



(UBS)

Has peak uncertainty over trade passed?

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The S&P 500 rose slightly on Thursday as investors welcomed news of a trade deal framework between the US and the United Kingdom.

The first major agreement since the US imposed sweeping preemptive tariffs earlier this year. The announcement, made by President Trump from the Oval Office alongside UK Prime Minister Keir Starmer, outlined a 10% baseline tariff on UK imports.

Trump indicated the 10% UK tariff could be among the lowest for future deals, with higher rates possible for countries running large trade surpluses. He added, "final details are being written up" and expects things to be "very conclusive" in the coming weeks.

Market sentiment was further buoyed as Trump expressed optimism about upcoming trade talks with China, stating he expects US negotiators to have a "good weekend" as discussions open in Switzerland. He added "I think we're going to have a very good relationship." This raised hopes for a thawing in relations between the world's two largest economies, and for a significant reduction in the 145% tariff on many Chinese imports into the US.

As investors rotated out of perceived "safe havens," gold came under pressure. Further underscoring the risk-on mood, nearly all major segments of the equity market posted gains, with economically sensitive sectors and small caps leading the advance. The DXY US dollar index rose 1% on Thursday, rising back above 100, a tentative sign of returning confidence in the US as a perceived "safe haven."

What do we think?

Since early April, when President Trump announced a 90-day pause on the bulk of planned tariff increases, our view has been that peak uncertainty over trade has passed. Our base case has been that pressure on the administration from businesses and markets would encourage productive negotiations with top trading partners. While there are likely to be plenty of twists and turns in the weeks and months ahead, recent developments are in line with this hypothesis.

The tone on trade from President Trump has changed markedly in recent days. In addition to the more conciliatory tone on China and the trade framework with the UK, the administration has rolled back certain restrictions on the export of AI chips. The extensive concessions made by the UK government—including granting greater access to US farm products—could signal that other leading nations may be willing to accept uncomfortable compromises to avoid an escalating trade conflict with the US. The key test of this will be the progress of talks with China, where relations have been most strained, and the European Union.

Our base case remains that the effective US tariff rate (ex-China) will moderate toward 15% by year-end. We also think that US-China tariffs will ultimately settle around 34%, as a more constructive tone and the start of high-level talks in Switzerland suggest both sides are open to deescalation and further negotiation. We expect a variety of deals or sector carve-outs to materialize before the 90-day pause period ends in July.

Although trade talks remain the driving force for markets, sentiment has also been bolstered by the fact that the Fed meeting passed without alarming investors. While Powell said that the Fed was in no rush to cut rates, he stressed that this was because the US economy was still in good shape and that the Fed could move swiftly if needed. Our view is that the Fed will start cutting rates in September as evidence mounts of moderating growth and cooling labor market conditions. Our base case is for 100 basis points of further easing.

Original report: [US stocks bounce on trade deal optimism, 9 May 2025.](#)

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