US/UK TRADE AGREEMENT BRINGS ONLY LIMITED RELIEF FROM MOST EXTREME TARIFFS

This week the UK and US agreed to meagre measures to head off the most punitive US tariffs. The Trump administration was under pressure to show some results from its extremely aggressive trade tactics, while Keir Starmer's government was keen to regain some momentum after a poor showing in last week's elections. With his typical hyperbole, Donald Trump hailed the agreement as a "great" and "comprehensive" deal and US markets welcomed signs that the most punishing tariffs may be avoided. But investors in UK equities appeared to be less enthusiastic as the hastily arranged agreement leaves a lot unresolved.

Meanwhile, the UK also struck a deal with India which offered comprehensive agreement for the trade in goods, as well as more limited measures designed to boost services activity. Although this deal received far less attention, it improves terms for both sides by lowering barriers and is expected to boost economic growth. In contrast, the rushed US/UK deal leaves both worse off than only a few weeks ago.

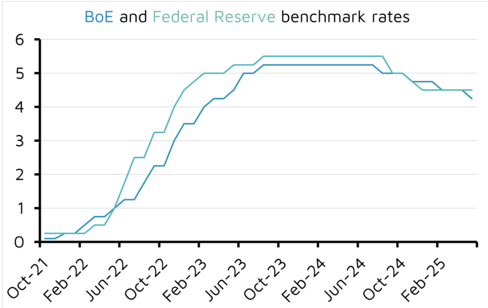
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+0.20	+0.99%	+1.97%	+1.05%	+1.61%	+0.18%	+0.17%	+3.18%	+2.16%	-1.59%	-0.20%

RATES: FED AWAITS FURTHER CLARITY ON TARIFFS AS BOE CUTS RATES

The Federal Reserve held its benchmark rate steady at 4.5% this week, opting to "await further clarity" on Trump's tariffs and their adverse impact on labour market and inflation numbers. Chair Jerome Powell said the Fed was in no hurry to cut rates, despite pressure from Trump, as "uncertainty about economic outlook has increased further" and US trade policy has yet to take final form. Powell is worried about 'stagflation' where recession and inflation coincide. So far, inflation has stuck above target and this week's jobs and business activity measures have been robust.

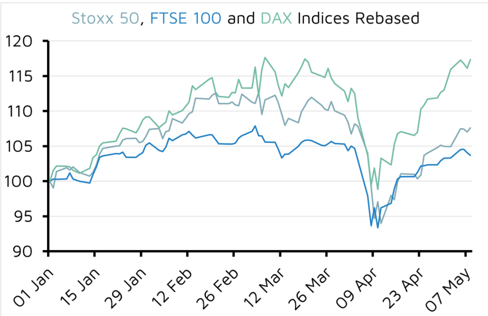
The Bank of England, however, cut its rate by 0.25% to 4.25%, amid growing concerns about slowing global growth and its impact on the UK economy. Governor Andrew Bailey said inflation had fallen more than expected thereby paving the way for easing rates. China also lowered its benchmark rate to 1.4% and eased reserve requirement at banks to boost lending in a bid to counter the effects of the US-China standoff on trade.



EU: HEAVYWEIGHTS REEL FROM TARIFFS AND STRONG EURO

European and UK companies are warding off a host of challenges due to Donald Trump's trade war. Executives from Nestlé, Mercedes-Benz, and Unilever said they are wrestling with the negative impact on consumer confidence, supply chains, and the overall business environment. The uncertainty surrounding tariff levels and trade deals has disrupted their ability to plan and forecast financially, leading some to scrap them altogether. But BMW's CEO was more upbeat anticipating tariffs will be negotiated away from July, just as he reported a 25% hit to earnings from mounting Chinese competition.

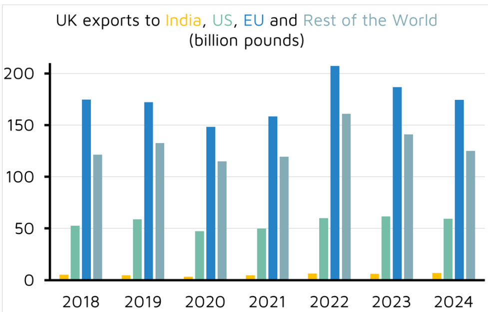
EU exporters are also grappling with the strong euro, which has surged against the dollar, exacerbating the tariff shock. Companies like SAP, Porsche, Heineken, and Schneider Electric warned that the stronger euro undermines their competitiveness in the US market by making exports more expensive. Analysts have also slashed profit forecasts for European companies, citing the strong euro's potential to erode overseas earnings.



GLOBAL: US TARIFFS LEND URGENCY TO TRADE DEALS

The UK signed a broad trade deal with India and a limited trade agreement with the US. The imposition of sweeping US tariffs has given international trade negotiations more urgency as the UK and India concluded the deal after three years of talks. Tariffs on many goods by both countries will decline, although Indian tariffs on UK exports will remain much higher. Tariffs will be slashed on UK car exports from 100% to 10% - though there will be an annual quota – and on whiskey and gin from 150% to 75%. There is slightly more access for professional services firms under the terms of the agreement. The government predicts that bilateral trade will increase by £25.5bn.

A more limited agreement with the US was also announced. The deal is expected to reduce tariffs on UK car and steel exports and in return UK tariffs on US cars, meat and shellfish are likely to come down. In addition to the deal with the UK, the US is negotiating with Japan, India and the EU and it is set to start trade talks with China this weekend.



Data sourced from Bank of England, Federal Reserve Bank of St. Louis, Investing.com, and Office for National Statistics