

THE WAVERLEY SERIES

UNITED STATES

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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UNITED STATES — AT A GLANCE

Capital	Washington, D.C.
Tariff policy	The effective tariff rate implied by customs duties rose from 2.1% to an estimated 11.7% as of January 2026; the trade deficit fell by just USD 2.1 billion in 2025 versus 2024, as an increase in the services trade surplus offset a USD 25.5 billion year-on-year increase in the goods deficit
Inflation	Rose to 4.2% year-on-year in May 2026, up from 2.4% in February, driven by higher oil prices (Brent averaging a forecast USD 92 per barrel in 2026 amid the Middle East conflict), rising fertiliser costs, and tariff-related pressure; independent forecasters expect these pressures to diminish by year-end
Stagflation risk	Independent analysis states the risk is 'real': if the labour market continues weakening while inflation stays above the Federal Reserve's 2% target as tariffs pass through to consumers, the Fed's policy task becomes considerably more complicated
Business investment	Rose by nearly 10% at an annualised rate over the first half of 2026 per Treasury data; independent analysis notes that in 2025, nearly three-quarters of the roughly 6% Q4/Q4 investment growth was driven specifically by AI-related investment, with most other investment categories weak
Labour market	334,000 net new jobs added in the second quarter of 2026 per Treasury reporting; the unemployment rate remains low and wage growth continues to outpace inflation, according to the Administration's own assessment
Independent tariff-impact assessment	The Tax Foundation's modelling finds permanent tariffs will reduce long-run GDP by creating a wedge between consumer and producer prices, ultimately reducing returns to labour and capital, and states its estimates likely understate the true negative impact since temporary-tariff drag and capital-cost effects are not fully captured
Treasury market	The average interest rate on marketable Treasuries reached 3.44% on 31 July 2026, up from 1.42% in January 2022, raising federal interest costs as maturing debt is refinanced at higher rates
2026 tariff scenario range	Independent analysis from Oxford Economics outlines four distinct paths for the year, from a 'Liberation Day reversal' returning tariffs to pre-April 2025 levels through to full escalation with China, reflecting genuinely wide uncertainty over the policy's near-term direction
Governing framework	President Donald Trump, whose Administration's own economic messaging describes current conditions as 'favorable' and 'strong,' crediting full expensing of equipment and R&D, tariffs and reshoring incentives, and deregulation for a 'policy-driven capex boom'

The United States enters this period with a genuinely sharp divergence between the Administration's own confident economic messaging, crediting tariffs, deregulation and full expensing for a trillion-dollar capex boom, and independent analysis warning of reduced long-run GDP, rising inflation, and a real risk of stagflation.

Business investment has grown strongly in headline terms, but nearly three-quarters of last year's growth came specifically from AI-related spending, while Treasury borrowing costs have more than doubled since 2022 as the government refinances maturing debt at higher rates. Investors should read the US economy as one experiencing genuine, concentrated investment strength alongside real, independently documented tariff-policy risks whose ultimate trajectory for 2026 remains, by credible external accounts, genuinely uncertain.

1. INVESTMENT & FDI

A genuinely large capital expenditure boom is underway, though independent analysis finds it has been substantially concentrated in AI-related investment specifically, with most other investment categories remaining weak.

The US Treasury states that trillions of dollars of investments in US manufacturing, production and innovation have been announced, reflecting what it describes as global confidence in the United States as an investment destination, crediting the Administration's policies allowing full expensing of equipment and R&D, tariffs and reshoring incentives, and deregulation for enabling this 'policy-driven capex boom.' Business investment rose by nearly 10% at an annualised rate over the first half of 2026, according to Treasury data. However, independent analysis finds that in 2025, US business investment expanded by nearly 6% on a Q4/Q4 basis, but nearly three-quarters of that growth was driven specifically by AI-related investment, while most other areas of investment were weak; sizeable 2026 capital expenditure commitments by the hyperscalers suggest AI will remain a meaningful driver of investment growth specifically.

- **A genuinely large, government-credited investment expansion:** the Treasury's specific citation of full expensing, reshoring incentives and deregulation as enabling factors represents the Administration's own, sourced account of what is driving current capital expenditure growth.
- **A significant, independently documented concentration risk within that investment growth:** the finding that nearly three-quarters of 2025's investment growth came from AI specifically, with most other categories weak, represents an important, sourced qualification distinguishing broad-based investment strength from a more narrowly concentrated boom.
- **A forward-looking dependence on continued hyperscaler capital commitments:** the explicit link between AI's continued role as an investment driver and specific 2026 hyperscaler capex plans means sustaining current investment growth rates may depend heavily on a small number of very large technology companies' continued spending decisions.

2. TRADE & BUSINESS

A sharply higher effective tariff rate has produced only a modest overall trade deficit reduction, with the underlying goods deficit actually widening even as tariffs remain one of the most consequential and fluid policy variables shaping markets.

The effective tariff rate implied by customs duties rose from 2.1% to an estimated 11.7% as of January 2026. Despite this substantial increase, the trade deficit fell by just \$2.1 billion in 2025 compared with 2024; this modest overall reduction was driven by an increase in the services trade surplus, while the goods deficit actually increased by \$25.5 billion year-over-year. Independent market analysis notes that tariffs remain one of the most fluid policy variables affecting stock markets, capable of raising materials and finished-product costs, altering supply-chain decisions, and adding pressure to consumer prices, with their economic effect depending on the specific tariff rate and products covered.

- **A substantial tariff-rate increase that has not proportionally reduced the trade imbalance:** the near six-fold rise in the effective tariff rate, against just a \$2.1 billion overall deficit reduction, represents a significant, sourced gap between the scale of the policy intervention and its measured trade-balance outcome.
- **A widening goods deficit masked by services-sector strength:** the specific \$25.5 billion increase in the goods deficit, offset by services surplus growth, indicates that tariffs targeting goods trade have not achieved their apparent core objective in that specific category.
- **A directly acknowledged, ongoing policy fluidity creating market uncertainty:** the characterisation of tariffs as one of the most fluid policy variables reflects genuine, sourced recognition that businesses and investors face continued uncertainty over the direction and scope of future tariff changes.

3. MAJOR ECONOMIC DEVELOPMENTS

The Administration's confident economic messaging stands in genuine, direct tension with independent analysis warning of reduced long-run growth, accelerating inflation, and a real risk of stagflation.

The Treasury Department describes the economic landscape under the current Administration as 'favorable' and 'strong,' citing robust business investment in equipment and intellectual property, solid household consumption growth, and 334,000 net new jobs added in the second quarter of 2026, alongside wage growth continuing to outpace inflation and a low unemployment rate; the Administration states its combined enacted and planned policies 'provide a solid foundation to economic growth and will bring prosperity to all Americans.' Independent analysis presents a more cautious picture. The Tax Foundation's modelling of permanent Section 232, 301 and 338 tariffs finds they will reduce long-run GDP by imposing a wedge between the price consumers pay and the price producers receive, ultimately reducing returns to labour; when output falls, the return to capital falls too, reducing investment, and tariffs can further reduce productivity by reallocating workers and investment toward less productive sectors; the Foundation states explicitly that because it does not incorporate capital-input cost effects or temporary-tariff drag, its modelling likely understates the true negative economic impact. Separately, inflation rose to 4.2% year-on-year in May 2026, up sharply from 2.4% in February, driven by higher oil prices (with Brent crude forecast to average \$92 per barrel in 2026 amid the Middle East conflict, falling to \$80 in 2027), rising fertiliser costs also linked to that conflict and expected to raise food prices later in the year, and tariff-related pressures, though these are expected to diminish by year-end. Stanford's Institute for Economic Policy Research states directly that 'the stagflation risk is real': if the labour market continues weakening while inflation remains above the Federal Reserve's 2% target as tariffs trickle down to consumers, the Fed's task becomes considerably more complicated, since aggressive anti-inflation measures risk driving up unemployment while rate cuts to support growth risk further inflation, a dynamic that 'can be hard to reverse' once underway. Oxford Economics has outlined four distinct tariff scenarios for 2026, ranging from a 'Liberation Day reversal,' in which tariffs return to pre-April 2025 levels and trading partners reciprocate with preferential supply-chain deals, through to full escalation with China; the firm's lead economist noted that President Trump 'has shown that he's willing to implement drastic tariff changes at short notice if he sees fit.'

- **A genuine, sourced divergence between official government messaging and independent economic modelling:** the direct contrast between Treasury's 'strong' and 'favorable' characterisation and the Tax Foundation's long-run GDP reduction findings represents a substantive analytical disagreement investors should weigh using both sources rather than treating either as definitive on its own.
- **An independent analysis that explicitly flags its own conservatism:** the Tax Foundation's direct acknowledgment that its modelling likely understates tariffs' true negative impact, by excluding capital-cost

and temporary-tariff effects, suggests the actual economic drag could exceed even its own published estimates.

- **A specific, dramatic inflation acceleration with multiple identified, converging causes:** the rise from 2.4% to 4.2% within three months, attributed to oil prices, fertiliser costs and tariffs simultaneously, represents a genuinely significant, multi-factor inflationary episode rather than a single-cause price shock.
- **A direct, credible warning of a specific, historically difficult-to-reverse economic condition:** Stanford SIEPR's explicit stagflation framing, and its description of why the condition is hard to reverse once established, represents a serious, sourced risk assessment distinct from routine business-cycle commentary.
- **A structured, wide-ranging scenario framework capturing genuine policy unpredictability:** Oxford Economics' four-scenario approach, spanning full tariff reversal to full escalation with China, together with its direct characterisation of the President's willingness to change course abruptly, reflects credible, sourced uncertainty about the coming year's actual trajectory.

4. MAJOR PROJECTS & INFRASTRUCTURE

Announced manufacturing and innovation investments, credited by the Administration to reshoring incentives and full expensing, represent the primary current driver of large-scale US capital project activity.

- **Manufacturing and production reshoring investment:** credited by Treasury to the Administration's reshoring incentives specifically, this represents the stated core driver of the announced trillions of dollars in new US manufacturing investment.
- **AI-related capital infrastructure:** as the dominant driver of 2025's business investment growth, described in Section 1, continued hyperscaler capex commitments represent the single largest concentration of new US capital project activity currently identified.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant standalone investment conferences or forums specific to this period were identified; US economic policy developments are tracked primarily through Treasury Department statements, USTR trade policy publications, and independent economic research described elsewhere in this briefing.

6. BUSINESS & INVESTMENT EVENTS

Treasury's quarterly economic statements to the Treasury Borrowing Advisory Committee represent the Administration's most consistent, formal channel for communicating its economic assessment.

- **Treasury Borrowing Advisory Committee economic statements, 2026:** these quarterly statements, cited extensively in Section 3, represent the Administration's most detailed, formal articulation of its economic policy assessment and outlook this year.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Active trade renegotiations with Mexico and Canada under USMCA, alongside broader Section 232 and 301 tariff actions, define the Administration's current core international economic relationships.

- **Mexico and Canada (USMCA):** the Administration's 2026 Trade Policy Agenda describes the USMCA as having replaced NAFTA, which it states cost the US an estimated 700,000 jobs and increased the trade deficit by approximately \$160 billion, while stating 'many problems require resolution' within the current pact, consistent with the active joint-review negotiations described in this series' Mexico and Canada reports.
- **China:** Section 301 tariffs and the broader prospect of escalation, described in Oxford Economics' scenario analysis in Section 3, represent the most consequential and uncertain element of current US-China economic relations.
- **Middle East (indirect, via oil markets):** the conflict's direct impact on oil and fertiliser prices, described in Section 3, represents a significant indirect channel through which Middle Eastern geopolitical developments are shaping US domestic inflation specifically.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

A proposed \$2,000 tariff dividend cheque remains highly speculative given the absence of specified structure, timing or eligibility criteria, representing an unresolved private-household policy question.

President Trump has proposed sending \$2,000 'tariff dividend checks' to eligible households, funded using tariff revenue; however, independent analysis notes the Administration has not provided further details on the structure, timing or income-testing thresholds for this proposal, making any economic inference about its effects 'very speculative' at this stage.

- **A high-profile household policy proposal still lacking basic implementation detail:** the explicit absence of structure, timing and eligibility specifics means this proposal cannot yet be meaningfully assessed for its actual economic impact on household spending or business demand.
- **A direct, funding-linked policy proposal tying household benefits to tariff revenue performance:** the proposal's explicit tariff-revenue funding source means its eventual scale and viability may depend directly on how tariff collections evolve under the very scenarios described in Section 3.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

AI-related infrastructure, reshoring-incentivised manufacturing, and full-expensing-eligible equipment and R&D investment define the most concretely promoted current US investment channels.

- **AI-related infrastructure and hyperscaler capital projects:** described in Section 1 as the dominant driver of recent investment growth, this remains the most concentrated and actively expanding current US investment opportunity.
- **Reshoring-incentivised manufacturing investment:** supported by the Administration's stated tariff and reshoring incentive policies, described in Section 4, this represents a specifically targeted investment channel for manufacturers considering US production relocation.

- **Full-expensing-eligible equipment and R&D investment:** this specific tax policy, cited by Treasury as a core enabler of the current capex boom, offers a concrete, immediate fiscal incentive for qualifying business investment.

SUMMARY ASSESSMENT

The United States enters this period with a genuinely sharp divergence between the Administration's own confident economic messaging, crediting tariffs, deregulation and full expensing for a trillion-dollar capex boom, and independent analysis warning of reduced long-run GDP, rising inflation, and a real risk of stagflation. Business investment has grown strongly in headline terms, but nearly three-quarters of last year's growth came specifically from AI-related spending, while Treasury borrowing costs have more than doubled since 2022 as the government refinances maturing debt at higher rates.

Investors should read the US economy as one experiencing genuine, concentrated investment strength alongside real, independently documented tariff-policy risks, a widening goods trade deficit despite sharply higher tariffs, accelerating inflation with multiple converging causes, and a credibly flagged stagflation risk, whose ultimate trajectory for 2026 remains, by credible external accounts including Oxford Economics' own four-scenario framework, genuinely uncertain.