



Impact of Tariff Announcements on Stock Returns: Evidence from Chinese Steel and Aluminum

Introduction

Recent political developments in the United States offer a unique opportunity to examine the role of news media on stock returns. An efficient market captures all price relevant-information then reaches market equilibrium. Stockholder reactions to the information release is one way to determine if the financial community believes a policy will positively or negatively impact a firm's future earnings. We analyze, by testing for cumulative abnormal returns (CAR), the effects of three news articles from the Wall Street Journal (WSJ) concerning tariffs for imported steel and aluminum on China.

Methods

By estimating cumulative abnormal returns (CAR), we analyze the effect of three events:

- (1) "Trump Plans 'Reciprocal Tax' on Some U.S. Trading Partners" – WSJ (February 12th, 2018)
- (2) "U.S. Weighs Tariffs, Quotas on Metal Imports" – WSJ (February 16th, 2018)
- (3) "Trump Signs Metal Tariff Sparing Some Allies" – WSJ (March 8th, 2018)

We conducted an event study around each of the key dates using Eventus® with the following parameters:

- A sample set of 35 different companies from various industries traded on the NYSE or NASDAQ that use imported aluminum and/or steel from China in their supply chain
- A three-day event window around each event (-1,1)
- 255 day estimation period 45 days before any event occurred to set our standard of normal market returns

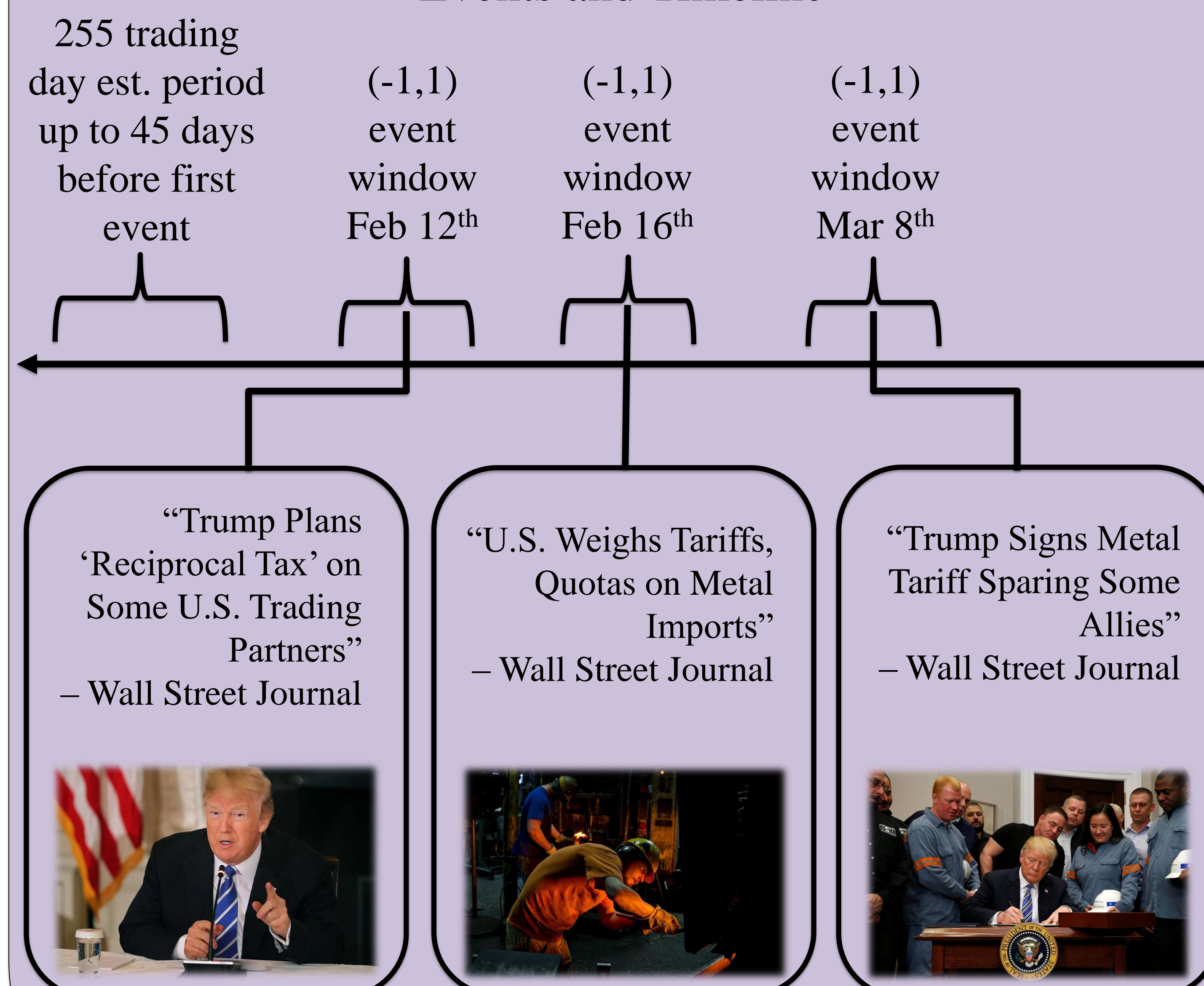
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Sample Set

CATERPILLAR INC	O REILLY AUTOMOTIVE INC NEW
3M CO	COLUMBIA SPORTSWEAR COMPANY
CAMPBELL SOUP CO	LENNOX INTERNATIONAL INC
WHIRLPOOL CORP	INSTEEL INDUSTRIES INC
FORD MOTOR CO DEL	KONINKLIJKE PHILIPS N V
BROWN FORMAN CORP B	FLUOR CORP NEW
GENTEX CORP	ADVANCE AUTO PARTS INC
CUMMINS INC	SUNPOWER CORP
V F CORP	ANHEUSER BUSCH INBEV SA NV
UNION PACIFIC CORP	HONEYWELL INTERNATIONAL INC
WINNEBAGO INDUSTRIES INC	BRUNSWICK CORP
MOLSON COORS BREWING CO B	COCA COLA CO
HARLEY DAVIDSON INC	JOHNSON OUTDOORS INC
POLARIS INDUSTRIES INC	GENERAL ELECTRIC CO
TOYOTA MOTOR CORP	GENERAL MOTORS CO
TYSON FOODS INC A	MALIBU BOATS INC A
PROCTER & GAMBLE CO	FIAT CHRYSLER AUTOMOBILES NV
DOWDUPONT INC	

Events and Timeline



Results

Date	Days	Mean Compound Abnormal Return	Precision Weighted CAAR	Patell Z
Feb 12 th	(-1,1)	-0.95%	-0.70%	-1.913*
Feb 16 th	(-1,1)	-1.52%	-1.14%	-3.235***
Mar 18 th	(-1,1)	-0.96%	-0.51%	-1.405

The symbols *, **, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a generic one-tail test.

Conclusion

While the first and last event in our study showed little to no statistical significance, the event on 2-16-18 composed a high level of significance. We can deduct the following from our results:

- The first event had little significance to stockholders' perception of the market value in our sample
- The market reacted negatively to the specific announcement of tariffs on Chinese goods, which suggest that **the average stockholder believes that tariffs are not beneficial for U.S. companies** according to our sample
- The third event had no statistical significance, this suggest that the market already reacted to the news released on February 16th, and had no need to adjust market equilibrium

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