



Recalibration of priorities: Investor preference and Russia-Ukraine conflict

Amanjot Singh^{a,*}, Ritesh Patel^b, Harminder Singh^c

^a School of Management, Economics, and Mathematics, King's University College at Western University, N6A2M3, Canada

^b Department of Economics and Finance, Institute of Management, Nirma University, India

^c Faculty of Business and Law, Deakin University, Australia

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ABSTRACT

This study examines the role of the Russia-Ukraine conflict in influencing the investor preference for energy, aerospace & defense, and ESG (i.e., environmental, social, and governance) investments, using Diebold and Yilmaz's (2012) return spillover effects from April 2019 to May 2022. Our findings report that energy and the aerospace & defense sectors become the net receivers of return spillover effects from ESG investments after February 2022, suggesting that the Russian invasion of Ukraine led to a recalibration of investor priorities. Investor preference for energy and the aerospace & defense sectors has increased in the wake of their growing sustainability role.

1. Introduction

“The Russia-Ukraine war has ‘really shifted’ ESG priorities”

(Sharmini Chetwode, Goldman Sachs)¹

After the Russian invasion of Ukraine, the topic of energy independence has been gaining traction on account of financial and trade sanctions announced against Russia. Amidst European nations' attempt to decrease their reliance on Russian energy and increase energy independence through enhanced renewable energy plans,² energy companies are booming with profits due to increased crude oil prices.³ Crude oil is an essential input. The Russian invasion of Ukraine has triggered the debate over energy independence across worldwide economies. As part of energy independence, countries have started focusing on increasing energy production while switching to sustainable energy sources.⁴ Thus, the Russia-Ukraine conflict has opened up new avenues for investors to invest in energy-related stocks amidst an increasing focus on sustainable energy sources.⁵

Another sector gaining traction is aerospace & defense due to growing security concerns. For years, investors have avoided

* Corresponding author.

E-mail address: asing853@uwo.ca (A. Singh).

¹ <https://www.cnbc.com/video/2022/04/04/russia-ukraine-war-has-really-shifted-esg-priorities-goldman-sachs.html>

² <https://www.reuters.com/business/sustainable-business/ukraine-war-pandemic-set-speed-europes-green-energy-transition-report-finds-2022-06-01/>

³ <https://www.cnbc.com/2022/02/24/global-markets-roiled-as-russia-invades-ukraine.html>

⁴ <https://www.aljazeera.com/news/2022/3/14/could-energy-independence-from-russia-spur-a-shift-to-renewables>

⁵ <https://www.alliancebernstein.com/library/evolving-thoughts-on-esg-the-case-for-energy-and-defense-stocks.htm>