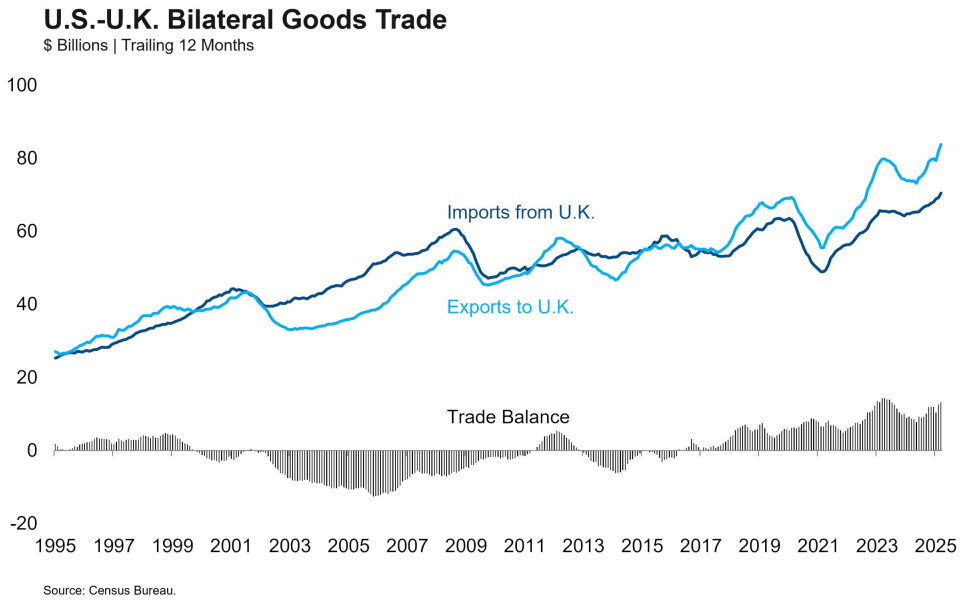
CHIEF ECONOMIST UPDATES

U.S.-U.K. Handshake Agreement Suggests Tariffs are Here to Stay

May 9, 2025
Author: Stephen Douglass



The trade deal between the U.S. and U.K. announced yesterday appears to make only minor changes to current trade policy between the two nations. Details are scant as no text has been signed, and the White House fact sheet is fewer than 750 words. Based on what we know so far, the substantive compromise of the deal is for the U.S. to reduce sectoral tariffs on automobile, steel and aluminum imports from the U.K. in exchange for the U.K. to ease tariff and quota restrictions on ethanol and hormone-free beef imports from the U.S. Most importantly, the agreement leaves in place the 10% "Liberation Day" tariff on all other imports from the U.K.

Relative to the status quo on Wednesday, this agreement therefore results in slightly lower tariffs on imports from the U.K. and the potential to increase U.S. exports of agricultural products by about 6% from last year. Relative to the status quo on January 19, however, the net effect is a massive increase in U.S. tariffs on imports from the U.K. from 1.1% in 2024 to something in the 7-9% range depending on the details. If this agreement is going to serve as a template for other trading partners, then high tariffs are here to stay.

Indeed, President Trump and Secretary Lutnick both said yesterday that a 10% baseline tariff is the best that other nations can hope for as a result of their negotiations. It's important to note here that the U.S. runs a trade surplus against the U.K. Other nations that run a surplus against the U.S. will

presumably have a tougher time negotiating with this administration that views trade as a zero-sum game.

This agreement does little to change our expectations for the future course of the trade war. We expect that a universal tariff of 10% or higher will remain in place for most trading partners and that tariffs on Chinese imports will end up somewhere in the 40-60% range. Higher sectoral tariffs on autos, metals and pharmaceuticals will raise the average tariff rate while widespread exemptions will lower it. Add it all together and we appear headed for an average tariff rate somewhere around 15% with uncertainty that will last until January 2029 (President Trump casually threatened a 100% tariff on toys at yesterday's ostensibly de-escalatory announcement).

Avoiding the stagflationary effects of this trade war requires a material reduction in tariffs. The consummation of this first trade deal does not increase our confidence that this de-escalation will occur. We leave our recession odds unchanged at 50%.

Disclosure Information

This material has been prepared by NISA Investment Advisors, LLC (“NISA”). This material is subject to change without notice. This is for information and illustrative purposes only. It is not, and should not be regarded as “investment advice” or as a “recommendation” regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. This information is provided with the understanding that with respect to the material provided herein (i) NISA is not acting in a fiduciary or advisory capacity under any contract with you, or any applicable law or regulation, (ii) that you will make your own independent decision with respect to any course of action in connection herewith, as to whether such course of action is appropriate or proper based on your own judgment and your specific circumstances and objectives, (iii) that you are capable of understanding and assessing the merits of a course of action and evaluating investment risks independently, and (iv) to the extent you are acting with respect to an ERISA plan, you are deemed to represent to NISA that you qualify and shall be treated as an independent fiduciary for purposes of applicable regulation. NISA does not purport to and does not, in any fashion, provide tax, accounting, actuarial, recordkeeping, legal, broker/dealer or any related services. You should consult your advisors with respect to these areas and the material presented herein. You may not rely on the material contained herein. NISA shall not have any liability for any damages of any kind whatsoever relating to this material. No part of this document may be reproduced in any manner, in whole or in part, without the written permission of NISA except for your internal use. This material is being provided to you at no cost and any fees paid by you to NISA are solely for the provision of investment management services pursuant to a written agreement. All of the foregoing statements apply regardless of (i) whether you now currently or may in the future become a client of NISA and (ii) the terms contained in any applicable investment management agreement or similar contract between you and NISA.