



GEOPOLITICAL SHOCK AND MARKET RESPONSE: AN EVENT-STUDY ANALYSIS OF THE 2026 US–IRAN CONFLICT ON INDIAN EQUITY MARKETS

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ABSTRACT

This paper examines how the 2026 US–Iran conflict, which began with joint US–Israeli strikes on Iran on 28 February 2026, affected the Indian equity market. India imports most of its crude oil, depends on foreign portfolio investment, and is exposed to West Asian shipping routes, so it is a useful case of an emerging market absorbing an external geopolitical shock. The study uses an event-study framework on daily Sensex and Nifty 50 data and secondary evidence on crude prices, the rupee and foreign institutional flows. Reported market movements show a sharp initial sell-off, a trough in late March 2026 with Nifty about 13.5% below its January record high, and a strong rebound after the April ceasefire, driven largely by domestic buying even as foreign investors sold heavily. The findings suggest that Indian equities reacted to the war mainly through the oil-price, currency and capital-flow channels rather than through direct economic exposure to Iran, and that the shock was sharp but only partly persistent. The paper offers implications for investors and policymakers.

KEYWORDS : Geopolitical Risk, Event Study, Sensex, Nifty 50, Crude Oil, Foreign Portfolio Investors, India

1. INTRODUCTION

Stock markets price expectations, so wars and military escalations move them mainly by changing expectations about growth, inflation, interest rates and risk appetite. For India, West Asia matters economically even without direct trade with the combatants. India imports the bulk of its crude oil, a large share of which passes through the Strait of Hormuz, and millions of Indians live and work in Gulf economies. An oil-price spike therefore raises the import bill, pressures the rupee and feeds inflation, all of which weigh on corporate earnings and valuations.

On 28 February 2026, the United States and Israel launched joint strikes on Iran. Indian markets opened sharply lower on the next trading day, 2 March 2026. Reports indicate that the Sensex fell by up to about 2,744 points intraday and that roughly 6.8–8 lakh crore of investor wealth was erased in morning trade. A conditional two-week ceasefire was announced in early April, and markets recovered.

This study asks three questions:

1. How did the Sensex and Nifty 50 react to the outbreak and the key escalation and de-escalation events of the conflict?
2. Through which channels (crude oil, exchange rate, foreign flows) did the shock reach Indian equities?
3. Was the reaction temporary or persistent?

The study matters to retail and institutional investors, to regulators monitoring market stability, and to scholars of geopolitical finance in emerging markets.

2. Literature Review

Information and Efficient Markets. Fama, Fisher, Jensen and Roll (1969) showed that stock prices adjust quickly to new information, which is the basis of the event-study method later refined by Brown and Warner (1985) and surveyed by MacKinlay (1997).

War and Stock Markets. Schneider and Troeger (2006) found that conflicts involving major powers depress global equity markets, with effects varying by conflict type. Guidolin and La Ferrara (2010) showed that markets respond to the onset and end of violent conflict, with peace events often producing positive reactions. Rigobon and Sack (2005) found that rising war risk ahead of the 2003 Iraq war lowered US equity prices and raised oil prices. Wolfers and Zitzewitz (2009) linked the probability of war to asset prices in the same episode. Hudson

and Urquhart (2015) studied the British market in World War II, and Boungou and Yatié (2022) found negative returns across world markets after the Russia–Ukraine war began.

Geopolitical Risk. Caldara and Iacoviello (2022) built a geopolitical risk index and found that higher risk reduces investment and equity returns. Kollias, Kyrtou and Papadamou (2013) examined how war and terrorism affect the oil–stock relationship.

Oil and Equities. Hamilton (1983) linked oil shocks to US recessions. Kilian (2009) showed that the effect depends on the source of the shock: supply disruptions differ from demand-driven increases. Basher and Sadorsky (2006) found that oil price risk affects emerging-market stock returns, and Nandha and Faff (2008) found that rising oil prices reduce equity returns in most sectors except oil and gas.

Research Gap. Most studies focus on developed markets or earlier wars. Evidence on how an oil-importing emerging market like India absorbed a direct US–Iran confrontation, with its distinctive pattern of foreign selling and domestic buying, is limited, and the 2026 episode is recent enough that peer-reviewed work is only beginning to appear.

3. Research Methodology

3.1 Research Design. The study is descriptive and analytical, combining an event-study design with secondary-data analysis.

3.2 Data. - Daily closing values of the BSE Sensex and NSE Nifty 50, plus sectoral indices (Nifty IT, Bank, Auto, Oil & Gas, FMCG) from the BSE and NSE websites. - Brent crude prices, the USD/INR rate, and daily FPI/FII and DII net flows from NSDL, the RBI and exchange data. - Contemporary financial press reports for event dating and context.

3.3 Events and Windows. The main event dates are: the outbreak of strikes (28 February; first trading reaction 2 March), the escalation of 4 March, the market low in late March, and the conditional ceasefire in early April. The estimation window is 120 trading days ending 10 days before the event, and the event windows are (−1, +1), (0, +5) and (0, +10) trading days.

Table 1: Event-study Design Parameters

Parameter	Specification
Estimation window	120 trading days, ending 10 days before the event

Event window A	(-1, +1): 3 trading days
Event window B	(0, +5): 6 trading days
Event window C	(0, +10): 11 trading days
Benchmark indices	Sensex, Nifty 50
Sector indices	5 (IT, Bank, Auto, Oil & Gas, FMCG)
Key events	4 (outbreak, 4 March escalation, late-March low, April ceasefire)

3.4 Model. Normal returns are estimated with the market model:

$$R(i,t) = \alpha(i) + \beta(i) \cdot R(m,t) + \varepsilon(i,t)$$

For sector indices, the broad market return serves as $R(m,t)$. Abnormal return is $AR(t) = R(t) - [\alpha + \beta \cdot R(m,t)]$, and cumulative abnormal return is $CAR = \sum AR(t)$ over the window. Significance is tested with a t-test on CAR and a non-parametric sign test. For the headline indices, which are themselves the market, the analysis also uses raw returns and drawdown from the pre-war peak.

3.5 Channel Analysis. A regression of daily Nifty returns on changes in Brent crude, USD/INR, and net FPI flows (with a war-period dummy) identifies which channel carries the shock.

3.6 Limitations. Overlapping events, simultaneous global factors and the confounding influence of domestic news limit causal claims.

4. RESULTS

Note: all figures below are market movements reported in the financial press (sources listed in the references); percentage declines from the peak are the author's calculations from reported index levels. Event-window CARs should be computed from the downloaded daily series and added as a further table before submission.

4.1 Event Timeline and Index Reaction

Table 2: Reported Sensex and Nifty 50 Movements During the US–Iran Conflict, 2026

Date	Event	Reported market reaction
5 Jan	Pre-war peak	Nifty 50 record high: 26,373
2 Mar	First session after strikes	Sensex down up to 2,744 points intraday; Nifty down over 500 points; ₹6.8–8 lakh crore wealth erased in morning trade
4 Mar	War enters day 5	Sensex and Nifty down over 2%; rupee at record low
23 Mar	Week 4 of conflict	Sensex and Nifty at one-year lows; BSE market cap ₹415.97 lakh crore (₹47.53 lakh crore wiped)
25 Mar	US ceasefire proposals reported	Sensex +1.6% to 75,264; Nifty +1.7% to 23,306
27 Mar	Uncertainty persists	Sensex –2.28% to 73,583; Nifty –2.09% to 22,819.60
7 Apr	Pre-ceasefire session	Sensex +0.7% to 74,616.6 (fourth consecutive gain)
8 Apr	Conditional two-week ceasefire	Sensex +3.6% intraday to 77,296; oil below \$100
20 Apr	Review	Sensex and Nifty down only ~3% from 27 Feb; BSE market cap back at pre-war level

4.2 Drawdown from the Pre-war Peak

Table 3: Nifty 50 Decline from the 5 January 2026 Record High (26,373)

Date	Nifty 50 level	Decline from peak (points)	Decline from peak (%)
5 Jan	26,373.00	0	0.0

25 Mar	23,306.00	3,067.00	11.6
27 Mar	22,819.60	3,553.40	13.5

Nifty therefore moved into correction territory (a fall of more than 10% from the peak) by late March.

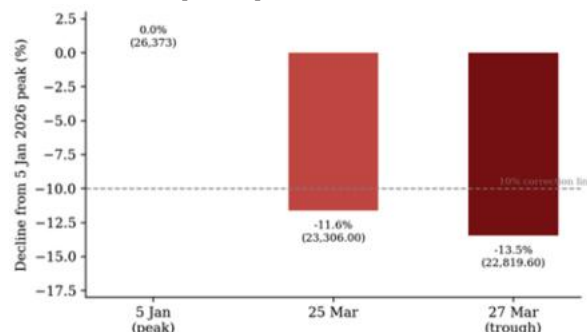


Figure 1: Nifty 50 Decline from the 5 January 2026 Peak, Selected Dates (%)

Source: Author's calculation from reported index levels.

4.3 Macro and Capital-flow Indicators

Table 4: Macro and Capital-flow Indicators, 28 February to 20 April 2026

Indicator	Reported change
Crude oil price	+31%
Indian rupee	–2% (record low on 4 March)
Foreign portfolio outflows	₹1.61 lakh crore
Sensex and Nifty vs 27 Feb level	–3%
BSE market capitalisation	Fell ₹47.53 lakh crore at the trough; back at pre-war level by 20 April

Domestic investors, supported by systematic investment plan (SIP) inflows, absorbed much of the foreign selling.

4.4 Market Breadth and Sector Behaviour

Table 5: One-session Index Declines on a Reported Sell-off Day (DD News)

Index	Decline (%)
Nifty PSU Bank	3.97
Nifty SmallCap	2.22
Nifty MidCap	1.97
Nifty 50	1.73
Sensex	1.71

Mid- and small-cap indices and public-sector banks fell more than the large-cap benchmarks. On 2 March, autos, consumer durables, IT and oil-and-gas stocks were also hit, with Reliance, L&T, Maruti, M&M and Adani Ports among the largest drags.

4.5 Recovery

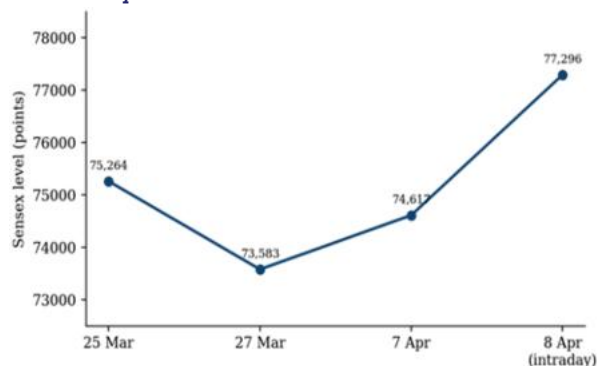


Figure 2: Sensex Levels Around the Late-March Low and the April Ceasefire (Points)

Source: Compiled from Trading Economics and press reports; 8 April value is an intraday level.

From the 27 March close of 73,583, the Sensex rose about 5.0% to the 8 April intraday level of 77,296 (author's calculation).

5. DISCUSSION

The pattern is consistent with the international literature. The initial fall shows markets pricing a sudden jump in uncertainty, as in Rigobon and Sack (2005) and Boungou and Yatié (2022). The sharp rebound on ceasefire news matches Guidolin and La Ferrara (2010), who find that markets respond positively to de-escalation.

The oil channel was central. Because India is a net oil importer, higher crude worsens the trade balance and inflation outlook, which explains why oil-sensitive sectors such as autos, aviation and paints were hit and why equities rallied when oil eased below \$100. This is consistent with Kilian (2009): a supply-disruption shock hurts an importer more than a demand-driven rise would.

The second channel is capital flows. Sustained foreign selling, together with a weaker rupee, pushed indices lower, while domestic mutual-fund and SIP flows cushioned the fall. This domestic buffer is a structural change that distinguishes India's response from earlier episodes when foreign outflows dominated price direction. A caution, noted by Kotak Institutional Equities and reported in the press, is that the active retail investor base shrank during FY26, so the cushion may not be permanent.

Mid- and small-cap underperformance indicates that risk aversion, not just oil, shaped the response. Valuations had also already been under pressure, so the war was an accelerant rather than the sole cause of the correction. Separating these effects is the main empirical challenge for the CAR analysis.

Implications. For investors: diversification and attention to oil-sensitive exposures matter during West Asian escalations. For policymakers: strategic reserves, rupee stability measures and clear communication can limit disorderly moves.

6. CONCLUSION

The 2026 US–Iran conflict produced a sharp but largely temporary shock to Indian equities. Markets fell quickly after the strikes, reached a low in late March, and recovered most of their losses once a ceasefire lowered oil prices. The shock travelled mainly through crude oil, the rupee and foreign portfolio outflows, and was absorbed by strong domestic participation. Because India's vulnerability is rooted in energy dependence and reliance on foreign capital, future West Asian crises are likely to produce similar reactions unless these exposures shrink.

Limitations and Future Research. The analysis rests on index-level and press-reported data over a short window, and the conflict's later course after April should be added to extend the sample to the present. Future work could use firm-level data, GARCH volatility models, comparison with other emerging markets, and a longer post-ceasefire horizon.

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