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Stock markets' reaction to the Russia–Ukraine crisis: GCC countries vs Europe

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Abstract

Purpose – This study investigates how the Russian invasion of Ukraine affected the stock markets of the Gulf Cooperation Council (GCC) countries in comparison to Europe and explores the varying responses of GCC markets.

Design/methodology/approach – Using an event study framework, the impact of the Russian invasion on equity markets in Europe and the GCC countries was analyzed by calculating abnormal returns around the event day, February 24, 2022. The study's null hypothesis posits that abnormal returns on and around the event day are zero.

Findings – The analysis of abnormal returns revealed a negative impact of the event on both Europe and the GCC countries on the event day. While European markets continued to show negative abnormal returns, GCC markets rebounded with positive abnormal returns. The study also found diverse responses among GCC markets.

Originality/value – This paper is the first to examine the effects of the Russian invasion of Ukraine on the GCC countries and compares the market reactions to a political event in an energy-exporting region versus an energy-importing region. It also highlights the differences in responses among GCC stock markets, which may be influenced by market size and energy exports to Europe.

Keywords Russia–Ukraine crisis, GCC countries, Stock returns, Event study

Paper type Research paper

1. Introduction

Russia is a major global exporter of crude oil and liquefied natural gas (LNG), with over 260 million tons of crude oil and 40 billion cubic meters of LNG exported annually (Table 1). More than half of Russia's crude oil exports and over 42% of its LNG exports are directed to Europe, where countries in the European Union (EU) heavily depend on Russia for over 40% of their natural gas and 25% of their crude oil (World Economic Forum, 2022), due to Russia's extensive pipeline network within EU nations (Högselius, 2013). This reliance on Russian energy supplies raises concerns about gas supply security in Europe (Rodríguez-Fernández *et al.*, 2020), leading to mixed prospects for Russian energy exports to the European market (Kutcherov *et al.*, 2020). These concerns stem from Europe's interest in diversifying its sources of energy supply and geopolitical considerations (Orlov, 2016).

Increased competition from other LNG producers like Qatar, as well as crude oil producers such as Saudi Arabia and the United Arab Emirates, poses a potential challenge to Russia's energy exports (Sharples, 2016). The GCC countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, are significant players in the global oil and gas market, contributing to more than 22% and 10.5% of the world's oil and natural gas

JEL Classification — F51, G12, G14, G15

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Table 1. Oil and LNG trade movements in 2021

		To Crude oil (million tons)		LNG (billion cubic meters)	
		Europe	World	Europe	World
From	Russia	138.7	263.6	17.4	39.6
	Bahrain				
	Kuwait	<0.05	88.4		
	Oman				14.2
	Qatar			22.5	166.8
	Saudi Arabia	28.5	323.2		
	UAE	0.1	146.1		8.8

Source(s): Prepared by the author based on data from [BP \(2022\)](#)

production, respectively ([BP, 2022](#)). While Russia currently supplies Europe with around 30% of its total crude oil imports, Saudi Arabia accounts for over 6% of Europe's crude oil imports. Moreover, Qatar's LNG exports to Europe exceed those of Russia.

On February 24, 2022, Russia launched a full-scale invasion of Ukraine. In response, the United States ([The White House, 2022](#)) and the European Union ([European Council, 2022](#)) imposed severe economic sanctions on Russia. Given the close economic ties between Russia and the EU, these sanctions had negative repercussions on EU countries. This resulted in increases in global price levels, which in turn impacted the performance of European companies and their share prices ([Ahmed et al., 2022](#)).

Previous studies have explored the relationship between political events and stock returns ([Bash and Alsaifi, 2019](#); [Guidolin and La Ferrara, 2010](#); [Kapar and Buigut, 2020](#); [Smales, 2017](#)) with varying results. Recent research has focused on how global stock markets reacted to the Russian invasion of Ukraine ([Adekoya et al., 2022](#); [Ahmed et al., 2022](#); [Yousaf et al., 2022](#)). However, there is limited research on how stock markets in the GCC region responded to this event. Given the GCC's potential as an alternative major oil and gas supplier to Europe, it is crucial to analyze how their stock markets reacted to the Russia-Ukraine conflict.

This paper compares the stock market reactions of the GCC countries, an energy-exporting region, and European countries, an energy-importing region, to the Russian invasion of Ukraine. It employs an event study methodology using daily data on equity indices for Europe and the GCC countries. By comparing the reactions of European and GCC stock markets, this study illuminates how these regions, with contrasting energy import-export roles, navigate the crisis and identify potential investment opportunities. The study then examines the varied responses of GCC stock markets by analyzing the reaction of each country's main equity index to the invasion. This analysis offers insights into investor sentiment and market expectations regarding the economic implications for the GCC region.

The key findings of this paper are as follows: First, the Russian invasion of Ukraine had an initial negative impact on both the European and GCC regions, likely due to fears of a devastating war. This aligns with the findings of [Ahmed et al. \(2022\)](#) and [Yousaf et al. \(2022\)](#). Second, despite continued negative abnormal returns in European markets post-event, the GCC markets showed a positive and significant rebound after the initial negative response. Third, discrepancies among the GCC markets could be attributed to differences in their market size and their energy ties with Europe. Larger markets like Saudi Arabia reacted more promptly to the invasion, while smaller markets in Oman, UAE, and Qatar may have had delayed responses. The latter three countries saw positive returns as energy prices surged post-invasion, whereas countries like Kuwait, with minimal oil and gas exports to Europe, did not experience the same positive reaction to rising energy prices.

This paper contributes to the existing literature that examines how political events affect stock returns by comparing the response of stock markets in the GCC countries to the Russian

invasion of Ukraine with that of European countries. While neither region is directly involved in the conflict, they differ in their positions in the global gas and oil markets. The study also builds on previous research showing heterogeneity in stock price reactions at the country level during the Russia-Ukraine crisis. Finally, managers, policymakers, and stakeholders can use these findings to create strategies that reduce the adverse effects of political uncertainty on the stock market.

The next section reviews some related literature. [Section 3](#) introduces the data and methodology used for the analysis. A discussion of the results is presented in [Section 4](#). [Section 5](#) concludes.

2. Literature review

This paper is part of a body of literature that explores the impact of political uncertainty on stock market returns. Previous studies have utilized event study methods to examine abnormal returns, pre- and post-event effects, and structural changes in stock markets during geopolitical crises. For example, [Kapar and Buigut \(2020\)](#) investigated the impact of the Qatar blockade on stock markets using an event-study approach. Their analysis of events before and after the blockade revealed significant abnormal volatility in stock returns, indicating structural market changes resulting from ongoing political risks. Similarly, [Smales \(2017\)](#) conducted an event study to analyze the impact of the Brexit referendum on financial market uncertainty. The study revealed a significant increase in implied volatility in UK and German markets as the polling dates approached, shedding light on investor reactions to rising political uncertainty. In a study by [Guidolin and La Ferrara \(2010\)](#), 101 global conflicts from 1974 to 2004 were examined using event study techniques to evaluate stock market responses. The results showed that conflicts often led to abnormal returns, with Asia and the Middle East showing the most pronounced reactions. The authors also noted variations in market reactions based on conflict intensity, emphasizing the importance of regional context in understanding market dynamics.

The Russia-Ukraine conflict has sparked considerable research interest due to its broad economic and financial implications. [Ahmed et al. \(2022\)](#) examined the crisis's impact on European stock markets, revealing significantly negative abnormal returns on February 24, 2022, followed by a continued decline in the aftermath. These findings were attributed to factors such as geographic proximity, sanctions, and increased uncertainty. Similarly, [Yousaf et al. \(2022\)](#) conducted an event study on G20 stock markets, uncovering varied responses, with Europe and Asia showing the most pronounced negative reactions. [Adekoya et al. \(2022\)](#) analyzed intra-day data to study oil markets during the conflict, highlighting a shift from oil being a net receiver of spillovers before the crisis to a net transmitter during the conflict. This underscores how geopolitical events can lead to structural changes in commodity market dynamics. [Umar et al. \(2022\)](#) employed a time-varying parameter vector autoregression (TVP-VAR) model to assess the interconnectedness of financial markets, revealing altered relationships between equity and commodity markets due to geopolitical risks. Other studies have explored the war's impact on various sectors. [Martins et al. \(2023\)](#) investigated the response of airline stocks, noting a significant "proximity penalty" for European airlines, while larger, well-capitalized airlines demonstrated resilience. [Kakhkharov et al. \(2024\)](#) analyzed oil and renewable energy stocks, observing that oil producers initially outperformed, but renewable energy stocks gained traction as the conflict progressed, reflecting changing investor sentiment.

Several studies have analyzed the varied effects of the Russia-Ukraine conflict on different regions. [Oyadeyi et al. \(2024\)](#) studied African stock markets and discovered that 14 out of 20 markets showed significant negative abnormal returns on the day of the event. These results emphasize the susceptibility of emerging markets to global disturbances. [Kumari et al. \(2023\)](#) concentrated on European markets and employed network analysis to illustrate structural changes in financial connections during the crisis. The research unveiled new integration

patterns among EU stock markets, highlighting the systemic repercussions of geopolitical events.

The war has also had significant sectoral effects. [Bhattacharjee et al. \(2024\)](#) analyzed Indian sectoral indices and found that oil, gas, and metals experienced positive abnormal returns immediately after the invasion, followed by market corrections. The results suggest initial optimism followed by market normalization. [Martins et al. \(2024\)](#) examined defense firms globally and reported significantly positive abnormal returns for companies with higher R&D intensity and larger defense sales, highlighting the role of sector-specific characteristics in shaping market responses.

Another body of literature has demonstrated that elevated oil prices raise production expenses in countries that rely on oil imports, leading to a negative impact on their stock markets ([Basher et al., 2012](#); [Chen, 2010](#); [Kilian and Park, 2009](#)). Conversely, in oil-exporting nations, higher oil prices translate to increased income ([Bjørnland, 2009](#); [Park and Ratti, 2008](#)).

Despite extensive research on the financial impacts of geopolitical crises, the GCC countries remain underexplored, particularly in terms of their responses to the Russia-Ukraine conflict. This study addresses this gap by using an event study framework to analyze abnormal returns in GCC and European stock markets.

3. Data and methodology

3.1 Data

The data used in this study consisted of financial returns from various equity indices. As a global benchmark index, following [Pandey and Kumari \(2021\)](#) and [Yousaf et al. \(2022\)](#), this paper uses the All-Country World Index (ACWI) of Morgan Stanley Capital International (MSCI). The ACWI-MSCI has 2,888 constituents and covers approximately 85% of the global investable equity across 23 Developed Markets and 24 Emerging Markets. The Dow Jones Global index is also used for robustness check. To assess regional performance, the MSCI-GCC Countries Combined index and the MSCI All Countries Europe (MSCI AC Europe) index were employed to capture returns within the GCC region and Europe, respectively. The MSCI-GCC Countries Combined and the MSCI AC Europe indices capture returns from large- and mid-cap companies across the GCC countries and in Europe, respectively. Additionally, for robustness check, the Dow Jones Euro and the Dow Jones GCC Composite indices are also used. To measure the reaction of each of the GCC countries to the Russia-Ukraine war, the leading stock index for each member nation was collected. Historical data for the MSCI indices were sourced from [msci.com](#). Historical data for the Dow Jones GCC Composite index were sourced from [spglobal.com](#). All other historical data for this study were sourced from [investing.com](#). [Table 2](#) presents various equity indices used in the analysis. Only trading days have been considered in the analysis.

Table 2. Equity indices used in the analysis

Country	Leading index	Region	Indices
Bahrain	BAX	Europe	(i) MSCI AC Europe (ii) Dow Jones – Euro (E1DOW)
Kuwait	BKM50	GCC	(i) MSCI GCC Countries Combined (ii) Dow Jones GCC Composite
Oman	MSM 30		
Qatar	QE General	Global Benchmark	
Saudi Arabia	TASI	(i) MSCI ACWI	
United Arab Emirates	ADX General	(ii) Dow Jones Global (W1DOW)	

Source(s): Prepared by the author

3.2 Methodology

This paper investigates how the stock markets in the GCC countries and Europe reacted to the Russian invasion of Ukraine in 2022 using the event study framework. This framework, developed by [Fama et al. \(1969\)](#) and further refined by [Armitage \(1995\)](#), [Campbell et al. \(1997\)](#), [Corrado \(2011\)](#), and [MacKinlay \(1997\)](#), is a widely accepted tool in finance for assessing market efficiency, particularly in the context of the semi-strong form. The semi-strong form of the efficient market hypothesis posits that asset prices incorporate all publicly available information, making it difficult to outperform the market ([Fama, 1970](#)). In an efficient market under this form, stock prices should adjust to new information about the Russian invasion of Ukraine on the day of the event, with minimal reaction in the following days. Any abnormal returns on that day would be linked to the event. Conversely, abnormal returns before or after the event day would suggest inefficiency, indicating either anticipation or delayed response.

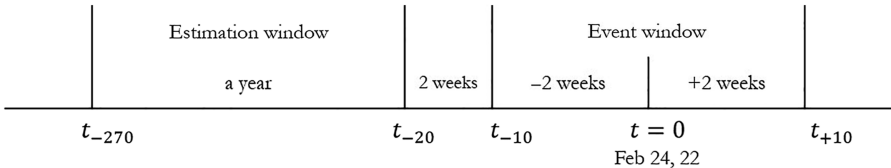
An event study involves several steps, including identifying the event, defining the event window, estimating normal returns, calculating abnormal returns, and evaluating statistical significance. The first step in applying the event study framework is pinpointing the event of interest and its specific date. In this study, the event of interest is the Russian invasion of Ukraine on February 24, 2022. While there was political tension leading up to the invasion, this paper follows [Yousaf et al. \(2022\)](#), in using February 24th as the event day. This date marked the escalation from political tension to military action. The event date corresponds to t_0 in [Figure 1](#).

After identifying the event of interest, the next step is to determine the frequency of the data used in the analysis and define the event window during which the event is expected to impact market returns. [MacKinlay \(1997\)](#) found that daily data are more effective in detecting abnormal returns in event studies compared to weekly or monthly data. The event window typically includes the event date itself and the days leading up to and following the event to account for potential news leaks or delayed market reactions. While longer event windows can capture sustained market responses, they may also be influenced by subsequent events. Building on the research of [Ahmed et al. \(2022\)](#) and [Yousaf et al. \(2022\)](#), which examined the short-term stock market reactions to the Russia-Ukraine crisis globally, this study focuses on the immediate response of stock markets in Europe and the GCC countries to the Russian invasion of Ukraine. Therefore, the analysis adopts event windows ranging from two weeks before the event (i.e. 10 trading days) to two weeks after the event, encompassing subsets of the period $[t_{-10}, t_{+10}]$ as illustrated in [Figure 1](#).

The next step is to estimate the normal returns of an equity index. The actual returns of an equity index can be expressed as:

$$R_{i,t} = E[R_{i,t} | \Theta_t] + AR_{i,t} \quad (1)$$

where $R_{i,t}$ represents the actual returns of the equity index i in day t , calculated as 100 times the first difference of the natural log of the index price, $E[\cdot]$ denotes the expectation operator, Θ_t is the information set available at time t , and $AR_{i,t}$ is the abnormal return with a zero mean and



Source(s): Prepared by the author, adapted from Sayed and Eledum (2023)

Figure 1. Timeline of an event study

constant variance. To estimate normal returns, an estimation window corresponding to $[t_{-270}, t_{-20}]$ in Figure 1 must be selected. To prevent contamination of the estimated normal returns by anticipation effects or news leaks, the estimation window typically excludes the event window, creating a gap of 2 weeks $[t_{-20}, t_{-10}]$, between the estimation window and the first event window. The length of the estimation window is arbitrary. Armitage (1995) suggests that the estimation window can range from 100 to 300 days, with longer windows providing more precision but potentially subject to structural breaks. Cox and Peterson (1994) use a 100-day window, while MacKinlay (1997) suggests 250 days but also recommends 120 days as sufficient for estimating normal returns using daily data. Following Ahmed *et al.* (2022), this paper adopts a 250-day estimation window ending 20 trading days before the event day, specifically $[t_{-270}, t_{-20}]$. Once the estimation window is chosen, normal returns, $E[R_{i,t}|\Theta_i]$, can be estimated. This paper utilizes the single index model (SIM), also known as the market model, which has been demonstrated to outperform other models (Dyckman *et al.*, 1984), to estimate normal returns. The market model posits that expected returns are a linear function of returns of a benchmark index. Formally:

$$E[R_{i,t}|\Theta_i] = \alpha_i + \beta_i R_{m,t} \quad (2)$$

where $R_{m,t}$ represents the returns of a benchmark index, in this study represented by the ACWI-MSCI and the Dow Jones Global index.

Once normal returns for each equity index have been estimated, the abnormal returns of that index can be computed by using equation (1) to subtract normal returns from actual returns over the event window. The Cumulative Abnormal Returns (CARs) function for index i is useful in aggregating abnormal returns over some event window from t_k to t_j as follows:

$$CAR_i(t_k, t_j) = \sum_{t=t_k}^{t_j} AR_{i,t} \quad (3)$$

If $t_k = t_j$, then CAR_i reduces to $AR_{i,t}$.

The null hypothesis of this study is that abnormal returns of European and GCC stock markets on and around the event day are zero, indicating no impact from the Russian invasion of Ukraine. Rejection of the null hypothesis for a specific region (country) implies that the stock market of that region (country) was affected by the invasion. Positive abnormal returns indicate that the market exceeded expectations, while negative abnormal returns suggest negative effects on the stock market. The significance of abnormal returns is assessed using the nonparametric Wilcoxon signed-rank test.

4. Results

4.1 Europe vs GCC region

Table 3 displays the estimated cumulative abnormal returns for Europe and the GCC countries using both MSCI and Dow Jones indices. Both regions witnessed significant negative abnormal returns on the event day. However, Europe experienced a more substantial impact with a decline of -5.3% (-4.3%) compared to -1.4% (-1.5%) in the GCC countries using the MSCI (Dow Jones) index. This suggests that the Russian invasion of Ukraine initially affected stock markets in both regions negatively. Such reactions are common during major geopolitical events like wars, as investors tend to adopt a risk-averse approach due to concerns about economic instability and potential trade disruptions. Consequently, stock selloffs and price declines occur. Moreover, the market response was more pronounced in Europe than in the GCC countries. However, there was some discrepancy in the response of each region in the following week.

Table 3. Comparing Europe to the GCC region, estimated CARs for the event window $[t_i, t_{i+j}]$

Window	MSCI Europe	GCC	S&P Dow Jones Europe	GCC
[−10, 0]	−0.048** (−2.09)	0.01 (0.4)	−0.045** (−2.17)	0.012 (0.95)
[−5, 0]	−0.047*** (−2.79)	−0.014 (−0.84)	−0.036*** (−2.65)	−0.015* (−1.81)
[0, 0]	−0.053*** (−7.89)	−0.014** (−2.01)	−0.043*** (−6.48)	−0.015*** (−3.75)
[0, 5]	−0.073*** (−4.43)	0.033** (2)	−0.042*** (−3.1)	0.011 (1.33)
[0, 10]	−0.085*** (−3.79)	0.023 (0.98)	−0.095*** (−5.31)	0.02* (1.88)

Note(s): Wilcoxon test statistics are in parentheses. *, **, and *** denote 10%, 5%, and 1% level of significance, respectively
Source(s): Author’s calculations

On the one hand, European stock markets continued to show negative abnormal returns, reaching a larger magnitude of −8.5% (−9.5%) two weeks after the event using the MSCI (Dow Jones) Index. The sustained economic impact on the European stock market is expected due to Russia’s significant role as a trading partner and supplier of essential of oil, gas, food, fertilizers, and raw materials to European countries (Ahmed *et al.*, 2022). Sanctions on Russia have resulted in price hikes, affecting the European economy and corporate performance, which is likely to depress European companies’ share prices (Rigobon and Sack, 2005). Moreover, geopolitical risks in the Eurozone have escalated, exacerbated by the influx of Ukrainian refugees, adding to the uncertainty. The duration and consequences of the war are uncertain, leading to increased geopolitical threats, investor apprehension, and reduced business confidence, all of which influence stock prices (Caldara and Iacoviello, 2022).

On the other hand, the post-event response of the GCC countries was intriguing as their abnormal returns turned positive and significant using either the MSCI index or the Dow Jones one. Initially, the negative reaction indicated fear of a severe war, but the subsequent rebound can be attributed to various factors. One reason could be the limited direct exposure of the GCC economies to Russia and Ukraine (Kozhanov, 2021) compared to Europe. Additionally, the surge in oil prices resulting from the war (Zhang *et al.*, 2023) benefits GCC countries as significant oil exporters. This could make GCC stocks appealing to investors seeking potential profit growth.

4.2 Country-specific results

The returns for MSCI indices are reported from Monday to Friday, while the stock markets of GCC countries operate from Sunday to Thursday. To avoid data loss due to non-overlapping days, and following Elroukh (2024), this study adjusts Friday observations from MSCI indices to the following Sunday. This adjustment enables the stock markets of GCC countries to respond to global market returns from Friday when they open on the following Sunday, creating a standard five-day work week for analysis. Table 4 presents the estimated abnormal returns of the main stock index of the six GCC countries.

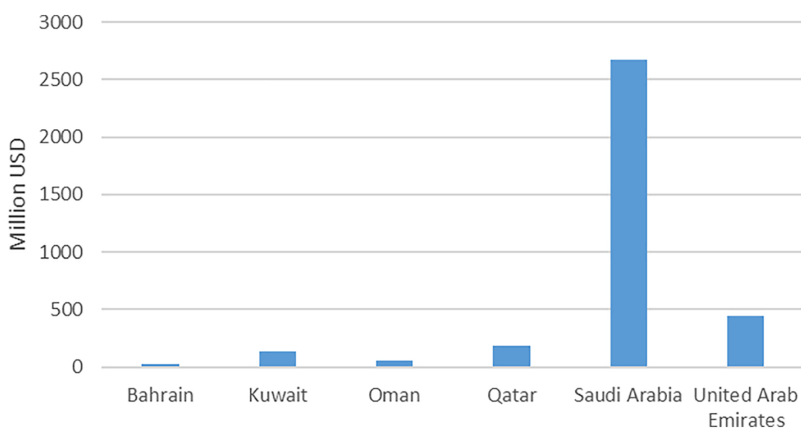
Oman, Qatar, and the United Arab Emirates initially did not respond to the Russian invasion of Ukraine on the invasion day. However, they later experienced a delayed market reaction, with each country seeing significant positive abnormal returns of 1.8%, 5.1%, and 5.8%, respectively, after the invasion. The delayed response of these three countries can be attributed to their relatively small market size (Figure 2), which may have caused a lag in the dissemination of information to investors, resulting in a slower reaction. However, their

Table 4. Estimated CARs for each GCC country's stock market during the event window $[t_i, t_{i+j}]$

Window	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
$[-10, -6]$	0.022** (2.44)	0.006 (0.47)	-0.003 (-0.22)	-0.008 (-0.54)	0.023 (1.4)	0.034*** (2.18)
$[-5, -1]$	0.036*** (3.96)	0.015 (1.24)	-0.013 (-1.22)	0.002 (0.13)	0.009 (0.6)	-0.013 (-0.77)
$[0, 0]$	-0.011*** (-2.77)	-0.014*** (-2.75)	-0.003 (-0.54)	-0.009 (-1.5)	-0.018** (-2.48)	-0.004 (-0.56)
$[0, 5]$	-0.001 (-0.01)	-0.005 (-0.5)	0.018* (1.78)	0.051*** (3.46)	0.009 (0.49)	0.058** (3.35)
$[6, 10]$	0.038*** (4.31)	-0.017 (-1.45)	0.045*** (4.46)	0.011 (0.92)	-0.004 (-0.24)	-0.019 (-1.19)

Note(s): Wilcoxon test statistics are in parentheses. *, **, and *** denote 10%, 5%, and 1% level of significance, respectively

Source(s): Author's calculations



Source(s): Prepared by the author based on data from GCC-STAT (2022)

Figure 2. Market capitalization for each GCC country by the end of 2021

positive response suggests that these markets eventually reacted to the surge in oil and natural gas prices. Qatar, in particular, is a major supplier of LNG to Europe, with exports totaling 22.5 billion cubic meters, surpassing Russia's exports to Europe in the same year, which stood at 17 billion cubic meters. While Oman and the United Arab Emirates primarily export oil and gas to Pacific Asia (not shown in the Table 1), their combined oil and gas exports exceed Russia's supply to Europe. Investors recognized the potential positive impact on these economies and companies following the invasion, as energy prices rose, and Europe emerged as a potential new customer.

On the invasion day, both the Bahrain and Kuwait markets experienced negative abnormal returns of 1.1% and 1.4%, respectively, reflecting global market panic. Nonetheless, Kuwait's market did not exhibit a notable response before or after the invasion, which may be explained by its relatively small market size (Figure 2) or its limited oil and gas exports to Europe (Table 1). In contrast, Bahraini stocks demonstrated positive abnormal returns both before and after the invasion, possibly influenced by domestic economic factors, considering its very small market size (Figure 2) and almost non-existent oil or gas exports to Europe.

The Saudi stock exchange, the largest in the GCC countries (Figure 2), exhibited a negative reaction to the Russian invasion of Ukraine, with significant abnormal returns of -1.79% on the day of the event. This reaction was similar in magnitude to a previous estimate of -1.84% by Yousaf *et al.* (2022). There were no significant abnormal returns observed for Saudi Arabia before or after the invasion, indicating market efficiency and prompt response, consistent with the findings of Al-Maadid *et al.* (2022). However, it raises questions as to why the Saudi market did not experience positive returns following the invasion, despite the rise in oil prices and Saudi Arabia's substantial exports of oil to Europe (Table 1). Future research on the Saudi markets holds promising.

In summary, the varying reactions of the GCC countries' stock markets to the Russia-Ukraine war can be explained as follows. Larger and more liquid markets like Saudi Arabia are more responsive to global events due to their size and liquidity, leading to quicker information flow and investor reactions. On the other hand, smaller and less liquid markets in Oman, UAE, and Qatar may take longer to respond. Additionally, in terms of oil and gas exports, economies that export larger quantities of gas and oil, such as Qatar, UAE, and Oman, typically experience positive returns following the initial panic of the invasion, reflecting increases in energy prices. The Saudi market appears to be an exception, however. Conversely, economies with minimal oil and gas exports to Europe like Kuwait and Bahrain reacted negatively initially, reflecting global market panic.

5. Conclusion

The Russian invasion of Ukraine in February 2022 has prompted a surge in research on the correlation between political events and financial performance. The invasion has also caused an increase in energy prices. Numerous studies have investigated how the war has affected the stock returns of European markets, G20 nations, and other global regions. However, the reaction of stock markets in GCC countries, as major oil and gas producers, has yet to be explored.

This paper aims to fill the gap by analyzing the impact of the Russian invasion of Ukraine on stock markets in Europe and the GCC countries. It also explores the diverse reactions of each GCC country's stock market to the invasion. The study employs an event study framework and daily data on returns of different equity indices.

The paper's findings indicate the following: Europe saw significant negative abnormal returns, while the GCC countries initially had brief negative abnormal returns followed by substantial positive abnormal returns. The initial impact on both regions was influenced by global political uncertainty surrounding the war's onset. The sustained negative reaction of European markets can be attributed to their close economic ties with Russia and dependence on Russian oil and gas. In contrast, the positive stock market returns in the GCC countries reflect the benefits of higher energy prices. Furthermore, there are variations in how each country responded to the war, possibly due to differences in market size and energy exports. Larger markets like Saudi Arabia tend to react more quickly than smaller markets like Oman and Qatar. Additionally, countries that supply oil and gas to Europe, such as Qatar and the United Arab Emirates, tend to see positive returns in the week following the invasion, in contrast to countries like Kuwait with minimal or no oil and gas exports to Europe.

The study suggests that policymakers in Europe and the GCC countries should consider geopolitical risks when developing strategies to stabilize equity markets. Europe needs to decrease its reliance on Russia's energy by diversifying energy sources, improving energy efficiency, and investing in renewable energy. In the GCC countries, the positive impact of the war on stock markets should be leveraged to invest in economic diversification. Governments can use the increased earnings to develop infrastructure, education, and technology sectors, moving away from reliance on oil and gas exports. Diversification is key for both regions to enhance resilience to geopolitical risks, with Europe focusing on energy supply diversification and the GCC on economic diversification.

The study's findings have practical implications. For example, investors may find it beneficial to invest in GCC countries as a hedge against geopolitical risks in Europe. The GCC region has demonstrated positive returns amid the ongoing war. In Europe, investors should prioritize assets less susceptible to economic uncertainty to manage heightened volatility and market instability. Conversely, GCC investors should seize opportunities that arise during conflicts, like the potential for increased earnings in energy companies and other sectors that thrive amidst turmoil.

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Further reading

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