



# When politics turn volatile: Equity market responses to the Trump–Zelensky confrontation

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## ABSTRACT

This study analyzes how the 28 February 2025 Trump–Zelensky meeting affected European and U.S. stock markets. Event-day abnormal returns were modest and mostly negative across continental Europe, particularly in countries near Ukraine or reliant on Russian energy, while distant market such as the UK showed slight gains. Cumulative abnormal returns reflected delayed market adjustments to unexpected meeting developments, later reversing after Ukraine's allies coordinated at the 2 March London summit. Regression analysis confirms geopolitical risk and negative media coverage reduce returns, with heightened effects during uncertainty. Media sentiment amplifies market reactions to geopolitical events.

## 1. Introduction

The Russian invasion of Ukraine on 24 February 2022 prompted Western nations to impose important economic sanctions on Russia (Ahmed et al., 2023) and triggered Europe's fastest-growing refugee crisis since World War II (Kumari et al., 2023). War is widely regarded as an important *black swan*<sup>1</sup> event (Yousaf et al., 2022). Several studies document how increased investor uncertainty originating from the Russia–Ukraine conflict adversely affected global equity markets (Ahmed et al., 2023; Boungou and Yatié, 2022; Yousaf et al., 2022; Sun and Zhang, 2023; Kumari et al., 2023; Wu et al., 2023).

Against this backdrop, equity investors hoped the anticipated peace summit between Presidents Trump and Zelensky in the Oval Office on 28 February 2025 might ease market volatility affecting global financial markets for nearly three years. However, rather than delivering a diplomatic breakthrough, the summit descended into a tense, highly publicised confrontation. The meeting can be interpreted as political performance through Goffman (1959)'s dramaturgical framework, wherein leaders employ impression management to shape audience

perceptions. This dynamic reflects the mediatization of politics (Mazoleni and Schulz, 1999; Strömbäck, 2008), whereby political communication shifts from policy deliberation towards symbolic performance, with actors favouring media visibility over diplomatic negotiation.

This paper investigates equity investors' response to the Oval Office meeting on 28 February 2025, using an event study methodology. We test whether abnormal returns are driven by heightened geopolitical tensions or media coverage, acknowledging media attention's role in shaping investor behaviour and market dynamics (Shiller, 2019). The analysis is grounded in two key strands of literature, namely geopolitical risk and behavioural economics. The Geopolitical Risk (GPR) index developed by Caldara and Iacoviello (2022) provides a stylized metric to quantify uncertainty arising from geopolitical tensions,<sup>2</sup> and has been shown to exert a significant influence on financial markets (Caldara and Iacoviello, 2022; Rigobon and Sack, 2005; Choi, 2022). On the other hand, behavioural economics literature highlights the role of media sentiment as a strong driver of asset price fluctuations, independent of underlying fundamentals (Consoli et al., 2021; Ferriani et al., 2025; Zheng and Lucey, 2025).

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<sup>1</sup> Along financial crises, health crises, natural disasters, elections, and terrorist attacks (Yousaf et al., 2022).

<sup>2</sup> Wars, acts of terrorism and international conflicts.

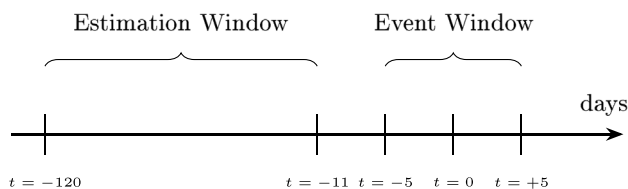


Fig. 1. Event study timeline.

Our analysis reveals that abnormal returns are adversely affected by both the GPR index and media sentiment, with the impact of negative media sentiment amplified under heightened geopolitical risk. This study contributes to the literature by integrating geopolitical risk metrics with media sentiment analysis to explain equity market reactions to a high-profile political event. The findings hold important implications for equity investors, and serves as a cautionary note to governments, highlighting the critical role of political communication in sensitive international contexts.

## 2. Data and methodology

### 2.1. Sample

Our sample consists of equity indices from 26 EU countries that have provided financial assistance to Ukraine, along with the United States and the STOXX EUROPE 50 index. The list of contributing countries is sourced from the Ukraine Support Tracker (Trebesch et al., 2024).<sup>3</sup> We hypothesize that countries with a vested interest in a swift resolution to the Russia–Ukraine war are likely to exhibit negative market reactions.

We obtain daily price index data for each country's primary stock exchange from the London Stock Exchange Group (LSEG) Datastream, from 1 March 2024 to 7 March 2025. The Morgan Stanley Capital International World Index (MSCI World) acts as our proxy for the global market portfolio.

We use changes in the 30-day moving average of the Geopolitical risk index (GPR) to capture geopolitical uncertainty in the benchmark regression specified in Eq. (4). Additionally, we use the Global Database on Events, Language, and Tone (GDELT)<sup>4</sup> to construct a sentiment indicator. We first collect the average tone of news articles for each of 29 keywords directly related to the war, published across 11 of the most widely read online news outlets in the United States.<sup>5</sup> The keywords include names of political leaders (e.g., Trump, Zelensky, Putin, Macron) as well as terms associated with security, diplomacy, and conflict (e.g., “military aid”, “ceasefire”, “territory”, “peace”, “World War”). We aggregate the average tone scores for each keyword to derive a composite daily sentiment measure related to the Russia–Ukraine conflict.

### 2.2. Methodology

Our empirical approach proceeds in two stages.

In the first stage, we employ a standard event study framework following Brown and Warner (1985) and MacKinlay (1997). The event

<sup>3</sup> The Ukraine Support Tracker documents financial aid (military, financial and humanitarian) by governments to Ukraine since February 2022, and is available from <https://www.kielinstitut.de/publications/ukraine-support-tracker-data-6453/>.

<sup>4</sup> The GDELT is an open, big data platform of meta-information extracted from broadcast, print, and web news collected at worldwide level and translated nearly in real-time into English from over 65 different languages (Consoli et al., 2021).

<sup>5</sup> The list of keywords and online news outlet is available in the appendix.

date, denoted as  $t = 0$ , corresponds to the Trump–Zelensky meeting at the Oval Office on February 28, 2025.

An event impacts stock returns if realized returns deviate from expected returns, estimated over a pre-event estimation window,  $EW = [-120, -11]$ . Fig. 1 presents the timeline of the event study.

Expected returns are modelled using the **market model**, in which asset returns are regressed on the corresponding market index returns:

$$R_{i,t} = \alpha_i + \beta_i R_{M,t} + \varepsilon_{i,t}, \quad (1)$$

where  $R_{i,t} = \ln\left(\frac{P_{i,t}}{P_{i,t-1}}\right)$  denotes the logarithmic return of asset  $i$  at time  $t$ , with  $P_{i,t}$  representing the price of the country-specific equity market index.  $R_{M,t}$  is the market return at time  $t$ , and the parameters  $\alpha_i$  and  $\beta_i$  are estimated from the ordinary least squares model over the estimation window.

Abnormal returns (AR) are defined as the difference between realized and expected returns:

$$AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i * R_{M,t}) \quad (2)$$

We aggregate these abnormal returns by country to obtain cumulative abnormal returns:

$$CAR_{i,[LB-UB]} = \sum_{t=LB}^{UB} AR_{i,t}, \quad (3)$$

where  $LB$  and  $UB$  denote the lower and upper bounds of the CAR window. For example,  $CAR_{Austria,[0-2]}$  represents the sum of Austrian daily abnormal returns from  $t = 0$  to  $t = 2$  (i.e. from February 28, 2025 to March 4, 2025).

In the second stage, we regress estimated abnormal returns on the standardized changes in two explanatory variables: the thirty-day moving average of the geopolitical risk (GPR) index and the aggregated sentiment measure derived from the GDELT. Since the meeting was announced beforehand and may have influenced markets before it took place, we use changes to capture market reactions to new information. The thirty-day moving average captures the evolving geopolitical environment rather than daily volatility, reflecting the gradual build-up of risk perceptions.<sup>6</sup>

The regression model is as follows:

$$AR_{i,t} = \alpha + \beta_1 GPR_t + \beta_2 Tone_t + \beta_3 GPR_t \times Tone_t + \varepsilon, \quad t \in [-5, +5] \quad (4)$$

where  $AR_{i,t}$  denotes the daily abnormal return for country  $i$  on day  $t$  within the event window  $[-5, +5]$ , with  $t = 0$  representing the event date (28 February 2025).

We estimate this panel regression with country level fixed effects and robust standard errors.

## 3. Results and discussion

### 3.1. Event study

Fig. 2 presents abnormal returns on the event day. They were modest and largely negative across continental Europe, with sharper declines in countries geographically close to Ukraine and those more reliant on Russian energy, such as Austria, Czechia, and Croatia. Some countries geographically distant from Ukraine and less reliant on Russian energy imports, such as the UK, registered small positive ARs, indicating heterogeneous market reactions.

The cumulative abnormal returns (CARs) provide a clearer signal of market adjustment to the unanticipated turn of events during the February 28 Oval Office meeting. Following Brooks et al. (2003), the

<sup>6</sup> As a robustness check, we also estimated the model using the standardized change in the daily GPR index. The results remain substantially unchanged across all specifications and are available upon request.

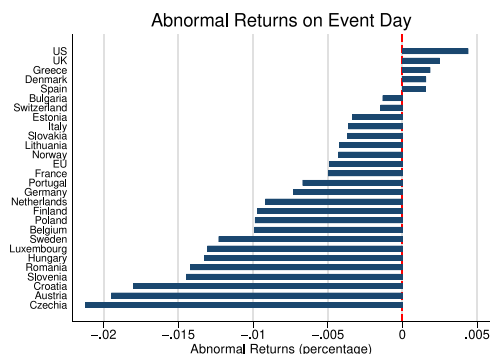


Fig. 2. Abnormal returns on event day.

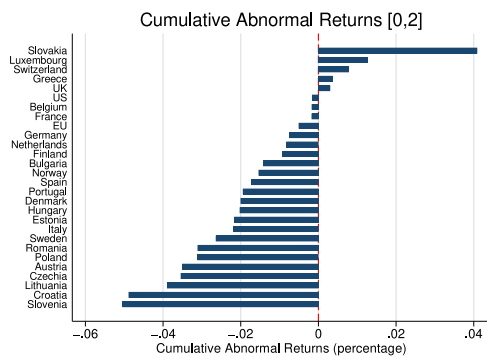


Fig. 3. Cumulative abnormal returns [0, 2].

delayed reaction is evident in the divergence between event-day ARs (Fig. 2) and CAR[0, 2] (Fig. 3), reflecting the tendency of markets to reassess initial shocks upon the reopening of markets the following week. The subsequent reversals observed in several countries are consistent with De Bondt and Thaler (1985, 1987) overreaction hypothesis, whereby initial pessimism gave way to partial correction once allied coordination was signalled at the London meeting on 2 March.<sup>7</sup> Outliers such as Hungary, which despite political proximity to Russia experienced large negative ARs with declines peaking in the CAR window [0, 2], and Luxembourg or Slovakia, which posted strong positive CARs, emphasize the need for caution in attributing outcomes solely to geopolitical alignment. These results suggest that while geography and energy dependence shaped initial reactions, subsequent CAR dynamics were driven by broader investor sentiment and the correction of early mispricing

3.2. Regression analysis

Table 1 presents the regression results. Abnormal returns are negatively affected by both negative tone and heightened political uncertainty. The negative interaction term indicates that the effects compound each other: the negative impact of geopolitical risk on abnormal returns is amplified when media tone is more negative.

The regression results indicate that geopolitical risk exerts a significant negative effect on abnormal stock returns, with a one standard deviation increase in GPR associated with a 0.19 percentage point

<sup>7</sup> On 2 March 2025, Ukraine’s allies met in London at Prime Minister Starmer’s request to coordinate support and de-escalate tensions following the Oval Office talks. The announcement of allied unity provided an important signal to markets, contributing to the reversal of initial negative cumulative abnormal returns observed in several countries.

Table 1  
Effect of geopolitical risk and media tone on abnormal returns.

	AR
GPR	-0.19 <sup>a</sup> (0.07)
Tone	-0.38 <sup>a</sup> (0.06)
Interaction Term	-0.31 <sup>a</sup> (0.09)
Intercept	0.11 <sup>a</sup> (0.04)
Observations	308
R-squared (Within)	0.17
R-squared (Overall)	0.16

Notes. Panel regressions with country fixed effects and robust standard errors. All regression coefficients and standard errors are multiplied by 100 for scale. GPR denotes the standardized change in the 30-day moving average of the Geopolitical Risk index. Tone denotes the standardized change in the news tone index. AR denotes abnormal returns within the event window [-5, 5]. <sup>a</sup> indicates significance at the 1% level.

decline in abnormal returns. Similarly, negative media tone independently reduces abnormal returns by 0.38 percentage points per standard deviation increase. The significant negative interaction term (-0.31) indicates that the adverse effects of geopolitical risk are amplified when accompanied by negative media coverage, suggesting that negative sentiment acts as a transmission mechanism that intensifies market responses to geopolitical uncertainty.

Given that abnormal returns are typically negative during periods of market stress, these findings suggest that geopolitical risk and negative media tone push returns further below expected levels, with their combined effect being particularly pronounced. The interaction effect implies that geopolitical events occurring during periods of negative media sentiment generate disproportionately large negative abnormal returns, highlighting the role of information processing and investor sentiment in amplifying the market impact of geopolitical shocks. This result is consistent with Kahneman and Tversky (1979)’s Prospect Theory, which posits that loss aversion leads investors to weight negative information disproportionately, monitoring adverse news more closely. Our results demonstrate that this tendency is amplified by media pessimism.

4. Conclusion

This article highlights differentiated market reactions to the 28 February 2025 Trump-Zelensky meeting. Event-day ARs were modest but revealed clear patterns: continental European markets, particularly those geographically closer to Ukraine and those countries reliant on Russian energy, saw sharper declines, while more distant markets such as the UK registered small gains. CARs show delayed adjustments as investors processed the meeting’s unexpected developments, with partial reversals after allied coordination at the 2 March London summit. Overall, proximity to the conflict and energy dependence shaped sentiment, with heightened geopolitical risk weighing on most European markets, while select countries anticipated reduced energy risk premiums under shifting expectations of Western support.

Regression analysis further shows that abnormal returns are negatively affected by both geopolitical risk and adverse news coverage, with the negative interaction term indicating that the effects compound each other. The negative impact of geopolitical risk on returns is stronger when media coverage is more negative, suggesting that media sentiment acts as a transmission mechanism intensifying market reactions to geopolitical shocks.

These findings carry important implications for investors and policymakers. Investors should recognize that geopolitical uncertainty and negative media coverage both depress abnormal returns during sensitive geopolitical periods, with their combined effect being disproportionately large. For policymakers, the results highlight the market consequences of diplomatic tensions that generate negative media narratives during periods of elevated geopolitical risk.

### Declaration of Generative AI and AI-assisted technologies in the writing process

During the preparation of this manuscript, generative AI tools were used to assist with debugging Stata code and improving the clarity and readability of the text. The tools employed included OpenAI's ChatGPT (versions 4 and 5), Anthropic's Claude (versions 3.5, 4, and 4.5), and Microsoft Copilot. The authors reviewed, verified, and approved all generated content and take full responsibility for the final manuscript.

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### Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

### Appendix A. Supplementary data

Supplementary material related to this article can be found online at <https://doi.org/10.1016/j.econlet.2026.112900>.

### Data availability

The study uses data obtained from the London Stock Exchange Group (LSEG) Datastream, the Global Database of Events, Language, and Tone (GDELT), and the Kiel Institute's *Ukraine Support Tracker*. The Refinitiv data is proprietary and cannot be publicly shared due to licensing restrictions. The GDELT and the Ukraine Support Tracker are available online.

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