

AGENDA

OPINION

The Effect of Tariffs on Shareholder Activism

Uncertainty not only affects deal activity but also dampens shareholder activism campaigns

By **Kai H.E. Liekefett, Derek Zaba, Leonard Wood** | May 27, 2025

The broad tariffs imposed by the Trump Administration have had a significant impact on corporate deal-making in 2025 and have correspondingly dampened shareholder activism during this year's proxy season.

The tariffs have introduced uncertainty by increasing input costs, disrupting supply chains and injecting volatility into revenue forecasts. This uncertainty not only affects deal activity but also dampens shareholder activism campaigns. While the 2025 proxy season has seen a strong share of activity as in recent years, the overall volume of campaign initiations has declined compared to 2024.

A closer look at the effects of tariffs on mergers and acquisitions helps explain the slight cooling in activism.

During the first four months of 2025, public M&A transactions for U.S.-based targets declined 60% year over year, to approximately \$140 billion, with the lowest number of deals in several years (1). According to S&P data, overall global M&A deal count is down approximately 10%, although overall transaction value was buoyed by several multibillion-dollar megadeals. By other counts, the number of M&A contracts announced across the world fell in April to the lowest level in more than 20 years.

Kai H.E. Liekefett

Kai H.E. Liekefett is a partner at Sidley Austin LLP and co-chair of the firm's shareholder activism and corporate defense practice.

Derek Zaba

Derek Zaba is a partner at Sidley Austin LLP and co-chair of the firm's shareholder activism and corporate defense practice.

Leonard Wood

Leonard Wood is a partner at Sidley Austin LLP.

This downturn has come despite expectations of heightened deal activity following President Donald Trump's election.

Targets with significant exposure to imports are bracing for increased costs and possible retaliatory duties on exports. These unpredictable cost impacts are leading bidders to explore valuation collar arrangements to protect them from extreme share price drops and consideration structures that defer payments based on post-closing performance.

Private-equity sponsors, meanwhile, who rely on leverage, are reported to be incorporating additional conservative downside scenarios, in some cases leading to lower purchase-price multiples or the abandonment of auction processes. Strategic buyers are reported to be stepping up due diligence, while antitrust reviews — especially in industries set to benefit from domestic production — may be expected to complicate timelines and increase break fees to compensate for regulatory risks.

In line with M&A trends, shareholder activism activity has also been negatively impacted by the tariffs. While the first two months of 2025 saw an 11% drop in new public campaigns versus 2024, there has been a 42% decline in new public campaigns since Liberation Day specifically (2).

Additionally, more campaigns are being withdrawn. The number of formal settlement agreements and campaigns proceeding to vote also appear to be trending down, although it is too early to call given the number of campaigns still playing out. In many cases, market uncertainty has led activists to scale back demands or prompted companies to capitulate quickly on informal terms.

This measured retreat partly reflects activists' reluctance to commit to public campaigns during a period of market fragility.

Taking a campaign public, and especially running a proxy contest, generally requires the activist to remain invested in the company for the duration of the campaign. Activists share the same concerns as potential acquirers in the deal context: tariffs can squeeze profit margins, reduce earnings, and depress stock prices, thereby undermining the financial performance of target companies. Activists are also keenly aware that tariffs create an unpredictable environment, with sudden shifts in costs and market access complicating long-term strategic planning.

As a result, shareholders will not necessarily be as receptive to the same arguments for change, which may inject more instability into an already unstable and challenging environment.

That said, companies should not be complacent and should remain on guard, including right after the conclusion of their annual meetings.

Although campaign initiations are down slightly from 2024, activism remains active, including some high-profile campaigns.

The big trends of the activism environment from the height of the Covid era are instructive. After a comparatively slow start for activism in February and March of 2020, activity picked up pace for the rest of the year, not far off 2019 figures and higher than during that same time period in 2021. The overall number of activist campaign initiations remained relatively consistent from 2019 through 2021, despite extreme market volatility, and also in many regards because of it (3).

In the long term, tariff-induced uncertainty may afford activists new opportunities.

The tariffs may permanently impact operational dynamics (e.g., optimal supply chain structure, geographical diversity) across a wide range of industries. In these environments, the spread between a specific activist's perception of the company's intrinsic value and a company's stock price can increase dramatically.

In other words, the number of companies that are attractive targets for any particular activist may increase.

Based on current indications, companies can expect activism to continue at a steady pace through 2025 and should be reviewing their activism vulnerability profile in light of the fluctuating trade landscape.

Boards and management teams should expect that they are not alone in examining their business vulnerabilities in a tariff-heavy environment. Activists are looking at these aspects of their businesses as well and looking to how those vulnerabilities can be turned into theses for significant changes in operations, balance sheet management and governance.

(1) DealPoint Data, enterprise value for public targets traded in U.S. markets and TSX.

(2) DealPoint Data, campaigns initiated at corporations traded on U.S. markets, May 1, 2023, to April 30, 2025.

(3) FactSet data, for U.S.-headquartered corporations and closed-end funds.