INTERNATIONAL MONETARY FUND

Trade Policy Shocks and Corporate Valuations

Disentangling Trade and Uncertainty Channels

Robert Beyer, Hui Tong, and Xinbei Zhou

WP/26/70

2026
APR

WORKING PAPER

 WP/26/70

IMF Working Paper
European Department

Trade Policy Shocks and Corporate Valuations— Disentangling Trade and Uncertainty Channels

Prepared by Robert Beyer, Hui Tong, and Xinbei Zhou

Authorized for distribution by Malhar Nabar
April 2026

ABSTRACT: This paper investigates how the 2025 U.S. trade-policy shocks propagated to global equity valuations. Country-level studies have documented the aggregate costs of tariffs and uncertainty, but firm-level evidence on their joint role after the 2025 shocks remains limited. Filling this gap, we use a firm-level event-study design to disentangle a trade exposure channel from a sensitivity-to-uncertainty channel. Firms with greater U.S. trade exposure and higher uncertainty sensitivity experienced the sharpest valuation declines following the initial tariff announcement on April 2, but also the strongest rebounds after the announced pause and subsequent trade agreements. Both channels are economically meaningful and of similar magnitude, and jointly account for a substantial share of the market response. Together, they represent about 20 percent of the stock price decline among tradable firms after April 2 and about 10 percent of the rebound after trade agreements. Overall, the findings show that trade policy affects firms not only through expected tariff costs, but also by reshaping policy predictability in ways that affect firms' investment incentives.

JEL Classification Numbers:	F13, F14, G14
Keywords:	tariffs; trade exposure; uncertainty; corporate market valuations
Author's E-Mail Address:	rbeyer@imf.org; htong@imf.org; xbeizhou@connect.hku.hk

Trade Policy Shocks and Corporate Valuations – Disentangling Trade and Uncertainty Channels

Robert Beyer* Hui Tong† Xinbei Zhou‡

March 2026

Abstract

This paper investigates how the 2025 U.S. trade-policy shocks propagated to global equity valuations. Country-level studies have documented the aggregate costs of tariffs and uncertainty, but firm-level evidence on their joint role after the 2025 shocks remains limited. Filling this gap, we use a firm-level event-study design to disentangle a trade-exposure channel from a sensitivity-to-uncertainty channel. Firms with greater U.S. trade exposure and higher uncertainty sensitivity experienced the sharpest valuation declines following the initial tariff announcement on April 2, but also the strongest rebounds after the announced pause and subsequent trade agreements. Both channels are economically meaningful and of similar magnitude, and jointly account for a substantial share of the market response. Together, they represent about 20 percent of the stock-price decline among tradable firms after April 2 and about 10 percent of the rebound after trade agreements. Overall, the findings show that trade policy affects firms not only through expected tariff costs, but also by reshaping policy predictability in ways that affect firms' investment incentives.

JEL Classification: F13, F14, G14

Keywords: tariffs, trade exposure, uncertainty, corporate market valuations

*International Monetary Fund (rbeyer@imf.org)

†International Monetary Fund (htong@imf.org)

‡HKU Business School, The University of Hong Kong (xbeizhou@connect.hku.hk).The views expressed herein are those of the authors and should not be attributed to the IMF, its Executive Board, or its management.

1 Introduction

In early 2025, the United States announced the imposition of sizable tariffs against most of its trading partners. This reignited global concerns over U.S. market access and persistent trade policy uncertainty. In response, global stock markets experienced substantial volatility, reflecting frequent revisions to expected cash flows and risk premia. Current macroeconomic projections identify both the elevated U.S. tariffs and heightened uncertainty as significant drags on investment and GDP growth (IMF, 2025). While existing macroeconomic studies underscore the adverse effects of higher tariffs and uncertainty on aggregate activity, there is, to our knowledge, little firm-level evidence on the extent to which these two channels have operated in the aftermath of the 2025 U.S. trade policy shocks.

This paper seeks to fill that gap. It examines market valuations of listed firms across global markets following the recent unexpected tariff announcements and heightened trade policy uncertainty, focusing on two key channels: trade exposure to the United States and investment sensitivity to uncertainty. We investigate short-term market movements after the announcements of universal tariffs on April 2, the subsequent pause announcement on April 9 and the signing of trade agreements between the United States and seven countries, as well as the agreement on key parameters of the EU–U.S. trade relationship on July 27.[1] Our baseline sample for the universal announcements on April 2 and 9 covers 11,741 non-financial firms in tradable sectors headquartered in 48 economies, while the trade deal analysis focuses on 8,086 firms located in the eight partner economies that subsequently signed trade agreements with the United States. Using an event-study methodology and firm-level data, we examine how stock prices reacted to these shocks and document heterogeneous effects across firms with varying degrees of export exposure to the United States and sensitivity to uncertainty.

Our two channels are constructed using pre-2025 data. Following Claessens et al. (2012), we measure a firm's trade sensitivity by estimating how its sales co-move with exports from its home country to the United States at the 3-digit SIC industry level over 2017–2023, and use the firm-specific slope coefficient as a summary measure of exposure to U.S. demand. For uncertainty sensitivity, we draw on the Kim and Kung (2017) asset redeployability index, which captures how difficult it is to reallocate capital across uses in specific sectors. We map their measure to our industries so that higher values indicate greater sensitivity to investment uncertainty. Together, these measures allow us to separately identify a "trade exposure" channel and an "uncertainty" channel in firms' stock-price reactions.

Our main findings are as follows. First, after the April 2 announcement, when both

[1]Since the U.S. announcements occurred after most global markets had closed, we define the first subsequent trading day as the first day impacted by the April 2 and 9 announcements and by each deal.

expected future tariffs and trade policy uncertainty increased, firms in tradable sectors with higher export exposure to the United States and greater sensitivity to uncertainty experienced significantly lower cumulative returns. Controlling for standard firm characteristics and both channels, firms at the 90$^{\text{th}}$ percentile in U.S. trade sensitivity experienced a 1.09 percentage point larger decline in cumulative returns than firms at the 10$^{\text{th}}$ percentile, and the corresponding gap for uncertainty sensitivity was 1.01 percentage points. Taken together, a firm highly exposed along both dimensions saw cumulative returns around the April 2 announcement that are about 2.10 percentage points lower than those of a firm with low exposure on both margins—around 20 percent of the three-day loss of 12 percent for tradable firms over the same range.

Second, the announcement of a tariff pause on April 9 triggered a sharp, targeted reversal in market valuations. As the immediate threat of escalating tariffs and policy uncertainty temporarily subsided, the exact same firms that suffered on April 2 experienced a significant rebound. Controlling for standard firm characteristics and both channels, firms at the 90$^{\text{th}}$ percentile in U.S. trade sensitivity experienced a 0.52 percentage point larger increase in cumulative returns than firms at the 10$^{\text{th}}$ percentile, and the corresponding gap for uncertainty sensitivity is 0.53 percentage points. Taken together, a firm highly exposed along both dimensions saw cumulative returns around the April 9 announcement that are about 1.05 percentage points higher than those of a firm with low exposure on both margins. This market reaction highlights how investors rapidly re-price corporate valuations in response to both the sudden escalation and the subsequent de-escalation of trade tensions.

Finally, after trade agreements were reached and expected tariffs and trade policy uncertainty declined, both channels contributed positively to the subsequent increase in cumulative returns. Comparing firms at the 90$^{\text{th}}$ and 10$^{\text{th}}$ percentiles again, higher trade sensitivity is associated with a 0.33 percentage point additional increase, and higher uncertainty sensitivity with an additional 0.34 percentage point increase, so that a firm with high exposure along both dimensions enjoys an additional cumulative return of about 0.67 percentage points from trade deals. This is close to 10 percent of the three-day gain of 8.5 percent around the deal dates for tradable firms over the same range. Importantly, because our trade and uncertainty measures are proxies constructed from historical data and thus subject to measurement error, these estimated effects are likely conservative and should be interpreted as lower-bound estimates of the underlying economic impact.

Our paper contributes to three strands of literature. First, it relates to work on stock market responses to trade policy shocks. Studies on trade liberalization show that tariff reductions and regional trade agreements generate heterogeneous valuation effects across firms and countries (Breinlich, 2014; Moser and Rose, 2014; Greenland et al., 2024), while work

on protectionism documents that tariffs and the Brexit referendum lowered stock prices by raising expected trade barriers and uncertainty (Jensen, 2007; Davies and Studnicka, 2018; Breinlich et al., 2018). A growing literature on the U.S.–China trade war reaches similar conclusions, emphasizing export exposure and supply-chain dependencies as key channels (e.g. Egger and Zhu, 2020; Selmi et al., 2020; Ding et al., 2022; Huang et al., 2023; Liu et al., 2025). Complementary structural work on trade and multinational production, such as Ramondo and Rodríguez-Clare (2013), highlights how firms' foreign activities shape aggregate exposure to trade shocks, consistent with our focus on pre-existing export ties to the United States.

Second, our analysis complements macroeconomic studies of U.S. tariffs and geoeconomic fragmentation. Existing work documents that U.S. tariffs have sizable effects on prices, welfare, and regional labor markets, and that their terms-of-trade gains are limited once trading partners retaliate (Amiti and Davis, 2012; Boer et al., 2023; Autor et al., 2024; Auray et al., 2025; Costinot and Werning, 2025). Other contributions highlight heterogeneous impacts across states and countries, distinguish between transitory and permanent tariff shocks, and provide detailed assessments of the April 2 tariff announcement (Rodríguez-Clare et al., 2025; Schmitt-Grohé and Uribe, 2025; Ignatenko et al., 2025). Beyond trade policy, other U.S. policy domains, including monetary policy, also generate sizable global spillovers through both trade and financial channels (Georgiadis and Jarociński, 2025). More broadly, Gopinath et al. (2025) document a gradual fragmentation of trade and FDI along geopolitical lines. Our firm-level evidence on equity repricing around the 2025 tariff shocks offers a micro perspective consistent with this broader pattern and shows how tariffs and the associated uncertainty are transmitted into financial markets.

Third, we connect to the literature on policy uncertainty, global financial conditions, and firm behavior. A large body of work shows that higher uncertainty reduces investment and depresses firm values (Carruth et al., 2000; Bloom et al., 2007; Gulen and Ion, 2016; Kim and Kung, 2017), while trade policy uncertainty in particular can deter export entry and lower trade volumes (Handley and Limão, 2017). A related set of papers emphasizes international spillovers, documenting that U.S. policy uncertainty raises risk premia and transmits to foreign stock markets (Chiang, 2020; Bianconi et al., 2021), and that greater trade sensitivity amplifies the impact of global shocks on firm balance sheets and stock returns (Tong and Wei, 2011; Claessens et al., 2012). Our focus on stock-price reactions is also related to the global financial cycle perspective, in which changes in dollar and global financial conditions are reflected in equity risk premia (Bruno et al., 2022), and to evidence that disruptions to trade finance can durably reshape trade patterns and the geography of production (Xu, 2022). Taken together, our results contribute to this literature by disentangling trade exposure and

uncertainty channels in explaining firm-level stock returns following tariff announcements and by showing that both channels jointly shape global stock market responses to recent U.S. trade policy shocks.

The remainder of the paper is organized as follows. Section 2 provides more detail on the 2025 U.S. trade policy announcements and their implications. Section 3 outlines the empirical methodology and describes the data. Section 4 presents the main results and robustness checks. Section 5 concludes.

2 Recent Trade Policy Developments

In January 2025, the United States implemented a faster cadence of new trade measures, including a series of executive orders and proclamations that introduced additional tariffs. Relative to the earlier phase of U.S.–China trade tensions, the 2025 actions applied to a broader set of economies. This section briefly outlines some major trade policy developments that underpin our main analysis.

On April 2, 2025, the United States announced the introduction of a universal baseline tariff of 10% on all imports, to take effect on April 5. In addition, the announcement included additional tariffs ranging from 10% to 50% on imports from a number of countries, with implementation beginning on April 9. While no additional tariff was announced for the United Kingdom, the European Union was subject to an additional 20%, exceeding most expectations. Previously announced sector-specific tariffs on steel, aluminum, and automobiles remained in place, while exemptions were initially granted for certain products such as semiconductors, pharmaceuticals, copper, and lumber. This policy shift led market participants to more closely monitor implications for global trade and financial markets

On April 9, 2025, the United States implemented a 90-day pause of the country-specific tariffs on imports announced earlier in the month from most trading partners but not China, while maintaining a uniform 10% *ad valorem* duty to encourage bilateral negotiations and mitigate immediate escalations in global trade tensions. This policy adjustment temporarily eased the shocks from the previous announcement.

Since May 2025, the U.S. has gradually achieved a series of trade agreements with some major trading partners. Table 1 provides an overview of the agreements announced until the end of July 2025. For these countries, such agreements offered guidance on the future trading environment and therefore might have reduced trade policy uncertainty.

Table 1
Overview of U.S. Bilateral Trade Deals

Date	Partner	Details
8/May/2025	United Kingdom	Punitive tariffs on British cars and steel exports were lifted. The flat 10% tariff on other goods remained in place.
12/May/2025	China	A 90-day tariff truce was signed. Bilateral tariffs were reduced, establishing a 30% baseline tariff on Chinese goods and a 10% tariff on U.S. exports to China. The truce was subsequently extended.
2/July/2025	Vietnam	U.S. imports from Vietnam face a 20% tariff, while transshipped goods face 40%. U.S. goods were granted full tariff-free access to the Vietnamese market.
15/July/2025	Indonesia	Indonesian imports face a 19% tariff; U.S. exports enter duty-free. Indonesia committed to purchasing 50 Boeing jets and $19.5 billion in U.S. energy and agriculture.
22/July/2025	Philippines	Imports from the Philippines are subject to a 19% duty. The Philippines will eliminate tariffs on certain U.S. goods (e.g., automobiles, soy, wheat products, and pharmaceuticals).
23/July/2025	Japan	A 15% tariff was applied to most Japanese imports. Japan committed to $550 billion in U.S. investments and increased purchases of defense equipment.
27/July/2025	European Union	A 15% tariff ceiling was set for EU exports. The EU agreed to purchase U.S. energy and AI chips, while tariffs on aircraft parts were eliminated.
30/July/2025	Korea	A 15% U.S. tariff was imposed on most imports from Korea, including on auto and auto parts. Korea agreed to invest $350 billion into the U.S., including $150 billion in shipbuilding, and purchase $100 billion of U.S. energy products.

Note: Many of the deals have not yet been finalized or implemented and represent preliminary agreements. Final parameters could deviate substantially from what is presented in this table.

3 Methodology and Data

We employ an event-study approach to examine how firms' stock prices responded to the unexpected U.S. trade policy announcements in 2025. This method relies on the market-efficiency assumption that tariff announcements alter market expectations about firms' future cash flows and risks, which are immediately reflected in stock prices. We focus on the universal tariff announcement on April 2 and the April 9 announcement of suspending the implementation of reciprocal tariffs for all countries, as well as country-specific trade agreements. For each event, we analyze short-term market reactions using three-day windows centered on the first local trading day after the announcements listed in Table 1.

3.1 Empirical Strategy

Our empirical strategy examines two channels through which trade policy shocks affect firms: trade exposure and investment uncertainty. We estimate the following cross-sectional regression:

$$Y_i = \rho_0 + \rho_1 TradeSensitivity_i + \rho_2 UncertaintySensitivity_j + \mathbf{X}_i + \delta_k + \varepsilon_{ijk} \quad (1)$$

where i stands for firm, j for sector and k for country. The outcome variable Y_i represents the change in firm i's stock price over the event window. The cumulative raw returns (CRR) over the three-day window centered around date 0 are calculated as

$$Y_i = CRR_i[-1, +1] = \sum_{t=-1}^{+1} R_{it},$$

where R_{it} is the raw return of stock i on date t. The vector $\mathbf{X}_i$ includes firm-level control variables – firm size (log of total assets in U.S. dollars), market-to-book ratio (MTB, defined as the ratio of market value to common equity), debt-to-asset ratio (DA), and return on assets (ROA). δ_k is the country fixed effect to account for different tariff rates across countries.

For the April 2 and 9 announcements, the coefficients represent the marginal effect of exposure intensity on firm valuations conditional on the universal shock. For the trade deals, since the sample is restricted to countries reaching agreements, the estimates capture the heterogeneous response within the group of countries that reached agreement.

3.2 Key Channels

$TradeSensitivity_i$ is a firm-level measure of trade sensitivity constructed following Claessens et al. (2012). It is derived by regressing the percentage change in a firm's sales on the percentage change in its country's exports to the U.S. at the SIC 3-digit level over the period 2017–2023:

$$\Delta Sales_{it} = \eta_0 + \eta_{1i} \Delta USExports_{jkt} + \epsilon_{ijkt} \quad (2)$$

We run the above regression firm-by-firm for those in tradable sectors and save η_{1i} as $TradeSensitivity_i$. It captures how closely each firm's revenue moves with U.S. export demand over time prior to the shocks we study.

We interpret this index as a measure of broad trade policy exposure. The trade literature extensively documents the "two-way trader" phenomenon, where large exporters are overwhelmingly likely to be large importers of intermediate inputs (Bernard et al., 2007).

Consequently, our Trade Sensitivity measure serves as a proxy for net trade exposure, capturing both the market access shock and the correlated intermediate input cost shock modeled by Amiti and Davis (2012).

For $UncertaintySensitivity_j$ we use the sectoral asset redeployability index by Kim and Kung (2017). Their methodology involves calculating asset-level redeployability scores by summing the weights of industries that utilize a given asset, using data from 123 industries in the Bureau of Economic Analysis (BEA) capital flow table. The industry-level redeployability index is then computed as the value-weighted average of the redeployability scores of assets used within each industry. Firms in sectors with low redeployability face higher adjustment costs under uncertainty, making them more sensitive to policy shocks. The index has been used widely in the academic literature, including to analyze the role of uncertainty for corporate investment (Gulen and Ion, 2016), merger and acquisitions (Bonaime et al., 2018), and new firm entry (Cui and Li, 2023). For interpretive clarity, we use the sectoral redeployability index with equal weights assigned to industries using each asset and invert the index so that higher values indicate greater sensitivity to uncertainty. We also add one to the index so that it takes positive values for all industries.

Figure 1 presents a scatter plot of the average trade sensitivity at the SIC3 digit level and the uncertainty sensitivity of the baseline sample. It reveals a distinct lack of correlation between the two measures, visually evidenced by the diffuse cloud of data points and statistically confirmed by a low correlation coefficient of 0.0158. The overall pattern suggests that trade and uncertainty represent two separate, orthogonal economic channels. As detailed in Table A2, industries with the highest sensitivity to U.S. trade include raw material extractors like Crude Petroleum (SIC 131) and Sand and Gravel (SIC 144), as well as manufacturers of Electronic Components (SIC 367) and Costume Jewelry (SIC 396). Conversely, sensitivity to investment uncertainty is most acute in sectors with specialized capital, such as Textile Mills (SIC 221-229) and Coal Mining (SIC 122), in addition to the petroleum and electronics sectors.

Figure 2 establishes the relevance of our two key mechanisms by plotting firm valuations around the announcements on April 2 and April 9. Panel (A) illustrates the average cumulative returns for firms with high versus low trade sensitivity, defined as the top and bottom quartiles of the trade sensitivity index. Prior to the April 2 announcement, both groups exhibited similar return trajectories, supporting the parallel trends assumption. However, immediately following the announcement, firms with higher trade exposure experienced a notably sharper decline. Following the pause announcement on April 9, both groups experienced a reverse in the declining trend of returns. However, the divergence persists throughout the sample period, indicating that the market penalized firms more reliant on U.S. exports.

FIGURE 1
The Two Channels

Notes: This figure plots the average trade sensitivity at the SIC3 digit level and the uncertainty sensitivity. The red dashed lines represent the medians of each variable. The correlation coefficient between the two measures is 0.0158. At the firm-level, the correlation coefficient is 0.1082.

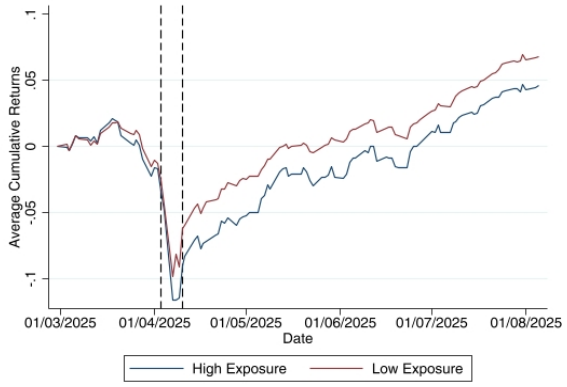
Panel (B) presents a similar comparison for the uncertainty channel, grouping firms by their sensitivity to investment uncertainty (redeployability). The pattern mirrors the trade channel: firms in highly uncertainty-sensitive sectors suffered a more pronounced drop in returns after April 2 relative to their resilient peers. Similarly, following the pause announcement on April 9, both groups experienced a reverse in the declining trend of returns.

Finally, Panel (C) highlights the compound effect by focusing on firms with high sensitivity to both channels, corresponding to the industries in the top-right quadrant of Figure 1. The divergence here is most striking: the persistent gap in cumulative returns between the "Both High" and "Both Low" groups is noticeably wider than when either channel is considered in isolation.

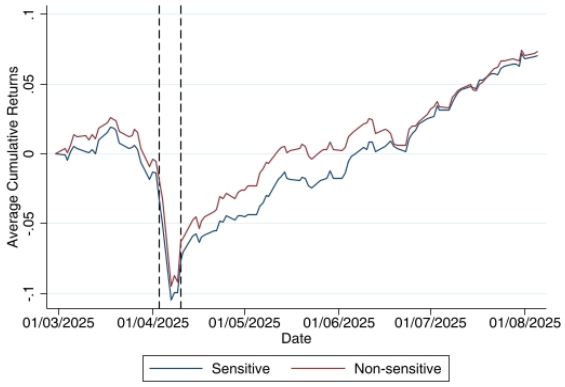
Together, these trends suggest that trade exposure and uncertainty sensitivity are distinct, meaningful, and persistent predictors of market reactions to trade policy shocks.

3.3 Data and Summary Statistics

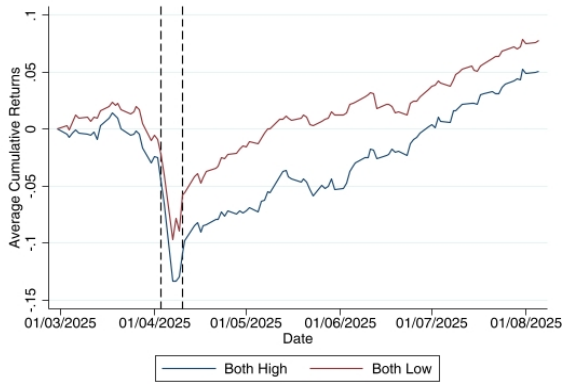
We obtain firm-level data from Datastream (Worldscope) for publicly listed companies. Key variables include each firm's primary operating sector (classified at the SIC 4-digit level), daily closing stock prices from February 28, 2025 to August 1, 2025, and financial characteristics for year 2023, including the total market value, common equity, total assets, debt-to-asset ratio (DA), and return on assets (ROA). We also collect firm-level annual revenue



(A) Trade Exposure



(B) Sensitivity to Uncertainty



(C) Both Channels

Note: This figure plots the average cumulative raw returns of global firms from February 28 to August 1, 2025, with vertical dashed lines marking the key U.S. trade policy events: the April 2 announcement and subsequent pause announced on April 9. Firms with high versus low trade exposure are defined by the top and bottom quartiles of the firm-level trade sensitivity. Firms in sectors with high versus low sensitivity to investment uncertainty are defined by the top and bottom quartiles of the redeployability index.

FIGURE 2
Average Cumulative Returns by Channels

data spanning 2017 to 2023 from Datastream and the SIC 3-digit sector-level export data to the U.S. over the same period from the World Bank's World Integrated Trade Solution (WITS) database to obtain the trade sensitivity index.

We go through the following steps to ensure data quality. Firstly, we retain only firms with identifiable operating sectors and non-missing data on sales and the control variables. Secondly, we use firms with complete sales and sectoral U.S. exports data from 2017 to 2023 to run the regression in Equation (2). Next, we merge these firms by the SIC 3-digit industry to the sectoral asset redeployability index by Kim and Kung (2017). For industries with missing values, we impute with the SIC 2-digit average. We then merge these firms with the daily closing price data.

We cover 11,741 firms across 138 SIC 3-digit industries in 48 economies[2]. Table 2 presents summary statistics for the key variables used in the analysis. Key variables include cu-

[2]A breakdown of firm counts by market is provided in Table A1

mulative raw returns around the announcements on April 2 ($CRRLib_i[-1,+1]$), April 9 ($CRRPause_i[-1,+1]$) and trade deals ($CRRDeal_i[-1,+1]$)[3], firm-level measures of trade and uncertainty sensitivity, and financial characteristics such as market-to-book ratio (MTB), firm size, return on assets (ROA), and debt-to-asset ratio (DA). The variables capturing the trade and uncertainty sensitivities are winsorized at the 5 percent level to mitigate large outlier effects from fat tails.[4] All other variables are winsorized at the 1 percent level.

TABLE 2
Summary Statistics

Variables	Observations	Mean	S.D.	Min	Max
$CRRLib_i[-1,+1]$	11741	-0.0303	0.0572	-0.2281	0.1503
$CRRPause_i[-1,+1]$	11741	0.0257	0.0534	-0.1502	0.2298
$CRRDeal_i[-1,+1]$	8086	0.0126	0.0399	-0.1025	0.1797
$TradeSensitivity_i$	11741	0.2281	0.9388	-3.0913	5.6148
$UncertaintySensitivity_j$	11741	0.6767	0.0598	0.5755	0.8320
MTB_i	11737	0.0068	0.0263	-0.0155	0.2012
$Size_i$	11740	12.9959	2.1622	5.2012	18.5000
ROA_i	11718	2.2915	15.3350	-186.4500	34.1600
DA_i	11738	22.2691	19.6288	0.0000	167.8800

Notes: $TradeSensitivity_i$ and $UncertaintySensitivity_j$ are winsorized at 5% level. All other variables are winsorized at 1% level.

4 Empirical Results

4.1 Key findings

4.1.1 April 2 Announcement

The top panel of Table 3 presents the market reaction to the April 2 announcement. The results provide strong evidence that the universal tariff shock was priced immediately into corporate valuations through two distinct channels.

In the univariate specifications (columns (1) and (2)), both trade sensitivity and uncertainty sensitivity exhibit negative and statistically significant coefficients, suggesting that firms with greater exposure to U.S. trade or operating in sectors more vulnerable to uncertainty experienced sharper declines in stock prices. This pattern persists when both variables

[3]For firms in different markets, the trade deal days are set to be first local trading day after the announcements in Table 1.

[4]We also include a robustness check with these variables winsorized at the 1 percent level in Section 4.2.2.

are included together (column (3)) and strengthens after adding firm-level controls (column (4)). Crucially, in Column (5), we cluster standard errors at the industry level to account for sector-wide shocks—such as universal input cost increases. Even with this conservative clustering, the $TradeSensitivity_i$ coefficient remains highly significant.

The economic magnitude of these effects is substantial. The difference between the 90^{th} and 10^{th} percentiles of $TradeSensitivity_i$ is 1.383. In other words, firms that are very sensitive to trade experienced an additional 1.09 percentage points decline in cumulative returns over the three-day window compared to firms that are not very sensitive to trade[5]. For the uncertainty channel, the effect is similarly pronounced. The difference between the 90^{th} and 10^{th} percentiles of $UncertaintySensitivity_j$ is 0.186. Firms in sectors with low asset redeployability underperformed their flexible peers by 1.01 percentage points[6].

After the April 2 announcement, markets penalized firms not only for high U.S. export exposure but also for operating in sectors with limited investment flexibility, reflecting perceived risk of future disruptions. This finding aligns with theoretical predictions that uncertainty shocks can depress firm valuations by raising discount rates and delaying investment. The stronger negative response observed in uncertainty-sensitive sectors, as investors withdrew from firms facing higher adjustment costs and lower asset redeployability, reflects concerns over a potentially prolonged trade conflict.

Because we cluster our standard errors at the industry level, we account for the fact that error terms are correlated within sectors. Our Trade Sensitivity coefficient (ρ_1) exploits the variation of firms around their industry average. As long as a firm's export intensity is not perfectly correlated with the sector's average import intensity, our coefficient picks up the firm-specific demand shock.

4.1.2 April 9 Announcement

The April 9 announcement introduced a 90-day pause of reciprocal tariffs on imports from most trading partners, excluding China. This measure provided temporary relief from the escalating trade tensions triggered by the prior universal tariff declaration. The middle panel of Table 3 reveals positive market responses, with both trade sensitivity and uncertainty sensitivity displaying positive and statistically significant coefficients across the univariate and multivariate regressions.

Export-intensive firms realized larger gains, owing to the postponement of reciprocal tariffs. Similarly, sectors with elevated uncertainty exposure recovered as immediate policy

[5]It is equivalent to 9 percent of the same range change of the three-day cumulative raw returns from the April 2 announcement.

[6]This is equivalent to 8 percent of the same range change of the three-day cumulative raw returns from the April 2 announcement.

TABLE 3
Baseline Results

April 2	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	-0.00815***		-0.00764***	-0.00789***	-0.00789***
	(0.00110)		(0.00110)	(0.00109)	(0.00129)
$UncertaintySensitivity_j$		-0.0552***	-0.0504***	-0.0542***	-0.0542***
		(0.00831)	(0.00832)	(0.00817)	(0.0206)
Observations	11741	11741	11741	11713	11713
April 9	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00410***		0.00380***	0.00374***	0.00374***
	(0.00108)		(0.00108)	(0.00108)	(0.00140)
$UncertaintySensitivity_j$		0.0319***	0.0295***	0.0283***	0.0283
		(0.00836)	(0.00838)	(0.00837)	(0.0243)
Observations	11741	11741	11741	11713	11713
Trade Deals	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00256***		0.00244***	0.00237***	0.00237*
	(0.000903)		(0.000908)	(0.000906)	(0.00126)
$UncertaintySensitivity_j$		0.0180**	0.0169**	0.0180**	0.0180**
		(0.00739)	(0.00743)	(0.00744)	(0.00866)
Observations	8086	8086	8086	8072	8072
Country FE	Y	Y	Y	Y	Y
Firm Controls	N	N	N	Y	Y
Clustering: Industry	N	N	N	N	Y

Standard errors in parentheses. Standard errors are heteroskedasticity-robust in columns (1)-(4).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

risks appeared to diminish. These effects remain robust in columns (3) and (4), after accounting for both channels and firm-level controls. Economically, the interdecile range (90^{th} to 10^{th} percentile) in trade sensitivity corresponds to an additional 0.52 percentage point return. The equivalent range in uncertainty sensitivity yields a 0.53 percentage point increase. However, under industry-clustered standard errors in column (5), the uncertainty coefficient loses significance, indicating that markets continued to incorporate some residual policy uncertainty.

4.1.3 Trade Deals

Trade deals mark a reduction of uncertainty through the signing of bilateral trade agreements. The lower panel of Table 3 shows that both trade sensitivity and uncertainty sensitivity have positive and statistically significant coefficients, reflecting broad market relief following the decline in uncertainty.

Firms with greater export orientation benefited most from the agreed-upon tariff rates, which were below the originally proposed levels. Sectors marked by investment rigidity also exhibited stronger rebounds as uncertainty resolved. These results hold in columns (3) and (4), inclusive of controls for both exposures and firm characteristics. The economic effects are again meaningful. We find that firms at the 90^{th} percentile of trade sensitivity experienced a 0.33 percentage point excess return relative to those at the 10^{th} percentile. Similarly, the resolution of uncertainty generated a 0.34 percentage point relative gain for firms in high-rigidity sectors[7].

However, we note an important asymmetry: the magnitude of the trade deal recovery is roughly one-third the size of the initial April 2 announcement drop. This suggests that while trade agreements provided relief, they did not fully reverse the valuation damage caused by the initial shattering of trade policy stability. The market continues to price in a residual risk premium for global fragmentation.

4.2 Robustness Checks

4.2.1 Four-Day Window

In our baseline, the outcome variables are cumulative raw returns of firms constructed over a three-day window centered around the event date. In this subsection, we show that our results are not sensitive to the choice of window lengths. To examine the dynamics of price discovery and see whether the initial reaction was a temporary overreaction or the beginning of a sustained repricing, we extend the event window to four days ($[-1, +2]$), capturing the market movement through the second trading day post-announcement. The results are presented in Table 4.

Similarly to Table 3, we find that the trade exposure channel has statistically significant effects on firms' cumulative returns after both the April 2 announcement and trade deals. As column (5) of the top panel shows, firms that are very sensitive to trade (in the top 10^{th} percentile) incurred an additional 2.30 percentage point decline in cumulative returns over the four-day window compared to firms that are not very sensitive to trade (in the bottom

[7]For both this is equivalent to 4 percent of the same range change of the three-day cumulative raw returns from trade deals.

10^{th} percentile). The findings provide strong evidence of delayed price discovery regarding trade exposure. The scale of the effect is larger than before, indicating that the potentially lingering penalties for sensitive firms.

TABLE 4
Robustness Check 1 – Four Day Window

April 2	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	-0.0169***		-0.0163***	-0.0166***	-0.0166***
	(0.00156)		(0.00157)	(0.00157)	(0.00178)
$UncertaintySensitivity_j$		-0.0771***	-0.0670***	-0.0715***	-0.0715
		(0.0121)	(0.0120)	(0.0119)	(0.0493)
Observations	11741	11741	11741	11713	11713
April 9	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00364***		0.00339***	0.00340***	0.00340**
	(0.00120)		(0.00110)	(0.00110)	(0.00149)
$UncertaintySensitivity_j$		0.0274***	0.0253***	0.0254***	0.0254
		(0.00867)	(0.00869)	(0.00870)	(0.0311)
Observations	11741	11741	11741	11713	11713
Trade Deals	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00201**		0.00187*	0.00181*	0.00181*
	(0.000998)		(0.00100)	(0.000997)	(0.00104)
$UncertaintySensitivity_j$		0.0202**	0.0194**	0.0202**	0.0202**
		(0.00806)	(0.00809)	(0.00809)	(0.00834)
Observations	8086	8086	8086	8072	8072
Firm Controls	N	N	N	Y	Y
Clustering: Industry	N	N	N	N	Y

Standard errors in parentheses. Standard errors are heteroskedasticity-robust in columns (1)-(4).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

For the April 9 announcement, the scale of effects is similar to Table 3: firms with 90^{th} percentile trade sensitivity experienced an additional 0.47 percentage point increase in cumulative returns over the four-day window compared to firms that are in the bottom 10 percent. In the bottom panel, the additional gains for firms with 90^{th} percentile trade sensitivity is 0.12 percentage point relative to firms in the 10^{th} percentile in the countries that have reached a trade agreement with the U.S.

As for uncertainty sensitivity channel, firms in sectors that are very sensitive to uncertainty suffered an additional 1.33 percentage point decline in cumulative returns over the four-day window of the April 2 announcement. In the middle panel, the effect is positive while again insignificant. Firms in sectors that are very sensitive to uncertainty saw an additional 0.47 percentage point increase in cumulative returns over the four-day window of the trade deals. In the bottom panel, the effect is statistically positive. Firms in sectors at the 90^{th} percentile sensitivity to uncertainty saw an additional 0.36 percentage point increase in cumulative returns over the four-day window of the trade deals compared to those in the 10^{th} percentile.

4.2.2 One Percent Winsorization

In our baseline, we winsorize the variables capturing the sensitivity to U.S. demand and uncertainty at the 5 percent level to mitigate the influence of extreme outliers. To ensure that our findings are not driven by this choice, we conduct a robustness check using a more conservative 1 percent winsorization threshold. This allows us to confirm the stability of our results when fewer extreme observations are trimmed. The results are presented in Table 5.

We observe a notable divergence in how the two channels respond to the inclusion of extreme values. First, the uncertainty channel remains remarkably stable. For the April 2 announcement, the coefficient on $UncertaintySensitivity_j$ is -0.0570 (Column (5)), which is nearly identical in magnitude to the baseline estimate of -0.0542 (Table 3). For the April 9 announcement, the scale of the coefficient remains largely unchanged at 0.0235. Similarly, the coefficient for the trade deals remains robust at 0.0192, preserving both its economic magnitude and statistical significance. This stability suggests that the impact of investment flexibility on valuations is a pervasive phenomenon not driven by outlier firms. Second, the trade exposure channel exhibits attenuation when outliers are included. Upon the April 2 announcement, the coefficient on $TradeSensitivity_i$ decreases in magnitude to -0.00253, roughly one-third of the baseline size (-0.00789). However, importantly, it remains statistically significant at the 1 percent level. In the middle panel, similar scale of attenuation is present but again, this channel remains significant. For the trade deals, the coefficient drops to 0.0008 and loses statistical significance entirely.

The divergence in results between the 1 percent and 5 percent thresholds is consistent with the nature of our constructed proxies. The measure of trade sensitivity, estimated via firm-level regressions on historical data, is susceptible to estimation noise in the tails. When these extreme outliers are retained (1% winsorization), the coefficient attenuates toward zero and loses precision, a hallmark of classical measurement error. Conversely, the measure of sensitivity to uncertainty, which relies on broader industry-level capital flow data, remains

remarkably stable across specifications. This contrast validates our baseline decision to winsorize at the 5 percent level, as it effectively filters out estimation noise to reveal the underlying economic signal.

TABLE 5
Robustness Check 2 – One Percent Winsorization

April 2	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	-0.00292***		-0.00276***	-0.00253***	-0.00253***
	(0.000704)		(0.000701)	(0.000692)	(0.000535)
$UncertaintySensitivity_j$		-0.0555***	-0.0539***	-0.0570***	-0.0570***
		(0.00825)	(0.00825)	(0.00805)	(0.0198)
Observations	11741	11741	11741	11713	11713
April 9	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00113		0.00105	0.00119*	0.00119*
	(0.000685)		(0.000685)	(0.000677)	(0.000695)
$UncertaintySensitivity_j$		0.0253***	0.0247***	0.0235***	0.0235
		(0.00794)	(0.00794)	(0.00793)	(0.0255)
Observations	11741	11741	11741	11713	11713
Trade Deals	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.000842		0.000803	0.000837	0.000837
	(0.000605)		(0.000606)	(0.000601)	(0.000734)
$UncertaintySensitivity_j$		0.0185**	0.0182**	0.0192**	0.0192**
		(0.00751)	(0.00752)	(0.00753)	(0.00855)
Observations	8086	8086	8086	8072	8072
Firm Controls	N	N	N	Y	Y
Clustering: Industry	N	N	N	N	Y

Standard errors in parentheses. Standard errors are heteroskedasticity-robust in columns (1)-(4).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

4.2.3 All Tradable Firms

We only include firms with non-missing sales and non-missing sectoral exports from 2017 to 2023 in the baseline. As another robustness check, we further include firms that are in the tradable sectors but with some years' sales missing over the six-year period by imputing

their trade sensitivity with the industry average. We also replace the missing sectoral exports with 0. The extended sample includes 16,267 firms across 142 SIC 3-digit industries in 48 economies.

Table 6 presents the results for the extended sample, including firms with imputed data. For the April 2 announcement, the results remain robust and highly significant, confirming that the negative valuation effect of the tariff announcement was a systemic shock affecting all firms in the tradable sectors.

The differences between the 90^{th} and 10^{th} percentiles of trade and uncertainty sensitivity are 1.807 and 0.186, respectively. The impact of $TradeSensitivity_i$ is now causing an additional 0.91 percentage decline for firms in the top 10^{th} percentile. The effect of $UncertaintySensitivity_j$ strengthens, remaining significant with clustered standard errors. For firms in industries with an uncertainty sensitivity index at the 90^{th} percentile, they experienced an additional 1.04 percent decline in their cumulative returns.

For the April 9 announcement, the coefficient of trade sensitivity also remains robust and highly significant. The impact of $TradeSensitivity_i$ is now causing an additional 1.38 percentage increase for firms in the top 10^{th} percentile. The effect of sensitivity to uncertainty becomes weakly significant, with an additional 0.87 percentage increase for firms in sectors in the 90^{th} percentile.

For the trade deals, the results lose statistical significance. This attenuation is consistent with measurement error introduced by the imputation process. However, it also suggests an economic asymmetry: while the shock of the universal tariff punished all exposed firms indiscriminately, the recovery following trade deals was more selective. In sum, this robustness check confirms that our core findings are not artifacts of sample selection.

4.2.4 Abnormal Returns

In our baseline analysis, we examined cumulative raw returns. To ensure our results are not driven by systematic risk exposure, we re-estimate the effects using Cumulative Abnormal Returns (CAR) derived from the standard Market Model:

$$AR_{it} = Return_{it} - (\frac{\alpha_i}{21} + \beta_i * Return_{kt})$$

where $Return_{kt}$ is the market return in country k. We estimate firm-specific parameter α_i and β_i using monthly returns over the five years preceding December 2023. We then compute

TABLE 6
Robustness Check 3 – All Tradable Firms

April 2	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	-0.00506***		-0.00470***	-0.00504***	-0.00504***
	(0.000994)		(0.000995)	(0.000999)	(0.00141)
$UncertaintySensitivity_j$		-0.0516***	-0.0489***	-0.0557***	-0.0557***
		(0.00716)	(0.00717)	(0.00720)	(0.0194)
Observations	16267	16267	16267	15581	15581
April 9	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00834***		0.00799***	0.00762***	0.00762***
	(0.00102)		(0.00102)	(0.00104)	(0.00164)
$UncertaintySensitivity_j$		0.0512***	0.0467***	0.0469***	0.0469*
		(0.00742)	(0.00739)	(0.00754)	(0.0250)
Observations	16267	16267	16267	15581	15581
Trade Deals	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00140*		0.00131	0.00145*	0.00145
	(0.000833)		(0.000837)	(0.000847)	(0.00150)
$UncertaintySensitivity_j$		0.0114*	0.0107*	0.0105	0.0105
		(0.00637)	(0.00640)	(0.00657)	(0.00969)
Observations	10100	10100	10100	9718	9718
Country FE	Y	Y	Y	Y	Y
Firm Controls	N	N	N	Y	Y
Clustering: Industry	N	N	N	N	Y

Standard errors in parentheses. Standard errors are heteroskedasticity-robust in columns (1)-(4).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

the three-day CAR centered on the event dates as below:

$$CAR_i[-1,+1] = \sum_{t=-1}^{+1} AR_{it}$$

Table 7 presents the results. After controlling for market-wide movements, the negative effects of $TradeSensitivity_i$ on firms' cumulative returns after the April 2 announcement remain robust across all columns. Economically, firms that are very sensitive to trade (at the 90$^{\text{th}}$ percentile of trade sensitivity) incurred an additional 0.44 percentage point decline

in cumulative abnormal returns over the three-day window compared to firms that are not very sensitive. This confirms that the market penalized U.S. export exposure specifically, independent of general market beta. Meanwhile, the coefficients of $UncertaintySensitivity_j$ remain negative and significant, though somewhat attenuated, suggesting that part of the uncertainty impact in raw returns reflected systematic risks.

TABLE 7
Robustness Check 4 – Abnormal Returns

April 2	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	-0.00316***		-0.00289***	-0.00317***	-0.00317***
	(0.00109)		(0.00109)	(0.00109)	(0.00101)
$UncertaintySensitivity_j$		-0.0289***	-0.0271***	-0.0289***	-0.0289*
		(0.00800)	(0.00803)	(0.00797)	(0.0147)
Observations	11743	11743	11743	11715	11715
April 9	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00201*		0.00184*	0.00162	0.00162
	(0.00111)		(0.00111)	(0.00110)	(0.00166)
$UncertaintySensitivity_j$		0.0184**	0.0172**	0.0145*	0.0145
		(0.00838)	(0.00840)	(0.00839)	(0.0243)
Observations	11743	11743	11743	11715	11715
Trade Deals	(1)	(2)	(3)	(4)	(5)
$TradeSensitivity_i$	0.00161*		0.00149	0.00136	0.00136
	(0.000922)		(0.000927)	(0.000925)	(0.00123)
$UncertaintySensitivity_j$		0.0177**	0.0170**	0.0167**	0.0167**
		(0.00757)	(0.00761)	(0.00764)	(0.00832)
Observations	8071	8071	8071	8057	8057
Country FE	Y	Y	Y	Y	Y
Firm Controls	N	N	N	Y	Y
Clustering: Industry	N	N	N	N	Y

Standard errors in parentheses. Standard errors are heteroskedasticity-robust in columns (1)-(4).
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

For the April 9 pause, both channels exhibit positive effects in earlier columns, but they lose statistical significance in column (5) under industry clustering. This implies that the announcement delivered widespread market relief, with limited heterogeneity based on firm

sensitivities to trade or uncertainty.

As for the trade deals, the positive effects of $TradeSensitivity_i$ on firms' cumulative returns become insignificant. However, the positive effects of $UncertaintySensitivity_j$ remain strongly robust and the magnitude of the coefficients virtually unchanged compared to the baseline results. This suggests that the resolution of uncertainty following the signing of the bilateral trade deals provided real, firm-specific value to firms with high sensitivity to uncertainty, independent of general market movements. Specifically, firms in sectors with the 90^{th} percentile of uncertainty sensitivity experienced a 0.31 percentage point excess return relative to those at the 10^{th} percentile.

4.3 Additional results

4.3.1 Firms in non-tradable sectors

Next, we expand our sample to include firms in non-tradable sectors[8], constructing their trade sensitivity following the methodology outlined in Section 3.2. Because non-tradable firms provide intermediate services to tradable firms within their domestic market, we proxy their indirect exposure to U.S. trade policy using changes in their home country's aggregate U.S. exports. As in Equation (2), we regress the percentage change in firm i's sales on the percentage change in its home country k's exports to the U.S. over the period of 2017–2023:

$$\Delta Sales_{it} = \sigma_0 + \sigma_{1i}\Delta USExports_{kt} + \epsilon_{ikt} \tag{3}$$

We estimate this regression firm-by-firm for those in non-tradable sectors with non-missing sales and exports data and save σ_{1i} as $TradeSensitivity_i$. We then match these firms to the Kim and Kung (2017) sectoral asset redeployability index at the 3-digit SIC level and merge this dataset with our daily closing price data. Table 8 presents the summary statistics for the key variables within the non-tradable sample.

If the observed valuation changes are truly driven by the trade and uncertainty channels identified in this paper, rather than by aggregate macroeconomic shocks, the effects should be heavily concentrated among tradable firms. To formally compare the differential impact of these policy events across sectors, we pool the sample and estimate the following split-slope

[8]We exclude firms in financial sectors (SIC 3-digit codes 600 to 699) to focus on the real economy's investment response, as the balance sheet mechanics of financial firms differ fundamentally from non-financial corporations.

TABLE 8
Summary Statistics – Non-tradable Firms

Variables	Observations	Mean	S.D.	Min	Max
$CRRLib_i[-1,+1]$	11956	-0.0268	0.0540	-0.2279	0.1506
$CRRPause_i[-1,+1]$	11956	0.0210	0.0512	-0.1502	0.2288
$CRRDeal_i[-1,+1]$	7377	0.0127	0.0384	-0.1025	0.1797
$TradeSensitivity_i$	11956	0.1194	0.9546	-1.8677	2.4371
$UncertaintySensitivity_j$	11956	0.6493	0.0757	0.5755	0.8320
MTB_i	11949	0.0074	0.0283	-0.0157	0.2053
$Size_i$	11952	12.8306	2.4202	5.2067	18.5589
ROA_i	11912	1.2452	17.5547	-185.1900	34.1700
DA_i	11944	25.4627	23.7453	0.0000	166.5600

Notes: $TradeSensitivity_i$ and $UncertaintySensitivity_j$ are winsorized at 5% level. All other variables are winsorized at 1% level.

model:

$$\begin{aligned} Y_i = \rho_0 &+ \beta_1(TradeSensitivity_i \times Tradable_i) + \beta_2(TradeSensitivity_i \times NonTradable_i) \\ &+ \gamma_1(UncertaintySensitivity_j \times Tradable_i) + \gamma_2(UncertaintySensitivity_j \times NonTradable_i) \\ &+ \lambda NonTradable_i + \mathbf{X}_i + \delta_k + \varepsilon_{ijk} \end{aligned} \tag{4}$$

where $Tradable_i$ and $NonTradable_i$ are mutually exclusive indicator variables denoting a firm's sector classification. By fully interacting these indicators with our sensitivity measures, β_1 and β_2 directly capture the marginal effect of trade sensitivity for tradable and non-tradable firms, respectively. Similarly, γ_1 and γ_2 capture the sector-specific effects of uncertainty sensitivity. The parameter λ absorbs the baseline difference in raw returns for non-tradable firms relative to the tradable baseline.

Results in columns (1) and (2) of Table 9 strongly support the hypothesis that tradable firms are disproportionately affected by the April 2 and 9 announcements through both channels. The estimated coefficients on $TradeSensitivity \times Tradable$ are consistent in magnitude with our baseline estimates from Table 3 (-0.00789 for April 2 and 0.00374 for April 9). The corresponding effect on non-tradable firms is much smaller. The formal test of equality decisively rejects the null that the coefficients are equal across the two groups ($p = 0.000$ for both events).

On the other hand, the market reaction during the Deal Days (column (3)) reveals no such heterogeneity. The valuation changes for tradable and non-tradable firms are statistically indistinguishable ($p = 0.318$), suggesting that the trade deals generated broad shifts in general investor sentiment that lifted all sectors relatively equally.

TABLE 9
All Sectors

	(1) April 2	(2) April 9	(3) Deal Days
$TradeSensitivity_i \times Tradable_i$	-0.00756***	0.00443***	0.00164
	(0.00129)	(0.00129)	(0.00123)
$UncertaintySensitivity_j \times Tradable_i$	-0.0510**	0.0368*	0.0171*
	(0.0220)	(0.0211)	(0.00885)
$TradeSensitivity_i \times NonTradable_i$	-0.00128**	-0.00111**	0.000342
	(0.000522)	(0.000526)	(0.000547)
$UncertaintySensitivity_j \times NonTradable_i$	-0.00335	-0.00641	0.00276
	(0.0141)	(0.0164)	(0.00888)
$NonTradable_i = 1$	-0.0242	0.0309**	0.00642
	(0.0165)	(0.0152)	(0.00850)
Observations	23697	23697	15463
Country FE	Y	Y	Y
Firm Controls	Y	Y	Y
Clustering: Industry	Y	Y	Y
p-value: Equality of Trade Sensitivity	0.000	0.000	0.318
p-value: Equality of Uncertainty Sensitivity	0.056	0.060	0.254

Standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
The p-values correspond to an F-test of the null hypothesis that the marginal effect of the key channels is identical for both tradable and non-tradable firms.

5 Conclusion

This paper investigates how U.S. trade policy shocks in 2025 affected global firms' stock prices, focusing on the universal tariff announcement on April 2, 2025 and eight subsequent trade agreements. Using an event-study framework and firm-level data, we disentangle two key channels through which these shocks influenced market valuations—firms' exposure to U.S. trade and their sensitivity to investment uncertainty.

Our results reveal several important patterns. Both channels played a significant role in shaping firms' short-term market reactions. Following the initial tariff announcement, firms with greater export exposure to the United States and those operating in sectors with lower asset redeployability experienced more pronounced stock price declines. The uncertainty channel was particularly relevant, consistent with theoretical predictions that investment inflexibility amplifies the impact of policy shocks. In contrast, the signing of

trade agreements generated broad-based market gains, reflecting reduced uncertainty and greater clarity regarding future trade relations.

The results have several implications for economic policy. They highlight the importance of maintaining stable and predictable trade relationships to support investor confidence and medium-term growth. Policies that enhance firms' ability to adjust to external shocks—such as promoting diversification of export markets, encouraging investment in flexible production technologies, and strengthening access to finance—can help mitigate the effects of future trade policy uncertainty. At the regional level, ongoing efforts to deepen integration and broaden partnerships with other trading partners may also help cushion the impact of future global policy shifts.

Future research could extend this analysis to explore longer-term firm-level outcomes, such as investment, productivity, and employment, as new data become available. Overall, the findings suggest that policy predictability and clarity play an important role in sustaining market confidence and supporting investment in an increasingly uncertain global environment.

References

Amiti, M., and Davis, D. R. (2012). 'Trade, firms, and wages: Theory and evidence', *The Review of economic studies*, Vol. 79(1), pp. 1–36.

Auray, S., Devereux, M. B., and Eyquem, A. (2025, May). *Tariffs and Retaliation: A Brief Macroeconomic Analysis* (NBER Working Paper No. 33739). National Bureau of Economic Research. https://doi.org/10.3386/w33739

Autor, D., Beck, A., Dorn, D., and Hanson, G. H. (2024). *Help for the Heartland? The Employment and Electoral Effects of the Trump Tariffs in the United States* (tech. rep. No. w32082). National Bureau of Economic Research.

Bernard, A. B., Jensen, J. B., Redding, S. J., and Schott, P. K. (2007). 'Firms in international trade', *Journal of Economic perspectives*, Vol. 21(3), pp. 105–130.

Bianconi, M., Esposito, F., and Sammon, M. (2021). 'Trade policy uncertainty and stock returns', *Journal of International Money and Finance*, Vol. 119, pp. 102492.

Bloom, N., Bond, S., and Van Reenen, J. (2007). 'Uncertainty and investment dynamics', *The review of economic studies*, Vol. 74(2), pp. 391–415.

Boer, L., Menkhoff, L., and Rieth, M. (2023). 'The multifaceted impact of US trade policy on financial markets', *Journal of Applied Econometrics*, Vol. 38(3), pp. 388–406.

Bonaime, A., Gulen, H., and Ion, M. (2018). 'Does policy uncertainty affect mergers and acquisitions?', *Journal of financial economics*, Vol. 129(3), pp. 531–558.

Breinlich, H. (2014). 'Heterogeneous firm-level responses to trade liberalization: A test using stock price reactions', *Journal of International Economics*, Vol. 93(2), pp. 270–285.

Breinlich, H., Leromain, E., Novy, D., Sampson, T., and Usman, A. (2018). 'The economic effects of Brexit: Evidence from the stock market', *Fiscal Studies*, Vol. 39(4), pp. 581–623.

Bruno, V., Shim, I., and Shin, H. S. (2022). 'Dollar beta and stock returns', *Oxford Open Economics*, Vol. 1, pp. odac003.

Carruth, A., Dickerson, A., and Henley, A. (2000). 'What do we know about investment under uncertainty?', *Journal of economic surveys*, Vol. 14(2), pp. 119–154.

Chiang, T. C. (2020). 'US policy uncertainty and stock returns: evidence in the US and its spillovers to the European Union, China and Japan', *The Journal of Risk Finance*, Vol. 21(5), pp. 621–657.

Claessens, S., Tong, H., and Wei, S.-J. (2012). 'From the financial crisis to the real economy: Using firm-level data to identify transmission channels', *Journal of International Economics*, Vol. 88(2), pp. 375–387.

Costinot, A., and Werning, I. (2025, April). *How Tariffs Affect Trade Deficits* (NBER Working Paper No. 33709). National Bureau of Economic Research. https://doi.org/10.3386/w33709

Cui, C., and Li, L. S.-Z. (2023). 'Trade policy uncertainty and new firm entry: Evidence from China', *Journal of Development Economics*, Vol. 163, pp. 103093.

Davies, R. B., and Studnicka, Z. (2018). 'The heterogeneous impact of Brexit: Early indications from the FTSE', *European Economic Review*, Vol. 110, pp. 1–17.

Ding, H., Koedijk, K. G., Qi, T., and Shen, Y. (2022). 'US–China trade war and corporate reallocation: Evidence from Chinese listed companies', *The World Economy*, Vol. 45(12), pp. 3907–3932.

Egger, P. H., and Zhu, J. (2020). 'The US–Chinese trade war: An event study of stock-market responses', *Economic Policy*, Vol. 35(103), pp. 519–559.

Georgiadis, G., and Jarociński, M. (2025). 'Global spillovers from multi-dimensional US monetary policy', *Journal of International Economics*, pp. 104169.

Gopinath, G., Gourinchas, P.-O., Presbitero, A. F., and Topalova, P. (2025). 'Changing global linkages: A new Cold War?', *Journal of International Economics*, Vol. 153, pp. 104042.

Greenland, A., Ion, M., Lopresti, J., and Schott, P. K. (2024). 'Using equity market reactions to infer exposure to trade liberalization', *Journal of International Economics*, Vol. 152, pp. 104000.

Gulen, H., and Ion, M. (2016). 'Policy uncertainty and corporate investment', *The Review of financial studies*, Vol. 29(3), pp. 523–564.

Handley, K., and Limão, N. (2017). 'Policy uncertainty, trade, and welfare: Theory and evidence for China and the United States', *American Economic Review*, Vol. 107(9), pp. 2731–2783.

Huang, Y., Lin, C., Liu, S., and Tang, H. (2023). 'Trade networks and firm value: Evidence from the US-China trade war', *Journal of International Economics*, Vol. 145, pp. 103811.

Ignatenko, A., Lashkaripour, A., Macedoni, L., and Simonovska, I. (2025). 'Making America great again? The economic impacts of Liberation Day tariffs', *Journal of International Economics*, Vol. 157, pp. 104138. https://doi.org/https://doi.org/10.1016/j.jinteco.2025.104138

Jensen, N. M. (2007). 'International institutions and market expectations: Stock price responses to the WTO ruling on the 2002 US steel tariffs', *The Review of International Organizations*, Vol. 2, pp. 261–280.

Kim, H., and Kung, H. (2017). 'The asset redeployability channel: How uncertainty affects corporate investment', *The Review of Financial Studies*, Vol. 30(1), pp. 245–280.

Liu, H., Yu, J., Tang, G., and Chen, J. (2025). 'External trade policy uncertainty, corporate risk exposure, and stock market volatility', *China Economic Review*, Vol. 89, pp. 102331.

Moser, C., and Rose, A. K. (2014). 'Who benefits from regional trade agreements? The view from the stock market', *European Economic Review*, Vol. 68, pp. 31–47.

Ramondo, N., and Rodríguez-Clare, A. (2013). 'Trade, multinational production, and the gains from openness', *Journal of Political Economy*, Vol. 121(2), pp. 273–322.

Rodríguez-Clare, A., Ulate, M., and Vasquez, J. P. (2025, May). *The 2025 Trade War: Dynamic Impacts Across U.S. States and the Global Economy* (NBER Working Paper No. 33792). National Bureau of Economic Research. https://doi.org/10.3386/w33792

Schmitt-Grohé, S., and Uribe, M. (2025, July). *Transitory and Permanent Import Tariff Shocks in the United States: An Empirical Investigation* (NBER Working Paper No. 33997). National Bureau of Economic Research. https://doi.org/10.3386/w33997

Selmi, R., Errami, Y., and Wohar, M. E. (2020). 'What Trump's China tariffs have cost US companies?', *Journal of Economic Integration*, Vol. 35(2), pp. 282–295.

Tong, H., and Wei, S.-J. (2011). 'The composition matters: Capital inflows and liquidity crunch during a global economic crisis', *The Review of Financial Studies*, Vol. 24(6), pp. 2023–2052.

Xu, C. (2022). 'Reshaping global trade: the immediate and long-run effects of bank failures', *The Quarterly Journal of Economics*, Vol. 137(4), pp. 2107–2161.

Appendix

TABLE A1
Number of Listed Firms with U.S. Trade Exposure by Country (Region)

Country (Region)	Frequency	Percent	Cumulative
Argentina	25	0.21	0.21
Australia	255	2.17	2.38
Brazil	133	1.13	3.52
Canada	327	2.79	6.30
China	2769	23.58	29.89
European Union	1116	9.51	39.39
Hong Kong	642	5.47	44.86
Indonesia	166	1.41	46.27
Israel	88	0.75	47.02
Japan	1336	11.38	58.40
Korea	1386	11.80	70.21
Malaysia	298	2.54	72.75
Mexico	451	3.84	76.59
New Zealand	22	0.19	76.77
Norway	62	0.53	77.30
Pakistan	178	1.52	78.82
Peru	72	0.61	79.43
Philippines	32	0.27	79.70
Russian Federation	536	4.57	84.27
South Africa	55	0.47	84.74
Switzerland	567	4.83	89.57
Thailand	413	3.52	93.08
Turkey	173	1.47	94.56
United Kingdom	262	2.23	96.79
Vietnam	377	3.21	100.00
Total	11741	100.00	

Table A2
List of 10 Most Sensitive Industries

SIC3	Name	Average Trade Sensitivity	Uncertainty Sensitivity
Sorted by highest trade sensitivity			
144	Sand And Gravel	0.644	0.718
131	Crude Petroleum And Natural Gas	0.572	0.906
396	Costume Jewelry, Costume Novelties, Buttons, And Miscellaneous Notions, Except Precious Metal	0.558	0.639
328	Cut Stone And Stone Products	0.411	0.639
362	Electrical Industrial Apparatus	0.408	0.641
342	Cutlery, Handtools, And General Hardware	0.383	0.605
354	Metalworking Machinery And Equipment	0.381	0.638
244	Wood Containers	0.372	0.701
367	Electronic Components And Accessories	0.369	0.810
355	Special Industry Machinery, Except Metalworking	0.367	0.673
Sorted by highest uncertainty sensitivity			
131	Crude Petroleum And Natural Gas	0.572	0.906
221	Broadwoven Fabric Mills, Cotton	-0.026	0.832
223	Broadwoven Fabric Mills, Wool (including Dyeing And Finishing)	0.038	0.832
224	Narrow Fabrics And Other Smallwares Mills: Cotton, Wool, Silk, And Manmade Fiber	0.158	0.832
225	Knitting Mills	0.327	0.832
228	Yarn And Thread Mills	0.331	0.832
229	Miscellaneous Textile Goods	0.235	0.832
367	Electronic Components And Accessories	0.369	0.810
122	Bituminous Coal And Lignite Mining	0.071	0.782
083	Forest Nurseries And Gathering Of Forest Products	-0.060	0.781

Notes: The top panel lists industries with 10 highest the average trade sensitivity at the SIC3 digit level. The bottom panel lists industries with 10 highest uncertainty sensitivity index.

PUBLICATIONS

Trade Policy Shocks and Corporate Valuations

Working Paper No. WP/2026/070