A. ASSIGNMENT RECAP

- Write a 2500-word report including a **2000-word research** paper to identify and examine a**n important issue in bond**, **equity**, or **derivatives markets.**
- And a **500-word reflection** on Industry talk.

Tips to choose topics for Part A

- Pick a contemporary issue that interests you and that you want to learn more about. This will make the research process more engaging.
- Scan financial news sites to find emerging topics, debates, or recent events that could lead to good research questions.
- Look for issues where experts disagree or there are multiple perspectives. This creates opportunities for analysis.
- Select a focused, specific issue versus something overly broad. This will allow for deeper investigation.
- Browse academic journals in finance for inspiration from the latest scholarly research on these markets.
- Pick a topic that has sufficient existing research and literature available to review.
- Consider issues with real-world relevance and impact beyond just academics.

Suggestion to choose topics for Part A

a/ Bond Market Topics:

- The impact of rising interest rates on fixed-income securities
- Increased bond market volatility and risk management strategies

- The growth of green bonds and social impact investing
- Changes and risks in corporate bond covenants
- Technology innovation in bond trading platforms

b/ Equity Market Topics:

- Strategies to mitigate risk in algorithmic or high-frequency trading
- Growth prospects and risks of passive index investing
- Trends in global exchange-traded funds (ETFs)
- Blockchain applications in equity clearing and settlement
- Environmental, social, and governance (ESG) investing in equities

c/ Derivatives Market Topics:

- Regulatory responses to growth in complex derivatives
- Counterparty risk concerns in over-the-counter derivatives
- Operational risks of derivatives clearinghouses
- Increased retail investor activity in derivatives markets
- Financial engineering and derivative securities innovation

Structure:

I. PART A: Research paper (2000 words)

A. Title (Less than 15 words)

B. Abstract (less than 150 words)

C. Introductory: (Suggested 450 words)

- Provide the background relating to the research question, which explains/justifies your choice of the research question;

- Briefly state your research question;
- Identify the key issues relating to your research question;
- Briefly summarize your findings on the research question

  Your introduction should be approximately half a page in length

D. Literature review (Suggested 550 words)

- Research and provide different perspectives from academic reports to comprehensively review the t

E. Main Body. (Suggested 650 words)

- Use subheadings, to divide your research paper into areas that examine different aspects of your research question, to provide a logical structure for your research paper, and which show the logical development of your ideas.
- It should also include the application of financial theories to examine your research question systematically and logically.

F. Conclusion (Suggested 100 words)

Should state your findings relating to your research question and the possible impact of your findings on global financial markets.

G. Limitations of the research paper (Suggested 100 words)

Limitations are influences that the researcher cannot control. They are the shortcomings, conditions, or influences that cannot be controlled by the researcher that place restrictions on your conclusions.

H. Appendices

I. Reference List

II. PART B: Reflection on the Industry Talk (maximum 500 words)

You are required to write a reflection on the industry talk. Your reflection should address the following questions:

- What was the discussion in the talk?
- How can you relate the talk to the Financial market course?
- What can you add to the discussion?

B. KEYWORD EXPLANATIONS

1. **Bond market -** The marketplace where debt securities called bonds are issued and traded.
2. **Equity market -** The market where shares of stock in publicly held companies are issued and traded.
3. **Derivatives market -** The financial market for instruments like futures, options, and swaps derived from and dependent on underlying assets.
4. **Financial markets -** Markets that allow buyers and sellers to trade financial securities like bonds, stocks, and currencies.
5. **Securities -** Financial instruments that hold some type of monetary value. Bonds, equities, and options are all types of securities.
6. **Volatility -** The degree of variation in the price of a security over time. High volatility means large price swings.
7. **Liquidity -** The degree to which an asset can be quickly bought or sold on a market without impacting its price.
8. **Market risk -** The possibility of an investor experiencing losses due to factors affecting the overall performance of financial markets.
9. **Counterparty risk -** The risk that the other party in a financial contract will default on obligations.

10. **Financial regulation -** Rules and laws governing financial markets and institutions to protect investors and promote stability.
11. **Financial innovation -** The creation and popularization of new financial instruments, technologies, or processes.

C. FOOD FOR HUNGRY THOUGHTS

TOPIC:

1. "High-frequency trading: Reaching the limits" (Journal of Trading) - https://www.iijournals.com/doi/abs/10.3905/jot.2018.11.1.048
2. "Credit default swaps and the credit crisis" (Journal of Economic Perspectives) - https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.1.73
3. "The growth of the shadow banking system" (Journal of Financial Perspectives) - https://www.ey.com/en_gl/financial-services/how-the-shadow-banking-system-works
4. "Carbon emissions and financial risk" (Annual Review of Environment and Resources) - https://www.annualreviews.org/doi/full/10.1146/annurev-environ-012320-084719
5. "How High-Frequency Trading Hits Main Street" (Wall Street Journal) - https://www.wsj.com/articles/how-high-speed-trading-hits-main-street-11582076000
6. "How swaps can bring down companies" (BBC) - https://www.bbc.com/news/business-54322579
7. "Why Derivatives May Be the Biggest Risk for the Global Economy" (New York Times) -

https://www.nytimes.com/2019/05/31/business/big-banks-derivatives.html

8. "ESG Investment Risks" (Bloomberg) - https://www.bloomberg.com/news/articles/2022-06-13/esg-investing-risks-include-social-washing-greenwashing-mifid-regulati

D. DETAILED OUTLINE

I. Part A: Research Paper

As you have to come up with the topic on your own, the structure of the research paper will vary depending on the topic you choose. Each topic has its characteristics and facets to discuss. Therefore, you should craft the structure based on your topics as soon as possible and ask your lecturer to review it. Further tips will be provided in Part D. This part will provide you with an example for **the Topic: Impact of Russia - Ukraine war on the global stock market**

1. Title (no more than 15 words)

Example: Impact of Russia - Ukraine war on the global stock market, especially Asia, EU and US"

Tips:

- Keep it concise and descriptive
- Encapsulate the main topic and issues examined

2. Abstract (less than 150 words)

Example:

This research investigates the consequences of the Russia-Ukraine conflict on the worldwide stock market by analyzing various research papers and journal articles. Although geopolitical conflicts are not unprecedented, the onset of the Russia-Ukraine war has introduced considerable volatility and substantial stock returns, particularly affecting the global stock market. The study emphasizes the broad spectrum of sectors and industries impacted by the Russo-Ukraine conflict in the stock market, with a specific focus on Asia, US, Eu, and the energy industry. Findings from this research indicate that the invasion of Ukraine has indeed left its mark on the equity market within 3 continents above, leading to notable and atypical stock returns.

Tips:

- Briefly summarize the key points only
- Cover purpose, methods, findings, and implications
- Use clear, direct language

3. Introduction (Suggested 450 words)

- Background: The origin of a conflict between Russia and Ukraine.

Example:

+ Some Western analysts see Russia's 2022 invasion as the culmination of the Kremlin's growing resentment toward NATO's post–Cold War expansion into the former Soviet sphere of influence. Russian leaders, including Putin, have alleged that the United States and NATO repeatedly violated pledges they made in the early 1990s to not expand the alliance into the former Soviet bloc.
+ In the weeks leading up to NATO's 2008 summit, President Vladimir Putin warned U.S. diplomats that steps to bring Ukraine into the alliance

"would be a hostile act toward Russia." Despite remaining a nonmember, Ukraine grew its ties with NATO in the years leading up to the 2022 invasion.

+ Western powers and their partners have taken many steps to increase aid to Ukraine and punish Russia for its 2022 offensive:

  - In response, the United States retaliated by imposing sanctions targeting both the region and the Nord Stream gas project. (Li et al. 2022)
  - In reaction to Russia's aggressive actions towards Ukraine, the European Union (EU) has taken six sets of sanctions, including one that entails a partial embargo on oil supplies to the country. (Bergeijk 2022)
  - Meanwhile, the international sanctions on Russia have vastly expanded, covering much of its financial, energy, defense, and tech sectors and targeting the assets of wealthy oligarchs and other individuals. The U.S. and some European governments also banned some Russian banks from the Society for Worldwide Interbank Financial Telecommunication, a financial messaging system known as SWIFT; placed restrictions on Russia's ability to access its vast foreign reserves; and blacklisted Russia's central bank.

→ Sanctions have led to a decrease in Russian export volumes, and the conflict in Ukraine has resulted in the closure of ports.(Mbah and Wasum 2022)

The political and economic instability resulting from the conflict between Russia and Ukraine had notable effects on European stock markets. These financial markets encountered the ripple effects of the repercussions, as highlighted by Khudaykulova et al. in 2022. Boungou and Yatié (2022) reveal that the Russia–Ukraine crisis has had a significant adverse effect on the performance of global stock market indices. Boungou and Yatié (2022) show that stock market indices of developed markets have been more heavily and adversely affected than emerging market indices. Ahmed et al. (2022) also find that Russia's recognition of the two Ukrainian states as autonomous regions has had a significant negative impact on the European stock markets. Fang and Shao (2022) show that the Russia–Ukraine conflict has affected commodity markets through both economic and financial channels. The impact of the Russia-Ukraine crisis on the stock market: Evidence from Australia - ScienceDirect

- **Briefly capture the effects of the confliction on the world economy and and the global stock market and energy industry**

Example: (you only should pick out 2-3 from the suggested ideas below, since this is a brief introduction)

- **Effects on the world economy and finance:**

+ Russia is the third-biggest oil producer in the world. They produce approximately 13% share of worldwide crude oil production. After Russia attacked Ukraine, the cost of crude oil rose to levels near USD100/bbl and is relied upon to hit even USD115/bbl in tight worldwide supplies.
+ Russia is the second-largest producer of natural gas and the largest exporter of natural gas. Europe’s 40% of its natural gas was supplied by Russia. After the War, the supply of natural gas was significantly reduced, which resulted in the rising price of crude oil and natural gas in the global market.
+ Russia and Ukraine are the major producers of agricultural commodities, particularly wheat and corn traded globally. Ukraine alone produces around 10% of wheat in the world and 16% of all corn. Along with Russia, they produce 30% of wheat. Most of these products are

topographically packed in the Middle East, Southeast Asia, and China. The clash between Russia and Ukraine could prompt bread deficiencies in the Middle East and Africa as they depend on Ukrainian wheat and corn. Food expansion has been rising as of now, and Russia's capture of farming-rich grounds in Ukraine would just raise the food costs.

- **Effects on the global stock market and one of the most affected industry (energy):**

+ On the day of the announcement of Russia's 'special military operation', there was a significant impact on global stock markets. The Russian stock market experienced the largest loss, with a decline of 32.22%. Other markets, particularly in Europe, also suffered notable losses: Poland (-10.374%), Hungary (-9.488%), and Turkey (-8.262%). Additionally, India, Romania, the UK, Italy, Germany, France, Japan, Australia, Spain, South Korea, the Netherlands, Saudi Arabia, China, and Indonesia also recorded negative and significant abnormal returns. Interestingly, stock markets in Ukraine, Canada, Mexico, Slovakia, and the USA did not show negative impacts on that day. Despite being at the center of the military actions, Ukraine's stock market did not experience a negative effect, possibly due to historically low variations in its index. Overall, the event had a negative and significant impact on most stock markets on the day of the conflict's outbreak. The reaction of G20+ stock markets to the Russia–Ukraine conflict "black-swan" event: Evidence from event study approach - ScienceDirect
+ The disruption arising from the Russia–Ukraine crisis and the accompanying sanctions on Russia have already raised price levels, and this is likely to have a ripple effect on the European economy and corporate performance (Rigobon & Sack, 2005). Therefore, the

Russia–Ukraine crisis is likely to have an adverse effect on the share prices of European companies.

+ Further, the geopolitical risk and threats in the Eurozone have escalated as a result of the Russia–Ukraine crisis. Thus, the heightened geopolitical threat in the Euro region is increasing investors' uncertainty and dampening business confidence (Caldara & Iacoviello, 2022), with a depressing effect on stock prices.

- Key Issues: Global stock market, especially Asia, EU and US
- Summary of Findings: The war between Russia and Ukraine has seriously affected the global economy, specifically the stock market
- Pinpoint the aim and the overall structure of the report (each section will cover what kind of content)

Tips:

- Provide necessary background/context
- Craft a focused research question to guide the analysis
- Identify 2-3 key issues to be examined
- Give a brief overview of the main findings
- Pinpoint the aim and overall structure of the report, which part will cover what content **(this is important for a high score report, but please keep it short)**

4. Literature Review (Suggested 550 words)

- Assess the scale of the topic to be researched.
- Point out the goal of the research.

Example:

- Overview how the geopolitical conflict could impact the global stock market? What is the relation between the conflict and the stock market?

Global conflicts have persisted throughout history, making them a well-established topic. Their impact on stock market performance has been extensively studied by various scholars, revealing the interconnectedness of war and geopolitical tensions with financial markets.

Prior literature investigating the link between political uncertainty and financial market performance finds that fear of political instability has a significantly negative effect on both the stock market return and the risk profiles of financial assets. Using several international political crises, Berkman et al. (2011) demonstrate the importance of political crises in explaining both the mean and the volatility of stock market returns around the world. Using data from 49 emerging nations, Lehkonen and Heimonen (2015) also report an inverse relationship between political risk and stock returns. Dimic et al. (2016) demonstrate that political risk influences currency carry trade returns. The ongoing conflict between Russia and Ukraine has led investors to seek refuge in secure investments such as gold and oil. It is anticipated that prices may experience an upward trend due to this situation (Adekoya et al., 2022; Zhou et al., 2022). (link)

- In the case of Russia-Ukraine war:

- **How this war has impacted the global stock market**

Example: (link)

The global stock market reacted strongly to Russian–Ukrainian conflict breakout news on the event day and post event days. Russia is the big trading partner of many of the countries around the world therefore the subsequent economic sanctions on

Russia had definite impact on other connected stock markets and economies. The reaction of G20+ stock markets to the Russia–Ukraine conflict "black-swan" event: Evidence from event study approach - ScienceDirect

Investors consider war/conflicts risk while making international stocks-based portfolios. The policymakers consider the adverse effect of financialization/globalization of stock markets in terms of wars/conflicts while making policies to stabilize equity markets. → The stock markets of Hungary, Poland, Russia, and Slovakia reacted negatively to the pre-event news about the potential conflict.

The most adversely affected countries belong to the European region. As Russia was a very important trading partner with many European countries and trade linkages with Russia have been affected by the economic sanctions, ultimately the stock markets of the closely connected countries were also affected. The reaction of G20+ stock markets to the Russia–Ukraine conflict "black-swan" event: Evidence from event study approach - ScienceDirect

Fluctuations in the stock market hold significant significance for investors, as they benefit from these price movements, serving as a crucial indicator of the growth of shareholders' wealth (Choudhury & Daly, Citation 2021; Hassan et al., Citation 2021; Kinateder et al., Citation 2021).

- **About impacts on Asia**

Example: (link)

The protracted conflict between Russia and Ukraine has significantly affected economies in Southeast Asia, resulting in economic setbacks surpassing the impact of losses caused by the COVID-19 virus (Putri, 2022). This is primarily due to Russia emerging as the ninth-largest trading partner in the Southeast Asian region since 2019 (Yuliastuti, 2022).

- Impacts on US

Example: (link)

The conflict is poised to raise global commodity prices, contribute to inflation, and hinder economic growth in the United States. Additionally, it will heighten economic uncertainty, disrupt commodity markets, and potentially result in increased inflation, accompanied by elevated global gas and food prices. Russia, being a significant oil and gas producer, has experienced substantial price hikes for both commodities in recent weeks due to geopolitical tensions. While the United States directly imports a relatively small amount from Russia, the ripple effect of the commodity crunch caused by the conflict could temporarily drive up the prices of raw materials and manufactured goods, especially as many parts of the world, including the U.S., are grappling with rapid inflation.

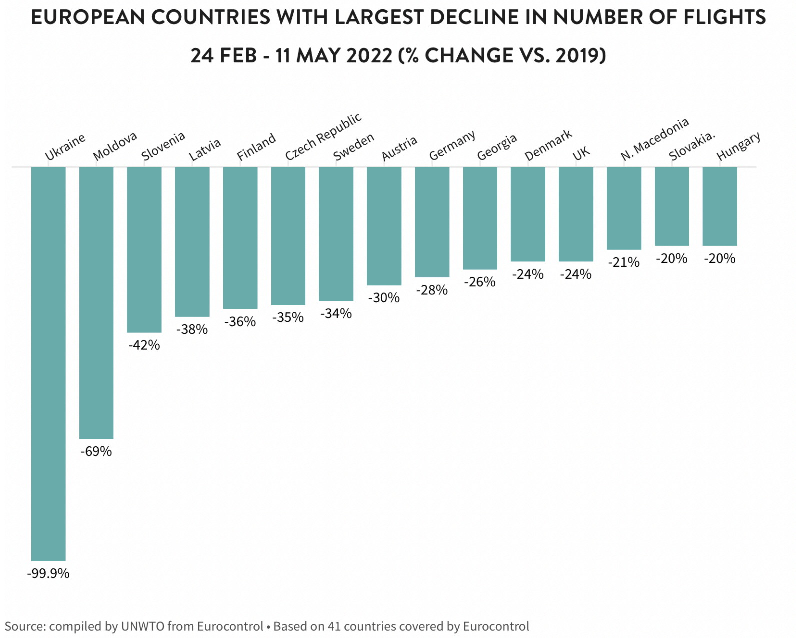
- **Industry negatively impacted:**

Example:

- The conflict between Russia and Ukraine has not only affected economic and political realms but has had a particularly significant impact on the energy sector. As the third-largest oil producer globally, following the United States and Saudi Arabia, Russia's decision to sell its oil in rubles has led to an oil crisis in several European countries. The situation has escalated further as European Union nations have imposed sanctions by blocking oil and gas imports from Russia in response to their invasion of Ukraine. The war undeniably leaves a substantial impact across various sectors worldwide. Analyzing the conflicts involving Russia and Ukraine, as well as the U.S. and China, it becomes evident that the strength wielded by each nation plays a crucial role in influencing the challenges that precede these conflicts (Cheng M, 2022).

- The relaxation of travel restrictions is aiding in the return to normalcy in travel, with 36 countries having lifted all COVID-19 related travel restrictions as of May 13, 2022. However, the ongoing conflict remains a significant threat to the overall recovery.

  Apart from Russia and Ukraine, the countries that have experienced the most significant impact on air travel are the Republic of Moldova, witnessing a 69% decrease in flights since February 24 (in comparison to 2019 levels), followed by Slovenia (-42%), Latvia (-38%), and Finland (-36%), as reported by Eurocontrol data. While Russian bookings for outbound flights sharply declined in late February and early March, they have since shown a recovery, according to data from Forwardkeys.



(link)

- **The reason why you write this report**

Example:

This report is essential due to the limited coverage of the impacts of the ongoing Russia-Ukraine war on various continents and sectors. While existing research has delved into the effects, it predominantly focuses on Europe, leaving a significant information gap regarding other continents. The impacts vary from country to country, and understanding the global implications is crucial for informed decision-making. Specifically, this report aims to shed light on the consequences of the conflict on the stock market, not only in Europe but also in other continents. By providing a comprehensive analysis, the report seeks to bridge the information gap and offer a holistic understanding of how the war influences stock markets across different parts of the world.

5. Main Body (Suggested 650 words)

- Impact on EU stock market
    - The Russia–Ukraine crisis had a negative effect on European stock markets through economic and political channels.

Example:

The Russia-Ukraine crisis is understood to have negatively influenced European stock markets through both economic and geopolitical dimensions. Economically, the crisis's impact is evident considering Russia's role as a significant trading partner to European nations and its status as a primary provider of energy resources like crude oil and natural gas (About 45% of the EU's gas imports come from Russia, making it highly vulnerable to supply disruptions (IEA 2022). European dependence on Russia and Ukraine extends to agricultural commodities such as wheat, corn, barley, maize, sunflower seeds, and sunflower oil, in addition to fertilizers and various raw materials (Key agricultural imports from the region include wheat and vegetable oil, crucial to European food markets (European Parliament, 2022). The disruptions caused by the crisis, coupled with sanctions imposed on Russia, have led to elevated price levels, potentially rippling through the European economy and affecting corporate performance (Rigobon & Sack, 2005)

The European Union has been severely affected by a critical shortage of energy supplies, according to Gazzani and Ferriani (2022). This scarcity has led to heightened inflation and then adversely impacted stock market returns (Fang and Shao 2022), reflecting the economic strain caused by the limited energy resources. This situation underscores the vulnerability of the EU's economy to energy supply disruptions and their broader economic consequences.

- The geopolitical risk and threats in the Eurozone have escalated as a result of the Russia–Ukraine crisis → negative stock price reactions to this crisis in the European stock markets.

Example:

Further, the geopolitical risk and threats in the Eurozone have escalated as a result of the Russia–Ukraine crisis. Because of their geographic proximity and economic linkages, European countries, as well as companies, are directly affected by this war. Thus, the heightened geopolitical threat in the Euro region is increasing investors' uncertainty and dampening business confidence (Caldara & Iacoviello, 2022), with a depressing effect on stock prices. Overall, the invasion, which is the first of its nature since World War II in any European country, should have a significant impact on the European economy and geopolitics, resulting in negative stock price reactions to this crisis in the European stock markets (Shaker Ahmed, Mostafa M. Hasan, 2022).

Sojka and colleagues (2022) analyzed the impact of escalating geopolitical tensions in Europe, particularly noting that increased uncertainty and tension lead to a more pessimistic outlook among investors and reduced corporate confidence. This dynamic was observed to have a significant negative effect on stock market investments. Specifically, the conflict between Russia and Ukraine was highlighted as a prime example, where European markets experienced considerable declines following the tension, particularly when Russia recognized Donetsk and Luhansk as independent, causing notable negative shifts in European financial markets.

In contrast, research by Le et al. in 2022, which utilized a comprehensive dataset covering 109 countries from 1996 to 2019 and employed an autoregressive distributed lag model, suggested that stock markets might react positively to conflicts. This research provides a contrasting viewpoint to the predominantly negative impacts observed in European markets due to the Ukraine crisis.

- Examine the stock market reactions to Russia's declaration of its recognition of two independent states in eastern Ukraine.

Example:

The European stock market's reaction to Russia's declaration of recognizing Donetsk and Luhansk as independent states was marked by heightened volatility and widening credit spreads. This was particularly evident in European markets, reflecting the region's proximity to the conflict. The crisis also significantly impacted commodity prices, with natural gas experiencing a notable price increase, influenced by geopolitical tensions and decisions such as Germany's suspension of the Nord Stream 2 pipeline approval process.(SeekingAlpha, 2024).

- Data for you to include in your assignment. For this assignment, the focus is literature review; however, you will get a higher score if you include data (but just a bit). Here is an example for you:

Example:

The study used firms belonging to the STOXX Europe 600 index, which represents publicly traded firms with large, medium, and small capital from the major European countries. The findings demonstrated significantly negative average abnormal returns (AARs) surrounding the short-event windows (e.g., –3 to +3 days), except for the first day following the event. Importantly, the study observed 0.41% negative AAR on the event day, the highest drop in stock prices during the event windows. It also observed negative and significant cumulative abnormal returns (CARs) around the event days, pre-event days, and post-event days, providing strong evidence of the prolonged negative impact of the Russia–Ukraine crisis on the European stock market.

Figure 1 - Trend in STOXX EUROPE 600 index

→ Figure 1 exhibits the trend of the STOXX Europe 600 index over 1 year (February 2021–March 2022). The STOXX Europe 600 index has experienced a sharp decline since February 2022, which coincides with the Russian invasion of Ukraine.

- **Impacts on Asian stock market**

Example:

The Russia-Ukraine conflict has had a considerable impact on the stock markets in Asian countries. Following the escalation of tensions and Russia's military operations in Ukraine, Asian stock and currency markets experienced notable declines. For instance, key stock indices in South Korea and Taiwan fell by approximately 2%. This trend was also observed in other Asian markets, such as India, where the NSE Nifty 50 index and the S&P BSE Sensex both dropped significantly. The situation in China mirrored these trends, with major stock indices like the CSI300 and the Shanghai Composite Index experiencing declines. The Hang Seng index in Hong Kong also fell sharply. (Reuters, 2022)

These market reactions were part of a broader trend of uncertainty and risk-aversion among investors, driven by geopolitical tensions and concerns about the global economic impact of the conflict. The war in Ukraine, by exacerbating these tensions, had a ripple effect across global financial markets, including those in Asia. The declines in Asian markets reflected investors' concerns about the potential economic fallout from the conflict, including disruptions to global supply chains and the impact on global economic growth. (Reuters, 2022)

- **Impact on US stock market**
  + The Russia–Ukraine crisis had a negative effect on US stock markets through economic and political channels.

Example:

The Russia-Ukraine crisis has had a considerable impact on the US stock market, largely through economic and political channels. This conflict has been a dominant factor in both geopolitical and economic news since its escalation in 2022, affecting key global markets, including the US.

Russia and Ukraine are significant exporters of commodities such as oil, gas, coal, and various foodstuffs. The conflict caused sharp increases in the prices of these commodities, particularly in late February and early March 2022. This surge was largely attributed to market expectations of a prolonged war and the imposition of serious sanctions on Russia by many countries in the Organization for Economic Cooperation and Development. These price hikes, especially in oil, had direct implications on the US stock market, contributing to volatility and uncertainty.(Christopher J. Neely & Samuel Jordan-Wood, 2022).

Historically, US stock markets have shown resilience in the face of geopolitical crises, often experiencing short-term impacts followed by relatively quick recoveries. In the context of the Russia-Ukraine conflict, while the immediate effects were significant, the markets tend to rebound fairly quickly. (Marc Jones, 2022)

An analysis of 12 such events revealed that the S&P 500 was higher 12 months later in nine of these instances. The average return 12 months following these shocks was 8.6%. The instances where stocks were down a year later typically coincided with a recession. This historical pattern suggests that while geopolitical events like the Russia-Ukraine crisis can cause considerable short-term market volatility (Brian Sozzi, 2022), they tend to have a limited long-term impact on the U.S. stock market unless they lead to a recession. However, there were also concerns about the longer-lasting impacts of the crisis on certain market segments, particularly given the increased energy prices. These heightened prices could potentially impact demand and risk tipping various economies into a recession. This situation underscores the complex interplay between geopolitical events and economic outcomes, particularly in a globally interconnected economy like that of the United States. (Lewis Krauskopf, 2022)

- **Impacts on energy industry** (This is a bonus part for you to add in your report, you should only pick a few key takeaways from the example to make your report more condensed)
    - The Ukraine and Russia conflict caused an accelerator to the energy crisis.

Example:

The energy sector, encompassing a range of companies involved in producing and distributing energy, plays a crucial role in powering the economy. The sector's significance in industrial growth is underscored by its role in powering machinery in various industries (Toman and Jemelkova 2003).

The EU, heavily reliant on Russian fossil fuels, faced challenges due to sanctions against Russian energy, leading to limited and expensive energy supplies and affecting energy stock returns (Estrada and Koutronas 2022). The rise in fuel prices, consequent to these sanctions, adversely affected earnings across industries, reflecting in stock performance (Meyers 2022).

Regarding natural gas, the European economy is overly dependent on Russia with situations that vary from country to country (with some countries notably in the Baltics which are 100% supplied by Russia). The EU imports 90% of its needs in natural gas: (41%) from Russia, and the rest primarily comes from Norway (24%) and Algeria (11%). The EU is the largest importer of natural gas in the world. The EU is also dependent on Russia for its imports of oil and coal: 27% of oil imports and 46% of coal imports are from Russia. Therefore, The attempt to curb Russia's production through sanctions and oil embargoes had unintended consequences. Instead of achieving the desired result, it led to limitations and increased costs in energy supply. As a result, the returns on energy stocks displayed an unusual pattern, as outlined by Estrada and Koutronas in 2022. The spillover from the Russia/Ukraine crisis is anticipated to significantly impact energy prices, potentially driving inflation higher. Gas prices have already escalated, with the national average cost surpassing $4.30 a gallon, as reported by GasBuddy. Economist Stephen Stanley of Amherst Pierpont suggests that the recent increase in prices is likely to subside within a few months, implying that the surge in gas prices may only temporarily affect growth and inflation. (Kiplinger, 2024)

If we look at the US, the situation is very different as the US is a net exporter of fossil fuels and has barely no imports from Russia. As such, the decision of the US to ban the energy imports from Russia does not really impact the US economy nor does it have real effects on the Russian economy. (Valérie Besson, 2022)

Most countries in Asia are net importers of fossil energy. International prices of crude oil and LNG were already rising in the later months of 2021, but the war in Ukraine accentuated this rise. While Asian buyers have been picking up discounted cargoes of oil and coal, there have been new costs and complications as energy, food, and other supply chain flows are adapting to sanctions. The immediate impact of these high energy prices and supply chain disruptions is seen in rising costs across many sectors – whose supply chains were barely recovering from the COVID-19 pandemic. (Michal Meidan, Mohua Mukherjee, Philip Andrews-Speed, Yan Qin, Mike Fulwood, Andreas Economou, OIES, 2022)

→ There is no indication that the Russo-Ukraine battle will conclude any sooner than 15 years (Ryan 2022), therefore continued ramifications from the oil sector's depreciation are unavoidable.

- Framework:

The Geopolitical Risk Index

Definition:

- The Geopolitical Risk Index (GPR) is an index developed by Caldara and Iacoviello that quantifies the impact of geopolitical risks on global economic variables. The GPR Index is calculated using the frequency of newspaper articles discussing geopolitical risks. It is divided into two components:
- GPR Threat: This part of the index focuses on words associated with the threat of adverse geopolitical events. It includes discussions about military tensions, nuclear threats, war threats, and terrorism threats. Essentially, it measures the level of concern about potential geopolitical events.
- GPR Act: This component of the index concentrates on words related to actual adverse geopolitical events, like terrorist acts or the outbreak of wars. It captures the media coverage of these events happening, as opposed to just the risk or threat of them.

GPR Global:

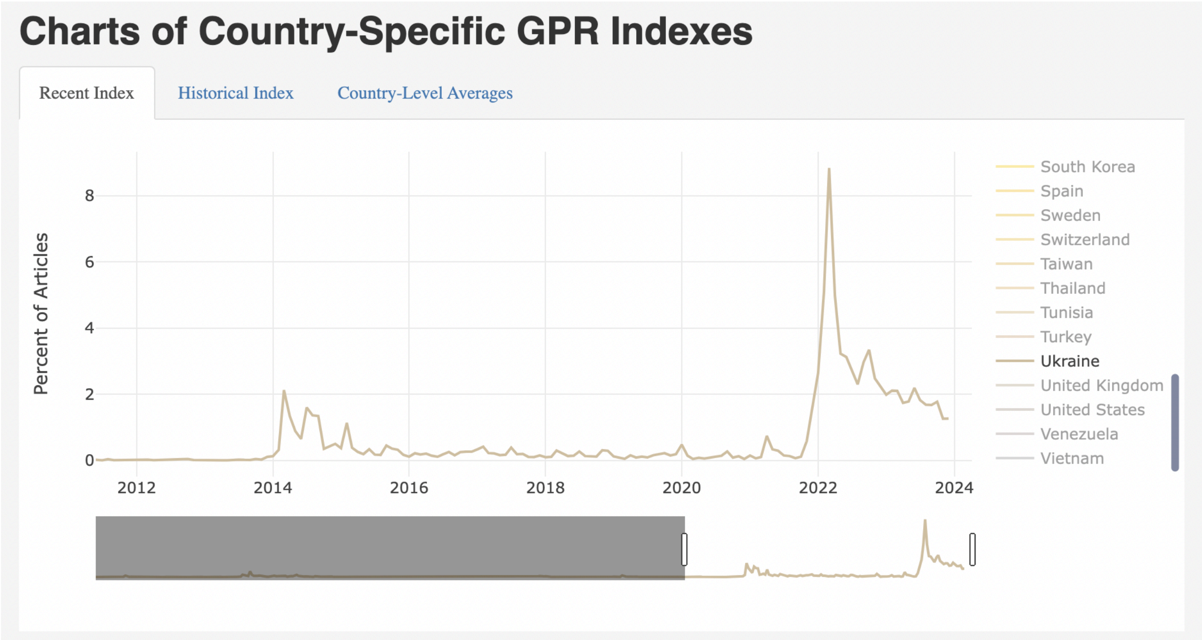
The increase in the Geopolitical Risk Index (GPR) during February and March 2022, as indicated by the figures you provided, aligns with the escalation of the Russia-Ukraine conflict. In February 2022, with the GPR at 219.07, the GPR threat at 325.04, and the GPR act at 105.89, there was already a heightened sense of geopolitical risk and uncertainty. However, in March 2022, these figures significantly rose to 324.23 for the GPR, 411.25 for the GPR threat, and 253.45 for the GPR act, reflecting the intensification of the conflict.

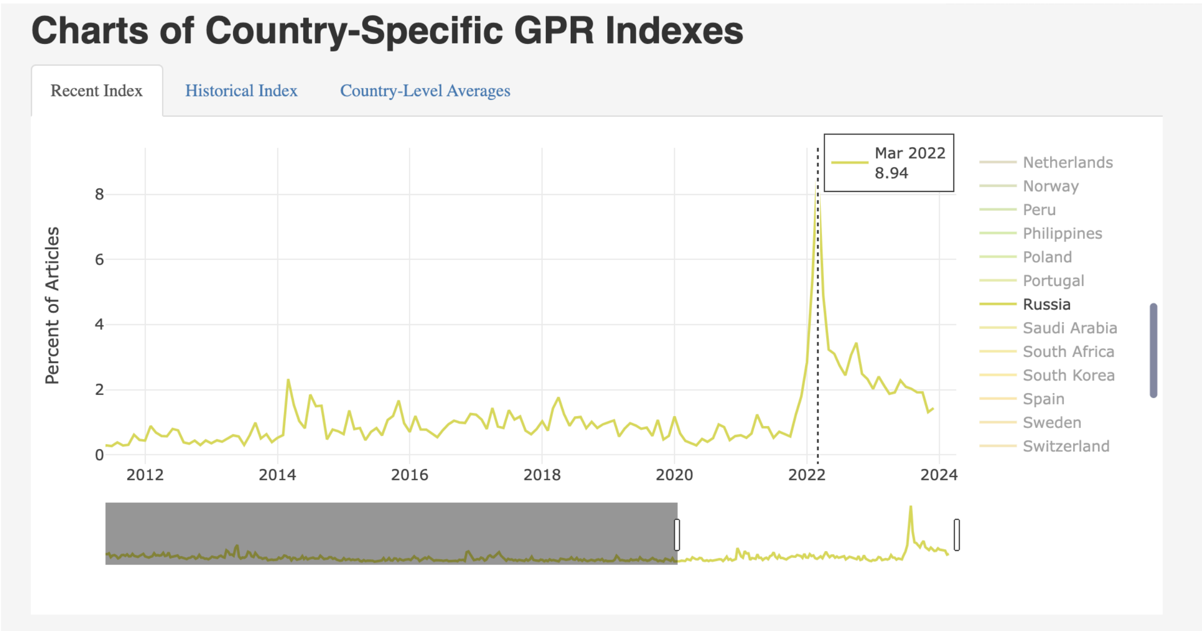
The significant increase in the Geopolitical Risk Index (GPR), GPR Threat, and GPR Act during the onset of the Russia-Ukraine conflict in early 2022 highlights the profound impact of this geopolitical event on global perceptions of risk. The sharp rise in these indices from February to March 2022, with March recording the highest GPR in a decade, reflects the escalation of the conflict and its worldwide repercussions.

The GPR Threat component's increase signifies heightened global concern and discussion about potential adverse geopolitical events, including military and nuclear tensions, amidst the conflict. This heightened threat perception likely influenced global financial markets, leading to increased volatility and uncertainty.

The GPR Act, which focuses on actual adverse geopolitical events like wars, saw a significant jump, indicating that the conflict's realities were being extensively covered and discussed in the media. This would have a direct impact on global economic variables, influencing investor sentiment and leading to tangible shifts in stock markets, oil prices, and trade flows.

GPR Russia and Ukraine:





The substantial increase in the Geopolitical Risk Indexes (GPR) for both Russia and Ukraine in March 2022, compared to February 2022, reflects the significant escalation of the conflict and its profound impact on global geopolitical perceptions. In February, the GPR for Russia was 5.47 and for Ukraine was 5.07, but by March, these figures nearly doubled to 8.94 for Russia and 8.84 for Ukraine. This sharp rise indicates not only increased global attention to the conflict but also heightened concerns about the potential implications for regional and international stability. The nearly parallel increase in GPR for both countries underscores the widespread recognition of the conflict's severity and its potential to influence global geopolitical dynamics, including economic variables like stock markets, oil prices, and trade flows.

The Geopolitical Risk Index (GPR) can significantly impact the stock market. A high GPR, indicating increased geopolitical risks, generally corresponds with negative investor sentiment. This heightened risk perception can lead to stock market volatility, with investors often moving towards safer assets. An elevated GPR during a geopolitical conflict like the Russia-Ukraine war can cause uncertainty in the markets, leading to stock price fluctuations. In their worst Q1 performance since 2020, global equities ended the first quarter down -5.36% despite rallying in March 2.17%. In the U.S., both the S&P 500 and Nasdaq indices posted their first quarterly loss in two years, returning -4.95% and -9.08% respectively. Markets have been shaken by the Russia-Ukraine war, global inflation and the inversion in the U.S. treasury yield curve between short- and long-term rates as the U.S. Federal Reserve began to raise interest rates. The CBOE Volatility Index, or VIX –often referred to as the "fear index"—spiked to 36.45 during March and closed the quarter at 20.56, a 19.40% jump from the outset of 2022. Internationally, the MSCI EAFE and MSCI Emerging Markets sank -5.91% and -7.49% respectively for the quarter. Russian stocks resumed trading after a three-week trading halt, but still finished the quarter with the worst country return, falling -66.11% QTD. Stocks in China fell 14.21% in the first quarter, with technology stocks being hit especially hard after the SEC added Chinese internet search engine giant Baidu to its growing list of ADRs that might get kicked off American stock exchanges.

Latin America, however, remains a bright spot in 2022, returning 26.12% in the first quarter. Brazil was the best performing country, gaining 34.29% as the Brazilian real appreciated more than 17% in Q1. In developed markets, Norway and Australia led first quarter EAFE returns, gaining 9.82% and 5.53% respectively.

Bonds prices sank lower in March, as central banks increased interest rates to combat the fastest rising inflation in decades (prices move inversely to interest rates). The U.S. International and Aggregate Bond indices returned -2.78% and -2.09% this month, ending the quarter down -5.93% and -5.04% respectively, in the U.S. bond market's worst quarterly return since 1980.

The U.S. 2-year treasury rate jumped more than 90 basis points in March to finish at 2.334% — its largest monthly jump since 1984. Meanwhile, the 10-year treasury rate moved to 2.331%; this inversion of the yield curve is a closely watched potential indicator of future recession.

The U.S. Federal Reserve's preferred inflation gauge, the Core Personal Consumption Expenditure Price Index, jumped 5.4% year-on-year, its highest annual increase since 1983. Internationally, the war's effects started to become evident in the economic figures coming from the U.K. and the Eurozone. The U.K. CPI registered an annual 6.2% rate in February and jumped 0.8% month-on-month on spiking energy costs; in Germany, producer prices skyrocketed nearly 26% YoY.

On a more positive note, the diversified Bloomberg Commodity Index posted its best quarter since 1990, returning 25.55% for the quarter. Crude oil jumped 33.33% in Q1. In response, on March 31st the White house announced it will release up to one million barrels per day of oil from the Strategic Petroleum Reserve for the next six months to help tamp down soaring gas prices. President Joe Biden sharply criticized the domestic energy industry for sitting on unused oil supply.

Of the stock market's 11 sectors, only Energy and Utilities closed out the first quarter with gains, up 39.08% and 4.77% respectively. Communication Services, Consumer Discretionary, and Technology were the worst performing sectors, posting Q1 returns of -11.25%, -9.35%, and -8.51% respectively.

Gold, often seen as a haven in times of geopolitical turmoil, closed the quarter at $1,937.44 per ounce, gaining 1.49% in March to notch a Q1 return of 5.92%. Meanwhile, Bitcoin rallied 9.87% in March but remains down -1.22% for the year.

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Tips:

- Use subheadings to organize different aspects systematically
- Synthesize information from high-quality sources
- Apply relevant financial theories and concepts
- Argue points persuasively with evidence and reasoning

- Use topic sentences and transitions between paragraphs

6. Conclusion & Recommendation

- Recap all the main findings
- Suggest the recommendation for the companies and countries regarding their portfolio

Example for recommendation:

The direct exposure of most investors to Russia and Ukraine is typically minimal. However, the sanctions imposed on Russia and the rekindling of Cold War-like tensions have triggered apprehensions in the stock market. In times of heightened emotions, focusing on long-term investment strategies becomes crucial. Maintaining a well-diversified portfolio, encompassing a broad range of asset classes across various countries, industries, and company sizes, is essential to mitigate investment risks. (Kiplinger, 2024)

Tips:

- Restate the research question and main findings
- Discuss real-world implications and significance
- Highlight limitations and areas for further research

7. Limitations

Example:

- The EU's dependence on energy in Russia makes the EU economy vulnerable because they are at risk of experiencing an energy crisis and rising costs → There may be significant investment in green energy in Europe and port facilities to import LPG to reduce dependence on Russia.

Tips:

- Note methodological or scope limitations
- Identify assumptions made
- Explain how limitations impacted findings

II. Part B: Industry Talk Reflection

1. Introduction (1-2 sentences)

- Briefly introduce the industry talk topic and speaker.

Example:

- The industry talk was given by Jane Smith, a portfolio manager at XYZ Capital.
- The focus was on the significance of a stable foreign exchange rate for a nation's economic activities.

2. What was the discussion in the talk? (2-3 points)

- Summarize the key themes and topics covered
- Use bullet points to highlight the most important points
- Keep it factual and objective

Example:

- Overview of key topics covered:
    - The worldwide financial system along with its diverse markets, instruments, and institutions.

- The way fund managers view crises as a type of arbitrage.

3. **How can you relate the talk to the investigated topic? (2-3 points)**

- Identify 2-3 relevant course concepts, theories, models
- Explain how the talk connects to or illustrates these concepts
- Use specific examples from the talk to support your analysis

Example:

- Several case studies were introduced, including the energy crisis and interest rates in the United States.
- Financial institutions, fund movements, and interest rates, along with foreign exchange.
- Key indexes to look out for in stock.
- As an illustration, the imposition of an oil embargo on Russia boosts the market share of nations possessing significant oil reserves (Allen 2022), including Vietnam. However, despite this circumstance, the stock index of Vietnamese oil companies continues to decrease due to a pessimistic market outlook.

4. **What can you add to the discussion? (2-3 points)**

- Provide your perspectives and opinions on the issues
- Suggest areas overlooked or topics for further examination
- Raise critical questions or counterpoints to consider
- Discuss real-world applications and implications

Example:

- The more efficient the financial and informational flows within a system, the faster investors can obtain shares and generate profits.

- Because of the fluctuating nature of the stock market, investors need to act promptly and engage in comprehensive research before making decisions to purchase stocks.

5. Conclusion (1-2 sentences)

- Synthesize key takeaways and insights from the talk
- Restate the most important learnings for you
- Keep it concise - 1-2 sentences

Example:

- The talk provided insightful perspectives on the financial industry and, more particularly, value chains of funds.
- Key takeaways include:
  + Increasing the interest rate is a powerful tool for robust economies such as the United States to draw in capital and investment.
  + The Vietnamese stock market often overlooks crucial financial institutions, including custodian banks, clearing houses, and settlement agents.
  + A distinct correlation exists between crises and the volatility of the stock market.
  + Another significant observation is that predictions regarding stocks made by fund managers are speculative and lack reliability.

- I gained valuable insight into a wide range of essential financial subjects thanks to the speaker's sharing.

D/ TIPS & TRICKS

1. Writing Tips

- Craft a clear, focused research question to drive analysis.
- Use formal academic writing style and avoid personal pronouns.
- Apply financial theories and concepts from course materials.
- Synthesize information from multiple high-quality sources.
- Organize content logically using topic sentences and transitions.
- Argue points persuasively using evidence and reasoning.
- Define any technical terms and provide necessary context.
- Cite sources properly using Harvard referencing style.

2. Data Visualization Tips:

- Only use charts/graphs if they supplement or organize key data/findings.
- Label and explain all visuals concisely.
- Choose appropriate chart types based on the data being conveyed.
- Format visualizations consistently for a polished look.
- Avoid excessive visuals that distract rather than clarify.
- Use high-resolution images for maximum clarity.
- Make sure visual elements are easily interpreted.

3. Other Tips:

- Start early to allow time for quality research.
- Create an outline to organize your paper structure.

- Proofread carefully for grammar, spelling, punctuation errors.
- Ask a peer or professor to review the draft for feedback.
- Revise thoroughly to refine arguments and analysis.
- Adhere strictly to word count and formatting requirements.