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Trump's tariffs: Unpacking the EU's market reaction

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ABSTRACT

This paper explores the effect of 26 February 2025 Trumps' tariffs announcement against Europe. As a mean of event-study analysis, we find that the announcement led to a reduction of firms' abnormal return (AR), raw return and cumulative abnormal return (CAR) listed on the EU STOXX 600, and that its effect changes according to firms' operating industry and size. Our results confirm the EU market dependence from US policies, warning about its vulnerability.

1. Introduction

On 5 November 2024, Trump won the US election, shaping the international relationship and political economy of the states (Ahmed et al., 2025). The return of Trump to office was expected to introduce a range of policy shifts, particularly in economic strategies that could influence market dynamics, regulatory landscapes, and international trade such as tariffs against China, Canada, Mexico and EU. Our study seeks to examine how Trumps' tariffs announcement affects EU stock market, with a focus on how firms of varying industry and sizes—large, medium, and small—responded.

According to the Efficient Market Hypothesis (EMH), financial markets incorporate all available public information into asset prices (Fama, 1970). Thus, the announcement of tariffs, or even the anticipation of tariffs, should lead to immediate price adjustments in EU financial markets. If investors perceive the tariffs as a threat to future profits, they may reduce investments in EU firms, leading to stock price declines, especially in sectors most exposed to U.S.-EU trade relations (e.g., automotive, IT, and manufacturing). As previously explored by Wagner et al. (2018), political economy uncertainty plays a pivotal role in determining investors' perceptions of assets as well as the risk profile of financial and non-financial firms. However, Li and Born (2006) find that government lack of clear direction of country political economy is associated with higher corporate uncertainty which finally affect stock market value.

Recent papers (i.e. Ahmed et al. 2025; Cosma et al. 2025; Ferriani et al. 2025, Chen et al. 2023) explores the market effect of 2025 Trumps' elections. Ahmed et al. (2025) provide evidence of a significant abnormal returns in U.S. equities during the immediate post-election trading session following Donald Trump's confirmed victory. Ferriani et al. (2025) focus on indicators of political proximity extracted from companies' earnings calls, demonstrating their relevance as predictors of post-election abnormal returns. Cosma et al. (2025) show how firms more engaged on environmental policy experienced a lower cumulative abnormal return after Trumps' election, signalling how institutional pressure and Trumps' announcements of Paris Agreement retraction immediately affected stock market return. Finally, Chen et al. (2023) analyse the impact of Trump's trade war on U.S. financial markets finding that this shock significantly affects financial variables like stock prices and Treasury yields, explaining a substantial portion of their immediate variation.

Nevertheless, there is not an empirical evaluation of how EU financial market reacted to Trumps' announcement of tariffs, as well as how this effect has changed across industry and firms' size. Therefore, we propose the following hypothesis:

HP.1 Trumps' tariff announcements against EU affected (not

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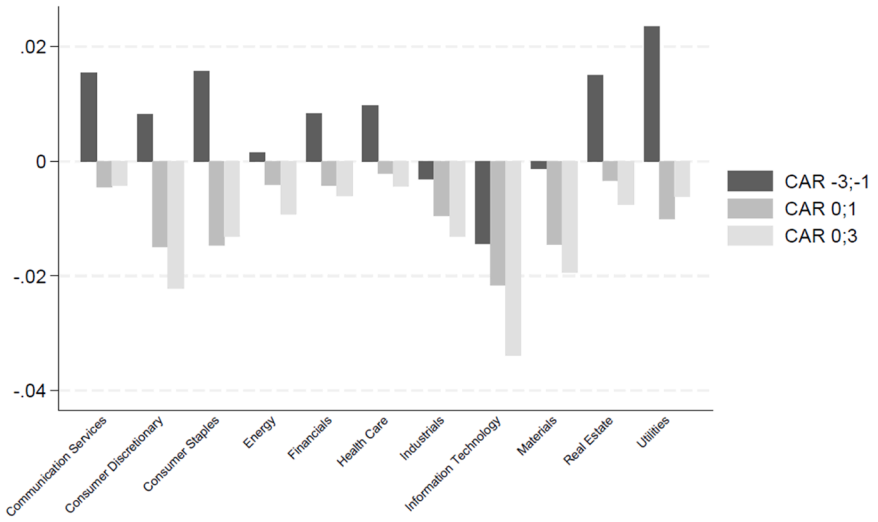

Fig. 1. Firms' CAR according to operating industry. Notes: This figure shows cumulative abnormal returns (CARs) by firms' operating industry, classified according to the internationally recognised Global Industry Classification Standard (GICS).

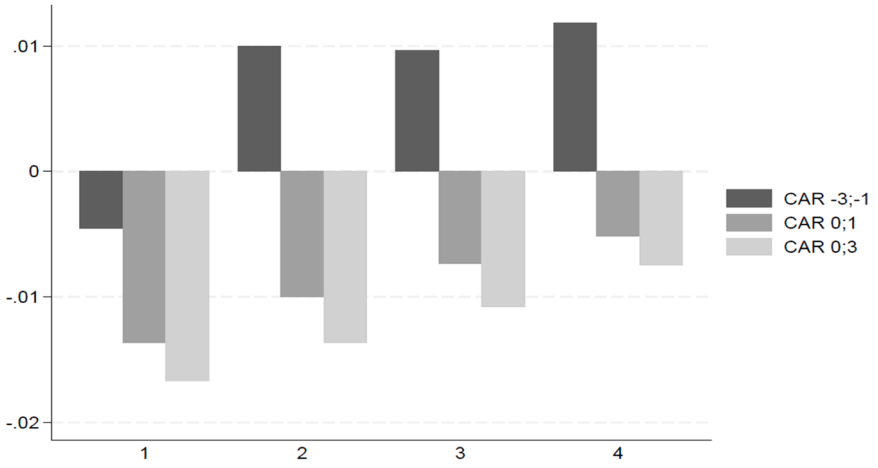

Fig. 2. CAR across firm size. Notes: This figure displays the CAR across firm size quartile. 1 is the first quartile (smallest firms), 2 is the second quartile, 3 is the third quartile and 4 is the fourth quartile (biggest).

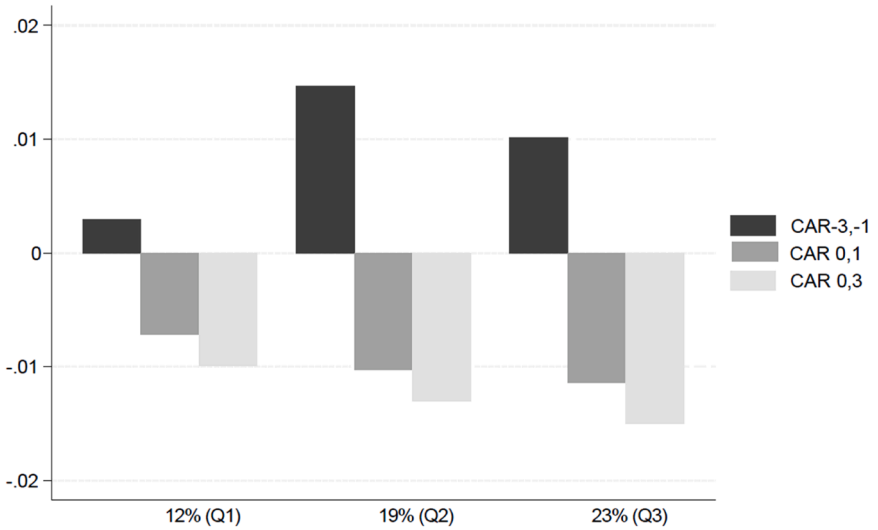

Fig. 3. CAR across country-level US export. Notes: This figure displays the CAR across country level export to US. 1 is the first quartile (firms headquartered in countries with the lowest level of US export), 2 is the second quartile, 3 is the third quartile (firms headquartered in countries with the highest level of US exports).

Table 1
Descriptive statistics and data source.

Variable	Mean	S.D	Min	Max	Source
AR	−0.0003	.0189	−0.4811	.5437	Authors' Calculation
Raw Return	.0004	.0157	−0.5004	.5424	
Size	9.851	1.669	3.599	14.919	LSEG Database
Liquidity	.0816	.0681	.0012	.3533	
Leverage	.2661	.1530	.0045	.7267	
Ptb	.0306	.0373	.0035	.2432	
Roa	.0548	.0530	−0.0883	.2423	
Eps	.0458	.0783	−0.0047	.4946	

Notes: This table shows the descriptive statistics and data sources of all variables in the sample.

stock market behaviour (Ahmed et al. 2025; Wagner et al. 2018), focusing on a specific event like the introduction of tariffs. Second, we enhance the literature on firm heterogeneity in response to political shocks and international trade agreement by focusing on the EU market responses to such tariffs, highlighting differences across firms' sizes and across different industry sectors, warning the EU authorities about the strong dependency to US policy shift.

2. Data and methodology

We employ data coming from all listed firms on the EU STOXX 600 during the period December 2024-March 2025, which includes not only the days of tariffs announcements, but also the period from when Trump won the 2024 elections. We select the EU STOXX 600 due to its broad and diversified coverage across 17 countries and 11 industries within Europe's developed economies, representing nearly 90 % of the region's investable market. We collect data on the 600 constituents, including their daily prices and market values, from LESG's database as of December 11, 2024, to 5 March 2025. Further, for the event-study analysis we restrict the sample around the 26 of February 2025, when Trumps announced for the first time a precise number of tariffs against EU at the White House.[1,2]

We initially run the traditional market model to obtain the expected returns:

$$R_{i,t} = \alpha_{i,t} + \beta_{i,t} RM_t + \varepsilon_{i,t}$$

Where R is the daily stock return and RM the benchmark returns for the same day. B is the slope (systematic risk) and α is the intercept of the model of the OLS regression.

Then, as in Ahmed et al. (2025), we obtained the abnormal return

Table 2
OLS result.

	AR				Raw return			
	Total period	−3;+3	Total period	−3 ;+3	Total period	−3;+3	Total period	−3;+3
Announcement	−0.009***	−0.0073***	−0.0092***	−0.009***	−0.0105***	−0.0062***	−0.0112***	−0.0148***
	(0.0014)	(0.0017)	(0.0015)	(0.0009)	(0.00127)	(0.00152)	(0.0016)	(0.001)
Size			−0.0035***	0.0014***			−0.0165***	0.0014***
			(9.70e-07)	(0.0004)			(8.32e-10)	(0.0003)
Liquidity			−0.0172***	−9.44e-05			−0.185***	0.0006
			(1.17e-05)	(0.0097)			(1.07e-08)	(0.0097)
Leverage			−0.0076***	0.0002			0.0064***	−0.0002
			(7.03e-07)	(0.0034)			(6.25e-10)	(0.0035)
Ptb			0.0932***	−0.0430**			2.093***	−0.0416*
			(0.0001)	(0.0217)			(1.24e-07)	(0.0218)
Roa			−0.0947***	−0.0024			−1.035***	−0.0055
			(6.46e-05)	(0.0236)			(5.90e-08)	(0.0235)
Eps			0.0174***	0.001			−0.0183***	0.0023
			(1.78e-06)	(0.0044)			(2.19e-09)	(0.004)
Firm fe	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Day fe	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	34,835	2620	27,508	2136	52,566	2950	38,413	2155
R-squared	0.166	0.283	0.180	0.052	0.168	0.317	0.192	0.101

Notes: This table shows the OLS result during the total period (December 2024 to March 2025) and 3 days before and after tariffs announcement date. The dependent variables represent firms' ARs and Raw Return both in the total period and in the event windows [−3;+3]. The independent variables of interest is the dummy of the Announcement date. The set of control variables comprises Size, Liquidity, Leverage, Ptb, Roa, Eps. Standard errors in parentheses are clustered at the firm level.
* $p < 0.10$.
** $p < 0.05$.
*** $p < 0.01$.

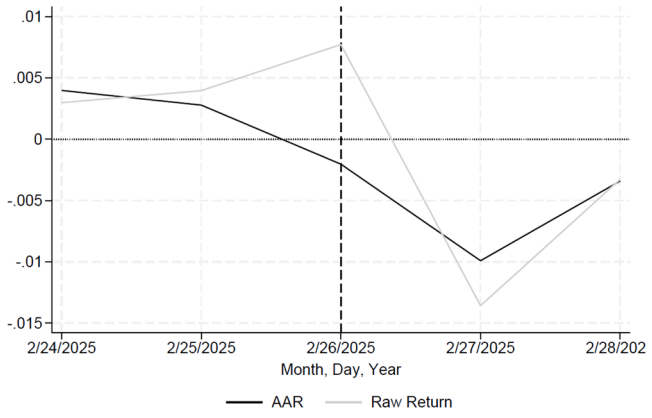

Fig. 4. AAR and Raw return trend. Notes: This figure shows the average abnormal return (AAR) and Raw Return trend around the tariff's announcement date (dot line).

affected) STOXX 600 firms' cumulative abnormal return, abnormal return and raw return.

Our study offers several key contributions to the literature on political economics and financial markets. First, we build upon the expanding body of research that explores the link between political events and

[1] We repeated the event-study analysis replacing the 26 of February with the 4 of February, when Trump firstly announced tariffs against China and Canada. Results are quietly similar and are available upon requests.

[2] The detailed interview of the speech is available at the following website https://www.whitehouse.gov/remarks/2025/02/remarks-by-president-trump-before-cabinet-meeting/

Table 3
Placebo test.

	AR				Raw return			
	Total period	−3;+3	Total period	−3 ;+3	Total period	−3 + 3	Total period	−3;+3
Announcement	−0.009***	−0.0013	−0.0092***	−0.0043***	−0.0105***	−0.0110***	−0.0092***	−0.0104***
	(0.0014)	(0.0016)	(0.0015)	(0.0013)	(0.0013)	(0.0015)	(0.0015)	(0.0018)
Announcement (−2)	0.0039***	0.0049***	0.0045***	0.0064***	0.0032***	−0.0037***	0.0045***	−0.0022
	(0.0009)	(0.0015)	(0.0011)	(0.0014)	(0.0009)	(0.0014)	(0.0011)	(0.0016)
Announcement (−3)	0.0051***	0.006***	0.0055***	0.0074***	0.0022**	−0.0047***	0.0055***	−0.0037*
	(0.0014)	(0.0018)	(0.0016)	(0.0019)	(0.0012)	(0.0017)	(0.0016)	(0.0022)
Controls	No	No	Yes	Yes	No	No	Yes	Yes
Firm fe	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Day fe	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	34,835	2,62	27,508	2136	52,566	2,95	38,413	2155
R-squared	0.166	0.283	0.180	0.052	0.168	0.317	0.192	0.101

Notes: This table shows the placebo OLS result during the total period (December 2024 to March 2025) and 3 days before and after tariffs announcement date. The dependent variables represent firms' ARs and Raw Return both in the total period and in the event windows [−3; +3]. The independent variables of interest are the dummy of the Announcement date and two placebo dummies [Announcement (−2; −3)] equal to 1 for two and three days prior to the announcement (and 0 otherwise). Standard errors in parentheses are clustered at the firm level.

* $p < 0.10$.

** $p < 0.05$.

*** $p < 0.01$.

(AR) as follow:

$$AR_{i,t} = R_{i,t} - -\left(\alpha_i + \beta_i R_{m,t}\right)$$

where $AR_{i,t}$ is the daily abnormal return for firm i on day t. Finally, we obtained the daily cumulative abnormal returns (CAR) for each firm over different event windows as shown here:

$$CAR_i = \Sigma_{t=\tau 1}^{\tau 2} AR_{i,t}$$

Our empirical approach is composed of two steps: 1) the first one is an event study based on the CAR around the event (26 February 2025); 2) the second one is an OLS regression to test the effect of tariff announcement on firms' AR.

3. Results

3.1. Event study results

Fig. 1 shows the result of the event study with three main time windows (−3–1; 0,1 and 0,3) where 0 is the 26 of February, the day that Trump announced the coming tariffs against Europe, specifying that would have been of 25 %. As shown, the CAR of all EU industries dropped in the days following the announcements, with losses varying between the ranging from −0.5 % (for communication services and healthcare firms) to −3.5 % (for IT firms). In line with the efficient market theory, this initial result shows that the tariffs menace was immediately integrated in the EU stock price valuation by analysts, reflecting on negative CAR in the days after. However, it also provide evidence that the negative CAR changes according to firms' industries, with healthcare and communication services being more resilient, while IT, materials, Energy and consumer staples the most vulnerable.[3]

Following the previous literature (i.e. Ahmed et al. 2025), we then run the event-study analysis on the base of firms' size. Fig. 2 shows that the CAR is still negative for all size quartile, with smallest firms (1), performing worst. We interpret this result because of the higher degree if internationalization and geographical diversification of biggest firms (Fillat and Geretto, 2015) which may finally result in a lower financial loss after Trumps' tariffs announcements. Moreover, smaller firms tend to be less financial flexible and more subjected to export uncertainty.

Similarly, in Fig. 3 we empirically test the supposed mechanism of firm exposition to US export uncertainty using publicly available data retrieved from Eurostat database.[4] Specifically, Fig. 3 shows that the detrimental effect on EU CAR is more pronounced across firms' headquartered in countries (Q3) with the highest level of US exports, thus confirming our assumption about this possible channel.

3.1.2. OLS results on abnormal return (AR)

Our second empirical approach involves the use of an OLS regression, where we test the statistically significant effect of Trump tariffs announcement on EU Abnormal return (AR) and Raw return in a longer and more detailed time period which spans from 11 of December 2024 to 5 March 2025.

Therefore, we run the following OLS regression:

$$Y_{i,t} = c + \beta_1 Announcement_{i,t} + \gamma' X_{i,t} + Firm_i, \ day_t + \varepsilon_{i,t}$$

where Y measures the day Abnormal return (AR) and firms' stock return (Raw return); *Announcement* is a dummy variable taking the value of 1 for the days after Trump tariffs announcement (26 of February) and 0 otherwise; X is a vector of control variables, namely Size (natural logarithm of total assets), Liquidity (cash to total asset ratio), Leverage (debt to total asset ratio), market price to book value, Return on Asset and Earnings per share. We also include both firm and day fixed effects and clustered S.E at firm level. Table 1 shows the descriptive statistics of all variables in the sample and its source.

Table 2 shows the result of this analysis, confirming that tariffs announcements had a negative and statistically significant correlation with EU STOXX listed firms, also when considering the total period, or when restricting the regression to three days before and three days after, as well as including or excluding firm and time fixed effects.

Fig. 4 shows the graphical trend of both average abnormal return (AAR) and Raw return, confirming the reaction of EU STOXX 600 listed firms to tariffs announcement.

Finally, in Table 3 we run a placebo test including two dummy variables taking values of 1 for two and three days before the announcement and 0 otherwise, corroborating the negative effect on both AR and Raw return only after the announcement of 26 of February 2025.

[3] Table A.2 shows the t-test results of all graphical tests, confirming the baseline results.

[4] https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20250311-1#:~:text=Key%20goods:%20medical%20and%20pharmaceutical,for%20particular%20industries%20(5.0%25).

4. Conclusions

This paper examines the negative impact of President Trump's tariff announcements on the stock returns of European Union (EU) firms. It finds that EU companies experienced significant declines in abnormal and cumulative stock returns after key tariff-related announcements, particularly on February 26. These declines were attributed to increased uncertainty, disrupted trade relations, and higher operational costs, in line with the efficient market theory (EMT). The negative effects were more pronounced in trade-sensitive sectors like IT, manufacturing, and consumer discretionary. Smaller, export-reliant firms were more affected than larger multinational corporations. The paper recommends that future research should investigate the long-term effects on firm performance and global financial stability.

Data availability

Data will be made available on request.

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