

What to watch: Trade deals or tariff letters, the relentless dollar, and what the One Big Beautiful Bill means for households, markets and sectors

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In summary

Signed, sealed, delivered: trade deal or tariff letter? Over the past two weeks, the US reached a deal with Vietnam, sent tariff letters to 23 countries and extended the pause on the “Liberation Day” tariffs from 9 July to 1 August. If no further deals are reached by then, the US global import tariff rate would rise to 18% from 13% in June. Even if tariff hikes are partially reversed by the end of the year, global export losses this year could amount to up to USD337bn (or 0.3% of GDP). The race is still on to negotiate. The EU is balancing between US demands for greater market access and regulatory changes and protecting its core interests. If no agreement is reached, the +20pps US tariff hike from August could cut EU exports to the US by -8%, causing USD50bn in losses (USD85bn in the event of a +50pps tariff hike). 215,000 jobs could be at risk, especially in Ireland, Slovakia, Hungary and Germany. As a fallback, the EU could impose retaliatory tariffs on up to EUR20bn on US imports, and accelerate trade diversification with Mercosur, India and ASEAN. The EU’s most powerful lever, however, is a deeper integration of the single market itself: A +0.9% increase in goods and services trade among EU countries would offset export losses from a +20pps increase in US tariffs.

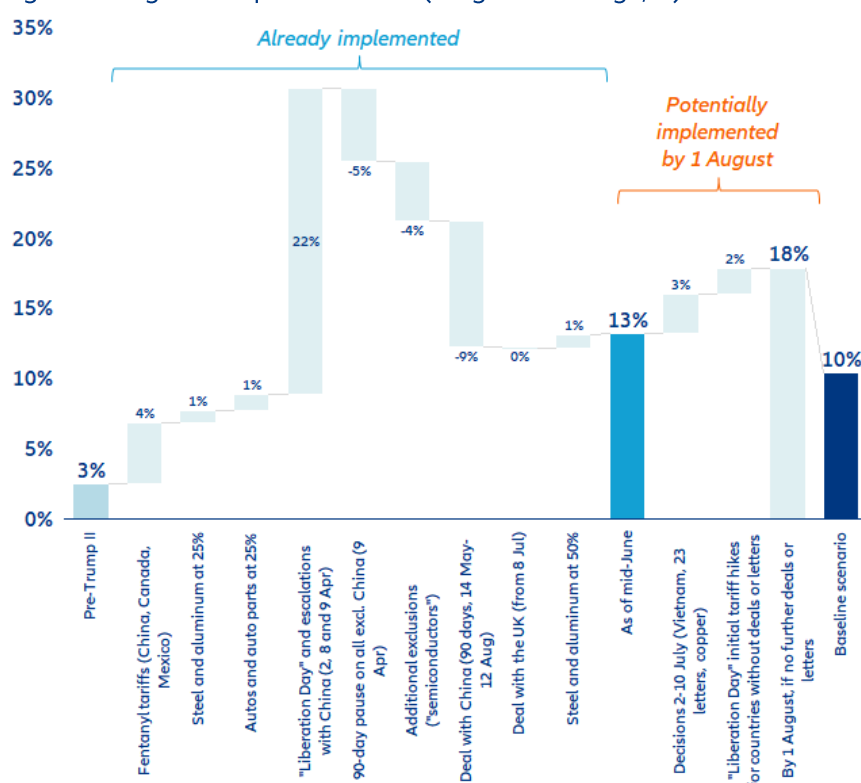
Bent not broken? The resilience of the greenback. Recent capital market flows confirm that investors have reduced their appetite for the US dollar but there is no sign of a wholesale exit. Much of the recent depreciation stems from a shift in positioning rather than substantial outflows. Crucially, the lack of viable alternatives sustains demand for the greenback. Since President Trump’s election, markets have cycled through various fears: a potential Mar-a-Lago Accord including a capital-gains revenge tax, reflation from extreme tariffs and the threat to the Fed’s independence and renewed-debt sustainability concerns. With the former two gone for now (Section 899 of the One Big Beautiful Bill off the table, tariff expectations settling around 10%), the dominant concern is now debt sustainability. As long as investors keep buying US assets and the economy remains resilient, the dollar is unlikely to falter. The EUR/USD exchange rate going to 1.30-1.40 (+10-20% from current levels) remains a low-probability downside risk.

How beautiful is the One Big Beautiful Bill for households, markets and sectors? The OBBB introduces significant fiscal changes, frontloading USD150bn in tax cuts, USD137bn in spending cuts and USD97bn in spending increases for 2026. This will result in a modest net fiscal easing of USD110bn, or 0.4% of GDP, with the fiscal deficit expected to increase to 7.6% of GDP in 2026, and close to 8% later on if GDP growth fails to reach 2.3%. The distributional effects of the OBBB are mixed; lower-income households face reductions in Medicaid and SNAP benefits, while higher-income groups benefit from tax changes. Given that higher-income households have a lower marginal propensity to consume, we expect only a modest increase in aggregate consumption by +0.3%. However, additional savings being deployed into capital markets should be a positive for financial markets, particularly risky assets. Sector impacts vary: non-food retail, construction and aerospace & defense are poised to benefit, while renewables face challenges due to repealed clean energy credits.

Signed, sealed, delivered: trade deal or tariff letter?

A few days after reaching a trade deal with Vietnam, the Trump administration extended the deadline for the implementation of “Liberation Day” tariffs to 1 August (from 9 July)¹. But if no further deals are reached by then, the US global import tariff rate would rise to 18%, from 13%. On 2 July, President Trump said that a deal had been reached between the US and Vietnam, under which Vietnamese exports to the US would face a +20pps tariff hike instead of the +46pps threatened on “Liberation Day”. In the week of 7 July, alongside the overall deadline extension, the administration sent out letters to 23 countries, including Canada, Japan, South Korea, Thailand, Malaysia and Brazil², stating the tariff hike they would be facing from 1 August unless a deal is reached (in most cases close to the initial numbers communicated on “Liberation Day”). Together with the revised tariff hike on Vietnam, these imply an increase in the US global import tariff rate from 13% to 16% (Figure 1). But if no further deals emerge from bilateral talks by 1 August (particularly with the EU, Switzerland, India and Taiwan), it could rise further to 18%. President Trump also announced on 10 July that he considers increasing the universal basic tariff hike from +10pps to +15pps or +20pps. This would concern 11 countries in our Table 1, which the US targeted with +10pps tariff hike on “Liberation Day” and have not reached a trade deal nor received any tariff letter since – for example, Argentina, Australia, Singapore, Türkiye and the UAE are in this situation. Finally, sector-level tariffs are also on the White House’s radar, with imports of copper facing a 50% tariff from 1 August. President Trump also suggested that pharmaceutical imports could ultimately face a 200% tariff. Investigations on a number of other sectors are also ongoing, including aircraft, critical minerals, semiconductors and shipbuilding.

Figure 1: US global import tariff rate (weighted average, %)



Sources: WTO, US ITC, ITC, Allianz Research

¹ For all countries except for China, for which an agreement found in mid-May set the deadline to 12 August.

² Algeria +30pps (same as threatened on “Liberation Day”), Bangladesh +35pps (vs. +37pps), Bosnia and Herzegovina +30pps (vs. +35pps), Brazil +50pps (vs. +10pps), Brunei +25pps (vs. +24pps), Cambodia +36pps (vs. +49pps), Indonesia +32pps (unchanged), Iraq +30pps (vs. +39pps), Japan +25pps (vs. +24pps), Kazakhstan +25pps (vs. +27pps), Laos +40pps (vs. +48pps), Libya +30pps (vs. +31pps), Malaysia +25pps (vs. +24pps), Moldova +25pps (vs. +31pps), Myanmar +40pps (vs. +44pps), the Philippines +20pps (vs. +17pp), Serbia +35pps (vs. +37pps), South Africa +30pps (unchanged), South Korea +25pps (unchanged), Sri Lanka +30pps (vs. +44pps), Thailand +36pps (unchanged), Tunisia +25pps (vs. +28pps). Canada is facing 35% instead of 25% announced in March (we assume the same exclusions or lower tariffs on certain goods).

Tariff changes this year may lead to up to USD337bn worth of export losses globally, with many Asian exporters among the most exposed in relative terms. The race is still on to negotiate towards a deal with the US. In absolute terms, exporters in China (USD110bn), the EU (USD49bn), Canada (USD41bn), Mexico (USD18bn), Japan (USD18bn), South Korea (USD18bn) and Vietnam (USD14bn) would face the largest losses – see Table 1. Relative to their GDPs, Cambodia, Vietnam, Canada, Mexico, Thailand, South Korea, Taiwan and Malaysia are the most exposed economies. These estimates do not take into account any mitigating measures (e.g. frontloading and trade diversification) and assume that tariff hikes as announced by the White House do kick in from 1 August, before deals to partially reverse them are reached by the end of the year. US trade partners could offer to facilitate imports from the US by lowering tariffs and committing to increase purchases of US products. For example, Vietnam agreed to cut all tariffs on US imports, Thailand has proposed to do so as well and Indonesia signed deals to double purchases of US wheat in 2026-2030 and raise imports of energy products. Trickier concessions the US could also ask for include allowing local currencies to appreciate (which has already happened for some exporters but would be difficult to implement further in a coordinated way) and limiting ties with China. The letters sent out this week suggest this may be a topic on the Trump administration’s mind, with the sentence “Goods transshipped to evade a higher Tariff will be subject to that higher Tariff” seemingly pointing to Chinese goods without explicitly saying so. But such pressure will likely be difficult to implement as the precise definition of transshipment remains to be discussed, but also because Asian nations may not be that willing to forcibly ban rerouting of exports from China, often a larger trade partner and investment source for them than the US.

Table 1: Tariff rates and potential export losses, for the largest trade partners of the US

	US imports		US tariff rate									Maximum export losses	
	USD bn (2024)	share of total (2024)	Pre-Trump II	Before "Liberation Day" *	After "Liberation Day" and related decisions **	With deals found in May (China and UK)	With steel and aluminum at 50%	Decisions 2-10 July ***	By 1 August, if no further deals or letters ^	By 1 August, if no further deals or letters and higher basic tariff ^^	Baseline scenario	2025 (USD bn)	2025 (share of exporters' 2024 GDP)
Argentina	7	0%	0.7%	3%	9%	9%	11%	11%	11%	17%	7%	-1	-0.1%
Australia	17	1%	0.1%	2%	10%	10%	12%	12%	12%	20%	6%	-1	-0.1%
Bangladesh	9	0%	15.1%	15%	25%	25%	25%	50%	50%	50%	24%	-1	-0.3%
Brazil	44	1%	1.0%	4%	11%	11%	14%	40%	40%	40%	16%	-8	-0.4%
Cambodia	13	0%	6.5%	7%	15%	15%	15%	37%	37%	37%	14%	-2	-5.4%
Canada	422	13%	0.1%	10%	10%	10%	12%	15%	15%	15%	9%	-41	-1.8%
Chile	17	1%	0.0%	4%	13%	13%	13%	27%	27%	36%	21%	-3	-0.9%
China	463	14%	13.0%	33%	103%	39%	39%	39%	39%	39%	39%	-110	-0.5%
Colombia	18	1%	0.2%	5%	13%	13%	14%	14%	14%	23%	8%	-2	-0.5%
Ecuador	9	0%	0.4%	1%	6%	6%	6%	6%	6%	12%	2%	0	-0.3%
EU	618	18%	1.3%	4%	9%	9%	10%	10%	15%	15%	7%	-49	-0.3%
Hong Kong	6	0%	1.4%	1%	94%	9%	9%	9%	9%	9%	9%	-1	-0.2%
India	91	3%	2.4%	4%	10%	10%	11%	11%	23%	23%	10%	-9	-0.2%
Indonesia	30	1%	4.6%	5%	13%	13%	14%	34%	34%	34%	12%	-4	-0.3%
Japan	152	5%	1.5%	9%	13%	13%	14%	21%	21%	21%	12%	-18	-0.3%
Kenya	1	0%	0.3%	0%	10%	10%	11%	11%	11%	20%	11%	0	-0.1%
Malaysia	54	2%	0.7%	1%	5%	5%	6%	15%	15%	15%	5%	-4	-0.7%
Mexico	510	15%	0.3%	4%	4%	4%	4%	5%	5%	5%	5%	-18	-1.3%
New Zealand	6	0%	1.1%	1%	10%	10%	11%	11%	11%	20%	4%	0	-0.1%
Norway	7	0%	0.6%	1%	6%	6%	7%	7%	9%	9%	4%	0	-0.1%
Pakistan	5	0%	9.7%	10%	20%	20%	20%	39%	39%	39%	17%	-1	-0.2%
Philippines	15	0%	1.5%	2%	7%	7%	7%	12%	12%	12%	5%	-1	-0.2%
Saudi Arabia	13	0%	0.3%	1%	4%	4%	4%	4%	4%	8%	4%	0	0.0%
Singapore	44	1%	0.1%	0%	5%	5%	5%	5%	10%	14%	3%	-2	-0.5%
South Africa	15	0%	0.4%	4%	9%	9%	11%	21%	21%	21%	10%	-2	-0.5%
South Korea	135	4%	0.2%	8%	13%	13%	14%	21%	21%	21%	12%	-18	-0.9%
Switzerland	64	2%	0.7%	1%	7%	7%	8%	8%	20%	20%	6%	-6	-0.6%
Taiwan	119	4%	1.2%	2%	5%	5%	6%	7%	13%	13%	6%	-7	-0.8%
Thailand	66	2%	1.4%	2%	8%	8%	9%	25%	25%	25%	9%	-7	-1.1%
Türkiye	18	1%	3.5%	5%	13%	13%	15%	15%	15%	23%	9%	-1	-0.1%
UAE	8	0%	2.4%	8%	13%	13%	21%	22%	22%	27%	18%	-1	-0.2%
UK	69	2%	0.9%	4%	9%	6%	7%	7%	7%	7%	7%	-4	-0.1%
Vietnam	142	4%	4.1%	4%	11%	11%	11%	22%	22%	22%	9%	-12	-2.6%
Global	3359	100%	2.5%	9%	21%	12%	13%	16%	18%	18%	10%	-337	-0.3%

* Before "Liberation Day": accounts for tariff hikes on US imports from China, Canada and Mexico, as well as US imports of steel, aluminum, autos and auto parts

** After "Liberation Day" and related decisions: accounts for tariff changes in the first half of April, i.e. +10pps basic hike on all countries, a higher hike on China (also accounting for rounds of retaliations), and considering sectoral exclusions

*** Decisions 2-10 July: deal with Vietnam, tariff letters sent to 23 countries (Algeria, Bangladesh, Bosnia and Herzegovina, Brazil, Brunei, Burma, Cambodia, Canada, Indonesia, Iraq, Japan, Kazakhstan, Laos, Libya, Malaysia, Moldova, the Philippines, Senegal, South Africa, South Korea, Sri Lanka, Thailand, Tunisia), tariffs on US imports of copper

^ By 1 August, if no further deals or letters: assuming that countries that did not reach a deal with the US nor receive any tariff letter would face the tariff hike announced on 2 April ("Liberation Day")

^^ By 1 August, if no further deals or letters and higher basic tariff: instead of the +10pps basic tariff hike announced in April, apply +20pps (as President Trump mentioned in an interview on 10 July)

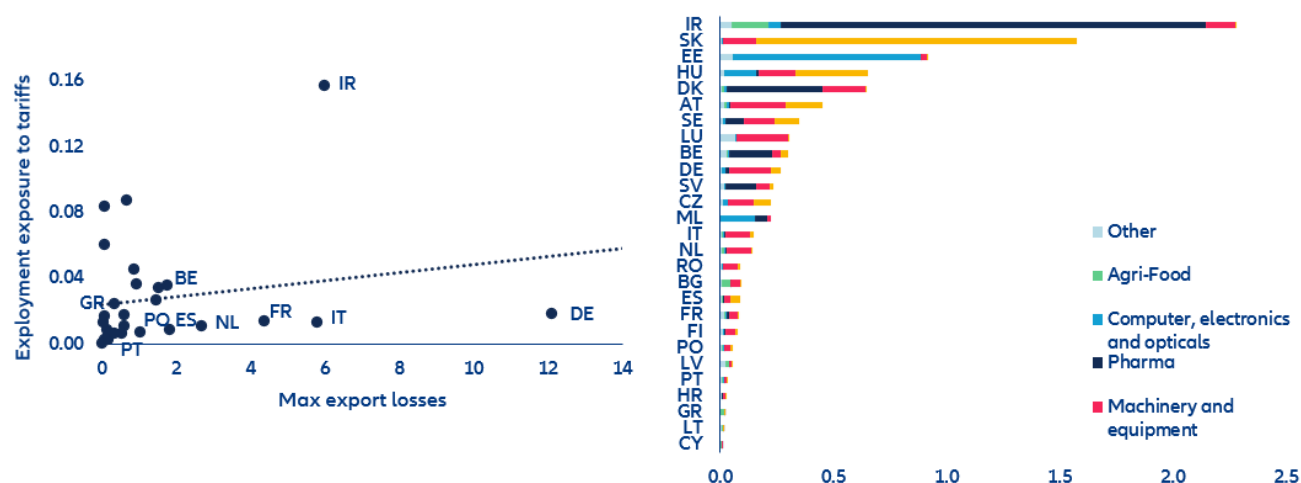
Sources: WTO, US ITC, ITC, Allianz Research

The EU is seeking a skinny deal with the US to set reciprocal tariffs temporarily at 10% while trade negotiations continue as a comprehensive free trade agreement appears unlikely in the near term. Reluctant to pursue a zero-tariff free-trade deal, the US is pressing the EU for expanded market access, most recently for American agricultural products like corn, soy, dairy and beef. To extract concessions, the US threatens to impose 17% tariffs on EU agrifood exports to the US, which represented 8% of total EU agrifood exports in 2024. The US also demands increased LNG imports in the EU and car-trade balancing, including quotas or exemptions for US-made vehicles, despite limited EU market demand. Regulatory alignment is another key US objective, aiming to lower EU standards on digital policies, food safety and VAT, which the US views as hidden trade barriers. EU leaders face internal pressure to reach a deal swiftly to avoid harsher US tariffs, yet many caution against conceding core principles prematurely, leveraging the EU's 450mn strong market and unity to avoid making disproportionate concessions. Talks include reducing the 25% US tariff on EU vehicles and potentially abolishing tariffs on spirits, aircraft and parts. The EU is willing to reduce its trade surplus, which spiked to USD21.9bn in May 2025 and USD137.3bn year-to-date (compared to USD19.8bn in May 2024 and USD92.5bn year-to-date in 2024) by increasing purchases of US weapons and LNG. But the EU fears a one-sided deal requiring larger concessions than benefits, risking backlash from member states. Preparations for retaliation are underway.

Deal or no deal, the outcome will significantly affect not only EU exports but also employment. A useful indicator of a country or sector's exposure to the US is the share of value added (VA) embedded in exports to the US relative to total national VA. Based on this metric, Ireland is the most exposed EU country, followed by Estonia, Slovakia and Hungary. Among sectors, pharma has the highest exposure, followed by computers, electronics and optical products, motor vehicles, chemicals and machinery and equipment. If US tariff hikes of +20pps are introduced on 1 August, EU exports to the US could decline by -8% annually, amounting to losses of around USD49bn in 2025 (+50pps, as threatened in late-May, would lead to USD85bn worth of export losses).³ Germany would face the largest loss, at USD12bn, followed by Ireland and Italy with USD6bn each and France with USD4bn. While the overall impact on EU exports may appear manageable, the concentration of losses in a few countries and sectors raises concerns (Figure 2, left). Employment exposure to US tariffs is broadly distributed across the EU, but Ireland stands out due to its strong export orientation towards the US, particularly in pharma, chemicals, agri-food and transport equipment, sectors with both high export value added and significant employment shares (Figure 2, right). Slovakia is the second most exposed, with high value added in exports to the US in the motor vehicle and machinery sectors, while Estonia is notably exposed in computers, electronics and opticals. Export-related losses are expected to be most pronounced in Ireland, due to declines in chemicals; in Slovakia, due to losses in the auto sector; in Hungary, from reduced machinery exports; in Estonia, from computer and electronics and in France, from transport equipment, where US exposure is also relatively high. In total, approximately 1.1mn jobs in the EU27 are vulnerable to the impact of higher US tariffs, particularly in Ireland's pharma sector, Slovakia's automotive industry, Hungary's auto and machinery sectors and Germany's machinery industry. Overall, we estimate that increased trade costs to the US in 2025 could result in the loss of 43,000 up to 215,000 jobs across the EU27, driven by declines in value added embedded in exports to the US.

³ See [Allianz | What to watch I May 28, 2025](#)

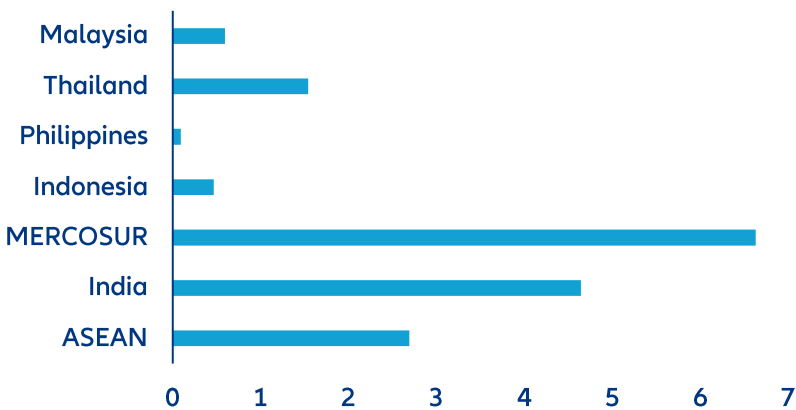
Figure 2: Exposure of employment to US tariffs index and maximum export losses to US tariffs in USDbn (left) and exposure of employment to US tariffs index by sector (right)



Source: UNComtrade, OECD TIVA, OECD TIM, Allianz Research. Notes: Employment exposure calculated by multiplying for each industry the value added embedded in exports to the US as a share of total value added at the national level multiplied by the share of employment in an industry in each country. A higher value indicates a greater vulnerability to US tariffs.

If a deal with the US falls through, or looks too one-sided, the EU still has several strategic options. First of all, certain EU sectors could prove resilient to US tariff hikes, particularly those producing goods where demand elasticity to price changes is limited and for which EU countries are currently notable providers of the US market – for example luxury-related products (leathers and furs, silk, cosmetics, beverages and spirits). Additionally, the EU can implement retaliatory tariffs on up to EUR21bn of US imports, backed by a larger EUR95bn contingency package including aircraft, spirits and food, pending member approval if US tariffs of 20% are imposed from August. But the EU can also accelerate trade diversification, deepening ties with other world regions like Mercosur, India, ASEAN, Australia and Africa. For the EU, the export gains due to a potential FTA look most favorable with Mercosur, followed by India and ASEAN, which together could bring USD14bn additional exports annually if an FTA is implemented (Figure 3). Including also FTAs with Malaysia, Thailand, the Philippines and Indonesia, these FTAs could compensate for about 35% of lost EU27 exports to the US. Leveraging the Single Market itself by harmonizing regulations, removing licensing and infrastructure bottlenecks and enhancing labor and capital mobility emerges as arguably the strongest lever of all. Within-EU exports have increased from 57% to 61% between 2013 to 2024, making up more than two-thirds of EU countries' exports and becoming ever more important. With a market size of 450mn people, the EU provides extensive opportunities within its market. The share of exports to EU market ranges from only 30% for Cyprus to more than 80% for Luxembourg, with the big drivers Germany and France exporting 54% of their exports to EU economies, respectively. Spain even reached 62% and Italy 51% in 2024. To offset a +20pps increase in US tariffs, the EU would need to boost its intra-EU goods trade by +1.3%, or alternatively, increase intra-EU trade in goods and services by +0.9%, based on 2024 trade figures. In the event of a +50pps tariff hike, compensating fully would require a +2.1% rise in intra-EU goods trade, or a +1.5% increase in combined goods and services trade within the EU. Moreover, the EU can enhance strategic autonomy by reshoring supply chains, fostering green and digital industries and using targeted industrial policy and carbon border measures to support exposed sectors such as autos and agrifood.

Figure 3: EU export gains through FTA implementation, in USDbn

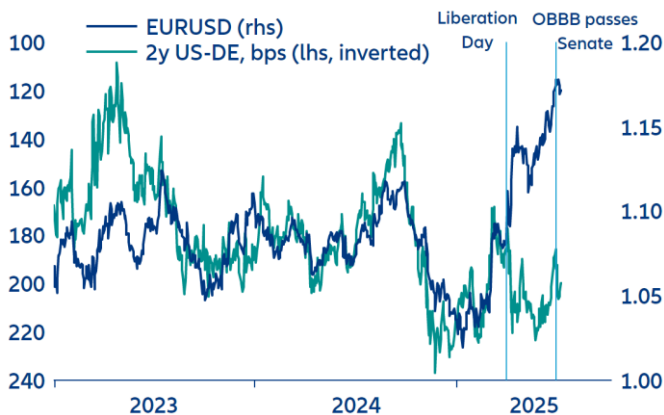


Source: UNCTAD, Allianz Research. Notes: Export gains are calculated on 2023 export levels as a baseline, lowering the tariffs for trade partners to similar levels as they have with other FTA partners (i.e. ASEAN, India – Vietnam FTA, MERCOSUR – Mexico FTA) as a reference.

Bent not broken? The resilience of the greenback.

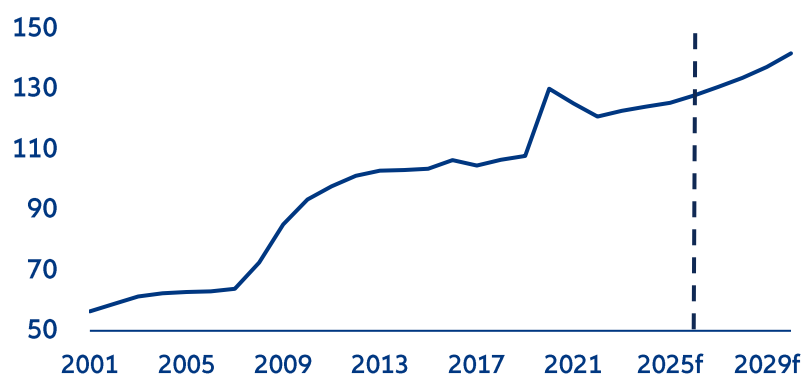
The ongoing political news flow in the US continues to cast a shadow over the outlook for the dollar, particularly following the passage of the “One Big Beautiful Bill” (OBBB), which lowers taxes and raises concerns about debt sustainability. Since President Trump’s election, markets have cycled through various fears: a potential Mar-a-Lago Accord, including a capital-gains revenge tax, reflation from extreme tariffs (>130% on China) and the threat to the Federal Reserve’s independence and renewed debt sustainability concerns. With the former two gone for now (Section 899 in the OBBB has been removed, tariff expectations have settled around 10%, legal hurdles to remove the Fed chair), the dominant concern is now debt sustainability, given the fiscal risks associated with the OBBB. In fact, the bill is expected to push the debt-to-GDP ratio up to 128% in 2026 and 134% in 2028, from 124% in 2024, in the absence of a growth boost or fiscal-consolidation measures (Figure 5). The deteriorated fiscal outlook underscores the latest divergence between interest rate differentials and the EUR/USD exchange rate, as shown in Figure 4, and is also underpinned by a renewed drop in swap spreads. However, a Truss-like market crisis in the US remains a downside risk, one that would be self-fulfilling and therefore difficult to predict. As long as investors continue to buy US assets and the economy remains resilient, the dollar is unlikely to falter.

Figure 4: EUR/USD exchange rate and interest rate differentials



Sources: LSEG Datastream, Allianz Research

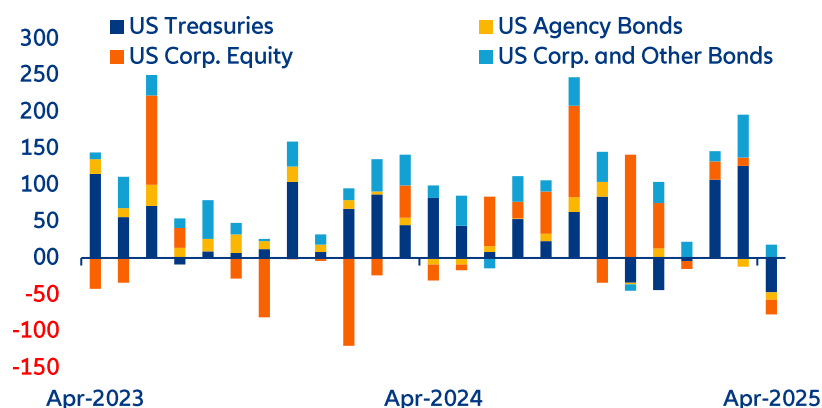
Figure 5: US federal gross debt-to-GDP projections, %



Sources: LSEG Datastream, Allianz Research

Indeed, despite the political uncertainty, “Liberation Day” did not spark an exodus of foreign investors from the US. Net purchases of US securities by foreign investors (Figure 6) remained robust in the first four months of 2025, with a net inflow of over USD270bn. While April, the first month since “Liberation Day”, saw net sales of around USD77bn across Treasuries, agency bonds and corporate equity, foreign investors still purchased roughly USD20bn in corporate bonds. All in all, this episode is not enough to indicate a structural divestment, but rather a simple cyclical rebalancing that has been seen before.

Figure 6: Net US security purchases by foreign investors, USD bn

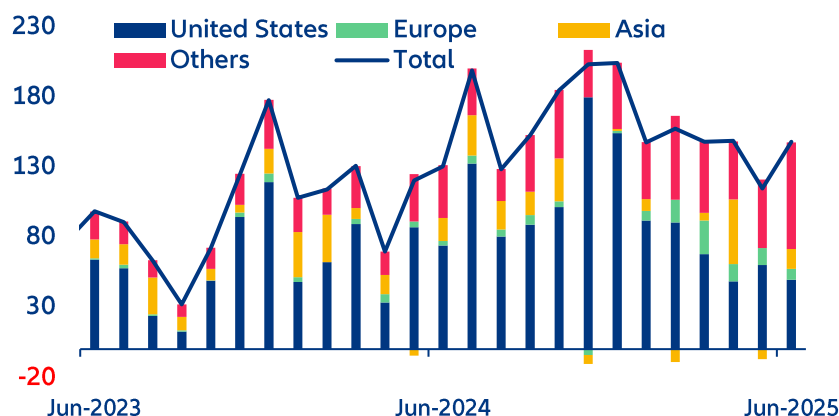


Sources: US Treasury Department, Allianz Research

Flows into Exchange Traded Funds (ETFs) also confirm continued investor appetite for US markets. Global ETF investing in US assets⁴ has consistently attracted large inflows, accounting for an average of 56% of global flows in 2023-24. In 2025, this number is slightly lower at around 49%, but still significantly outpaces flows into Europe (9%) and Asia (5%). Even in April, the weakest month so far in 2025, over USD48bn dollars of US ETFs were purchased (net), reinforcing the message that investors are not abandoning US assets (Figure 7). Some moderation in demand might be visible, but the lack of compelling alternatives, especially in bond markets, continues to anchor demand for US assets.

⁴ While ETF data are available up to the day of this publication, we report figures only until the end of June for consistency. Note that ETF flows only capture a small proportion of the capital market (USD16trn compared to the total financial market size is estimated at around USD260trn) and ETFs are mainly used by retail investors.

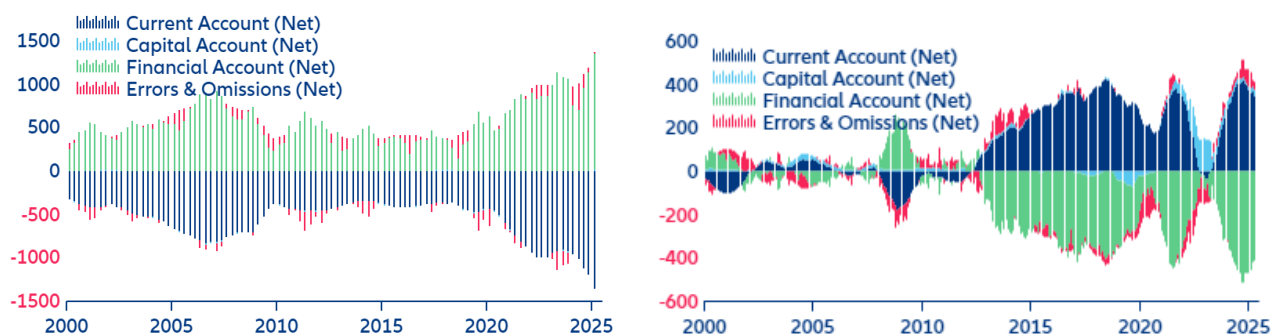
Figure 7: ETF net inflows by country of asset domicile, USD bn



Sources: Bloomberg, Allianz Research

Foreign capital inflows inevitable as the US current account deficit widened. According to the latest data for Q1 2025, the US current account deficit expanded by around USD138bn, driven primarily by an increase in the goods trade gap. This enlarged current account deficit (Figure 8, LHS) underscores the structural reliance of the US on foreign investors. As the world's biggest economy imports more than it exports, foreigners get dollars in return, which increases the financial account component of the balance of payments to offset the negative current account values. As shown in Figures 6 and 7, it is the sustained appetite for US securities that enables the country to maintain large current account deficits – if President Trump's "Liberation Day" tariffs achieve the desired effect of lowering the trade deficit in the medium term, we will also see a reduction in financial account inflows. Across the Atlantic, the Eurozone's balance of payments represents the mirror image of the US position to some extent. The bloc runs a persistent trade balance surplus – and with that a persistent current account surplus – which translates into a sustained financial account deficit. This dynamic reflects the historical excess savings in the region, which frequently find their way into US assets, making the Eurozone a net lender of capital and the US a net debtor.

Figure 8: Balance of payments of the US (left) and the Eurozone (right), bn local currency

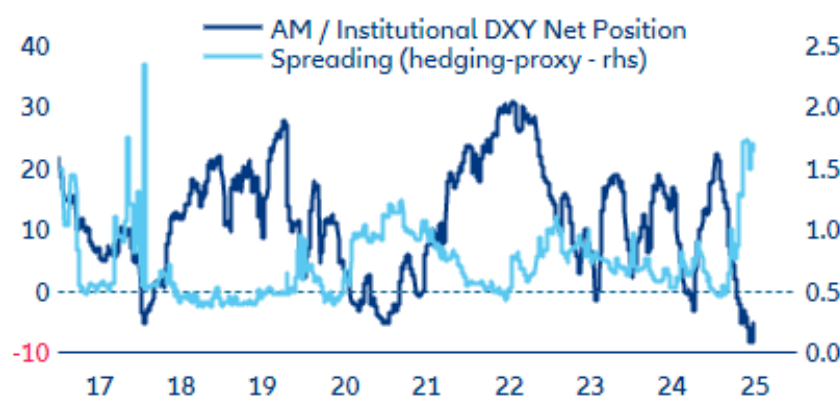


Sources: LSEG Datastream, Allianz Research

Notes: One-year rolling sum, last data point is Q1 2025

The current dollar weakness is being driven by positioning, not outflows. Recent CFTC data show that asset managers and institutional investors have shifted to a net short position on the USD (DXY), marking one of the most bearish stances in recent years. However, this positioning shift comes alongside a sharp spike in hedging activity, as reflected in the soaring levels of the spreading proxy (Figure 9). The divergence between outright positioning and the increase in hedging signals that market participants remain cautious and are actively seeking to manage downside risk. But instead of exiting US positions outright – which would appear in flow data – investors are hedging exposures through derivatives markets, signaling a belief that the dollar could weaken further but maintaining long-term confidence in US assets. But the mix of short positions and elevated hedging raises the risk of heightened volatility ahead, whether through further hedging (pressuring the dollar even lower) or a swift unwinding of positions that could propel the dollar higher.

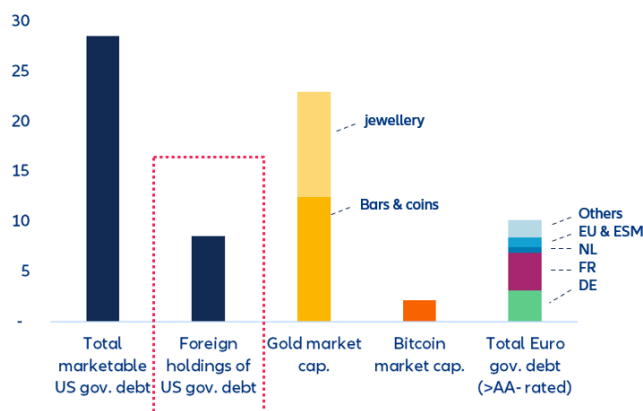
Figure 9: Asset management and institutional net positioning in the USD (DXY)



Sources: CFTC, LSEG Datastream, Allianz Research

Funds are staying put in the US because of the TINA Effect. Another reason why investors hedge instead of dumping US funds outright could be that simply speaking, There Is No Alternative (TINA). As we have noted before,⁵ investors – especially large institutional holders of US Treasuries – have few other options for safe, liquid assets to shift such vast sums. Figure 10 shows that overseas investors hold around USD9trn of the USD29trn in marketable US debt. The surging market capitalization of gold (from USD16trn to USD23trn in just one year) exemplifies the constraints of shifting allocations. When money pours into a limited asset class, prices soar. Unlike bonds, gold lacks a clear fair value as it pays no dividends or coupons, making it hard to judge whether it is overvalued. Euro-denominated, high-rated government bonds might be an alternative, but as Figure X4 indicates, the USD10trn market is small, fragmented and vulnerable to yield compression if faced with significant inflows. Given already wide interest rate differentials between the US and Europe, further outflows would quickly push European yields lower, diminishing their appeal. Ultimately, market forces would halt significant outflows from the US before they truly materialize.

Figure 10: US treasury market and alternative safe assets, USD trn



Sources: LSEG Datastream, Allianz Research

⁵ See "The cost of a weaker dollar" in [Allianz | What to watch | April 25, 2025](#)

Looking ahead, we maintain a baseline EUR/USD forecast of 1.15, with risks skewed to the upside. In this central scenario, none of the three key concerns for dollar bears – foreign capital flight, sustained inflation or debt-sustainability issues – materialize. In this case, the recent 10% depreciation of the dollar, outside what interest rate differentials would support, represents a healthy correction from historically overvalued levels. The closing of hedging positions could easily push the EUR/USD back to 1.15 from the current 1.17-1.18 range. In a downside scenario where inflation becomes more entrenched – beyond a temporary tariff-driven spike – and a potentially dovish new Fed Chair accelerates rate cuts, we project the EUR/USD rising to 1.25. In a more severe tail-risk scenario, where investors start to question US debt sustainability, the euro could spike to 1.40 against the dollar. Overall, our risk-weighted average EUR/USD level stands at around 1.20.

How beautiful is the OBBB for households, sectors and markets?

The One Big Beautiful Bill will frontload USD150bn of new tax cuts in 2026, USD97bn of spending increases and USD137bn of spending, leading to a modest estimated net easing of fiscal policy of 0.4% of GDP in 2026. The final bill passed by the House and Senate encompasses most campaign pledges, including the elimination of taxes on tips (Table 2). The pledge to reduce taxes on Social Security income was also included in the final version. Furthermore, the bill expands the 2017 Tax Cuts and Jobs Act (TCJA) with new provisions such as a larger child credit for households and a larger pass-through deduction for business owners, which was already embedded in the House version. However, the campaign promise of a 14% corporate tax for manufacturing businesses remained excluded from the bill, replaced by a full expensing of domestic manufacturing facilities. In all, the final OBBB will frontload most of the tax cuts and spending changes in 2026, with some items such as the removal of clean energy tax credits (including President Biden's flagship Inflation Reduction Act subsidies) being phased out over a couple of years. The OBBB entails a relatively modest fiscal easing (i.e. an increase of the structural primary deficit) of 0.4% GDP in 2026 and 0.1% GDP in 2027. This compares to 1.9% of GDP for the Bush tax cuts in 2001-03.

Despite modest easing, and offsetting customs receipts, we estimate that the federal deficit will increase from 7.1% GDP this year to 7.6% GDP in 2026 because of rapidly increasing interest expenses. We estimate that extra customs receipts of 0.6% GDP (USD180bn⁶) this year will maintain the deficit at around 7.1% (from 7% in 2024): the primary deficit (i.e. before interest payments) will reduce, but this will be partially offset by rising interest expenses of +0.4% GDP (see Table Y1 again). We assume that short-term interest rates will set to settle at around 3.5% and long-term interest rate at around 4%. While it is possible that short-term interest rates decrease more because of political pressure on the Fed, we doubt that long-term interest rates have much room to drop, given already rising fiscal risks. Further ahead, we estimate that the deficit will continue to rise because of still-rising interest expenses, the absence of fiscal consolidation, and relatively weak growth. In 2027-28, to stabilize the headline deficit at around -7.6% GDP only through growth, GDP would need to grow by at least +2.3%. But we forecast growth of only +1.6% in 2026 and +1.8% in 2027-28. To reduce the deficit, the administration would need to undertake substantial consolidation measures, which are not on the agenda.

The impact on GDP growth in 2026 will be probably modest (+0.3pp), given rising fiscal risks. With a net fiscal easing of 0.4% GDP, the short-term growth impact of the OBBB will be mild, to the tune of 0.3 percentage point (pp). It will only partially offset growth-hurting measures such as high tariffs and tight immigration policy. Besides, rising fiscal risks and elevated interest rates will potentially dampen the impact of the OBBB via higher household precautionary savings. In all, without the OBBB, we estimate that GDP growth would be +1.3% instead of +1.6%. Over the longer term, we doubt that the supply-side benefits will be substantial. Key supply-side measures include the amortization of equipment, structures and R&D spending to encourage business investment and innovation. However, the effects are likely to be slow to materialize (natural lag in capital formation and innovation payoffs) and, in the meantime, firms' investment may be dampened by the rise in interest rates induced by fiscal risks.

⁶ That would amount to a total of USD250bn of customs receipts in 2025, lower than the over USD300bn predicted by Treasury Secretary Bessent.

Table 2: Main tax and spending items (in USD bn, relative to neutral policy⁷) contained in the OBBB & federal deficit impacts

	2025	2026	2027	2028
Tax cuts				
Child tax credit increase		30	30	30
Elimination of taxes on tips		5	5	5
Overtime income deduction		10	10	10
Senior Social Security income deduction		8	8	8
SALT deduction cap increase		4	4	4
Full expensing of equipment		45	40	35
Expensing of production structures		12	14	14
Expensing of R&D		20	18	16
Expanded limit on interest deductibility		10	10	10
Larger passthrough deduction		6	6	6
Spending cuts				
SNAP (food stamps) reductions		-20	-20	-20
Medicaid eligibility/work rules		-50	-50	-50
Medicare & ACA changes		-10	-10	-10
Clean energy tax credit phase-out		-57	-37	-30
Spending increases				
Border enforcement, ICE, wall construction		35	35	35
Defense spending		60	60	60
Rural hospital		2	2	2
Net Total impact (USD bn)		110	125	125
Increase in the structural primary deficit (% GDP)		0.4	0.1	0.0
Other deficit-augmenting (+) and deficit-reducing (-)				
Extra customs receipts (% GDP)	-0.6	-0.2	0.0	0.0
Extra interest payments (% GDP)	0.4	0.3	0.2	0.2

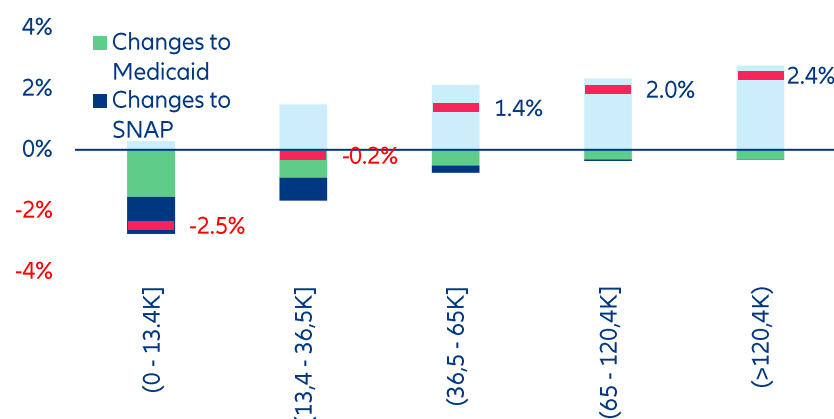
Sources: US Congress, Allianz Research

Note: we assume an effective tariff rate of 9.2% on average in 2025 and flat at 10% in 2026-27-28. We assume a short-term interest rate of 3.5% in 2026-27-28 and a long-term interest rate of 4.1% in 2026, 3.8% in 2026 and 3.7% in 2027.

At the household level, the OBBB may benefit high-income households over lower-income ones. A recent analysis by Yale's Budget Lab examines the distributional effects of selected provisions in the House and Senate reconciliation bills, focusing on changes to Medicaid, SNAP and taxes. It finds that lower-income households could face a -2.5% net decrease in nominal income, primarily due to reductions in Medicaid and SNAP benefits. In contrast, households earning above USD36,500 – particularly those above USD120,400 – would see a net positive impact, largely driven by tax changes (+1.4% to 2.4%).

⁷ Neutral policy = real primary spending increasing in line with potential real GDP growth (2%) and revenues increasing in line with nominal GDP growth.

Figure 11: Estimated effects of major spending and tax provisions of the Reconciliation Bill passed by the House (2026-2034). Average annual percentage change in After-Tax-And-Transfer Income.



Sources: The Budget Lab and Congressional Budget Office calculations, Allianz Research

Overall, the OBBB should modestly boost consumption growth by 0.3pp –consistent with our estimated impact on real GDP. We apply the nominal income changes to expected consumption using conventional multipliers (lower multipliers for high-income households, i.e. households respond by allocating a significant share of the tax tailwind savings). The result is a modest overall boost to US nominal consumption growth of 0.3pp in aggregate terms. While the bottom two quintiles see income declines and contribute negatively overall, at -0.2pp, the top two quintiles, which account for over 60% of US consumption, offset this with +0.3pp contributions. Despite their lower Marginal Propensity to Consume, their income gains and large consumption share drive most of the effect. This suggests that the positive impact of the OBBB is concentrated at the top, limiting the potential multiplier effect from lower-income groups.

Table 3. Estimated impact on consumption from OBBB

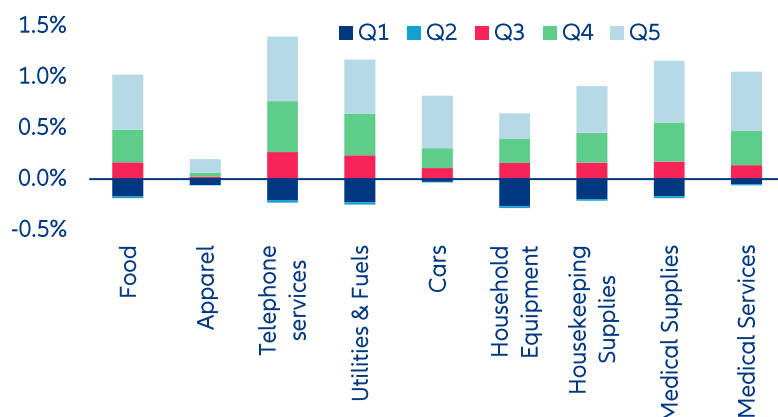
	Income Quintile	Net Change in after-tax-and transfer-income	Multiplier to consumption	Expected Impact on consumption	Share of US consumption	Contribution to total consumption
Quintile 1	(0 - 13.4K]	-2.5%	0.8	-2.0%	8.7%	-0.2%
Quintile 2	(13,4 - 36,5K]	-0.2%	0.7	-0.1%	12.7%	0.0%
Quintile 3	(36,5 - 65K]	1.4%	0.6	0.8%	17.0%	0.1%
Quintile 4	(65 - 120,4K]	2.0%	0.3	0.6%	22.8%	0.1%
Quintile 5	(>120,4K)	2.4%	0.2	0.5%	38.9%	0.2%
Total Impact	Total					0.3%

Sources: Allianz Research

Telephone services (+1.2%) and medical goods and services (+1.0%) are expected to benefit the most from a potential spending increase by higher income groups. Applying the income-induced changes to sector-specific expenditures using a regression model of the spending elasticity per wealth quintile, we find quite different impact on consumption for different product/services and most of the increase is driven by the top quintile who are concentrating the bulk of the income boost induced by the OBBB. Telephone services (+1.2%) and medical goods and services (+1.0%) should benefit the most, while spending on apparel is expected to stall (+0.1%) as the income elasticity for this product is rather weak, regardless of household income, and the aggregated income boost will not be enough to offset the price premium induced by higher US tariffs against top the textile manufacturers located in Asia. Spending on household equipment is expected to improve modestly (+0.4%) as higher demand from the last two quintiles (higher-income) will hardly offset the drop of demand from lower-income groups that primarily cut spending on durable goods and equipment in response to lower purchasing power. Telephone services (paid applications, games, subscription fees), energy (transport limitation, travel spending cut), housekeeping supplies and food (lower quality, discounter purchase, reduced food away options) are also high on the list of products that

tend to face spending cuts. That said, the results rely on a rule-of-thumb application of marginal propensities to consume and do not account for second-round effects, behavioral adjustments, or policy interactions. Our results describe the full effect of the bill itself on household consumption capacities based on historical behavior but without taking into account changing macroeconomic conditions. Geopolitical risk events, tariff-related inflation concerns and the ongoing gradual tightening of the job market might also weigh on consumer spending.

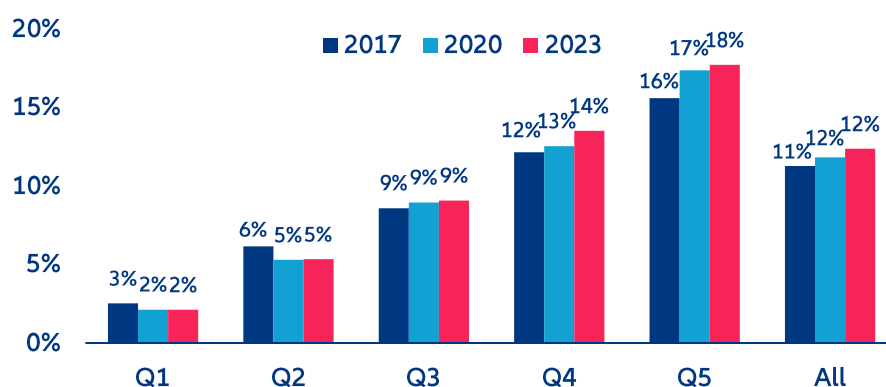
Figure 12: Consumption sensitivity of US household quintile per product category



Sources: Allianz Research

Recent history shows that wealth does not trickle down to the rest of the economy. The effects of the first tax cuts implemented during President Trump's first mandate suggest that the redistribution link from tax benefits to the whole economy is broken or imperfect. Since 2017, wealthier households have tended to pour their excess income into insurance and wealth management services rather splurging on goods and domestic services. The top two quintiles of households, whose annual revenues are above USD90,000 (based on 2023 BLS consumer survey), devoted 1.5-2pps more of their annual spending to pensions and insurance in 2023 compared with 2017 (share of income respectively up by +0.7pt and +0.4pt for quintile 4 and 5) while inversely the spending ratio was between -1.0 to -0.5pt lower for the bottom 2 quintile in the same period (share of income respectively down by -1.1pts and -1.6pts for quintile 1 and 2).

Figure 13: Share of household spending allocated to personal insurance and pensions (per income quintile)



Sources: Allianz Research

Taking all this into account, the policy changes suggest a modestly positive impact on US private markets, driven by the projected +0.3% boost to consumption. While gains are concentrated among higher-income households, their large share of total spending and increased outlays in areas like education, pension insurance and discretionary services still support demand growth. Within private credit and structured strategies, Asset-Based Finance (ABF) could stand out as a key beneficiary. As household consumption increases, especially in areas like auto loans, student financing or healthcare receivables, ABF structures backed by consumer cash flows may see

improved performance and stronger origination volumes. Overall, while the distributional asymmetry tempers the multiplier effect, the policy still enhances household spending capacity and supports a constructive outlook for consumption-linked private market exposures.

Furthermore, higher incomes may provide inflows into capital markets and especially risky assets – at least in the near-term. Equity demand may be bolstered in the coming years as the benefits predominantly accrue to higher-income groups.⁸ The bill prevents USD3.3trn in income tax increases from 2025 to 2034 and introduces USD340bn in new relief for workers and families.⁹ A stronger fiscal loosening for higher-income households could encourage them to make further investments in riskier asset, directly by buying stocks or indirectly by allocating a larger portion of their disposable income to their pension funds. Based on our calculation, the new tax relief might imply a +17% annual increase for the US equity market.

Indeed, equity markets welcomed the passing of the bill, cheered by the removal of Section 899 and the diminished risk of a debt-ceiling cliffhanger. After a weak start to the year, the US equity market is back on its feet and investors are looking bullish. Nevertheless, the Q2 earnings season is about to start and forecasts for the S&P have already been cut to below 2% y/y compared to c.13% y/y realized in Q1, with baseline tariffs being one dampener to watch out for. In the meantime, other policies such as immigration may constrain growth potential, while a tight labor market and higher tariff-induced inflation could force the Fed to maintain a more restrictive stance, depriving equity investors of the much-desired Fed-put.

Figure 14: Equity performance from first term tax cuts and thereafter



Sources: Refinitiv, Allianz Research

The OBBB will create a lot of potential winners but also some heavy casualties among US industries. Focusing exclusively on first-round effects of the OBBB at the sector level, a large majority are expected to benefit from stronger demand, not only from households (automobile, consumer electronics, home equipment & non-food retail as a whole) but also from the federal administration and general government (aerospace & defense, chemicals, construction, infrastructure and metals). For some sectors, the potential direct benefits from the bill will not be noticeable at the revenue level but rather on their balance sheets via a better profitability ratio or stronger cash reserves induced by certain tax deductions and/or a looser regulatory framework. However, the provisions of the bill will act as a drag on the electrification of US industry, supporting the oil & refinery industry instead. The ending of incentive and credit programs for electric vehicles, charging stations, home batteries and residential solar panels are an ominous signal for these industries, whose high costs require the help of subsidies to encourage mass adoption. For the automobile industry, a drop in EV sales looks unavoidable, especially given the observed frontloading of purchases this year ahead of the vote of the bill. However, we do not expect this to affect manufacturers as the EV segment is rather small in the US (less than 10% of market share in Q1 25) and records lower margins compared to the ICE segment. Moreover, higher demand from wealthier households should broadly compensate for likely weaker EV demand. For some sectors like semiconductors and IT, we expect potential effects to be neutral, given the already massive investments announced by tech giants, alongside the Chips Act in 2022

⁸ [Distributional Effects of Selected Provisions of the House Reconciliation Bill \(Preliminary\) | The Budget Lab at Yale](#)

⁹ <https://budgetlab.yale.edu/research/budgetary-effects-may-2025-tax-bill-preliminary>

(over USD34bn out of USD50bn already funded). Besides the renewables sector, the food industry, both manufacturers and retailers, will be among the biggest losers from the OBBB as stricter access and the reduced SNAP program would entail lower demand from the 42mn Americans receiving monthly food coupons, which we do not expect to be fully offset by stronger grocery spending from the highest income households. We also see some downside risks ahead for the pharmaceutical industry due to the USD1trn cut of the Medicaid program, of which below-average income households are the main beneficiary. Yet, higher expected spending in medical care and services from wealthier households could help mitigate the negative effects.

Table 4: Summary of sector winners and losers

Sector	Impact	Impact Channel	Estimated Windfall/Loss	Key impact channel
Non-food Retail	Positive (+)	Higher middle-class spending due to tax cuts; budget brands/products could suffer	Broad uplift, part of USD4.5trn tax cut package	Demand
Food Retail	Negative (-)	SNAP cuts reduce grocery sales	Negative USD186bn	Demand
Agriculture	Neutral (±)	Mixed: energy cost relief, increased crop insurance and ARC payouts, but lower SNAP reduces food demand	About USD60bn (in programs); negative indirect small revenue loss through lower food consumption	Demand / Profitability
Food Manufacturing	Negative (-)	SNAP cuts reduce food consumption	Negative USD186bn	Demand
Metals	Positive (+)	Infrastructure, defense & energy projects boost demand	Part of the USD150bn for defense	Demand
Construction	Positive (+)	Border & infrastructure projects; expensing	USD70bn for border + multi-billion infrastructure funds	Demand
Infrastructure	Positive (+)	Water, border, airport & military housing projects	USD70bn for border + multi-billion infrastructure funds	Demand
Chemicals	Positive (+)	Energy/deregulatory cost gains, infrastructure demand	Part of USD70bn plus fossil feedstock benefits	Profitability
Pharmaceuticals	Neutral to Negative (-)	Avoided major price controls; preserved R&D expensing but lower Medicaid	Roll back of USD5bn Medicare negotiation savings over 10 years but Medicaid cuts of USD930bn	Profitability
Machinery & Equipment	Positive (+)	Full expensing (100% bonus depreciation for equipment and facilities) supports new capital purchases	Part of the USD737bn in business deduction benefit	Profitability
Automotive	Positive (+)	Suspended EV credits, interest deduction, income boost	USD31bn in loan-interest deduction / modest impact of potential EV sales decline (market share= 10% in Q1 2025)	Demand
Software & IT	Neutral to Positive (+)	R&D and AI regulation extensions, spectrum auctions	Part of the USD 344bn for R&D + USD 85bn spectrum auction potential / Mandatory legal framework for AI subsidies might curb investment pace	Liquidity
Computers & Electronics	Positive (+)	R&D expensing, stable chip investment	USD 344bn incremental business R&D expensing budget	Liquidity
Fossil fuels	Strongly Positive (++)	New leasing, low royalties, deregulation; repeal of green credits; subsidies for coal	Indirect: USD 550bn repeal aids fossil vs renewables; USD 2bn for coal over the next 10 years	Liquidity

Renewables	Strongly Negative (- -)	Repeal of clean energy credits	Negative USD 550 bn (tax credits phased out)	Demand
Transportation	Positive (+)	FAA funding, no new emissions costs for trucking	FAA share of infrastructure funding	Profitability
Household Equipment	Positive (+)	Consumer spending rises; construction strong	Boost from consumer tax cuts and expensing	Demand
Semiconductors	Neutral to Positive (+)	35% tax credit for fab projects; full R&D expensing restored	Higher tax credit cap for property with no cap but over 2/3 of budget already allocated and credit access timeframe unchanged (end-2026 deadline).	Liquidity
Apparel & Textile	Neutral (±)	Discretionary spend up; custom tax tightening;	Balanced, no large net flow but end of the de minimis exemption by 2027	Demand
Aerospace & Defense	Strongly Positive (++)	USD150 bn defense spending + FAA upgrades	USD150bn for defense + FAA infrastructure	Demand
Banking	Positive (+)	Lower taxes, less CFPB oversight; loan demand growth	Indeterminate; part of broader business environment	Profitability

Source: Allianz Research

These assessments are, as always, subject to the disclaimer provided below.

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