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Geopolitical Shock and Sectoral-Market Responses: Evidence from Emerging ASEAN Markets

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ABSTRACT

This study examines whether the 2026 U.S.-Israeli military escalation against Iran generated heterogeneous stock-market responses across sectors and countries in emerging ASEAN markets. Using daily data for Indonesia, Malaysia, Thailand, and the Philippines from 2 December 2025 to 2 June 2026, the analysis constructs a country-sector panel based on three harmonized sector proxies: Commodity, Financial, and Real Economy. The market event date is set at 2 March 2026, the first ASEAN trading day after the 28 February 2026 escalation, with 26 February-2 March 2026 defined as the event/anticipation window and 3 March-2 June 2026 as the post-event period. The empirical model estimates panel regressions with country and sector fixed effects, controlling for domestic market returns, exchange-rate depreciation, Brent crude oil returns, MSCI Emerging Markets returns, and changes in the CBOE Volatility Index. The baseline results show that sectoral returns declined significantly during the post-event period, but the immediate event-window effect is not statistically significant. However, interaction tests provide no robust evidence that the shock produced statistically different responses across Commodity, Financial, and Real Economy sectors, or across the four ASEAN countries. Instead, domestic market returns and MSCI Emerging Markets returns consistently explain sectoral return variation, suggesting that the event was absorbed mainly through broad market and emerging-market spillover channels rather than through sharply differentiated sectoral or country-specific channels. The findings qualify the sectoral-heterogeneity argument in geopolitical-risk research by showing that theoretically plausible transmission channels may remain empirically muted when common regional and global market factors dominate overall.

Keywords: geopolitical risk, geopolitical shock, sectoral return, ASEAN stock markets, emerging markets.

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INTRODUCTION

Geopolitical conflict has become an increasingly important source of macro-financial uncertainty. Military escalation, diplomatic breakdown, sanctions risk, disruption to energy supply, and heightened investor fear can jointly alter expectations about corporate cash flows, discount rates, and cross-border capital allocation (Agoraki et al., 2022; Khatib et al., 2025; NguyenHuu & Örsal, 2024). For emerging

markets, these shocks are especially relevant because domestic financial conditions are often influenced not only by local fundamentals but also by global risk appetite, commodity prices, exchange rates, and international portfolio flows (Horvath & Yang, 2024; Sungurtekin Hallam, 2022).

Prior studies show that geopolitical risk and uncertainty matter for financial markets. Caldara and Iacoviello (2022) show that higher geopolitical risk is associated with weaker economic activity and deteriorating financial conditions. Pástor and Veronesi (2013) and Wei (2024) also argue that global uncertainty contributes to stock market volatility and changes in risk premia. However, the effect of such shocks may not be uniform. Kilian and Park (2009) demonstrate that oil price shocks can affect industries differently, while Pástor and Veronesi (2013) show that political uncertainty influences asset valuation depending on the degree of risk exposure. These studies suggest that geopolitical shocks may generate heterogeneous responses across sectors and countries.

This issue is particularly relevant for emerging ASEAN markets. Indonesia, Malaysia, Thailand, and the Philippines are open economies with strong links to global financial markets, but they differ in commodity dependence, industrial structure, exchange rate exposure, and domestic demand composition. These differences may lead to sectoral and cross-country variation in market responses. At the same time, ASEAN markets may also be influenced by common emerging market factors and regional spillovers, which could make their responses more synchronized than heterogeneous (Wu, 2019). Existing studies on ASEAN markets remain mixed. Setiawan (2020) finds that the U.S.–China trade war generated short-term abnormal returns in ASEAN markets, whereas Anwer and Ahmad (2025) report weak and insignificant links between geopolitical risk and ASEAN5 stock indices. This suggests that the effect of geopolitical risk may depend on the type of event, the transmission channel, and the market context.

This study examines the stock-market response of four emerging ASEAN markets—Indonesia, Malaysia, Thailand, and the Philippines—to the 2026 U.S.-Israeli military escalation against Iran. The event is treated as an exogenous geopolitical shock because it originated outside the sampled economies but had the potential to affect them through global oil prices, investor risk sentiment, and emerging-market spillovers. Reuters reported that the United States and Israel launched strikes against Iran on 28 February 2026, producing a major escalation in Middle Eastern geopolitical risk (Stewart et al., 2026). Since 28 February 2026 fell on a Saturday, the market event date for ASEAN stock-market analysis is set at 2 March 2026, the first trading day after the escalation.

The study contributes to the literature in two ways. First, it moves beyond aggregate market indices by examining sectoral proxy returns. Many event studies focus on broad market reactions, but aggregate indices can conceal meaningful differences across sectors. In the context of geopolitical risk, such differences are theoretically plausible: commodity-related sectors may respond to energy-price shocks, financial sectors may react to risk sentiment and capital-flow changes, and real-economy sectors may reflect demand-side and cost-side adjustments. Second, this study explicitly examines cross-country heterogeneity within ASEAN. Although the four markets share emerging-market characteristics, they differ in market structure, currency dynamics, commodity exposure, and investor base.

The empirical findings are nuanced. The baseline specification indicates a significant negative post-event effect on sectoral returns. However, once sector and country heterogeneity are formally tested through interaction terms, the results do not provide robust evidence that the shock affected Commodity, Financial, and Real Economy sectors differently, nor that Indonesia, Malaysia, Thailand, and the Philippines reacted differently from one another. Instead, domestic market returns and MSCI Emerging Markets returns consistently explain sectoral return variation. These results suggest that the shock was absorbed primarily as a common market factor rather than as a sharply differentiated sector- or country-specific shock.

Literature Review

The effect of geopolitical risk on financial markets can be situated within three related strands of literature: asset pricing under uncertainty, geopolitical risk transmission, and international financial spillovers. In standard asset-pricing theory, stock returns are partly driven by systematic risk. The Capital Asset Pricing Model and the single-index model imply that the market portfolio captures the common systematic component of returns. However, subsequent asset-pricing literature shows that market return alone is often insufficient to explain return variation. Ross's Arbitrage Pricing Theory allows expected returns to be influenced by multiple systematic risk factors rather than a single market factor, while Fama and French (1992) show that stock and bond returns are affected by several common risk factors beyond the aggregate market portfolio. This multi-factor perspective is useful for the present study because geopolitical shocks may affect sectoral returns not only through domestic market movements, but also through oil prices, exchange rates, global equity conditions, and investor risk sentiment.

Geopolitical risk is increasingly recognized as a measurable macro-financial shock. Caldara and Iacoviello (2022) develop a news-based Geopolitical Risk Index and show that geopolitical risk shocks are associated with persistent declines in investment, employment, and stock prices. Their framework is important because it treats geopolitical risk not simply as a qualitative political event, but as a source of economic uncertainty that can be linked empirically to asset prices and real activity. Earlier versions of their work also show that heightened geopolitical risk is associated with lower stock returns and capital-flow movements away from emerging economies toward advanced economies. This is particularly relevant for ASEAN emerging markets, where external shocks may be transmitted through global portfolio rebalancing and changes in investor risk appetite.

One major channel through which geopolitical risk may affect stock markets is the risk-sentiment channel. Political and geopolitical uncertainty can increase discount rates, risk premia, and expected volatility. Pástor and Veronesi (2013) argue that political uncertainty raises risk premia and affects stock valuation, especially when economic conditions are weak. Baker, Bloom and Davis (2016) similarly show that economic policy uncertainty rises during episodes of political conflict, war, and financial instability, suggesting that uncertainty shocks can influence investment and financial-market behavior. Ding, Mazouz and Wang (2021) further show that the Volatility Index (VIX) is closely related to both expected stock-market volatility and risk aversion, making it useful as an indicator of market-wide risk sentiment. In this study, changes in the CBOE Volatility Index are therefore used as a proxy for global risk sentiment. Although VIX is not a direct measure of geopolitical risk, it captures changes in expected volatility and investor fear that may accompany geopolitical escalation.

A second channel is the commodity channel. Geopolitical conflicts, especially those involving the Middle East or major military powers, can affect oil prices through concerns about supply disruptions, transportation risk, or precautionary demand. Kilian and Park (2009) show that oil-price shocks have heterogeneous effects across industries and that the market response depends on the underlying source of the oil-price movement. This insight is directly relevant to the sectoral dimension of the present study. Commodity-related sectors may benefit from higher oil and resource prices, while energy-intensive sectors may face higher production costs. For ASEAN markets, this mechanism is important because the sampled countries differ in their commodity exposure and industrial composition. Brent crude oil return is therefore included to control for global oil-price movements around the event.

A third transmission mechanism is the global financial spillover channel. Rey (2015) and Miranda-Agrippino and Rey (2020) argues that global financial cycles transmit shocks internationally through capital flows, leverage, asset prices, and liquidity conditions, especially in financially open economies. This implies that domestic financial conditions in emerging markets may be shaped by global risk appetite even when domestic fundamentals are relatively stable. In ASEAN, Caporale, Gil-Alana and You (2022) show that stock markets in ASEAN countries are linked with major global markets, including the United States and China. This literature supports the inclusion of MSCI Emerging Markets return as

a proxy for broader emerging-market spillover. If geopolitical shocks are transmitted mainly through common global or regional market factors, ASEAN markets may respond in a relatively synchronized manner rather than through sharply differentiated country-level effects.

The sectoral dimension is central because aggregate market indices may hide heterogeneous responses across industries. Theoretically, commodity sectors should be more exposed to oil and resource-price movements; financial sectors should be more sensitive to capital flows, exchange-rate movements, liquidity, and risk sentiment; while real-economy sectors should be more closely tied to domestic demand and production costs. This logic is also consistent with the broader multi-factor asset-pricing view: different sectors may have different exposures to common macro-financial factors. By classifying sectoral proxies into Commodity, Financial, and Real Economy groups, the present study examines whether geopolitical shocks produce sector-specific responses or whether the effect is absorbed as a general market-wide shock.

The cross-country dimension is equally important. Indonesia, Malaysia, Thailand, and the Philippines share the broad features of emerging ASEAN markets, but they differ in economic structure, commodity dependence, exchange-rate dynamics, market depth, and integration with global investors. Almansour *et al.* (2015) show that emerging markets can be vulnerable to external shocks, although the degree of vulnerability varies depending on country-specific characteristics. This suggests that the same geopolitical event may generate different market responses across countries. At the same time, if ASEAN markets are strongly influenced by common emerging-market sentiment, cross-country differences may be muted. Thus, whether geopolitical shocks generate country heterogeneity is ultimately an empirical question rather than a theoretical certainty.

Empirical findings on ASEAN market responses to geopolitical and external risk remain mixed. Setiawan (2020) finds that the U.S.–China trade war generated short-run abnormal returns in ASEAN stock markets, indicating that geopolitical-economic events can affect regional equity markets. By contrast, Anwer and Ahmad (2025) report that geopolitical risk does not significantly affect ASEAN5 conventional and Islamic-compliant indices and find relatively weak dynamic connectedness between geopolitical risk and ASEAN equity markets. This mixed evidence suggests that the effect of geopolitical risk depends on the nature of the event, the transmission channel, and the market segment being examined. A trade-war shock may affect ASEAN markets through supply chains and trade exposure, while a military conflict may be transmitted more through risk sentiment, commodity prices, or global portfolio rebalancing.

This study builds on these theoretical and empirical debates by examining whether the U.S.–Israel–Iran geopolitical shock generated heterogeneous responses across sectors and countries in ASEAN emerging markets. Rather than assuming that geopolitical risk has a uniform effect, the study tests sectoral heterogeneity through the interaction between event-period dummies and sector groups, and cross-country heterogeneity through the interaction between event-period dummies and country dummies. The model controls for domestic market return, exchange-rate movements, Brent crude oil return, MSCI Emerging Markets return, and VIX changes. This specification allows the study to distinguish between three possibilities: first, the event may generate sector-specific responses through commodity or risk-sentiment exposure; second, it may generate country-specific responses due to differences in national market structure; or third, it may be absorbed primarily as a common emerging-market or market-wide shock. The empirical results are therefore interpreted not only as a test of whether geopolitical risk matters, but also as a test of how and through which channel such risk is transmitted to ASEAN equity markets.

Methods

Data and sample construction

The study uses daily observations from 2 December 2025 to 2 June 2026. The sample covers four emerging ASEAN stock markets: Indonesia, Malaysia, Thailand, and the Philippines (Table 1). For each

country, the dataset contains one broad market index, three sector proxy indices, an exchange-rate series, and global control variables. The three harmonized sector groups are Commodity, Financial, and Real Economy. This parsimonious classification is used because sector definitions differ across national exchanges, and forcing all local sectors into a detailed common taxonomy would introduce unnecessary comparability problems.

Table 1. Data Proxies for Comparables Countries

Countries	Main Indices	Commodity	Financial	Real Economy	Exchange Rate
Indonesia	Jakarta Composite/IHSG	Indonesia SE Energy	IDX Finance	Indonesia SE Consumer Non-Cyclicals	IDR/USD
Malaysia	FTSE Malaysia KLCI	KL Energy	KL Finance	KL Consumer Product	MYR/USD
Thailand	SET Index	SET Resources	SET Financials	SET Consumer Products	THB/USD
Filipina	PSEi Composite	PHS Mining and Oil	PHS Banks and Financial	PHS Industrial	PHP/USD

The event date in Table 2 is defined as 2 March 2026, the first trading day in the sampled ASEAN markets after the 28 February 2026 U.S.-Israeli escalation against Iran. The event/anticipation window covers 26 February to 2 March 2026, while the post-event period covers 3 March to 2 June 2026. The pre-event period is the baseline period. The log returns are used for all variables, except VIX, which is used as a first difference. Exchange-rate movements are expressed as depreciation against the U.S. dollar, so that a positive value indicates local-currency weakening. The final regression sample contains 1,401 observations after listwise deletion of missing values.

Table 2. Sample Design and Variables

Items	Description
Countries	Indonesia, Malaysia, Thailand, and the Philippines
Sector groups	Commodity, Financial, and Real Economy
Panel units	12 country-sector units
Observation period	2 December 2025 to 2 June 2026
Event/anticipation window	26 February 2026 to 2 March 2026
Post-event period	3 March 2026 to 2 June 2026
Regression observations	1,401 after listwise deletion
Dependent variable	Daily sectoral proxy return

Empirical Model

We extend the post-event panel specification by distinguishing the immediate event/anticipation window from the post-event period and by using three harmonized sector groups. The baseline category is the pre-event period, Indonesia, and the Real Economy sector. The final specification is:

$$
\begin{aligned}
R_{c,s,t} = {} & \alpha + \beta_1 D_t^E + \beta_2 D_t^P \\
& + \beta_3 (D_t^E \times D_s^{Com}) + \beta_4 (D_t^E \times D_s^{Fin}) \\
& + \beta_5 (D_t^P \times D_s^{Com}) + \beta_6 (D_t^P \times D_s^{Fin}) \\
& + \theta_1 (D_t^E \times D_c^{MY}) + \theta_2 (D_t^E \times D_c^{TH}) + \theta_3 (D_t^E \times D_c^{PH}) \\
& + \theta_4 (D_t^P \times D_c^{MY}) + \theta_5 (D_t^P \times D_c^{TH}) + \theta_6 (D_t^P \times D_c^{PH}) \\
& + \gamma_1 MarketReturn_{c,t} + \gamma_2 FXReturn_{c,t} + \gamma_3 BrentReturn_t \\
& + \gamma_4 MSCIEMReturn_t + \gamma_5 VIXChange_t + \mu_c + \lambda_s + \varepsilon_{c,s,t}
\end{aligned}
$$

In the model, $R_{c,s,t}$ denotes the daily return of sector group $s$in country $c$at time t. D_t^E is a dummy variable equal to one during the event/anticipation window, while D_t^P is a dummy variable equal to one during the post-event period. D_s^{Com} and D_s^{Fin} identify the Commodity and Financial sectors, respectively, with the Real Economy sector serving as the reference category. D_c^{MY}, D_c^{TH}, and D_c^{PH} identify Malaysia, Thailand, and the Philippines, respectively, with Indonesia serving as the reference country.

The interaction terms between D_t^E or D_t^P and the sector dummies capture sectoral heterogeneity during the event and post-event periods, while the interaction terms between D_t^E or $D_t^P$and the country dummies capture cross-country heterogeneity. The control variables consist of $MarketReturn_{c,t}$, $FXReturn_{c,t}$, $BrentReturn_t$, $MSCIEMReturn_t$, and $VIXChange_t$, which capture domestic market movements, exchange-rate depreciation, Brent crude oil returns, MSCI Emerging Markets returns, and changes in the VIX, respectively. Country fixed effects $\mu_c$and sector fixed effects $\lambda_s$are included to control for time-invariant country and sector characteristics, while $\varepsilon_{c,s,t}$denotes the error term. Robust standard errors are used throughout the analysis.

Results

Table 3 shows that the average sectoral return over the full sample is close to zero, but returns vary considerably across periods. During the event/anticipation window, the average sectoral return is negative, while Brent returns and VIX changes rise sharply, indicating a period of heightened commodity-price and risk-sentiment pressure. The post-event period also records a negative average sectoral return. At the sector level, Commodity has the highest return volatility, while Real Economy has the lowest. Across countries, Indonesia records the lowest average sectoral return in the sample, whereas the Philippines records the highest average sectoral return.

Table 3. Daily Return at Pre-, Event, and Post-Event

Period	N sector-return	Sector return mean	Sector return SD	Market return mean	Brent return mean	MSCI EM return mean	VIX change mean
Pre	672	0.0018	0.0139	0.0014	0.0027	0.0028	0.0259
Event	36	-0.0078	0.0145	-0.0106	0.0309	-0.0060	1.170
Post	705	-0.0014	0.0156	-0.0012	0.0044	0.0022	-0.1376

Note. Returns are daily log returns. VIX change is a first difference.

Table 4. Sector-and Country-based Return

Sector Return					
Sector group	**N**	**Mean**	**SD**	**Min**	**Max**
Commodity	471	0.0004	0.0208	-0.1463	0.0664
Financial	471	-0.0002	0.0114	-0.0489	0.0414
Real_Economy	471	-0.0004	0.0102	-0.0422	0.0307
Country Returns					
Country	**N**	**Mean**	**SD**	**Min**	**Max**
Indonesia	336	-0.0020	0.0181	-0.0942	0.0578
Malaysia	366	-0.0000	0.0094	-0.0322	0.0319
Philippines	354	0.0004	0.0194	-0.1463	0.0664
Thailand	357	0.0013	0.0100	-0.0495	0.0326

Note. Sector groups are harmonized proxy categories.

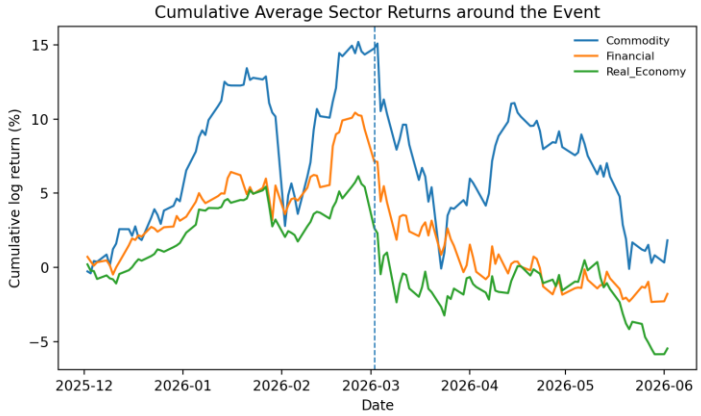


Figure 1. Cumulative sectoral returns by sector

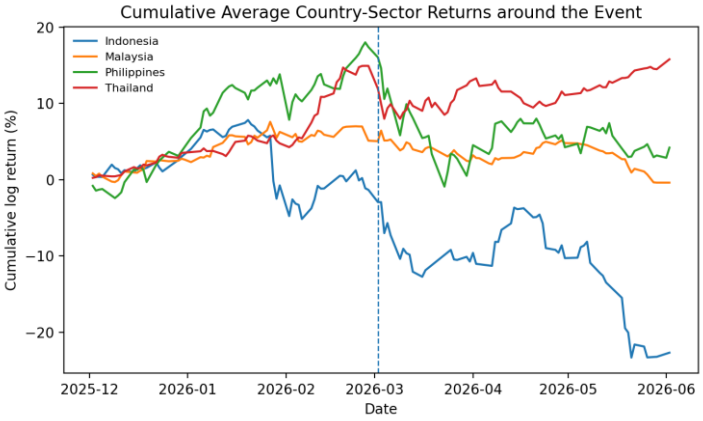


Figure 2. Cumulative sectoral returns by country

Baseline Regression Results

The baseline fixed-effects model indicates that the event-window coefficient is negative but statistically insignificant. By contrast, the post-event coefficient is negative and statistically significant at the 5 percent level. This suggests that the market did not produce a strong immediate reaction during the narrow event/anticipation window, but sectoral returns were weaker during the subsequent post-event period. Among the controls, domestic market returns are strongly positive and highly significant, while MSCI Emerging Markets returns are also positive and significant. Brent returns are positive and marginally significant, whereas exchange-rate depreciation and VIX changes are not statistically significant in the baseline model.

Table 5. Baseline regression with country and sector fixed effects

Variable	Coefficient	Robust SE	t-stat	p-value
Event window	-0.0013	0.0021	-0.6089	0.543
Post-event	-0.0014	0.0007	-2.092	0.036**
Domestic market return	0.7128	0.0435	16.384	<0.001***
FX depreciation return	0.0937	0.0834	1.123	0.261
Brent return	0.0248	0.0133	1.865	0.062*
MSCI EM return	0.0953	0.0418	2.279	0.023**
VIX change	0.0001	0.0002	0.5139	0.607

*Note. Robust standard errors are HC3. ***, **, and * denote significance at 1%, 5%, and 10%, respectively.*

Sector and Country Heterogeneity

The final combined model formally tests whether the event generated different responses across sector groups and countries. The interaction coefficients between the event window and Commodity or Financial sectors are not statistically significant. Similarly, the post-event interactions with Commodity and Financial sectors are not significant. Thus, although the baseline model shows weaker post-event sectoral returns, the decline cannot be attributed to a statistically distinguishable effect on Commodity or Financial sectors relative to the Real Economy sector.

The country interaction terms also do not provide evidence of statistically significant cross-country heterogeneity. Malaysia, Thailand, and the Philippines do not differ significantly from Indonesia during either the event window or the post-event period. The joint Wald tests reinforce this interpretation: sector heterogeneity during the event window, sector heterogeneity in the post-event period, country heterogeneity during the event window, and country heterogeneity in the post-event period are all statistically insignificant.

Table 6. Key Coefficients of Final Combined Model

Variable	Coefficient	Robust SE	t-stat	p-value
Event window	-0.0052	0.0051	-1.030	0.303
Event x Commodity	0.0084	0.0064	1.312	0.190
Event x Financial	0.0008	0.0031	0.2503	0.802
Event x Malaysia	0.0016	0.0075	0.2181	0.827
Event x Thailand	-0.0008	0.0063	-0.1200	0.904
Event x Philippines	0.0026	0.0061	0.4218	0.673
Post-event	0.0002	0.0014	0.1710	0.864
Post x Commodity	-0.0024	0.0018	-1.364	0.173
Post x Financial	-0.0006	0.0010	-0.5680	0.570
Post x Malaysia	-0.0004	0.0016	-0.2775	0.781
Post x Thailand	0.0002	0.0016	0.0918	0.927
Post x Philippines	-0.0021	0.0022	-0.9619	0.336
Domestic market return	0.7118	0.0442	16.087	<0.001***
FX depreciation return	0.0946	0.0840	1.127	0.260
Brent return	0.0247	0.0134	1.842	0.065*
MSCI EM return	0.0957	0.0420	2.281	0.023**
VIX change	0.0001	0.0002	0.5394	0.590

*Note. Reference categories are Real Economy, Indonesia, and the pre-event period. Robust standard errors are HC3.***, **, and * denote significance at 1%, 5%, and 10%, respectively.*

Table 7. Joint Wald tests for heterogeneity

Test	F-statistic	df	p-value
Sector heterogeneity during event window	1.751	2	0.417
Sector heterogeneity in post-event period	1.898	2	0.387
Country heterogeneity during event window	0.5392	3	0.910
Country heterogeneity in post-event period	1.397	3	0.706

Note. The null hypothesis is that the relevant interaction coefficients are jointly equal to zero.

Robustness Checks

Robustness checks were conducted to examine whether the main findings are sensitive to model specification. First, the control-variable set was varied by estimating alternative models that sequentially

included domestic market return, exchange-rate depreciation, Brent crude oil return, MSCI Emerging Markets return, and changes in the VIX. Second, an additional specification was estimated by excluding domestic market return to assess whether the results were driven mainly by common domestic market movements. The results are summarized in Table 8.

Table 8. Robustness Stability Summary Based on Alternative Control Specifications

Term	Models	Mean coefficient	Minimum	Maximum	p<0.10 count	p<0.05 count
Event window	5	-0.0064	-0.0115	-0.0051	1	0
Post-event	5	-0.0002	-0.0027	0.0005	0	0
event_x_commodity	5	0.0084	0.0084	0.0084	0	0
event_x_financial	5	0.0008	0.0008	0.0008	0	0
post_x_commodity	5	-0.0024	-0.0024	-0.0024	0	0
post_x_financial	5	-0.0006	-0.0006	-0.0006	0	0
event_x_malaysia	5	0.0019	0.0016	0.0029	0	0
event_x_thailand	5	-0.0010	-0.0024	-0.0005	0	0
event_x_philippines	5	0.0027	0.0025	0.0028	0	0
post_x_malaysia	5	-0.0001	-0.0007	0.0019	0	0
post_x_thailand	5	0.0005	-0.0001	0.0024	0	0
post_x_philippines	5	-0.0020	-0.0023	-0.0012	0	0

Note. Counts refer to the number of robustness specifications in which a term is statistically significant.

Overall, the robustness results based on alternative control specifications support the main findings. The interaction terms between the event variables and sector dummies remain statistically insignificant across the tested specifications. This indicates that there is no robust evidence that the geopolitical shock generated significantly different responses between the Commodity, Financial, and Real Economy sectors. Similarly, the interaction terms between the event variables and country dummies are not statistically significant across the robustness models, suggesting that the response did not differ systematically across Indonesia, Malaysia, Thailand, and the Philippines.

The results also show that excluding domestic market return substantially reduces the explanatory power of the model. This finding indicates that sectoral proxy returns in the sampled ASEAN markets are strongly driven by common domestic market movements. Therefore, domestic market return is an important control variable in this study, as it helps separate general market co-movement from sector- or country-specific responses to the geopolitical event.

In addition to the control-specification checks reported in Table 8, the analysis also tested the sensitivity of the results to alternative definitions of the event window. The baseline specification defines the event window as $t-2$to $t0$, while the alternative specifications use narrower and wider windows, including $t-1$to $t0$, $t-2$to $t+1$, and $t0$only. The results from these alternative event-window definitions are broadly consistent with the main conclusion. Most sectoral and cross-country interaction terms remain statistically insignificant. The only weak exception appears for the interaction between the event window and the Commodity sector, which becomes marginally significant at the 10 percent level in some alternative window specifications, but not at the 5 percent level. This suggests that any commodity-sector-specific response is weak and sensitive to how the event window is defined. Therefore, it should be interpreted cautiously and should not be treated as robust evidence of sectoral heterogeneity.

Taken together, the robustness checks indicate that the main conclusion is stable. The geopolitical shock does not produce strong evidence of statistically robust sectoral or cross-country heterogeneity in the sampled ASEAN markets. The evidence instead suggests that the shock was transmitted more through common market-wide or emerging-market channels than through sharply differentiated sector- or country-specific effects.

Discussion

The results qualify the theoretical expectation that geopolitical shocks should generate differentiated sectoral responses. Conceptually, the Commodity sector should be more exposed to oil-price movements, the Financial sector should be more sensitive to capital-flow and risk-sentiment pressures, and the Real Economy sector should reflect domestic demand and production conditions. This logic is consistent with Kilian and Park (2009), who demonstrate that oil-related shocks can affect industries differently. In this study, however, the interactions between event-period dummies and sector groups are not significant. This indicates that the 2026 geopolitical shock was not translated into a persistent and statistically distinct sectoral pattern across the three proxy groups.

One interpretation is that the event was processed by ASEAN investors as a broad market shock rather than a sector-specific shock. This interpretation is supported by the strong significance of domestic market returns. In a single-index or CAPM-style framework, broad market returns summarize a large portion of systematic risk (Fama & French, 1992). Although the present study adopts a richer multi-factor setting, the results show that domestic market movements remain the dominant proximate explanation of sectoral returns. The significance of MSCI Emerging Markets returns further suggests that emerging-market spillover was more important than finely differentiated sectoral exposure.

The absence of strong cross-country heterogeneity is also informative. Indonesia, Malaysia, Thailand, and the Philippines have different market structures and macroeconomic characteristics, so country-specific responses were theoretically plausible. Yet the joint tests show that Malaysia, Thailand, and the Philippines did not react significantly differently from Indonesia. This finding is consistent with the view that emerging ASEAN markets may share common exposure to regional and global investor sentiment (Wu, 2019). It also resonates with Anwer and Ahmad (2025), who find weak evidence that geopolitical risk significantly affects ASEAN5 equity indices.

The findings do not imply that geopolitical risk is irrelevant. Rather, they show that the empirical form of geopolitical-risk transmission is event-specific. A trade war, for instance, may affect ASEAN markets through supply chains and export expectations, which may explain why Setiawan (2020) finds short-run abnormal returns around the U.S.-China trade war. By contrast, the U.S.-Israeli escalation against Iran appears to have affected the sampled ASEAN markets primarily through common market and emerging-market channels. The theoretically relevant commodity, risk-sentiment, and spillover mechanisms are therefore not rejected, but their relative importance appears to depend on the nature of the event, the observation window, and the degree to which investors perceive the shock as sector- or country-specific.

Conclusion and Recommendations

This study investigates the response of emerging ASEAN sectoral stock returns to the 2026 U.S.-Israeli escalation against Iran. Using daily country-sector panel data for Indonesia, Malaysia, Thailand, and the Philippines, the analysis tests whether the shock produced different responses across Commodity, Financial, and Real Economy sectors and across countries. The results show a significant negative post-event effect in the baseline model, but the heterogeneity tests do not provide robust evidence of statistically different sectoral or country responses.

The main empirical message is that the geopolitical shock was absorbed more as a common market factor than as a sharply differentiated sectoral or country-specific shock. Domestic market returns and MSCI Emerging Markets returns consistently explain sectoral return variation, while VIX changes and exchange-rate depreciation are not dominant in the final specification. For investors, the findings suggest that during this event, broad market and emerging-market risk exposure mattered more than simple sector rotation across the three proxy groups. For policymakers, the results imply that external geopolitical shocks can affect regional markets even when the transmission is not visibly concentrated in particular sectors or countries.

The study has limitations. The use of one proxy sector for each harmonized category simplifies cross-country comparability but may hide intra-sector variation. The event window also captures a specific geopolitical episode and may not generalize to all forms of geopolitical risk. Future research could extend the analysis by using firm-level data, longer event sequences, alternative geopolitical-risk measures, and additional ASEAN markets.

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