

# US-EU tariff truce lift costs but value abounds in european equities

Published 1 August 2025

**Aneeka Gupta**

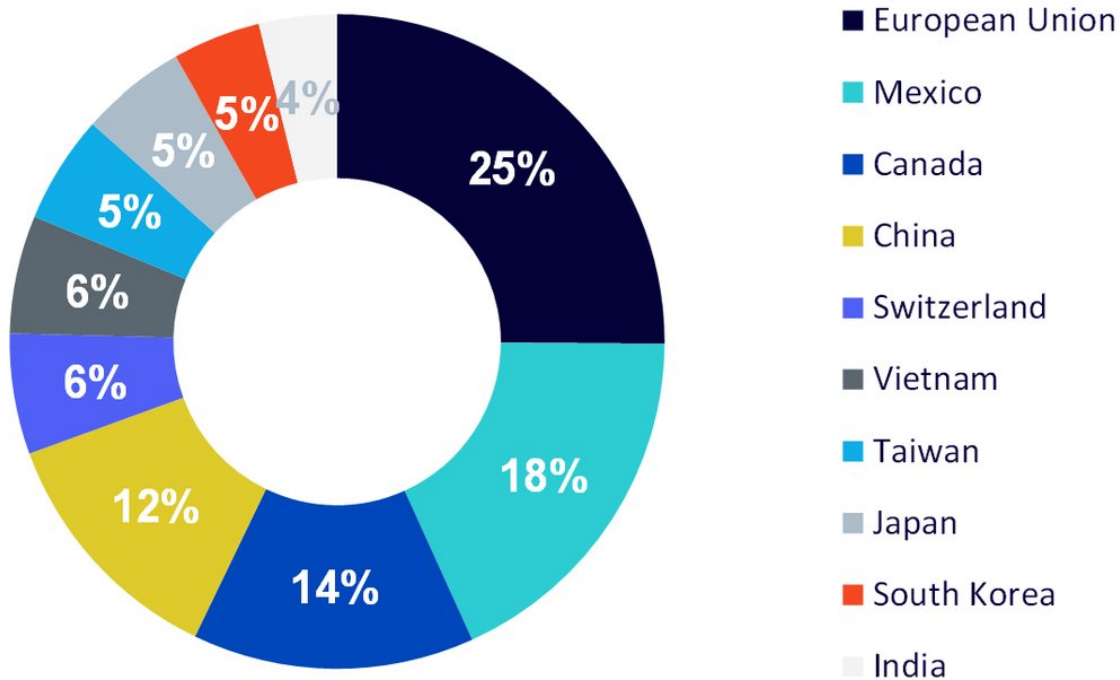
Director, Macroeconomic Research, WisdomTree Europe

## Key Takeaways

- Higher but capped tariffs - the accord locks in a 15% duty on most EU goods (50% on metals), lifting the effective rate to 12-15 % but averting the 30% worst-case scenario.
- Macro drag offset by policy - Berlin's €500 bn infrastructure-and-defence fund and a patient ECB should cushion the 0.3% GDP hit from weaker EU-US trade.
- Selective positioning - industrials, defence, utilities and high dividend payers offer opportunity
- Related Products WisdomTree Europe Equity Income UCITS ETF, WisdomTree Europe Equity Income UCITS ETF - Acc Find out more

## Framework accord ends escalating trade tensions

The framework accord unveiled on 27 July between Washington and Brussels ends months of escalating rhetoric and removes the threat of an outright trans-Atlantic trade war. The US will levy a uniform 15% tariff on almost every European product line, while retaining the 50% surcharge on steel and aluminium that has been in force since 2023. Aircraft components, certain generic pharmaceuticals, a narrow list of chemicals, semiconductor-manufacturing equipment and a basket of critical raw materials will continue to enter duty-free. In exchange, the European Union (EU) has pledged to increase purchases of US natural gas and other fossil fuels by \$750bn through 2028 and to channel a further US\$600bn of investment into US projects. From an investor's perspective the agreement delivers clarity, yet it also codifies a meaningfully higher cost of access to the EU's most important external market.



## Tariff arithmetic shifts to a higher baseline

Before last weekend our estimates assumed an effective US tariff rate near 12.5%, reflecting an informal 10% reciprocal rate coming on top of pre-existing tariffs, with specific rates for autos (27.5%), steel and aluminium (50%) and pharmaceuticals (exempted from reciprocal tariffs). Under the new schedule the mechanically calculated average jumps to roughly 15.7%. Once the Commission obtains definitive Harmonised Code (HS)- exemptions for the announced carve-outs, the effective rate should settle in a 12-15% corridor. That upper bound is still materially below the 30% across-the-board tariff threatened by the White House earlier in July, yet it represents a significant tightening of the screws on European exporters relative to the status quo ante.

## Market reaction and macro cost for Europe

Equity markets initially welcomed the détente. The Stoxx Europe 600 advanced as industrials and capital-goods names retraced part of the sell-off that followed July's tariff salvos, while the euro firmed toward 1.14 against the dollar<sup>1</sup>. Investors correctly judged that a worst-case outcome had been avoided, but the economic cost cannot be ignored. Europe ships more than €500bn of goods to the US each year, equivalent to one-fifth of its extra-EU exports<sup>2</sup>.

Independent simulations by the European Central Bank (ECB) suggest that a 10% increase in the average tariff can reduce that flow by roughly a quarter within two years, subtracting around three-tenths of a percentage point from euro-area GDP. The burden will not be evenly distributed. Germany, Italy and

Ireland are heavily exposed through autos, precision machinery and pharmaceuticals, while smaller open economies in Central and Eastern Europe feed the same supply chains and will feel indirect contagion.

## Policy offsets limit recession risk

Policy offsets are already on the table. Berlin's decision to move ahead with a €500bn off-budget infrastructure and defence fund is poised to inject almost 2% of German GDP into the economy each year through 2035. That stimulus should cushion domestic demand and provide a pipeline of contracts for construction, engineering and technology suppliers across the single market. The ECB also retains scope to ease further. Headline inflation is holding close to target, core pressures are fading, and President Lagarde has indicated she will not prejudge the growth impact of the tariff deal until staff have completed a fresh projection round due in September. The policy mix of fiscal expansion in Germany and a patient central bank at euro-area level offers an important backstop while exporters adjust.

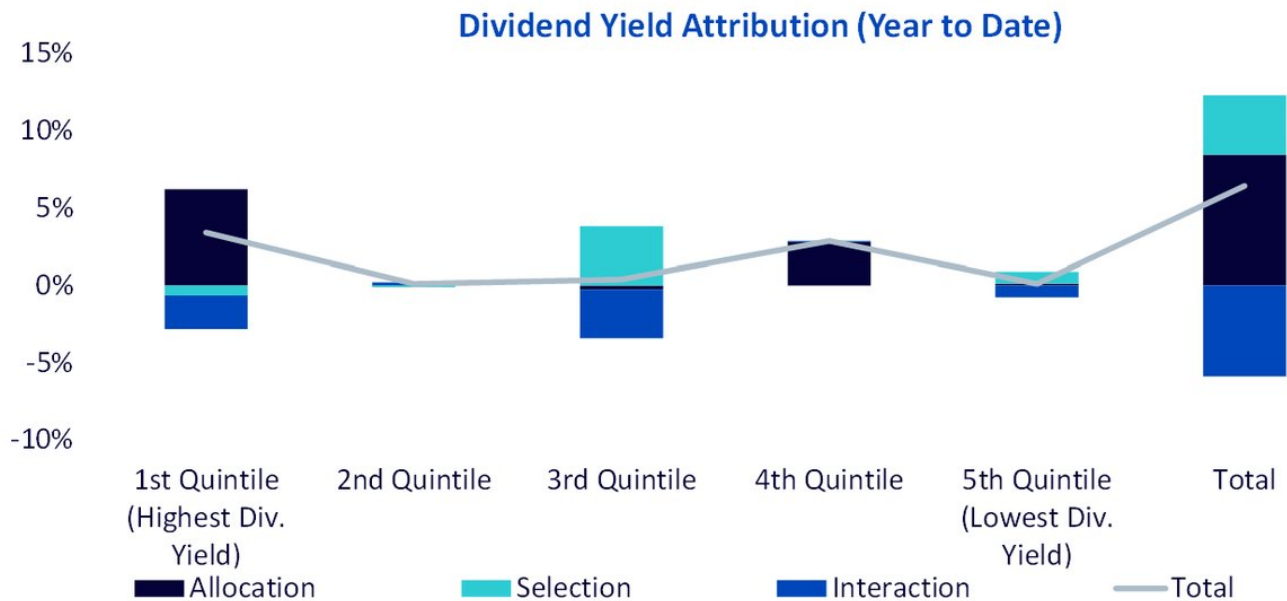
## Pockets of value abound in Europe

The WisdomTree Europe Equity Income UCITS ETF (Ticker: EEI) offers a compelling way to access Europe's dividend payers at a time when value, income and policy resilience are taking centre stage. EEI tracks the price and yield performance of the WisdomTree Europe Equity Income Index (Ticker: WTEHYE). The Index's dividend weighted strategy inherently favours value-oriented companies with consistent earnings and attractive yield profiles—attributes that not only support performance in volatile macro environments but also enforce valuation discipline over time. With a forward dividend yield above 5.2%<sup>4</sup>, the EEI provides a meaningful income stream in a period where real rates remain constrained and equity risk premiums outside the US look increasingly attractive.

Fundamentals	WisdomTree Europe Equity Income UCITS Index	S&P Euro High Yield Dividend Aristocrats Net Total Return Index	The EURO STOXX 600 Index
Price to Earnings Ratio	14.8	14.1	15.4
Price to Book Ratio	2.1	1.7	2.0
Price to Sales	1.3	0.9	1.5
Price to Cash Flow	10.3	6.1	11.2
Net Dividend Yield (%)	5.2	4.4	3.3
Leverage (Net Debt to EBITDA)	4.0	2.1	2.8

Importantly, EEI's portfolio is well insulated from US trade policy risks, with only 9.4% weighted average revenue exposure to the US<sup>5</sup>. This makes it an appealing allocation for investors looking to reduce exposure to tariff-sensitive earnings streams and US policy uncertainty.

The Year-to-Date attribution between the WisdomTree Europe Equity Income Index and MSCI Europe Index highlight the importance of maintaining a higher tilt to the higher dividend yielding quintiles. The WisdomTree Europe Equity Income Index outperformed the MSCI Europe Index by 6.41% Year to Date with the biggest contribution of returns emanating from the highest dividend yielding quintile<sup>6</sup>.



### Conclusion

The agreement buys time and removes the most severe downside tail, yet it codifies a new, higher cost of doing business across the Atlantic. Fiscal stimulus in Europe and a measured ECB stance will provide ballast, but investors must be selective. Concentrating on tariff-insulated themes—defence, domestically focused industrials and utilities offers the most robust way to navigate the changed US economic landscape and the evolving trade architecture.

1 Bloomberg from 28 July to 31 July 2025

2 Eurostat’s international-trade database

3 European Commission, Report on the Potential economic impact of the reform of Germany’s discal framework as of 19 May 2025

4 FactSet, WisdomTree as of 31 July 2025

5 FactSet, WisdomTree as of 30 June 2025

6 FactSet, WisdomTree as of 30 June 2025

## Important Risks Related to this Article

### IMPORTANT INFORMATION

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products (“ETPs”) is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or

guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. Product Comparison This document contains a comparison of financial products contained within the relevant prospectus and/or based on publicly available information, some of which has been prepared by third parties. While such sources are believed to be accurate as at their date of publication, WisdomTree does not warrant, guarantee or otherwise confirm the accuracy or correctness of any information contained herein and any information or opinions related to the products detailed herein may change over time. Any third parties used to source the information in this document make no warranties or claims of any kind

relating to such data. Investors should read the prospectus and other applicable offering documents for each product and consider the investment objectives, risks, charges and expenses carefully before investing. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV ("WT Issuer"). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland ("CBI"). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under the laws of Ireland and shall issue a separate class of shares ("Shares") representing each fund. The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer ("WT Prospectus"). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at [www.wisdomtree.eu](http://www.wisdomtree.eu). Where required under national rules, the KID will also be available in the local language of the relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled »Risk Factors¼ for further details of risks associated with an investment in the Shares. The [summary of investor rights](#) associated with an investment in the fund is available in English on WisdomTree Europe¼s website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification. Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree¼s website <https://www.wisdomtree.eu/en-ch/resource-library/prospectus-and-regulatory-reports> Some of the sub-funds referred to in this document may not have been registered with the Swiss

Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent.

**For Investors in France:** The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto.

**For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority.

**For Investors in Monaco:** This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.