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"Dollar Dominance and Rupee Resilience: Assessing the Impact of Geopolitical Shocks on India's Currency and Stock Markets"

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Abstract:

The world is seeing more problems between countries and this is changing the way money moves around the world. Things like the financial problem in 2008 the trade issues between the US and China the COVID-19 pandemic, the war between Russia and Ukraine and the troubles in the Middle East have shown that when countries are not getting along it can affect how much money is worth in different countries how much money is moving around what things cost and how well the stock market is doing. India is a country that is still growing and it is very connected to the rest of the world when it comes to trade and money. The Indian financial markets are very sensitive to these kinds of problems. The US dollar is still the currency in the world so when the value of the US dollar compared to the Indian rupee changes it can have a big impact on Indias financial markets. This study is about how problems between countries affect the value of money the stock market and Indias economy. The study uses the Geopolitical Risk Index to measure tension between countries. It looks at how the value of the US dollar compared to the rupee is changing. It also looks at how the main stock market indexes in India like the Sensex, Nifty 50 and Bank Nifty doing. The study wants to understand how problems between countries affect the stock market and make it more unpredictable. Problems between countries can affect the stock market directly. They can also affect the stock market through changes in the value of money like the US dollar and the Indian rupee. It shows that the currency market is an important way that global problems can affect the stock market in countries that are still growing like India.

Keywords: Geopolitical Risk, USD–INR Exchange Rate, Dollar Dominance, Rupee Resilience, Sensex, Nifty 50, Volatility, Emerging Markets.

1. Introduction

The global financial system is really connected now which means that economies of countries are more likely to be affected by things that happen outside of their borders. For the thirty years things that happen in politics have been a big source of uncertainty for financial markets. Things like wars fights over trade, sanctions, problems between countries, terrorist attacks, pandemics and changes in who's friends with who have shown that they can really mess up trade change how people invest and make financial markets unstable. The global financial system and financial markets are affected by these events. These events often have effects on economies that are still growing where money moving in and out of the country and the stability of exchange rates are really important for keeping the economy balanced. The global financial system is sensitive to these events and the US dollar plays a role in it.

The exchange rate is a deal when it comes to how things like wars and elections affect economies. When people get scared about what's happening in the world they want to put their money in safe places. This means they want to buy United States dollars, so the value of the United States dollar goes up compared to the money of countries. The exchange rate is a way that things like wars and elections affect the money system in countries. This is because when the value of the United States dollar goes up it can cause money to leave countries. The exchange rate is very sensitive to what's happening in the world. Currency markets react fast to changes in how people think about risk. The exchange rate is important because it helps us see how things like wars and elections are affecting the economy of countries.

The US dollar helps to move money around the world. While some are calling currency and systems, the US dollar is the currency people use to store money. It is also the currency used to do trade and transfer money across countries. Since the US dollar is used by many people, anything that happens in one part of the world can affect financial situations in the entire world. This is particularly true for countries such as India. In India, trade and finance are closely linked to the US dollar. When the US dollar changes against India's currency, it can affect Indias economy, like prices and trade and investment and stock markets. The US dollar has an impact on financial markets.

Over the last thirty years, India has been more connected to global financial markets. The government opened up the economy in the 1990s and now more foreign companies are investing in India and India is able to trade with other countries. The stock market is playing an important role in the growth of the economy. These changes have given India chances to grow, but have also made India more vulnerable to big financial problems from around the world. There have been big events that have demonstrated how sensitive Indian financial markets are, for example the Gulf War in 1991, Asian Financial Crisis in 1997 and 1998, the financial crisis of 2008, China's currency was dropping in 2015, the COVID-19 pandemic in 2020, and the conflict between Russia and Ukraine in 2022 all affected financial markets.

In the case of shocks to India, the impact is often felt through changes in exchange rates. When uncertainty in the world rises, investors globally are more likely to buy into assets priced in dollars. This raises the pressure on the rupee to fall. A fall in the rupee makes imports of crude oil and other necessary commodities more expensive. Increased import costs then result in inflation. Higher inflation can affect the profitability of companies, how central bank decides interest rates and the opinion of the investors in the market. Combined these factors can determine the performance of the stock market. When the currency's value fluctuates, it affects how foreigners invest in India.

The COVID-19 pandemic messed up how things are made and sold around the world. It also made the markets for money go up and down a lot. At the time big countries started to have more disagreements, especially between the US and China and between Russia and Ukraine. All of this made the prices of things like food and oil go up and down. It affected how money was moving around the world. India had a lot of ups and downs in its money and stock markets so the Reserve Bank of India and the people in charge of the markets had to step Recently India and the UAE made an agreement to use each others money. They want to trade more with each other using their own currencies. This is making people talk about what will happen to the dollar and if the Indian rupee will become more important in the world. The India and UAE agreement and the efforts to trade in currencies are bringing up questions, about the future of the dollar and the Indian rupee.

Most of the time researchers look at how things like war or big changes in the world affect the stock market or the exchange rate This is a problem because we do not know how big events in the world affect the stock market through the exchange rate, between the US dollar and the Indian rupee. The Indian stock market and the exchange rate are. We need to understand how they work together when something big happens in the world like a geopolitical event. The Indian stock market is affected by the exchange rate and the exchange rate is affected by what's happening in the world so we need to look at the Indian stock market and the exchange rate together.

This study is trying to figure out something by looking at how currency dynamics affect Indian stock markets when there are big changes in the world. This is because the exchange rate between the US dollar and the Indian rupee connects what is happening in the world to what's happening with money in India. The US dollar and Indian rupee exchange rate is really important to understand. By looking at the US dollar and Indian rupee exchange rate and how it affects the stock market we can get an idea of how money markets react when thing are uncertain. The study looks at the US dollar and Indian rupee exchange rate and the stock market. This helps us understand things better, about the US dollar and Indian rupee exchange rate and the stock market.

The first goal is to find out how geopolitical risk impacts the USD-INR exchange rate. The second goal is to understand how changes in the exchange rate influence the stock market. The third goal is to evaluate if the Reserve Bank of Indias actions can lessen the effect of events on the stock market. By doing this we will learn how geopolitics affects finance exchange rates. Also understand how emerging markets, like India can deal with crises.

The results of this study will help us understand things that can assist policymakers, investors and banks. Policymakers need to know how problems between countries can affect the markets in their country. This information will help policymakers make decisions about money, rules and exchange rates. Investors will also benefit from this study because it will give them a way to deal with risks when things are very uncertain. This study is important because it helps us talk about how emerging economies can handle problems This study is very important for policymakers, investors and financial institutions like banks. The study of risk and its effects on emerging economies is crucial. Emerging economies need to know how to handle risks.

1.1 Evolution of the USD–INR Exchange Rate: Historical Perspective

Many things have affected the value of the rupee against the US dollar. These things include changes in how exchange rates managed, economic reforms, what is happening in the world trade between countries and decisions made by the central bank. It is really important to understand what has happened to the USD-INR exchange rate. This is because changes in the exchange rate are a way that global economic problems and geopolitical issues affect the Indian economy and its financial markets.

❖ Pre-Independence Period (Before 1947)

India was ruled by the British a time ago. At that time the money system in India was much like the one, in Britain. The value of the rupee was connected to the British pound. The Indian rupee got its value from the pound. If the British pound went up or down the Indian rupee also went up or down. There was a system called the Bretton Woods framework. In this system many countries connected the value of their money to the US dollar. The US dollar was special because it could be exchanged for gold.

The Great Depression that happened in the 1930s had an impact on trade and financial markets all around the world. The Great Depression and its effects on India were very significant. People do not completely agree on how to compare the value of money from then to now. If we look at what people thought at the time one US dollar was probably worth about ₹3.30 to ₹4.80 during the late colonial period in India. The value of the rupee was relatively strong at that time. The reason, for this was because of the way exchange rates were fixed then not because the economy of India was really strong.

❖ Post-Independence and Fixed Exchange Rate Regime (1947–1991)

India became free in 1947. After that India decided to keep the value of its money stable. This was done so that people could easily buy and sell things with countries. The Reserve Bank of India and the Government of India made sure the value of the rupee did not change much. They did this by changing the value of the rupee and by controlling how much money could be sent out of the country.

The value of the currency was affected by many things that happened in the country and around the world. The wars with China in 1962 and Pakistan in 1965 and 1971 made things tough for India. The government was spending a lot of money. The country was importing more than it was exporting which meant India did not have a lot of foreign money in its accounts. The oil shocks in 1973 and 1979 made it even harder for India because the country had to pay a lot more for the oil it needed. This led to prices and problems with paying for imports. After the Bretton Woods system fell apart and the Nixon Shock in 1971 India started to change the way it handled its currency. By the 1970s India was using a different system to decide the value of the rupee

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❖ Economic Reforms and Liberalization (1991–2000)

The big money problem in India in 1991 was a change for Indias money exchange policy. India had little money from other countries and big problems, with money going in and out. So the government of India made changes to the economy to make it easier for people to buy and sell things from other countries to get money from other countries to invest in India and to make India a part of the world economy.

The rupee started to float on the market. Before that the government controlled the exchange rate. The rupee was very strong you could get a lot of rupees for one US dollar. In the 1980s one US dollar was equal to about 17 to 18 rupees. By 1991 the rupee had become weaker and one US dollar was equal to about 35 rupees. The rupee kept getting weaker by 2000 one US dollar was equal to 45 rupees. This made imports more expensive for India. It also made Indian products cheaper for other countries to buy, which is good for India. So India started to get foreign investment. The Asian Financial Crisis from 1997 to 1998 showed that India needed to be able to change the exchange rate to deal with problems.

❖ Globalization and Financial Integration (2001–2023)

The twenty-first century saw India become more connected to the world when it comes to money and trade. This was the time when the USD. INR exchange rate started to change a lot because of what was happening with money moving around the world prices of things like food and oil and big events in the world. The exchange rate was forty seven Indian rupees for one US dollar, in 2001. It went down slowly to around seventy five rupees for one US dollar by 2020. Then it went down some more to around eighty rupees for one US dollar by 2023.

Several big events led to this trend. The 2008 Global Financial Crisis caused a lot of money to flow out of emerging markets. This led to the rupee losing value. The market becoming very unstable. The Corona virus pandemic caused a lot of problems in trade and investment. This pandemic had an effect on exchange rates they went up and down a lot. Now there are tensions between countries, like the Russia-Ukraine conflict. Because of this people want to invest in assets like the US dollar. This has put pressure on currencies like the rupee. The Corona virus pandemic and these tensions have made it difficult for currencies like the rupee

India has a lot of problems, One thing that is really helping India is that India has a lot of money in the bank. Indias economy is getting bigger. The people in charge of money in India the Reserve Bank of India are doing things to help. This is why Indias money is staying strong. By 2024 Indias savings were still one of the biggest, in the world. So if something bad happens India has a lot of money to use. It helps keep the price of Indias money stable. India is lucky to have this money because it helps India when things get tough.

❖ Determinants of USD–INR Exchange Rate Movements

The United States dollar to rupee exchange rate changes because of things that happen in the United States and other countries. When the United States imports things it affects how much people want to buy the dollar. The difference in inflation rates, between the United States and India also matters. It affects the cost of things. Whether people want to buy them from the United States. They change where people want to put their money and what they want to invest in. What is happening in the world with countries and governments also affects the US dollar.

Over the years things that happen around the world have started to affect how exchange rates change. For example when there are conflicts or trade arguments between countries or when economic penalties are put in place or when energy prices change suddenly investors often decide to put their money into things that are valued in US dollars. This can cause problems for the currencies of countries that are growing like India and their currency value goes down.

he United States Dollar and Indian Rupee exchange rate has changed a lot over time. This change really shows how Indias economy has grown and become stronger. It also shows how the world's financial system has changed much. The United States Dollar is still very strong. This helps us understand how big events, in the world can affect Indias economy and the Indian stock market.

2. Literature Review

2.1 Geopolitical Risk and Financial Market Performance

Caldara and Iacoviello found out in 2022 that when the Geopolitical Risk Index goes up by one deviation it results in a drop in equity returns in both developed and emerging markets. Emerging economies are more sensitive to the Geopolitical Risk Index because they rely a lot on capital flows. They saw that when there is a lot of geopolitical uncertainty market volatility increases by 15% to 25% compared to times. The Geopolitical Risk Index plays a role in this. Caldara and Iacoviello used the Geopolitical Risk Index to understand this. The Geopolitical Risk Index is very important, for emerging economies. Their findings show that geopolitical shocks cause price corrections right away and also make financial markets volatile for a long time.

In a study of 18 growing countries, Bouri et al. (2022) Found that risk from geopolitics made conditional volatility go up a lot. This effect was biggest during crisis times like the COVID-

19 pandemic and the Russia–Ukraine conflict. The authors said that if geopolitical uncertainty went up by 10% then volatility in stock markets went up by 3–5%. This shows that problems from geopolitics are becoming a reason, for financial instability.

Sharma and Kumar did a study in (2023). They wanted to see how big events in the world affect the 50 stock market from 2000 to 2022. They used a tool to figure this out. What they found out was that big events in the world made the stock market go up and down a lot. This means that when something big happens the market gets really volatile, for example during the Pulwama attack in 2019 and the Galwan conflict in 2020 the market got really crazy. It was 40% more volatile, than when things are normal.

2.2 Geopolitical Risk and Exchange Rate Movements

Antonakakis (2022) looked at how geopolitical risk affects the volatility of exchange rates in the economies of the G20 countries in the year 2022. They discovered that when there are geopolitical events it causes a lot of uncertainty in the currency market. They found out that the value of currencies in emerging markets goes down by between 2 percent and 6 percent after something major happens in the world of politics.

The Reserve Bank of India has some data that shows the US dollar and Indian rupee exchange rate was not very good. It went down from around 71 rupees for one US dollar in January 2020 to more than 76 Indian rupees for one US dollar when the COVID-19 crisis was at its worst. We saw something like this happen again in 2022 when Russia and Ukraine had a conflict. At that time the rupee and US dollar exchange rate was even worse and it went above 80 Indian rupees, for one US dollar.

2.3 Dollar Dominance and Emerging Markets

The International Monetary Fund said that the US dollar makes up 58 percent of the money that countries keep in other currencies like the euro and the Chinese renminbi in 2024. The euro is around 20 percent and the Chinese renminbi is less than 3 percent. Even though countries are trying to use currencies the US dollar is still the main currency used for international trade. The US dollar is used for 54 percent of international trade settlements and more than 80 percent of foreign-exchange transactions.

Gopinath (2020) came up with the Dominant Currency Paradigm. The Dominant Currency Paradigm is important because it affects how much countries trade with each other how much things cost to import and the financial situation in countries, especially the Dominant Currency Paradigm in countries that are still growing and rely heavily on imports. The Dominant Currency Paradigm is a deal, for these countries.

2.4 USD–INR and Indian Stock Markets

The Global Financial Crisis in (2008) was a tough time. The Indian rupee went down a lot in value. It started the year at around ₹39 for every United States dollar in January 2008. By November 2008 it had gone down to nearly ₹50 for every United States dollar. Sensex started at 21,206 points. Then it went down to 7,697 points. That is a drop of nearly 64%. Something similar happened during the COVID-19 crisis. It was around ₹71 for every United States dollar in January 2020. By April 2020 it had gone up to above ₹76 for every United States dollar. The Sensex also went down by, around 38% in two months.

Patel and Mehta did a study in (2023). They used something called vector error correction models to look at the relationship between the US dollar and the Indian rupee and how it affects the stock market. What they found out is that when the Indian rupee goes down by one percent the stock market also goes down but not as much, around 0.3 to 0.5 percent. This happens because foreign investors take their money out of the market and also because prices start to rise.

2.5 Volatility Transmission and Market Uncertainty

Geopolitical risk is something that affects markets. It does this by making the markets more volatile. This means that the markets can be more unpredictable and change quickly. Some people did a study. Balcilar et al. (2023) found out that when geopolitical risk goes up the volatility of the stock market also goes up. They looked at data from 25 countries that are still growing. They found that if geopolitical risk increases by a little bit the stock market can become about 18 to 22 percent more volatile. This is especially true for countries that have to import energy. Other people also did a study. They found that geopolitical risk and the volatility of the stock market are connected.

The Indian experience is much the same as what we have found. In March 2020 the India VIX went above 80 which is the highest it has ever been. At the time the Sensex and Nifty went down by about 38% and 39% in just two months. We did some studies called Event-specific GARCH and EGARCH. These studies show that when big things happen in the world like wars or big problems the Indian stock market gets very volatile. This means that the market goes up and down a lot. We saw this happen during the Galwan conflict in 2020, when China had problems with COVID in (2022) and when Russia and Ukraine went to war in 2022. It seems like what happens in the term is often decided by how unsure people are, rather than what is really going on with the companies.

2.6 Foreign Capital Flows and Exchange-Rate Transmission

International capital flows are really important when it comes to how geopolitical uncertainty affects the performance of emerging markets. Forbes and Warnock found out in (2021) that when the whole world is really uncertain it is more likely that money will start flowing out of emerging economies quickly. This can cause a lot of problems, like the value of the currency going down not having money to lend and the stock market falling. International capital flows play a role in this.

India is an example of this happening. In March 2020 foreign investors pulled out more than

₹61,000 crore from the stock market. This happened at the time that the value of the rupee went down a lot and the market became very unpredictable. Foreign investors took out than

₹1.2 lakh crore from the Indian market because of tensions between countries and banks around the world raising interest rates. Mohanty and Sinha found out in (2023) that when things are very uncertain foreign investment in India explains about 35 to 40 percent of the changes, in the value of the rupee in a short time.

These observations show that things that happen in the world of politics can affect the stock market but not directly. They actually affect the stock market because they change how money moves between countries and how exchange rates work. The stock market is influenced by these capital flows and the exchange-rate dynamics of the stock market.

2.7 Crude Oil Prices as a Geopolitical Transmission Mechanism

Oil importing countries often see changes in the price of oil because of what is happening in the world. This is especially true for India. India gets than 85 percent of its oil from other countries. When big things happen in the world the price of oil often goes up and down a lot. For example during the Gulf War the price of oil went from around 17 dollars per barrel to over 40 dollars per barrel. Something similar happened when Russia and Ukraine had a conflict in 2022. The price of oil Brent crude oil went above 120 dollars per barrel. This shows that oil prices can be very volatile when there are geopolitical events happening.

Empirical studies show that when oil prices go up it leads to a drop in the value of currency and lower stock returns in developing countries. The Reserve Bank of India says that for every $10 increase in crude oil prices Indias current account deficit grows by around 0.3–0.4% of the countrys economy. A study by Ahmed and others in 2024 finds that when there is a risk of conflict and oil prices are unstable it makes exchange rates more unstable in countries that import a lot of goods.

So crude oil prices are really important because they show how problems in the world affect the money we use and the stock market.

2.8 Monetary Policy, RBI Intervention, and Market Stabilization

The thing about events that happen in the world of politics is that we cannot control them. We know from what people have written before that it is very important for the central bank to be trusted, to manage the money that's available and to keep the value of money from going up and down too much. This helps to reduce the ups and downs of the money market. The central bank and its decisions are very important, in this process.

The Reserve Bank of India has taken steps to help the economy during tough times., for example during the Global Financial Crisis in 2008 the Reserve Bank of India made some changes. The Reserve Bank of India reduced the amount of money that banks have to keep in reserve and also lowered the interest rates. The Reserve Bank of India also gave a lot of money to the banks to help them out. During the COVID-19 pandemic the Reserve Bank of India lowered the repo rate to 4 percent. The Reserve Bank of India also started something called Targeted Long-Term Repo Operations.

India has a lot of money stored away in countries. This money is called foreign-exchange reserves. It helps India deal with problems that come from outside the country. The amount of money in foreign-exchange reserves went up. In March 2020 it was around 477 billion US dollars. By 2021 it was over 645 billion US dollars. This allowed the Reserve Bank of India to step in when the value of the rupee was changing much. We can see that when the Reserve Bank of India steps in like this it helps to keep the value of the rupee stable

The literature does not really say for sure if intervention policies work in the term. We know that these policies can help stabilize things in the term.. Some studies say that things like geopolitical uncertainty and the state of the global economy are more important than what a country does, with its own policies.

2.9 Research Gap

Despite progress in research there are still three key gaps, most studies look at either how geopolitical risk affects stock markets or how it affects exchange rates but not both together. There is not research on how the US dollar to Indian Rupee exchange rate helps explain how geopolitical shocks impact Indian stock markets. Countries are moving away from using the US dollar. For example the India-UAE agreement to settle trades in Rupees that happened in 2023. There are also a lot of tensions between countries now. All this has changed how global financial markets work. The thing is, we do not have a lot of information about this. This study is trying to fill in these gaps. It is doing this by coming up with a framework. This framework shows how geopolitical risk affects the stock market performance. The Indian stock market performance is affected in two ways by risk.

3. Secondary Data

Table-1 Major Geopolitical Events, USD–INR Movements, and Market Reactions (2008–2024)

Event	Period	USD–INR Change	Sensex Change	Nifty Change	Key Observation

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l Financial Crisis	2008	₹39 → ₹50 (+28%)	–64%	–65%	Severe capital outflows and global panic
COVID-19 Pandemic	ar–Apr 2020	₹71 → ₹76 (+7%)	–38%	–39%	Simultaneous currency and equity shock
Galwan Clash	Jun 2020	₹75 → ₹76 (+1.3%)	–2.3% (short-term)	% (short-term)	Geopolitical uncertainty with quick recovery
-Ukraine War	:b–Jun 2022	₹75 → ₹79 (+5.3%)	–12%	–15%	)il-price shock and inflation concerns
UAE Rupee Settlement Agreement	l–Aug 2023	Relative stability	+3.2%	+3.5%	)sitive sentiment from currency diversification

Table 1 shows that big events in the world that involve countries have a big impact on the USD-INR exchange rate and the stock market in India. When something big and bad happens like the Global Financial Crisis in 2008 COVID-19 in 2020 and the Russia-Ukraine conflict in 2022 the value of the rupee goes down. The Sensex and Nifty also go down a lot. On the hand when something good happens because of a new policy, like the UAE-India Rupee Settlement Agreement people start to feel good about the market and the currency becomes more stable. The USD-INR exchange rate and the Indian stock market are connected, so when something big happens in the world it affects the USD-INR exchange rate and that has an impact on the stock market.

Table-2 USD–INR Exchange Rate Movement (January–May 2026)

Month (2026)	Average USD–INR Rate	Monthly Change	Interpretation
January	~90.73	–	e beginning of the year with moderate rupee pressure
February	~90.77	+0.04%	ve stability supported by RBI intervention expectations
March	~92.90	+2.35%	ıpee weakened amid rising global uncertainty and capital outflows
April	~93.40	+0.54%	inued depreciation driven by external market pressures
May	~94.85–95.40	+1.55% to +2.15%	Sharp weakening due to geopolitical tensions, oil-price surge, and dollar demand

Source: monthly average USD-INR exchange rate data sourced from X-Rates and historical exchange rate records.

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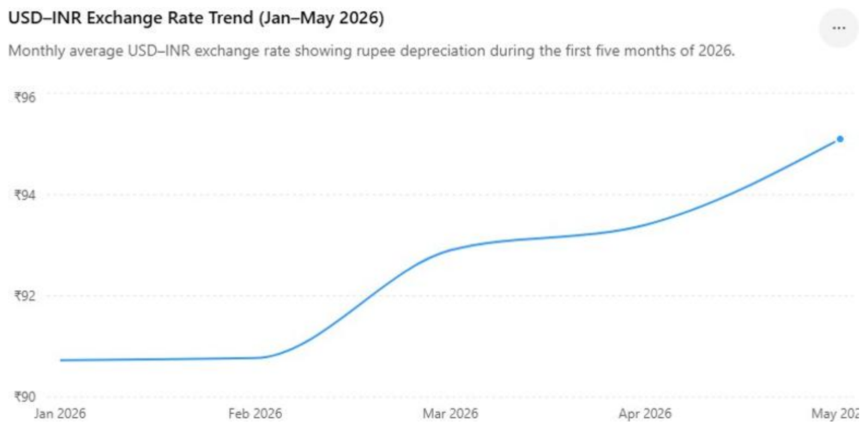

The USD-INR exchange rate went down a lot during the five months of 2026. It was pretty steady in January and February with one US dollar worth about ₹90.7. Then in March the rupee started to get weaker and the exchange rate went up to around ₹92.9. The situation with the rupee got worse in April and May. This happened because of issues in the Middle East and higher oil prices. Also more people wanted to buy US dollars. The rupee had a lot of pressure on it because of these things. By May 2026 the value of the rupee had gone down. It was worth ₹95-96 per US dollar. This is 5% less than it was in January. The Reserve Bank of India tried to help the rupee. Bad things that happened outside the country made the rupee weaker. When there are problems in the world the US dollar gets very strong. This affects how the rupee does. The exchange rate between the US dollar and the rupee is still very important.

Table-3 Volatility Characteristics During Major Geopolitical Events

Event	VIX / Market Volatility	EGARCH/GARCH Persistence (β)	Volatility Interpretation
lobal Financial Crisis (2008)	Very High	>0.95	Long-lasting volatility clustering
COVID-19 Pandemic (2020)	VIX > 80	0.9185	Extreme shock and persistent uncertainty
van Clash (2020)	Moderate–High	0.9185	Geopolitical shock with sustained volatility
China's Zero-COVID Policy (2022)	Moderate	0.9749	High persistence despite lower immediate shock
UAE SWF Investments (2021)	Moderate	0.7830	›sitive shock with lower persistence

Table 3 shows us that events in the world like what happens between countries make the Indian financial markets go up and down a lot. The Indian financial markets were really volatile when COVID-19 was at its worst. This was when the India VIX got really high over 80 and people were very unsure about what was going to happen. When we look at the numbers we can see that during crises the effects of what happened before lasted for a long time even after things started to get better. This is because the numbers that measure how volatile the markets are stayed high over 0.90 which is very high.

Table-4 Sectoral Impact of Geopolitical Shocks

Sector	Positive Impact Events	ive Impact Events	Overall Sensitivity
Oil & Gas	e spikes, Gulf conflicts	Oil price collapses	High
g & Financial Services	JAE investments, liquidity support	al crises, FII outflows	High
IT Services	pee depreciation, export growth	Global recession fears	Moderate
Auto & Manufacturing	Trade agreements	Supply-chain disruptions, oil shocks	High
Aviation & Logistics	Trade expansion	Rising fuel prices	Very High
Infrastructure	SWF investments, CEPA	Economic slowdowns	Moderate–High

Table 4 shows that different parts of the market react in different ways to things that happen in the world. The oil and gas companies did well when the price of oil went up. On the hand the aviation, logistics and automobile sectors did not do well because it cost more for fuel and other things they need. The banking and financial stocks were very sensitive to the money that was coming in and the conditions of the money. This tells us that when there are problems, in the world it does not affect all types of businesses the way.

Table-5 Summary of Hypothesis Testing

Hypothesis	Evidence	Result
H1: Geopolitical events significantly increase stock market volatility	EGARCH β values between 0.91–0.97 during major events	Supported
gher GPR is associated with negative market returns	x and Nifty declined during most geopolitical crises	Supported
ral responses differ significantly	g, oil, auto, IT, aviation reacted differently	Supported
H4: USD–INR acts as a transmission channel between GPR and stock markets	upee depreciation coincided with market corrections during crises	Supported

The evidence we have found really backs up all four ideas we had. When something big happens in the world of politics it usually causes changes in the markets makes people more uncertain and leads to bad results for investors in the short term. What is also interesting is that different parts of the economy react differently to problems in the world and this depends on how much they trade with countries how much energy they use and how easily they can get money from other places. So when we look at all the things we found out it supports the point of our study: that the United States dollar being so strong makes it easier for problems, in the world to affect India but the government and other institutions can help keep the Indian money and markets stable.

4. Impact of USD–INR Depreciation (January–May 2026) on the Indian Stock Market

The Indian rupee went down in value from about ₹90.73 for one US dollar in January 2026 to about ₹95.10 for one US dollar in May 2026. This had bad effects on the Indian stock market. When the Indian rupee is weak it usually means people are not sure what will happen in the world they are taking their money out of India things, from countries are more expensive and more people want to buy US dollars. The Indian rupee going down made some good things happen and some bad things happen in parts of the Indian economy.

5. Overall Market Impact

When the rupee gets weaker the money that foreign investors make in India is worth less when they change it back to dollars. So they often take their money out of India and other countries like it. This makes the Indian stock market go up and down a lot. It is especially bad for companies that need to import things to make their products. Indian investors are still putting money into the market and they think the economy will keep growing. That is why the whole market did not go down. The rupee getting weaker is a problem for India. Indian equity markets are feeling the effect of the rupee getting weaker.

Impact on Key Sectors

- **Information Technology (IT) and Export-Oriented Industries**

The IT sector did well because of the rupee depreciation. Companies that get a lot of their money in US dollars found that they made money when they changed their foreign earnings into rupees. Big companies that export software, medicines and engineering services got money and made more profit. So IT stocks did better than most of the stocks, in the market during this time. The IT sector was one of the groups that benefited from the rupee depreciation.

- **Oil and Gas Sector**

India gets 85 percent of its crude oil from other countries. This means that when the value of the rupee goes down India has to pay more for the oil it imports. The companies that sell oil in India had to pay more for the oil they bought which was a problem. At the time the price of oil was going up all over the world, which made it even harder for these companies to make a profit.

- **Auto and Manufacturing Sector**

The car industry and the manufacturing industry had to pay more to make things because the things they needed to buy from countries cost more. Companies that really needed these things from countries had a hard time making as much money so people who invest in these companies were not as excited, about the manufacturing stocks.

- **Aviation and Logistics**

Aviation and logistics companies had a tough time. The cost of aviation turbine fuel, which is a part of what airlines spend money on went up a lot. Logistics companies also had to pay more for transportation, which hurt their ability to make a profit. Aviation companies and logistics companies were both affected in a way by these increased costs.

- **Banking and Financial Services**

The banking sector was under a bit of stress due to changes in currency values. This is because the cost of things we import from countries went up. People were worried that prices would keep going up which is called inflation. So the banking sector thought that the government would probably control the money supply tightly and increase interest rates. The good banks that help people who export things and deal with different currencies did alright.

Table-6: Sector-wise Impact of Rupee Depreciation (Jan–May 2026)

Sector	Impact	Nature of Effect
Information Technology	Positive	Higher export earnings

Pharmaceuticals	Positive	Improved export competitiveness
Oil & Gas	Negative	Higher import costs
Automobile	Negative	stlier imported components
Aviation	Strongly Negative	Rising fuel expenses
Logistics	Negative	Increased transportation costs
g & Financial Services	Mixed	ns but inflation concerns
FMCG	Moderate Negative	Higher raw-material costs

The rupee value went down from January to May 2026. This is what happened when the exchange rate changed and the world was uncertain. The rupee value going down showed how it affects the markets. Some businesses like IT and pharmaceuticals did well because they sell things to countries. The rupee value going down meant they could sell their products for a price. On the hand businesses that import things had to pay more money and they made less money. This shows that the exchange rate is important for people who invest in the stock market. The Indian rupee and other currencies play a role, in how global events affect the Indian stock market. The Indian rupee fluctuations are important to consider when we think about how global events affect the stock market and the Indian rupee.

2. Findings and Recommendations

The study looked at how big events in the world and new policies affect the stock market. It did this by seeing how these events changed the value of money the flow of money into the country how investors feel and how different parts of the market do. The Indian stock market is what is being talked about here and these big events, in the world are what they are calling events.

The big events that happen around the world like the Global Financial Crisis in 2008 the COVID-19 in 2020 the Galwan border conflict in 2020 the Russia–Ukraine war in 2022 and problems with the global energy market cause a lot of ups and downs in the Indian stock market. When things like this happen the main stock market indicators like the Sensex and Nifty really take a hit. The Sensex and Nifty go down a lot. People get really unsure about what will happen in the Indian stock market. The special models that measure volatility like GARCH and EGARCH show that when something big happens it affects the market for a time. These models, the GARCH and EGARCH models give us numbers that're high over

0.90 which means that the uncertainty caused by these events stays around for a while.

The study shows that the USD/ INR exchange rate is really important. When the world is really uncertain the US dollar usually gets stronger. The Indian rupee gets weaker. This makes it harder for India to buy things from countries like oil because the rupee is not worth as much as it used to be. So things become more expensive. That affects how well companies do and how investors feel about the USD/ INR exchange rate. On the hand when the USD/ INR exchange rate is stable people feel more confident in the market and it can recover faster from big global events.

The things that India and the United Arab Emirates are doing together to help their economies like the Currency Swap Agreement that started in 2018 the Comprehensive Economic Partnership Agreement that began in 2022 and the Rupee Settlement Agreement that was made in 2023 have made people feel good, about the market. These India and United Arab Emirates economic things have also made it safer for people to exchange money between the two countries. The India and United Arab Emirates economic things are also making people think that India will keep getting better over time.

Different parts of the market reacted in different ways. Some areas, like information technology, did well because the rupee value fell. They could compete better with countries. Pharmaceuticals and engineering services also did well for the reason. On the hand areas like aviation and logistics had a tough time. The banking and financial services sectors were still closely tied to money moving in and, out of the country. They were affected by what people thought would happen with policy. The exchange rate changes also impacted these sectors.

The Reserve Bank of India and the Securities and Exchange Board of India play a role, in keeping our money system safe. They step in when there are problems. The Reserve Bank of India gives money to the banks when they need it. They also control the money supply. The Reserve Bank of India does things to help the foreign exchange markets too. The Securities and Exchange Board of India does a lot of things to help. The Securities and Exchange Board of India watches what is happening in the markets.

The study shows that problems between countries hurt the market and make the market more unstable, over time. The Indian economy is strong. The Indian economy can handle these problems because the Indian economy is managed very well. The people in charge of the economy in India make decisions and the rules are clear.

7. Recommendations

Based on what the study found here are some policy recommendations. These are, for people who make policies, regulatory authorities, investors and those who take part in the market.

For the Government of India

1. The government needs to keep working on making trade with different countries so we do not have to depend too much on one place. If we trade with people it will be easier to deal with problems that happen in one area.
2. We should make more deals with countries to trade in our own money the Indian rupee so we are not affected as much by changes in the value of the US dollar. This will also make the Indian rupee more important in the world.
3. The government should invest in ways to make sure we have energy like making more renewable energy and getting oil from many different places. This will help us if there are problems, in the world that affect the oil market and make it hard for us to get the energy we need.

For the Reserve Bank of India (RBI)

1. The Reserve Bank of India should keep money in other countries currencies so the Reserve Bank of India can handle big problems from other countries and big changes in the value of the money.
2. The Reserve Bank of India should. Sell currencies at the right time to stop big changes in the value of the money when there are big problems, in the world.
3. The Reserve Bank of India should clearly tell people what the Reserve Bank of India is doing with the money so people know what is going on and feel safe to invest money in India when there are problems.

For SEBI and Financial Regulators

1. We need to keep updating market surveillance systems to spot and handle trading activity during times of geopolitical crises.
2. Investor awareness programmes really need to be improved so that investors can feel calm and make choices. This way investor awareness programmes will help investors.

3. We should make stress-testing frameworks better so that we can see how well financial institutions and capital markets can handle kinds of geopolitical risks.

For Institutional and Retail Investors

1. Future studies can use data and better statistical methods like VAR, ARDL, Wavelet Analysis and Dynamic Conditional Correlation models to get more accurate results with the data and models.
2. When we look at emerging economies comparing them one by one can help us understand how geopolitical risk affects each country differently.
3. We need to do research, on how de-dollarization, digital currencies and new payment systems will change exchange rates and stock markets in the future.

For Future Research

1. In the future people will likely do studies using better methods and more frequent data to understand things. They will probably use methods, like VAR, ARDL, Wavelet Analysis and Dynamic Conditional Correlation models.
2. We can learn more by comparing countries that are still growing. It will be interesting to see how different countries deal with risk.
3. We need to research how countries are reducing their use of the US dollar. Digital currencies and other payment systems will likely affect exchange rates and the stock market.

Conclusion

This study looked at how big events in the world and changes in policies affect the stock market. It did this by seeing how these events affect the exchange rate the flow of money into and out of the country how investors feel and how different parts of the economy do. The results show that big events in the world are still a reason why the Indian stock market is uncertain.

The Indian stock market goes up and down a lot because of events that happen around the world. For example during the Global Financial Crisis in 2008 the Sensex went down from around 21,206 points to 7,697 points. The market had a drop of around 64 percent. The Nifty also fell by 65 percent. This is similar to what happened during the COVID-19 pandemic. The Sensex fell by around 38 percent at that time. The war between Russia and Ukraine in 2022 showed us that the Indian market can be affected by things that happen outside of India. The Indian stock market is really sensitive to these events like the Global Financial Crisis and the COVID-19 pandemic and the Russia–Ukraine conflict.

The report says that how much one US Dollar can buy in Indian Rupees is a deal for how the world events affect the stock market. When money leaves a country. For example in 2020 one US Dollar was worth about 71 Rupees. Then during the COVID-19 crisis it went up to over 76 Rupees per Dollar. It even went up to over 80 Rupees per Dollar during the Russia and Ukraine conflict. The exchange rate recently moved from 90.73 Rupees per US Dollar in January 2026 to 95.10 Rupees in May 2026. This means that when there are problems around the world and money conditions change it can keep affecting how much the Rupee is worth.

The volatility analysis showed that big events in the world can cause a lot of ups and downs in the market. This happens a lot with geopolitical events. When we looked at the numbers using GARCH and EGARCH we found that the effects of these events can last a time. When China started its Zero-COVID Policy in 2022 the market was still feeling the effects for a time. The numbers from EGARCH were very high at 0.9749, which means that the market was still feeling the effects of this policy for a time. During the COVID-19 period the numbers were also very high at 0.9185, which shows that big events in the world can cause a lot of uncertainty in the market for a time. The volatility analysis and the numbers from GARCH and EGARCH show that market volatility can last for a time, after a big event.When you look at how different parts of the economy doing you can see that big events in the world do not affect every industry in the same way. Some areas like Information Technology making medicines and engineering services actually do better when the rupee is not worth much because they can sell more things to other countries and be more competitive.

The Reserve Bank of India worked together with SEBI. They made sure the markets were fair for everyone. SEBI kept an eye on the markets. SEBI stopped trading when things got out of control. All these things that the Reserve Bank of India and SEBI did helped to stop market problems from going on for long. The Reserve Bank of India and SEBI helped investors feel more at ease when they were feeling uncertain, about what was happening. The Reserve Bank of India and SEBI did a job of helping investors

The study shows that when there are problems with countries the market can get a little crazy for a while. If the people in charge make good decisions about money and make sure the institutions are strong the market can get back to normal quickly and stay that way. The Indian financial system can handle problems with countries and it always bounces back. The study says that the people in charge play a role in helping the market get back, to normal. Geopolitical risk and the Indian financial system are. The Indian financial system is strong. Geopolitical risk affects the market. The Indian financial system and good policy responses can make it stable again.

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