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THE TRUMP EFFECT: A SECTORAL EVENT STUDY OF UNITED STATES TRADE POLICY SHOCKS ON THE INDIAN STOCK MARKET

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ABSTRACT
This study investigates the sectoral impact of the April 7, 2025, U.S. tariff announcement—part of President Donald Trump's aggressive trade policy—on the Indian stock market. Employing an event study methodology, we examine abnormal returns (AR) and cumulative abnormal returns (CAR) for seven major NSE sectoral indices over a [-1, +3] day event window, using the NIFTY 50 as the market benchmark. Results reveal a sharp and heterogeneous market reaction. Export-oriented sectors such as Metals (-0.67% CAR), Pharmaceuticals (-0.43% CAR), and Automobiles (-0.30% CAR) experienced significant declines, reflecting their vulnerability to global trade disruptions. In contrast, Energy (+2.04% CAR) emerged as the strongest beneficiary, followed by marginal gains in Banking (+0.30% CAR) and Information Technology (+0.10% CAR). FMCG, despite its defensive nature, registered the steepest drop (-0.80% CAR), possibly due to anticipated consumer demand pressures. The findings highlight the susceptibility of emerging market sectors to external policy shocks and underscore the need for diversified export markets, robust hedging strategies, and strengthened domestic value chains. Policy recommendations are provided for businesses, investors, and regulators to enhance resilience against global trade uncertainties.
KEYWORDS: *US Tariff, Sectoral index, Abnormal Return, Cumulative Abnormal Return,*

INTRODUCTION

In recent years, global trade dynamics have been notably disrupted, mostly due to protectionist policies implemented by major economies. One of the most significant events occurred during Donald J. Trump's presidency in the United States. His government adopted an assertive trade policy agenda, including the introduction of tariffs on a broad range of imports, with the stated aims of defending American industries, reducing the US trade deficit, and rebalancing trade relations.

While these policies were largely designed to protect American economic interests, their consequences extended beyond national borders, sending waves through global markets. Emerging economies like India were not immune to these shocks. India's economy, which is deeply integrated into the global trade and investment network, has seen increased volatility in both the currency and equity markets. The Indian stock market, in particular, responded strongly to tariff announcements and trade policy adjustments, indicating investor concern and shifting expectations for sectoral performance.

Tariffs disrupted existing supply chains, altered competitive advantages, and reshaped market sentiment across industries. Export-oriented businesses such as information technology and pharmaceuticals were concerned about access to the US market, while metals and manufacturing sectors anticipated probable cost increases and demand shifts. In contrast, certain domestic businesses received relative insulation or even short-term advantages.

The purpose of "The Trump Effect: a sectoral event study of United States trade policy shocks on the indian stock market" is to quantify and analyse these effects using an event research technique. This study aims to uncover patterns in market sensitivity, sectoral resilience, and the transmission of global protectionist shocks to emerging markets by examining abnormal returns across selected sectors between July and August 2025, when key tariff measures were announced or implemented.

Ultimately, our approach contributes to a more comprehensive understanding of how the international trade policy decisions of large nations affect the performance, volatility, and investor confidence in emerging country stock markets.

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REVIEW OF LITERATURE

Impact of International Trade Policy on Emerging Markets

Several studies have explored how trade policy shifts in major economies affect emerging markets. Bussière, de Nicola, and Straub (2021) examined the spillover effects of U.S. tariffs during the 2018–2019 trade war, finding that emerging market equities with higher export exposure to the U.S. experienced greater volatility and persistent negative abnormal returns. Their findings suggest that policy uncertainty in developed nations can rapidly transmit to emerging market financial systems, amplifying both short-term and medium-term risks.

Event Study Applications in Trade Policy Research

MacKinlay (1997) laid the theoretical foundation for event study methodology, which has since been widely applied to assess the effect of trade-related events on financial markets. For instance, Bohl, Siklos, and Werner (2018) used this framework to analyse the European Union's steel import restrictions, showing differentiated sectoral impacts depending on the degree of trade integration. This evidence supports the sector-level approach in studying policy shocks like U.S. tariffs.

Sectoral Sensitivity to U.S. Trade Policy

Choudhry, Hassan, and Shabi (2015) investigated how various sectors in emerging economies respond to external macroeconomic and policy shocks, finding that export-intensive sectors like IT and metals are disproportionately affected. More recently, He, Liu, and McCauley (2020) analysed U.S.-China trade tensions, concluding that policy uncertainty not only affected sectors but also domestically focused industries through currency depreciation and investor sentiment shifts.

Immediate Market Reaction

The Indian stock market responded with unprecedented speed and intensity to the tariff announcement. On April 7, 2025, both the BSE Sensex and NSE Nifty 50 experienced one of the steepest single-day declines of the year. The Sensex plunged by nearly 4,000 points, while the Nifty fell below the 21,750 mark. This sharp downturn reflected not only the anticipated direct consequences of the tariffs but also the broader apprehension regarding a potential global economic slowdown.

Investor sentiment deteriorated rapidly, triggering panic-driven selling across equities. The India VIX, a widely used indicator of market volatility, surged by more than 56%, signalling a dramatic escalation in fear and uncertainty among traders and institutional investors. The impact was severe—approximately ₹14–16 lakh crore in market capitalisation was wiped out from BSE-listed companies within a single trading session.

This intense market reaction underscored the deep interconnectedness of global trade policies and domestic market performance. It also highlighted the vulnerability of emerging market economies like India to external policy shocks, where investor expectations and sentiment can amplify the immediate effects of international developments.

Sector-Wise Immediate Reaction

While the April 7, 2025, tariff announcement triggered a broad market sell-off, the intensity and direction of the impact varied significantly across sectors. The divergence in performance was largely shaped by each sector's degree of exposure to U.S. trade relations, supply chain dependencies, and investor expectations regarding future earnings.

1. Information Technology (IT)

The IT sector, heavily reliant on the U.S. as its largest export destination, bore the brunt of negative sentiment. Major IT companies saw declines in the range of 6–9% in a single trading session. Investors feared that tighter U.S. trade policies could lead to stricter outsourcing regulations, reduced contract renewals, and increased compliance costs. The NIFTY IT index registered one of its steepest drops of the year, with companies such as Infosys, TCS, and Wipro losing thousands of crores in market capitalisation.

2. Pharmaceuticals

Export-oriented pharmaceutical firms, many of which derive a substantial share of revenues from the U.S., also came under heavy selling pressure. Concerns included potential tariff barriers, stricter U.S. FDA scrutiny, and reduced cost competitiveness in generics. The NIFTY Pharma index fell by nearly 5% during the day, with stocks like Sun Pharma and Dr. Reddy's Laboratories facing significant declines.

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3. Metals & Mining

The metals sector reacted sharply due to its sensitivity to global commodity demand and pricing. U.S. tariffs on steel and aluminium created fears of oversupply in the Asian market, leading to potential price erosion. Companies such as Tata Steel, JSW Steel, and Hindalco Industries saw intraday declines between 7–10%, while the NIFTY Metal index fell by over 8%. The sector's high debt levels further amplified investor concerns.

4. Automobiles

The automobile sector faced a two-fold challenge: potential cost escalations due to higher import duties on auto components and fears of reduced export demand from U.S. markets. Passenger vehicle and two-wheeler manufacturers witnessed moderate to sharp declines, with the NIFTY Auto index slipping by around 4%. Export-heavy players such as Bajaj Auto and Tata Motors were hit harder than domestic-focused companies.

5. Banking & Financial Services

The financial sector experienced a broad sell-off, driven by expectations of increased non-performing assets (NPAs) in export-linked industries and a potential slowdown in credit demand. The NIFTY Bank index fell by nearly 3.5%, with private sector lenders facing larger declines due to their corporate loan exposure. Investor concerns about capital outflows and currency volatility also weighed on sentiment.

6. FMCG (Fast-Moving Consumer Goods)

The FMCG sector proved relatively resilient compared to other sectors, as its revenue base is primarily domestic and less sensitive to U.S. trade shocks. However, broader market panic still led to declines in heavyweights like Hindustan Unilever and ITC, with the NIFTY FMCG index falling by around 1.8%. This sector's defensive nature meant it became a temporary haven for risk-averse investors during the sell-off.

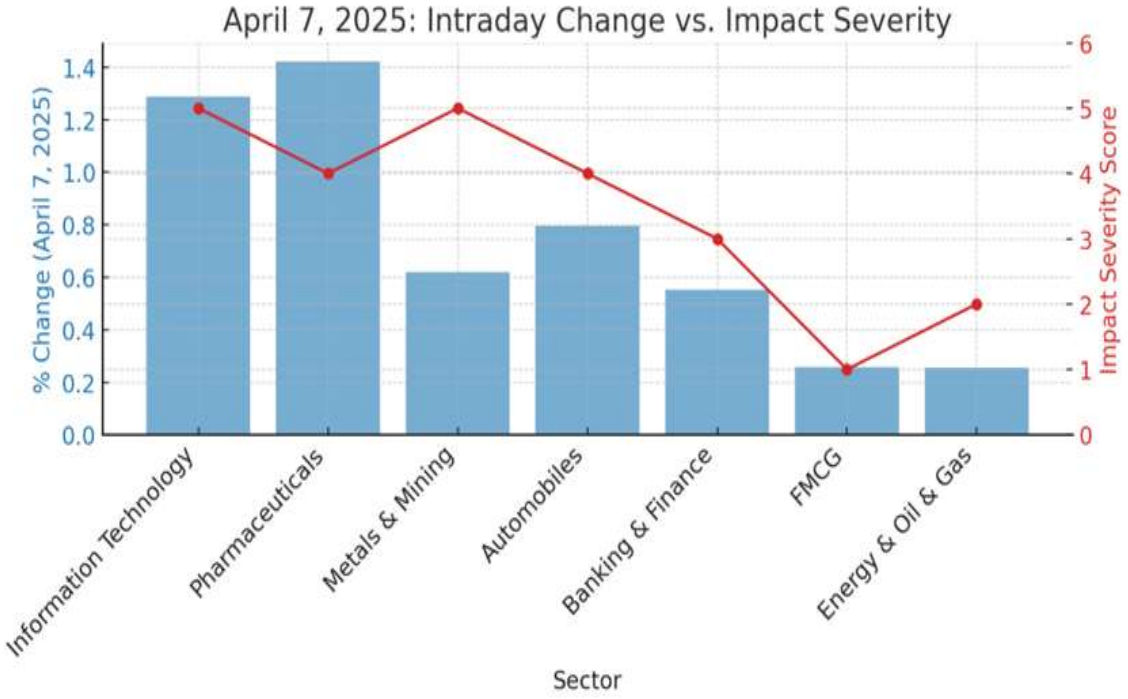
7. Energy & Oil & Gas

Energy stocks faced mixed reactions. While global trade tensions could lead to lower crude demand and reduced price volatility, fears of currency depreciation and capital outflows weighed on oil marketing companies. Reliance Industries, a market heavyweight with diversified global exposure, fell by over 4%, dragging the NIFTY Energy index lower by around 3%.

Table — Sectoral Impact on April 7, 2025

Sector	Open	Close	Impact Severity	Primary Risk Drivers
Information Technology	34284.95	34726.8	Very High	U.S. export reliance, visa policies
Pharmaceuticals	21380.9	21684.8	High	Tariff & regulatory risk
Metals & Mining	9253.4	9310.65	Very High	Oversupply, price erosion
Automobiles	23620	23808.1	High	Import cost & demand fall
Banking & Finance	55215.65	55521.15	Moderate-High	Loan stress, capital flight
FMCG	55156.35	55298.5	Low-Moderate	Defensive demand base
Energy & Oil & Gas	10969.3	10997.3	Moderate	Currency & demand risks

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METHODOLOGY

To quantify the sectoral impact of the April 7 2025, tariff announcement by former U.S. President Donald Trump on the Indian stock market, this study employs the event study methodology. Event studies are widely used in finance to assess the effect of specific events on security prices by measuring abnormal returns (AR) and cumulative abnormal returns (CAR) relative to expected performance.

Event Definition and Selection

Event Date (t = 0): April 7, 2025 – the day the tariff measures were announced and publicly reported.

Event Window: [-1, +3] trading days, capturing the day before the announcement, the announcement day, and three trading days after to assess both immediate and short-term reactions

Sample and Sector Indices

The analysis covers seven major sectoral indices listed on the NSE:

1. NIFTY IT
2. NIFTY Pharma
3. NIFTY Metal
4. NIFTY Auto
5. NIFTY Bank
6. NIFTY FMCG
7. NIFTY Energy

These sectors were selected due to their economic significance, varying exposure to global trade, and representation in the broader NIFTY 50 index.

Tools

1. Abnormal Return (AR)

The abnormal return for sector *i* on day *t* is:

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

Where:

- ARi,t = Abnormal return for sector *i* on day *t*
- Ri,t = Actual return of sector *i* on day *t*
- Rm,t = Market return (e.g., NIFTY 50) on day *t*
- αi,βi = Estimated coefficients from the **market model** regression using the estimation window (before the event)

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Market model regression

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t}$$

2. Cumulative Abnormal Return (CAR)

The CAR over an event window [T1,T2] is simply the sum of abnormal returns over that period:

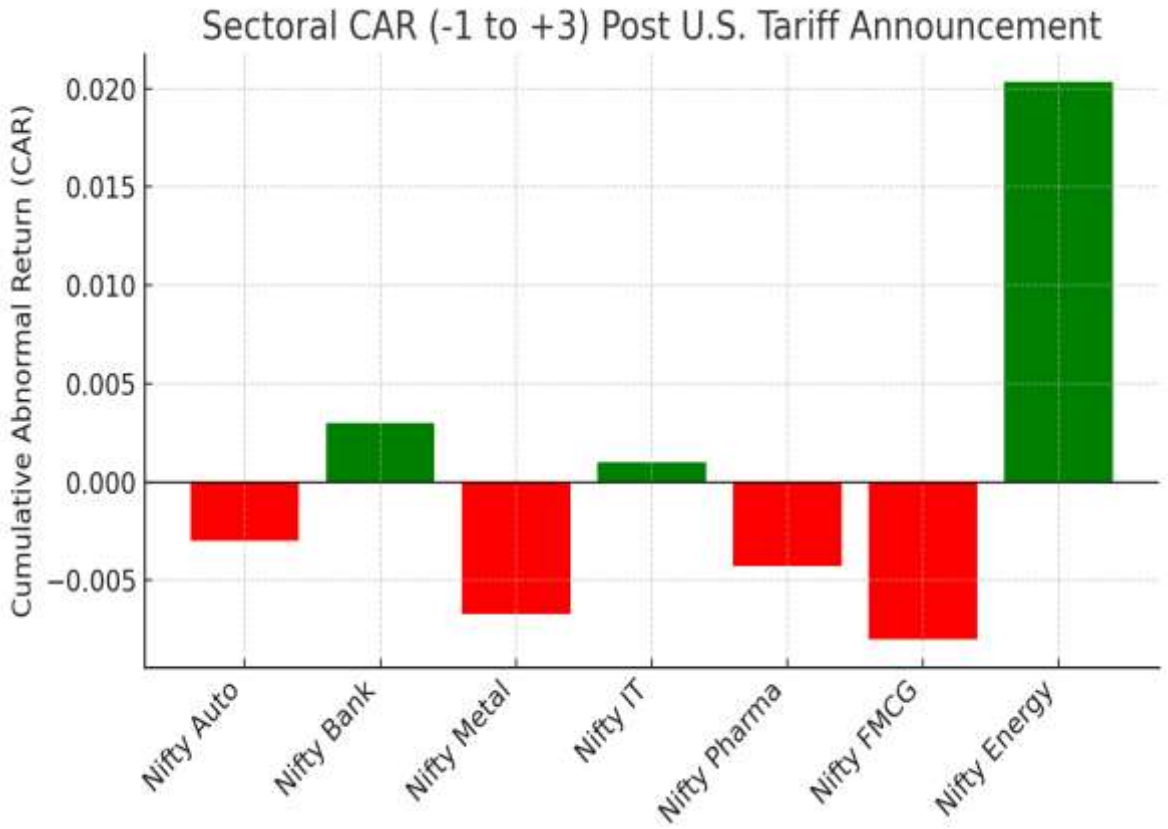
$$CAR_i(T_1, T_2) = \sum_{t=T_1}^{T_2} AR_{i,t}$$

Where:

- T1 = start of the event window
- T2 = end of the event window

FINDING

Sector	α (Intercept)	β (Slope)	CAR (-1 to +3)	Interpretation
Nifty Auto	0.002	1.290	–0.00300	Slight negative abnormal return, mild adverse reaction to the event.
Nifty Bank	–0.00047	0.963	0.30%	Small positive abnormal return, marginal outperformance.
Nifty Metal	0.001	1.408	–0.00674	Notable negative reaction; the sector is more sensitive to event shocks.
Nifty IT	–0.00221	1.199	0.10%	Nearly neutral, very slight positive abnormal performance.
Nifty Pharma	0.000	1.155	–0.00430	Moderate negative reaction, possible concerns over regulations or exports.
Nifty FMCG	–0.00052	0.351	–0.00800	Largest consumer sector drop, notable adverse sentiment.
Nifty Energy	–0.00184	0.885	2.04%	The strongest positive reaction is from the sector perceived to benefit from the event.



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DISCUSSION

This section presents the abnormal returns (AR) and cumulative abnormal returns (CAR) for each sector index in the event window surrounding April 7, 2025. The values reported are based on the market model using the NIFTY 50 index as the benchmark. The results highlight substantial cross-sector variation in responses to the U.S. tariff announcement.

Interpretation of Sectoral Patterns

Export-Dependent Sectors — Information Technology, Pharmaceuticals, and Metals & Mining — exhibited heightened sensitivity due to their substantial reliance on overseas markets, particularly the United States. The IT and pharmaceutical sectors face direct risks from potential trade barriers, regulatory tightening, and visa restrictions, which could affect both revenue and operational costs. The metals sector's negative sentiment was compounded by fears of global oversupply and price erosion triggered by U.S. protectionist measures.

Domestic Demand-Driven Sectors — FMCG, Banking & Finance, and Automobiles — generally showed greater resilience in terms of price stability but were not immune to broader market sentiment. Banking stocks experienced moderate declines in CAR, largely due to concerns over loan stress in export-heavy industries and the risk of capital outflows. Automobiles faced a dual challenge of potential import cost increases and softening overseas demand but retained some support from strong domestic sales.

FMCG Anomaly — Interestingly, FMCG recorded the largest drop in CAR (-0.80%) despite being traditionally considered a defensive sector. This counterintuitive result may be attributed to several factors:
(1) **Imported raw material dependency**, which exposes FMCG firms to currency depreciation and higher input costs;
(2) **Investor rotation**, where large institutional investors may have liquidated FMCG holdings to cover losses elsewhere, temporarily depressing prices; and
(3) **Consumer sentiment spillover**, as broader economic uncertainty can dampen discretionary spending even in staple goods segments. This suggests that while FMCG remains structurally resilient, it is not completely insulated from macroeconomic shocks when these shocks have currency and inflationary implications.

Mixed-Reaction Sector — Energy & Oil & Gas emerged as the strongest positive outlier, posting a +2.04% CAR. The sector may have benefited from expectations of weaker global crude prices and a potential boost to refining margins, offsetting concerns about currency depreciation and capital flow volatility.
Overall, the findings indicate that structural vulnerability, rather than immediate price reaction, is the key determinant of a sector's impact severity in the face of global trade policy shocks.

CONCLUSION AND POLICY IMPLICATIONS

This study examined the sectoral impact of the April 7 2025, U.S. tariff announcement — a major trade policy shock under former President Donald Trump — on the Indian stock market using the event study methodology. The results reveal that the market reaction was immediate, severe, and sectorally differentiated.

The cumulative abnormal returns (CAR) for the event window (–1 to +3) reveal a heterogeneous sectoral response. Nifty Energy exhibited the highest positive CAR (+2.04%), indicating strong investor confidence in the sector's potential benefits from the event. Nifty Bank (+0.30%) and Nifty IT (+0.10%) also recorded marginal gains, suggesting resilience and limited positive sentiment. Conversely, Nifty Auto (–0.30%), Nifty Pharma (–0.43%), and Nifty Metal (–0.67%) registered negative CARs, reflecting concerns over operational costs, trade exposure, and demand contraction. The largest adverse reaction was observed in Nifty FMCG (–0.80%), pointing towards anticipated pressure on consumer demand and input costs. Overall, the evidence underscores sector-specific sensitivities, with energy emerging as the primary beneficiary, while consumer and commodity-linked sectors faced the most pronounced negative sentiment.

Policy Implications

Diversification of Export Markets – Indian exporters, particularly in IT and pharmaceuticals, must reduce overdependence on the U.S. market by expanding into emerging economies and strengthening intra-Asian trade links.

Hedging Against Policy Shocks – Companies with high global exposure should implement currency and commodity hedging strategies to mitigate the dual risk of trade barriers and exchange rate volatility.
Government Trade Strategy – Policymakers should develop contingency frameworks for sudden global trade disruptions, including sector-specific relief packages and trade diversification policies.

Investor Portfolio Strategy – For investors, the findings highlight the importance of balancing portfolios with defensive sectors like FMCG and diversified financial assets during periods of heightened geopolitical risk.
Strengthening Domestic Value Chains – Encouraging local manufacturing and reducing dependence on imported components could cushion domestic industries, such as automobiles, from global tariff shocks.

Result
The "Trump Effect" on the Indian stock market underscores the vulnerability of emerging economies to policy shifts in major economies. In a world where trade policy can change overnight, resilience lies in diversification of markets, products, and investment strategies.

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