Fiscal Insurance*

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Abstract

We show that government policies interact in ways that shape how capital markets price risk. We introduce the concept of *fiscal insurance*: a mechanism through which certain fiscal tools are perceived by investors to mitigate the risks created by other government policies. Exploiting the 2018–19 U.S. tariff shocks and concurrent federal procurement spending, we find that firms facing higher tariff exposure earn higher risk premia, but this effect is substantially attenuated for firms receiving greater procurement. Procurement itself increases more for politically connected and economically vulnerable firms, revealing both political and economic channels of fiscal insurance. Overall, our evidence documents the existence of fiscal insurance, a cross-policy mechanism, with implications for firm valuation and real activity.

JEL Classification: G12, G38, E62, G14
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"Republican lawmakers are beginning to fear they'll have to enact billions of dollars in new aid to rescue farmers harmed by President Donald Trump's escalating trade wars with China, Canada and Mexico... Several farm-state Republicans are pushing the White House to make specific exemptions to the tariffs."

— POLITICO, February 3, 2025[1]
(two days after President Trump announced his steep tariff plan)

1 Introduction

Major government policy tools rarely operate in isolation. Fiscal and industrial policies often overlap, yet little is known about how they interact and how such interactions shape financial markets and firm outcomes. When one policy increases firms' exposure to risk – by heightening uncertainty, raising costs, or altering competitive structure – other fiscal instruments may offset that risk through spending, transfers, or targeted support. How markets internalize these cross-policy dynamics remains largely unexplored.

We propose the concept of *fiscal insurance* — a mechanism through which certain fiscal actions are perceived by investors as stabilizing forces that mitigate the risks created by other government actions. Fiscal insurance arises not because government programs are explicitly designed to hedge firms' exposures, but because political incentives and economic stabilization motives generate offsetting effects in equilibrium. Under our hypothesis, markets should price not only individual policy shocks but also the likelihood that other fiscal instruments will partially offset their impact. In this paper, we provide stock market, firm-level heterogeneity, and real-effects evidence of fiscal insurance.

We study this mechanism in a unique context in which two major U.S. policy instruments overlapped during 2018-19: the Trump administration's tariff shocks, which generate a wide exogenous variation in firms' exposure to trade policy risk, and federal procurement, an ongoing

[1] https://www.politico.com/news/2025/02/03/trump-trade-farm-aid-bailout-00002333

fiscal channel that allocates large volumes of spending to U.S. firms. Tariffs raised production costs and heightened uncertainty, while procurement provided a steady flow of government demand.

We construct a new firm-month panel that links statutory tariff rate changes to transaction-level procurement data. As a baseline result, higher tariff exposure is associated with higher subsequent risk premia, consistent with investors demanding compensation for heightened policy uncertainty. We then show that capital markets price certain fiscal actions as partial insurance against policy-induced risk. Specifically, this risk premium effect is significantly weakened by recent procurement inflows: a one standard deviation (SD) increase in procurement corresponds to a 68% attenuation in the tariff premium. In addition, we document that procurement itself responds to tariff exposure, increasing more for politically connected and economically vulnerable firms, and that this fiscal support translates into higher subsequent earnings growth, indicating that fiscal insurance has tangible real effects. More broadly, our findings suggest that the impact of government action on firms and markets cannot be understood on a policy-by-policy basis; rather, it is the equilibrium interaction of fiscal instruments that determines risk, valuation, and performance.

To implement this analysis, we construct firm-level measures of exposure to both tariff shocks and federal procurement. Our tariff-shock variable builds on raw data from S&P Panjiva and measures the exposure of each firm to changes in import tariffs during the 2018-2019 trade policy cycle. We map product-level statutory tariff rate changes into firm-level exposures using each firm's import composition. This approach allows us to quantify how much of a firm's input cost base was affected by new tariff measures in a given month. The resulting measure provides plausibly exogenous variation in firms' trade policy exposures, as tariff announcements and revisions were driven by geopolitical and macroeconomic considerations rather than firm-specific

factors. Our procurement measure builds on raw data from *USAspending.gov*, the federal government's central repository of contract and grant data. Procurement contracts represent a key channel through which executive agencies execute fiscal spending. The website reports, at each transaction level, the dollar amount committed on a specific date by a contracting officer to a U.S. firm. We exclude long-term or non-discretionary contracts. Our measure captures the monthly flow of discretionary federal spending allocated to each firm. Our merged, balanced sample consists of publicly listed firms with an active federal procurement relationship — that is, firms with at least one nonzero procurement obligation during the sample period. The sample includes 997 unique parent companies.

In the first set of results, we document that tariff shocks are systematically priced by financial markets. Firm–months with greater exposure to tariff increases earn higher subsequent risk premia, consistent with investors demanding compensation for heightened policy uncertainty. Economically, under the Fama–French three-factor (FF3) specification, a one standard deviation (SD) increase in tariff exposure raises the one-month-ahead risk premium by approximately 1.25 percentage points per year, and this effect persists across longer horizons. This magnitude is sizable relative to the average stock-level risk premium of 2.5 percent per year in our sample. We then introduce procurement as a second, concurrently active policy instrument and show that it meaningfully attenuates the pricing of tariff risk. Conditional on identical tariff exposure, firm–months receiving greater federal procurement obligations exhibit significantly lower risk premia. Specifically, a one standard deviation increase in recent procurement corresponds to a 68 percent attenuation of the tariff-related risk premium. Taken together, these stock market results point to a fiscal insurance mechanism: procurement, an active ongoing government policy, could partially offset the risks created by tariff shocks and dampen the compensation investors demand in capital markets.

Next, we provide direct evidence on this underlying mechanism. Using transaction-level government spending data, we examine how procurement allocations respond to tariff shocks. We study firm-level heterogeneity to identify which firms receive fiscal insurance and why. In particular, we consider three dimensions of heterogeneity capturing political connections (lobbying for Republican-sponsored bills), electoral incentives (location of a firm's largest establishment in a swing state), and anticipated economic harm (whether a firm ultimately secures a tariff exemption).

Our analysis reveals pronounced and economically meaningful differences across these groups. For the baseline result, procurement obligations on average decline following tariff shocks in the short and near-term horizons. However, a one SD increase in the Republican bill-share measure corresponds to a significant 75.5% attenuation in the average (negative) procurement response to tariff shocks. This attenuation manifests immediately and is statistically significant over short horizons. Firms headquartered in swing states from the 2016 election also gain more positive procurement, although the interaction coefficients are not statistically significant. Finally, firms that were later granted tariff exemptions, indicating economic vulnerability, exhibit substantially more positive procurement responses. These patterns demonstrate that fiscal insurance is not distributed uniformly: it is more pronounced among politically connected firms, firms located in electorally salient regions, and firms experiencing or anticipating substantial economic harm from tariffs.

Finally, we examine whether fiscal insurance exhibits real economic outcomes by studying firms' subsequent earnings performance. Using quarterly Compustat data and a stacked panel design that traces horizons from one to four quarters ahead, we find as a baseline that tariff shocks have materially negative effects on future earnings growth, with the largest economic and statistical impact emerging three quarters after the shock and remaining substantial at four

quarters. Consistent with the fiscal-insurance mechanism, firms receiving larger procurement obligations experience significantly higher subsequent earnings growth relative to otherwise similar firms facing identical tariff exposure. A one standard deviation increase in (log) procurement attenuates the negative effect of tariffs on earnings growth by approximately 30–33 percent at three- and four-quarter horizons.

Our findings contribute to several strands of the economics and finance literature. Our main contribution is to propose a fiscal insurance mechanism that operates through interacting policy instruments and is identified in asset prices. The traditional asset pricing literature has shown that fiscal and government policy risk is an important determinant of asset prices. Foundational work demonstrates that policy shocks shape expected returns by altering firms' cash-flow risk, investment opportunities, and exposure to aggregate uncertainty (e.g., Pástor and Veronesi (2012), Belo, Gala, and Li (2013), Belo and Yu (2013), Gulen and Ion (2016), Kelly, Pástor, and Veronesi (2016), Hassan, Hollander, Van Lent, and Tahoun (2019), among others). Complementing this literature at the instrument level, Dou, Ji, Reibstein, and Tian (2026) analyze federal procurement at the contract level and show that firms' ideological alignment and political characteristics shape their ability to extract cash flows from government contracts, reinforcing the view that procurement is a key mechanism through which firm characteristics mediate exposure to fiscal policy risk and valuation. Recent empirical research further shows, using high-frequency data, that investors form active and time-varying fiscal policy expectations that are reflected in asset prices (e.g., Bianchi, Gómez-Cram, and Kung (2024), Xu and You (2025), Dong and Xu (2025)). We complement this recent literature by showing that markets price interactions among policy instruments, rather than isolated policy shocks. Fiscal insurance attenuates the equity risk premia associated with policy uncertainty, revealing a new channel through which complex government actions influence expected returns.

We contribute to the political economy and public finance literature that studies how fiscal tools are allocated across firms and regions. Political economy studies have highlighted how distributive incentives, lobbying, and electoral motives shape the allocation of policy benefits and risks (e.g., Grossman and Helpman (1994), Acemoglu and Robinson (2001), Fisman (2001), Faccio (2006), Bertrand, Bombardini, and Fisman (2020)). Work on trade policy documents that tariff actions and related interventions often reflect political responsiveness and sector-specific exposure (e.g., Autor, Dorn, and Hanson (2013), Pierce and Schott (2016), Blanchard, Bown, and Johnson (2025)). Parallel research on procurement and fiscal spending shows that government contracts serve both economic and political objectives, benefiting connected or electorally strategic firms (e.g., Goldman, Rocholl, and So (2013), Coviello and Gagliarducci (2017)). Despite these advances, most studies examine each industrial policy tool separately. Our paper provides granular empirical evidence that concurrent federal industrial policies can jointly shape how the market perceives firms' risk exposure, and that policy interaction generates systematic patterns of risk transfer or insurance across firms. Procurement spending responds endogenously to risks created by other policies, rising most for politically connected and economically vulnerable firms. This evidence suggests that fiscal insurance is not distributed uniformly, but reflects both political incentives and economic stabilization motives.

Finally, our study also relates to research on the real effects of government trade and industrial policy. Work on trade policy shows that tariffs and protectionist measures have substantial real and financial effects (e.g., Handley and Limão (2022), Caldara, Iacoviello, Molligo, Prestipino, and Raffo (2020), Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020), and Amiti and Weinstein (2021)). Parallel work on industrial and procurement policy highlights that fiscal spending and government contracts can serve both economic and political objectives (e.g., Goldman, Rocholl, and So (2013), Coviello and Gagliarducci (2017)). We build on this

literature by showing that the financial and real effects of trade policy depend critically on contemporaneous fiscal actions. When procurement spending rises in response to tariff shocks, it provides partial insurance against policy-induced risk, altering both market pricing and firm outcomes. Our results underscore that the impact of trade policy cannot be understood in isolation; its consequences depend on the broader fiscal environment in which it is implemented.

In the remainder of the paper, Section 2 describes our data and measurement choices. We then provide evidence of fiscal insurance from stock market (Section 3), firm-level heterogeneity (Section 4), and real effects (Section 5). Section 6 provides concluding remarks and a discussion of extensions.

2 Data and Measures

2.1 Government policy: Tariffs

Tariff policy was one of the most salient instruments of U.S. industrial and trade strategy during 2018-19. The Trump administration implemented a sequence of measures that combined long-standing industry-specific protection with new trade actions aimed at restructuring global supply chains. Some tariffs were sectoral – such as safeguard duties on household appliances and renewable-energy products – while others were directed at specific trading partners, most notably China. Together these measures represented the broadest resurgence of U.S. protectionism in decades.

Beginning in early 2018, the administration invoked multiple statutory authorities. Under Section 201 of the Trade Act of 1974, safeguard tariffs were imposed on solar panels (30 percent) and washing machines (32 percent) on February 7, 2018. Under Section 232 of the Trade Expansion Act of 1962, the U.S. government introduced tariffs of 25 percent on iron and steel

and 10 percent on aluminum on March 23, 2018, citing national-security grounds; initial exemptions for Canada, Mexico, and the European Union were removed on June 1, 2018. Finally, under Section 301 of the Trade Act of 1974, the administration announced on April 3, 2018 the first round of China-specific tariffs of 25 percent on roughly $34 billion of imports, which took effect in July. Figure 1 depicts the timeline and statutory rates for these key actions.

[Insert Figure 1 here]

These tariffs substantially increased input costs for U.S. firms that rely on imported intermediate goods, while also generating heightened uncertainty about future trade policy and the stability of global supply chains. On the cost side, many affected firms faced immediate increases in production expenses as imported inputs from China and other trading partners became more expensive, forcing them either to absorb higher costs or to reconfigure sourcing arrangements. On the uncertainty side, the staggered and often unanticipated sequence of tariff announcements and exemptions introduced ambiguity over which sectors and countries would be targeted next, discouraging investment and new supplier relationships. Both channels – higher production costs and uncertainty shocks – have been shown to transmit meaningfully into real activity, asset prices, and firm-level behavior (see, e.g., Caldara, Iacoviello, Molligo, Prestipino, and Raffo (2020); Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020); Fajgelbaum and Khandelwal (2022); Handley and Limão (2022)).

Firm-level measure. We quantify each firm's exposure to tariff policy using the *Tariff Shock* variable defined in Equation (1) below. For firm i in month t, the tariff shock is computed as a cost-weighted average of tariff-rate changes across all country–product pairs (c, j) for which the firm imported goods in 2017:

$$\text{Tariff}_{i,t} = \sum_{c} \sum_{j} \left(\frac{\text{Import Value}_{i,2017}^{cj}}{\text{Operating Expenses}_{i,2017}} * \Delta\text{Tariff Rate}_{t}^{cj} \right) \tag{1}$$

The change in tariff rate, ΔTariff Rate$_t^{cj}$, reflects the statutory increase for each country–product pair as documented in official announcements and consolidated in Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020). Firm-level import values, Import Value$_{i,2017}^{cj}$, are obtained from S&P Panjiva, which contains the universe of maritime trade transactions at the firm-product(HS6)-country level. We link the Panjiva data to Compustat by firm to obtain their operating expenses, Operating Expenses$_{i,2017}$. The ratio therefore captures the share of a firm's 2017 spending attributable to imports of goods later subject to tariffs. This measure can be interpreted as the implied percentage increase in a firm's operating costs due to the tariff changes, holding input quantities constant. The tariff changes shown in Figure 1 correspond directly to the ΔTariff Rate$_t^{cj}$ term in Equation (1), linking the statutory policy timeline to firm-level exposure. This Tariff$_{i,t}$ variable serves as our main measure of policy shock and the foundation for the subsequent empirical analysis.

2.2 Government policy: Procurement

Federal procurement contracts are the channels through which executive-branch agencies execute spending that has already been authorized and appropriated by Congress. Once funds are allocated to agencies under specific programs or budget accounts, certified procurement contracting officers implement this spending by soliciting bids and awarding contracts.

We obtain transaction-level procurement data from `USAspending.gov`, which reports all obligations, de-obligations, and financial commitments made under these contracts. The core variable used in our analysis is "federal_action_obligation" (the term used in the original database), which records the dollar amount of federal spending that is legally committed to a firm at the time of the contracting action. Each record contains "action_date," the date on which the obligation was issued or contractually finalized. This dataset allows us to measure

the timing and intensity of federal procurement activity at a relatively high (transaction-by-transaction) frequency. Additional contract award metadata, including award identifiers, agency names, NAICS classifications, and contract type codes, serve primarily as controls or sample filters in our analysis. Importantly, the data follow the transaction rather than the contract: a single contract may generate multiple transactions as modifications, new orders, or adjustments occur. This allows us to conduct time-series analysis. Our use of this federal obligation database follows a recent and growing literature in political economy and finance (see, e.g., Brogaard, Denes, and Duchin (2021), Denes and Scanlon (2025), and Xu, Yang, and You (2025)).

To align the transaction-level data with our firm-month panel, we focus on publicly listed firms and map CUSIP-level identifiers to their ultimate parent entities. For each parent firm and month, we sum all "federal_action_obligation" amounts across the firm's subsidiaries and awarding agencies. We focus on single transaction contracts (81.45% of all contracts), which are typically discretionary and therefore can have flexible responses. Following the literature, we also exclude Department of Defense obligations, as these tend to be long-term, fixed in nature, and largely insensitive to macroeconomic or political shocks. The resulting dataset captures the monthly flow of federal spending allocated to each parent firm based on the timing of obligations issuance. Lastly, we log-linearize the firm-month procurement values (plus one) to construct our second key variable, "Log Procurement," at the firm i-month t level.

2.3 Capital market variables

We construct monthly firm-level risk premia using the Fama-French three-factor (FF3) and five-factor (FF5) models. Daily stock returns are obtained from CRSP and merged with daily factor returns from the Fama-French data library. For each stock-day, excess returns are defined as the stock's return minus the risk-free rate. We then group observations by stock and calendar

month and estimate, for each stock-month, an OLS regression of daily excess returns on the corresponding factor realizations. To ensure reliable estimation, we require at least ten daily observations per stock-month.

The estimated intercept from the FF3 specification ("Mkt_RF," "SMB," "HML") is recorded as α_{FF3}, which we use as our primary measure of abnormal returns. The resulting α_{FF3} series provides a monthly panel of risk premia measures for all stocks in our sample, expressed in daily percentage units. The parent firm's risk premium is then calculated using the averaged returns. We also estimate α_{FF5} (adding "RMW" and "CMA"). More detailed steps are explained in Appendix A.1.

We obtain analyst earnings forecasts from I/B/E/S at the firm level, aggregated to the ultimate parent company entity. For each parent firm and month, we compute average subsidiary-level earnings-per-share (EPS) forecasts and then take the median across all analysts covering that parent firm. For realized earnings, we use quarterly data from Compustat. We aggregate subsidiary-level observations to the parent level by averaging reported EPS and summing total earnings across subsidiaries for each parent–quarter.

2.4 Summary statistics

Our merged, balanced sample consists of publicly listed firms with an active federal procurement relationship — that is, firms with at least one nonzero procurement obligation during the sample period. The sample includes 997 unique parent companies. We then merge in firm-level tariff-shock measures, assigning zero exposure to firms without tariff-affected imports.

The summary statistics in Table 1 are computed on the balanced sample. The first four rows report the core variables in our main merged panel. The unit of observation is at the firm i-month t level. Log Procurement exhibits substantial variation, with a mean of 4.78 and a

standard deviation of 6.83. The 90th percentile value of 15.27 (corresponding to $4.28 million) indicates that roughly 10 percent of firm–months experience sizable procurement inflows; the maximum newly granted procurement amount in a single firm-month reaches $30.06 billion. When we restrict our sample to observations with positive procurement, the mean of Log Procurement is 14.1, which corresponds to approximately $1.33 million in obligations. These magnitudes are consistent with those reported in Xu, Yang, and You (2025). According to the second row, the Tariff Shock measure also exhibits substantial variation, with an average exposure of 0.27 percent and a pronounced right tail reflecting firm–months subject to large effective tariff increases during the 2018 trade policy changes. Firm-level risk premia are well behaved in our sample. The mean FF3 and FF5 daily abnormal returns are 0.0096 and 0.0117 percent, corresponding to annualized premia of 2.5 and 2.9 percent, respectively. The similarity across the two factor specifications provides reassurance that the estimates are not driven by factor-model choice. The wide interpercentile ranges indicate substantial heterogeneity in excess return dynamics across firms, as expected after controlling for common risk factors. We defer discussion of the remaining variables in Table 1 to later sections.

[Insert Table 1 here]

3 Stock Market Evidence of Fiscal Insurance

This section presents our first evidence indicating "fiscal insurance" — a mechanism through which one government or industrial policy could partially offset the risks introduced by another active government policy. In our empirical setting, this hypothesis implies that fiscal policy instruments such as procurement contracts can mitigate the cost and uncertainty influence generated by contemporaneous policy shocks, such as exogenous tariff shocks.

Section 3.1 introduces the main and interaction effects. Firms facing higher tariff exposure earn higher risk premia on average; among firms facing the same tariff exposure, those receiving larger procurement obligations carry significantly lower risk premia. Section 3.2 examines the corresponding responses in analysts' earnings forecasts. The purpose of this section is to use asset prices to identify risk and insurance interpretations before we turn to direct policy evidence on how procurement responds to tariff shocks (Section 4) and whether fiscal insurance has real effects on firm outcomes (Section 5).

3.1 Tariffs, procurement, and risk premia

We begin by testing whether firms more exposed to changes in tariff policy earn higher risk premia on average. As before, we denote firms by i and months by t. For any horizon $k \geq 1$, we project the k-months-ahead monthly risk premium on tariff exposure in a balanced panel setting as follows:

$$\text{RiskPremium}_{i,[t+k-1,t+k]} = \alpha_t + \delta_i + \beta\, \text{Tariff}_{i,t} + \varepsilon_{i,[t+k-1,t+k]}. \tag{2}$$

The dependent variable, $\text{RiskPremium}_{i,[t+k-1,t+k]}$, is the average daily excess return of firm i over the forward window $[t+k-1, t+k]$; for instance, $k = 1$ corresponds to the one-month–ahead horizon. The specification includes firm fixed effects, δ_i, to absorb time-invariant firm characteristics and month fixed effects, α_t, to capture aggregate conditions. The coefficient of interest, β, measures the effect of tariff shocks on risk premia. A positive β implies that greater tariff exposure raises the risk premium. For ease of interpretation, the risk premium is in units of daily basis points.

Table 2 reports the estimated effect of tariff shocks on risk premia. Across both the FF3 and FF5 specifications, the coefficient on the tariff shock is positive and statistically significant for all future horizons of interest. This pattern indicates that the cost and policy uncertainty

induced by tariff increases is priced in the U.S. capital market, which is consistent with Amiti and Weinstein (2021) and Amiti, Gomez, Kong, and Weinstein (2024). The magnitudes are also stable across horizons and risk premium models. Under the FF3 specification, a one standard deviation (SD) increase in tariff exposure is associated with an increase in the one-month-ahead risk premium ($\text{RiskPremium}_{i,[t,t+1]}$) of roughly 1.25 per annum, rising to about 1.93 per annum at $\text{RiskPremium}_{i,[t+4,t+5]}$. The estimates using FF5 risk premia in Panel (b) are similar, suggesting that the result is not sensitive to controlling for profitability and investment factors. These effects are economically large relative to the average annualized risk premium of 2.5 (2.9) percent under the FF3 (FF5) model reported in Table 1.

The increasing coefficients across horizons also indicate that the market perceives tariff exposure as a persistent source of policy risk. Together, these results establish that, under our construction, tariff shocks generate priced policy uncertainty.

[Insert Table 2 here]

Next, we test whether procurement is priced in stock prices through a "fiscal insurance" channel, which is the core of our paper. For firm i and month t, we estimate the following specification:

$$\begin{aligned}\text{RiskPremium}_{i,[t+k-1,t+k]} = \alpha_t + \delta_i + \beta_1 \,\text{Tariff}_{i,t} + \beta_2 \,\log(1+\text{Procurement}_{i,[t+k-2,t+k-1]}) \\ + \beta_3 \,\text{Tariff}_{i,t} \times \log(1+\text{Procurement}_{i,[t+k-2,t+k-1]}) + \varepsilon_{i,[t+k-1,t+k]}.\end{aligned} \tag{3}$$

The interaction coefficient β_3 captures whether recent procurement inflows change the pricing of tariff shocks. A negative β_3 is consistent with our fiscal-insurance hypothesis: among firms with the same tariff exposure, those receiving larger procurement obligations exhibit lower risk premia. As before, the specification includes firm fixed effects, δ_i, and month fixed effects,

α_t. We estimate this specification for horizons $k = 1$ through 6 using both the FF3 and FF5 risk-premium measures.

Table 3 reports the results. Across all horizons and under both risk premium models, the interaction between tariff shocks and procurement is negative and, in most cases, statistically significant. This pattern indicates that procurement meaningfully attenuates the pricing of tariff risk. The effects are also economically large. Under the FF3 model, the interaction coefficient ranges from approximately -0.04 to -0.05 across horizons. Conditional on facing the same tariff exposure, firm–months receiving one standard deviation more in federal procurement experience a 68% attenuation in the tariff-related risk premium. This attenuation effect weakens and becomes statistically insignificant at longer horizons, farther from the month in which the tariff shock occurs.

As before, the FF5 results are qualitatively similar and, if anything, slightly stronger, indicating that the findings are robust to additional factor controls. Taken together, our results provide stock-market evidence of fiscal insurance. Procurement does not eliminate the pricing of tariff shocks, but it systematically dampens their effect on risk premia. This attenuation pattern is precisely what the proposed mechanism predicts: one arm of government policy (procurement spending) is perceived by investors to partially insure firms against the uncertainty created by another (tariffs).

[Insert Table 3 here]

3.2 Earnings forecasts

Table 4 examines whether the procurement effect is reflected in analysts' firm earnings expectations. Across all horizons, tariff shocks are associated with declines in earnings forecasts; the interaction between tariff shocks and procurement is generally positive and never statistically

significant. The positive (but insignificant) signs are directionally consistent with procurement mitigating expected economic harm from the perspectives of financial analysts, but analysts do not statistically and significantly revise their earnings forecasts in response to procurement inflows.

This stands in contrast to the significant interaction effects documented in Section 3.1 when stock risk premia are the dependent variable. This difference in patterns reinforces our interpretation that fiscal insurance operates primarily through a risk channel rather than through contemporaneous changes in expected cash flows.

[Insert Table 4 here]

4 Firm Heterogeneities in Fiscal Insurance

Having established the stock market evidence and economic magnitude of fiscal insurance in Section 3, we now provide direct evidence on its underlying mechanism. Using transaction-level government spending data, we examine how procurement allocations respond to tariff shocks and identify the heterogeneity in fiscal insurance — namely, which firms receive greater fiscal support when tariff shocks occur. Section 4.1 introduces firm-level heterogeneity variables that would be consistent with our hypothesis, and Sections 4.2 and 4.3 present empirical results.

4.1 Firm heterogeneities

To hypothesize which firms receive more fiscal insurance, we focus on both political and economic dimensions that plausibly shape procurement allocations. First, in this time period, firms that are more politically connected to the Republican Party may be more closely aligned with the administration's policy priorities and thus more likely to receive support. Second, firms

headquartered in swing states may receive greater assistance if procurement also help achieve electoral objectives. Finally, firms that successfully obtained tariff exemptions provide evidence of economic hardship and may therefore attract greater fiscal support. These variables allow us to test whether procurement responds systematically to political alignment, electoral competitiveness, and documented economic need.

4.1.1 Lobbying for Republican bills: A measure of political connection

A standard way to measure firms' political activity is through lobbying. We obtain lobbying data from OpenSecrets (`https://www.opensecrets.org/bulk-data`), which reports firm-level lobbying activity under the U.S. Lobbying Disclosure Act. These data provide bill-level information on lobbying expenditures, including the legislative bill code and the party affiliation of the bill's primary sponsor. Because our focus is on firms' connections to the Republican Party during the first Trump administration, we use lobbying records from 2013–2016, prior to the tariff episode.

To measure a firm's connection to the Republican Party, we construct two related indicators that differ only in their aggregation procedures. Both are defined as the share of lobbying expenditures directed toward Republican-sponsored bills. "Rep Bill Share (Avg)" computes this share at the firm–quarter–bill level and then averages it to the firm level, while "Rep Bill Share (Sum)" first aggregates lobbying outlays to Republican-sponsored bills and then computes the corresponding firm-level share. Both measures capture the intensity of a firm's lobbying for Republican-backed legislation relative to its overall political activity.

4.1.2 Swing state: An exogenous measure of voter targeting

We construct a Swing State indicator to capture whether a firm operates in a politically competitive environment. For each firm, we identify the state of its largest subsidiary by sales and classify the firm as located in a swing state if that subsidiary is in a state that was closely contested in the 2016 U.S. presidential election—namely, Colorado, Florida, Iowa, Michigan, Nevada, New Hampshire, North Carolina, Ohio, Pennsylvania, Virginia, and Wisconsin. The resulting indicator, $\mathbf{1}(\text{Swing State})$, equals one for firms whose primary economic footprint lies in these electorally pivotal states and zero otherwise.

4.1.3 Tariff exemptions: A real-time measure of economic impact

To measure firms' direct exposure to tariff hardship, we compile data on tariff–exemption requests submitted during the 2018–2019 tariff wave under Section 301 (China imports) and Section 232 (steel and aluminum). Firms seeking relief filed formal applications with the U.S. Trade Representative (USTR) through the federal rulemaking portal `Regulations.gov`. For each tariff list (e.g., Lists 1, 2, and 3), the USTR announced the affected products and subsequently opened a public exclusion-request window, typically lasting several months. Each request is associated with a docket number and accompanied by supporting documents detailing the firm's claimed economic impact from the tariffs.[2] Our primary source is the *QuantGov* dataset, which systematically scrapes Section 301 and 232 dockets from `Regulations.gov` and provides an easily downloadable CSV containing firm names, document IDs, and decision outcomes from March 2018 to December 2019. We validate these records by manually reviewing a ran-

[2] A typical file includes a standardized application form, a narrative letter outlining the claimed economic impact, supporting materials such as cost or supply–chain documentation, and the USTR's decision letter indicating approval, denial, or pending status.

dom subset of the underlying PDFs.[3]

To construct our economic impact measure, we match docket-level documents to our firm panel using standardized parent-firm identifiers. We then classify firms receiving an exemption as approved if they were granted at least one exclusion and had no denied or pending requests, i.e., $\mathbf{1}$(Tariff Exempt) = 1; all others are coded as non-exempt, i.e., $\mathbf{1}$(Tariff Exempt) = 0.

This indicator captures firms that successfully obtained tariff exemptions based on anticipated economic harm. To validate this interpretation, we complement the exemption data with a textual analysis of the supporting documents submitted by firms. For each decision category (approved, denied, and pending), we compute keyword densities – defined as counts per 1,000 words – for two manually constructed dictionaries: one capturing economic-impact terms (e.g., "cost," "supply chain," "production," "harm") and another capturing political-appeal terms (e.g., "jobs," "community," "fairness"). The full list of keywords is reported in Appendix A.2.

Figure 2 plots keyword densities (per 1,000 words) for economic terms (blue) and political terms (orange). Across all three decision categories, economic language systematically dominates political language. One-sided paired t-tests within each group reject equality of the two densities, confirming that firms frame their exemption requests primarily in terms of economic harm rather than political appeals, regardless of whether requests are approved, denied, or pending. This pattern is consistent with the program's stated evaluation criteria and suggests that exemption decisions are driven by documented economic impacts rather than political rhetoric.

[Insert Figure 2 here]

[3]To our knowledge, this is among the first uses of these data in the finance and economics literature, and we will make the cleaned dataset available to future researchers.

4.1.4 Summary statistics

Table 5, Panel (b) reports the correlation matrix for our firm-level heterogeneity measures. The two Rep Bill Share variables are nearly perfectly correlated, indicating that the political-connection measure is robust to alternative constructions. In contrast, correlations across the three dimensions – political connection (Rep Bill Share), voter targeting (Swing State), and economic impact (Tariff Exemption) – are uniformly low, suggesting that each captures a distinct aspect of firm-level heterogeneity.

[Insert Table 5 here]

The middle block of Table 1 reports summary statistics for the firm-level heterogeneity measures. Rep Bill Share (Avg) and Rep Bill Share (Sum) have means of 0.138 and 0.148, respectively, with similar dispersion, indicating that firms allocate, on average, about 14–15 percent of their lobbying expenditures to Republican-sponsored bills.[4] The Swing State indicator has a mean of 0.284, implying that roughly 28 percent of firm–month observations are located in politically competitive states. Finally, the Tariff Exempt indicator has a mean of 0.021, indicating that only about 2.1 percent of firms in the sample were granted a tariff exemption.

4.2 Empirical evidence

In this section, we examine the direct relationship between procurement and tariff shocks, both on average and across firm-level heterogeneity, and then present two illustrative firm-level cases.

[4]This does not imply that the remaining expenditures are directed exclusively toward Democratic-sponsored bills, as firms also lobby on non-bill-related issues.

4.2.1 Results

Table 6 summarizes how procurement responds to tariff exposure on average, reporting contemporaneous ("F0") and predictive ("F1"–"F12") monthly responses as well as cumulative responses over the twelve months following the shock. In Panel (a), the coefficient on Tariff Shock is negative and statistically significant across all horizons, with point estimates ranging from approximately -0.027 to -0.059. These estimates indicate that firms facing higher tariff exposure systematically receive lower procurement obligations in the current and subsequent months; the magnitude of the effect peaks about ten months after the shock.

In economic terms, a one SD increase in tariff exposure leads to an average decline in log procurement of 4.6–10.1 percent. Panel (b) reports the corresponding cumulative procurement responses, which become increasingly negative with the horizon, as expected. Appendix Table A.1 presents quarterly analogues of these results, which are larger in magnitude and similarly significant. Appendix Table A.2 examines pre-trends and finds no evidence of anticipatory effects.

[Insert Table 6 here]

We next examine heterogeneity in fiscal insurance by asking which types of firms receive greater procurement support following tariff shocks. Table 7 reports interaction specifications that quantify how procurement responses to tariff exposure vary across firms. To conserve space, we present results at selected horizons, including short- and medium-term windows and the horizon at which the average effect peaks.

[Insert Table 7 here]

In Panel (a) of Table 7, the interaction between tariff shocks and the Republican bill-share measures is consistently positive across horizons, with the effect occurring contemporaneously

and at short horizons. In the predictive one-month specification (columns (1)–(2)), a one SD increase in Republican bill share attenuates the average negative procurement response by approximately 0.027. This effect is economically meaningful, given that the average effect of the tariff shock is about -0.027 (as shown in Table 6). Thus, among firm–months facing the same tariff exposure, firms with stronger lobbying ties to Republican-sponsored legislation receive materially higher procurement allocations in the current and subsequent month. While the single-month specifications trace the dynamics of the response at each horizon, the cumulative specifications (beginning with F0) summarize the total effect over each window. These cumulative results are reported in the right-hand panel.

Panels (b) and (c) introduce interactions with the voter-targeting indicator $\mathbf{1}(\text{Swing State})$ and the economic-impact indicator $\mathbf{1}(\text{Tariff Exempt})$, respectively. In Panel (b), the interaction terms are positive across horizons, indicating that firms headquartered in electorally competitive states tend to receive relatively more procurement following tariff shocks. Although these estimates are not statistically significant, the coefficient direction is consistent with procurement favoring firms from states that are potentially more politically relevant by generating growth opportunities and hedging macro risks.

Panel (c) shows a statistically more significant pattern. The interaction between tariff shocks and the Tariff Exempt indicator is positive and economically meaningful, with coefficients ranging from 0.013 to 0.058 in the predictive specifications and peaking at longer individual horizons. Firms that are eventually granted tariff exemptions – those that the USTR later determined to face substantial economic harm – receive significantly larger procurement allocations following tariff shocks. The timing of this effect is informative and expected: because exemption applications are submitted and evaluated only after tariff lists are announced, the stronger effects at longer horizons indicate that procurement responds to newly revealed

information about firms' economic vulnerability. This contrasts with the much stronger short-horizon result in Panel (a), where the political connection measures are constructed from lobbying and contribution outlays observed during 2013–2016.

Together, these results show that fiscal insurance is not distributed uniformly. Procurement support is tilted toward firms with political relevance (Republican lobbying and swing-state location) and firms experiencing greater economic distress from the tariff shock, consistent with both political and stabilization motives in the allocation of government spending.

4.2.2 Two case illustrations of significant firm heterogeneities

We present two firm-level cases to illustrate the political-connection and economic-vulnerability channels identified in Table 7. They are intended to provide intuition for the regression results.

Case 1: Political connections.

Firm:	A	B
Exposed to Section 301 tariffs	Yes	Yes
Market Cap (USD bn, July 2018)	0.340	0.404
Political connection (Rep Bill Share (Avg))	**0.698**	**0.000**
Tariff exemption status	0	0
Post–Section 301 six-month procurement (USD mn)	1214.020	0.000

This case illustrates the political-connections channel through which fiscal insurance operates. Firm A corresponds to General Motors Company (GM), an automotive manufacturer (NAICS 336111; 2-digit sector 33), while Firm B corresponds to The Coca-Cola Company (KO), a non-alcoholic beverage producer (NAICS 312111; 2-digit sector 31). Both firms were

exposed to the Section 301 tariffs and were similar in size in July 2018. Neither firm received a tariff exemption.

Despite these similarities, the two firms differed sharply in political connectedness. GM exhibited substantially higher lobbying intensity directed toward Republican-sponsored legislation, while KO displayed no such connection. In the six months following the July 2018 shock, GM received more than $1.2 billion in procurement, whereas KO received virtually none. Conditional on similar tariff exposure and firm size, this divergence is consistent with politically connected firms having greater access to procurement opportunities as a form of fiscal insurance during trade disruptions.

Case 2: Economic vulnerability.

Firm:	A	B
Exposed to Section 301 tariffs	Yes	Yes
Market Cap (USD bn, July 2018)	0.0203	0.0197
Political connection (Rep Bill Share (Avg))	0.000	0.000
Tariff exemption status	**1**	**0**
Post–Section 301 six-month procurement (USD mn)	222.084	0.072

This case illustrates an economic vulnerability channel of fiscal insurance, as proxied by tariff-exemption status. Firm A corresponds to Arrow Electronics, Inc. (ARW), a global electronic components distributor (NAICS 423690; 2-digit sector 42), while Firm B corresponds to Asbury Automotive Group (ABG), a franchised automotive dealership group (NAICS 441110; 2-digit sector 44). The two firms were similar in size in July 2018, were both exposed to the Section 301 tariffs, and exhibited no meaningful political connectedness as measured by Republican bill-share lobbying.

A notable difference between the two firms lies in economic vulnerability. ARW was granted a tariff exemption following the Section 301 announcement, reflecting regulators' determination that the firm faced substantial economic harm from the tariffs, whereas ABG did not receive such relief. In the six months following the July 2018 shock, ARW received more than $220 million in federal procurement, while ABG's procurement was negligible. Conditional on comparable scale and tariff exposure, this divergence is consistent with the view that more economically vulnerable firms receive greater fiscal insurance during periods of trade adjustment.

4.3 Firm heterogeneities and risk premia

In the final part of this section, we link these firm-level heterogeneities back to the risk premium results in Section 3. We find that, conditional on the same tariff exposure, firms that are more politically connected, located in electorally competitive states, or able to document substantial economic harm exhibit systematically lower risk premia over a wide range of horizons.

Table 8 reports the detailed coefficient estimates using the firm-month FF3 risk premium measure as the dependent variable.[5] The interaction between tariff exposure and the Republican bill-share measure is large and highly significant: according to Panel (a), a one SD increase in Republican lobbying intensity attenuates the tariff-induced risk premium by approximately as much as 75.5 percent. Similarly, firms headquartered in swing states and firms that ultimately received tariff exemptions—capturing electoral relevance and realized economic vulnerability, respectively—exhibit interaction effects that nearly offset the positive average tariff premium. These patterns indicate that investors systematically price not only tariff exposure itself, but also

[5]Results are quantitatively and qualitatively similar when the FF5 risk premium measure is used as the dependent variable, as shown in Appendix Table A.3.

the likelihood that firms will receive compensating fiscal support or political relief when tariffs bind.

[Insert Table 8 here]

Taken together, the results shown in Tables 7 and 8 reveal a tight link between the allocation of fiscal insurance and the pricing of policy risk. The same firm characteristics that predict greater procurement responses to tariff shocks also predict lower risk premia, suggesting that investors rationally incorporate anticipated fiscal support into asset prices. While procurement is one observable channel through which this insurance is delivered, the strength of these pricing effects implies that markets may also price in other, less directly observable forms of policy accommodation, highlighting an important direction for future research.

5 Real Effects of Fiscal Insurance

In this section, we examine the real effects of fiscal insurance by examining whether the mechanism documented above affects firms' future earnings growth. To achieve this, we estimate a stacked panel regression in which quarterly percentage changes in earnings per share (EPS) or total earnings over horizons of up to four quarters ahead serve as the dependent variables, and tariff–procurement interactions – allowed to vary by horizon – enter on the right-hand side. Given the quarterly frequency of Compustat data, the unit of observation is a firm–quarter–horizon.

Table 9 presents the results. Column (1) uses EPS growth as the dependent variable, and Column (2) uses total earnings growth. The horizon fixed-effects structure allows us to trace how the fiscal insurance effect propagates through firms' earnings over time, independent of seasonal patterns or aggregate fluctuations. Other coefficients are omitted from the table for simplicity.

Results are robust across both measures of earnings growth. First, the top four rows of Table 9 demonstrate that tariff shocks have generally negative effects on realized firm earnings; the largest economic and statistical impact emerges at horizon $H = 3$ and remains substantial at $H = 4$. The interaction terms further indicate that firms receiving larger procurement inflows experience higher subsequent earnings growth. These effects strengthen over time and become economically and statistically significant from the third quarter onward. A one SD higher procurement leads to a 30.8-32.2% (29.6-33.1%) improvement in the negative tariff average effect on firm earnings growth three (four) quarters after the tariff shock.

Our evidence is consistent with fiscal insurance having sizable real effects. Put together, procurement as an active government policy tool not only reduces perceived risk in financial markets at short horizons, but also helps firms absorb the actual earnings impact of tariff shocks over the subsequent year.

[Insert Table 9 here]

6 Conclusion

Government policies rarely operate in isolation, yet most empirical research treats them as independent interventions. This paper shows that when multiple industrial policy tools operate concurrently, their interactions can meaningfully alter how markets price risk and how firms perform. Exploiting the overlap between the 2018-19 U.S. tariff shocks and federal procurement spending, we document a mechanism of *fiscal insurance*: certain fiscal policy actions are perceived by investors as stabilizing forces that mitigate the risks created by other government actions.

Our empirical evidence reveals three key patterns. First, firms exposed to larger tariff

shocks experience higher risk premia in the following months, consistent with investors demanding compensation for policy uncertainty. Second, this pricing response is substantially attenuated for firms that receive greater procurement inflows, indicating that fiscal policy acts as a partial hedge against policy-induced risk. Third, procurement itself responds to tariff exposure – increasing more for politically connected and economically vulnerable firms – and these inflows translate into stronger subsequent earnings growth. Together, these findings show that fiscal insurance operates through both political and economic channels, shaping the allocation of fiscal resources, the pricing of policy risk, and firms' real outcomes.

Conceptually, fiscal insurance could reframe how we think about the transmission of government policy. The impact of a given policy on firms and markets depends not only on its direct design but also on the equilibrium response of other fiscal instruments, which may respond. This perspective implies that estimates of "policy risk" or "policy uncertainty" are incomplete when other stabilizing tools are active. More broadly, recognizing the *cross-policy dimension* of fiscal government policies helps explain why markets sometimes appear resilient to disruptive government actions and highlights the role of fiscal capacity and political incentives in shaping that resilience.

Future research could build on this framework by examining how fiscal insurance operates across other policy domains, such as environmental regulation, industrial subsidies, or regional investment programs, and by modeling its implications for optimal policy coordination and asset pricing. Understanding the conditions under which fiscal policy insures versus amplifies policy risk remains central to interpreting how governments influence markets and real economic activity.

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Table 1: Summary Statistics

	Mean	SD	Min	P10	P90	Max
Log Procurement	4.777	6.827	-3.219	0.000	15.270	24.127
Tariff Shock (%)	0.273	1.710	0.000	0.000	0.271	37.819
Risk Premium (FF3,%)	0.007	0.482	-1.631	-0.511	0.508	1.652
Risk Premium (FF5,%)	0.008	0.518	-1.771	-0.542	0.543	1.833
Rep Bill Share (Avg)	0.138	0.304	0.000	0.000	0.750	1.000
Rep Bill Share (Sum)	0.148	0.326	0.000	0.000	0.849	1.000
$\mathbf{1}$(Swing State)	0.284	0.451	0.000	0.000	1.000	1.000
$\mathbf{1}$(Tariff Exempt)	0.021	0.142	0.000	0.000	0.000	1.000
EPS Growth (%)	10.111	72.548	-214.286	-75.000	97.778	234.615
Total Earnings Growth (%)	13.128	78.933	-220.661	-77.996	110.390	284.348

Note: This table reports summary statistics based on the balanced firm–month panel used in the main analysis. Each observation corresponds to a firm–time pair, and the dataset includes all firms observed in every period of the sample. *Log Procurement* is defined as $\log(1+\text{procurement})$, the natural logarithm of one plus the total government procurement granted to the firm. *Tariff Shock* measures firm-level exposure to the 2018 tariff increases, calculated as the pre-2018 import share of tariffed goods (relative to operating expenses) multiplied by the applicable tariff rate, as specified in Equation (1). It can be interpreted as the percentage increase in operating expenses implied by the tariff shock, holding quantities constant. *Risk Premium (FF3)* and *Risk Premium (FF5)* denote firm-level excess returns (in percent) estimated from the Fama–French three- and five-factor models, respectively. Both variables are winsorized at the 1st and 99th percentiles. *Rep Bill Share (Avg)* is constructed from a firm–time–bill–level dataset and averaged to the firm level, measuring the mean share of Republican-sponsored bills the firm lobbied on from 2013-16. *Rep Bill Share (Sum)* aggregates the same underlying data to capture the firm's total lobbying share directed toward Republican-sponsored bills over the 2013-16 period. $\mathbf{1}$*(Swing State)* is an indicator equal to one if the firm's largest subsidiary (by sales revenue) is located in a swing state, as defined by the 2016 U.S. presidential election. $\mathbf{1}$*(Tariff Exemption)* equals one if the firm was granted a tariff exemption and has no denied or pending applications under the 2018 tariff program. *Earnings per share (EPS) Growth* and *Total Earnings Growth* are measured as the percentage changes in the respective variables relative to earnings in $t-1$. Means, standard deviations, and selected percentiles (P10, P90) are reported.

Table 2: Risk Premium Effects of Tariff Shocks

(a) Fama-French Three-Factor Model

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	0.289**	0.381**	0.405**	0.407**	0.447***	0.400**
	(0.143)	(0.157)	(0.194)	(0.169)	(0.166)	(0.180)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33086	32151	31216	30280	29346	28411
R^2	0.042	0.044	0.045	0.044	0.045	0.046

(b) Fama-French Five-Factor Model

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	0.282*	0.355**	0.403*	0.455**	0.514**	0.483**
	(0.155)	(0.171)	(0.220)	(0.197)	(0.203)	(0.222)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33086	32151	31216	30280	29346	28411
R^2	0.043	0.044	0.046	0.045	0.047	0.047

Note: This table estimates the effect of tariff shocks on firm-level Fama–French three-factor (Panel (a)) and five-factor (Panel (b)) risk premiums, expressed in daily basis points, over horizons of 1-6 months. *Tariff Shock*, defined as in Equation (1), measures the firm-level percentage increase in operating expenses implied by exposure to the 2018 tariff increases. The sample period spans 2017-2019. All regressions include firm and time fixed effects, and standard errors are clustered at the firm level.

Table 3: Fiscal Insurance: The Risk Premium Effects of Government Procurement

(a) Fama-French Three-Factor Model

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	0.488***	0.605***	0.629**	0.613***	0.574**	0.534**
	(0.188)	(0.228)	(0.266)	(0.210)	(0.247)	(0.248)
Tariff Shock × Log Procurement	-0.039*					
	(0.021)					
Tariff Shock × F.Log Procurement		-0.040*				
		(0.024)				
Tariff Shock × F2.Log Procurement			-0.043			
			(0.027)			
Tariff Shock × F3.Log Procurement				-0.041*		
				(0.024)		
Tariff Shock × F4.Log Procurement					-0.023	
					(0.027)	
Tariff Shock × F5.Log Procurement						-0.026
						(0.027)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	31575	30730	29884	29046	28177	27326
R^2	0.043	0.045	0.046	0.046	0.047	0.048

(b) Fama-French Five-Factor Model

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	0.464**	0.581**	0.648**	0.692***	0.669**	0.660**
	(0.204)	(0.238)	(0.270)	(0.221)	(0.270)	(0.275)
Tariff Shock × Log Procurement	-0.040*					
	(0.021)					
Tariff Shock × F.Log Procurement		-0.044*				
		(0.023)				
Tariff Shock × F2.Log Procurement			-0.051**			
			(0.026)			
Tariff Shock × F3.Log Procurement				-0.051**		
				(0.023)		
Tariff Shock × F4.Log Procurement					-0.031	
					(0.028)	
Tariff Shock × F5.Log Procurement						-0.037
						(0.028)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	31575	30730	29884	29046	28177	27326
R^2	0.044	0.046	0.047	0.047	0.049	0.049

Note: This table reports regressions of Fama–French three-factor (Panel (a)) and five-factor (Panel (b)) risk premiums, expressed in daily basis points, on firm-level tariff shocks, procurement measured as $\log(1 + \text{procurement})$, and their interactions, over horizons of 1-6 months. *Tariff Shock*, defined as in Equation (1), measures the firm-level percentage increase in operating expenses implied by exposure to the 2018 tariff increases. Log procurement is measured over horizons of 0-5 months. Coefficients on the log procurement variables are omitted for brevity. The sample period is 2017-19. All regressions include firm and time fixed effects, and standard errors are clustered at the firm level.

Table 4: The Earnings Forecast Effects of Tariff Shocks and Procurement

(a) Two-quarter-ahead Earnings Expectations

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	-0.210*	-0.267	-0.463	-0.549	-0.385	-0.672
	(0.112)	(0.203)	(0.353)	(0.433)	(0.661)	(0.768)
Log Procurement	0.049	0.010	0.047	0.222**	0.139	0.017
	(0.056)	(0.070)	(0.073)	(0.090)	(0.096)	(0.128)
Tariff Shock × Log Procurement	0.011	0.007	0.026	0.036	0.019	0.025
	(0.008)	(0.012)	(0.021)	(0.024)	(0.028)	(0.031)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12378	12162	13104	11281	10955	11642
R^2	0.073	0.068	0.068	0.077	0.083	0.088

(b) Three-quarter-ahead Earnings Expectations

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	-0.031	-0.116	-0.367	-0.576	-0.506	-0.625
	(0.167)	(0.351)	(0.495)	(0.488)	(0.563)	(0.791)
Log Procurement	0.024	0.004	0.035	-0.068	-0.012	0.128
	(0.087)	(0.057)	(0.110)	(0.121)	(0.110)	(0.095)
Tariff Shock × Log Procurement	0.006	0.014	0.022	0.030	0.016	0.016
	(0.012)	(0.019)	(0.027)	(0.031)	(0.027)	(0.039)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	11356	11219	12268	10391	10088	10966
R^2	0.060	0.096	0.043	0.059	0.084	0.070

(c) Four-quarter-ahead Earnings Expectations

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6
Tariff Shock	-0.315***	-0.535***	-0.470	-0.429	-0.856**	-1.253***
	(0.105)	(0.156)	(0.290)	(0.376)	(0.362)	(0.399)
Log Procurement	0.007	0.034	0.131*	0.053	0.008	0.004
	(0.063)	(0.062)	(0.071)	(0.125)	(0.105)	(0.139)
Tariff Shock × Log Procurement	0.011	0.014	-0.002	-0.003	0.014	0.029
	(0.010)	(0.009)	(0.021)	(0.025)	(0.030)	(0.028)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	9484	9542	10758	8837	8618	9546
R^2	0.104	0.131	0.078	0.099	0.091	0.083

Note: This table reports regressions of analyst earnings forecast revisions on firm-level tariff shocks, procurement measured as $\log(1 +$ procurement), and their interactions, over horizons of 1-6 months. The dependent variables are percentage changes in firm-level earnings forecasts from F_1-F_6 relative to F_0, for two- to four-quarter-ahead expectations. Panel (a) uses two-quarter-ahead forecasts, Panel (b) uses three-quarter-ahead forecasts, and Panel (c) uses four-quarter-ahead forecasts. *Tariff Shock*, defined as in Equation (1), measures the firm-level percentage increase in operating expenses implied by exposure to the 2018 tariff increases. Log procurement is measured contemporaneously as $\log(1 +$ procurement). The sample period is 2017-19. All regressions include firm and time fixed effects, and standard errors are clustered at the firm level.

Table 5: Characteristics of Firm-Level Political and Economic Heterogeneity Variables

(a) Summary Statistics

Firm Characteristic	Group 0		Group 1	
	Mean	SD	Mean	SD
A: Lobbying (Rep Bill Share (Sum) = 0 vs. 1)				
Tariff Shock (%)	0.29	1.35	0.23	1.08
Log Procurement	4.17	5.00	7.43	6.26
Risk Premium (FF3,%)	0.00	0.11	0.02	0.07
Log Assets (2017)	22.24	2.03	24.05	1.66
Log Revenue (2017)	20.74	2.00	22.22	1.68
B: Swing State (0 vs. 1)				
Tariff Shock (%)	0.25	1.12	0.35	1.69
Log Procurement	4.82	5.38	5.30	5.80
Risk Premium (FF3,%)	0.01	0.09	0.02	0.08
Log Assets (2017)	22.78	2.12	22.61	2.04
Log Revenue (2017)	21.16	2.06	21.07	1.96
C: Tariff Exemption (0 vs. 1)				
Tariff Shock (%)	0.24	1.10	1.43	4.35
Log Procurement	4.91	5.48	5.14	5.85
Risk Premium (FF3,%)	0.01	0.10	0.01	0.08
Log Assets (2017)	22.75	2.11	22.34	1.61
Log Revenue (2017)	21.14	2.05	20.94	1.59

(b) Correlation

	Rep Bill Share (Avg)	*Rep Bill Share (Sum)*	$\mathbf{1}$(*Swing State*)	$\mathbf{1}$(*Tariff Exemption*)
Rep Bill Share (Avg)	1.000			
Rep Bill Share (Sum)	0.988	1.000		
$\mathbf{1}$(*Swing State*)	-0.023	-0.015	1.000	
$\mathbf{1}$(*Tariff Exemption*)	0.018	0.016	0.065	1.000

Notes: Panel (a) presents the mean and standard deviation of firm characteristics by group. The top section compares firms with and without lobbying activity directed toward Republican-sponsored bills; the middle section compares firms located in swing versus non-swing states; the bottom section compares firms with and without tariff exemptions. Panel (b) reports pairwise correlations across firm-level political and economic heterogeneity variables using one observation per firm. All variables are defined in Table 1.

Table 6: Average Monthly Effects of Tariff Shocks on Procurement

(a) Predictive

	(1) F0	(2) F1	(3) F2	(4) F3	(5) F4	(6) F5	(7) F6	(8) F7	(9) F8	(10) F9	(11) F10	(12) F11	(13) F12
Tariff Shock	-0.027*	-0.032**	-0.036**	-0.042***	-0.045***	-0.046**	-0.055***	-0.042**	-0.049**	-0.052**	-0.059**	-0.058***	-0.058***
	(0.014)	(0.015)	(0.015)	(0.015)	(0.016)	(0.018)	(0.021)	(0.021)	(0.023)	(0.025)	(0.024)	(0.022)	(0.022)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	34288	33385	32481	31590	30664	29757	28834	27903	26972	26035	25080	24134	23196
R^2	0.645	0.646	0.646	0.644	0.645	0.646	0.645	0.645	0.645	0.646	0.648	0.648	0.649

(b) Cumulative

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10	(11) F11	(12) F12
Tariff Shock	-0.034	-0.046*	-0.053*	-0.066**	-0.085**	-0.093**	-0.103**	-0.112**	-0.113**	-0.114**	-0.116**	-0.113**
	(0.022)	(0.026)	(0.028)	(0.032)	(0.037)	(0.040)	(0.043)	(0.045)	(0.045)	(0.046)	(0.047)	(0.048)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	32974	31798	30703	29679	28686	27700	26735	25798	24850	23915	22984	22042
R^2	0.671	0.687	0.701	0.713	0.722	0.734	0.745	0.757	0.767	0.777	0.786	0.794

Note: Panel (a) reports monthly predictive regression estimates of the effects of tariff shocks, defined as in Equation (1), on firm-level procurement, measured as $\log(1+\text{procurement})$, at horizons from 0-12 months. Panel (b) reports the corresponding cumulative responses up to 12 months ahead. The sample period is 2017-19. All regressions include firm and time fixed effects, and standard errors are clustered at the firm level.

Table 7: Firm Heterogeneities: Beneficiaries of Fiscal Insurance

(a) Political Connection

	Predictive					Cumulative			
	(1) F0	(2) F1	(3) F3	(4) F6	(5) F10	(6) F1	(7) F3	(8) F6	(9) F10
Tariff Shock	-0.036**	-0.040**	-0.046**	-0.064**	-0.064**	-0.044*	-0.060*	-0.098**	-0.101**
	(0.016)	(0.017)	(0.018)	(0.025)	(0.029)	(0.025)	(0.033)	(0.047)	(0.049)
Tariff Shock × Rep Bill Share (Avg)	0.082***	0.077**	0.044	0.092	0.046	0.104*	0.066	0.048	-0.124
	(0.031)	(0.033)	(0.043)	(0.059)	(0.055)	(0.056)	(0.068)	(0.090)	(0.098)
R^2	0.645	0.646	0.644	0.645	0.648	0.671	0.701	0.734	0.777
Tariff Shock	-0.036**	-0.040**	-0.046**	-0.063**	-0.063**	-0.045*	-0.061*	-0.096**	-0.098**
	(0.016)	(0.017)	(0.018)	(0.025)	(0.029)	(0.026)	(0.033)	(0.047)	(0.049)
Tariff Shock × Rep Bill Share (Sum)	0.066***	0.064***	0.031	0.063	0.028	0.087**	0.057	0.025	-0.115
	(0.021)	(0.023)	(0.032)	(0.044)	(0.040)	(0.037)	(0.047)	(0.067)	(0.072)
R^2	0.645	0.646	0.644	0.645	0.648	0.671	0.701	0.734	0.777
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	34288	33385	31590	28834	25080	32974	30703	27700	23915

(b) Voter Targeting

	Predictive					Cumulative			
	(1) F0	(2) F1	(3) F3	(4) F6	(5) F10	(6) F1	(7) F3	(8) F6	(9) F10
Tariff Shock	-0.028	-0.035	-0.043*	-0.060*	-0.069*	-0.045	-0.065**	-0.116***	-0.095*
	(0.022)	(0.021)	(0.023)	(0.036)	(0.039)	(0.028)	(0.029)	(0.037)	(0.054)
Tariff Shock × **1**(Swing State)	0.001	0.005	0.003	0.012	0.019	0.023	0.023	0.050	-0.033
	(0.028)	(0.029)	(0.030)	(0.039)	(0.045)	(0.040)	(0.051)	(0.066)	(0.101)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33648	32762	31003	28299	24615	32357	30130	27186	23477
R^2	0.645	0.646	0.645	0.645	0.649	0.671	0.702	0.736	0.780

(c) Economic Impact

	Predictive					Cumulative			
	(1) F0	(2) F1	(3) F3	(4) F6	(5) F10	(6) F1	(7) F3	(8) F6	(9) F10
Tariff Shock	-0.031	-0.038*	-0.054**	-0.068**	-0.076**	-0.048*	-0.073**	-0.136***	-0.157***
	(0.020)	(0.022)	(0.022)	(0.030)	(0.032)	(0.028)	(0.031)	(0.035)	(0.037)
Tariff Shock × **1**(Exempt)	0.013	0.020	0.041	0.043	0.058*	0.047	0.062	0.135***	0.136***
	(0.023)	(0.023)	(0.027)	(0.037)	(0.033)	(0.033)	(0.041)	(0.042)	(0.047)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	34288	33385	31590	28834	25080	32974	30703	27700	23915
R^2	0.645	0.646	0.644	0.645	0.648	0.671	0.701	0.734	0.777

Note: This table reports regressions of firm-level procurement, measured as $\log(1 + \text{procurement})$, on tariff shocks and their interactions with firms' political and economic characteristics. Panel (a) examines firms' political connections, Panel (b) their exposure to voter targeting, and Panel (c) the severity of the economic impact of the tariff shocks. In Panel (a), the top panel interacts tariff shocks with the share of a firm's lobbying spending directed toward Republican-sponsored bills, constructed from a firm–time–bill–level dataset and averaged to the firm level to measure the mean share of Republican-sponsored bills the firm lobbied on from 2013-16. The bottom panel of Panel (a) instead uses the firm's aggregate Republican bill share based on total lobbying spending over the same period. Panel (b) interacts tariff shocks with a *Swing State* dummy, which is equal to one if the firm's largest subsidiary (by sales revenue) is located in a swing state as defined by the 2016 U.S. presidential election. Panel (c) interacts tariff shocks with a *Tariff Exemption* dummy, which is equal to one if the firm was granted a tariff exemption and had no denied or pending applications under the 2018 tariff program. Columns (1)–(5) report predictive regressions at horizons 0, 1, 3, 6, and 10 months; columns (6)–(9) report the corresponding cumulative regressions over the same horizons. The sample period is 2017-19. All regressions include firm and time fixed effects, and standard errors are clustered at the firm level.

Table 8: Firm Heterogeneities: Stock Market Effects of Fiscal Insurance

(a) Political Connection

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10
Tariff Shock	0.334*	0.444**	0.459**	0.471**	0.510***	0.496**	0.696**	0.528*	0.569*	0.566*
	(0.171)	(0.188)	(0.232)	(0.202)	(0.198)	(0.219)	(0.298)	(0.278)	(0.321)	(0.299)
Tariff Shock × Rep Bill Share (Avg)	-0.429	-0.603	-0.520	-0.608*	-0.604	-0.919**	-1.123**	-0.995**	-1.150**	-1.197**
	(0.438)	(0.366)	(0.400)	(0.357)	(0.375)	(0.435)	(0.471)	(0.428)	(0.507)	(0.467)
R^2	0.042	0.044	0.045	0.044	0.046	0.046	0.048	0.047	0.049	0.049
Tariff Shock	0.327*	0.441**	0.458**	0.469**	0.507**	0.492**	0.692**	0.528*	0.567*	0.563*
	(0.169)	(0.188)	(0.232)	(0.202)	(0.198)	(0.219)	(0.298)	(0.278)	(0.321)	(0.299)
Tariff Shock × Rep Bill Share (Sum)	-0.288	-0.455	-0.401	-0.469*	-0.456	-0.696*	-0.864**	-0.784**	-0.900**	-0.921**
	(0.324)	(0.285)	(0.306)	(0.283)	(0.297)	(0.358)	(0.373)	(0.343)	(0.417)	(0.371)
R^2	0.042	0.044	0.045	0.044	0.045	0.046	0.048	0.047	0.049	0.049
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33086	32151	31216	30280	29346	28411	27473	26533	25593	24652

(b) Voter Targeting

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10
Tariff Shock	0.587***	0.711***	0.845***	0.847***	0.810***	0.761**	1.052**	0.831**	0.816*	0.823**
	(0.205)	(0.238)	(0.299)	(0.250)	(0.311)	(0.350)	(0.448)	(0.374)	(0.455)	(0.353)
Tariff Shock × $\mathbf{1}$(Swing State)	-0.649***	-0.713**	-0.942***	-0.947***	-0.786**	-0.781**	-1.007**	-0.864**	-0.792*	-0.838**
	(0.249)	(0.278)	(0.340)	(0.301)	(0.364)	(0.382)	(0.459)	(0.384)	(0.467)	(0.386)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	32557	31638	30719	29800	28881	27961	27038	26113	25188	24262
R^2	0.040	0.043	0.044	0.045	0.046	0.046	0.048	0.048	0.049	0.050

(c) Economic Impact

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10
Tariff Shock	0.472***	0.539***	0.612**	0.596***	0.591**	0.566**	0.811**	0.669**	0.718**	0.749**
	(0.170)	(0.197)	(0.238)	(0.201)	(0.234)	(0.258)	(0.334)	(0.291)	(0.359)	(0.308)
Tariff Shock × $\mathbf{1}$(Exempt)	-0.591***	-0.509**	-0.667***	-0.607***	-0.465*	-0.534*	-0.751**	-0.788**	-0.868**	-0.993***
	(0.208)	(0.208)	(0.248)	(0.218)	(0.277)	(0.311)	(0.350)	(0.308)	(0.406)	(0.382)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33086	32151	31216	30280	29346	28411	27473	26533	25593	24652
R^2	0.042	0.044	0.045	0.045	0.046	0.046	0.048	0.048	0.049	0.050

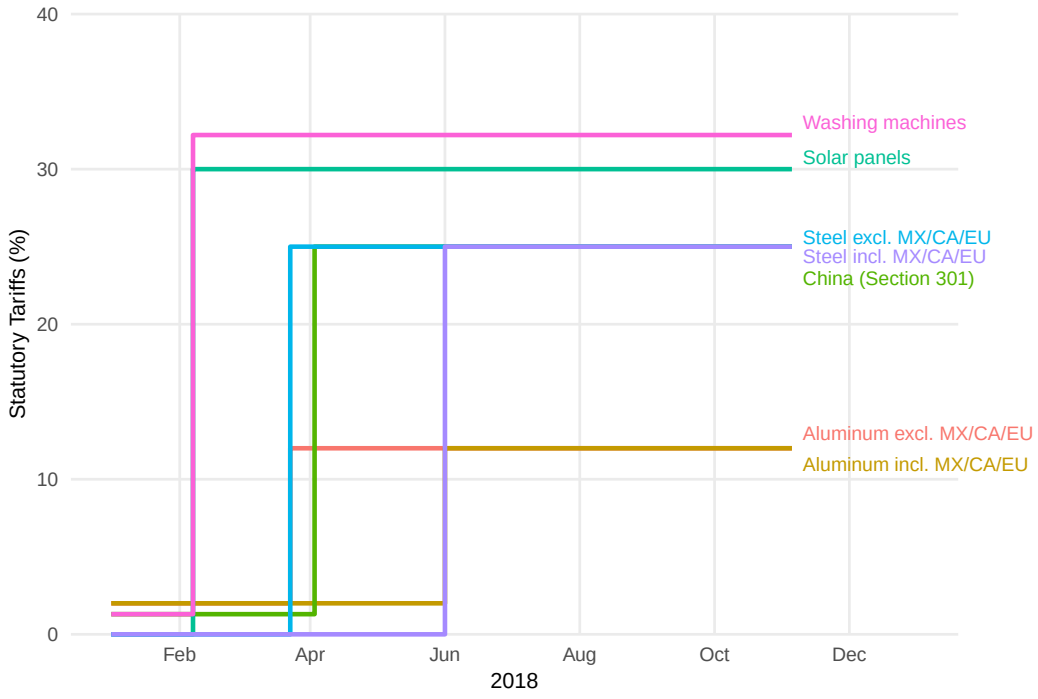
Note: This table reports regressions of firm-level Fama–French three-factor risk premiums, expressed in daily basis points, on tariff shocks, defined as in Equation (1), and their interactions with firms' political and economic characteristics. Panel (a) examines firms' political connections, Panel (b) their exposure to voter targeting, and Panel (c) the severity of the economic impact of the tariff shocks. In Panel (a), the top panel interacts tariff shocks with the share of a firm's lobbying spending directed toward Republican-sponsored bills, constructed from a firm–time–bill–level dataset and averaged to the firm level to measure the mean share of Republican-sponsored bills the firm lobbied on from 2013-16. The bottom panel of Panel (a) instead uses the firm's aggregate Republican bill share based on total lobbying spending over the same period. Panel (b) interacts tariff shocks with a *Swing State* dummy, which is equal to one if the firm's largest subsidiary (by sales revenue) is located in a swing state as defined by the 2016 U.S. presidential election. Panel (c) interacts tariff shocks with a *Tariff Exemption* dummy, which is equal to one if the firm was granted a tariff exemption and had no denied or pending applications under the 2018 tariff program. Regressions are estimated over horizons of 1-10 months for 2017-19. All specifications include firm and time fixed effects, and standard errors are clustered at the firm level.

Table 9: Earnings Effects of Tariff Shocks and Procurement

	(1) EPS	(2) Total
H=1 × Tariff Shock	-0.623	-0.746
	(1.204)	(1.203)
H=2 × Tariff Shock	-0.551	-0.866
	(1.602)	(1.592)
H=3 × Tariff Shock	-2.109**	-2.556**
	(0.998)	(1.011)
H=4 × Tariff Shock	-1.901	-2.505
	(1.906)	(1.801)
Log Procurement	0.036	-0.015
	(0.098)	(0.101)
H=1 × Tariff Shock × Log Procurement	0.051	0.065
	(0.065)	(0.064)
H=2 × Tariff Shock × Log Procurement	0.058	0.081
	(0.081)	(0.080)
H=3 × Tariff Shock × Log Procurement	0.097**	0.112***
	(0.043)	(0.042)
H=4 × Tariff Shock × Log Procurement	0.081	0.119*
	(0.073)	(0.070)
Firm-Horizon FE	Yes	Yes
Time-Horizon FE	Yes	Yes
Observations	23376	23463
R^2	0.259	0.260

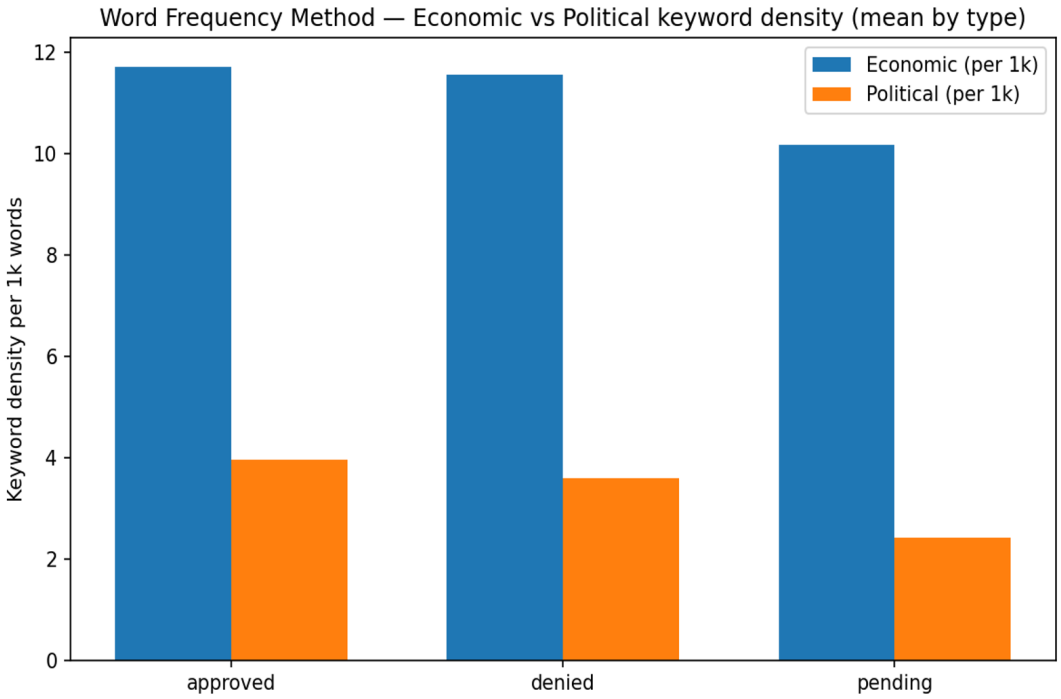
Note: This table reports regressions of firm-level earnings growth on tariff shocks, procurement measured as $\log(1 + \text{procurement})$, and their interactions with forecast horizon dummies for the next one to four quarters. Earnings growth is measured as the percentage change relative to earnings in $t-1$. Column (1) uses earnings per share (EPS) growth as the dependent variable, and Column (2) uses total earnings growth. *Tariff Shock*, defined as in Equation (1), measures the firm-level percentage increase in operating expenses implied by exposure to the 2018 tariff increases. Log procurement is measured contemporaneously as $\log(1 + \text{procurement})$. Firm-horizon and time-horizon fixed effects are included. Standard errors are clustered at the firm level.

Figure 1: Tariff Shock Timeline



Note: The changes in statutory tariff rates illustrated in this figure are used to construct the firm-level tariff shock variable defined in Equation (1). Each line begins at its pre-tariff baseline and steps up on the date when the corresponding measure was announced or implemented. Tariffs on *solar panels* and *washing machines* were imposed under Section 201 safeguard actions on February 7, 2018. *Aluminum* (10 percent) and *iron and steel* (25 percent) tariffs were introduced under Section 232 on March 23, 2018, initially excluding Canada, Mexico, and the European Union, with those exemptions removed on June 1, 2018. The *China (Section 301)* tariff, representing the first round of tariffs of 25 percent on Chinese imports, was announced on April 3, 2018.

Figure 2: Textual Analysis: What Words Did Firms Use When Applying for Tariff Exemptions?



Note: For each decision category (Approved, Denied, Pending), we compute keyword densities—counts per 1,000 words—for two manually curated dictionaries: economic-impact terms (e.g., "cost," "supply chain," "production," "harm") and political-appeal terms (e.g., "jobs," "community," "fairness"). Bars indicate keyword density (economic in blue and political in orange, per 1,000 words). The full list of keywords is shown in Appendix A.2.

Paper Appendix

A. Additional Data Details

A.1 Construction of Stock-Level Risk Premia

We construct monthly measures of abnormal returns based on the Fama–French three-factor (FF3) and five-factor (FF5) models. These alphas capture the component of a stock's daily excess return that cannot be explained by standard systematic risk factors. The estimation procedure proceeds in four steps.

Step 1. Data sources and variable preparation. Daily stock returns are obtained from CRSP, and daily factor returns are taken from the Fama–French data library. The two datasets are merged by trading date, yielding for each stock-day observation its return, the corresponding factor realizations, and the daily risk-free rate. Daily excess returns are computed as the stock's return minus the risk-free rate. Factor returns (`Mkt_RF`, `SMB`, `HML`, `RMW`, and `CMA`) are converted from percentages to decimals to ensure consistency with stock return units.

Step 2. Panel structure. For estimation, observations are grouped by stock and calendar month. Each stock-month cell contains all daily observations available for that stock in that month. This structure allows us to estimate separate time-series regressions each month for each individual stock. To avoid noisy estimates, we retain only stock-month cells with at least ten daily return observations.

Step 3. Model estimation and alpha extraction. Within each stock-month, we estimate ordinary least squares regressions of daily excess returns on factor returns, including a constant term. The estimated constant serves as the abnormal return, or alpha, for that stock during that month.

- **FF3 alpha.** The FF3 specification includes `Mkt_RF`, `SMB`, and `HML`. The intercept from this regression is recorded as `alpha_FF3`, representing the portion of the stock's average daily excess return that is not explained by market, size, or value factors. For parsimony and interpretability, FF3 serves as our primary specification throughout the paper.
- **FF5 alpha.** The FF5 specification augments FF3 with `RMW` and `CMA`. The intercept from this regression is recorded as `alpha_FF5`, capturing abnormal return unexplained by market, size, value, profitability, and investment factors.

Step 4. Output and interpretation. This procedure yields a monthly time series of alpha estimates for every stock in the sample. Each alpha is timestamped at the month over which the underlying daily regression is estimated. Conceptually, both `alpha_FF3` and `alpha_FF5` measure a stock's average daily excess return in that month that is not accounted for by the corresponding factor model; their units are in daily percentage terms.

A.2 Keywords in Textual Analysis of Firm Tariff Exemption Applications

We construct our economic-impact dictionary using terms that commonly appear in firms' descriptions of operational or financial strain based on LDA training, including {*backlog, backorders, bottleneck, bottlenecks, budget, cancelled order, capacity, capacity utilization, capital, cash flow, client, competition, competitor, component shortage, cost, cost increase, costs, customer, delay, delivery delay, demand, demand drop, demand rise, disruption, distribution, downtime, duty, employment, exclusion, exemption, expense, factory shutdown, financing, freight, freight cost, furlough, headcount, hiring, hiring freeze, investment, job, job loss, jobs, labor, layoff, lead time, logistics, lost sales, margin, margins, market, monopoly, operating cost, order, order cancellation, orders, output, overtime, overtime cost, payroll, plant shutdown, port, price, price increase, prices, procurement, production, production shutdown, productivity, profit, profit loss, profitability, raw material, redesign, retain, retaliatory tariff, retool, return, revenue, revenue loss, rework, risk, sales, service, shipping, shortage, shutdown, slowdown, sourcing, substitute, supplier, supply, supply chain, supply disruption, surplus, tariff, throughput, transportation, transportation cost, uncertainty, utilization, vendor, volatility, waiver, warranty, workforce, workforce reduction, and working capital*}.

We construct our political keyword dictionary using terms associated with geopolitical context, administrative processes, and policy institutions based on LDA training, including {*administration, agency action, bilateral, BIS, boycott, CBP, CFIUS, CFR, China, Chinese, comment, Commerce Department, conflict, Congress, cross-border, Customs and Border Protection, determination, dispute, docket, DOJ, embargo, entity list, executive order, export control, Federal Register, foreign, geopolitical, geopolitics, government, Homeland Security, House, international, ITC, most-favored-nation, national interest, national security, notice, OFAC, overseas, political, politics, proclamation, public interest, regulation, regulatory, retaliation, rulemaking, sanction, sanctions, Section 232, Section 301, security review, Senate, State Department, tariff policy, tension, Title 19, trade, trade policy, trade representative, trade war, USC, USTR, White House, and WTO*}.

Online Appendix

A. Supplementary Tables

Table A.1: Average Quarterly Effects of Tariff Shock on Procurement

(a) Predictive

	(1) F0	(2) F1	(3) F2	(4) F3	(5) F4
Tariff Shock	-0.048*	-0.079***	-0.095***	-0.091**	-0.103**
	(0.029)	(0.030)	(0.035)	(0.043)	(0.050)
Firm FE	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes
Observations	11215	10365	9491	8586	7659
R^2	0.683	0.686	0.691	0.696	0.698

(b) Cumulative

	(1) F1	(2) F2	(3) F3	(4) F4
Tariff Shock	-0.084**	-0.111**	-0.111**	-0.110**
	(0.039)	(0.045)	(0.045)	(0.048)
Firm FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes
Observations	10175	9211	8281	7335
R^2	0.715	0.748	0.775	0.793

Note: Panel (a) reports quarterly predictive regression estimates of the effects of tariff shocks, defined as in Equation (1), on firm-level procurement, measured as $\log(1 + \text{procurement})$, at horizons from 0 to 4 quarters. Panel (b) reports the corresponding cumulative responses up to 4 quarters ahead. The sample period is 2017–19. All regressions include firm and time fixed effects, and standard errors are clustered at the firm level.

Table A.2: Tariff and Procurement, Pretrend Regressions

(a) Monthly

	(1) L1	(2) L2	(3) L3	(4) L4	(5) L5	(6) L6	(7) L7	(8) L8	(9) L9	(10) L10	(11) L11	(12) L12
Tariff Shock	-0.024	-0.014	-0.006	-0.005	-0.005	0.001	0.014	0.020	0.022	0.014	0.015	0.012
	(0.016)	(0.015)	(0.015)	(0.016)	(0.015)	(0.016)	(0.016)	(0.015)	(0.017)	(0.018)	(0.017)	(0.020)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33301	32318	31339	30356	29374	28391	27412	26440	25477	24514	23545	22573
R^2	0.645	0.648	0.654	0.657	0.659	0.660	0.661	0.663	0.664	0.665	0.665	0.668

(b) Quarterly

	(1) L1	(2) L2	(3) L3	(4) L4
Tariff Shock	-0.010	-0.011	0.044	0.029
	(0.033)	(0.038)	(0.030)	(0.040)
Firm FE	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes
Observations	10238	9258	8290	7332
R^2	0.692	0.705	0.713	0.719

Note: Panel (a) reports pre-trend regressions of firm-level procurement, measured as $\log(1 + \text{procurement})$, on lagged tariff shocks, defined as in Equation (1), at monthly horizons from 1 to 12 months before the shock. Panel (b) reports the corresponding quarterly regressions using lags from 1 to 4 quarters. The sample period is 2017–19. All specifications include firm and time fixed effects, and standard errors are clustered at the firm level.

Table A.3: Firm Heterogeneities: Stock Market Effects of Fiscal Insurance (FF5)

(a) Political Connection

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10
Tariff Shock	0.330*	0.402**	0.438*	0.506**	0.564**	0.575**	0.776**	0.598*	0.604*	0.611*
	(0.185)	(0.204)	(0.259)	(0.234)	(0.242)	(0.270)	(0.348)	(0.322)	(0.365)	(0.358)
Tariff Shock × Rep Bill Share (Avg)	-0.459	-0.458	-0.340	-0.486	-0.480	-0.881*	-1.103**	-0.913*	-1.261**	-1.329**
	(0.453)	(0.408)	(0.455)	(0.401)	(0.402)	(0.456)	(0.536)	(0.482)	(0.570)	(0.562)
R^2	0.043	0.044	0.046	0.045	0.047	0.047	0.049	0.049	0.050	0.051
Tariff Shock	0.324*	0.399*	0.437*	0.504**	0.562**	0.571**	0.773**	0.598*	0.599	0.604*
	(0.184)	(0.204)	(0.259)	(0.234)	(0.242)	(0.270)	(0.348)	(0.323)	(0.365)	(0.358)
Tariff Shock × Rep Bill Share (Sum)	-0.316	-0.338	-0.259	-0.371	-0.365	-0.670*	-0.848**	-0.723*	-0.963**	-1.001**
	(0.336)	(0.313)	(0.343)	(0.311)	(0.312)	(0.368)	(0.419)	(0.379)	(0.461)	(0.442)
R^2	0.043	0.044	0.046	0.045	0.047	0.047	0.049	0.049	0.050	0.051
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33086	32151	31216	30280	29346	28411	27473	26533	25593	24652

(b) Voter Targeting

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10
Tariff Shock	0.625***	0.681***	0.878***	0.916***	0.953***	0.952**	1.248***	1.009***	0.975**	1.001***
	(0.235)	(0.263)	(0.316)	(0.253)	(0.343)	(0.375)	(0.461)	(0.379)	(0.457)	(0.354)
Tariff Shock× $\mathbf{1}$(Swing State)	-0.741***	-0.709**	-1.016***	-0.995***	-0.951**	-1.015**	-1.253***	-1.082***	-1.085**	-1.154***
	(0.283)	(0.304)	(0.360)	(0.300)	(0.388)	(0.405)	(0.478)	(0.401)	(0.481)	(0.406)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	32557	31638	30719	29800	28881	27961	27038	26113	25188	24262
R^2	0.042	0.043	0.045	0.046	0.047	0.048	0.050	0.049	0.050	0.051

(c) Economic Impact

	(1) F1	(2) F2	(3) F3	(4) F4	(5) F5	(6) F6	(7) F7	(8) F8	(9) F9	(10) F10
Tariff Shock	0.489***	0.532**	0.641**	0.684***	0.717***	0.718**	0.977***	0.823***	0.830**	0.869***
	(0.189)	(0.212)	(0.251)	(0.208)	(0.263)	(0.287)	(0.355)	(0.305)	(0.370)	(0.329)
Tariff Shock × $\mathbf{1}$(Exempt)	-0.667***	-0.572**	-0.769***	-0.740***	-0.656**	-0.759**	-1.019***	-1.035***	-1.157***	-1.281***
	(0.247)	(0.225)	(0.258)	(0.225)	(0.285)	(0.321)	(0.371)	(0.326)	(0.413)	(0.393)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	33086	32151	31216	30280	29346	28411	27473	26533	25593	24652
R^2	0.043	0.044	0.046	0.045	0.047	0.047	0.049	0.049	0.050	0.051

Note: This table reports regressions of firm-level Fama–French five-factor risk premiums, expressed in daily basis points, on tariff shocks, defined as in Equation (1), and their interactions with firms' political and economic characteristics. Panel (a) examines firms' political connections, Panel (b) their exposure to voter targeting, and Panel (c) the severity of the economic impact of the tariff shocks. In Panel (a), the top panel interacts tariff shocks with the share of a firm's lobbying spending directed toward Republican-sponsored bills, constructed from a firm–time–bill–level dataset and averaged to the firm level to measure the mean share of Republican-sponsored bills the firm lobbied on from 2013–16. The bottom panel of Panel (a) instead uses the firm's aggregate Republican bill share based on total lobbying spending over the same period. Panel (b) interacts tariff shocks with a *Swing State* dummy, equal to one if the firm's largest subsidiary (by sales revenue) is located in a swing state as defined by the 2016 U.S. presidential election. Panel (c) interacts tariff shocks with a *Tariff Exemption* dummy, equal to one if the firm was granted a tariff exemption and had no denied or pending applications under the 2018 tariff program. Regressions are estimated over horizons of 1–10 months for 2017–19. All specifications include firm and time fixed effects, and standard errors are clustered at the firm level.