

The Impact of The Geopolitical Risks on The Stock Market; An Application on Selected Countries

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Abstract

Introduction: Geopolitical risk occurs when a threat arises to normal relations between countries and regions. Geopolitical risks create serious concern in almost every region of the world. Political, economic and social events taking place in the national and international arena, which feed these concerns, also significantly determine the nature of geopolitical risks. Financial markets are significantly affected by geopolitical risks that will affect country economies. When the risk level increases, uncertainties increase and investors operating in financial markets stop their investments with the concern of experiencing losses. Recently, the Covid'19 epidemic and the Russia-Ukraine war have had an increasing effect on geopolitical risk.

Aim: The aim of this study is to examine the impact of geopolitical risk on stock markets in Turkey and selected EU countries.

Method: The data set of the study includes the panel data set. For the study, panel regression analysis was conducted using data from selected countries. The dependent variable of the regression analysis is the representative stock market index of the selected countries, and the independent variables consist of geopolitical risk and other economic indicator variables.

Findings: Tension between Russia and Ukraine still continues. The ongoing war process continues to have negative effects, especially on the economies of countries. Other regional developments, such as the Russia-Ukraine war, affect geopolitical risk. In this study, the effect of geopolitical risk on stock markets was examined.

Originality and value: The effects of the war between the two countries affected all markets. It has especially negatively affected the stock markets.

Key Words: Stock Market, Geopolitical Risk, Panel Regression.

Jel Codes: Q4, H56, C23

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