

# Reviews of ECONJOURNAL-D-24-00151R1

Geopolitical Risks and Stock Market Volatility in the SAARC Region

## Round 1

### Reviewer 1

This paper has a sound idea and the structure is clear. However, I have a few questions.

1. Do you use a single GPR index or country-specific GPRs? Please specify your data choice.
2. I assume you are using a single GPR. If so, it is too bold to directly compare the relation between GPR and stock across countries.
3. I like the attempt to use attacks and causality for each country, but I feel you can do more about it. Only plotting the numbers with stock market volatility is not robust enough. You could also try a spatial model, such that attacks could also affect stock markets in neighbor countries.
4. I like the TVP-VAR model, but it does not make much sense to use GPR and stock market indices as the variables. For example, why stock market indices could have spillover effects on the GPR index? What is the intuition?
5. For the Diebold-Yilmaz network analysis, have you considered robustness checks using different h steps, or alternative centrality measurements such as eigenvector centrality or Pagerank centrality?

### Reviewer 2

Brief Summary:

The purpose of this paper is to examine the impact of geopolitical risks (GPR) on stock market volatility in the SAARC region. The study uses daily closing prices of benchmark stock indices from five SAARC countries—Bangladesh, India, Pakistan, Sri Lanka, and Nepal—spanning the period from January 2014 to March 2024, with data sourced from Investing.com and Matteolacoviello.com. The methodology includes the application of wavelet analysis and the time-varying parameter vector autoregression (TVP-VAR) model to assess the dynamic connectedness between GPR events and stock market volatility. The main results reveal that the relationship between GPR and stock market volatility is heterogeneous across the SAARC countries, with Sri Lanka showing the strongest negative correlation. The article contributes to the literature by highlighting the varying impacts of GPR on stock markets in

the SAARC region, offering insights for investors and policymakers on the importance of considering geopolitical factors in financial decision-making. The key message is that geopolitical risks significantly influence stock market behavior in South Asia, and understanding these effects is crucial for effective portfolio management and regional economic stability.

#### General / Major Comments:

- \* It is useful to discuss the implications of excluding key countries from the SAARC region from the study. Excluding countries such as Bhutan and especially Afghanistan due to lack of data availability may skew results, so it is important to discuss such implications.
- \* While the methodology used (the wavelet method and TVP-VAR for analysis) are sophisticated and useful, the authors should provide a justification for not using other methods such as a GARCH model.
- \* The interpretation of the results sometimes strikes as vague. For example, the discussion of Bangladeshi stocks lacks clarity on what constitutes "poor coherence" and how this impacts investors.

#### Specific / Minor Comments:

- \* Capitalize each word in the title.
- \* The section title is "Literature Review" and not "A Literature Review".
- \* It is better to include the table of summary statistics in the Data section of the paper.
- \* It is useful to briefly explain the relevance of the summary statistics and link it to the study's objectives.
- \* Avoid referencing figures in the text before they are introduced.
- \* The discussion of results often repeats information from earlier sections without adding new insights. Focus on interpreting the results rather than reiterating them.
- \* Emphasize on the paper's specific contribution and limitations in the conclusion.
- \* If applicable, address the impact of potential outliers in the data, such as extreme geopolitical events or market crashes.
- \* The transitions between sections, particularly from the literature review to the methodology, can be smoother.

#### Language and Structure:

- \* Avoid using the passive voice as much as possible. It is better to be more direct.
- \* There are inconsistencies in tense, particularly when discussing the methodology and results. Ensure that the past tense is used consistently for completed actions and present tense for general statements.

#### Related Papers:

For enhanced credibility and relevance, I would suggest adding the following paper:

- \* Singh, V. K., Abosedra, S., Fakhri, A., Ghosh, S., & Kanjilal, K. (2023). Economic volatility and financial deepening in Sub-Saharan Africa: evidence from panel cointegration with cross-sectional heterogeneity and endogenous structural breaks. *Empirical Economics*, 65(5), 2013-2038.
- \* Chowdhury, E. K. (2020). Is Capital Market Integration among the SAARC Countries Feasible? An Empirical Study. Chowdhury, EK (2020). Is Capital Market Integration among the SAARC Countries Feasible, 21-36.
- \* Tripathi, V., & Seth, R. (2016). Market Efficiency, Inter-linkages and volatility transmission in stock markets of selected SAARC countries. *South Asian Journal of Management*, 23(4), 149.

## Round 2

### Reviewer 1

The answers to my previous questions are clear. I think Table 4 looks good, and there is no need to replace it.

### Reviewer 2

Comments to Author:

The authors have addressed all the comments and suggestions.