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INVESTMENT OUTLOOK

Tariffs take the headlines, clarity wins the war

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Markets responded cautiously to the recent EU-U.S. trade deal. While the 15% tariff on European exports appears to favour the U.S. in the near term, we believe the removal of trade uncertainty outweighs the tariff impact and marginally improves the outlook for European growth and investment.

For global investors, the agreement reduces geopolitical tail risks, offers clarity for key sectors and sets the stage for more stable economic conditions in the euro area. This is particularly relevant in a period where policy divergence and fiscal execution remain in focus.

Headline tariffs mask broader strategic gain

The 15% tariff imposed on European goods — exceeding the European Central Bank's 10% base case — could result in a modest 0.1% to 0.2% drag on euro area GDP. However, beyond this headline, the strategic value of policy clarity is significant.

The agreement covers a wide range of sectors, including autos, pharmaceuticals and semiconductors, while leaving only metals unresolved. As such, it eliminates a major source of uncertainty, particularly in the context of a shifting U.S. policy landscape. While details will need to be clarified, European exporters now have greater visibility on trade conditions. This should unlock deferred capital expenditure, investment planning and supply chain adjustments.

The clarity offered by the trade negotiations should foster renewed business confidence through end-2025.

Uneven near-term impact, longer-term clarity

- Automobiles and pharmaceuticals will likely feel the most immediate pressure, especially firms with high U.S. exposure. However, resilient European demand, pricing flexibility and a clearer regulatory framework may reduce long-term risks.
- Semiconductors benefit from inclusion, with trade alignment supporting European chipmakers in a strategically important sector. This may encourage investment in capacity and research and development.
- Metals remain a risk point. Unresolved steel and aluminum tariffs could lead to continued volatility for European industrials until negotiations conclude.

Ambiguity remains arounds key implementation details, including EU commitments to increase U.S. energy imports and to ramp up investment directed to the U.S. However, the clarity offered by the trade negotiations should foster renewed business confidence through end-2025.

Macro and policy outlook: Stability returns to the euro area

The trade deal reinforces our positive view on euro area stability. By removing the threat of trade escalation, the agreement supports business confidence and growth at a time when fiscal policy is becoming more supportive across the region.

Importantly, this reduces pressure on the ECB to ease policy further. Markets are already pricing out additional rate cuts, and we continue to see a terminal rate of 2%, with rates on hold through the remainder of 2025. Services inflation remains elevated above 3%, and fiscal stimulus execution in infrastructure, energy transition and defense sectors is gaining traction.

We expect 10-year German bund yields to head towards 3%, reflecting a shift away from recession fears and toward moderate growth with persistent inflation dynamics.

Currency and credit: Opportunities in European assets

EUR/USD is likely to remain rangebound in the near-term, with direction driven largely by U.S. macro data. That said, we maintain a constructive medium-term view supported by improved confidence in euro area fiscal delivery, stability in ECB policy relative to global peers and the potential for further international capital inflows into European markets.

In credit markets, we continue to favour European investment grade over U.S. peers, based on relative value, lower leverage and now, improved policy clarity. Focus remains on European banks — benefitting from stable rates, healthy capital positions and margin support; utilities and defense — supported by government spending and infrastructure demand; and consumer products that can absorb modest tariff pressures due to resilient domestic consumption.

We retain a neutral duration stance, with selective positioning in peripheral sovereigns offering attractive yield and improving debt profiles.

Trade resolution boosts European resilience

While markets focus on the tariff headlines, the reduction of trade risk enhances the euro area's investment case. Improved visibility, policy stability and fiscal support create a more constructive environment for European assets, especially in credit and currency markets.

As global investors seek diversification and yield, European fixed income and currency allocations are well-positioned to benefit from this shift in macro and trade dynamics.

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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