INVESTMENT VIEWS
FROM THE BNY INVESTMENT INSTITUTE

E.U. TARIFF PAUSE: THE TRADE WAR IS FAR FROM OVER

May 2025

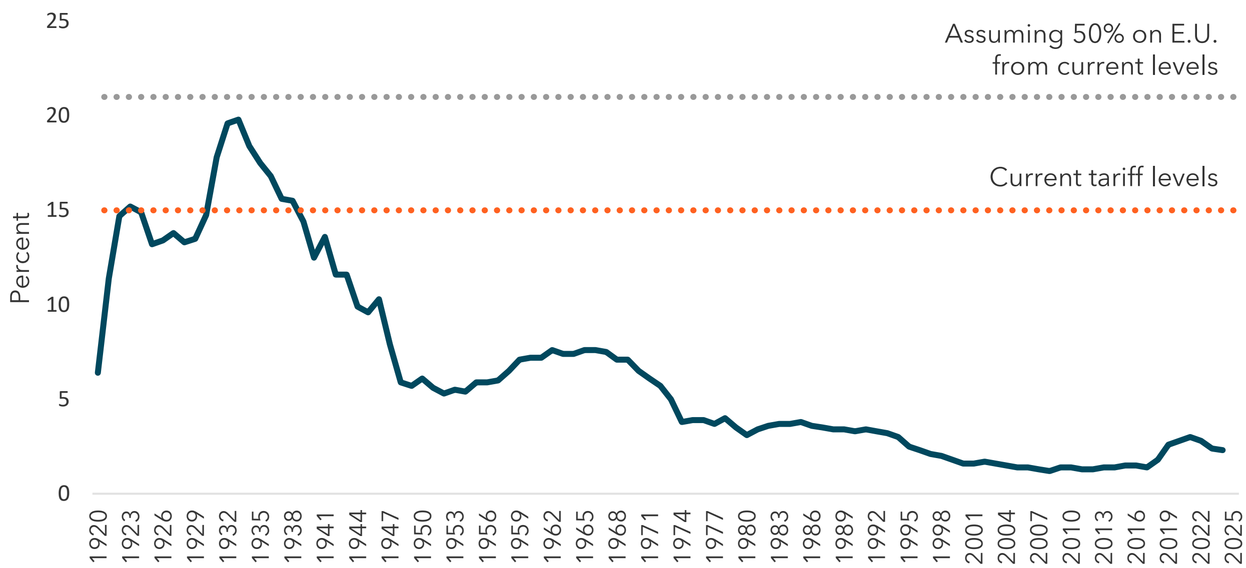
The U.S. postponed a planned 50% tariff on European Union (E.U.) imports from June 1 to July 9. This likely serves as a strategic move but underscores the challenges of reaching an agreement between the U.S. and larger economic blocs. If implemented, the 50% tariff rate will bring the global tariff level to around 21%, up from the current 15%.

IMPACT TO BOTH THE E.U. AND THE U.S.

Trade talks between the E.U. and U.S. have intensified, but slow progress led President Trump to propose a 50% tariff on E.U. imports starting June 1. The tariff increase was soon suspended until July 9 for the parties to negotiate.

While not our base case, if enacted, a 50% tariff from July could severely impact both economies in the second half of the year. For the E.U., exports to the U.S. represent more than 3% of GDP. The direct effects alone could reduce economic growth by at least 1.5% and can potentially push the E.U. into recession. For the U.S., the hit would also be substantial, with E.U. imports accounting for roughly 2% of GDP and a direct hit of close to 1%, at least.

US-Effective Tariff Rate



BNY Investment Institute, Macrobond. Data as of 5/27/25. Chart is for illustrative purposes only.

OUR VIEWS ON THE NEWS AND ITS IMPLICATIONS

- Our base case remains that an agreement will be reached, though the path is likely to be challenging. We expect minor compromises from both sides. The E.U. is likely to respond moderately to avoid provoking further retaliation from the U.S. We believe this would likely result in a tariff rate on E.U. imports of around 15%.

- We do not view the recent U.K.-U.S. deal – broadly described as 10% tariffs, several sector carveouts, and no retaliation - as a model for the U.S.-E.U. negotiation outcome. Such an outcome would be a meaningful upside surprise.

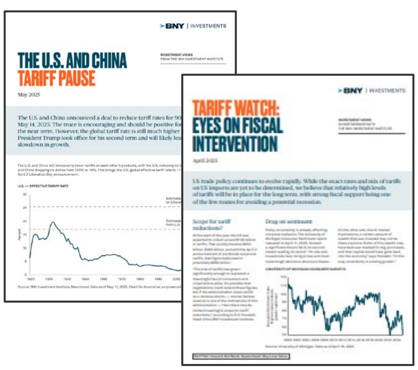
- If anything, risks are skewed to the downside given the E.U.'s resolve to respond forcefully with retaliation. The primary obstacle is the differing perspectives on existing tariffs: the U.S. sees current levels as a starting point requiring E.U. concessions to avoid further tariffs, while E.U. officials view them as a ceiling that must be lowered to prevent retaliation. In this scenario, the U.S. would impose the 20% reciprocal tariffs, and the E.U. would respond more aggressively - raising the likelihood of a rapid escalation.

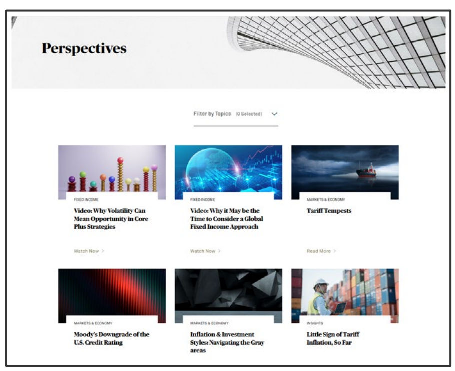
- With sectoral tariffs also likely to be delivered in the coming weeks and the remaining unresolved conflict with Asia coming to the fore, the trade war is far from over.

Though the market reacted positively to the postponement, the situation remains fluid and BNY Investments will continue to monitor the situation.

GO FURTHER

Please visit [BNY Investment Perspectives]for more analysis on tariffs:





About the BNY Investment Institute

Drawing upon the breadth and expertise of BNY Investments, the Investment Institute generates thoughtful insights on macroeconomic trends, investable markets and portfolio construction.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

BNY COMPANY INFORMATION

BNY Investments is one of the world's leading investment management organizations, encompassing BNY's affiliated investment management firms and global distribution companies. BNY is the corporate brand of The Bank of New York Mellon Corporation and may also be used to reference the corporation as a whole and/or its various subsidiaries generally. • **Mellon Investments Corporation** (MIC) is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation. MIC is composed of two divisions: **Mellon**, which specializes in index management, and **Dreyfus**, which specializes in cash management and short duration strategies. • **Insight** Investment - Investment advisory services in North America are provided through two different investment advisers registered with the Securities and Exchange Commission (SEC) using the brand Insight Investment: Insight North America LLC (INA) and Insight Investment International Limited (IIIL). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight. Insight is a subsidiary of The Bank of New York Mellon Corporation. • **Newton Investment Management** - "Newton" and/or "Newton Investment Management" is a corporate brand which refers to the following group of affiliated companies: Newton Investment Management Limited (NIM), Newton Investment Management North America LLC (NIMNA) and Newton Investment Management Japan Limited (NIMJ). NIMNA was established in 2021, NIMJ was established in March 2023. NIM and NIMNA are registered with the Securities and Exchange Commission (SEC) in the United States of America as an investment adviser under the Investment Advisers Act of 1940. Newton is a subsidiary of The Bank of New York Mellon Corporation. • **ARX** is the brand used to describe the Brazilian investment capabilities of BNY Mellon ARX Investimentos Ltda. ARX is a subsidiary of The Bank of New York Mellon Corporation. • **Walter Scott & Partners Limited** (Walter Scott) is an investment management firm authorized and regulated by the Financial Conduct Authority, and a subsidiary of The Bank of New York Mellon Corporation. • **Siguler Guff** - The Bank of New York Mellon owns a 20% interest in Siguler Guff & Company, LP and certain related entities (including Siguler Guff Advisers LLC). • **BNY Mellon Advisors, Inc. (BNY Advisors)** is an investment adviser registered as such with the U.S. Securities and Exchange Commission ("SEC") pursuant to the Investment Advisers Act of 1940, as amended. BNY Advisors is a subsidiary of The Bank of New York Mellon Corporation.