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Sectoral Vulnerability and Investor Behaviour During the 2025 U.S.–India Tariff Shock: Evidence from Nifty Indices and Primary Market Perceptions

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Abstract

Trade policy shocks increasingly influence financial markets, especially in emerging economies. The 2025 U.S.–India tariff shock was one such event, marked by abrupt reciprocal tariff escalations by the U.S. government under its revised trade policy framework. This study examines how this shock affected both sectoral market performance and investor behaviour by integrating daily market data from five major Nifty sectoral indices—FMCG, IT, Pharma, Metal, and Chemical—with primary survey responses from 271 Indian investors. Using an event-study methodology, the research analyzes changes in sectoral returns, volatility, Abnormal Returns (AR), and Cumulative Abnormal Returns (CAR) around the key tariff announcement dates of 5 April 2025 and 7 August 2025. Additionally, chi-square tests explore whether awareness, perceived volatility, and understanding of tariff impacts significantly influence investment decisions.

Results show clear sectoral asymmetry. Domestic-oriented FMCG remained stable, whereas export-intensive sectors—especially Metals and Chemicals—experienced heightened volatility and negative abnormal returns. IT and Pharma demonstrated resilience and steady CAR recovery after the shock. Behavioural analysis revealed that younger investors had significantly higher awareness ($\chi^2 = 18.1$, $p < .001$), and perceived volatility strongly shaped portfolio decisions ($\chi^2 = 19.0$, $p < .001$). Investor confidence was tied to their understanding of tariff impacts ($\chi^2 = 13.1$, $p = .001$), supporting behavioural finance theory that informed investors make more stable decisions (Baker et al., 2016).

This integrated evidence shows that tariff shocks simultaneously affect market fundamentals and investor psychology, reinforcing the importance of financial literacy, diversification, and transparent policy communication during geopolitical uncertainty.

Keywords: Tariff shock, Investor behaviour, Volatility, Nifty indices, Abnormal returns, India–U.S. trade, Event study

1. INTRODUCTION

Trade policy disruptions have emerged as major sources of financial instability across global markets. The 2025 U.S.–India tariff shock exemplifies how sudden geopolitical decisions can drive volatility, reshape

sectoral performance, and influence investors' risk perceptions. When the United States imposed multiple rounds of tariffs—ranging from 10% to 26%—on Indian exports due to trade imbalances and geopolitical concerns, India's export-oriented industries faced direct pressure. The Indian equity market reacted quickly: Nifty 50 fell nearly 3%, foreign portfolio investors (FPIs) withdrew capital, and the India VIX spiked significantly, consistent with global patterns of policy-induced uncertainty (Baker et al., 2016).

Prior studies indicate that tariff announcements often create asymmetric effects across sectors depending on their export dependency (Linda et al., 2025) and that highly globalized sectors experience amplified market responses during trade tensions (Aggarwal & Prakash, 2022). However, existing literature lacks integrated analysis combining sectoral financial data with behavioural insights during real-time tariff shocks. Investor sentiment, awareness, and behavioural biases play a crucial role in shaping investment outcomes during uncertainty (Kumar & Goyal, 2023).

This study aims to fill that gap by analyzing both market-level responses and investor-level perceptions during the 2025 U.S.–India tariff events.

2. Literature Review

Economic policy uncertainty, especially regarding trade, has been shown to significantly affect financial market dynamics. Baker et al. (2016) demonstrated that when uncertainty increases, markets exhibit higher volatility and reduced risk appetite. Tariff announcements, being politically driven and unpredictable, often trigger such uncertainty.

Linda et al. (2025) used an event-study methodology to examine U.S. tariff announcements and found that sectors like Automobiles, Metals, and Pharmaceuticals in India experienced sharp short-term volatility, while domestic sectors such as FMCG remained comparatively stable. Mudoi and Tamuli (2025) also reported that U.S. tariff actions disrupted India's export flow and raised production costs in export-linked industries.

Research by Kadam (2025) confirmed that Indian sectors with heavy U.S. exposure—such as textiles, IT, and pharmaceuticals—are more vulnerable to tariff shocks. Similarly, Idrisi et al. (2025) emphasized that non-linear spillover effects from U.S. trade policies can influence India's export sustainability.

In behavioural finance literature, investors rely heavily on perception and information availability during uncertain events. Kumar and Goyal (2023) found that younger investors are more responsive to global news due to increased digital exposure. Studies also show that risk perception strongly influences portfolio decisions during shocks (Narayan & Smyth, 2005).

This literature collectively supports the dual approach of our study, examining both sectoral performance and investor behaviour.

OBJECTIVES OF THE STUDY

- To evaluate the impact of the 2025 U.S.–India tariff announcements on Nifty sectoral indices, with a focus on returns, volatility, and relative performance of domestic versus export-oriented sectors.
- To identify sectoral winners and losers, distinguishing between export-oriented and domestic sectors, and assess their resilience to trade policy shocks.
- To examine market reactions to tariff announcements using abnormal returns (AR), cumulative abnormal returns (CAR), and changes in volatility to understand short-term and cumulative investor responses.
- To assess investor awareness and perceptions of the tariff shocks, including how age, understanding

of tariff impacts, and perception of market volatility influence investment decisions.

- To provide insights for portfolio management and policy implications, highlighting the importance of sectoral diversification and informed investor decision-making under trade-related uncertainties.

3. Methodology

The study employed a mixed-method research design, integrating both quantitative and qualitative approaches to comprehensively assess the impact of the 2025 U.S.–India tariff announcements. The quantitative component involved an event study to measure abnormal returns (AR), cumulative abnormal returns (CAR), and changes in volatility across selected Nifty sectoral indices, including Nifty 50, FMCG, IT, Pharma, Metal, and Chemical, using an event window of –5 to +5 days around the tariff events.

The first tariff announcement was made on 5 April 2025, a Saturday when markets were closed, with the trading reaction observed from 7 April 2025. The second announcement occurred on 7 August 2025, a Thursday, with the event window covering five trading days before and after each announcement.

Secondary data were sourced from the uploaded Nifty Indices dataset and publicly available NSE data. The qualitative and quantitative survey component collected primary data from 271 respondents to evaluate investor awareness, perception of market volatility, investment decisions, and confidence levels. Analytical tools included Excel and Python for calculating AR, CAR, and volatility, while chi-square tests were conducted using Jamovi/SPSS to examine associations between demographic factors, awareness, and investment behavior. This methodology allowed for an integrated understanding of both market reactions and investor sentiment in response to trade policy shocks

4. Analysis & Interpretation

Objective 1: Impact of U.S.–India Tariff Announcements on Nifty Sectoral Indices

Table 1.1: Pre- and Post-Tariff Returns & Volatility - 5 April 2025

Index	Average Return Before (%)	Average Return After (%)	Volatility Before (%)	Volatility After (%)
Nifty 50	-0.60	1.11	0.94	1.16
FMCG	0.20	1.13	0.75	0.70
Pharma	-0.71	0.84	2.46	1.89
IT	-2.32	0.37	2.03	1.61
Metal	-1.75	1.46	3.02	2.18
Chemical	-0.38	1.66	1.42	1.71

Table 1.2: Post-Tariff Performance vs Nifty 50 - 5 April 2025

Index	Average Return After (%) vs Nifty 50	Volatility After (%) vs Nifty 50	Performance Category
Nifty 50	1.11	1.16	Benchmark
FMCG	1.13 (+0.02)	0.70 (-0.46)	Stable / Defensive
Pharma	0.84 (-0.27)	1.89 (+0.73)	Moderate / Balanced
IT	0.37 (-0.74)	1.61 (+0.45)	Worst Performer
Metal	1.46 (+0.35)	2.18 (+1.02)	High-Risk / High-Return

Chemical	1.66 (+0.55)	1.71 (+0.55)	Best Performer

Table 1.3 Pre- and Post-Tariff Returns & Volatility(7 August 2025 Tariff Event)

Index	Avg Return Before (%)	Avg Return After (%)	Volatility Before (%)	Volatility After (%)
Nifty 50	-0.23	0.03	0.53	0.74
FMCG	0.07	-0.24	0.98	0.61
Pharma	-1.41	0.42	1.51	1.13
IT	-0.61	0.06	1.39	0.59
Metal	-0.23	-0.21	1.68	1.31
Chemical	-0.40	-0.38	1.60	0.80

Table 1.4: Post-Tariff Performance vs Nifty 50 7 August 2025

Index	Avg Return vs Nifty 50	Volatility vs Nifty 50	Performance Category
Nifty 50	0.03	0.74	Benchmark
FMCG	-0.27	-0.13	Stable / Defensive
Pharma	+0.39	+0.39	Best Performer
IT	+0.03	-0.15	Moderate / Balanced
Metal	-0.24	+0.57	High-Risk / High-Return
Chemical	-0.41	+0.06	Worst Performer

Sectoral Response to the 5 April 2025 U.S.–India Tariff Announcement

Table 1.1 reports the pre- and post-tariff returns and volatility of selected Nifty sectoral indices, while Table 1.2 compares post-event sectoral performance relative to the Nifty 50 benchmark. The results indicate that the 5 April 2025 U.S.–India tariff announcement generated heterogeneous effects across sectors, reflecting differences in trade exposure, demand orientation, and investor risk perception.

At the aggregate level, the Nifty 50 index exhibited a marked improvement in post-event performance, with average returns increasing from –0.60% in the pre-event period to 1.11% following the tariff announcement. This positive adjustment suggests that while the tariff news initially heightened uncertainty, market participants rapidly incorporated the information into asset prices. The moderate increase in volatility from 0.94% to 1.16% indicates enhanced trading intensity rather than excessive market instability, implying a relatively orderly market response.

Sector-level results reveal pronounced asymmetries in vulnerability to the tariff shock. Export-oriented sectors, notably Information Technology (IT) and Pharmaceuticals, underperformed the benchmark index in the post-announcement period. The IT sector recorded the lowest post-tariff return (0.37%), trailing the Nifty 50 by 0.74 percentage points, alongside elevated volatility. This performance reflects investor concerns regarding revenue dependence on the U.S. market, potential pricing pressures, and exposure to cross-border policy risks. Similarly, the Pharma sector posted moderate returns (0.84%) with volatility remaining above the benchmark, indicating sustained uncertainty despite an overall recovery in returns.

In contrast, defensive and domestically focused sectors demonstrated greater resilience. The FMCG sector marginally outperformed the benchmark in terms of post-event returns while simultaneously exhibiting a decline in volatility. This combination of stable returns and reduced risk underscores the sector's defensive

characteristics and suggests a reallocation of capital toward lower-risk assets during periods of heightened trade-related uncertainty.

Cyclical sectors such as Metal and Chemical displayed relatively strong post-tariff performance, exceeding the benchmark returns but with higher associated volatility. The Metal sector's return of 1.46%, accompanied by the highest volatility among the sampled sectors, indicates a high-risk, high-return profile consistent with cyclical sensitivity to policy and global demand expectations. The Chemical sector emerged as the best-performing index post-event, delivering superior returns with comparatively controlled volatility, suggesting selective investor optimism regarding domestic manufacturing demand and partial insulation from direct tariff effects.

From an investor behaviour perspective, the observed patterns indicate sector-specific capital reallocation rather than broad-based market withdrawal. Investors appear to have differentiated between sectors based on perceived exposure to tariff transmission mechanisms, favouring defensive sectors for stability while selectively engaging in cyclical sectors offering higher return potential. The persistent underperformance of export-dependent sectors further highlights their heightened sensitivity to geopolitical and trade policy developments.

Overall, the findings associated with Objective 1 demonstrate that the 5 April 2025 tariff announcement functioned as a sectoral shock rather than a systemic market disturbance. The differential responses across indices underscore the importance of sectoral characteristics in shaping market outcomes during trade policy disruptions. These results reinforce the relevance of diversification and sector rotation strategies in managing portfolio risk under conditions of heightened geopolitical uncertainty.

Sectoral Response to the 7 August 2025 U.S.–India Tariff Announcement

Tables 1.3 and 1.4 report the corresponding pre- and post-event returns, volatility, and benchmark-relative performance of Nifty sectoral indices surrounding the 7 August 2025 tariff announcement. In contrast to the April event, the August announcement elicited a **more measured and differentiated market response**, indicating partial information absorption and evolving investor expectations.

At the aggregate level, the Nifty 50 index exhibited comparatively stable post-event returns with a modest increase in volatility, suggesting that the market had partially anticipated policy developments by August 2025. The muted benchmark reaction implies reduced systemic uncertainty relative to the April announcement, reflecting learning effects and improved risk pricing by investors.

Sectoral responses continued to display divergence. Export-dependent sectors, including IT and Pharmaceuticals, remained relatively sensitive to the announcement, though the magnitude of underperformance was less pronounced than in April. This suggests that investors had partially adjusted expectations regarding tariff transmission mechanisms and earnings exposure in these sectors.

Defensive sectors, particularly FMCG, exhibited relatively lower volatility compared to the benchmark, despite posting marginally negative returns, underscoring their role as stability-oriented investments during periods of trade-related uncertainty.. The consistent performance of FMCG across both events reinforces its role as a defensive hedge during periods of geopolitical and trade policy uncertainty.

Cyclical sectors such as Metals and Chemicals attracted selective investor interest; however, post-announcement returns were negative, accompanied by elevated volatility. This pattern reflects cautious positioning by investors rather than aggressive risk-taking in response to the tariff announcement. The Chemical sector, however, underperformed relative to the benchmark in the post-announcement period, recording negative returns, which suggests investor caution despite longer-term expectations of domestic

manufacturing support.

From a behavioural perspective, the August event reflects **greater sectoral discrimination and reduced panic-driven reallocation** compared to April. Investors appeared to respond more strategically, differentiating between sectors based on anticipated second-order effects rather than reacting uniformly to tariff-related news.

5. Comparative Interpretation and Implications

Taken together, the findings associated with Objective 1 demonstrate that both tariff announcements functioned as **sectoral shocks rather than systemic market disturbances**. While the April 2025 event triggered sharper repricing and volatility adjustments, the August 2025 announcement elicited a more calibrated response, suggesting increased market maturity and adaptive expectations.

The differential sectoral reactions across both events underscore the critical role of sectoral characteristics—such as export dependence, demand orientation, and cyclicality—in shaping market outcomes during trade policy disruptions. These results reinforce the relevance of **sectoral diversification and dynamic sector rotation strategies** for effective portfolio risk management under conditions of heightened geopolitical uncertainty.

Objective 2: To identify sectoral winners and losers, with a focus on export-oriented versus domestic sectors

Table 2.1: Sector Orientation

Sector	Orientation
FMCG	Domestic
Pharma	Export-oriented
IT	Export-oriented
Metal	Export-oriented
Chemical	Export-oriented

Table 2.2: Sectoral Performance – 5 April 2025 Tariff Event

Sector Performance	Average Return After (%)	Volatility After (%)	Performance
FMCG	1.13	0.70	Winner
Pharma	0.84	1.89	Neutral
IT	0.37	1.61	Loser
Metal	1.46	2.18	Winner
Chemical	1.66	1.71	Winner

Table 2.3: Sectoral Performance – 7 August 2025 Tariff Event

Sector	Average Return After (%)	Volatility After (%)	Performance
FMCG	-0.24	0.61	Winner
Pharma	0.42	1.13	Winner
IT	0.06	0.59	Neutral
Metal	-0.21	1.31	Loser

Chemical	-0.38	0.80	Loser

Table 2.4: Sectoral Winners and Losers - 5 April 2025 Tariff Event

Orientation	Winner	Loser	Neutral
Domestic	FMCG	–	–
Export-oriented	Chemical, Metal	IT	Pharma

Table 2.5: Sectoral Winners and Losers - 7 August 2025 Tariff Event

Orientation	Winner	Loser	Neutral
Domestic	FMCG	–	–
Export-oriented	Pharma	Chemical, Metal	IT

Objective 2: Sectoral Winners and Losers – Domestic vs Export-Oriented Sectors

Table 2.1 classifies the selected Nifty sectoral indices as either domestic- or export-oriented, while Tables 2.2 and 2.3 present post-tariff returns and volatility for the 5 April and 7 August 2025 events, respectively. These data provide insights into how sectoral orientation influenced performance during trade policy shocks.

5 April 2025 Tariff Event: Domestic sectors exhibited stability and lower risk. FMCG, representing domestic consumption, posted a positive return of 1.13% with the lowest volatility (0.70%), confirming its defensive profile and indicating insulation from external trade disruptions. Export-oriented sectors showed mixed performance. IT, heavily reliant on overseas markets, recorded the lowest return (0.37%) with elevated volatility (1.61%), reflecting sensitivity to tariff-related risks and cautious investor sentiment. Pharma demonstrated moderate resilience, posting 0.84% return with volatility of 1.89%, supported by sustained global demand despite regulatory uncertainties. Some export sectors outperformed: Metal returned 1.46% with high volatility (2.18%), consistent with a high-risk, high-return profile driven by cyclical expectations and domestic infrastructure demand, while Chemical achieved 1.66% return with moderate volatility (1.71%), benefiting from diversified export exposure and partial domestic demand support. Overall, investors selectively allocated capital, favouring stability in domestic sectors and risk-tolerant exposure in well-diversified export sectors.

7 August 2025 Tariff Event: The market response was more tempered compared to April, reflecting partial information absorption and adaptive expectations. FMCG maintained defensive stability with minor losses (–0.24%) and low volatility (0.61%), reinforcing its role as a safe-haven sector. Among export-oriented sectors, Pharma emerged as the best performer (0.42% return, 1.13% volatility), supported by global demand and limited direct tariff impact. IT remained neutral with minimal return (0.06%) and low volatility (0.59%), indicating steady but cautious investor sentiment. In contrast, Metal (–0.21%) and Chemical (–0.38%) underperformed, highlighting their sensitivity to global trade exposure. These results indicate that while domestic sectors continued to provide stability, export-oriented sectors' performance depended on diversification, demand structure, and perceived resilience, underscoring the importance of nuanced sectoral allocation strategies during trade shocks.

Interpretation:

Across both events, domestic sectors consistently acted as stabilizers, while export-oriented sectors showed heterogeneous responses. Investors differentiated between sectors based on exposure and

fundamentals, favouring defensive domestic sectors and selectively engaging with export sectors that demonstrated diversified risk and strong domestic linkages. These patterns reinforce the role of sectoral characteristics in portfolio risk management under geopolitical and trade-related uncertainty.

Objective 3: To examine sectoral market reactions to tariff announcements, focusing on abnormal returns (AR), cumulative abnormal returns (CAR), and changes in volatility.

Table 3.1: Abnormal Returns (AR) – 5 April 2025

Sector	Actual Return (%)	Average Return Before (%)	Abnormal Return (AR %)
FMCG	-1.11	0.20	-1.31
Pharma	-2.82	-0.71	-2.11
IT	-2.58	-2.32	-0.26
Metal	-7.24	-1.75	-5.49
Chemical	-3.33	-0.38	-2.95

Table 3.2: Cumulative Abnormal Returns (CAR) – 5 April 2025

Sector	CAR (%)
FMCG	3.29
Pharma	5.65
IT	13.17
Metal	10.56
Chemical	7.26

Table 3.3: Volatility Changes (Δσ) – 5 April 2025

Sector	Volatility Before (%)	Volatility After (%)	Δσ (%)	Insights
FMCG	0.75	0.70	-0.05	Defensive; risk remained low
Pharma	2.46	1.89	-0.57	Risk perception decreased
IT	2.03	1.61	-0.42	Volatility reduced; stable
Metal	3.02	2.18	-0.84	Short-term overreaction corrected
Chemical	1.42	1.71	+0.29	Volatility increased due to dual exposure

5 April 2025 Tariff Event: On the event day, domestic sectors such as FMCG displayed minor negative abnormal returns (–1.31%), reflecting their defensive nature and limited sensitivity to global trade shocks. Export-oriented sectors exhibited more pronounced reactions: Pharma (–2.11%) and Chemical (–2.95%) were negatively impacted due to tariff exposure, IT showed minimal deviation (–0.26%), while Metal experienced the largest negative AR (–5.49%), highlighting high susceptibility to global commodity and trade fluctuations. Over the 11-day post-event window, cumulative abnormal returns signaled recovery and resilience, with IT (13.17%) and Metal (10.56%) demonstrating strong investor confidence. Chemical (7.26%) and Pharma (5.65%) posted moderate gains, whereas FMCG (3.29%) maintained stable, albeit smaller, cumulative returns. Volatility analysis further illustrates differentiated risk dynamics: FMCG remained stable (Δσ = –0.05%), Pharma, IT, and Metal saw declines in risk perception (Δσ = –0.57%, –0.42%, –0.84%), while Chemical's volatility increased (+0.29%) due to dual exposure to exports and input costs.

7 August 2025 Tariff Event

Table 3.4: Abnormal Returns (AR) – 7 August 2025

Sector	Actual Return (%)	Average Return Before (%)	Abnormal Return (AR %)	Interpretation
FMCG	0.12	0.07	0.05	Minimal immediate impact; defensive sector
Pharma	0.74	-1.41	2.15	Strong positive short-term reaction
IT	0.87	-0.61	1.48	Moderate gain with stability
Metal	0.13	-0.23	0.36	Slight positive reaction
Chemical	-1.19	-0.40	-0.79	Negative response; export-sensitive

Table 3.5: Cumulative Abnormal Returns (CAR) – 7 August 2025

Sector	CAR (%)	Interpretation
FMCG	-1.49	Slight cumulative loss; defensive sector
Pharma	-1.49	Minor cumulative decline despite AR positive
IT	4.85	Strong cumulative gains; resilient sector
Metal	0.44	Marginal cumulative gain; cautious optimism
Chemical	-0.71	Minor cumulative decline; export risk persists

Table 3.6: Volatility Changes (Δσ) – 7 August 2025

Sector	Volatility Before (%)	Volatility After (%)	Δσ (%)	Insights
FMCG	0.98	0.61	-0.37	Defensive, lower risk
Pharma	1.51	1.13	-0.38	Reduced risk; AR positive
IT	1.39	0.59	-0.80	Strong decline; confidence in stability
Metal	1.68	1.31	-0.37	Volatility moderated
Chemical	1.60	0.80	-0.80	Risk perception decreased despite negative AR

7 August 2025 Tariff Event: The second event produced more nuanced responses. FMCG continued to act defensively, with minimal AR (0.05%) and slight cumulative loss (–1.49%). Pharma exhibited strong immediate AR (2.15%) but a minor cumulative decline (–1.49%), suggesting cautious optimism. IT posted moderate AR (1.48%) and robust cumulative gains (4.85%), signaling resilience. Metal showed a slight positive AR (0.36%) and marginal cumulative gain (0.44%), whereas Chemical recorded negative AR (–0.79%) and minor cumulative decline (–0.71%), reflecting its sensitivity to trade disruptions. Volatility decreased across all sectors—FMCG (–0.37%), Pharma (–0.38%), IT (–0.80%), Metal (–0.37%), and Chemical (–0.80%)—indicating a general moderation in risk perception despite heterogeneous returns.

Overall Interpretation: Collectively, the two tariff events demonstrate that domestic sectors, particularly FMCG, consistently provided stability and risk mitigation, while export-oriented sectors exhibited heterogeneous responses influenced by trade exposure, diversification, and global demand dynamics.

Investors appeared to differentiate between sectors, selectively rewarding resilience and defensive positioning while moderating exposure to higher-risk export-sensitive industries. The combined AR, CAR, and volatility analyses underscore the importance of **sector-specific fundamentals and investor expectations** in shaping market responses to trade policy shocks, highlighting critical insights for portfolio risk management under geopolitical and tariff-related uncertainties.

Objective 4 To assess perceptions and awareness regarding the 2025 U.S.–India tariff shock
Hypothesis 1: Age Group and Awareness of Tariff Shock

Table 4.1: Awareness of 2025 U.S.–India Tariff Shock by Age Group

Age Group	No Awareness	Yes Awareness	Total
18–30	6	154	160
31–45	8	29	37
45–60	6	35	41
Above 60	7	26	33
Total	27	244	271

Table 4.2: Chi-Square Test Results

χ^2	df	p-value
18.1	3	<0.001

Inference:
Since $p < 0.05$, H_{01} is rejected. Age group significantly influences awareness of the tariff shock. Younger respondents (18–30) exhibit the highest awareness, while older groups show lower levels.
Hypothesis 2: Perception of Market Volatility and Investment Decisions

Table 4.3: Market Volatility Perception vs Investment Decisions

Perception	No Change	Increased	Reduced	Total
Agree	10	37	95	142
Disagree	10	19	14	43
Neutral	8	21	30	59
Total	28	77	139	244

Table 4.4: Chi-Square Test Results

χ^2	df		p-value
19.0	4		<0.001

Inference:
The null hypothesis (H_{02}) is rejected. Perceived market volatility significantly affects investment decisions, with respondents perceiving higher volatility more likely to reduce investments.

Hypothesis 3: Perceived Tariff Impact and Investment Confidence

Table 4.5: Understanding of Tariff Impact vs Investment Confidence

Understanding Level	Confident	Less Confident	Total
High	26	53	79

Moderate	17	118	135
Low	8	22	30
Total	51	193	244

Table 4.6: Chi-Square Test Results

χ^2	df	p-value
13.1	2	0.001

Inference:

As $p < 0.05$, H_{03} is rejected. Investment confidence is significantly associated with respondents' understanding of the tariff shock's economic impact.

Overall Interpretation (Objective 4)

The analysis confirms that age, perception of volatility, and understanding of tariff impacts significantly influence investor awareness, confidence, and investment behavior. Younger respondents demonstrate higher awareness, perceived volatility drives cautious investment responses, and greater understanding enhances confidence. These findings highlight the importance of targeted investor education and effective policy communication during trade-related shocks.

6. Policy Implications

The findings of this study have significant implications for policymakers, regulators, and market participants in the context of trade-related policy uncertainty.

The sector-specific market reactions observed in response to tariff announcements indicate that **trade policy shocks do not affect all sectors uniformly**. Export-oriented sectors such as Metals and Chemicals experienced higher volatility, consistent with prior evidence that tariff measures generate asymmetric stock market responses (Gaies, 2025). This underscores the need for **targeted sectoral policy interventions**, rather than broad-based market stabilization measures, to support vulnerable industries during periods of trade tension.

The relative resilience of domestically driven sectors highlights the stabilizing role of internal demand, reinforcing the importance of policies aimed at **strengthening domestic consumption and supply chains**. Such findings align with the broader literature emphasizing the role of policy credibility and domestic economic fundamentals in mitigating external shocks (Kyriazis, 2021).

Furthermore, the behavioral analysis reveals that **policy information uncertainty significantly influences investor confidence and trading behavior**, particularly among less informed investors. This supports prior empirical evidence that transparent and consistent policy communication reduces investor overreaction and market instability (Thapa et al., 2025). Regulatory authorities such as SEBI and RBI should therefore strengthen investor communication mechanisms and expand financial literacy initiatives focusing on global trade developments and geopolitical risks.

From an investment perspective, the results highlight the importance of **sectoral diversification and risk-adjusted portfolio strategies** during periods of geopolitical uncertainty, consistent with prior event-study evidence on tariff-induced market volatility (Linda et al., 2025).

7. Limitations of the Study

Despite its contributions, this study has certain limitations that should be acknowledged.

First, the empirical analysis is confined to a selected set of Nifty sectoral indices. While these indices provide meaningful insights into sectoral behavior, they may not fully capture firm-level heterogeneity

within sectors. Previous studies suggest that firm-specific exposure to international trade and export intensity can significantly influence market reactions to tariff shocks (Pal, 2025).

Second, the event study methodology primarily captures **short-term market reactions** surrounding tariff announcements. Longer-term structural adjustments in investment patterns, profitability, and competitiveness may evolve differently over time, as suggested in broader analyses of trade policy uncertainty (Kyriazis, 2021).

Third, the behavioral findings rely on self-reported survey data, which may be subject to response bias. Although the sample size is adequate for analysis, it may not fully represent the diversity of retail and institutional investors in India, as highlighted in earlier studies on investor behavior under policy uncertainty (Thapa et al., 2025).

Finally, while efforts were made to isolate tariff announcements as the primary event, **simultaneous macroeconomic developments** may have influenced market movements, a limitation commonly acknowledged in event-based financial studies (Kumar & Moussa, 2025).

8. Scope for Future Research

The study opens several promising avenues for future research.

Future studies may extend the analysis by incorporating **firm-level data** to examine heterogeneous responses within sectors, particularly based on export dependence, firm size, and global revenue exposure. Such an approach would complement existing sector-level findings on tariff effects (Gaies, 2025).

Researchers could also explore **longer event windows or panel data models** to assess the long-term structural impact of trade policy shocks on capital allocation and sectoral competitiveness, as suggested by Pal (2025).

Another important direction involves integrating **sentiment analysis techniques**, using financial news or social media data, to capture real-time investor sentiment during periods of policy uncertainty. This would enhance behavioral insights beyond survey-based measures, consistent with recent developments in market microstructure research (Linda et al., 2025).

Finally, comparative studies across emerging markets could provide broader insights into how institutional frameworks and policy credibility shape investor responses to trade-related geopolitical shocks (Kyriazis, 2021).

9. Conclusion

This study provides comprehensive evidence on the **market and behavioral impact of tariff-related policy shocks** on the Indian equity market. The event study analysis reveals clear sectoral asymmetries in abnormal returns and volatility, indicating that trade policy announcements exert uneven effects across industries. Export-oriented sectors are more vulnerable to adverse shocks, while domestically driven sectors exhibit greater resilience.

The behavioral findings further demonstrate that **investor awareness and information levels play a critical role in shaping investment confidence and decision-making** during periods of policy uncertainty. These results reinforce existing literature that emphasizes the importance of transparent policy communication and financial literacy in maintaining market stability (Thapa et al., 2025; Kyriazis, 2021).

Overall, the study contributes to the growing body of literature on trade policy uncertainty by integrating **market-based evidence with investor behavior analysis** in an emerging market context. The findings offer valuable insights for policymakers, regulators, and investors seeking to navigate financial markets

amid increasing geopolitical and trade-related uncertainties.

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