Triggering Turbulence: How Trump's Tariff Talk Shook the Markets

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ARTICLE INFO	ABSTRACT
	On April 2, 2025, President Donald J. Trump imposed a 32% import tariff on Indonesia, triggering significant stock market volatility and global panic. This study aims to provide empirical evidence on whether there are significant differences in aggregate and cumulative abnormal returns before and after Trump's reciprocal tariff policy announcement. The research adopts an event study approach, using a sample comprising all companies across 11 sectors listed on the Indonesia Stock Exchange. The findings indicate that the Indonesian capital market responded negatively and significantly to Trump's tariff announcement. This is reflected in a significant decline in the Aggregate Abnormal Return (AAR) on the first day following the announcement. The decline is also evident in the Cumulative Aggregate Abnormal Return (CAAR), which illustrates the aggregate market losses accumulated during the event window. However, the drop in AAR and CAAR lasted only for two days post-announcement, after which signs of recovery emerged from the third to the fifth day. Further analysis of sectoral Abnormal Returns (AR) shows that most sectors closely linked to international trade activities experienced a significantly negative decline in AR. Keywords: Trump's Reciprocal Tariff; Abnormal Return; Market Volatility

INTRODUCTION

On April 2, 2025, the President of the United States (US), Donald J. Trump, shocked global financial markets by proclaiming a 'Liberation Day', where he introduced a 'reciprocal tariffs' strategy to correct what he deemed as decades of unfair trade relations that harmed US manufacturers. The announcement marked the beginning of a global trade war and triggered a sharp decline in global stock markets. In the announcement, Trump launched a two-tiered tariff structure, namely: a base tariff of 10% applied universally to imports from all countries, and additional 'reciprocal tariffs' imposed on a large number of countries based on what he considered unfair trade practices from the US perspective. Indonesia, as one of the US trading partners, was not exempt from the decision, with import tariffs on Indonesian goods set at 32%, one of the highest compared to other countries. Trump's new tariff in 2025 is highly likely to trigger significant stock market volatility and even

panic across nations. Historically, research by Gjerstad et al. (2021) has shown that tariff-related news directly conveyed by Trump is strongly associated with spikes in market uncertainty, increased trading volumes, and immediate drops in stock prices. Markets reacted most negatively to communications that mention "tariffs" or "trade war." This is also supported by research from Klomp (2025) and Wengerek (2020), who found that the imposition of tariffs consistently results in negative stock abnormal returns for US companies, reflecting broad investor concerns. Sectors such as technology, industrial, and energy have shown particularly strong negative reactions to tariff threats and trade tensions, whereas more defensive sectors like healthcare and transportation were less affected (Selmi et al., 2020). The shocks and uncertainties from tariff announcements often exceed market expectations globally, causing rapid shifts in investor sentiment and confidence.

This uncertainty is a major driver of panic and sell-offs in the market, affecting both domestic and foreign investors. Based on the semi-strong form of the efficient market hypothesis, all information received, including economic news such as the implementation of higher import tariffs, will be immediately reflected in the prices of stocks traded in the market. Since both local and foreign investors have negative sentiment toward high import tariffs that can cause high-frequency market uncertainty (Klomp, 2025; Ortiz, 2023), the prices of stocks traded on the Indonesia Stock Exchange (IDX) experienced a significant decline when the market first opened after the Eid holiday. This is reflected in the drastic decline of the Jakarta Composite Index (JCI) from March 27, 2025, by -7.90% and by -8.34% on April 8 and April 9, reaching values of 5,996.14 and 5,967.99, respectively, as shown in Figure 1. These JCI values represent the lowest levels in the past five years since the COVID-19 pandemic. Moreover, due to the significant drop in the JCI, the IDX imposed a 30-minute trading halt, resulting in no movement of the index at 09:00 (market opening time) (Indonesia Stock Exchange, 2025). Qin et al. (2022) stated that negative abnormal returns are expected to be detected on the event date if investors did not anticipate the tariff announcement. This also applies to the Indonesian context, where investors experienced negative abnormal returns caused by actual returns being lower (due to falling stock prices) than the expected returns.

Figure 1. IHSG During Event
Source: Indonesia Stock Exchange (2025)

In the era of economic globalization, economic relations between countries have become increasingly close and interdependent. The capital market plays an important role in the modern economy as a platform for securities transactions and as a key indicator reflecting the economic condition of a country. Stock movements in the capital market are driven by several factors originating from within the company (internal), such as earnings per share (EPS), dividend per share (DPS), return on assets (ROA), current ratio (CR), and profitability, as well as from outside the company (external), such as gross domestic product (GDP), money supply, and investor sentiment (Al-Dwiry et al., 2022; Arenggaraya & Djuwarsa, 2020). In addition, policies issued by major countries also impact the direction of the global economy and may create uncertainty in international trade relations that affect many countries, including Indonesia (Bouri et al., 2022; Zaremba et al.,

2021). In Indonesia, these policies matter more than the fundamentals of the company itself, as they affect investor decisions and mentality. Negative abnormal returns can cause significant losses for investors due to negative sentiment and doubts about the market (Liu et al., 2020). As a result, the accumulation of profits may decline, or even worsen the accumulation of losses caused by unexpected events. Therefore, it is necessary to understand whether the market will return to efficiency and how investors behave during such events, including the Trump tariff announcement.

Previous studies have examined the effect of tariffs on stock markets. For instance, by investigating 47 countries worldwide, Kumar & Moussa (2025) find that significant negative cumulative abnormal returns, with the strongest reactions, were three days after the announcement of US reciprocal tariffs. Furthermore, they also find that developed markets were more affected than emerging markets. By classifying the observed countries into two groups, trade-deficit and trade-surplus, Rao et al. (2025) show that trade-deficit countries have mixed-to-no reaction to the reciprocal tariffs, as investors might have expected such a policy. On the other hand, trade-surplus countries show significant positive cumulative average abnormal returns since investors are highly optimistic about the future benefits from trade. During President Donald J. Trump's first administration, the imposition of tariffs was viewed negatively by investors, resulting in a significant negative average abnormal stock returns of US firms (Wengerek et al., 2025). Despite the valuable insights of prior research, no research has investigated the effect of the reciprocal markets in Indonesia; therefore, this study introduces novel contributions to the event study and EMH literature in the context of emerging markets. First, it is the first to investigate the sectoral impact of Trump's tariff announcement in Indonesia using a detailed abnormal return and cumulative abnormal return approach. Second, the study isolates short-term market reactions within a precise two-day event window, providing refined insight into the timing and magnitude of sectoral inefficiencies. Third, it identifies specific sectors as empirically resilient during global trade shocks, introducing a fresh perspective on domestic sector insulation within emerging markets.

This study aims to obtain empirical evidence regarding whether there is a significant difference in the aggregate and cumulative aggregate abnormal returns before and after the implementation of Trump's reciprocal tariff policy. Theoretically, the findings contribute empirically to the literature on efficient market theory, particularly the semi-strong form efficiency, by showing that the Indonesian stock market responds rapidly to public information but is not fully efficient in the very short term. In terms of social contribution, this study underscores the importance of economic and capital market literacy so that the public can better understand the effects of global dynamics on financial conditions.

METHOD

Data Description, Event, and Analytical Method
This quantitative research employs an event study approach to determine whether there is a statistically significant difference in stock abnormal returns before and after President Donald J. Trump announced a 10% import tariff on all U.S. imports, along with higher tariffs (reciprocal tariffs) on imports from various countries, including Indonesia. The study uses daily stock price data from 25 March 2025 to 14 April 2025 obtained from the official website of the Indonesia Stock Exchange (IDX). Non-trading days, including weekends and public holidays, were excluded, and returns were calculated based solely on consecutive trading days. The research population includes all 11 sectors listed on the IDX, namely healthcare, basic materials, financials, transportation, technology, non-cyclicals, industrials, energy, cyclicals, infrastructure, and property. The sample was selected using purposive sampling with the criteria that the stock index must remain listed on the IDX during the defined event window and event date, and must not be delisted. The final sample consisted of 637 companies.

In an event study, the event, event date, event window, and estimation window must be clearly defined (Pandey & Kumari, 2021). In this research, the event is the announcement of import tariffs

by President Trump, the event date is April 2, 2025, also known as "Liberation Day," and the event window consists of 3 days, from one day before (D-1) to one day after (D+1) the event. This window is used to calculate the abnormal return and cumulative abnormal return (CAR) to observe changes in abnormal returns on a sectoral scale. However, for the calculation of aggregate abnormal return (AAR) and cumulative aggregate abnormal return (CAAR), an event window of 11 days, from D-5 to D+5, is used to assess changes in abnormal returns in the Indonesian stock market as a whole. Following the study by Sayed and Eledum (2023), an estimation window of 120 days is used, as this period is considered sufficient to establish a benchmark for normal returns. Besides this reason, the event window of D-5 to D+5 is selected to capture short-term market reactions surrounding extended trading halts associated with the long Eid al-Fitr holiday, during which information accumulates and is incorporated into prices over several subsequent trading days. Given the Indonesian market's emerging-market characteristics and post-holiday volatility dynamics, this window allows for delayed price adjustment while minimizing confounding effects. The 120-day estimation window provides stable expected-return estimation while avoiding contamination from event-related price movements. Moreover, only trading days of the stock exchange are considered in the analysis.

The analytical method used is the t-test. Classical assumption tests for the t-test include the normality test and homogeneity of variance test, conducted using the Skewness-Kurtosis test and Variance Ratio test. Testing for normality is necessary because if the errors are not normally distributed, it may affect the validity of hypothesis testing results (Shapiro & Wilk, 1965; Zygmont, 2023). To satisfy the assumption requirements, outliers were removed to ensure the data followed a normal distribution. Outliers can significantly affect model estimations (Khan et al., 2024), and proper removal of outliers can improve model accuracy and prediction quality (Y. Y. Xu et al., 2022; Yang et al., 2021). The homogeneity test is used to determine whether the variance of errors is consistent across variables in the model (Goldfeld & Quandt, 1965; Katsileros et al., 2024). This test is crucial because the t-test assumes equal variances, and variance inconsistency may lead to invalid results (Yu et al., 2018). Welch's t-test is used to address issues of unequal variances between groups (Ergin & Koskan, 2023). This method provides better control over Type I error probabilities when variances are unequal, thus maintaining the validity of the results (Derrick & White, 2016). The announcement of import tariffs has impacted stock exchanges worldwide. However, this study focuses exclusively on the Indonesian stock exchange. Indonesia, as an emerging economy that relies heavily on foreign investors, is particularly vulnerable to geopolitical events such as U.S. import tariffs, which create uncertainty in the market and affect both local and foreign investor sentiment. In addition, several IDX sectors, such as mining, manufacturing, and agriculture, are more exposed to global trade and supply chain linkages, making them more sensitive to tariff-related news. Therefore, all sectors listed on the IDX are considered valuable subjects for this study.

Variable Measurement
The normal or expected return is calculated using the OLS Market Model, as it provides more accurate results compared to other models (Dyckman et al., 1984), with the following formula:

$$E(R_{it}) = a_i + b_i R_{mt}$$

Where $E(R_{it})$ is the expected return for index i at time t, a is the asset-specific intercept, b is the sensitivity of the index to market movements, and R_{mt} is the return of the Jakarta Composite Index (IHSG) at time t.

To calculate abnormal return, the actual return for each index on each day is required, as expressed in the following formula:

$$R_{it} = ln(\frac{P_{it}}{P_{it-1}})$$

Where R_{it} is the actual return for index i at time t, P_{it} is the stock price of index i at time t, and P_{it-1} is the stock price of index i one day before time t.

Abnormal return is obtained by subtracting the expected return from the actual return during the event period, using the following formula (Farooq et al., 2021; Ota & Takahashi, 2025):

$$AR_{it} = R_{it} - E(R_{it})$$

Where AR_{it} is the abnormal return for the index i at time t, R_{it} is the actual return of the index i at time t, and $E(R_{it})$ is the expected return of the index i at time t.

Cumulative Abnormal Return (CAR) is the accumulation of abnormal returns over the event window period and is calculated using the following formula (Antoniuk & Leirvik, 2024; Beckmann & Czudaj, 2022):

$$CAR^i_{t_1, t_2} = \sum_{t=t_1}^{t_2} [R_{it} - E(R_{it})]$$

Where $CAR^i_{t_1,t_2}$ is the cumulative abnormal return of the index i at time t, t_1 is the first of the event window, t_2 is the last of the event window, and $R_{it} - E(R_{it})$ is an abnormal return of the index i at time t.

In addition to abnormal return and CAR, this study also considers Aggregate Abnormal Return (AAR) and Cumulative Aggregate Abnormal Return (CAAR). Abnormal returns for each sector are averaged across all N sectors to obtain the aggregate abnormal return (AAR) over 11 days (D-5 to D+5), as shown in the following formula (Anolick et al., 2021):

$$AAR_t = \frac{1}{N} \sum_{i=1}^{N} AR_{it}$$

Where AAR_t is aggregate abnormal return at time? t, i is index, N is the total number of sectors in the stock exchange, and AR_{it} is an abnormal return of the index i at time t.

Furthermore, Cumulative Aggregate Abnormal Return (CAAR) is calculated by summing the AAR over the predetermined event window (11 days from D-5 to D+5), using the formula (Anolick et al., 2021; Gavalas et al., 2022; Pandey et al., 2024):

$$CAAR_{t_1, t_2} = \sum_{t=t_1}^{t_2} AAR_t$$

Where $CAAR_{t_1,t_2}$ is the cumulative aggregate abnormal return of the index i at time t, t_1 is the first of the event window, t_2 is the last of the event window, and AAR_t Is the aggregate abnormal return at time? t.

RESULTS AND DISCUSSION

Aggregate Abnormal Return and Cumulative Aggregate Abnormal Return Test Results
Errors in the model are considered to be normally distributed when the p-value exceeds .05 in the normality test using the Skewness-Kurtosis method (DEMİR, 2022; Hatem et al., 2022). In the Aggregate Abnormal Return (AAR) model, which is used to represent the overall condition of the capital market in Indonesia, all errors in each variable are normally distributed, as all p-values are above .05, as shown in Table 1. The assumption of homogeneity is satisfied when the p-value exceeds .05, indicating that the observed data is consistent with the null hypothesis and there is no statistically significant evidence of unequal variances (Jiménez-Gamero et al., 2025; Katsileros et al., 2024). As shown in Table 1, the homogeneity assumption is fulfilled with p-values above .05 for all variables, allowing for the use of the t-test that assumes equal variances, except for the variable on D-2, where the variance is not consistent. Therefore, Welch's t-test is used for D-2. Even with unequal variances, the use of this method ensures the validity of the results. Accordingly, the statistical results derived from this model are considered valid and usable due to the fulfillment of both normality and homogeneity assumptions.

Table 1. AAR Classical Assumption Test Results

Day	Normality Test	Homogeneity Test
D-5	.5422	.5024
D-4	.0833	.9255
D-3	.1748	.9057
D-2	.0501	.0226*
D-1	.5455	.1533
D+1	.1738	.2235
D+2	.9023	.1421
D+3	.4095	.8445
D+4	.7686	.1212
D+5	.5609	.3303

Source: Data processed by the author

Table 2 presents the results of the classical assumption tests for the Cumulative Aggregate Abnormal Return (CAAR) model, which captures the overall accumulated impact on Indonesia's capital market. In the normality test, all error terms across the variables are normally distributed, as indicated by p-values greater than .05. The homogeneity assumption is also satisfied, with p-values exceeding .05, suggesting that all variances are consistent, except for the variable D+3. For D+3, the t-test was conducted using Welch's method due to the inconsistency in variance. Therefore, with both assumptions met, the statistical model results are considered valid.

Table 2. CAAR Classical Assumption Test Result

Day	Normality Test	Homogeneity Test
D-5	.5422	.5024
D-4	.2995	.8042
D-3	.4912	.5389
D-2	.0542	.0791
D-1	.7906	.3449
D+1	.3240	.5254
D+2	.8126	.7751
D+3	.2568	.0146*
D+4	.6053	.8925
D+5	.1829	.8153

Source: Data processed by the author

Through the t-statistic, it can be assessed how far the sample mean deviates from the hypothesized population mean, thus indicating the significance of differences between variables (Frey, 2023; M. Xu et al., 2017). A significant difference is observed if the t-statistic results in a p-value less than .05. As shown in Table 3, the Aggregate Abnormal Return (AAR) reveals significantly negative differences on H–4 and D+1, and significantly positive differences on H–3, D+2, and D+5. These findings indicate that the overall capital market reacted to the U.S. tariff news on those specific days, particularly on D+1.

In the case of the Cumulative Aggregate Abnormal Return (CAAR), there were also significantly negative differences on H–4 and D+1, indicating changes in the accumulation of the impact from the U.S. tariff news within the observed time window, especially on D+1.

Table 3. Overall Stock Market AAR and CAAR t-test Results

Day	AAR	t statAAR	CAAR	t stat$CAAR$
D-5	-.00533	-.3814	-.00532	-.3814
D-4	-.01302	-.0018*	-.01834	-.0000*
D-3	-.00078	.0000*	-.01912	-.8133

D-2	.00488	.1178	-.01424	.3653
D-1	.00493	.9895	-.00931	.4242
D+1	-.02492	-.0000*	-.03423	-.0008*
D+2	-.00123	.0000*	-.03546	-.8734
D+3	.00726	.0023*	-.02820	.3721
D+4	.00427	-.1392	-.02392	.5733
D+5	.01143	.0004*	-.01250	.1545

Source: Data processed by the author

Abnormal Return and Cumulative Abnormal Return Test Result by Sector

Table 4 presents the results of classical assumption testing for abnormal return (AR) across various sectors of the Indonesian capital market. All residuals in the model are normally distributed, with p-values greater than .05 in the normality test. Outliers in each sector have been removed. In this model, the homogeneity of variance assumption is mostly not met, as indicated by p-values below .05 across most sectors due to inconsistent variances, except for the transportation, cyclicals, and infrastructure sectors. Therefore, the t-test was conducted using the Welch method to maintain result validity for the healthcare, basic materials, financial, technology, non-cyclical, industrials, energy, and property sectors. With both assumption tests considered, the model is deemed valid, and the results can be used to explain the observed differences.

Table 4. AR Classical Assumption Test Results

Sector	N	Day	Normality Test	Homogeneity Test
Healthcare	27	D-1	.4353	.0167*
		D+1	.7755	
Basic Materials	53	D-1	.0700	.0000*
		D+1	.0660	
Financial	64	D-1	.8728	.0000*
		D+1	.2410	
Transport	30	D-1	.1414	.6965
		D+1	.1984	
Technology	31	D-1	.2875	.0000*
		D+1	.4234	
Non-Cyclical	91	D-1	.9031	.0000*
		D+1	.1358	
Industrials	40	D-1	.4323	.0000*
		D+1	.8029	
Energy	67	D-1	.0531	.0000*
		D+1	.7991	
Cyclicals	101	D-1	.1089	.0550
		D+1	.9418	
Infrastructure	43	D-1	.0753	.1268
		D+1	.9938	
Property	29	D-1	.0722	.0000*
		D+1	.0788	

Source: Data processed by the author

In the cumulative abnormal return (CAR) model, all classical assumption tests have also been satisfied, as shown in Table 5. The normality test results for all sectors show p-values above .05, indicating that the residuals are normally distributed. All outliers have also been removed to enhance the accuracy. Meanwhile, in the homogeneity test, all sectors exhibited inconsistent variances, with p-values below .05. Therefore, the Welch t-test method was employed for all sectors to ensure the validity of the results.

Table 5. CAR Classical Assumption Test Result

Sector	N	Day	Normality Test	Homogeneity Test
Healthcare	27	D-1	.4353	.0167*
		D+1	.7755	
Basic Materials	53	D-1	.0700	.0000*
		D+1	.2268	
Financial	64	D-1	.8728	.0000*
		D+1	.2066	
Transport	30	D-1	.1414	.0355*
		D+1	.0709	
Technology	31	D-1	.2875	.0000*
		D+1	.5974	
Non-Cyclical	91	D-1	.9031	.0000*
		D+1	.1437	
Industrials	40	D-1	.4323	.0000*
		D+1	.2954	
Energy	67	D-1	.0531	.0000*
		D+1	.4756	
Cyclicals	101	D-1	.1089	.0000*
		D+1	.3384	
Infrastructure	43	D-1	.0753	.0462*
		D+1	.4146	
Property	29	D-1	.0722	.0000*
		D+1	.1467	

Source: Data processed by the author

The t-test results in Table 6 indicate that the majority of sectors experienced a significantly negative abnormal return around the event date, specifically one day before and after the announcement of the US tariff news, except for the transportation, infrastructure, and property sectors, which did not show significant differences. The technology sector experienced the largest decline, with an abnormal return of -4.1%, while the smallest decline was observed in the non-cyclical sector at -1.56%. Notably, the property sector recorded an increase in abnormal return during the event period.

Table 6. AR of Each Stock Market Sector on the Event Date

Sector	D-1	D+1	t statAR
Healthcare	.00547	-.01365	-.0205*
Basic Materials	.00029	-.02422	-.0016*
Financial	.00282	-.01667	-.0010*
Transport	-.00231	-.02508	-.0632
Technology	.00525	-.04141	-.0001*
Non-Cyclical	.00079	-.01560	-.0006*
Industrials	.00534	-.02440	-.0001*
Energy	.00189	-.03506	-.0000*
Cyclicals	.00525	-.02639	-.0000*
Infrastructure	-.00789	-.02976	-.0643
Property	.00064	.00719	.3511

Source: Data processed by the author

Table 7 presents the t-test results for cumulative abnormal return (CAR), aiming to capture the total impact of the US tariff announcement. The findings are consistent with those of the abnormal return analysis, showing that all sectors experienced significantly negative cumulative abnormal returns, except for the transportation, infrastructure, and property sectors. The most severe cumulative losses were observed in the infrastructure and Indonesian sectors, at -3.8% and -3.3%, respectively.

Meanwhile, the sector with the lowest cumulative loss was the property sector, which recorded a positive cumulative return of 0.7% over the two-day event window.

Table 7. CAR of Each Stock Market Sector on the Event Date

Sector	D-1	D+1	t statAR
Healthcare	.00547	-.00817	-.0000*
Basic Materials	.00029	-.02393	-.0034*
Financial	.00282	-.01385	-.0067*
Transport	-.00231	-.02738	-.0532
Technology	.00525	-.02973	-.0006*
Non-Cyclical	.00079	-.01480	-.0027*
Industrials	.00534	-.01905	-.0028*
Energy	.00189	-.03317	-.0000*
Cyclicals	.00525	-.02113	-.0012*
Infrastructure	-.00789	-.03765	-.0587
Property	.00064	.00783	.2890

Source: Data processed by the author

Aggregate of Abnormal Return and Cumulative Aggregate of Abnormal Return

In Indonesia, the market experienced significant changes in both the Aggregate of Abnormal Return (AAR) and the Cumulative Aggregate of Abnormal Return (CAAR), showing fluctuations in response to the tariff announcement by Donald Trump, as shown in Table 3. The steepest AAR decline occurred on the day after the announcement, at -2.4%, reflecting an immediate reaction from investors inclined to engage in sell-offs due to concerns over global economic uncertainty. When converted to rupiah, the loss amounted to a substantial Rp 10,282.89 trillion based on the IDX market capitalization. Results also indicate that CAAR declined significantly on the day following the announcement, while changes prior to that were mostly insignificant except on the fourth day before the event. This shift indicates that the accumulation of losses was triggered by the tariff policy announcement, sparking a negative reaction from market participants. The significant drop in both AAR and CAAR on the day after the announcement confirms that the market responded immediately to Trump's tariff news. According to the Efficient Market Hypothesis (EMH), markets react strongly to new public information, such as Trump's tariff announcement, prompting investors to quickly adjust their positions by selling shares to avoid potential losses. This panic selling further amplified downward price movements, resulting in short-term negative abnormal returns (Kuramoto et al., 2024). These abnormal returns were concentrated within five trading days, as seen in the CAAR, which began to rise again from the third day after the announcement, indicating a rapid market correction, with AAR already turning positive. This suggests that subsequent stock price movements became unpredictable, following a random walk pattern. Thus, stock prices are assumed to have fully reflected all publicly available information, in line with the semi-strong form of market efficiency. Consistent with the findings of Gjerstad et al. (2021), although Trump's tariff announcement led to short-term negative abnormal returns, the effect was temporary and did not persist. The initial political shock disrupted market efficiency only briefly, after which the market tended to revert quickly to its efficient state, correcting for any initial overreaction.

Ying et al. (2019) indicated that contrarian strategies may be used to exploit short-term price reversals. However, these opportunities are temporary and do not reflect long-term market inefficiencies. Consistently earning abnormal returns is difficult, and the potential for excess profit tends to be short-lived. This phenomenon was also evident in the Indonesian market during Trump's tariff announcement period. As illustrated in Figure 2, foreign investors engaged in short selling, then repurchased shares at lower prices to realize profits, aligning with the AAR trend shown in Table 3. On the day after the announcement and the following day, foreign investors tended to conduct large-scale sell-offs (panic selling) due to rising economic uncertainty, contributing to negative abnormal returns. From the third day onward, foreign investors resumed purchasing

activity, driving up abnormal returns and indicating that the market began moving back toward efficiency. By the fifth day, foreign investors again engaged in selling, likely driven by profit-taking after buying at lower prices in the preceding days.
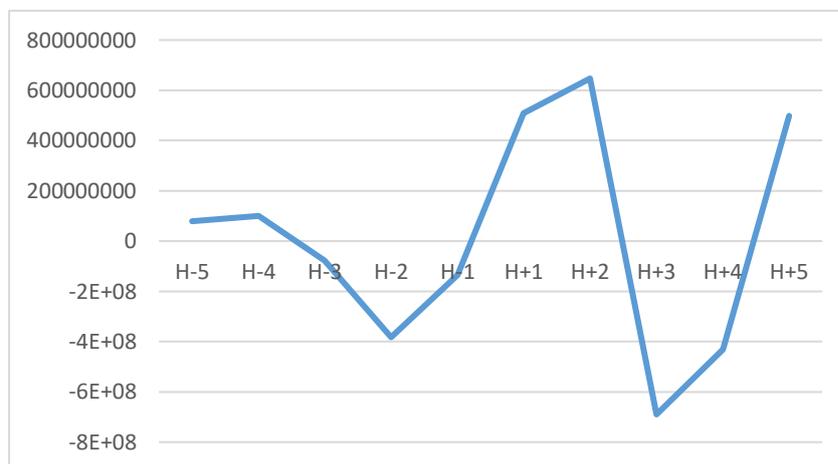

Figure 2. Foreign Balance (Foreign Sell – Foreign Buy)
Source: Indonesia Stock Exchange (2025)

Abnormal Return and Cumulative Abnormal Return by Sector
The impact of Trump's tariff announcement was not only evident in aggregate measures but also manifested at the sectoral level in the Indonesian stock market. As shown in Table 6, nearly all sectors experienced a significantly negative abnormal return (AR), indicating widespread pressure due to rising global uncertainty. Based on the cumulative abnormal return (CAR), most sectors in the Indonesian stock market recorded positive cumulative returns before the announcement, reflecting a stable and favorable market environment for investors. However, following the tariff announcement, significant changes occurred, with the majority of sectors posting negative CAR values, indicating a sharp decline in stock prices in response to increased global economic uncertainty. Nonetheless, three sectors, transportation, infrastructure, and property, demonstrated relative resilience to the negative sentiment.

Each sector possesses distinct characteristics in terms of market efficiency, with differing short- and long-term effects (Villena & Araneda, 2024). The three resilient sectors were likely unaffected directly by the tariff policy due to the domestic nature of their business operations and limited involvement in international trade. Most of their activities are focused on the local market, thereby reducing their exposure to external risks such as U.S. import tariffs. Notably, the property sector even recorded positive AR and CAR after the announcement. Conversely, sectors such as healthcare, basic materials, financials, technology, non-cyclicals, industrials, and cyclicals experienced significantly negative abnormal returns due to their high dependence on international trade activities, both in terms of exports and imports. In line with the Efficient Market Hypothesis (EMH), sectors closely linked to the released information tend to experience greater inefficiencies. This was particularly evident in the technology sector, which suffered the largest abnormal return of -4.1% after the announcement. However, markets often overreact to negative news, as also suggested by EMH. The decline may reflect panic selling and assumptions that the technology sector would be more severely impacted than reality would justify.

Theory Verification
The semi-strong form of the Efficient Market Hypothesis posits that all publicly available information is rapidly incorporated into stock prices. This study finds that Trump's tariff announcement led to short-term negative abnormal returns, both in aggregate and across individual sectors in Indonesia. The new information was immediately absorbed by investors, with panic

selling contributing to temporary market inefficiencies. Nevertheless, the effect did not persist beyond five trading days. Thus, this study provides empirical support for the EMH, verifying that while the market may temporarily deviate from efficiency in response to major news events, it ultimately corrects itself in the short term.

CONCLUSION

The empirical findings of this study indicate that the Indonesian capital market experienced a significant negative response to the announcement of U.S. tariffs by the Trump administration. This is evidenced by a substantial decline in the aggregate abnormal return (AAR), which dropped by 2.4% on the first day following the announcement. While this percentage may appear modest, when translated into monetary terms based on the IDX market capitalization, it reflects a loss of approximately IDR 10,282.89 trillion. A similar trend is observed in the cumulative aggregate abnormal return (CAAR), which illustrates the overall market loss over the event window. However, both AAR and CAAR declines were short-lived, lasting only two days post-announcement, after which the market began to recover from day three to day five. Further examination of sector-specific abnormal returns (AR) reveals that sectors with strong links to international trade experienced significantly negative AR following the tariff announcement. These sectors were directly affected by potential trade barriers and heightened global economic uncertainty. In contrast, prior to the announcement, these same sectors had recorded positive cumulative abnormal returns (CAR), reflecting stable market expectations. After the announcement, however, a significant reversal occurred across all sectors, resulting in negative cumulative returns overall. These findings demonstrate that the Indonesian capital market responds significantly to systemic policy-related information such as the U.S. tariff announcement. The negative investor reaction generated widespread abnormal losses, supporting the assumption that public, systemic information can swiftly influence market value. This aligns with the semi-strong form of the Efficient Market Hypothesis (EMH), in which stock prices promptly adjust to publicly available information. Nonetheless, the effect proved temporary, with market efficiency restored just two days after the announcement.

This study offers several practical contributions. Investors must remain responsive to global information, as its impact on domestic markets can be both immediate and significant. Investors are further encouraged to incorporate major global policy announcements into short-horizon portfolio adjustments within the first few trading days following such events, particularly in sectors identified as highly sensitive to external shocks. Market authorities should enhance capital market monitoring systems to prevent disruptions such as trading halts and ensure investor protection in the face of external shocks. They should also strengthen real-time volatility surveillance and adopt sector-specific precautionary measures during periods of heightened global uncertainty to mitigate price fluctuations. Firms and sectors engaged in international trade must also strengthen their risk management strategies, such as foreign exchange hedging and export market diversification, to reduce exposure to foreign policy risks. Additionally, firms with international exposure should formalize foreign exchange risk management policies, including predetermined hedging thresholds and periodic assessments of export market concentration. In terms of academic contribution, this study provides empirical support for the EMH, particularly its semi-strong form, by demonstrating that the Indonesian market reacts rapidly, though not perfectly efficiently in the ultra-short term, to public information. Furthermore, it expands the understanding of cross-sectoral market responses, showing that sensitivity to global information varies across sectors. From a societal perspective, these findings underscore how uncertainty and foreign policy shocks can impact the broader economy, including financial markets. Hence, it emphasizes the importance of economic and financial literacy among the public to help citizens understand the potential domestic implications of global developments. Financial literacy initiatives should also explicitly address global risk transmission mechanisms to better equip market participants and the public in interpreting and responding to international policy developments.

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