Europe – United States: an economic interdependence that limits the risk of escalation

2026 is off to an intense start on the geopolitical front. Greenland has, within just a few days, become a major hotspot of tensions between the United States and Europe, reviving the threat of new tariffs. By the end of the week, relations appeared to ease slightly, but rhetorical escalation could quickly return. In this context, it is useful to recall the depth of transatlantic economic ties, which make any tariff confrontation more costly than credible.

Robust two-way trade in goods and services. The United States and the European Union form one of the most integrated trading blocs in the world, accounting for nearly 30% of global trade and around 43% of global GDP.

In goods, bilateral trade reached €867 billion in 2024—almost double the level of a decade ago. The US is now the EU's largest export market and its second-largest supplier after China. Links are especially strong with Germany, Italy and Ireland. Structurally, the United States is more dependent on imports of European goods. It runs a trade deficit of nearly €200 billion with the EU and would face significant substitution challenges in several industrial sectors. The unilateral tariff hikes introduced by the US in 2025 — +15% on most European goods and +50% on steel and aluminum — did not reduce import volumes. Available analyses also show that these tariffs were absorbed primarily by Americans themselves, either by the importing company or the final consumer.

In services, the imbalance goes the other way. Europe runs a deficit of around €150 billion, concentrated in digital, IT and telecommunications services. The scale of intellectual property–related flows highlights the role of large US tech firms, which explains Ireland's significant weight in this category.

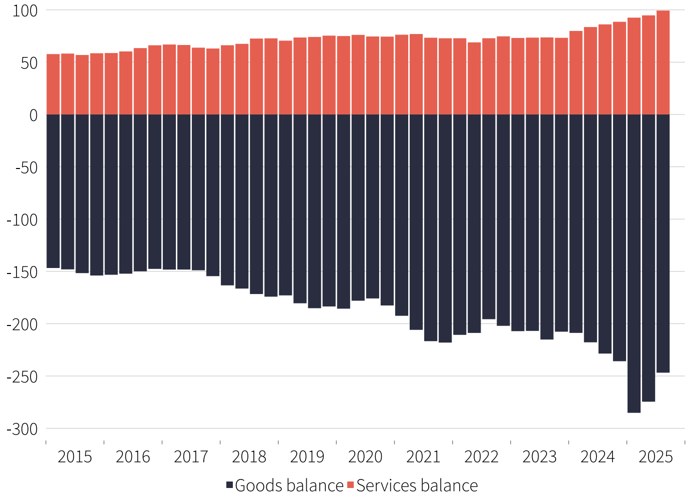
A decisive financial interdependence. Beyond trade, financial ties between the two regions act as another stabilizing force. A large share of global market, payment and clearing infrastructure is US-based. At the same time, Europe is the largest foreign holder of US sovereign debt: it owns about 40% of Treasuries held by non-residents, or roughly 12% of the total outstanding. This deep financial interconnection limits the true capacity to impose heavy retaliatory measures without triggering a boomerang effect.

A market reaction that remained measured. Financial markets began the week on a sharply negative tone before recovering. This was particularly the case for both European and US equity markets. Bond market movements, however, were more pronounced. The US 10-year yield rose by 15 basis points in two days, returning to its September 2025 levels, while the dollar weakened to 1.17 against the euro. These tensions were amplified by specific pressures on long-term Japanese rates. By contrast, European yields remained relatively stable: 3.5% for the 10-year OAT and 2.8% for the Bund.

A strategic positioning that remains unchanged. In this environment, we maintain our central scenario of a gradual de-escalation. The risk of aggressive rhetoric persists, but the underlying economic fundamentals limit the likelihood of a lasting trade conflict. We therefore choose not to adjust our positioning. Our convictions remain unchanged: a preference for European and Asian equities, and a strong underweight in sovereign bonds, which continues to shield us from rate-driven market tensions.

EU-US TRADE AND SERVICES BALANCE

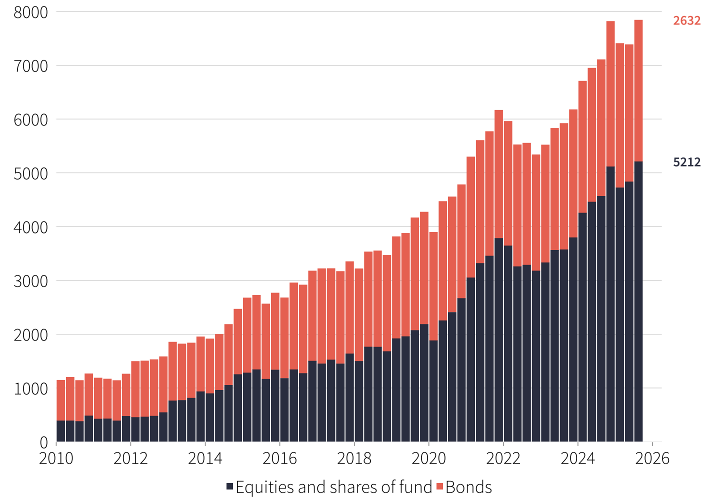
USD BILLIONS, ROLLING 4Q



Sources: Société Générale Investment Solutions, Macrobond, USCB 2025 Q3

EUROPEAN UNION: HOLDINGS OF US ASSETS

EUR BILLIONS



Sources: Société Générale Investment Solutions, Macrobond, Eurostat 2025 Q3

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OUR MACRO COMMENTS

Events of the week

JAPAN

Japanese sovereign yields rose sharply over the past week, a movement all the more notable as it continues a steady upward trend observed for a year. The 10-year yield has increased by nearly 110 basis points since early 2025 and has now reached its highest level since 1995.

This pressure primarily reflects a domestic context of growth and an exit from deflation, with inflation exceeding the Bank of Japan's 2% target since 2022 and the announcement of ambitious new stimulus programs. In November, the new Prime Minister, Sanae Takaichi, unveiled a fresh fiscal package amounting to 135 billion dollars, and she recently called early elections for the Lower House to secure a majority and accelerate its implementation.

While these announcements are fueling investor concerns; fiscal risks appear to remain contained. Japanese debt continues to be held predominantly by domestic investors, which limits its sensitivity to international market movements. Moreover, nominal growth remains solid and the average cost of financing—still below 1%—is far from levels that would threaten debt sustainability, especially since the deficit has already undergone significant adjustment. In this context, the BoJ announced this morning that it would maintain its policy rate at 0.75%.

PMI INDICES

January PMI indicators confirm that activity in the euro area remains resilient despite a tense geopolitical backdrop. The composite index held steady at 51.5, unchanged from December and slightly below expectations. The manufacturing sector shows signs of improvement, at 49.4, while services slowed slightly to 51.9.

In France, the situation is more fragile: the composite index fell to 48.6 from 50 in December. Services contracted sharply to 47.9, while manufacturing returned to expansion territory at 51. Surveyed firms highlight a heightened climate of uncertainty, particularly linked to the threat of higher tariffs.

Germany, by contrast, recorded a notable improvement. The composite index rose to 52.5 from 51.3, supported by a rebound in manufacturing and accelerating services activity. However, this positive momentum contrasts with a weakening labor market, with employment falling at its fastest pace since mid-2020.

In the United Kingdom, activity remains very strong, with the composite index rising to 53.9 from 51.4 in December, driven mainly by the services sector. In Japan, PMIs point to an acceleration in activity, with the composite index at 52.8, its highest level since August 2024.

EVENTS IN THE COMING MONTHS

- January 28: Fed monetary policy meeting
- February 5: ECB monetary policy meeting
- February 5: BoE monetary policy meeting
- March 15: Municipal elections in France

Source: Macrobond, January 23, 2026. The colors in the 'Actual' column correspond to the difference from the forecast

KEY EVENTS NEXT WEEK

Monday

Germany	Ifo business climate index JANUARY
United States	Durable goods orders NOVEMBER

Tuesday

France	Consumer confidence index JANUARY

Wednesday

United States	- Fed monetary policy meeting - Durable goods orders DECEMBER

Thursday

Euro area	Economic sentiment index & consumer confidence index JANUARY
United States	Balance of trade NOVEMBER

Friday

France **Spain** **Germany** **Italy** **Euro area**	GDP growth rate Q4
Spain **Germany**	Inflation JANUARY

Saturday

China	Manufacturing & non manufacturing PMI indices

SOCIETE GENERALE Private Banking

MARKET PERFORMANCES

Interbank rates

%	21/01/2026	23/12/2025	23/10/2025	01/01/2024	23/01/2025
US SOFR	3,699	3,87	4,18	5,34	4,35
Euro area €ster	1,932	1,93	1,93	3,88	2,92
UK SONIA	3,725	3,72	3,97	5,19	4,70
Switzerland SARON	-0,044	-0,04	-0,05	1,70	0,45
Japan TONAR	0,727	0,73	0,48	-0,04	0,23

10Y Government rates

%	22/01/2026	23/12/2025	23/10/2025	01/01/2024	23/01/2025
US Treasuries	4,26	4,18	4,01	3,88	4,65
France OAT	3,51	3,56	3,37	2,55	3,29
Germany Bund	2,84	2,86	2,58	2,02	2,52
Italy BTP	3,50	3,55	3,37	3,70	3,64
Spain Bonos	3,26	3,29	3,11	2,98	3,17
Switzerland	0,31	0,35	0,17	0,66	0,41
UK Gilts	4,55	4,57	4,48	3,60	4,60
Japan JGB	2,27	2,05	1,65	0,62	1,18

Credit

%	22/01/2026	23/12/2025	23/10/2025	01/01/2024	23/01/2025
United States IG	4,85	4,86	4,71	5,06	5,38
United States HY	6,58	6,60	6,77	7,59	7,25
Europe IG	3,37	3,42	3,20	3,72	3,54
Europe HY	5,16	5,33	5,36	6,80	5,80
Emerging FX	5,48	5,52	5,65	6,77	6,40

Equity indices

22/01/2026 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-0,29	2,171	4,951	47,5	19,99
United States	-0,24	0,647	3,284	47,6	15,47
Euro area	-0,92	3,711	5,640	40,7	22,62
France	-1,23	1,008	-0,379	15,7	8,87
Germany	-1,39	2,275	3,159	42,7	16,94
United Kingdom	-0,71	3,021	6,525	39,3	22,70
Japan	-1,14	5,809	11,429	60,4	36,73
Emerging	0,59	7,368	9,172	57,3	38,48
China USD	-0,87	3,070	-0,841	62,5	37,57
India USD	-2,94	-5,830	-7,061	10,3	1,82
Latin America USD	6,25	12,744	22,492	28,0	66,40

Foreign exchange rates

	22/01/2026	23/12/2025	23/10/2025	01/01/2024	23/01/2025
EUR/USD	1,17	1,18	1,16	1,11	1,04
GBP/USD	1,35	1,35	1,33	1,27	1,23
EUR/CHF	0,93	0,93	0,92	0,93	0,95
USD/JPY	158,36	156,40	152,59	141,03	156,22
USD/CNY	6,96	7,04	7,13	7,08	7,29

Commodity prices

	22/01/2026	23/12/2025	23/10/2025	01/01/2024	23/01/2025
Brent, USD/BL	64	62	65	77	77
Copper, USD/Metric ton	12 632	12 070	10 797	8 476	9 056
Gold, USD/Troy oz	4 832	4 449	4 144	2 078	2 744
Silver, USD/Troy oz	93	70	49	24	30
Palladium, USD/Troy oz	1 850	1 837	1 463	1 136	998
Platinium, USD/Troy oz	2 507	2 208	1 649	1 000	952

Source : Bloomberg on 23 January 2026, 1W = 1 week change, 3M = 3 month change, 12M = 12 mont change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..

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