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The Impact of the Israel-Palestine War on Regional Stock Markets: An Event Study Approach[1]

İsrail – Filistin Savaşı Bölge Ülke Borsalarının Anormal Getirilerinin Olay Çalışması (Event Study) Yöntemi ile Analizi

Zeynep Gülay KORKMAZ
Master's Student, Inonu University,
Faculty of Economics and Administrative Sciences,
zynpgly.krkmz@gmail.com,
https://orcid.org/0009-0008-4531-5600

Emre ÖZSALMAN
Research Assistant, Inonu University,
Faculty of Economics and Administrative Sciences,
emre.ozsalman@inonu.edu.tr,
https://orcid.org/0000-0003-3620-1122

Nuri HACIEVLİYAGİL
Doc. Dr., Inonu University,
Faculty of Economics and Administrative Sciences,
nuri.hacievliyagil@inonu.edu.tr,
https://orcid.org/0000-0002-2019-3327

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ABSTRACT

This study investigates the impact of the Israel–Palestinian conflict that began on October 7, 2023, on the stock market indices of Turkey and Middle Eastern countries. The analysis covers the stock exchanges of Palestine, Israel, Egypt, Qatar, Lebanon, the United Arab Emirates, Jordan, Kuwait, Saudi Arabia, Oman, and Bahrain. The short-term market reaction is evaluated through abnormal returns within the event study framework. Abnormal returns (AR) and cumulative abnormal returns (CAR) were calculated based on the closing prices of each country's benchmark index. The empirical findings indicate that the average cumulative abnormal returns (CAR) observed in the event window are positive and statistically significant, implying a measurable market response to the conflict. In contrast, daily abnormal returns (AR) are not statistically significant, suggesting that the impact materialized gradually through cumulative pricing adjustments rather than an immediate one-day shock. Overall, the results demonstrate that the conflict generated a short-term and directional reaction in regional stock markets and significantly influenced market sentiment.

Keywords: Israel-Palestine Conflict, Event Study Method, Stock Market Analysis

ÖZET

Bu çalışma, 7 Ekim 2023'te başlayan İsrail-Filistin çatışmasının Türkiye ve Orta Doğu ülkelerinin borsa endeksleri üzerindeki etkisini araştırmaktadır. Analiz, Filistin, İsrail, Mısır, Katar, Lübnan, Birleşik Arap Emirlikleri, Ürdün, Kuveyt, Suudi Arabistan, Umman ve Bahreyn borsalarını kapsamaktadır. Kısa vadeli piyasa tepkisi, olay çalışması çerçevesinde anormal getiriler üzerinden değerlendirilmiştir. Anormal getiriler (AR) ve kümülatif anormal getiriler (CAR), her ülkenin referans endeksinin kapanış fiyatlarına göre hesaplanmıştır. Ampirik bulgular, olay penceresinde gözlemlenen ortalama kümülatif anormal getirilerin (CAR) pozitif ve istatistiksel olarak anlamlı olduğunu, çatışmaya ölçülebilir bir piyasa tepkisi olduğunu göstermektedir. Buna karşılık, günlük anormal getiriler (AR) istatistiksel olarak anlamlı değildir; bu da etkinin anlık bir günlük şoktan ziyade kümülatif fiyat ayarlamaları yoluyla kademeli olarak gerçekleştiğini göstermektedir. Genel olarak, sonuçlar çatışmanın bölgesel borsalarda kısa vadeli ve yönlü bir tepki yarattığını ve piyasa duyarlılığını önemli ölçüde etkilediğini göstermektedir.

Anahtar Kelimeler: İsrail-Filistin Çatışması, Olay Çalışması Yöntemi, Borsa Analizi

1. INTRODUCTION

Due to important factors such as historical and cultural values and religious beliefs, the Palestinian territories, which remain on the world agenda, have been the focus of activity in the

[1] This study is an expanded and enhanced version of the paper titled "İsrail – Filistin Savaşı Bölge Ülke Borsalarının Anormal Getirilerinin Olay Çalışması (Event Study) Yöntemi ile Analizi" which was presented orally at the 27th Finance Symposium held between 9 October 2024 and 12 October 2024.

Middle East. These lands, ruled by the Ottoman Empire for 402 years, were lost after the First World War, resulting in the idea of establishing a Jewish state in the region. This gave rise to what is now referred to as the Palestinian question (Özer, Ç., 2023:584-585).

On the morning of 7 October 2023, Hamas launched an operation against Israel called "Operation Al-Aqsa Flood". During the operation, in which numerous rockets were fired at Israel from Gaza and critical targets such as military zones and airports were targeted, many people, including foreign civilians, were taken hostage from a festival area, which became the site of the highest number of casualties. In response to these developments, Israel declared that it was "at war" and launched a counterattack called "Iron Swords". Israel began striking hospitals, schools and even refugee camps, causing a major humanitarian crisis as internal displacement began (Özer, B., 2023).

The long-standing tension between Israel and Palestine threatens stability in many areas of the region. The effects of war on economic and financial markets, especially how investors react to the circulation of information. The event study method is a highly valid method for measuring market reactions following political and economic tensions, particularly in conflict zones. The event study method is a highly valid method for measuring market reactions following political and economic tensions, particularly in conflict zones. This approach, which measures investor reactions to sudden and unpredictable geopolitical shocks, also provides researchers with a detailed understanding of market efficiency (Hasyim & Sukardi, 2025, p. 115).

The efficient market hypothesis argues that prices in financial markets accurately reflect current information, that market expectations are rational, and that it is therefore difficult to earn abnormal returns. According to this hypothesis, stock prices generally move in a random walk. This implies that future changes in stock prices cannot be predicted (Mishkin, 2022:189-207.). Fama (1970) defined the efficient markets model as one in which all information available at any given time fully reflects security prices and classified information in efficient markets into three subcategories. These are: "*weak-form efficient markets"*, "*semi-strong-form efficient markets"*, and "*strong-form efficient markets"*. According to this definition, no investor can obtain abnormal returns from stocks in a semi-strong-form efficient market.

As financial markets operate systematically and regularly, financial systems will also function more healthily. Uncertainty negatively affects financial markets, and war environments also cause this uncertainty to increase. Studies have been conducted on the reactions of financial markets in environments of uncertainty caused by wars, terrorist attacks, and conflicts between countries (Taşdelen, 2023:599). Therefore, examining the impact of the war economy on financial markets through event studies is crucial for understanding market movements following geopolitical shocks (Ergün, 2024, p. 67; Martins, 2024). This methodology illuminates researchers' understanding of geopolitical risks and market movements during wartime (Hasyim and Sukardi, 2025, p. 116). In addition, examining the financial consequences of the war economy with this method is very useful in measuring the immediate and short-term reaction of the market to shocks and in understanding abnormal returns (Ergün, 2024, p. 67; Martins, 2024).

Shocks caused by political uncertainty are perceived as geopolitical risks by investors. This risk has been observed to significantly reduce stock prices (Yılmazkuday, 2024). It has been demonstrated that these declines consistently impact the performance of stock markets in some countries, and that declines are more severe in geographically proximate countries. This greater magnitude of decline due to geographical proximity is referred to as the "proximity penalty" (Jreisat et al., 2023, p. 356).

Research investigating the impact of terrorist attacks on financial markets show that changes in investor sentiment and risk preferences are of critical importance. Papakyriakou et al. (2019)

verified that the extent of the stock market reaction is determined by how much importance investors place on terrorism-related information and how investor sentiment shifts following attacks. This also includes the effects on post-event changes in a particular market, investor sentiment, and risk preference. Drakos (2010) showed that the psychosocial effects of terrorist attacks can increase their negative impacts. Becker et al. (2004) suggested that this situation could persist for some time and affect economic behaviour.

Global events such as terrorist attacks, wars, epidemics, and natural disasters have a significant impact on the stock market. In such periods of uncertainty, investor behaviour will naturally cause volatility in the stock market. The Israel-Palestine war is also a subject that needs to be examined in order to determine the extent to which stock markets in the region are affected by investor behaviour due to the uncertainty it causes and to anticipate investor behaviour in the face of such events that may occur in the future and take precautions against risks. The main motivation of this study is to obtain clues on how to respond to such geopolitical 2 risks, the uncertainties they cause, and the conflicts that may arise as a result.

Previous studies (Martins, 2024; Verma, 2024; Altemur et al., 2024; Demirel, 2024; Yudaruddin et al., 2024a; 2024b; Ergün, 2024; Wahyono et al., 2025; Ijaz et al., 2025) show how different responses are made to geopolitical risks our research offers the opportunity to look at this issue from a different perspective, together with various and different countries. The study examines the impact of the war on a total of 12 stock exchanges in Turkey and Middle Eastern countries, including Palestine, Israel, Egypt, Qatar, Bahrain, Lebanon, Saudi Arabia, Kuwait, Jordan, the United Arab Emirates, and Oman, using the event study method, and attempts to identify abnormal returns obtained during the event window. Researchers have frequently studied the stock markets of countries following the Israel-Hamas war. However, these studies generally focus on the stock markets of developing countries. Our study included the stock markets of neighbouring countries and Turkey and analysed them using an event study method. This study aims to contribute to the literature by examining different stock markets and also increases the robustness of the forecasts by using a very large estimation window (250 days).

2. LITERATURE

Fama et al. (1969) examined the effects of stock segmentation on investor behaviour and pricing. They concluded that such segmentation is generally associated with increased dividends. The authors also argued that this effect is reflected in prices. Kollias et al. (2011) analysed the impact of the terrorist attacks in Madrid and London on stock returns by sector. Their results indicated that negative abnormal returns were prevalent in the Spanish market after the terrorist attacks, while recovery was faster in the London market. Similarly, Hudson and Urquhart (2015) investigated the effects of World War II on the United Kingdom. They found that post-war adversities had long-term negative effects on the FT30 index, while positive events had short-term and limited positive effects.

Bevilacqua et al. (2019), examining the impact of the terrorist attacks in the United States on the financial market, concluded that there were significant changes in sales activity following the attacks. Aktümsek et al. (2024), examining the performance of firms operating in the BIST electricity index during the Russia-Ukraine war, used the event study method and concluded that investors traded risk-aversely during the war. Chortana and Pandey (2022), examining the impact of the same war on the global currency market, concluded that European currencies depreciated against the USD, while Pacific currencies appreciated against the USD.

Martins (2024), who investigated the impact of numerous events on markets, including the Ukraine-Russia war, the Taiwan Strait crisis, and the Hamas-Israel conflict, found that these events resulted in positive abnormal returns in the DJCI, GSCI, and CRB commodity futures indices, while negative abnormal returns were only observed on the day Nancy Pelosi visited Taiwan. Verma (2024) observed that geopolitical concerns resulted in abnormal profits for US defense and aerospace businesses. Yudaruddin et al. (2024a, 2024b) examined the impact of the Israel-Hamas war on stock markets in the United States, China, and the MENA region, concluding that the US and Chinese markets responded negatively to the event in the short run. However, the energy industry produced positive returns in financial markets over the research period.

Altemur and Demirel (2024), examining the impact of the Israel-Hamas conflict on the stock prices of different countries, concluded that some countries in the Middle East financial markets experienced negative returns, while others experienced positive returns. Wahyono (2025) and Ijaz et al. (2025) investigated the impact of the same conflict on MENA and global financial and energy markets. Finally, Ergün (2024), investigating the impact of this conflict on cryptocurrencies, concluded that the conflict had no significant impact on cryptocurrencies.

3. DATA SET AND METHOD

3.1. Data

To determine the effects of the Israeli-Palestinian conflict on the stock market, the stock market indices of 12 countries located near this region, including Turkey and Middle Eastern countries such as Palestine, Israel, Lebanon, Qatar, Oman, Saudi Arabia, Kuwait, Egypt, Bahrain, Jordan, and the United Arab Emirates, were identified, and their closing prices were collected via investing.com. In accordance with the event study method, the MSCI All Country World Equity Index was selected as the benchmark index to calculate abnormal returns. Although the event occurred on 7 October 2023, 9 October 2023, when all stock exchanges were open, was designated as the event day; the prediction window consists of a 250-day observation set obtained from the stock exchanges of 12 countries between 7 June 2022 and 22 September 2023. The event window was set as (-10,10). As stock market trading days vary from country to country, the data has been harmonised. Table 1 shows the countries and stock market indices.

Table 1: Stock Market Indices of Turkey and Middle Eastern Countries

COUNTRY	INDEX
PALASTINE	AL-QUDS (PLE)
ISRAEL	TA ALLSHARE
UNITED ARAB EMIRATES	DFM GENERAL
SAUDI ARABIA	TADAWUL ALLSHARE (TASI)
KUWAIT	ALL SHARE Market Cap Weighted PR
QATAR	QE ALL SHARES (QEAS)
BAHRAIN	BAHRAIN ALL SHARE (BAX)
EGYPT	EGX 30
LEBANON	BLOOM Stock (BLSI)
JORDAN	AMMAN SE ALLSHARE
OMAN	MSM 30

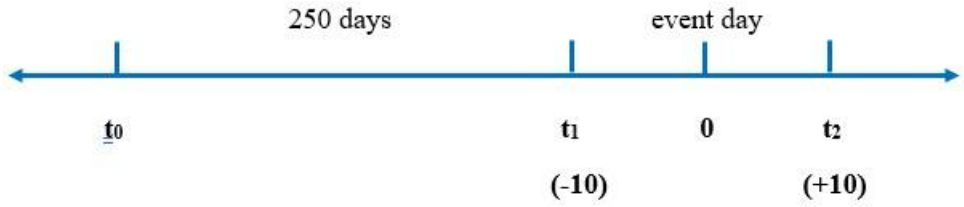
3.2. Method

The aim of this study is to reveal the effects of the Israeli - Palestinian conflict on stock exchanges in the region and nearby regions. In environments of uncertainty caused by unexpected sudden events with global or regional effects, such as wars, terrorist acts, and financial crises, it is important to assess the effects on stock markets through investor behaviour and to examine the degree of effectiveness of information circulation during periods of uncertainty in order to identify potential risk situations arising from such events.

The event study method was used to determine whether abnormal returns could be achieved on the relevant stock market indices. In event studies related to the efficient market hypothesis, it is assumed that abnormal returns cannot be achieved when a market is semi strong form efficient. Event studies are a method used to measure the efficiency of financial markets in response to significant events (such as company announcements, economic developments, policies, terrorist attacks, wars, and crises). This research method, which 5 evaluates the pre- and post-event effects on markets, is encountered in studies conducted in the financial field.

The CAR method was used in this study to examine the abnormal returns of the stock exchanges under review. Three basic components are required for the CAR method to be applied. These components are the event date, event window, and prediction window (Basdaş and Oran, 2014:171). The event date used in this method refers to the date on which an event with a high impact occurred. The event window refers to the periods close to the event date when the event began to occur, and its effects continued to be felt. As it also covers the period before the event occurred, there is no consensus in the literature on determining the event window. However, in order to provide the most accurate estimates of abnormal returns, it is necessary not to examine a period too far from the event date. Finally, the estimation window examines the period preceding the event window. The length of the estimation window is also of great importance for the consistency of the α and β coefficients. For this reason, the estimation window should not be too short or too long. If researchers are working with daily data, it would be ideal to work with a prediction window of between 100 and 300 days (Peterson, 1989). In this study, a prediction window of 250 days was selected, similar to the study by Yudaruddin et al. (2024a, 2024b).

Figure 1: Event study activity schedule



Source: Prepared by the researcher

Figure 1 shows the Event Study Timeline. According to this figure, the time interval between T_0 and T_1 represents the prediction window and covers the time interval before the event window. The time interval between T_1 and T_2 also represents the event window.

In the event study method, the market index and the returns of financial assets are used as references to calculate three components. These returns can be logarithmic or arithmetic (Yiğit

and Canöz, 2021:1322). Logarithmic data was used in this study because it is accepted in financial literature that it yields statistically more valid results.

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

The abnormal returns of the stocks are then calculated. Although there are multiple methods in the literature for calculating abnormal returns, Dyckman et al. (1984) noted that the ordinary least squares (OLS) method yielded the strongest results. According to this model, the normal return is calculated as in equation (2).

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (2)$$

In this equation, $R_{i,t}$ is the stock's return, $R_{m,t}$ is the market index return, and α and β are model parameters.

After normal returns are obtained, abnormal returns (AR) are estimated. To estimate abnormal returns, the difference between the expected return of the stock on each day in the event window is calculated. This calculation is shown in equation (3).

$$AR_{it} = R_{it} - ER_{it} \quad (3)$$

In the above equation, Rit represents the actual return, while $E(R_{it})$ represents the expected return.

To calculate the CAR, the ARs found in each index or stock are summed. Equation (4) shows the CAR calculation.

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t} \quad (4)$$

Armitage (1995), in his research on the main methods of event studies, examined and compared the results of various methods and found that the Market Model was the most reliable procedure in most cases. Accordingly, in our study, the Market Model was implemented using the ordinary least squares (OLS) method. However, in empirical studies in the field of finance using daily data, residuals in the panel data structure can lead to erroneous results in classical OLS test statistics due to clustering and cross-sectional correlation issues related to the event date (Kolari and Pynnönen, 2010; Petersen, 2008). Accordingly, we conducted a series of diagnostic tests to ensure the statistical validity of our findings. Specifically, the Shapiro-Wilk (W) test was applied to check normality, the White test to examine heteroscedasticity, and the Breusch-Godfrey (LM) test to detect potential serial correlation.

As detailed in Table 2 in the Findings section, these tests revealed significant violations of classical OLS assumptions, including normality, heteroscedasticity, and country-level serial correlation. In light of these findings, and considering that standard error estimates may be biased downward and statistical significance may be misinterpreted when classical OLS assumptions are violated, country-level cluster-robust standard errors, which allow for intra-cluster dependence in the error structure, were used. This was done to obtain statistically more reliable results against the effects of heteroscedasticity and serial correlation (Cameron and Miller, 2015).

4. FINDINGS

In order to determine the extent to which stock markets in the region were affected by investor behavior during the Israel-Palestinian war, the event date was set as 9 October 2023 for all countries, as the war began on 7 October 2023, which was a non-trading day. Daily abnormal returns were calculated over an event window of 21 days (-10, +10). Before presenting the main

findings, we performed several diagnostic tests on the residuals of the market model to verify the reliability of the estimation. The Shapiro-Wilk test indicated that the residuals are not normally distributed ($Z = 13.342$, $p < 0.01$). White's test revealed the presence of heteroskedasticity ($\chi2 = 7.87$, $p = 0.0196$), and the Breusch-Godfrey test identified serial correlation in several country-level series ($p < 0.05$ in specific instances). Consequently, these violations were addressed by employing Clustered Standard Errors at the country level. This robust estimation method accounts for both heteroskedasticity and autocorrelation, ensuring that the reported t-statistics and p-values in Table 4 are valid and reliable.

Table 2: Model Diagnostic Test Results

Assumption / Issue	Diagnostic Test	Test Statistic	P-Value	Conclusion
Normality	Shapiro-Wilk (W)	Z = 13.342	0.0000***	Non-normal residuals
Heteroskedasticity	White's Test ($\chi2$)	7.87	0.0196**	Heteroskedasticity present
Autocorrelation	Breusch-Godfrey ($\chi2$)	Range: 0.010−9.976	0.0016−0.9190	Serial correlation detected*

Note: *, ** and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The Breusch-Godfrey LM test was performed for each country individually. The reported range represents the minimum and maximum chi-square and p-values obtained. The asterisk **(*)** indicates that serial correlation was detected in various countries at significance levels ranging from 1% to 10%.

As shown in Table 2, the diagnostic tests confirmed the necessity of a robust estimation. Therefore, we have updated our analysis using Clustered Standard Errors to provide heteroskedasticity and autocorrelation-consistent (HAC) inferences.

Table 3: Country-Level Abnormal Return (AR) and Cumulative Abnormal Return (CAR) During the Event Window

COUNTRY	AR (%)	CAR (%)
PALESTINE	-0,0009	0,0278
ISRAEL	0,0022	0,0466
UNITED ARAB EMIRATES	0,0110	0,0152
SAUDI ARABIA	0,0015	0,0170
KUWAIT	-0,0015	-0,0015
QATAR	0,0000	0,0173
BAHRAIN	0,0037	0,0139
EGYPT	0,0104	0,1324
LEBANON	0,0265	0,0265
JORDAN	0,0045	0,0346
OMAN	-0,0039	0,0046
TURKIYE	0,0293	0,0397

Note: This table reports country-level average abnormal returns (AR) and cumulative abnormal returns (CAR) during the event window. These results are presented for descriptive purposes only; statistical inference is conducted using cross-sectional average CAR tests.

Table 4: Cross-Sectional Tests of Abnormal and Cumulative Abnormal Returns

N (COUNTRIES)	Variable	Mean	Std. Err.	t-Statistic	p-Value
12	**AR**	-0,0016	0.0009056	-1,8074	0.0981*

12	**CAR**	0,0312	0.0100497	3,1018	0.0101**

Note: This table reports cross-sectional one-sample t-tests of average abnormal returns (AR) and cumulative abnormal returns (CAR) during the event window. **p<0.05 and *p<0.10 are statistically significant at these confidence levels.

Table 4 presents the cross-sectional test results for abnormal returns throughout the event window. While the average abnormal return (AR) is weakly significant at the 10% level, the cumulative abnormal return (CAR) is positive and statistically significant at the 1% level. The weak significance of AR indicates that instantaneous price reactions are limited, while the strong significance of CAR indicates that market reactions occur cumulatively over time rather than through an instantaneous correction. This model is consistent with gradual information absorption and delayed pricing behaviour in regional financial markets.

CONCLUSIONS AND RECOMMENDATIONS

One of the most enduring debates in financial literature and markets concerns whether sudden extraordinary events—such as natural disasters, wars, and terrorist attacks—cause abnormal returns. Such events may create uncertainty and, as a result, lead to abnormal market behaviour due to shifts in investor sentiment and corporate risk perceptions.

This study examines the extent to which regional stock markets were affected by the uncertainty arising from the Israeli–Palestinian conflict. The analysis covered 12 countries (Palestine, Israel, Jordan, Kuwait, Oman, Saudi Arabia, Bahrain, Qatar, United Arab Emirates, Lebanon, Egypt, and Turkey) using daily logarithmic returns and the Market Model within the framework of an event study. Since 7 October 2023 was a non-trading day, the first trading day following the outbreak of the conflict (9 October) was taken as the event date.

The findings show that the mean abnormal return (AR) during the event window was weakly significant at the 10% level, while the cumulative abnormal return (CAR) was positive and statistically significant at the 1% level. This indicates that the conflict did not trigger an immediate reaction on the event date; rather, market responses emerged progressively throughout the event window. The cumulative market reaction reflects a delayed adjustment in investor sentiment, likely linked to gradual information dissemination, uncertainty pricing, and geopolitical risk assessment. Among the countries examined, Turkey, Lebanon, Egypt, and the United Arab Emirates displayed relatively higher sensitivity to the conflict, while Kuwait and Oman exhibited limited reactions.

These results are consistent with Yudaruddin et al. (2024b), Demirel (2024), Altemur et al. (2024), and Wahyono et al. (2025), who report that geopolitical shocks can affect not only markets directly involved in a conflict but also neighbouring economies. The findings indicate that the conflict had measurable short-term effects on regional stock markets, suggesting that sudden geopolitical shocks can generate abnormal price behaviour in such environments.

According to the study results, positive market responses can be attributed to rising energy prices and potentially high demand in strategic sectors. Negative responses, on the other hand, are related to increased uncertainty following geopolitical risks. These uncertainties provide evidence for abnormal returns in regional markets affected by the geopolitical shock studied in this research.

The results are guiding for companies, investors, and even policymakers. While investors and companies must consider geopolitical risks when making investment decisions, policymakers should avoid actions that would alarm investors and companies. Taking into account financial events such as asset valuations and dividend expectations in unforeseen circumstances will be highly beneficial for both institutional actors and market participants.

While this study contributes to literature by covering many countries and considering geopolitical risks, it has limitations. The first limitation is the operating days of the country's stock exchanges. Therefore, day matching has been performed to make the analysis suitable for exchanges with different trading days. The second limitation stems from the nature of the event study. The event structure does not include macroeconomic determinants such as exchange rates, commodity prices, and interest rates. Therefore, investor decisions in the stock market are examined only through geopolitical events, and other factors are disregarded.

In conclusion, the October 2023 Israeli–Palestinian conflict generated statistically significant cumulative effects on regional stock markets and suggests that geopolitical risk is not fully and immediately priced in; instead, it appears to be incorporated into market valuations progressively over time.

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