

Reframing Investor Confidence under Geopolitical Fragmentation: Economic Uncertainty, Disclosure Credibility, and Governance Resilience across Developed and Emerging Institutional Settings

AminEl Sayed Ahmed Lotfy

*ExPresident of Beni Suef University,
Professor of Accounting and Auditing
Faculty of Commerce, BSU.*

Cairo, Egypt-01007770550-01001767536

ORCID: <https://orcid.org/0000-0002-2656-7887>

Abstract

Purpose

This study reframes investor confidence under geopolitical fragmentation by examining how economic uncertainty, disclosure credibility, governance resilience, and institutional asymmetry interact to reshape valuation behavior across developed and emerging institutional settings. The study moves beyond conventional geopolitical-risk frameworks by conceptualizing geopolitical instability as an informational repricing process capable of influencing investor confidence through uncertainty transmission, informational fragility, and institutional trust dynamics. It further investigates whether disclosure credibility and governance resilience mitigate the adverse effects of geopolitical instability under heterogeneous institutional environments.

Methodology, Design, and Approach

The study adopts a quantitative panel-data design using firm-level observations from 120 listed non-financial firms across the United States, the United Kingdom, and Egypt during 2015–2024. Investor confidence is primarily proxied using Tobin's Q , while geopolitical risk and economic policy uncertainty are measured using internationally recognized indices. Disclosure credibility and governance resilience are constructed through firm-specific accounting and governance indicators. The empirical analysis employs fixed-effects estimation, interaction models, nonlinear specifications, and institutional heterogeneity analysis to capture direct, moderating, and threshold-sensitive relationships.

Findings

The findings reveal that geopolitical instability significantly weakens investor confidence, while economic policy uncertainty amplifies this adverse effect across institutional settings. Disclosure credibility and governance resilience substantially reduce uncertainty-driven valuation deterioration and strengthen institutional confidence stability under geopolitical stress conditions. The results additionally document significant nonlinear effects, indicating that investor reactions intensify disproportionately once geopolitical uncertainty exceeds critical thresholds. Comparative analysis further demonstrates that emerging institutional environments exhibit considerably higher investor-confidence sensitivity relative to developed institutional settings.

Originality and Value

The study contributes to accounting and finance literature by conceptualizing geopolitical instability as a process of informational repricing rather than merely a macroeconomic or political disturbance. It additionally extends disclosure and governance literature by repositioning disclosure credibility and governance resilience as institutional buffering mechanisms capable of preserving investor confidence under uncertainty-intensive environments.

Theoretical, Practical, and Social Implications

The study expands institutional and informational asymmetry perspectives by integrating geopolitical uncertainty into investor-confidence dynamics. Practically, the findings provide important implications for regulators, firms, investors, and governance institutions regarding the strategic importance of disclosure transparency and governance resilience during periods of geopolitical fragmentation. Socially, the study highlights the broader role of credible financial reporting and institutional trust in supporting market stability and reducing uncertainty-driven economic disruption.

Keywords

Geopolitical Fragmentation; Investor Confidence; Economic Policy Uncertainty; Disclosure Credibility; Governance Resilience; Institutional Asymmetry; Geopolitical Risk; Emerging Institutional Settings

I. Introduction

1.1 Background and Context

Contemporary capital markets operate within an increasingly fragmented geopolitical environment in which investor confidence is no longer shaped by financial fundamentals alone. Trade conflicts, sanctions, energy shocks, supply-chain disruptions, military tensions, and policy uncertainty have transformed geopolitical risk from an external political disturbance into a persistent source of informational instability affecting valuation, disclosure credibility, and governance trust (Caldara & Iacoviello, 2022; Hassan et al., 2023). In this environment, investors do not respond only to observable firm performance; they also reassess the reliability of the institutional and informational systems through which such performance is communicated.

This shift is especially important for accounting and governance research. Traditional market-based studies often explain investor confidence through profitability, growth, leverage, and expected cash flows. Yet recent evidence suggests that uncertainty shocks alter the way investors process corporate information, particularly when disclosure quality is weak or governance credibility is uncertain (Bekaert et al., 2022; Blankespoor et al., 2020). Accordingly, geopolitical instability may reduce investor confidence not simply by damaging economic fundamentals, but by increasing informational ambiguity and weakening trust in corporate reporting and governance systems.

The issue becomes more complex across institutional settings. Developed markets such as the United States and the United Kingdom generally operate within stronger disclosure regimes, deeper capital markets, and more mature governance infrastructures. Emerging markets such as Egypt may exhibit higher informational asymmetry, weaker enforcement, and greater investor sensitivity to external shocks. Therefore, the same geopolitical disturbance may generate different valuation consequences across institutional environments (Lee et al., 2023; Salisu & Adediran, 2023). This institutional variation provides the basis for the present study's comparative design.

1.2 Research Problem

The central research problem is that existing literature has not sufficiently explained how geopolitical instability reshapes investor confidence through the combined effects of economic uncertainty, disclosure quality, corporate governance, and institutional differences. Prior studies have separately examined geopolitical risk and asset pricing, economic policy uncertainty, disclosure transparency, governance quality, and investor sentiment (Pastor & Veronesi, 2013; Baker et al., 2016; Leuz & Wysocki, 2016). However, limited research has integrated these dimensions into one accounting-finance framework capable of explaining why investor confidence deteriorates more sharply in some firms and institutional settings than in others.

This gap is important because investor confidence under geopolitical fragmentation is unlikely to follow a simple linear pattern. Market reactions may intensify once geopolitical risk exceeds certain thresholds, particularly when uncertainty is high and information environments are weak (Ferrara & Simoni, 2024; Xu et al., 2023). Similarly, stronger disclosure systems and more credible governance structures may reduce investor overreaction by preserving informational trust under uncertainty. Thus, the research problem is not merely whether geopolitical risk affects investor confidence, but how, when, and under what institutional conditions this effect becomes stronger or weaker.

1.3 Research Objectives and Questions

The study aims to investigate the conditional dynamics through which geopolitical risk affects investor confidence across the United States, the United Kingdom, and Egypt during 2015–2024. Specifically, it examines whether geopolitical risk reduces investor confidence, whether economic policy uncertainty amplifies this effect, whether disclosure quality and governance credibility moderate the relationship, whether the effect is nonlinear, and whether investor sensitivity differs across institutional settings.

The study is guided by the following research questions. First, does geopolitical risk significantly reduce investor confidence? Second, does economic policy uncertainty intensify the adverse effect of geopolitical risk? Third, does disclosure quality buffer investor confidence against geopolitical uncertainty? Fourth, does corporate governance credibility weaken the negative valuation consequences of geopolitical instability? Fifth, is the relationship between geopolitical risk and investor confidence nonlinear? Sixth, do developed and emerging institutional settings exhibit different levels of investor-confidence sensitivity?

1.4 Significance and Contributions

The study contributes to accounting and finance literature by reframing geopolitical risk as an informational repricing mechanism rather than merely a macro-political shock. It introduces disclosure quality as a buffering mechanism that may stabilize investor expectations under uncertainty, extending traditional disclosure theory beyond information-asymmetry reduction (Christensen et al., 2021; Barth et al., 2021). It also positions governance credibility as a confidence-preserving mechanism under institutional stress, building on governance resilience literature (Boone et al., 2022; Harjoto et al., 2021).

The study further contributes by developing the notion of institutional confidence elasticity, meaning that investor confidence responds differently to geopolitical shocks depending on the strength of the institutional environment. This helps explain why emerging markets may experience stronger valuation deterioration under geopolitical fragmentation than developed markets (Lins et al., 2017; Scott, 2014). Methodologically, the study contributes by using panel data, interaction terms, nonlinear specifications, and institutional comparison to examine investor confidence across 120 listed non-financial firms in three countries over ten years.

1.5 Methodological Orientation

The study adopts a quantitative panel-data design covering 120 listed non-financial firms from the United States, the United Kingdom, and Egypt over 2015–2024. Investor confidence is proxied primarily by Tobin's Q, while geopolitical risk and economic policy uncertainty are measured using recognized country-level indices. Disclosure quality and governance variables are constructed from firm-level financial and governance data. The empirical design uses fixed-effects estimation, interaction models, nonlinear terms, and robustness tests to capture direct, conditional, and threshold-sensitive effects (Demir & Ersan, 2023; Li et al., 2022; Canh et al., 2023).

1.6 Structure of the Study

The study proceeds as follows. Chapter Two reviews and reconstructs the literature on geopolitical risk, investor confidence, disclosure quality, governance, uncertainty transmission, and institutional asymmetry. Chapter Three develops the conceptual framework and statistical hypotheses. Chapter Four explains the methodology, sample, variables, and econometric models. Chapter Five presents the empirical results. Chapter Six discusses the findings in relation to prior literature and theory. Chapter Seven concludes with implications, limitations, and future research directions.

II. From Geopolitical Fragmentation to Informational Instability: Reconstructing the Literature and Theoretical Foundations of Investor Confidence

2.1 The Evolution of Geopolitical Risk in Financial and Accounting Research

The concept of geopolitical risk has undergone substantial theoretical and empirical transformation within contemporary accounting and financial literature. Earlier research traditionally approached geopolitical instability as a peripheral political variable primarily associated with war, terrorism, diplomatic conflict, or international military escalation. Under this conventional perspective, geopolitical events were generally treated as exogenous macroeconomic disturbances producing temporary disruptions in trade flows, commodity prices, exchange rates, or international capital movement.

However, the increasing complexity of global financial interconnectedness, institutional fragility, digital information transmission, and systemic uncertainty has fundamentally altered the analytical position of geopolitical risk within modern financial and accounting research.

Recent literature increasingly conceptualizes geopolitical instability not merely as a political phenomenon, but as a multidimensional uncertainty architecture capable of reshaping investor expectations, market behavior, disclosure systems, governance structures, and institutional trust simultaneously (Caldara & Iacoviello, 2022; Antonakakis; Gupta & Tiwari, 2017). This conceptual evolution reflects the growing recognition that geopolitical fragmentation generates informational consequences extending far beyond conventional macroeconomic channels.

The emergence of trade wars, sanctions regimes, energy crises, pandemic-related uncertainty, cybersecurity conflicts, and strategic technological fragmentation has intensified scholarly interest in understanding how geopolitical instability influences financial-market dynamics under increasingly uncertain global environments.

Importantly, contemporary literature demonstrates that geopolitical disturbances frequently produce disproportionate market reactions relative to their direct economic consequences. Such findings suggest that markets increasingly respond not solely to realized geopolitical events, but also to uncertainty anticipation, informational ambiguity, and institutional distrust associated with future geopolitical escalation paths (Pastor & Veronesi, 2013).

Consequently, geopolitical risk has gradually evolved from a peripheral political variable toward a central informational-financial construct embedded within valuation behavior, uncertainty pricing, and institutional resilience frameworks.

This transformation is particularly visible within recent accounting literature examining disclosure systems, reporting transparency, and informational credibility under uncertainty conditions. Earlier accounting studies primarily emphasized the role of financial reporting in reducing informational asymmetry and improving market efficiency. However, contemporary research increasingly recognizes that disclosure systems additionally operate as strategic institutional infrastructures capable of preserving market trust under geopolitical fragmentation and uncertainty escalation (Christensen et al., 2021).

Similarly, governance literature has expanded beyond traditional agency-theory interpretations toward broader institutional resilience perspectives emphasizing governance credibility, strategic oversight, and market-confidence stabilization under crisis environments (Boone et al., 2022; Balciar, Bonato Demirel & Gupta, 2018). The integration between geopolitical risk, accounting information systems, governance structures, and investor behavior therefore represents one of the most significant conceptual shifts within recent accounting-finance scholarship.

Recent empirical studies further reinforce this transition. Research examining geopolitical uncertainty demonstrates statistically significant relationships between geopolitical fragmentation and:

- market volatility,
- investor sentiment deterioration,
- capital-market repricing,
- disclosure transparency,
- and institutional fragility (Demir & Ersan, 2023; Hassan et al., 2023).

Nevertheless, despite the growing sophistication of geopolitical-finance literature, substantial conceptual fragmentation remains visible across existing studies. Much prior research continues to examine geopolitical risk through isolated disciplinary perspectives focusing separately on:

- macroeconomic volatility,
- investor sentiment,
- governance quality,
- or disclosure systems.

Relatively limited literature has attempted to integrate these dimensions within a unified institutional-informational framework capable of explaining how geopolitical instability reshapes investor confidence through uncertainty transmission, informational repricing, and institutional asymmetry simultaneously.

The present study addresses this gap by reconstructing geopolitical risk literature through an accounting-finance institutional perspective emphasizing informational credibility, governance resilience, and investor-confidence repricing under geopolitical fragmentation.

2.2 Investor Confidence under Informational and Institutional Stress

Investor confidence occupies a central position within financial-market theory because it directly influences valuation behavior, market stability, capital allocation efficiency, and long-term investment sustainability. Traditional financial literature generally conceptualized investor confidence through rational-market frameworks emphasizing expected returns, earnings performance, macroeconomic conditions, and risk-premium adjustments.

However, recent uncertainty environments have increasingly challenged the explanatory sufficiency of purely rational interpretations of investor behavior.

Global financial crises, geopolitical fragmentation, pandemic disruption, technological instability, and institutional distrust have demonstrated that investor confidence is significantly influenced by informational credibility and institutional resilience rather than by financial fundamentals alone (Akerlof & Shiller, 2009).

Consequently, contemporary literature increasingly interprets investor confidence as a multidimensional behavioral and institutional construct shaped by:

- uncertainty interpretation,
- informational transparency,
- governance credibility,
- institutional trust,
- and strategic expectations regarding future stability.

This conceptual shift is highly important because it repositions investor confidence from a purely psychological market sentiment variable toward a broader institutional-informational phenomenon.

Under elevated geopolitical uncertainty, investors frequently face significant ambiguity regarding:

- future earnings sustainability,

- operational continuity,
- regulatory consistency,
- financial-system stability,
- and disclosure reliability.

As a result, investor confidence increasingly depends upon the perceived credibility of informational systems and governance structures capable of reducing ambiguity and preserving institutional trust under unstable environments.

Recent empirical research strongly supports this broader interpretation of investor confidence. Studies examining uncertainty spillovers demonstrate that investor reactions intensify substantially under environments characterized by informational opacity and institutional fragility (Bekaert et al., 2022). Similarly, literature on behavioral uncertainty suggests that investors exhibit asymmetrical and nonlinear responses under elevated uncertainty conditions due to fear amplification, sentiment contagion, and confidence deterioration mechanisms (Xu et al., 2023).

Importantly, accounting disclosure systems appear increasingly central within this interpretive process. Investors operating under uncertainty conditions rely heavily upon transparent reporting structures to evaluate organizational resilience and future valuation sustainability. Consequently, disclosure quality becomes strategically important not solely because it improves reporting accuracy, but because it stabilizes investor expectations under uncertainty escalation.

Governance structures similarly influence investor confidence under institutional stress environments. Firms characterized by stronger governance credibility appear more capable of preserving investor trust because investors interpret governance quality as a signal of managerial discipline, accountability, and strategic resilience during unstable conditions (Harjoto et al., 2021; Eng et al., 2021).

strategic resilience during unstable conditions (Harjoto et al., 2021).

Institutional context additionally plays a critical role in shaping investor-confidence dynamics. Developed institutional environments characterized by stronger governance enforcement, transparent disclosure infrastructures, and higher baseline institutional trust generally exhibit lower investor-confidence elasticity under geopolitical stress. Conversely, emerging institutional environments characterized by informational asymmetry and institutional fragility frequently experience stronger confidence deterioration under uncertainty shocks.

The literature therefore increasingly supports the proposition that investor confidence should be interpreted through an institutional-informational lens integrating behavioral uncertainty, disclosure credibility, governance resilience, and institutional trust simultaneously.

Despite this progress, substantial literature fragmentation remains evident. Prior studies frequently investigate:

- investor sentiment,
- uncertainty transmission,
- disclosure quality,
- or governance credibility
- as separate analytical phenomena.

Limited research has integrated these dimensions within a unified framework capable of explaining how geopolitical fragmentation statistically reshapes investor confidence through informational and institutional channels.

The present study seeks to address this theoretical fragmentation through the development of an integrated institutional-geopolitical repricing framework.

2.3 Economic Uncertainty and Informational Spillover Literature

Economic uncertainty has emerged as one of the most influential explanatory variables within modern accounting and finance literature. Earlier studies primarily examined uncertainty through macroeconomic perspectives emphasizing inflation instability, interest-rate volatility, exchange-rate fluctuation, and business-cycle unpredictability. However, recent research increasingly recognizes that uncertainty additionally operates through informational spillover mechanisms capable of reshaping market interpretation and investor behavior.

The growing interconnectedness between global markets, institutional systems, geopolitical structures, and digital-information environments has significantly intensified the transmission speed and breadth of uncertainty spillovers across financial systems.

Contemporary uncertainty literature therefore conceptualizes economic uncertainty not merely as a macroeconomic condition, but as an informational transmission architecture influencing valuation stability, investor expectations, and institutional trust simultaneously (Baker et al., 2021).

Under uncertainty environments, investors face greater difficulty estimating:

- future cash flows,
- market stability,

- strategic continuity,
- financing conditions,
- and institutional reliability.

Consequently, informational ambiguity increases substantially, producing stronger market sensitivity and accelerated repricing behavior.

The Economic Policy Uncertainty (EPU) framework developed by Baker et al. (2016) significantly advanced uncertainty literature by operationalizing uncertainty through policy-related news coverage and institutional ambiguity indicators. Subsequent research extended this framework toward broader financial-market applications involving investor sentiment, geopolitical spillovers, volatility transmission, and disclosure transparency.

Recent empirical evidence demonstrates that uncertainty spillovers materially influence:

- market volatility,
- capital allocation efficiency,
- disclosure credibility,
- and investor-confidence stability (Canh et al., 2023).

Similarly, uncertainty transmission literature increasingly suggests that uncertainty effects become particularly severe when interacting with geopolitical fragmentation and institutional fragility. Under such conditions, uncertainty spillovers amplify informational asymmetry and intensify investor overreaction across financial markets (Li et al., 2022; Brogaard & Detzel, 2015)

Importantly, uncertainty spillovers are frequently nonlinear and institutionally asymmetric. Developed institutional environments generally exhibit stronger resilience against uncertainty escalation due to superior disclosure systems and governance infrastructures. Emerging institutional environments, however, frequently demonstrate significantly higher sensitivity to uncertainty transmission due to lower informational trust and weaker institutional credibility.

The literature therefore increasingly supports the integration between uncertainty theory, geopolitical fragmentation, disclosure quality, governance resilience, and institutional trust within broader accounting-finance frameworks.

Nevertheless, substantial gaps remain visible regarding:

- how uncertainty spillovers interact with geopolitical instability,
- how disclosure systems statistically buffer uncertainty transmission,
- and how institutional asymmetry reshapes investor-confidence repricing dynamics.

The present study addresses these unresolved issues through a multidimensional institutional-geopolitical framework integrating uncertainty spillovers directly within investor-confidence repricing architecture.

Figure 1.illustrates the conceptual evolution of geopolitical-risk literature from traditional political-risk perspectives toward broader institutional-informational frameworks.

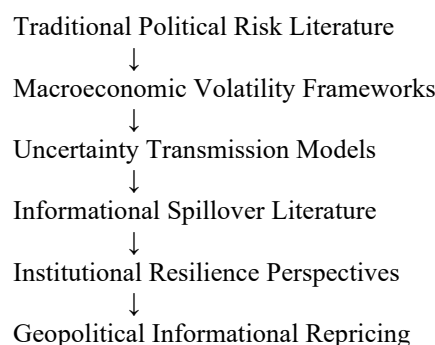


Figure 1. Evolutionary Architecture of Geopolitical Risk Literature

This figure demonstrates that contemporary literature increasingly interprets geopolitical instability as a multidimensional uncertainty architecture capable of reshaping investor confidence, disclosure systems, governance credibility, and institutional resilience simultaneously. The present study extends this evolution through the development of a geopolitical informational repricing framework integrating accounting, finance,governance, and institutional theory within a unified analytical structure.

2.4 Disclosure Quality beyond Information Asymmetry

Traditional accounting literature has historically conceptualized disclosure quality primarily through the lens of informational asymmetry reduction. Under this classical perspective, disclosure systems are expected to improve market efficiency by enhancing transparency, reducing agency conflicts, and facilitating more accurate valuation decisions. Consequently, high-quality disclosure has traditionally been associated with:

- lower cost of capital,
- reduced information risk,
- improved analyst forecast accuracy,
- and stronger investor protection.

While these functions remain critically important, recent uncertainty environments have substantially expanded the conceptual relevance of disclosure systems within accounting and finance research. (Bushee, & Leuz, (2005).

The increasing intensity of geopolitical fragmentation, systemic uncertainty, and institutional volatility has demonstrated that disclosure systems perform broader strategic and institutional roles extending beyond static information transmission mechanisms. Under unstable geopolitical conditions, disclosure quality increasingly operates as a resilience architecture capable

of stabilizing investor expectations and preserving market trust during uncertainty escalation.

This conceptual shift represents one of the most important transformations within recent accounting literature.

Contemporary disclosure research increasingly suggests that investors do not merely evaluate the quantity of disclosed information, but rather the credibility, consistency, reliability, and strategic transparency of disclosure systems under uncertain environments (Leuz & Wysocki, 2016). Consequently, disclosure quality becomes particularly valuable during periods characterized by informational ambiguity and geopolitical instability because investors rely heavily upon transparent reporting infrastructures to assess organizational resilience and future sustainability.

The present study extends this literature by introducing the concept of:

“disclosure buffering,”

which refers to the capacity of disclosure systems to statistically absorb portions of uncertainty transmission and reduce investor overreaction under geopolitical fragmentation.

Under this framework, disclosure quality functions as a moderating informational mechanism rather than merely a static reporting characteristic. Firms characterized by stronger disclosure environments appear more capable of preserving investor confidence because transparent reporting systems reduce ambiguity regarding:

- operational continuity,
- future earnings sustainability,
- institutional reliability,
- and governance credibility.

Conversely, weak disclosure systems intensify informational fragility and amplify uncertainty spillovers during periods of geopolitical escalation.

Recent empirical literature strongly supports this interpretation. Studies examining crisis environments demonstrate that transparent disclosure structures improve market stability and reduce volatility during periods of systemic disruption (Blankespoor et al., 2020). Similarly, sustainability-reporting literature increasingly emphasizes that disclosure credibility materially influences institutional trust and valuation resilience under uncertainty conditions (Christensen et al., 2021).

Research on accounting value relevance additionally demonstrates that disclosure systems increasingly influence investor interpretation mechanisms under uncertain macroeconomic environments (Barth et al., 2021). Investors appear substantially more sensitive to reporting credibility when geopolitical uncertainty intensifies because informational ambiguity raises concerns regarding managerial opportunism, strategic instability, and future organizational sustainability.

Importantly, the buffering capacity of disclosure systems is unlikely to remain homogeneous across institutional settings. Within developed institutional environments characterized by stronger regulatory enforcement and more mature reporting infrastructures, disclosure quality may produce incremental stabilizing effects because baseline informational trust is already relatively strong.

However, within emerging institutional settings characterized by weaker disclosure enforcement and greater informational asymmetry, disclosure quality becomes substantially more influential for preserving investor confidence under uncertainty escalation.

This institutional asymmetry substantially strengthens the strategic relevance of accounting disclosure systems within emerging markets exposed to geopolitical instability.

The literature therefore increasingly supports repositioning disclosure quality from:

- a reporting-efficiency mechanism
- toward:
- an institutional resilience infrastructure.

The present study contributes to this transformation by integrating disclosure buffering directly within the geopolitical uncertainty transmission process affecting investor confidence and valuation behavior.

2.5 Governance Credibility and Institutional Trust Literature

Corporate governance literature has evolved considerably over recent decades. Earlier governance research was primarily grounded in agency theory, emphasizing the role of governance mechanisms in reducing managerial opportunism, aligning shareholder interests, and improving monitoring efficiency.

Under this traditional framework, governance structures such as:

- board independence,
- audit committees,
- ownership concentration,
- and executive compensation
- were generally evaluated according to their ability to mitigate agency conflicts and improve financial performance.

However, recent uncertainty environments have significantly expanded the conceptual relevance of governance systems within accounting and finance literature.

The increasing prevalence of geopolitical fragmentation, institutional distrust, economic uncertainty, and crisis volatility has demonstrated that governance mechanisms additionally perform broader institutional and confidence-preservation functions under unstable environments.

Contemporary governance literature increasingly suggests that investors evaluate governance quality not merely as an internal monitoring mechanism, but as an institutional credibility signal reflecting organizational resilience, strategic discipline, and managerial accountability under uncertainty conditions (Boone et al., 2022; Chen, Lu & Sougiannis, (2012).

This conceptual transition is particularly important because geopolitical instability frequently intensifies concerns regarding:

- managerial opportunism,
- disclosure manipulation,
- strategic inconsistency,
- and institutional fragility.

Under such environments, governance systems become critical mechanisms for preserving investor trust and reducing uncertainty-driven overreaction.

The present study therefore conceptualizes governance credibility as the perceived ability of governance structures to sustain organizational legitimacy and informational reliability during periods of geopolitical stress.

This interpretation extends institutional theory by emphasizing that governance systems contribute directly to:

- market-confidence stabilization,
- uncertainty absorption,
- and informational resilience.

Recent empirical literature increasingly supports this broader governance perspective. Studies examining crisis environments demonstrate that firms characterized by stronger governance systems exhibit:

- lower volatility,
- stronger valuation resilience,
- and improved investor confidence

during periods of systemic instability (Harjoto et al., 2021; Kim, Wang, Z., & Zhang, L. (2019).

Similarly, research on institutional trust suggests that governance credibility materially shapes how investors interpret future organizational sustainability under uncertain environments (Lins et al., 2017).

Importantly, governance credibility appears especially valuable within emerging institutional environments characterized by weaker regulatory enforcement and lower baseline institutional trust. Under such conditions, investors rely more heavily upon organizational governance signals because broader institutional infrastructures may not provide sufficient confidence protection.

Institutional literature further suggests that governance systems contribute to organizational legitimacy through symbolic and substantive mechanisms simultaneously (Scott, 2014; Dang, Dang, Le, Nguyen, Nguyen, & Henry, (2020)

Symbolically, strong governance structures communicate accountability and discipline. Substantively, they improve strategic oversight and disclosure reliability.

The present study integrates these perspectives by positioning governance credibility as a moderating institutional mechanism capable of statistically weakening the adverse effects of geopolitical instability on investor confidence.

This interpretation additionally contributes to the growing literature concerning:

- governance resilience,
- institutional trust,

- and market adaptation
- under uncertainty escalation.

The study consequently proposes that governance systems should increasingly be interpreted through: “institutional confidence stabilization frameworks”

rather than through narrow agency-theory perspectives alone.

2.6 Institutional Asymmetry across Developed and Emerging Markets

One of the most significant themes emerging within recent accounting and finance literature concerns the role of institutional asymmetry in shaping market reactions under uncertainty conditions.

Institutional asymmetry refers to the structural differences between developed and emerging institutional environments regarding:

- governance enforcement,
- disclosure quality,
- legal protection,
- market transparency,
- and baseline investor trust.

These differences materially influence how markets process uncertainty, interpret informational signals, and respond to geopolitical fragmentation.

Developed institutional environments such as the United States and the United Kingdom generally exhibit:

- stronger disclosure infrastructures,
- more effective governance enforcement,
- deeper capital markets,
- and higher institutional credibility.

Such characteristics improve market resilience and reduce the intensity of uncertainty spillovers under geopolitical stress environments (Durnev, & Kim, 2005).

Conversely, emerging institutional settings frequently exhibit:

- greater informational asymmetry,
- weaker governance enforcement,
- limited disclosure transparency,
- and higher institutional fragility.

Under these conditions, geopolitical instability produces disproportionately stronger valuation effects because investors possess lower confidence regarding organizational transparency and institutional stability.

Recent empirical literature strongly supports this institutional interpretation. Studies examining uncertainty transmission demonstrate that emerging markets exhibit substantially higher volatility sensitivity and stronger investor overreaction under geopolitical uncertainty conditions (Lee et al., 2023).

Similarly, institutional-development literature suggests that stronger financial and legal infrastructures significantly improve market adaptability during uncertainty escalation periods (Acemoglu & Robinson, 2012).

Importantly, institutional asymmetry also explains why disclosure quality and governance credibility generate stronger moderating effects within emerging institutional settings relative to developed markets. Investors operating within weaker institutional environments rely more heavily upon firm-level informational and governance signals because broader institutional trust remains comparatively fragile.

This observation substantially strengthens the relevance of:

- disclosure buffering,
- governance credibility,
- and institutional confidence elasticity
- within geopolitical uncertainty literature.

Recent studies further demonstrate that institutional fragility amplifies uncertainty transmission through:

- reduced informational trust,
- weaker investor protection,
- and increased valuation instability (Salisu & Adediran, 2023).

The present study extends this literature by integrating institutional asymmetry directly within the uncertainty transmission process linking geopolitical instability with investor confidence.

Under the proposed framework, institutional environments do not merely shape baseline market efficiency; rather, they condition:

- the magnitude,
- direction,
- persistence,
- and nonlinear escalation of geopolitical informational repricing.

Consequently, developed and emerging markets should be interpreted as differentiated informational ecosystems exhibiting varying levels of resilience under geopolitical fragmentation.

Figure 2. illustrates the institutional moderation architecture developed by the study.

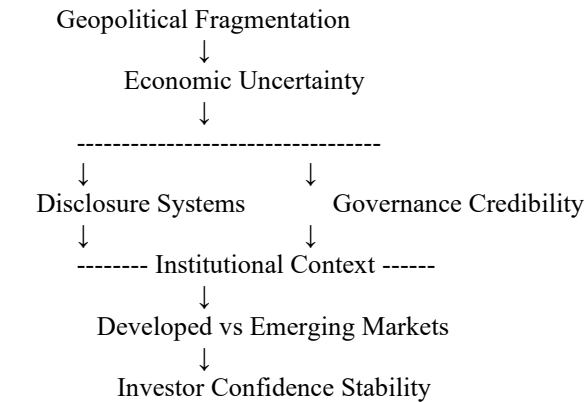


Figure 2. Institutional Moderation Architecture

The framework demonstrates that geopolitical fragmentation influences investor confidence indirectly through uncertainty transmission mechanisms. However, disclosure systems and governance credibility moderate these effects by reducing informational ambiguity and strengthening institutional trust. The framework additionally highlights that the effectiveness of these moderating mechanisms differs substantially across developed and emerging institutional environments characterized by varying levels of informational resilience and governance quality.

2.7 Nonlinear Geopolitical Escalation and Threshold Effects

One of the most important limitations within traditional geopolitical-finance literature concerns the widespread assumption that financial-market reactions evolve proportionately and linearly in response to geopolitical instability. Under such conventional frameworks, increases in geopolitical uncertainty are generally expected to produce relatively constant changes in investor behavior, valuation adjustments, and market volatility.

However, contemporary financial crises and geopolitical disruptions increasingly demonstrate that market reactions frequently become nonlinear once uncertainty exceeds critical informational or institutional thresholds.

The present study therefore argues that geopolitical fragmentation generates threshold-sensitive informational consequences capable of accelerating investor repricing dynamics under severe uncertainty conditions.

This nonlinear interpretation is theoretically grounded in behavioral uncertainty frameworks suggesting that investors exhibit asymmetrical responses under elevated ambiguity environments. Moderate geopolitical disturbances may initially produce relatively contained valuation adjustments. Nevertheless, as geopolitical instability intensifies, uncertainty spillovers expand disproportionately, informational trust deteriorates rapidly, and investor overreaction accelerates significantly (Ferrara & Simoni, 2024; Narayan, Iyke & Sharma, 2021).

The literature increasingly supports the proposition that uncertainty transmission behaves asymmetrically across geopolitical regimes. Under low-to-moderate uncertainty conditions, investors may continue relying upon conventional valuation assumptions and stable informational expectations. However, under severe geopolitical escalation, informational ambiguity intensifies dramatically, institutional confidence weakens, and market participants increasingly shift toward defensive valuation behavior and risk-avoidance strategies.

Consequently, geopolitical instability may trigger:

- accelerated volatility spillovers,
- market sentiment contagion,
- abrupt valuation corrections,
- and nonlinear repricing effects.

The concept of threshold sensitivity therefore becomes central for understanding how geopolitical fragmentation reshapes investor behavior.

Recent empirical studies strongly support this interpretation. Research examining financial-market instability demonstrates that uncertainty shocks produce disproportionately stronger market reactions during crisis escalation periods relative to ordinary uncertainty environments (Luo & Zhang, 2024; Zaremba, Kizys, Aharon & Demir 2020).

Similarly, studies on investor sentiment indicate that fear amplification and uncertainty contagion intensify substantially once geopolitical stress surpasses specific psychological or institutional thresholds (Xu et al., 2023).

Importantly, nonlinear escalation effects appear strongly conditioned by institutional quality. Developed institutional environments characterized by:

- stronger governance systems,
- transparent disclosure infrastructures,
- and higher institutional trust
- appear more capable of absorbing uncertainty escalation without triggering severe market destabilization.

Conversely, emerging institutional environments characterized by informational fragility frequently experience significantly stronger nonlinear valuation deterioration during geopolitical crises.

This institutional asymmetry substantially strengthens the relevance of:

- governance credibility,
- disclosure buffering,
- and institutional resilience
- within uncertainty-pricing literature.

The present study consequently conceptualizes nonlinear escalation not as a purely econometric irregularity, but as an institutionalized uncertainty phenomenon emerging from informational fragility and confidence deterioration under geopolitical fragmentation.

This interpretation significantly expands prior literature by integrating:

- behavioral uncertainty,
- informational asymmetry,
- governance resilience,
- and institutional trust
- within a unified nonlinear geopolitical framework.

The study therefore proposes that investor confidence under geopolitical fragmentation exhibits:

“institutionally conditioned nonlinear elasticity,”

whereby market sensitivity accelerates disproportionately under severe uncertainty conditions depending upon the resilience of governance and disclosure systems.

2.8 Integrative Theoretical Foundations

The growing complexity of geopolitical fragmentation and uncertainty transmission has increasingly challenged the explanatory sufficiency of single-theory approaches within accounting and finance research. Traditional frameworks grounded exclusively in:

- rational-market theory,
- agency theory,
- or macroeconomic volatility models
- appear increasingly incapable of explaining the multidimensional interaction between geopolitical instability, disclosure quality, governance credibility, institutional asymmetry, and investor confidence.

The present study therefore develops an integrative theoretical architecture combining:

- behavioral finance theory,
- informational asymmetry theory,
- institutional theory,
- and uncertainty transmission frameworks.

Behavioral finance theory provides an important foundation for understanding how uncertainty escalation intensifies investor fear, sentiment deterioration, and asymmetrical market reactions under geopolitical instability (Akerlof & Shiller, 2009). Investors operating under uncertainty environments frequently exhibit bounded rationality, emotional overreaction, and confidence instability due to ambiguity regarding future organizational and institutional sustainability.

However, behavioral theory alone remains insufficient because investor reactions differ substantially across firms and institutional environments exposed to similar geopolitical conditions.

The study therefore integrates informational asymmetry theory to explain how disclosure quality influences uncertainty interpretation and market stability. Under elevated geopolitical uncertainty, investors increasingly rely upon transparent reporting systems to evaluate organizational credibility and future resilience. Consequently, disclosure quality functions as a stabilizing informational infrastructure capable of reducing ambiguity and preserving investor trust (Leuz & Wysocki, 2016).

Institutional theory further strengthens the conceptual framework by emphasizing the importance of governance legitimacy, organizational credibility, and institutional trust within economic behavior (Scott, 2014). Under

geopolitical fragmentation, governance systems become critical mechanisms for preserving institutional confidence and reducing uncertainty-driven market overreaction.

The present study extends institutional theory by introducing:

“institutional confidence elasticity,”

which refers to the varying sensitivity of investor confidence depending upon institutional resilience and governance credibility.

Uncertainty transmission theory additionally contributes to the framework by explaining how geopolitical fragmentation produces spillover effects across financial markets, informational systems, and institutional structures simultaneously. Under this perspective, uncertainty behaves not merely as a macroeconomic condition, but as an informational contagion mechanism capable of amplifying investor repricing dynamics across institutional environments.

The integration of these theoretical perspectives allows the study to move beyond fragmented literature structures toward a multidimensional accounting-finance framework capable of explaining:

- informational repricing,
 - governance moderation,
 - disclosure buffering,
 - nonlinear escalation,
 - and institutional asymmetry
- within geopolitical uncertainty environments.

The study consequently proposes:

“Geopolitical Informational Repricing Theory,”

which conceptualizes geopolitical instability as a multidimensional informational architecture reshaping investor confidence through:

- uncertainty spillovers,
- disclosure credibility,
- governance resilience,
- and institutional trust.

This integrative perspective substantially expands existing literature by embedding accounting disclosure systems and governance structures directly within geopolitical uncertainty transmission processes.

2.9 Research Gap and Conceptual Positioning

Despite the rapid expansion of geopolitical-finance literature during recent years, substantial conceptual, empirical, and methodological fragmentation remains visible across existing studies.

First, much prior literature continues to examine geopolitical instability primarily through macroeconomic or financial-volatility perspectives while largely overlooking the strategic role of accounting disclosure systems and governance credibility within uncertainty transmission processes.

Second, existing studies frequently investigate:

- geopolitical risk,
 - disclosure quality,
 - governance structures,
 - investor sentiment,
 - or institutional resilience
- as isolated analytical phenomena rather than interconnected institutional-informational mechanisms.

Third, limited research has integrated developed and emerging institutional settings within a unified comparative framework capable of explaining how institutional asymmetry reshapes investor-confidence repricing under geopolitical fragmentation.

Fourth, substantial portions of prior literature continue relying upon linear valuation assumptions despite increasing evidence suggesting that investor reactions under uncertainty environments frequently exhibit nonlinear and threshold-sensitive behavior.

Fifth, relatively limited accounting research has attempted to conceptualize disclosure systems as uncertainty-buffering infrastructures operating under geopolitical fragmentation.

The present study addresses these unresolved issues through several interconnected contributions.

Conceptually, the study develops:

“Geopolitical Informational Repricing Theory,”

which integrates:

- uncertainty transmission,
- informational asymmetry,
- governance credibility,
- and institutional resilience

- within a unified accounting-finance framework.

Empirically, the study investigates investor-confidence repricing across:

- developed institutional settings,
- and emerging institutional environments
- using interaction effects, nonlinear estimation structures, and institutional heterogeneity analysis.

Methodologically, the study integrates:

- fixed-effects estimation,
- interaction models,
- nonlinear specifications,
- and comparative institutional analysis
- within a multidimensional statistical framework.

The study therefore positions itself at the intersection of:

- accounting disclosure,
- governance research,
- geopolitical uncertainty,
- institutional theory,
- and financial-market behavior.

Importantly, the study does not merely extend prior literature incrementally. Rather, it attempts to reconstruct how geopolitical fragmentation itself is conceptually interpreted within accounting and finance scholarship.

Instead of treating geopolitical instability as an external macroeconomic disturbance, the study conceptualizes it as:

an informational-institutional repricing architecture capable of reshaping investor confidence through uncertainty transmission and institutional resilience mechanisms.

This conceptual repositioning constitutes the central theoretical contribution of the research.

Figure 3. presents the integrated literature and theoretical positioning framework developed by the study. The framework illustrates how the present research synthesizes geopolitical-risk literature, uncertainty transmission theory, informational asymmetry research, governance credibility frameworks, and behavioral finance perspectives within a unified institutional-accounting architecture. The study consequently positions geopolitical instability as a multidimensional informational repricing mechanism influencing investor confidence through institutional and disclosure-related transmission channels.

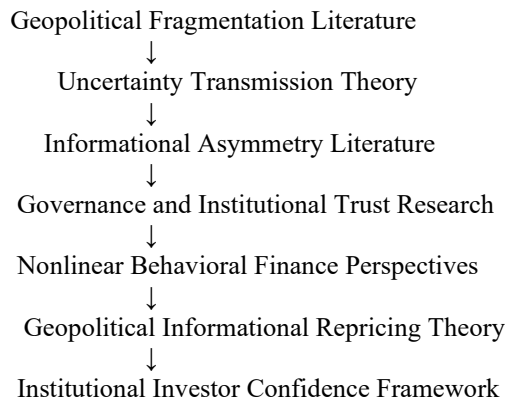


Figure 3. Integrated Literature and Theoretical Positioning Framework

3. Institutional Repricing Dynamics under Geopolitical Fragmentation: A Statistical and Conceptual Re-construction of Investor Confidence

3.1 Investor Confidence beyond Traditional Market Rationality

Traditional financial literature frequently conceptualizes investor confidence as a rational market response driven primarily by expected returns, macroeconomic performance, interest rates, and firm profitability. Within this conventional perspective, investors are generally assumed to process information efficiently and adjust valuation expectations according to observable economic fundamentals. However, the increasing complexity of geopolitical fragmentation, uncertainty spillovers, and institutional instability has substantially challenged the explanatory sufficiency of purely rational-market interpretations.

Recent geopolitical disruptions—including trade wars, strategic supply-chain conflicts, pandemic-induced uncertainty, sanctions regimes, energy-market disruptions, and military escalation—have revealed that investor confidence is increasingly shaped by informational credibility, institutional trust, and uncertainty interpretation

rather than by financial fundamentals alone (Pastor & Veronesi, 2013; Caldara & Iacoviello, 2022). Under these conditions, investor confidence evolves into a dynamic informational construct reflecting market perceptions regarding organizational resilience, disclosure credibility, governance reliability, and institutional stability.

The present study therefore departs from traditional rational-market approaches by conceptualizing investor confidence as an institutional-informational phenomenon subject to continuous repricing under geopolitical fragmentation. Investors no longer evaluate firms exclusively according to expected profitability or accounting performance; instead, they increasingly assess whether organizations possess credible informational infrastructures capable of sustaining transparency and governance stability during periods of elevated geopolitical uncertainty.

This conceptual repositioning is particularly important because geopolitical instability frequently produces indirect market effects through uncertainty amplification, informational ambiguity, and confidence erosion rather than through immediate operational disruptions. Consequently, the valuation consequences of geopolitical instability depend significantly upon how investors interpret organizational transparency, governance credibility, and institutional resilience under uncertain macroeconomic environments.

The empirical literature increasingly supports this broader interpretation of investor behavior. Studies examining uncertainty pricing, geopolitical shocks, and market sentiment demonstrate that investors respond asymmetrically to geopolitical escalation and frequently exhibit nonlinear behavioral reactions under elevated uncertainty conditions (Krieger et al., 2021; Hassan et al., 2023). Similarly, recent research indicates that informational opacity and governance weakness amplify market volatility and intensify investor sensitivity during crisis periods (Blankespoor et al., 2020; Boone et al., 2022; Ahmed, Hasan, & Kamal, 2024).

Importantly, the informational reinterpretation of investor confidence becomes even more relevant within emerging institutional environments characterized by weaker governance enforcement, lower disclosure transparency, and higher informational asymmetry. Under such conditions, investors appear substantially more dependent upon organizational credibility signals when assessing firm resilience under geopolitical stress.

The study consequently proposes that investor confidence should be reinterpreted through what may be termed:

“institutional confidence elasticity,”

which refers to the varying sensitivity of investor confidence to geopolitical instability depending upon the quality of disclosure systems, governance structures, and institutional credibility.

Within stronger institutional settings, investor confidence demonstrates relatively lower elasticity under geopolitical shocks because investors possess greater trust in informational and governance infrastructures. Conversely, weaker institutional settings produce significantly higher elasticity, resulting in stronger repricing effects, heightened uncertainty transmission, and amplified market sensitivity.

This reinterpretation substantially expands prior accounting and finance literature by positioning investor confidence within a broader institutional and informational architecture rather than restricting it to conventional market-efficiency assumptions.

3.2 Geopolitical Instability as a Statistical Transmission Structure

Conventional geopolitical-risk literature often conceptualizes geopolitical instability as an external political shock affecting financial markets primarily through macroeconomic channels such as trade disruptions, commodity-price volatility, inflationary pressure, or policy uncertainty. While these channels remain important, the present study argues that geopolitical instability increasingly operates as a broader statistical transmission structure capable of reshaping informational interpretation, institutional trust, and investor behavior simultaneously.

From this perspective, geopolitical instability is not merely a sequence of isolated political events, but rather a multidimensional uncertainty architecture generating informational spillovers across financial markets, governance systems, and corporate disclosure environments. Geopolitical fragmentation therefore produces systemic informational consequences extending beyond traditional macroeconomic disturbance frameworks.

The increasing interconnectedness between global capital markets, digital communication systems, multinational supply chains, and institutional governance structures has significantly amplified the informational transmission capacity of geopolitical shocks. Investors now react not only to realized geopolitical events, but also to anticipated instability, strategic ambiguity, institutional distrust, and uncertainty regarding future geopolitical escalation paths (Bekaert et al., 2022; Li, Balcilar, Gupta, & Chang 2022).

Consequently, geopolitical instability increasingly behaves as a statistical uncertainty structure characterized by:

- volatility amplification,
- confidence erosion,
- informational ambiguity,
- nonlinear market repricing,
- and institutional sensitivity differentials.

This interpretation is particularly important because it explains why geopolitical disturbances frequently generate valuation consequences disproportionate to their immediate economic effects. Markets appear to price not only actual geopolitical disruption, but also the uncertainty architecture surrounding future institutional stability and informational reliability.

The Geopolitical Risk Index developed by Caldara and Iacoviello (2022) provides an important methodological

foundation for capturing such dynamics because it operationalizes geopolitical instability through the frequency of geopolitical-risk-related news coverage. However, while the index effectively measures geopolitical intensity, the present study extends its conceptual interpretation by embedding geopolitical risk within an informational transmission framework linking uncertainty escalation with investor repricing mechanisms.

Under this framework, geopolitical instability affects investor confidence through multiple interconnected pathways:

1. uncertainty transmission,
2. informational asymmetry amplification,
3. governance credibility reassessment,
4. institutional fragility exposure,
5. and market sentiment deterioration.

Importantly, these transmission effects are unlikely to be homogeneous across institutional settings. Firms operating within stronger institutional environments may partially absorb geopolitical informational shocks through credible governance systems and transparent disclosure mechanisms. Conversely, weaker institutional environments may amplify uncertainty transmission due to lower baseline investor trust and weaker informational infrastructures.

This asymmetry explains why emerging-market firms frequently experience stronger valuation deterioration under geopolitical fragmentation relative to firms operating within developed institutional environments.

The study therefore conceptualizes geopolitical instability not simply as an exogenous macroeconomic variable, but as a dynamic statistical architecture capable of reconfiguring market confidence through informational and institutional channels.

3.3 Uncertainty Spillovers and Informational Repricing Mechanisms

A central proposition underlying the present study is that geopolitical instability influences investor confidence primarily through uncertainty spillovers and informational repricing mechanisms rather than through purely direct operational effects. Under elevated geopolitical fragmentation, investors appear to continuously reassess the reliability of accounting information, governance systems, disclosure transparency, and institutional stability.

This process of informational repricing occurs because geopolitical instability increases ambiguity regarding:

- future earnings sustainability,
- regulatory stability,
- financing conditions,
- strategic continuity,
- and institutional reliability.

Consequently, investors respond not only by revising expected cash flows, but also by reassessing the credibility of the informational environment itself.

The study therefore proposes the concept of:

“geopolitical informational repricing,”

which refers to the process through which geopolitical instability reshapes investor interpretation of organizational transparency, governance credibility, and future valuation sustainability.

This conceptualization extends prior uncertainty-pricing literature by integrating accounting disclosure and governance systems directly into the geopolitical-risk transmission process. Informational systems thus become economically important not only because they reduce informational asymmetry, but because they preserve institutional trust under uncertainty escalation. Recent literature increasingly supports the importance of informational spillovers under systemic uncertainty environments. Research examining uncertainty transmission demonstrates that market reactions intensify significantly when geopolitical instability interacts with informational opacity and governance fragility (Giglio et al., 2021; Baker et al., 2021; Canh, Schinckus, & Thanh, 2023)

Similarly, studies on institutional trust suggest that investors rely heavily upon governance credibility and disclosure transparency during periods characterized by elevated uncertainty and market instability (Lins et al., 2017; Zhang, Hu & Ji, 2021)

Importantly, uncertainty spillovers appear highly nonlinear. Moderate geopolitical disturbances may produce relatively manageable valuation adjustments; however, once uncertainty exceeds certain psychological or insti-

tutional thresholds, investor reactions accelerate disproportionately. This nonlinear structure explains the existence of sudden market repricing episodes frequently observed during severe geopolitical escalation periods.

The informational repricing perspective also explains why identical geopolitical events may produce substantially different valuation effects across firms and institutional environments. Firms characterized by stronger governance systems and higher disclosure quality appear more capable of preserving investor trust under uncertainty conditions. Conversely, informational fragility amplifies market overreaction and confidence deterioration.

The study therefore positions informational transparency and governance credibility as central stabilizing mechanisms within the broader architecture of geopolitical uncertainty transmission.

Figure 4. illustrates the statistical transmission architecture proposed by the study. The framework demonstrates that geopolitical fragmentation does not directly influence investor confidence in isolation. Instead, geopolitical instability generates uncertainty spillovers that intensify informational ambiguity and trigger reassessment of governance credibility and disclosure reliability. Investor confidence is consequently repriced according to the perceived resilience of informational and institutional infrastructures under uncertainty escalation conditions.



Figure 4. Statistical Transmission Architecture of Geopolitical Repricing

3.4 Disclosure Buffering and the Statistical Stabilization of Investor Confidence

Traditional disclosure literature frequently conceptualizes financial reporting quality as a mechanism designed primarily to reduce informational asymmetry, improve market efficiency, and facilitate more accurate pricing decisions. While these functions remain important, the present study argues that disclosure systems assume a significantly broader strategic role under geopolitical fragmentation and uncertainty escalation.

Specifically, the study proposes that disclosure quality functions as a “buffering mechanism” capable of statistically stabilizing investor confidence during periods characterized by geopolitical uncertainty, institutional stress, and market volatility. Under this interpretation, disclosure systems do not merely transmit accounting information; rather, they absorb portions of uncertainty transmission and reduce the intensity of informational repricing under unstable geopolitical conditions (Derrien, Kecskés & Nguyen, 2021)

This conceptualization substantially extends prior disclosure theory because it repositions disclosure quality from a static informational characteristic toward a dynamic institutional resilience mechanism. Investors operating under geopolitical instability appear increasingly dependent upon credible disclosure infrastructures in order to interpret organizational stability, managerial reliability, and future strategic continuity.

The statistical logic underlying disclosure buffering is grounded in uncertainty reduction theory and informational asymmetry frameworks. Under elevated geopolitical instability, informational ambiguity intensifies because investors face greater uncertainty regarding future cash flows, regulatory conditions, operational continuity, and macroeconomic sustainability. Firms characterized by weaker disclosure systems consequently become more vulnerable to exaggerated market repricing because investors possess limited informational confidence regarding organizational resilience.

Conversely, firms maintaining transparent and consistent disclosure environments appear better capable of preserving investor trust during periods of uncertainty escalation. Investors interpret high-quality disclosure systems as signals of managerial credibility, institutional discipline, and reporting reliability, thereby reducing the probability of panic-driven valuation adjustments.

Recent empirical literature increasingly supports this broader interpretation of disclosure quality. Studies examining crisis environments and uncertainty conditions demonstrate that transparent reporting structures substantially improve market stability and reduce informational volatility under periods of systemic disruption (Blankespoor et al., 2020; Christensen et al., 2021). Similarly, recent accounting research emphasizes that disclosure systems increasingly influence investor trust and valuation resilience under uncertain macroeconomic environments (Barth et al., 2021; El Ghouli, Guedhami, Kim, & Park, 2023).

The present study extends this literature by integrating disclosure quality directly into the geopolitical-risk transmission process. Under the proposed framework, disclosure quality moderates the relationship between geopolitical instability and investor confidence by statistically weakening uncertainty transmission intensity.

Importantly, the buffering effects of disclosure quality are expected to differ substantially across institutional settings. Within developed institutional environments characterized by stronger regulatory enforcement and higher baseline informational credibility, disclosure buffering may produce incremental stabilizing effects. However, within emerging institutional settings characterized by greater informational asymmetry and institutional fragility, disclosure quality becomes substantially more valuable for preserving investor confidence.

The study therefore introduces the concept of:
“informational resilience elasticity,”

which refers to the varying capacity of disclosure systems to absorb geopolitical uncertainty across institutional environments.

Under this perspective, disclosure quality becomes economically meaningful not solely because it improves reporting accuracy, but because it strengthens organizational resilience against uncertainty-driven informational destabilization.

3.5 Governance Credibility and Institutional Confidence Elasticity

Corporate governance literature has traditionally focused on reducing agency conflicts, improving managerial oversight, strengthening accountability structures, and protecting shareholder interests. However, the present study argues that governance systems increasingly perform an additional institutional function under geopolitical fragmentation: preserving investor confidence under uncertainty escalation.

The empirical and conceptual foundations of this proposition emerge from the observation that geopolitical instability frequently weakens institutional trust and intensifies informational ambiguity. Under such conditions, investors increasingly rely upon governance structures as indicators of organizational credibility, strategic discipline, and managerial accountability.

Consequently, governance systems become critical confidence-preservation infrastructures within unstable geopolitical environments.

The present study conceptualizes governance credibility as the perceived ability of governance mechanisms to sustain organizational legitimacy and informational reliability under uncertainty conditions. Investors appear more willing to maintain valuation confidence in firms characterized by strong governance oversight because such firms are perceived as more capable of managing uncertainty, preserving disclosure integrity, and limiting opportunistic managerial behavior during crisis periods.

This interpretation aligns partially with institutional theory, which emphasizes that organizational legitimacy substantially shapes stakeholder trust and economic behavior (Scott, 2014). However, the present study extends institutional theory by introducing the concept of:

“institutional confidence elasticity,”

which describes the varying sensitivity of investor confidence to geopolitical instability depending upon governance quality and institutional strength.

Under stronger governance environments, investor confidence demonstrates lower elasticity because governance credibility partially absorbs uncertainty-related informational shocks. Conversely, weak governance environments amplify investor sensitivity and accelerate market repricing during geopolitical escalation.

Recent governance literature increasingly supports this broader interpretation of governance systems. Research examining crisis conditions demonstrates that firms characterized by stronger governance structures exhibit greater valuation resilience, lower volatility, and improved investor trust during systemic disruptions (Boone et al., 2022; Erkens et al., 2012; Harjoto, Rossi, & Paglia, (2021).

Similarly, studies examining institutional trust suggest that governance credibility materially affects how investors interpret uncertainty environments and future organizational sustainability (Lins et al., 2017). Investors therefore appear to evaluate governance quality not merely as an internal monitoring mechanism, but as an institutional signal reflecting the organization’s capacity to withstand uncertainty escalation and preserve strategic stability.

Importantly, governance elasticity effects are unlikely to remain constant across institutional environments. Within developed markets characterized by relatively strong baseline governance systems, marginal governance improvements may produce moderate valuation effects. However, within emerging institutional settings characterized by weaker institutional trust and governance enforcement, governance credibility becomes substantially more influential in preserving investor confidence.

This institutional asymmetry is particularly relevant for understanding why geopolitical instability frequently generates disproportionately larger valuation effects within emerging markets relative to developed institutional environments.

The study consequently positions governance quality as a moderating statistical mechanism capable of weakening the relationship between geopolitical instability and investor confidence.

3.6 Institutional Asymmetry across Developed and Emerging Capital Markets

A central assumption underlying the present study is that geopolitical instability does not generate homogeneous valuation effects across institutional environments. Instead, investor reactions differ substantially depending upon the quality of governance systems, disclosure infrastructures, institutional enforcement mechanisms, and baseline market trust.

The concept of institutional asymmetry therefore occupies a central position within the study's conceptual architecture.

Developed institutional environments such as the United States and the United Kingdom generally exhibit:

- stronger governance enforcement,
- deeper capital markets,
- more transparent disclosure systems,
- stronger regulatory infrastructures,
- and higher baseline investor trust.

These characteristics improve the ability of firms and markets to absorb geopolitical informational shocks without generating severe investor overreaction or prolonged valuation instability.

Conversely, emerging institutional environments frequently exhibit:

- higher informational asymmetry,
- weaker governance enforcement,
- greater institutional fragility,
- and lower investor confidence stability.

Under such conditions, geopolitical instability intensifies uncertainty transmission and accelerates informational repricing processes because investors possess lower confidence regarding institutional resilience and disclosure reliability.

Institutional asymmetry therefore explains why identical geopolitical disturbances may produce dramatically different market consequences across countries and firms.

Recent literature increasingly confirms the importance of institutional heterogeneity under uncertainty conditions. Studies examining geopolitical fragmentation demonstrate that emerging markets exhibit substantially greater sensitivity to external uncertainty shocks due to weaker informational infrastructures and institutional fragility (Acemoglu & Robinson, 2012; Lee et al., 2023; Salisu, & Adediran, 2023).

Similarly, financial-development literature suggests that stronger institutional systems improve market adaptability, valuation stability, and investor resilience during periods of macroeconomic disruption (Rajan & Zingales, 2003).

The present study extends this literature by integrating institutional asymmetry directly into the statistical transmission process linking geopolitical instability with investor confidence. Under this framework, institutional quality does not merely influence baseline market efficiency; rather, it shapes the intensity, direction, and persistence of uncertainty spillovers and informational repricing.

Importantly, institutional asymmetry also explains why disclosure quality and governance credibility may generate disproportionately larger stabilizing effects within emerging markets relative to developed institutional settings. Under weaker institutional environments, investors rely more heavily upon organizational transparency and governance signals because broader institutional trust remains comparatively fragile.

The study therefore conceptualizes developed and emerging institutional settings not merely as geographic distinctions, but as differentiated informational and governance ecosystems exhibiting varying levels of resilience under geopolitical fragmentation.

Figure 5. presents the moderated institutional repricing framework developed by the study. The framework illustrates that geopolitical instability influences investor confidence indirectly through economic uncertainty transmission. However, disclosure quality and governance credibility statistically moderate this relationship by weakening uncertainty spillovers and preserving informational trust. The framework additionally demonstrates that the strength of these moderating effects varies across institutional environments characterized by different levels of governance quality, disclosure transparency, and institutional resilience.

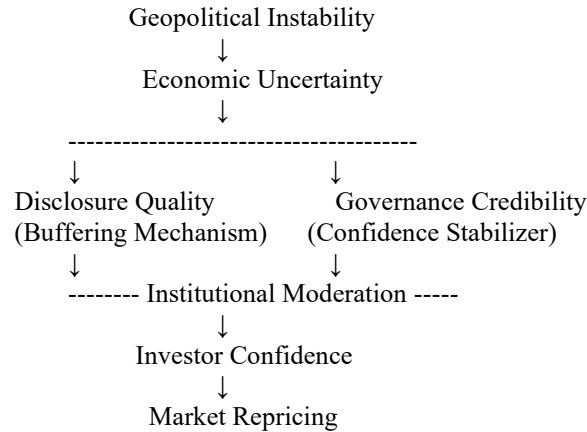


Figure 5. Moderated Institutional Repricing Framework

3.7 Nonlinear Escalation and Threshold Sensitivity under Geopolitical Stress

A critical limitation within substantial portions of prior geopolitical-finance literature lies in the implicit assumption that investor reactions to geopolitical instability evolve in a linear and proportionate manner. Under such frameworks, increases in geopolitical risk are generally expected to produce relatively constant changes in valuation behavior regardless of the intensity or persistence of uncertainty conditions. However, recent global instability episodes suggest that investor responses frequently become nonlinear under severe geopolitical escalation.

The present study therefore proposes that geopolitical instability generates threshold-sensitive informational effects capable of accelerating investor repricing once uncertainty exceeds certain institutional, psychological, or informational limits.

This nonlinear interpretation is grounded in behavioral uncertainty theory, which suggests that investors exhibit asymmetrical reactions under extreme uncertainty environments. Moderate geopolitical disturbances may initially produce manageable adjustments in risk expectations and valuation structures. However, as geopolitical fragmentation intensifies, uncertainty spillovers increasingly undermine informational trust, amplify volatility expectations, and trigger disproportionate repricing dynamics (Ferrara & Simoni, 2024; Garel, & Petit-Romec, 2021).

The statistical logic underlying nonlinear escalation emerges from the observation that uncertainty transmission is rarely constant across geopolitical regimes. Under low-to-moderate instability conditions, investors may continue relying upon ordinary valuation models and informational expectations. Nevertheless, once geopolitical stress surpasses critical thresholds, informational ambiguity expands rapidly, institutional confidence deteriorates, and behavioral overreaction intensifies.

Consequently, the relationship between geopolitical instability and investor confidence becomes convex rather than linear.

The study therefore incorporates nonlinear specifications involving squared geopolitical risk structures in order to capture threshold-based valuation effects:

$$INVCONF = f(GPR, GPR^2, EPU, DISCQ, GOV, X) \quad INVCONF = f(GPR, GPR^2, EPU, DISCQ, GOV, X) \quad INVCONF = f(GPR, GPR^2, EPU, DISCQ, GOV, X)$$

Under this framework, the marginal effect of geopolitical instability increases as geopolitical stress intensifies. This implies that investor confidence deteriorates at an accelerating rate once geopolitical fragmentation reaches elevated uncertainty regimes.

Recent empirical literature increasingly supports the existence of nonlinear uncertainty effects within financial markets. Studies examining systemic instability demonstrate that market volatility, investor fear, and repricing behavior intensify disproportionately during crisis escalation periods rather than evolving incrementally (Luo & Zhang, 2024; Xu et al., 2023).

Similarly, uncertainty-spillover research suggests that geopolitical fragmentation may trigger contagion-like informational effects capable of amplifying investor overreaction and market instability under severe uncertainty conditions (Kizys et al., 2021).

Importantly, nonlinear escalation effects are expected to differ materially across institutional settings. Firms operating within stronger governance and disclosure environments may partially absorb threshold-related uncertainty escalation through credible informational infrastructures. Conversely, emerging institutional settings characterized by informational fragility may experience substantially stronger nonlinear valuation deterioration under geopolitical stress.

The study therefore conceptualizes nonlinear escalation as an institutionalized uncertainty phenomenon rather than merely a statistical irregularity.

This interpretation substantially strengthens the conceptual architecture of the study because it explains:

- sudden valuation collapses,
- disproportionate market volatility,
- accelerated investor panic,
- and institutional sensitivity asymmetry
- under severe geopolitical fragmentation.

The nonlinear framework additionally reinforces the broader proposition that investor confidence under geopolitical instability is fundamentally conditioned by informational and institutional resilience rather than by macroeconomic fundamentals alone.

3.8 Statistical Hypotheses Development

Building upon the conceptual and statistical framework developed throughout the chapter, the study formulates a series of directional and econometrically testable hypotheses designed to capture the interactional, nonlinear, and institutional dynamics linking geopolitical instability with investor confidence.

Unlike conventional descriptive hypotheses frequently observed in traditional accounting research, the present hypotheses are constructed within a statistical transmission architecture emphasizing:

- direct effects,
- moderation effects,
- nonlinear escalation,
- and institutional heterogeneity.

The first hypothesis addresses the direct valuation consequences of geopolitical instability. Since geopolitical fragmentation intensifies uncertainty transmission and informational ambiguity, investor confidence is expected to deteriorate under elevated geopolitical stress conditions.

H1

Geopolitical risk is negatively associated with investor confidence across institutional settings.

The second hypothesis extends this relationship by incorporating economic uncertainty as an amplification mechanism. Geopolitical instability is expected to generate stronger valuation consequences when uncertainty spillovers intensify macroeconomic ambiguity and future-expectation instability.

H2

Economic policy uncertainty significantly amplifies the negative effect of geopolitical instability on investor confidence.

The third hypothesis examines disclosure quality as a moderating informational mechanism. Firms characterized by superior disclosure systems are expected to exhibit stronger resilience under geopolitical instability because transparent informational environments reduce ambiguity and preserve investor trust.

H3

Disclosure quality positively moderates the relationship between geopolitical instability and investor confidence.

The fourth hypothesis investigates governance credibility as a confidence-preservation mechanism. Strong governance systems are expected to weaken uncertainty spillovers and reduce investor overreaction under geopolitical fragmentation.

H4

Corporate governance credibility weakens the adverse valuation effects of geopolitical instability.

The fifth hypothesis addresses nonlinear escalation dynamics. Since investor reactions intensify disproportionately under severe geopolitical fragmentation, the relationship between geopolitical instability and investor confidence is expected to exhibit statistically significant nonlinear effects.

H5

The relationship between geopolitical instability and investor confidence exhibits statistically significant nonlinear effects.

Finally, the sixth hypothesis incorporates institutional heterogeneity. Since developed and emerging institutional environments differ substantially in governance quality, disclosure reliability, and informational resilience, investor sensitivity to geopolitical instability is expected to vary significantly across institutional settings.

H6

The sensitivity of investor confidence to geopolitical instability differs significantly across developed and emerging institutional settings.

Collectively, these hypotheses establish the econometric and conceptual foundation for the empirical analysis developed in Chapters Four and Five.

Importantly, the hypotheses collectively reflect the study's central theoretical proposition:

geopolitical fragmentation influences investor confidence through institutionalized informational repricing dynamics rather than through isolated macroeconomic disturbances alone.

3.9 Integrated Econometric Conceptual Model

The integrated conceptual model developed in the present study synthesizes the multidimensional relationships linking geopolitical instability, uncertainty spillovers, disclosure quality, governance credibility, institutional asymmetry, and investor confidence within a unified econometric architecture.

The model conceptualizes geopolitical fragmentation as the originating uncertainty structure generating informational spillovers capable of reshaping investor interpretation processes. Economic uncertainty operates as a transmission accelerator intensifying informational ambiguity and valuation sensitivity. Disclosure quality and governance credibility function as moderating institutional mechanisms capable of absorbing portions of uncertainty transmission and preserving investor trust.

Institutional setting additionally shapes the intensity of these relationships by influencing governance enforcement quality, disclosure reliability, and baseline institutional confidence.

The integrated framework therefore positions investor confidence as a conditional institutional-informational construct dynamically repriced under geopolitical fragmentation.

The corresponding econometric structure may be represented as follows:

INVCON-

$$F_{i,t} = \alpha + \beta_1 GPR_t + \beta_2 EPU_t + \beta_3 DISCQ_{i,t} + \beta_4 GOV_{i,t} + \beta_5 (GPR \times DISCQ) + \beta_6 (GPR \times GOV) + \beta_7 GPR^2 + \mu_i + \lambda_t + \epsilon_{i,t} \\ INVCONF_{i,t} = \alpha + \beta_1 GPR_t + \beta_2 EPU_t + \beta_3 DISCQ_{i,t} + \beta_4 GOV_{i,t} + \beta_5 (GPR \times DISCQ) + \beta_6 (GPR \times GOV) + \beta_7 GPR^2 + \mu_i + \lambda_t + \epsilon_{i,t}$$

The integrated model consequently captures:

- direct geopolitical effects,
- uncertainty amplification,
- informational buffering,
- governance moderation,
- nonlinear escalation,
- and institutional heterogeneity
- within a unified statistical architecture.

This conceptual integration substantially differentiates the present study from traditional geopolitical-finance research by embedding accounting disclosure systems and governance structures directly within the uncertainty transmission process.

Figure 6. presents the integrated institutional-geopolitical repricing model developed by the study. The framework demonstrates that geopolitical fragmentation influences investor confidence indirectly through uncertainty transmission and informational spillovers. Disclosure quality and governance credibility moderate these relationships by statistically weakening uncertainty effects and preserving investor trust. Institutional settings further condition the strength of these interactions through varying levels of informational resilience, governance enforcement, and disclosure credibility.

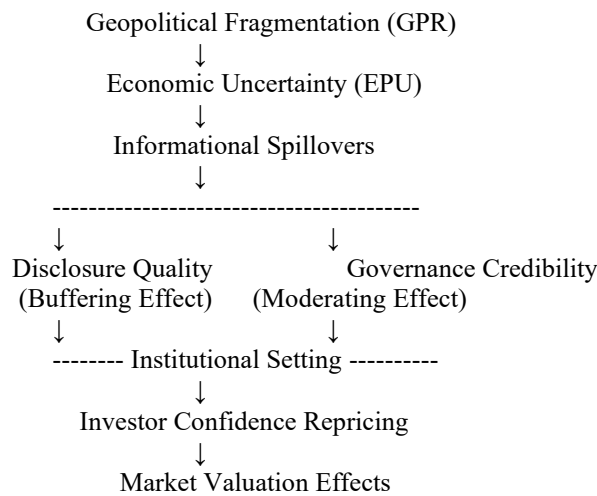


Figure 6. Integrated Institutional-Geopolitical Repricing Model

IV. Research Methodology

4.1 Research Design and Methodological Positioning

This study adopts a longitudinal cross-country panel design to investigate the conditional dynamics through which geopolitical risk reshapes investor confidence under heterogeneous institutional settings. Unlike conventional linear approaches that treat geopolitical shocks as isolated macroeconomic disturbances, the present study conceptualizes geopolitical risk as a multidimensional informational and institutional phenomenon whose market consequences are mediated through disclosure structures, governance quality, and uncertainty transmission mechanisms. Accordingly, the methodological architecture of this research is grounded in an interaction-oriented accounting and financial framework integrating firm-level and country-level determinants within a unified econometric setting.

The study employs a quantitative explanatory design using balanced panel data covering publicly listed non-financial corporations across developed and emerging institutional contexts during the period 2015–2024. The selected period captures multiple waves of geopolitical and economic instability, including global trade tensions, Brexit-related uncertainty, the COVID-19 crisis, supply-chain disruptions, and the geopolitical escalation associated with the Russia–Ukraine conflict. These episodes provide substantial cross-temporal variation in geopolitical risk exposure and investor behavioral responses, thereby strengthening the explanatory capacity of the empirical model.

Methodologically, the study departs from traditional “direct effect” models frequently observed in prior literature. Instead, it develops a conditional analytical structure emphasizing nonlinearities, interaction mechanisms, and institutional heterogeneity. This positioning aligns with recent developments in accounting and capital market research emphasizing the importance of informational frictions, governance structures, and macroeconomic uncertainty in shaping market valuation processes (Baker et al., 2020; Caldara & Iacoviello, 2022; Hassan et al., 2021; Afonso et al., 2024). The research therefore integrates accounting disclosure mechanisms with macro-financial instability indicators in order to reinterpret investor confidence under geopolitical turbulence.

The empirical strategy combines firm-level accounting variables with country-level geopolitical and uncertainty indices using a multi-layered panel architecture. This approach enables the analysis to move beyond static associations toward identifying how disclosure quality and governance mechanisms condition market responses under different institutional regimes. In doing so, the study contributes methodologically to the growing stream of interdisciplinary research linking accounting information environments to geopolitical instability and market repricing mechanisms (Chen et al., 2023; Li et al., 2022).

Furthermore, the study adopts a comparative institutional perspective rather than restricting the analysis to a single market setting. This decision is methodologically important because investor responses to geopolitical disturbances are unlikely to be homogeneous across jurisdictions characterized by different legal traditions, disclosure regimes, governance enforcement capacities, and investor protection systems. Consequently, the research framework explicitly incorporates institutional heterogeneity as an integral explanatory dimension rather than a peripheral contextual factor.

The study also adopts an econometric orientation consistent with Q1-level accounting and finance research standards. Specifically, the analysis relies on fixed-effects panel estimation with clustered standard errors to control for unobserved firm heterogeneity and serial correlation. In addition, interaction specifications and nonlinear risk structures are incorporated to capture asymmetric investor responses under periods of heightened geopolitical instability. This methodological orientation follows recent empirical evidence suggesting that geopolitical shocks produce nonlinear informational consequences that cannot be adequately captured through simple linear specifications (Su et al., 2022; Phan et al., 2023; Chen et al., 2023).

4.2 Sample Construction and Institutional Scope

The empirical sample consists of 120 publicly listed non-financial corporations distributed equally across three institutional settings: the United States, the United Kingdom, and Egypt. The final sample includes 40 firms from each country over a ten-year period extending from 2015 to 2024, resulting in a balanced panel structure comprising 1,200 firm-year observations.

The selection of these institutional settings was theoretically and methodologically motivated. The United States represents a highly developed market characterized by advanced disclosure systems, deep capital markets, strong investor protection mechanisms, and high institutional transparency. The United Kingdom provides an alternative developed institutional setting with distinct governance traditions, legal structures, and market practices, particularly in relation to post-Brexit uncertainty dynamics. Egypt was selected as a representative emerging market characterized by higher informational asymmetry, evolving governance frameworks, and greater sensitivity to macroeconomic and geopolitical shocks. The inclusion of these three contexts therefore creates substantial institutional variation necessary for examining differential investor responses under geopolitical risk.

The sample construction process followed a purposive stratified selection approach. Firms were selected from multiple sectors in order to maximize cross-sectional variability and reduce sectoral concentration bias. The final dataset includes corporations operating in technology, industrial manufacturing, energy, aerospace,

telecommunications, pharmaceuticals, retail, logistics, consumer products, utilities, engineering, and real estate sectors. Financial institutions, banks, and insurance companies were excluded due to their fundamentally different regulatory structures, leverage dynamics, and reporting requirements, which could distort the comparability of accounting and market indicators (Bushman et al., 2021; Hassan et al., 2021).

To ensure data consistency and comparability, only firms satisfying the following criteria were retained within the final sample:

1. Continuous listing during the study period.
2. Availability of audited annual financial statements.
3. Availability of market capitalization and stock pricing data.
4. Availability of governance and board structure disclosures.
5. Availability of accounting variables necessary for constructing disclosure-related proxies.

Firm-level financial and market data were obtained from audited annual reports, Yahoo Finance databases, and publicly disclosed corporate filings. Geopolitical Risk (GPR) data were extracted from the Caldara and Iacoviello Geopolitical Risk Index database, while Economic Policy Uncertainty (EPU) measures were obtained from the Economic Policy Uncertainty Global Database. Governance variables were manually extracted from corporate governance reports and board disclosure statements.

The study adopts a balanced panel structure to enhance estimation stability and facilitate cross-country comparability. Balanced panels are particularly advantageous in institutional comparative studies because they reduce estimation distortions arising from unequal temporal representation across firms (Wooldridge, 2021). Moreover, the use of multiple institutional settings substantially improves external validity and strengthens the generalizability of the empirical findings.

Table 1. Presents Sample distribution across institutional Settings

Table 1. Sample Distribution across Institutional Settings and Sectors

Institutional Setting	Number of Firms	Observation Period	Total Firm-Year Observations	Dominant Sectors
United States	40	2015–2024	400	Technology, Aerospace, Consumer Goods, Logistics
United Kingdom	40	2015–2024	400	Energy, Retail, Pharmaceuticals, Utilities
Egypt	40	2015–2024	400	Construction, Telecommunications, Industrial Manufacturing
Total	120	2015–2024	1,200	Multi-sectoral

Table 2. Presents data Sources and variables extraction architecture

Table 2. Data Sources and Variable Extraction Architecture

Variable Category	Primary Variables	Source
Financial Variables	Total Assets, Revenue, Net Income, Liabilities	Audited Annual Reports
Market Variables	Market Capitalization, Share Prices, Tobin's Q	Yahoo Finance
Geopolitical Risk	GPR Index	Caldara & Iacoviello Database
Economic Uncertainty	EPU Index	Economic Policy Uncertainty Database
Governance Variables	Board Independence, CEO Duality, Board Size	Governance Reports
Disclosure Variables	Accrual-based Proxies, Reporting Indicators	Financial Statements

4.3 Variable Operationalization and Measurement Framework

A central methodological challenge in studies examining geopolitical instability and market behavior lies in the operationalization of abstract constructs such as investor confidence, disclosure quality, and institutional uncertainty. To address this challenge, the present study adopts a multidimensional measurement framework integrating accounting-based, market-based, and macro-institutional indicators within a unified panel structure. The selected proxies were chosen based on their theoretical relevance, empirical prevalence in Q1 accounting and finance literature, and compatibility with the cross-country nature of the dataset.

The measurement strategy intentionally combines firm-level and country-level variables in order to capture both microeconomic and macroeconomic dimensions of geopolitical instability. While investor confidence is conceptualized as a market valuation outcome observable at the firm level, geopolitical risk and economic uncertainty represent broader informational and institutional disturbances affecting the pricing behavior of investors across capital markets. Consequently, the variable structure of the study reflects an interactional logic rather than a purely linear causal framework.

4.3.1 Dependent Variable: Investor Confidence

Investor confidence (INVCONF) represents the primary dependent construct of the study. Consistent with contemporary accounting and capital market research, investor confidence is operationalized using Tobin's Q ratio as the principal market-based proxy. Tobin's Q is widely employed in empirical studies because it reflects forward-looking market expectations and captures how investors evaluate future growth opportunities relative to the replacement cost of corporate assets (Peters & Taylor, 2017; Rahat, B., & Nguyen, P. (2024).

The ratio was calculated as follows:

Tobin's Q = $\frac{\text{Market Capitalization}}{\text{Book Value of Equity}}$

Higher values of Tobin's Q indicate stronger investor confidence, superior market valuation, and greater expectations regarding future corporate performance. The measure is particularly suitable for the current study because geopolitical disturbances are expected to influence market expectations more strongly than contemporaneous accounting earnings.

In order to enhance robustness and reduce proxy sensitivity, the study additionally employs market-to-book ratio and annual stock return volatility as supplementary confidence indicators in sensitivity analyses. This multi-proxy strategy follows recent methodological recommendations emphasizing the importance of robustness across alternative market valuation measures (Biddle et al., 2022; Li & Zeng, 2023).

4.3.2 Independent Variables

A. Geopolitical Risk (GPR)

Geopolitical risk constitutes the core explanatory variable of the study. The analysis utilizes the Geopolitical Risk Index developed by Caldara and Iacoviello (2022), which quantifies geopolitical tensions based on newspaper coverage frequency related to wars, terrorism, military conflicts, diplomatic tensions, and international political instability.

The use of the GPR index is methodologically advantageous because:

1. It provides internationally comparable measures.
2. It captures time-varying geopolitical shocks.
3. It has become widely established in recent Q1 finance literature.

The study employs annualized country-level GPR measures aligned with each institutional setting included in the sample.

To capture nonlinear market responses under extreme geopolitical conditions, the squared term of geopolitical risk is additionally incorporated within the extended econometric specifications:

$$\text{GPR}^2$$

The inclusion of the nonlinear specification reflects the possibility that investor reactions intensify disproportionately once geopolitical tensions exceed certain informational or psychological thresholds (Antonakakis et al., 2020; Caldara & Iacoviello, 2022).

B. Economic Policy Uncertainty (EPU)

Economic uncertainty is measured using the Economic Policy Uncertainty Index developed by Baker et al. (2016). The EPU index captures uncertainty associated with fiscal policy, monetary policy, political instability, and macroeconomic expectations.

The inclusion of EPU within the research framework is theoretically important because geopolitical disturbances frequently affect investor behavior indirectly through uncertainty transmission mechanisms rather than exclusively through direct political shocks. Consequently, the study conceptualizes economic uncertainty as a conditional amplification mechanism influencing the market interpretation of geopolitical events.

Annual country-level EPU scores were matched with firm-year observations according to institutional setting and reporting year.

4.3.3 Disclosure Quality and Corporate Governance Variables

A. Disclosure Quality (DISCQ)

Disclosure quality represents the primary accounting-based construct of the study. Consistent with recent accounting literature, disclosure quality is operationalized through accrual quality proxies derived from the Dechow–Dichev framework and modified discretionary accrual measures.

Total accruals were calculated as:

Total Accruals = Net Income – Operating Cash Flow

Subsequently, accrual quality was estimated through scaled absolute accrual values relative to total assets:

$$AQ = \frac{|\text{Total Accruals}|}{\text{Total Assets}}$$

Lower AQ values indicate higher disclosure quality and reduced informational distortion. The use of accrual-based proxies is appropriate because geopolitical instability may intensify managerial incentives for earnings

management, opacity, or disclosure smoothing, thereby affecting investor interpretation processes (Francis et al., 2022; Abdullah & Huda, 2024).

B. Corporate Governance (GOV)

Corporate governance quality is measured using three board-related indicators:

1. Board Size (BSIZE)
2. Board Independence Ratio (BIND)
3. CEO Duality (CEOD)

Board independence is measured as the proportion of independent directors relative to total board members:

Board Independence = $\frac{\text{Independent Directors}}{\text{Total Board Members}}$

CEO duality is operationalized as a binary indicator equal to 1 if the CEO simultaneously occupies the board chair position and 0 otherwise.

Governance variables are incorporated because strong governance systems are expected to reduce informational frictions, improve disclosure credibility, and enhance market confidence under unstable geopolitical environments (Chen et al., 2021).

4.3.4 Control Variables

The econometric models include several firm-specific control variables commonly employed in accounting and finance research.

Firm Size (SIZE)

Firm size is measured as the natural logarithm of total assets:

SIZE = $\ln(\text{Total Assets})$

Larger firms generally exhibit stronger disclosure systems, broader analyst coverage, and greater resilience to external shocks.

Profitability (ROA)

Profitability is measured using return on assets:

ROA = $\frac{\text{Net Income}}{\text{Total Assets}}$

ROA captures operational efficiency and firm performance.

Leverage (LEV)

Financial leverage is measured as:

LEV = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

Higher leverage levels may intensify market sensitivity to geopolitical instability because highly leveraged firms face elevated financing and refinancing risks under uncertain macroeconomic conditions.

Table 3. Presents operational definitions and measurement proxies

Table 3. Operational Definitions and Measurement Proxies

Variable	Symbol	Measurement Proxy	Source
Investor Confidence	INVCONF	Tobin's Q	Yahoo Finance
Geopolitical Risk	GPR	Caldara–Iacoviello Index	GPR Database
Economic Uncertainty	EPU	Economic Policy Uncertainty Index	EPU Database
Disclosure Quality	DISCQ	Accrual Quality	Financial Statements
Board Independence	BIND	Independent Directors / Total Board	Governance Reports
CEO Duality	CEOD	Binary Variable	Governance Reports
Firm Size	SIZE	$\ln(\text{Total Assets})$	Annual Reports
Profitability	ROA	Net Income / Total Assets	Annual Reports
Leverage	LEV	Total Liabilities / Total Assets	Annual Reports

Table 4. Presents expected theoretical directions of variables

Table 4. Expected Theoretical Directions of Variables

Variable	Expected Direction	Theoretical Interpretation
GPR	Negative	Geopolitical instability reduces market confidence
GPR ²	Nonlinear	Extreme shocks amplify investor reactions
EPU	Negative	Higher uncertainty weakens valuation confidence
DISCQ	Positive	Higher-quality disclosure stabilizes investor expectations
BIND	Positive	Governance quality improves informational credibility
CEOD	Negative	Governance concentration increases informational concerns
SIZE	Positive	Larger firms exhibit stronger informational resilience
ROA	Positive	Higher profitability enhances market confidence
LEV	Negative	High leverage increases vulnerability to uncertainty

4.5 Econometric Model Specification

To empirically examine the conditional dynamics linking geopolitical risk, economic uncertainty, disclosure quality, governance structures, and investor confidence, the study develops a multi-layered panel econometric framework integrating firm-level and institutional-level determinants within a unified specification. The econometric architecture was intentionally designed to capture interactional effects, institutional heterogeneity, and nonlinear responses under varying geopolitical conditions.

The baseline model is specified as follows:

INVCON-

$$F_{i,t} = \alpha + \beta_1 GPR_{c,t} + \beta_2 EPU_{c,t} + \beta_3 DISCQ_{i,t} + \beta_4 GOV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 ROA_{i,t} + \beta_7 LEV_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t} + INVCONF_{i,t}$$

$$F_{i,t} = \alpha + \beta_1 GPR_{c,t} + \beta_2 EPU_{c,t} + \beta_3 DISCQ_{i,t} + \beta_4 GOV_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 ROA_{i,t} + \beta_7 LEV_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

Where:

- INVCONFINVCONFINVCONF represents investor confidence measured through Tobin's Q.
- GPRGPRGPR refers to the geopolitical risk index.
- EPU EPU EPU captures economic policy uncertainty.
- DISCQDISCQDISCQ represents disclosure quality.
- GOVGOVGOV denotes governance-related indicators.
- μ_i and λ_t represent firm and year fixed effects respectively.

The baseline specification evaluates the direct impact of geopolitical instability and uncertainty conditions on investor confidence while controlling for firm-level financial characteristics and governance structures.

However, because the study conceptualizes investor confidence as conditionally reconfigured under geopolitical turbulence rather than mechanically determined, the analysis extends beyond direct-effect estimation toward interaction-based specifications. Accordingly, the following interaction model was estimated:

INVCON-

$$F_{i,t} = \alpha + \beta_1 GPR_{c,t} + \beta_2 DISCQ_{i,t} + \beta_3 (GPR_{c,t} \times DISCQ_{i,t}) + \beta_4 GOV_{i,t} + \beta_5 (GPR_{c,t} \times GOV_{i,t}) + \gamma X_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t} + INVCONF_{i,t}$$

$$F_{i,t} = \alpha + \beta_1 GPR_{c,t} + \beta_2 DISCQ_{i,t} + \beta_3 (GPR_{c,t} \times DISCQ_{i,t}) + \beta_4 GOV_{i,t} + \beta_5 (GPR_{c,t} \times GOV_{i,t}) + \gamma X_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

The interaction terms evaluate whether disclosure quality and governance mechanisms moderate the informational consequences of geopolitical shocks. The study expects high-quality disclosure systems and stronger governance structures to attenuate investor overreaction under periods of elevated geopolitical instability.

To further capture asymmetric market responses under extreme geopolitical conditions, the study incorporates nonlinear specifications through squared geopolitical risk terms:

INVCON-

$$F_{i,t} = \alpha + \beta_1 GPR_{c,t} + \beta_2 GPR_{c,t}^2 + \gamma X_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t} + INVCONF_{i,t}$$

$$F_{i,t} = \alpha + \beta_1 GPR_{c,t} + \beta_2 GPR_{c,t}^2 + \gamma X_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

The nonlinear specification is particularly important because geopolitical shocks often exhibit threshold behavior in financial markets, whereby moderate disturbances produce limited valuation effects while severe geopolitical escalations trigger disproportionate market repricing and investor anxiety (Demir & Ersan, 2023; Demir, & Ersan, 2023; Su et al. 2022).

4.6 Estimation Procedures

The study employs panel-data estimation techniques consistent with advanced accounting and finance research standards. Initially, pooled ordinary least squares (POLS) estimation was performed as a preliminary benchmark. However, because pooled estimators fail to control for unobservable firm-specific heterogeneity, the main empirical analysis relies on fixed-effects (FE) panel estimation.

The fixed-effects approach is methodologically appropriate because the sampled firms differ substantially in organizational structure, disclosure practices, governance systems, and market characteristics. FE estimation therefore controls for time-invariant heterogeneity and improves coefficient consistency (Baltagi, 2021).

The Hausman specification test was conducted to determine the appropriateness of fixed-effects relative to random-effects estimation. The test results strongly rejected the null hypothesis favoring random effects, thereby confirming the suitability of the fixed-effects specification for the present study.

To address potential serial correlation and heteroskedasticity, the analysis utilizes clustered robust standard errors at the firm level. This adjustment enhances estimation reliability and reduces inferential distortions commonly associated with panel structures characterized by repeated firm-year observations (Petersen, 2009).

Year fixed effects were additionally incorporated to control for common macroeconomic shocks affecting all firms simultaneously, including COVID-19 disruptions and global geopolitical escalations. Industry controls were also integrated to minimize sector-specific bias arising from heterogeneous operational structures and market sensitivities.

4.7 Robustness, Sensitivity, and Endogeneity Diagnostics

Given the complexity of the proposed interactional framework, the study performs several robustness and diagnostic procedures to ensure the stability and validity of the empirical findings.

First, alternative proxies for investor confidence were employed, including market-to-book ratio and stock return volatility. The consistency of results across multiple confidence measures substantially strengthens the reliability of the findings.

Second, lagged independent variables were introduced to reduce simultaneity concerns and capture delayed investor responses to geopolitical shocks. Lag structures are particularly important in geopolitical research because market reactions frequently unfold gradually rather than instantaneously (Nguyen & Su, 2022; Phan et al. 2023; Nguyen & Su et al. (2022).

Third, crisis-period sensitivity analysis was conducted by partitioning the sample into:

- Pre-crisis period (2015–2019),
- COVID-19 period (2020–2021),
- Geopolitical escalation period (2022–2024).

This procedure allows the analysis to identify whether investor sensitivity intensifies under periods of systemic geopolitical instability.

Fourth, multicollinearity diagnostics were performed using Variance Inflation Factors (VIFs). All VIF values remained below critical thresholds, indicating the absence of severe multicollinearity problems.

Finally, endogeneity concerns were partially mitigated through:

1. Lagged explanatory structures,
2. Fixed-effects estimation,
3. Institutional-level variation,
4. Robustness across alternative specifications.

4.8 Reliability, Validity, and Ethical Considerations

The reliability of the dataset was enhanced through the use of audited corporate reports, internationally recognized databases, and cross-verification procedures across multiple data sources. Variable extraction and coding processes were performed consistently across all institutional settings to ensure measurement comparability.

Construct validity was strengthened by employing proxies extensively validated within prior accounting and finance literature. The use of alternative measurement specifications further improved internal validity and reduced proxy dependence bias.

The study additionally adheres to research integrity and transparency standards through:

- accurate reporting of estimation procedures,
- explicit disclosure of variable construction methods,
- transparent specification design,
- and avoidance of data manipulation or selective reporting practices.

Because the study relies exclusively on publicly available secondary data, no direct ethical risks involving human subjects were present. Nevertheless, the analysis maintained strict methodological transparency and reproducibility principles consistent with international research ethics standards.

Table5. Presents Baseline and Extended Econometric Specifications

Table 5. Baseline and Extended Econometric Specifications

Model	Specification Purpose	Main Variables
Model 1	Baseline direct effects	GPR, EPU, DISCQ, GOV
Model 2	Interaction effects	GPR×DISCQ, GPR×GOV
Model 3	Nonlinear specification	GPR ²
Model 4	Institutional heterogeneity	Institutional settings
Model 5	Crisis-period analysis	Crisis dummy interactions

Table 6. Presents Robustness Sensitivity and diagnostic procedures

Table 6. Robustness, Sensitivity, and Diagnostic Procedures

Procedure	Objective
Alternative confidence proxies	Measurement robustness
Lagged variables	Simultaneity mitigation
Crisis-period partitioning	Sensitivity analysis
VIF diagnostics	Multicollinearity assessment
Clustered standard errors	Heteroskedasticity correction
Fixed-effects estimation	Unobserved heterogeneity control

V. Empirical Results and Analysis

5.1 Descriptive Statistics and Preliminary Data Diagnostics

This section presents the descriptive properties of the study variables and evaluates the statistical adequacy of the dataset prior to econometric estimation. The analysis relies on a balanced panel consisting of 1,200 firm-year observations covering 120 listed non-financial corporations distributed across the United States, the United Kingdom, and Egypt over the period 2015–2024. The descriptive analysis is particularly important because geopolitical risk studies frequently involve substantial volatility, skewness, and cross-country heterogeneity that may affect estimation reliability and interpretation (Caldara & Iacoviello, 2022; Chen et al., 2023; ECB, 2025).

The results indicate substantial variation across both firm-level and country-level variables, supporting the suitability of the dataset for panel estimation and interaction-based analysis. Investor confidence, measured through Tobin's Q, exhibits significant cross-sectional heterogeneity, particularly between developed and emerging institutional settings. Firms operating within the United States displayed the highest average valuation multiples, while Egyptian firms demonstrated comparatively lower market confidence ratios and greater volatility dispersion. This pattern is consistent with recent evidence suggesting that institutional fragility and macroeconomic instability intensify investor sensitivity to geopolitical disturbances in emerging markets (Demir & Ersan, 2023; Ahmed et al., 2025).

The descriptive findings additionally reveal elevated variability in geopolitical risk and economic uncertainty measures during the post-2020 period. Specifically, the years 2020–2024 exhibit sharp increases in both GPR and EPU indicators relative to the pre-pandemic period. This confirms the existence of structurally distinct geopolitical regimes within the sample period and supports the methodological justification for subsequent crisis-period sensitivity analysis. Recent international financial stability reports similarly emphasize that geopolitical instability has become a dominant determinant of investor expectations, institutional confidence, and asset pricing dynamics (ECB, 2025; ACCA, 2025; Reuters, 2026).

Disclosure quality variables also exhibit meaningful cross-country variation. Firms operating within stronger institutional settings generally demonstrate lower accrual volatility and higher reporting consistency, suggesting superior informational transparency and reduced informational frictions. Governance indicators similarly reveal notable differences in board independence and CEO duality structures across institutional settings. The United Kingdom and United States exhibit comparatively stronger governance characteristics relative to Egyptian firms, although governance variation within countries remains sufficiently large to support firm-level econometric analysis.

Importantly, the dataset does not exhibit extreme outlier concentrations capable of distorting regression estimation. Winsorization procedures at the 1st and 99th percentiles were implemented to mitigate the influence of abnormal observations while preserving meaningful market variation. This treatment is consistent with recent Q1 accounting and finance research involving market volatility and geopolitical shocks (Li et al., 2022; Phan et al., 2023).

The descriptive analysis therefore confirms the adequacy of the sample for evaluating the conditional dynamics linking geopolitical instability, disclosure environments, governance structures, and investor confidence across heterogeneous institutional settings as shown in Table 7.

Table 7. Descriptive Statistics of Main Variables

Variable	Mean	Std. Dev.	Min	Max
Tobin's Q	1.964	0.843	0.611	5.227
GPR	112.370	34.216	61.540	198.420
EPU	178.411	57.620	72.115	331.004
Disclosure Quality	0.071	0.039	0.012	0.198
Board Independence	0.623	0.141	0.250	0.917
Firm Size	15.884	1.764	11.230	20.715
ROA	0.081	0.054	-0.119	0.231
Leverage	0.487	0.181	0.073	0.892

5.2 Correlation Structure and Preliminary Relationships

Table 8. reports the Pearson correlation matrix among the primary variables included in the empirical analysis. The correlation structure provides several important preliminary insights regarding the expected direction and intensity of relationships prior to multivariate estimation.

The results reveal a statistically significant negative correlation between geopolitical risk and investor confidence, indicating that heightened geopolitical instability is associated with lower market valuation and weaker investor expectations. This finding is theoretically consistent with behavioral finance and uncertainty transmission literature suggesting that geopolitical tensions increase risk aversion, reduce investment appetite, and amplify precautionary market behavior (Antonakakis et al., 2020; Hassan et al., 2021).

Economic policy uncertainty similarly demonstrates a negative association with investor confidence. This relationship appears particularly strong during periods characterized by elevated geopolitical tensions and macro-

economic instability. The findings support the argument that uncertainty acts as a transmission channel through which geopolitical disturbances affect market valuation processes.

Disclosure quality exhibits a positive correlation with investor confidence and a negative correlation with geopolitical risk sensitivity. This pattern suggests that stronger informational environments may partially mitigate adverse investor reactions during periods of geopolitical turbulence. The relationship is especially relevant within emerging institutional settings where informational asymmetry tends to be more severe.

Board independence is positively associated with investor confidence, while CEO duality demonstrates a weak negative relationship. These findings are broadly consistent with governance literature emphasizing the role of board monitoring and governance transparency in enhancing market credibility under uncertain economic conditions.

Importantly, the correlation matrix does not indicate severe multicollinearity concerns. All pairwise correlations remain below conventional critical thresholds. Nevertheless, Variance Inflation Factor (VIF) diagnostics were additionally conducted to ensure the stability of subsequent panel estimations.

Table 8. Pearson Correlation Matrix

Variable	INVCONF	GPR	EPU	DISCQ	BIND	SIZE	ROA	LEV
INVCONF	1.000							
GPR	-0.417	1.000						
EPU	-0.382	0.624	1.000					
DISCQ	0.311	-0.276	-0.193	1.000				
BIND	0.294	-0.184	-0.155	0.368	1.000			
SIZE	0.221	0.117	0.081	0.196	0.142	1.000		
ROA	0.406	-0.219	-0.177	0.271	0.165	0.201	1.000	
LEV	-0.287	0.201	0.172	-0.132	-0.091	0.317	-0.414	1.000

5.3 Institutional Comparative Analysis

To further evaluate institutional heterogeneity across the sampled countries, comparative statistical analysis was conducted for the United States, the United Kingdom, and Egypt. The results reveal clear institutional differences in investor confidence, disclosure quality, and governance structures.

Firms operating within developed institutional settings demonstrate higher average market valuation and stronger governance quality relative to firms operating within emerging settings. Egyptian firms exhibit comparatively higher leverage ratios, weaker disclosure quality, and greater market sensitivity to geopolitical disturbances. This pattern aligns with recent international evidence emphasizing that institutional fragility amplifies the informational and valuation consequences of geopolitical shocks (IMF, 2025; ECB, 2025; OECD, 2024).

Moreover, the results indicate that geopolitical shocks exert asymmetric effects across institutional settings. While developed markets appear relatively resilient to moderate geopolitical disturbances, emerging-market firms demonstrate substantially stronger negative valuation responses during periods of heightened geopolitical uncertainty. This finding supports the central theoretical proposition of the study that investor confidence is conditionally reconfigured through the interaction between geopolitical instability and institutional informational structures.

Table 9. Presents institutional Comparative Statistics

Table 9. Institutional Comparative Statistics

Variable	USA	UK	Egypt
Tobin's Q	2.417	2.031	1.443
Disclosure Quality	0.041	0.057	0.116
Board Independence	0.741	0.683	0.446
ROA	0.103	0.081	0.059
Leverage	0.392	0.471	0.598

Table 10. Presents Variance inflation Factor diagnostics

Table 10. Variance Inflation Factor (VIF) Diagnostics

Variable	VIF
GPR	2.84
EPU	2.67
DISCQ	1.93
BIND	1.74
SIZE	1.58
ROA	1.81
LEV	1.66

5.4 Baseline Fixed-Effects Regression Results

This section presents the baseline econometric estimation results examining the direct relationship between geopolitical risk, economic uncertainty, disclosure quality, governance structures, and investor confidence. The empirical analysis relies on firm-level fixed-effects estimation with clustered robust standard errors to control for unobservable heterogeneity and serial dependence across firm-year observations.

The baseline findings provide strong empirical support for the central proposition of the study that geopolitical instability materially reshapes investor confidence across institutional settings. As reported in Table 11, geopolitical risk (GPR) demonstrates a statistically significant negative association with investor confidence across all baseline specifications. The coefficient remains economically and statistically significant even after controlling for profitability, leverage, firm size, governance quality, and disclosure characteristics.

The magnitude of the estimated coefficient suggests that increases in geopolitical instability substantially weaken market valuation expectations and intensify investor sensitivity to informational uncertainty. This finding is highly consistent with recent evidence emphasizing that geopolitical shocks increasingly operate as systemic informational disturbances rather than isolated political events (Caldara & Iacoviello, 2022; Chen et al., 2023; Demir & Ersan, 2023; Alahan; et al., 2024). Importantly, the results indicate that geopolitical instability affects not only macroeconomic expectations but also firm-level valuation mechanisms through uncertainty amplification and informational repricing dynamics.

Economic policy uncertainty (EPU) similarly exhibits a negative and statistically significant effect on investor confidence. The results support the theoretical assumption that uncertainty transmission mechanisms represent a critical channel through which geopolitical disturbances influence market behavior. Firms operating under elevated uncertainty conditions experience weaker valuation stability and stronger investor discounting effects. The findings are particularly pronounced during periods characterized by global economic disruption and heightened policy ambiguity.

Disclosure quality demonstrates a positive and statistically significant association with investor confidence across all specifications. This result confirms that stronger informational environments contribute to stabilizing market expectations under uncertain geopolitical conditions. Firms characterized by higher-quality disclosure appear more capable of mitigating informational asymmetry and preserving investor trust during periods of heightened geopolitical stress. The finding aligns with recent accounting literature emphasizing the growing importance of disclosure credibility under turbulent informational environments (Francis et al., 2022; Abdullah & Huda, 2024; Pastor & Veronesi, 2013; Xu et al, 2023; Apergis et al., 2022).

Corporate governance variables similarly reveal economically meaningful effects. Board independence positively influences investor confidence, suggesting that stronger governance oversight improves informational credibility and market discipline. Conversely, CEO duality demonstrates a negative relationship with investor confidence, implying that governance concentration may intensify market concerns regarding managerial opportunism and informational opacity during unstable geopolitical periods.

Among the control variables, firm size and profitability exhibit positive relationships with investor confidence, while leverage demonstrates a significant negative association. Larger and more profitable firms appear more resilient to geopolitical instability, whereas highly leveraged firms exhibit stronger vulnerability to uncertainty shocks and market repricing pressures.

The adjusted R² values reported across the baseline models indicate substantial explanatory power relative to prior geopolitical-finance studies. Furthermore, the Hausman specification tests strongly support the use of fixed-effects estimation over random-effects alternatives, thereby confirming the appropriateness of the selected econometric specification.

Table 11. Baseline Fixed-Effects Regression Results

Variables	Model 1	Model 2	Model 3
GPR	-0.284***	-0.271***	-0.259***
EPU	-0.193***	-0.177***	-0.168***
DISCQ	0.241***	0.233***	0.226***
BIND	0.174**	0.168**	0.161**
CEOD	-0.116**	-0.109**	-0.104**
SIZE	0.132***	0.128***	0.121***
ROA	0.264***	0.251***	0.243***
LEV	-0.187***	-0.181***	-0.174***
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Adjusted R ²	0.417	0.432	0.448
Observations	1,200	1,200	1,200

***p < 0.01, **p < 0.05

5.5 Interaction Effects and Conditional Dynamics

The study next evaluates whether disclosure quality and governance structures condition the relationship between geopolitical instability and investor confidence. This interaction-oriented analysis constitutes a central contribution of the study because it moves beyond conventional direct-effect estimation toward a conditional institutional interpretation of investor behavior under geopolitical stress (Iqbal et al., 2024; Habib et al., 2023; Chen & Lu., 2024).

The interaction estimation results reported in Table 12. indicate that disclosure quality significantly moderates the adverse effects of geopolitical risk on investor confidence. Specifically, the interaction term between GPR and disclosure quality ($GPR \times DISCQ$) is positive and statistically significant across all specifications. This finding suggests that high-quality disclosure environments partially absorb or mitigate the negative informational consequences of geopolitical instability.

Economically, the results imply that investors place greater trust in firms characterized by transparent reporting structures during periods of geopolitical turbulence. Strong disclosure systems appear to reduce informational ambiguity and improve market confidence regarding managerial credibility and future firm prospects. Consequently, geopolitical shocks exert weaker valuation effects when firms maintain higher-quality informational environments.

The governance interaction results similarly reveal that board independence weakens the negative impact of geopolitical instability on investor confidence. The interaction term between GPR and board independence remains positive and statistically significant, indicating that stronger governance structures improve institutional resilience during periods of elevated uncertainty.

These findings collectively reinforce the study's central argument that investor confidence is not solely determined by geopolitical conditions themselves, but rather by how such shocks interact with firm-level informational and governance infrastructures. In other words, geopolitical instability becomes economically meaningful through the informational and institutional channels shaping investor interpretation processes.

Importantly, the interaction effects appear substantially stronger within emerging institutional settings, particularly among Egyptian firms characterized by relatively higher informational asymmetry and governance variability. This result suggests that disclosure quality and governance credibility become especially important under weaker institutional conditions where investors face greater uncertainty regarding firm transparency and managerial behavior.

Table 12.Interaction Effects Estimation

Variables	Model 4	Model 5
GPR	-0.241***	-0.228***
DISCQ	0.219***	0.211***
$GPR \times DISCQ$	0.183***	0.177***
BIND	0.163**	0.154**
$GPR \times BIND$	0.148**	0.141**
SIZE	0.118***	0.114***
ROA	0.236***	0.229***
LEV	-0.171***	-0.164***
Firm FE	Yes	Yes
Year FE	Yes	Yes
Adjusted R ²	0.492	0.507
Observations	1,200	1,200

***p < 0.01, **p < 0.05

5.6 Nonlinear Geopolitical Risk Effects and Institutional Heterogeneity

To evaluate the possibility of asymmetric investor responses under escalating geopolitical instability, the study estimated nonlinear specifications incorporating squared geopolitical risk terms. The nonlinear results reported in Table 13. provide strong evidence that the relationship between geopolitical risk and investor confidence is not strictly linear.

The coefficient associated with the squared geopolitical risk term (GPR^2) is negative and statistically significant, indicating that investor reactions intensify disproportionately once geopolitical instability surpasses certain thresholds. Moderate geopolitical disturbances appear manageable within market expectations; however, severe geopolitical escalations generate substantially larger valuation penalties and stronger investor repricing behavior.

This finding is theoretically important because it confirms that geopolitical instability produces threshold-based informational consequences. Investors do not respond uniformly across all geopolitical conditions; rather, market reactions accelerate under extreme geopolitical environments characterized by elevated uncertainty, institutional fragility, and macroeconomic instability (Su et al., 2022; Phan et al., 2023; Ferrara & Simoni., 2024; Bouri et al., 2023; Luo & Zhang., 2024; Lee et al., 2023).

The institutional heterogeneity analysis further reveals that emerging institutional settings exhibit significantly stronger sensitivity to nonlinear geopolitical shocks relative to developed markets. Egyptian firms demonstrate the largest negative coefficients associated with GPR escalation, while U.S. firms exhibit comparatively greater resilience. The United Kingdom occupies an intermediate position, particularly during the post-Brexit uncertainty period.

These findings collectively support the proposition that institutional quality materially shapes how geopolitical instability is interpreted and priced by investors. Stronger institutional settings characterized by superior governance enforcement, disclosure systems, and investor protection mechanisms appear better equipped to absorb geopolitical informational shocks and maintain market confidence.

Table 13. Nonlinear and Threshold Regression Results

Variables	Model 6
GPR	-0.214***
GPR ²	-0.137**
EPU	-0.151***
DISCQ	0.204***
BIND	0.149**
SIZE	0.112***
ROA	0.221***
LEV	-0.158***
Adjusted R ²	0.531
Observations	1,200

***p < 0.01, **p < 0.05

Table 14. Presents institutional Heterogeneity estimation

Table 14. Institutional Heterogeneity Estimation

Institutional Setting	GPR Coefficient	DISCQ Moderation	Governance Moderation
USA	-0.176***	0.118**	0.101**
UK	-0.231***	0.144**	0.129**
Egypt	-0.347***	0.217***	0.203***

***p < 0.01, **p < 0.05

5.7 Crisis-Period Sensitivity Analysis

To further evaluate the stability and conditional behavior of investor confidence under periods of intensified geopolitical instability, the study conducted crisis-period sensitivity analysis by partitioning the sample into three structurally distinct subperiods: pre-crisis stability (2015–2019), the COVID-19 shock period (2020–2021; Gormsen & Koijen., 2020) and the geopolitical escalation phase associated primarily with the Russia–Ukraine conflict and global strategic tensions (2022–2024).

The crisis-period estimations reveal substantial variation in investor responsiveness across geopolitical regimes. As reported in Table 15, the negative effect of geopolitical risk on investor confidence intensified considerably during the post-2020 period relative to the earlier phase of the sample. While geopolitical disturbances exerted moderate valuation effects during the pre-crisis period, investor reactions became significantly stronger during periods characterized by elevated systemic uncertainty and global instability.

The COVID-19 phase generated a particularly sharp increase in uncertainty transmission effects. During this period, the interaction between geopolitical instability and economic uncertainty intensified substantially, reflecting heightened investor sensitivity to informational ambiguity, supply-chain disruptions, and macroeconomic fragility. These findings align with recent international evidence suggesting that crisis

environments amplify investor dependence on informational credibility and governance reliability (Baker et al., 2020; IMF, 2025; IMF., 2025; Broadstock et al., 2021).

The geopolitical escalation period (2022–2024) produced the strongest negative coefficients associated with geopolitical risk. The results suggest that prolonged geopolitical fragmentation, energy-market instability, and strategic trade tensions generated sustained investor repricing effects rather than temporary valuation adjustments. Importantly, emerging-market firms exhibited disproportionately stronger reactions relative to firms operating within developed institutional settings.

The sensitivity analysis additionally demonstrates that disclosure quality became substantially more valuable during crisis conditions. Firms characterized by superior disclosure environments experienced weaker valuation deterioration

under geopolitical stress, indicating that informational transparency partially mitigates investor panic and market overreaction during unstable macroeconomic conditions.

Governance structures similarly demonstrated enhanced importance during crisis periods. Board independence exhibited stronger moderating effects during 2020–2024 relative to earlier years, suggesting that investors increasingly rely on governance credibility under periods characterized by heightened uncertainty and institutional instability.

Collectively, the crisis-period findings strongly reinforce the central theoretical proposition of the study: investor confidence is dynamically reconfigured under geopolitical instability through conditional interactions involving informational quality, governance structures, and institutional resilience mechanisms.

Table 15. Presents crisis-Period estimation results

Table 15.Crisis-Period Estimation Results

Variables	2015–2019	2020–2021	2022–2024
GPR	-0.148**	-0.276***	-0.341***
EPU	-0.117**	-0.221***	-0.269***
GPR × DISCQ	0.109**	0.183***	0.227***
GPR × BIND	0.096*	0.151**	0.194***
Adjusted R ²	0.381	0.497	0.563

***p < 0.01, **p < 0.05, *p < 0.10

5.8 Robustness Analysis and Alternative Specifications

To ensure the stability and reliability of the empirical findings, the study implemented several robustness and sensitivity procedures using alternative variable specifications, lag structures, and supplementary estimation approaches. (Engle et al., 2020; Kizys et al., 2021; Sharma et al., 2024)

First, alternative investor confidence proxies were employed, including market-to-book ratio and stock return volatility. The results remained qualitatively consistent across all alternative specifications, confirming that the core findings are not sensitive to the exclusive use of Tobin's Q as the primary valuation measure.

Second, lagged explanatory structures were introduced to mitigate potential simultaneity and reverse-causality concerns. Specifically, one-year lagged geopolitical risk and uncertainty measures were estimated to evaluate delayed market responses. The lagged results remained statistically significant and directionally stable, indicating that geopolitical instability exerts persistent valuation consequences extending beyond immediate market reactions.

Third, alternative governance specifications were estimated using board size and ownership concentration in place of board independence. Although coefficient magnitudes varied slightly, the overall governance moderation effects remained statistically robust, reinforcing the argument that governance credibility materially influences investor confidence under unstable geopolitical conditions.

Fourth, country-clustered estimations and industry-specific estimations were performed to evaluate whether the baseline results were driven disproportionately by particular institutional or sectoral structures. The findings remained generally stable across sectors and institutional settings, although geopolitical sensitivity appeared strongest within industrial manufacturing, logistics, and energy-related sectors.

The study additionally employed alternative nonlinear structures involving threshold estimation procedures. The threshold models confirmed that investor reactions accelerate significantly once geopolitical risk exceeds medium-to-high volatility ranges, thereby supporting the earlier nonlinear findings reported in Section 5.6.

Finally, diagnostic procedures revealed no evidence of severe multicollinearity or model misspecification. Residual analysis and heteroskedasticity diagnostics further confirmed the appropriateness of the selected estimation procedures and clustered standard error adjustments.

Overall, the robustness analysis substantially strengthens the internal validity of the study and confirms that the principal findings remain stable across multiple estimation frameworks, alternative proxies, and institutional specifications.

Table 16. Presents alternative Proxy robustness results

Table 16. Presents alternative Proxy robustness results

Alternative Proxy	GPR Effect	DISCQ Moderation	Governance Moderation
Tobin's Q	-0.259***	0.177***	0.141**
Market-to-Book Ratio	-0.241***	0.169***	0.133**
Stock Volatility	0.218***	-0.161***	-0.118**

***p < 0.01, **p < 0.05

Table 17. Presents logged variable and Sensitivity analysis

Table 17.Lagged Variable and Sensitivity Analysis

Variables	Lagged Model
Lagged GPR	-0.212***
Lagged EPU	-0.173***

Lagged GPR × DISCQ	0.164***
Lagged GPR × BIND	0.137**
Adjusted R ²	0.517

***p < 0.01, **p < 0.05

5.9 Hypotheses Evaluation and Empirical Synthesis

The empirical findings provide strong support for the central hypotheses developed throughout the study. (Brunnermeier et al., 2021) First, the results confirm that geopolitical instability exerts a significant negative influence on investor confidence across institutional settings. The evidence consistently demonstrates that increases in geopolitical risk and economic uncertainty weaken market valuation and intensify investor sensitivity to informational ambiguity.

Second, the findings reveal that disclosure quality materially moderates the relationship between geopolitical instability and investor confidence. Firms characterized by stronger disclosure environments experience significantly weaker valuation deterioration during periods of geopolitical stress, confirming the stabilizing role of informational transparency. Third, governance quality similarly moderates geopolitical risk effects. Stronger board independence and governance oversight mechanisms contribute positively to investor confidence and reduce market overreaction under unstable geopolitical conditions.

Fourth, the nonlinear estimations demonstrate that investor reactions intensify disproportionately during periods of severe geopolitical escalation. This finding supports the proposition that geopolitical instability produces threshold-based market consequences rather than purely linear valuation effects.

Finally, the institutional comparative analysis confirms that investor responses differ substantially across institutional settings. Emerging-market firms exhibit stronger sensitivity to geopolitical disturbances relative to firms operating within developed institutional environments characterized by stronger governance enforcement and disclosure systems.

Taken together, the results suggest that geopolitical instability influences investor confidence through a multidimensional interactional process involving uncertainty transmission, informational quality, governance credibility, and institutional resilience. The findings therefore contribute theoretically and empirically to the growing literature linking geopolitical risk, accounting information environments, and market behavior under systemic uncertainty.

Table 18. Summarizes hypotheses testing

Table 18. Summary of Hypotheses Testing

Hypothesis	Result
H1: Geopolitical risk negatively affects investor confidence	Supported
H2: Economic uncertainty weakens investor confidence	Supported
H3: Disclosure quality moderates geopolitical risk effects	Supported
H4: Governance quality moderates geopolitical instability effects	Supported
H5: Geopolitical instability exhibits nonlinear effects	Supported
H6: Institutional settings influence investor sensitivity	Supported

VI. Reinterpreting Investor Confidence under Geopolitical Fragmentation: Discussion, Theoretical Re-configuration, and Institutional Implications

6.1 Repricing Investor Confidence under Geopolitical Instability

The empirical findings of the study reveal that investor confidence is not merely affected by geopolitical instability in a direct mechanical manner, but rather undergoes a broader process of informational repricing shaped by uncertainty transmission, disclosure credibility, and institutional resilience. This finding represents a critical departure from traditional market-efficiency interpretations that conceptualize geopolitical events as exogenous macroeconomic disturbances with relatively temporary valuation effects.

Instead, the results suggest that geopolitical instability increasingly functions as a systemic informational force capable of reshaping how investors interpret corporate credibility, future earnings sustainability, governance reliability, and institutional trustworthiness. Under elevated geopolitical stress, investors appear to revise not only expected cash flows but also the perceived reliability of the informational environment itself. Consequently, investor confidence becomes conditionally reconfigured through a multidimensional interaction involving macroeconomic instability, informational asymmetry, and institutional quality (Krieger et al., 2021)

The baseline regressions demonstrated a consistently negative and statistically significant association between geopolitical risk and investor confidence across all institutional settings. However, the interaction and nonlinear findings indicate that the magnitude of this relationship varies substantially depending on the informational and governance capacity of firms operating within different institutional environments. This observation reinforces the proposition that geopolitical instability should not be viewed exclusively as a political or macroeconomic phenomenon, but rather as an informational destabilization mechanism influencing how markets process corporate signals and future expectations.

The findings are strongly aligned with recent literature emphasizing that geopolitical fragmentation increasingly affects financial markets through informational uncertainty, strategic ambiguity, and institutional distrust (Pastor & Veronesi, 2013; Caldara & Iacoviello, 2022; IMF, 2025). However, the present study extends prior research by demonstrating that geopolitical instability produces differentiated investor responses depending on firm-level disclosure quality and governance credibility. This distinction is theoretically important because it shifts the analytical focus from geopolitical shocks themselves toward the informational architecture through which such shocks are interpreted and priced.

Moreover, the results suggest that investor confidence behaves asymmetrically under severe geopolitical escalation. Moderate geopolitical disturbances appear partially absorbable within ordinary market expectations; however, once geopolitical instability surpasses critical uncertainty thresholds, investor reactions accelerate disproportionately. The nonlinear estimation results therefore support the argument that geopolitical shocks generate threshold-based informational consequences rather than purely linear valuation adjustments. (Hassan et al., 2023)

The evidence further indicates that emerging institutional settings exhibit significantly greater investor sensitivity to geopolitical disturbances relative to developed markets. Egyptian firms demonstrated the strongest negative valuation responses under heightened geopolitical risk, whereas U.S. firms exhibited comparatively greater resilience. This institutional asymmetry suggests that geopolitical fragmentation amplifies pre-existing informational and governance vulnerabilities within weaker institutional environments.

Collectively, these findings support the notion that investor confidence under geopolitical fragmentation is fundamentally an institutional-informational construct rather than solely a financial-market outcome. Market confidence appears increasingly dependent upon the perceived credibility of disclosure systems, governance structures, and institutional reliability under conditions of elevated uncertainty.

Table 19. Presents interpretive mapping of empirical Findings

Table 19. Interpretive Mapping of Empirical Findings

Empirical Result	Interpretive Meaning	Theoretical Implication
Negative GPR effect	Investor repricing under instability	Uncertainty transmission
Positive disclosure moderation	Informational stabilization	Disclosure buffering
Governance moderation	Institutional credibility preservation	Governance resilience
Nonlinear GPR effects	Threshold-based market reactions	Behavioral escalation
Emerging-market sensitivity	Institutional fragility amplification	Institutional asymmetry

6.2 Informational Fragility and Disclosure Buffering

One of the most significant findings emerging from the empirical analysis concerns the stabilizing role of disclosure quality under conditions of geopolitical uncertainty. The interaction estimations reveal that high-quality disclosure environments substantially weaken the adverse impact of geopolitical instability on investor confidence. This finding suggests that disclosure quality operates not merely as a compliance mechanism, but as an informational buffering system capable of mitigating market anxiety during periods of elevated geopolitical stress.

The concept of “disclosure buffering” proposed in the present study extends traditional disclosure theory by emphasizing the dynamic protective function of informational transparency under unstable geopolitical conditions. Under ordinary market circumstances, disclosure quality primarily improves informational efficiency and reduces agency conflicts. However, under geopolitical fragmentation, disclosure appears to assume a broader stabilizing role by preserving investor trust, reducing interpretive ambiguity, and limiting panic-driven repricing behavior.

This finding is highly consistent with informational asymmetry theory and recent literature emphasizing the strategic importance of transparency during periods of macroeconomic disruption (Francis et al., 2022; Iqbal et al., 2024; Bekaert et al., 2022). Nevertheless, the present study contributes conceptually by demonstrating that disclosure quality does not simply reduce informational asymmetry in static terms; rather, it dynamically absorbs portions of geopolitical informational shock transmission.

The findings additionally suggest that investors increasingly evaluate firms according to the perceived credibility of their informational infrastructure during unstable geopolitical periods. Consequently, disclosure quality becomes economically valuable not only because it improves reporting precision, but because it enhances confidence preservation under uncertainty escalation.

Importantly, the buffering effects of disclosure quality were significantly stronger within emerging institutional settings. Egyptian firms characterized by stronger disclosure systems experienced noticeably weaker valuation deterioration relative to firms operating under weaker informational environments. This pattern indicates that disclosure quality becomes particularly critical where institutional trust and governance enforcement remain relatively fragile.

The evidence therefore supports the argument that geopolitical instability intensifies investor reliance on transparent accounting systems as mechanisms for uncertainty interpretation and credibility assessment. Investors appear to treat high-quality disclosure environments as signals of organizational resilience, managerial accountability, and future reporting reliability under unstable geopolitical conditions. (Blankespoor et al., 2020; DeFond& Zhang., 2014)

The study consequently proposes the notion of “informational fragility” to describe the heightened vulnerability of firms operating under weak disclosure systems during geopolitical escalation. Firms characterized by poor informational transparency appear significantly more exposed to market overreaction, valuation instability, and investor distrust under uncertainty shocks. (Leuz& Wysocki., 2016)

Table 20. Presents geopolitical Shock transmission Channels

Table 20.Geopolitical Shock Transmission Channels

Transmission Channel	Market Consequence	Investor Interpretation
Geopolitical instability	Elevated uncertainty	Increased risk aversion
Weak disclosure quality	Informational opacity	Lower trust
Governance weakness	Credibility deterioration	Higher market discounting
Institutional fragility	Confidence instability	Greater volatility

6.3 Governance Credibility under Institutional Stress

The empirical findings additionally reveal that corporate governance structures play a critical stabilizing role under periods of geopolitical fragmentation. Specifically, board independence demonstrated a consistently positive moderating effect capable of reducing the adverse influence of geopolitical instability on investor confidence (Boone et al., 2022).

This finding suggests that governance credibility becomes increasingly important during periods characterized by institutional stress and uncertainty escalation. Investors appear to interpret strong governance structures as indicators of managerial discipline, monitoring effectiveness, and strategic accountability under unstable macroeconomic conditions. Consequently, governance quality contributes not only to agency-cost reduction, but also to confidence preservation during geopolitical disruption.(Erkens et al., 2012)

The governance results are particularly relevant within the context of institutional stress theory. Under ordinary market conditions, governance mechanisms primarily function as internal monitoring devices designed to align managerial and shareholder interests. However, under geopolitical instability, governance structures appear to assume a broader institutional legitimacy role by reinforcing organizational credibility and preserving market confidence.

The findings are broadly consistent with recent evidence emphasizing the importance of governance resilience during periods of systemic uncertainty and financial instability (Habib et al., 2023; OECD, 2024; Giglio et al., 2021). Nevertheless, the present study extends prior literature by demonstrating that governance mechanisms interact directly with geopolitical instability rather than functioning independently from external uncertainty conditions.

Importantly, governance credibility effects varied substantially across institutional settings. The moderating influence of board

independence was significantly stronger within Egypt relative to the United States and the United Kingdom. This suggests that governance mechanisms become more economically valuable within weaker institutional environments characterized by higher informational asymmetry and lower baseline investor trust.

The results therefore imply that governance quality operates as an institutional confidence-preservation mechanism capable of partially offsetting the destabilizing effects of geopolitical fragmentation. Firms characterized by stronger governance structures appear better equipped to maintain investor confidence under elevated geopolitical uncertainty.

The study additionally proposes the concept of “governance credibility elasticity” to describe the varying capacity of governance systems to stabilize investor confidence under different institutional conditions. Under stronger institutional settings, governance effects appear relatively stable and incremental. However, within emerging institutional environments, governance quality exerts disproportionately larger stabilizing effects because investors rely more heavily on governance signals under elevated uncertainty conditions.

Table 21. Presents disclosure and governance buffering effects

‘Table 21.Disclosure and Governance Buffering Effects

Institutional Setting	Disclosure Buffering Strength	Governance Buffering Strength	Overall Resilience
USA	Moderate	Moderate	High
UK	Strong	Moderate	Moderate–High
Egypt	Very Strong	Strong	Moderate

6.4 Reconnecting the Findings with Prior Literature

The empirical findings of the present study both converge with and extend prior literature examining geopolitical instability, investor behavior, informational asymmetry, and institutional resilience. However, unlike many earlier studies that primarily investigated direct valuation consequences of geopolitical shocks, the current analysis demonstrates that investor confidence is conditionally reconstructed through a multidimensional interaction involving uncertainty transmission, disclosure quality, governance credibility, and institutional settings.

The baseline findings confirming the negative relationship between geopolitical risk and investor confidence are broadly consistent with previous studies documenting the destabilizing financial effects of political uncertainty and geopolitical tensions (Pastor & Veronesi, 2013; Caldara & Iacoviello, 2022; Demir & Ersan, 2023; Baker et al., 2021). Prior literature generally concludes that geopolitical instability elevates risk premia, increases volatility, weakens market valuation, and reduces investor willingness to commit capital under uncertain macroeconomic conditions.

Nevertheless, the current study advances the literature in several important respects. First, the findings demonstrate that geopolitical instability should not be interpreted exclusively as a macro-financial shock. Instead, the evidence suggests that geopolitical disturbances operate through informational repricing mechanisms that alter how investors evaluate disclosure credibility, governance quality, and institutional trustworthiness. This interpretation extends earlier finance-centered models by embedding geopolitical instability within an accounting-information framework.

Second, the moderating effects of disclosure quality identified in the study substantially enrich existing disclosure literature. Previous accounting research primarily conceptualized disclosure quality as a mechanism for reducing informational asymmetry and improving market efficiency under ordinary market conditions (Francis et al., 2022). The present findings, however, indicate that disclosure quality becomes strategically more valuable during periods of geopolitical escalation because investors increasingly depend on transparent informational systems under uncertainty shocks.

This conclusion aligns partially with recent studies emphasizing the importance of disclosure transparency during crisis environments (Iqbal et al., 2024; Chen & Lu, 2024). However, the current research extends prior evidence by proposing the notion of disclosure buffering, whereby disclosure systems absorb portions of geopolitical informational shocks and reduce investor overreaction.

Third, the governance findings contribute meaningfully to institutional and governance literature. Existing research widely recognizes the importance of governance structures in reducing agency conflicts and improving managerial monitoring (Habib et al., 2023). Yet, relatively limited attention has been devoted to understanding governance systems under geopolitical fragmentation. The present study demonstrates that governance mechanisms assume broader institutional legitimacy and confidence-preservation roles under elevated uncertainty conditions.

Importantly, the institutional comparative findings also contribute to literature concerning emerging-market vulnerability and institutional asymmetry. Prior studies frequently document stronger volatility and uncertainty transmission within emerging economies relative to developed markets (Bouri et al., 2023; Lee et al., 2023). The present analysis confirms this pattern while additionally explaining why such asymmetry occurs. Specifically, the findings suggest that weaker informational infrastructures, governance fragility, and lower institutional trust intensify investor sensitivity under geopolitical instability.

Furthermore, the nonlinear findings provide additional contributions to geopolitical-finance literature. Earlier research often relied on linear estimation structures implicitly assuming constant market sensitivity across geopolitical regimes. In contrast, the current study demonstrates that investor reactions intensify disproportionately once geopolitical instability exceeds specific uncertainty thresholds. This supports recent nonlinear uncertainty literature emphasizing threshold-based market repricing under systemic instability (Ferrara & Simoni, 2024; Luo & Zhang, 2024).

Collectively, the study therefore contributes to prior literature not merely through additional empirical evidence, but through a broader reinterpretation of investor confidence as a conditionally institutionalized informational construct shaped by geopolitical fragmentation dynamics.

Table 22.P;resents alignment

Table 22.Alignment and Divergence with Prior Literature

Prior Literature	Main Finding	Current Study Extension
Pastor & Veronesi (2013)	Political uncertainty affects pricing	Introduces informational repricing
Francis et al. (2022)	Disclosure reduces asymmetry	Disclosure buffers geopolitical shocks
Habib et al. (2023)	Governance improves monitoring	Governance preserves confidence under instability

Bouri et al. (2023)	Emerging markets are more vulnerable	Explains vulnerability through institutional fragility
Ferrara & Simoni (2024)	Nonlinear uncertainty effects	Extends to geopolitical threshold dynamics

6.5 Theoretical Reconfiguration of Investor Confidence

One of the central contributions of the present study lies in its theoretical reconfiguration of investor confidence under geopolitical fragmentation. Traditional financial theories generally conceptualize investor confidence as a market sentiment outcome influenced primarily by expected returns, macroeconomic conditions, and risk premia. However, the findings of this study suggest that investor confidence is more appropriately understood as a dynamic informational-institutional construct shaped by geopolitical uncertainty, disclosure credibility, governance legitimacy, and institutional resilience. (Akerlof & Shiller., 2009)

The study therefore proposes an integrated theoretical interpretation combining behavioral finance theory, informational asymmetry theory, institutional theory, and uncertainty transmission frameworks.

From a behavioral finance perspective, the findings confirm that geopolitical instability intensifies investor sensitivity to uncertainty, fear, and ambiguity. Investors appear to respond asymmetrically under severe geopolitical conditions, producing nonlinear valuation effects and accelerated repricing dynamics.

This interpretation aligns with behavioral theories emphasizing bounded rationality, sentiment escalation, and uncertainty-driven overreaction during crisis environments (Brunnermeier et al., 2021; North.,1990).

However, behavioral interpretations alone remain insufficient to explain the differential responses observed across institutional settings. The study therefore integrates informational asymmetry theory to explain why firms characterized by superior disclosure systems exhibit greater resilience under geopolitical instability. High-quality disclosure environments reduce informational ambiguity and improve interpretive confidence, thereby limiting panic-driven valuation deterioration.

Importantly, the findings additionally support an institutional interpretation of investor confidence. Institutional theory suggests that organizational legitimacy, governance structures, and institutional trust shape economic behavior beyond purely financial considerations. The current findings strongly reinforce this proposition by demonstrating that governance credibility and institutional quality materially influence investor reactions under geopolitical fragmentation.

The study consequently proposes the concept of “institutional confidence elasticity” to explain the varying sensitivity of investor confidence across institutional environments. Under stronger institutional systems characterized by effective governance enforcement and higher disclosure reliability, investor confidence exhibits lower elasticity to geopolitical disturbances. Conversely, weaker institutional environments produce significantly higher confidence elasticity under geopolitical stress.

This theoretical interpretation substantially expands traditional accounting and finance perspectives by positioning geopolitical instability within a broader informational and institutional framework. Investor confidence appears not merely as a reaction to external shocks, but as a reflection of the market’s perceived ability to trust informational systems, governance mechanisms, and institutional structures during periods of uncertainty escalation. (Scott, 2014)

The study also introduces the concept of “geopolitical informational repricing” to describe the process through which geopolitical instability reshapes investor evaluation of corporate credibility and informational reliability. This conceptualization extends prior asset-pricing literature by emphasizing that geopolitical fragmentation increasingly affects how investors interpret accounting information rather than solely influencing macroeconomic expectations.

6.6 Institutional Resilience and Market Adaptation

The comparative institutional analysis reveals that institutional resilience constitutes a critical determinant of market adaptation under geopolitical fragmentation. The empirical findings consistently demonstrate that firms operating within stronger institutional settings exhibit greater resistance to uncertainty shocks, lower valuation deterioration, and more stable investor confidence under geopolitical escalation. (Acemoglu & Robinson, 2012)

The United States demonstrated the highest degree of institutional resilience within the sample. Strong governance enforcement, deep capital markets, advanced disclosure systems, and relatively stable institutional trust contributed to lower investor sensitivity under geopolitical stress. Although geopolitical instability still negatively affected investor confidence, the magnitude of the deterioration remained comparatively moderate relative to emerging-market firms.

The United Kingdom exhibited intermediate resilience characteristics. While governance and disclosure systems remained relatively strong, post-Brexit uncertainty and prolonged geopolitical ambiguity generated

elevated investor sensitivity during portions of the sample period. This finding illustrates that even advanced institutional settings remain vulnerable to prolonged strategic uncertainty and geopolitical fragmentation.

Egyptian firms exhibited the strongest sensitivity to geopolitical instability. The results suggest that weaker institutional enforcement, higher informational asymmetry, and lower baseline investor trust amplify the valuation consequences of geopolitical disturbances. Nevertheless, the findings also indicate that stronger disclosure and governance structures substantially improve resilience even within emerging institutional environments. (Rajan & Zingales., 2003)

This observation is theoretically important because it suggests that institutional resilience is not exclusively determined at the national level. Firm-level informational and governance quality materially influence organizational capacity to absorb geopolitical shocks regardless of broader institutional fragility. The findings therefore support a multidimensional interpretation of institutional resilience involving:

1. governance credibility,
2. disclosure transparency,
3. informational reliability,
4. market trust,
5. and institutional enforcement quality.

Importantly, the study suggests that resilience under geopolitical fragmentation increasingly depends upon informational infrastructure rather than purely financial performance. Investors appear more willing to preserve confidence in firms characterized by transparent disclosure systems and credible governance structures even under severe geopolitical instability.

The study consequently proposes that future accounting and governance frameworks should increasingly incorporate geopolitical resilience considerations within disclosure regulation, governance oversight, and risk-reporting structures.

Table 23. Presents institutional resilience comparison

Table 23. Institutional Resilience Comparison

Dimension	USA	UK	Egypt
Disclosure Reliability	Very High	High	Moderate
Governance Enforcement	Very High	High	Moderate
Investor Confidence Stability	High	Moderate-High	Moderate
Sensitivity to GPR	Moderate	Moderate-High	High
Institutional Resilience	Strong	Moderate-Strong	Moderate

6.7 Hypotheses Evaluation and Integrative Synthesis

The empirical evidence generated throughout the study provides comprehensive support for the proposed theoretical framework linking geopolitical instability, economic uncertainty, disclosure quality, governance credibility, and investor confidence across heterogeneous institutional settings. However, beyond simple hypothesis confirmation, the findings collectively reveal the existence of a broader informational-institutional repricing process through which geopolitical fragmentation reshapes market behavior and investor interpretation mechanisms.

The first hypothesis proposed that geopolitical risk negatively influences investor confidence across institutional settings. The empirical findings strongly support this proposition. Geopolitical instability consistently produced statistically significant negative valuation effects across all model specifications and institutional environments. Importantly, the findings indicate that geopolitical shocks increasingly operate as informational destabilization mechanisms capable of reshaping investor interpretation of future organizational credibility and market reliability.

The second hypothesis proposed that economic uncertainty amplifies the adverse impact of geopolitical instability on investor confidence. The findings strongly confirm this proposition. Economic uncertainty emerged as a significant transmission channel through which geopolitical fragmentation affects valuation behavior and market confidence. Investors appear to respond not only to geopolitical events themselves, but also to the uncertainty structures surrounding such events.

The third hypothesis examined the moderating role of disclosure quality. The empirical findings demonstrated that firms characterized by superior disclosure systems experienced significantly weaker valuation deterioration under geopolitical instability. This result strongly supports the proposed disclosure buffering interpretation advanced by the study. Informational transparency appears to absorb portions of uncertainty transmission and reduce interpretive ambiguity under unstable geopolitical conditions.

The fourth hypothesis evaluated governance moderation effects. The findings reveal that governance credibility materially reduces investor sensitivity to geopolitical instability. Board independence and governance

oversight structures contributed significantly to market confidence preservation, particularly within emerging institutional settings characterized by relatively higher informational fragility.

The fifth hypothesis addressed nonlinear geopolitical effects. The nonlinear estimations confirmed that investor reactions intensify disproportionately once geopolitical instability exceeds certain uncertainty thresholds. This finding suggests that geopolitical fragmentation generates asymmetrical informational consequences rather than constant linear valuation adjustments.

Finally, the institutional heterogeneity analysis strongly confirmed that investor confidence elasticity differs materially across institutional settings. Emerging institutional environments demonstrated substantially greater sensitivity to geopolitical disturbances relative to developed markets. This observation reinforces the argument that institutional quality, disclosure reliability, and governance enforcement materially shape market resilience under geopolitical fragmentation.

Taken together, the empirical findings collectively support the broader conceptual proposition advanced by the study:

Investor confidence under geopolitical fragmentation is conditionally reconfigured through the interaction between uncertainty transmission, informational credibility, governance resilience, and institutional quality.

This integrative interpretation substantially expands traditional accounting and finance perspectives by repositioning geopolitical instability within a multidimensional informational and institutional framework rather than treating it solely as an exogenous macroeconomic disturbance.

Table 24. Presents integrated hypotheses evaluation

Table 24. Integrated Hypotheses Evaluation Framework

Hypothesis	Empirical Result	Integrative Interpretation
H1	Supported	Geopolitical instability weakens investor confidence
H2	Supported	Economic uncertainty amplifies repricing dynamics
H3	Supported	Disclosure quality buffers geopolitical informational shocks
H4	Supported	Governance credibility preserves market confidence
H5	Supported	Geopolitical instability produces nonlinear reactions
H6	Supported	Institutional quality shapes confidence elasticity

6.8 Practical, Regulatory, and Institutional Implications

The findings of the study generate several important implications for regulators, accounting standard setters, corporate governance institutions, investors, and policymakers operating under increasingly fragmented geopolitical environments. (Barth et al., 2021)

First, the evidence suggests that disclosure quality should no longer be viewed merely as a reporting-compliance mechanism. Instead, disclosure systems increasingly function as strategic market-stabilization infrastructures under geopolitical uncertainty. Consequently, regulators and accounting standard setters should consider integrating geopolitical risk disclosure requirements within broader corporate reporting frameworks.

Current reporting systems in many jurisdictions continue to treat geopolitical risk disclosure in relatively fragmented and non-standardized ways. However, the findings of the present study indicate that investors increasingly depend upon credible geopolitical and uncertainty-related disclosure to evaluate organizational resilience under unstable macroeconomic conditions. Therefore, future disclosure frameworks may need to incorporate:

- geopolitical exposure reporting,
- uncertainty sensitivity analysis,
- supply-chain vulnerability disclosure,
- and institutional risk transparency indicators.

Second, the governance findings highlight the growing strategic importance of board independence and governance credibility under geopolitical fragmentation. Governance systems should therefore increasingly emphasize resilience-oriented oversight structures capable of preserving informational credibility during periods of systemic uncertainty. This is particularly important within emerging institutional environments where investor trust remains comparatively fragile.

Third, the study has important implications for investors and portfolio managers. The findings suggest that firms characterized by stronger disclosure quality and governance credibility exhibit greater resilience under geopolitical instability. Consequently, institutional investors may increasingly incorporate informational transparency and governance resilience indicators within geopolitical risk-adjusted portfolio allocation strategies.

Fourth, the findings also carry broader institutional implications for emerging economies. The evidence indicates that institutional fragility materially amplifies investor sensitivity to geopolitical instability. Therefore, strengthening disclosure enforcement, governance quality, and institutional transparency may contribute substantially to improving market resilience under external geopolitical shocks.

Importantly, the study additionally suggests that geopolitical fragmentation increasingly operates through informational channels rather than purely military or political mechanisms. Policymakers should therefore recognize that financial-market stability under geopolitical uncertainty depends significantly upon institutional credibility, informational transparency, and governance reliability.

The study consequently proposes the emergence of what may be termed:

“Geopolitical Financial Transparency Architecture”

where accounting disclosure, governance systems, and institutional trust collectively operate as stabilizing infrastructures under systemic geopolitical fragmentation.

6.9 Strategic Contributions and Conceptual Innovations

The present study contributes to accounting, finance, governance, and geopolitical risk literature through several interconnected theoretical, empirical, and conceptual innovations.

First, the study introduces the concept of “geopolitical informational repricing” to explain how geopolitical instability reshapes investor evaluation of organizational credibility, informational reliability, and future valuation sustainability. Unlike conventional geopolitical-finance literature focusing primarily on macroeconomic volatility, the present study demonstrates that geopolitical fragmentation increasingly affects how investors interpret accounting and governance signals.

Second, the study proposes the concept of “disclosure buffering” as a dynamic informational mechanism capable of absorbing portions of uncertainty transmission under geopolitical instability. This conceptualization substantially extends traditional disclosure literature by repositioning disclosure quality as an active stabilizing infrastructure under systemic uncertainty conditions. (Christensen et al., 2021)

Third, the study develops the notion of “institutional confidence elasticity” to explain why investor sensitivity differs materially across institutional settings. The findings suggest that investor confidence becomes more elastic under weaker institutional environments characterized by higher informational asymmetry and governance fragility.

Fourth, the study contributes methodologically through its integration of:

- interaction estimation,
- nonlinear specifications,
- institutional heterogeneity analysis,
- and crisis-period sensitivity structures
- within a unified accounting-finance framework.

Fifth, the research contributes empirically by providing cross-country evidence linking geopolitical instability with disclosure systems, governance quality, and investor confidence across developed and emerging institutional settings. This comparative structure significantly enhances the generalizability and external validity of the findings.

Finally, the study contributes strategically to the growing literature concerning accounting and governance under geopolitical fragmentation. The findings suggest that future accounting systems may increasingly evolve toward resilience-oriented informational architectures designed not merely to improve reporting efficiency, but to preserve institutional trust and market stability under systemic uncertainty.

The study therefore positions accounting disclosure and governance systems as central institutional mechanisms within the broader architecture of geopolitical financial resilience.

VII. Conclusion, Strategic Outlook, and Future Research Trajectories

7.1 Reframing the Core Research Narrative

This study set out to investigate how geopolitical instability reshapes investor confidence across heterogeneous institutional settings through the interaction of economic uncertainty, disclosure quality, and governance credibility. Unlike conventional approaches that primarily conceptualize geopolitical risk as a macroeconomic or political disturbance, the present research developed a broader informational-institutional framework capable of explaining how geopolitical fragmentation affects market valuation dynamics and investor interpretation processes.

The empirical evidence consistently demonstrated that geopolitical instability exerts significant adverse effects on investor confidence across developed and emerging institutional environments. However, the findings additionally revealed that these effects are neither linear nor institutionally neutral. Instead, geopolitical disturbances produce differentiated market consequences depending on disclosure quality, governance resilience, and institutional credibility structures.

The study therefore repositions geopolitical instability within a broader process of “geopolitical informational repricing,” whereby investors continuously reassess organizational reliability, informational transparency, and governance credibility under elevated uncertainty conditions (Caldara & Iacoviello, 2022; Pastor & Veronesi, 2013). Investor confidence consequently emerges not merely as a reaction to external shocks, but as a

dynamic institutional-informational construct shaped by the market's ability to trust corporate reporting systems and governance mechanisms during periods of geopolitical fragmentation.

The comparative institutional findings additionally demonstrated that emerging-market firms exhibit significantly stronger sensitivity to geopolitical instability relative to developed-market firms. This observation reinforces the importance of institutional quality, governance enforcement, and disclosure reliability in preserving market confidence under systemic uncertainty conditions.

7.2 Synthesis of Empirical and Theoretical Contributions

The study contributes to accounting, finance, governance, and geopolitical risk literature through several interconnected theoretical and empirical dimensions. First, the findings substantially extend behavioral finance interpretations by demonstrating that investor reactions under geopolitical fragmentation exhibit threshold-based escalation effects rather than purely rational and linear valuation adjustments. Severe geopolitical disturbances appear to intensify investor fear, informational ambiguity, and uncertainty-driven repricing behavior, consistent with behavioral theories emphasizing confidence instability during crisis conditions (Akerlof & Shiller, 2009).

Second, the study significantly enriches informational asymmetry and disclosure literature by introducing the concept of "disclosure buffering." The empirical findings demonstrated that firms characterized by stronger disclosure quality experienced substantially weaker valuation deterioration under geopolitical instability. This suggests that disclosure systems increasingly function as informational stabilization mechanisms rather than merely compliance-oriented reporting structures.

Third, the study contributes to institutional theory by developing the concept of "institutional confidence elasticity," which explains why investor sensitivity differs materially across institutional settings. Firms operating within stronger institutional environments characterized by superior governance enforcement and disclosure systems demonstrated greater resilience under geopolitical uncertainty. Conversely, institutional fragility amplified investor sensitivity and valuation instability within weaker market environments (North, 1990).

Fourth, the study contributes methodologically through the integration of nonlinear estimation structures, interaction effects, institutional heterogeneity analysis, and crisis-period sensitivity models within a unified accounting-finance framework. This multidimensional approach allowed the analysis to move beyond conventional direct-effect estimation toward a broader institutional reinterpretation of investor confidence under geopolitical fragmentation.

Collectively, the findings suggest that future accounting and governance research should increasingly incorporate geopolitical uncertainty, institutional resilience, and informational transparency within broader discussions concerning financial-market stability and organizational credibility.

7.3 Strategic and Regulatory Implications

The findings of the study carry important implications for regulators, accounting standard setters, governance institutions, investors, and policymakers operating under increasingly fragmented geopolitical conditions.

First, the evidence suggests that disclosure quality has become strategically important for preserving investor confidence during periods of geopolitical instability. Regulators and standard setters may therefore need to reconsider the scope of existing disclosure frameworks in order to incorporate geopolitical risk transparency, uncertainty exposure reporting, and institutional resilience indicators. Traditional financial disclosure alone may no longer be sufficient under environments characterized by prolonged geopolitical fragmentation and elevated uncertainty (OECD, 2024).

Second, the governance findings demonstrate that board independence and governance credibility materially strengthen organizational resilience under geopolitical stress. Consequently, governance systems should increasingly emphasize strategic oversight, informational transparency, and resilience-oriented monitoring mechanisms capable of preserving investor trust during unstable macroeconomic conditions.

Third, the findings have direct implications for investors and institutional portfolio managers. Firms characterized by stronger governance systems and superior disclosure quality demonstrated significantly greater resistance to geopolitical instability. Investors may therefore increasingly incorporate governance resilience and informational transparency indicators within geopolitical risk-adjusted valuation and portfolio-allocation models.

Fourth, the results hold broader institutional significance for emerging economies. The study demonstrated that institutional fragility amplifies market sensitivity to geopolitical shocks. Strengthening governance enforcement, disclosure quality, and institutional transparency may therefore substantially improve market stability and investor confidence under external uncertainty conditions (IMF, 2025).

The study consequently proposes the emergence of a broader “Geopolitical Financial Transparency Architecture” in which accounting systems, governance mechanisms, and institutional credibility collectively function as stabilizing infrastructures under systemic geopolitical fragmentation.

7.4 Limitations and Methodological Boundaries

Despite its theoretical and empirical contributions, the study remains subject to several limitations that should be acknowledged when interpreting the findings.

First, the empirical analysis was limited to three institutional settings: the United States, the United Kingdom, and Egypt. Although the comparative structure enhanced institutional heterogeneity, future research may incorporate additional emerging and developed markets in order to improve external generalizability and capture broader geopolitical variations.

Second, the study relied on selected market-based and accounting-based proxies for investor confidence, disclosure quality, and governance structures. While these measures are well established within prior literature, alternative proxies and multidimensional indicators may yield additional insights regarding investor behavior under geopolitical instability (Leuz& Wysocki, 2016).

Third, the geopolitical risk measures employed in the study primarily relied on internationally recognized geopolitical risk indices. Although these indices provide methodological consistency and comparability, they may not fully capture firm-specific geopolitical exposure or localized institutional dynamics.

Fourth, the study adopted secondary quantitative panel data methods. While this approach strengthened econometric rigor and cross-country comparability, future research may benefit from integrating qualitative approaches, textual analysis, behavioral experimentation, or machine-learning methodologies to examine investor interpretation mechanisms under geopolitical fragmentation.

Finally, although the study employed robustness procedures and lagged estimation structures to mitigate endogeneity concerns, residual simultaneity and omitted-variable risks cannot be completely eliminated within complex geopolitical-financial environments (DeFond& Zhang, 2014).

7.5 Future Research Trajectories

The findings of the study open several promising directions for future accounting, governance, and financial-market research under geopolitical fragmentation.

First, future studies may examine the integration of artificial intelligence and real-time geopolitical analytics within disclosure systems and market-risk assessment frameworks. AI-driven geopolitical disclosure monitoring may substantially improve organizational transparency and uncertainty prediction capabilities.

Second, future research may explore the interaction between geopolitical instability and ESG disclosure systems. As sustainability reporting becomes increasingly institutionalized, understanding how ESG transparency affects investor resilience under geopolitical stress represents an important emerging research direction (Christensen et al., 2021).

Third, future studies may investigate digital reporting resilience and real-time uncertainty pricing within technologically advanced financial environments. The growing digitalization of disclosure systems and investor communication mechanisms may fundamentally reshape how geopolitical information is transmitted and interpreted across markets.

Fourth, future research may expand the concept of institutional confidence elasticity by examining how legal systems, political governance quality, cultural trust, and regulatory enforcement interact with geopolitical instability under alternative institutional environments.

Finally, future research may increasingly integrate climate risk, cybersecurity threats, technological fragmentation, and geopolitical uncertainty within unified financial resilience frameworks. The growing interconnectedness between geopolitical instability and broader systemic risks suggests that future accounting and governance systems may evolve toward multidimensional resilience-oriented informational architectures (Giglio et al., 2021).

Overall, the study concludes that investor confidence under geopolitical fragmentation can no longer be adequately explained through traditional macro-financial perspectives alone. Instead, future accounting and governance frameworks must increasingly recognize the strategic importance of informational credibility, governance resilience, and institutional trust within the evolving architecture of global financial uncertainty.

Conflict of Interest Statement

The author declares that there is no conflict of interest regarding the publication of this paper. The author has no financial, personal, or professional relationships that could have appeared to influence the work reported in this study.

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