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ANALYSIS OF STOCK MARKET REACTIONS TO THE ISRAEL-PALESTINE CONFLICT (CASE STUDY ON ENERGY SECTOR STOCKS IN INDONESIA)

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ABSTRACT

Objective: This study examines the impact of the Israel-Palestine conflict, specifically the Hamas attack on Israel on October 7, 2023, on Indonesia's energy sector stocks. **Research Design & Methods:** Using an event study methodology, the research analyzes abnormal returns, security return variability, and trading volume activity of 66 energy companies listed on the Indonesia Stock Exchange. The analysis employs mean difference tests conducted in Eviews 13. **Findings:** The results reveal significant differences in abnormal returns before and after the event, indicating market sensitivity to geopolitical risks. However, no substantial changes in security return variability or trading volume activity are observed, reflecting market stability overall. **Practical Implications:** This study underscores the need for investors to implement risk management strategies and diversify portfolios to mitigate the impacts of geopolitical events. **Contribution & Value Added:** This research highlights the importance of company fundamentals and portfolio diversification in investment decisions by demonstrating a limited correlation between geopolitical events and stock trading volumes.

Keywords: abnormal return; event study; security return variability; signaling theory; trading volume.
JEL codes: G10, G11
Article type: research paper

INTRODUCTION

The Israel-Palestine conflict, enduring for over a century, has caused profound humanitarian and economic disruptions. On October 7, 2023, the Hamas attack on Israel marked a significant escalation, involving the launch of over 5,000 rockets within minutes (Adhi, 2023). This event reverberated globally, disrupting oil prices, international trade, and financial markets. Given the Middle East's pivotal role in global oil production, even non-oil-producing nations like Palestine and Israel wield significant influence on energy markets through geopolitical dynamics.

As depicted in Figure 1, the Middle East demonstrates a daily oil surplus of 23 million barrels, with production levels reaching 31 million barrels per day and consumption limited to 8 million barrels. This observation, derived from The International Energy Agency (IEA) (2022), underscores the region's pivotal role in the global energy market. The surplus positions the Middle East as a critical player in maintaining market stability while simultaneously highlighting its vulnerability to geopolitical disruptions. The recent escalation of the Israel-Palestine conflict has exacerbated instability in energy markets, triggering increased demand for energy sector shares within Indonesia. Consequently, the surge in energy commodity prices has enhanced investor confidence in domestic

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energy firms, resulting in notable price increases following the conflict.

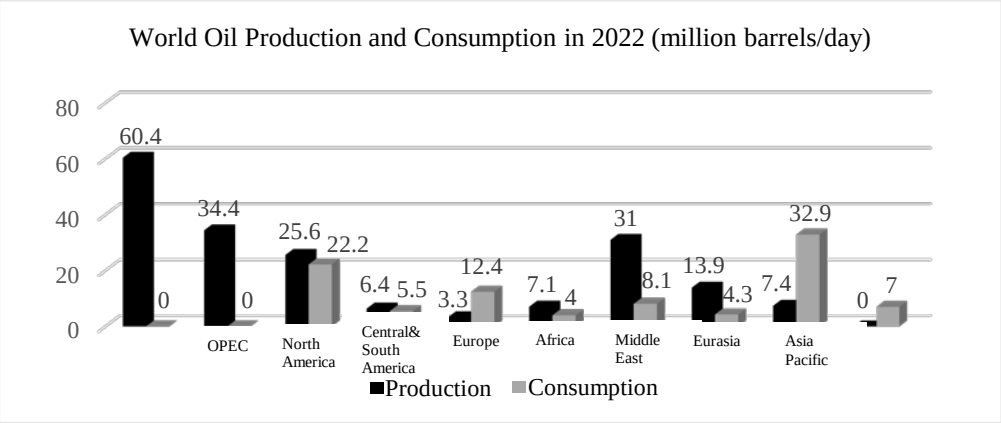

Figure 1. World Oil Production and Consumption Graph in 2022
Adapted from "World Energy Outlook 2022," by International Energy Agency (IEA), 2022, retrieved from https://www.iea.org/reports/world-energy-outlook-2022.

The Israel-Palestine conflict has significantly impacted Indonesia's stock market, exposing the sensitivity of various sectors to geopolitical events. As shown in Table 1, the energy sector experienced the most substantial change, with a 2.88% increase in share prices, driven by concerns about disruptions in global energy supplies and rising commodity prices. Other sectors exhibited moderate changes, such as the infrastructure sector (2.46%) and raw goods sector (1.04%), while some sectors, including health (-2.15%) and primary consumer goods (-1.14%), experienced declines. These variations highlight differing levels of exposure to geopolitical risks, with energy stocks being the most directly affected by global oil market volatility. This underscores the importance of understanding sector-specific dynamics to help investors and policymakers effectively anticipate and respond to market fluctuations.

Table 1. Share Price Movement on Monday, October 9, 2023

No	Sector Name	Change
1	IHSG	0.04%
2	Energy Sector	2.88%
3	Infrastructure Sector	2.46%
4	Raw Goods Sector	1.04%
5	Industrial Sector	0.45%
6	Transportation and Logistics Sector	0.34%
7	Health Sector	-2.15%
8	Primary Consumer Goods Sector	-1.14%
9	Financial Sector	-0.55%
10	Technology Sector	-0.41%

Source: Processed Data IDX (2024)

Emerging markets exhibit complex reactions to geopolitical risks. For example, Agyei (2023) explores time-frequency variations during the Russian-Ukrainian conflict. Similarly, Yang et al. (2021) apply advanced GARCH-MIDAS models to analyze stock market volatility under geopolitical tensions, demonstrating the methodology's effectiveness in capturing nuanced market responses. Despite these advancements, limited attention has been given to the sector-specific impacts of such conflicts, particularly within emerging markets like Indonesia. This study addresses this gap by analyzing the energy sector's performance during the Israel-Palestine conflict.

Recent studies have explored the relationship between geopolitical risks and financial markets, particularly in emerging economies. Yang et al. (2021) applied the GARCH-MIDAS model to assess stock market volatility during geopolitical events, demonstrating the effectiveness of advanced methodologies in capturing nuanced impacts. Similarly, Agyei (2023) employed time-frequency analysis to study market responses to the Russian-Ukrainian conflict, revealing how emerging markets exhibit time-varying sensitivity to geopolitical shocks. Recent studies, such as those by Agyei (2023)

and Yang et al. (2021), have highlighted the complex interplay between geopolitical risks and emerging markets. However, existing research has primarily focused on general market impacts, leaving sector-specific analyses underexplored. This study addresses this gap by focusing on the Indonesian energy sector, offering a unique perspective on sector-specific responses to geopolitical events. Regionally, Yudaruddin & Lesmana (2024) examined the impact of the Russian-Ukrainian invasion on ASEAN industries, while Sanoyo et al. (2024) assessed the effects of geopolitical tensions on Indonesian commodity stocks. These studies underscore the growing focus on regional markets but highlight gaps in sector-specific analyses. Sari et al. (2023), for instance, analyzed abnormal returns and trading volume activity in the Indonesian Stock Exchange without focusing on the energy sector. This study addresses these gaps by investigating the impact of the October 7, 2023, Hamas attack on Israel on Indonesia's energy sector stocks. The study offers a unique perspective on sector-specific dynamics in an emerging market by examining abnormal returns, security return variability, and trading volume activity.

Indonesia's dependency on energy imports underscores the relevance of this study, particularly in the context of geopolitical conflicts such as the Israel-Palestine conflict. This study examines the performance of energy stocks to understand market reactions and investor behavior. While prior research has explored the broader impacts of geopolitical events on financial markets, limited attention has been paid to the energy sector in emerging markets like Indonesia. By addressing this gap, the study provides valuable insights into sector-specific market dynamics during global crises.

LITERATURE REVIEW

Capital Market

The capital market is a crucial platform for long-term financial instruments, including debt and equity, issued by governments, public authorities, or private entities (Husnan, 2015). It enables activities such as public offerings, securities trading, and operations of institutions and professions linked to securities, as outlined by Law No. 8 of 1995 on Capital Market. Among these instruments, stocks are notably volatile and represent ownership in companies, making them highly sensitive to market sentiment (Martin et al., 2018).

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) is integral to this study as it provides a theoretical basis for examining stock price behavior in response to the Israel-Palestine conflict. EMH asserts that stock prices fully and efficiently reflect all available information, including geopolitical developments, ensuring that securities are fairly valued (Fama, 1970). In the context of this study, the observed abnormal returns in the Indonesian energy sector following the conflict demonstrate how new information about potential disruptions in global energy supplies was rapidly absorbed into stock prices (Hartono, 2019). However, the partial stability observed in trading volume activity (TVA) and security return variability (SRV) suggests that some information may not have been fully disseminated or interpreted by the market, pointing to potential inefficiencies. This aligns with the argument by Gumanti & Utami (2002) that delays in information dissemination can result in temporary market inefficiencies, underscoring the dynamic nature of information processing in emerging markets like Indonesia.

Signaling Theory

Signaling Theory offers a valuable lens for interpreting the market reactions observed in this study. This theory explains how actions or external events serve as critical signals that provide investors with information about a company's prospects or broader economic conditions. Geopolitical events, such as the Israel-Palestine conflict, function as signals that influence investor behavior (Brigham & Houston, 2016). In this study, the conflict signaled potential disruptions in global oil supplies, leading to significant abnormal returns in the Indonesian energy sector. Caporale & Plastun (2020) argue that abnormal returns often emerge when market expectations deviate from actual signals, a phenomenon that aligns with this study's findings. By highlighting how investors interpret external signals during geopolitical crises, this framework reinforces the importance of understanding market responses to external shocks, particularly in energy-dependent emerging economies.

Rationale for Hypotheses

Geopolitical events such as the October 7, 2023, Hamas attack on Israel can cause significant disruptions to financial markets, particularly in sectors that are sensitive to global economic conditions, such as the energy sector. Events of this nature often lead to heightened investor uncertainty, resulting in abnormal returns, increased security return variability, and fluctuations in trading volume activity. Prior literature has established the strong link between geopolitical crises and market responses. For instance, Aldepis et al. (2022) emphasize the role of abnormal returns in capturing the impact of unexpected events, while Wardhana (2022) highlights the use of security return variability as an indicator of the market's reaction to new information. Similarly, Duan et al. (2024) highlight the significance of trading volume activity in reflecting investor behavior and market dynamics. Given the importance of the energy sector to Indonesia's economy and its vulnerability to global oil price fluctuations, this study aims to analyze the sector's performance in response to the Hamas attack. The study provides insights into how geopolitical tensions affect the Indonesian stock market by focusing on abnormal returns, security return variability, and trading volume activity.

Aulia & Fikri (2024) research found that there was a significant difference in abnormal return before and after the announcement of the Russian invasion of Ukraine on energy companies in ASEAN. Aulia & Fikri (2024) research found that there was a significant difference in abnormal returns before and after the announcement of the Russian invasion of Ukraine on energy issuers already listed on the Indonesia Stock Exchange. This research analyzed the difference in abnormal returns of energy sector companies before and after the Hamas attack on Israel on October 7, 2023 in the Indonesian capital market.

Hypothesis I: Abnormal Returns

Null Hypothesis (H_0): In the Indonesian stock market, abnormal returns for energy sector companies are the same before and after the Hamas attack on Israel.

Alternative Hypothesis (H_1): In the Indonesian stock market, there is a significant difference in abnormal returns for energy sector companies before and after the Hamas attack on Israel.

Research by Trisnadewi & Pradipa (2023) found that there was a significant difference in security return variability before and after the announcement of the Russia-Ukraine invasion event on companies listed in the IDX 80 index of the Indonesia Stock Exchange. The research by Rosman & Yudanto (2022) also found that there was a significant difference in the capital market of the energy sector, particularly in security return variability before and after the first case of COVID-19 in Indonesia. This study analyzed the differences in security return variability of energy sector companies following the Hamas attack from Palestine on Israel on October 7, 2023, in the Indonesian capital market.

Hypothesis II: Security Return Variability

Null Hypothesis (H_0): There is no significant difference in security return variability for energy sector companies in the Indonesian stock market before and after the Hamas attack on Israel.

Alternative Hypothesis (H_1): The Indonesian stock market experienced a significant difference in security return variability for energy sector companies before and after the Hamas attack on Israel.

Aulia & Fikri (2024) research found a significant difference in trading volume activity when the declaration of Russia's attack on Ukraine was made regarding the shares of energy companies listed on the Indonesia Stock Exchange. Additionally, the research by Habibillah & Nugroho (2023) revealed significant differences in the capital market before and after the Ministry of Energy and Mineral Resources of the Republic of Indonesia imposed a coal export ban, particularly in trading volume activity. This research will present the differences in trading volume activity of various companies in the energy sector in response to the Hamas attack on Israel on October 7, 2023, in the Indonesian capital market.

Hypothesis III: Trading Volume Activity

Null Hypothesis (H_0): There is no significant difference in trading volume activity for energy sector

companies in the Indonesian stock market before and after the Hamas attack on Israel.

Alternative Hypothesis (H_1): There is a significant difference in trading volume activity for energy sector companies in the Indonesian stock market before and after the Hamas attack on Israel.

METHODS

Study Design

This research employs an event study methodology, a robust approach for analyzing market reactions to specific events. The methodology focuses on three key metrics: abnormal returns (AAR), security return variability (ASRV), and trading volume activity (ATVA). The event window spans 10 days, from 5 days before (H-5) to 5 days after (H+5) the event date, with October 7, 2023, as the designated event day (t_0). The study captures the market's immediate reactions to the geopolitical event by isolating the event window.

Event Study

An event study is a robust methodology for assessing the impact of specific events on stock prices by analyzing how markets react to new information (Ball & Brown, 1968). The methodology provides insights into whether an event generates abnormal returns and how it influences stock volatility or trading volume. The methodology involves the following steps, as illustrated in Figure 2 and Figure 3.

Determining the Event: Identify the key event under investigation, such as the October 7, 2023, Hamas attack on Israel.

Defining the Announcement Day (t_0): Designate the event date as day t_0 , marking it as the focal point.

Determining the Event Window: Specify the event window (e.g., H-5 to H+5) to capture market reactions before and after the event (t_1 to t_2).

Excluding Confounding Events: Ensure no overlapping events distort the results during the study period.

Modeling Average Returns: Determine the model for expected returns, such as the market-adjusted or mean-adjusted models.

Defining the Estimation Period: Establish a pre-event window (estimate period) to calculate expected returns under normal conditions.

Calculating Abnormal Returns: Compute abnormal returns, average abnormal returns (AAR), and cumulative average abnormal returns (CAR).

Conducting Statistical Tests: Perform statistical significance tests (e.g., t-tests) to validate the results.

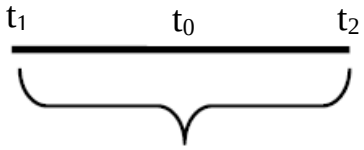

Figure 2. Event Period or Event Window
Source: Authors' own creation, based on the methodology outlined in Brown & Warner (1980, 1985) and Peterson (1989)

Figure 2 illustrates the event window (t_1 to t_2), with t_0 as the event date. The event window captures the market's immediate reactions to the event.

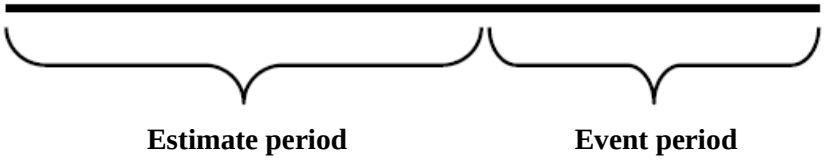

Figure 3. Estimate Period or Event Window
Source: Authors' own creation, based on Binder (1998) and Peterson (1989)

Figure 3 depicts the distinction between the estimation period and the event period. The estimation period calculates expected returns, while the event period measures the market's response**.**

Metrics for Analysis

The event study methodology employs several metrics to evaluate market behavior, including abnormal returns, security return variability, and trading volume activity.

Abnormal Returns (AR)

Abnormal return represents the difference between the actual and expected returns of a stock during the event window period (MacKinlay, 1997). This difference reflects the abnormal return obtained by investors. A positive abnormal return occurs when the actual return exceeds the expected return, whereas a negative abnormal return occurs when the actual return is less than the expected return (Aldepis et al., 2022).

The abnormal return ($AR_{i,t}$) is calculated using the following formula (Brown & Warner, 1985):

$AR_{i,t} = R_{i,t} - E(R_{i,t})$

Description:

$AR_{i,t}$: Abnormal return of stock i on day t.
$R_{i,t}$: Actual return of stock i on day t.
$E(R_{i,t})$: Expected return of stock i on day t.

To analyze multiple stocks, the calculation can be extended to the average abnormal return (AAR) as follows:

$$AAR_{i,t} = \frac{\sum AR_{i,t}}{n}$$

Description:

$AAR_{i,t}$ = Average abnormal return of security i on period t.
$\sum AR_{i,t}$ = Total abnormal return of security i in period t.
n = Number of companies.

Security Return Variability (SRV)

Security return variability (SRV) is a method used to determine whether the announcement of an event contains informative content by observing the changes in returns when new information is received, which affects the variability of stock returns (Wardhana, 2022). SRV is calculated by dividing the abnormal return of a company by the variance of the abnormal return. The formula for SRV is as follows:

$$SRV_{i,t} = \frac{AR^2_{i,t}}{VAR_{i,t}}$$

Description:

$SRV_{i,t}$ = Security return variability of security i in period t
$AR^2_{i,t}$ = Abnormal return of security i in period t
$VAR_{i,t}$ = Variance of abnormal return of security i in period t

After determining the security return variability, the next step is to calculate the average security return variability using the following formula:

$$ASRV_{i,t} = \frac{\sum SRV_{i,t}}{n}$$

Description:

$ASRV_{i,t}$ = Average security return variability of security i in period t.
$SRV_{i,t}^2$ = Total security return variability of security i in period t.
n = Number of companies.

Trading Volume Activity

Trading Volume Activity (TVA) represents the total volume of transactions for specific stocks in the stock market during a given period. It serves as a key indicator of investor interest and behavior, reflecting the buying and selling activity level in the market. TVA is quantified by the total number of shares traded within a specific period, highlighting the intensity of market activity for a company's stock (Duan et al., 2024). Foster (1986) elaborates on the methodology for analyzing financial data and market metrics, including trading volume, providing a foundation for understanding TVA calculations in the context of financial analysis.

$$TVA_{i,t} = \frac{\sum \text{Share i traded in period t}}{\sum \text{Share i outstanding in period t}}$$

Subsequently, the calculated trading volume activity can be averaged using the following formula:

$$ATVA_{i,t} = \frac{\sum TVA_{i,t}}{n}$$

Description:

$ATVA_{i,t}$ = Average trading volume activity of security I period t
$\sum TVA_{i,t}$ = Total trading volume activity of security I in period t
n = Number of companies

Rationale for Event Study Approach

The event study methodology was chosen due to its effectiveness in isolating the impact of specific events on stock market performance. By analyzing AAR, ASRV, and ATVA within a defined event window, the methodology enables precise measurement of market reactions while accounting for normal market conditions through pre-event period analysis.

Population and Sample

The population for this study consists of 66 energy companies listed on the Indonesia Stock Exchange (IDX). From this population, the sample includes energy sector stocks that were actively traded during the event period, ensuring the data accurately reflects market responses to the geopolitical event. The sample selection was based on the following inclusion criteria: the stock must have continuous trading data during the observation period, which spans from five days before to five days after the event (H-5 to H+5), and the company must belong to the energy sector as classified by the IDX.

Data Collection and Processing

Data collection for this study involved obtaining daily closing stock prices to calculate abnormal returns, trading volumes to evaluate trading volume activity, and variance in stock returns to assess security return variability. These data were sourced from the IDX and processed using statistical software and Microsoft Excel to compute descriptive statistics, including mean, standard deviation, minimum, and maximum values, providing a comprehensive understanding of market behavior during the event period. To test the hypotheses, statistical methods such as the t-test and the Wilcoxon Signed Rank Test were applied, enabling the analysis of significant changes in Average Abnormal Returns (AAR), Average Security Return Variability (ASRV), and Average Trading Volume Activity (ATVA) before and after the event.

FINDINGS

This section presents the results of the statistical analysis conducted to assess the market reactions of Indonesian energy sector stocks in response to the geopolitical event, the Hamas attack on Israel on October 7, 2023. Using the event study methodology, we analyze the key metrics of abnormal returns (AAR), security return variability (ASRV), and trading volume activity (ATVA). The findings provide insights into the market's reaction to the event, revealing both significant shifts and stability in various market measures. The descriptive statistics, hypothesis testing results, and interpretations of these findings are outlined below.

Descriptive Statistical Analysis

The study utilized quantitative data, specifically secondary data from the closing stock prices of Indonesian energy sector companies and the IHSG, covering the period from t-5 to t+5 surrounding the Hamas attack on Israel on October 7, 2023. The analysis focused on three key metrics: abnormal returns (AAR), security return variability (ASRV), and trading volume activity (ATVA).

The findings reveal trends in these metrics across the 10-day study period. As shown in Table 2, AAR was positive before the event date, except for t-4, which recorded a negative value. After the event, AAR decreased, with the most pronounced decline occurring from t+3 to t+5, indicating a negative impact on the performance of average energy sector stocks following the attack.

Table 2. Calculation Results of AAR, ASRV, and ATVA during the Event Period

Period	AAR	ASRV	ATVA
t-5	0.0155	1028.4806	0.0045
t-4	-0.0086	17.3572	0.0075
t-3	0.0080	69.7381	0.0065
t-2	0.0185	22.9257	0.0040
t-1	0.0231	28.6187	0.0034
t+1	0.0011	18.8314	0.0041
t+2	0.0046	287.7507	0.0087
t+3	-0.0187	21.2493	0.0076
t+4	-0.0088	55.8253	0.0052
t+5	-0.0038	141.8815	0.0079

Source: Data processed (2024)

ASRV fluctuated before the event, with the highest variance observed on t-5, and continued to show variability after the event, peaking on t+2 and t+5. As illustrated in Table 2, these trends suggest heightened market uncertainty. However, the overall trend in ASRV remains inconclusive. ATVA declined as the event date approached, followed by an increase, peaking on t+2. This pattern indicates initial caution among investors, followed by increased trading volume as the market adjusted to the geopolitical developments. However, no sustained differences were observed beyond the peak at t+2, reflecting the absence of a long-term impact on trading behavior.

Descriptive statistics, as presented in Table 3, further support these observations. AAR ranged from a minimum of -0.01867 to a maximum of 0.02307, with a mean of 0.00310 and a standard deviation of 0.01341. ASRV varied from 17.35717 to 1028.48057, with a mean of 169.266 and a standard deviation of 313.51516. ATVA ranged from 0.00343 to 0.00874, with a mean of 0.00594 and a standard deviation of 0.00192. These results suggest significant variability in market reactions to the geopolitical event.

Table 3. Descriptive Statistic AAR, ASRV, and ATVA

Indicator	N	Minimum	Maximum	Mean	Std. Deviation
AAR	10	-0.01867	0.02307	0.00310	0.01341
ASRV	10	17.35717	1028.48057	169.266	313.51516
ATVA	10	0.00343	0.00874	0.00594	0.00192

Source: Data processed (2024)

Normality Test

The normality test was conducted to determine the appropriate statistical approach for hypothesis testing, specifically whether to apply parametric or non-parametric methods. The results of the normality test for AAR, ASRV, and ATVA are presented in Table 4.

As shown in Table 4, the normality test results for AAR, ASRV, and ATVA during the Israel-Palestine war event, specifically the Hamas attack on Israel on October 7, 2023, indicate a significance level of less than 0.05. This suggests that the data for these variables are not normally distributed. Consequently, non-parametric tests, specifically the Wilcoxon Signed Ranks Test, will be applied to analyze the AAR, ASRV, and ATVA hypotheses.

Table 4. Normality Test Results of AAR, ASRV, and ATVA

Indicator	Std. Dev.	Observations	Sig.
AAR	0.0240	132.0000	0.0000
ASRV	1169.4040	132.0000	0.0000
ATVA	0.0160	132.0000	0.0000

Source: Data processed (2024)

Hypothesis Testing

Hypothesis testing was performed to evaluate the significance of AAR, ASRV, and ATVA during the event period from t-5 to t+5, with the event date (t_0) on October 7, 2023. The significance test results for AAR, ASRV, and ATVA are presented in Table 5.

Table 5. Average Difference Test Results for AAR, ASRV, and ATVA

Indicator	Z Asymp. Sig. (2 tailed)
AAR	0.0000
ASRV	0.5470
ATVA	1.0000

Source: Data processed (2024)

As shown in Table 5, AAR has a significance value of less than 0.05, meaning the null hypothesis (H_0), which posits no difference before and after the event, is rejected. This suggests that there is a significant difference in abnormal returns for energy sector stocks before and after the Hamas attack on Israel.

The significant abnormal returns observed align with signaling theory, suggesting that market participants viewed the event as impactful for energy stocks. However, the stability in ASRV and ATVA highlights the market's resilience, likely due to the limited disruption of global energy supply chains. These findings are consistent with previous studies by Trisnadewi & Pradipa (2023) and Banan & Tristiarto (2023).

The results emphasize the importance of closely monitoring geopolitical events and their potential sector-specific impacts. For instance, during conflicts affecting energy prices, investors may adjust their portfolios by reallocating resources to sectors expected to benefit. Policymakers can also utilize these findings to establish financial safeguards, thereby promoting investor confidence during global crises. Measures such as enhanced transparency and stabilization policies could be vital to mitigate market volatility.

DISCUSSION

The findings of this study provide crucial insights into the behavior of the Indonesian energy sector stocks during the event window surrounding the October 7, 2023, Hamas attack on Israel. These results emphasize the nuanced ways in which geopolitical events can influence stock market dynamics, with varying degrees of impact on abnormal returns (AAR), security return variability (ASRV), and trading volume activity (ATVA).

The observed significant changes in AAR before and after the event highlight the sensitivity of market participants to geopolitical tensions. Positive AARs before the event indicate a period of optimism or stability, while negative AARs after the event reflect a shift in investor sentiment. This aligns with the signaling theory, which posits that external events serve as critical signals to the market, influencing investor expectations (Bhattacharjee et al., 2025; Hassouneh et al., 2018). In this case, the market's reaction to the geopolitical crisis suggests that investors anticipated potential global energy supply chain disruptions, even though such disruptions did not materialize substantially. These findings are consistent with prior research on the impact of geopolitical events on market performance (Hartono, 2019).

The fluctuating ASRV values, with peaks on t-5 and t+2, demonstrate moments of heightened uncertainty in the market. However, the lack of significant differences in ASRV before and after the event suggests that the market overall exhibited resilience. This stability could be attributed to the relatively indirect impact of the conflict on Indonesia's energy sector, as major energy-exporting countries like Saudi Arabia and the United States refrained from intervening in ways that would disrupt

global supply chains. These findings align with previous studies Hassouneh et al. (2018), which found that regional conflicts often have limited long-term effects on neighboring markets unless supply chains are directly affected. Furthermore, the lack of substantial differences in ASRV supports the conclusions drawn by Aulia & Fikri (2024), who observed similar trends in other geopolitical events.

TVA displayed a noticeable decline approaching the event date, followed by a peak on t+2. This pattern suggests initial caution among investors as the geopolitical event unfolded, followed by increased trading activity as market participants adjusted their positions based on new information. Despite this peak, the lack of a significant difference in ATVA indicates that the event did not lead to a sustained change in trading behavior. This finding supports the idea that investors viewed the conflict as an ongoing situation with limited immediate impact on the energy sector. The absence of long-term impact on trading volume activity corresponds with findings by Banan & Tristiarto (2023), who found no significant difference in trading volume during similar event periods.

These findings provide empirical support for the signaling theory in the context of emerging markets. The significant changes in AAR underscore how market participants interpret geopolitical events as signals of potential risk or opportunity (Bhattacharjee et al., 2025). The stability in ASRV and ATVA further suggests that markets in emerging economies like Indonesia can absorb external shocks without substantial volatility when fundamental supply chain disruptions are absent, as Hartono (2019) indicates.

The results emphasize the importance of closely monitoring geopolitical events and their potential sector-specific impacts. For example, when geopolitical tension affects energy prices, investors might consider reallocating resources to sectors that are expected to benefit. For instance, energy diversification strategies could be prudent in response to such geopolitical risks (Aulia & Fikri, 2024). Furthermore, policymakers can leverage these findings to establish financial safeguards that promote investor confidence during global crises. Measures such as enhanced transparency and stabilization policies could be vital to mitigate market volatility (Aulia & Fikri, 2024). For investors, the study highlights the importance of anticipating market responses to such events and adjusting portfolios accordingly. Similarly, the results underscore the need for proactive financial policies to foster stability and resilience during geopolitical uncertainty, a theme also reflected in the research by (Trisnadewi & Pradipa, 2023).

These findings are consistent with studies like Bhattacharjee et al. (2025) and Hassouneh et al. (2018), which emphasize that geopolitical events can trigger immediate market reactions but do not always lead to sustained volatility, especially in sectors insulated from direct impacts. Moreover, the observed stability in SRV and ATVA supports the argument by Hartono (2019) that market inefficiencies arising from specific events tend to be temporary.

CONCLUSION

This study concludes that the Israel-Palestine conflict significantly influenced abnormal returns (AAR) in Indonesia's energy sector stocks. In contrast, security return variability (SRV) and trading volume activity (ATVA) remained relatively stable. These findings underscore the importance of understanding sector-specific market dynamics in response to geopolitical crises. The results suggest that investors should consider diversification strategies to mitigate risks associated with geopolitical tensions. Moreover, policymakers should adopt measures that promote market stability and enhance investor confidence, such as ensuring clear communication about economic resilience and the stability of supply chains during global crises. While this study provides valuable insights, its focus on a single sector and event limits its generalizability. The reliance on short-term event windows further constrains the ability to assess longer-term effects or broader market trends. Future research should explore the cross-sectoral impacts of geopolitical events and examine multiple crises to understand better how emerging markets respond to external shocks and disruptions.

CONFLICT OF INTEREST STATEMENT

The author declare no potential conflict of interest was reported by the author.

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