

## Rates Spark: Positive impulses, but Treasuries are not for moving

Wednesday probably sees daylight on the Supreme Court's decision on the IEEPA tariffs. It could rule them legit, and if so we just move on. We suspect they will be struck down, and we'll probably still just move on. This Treasury market is showing a remarkable capacity to just not care too much about stuff. It won't last, but it's what we've got for now



On Wednesday, the Supreme Court may decide on the legality of the IEEPA tariffs

### The CPI report was net positive for bonds

The biggest number for the bond market on Tuesday was the CPI report. It was tolerably good, in the sense that a 0.2% month-on-month / 2.6% year-on-year outcome for core inflation some six months on from the instigation of a large rump of tariffs is a success, as the tariff effect is quite contained in terms of impact on consumer prices. The impact effect on the 10yr Treasury yield was impressive, as it snapped lower. But it recovered higher subsequently. The resilience of the 10yr yield to various cross winds has been remarkable of late. It's baulking at excuses to snap both lower and higher in yield. The auctions this week have been solid too, with 3's 10's and 30's all showing consistent negative tails and decent auction details. But still, minimal follow-through.

## The US deficit data so far has also been, if anything, a net positive

The US fiscal deficit for the first quarter of fiscal year 2026 came in at \$601 billion, which is actually \$110 billion less than the same time last year. A big reason is that tax revenues jumped—up 13%, or \$141 billion—thanks to higher income and payroll taxes and a bump in customs duties after tariff changes. Spending did go up a bit (2%, or \$31 billion), but not enough to offset the revenue surge. There's also a small wrinkle: some payments normally made on 1 January got pushed into December, but even adjusting for that, the deficit would still be about \$112 billion lower than last year. Overall, revenues climbed faster than spending, giving the early year deficit a noticeable dip.

The angst with respect to the fiscal deficit has absolutely ramped down in recent months. The spread from 10yr SOFR to 10yr Treasuries is now into the 35bp area, following a steady trek down from the 55bp area seen in September 2025. That journey has coincided with gradual improvements in the fiscal deficit position, helped by tariff revenue. It's having a meaningful effect, as had the spread remained at 55bp, the 10yr Treasury yield today would be in the area of 4.4% (rather than the sub-4.2% we see currently).

## Supreme Court decision should really be impactful, but it probably won't be

Wednesday may well see the Supreme Court decision on the legality of the IEEPA tariffs. Our basic assumption is for them to be struck down, and we think the market is generally of the same opinion. Confirmation of that would cause some consternation in the Trump administration, but we'd assume that a way will be found to re-erect the tariffs subsequently, either employing current acts of Congress, or writing new acts. There is no plan B to the tariff plan of President Trump, which he reiterated at Tuesday's speech in Detroit. We're not expecting a huge market reaction as a result, but it will be messy should there be an avalanche of demands for tariff refunds.

### Author

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).