



Market Volatility and US-China Trade Policy: Evidence from the First Trump Administration

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A B S T R A C T

Prior work on the impact of the first Trump administration on the intersection between financial markets and international relations—especially with People's Republic of China—suggest that Mr. Trump's decidedly less "measured" tone compared with his predecessors (George W. Bush and Barack Obama) resulted in striking increases in financial market volatility and investor interest around trade-related announcements. Now, with the re-election of Mr. Trump as President of the United States for a second non-consecutive term, we re-examine financial market reactions to the Trump administration trade events. The present study significantly extends prior work by investigating the impacts of a sample of 90 key US/China trade announcements on VIX and VXFXI volatility metrics made over the course of the first Trump administration. Interestingly, trade announcements classified as likely to lead to increases in trade tensions had no impact on changes in the two studied indexes, whereas events thought likely to lead to decreases in trade tensions were associated with rather dramatic decreases of 2.5% in VIX volatility. Although conjecture, the results are consistent with the hypothesis that financial market participants did not respond to antagonistic pronouncements simply because they may have been fully anticipated, whereas announcements of a more conciliatory tone were perceived as unexpected. Tests of volatility spillovers between the US and Chinese markets document highly significant spillovers from the VIX index to the VXFXI index but not from the VXFXI to the VIX.

Keywords: U.S. and China trade; volatility; volatility spillover; trade war

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