

NANCY PELOSI'S VISIT TO TAIWAN AND STOCK INDICES RESPONSES: AN EVENT STUDY AND PANEL DATA ANALYSIS FOR ASIA-PACIFIC AND SELECTED MARKETS

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Abstract *Traditional financial market-based analyses of the anticipated effects of policy changes have only ever been retrospective. In this study, we provide an example to illustrate how prediction markets enable markets to be used to estimate policy effects in the future. In this article, we use an event study approach to empirically study the effect of Nancy Pelosi's visit to Taiwan on stock indices performance in the Asia-Pacific region, the United States, and selected indices in Europe. The observed window comprises 10 days post the Nancy Pelosi's visit, and the estimation window consists of 150 days before the event date. We found that the effect of visit has not been significant on the stock indices except Hong-Kong and China that too for very short-term. Our analysis enables us to identify how not all the news would be having an impact on stock indices. The investment community and academics can predict stock return behaviour and the dynamics of the first two minutes during crises by observing how stock return behaviour changes in response to financial crises.*

Keywords: *Event Study, Nancy Pelosi, Panel Data, Abnormal Returns, Asia-Pacific Markets*

INTRODUCTION

Important economic investors and other economic agents find it difficult to foresee the effects of a policy decision when a government is considering it. The conflict is typically engaged in independently or in small groups, with economists or decision-makers available to observe the outcome. Experts can communicate policy estimations, but their self-declared evaluations lack objectivity and could be influenced by political factors. In order to comprehend the effects of the Nancy Pelosi's visit to Taiwan, our investigation concentrated on choices that were made public on financial markets in a few selected countries.

The last time a US Speaker visited Taiwan was Newt Gingrich of the Republican Party in April 1997. Pelosi is the highest-level US politician to visit Taiwan since that time, as Speaker of the US House of Representatives; she is next in line to become president of the US after the vice president. Pelosi's plans to visit Taiwan were originally announced by the Japanese news outlet Fuji News Network on April 7, 2022. She was diagnosed with COVID-19 and had to cancel her trip to Asia. The Financial Times reported on July 19, 2022, that Pelosi might make a stop in Taiwan as part of her Asian tour ("2022 visit by Nancy Pelosi to Taiwan", 2022).

The purpose of Pelosi's trip to Asia, which initially only included Singapore, Malaysia, South Korea and Japan, was to "reaffirm America's unwavering commitment to its allies and friends in the area", according to the announcement made on July 31, 2022. It was still unclear whether the visit to Taiwan would happen early on the morning of the scheduled day, August 2. John Kirby, a representative of the White House Coordinator for Strategic Communications at the National Security Council, stated on the evening of August 1 (EDT) that China might retaliate by launching a missile near Taiwan or by engaging in other military drills to express its disapproval of an American politician's visit. Kirby added that the US was unafraid of China's threats and would not remain silent in the case of any confrontation ("2022 visit by Nancy Pelosi to Taiwan", 2022).

On August 2, Pelosi penned the following in an opinion piece for The Washington Post: "We embark on this journey as the globe struggles to decide between democracy and autocracy. It is imperative that America and our allies make it plain that we never yield to autocrats as Russia carries out its premeditated, illegal war against Ukraine, killing thousands of innocent people, including children". Pelosi has long criticised the People Republic of China (PRC) government and spoken out against its violations of human rights. In the

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2000s, she opposed the US establishing closer economic relations with the PRC rule. She has also demanded a diplomatic boycott of the 2022 Winter Olympics in Beijing, China (“2022 visit by Nancy Pelosi to Taiwan”, 2022).

On August 3, Pelosi addressed the legislature in a short speech, saying Taiwan was “one of the freest societies in the world.” She further campaigned for US economic collaboration with Taiwan with CHIPS Act, and in issues linked to climate change, the COVID-19 pandemic, and democracy. Pelosi stated in a news release that the visit “in no way goes against established US policy, as established by the US-China Joint Communiqués, the Six Assurances, and the Taiwan Relations Act of 1979. The United States is still opposed to any unilateral attempts to alter the current situation”. At a news conference held during the visit, National Security Council (NSC) representative Kirby reaffirmed this viewpoint, saying, “The Speaker’s visit is fully consistent with our long-standing One China policy” (“2022 visit by Nancy Pelosi to Taiwan”, 2022).

We have gone through the literature review and could not find any research that have examined the volatility impact of the Nancy Pelosi’s visit to Taiwan on the financial markets in the US, selected markets in Europe, and Asia-Pacific region. This study helps in understanding the consequences of the Nancy Pelosi’s visit to Taiwan in prediction of financial market data in select stock indices. Our analysis may prompt a rethinking of how the relevant news can explain stock market movements.

LITERATURE REVIEW

The scholarly literature considers war, along with financial crises, pandemics, natural catastrophes, elections and terrorist attacks, to be a “black swan” occurrence. Global equity markets are affected by all of these occurrences (Yousaf et al., 2022). A black swan is an unforeseen incident that exceeds expectations in a scenario and could have serious repercussions. During crises, there is tremendous stock market volatility, which causes both established and emerging market stock prices to drop dramatically. But emerging markets suffer immediate, severe and protracted effects (Al-Rjoub & Azzam, 2012). Stock prices change as a result of investor worry about a company’s potential profitability caused by military conflicts (Yousaf et al., 2022). Due to the unexpected COVID-19 health crisis, academic interest in analysing the financial effects of black swan events has lately increased, with a focus on how different financial markets have responded and recovered (Ganie et al., 2022; He et al., 2020; Kumar et al., 2021; Singh et al., 2020).

The way China reacts to Pelosi’s visit to Taiwan could affect supply and demand, which could contribute to continued

inflationary pressures. As risk appetite may be affected by the controversies surrounding House Speaker Pelosi’s trip to Taiwan, cryptos may also suffer. Markets are already a little uneasy and are likely to decline in Asia. It will have a considerably greater effect on share market declines and safe haven assets (\$US, bonds, and gold will benefit) if it gets closer to an actual conflict, but this seems unlikely. Longer term, it foresees a rise in risk premiums as tensions between the West and China/Russia continue to escalate (Bloomberg, 2022).

The research done by Ahmad et al., in 2021 investigated the impact of COVID-19 outbreak on the US, UK and European stock markets, identifying the crucial events using endogenous structural break models and factor-augmented event study methods. Apart from few sectors in the US, UK and Europe, we find that the influence of the coronavirus outbreak to the degree of black swan events is obvious in March and that, until the end of March 2020, investors had little possibilities for investment owing to black swan events (Ahmad et al., 2021).

Lin and Tsai studied the impact of China’s stock market crash on August 24, 2015 on global stock markets. To determine whether stock price indices converged or dispersed over time on days of high volatility, the quantile autoregression unit-root test was applied. The findings show that a black swan event could only be attributed to the unexpected decline on May 28. China’s stock markets showed strong mean reversion corrections on other trading days, and the degree of price volatility had an impact on how quickly the markets recovered. Additionally, intraday stock price variations and corrections showed wave patterns of gradual increases and sharp declines after instances of stock price volatility, demonstrating that over-reactions and under-reactions occurred one after the other (Lin & Tsai, 2019).

Azmi (2022) studied the impact of COVID-19 on the stock prices of hotel industry in Europe using event study methodology. He used a sample of 15 listed companies in the hotel industry from Europe and found significantly negative average abnormal return (AAR) and significantly negative cumulative abnormal return (CAR) during 2nd and 3rd event. The stimulus packages provided by the government helped uplifting the hotel business.

Rizvi et al. (2022), examined the market dynamics of Sensex and its performance pre-election and post-election and during natural disasters and terrorist attacks. They used event study methodology check the impact of the event on the Indian indices. They found the returns to be significantly negative on one day prior to the event.

Mishra et al. (2021), studied the state of the stock market due to the recurring landslides in the Uttarakhand region in

India. This study will help to determine the loss faced by the companies in the Indian stock market. They had followed event study methodology to study the shock effect due to the natural disaster and found that the disaster had a negative shock on the Indian stock market. The market has shown a negative trend in its abnormal returns on and after the event day. Conversely, as the news of relief programmes were released by the government after three or four days, the market again started becoming normal.

Narain and Rani (2019), studied the impact of demonetisation on various companies in the Indian market using event study methodology. It was found that the demonetisation had a significant impact on the Reality sector which experienced the highest fall of over 12% on the next trading day after the announcement among all the 41 sectors of the sample. While the IT sector recovered to the early losses, few vital sectors like Food & Agro-based Products, FMGC, Textiles, Small Cap 50 and India Manufacturing, have larger ramifications for the informal sector of Indian economy affecting employment, sustenance and economic activities succumbed to the overall negative sentiment.

Joshi et al. (2023), examined how the outbreak of the Russia-Ukraine war affected specific stock indices in the Asia-Pacific region, the United States and Europe. They used event study methodology and found that the event day's abnormal returns indicate that the war's outbreak had a significantly negative impact on most indices. For example, countries like Australia, Germany, Pakistan, India, Singapore, Vietnam, Mongolia, Malaysia, Bangladesh and the Philippines show significantly negative returns the day after the war's outbreak. All indices continue to have significantly negative returns in the rest of the post-event window, except Australia, Bangladesh, India and the Philippines. Their analysis enabled them to identify which countries in the Asia-Pacific region along with selected markets from the Europe region, the counties directly bordering Ukraine were most vulnerable to war news and when the immediate consequences of the war were better than expected, confirming these cross-sectional implications.

DATA AND RESEARCH METHODOLOGY

Data Description

For the purpose of this study using the event study methodology, we attempt to divulge the behaviour of the stock indices amid Nancy Pelosi's visit to Taiwan. The event study is one of the most appropriate methodology for examining the effect of an event on the index returns

over the period of an event. Event study methodology helps in estimating how the indices perform in the context of an event (Anwar et al., 2017).

Many studies recommended that the event study methodology is the most suitable tool to evaluate Abnormal Returns after the announcement of an event (Brown & Warner, 1985; MacKinlay, 1997). According by Bowman (1983), we estimate the abnormal returns using an event study, and it includes decisions over choice of the event of interest, the event window, the estimation window and the estimation model which are required to be defined properly.

We have taken 2nd August, 2022 as the event date, the day on which Nancy Pelosi visited Taiwan signifying the United States' "unwavering commitment to supporting Taiwan's vibrant democracy (Mozut et al., 2022). The event window is of 21 days from $t - 10$ days to $t + 10$ days. The estimation window is of 150 trading days from $t - 160$ days to $t - 11$ days. For event study using daily data, (Anwar et al., 2017; Lalwani et al., 2019), suggested the estimation window of 150 days which is sufficient for providing a standard for normal returns.

Nancy Pelosi's official visit to Taipei has a significant impact on a lot of economies across the world but the focus of this study to investigate the impact on stock indices in the Asia-Pacific region and selected stock indices from developed economies like the USA, UK, Germany and France. The Asia-Pacific economies are some of the largest economies of the world which include developing as well as developed countries. The Asia-Pacific region contributes highest Gross Domestic Product (at current prices) of the world around 38.9 thousand billion of US dollars along with a heavy contribution in the international trade and 60% of the world population. We have examined the stock indices of 20 counties from the Asia-Pacific region along with four developed markets. Taiwan being the part of the Asia-Pacific region, this study focuses to study the impact of this event on the neighbouring countries in the region and selected indices from the USA and Europe.

Methodology

The expected returns of the indices are calculated using market model as it divulges the better returns using event study methodology. The daily expected return is calculated for the estimation window using the following equation:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

Where $E(R_{it})$ is the expected return of an index on day t , R_{mt} is the return of the Morgan Stanley Capital International (MSCI) All Country World Index on day t .

The actual return of an index is calculated using the natural log of returns using the following equation:

$$R_t = \ln\left(\frac{P_t}{P_{t-1}}\right) \times 100 \tag{2}$$

Where, P_t is the price of the index on day t ; and P_{t-1} is the Price of the index on day before day t .

AR and CAR

The ARs are calculated as the difference between the actual returns and the expected returns of an index using the equation given below:

$$AR_t = R_t - E(R_t) \tag{3}$$

Where, AR_t is the abnormal return on index on day t . R_t is the actual return of the index on day t .

CARs of an index over a window from t_0 to t_1 are calculated using the following equation:

$$CAR_i(t_0, t_1) = \sum_{t=0}^1 AR_{i,t} \tag{4}$$

To understand the overall impact of the event on the behaviour of the stock indices, AAR are calculated and to understand the accumulated impact of the event, cumulative average abnormal returns (CAAR) for the event window are calculated using the following equations:

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{i,t} \tag{5}$$

$$CAAR_t(t_0, t_1) = \sum_{t=0}^1 AAR_t \tag{6}$$

RESULTS AND DISCUSSION

The abnormal returns and their respective statistical significance for the sample indices for the event day are shown in Table 1. The results show that the highest significant abnormal returns are in Hang Seng stock index (-3.504%) followed by China (-1.605%). The abnormal returns of other developing countries in the Asia-Pacific region have shown insignificantly negative returns on the day of event like Singapore (-0.743%), Pakistan (-0.039%), Thailand (-0.708%), Vietnam (-0.268%), Bangladesh (-0.424%), Malaysia (-0.614%), Laos (-0.075%), Philippines (-0.542%), Sri Lanka (-0.042%) and Mongolia (-0.381%). India (0.333%), Indonesia (0.442%), Taiwan (0.055%) and South Korea (0.568%) are the developing countries which have shown positive insignificant return on the event day. Among the developed markets in the Asia-Pacific region, Japan (-0.806%) shown insignificant negative abnormal returns whereas Australia (-0.783%) and New Zealand (0.407%) has shown positive insignificant returns on the day of event.

The developed markets in the Europe like UK (0.929%), Germany (0.289%) and France (0.113%) and the US market (0.636%) are having positive and insignificant abnormal returns.

Table 1: Abnormal Returns of the Event Day (t = 0)

Indices	Abnormal Returns on the Event Day	T-Statistic
Nifty 50	0.333	0.401
Indonesia	0.442	0.509
Shanghai (China)	-1.605	-2.037**
Hang Seng (Hong Kong)	-3.504	-3.012*
Nikkei 225 (Japan)	-0.806	-0.893
Taiwan	0.055	0.04
KOSPI (South Korea)	0.568	0.832
Straits (Singapore)	-0.743	-0.819
ASX 200 (Australia)	0.783	0.795
KSE 30 (Pakistan)	-0.039	-0.046
NZX 50 (New Zealand)	0.407	0.564
THAI SET 50 (Thailand)	-0.708	-0.856
HNX (Vietnam)	-0.268	-0.348
DSE (Bangladesh)	-0.424	-0.435
FTSE Malaysia	-0.614	-0.724
Laos (Laos)	-0.075	-0.106
PSEi (Philippines)	-0.542	-0.617
CSE (Sri Lanka)	-0.042	-0.275
MSE 20 (Mongolia)	-0.381	-0.486
Germany	0.289	0.384
USA	0.636	0.786
UK	0.929	1.029
France	0.113	0.276

Table 2 shows the AARs and CAARs of all the sample indices combined for the event for the event window. The AARs of all the sample indices together have shown significantly negative returns during the event window on $t - 3$ day and the day of event whereas the AARs are insignificantly negative on the next day of the event. The CAARs of all the indices are found to be significantly negative on the day of event and positively significant on $t + 8$ and $t + 9$ of the post event days of the window. The results of CAARs show that the stock indices in the Asia-Pacific region not responded strappingly to the information of Nancy Pelosi’s visit to Taiwan. Though the USA is one of the prominent political economy with many of the Asia-Pacific countries and other regions of the world but did not result in severe impact on the performance of the stock indices and the economies.

Table 2: AARs and CAARs for the Sample Indices during the Event Window

Day	AAR	AAR _{t-statistic}	CAAR	CAAR _{t-statistic}
t-10	-0.603	-0.655	-0.531	-0.754
t-9	0.719	0.763	0.152	0.106
t-8	-0.410	-0.550	-0.761	-0.868
t-7	-0.310	-0.574	-0.889	-0.894
t-6	0.311	0.462	0.734	0.892
t-5	-0.390	-0.409	-0.343	-0.381
t-4	-0.559	-0.636	-0.043	-0.056
t-3	-0.224	-0.559*	-0.284	-0.324
t-2	0.824	0.973	0.621	0.639
t-1	0.730	0.876	0.010	0.194

Day	AAR	AAR _{t-statistic}	CAAR	CAAR _{t-statistic}
t	-0.648	-0.688**	-0.766	-0.960*
t+1	-0.492	-0.573	-0.888	-0.987*
t+2	0.669	0.703	0.442	0.537
t+3	0.780	0.802	0.568	0.655
t+4	0.723	0.790	0.117	0.128
t+5	0.949	1.051	0.120	0.163
t+6	0.698	0.752	0.713	0.757
t+7	0.910	1.022	0.546	0.619
t+8	0.648	0.715	0.864	0.976*
t+9	0.685	0.806	0.748	0.971*
t+10	0.528	0.618	0.251	0.365

Table 3: Index wise Cumulative Abnormal Returns for the Event Window

	T - 10		T - 5		T - 1		T + 1		T + 5		T + 10	
	CAR	T-Value	CAR	T-Value	CAR	T-Value	CAR	T-Value	CAR	T-Value	CAR	T-Value
Hong Kong	0.331	0.002	0.122	0.902	0.825	0.193*	0.229	0.279	0.210	0.990*	0.601	0.906*
Australia	0.950	0.775	0.177	0.491	0.347	0.427	-0.900	-0.655	0.875	0.704	0.862	0.288
Taiwan	0.577	0.257	0.755	0.947	0.596	0.495	0.400	0.779	0.887	0.257	0.131	0.580
New Zealand	0.718	0.529	0.117	0.944	0.288	0.984	0.816	0.091	0.675	0.585	0.021	0.210
China	0.923	0.869	0.392	0.435	0.988	0.966*	0.735	0.979	0.319	0.431	0.017	0.635
France	0.940	0.430	0.511	0.014	0.926	0.372	0.793	0.158	0.759	0.209	0.011	0.741
Germany	0.003	0.801	0.549	0.529	0.759	0.265	0.662	0.768	0.868	0.190	0.557	0.527
Pakistan	0.449	0.314	-0.293	-0.312**	-0.233	0.316*	-0.391	-0.279	0.292	0.246	0.553	0.568
India	0.441	0.061	0.755	0.218	0.827	0.583**	-0.604	-0.021	0.784	0.397	0.289	0.376
Indonesia	0.106	0.666	0.668	0.581*	0.402	0.490**	0.624	0.984	0.028	0.515	0.371	0.388
Singapore	0.175	0.965	0.277	0.508	0.640	0.768	-0.331	-0.962	0.887	0.972	0.304	0.341
Japan	0.282	0.600	0.696	0.709	0.067	0.502	0.547	0.101	0.211	0.364	0.170	0.397
Thailand	0.726	0.916	0.591	0.802	0.868	0.781	0.797	0.320	0.562	0.106	0.168	0.772
Vietnam	0.524	0.426	-0.421	-0.713**	-0.162	-0.654**	-0.733	-0.092	0.657	0.365	0.435	0.914
Mongolia	0.589	0.580	0.430	0.010	0.513	0.222	-0.903	-0.264	0.469	0.577	0.761	0.630
Malaysia	0.374	0.568	-0.382	-0.612*	-0.209	-0.354*	-0.726	-0.024	0.510	0.825	0.173	0.648
Laos	0.002	0.886	0.148	0.275	0.004	0.590	0.827	0.343	0.026	0.331	0.087	0.413
Bangladesh	0.271	0.055	0.218	0.683	-0.198	-0.616**	-0.805	-0.777	0.099	0.283	0.362	0.520
Philippines	0.321	0.085	0.568	0.388	0.968	-0.420	0.816	-0.666	0.863	0.983	0.925	0.217
South Korea	0.865	0.398	0.678	0.402	0.282	0.410**	0.691	0.758	0.132	0.114	0.148	0.785
Sri Lanka	0.120	0.170	0.035	0.731	0.771	0.808	0.469	0.415	0.712	0.373	0.923	0.475
Germany	0.259	0.263	0.361	0.353	0.472	0.482	-0.931	-1.501	-0.311	-0.264	0.217	0.226
France	0.084	0.105	0.093	0.115	0.106	0.168	0.112	0.171	0.099	0.109	0.167	0.213
UK	0.983	0.413	0.228	0.876	0.248	0.304	0.994	0.821	0.256	0.762	0.197	0.755
USA	0.019	0.991	0.557	0.835	0.822	0.914	0.298	0.691	0.808	0.827	0.807	0.394

We calculate the cumulative abnormal returns of each stock index individually using the pre-event and post-event periods by taking the window of 1 – day, 5 – days and 10 – days. The results indicate that no country has shown a significant cumulative average return for 10 days before the event. For five days prior to the event, Indonesia has shown positive and significant returns whereas Pakistan, Vietnam and Malaysia have shown negative and significant returns. For one day before the event, CARs for countries like Hong Kong, China, India, Indonesia and South Korea are significantly positive whereas Pakistan, Vietnam, Malaysia and Bangladesh have significantly negative returns. These

results show that various countries' indices have responded differently on the information of Nancy Pelosi's visit to Taiwan based on the expected impact on their respective economies.

In the days after the event, cumulative abnormal returns of most of the indices are negative. The countries like Australia, Germany, Pakistan, India, Singapore, Vietnam, Mongolia, Malaysia, Bangladesh and Philippines are having insignificantly negative returns on the next day of the event. Out of these indices/countries, except Hong Kong, all other indices continue to have insignificantly positive returns in rest of the periods of the post-event window.

Table 4: Panel Wise AARs and CAARs Based on Regions and Development of Markets

	T – 10	T – 8	T – 6	T – 4	T – 2	T	T + 2	T + 4	T + 6	T + 8	T + 10
Panel A: Asia – Pacific Markets											
AAR	0.657	0.142	0.550	0.188	0.998	-0.028	-0.342	0.319	0.382	0.044	0.095
AAR _{t-statistic}	0.935	0.737	0.782	0.750	0.899	-0.640***	-0.670	0.917	0.019	0.686	0.116
CAAR	0.913	0.000	0.486	0.133	0.922	-0.823	-0.449	0.228	0.451	0.851	0.347
CAAR _{t-statistic}	0.062	0.017	0.151	0.643	0.017	-1.000**	-0.650	0.733	0.580	0.198	0.575
Panel B: Developed Markets											
AAR	0.574	0.961	0.330	0.956	0.845	-0.079	0.460	0.385	0.373	0.047	0.749
AAR _{t-statistic}	0.349	0.613	0.219	0.279	0.069	-0.706***	0.496	0.091	0.176	0.057	0.490
CAAR	0.804	0.259	0.797	0.989	0.830	-0.927	0.005	0.624	0.922	0.435	0.799
CAAR _{t-statistic}	0.137	0.923	0.246	0.486	0.640	-0.361	0.653	0.206	0.996	0.885	0.540
Panel C: USA and Europe Markets											
AAR	0.511	0.735	0.833	0.557	0.018	0.688	0.151	0.661	0.265	0.903	0.989
AAR _{t-statistic}	0.816	0.705	0.952	0.099	0.031	0.978*	0.309	0.781	0.100	0.974	0.577
CAAR	0.150	0.108	0.911	0.196	0.721	0.562	0.825	0.922	0.861	0.554	0.010
CAAR _{t-statistic}	0.005	0.615	0.706	0.080	0.447	0.919*	0.558	0.296	0.888	0.287	0.467

We further inspect the effect of Nancy Pelosi's visit on various stock indices based on the region and development levels. We examine the impact of the event by dividing the sample in three different panels namely Asia-Pacific markets, indices from the developed markets and the indices from the US and Europe markets. On the day of event the average abnormal returns of Asia-Pacific markets and developed markets in the sample are significantly negative whereas the USA and Europe markets have shown insignificantly positive returns. These results show that negative impact of the event day on the Asia-Pacific markets whereas positive impact on the USA and European markets. The AARs are continued. to be insignificant but negative for t + 2 days for Asia-Pacific and positive for developed markets which indicate that the indices in the Asia-Pacific region and indices in the developed markets reacted differently to the US government's stand on geopolitical situations. The CAARs of Asia-Pacific indices and developed indices are

significantly negative on the event day whereas the CAARs of the USA and Europe markets are found to be significantly positive on the event day.

CONCLUSION

This study focuses to investigate the effect of Nancy Pelosi's visit to Taiwan on the stock indices of Asia-Pacific region, USA and selected indices from European region. We use the event study methodology using the estimation window and the event window. The results of the abnormal returns on the event day indicate that the Nancy Pelosi's visit has significantly negative impact on Hong Kong and China. Other indices in the sample have shown mixed impact of this geopolitical situation on indices' returns. The developed markets of Europe and the USA market have shown insignificant positive returns on the day of event. The CAARs of the all the indices together are negative and

significant on the day of event and the next day of event ($t + 1$) which show the adverse impact on the day of event but in the pre-event window the CAARs of all the indices together have shown insignificant returns. In the post-event window, the results show the CAARs of the sample indices are positive for the entire post-event window but significant only for two days during the window indicating negligible impact of geopolitical situation on performance of stock indices.

The results indicate that no country has shown a significant cumulative average return for 10 days before the event. For five days prior to the event, Indonesia has shown positive and significant returns whereas Pakistan, Vietnam and Malaysia have shown negative and significant returns. For one day before the event, CARs for countries like Hong Kong, China, India, Indonesia and South Korea are significantly positive whereas Pakistan, Vietnam, Malaysia and Bangladesh have significantly negative returns. These results show that various countries' indices have responded differently on the information of Nancy Pelosi's visit to Taiwan based on the expected impact on their respective economies.

In the days after the event, CAR of most of the indices are negative. The countries like Australia, Germany, Pakistan, India, Singapore, Vietnam, Mongolia, Malaysia, Bangladesh and Philippines are having insignificantly negative returns on the next day of the event. Out of these indices/countries, except Hong Kong, all other indices continue to have insignificantly positive returns in rest of the periods of the post-event window.

The panel analysis shows that on the day of event the average abnormal returns of Asia-Pacific markets panel and developed markets panel are significantly negative whereas the USA and Europe markets have shown insignificantly positive returns. The AARs are continued to be insignificant but negative for $t + 2$ days for Asia-Pacific and positive for developed markets which indicate that the indices in the Asia-Pacific region and indices in the developed markets reacted differently to the US government's stand on geopolitical situations.

Overall, our results indicate that the most of the stock indices in the sample show negligible impact of Nancy Pelosi's visit to Taiwan and the market did not show any panic amid this event. The investors and traders in the stock markets believed that the stock indices are slightly anxious but the impact will be short-lived. The markets have shown the signals that this visit will not have any major impact unless this visit results in actual conflict between the world's two largest economies which looks an unlikely outcome of this visit. Pelosi's visit in the backdrop of Russia-Ukraine conflict is a preventive action to give a strong signal against the Chinese rattling.

The results indicate that rational minds will prevail and the stock markets will not see panic selling situation.

IMPLICATIONS AND LIMITATIONS

Investors generally make rational decisions and the regulators add further interventions to boost confidence among investors. Investors are suggested to consider conflicts risk while making international stocks-based portfolios. The policymakers are suggested to consider the adverse effect of financialisation/globalisation of stock markets in terms of conflicts while making policies to stabilize equity markets. In the current study, we only focus on the impact on the stock markets, therefore, for future studies, we suggest investigating the impact of this event on the energy, metal, grain, fiat currency, bonds, green and cryptocurrency markets. Finally, this study only applies the event study analysis to examine the impact of geopolitical situation, whereas the future studies can examine the connectedness, efficiency, safe haven feature and other financial aspects of markets by applying various kind of analysis to gauge the impact.

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