

Deal with It

Published November 4, 2025

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FaST (Few Sentence Takeaway): There is (another) framework for a deal with China. *That is a positive for risk markets.* There is increasing evidence of *waning* tariff effects on company earnings and outlooks. *That is a positive for risk markets.* The interaction of the two is **by far the most intriguing.**

Let's begin with the tariffs. **Tariffs get every headline, but their effects on revenues/earnings appear to be abating.** Liberation Day was six months ago. Companies did not wait to "gather additional facts" about the trajectory of tariff policy. They began to mitigate the risk to their businesses and defend their margins. Earnings season is in full swing, but a couple of examples stand out.

Source: 3M investor presentation, 7/18/25 (emphasis added)

Source: 3M investor relations, 10/21/25 (emphasis added)

There is something conspicuous missing between the two slides. In the wake of Liberation Day, the tariff hit was set to be around 4% to 3M's bottom line. Fast forward **a single quarter:** 3M did not even include a line for the effect of tariffs and increased their guidance above the pre-tariff level. *That is not a "one-off" example either.*

Source: GM investor deck, 10/21/25 (emphasis added)

Not everyone has ceased talking about tariffs. *But tariffs are far from the dominant talking point in earnings releases.* **Simply put, there is far less sensitivity to tariffs in company reports than six months ago.**

Not to mention, there is also an upcoming Supreme Court challenge (November 5) to the legality of the current IEEPA tariffs. *This covers the vast majority of the tariffs currently in place.* If ruled illegitimate, the tariffs will be rolled back. Also, the tariff revenue collected would be repaid. What are the odds of that happening?

Source: Polymarket, 10/27/25

Not trivial. In fact, slightly better than 50/50. That would be **yet another catalyst** for many of the 490.1 When you combine the mitigation of tariffs (see 3M above) with the potential for a corporate stimulus check tariff repayment, there are reasons to look at the 490 for opportunities. Of course, tariffs would come back (section 232 or 301, or both, are candidates). But they would already be mitigated.

When it comes to the U.S.-China trade framework, the meeting between Presidents Trump and Xi this past Thursday is going to be important to consider. A few bullets on pieces of the announcement that mattered more.

- **Rhetoric on "No Tariffs for Minerals"**: (U.S. reduces tariffs/leaves at current levels, China keeps rare earths flowing)
- **A "TikTok Dance"**: (A deal around TikTok likely includes some relaxing of U.S. semi restrictions, though not the highest-end chips)
- **"Soybeans for Solace"**: (A deal for China to return to the U.S. soybean market into the U.S. midterms)

Importantly, the deals are likely structured to last through the midterms—alleviating pressures on some of the more sensitive economic areas of the U.S. economy. Any deal will be far from comprehensive, but it will eliminate a risk overhang to the U.S. economy/risk markets.

Risks are coming off the table and/or have already been dealt with by corporates. Maybe, just maybe, the 490 are about to strike back in a meaningful way.