MAY 2025

Flash

Keep calm and carry on – our take on recent UK trade deals

Key Messages

1. **Keep calm**: enthusiasm about the UK-US trade deal is limited as it rather confirms the complexity and longevity of trade negotiations.
2. **A trade deal hat trick**: despite the details of the US-agreement being disappointing, they are reducing uncertainty. More importantly, the UK has been able to secure two more trade deals, with India and the EU. Those should provide long-term tailwinds to growth.
3. **Carry on:** stay long UK equities as the market offers attractive valuations and a decent pick-up in dividend yields.

Good things take time

US President Donald Trump recently announced a "major trade deal" with the United Kingdom. Contrary to what Trump may have expected from the release, the reaction among investors was rather muted. We think the market was right in taming its enthusiasm as a trade deal with the UK was probably the lowest hanging fruit. And yet, it still took about five years to harvest it. Formal negotiations for this deal started during President Trump's first term in 2020 and talks continued even when administrations changed. In 2021 former UK prime minister, Ms. Truss claimed that the "majority of text of UK-US Trade deal (would be) done". Still, it took another four years to complete it.

One man's joy is another man's sorrow

The trade deal will do little to help investors ascertain how broader tariff-related trade negotiations for US partners will evolve, simply because the agreement has nothing to do with reciprocal tariffs. Neither is it "full and comprehensive" as Donald Trump claimed.

Equally important, the 10% baseline tariffs will stay in place, providing another piece of evidence that a return to a (vastly) tariff free world is unrealistic. All it does is to highlight how long it takes to forge such deals.

The UK is the real trade deal champion

We would argue that the agreement is still a positive factor for our constructive stance on UK equities as it lowers uncertainty. More importantly, it was only an episode in a series of good news for the UK's trading relationship. In early May, the UK announced a free trade agreement (FTA) with India, one of the most important FTAs since Brexit. Central to the FTA are sweeping tariff reductions. India has agreed to reduce or eliminate tariffs on 90% of product lines for UK exports, with 85% of those becoming fully tariff-free within a decade. The agreement is projected by the UK government to increase bilateral trade by GBP 25.5 billion and to boost UK GDP by GBP 4.8 billion annually in the long run.

Another long-term tailwind for growth in the UK will be the outcome of the EU-UK summit on 19 May. The UK has agreed the most significant reset of defence and trade ties with the EU since Brexit. The wide-ranging deal with the EU includes fewer restrictions on British food exporters and visitors, and a contentious new fishing agreement. The most important part is a security and defence pact, which will allow Britain to be part of any joint procurement and pave the way for British companies to take part in a GBP 150 billion programme to rearm Europe. The agreement is expected to add nearly GBP 9 billion to the British economy by 2040 and should further help to mitigate the negative impacts from higher US tariffs.

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Keep calm and carry on – Stay long UK equities

What makes the FTSE 100 so attractive?

We reiterate our Positive stance on UK equities. Its dependence on global growth is among the lowest in Europe and even below the S&P 500 index (see Chart 1). This should provide a cushion in an environment of slowing global growth. Thus, the FTSE 100 has outperformed both US and European equities during most of the corrections in the S&P 500 since 1990 (see Table 1). This is particularly noteworthy as we remain Negative on US equities. At the same time, the correlation to oil has declined recently (see Chart 2). Similarly, we also see a recent decoupling of the historical relationship between the FTSE's relative performance to the USD. Despite a substantial part of earnings made in dollar, recent dollar weakness has not translated into a meaningful underperformance (see Chart 3). Lastly UK equites offer a decent valuation discount vs global peers. The FTSE 100 trades at a 33% discount vs. the MSCI World, based on the 12M forward P/E ratio. This equals a 33% percentile rank, indicating that valuations are still at the lower end of the historical range. While valuations remain historically low, the FTSE 100 continues to offer an attractive pick-up in the dividend yield of 1.75 percentage points (see Chart 4). The current reading is broadly in line with the long-term average.

CHART 1: THE FTSE IS RELATIVELY LESS DEPENDENT ON TRADE GROWTH

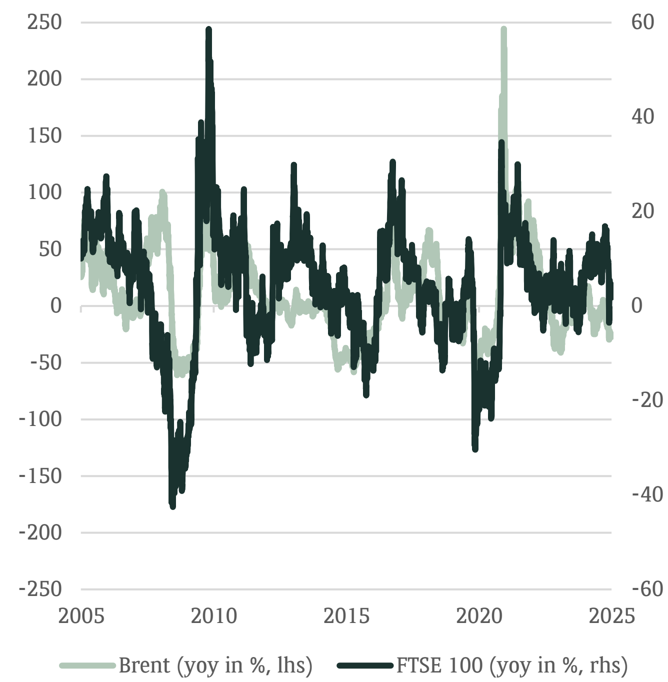
Source: BNP Paribas, Goldman Sachs

TABLE 1: THE FTSE TENDS TO OUTPERFORM DURING GLOBAL CORRECTIONS

Start	End	S&P 500 Return	FTSE 100 Return	EuroSTOXX 50 Return
02.01.1990	30.01.1990	-10%	-5%	-3%
16.07.1990	11.10.1990	-20%	-13%	-23%
07.10.1997	27.10.1997	-11%	-9%	-10%
17.07.1998	31.08.1998	-19%	-15%	-19%
16.07.1999	15.10.1999	-12%	-10%	-8%
24.03.2000	09.10.2002	-49%	-44%	-60%
27.11.2002	11.03.2003	-15%	-17%	-27%
09.10.2007	09.03.2009	-57%	-46%	-59%
23.04.2010	02.07.2010	-16%	-15%	-14%
29.04.2011	03.10.2011	-19%	-16%	-29%
21.05.2015	25.08.2015	-12%	-13%	-13%
03.11.2015	11.02.2016	-13%	-13%	-22%
26.01.2018	08.02.2018	-10%	-6%	-7%
20.09.2018	24.12.2018	-20%	-9%	-13%
19.02.2020	18.03.2020	-29%	-32%	-38%
03.01.2022	12.10.2022	-25%	-8%	-23%
31.07.2023	27.10.2023	-10%	-5%	-10%
19.02.2025	08.04.2025	-19%	-9%	-13%
Average		-20%	-16%	-22%
Median		**-18%**	**-13%**	**-17%**

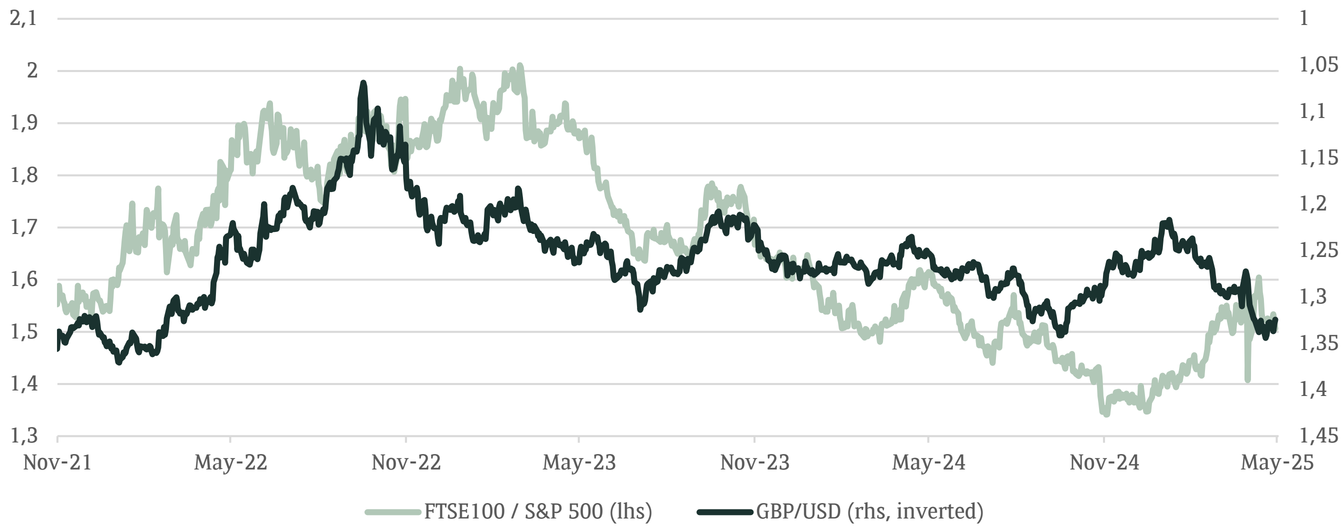
Source: BNP Paribas, Bloomberg

CHART 2: THE FTSE USED TO BE LINKED TO OIL PRICES



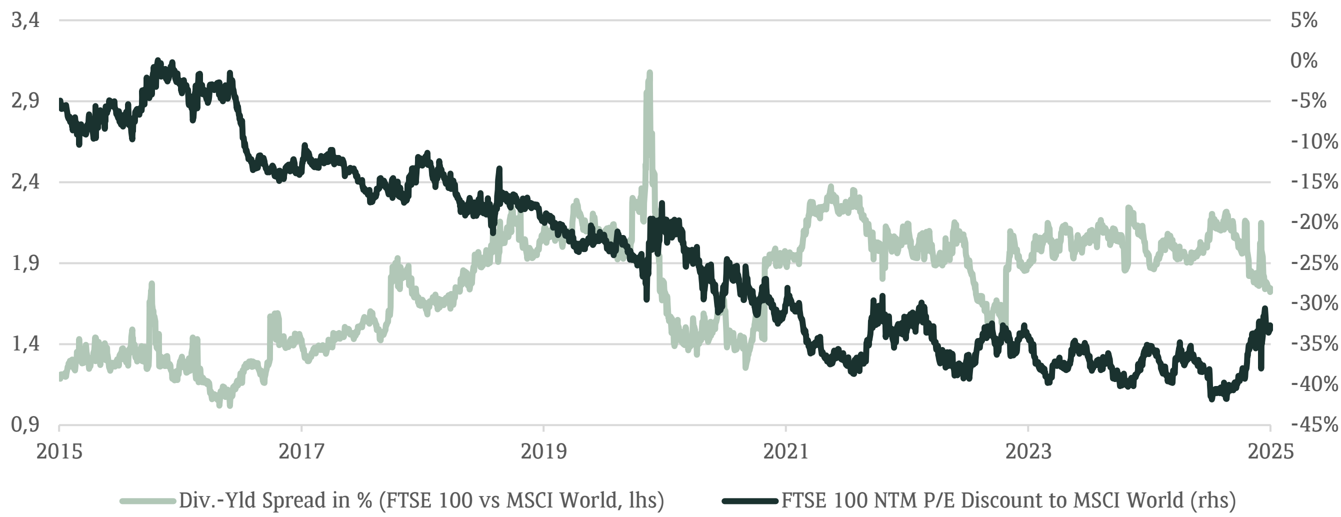
Source: BNP Paribas, Bloomberg

CHART 3: RELATIVE PERFORMANCE DECOUPLED FROM FX DYNAMICS



Source: BNP Paribas, Bloomberg

CHART 4: THE FTSE LOOKS ATTRACTIVELY VALUED VS THE MSCI WORLD



Source: BNP Paribas, Bloomberg

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