APRIL 2025

European market comment – Persistent uncertainty creating opportunities

Since President Trump's most recent tariff announcements, European markets have not escaped the very weak global market trends. Tariffs for imports to the US are generally higher expected, with imports from the EU being charged at 20%, Switzerland 31%, and the UK 10%. Higher tariffs on Asian countries will also impact earnings for some European corporates.

Corporate earnings

1) Automotive

We will here see the greatest tariff impact in Europe, with the bottom lines of both manufacturers and suppliers being hit.

2) Textiles, apparel and footwear

Many European corporates face the same challenges as their US competitors – they import most of their products from Asia and are impacted by high import tariffs for products sourced from China or Vietnam. We will thus see either a negative impact on volumes – if higher import prices are passed on to clients – or it will impact margins.

3) Capital goods and industrial automation

This is a highly important sector for Europe, especially Germany (over 20% of EUR 161bn of total exports from Germany to US).

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Here we have large players, some with significant local production bases in the US. For these corporates, the impact on earnings is more closely related to the general macroeconomic outlook in US. If tariffs lead to a relocation of production facilities to US, these names may benefit, but, for now, the discussion is more focused on the US's weaker economic outlook.

For some smaller names, the situation is different. While many have only small or no production in US, they also often have little or no US-based competition and therefore a high likelihood they can pass higher prices on to clients.

Indirect impacts

These tariffs will result in lower marco economic growth, not only in US but also in Asia and Europe. For the US, we expect elevated inflation data. For the time being, many corporates have elevated levels of inventories and can sell based on import prices before tariffs have been introduced; however, this is only a temporary buffer – we will soon see an impact on US inflation. Combined with lower global growth, this will be a negative for equity markets.

Conclusion

From a European perspective we would note several things. First, fiscal stimulus in Germany and higher defense spending in Europe will have an positive impact for the European economy from 2026 onwards. Second, the tariff's negative impact on economic growth will be more pronounced for the US than Europe. Finally, there is less margin for error in terms of earning and macro assumptions for US names, than for European.

April 2025 LDS-250096

ADM-4388550