



August 12, 2025

## Morning Briefing

---

### Tarrifying BRICS & Stagflating UK

---

**Executive Summary:** President Trump's aggressive tariffs on the BRICS nations could backfire. They have breathed new life into the bloc's ambitions to depend less on US markets and to undercut the US dollar's significance in global trade. William explores the BRICS' ideal scenario and why it may not be realistic. ... The Bank of England faces a fork in the road: It cut its benchmark interest rate last week even though the UK's inflation is the highest among the G7 countries. The prospect of stagflation looms. But the path forward should be clearer soon, as a tariff deal with the US has been struck.

---

**BRICS I: When Tariffs Backfire.** Depending on whom you ask, 2025 is panning out to be either the best of times or the worst for the BRICS nations (Brazil, Russia, India, China, and South Africa). Only when the history of this disorienting year is written will that Dickensian debate be settled. Why it might prove to be the worst of times has to do with US President Donald Trump's tariff escalation strategy. So does why it might prove to be the best.

Trump's tariffs actually may save a bloc that's been on the ropes. Chinese leader Xi Jinping didn't attend this year's BRICS summit amid China's internal strife, as discussed in the July 15 [Morning Briefing](#). Why bother when China and India barely talk and Vladimir Putin's Russia is a pariah state? The snub of such an important trading partner to many of the BRICS portended nothing good for their economies.

Then came Trump's latest tariff gamble: a [50% levy](#) on US imports from India, long an indispensable US ally and counterweight to Beijing's regional ambitions. The reason for the outsized tariff: India's outsized purchases of cheap Russian oil.

Let's consider how Trump might be offering the BRICS an assist:

(1) *Modi plays his trump card.* Clearly, India's Prime Minister Narendra Modi didn't expect Trump's broadside from the economy that supplies [one-third](#) of India's foreign investment. Modi had assumed that his time spent cozying up to Trump 1.0 positioned India well for Trump's second term, little expecting that Trump 2.0's tariffs would hit geopolitical allies

harder than foes.

Rather than caving, Modi began to strengthen the solidarity of bloc nations to marginalize the importance of the US tariffs to them all. He planned a [trip to China](#), his first in seven years, to strategize with Xi, and was quick to call Brazilian President Luiz Inacio Lula da Silva, whose economy faces its own [50% US tariff](#) reckoning.

(2) *New BRICS summit.* These efforts could morph this year's Shanghai Cooperation Organization confab beginning [August 31](#) into the BRICS summit that the bloc hoped to convene in early July.

There, bloc nations, with a renewed spring in their step, will likely join forces to: 1) figure out how to replace the dollar as the global reserve currency; 2) demand greater representation at the International Monetary Fund and World Bank; and 3) deflect, as best they can, the direct impacts of, and indirect fallout from, US tariffs. BRICS leaders represent [about 40% of global GDP](#) and [49% of the world's population](#).

(3) *Red lines.* These potentialities are one thing. But the real red line for Trump World *seems* to be the BRICS' aspiration to phase out the dollar's global supremacy. One oft-stated BRICS goal is either to create its own currency or to use another—particularly the Chinese yuan—to invoice goods and oil transactions. Beijing has been pushing its SWIFT-rival Cross-Border Interbank Payment System (CIPS) as a possible network to accelerate de-dollarization. This might make it harder for the US to "[weaponize](#)" the dollar, as China claims, in sanctioning countries.

(4) *Bottom line.* A narrative where the "[Global South](#)" arms itself against tariff aggressions and marginalizes the US on the global trading field is these nations' ideal scenario. But is it realistic?

Detractors would point out that caveats abound—not least of which is the worst-of-times economic pain from tariffs. Another: Trump's upcoming meeting with Putin in Alaska. The outcome of that *tete-a-tete* could have immediate geopolitical implications from Ukraine to India.

And the daunting challenges facing the BRICS haven't disappeared. Case in point: It will likely take considerable time for China and India to move past the hard feelings of the last decade over issues including a bitter Himalayan [border dispute](#).

**BRICS II: Big Challenges Remain.** The BRICS is as fragmented internally as it was before the Trump 2.0 era began. Trump's tariffs may give BRICS greater impetus to talk, often even, but family therapy tends to be more marathon than sprint.

The race is on to expand the BRICS, but that strategy could backfire by diluting the power of the broader enterprise. Since late 2023, the BRICS has [doubled in number](#) by adding Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates (UAE). It has also added a group of "[partner](#)" nations, as if to signal who's joining next: Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Uganda, and Uzbekistan.

Consider the following:

(1) *When size backfires.* Size can be a detriment as members compete or jostle to prioritize different issues more than they cooperate. It's hard to recall the last time that the Group of 20 nations did anything of note collectively. The same can be said about the 10-member Association of Southeast Asian Nations (ASEAN) and the 21-member Asia-Pacific Economic Cooperation (APEC) forum.

The messy sprawl that the BRICS are becoming is an economic galaxy away from economist Jim O'Neill's vision in 2001. O'Neill's initial [BRIC report](#), back in his Goldman Sachs days, had these developing upstarts remaking the global economic order. Things haven't worked out that way: The dollar accounts for [nearly 60%](#) of global currency reserves today; no trading bloc surpasses the size of the US market; and no bloc has the economic ability to act as a bulwark against the Trump tariffs.

(2) *Guilt by association.* The BRICS will be even guiltier by association if Trump gives China the India treatment. At the moment, Xi is playing hard-to-get with US trade negotiators. Trump's negotiators keep granting Beijing deadline extensions.

China's refusal to deal could up the odds of Trump's retaliating against the BRICS even more aggressively. In early July, Trump telegraphed an additional [10% tax](#) on BRICS members.

(3) *Russian wildcard.* Another wildcard is Trump's [August 15 meeting with Putin](#). The fate of Ukraine is one question. Another: whether Trump might come away less inclined to hit India with a 50% tariff, which Nomura Holdings calls essentially a "[trade embargo](#)."

If not, might China, Russia's top oil customer, be in harm's way once again? As [Jayati](#)

[Ghosh](#) at the University of Massachusetts Amherst puts it: “The whole thing may change in a few months, and [Trump] may decide that China is now the bigger enemy, and Russia is our friend again.”

A return to prohibitively high China tariffs could deprive the rest of the bloc of the benefits of hitching itself to China’s economic locomotive. Without [5%-plus growth](#) from Asia’s biggest economy, the “BRIS” would become immediately irrelevant.

(4) *Dissension in numbers*. In the meantime, the best course of action may be to create a BRICS free-trade zone that offers something approaching an alternative to the US. That the BRICS could swing relatively easily, if only the bloc’s growing ranks of members could agree on much of anything. It’ll take a lot more than Modi visiting Beijing to change that.

**UK Economy I: Bank of England Rift.** Before cutting interest rates last week, Bank of England (BOE) officials did a double-take—literally. For the [first time](#) in the 28-year history of its Monetary Policy Committee framework, policymakers needed two rounds of voting to find something of a unified stance.

The BOE ultimately [split 5-to-4](#) in favor of a 25bps reduction in its benchmark rate to 4.00%. Yet the near deadlock saw the central bank’s two most senior voices pitted against Governor Andrew Bailey. And that may have important global implications, suggesting that the trade war isn’t tanking growth in the UK economy and beyond as much as feared.

Bailey’s saying there’s “genuine uncertainty” on its next move is a study in understatement. The divide is over what to prioritize: the prospect of inflation [hitting 4.0%](#) or a weakening jobs market. Last week saw Deputy Governor Clare Lombardelli and Chief Economist Huw Pill oppose rate cuts, disagreeing with Bailey’s take that inflation is transitory.

Let’s consider the fork in the economic road ahead for the BOE:

(1) *A rare drama*. Such drama is exceedingly rare in London. Traditionally, the governor and deputy governor agree on rate decisions. There were [zero dissents](#) by Lombardelli’s predecessor Ben Broadbent. The tenure of former Governor Mark Carney was rather peaceful (2008-13). Under Mervyn King, BOE governor from 2003 to 2013, officials diverged occasionally on the scale of [quantitative easing](#). Generally, though, officials give the governor great deference.

Bailey argues that such divides are proof that the BOE doesn’t fall prey to “groupthink,” as

some politicians have claimed. Yet the challenge now is getting officials on the same page.

(2) *Stagflation risk*. One debate centers on the risk of stagflation in the [sixth-largest economy](#). The BOE expects the UK to [grow GDP 1.25%](#) in 2025, slower than the economy's [3.6% y/y](#) inflation rate in June but hardly a recession.

Policymakers have [eased five times](#) since August 2024. At this point, the BOE expects the headline rate of inflation will [reach 4.0%](#) y/y in September. Much of the increase reflects rising food and energy costs and, potentially, tariff effects. This has the more neutral-to-hawkish Lombardelli-Pill faction worried about “second-round effects” as inflation filters into wages and broader prices.

(3) *UK is not alone*. This dilemma isn't unique to the UK. Economists at [Goldman Sachs](#) and [Charles Schwab](#) warn that the US risks falling into a low-growth-high-inflation cycle. Japan also risks stagflation, warns economists at [UBS](#) and [BNP Paribas](#).

Already, the UK faces above-trend wage growth. Even as many economists forecast a deterioration of job growth over the next 12 months, expectations are for wages to [increase 3.6%](#) y/y—probably too hot for some officials' comfort.

(4) *Delayed hiring?* UK employment data suggest a similar phenomenon playing out there as Dr Ed sees in the US: UK employers may be delaying hiring owing to tariff-related economic uncertainty, not cutting jobs because business has slackened. That could mean the UK economy, like that of the US, will prove more resilient than many economists believe.

Indeed, a [recent survey](#) suggested that UK companies are pausing major investment decisions pending greater tariff-related clarity.

**UK Economy II: Fork in the Economic Road.** That clarity could come from Trump throttling back his current policy of tariff escalation. The good news for the UK is that it may have scored a first-mover advantage in Trump World.

Whereas Japan and the European Union held out considerably longer, UK Prime Minister Keir Starmer, [on May 8](#), gave Trump his first claim to a trade deal with a major economy. Here's more:

(1) *Tariff effects*. Though limited in scope and impact—given that the US enjoys a trade

surplus with the UK—Starmer offered Trump a political lifeline at a moment when tariffs were slamming the stock market and causing an alarming surge in US Treasury yields.

Yet the challenge facing both the BOE and Starmer's government is a daunting one. Granted, consumer prices are now just about one-third of the late 2022 post-Covid [high of 11.1%](#), but they're still high enough historically to damage London's global credibility.

(2) *Worst G7 inflation.* The UK is stuck with the [highest inflation rate](#) among Group of Seven economies. A big reason for that is energy. The surge in energy following Russia's invasion of Ukraine in February 2022 has never quite abated. The UK is more dependent on imported gas than most major-economy peers. High gas prices can warp electricity costs thanks to the UK's "[marginal pricing](#)" framework, whereby the final price is set by the most expensive power plant.

Reforming this system could go a long way toward bringing down overall living costs. So could addressing chronically weak productivity. At the moment, regular annual pay increases are running ahead of the [3.0%-3.5% pace](#) BOE officials see as sustainable in light of 2.0% inflation goal, as long as productivity is rising 1.0%-1.5% y/y.

(3) *The productivity thing.* In Q1, labor efficiency was in the red, falling [0.7% y/y](#). The UK consistently trails the US, Germany, and France in productivity, putting up numbers more in line with Japan's. According to the UK's Productivity Institute, "Britain's productivity malaise" means that "output per hour worked in the UK is estimated at [15% below Germany](#) and the US and 10% below France." This underperformance, according to a [recent report](#) by the institute, has often "translated directly into stagnant incomes" that "generate weak growth in tax revenues and fiscal pressure." This could constrain London's ability to invest in the nation's future.

Such challenges are beyond the BOE's control, much as similar ones in the US and Japan can't be helped by the Fed or Bank of Japan. Still, how Bailey & Co. navigate this fork in the economic road may help policymakers everywhere feel their way forward to 2026.

---

## Calendars

**US: Tues:** NFIB Small Business Optimism Index 98.6; Headline & Core CPI 0.2%/m/m, 2.8%/y/y & 0.3%/m/m, 3.1%/y.y; Federal Budget Balance; OPEC Monthly Report; Barkin; Schmid. **Wed:** Mortgage Applications. (Source: FX Street)

**Global: Tues:** Eurozone ZEW Economic Sentiment 28.1; Germany ZEW Economic Sentiment 39.7; UK Average Earnings ex Bonus 4.7%; UK Unemployment Rate 4.7%; Japan GDP 5.6%q/q, 4.3%y/y; Japan PPI 0.2%m/m, 2.5%y/y; RBA Interest Rate Decision 3.60%. **Wed:** Germany CPI 0.3%m/m, 2.0%y/y; Germany WPI 0.2%; Spain CPI -01%m/m, 2.7%y/y. (Source: FX Street)

---

## Strategy Indicators

**S&P 500/400/600 Forward Earnings** ([link](#)): During the August 8 week, forward earnings rose simultaneously for all three of these indexes for the tenth time in the 11 weeks since May 30. LargeCap's forward earnings rose for a 12th straight week, matching its longest winning streak since the December 20 week, and has posted gains in 14 of the 16 weeks since it bottomed during the April 25 week. MidCap's rose for the 11th time in the 12 weeks since it bottomed during the May 16 week. SmallCap's has risen for 11 straight weeks since it bottomed during the May 23 week, and is now on the longest winning streak since it did so nearly four years ago for 15 weeks through the December 17, 2021 week. LargeCap's forward earnings rose the most in 26 months, soaring 0.8% w/w to its tenth straight weekly record high. MidCap's rose 0.4% w/w to an 18-week high and is 0.5% below its record high during the April 4 week. SmallCap's jumped 0.8% w/w to a 28-week high and is 10.9% below its June 2022 record. LargeCap's forward earnings has soared 27.9% from its 54-week low during the week of February 1, 2023; MidCap's is just 8.6% above its 55-week low during the week of March 10, 2023; but SmallCap's has lagged considerably and is up just 4.4% from a very recent 42-month low during the May 23 week. These three indexes' forward earnings downtrends from mid-2022 to early 2023 and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 9.9%, 13.4%), MidCap (0.4, 2.2, 17.6), and SmallCap (-10.2, 3.9, 18.0). ([link](#)): During the August 8 week, forward earnings rose simultaneously for all three of these indexes for the tenth time in the 11 weeks since May 30. LargeCap's forward earnings rose for a 12th straight week, matching its longest winning streak since the December 20 week, and has posted gains in 14 of the 16 weeks since it bottomed during the April 25 week. MidCap's rose for the 11th time in the 12 weeks since it bottomed during the May 16 week. SmallCap's has risen for 11 straight weeks since it bottomed during the May 23 week, and is now on the longest winning streak since it did so nearly four years ago for 15 weeks through the December 17, 2021 week. LargeCap's forward earnings rose the most in 26 months, soaring 0.8% w/w to its tenth



straight weekly record high. MidCap's rose 0.4% w/w to an 18-week high and is 0.5% below its record high during the April 4 week. SmallCap's jumped 0.8% w/w to a 28-week high and is 10.9% below its June 2022 record. LargeCap's forward earnings has soared 27.9% from its 54-week low during the week of February 1, 2023; MidCap's is just 8.6% above its 55-week low during the week of March 10, 2023; but SmallCap's has lagged considerably and is up just 4.4% from a very recent 42-month low during the May 23 week. These three indexes' forward earnings downtrends from mid-2022 to early 2023 and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2024, 2025, and 2026: LargeCap (9.7%, 9.9%, 13.4%), MidCap (0.4, 2.2, 17.6), and SmallCap (-10.2, 3.9, 18.0).

**S&P 500/400/600 Valuation ([link](#)):** Valuations were higher w/w for all three of these indexes during the August 8 week. LargeCap's forward P/E rose 0.3pt w/w to 22.1 from a six-week low of 21.8 a week earlier, and is just 0.3pt below its four-year high of 22.4 the week before that. It's now 5.1pts above the seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E rose 0.1pt w/w to 15.7 from a six-week low of 15.6. It's now 1.4pts below its 40-month high of 17.1 during the November 29 week and 3.5pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E rose 0.2pt w/w to 14.8 from a nine-week low of 14.6 and is 0.8pt below its 20-week high of 15.6 during the July 4 week. It's 1.9pts above its 17-month low of 12.9 during the April 4 week and 4.2pts above its 14-year low of 10.6 in September 2022 but remains 1.6pts below its 41-month high of 17.1 during the November 29 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed and a record low of 10.2 in November 2009 during the Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E is at a 26-year low 29% discount to LargeCap's P/E, matching its similar 29% discount during the July 5, 2024 week. That compares to a 19% discount during the March 2, 2023 week, which matched its best reading since October 14, 2021. SmallCap's P/E is at a 13-month-low 33% discount to LargeCap's P/E. That compares to a 23% discount during the November 29 week, which was its best reading since the March 2, 2023 week. It's now just 2ppts above its 24-year-low 34% discount during the July 5, 2024 week. SmallCap's P/E is also at a 13-month-low 6% discount to MidCap's, up from a 20-year-low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.



---

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683  
Debbie Johnson, Chief Economist, 480-664-1333  
Joe Abbott, Chief Quantitative Strategist, 732-241-6502  
Melissa Tagg, Senior Global Investment Strategist, 516-782-9967  
Mali Quintana, Senior Economist, 480-664-1333  
Jackie Doherty, Contributing Editor, 917-328-6848  
William Pesek, Contributing Editor, 516-277-2432  
Valerie de la Rue, Director of Institutional Sales, 516-277-2432  
Mary Fanslau, Manager of Client Services, 480-664-1333  
Sandy Cohan, Senior Editor, 570-228-9102

