The Short-Term Impact of Donald Trump's 2025 Tariff Announcements on Major Global Stock Indices

Lappeenranta-Lahti University of Technology LUT

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Aaro Turjanmäki

Examiner: Post-doctoral researcher Jaan-Pauli Kimpimäki

ABSTRACT

Lappeenranta–Lahti University of Technology LUT

LUT Business School

Business Administration

Aaro Turjanmäki

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This thesis studies the short-term stock market impact of President Donald Trump's 2025 U.S. tariff announcements and compares the results to the previous 2018-2019 U.S.-China trade war. The analysis is conducted using an event study, which focuses on large-cap indices from the United States, the European Union, and China combined together. The Capital Asset Pricing Model is used to calculate the expected returns, after which abnormal returns are calculated around selected event dates. The results are presented with the average abnormal returns and cumulative average abnormal returns.

The findings show a clear negative short-term effect. Statistically significant results appear in the days before and after the announcements, but the event day itself shows insignificant returns. The full event window also shows a highly significant negative return. This indicates a persistent reaction across the period instead of a single-day adjustment. The comparison between 2018-2019 and 2025 shows that the overall reaction of the markets is similar, but the timing of the reaction has changed slightly. The markets reacted negatively to both events, but in 2025, the reaction appears mainly outside of the center of the event window. Overall, the results suggest that tariff announcements still have an influence on the equity markets, because of the heightened uncertainty they create, and that the timing of market adjustment is different when compared to previous announcements.

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Tässä tutkielmassa tarkastellaan presidentti Donald Trumpin vuoden 2025 tullijulistusten lyhyen aikavälin vaikutuksia osakemarkkinoihin ja verrataan tuloksia vuosina 2018–2019 tapahtuneen Yhdysvaltojen ja Kiinan väliseen kauppasotaan. Analyysissä käytetään tapahtumatutkimusta ja siinä käytetään Yhdysvaltojen, Euroopan unionin ja Kiinan suurimpia osakeindeksejä, joita tarkastellaan yhdistettynä kokonaisuutena. Odotetut tuotot lasketaan pääomien hinnoittelumallin avulla, jonka jälkeen epänormaalit tuotot estimoidaan valittujen tapahtumapäivien ympäriltä. Tulokset esitetään keskimääräisinä epänormaaleina tuottoina sekä kumulatiivisina keskimääräisinä epänormaaleina tuottoina.

Tuloksista selviää, että julistukset aiheuttavat selvän negatiivisen lyhyen aikavälin vaikutuksen. Tilastollisesti merkitseviä tuloksia esiintyy tapahtumaa edeltävinä ja seuraavina päivinä, mutta itse tapahtumapäivän tuotot eivät ole tilastollisesti merkitseviä. Myös koko tapahtumaikkuna tuottaa erittäin selvän ja merkitsevän negatiivisen tuoton. Tämä viittaa siihen, että markkinareaktio on pysyvämpi ja jakautuu usealle päivälle yhden päivän sijaan. Vertailusta vuosien 2018–2019 ja vuoden 2025 välillä selviää, että markkinoiden kokonaisreaktio on samankaltainen, mutta reaktio tapahtuu eri aikaan. Molemmissa tapauksissa reaktion on negatiivinen, mutta vuoden 2025 reaktio painottuu itse tapahtumapäivän ulkopuolelle. Kokonaisuudessa tulokset viittaavat siihen, että tullijulistukset vaikuttavat edelleen osakemarkkinoihin niiden aiheuttaman epävarmuuden kautta, ja että vuonna 2025 markkinoiden reaktion ajoitus eroaa verrattuna vuosiin 2018–2019.

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DECLARATIONS

Turnitin

The originality of this thesis has been reviewed with the Turnitin similarity checking service.

AI usage

The author of the thesis, Aaro Turjanmäki, used the following AI tools during the preparation of the thesis:

1. AI tool ChatGPT 5.1
    a. Purpose of use: To check for writing mistakes and to form the structure of the thesis.
    b. Explanation of the use of the tool: The AI tool was used to form a clear structure of the thesis. It was also used as a support in the writing process and overall language.

Responsibility

The author, Aaro Turjanmäki, takes full responsibility for the content of this thesis and has reviewed and edited the content generated by the possible use of AI tools.

1 Introduction

In the world of global financial markets, international trade and trade policy have a major impact on investor expectations. One of the most influential and controversial tools of trade policy are tariffs. They are meant to even out trade imbalances and to protect domestic industries. On the other hand, they often create unwanted uncertainty about supply chains, trade relationships, and prices. This uncertainty can have a substantial impact on stock prices and may even cause spikes in volatility.

A new focus on protectionist economic policies emerged when Donald Trump was re-elected as the President of the United States in 2024. The announcement of new, high tariffs on products imported from key US trading partners was one of the most controversial policy decisions of his new term. Similar measures were also made in his first term during 2018-2019 however, the economic environment and size of the 2025 tariffs are very different from those introduced during his first term. Central banks have tightened monetary policy, geopolitical uncertainty has increased, and global markets are still recovering from the COVID-19 pandemic and the high inflation environment of 2022. These developments make financial markets increasingly sensitive to politically driven economic decisions (Obenpong Kwabi et al., 2024).

This thesis makes a new contribution to the existing literature. It analyzes the short-term effects of the 2025 US tariff announcements on stock markets using an event study approach. The economies analyzed in this study are the United States, the European Union and China. The analysis uses large-cap indices to examine the reactions of the largest companies in each region. Importantly, it examines whether the reactions in 2025 differ from the reactions in 2018-2019. This helps to assess how market behavior has evolved over time. The purpose of this study is to provide empirical evidence on how stock markets deal with protectionist trade policies in the current economic climate.

1.1 Previous research and research questions

Previous research has shown that markets are highly affected by the changing political environment and new trade policies. The effects are even stronger when the new trade policies lead to a rise in economic uncertainty. The widely analyzed 2018-2019 trade conflict between the US and China provides evidence for this. Egger and Zhu (2020) conducted an event study during this period, in which they analyzed the effect of tariff announcements on the stock market. Their findings show that the announcements caused substantial negative abnormal returns in the markets of both countries. The results highlight that financial markets tend to react quickly and strongly to new trade policies and protectionist news. Furthermore, the increased uncertainty accelerates the reaction even further.

Suleman (2012) also found that political announcements often trigger strong reactions in stock markets, and that the effect becomes stronger when the news comes as a surprise. He found that the markets often overreact to the unexpected political news in the short term. This leads to a temporary rise in volatility before prices stabilize. Tariffs typically fall into this category, because they are politically driven and not always anticipated by investors.

Investor reactions do not depend only on the direct economic effects of tariffs. The wider sense of uncertainty that they often create also matters. Obenpong Kwabi et al. (2024) argue that political and economic uncertainty increases market volatility, and the effect becomes stronger during global instability. Global tariff announcements often lead to a rise in global instability, because they can lead to disruptions in trade relations and companies' earnings.

Recent global data support these findings. Kaczmarek et al. (2025) examined the stock market's reactions to the 2025 "Liberation Day" tariff announcements. The "Liberation Day" refers to the 2nd of April 2025, when Trump announced tariffs on over 180 countries (Economics Observatory, 2025). Their study was conducted with the event study methodology. They found that the announcement led to strong short-term declines in stock markets in 67 countries.

Building on these previous findings, the following main research question is proposed:

Do the early 2025 tariff announcements by President Trump lead to abnormal returns in the United States, the European Union, and China's stock markets in the short term?

This question builds on the previous event study literature. Particularly the works of Egger and Zhu (2020), Kaczmarek et al. (2025) and Frímannsson (2019), which demonstrate the importance of political announcements regarding trade policy as drivers of abnormal market returns.

A sub-question is also included to widen the analysis:

Do these market reactions differ from the 2018–2019 US–China trade war?

This question builds on the work of Frímannsson (2019). He found that the impact of trade conflicts may be different depending on geopolitical context, policy communication and market expectations. Understanding whether current reactions are weaker, stronger or similar provides insight into how markets have evolved in their sensitivity to recurring policy tools like tariffs.

1.2 Delimitations

This study has a couple of important limitations that need to be taken into account. The focus is on three major economies and is based on indices including only large companies. This means that smaller companies are not included in the analysis. Differences between industries are also not taken into account. The results cannot therefore be generalized for the whole market.

The method used in the study is a traditional event study, where returns are calculated on a daily basis. Intraday price movements are not included in the analysis. The same applies to longer price movements after the event. Some of the event window overlap, because a few of the tariff announcements were too close to each other. The overlapping announcements were removed from the data, but they still might affect the results.

Another limitation is that the market indices used in this study share many of the same companies as the analyzed indices. This means that the indices are correlated with each other. To reduce the correlation a regression-based adjustment is used to control the impact of the largest companies in the market indices. With the regression some of the correlation is accounted for, but it is likely that there still is a small bias.

1.3 Research Structure

The structure of this thesis is built around five main chapters. The first chapter is the introduction. It includes the previous research, research questions, purpose of the study and delimitations of the study. The second chapter is the theoretical framework. The first half of this chapter deals with traditional finance and the other half with behavioral finance. The third chapter details the methodologies and data used in the study. The fourth chapter shows the results of the study. The fifth chapter introduces the conclusions and discussion.

2 Theoretical Framework

The theoretical background of this study is introduced in this chapter. The theoretical framework is used to help explain the possible reasons for the reactions to the tariff announcements. This chapter introduces the traditional and behavioral finance theories, that are used as a basis for the analysis. The traditional finance theories used in this study are the Capital Asset Pricing Model (CAPM) and the Efficient Market Hypothesis (EMH). The main assumption of traditional finance is that investors act rationally and that markets are efficient. Behavioral finance theories suggest that in reality, markets are not always efficient and that humans can act irrationally. They suggest that temporary irrational pricing can occur in the markets. The main behavioral theories of this study are policy uncertainty, prospect theory and investor behavior. These theories are used to help explain the reactions to the tariff announcements.

2.1 Efficient Market Hypothesis

The Efficient Market Hypothesis is a key theory in traditional finance. It states that financial markets are efficient and that prices fully reflect all available information. This implies that financial markets quickly adapt to new information, suggesting that it is impossible for investors to overperform the markets consistently (Fama, 1970). The EMH views prices as

indicators of known information, which are driven by the actions of rational investors who constantly process new available information.

Fama (1970) divided the EMH into three classifications: weak, semi-strong and strong. The forms each represent a different degree of informational efficiency. The semi-strong form is the most relevant for this study, because it assumes that all available information is quickly incorporated into asset prices. If markets are efficient new information, such as tariff announcements, should be incorporated into the prices quickly. In efficient markets, the announcements should not create any persistent abnormal returns. This assumption is used when calculating expected returns with the CAPM later in this study.

Also, Fama (1970) states that asset prices are signals that reflect the information and expectations that investors have. This means that market participants make decisions based on what is known at the time, rather than on speculation. The speed and accuracy of this adjustment rely on how quickly the new information spreads and how quickly the market participants react to it. However, during periods of high uncertainty, for example tariff announcements, the effects of the new information can be harder to interpret. In conclusion, the EMH is used to assess whether the markets incorporated the announcements quickly or whether there were short-term inefficiencies.

Although the EMH is a very influential and well-known theory in financial economics, several studies have shown that perfect efficiency is rarely true. For example, Malkiel (2003) argues that markets are somewhat efficient, but that they are often affected by short-term anomalies led by speculation and emotions. As a result, information can reach the market quickly, but investors can still interpret and react to it differently.

2.2 Capital Asset Pricing Model

The Capital Asset Pricing Model is one of the best-known theoretical models in finance. It uses the idea that the more risk you take the higher the expected return should be. The main focus of the model is on market risk, which cannot be eliminated by diversification. Sharpe (1964) proposed the CAPM to explain why investors demand compensation for bearing risk. According to the CAPM, the expected return of a security is made up by the general development of the market, the beta coefficient and the market risk premium. The model is

based on the assumption that investors are rational and that markets are efficient, where prices reflect available information. For this reason, the CAPM is naturally linked to the efficient market hypothesis, which was discussed in the previous chapter.

In this thesis, the CAPM is used to calculate the expected returns for each index and the expected returns are compared to the actual returns to find abnormal returns. The abnormal returns show how investors react to the announcements and whether the reaction differs from returns in normal conditions. With the CAPM, the normal market movements can be separated from the changes in market movements that the events produce

Given the widespread use of the CAPM, it has also received criticism. The criticism is mostly directed towards the assumption that markets are always efficient. For example, Fama and French (2004) argue that the beta does not fully capture all of the risk that have an effect on the securities returns. Lo (2004) similarly suggests that the model is not fully accurate, because it does not take into account the changing market conditions and differences in investor behavior. Even though these critiques show that the model is not always realistic, it is still suitable for this thesis because it provides an effective way of calculating the expected returns.

2.3 Behavioral Finance and Investor Psychology

Behavioral finance differs from traditional finance in that it also takes into account emotions, which influence investors' decision-making. Traditional financial theories assume that prices reflect all available information and that investors process information rationally. According to evidence, this assumption is not always true. When investors are faced with new political crises and events, such as tariff announcements, emotions can cause them to overreact or underreact to the new information. This is why the behavioral perspective is appropriate for this thesis, as it helps to explain why markets may momentarily overreact to political events that increase uncertainty.

The prospect theory introduced by Kahneman and Tversky (1979) challenges the assumption that markets and investors make rational decisions. They show that investors often compare their gains and losses to their past performance, meaning that investors tend to react to losses more strongly than gains. This is called loss aversion. When viewed from the context of

tariff announcements, investors are likely to focus on losses resulting from the announcements rather than long-term gains. This causes increased downward pressure on stocks. Prospect theory also includes the concept of probability weighting, which explains how investors often overestimate the probability of unlikely events and underestimate the probability of likely events. This concept can be helpful in explaining the market reactions to the tariff announcements, because they make future economic conditions appear uncertain.

Lo (2004) added to this discussion with the Adaptive Market Hypothesis. It combines investor behavior with the idea that market efficiency evolves over time. According to Lo (2004), investors learn from previous experiences, and they tend to get used to the changing economic environment over time. The recurrence of the tariffs is what makes this theory relevant for this study. According to the Adaptive Market Hypothesis, the recurrence means that investors may have learned from previous experiences and therefore have a different response to these events the second time.

To add to this, Dar and Kumar (2023) show that investors often rely on their intuition and emotions rather than analyzing the situation objectively. During political or economic instability, future outcomes may seem uncertain, and therefore this type of behavior increases. This shows that the way investors process uncertainty can affect the market more than just objective information.

The theories of Kahneman and Tversky (1979), Lo (2004), and Dar and Kumar (2023) can all help explain why tariff announcements might generate short-term volatility and lead to abnormal returns. They also help to explain the possible differences in the stock markets' reactions to the tariff announcements made in 2018-2019 and 2025.

2.4 Policy Uncertainty

Tariff announcements raise political and economic uncertainty, which affects financial markets. Sudden policy changes, such as new US import tariffs, make it harder for investors to assess future regulations, trade flows and firms’ earnings, which often shows up immediately as wider price movements. Bloom (2009) showed that sharp increases in

policy-related uncertainty act like shocks to both the real economy and asset markets, because firms and investors tend to postpone decisions when they cannot clearly assess the changes in the direction of the policy. This delay in decision-making reduces trading activity for a moment and increases short-term volatility, which is precisely the kind of market environment in which event studies observe abnormal returns.

Suleman (2012) found evidence that political news typically triggers short-lived but visible fluctuations in stock prices. More importantly, negative surprises seem to generate more market response than positive surprises, which is connected to the loss aversion aspect discussed in the behavioral finance section. Tariff announcements are largely perceived to be negative, founded on presumed expectations that they will increase costs, limit trading relationships, or heighten geopolitical friction, leading investors to reposition their portfolios defensively.

Later research has tried to measure this mechanism more systematically. Baker, Bloom and Davis (2013) introduced the Economic Policy Uncertainty (EPU) Index to capture how changes in the policy environment translate into real and financial outcomes. They showed that high readings of policy-related uncertainty are connected with lower investment activity, weaker market liquidity, and more prominent price swings. Pastor and Veronesi (2013) reached a similar conclusion from an asset pricing perspective by arguing that when future policy is unclear, investors require a higher risk premium to hold risky assets. This links political decisions directly to stock prices, because even if the economic effects of a tariff are not yet known, the possibility of adverse outcomes is already priced in.

In this study, policy uncertainty literature provides a bridge between the traditional view of markets adjusting to new information and the behavioral view of investors reacting to ambiguous political signals. The 2025 U.S. tariff announcements represent policy events that were public and relevant to the financial markets, but whose long-term economic consequences were not immediately clear. Under such conditions, even efficient markets can display short-term abnormal returns, which justifies the use of an event study to measure how strongly each market absorbed the news.

3 Data and Methodology

This chapter introduces the data and the main tools used in the analysis. The analysis uses daily stock price, T-bill and Euribor data collected for each market from Investing.com and Suomenpankki.fi. The event dates are taken from the New York Times tariff timeline. After introducing the data and event timeline, the event study methodology and estimations with CAPM are showcased.

3.1 Data

The indices used in the analysis are the S&P 500 for the US, the EURO STOXX 50 for the EU and the CSI 300 for China. These indices represent the largest companies from each region. The market index benchmarks for the CAPM calculations are the Wilshire 5000 for the US, the STOXX Europe 600 for the EU and the Shanghai Composite for China. For the risk-free rates, the 1-Month T-bill is used for the US, 1-Month Euribor for the EU, and 1-Month SHIBOR for China. All of these rates were converted to daily rates for the calculations.

The early 2025 event dates taken from the New York Times tariff timeline include the key tariff announcements impacting the US, EU and China (The New York Times, 2025). In this study, the key announcements are ones that applied to the entire economy they were directed at. For example, announcements regarding solely steel or aluminum were excluded. The 13th of March announcement is the only exception. This is because of the severity of the tariff imposed, as it was a tariff of 200% on EUs wine, champagne and alcohol (CNBC, 2025). The event dates are limited to announcements between February and April, because they were the most impactful announcements. The event dates are displayed in Figure 1. Some of the important event dates were removed from the analysis due to them overlapping with other dates. Also, some of the announcements were marked as having no impact when the tariff was not directed at the specific market.

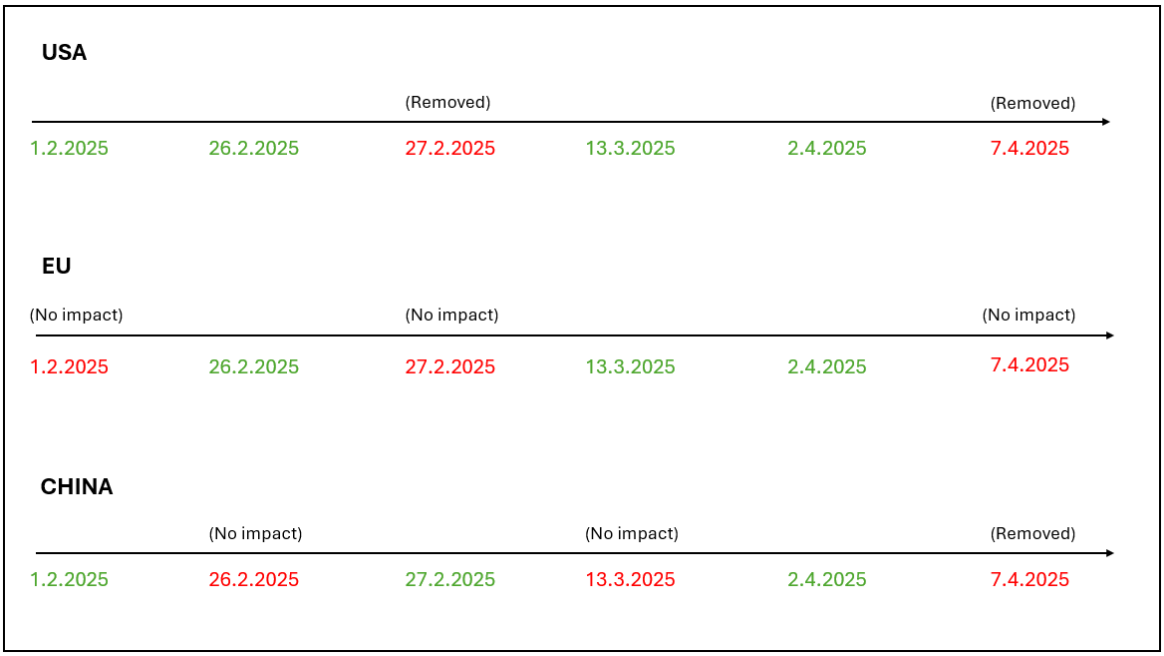

Figure 1. The event dates for each region.

After these adjustments, ten events remain in the dataset.

3.2 Methodology

3.2.1 Expected returns with CAPM

In this thesis, the CAPM is used to calculate the expected returns. It offers a simple model for calculating each market's returns in normal conditions. The CAPM formula is presented below:

$$E(R_i) = R_f + \beta_i(R_m - R_f)$$

In the formula $E(R_i)$is the expected return of index i, $R_f$is the risk-free rate, $R_m$is the return of the market index and β_i is the Beta of the index i. The Beta is estimated separately for each event using the same estimation window. It is defined as the covariance between the index return and the market return divided by the variance of the market return (Brealey et al., 2022). The Beta is calculated using the following equation:

$$\beta_i = \frac{\mathrm{Cov}(R_i, R_m)}{\mathrm{Var}(R_m)}.$$

The $\mathrm{Cov}(R_i, R_m)$ is the covariance between the index return and the market return and the $\mathrm{Var}(R_m)$ is the variance of the market return. The Beta measures how sensitive the index is to movements in the market (Brealey et al., 2022).

Before the estimations are calculated, an adjustment is made to take into account the weights of the largest companies in the market indices. This is done by running a regression, which reduces the overlap between the large stock indices and market indices. The Excel's built-in regression tool is used for the regression. The estimated intercept and slope from this tool are then used to calculate the cleaned market return for each market index. This is done by using the following equation:

$$R_m^{clean} = R_m^{raw} - (\alpha_1 + \gamma_1 R_i),$$

where R_m^{raw} is the original market return, R_i is the return of the index, α_1 is the regression intercept and γ_1 is the slope coefficient. The cleaned market returns are used to calculate the final estimations in the analysis. This way the possible correlation bias is addressed.

Because the purpose of this thesis is to study the general short-term effect of tariff announcements, the United States, the European Union and China are analyzed as one combined sample. By using the combined sample, the short-term impact of tariff news on large-capitalization equity markets can be analyzed without emphasizing regional differences.

3.2.2 Event Study

The event study methodology is used to examine how the markets react when new information is introduced to the public. The basic idea is to compare the estimated returns with the returns observed around the event. When the returns around the event deviate

from the estimated normal market returns, the market's reaction to the new information can be interpreted. The method is widely used in financial research, because it focuses on short time periods and helps to showcase the impact of specific events. (MacKinlay, 1997)

The event study approach relies on a few assumptions about how markets process information. It follows the semi-strong form of the EMH, which means the market incorporates all public information into stock prices without long delays (Fama, 1970). In the context of this thesis, tariff announcements that affect future cash flows should be priced into stocks within a short period. The method also uses the assumption that the isolated event being analyzed is the main thing affecting the stock prices during the event window. This ensures that the effects of the event can be isolated and interpreted without interference from other events (MacKinlay, 1997). In the context of this thesis, the tariff announcements are treated as the most influential events during the event windows.

The event study's empirical framework uses an estimation window and an event window to calculate the abnormal returns. The purpose of the estimation window is to represent a period of normal market conditions, which is used to calculate the expected returns. In this thesis, the estimation window is 250 days long, which starts 261 days before the event and ends 11 days before the event. A similar estimation window length was used by Egger and Zhu (2020) in their analysis of market reactions to the 2018–2019 US-Chinese trade war. The event window is used to capture the market's reactions to the tariff announcement. It starts 5 days before the event and ends 5 days after the event, covering 11 trading days. This range was chosen because it captures the immediate effects of the announcements while also capturing the possible information leakage. Prior research has shown that markets tend to react quickly to political and economic news, which supports the use of a relatively short event window (Suleman, 2012).

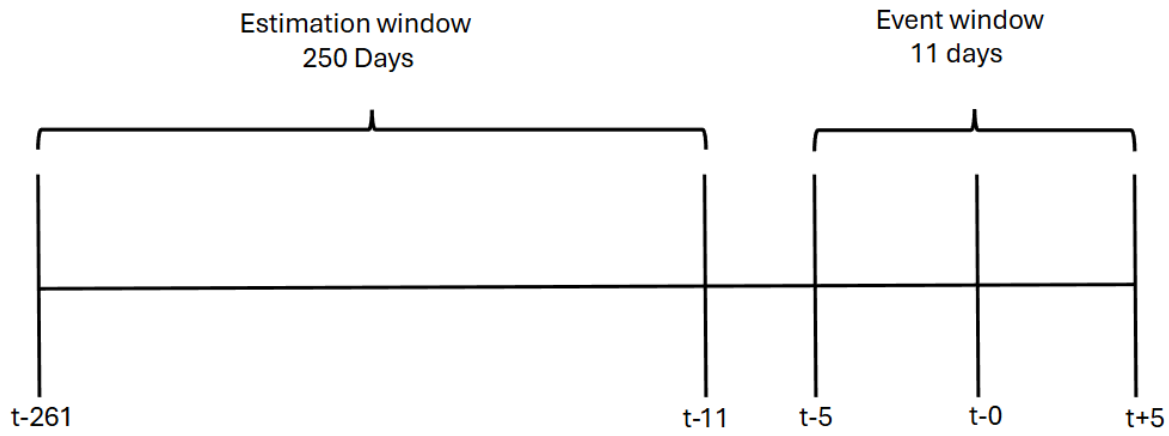

Figure 2. The timeframe of the event study.

When calculating the abnormal returns, the expected returns are first estimated with the CAPM. After the expected returns have been estimated, the market reaction can be measured with abnormal returns. Using the abnormal returns, the effects of the tariff announcements are measured during the event window with the following formulas:

For each event i and day t, the abnormal return (AR) is calculated with the following equation:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}),$$

where $R_{i,t}$ is the realised index return and $E(R_{i,t})$is the expected return from the CAPM estimation. The abnormal return captures the part of the price change that cannot be explained by normal market movements and is caused by the tariff announcement (MacKinlay, 1997).

For observing the total impact of a single announcement over the whole event window, the daily abnormal returns are summed into a cumulative abnormal return. For event i, the cumulative abnormal return between days $t_1$and $t_2$is calculated with the following equation:

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} A\,R_{i,t}.$$

The CAR captures a specific event's effect on the market during the whole event window. Because the study includes several tariff events, the individual abnormal returns are averaged. The average abnormal return on day t is calculated using the following equation:

$$AAR_t = \frac{1}{N}\sum_{i=1}^{N} A\,R_{i,t},$$

where N is the number of events and $AR_{i,t}$ is the abnormal return of the index. The AAR_t describes the average daily reaction in the event window when all of the announcements are viewed together. (Brown & Warner, 1985) For measuring the overall impact of the tariffs, the cumulative abnormal returns are further averaged into a cumulative average abnormal return with the following equation:

$$CAAR(t_1, t_2) = \frac{1}{N}\sum_{i=1}^{N} CA\,R_i(t_1, t_2),$$

where $CAAR(t_1, t_2)$ is the cumulative average abnormal return over a specific window, $CAR_i(t_1, t_2)$is the cumulative abnormal return for the event i over the same window, and N is the number of events. The CAAR summarizes the combined short-term effect of all the events for all the indices (MacKinlay, 1997). It is the main indicator used in the empirical analysis, since the United States, the European Union and China are treated as one joint sample.

The statistical testing in this thesis focuses on the significance of the AAR_t and the $CAAR(t_1, t_2)$ values. The statistical significance is tested with different t-tests. For both measures, the null hypothesis states that the abnormal return is equal to zero. If the t-tests are statistically significant, the null hypothesis is rejected, which implies that abnormal returns differ significantly from zero (MacKinlay, 1997). The test statistic for a specific day's AAR is calculated with the following equation:

$$t(AAR_t) = \frac{AAR_t}{\sqrt{\mathrm{Var}\,(AAR)}},$$

where AAR_t is the average abnormal return on day t and $Var(AAR)$ is its estimated variance. The square root of $Var(AAR)$ gives the standard deviation, which is used to scale the test statistic so that it is comparable across different windows. The cumulative reactions are tested with the following equation:

$$t(CAAR(t_1, t_2)) = \frac{CAAR}{\sqrt{\text{Var }(CAAR)}}.$$

where $CAAR$ is the cumulative average abnormal return over a specific event window and $Var(CAAR)$ is its estimated variance. The square root of $Var(CAAR)$ provides the standard deviation of the cumulative average abnormal returns and has the same role in normalizing the test statistic to the variability of the cumulative reaction (Brown & Warner, 1985)

4 Results

The empirical results of the analysis are presented in this chapter, and it is divided into two subchapters. In the first subchapter, the AARs and CAARs are presented over the event window with numerical tables. In the second subchapter, the reactions to the 2025 and 2018-2019 announcements will be compared. Appendices are used to help illustrate the market's reactions to the announcements. In both subchapters, the results are interpreted and explained with the theoretical framework, and they are linked to the research questions.

4.1 Market reactions to the 2025 tariffs

The empirical results provide a detailed view of how the combined market of the United States, the European Union and China reacted to the tariff announcements. First, the AARs will be analyzed, which provide insight into the average daily abnormalities over the event

window. After that the CAARs are covered. They capture larger patterns of abnormal returns and provide insight into the cumulative reactions to the announcements. The CAARs are analyzed with these periods: t [-5, -1], t [-1, +1], t [0, 0], t [0, +1], t [+1, +5] and t [-5, +5]. These periods help to interpret the possible early pricing, information leakage, immediate effects, and the duration of the impact. The results are presented in Tables 1 and 2, where * signifies statistical significance at the level of 0.10, ** at level 0.05 and *** at 0.01. Appendices 1, 2 and 3 illustrate the daily and cumulative movements in visual form.

The AARs provide the first indication of how the combined market reacted to the tariff announcements. The values are shown in Table 1, and they are illustrated in Appendix 1. In the pre-event window from day -5 to day -1, the daily abnormal returns are all insignificant and mostly slightly negative. The largest abnormal returns are seen on day -5 with a value of -0,316% and day -3 with -0,336%. Even though the single-day results are not statistically significant on their own, the negative returns suggest that the markets were slightly cautious ahead of the announcements. This is likely a result of heightened political uncertainty, which typically leads to higher volatility and negative pressure on stock prices (Bloom, 2009).

On the day of the announcements, the AAR is -0,140% and statistically insignificant. This is in line with the semi-strong form of EMH, which states that information is incorporated into the prices quickly. In practice, as shown in earlier studies, the effects of the tariff announcements spread across several days rather than in a single event day (Egger & Zhu, 2020)

The only statistically significant AARs appear after the event on days 3 and 4. Day 3 presented a p-value of 0.034 and AAR of -0,461%, while day 4 presented a p-value of 0.067 and AAR of -0,386%. These values reflect the delayed reactions to the tariff announcements and indicate that the selling continued and intensified days after the event.

t	AAR	t-statistic	p-value
-5	-0,316 %	-1,68	0,124
-4	0,032 %	0,17	0,867
-3	-0,336 %	-1,78	0,105
-2	0,008 %	0,04	0,967
-1	-0,280 %	-1,49	0,167
0	-0,140 %	-0,74	0,476
1	-0,029 %	-0,16	0,879
2	0,002 %	1,01	0,337
3	-0,461 %	-2,45	0,034 **
4	-0,386 %	-2,05	0,067 *
5	0,146 %	0,77	0,457

Table 1. The AARs and their significance for each day of the event window.

The CAAR values are presented in Table 2 and illustrated for each day in Appendix 2, and for the chosen periods in Appendix 3. The CAAR values highlight how the abnormal returns accumulate across different parts of the event window. They offer a wider perspective on the market's behavior, and that is why they are the main components of this thesis's empirical results.

The pre-event window [–5, –1] produces a CAAR value of -0,892% and a p-value of 0,017, making it statistically significant at the 0.05 level. This confirms that the negative pre-event window AARs were the result of increased policy uncertainty, along with possible early pricing of the announcements.

The short window around the event [–1, +1] produces a CAAR value of -0,449% and a p-value of 0.084, making it significant at the 0.10 level. The event day [0, 0] produces a CAAR value of -0,140% and a p-value of 0,229, making it insignificant. These results indicate that the response to the tariffs is spread out across several days rather than the information being incorporated into the prices quickly, which is not fully consistent with the EMH.

The post-event window [+1, +5] produces a CAAR value of -0,729% and a p-value of 0.042, making it statistically significant at the 0.05 level. When combining these results with the significant AARS from days 3 and 4, they can be interpreted through policy uncertainty and prospect theory. According to policy uncertainty, investors need time to assess the influence of the tariff announcements on future cash flows and risk premia (Pastor & Veronesi, 2013).

According to prospect theory, investors overestimate the likelihood of extreme events while underestimating the probability of stable conditions, leading to the pressure dividing over several days (Kahneman & Tversky, 1979).

The entire event window [-5, +5] produces the highest CAAR value of -1,761% and the lowest p-value of 0.000, making it highly significant at the 0.01 level. The evolution of the CAAR value during the event window is illustrated in Appendix 3. This result includes both the pre-event and post-event reactions and shows that the total reaction to the tariff announcements was clearly persistent and negative. The magnitude and consistency of this reaction provide a clear answer to the first research question. The announcements led to a strong and statistically meaningful short-term impact, thus creating abnormal returns.

[t1,t2]	CAAR	Var	t-statistic	p-value
[-5,-1]	-0,892 %	0,000018	-2,12	0,017 **
[-1,+1]	-0,449 %	0,000011	-1,38	0,084 *
[0,0]	-0,140 %	0,000004	-0,74	0,229
[0,+1]	-0,169 %	0,000007	-0,63	0,263
[+1,+5]	-0,729 %	0,000018	-1,73	0,042 **
[-5, +5]	-1,761 %	0,000004	-9,35	0,000 ***

Table 2. The CAAR values and their significance for each period.

4.2 Comparison with the 2018-2019 trade conflict

By comparing the reactions from the 2025 tariff announcements to the 2018-2019 trade conflict, we can place the 2025 results in a wider context. Egger and Zhu (2020) found that the announcements mostly produced statistically significant negative abnormal returns. The abnormal returns appeared in both short and long windows, such as [-1, +1] and [-1, +5]. This indicates that, also in 2018-2019, the abnormal returns continued to grow even after the announcement.

Wengerek, Uhde and Hippert (2025) reported similar patterns. Their analysis also includes the pre-event window that Egger and Zhu do not analyze. Their findings show that the tariff announcements generated clear negative abnormal returns before, during and after the event. For tariffs imposed by the US, the [–1, +1] window produced a CAAR value of -1,217%, which is statistically significant. The longer windows, such as [-30, -1] and [+1, +30] also produced statistically significant negative results, with the pre-event CAAR value being -2,844% and the post-event CAAR being – 6,273%.

When comparing these findings to the 2025 findings, a slight difference in the reactions can be seen. The direction and length of the reactions are similar, but the reaction around the event day is different. The event day and the following day do not show significant abnormal returns in 2025, while the pre-event window [–5, –1], the post-event window [+1, +5] and the full window [–5, +5] show clear negative, statistically significant returns. In conclusion, in both cases the markets adjust over several days, but in 2018–2019 the effect of the announcements is also clear around the event day itself.

The slight difference can be examined through the theoretical framework. The 2025 tariff announcements happened in a different economic environment, where tariff and trade tensions were familiar and overall sentiment was different. According to the Adaptive Market Hypothesis, the past experience and current sentiment of investors shape how new information is processed. This helps explain why the reaction to the 2025 tariff announcements took place mainly outside the event day.

With this, the second research question can be answered. The 2025 tariff announcements also generate negative short-term abnormal returns, but the statistically significant reactions appear in different parts of the event window than during the 2018–2019 conflict.

5 Discussion and Conclusions

5.1 Discussion

The results of this study show how the stock market reacts to tariff announcements in a situation where policy uncertainty has been exceptionally high. They indicate that the

markets know how to use available information but are slow to process it. This suggests that traditional finance is still relevant even in situations where uncertainty is high. The fact that the reaction stretched over several days suggests that investors were unable to price in the announcements immediately, but changed their expectations as the consequences started to become clearer. This is in line with the theory of policy uncertainty.

The results can also be viewed from an investor's perspective. They show that it is important to understand the effects that policy uncertainty has on financial markets. Even though the markets do not react strongly on the day of the announcement, it does not mean that the announcement will not affect the market at all. As the results show, significant reactions can still happen days after the announcements. This means that investors should not draw conclusions based only on the reaction of the announcement day.

What makes this study useful is that it addresses a current period of political uncertainty and compares it to a similar period in the past. By using a combination of traditional and behavioral theories in the event study framework, the results show how markets adjust to familiar policy changes under changing conditions. They also show that traditional financial models are still useful, but not always completely realistic in the current context. Behavioral theories fill the gaps in traditional finance by addressing how investors deal with uncertainty, experience and repeated policy actions. Overall, the results show that investors process information differently, even though the direction of market reactions has remained the same. This shows that investors and markets adapt over time and are influenced by past experiences and the current economic environment.

5.2 Conclusions

This thesis examined how the United States, the European Union and China reacted to the early 2025 U.S. tariff announcements. The analysis focused on short-term abnormal returns using the event study methodology. The event study methodology was supported by the CAPM framework and the theoretical perspectives of policy uncertainty and behavioral finance. The results show that the announcements generated clear and statistically

meaningful abnormal returns across the combined large-cap markets of the three economic regions.

The main research question asked whether the 2025 tariffs produced abnormal returns in the short term. The empirical results provide a clear answer to this question. Abnormal returns occurred during the whole event window, with the pre-event window and post-event window being statistically significant, while the day of the event remained statistically insignificant. When looking at the entire 11-day event window, the cumulative abnormal returns were highly significant. This means that the reactions to the announcements were long-lasting and had a relevant effect on the stock market. These findings confirm that the markets reassessed their expectations and positions in a way that produced temporary deviations from normal returns.

The sub-question asked if the 2025 market reactions differ from the 2018–2019 trade conflict. The comparison shows that the overall reaction of the markets is similar, but the timing of the reaction has changed slightly. The markets reacted negatively to both events, but in 2025, the reaction appears mainly outside of the center of the event window. This suggests that the way the markets absorb new tariff information has evolved over time. This has been shaped by the changing economic environment and the experience gained from the previous trade tensions.

In conclusion, the results show that tariff announcements have a significant effect on the stock markets. They create uncertainty, which influences the actions and expectations of investors. The results showcase how the modern markets respond to unexpected political developments.

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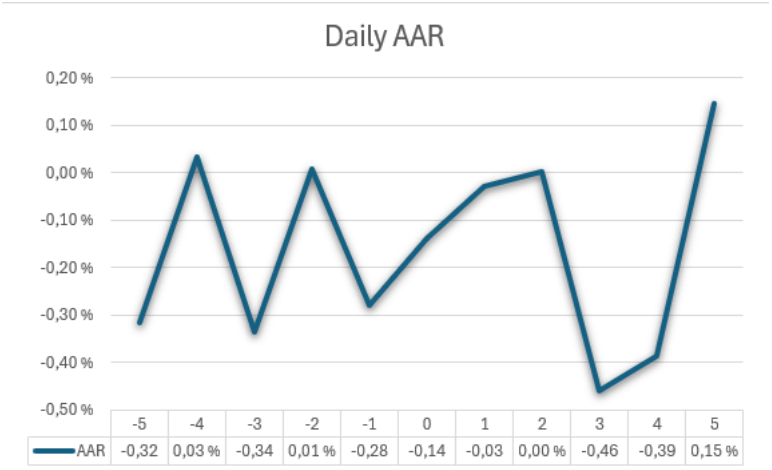
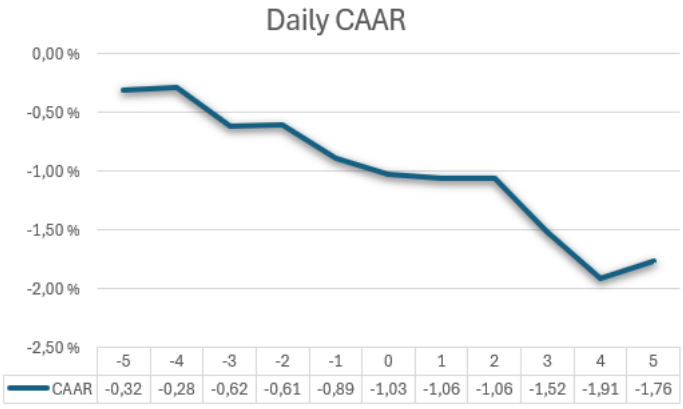
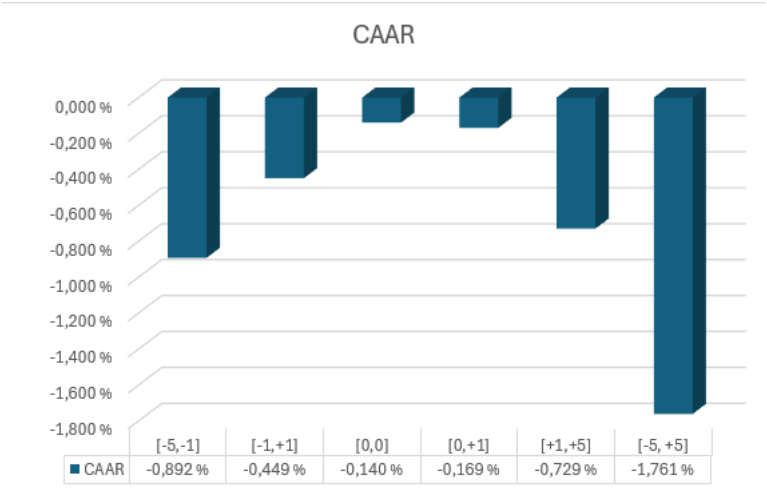
Appendices



Appendix 1. The daily AARs during the event window.



Appendix 2. The daily CAARs during the event window.



Appendix 3. The CAARs on the chosen periods.