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## ***Anatomy of an Asymmetric Deal. Europe signs, Trump cashes in, markets breathe.***

European companies will now have to pay a 15% tariff on the value of goods they wish to export to the United States. Pending further details, this is the core information that defines the agreement. In essence, it's all you really need to know. Put this way—and with the benefit of historical perspective, after decades in which the U.S. stood as the world's most open economy, with the lowest entry tariffs in the developed world—it is difficult to view this agreement as favorable to the European Union or to its exporters. And yet, it's not that simple. Judged against what could have been—given the recent threats—the deal averts a serious scenario: the very real possibility of 30% tariffs—or even 50%, had the EU chosen to retaliate. That path could have led to a tit-for-tat escalation, just as we saw between the U.S. and China in the second quarter of this very year.

My first conclusion is clear: the agreement between the United States and the European Union removes the greatest headwind, the most significant uncertainty, and the primary obstacle weighing on equity markets. As you know, markets operate much like physics, where Newton's law states that an object in motion will continue moving in the same direction unless disrupted by an external force. Well, this agreement removes that external force. Therefore—just as in physics—the object in motion, in this case the market, can continue on its trajectory. That, in essence, is what I believe will happen, beyond any short-term noise.

As I said, some details remain to be clarified—just as with other framework deals signed by the U.S. with partners like Japan—but the essential elements are already known, and expecting major additional revelations would be unrealistic. The core provisions of the agreement—those that will largely shape market behavior going forward—are as follows:

1. The European Union will pay a general 15% tariff to sell its goods in the U.S. market.
2. The EU commits to purchasing \$750 billion worth of American energy over three years, in tranches of \$250 billion annually. This is not necessarily negative for Europe—it merely implies a supplier switch. It is, however, an undeniable victory for the United States, and a significant blow to Russia.

The agreement reached between the United States and the European Union removes the strongest headwind that could have stalled the market.

3. The EU will invest \$600 billion in the U.S., presumably in military equipment, auto manufacturing plants, and infrastructure to provide digital services to Europe from U.S. soil. In other words: data centers to produce compute capacity on American territory—avoiding pollution in Europe—then sell that compute capacity back to European firms via the cloud.

This agreement will inevitably spark criticism within Europe. I wouldn't have expected anything less. Some will label it a surrender to Washington. They'll argue Europe should have pushed harder or even threatened more severe retaliatory measures. What can I tell? Sometimes, bad is good—the trade version of Nietzsche's old adage: "What doesn't kill me makes me stronger." In my view, this is one of those cases. And to those critics who, consistent in their habitual outrage, are preparing to attack the deal before even understanding it, I offer three reflections that underpin my more favorable reading:

Military equipment and infrastructure for digital services (data centers) could be the primary destinations of European investment on U.S. soil.

First. The European Union has not yet fully recovered from the COVID crisis. In fact, it still suffers lingering effects from the 2008 financial crisis. Meanwhile, the U.S. has emerged from both episodes with far greater agility. Could Europe afford yet another crisis now? The answer is no. That's why I wrote back in April, after Trump's Liberation Day speech, that Europe would do well to avoid—at all costs—any confrontation that could lead to a tariff spiral. Thankfully, it appears the European Commission leadership shared this view. And I take no satisfaction in the intellectual alignment—only in the outcome: a new crisis has been avoided.

Second. Europe's growth remains sluggish—hovering around 1%—and, as a result, its elites show a remarkably low tolerance for economic pain. While there are signs of improvement (the PMI is up to 51 and the European Commission's consumer confidence index has risen to -14), these are still lackluster figures. Like it or not, Europe's fragility is all too evident. Trump, fully aware of our low threshold for pain, played hardball—a negotiation style with no concessions, reserved for those who hold the upper hand. Did anyone seriously think that Europe's long-standing fragility wouldn't come with consequences? Well, here they are. Not in the form of a grand accord like Plaza or Smithsonian, but rather as a deal that economic historians might one day refer to as the "Trump Golf Club Agreement," signed on the 19th hole—after the President had finished his round. The Subliminal message is clear: strength is required in this world. That said, I still see no serious European commitment in that direction.

Third—and final—point. Having a war in the heart of Europe weighs heavily at any negotiating table. And whether we like it or not, the ultimate

responsibility for this war lies with the Europeans themselves—though some will, as always, blame the Americans, a well-worn habit in the Old Continent. I'll say more: the longer the war in Ukraine continues, the more Europe will depend on the United States—just as it has on at least two previous major occasions. Some will say I'm oversimplifying. Maybe. But I've been rigorously applying Marcus Aurelius's teachings: distance brings clarity.

All these factors—our low tolerance for economic pain, our weak growth, our undeniable fragility—help explain Brussels' conciliatory stance and the outcome we saw in Scotland this past Sunday. It's something critics of the deal should keep in mind before jumping to conclusions or falling back on ideological reflexes.

As for me, I see the deal as a glass more than half full. Yes, a 15% tariff is steeper than the 2% we had—but far better than the 30% that was on the table. Key sectors like automotive fall under the standard 15% regime. And even that is much more favorable than the 25% tariffs the U.S. imposes on car imports from Mexico and Canada—its own USMCA partners (formerly NAFTA). To be honest, I was expecting at least 25% on European cars. So a 15% outcome is more than acceptable. I suspect German Chancellor Friedrich Merz feels the same. While the 15% tariff is mentioned as a "ceiling" for pharmaceuticals, the sector was not immediately included in the blanket 15% tariff. This is because the U.S. is still conducting a "Section 232" national security investigation into imported drugs. Until this investigation is complete, the immediate tariff rate on pharmaceuticals remains at 0%. The 15% rate is also cited as a potential ceiling for semiconductors, but there's a distinction: Semiconductor manufacturing equipment is specifically mentioned as being subject to zero tariffs. Some semiconductor products are also under a "Section 232" investigation. The agreement also notes that the EU is expected to make strategic purchases of US AI chips.

### **Is European competitiveness damaged?**

In competitive terms, the deal is actually positive for Europe—though it may seem counterintuitive. The EU will face a higher tariff than the UK, trade on equal terms with Japan, but will enjoy vastly lower tariffs than China, whose products face a combined 55% in duties. Since China is indeed a strategic competitor for Europe—whereas the UK is not—this amounts to a net gain for Brussels.

[A quick note on the energy matter:] In 2024, the U.S. exported 4 million barrels of crude oil per day and had a liquefied natural gas export capacity

The economic pain threshold among Europe's elites has proven to be remarkably low—a reflection of the continent's evident economic fragility.

In terms of competitiveness, the agreement is actually positive for Europe.

of 15 billion cubic feet per day. At current prices, total U.S. energy exports amount to roughly \$141 billion. So how will Europe spend \$250 billion annually on American energy? Either Brussels is aware of the gap and knows the bill won't actually be paid—or Washington is planning to double its export capacity and collect. If the latter, brace yourself for a saturated energy market... and a drop in prices, which, as always, markets will welcome.

### **Conclusion.**

The EU will benefit from significantly lower tariffs compared to China, whose products face combined duties of 55%.

The agreement eliminates a major source of uncertainty. While it may impose costs on certain sectors it strengthens Europe's position relative to China. The newly gained clarity could unlock and accelerate spending and investment decisions that compensate for the tariff impact. For all these reasons, we view the deal as a positive outcome. For the European Union... and especially for the United States, where the recently passed OBBBA budget law introduced substantial cuts to subsidies for ACA health insurance. These cuts could lead to higher insurance premiums, prompting millions of people to drop their coverage. That's one of the reasons U.S. insurance stocks have recently seen a sharp decline. However, with the unexpected revenue from tariffs, Trump may now have the means to extend those subsidies. If Congress gives the green light, the healthcare sector could stage a strong rebound—potentially rising by 30% to 40%. That's why we're actively considering investments in this area. As for the broader market, the deal is favorable. With the threat of an external force removed, the object in motion—the market—can continue on its path.