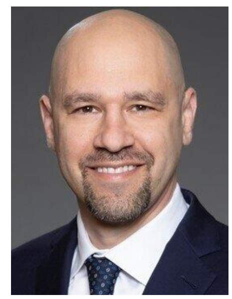
How Tariffs May Affect Proxy Contests This Season

By **Kai Liekefett and Derek Zaba** (April 8, 2025)

Kai Liekefett



Derek Zaba

On April 2, the Trump administration imposed sweeping tariffs of at least 10% across all countries on imported products into the U.S., with rates even higher for 60 countries or trading blocs that have a high trade deficit with the U.S. The scope of the new tariffs significantly exceeds those during the first Trump administration, when China was the primary target.

While it remains to be seen whether they will be beneficial for the U.S. economy in the long term, the tariff announcements have already affected the national and global economy. Both companies and investors will face the effects of tariffs, including the resulting volatility in the stock market.

The question for this article is whether these new tariffs will affect shareholder activism in the U.S., and in this context, it makes sense to distinguish between pending proxy contests and new activist investments.

Pending Proxy Contests vs. New Activist Investments

We expect a significant impact for pending proxy campaigns. The vast majority of public companies in the U.S. hold their annual shareholder meeting between April and June. In other words, now is the time of the year when activists are forced to put up or shut up.

In this context, it is important to understand that if activists launch a proxy contest, they generally must be prepared to remain in the stock for the foreseeable future — at least until the shareholder meeting and, if successful in obtaining board seats, at least six to 12 months beyond that.

While there are no legal restrictions to the contrary, as a practical matter, it is untenable for an activist to initiate a proxy contest and then sell or materially reduce its position shortly thereafter. Activists who do this become more susceptible to being portrayed as short-term investors in future activism campaigns.

It is even more difficult to exit a stock if a principal or an employee of the activist fund, rather than candidates who are at least nominally independent, takes a board seat. In those situations, any material nonpublic information received by the activist designee on the board is imputed to the activist fund, thereby restricting the fund's ability to trade in the stock — thereby eliminating the activist's flexibility to cut and run.

For these reasons, from an activist's perspective, now is a risky time to make a commitment to a particular company. The problem is compounded for those activists that have concentrated portfolios or whose funds do not adequately limit redemptions. For an activist fund with a limited number of positions, the impact of a decline in a single portfolio company is significantly amplified relative to more diversified peers.

Additionally, if the stock markets continue to deteriorate, funds without adequate liquidity constraints might face significant capital redemptions from their own limited partners without adequate ability to sell their investments. As a consequence, activists may be wary about making such commitments this proxy season.

Even before the tariff announcements, we saw more than a dozen cases where activists decided against moving forward with a competing slate, including several large- and megacap situations. This trend is only accelerating now, particularly in economically heavily tariff-exposed industries where an activist can run a perfect proxy campaign but still lose money on its investment.

The last time we observed this phenomenon was the 2020 proxy season, when many proxy contests were settled or withdrawn following the onset of the COVID-19 pandemic in the U.S.[1]

However, this does not mean the number of proxy fights will be low this year. After all, there are already a significant number of contests underway, and it is difficult for an activist to abandon a proxy contest after proxy materials have been filed.

Still, until only a few weeks ago, we expected a record year for proxy contests because activist investors were chomping at the bit following the November presidential election. Now, the tariffs and resulting economic uncertainty will certainly chill at least some activity this proxy season.

As for the pending proxy contests this season, defense has certainly become significantly easier. Most companies are currently facing an enormous disruption of their businesses and are attempting to realign their supply chains. This allows boards and management teams to argue — with some justification — that they should not be distracted by a dissident campaign for board seats.

While this cannot and should not excuse extreme underperformance or any major missteps, we would expect proxy advisory firms and institutional investors to cut companies at least a bit more slack during this time of crisis.

Post-Proxy Season

Looking ahead, corporate America should expect a large number of new activist investments once there is more clarity surrounding the tariff wars.

The dislocation and uncertainty in the stock market will likely create mismatches in stock price and the long-term value of many companies. This will not be limited to companies that are most affected by the tariffs. Activist investors will attempt to capitalize on these opportunities and "buy the dip."

Moreover, while undermanaged companies can sometimes hide in a bull market, market turmoil tends to make clearer whose management team is performing and whose is not. And activists will be ready to blame any boards and management that do not handle the current challenges well. This is certainly what we observed during the COVID-19 pandemic, when a large number of new activist campaigns were launched during the second half of 2020.

Needless to say, the expected new activist investments will be too late to affect the 2025 proxy season because the nomination deadlines for most U.S. companies passed between January and March. However, we expect to see more proxy fights as early as this fall, when public companies with an off-cycle fiscal year hold their annual meeting of shareholders. After all, activist investors live by the mantra widely attributed to Winston Churchill: "Never let a good crisis go to waste."

Kai Haakon E. Liekefett and Derek O. Zaba are partners, and co-chairs of the shareholder activism and corporate defense practice, at Sidley Austin LLP.

[1] "Is the Coronavirus Killing the Proxy Season?" by Kai Liekefett and Derek Zaba, March 14, 2020. https://corpgov.law.harvard.edu/2020/03/14/is-the-coronavirus-killing-the-proxy-season/.