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Analysis in Global Finance-Analysing the Impact of Geopolitical Factors in Global Finance Markets

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Abstract

Geopolitical risks mainly refer to the numerous uncertainties and it is also along with any potential adverse impacts that are further arising from many political events. These are also happening because of multiple conflicts, or tensions that mainly exist between different nations. The study has mentioned that As per a Gallup survey in 2017, nearly 75% of overall investors have taken part and talked about their major concerns associated with the impact of both global military and also political conflicts on many investments. Additionally, the study also mentioned that geopolitical risks can particularly inhibit the FDI inflow and can directly hinder domestic economic development. Global financial markets are shaped by geopolitical tensions, which influence its cross-border investments, financial stability and portfolio allocation. The research incorporates in the Geopolitical Risk (GPR) index for measure the arising uncertainties from global conflicts, trade restrictions and economic sanctions. The findings of the study suggest that the risk of geopolitical disrupts the pattern of cross-broader investment which further leads to increased volatility and market fragmentation. The large-cap equities in the developed market emphasise resilience to the short-term shock whereas the emerging market and small-cap equities are focused on exhibiting heightened vulnerability. The findings have critical implications for institutional investors and policymakers underscoring the need for adaptive strategies related to risk management in this economic fragmentation growing era. Through analysing the historical market responses towards major geopolitical events, this research focuses on contributing for a nuanced understanding on the dynamic of how geopolitical instability shapes the dynamics of the financial market.

Keywords: Geopolitical risk, financial markets, cross-border investment, portfolio allocation, financial stability, emerging markets, economic fragmentation.

1. Introduction

1.1 Background

Geopolitical factors mainly encompass a number of different events such as many wars, and political instability, and they also include trade tensions. These are directly impacting financial markets even at a global level. This is impacting through directly leading to uncertainty, disrupting trade, and has a direct influence on the sentiment of investor sentiment. All these areas are further leading to volatility along with any potential economic issues or many consequences. In addition to that, geopolitical tensions most of the time directly lead to numerous capital outflows, specifically from a number of emerging markets, leading to decreased access to many areas (Suerf.org, 2024). These areas are mainly including external financing, financial stress as well as currency depreciation. At the same time, several geopolitical events and many conflicts can also have profound effects on financial markets throughout the world. It is further leading to increased uncertainty among many investors, several businesses, and many policymakers.

The economic growth at a Global level has been expected to be approximately 3% in the year 2025. It's reflecting almost a modest pace mainly because of multiple ongoing trade tensions and also due to several policy uncertainties. All these challenges mainly including both geopolitical instability and inflation, also continue to affect global markets (Singh, S., 2025). There are multiple geopolitical risks and these risks include trade tensions and multiple regional conflicts. All these areas have directly disrupted the supply chains and ultimately increased overall costs for many businesses. Along with this area, it has been seen that the U.S.-China trade war has directly resulted in tariffs of around 60% and that is on multiple particular imports (Moglia, 2024). Several Geopolitical tensions including conflicts, have directly led to increased interest of the investor within numerous defensive sectors and also on many sustainable investments.

Statistical Insights: A report has highlighted that many geopolitical risks have directly contributed to around a 20% increase in market volatility that is mainly over the last decade (Imf.org, 2025). The analysis of Deloitte has revealed that nearly 60% of CEOs at a global level have considered the geopolitical risks a major threat to the growth of the business growth (Worldbank.org, 2025). The Wall Street Journal has further noted that many geopolitical tensions have further led to a decrease in many cross-border investments in different emerging markets.

1.2 Research Aim and Objective

Research Aim

The research aims to explore the influences of different geopolitical factors in the global finance market.

Research Objective

RO1: To analyse the geopolitical tensions that affect cross-border investment and portfolio allocation in global financial markets.

RO2: To evaluate the primary channels through which geopolitical risk impacts financial stability in different regions.

RO3: To explore the differential impacts of geopolitical shocks on large-cap versus small-cap equities in developed and emerging markets.

1.3 Research Question

RQ1: How do geopolitical tensions affect cross-border investment and portfolio allocation in global financial markets?

RQ2: What are the primary channels through which geopolitical risk impacts financial stability in different regions?

RQ3: What are the differential impacts of geopolitical shocks on large-cap versus small-cap equities in developed and emerging markets?

1.4 Research Hypothesis

H1: Increased geopolitical tensions, as measured by divergence in UN General Assembly voting behaviour, lead to a significant reduction in bilateral cross-border portfolio investment and bank claims

H2: Geopolitical risk affects financial stability through multiple channels, including capital flows, asset prices, and feedback loops between the real economy and financial sectors

H3: Geopolitical shocks have a more pronounced and lasting impact on small-cap stocks and local real estate markets compared to large-cap, globally diversified equities

2. Literature Review

2.1 Relationship Between Geopolitical Events and Financial Markets

In recent days, the overall impact of numerous geopolitical risks on both stock market return and volatility has directly attracted the researchers' attention and the attention of policymakers. Geopolitical risks are referred to as key determinants of multiple investment decisions, which further lead to a specific impact on both economic growth and financial market stability. The study indicates that many geopolitical risks are constantly shaping both economic and financial interactions and it is even at both national and international levels. As per a Gallup survey in the year 2017, around 75% of overall investors who actively took part have directly declared their major concerns regarding the impact of both global military and also political conflicts on numerous investments (Elsayed and Helmi, 2021). Specifically, they ranked GPR ‘geopolitical risks’ above both economic and also political instability.

The geopolitical relationship has a particular and positive impact on the volatility of the stock market that is further not impacted through any control variables. Additionally, it has been identified that the effect of GPR which is mainly on stock market volatility is considered more significant for numerous emerging economies. The impacts are also on many crude oil exporters, and several countries are even at peace (Zhang *et al.* 2023). However, another study has mentioned that, as the changes have occurred within the international environment, several geopolitical crises are also continuing to cause issues and directly hinder the stock market's overall healthy development. Numerous geopolitical events like the Iraq War, Syria War and other events including Brexit, Russia–Ukraine conflict along with Sino–U.S. trade friction. All these events have further followed one after another event (Gong *et al.* 2025). The Greater geopolitical risks can be caused leading to economic activity stagnation and other factors too.

2.2 Effect of Geopolitical Tensions on Cross-Border Investments

The geopolitical risks can specifically inhibit the FDI 'foreign direct investment' inflow and it can directly hinder the domestic economy development. It has been identified that significant factors that are crucial in attracting foreign investment are the size of the market and multiple natural resources and it also includes both science and technology that is of the host country. Furthermore, Trade dependence has been considered a significant moderating impact on the GPR negative impact (Yu and Wang, 2023). Many countries that mainly depend on international trade may directly eliminate a number of geopolitical frictions through economic cooperation. The effect of geopolitical risk has been heterogeneous within countries with multiple stages of economic development. The effect of GPR on FDI 'foreign direct investment' within developed economies is not very significant.

The study has mentioned that when a neighbouring country is facing any geopolitical tension event, then it ultimately raises the sovereign risk that is associated with the home country. Additionally, this interconnectivity can also be further supported by the particular fact that different wars and many tensions can be the reasons that may cause spill over effects. It may also increase the presence of the military or may directly shift the particular regional strategic balance (Afonso *et al.* 2024). Numerous events within one specific country can also prompt numerous cooperative responses or may also prompt any collaborations among different neighbouring countries in order to address any common challenges.

2.3 Impact on International Payment Systems and Asset Prices

The increasing geopolitical tensions that are mainly among numerous major economies have directly intensified a few major concerns regarding both global economic as well as financial fragmentation. Along with these areas, the war within Ukraine and also the conflict that is mainly between Israel as well as Palestine are ultimately inducing particular financial fragmentation. These particular areas may further have a few major consequences that are directly for financial stability by directly affecting the allocation of cross-border capital allocation worldwide. It also affects multiple payment systems that are international and directly affects many asset prices (Boungou and Urom, 2025). Geopolitical tensions along with financial fragmentation can be the main areas that can significantly influence a number of international payment systems and impact asset prices. This is also potentially leading to higher costs and increased volatility. It may also increase many risks to financial stability throughout the world.

2.4 Geopolitical Risk and the Financial Sector

The study has mentioned that GPRs are playing a significant role in accurately shaping the financial conditions that are strongly associated with many emerging economies. The study has also mentioned that in many emerging economies, the market's foreign exchange, banking as well as the debt sectors may be the part that is among the particular areas. Along with that, the study has also mentioned that the impact has been largely driven by the overall stress level of different corresponding markets (NguyenHuu and Örsal, 2024). Along with these areas, it has been also identified in the study that these profound effects have not been observed within stock markets. However, this mainly falls within stark contrast to directly advanced economies, where many geopolitical risks have almost major impacts. These are also concentrated on the overall stock markets.

2.5 Political Uncertainty and Global Financial Markets

The study has directly mentioned that numerous political risks have negatively impacted the economy. These are mainly macroeconomic operations along with international capital flow. Apart from these areas, it also includes international trade, along with multiple microenterprise operations. At the same time, it has been identified that many small countries and a number of emerging economies are seen as weak in resisting any kind of risks and uncertainties. Hence for all these causes they are considered as almost more vulnerable to different political risks (Ma *et al.* 2024). EPU "Economic policy uncertainty" is associated with ambiguity that mainly surrounds different possible changes within government policy. It also has an associated impact on the overall performance of the firm (Smales, 2020). This particular uncertainty places additional stress that is on many economic agents. It also has implications for the global economy through delays within both firm investment and hiring.

2.6 Conceptual framework

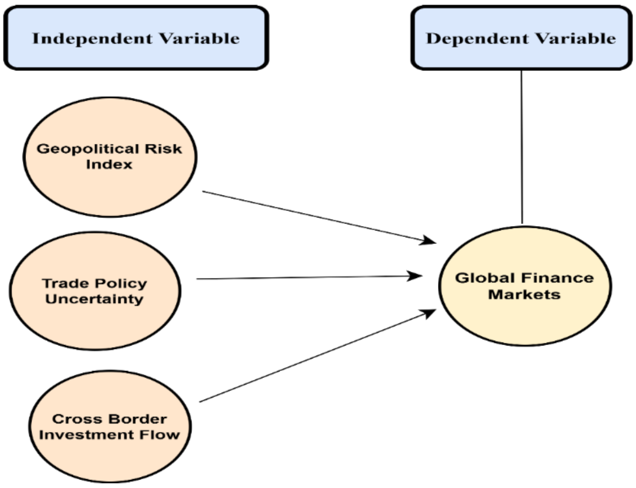

Figure 2.6.1: Conceptual Framework

(Source: Self-Developed)

3. Research Methodology

3.1 Theoretical Framework

The theoretical framework of this paper has been mainly grounded within existing literature that further links multiple geopolitical risks to several dynamics that are present within the global financial market. Additionally, GPSs ‘Geopolitical risks mainly include a number of events like different wars, many trade disputes, several sanctions, and also including political instability. All these factors that have been mentioned are directly affecting capital flows, prices of asset price and also has a direct influence on financial stability by any uncertainty and also through investor sentiment. Furthermore, a conceptual model has been effectively developed in order to clearly illustrate how several geopolitical factors are interacting with financial markets worldwide. At the same time, the model accurately recognized many channels by which a number of geopolitical risks have influenced overall financial outcomes.

There is one important theory that includes "The Behavioral Finance Theory". This particular theory effectively serves as the strong foundation for this paper. This theory is very significant and directly challenges the traditional EHM 'Efficient Market Hypothesis' that mainly emphasizes the overall role of multiple psychological factors and also emphasizes many cognitive biases within financial decision-making (Sobaih and Elshaer, 2023). As per, Behavioural Finance, it has been identified that geopolitical risks are directly amplifying any uncertainty. This further leads to almost irrational investor behaviour like herding, and flight to any assets and may also lead to overreaction.

3.2 Data Collection and Analysis

The study has collected secondary qualitative and quantitative data in order to make the study informative. Data that are associated with geopolitical risk have been effectively collected from several credible sources. These are ultimately offering tracking as well as comprehensive assessment tools even at a global level. One of the important tools including GPR which is the geopolitical risk index which has been developed by both Caldara as well as Iacovillo. The GPR index is very significant in effectively quantifying any political uncertainty and it is possible through accurately analysing numerous news articles and also accurately evaluating media coverage (Dugbartey, 2025). Another significant source is academic publications that include many peer-reviewed studies. The studies are mainly from both JSTOR along with Google Scholar accurately providing deep knowledge and insights into particular numerous geopolitical events like trade wars and many conflicts.

Apart from that the study also draws particular financial market data that is from many trusted sources in order to align numerous indicators of geopolitical risk with overall economic outcomes. A number of specific geopolitical events have been examined in order to accurately contextualize the overall quantitative findings. Case studies help to know the scenario regarding many events and these events mainly include 'The Russia-Ukraine Conflict along with its overall impact on the market. Additionally, these analyses help in getting ideas about trade tensions and Brexit and their effect on both cross-border investment and also the European Stock market. There are multiple key themes like investor sentiment, and policy responses as well as market volatility. All these key themes have been recognised with the assistance of qualitative review of many scholarly articles and also by using many institutional reports.

3.3 Cross-sectional Analysis

The study employs cross-section analysis in order to systematically compare the overall impact of multiple geopolitical risks across several financial dimensions. The most sensitive aspects that are to geopolitical instability include asset cases, different bonds along with commodities. It has been identified that the emerging markets have been mostly more exposed to several geopolitical risks. It is mainly because of any weaker economic areas and also due to almost very high dependency mainly on the foreign capital (Long *et al.* 2022). Along with this area, cross-sectional analysis has been the key source that has effectively examined a particular group of entities such as several countries or different regions at a single point in time. This particular area is very significant and further allows the researchers to accurately compare their numerous characteristics and also different geopolitical risk exposures, instead of tracking any changes over time.

3.4 Temporal Analysis

Temporal analysis has been the source that accurately examines data over time. This is to identify many patterns and also to identify several trends that are very important in geopolitical studies. It further allows analysts to accurately track the progression of the event, forecast several trends, and is also helpful in pinpointing any particular timeframes (Rao *et al.* 2025). This analysis also focuses on both the short-term as well as long-term impact of the overall geopolitical risks. Different short-term events studies are accessing the market reactions while the long-term trends analysis effectively highlights the impact of many geopolitical risks on globalisation and also on financial integration.

3.5 Case Studies

Qualitative analysis by which different case studies complement the overall quantitative findings that is through providing deep and contextual insights. Several case studies mainly including the Russia-Ukraine conflict. This case accurately examines the impact of the conflict on the energy market at a global level and also identifies its overall impact on both inflation along the European stock indices (Mckinsey, 2025). On the other hand, another case study is including US-China trade tensions. This analysis is mainly focusing on how several trade disputes and several tariff escalations are disrupting the overall supply chains globally.

Apart from these two cases, there is one other case as well which includes Brexit. Brexit is evaluating the overall implications of the withdrawal of the United Kingdom from the European Union on currency volatility. However, all these case studies which have been mentioned are very significant and these also provide a clear as well as deep understanding regarding the mechanism by which a different number of geopolitical risks are affecting the financial market. These factors help to know the impacts and further help to make the necessary measures in order to deal with the challenges that may hinder financial markets.

4. Discussion and Findings

4.1 Discussion

4.1.1 Geopolitical Tensions on Cross-Border Investment and Portfolio Allocation

Geopolitical tensions impact the decision of portfolio allocation and cross-border investments, creating uncertainty which leads to capital outflows from a high-risk regions and shifts toward the safe-haven assets. Geopolitical factors have already been influencing the financial landscape and global economy. Furthermore, constraints on cross-border money flows have grown in tandem with geopolitical tensions in recent years, which appear to have an impact on global capital allocation. The world's economic and financial fragmentation as a result of geopolitical conflicts has garnered more attention in recent years. In particular, investment funds are extremely sensitive due to the US-China conflict and the invasion of Ukraine, which tends to reduce cross-border allocation to portfolio investments and bank claims (Das, 2024). Therefore, it is clear from the example of geopolitical concerns in the current global economic environment that financial fragmentation would have a big effect.

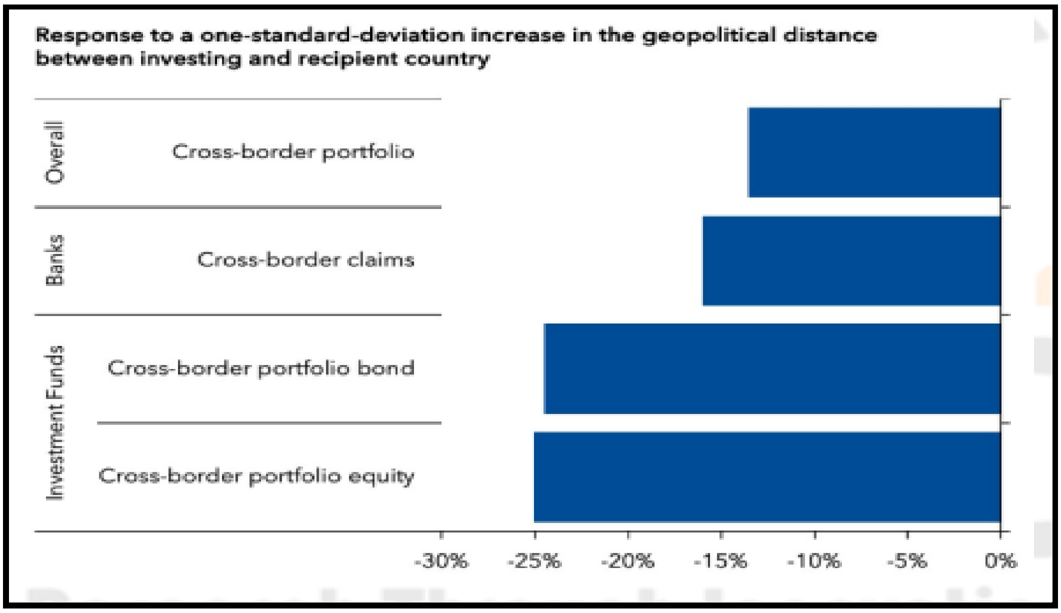

Figure 4.1.1.1: Geopolitics and Capital Allocation

(Source: Das, 2024)

Governments, businesses and investors have to navigate these complexities to manage risks. Trade wars, economic sanctions and military conflicts introduce volatility within the global financial markets, and it causes investors to reallocate their funds to a stable environment. China invested 28.04 billion U.S. dollars in United States firms, measured on the basis of historical cost during the China-U.S. trade war. Total FDI in the U.S. shows value at 5.39 trillion U.S. dollars in this year (Statista Research Department, 2024). The investor is continuously adjusted their paradigm to work in response of the geopolitical risks. Shift in capital away from emerging marketing where political and economic instability are pronounced, and into the developed markets like the United States, Switzerland and Germany which is perceived as safer. The currency markets are also responding sharply towards the geopolitical risks, as they affect its cross-border investments. However, instability in currency further discourages international investment as the investors and the companies struggle to predict the return in future.

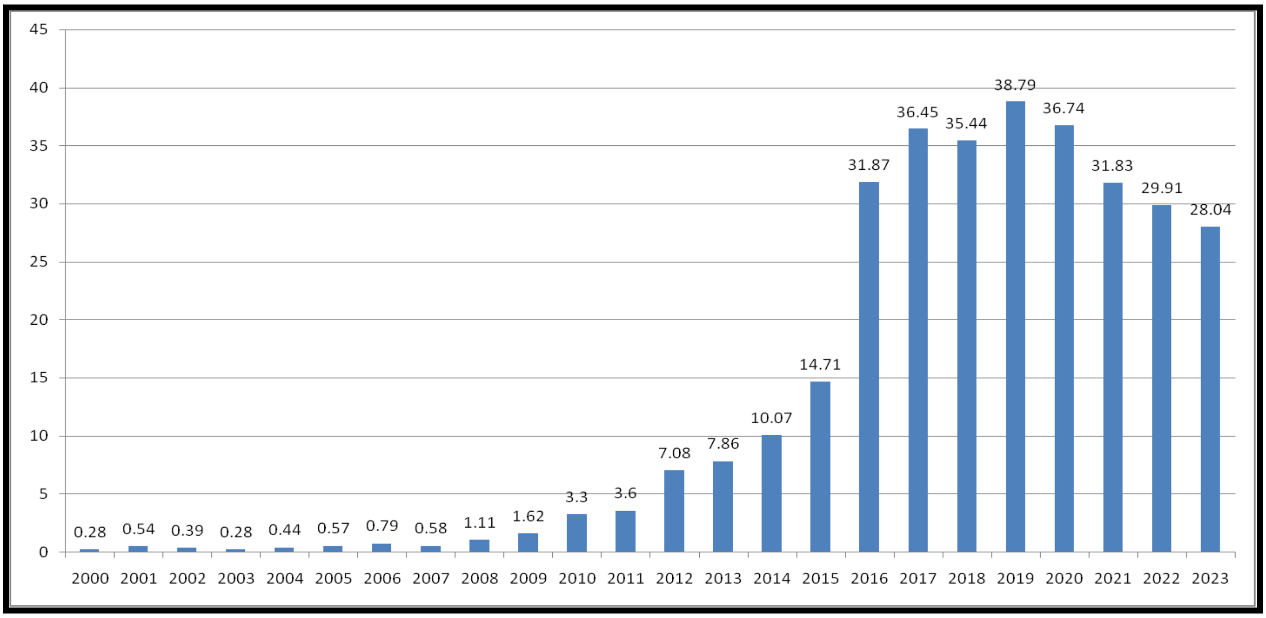

Figure 4.1.1.2: U.S. FDI receipts from China for years 2000-2023

(Source: Self-developed in Excel, based on the data of Statista Research Department, 2024)

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At the time of the Russia-Ukraine war, there was a significant rise in demand for U.S. Treasury bonds and gold, with a rise in the prices of gold in six months. This trend shows that growing preference for a safe-haven asset at the time of geopolitical crises. Similarly, the investors are also moving away from the assets of high risk such as industrials and technology, through redirecting capital toward the defensive sectors like utilities, healthcare and consumer staples. The global FDI landscape and the influence on domestic investment, particularly on GDP and inflation, have been altered by the economic crisis and the conflict between Russia and Ukraine (Hosen *et al.* 2024). Since the start of hostilities between Russia and Ukraine on February 24, 2022, the world economy has gotten worse, according to the World Trade Organisation (WTO). It is projected that trade expansion will drop from 4.7% to less than 3.4%.

4.1.2 Channels through Which Geopolitical Risk Impacts Financial Stability

Geopolitical risks impact the financial stability by different interconnected channels, which include disruptions in trade, capital flight, currency volatility and market uncertainty. These factors are also collectively help to shape the resilience of financial systems and influence on economies and their response to the dynamic of external shocks. The most significant way geopolitical risks affect the financial stability is by trade disruptions. Trade wars, political conflicts and economic sanctions lead to declining of the volumes of international trade and supply chain volatility. The U.S.-China trade war of 2018-2019, caused a reduction in global trade, mainly affecting export-oriented manufacturing sectors and industries globally. Similar to this, energy markets were upset by sanctions placed on Russia after its invasion of Ukraine, which caused fluctuations in the price of commodities like gas and oil. The large financial institutions, like banks and investment firms, adjust its lending strategies in response to the market uncertainty, as it helps businesses make credit less.

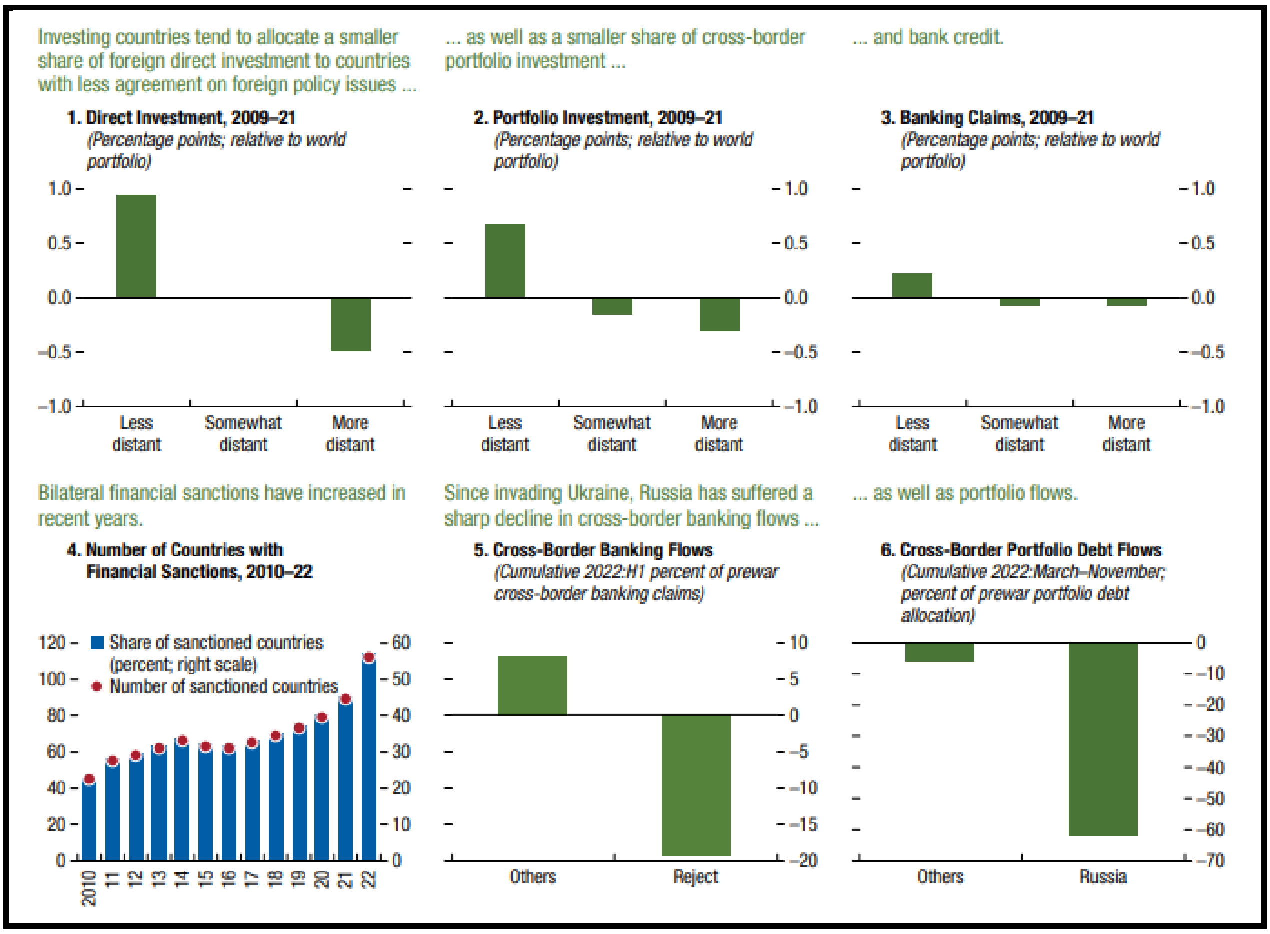

Figure 4.1.1.3: Global Financial Fragmentation and Geopolitical Tensions

(Source: imf.org, 2024)

For instance, *figure 4.1.1.3* illustrates how cross-border banking and portfolio debt flows to Russia and its allies—countries that rejected the motion in the UN in March 2022 to condemn Russia's war on Ukraine—have drastically reversed since Russia invaded Ukraine and the sanctions that the US and EU placed on it (imf.org, 2024). Allocations have decreased by roughly 20 and 60%, respectively, compared to prewar levels. Currency fluctuations is another channel through which geopolitical risks impact financial stability. The investors tend to move the funds within safe-haven currencies such as the Swiss franc, Japanese yen and U.S. dollar ensuring uncertainty. It results in the depreciation of market currencies, which further reduces purchasing power and raises inflationary pressures. Russian Tubble lost its value in 2022 following the imposition of Western sanctions which severely influenced business-reliant and financial institutions of international transactions.

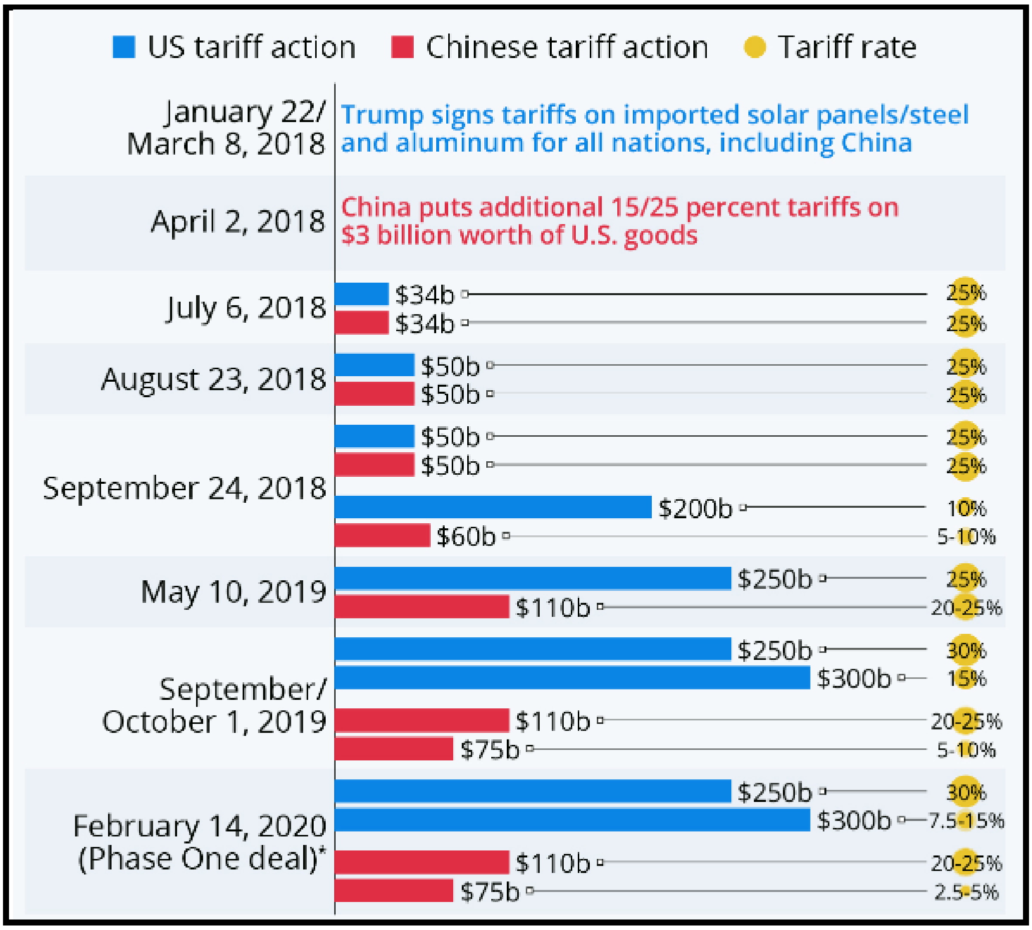

Figure 4.1.1.4: Timeline of U.S.-Chinese Trade War

(Source: Buchholz, 2020)

During geopolitical crises market volatility is also an affecting factor in financial stability. Financial stability is affected by the global interest changes within the rate policies, which are often influenced by geopolitical factors. The stock markets also experience a sharp decline during geopolitical events as the investors are engage in panic selling. Examining the Phase One agreement and the U.S.-Chinese trade conflict reveals that many of the bilateral tariffs remain in effect, at least formally, even under the original agreement from early 2020 (Buchholz, 2020). In addition to partially reducing duties, the U.S. and China have started making exceptions for dealers on an individual basis. The United States imposed 15% and 30% tariffs on $300 billion and $250 billion worth of Chinese imports, respectively, at the height of the trade war in late 2019. China responded by taxing $75 billion worth of American goods at a rate of 5 to 10% and $110 billion worth of goods at a rate of 20 to 25%.

4.1.3 Differential Impacts of Geopolitical Shocks on Large-Cap vs. Small-Cap Equities

Geopolitical shocks influence the stock markets differently, as it is highly depend on the size of the company, sectoral resilience and market exposure. The large-cap equities, characterized through financial stability and global operations and also tend to be resilient in times of geopolitical instability. These organisations also have diversified the revenue streams, reducing their dependence on a single market. Whereas, small-cap equities, in emerging markets, face greater financial constraints and exhibit higher volatility when the geopolitical tensions rise. The investors also often shift their funds from the small-cap stocks to large-cap stocks or safe-haven assets at times of uncertainty, through reinforcing these trends. SMOI (standard deviation of market-wide order imbalance) responds more forcefully during the 2009–2010 US-China Strategic and Economic Dialogue and the 2009–2012 European debt crisis. Additionally, SMOI increases to high levels during the 2018 US-China trade war and after the August 2015 shift in the RMB fixing mechanism (Peng and Xu, 2025). SMOI increased more lately after the crisis between Russia and Ukraine broke out in February 2022.

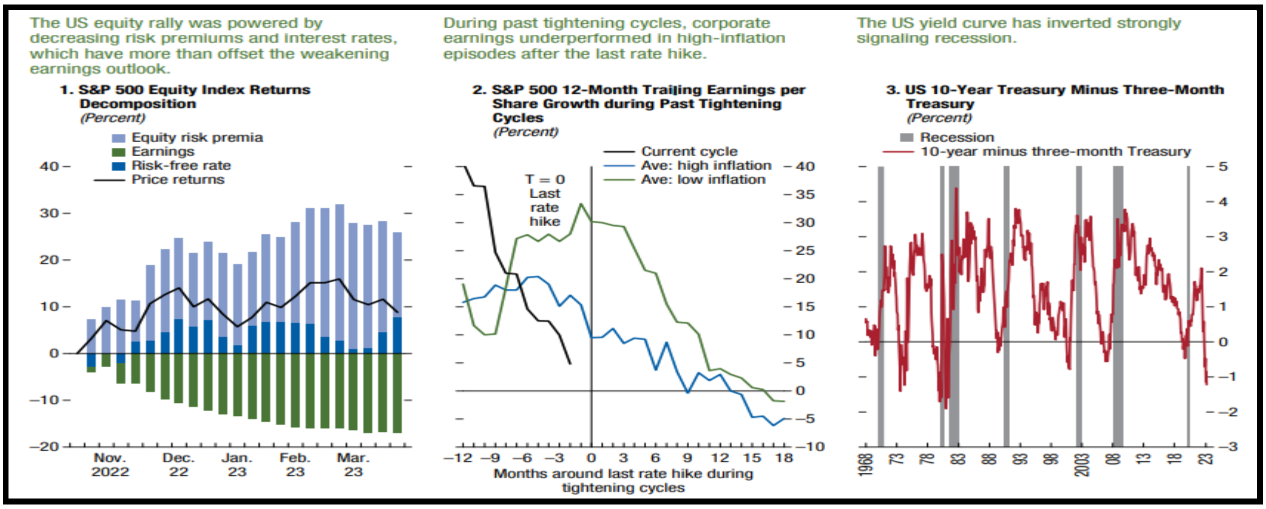

Figure 4.1.1.5: Developments in US Bond Markets and Equity

(Source: imf.org, 2024)

While reduced profit expectations have been a drag, the S&P 500's good performance from October of last year to January of this year was mostly underpinned by a reduction of the equity risk premium, the compensation that investors need to absorb equity risks. As of this year, defensive stocks have underperformed cyclical companies, which are more susceptible to changes in the economy. If inflation remains high and recession risks increase, the additional predicted decline in earnings could pose a threat to the outlook for stocks. The United States earnings growth is already slowing down more quickly than it did during previous tightening cycles with high inflation (imf.org, 2024). However, the US Treasury yield curve remains inverted, which is usually a sign of an impending recession. As the traders in the zero-day-to-expiration options market tend to respond discretely to earnings and macroeconomic news, they may increase the volatility of equity prices.

During the Russia-Ukraine war (2022), the large-cap stocks in the S&P 500 index is experienced a decline, however, small-cap stocks in the Russell 2000 index fell. Standard & Poor's 500, a stock market index tracking 500 large companies listed in the U.S. stock exchanges (Ghosh *et al.* 2024). It indicates that the smaller companies, have few financial buffers and they also experience steeper losses when the investor sentiment weakens. Similarly, in the emerging markets, large-cap stocks decline, while small-cap stocks also drop sharply. These disparities emphasise the vulnerability of the smaller firms, that rely on the domestic markets and which are even more sensitive to the economic slowdowns caused by the geopolitical crises.

4.1.4 Policy Implications

The effects of geopolitical risks on the financial markets require a proactive policy response to manage the stability and confidence of investors. Central banks and Governments play an important role in managing economic disruptions triggered by geopolitical tensions. The most effective policy tool is monetary intervention, where the central banks implement liquidity measures and adjust interest rates for stabilise the markets. At the time of the Russia-Ukraine war, the central bank of Russia raised interest rates to 20% for prevent the fight of capital and defend the ruble. While these measures can also help in stabilise currency markets, they also slow economic growth and increase borrowing costs. However, with the core inflation rate hitting 6.5% as of the end of March 2022, the main central bank's initial statements on the inflation shock's temporary nature have lost credibility, particularly in the US (Astrov *et al.* 2022). Governments should also focus on improving diplomatic strategies to prevent conflicts that negatively affect financial markets.

4.1.5 Future Scenarios

Global financial markets' future is shaped by shifts in the power of economic, geopolitical realignments and technological disruptions. The key trend is the rise of the regional trade blocs as geopolitical tensions which further lead to the fragmentation of the economy. Countries within ASEAN and BRICS+ are strengthening their economic ties for reduce dependence on Western financial institutions through creating a multipolar global economy. This shift also helps in reduce the U.S. dollar's dominance in global trade, with countries settling transactions in the alternative currencies like the Chinese yuan, Russian ruble or other digital currencies. The global Financial markets respond to different geopolitical events (Izzeldin *et al.* 2023). However, long-term geopolitical conflicts can reshape the chains of global supply which further leads to the rise of protectionism and the fall of global economic integration. Financial markets adapt these evolving conditions through incorporating geopolitical risk analysis within the frameworks of the different investment.

4.2 Findings

The findings of the research indicate that the dynamic of geopolitical risks has a profound impact on the financial markets, it's affecting financial stability, stock performance and investment flows. The Cross-border investments also decline at the times of geopolitical crises, as the investors shift capital toward safer assets or regions. As per the findings of Yu and Wang, (2023), dependence on trade is considered as a moderating impact on negative influences of GPR. currency fluctuations and trade disruptions exacerbate a form of financial instability, which make it important for policymakers and investors to develop resilient strategies. However large-cap stocks tend to be more resilient to geopolitical shocks, whereas small-cap stocks experience greater volatility in the emerging markets, The analysis reveals that there is a clear correlation between high geopolitical tensions and lower flows of cross-border investment. The investors are exhibit risk-averse behaviour at that time, leading to capital flight from the affected regions and reevaluation of the strategies related to the global investment.

Governments also have to implement monetary and trade policies which further help in mitigate risks, and financial institutions also should develop comprehensive models of geopolitical risk assessment. The financial markets' future are shaped by technological disruptions, and evolving geopolitical tensions. The findings indicate that geopolitical events lead to the imposition of trade barriers, which adversely affect the reliant countries on international trade and potentially lead to downturns in the economy. The findings also highlight that that the large-cap equities in the developed markets remain more resilient to the geopolitical shocks as because of its stronger financial foundations and diversified operations. Whereas, small-cap equities, in emerging markets, are vulnerable to such types of shocks, experiencing financial challenges and greater volatility. Shifts in investor sentiment at the time of geopolitical events cause significant currency fluctuations, which further influences economic stability and international investment returns. Consequently, geopolitical uncertainties have had a detrimental effect on the foreign exchange rate (Das, 2024). In the global financial market, that has further led to a decline in the GBP rate relative to the US dollar.

5. Conclusion

This study concludes that geopolitical risks have a significant impact on the global financial markets, the performance of the stock market, in the shaping of investment trends and financial stability. Capital flight from the high-risk regions, declining of the investment in cross-border and increased market volatility are characterised by the crises of geopolitical dynamics. The large-cap stocks are relatively stable, while the stocks of small-cap in emerging in the markets and also face higher exposure to risk. For adjust to the geopolitical concerns, future economic policies have to prioritise monetary stability, innovation in digital finance and varied trade agreements. Through understanding these dynamics, policymakers and investors could develop strategies which help them to minimise the dynamic related to financial disruptions. However, a number of geopolitical developments and numerous conflicts can also have a significant impact on global financial markets. Additionally, it is causing a great deal of anxiety among many officials, corporations, and investors.

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