

Buying Protection?

**The Role of Corporate Political Activity in Stock Market Reactions to
Tariff Announcements**

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Abstract

This study examines whether corporate political activity (CPA) moderates stock market reactions to trade policy shocks for US firms. Using an event study methodology on a sample of S&P 500 firms, we estimate abnormal returns following the April 2, 2025, tariff announcement and relate them to firms' lobbying expenditures and campaign contributions in a cross-sectional regression framework. At the aggregate level, we find no systematic relationship between CPA and abnormal returns, indicating that political engagement does not consistently protect firms against the tariff shock. This result is robust across several alternative model specifications. By contrast, industry-level regressions reveal significant but heterogeneous effects: CPA is positively associated with abnormal returns in sectors like Health Care and Financials, but negatively associated in sectors such as Energy and Real Estate. These findings indicate that the valuation effects of CPA are not universal but highly context-dependent, underscoring the importance of moving beyond aggregate analyses when studying corporate political activity.

Keywords:

Corporate Political Activity, Tariffs, Event Study, Industry Heterogeneity

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1. Introduction

Seven decades of trade liberalization came to a sudden halt with Donald Trump's inauguration as US president in 2017. During his first term in office, tariffs were imposed on a broad range of imports, targeting primarily China but also key allies such as Canada and the European Union. The administration justified these policies as a means of protecting American firms and jobs, particularly in the manufacturing sector, from allegedly unfair foreign competition. In contrast to this protectionist rhetoric, extensive evidence suggests that tariffs generate adverse economic effects overall. Domestic firms face higher costs for imported intermediate inputs and may be exposed to retaliatory tariffs of targeted countries. These negative effects have been shown to outweigh the benefits of import protection in the US during the 2018-2019 trade conflict (Flaen & Pierce, 2019), leading to a welfare loss of approximately USD 8.2 billion in 2018 alone (Amiti et al., 2019).

Following his return to office in 2025, Donald Trump resumed his protectionist agenda, culminating in a major tariff announcement on April 2, 2025. On this so-called "Liberation Day", the administration imposed a baseline tariff of 10% on imports from virtually all trading partners, complemented by higher "reciprocal tariff rates" targeting countries with trade surpluses vis-à-vis the United States (Executive Order No. 14257, 2025). The announcement triggered sharp stock price declines, with the S&P 500 falling by over 12% within a week, corresponding to a loss of approximately USD 6.2 trillion in market capitalization. These large and abrupt valuation changes highlight the economic significance of trade policy shocks and raise the question of why firms differ in their stock price reactions.

Against this backdrop, this thesis examines whether differences in firms' corporate political activity (CPA) help to explain heterogeneity in stock market reactions to tariff announcements. While a large body of literature documents the impact of tariff events on stock returns (Wengerek et al., 2025; Coccozza & Gallo, 2025; Egger & Zhu, 2020; Li, 2025), and a separate stream of research studies the relationship between CPA and firm performance (Cooper et al., 2010; Chen et al., 2014; Hadani & Schuler, 2013; Aggarwal et al., 2012), little is known about how political engagement influences firms' stock price responses to discrete trade policy shocks. This leaves an important gap in the literature, especially given the growing role of political decisions in shaping economic outcomes through trade intervention.

Linking these two strands of literature, this thesis investigates the following research question: Does corporate political activity moderate stock market reactions to trade policy shocks for US firms? From a theoretical perspective, CPA may constitute a value-generating investment if it provides firms with access to policymakers and enables them to secure trade protection or shape regulation in ways that mitigate adverse effects. If this is the case, politically active firms should be better positioned to absorb the negative

consequences of trade policy shocks, resulting in less negative or more positive stock price reactions when protectionist policies are announced. However, existing empirical studies on the relation between CPA and firm performance, typically based on longer time horizons, provide mixed evidence: Some find value-enhancing effects (Cooper et al., 2010; Chen et al., 2014), while others report negative or insignificant relationships (Hadani & Schuler, 2013; Aggarwal et al., 2012). This lack of consensus complicates the assessment of whether CPA can be expected to mitigate the effects of a trade policy shock.

To address our research question, we employ an event study following the methodology proposed by MacKinlay (1997) on a sample of S&P 500 firms. We use firm-level stock price data to calculate abnormal returns around the tariff announcement on April 2, 2025. In a cross-sectional regression framework, we then link these returns to data on lobbying expenditures and electoral campaign contributions obtained from the Center for Responsive Politics. Our results indicate that, at the aggregate level, corporate political activity is not systematically associated with abnormal returns. A more granular analysis reveals significant and heterogeneous relationships in selected industries, suggesting that the valuation effects of CPA are highly context-dependent.

This thesis contributes to the literature in two main ways. First, it extends prior research on corporate political activity and firm performance by examining whether CPA influences short-term stock market reactions to a discrete trade policy shock rather than long-run accounting or valuation outcomes (Cooper et al., 2010; Chen et al., 2014; Hadani & Schuler, 2013). It thereby broadens the limited literature linking CPA to trade policy events beyond historical single-industry settings, such as the US steel industry studied by Lenway et al. (1996), instead providing evidence from a broad sample of US firms and a contemporary trade policy environment. Second, the study emphasizes the importance of cross-industry heterogeneity in shaping the relationship between CPA and stock price responses, suggesting that aggregate analyses may mask important variation across sectors.

Additionally, our findings have practical implications for multiple stakeholders. For corporate executives, the results indicate that political involvement is not universally value-creating and should be aligned with industry characteristics, helping them to assess and calibrate their future political activity. For policymakers, the findings offer insights into how financial markets perceive trade policy interventions and the interaction between political decision-makers and corporations.

The remainder of this thesis is structured as follows: Section 2 provides an overview of recent US trade policy developments and the tariff announcement analyzed in this study. Section 3 reviews the relevant literature on trade policy, corporate political activity, and their effects on firm performance. Section 4 develops our hypotheses and outlines the research design. Section 5 presents the empirical results, which are discussed in more depth in Section 6. Section 7 concludes with a summary of the main findings.

2. Overview of US Trade Policy and 2025 Tariff Escalation

To contextualize the subsequent empirical analysis, this chapter outlines key developments in US trade policy, with a particular focus on the tariff announcement on April 2, 2025. Recent protectionist tendencies mark a notable departure from decades of trade liberalization. Following World War II, efforts to reduce trade barriers accelerated when 23 countries initiated multilateral trade negotiations under a provisional set of rules, known as the General Agreement on Tariffs and Trade. In 1995, the World Trade Organization was established to institutionalize these rules and promote free trade, and over successive negotiation rounds, global tariff rates declined significantly (Krugman et al., 2018).

Despite the widely documented economic benefits of free trade, protectionist policies have re-emerged in recent years. The inauguration of Donald Trump as US president in 2017 marked a key turning point, reflecting a shift in US trade policy from multilateralism towards bilaterally negotiated deals and the use of the country's economic power to achieve strategic objectives (Boer et al., 2021). During its first months in office, the administration withdrew from or initiated the renegotiation of major trade agreements and launched an investigation into China's intellectual property practices. The first safeguard tariffs were announced on solar panels and washing machines in January 2018, followed by steel and aluminum tariffs in March. Throughout 2018 and 2019, multiple waves of tariffs were imposed on imports from China, prompting retaliatory actions. The Phase One Deal in January 2020 paused escalation between the two countries, but most tariffs remained in place, persisting also during the subsequent Biden administration. In addition to China, tariffs also targeted traditional US allies, including Canada, Mexico, and the European Union, which likewise responded with countermeasures (Bown & Kolb, 2025).

Upon returning to office in 2025, the Trump administration renewed its emphasis on protectionist trade measures, arguing that prior trade arrangements disadvantaged the United States and that tariffs support reindustrialization and employment, particularly in manufacturing (Yan & Morck, 2025). Table 1 outlines major trade policy announcements in 2025, grouped into three clusters: tariffs introduced under national emergency justifications related to fentanyl trafficking and illegal immigration, "reciprocal" tariffs targeting trade imbalances, and sector-specific tariffs under Section 232 of the Trade Expansion Act. Appendix 1 complements this overview by graphically displaying selected trade policy events and contemporaneous movements in the S&P 500 Index.

Initial tariffs targeting China, Mexico, and Canada were announced on February 1, 2025, framed as a response to a national emergency related to fentanyl trafficking and illegal immigration. Two days later, tariffs on Canada and Mexico were suspended for 30 days, whereas tensions with China intensified. Following Chinese retaliation, US tariffs on imports from China were raised from 10% to 20%, triggering further countermeasures and marking a first phase of escalating trade disputes.

Table 1. Timeline of Major US Trade Policy Announcements and Retaliatory Measures in 2025

Date	Policy Category	Announcing Country	Announcement
Feb. 1	Emergency	USA	10% tariffs on imports from China, Mexico, and Canada
Feb. 3	Emergency	USA	30-day suspension of tariffs on Canada and Mexico
Feb. 4	Emergency	China	Retaliatory tariffs in response to US tariffs of Feb. 1
Feb. 10	Sec. 232	USA	25% tariffs on steel and aluminum
Mar. 3	Emergency	USA	Increase in tariff rate on Chinese imports from 10% to 20%
Mar. 4	Emergency	China	Retaliatory tariffs in response to the US tariff increase of Mar. 3
Mar. 4	Emergency	Canada	Retaliatory tariffs in response to US tariffs of Feb. 1
Mar. 6	Emergency	USA	Exemption for USMCA-compliant imports from Canada and Mexico
Mar. 12	Sec. 232	Canada	Retaliatory tariffs in response to US steel and aluminum tariffs of Feb. 10
Mar. 26	Sec. 232	USA	25% tariffs on automobiles and auto parts
Apr. 2	Reciprocal	USA	10% baseline tariffs on all imports and additional “reciprocal” tariffs on countries with trade surpluses vis-à-vis the US
Apr. 3	Sec. 232	Canada	Retaliatory tariffs in response to US tariffs of Mar. 26
Apr. 4	Reciprocal	China	34% retaliatory tariffs in response to US tariffs of Apr. 2, matching the “reciprocal” rate
Apr. 8	Reciprocal	USA	Additional tariffs of 50% on China in response to retaliation of Apr. 4
Apr. 9	Reciprocal	China	Additional tariffs of 50% in response to the US announcement of Apr. 8
Apr. 9	Reciprocal	USA	Additional tariffs of 41% on China, raising the total rate to 125%
Apr. 9	Reciprocal	USA	90-day suspension of “reciprocal” tariffs for all countries except China
Apr. 11	Reciprocal	China	Increase in tariff rate to 125%, matching the US rate of Apr. 9
May 12	Reciprocal	USA & China	Mutual reduction in tariff rates from 125% to 10% for 90 days
June 3	Sec. 232	USA	Increase in tariffs on steel and aluminum from 25% to 50%
July 7	Reciprocal	USA	90-day extension of the Apr. 9 suspension of higher “reciprocal” tariffs for all countries except China
July 30	Sec. 232	USA	50% tariffs on copper
July 31	Reciprocal	USA	Upward and downward adjustments to countries’ “reciprocal” tariff rates based on cooperation and progress in bilateral negotiations
Aug. 11	Reciprocal	USA	90-day extension of the temporary 10% tariff arrangement reached with China on May 12
Nov. 1	Emergency & Reciprocal	USA & China	Bilateral agreement: continuation of 10% tariff rates for one year, removal of Chinese retaliatory tariffs imposed since Mar. 4, and reduction of US fentanyl-related emergency tariffs to 10%

Notes: The table reports major trade policy measures by the United States targeting either all countries or specifically Mexico, Canada, or China as well as responses by these three countries; Mexico, Canada, and China were selected because they constituted the three largest US trading partners by import value in 2025 (United Nations Statistics Division, 2026); the table shows announcement rather than implementation dates; events are grouped into three categories: tariffs introduced under emergency justifications related to fentanyl trafficking and illegal immigration (“Emergency”), “reciprocal” tariffs targeting trade imbalances (“Reciprocal”), and sector-specific tariffs under Section 232 of the Trade Expansion Act (“Sec. 232”); reported tariff rates for each cluster are incremental and may apply cumulatively; the timeline is compiled based on data from the Peterson Institute for International Economics (Bown, 2026).

In parallel, the US imposed tariffs on selected goods from all trading partners under Section 232 of the Trade Expansion Act of 1962, which permits trade restrictions on national security grounds. In February and March 2025, such tariffs were introduced at rates of 25% on steel and aluminum, as well as automobiles and auto parts (Bown, 2026).

The most significant tariff announcement in 2025 and the focal event of this thesis occurred on April 2, referred to by the Trump administration as “Liberation Day”. The United States introduced a baseline tariff of 10% on all imports except USMCA-compliant trade with Mexico and Canada, complemented by higher “reciprocal” tariffs on 57 countries with goods trade surpluses with the US. These tariffs ranged from 11% to 50% and were determined based on bilateral trade balances (Executive Order No. 14257, 2025). The term “reciprocal” is therefore misleading, as rates do not mirror foreign tariffs on US exports and have been criticized for relying on flawed economic reasoning and lacking a coherent methodology (Balistreri, 2025). Bilateral trade imbalances are a natural feature of multilateral trade and do not necessarily indicate unfair practices. Moreover, the approach applies asymmetric reasoning by penalizing foreign surpluses while disregarding US surpluses and focuses exclusively on goods trade, neglecting services, where the United States often runs surpluses. Additional criticism concerns the use of emergency decrees to implement these measures, effectively bypassing Congress (Yan & Morck, 2025).

While the baseline tariff took effect on April 5, the country-specific “reciprocal” tariffs for all countries except China were paused on April 9, followed by negotiations with affected trading partners. Tensions with China, however, escalated rapidly. After China imposed a 34% tariff on April 4, matching the rate announced by the US, both sides repeatedly increased tariffs in a tit-for-tat manner until rates reached 125%. A preliminary agreement in Geneva on May 12 temporarily reduced tariffs to 10%. This de-escalation was extended and formalized with a broader agreement in November 2025 (Bown, 2026).

Overall, a recurring pattern emerges in the sequence of trade policy announcements. Measures are often introduced at high rates but subsequently adjusted through postponements, reductions, or exemptions for specific goods and trading partners. In addition, they frequently trigger retaliation and counterretaliation, leading to temporary escalations in tariff levels. This dynamic creates substantial uncertainty regarding both the magnitude and duration of trade barriers. To better understand how markets price such trade policy events, the next section reviews the literature on the effects of tariff announcements on equity valuations and the role of corporate political activity in shaping firm performance.

3. Literature Review

Our research question integrates two main streams of literature. First, we build on research on firm-level outcomes of trade policy events, which we discuss in Section 3.1. In this domain, we place particular emphasis on the capital market effects of trade policy shocks and on firm characteristics influencing investor responses. Second, we draw on literature examining the influence of political exposure and corporate political activity on firm performance and valuation, reviewed in Section 3.2. While prior literature discusses these two strands individually, their intersection has not yet been sufficiently explored. This will be the subject of our empirical analyses in the following chapters.

3.1. Firm-Level Outcomes of Trade Policy Shocks

3.1.1. Trade Policy and Accounting-Based Firm Performance

Looking at cash flows and accounting-based indicators, changes in tariff regimes have significant implications for firm performance through multiple cost and revenue channels. On the cost side, tariffs raise the prices of imported goods, increasing input costs for firms reliant on foreign suppliers. Examining the tariffs imposed by Donald Trump in 2018, Amiti et al. (2019) find that import prices rose nearly one-for-one with the imposed duty rates. This indicates that tariffs were not borne by foreign exporters but passed on almost immediately and entirely to US importers and consumers. Cavallo et al. (2021) show that the burden fell primarily on American companies, since retail prices paid by final consumers remained almost unaffected. This suggests that US firms have absorbed cost increases through lower profit margins. On the revenue side, tariffs may generate offsetting benefits by raising entry barriers for foreign competitors, reducing import competition, and increasing domestic firms' market power. As a result, protected firms may benefit from higher revenues, improved pricing power, and economies of scale. In addition to these direct cash flow effects, uncertainty can affect firm behavior. Handley and Limão (2017) argue that, faced with trade policy uncertainty, firms delay long-term investments and operational decisions, resulting in missed growth opportunities and lower future profitability.

Empirical evidence on tariffs' net effect on firms is mixed. Studying the manufacturing sector, Flaeen and Pierce (2019) show that the 2018 tariffs were associated with relative increases in producer prices and declines in employment in exposed industries. Although tariffs provided some protection for domestic producers, the positive effects were more than offset by higher input costs and retaliatory measures of trading partners. Froymovich et al. (2023), using firm-level data, confirm that US-imposed import tariffs raised both revenues and costs for American firms. However, contrary to Flaeen and Pierce (2019), they conclude that revenue effects dominate and document economically meaningful improvements in gross profit, capital expenditures, and market value following tariff

increases. Relatedly, Pierce and Schott (2016) show that employment in the US manufacturing sector declined substantially following trade liberalization with China since the early 2000s. This suggests that workers in exposed industries may generally benefit from protectionist trade policies, consistent with Donald Trump's stated objective of preserving American manufacturing jobs through tariffs. For firms, however, protectionism may not yield the same benefits, as the authors find little evidence that value-added in the sector suffered from trade liberalization and highlight several possibilities for American firms to adjust, including increased sourcing from or relocation of production to China.

Importantly, the effects of tariff increases are not uniform across the economy. Firms' tariff exposure varies with operational characteristics, particularly the degree of international integration, with firms embedded in global supply chains being particularly vulnerable (Flaen & Pierce, 2019). While company-specific factors matter, exposure is often closely linked to industry affiliation. Industries reliant on imported intermediate goods face compounding cost impacts, which can weaken their downstream competitiveness. Moreover, the rate of tariff pass-through from foreign sellers to American importers depends on product differentiation. Importers of standardized goods tend to face smaller increases in input prices and hence lower pressure on their margins than importers of differentiated goods (Cavallo et al., 2021). Over time, companies may be able to adjust by reorganizing their supply chains or renegotiating prices, alleviating some of the negative effects of tariffs on input costs. However, Amiti et al. (2020) find little evidence that the tariff burden on US importers declined within two years of the 2018 measures.

In sum, the literature establishes that trade policy announcements can materially affect firms' cash flows and accounting outcomes, though the direction and magnitude of net effects remain ambiguous. At the same time, researchers highlight substantial heterogeneity across firms and industries, as trade policy exposure depends on supply chain structure and ability to adapt through diversification, cost pass-through, or strategic reorganization. Given that this thesis focuses on stock price reactions rather than accounting outcomes, the next section examines how capital markets incorporate trade policy news into equity valuations.

3.1.2. Stock Market Reactions to Trade Policy Announcements

To understand how trade policy shocks affect stock prices, it is essential to examine how financial markets process political information. A large body of research shows that political events systematically affect asset prices by altering both expected cash flows, as discussed in the previous section, and required risk premiums. According to Pástor and Veronesi (2012), political news, including trade policy announcements, influence stock prices through two channels: a cash flow effect and an uncertainty effect. The cash flow effect arises because investors revise expectations about firms' future profitability under

a new policy regime. If a policy improves expected cash flows, stock prices increase. At the same time, policy changes generate political uncertainty, particularly when their economic consequences remain unclear. Investors demand compensation for this uncertainty in the form of a higher risk premium, raising discount rates and thereby lowering stock prices. Hence, equity valuation effects depend jointly on cash flow revisions and changes in political uncertainty.

Consistent with these mechanisms, substantial empirical literature documents that equity markets respond strongly to trade policy news. Most of this literature examines trade liberalization events and finds that they generate positive abnormal stock returns. For instance, Moser and Rose (2014) use announcements related to more than 120 regional trade agreements (RTA) between 1988 and 2009 to assess effects on national stock markets. Their event study analysis reveals small but statistically significant positive abnormal returns. Focusing on one specific RTA, Rodriguez (2003) examines milestones in the negotiation of the North American Free Trade Agreement and documents significant abnormal returns at the industry level. Sectors predicted to benefit from trade liberalization experience positive abnormal returns, while those expected to face increased competition exhibit negative reactions. Providing further evidence of equity market reactions to trade liberalization, Breinlich (2014) finds abnormal returns among Canadian manufacturing firms following events related to the Canada-United States Free Trade Agreement implemented in 1989.

By contrast, evidence on protectionist trade policies is more mixed. As an early empirical contribution in this area, Hartigan et al. (1986) suggest that protection may be beneficial to American companies in industries under pressure, although the magnitude of benefits depends on firm-specific characteristics. More recently, various researchers have conducted event studies on the 2016 British Brexit referendum, entailing the possibility that British exporters might face tariffs on sales in the EU. Davies and Studnicka (2018) document negative average abnormal returns among companies listed on the London Stock Exchange, with substantial cross-sectional heterogeneity driven by firm characteristics such as value chain exposure towards Europe and company size. Assessing these effects at the sector level, Ramiah et al. (2017) similarly observe considerable heterogeneity, with the majority of sectors, however, displaying negative abnormal returns. Crowley et al. (2019) study Chinese solar panel firms, targeted by EU antidumping investigations and import restrictions in 2012 and 2013, and document that, on average, these firms experienced negative abnormal returns when the European Union announced steps towards duties. Although this setting concerns companies in the targeted rather than the tariff-imposing country, it adds to the evidence that protectionist measures have large valuation effects.

Taken together, these studies provide important benchmarks for understanding how equity markets respond to trade policy events. While trade liberalization is generally associated with positive abnormal returns, the valuation effects of protectionist measures

are more ambiguous and depend on firm- and industry-specific characteristics. The event investigated in this thesis occurred during a period of rising trade tensions between the United States and several of its trading partners, most prominently China, beginning in 2018 and marked by an unusually high frequency of trade policy news. Given this context, the following section reviews market reactions to this specific wave of trade policy announcements.

3.1.3. Aggregate Stock Market Reactions to Recent US Tariff Announcements

Numerous researchers have assessed share price reactions to tariff announcements during Donald Trump's first term as US president, typically using event-study methodologies. Despite differences in events, samples, and asset pricing models used to estimate abnormal returns, all studies document negative abnormal returns around tariff announcements. The consistency of results across different specifications strengthens the credibility of these findings and suggests that markets generally expect the tariffs to reduce average firm value.

Wengerek et al. (2025), for example, use a sample of US firms and examine their stock price responses to both domestic tariff announcements and foreign retaliation. On event days, they detect average abnormal returns of -0.38% for tariffs imposed by the US and -0.86% for retaliatory tariffs announced by foreign countries. These results indicate that both types of events have negative wealth effects on American firms and raise concerns about future cash flows and economic prospects among investors. Tariffs imposed on or by China have particularly strong implications for stock prices, likely due to the high dependence of US multinationals on the Chinese market for both exports and imports. Egger and Zhu (2020) analyze the stock prices of companies in 40 countries across 19 events in 2018 and 2019. Their findings confirm that tariff announcements by the US and China harm firms in both the imposing and targeted countries, but, through global value-chain linkages, also in third countries not directly subject to tariffs. Notably, the negative effect of US tariffs on domestic firms is greater than the intended effect on Chinese companies. Similarly, Li (2025) studies the impact of American tariff announcements and implementations between 2017 and 2024 and finds that they significantly depress market returns across several regions. For the S&P 500 index, the cumulative abnormal return amounts to -0.91% over a short event window and becomes more negative as the window lengthens, reaching -1.62% over a window spanning seven days before and after announcements.

Given the recency of events, systematic empirical evidence on tariff announcements during Donald Trump's second term in office remains limited. Most closely related to this thesis is research by Coccozza and Gallo (2025), which uses an event study framework to analyze S&P 500 firms' stock responses to the tariff announcement on April 2, 2025, and its subsequent implementation on August 8, 2025. The announcement, which was made after market close on April 2, was followed by sharp and heterogeneous losses, with

average abnormal returns of -5.3% on April 3, the first trading day, and -6.1% on April 4. The implementation event in August 2025, in turn, led to a partial recovery with positive abnormal returns. The authors attribute this to realized tariffs being less severe than initially announced and to reduced uncertainty once tariffs were implemented.

Kaczmarek et al. (2025) also assess stock price reactions to the tariff announcement on April 2, 2025, but focus on differences between stock indices of various countries rather than firm-level responses. They find an immediate and widespread decline in global equity markets of on average 7.16% over three trading days following the announcement. Larger markets, those with greater trade exposure, and those running trade surpluses with the United States experienced stronger declines, highlighting the global transmission of trade policy shocks. In sum, the evidence shows that the tariff announcements generate measurable negative abnormal returns for US firms on average. Since our study focuses on heterogeneity in stock price reactions, the next section examines firm-level differences in more detail.

3.1.4. Firm-Level Heterogeneity in Stock Price Reactions

Beyond average effects, the literature shows that industry- and firm-specific characteristics shape stock price responses to the tariff announcement. Cocozza and Gallo (2025) rely on firm-level panel regressions to examine these effects. The strongest reactions occur in trade-exposed sectors such as Energy, Information Technology, and Materials, indicating that the degree of international integration plays a key role in how investors price in trade policy risks. Companies in these sectors rely on imported inputs, global supply chains, and foreign sales, making them particularly vulnerable to tariff-induced cost increases and retaliatory demand shocks. By contrast, domestically oriented industries, such as Communication Services or Consumer Staples, experience considerably smaller losses. In terms of company size, smaller firms exhibit more pronounced declines, potentially due to more concentrated revenue sources, thinner cash buffers, and limited ability to reorganize supply chains. Furthermore, firms with higher liquidity experience less severe losses, consistent with a greater capacity to absorb temporary disruptions.

Studying tariff announcements during Trump's first term, several other researchers confirm these patterns. Wengerek et al. (2025) document heterogeneity based on sector, size, earnings per share, and credit rating. Differences across sectors are also highlighted by Selmi et al. (2020), while Li (2025) specifies that export-dependent industries display more negative reactions to tariff shocks. Huang et al. (2023) emphasize supply chain linkages, documenting lower returns among US firms that are more dependent on exports to and imports from China. Notably, firms indirectly exposed to China through their domestic supply chains also experience lower returns than firms without such exposure. Chen et al. (2023) similarly find that firms with higher exposure to China are more adversely affected, although they conclude that the effect is driven primarily by output

rather than input exposure. Huang et al. (2023) further show that higher research and development intensity is associated with smaller declines in stock prices, suggesting that innovative firms are more resilient to trade disruptions.

Taken together, these studies indicate that tariffs have heterogeneous effects on firm valuation rather than uniform market-wide impacts. Across the literature, the most robust drivers of this heterogeneity are sector affiliation, international supply chain and sales exposure, and firm size. This underscores the relevance of firm-level event studies of trade policy shocks and motivates our examination of whether corporate political activity constitutes an additional factor influencing stock price responses to tariff announcements.

3.2. Corporate Political Activity and Economic Outcomes

3.2.1. Forms and Objectives of Corporate Political Activity

Before examining the relationship between corporate political activity and firm performance or trade policy outcomes, this section provides an overview of its main forms and objectives. Corporate political activity refers to firms' efforts to influence political actors and the regulatory environment. Common forms include electoral campaign contributions, lobbying, executive testimony, and government relations offices (Lux et al., 2011). Our study in subsequent chapters focuses on campaign contributions and lobbying, as they are observable and consistently measured across firms.

In the United States, firms typically engage in campaign finance through political action committees (PACs), which collect voluntary contributions from employees and distribute these funds to political candidates, parties, or other PACs (Akey & Lewellen, 2017). Under federal law, PAC contributions to candidates are subject to legal limits, while direct contributions from corporate treasury funds are prohibited (Federal Election Commission, 1971). Lobbying, by contrast, involves personal communication between firms and policymakers with the aim of influencing legislation and political outcomes (Chen et al., 2014). Compared to campaign contributions, lobbying expenditures are typically substantially larger and financed through corporate resources, making them a more direct and flexible channel of political engagement.

These two forms of CPA operate through distinct mechanisms of political influence. Informational models emphasize that firms and interest groups possess specialized knowledge about industries and regulatory implications, which they use to shape legislative outcomes (Baron, 2006). Contribution-based models highlight the role of financial and electoral support, which helps policymakers achieve their political objectives and thereby creates incentives for them to respond to donor firm preferences (Wright, 2007). In this sense, lobbying is primarily linked to the provision of information, whereas campaign contributions reflect a monetary exchange.

In practice, however, these instruments are often used jointly and may reinforce each other. Ansolabehere et al. (2002) document a positive correlation between campaign donations and lobbying expenditures, suggesting that the two instruments are complementary: contributions may facilitate access to policymakers, opening the door for subsequent lobbying efforts that enable more direct influence on legislative content (Langbein, 1986). Furthermore, legislators may be more receptive to lobbyists representing large contributors, strengthening the tendency for politically active firms to engage in both forms of CPA (Wright, 1990).

Corporate political activity is typically driven by economic and strategic objectives and forms part of firms' nonmarket strategies, which aim to shape the political, regulatory, or societal context of economic competition (Boddewyn, 2003). Through political engagement and connections, firms may seek to obtain or preserve advantages, such as tax benefits, subsidies, government contracts, or favorable regulation (Wisniewski, 2016). Accordingly, CPA can be viewed as an investment in which firms allocate resources with the expectation of future returns from favorable policies. (Lux et al., 2011). Empirical evidence supports this view: Stratmann (1998) shows that increased campaign contributions by agricultural interest groups in the US coincide with legislative activity on agricultural subsidies. Ansolabehere et al. (2002) find that PAC contributions are disproportionately directed towards incumbent politicians, consistent with attempts to influence congressional decision-making. Taken together, these arguments and findings suggest that firms use corporate political activity strategically to influence policy outcomes. This raises the question of whether such engagement ultimately translates into improved firm performance and shareholder value, which we examine next.

3.2.2. Corporate Political Activity and Firm Performance

Despite the prominence of the investment-based view of corporate political activity, the question of whether CPA leads to better firm performance remains debated, with prior research reaching mixed conclusions. Several studies find evidence of positive returns to CPA, suggesting that politicians may grant preferential treatment to supporting firms. Cooper et al. (2010) document a positive relationship between firms' campaign support for political candidates and future abnormal stock returns. Firms that support more candidates earn higher returns, with stronger effects for firms that maintain longer-standing relationships with politicians, support candidates from their home state, and contribute to more influential policymakers. Adding to these insights, Jayachandran (2006) shows that firms forming ties with politicians through political donations experience negative abnormal returns when these politicians lose power, suggesting that investors value political connections. Chen et al. (2014) find that lobbying expenditures are positively associated with accounting- and market-based performance measures, with higher spending linked to excess returns over subsequent years.

Beyond financial contributions, research also highlights the role of personal political connections. Child et al. (2021) find that firms linked to Donald Trump through business relationships experienced positive abnormal returns around the 2016 election and subsequently benefited from improved operating performance and government contracts. Similarly, Goldman et al. (2013) exploit the shift in congressional control following the 1994 US midterm election and show that American publicly traded companies with board members connected to the winning Republican party experienced a significant increase in procurement contracts, which translated into higher firm value.

However, other studies find no systematic performance benefits from CPA. Aggarwal et al. (2012), examining corporate donations to federal political candidates in the United States, find that such contributions are negatively correlated with long-term returns. While contributions to the winning party in an election may generate positive day-one abnormal returns, these gains do not persist, and donations may ultimately destroy shareholder value. In particular, larger donations are associated with weaker corporate governance and firm characteristics consistent with free cash flow problems, suggesting that CPA may, in some cases, reflect managerial incentives or agency conflicts rather than value-maximizing investment decisions. Similarly, Hadani and Schuler (2013) examine accounting- and market-based performance measures for a large panel of US firms and find that political spending does not consistently translate into positive abnormal returns or improved operating performance. In several specifications, CPA is even negatively associated with firm outcomes. Importantly, however, effects vary across contexts: In more regulated industries, political investments are positively associated with firm value, indicating that the effectiveness of CPA is not uniform across firms.

Overall, the literature provides mixed evidence on whether corporate political activity enhances firm value. Negative or insignificant effects may arise when political spending reflects agency conflicts or inefficient resource allocation, while positive effects are more likely when firms establish strong, durable political connections. Industry characteristics and the broader policy environment further affect these outcomes. Firms in highly regulated industries may have stronger incentives to engage in political activity and may be more successful in shaping policy outcomes. In addition, the ideological orientation of the governing party may influence how business interests are reflected in policy and may therefore affect the relationship between CPA and firm value. The Republican Party is often regarded as more supportive of business interests, whereas the Democratic Party traditionally places greater emphasis on labor and environmental considerations (Lux et al., 2011). Given that our thesis centers on trade policy events, the next section focuses on this specific domain and examines the link between CPA and trade policy outcomes in more detail.

3.2.3. Corporate Political Activity in Trade Policy Contexts

Trade policy is a particularly relevant setting in which firms may engage with political decision-makers to secure favorable outcomes. According to macroeconomic theory, protectionist trade policies often create concentrated benefits for specific industries while imposing diffuse costs on consumers, making the field susceptible to political influence. Grossman and Helpman (1994) argue that trade policy is shaped not only by welfare considerations but also by political incentives. In their framework, governments balance social welfare against support from organized interest groups, which may offer contributions in exchange for favorable policies. Because these groups are relatively concentrated and better able to overcome collective action problems, they are more likely to obtain protection than diffuse groups like consumers. Empirical evidence supports this view by showing that both political support and broader welfare considerations shape protection levels (Goldberg & Maggi, 1999). Specifically, industries with stronger lobbying presence and higher import penetration tend to receive greater trade protection (Rodrik, 1995).

At the firm level, relatively little research has examined whether corporate political activity influences trade policy outcomes. Fotak et al. (2025) analyze the allocation of tariff exemptions in the context of the 2018 US tariffs on Chinese imports. They classify firms as politically connected if they made PAC contributions, engaged in lobbying during Trump's term, or employed lobbyists with ties to the administration. Consistent with the investment-based view of CPA, they find that politically connected firms are more likely to receive tariff exemptions and that contributions to Republican politicians are positively associated with exemption approvals. Contributions to Democratic candidates, by contrast, are negatively associated with the likelihood of receiving an exemption. These findings suggest that CPA can shape trade policy outcomes at the firm level.

Beyond firm-level political engagement, the literature highlights broader political determinants of tariff design and exposure. Several studies link regional voting behavior to variation in stock price reactions following trade policy developments. Yan and Morck (2025), for example, analyze stock price responses to the April 2, 2025, tariffs and find larger losses among companies headquartered in counties that voted for the Republican Party in the 2024 presidential election. This suggests that political factors may contribute to heterogeneous market reactions. However, the authors note that industry effects may partly explain this pattern if certain sectors are disproportionately located in politically conservative regions. Related studies show that tariffs are strategically targeted along political lines. Autor et al. (2024) find that US tariffs imposed until mid-2018 tended to protect politically competitive areas, while later tariff increases disproportionately benefited Republican-dominated regions. Conversely, Fetzer and Schwarz (2021) document that Chinese and European retaliatory tariffs during Donald Trump's first term strategically targeted US counties with stronger support for Trump. Kim and Margalit

(2021) and Autor et al. (2024) similarly find that retaliation disproportionately affected Republican-leaning regions, especially those located in contested electoral districts. While focused on regional political dynamics rather than firm-level CPA, these studies underscore that political considerations may shape the design of tariffs.

Despite the evidence that political factors influence tariff design and exposure, literature linking corporate political activity to stock market reactions to tariff announcements remains scarce. Lenway et al. (1996) provide one contribution situated at the intersection of these two strands of literature by examining lobbying for trade protection and firm performance in the US steel industry between 1977 and 1988. Using stock price responses to trade barrier announcements, they find positive abnormal returns for steel firms overall, but significantly larger gains for companies that actively lobbied for trade protection. This suggests that investors expected politically active firms to benefit disproportionately from protectionist measures. In addition, lobbying firms tended to be larger, older, less diversified, and less profitable, indicating that firms engaging in CPA were often those most threatened by international competition. Overall, this study provides evidence that corporate political activity can influence the distribution of gains from protectionist policies and is reflected in stock price movements following policy announcements. However, the analysis focuses on a single industry and a historical period with a markedly different trade policy environment from today, leaving an important gap for evidence on a broader set of firms and more recent trade policy episodes.

In sum, the literature indicates that corporate political activity can influence policy outcomes and may affect firm value, though the magnitude and direction of these effects vary across contexts. While recent work studies trade policy shocks and CPA separately, the interaction between these two strands has received little systematic attention. This gap motivates the present study, which investigates whether corporate political activity moderates American firms' stock price responses to the April 2, 2025, trade policy shock. The next chapter outlines the research design employed for this analysis.

4. Research Design

4.1. Theory and Hypotheses

4.1.1. Theoretical Framework

Complementing the empirical insights presented in the previous chapter, this section outlines the theoretical framework explaining how stock prices react to tariff announcements and how corporate political activity may influence this response. At a broad level, macroeconomic trade theory suggests that protectionist policies reduce aggregate welfare but entail distributional effects, creating winners and losers within the imposing country. Tariffs raise domestic prices of targeted goods, and in the short term, domestic producers may benefit as they face less foreign competition and can charge higher prices for import-competing products. Additionally, tariffs generate revenue for the government. However, protectionist policies harm customers, who pay higher prices, and the net welfare effect is typically negative due to inefficiencies in both production and consumption. (Krugman et al., 2018). Thus, tariffs create redistributive effects across firms and industries, which may be reflected in heterogeneous stock market reactions.

Political-economy theories help explain why such policies emerge despite negative aggregate welfare effects. Olson's (1971) theory of collective action suggests that groups differ in their ability to organize and advance their interests politically. It conceptualizes political action as a public good, implying that individuals in large groups often lack incentives to contribute because their personal benefits of participation do not offset the costs, while non-contributors can free-ride on the efforts of others. These coordination problems are particularly relevant for large, diffuse groups such as consumers, who bear the costs of tariffs. By contrast, smaller, concentrated industries can organize more effectively to lobby for protection. Building on these insights, regulatory capture theory (Stigler, 1971) argues that regulation is often shaped by industry interests rather than by the objective of maximizing public welfare.

A similar perspective on corporate political activity in the context of trade policy is provided by Grossman and Helpman's (1994) "Protection for Sale" model. In this framework, governments shape trade policy in response not only to voter preferences but also to pressures from organized interest groups, which invest resources expecting future economic returns from favorable policies. Policymakers, in turn, may respond to these pressures because political support, campaign contributions, and policy-relevant information can help them to achieve their political objectives. As a result, trade policy reflects a balance between social welfare and political contributions, effectively becoming "protection for sale".

While these theories focus primarily on policy outcomes at the industry level, additional perspectives help explain why individual firms engage in corporate political activity.

Resource dependence theory (Pfeffer & Salancik, 1978) suggests that firms depend on external actors for critical resources and preconditions. Governments represent one key actor, for example, through regulation affecting market access, public procurement, or trade policy. Trade policy shocks can alter firms' operating environment and availability of resources in various ways, creating uncertainty. Managing environmental uncertainty is a key concern for firms, which may motivate them to engage in political activity (Hadani & Schuler, 2013).

A related perspective from political science is Ferguson's (1995) investment theory of politics, which posits that political parties and electoral outcomes are strongly influenced by major economic actors that invest financial resources in political campaigns. Since campaigns are financially demanding, political candidates compete for such support and may align their policies with donor interests. From this perspective, corporate political activity can be interpreted as a strategic investment aimed at shaping future policy outcomes.

Finally, signaling theory (Spence, 1973) provides a mechanism linking corporate political activity to stock market reactions. Under conditions of information asymmetry, investors rely on observable firm behavior to infer unobservable characteristics or strategic positioning. Campaign contributions or lobbying efforts may signal a firm's political connections, policy expertise, or ability to influence regulatory outcomes. Consequently, investors may expect politically active firms to be better positioned to benefit from favorable policy decisions or to mitigate adverse regulatory shocks, leading to more favorable abnormal returns.

Taken together, these theoretical perspectives yield two main implications. First, while tariffs reduce aggregate welfare, they are likely to generate heterogeneous outcomes across firms and industries. Second, political-economy and firm-level theories suggest that corporate political activity may enable firms to influence policy outcomes or mitigate adverse regulatory shocks. As a result, politically active firms are expected to exhibit more favorable stock price reactions to trade policy announcements. These theoretical insights provide the foundation for the hypotheses developed in the next section.

4.1.2. Hypotheses Development

The theoretical framework outlined in the previous section suggests a common mechanism through which corporate political activity may shape stock market reactions to trade policy shocks. Political-economy models imply that firms can influence the design of trade policy through political engagement. Resource dependence theory and the investment theory of politics further suggest that firms engage in corporate political activity as a strategic investment to secure favorable regulatory outcomes. From a capital market perspective, signaling theory implies that investors may interpret such engagement as an indicator of a firm's ability to benefit from or mitigate adverse effects of trade policy shocks. Consequently, politically active firms may be perceived as better

positioned to obtain exemptions, protection, or other advantages following tariff announcements, resulting in more favorable abnormal stock returns relative to less active firms.

Based on this mechanism, we formulate two overarching hypotheses on the relationship between corporate political activity and stock market reactions to trade policy shocks. First, we examine whether the overall level of CPA is associated with abnormal stock returns following the tariff announcement. Here, CPA captures firms' efforts to influence political decision-making, irrespective of the recipients' political affiliation. If investors expect politically active firms to be better positioned to secure favorable treatment or to mitigate the negative effects of trade policy shocks, higher levels of CPA should be associated with more favorable abnormal returns. Accordingly, we formulate the following hypothesis:

H1: Firms with higher levels of corporate political activity exhibit higher abnormal returns following the tariff announcement.

To empirically test this hypothesis, we consider two commonly used measures of CPA: campaign contributions and lobbying expenditures. This yields two specific hypotheses:

H1a: Higher total campaign contributions are associated with higher abnormal returns following the tariff announcement on April 2, 2025.

H1b: Higher lobbying expenditures are associated with higher abnormal returns following the tariff announcement on April 2, 2025.

Second, we examine whether the political alignment of corporate political activity matters for stock market reactions. Prior research suggests that the benefits of political connections may depend on alignment with incumbent policymakers. For instance, Fotak et al. (2025) find that firms connected to Republican politicians were more likely to receive tariff exemptions during earlier phases of the US-China trade dispute, while connections to Democratic politicians were negatively associated with exemption approvals. Consistent with this, investors may assign greater value to ties with the governing Republican Party. This leads to the following hypothesis:

H2: Firms with greater corporate political activity directed toward the Republican Party exhibit higher abnormal returns following the tariff announcement.

We test this hypothesis using campaign contributions as the measure of CPA, since lobbying data is not available in sufficient detail to attribute expenditures to specific political parties. This yields the following empirical specification:

H2a: Higher campaign contributions to the Republican Party are associated with higher abnormal returns following the tariff announcement on April 2, 2025.

While the theoretical framework suggests that corporate political activity may enhance firms' ability to benefit from or mitigate adverse effects of policy shocks, the empirical literature reviewed in Chapter 3 yields mixed evidence on the relationship between CPA and firm performance. Examining these hypotheses in the context of recent trade policy announcements, therefore, allows us to assess whether the mechanisms proposed by theory are reflected in capital market outcomes in this specific setting. The following subsections outline the methods and variables used to test these hypotheses.

4.2. Methodology

4.2.1. Event Study

To conduct our empirical analysis of the relationship between corporate political activity and stock returns following the tariff announcement on April 2, 2025, we adopt a two-step approach. First, we estimate the impact of the announcement on equity prices using an event study. Second, we employ cross-sectional regressions to examine how these effects vary with firms' levels of corporate political activity.

For the event study, which enables us to compute firm-level abnormal returns, we follow the methodology proposed by MacKinlay (1997). A key step in this approach is identifying the event date. While Donald Trump imposed tariffs both before and after this date, we focus exclusively on the announcement on April 2, 2025. This choice is motivated by its broad scope, as these tariffs applied to all goods and all countries, whereas other announcements targeted only specific products or trading partners. The prominence of this event in terms of market reactions is further illustrated in Appendix 1, which shows that the associated decline in the S&P 500 Index is substantially larger than for the other US tariff announcements in 2025. Since the announcement occurred after markets closed (Bose & Hunnicutt, 2025), the following trading day, April 3, is defined as the event date. Given the high frequency of trade policy events during this period, as discussed in Chapter 2, we restrict the baseline event window to one day to avoid confounding effects. Most importantly, China announced retaliatory tariffs on April 4 (Bown, 2026). The one-day event window is further supported by the semi-strong form of the Efficient Market Hypothesis (Fama, 1970), which posits that publicly available information is incorporated into security prices without delay.

We compute abnormal returns as the difference between a security's realized and expected returns over the event window. Expected returns are estimated using the market model, a standard approach also recommended by MacKinlay (1997), which assumes a constant linear relationship between market returns and individual security returns. For any security i , the market model is given by:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (1)$$

where $R_{i,t}$ and $R_{m,t}$ denote the daily returns of security i and the market portfolio m , respectively. $\varepsilon_{i,t}$ is the error term with an expected value of zero. α_i and β_i are firm-specific parameters, which we estimate using an ordinary least squares regression over an estimation window covering the year 2024. t indexes the time during this period.

The length of the estimation window is consistent with prior event study applications, which commonly use one year or 250 trading days of data (MacKinlay, 1997; Child et al., 2021; Wengerek et al., 2025). Similar to some prior studies on Trump's tariff policies (Egger & Zhu, 2020), we do not extend the estimation window up to the event date to avoid contamination from other trade policy announcements in early 2025. As a proxy for the market portfolio, we use the CRSP Value-Weighted Market Index, which captures a broad set of US equities and has been employed in prior event studies on trade policy announcements (Breinlich, 2014) and corporate political activity (Child et al., 2021).

Abnormal returns for security i on the event date τ are then calculated as:

$$AR_{i,\tau} = R_{i,\tau} - \hat{\alpha}_i - \hat{\beta}_i R_{m,\tau} \quad (2)$$

These firm-level abnormal returns serve as the dependent variable in the subsequent cross-sectional analysis.

4.2.2. Cross-Sectional Regression

In a second step, we examine cross-sectional variation in firms' stock price reactions. To analyze the relationship between corporate political activity and abnormal returns following the tariff announcement, we estimate the following regression model:

$$AR_i = \alpha + \beta_1 CPA_i + \gamma' X_i + \delta_j + \varepsilon_i \quad (3)$$

AR_i denotes firm i 's abnormal return on the event date, obtained from the event study described above. CPA_i is the main independent variable capturing the firm's corporate political activity. We consider several alternative measures of CPA: lobbying expenditures and campaign contributions, both in aggregate and directed toward the Republican Party. X_i is a vector of firm-level control variables, including firm size, the book-to-market ratio, leverage, and a dummy variable for foreign companies. δ_j denotes industry fixed effects, which control for unobserved heterogeneity across industries.

The model is estimated using ordinary least squares. The main coefficient of interest, β_1 , captures the association between corporate political activity and abnormal returns, conditional on firm characteristics and industry effects. Standard errors are clustered at the industry level to account for potential correlation in residuals within industries.

4.3. Variables

4.3.1. Dependent and Independent Variables

This section defines the variables used in the empirical analysis and outlines their construction. The dependent variable is the firm-level abnormal return derived from the event study described above. We use simple returns, computed as the relative change in daily closing prices. Dividend-adjusted share prices obtained from S&P Capital IQ¹ form the basis for these calculations, allowing us to account for both stock price changes and dividend payments while avoiding distortions from corporate actions such as spin-offs. Consistent with this approach, the market model employs the total return version of the CRSP value-weighted market index, obtained from the Center for Research in Security Prices (CRSP) via Wharton Research Data Services².

To measure corporate political activity, we collect data from the Center for Responsive Politics (OpenSecrets³), a non-profit organization providing detailed information on political contributions and lobbying based on official filings. OpenSecrets aggregates entities based on group affiliation. Accordingly, our CPA measures capture each S&P 500 firm together with its subsidiaries and affiliated entities. This is consistent with the view that decisions about political engagement are typically made at the group level and aligns with prior research (Aggarwal et al., 2012).

To test Hypothesis H1 on overall corporate political activity, we employ two alternative measures. The first captures total campaign contributions made by firms to any political candidate or party. We include only organizational contributions made through corporate PACs or to external political organizations and exclude individual donations by employees or owners, as these primarily reflect personal political preferences rather than corporate positioning. This distinction is standard in the literature (Aggarwal et al., 2012). Since campaign contribution data is reported by electoral cycle, we use figures from the 2024 cycle, which covers the years 2023 and 2024.

The second measure capturing overall CPA is firms' lobbying expenditures, including both in-house lobbying and payments to external lobbyists. We use data from 2023 and 2024 and aggregate annual figures into a single amount to ensure consistency with the campaign contribution measure. Although data for 2025 is available, we exclude it because lobbying activity after the announcement in April would not have been observable to investors on the event date and could introduce reverse causality concerns if firms adjust CPA levels in response to trade policy developments.

For Hypothesis H2, which focuses on political alignment with the Republican Party, we use campaign contribution data disaggregated by recipient. Due to data limitations,

¹ <https://www.capitaliq.com/>

² <https://wrds-www.wharton.upenn.edu/pages/get-data/center-research-security-prices-crsp/>

³ <https://www.opensecrets.org/>

lobbying expenditures cannot be attributed to specific political parties. Consequently, contributions to Republican candidates and organizations serve as the sole CPA measure for this hypothesis.

All CPA variables are scaled by firms' total assets (in million USD) at the end of the most recent fiscal year ending in 2024. This approach is common in the literature, as it facilitates comparability across firms of different sizes and adjusts for the tendency of larger firms to exhibit higher absolute levels of political spending (Fotak et al., 2025; Chen et al., 2014). At the same time, some studies argue that policymakers may respond to absolute contribution levels (Aggarwal et al., 2012; Fotak et al., 2025). To account for this alternative perspective, we conduct robustness tests using unscaled CPA measures.

4.3.2. Control Variables

To mitigate the risk that firm characteristics other than corporate political activity bias our results, we include a set of control variables motivated by prior literature in our regression model. First, we control for firm size, measured as the natural logarithm of total assets (in million USD). This variable is widely used in event study applications (Cocozza & Gallo, 2025; Huang et al., 2023; Fotak et al., 2025) and represents a key determinant of cross-sectional variation in stock returns in the Fama-French Three-Factor Model, where smaller companies tend to outperform larger ones (Fama & French, 1992). In the context of tariff announcements, however, evidence on the relationship between firm size and performance is mixed. Cocozza and Gallo (2025) find that smaller firms experience larger negative abnormal returns following the April 2, 2025, tariff announcement, potentially due to more concentrated revenue sources and limited ability to adjust supply chains. By contrast, Froymovich et al. (2023), using accounting-based measures, report stronger performance improvements for smaller firms following the tariffs imposed in 2018 and 2019.

Second, also motivated by the Fama-French Three-Factor Model, we include the book-to-market ratio of equity. Value stocks with high book-to-market ratios have historically outperformed growth stocks with low book-to-market ratios (Fama & French, 1992). Accordingly, many researchers control for this effect in studies on both trade policy (Huang et al., 2023; Kaczmarek et al., 2025) and corporate political activity (Cooper et al., 2010; Chen et al., 2014; Child et al., 2021). Empirical findings remain inconclusive, however: While some studies find a positive relationship with abnormal returns, others report no significant effect.

Third, we control for leverage, defined as total debt divided by total assets. Highly levered firms may be more sensitive to tariff-induced cash flow shocks and may face rising default risk. Related studies on trade policy events (Huang et al., 2023; Cocozza & Gallo, 2025) and corporate political activity (Child et al., 2021) also incorporate this control.

In addition, firms with foreign incorporation or ownership may differ from domestic firms in terms of incentives, targets, and legal restrictions on political activity in the US, and exposure to American tariffs. Therefore, some studies restrict their sample to firms that are incorporated and headquartered in the United States (Huang et al., 2023), while others apply similar considerations to firms with foreign parent companies (Cooper et al., 2010; Aggarwal et al., 2012). To capture these differences, we include a dummy variable that equals one if a firm or its ultimate parent is incorporated or headquartered outside the US.

Finally, prior literature highlights substantial cross-sector variation in both exposure to trade policy shocks (Huang et al., 2023; Coccozza & Gallo, 2025) and the intensity of corporate political activity (Child et al., 2021; Fotak et al., 2025). We account for these systematic differences by including industry fixed effects based on the Global Industry Classification Standard's (GICS) 11 sectors. This ensures that identification relies on within-industry variation in CPA. As part of our robustness analysis, we employ the 10 divisions of the Standard Industrial Classification (SIC) system as an alternative industry classification scheme.

All accounting and market data for the control variables is obtained from S&P Capital IQ. Balance sheet and income statement variables refer to the fiscal year ending in 2024, while market values are measured as of December 31, 2024. This ensures that figures are not yet affected by the tariff announcements and were available to investors on the event date. All continuous firm-level variables, including abnormal returns, CPA measures, and controls, are winsorized at the 1st and 99th percentiles. This mitigates the influence of extreme observations while preserving the overall distribution of the data and is consistent with prior literature (Aggarwal et al., 2012; Egger & Zhu, 2020; Fotak et al., 2025).

4.4. Sample Description

To test our hypotheses, we use a broad sample of large US companies drawn from the S&P 500 Index as of March 1, 2026. The index comprises large-cap firms listed on major US exchanges that meet criteria on market capitalization, liquidity, public float, and profitability. Some companies are represented in the index with multiple share classes, but we retain only the class with the highest average daily trading volume in 2024 to ensure equal weighting of firms. Table 2 summarizes the selection process through which our final sample is obtained from these 500 observations.

Table 2. Sample Selection

	Number of Observations
Total number of S&P 500 firms	500
Less: companies with missing share price data	(2)
Less: companies with missing CPA data	(11)
Less: inconsistencies in group scope between CPA and financial data	(2)
Final sample	485

First, several companies are excluded due to missing data. Regarding share prices, we remove firms with insufficient data over the event or estimation windows. Qnity Electronics began trading as a separate entity only after the event date and is therefore excluded. To estimate the market model, we rely on daily stock prices throughout 2024. Following Egger and Zhu (2020), we impose a minimum threshold of 90 trading days, corresponding to approximately six months, to ensure reliable parameter estimation. Firms with fewer observations are excluded, which results in the removal of Sandisk.

In addition, 11 firms are excluded due to missing data on corporate political activity from OpenSecrets. Finally, we exclude Paramount Skydance and TKO Group Holdings, where recent merger and acquisition activity leads to inconsistencies between the group scope of CPA and financial data. After applying these filters, the final sample consists of 485 companies.

Table 3. Distribution of Sample Firms Across GICS Sectors

	Number of Firms	Share of Sample
Financials	76	15.7%
Industrials	74	15.3%
Information Technology	66	13.6%
Health Care	59	12.2%
Consumer Discretionary	48	9.9%
Consumer Staples	35	7.2%
Real Estate	31	6.4%
Utilities	31	6.4%
Materials	26	5.4%
Energy	21	4.3%
Communication Services	18	3.7%
Total Sample	485	100%

The distribution of sample firms across the 11 GICS sectors is presented in Table 3. The sample spans all sectors, with Financials, Industrials, and Information Technology being the most strongly represented. This broad variation is important, as prior literature suggests that trade policy exposure differs systematically across industries. The relatively balanced sector distribution further supports the suitability of the sample for cross-sectional analysis. The next chapter presents the empirical results. We begin by presenting summary statistics for the key variables, followed by an examination of their relationships in a univariate setting and in the multivariate regression framework outlined above.

5. Empirical Results

5.1. Descriptive Statistics

5.1.1. Full-Sample Summary Statistics

Before analyzing the relationship between abnormal returns and corporate political activity, we provide an overview of the key variables and their distributions. Table 4 reports the number of observations (N), mean, standard deviation, minimum, median, and maximum for each variable after winsorizing at the 1st and 99th percentiles.

Table 4. Summary Statistics of Variables

Variable	N	Mean	Std. Dev.	Min.	Median	Max.
Abnormal Returns (%)	485	-1.00	3.82	-10.96	0.10	7.17
Total Contributions	485	6.91	14.91	0.00	1.24	91.39
Lobbying Expenditures	485	85.91	120.89	0.00	49.29	723.97
Contributions to Republicans	485	3.10	6.14	0.00	0.62	34.01
Size	485	10.40	1.26	7.96	10.32	14.06
Book-to-Market	485	0.32	0.28	-0.11	0.24	1.31
Leverage	485	0.32	0.20	0.01	0.31	1.02

Notes: Abnormal returns are provided in percent; total contributions, lobbying expenditures, and contributions to Republicans are measured in USD and scaled by total assets (in million USD); size is the natural logarithm of total assets (in million USD); book-to-market is the ratio of the book value of equity to the market value of equity; leverage is total debt divided by total assets.

Looking first at abnormal returns, firms in our sample exhibit negative average abnormal returns of -1.00% on the event date. At the same time, there is considerable heterogeneity across firms, with winsorized abnormal returns ranging from -10.96% to +7.17%. The median firm displays a small positive abnormal return of +0.10%, indicating a slightly left-skewed distribution. Thus, while some firms were strongly negatively affected by the tariff announcement, others were affected less adversely or even positively. However, positive abnormal returns do not necessarily imply positive raw returns, as abnormal returns reflect performance relative to expectations given overall market movements. Since the CRSP value-weighted market index declined by 4.81% on the event date, even positive abnormal returns may correspond to negative, but less severe, raw returns. Indeed, the mean raw return on April 3, 2025, is -4.99%, and only 90 firms record positive raw returns.

Turning to corporate political activity, we first consider the measures of overall activity used to test Hypothesis H1. On average, firms spend USD 85.91 per million USD of assets on lobbying and channel USD 6.91 in campaign contributions, indicating that lobbying is economically more substantial. In total, sample firms spend approximately USD 2.02 billion on lobbying and contribute USD 283 million in political donations during the 2024

election cycle. Beyond these averages, CPA exhibits substantial heterogeneity across firms. Both lobbying expenditures and campaign contributions are strongly right-skewed, with a small number of firms accounting for a disproportionately large share of total spending, while many firms exhibit little or no political activity. Specifically, 37.3% of firms make no campaign contributions, and 18.6% report no lobbying expenditures. At the upper end of the distribution, 9.5% (campaign contributions) and 6.4% (lobbying expenditures) of firms exceed the conventional outlier threshold $1.5 \times \text{IQR}$ above the third quartile.

Regarding political alignment, the focus of Hypothesis H2, the average firm contributes USD 3.10 per million USD of assets to Republican candidates and organizations, compared to USD 2.27 to Democratic recipients. The distribution of Republican contributions mirrors that of overall contributions, with high dispersion and pronounced right-skewness. Notably, 41.2% of firms make no contributions to Republican recipients, and 10.7% exceed the $1.5 \times \text{IQR}$ threshold, indicating substantial outliers.

Overall, the summary statistics highlight considerable cross-sectional variation in both abnormal returns and corporate political activity. While these patterns are examined more formally in the subsequent univariate and multivariate analyses, it is useful to first assess whether part of this variation reflects systematic differences across industries. To this end, we next examine abnormal returns and CPA at the industry level.

5.1.2. Industry-Level Summary Statistics

Given that prior literature emphasizes the role of industry affiliation in stock price reactions to trade policy shocks and corporate political activity, we compute mean and median abnormal returns and CPA measures for each of the 11 GICS sectors. The results are presented in Table 5.

Both abnormal returns and corporate political activity exhibit substantial heterogeneity across industries. A clear pattern emerges in stock price reactions: Sectors with greater exposure to international trade and global supply chains tend to experience more negative abnormal returns following the tariff announcement. In particular, the Energy sector stands out with a mean abnormal return of -6.18%, indicating high sensitivity to trade-related shocks. Similarly, Industrials, Materials, and Consumer Discretionary display pronounced negative abnormal returns, consistent with their reliance on international production networks and trade flows. In addition to these manufacturing-oriented industries, Financials also exhibit relatively negative stock price reactions, potentially reflecting broader macroeconomic uncertainty. By contrast, more domestically oriented or service-based sectors, such as Health Care, Utilities, Real Estate, and Communication Services, record less negative or slightly positive abnormal returns. Consumer Staples shows the highest average abnormal return, although dispersion within the sector is considerable. Differences between mean and median abnormal returns in several sectors further point to skewness and the presence of outliers.

Table 5. Industry-Level Abnormal Returns and Corporate Political Activity

GICS Sector	N	Abnormal Returns (%)		Total Contributions		Lobbying Expenditures		Republican Contributions	
		Mean	Median	Mean	Median	Mean	Median	Mean	Median
Consumer Staples	35	1.01	1.64	6.76	2.80	82.74	56.70	2.85	0.94
Health Care	59	0.95	0.96	8.01	5.49	118.71	89.46	3.85	2.22
Utilities	31	0.51	0.92	7.09	6.81	61.15	51.12	3.78	3.19
Real Estate	31	-0.46	-0.58	1.04	0.00	25.49	0.00	0.64	0.00
Communication Services	18	-0.62	1.09	6.28	3.25	128.02	63.87	2.75	0.88
Information Technology	66	-1.02	-0.16	3.69	0.00	115.61	76.28	1.75	0.00
Industrials	74	-1.24	-0.69	12.08	2.51	126.58	64.51	6.48	1.36
Materials	26	-1.24	0.08	5.49	1.34	87.90	57.76	3.02	0.71
Financials	76	-1.85	-2.22	4.07	1.04	38.26	15.79	1.48	0.56
Consumer Discretionary	48	-2.18	-1.39	5.43	0.36	74.04	50.97	2.45	0.00
Energy	21	-6.18	-5.99	20.35	3.21	49.14	30.30	4.01	2.13
Total Sample	485	-1.00	0.10	6.91	1.24	85.91	49.29	3.10	0.62

Notes: Abnormal returns are provided in percent; total contributions, lobbying expenditures, and contributions to Republicans are measured in USD and scaled by total assets (in million USD); industries are ordered by mean abnormal returns for ease of interpretation.

Turning to corporate political activity, we observe similarly pronounced differences across industries. Firms in Communication Services, Industrials, Health Care, and Information Technology exhibit the highest average lobbying expenditures relative to total assets. In terms of campaign contributions, both overall and to Republican recipients, firms in the Energy, Industrials, and Health Care sectors are the most active. These industries may have stronger exposure to regulation, leading to higher incentives to engage in CPA, consistent with the theoretical mechanisms outlined in Chapter 4.1. By contrast, sectors such as Real Estate and Financials display comparatively low levels of political engagement, suggesting more limited incentives or opportunities to influence policy outcomes. Overall, these findings highlight the importance of accounting for industry-level heterogeneity and support the inclusion of industry fixed effects in the regression framework. Building on the descriptive insights, the next section examines the relationship between CPA and abnormal returns in a univariate setting.

5.2. Univariate Analysis

To explore the relationship between corporate political activity and abnormal returns in a simple setting, we sort firms into three groups based on each CPA measure. Given that a substantial share of firms report zero political activity, we first distinguish between firms with no CPA and those with positive CPA. Among the latter, we further split observations into low and high groups based on the median of positive values. We then compare the mean and median abnormal returns across groups. This approach provides an initial view of the relationship between CPA and abnormal returns before turning to multivariate analysis.

Table 6 reports the number of observations (N), mean and median abnormal returns for each group, as well as pairwise differences between groups. Panel A uses total campaign contributions as the CPA measure, Panel B lobbying expenditures, and Panel C contributions to Republicans. To assess statistical significance, we conduct two-sample t-tests for differences in means and Wilcoxon rank-sum tests for differences in distributions of abnormal returns. Given outliers and skewness of abnormal returns, the Wilcoxon test provides a useful non-parametric complement to mean-based comparisons. Corresponding t-statistics for mean differences and p-values for Wilcoxon tests are reported in parentheses.

Table 6. Univariate Differences in Abnormal Returns by Corporate Political Activity

Group	N	Mean	Median
Panel A: Total Campaign Contributions			
No Contributions	181	-0.0090	-0.0003
Low Contributions	152	-0.0118	-0.0062
High Contributions	152	-0.0093	0.0022
Difference (High – Low)		0.0025 (0.54)	0.0084 (0.392)
Difference (High – Zero)		-0.0003 (-0.08)	0.0026 (0.815)
Difference (Low – Zero)		-0.0028 (-0.70)	-0.0059 (0.407)
Panel B: Lobbying Expenditures			
No Lobbying Expenditures	90	-0.0080	-0.0023
Low Lobbying Expenditures	198	-0.0134	-0.0077
High Lobbying Expenditures	197	-0.0075	0.0047
Difference (High – Low)		0.0059 (1.53)	0.0124* (0.036)
Difference (High – Zero)		0.0005 (0.11)	0.0070 (0.661)
Difference (Low – Zero)		-0.0054 (-1.18)	-0.0054 (0.183)
Panel C: Campaign Contributions to Republicans			
No Contributions to Republicans	200	-0.0082	-0.0001
Low Contributions to Republicans	143	-0.0124	-0.0067
High Contributions to Republicans	142	-0.0101	0.0022
Difference (High – Low)		0.0024 (0.51)	0.0089 (0.340)
Difference (High – Zero)		-0.0019 (-0.43)	0.0023 (0.920)
Difference (Low – Zero)		-0.0043 (-1.10)	-0.0066 (0.178)

Notes: Low and high CPA firms are separated based on the median of positive observations for each measure; differences in means are tested using two-sample t-tests with unequal variances, with t-statistics reported in parentheses; differences in distributions and central tendency are tested using the Wilcoxon rank-sum (Mann-Whitney) test, with p-values reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Focusing first on firms that engage in political activity, a broadly consistent relationship emerges across all three proxies: Firms with higher levels of CPA tend to exhibit higher mean and median abnormal returns than those with lower CPA. The differences are economically modest but non-negligible. For instance, in Panel B, the difference in mean abnormal returns between high- and low-lobbying firms is approximately 0.59 percentage points. Among the three measures, lobbying expenditures display the strongest univariate association with abnormal returns, reflected in larger differences and higher test statistics. This may suggest that lobbying activity is more closely linked to trade policy exposure than campaign contributions.

However, the statistical strength of these patterns remains limited. While none of the differences in means are statistically significant at conventional levels, the Wilcoxon test indicates a significant difference in medians between high- and low-lobbying firms at the 5% level. This suggests that the observed relationship is more pronounced in the central part of the distribution rather than driven by extreme observations. More generally, differences in medians tend to exceed differences in means, reinforcing the relevance of non-parametric tests. Taken together, the results point to a pattern that is broadly consistent with our hypotheses, but the evidence remains statistically weak.

Turning to firms with no political activity, the results do not follow the same pattern. Contrary to expectations, firms with zero CPA do not consistently exhibit the lowest abnormal returns. Instead, their mean abnormal returns exceed those of low-CPA firms across all three measures and are often similar to those of high-CPA firms. Median abnormal returns show a similar tendency, with zero-CPA firms outperforming low-CPA firms but generally underperforming high-CPA firms. This suggests that the relationship between corporate political activity and abnormal returns may be more complex than a simple linear association. Firms without political engagement appear to form a distinct group rather than representing the lower end of the CPA distribution. One possible explanation is that such firms differ systematically from politically active firms along other dimensions, such as industry or size.

Overall, the univariate analysis reveals suggestive but inconclusive patterns. While firms with higher levels of CPA tend to experience higher abnormal returns, the evidence varies across tests and is generally not statistically robust. Moreover, non-monotonic relationships highlight the limitations of this grouping approach and underscore the importance of controlling for additional firm characteristics. Therefore, the next section turns to multivariate regression analysis, which allows us to assess the association between corporate political activity and abnormal returns more rigorously while controlling for observable firm characteristics.

5.3. Regression Analysis

5.3.1. Baseline Regression Results

Expanding on these first insights from the univariate analysis, we next employ cross-sectional regressions to provide a more formal assessment of the relationship between corporate political activity and abnormal stock returns following the tariff announcement. We estimate the baseline regression model introduced in Chapter 4.2.2 separately for each of our three CPA measures. The results are presented in Table 7, where each column corresponds to a different CPA proxy.

Table 7. Baseline Cross-Sectional Regressions of Abnormal Returns on Corporate Political Activity

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
CPA	0.00007 (0.00018)	0.00002 (0.00002)	0.00006 (0.00029)
Size	-0.0011 (0.0025)	-0.0008 (0.0026)	-0.0011 (0.0025)
Book-to-Market	-0.0176** (0.0075)	-0.0177** (0.0076)	-0.0176** (0.0074)
Leverage	-0.0080 (0.0122)	-0.0105 (0.0128)	-0.0075 (0.0118)
Foreign Company Dummy	-0.0059 (0.0110)	-0.0053 (0.0106)	-0.0061 (0.0108)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	485	485	485
Adjusted R ²	0.153	0.157	0.152

Notes: The dependent variable is abnormal returns; all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are based on the 11 GICS sectors; standard errors clustered at the industry level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

The estimated coefficients on total contributions, lobbying expenditures, and contributions to Republicans are all positive, consistent with the hypothesized direction of the relationship. However, none of these coefficients are statistically significant at conventional levels. Even for lobbying expenditures, which showed the strongest association with abnormal returns in the univariate analysis, the estimated effect is not statistically distinguishable from zero in the multivariate setting. This suggests that any relationship between corporate political activity and abnormal returns is either economically small or masked by cross-sectional noise. Consistent with this interpretation, the economic magnitude of the coefficients is likewise limited. For example, a one-standard-deviation increase in total contributions would correspond to only a 0.11 percentage point increase in abnormal returns. Overall, we find no evidence

of a systematic relationship between corporate political activity and abnormal returns once firm characteristics and industry effects are taken into account.

Among the control variables, the book-to-market ratio is statistically significant across all specifications and exhibits a negative coefficient. This indicates that firms with higher book-to-market ratios, which are typically more mature and value-oriented, experience more negative abnormal returns following the tariff announcement. By contrast, firm size, leverage, and the foreign company dummy are not statistically significant, suggesting that these characteristics do not systematically explain cross-sectional variation in abnormal returns in this context.

In sum, the regression results provide no evidence that corporate political activity systematically affects stock price reactions to the tariff announcement. Accordingly, neither Hypothesis H1 nor Hypothesis H2 is supported. The consistency of statistically insignificant and economically small coefficients across all CPA measures strengthens this conclusion and suggests that the findings are not driven by the choice of proxy. While the univariate analysis indicated weak positive patterns, these do not persist once controls are included, suggesting that they likely reflect underlying differences across firms and sectors rather than a direct effect of corporate political activity. The following subsection evaluates the validity of the regression specification and the reliability of statistical inference.

5.3.2. Model Diagnostics

To assess the adequacy of the baseline specification and the reliability of the estimated coefficients, we employ a set of standard diagnostic tests. We begin by examining model fit using the adjusted R^2 , which captures the proportion of variation in abnormal returns explained by the regressors. Across all three CPA proxies, the adjusted R^2 ranges from 0.152 to 0.157, indicating modest explanatory power broadly in line with prior studies employing similar designs (Huang et al., 2023; Crowley et al., 2019). Reported explanatory power in the literature varies considerably depending on fixed effects: Some studies using granular industry controls report adjusted R^2 above 0.40 (Child et al., 2021), whereas models without industry fixed effects can exhibit values below 0.01 (Aggarwal et al., 2012). Against this background, the fit of our baseline model appears reasonable.

To assess the incremental contribution of corporate political activity, we compare the R^2 of the baseline model with that of a specification excluding CPA variables. The incremental explanatory power of CPA is negligible, with increases in R^2 ranging from less than 0.0001 to 0.0044. This suggests that cross-sectional variation in abnormal returns is primarily explained by standard firm characteristics and industry fixed effects, whereas CPA contributes only marginally.

Next, we examine potential multicollinearity among the regressors. Table 8 displays Pearson pairwise correlations for the main variables.

Table 8. Pearson Correlation Matrix

Variable	AR	Contrib	Lobby	Rep	Size	B/M	Lev	Foreign
Abnormal Returns (AR)	1.00							
Total Contributions (Contrib)	-0.02	1.00						
Lobbying Expenditures (Lobby)	0.11	0.55	1.00					
Contributions to Republicans (Rep)	0.01	0.83	0.57	1.00				
Size	-0.10	0.02	-0.17	0.02	1.00			
Book-to-Market (B/M)	-0.13	-0.01	-0.16	-0.03	0.41	1.00		
Leverage (Lev)	0.04	0.10	0.18	0.12	-0.14	-0.29	1.00	
Foreign Company Dummy (Foreign)	-0.07	-0.06	-0.07	-0.05	-0.02	0.02	0.00	1.00

Note: To avoid redundancy, only the lower triangular part of the matrix is presented.

The different CPA proxies are highly correlated, particularly total contributions and contributions to Republicans, supporting our decision not to include them jointly in the regression. Correlations with control variables are generally modest. To complement the pairwise analysis, we compute Variance Inflation Factors, which indicate substantial multicollinearity for firm size, with values of approximately 26. This may be driven by the scaling of CPA measures by total assets. However, re-estimating the model without size yields virtually unchanged results, suggesting that multicollinearity does not materially bias inference. In line with prior literature, we therefore retain it as a control variable.

We further assess functional form using the Ramsey RESET test, which shows no evidence of misspecification. Finally, Cook's distance indicates that no single firm disproportionately drives our results. One caveat in interpreting statistical significance is that inference relies on clustering at the industry level. However, the relatively small number of clusters may lead to downward-biased estimates of standard errors and, therefore, overstated significance levels. Despite this limitation, the diagnostics do not indicate major violations of underlying regression assumptions, and the baseline model appears appropriate. In the next sections, we examine whether the main findings are robust to alternative model specifications and sample definitions.

5.4. Robustness Checks

5.4.1. Exclusion of Firms With Zero Corporate Political Activity

To assess whether the absence of a relationship between CPA and abnormal returns is robust, we re-estimate the regression model under alternative specifications and sample choices. First, motivated by the univariate findings suggesting that firms with zero corporate political activity may differ systematically from politically active firms, we restrict the sample to firms with positive CPA as defined by each proxy. The results are presented in Table 9.

Table 9. Cross-Sectional Regressions for the Subsample of Politically Active Firms

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
CPA	0.00003 (0.00015)	0.00003 (0.00002)	-0.00011 (0.00024)
Size	-0.0044 (0.0033)	-0.0003 (0.0028)	-0.0050 (0.0031)
Book-to-Market	-0.0125 (0.0109)	-0.0143 (0.0095)	-0.0126 (0.0111)
Leverage	0.0044 (0.0169)	-0.0039 (0.0159)	0.0044 (0.0184)
Foreign Company Dummy	-0.0068 (0.0116)	-0.0048 (0.0093)	-0.0076 (0.0118)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	304	395	285
Adjusted R ²	0.236	0.184	0.245

Notes: The sample includes only firms with non-zero corporate political activity as defined by the respective variable; the dependent variable is abnormal returns; all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are based on the 11 GICS sectors; standard errors clustered at the industry level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In this subsample, the coefficient on lobbying expenditures is similar to the baseline specification in both sign and magnitude, whereas the coefficient on total contributions decreases, and the coefficient on contributions to Republicans becomes negative. However, all three estimates remain statistically insignificant at conventional levels, suggesting that the baseline results are not driven by the inclusion of firms without political activity. Additionally, the book-to-market ratio loses statistical significance in this restricted sample. The adjusted R² is higher than in the baseline specification, consistent with reduced heterogeneity in the sample. Overall, the results reinforce the conclusion that CPA is not significantly related to abnormal returns, even among firms with positive political expenditures. In the following section, we further assess robustness using alternative measures of corporate political activity.

5.4.2. Alternative Measures of Corporate Political Activity

While the previous section shows that the lack of a robust association between corporate political activity and abnormal returns is not driven by the large number of zero-CPA firms in the sample, we next examine whether our main independent variable is appropriately specified. To this end, we consider two alternative approaches to measuring CPA. First, we use unscaled measures of political expenditures. Second, we introduce dummy-based measures that capture the presence and intensity of CPA.

The CPA variables in our baseline model reflect corporate political activity relative to firm size, measured by total assets. This specification assumes that investors evaluate

political engagement in relation to a firm's available resources, facilitating comparability across firms of different sizes. However, from a political economy perspective, absolute levels of engagement may also matter. Given constraints in time and attention, policymakers may prioritize entities with higher absolute lobbying expenditures and campaign contributions, regardless of firm size. In addition, larger firms may receive greater political attention due to their economic importance and employment effects. If investors anticipate that benefits accrue primarily to firms with the largest absolute engagement, unscaled CPA measures may better capture the relevant mechanism.

To reflect this alternative interpretation, we re-estimate the model using absolute CPA measures. Specifically, we use the logarithmic transformation $\ln(1 + \text{CPA expenditures})$ to reduce skewness and accommodate firms with zero political activity (Aggarwal et al., 2012). Table 10 reports the results.

Table 10. Cross-Sectional Regressions Using Absolute Corporate Political Activity Measures

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
CPA	0.00015 (0.00055)	-0.00009 (0.00046)	-0.00004 (0.00047)
Size	-0.0014 (0.0033)	-0.0009 (0.0032)	-0.0010 (0.0030)
Book-to-Market	-0.0178** (0.0076)	-0.0175** (0.0074)	-0.0175** (0.0075)
Leverage	-0.0078 (0.0128)	-0.0067 (0.0133)	-0.0071 (0.0121)
Foreign Company Dummy	-0.0061 (0.0108)	-0.0063 (0.0110)	-0.0062 (0.0108)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	485	485	485
Adjusted R ²	0.152	0.152	0.152

Notes: The dependent variable is abnormal returns; the independent variables are constructed as $\ln(1 + \text{CPA expenditures})$ where CPA expenditures are measured in absolute terms (USD); all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are based on the 11 GICS sectors; standard errors clustered at the industry level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

The coefficients on all CPA variables remain statistically insignificant when using absolute rather than size-adjusted measures. While the estimated coefficients for lobbying expenditures and contributions to Republicans are negative in this specification, none differ significantly from zero. This indicates no robust association between absolute political engagement and abnormal stock returns in response to the tariff announcement. The control variables are broadly consistent with the baseline specification: The book-to-market ratio remains statistically significant, while size, leverage, and the foreign

company dummy remain insignificant. Overall, these findings suggest that the results are not sensitive to the scaling of the CPA variables.

So far, both the baseline and alternative specifications have assumed a continuous relationship between corporate political activity and abnormal returns. We now relax this assumption by introducing dummy-based measures of CPA, which allow us to test whether either the mere presence or only sufficiently high levels of CPA affect market reactions. Investors may not respond to the precise magnitude of expenditures, but instead differentiate between politically active and inactive firms, or expect benefits only once CPA exceeds a certain threshold. Additionally, the skewed distribution of CPA expenditures may limit the ability of linear models to capture the underlying relationship.

To explore these possibilities, we replace the CPA measures in our regression model with binary indicators that build on the grouping introduced in the univariate analysis in Section 5.2. For the distinction between politically active and inactive firms, the dummy equals 1 if a firm engages in CPA according to the respective measure and 0 otherwise. To investigate a potential salience effect, we define an alternative dummy equal to 1 if a firm's scaled CPA exceeds the median among firms with positive expenditures. However, while this approach provides a simple way to identify highly active firms, the median may not necessarily correspond to an economically relevant threshold. Table 11 reports the results of these specifications, with Panel A distinguishing between zero and non-zero CPA and Panel B focusing on high versus low or zero CPA.

Like in the baseline model, the estimated coefficients on all CPA dummy variables are statistically insignificant. However, their signs vary across specifications: In Panel A, total contributions and contributions to Republicans retain positive signs, while lobbying expenditures exhibit a negative coefficient. Panel B, which isolates highly active firms, yields uniformly negative coefficients. Although not statistically significant, these patterns contrast with the univariate results in Section 5.2, where firms with high CPA tend to exhibit higher average abnormal returns. This suggests that the univariate association is likely driven by underlying firm and industry differences rather than CPA effects.

Overall, the dummy-based specifications reinforce the baseline conclusion. Neither continuous CPA measures nor specifications capturing potential threshold effects provide evidence that the presence or intensity of corporate political activity affects abnormal returns. While coefficient estimates vary across specifications, they remain small in magnitude and statistically indistinguishable from zero. Together with the results obtained using unscaled CPA measures, these findings suggest that the null result is unlikely to be driven by measurement choice. In the next section, we return to the baseline measure of CPA expenditures scaled by total assets and examine whether the results are sensitive to the length of the event window.

Table 11. Cross-Sectional Regressions With Dummy Variables for Corporate Political Activity

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
Panel A: Positive Versus Zero Corporate Political Activity			
CPA Dummy	0.00314 (0.00683)	-0.00235 (0.00587)	0.00139 (0.00516)
Size	-0.0016 (0.0031)	-0.0008 (0.0029)	-0.0013 (0.0029)
Book-to-Market	-0.0180** (0.0077)	-0.0174** (0.0074)	-0.0178** (0.0075)
Leverage	-0.0083 (0.0126)	-0.0062 (0.0129)	-0.0076 (0.0119)
Foreign Company Dummy	-0.0062 (0.0108)	-0.0063 (0.0108)	-0.0063 (0.0108)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	485	485	485
Adjusted R ²	0.153	0.152	0.152
Panel B: High Versus Low/Zero Corporate Political Activity			
CPA Dummy	-0.00174 (0.00648)	-0.00063 (0.00540)	-0.00221 (0.00630)
Size	-0.0010 (0.0027)	-0.0011 (0.0026)	-0.0009 (0.0027)
Book-to-Market	-0.0176** (0.0073)	-0.0175** (0.0073)	-0.0175** (0.0073)
Leverage	-0.0068 (0.0118)	-0.0070 (0.0120)	-0.0067 (0.0116)
Foreign Company Dummy	-0.0062 (0.0108)	-0.0062 (0.0109)	-0.0062 (0.0108)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	485	485	485
Adjusted R ²	0.152	0.152	0.153

Notes: The dependent variable is abnormal returns; corporate political activity is measured using dummy variables; in Panel A, the dummy equals 1 for firms with positive CPA and 0 otherwise; in Panel B, the dummy equals 1 for firms with CPA above the median of positive observations and 0 otherwise; all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are based on the 11 GICS sectors; standard errors clustered at the industry level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

5.4.3. Alternative Event Windows

Prior research frequently complements analyses of abnormal returns on the event date with cumulative abnormal returns (CARs) over short periods surrounding the event. While our baseline analysis focuses on a narrow one-day window ($\tau = 0$) to isolate the effect of the US tariff announcement, this may miss investor anticipation or delayed market reactions. Extending the event window can capture such dynamics but introduces

the risk of contamination from other events, most notably Chinese retaliatory tariffs announced on the following trading day. Acknowledging this trade-off, we consider slightly longer windows as a robustness check.

Following MacKinlay (1997), the cumulative abnormal return for firm i over the event window $[\tau_1, \tau_2]$ is computed as:

$$CAR_i(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} AR_{i,\tau} \quad (4)$$

We consider two alternative event windows. First, the window $[0, +1]$ includes the event date and the subsequent trading day to capture delayed market reactions. Second, the window $[-1, +1]$ additionally incorporates the trading day before the event, when the announcement occurred after market close. Information leakage may have triggered stock price reactions already on this day.

On the trading day preceding the announcement ($\tau = -1$), firms exhibit a small positive abnormal return of 0.28% on average, providing little evidence of anticipation. On the day following the event ($\tau = +1$), the average abnormal return continues to be negative at -0.97%, similar in magnitude to the event day (-1.00%). This may reflect either delayed responses to the US announcement or reactions to the Chinese retaliation announced on that date. The resulting average CARs are -1.96% over $[0, +1]$ and -1.67% over $[-1, +1]$.

We then re-estimate the regression model using CARs as the dependent variable. Table 12 presents the results, with Panel A using $[0, +1]$ and Panel B $[-1, +1]$ as event windows. Across both windows, all CPA variables exhibit negative but statistically insignificant coefficients. The estimated effects remain economically small, particularly for total contributions and lobbying expenditures. Contributions to Republicans show a slightly larger, yet insignificant, coefficient. The behavior of the control variables differs somewhat from the baseline specification. While the coefficient on the book-to-market ratio remains negative, it is no longer statistically significant, whereas size and leverage become significant in the extended windows.

All in all, these results indicate that the baseline findings are not sensitive to the choice of event window. Even when allowing for anticipation or delayed reactions, we find no evidence of a systematic relationship between corporate political activity and stock returns. At the same time, including the post-event trading day may introduce contamination from Chinese retaliation, which could contribute to the observed negative patterns. Given the prominent role of industry affiliation in prior literature, the next section examines how alternative approaches to capturing industry effects influence the estimated relationship between CPA and abnormal returns.

Table 12. Cross-Sectional Regressions of Cumulative Abnormal Returns Over Longer Event Windows

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
Panel A: Event Window [0, +1]			
CPA	-0.00008 (0.00021)	-0.00001 (0.00003)	-0.00049 (0.00039)
Size	-0.0056** (0.0027)	-0.0058** (0.0027)	-0.0055** (0.0026)
Book-to-Market	-0.0111 (0.0114)	-0.0111 (0.0115)	-0.0109 (0.0112)
Leverage	-0.0376*** (0.0086)	-0.0372*** (0.0110)	-0.0361*** (0.0087)
Foreign Company Dummy	-0.0068 (0.0082)	-0.0069 (0.0078)	-0.0071 (0.0080)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	485	485	485
Adjusted R ²	0.287	0.287	0.290
Panel B: Event Window [-1, +1]			
CPA	-0.00003 (0.00020)	0.00000 (0.00003)	-0.00039 (0.00036)
Size	-0.0065*** (0.0025)	-0.0065*** (0.0025)	-0.0063*** (0.0024)
Book-to-Market	-0.0069 (0.0099)	-0.0070 (0.0099)	-0.0067 (0.0097)
Leverage	-0.0395*** (0.0093)	-0.0391*** (0.0111)	-0.0379*** (0.0098)
Foreign Company Dummy	-0.0061 (0.0081)	-0.0061 (0.0076)	-0.0064 (0.0080)
Industry Fixed Effects	GICS sectors	GICS sectors	GICS sectors
Number of Observations	485	485	485
Adjusted R ²	0.288	0.288	0.290

Notes: The dependent variable is cumulative abnormal returns over the specified event windows; all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are based on the 11 GICS sectors; standard errors clustered at the industry level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

5.4.4. Alternative Industry Classifications and Fixed Effects

This section examines the influence of industry affiliation in explaining cross-sectional differences in abnormal returns. To this end, we first re-estimate the baseline regression model without industry fixed effects. In this specification, identification relies on variation within and across industries, allowing industry-level differences to influence the estimated coefficients. The results are reported in Table 13.

Table 13. Cross-Sectional Regressions Without Industry Fixed Effects

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
CPA	-0.00006 (0.00026)	0.00003 (0.00002)	0.00001 (0.00037)
Size	-0.0017 (0.0025)	-0.0014 (0.0024)	-0.0017 (0.0024)
Book-to-Market	-0.0141 (0.0090)	-0.0134 (0.0093)	-0.0142 (0.0092)
Leverage	0.0014 (0.0111)	-0.0012 (0.0120)	0.0009 (0.0112)
Foreign Company Dummy	-0.0106 (0.0111)	-0.0095 (0.0108)	-0.0103 (0.0110)
Industry Fixed Effects	No	No	No
Number of Observations	485	485	485
Adjusted R ²	0.014	0.020	0.014

Notes: The dependent variable is abnormal returns; all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are excluded; standard errors clustered at the GICS sector level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Without industry fixed effects, the estimated coefficients become less stable across specifications, with some changes in sign and magnitude. While no statistically significant relationship between CPA and abnormal returns emerges, the coefficient on total contributions reverses sign relative to the baseline model. In addition, the statistical significance of the book-to-market ratio does not persist. At the same time, explanatory power declines sharply, with the adjusted R² dropping from around 0.15 to 0.02 or below. This indicates that a substantial share of cross-sectional variation in abnormal returns is driven by industry-level factors rather than firm-specific characteristics. Accordingly, specifications without adequate industry controls may suffer from omitted variable bias.

Given the importance of industry fixed effects, we further assess robustness by using an alternative industry classification. While the baseline model employs fixed effects based on the 11 GICS sectors, we now re-estimate the regressions using the 10 SIC divisions. As none of the sample firms operate in SIC division J (Public Administration), only nine divisions are represented. Table 14 reports the results.

The coefficient on lobbying expenditures remains positive and becomes statistically significant at the 10% level, highlighting that the choice of industry classification scheme can affect the estimated relationship. In this specification, higher lobbying intensity is associated with higher abnormal returns following the tariff announcement. Economically, the estimated effect is modest, as a one-standard-deviation increase in lobbying expenditures corresponds to an increase in abnormal returns of approximately 0.30 percentage points. While this is non-negligible relative to the average abnormal return of -1.00%, it is small compared to the overall dispersion of returns in the sample.

At the same time, other coefficients exhibit instability, including a loss of significance for the book-to-market ratio.

The explanatory power of the SIC-based specification is considerably lower than that of the baseline model and only slightly higher than that of the specification without industry fixed effects, suggesting that this relatively coarse classification does not adequately capture relevant industry heterogeneity. While GICS sectors group firms by primary revenue sources, SIC divisions rely on broader business categories, such as manufacturing or services (Child et al., 2021), which appear less aligned with differences in trade policy exposure or political involvement. In addition, firms are more evenly distributed across GICS sectors, which likely improves estimation precision. Consequently, the observed significance of lobbying expenditures in the SIC specification may reflect remaining industry heterogeneity rather than a robust firm-level effect.

Table 14. Cross-Sectional Regressions with SIC-Based Industry Fixed Effects

Variable	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
CPA	0.00001 (0.00019)	0.00002* (0.00001)	0.00010 (0.00027)
Size	-0.0013 (0.0028)	-0.0011 (0.0027)	-0.0013 (0.0028)
Book-to-Market	-0.0058 (0.0075)	-0.0055 (0.0073)	-0.0058 (0.0075)
Leverage	0.0053 (0.0095)	0.0033 (0.0104)	0.0051 (0.0097)
Foreign Company Dummy	-0.0073 (0.0063)	-0.0064 (0.0058)	-0.0072 (0.0060)
Industry Fixed Effects	SIC divisions	SIC divisions	SIC divisions
Number of Observations	485	485	485
Adjusted R ²	0.048	0.053	0.048

Notes: The dependent variable is abnormal returns; all regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; industry fixed effects are based on the 10 main SIC divisions; standard errors clustered at the SIC-division-level are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Taken together, the evidence does not provide reliable support for a systematic relationship between corporate political activity and abnormal returns. While the SIC-based specification yields a weakly significant coefficient for lobbying expenditures, this result is not robust across alternative CPA proxies and coincides with reduced model fit. More broadly, the robustness tests confirm the baseline findings. Across a range of alternative specifications, we do not find evidence of stable, statistically significant relationships between corporate political activity and abnormal stock returns. This conclusion holds irrespective of whether CPA is proxied by lobbying expenditures or

campaign contributions and applies to both overall political engagement and contributions directed specifically toward Republican candidates and organizations. Consequently, Hypothesis H1, including sub-hypotheses H1a and H1b, and Hypothesis H2 are not supported by the empirical evidence. At the same time, the results underscore the dominant role of industry-level factors in shaping stock price reactions. This raises the possibility that any effects of corporate political activity are not uniform across firms but depend on industry context. The following section explores this idea in greater detail.

5.5. Industry-Level Analysis

While the aggregate analysis yields no systematic relationship between corporate political activity and abnormal returns, this average effect may mask cross-industry heterogeneity. As shown in Section 5.1.2, both abnormal returns and levels of corporate political activity vary substantially across industries. Consequently, the relationship between CPA and abnormal returns may also differ between industries rather than being uniform across the full sample. To explore this possibility, we split the sample by GICS sector and re-estimate the baseline regression model separately for each sector. Table 15 displays the estimated coefficients on the CPA variables for each industry, along with heteroskedasticity-robust standard errors in parentheses.

The results reveal substantial heterogeneity in the relationship between corporate political activity and abnormal returns. In more than half of the sectors, the estimated coefficients on the CPA measures are negative, suggesting that greater political activity is associated with lower abnormal returns following the tariff announcement. This negative association is statistically significant for all three CPA proxies in the Energy sector and for selected proxies in Communication Services, Materials, and Real Estate. By contrast, several other sectors exhibit a positive and statistically significant association between CPA and abnormal returns. This is particularly evident in Health Care, where all three CPA measures are positive and significant, but also applies to selected proxies in Financials, Industrials, and Information Technology. The sign of statistically significant coefficients is generally consistent across CPA measures within industries, indicating that the direction of the relationship does not depend on the specific proxy used. Comparing CPA measures, lobbying expenditures show the most frequent statistical significance, with significant coefficients in six out of 11 sectors, suggesting that lobbying activity may be more closely linked to firms' ability to influence regulatory outcomes.

Table 15. Industry-Level Regressions

GICS Sector	N	(1) Total Contributions	(2) Lobbying Expenditures	(3) Contributions to Republicans
Communication Services	18	-0.00144 (0.00103)	-0.00013** (0.00006)	-0.00221 (0.00233)
Consumer Discretionary	48	-0.00012 (0.00058)	0.00004 (0.00008)	0.00019 (0.00127)
Consumer Staples	35	-0.00020 (0.00029)	0.00000 (0.00004)	-0.00072 (0.00085)
Energy	21	-0.00054** (0.00021)	-0.00024** (0.00012)	-0.00313* (0.00160)
Financials	76	0.00059** (0.00028)	0.00015** (0.00007)	-0.00048 (0.00107)
Health Care	59	0.00081*** (0.00024)	0.00008*** (0.00003)	0.00179*** (0.00048)
Industrials	74	0.00037** (0.00017)	0.00002 (0.00002)	0.00052 (0.00036)
Information Technology	66	0.00052 (0.00036)	0.00010*** (0.00002)	0.00115 (0.00076)
Materials	26	-0.00083 (0.00111)	-0.00016*** (0.00005)	-0.00138 (0.00211)
Real Estate	31	-0.00100*** (0.00038)	0.00001 (0.00010)	-0.00150*** (0.00052)
Utilities	31	-0.00055 (0.00062)	-0.00005 (0.00009)	-0.00070 (0.00098)

Notes: Each column within each row reports results from a separate regression; the dependent variable is abnormal returns; the regressions include size, book-to-market ratio, leverage, and a dummy variable for foreign companies as firm-level controls; in sectors where all firms are domestic, the foreign company dummy drops out due to lack of variation; industry classification is based on the 11 GICS sectors; heteroskedasticity-robust standard errors are reported in parentheses; *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In sum, these findings indicate that the relationship between corporate political activity and abnormal returns is not uniform across industries but varies in both sign and magnitude. Consequently, opposing effects across sectors may offset in the aggregate, helping to explain the weak and statistically insignificant relationships observed in the full-sample regressions. At the same time, these results should be interpreted with caution due to the relatively small number of observations in some industries. The following chapter discusses the implications of our findings and relates them to the existing literature.

6. Discussion

6.1. Summary of Research Question and Main Findings

The objective of this thesis is to investigate whether corporate political activity moderates stock market reactions to trade policy shocks for American firms. We hypothesized that firms with higher overall levels of CPA (H1) or with greater CPA directed toward the Republican Party (H2) would exhibit more favorable abnormal returns following the trade policy shock. However, when considering the full sample, our analysis provides no evidence of a systematic relationship between corporate political activity and abnormal returns. Consequently, neither hypothesis is supported by the data, regardless of whether CPA is proxied by campaign contributions or lobbying expenditures.

Re-estimating the model at the industry level reveals significant associations between CPA and abnormal returns that vary in both magnitude and direction. This indicates that political activity does not exert a uniform impact on firm valuation, but rather one that is contingent on industry context. Offsetting effects across industries provide a plausible explanation for the lack of significant results at the aggregate level and emphasize the need to move beyond economy-wide analyses when studying CPA. The following section positions these findings in relation to the theoretical framework and prior literature.

6.2. Interpretation in Light of Theory and Prior Literature

The absence of a significant relationship between CPA and abnormal returns in the full sample stands in contrast to the theoretical predictions underlying our hypotheses. According to the investment theory of politics (Ferguson, 1995) and the “Protection for Sale” model (Grossman & Helpman, 1994), companies engage in political activity because expected benefits exceed costs. In the context of the tariff announcement on April 2, 2025, however, investors do not appear to expect that more politically active firms are better positioned to benefit from protection or to reduce downside risks from policy changes.

Several explanations may account for this finding. First, CPA may be ineffective in mitigating the adverse effects of trade policy shocks, or investors may not perceive it as effective in this setting. This may in part reflect a limitation of our CPA measures, which do not capture the specific policy domains targeted by firms. If political expenditures are not directed toward trade-related issues, they are unlikely to translate into observable market reactions following the tariff announcement. Second, even if CPA is relevant to firm value in this setting, its effects may not materialize at the time of the shock. Expected benefits may already be incorporated into stock prices when firms engage in lobbying or contributions, leaving no additional valuation effect when policy uncertainty materializes. This interpretation is supported by evidence from Jayachandran (2006) and Child et al.

(2021), who show that stock market effects arise when political connections are formed or lost, suggesting that investors price CPA when political ties change rather than when policies are announced. Third, informational complexity surrounding the event itself, combined with the short event window, may limit investors' ability to identify which firms are likely to benefit from protection or mitigate negative implications. Finally, industry-level spillovers may dilute firm-specific effects, as policy outcomes shaped by politically active firms can benefit entire industries, reducing cross-sectional variation in returns.

Although our findings do not align with theoretical predictions, the absence of reliable associations is consistent with the mixed evidence in prior literature. On the one hand, Hadani and Schuler (2013) and Aggarwal et al. (2012) report predominantly negative relationships between CPA and firm performance. On the other hand, Cooper et al. (2010), Chen et al. (2014), and Lenway et al. (1996) document positive effects. Hence, prior studies do not converge on a consistent valuation effect of CPA, making our null result less surprising.

A key difference between most prior studies and our analysis lies in the time horizon considered. Existing research typically relies on long-term performance measures and captures ongoing relationships. For example, Cooper et al. (2010) and Chen et al. (2014) construct abnormal returns based on annual performance relative to characteristic-matched portfolios, while Hadani and Schuler (2013) rely on end-of-year market valuations. In addition, many studies use accounting-based measures such as return on equity, net income, or operating cash flows. These approaches capture the effects of CPA over extended periods, often using panel data spanning multiple years or decades. By contrast, our analysis focuses on short-term market reactions to a discrete policy shock. This difference may help explain why the positive effects of CPA documented in some prior studies do not materialize in our setting: Firms with higher levels of CPA may outperform their peers during normal economic conditions, while such advantages may not necessarily translate into protection against adverse policy shocks. In this sense, CPA may create benefits by acting as a booster during favorable periods rather than as a buffer mitigating losses during periods of heightened uncertainty.

Lenway et al. (1996) adopt an approach more closely related to ours by examining the relationship between CPA and abnormal returns in the context of trade policy shocks. However, their analysis focuses on a single industry, the steel sector, where they document significant benefits from lobbying. This is consistent with our finding that significant relationships emerge at the industry level but may be obscured in aggregate analyses due to offsetting effects. Similarly, Hadani and Schuler (2013) show that while CPA is negatively associated with firm performance on average, the relationship turns positive in more regulated industries, which aligns with our evidence that the valuation effects of CPA vary across industries.

Finally, differences in the institutional environment may contribute to the divergence between our results and earlier studies. Much of the literature relies on data between 1988 and 2010, and both the legal framework for CPA and the broader trade environment have evolved substantially since then. Trade policy has become more volatile in recent years, with a shift toward greater protectionism and increasingly complex global value chains, which may alter firms' exposure and responses to policy changes. At the same time, regulatory changes around 2010 expanded firms' ability to use financial resources for political advocacy and facilitated the rise of alternative channels such as Super PACs (Fotak et al., 2025) or dark money groups (Denes & Scanlon, 2025). These channels allow unlimited contributions and are not subject to the same disclosure requirements as traditional PACs. As a result, contemporary CPA may differ from earlier periods, and a growing share of political activity may occur through channels not fully captured by our measures. This could attenuate observed relationships and contribute to the absence of significant aggregate effects.

6.3. Industry Heterogeneity

While CPA does not yield universal benefits across the full sample, it exhibits significant relationships with abnormal returns in specific industries. This section examines these sectoral differences. Our industry-level regressions provide evidence of consistently positive associations between CPA and abnormal returns in the Health Care sector, as well as positive associations for at least one CPA proxy in the Financials, Industrials, and Information Technology sectors. In these industries, investors appear to expect that politically active firms are more likely to secure favorable policy treatment, such as tariff exemptions on imported inputs or protection from foreign competition, relative to their industry peers. This interpretation is consistent with theories viewing corporate political activity as a value-generating investment and political connections as a signal of favorable policy outcomes.

By contrast, we observe negative associations between CPA and abnormal returns across all three proxies in the Energy sector and for selected proxies in Real Estate, Materials, and Communication Services. In these industries, corporate political activity appears to be viewed less favorably by investors, as politically active firms are not expected to obtain superior outcomes relative to their peers. From an economic perspective, CPA entails costs for the company and, if generated benefits do not outweigh them, may represent a misallocation of resources away from value-enhancing investments. Consequently, higher CPA may be associated with negative stock price reactions in these sectors.

These findings are partly consistent with Hadani and Schuler (2013), who show that CPA is negatively related to firm performance on average but becomes positive in more regulated industries. Consistent with this pattern, the Financials sector, characterized by substantial regulatory oversight, also exhibits a positive relationship in our analysis. Although not explicitly classified as regulated industries in their framework, Health Care

and Information Technology are likewise highly sensitive to government policy. Health Care companies are exposed to regulatory decisions on drug approvals, pricing, and public funding of services, while Information Technology firms face increasing regulatory scrutiny in areas such as data protection, artificial intelligence, cybersecurity, and semiconductors. These characteristics may explain why CPA appears to be more valuable in these sectors. Furthermore, Health Care and Information Technology firms produce highly differentiated products, often relying on innovation and intellectual property. As a result, they may be better able to translate political engagement into firm-specific advantages, such as exemptions for narrowly defined products, compared to more commoditized sectors like Materials or Energy.

From the theoretical point of view, resource dependence theory supports the idea that firms facing greater regulatory uncertainty may benefit more from political engagement. Extending this logic to trade policy, firms with greater exposure to tariff-related shocks, such as those deeply integrated into global supply chains, may derive larger benefits from political activity. In line with this reasoning, we observe positive associations in Industrials and Information Technology, two manufacturing-oriented sectors that rely heavily on imported inputs and are therefore directly affected by tariff changes. By contrast, such patterns are absent in more domestically oriented or service-based industries, such as Utilities, Real Estate, or Communication Services, where firms may have fewer opportunities to translate political engagement into tangible economic benefits in the context of trade policy.

However, not all findings align with these theoretical expectations. In particular, negative relationships in the Energy and Materials sectors are surprising given that both industries are characterized by global markets, exposure to trade policy, and, in the case of Energy, extensive regulation. Similarly, the negative coefficients observed in Communication Services contrast with Hadani and Schuler's (2013) classification and evidence suggesting benefits of CPA in regulated industries. Moreover, we do not observe a clear pattern whereby industries with lower average abnormal returns, indicating higher vulnerability to the tariff shock, exhibit stronger positive effects of CPA. This suggests that exposure to trade policy alone cannot explain the observed heterogeneity in CPA effects. Resource dependence theory, therefore, appears insufficient in this setting, possibly because it is better suited to explain firm-level behavior than industry-level outcomes.

A key explanation for the negative associations in some industries may relate to self-selection in political involvement. Firms endogenously choose their level of political activity, and this choice may be driven by unobserved factors such as exposure to trade policy risk. Firms that anticipate greater vulnerability to adverse trade policy outcomes may engage more intensively in CPA to manage this risk. When a trade policy shock materializes, these firms may still experience more negative outcomes than less exposed peers, even if political activity partially mitigates the effects. Consequently, the estimated

relationships may understate the true benefits of CPA, and the observed negative coefficients may instead capture differences in underlying risk exposure.

Another explanation relates to the interpretation of CPA as a signal. Prior literature suggests that political activity may indicate weaker corporate governance or managerial distraction (Aggarwal et al., 2012; Hadani and Schuler, 2013). Additionally, political activity may signal a firm's dependence on government policy rather than its influence over it. Beyond exposure to US import tariffs, American firms may also be affected by anticipated retaliatory measures from trading partners, and investors may perceive politically active firms as more likely targets, as such policies can be shaped by political considerations (Fetzer & Schwarz, 2021). Therefore, investors may associate higher CPA with higher risk, leading to more negative stock price reactions when policy shocks occur.

Finally, the absence of positive effects in some industries may reflect that political engagement is not primarily directed at trade policy. As our CPA measures do not capture the specific policy objectives behind the expenditures, they may include activities aimed at other regulatory domains whose benefits materialize under different conditions or over longer horizons. For example, Energy firms may focus their political efforts on issues such as environmental regulation, taxation, or access to public land for extraction, rather than on trade policy. In such cases, the lack of a positive relationship in our setting does not necessarily imply that CPA is ineffective, but rather that its benefits are misaligned with the specific event under consideration. Overall, our findings underscore that the valuation effects of CPA are highly context-dependent and shaped by a combination of industry characteristics, firm-specific exposure to policy risk, and the alignment between political engagement and the relevant policy domain. The next section discusses the practical implications of these results.

6.4. Practical Implications

Alongside their academic contribution, our findings give rise to several practical implications for different stakeholders. For corporate managers, the results suggest that investments in corporate political activity should be calibrated carefully, taking into consideration the firm's industry, exposure to global markets, and sensitivity to policy changes. In industries where we observe positive associations between CPA and stock market reactions, political engagement may be more likely to be valued by investors, for example, if it helps firms secure protection or mitigate adverse effects of trade policy shocks. By contrast, in industries exhibiting negative associations, continued investment in CPA may be viewed more critically by investors. More broadly, corporate political activity must not be considered universally value-creating, but needs to be applied strategically, as its effectiveness depends on industry conditions and the prevailing political environment. Additionally, alignment between political engagement and relevant policy domains is critical, as it affects the timing and magnitude of potential benefits.

For policymakers, stock price reactions provide insight into how markets assess the economic impact of trade policy decisions. In the context of the tariff announcement examined in this study, the generally negative returns suggest market expectations of adverse aggregate effects on the domestic economy, in line with macroeconomic theory. At the same time, the results highlight important distributional consequences across industries: While protectionist policies may benefit certain sectors, these gains appear to be offset by negative impacts elsewhere. Additionally, the heterogeneity in CPA-related valuation effects raises questions about political influence on economic outcomes. The fact that firms in some industries appear to benefit more from political engagement than others suggests that the interaction between policy design and corporate political activity may distort competitive dynamics and raises concerns about efficiency and fairness. Moreover, if the benefits of CPA accrue at the industry level, non-participating firms may share in these gains without incurring the associated costs, adding further complexity. Taken together, policymakers should consider both the aggregate and distributional effects of trade policy, as well as potential unintended consequences arising from its interaction with corporate political activity.

Overall, the discussion emphasizes that corporate political activity does not exert a uniform effect on firm value but operates through channels shaped by industry context and policy environments. The next chapter concludes by summarizing these insights, highlighting the limitations of our approach, and proposing future research directions.

7. Conclusion

In this paper, we examine stock market reactions to one of the most extensive tariff announcements in recent decades, documenting widespread declines in US equity prices alongside pronounced heterogeneity across firms and industries. Using a cross-sectional regression framework, we investigate whether corporate political activity moderates these stock price responses. Contrary to theoretical standpoints viewing CPA as a value-generating investment, we find no evidence that higher CPA is associated with higher abnormal returns following the trade policy shock. This result is robust across alternative CPA measures, event windows, and industry classification systems. While no systematic relationship emerges at the aggregate level, our industry-level analysis reveals significant but heterogeneous associations. In sectors such as Health Care, Financials, Industrials, and Information Technology, CPA is positively related to abnormal returns, suggesting that investors may expect politically active firms to benefit from more favorable policy outcomes. By contrast, negative associations are observed in Energy, Real Estate, Communication Services, and Materials, where CPA appears to be perceived less favorably, potentially as a misallocation of resources or an indicator of greater exposure to trade policy risk.

By linking stock market reactions to a tariff announcement with corporate political activity, this study contributes to the literature at the intersection of political economy and corporate finance. In contrast to prior work focusing primarily on long-term performance, we provide insights into the short-term valuation effects of CPA in response to a clearly identified policy shock. We thereby extend the limited evidence on CPA in trade policy contexts beyond single-industry settings and into a contemporary policy environment. Our findings uncover substantial cross-industry variation in the role of CPA, offering a more nuanced perspective than economy-wide analyses. This may help explain why theoretical predictions of a positive effect of CPA on firm performance coexist with mixed empirical evidence, as opposing patterns at the industry level may offset each other in aggregate analyses.

Our results also carry implications for key stakeholders. For corporate managers, they underscore that CPA is not universally value-enhancing and should be applied selectively, taking into account industry characteristics and exposure to policy risk. For policymakers, the findings highlight both the aggregate and distributional effects of trade policy, as well as how financial markets perceive the interaction between corporate political activity and policy design.

Despite these contributions, several limitations should be acknowledged. First, the non-random nature of CPA limits causal interpretation, as politically active firms may systematically differ from others, including in their exposure to trade policy shocks. While we attempt to mitigate this concern through control variables, omitted variable bias cannot be ruled out. Second, our CPA measures may not fully capture political

connectedness, since they are limited to reported monetary expenditures and fail to account for informal or indirect channels of influence. Third, the event study approach relies on assumptions regarding market efficiency and the timing of information incorporation, which may not fully hold. Notably, given prior tariff measures and signals from the Trump administration, the April 2 announcement may have been partially anticipated. Lastly, the focus on a single policy event and a sample of large US firms may limit the generalizability of our findings.

These limitations point to several opportunities for future research. In particular, future studies could apply causal identification strategies, such as propensity score matching, to better address self-selection and isolate the impact of CPA. Controlling for granular firm-level exposure measures, such as import intensity, could further improve identification. Researchers could also explore alternative measures of CPA that capture indirect channels of engagement or distinguish between policy domains to align political activity with specific shocks. Finally, extending the analysis to broader samples, other countries, or different trade policy episodes could enhance the validity of the findings or add nuance.

Overall, this study demonstrates that the valuation implications of corporate political activity following a trade policy shock are not uniform but highly context-specific. Rather than consistently shielding firms from adverse shocks, the effectiveness of CPA depends critically on the interplay between industry context and firms' exposure to trade policy risk. These findings underscore the importance of moving beyond aggregate analyses and considering the conditions under which political engagement translates into firm value.

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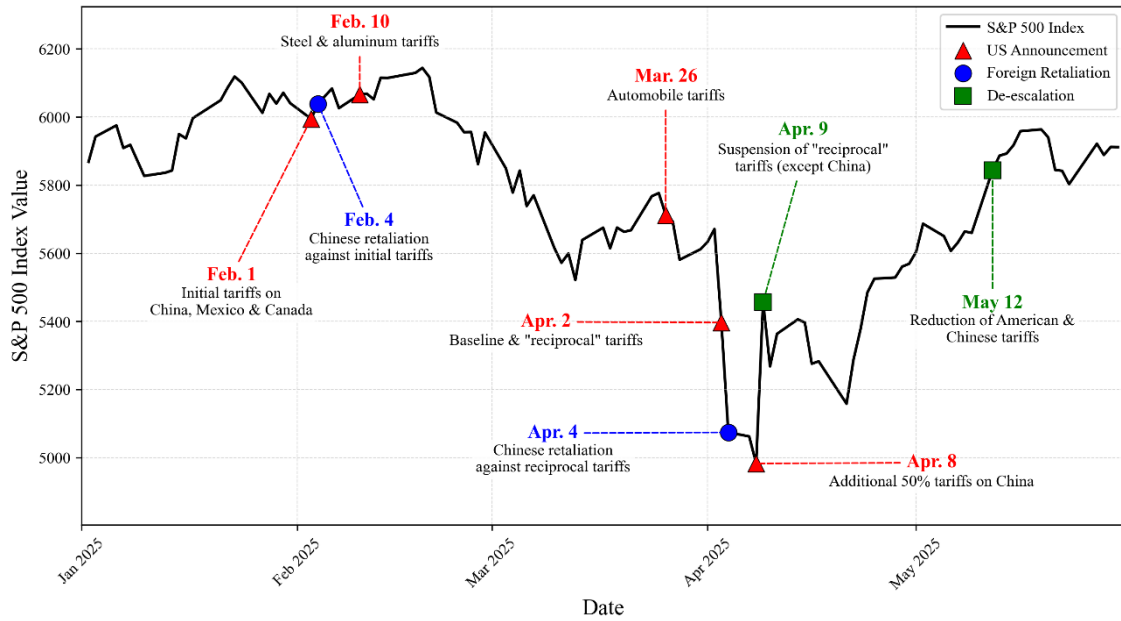
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9. Appendix

Appendix 1: S&P 500 Index and Key Trade Policy Events in 2025



Notes: The figure shows the daily closing values of the S&P 500 Index from January through May 2025 together with selected trade policy events categorized as US announcements, foreign retaliatory announcements, and de-escalation measures; S&P 500 data are obtained from Capital IQ; trade policy events are compiled based on Bown (2026); events announced outside trading hours or on non-trading days are plotted on the subsequent trading day, whereas labels reflect the original announcement date.

10. AI Disclosure

In accordance with the Stockholm School of Economics' academic integrity guidelines, we, the authors, disclose the following use of artificial intelligence (AI) tools in the preparation of this thesis:

AI assistance was employed exclusively for the following technical and editorial tasks:

- Editing and proofreading: Grammarly and ChatGPT were used for grammar and spelling correction and to improve the clarity and readability of individual sentences.
- Coding support: ChatGPT and Gemini were used for Python syntax refinement and debugging. All code was tested and verified by the authors.
- Literature discovery: ResearchRabbit, Claude, and ChatGPT were used to identify potentially relevant literature and sources for further review. All literature identified with AI assistance was independently reviewed and verified by the authors before inclusion.
- Document search: NotebookLM was used to locate specific information within large bodies of text.

All intellectual content, original arguments, theoretical frameworks, research design, data interpretation, and conclusions presented in this thesis are the authors' own, except where based on and attributed to existing literature through appropriate citation. AI tools were used solely to support the technical execution and presentation of ideas, not to generate them. While AI did not play a substantive role in shaping the intellectual content of this thesis, it contributed to increased efficiency in the research process and improved the clarity of presentation.

The authors take full responsibility for the integrity, accuracy, and originality of this work.