AIB REVIEW
By the Australian Institute of Business

Stock Market Reactions to the Changes in Geopolitical Environment

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Introduction

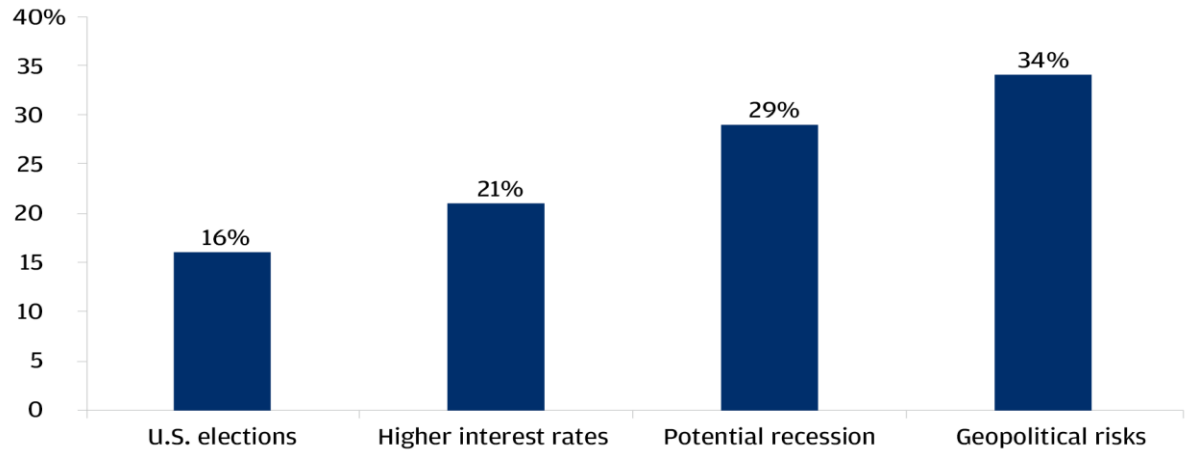
Every sector across the globe is impacted by the uncertainties caused by geopolitical events that may occur in the form of wars, cyberattacks, technology competition, changes in international trade policy, tariffs and non-tariff reforms (S&P Global 2025). The world faces unprecedented risks due to the ever-evolving nature of geopolitical environments. This article examines the impact of one such geopolitical event that occurred on 2nd April 2025, when the President of the United States (US), Donald Trump, announced trade policy changes by imposing a 10% baseline tax on imports from all nations, effective 5 April 2025.

This so-called 'trade war' was categorised as one of the steepest trade barriers imposed in more than 100 years (Reuters 2025). According to the latest BBC news (11 September 2025), different countries are being imposed with different tariff rates ranging from 10% to 50%. The increase in tariffs aligns well with America's First Trade Policy of the Trump administration, which focuses on the US domestic economy and cutting US-favoured trade deals.

Investors' Concerns

A study conducted by J.P. Morgan Private Bank (2023) identified geopolitical risks as the most important concern of investors (Figure 1). Therefore, it is not surprising that the announcement of an increase in tariffs by the US resulted in a sudden impact on the financial markets across the globe. Many countries experienced a plunge in their stock markets. For example, the United Kingdom Financial Times Stock Exchange (UK FTSE) 100 fell by 1.5%, Germany's Deutscher Aktienindex (DAX) was down 2.3% and France's Cotation Assistée en Continu (CAC) lost 2.5% (The Guadian 2025). This study turns its attention to understanding the impact on four economies, specifically analysing the repercussions on Australian, Canadian, US and Chinese stock markets.

Figure 1: J.P. Morgan Private Bank client survey results



Source: Reproduced from J.P. Morgan Private Bank (2023). Data as of December 31, 2023.

US Tariffs and Their Immediate Impact on Australian Stock Markets

Similar to the global experience, the imposition of the 10% tariff rate affected the Australian economy negatively, with its stock markets closing in the red (decreased). The Australian Securities Exchange (ASX) Standards & Poor's, S&P/ASX 200 index, lost almost 1% at closing on the day of the announcement. As shown in Figure 2, the S&P/ASX 200 was down -2.44% on 4 April 2025, followed by a -4.23% decline recorded on 7 April 2025. In addition to this, the Commonwealth Bank of Australia's research department forecasted the Australian dollar to drop below 60 US cents.

Figure 2: US tariffs' immediate impact on Australian, Canadian, US and Chinese stock markets

Source: Compiled by authors using Yahoo Finance (2025)

Table 1: Cumulative returns

	Cumulative returns	
Event window (Days relative to 2 April, 2025)	(-5 days, +5 days)	(-5 days, + 30 days)
CSI 300	-4.70%	-0.54%
S&P 500	-3.26%	4.70%
S&P/ASX 200	-5.70%	2.93%
S&P/TSX Composite	-4.47%	3.58%

Source: Adapted from Yahoo Finance (2025)

US Tariffs and Their Immediate Impact on Canadian Stock Markets

The Canadian dollar dipped after the revelations of the US tariffs, likely due to Canada's relative trade dependency on the US. In 2024, Canada imported 50% of their total goods from the US and exported a whopping 76% of their total products to the US (Mukherjee 2025). It was not surprising that the stock markets experienced a downturn, and a considerable decline of -3.84% on the Toronto Stock Exchange (TSX) was recorded on 3 April 2025 (Toronto, Canada time), falling by another 4.69% on 4 April 2025 (Yahoo Finance 2025), as depicted in Figure 2.

US Tariffs and Their Immediate Impact on US Stock Markets

Following the announcements of the change in US trade policy, both S&P 500 futures and Nasdaq futures dipped, S&P 500 futures declined by 1.6%, with Nasdaq futures recording a drop of 2.4%. The Dow Jones Industrial Average tumbled 3.98% and recorded its worst decline since June 2020. The Nasdaq Composite plummeted 5.97% recording its largest dip since March 2020, as shown in Figure 2. The share prices of many large multinational companies saw a sudden decline, and the US dollar witnessed a general 6 month low.

US Tariffs and Their Immediate Impact on Chinese Stock Markets

The Chinese stock markets were expected to be adversely affected as they bore the maximum tax levy from the US. China's blue-chip CSI 300 Index fell 0.6% to a two-month low, while Hong Kong's Hang Seng Index fell 1.5%. On 7 April 2025, the Shanghai Shenzhen CSI 300 Index plunged by an enormous 7% clearly revealing the strong impact Chinese markets felt from the US tariff announcements, as shown in Figure 2. Considering that the US market is China's main export market (The US-China Business Council 2025), the drop was not surprising.

Additionally, it is likely that the expectations of a Chinese Government response to the US trade policy shift added additional fuel to the decline. Furthermore, the Chinese economy has since then been preparing to bear the impact on the industries that heavily rely on exports to the US as their main revenue stream. However, the second column (Table 1) shows that all indices bounced back to the

original level 30 days after. Table 1 captures that the ASX had the biggest drop, and the S&P 500 had the least drop. The volatility in stock returns is a commonly observed outcome of geopolitical risks (Marangoz et al. 2025; Salisu et al. 2022). The stock market's initial response to these geopolitical events is often a sharp decline, i.e. an adverse impact is observed (Salisu et al. 2022) due to the uncertainty faced by investors. However, it is worth noting that while markets tend to recover, the time of recovery can vary and is dependent on a specific geopolitical event.

Conclusion

The immediate declines in the stock markets of the four economies examined highlight the significant interconnectedness of these markets with global events. The brief review of those stock markets also provides policymakers with the opportunity to critically analyse and assess the identified consequences, enabling them to address the negative effects on share prices that could jeopardise investors' wealth.

This analysis clearly articulates the ramifications of geopolitical events, such as changes in trade policies (i.e. tariffs) imposed on other countries, and the lasting impact these have on market stability and a nation's economic growth. With respect to trade policy, it is important to note that the diversification of trade agreements and stable foreign reserves can assist in mitigating these shocks (Marangoz et al. 2025). Furthermore, as trade dependency increases, the adverse effects of such geopolitical tensions become more pronounced, underscoring the need for countries to develop strategies to reduce vulnerability and diversify their export markets and reform trade policy. It will be interesting to observe how nations prepare to navigate these challenges to enhance their resilience moving forward.

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Amanpreet is a Lecturer in Finance at AIB. She has extensive experience in teaching several finance and accounting subjects. Her research focuses on corporate reputation, gender diversity, corporate social responsibility (CSR), Initial Public Offerings (IPOs) and corporate governance.

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Kavita is a Senior Lecturer in Finance at AIB. She is a passionate academic with extensive teaching and research experience across three continents: Australia, Asia and Africa. Her interests are in financial literacy, executive compensation, and emerging economies. She is a qualified Cost and Management Accountant with a Doctorate (PhD) in Finance.

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Uwe is a Senior Lecturer and Discipline Leader in Finance at AIB. He is an applied trade economist and has more than 15 years of experience in academia with a multidisciplinary specialisation in international trade, public policy and the regulatory environment, and their impact on business operations, economics and sustainable development.

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Donald is a Senior Lecturer in Finance and joined AIB in 2015. His research specialises in asset pricing, corporate governance and how information systems improve an organisation. He holds a PhD from UNSW, a Master of Business Studies, an MBA and a Bachelor of Commerce and Management degrees – all with a Finance Major.

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