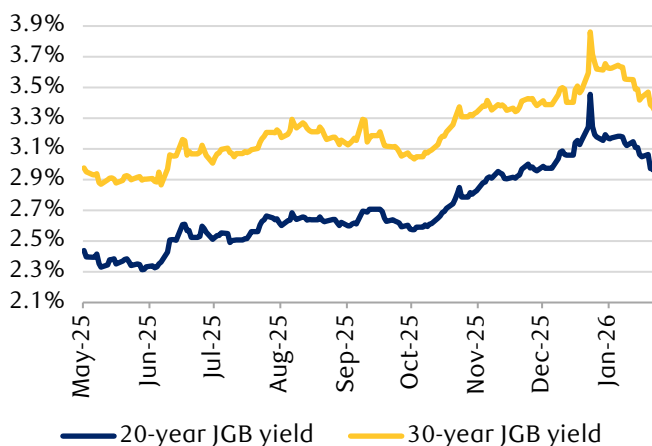
EUROPE

Frédérique Carrier & Rufaro Chiriseri, CFA – London

- **The UK labour market continues to weaken**, supporting the case for Bank of England (BoE) policy easing, in our view. Unemployment rose to a five-year high of 5.2% in December from 5.1% in November, while job vacancies have stabilised near multi-year lows and redundancy rates remain elevated. Crucially, private sector wage growth slowed to 3.4%—now in the range consistent with the BoE's 2% inflation target.
- **Headline CPI inflation fell to 3.0% y/y in January from 3.4% y/y in December**, driven by moderating transport, education, and food prices. However, core and services inflation surprised to the upside and exceeded the BoE's February projections and may raise concerns amongst the hawks of a stalling disinflationary process. Yet, the dovish cohort within the central bank viewed the subdued economic activity and labour market risks favouring further easing. Similar to the December meeting, BoE Governor Andrew Bailey's vote will be key in tipping the balance in favour of cuts at the March meeting, in our view. We maintain our expectation for a 25 basis points (bps) cut in Q1.
- **Since the Feb. 5 BoE meeting, market pricing for cumulative cuts this year rose to 50 bps from 43 bps**, while 2-year gilt yields—which are most sensitive to monetary policy—rallied around 9 bps.
- **At an informal European Council meeting on Feb. 12, EU leaders discussed strengthening the single market.**

Long-maturity Japanese government bond yields have pulled back recently as bond prices have risen

20-year and 30-year JGB yields



Source - RBC Wealth Management, Bloomberg; daily data 5/29/25–2/19/26

Proposals under consideration include streamlining regulations, “Buy European” procurement initiatives in key sectors, merger rule reviews, and a pragmatic approach to the green transition. While consensus exists on regulatory simplification, “Buy European” policies face resistance. Nordic countries and Ireland—which benefit significantly from open trade—worry the bloc risks adopting protectionist measures. European Commission President Ursula von der Leyen committed to presenting a detailed roadmap with timelines by the next EU summit to be held March 18–19.

- Separately, **the Munich Security Conference (Feb. 13–15) underscored Europe's move toward strategic defence autonomy**, particularly regarding nuclear deterrence, driven by diminishing confidence in American reliability.

ASIA-PACIFIC

Belmen Woo – Singapore

- **The Japanese bond market**, notably long-end Japanese government bonds (JGBs), **has stabilised and reacted somewhat positively to last week's resounding political victory for Prime Minister Sanae Takaichi's party and its coalition partner**. JGB bond prices have extended a week-long rally, and yields dropped on the back of improved risk sentiment and well-received auctions, reflecting investors' receding concerns over fiscal risks and inflation. Yields for 20-year and 30-year JGBs have declined 8–10 basis points (bps) week over week (w/w) and have retraced 50–60 bps from the multi-decade highs recorded late last month, trading at about 2.95% and 3.35%, respectively, as of the time of this writing. However, with the 20-year JGB yield back below 3 percent, it remains to be seen if the buying momentum can be sustained. With Relative Strength Index technical analysis also indicating that long-end JGBs are approaching overbought levels, we think there is a risk of profit-taking in the near term.
- **The yen, however, has retraced almost half of its initial gain and extended more declines** to 155.16 as of the time of this writing. This largely came on the back of much weaker-than-expected Q4 2025 GDP results that dampened expectations the Bank of Japan (BoJ) will resume hiking rates soon. In the medium term, we continue to think stronger nominal growth, wage gains, corporate cash repatriation, and eventual policy normalization should support the yen.
- **We think investors will now turn their attention towards Takaichi's upcoming, first key decision since last week's election results**—nominations to the BoJ's board which could provide early clues on how her administration intends to steer monetary policy. Two seats will soon be vacant, and Takaichi could announce her nominations as early as Feb. 25, with market participants viewing the appointments as a litmus test for policy direction.

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,881.31	-0.8%	0.5%	12.3%	37.5%
Dow Industrials (DJIA)	49,662.66	1.6%	3.3%	11.5%	28.6%
Nasdaq	22,753.63	-3.0%	-2.1%	13.5%	44.2%
Russell 2000	2,658.61	1.7%	7.1%	16.1%	30.8%
S&P/TSX Comp	33,389.73	4.6%	5.3%	30.2%	57.1%
FTSE All-Share	5,742.99	4.2%	7.3%	20.9%	36.6%
STOXX Europe 600	628.69	2.9%	6.2%	12.8%	27.9%
EURO STOXX 50	6,103.37	2.6%	5.4%	10.3%	28.1%
Hang Seng	26,705.94	-2.5%	4.2%	16.2%	63.4%
Shanghai Comp	4,082.07	-0.9%	2.9%	22.8%	42.4%
Nikkei 225	57,143.84	7.2%	13.5%	45.5%	48.5%
India Sensex	83,734.25	1.8%	-1.7%	10.2%	15.6%
Singapore Straits Times	4,938.58	0.7%	6.3%	25.8%	53.3%
Brazil Ibovespa	186,016.31	2.6%	15.4%	44.7%	44.5%
Mexican Bolsa IPC	70,968.36	5.0%	10.4%	30.3%	24.2%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.083%	-15.3	-8.4	-46.8	-19.7
Canada 10-Yr	3.230%	-18.7	-20.3	3.9	-35.5
UK 10-Yr	4.374%	-14.8	-10.5	-18.4	26.6
Germany 10-Yr	2.739%	-10.4	-11.6	24.6	33.7
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.22%	1.2%	1.3%	7.9%	12.3%
U.S. Investment-Grade Corp	4.74%	1.1%	1.3%	8.2%	13.6%
U.S. High-Yield Corp	6.62%	0.2%	0.7%	7.6%	18.6%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	4,980.43	1.8%	15.3%	69.6%	147.3%
Silver (spot \$/oz)	77.23	-9.4%	7.8%	134.9%	229.8%
Copper (\$/metric ton)	12,510.13	-4.3%	0.5%	33.1%	48.8%
Oil (WTI spot \$/bbl)	65.10	-0.2%	13.4%	-9.4%	-17.8%
Oil (Brent spot \$/bbl)	70.25	-0.6%	15.4%	-7.4%	-15.8%
Natural Gas (\$/mmBtu)	3.02	-30.6%	-18.0%	-24.6%	87.9%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	97.7120	0.7%	-0.6%	-8.7%	-6.3%
CAD/USD	0.7300	-0.6%	0.2%	3.6%	-1.6%
USD/CAD	1.3698	0.6%	-0.2%	-3.5%	1.6%
EUR/USD	1.1784	-0.6%	0.3%	12.8%	9.3%
GBP/USD	1.3498	-1.4%	0.2%	7.0%	7.1%
AUD/USD	0.7042	1.1%	5.5%	10.8%	7.8%
USD/JPY	154.8400	0.0%	-1.2%	1.8%	3.1%
EUR/JPY	182.4600	-0.5%	-0.8%	14.9%	12.8%
EUR/GBP	0.8730	0.8%	0.2%	5.4%	2.1%
EUR/CHF	0.9110	-0.6%	-2.1%	-3.5%	-4.0%
USD/SGD	1.2674	-0.2%	-1.4%	-5.6%	-5.9%
USD/CNY	6.9049	-0.7%	-1.2%	-5.1%	-4.0%
USD/MXN	17.2092	-1.4%	-4.4%	-15.0%	0.9%
USD/BRL	5.2361	-0.5%	-4.4%	-7.9%	5.4%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD 0.2% return means the Canadian dollar has risen 0.2% vs. the U.S. dollar year to date. USD/JPY 154.84 means 1 U.S. dollar will buy 154.84 yen. USD/JPY -1.2% return means the U.S. dollar has fallen 1.2% vs. the yen year to date.

Source - Bloomberg; data as of 2/18/26

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			Count	Percent
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Sell [Underperform]	46	3.03	3	6.52

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