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US-EU trade agreement: a big deal?

The US and the EU have agreed a trade deal that imposes a 15% import tariff on most EU exports to the US. The agreement helps remove some of the uncertainty hanging over markets but may have implications for growth and inflation on both sides of the Atlantic.

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Key takeaways

- The US-EU trade deal averts a transatlantic trade dispute and gives companies more clarity about the future, but market participants are likely to seek more details about the precise terms of the deal.
- In equity markets, we consider US and EU aerospace and aircraft manufacturers as among the potential winners as the sector is not subject to tariffs.
- In fixed income, we continue to think the US yield curve is likely to steepen further in the coming months as a softer economy pushes the US Federal Reserve to deliver more easing than anticipated by the market.

Navigating Rates

The US and the European Union (EU) have agreed a tariff deal, averting a transatlantic trade war between the two economies that account for almost a third of global trade.

US President Donald Trump and European Commission President Ursula von der Leyen reached agreement on 27 July on the deal that will impose a 15% import tariff on most EU exports to the US, including cars and pharmaceuticals.

The EU has also agreed to make USD 750 billion of energy purchases from the US, in addition to USD 600 billion of investments in the US and an unspecified amount of purchases of US military equipment – although more clarity is needed on how the EU will manage these commitments.

European equity markets initially rose after the announcement, which removes uncertainty after months of negotiations between the two sides and avoids a higher 30% levy that Mr Trump had threatened on the EU. But stocks later relinquished gains, with Germany's Dax closing 1% lower.

We think 15% tariffs are likely to reduce expected euro area GDP growth by around 0.5%. Some of the lower growth expectations may already be priced in by markets and EU policymakers.

In terms of inflation, the EU's decision not to impose retaliatory tariffs on the US removes one source of uncertainty for the European Central Bank (ECB) over its inflation outlook. Our base case is that a further decline in the ECB's growth and inflation forecasts paves the way for a further 25 basis points interest rates cut in the autumn.

For the US, this agreement forms one part of the broader tariff deals struck with many countries – hence the effects are smaller. However, it seems likely the rates agreed with most economies so far will be above the tariff levels assumed by the US Federal Reserve (Fed) during its last round of forecasting in June.

A new round of tariff increases and any further weakening in the labour market may widen splits within the Fed about whether it should reconsider its wait-and-see approach before embarking on any rate cuts.

Economic impact: uncertainty alleviated but risks to growth and inflation

In our view, the agreement has substantially cut the near-term risks facing both the European and US economies as it should reduce policy uncertainty. It averts the significant negative economic impact that would have materialised under a 30% tariff scenario. But the agreement likely still has repercussions for both economies. It is significantly higher than both the pre-Trump tariff regime and the 10% base tariff imposed earlier in the year.

The agreement likely reflects the EU seeking to limit the damage, instead of aiming for an equitable deal with the US. The slide in the euro against the US dollar reflects the weaker result for the EU, and the strategy of mitigating downside risks may also limit the potential for gains for the equity market.

Equity market impact: aerospace and aircraft manufacturers potential winners

We think the news should be a relief for US companies that rely on imports from the EU as well as for EU firms with a large share of their exports headed to the US.

We consider US and EU aerospace and aircraft manufacturers as among the potential beneficiaries as the sector is not subject to tariffs. We think the US sector may particularly benefit as US aerospace makers source a lot of parts from the EU.

Some uncertainty remains about the status of pharmaceuticals – Ms von der Leyen referred to a ceiling of 15%, though it is unclear what sector-specific measures may apply.

The most exposed European sector is, of course, automotives. A 15% tariff will certainly impact on the earnings outlooks of European car makers as they face cost increases and potential erosion of market share, although we note some relief here compared to the previous sector-specific tariff regime.

For broader European companies, the tariffs may trigger a hit to earnings related to the US. Around 26% of revenues of European listed companies in 2025 will be generated in the US and the weakening dollar will cause headwinds. **Read more**.

Fixed income and currency market impact: lower dollar, steeper US yield curve expected

In fixed income markets, European credit spreads compressed to their tightest levels since 2022, while European bond yields declined as market participants welcomed the removal of policy uncertainties.

The US dollar strengthened as market participants bet that lower trade policy uncertainty may translate to lower growth risks for the US economy and wider interest rate differentials. This might continue near term, but we would see this as an opportunity to further sell the dollar as we retain our belief that the currency will continue to weaken over the medium term.

We continue to think the US yield curve will steepen further in the coming months as a softer economy pushes the Fed to deliver more easing than anticipated by the market, even as long-end yields stay elevated given a historically high fiscal deficit and public debt.

Tariffs are expected to raise some USD 2.9 trillion in revenues for the US over the next 10 years, potentially easing US debt sustainability concerns. But tariffs will ultimately be a source of weakness for the US economy relative to the rest of the world, supporting continued dollar weakness and curve-steepening.

Looking ahead: the devil is in the detail

In the coming days, many investors may seek more details about the precise terms of the deal.

One potential challenge may be interpretation. As has been the case with the US's recent trade agreement with Japan, both sides may understand the benefits and costs of the deal differently. A lack of clarity about the details may make it trickier for market participants to form views about the potential winners and losers across sectors and asset classes.

Questions about the pharmaceutical sector (see above) and the EU's investment pledge might make it challenging for some companies to plan.

Without enforcement mechanisms and milestones within the agreement, it remains to be seen how much will change in the current US-EU trade and investment relationship. Overall, the deal should be welcomed as an end to uncertainty, though the potential headwinds for the US and EU economies and their companies should not be disregarded.

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