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Global trade redefined: Banking and capital markets

Dealing with tariff uncertainty

July 2025

This report has been developed in collaboration with the Strategy& team, PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Ref: *Accessing the situation and What could happen next*

Introduction

The imposition of US tariffs, while not directly targeting the UK banking sector - given their primary focus on goods rather than services - nonetheless has the potential to significantly impact UK financial institutions. The largest potential impact be the result of the broader impact on the economy in which UK Financial Institutions and their clients operate.

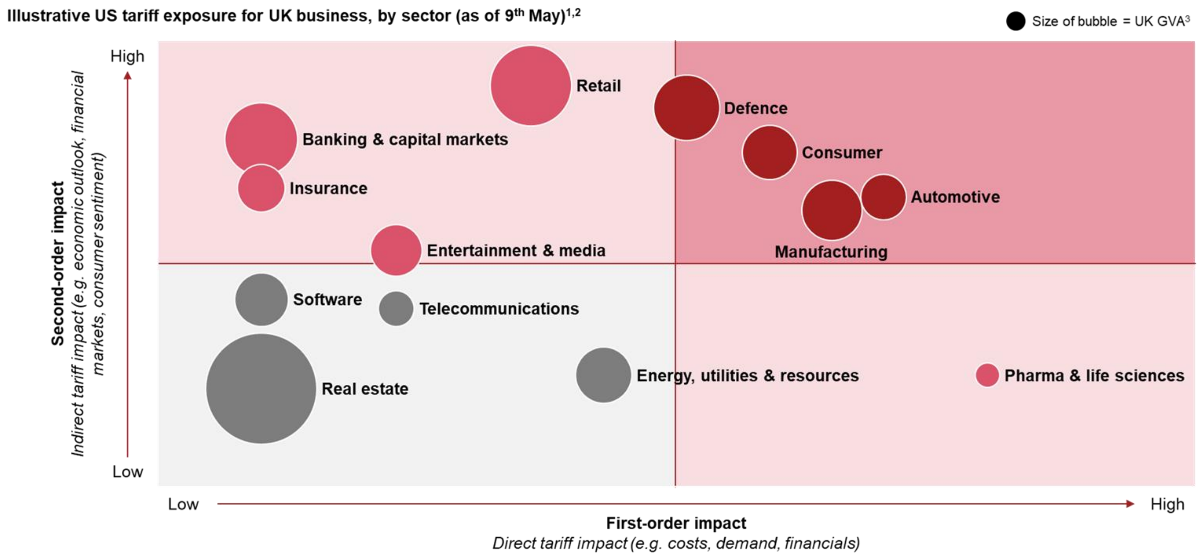
Global trade tensions and the resulting uncertainty have contributed to market volatility, which will have a knock-on effect on key revenue-generating activities for banks.

Investment banking functions such as IPOs, M&A, and both debt and equity capital markets are likely to experience dampened activity due to reduced corporate confidence and slower economic growth, particularly in export-dependent economies. On the flip side, market volatility will increase trading volumes, driving some revenue increase for the banks.

The market disruption has also heightened the strategic importance of scenario planning regarding the impact on liquidity and collateral management, especially for banks with global capital markets exposure, although they are generally more capitalised and better positioned to face shocks given the various regulatory reforms implemented since the 2008 global financial crisis.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Assessing the situation

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. This marked the beginning of a tumultuous period, during which sector-focused tariffs have been implemented, pauses have been extended, and tariff letters have been issued. Businesses continue to face a materially more volatile and uncertain global trading environment as a result.

What happened on ‘Liberation Day’?

An Executive Order introduced a dual framework of US import restrictions: (1) broad-based ‘baseline’ tariffs; and (2) targeted ‘reciprocal’ measures. The UK was subject to the 10% baseline rate, while other partners were subject to much higher rates.

These tariffs sat alongside a number of product-level distinctions (e.g. automobiles, steel, and aluminium), and exemptions (e.g. pharmaceuticals and critical minerals).

Activity in overdrive

On 9 April, reciprocal tariffs were paused for 90 days - creating a window for intense diplomatic engagement between the US and its main trading partners.

As only three ‘agreements’ were reached within the initial 90-day window, this pause has since been extended to 1 August. This extension was announced alongside the issuance of formal ‘tariff letters’ which confirmed and, in some cases, revised rates.

While these letters provided clarity, they have also sparked new complexities. Some countries such as Japan and Brazil saw steep increases, while others received conditional relief. Countries must now consider how to respond, either through acceptance, retaliation, or renewed deal-making efforts.

It remains unclear exactly what will happen next as we pivot from a predictable trading environment into uncharted territory, but it is evident that **global trade is being redefined**.

Extended fragmentation

While the initial focus has been on goods, trade disruption is likely to spill into other domains. For instance, some service sectors may see sharper regulatory divergence, while others trend towards regionalisation.

Labour mobility, too, is under pressure. Migration constraints and shifting geopolitical alliances are limiting access to global talent pools, while heightened restrictions on knowledge exchange and capital flows risk slowing innovation - particularly in sensitive areas like AI and tech.

These shifts may feel abstract for UK businesses, but they carry real implications. Fragmented capital markets could restrict cross-border investment, divergent data standards might hinder digital growth, and scaling innovation across borders may become more challenging.

Businesses that once optimised for cost and efficiency must now account for robustness and agility - embedding **resilience** as a guiding principle across supply chains, partnerships, and talent strategies.

Organisations must adapt to this redefined world, with success likely to belong to businesses that can bridge the divides that others can’t yet see.

> “Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake.”
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

The contours of a new trading system

While US trade policy remains volatile, there are three defining themes which we expect will underpin the future path. Most notably, it is our view that stronger protectionism will be a guiding principle for the US - a stance which may continue to evoke retaliatory action across the globe.

As the direction of trade policy becomes clearer, businesses must shift from reactive decisions to long-term strategic planning. This means developing investment strategies, risk management frameworks, and supply chain designs that build resilience against potential future changes.

US protectionism is here to stay

Enhanced US protectionism is likely to remain for a number of reasons:

Political sensitivity – the White House has framed the tariffs as a national security issue, making it difficult to roll back policy.

Tax revenue – tariffs may generate up to 6% of total US federal income in 2025.[1]

Business backlash – businesses that have adapted operations in response to tariff announcements would be stung by policy U-turns.

New measures – even if the US decides to move beyond tariffs, other protectionist measures such as domestic subsidies or local content requirements, may be considered.

Shields will vary by sector

Policy specifics will evolve over time, but the US is likely to ‘shield’ particular sectors:

Tariffs will focus on industries where the US sees domestic opportunities, such as steel, automotives, and semiconductors.

Priority industries are likely to evolve over time, as the US administration better understands domestic capability and international reliance.

The US is open to carving out exemptions for partners who are willing to negotiate, as illustrated by the trade agreement reached with the UK.

Policy will remain dynamic and unpredictable

US policy will continue to evolve at pace, and is likely to remain somewhat unpredictable:

Dynamic – the US weighted average tariff rate has fluctuated through 2025, with continued volatility likely.

Unpredictable – ongoing Section 232 investigations into steel and aluminium hint that fresh measures could drop without warning.

Escalating – if threats towards trading partners such as Brazil, Mexico, and the EU materialise, the US weighted average tariff rate could climb to c.35% by 1 August 2025.[2]

Less credible – some Wall Street commentators have viewed US announcements as negotiation tactics rather than true policy direction, with policy credibility further eroded with each cycle of delay and de-escalation.

Notes: (1) January 2025 Congressional Budget Office projections – prior to the announcement of Liberation Day tariffs (2) US weighted average tariff rate reflects the average tariff imposed on goods imports to the US, considering both country-specific and sector-specific rates due to be implemented on 1 August. **Sources:** WITS, the Budget Lab at Yale, Reuters, Congressional Budget Office

Taking stock of tariffs

Understanding the impact on the banking sector

Tariffs are reshaping global trade flows and have the potential to expose UK banks to elevated credit risk, in those sectors most exposed to tariffs and complex supply chains. Additionally, inflationary pressure and interest rate uncertainty is creating economic uncertainty, including the potential for liquidity pressures, and will require banks to ensure the range and frequency of scenario planning is appropriate.

Yet amid the disruption, new opportunities are emerging. Banks are increasingly relied on for risk advisory, hedging solutions and strategic support, as clients adapt to shifting economic conditions.

The impact varies across the UK banking landscape, depending on individual banks' sector and geographical exposure. Institutions with a heavier footprint in Asia or the US may face more pronounced headwinds, while those focused on Europe or domestic markets may experience more muted effects. The table below outlines the key challenges and opportunities facing banks over the short, medium and long term in this evolving trade environment.

Horizon	Challenges	Opportunities
Shorter Term impacts	• Potential deterioration in asset quality • Potential for risk in private markets to impact on wholesale markets • Credit demand drops amid client caution • Margin compression from falling rates • Deal flow slows amid uncertainty • Client draw-down on committed credit lines • Impact of tariffs on supplier and own cost base • Funding conditions tighten • Flight-to-safety flows result in reduced returns • Potential global interest rate divergence impacts global institutions • GDP slowdown drives credit rating downgrades and default risk with impact on capital requirements • Strategic uncertainty from geopolitical shifts	• Market volatility driving increased trading revenue • Increase in demand for treasury solutions and risk advisory • Increased demand for FX and hedging services • Interest rate reductions drive increased lending demand • Increased demand for advisory services and working capital optimisation e.g. to aid restructuring of supply chains • Opportunities created by shifting and new trade corridors e.g. trade finance • Strategic reallocation of capital for well capitalised and funded players via M&A or portfolio shifts • Booking centres and legal entity models are adapted to optimise regulatory and cost differentials
Longer term impacts	• Regulatory fragmentation and erosion of global standard setting • Inability to realise global scale with fragmentation and divergence hindering common ops, tech and data	

Navigating the potential fallout

Short and longer term actions you should take

In light of ongoing trade disruptions and tariff shifts, banks must adopt both short-term mitigation tactics and long-term strategic positioning to remain resilient.

Short-term 'no regret' moves	Moves to capture maximum value over the longer term
• **Credit risk reassessment:** Evaluate sector-level exposure - particularly to export-heavy clients and international supply chains - through rigorous stress testing and scenario modelling.	• **Portfolio diversification and rebalancing:** Review and manage exposure to tariff-exposed industries and the regions that are reliant on those sectors
• **Liquidity and capital planning:** Manage liquidity buffers and collateral with heightened awareness of global market volatility and US Treasury disruptions. Review funding strategies in anticipation of central bank policy shifts.	• **Trade finance opportunity:** Leverage capabilities in structured trade finance and hedging to support clients adjusting supply chains and trade corridors.
• **Scenario planning:** Implement robust planning around tariff timelines, FX fluctuations and customer behavior, especially considering potential new UK trade deals and the evolving UK regulatory stance.	• **Platform optimisation and digital acceleration:** Reconfigure capital structures and booking models for efficiency. Embrace digitisation and AI-driven risk operations to counteract margin compression.
• **Regulatory engagement:** Maintain clear lines of communication with regulators and policymakers. Align risk frameworks and lending behavior with national and international macroeconomic responses.	• **Strategic transformation and M&A:** Consider selective M&A and portfolio shifts to build scale, enhance competitiveness and prepare for potential divergence in global regulatory regimes.

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Whilst the banking sector is not directly, at this point at least, impacted by the recent tariff turmoil and is also significantly better capitalised and more resilient as a result of myriad developments since the financial crisis there will still be significant impacts both in the UK and Globally. Banking is of course tightly correlated to the real economy and the current disruption will create both challenges and opportunities over the coming period."

Mark Batten, PwC UK Banking & Capital Markets Sector Leader

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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