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**Geopolitical Effect: Investor Sentiment And Stock Returns
Admist Israeli-Palestinian Conflict**

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Abstract: The Israeli–Palestinian conflict represents a major geopolitical event that can trigger uncertainty and volatility in global financial markets. This study investigates the impact of the conflict on investor sentiment and stock returns by comparing the stability of sharia and conventional stock markets in five Southeast Asian countries (Indonesia, Malaysia, Singapore, Thailand, and the Philippines). Using an event study approach with a 101-day event window surrounding October 7, 2023, this study examines abnormal returns before and after the conflict escalation. The findings reveal that conventional stock markets exhibit more frequent significant abnormal returns, indicating higher sensitivity to geopolitical shocks, whereas sharia stock markets demonstrate greater stability with fewer significant reactions. Furthermore, while no significant difference in abnormal returns is found in conventional markets before and after the event, sharia markets show a significant difference, suggesting a more controlled but responsive reaction to new information. These results extend the risk-as-feelings theory by showing that emotional responses to geopolitical uncertainty are more contained within sharia-compliant investment frameworks. The study contributes to the literature by providing comparative evidence from Southeast Asia and offers practical insights for investors seeking more resilient investment strategies during periods of geopolitical instability.

Keywords: Geopolitical Conflict, Investor Sentiment, Stock Return, Sharia Stocks, Southeast Asia

Introduction

Globalization has intensified the interconnection of economic systems, making global financial markets increasingly sensitive to external shocks such as pandemics, wars, terrorism, and international conflicts (Altemur et al., 2024; Can Ergün, 2024). Among

these, the Israeli–Palestinian conflict represents a prolonged geopolitical event whose implications extend beyond political and humanitarian dimensions to significantly influence global economic stability and financial market dynamics (Appiah-Otoo, 2023; Bianchi, 2023; Pereira et al., 2022; Tosun & Eshraghi, 2022). Escalating geopolitical tensions are known to affect key macroeconomic indicators, including inflation, exchange rates, and industrial performance, while also shaping investor sentiment and expectations (Boubaker et al., 2022, 2023; Boungou & Yatić, 2022). In such conditions, investors tend to shift their portfolios toward safer assets, leading to declining stock prices and reduced returns.

From a behavioral finance perspective, investor decisions are not always driven by rational evaluation but are often influenced by emotions and psychological factors. Previous studies show that emotional reactions can dominate individual reasoning and significantly affect investment behavior, even when economic fundamentals remain unchanged (Bialkowski et al., 2012; Dowling & Lucey, 2005; Edmans et al., 2007; Hirshleifer & Shumway, 2003; Kamstra et al., 2000). Individuals in positive emotional states tend to make more optimistic judgments, whereas negative emotions such as fear and anxiety may lead to more conservative and risk-averse decisions (Wright & Bower, 1992). In the context of geopolitical conflict, these emotional responses are amplified, creating negative investor sentiment and increasing market volatility.

Empirical evidence suggests that geopolitical conflicts trigger significant reactions in financial markets. For instance, Wolfers & Zitzewitz (2009) found that escalating conflicts lead investors to sell risky assets and reallocate funds toward safer investments. Similarly, Schneider & Troeger (2006) documented that rising geopolitical tensions contribute to declining stock prices across markets. This behavior is consistent with the “flight to safety” phenomenon, where investors respond to uncertainty by reallocating capital to less risky assets (Baur & Lucey, 2010). However, while the general impact of geopolitical conflicts on financial markets is well documented, the extent and nature of these effects may vary across different types of financial instruments and market structures.

A growing body of literature has applied event study methodologies to examine market reactions to geopolitical events, particularly in the context of the Russia–Ukraine conflict and other international tensions (Boubaker et al., 2023; Das et al., 2023; Martins et al., 2023; Tee et al., 2023; Yousaf et al., 2022; Boubaker et al., 2022; Heilmann, 2016). However, limited attention has been given to the Israeli–Palestinian conflict, especially in the context of Southeast Asian financial markets. More importantly, prior studies largely focus on conventional stock markets, with relatively little emphasis on comparative analysis between conventional and sharia-compliant stock markets. This represents a critical research gap, given that sharia stock markets are governed by distinct investment principles that may influence their resilience to external shocks.

In this regard, this study aims to examine the impact of the Israeli–Palestinian conflict on investor sentiment and stock returns by comparing conventional and sharia stock markets in five Southeast Asian countries: Indonesia, Malaysia, Singapore, Thailand, and the Philippines. Using an event study approach (Zussman et al., 2008), this research investigates abnormal returns around the conflict period and evaluates whether there are significant differences before and after the event. Specifically, this study tests two hypotheses: (1) the presence of significant abnormal returns around the event date, and (2) differences in abnormal returns before and after the conflict.

This study contributes to the literature in several ways. First, it extends existing research on geopolitical risk by focusing on the relatively underexplored Israeli–Palestinian conflict in the Southeast Asian context. Second, it provides a comparative perspective between conventional and sharia stock markets, offering new insights into how different financial systems respond to geopolitical uncertainty. Third, it enriches the behavioral finance literature, particularly the risk-as-feelings framework, by examining how emotional responses to geopolitical events are reflected differently across market types.

Practically, the findings of this study offer important implications for investors, policymakers, and financial regulators. For investors, the results provide insights into portfolio strategies under geopolitical uncertainty, particularly in choosing between conventional and sharia-compliant assets. For policymakers and regulators in Southeast Asia, the findings can support the development of policies aimed at maintaining market stability and mitigating the impact of external shocks.

The remainder of this paper is structured as follows. Section 2 reviews the relevant literature and theoretical framework. Section 3 describes the data, methodology, and research design. Section 4 presents the empirical findings and discussion. Finally, Section 5 concludes the study and provides policy recommendations.

Literature Review

Risk as Feeling Theory

This study is grounded in the *risk-as-feelings theory* developed by Loewenstein et al. (2001), which emphasizes the role of emotions in decision-making under conditions of risk and uncertainty. Contrary to traditional finance theories that assume rational and cognitive evaluation, this framework argues that individuals often rely on affective responses when making decisions. Importantly, cognitive assessments and emotional reactions may diverge, and in many cases, emotions dominate behavioral outcomes.

Empirical evidence supports this perspective, indicating that affective states significantly influence judgment and decision-making processes (Angie et al., 2011). In financial contexts, this implies that investors do not always respond to information in a purely rational manner; instead, their decisions are shaped by emotional reactions such as fear, anxiety, or optimism. These emotional responses become particularly salient during periods of heightened uncertainty, such as geopolitical conflicts. Therefore, the *risk-as-feelings theory* provides a relevant theoretical foundation for explaining how external shocks, including the Israeli–Palestinian conflict, can influence investor sentiment and ultimately affect stock market behavior.

Geopolitical Conflict and Investor Sentiments

A growing body of literature highlights the significant role of geopolitical conflicts in shaping investor sentiment and financial market dynamics. Geopolitical risk increases uncertainty and disrupts economic stability, leading investors to reassess risk exposure and adjust their investment strategies (Qonita et al., 2022; Heilmann, 2016). Empirical studies consistently show that geopolitical events, including wars and international tensions, tend

to generate negative sentiment and reduce investor confidence (Nippani & Arize, 2005; Airlangga PH et al., 2024; Beyer & Fan, 2023).

However, prior studies also suggest that the magnitude and persistence of these effects may vary depending on the nature of the conflict and market characteristics. For example, Umar et al. (2022) demonstrate that geopolitical shocks such as the Russia–Ukraine conflict affect both short- and long-term volatility and returns, indicating that investor reactions are not only immediate but can also persist over time. Similarly, Suleman (2012) finds that investors tend to shift from high-risk assets to safer alternatives during periods of geopolitical instability, reflecting a behavioral adjustment driven by heightened risk perception.

While these studies provide strong evidence of the link between geopolitical conflict and investor sentiment, they predominantly focus on conventional financial markets. Moreover, limited attention has been given to how specific conflicts—such as the Israeli–Palestinian conflict—affect investor behavior across different regions and financial systems. This gap is particularly relevant given that ongoing conflicts can also influence broader economic behavior, including changes in consumption patterns, as seen in boycott movements associated with the Israeli–Palestinian conflict. Such dynamics further amplify uncertainty and contribute to increased volatility in stock markets (Altemur et al., 2024; Can Ergün, 2024; Zussman et al., 2008).

Investor Sentiment and Stock Returns

Investor sentiment plays a crucial role in determining stock price movements and returns. It reflects investors' beliefs, emotions, and expectations regarding future cash flows and risks (Irwaningtyas et al., 2023). Behavioral finance literature suggests that investors often rely on sentiment-driven information rather than purely fundamental analysis when making decisions (Munir et al., 2024). As a result, market prices may deviate from their intrinsic values, leading to mispricing and abnormal returns (Bangun et al., 2020).

Empirical studies consistently confirm the relationship between investor sentiment and stock returns. Baker & Wurgler (2006) show that sentiment is a significant predictor of future stock returns, where optimistic sentiment tends to drive prices upward, while pessimistic sentiment exerts downward pressure (Ary, 2019). Further evidence by Irwaningtyas et al. (2023) demonstrates that positive sentiment leads to abnormal positive returns, whereas negative sentiment results in abnormal negative returns. Similarly, Sayim & Rahman (2015) find a significant relationship between investor sentiment and abnormal returns, reinforcing the argument that sentiment-driven behavior can cause deviations from fundamental values.

An abnormal return, defined as the difference between actual and expected returns (Edmans et al., 2007), thus becomes an appropriate indicator to capture market reactions influenced by sentiment. However, while the sentiment–return relationship is well established, existing studies rarely explore how this relationship behaves under different market structures, particularly between conventional and sharia-compliant stock markets.

Impact of Geopolitical Conflict on Investor Sentiments and Abnormal Returns

Integrating the above strands of literature suggests a clear mechanism through which geopolitical conflicts affect financial markets. Geopolitical shocks increase uncertainty, which triggers negative investor sentiment and leads to behavioral responses such as risk aversion and portfolio reallocation (Hidayat, 2018; Tee et al., 2023). These changes in sentiment are subsequently reflected in stock price movements and abnormal returns.

Specifically, pessimistic sentiment induced by geopolitical conflict tends to drive stock prices downward, resulting in abnormal negative returns, whereas improved sentiment can lead to price recovery and abnormal positive returns (Bangun et al., 2020; Irwaningtyas et al., 2023; Can Ergün, 2024). Given its prolonged and highly sensitive nature, the Israeli–Palestinian conflict represents a significant source of geopolitical risk that can amplify uncertainty and provoke strong emotional reactions among investors (Zussman et al., 2008).

Despite this theoretical linkage, empirical evidence remains limited, particularly in the context of Southeast Asian markets and comparative analysis between conventional and sharia stocks. Sharia-compliant investments, which are guided by specific ethical and financial principles, may exhibit different levels of sensitivity to market shocks compared to conventional assets. However, this potential difference has not been sufficiently explored in the existing literature.

Therefore, this study addresses this gap by examining how the Israeli–Palestinian conflict influences investor sentiment and abnormal returns, while explicitly comparing the responses of conventional and sharia stock markets. Based on the theoretical and empirical arguments presented, this study proposes the following hypotheses:

H1: There are significant abnormal returns around the event of the Israeli–Palestinian conflict.

H2: There are significant differences in abnormal returns before and after the conflict event.

Methods

This study employs the event study methodology to examine market reactions to geopolitical events, particularly the Israeli–Palestinian conflict. Event studies are widely used statistical approaches to analyze the relationship between security returns and specific economic or political events that may affect market behavior (Dyckman et al., 1984). In this context, the escalation of the Israeli–Palestinian conflict on October 7, 2023 is treated as the event date, as it marked a significant turning point that attracted global attention and potentially influenced investor sentiment.

The event study approach is considered appropriate for capturing short-term market reactions to new information (Budiarto & Murtanto, 2002; de Jong et al., 1992). Following standard procedures, this study measures market reactions through abnormal returns and evaluates their statistical significance (Armitage, 1995). The event window used in this study spans 101 trading days, consisting of 50 days before the event ($T-50$ to $T-1$), the event day ($T0$), and 50 days after the event ($T+1$ to $T+50$). This window is selected to

capture both pre-event anticipation effects and post-event adjustment processes in the market.

The population of this study consists of stock markets in Southeast Asia. A purposive sampling technique is applied with the criterion that each selected country must have both conventional and sharia-compliant stock indices. Based on this criterion, five countries are included in the sample: the Philippines, Indonesia, Malaysia, Singapore, and Thailand.

The conventional stock indices used to represent each country are the PSE (Philippines), IHSG (Indonesia), KLCI (Malaysia), STI (Singapore), and SET (Thailand). Meanwhile, the sharia stock indices include MSCI Philippines Islamic Index, ISSI (Indonesia), FTSE Bursa Malaysia Hijrah Shariah Index, FTSE SGX Shariah Index (Singapore), and FTSE SET Shariah Index (Thailand). This dual classification allows for a comparative analysis between conventional and sharia-compliant markets in response to geopolitical shocks.

The data used in this study are daily closing prices obtained from Yahoo Finance. These data are used to calculate actual returns, expected returns, and abnormal returns for each index during the event window.

This study uses a market model to measure abnormal returns. The first step is to calculate the daily return on the company's stock price. The daily return ($R_{i,t}$) for each stock in the sample is calculated using the following formula (Minenna, 2003):

$$R_{i,t} = \ln \times P_{i,t} / P_{i,t-1} \quad (1)$$

Description:

$R_{i,t}$ = the daily return;

$P_{i,t}$ = closing price at day t ;

$P_{i,t-1}$ = closing price at day $t-1$.

The next step is to calculate the abnormal returns of the companies. The capital asset model (CAPM) introduces an expected return, consisting of a risk-free rate plus a beta multiplied by the expected value of the difference between the market return and the risk-free return. The expected return reflects the systematic risk of a particular company. However, due to non-systematic risk factors, stocks can show abnormal returns at any time (Benninga & Mofkadi, 2014). The equation below shows an abnormal return on profit measurement using a market model.

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{mt}) \quad (2)$$

Description:

$AR_{i,t}$ = abnormal return;

$R_{i,t}$ = daily stock returns;

R_{mt} = daily market index returns;

α_i = Intercept of firm and market returns in estimation window;

β_i = Slope of firm and market returns in estimation window.

After calculating the AR, the next step is to calculate the average abnormal return for the days observed. The average abnormal return (AAR_t) of the daily cross data for a particular day of the event, t, is calculated based on the following formula (Manzoor, 2015):

$$AAR_t = 1/N \sum_{t=1}^m AR_{it} \quad (3)$$

Description:

AAR_t = average abnormal return;

AR_{i,t} = abnormal return.

After obtaining and verifying the abnormal return data, the next phase involves data analysis using the software utility SPSS Statistics 25, which begins with a normality test using the Shapiro-Wilk test to determine if the data is distributed normally. If the results of the normality test indicate that the data is normally distributed, the next step involves conducting a significance test for abnormal returns using a one-sample t-test as well as conducting separate tests for abnormal returns before and after conflicts using a paired sample t-test. However, if the results of the normalization test indicate that the data is not distributed normally, then in the signalization of an abnormal return, another alternative is used, namely, one sample Wilcoxon signed-test rank (Alexander & Kadafi, 2018).

Findings

The following table presents descriptive statistics of the overall abnormal return test in each country on the conventional stock market:

Table 1. Descriptive Statistics of the Conventional Stock Index of Each Country

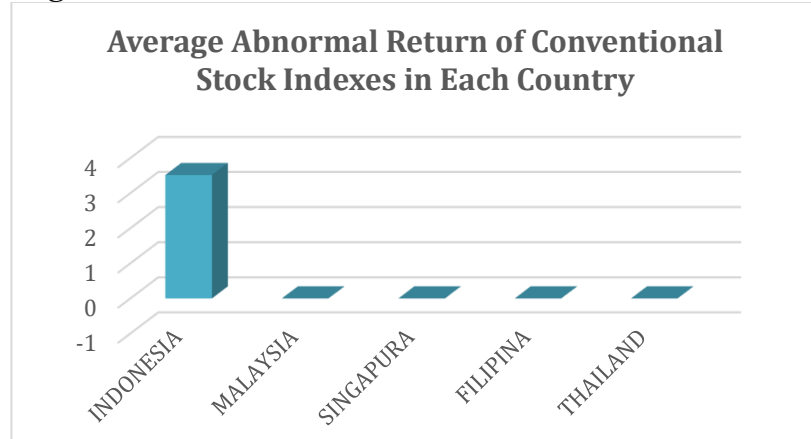
No.	Country	Conventional Stock Index	Mean	Median	Min	Max	Standar Dev.	Variance
1	Indonesia	IHSG	3,5150	3,5150	3,5150	3,5150	0,0000	0,00E+00
2	Malaysia	KLCI	-0,0001	-0,0004	-0,0113	0,0123	0,0040	1,64E-05
3	Singapura	STI	-0,0005	-0,0007	-0,0145	0,0197	0,0064	4,1E-05
4	Filipina	PSE	-0,0001	-0,0008	-0,0479	0,0547	0,0165	0,000273
5	Thailand	SET	-0,0002	0,0007	-0,0211	0,0215	0,0076	5,78E-05

Source: Data Results, 2024

The descriptive statistical tests on conventional stock indices in five Southeast Asian countries showed significant variations in each index's performance. In Indonesia, the IHSG index has the same mean, median, minimum, and maximum values of 3,51504, with a default and zero variance. This indicates that the data for Indonesia does not show variability, which may be due to limited or unchanged data. In Malaysia, the KLCI index shows an average (mean) negative return of -0,00017 and a median of -00,00046. The recorded minimum return is -0,01135, and the maximum is 0,012352, with a default margin of 0,004046188 and a variance of 1,64E-05, indicating relatively moderate return variability. Singapore's STI index recorded an average negative return of -0,00059 and a median of -00,00073. The recorded minimum value is -0,01459, and the maximum is 0,019762, with a gross depreciation of 0,006402276 and a variance of 4.1E-05, indicating a fairly significant return fluctuation. The Philippines, with the PSE index, has a small negative average return of -0,00014 and a median of -00,00082. The minimum return is -0,0479 and the maximum is 0,054776, with the highest gross deficit among the five countries being 0,016508449 and

a variance of 0,000273, indicating very high variability in the return. Finally, in Thailand, the SET index recorded an average negative return of -0,00021 and a median of 0,000702. The minimum value is -0,02116 and the maximum is 0.021598, with a default resonance of 0.007602932 and a variance of 5.78E-05, indicating moderate return fluctuations.

Figure 1. **Average Abnormal Return of Conventional Stock Indexes in Each Country**



These data show that the Israeli-Palestinian conflict has a different impact on the conventional stock index in Southeast Asia. While Indonesia showed stable data with no variability, other countries such as Malaysia, Singapore, the Philippines, and Thailand showed negative returns with varying rates of variability. The Philippines experienced the highest fluctuations, followed by Singapore, Thailand, and Malaysia, showing that the conventional stock markets in each country responded to conflict in different ways. The table that follows shows descriptive statistical data from abnormal return tests conducted on the conventional stock markets across the nation of Southeast Asia prior to and following the Israeli-Palestinian conflict.

Table 2. **Descriptive Statistics on Abnormal Average Values of Return Before and After Conflict**

	Range	Min	Max	Mean		Std. Dev	Variance
				Statistic	Std. Error		
AARSBLM	3,5157	-0,0007	3,5150	0,7028	0,7030	1,5720	2,471
AARSSDH	76,5014	-0,0014	76,5000	15,2997	15,3000	34,2119	1170,458

Source: Data Results, 2024

Descriptive statistical results associated with abnormal return tests on conventional stock markets before and after the Israeli-Palestinian conflict show significant changes. Prior to the conflict, the abnormal average return (AARSBLM) was 0.70282703, with a default contrast of 0.703053333 and a variance of 1.572075045. The range is 3,515795, with a minimum value of -0,000755 and a maximum value of 3,515040. This suggests that the return has fairly large variability but is still within a relatively moderate range. After the conflict, the abnormal average return (AARSSDH) increased drastically to 15,29979136, with a default margin of 15,300052164 and a very high variance of 34,211956698. The range also increased significantly to 76,501435, with a minimum value of -0,001435 and an extremely large maximum of 76,500000. This increase suggests a significant fluctuation in post-conflict returns. These data indicate that the Israeli-Palestinian conflict has a very

significant impact on the conventional stock market, with sharp increases in average returns and post-conflict variability. The very wide range of post-conflict values indicates extreme movements in the market, reflecting uncertainty and increased volatility.

Based on the normality test using the Shapiro-Wilk test, the result was that all data on conventional stocks were not distributed normally. Therefore, for further testing, use one sample Wilcoxon signed-rank test (Puspita et al., 2022). We conducted this test to test hypothesis 1, which pertains to the significance of abnormal returns. Here is an abnormal return in this study period that shows a significant abnormal return value, while the remainder that is not shown here is data that has a non-significant abnormal return:

Table 3. Results of Test Significance of Abnormal Return on Conventional Stock Indices

No.	Data	Sig. (two-tailed)	Description
1	TMIN48	0,043	AR sign.
2	TMIN46	0,043	AR sign.
3	TMIN39	0,043	AR sign.
4	TMIN22	0,043	AR sign.
5	TMIN21	0,043	AR sign.
6	TPLS1	0,043	AR sign.
7	TPLS4	0,043	AR sign.
8	TPLS21	0,043	AR sign.
9	TPLS22	0,043	AR sign.
10	TPLS24	0,043	AR sign.
11	TPLS32	0,043	AR sign.
12	TPLS42	0,043	AR sign.
13	TPLS46	0,043	AR sign.

Source: Data Results, 2024

On the results of the above data processing, the sig. (two-tailed) value is 0.043 (< 0.05), which means that some days recorded in the table above have significant abnormal returns, or it can be concluded that out of 101 total event window start periods of 101 days, there are 13 days that have significant abnormal returns. This finding, when compared to a sharia stock index that only exists for 6 days with significant abnormal returns, is evidence that sharia stocks tend to be more stable than conventional stocks.

The results suggest that conventional stock markets tend to be more reactive to certain events, but these reactions do not necessarily lead to significant changes in all stocks (Barberis et al., 1998).. Because this Israeli-Palestinian conflict is a previously occurring intersection, investors may have predicted the impact and made portfolio adjustments earlier, so there is no significant reaction when a conflict occurs. Differences in risk reactions among investors also influence market reactions, where some investors may consider conflict to be a predetermined risk (Airlangga PH et al., 2024).

According to the risk as feeling theory, a person's feelings and emotions about something often influence their decisions, especially when those decisions involve risk and uncertainty (Loewenstein et al., 2001). According to the study's findings, investors' emotions and feelings are not strong enough to produce a significant reaction to abnormal stock returns.

It can be caused by a variety of factors, such as previously considered information, confidence in economic stability, or the presence of other more dominant factors affecting the stock market (Bangun et al., 2020). Therefore, these results are not entirely consistent with the theory of risk as feelings that indicate emotional reactions. In the context of conventional stock markets, rational factors may be more dominant than emotional responses to geopolitical conflicts.

Because the data used is not distributed normally, to test hypothesis 2, an abnormal difference return test before and after the occurrence of an event, use a paired sample Wilcoxon signed-rank test (Alexander & Kadafi, 2018). Here's the test result:

Table 4. Paired Samples of Wilcoxon Signed-Rank Test Results

Test Statistics ^a	
	AARSSDH - AARSBLM
Z	-.674 ^b
Asymp. Sig. (2-tailed)	0,500
a. Wilcoxon Signed Ranks Test	
b. Based on negative ranks.	

Source: Data Results, 2024

Based on the table above, the sig. (two-tailed) value is 0,500 ($> 0,05$) which means H1 is rejected or H0 is accepted. We can conclude from the test results that there is no significant difference in the abnormal return before and after the Israeli-Palestinian conflict. This suggests that although there is a market reaction to such an occurrence, this reaction is not strong enough or consistent to produce a significant change in the abnormal return overall. In other words, even though stock prices fluctuate on certain days around the event, these fluctuations do not cause any significant difference when viewed in the context of a longer period of time between before and after the conflict occurred (Hidayat, 2018; Sitompul & Danarti, 2022).

Furthermore, the absence of abnormal returns before and after the Israeli-Palestinian conflict may be due to the fact that news related to the Israel-Palestinian conflict did not appear suddenly but expanded over time. (Malkiel, 2003). Investors may already have previous information or insights, so they may have made adjustments to their portfolios before the conflict occurred. Furthermore, another supposed reason behind this outcome is that investors may be paying more attention to global macroeconomic conditions, monetary policy, and other risk factors than focusing on one particular event, in this case the Israeli-Palestinian conflict (Hassounch et al., 2018).. The results also explain that not all geopolitical conflicts have a major impact on the stock market (Schierreck et al., 1999). The conventional stock market does not perceive the Israeli-Palestinian conflict as a major threat to global economic stability, and therefore, it does not elicit a significant reaction in the stock market.

The absence of abnormal return differences before and after the Israeli-Palestinian conflict also suggests that the volatility of the share return in the conventional markets existed before the conflict occurred, so that conflict only prolonged the conditions of such volatility tersebut (Munir et al., 2024). Conventional stock markets do not show stability even after the conflict, indicating that other factors may have made the stock market

unstable before. The Israeli-Palestinian conflict is just one of many factors affecting the stability of the market.

The results of this study are in line with studies conducted by Alexander & Kadafi (2018) Komang Diantriasih et al. (2018) dan Sitompul & Danarti (2022), which show that there is no difference between an abnormal return before and after the occurrence of a particular event. When we talk about the theory of risk in terms of feelings, it makes sense that the test of hypothesis 2 showed that while emotions and feelings can affect people's decisions in times of conflict, they may not have a big effect on how the market acts overall (Loewenstein et al., 2001). However, once the market fully absorbs new information and the initial emotions subside, the market may no longer rely solely on emotional reactions, and stock prices will once again reflect more rational judgments.

The following table presents descriptive statistics of the overall abnormal return test in each country on the sharia stock market:

Table 5. Descriptive Statistics of Sharia Stock Indices for Each Country

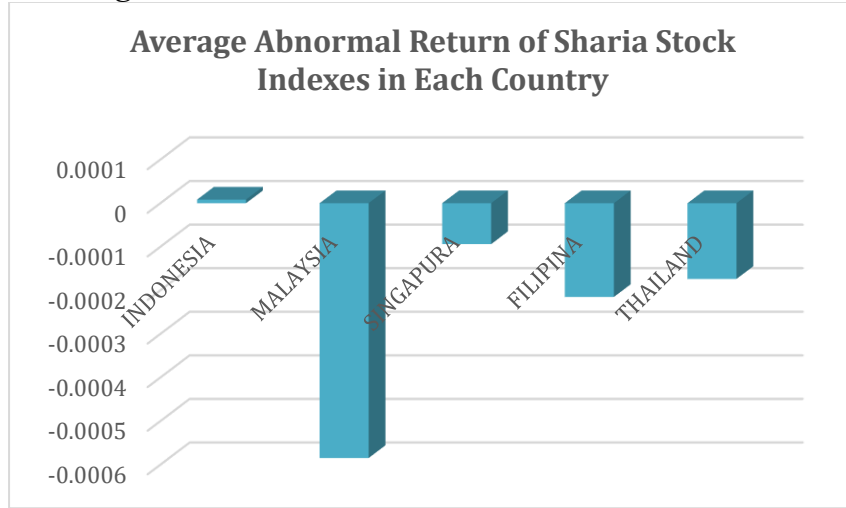
No.	Country	Sharia Stock Index	Mean	Median	Min	Max	Standar Dev.	Variance
1	Indonesia	ISSI	8,28812E-06	0,0012	-0,0189	0,0119	0,0064	4,16776E-05
2	Malaysia	FTSE	-0,000584645	-0,0010	-0,0103	0,0112	0,0039	1,58732E-05
3	Singapura	FTSE SGX Sharia	-9,37088E-05	0,0001	-0,0243	0,0314	0,0096	9,39801E-05
4	Filipina	MSCI	-0,000215127	0,0004	-0,0239	0,0265	0,0095	9,18887E-05
5	Thailand	FTSE SET Sharia	-0,000173712	0,0004	-0,0201	0,0187	0,0072	5,31165E-05

Source: Data Results, 2024

The results of descriptive statistical tests related to sharia stock indices in five Southeast Asian countries before and after the Israeli-Palestinian conflict revealed interesting variations in each index's performance. In Indonesia, the ISSI index recorded an average (mean) abnormal return of 8,28812E-06, with a median of 0,001246, a minimum value of -0,01895, and a maximum of 0,011987. The default deviation is 0.006456, and the variance is 4.16776E-05, indicating moderate return fluctuations. In Malaysia, the FTSE index shows an average negative return of -0,000584645 and a median -0,001. The recorded minimum value is -0,01032 and the maximum is 0,01129, with a default contrast of 0,003984 and a variance of 1,58732E-05, indicating relatively low variability compared to other countries. Singapore, with the FTSE SGX Sharia index, has a small negative average return of -9,37088E-05 and a median of 0,000143. The minimum return is -0,0243 and the maximum is 0,031479, with the highest default between the five countries being 0,009694 and a variance of 9,39801E-05, indicating a fairly high return fluctuation. The Philippines, through the MSCI index, recorded an average negative return of -0,000215127 and a median of 0,000464. The minimum value is -0,02399, and the maximum is 0,026533, with a raw depreciation of 0,009586 and a variance of 9,18887E-05, indicating high return variability. Finally, in Thailand, the FTSE SET Sharia index recorded an average negative return of -0,000173712 with a median of 0,000419. The minimum value was -0,02018, and

the maximum was 0,018702, with a gross margin of 0,007288 and a variance of 5,31165E-05, indicating moderate fluctuations.

Figure 2. Average Abnormal Return of Sharia Stock Indexes in Each Country



The data indicate that the Israeli-Palestinian conflict has a varied impact on the sharia stock index in Southeast Asia, with some countries such as Malaysia and Singapore showing negative returns, while Indonesia has positive average returns. The return fluctuations also vary, with Singapore and the Philippines experiencing high variability while Malaysia shows better stability.

Next, here is a table that presents descriptive statistics of the overall abnormal return test before and after the Israeli-Palestinian conflict on the Sharia stock market.

Table 6. Descriptive Statistics on Abnormal Average Values of Return Before and After Conflict

Descriptive Statistics							
	Range	Min	Max	Mean		Std. Dev	Variance
				Statistic	Std. Error		
AARSBLM	0,0017	-0,0014	0,0003	-0,0008	0,0003	0,00072	0,000
AARSSDH	0,0004	0,0004	0,0009	0,0006	0,00009	0,00020	0,000

Source: Data Results, 2024

The results indicate a significant change. Before the conflict, the abnormal average return was negative (-0,00087451); this value indicates a declining trend of return. Furthermore, the return fluctuations are higher, with a range of 0.001792, a default value of 0,000323476, and a variance of 0,000723314. This indicates a significant variability in the performance of the sharia stock market during this period. The minimum value achieved is -0,001471, and the maximum is 0,000322. After the conflict, the abnormal average return turned positive (0,00061676), indicating an increase in the sharia stock market return. The return fluctuations became lower with a range of only 0,000487, a raw deficit of 0.000091845, and a variance of 0,000205372, indicating better stability in market returns. The recorded minimum values are 0,000413 and a maximum of 0,000900, both positive, reflecting better and more stable market performance.

The normality test revealed that the majority of the data on sharia shares followed a normal distribution, with only a small portion being non-normally distributed. Therefore, we perform one sample t-test for normal-distributed data to test hypothesis 1, which is an abnormal return significance test, and a Wilcoxon signed-rank test for non-normal-distributable data to determine the significance of the abnormal return.

Table 7. Abnormal Return Significance Test Results on the Sharia Stock Indeks

No.	Data	Sig. (two-tailed)	Description
1	TMIN23	0,021	AR sign.
2	TMIN13	0,012	AR sign.
3	TPLS9	0,017	AR sign.
4	TPLS12	0,050	AR sign.
5	TPLS44	0,048	AR sign.
6	TPLS45	0,026	AR sign.

Source: Data Results, 2024

The data revealed that there were only six significant abnormal returns, most of which showed insignificant results. This result may be attributed to investors' perception of the Israeli-Palestinian conflict as a premeditated or irrelevant risk to their portfolios (Handayani et al., 2020). Investors may also be inclined to diversify their portfolios to reduce risk. This diversification minimizes the impact of geopolitical events on the entire portfolio (Elton & Gruber, 1997). At least the significant amount of abnormal returns compared to conventional stock markets suggests that sharia stocks tend to be more stable and not too reactive to the onset of the Israeli-Palestinian conflict (Munir et al., 2024).

Referring to the theory of risk as feeling, it is understandable that the emotions and feelings of sharia stock investors may not have much impact compared to the conventional stock market. This could be due to a variety of factors, such as the existence of sharia-based investment principles that tend to avoid speculation and emphasize more stable long-term investments (Hidayat, 2018; Munir et al., 2024). This principle helps reduce market volatility and the short-term emotional response to conflict. In other words, the results of the hypothesis 1 test on sharia stocks show that emotional reactions to risk and uncertainty are more controlled, as well as reflecting investment principles that are more focused on long-term stability and sustainability.

The normal distribution of the average abnormal return data before and after the conflict necessitates additional testing. We employed a paired sample t-test to examine hypothesis 2, specifically the abnormal return difference before and after the Israeli conflict in Palestine. Here are the test results:

Table 8. Paired Test Results T-Test

		t	df	Sig. (2-tailed)
Pair 1	AARSBLM AARSSDH	-3,725	4	0,020

Source: Data Results, 2024

Based on the table above, the sig. (two-tailed) value is 0.020 (< 0.05), which means H2 is accepted or there is a difference between abnormal before and after the Israeli-Palestinian conflict. These differences indicate that the sharia stock market is responding to important and relevant new information (Hidayat, 2018). Although the sharia stock market is generally stable, it turns out that the conflict has a significant impact on the stock price. These differences indicate that investors in sharia stock markets are also attentive and reactive to geopolitical conflicts (Chakraborty & Subramaniam, 2020). It also shows that although stability is characteristic of the sharia stock market, investors do not completely ignore the risks arising from external events. Although the sharia stock market may react to important information, such as the Israeli-Palestinian conflict, it has not experienced significant overall fluctuations (Munir et al., 2024).

The results of this study are consistent with studies conducted by Handayani et al. (2020), Sahputra et al. (2022), Altemur et al. (2024) and Yousaf et al. (2022) that show that there is a difference between an abnormal return before and after the occurrence of a particular event. Referring to the risk as feeling theory, although sharia stock markets tend to be more stable, it turns out that investors' emotions and feelings play an important role at certain times. Investors remain reactive to critical information that affects their risk perception. In this case, the occurrence of the Israeli-Palestinian conflict can trigger a stronger emotional reaction than unconfirmed information or just rumors, which later reflect in the difference between abnormal returns before and after the conflict.

Stability of the Conventional Stock Market and the Sharia Stock Market

The findings indicate that conventional stock markets exhibit a higher frequency of significant abnormal returns, suggesting that these markets are more sensitive to external shocks, including geopolitical conflicts (Munir et al., 2024). This heightened responsiveness reflects the rapid incorporation of new information into prices, but at the same time signals greater short-term volatility. In the context of the Israeli–Palestinian conflict, such reactions can be interpreted as manifestations of investor uncertainty and emotional responses, where market participants quickly adjust their expectations in response to perceived risks. As suggested by Sahputra et al. (2022), increased abnormal returns often reflect heightened emotional reactions, which can amplify price fluctuations and create temporary market instability.

However, despite the frequent occurrence of significant abnormal returns, the absence of statistically significant differences in average returns before and after the event suggests that the impact of the conflict on conventional markets is largely transitory. In other words, while conventional markets react strongly in the short term, they tend to revert to equilibrium relatively quickly. This pattern indicates that conventional markets may already operate in a high-volatility environment, where geopolitical shocks act more as triggers of temporary fluctuations rather than structural shifts in market behavior (Firdaus, 2021; Sahputra et al., 2022; Sitompul & Danarti, 2022). From a market efficiency perspective, this could imply that conventional markets are relatively efficient in processing new information, albeit with heightened short-term volatility driven by sentiment.

In contrast, the sharia stock market demonstrates fewer significant abnormal returns, indicating a more stable response to the geopolitical event (French et al., 1987). This lower sensitivity suggests that sharia-compliant stocks are less prone to excessive short-term

fluctuations, which may be attributed to their underlying investment principles, such as restrictions on speculative activities and a stronger linkage to real economic sectors. Nevertheless, the presence of significant differences in abnormal returns before and after the conflict implies that sharia markets are not entirely immune to external shocks. Instead, they exhibit a more measured and gradual adjustment process in response to new information (Irwaningtyas et al., 2023).

This distinction between the two market types highlights an important behavioral and structural dynamic. While both markets respond to geopolitical uncertainty, the nature of their responses differs. Conventional markets appear to react more impulsively, reflecting stronger sentiment-driven trading behavior, whereas sharia markets demonstrate a more controlled reaction, suggesting that investor behavior within these markets may be less influenced by short-term emotional pressures. This finding aligns with the *risk-as-feelings theory*, which posits that emotional responses can dominate decision-making under uncertainty; however, the extent of this influence may vary depending on the institutional and ethical framework of the market.

Furthermore, the results suggest that stability in sharia markets does not imply a lack of responsiveness, but rather a more balanced reaction to information. As noted by Handayani et al. (2020), markets that are able to respond to negative information without generating excessive volatility reflect more effective risk management and investor discipline. This characteristic is particularly relevant in the context of prolonged geopolitical conflicts, where sustained uncertainty can lead to persistent market instability.

From an investment perspective, these findings have important implications. The relatively higher stability of sharia stock markets suggests that they may serve as a risk-mitigating component within diversified portfolios, particularly during periods of geopolitical turbulence. While conventional markets may offer opportunities for short-term gains due to higher volatility, they also expose investors to greater risk. In contrast, sharia markets provide a more stable return profile, making them more suitable for long-term investment strategies focused on risk management and capital preservation (Beyer & Fan, 2023).

Overall, this study demonstrates that the differential response between conventional and sharia markets is not merely a matter of volatility levels, but reflects deeper differences in investor behavior, market structure, and sensitivity to external shocks. This insight contributes to a more nuanced understanding of how financial markets react to geopolitical conflicts and highlights the importance of considering market characteristics when evaluating investment strategies under uncertainty.

Conclusion

This study examines the impact of the Israeli–Palestinian conflict on conventional and sharia stock markets in five Southeast Asian countries using an event study approach. The findings indicate that conventional stock markets tend to react more strongly to geopolitical shocks, as reflected in more frequent significant abnormal returns. In contrast, sharia stock markets demonstrate relatively higher stability, with fewer significant reactions during the event window. These results suggest that sharia-compliant markets are less sensitive to short-term geopolitical disturbances.

From a theoretical perspective, this study extends the risk-as-feelings theory of Loewenstein et al. (2001) by providing empirical evidence that emotional responses to geopolitical uncertainty are reflected differently across market types. While investor sentiment influences both markets, the findings indicate that its impact appears to be more contained in sharia stock markets. This highlights the role of market structure and investment principles in moderating behavioral responses to external shocks. Furthermore, this study contributes to the literature by addressing a gap related to the limited empirical evidence on the Israeli–Palestinian conflict and by offering a comparative analysis between conventional and sharia markets in the Southeast Asian context.

Practically, the findings offer important implications for investors and policymakers. For investors, the results suggest that incorporating sharia-compliant assets into portfolios may help reduce exposure to volatility during periods of geopolitical uncertainty. For policymakers and financial regulators in Southeast Asia (Philippines, Indonesia, Malaysia, Singapore, and Thailand), the findings highlight the importance of strengthening market resilience through policies that enhance transparency, investor protection, and risk management mechanisms, particularly during periods of global instability.

Despite its contributions, this study has several limitations. First, the analysis is limited to five Southeast Asian countries, which may restrict the generalizability of the findings to other regions. Second, the study focuses solely on abnormal returns as an indicator of market reaction, without incorporating other relevant indicators such as trading volume or volatility. Third, the analysis is confined to short-term market responses and does not capture long-term effects of geopolitical conflicts.

Future research is encouraged to expand the geographical scope to include broader international markets, incorporate additional indicators such as trading volume, volatility, and sentiment indices, and explore long-term impacts of geopolitical events. In addition, the use of alternative data sources, such as investor sentiment surveys and social media analytics, may provide deeper insights into the behavioral dynamics underlying market reactions to geopolitical conflicts.

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