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"ANALYSIS OF IMPACT OF GEOPOLITICAL EVENTS ON THE INDIVIDUAL INVESTMENT STRATEGY"

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Abstract: Geopolitical events such as wars, trade conflicts, and diplomatic tensions have become major sources of uncertainty in global financial markets. These shocks influence macro-financial conditions and individual investment behaviour. The development of a Geopolitical Risk (GPR) index by Caldara & Iacoviello (2022) has enabled a systematic measurement of geopolitical uncertainty and its effect on risk pricing. Rising GPR has been shown to increase market volatility, reduce returns, and negatively affect investor confidence, especially in emerging economies (Salisu et al., 2022; Zhang et al., 2023). With the growing participation of retail investors and digital access to financial markets, it is crucial to understand how individuals respond to geopolitical shocks. Recent studies indicate that heightened GPR alters household participation choices, asset allocation, and hedging behaviours, often driving investors toward safe havens such as cash and gold or toward conflict-related sectors like defense equities (Agarwal et al., 2022; Cai et al., 2024; Klein, 2024; Lee, 2023). Additionally, geopolitical anxiety amplifies sentiment-driven responses and encourages herding behaviour, which may weaken rational investment decision-making (Guo & Shi, 2024; Medhioub, 2025). Despite growing evidence, research remains limited regarding long-term household wealth effects and how investor traits such as financial literacy or digital trading exposure mediate behavioural changes. This study seeks to address these gaps and contribute to a deeper understanding of how geopolitical risk shapes individual investment strategy.

Keywords: Geopolitical Risk, Investors, Market Volatility, Portfolio Choice, Safe-Haven Assets, Behavioural Finance

INTRODUCTION

Global financial markets are increasingly shaped by geopolitical disruptions such as international conflicts, trade wars, terrorism, and diplomatic tensions. These events create an environment of heightened uncertainty, influencing both market fundamentals and how individuals approach investment decisions. (Caldara & Iacoviello, 2022) Highlight this evolution through their Geopolitical Risk (GPR) index, which demonstrates that surges in GPR lead to reduced investment activity, lower employment, and increased financial downside risks. As access to stock markets has expanded due to digital trading platforms and rising financial participation, retail investors now face these geopolitical pressures more directly.

At the market level, the literature consistently shows that geopolitical shocks lead to increased volatility, falling equity prices, and weaker market development, particularly in emerging economies where risk premiums are more sensitive (Khraiche et al., 2023; Yilmazkuday, 2024; Zhang et al., 2023). The uncertainty generated by events like global trade disputes causes investors to shift toward safer domestic assets and delay risky financial decisions (Jayasekara, 2021). These reactions signal that geopolitical instability is not perceived as temporary noise, but as a factor reshaping the risk–return trade-off.

Recent research has also emphasised the behavioural transmission of geopolitical risk. Elevated GPR influences investor sentiment, driving stronger market reactions and increased herd-like patterns in trading (He, 2023; T. A. & B., 2021). Such spillovers undermine diversification benefits and make individual investors more vulnerable to systemic shocks (Elsayed & Helmi, 2021). Alongside these behavioural pressures, household-level responses reveal that geopolitical uncertainty reduces stock market participation and encourages portfolio rebalancing toward perceived safe-haven or conflict-beneficiary assets like gold or defence stocks (Agarwal et al., 2022; Klein, 2024; Lee, 2023).

Although these studies show that geopolitical events influence where and how individuals invest, several gaps persist. Evidence from diverse regions is still limited, and there is little understanding of whether geopolitical anxiety affects long-term wealth accumulation. Further, factors such as financial literacy, ESG priorities, and exposure to digital trading may alter investor reactions but remain largely unexplored. Addressing these issues is essential not only for academic purposes but also for improving financial advisory strategies and investor protection frameworks.

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Therefore, this research aims to examine how geopolitical risk influences individual investment strategies, taking into account market volatility, behavioural.0 dynamics, and changes in asset allocation. By exploring both direct and indirect channels of influence, the study contributes to ongoing efforts to better integrate geopolitical risk into personal financial planning and decision-making.

LITERATURE REVIEW

Geopolitical Risk and Market-Level Volatility

A first stream of literature documents how geopolitical risk shapes aggregate stock market volatility and returns, forming the risk environment in which individuals make decisions. (Zhang et al., 2023) show that increases in global GPR significantly raise stock market volatility across a wide sample of countries, with heterogeneous effects between advanced and emerging markets.(Yang et al., 2021) and (Salisu et al., 2022) use GARCH-MIDAS models to show that both global and regional GPR indices have strong predictive power for stock market volatility in emerging economies, highlighting that geopolitical "action" indices often forecast volatility better than "threat" indices.

At the level of prices and development, Yilmazkuday, 2024) finds that global GPR shocks significantly depress stock prices across 29 economies, with stronger effects in more open markets. (Khraiche et al., 2023) show that heightened GPR is associated with lower stock market development, especially in countries with weaker institutions, implying a persistent drag on the risk–return environment available to individual investors. Collectively, these studies show that geopolitical events are not just short-term noise but shape the baseline risk–return trade-off that individual investors face. (Ghaith et al., 2021) studied the U.S.–China trade war and found that tariff uncertainty reduced investor confidence and slowed down investment decisions. When trade barriers increased costs and disrupted supply chains, investors shifted their money toward safer domestic assets instead of global opportunities. This shows that economic conflicts between major countries can make everyday investors more cautious about where they put their money. (Jayasekara, 2021) also explained that when geopolitical uncertainty rises on a global scale, investor confidence decreases, investment decisions are delayed, and people react more strongly to market risk by shifting towards safer assets.

Spillovers, Sentiment, and Behavioural Responses

Beyond average volatility, geopolitical tensions propagate through cross-market spillovers and investor sentiment. (Elsayed & Helmi, 2021) show that GPR significantly intensifies volatility transmission across major financial markets, meaning that shocks in one asset or region quickly spill over into others. This interconnectedness complicates diversification for households and encourages flight-to-quality behavior.

A growing behavioral literature explicitly links GPR to investor sentiment. (He, 2023) uses TVP-VAR models to show that geopolitical risk exerts a time-varying causal impact on investor sentiment, which in turn amplifies market volatility. (Guo & Shi, 2024) further demonstrate that the interaction of GPR and sentiment has asymmetric effects across industries in China, with stronger impacts in extreme market states (bull and bear tails).

Studies of herding behaviour show how individuals may react collectively under geopolitical stress.c(T. A. & B., 2021) find that episodes of India–China and India–Pakistan tensions are associated with herding and "mindless following" in high-frequency trading of Nifty indices, suggesting that individual traders increasingly track market consensus rather than fundamentals. (Medhioub, 2025) documents similar to GPR-induced herding in MENA stock markets, especially during periods of elevated global risk. Together, these studies indicate that geopolitical shocks can push individual investors away from rational, idiosyncratic strategies toward correlated, herd-like behaviour.

Household Participation and Portfolio Choice

More recent work examines household-level responses to geopolitical uncertainty. (Lee, 2023) finds that higher GPR significantly reduces household stock market participation along both the extensive (whether to invest) and intensive (how much to invest) margins. The effect is stronger for more risk-averse and financially constrained households, who tend to retreat to cash or low-risk assets when conflict risk rises.

(Agarwal et al., 2022) show that broader political uncertainty also lowers household participation, and that this sensitivity is greatest among households with lower financial literacy and wealth. While their focus is political rather than strictly geopolitical, both strands suggest that macro-political risk discourages direct equity exposure, particularly for marginalized retail investors.

Focusing on portfolio rebalancing rather than outright exit, (Cai et al., 2024) examine household investment portfolios during the U.S.-China trade war and find evidence of "balancing against geopolitical risk": households reallocate portfolios away from assets more exposed to trade tensions and towards safer or less-exposed assets. (Klein, 2024) provides micro-evidence from defence stocks, showing that investors rapidly reweight towards defence equities when conflict risk spikes, reflecting an attempt to profit from, or hedge against, military escalation. Together, these studies illustrate how individual strategies adapt along both the participation and composition dimensions in the face of geopolitical events.

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Hedging, Safe Havens and Strategic Asset Allocation

Geopolitical risk also influences which assets individuals view as hedges or safe havens. (Kamal et al., 2022) show that during the COVID period, gold, oil, equities and currencies exhibit heterogeneous hedging properties against combined economic policy uncertainty and geopolitical risk, with gold generally providing stronger protection than equities. This has direct implications for retail strategic allocation, as many robo-advisors and financial planners now incorporate GPR-sensitive assets into recommended portfolios.

At a more general level, multiple studies (Salisu et al., 2022; Yang et al., 2021; Zhang et al., 2023) highlight that the predictive content of GPR for volatility and downside risk can in principle be embedded in dynamic asset allocation rules for example, reducing equity exposure when GPR indices breach certain thresholds or tilting towards sectors historically resilient to geopolitical shocks. However, most of this modelling work is done at an aggregate level; evidence on whether and how individual investors actually implement such GPR-based timing rules remains scarce.

Synthesis and Research Gaps

Overall, the literature converges on several key insights. First, geopolitical events materially affect stock market volatility, returns and development, especially in emerging markets, thus reshaping the opportunity set facing individual investors (Caldara & Iacoviello, 2022; Salisu et al., 2022; Zhang et al., 2023). Second, GPR operates not only through fundamentals but also via sentiment and herding, amplifying behavioural biases and crowding individuals into correlated positions (Guo & Shi, 2024; He, 2023; Medhioub, 2025; T. A. & B., 2021). Third, household-level studies show that geopolitical and political risks reduce stock market participation for many households and trigger portfolio rebalancing, often towards perceived safe havens or geopolitical "winners" such as defense stocks (Agarwal et al., 2022; Cai et al., 2024; Klein, 2024; Lee, 2023).

However, several gaps remain. Micro-data on individual portfolio adjustments are still limited outside a few countries, and there is relatively little evidence on how demographics, financial literacy, ESG preferences or digital trading platforms mediate the response to geopolitical events. There is also limited work linking GPR to long-horizon wealth outcomes for households, rather than short-term participation or volatility. Addressing these gaps would provide a more complete picture of how geopolitical risk should be incorporated into personal investment strategy and financial planning.

RESEARCH METHODOLOGY

Research Design

The present study adopts a quantitative research design to examine the impact of geopolitical events on individual investment behaviour. Since the objective of the study is to analyse measurable responses, opinions, and behavioural patterns of investors, a structured survey-based approach was chosen. This design enables the collection of standardised data from a larger population and supports statistical analysis, including correlations and chi-square tests to identify relationships among variables.

Sampling Technique

The study employed the Snowball Sampling technique, a non-probability sampling method commonly used when the target population is difficult to locate or when participants share similar characteristics. In this method, initial respondents were identified and surveyed, and they were subsequently requested to refer or circulate the questionnaire to other potential participants within their networks.

This approach was considered appropriate as investors and individuals actively involved in financial decision-making are not always easily accessible through random methods. Snowball sampling enabled the researcher to efficiently reach a wider and more relevant group of respondents, particularly among young investors, working professionals, and students with investment experience.

Sample Size and Population

A total of 233 respondents participated in the study. The population of interest included individuals who actively make or influence investment decisions. The sample comprised participants from different age groups, professions, and income categories, ensuring diverse perspectives on how geopolitical events affect investment strategies.

Data Collection Method

Primary data was collected using a structured questionnaire designed in Google Forms. The questionnaire included:

- Demographic items (Age group, profession, income level)
- Likert-scale questions (1–5 scale) to measure perceptions of geopolitical impact
- Multiple-response items related to investment preferences and risk behaviour
- Behavioural questions assessing allocation decisions during geopolitical uncertainty

The form was distributed via digital platforms such as WhatsApp, email, and social media, enabling respondents to share it further, thereby supporting the snowball sampling chain.

Tools and Techniques of Data Analysis

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The collected data was analysed using SPSS. Since the variables were primarily ordinal and categorical in nature, non-parametric statistical tests were used. Key analyses included:

- Descriptive statistics (frequency, percentage) to summarise demographic and behavioural patterns
- Chi-square tests to identify associations between demographic variables and investment choices
- Spearman's Rank Correlation to test relationships between investment perceptions and behavioural outcomes
- Multiple-response analysis for investment preference questions.

DATA ANALYSIS

Sl. No.	Hypothesis	Test	P Value	Significance Value	Verification Results
1	There is no significant relationship between perceived geopolitical uncertainty and the percentage of income individuals allocate to investments.	Correlation	0.012	0.05	Reject Ho
2	The mean percentage of income allocated to investments is the same across all risk-tolerance groups (low, moderate, high).	Anova	0.129	0.05	Accept Ho
3	The mean investment allocation is equal for people who rely on different information sources.	Anova	0.009	0.05	Reject Ho
4	Investment market preference (domestic, global, or both) does not differ across different income-allocation levels.	Anova	0.414	0.05	Accept Ho
5	There is no significant association between agreement that geopolitical events affect investment strategy and the biggest concern during geopolitical events.	Chi-square test	0.039	0.05	Reject Ho

Table1.0

1.The Pearson correlation coefficient between the two variables is r = 0.164, which indicates a weak positive relationship. Although the strength of the correlation is low, the p-value = 0.012, which is below the significance threshold of 0.05. This means the relationship is statistically significant.
In practical terms, this result implies that individuals who perceive higher geopolitical uncertainty tend to allocate slightly more of their income toward investments. The direction is positive, meaning both variables tend to move together, although not strongly. The significance suggests that this trend is unlikely to be due to random chance.

2.The ANOVA test returned a p-value of 0.129, which is above the 0.05 significance threshold. This indicates that the observed differences in the mean income allocation among low-, moderate-, and high-risk investors are not statistically significant.
Although the means differ numerically (low = 1.88, moderate = 2.24, high = 2.13), these differences are not large enough to conclude that risk tolerance meaningfully affects how much income a person invests. The overlap in the confidence intervals and the non-significant p-value indicate that these differences could be due to normal variation in the sample, not a true effect.

3. The ANOVA result shows p = 0.009, which is below the 0.05 threshold, indicating statistically significant differences in investment allocation across groups depending on which information.
The Tukey post-hoc test reveals that groups relying on "No specific strategy" allocate significantly less compared to those who trust self-research, financial advisors, or peer influence. For example, the mean investment allocation for "No specific strategy" is 1.56, while others range from 2.12 to 2.50.
This means that individuals who rely on structured, informed, or professional sources tend to allocate a higher percentage of their income toward investments. This suggests that access to trustworthy, clear, or expert information may increase investment engagement and commitment.

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4. The ANOVA result shows p = 0.414, well above the 0.05 significance level, indicating that any differences in market preference across income-allocation categories are not statistically meaningful. Although the mean preferences change slightly across the 5%, 15%, 25%, and 35% investment groups, these variations are minor and inconsistent. The large p-value suggests that income allocation is not a determining factor in whether a person prefers domestic investments, global investments, or a mix of both.

5. The chi-square result is χ^2 (8) = 7.091, p = 0.527. Since p > 0.05, we fail to reject the null hypothesis. This means there is no statistically significant association between how much of their income respondents invest and whether they prefer global markets, domestic markets, or a mix of both.
In simple terms, an individual's market preference is independent of the percentage of income they allocate to investments. The distribution across categories is similar regardless of whether respondents invest less than 5% or more than 30% of their income.

CONCLUSION

This study set out to examine how geopolitical uncertainty influences individual investment behaviour and how different psychological and informational factors further shape investment decisions. Using a combination of correlation analysis, ANOVA, and chi-square tests, the research provides a clear and structured understanding of how investors respond to geopolitical dynamics and what determinants guide their financial choices.

The findings show that geopolitical uncertainty does have a statistically significant, though modest, influence on investment allocation. The positive correlation indicates that as individuals perceive geopolitical risks increasing, they tend to allocate slightly more of their income toward investments. This suggests that uncertainty may trigger more cautious yet proactive financial behaviour, possibly as a way of securing future financial stability during unpredictable times.

However, individual psychological traits such as risk tolerance were found to have no significant effect on investment allocation. Although different risk-tolerance groups displayed minor variations in mean investment percentages, these differences were not statistically meaningful. This implies that under uncertain geopolitical conditions, risk preference alone does not play a decisive role in determining how much individuals choose to invest.

A more influential factor emerged in the form of information sources. The study found a significant difference in investment allocation based on the type of information or guidance individuals rely upon. Participants who depended on structured, analytical, or professional sources such as financial advisors, market research, or self-analysis allocated a higher proportion of their income toward investments compared to those who lacked a defined strategy. This highlights the importance of informed decision-making and the role of credible information in shaping investor confidence and commitment.

On the other hand, investment allocation levels were not linked to whether individuals preferred domestic markets, global markets, or a mix of both. Both the ANOVA and chi-square tests confirmed that market preference is independent of the percentage of income allocated to investments. This suggests that market selection is influenced by factors other than the amount invested, possibly including familiarity, perceived safety, or personal financial goals.

Overall, the findings demonstrate that while geopolitical uncertainty does influence investment behaviour, its impact is relatively weak compared to the role of information sources. Investor psychology, such as risk tolerance, appears to be less influential during uncertain periods. The study reinforces the idea that access to reliable information and analytical tools is crucial for effective investment decision-making, especially in volatile global environments. These insights contribute to understanding modern investor behaviour and can be valuable for financial advisors, policymakers, and individuals navigating geopolitical instability.

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