HOW GLOBAL EVENTS ARE SHAPING STOCK MARKET PRICES: A LOOK AT RECENT VOLATILITY

Anna Stevens, University of Oxford

ABSTRACT

This article examines the impact of global events on stock market prices, exploring how geopolitical tensions, economic policies, natural disasters, and health crises contribute to market volatility. As global economies become increasingly interconnected, market reactions to events around the world have grown more immediate and profound. By understanding these influences, investors and policymakers can better navigate the uncertainties of the modern financial landscape. Through recent examples, this article highlights how these global developments drive market behaviour, shedding light on the challenges and opportunities presented by today's interconnected financial world.

Keywords: Stock Market, Global Events, Volatility, Geopolitical Tensions, Economic Policy, Market Trends, Financial Markets, Crisis Impact, Investor Behaviour, Economic Interconnectedness.

INTRODUCTION

Stock markets worldwide are highly sensitive to global events, reflecting the sentiments, expectations, and reactions of investors and institutions to developments that can potentially impact economies. Whether it's political tensions, economic policies, or health emergencies, global events exert a powerful influence on stock prices (Obstfeld & Taylor, 2003). Recent years have underscored this relationship as multiple crises and policy changes continue to stir markets, driving volatility that affects investors, businesses, and nations alike.

Geopolitical Tensions and Their Immediate Effects

Geopolitical events, such as conflicts, trade disputes, and diplomatic crises, have a pronounced impact on stock prices. For example, tensions between major economies like the United States and China can lead to investor uncertainty, with markets experiencing sharp swings. The ripple effect of tariffs, sanctions, and supply chain disruptions creates an environment of volatility, as investors adjust their portfolios based on anticipated risks and potential losses across affected sectors (Bak et al., 1997).

Economic Policies and Central Bank Decisions

Central banks play a pivotal role in shaping stock markets, particularly through interest rate adjustments and monetary policy. Policies aimed at controlling inflation or stimulating growth often impact investor confidence and stock prices. For instance, when a major central bank announces a rate hike, it tends to raise borrowing costs, potentially reducing corporate profits and leading to stock market declines. Conversely, rate cuts or fiscal stimulus announcements can boost markets by creating more favourable conditions for businesses.

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The Impact of Global Health Crises

The COVID-19 pandemic illustrated the profound impact health crises can have on financial markets. Lockdowns, travel restrictions, and disruptions to business operations led to a sharp market sell-off in early 2020, as investors recalibrated for a rapidly changing economic landscape. Stock markets subsequently rebounded with the development of vaccines, but the episode underscored the vulnerability of financial markets to unexpected health crises, prompting investors to reassess risk factors related to global health events (Manela & Moreira, 2017).

Natural Disasters and Environmental Factors

Natural disasters, including hurricanes, wildfires, and floods, also influence stock markets, particularly in sectors like insurance, agriculture, and energy. For example, severe weather events can disrupt production in affected regions, increasing costs and decreasing profitability. The escalating frequency and severity of climate-related events further amplify these effects, as investors grow more concerned about long-term economic impacts and factor environmental risks into stock valuations.

Technological Disruptions and Cybersecurity Threats

With the increasing reliance on technology, cybersecurity threats have become a growing factor in stock market volatility. Major breaches can erode consumer trust and result in costly security overhauls, negatively impacting stock prices of the affected companies (Fleming et al., 1998). Additionally, the rapid pace of technological innovation poses a challenge for industries that struggle to adapt, creating winners and losers across the market and driving volatility as investors respond to technological shifts (Peters, 1996).

Supply Chain Disruptions and Commodity Price Shocks

Global supply chains are increasingly complex, and disruptions can create significant volatility in stock prices. Events such as the COVID-19 pandemic and the Russia-Ukraine conflict have demonstrated the vulnerability of supply chains, particularly for critical commodities like oil and gas (Owusu, 2023). Commodity price shocks, whether due to natural disasters or political conflicts, can lead to inflationary pressures, affecting both consumer prices and the broader stock market.

Investor Sentiment and Herd Behavior

Global events often influence investor sentiment, which can lead to herd behavior—where investors collectively respond to perceived risks by buying or selling stocks en masse. This behavior can exacerbate price swings, as seen during periods of economic uncertainty when investors tend to favor safe-haven assets like gold (Bekaert & Harvey, 1997). By understanding these psychological factors, investors can gain insights into market trends and better prepare for periods of heightened volatility (Wright, 2011).

Short-Term Versus Long-Term Effects

While global events can have immediate impacts on stock prices, the effects are often short-lived, with markets eventually stabilizing as uncertainties fade. However, certain events—like the rise of inflation or major policy shifts—can create long-term effects, altering

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market trends for years (Hussain et al., 2019). Investors who can differentiate between short-term volatility and long-term shifts are better positioned to make informed decisions during global crises.

The Role of Economic Interconnectedness

Today's economies are more interconnected than ever, amplifying the influence of global events on stock markets. A crisis in one country can quickly spread through trade and financial links, affecting markets worldwide (Taylor, 2011). As seen in the 2008 financial crisis, contagion can lead to a global market downturn, underscoring the importance of understanding economic interconnectedness when evaluating risk in today's stock markets.

CONCLUSION

Global events play an undeniable role in shaping stock market prices, contributing to both short-term volatility and long-term trends. From geopolitical tensions to health crises and technological disruptions, these events remind investors of the complexity of modern markets and the need to stay informed. Recognizing the interplay between global events and stock prices can empower investors to make more resilient, adaptable decisions, navigating volatility with a clearer perspective on how external forces shape financial markets.

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