AMRO
ASEAN +3 MACROECONOMIC RESEARCH OFFICE

Analytical Note

# Post-Liberation Day: Tariff Tantrum and Potential Risks beyond the Market Turbulence[1]

April 22, 2025

## I. Introduction

**1. The announcement of tariffs by President Trump on April 2, referred to as 'Liberation Day' had an immediate and profound impact on the global financial markets due to unexpected magnitude.** The tariffs, which included a 10 percent baseline levy on all imports to the US and additional country-specific tariffs raised fear of global trade war and potential recession. While the imposition of tariffs was expected, the scale and scope of tariffs were much larger and more extensive than earlier anticipated. The financial market turmoil that followed was of an unprecedented scale with the largest two-day loss in US stock market history[2] and spillovers across the global markets.

**2. Despite a temporary 90-day pause on most tariffs, market volatility persists and investor confidence remains fragile.** On April 9, President Trump announced the 90-day pause on most reciprocal tariffs (excluding China). The 90-day pause could be seen as a strategic move to incentivize other nations to engage in negotiations. The pause was seen as a temporary easing of trade tensions, which was welcomed by the market as reflected in the equity market's initial rebound. However, such positive sentiment was short-lived and market volatilities persisted as trade policy uncertainties remained, which raised concerns about stagflation and potential recession.

**3. This note attempts to assess the post-liberation impact on ASEAN+3 financial markets, conduct a comparative study with the 2018 China-US trade tension to draw lessons learned and identify potential risks at sectoral level.** Global market meltdown raised concerns over its potential long-lasting impact on ASEAN+3 financial stability. Trade disruption from the US tariff policies and retaliation was expected to significantly affect the overall ASEAN+3 growth momentum and the impact would likely be uneven across sectors. As a result, in addition to the assessment on the overall impact on the ASEAN+3 financial markets, this note will identify sectors that can be most vulnerable going forward based on the readings from market indicators. Furthermore, the note will compare the market reactions during the current episode with that of the 2018 US-China tariff announcement,

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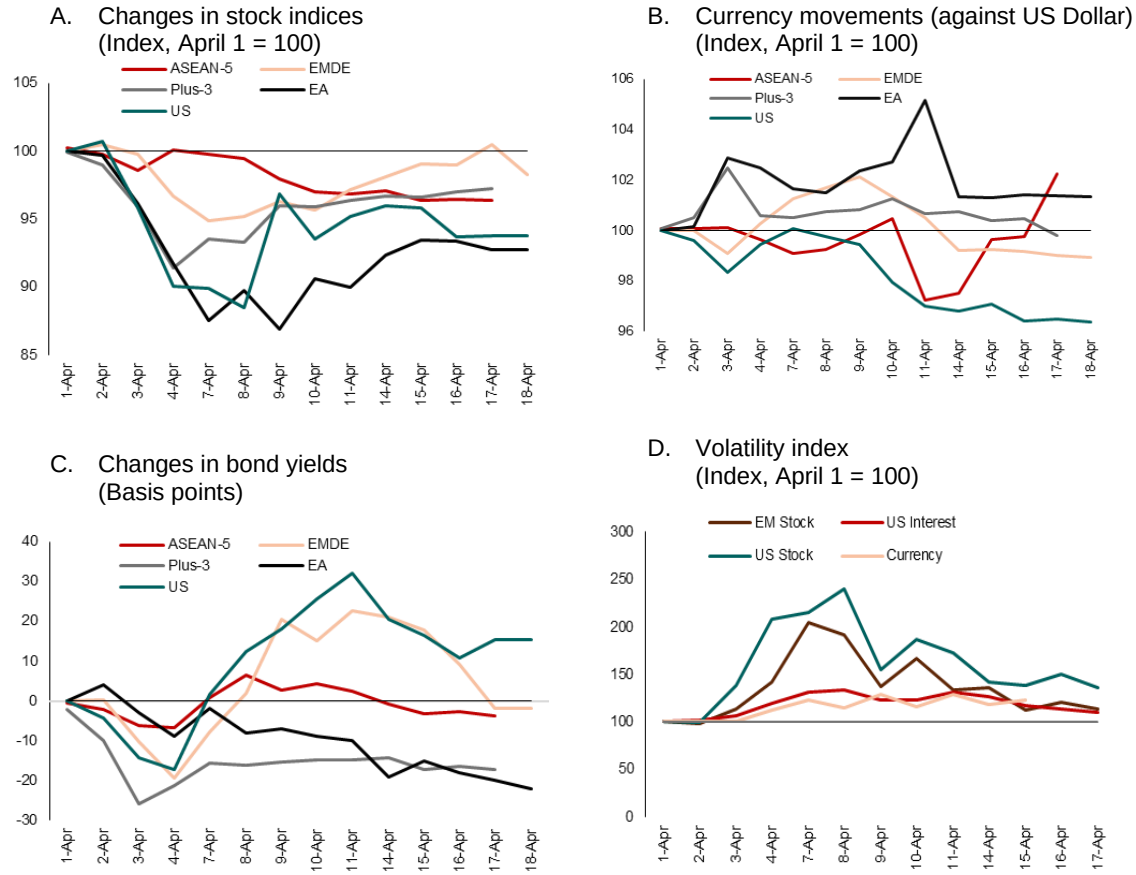
[2] The S&P 500 declined by more than 10 percent over two days and wiped off around USD6 trillion in value.

which led to disruptions in global supply chains and can potentially provide some insights and lessons learned.

## II. Market Reactions: Global and ASEAN+3 Context

**4. Global financial market experienced significant volatility following the April 2025 tariff announcements, with particularly pronounced movements in the US and Europe.** The initial April 2 announcement in US time triggered a broad sell-off across equity markets on April 3–4, with US and European equities particularly impacted (Figure 1 panel A). The subsequent 90-day tariff pause (excluding China) on April 9 spurred market rebound outside ASEAN+3, in particular, a strong US equity recovery. However, the April 10 announcement targeting China led to mixed market responses with continued US equity gains while Emerging Markets showed more uneven reactions. On April 11, trade tensions between the US and China escalated as China imposed 125 percent tariffs on US goods in response to the US tariff on China reaching 145 percent. Overall, the developments around the tariffs in early April created significant uncertainty around US policies and economic stability, contributing to weaker equity markets, heightened volatility, weaker US dollar and a sharp rise in US Treasury yields. (Figure 1 panels B and C).

**Figure 1. Global Financial Market Movements by Region**




Source: Haver Analytics; AMRO staff calculations.
Note: Regional aggregates are calculated by weighting each individual economy's index by its nominal GDP for countries with data. Data for stocks are calculated based on the level of each stock index, indexed at end of April 1 as 100. Data for bond yields refer to changes in 10-year government bond yield from end of April 1 to the latest date. ASEAN-5/Plus-3 data is lagged by one business day to account for time difference of the U.S. and Asia. Data for currency movements refer to changes in foreign exchange (FX) rate against US dollar from April 1 except for US dollar, which refers to the broad dollar index. Volatility indexes are CBOE EM Volatility Index for EM stock, MOVE Bank of America Merrill Lynch Option Volatility Estimate index for US interest, CBOE Volatility index for US stock, and Deutsche Bank Currency

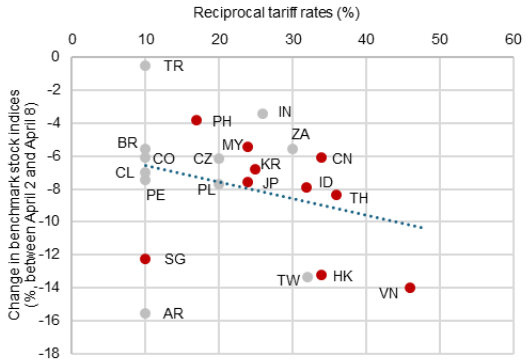
Volatility Index for Currency. Upward movement for all countries in currency movement means currency appreciation. Emerging markets and developing economies (EMDE) exclude ASEAN+3 emerging markets. Timeseries for ASEAN and Plus-3 markets are shifted back by one business day to adjust for the difference in trading hours. ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand; EA = Euro Area; Plus-3 = China (including Hong Kong), Japan, and Korea; US = United States.

**5. In ASEAN+3 economies, the initial market reaction to the tariff announcement varied across countries depending on tariff rates and the degree of trade exposures.** ASEAN+3 economies, which are mostly trade-reliant, were hit with some of the highest tariffs compared to emerging markets (EMs) in other regions (Figure 2 panel A). As expected, immediate sell-offs across the region lasted for nearly a week and were particularly significant in countries facing the steepest tariffs, such as Hong Kong[3], Indonesia, Thailand and Vietnam. Stocks in Singapore also declined due to its large exposure to global trade. As of April 8, most regional currencies had depreciated against the US dollar since President Trump's announcement (Figure 2 panel B). However, they performed better than the currencies of other EMs, particularly commodity exporters such as Brazil, Colombia, and South Africa. The Japanese yen even appreciated, serving as a safe-haven currency. In government bond space, market expectations on slower economic growth due to the potential impact of tariffs contributed the decline in most ten-year yields (Figure 2 panel C). Indonesia bond yields, however, rose alongside the weaker rupiah.

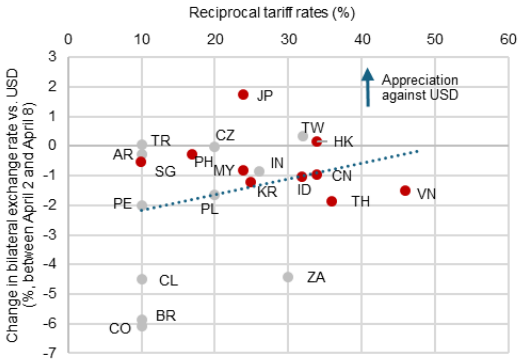
**6. After the initial reactions, market pressure began to ease from April 9 with the announcements of a 90-day pause on reciprocal tariffs and the exemptions on electronic products.** Indeed, the stock markets rebounded solidly with stronger recovery from key semiconductor and electronics manufacturers such as Japan, Korea, Malaysia, and Vietnam (Figure 2 panel D). Regional currencies reversed their initial declines and appreciated against the US dollar as of April 18, while pressures on Indonesian and Vietnamese bonds eased (Figure 2 panels E and F). The announcement of a large-scale 10-year bond issuance in the Philippines contributed to the jump of its 10-year bond yield.

**Figure 2. Selected ASEAN+3 Economies and EMs: Reciprocal Tariffs and Changes in Financial Assets Between April 2 and April 8**

A. Benchmark stock indices

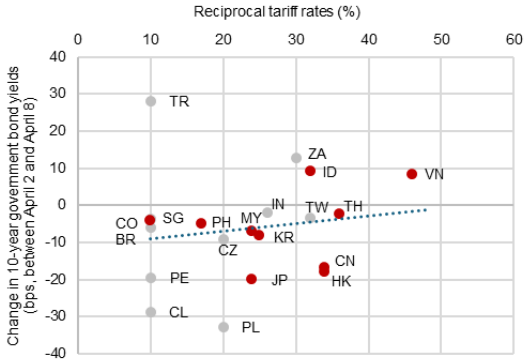



B. Exchange rate against the US dollar



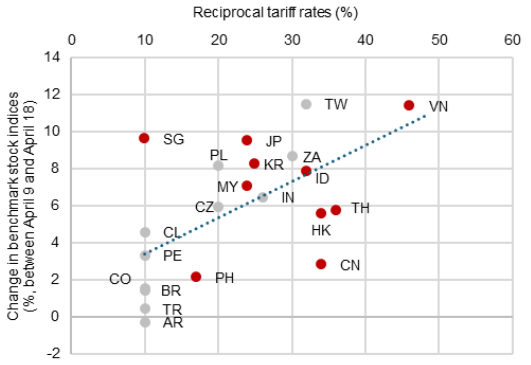

[3] For brevity, "Hong Kong, China" is referred to as "Hong Kong" in the text.

C. 10-Year government bond yields

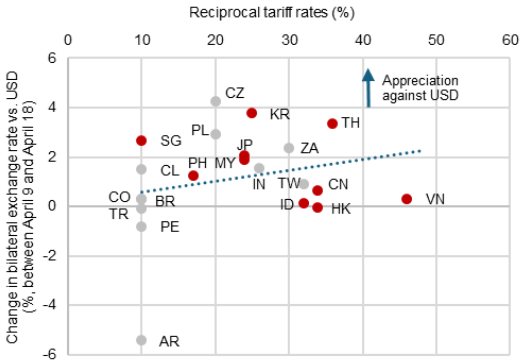



**Between April 9 and April 18**

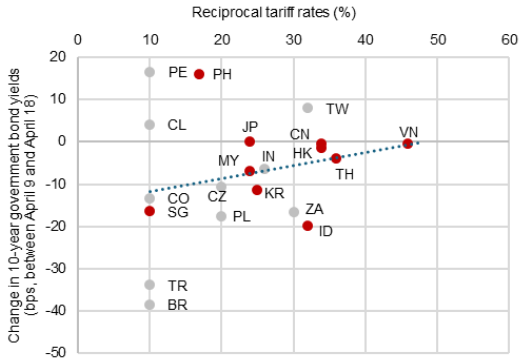
D. Benchmark stock indices




E. Exchange rate against the US dollar




F. 10-year government bond yields




Source: National authorities via Haver Analytics and Bloomberg Finance L.P.; AMRO staff calculations.
Note: Red dots refer to ASEAN+3 economies, while grey dots denote EMs from other regions. Sovereign bond yield for Hong Kong refers to the 5-year government bond yield. AR = Argentina; BR = Brazil; CL = Chile; CN = China; CO = Colombia; CZ = Czechia; HK = Hong Kong; ID = Indonesia; IN = India; JP = Japan; KR = Korea; MY = Malaysia; PE = Peru; PH = Philippines; PL = Poland; SG = Singapore; TH = Thailand; TR = Turkey; TW = Taiwan, Province of China; VN = Vietnam; ZA = South Africa.

**7. The initial market shocks in ASEAN+3 economies were relatively milder compared to the US, where the S&P500 fell by 12.1 percent.** (Figure 3 panel A) US Treasury bond yields surged while yields in the region declined. The broad US dollar initially depreciated by 1.3 percent on April 3, contributing to an appreciation of regional currencies. However, market risk aversion intensified, the US dollar strengthened, with the currencies of trade-oriented economies weakening the most. It is also likely that some regional authorities intervened to curb excessive market volatility. Since April 8, the postponement of reciprocal tariffs has led to a recovery in regional stocks, while the equities in the US remained subdued (Figure 3 panel B). Similarly, the appreciation in regional currencies have been broad-based as investors assessed the safe-haven status of the US dollar amid escalating trade tensions.

**Figure 3. Selected Major and ASEAN+3 Economies: Changes in Financial Assets**

A. Between April 2 and April 8

| | Equity price (% chg) | FX (% chg) | 10-year sov. bond yield (bps) |
|---|---|---|---|
| US | -12.1 | 0.2 | 16.7 |
| Europe | -10.0 | 1.4 | -12.0 |
| UK | -8.1 | -1.9 | -7.0 |
| China | -6.1 | -1.0 | -16.7 |
| Hong Kong | -13.3 | 0.2 | -17.9 |
| Japan | -7.6 | 1.7 | -20.0 |
| Korea | -6.8 | -1.2 | -8.0 |
| Indonesia | -7.9 | -1.1 | 9.1 |
| Malaysia | -5.4 | -0.8 | -7.0 |
| Philippines | -3.9 | -0.3 | -5.1 |
| Singapore | -12.3 | -0.5 | -4.0 |
| Thailand | -8.4 | -1.9 | -2.5 |
| Cambodia | -0.8 | 0.0 | 0.0 |
| Lao PDR | -0.8 | 0.0 | 0.0 |
| Myanmar | -2.1 | 0.0 | 0.0 |
| Vietnam | -14.0 | -1.5 | 8.4 |
| **ASEAN+3 Simple average** | **-6.9** | **-0.5** | **-4.9** |

B. Between April 9 and April 18

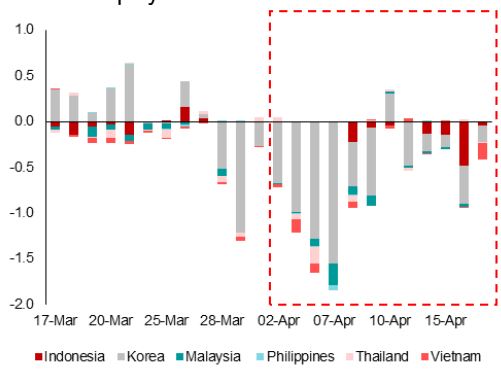
| | Equity price (% chg) | FX (% chg) | 10-year sov. bond yield (bps) |
|---|---|---|---|
| US | -3.2 | -3.1 | -2.6 |
| Europe | 6.8 | 2.9 | -15.0 |
| UK | 7.8 | 3.7 | -23.0 |
| China | 2.8 | 0.6 | -0.6 |
| Hong Kong | 5.6 | 0.0 | -1.6 |
| Japan | 9.5 | 2.1 | 0.0 |
| Korea | 8.3 | 3.8 | -11.5 |
| Taiwan | 11.5 | 0.9 | 8.0 |
| Indonesia | 7.9 | 0.1 | -20.0 |
| Malaysia | 7.1 | 1.9 | -7.0 |
| Philippines | 2.1 | 1.2 | 16.0 |
| Singapore | 9.6 | 2.7 | -16.5 |
| Thailand | 5.8 | 3.3 | -4.0 |
| Cambodia | 0.3 | 0.0 | 0.0 |
| Lao PDR | -0.6 | 0.1 | 0.0 |
| Myanmar | -0.6 | 0.0 | 0.0 |
| Vietnam | 11.4 | 0.3 | -0.6 |
| **ASEAN+3 Simple average** | **5.3** | **1.2** | **-3.5** |

Source: Haver Analytics; AMRO staff calculations.
Note: Color intensity reflects the magnitude of positive and negative changes for each asset. Sovereign bond yield for Hong Kong refers to the 5-year government bond yield. Positive values for FX changes denote appreciation against USD. US FX change is based on broad dollar index.

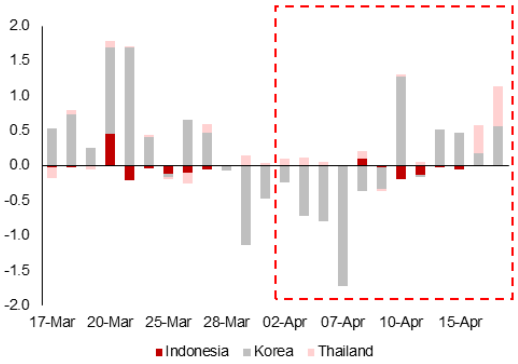
**8. Most regional economies experienced sizable portfolio outflows following the announcement of reciprocal tariffs.** Available data from national exchanges indicated significant equity outflows in Korea, Malaysia, and Thailand during the five days after Trump unveiled plans to impose the sweeping tariffs (Figure 4 panel A). Indonesian equities also saw outflows when trading resumed after the holiday break. The 90-day pause on tariffs only provided a temporary reprieve from the outflows for regional equity markets. Similarly, foreign investors initially withdrew from Korean bond markets but returned since the pause was announced, while Indonesian bonds resumed outflows after receiving inflows on April 8 and Thai inflows continued after the Songkran Festival (Figure 4 panel B).

**Figure 4. Selected ASEAN+3 Economies: Daily Portfolio Flows**
(In billions of US dollar)

A. Equity




B. Bond




Source: National exchanges; AMRO staff calculations.
Note: Data are up to April 17.

**9. The region faced diverging trends in investment flows by major fund managers.** According to EPFR,[4] which provide flow data from fund managers comprising exchange-traded funds (ETFs) and mutual funds, ASEAN equity markets saw significant outflows since April 2 (Figure 5 panel A), while Japan and Korea did not experience major pullbacks (Figure 5 panel B). In contrast, these funds increased their exposures to the Mainland China and Hong Kong equity markets, possibly reflecting investors leveraging on their cheap valuations after the sell-off. On the bond front, there was no clear trend on whether investors were bullish or bearish on regional fixed income assets initially. However, all economies experienced reduced inflows or stronger outflows since April 7, following the implementation of the baseline 10 percent tariffs on April 5 (Figure 6). Recent data showed that flows to most ASEAN+3 bond markets, except for Korea, seem to have normalized.

**Figure 5. Selected ASEAN+3 Economies: Daily Equity Flows by ETFs and Mutual Funds**
(Percent of fund assets under management)

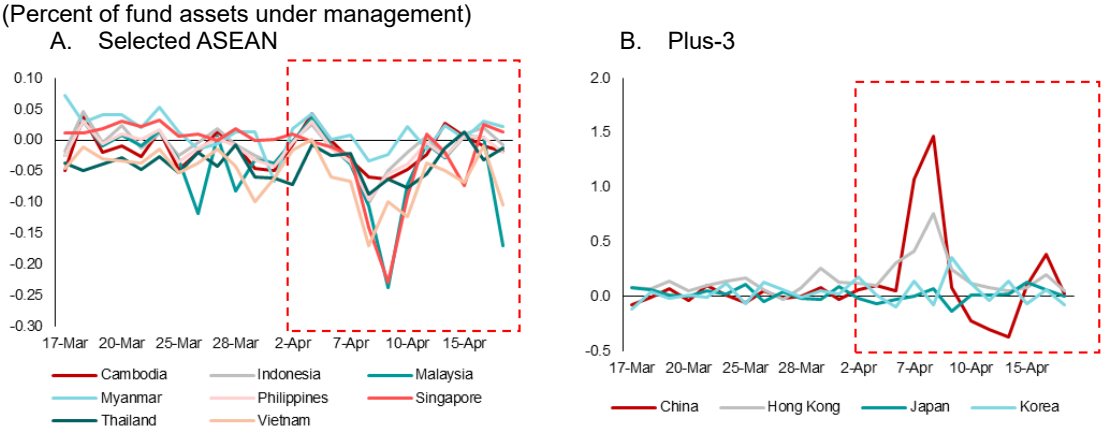
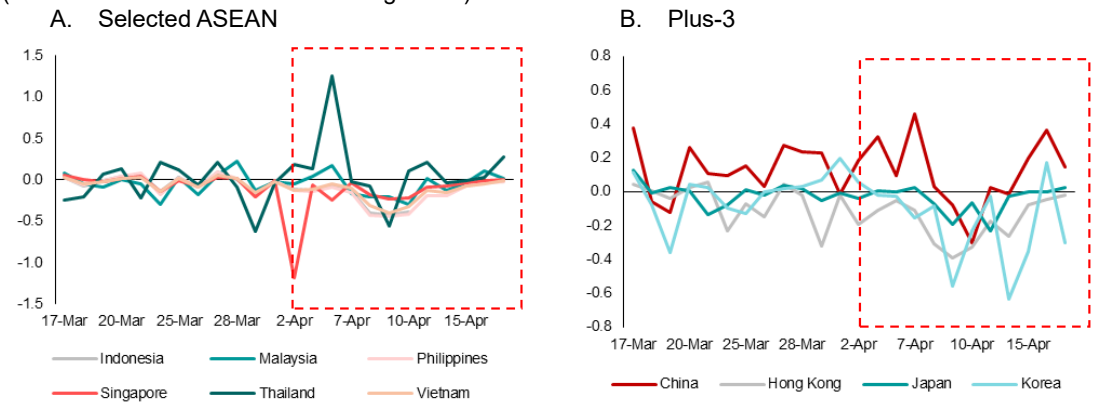



**Figure 6. Selected ASEAN+3 Economies: Daily Bond Flows by ETFs and Mutual Funds**
(Percent of fund assets under management)

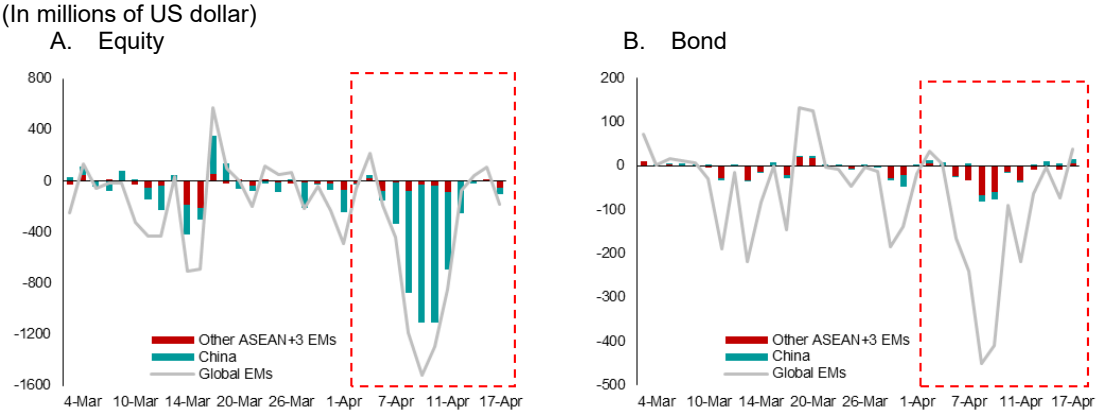



Source: EPFR.
Note: Data are up to April 17.

**10. Capital outflows from the region's equity markets by US-domiciled investors were significant**. As shown in Figure 7 panel A, outflows from the region dominated the pullbacks by US investors from funds investing global emerging markets (EMs) between April 2 and April 11, indicating a reduction of exposure to the region's trade-reliant economies. In contrast, the outflows from ASEAN+3 EM bond assets were milder compared to that of the broader global EM universe (Figure 7 panel B). Since April 14, both equity and bond flows by US-domiciled investors have returned to the levels of the pre-reciprocal tariff announcement period.

[4] Emerging Portfolio Fund Research (EPFR) data is used by financial institutions to gain a deeper understanding of global fund flows and asset allocations. It provides insights into where money is moving across geographies, sectors, industries, and securities, helping institutions make more informed investment decisions. This data allows for analysis of market sentiment and the identification of investment trends.

**Figure 7. Global and Selected ASEAN+3 EMs: Flows by US-Domiciled Funds**
(In millions of US dollar)




Source: EPFR.
Note: Data are up to April 17. Other ASEAN+3 EMs include Cambodia, Indonesia, Korea, Malaysia, Philippines, Thailand and Vietnam.

## III. How Did the Market Impact Differ from the 2018 US-China Tariff Announcement?

**11. Reviewing previous trade policy shocks provides valuable insights into how financial markets respond to rising protectionism, abrupt policy shifts, and the risk of deepening global fragmentation.** The financial market impact of the 2018 US–China trade tensions, in particular, offers a useful reference point for assessing the implications of renewed tariff measures under the Trump administration. By comparing the recent April 2, 2025 global tariff announcement with the March 22, 2018 US tariff announcement targeting China, we can draw lessons about the evolving sensitivity of ASEAN+3 markets to trade-related shocks. While the 2018 announcement primarily focused on China and triggered sharp reactions in Plus-3 equity markets, its spillover to the broader region was relatively contained. In contrast, the 2025 measure—imposing reciprocal tariffs on a global scale—led to a more synchronized and widespread impact across ASEAN+3 financial markets, especially in equities and credit. This section uses an event study framework to compare the abnormal and cumulative abnormal returns following both announcements and highlights how markets may react to future trade policy uncertainty.

**12. To assess and compare the market responses to the two trade-related shocks, we apply an event study approach**, which estimates the deviation of actual asset returns from their expected values. These expected returns are derived from the historical relationship between each country's index return and its respective benchmark. While there were a series of tariff-related announcements in 2018, we focus on the March 22, 2018 announcement—a key moment in the US–China trade conflict when the United States formally announced tariffs on Chinese goods under Section 301. This event stood out due to the scale and decisiveness of the measures, making it an impactful shock comparable in nature to the April 2, 2025 announcement.[5]

The analysis covers three key financial market segments:

- Equity market: Each country's stock index (benchmark: MSCI World Index)

[5] 22 March 2018 is also recognized as a key event date in the literature. For example, Huang et al. (2023) identify this day as a significant turning point in the US–China trade conflict and use it as a central event in their empirical analysis.

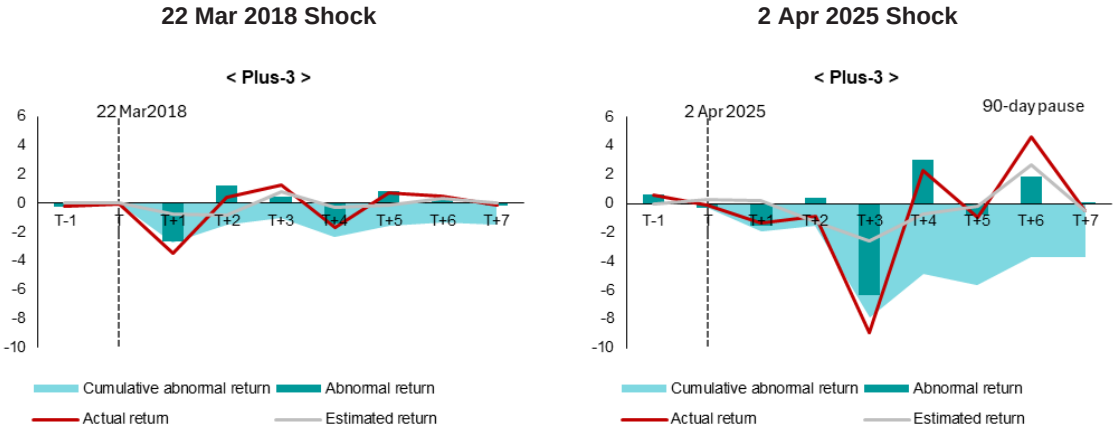
- Foreign exchange (FX) market: Each country's exchange rate against the US dollar (benchmark: WSJ Dollar Index)

- Credit market: Each country's 5-year sovereign credit default swap (CDS) spread (benchmark: US 5-year EUR-denominated CDS spread)

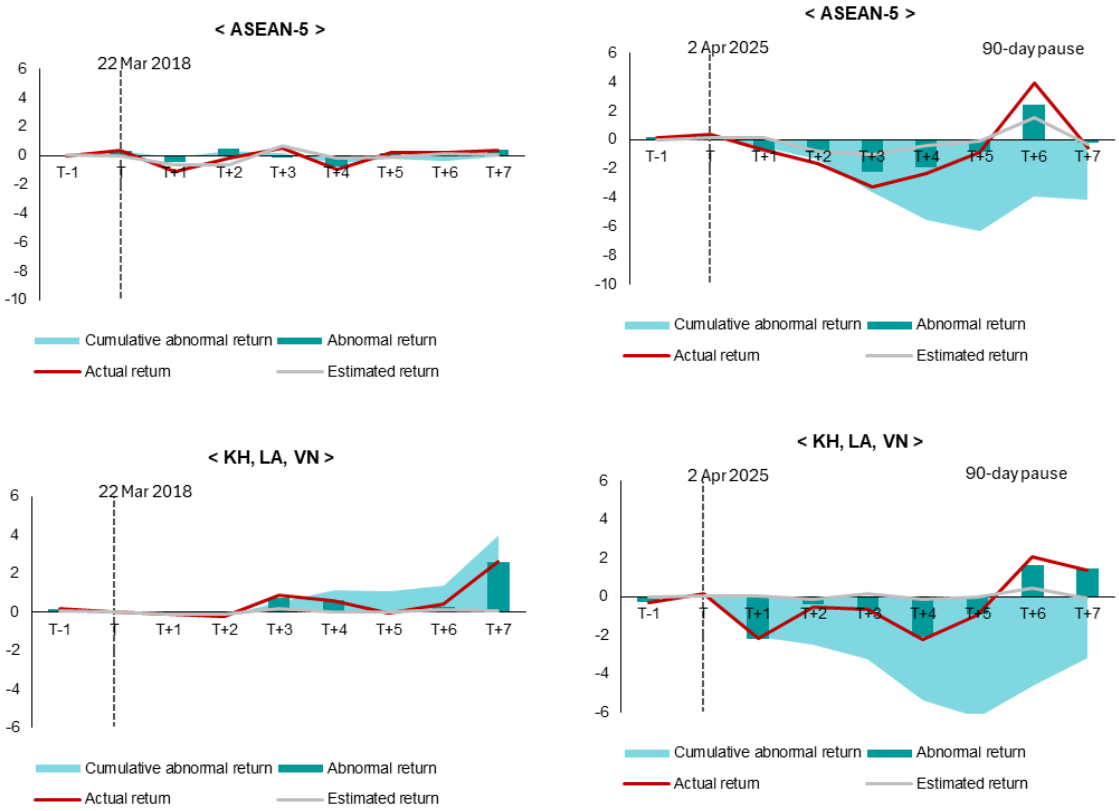
For each event, the estimation window used to calculate the model coefficients is set to the calendar year preceding the shock—i.e., 2017 for the 2018 event and 2024 for the 2025 event—using daily data to capture short-term market dynamics.[6]

**13. The equity market response to the April 2, 2025 US tariff shock was broader and more pronounced** than that to the March 22, 2018 announcement, with deeper and more synchronized declines across the ASEAN+3 region (Figure 8). In 2018, the impact was concentrated primarily in Plus-3 economies, where equity markets experienced a sharp drop the day after the event (T+1) but recovered relatively quickly. In contrast, equity markets in the ASEAN-5 and CLV (Cambodia, Lao PDR, and Vietnam) remained mostly stable, reflecting the perception that these economies would be only indirectly affected through trade linkages with China. However, the 2025 announcement—imposing broad-based reciprocal tariffs targeting global partners—was expected to have direct implications for most ASEAN+3 economies, resulting in more widespread and sustained equity market sell-offs. Both Plus-3 and ASEAN-5 markets exhibited significant negative abnormal returns and steep declines in cumulative abnormal returns following the announcement, suggesting a more systemic shock and reflecting the heightened sensitivity and vulnerability of the region's equity markets to global protectionist measures. However, equity markets rebounded quickly after the US announced a 90-day pause on reciprocal tariffs—excluding those on China—with even China's equity market recovering, likely reflecting broader relief and improved global sentiment.

**Figure 8. Selected ASEAN+3: Equity Market Responses**
(Percent)



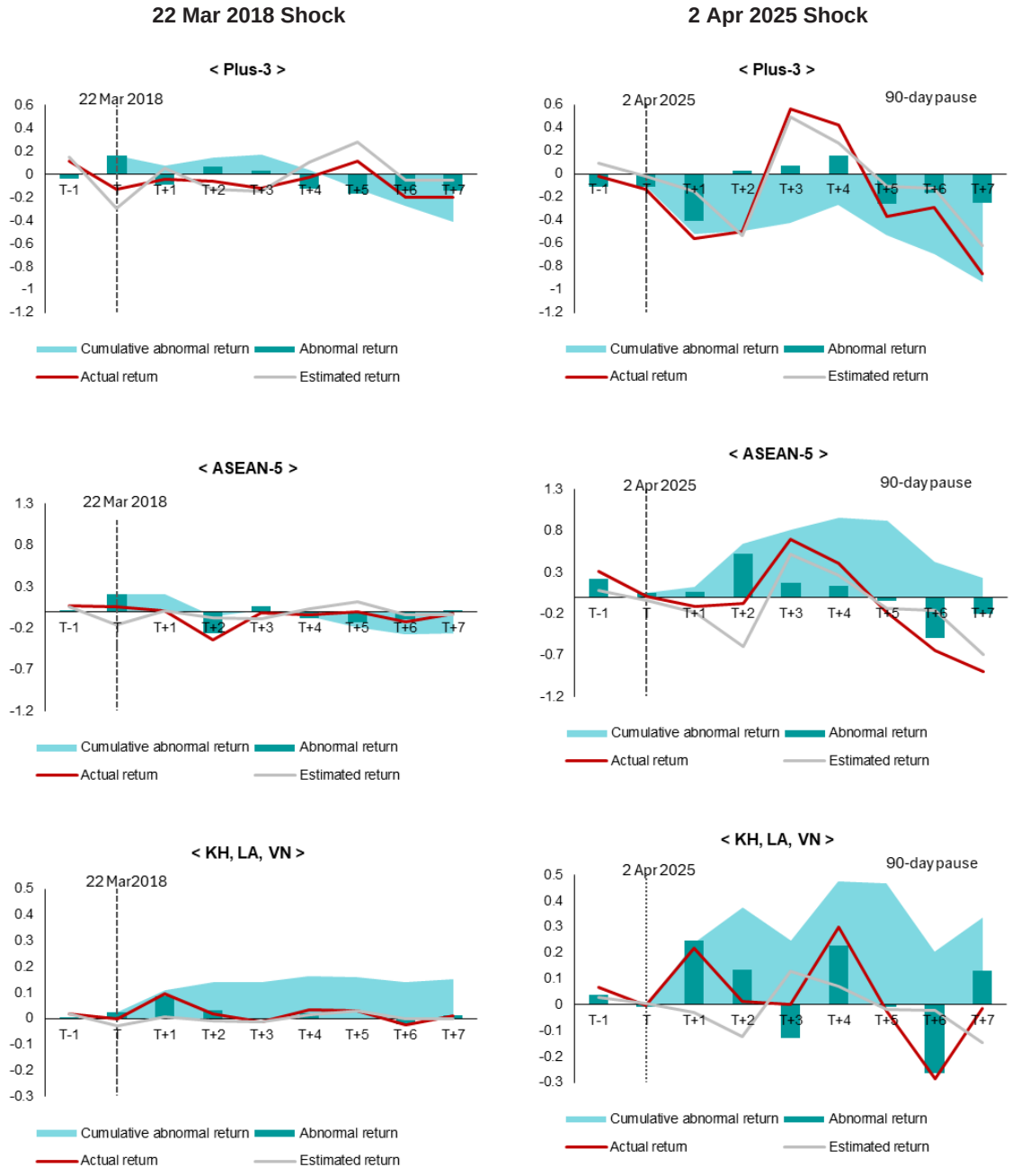

[6] The estimation windows were set to the full year prior to each event to avoid potential distortions from pre-event market speculation or early tariff-related measures, which may have already affected market behavior in early 2018 and 2025. We also tested an alternative estimation window—from T (event day) minus 10 months to T minus 1 month—and found that the results remained qualitatively consistent.




Source: AMRO staff calculations.
Note: The values for each group were calculated as simple averages. KH = Cambodia; LA = Lao PDR; VN = Vietnam.

**14. The April 2, 2025 global tariff shock had a sharper and broader impact on regional FX markets**, triggering widespread currency depreciation across ASEAN+3, although the magnitude was smaller than in the stock and credit markets (Figure 9). ASEAN currencies experienced the most pronounced declines, while Plus-3 economies showed a mixed response: the Japanese yen appreciated as a safe-haven asset, whereas the Chinese renminbi and Korean won depreciated. CLV currencies also weakened, reflecting their structural vulnerabilities and limited buffers against external shocks. In contrast, the FX market reaction to the March 22, 2018 US–China tariff announcement was relatively muted, with most ASEAN-5 currencies slightly appreciating except for CLV currencies, suggesting limited immediate concern at the time. Overall, the 2025 shock was perceived as a global risk, while the 2018 event appeared more localized and China-focused. Following the announcement of the 90-day tariff pause, most ASEAN+3 currencies appreciated, reflecting a partial reversal of earlier depreciation pressures.

**Figure 9. Selected ASEAN+3: FX Market Responses**
(Percent)

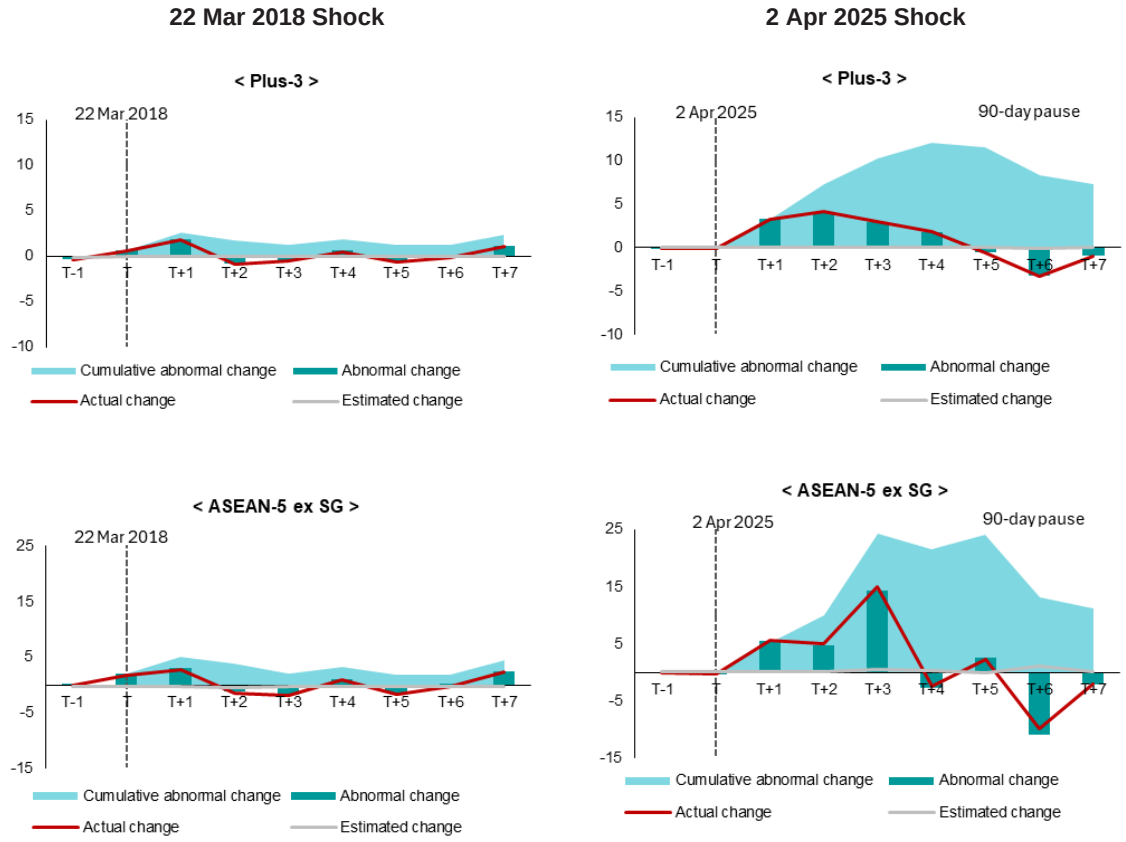



Source: AMRO staff calculations.
Note: The values for each group were calculated as simple averages. KH = Cambodia; LA = Lao PDR; VN = Vietnam.

**15. The April 2, 2025 global tariff shock triggered a sharp and broad-based deterioration in regional credit market sentiment**, as reflected in the steep rise in CDS spreads across most ASEAN+3 economies (Figure 10). While spreads have eased modestly in subsequent days, cumulative abnormal changes remain elevated, signaling persistent investor caution. The impact was not limited to a few vulnerable economies; many countries experienced increases of more than 20 basis points, with China and Indonesia recording a particularly sharp spike of near 30 basis points. In contrast, the March 22, 2018 US–China tariff announcement prompted a more contained and short-lived

response, underscoring the broader systemic nature of the 2025 shock and the region's heightened sensitivity to the Trump administration's abrupt and wide-reaching policy actions. However, the announcement of the tariff pause led to a sharp decline in CDS spreads across most ASEAN+3 economies, including China and Hong Kong, indicating a swift easing of investor risk perceptions.

**Figure 10. Selected ASEAN+3: Credit Market Responses**
(Basis points)




Source: AMRO staff calculations.
Note: The values for each group were calculated as simple averages. Singapore and BCLMV (Brunei, Cambodia, Lao PDR, Myanmar and Vietnam) economies are not included due to data availability.

**16. The comparison of market responses highlights clear differences between the March 22, 2018 and April 2, 2025 trade shocks** in terms of breadth, intensity, and affected asset classes (Figure 11). The 2018 US–China tariff announcement had a relatively contained impact, with mild equity declines and muted responses in FX and credit markets, mostly concentrated in China and Hong Kong. In contrast, the 2025 global tariff shock triggered stronger and more synchronized reactions across ASEAN+3, particularly in the equity and credit markets, although some of these pressures eased following the announcement of the tariff pause. Equity markets in several ASEAN economies experienced sharp sell-offs by T+5, while credit spreads widened substantially, with cumulative abnormal changes in CDS spreads around 30 basis points in China and Indonesia and surpassing 20 basis points in several other countries. FX movements were also more pronounced in 2025, with many currencies experiencing sustained depreciation. The broader and more intense market responses to the 2025 shock reflect its systemic nature, wider coverage, and the increased sensitivity of regional markets to global protectionist risks.

**Figure 11. Selected ASEAN+3: Cumulative Abnormal Returns by Market and Economy**

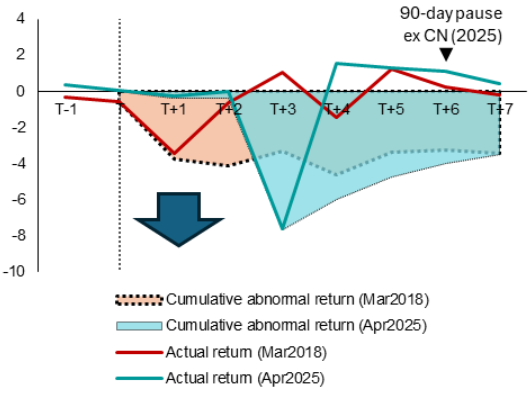
| | 22-Mar-18 | | | | | | 2-Apr-25 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity (percent) | | FX (percent) | | Credit (basis point) | | Equity (percent) | | FX (percent) | | Credit (basis point) | |
| | T+1 | T+5 | T+1 | T+5 | T+1 | T+5 | T+1 | T+5 | T+1 | T+5 | T+1 | T+5 |
| CN | -3.74 | -3.36 | 0.05 | -0.39 | 4.77 | 0.59 | -0.34 | -4.71 | 0.25 | 0.46 | 7.618 | 29.29 |
| HK | -2.72 | -3.07 | 0.00 | 0.00 | -1.42 | -1.36 | -1.99 | -11.48 | -0.02 | -0.26 | 1.246 | 6.41 |
| JP | -2.36 | 1.04 | -0.83 | 0.37 | 2.70 | 5.66 | -3.32 | -4.38 | -1.41 | -2.59 | 1.052 | 7.25 |
| KR | -2.02 | -0.80 | 1.06 | -0.50 | 4.29 | 0.17 | -1.94 | -1.93 | -0.92 | 0.28 | 2.841 | 3.22 |
| ID | -1.23 | -1.44 | 0.16 | -0.07 | 5.64 | 0.57 | 0.00 | -8.25 | 0.20 | 0.90 | 5.167 | 31.10 |
| MY | 0.57 | 0.48 | 0.20 | -0.92 | 5.22 | 3.01 | 0.10 | -6.21 | 0.40 | 1.62 | 6.475 | 19.73 |
| PH | 1.79 | 2.47 | 0.48 | 0.08 | 5.29 | 1.69 | -0.93 | 1.15 | -0.31 | 0.30 | 3.319 | 25.25 |
| SG | -1.87 | -1.29 | 0.04 | -0.31 | | | -1.13 | -12.14 | -0.34 | 0.36 | | |
| TH | -0.05 | -1.44 | 0.20 | 0.30 | 4.02 | 2.38 | -0.67 | -6.30 | 0.65 | 1.43 | 5.846 | 20.32 |
| KH | -0.27 | -0.25 | 0.20 | 0.38 | | | 0.13 | 0.46 | 0.01 | 0.16 | | |
| LA | 1.68 | 4.52 | -0.03 | -0.06 | | | 0.81 | -1.93 | 0.00 | -0.09 | | |
| VN | -1.66 | -1.10 | 0.13 | 0.16 | | | -7.22 | -17.38 | 0.71 | 1.34 | | |

Source: AMRO staff calculations.
Note: Color intensity reflects the degree of market stress. For equity returns, darker red indicates more negative cumulative abnormal returns, while for FX rates and CDS spreads, darker red indicates larger positive cumulative abnormal returns (i.e., currency depreciation and widening credit spreads). In all cases, deeper red signals higher market stress in response to the shocks. To compare the two shocks, data for the April 2025 shock were used from the day after the announcement (T+1) through April 9 (T+5), when the 90-day pause on reciprocal tariffs was announced.

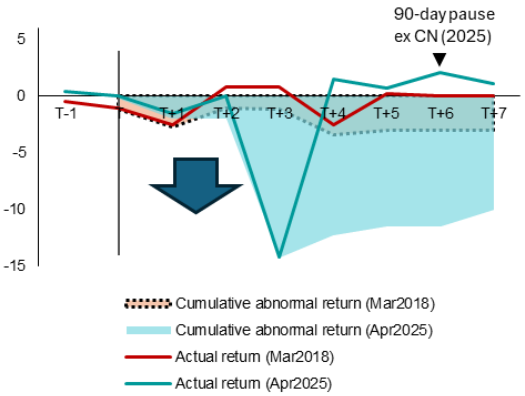
**17. While the announcement of a tariff pause and the possibility of negotiations on reciprocal tariffs may help ease tensions between the US and other countries, it is highly likely to trigger a renewed bilateral trade war between the US and China.** The impact of this conflict could exceed that of the 2018 trade war, making it meaningful to compare the magnitude of financial market shocks in 2018 and 2025 for China and Hong Kong. The March 22, 2018 announcement, which marked the beginning phase of the 2018 US–China trade war, had a relatively limited impact, primarily affecting equity markets. In contrast, the April 2, 2025 announcement led to a significant decline in stock indices and a sharp rise in CDS spreads in both China and Hong Kong (Figure 12). If a new round of trade tensions unfolds—characterized by repeated tariff impositions and retaliatory measures similar to those in 2018—financial markets in China and Hong Kong may face renewed turbulence, as was seen during the prolonged equity market downturn of the earlier trade conflict (Figure 13).

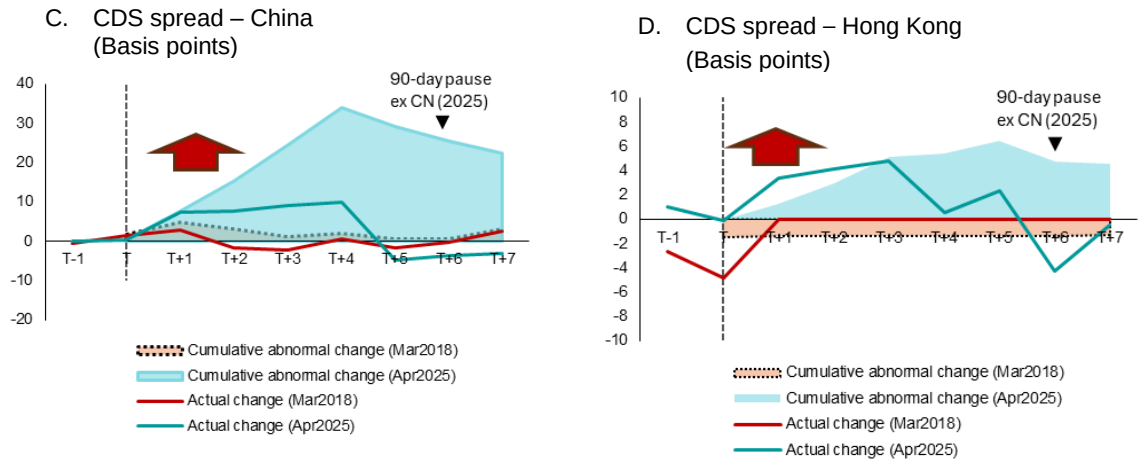
**Figure 12. China and Hong Kong: Stock and Credit Market Reactions to the 2018 and 2025 Trade Shocks**

A. Stock index - China (Percent)




B. Stock index – Hong Kong (Percent)






Source: AMRO staff calculations.
Note: CN = China.

**Figure 13. China and Hong Kong: Stock Index Movements**
(Index for both axes)

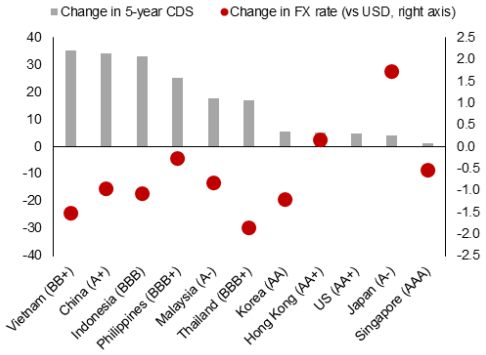

Source: Haver Analytics; Bloomberg Finance L.P.
Note: While other factors—such as regulatory tightening in the tech sector and slowing domestic demand—may have contributed to the decline in stock indices in 2018, the trade conflict likely played a significant role. The Shanghai Stock Exchange (SSE) Composite Index was used for China, and the Hang Seng Index was used for Hong Kong.

## IV. ASEAN+3 Risk Perception, Market Stress and their Implications

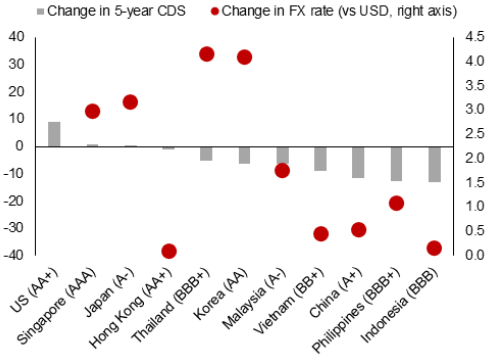
**18. The CDS spreads have widened across major ASEAN+3 economies after the tariffs were announced on April 2, 2025** (Figure 14). The CDS changes reflect the shift in investor perception of credit risk of a country. On closer examination, we find that countries with lower credit ratings (such as Vietnam) and those facing higher tariff rates (such as China) have CDS spreads widen more than others (Figure 15). Similarly, exchange rates in the region also largely depreciated, with the notable exception of the Japanese yen. While the factors impacting the CDS spreads also affect exchange rates, investor expectations of trade and capital flows are also relevant for the FX rate. The outsized impact on the Thai baht and Korean won were due to the relatively higher trade orientation, with US being an important trading partner. After the announcement of the 90-day tariff pause, currencies of these trade-oriented economies led the strength in regional currencies. The Japanese yen appreciated during the entire period as the US dollar's safe haven status has been questioned by investors following the protectionist policies of the new administration.

**Figure 14. Selected ASEAN+3 and US: Rise in CDS Spreads and Change in Exchange Rate Against the US Dollar**
(Basis points; percent)

A. Change from April 2 to April 8

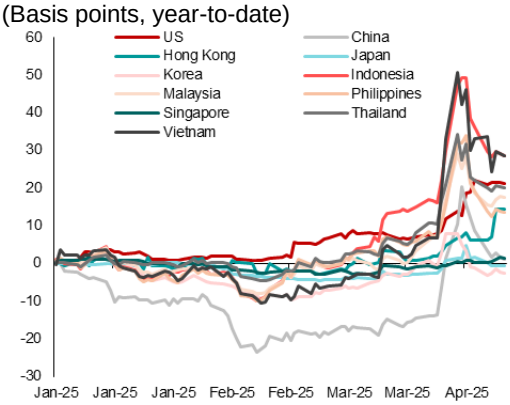



B. Change from April 8 to April 18



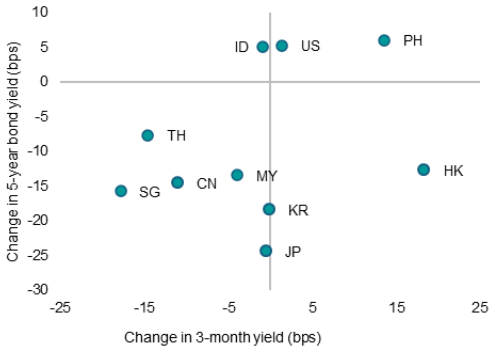

Source: Bloomberg Finance L.P.; Haver Analytics; Cbonds; AMRO staff calculations.
Note: Higher number implies higher depreciation against the US dollar.

**Figure 15. Selected ASEAN+3 and US: Change in Sovereign CDS**
(Basis points, year-to-date)




Source: Bloomberg Finance L.P.; Haver Analytics; Cbonds; AMRO staff calculations.
Note: Data are up to April 18.

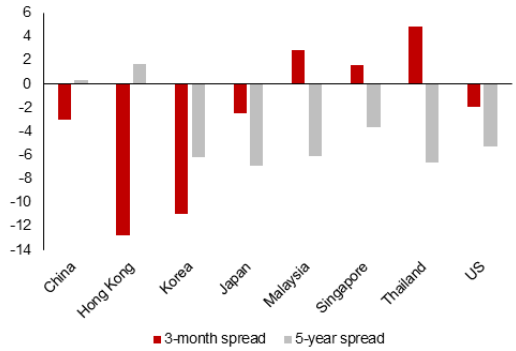
**Figure 16: Selected ASEAN+3 and US: Change in Bond Yields from April 2 to April 18**
(Basis points)




Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Data are up to April 18.

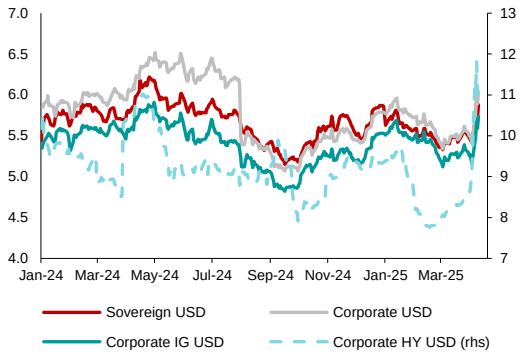
**19. The domestic bond yields in the region have largely moved lower, driven by longer tenor bonds.** It is likely a reflection of slower growth and inflation in the region over the longer term. The exceptions are the high yielders of the region, Indonesia and Philippines, where bond markets are also vulnerable to the investor risk sentiment and not macroeconomic outlook alone (Figure 16). The shorter-tenor yields have also been relatively stable for most markets. However, the bond-swap spreads have shrunk in most markets, i.e. bond yields are lower with reference to the interest rate swap (Figure 17). Higher swaps against bond yields could reflect a tighter liquidity condition, at the same time, the bond-swap spreads have shrunk more in the shorter-tenors, indicating tighter short-term domestic liquidity. That said, the money market movements have been orderly so far. Though risk aversion may have tightened liquidity conditions, there doesn't seem to be any indications of stress in domestic funding markets.

**Figure 17: Selected ASEAN+3 and US: Change in Bond-Swap Spreads Since April 2**
(Basis points)




Source: Bloomberg Finance L.P.; AMRO staff calculations
Note: US = United States.

**Figure 18: Asia: US Dollar-Denominated Bond Yields**
(Percent for both axes)




Source: Cbonds; AMRO staff calculations.
Note: HY = high yield; IG = investment grade; USD = US dollar.

**20. The US dollar liquidity may have tightened more than the domestic liquidity.** The US dollar-denominated debt in Asia has seen an uptick in yields in sovereign and investment grade (IG) space but has spiked up sharply for high yielding bonds (Figure 18). If the cost of borrowing for high yield (HY) corporates stays high for a longer period, it could lead to higher likelihood of defaults and refinancing risks for these companies. The stress, however, may not be limited to low grade corporates of the region and some sectors could be more vulnerable to tariff spillovers.

**21. AMRO's Market Stress Index sharply increased after the April 2 tariff announcement.** Figure 19 illustrates the evolution of the Market Stress Index (MSI)[7] since President Trump's election victory in November 2024. After initial concerns over potential tariff actions mostly in Plus-3 economies, financial market stress began to stabilize in January 2025. Tensions escalated dramatically on April 2, when the announcement of unexpected global tariffs, particularly steep for some ASEAN+3 economies.

**22. The increase in market stress varies across countries within the region and the main drivers of market stress somewhat differ.** Figure 19 shows that the tariff announcement triggered a sharp increase in market stress across the region. International financial centers (IFCs) experienced the most pronounced movements, reflecting their roles as financial hubs, especially in terms of heightened stock market volatility (Figure 20). In the days following the announcement, market stress in IFCs increased by nearly half standard deviation above the historical average (2007–2023), based on the MSI z-score. In the case of China, bond market volatility was the main driver of market stress. Thailand, on the other hand, a spike in MSI came from the increase in foreign exchange volatility. Only the Philippines showed minimal changes. Thus far, the spike has been primarily driven by increased market volatility. However, early signs indicate that real equity returns are beginning to react. Stress from the FX market has not yet materialized compared to historical norms, but it remains a key area to monitor in the coming weeks given its strong linkages to regional financial stability.

[7] AMRO's Market Stress Index (MSI) is constructed as a simple average of indicators related to real price growth and market volatility, with each indicator standardized within the economy. It serves as an early-warning signal, enabling daily tracking of shifts in market stress and attribution to underlying drivers. The index increases with rising stock market volatility, real domestic government bond yields, bond yield volatility, sovereign FX risk spreads, and FX market volatility. Conversely, it decreases with improvements in real equity returns and real effective exchange rate (REER) growth. Given that the index is standardized and unitless, a positive value indicates markets is stress relative to the historical average and standard deviation and a negative value indicates the opposite.

**Figure 19. Selected ASEAN+3: Evolution of the Market Stress Index Since November 2024**
(Standard deviation)

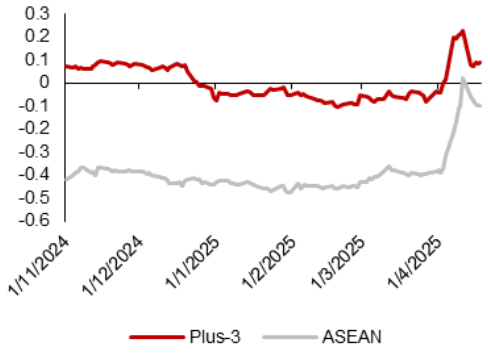
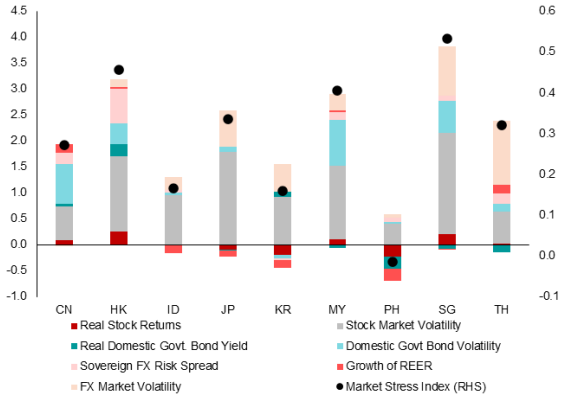



**Figure 20. Selected ASEAN+3: Contributors to the Increase in Market Stress Between the April 2 and April 18**
(Standard deviation)



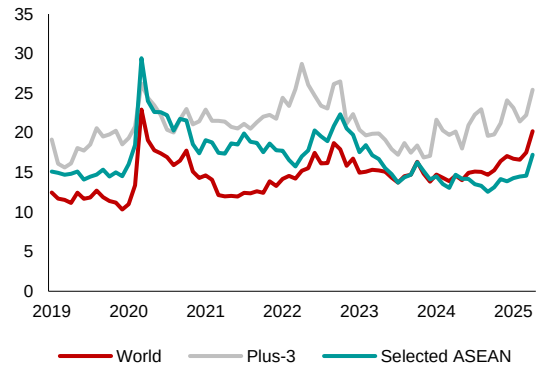

Source: Haver Analytics; AMRO staff calculation.
Note: Plus-3 = China, Hong Kong, Japan, and Korea. ASEAN = Indonesia, Malaysia, Singapore, Philippines, Thailand, and Vietnam.

**23. Similar to Financial Market Stress, the probability of default (PD) of ASEAN+3 firms also rose sharply following the April 2 "Liberation Day" tariffs.** On 10 April 2025, the 1-year ahead PD for firms in the Plus-3 and ASEAN regions has risen by 3.2 and 2.6 basis points respectively, relative to their PDs at the start of April (Figure 21).[8] The imposition of tariffs is expected to disrupt global supply chains and raise production and selling costs, factors that could erode corporate earnings and increase financial stress, particularly for firms in the trade- and manufacturing-dependent ASEAN+3 region. Rising uncertainty and weaker consumer sentiment are also likely to weigh on global consumption, leading to slower overall economic growth.

**24. The effects of the tariffs on firms' probability of default differ across ASEAN+3 economies.** The largest nominal increase was observed in China and Vietnam, with an increase median PD of 7.9 and 4.2 basis points respectively (Figure 22). This likely reflects the high tariffs imposed on Chinese exports, alongside China's escalating counter-tariffs on the United States. Tariff announcements also heavily impacted Vietnam due its high share of its exports subject to US tariff measures.

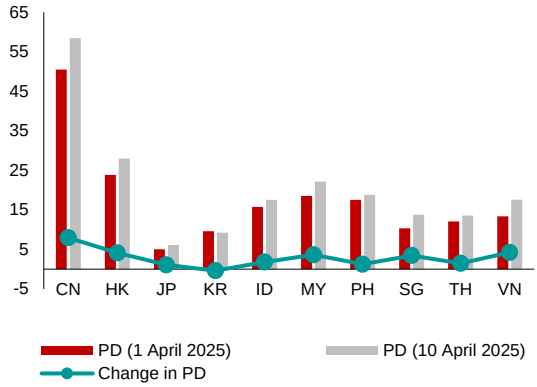
[8] The 4 macro-financial factors are: stock-index returns, short-term risk-free rate, economy-level distance-to-default for financial firms and non-financial firms). Firm-level attributes consist of: distance to default (level and trend), cash-to-total assets (level and trend), current assets-to-current liabilities (level and trend), net income-to-total assets (level and trend), relative size (level and trend), relative market-to-book ratio and, idiosyncratic volatility. See NUS-CRI (2022) for a detailed description of the construction of firm PDs

**Figure 21. World and Selected ASEAN+3: 1-Year Ahead Firm Probability of Default**
(Basis points, month-on-month)




Source: AMRO staff estimates; NUS Credit Research Initiative (NUS-CRI).
Note: The sample consists of publicly listed firms. The data is updated to 10 April 2025. Aggregate PDs for the world region group are calculated using the median of individual firms in the group. Aggregate PDs for the Plus-3 and Selected ASEAN group are calculated using the simple average of the median firm PD for the individual economies in the group. Plus-3 economies = China, Hong Kong, Japan and Korea. Selected ASEAN economies = Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. NUS-CRI PD data is obtained from: **https://nuscri.org/en/data/cdsaggregatedata/e504s0-e503s0-e505s0/0/**

**Figure 22. Selected ASEAN+3 Economies: Change in 1-Year Ahead Firm Probability of Default**
(Basis points)




Source: AMRO staff estimates; NUS Credit Research Initiative (NUS-CRI).
Note: The sample consists of publicly listed firms. PDs are the median 1-year ahead probability of default for firms in each economy PDs are the median 1-year ahead probability of default for firms in each economy. CN=China, HK=Hong Kong, JP=Japan, KR=Korea, ID=Indonesia, MY=Malaysia, PH=Philippines, SG=Singapore, TH=Thailand, and VN=Vietnam. NUS-CRI PD data is obtained from: **https://nuscri.org/en/data/cdsaggregatedata/e504s0-e503s0-e505s0/0/**

## IV. Potential Risks at Sectoral Level

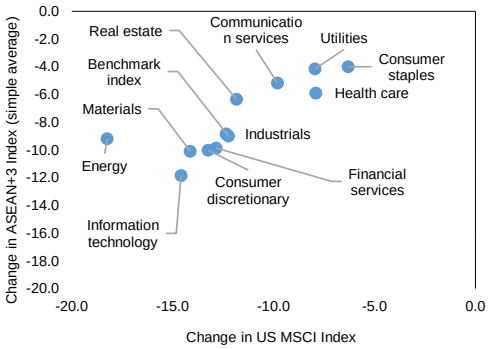
**25. The sectors that are deeply integrated in the global supply chain such as IT, materials, and consumer discretionary (which includes e-commerce firms) were worst hit.** (Figures 23 and 24). Though financial services are not directly impacted by tariffs, they weakened as markets anticipated a growth slowdown, poor credit demand and an unfavorable backdrop for investment activities. Energy stocks also weakened in line with falling oil prices on poor demand outlook. Countercyclical or acyclical sectors such as consumer staples, health care and utilities as well as real-estate sector which largely depends on domestic factors were least impacted.

**Figure 23. Selected ASEAN+3 and US: Change in Various Country and Sector Indices From April 2 to April 8**
(Percent)

| | Benchmark index | Consumer discretionary | Consumer staples | Energy | Financial services | Health care | Industrials | Information technology | Materials | Real estate | Communication services | Utilities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| US | -12.2 | -13.2 | -6.3 | -18.2 | -12.8 | -7.9 | -12.4 | -14.6 | -14.1 | -11.8 | -9.8 | -7.9 |
| Europe | -9.3 | -9.4 | -3.0 | -16.3 | -12.0 | -7.8 | -10.5 | -9.8 | -9.4 | -4.2 | -6.7 | -5.3 |
| China | -13.4 | -17.1 | -3.9 | -8.4 | -10.4 | -16.2 | -8.9 | -15.5 | -11.1 | -8.5 | -12.9 | -4.2 |
| Hong Kong | -11.5 | -15.0 | -7.4 | | -13.2 | | -15.0 | | | -8.8 | -1.0 | -2.9 |
| Japan | -8.5 | -8.7 | -2.5 | -13.5 | -13.8 | -4.3 | -8.6 | -9.9 | -8.9 | -2.0 | -4.0 | -4.0 |
| Korea | -7.8 | -9.3 | -1.2 | -8.3 | -9.4 | -2.9 | -4.5 | -10.1 | -8.4 | | -4.0 | 5.2 |
| Indonesia | -8.5 | -14.5 | -3.2 | -13.0 | -9.1 | -7.0 | -8.9 | | -6.0 | | -5.0 | |
| Malaysia | -5.7 | -5.3 | -4.6 | -1.6 | -5.1 | -2.3 | -8.3 | | -13.4 | | -3.0 | -6.1 |
| Philippines | -3.4 | -6.1 | 0.0 | | -2.8 | | -4.5 | | | -5.3 | 1.5 | 1.5 |
| Singapore | -14.2 | -6.9 | -7.2 | | -15.3 | | -13.3 | | | -5.8 | -16.3 | -5.3 |
| Thailand | -7.8 | -7.4 | -6.0 | -10.3 | -9.7 | -2.7 | -7.6 | -11.9 | -12.8 | -7.7 | -2.0 | -17.2 |
| **ASEAN+3 (simple average)** | **-9.0** | **-10.0** | **-4.0** | **-9.2** | **-9.9** | **-5.9** | **-8.8** | **-11.8** | **-10.1** | **-6.4** | **-5.2** | **-4.1** |

Source: MSCI Indices via Bloomberg Finance L.P.; AMRO staff calculations

**Figure 24. ASEAN+3 and US: Change in Sectoral Indices from April 2 to April 8**
(Percent for both axes)




Source: MSCI Indices via Bloomberg Finance L.P.; AMRO staff calculations
Note: Calculation for ASEAN+3 are based on simple averages of individual indices.

**26. In line with the uneven impact on equity prices at sectoral level, firms deeply embedded in global supply chains, or those in cyclical industries, experienced a notable rise in their 1-year ahead probability of default** (Figure 25). Across the region, firms operating in the consumer discretionary, industrials, technology and materials sectors were particularly impacted, given their strong reliance on exports and exposure to trade disruptions. Meanwhile, the decline in creditworthiness of financial, energy and utility firms reflected broader concerns over slowing global demand and the dampening effect of tariffs on the region's overall economic growth prospects. In contrast, firms in defensive sectors such as consumer staples and healthcare held steady. Overall, sectoral patterns in firms' probability of default aligned closely with their respective exposure to forward-looking risks, as reflected in equity sector indices. Continued surveillance is essential to detect emerging signs of financial instability, particularly for systemically important firms, to ensure timely policy responses.

**Figure 25. Selected ASEAN+3 Economies and Sectors: Change in 1-Year Ahead Firm Probability of Default from April 1 to April 10**

| Change in 1-Year Ahead Probability of Default | Consumer Discretionary | Consumer Staples | Energy | Financials | Healthcare | Industrials | Technology | Materials | Real Estate | Communications | Utilities |
|---|---|---|---|---|---|---|---|---|---|---|---|
| China (bps) | 9.6 | 0.3 | 10.9 | 8.7 | 3.2 | 10.6 | 7.4 | 7.6 | 13.4 | 6.2 | 14.0 |
| China (%) | 16.1% | 1.0% | 13.6% | 9.7% | 14.5% | 18.4% | 18.8% | 13.4% | 13.6% | 16.9% | 27.0% |
| Hong Kong (bps) | 6.4 | 4.2 | -3.3 | 5.8 | 3.9 | 2.8 | 7.7 | 0.8 | 6.0 | 1.0 | -2.4 |
| Hong Kong (%) | 26.8% | 33.6% | -7.0% | 29.7% | 24.3% | 13.2% | 42.9% | 2.7% | 11.1% | 4.0% | -7.8% |
| Japan (bps) | 0.8 | 0.0 | 1.7 | 11.2 | 0.8 | 0.9 | 1.2 | 1.3 | 0.4 | 1.2 | 1.1 |
| Japan (%) | 16.6% | -0.3% | 22.3% | 28.7% | 24.8% | 19.2% | 27.3% | 16.8% | 22.9% | 20.8% | 6.4% |
| Korea (bps) | -1.3 | -0.4 | 3.3 | 0.0 | -0.6 | 0.4 | -0.4 | -0.5 | 3.6 | 0.4 | -2.0 |
| Korea (%) | -9.2% | -4.6% | 17.4% | -50.0% | -8.8% | 3.4% | -4.5% | -4.8% | 48.8% | 5.6% | -3.4% |
| Indonesia (bps) | 1.0 | 0.7 | 0.3 | 5.0 | 0.5 | 2.0 | 1.3 | 2.4 | 2.6 | 0.8 | 3.3 |
| Indonesia (%) | 5.9% | 5.5% | 1.8% | 20.0% | 4.7% | 12.0% | 16.0% | 11.4% | 31.3% | 3.2% | 17.8% |
| Malaysia (bps) | 2.4 | 0.4 | 0.5 | 2.4 | 1.0 | 3.0 | 6.6 | 4.8 | 3.4 | 1.3 | 6.6 |
| Malaysia (%) | 11.5% | 7.0% | 1.0% | 21.2% | 6.7% | 11.7% | 28.2% | 21.8% | 21.9% | 4.1% | 17.5% |
| Philippines (bps) | 0.1 | -2.0 | 0.0 | 1.4 | -1.5 | 1.7 | -2.5 | 1.6 | -0.6 | -2.2 | 5.4 |
| Philippines (%) | 0.5% | -13.4% | 0.2% | 9.3% | -3.9% | 4.2% | -5.6% | 7.8% | -4.8% | -4.6% | 17.5% |
| Singapore (bps) | 4.7 | 3.1 | 10.2 | 1.5 | -3.5 | 2.6 | 5.1 | 0.4 | 2.1 | 3.1 | -3.2 |
| Singapore (%) | 39.4% | 58.5% | 59.0% | 18.6% | -18.0% | 17.7% | 24.9% | 4.5% | 45.3% | 48.0% | -35.2% |
| Thailand (bps) | 1.7 | 0.3 | 8.6 | 0.8 | 0.5 | 1.1 | 1.5 | 1.3 | 0.1 | 6.1 | 4.6 |
| Thailand (%) | 7.1% | 6.0% | 20.2% | 7.5% | 19.5% | 5.3% | 10.3% | 8.4% | 3.3% | 41.7% | 16.2% |
| Vietnam (bps) | 6.2 | 2.0 | 2.0 | 5.9 | 2.4 | 4.6 | 13.4 | 2.1 | 5.0 | 0.9 | 6.5 |
| Vietnam (%) | 47.8% | 22.0% | 10.9% | 53.1% | 41.4% | 24.8% | 69.0% | 11.1% | 66.3% | 5.4% | 124.1% |
| **ASEAN+3 (bps)** | 3.2 | 0.9 | 3.4 | 4.3 | 0.7 | 3.0 | 4.1 | 2.2 | 3.6 | 1.9 | 3.4 |
| **ASEAN+3 (%)** | 16.3% | 11.5% | 14.0% | 14.8% | 10.5% | 13.0% | 22.7% | 9.3% | 26.0% | 14.5% | 18.0% |

Source: AMRO staff estimates; NUS Credit Research Initiative (NUS-CRI).
Note: The sample consists of publicly listed firms. Change in PDs for individual economies are calculated using the PD on 1 April 2025 minus the PD on 10 April 2025, with PDs being the median PD for the respective economy/sector group/day. NUS-CRI PD data is obtained from: **https://nuscri.org/en/data/cdsaggregatedata/e504s0-e503s0-e505s0/0/**

## V. Key Takeaways and Policy Implications

**27. Although the overall market reactions in ASEAN+3 economies have been more muted compared to that of the US, several market indicators point to potential pockets of vulnerability.** A surge in CDS, equity price movements, financial market stress and probability of default have raised some concerns as these market indicators provide an early assessment of potential areas of vulnerability, such as those sectors that are more integrated into the global value chain. Such sectors should be closely monitored as they may face stress due to a slowdown in trade and resultant weaker growth.

**28. Several factors contribute to the varying impact across countries and when compared to the 2018 US-China trade tension.** The different tariff rates across ASEAN+3 economies, dominance of different sectors in individual economies, and their trade exposures to the US creates divergence in the market reaction towards each economy. Furthermore, when compared to the 2018 US-China trade tension, the impact of the current episode is much more pronounced due to the nature of the shock which had broader coverage while significant uncertainties remained.

**29. Several economies have taken steps to mitigate potential volatility in the financial markets.** For instance, Bank Indonesia intervened in the offshore non-deliverable forwards market to stabilize the rupiah. Thailand announced a temporary ban on short selling and intended to tighten other stock trading rules to curb excessive market fluctuations. Meanwhile, some Chinese state-owned enterprises pledged to increase stock investments and conduct share buybacks to help stabilize market sentiment.

**30. As unpredictability of trade policies remains, policymakers need to stand ready to implement measures to help stabilize the financial markets, enhance market confidence and support growth.** While there are currently no clear signs of liquidity problems, the authorities need to ensure sufficient short-term liquidity and be ready to intervene in the financial markets (if needed) to avoid potential market disruptions and excessive movements that can be destabilizing. Clear communication by the authorities on the situation and intended course of actions can also help calm the markets. Meanwhile, fiscal and/or monetary policies might be required to support growth depending on country specific circumstances and remaining policy space.

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