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# Perils of War-An Investigation into the Short-Term Impact of the Russia-Ukraine Conflict on Indian Stock Market

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## ABSTRACT

**Purpose:** The paper focuses on understanding the short-term reaction of the Indian stock market and its constituents to the Ukraine conflict. For this purpose, the paper investigates the initial reaction of the Indian stock market to the start of the Russia-Ukraine conflict in February 2022.

**Design/Methodology/Approach:** The paper uses 23 indices listed on the National Stock Exchange of India to analyze the impact of the event on the Indian Stock Market. The paper deploys an event study methodology to analyze abnormal stock returns immediately after the start of the conflict.

**Findings:** The paper found a heterogeneous impact of the war on various sectors. The result shows that sectors such as Auto, Banking, and Financial Services saw negative abnormal returns in the stock market due to the war. In contrast, sectors such as Oil & Gas, Energy, and Metal witnessed significant positive returns following the start of the war. The paper finds that the impact on large, mid, and small-size firms was not significantly different. The findings of the paper are significant for investors for providing insight into managing risk when faced with such a conflict.

**Originality/Value:** The paper is unique, with no other research investigating the impact on such detailed constituents of the Indian stock market due to the Russia-Ukraine conflict.

**Paper Type:** Case Based Study

**KEYWORDS:** Russia | Ukraine | War | Event Study | Industry Analysis | Stock Price | Risk

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## Introduction

In the current interconnected world, the impact of events in one region or country gradually gets transmitted over the entire world. The severity of transmission worldwide depends upon the importance of the region or country facing the specific event. Among the recent issues faced by the world was – the 2008 financial crisis in the U.S., the European debt crisis in 2010, COVID-19 in 2020, and more recently, the continuing Russia-Ukraine war. Such events' impact has reverberated worldwide, creating uncertainty in global economic growth. The War in Ukraine has caused a significant adverse impact on the economy of several countries and caused inflationary pressures due to higher prices of commodities. It has also caused uncertainty in the investors' minds and undermined business confidence as investors grapple with the risk of war escalating to other territories and the risk of greater involvement of Europe and the U.S., which, as per the International Monetary Fund accounted for almost 30% of global GDP on a PPP basis.

Before the War, Russia was a significant exporter of Crude Oil, Refined Oil, Petroleum Gas, Coal, Gold, and other commodities, particularly to the European Countries. Russia was the second largest Oil exporter in the world in 2021 after Saudi Arabia.

In addition, Russia and Ukraine were among the world's top wheat exporters in 2021. Thus, the war would likely disrupt the world's supply of crude oil, commodities, and grains. Following the war, western countries put a series of sanctions on Russia. The sanctions targeted Russian oil and other exports, freezing foreign assets and restricting Russian access to high-tech components.Thus, anevent like conflict/war has global repercussions.It is vital to understand the market reaction to a potential conflict/war scenario,enabling investors to make informed decisions in the future. Several researchers have investigated the consequences of conflict/war or related uncertainty on the economy and financial markets (Schneider and Troeger, 2006; Kollias, Papadamou and Stagiannis, 2010; Smith, 2014; Gerlach and Yook, 2016; Omar, Wisniewski and Nolte, 2017).

The paper focuses on understanding the short-term reaction of the Indian stock market and its constituents to the Ukraine conflict. For this purpose, the paper investigates the initial reaction of the Indian stock market to the start of the Russia-Ukraine conflict in February 2022.

The paper is unique, with no other research investigating the impact on such detailed constituents of India's stock market due to the Russia-Ukraine conflict. The paper deploysthe widely used event study methodology to achieve its objective.

## Literature Review

Several researchers have studied the reaction of the stock market to external events. Many of these events or factors, such as interest rates and government policy decisions,are recurring, while some are rare, such as pandemic or conflicts. For stakeholders to manage risk and make informed decisions in the future, it is important to understand stock market reactions to such events. Much research has investigated such events' short-term and long-term impacts on the stock market and its constituents.

Event Study research primarily measuresthe abnormal return of the stock market or its constituents' around or after an event. Abnormal return can be defined as the market return above its expected return over a period. The impact of policy decisions like tax cuts, trade deals,and rare events such as SARS or COVID-19, terror incidents,and conflicts or wars on the stock market enables investors to make better-informed decisions in the future. This paper focuses on analyzing the short-term reaction of the Indian stock market to the conflict between Russia and Ukraine. Researchers have investigated the impact of conflicts on the economy or stock market of the nations involved.

Schneider and Troeger (2006) observed that the stock market generally reacted adversely to conflicts/wars. However, certain conflicts that help reduce uncertainty can also result in a positive reaction from stock markets. Bhadra et al. (2023) found a negative impact of the war on the food, beverage, and tobacco industries in South Korea. Tee et al. (2023) found that investors valued firms located in countries that sanctioned Russia at a higher level than those in countries that did not sanction Russia.

Kollias, Papadamou, and Stagiannis (2010) examined the impact on Tel Aviv Stock Exchange indices due to Israel's attack on Gaza Strip in 2008 and found that the stock index witnessed significant negative abnormal returns immediately after the attack. Omar, Wisniewski, and Nolte (2017) concluded through analysis of 64 events of international conflict that U.S. and international equities showed a statistically significant abnormal negative return in the period around the conflicts.

## Data

The paper analyses the abnormal return of 23indices listed on National Stock Exchange Limited's (NSE) exchange in India due to the conflict between Russia and Ukraine in 2020. NSE is the largest stock exchange in India by market capitalization. The selected indices are free-float market capitalization-weighted. The indices selected for the study are shown in Table 1.

**Table 1: Description of NSE Indices**

| S. No | Index | Description |
|---|---|---|
| 1 | Nifty 50 | Top 50 companies based on market capitalization from stock listed on NSE meeting specific criteria |
| 2 | Nifty 500 | Top 500 companies based on market capitalization from stock listed on NSE meeting specific criteria |
| 3 | Nifty Auto | Top 15 Stocks belonging to the automobile sector meeting specific criteria |
| 4 | Nifty Bank | Top 12 Stocks belonging to the banking sector meeting specific criteria |
| 5 | Nifty C P S E | 10 Stocks belonging public sector meeting specific criteria |
| 6 | Nifty Commodities | Select 30 stocks representing the commodities segment |
| 7 | Nifty Consumer Durables Index | Select 15 stocks representing the Consumer Durables Industry |
| 8 | Nifty Energy | Select 10 stocks representing the Energy sector |
| 9 | Nifty Financial Services | Select 20 stocks representing the financial market |
| 10 | Nifty FMCG | Select 15 stocks representing the Fast Moving Consumer Goods sector |
| 11 | Nifty Healthcare Index | Select 20 stocks representing the Healthcare Sector |
| 12 | Nifty India Consumption | Select 30 stocks representing the domestic consumption Sector |
| 13 | Nifty Infrastructure | Select 30 stocks representing the infrastructure sector |
| 14 | Nifty It | Select 10 stocks representing the I.T. Sector |
| 15 | Nifty Metal | Select 15 stocks representing the metal Sector |
| 16 | Nifty Midcap 100 Index | Select 100 companies belonging to mid market capitalisation |
| 17 | Nifty MNC | Select 15 stocks with the foreign promoter shareholding is over 50% |
| 18 | Nifty Oil & Gas Index | Select 15 stocks representing the Oil & Gas sector |
| 19 | Nifty Pharma | Select 20 stocks representing the Pharma sector |
| 20 | Nifty Private Bank Index | Select 15 stocks from banks in Private sector |
| 21 | Nifty Pse | Select 20 stocks with more than 50% outstnading share capital held by Central Government |
| 22 | Nifty Psu Bank | Public Sector Banks meeting specific criteria |
| 23 | Nifty Services Sector | Select 30 Companies belonging to the Services Sector in India |
| 24 | Nifty Smallcap 250 | 250 small size companies representing companies ranked 251-500 |

The sample data consists of a daily closing of NSE stock indices for March 24, 2021 and June 30, 2022.

## Methodology

Event study methodology is used to analyze the abnormal return of as asset due to the conflict. The abnormal return ($A_{R}$) on a security/index is defined as the excess return due to the event over the expected return ($E_{R}$) of the security/index in the absence of such an event. The index expected return ($E_{R}$ is calculated using the market-adjusted model (Dyckman et al., 1984) as per equation (1) using the Nifty 500 index as the market return ($R_m$).

$$E_R \;=\; \alpha + \;\beta * R_m E_R \;=\; \alpha + \;\beta * R_m \qquad (1)$$

$$A_R = Actual\ Return - \;E_R$$
$$A_R = Actual\ Return - \;E_R \qquad (2)$$

Where α,β are estimated using a market-adjusted model

News regarding the war between two countries broke out on February 24 2022. This date is taken as the 'event date' or day '0'. Three Event windows – ((0,3 days); (0,5 days); (0,15 days – are taken to measure the impact of the war on Nifty indices. The estimation window used to calculate the expected return has been taken from '-16' to '-200' days.

The $AAR_i$ (Average abnormal return) for an index '*i*' is calculated as the average daily abnormal return over the event window period ($t_1$,$t_2$).

$$AAR_i = 1/t \sum_{t=t_1}^{t=t_2} AR_t$$

Here 't'is the no. of days in the event window ($t_1$,$t_2$), 'i' is the index, $AR_t$ is the abnormal return. The paper utilizes a parametric test to test abnormal returns' statistical significance during the event window (Kolari & Pynnönen, 2010).

### *Results & Discussion*

Table 2 shows the cumulative and average actual return of the indices selected for the study. As per Table 2, most of the indices witnessed negative returns in the event window (0,3 days), as investors worried about possible consequences of the war due to impending sanctions by the West on Russia. However, as clarity emerged, only Auto, Banking, and MNC witnessed negative returns over (0,15 days).

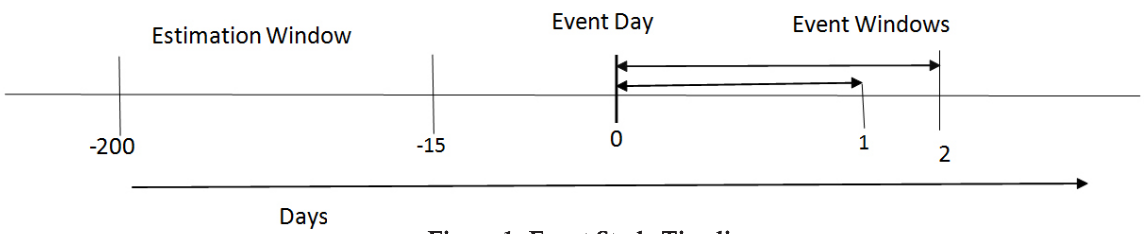


**Figure 1: Event Study Timeline**

**Table 2: Actual Return of Nifty Indices with Event Date as of February 24, 2022 and 3 Event Windows**

| | Average Actual Return | | | Cumulative Actual Return | | |
|---|---|---|---|---|---|---|
| Index/Event Window (days) | [0,3] | [0,5] | [0,15] | [0,3] | [0,5] | [0,15] |
| Nifty 50 | -0.006 | -0.008 | 0.001 | -0.026 | -0.047 | 0.016 |
| Nifty 500 | -0.005 | -0.007 | 0.001 | -0.020 | -0.041 | 0.018 |
| Nifty Auto | -0.018 | -0.022 | -0.004 | -0.072 | -0.130 | -0.062 |
| Nifty Bank | -0.013 | -0.013 | -0.001 | -0.053 | -0.080 | -0.021 |
| Nifty C P S E | 0.014 | 0.009 | 0.004 | 0.057 | 0.056 | 0.057 |
| Nifty Commodities | 0.005 | -0.001 | 0.003 | 0.019 | -0.003 | 0.045 |
| Nifty Consumer Durables Index | 0.000 | -0.007 | 0.002 | 0.000 | -0.044 | 0.027 |
| Nifty Energy | 0.004 | 0.003 | 0.003 | 0.017 | 0.016 | 0.050 |
| Nifty Financial Services | -0.012 | -0.013 | -0.001 | -0.050 | -0.078 | -0.012 |
| Nifty Fmcg | -0.004 | -0.006 | 0.002 | -0.015 | -0.036 | 0.025 |
| Nifty Healthcare Index | -0.004 | -0.004 | 0.003 | -0.016 | -0.027 | 0.048 |
| Nifty India Consumption | -0.007 | -0.012 | 0.000 | -0.028 | -0.070 | 0.006 |
| Nifty Infrastructure | -0.003 | -0.006 | 0.001 | -0.012 | -0.037 | 0.018 |
| Nifty It | -0.003 | 0.001 | 0.003 | -0.010 | 0.003 | 0.047 |
| Nifty Metal | 0.024 | 0.012 | 0.007 | 0.095 | 0.075 | 0.105 |
| Nifty Midcap 100 Index | -0.002 | -0.005 | 0.001 | -0.006 | -0.031 | 0.022 |
| Nifty Mnc | -0.005 | -0.009 | -0.001 | -0.020 | -0.056 | -0.020 |
| Nifty Oil & Gas Index | 0.001 | 0.001 | 0.002 | 0.004 | 0.009 | 0.038 |
| Nifty Pharma | -0.005 | -0.005 | 0.003 | -0.021 | -0.028 | 0.045 |
| Nifty Private Bank Index | -0.013 | -0.013 | -0.002 | -0.052 | -0.079 | -0.024 |
| Nifty Pse | 0.008 | 0.005 | 0.003 | 0.033 | 0.033 | 0.044 |
| Nifty Psu Bank | -0.011 | -0.011 | 0.000 | -0.045 | -0.068 | -0.003 |
| Nifty Services Sector | -0.009 | -0.008 | 0.001 | -0.034 | -0.050 | 0.010 |
| Nifty Smallcap 250 | -0.001 | -0.003 | 0.002 | -0.005 | -0.017 | 0.036 |

Table 3 shows the abnormal return of the selected indices over the three event windows, with February 24, 2022, as the event date. Table 3 showsthat around ten indices show negative abnormal returns, while the remaining indices show positive abnormal returns during the event window (0,3) and (0,15), respectively. Auto and Banking-related indices showed significant negative returns in the event window (0,3) and (0,5). In contrast, Metal, Commodities, Oil,and gas sectoral indices showed significant positive returns during the same event windows. The overall impact of the war on large and, small and medium enterprises was not significantly different. The difference in the abnormal return of different indices can be attributed to the heterogeneous impact of the war and the resultant dynamics on specific sectors. The direct trade between Russia and India in CY20 was around USD 8.5 bn, less than 2% of the overall trade of India. Thus, the direct impact on the Indian economy due to the potential sanctions imposed by the Western Government on Russia was expected to be minimal. However, the second-order impact of the war on the Indian economy was likely to be significant.

As a net oil imported, India was likely to be adversely impacted due to a possible rise in oil prices due to possible sanctions on Russian oil exports. The rise in oil prices was likely to increase the inflationary pressure on the economy. It was also likely to increase India's current account deficit due to higher oil imports. The inflationary pressure in the economy was likely to force the Reserve Bank of India to increase interest rates, dampening consumptionand investor and business confidence. The higher current account deficit and expected flight of safety of foreign funds due to the increased global risk environment was expected to lead to INR depreciation.

Regarding sector-wise impact, the auto sector saw a negative significant growth primarily due to higher commodity and metal prices as Russia is a major commodity exporter globally. The elevated logistic costs due to increased oil prices were also likely to impact auto sector profitability. Banking-related indices saw a significant negative return due to a possible downside in credit growth due to higher interest rates in an inflationary environment. Overall, increased uncertainty was also likely to result in low consumer and business offtake of credit. For Oil & Gas, Metal, and Energy indices, a weaker currency and as well as higher oil prices were likely to increase realizations in rupee terms for sector companies. Thus, these sectors saw a significant positive return. As far as the other sectors, the event's impact was insignificant in the short term.

## Conclusion

This paper highlights the heterogeneous impact of the war on various sectors in the short term. The result shows that sectors such as Auto, Banking, and Financial Servicessawnegative abnormal returns in the stock market due to the war. In contrast, sectors such as Oil & Gas, Energy, and Metal witnessed significant positive returns following the start of the war. The paper finds that the impact on large, mid, and small firms was not significantly different. The paper allows the investor to understand the stock market reactions across different industries in case of a war with global repercussions. The paper builds on existing research on the impact of conflicts on stock markets (Bhadra et al., 2023; Bhattacharjee et al., 2023; Saini et al., 2023; Tee et al., 2023; Tong, 2024). However, the paper's findings highlight that

**Table 3: Abnormal return (A.R.) of Nifty Indices with Event Date as February 24, 2022, and 3 Event Windows using Boehmer, Musumeci, Poulsen Test**

| Index/Event Window (days) | CAAR [0,3] | CAAR [0,5] | CAAR [0,15] |
|---|---|---|---|
| Nifty 50 | -0.60% | -0.61% | -0.35% |
| Nifty Auto | -5.258%*** | -8.922%*** | -8.373%** |
| Nifty Bank | -3.333%** | -3.913%** | -4.21% |
| Nifty C P S E | 7.638%*** | 9.757%*** | 5.06% |
| Nifty Commodities | 3.848%*** | 3.825%** | 3.32% |
| Nifty Consumer Durables Index | 1.92% | -0.30% | 1.58% |
| Nifty Energy | 3.639%** | 5.722%*** | 2.53% |
| Nifty Financial Services | -2.995%** | -3.697%** | -3.37% |
| Nifty Fmcg | 0.44% | 0.51% | -0.14% |
| Nifty Healthcare Index | 0.40% | 1.46% | 3.72% |
| Nifty India Consumption | -0.89% | -2.826%** | -1.89% |
| Nifty Infrastructure | 0.76% | 0.42% | -0.81% |
| Nifty It | 0.95% | 4.474%* | 2.95% |
| Nifty Metal | 11.453%*** | 11.597%*** | 11.052%* |
| Nifty Midcap 100 Index | 1.34% | 1.02% | 0.92% |
| Nifty Mnc | 0.00% | -1.49% | -3.618%* |
| Nifty Oil & Gas Index | 2.362%* | 4.981%*** | 2.23% |
| Nifty Pharma | -0.14% | 1.32% | 3.58% |
| Nifty Private Bank Index | -3.202%** | -3.729%** | -4.57% |
| Nifty Pse | 5.226%*** | 7.405%*** | 2.97% |
| Nifty Psu Bank | -2.55% | -2.67% | -2.50% |
| Nifty Services Sector | -1.466%** | -0.90% | -1.10% |
| Nifty Smallcap 250 | 1.43% | 2.40% | 2.90% |

stock market reaction is not uniform across sectors due to a war, and the reaction may remain limited to specific sectors of the economy. The paper's findings are significant for investors for providing insight regarding the risk to various sectors in case of a conflict and help investors make better-informed decisions in such scenariosto minimize risk to their portfolio.

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## Annexure 15.3.4

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## Reviewers Memorandum

**Reviewer's Comment 1:** The paper investigates the initial reaction of India's stock market to the Russia-Ukraine conflict, which began in February 2022. The research uses 23 indices listed on the National Stock Exchange of India to analyze the impact of the conflict on the Indian stock market which gives a broad and clear picture of the upcoming effect of the war.

**Reviewer's Comment 2:** The authors have made a detailed study regarding both the sides of impact of the war.According to the authors , after the war began, industries such auto, banking, and financial services experienced abnormally low stock market returns, while industries like metal, oil and gas, and energy saw notable increase in value.

**Reviewer's Comment3:** The authors have diligently emphasized the significance and repercussions of the war on the Indian economy across various sectors, employing statistical forecasting tools. These findings hold substantial value for investors seeking insights into effective risk management during such conflicts.

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**Conflict of Interest:** Author of a Paper had no conflict neither financially nor academically.

## Editorial Excerpt

The article has 03% of plagiarism which is the accepted percentage as per the norms and standards of the journal for publication. As per the editorial board's observations and blind reviewers' remarks the paper had some minor revisions which were communicated on a timely basis to the authors (Chandan & Deep Shree), and accordingly, all the corrections had been incorporated as and when directed and required to do so. The comments related to this manuscript are noticeably related to the theme"**Perils of War- An investigation into short-term impact of the Russia-Ukraine conflict on Indian stock market**" both subject-wise and research-wise.The paper finds that the impact on large, mid, and small firms was not significantly different.The paper allows the investor to understand the stock market reactions across different industries in case of a war with global repercussions.However, the authors findings highlight that stock market reaction is not uniform across sectors due to a war, and the reaction may remain limited to specific sectors of the economy.The results of the research are significant for investors for providing insight regarding the risk to various sectors in case of a conflict and help investors make better-informed decisions in such scenarios to minimize risk to their portfolio.After comprehensive reviews and the editorial board's remarks, the manuscript has been categorized and decided to publish under the "**Case Based Study**" category.

## Acknowledgement

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