Geopolitical conflict and firm-level stock market reactions: evidence from the 2026 US-Israel-Iran war

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Abstract

This study examines the impact of the 2026 US–Israel–Iran conflict on the Indian stock market using an event-study framework and a firm-level cross-sectional analysis. Using daily stock price data for 1,715 firms listed on the National Stock Exchange of India, we estimate abnormal returns around the outbreak of the conflict and analyze the determinants of cross-sectional variation in stock market reactions. The results show significant abnormal returns around the event date, indicating that the geopolitical shock was rapidly incorporated into equity prices. Cross-sectional regressions reveal that firms with greater sensitivity to market volatility experience significantly lower abnormal returns during the event and post-event windows, highlighting the role of uncertainty-driven risk premia. In contrast, oil price sensitivity does not significantly explain cross-sectional differences in stock market reactions. The findings suggest that financial market uncertainty is the primary channel through which the geopolitical conflict affected Indian equities. This study contributes to the firm-level evidence on geopolitical risk, highlighting financial uncertainty over oil channels, and examining 2026 US–Israel–Iran conflict in emerging markets.

Keywords: *Geopolitical risk; Israel-Iran war; Event study; US-Iran war; Oil price exposure; Emerging markets.*
JEL Classification*: G14; G15; F51; C23*

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1. Introduction

Geopolitical instability transmits uncertainty among investors worldwide (Guenichi et al., 2021; Pandey, Lucey, et al., 2023). Border disputes, wars, military confrontations, and geopolitical tensions disrupt international trade, influence commodity markets, and alter expectations regarding economic growth and financial stability through different channels (Álamos, 2024; Kumari et al., 2022; Yarovaya & Mirza, 2022). Since financial markets rapidly process new information, geopolitical events often trigger immediate price adjustments. In particular, conflicts occurring in the Middle East frequently generate strong reactions in global financial markets due to the region's central role in energy production and international trade routes (Fernandez, 2007).

The Middle East accounts for a substantial share of global crude oil reserves and production, making geopolitical tensions in the region particularly relevant for global energy markets (Fernandez, 2007; Leigh et al., 2003; Nathaniel et al., 2021). Military conflicts involving key regional actors may disrupt oil production or transportation routes, leading to fluctuations in oil prices and heightened uncertainty in financial markets. These developments can have important implications for both developed and emerging economies, especially those that rely heavily on imported energy. Consequently, geopolitical events in the region often spill over into international financial markets.

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Financial theory provides a useful framework for understanding how such geopolitical shocks influence stock prices. According to the Efficient Market Hypothesis (EMH), financial markets incorporate all available information into asset prices, implying that new information is quickly reflected in stock prices (Fama, 1970). When unexpected events occur, such as the outbreak of a war, investors revise their expectations regarding economic conditions, corporate profitability, and financial risk (Saini et al., 2024; Tee et al., 2023). These revised expectations lead to immediate adjustments in stock prices as markets process the new information. From the perspective of asset pricing theory, stock prices represent the discounted present value of expected future cash flows (Campbell et al., 1997). Therefore, events that alter expectations regarding future cash flows or discount rates can significantly influence equity valuations.

Geopolitical conflicts can affect financial markets through several economic and financial channels. First, such conflicts may increase uncertainty regarding global economic conditions, which can raise risk premia and reduce investor risk appetite (Guenichi et al., 2021; Marobhe et al., 2025). Second, geopolitical tensions often influence commodity markets (Garzón & Hierro, 2018; Kollias et al., 2013; Ruiz Estrada et al., 2020), particularly oil markets, which play a crucial role in the global economy. Third, increased uncertainty may trigger capital flows across countries and asset classes as investors rebalance their portfolios in response to changing risk perceptions (Bekaert et al., 2009; Chan & Marsh, 2021). These channels can collectively influence stock market performance across countries.

The 2026 US–Israel–Iran war, which began on 28 February 2026[1], represents a major geopolitical shock with potentially significant implications for global financial markets. Escalating tensions between the United States, Israel, and Iran have heightened concerns regarding regional stability, global energy supply chains, and international security. Military actions involving these countries can disrupt oil production and transportation routes in the Persian Gulf region, including strategic chokepoints such as the Strait of Hormuz[2]. Because a large share of global oil trade passes through this region[3], disruptions can lead to significant volatility in global energy prices.

Fluctuations in oil prices are particularly important for emerging economies that depend heavily on imported energy. India is among the world's largest importers of crude oil[4], with a substantial share of its energy demand met through imports. As a result, increases in global oil prices can have important macroeconomic implications for the Indian economy. Higher oil prices may increase production costs for firms, contribute to inflationary pressures, and affect economic growth prospects. These macroeconomic effects can subsequently influence corporate profitability and stock market performance.

In addition to the oil price channel, geopolitical conflicts can also affect financial markets by heightening uncertainty and altering risk perceptions. Financial market volatility often increases during periods of geopolitical tension as investors become more uncertain about future economic conditions. Indicators such as the volatility index (VIX) capture market expectations regarding future volatility and are commonly used as proxies for investor fear and

[1] https://edition.cnn.com/world/live-news/israel-iran-attack-02-28-26-hnk-intl
[2] https://unctad.org/publication/strait-hormuz-disruptions-growth-and-financial-implications?utm_source=facebook&utm_medium=social
[3] https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz
[4] https://www.iasgyan.in/daily-current-affairs/indias-import-of-crude-oil

uncertainty. When geopolitical tensions increase, investors may demand higher risk premia for holding risky assets such as equities, which can lead to declines in stock prices.

Empirical evidence suggests that geopolitical risk can significantly influence stock market returns and volatility. Caldara and Iacoviello (2022) show that increases in geopolitical risk are associated with declines in equity markets and increases in financial market volatility. Similarly, studies examining the relationship between oil price shocks and stock markets demonstrate that energy price fluctuations can have substantial effects on equity returns, particularly in economies that depend heavily on imported oil (Kilian, 2008; Kilian & Park, 2009). These findings highlight the importance of considering both energy market dynamics and financial market uncertainty when examining the impact of geopolitical conflicts on stock markets.

India provides an important setting to examine these dynamics for several reasons. First, as one of the largest emerging market economies, India plays an increasingly significant role in global financial markets. Second, the Indian economy is highly exposed to global oil price fluctuations, given its heavy reliance on energy imports. Third, the Indian equity market, particularly the National Stock Exchange (NSE), has experienced substantial growth over the past few decades and attracts both domestic and international investors. These characteristics make the Indian stock market an appropriate context for studying the financial market consequences of global geopolitical events.

While prior studies have examined the impact of geopolitical risk on stock markets at the aggregate level, relatively limited research has explored the firm-level determinants of stock market reactions to geopolitical conflicts (Bhattacharjee et al., 2024; Jha & Katiyar, 2024; Katiyar et al., 2024; Pandey, Assaf, et al., 2023; Saini et al., 2023). Existing event study research, both globally and within the regional context, predominantly focuses on average market responses, thereby overlooking cross-sectional heterogeneity in firm-level reactions. This study addresses this gap by providing systematic firm-level evidence on how heterogeneous characteristics, such as industry exposure, cost structures, and financial positions, shape vulnerability to geopolitical shocks. In particular, it extends prior literature by jointly examining the relative importance of oil price sensitivity and financial market uncertainty as distinct transmission channels, offering new insights into the mechanisms through which geopolitical conflicts affect equity markets.

Against this backdrop, the present study examines the impact of the 2026 US–Israel–Iran war on the Indian stock market using an event-study framework. Specifically, the study examines the abnormal returns of large and liquid firms listed on the NSE around the conflict event. The analysis focuses on how differences in firms' sensitivity to crude oil prices and financial market volatility explain cross-sectional variations in stock market reactions. In addition, the study incorporates firm-level characteristics such as size, leverage, liquidity, and valuation ratios to control for differences in firm fundamentals.

This study contributes to the growing literature on geopolitical risk and financial markets in several ways. First, while prior studies primarily examine aggregate market responses to geopolitical shocks, this paper provides firm-level evidence from an emerging market context. By analyzing cross-sectional heterogeneity in abnormal stock returns, the study identifies the firm characteristics that shape vulnerability to geopolitical events. Second, the paper distinguishes between two key transmission channels through which geopolitical

conflicts may affect equity markets: the oil-price channel and the financial-uncertainty channel. Although geopolitical conflicts in the Middle East are often associated with disruptions in global energy markets, this study finds that financial market uncertainty plays a more important role than oil price exposure in explaining firm-level stock market reactions. Third, the paper provides new empirical evidence on the market impact of the 2026 US–Israel–Iran conflict, a major geopolitical event that has received limited attention in the empirical finance literature. By focusing on an emerging economy that is highly integrated into global financial markets yet structurally different from advanced economies, the study contributes to a deeper understanding of how geopolitical shocks propagate across international equity markets.

The rest of the paper presents the theoretical framework (in Section 2), data and methods (in Section 3), results and discussion (in Section 4) and concludes the findings (in Section 5).

2. Theoretical framework and hypotheses development

2.1. Asset pricing theory, efficient markets, and event-driven stock market reactions

Financial economics provides several theoretical frameworks for understanding how unexpected events influence stock prices. A central concept in this literature is the EMH (Fama, 1970). Under this framework, new information is rapidly incorporated into asset prices, implying that stock prices adjust quickly to unexpected events. The asset pricing theory further suggests that a firm's equity value equals the discounted present value of its expected future cash flows (Campbell et al., 1997). Any event that changes expectations regarding future cash flows or the discount rate used to value them can therefore affect stock prices. Geopolitical conflicts represent such events because they can influence macroeconomic conditions, commodity prices, trade flows, and financial market risk.

Unexpected geopolitical events are likely to influence stock prices through several mechanisms. First, they can alter expectations regarding economic growth and corporate profitability. Second, geopolitical tensions can increase uncertainty and risk perception among investors, which may raise required risk premia and reduce equity valuations. Third, geopolitical conflicts can disrupt global supply chains and commodity markets, thereby affecting firms' production costs and revenues.

Empirical research has shown that geopolitical risk shocks can significantly affect financial markets. Caldara and Iacoviello (2022) develop a measure of geopolitical risk and demonstrate that increases in geopolitical tensions are associated with declines in equity markets and increases in volatility. Similarly, studies examining the financial market impact of terrorist attacks, wars, and political crises have found that such events often generate abnormal stock returns and increased market volatility.

Event study methodology is commonly used to examine the stock market impact of unexpected events because it isolates the abnormal returns generated by new information (Hanif et al., 2022; Kumar & Moussa, 2025; Maurya et al., 2023; Miyajima & Yafeh, 2007). If financial markets are efficient, stock prices should adjust immediately to new information (Fama, 1970). Therefore, significant abnormal returns around the event date indicate that investors have revised their expectations in response to the new information.

The outbreak of the US–Israel–Iran war in 2026 constitutes an unexpected geopolitical event that may alter investors' expectations regarding global economic conditions, energy markets, and financial risk. Consequently, stock prices in the Indian market may exhibit significant abnormal returns during the event window. Hence, we assume the following hypothesis.

***H1**. The outbreak of the US–Israel–Iran conflict generates significant abnormal returns for Indian stocks.*

2.2. Oil price exposure and corporate cash flow sensitivity

One of the primary channels through which geopolitical conflicts in the Middle East affect global financial markets is the oil price channel. The Middle East plays a crucial role in global oil production and supply, and geopolitical tensions in the region often lead to fluctuations in oil prices. Supply disruptions, transportation bottlenecks, and increased risk premia in energy markets can all contribute to higher oil prices during periods of geopolitical conflict.

Oil price fluctuations can significantly influence corporate profitability and stock market performance (Filis et al., 2011; Khan et al., 2022). For firms that rely heavily on energy inputs, increases in oil prices raise production costs and reduce profit margins. In oil-importing economies, higher oil prices can also contribute to inflationary pressures and slower economic growth, potentially negatively affecting corporate earnings.

Kilian and Park (2009) show that oil price shocks can have significant effects on stock market returns through both demand and supply channels. Oil price increases associated with supply disruptions tend to have negative effects on stock markets, particularly in countries that rely heavily on imported energy. Similarly, Basher and Sadorsky (2006) find that oil price risk plays an important role in explaining stock market returns in emerging markets.

At the firm level, the impact of oil price shocks may vary depending on a firm's exposure to energy costs (Aggarwal et al., 2012). Firms with greater sensitivity to oil price fluctuations are more likely to experience changes in expected cash flows when oil prices increase. Investors may therefore react more strongly to geopolitical conflicts for firms whose profitability is more closely tied to energy prices. Since the US–Israel–Iran conflict may generate fluctuations in global oil prices, firms with higher oil price sensitivity may experience stronger stock market reactions during the event window. Hence, we assume the following.

***H2**. Firms with higher sensitivity to crude oil prices experience stronger abnormal stock market reactions during the geopolitical conflict.*

2.3. Financial market uncertainty and volatility sensitivity

Another important channel through which geopolitical conflicts influence financial markets is increased uncertainty. Geopolitical tensions create uncertainty regarding future economic conditions, trade flows, and international relations. This uncertainty can affect investor expectations and increase financial market volatility.

Volatility indices, such as the VIX, capture investors' expectations of future market volatility and are commonly used as indicators of financial market uncertainty (Chen et al., 2021; Shaikh, 2017; Wang et al., 2022). When geopolitical tensions increase, investors often become more risk-averse and demand higher compensation for holding risky assets. This increase in risk premia can lead to declines in equity prices.

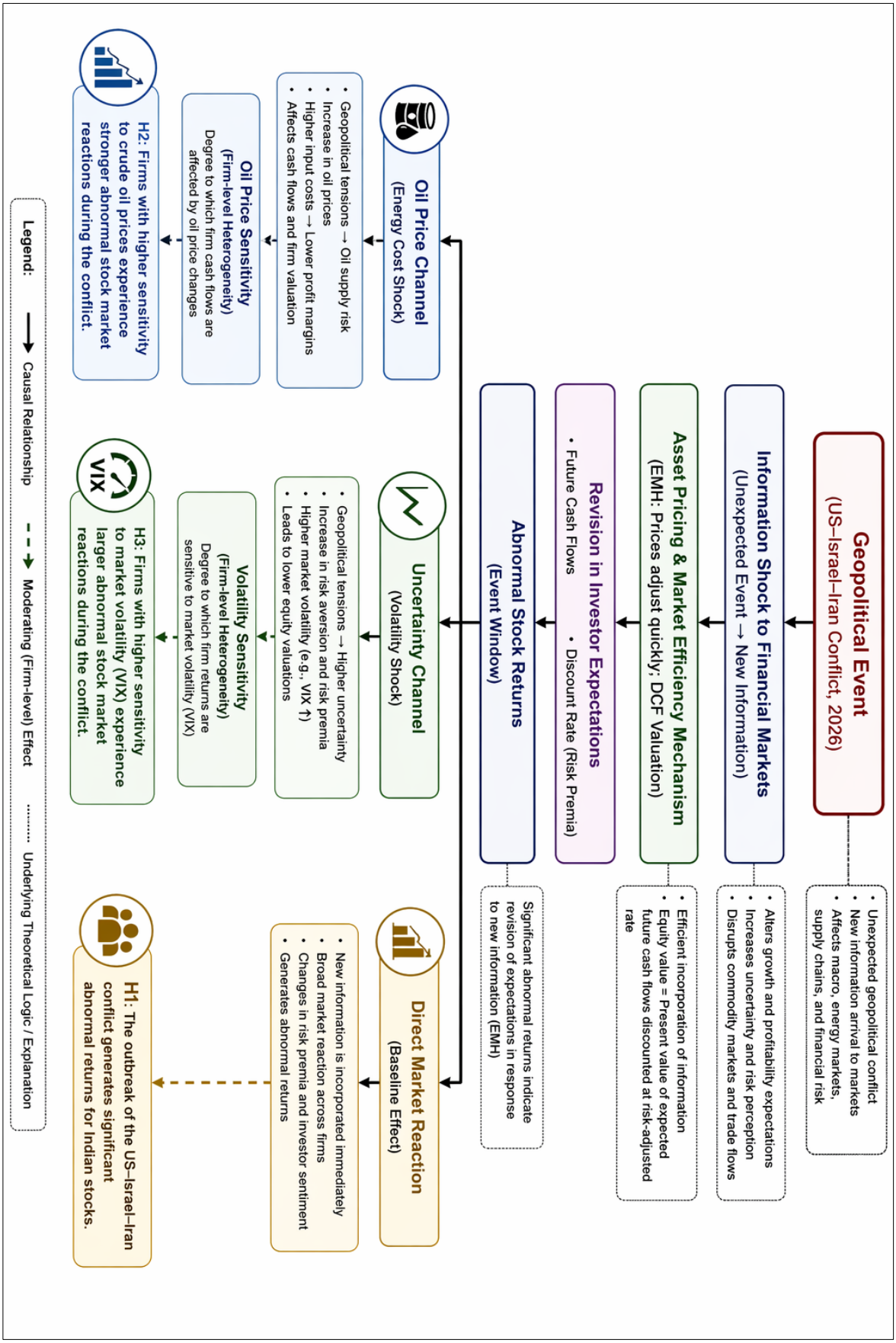

Figure 1. Theoretical framework

Pástor and Veronesi (2013) show that political uncertainty can significantly affect asset prices by increasing risk premia and reducing investment. Similarly, research on geopolitical risk (Agoraki et al., 2022; Fiorillo et al., 2024) suggests that increases in uncertainty can lead to declines in stock market returns and increases in volatility.

At the firm level, some firms are more sensitive to market volatility than others. Firms whose stock returns exhibit greater sensitivity to volatility may experience stronger stock price reactions during periods of heightened uncertainty. These firms may face larger adjustments in investor expectations as market risk increases. Given that the US–Israel–Iran conflict may increase global financial market uncertainty, firms with greater volatility sensitivity may experience stronger abnormal returns during the event window.

***H3**. Firms with higher sensitivity to market volatility (VIX) experience larger abnormal stock market reactions during the geopolitical conflict.*

Figure 1 presents the theoretical framework for the study.

3. Data and methodology

3.1. Data and sample selection

This study examines the impact of the 2026 US–Israel–Iran conflict on the Indian stock market using an event study framework. The analysis focuses on large liquid firms listed on the NSE of India. These firms account for a substantial share of market capitalization and trading activity, making them suitable for analyzing market reactions to new information. Firm-level financial and market data are obtained from the ProwessIQ database maintained by the Centre for Monitoring Indian Economy (CMIE). ProwessIQ provides detailed financial statements and market data for Indian firms and is widely used in empirical research on Indian capital markets.

The sample selection procedure involves several filtering steps to ensure the analysis is based on firms with reliable, continuous trading data. Initially, the ProwessIQ database identifies 2,482 large and liquid firms listed on the NSE. However, daily closing stock price data were available for only 2,054 firms during the sample period. In the next step, firms with missing daily price observations during the study period from 2 January 2025 to 17 March 2026 were removed to ensure data continuity for the estimation and event windows. After this filtering process, the sample size was reduced to 1,845 firms.

To further ensure data quality and eliminate illiquid or infrequently traded stocks, firms with excessive zero-return observations were excluded. Specifically, firms with more than five zero-return observations during the entire sample period were removed. In addition, firms with at least one zero return during the post-event period were excluded because zero returns may indicate thin trading or data irregularities that could bias abnormal return estimates.

After applying these filters, the final sample consists of 1,715 firms with continuous price data and sufficient trading activity. This large cross-sectional sample enables a comprehensive analysis of stock market reactions to the geopolitical event while minimizing biases arising from illiquid securities.

3.2. Event identification

The event examined in this study is the 2026 US–Israel–Iran conflict. The event date is defined as the first trading day immediately following the official announcement and escalation of

military actions involving the United States, Israel, and Iran. This announcement represented a major escalation in geopolitical tensions and was widely reported across international media outlets, thereby constituting a significant information shock for global financial markets.

Because geopolitical conflicts often develop gradually, investors may begin incorporating information into prices before the official event date. To account for this possibility, the analysis employs multiple symmetric event windows around the event date, including $[-10, +10]$, $[-7, +7]$, $[-5, +5]$, $[-3, +3]$, and $[-1, +1]$. Examining multiple event windows allows the analysis to capture both anticipatory market responses and delayed adjustments in stock prices. This approach is commonly used in event-study analyses of political or geopolitical shocks, where information may be incorporated into asset prices over several trading days.

3.3. Event study methodology

To examine the stock market reaction to the geopolitical event, this study employs the event study methodology, which is widely used in financial economics to evaluate the impact of unexpected events on stock prices (Boubaker et al., 2015; Goyal & Soni, 2023, 2024; Maurya et al., 2023). The event study approach measures abnormal returns generated by new information by comparing actual returns with expected returns predicted by an asset pricing model (Campbell et al., 1997).

The event date corresponds to the outbreak of the US–Israel–Iran conflict in 2026, which brought new geopolitical information to financial markets. Although the war began on 28 February 2026, the stock markets were closed on this day. Hence, the next trading day, i.e., 02 March 2026, is considered as the event date. Daily stock returns for firm *i* on day *t* are calculated as:

$$R_{it} = \ln\left(\frac{P_{it}}{P_{it-1}}\right)*100 \quad (1)$$

where P_{it}denotes the closing stock price of firm *i* on day *t*.

The expected return for each stock is estimated using the market model, which assumes that stock returns are linearly related to market returns:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (2)$$

where, $R_{it}$is the return of firm *i* on day *t;* $R_{mt}$is the market return on day *t;* $\alpha_i$and $\beta_i$are firm-specific parameters; $\varepsilon_{it}$is the error term.

The parameters of the market model are estimated over an estimation window prior to the event window to avoid contamination from the event itself. We use a 250-day estimation window from 02 January 2025 to 02 January 2026 (from t-289 to t-40). This estimation window not only eliminates seasonal bias but also addresses potential contamination with the Venezuela conflict.

Thereafter, the abnormal returns (AR) are calculated as the difference between actual and expected returns:

$$AR_{it} = R_{it} - (\widehat{\alpha_i} + \widehat{\beta_i} R_{mt}) \quad (3)$$

3.4. Cross-sectional determinants of abnormal returns

To examine the transmission channels through which the geopolitical conflict affects stock returns, the study estimates cross-sectional regression models in which cumulative abnormal returns are regressed on firm-level exposure to oil prices, financial market volatility, and firm-specific characteristics.

We calculate the dependent variable, i.e., cumulative abnormal returns (CAR), by aggregating abnormal returns over the event window.

$$CAR_i = \sum_{t=T_1}^{T_2} A\,R_{it} \tag{4}$$

where T_1 and T_2 denote the beginning and end of the event window.

Multiple event windows are examined to capture short-term stock market reactions around the event date. We expect that the CARs are driven by the sample stocks' sensitivities to Brent crude oil prices and the Indian volatility index. Hence, we use these two independent variables with several firm controls. Our proposed model is as follows:

$$CAR_i = \alpha + \beta_1 OILBETA_i + \beta_2 VIXBeta_i + \beta_3 Size_i + \beta_4 Leverage_i + \beta_5 CACL_i + \beta_6 BTM_i + \beta_7 LnAGE_i + \varepsilon_i \tag{5}$$

where CAR_i represents the cumulative abnormal return of firm i during the event window; $OILBETA_i$ measures the sensitivity of firm i's stock returns to crude oil price movements; $VIXBeta_i$ captures the sensitivity of firm i's returns to market volatility; $Size_i$ is the natural logarithm of total assets; $Leverage_i$ is the ratio of total debt to total assets; $CACL_i$ is the current assets to current liabilities ratio; BTM_i is the book-to-market ratio. The coefficients β_1 and β_2 capture how firm-level exposure to oil price fluctuations and financial market volatility influences stock market reactions to the geopolitical event.

3.5. Estimation of oil and volatility sensitivities

Firm-level exposure to oil price movements and financial market volatility is estimated using time-series regressions during the estimation window. Specifically, oil price sensitivity is obtained from the following regression:

$$R_{it} = \alpha_i + \beta_{1i} Oil_t + \varepsilon_{it} \tag{6}$$

where Oil_t represents the daily return on crude oil prices.

Similarly, volatility sensitivity is estimated using the regression:

$$R_{it} = \alpha_i + \gamma_{1i} VIX_t + \varepsilon_{it} \tag{7}$$

where VIX_t represents changes in the India VIX index.

The coefficients β_{1i} and γ_{1i} capture each firm's exposure to oil price fluctuations and market volatility, respectively. These estimated sensitivities are then used as explanatory variables in the cross-sectional regression.

4. Results and discussion

4.1. Descriptive statistics

Table 1 presents the descriptive statistics of CARs across different event windows, along with the firm-level variables used in the cross-sectional analysis. The results indicate considerable

variation in abnormal returns across firms, suggesting heterogeneous stock market reactions to the geopolitical shock. For example, the mean CAR across the $[-10, +10]$ window is 0.452%, while the shorter $[-1, +1]$ window records a slightly negative mean return of -0.181%. The standard deviations range between 4.208 and 10.259 across the event windows, indicating substantial dispersion in firm-level responses around the event date.

Table 1. Descriptive statistics

Variables	Obs	Mean	Std. Dev.	p1	p99	Skew.	Kurt.
[-10,+10]	1405	.452	10.259	-29.276	29.126	.118	3.678
[-7,+7]	1405	4.006	8.822	-18.906	30.146	.248	3.623
[-5,+5]	1405	1.552	7.09	-17.469	23.247	.309	3.825
[-3,+3]	1405	1.227	5.806	-14.04	20.524	.429	4.068
[-1,+1]	1405	-.181	4.208	-9.76	13.918	.609	4.225
[+1,+3]	1405	.913	3.624	-8.104	13.056	.513	4.222
[+1,+5]	1405	1.688	4.908	-11.78	17.088	.355	4.15
[+1,+7]	1405	4.277	6.144	-11.667	22.731	.281	3.723
[+1,+10]	1405	1.576	6.858	-15.409	21.924	.277	3.601
OILBETA	1405	-.019	.071	-.196	.179	.091	3.324
VIXBETA	1405	-.125	.045	-.235	-.013	-.074	2.769
LNTA	1405	9.712	1.561	6.641	14.051	.426	2.965
TDTA	1405	.074	.102	0	.537	2.291	8.795
CACL	1405	2.422	2.224	.308	15.938	3.491	18.568
BTM	1405	.485	.514	-.601	2.823	2.064	8.789
LNAGE	1405	8.295	.979	6.127	9.345	-.65	2.216

Note(s): The values are winsorized at 1%.

The distributional characteristics show moderate skewness and kurtosis slightly above 3 for most CAR measures, suggesting mild departures from normality but no extreme outliers after winsorization at the 1% level. Such patterns are common in event-study settings, where abnormal returns tend to cluster around major information shocks (Campbell et al., 1997).

Regarding the explanatory variables, the average oil beta (OILBETA) is slightly negative (-0.019), suggesting that the sample firms exhibit relatively weak sensitivity to oil price movements. In contrast, the mean volatility beta (*VIXBETA*) is -0.125, suggesting that many firms exhibit negative returns when market volatility increases. These characteristics are consistent with prior evidence that firms differ significantly in their exposure to macroeconomic shocks and financial market uncertainty (Aggarwal et al., 2012). The firm-specific control variables, including size (*LNTA*), leverage (*TDTA*), liquidity (*CACL*), valuation (*BTM*), and age (*LNAGE*), also display meaningful variation across firms, supporting their inclusion as controls in the cross-sectional analysis.

Overall, the descriptive statistics confirm substantial cross-sectional heterogeneity in abnormal returns and firm characteristics, providing an appropriate empirical setting for examining the determinants of stock market reactions to geopolitical shocks.

4.2. Daily abnormal returns around the event

Table 2 reports the daily AAR across the event window $[-10, +10]$. The results reveal statistically significant fluctuations in abnormal returns around the outbreak of the US–Israel–Iran conflict, indicating that the geopolitical event generated meaningful stock market reactions. Figure 2 presents the AAR and average actual returns during the event window. In the days leading up to the event, several statistically significant abnormal returns were observed. For instance, negative abnormal returns appear on day $t-10$, $t-6$, and $t-5$, suggesting that investors may have begun adjusting their expectations as geopolitical tensions

escalated prior to the official outbreak of the conflict. At the same time, positive abnormal returns on days such as $t-9$ and $t-1$indicate fluctuating investor sentiment as new information regarding the evolving geopolitical situation reached financial markets.

Table 2. Daily average abnormal returns across the event window

Days	AAR	t-value	Corrado value
t-10	-1.52***	-24.33	-26.03***
t-9	0.70***	11.21	14.78***
t-8	0.01	0.11	-1.35
t-7	0.43***	6.92	9.15***
t-6	-0.59***	-9.49	-12.27***
t-5	-0.81***	-13.01	-14.87***
t-4	0.33***	5.29	10.01***
t-3	-0.08	-1.34	0.51
t-2	0.39***	6.28	7.86***
t-1	0.85***	13.70	17.16***
t	-0.86***	-13.78	-17.08***
t+1	-0.15**	-2.46	-4.81***
t+2	-0.23***	-3.70	-4.71***
t+3	1.26***	20.16	24.74***
t+4	-0.30***	-4.75	-5.72***
t+5	1.07***	17.16	20.02***
t+6	1.73***	27.72	31.49***
t+7	0.79***	12.69	15.52***
t+8	-0.25***	-4.08	-4.52***
t+9	-2.25***	-36.16	-38.18***
t+10	-0.17***	-2.72	-4.82***

Notes(s): *** p<0.01, ** p<0.05, * p<0.1

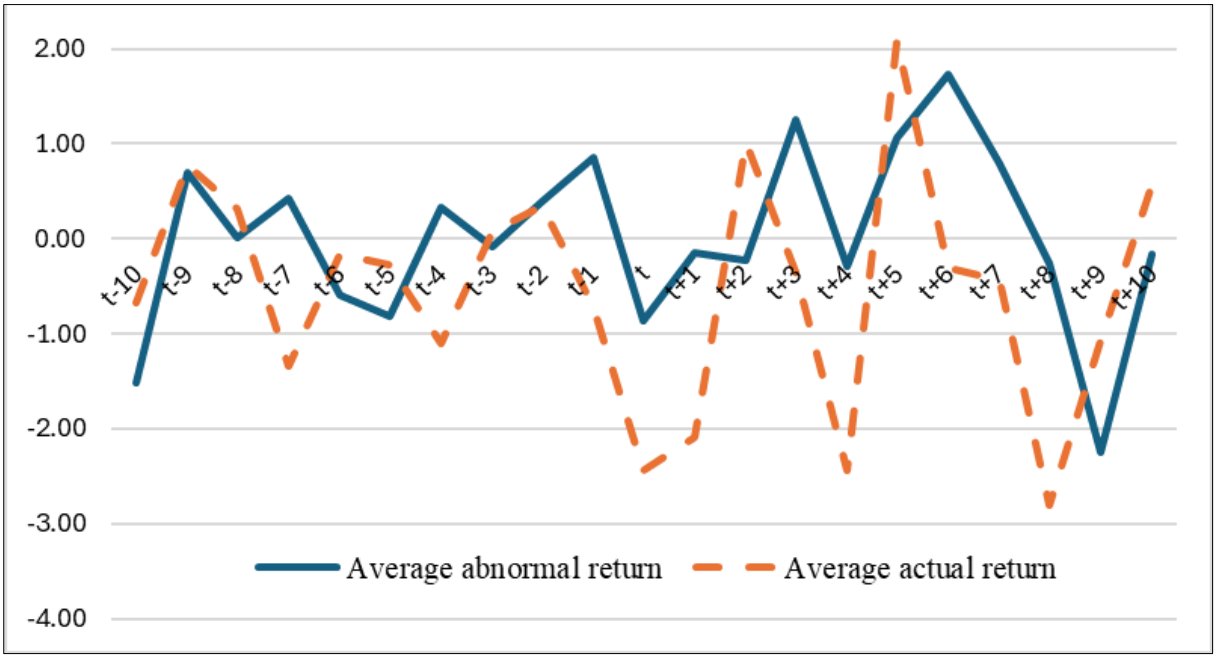

Figure 2. Daily average abnormal and actual returns during the event window

On the event day t, the Indian stock market records a statistically significant negative abnormal return of -0.86%. This immediate reaction suggests that investors quickly incorporated the information regarding the outbreak of the conflict into asset prices. Such a rapid adjustment is consistent with the EMH, which predicts that financial markets incorporate new information into stock prices quickly (Fama, 1970).

In the post-event period, the results reveal continued volatility in abnormal returns. While negative abnormal returns persist on days $t+1$and $t+2$, the market experiences temporary rebounds on days $t+3$, $t+5$, and $t+6$, suggesting that investors reassessed the economic implications of the conflict following the initial shock. However, the sharp negative abnormal return on day $t+9$indicates that uncertainty remained elevated during the post-event period.

Importantly, the parametric t-statistics and the nonparametric Corrado test yield broadly similar significance patterns, strengthening the robustness of the results. Overall, these findings provide support for **H1**, indicating that the outbreak of the geopolitical conflict generated significant abnormal returns in the Indian stock market.

These results are consistent with the broader literature documenting the negative effects of geopolitical risk on financial markets. For example, Caldara and Iacoviello (2022) show that increases in geopolitical risk are associated with declines in equity prices and increases in financial market volatility. Similarly, studies examining the effects of geopolitical shocks on stock market performance find that unexpected political and military events often prompt immediate price adjustments as investors revise their expectations for economic conditions (Agoraki et al., 2022; Fiorillo et al., 2024).

4.3. Cross-sectional determinants of abnormal returns

To examine the transmission channels through which the geopolitical conflict affected stock prices, Tables 3 and 4 present cross-sectional regressions explaining cumulative abnormal returns across different event windows.

Table 3. Cross-sectional results across different event windows

VARIABLES	[-10,+10]	[-7,+7]	[-5,+5]	[-3,+3]	[-1,+1]
OILBETA	-3.291	-2.432	-2.564	-0.611	1.751
	(3.864)	(3.279)	(2.675)	(2.191)	(1.574)
VIXBETA	-30.02***	-40.40***	-18.15***	-15.14***	-16.17***
	(6.086)	(5.166)	(4.213)	(3.451)	(2.479)
LNTA	-0.0168	-0.0335	-0.0879	-0.122	-0.0660
	(0.187)	(0.159)	(0.129)	(0.106)	(0.0761)
TDTA	0.276	0.162	-0.301	0.167	-1.300
	(2.727)	(2.315)	(1.888)	(1.546)	(1.111)
CACL	0.119	0.00444	-0.0209	-0.0102	-0.0370
	(0.127)	(0.107)	(0.0876)	(0.0717)	(0.0515)
BTM	-0.0896	0.253	0.0212	0.104	-0.000123
	(0.536)	(0.455)	(0.371)	(0.304)	(0.219)
LNAGE	0.286	0.193	0.224	0.124	-0.110
	(0.298)	(0.253)	(0.206)	(0.169)	(0.121)
Constant	-5.830**	-2.493	-1.705	-0.556	-0.421
	(2.742)	(2.327)	(1.898)	(1.555)	(1.117)
F-stat	3.94***	9.34***	3.21***	3.15***	6.71***
Observations	1,405	1,405	1,405	1,405	1,405
R-squared	0.019	0.045	0.016	0.016	0.033

Note(s): Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

4.3.1. Volatility exposure

The most consistent and statistically significant determinant of abnormal returns is the volatility beta (*VIXBETA*). Across all event windows reported in Table 3, the coefficient on *VIXBETA* is negative and statistically significant at the 1% level. For example, in the $[-7,+7]$

window, the estimated coefficient is -40.40, indicating that firms with greater sensitivity to market volatility experienced significantly lower abnormal returns during the conflict period.

This finding suggests that firms whose stock returns are more strongly affected by market uncertainty are particularly vulnerable during periods of geopolitical tension. When uncertainty increases, investors demand higher risk premia, leading to declines in stock prices, especially for firms more exposed to volatility shocks.

These results strongly support **H3**, which predicts that firms with higher sensitivity to financial market volatility experience stronger abnormal stock market reactions during geopolitical conflicts. The findings are also consistent with theoretical models emphasizing the role of uncertainty in asset pricing. For example, Pástor and Veronesi (2013) show that political uncertainty increases risk premia and reduces asset valuations. Similarly, empirical evidence suggests that geopolitical risk shocks raise financial market volatility and depress equity returns (Caldara & Iacoviello, 2022).

4.3.2. Oil price exposure

In contrast to volatility exposure, the coefficient for oil price sensitivity (*OILBETA*) is statistically insignificant across all event windows. Although the estimated coefficients are mostly negative, indicating that firms with greater exposure to oil price movements may experience weaker stock performance, the lack of statistical significance suggests that oil price sensitivity does not explain cross-sectional variation in abnormal returns during the event window.

This result implies that, despite the potential implications of the Middle East conflict for global oil supply, investors may not have perceived oil price fluctuations as the dominant transmission channel affecting Indian firms in the immediate aftermath of the conflict. Alternatively, the effects of oil price changes may have been mitigated by firm-level hedging strategies or by the short-term nature of the event window examined in the analysis. The sudden outbreak of the US–Israel–Iran conflict likely triggered a surge in risk aversion and flight-to-safety behavior, leading market participants to respond more strongly to broad-based uncertainty rather than to firm-level exposure to oil price fluctuations. Paltrinieri et al. (2026) find that crude oil is a better hedge against the geopolitical risk. Future studies may delve deeper into this aspect.

These findings contrast with earlier studies showing that oil price shocks can significantly affect stock markets, particularly in energy-importing economies (Basher & Sadorsky, 2006; Kilian & Park, 2009). However, they also suggest that the financial market impact of geopolitical events may be driven more strongly by uncertainty and risk perception than by immediate changes in commodity prices.

Consequently, **H2**, which predicts stronger stock market reactions for firms with greater oil price sensitivity, is not supported by the empirical results.

4.3.3. Firm characteristics

The firm-specific control variables, including size, leverage, liquidity, valuation, and firm age, do not exhibit statistically significant effects across most specifications. This suggests that differences in firm fundamentals played a limited role in explaining stock price reactions to the geopolitical shock. One possible explanation is that the outbreak of the conflict represented a broad macroeconomic shock affecting investor sentiment across the entire market, rather than

a firm-specific shock linked to balance-sheet characteristics. Previous studies examining geopolitical risk also document that market-wide uncertainty can dominate firm-level fundamentals in driving short-term stock price movements (Caldara & Iacoviello, 2022).

The findings also suggest that the event operates as a broad-based macro-financial disturbance, overwhelming firm-specific fundamentals that typically act as buffers (Baker et al., 2016; Pástor & Veronesi, 2013). One possible explanation is that during periods of intense geopolitical uncertainty, market-wide sentiment and risk aversion dominate firm-level distinctions, leading to more synchronized reactions across firms (Bekaert et al., 2014; Forbes & Rigobon, 2002). Additionally, the forward-looking nature of financial markets may cause investors to prioritize uncertainty-related risks over balance sheet strength or operational resilience (Bloom, 2009). These findings indicate that conventional firm-level safeguards may be less effective in mitigating the impact of extreme geopolitical events, highlighting the need to further explore alternative channels, such as exposure to global financial conditions or investor sentiment, that may better explain cross-sectional variation in stock returns.

4.4. Post-event dynamics

Table 4 reports regression results for several post-event windows, including $[+1, +3]$, $[+1, +5]$, $[+1, +7]$, and $[+1, +10]$. The results largely mirror those obtained for the full event window. Volatility exposure remains negative and statistically significant across all post-event windows. Moreover, the magnitude of the coefficient increases as the window lengthens, suggesting that firms with higher sensitivity to market volatility continued to experience weaker performance in the days following the initial shock. This pattern indicates that financial market uncertainty remained an important factor influencing stock prices after the outbreak of the conflict.

Table 4. Cross-sectional results across post-event windows

VARIABLES	[+1,+3]	[+1,+5]	[+1,+7]	[+1,+10]
OILBETA	-1.071	-1.643	-0.351	-1.492
	(1.371)	(1.847)	(2.251)	(2.546)
VIXBETA	-6.813***	-14.80***	-35.93***	-31.89***
	(2.160)	(2.909)	(3.545)	(4.010)
LNTA	-0.0198	-0.0381	-0.0208	0.0666
	(0.0663)	(0.0893)	(0.109)	(0.123)
TDTA	0.686	0.860	0.798	0.996
	(0.968)	(1.304)	(1.589)	(1.797)
CACL	-0.00315	-0.00725	-0.00600	0.0582
	(0.0449)	(0.0605)	(0.0737)	(0.0834)
BTM	0.261	0.105	0.166	-0.0972
	(0.190)	(0.256)	(0.312)	(0.353)
LNAGE	-0.00647	0.155	0.220	0.288
	(0.106)	(0.142)	(0.173)	(0.196)
Constant	0.120	-1.205	-1.961	-5.633***
	(0.973)	(1.310)	(1.597)	(1.807)
F-stat	1.98*	4.36***	15.53***	9.90***
Observations	1,405	1,405	1,405	1,405
R-squared	0.010	0.021	0.072	0.047

Note(s): Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

In contrast, oil price sensitivity and firm-level financial characteristics remain statistically insignificant across the post-event specifications. These findings reinforce the conclusion that financial market uncertainty, rather than oil price exposure, represents the

primary transmission channel through which the geopolitical conflict affected stock market performance.

4.5. Overall interpretation

Taken together, the empirical results provide several insights into how geopolitical conflicts affect emerging equity markets. First, the presence of statistically significant abnormal returns around the event date confirms that the outbreak of the US–Israel–Iran conflict generated a substantial information shock that was rapidly incorporated into stock prices, consistent with the predictions of market efficiency (Fama, 1970). Second, the strong and persistent effect of volatility exposure highlights the importance of financial market uncertainty as a key transmission channel through which geopolitical events affect stock prices. Firms that are more sensitive to volatility shocks appear to be particularly vulnerable during periods of geopolitical tension. Third, the absence of significant oil price effects suggests that investors may have interpreted the conflict primarily as a source of uncertainty rather than as an immediate disruption to energy markets that would affect firm-level profitability.

Beyond statistical significance, the results are also economically meaningful. Table 5 indicates that a one-standard-deviation increase in volatility exposure reduces cumulative abnormal returns by approximately 0.68–1.82 percentage points during the different event windows and 0.17–0.60 percentage points in the post-event windows. These magnitudes suggest that firms with greater sensitivity to financial market volatility experience economically significant declines in stock prices during the geopolitical conflict, highlighting the importance of uncertainty-driven risk premia.

Table 5. Economic significance of volatility exposure

Event Window	Coefficient of VIXBETA	Std. Dev. of VIXBETA	Economic Effect (β × SD)
[-10,+10]	-30.02***	0.045	-1.35
[-7,+7]	-40.40***	0.045	-1.82
[-5,+5]	-18.15***	0.045	-0.82
[-3,+3]	-15.14***	0.045	-0.68
[-1,+1]	-16.17***	0.045	-0.73
[+1,+3]	-3.67***	0.045	-0.17
[+1,+5]	-6.50***	0.045	-0.29
[+1,+7]	-13.24***	0.045	-0.60
[+1,+10]	-12.67***	0.045	-0.57

Note(s): *** p<0.01, ** p<0.05, * p<0.1

Overall, these findings contribute to the growing literature on geopolitical risk by demonstrating that uncertainty-driven risk premia play a central role in shaping stock market reactions to geopolitical shocks in emerging markets.

4.6. Robustness considerations

Several aspects of the empirical design help strengthen the robustness of the results. First, the analysis employs multiple event windows surrounding the event date to capture both immediate and delayed market reactions. The consistency of results across different windows suggests that the findings are not driven by a specific choice of event window. Second, the event study results are validated using both parametric and non-parametric test statistics (Corrado, 1989), which reduces concerns about distributional assumptions. Third, the cross-sectional regression framework incorporates a range of firm-level control variables, including firm size, leverage, liquidity, valuation, and firm age, thereby mitigating the possibility that the observed results

are driven by underlying differences in firm characteristics. Additionally, the results are robust to Huber-White standard errors (See Table 6 and Table 7).

Table 6. Robust cross-sectional results across different event windows

VARIABLES	[-10,+10]	[-7,+7]	[-5,+5]	[-3,+3]	[-1,+1]
OILBETA	-3.291	-2.432	-2.564	-0.611	1.751
	(4.080)	(3.507)	(2.869)	(2.422)	(1.723)
VIXBETA	-30.02***	-40.40***	-18.15***	-15.14***	-16.17***
	(6.258)	(5.361)	(4.262)	(3.556)	(2.450)
LNTA	-0.0168	-0.0335	-0.0879	-0.122	-0.0660
	(0.190)	(0.162)	(0.133)	(0.105)	(0.0753)
TDTA	0.276	0.162	-0.301	0.167	-1.300
	(2.746)	(2.299)	(2.013)	(1.549)	(1.083)
CACL	0.119	0.00444	-0.0209	-0.0102	-0.0370
	(0.130)	(0.101)	(0.0804)	(0.0654)	(0.0432)
BTM	-0.0896	0.253	0.0212	0.104	-0.000123
	(0.505)	(0.435)	(0.354)	(0.311)	(0.221)
LNAGE	0.286	0.193	0.224	0.124	-0.110
	(0.286)	(0.252)	(0.212)	(0.174)	(0.129)
Constant	-5.830**	-2.493	-1.705	-0.556	-0.421
	(2.633)	(2.332)	(1.873)	(1.543)	(1.148)
F-stat	3.85***	9.09***	3.33***	3.12***	6.90***
Observations	1,405	1,405	1,405	1,405	1,405
R-squared	0.019	0.045	0.016	0.016	0.033

Note(s): Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 7. Robust cross-sectional results across post-event windows

VARIABLES	[+1,+3]	[+1,+5]	[+1,+7]	[+1,+10]
OILBETA	-1.071	-1.643	-0.351	-1.492
	(1.448)	(1.865)	(2.279)	(2.607)
VIXBETA	-6.813***	-14.80***	-35.93***	-31.89***
	(2.240)	(2.988)	(3.682)	(4.206)
LNTA	-0.0198	-0.0381	-0.0208	0.0666
	(0.0639)	(0.0882)	(0.109)	(0.122)
TDTA	0.686	0.860	0.798	0.996
	(0.978)	(1.435)	(1.643)	(1.977)
CACL	-0.00315	-0.00725	-0.00600	0.0582
	(0.0373)	(0.0548)	(0.0728)	(0.0858)
BTM	0.261	0.105	0.166	-0.0972
	(0.182)	(0.242)	(0.287)	(0.332)
LNAGE	-0.00647	0.155	0.220	0.288
	(0.111)	(0.147)	(0.175)	(0.194)
Constant	0.120	-1.205	-1.961	-5.633***
	(0.951)	(1.271)	(1.604)	(1.739)
F-stat	2.02**	4.26***	14.22***	9.25***
Observations	1,405	1,405	1,405	1,405
R-squared	0.010	0.021	0.072	0.047

Note(s): Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

5. Conclusions

This study examines the impact of the 2026 US–Israel–Iran conflict on the Indian stock market using an event-study framework and a firm-level cross-sectional analysis. By analyzing abnormal stock returns for a large sample of firms listed on the NSE, the study provides early empirical evidence on how geopolitical shocks influence emerging-market equities and identifies the channels through which these shocks affect firm-level stock performance. Table 8 presents the summary of hypotheses.

The event study results reveal significant abnormal returns around the outbreak of the conflict, indicating that the geopolitical event generated an immediate reaction in the Indian stock market. The presence of statistically significant abnormal returns around the event date suggests that investors rapidly incorporated new geopolitical information into asset prices. This finding is consistent with the EMH and supports the hypothesis that major geopolitical shocks can trigger significant stock market adjustments.

The cross-sectional analysis further reveals that financial market uncertainty plays a central role in shaping firm-level stock market reactions. Firms with greater market volatility sensitivity experience significantly lower abnormal returns during the event window and in the post-event period. This result suggests that investors penalize firms that are more exposed to volatility during periods of geopolitical tension, reflecting an increase in risk premia associated with uncertainty. These findings are consistent with the literature showing that geopolitical risk and political uncertainty can negatively affect equity valuations by increasing risk aversion among investors (Caldara & Iacoviello, 2022; Pástor & Veronesi, 2013).

Table 8. Summary of hypothesis

Hypothesis	Statement	Method	Variables	Outcome
H1.	*The outbreak of the US–Israel–Iran conflict generates significant abnormal returns for Indian stocks.*	Event study	*AAR* and *CAAR*	Supported
H2.	*Firms with higher sensitivity to crude oil prices experience stronger abnormal stock market reactions during the geopolitical conflict.*	Cross-sectional regression	*CAR, OILBETA* and *firm controls*	Not supported
H3.	*Firms with higher sensitivity to market volatility (VIX) experience larger abnormal stock market reactions during the geopolitical conflict.*	Cross-sectional regression	*CAR, VIXBETA* and *firm controls*	Supported

Notes: This table presents the summary of the hypothesis.

In contrast, the results provide limited evidence that oil price exposure significantly explains cross-sectional variation in abnormal returns. Although geopolitical tensions in the Middle East are often expected to affect global oil markets, the empirical results suggest that oil price sensitivity did not dominate in determining firm-level stock market reactions during the event window. This finding indicates that the market response was driven primarily by uncertainty rather than by immediate expectations regarding oil supply disruptions.

The findings of this study have important implications for investors and policymakers. For investors, the results highlight the importance of monitoring firms' exposure to financial market volatility when assessing portfolio risk during periods of geopolitical instability. Firms with greater sensitivity to market uncertainty appear particularly vulnerable to geopolitical shocks. For policymakers, the results underscore the broader financial market implications of geopolitical conflicts and the role of uncertainty in shaping investor behavior in emerging markets.

Despite these contributions, the study has several limitations that should be acknowledged. First, the analysis focuses on short-term stock market reactions using an event study framework. While this approach is well-suited for identifying immediate market responses to new information, it does not capture the longer-term economic consequences of geopolitical conflicts. Future research could examine the longer-term effects of geopolitical shocks on firm performance, investment decisions, and corporate risk management. Second,

the study concentrates on a single geopolitical event and a single emerging market economy. Although this approach allows for a detailed examination of the Indian market response, the results may not be fully generalizable to other countries or geopolitical events. Comparative studies across multiple markets and conflicts could provide a broader understanding of how geopolitical risk affects global financial markets. Third, the analysis focuses on two primary transmission channels, oil price exposure and financial market volatility. However, geopolitical shocks may also affect firms through other mechanisms, such as supply chain disruptions, exchange rate movements, trade policy changes, or capital flow volatility. Future research could explore these additional channels to provide a more comprehensive understanding of how geopolitical events influence firm-level financial performance. Finally, while the study incorporates several firm-level control variables, unobserved firm characteristics or sector-specific factors may also influence stock market reactions to geopolitical shocks. Incorporating industry-level heterogeneity or alternative measures of geopolitical risk may further enrich future analyses.

Notwithstanding these limitations, the study provides important evidence on how emerging equity markets respond to geopolitical conflicts and highlights the critical role of financial market uncertainty in shaping investor reactions. These insights are relevant for investors, policymakers, and risk managers seeking to better understand the financial market implications of geopolitical instability.

Declaration: The authors used the generative ChatGPT for language improvement. However, after that the authors have carefully read the text and undertake the responsibilities for any error detected later on.

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