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RELATIONSHIP BETWEEN GEOPOLITICS AND FINANCIAL MARKETS: EVIDENCE FROM TRUMP'S POLICY OF 2025

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INTRODUCTION

In today highly globalized world, where nations are deeply interconnected and diplomatic relations set the rules of global political order, countries' foreign policies that do not align with this scenario, may lead to a decrease in either domestic and world welfare.

Thus, the focus of this thesis can be expressed through the following question: how much financial markets are influenced by geopolitics?

The connection between the two spheres is undeniable, and given the complex world political order that is present today, it is interesting to see how the relative dynamics intertwine, especially considering superpowers and their weight on the economic, financial and diplomatic context.

In attempting answering the above question, I choose to divide this study in three chapters: the first one is exploring geopolitics and its meanings, by also taking in consideration types of economic policies related to it and the role of United States as a global superpower. The second chapter gives an overview on financial markets, their functionalities and features, but also it is defining some major world

indexes, that will be helpful during the analysis. The third chapter is a case study of Trump' tariff policy of 2025: beyond a descriptive section about Trump's comeback and its economic agenda, the thesis presents a double analysis: the former, simple and descriptive, carried out to see the percentage difference in prices of the indexes during the period of 'Tariff War'; the latter: an accurate econometric analysis, where the Autoregressive Model has been used to discover deeper patterns of association between Trump's policies and average daily returns of the indexes. Evidences of Trump's tariff policy of 2025 shows that the protectionist action results in a drop in prices of the major indexes reflecting U.S.A. economy and the latter principal partners' economy.

CHAPTER 1: GEOPOLITICS AND GLOBAL ECONOMICS

1.1 WHAT IS GEOPOLITICS

International relations literature and the foreign policy community offer and use multiple definitions of geopolitics. More often than not, both camps use the term even without providing or hinting at its conceptualization. This causes muddy thinking and misunderstandings among scholars and policymakers. It is unrealistic to expect that at some point, the scholarship will agree on a single common definition, nor is this something worth aiming for.

Instead, raising awareness about ontological differences when defining geopolitics, as each definition leads to different (foreign) policy implications, makes more sense for academia and policymakers. Being cognizant of ontological diversity propels clarity of academic writing and informs policymaking.

Thus, a conceptual analysis of the term *geopolitics* is needed to facilitate greater transparency when using the term.

Probably the best place to start such an analysis is with the etymology of geopolitics, since no one objects to that: two ancient Greek words: *gê* (earth) and *politikós* (statesman). *Gê* personifies objectivity and determinism, while *politikós* represents subjectivity and interpretivism. Some definitions of geopolitics stress the first set of characteristics, while others emphasize the second.

Nine different types of definitions of geopolitics can be identified: classical geopolitics; geopolitics as strategic geography; cognitive geopolitics; global geopolitics; critical geopolitics; geopolitics as philosophy of statesmen; anti-geopolitics; geopolitics as logos, pathos, and ethos; and geopolitics as nexus. Each of them carries its unique ontological take on geopolitics, as well as lays particular foundations for policymakers.

To the scope of the analysis, and to better summarise the broad concept of the term, the definitions of classical/global and as nexus geopolitics will be taken into account to provide an ad-hoc vision tailored to this thesis:

‘Classical’ and ‘global’ geopolitics is the study of the impact or influence of certain geographic features - these being positions and locations of regions, states, and resources plus topography, climate, distance, immigration, states’ sizes and shapes, demography, and the like - upon states’ foreign policies and actions as an aid to statecraft (P. Kelly 2016). Global politics involves thinking and acting geographically. But what does that mean? Geopolitics explains how countries, businesses, terrorist groups, etc. try to reach their political goals by controlling geographic features of the world (C. Flint 2016).

‘Geopolitics as nexus’ refers to the point where geopolitical forces, such as international political tensions and power dynamics, intersect with other global issues like climate change, food security, and economic stability. This concept highlights the interconnectedness of these areas, showing how actions in one domain can have effects on others.

Some examples are:

- geopolitics and energy nexus, where international political relationships and supply and price of energy resources are deeply linked;
- geopolitics and economics nexus, where geopolitical risk significantly impacts economic stability, global supply chains, and foreign direct investment (FDI). The effects can be complex, with geopolitical crises having different outcomes for different countries;
- geopolitics and security: how nations perceive threats and how they build and use military and economic power.

1.1.1 Geopolitical risk

Geopolitical risk has increasingly become a central concern in global finance, as recurring episodes of international conflict, policy uncertainty, and systemic political tensions continue to disrupt economic activity and financial stability.

Geopolitical risk emerges as a persistent and structural feature of the global economy, no longer a sporadic disruption but rather a fundamental driver of uncertainty and volatility across markets.

Conflicts, political frictions, and policy unpredictability now serve as enduring stressors to global economic activity and financial stability.

Dario Caldara and Matteo Iacoviello (2022) construct a measure of adverse geopolitical events and associated risks based on a tally of newspaper articles covering geopolitical tensions, and examine its evolution and economic effects since 1900. The Caldara and Iacoviello GPR index is based on searches of the archives of 10 newspapers: Chicago Tribune, the Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, the Los Angeles Times, The New York Times, USA Today, The Wall Street Journal, and The Washington Post.

Caldara and Iacoviello calculate the index by counting the number of articles related to adverse geopolitical events in each newspaper for each month (as a share of the total number of news articles).

The geopolitical risk (GPR) index spikes around the two world wars, at the beginning of the Korean War, during the Cuban Missile Crisis, and after 9/11.

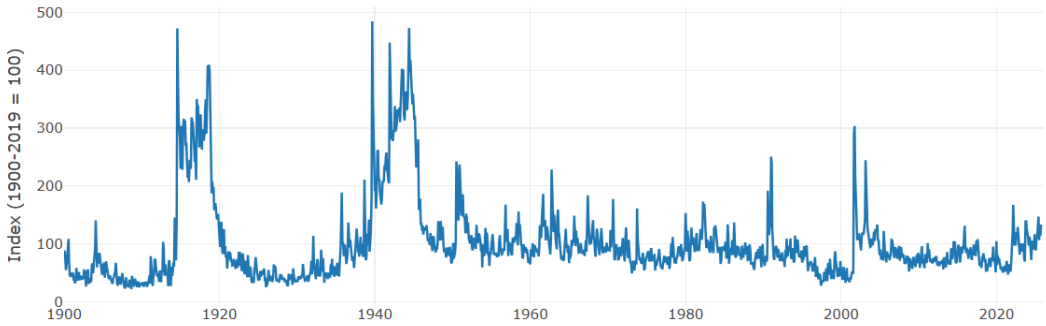


Figure 1.1 GPR Historical Data (https://www.matteoiacoviello.com/gpr.htm)

1.2 TYPES OF ECONOMIC POLICIES

Economic policy encompasses a broad range of strategies employed by governments to optimise economic performance. It includes areas such as:

- fiscal policy, which deals with government spending and revenues;
- monetary policy, focused on controlling the money supply and interest rates;
- structural reform, aimed at enhancing long-term economic efficiency and competitiveness;
- regulatory reform, which focuses on updating and streamlining economic regulations.

Such policies are often influenced by international institutions like the International Monetary Fund or World Bank as well as political beliefs and the consequent policies of parties.

Generally speaking, types of economic policies can be distinguished as follows:

Demand-side policies

Policies for influencing aggregate demand and expenditure in the economy. This mainly involves fiscal and monetary policy.

Fiscal policy

It consists of Government changes to taxation and spending levels to influence aggregate demand.

- Expansionary fiscal policy – higher levels of spending and/or lower tax rates. The extra spending is financed by an higher government borrowing. The aim is to increase aggregate demand in a depressed economy.
- Tight fiscal policy – Government spending cuts and/or tax rises. The aim is to reduce inflationary pressure or reduce the budget deficit. It could cause lower economic growth.

Monetary policy

It is based on influencing the supply and demand for money through changing interest rates and the money supply. Monetary policy is usually managed by the Central Bank, though governments have oversight and may set an inflation target.

- Expansionary monetary policy – Cutting interest rates to make borrowing cheaper and boost spending. The aim is to increase the rate of economic growth.
- Tight monetary policy – Raising interest rates to make borrowing more expensive and reduce spending and inflationary pressures.
- Quantitative easing – A monetary policy that involves the creation of money by Central Bank and using it to buy bonds. The aim is to increase the money supply and reduce interest rates.

- Helicopter money – A monetary policy that involves the creation of money and directly injecting the money into the economy.

Exchange rate policy

If a country is in a fixed or semi-fixed exchange rate than changing the exchange rate is a policy to affect the macroeconomy. Even in a floating exchange rate system, the government may try to unofficially influence the exchange rate, e.g. changing interest rates or buying/selling currency.

- Devaluation – A devaluation aims to boost export demand and higher economic growth. Devaluation may lead to inflation.
- Appreciation – Raising the value of the exchange rate might be pursued in order to try and reduce the inflation rate.

Policies for Financial stability

This involves policies to manage the financial sector and avoid bank runs and liquidity shortages. These types of policies can involve:

- Reserve ratios – a minimum ratio of deposits that banks should keep in cash. A higher reserve ratio provides more stability to the banking sector
- Lender of last resort – Having a central bank able to bailout out banks short of liquidity helps to maintain confidence in the banking system and avoid bank runs.
- Capital requirements – aim to stabilise and strengthen the banking system by making banks set aside more and higher quality capital as a cushion against crises. As a consequence, banks that are better able to withstand future crises should be more capable of financing investment and growth (Ufficio stampa/EU Bank Capital Requirements Regulation and Directive). In the European context, the main EU regulation is Regulation (EU) No 575/2013 (CRR), which works alongside the Capital Requirements Directive (CRD IV) and reflects the international Basel III standards.

Trade policy

A government's trade policy may be to seek free-trade deals and the reduction of tariffs or a government may pursue a form of protectionism (e.g. higher tariffs).

It could also involve joining trading blocks and areas of economic unions, such as the EU. This enables not just a reduction in tariffs but non-tariff barriers too.

Supply-Side Policies

Supply-side policies are policies aimed at increasing productivity and efficiency in the economy. Supply-side policies involve:

Free-market policies – that consists on efforts to reduce government interference in the running of markets.

Some examples are:

- Privatisation of state-owned assets
- Deregulation of monopolies

- Lower tax rates to increase incentives for workers and companies.

Interventionist supply-side policies – that consists of government intervention in the market to overcome market failure.

Some examples are:

- Government spending on education and training.
- Government investment in new broadband 5G infrastructure
- Government provision of public goods, such as flood defences.

Policies for developing economies

Among all different types of policies tailored for developing countries, the main ones are the following:

- Structural adjustment – Policies promoted by IMF, such as privatisation, better tax collection and reduced budget deficit.
- Diversification away from primary products – May involve tariff protection whilst new industries are developed.

- Attracting overseas investments.
- Foreign aid – Using foreign aid to increase capital investment

1.3 USA ROLE IN GLOBAL MARKETS

Since the end of World War II, international politics has been profoundly shaped by two constants: the United States' position as the international system's most powerful state and its strategic choice to be deeply engaged in the world. Although the Soviet Union's massive military capabilities and geopolitical location in the center of Eurasia earned it peer status as a superpower in the Cold War, by most measures and in most observers' eyes, the United States retained overall preeminence. The fall of the Soviet Union in 1991 and contraction of Russia's power to its 17th-century borders transformed the United States' preexisting dominance into a power position without precedent in the history of the modern interstate system.

It was only at the end of World War II that the United States switched to a grand strategy of "deep engagement" with the world (militarily,

politically, and economically). During the seven decades since, the United States has sought to advance its interests in security, prosperity, and domestic liberty by pursuing the three overlapping objectives that define its grand strategy: managing the external environment to reduce near- and long-term threats to US national security; promoting a liberal economic order to expand the global economy and maximize domestic prosperity; and creating, sustaining, and revising the global institutional order to secure necessary interstate cooperation on terms favorable to US interests. After 1945, US leaders sought to foster the creation of an interconnected global economy, in part because they recognized that the collapse of global trade in the 1930s had provided fertile ground for political extremism and conflict and that American actions, notably the Smoot-Hawley Tariff, had helped push the world toward economic closure. Not only has trade exploded in value during the post-World War II era, but a larger mosaic of international economic connections-economic globalization has emerged due to new forms of production and financial linkages. In turn, the United States moved

beyond its conflicted interwar posture toward international institutions, becoming history's most active and successful institution builder.

In recent years assessments of America's international position and preferred global role have undergone a sea change.

The narrative regarding the US international position has clearly shifted: pundits, scholars, and policymakers frequently and prominently argue that the United States has tumbled from its previous global position and that a fundamental, system-altering power shift is underway.

The repercussions of the financial crisis of 2008, the military resurgence of Russia, and especially the continued dramatic rise of China have rapidly accelerated expectations of a coming post-American, multipolar world. The details of the claims and terms used to describe US decline vary, but they add up to the assertion that a fundamental shift is occurring toward a new kind of international

system with a very different role for the United States. While most analysts expect America to retain some advantages, they predict sufficient relative decline in enough dimensions of state capability to mark an end to the longed period of US centrality of the last seven decades. This is the import of terms such as "post-American world," claims such as "unipolarity has ended," and popular historical analogies such as that between China's rise and the ascent of Germany before World War I.

Despite the step-back that USA seems to have taken in last years, still nowadays it is undeniable that United States represents one of the most powerful and central Countries in the World, under numerous points of view. In fact, constituting less than 5 percent of the world's population, Americans generate and earn more than 20 percent of the world's total income. America is the world's largest national economy and leading global trader. It is the most important export destination for one-fifth of countries around the world. The US dollar is the most widely used currency in global trade and financial transactions, and

changes in US monetary policy and investor sentiment play a major role in driving global financing conditions (World Bank 2016).

The following plot (Figure 2) provides a general, simple yet informative index about overall economic situation of USA (USA GDP) compared to the one of China and the European Area, just to have a hint of why United States are considered that powerful, especially in trade matters.

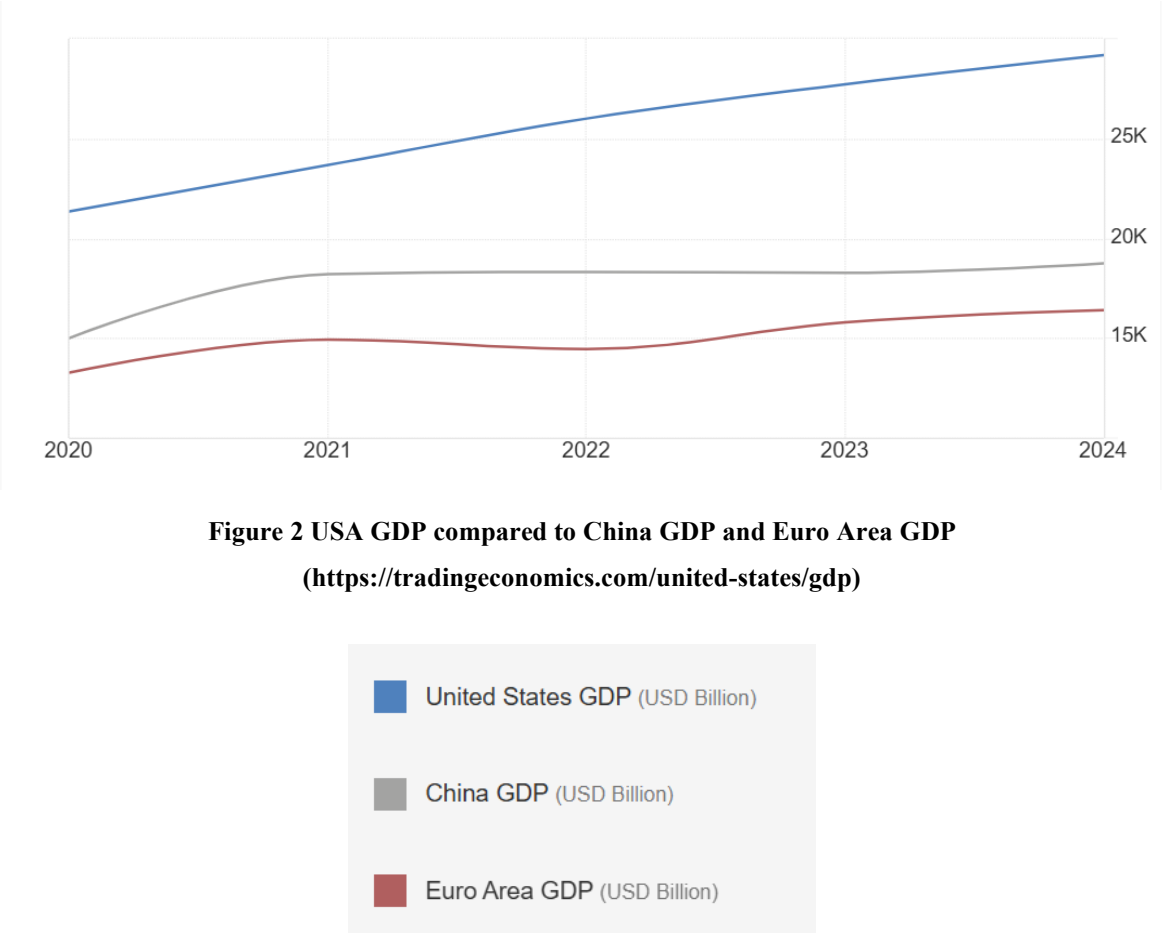


Figure 2 USA GDP compared to China GDP and Euro Area GDP (https://tradingeconomics.com/united-states/gdp)

CHAPTER 2: FINANCIAL MARKETS

The financial system plays the key role in the economy by stimulating economic growth, influencing economic performance of the actors, affecting economic welfare. This is achieved by financial infrastructure, in which entities with funds allocate those funds to those who have potentially more productive ways to invest those funds. A financial system makes it possible a more efficient transfer of funds (V. DARŠKUVIENĖ, 2010).

According to the structural approach, the financial system of an economy consists of three main components:

- financial markets;
- financial intermediaries (institutions);
- financial regulators.

To the scope of this thesis, the following section will get more in detail only what financial markets are and their core functions.

2.1 FINANCIAL MARKETS: DEFINITION AND CHARACTERISTICS

A financial market is a market where financial instruments are exchanged or traded. Financial markets provide the following three major economic functions:

- Price discovery
- Liquidity
- Reduction of transaction costs

Price discovery function means that transactions between buyers and sellers of financial instruments in a financial market determine the price of the traded asset. At the same time the required return from the investment of funds is determined by the participants in a financial market. The motivation for those seeking funds (deficit units) depends on the required return that investors demand. It is these functions of financial markets that signal how the funds available from those who want to lend or invest funds will be allocated among those needing funds and raise those funds by issuing financial instruments.

Liquidity function provides an opportunity for investors to sell a financial instrument, since it is referred to as a measure of the ability to sell an asset at its fair market value at any time. Without liquidity, an investor would be forced to hold a financial instrument until conditions arise to sell it or the issuer is contractually obligated to pay it off. Debt instrument is liquidated when it matures, and equity instrument is until the company is either voluntarily or involuntarily liquidated. All financial markets provide some form of liquidity. However, different financial markets are characterized by the degree of liquidity: generally speaking, when differentiating according to liquidity, markets divide in Money Markets and Capital Markets.

- Money Markets deal in short-term debt instruments, usually for one year or less. It's where governments, banks, and large corporations go to manage their immediate cash needs (high liquidity);
- Capital Markets involve long-term securities, such as stocks and bonds, that mature in more than one year. This is where

companies and governments raise funds for major projects and long-term growth (low liquidity) (C. Majaski 2025).

The **function of reduction of transaction costs** is performed, when financial market participants are charged and/or bear the costs of trading a financial instrument. In market economies the economic rationale for the existence of institutions and instruments is related to transaction costs, thus the surviving institutions and instruments are those that have the lowest transaction costs.

The main function of the system is to channel funds between the two groups of end users of the system: from lenders (‘surplus units’) to borrowers (‘deficit units’). Besides, a financial system provides payments facilities, a variety of services such as insurance, pensions and foreign exchange, together with facilities which allow people to adjust their existing wealth portfolios. Apart from direct borrowing and lending between end-users, borrowing and lending through intermediaries and organized markets have important advantages.

These include transforming the maturity of short-term savings into longer-term loans, reduction of risk and controlling transaction costs. The field of financial markets and its theoretical foundations is based on the study of the financial system, the structure of interest rates, and the pricing of risky assets.

There are different ways to classify financial markets. They are classified according to the financial instruments they are trading, features of services they provide, trading procedures, key market participants, as well as the origin of the markets.

The major market players are households, governments, nonfinancial corporations, depository institutions, insurance companies, asset management firms, investment banks, nonprofit organizations, and foreign investors.

Financial markets are classified into internal versus external markets, capital markets versus money markets, cash versus derivative markets, primary versus secondary markets, private placement versus public markets, exchange-traded versus over-the-counter markets.

The financial markets and intermediaries are subject to financial regulators. In general, financial market regulation is aimed to ensure the fair treatment of participants. Many regulations have been enacted in response to fraudulent practices. One of the key aims of regulation is to ensure business disclosure of accurate information for investment decision making. The recent regulations were passed in response to large bankruptcies, overhauled corporate governance, in order to strengthen the role of auditors in overseeing accounting procedures.

Among the most important ones, it can be useful to remember:

- The Sorbanes-Oxley Act of 2002 in US was designed particularly to tighten companies' governance after dotcom bust and Enron's Bankruptcy;
- The US Wall Street Reform and Consumer Protection Act (Dodd-Frank) of 2010 aims at imposing tighter financial regulation for the financial markets and financial intermediaries in US, in order to ensure consumer protection.

The recent changes in the regulatory system are happening in response to the problems in the credit markets and financial crisis that struck 2008.

The generalized financial market classification is given in the Table below.

Criterion	Features	Examples
Products	Tradability, transferability, ownership, maturity, denomination, substance	Equity, debt instruments, derivatives
Services	Technical, advisory, information and knowledge-based, administrative	IT support, research and analysis, custody
Ways of trading	Physical, electronic, virtual	Over the counter, exchange, internet
Participants	Professionals, non-professionals, institutions, officials	Banks, central banks, non-bank financial companies, institutional investors, business firms, households
Origin	Domestic, cross-border, regional, international	National markets, regionally integrated markets, Euromarkets, domestic/foreign currency markets, onshore/offshore markets

Source: Reszat B. (2008). European Financial Systems in the Global Economy.

2.2 FINANCIAL INDEXES

The standard definition of a financial index is a market-capitalization-weighted average of a specific and relatively static list of securities. Today, indexes serve many purposes. In addition to their original function of information compression, indexes act as indicators of time-varying risk versus reward, and as a benchmark for performance evaluation, attribution, and enhancements. And since the advent of the Capital Asset Pricing Model (CAPM), indexes have been used to construct passive investment vehicles and as building blocks for portfolio management.

To the scope of this thesis, eight major indexes will be taken into study, four for the USA market, four the rest of the world (European market, Hong Kong and Chinese market, Canadian market and Mexican Market), and lastly the VIX Index.

2.2.1 USA Major Indexes

S&P500

The Standard & Poor's 500 is the most important North American stock index. Although historically the Dow Jones indexes emerged

first, this basket has become increasingly important to investors over time. It is the main equity benchmark for stocks listed on Wall Street and is the underlying for an incredibly broad range of derivative products, such as futures, options, and certificates.

This basket, created by Standard & Poor's (a division of S&P Global since April 2016), has been calculated since March 4, 1957, thanks to the advanced and complex calculation capabilities made possible by advances in electronics. Before 1957, when computers did not yet exist, the S&P index contained only 90 stocks.

The S&P 500 contains 500 stocks of companies listed in New York (NYSE and Nasdaq), representing approximately 80% of market capitalization, which are selected by a special committee.

All the stocks in question are US companies with a market capitalization greater than $6.1 billion, a free float of at least 50%, a monthly trading volume of at least 250,000 shares over the last six months, and an average annual price of the stock greater than $1.00. The companies in question must also have posted a profit for the previous four quarters, understood as a total sum.

The 10 stocks that currently have the greatest weight in the basket and which together reach approximately 21% of the total are:

Apple, Microsoft Corp, Amazon, Berkshire Hathaway, Johnson & Johnson, JP Morgan Chase, Facebook, Exxon Mobil, Alphabet C and Alphabet A. As for the individual sectors, the most represented are IT (Information Technology) with 20.7%, Health Care (15.0%) and Financials (13.6%).

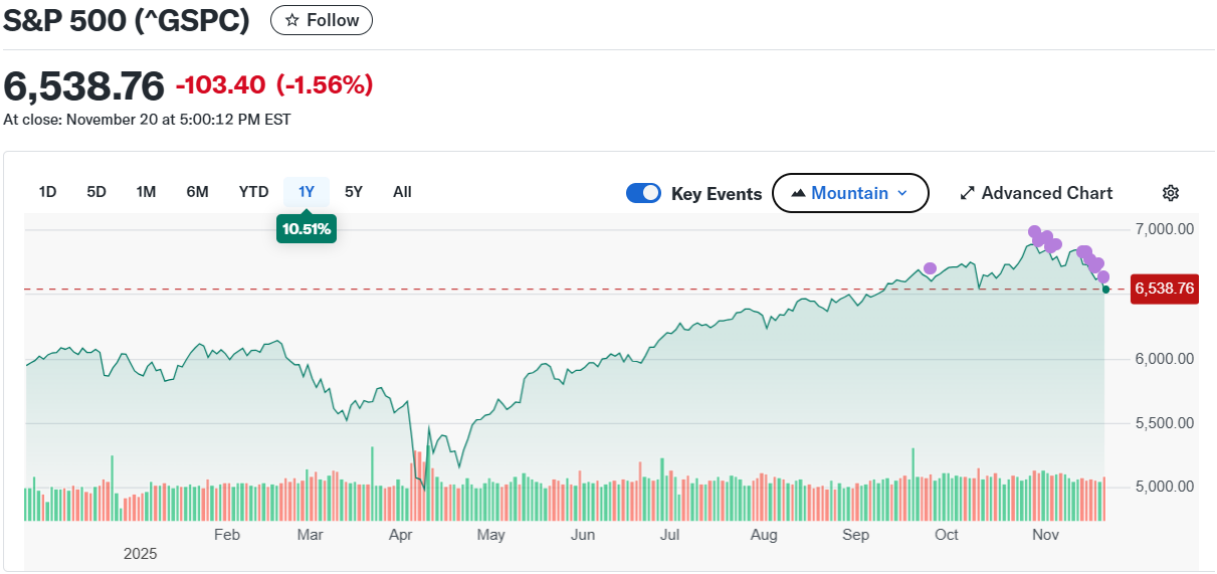


Figure 3 https://finance.yahoo.com/quote/%5EGSPC/

Figure 3 above represents the S&P500 Index over the past year, showing its current price (21/11/2025), but most importantly, its yearly variation of 10,51%.

Dow Jones Industrial Average (DJIA)

The Dow Jones Industrial Average is one of the world's best-known stock market indexes and it is an important indicator of sentiment in the American stock market and globally.

The Dow Jones Industrial Average is a price-weighted stock index (weighted by the price of its component stocks) that tracks the performance of the top 30 stocks on the New York Stock Exchange (NYSE). The index is not tied to any specific sector; its basket includes stocks from various industries, both traditional and new economy.

There are no specific criteria for including or excluding stocks from the index; the selection is made by the Wall Street Journal editorial staff, which typically selects stocks of companies with stable

operations in the United States and leading positions in their respective industries.

The Dow Jones initially consisted of twelve stocks. It wasn't until 1928 that the index expanded to its current thirty stocks. The composition of the Dow Jones changes regularly. Large companies, such as Coca-Cola, Walt Disney, and Goldman Sachs, often have their shares in the Dow.

A stock is only added if a company has an excellent reputation, shows long-term growth, and attracts the interest of a large number of investors. Furthermore, good distribution across various sectors is an important consideration in the selection process.

Figure 4 https://finance.yahoo.com/quote/%5EDJI/

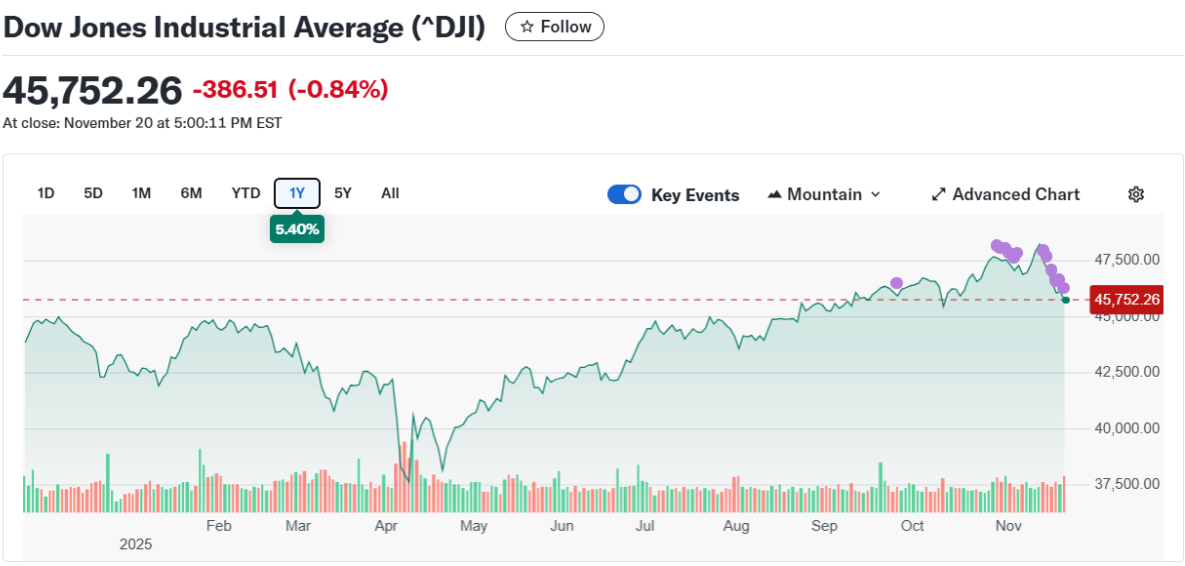


Figure 4 above shows how the Index behaved during the past year, having a yearly variation of 5,40%.

NASDAQ Composite

NASDAQ stands for National Association of Securities Dealers Automated Quotation.

This market was established on Wall Street on February 8, 1971 and was the first exclusively electronic stock exchange in the world.

Currently, over 3,000 different companies are listed on this market, some with multiple share classes, many of which are in the technology sector (the index is, in fact, the main reference for all stocks in this sector). The Nasdaq is therefore the stock exchange with the largest number of companies present in the United States. Another important metric is the daily trading volume: these average among the highest in the world (second only to the NYSE) for a market capitalization of around $9.7 trillion.

The same company that operates the market, The Nasdaq Stock Market Inc. is listed on the stock exchange under the symbol NDAQ.

The index that summarizes the performance of this stock market is the Nasdaq Composite. It is a basket that includes more than three thousand stocks, i.e., the majority of listed stocks. The other important index is the Nasdaq 100, one of the most important large-cap indexes in the world, which includes 100 of the main non-financial companies, both American and foreign, listed on the Nasdaq.

The Nasdaq Composite is a free-float market capitalization index. Its total value is calculated by adding the weights of each constituent stock multiplied by its price. The final result is then divided by a correction factor to make it more manageable for reporting.

Among the big names on the list are Apple, Amazon, Alphabet (Google), Facebook and Microsoft, companies that boast some of the largest market capitalizations in the world.

Figure 5 below shows the past year performance of the index, displaying a yearly variation of 16,41%.

Figure 5 https://finance.yahoo.com/quote/%5EIXIC/

Russell 2000 Index

The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks on the market. It was started by the Frank Russell Company in 1984.

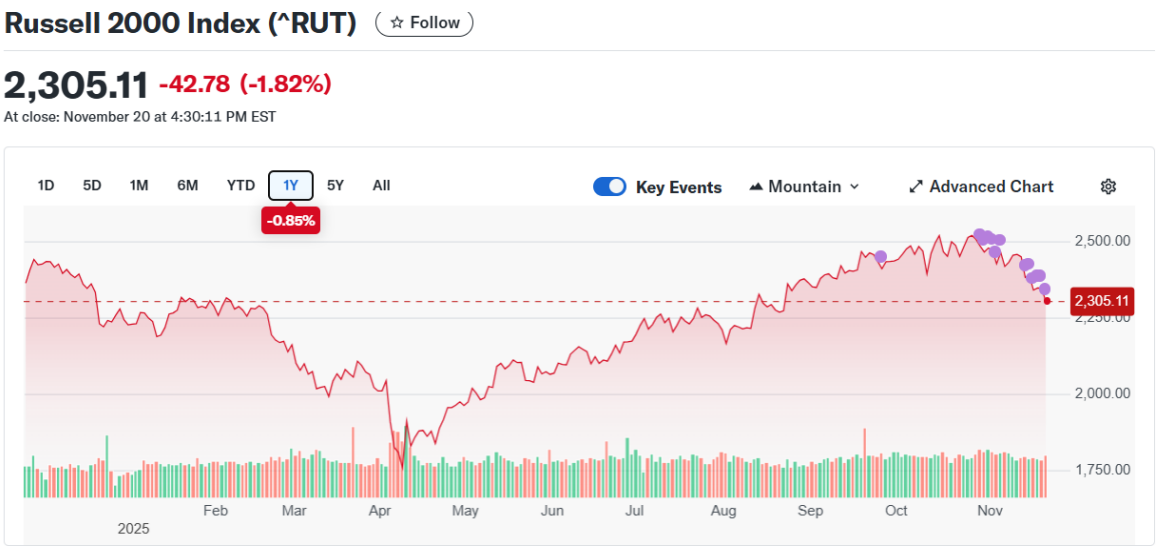
It is the most widely quoted measure of the overall performance of small-cap to mid-cap company shares. It is commonly considered an indicator of the U.S. economy due to its focus on small-cap companies in the U.S. market. The index represents approximately 7% of the total market capitalization of the Russell 3000 Index.

The market capitalization of the largest company in the index is approximately $14.72 billion.

Similar small-cap indices include the S&P 600 from Standard & Poor's, which is less commonly used, along with those from other financial information providers.

Some examples of companies included in the Index are: ADTRAN Holdings, Inc. (telecommunication company), Alight, Inc. (information technology and consulting company), Championx Corporation (chemicals and petroleum industry), Dorman Products, Inc. (manufacturer in automotive industry), and others, including firms operating in insurance and financial sectors.

Figure 6 https://finance.yahoo.com/quote/%5ERUT/



As usual, Figure 6 above shows the past year performance of the Index, with a yearly variation of -0.85%.

2.2.2 Foreign Major Indexes

Euro Stoxx 50

The Euro Stoxx 50 index comprises the fifty most valuable companies in the Eurozone.

For investors, the Euro Stoxx 50 is one of the most important indicators of the European stock market. The index consists of the fifty largest companies listed on stock exchanges in eurozone countries, including many well-known European brands. Thanks to the good tradability of the underlying stocks, many financial products are based on the Euro Stoxx 50, such as options, futures, and exchange-traded funds (ETFs). The index is also a widely used benchmark against which investors compare the performance of their portfolios. The Euro Stoxx 50 is a capital-weighted index, in which the market value determines the weighting of each individual stock in the index. Market capitalization is calculated by multiplying the

number of shares outstanding by their current price. Shares of companies with large market capitalizations have a greater weighting in the index than shares of companies with smaller market capitalizations. A correction is made for the number of shares that can be freely traded, the so-called "free float." Shares that are not freely tradable are therefore not included in the market value calculation. Thus, only the 50 largest and most liquid stocks are included in the Euro Stoxx 50.

The eurozone currently comprises 19 countries. However, not all are represented in the index. The Index currently comprises stocks from the following eight eurozone countries: Belgium, Finland, France, Germany, Ireland, Italy, the Netherlands, and Spain.

In terms of sectors, technology (16.8%), manufacturing (14.4%), and consumer products and services (13.8%) stand out.

Figure 7 https://finance.yahoo.com/quote/%5ESTOXX50E/

Above in Figure 7 it can be observed the past year performance of the Index, showing a yearly variation of 16,91%.

Hang Seng Index

The Hang Seng Index is a stock index of the Hong Kong Stock Exchange. It is used to record and monitor the daily changes of the largest companies in the Hong Kong stock market and is the main indicator of overall market performance in Hong Kong. The 50 companies constituting the index represent approximately 58% of the capitalization of the Hong Kong Stock Exchange.

The Hang Seng Index ("HSI") is one of the earliest stock market indexes in Hong Kong, publicly launched on 24 November 1969.

To better reflect the price movements of major industry sectors of the market, HSI constituent securities are grouped into 4 sectors including Finance, Utilities, Properties, and Commerce and Industry Sub-indexes.

Figure 8 below shows the past year performance of the Index, including its yearly variation of 28,67%.

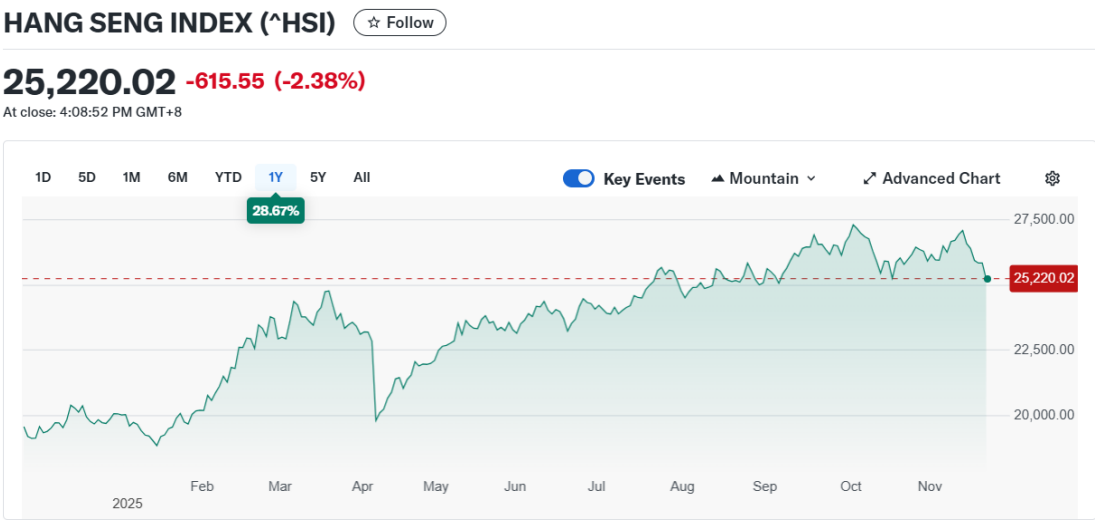


Figure 8 https://finance.yahoo.com/quote/%5EHSI/

S&P/TSX Composite Index

The S&P/TSX Composite is the benchmark Canadian stock market index representing roughly 70% of the total market capitalization on the Toronto Stock Exchange (TSX). It is the headline index for the Canadian equity market. It is the broadest in the S&P/TSX family and is the basis for multiple sub-indices including but not limited to equity indices, Income Trust Indices, Capped Indices, GICS Indices and market cap based indices. The Toronto Stock Exchange (TSX) serves as the distributor of both real-time and historical data for this index. The S&P/TSX Composite Index comprises 237 of the 3,451 companies listed on the TSX.

Some of the companies listed in the Index are Advantage Energy Ltd. (energy sector), Agnico Eagle Mines Limited (basic materials), Air Canada (industrials), and others that represents the Real Estate, Financial, Industrial, Healthcare, Communications, Energy and Basic Materials fields.

Figure 9 https://www.investing.com/indices/s-p-tsx-composite

From Figure 9 it can be observed an annual increase of 22,79%.

S&P/BMV IPC

The Índice de Precios y Cotizaciones (IPC) is the weighted measurement index of 35 stocks traded on the Bolsa Mexicana de Valores. The S&P/BMV IPC seeks to measure the performance of the largest and most liquid stocks listed on the Mexican Stock Market. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market. The

constituents are weighted by modified market cap subject to diversification requirements.

The main sectors represented by the Index are: Beverages, Industrial Conglomerates, Wireless Telecommunications, Transportation Infrastructure, Food Products, Diversified Financial Services, Construction Materials, Banks, Metals & Mining, Pharmaceutical, Insurance, Constructing and Engineering, Airlines, Real Estate and Chemicals.

From Figure 10 below, it can be observed a yearly positive variation of 24%.

Figure 10 https://www.investing.com/indices/ipc

2.2.3 VIX Index

The VIX is a real-time volatility index created by the Chicago Board Options Exchange (CBOE). It is the first index capable of quantifying market volatility expectations.

Volatility in the world of investing is the price movement of a financial instrument. It's a measure of how much the price goes up or down.

There are several ways to measure market volatility.

The first method looks back in time. Over a given period of time, it determines how volatile the price of, say, a stock has been. This is called historical volatility.

Another method is implied volatility (also called implied volatility or expected volatility). This method looks forward. It is based on the prices of options on an index. This is because option prices reveal something about investors' expectations of future price movements. By observing these prices, it is possible to gauge these expectations.

Backward analysis is not possible with the VIX, as it only shows the implied volatility of the S&P 500 over the next 30 days. The VIX is

calculated using the prices of options on the SPX index and is expressed as a percentage. If the VIX rises, the value of the S&P 500 falls, and vice versa, if the VIX falls, the value of the S&P 500 rises and remains stable.

Although the VIX only measures the volatility of the S&P 500, it is commonly used as a benchmark for the entire US stock market.
Volatility in a declining stock market often spikes. The American VIX index on the S&P 500 typically hovers between 10 and 25 points. However, during the 2008 financial crisis, the VIX reached levels above 80 points. This also occurred in the spring of 2020 during the coronavirus crisis. The VIX index's highest intermediate position was reached in 2008, and its highest closing position in the spring of 2020. Because volatility is much higher during negative moments in the stock market, the VIX index is also known as the fear index, as it indicates the level of fear and stress present in the market.

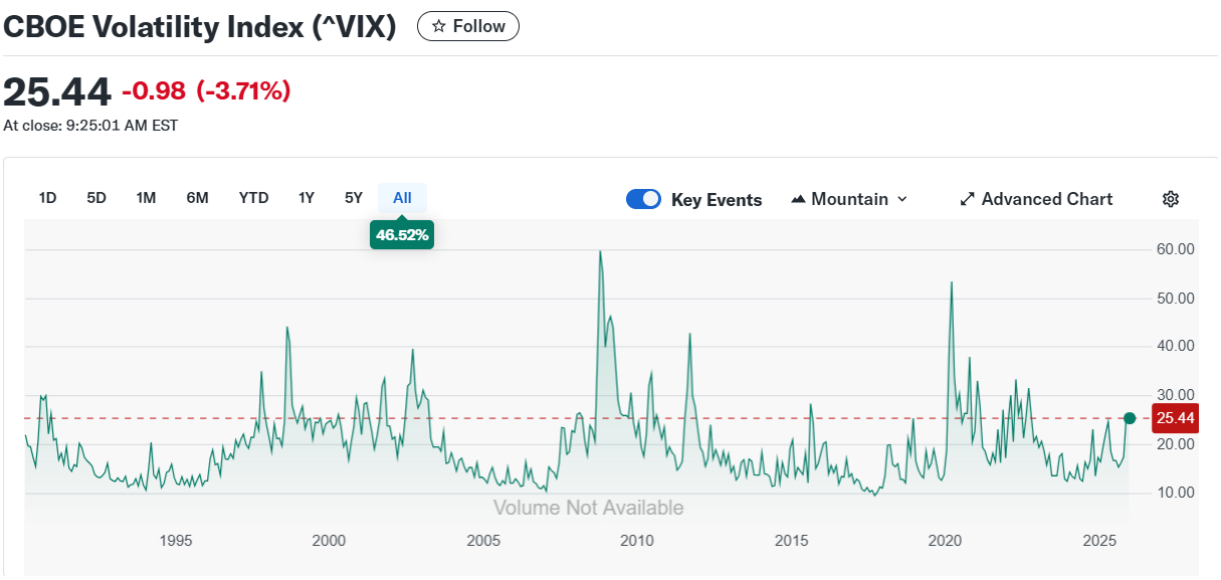


Figure 11 https://finance.yahoo.com/quote/%5EVIX/

For the VIX Index, given its intrinsic difference compared to the others, it is more representative to show its performance not only for the past year, but for all years of its life, having in this way the chance to see its spikes during all period of financial crises and economic recessions, as we already mentioned earlier. Its history is displayed in Figure 11.

CHAPTER 3: THE USA CASE: TRUMP'S TARIFF POLICY OF 2025

3.1 DONALD TRUMP'S COMEBACK TO THE WHITE HOUSE AND HIS ECONOMIC AGENDA

After the first mandate won in 2016, president Donald J. Trump made his comeback to the White House for a second term in 2024.

Trump is only the second president in U.S. history, after Grover Cleveland in 1892, to win election to a non-consecutive second term. Polls showed an incredibly tight race between Harris and Trump after she became the Democratic nominee following Biden's decision to withdraw, which was prompted by growing Democratic concern after his halting debate performance. A tumultuous 10-week sprint to Election Day ensued, during which time Trump ramped up his personal attacks on Harris and on all his political opponents.

All in all, he's been criminally indicted four times, one of which resulted in the unprecedented conviction of a former president by a jury of his peers. Amid the 2020 campaign, they found him guilty on

34 felony counts in connection with a hush money payment made to an adult film star during the 2016 presidential race. Trump also experienced two assassination attempts, including surviving an incredibly close call at a rally in Pennsylvania that left him bloodied from a bullet wound to his right ear and one of his supporters dead.

At times, his dark, vengeful tone concerned GOP strategists, but his also zeroing in on inflation and border policy proved to be a successful formula for attracting voters deeply unhappy about the state of the economy.

During his presidential campaigns (2016, 2020 and 2024), Trump popularized the political slogan ‘Make America Great Again’. Its acronym (MAGA) represents the President’s ideology and political base, or other people with the same latter.

The slogan is also cited in the ‘Agenda 47’, his plan composed by twenty core promises in order to ‘Make America Great Again’.

Among the various points, the following are the ones with an economic nature:

- END INFLATION, AND MAKE AMERICA AFFORDABLE AGAIN
- MAKE AMERICA THE DOMINANT ENERGY PRODUCER IN THE WORLD, BY FAR!
- STOP OUTSOURCING, AND TURN THE UNITED STATES INTO A MANUFACTURING SUPERPOWER
- LARGE TAX CUTS FOR WORKERS, AND NO TAX ON TIPS!
- KEEP THE U.S. DOLLAR AS THE WORLD'S RESERVE CURRENCY

Looking back at how the Trump presidency behaved until now, a more objective analysis states that, generally speaking, under the second presidency of Donald Trump, the federal government of the United States has pursued an economic policy focused on lower taxation, deregulation, and large-scale protective tariffs.

Furthermore, to cut the United States's federal budget, Trump established the Department of Government Efficiency (DOGE), led by Elon Musk. DOGE employees have vastly cut spending at various

federal agencies, and have attempted to dismantle nearly all of the functions of the United States Agency for International Development and the Consumer Financial Protection Bureau.

Much of Trump's domestic economic agenda has centered around the extension of the Tax Cuts and Jobs Act of 2017, which was passed during his first presidential term. Trump has also pledged to remove taxes on tips, overtime pay, and Social Security benefits. He sought greater government control over private businesses, abandoning traditional conservative free market orthodoxy in favor of state capitalism by taking direct government equity stakes in major US corporations.

Trump’s foreign economic policies will be discussed in the next section.

3.2 MAIN FEATURES OF TRUMP'S 2025 TARIFF POLICY

On April 2, 2025 (Liberation Day), President Donald J. Trump signed Executive Order 14257, proclaiming U.S. trade deficits a national emergency and instituting reciprocal tariffs to rejuvenate American manufacturing and tame inflation. The strategy sought to exploit behavioural economics by inducing a stockpiling surge, crashing demand, and redirecting resources toward a U.S.-centric economic rebuild.

Behavioural economics offers a fresh lens on tariffs. Prospect theory (Kahneman & Tversky, 1979) posits that uncertainty prompts hoarding, inflating inventories before tariffs take effect.

Building on this, it is possible to outline a three-phase tariff model:

- Stockpiling Surge: Preemptive import rushes oversaturate markets.
- Demand Crash: Elevated prices suppress consumption, compelling foreign producers to slash prices.
- Strategic Rebuild: Tariff revenues finance domestic industries and infrastructure, lifting wages.

This deflationary approach, formed the intellectual backbone of Trump's strategy.

3.2.1 Description of measures adopted (Countries, Sectors involved and related data)

CHINA SCENARIO

Trump's tariff campaign began two months before his April 2 announcement. On February 1, invoking IEEPA, he announced a 10 percentage point tariff increase on China. The 10 percentage point tariff increase on China went into effect on February 4. The same day, China announced retaliatory measures, which went into effect on February 10.

On March 4, Trump raised the 10 percentage point tariff increase on China to 20 percentage points. On the same day, China announced that it would retaliate, targeting mainly US farm exports.

In April 2, 2025 Executive Order 14257 imposed ad valorem tariffs on Annex I countries (e.g., China, Canada, Mexico, EU), aiming to shrink trade deficits. Trump's objectives included:

- A 15%-20% import surge.

- A demand crash to temper inflation.
- $50 billion in projected revenues to bolster manufacturing and infrastructure, such as airports and roads.

From April 2 to April 8, 2025 China threatened retaliation, while over 75 countries pursued negotiations. On April 8, Trump escalated duties on low-value Chinese imports to 90%.

On April 9 China's retaliatory 84% tariff on U.S. goods spurred Trump's response:

- China Tariffs: Increased to 125%, effective April 10, 2025.
- De Minimis Hikes: Low-value import duties rose to 120%, with postal duties set at $200 by June 2025.
- Non-PRC Suspension: A 90-day pause on Annex I tariffs, substituted with a 10% duty for cooperative nations.

China retaliated on April 10 and 12, increasing tariffs on US exports also by 125 percentage points.

Trump subsequently exempted Chinese electronics from the tariff. By May 14, as a result of the Geneva meeting between the two countries, the United States reduced to 10 percentage points from 125 percentage

points the cumulative tariffs under IEEPA imposed on certain imports from China on April 5, 9 and 10. China also reduced to 10 percentage points from 125 percentage points the cumulative retaliation to the IEEPA tariffs China had imposed on April 10 and 12.

MEXICO AND CANADA SCENARIO

As for China, also Mexico and Canada, members of the USMCA (The U.S. – Mexico – Canada Agreement is a trade agreement between the named parties that entered into force on July 1, 2020), started the 'tariff war' two months before the Liberation Day. On February 1, invoking IEEPA, he announced 25 percentage point tariff increases on Canada and Mexico and a 10 percentage point tariff increase on China, citing illegal cross-border migration and trafficking of fentanyl into the United States as emergency justifications. Two days later, after the United States received commitments from Canada and Mexico to cooperate on these issues, as well as pushback from the US auto and agriculture industries, the Trump administration paused the tariffs on those two countries for 30 days.

On March 4, Trump ended the 30-day pause on Canada and Mexico by imposing a lower 10 percentage point tariff increase on imports of Canadian oil and energy products and 25 percentage point tariff increase on rest of the imports from Canada and all imports from Mexico.

Two days later, on March 6, after facing criticism over the imposition of tariffs on free trade agreement partners, the United States announced that its tariffs would only apply to USMCA noncompliant goods (apart from steel and aluminum) and that the bulk of USMCA trade would continue duty free. Canada then matched the United States, circumscribing its tariff to apply only to USMCA noncompliant autos and parts.

EUROPEAN UNION SCENARIO

On March 12, the trade war globalized when Trump imposed tariffs of 25 percentage points on steel, aluminium, and derivative products from all sources, which he had announced on February 10 invoking his authority under Section 232 of the 1962 Trade Expansion Act. He added autos to the list on March 26 with the measures taking effect on

April 3. The European Union responded with $22 billion in retaliatory tariffs on American products such as bourbon.

The European Union was hit by a 20 percentage point “reciprocal tariff” and indicated that it was mulling retaliation. When Trump announced the 90- day pause, Europe suspended its potential retaliatory restrictions—but not the $22 billion of tariffs imposed earlier in response to the steel, aluminum, and auto tariffs, which remained in place.

MAJOR SECTORS AFFECTED

The most affected industries are in manufacturing, particularly those with strong exposure to imports from China and North America. Fabricated metal products face the highest average tariff rate (above 30 percent) due to their direct inclusion under the steel and aluminium tariff measures. Leather, apparel and textile products also see steep increases, reflecting their reliance on imports from China and USMCA partners in categories not covered by the trade agreement.

On the other end of the spectrum, sectors like oil and gas, petroleum and coal products, and agriculture-related goods such as crops and

forestry face much lower average tariffs. This is consistent with their more limited exposure to the targeted trade flows or their continued protection under existing trade agreements and exemptions.

3.3 IMMEDIATE REACTION OF MARKETS

This section aims to analyse the effects generated by the Tariff Policy on the world indexes previously described, so to observe how U.S., Chinese, European, Canadian and Mexican markets behaved in response to those policies.

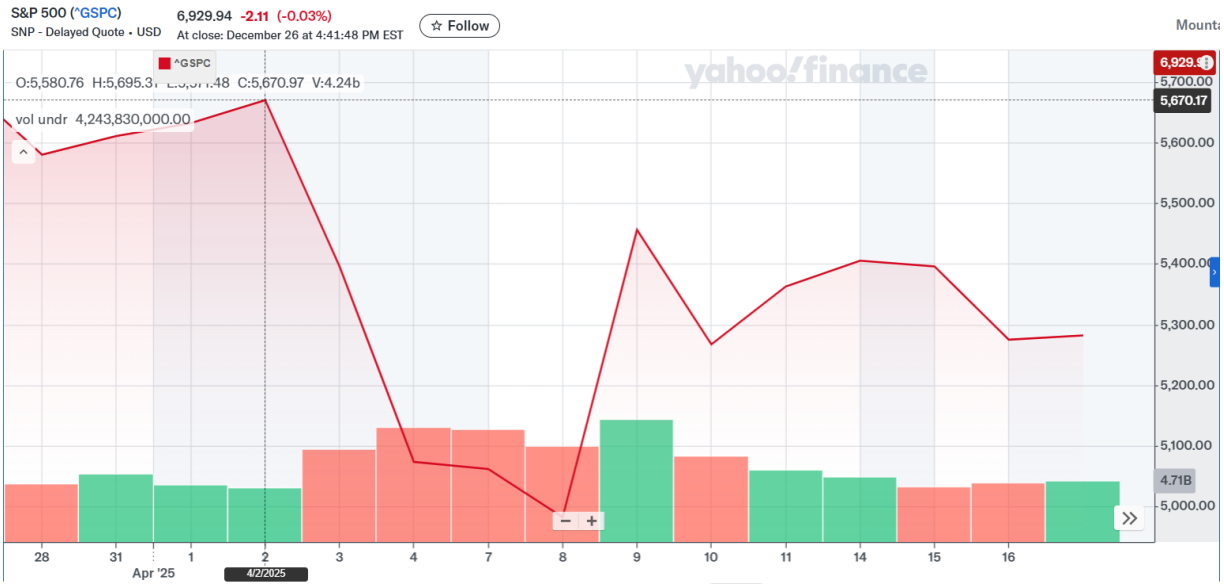
To better comprehend those markets movements, this thesis will adopt two methods of analysis: first, a quantification of movements of prices in percentage terms; second, an econometric, more accurate analysis to discover other possible pattern of association between price changes and the policy.

3.3.1 Internal reaction of markets

Starting from the S&P 500, the index price on 02/04/2025 was $5,670.17, but then declined by 12,928%, resulting on 08/04/2025

with a price of $4,981.63. Subsequently, the next day the price got up to $5,455.92, an increase of 9,088%.

Figure 12



The Dow Jones Industrial Average had a similar pattern: on 02/04/2025 its price was $42,225.17, on 08/04/2025 $37,648.91, having a percentage change of 11,459%. The next day, the price reached $40,607.41, increasing by 7,561%.

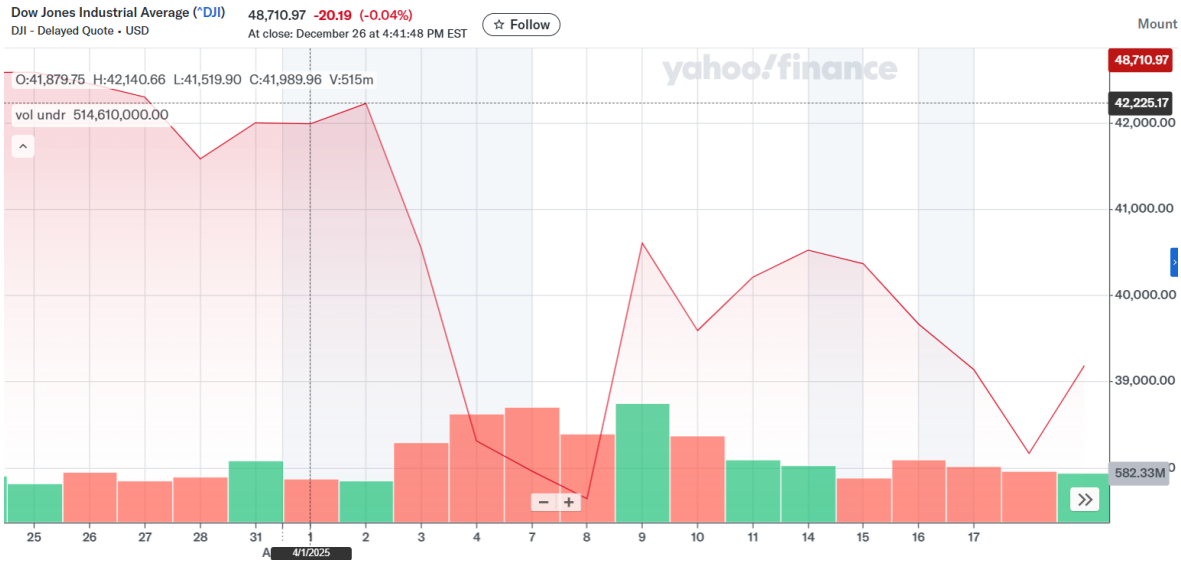


Figure 13

The same trend can be described for the NASDAQ Composite. On 02/04/2025 its price was $17,600.35, but then it declined by 14,267% reaching a price of $15,256.46. The closing price of 09/04/2025 was $17,128.88, meaning an increase of 11,563%.

Figure 14

The Russell 2000 Index, the last U.S. Index, as the previous ones, followed the same behaviour, but with a greater downfall from the Second of April. On 02/04/2025 a price of $2,045.51 was registered, but on 08/04/2025, after a decrease of 14,996%, price got low at $1,760.16. The following day the closing price was $1,940.17, having a lower increase of 8,383%.

Figure 15

3.3.2 Foreign market reaction

The Euro Stoxx 50, unlike the others, did not experienced an immediate rebound after the crash, but its recovery was more graduate. On 02/04/2025 its price was €5,305.45, on 07/04/2025 €4,652.96, meaning a decrease of 13,104%, then a little recovery of 2,564% on the next day. On 09/04/2025, another decrease of 3,2574% lowered the price of the index. From the following day on, a gradual recovery started.

Figure 16

The Hang Seng Index also experienced a rapid decline during those dates. On 02/04/2025 its price was 23,194.50 HKD, but after a decline of 15,678%, on 07/04/2025 the latter closing price was 19,822.41 HKD. From that day on a gradual recovery started, lowly adjusting the price of the index.

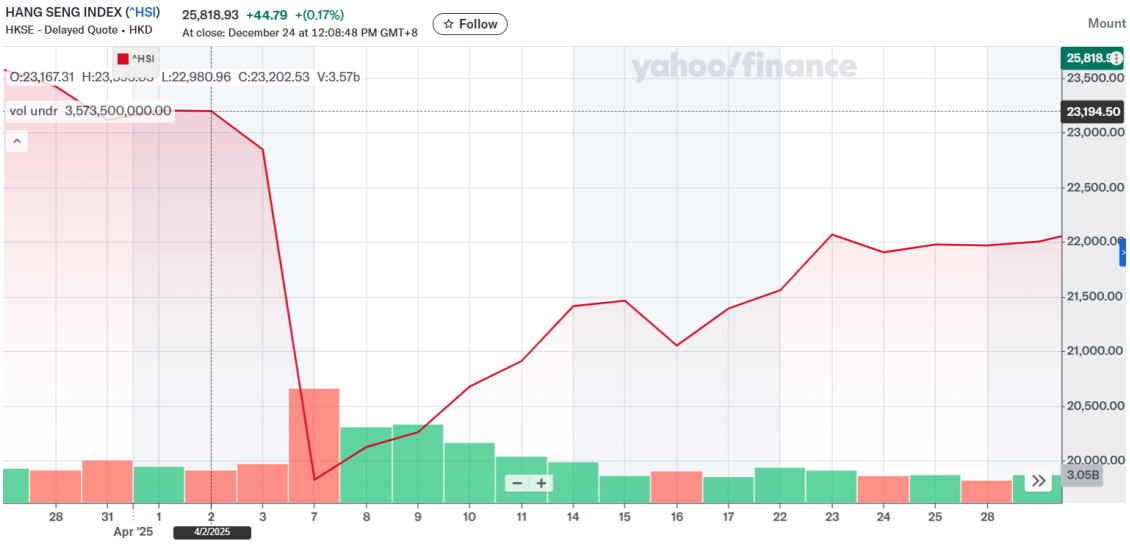


Figure 17

The S&P/TSX Composite Index followed the trend of the other foreign indexes: on 02/04/2025 its registered price was 25,303.30 CAD, but on the next days it crashed, reaching a price of 22,502.45

CAD, after a decline of 11,718%. From that date on, the index started to recovery gradually.

Figure 18

Lastly, the Mexican Index IPC Mexico. On 03/04/2025 its closing price was of 54,097.71 MXN. After a decrease of 7,254%, the latter lowered to 50,310.67 MXN. Following the crash, the index recovered quite steadily, up to the point of performing above the average of that time.

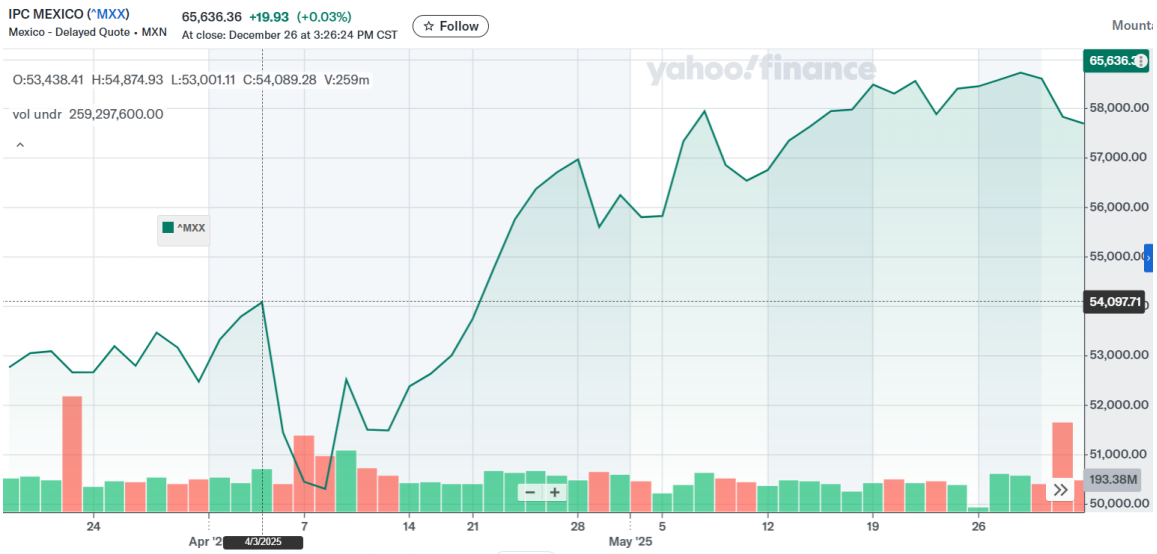


Figure 19

3.4 EFFECTS ON VOLATILITY AND GLOBAL INVESTMENT

This section aims to describe the movements of the VIX Index during the Tariff War period. It is important to recall that this index is a measure of volatility, for this reason it will spike in moments of crisis or instabilities.

On 02/04/2025 the closing price of the VIX Index was $21.43, on 08/04/2025 the price spiked by 84,21%, reaching a price of $52.6. The following day, on 09/04/2025, it lowered by 44,71%. From that day on, the trend of the Index is described by a series of up and downs,

including the one between the 8th and 9th of April, resulting finally in a lower average price, meaning greater stability.

Figure 20

3.5 AN ECONOMETRIC APPROACH: A TIME SERIES ANALYSIS

3.5.1 Econometric model

The second, econometric method of analysis adopted by this thesis is called Autoregressive Model.

Autoregressive modeling is an econometric technique most commonly used for time series analysis and forecasting that uses one or more values from previous time steps in a time series to create a regression.

A time series is a sequence of measurements of the same variable or group of variables made over time. The measurements are typically made at evenly spaced times, for instance hourly, monthly or yearly.

It is a simple but powerful technique for time series analysis that provides highly interpretable and effective predictions if your data contains correlations across the time steps. The correlation across time steps is called autocorrelation because it is a measure of how much a value correlates with itself.

The function in the general AR Model is given as follows:

$$X_t = \alpha + \phi_1 X_{t-1} + \phi_2 X_{t-2} + \cdots + \phi_p X_{t-p} + \varepsilon_t$$

where:

- X_t = Value of the time series at time t
- α = Intercept
- ϕ = Autoregressive coefficients: these coefficients measure the influence of past values on the current value.
- X_{t-p} = Lagged variable: the value of the time series at time t-p
- ε_t = Error term

The regression function slightly changes when a dummy variable (a binary variable that can take on only 0 or 1 as values) is included:

$$X_t = \alpha + \beta D_t + \phi X_{t-1} + \varepsilon_t$$

where:

- β = Coefficient on the interaction term: Measures the effect of the lagged value when the dummy is active.
- D_t = Dummy variable.

If D = 0, then the regression function is: $X_t = \alpha + \phi X_{t-1} + \varepsilon_t$

If D = 1: $X_t = \alpha + \beta D_t + \phi X_{t-1} + \varepsilon_t$

3.5.2 Model specifications

In this thesis, the Autoregressive Model is applied to analyse and to find a pattern of association between the prices of the indexes previously described and Trump's tariffs during the month of April, therefore, to see how these economic policies impacted the U.S.A. and worldwide financial markets.

Mathematically, the complete analysis comprehends eight formulas, one for each index:

- **S&P 500:**

$$X_t^{S\&P500} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{S\&P500} + \varepsilon_t$$

- **Dow Jones Industrial Average (DIJA):**

$$X_t^{DIJA} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{DIJA} + \varepsilon_t$$

- **NASDAQ Composite:**

$$X_t^{NASDAQ} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{NASDAQ} + \varepsilon_t$$

- **Russell 2000 Index (RUT):**

$$X_t^{RUT} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{RUT} + \varepsilon_t$$

- **Euro Stoxx 50:**

$$X_t^{EuroStoxx50} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{EuroStoxx50} + \varepsilon_t$$

- **Hang Seng Index:**

$$X_t^{HangSeng} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{HangSeng} + \varepsilon_t$$

- **S&P/TSX Composite Index:**

$$X_t^{S\&P/TSX} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{S\&P/TSX} + \varepsilon_t$$

- **S&P/BMV IPC:**

$$X_t^{S\&P/BMV} = \alpha + \beta D_t^{April} + \phi X_{t-1}^{S\&P/BMV} + \varepsilon_t$$

Each Dummy variable inside the formula has the following values: 1 from 02/04/2025 to 08/04/2025 (days of 'Tariff War'), 0 otherwise.

This is the variable we care about principally, because is the one that is giving insights on how prices reacted to tariffs, meaning, the average change on daily returns of the index.

The general process of the analysis carried out for this thesis is the following: after the upload of the CSV file, and after having cleaned the data (eliminating variables not needed and changing variables' type), the formal first step is to create the Dummy variable, defining either a 'start date' and a 'end date' in which the latter will take the value 1. Subsequently, the time series is created, for which its

stationary status needs to be checked out. Once the stationary hypothesis is rejected, the time series is transformed in log return, to better estimate results and to work with percentage differences. Next, the log return is again transformed in a lagged log return: the underlying logic of the model is that the return of a day is influenced by the return of the previous day, so the first observation of the sample is excluded, due to the absence of a 'previous' one. At this point, the regression can be executed, and its results can be analysed by interpreting its summary.

3.5.3 Evidences from the analysis

At this point, it is possible to analyse the results of the regression, by taking into consideration the Dummy variables, the lagged log returns, and all data that gives insights on the quality of the model, such as the R^2 and P-value.

Let's analyse one index at time:

S&P 500

AR(1) con dummy evento	
	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.247*
	(0.124)
Dummy evento	-0.033***
	(0.009)
Constant	0.003
	(0.002)
Observations	61
R^2	0.194
Adjusted R^2	0.166
Note:	*p<0.1; **p<0.05; ***p<0.01

The lagged log return of the S&P 500 index is negative (-0,247), sign of greater volatility and nervousness in the market. This is typical of periods of political and commercial shock. The Dummy variable is negative too (-0,033): the average daily return between the 2nd April and 8th April fell by 3,3%. The lagged log return statistic is marginally significant (see P-value), while the Dummy variable is highly significant. The value of the R^2 is 19%, that is quietly good for such analysis.

The inclusion of a dummy for the period 2-8 April, corresponding to the announcement/intensification of duties of the Trump administration, highlights a negative and statistically significant effect on S&P 500 daily returns.

DOW JONES INDUSTRIAL AVERAGE

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.181
	(0.126)
Dummy evento	-0.028***
	(0.008)
Constant	0.002
	(0.002)
Observations	61
R^2	0.172
Adjusted R^2	0.143
Note:	*p<0.1; **p<0.05; ***p<0.01

The lagged log return of the DIJA is -0,181, apparently lower than that of the previous index, but not significant: this might be because the Dow Jones Industrial Average is composed by industrial large caps, that react slowly to new information, so it might be observed a gradual adjustment rather than nervous trading. On the other hand, the Dummy variable is highly significant: DIJA average daily returns during the Tariff War dropped by 2,8%. This is so due to the exposure of companies included in the index to sectors directly affected by Trump's tariffs.

The R^2 is 17%, which is good for financial analysis in general.

To sum up: the analysis highlights that the Trump administration's introduction of tariffs had a negative and statistically significant effect on Dow Jones Industrial Average returns. The dummy associated with the tariff period shows an average reduction in daily yields of about 2.8%, suggesting that markets have interpreted protectionist measures as particularly damaging to US industrial firms. The absence of significant dependence on past yields indicates that the impact of tariffs manifested itself as a structural shock, rather than a simple short-run dynamic.

NASDAQ Composite

The lagged log return is again negative and marginally significant.

The Dummy variable is highly significant: the NASDAQ average daily

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.238*
	(0.124)
Dummy evento	-0.035***
	(0.011)
Constant	0.004
	(0.003)
Observations	61
R^2	0.163
Adjusted R^2	0.134
Note:	*p<0.1; **p<0.05; ***p<0.01

returns fell by 3,5% during the Tariff War.

This index has been the most affected one among others. Why? Many NASDAQ companies produce for foreign markets, and so depends on foreign markets, principally China. The findings suggest that the tariffs introduced by the Trump administration have had a particularly marked negative impact on the NASDAQ, an index heavily exposed to tech and global firms. The duty period-associated dummy shows an average reduction in daily yields of more than 3.5%, indicating that the market perceived protectionist measures as highly detrimental to future growth prospects. The presence of a mean reversal dynamic also reflects a context of high uncertainty and volatility, typical of periods of political-trade shock.

RUSSELL 2000 INDEX

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.338***
	(0.120)
Dummy evento	-0.037***
	(0.009)
Constant	0.003
	(0.003)
Observations	60
R^2	0.248
Adjusted R^2	0.222
Note:	*p<0.1; **p<0.05; ***p<0.01

The lagged log returns this time is highly significant: the value is -0,338. This is greater than the others because small caps are less liquid, and so the latter tends to react more to economic shocks. During the Tariff War, the level of instability was high. The Dummy variable is highly significant too: RUT average daily returns between the 2nd and 8th of April fell by 3,7%. The R^2 of the model is 25%, which is excellent.

The analysis highlights that the tariffs introduced by the Trump administration have had a particularly severe negative impact on the Russell 2000, a representative index of US small caps. The value of the duty period dummy indicates that the market perceived

protectionist policies as severely penalising smaller firms. Furthermore, the significant mean reversal dynamics signals an environment of high volatility and instability, consistent with a greater vulnerability of small caps to trade shocks.

EURO STOXX 50

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.179
	(0.129)
Dummy evento	-0.028***
	(0.007)
Constant	0.002
	(0.002)
Observations	60
R^2	0.199
Adjusted R^2	0.171
Note:	*p<0.1; **p<0.05; ***p<0.01

The lagged log return is not statistically significant. The Dummy variable is highly significant: the EUROSTOXX 50 average daily return has dropped by 2,8% during the Tariff War period.

The results show that the Trump administration's introduction of tariffs has also had a negative and statistically significant impact on European stock markets. Europe is strongly integrated into global

trade, many EUROSTOXX enterprises export to the USA and participate in global value chains. The effect is slightly attenuated in EU, but clearly present: duties are not an isolated event.

HANG SENG Index

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.222
	(0.134)
Dummy evento	-0.048***
	(0.012)
Constant	0.004
	(0.003)
Observations	58
R^2	0.214
Adjusted R^2	0.185
Note:	*p<0.1; **p<0.05; ***p<0.01

The lagged log return is not statistically significant. The Dummy variable is highly significant: Hang Seng average daily return has dropped by 4,8%. This is the biggest coefficient in the analysis. Intuitively, it is not hard to understand the reason behind this value: China is the direct target of USA, and so the markets that suffered the most. The R^2 is 21,4%, again, excellent for financial analysis.

To conclude, the analysis highlights that the tariffs introduced by the Trump administration have had an extremely negative and statistically significant impact on the Hang Seng Index, representative of the Hong Kong stock market and, more generally, the Chinese economy. The value of the duty period-associated dummy shows that the market perceived the trade war as a large-scale systemic shock. Compared to other international indices, the Hang Seng emerges as the most vulnerable, confirming China's central role as the main counterpart affected by US protectionist policies.

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.309**
	(0.116)
Dummy evento	-0.030***
	(0.006)
Constant	0.004**
	(0.002)
Observations	61
R^2	0.317
Adjusted R^2	0.293
Note:	*p<0.1; **p<0.05; ***p<0.01

S&P/TSX Composite Index

For this index, the lagged log return is highly significant: its value is -30,9%, this is so because the

S&P/TSX is dominated by raw material, energy fields and basic industry, which are sectors very sensitive to trade shocks and international prices. The Dummy variable is extremely significant: the index average daily return fell by 3% in the 2-8 April period.

This is the model with the highest quality: the R^2 is exceptional (32%). The results show that the tariffs introduced by the Trump administration had a negative and highly significant impact on the Canadian TSX index, reflecting the strong trade integration between Canada and the United States. Compared to other international markets, the TSX emerges as one of the most affected indices, confirming that the tariffs have also generated significant effects on the main trading partners of the United States.

S&P/BMV IPC

AR(1) con dummy evento

	Dependent variable:
	Log returns
Lag log returns (t-1)	-0.033
	(0.131)
Dummy evento	-0.015**
	(0.006)
Constant	0.003
	(0.002)
Observations	60
R^2	0.090
Adjusted R^2	0.058
Note:	*p<0.1; **p<0.05; ***p<0.01

The lagged log variable is not statistically significant. The Dummy variable shows a weak, but yet existing effect during the 2-8 April period: the index average daily return fell by 1,5 %. Moreover, the R^2 is at 9%, which is low, but normal for developing markets. The analysis highlights that the tariffs introduced by the Trump administration have also had a negative and statistically significant impact on the Mexican BMV index, albeit a smaller one than other North American markets. The reason for this difference could be that, even if Mexico is well integrated with the USA, many firms BMV only produce for the domestic market, and by consequence, the latter is less exposed to direct export with USA.

To sum up, each index in the analysis gave us some interesting information:

- S&P 500 (Dummy= -3,3%): indicates a wide market shock;
- Dow Jones Industrial Average (Dummy= -2,8%): indicates a targeted shock to industry;
- NASDAQ Composite Index (Dummy= -3,5%): shows the shock is present also in Tech/Growth industry;
- RUSSELL 2000 Index (Dummy= -3,7%): small caps are vulnerable;
- EUROSTOXX 50 (Dummy= -2,8%): international contagion;
- HANG SENG (Dummy= -4,8%): extreme suffering from tariffs;
- S&P/TSX Composite Index (Dummy= -3%): not the principal target, but yet subject to immediate and concrete effects;
- S&P/BMV IPC (Dummy= -1,5%): quite moderate effect.

CONCLUSION

In this thesis, the association between geopolitics and financial markets has been analysed, first by adopting a simple descriptive method to see at first glance differences in returns during ‘Tariff War’, then by using a more accurate, econometric approach: the complex and intricate dynamics behind global political scenarios do affect all sectors and aspects of nations, principally on the economic and financial landscape.

Then, when the nation under consideration has been a global superpower over the last century, the effect of their foreign policy has even a more spread effect.

Proof of this is the case study of Trump’s tariff policy of 2025: the research conducted revealed that, first thing first, due to the role of United States of America, the tariff policy has shifted the balance of major global economies, as well economic partners of the United States, such as the European Union, China, Canada and Mexico;

second, the foreign policy adopted by the 47° President of the United States have worsen not only financial markets of his partners, by lowering the average daily return of indexes that reflect generally the economies of these Countries, but also domestic financial markets: average daily return of indexes reflecting the major U.S. companies, major industries, Tech sector and small capitalized companies clearly worsen during ‘Tariff War’ period.

Evidences from the study suggest that adopting protectionist policies, even if formulated to increase domestic welfare, can lead to negative results in all points of view, wearing down the global economy. In the scenario analysed, the two most rational responses are: Trump's withdrawal from protectionist policy, and his partners' relaunch of other tariffs.

Given the fact that today we live in a highly globalized world, hindering the free market between nations will always lead to a decrease in global welfare and a worsening of global diplomatic, economic and financial relations.

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