
Guest editorial: Implications of the Russia–Ukraine conflict on the global financial markets

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If we don't end the war, war will end us.

by Herbert George Wells

The Russia–Ukraine dispute – the most significant conflict in Europe since the Second World War – comes at a sensitive time for the world economy. It has shattered hopes of a global economic recovery from the ravages of COVID-19, at least in the short term. Since the World Health Organization (WHO) declared the COVID-19 outbreak as a public health emergency of international concern, the global economy has been straining under a range of burdens: surging inflation and unemployment rates, tangled global supply chains and tumbling financial markets (Batten *et al.*, 2022; Boubaker *et al.*, 2022; Choudhury *et al.*, 2022; Liu *et al.*, 2022). The Russia–Ukraine War has magnified these threats and complicated the potential solutions. The repercussions of this conflict are threatening the global economy (Wiseman and Mchugh, 2022). These implications of the Russia–Ukraine War for the global economy and financial markets mainly come from economic sanctions, commodities prices and supply chain disruptions. This special issue aims to unveil all of these disruptions and implications for the national and global financial markets alike and investigate the impact of this war on the behavior of different economic agents. In this regard, we have studied the stock market, energy market, crypto liquidity and foreign exchange market.

The special issue starts with how the crisis between Russia and Ukraine has led to a difference in market quality between local and international companies trading on the US stock market (Clancey-Shang and Fu, 2023). The authors use an event study methodology to examine the market reactions of local and international companies three days before the start of the conflict. In addition, using a difference-in-differences (DID) analysis, they investigate the epidemic's impact on the market quality of overseas companies and compare it to that of local firms with the same name. Moreover, the authors compare international companies based on firm-specific features and those of their home countries. They conclude that the decline in market quality experienced by international firms cross-listed in the United States is far more severe than that experienced by their local US peers. This impact is more pronounced for businesses that originate in nations that are seen to have a more positive relationship with Russia and for companies that are not cross-listed. Regarding market quality, the authors' results align with the information asymmetry theory. The authors conclude that market investors in the United States are more concerned about the political risks associated with political stances that are not aligned with the United States during times of conflict.

Then Abbassi *et al.* (2023) extend previous findings on the Russian–Ukrainian War. The authors explore the effect of this war on the component businesses of the key stock market indexes of the G7 nations to give insights into the susceptibility of enterprises to war events. They used the event study approach on 531 enterprises from March 02, 2021, to March 08, 2022. Additionally, they conduct a cross-sectional analysis of cumulative abnormal returns and country- and firm-specific factors to show that risk exposure and dependency on trade are the primary causes of invasion-generated negative abnormal returns. The authors also



provide evidence that illustrates how stock values are vulnerable to the effects of geopolitical uncertainties and dependency on trade. They found evidence of a size anomaly and high risk associated with better book-to-market ratios, consistent with earlier relevant research findings. The results of this research have important significance for policymakers tasked with identifying the firm-specific characteristics that drive event-induced returns. In addition to offering insights into the geographical diversification of funds, this research shows the various features of active companies in multiple nations, as previous research on the Russia–Ukraine conflict has been restricted to assessing the behavior of key stock market indexes.

In the following article, the above findings were again echoed by [Aliu et al. \(2023\)](#) in the currency maintenance context. Maintaining consistency in currency exchange rates not only makes international commerce more accessible but also reduces the risk of investment portfolios and assures the efficiency of economic policy. The impact of Russia's conflict with Ukraine is investigated in this article through the lens of five different Euro exchange rates. The ultimate objective is to conduct research that objectively determines whether or not the devaluation of the euro was driven by the increase in the ruble's value after the Russian invasion of Ukraine. Euro to Russian ruble exchange rate, euro to US dollar conversion rate, euro to Japanese yen exchange rate, euro to British pound exchange rate, and euro to Chinese yuan exchange rate are the exchange rates evaluated. The findings from the impulse response function, variance decomposition, structural vector autoregression and vector error correction model all point to the fact that the EUR/RUB substantially impacted the euro's depreciation. On the other hand, this research has shown that the FX rates employed in the analysis retain cointegration over the long term. The scenario differs quickly when only the EUR/RUB, EUR/USD and EUR/CNY exchange rates hold essential links with other parties. The ruble is not considered one of the hard currencies, yet, its standing has improved throughout this period as a direct result of the significance of Russian gas to the Eurozone. The findings suggest that even relatively unimportant currencies may wield considerable power, given the appropriate geopolitical and economic circumstances.

Next, [Theiri et al. \(2023\)](#) expand our knowledge with a novel study on cryptocurrency liquidity. Using an event study approach, this research investigates the reaction of Bitcoin and Ethereum's liquidity markets to the conflict between Russia and Ukraine. More specifically, the study determines whether the war had a temporary or long-lasting impact on the liquidity of cryptocurrencies. From February 1, 2022, through March 31, 2022, an event analysis was performed on each hour's worth of transactions involving Bitcoin and Ethereum. To investigate both temporary and long-lasting impacts, the authors split the study period into two separate periods. The investigation of the transitory influence is carried out across a time frame that ranges from -20 to $+20$ days. Analyzing the impact of additional variables on the liquidity risk of BTC and ETH was accomplished by applying a linear regression model to a post-event period that lasted for a long time after the first occurrence. According to the results, the conflict between Russia and Ukraine has had a major, although temporary, influence on the liquidity of the Bitcoin and Ethereum markets. The first two days around the event day saw an increase in liquidity, which eventually decreased to the level it was before the event. On the other hand, the reaction of the liquidities of the cryptocurrencies Bitcoin and Ethereum to the Russian invasion of Ukraine is not unified.

Next, [Le et al. \(2023\)](#) analyze the news-based sentiment of the war in the financial market. Their study's objective is to investigate the market reaction of the aerospace and defense industry to the ongoing conflict between Ukraine and Russia by analyzing the sentiments expressed in war-related news articles published between October 2021 and June 2022. The research creates a new set of variables that indicates the news attitude towards war and conflict by using the news article database that is part of the Global Database of Events, Languages, and Tone (GDELT). The authors determine whether sentiment indicators help rationalize the evolution of the various stock markets before and after the conflict by

investigating newly created sentiment variables in conjunction with traditional event study methodology. According to the authors' findings, the conflict has significantly negatively influenced airlines, although it has benefited the market for military goods. In addition, the authors' research presents a new group of war-related news-based emotion factors. These variables play a vital role in explaining the development of the two markets before and after the conflict. The authors also show that the invasion has considerably affected the links between the new set of factors that this research is examining and the performance of the two markets.

This is echoed in the next study investigating how the Russian conflict with Ukraine has affected the day-to-day operations of four significant energy markets: diesel oil, Brent oil, light oil and natural gas (Aslam *et al.*, 2023). For this research, the authors apply a multifractal detrended fluctuation analysis, abbreviated as MFDFA, to high-frequency returns at 30-min intervals beginning October 21, 2021, and ending May 20, 2022. In addition, they use the magnitude of the extended memory index to analyze whether there was a herding behavior around the invasion. The findings suggest that multifractality is present in the energy markets and point to significant shifts in the multifractal strength due to the attack. This means a reduction in the intraday efficiency of the oil markets. Surprisingly, the natural gas market became more efficient following the invasion, even though it had been the least efficient before the attack. According to the results, investors in these energy markets exhibit a herding behavior. Investors may find success in developing successful investing strategies with the assistance of multifractal patterns, particularly the long memory feature of energy markets. In addition, the increased efficiency seen in the natural gas market following the invasion sheds light on the intricate and distinctive characteristics that lie under the surface.

Next, Mahran (2023) examines the Russia–Ukraine conflict and the Egyptian stock market volatility connection. The author scrutinizes volatility connectedness for ten Egyptian stock market sectors from February 1, 2019, to May 31, 2022, using the latest dynamic conditional correlation (DCC)-generalized autoregressive conditional heteroskedasticity approach. He provides evidence that Egyptian stock market sectors are related at different times. Egypt's sector dynamic connectivity averages 73.24% and 85.63% during the Russia–Ukraine War. He also shows that the transportation sector was the most significant net transmitter of instability in the other sectors during the Russia–Ukraine War (2022). His research helps policymakers understand stock market co-movements, fluctuations and volatility spillover during crises. Investors may also use the data to maximize earnings by diversifying their portfolio holdings.

To add more to this topic, Mattera and Soto (2023) examine how sustainable business strategies affect resilience and reputation. The financial performance of listed firms was assessed after the Ukraine War began on February 24, 2022. The authors use the triple bottom line (TBL) paradigm to examine the Spanish IBEX–35 firms and assess financial performance and business reputation using environment, social and corporate governance (ESG) initiatives to meet corporate social responsibility (CSR). The research considers stock price fluctuations and the impact of renewable and other power sources that reduce dependence on foreign events. The empirical results show that energy corporations that transitioned to renewables performed better during the Russian–Ukrainian War and relied less on unstable markets. The findings expand the TBL theory and create sustainable business strategies. ESG initiatives seem to help businesses increase resilience and the people–profit–planet balance. This improves their ability to weather crises and maintain financial performance and business image over time. Policymakers may also benefit from the results by creating policy that encourages and supports firms' CSR development through ESG strategies that make more sustainable organizations to assist the economy in times of adversity.

Russia and Ukraine are among the world's biggest producers and exporters of many food products. According to S&P Global Platts, these are the top two sunflower oil producers,

accounting for 60% of global production. According to JP Morgan, these countries also account for 28.9% of global wheat exports. The Russia–Ukraine conflict has disrupted the supply chains from these regions. Due to sanctions, Russian exports are restricted, and Ukraine’s ports are closed due to war. The conflict has already raised the wheat price on the Chicago future exchange to 14-year highs (Josephs, 2022). Many European countries rely on Russian oil and gas to heat homes, power factories and fill gas tanks. In just a few days, the conflict has further fueled worldwide inflation hiking the price of oil, natural gas and other staples. The possible destruction of some transport infrastructure (notable ports in Ukraine) and financial sanctions on Russian exports have compounded the existing supply chain issues due to COVID-19. Turkey’s decision to restrict transit through the Bosphorus and Ukraine’s decision to shut down commercial shipping means sea freight routes through the Black Sea will remain limited for an unknown period. This will directly affect grain shipments transiting Russian, Ukrainian, Romanian and Bulgarian ports.

Moreover, these restrictions will have consequences for the whole world, especially China, relying on land-based routes through Russia (en route to Europe) during the coronavirus pandemic. Before the pandemic, 35% of global freight was transported by air. The decision of EU countries to close their airspace to Russian aircraft and cargo has severely hampered Russia–Europe and Europe–Asia air ties. This conflict will equally affect land-based trade routes as transit through Russia has become extremely difficult (or impossible from a reputational, compliance or safety perspective). These discussions justified the need for this particular issue in the modern financial knowledge base.

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