

The Tariff Deal with the EU

Recent tariff deals and the impact for growth

The US-EU trade deal announced on 27 July was broadly in line with our expectations. The 15% tariff that was agreed should be manageable for the eurozone and the effects should be more than offset by greater defence and German infrastructure spending over the medium term. Another positive is that the deal includes the 15% tariff on auto, semiconductor and pharmaceuticals. The 50% level on steel and aluminum is, however, maintained. In exchange, the EU would plan to import USD 750 billion of energy, invest USD 600 billion in the US economy and purchase much more military equipment. The EU would also bring down the tariffs to zero for many US goods. The deal does clearly help to reduce the uncertainty that is weighing on the near-term outlook. It does also reduce drastically the likelihood of an escalatory “tit-for-tat” scenario that would have been a significant drag on EU GDP. The outcome is thus positive for EU growth.

There were also several other trade deals last week with Japan (15%), Indonesia and Philippines (both 19%). The tariffs agreed were generally lower than expected but the effective average tariff rate will probably be above 15% and thus somewhat above our initial expectations. All in all, the positive effect linked to reduced uncertainty could dominate and limit the downside for world growth.

Other important deals to watch for are with China, Canada, South Korea and Taiwan.

Guy Ertz, PhD.

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Trade tariffs, inflation and corporate margins

Another important dimension is the impact on US inflation. With an average effective average tariff rate above 15%, the question is who will pay for it? At this stage, there are few signs that exporters are reducing their prices. We do expect a temporary impact on US inflation as companies are passing on part of the tariff-related cost increases to the final consumer. There are, however, also signs that US companies will be facing negative pressure on their margins.

The impact for equity markets

The trade deal fits neatly into our main scenario which we described in the [July Equity Focus](#). The US economy still looks rather robust with few signs of tariffs having a large impact on growth or inflation. Donald Trump apparently felt more confident to push for a 15 baseline tariff instead of the 10% rate that was established during the “Liberation Day”. Thanks to the so-called “Anchoring Effect” created on 2 April, an effective average tariff rate of ~15% still looks much more desirable to the market than it would have been a few months ago.

As we continue to believe that it takes time for the impact of tariffs to work through the economic system, we stick to our view that it will have a measurable impact on US companies and consumers.

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We see increasing evidence that US companies are absorbing a decent part of the tariff impact which will eventually have negative consequences on margins and earnings growth. We think the recent comments made by companies such as GM and Hasbro are good bellwethers for this trend. Yet, the market remains expensive and priced for perfection. We thus confirm our underweight rating for the US equity market with a relative preference of international-oriented businesses with stable pricing power.

The removal of a key element of uncertainty for Europe should allow the market to refocus on the positive macroeconomic tailwinds. Those include increased defence spending as well as the EUR 500bn German infrastructure investment plan. As we highlighted, the change in German fiscal policies will also have some positive effects due to increased confidence. The recently launched "Made for Germany" initiative, which includes 61 companies which pledged to invest EUR 631bn until 2028, is a prime example of this phenomenon. We thus reiterate our overweight rating for European equities with a relative preference for domestically-oriented businesses which are geared towards the expansionary fiscal framework. The MDAX remains one of our top picks.

While Autos should experience a notable relief rally thanks to the tariffs, It's worth keeping in mind that the sector still faces a tariff rate 6 times higher than last year and that this does not change any of the material challenges, such as increasing competition on EVs from China and weak consumer demand. The recent profit warnings from some manufacturers as well as [falling new car sales in Europe](#) (-5% yoy) are points in case here. We would thus recommend ongoing selectivity among cars and would rather fade the rally but not chase it. We remain underweight.

Pharma, assuming sectorial tariffs are solved for good, should benefit from the announcement as well as it will lift a major factor of uncertainty. This should allow the market to focus on strong demographic tailwinds and attractive valuations. We reiterate our overweight rating.

Our overall equity opinion remains Neutral. Major global benchmarks are still heavily influenced by US equities for which we expect a sluggish performance at best (especially for euro-based investors). This should create a major drag on the performance of those indices going forward. Maybe even more importantly, we do see a fairly high chance for a US-led correction once the "everything is awesome mood" of the market is tested by the tariff impact hitting the economy.

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