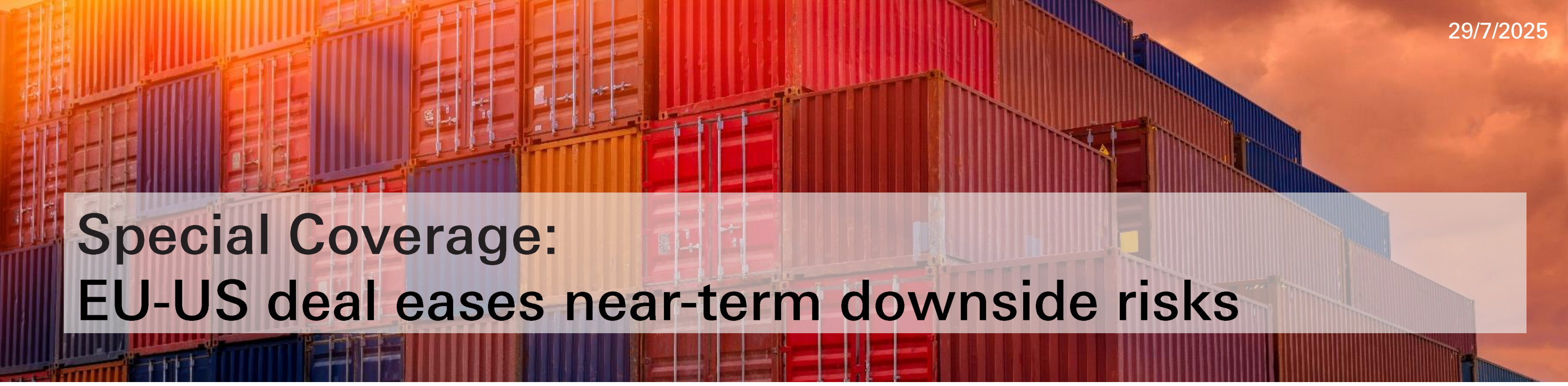


Special Coverage:
EU-US deal eases near-term downside risks

Key takeaways

Georgios Leontaris
Chief Investment Officer, Switzerland and EMEA, HSBC Private Bank and Premier Wealth

- The European Union (EU) and the US reached a trade deal on 27 July, agreeing on a 15% tariff rate to be imposed on EU goods sold to the US, starting 1 August. However, details of sectoral tariffs, namely pharmaceuticals and semiconductors may not be fully clear.
- Other key terms of the deal include a USD750 billion purchase of US energy products and chips and USD600 billion of additional US investments from the EU. Although the Eurozone is ultimately left with a higher baseline tariff of 15% compared to the 10% level it was hoping to achieve, the incremental downside risks to growth should be manageable given that "certainty" may pave the way for stabilisation in sentiment or a bottoming out in tariff-exposed sectors.
- We keep our neutral view on Europe ex-UK equities with a preference for Industrials, Financials and Utilities. Our preferred exposure in the fixed income space lies with investment grade bonds of 7-10-year duration.

What happened?

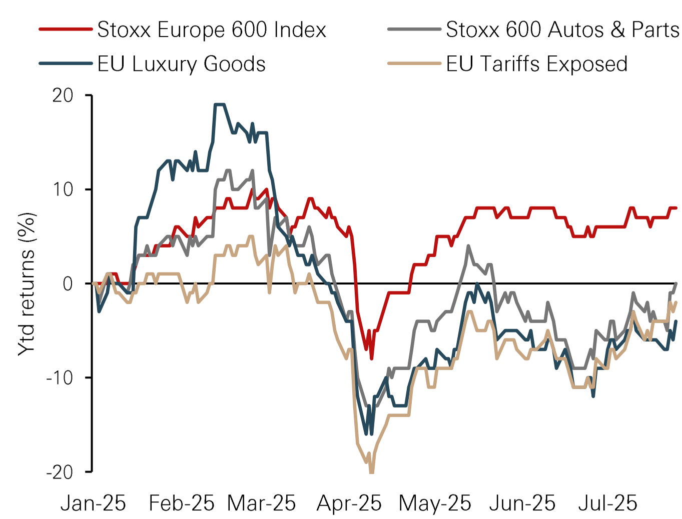
- US President Trump and European Commission President Ursula von der Leyen met at a golf resort in Scotland over the weekend, and after a 40-minute discussion, announced the forging of a trade agreement. Key headlines include the following:
  - A 15% tariff will come into force this Friday and will apply on most goods sold from the 27 EU member states to the US. This number is well above the 10% level the EU was hoping for earlier this summer; however, it's half the 30% level that the US threatened to enforce from 1 August.
  - The 15% tariff rate will also apply for EU automobiles (compared to the 27.5% rate introduced in April).
  - The EU agreed to buy, over three years, USD750 billion in energy products and chips from the US.
  - The EU has pledged to undertake additional USD600 billion of US investments that may include purchases of military equipment.
- Similar to other recent trade deals involving the US, the full text of the agreement hasn't yet been released, which naturally raises a number of questions:
  - The 15% rate will also apply to semiconductors and pharma products, however, ongoing US Section 232 investigations are set to report findings in two weeks' time and will be dealt with "on a separate piece of paper" according to Ms von der Leyen.
  - Steel and aluminium tariffs currently at 50% are set to be unchanged for now, however, there's a view to the rate being reduced with a possible quota system in the future.
  - The two leaders have reportedly agreed to "zero-for-zero" tariffs for certain strategic products, such as chemicals, certain agricultural goods and aircraft parts. As the list isn't yet published, it isn't clear whether the EU is seeking or able to add more products to this list.
  - The ability of Europe to fulfil its spending pledges may also come under question. It isn't clear what would happen for instance, if Europe were to fall short of its pledges of spending USD250 billion of US energy products per year, given that such purchases didn't exceed USD100 billion in 2024.

- According to our estimates, a 10% tariff on European exports to the US would lower Eurozone growth by approximately 0.3% through reduced demand and higher uncertainty. Moving from a 10% baseline tariff to a 15% rate may imply a further small (0.1% to 0.2%) hit to economic growth, whereas it shouldn't have a meaningful increase to inflation.
- On the other hand, the lowering of auto tariffs from 27.5% to 15% may alleviate part of the pressure whereas the achievement of a trade deal on its own can reduce uncertainty and stabilise sentiment, off-setting part of the drag to growth.
- Although questions remain regarding the treatment of some sectors - let us not forget that the EU was reportedly preparing punitive measures of €93 billion in the event that US tariffs were lifted to 30% in August. Counter tariffs would have risked a retaliatory spiral that would have led to higher prices along with a more meaningful hit to growth.
- Although delays can't be ruled out, tariff changes are expected to come into force on 1 August. However, the sectoral tariffs are likely to be affected by the scheduled release of Section 232 investigations. Given some conflicting announcements or misunderstanding were cited in previous trade deals, the market will closely watch any further announcements made by officials on both sides.
- The EU and the US account for 44% of global GDP and 30% of global trade in goods and services. US exports to Europe support 2.3 million jobs, whereas European companies employ 3.4 million people in the US.

Investment implications

- European equities have traded in a range this summer, underperforming their US and global peers given lingering trade uncertainty and a stronger euro which weighed on corporate earnings prospects. Although we maintain a preference for US equities over Europe, we continue to see some opportunities in the Eurozone.
- Our preferred sectors include Financials, which continue to outperform, helped by a strong earnings season (with 30% of Stoxx 600 companies having reported so far, Q2 results show earnings beats of 7% for the sector). We also maintain an overweight on Industrials and Utilities, which include beneficiaries from defence and infrastructure spending plans.
- Although we remain underweight on Consumer Discretionary, the new deal may provide some near-term relief to the sector given that auto tariffs are set to fall to 15% from 27.5% as soon as this Friday.

European equities have been range bound as tariff exposed names may show signs of bottoming out while Financials continue to outperform



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 28 July 2025.

- Some luxury names may also find a more stable footing or extend signs of bottoming out. We keep our more moderate stance for now on trade and Section 232 exposed sectors, however, given that the combination of higher tariffs and a firmer EUR can still weigh on near-term earnings and relative performance until further clarity is achieved.
- In the fixed income space, we've a preference for EUR investment grade credit of medium-to-long duration (7-10 years). Despite spreads being tight, we believe EUR investment grade bonds can better compensate duration risk and offer attractive yields.

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