

Transatlantic trade truce buoys EU recovery

Published 21 May 2021

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The US and European Union (EU) appear to be making efforts to reset their trade relationships. The EU decided to temporarily suspend measures at the heart of a steel and aluminium tariff spat that began in 2018.

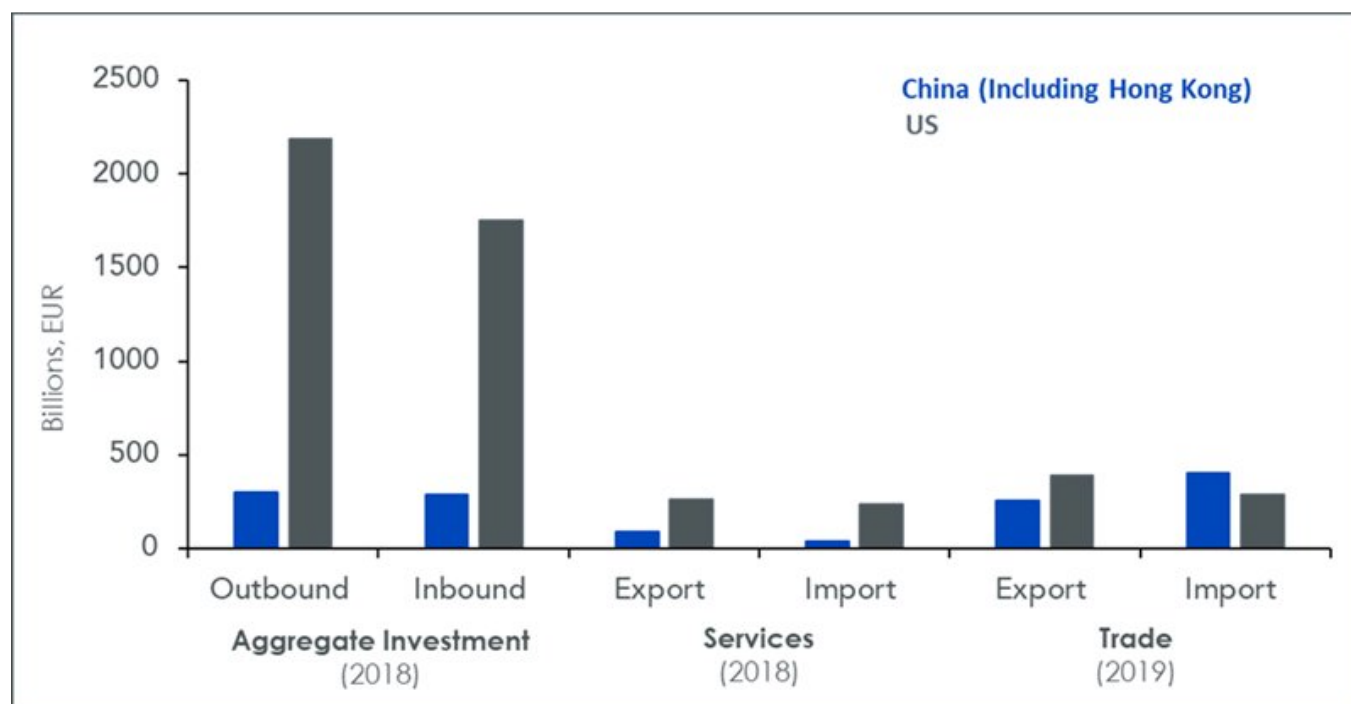
Former US President Donald Trump raised tariffs in 2018 on EU steel (by 25%) and aluminium (by 10%), claiming European metals were a threat to US national security. Under the agreement announced on Monday, 17 May 2021, the EU will not go ahead with increasing its retaliatory tariffs on a range of American products scheduled next month while the US will continue to apply existing tariffs on Europe.

The EU tariffs previously imposed amounted to €2.8bn, and it was expected to raise tariffs to €3.6bn in retaliatory charges in June – to offset the effects of the Trump tariffs. This week's agreement follows an earlier decision in March 2021 between President Biden and European Commission President Ursula Von Der Leyen to suspend tariffs linked to the Boeing- Airbus subsidy dispute for four months. The 17-year dispute over illegal aid to the world's largest aircraft makers resulted in duties authorised by the World Trade Organisation (WTO), targeting a combined US\$11.5bn1 in trade that affected a range of industrial, agricultural and consumer goods.

The US remains Europe's most important trading partner

While this does not mark the end of Washington's conflict with Europe over trade, the suspension of further tariffs marks a shift in the EU's stance on transatlantic trade policy. It also paves the way for more constructive talks on trade ahead of US President Joe Biden's first foreign trip at the US-EU summit in Brussels next month. The US remains Europe's most important trading partner considering trade, investment, supply chains, corporate exposure, and innovation.

Figure 1: US is a key trading partner for the EU



Source: EuroStat, WisdomTree, data available as of close 31 March 2021.

Historical performance is not an indication of future performance and any investments may go down in value.

Exports likely to play a key role in EU Recovery

The temporary suspension of tariffs with the US serves as an important catalyst for Europe's economy as exports account for (nearly 28%) a larger share of GDP compared to only 12% in the US, 18% in Japan and 19% for China. Europe is well-positioned to benefit from the global rebound in demand from the rest of the world.

Since the start of the year, European equity markets² have risen 10.29%³ as they have benefitted from a cyclically driven recovery after suffering from a deep COVID-19 related recession. The progress in vaccination rates in Europe is expected to drive a strong consumption-led rebound over the second half of this year. Also, as several European countries ease travel restrictions, this summer's tourist season should be better than last year. As transatlantic trade ties improve, we expect sectors such as consumer discretionary, industrials, materials, and information technology to be among the key beneficiaries of improving trade relations.

The WisdomTree Europe Equity UCITS Index EUR (Ticker: WTEHIET Index) is a fundamentally weighted index providing access to dividend-paying companies that derive 50% or more of their revenue from countries outside of Europe. The Index's allocation is spread across export-oriented beneficiaries such as: Materials (23%); Industrials (19%); Consumer Staples (18%); Consumer Discretionary (12%) and Information Technology (12%). The Index's country allocation is dominated among export-oriented economies such as Germany (27%), France (25%), Netherlands (16%) and United Kingdom (13%).

Last year was a dismal year for European equity investors as companies cut dividends amidst the COVID-19 pandemic. However, dividend growth for European companies is starting to look much more promising in comparison to 2020.

1 European Commission: In October 2019, the WTO authorised the U.S. to take countermeasures against European exports worth up to \$7.5 billion. In October 2020, the WTO authorised the EU to take similar countermeasures on \$4 billion of US exports to the EU against illegal U.S. subsidies to aircraft maker Boeing.

2 European Equity Performance is represented by the price performance of the EuroStoxx 600 Index

3 Price performance of EuroStoxx 600 Index from 4 January 2021 to 18 May 2021

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