

---

**1**

**STORMY SEAS:**  
*The Transatlantic Economy  
in 2026*

---

# Stormy Seas: The Transatlantic Economy in 2026

The transatlantic economy faces stormy seas in 2026. Countries and companies must navigate uncertainties triggered by geopolitical tensions, shifting global supply chains, disruptive trade policies, realigning currency movements, rising energy costs, and the transformative effects of artificial intelligence (AI). The U.S.-led, rules-based international order of the past eighty years is splintering, with significant risks for the transatlantic economy.

The transatlantic partnership has weathered stormy seas before, however, and firms on both sides of the Atlantic have been largely successful in navigating transatlantic challenges.

Despite tremendous uncertainties, transatlantic business continues to thrive. Every day more than \$6.4 billion worth of goods and services are traded between Europe and the United States, backed by extensive cross-border investments that support millions of jobs.<sup>1</sup> Bilateral trade and investment flows are becoming thicker, denser and more interconnected as firms adapt to new norms and regulations. As new global economic arrangements unfold, U.S.-European linkages remain deep and mutually beneficial.

We estimate that U.S.-European trade in goods and services of \$2.3 trillion and sales by the affiliates of U.S. and European companies in each other's market of \$7.5 trillion add up to a \$9.8 trillion transatlantic economy that is the largest and wealthiest market in the

world, employing an estimated 16 million workers in mutually “onshored” jobs on both sides of the Atlantic.<sup>2</sup> No two other regions of the world are as deeply integrated as the U.S. and Europe. Ties are particularly thick in foreign direct investment (FDI), portfolio investment, banking claims, trade and affiliate sales in goods and services, digital links, energy, mutual R&D investment, patent cooperation, technology flows, and sales of knowledge-intensive services.

This dense web of deep transatlantic connections is a strength, not a burden, for both the U.S. and Europe in a more competitive and disruptive age. The two partners accounted for 61.3% of global inward foreign investment stock and 61.7% of outward stock in 2024. Through greenfield investments, mergers and acquisitions, each partner has built up most of that stock in each

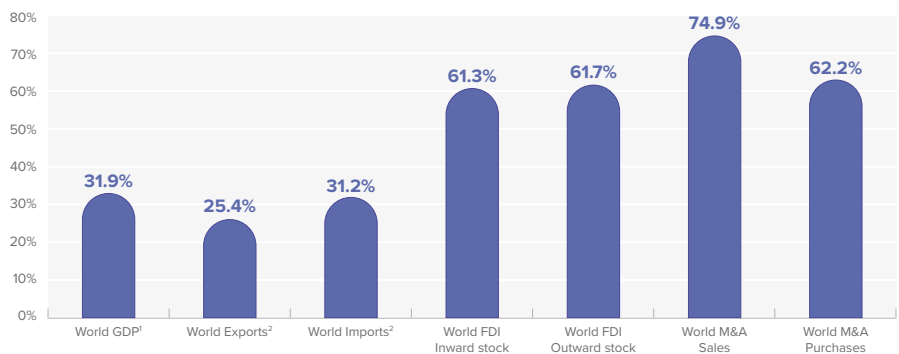


## THE VALUE OF THE TRANSATLANTIC ECONOMY IN 2025



other's economy. Mutual transatlantic investment flows are very large, dwarf trade, and have become essential to job growth and prosperity on both sides of the Atlantic. Combined U.S. and European goods exports to the world (excluding intra-EU trade) are also substantial, accounting for roughly 31.2% of global goods imports and 25.4% of global goods exports in 2024 (Table 1).

**TABLE 1.**  
The Transatlantic Economy vs. The World



1. Based on PPP estimates.

2. Excluding intra-EU, UK, Norway, Switzerland, and Iceland.

Sources: United Nations, International Monetary Fund, figures for 2024. Transatlantic economy measured as U.S., EU, UK, Norway, Switzerland and Iceland.

In the end, transatlantic trade and investment infrastructure is the largest on the planet. Transatlantic foreign affiliate sales, estimated at \$7.5 trillion in 2025, form the largest commercial highway in the world. Transatlantic affiliate sales in 2024, the last year of comparative data, were \$3.2 trillion higher than similar affiliate sales in the entire Asia-Pacific region, and dwarf other major commercial arteries between the U.S. and the rest of the world (Table 2).



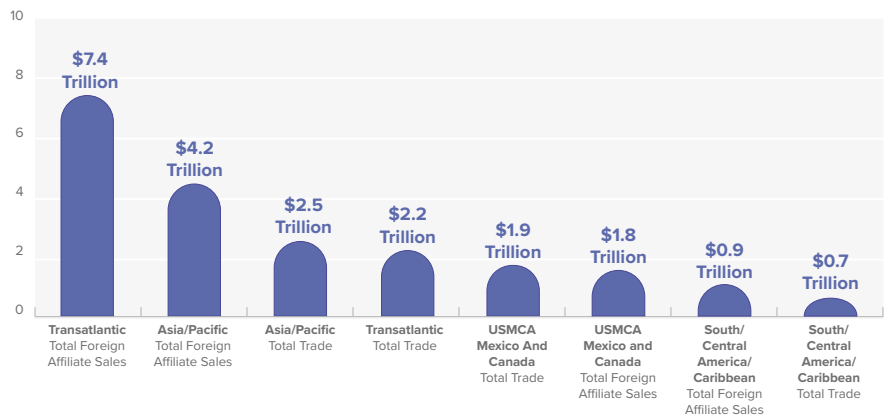
## ROBUST COMMERCIAL TIES IN 2025

The transatlantic economy hit all-time highs on multiple fronts in 2025 (Box 1).

Transatlantic trade flows were remarkably robust in 2025. U.S. goods and services trade with Europe broadly defined topped \$2.35 trillion in 2025, according to our estimates. That included \$1.46 trillion in goods trade and over \$895 billion in services trade. U.S. goods exports to Europe jumped 19% in 2025 to \$617 billion, while European exports to the U.S. rose 8.3%. The resulting U.S.

*The U.S. and the EU reached a framework agreement at the end of July that averted a full-blown transatlantic trade war.*

**TABLE 2.**  
America's Major Commercial Arteries



Foreign Affiliate Sales: Author's estimates for 2024. Total Trade: Data for goods & services, 2024. South/Central America and Caribbean does not include Mexico. Source: Bureau of Economic Analysis.

merchandise trade deficit with Europe of \$223 billion was 9% smaller than in 2024.

U.S.-EU trade in goods and services in 2025 totaled \$1.63 trillion, according to our estimates, resulting in a U.S. goods and services trade deficit with the EU in 2025 of \$150 billion, roughly the same as its deficit of \$148 billion in 2024.

One catalyst for U.S. exports was the U.S. dollar's near-12% decline against the euro, 7% drop against the British pound, and 12.7% fall versus the Swiss franc.

Dollar weakness is expected to be a key source of U.S. export strength again this year, together with increased U.S. energy and defense exports to Europe.

European exports to the United States, meanwhile, were supercharged by firms front-loading exports ahead of the imposition of U.S. trade levies. Swiss goods exports to the U.S. almost doubled to \$106 billion and Irish goods exports to the U.S. increased by about one-third over 2024 to \$134 billion as pharmaceutical companies rushed their products to the United States.



## BOX 1

### All-Time Highs in 2025

- U.S.-European trade in goods and services: \$2.35 trillion (est.)
- U.S.-European goods trade: \$1.46 trillion
- U.S.-EU goods trade: \$1.05 trillion
- EU goods exports to the U.S.: \$633 billion
- U.S. services exports to the EU: \$325 billion (est.)
- EU services exports to the U.S.: \$256 billion (est.)
- U.S. affiliate income in Europe: \$387 billion (est.)
- U.S. affiliate sales in Europe: \$4 trillion (est.)
- European affiliate sales in the U.S.: \$3.5 trillion (est.)
- U.S. share of Europe's LNG supplies: 60%
- Europe's share of U.S. LNG global exports: 66%

While goods trade has dominated the headlines, we estimate that U.S.-EU services trade quietly posted a 16% increase to \$581 billion in 2025, from \$501 billion in 2024. The U.S. exported an estimated \$325 billion in services to the EU while the EU exported \$256 billion to the U.S., generating a U.S. services trade surplus with the EU of \$69 billion. These figures underscore that the U.S. and the EU remain each other's most important services trading partners, even if their overall relationship is unsettled.



## CHOPPY WATERS

The transatlantic economy endured a remarkably tumultuous 2025, which saw the U.S. administration impose, walk back, and then in some cases reimpose sweeping tariffs on most European trading partners. In the first half of the year, the U.S. introduced several tariffs on European goods entering the United States. After Washington and London first established a new general trade framework in May, the U.S. and the EU reached a framework agreement at the end of July that averted a full-blown transatlantic trade war. Washington and Brussels agreed to zero tariffs for aircraft and related parts, generic pharmaceuticals and their ingredients and chemical precursors, and certain unavailable natural resources. The U.S. committed to apply a baseline 15% tariff on most EU products, including vehicles and semiconductors, and to consider other sectors and products for exclusion from the 15% rate. However, Washington did not exempt the EU from its 50% tariff on steel, aluminum, copper, and their derivative products.

*In the first nine months of last year, Europe accounted for 58.8% of total income earned by U.S. foreign affiliates around the world.*

For its part, the EU committed to eliminate tariffs on all U.S. industrial goods and to grant preferential access for a wide range of U.S. non-sensitive agricultural and seafood goods. It pledged to buy “at least” \$40 billion worth of U.S. artificial intelligence chips, to “substantially increase” procurement of military and defense equipment from the United States, to invest \$600 billion in the U.S., and to purchase up to \$750 billion worth of U.S. energy goods over the next three years. The agreement also provides a platform for cooperation on common priorities, such as cybersecurity, economic security, digital trade, supply chain resilience, and defense capabilities.

Despite these mutual accommodations, the U.S. administration has revised its list of steel and aluminum derivative products, which could subject additional EU products to the 50% tariff. The EU agreed to address some regulatory barriers to trade without offering specific resolutions.

Even though the July arrangement avoided a full-blown transatlantic trade war, U.S.-EU trade relations remain fluid. In February 2026 – the time of this writing – the U.S. Supreme Court ruled that the executive branch exceeded the powers given to it by Congress when it imposed “reciprocal” tariffs on other countries under the 1977 International Emergency Economic Powers Act

(IEEPA). The president immediately announced he would impose 10% blanket tariffs for 150 days under Section 122 of the 1974 U.S. Trade Act. A day later he said he would raise those tariffs to 15%. He also announced that he would order further investigations into unfair trade practices under Section 301 of the same act.

EU leaders were relieved by the Supreme Court's ruling but troubled that blanket 15% tariffs under Section 122 might stack on top of already existing levies, thus subjecting EU companies to higher surcharges than those agreed to by the U.S. and the EU in July 2025. A second concern is that Section 301 investigations might target EU agricultural subsidies, restrictions and taxes on U.S. digital companies, and value-added-tax exemptions to EU exporters. Moreover, the Court's decision did not stop the administration's national security tariffs, including its 50% tariff on U.S. imports of steel, aluminum, copper, and their derivative products from the EU. Given these uncertainties, the European Parliament pulled the emergency brake – it suspended the process for considering the tariff reduction commitments the European Commission made with the Trump administration last July. The Commission has also insisted that the administration clarify what it plans to do. Expect more turbulence ahead.



## TRANSATLANTIC FOREIGN DIRECT INVESTMENT FLOWS: MOUNTING SIGNS OF STRAIN

Uncertainty about U.S. trade and investment policies has made multinationals more cautious; transatlantic FDI flows were more volatile and unpredictable than in past years. At the same time, American companies have shifted toward more domestic investment due to policy changes (tax, regulation), supply chain disruptions (tariffs), geopolitics, labor costs, and energy shortages.

Against this backdrop, U.S. FDI outflows to Europe totaled \$75.5 billion in the first nine months of last year, down some 11% from the prior year. The decline, however, was largely due to the drop in U.S. investment in Ireland, and the falloff in pharmaceutical investment. U.S. FDI flows rose to such countries as the Netherlands and France but declined generally elsewhere.

Foreign direct investment flows from Europe to the U.S. rose by 17.5% in the first nine months of 2025, following a robust rise in inflows of 25% in 2024. European FDI flowed primarily to capital-intensive projects in renewable energy, data centers and AI infrastructure, pharmaceuticals and life sciences, and manufacturing (especially chemicals and machinery).<sup>3</sup> Leading investors by country included France, Germany, the Netherlands and the United Kingdom. European firms remain attracted to the United States for a variety of reasons, including the large and wealthy U.S. consumer market, a skilled labor force, and a technology-led ecosystem that attracts

high tech investment from around the world. That said, there is little doubt that more European investment in the U.S. has also been triggered by the threat of additional U.S. tariffs and attendant demands that foreign firms produce in the United States.



## TRANSATLANTIC FOREIGN AFFILIATE INCOME

The weak U.S. dollar emerged as a significant earnings tailwind for U.S. companies last year. U.S. foreign affiliate income earned in Europe rebounded sharply, with affiliates earning \$290.5 billion in the first nine months of the year, a 25% increase from the same period a year earlier. We estimate that U.S. affiliate income in Europe of \$387 billion in 2025 easily outpaced the previous record high of \$327 billion earned in 2023. In the first nine months of last year, Europe accounted for 58.8% of total income earned by U.S. foreign affiliates around the world.

The earnings of European firms operating in the United States were weighed down by a stronger euro, British pound and Swiss franc, and by higher U.S. tariffs on many European goods. European affiliate income in the U.S. dropped 3.9% in the first nine months of the year.



## A MAD SCRAMBLE: HOW COMPANIES ARE ADAPTING TO THE NEW ERA OF TURBULENCE

U.S. and European multinationals have deployed various tactics and strategies in response to the spike in tariffs and the attendant jump in business costs and squeeze on profits. Many firms have adopted multiple approaches – absorbing, for instance, some of the cost of tariffs themselves, while passing on some costs to end users or customers.

Other strategies include increased stockpiling; delaying shipments; accelerating import deliveries; reconfiguring logistics and supply chain connection points; renegotiating with suppliers to reduce input costs; and reengineering products to reduce content from materials subject to tariffs. In Europe, many U.S. firms are emphasizing their local roots. Longer-term, firms are diversifying their supply chains, postponing or canceling planned investments, or localizing production.

There has not been a “one-size-fits-all” strategy to adapt to the new transatlantic business climate, given that each company faces its unique set of risk factors. The scramble to adapt will continue over the foreseeable future.

*Economic growth on both sides of the pond is expected to be cyclically robust.*



## THE OUTLOOK FOR 2026: ACCELERATING GROWTH AMID NOISY HEADLINES

*In the first nine months of last year, Europe accounted for 58.8% of total income earned by U.S. foreign affiliates around the world.*

The transatlantic economy confronts several challenges this year, but economic growth on both sides of the pond is expected to be cyclically robust (Table 3). The U.S. economy is expected to expand by at least 2.5%, led by strong capital investment in AI and solid consumer spending among higher-income households. Despite the drag from U.S. tariffs and attendant uncertainties, the U.S. economy expanded by nearly 4% in real terms in the second quarter, by over 4% in the third quarter of 2025, and entered 2026 on solid economic footing. Other factors powering the U.S. economy include the fiscal stimulus from the One Big Beautiful Bill Act and easier monetary policies, following three rate cuts from the Federal Reserve in 2025.

The massive buildout of AI infrastructure – and the associated effects on jobs – is being carefully watched. Certain observers have also raised concerns that growth projections for AI may not

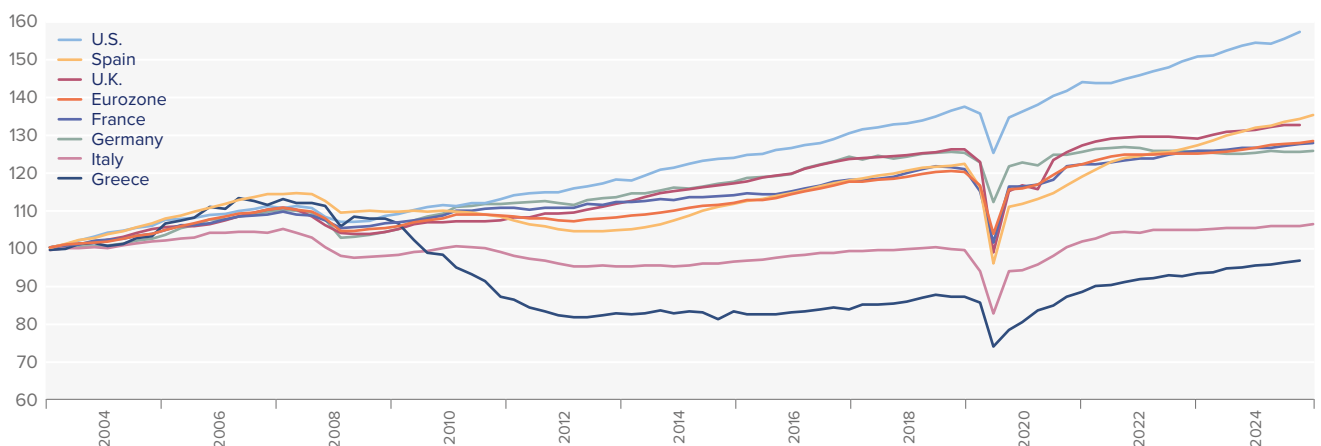
meet profit expectations, resulting in weaker economic growth, though it is premature to speculate on this point.

Another concern is the uneven effect of U.S. economic growth. The post-pandemic economy has been described as “K-shaped:” as growth has resumed, high-income households are thriving while lower-wage families are facing financial strain. Income inequality is the highest in 60 years.<sup>4</sup> This has generated an affordability crisis: the challenge of rising costs of essential goods and services on the one hand, juxtaposed against modest or stagnant real incomes on the other. While U.S. inflation has sharply declined since hitting a peak of 9.1% in June 2022, many price levels remain elevated: the cost of housing, food, energy, health care, and services are all higher than before the pandemic. Meanwhile, headline prices have risen by nearly 25% since the start of 2021, but

average weekly earnings have grown by less than 20%. The affordability squeeze has punished lower income households whose consumer spending is dominated by higher-cost categories like rent, electricity, food, transportation, and other necessities.

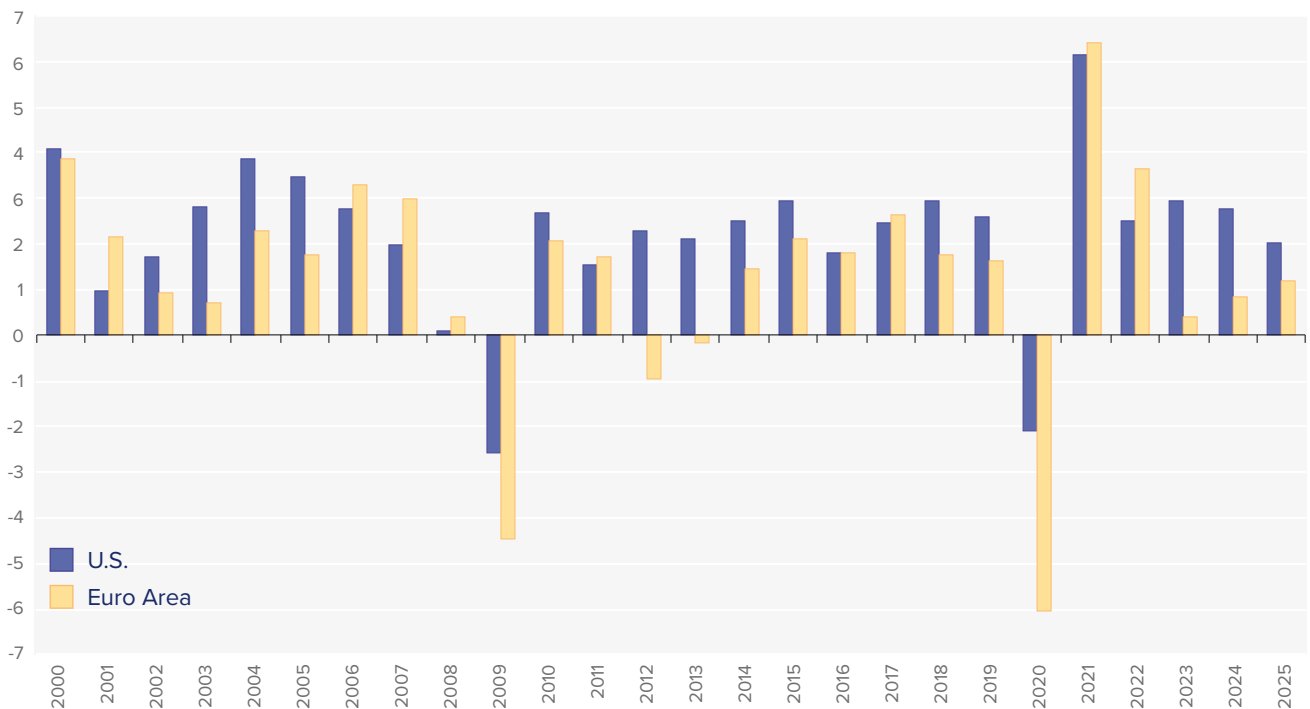
The economic outlook in Europe is mixed. Overall growth is expected to accelerate to around 1.2%, up from roughly 1% in 2025 and 2024. High performers include Poland, Lithuania and Estonia (expected 3.5% growth); Sweden and Ireland (2.8% growth); and Spain (2.5% growth). Fiscal expansion is supportive of 1% growth in Germany, Europe’s largest economy. France, Italy, and the UK confront tighter fiscal constraints. Greater levels of defense spending have helped reinvigorate industrial production, which picked up over the fourth quarter of last year.

**TABLE 3.** Growth Trajectories After the Pandemic (Real GDP level, Q1 2004 = 100)



Data through Q3 2025. Source: Haver Analytics.

**TABLE 4.**  
U.S. vs. Euro Area - Real GDP, Annual Percent Change



Data as of January 2026. Source: International Monetary Fund.

On the downside, Europe's trade sector remains vulnerable to soaring imports of Chinese goods and Beijing's mercantilist policies, which helped China generate a global merchandise trade surplus of \$1.2 trillion last year. The EU's merchandise trade deficit with China, which topped \$330 billion in 2024 (the second highest on record), soared by roughly 25% in the first nine months of 2025 to \$300 billion, in part because higher U.S. tariffs on Chinese products prompted Chinese companies to divert more trade toward Europe. European manufacturers are being squeezed by U.S. trade levies on the one hand and China's export onslaught on the other.

Europe also continues to confront structural impediments to growth, including an aging labor force, unsustainable fiscal positions, lagging industry productivity,

*European manufacturers are being squeezed by U.S. trade levies on the one hand and China's export onslaught on the other.*

problems with technological adoption and scaling, higher energy prices, regulatory differences between EU member states, and the absence of pan-European capital markets. The IMF estimates that the EU's high internal barriers are equivalent to a 45% tariff for manufacturing and 110% for services. Trade across Europe's "Single Market" is less than half of trade across U.S. states. Enrico Letta's report on completing the Single

Market and Mario Draghi's report on EU competitiveness, each released in 2024, touched on many of these factors, but only marginal progress has been made on Letta's proposals, and only 15% of Draghi's 383 recommendations had been adopted as of January 2026.<sup>5</sup>



## EXPLORING THE TRANSATLANTIC ECONOMY

In this year's survey we present ten metrics by which the transatlantic economy can be measured. Goods trade remains the standard benchmark of global commerce, but as we have long argued, there is a great deal more to cross-border linkages than exports and imports of goods, even if they are significant. These ten metrics include but go beyond trade flows to reveal why the transatlantic economy remains the most interconnected, robust, and resilient commercial artery in the world.

*The transatlantic economy remains the most interconnected, robust, and resilient commercial artery in the world.*

Against this backdrop, it is even more important today that policymakers look beyond trade and take notice of the deep and mutually beneficial linkages that bind the U.S. and Europe together. Understanding these variables is essential to comprehending the enduring strength and importance of the transatlantic partnership.



**SHARE OF DRAGHI REPORT RECOMMENDATIONS ADOPTED SO FAR**



## Notes

### STORMY SEAS: THE TRANSATLANTIC ECONOMY IN 2026:

- 1 Eshe Nelson, "The Leverage That Europe Has Over the U.S. Economy," *New York Times*, January 22, 2026, <https://www.nytimes.com/2026/01/22/business/europe-trade-trump-bonds.html>.
- 2 For more on job estimates, see the section entitled "Jobs" in this report.
- 3 See FDI Intelligence, "US Report 2025," <https://usreport2025.fdiintelligence.com/>; UNCTAD, "Global Investment Trends Monitor," January 2026, [https://unctad.org/system/files/official-document/diaeiainf2026d1\\_en.pdf](https://unctad.org/system/files/official-document/diaeiainf2026d1_en.pdf); Alexandra Tranmer, Dawn Hammond, "US Foreign Direct Investment (FDI) Trends Report: June-September 2025," Camoin Associates, December 9, 2025, <https://camoinassociates.com/resources/us-fdi-trends-report>.
- 4 Beth Ann Bovino, Matt Schoeppner, "The K-economy in 2026: Same story, new amplifiers," US Bank, January 7, 2026, <https://www.usbank.com/content/dam/usbank/en/documents/pdfs/corporate-and-commercial-banking/k-economy.pdf>.
- 5 European Policy Innovation Council, "The Draghi Observatory Implementation Index Update: Assessing EU Delivery of the Draghi Report," January 2026, [https://thinkepic.eu/wp-content/uploads/2026/02/DOII-Interim-Audit-Jan-2026\\_web.pdf](https://thinkepic.eu/wp-content/uploads/2026/02/DOII-Interim-Audit-Jan-2026_web.pdf).