

April 2026

## The Anniversary of Liberation Day: Market Shock, Recovery, and Historical Context

The first anniversary of “Liberation Day” (April 2, 2025) marks one of the most abrupt policy-driven market shocks in recent financial history. On that day, sweeping U.S. tariffs were announced across nearly all major trading partners, triggering an immediate and severe reaction across global equity markets.<sup>1 2</sup> What followed was a classic case study in how markets process geopolitical shocks: an initial sharp drawdown, elevated volatility, and ultimately a recovery that highlights the forward-looking nature of markets. Examining both the short-term dislocation and the subsequent one-year performance of the S&P 500 provides valuable insight into market resilience, drawdowns, and how this episode compares to historical crises.

### The Event: Liberation Day and Immediate Market Reaction

The “Liberation Day” announcement implemented a 10% baseline tariff on imported goods and significantly higher rates for key trading partners.<sup>1 2 3</sup> These measures were framed as an effort to rebalance trade deficits but were interpreted by markets as the onset of a global trade war.<sup>1 2</sup>

The reaction was swift and severe. Within days, global equity markets entered a sharp selloff. The S&P 500 fell more than 11% in just five trading days following the announcement (one of the fastest drawdowns in recent history).<sup>1</sup> Peak-to-trough drawdown approached ~18-19% in early 2025 <sup>4</sup>. This places the event just shy of a formal bear market (defined as a 20% decline).

In addition to the equity selloff, broader financial conditions tightened:

- Treasury yields rose, signaling stress in bond markets<sup>1</sup>
- The U.S. dollar weakened modestly<sup>1</sup>
- Volatility surged, with the VIX (Volatility Index) spiking sharply<sup>1</sup>

The combination of policy uncertainty, recession fears, and disruption to global trade created a near-perfect storm for risk assets.

### Comparison to Historical Drawdowns

Event	Approx. Drawdown	Timeframe
COVID-19 market crash	~34%	~1 month
Global Financial Crisis	~57%	~1.5 years
Q4 2018 Fed Tightening	~20%	~3 months
Liberation Day (2025)	~18-19%	~1-2 months

While the absolute magnitude of the Liberation Day drawdown was smaller than major crises, its velocity stands out. A double-digit decline in under a week is rare and typically associated with external shocks.<sup>1</sup>

This distinction is important; fast drawdowns tend to be driven by uncertainty and sentiment rather than fundamental deterioration. As a result, they often reverse more quickly once policy clarity emerges.

## Policy Reversal and Market Stabilization

One of the defining features of the Liberation Day episode was the rapid policy adjustment that followed. Within a week of implementation, policy was delayed and partially rolled back.<sup>5</sup>

This pivot became central to the market recovery narrative. Investors quickly recalibrated expectations, shifting from worst-case scenarios to a more moderate outlook. This dynamic gave rise to what some market participants dubbed the “TACO trade” (“Trump Always Chickens Out”).<sup>5</sup>

The S&P 500 bottomed in mid-April and began a steady recovery into May. By mid-May, the index had erased its year-to-date losses, aided by improving trade rhetoric and early signs of economic resilience.<sup>3 6</sup>

## One-Year Performance: From Crisis to Recovery

Looking at the full year following Liberation Day, the S&P 500 delivered a striking example of market resilience.

- The index recovered from its April lows and reached new record highs by late June 2025<sup>4</sup>
- The market rebounded quickly, erasing losses within weeks of the initial selloff as investor sentiment improved<sup>6</sup>
- From the post-announcement trough, equities staged a powerful rally, with gains exceeding 30% in the following months<sup>7</sup>.

This trajectory highlights the key principle that markets are forward-looking. Even as economic uncertainty remained elevated, investors began pricing in easing trade tensions, strong corporate earnings, and continued economic expansion.

Importantly, the feared recession never materialized. While recession expectations surged, reaching as high as 40% probability, the underlying economy proved more resilient than anticipated.<sup>7</sup>

By the one-year anniversary in April 2026, markets had largely “moved on” from the initial shock. Tariffs remain a headwind, but they no longer carried the same surprise factor or market-moving power.



Above is a snapshot of the total return performance of domestic and international markets for the 12-month period beginning with liberation day. Various markets were up between 15% and 32% over this time frame. Source: Morningstar.com [SPY – ETF Chart – State Street® SPDR® S&P 500® ETF | Morningstar](#)

## Volatility and Market Psychology

The Liberation Day episode underscores the role of surprise and narrative in driving market behavior.

### Phase 1: Shock and Panic

The initial announcement triggered a repricing of risk across asset classes, driven by fears of supply chain disruption, inflation, and global slowdown.

### Phase 2: Policy Adjustment

As policymakers signaled flexibility, worst-case outcomes were priced out and markets stabilized.

### Phase 3: Recovery and Momentum

Once the market bottomed, momentum took over. Historical precedent suggests that sharp, policy-driven selloffs are often followed by strong recoveries as uncertainty resolves.<sup>6 7</sup>

## Lessons for Investors

The anniversary of Liberation Day reinforces several enduring lessons:

1. Drawdowns are inevitable, but often temporary
2. Policy and narrative drive short-term markets
3. Staying invested is critical and investors should maintain a long-term investment mindset

## Legal Aftermath: Where Tariffs Stand Today

The policy story did not end with market recovery. In February 2026, the Supreme Court of the United States ruled that the original Liberation Day tariffs, implemented under the International Emergency Economic Powers Act (IEEPA), were unlawful, concluding that tariff authority ultimately resides with Congress.<sup>8</sup> This decision invalidated roughly \$166 billion of tariffs and triggered a large-scale refund process for affected businesses.<sup>9</sup>

However, tariffs have not disappeared and have shifted legal footing. The administration subsequently imposed new temporary tariffs (150 days) under Section 122 of the Trade Act of 1974 on February 24th, 2026. These tariffs remain in effect but are actively being challenged in court, creating ongoing legal uncertainty.<sup>10</sup>

### Bottom line

- The original Liberation Day tariffs are now widely considered illegal
- New tariffs remain in force but legally uncertain, pending further litigation

## Conclusion

One year later, Liberation Day stands as a powerful example of how markets respond to sudden policy shocks. The S&P 500 experienced a rapid drawdown (falling over 10% in days and nearly 20% peak-to-trough) before staging an equally impressive recovery.

In historical context, the episode was less severe than major crises but notable for its speed and recovery pattern. It reinforced the market's ability to absorb shocks, adapt quickly, and ultimately move higher in the absence of lasting economic damage.

For investors, the key takeaway is not the shock itself, but the response. Markets are resilient, forward-looking, and often quicker to recover than anticipated.

### Sources

- [1] [Council on Foreign Relations – CFR analysis on Liberation Day market impact](#)
- [2] [The Guardian – Liberation Day tariff announcement coverage](#)
- [3] [Wikipedia – Liberation Day tariffs overview](#)
- [4] [Reuters – S&P 500 recovery and highs coverage](#)
- [5] [Portfolio Adviser – One year after Liberation Day analysis](#)
- [6] [Fortune – Market rebound coverage](#)
- [7] [JPMorgan Chase – Economic outlook and recession probability commentary](#)
- [8] [Tax Foundation – Supreme Court tariff ruling analysis](#)
- [9] [Reuters – Tariff refund process coverage](#)
- [10] [Baker Donelson – Section 122 tariff legal challenge](#)

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