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Impact of Tariffs on stock markets

The current calendar year (CY25) had a rough start, as the new US administration led by President Donald Trump started its term by announcing tariffs on its major trading partners and key commodities. Initially the tariffs were product based (automobiles and parts, steel, aluminium), which were later expanded to all the countries. As a response to these announcements, we have analysed how stock indices of some major economies reacted. We note that between Jan and Apr'25 when majority of these decisions were being announced, US markets struggled the most. Equity indices (Dow Jones and S&P500) posted negative returns, and their respective market cap fell. In the same period, only Hong Kong, Brazil, China and India gave positive returns.

Post Apr'25 and until Sep'25 (till 15 Sep), stock indices have rebounded sharply, and significant gains have been made to their market capitalization. This could be attributed to a period of 90-day pause announced by the US in Apr'25, number of bilateral trade deals negotiated with the US (UK, Japan, Indonesia, Vietnam) and ongoing truce between US and China.

In these uncertain times, Indian markets fared well, until additional 25% tariff was imposed by the US on Indian imports. However, the impact of this was cushioned by strong domestic fundamentals, which have been supported by robust domestic consumption and announcement of GST 2.0 to provide further boost to growth. We believe markets have now priced in the uncertainty around tariff related decisions.

Background:

In the current year, stock markets have seen considerable volatility given the ever-changing tariff landscape and ongoing geo-political tensions. For the purpose of this note, we have analysed how global stock indices reacted to certain key tariff announcements. To provide some backdrop, on 20 Jan 2025 when President Donald Trump took oath as the US President for the second time, he highlighted that changes to current trade policies will be his administration's first priority. Consequently, major announcements were made, the timeline for which is provided below.

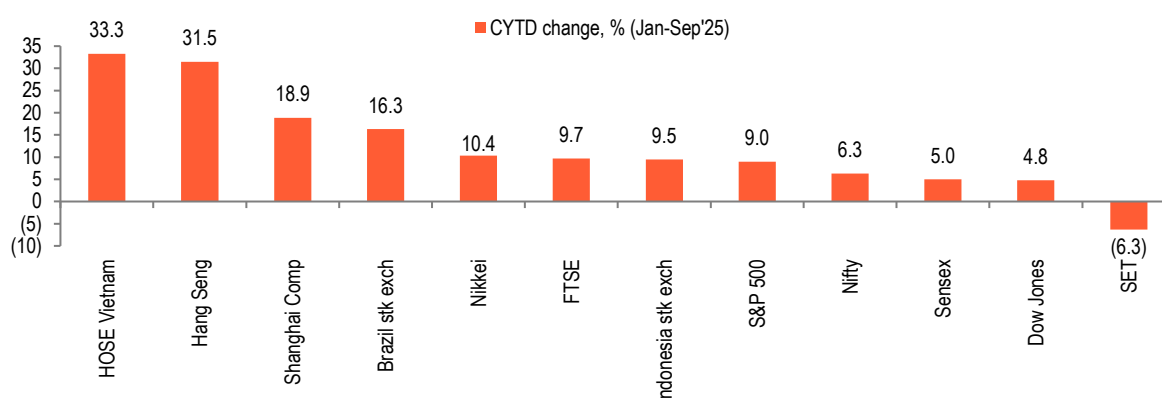
- On 1 Feb 2025, tariffs on Canada, China and Mexico were announced, which were later put on hold.
- US imposed 25% tariff on steel and aluminium imports on 10 Feb 2025, which went into effect on 12 Mar 2025.
- 25% tariffs were also imposed on automobiles on 26 Mar 2025, which came into effect from 3 Apr 2025.
- On 2 Apr 2025, US announced baseline 10% tariffs on almost all the countries of the world, along with additional tariffs based on the trade deficit US had with those countries.

- Implementation of these tariffs was paused for 90 days (till 31 Jul 2025) by the Trump administration on 9 Apr 2025, to allow US to have bi-lateral trade agreements with individual countries.
- On 4 Jun 2025, US raised tariffs on aluminium and steel by another 25%, taking the cumulative tariff rate to 50%.
- On 9 Jul 2025, tariff on imports from Brazil was hiked to 50%.
- The 31 July 2025 deadline was pushed to 6 Aug 2025 and during this period, US reached trade agreements with countries like UK, EU, Japan, Korea, Vietnam and Indonesia.
- 50% tariff on copper imports came into effect from 1 Aug 2025.
- On 6 Aug 2025, 50% tariff was announced on imports from India, which came into effect from 27 Aug 2025.

How have equity markets performed:

Noting these developments, we see that in the current calendar year (from Jan'25 till 15 Sep 2025), stock indices of emerging markets have performed well. Vietnam, Hong Kong, China, Brazil and Japan have all registered double-digit increase so far. Markets in UK and Indonesia have also fared well, supported by trade agreement secured with the US. Within the US, S&P 500 has given better returns versus Dow Jones. Indian markets have also delivered positive returns in these uncertain times. However, only Stock exchange of Thailand (SET) in our sample has so far recorded negative returns.

Fig 1: Performance of global stock indices (CYTD)

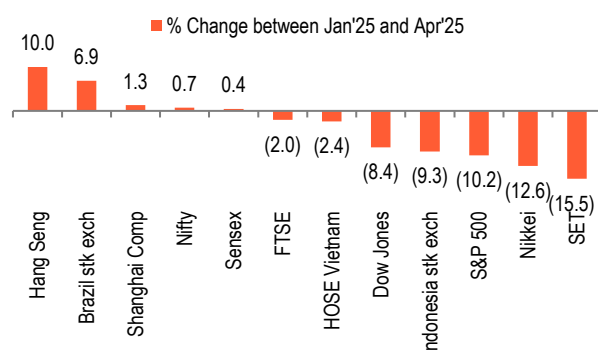


Source: Bloomberg, Bank of Baroda Research

If we breakdown the period between Jan-Apr'25 and Apr-Sep'25, we see considerable difference in the performance of equity markets. In the initial period (Jan-Apr), when countries and sectors received initial jolt of tariffs, most markets fell. Only stock indices in Hong Kong, Brazil, India, and China were able to deliver positive returns, while all others fell.

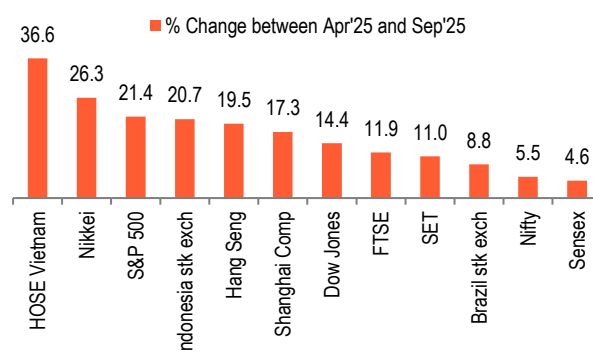
In the second phase, between Apr-Sep'25 period (till 15 Sep), when there was a period of pause and couple of countries secured a trade deal with the US, equity indices rebounded. Apart from the US (S&P 500 and Dow Jones), Vietnam, Japan, Indonesia, Hong Kong, China, UK and Thailand posted double-digit growth. India stock indices also inched up, but at a slower pace due to the announcement of additional 25% tariff by the US on Indian imports. However, strong domestic fundamentals and GST bonanza helped maintain positive momentum.

Figure 2: Most markets fell during the period of initial tariff announcements



Source: Bloomberg, Bank of Baroda Research

Figure 3: Markets rebounded in the later half

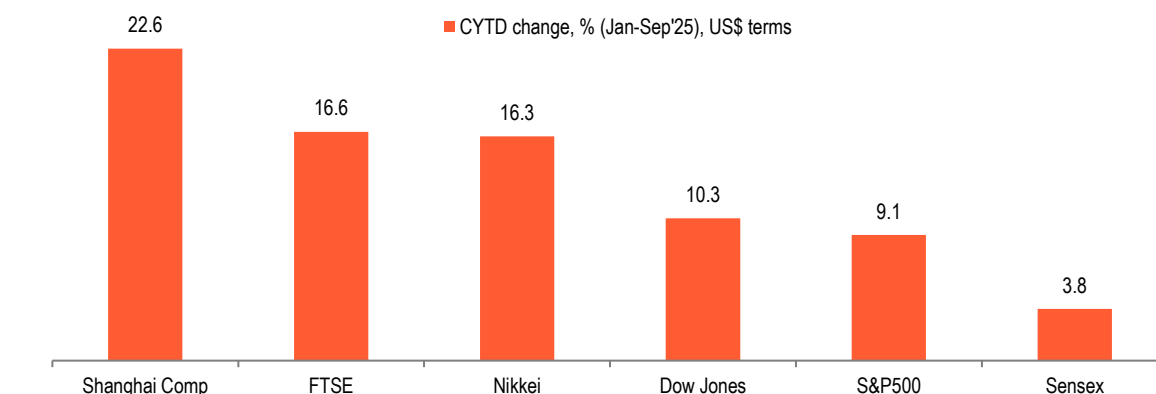


Source: Bloomberg, Bank of Baroda Research

Impact on market capitalization:

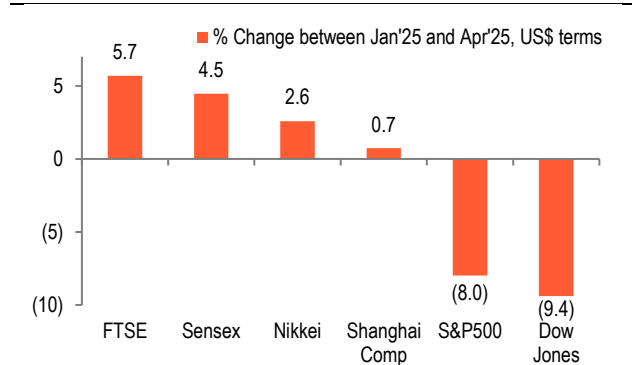
In order to see how much money in absolute terms was lost or gained due to tariff related decisions, we also tracked changed in market-cap for some key indices. Our data shows, that in the US, market cap of Dow Jones in CYTD25 so far (Jan-Sep'25) has risen by US\$ 2tn, mainly due to gains made in the Apr-Sep'25 period. Market cap of S&P500 has risen more sharply by US\$ 4.9tn. In percentage terms this implies that market cap of Down Jones is up by 10.3% and that of S&P500 is up by 9.1%. In comparison, in CYTD25 so far, market cap of Sensex has risen by USS\$ 66.5bn (3.8%), of FTSE by US\$ 463.6bn (16.6%), of Nikkei by US\$ 756.4bn (16.3%) and of Shanghai Comp by US\$ 1.6tn (22.6%).

Fig 4: Change in market-cap of global indices (CYTD)

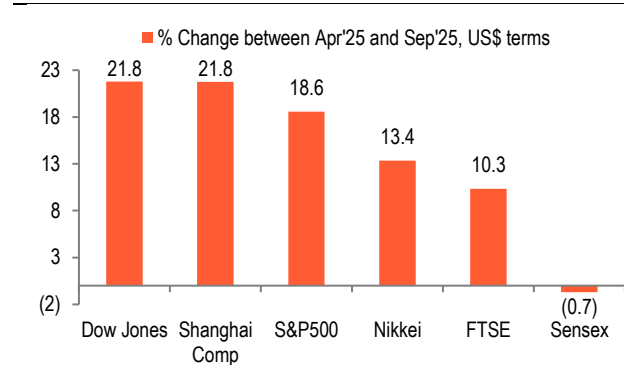


Source: Bloomberg, Bank of Baroda Research

Market capitalization of major indices did suffer a blow in the early part of the year when there was heightened uncertainty around tariff announcements. Once a pause was announced and trade deals started getting negotiated, investors profited.

Figure 5: US markets lost the most, earlier in the year

Source: Bloomberg, Bank of Baroda Research

Figure 6: Both US and China recovered during truce

Source: Bloomberg, Bank of Baroda Research

Data shows that between Jan and Apr'25, market cap of US markets (Dow Jones and S&P500) was hit the most as US\$ 6.1tn was wiped out. Markets made up for this loss in the Apr-Sep'25 period, when market cap went up by US\$ 12.9tn. In China, market cap of Shanghai Comp rose by only US\$ 51.3bn between Jan-Apr'25, while it jumped by US\$ 1.5tn when a truce was announced with the US regarding trade war. FTSE (US\$ 158.7bn) and Nikkei (US\$ 120.4bn) also reported smaller gains in Jan-Apr'25 versus Apr-Sep'25 period (FTSE: US\$ 304.9bn; Nikkei: 636.1bn). Sensex on the other hand noted a slightly different trend as it registered US\$ 79.3bn increase in market cap in Jan-Apr'25 period versus a loss of US\$ 12.8bn between Apr-end and Sep'25. Apart from being impacted by additional 25% tariffs announced by the US on India, exchange rate could have also played a part in calculating the valuation.

Our analysis thus indicates that markets have mostly priced in the uncertainty around trade war led by the US and are now shifting their focus towards other economic fundamentals. In India, GST support and front loading of rate cuts by RBI will be supportive of growth and would help cushion Indian equity markets from external shocks.

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