
Reading the Tariff Tea Leaves: First Signs of Economic Impact

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After weeks of market speculation and mixed messaging, we're starting to see clearer signals around the economic impact of newly imposed tariffs. While 1st quarter [company earnings calls](#) have provided an early glimpse into how tariffs are affecting business sentiment and operations, recent data from shipping patterns, Federal Reserve commentary, and evolving trade deals offer more concrete developments. Below, we highlight the key areas where tariff effects are already materializing—from changes in global shipping routes to shifts in trade policy and central bank strategy.

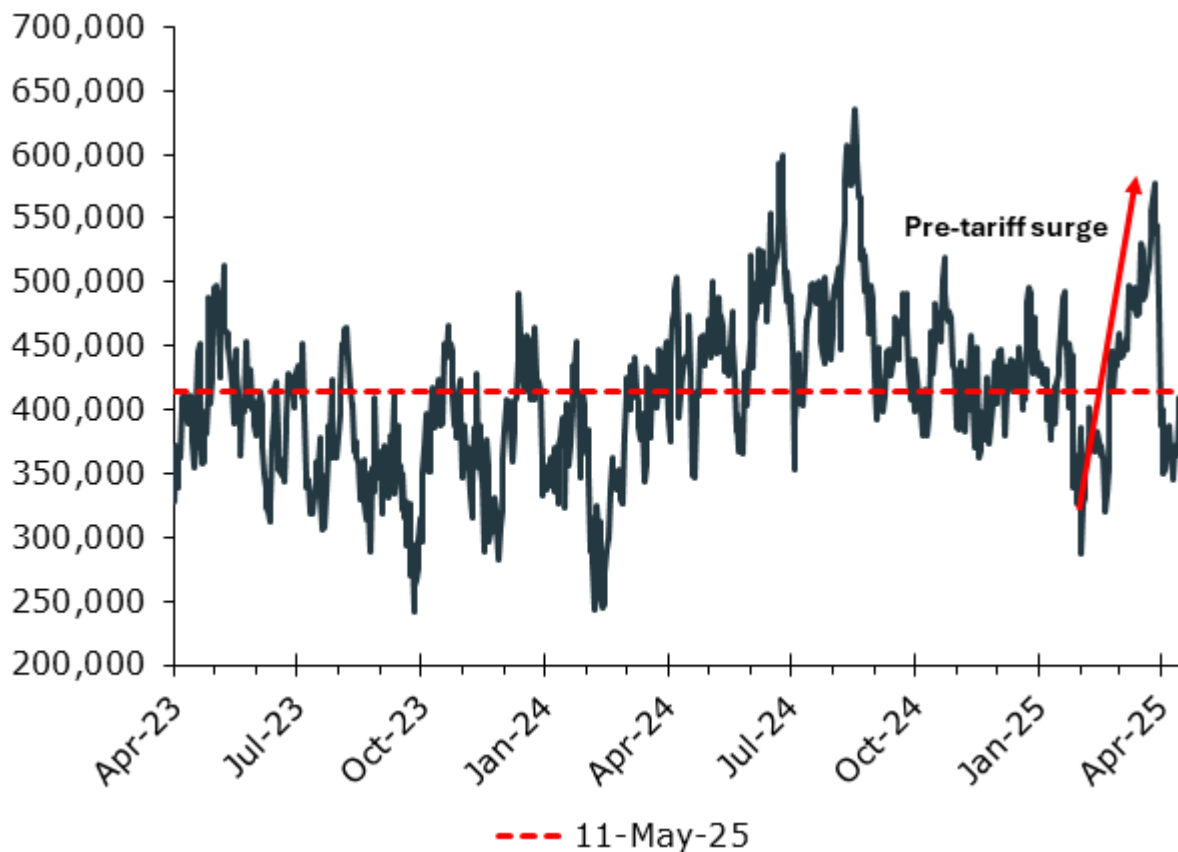
Key Points

- Changes to shipping patterns suggest that companies are responding to tariffs, but the final picture is not yet clear.
- The Fed is taking a wait-and-see approach, recognizing the difficulty of making policy adjustments in a rapidly changing environment with mixed signals from economic data and sentiment.
- While trade deals are still being negotiated, the initial details offer investors valuable clarity, helping narrow the range of possible outcomes to better assess potential market implications.

Shipping Patterns Initially Disrupted

- In March, the number of container ships from China surged into the US as buyers rushed to beat new tariffs. Then in April, as tariffs took effect, fewer ships left China for the U.S.
- Evidence suggests that some ships from China were simply diverted to Vietnam or Canada in an effort to avoid tariffs. Others suggest it could reflect a decline in demand for Chinese goods in response to tariffs.
- Despite the April dip, the number of ships en route to the US from China is now higher than this time compared to last year.

Number of Container Ships Sailing from China to the US



Source: Kestra Investment Management with data from Bloomberg. Data from April 23, 2023 through May 11, 2025

Federal Reserve

On May 7, Jerome Powell, Chair of the Federal Reserve of the United States, stated 11 times that the Federal Reserve would “wait and see” what happens before changing interest rates, demonstrating just how complex and changing the macro environment is.

He acknowledged that net exports dragged down the economy in the first quarter but said other data—like job growth and consumer spending—still point to solid economic activity.

Near-term measures of inflation expectations have moved up in the wake of tariffs, with Powell also acknowledging the divergence between what business and consumer surveys say (pessimistic) and what actual data shows (resilient).

Trade Deals

On May 8th, the US and the UK unveiled a new trade deal, marking the first bilateral trade agreement since the April 2 tariffs were established

While final details are still pending, the terms include a 10% baseline tariff on most UK imports (with exceptions carved out for UK auto and steel imports), reduction of the average tariff rate on US imports from 5.1% to 1.8%, and the UK agreeing to purchase an additional \$5b in US agricultural products.

This agreement offers an early glimpse into the administration’s evolving trade policy. Given that the trade relationship with the UK is one of the most balanced relationships we have, the 10% tariffs that remain in place

can be viewed as the floor. From this, we can infer that countries with which the US runs persistent trade deficits will face steeper tariffs.

Additionally, on May 11, the US announced an [initial agreement](#) on terms for a trade deal with China.

The administration has stated it views the original 34% reciprocal tariff level on Chinese goods set on April 2nd [as a ceiling](#). Combined with the 10% tariffs assigned on the UK, our most balanced trading partner, this suggests tariff rates are rangebound between 10% and 34%, providing another layer of clarity for markets.

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