



When war moves oil: Energy dependence and global equity responses to the 2026 Iran conflict

Tomasz Kaczmarek ^a, Ender Demir ^{b,e}, Wael Rouatbi ^c, Adam Zaremba ^{c,d,*}

^a Department of Investment and Financial Markets, Institute of Finance, Poznan University of Economics and Business, Poznan, Poland

^b Department of Business and Economics, Reykjavik University, Reykjavik, Iceland

^c Finance and Accounting Department, MBS School of Business, Montpellier, France

^d Monash Centre for Financial Studies, Monash University, Melbourne, Australia

^e Department of Business Administration, Faculty of Management and Economics, Tomas Bata University in Zlin, Zlin, Czech Republic

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ABSTRACT

We provide, to the best of our knowledge, the first systematic cross-country analysis of global equity market reactions to the U.S.–Israeli military operation against Iran on February 28, 2026, using daily returns from 67 countries. Stock prices declined materially, signaling a repricing of geopolitical risk. Cross-country heterogeneity reflects energy exposure: fuel exporters experienced smaller losses, while importers suffered larger declines. Nuclear capacity was associated with smaller losses, consistent with diversification benefits. Standard macroeconomic and geopolitical variables have limited explanatory power. Overall, the results suggest that energy markets are a central transmission channel for geopolitical shocks and point to the role of energy independence in financial resilience.

1. Introduction

On February 28, 2026, the United States and Israel launched a joint military operation against Iran, co-denamed Operation Epic Fury, targeting nuclear facilities, military infrastructure, and political leadership, resulting in the assassination of Supreme Leader Ali Khamenei. Iran retaliated with missile and drone strikes across the Middle East and closed the Strait of Hormuz, through which approximately 20 million barrels per day (roughly 25% of global seaborne oil trade) were shipped in 2025¹. The disruption sent Brent crude past \$100 per barrel; the Federal Reserve Bank of Dallas estimates that such a closure could lower global GDP growth by 2.9

* Corresponding author.

E-mail addresses: tomasz.kaczmarek@ue.poznan.pl (T. Kaczmarek), enderd@ru.is (E. Demir), w.rouatbi@mbs-education.com (W. Rouatbi), a.zaremba@mbs-education.com (A. Zaremba).

¹ See EIA, “Amid regional conflict, the Strait of Hormuz remains critical oil chokepoint,” June 2025: <https://www.eia.gov/todayinenergy/detail.php?id=65504> IEA, “Strait of sHormuz,” 2026: <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>.

percentage points². The operation marked a dramatic escalation over the 2024 Israel–Iran exchange of strikes and the Twelve-Day War of June 2025 and was preceded by months of rising tensions.

In this paper, we examine immediate global equity market reactions to the onset of the U.S.–Israeli military operation against Iran. Armed conflicts affect stock valuations through multiple channels, disrupting energy supplies, raising commodity prices, increasing geopolitical uncertainty and risk aversion, triggering capital flight, and altering expectations about corporate earnings and macroeconomic stability. Using a sample of 67 countries, we analyze market reactions over symmetric event windows centered on the first trading day after the operation. This study addresses two related research questions. First, how did global equity markets react to the onset of the 2026 U.S.–Israeli military operation against Iran? Second, which country-level characteristics explain the observed cross-country variation in market reactions? These questions are important because the event could have significant implications for global energy markets, geopolitical risk, and financial stability, particularly given the Strait of Hormuz's strategic importance to global oil trade. To address these questions, we employ an event-study framework across 67 countries and complement it with cross-sectional regression analysis to identify the country-level factors associated with differences in equity market reactions to the conflict.

Our findings reveal a sharp and widespread decline in global equity markets. Under the market model, cumulative average abnormal returns over the $[-5; 5]$ window reached -3.3% in local currency and -4.3% in U.S. dollar terms. While the average fall was substantial, its magnitude varied across countries. Cross-sectional regressions point to the energy channel as an important transmission mechanism: countries with higher fuel exports experienced smaller losses, while those more dependent on fuel imports suffered deeper declines. Larger equity markets also reacted more negatively, consistent with the view that more globally integrated economies are more exposed to major geopolitical disruptions. Countries with more nuclear reactors experienced smaller declines, possibly reflecting investor perceptions that nuclear energy infrastructure provides insulation from fossil fuel price shocks. Several variables that were strong predictors of equity market reactions to the 2025 U.S. tariff announcement, such as trade openness and inflation, are insignificant here, underscoring that the transmission mechanisms of military shocks differ from those of trade policy shocks.

Our paper speaks to the literature on equity market reactions to armed conflict, with a focus on the 2026 U.S.–Israeli operation against Iran. Prior work shows that geopolitical shocks affect expected returns and trigger heterogeneous market responses (Hirshleifer et al., 2025; Wang et al., 2024). Evidence from the Russia–Ukraine war points to negative abnormal returns, stronger effects in globally integrated and proximate economies, and substantial cross-country dispersion (Boubaker et al., 2022; Boungou and Yatié, 2022; Boussetta et al., 2026; Federle et al., 2026; Kumari et al., 2023; Pandey et al., 2023; Silva et al., 2023; Yousaf et al., 2022). More localized effects arise in the Israel–Hamas conflict (Martins, 2024; Saad, 2026). For the 2026 Iran episode, Memon et al. (2026) document sectoral dispersion and Paltrinieri et al. (2026) scrutinize which assets acted as a war hedge. Against this background, we provide, to the best of our knowledge, the first systematic analysis of international equity market reactions to the 2026 Iran conflict across a broad cross-section of countries, with particular emphasis on the energy and nuclear channels as drivers of cross-market heterogeneity. This focus distinguishes our study from existing work: whereas the few available analyses of the 2026 episode examine sectoral dispersion or the hedging properties of individual assets, and the broader conflict literature is largely confined to single countries or regions, we exploit a broad cross-section of 67 countries to examine which country-level characteristics—in particular energy and nuclear exposure—help explain the cross-country heterogeneity in market reactions.

The remainder of the study proceeds as follows. Section 2 outlines the data and methods. Section 3 presents the findings. Finally, Section 4 concludes.

2. Data and methods

We examine global equity market reactions to the joint U.S.–Israeli military operation against Iran launched on February 28, 2026. The sample includes all 67 countries for which consistent equity market index data are available from the Refinitiv Datastream Global Equity Indices. Further details are available from Table A1 in the Online Appendix.

To isolate the market response, we adopt a standard event study framework with Day 0 defined, for each country, as the first local trading day following the launch of the operation, accounting for differences in trading calendars—in particular, the Sunday–Thursday trading cycle of several Middle Eastern markets—and for temporary market suspensions in the days immediately after the strikes.³ As the military operation was preceded by weeks of escalating tensions, markets may have partially anticipated the conflict. We therefore employ symmetric event windows $[-1; 1]$, $[-5; 5]$, $[-10; 10]$, and $[-15; 15]$ to capture both anticipatory and post-event effects. We acknowledge that pre-event anticipation may have already been partially priced in by Day 0, biasing abnormal returns toward zero—a limitation common to event studies of geopolitical shocks with prolonged escalation phases. Abnormal returns are calculated using three approaches: the market model, the constant mean model, and the market-adjusted model (Brown and Warner, 1980; MacKinlay, 1997). Because the operation is a common global shock, the benchmark underlying the market and market-adjusted models is itself affected by the event, which can attenuate market-model abnormal returns and make market-adjusted returns sensitive to the global

² See Federal Reserve Bank of Dallas, “What the closure of the Strait of Hormuz means for the global economy,” March 2026: <https://www.dallasfed.org/research/economics/2026/0320>.

³ The joint U.S.–Israeli operation began on Saturday, February 28, 2026. At 2:30 a.m. EST, President Trump released a video statement confirming the strikes. See CNN (February 28, 2026): <https://www.cnn.com/2026/02/28/middleeast/israel-attack-iran-intl-hnk>. Since the operation commenced on a weekend, most global equity markets were closed; for the few exchanges that trade on Sunday or were temporarily suspended in the immediate aftermath of the strikes, Day 0 is set to the relevant first post-event trading session. This concerns Bahrain (March 1), Egypt (March 1), Jordan (March 1), Oman (March 1), Saudi Arabia (March 1), South Korea (March 3), Sri Lanka (March 3), and the UAE (March 4).

index; we therefore treat the market-adjusted model as supplementary rather than central. The constant mean model is especially informative in this setting, as it does not rely on a contemporaneous benchmark and thus captures the common, market-wide component of the decline rather than netting it out, so we base our inference primarily on the market and constant mean models. Details of the models are provided in the section ‘Event Study Methodology’ of the Online Appendix. For robustness, returns are computed based on both local currencies and U.S. dollars. Statistical significance of cumulative average abnormal returns is assessed using the standard cross-sectional *t*-test, the [Kolari and Pynnönen \(2010\)](#) (KP) test that adjusts for cross-sectional correlation, and its non-parametric generalized rank (G-rank) counterpart by [Kolari and Pynnönen \(2011\)](#)—tests particularly suited to settings in which a common shock affects multiple markets simultaneously.

To explain cross-country variation in equity market CARs, we regress them on a set of country-level characteristics. They capture the energy channel (fuel exports and imports), the nuclear channel (number of reactors and nuclear share of electricity), and the geopolitical and macroeconomic channel (NATO membership, military expenditure, market capitalization, foreign direct investment, inflation, and trade openness). The regression sample excludes countries directly involved in the conflict: the United States, Israel, and the six Gulf states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE), yielding 59 countries.⁴ Variable definitions, additional methodological details, and basic statistical properties of the regressors are reported in the Online Appendix (Tables A2–A4).

We estimate regressions via OLS with heteroskedasticity-robust standard errors. To further address potential cross-country dependence in the residuals, we additionally re-estimate the model using a non-parametric bootstrap procedure with 5,000 replications (Table A9 of the Online Appendix). All stock market data are sourced from Refinitiv Datastream. Macroeconomic data are drawn from the World Bank’s World Development Indicators (WDI) database and the International Atomic Energy Agency (IAEA). Macroeconomic variables were collected based on the latest available data from the World Bank database accessed on May 10, 2026.

3. Results

Global equity markets reacted strongly to the U.S.–Israeli military operation against Iran. As seen in [Table 1](#) and [Fig. 1](#), under the market model, cumulative average abnormal returns (CAAR) over the $[-5; 5]$ window reached -3.32% in local currency and -4.35% in U.S. dollar terms, both statistically significant at the 1% level. The constant mean model yields even larger declines: -5.42% and -6.99% , respectively. The gap between local-currency and USD CAAR reflects a broad appreciation of the U.S. dollar during the event window, consistent with flight-to-safety flows into dollar assets. Local-currency CAAR thus isolate the equity-price channel, while USD CAAR additionally embed exchange-rate effects. The negative reaction is already visible in the shortest window $[-1; 1]$, where CAAR ranges from -2.41% to -5.30% depending on the model and currency, indicating that the bulk of the decline occurred immediately around the event date. In longer windows $[-10; 10]$ and $[-15; 15]$, CAAR remain significantly negative under the market model and constant mean model, though some partial recovery is visible. Under the market-adjusted model, CAAR turn positive in local currency in longer windows, reflecting the fact that the capitalization-weighted global benchmark, which is dominated by large markets that experienced steeper declines, fell more than the equal-weighted cross-country average. To address potential cross-sectional dependence in abnormal returns, we additionally report the [Kolari and Pynnönen \(2010\)](#) (KP) test, which adjusts for cross-correlation, and its non-parametric generalized rank (G-rank) counterpart; both confirm the statistical significance of the documented declines under the market and constant mean models.

What drove the differences in market reactions across countries? To answer this, [Table 2](#) reports the results of cross-sectional regressions. The dependent variable is CAR $[-5; 5]$, estimated under three abnormal return models and expressed in both local currencies and U.S. dollars.

The most robust finding is the role of the energy channel. Fuel exports as a share of merchandise exports carry positive and highly significant coefficients across all six specifications, ranging from 0.087 to 0.165. Countries that are net exporters of energy commodities experienced smaller declines — or even relative gains — consistent with the expectation that a military conflict involving a major oil producer would raise global energy prices, benefiting fuel-exporting economies. This result aligns with the well-documented transmission of oil price shocks to equity markets ([Bagirov and Mateus, 2025](#); [Hamilton, 2003](#); [Jones and Kaul, 1996](#); [Kilian, 2009](#)). Conversely, fuel imports as a share of merchandise imports are negatively and significantly associated with CARs in all specifications (-0.220 to -0.300), indicating that countries which are more dependent on imported energy suffered deeper losses. Together, these two variables paint a coherent picture: the conflict transmitted to global equity markets in large part through the energy price channel, rewarding exporters and penalizing importers. To gauge the magnitude of this channel, [Table A10](#) of the Online Appendix reports the incremental and partial R^2 obtained from adding the two fuel-related variables to a restricted model containing only the controls. Across all six specifications, fuel variables increase explanatory power by 12–27 percentage points and account for 15–35% of the previously unexplained variance (partial R^2), with *F*-tests of joint significance rejected at the 1% level. While we cannot rule out alternative mechanisms, these results indicate that energy exposure is a quantitatively important channel through which the conflict propagated to global equity markets. This conclusion is robust to alternative proxies for energy dependence: when the fuel-trade and nuclear variables are replaced with net energy imports and the renewable energy share, net energy importers experience significantly larger declines, while economies relying more on renewable energy experience smaller declines ([Table A11](#)).

⁴ For Hong Kong, we impute the missing military expenditure value using the corresponding figure for China; an unreported test setting this value to zero does not qualitatively change our findings. For Taiwan, we manually collect data from official sources: the trade-to-GDP ratio and fuel imports and exports from Taiwan’s Ministry of Finance, military expenditure from the Stockholm International Peace Research Institute (SIPRI), and inflation and foreign direct investment from Taiwan’s official national statistics agency.

Table 1

Cumulative Average Abnormal Returns (CAAR) by event window.

	Market model				Constant mean				Market-adjusted			
	CAAR (%) (1)	t-test (2)	KP test (3)	G-rank test (4)	CAAR (%) (5)	t-test (6)	KP test (7)	G-rank test (8)	CAAR (%) (9)	t-test (10)	KP test (11)	G-rank test (12)
<i>Panel A: Local currency</i>												
[−1; 1]	−2.412	−11.339***	−3.123***	−3.083***	−3.709	−17.240***	−3.163***	−3.117***	−0.471	−2.144**	−0.298	−0.181
[−5; 5]	−3.321	−8.070***	−3.529***	−3.578***	−5.417	−12.898***	−3.699***	−3.525***	0.015	0.035	−0.169	−0.307
[−10; 10]	−2.596	−4.481***	−2.058**	−1.916*	−5.197	−8.750***	−2.593***	−2.761***	1.786	3.070***	0.537	0.700
[−15; 15]	−3.473	−4.795***	−2.180**	−2.388**	−7.335	−9.943***	−2.699***	−3.003***	2.936	4.155***	0.757	0.676
<i>Panel B: USD</i>												
[−1; 1]	−3.663	−15.560***	−2.803***	−2.825***	−5.302	−22.164***	−3.117***	−2.892***	−2.064	−8.701***	−1.278	−1.274
[−5; 5]	−4.348	−9.548***	−2.688***	−2.724***	−6.989	−14.967***	−3.310***	−2.907***	−1.557	−3.428***	−0.965	−1.356
[−10; 10]	−4.384	−6.838***	−2.101**	−2.091**	−7.653	−11.591***	−2.680***	−2.584**	−0.671	−1.069	−0.453	−0.558
[−15; 15]	−4.426	−5.521***	−1.734*	−1.876*	−9.292	−11.329***	−2.457**	−2.495**	0.985	1.292	0.122	−0.090

Note: This table reports cumulative average abnormal returns (CAARs), in percentages, for a sample of 67 countries over the event windows [−1; 1], [−5; 5], [−10; 10], and [−15; 15]. For the market and constant mean models, expected-return parameters are estimated over the 200-trading-day window [−229; −30]; the market-adjusted model requires no separate estimation window. Day 0 is the first local trading day following the military operation launched by the United States and Israel against Iran on February 28, 2026. Abnormal returns are computed using the market model (columns 1–4), the constant mean model (columns 5–8), and the market-adjusted model (columns 9–12). Panel A reports local-currency results and Panel B U.S. dollar results. For each model, we report the CAAR, the standard cross-sectional t-test, the Kolari and Pynnonen (KP) test adjusting for cross-sectional correlation, and the generalized rank (G-rank) test of Kolari and Pynnonen. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

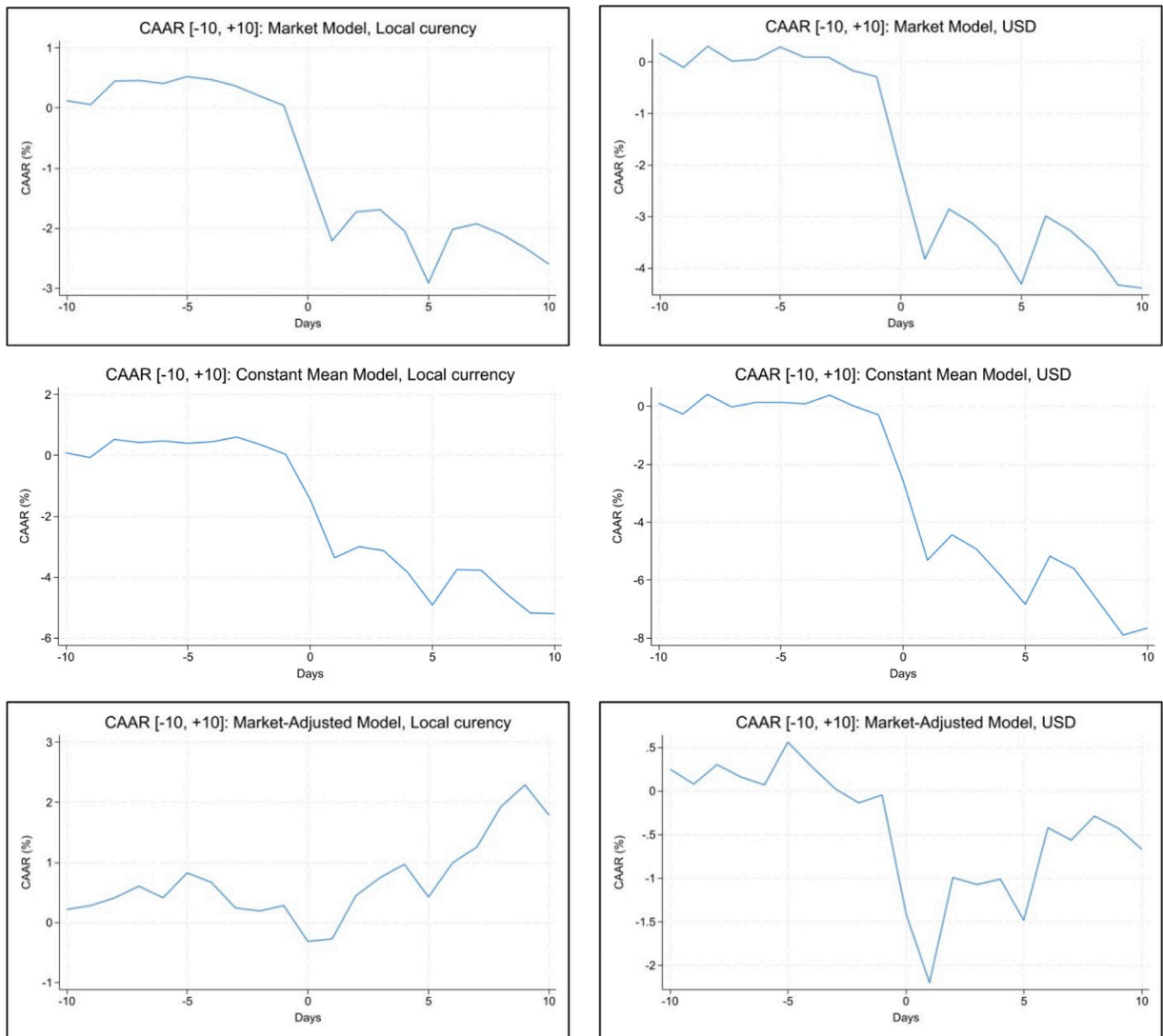


Fig. 1. Cumulative Average Abnormal Returns (CAAR) over the event window $[-10, 10]$.

Note: This figure plots cumulative average abnormal returns (CAARs), expressed in percentages, for a sample of 67 countries over the event window $[-10, 10]$. For the market and constant mean models, expected-return parameters are estimated over the 200-trading-day window $[-229, -30]$. The market-adjusted model does not require a separate estimation window. Day 0 is defined separately for each country as the first local trading day following the U.S.–Israeli military operation against Iran launched on February 28, 2026. The horizontal axis shows trading days relative to day 0, and the vertical axis shows CAARs in percentages. Results are reported for returns expressed in both local currencies and U.S. dollars.

Market size also matters. The coefficient on the natural logarithm of market capitalization is negative and significant in most specifications, suggesting that larger markets experienced steeper declines. This pattern mirrors the findings of [Kaczmarek et al. \(2025\)](#) for the 2025 tariff shock and is consistent with the view that larger, more globally integrated economies are perceived as more exposed to the consequences of major geopolitical disruptions, including supply chain interruptions, sanctions, and shifts in global risk appetite.

Countries with a higher number of operational nuclear reactors experienced significantly smaller declines, with coefficients ranging from 0.135 to 0.187 across specifications. This result may reflect investor perceptions that nuclear energy infrastructure provides a degree of insulation from fossil fuel price shocks, as countries with substantial nuclear capacity are less reliant on imported hydrocarbons for electricity generation. Interestingly, the nuclear share of electricity generation is not statistically significant, suggesting that it may be the presence of nuclear infrastructure that matters, potentially proxying for technological capacity and energy diversification, rather than the current share of nuclear power in the energy mix. Reassuringly, this result does not appear to merely capture broader economic development or technological sophistication: the coefficient on the number of reactors remains positive and significant when we additionally control, one at a time, for GDP per capita, R&D intensity, governance, or economic freedom (Tables A12 and A13).

Table 2

Regression analysis: dependent variable: CAR [-5; 5].

Variable	Market model (1)	Local Currency		USD		
		Constant mean (2)	Market-adjusted (3)	Market model (4)	Constant mean (5)	Market-adjusted (6)
Ln (Market Value) $t-1$	-0.418 (-1.645)	-0.986*** (-3.854)	-0.881*** (-3.594)	-0.281 (-1.031)	-0.886*** (-3.182)	-0.774*** (-2.982)
Foreign Direct Investment (% GDP)	0.021** (2.499)	0.030*** (3.929)	0.033*** (3.434)	0.026** (2.667)	0.033*** (3.819)	0.034*** (4.196)
Fuel Exports (% Merchandise Exports)	0.087*** (4.024)	0.122*** (5.329)	0.165*** (4.312)	0.104*** (5.118)	0.128*** (5.535)	0.159*** (5.575)
Fuel Imports (% Merchandise Imports)	-0.220*** (-3.100)	-0.260*** (-3.319)	-0.294*** (-3.708)	-0.268*** (-4.105)	-0.284*** (-3.897)	-0.300*** (-4.471)
Inflation	0.008 (0.770)	-0.017 (-1.594)	0.006 (0.255)	0.006 (0.664)	-0.009 (-0.777)	-0.004 (-0.221)
Military Expenditure (% GDP)	-0.486 (-0.807)	-0.345 (-0.576)	-0.153 (-0.254)	-0.182 (-0.283)	-0.017 (-0.026)	0.088 (0.138)
Trade (% GDP)	0.005 (0.785)	0.001 (0.094)	0.001 (0.243)	0.005 (0.816)	0.003 (0.579)	0.003 (0.588)
Number of Nuclear Reactors	0.135*** (2.969)	0.159*** (2.771)	0.156** (2.429)	0.152*** (3.191)	0.187*** (3.104)	0.172** (2.544)
Nuclear Share of Electricity Generation	-0.023 (-0.581)	-0.018 (-0.448)	-0.007 (-0.177)	-0.031 (-0.753)	-0.031 (-0.722)	-0.018 (-0.448)
NATO	0.943 (0.834)	-0.412 (-0.389)	-0.859 (-0.775)	0.772 (0.658)	-0.378 (-0.326)	-0.776 (-0.697)
Constant	2.645 (0.689)	8.542** (2.119)	12.061*** (3.149)	-0.376 (-0.090)	4.706 (1.085)	8.570** (2.136)
N	59	59	59	59	59	59
Adjusted-R ²	0.313	0.392	0.533	0.375	0.441	0.519
F	15.102***	9.105***	5.654***	11.026***	7.743***	6.428***

VIF mean (VIF max) 1.62 (1.99).

Note: This table reports cross-sectional OLS regressions explaining cumulative abnormal returns around the U.S.–Israeli military operation against Iran on February 28, 2026. The sample excludes the United States, Israel, and the six Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). Day 0 is the first local trading day following the operation. For the market and constant mean models, expected-return parameters are estimated over [-229; -30]; the market-adjusted model requires no separate estimation window. The dependent variable is CAR [-5; 5], calculated using the market model (columns 1 and 4), the constant mean model (columns 2 and 5), and the market-adjusted model (columns 3 and 6). Returns are based on local currencies (columns 1–3) and the U.S. dollar (columns 4–6). Ln (Market Value) is the natural logarithm of market capitalization in U.S. dollars, measured one day prior to each country's event date. Foreign Direct Investment (% GDP) is the net inflow of foreign direct investment, expressed as a percentage of gross domestic product (GDP). Fuel Exports [Imports] (% Merchandise Exports [Imports]) are exports [imports] of mineral fuels, lubricants, and related materials as a percentage of merchandise exports [imports]. Inflation is the annual percentage change in the Consumer Price Index. Military Expenditure (% GDP) is military expenditure as a percentage of GDP, originally compiled by the Stockholm International Peace Research Institute (SIPRI). Trade (% GDP) is the sum of exports and imports of goods and services as a percentage of GDP. Number of Nuclear Reactors is the number of operational nuclear reactors, as defined by the IAEA's Power Reactor Information System (PRIS). Nuclear Share of Electricity Generation is the share of total electricity produced by nuclear reactors in 2024. NATO is a dummy variable equal to 1 for NATO members and 0 otherwise. World Bank variables are obtained from the World Development Indicators (WDI) database, accessed on May 10, 2026. Variable definitions are provided in the Data and Methods section and Table A2. t-statistics are reported in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. VIF mean (VIF max) reports the mean (maximum) variance inflation factor.

Foreign direct investment as a percentage of GDP is positively and significantly associated with CARs across all specifications (0.021 to 0.034). Countries attracting more FDI experienced smaller equity market declines, possibly reflecting investor confidence in economies that are well integrated into global capital flows and perceived as structurally resilient. This effect, however, weakens under bootstrapped inference (Table A9 of the Online Appendix), where the FDI coefficient loses conventional significance, suggesting that classical standard errors may understate uncertainty around this estimate.

Given the nature of the conflict, one might expect military expenditure and NATO membership to shape investor perceptions of country-level risk. However, neither variable significantly predicts cross-country variation in CARs, suggesting that investors did not view defense spending as a proxy for vulnerability or preparedness, nor alliance membership as directly relevant to the economic consequences of this conflict. Similarly, trade openness (measured as total trade relative to GDP) is insignificant, indicating that in the context of an armed conflict the key transmission channel operates through energy prices rather than general trade flows. Inflation also lacks explanatory power, likely because a military shock transmits to economies mainly through energy costs and geopolitical uncertainty rather than through immediate consumer price pressures. The insignificance of these variables is noteworthy given that several of them, in particular trade openness and inflation, were strong predictors of equity market reactions to the 2025 U.S. tariff announcement (Kaczmarek et al., 2025), underscoring that the transmission mechanisms of geopolitical military shocks differ fundamentally from those of trade policy shocks.

To assess the stability of our findings, we perform a series of robustness exercises reported in Tables A5–A9 of the Online Appendix. Re-estimating the cross-sectional regressions with alternative event windows (Table A5) confirms that the energy channel variables

(fuel exports and fuel imports) remain significant from the shortest window $[-1; 1]$ through $[-10; 10]$, though fuel imports lose significance in the longest window $[-15; 15]$, suggesting that the penalization of energy importers was a shorter-lived effect. Foreign direct investment and the number of nuclear reactors also retain their significance across most windows. Market size, by contrast, is significant primarily in the $[-5; 5]$ window and weaker at shorter and longer horizons. Placebo tests (Table A6) using pseudo-event dates 30, 60, 90, and 120 days before the actual operation do not reproduce the consistently negative CAAR observed around the event: placebo CAAR are of mixed sign and lack the uniform pattern across models, currencies, and windows that characterizes the actual event; moreover, under the cross-correlation-adjusted KP and G-rank tests, placebo CAAR are largely insignificant, supporting the conclusion that the documented market reactions are attributable to the military conflict rather than to background variation. Finally, re-estimating the models with alternative estimation windows of $[-329; -130]$ and $[-429; -230]$ —shifted 100 and 200 days earlier than the baseline $[-229; -30]$ window—yields CAAR and regression coefficients of similar magnitude and significance, confirming that our results are not sensitive to the choice of the pre-event estimation period (Tables A7 and A8). In addition, regression inference based on a bootstrap procedure with 5,000 replications (Table A9) confirms that fuel exports, fuel imports, market size (under the constant mean and market-adjusted models), and the number of nuclear reactors remain statistically significant at conventional levels, indicating that our main findings are robust to potential cross-country dependence in the error structure.

4. Conclusion

This paper examines global equity market reactions to the U.S.–Israeli military operation against Iran in February 2026. We document a widespread decline in stock prices around the event date across 67 countries, with cross-country differences largely associated with the energy channel. Fuel-exporting countries experienced smaller losses, while energy importers were more adversely affected. We also find that countries with greater nuclear energy capacity appear to have been relatively insulated from the shock, consistent with lower dependence on fossil fuel imports. In contrast to evidence from trade policy shocks, variables such as trade openness and inflation do not explain cross-sectional variation in returns, highlighting that military conflicts operate through distinct transmission mechanisms. In doing so, our study contributes to the literature on the financial effects of armed conflict by providing, to the best of our knowledge, the first broad cross-country evidence on the 2026 Iran conflict and by relating the cross-country heterogeneity in equity-market reactions to country-level energy and nuclear exposure. Overall, energy dependence emerges as a key correlate of equity market responses to this geopolitical shock.

Future research may extend our analysis by examining the longer-term effects of the operation and whether the observed reactions persist or reverse over time. Further studies may also disentangle the specific mechanisms within the energy channel—for example, by directly examining the role of oil price changes as a mediator of equity returns during geopolitical shocks. In addition, future work could separate the market-size effect from related mechanisms such as global integration, liquidity, and investor composition. Future work could also analyze how geopolitical events affect different asset classes, including bonds, commodities, and cryptocurrencies.

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CRediT authorship contribution statement

Tomasz Kaczmarek: Conceptualization, Methodology, Software, Visualization, Writing – original draft, Writing – review & editing. **Endér Demir:** Conceptualization, Methodology, Writing – original draft, Writing – review & editing. **Wael Rouatbi:** Conceptualization, Data curation, Formal analysis, Investigation, Methodology, Resources, Software, Visualization, Writing – original draft, Writing – review & editing. **Adam Zaremba:** Conceptualization, Data curation, Funding acquisition, Resources, Writing – review & editing.

Supplementary materials

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Data availability

The authors do not have permission to share data.

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