



NatWest

# A World in Transition Tariffs, Trade, and Trump 2.2

Brian Daingerfield, Head of G10FX Strategy US

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Tomorrow begins today

# Today's Session on a Page

## Geopolitics in the Trump Era

Linking National Security and Economic Security via Tariffs

## Tariffs and Trade

Reviewing US Tariff Authorities and Looking Ahead to Key Dates

## Midterm Elections

Republicans are in Trouble – Does it Matter for Markets?

## Key Events in 2026

A Trump 2.2 Timeline



# Geopolitics Have Dominated 2026



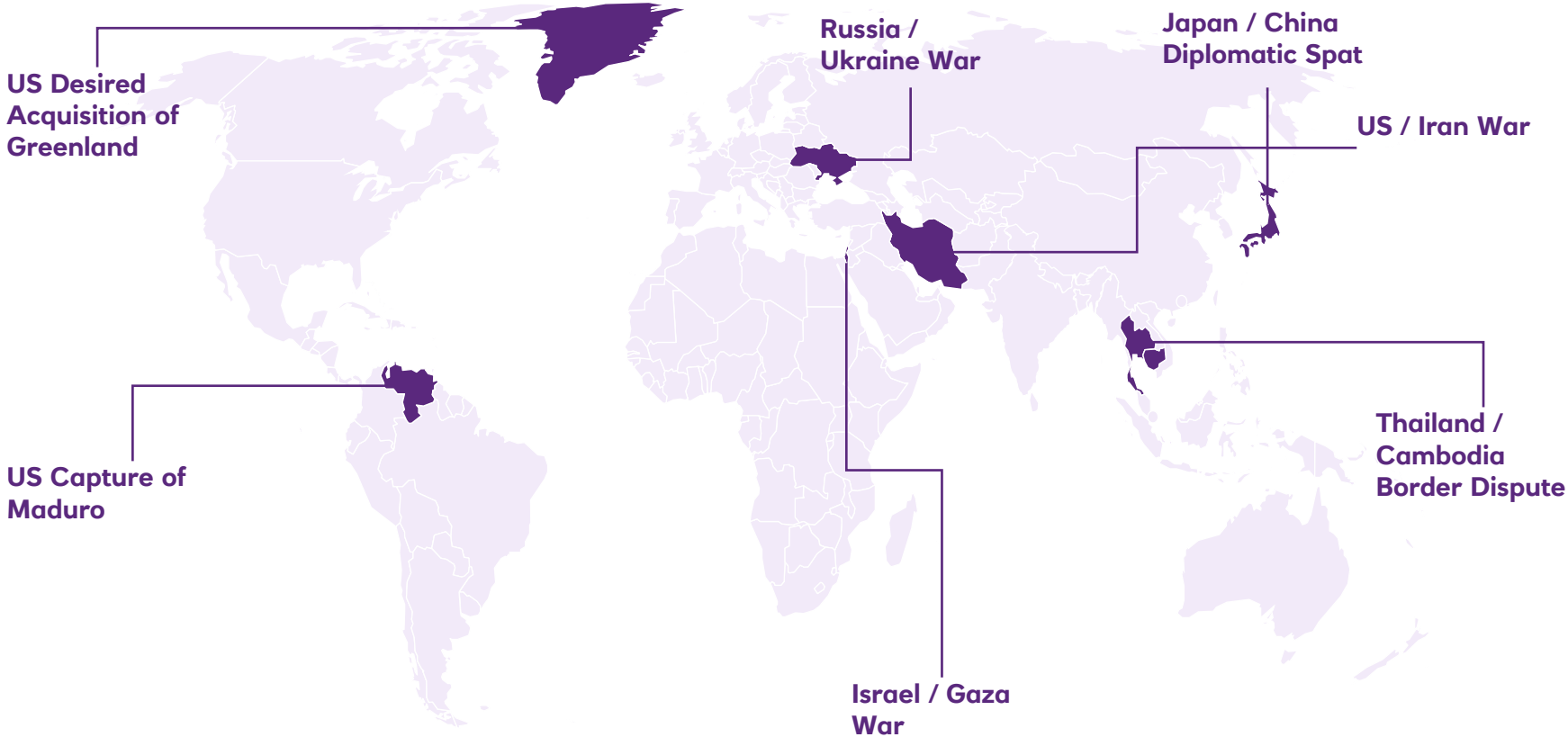
The US / Iran War is the dominant geopolitical risk, but is far from alone

US President Trump's impact on global markets has been wide reaching, with the US / Iran War the latest and arguably most disruptive.

The prevailing wisdom in US politics was that President Trump would pivot to a domestic focus in 2026 ahead of US midterms.

Pressure on the President to end the war and ease pressure on energy markets / gas prices is rising substantially.

President Trump will soon be in the second half of his second term, often a moment for the President to cement their long-term legacy



# Market Volatility Has Selective Geopolitical Focus



Not all Geopolitical Risks are Created Equal, But Select Increases in Market Volatility Can Be Traced Back to Trump / Geopolitics

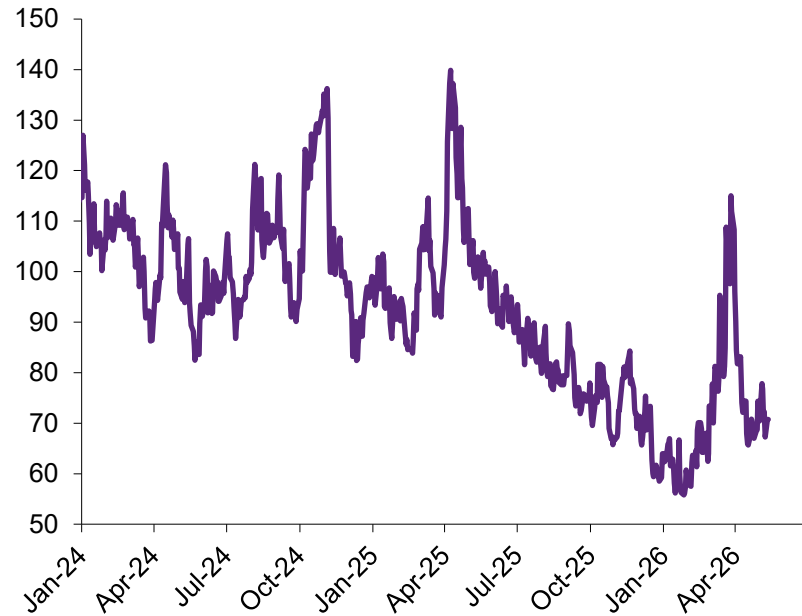
Market focus on geopolitics is often-times selective. The scale of headline volatility is not always matched in market volatility.

Anecdotally, I observe that market focus on specific trade and tariff headlines has largely collapsed.

The market consensus may now see tariffs as a “known unknown” – the destination is clear even if the road is bumpy.

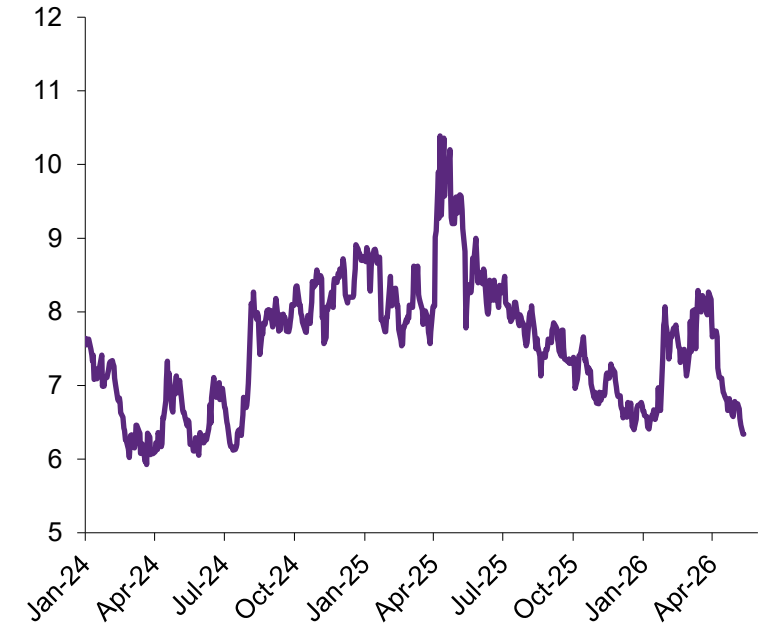
Several instances of significant spikes in volatility can be directly sourced to Geopolitics and President Trump, including Liberation Day tariffs, the Iran War, and the US rate check in USD/JPY.

MOVE Index



Source: Bloomberg, BofA/ICE, NatWest

CVIX Index



Source: Bloomberg, DB, NatWest

# Under Trump, Tariffs Link Geopolitics and Markets



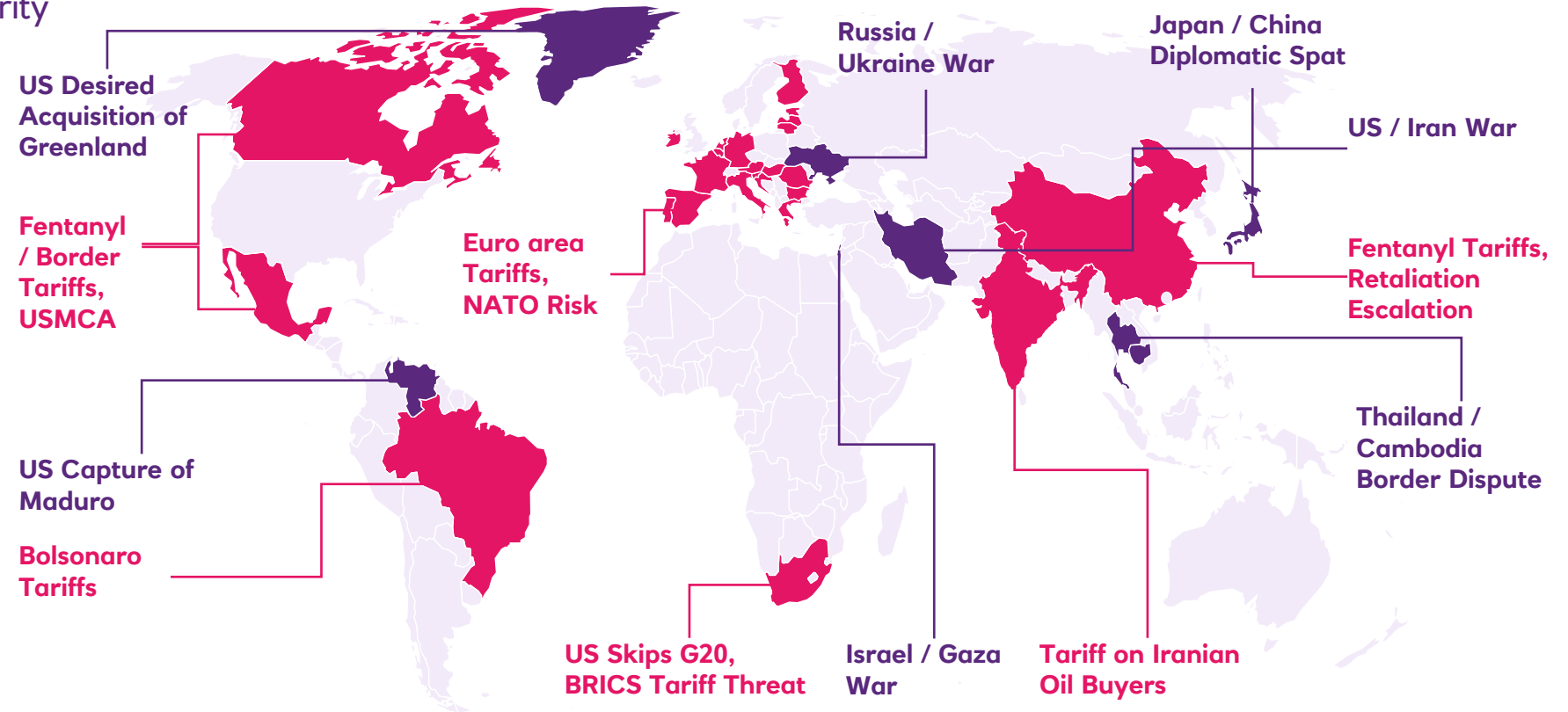
## Economic Security is National Security

When the lines of economic interest and national security are blurred, any foreign policy interest can spur a US economic response.

Select examples of foreign policy disputes that during prior administrations may not have resulted in economic escalation are highlighted in red. This list is far from exhaustive and could reasonably cover the entire globe.

Tariffs have been President Trump's preferred tool, and we expect this will remain the case. His toolkit has been reined in by US legal disputes.

US dominance of the global financial system gives it leverage – de-dollarization moves from fringe risk to priority?



# President Trump's Trade Authority is Extensive



The Supreme Court Invalidated IEEPA Tariffs. Section 122 is a bridge to Section 301 tariffs. Smoot-Hawley is the backup plan

## IEEPA Tariffs are Illegal, but Trump has Other options:

- 1) Section 232 is a sector specific national security tariff statute that is more tested, and tailored, than IEEPA.
- 2) Section 122 is a temporary bridge between the IEEPA regime and a Section 301 regime – lower court has now ruled these were improperly imposed.
- 3) Section 301 reports on multiple nations may be released soon, coinciding with expiration of temporary tariffs. Used in Trump 1.0 US/China Trade War
- 4) Smoot Hawley tariffs of up to 50% are “break glass in case of emergency” tariffs and may be in reserve in case other options fail legal scrutiny.

Table Source: NatWest, Commerce Dept, CRS, White House, USTR, USITC, PIIE, Gov.info, WaPo, NYT

Statute	Description	Comments
<b>IEEPA</b> International Emergency Econ. Powers Act	Regulate importation during a national emergency	Tariffs Ruled Illegal by US Supreme Court in February 2026
<b>Section 232</b> Trade Expansion Act of 1962	Adjust imports if they imperil national security	Sector Specific tariffs on Autos, Steel and Aluminum. Not impacted by IEEPA ruling
<b>Section 122</b> Trade Act of 1974	Temporarily apply up to 15% import tariff to counteract BoP imbalance	150-day window for Trump's 10% minimum expires on July 28 <sup>th</sup>
<b>Section 301</b> Trade Act of 1974	Adjust imports to counter unfair trade practices from other nations.	Country specific tariffs are planned to replace expiring Section 122s
<b>Section 338</b> Smoot-Hawley Tariffs	Impose duties against nations that have disadvantaged US	Never used, but potentially available to Trump as a fall-back option
<b>Section 201</b> Trade Act of 1974	Adjust imports if import volume causes serious injury to domestic industry	Lesser used and not very relevant in 2026.

# Energy Surge Compounds Tariff Inflation Impact



The effective tariff is lower than the applied rate due to exclusions and exemptions. But goods inflation has clearly ticked up

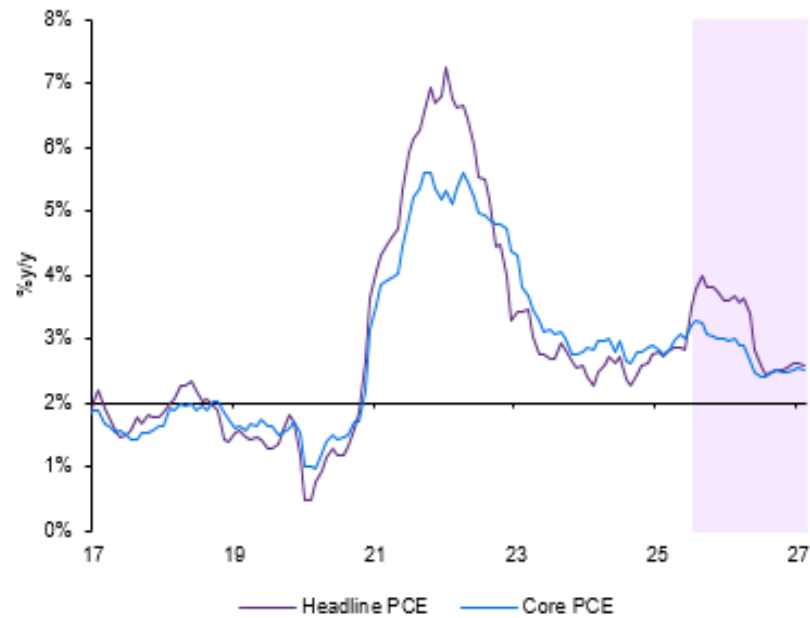
Geopolitical shocks have driven a forced diversification of supply chains, prompted a push for additional fiscal stimulus, and boosted inflation pressure across major economies.

In the US, goods inflation has ticked higher in both tariffed and non-tariffed goods in 2025, and higher energy prices may only add to that pressure.

The effective tariff rate is lower than the applied levels thanks to exclusions – USMCA exemptions are a near-term flashpoint.

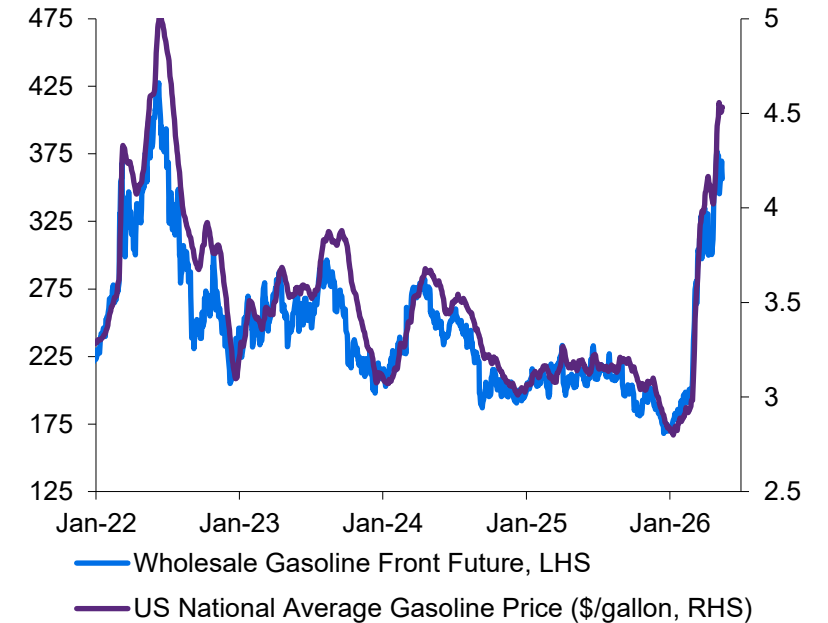
High prices have pressured fiscal leaders across the globe, including through higher financing costs and leadership changes.

### NatWest Projection – Headline and Core PCE Deflator



Source: Bloomberg, NatWest

### Retail Average Gas Price – Inflation “nowcast” for voters



Source: Bloomberg, NatWest

# Midterms 2026 – House Advantage to the Democrats



There is a strong pattern of out-of-power party advantage in House elections. 2026 is no different. Redistricting is the wild card

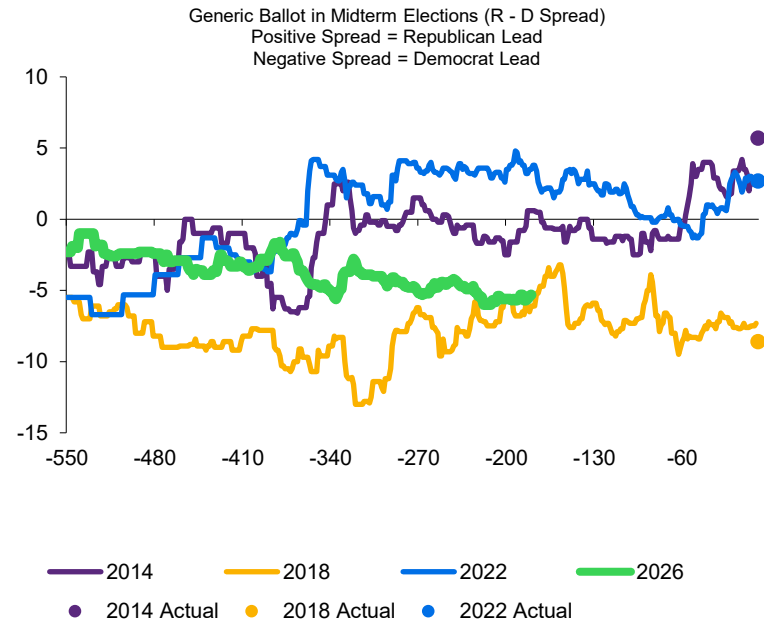
The Generic Ballot is a great indicator of the House popular vote and asks voters a simple question – regardless of specific candidates, do you prefer Democrats or Republicans?

**Democrats are on pace to win a majority** based on the current ballot, but their popular vote win needs to be larger than “normal” due to gerrymandering.

Several states are still in the process of rushing new maps in time for November voting – Republicans could pick up / become more competitive in 10 seats or more due to remapping alone.

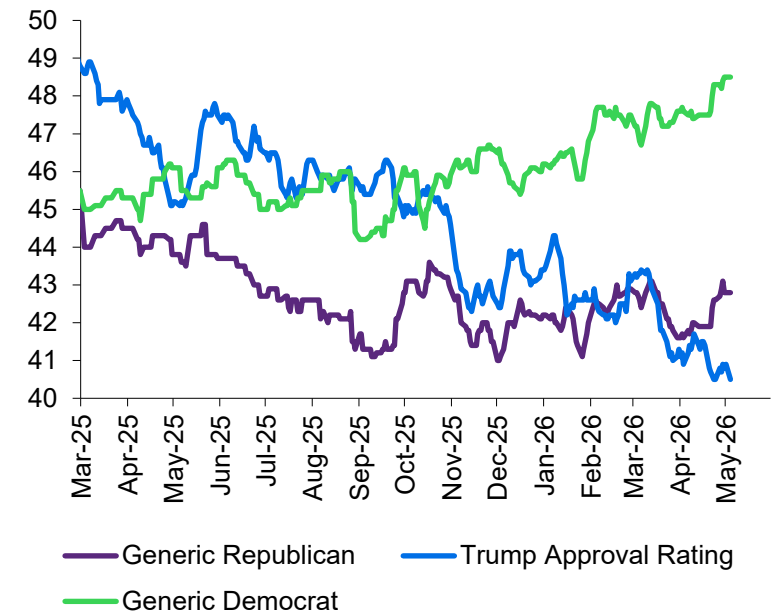
Redistricting won't stop a blue wave but can hold off a blue trickle. Democrats have a popularity problem of their own.

## Generic Ballot Comparison



Source: Bloomberg, NatWest

## Generic Ballot Breakdown vs. Trump Approval Rating



Source: Bloomberg, NatWest

# Senate – Beyond the House, Does it Matter?



For Legislation? No – winning the House is enough. The Senate matters for signaling, future budget fights, and approved roles

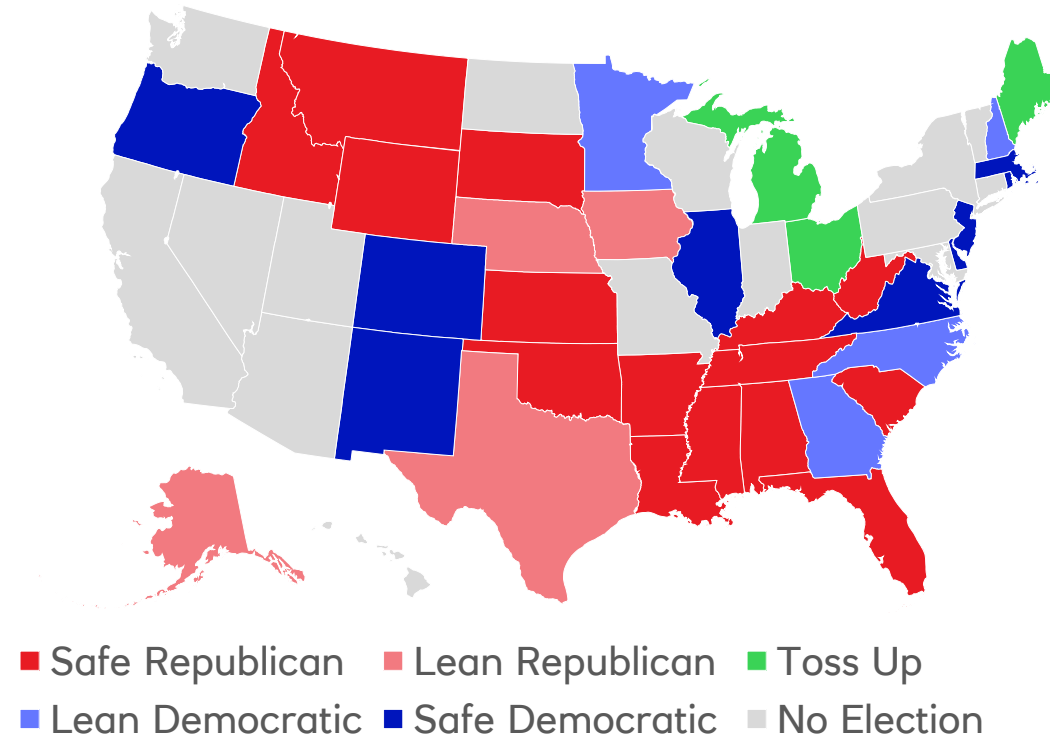
Senate control is a toss up. Democrats need to flip a net of 4 seats to win their majority.

The Senate calendar is helpful for Republicans in 2026. **Democrats have no margin for error** and can't afford to lose their current seats in Georgia and Michigan.

North Carolina looks like a clear pickup for the Democrats – but winning a majority will need to run through Ohio / Iowa / Texas.

For markets, Democrats need only one majority to force gridlock in Congress – the House is a lower bar. The Senate matters for cabinet approvals, Fed Governors, and Supreme Court Justices.

### Senate 2026 Battlegrounds



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# Trump 2.2 Timeline – Key Dates in 2026

Key Events and Dates we expect to define the rest of Trump's second year

**2Q 2026**  
Redistricting  
Reconciliation Bill  
End the War(?)

- **End the War / Reopen the Strait...?** The administration wants to see gas prices drop before November elections, but they need to also sell voters on having “won” the war and gotten major Iranian concessions.
- **Midcycle Redistricting Continues:** Both Republicans and Democrats are racing to redraw electoral maps in their favour.
- **Tariff Refunds:** The tariff refund process has begun – we expect it to be slow, but still a net drag on Treasury finances
- **Reconciliation Bill 2.0 Work:** Divided Republican majority is struggling to come together on a much smaller package than we thought was possible heading into this year. Massive pre-election stimulus looks unlikely.

**3Q 2026**  
Reconciliation Bill  
Transition Tariffs  
Avoid Shutdown

- **USMCA Renegotiation Window:** Most USMCA goods receive tariff exemptions, an underappreciated source of relief from high headline tariff rates.
- **America's 250<sup>th</sup> Birthday:** Massive marketing event that Trump often points to – current “deadline” for Europe tariffs. Trump signs the slimmed down reconciliation bill?
- **Section 122 Tariffs Expire:** Section 301 Reports need to be completed by July 28<sup>th</sup> to transition the tariff regime
- **Trump Invites President Xi to the US in September**
- **Another Government Shutdown?:** Republicans and Democrats may not want a public fight so close to midterms

**4Q 2026**  
Midterms  
G20 Summit  
Lame Duck?

- **November 3<sup>rd</sup> US midterm elections:** Democrats are favourites to win a House majority. Senate majority is a close race but will favour Republicans if polls shift even slightly in their favour. Democrats need a blue wave to win both chambers.
- **G20 Summit in Miami** – Trump and Xi to meet in person again at the mid-December Summit?
- **Lame Duck Congress:** If Democrats win one or both chambers, power does not switch until January – anything else for Republicans to do? Do it now!

# Thank you

Tomorrow begins today



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