

JULY 2025

# 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.



**Christoph Berger**  
CIO Europe  
Equity



**Gaurav Saroliya**  
Portfolio  
Manager, Core  
Fixed Income



**Sean Shepley**  
Senior  
Economist



**Stefan Rondorf**  
Senior  
Economist

## 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**

**ALLIANZGI.COM**

## US-EU TRADE AGREEMENT: A BIG DEAL?

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.



### **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.

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.



### **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.

**Investing involves risk.** The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances arises from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).