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# What to watch: Closing the biodiversity financing gap, Europe on the rocks, making US drugs cheap again and Q1 earnings


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## In summary


**Is finance catching up with the biodiversity crisis?** The theme of this year's International Day for Biological Diversity is "Harmony with Nature and Sustainable Development," underscoring the urgent need to align economic policy with nature protection. Biodiversity loss poses a major economic risk, with global GDP projected to shrink by 2.3% by 2030 under a conservative scenario. In the US, Japan and the EU, around 10-13% of GDP is generated by sectors that are highly dependent on nature, while the share is over 30% for emerging countries like Indonesia and India. In 2023, global biodiversity finance reached USD208bn but a USD942bn annual funding gap remains. Meanwhile, USD2.68trn in harmful public subsidies continues to fuel ecosystem degradation, highlighting the urgency of aligning policy actions.

Europe on the rocks: new populist gravity in three elections. Elections in Romania, Poland and Portugal reflect the political fragmentation across Europe. In Romania, pro-EU Nicușor Dan won the presidency, stabilizing bond yields on expectations of fiscal consolidation and tackling the twin deficit of -9%. At the same time, ultranationalist George Simion's strong showing highlights widespread dissatisfaction. In Poland, centrist Rafał Trzaskowski faces a tight run-off against nationalist Karol Nawrocki, with the outcome crucial for EU reforms. In Portugal, the far-right Chega party's rise signals discontent, though fiscal health remains solid and well reflected in recent rating upgrade and low risk premium. Overall, financing risks have intensified and an urgent acceleration of NGEU spending should be a priority for all three governments.

US pharma: Make drugs cheap again. With Americans paying 2-4x more for prescription medicines than other advanced economies, President Trump has urged pharmaceutical companies to voluntarily cut drug prices by 30-80% within 30 days. If successful, this could impact global markets as US and European firms derive 58% and 45% of their revenue from the US. The top 20 pharma companies earned USD827bn last year, but a 50% price cut for Medicare and Medicaid patients would have reduced this to USD606bn, unsustainable for an industry that invests 15%-20% of revenue in R&D. Meanwhile, five major firms have pledged USD180bn in US investments, enhancing the sector's already strong negotiating power. Reliance on imports from China and India could still put the sector in the tariff spotlight, though this could disrupt local production and contradict efforts to reduce drug costs.

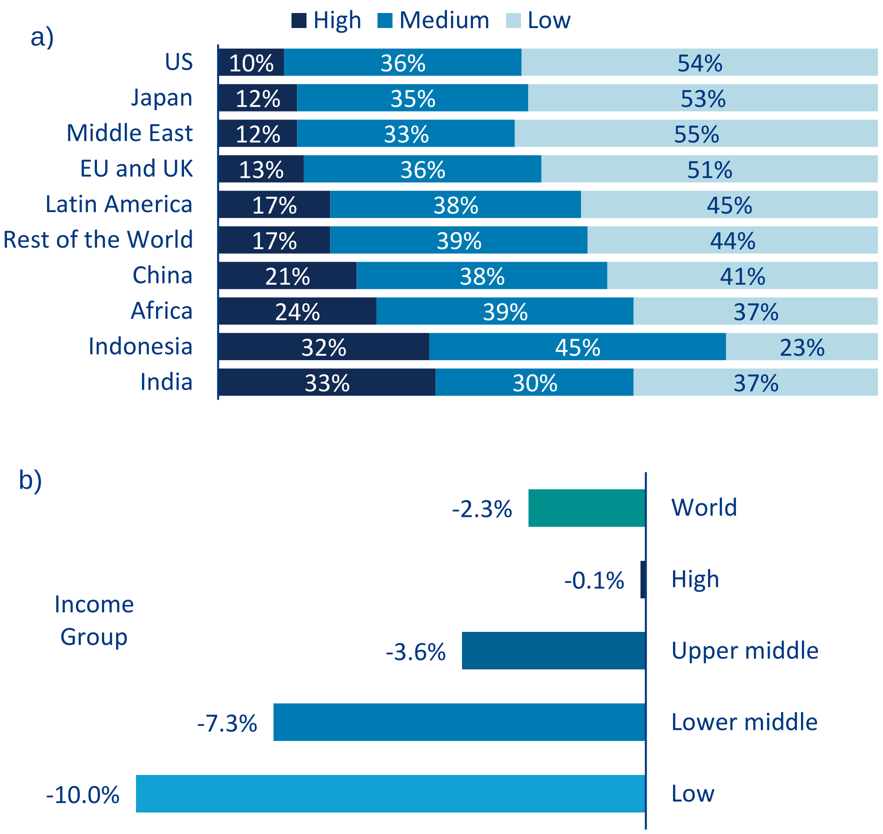
Q1 2025 earnings: Strong starts, cautious outlook. Despite macro and geopolitical challenges, US S&P 500 companies posted strong earnings, while Europe saw modest growth with cautious earnings revisions due to tariffs and currency headwinds. However, amid ongoing tariff turmoil, US companies now anticipate 2025 growth at +8.5%, down from 10.5% pre-"Liberation Day", while EU companies expect +1.9%, down from +5.8%. Financials, technology and infrastructure are outperforming, while consumer discretionary and energy lag. Despite headwinds, our macro-based EPS growth models confirm analysts' expectations of earnings resilience through 2025.

## Is finance catching up with the biodiversity crisis?

The stability and productivity of our economies are deeply rooted in nature, far more than we often acknowledge. Ecosystem services, such as clean water, fertile soil, pollination and climate regulation, underpin critical economic activities across sectors. The nature dependency indicator captures the extent to which a country's economy would be disrupted if these services were degraded or lost. In highly nature-dependent sectors like agriculture, this disruption could be severe. For instance, in regions facing rapid soil degradation, agriculture risks becoming a stranded sector. As shown in Figure 1a, even advanced economies are not exempt. In the US, Japan and the EU, around 10-13% of GDP is generated by sectors that are highly dependent on nature. The stakes are even higher for emerging economies like Indonesia and India, where over 30% of economic output is tied to nature-dependent sectors, reflecting the larger role of agriculture and primary industries.

This dependency has major economic implications. As biodiversity declines and ecosystem services deteriorate, economies face increasing risks of productivity losses, inflationary pressures and social disruption, especially in countries where resilience is low and adaptation capacity limited. The economic toll of biodiversity loss is not just theoretical. As illustrated in Figure 1b, even under a conservative scenario, the world could face a 2.3% contraction in GDP by 2030 due to the erosion of ecosystem services. However, low-income countries are projected to bear the heaviest burden, with losses reaching 10% of GDP, followed by lower-middle-income economies at 7.3% and upper-middle-income countries at 3.6%. In contrast, high-income countries would see a relatively negligible impact of just 0.1%.

Figure 1: Global economic exposure to nature loss: (a) distribution of nature dependency by economy, (b) projected GDP losses by 2030 due to biodiversity decline

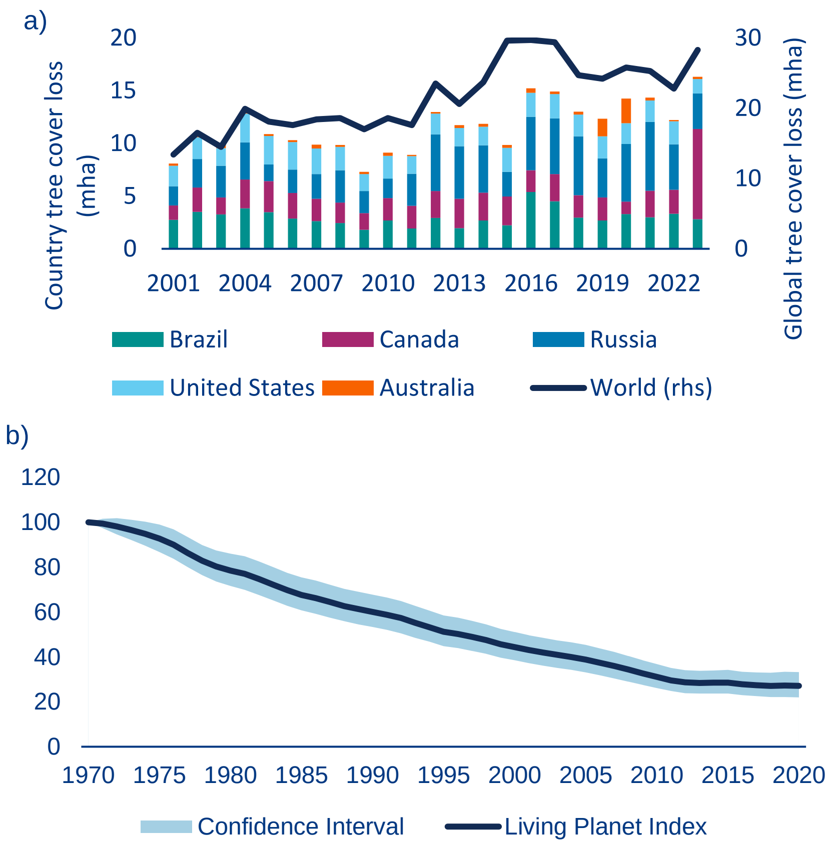



*Sources: World Economic Forum, World Bank, BloombergNEF, Allianz Research*

The Living Planet Index (LPI) shoes that global wildlife populations have dropped by an average of 73% between 1970 and 2020 (Figure 2a). This index, which currently monitors more than 35,000 populations representing over 5,500 species of mammals, birds, amphibians, reptiles and fish, offers one of the most comprehensive datasets available for assessing the state of global biodiversity. The latest data from the 2024 LPI indicate a nearly three-quarters reduction in monitored populations within just five decades, equating to an average annual decline of 2.6%. Importantly, this trend affects not only rare or endangered species, but also many common species that were previously considered stable. This alarming decline is not merely an environmental concern: it signals a fundamental weakening of the ecosystems upon which human well-being depends.

The degradation of biodiversity is closely linked to land-use change, particularly the expansion of agricultural land and deforestation, which are reshaping terrestrial ecosystems at an unprecedented scale. Global cropland has expanded significantly, increasing from approximately 0.9bn hectares in 1900 to over 1.6bn hectares in 2023. Similarly, grazing land has reached over 3.3bn hectares, although it has stabilized in recent years. This expansion has often occurred at the expense of natural habitats such as forests, wetlands and grasslands. Deforestation, particularly in tropical regions, has intensified in recent decades. Figure 2b shows that since 2001, global tree cover loss has accelerated sharply, peaking at nearly 30mn hectares in 2016. Countries such as Brazil, home to some of the planet's most biodiverse ecosystems, have experienced significant deforestation driven by the conversion of forests for soy cultivation, cattle ranching and other agricultural uses. Similar trends are observed in Canada and Russia, where industrial logging and increasingly frequent wildfires contribute to the degradation of carbon-dense forests. These losses diminish the planet's capacity to sequester carbon, regulate water cycles and sustain complex webs of life.

Figure 2: The critical state of global biodiversity: (a) historical evolution of tree cover loss, (b) historical evolution of the Life Planet Index (LPI)



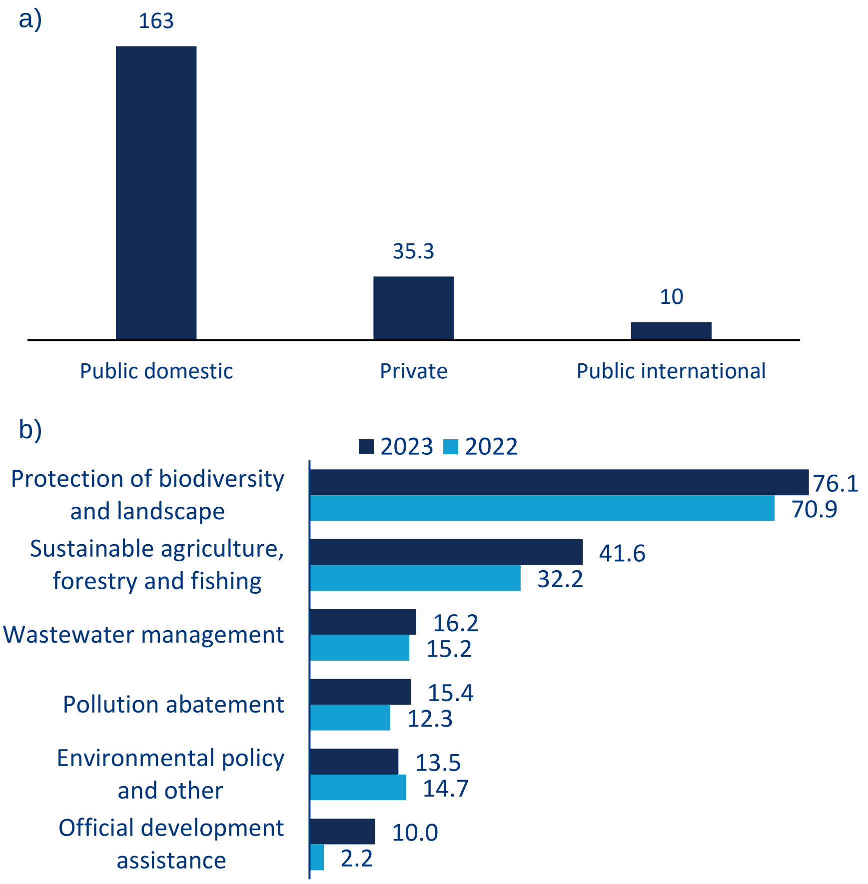

*Sources: Global Forest Watch, Our World in Data, Allianz Research*

Halting the rapid decline of biodiversity and restoring natural ecosystems will require an unprecedented scale of investment and policy alignment. The Kunming-Montreal Global Biodiversity Framework (GBF), adopted at COP15 in December 2022, represents a landmark global agreement to stop and reverse biodiversity loss by 2030. The framework outlines 23 action targets and four overarching goals, including the protection of 30% of the planet's land and oceans, the large-scale restoration of degraded ecosystems and the realignment of financial flows toward nature-positive outcomes. To achieve these ambitions, the GBF calls for at least USD200bn per year in biodiversity-related funding by 2030. It also emphasizes the urgent need to redirect or eliminate harmful subsidies, estimated at USD 500 billion annually, which currently contribute to ecosystem degradation.

In a promising development, global biodiversity finance reached USD208bn in 2023, slightly exceeding the annual funding target set under the GBF. As shown in Figure 3a, this progress was largely driven by public domestic spending, which accounted for USD163bn, representing nearly 80% of total funding. In contrast, private sector contributions remained relatively modest at USD35.3bn, while international public finance totaled just USD10bn, underscoring the continued need to scale cross-border support, especially for developing countries.

The allocation of public biodiversity finance (Figure 3b) reveals a strong emphasis on land-based solutions. Nearly USD76.1bn (46%) was directed toward the protection of biodiversity and landscapes, while an additional USD41.6bn (25%) supported sustainable agriculture, forestry and fishing. This reflects growing recognition of the critical role land use plays in halting biodiversity loss and restoring ecosystems. Other key areas of spending included wastewater management (USD16.2bn), pollution abatement (USD15.4bn) and environmental policy and planning (USD13.5bn).

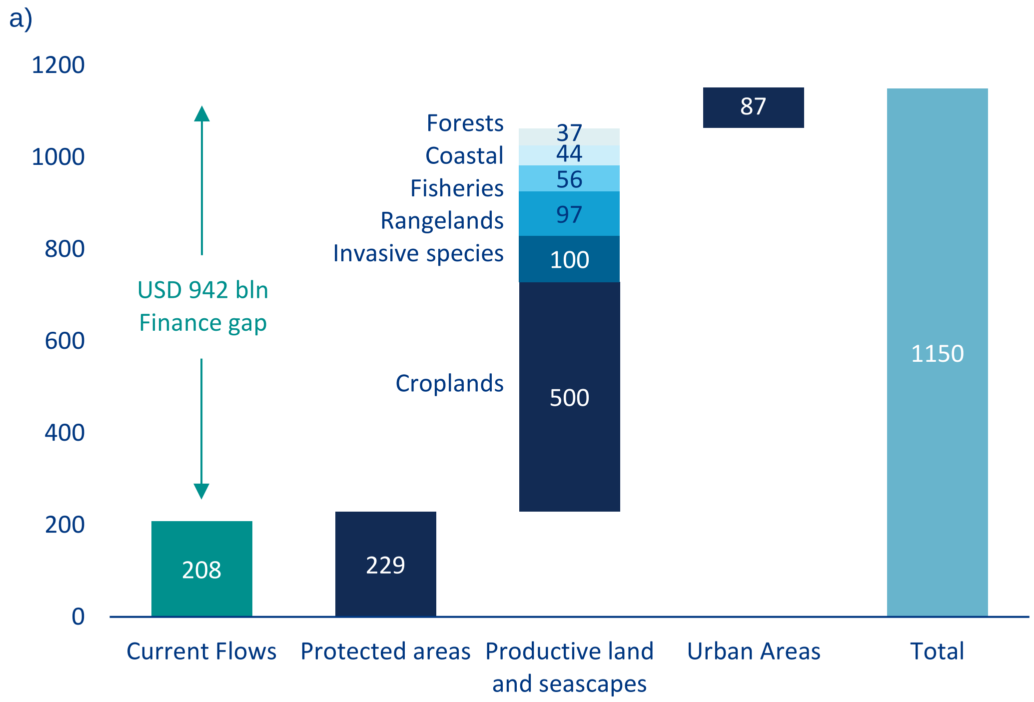
Figure 3: Biodiversity finance in 2023: (a) total funding mobilized (USD, bn); (b) distribution of public biodiversity financing (USD, bn)

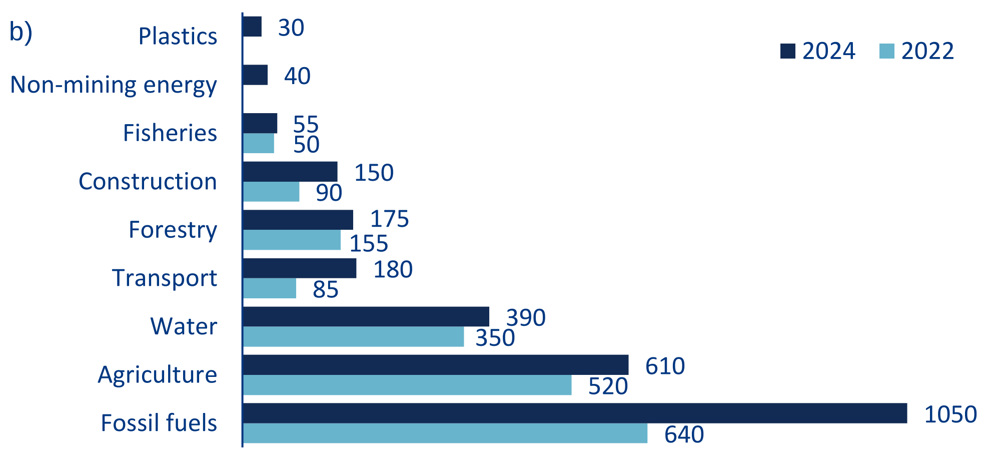



*Sources: UNEP, BloombergNEF, Allianz Research*

While surpassing the global target is a notable achievement, the total biodiversity financing gap still stands at USD942bn, and is compounded by the persistence of environmentally harmful subsidies. There are significant shortfalls in areas critical for ecosystem integrity such as protected areas, which face a gap of USD229bn, undermining efforts to preserve existing biodiversity hotspots. Compounding this funding shortfall is the persistence of environmentally harmful subsidies. As shown in Figure 4b, an estimated USD2.68trn in public subsidies continues to support activities that degrade ecosystems, including subsidies for fossil fuels (USD1.05trn), agriculture (USD610bn) and water-intensive sectors (USD390bn). In several sectors, such as fossil fuels and agriculture, harmful subsidies have significantly increased compared to 2022 levels, further widening the disconnect between biodiversity ambitions and financial flows. Redirecting even a fraction of these subsidies toward biodiversity-positive investments could significantly narrow the finance gap and accelerate progress toward nature restoration. As it stands, the global economy is financing biodiversity loss at a much greater scale than biodiversity protection, a pattern that must urgently be reversed to safeguard ecosystem resilience and future prosperity.

Figure 4: Transition gap: (a) Biodiversity finance gap (USD, bln); (b) Biodiversity harmful subsidies (USD, bln)



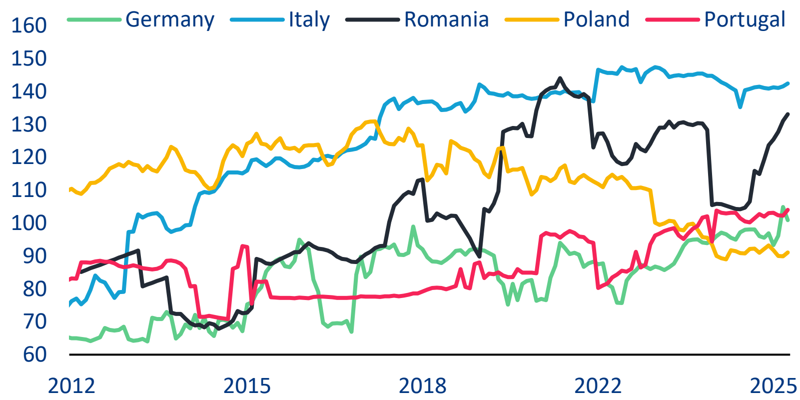




*Sources: UNEP, BloombergNEF, Allianz Research*

## Europe on the rocks: new populist gravity in three elections

Recent elections in Romania, Poland and Portugal reflect a broader trend: the growing strength of right-wing populism and anti-establishment sentiment across Europe. While European leaders expressed relief at the victory of pro-EU centrist Nicușor Dan in Romania's presidential race (53.6% of the vote against ultranationalist George Simion with 46.4%), the narrow margin and Simion's strong result signal deep discontent. Simion's AUR party, founded just five years ago, is now the second-largest in Romania's parliament and could gain further support amid looming austerity to bring the ballooning fiscal deficit under control. Dan, though now independent, was once a founder of the reformist USR party and rose to prominence as mayor of Bucharest. His win came after Romania's traditional parties performed dismally in the first round, securing only 20% combined – a striking sign of voter rejection of the political establishment. Meanwhile, in Portugal, the far-right Chega party, which barely registered any votes six years ago, surged in Sunday's parliamentary elections and may finish second once overseas votes are counted on 28 May. Chega's rise has pushed Portugal's socialists towards their worst result since 1987, while right-of-center parties now hold two-thirds of the seats. Both in Romania and Portugal, rising polarization – and to a lesser extent, growing political fragmentation – have pushed up our Political Fragility Index (Figure 5). In contrast, Poland has seen a notable decline in political fragility in recent years, largely driven by reduced political alienation. However, with the second-round presidential election approaching, the outlook remains uncertain. In Poland, centrist Rafał Trzaskowski (31.4%) faces a tight run-off on 1 June against nationalist Karol Nawrocki (29.5%) amid a fragmented political field where far-right candidates together secured more than half of votes (Sławomir Mentzen (14.8%) and Grzegorz Braun (6%)). Although the fork in the road for Poland is not quite as stark as it was for Romania with its twin deficit, but the outcome next month will still be hugely consequential for Poland's stance towards the EU. If Nawrocki wins, it could derail Prime Minister Donald Tusk's pro-EU reforms. Across all three countries, the message is clear: while centrists are still holding ground, right-wing populism is gaining speed – and voters are demanding change.

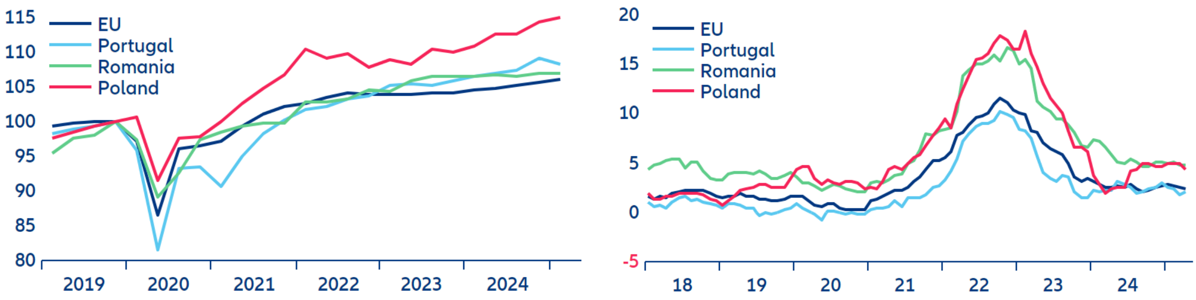
Figure 5: Political Fragility Index




*Sources: national polls, Wikipedia, EiQCC, Allianz Research. Note: The index is constructed by three components, fragmentation (share of 2 largest traditional parties, number of parties >10%), polarization (share of far-right, far-left parties and populist parties, based on EiQCC from Cambridge University), and alienation (share of non-voters at latest elections, possibility and impact of referenda.*

Each of the three countries shows distinct economic and political trends, with varying implications for growth and inflation. The election of Nicușor Dan, a pro-EU reformer who has focused on fiscal consolidation, is expected to enhance government stability and investor confidence in Romania. However, this remains to be proven. Romania's GDP grew by +0.6% q/q in Q1 2025 (Figure 6, left), rebounding from just +0.1% in Q4 2024 and signaling a stabilization in industrial activity. Nevertheless, the outlook is cautious, with full-year growth projected at +1.6% in 2025, up from +0.8% in 2024 and +2.3% in 2026. Despite EU-funded investment and resilient private consumption, political uncertainty surrounding the formation of a new government coalition could delay reforms. Inflation remains a challenge, with prices still rising by +4.9% in April 2025 (Figure 6, right). In Poland, GDP growth slowed to +0.7% in Q1 2025, down from +1.4% in Q4, but this figure still surpassed expectations. The country is expected to grow by +2.8% in 2025 and +2.9% in 2026, driven by its substantial domestic market and EU funding. Inflation decreased to +4.3% in April 2025, down -0.7pp from October 2024. This prompted the National Bank of Poland to cut its policy rate by 50bps in May 2025, the first such cut since October 2023. However, political risks persist as the upcoming presidential run-off on 1 June could either support continued reforms or destabilize the government. In Portugal, the economy contracted by -0.5% q/q in Q1 2025, likely correcting the strong +1.4% boost in Q4 2024 when private consumption surged due to temporary factors. This increase in household disposable income was driven by changes to the personal income tax system (with a retroactive effect from the beginning of 2024) and the exceptional pension supplement paid in October 2024. Despite this temporary setback, output remains 16% above pre-pandemic levels, with Portugal continuing to outpace the Eurozone. However, the Q1 reading poses downside risks to the 2025 growth forecast of +1.9%. Nevertheless, the outlook remains favorable. Although Portugal's disinflation is broadly on track, the cost-of-living crisis has dominated the very short electoral campaign. Prices grew by +2.1% y/y in April from the seven-month low of +1.9% in March, driven up by services prices. Yet, we expect inflation to average +1.9% this year.

Figure 6: GDP (2019=100, left) and headline inflation (%, y/y, right)

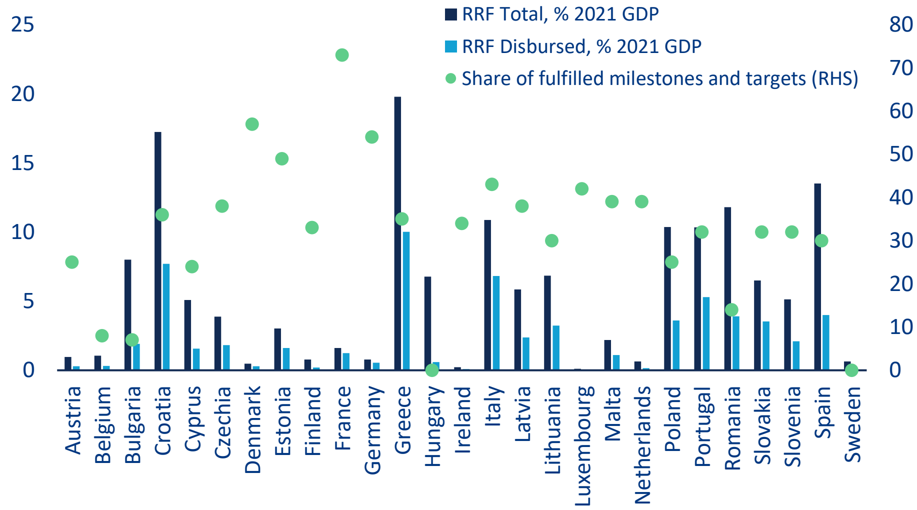



*Sources: LSEG Workspace, Allianz Research*

Pressure on public finances is mounting. Each country faces different fiscal challenges, shaped by its political landscape and economic conditions. The situation in Romania is the most severe, with a projected budget deficit of -8.7% of GDP in 2024 and public debt expected to exceed the Maastricht threshold of 60% by 2027. The country has large twin deficits, with fiscal and current account balances approaching -9% of GDP, making it heavily reliant on capital inflows. Recent fiscal slippages have been driven by inflation-linked spending and underwhelming EU fund disbursements. Under the EU's Excessive Deficit Procedure, Romania must reduce its deficit to below -3% by 2031. Near-term policy uncertainty and the lack of a clear fiscal plan risk further slippage, but the Dan victory offers a pathway to stability and renewed fiscal discipline. While in a stronger position, Poland also faces fiscal consolidation pressures. Its 2024 budget deficit is seen at -5.3% of GDP, which is less severe than Romania's deficit but still significant. However, it is expected to improve and reach -3% by 2028 due to fiscal consolidation. But political uncertainty ahead of the presidential run-off adds risk as the incumbent president has blocked judicial reforms that are critical to unfreezing EU funds. A victory for the pro-EU candidate Trzaskowski would remove this obstacle and pave the way for a credible fiscal strategy, particularly by ensuring full access to NGEU funds. In contrast, Portugal stands out for its fiscal resilience and recent improvements. Despite political fragmentation, the center-right coalition's victory signals policy continuity. The country posted a budget surplus in 2023 and its debt-to-GDP ratio has fallen by over 40pps from its 2021 peak of 95.6%, with further declines expected. However, increasing government defense spending from the current 1.55% of GDP to NATO's 2% target by 2029 will slow the downward trend in debt.

Financing risks have clearly intensified so an urgent acceleration of NGEU spending should be a priority for all three governments. Portugal, Romania and Poland are major beneficiaries of the EU's Next Generation EU (NGEU) instrument and are set to receive funds equivalent to around 10% of their GDP across the disbursement period (2021-2026). However, they all have a slow rate of GDP absorption (Figure 7). Access to the NGEU funds is critical for Poland to support its long-term investment plans, particularly in infrastructure and the green transition. A pro-EU government committed to judicial and governance reforms could finally unlock the full disbursement of these grants, much of which has been frozen due to concerns about the rule of law. Continued alignment with EU priorities would not only bolster investor confidence but also allow Poland to capitalize fully on the transformative potential of NGEU funds. In Romania, slow progress in implementing its Recovery and Resilience Plan (RRP) is compounding these challenges. The country has absorbed only 33% of the funds and has met just 14% of required milestones and targets as persistent political division and lengthy electoral processes have hindered reform efforts. Without accelerated reforms, future EU disbursements are at risk, raising the possibility that the government will have to self-finance or cancel key projects. This would hinder medium-term growth and exacerbate Romania's external vulnerabilities, particularly given its substantial current account deficit. Furthermore, the National Bank of Romania's recent decision to keep its policy rate unchanged at 6.5% for the fifth consecutive meeting, despite inflationary pressures and fiscal uncertainty, limits the government's ability to ease domestic funding conditions. Finally, the Portuguese government has already highlighted the challenges of meeting deadlines and achieving the required milestones, which could result in the country failing to maximize the benefits of receiving its full share of allocated loans (so far, Portugal has received 50% out of the EUR5.9bn allocated).

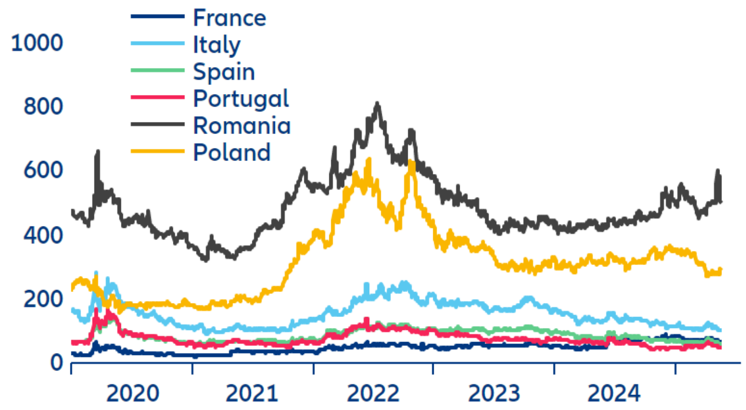
Figure 7: Recovery and Resilience Facility allocated funds, % of 2021 GDP and % for milestones and targets




*Sources: European Commission, NGEU Tracker, Allianz Research*

Financial markets have reacted sensibly to the elections. Financial markets reacted sharply to the first round of Romania's presidential elections, with 10-year bond yields spiking by 100bp to 8.5%, while the leu is up by 3% against the euro, reaching a record low of 5.12/EUR. Amid capital outflows and external financing challenges, the central bank intervened to support the currency. Although bond yields have reacted positively with a drop to 7.6% following Nicușor Dan's pro-EU victory, the leu is still up around 1.5% against the euro. Markets expect further stabilization if a new government restores fiscal discipline. By contrast, Poland's financial markets are strong and are among the best-performing emerging market stock markets this year, driven by resilient economic performance, limited exposure to global trade tensions, comparatively high defense spending and an expected boost from the German fiscal package. Around three-quarters of Poland's trade is conducted within the EU, making it attractive to foreign investors. However, investor sentiment now hinges on the 1 June presidential run-off. A Trzaskowski victory could enable continued reforms, while a loss could risks renewed political instability. A different picture emerges for Portugal: just two weeks before the government collapsed in March 2025, S&P upgraded Portugal's credit rating to A from A-, citing improvements in the country's external financial position and accelerated public debt reduction. Since then, the market's reaction has been muted, with no signs of significant idiosyncratic risk, and Portugal's government's risk premium has remained below French spreads (Figure 8).

Figure 8: 10y government bond spreads over German Bund

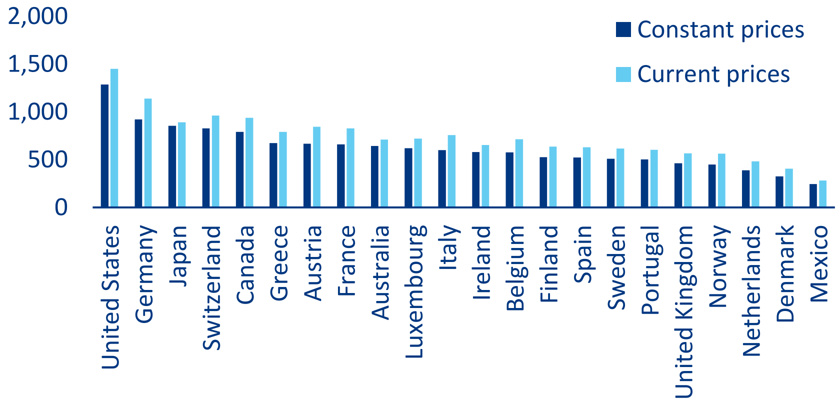



*Sources: LSEG Workspace, Allianz Research*

## US pharma: Make drugs cheap again!

Pharmaceutical spending per capita in the US has surged by over +54% in the past decade, making the sector a prime target of the Trump administration's renewed efforts to rein in drug prices. While the pharmaceuticals sector is not yet in the crosshairs of the trade war, President Trump signed a new executive order on 12 May, compelling pharmaceutical companies to reduce drug prices by 30-80% within 30 days. The announcement echoes the Most Favored Nation policy[1] by calling for pharmaceutical companies to bring US prices to levels comparable to those of other advanced economies. Those that do not make significant progress towards these goals within six months could face further actions, though details were not provided. The US certainly tops the global ranking when it comes to the price of drugs and health care. Figure 9 shows that Americans' expenditure on prescription medicines is twice the amount paid by other OECD nations on average. And for chronic conditions such as diabetes, autoimmune diseases, hepatitis C, high cholesterol and parasitic infections, the price gaps could be between four and ten times wider (4-10x). Bringing down drug prices was already on the agenda in President Trump's first term, but much of the efforts failed to materialize fully due to strong industry pushback and legal obstacles, and the Biden administration subsequently revoked several pending initiatives.

Figure 9: Pharmaceutical spending in selected nations (USD per capita)



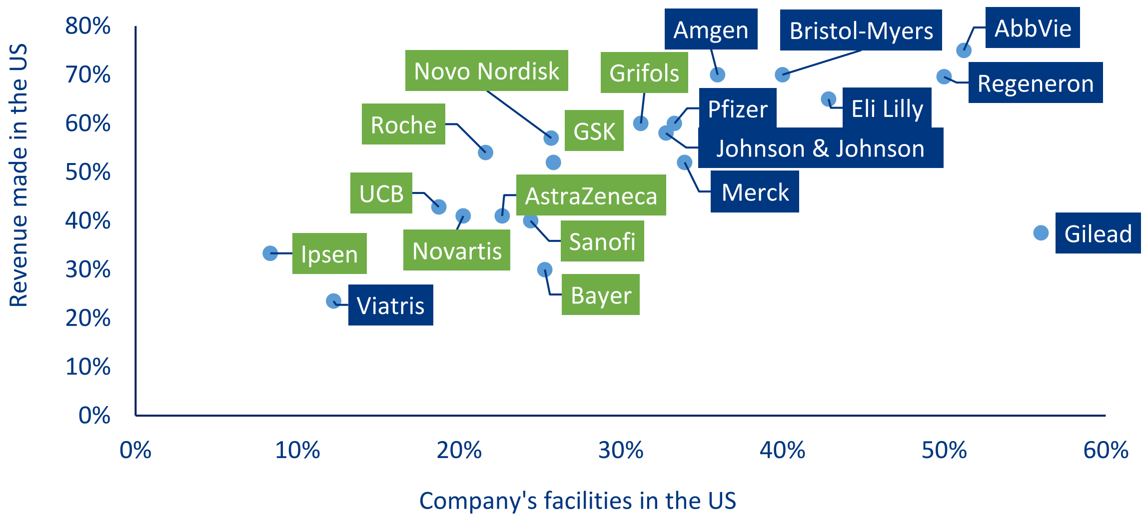

*Source: OECD, Allianz Research*

**If Trump's** new plan succeeds, it will have a global impact. The world's 20 largest pharmaceutical companies derive 52% of their revenue on average from the US, with approximately 41% of their customer base based there (see Figure 10). When disaggregated geographically, leading US-based pharmaceutical firms generate 58% of their

[1] *MFN: the Most Favored Nation principle ensures that a country grants another the same trade advantage, such as low tariffs or high import quotas, that it offers to any other nation, promoting non-discriminatory trade.*

revenue domestically, compared to 45% for their European counterparts, underscoring the potential for significant spillover effects across the Atlantic. By segment, the impacts could also be widespread. While the largest price discrepancies are found in branded drugs (suggesting these medications could suffer the steepest price cuts), generic drug companies have less buffer to absorb a price cut and could therefore see their margins being squeezed much further due to their already less-profitable business model focused on price-intense competition. While the EBITDA margin of pharmaceuticals in the branded segment ranges between 30%-35%, it typically moves around 10%-15% for sellers of generic drugs. In total, the top 20 pharmaceutical companies made USD827bn in revenues in 2024 (+9% y/y), of which USD442bn was generated in the US. If drug prices had been -50% lower, 2024 revenues would have been -20% lower at USD606bn. This is quite the hit for an industry that allocates 15-20% of revenues to finance the research and development spending that is crucial for patent protection and consequently pricing power. However, the executive order seems to be targeting only drug prices for patients enrolled in Medicare and Medicaid, which in 2024 totaled around 140mn Americans (41% of the US population), limiting the financial damage on the sector.

Figure 10: Big Pharma revenue and production exposure to the US




*Sources: Bloomberg, Company filings, Allianz Research. Note: Navy box = American firms, green box = European.*

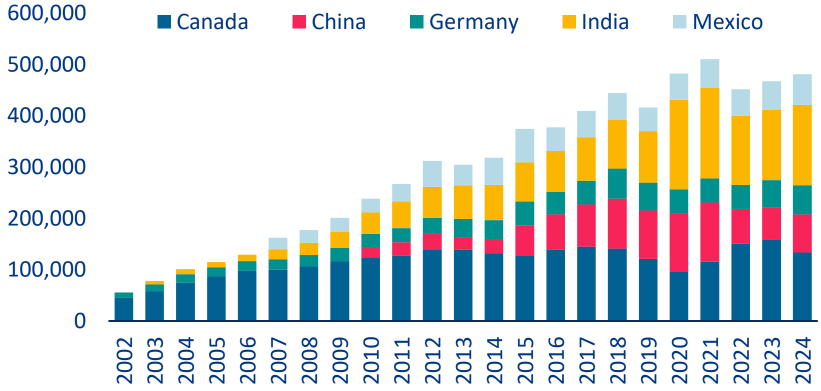
Meanwhile, large companies have recently announced massive investments in the US. Galvanized by President Trump's call to invest more in the US, pharmaceutical firms have announced sizable investments over the next five years to boost local manufacturing and research, including Eli Lilly (USD27bn), Johnson & Johnson (USD55bn), Roche (USD50bn), Novartis (USD23bn) and Sanofi (USD20bn). Figure 10 shows that most of these companies already have around 31% of their production facilities in the US, on average. Though these investments may seem risky amid the economic and political uncertainty (and possible tariff surprises), they actually reinforce the already-strong bargaining power of the sector. Indeed, the combination of its immense financial resources, its central role in the US economy and health care system and its ability to influence legislation through extensive political donations makes the pharma lobby strong enough to push back against the current administration's policies.

Beyond the role of pharmaceutical companies, **the US's** high drug prices are also the result of a complex healthcare system, alongside a web of structural factors. Unlike European nations, the US lacks a centralized system for negotiating drug prices, leaving the government with limited leverage to push back against pharmaceutical companies. This is why increasing drug prices in Europe to compensate for price drops in the US is not so feasible for companies. Also, the fragmented American healthcare system, largely reliant on private insurers and selective government programs, often shifts costs onto patients, exposing them to high out-of-pocket expenses. Additionally, while the European Medicines Agency (EMA) factors cost-effectiveness into its drug approval processes, the US Food and Drug Administration (FDA) focuses solely on safety and efficacy, without addressing pricing. Finally, US patent laws tend to favor longer exclusivity periods for companies, delaying the entry of lower-cost generics, whereas European regulations more quickly enable competition that helps drive prices down. Put together, these factors make reducing drug prices in the US both politically and structurally complex.

One piece in the price-cuts puzzle is key: the middlemen[2]. President Trump's executive order also targeted Pharmacy Benefit Managers (PBMs), also known as the middlemen. These are intermediaries in the US healthcare system who negotiate prices and rebates with drug manufacturers, decide which drugs are covered (formularies) and reimburse pharmacies. While they were originally intended to lower drug costs and improve efficiency, PBMs are now heavily criticized for lacking transparency and potentially driving up prices. Critics – including the Trump administration – argue they often keep a large share of manufacturer rebates instead of passing savings to patients, and their decisions can even limit access to certain medications. As a result, the next concrete decisions that the administration takes about the role of the PBMs could be critical to achieving a decrease in prices.

Tariffs on the pharmaceutical sector cannot be ruled out. The US has become increasingly dependent on drug imports, particularly generics drugs and some APIs[3], given high local production costs. As seen in Figure 11, the top five nations from which the US imports drugs and biologics represent 45% of the global share, with India (14%), Canada (12%) and China (7%) topping the list. India is a major supplier of generic drugs, while China produces critical ingredients for many pharmaceuticals. Figure 12 shows that the US imports approximately 95% of its ibuprofen and 91% of hydrocortisone from China, the first used for reducing pain, the second for inflammation and suppressing the immune system. This huge reliance stems from China's dominance in producing APIs but it creates vulnerabilities to risks such as supply-chain disruptions and potential quality control issues. While the pharmaceutical sector has been excluded from the trade war for now, this could change in the future. Yet, tariffs impacting the pharma sector would not only disrupt local production considerably but also contradict President Trump's goal of making drugs cheap again.

Figure 11: Total drugs and biologics US imports from top five import lines by year

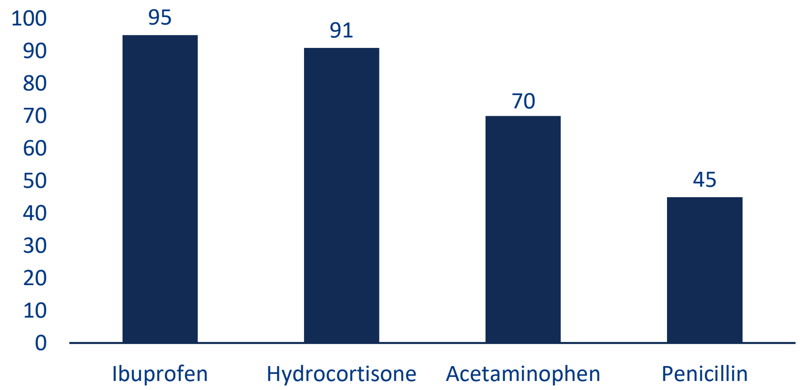



*Sources: US Food and Drug Administration (FDA), Allianz Research*

[2] *The middlemen or PBMs are entities initially created to reduce costs and streamline access to prescription drugs by using their scale to negotiate better prices. PBMs emerged in the 1960s and 1970s, but in the 1990s and 2000s, PBMs gained more power as drug costs rose, and their ability to negotiate rebates became central to managing spending.*

[3] *API: Active Pharmaceutical Ingredients, the core components of a drug that produce the intended therapeutic effect. They are the biologically active part of a medication, distinguishing it from other substances like fillers, binders or excipients.*

Figure 12: Share (%) of pharmaceutical drug imports that come from China

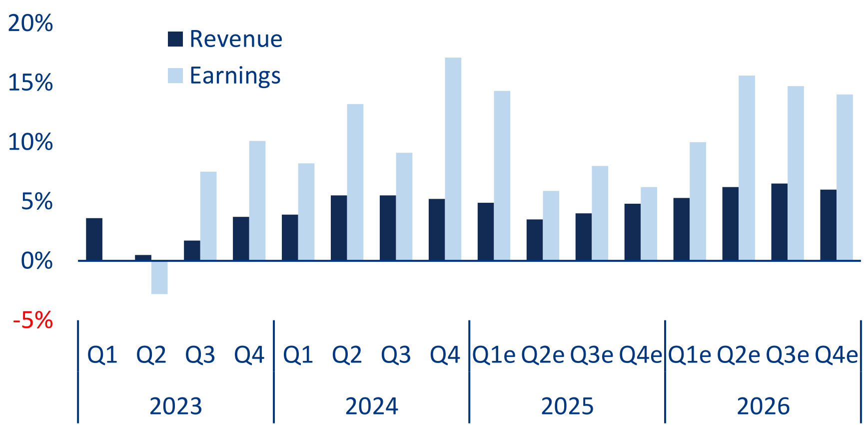



*Sources: Apollo, Allianz Research*

## Q1 2025 earnings: Strong starts, cautious outlook

In the US, the Q1 2025 earnings season has been relatively strong, with a large majority of S&P 500 companies beating earnings growth estimates. Around 90% of listed companies have released their Q1 financial results. Overall in the US, earnings growth looks solid and marks the second consecutive quarter of double-digit y/y% growth. In addition, the level of earnings surprises – where actual profits surpass forecasts – remains above historical norms, indicating that companies have generally managed to outperform conservative estimates despite lingering economic uncertainties. Revenue growth has also been consistent, maintaining an uninterrupted streak of quarterly increases, although at a more moderate pace compared to earnings. This divergence between stronger earnings growth and steadier revenue gains suggests that companies are effectively managing costs and improving operational efficiencies. Furthermore, the market reaction to earnings releases this quarter has been notably favorable: firms reporting positive surprises have seen a larger-than-average uplift in their stock prices, while those missing estimates faced relatively milder declines than seen historically. Overall, these aggregate results highlight a corporate landscape that continues to show resilience and adaptability in the face of ongoing economic and geopolitical challenges but also highlights more selectivity within the equity universe (Figure 13).

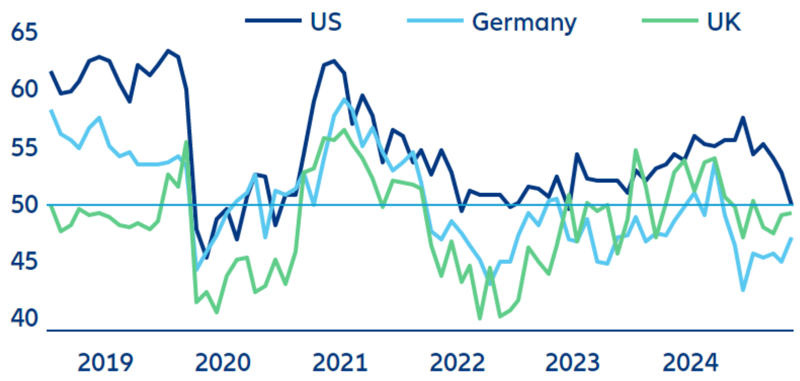
Figure 13: S&P 500 realized and expected earnings/revenues yearly growth rates




*Sources: LSEG, Allianz Research*

Macroeconomic uncertainty continues to weigh heavily on corporate outlooks, with tariff policies and trade uncertainties dominating earnings calls to an unprecedented degree. More companies have cited tariffs as a risk factor than ever before, reflecting widespread concerns about ongoing trade tensions and their potential to disrupt supply chains and increase costs. This elevated focus on tariffs is closely linked to a broader sense of uncertainty permeating corporate discussions. The number of companies referencing "uncertainty" has surged well above historical averages, signaling that firms remain cautious amid unpredictable policy and economic shifts. Inflationary pressures, while moderating somewhat, still pose challenges for input costs and pricing strategies, further complicating the operating environment. Additionally, mentions of recession risks have notably increased compared to recent quarters, with a significant number of firms expressing concerns about slowing economic growth and its potential impact on demand and investment. This caution is particularly pronounced in sectors like financials, industrials and real estate, which tend to be more sensitive to economic cycles. Despite this cautious tone, companies are striving to navigate these headwinds by focusing on cost control, operational efficiency and selective investment. Overall, this mix of elevated tariff worries, persistent uncertainty and recession concerns creates a nuanced backdrop where businesses remain vigilant but not uniformly pessimistic, highlighting the complexity and fragility of the current economic landscape both from a supply and demand perspective (Figure 14).

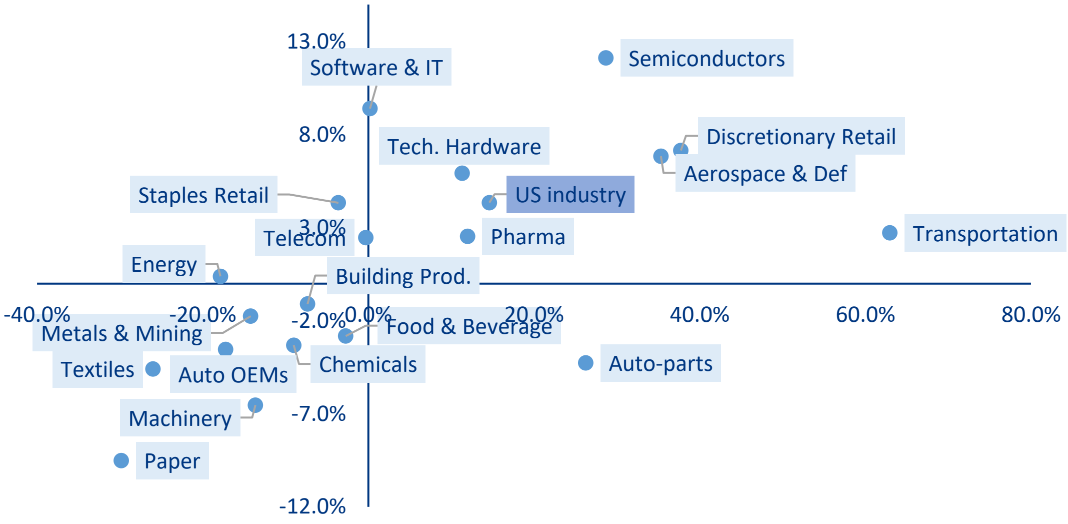
Figure 14: LSEG consumer confidence indices (50 = neutral)




*Sources: LSEG Datastream, Allianz Research*

US corporates remain strong despite uncertainties, with revenues growing +4.4% on average and earnings by +14.6%. Sector-wise performance across the country showed a wide range of outcomes. Tech-linked sectors such as semiconductors and software led the revenue growth with y/y increases of +12% and +9.4% respectively, powered by surging demand for AI, cloud computing, and the digital infrastructure fueling the next tech revolution. In terms of earnings, multiple sectors recorded double-digit increases, including transportation, defense, pharma, auto-parts, tech hardware, semiconductors and discretionary retail, driven by major companies outperforming expectations. Meanwhile, paper (-29%), textiles (-26%) and energy (-18%) faced significant challenges recording the sharpest earnings declines, largely due to overall lower demand and lower oil prices. Overall, these results highlight a market where innovation-driven and defensive sectors outperformed, while commodity-linked and materials sectors struggled (Figure 15).

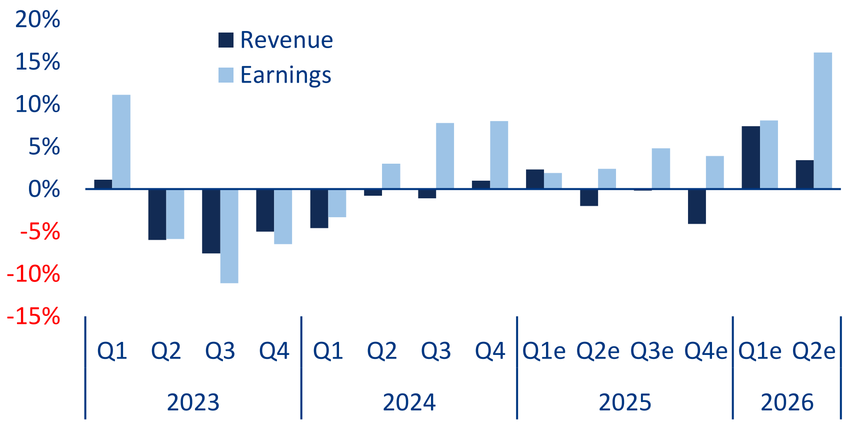
Figure 15: US corporates results in Q1, X axis = earnings growth (y/y), Y axis = revenue growth (y/y)




*Sources: LSEG, Allianz Research*

Meanwhile, the European earnings season has seen a majority of companies exceed expectations on earnings and sales, with about 75% of the market capitalization having reported. In this regard, +2.3% and +1.9% yearly growth for revenues and earnings are expected for this quarter, signaling the second consecutive quarter of positive revenue growth. Despite these positive surprises, the overall pace of earnings revisions remains cautious, with a notable negative skew to consensus earnings downgrades following the results, although this has improved slightly compared to previous quarters. Across management commentary, a prevailing "wait and see" approach reflects uncertainty amid ongoing tariff disputes and geopolitical tensions. Many companies are delaying investment decisions as they monitor evolving trade negotiations, which is weighing on consumer confidence and business spending. Additionally, currency headwinds from a strengthening euro are creating challenges for earnings generated outside Europe. While there is cautious optimism, concerns about inflation, foreign exchange volatility and the broader economic environment are contributing to heightened uncertainty (Figure 16).

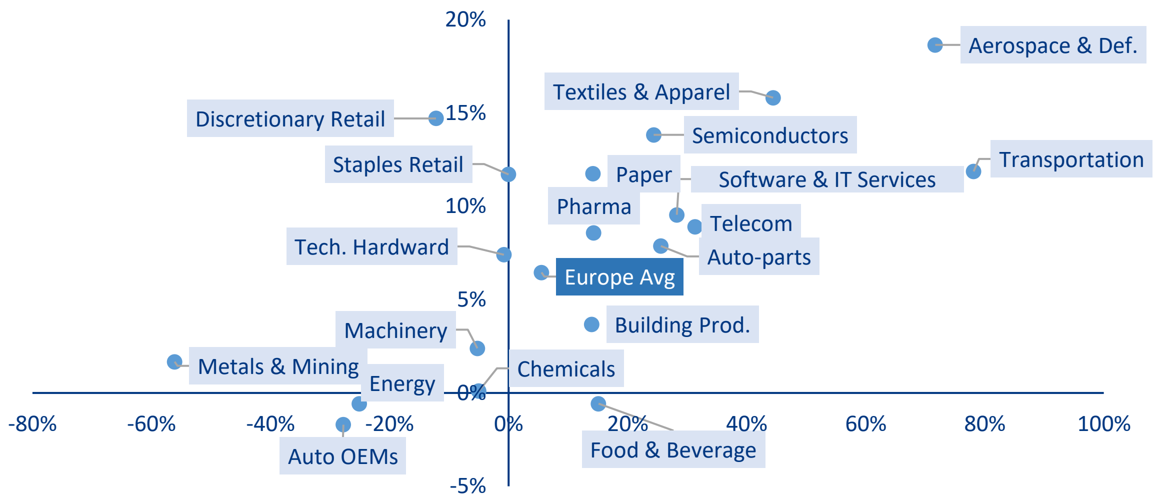
Figure 16: Stoxx 600 realized and expected earnings/revenues yearly growth rates




*Sources: LSEG, Allianz Research*

Results for European corporates confirm the worst is already behind, with revenues growing for the second consecutive quarter (+6.5% in Q1), after being subdued for over six quarters in a row. Europe's defense revival is confirmed with companies in the sector recording the highest revenue growth (+18.6%) thanks to skyrocketing demand. Other sectors posting double-digit revenue growth this quarter were textiles and apparel (+15.8%), buoyed by a rebound in the luxury segment compared to Q1 2024; semiconductors (+13.8%), transportation (+11.9%), supported by rising airline fares (see Figure 17). In terms of earnings, Metals & Mining faced the biggest drop (-56.1% y/y), followed by auto OEMs (-27.7%), and energy (-25.1%), all impacted by still weakened prices. Retail also recorded a weak quarter, reflecting ongoing consumer challenges in the region. Overall, these sector trends reflect a cautious optimism amid geopolitical and macroeconomic uncertainties, with companies adapting to a very changing trade and currency landscape.

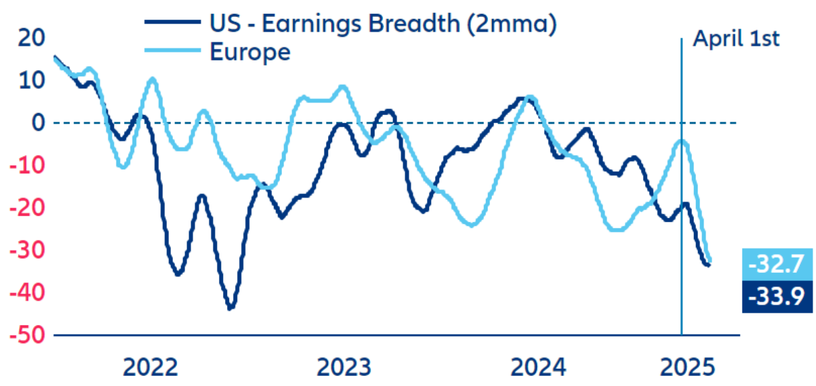
Figure 17: European corporates results in Q1, X axis = earnings growth (y/y), Y axis = revenue growth (y/y)




*Sources: LSEG, Allianz Research*

Looking ahead, the ongoing tariff turmoil has ushered in significant downward revisions for 2025 earnings across the US and Europe, unseen in the past three years. The net downward revision affects roughly one-third of companies, translating into a tempered 2025 earnings expectation: the US now anticipates growth at +8.5%, down from 10.5% pre-"Liberation Day", marking a 1.5% deviation from the average earnings season. Notably, the Magnificent 7 have mitigated the negative impact, preventing an additional 3% decline. Meanwhile, the EU's 2025 earnings expectation has adjusted to +1.9% from +5.8%. Sector-specific analyses reveal that consumer discretionary, materials and industrials have borne the brunt of these tariff-related revisions due to their direct exposure to trade barriers. However, bright spots emerge in the financials and IT sectors, which show resilience in the face of economic challenges. The steady outlook for financials suggests confidence in analysts' economic forecasts, as banks typically reserve for potential loan defaults early in economic downturns. Additionally, IT continues to demonstrate its role as a global growth driver. Encouragingly, the earnings breadth likely found a bottom, and barring any repeat of "Liberation Day" disruptions in the summer, the 2025 earnings outlook may remain intact (Figure 18).

Figure 18: Earnings revisions breadth (2m – moving average)

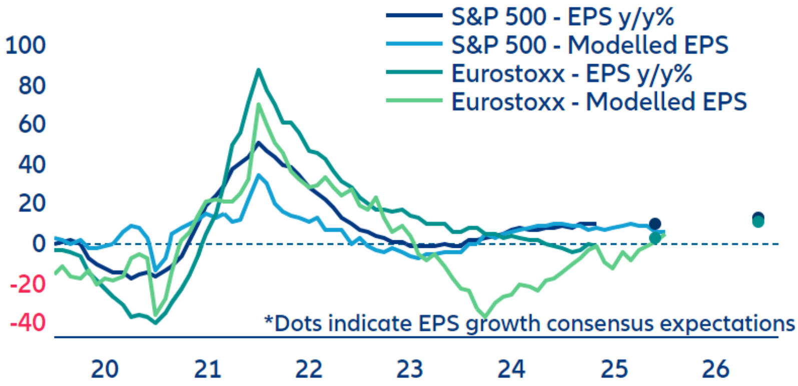



*Sources: LSEG, Allianz Research*

*Earnings breadth: # of earnings revised up - # of earnings revised down / total # of revisions*

Overall, the outlook for both US and European markets remains cautiously optimistic amid ongoing macroeconomic and geopolitical challenges. While analysts have tempered their earnings growth expectations for 2025 – particularly in Europe – the overall picture still points to resilience, supported by pockets of strength in key sectors such as infrastructure, technology and financials. Our macro-based EPS growth models reinforce this positive view, aligning with consensus forecasts and confirming that corporate earnings are well-positioned to navigate the uncertainties ahead (Figure 19).

Figure 19: Macro-based EPS growth expectations (yearly growth)




*Sources: LSEG, Allianz Research*

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

## FORWARD-LOOKING STATEMENTS

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