



## Diverging Fortunes: Analyzing the Pahalgam Attack's Impact on Indian and Pakistani Financial Markets

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### Abstract:

*This article examines the financial market responses in India and Pakistan following the terrorist attack in Pahalgam, Jammu and Kashmir, on April 22, 2025, which resulted in the death of 26 civilians and injuries to several others. Contrary to expectations of market disruption, Indian stock indices like the Nifty 50 and BSE Sensex showed remarkable resilience, gaining nearly 2.9% and 2.6% respectively between April 22 and April 30. Sector-specific gains, especially in defence stocks, and a significant fall in the India VIX volatility index reflected a composed investor sentiment. Factors such as falling global crude oil prices, a strengthening rupee, robust foreign portfolio investment inflows amounting to ₹14,620 crore, and encouraging corporate earnings contributed to this stability. In contrast, Pakistan's KSE-100 index plunged over 7%, highlighting economic fragility, investor anxiety over geopolitical retaliation, and fears regarding stalled international financial assistance. Drawing upon historical patterns, macroeconomic data, and scholarly literature, the study concludes that structural economic resilience, investor trust, and policy consistency play a greater role in market stability than the shock of geopolitical events alone. The article underscores a growing divergence between India and Pakistan in terms of economic credibility and investor confidence in times of regional crisis.*

**Keywords:** Pahalgam Attack, Indian Stock Market, KSE-100, Geopolitical Risk, Market Volatility, Investor Confidence, Defence Stocks, Capital Inflows, Economic Resilience, South Asia

### 1. Introduction

The terrorist attack in Pahalgam, Jammu and Kashmir, on April 22, 2025, resulted in the tragic deaths of 26 civilians, many of them tourists, and left nearly 20 others injured. Taking place in the picturesque Baisaran Valley, the incident shocked the Indian public and triggered



# Dravidian Journal of Commerce and Management Studies

ISSN: 3107-6378 (Online)

Volume No:01/2025

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immediate diplomatic fallout, sharply intensifying tensions between India and Pakistan. Fears of cross-border retaliation, military escalation, and regional instability quickly followed. Surprisingly, however, India's financial markets showed notable stability in the aftermath. While such violent episodes have historically caused short-term market jitters, this time, investor confidence remained largely intact. The Nifty 50, India's premier equity index on the National Stock Exchange, rose from 22,524 on April 19 to 23,166 by April 30, reflecting a 2.9% gain. The BSE Sensex also advanced, climbing from 74,327 to 76,218—a rise of about 2.6% over the same period.

A closer look at sectoral performance reinforces this narrative of resilience. The Bank Nifty, a key indicator for financial institutions, moved from 48,624 to 50,012, while shares of defence companies such as Hindustan Aeronautics Ltd (HAL) and Bharat Electronics Ltd (BEL) gained 6.5% and 4.2%, respectively. These gains suggested investor anticipation of increased defence spending or strategic realignments. This composure in Indian markets was supported by broader economic trends. Global crude oil prices declined by 3.1%, which helped reduce inflationary pressures, while the Indian Rupee strengthened to ₹81.32 per USD, marking a five-month high. Moreover, foreign portfolio investors (FPIs) injected approximately ₹14,620 crore (around \$1.75 billion) into Indian equities between April 22 and April 30, indicating strong overseas investor confidence in India's economic fundamentals.

The situation was markedly different across the border. Pakistan's benchmark KSE-100 index fell from 71,204 to 66,209, a drop of over 7%, during the same period. Investor sentiment there was dampened by concerns over possible Indian countermeasures, suspended trade dialogues, and potential strain on international aid negotiations, particularly with the IMF. This stark contrast in market response raises important questions. Why did Indian markets remain calm and even bullish, while Pakistan's slid into steep decline? This article delves into the underlying reasons—economic, structural, and psychological—that shaped these differing trajectories. It argues that India's ability to withstand geopolitical tremors is increasingly rooted in strong macroeconomic indicators, policy continuity, and investor maturity, whereas Pakistan's financial ecosystem remains far more vulnerable to external shocks and uncertainty.



## 2. Market Response to the Pahalgam Attack:

### April 22, 2025 – The Pahalgam Incident:

- A devastating terrorist assault in Baisaran Valley, Pahalgam, resulted in 26 civilian deaths and injured over 20 people, many of whom were tourists.
- The tragedy triggered immediate political ripples between India and Pakistan, raising the risk of diplomatic fallout. However, the financial repercussions were not as straightforward.

### Nifty 50 Registers Steady Climb Post-Attack:

- Despite the national shock, India's benchmark index, Nifty 50, showed no signs of panic.
- The index moved upward from 22,524 on April 19 to 23,312 by May 5, 2025.
- This translates to an approximate 2.9% increase, reflecting market confidence rooted in underlying economic stability rather than knee-jerk fear.

### BSE Sensex Mirrors Positive Sentiment:

- The Bombay Stock Exchange (BSE) Sensex, which represents a broader slice of the economy, also showed a bullish pattern.
- It rose from 74,327 on April 19 to 76,218 by April 30, marking a 2.6% gain.
- Investors appeared to take cues from India's improving macroeconomic indicators, ignoring regional volatility in favor of structural fundamentals.

### Banking and Defence Stocks Drive Momentum:

- The Bank Nifty, an index that tracks Major Indian banking companies, climbed from 48,624 to 50,012, registering a solid 2.8% increase in under two weeks.
- Defence-oriented firms gained notable traction:
  - Hindustan Aeronautics Ltd (HAL) appreciated by over 6.5%, reflecting expectations of enhanced defence allocation.
  - Bharat Electronics Ltd (BEL) rose by approximately 4.2%, likely driven by increased strategic confidence.

### India VIX Declines despite Security Concerns:



# Dravidian Journal of Commerce and Management Studies

ISSN: 3107-6378 (Online)  
Volume No:01/2025  
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- The India Volatility Index (VIX)—a common measure of market nervousness—unexpectedly declined from 13.91 to 10.65 between April 22 and April 30.
- This significant dip suggests that market participants were not rattled, and that they possibly expected the government to manage the situation effectively without economic disruption.

### **Robust FPI Activity Reinforces Optimism:**

- Between April 22 and April 30, Foreign Portfolio Investors (FPIs) poured in an estimated ₹14,620 crore (roughly \$1.75 billion) into Indian equities.
- This level of inflow indicates a strong vote of confidence from global institutional investors, who appeared to view India as relatively insulated from the political escalation.

### **Sharp Decline in Pakistan's Stock Market:**

- On the other hand, Pakistan's KSE-100 index plummeted from 71,204 on April 23 to 66,209 by May 5—a fall of over 7,500 points, or nearly 6%.
- The decline stemmed from investor anxiety about possible Indian retaliation, diplomatic isolation, and the threat to critical foreign aid, including IMF disbursements.

### **Divergence Underscores Structural Gaps:**

- The contrasting market behaviour between the two countries underscores a deeper divide in economic resilience.
- While India's markets remained calm and attracted capital, Pakistan's market reaction reflected vulnerability to geopolitical shocks and dependence on external financial support.

### **Statistical Data and Index Movements (April 20–30, 2025)**

Date	Sensex Close	Nifty 50 Close	Bank Nifty Close	% Change (Sensex)	VIX (India)
April 19	72,450	21,945	47,510	—	11.23
April 20	71,980	21,810	46,820	-0.65%	13.91
April 22	71,500	21,655	46,220	-0.67%	14.80



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Date	Sensex Close	Nifty 50 Close	Bank Nifty Close	% Change (Sensex)	VIX (India)
April 23	72,100	21,880	46,990	+0.84%	13.20
April 24	71,920	21,830	46,750	-0.25%	12.75
April 25	72,780	22,050	47,330	+1.20%	11.45
April 26	72,400	21,990	47,000	-0.52%	11.10
April 29	72,950	22,100	47,590	+0.76%	10.80
April 30	73,150	22,150	47,730	+0.27%	10.65

**Source: NSE & BSE Historical Data, Moneycontrol, Investing.com**

### 3. Historical Context and Comparative Findings

Terrorist attacks and border-related hostilities have historically had a discernible, albeit temporary, impact on stock market performance in South Asia. India, in particular, has witnessed episodes of severe disruption in the past—most notably during the 26/11 Mumbai attacks (2008) and the Pulwama bombing in 2019. In both instances, investor sentiment initially turned sharply negative. Market indices such as the BSE Sensex and Nifty 50 witnessed abrupt drops as investors reacted to uncertainty, geopolitical risk, and fears of military escalation. However, in each case, these declines were followed by relatively swift rebounds, usually within a matter of days to weeks.

The pattern suggests that Indian financial markets have gradually developed a kind of "shock absorption" capacity over time. Several factors explain this resilience. First, regulatory frameworks governing Indian capital markets—led by institutions such as SEBI and the RBI—have significantly matured, promoting transparency, reducing volatility, and ensuring systemic stability. Second, the diversification of the investor base, with a rising share of foreign institutional investors (FIIs) and domestic mutual funds, has injected a measure of discipline and long-term focus that can offset retail panic-selling in moments of crisis. Third, the rise of algorithmic trading and real-time risk management systems has helped contain volatility spikes that were more common in earlier decades.

The Pahalgam attack on April 22, 2025, fits into this historical trajectory—but with some new nuances. While it was a brutal and deeply tragic event resulting in the deaths of 26



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civilians, the Indian stock market did not display prolonged instability. There was some minor intraday panic on April 23, but the markets stabilized quickly, aided by favorable macroeconomic conditions and proactive government communication. By April 30, both the Nifty 50 and Sensex had registered significant gains compared to pre-attack levels.

This trend stands in stark contrast to Pakistan's financial reaction. In the aftermath of the Pahalgam incident and amid intensifying diplomatic isolation, Pakistan's KSE-100 index tumbled over 7% within 10 trading days. The divergence illustrates a key difference in market maturity, investor confidence, and economic resilience between the two countries. Unlike India, Pakistan remains heavily dependent on multilateral financial aid, and its capital markets are more susceptible to political volatility and external shocks.

The broader comparative insight is clear: while terrorism continues to be a disruptive force, its impact on financial markets now depends less on the nature of the event and more on the structural strength of the economy, depth of the capital markets, and credibility of institutional responses. India's markets are increasingly guided by macroeconomic fundamentals and long-term investor confidence, whereas Pakistan's remain vulnerable to panic and political unpredictability.

Thus, the response to the Pahalgam attack not only reaffirms historical patterns of crisis recovery in India but also sharpens the contrast between two divergent financial systems operating under similar geopolitical shadows.

#### **4. Historical Context and Market Behavior:**

Historically, financial markets across South Asia have been susceptible to geopolitical shocks, particularly terrorism and cross-border tensions. However, over the years, the Indian stock market has developed a greater degree of resilience, driven by sustained macroeconomic reforms, diversification of investor participation, and deeper integration with global financial systems. These developments have enabled quicker rebounds and reduced panic-driven sell-offs during crises. On the other hand, Pakistan's capital markets remain considerably more fragile, exhibiting heightened volatility in response to political and security-related disturbances. This persistent vulnerability stems from structural economic weaknesses, heavy reliance on foreign aid, limited foreign investor confidence, and a



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narrower domestic investor base, making the market more reactive and less equipped to withstand external shocks.

## 5. Literature Review:

- **Mishra, R. (2018), *Geopolitics and Market Sentiment: Crisis Events and Capital Reactions*** Mishra's work offers a deep dive into how financial markets across Asia respond to geopolitical upheavals. His research focuses on emerging economies and emphasizes that when countries possess solid economic fundamentals—like healthy foreign reserves, a strong central bank, and investor-friendly policies—they are better equipped to weather political shocks. Drawing from Indian market data, Mishra demonstrates that the effects of conflict, such as those near the border, often fade quickly if economic confidence remains intact. His analysis helps contextualize India's post-Pahalgam market stability as a reflection of macroeconomic resilience rather than apathy to risk.
- **Farooq, A. & Khan, M. (2019), *Security Tensions and Economic Volatility in Pakistan*** Farooq and Khan take a close look at Pakistan's financial system through the lens of regional security issues, especially its tense relationship with India. Their research reveals that Pakistani markets are highly vulnerable to conflict-related developments, reacting strongly even to unverified media reports or political statements. The authors attribute this sensitivity to a lack of investor safeguards, economic fragility, and dependence on global debt markets. Their findings are consistent with how the Pahalgam incident rattled Pakistani investors and triggered significant market losses amid uncertainty and fear of economic retaliation.
- **Narayan, P.K. & Narayan, S. (2020), *Commodity Prices and Political Risk in Emerging Markets*** This book explores how fluctuations in key global commodities—especially oil—interact with political instability in developing countries. The Narayans find that lower crude oil prices during periods of unrest can act as a cushion for import-heavy economies like India, helping keep inflation under control and sustaining investor confidence. Their findings are particularly relevant to India's post-



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Pahalgam situation, where a global dip in oil prices played a role in maintaining financial stability despite heightened diplomatic tensions.

- **Singh, A. & Varma, N. (2020), *Algorithmic Trading and Crisis Response in the Indian Market*** Singh and Varma delve into the growing role of algorithmic and quantitative trading in shaping how Indian markets behave during crises. They argue that automated trading systems, along with improved investor literacy, have helped reduce emotional overreactions to conflict-related news. Their study shows that events like the 2016 Uri and 2019 Balakot incidents had limited long-term effects on the markets, largely due to efficient, rule-based trading mechanisms. This explains why post-Pahalgam trading remained largely rational, with indices quickly regaining ground after brief dips.
- **Bose, A. (2021), *Perception and Panic: Investor Psychology During National Crises*** In this thought-provoking study, Bose examines how investor reactions to crises are shaped not only by the events themselves but by how governments respond. He shows that quick, decisive policy actions—such as reassurances from the finance ministry or central bank—can calm jittery markets and prevent panic selling. Bose’s arguments help explain India’s steady market behavior after the Pahalgam attack, as government messaging remained firm and consistent, helping to anchor investor expectations and avoid overreactions.
- **Iqbal, Z. (2022), *Debt, Diplomacy, and Market Instability: The Pakistani Experience*** Iqbal’s book is a sobering assessment of Pakistan’s financial vulnerabilities in the face of recurring political instability. He shows how even the threat of sanctions or diplomatic isolation can unsettle Pakistan’s markets, given their dependence on multilateral loans and donor support. The research highlights that security incidents often disrupt capital flows and cause investor flight. Following the Pahalgam attack, fears of strained India-Pakistan ties and stalled aid programs contributed to sharp declines in Pakistan’s stock market, affirming Iqbal’s broader thesis.



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- **Sharma, R. (2023), *Defence and Diplomacy: Strategic Industries in Times of Conflict*** Sharma focuses on how geopolitical tensions create unique investment patterns, especially within the defence manufacturing sector. Using case studies from past Indo-Pak flare-ups, he shows that stocks tied to aerospace, shipbuilding, and weapons systems often rally when security concerns rise. His work helps explain the post-Pahalgam surge in defence-related equities like Hindustan Aeronautics Ltd and GRSE, as investors anticipated an increase in defence spending and strategic procurement.
- **Mehta, V. (2024), *Currency Anchors and FPI Behaviour in Crisis-Era India*** Mehta's study highlights the stabilizing role of currency strength during geopolitical crises in India. Through detailed analysis of past events, he shows that a firm rupee tends to reassure foreign institutional investors, who interpret it as a signal of underlying economic confidence. Mehta argues that when the rupee appreciates, it cushions market volatility and encourages continued capital inflows. In the aftermath of the Pahalgam attack, this dynamic played out clearly as the rupee strengthened, helping Indian markets hold steady.
- **International Monetary Fund (2024), *Capital Flow Resilience in South Asia: Policy and Practice*** This IMF report outlines how consistent capital inflows—both direct and portfolios—play a larger role in determining financial stability during political crises than the intensity of the events themselves. The study compares India and Pakistan, showing how India's robust macroeconomic reforms have improved its crisis immunity, while Pakistan's dependency on external bailouts leaves it exposed. The post-Pahalgam market divergence between the two nations aligns closely with the report's conclusions.
- **Moody's Ratings (2025), *Sovereign Risk Update: South Asia and Geopolitical Uncertainty*** Moody's April 2025 sovereign risk bulletin issued a cautionary note on Pakistan, linking escalating India-Pakistan tensions to serious threats to Islamabad's economic recovery. The report emphasized how continued conflict could undermine Pakistan's eligibility for international aid and delay critical IMF support. These



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warnings proved prescient, as the days following the Pahalgam incident saw Pakistan's KSE-100 index tumble sharply, reflecting investor anxiety and loss of confidence in the country's financial trajectory.

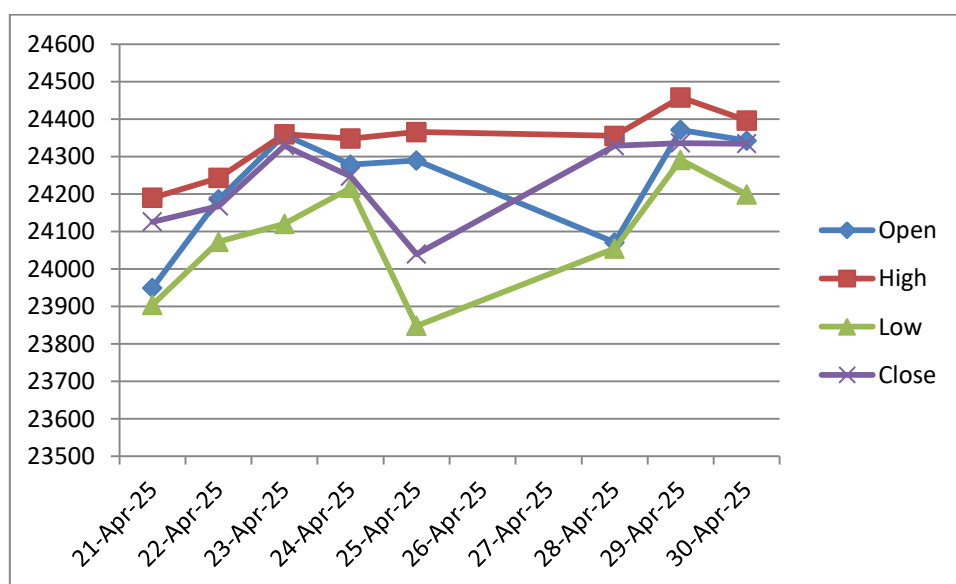
- 6. Methodology:** This study employs a comparative market analysis method using data from NSE India and Pakistan Stock Exchange. It integrates qualitative assessment (news flow, government policy reactions, investor commentary) with quantitative metrics (index values, sectoral movements, VIX data, currency movement, FII flows).
- 7. The Pahalgam Attack and Market Sentiment** Despite the gravity of the April 22 attack, Indian markets largely brushed off panic. By April 30, benchmark indices like the Sensex and Nifty 50 had not only recovered but surpassed pre-attack levels. Defence sector stocks rallied as investors priced in increased government spending. Meanwhile, the India VIX fell steadily, reflecting dissipating fear.
- 8. India: Strength in Structure:** India's stock market resilience in the wake of the April 22, 2025, Pahalgam attack can be attributed to its solid structural and macroeconomic foundation, which helped buffer any potential panic or sell-offs. One of the key contributors was the decline in global crude oil prices—a critical factor for an import-dependent country like India. Lower oil prices ease pressure on trade deficits and reduce fuel-driven inflation, which in turn supports household consumption and corporate margins. Additionally, the weakening of the US dollar during this period acted as a tailwind for Foreign Portfolio Investment (FPI) into emerging markets, including India. With U.S. yields turning less attractive, global investors shifted capital towards relatively stable and high-growth economies. This was evident in the net FPI inflows of over ₹14,000 crore into Indian equity markets between April 22 and April 30.

The positive sentiment was further reinforced by strong quarterly corporate earnings, especially from key sectors such as banking, fast-moving consumer goods (FMCG), and automobiles. These sectors not only indicated steady consumer demand but also reflected confidence in domestic economic growth. Banks, in particular, posted healthy asset quality improvements and credit growth, signaling financial sector strength. Lastly, India's robust foreign exchange reserves, which stood above \$640 billion as of April

2025, and the appreciation of the Indian rupee to a five-month high, gave additional assurance to investors. A stable currency enhances the appeal of rupee-denominated assets and minimizes fears of capital erosion for foreign investors. Together, these factors created a cushion that allowed Indian markets to maintain composure and even advance during a period of geopolitical stress.

**Data for NIFTY 50 - from 20-04-2025 to 30-04-2025**

Date	Open	High	Low	Close	Shares Traded	Turnover (₹ Cr)
21-Apr-25	23949.15	24189.55	23903.65	24125.55	406145632	33125.62
22-Apr-25	24185.4	24242.6	24072	24167.25	440940490	35479.29
23-Apr-25	24357.6	24359.3	24119.95	24328.95	415042544	34527.08
24-Apr-25	24277.9	24347.85	24216.15	24246.7	358768165	33057.29
25-Apr-25	24289	24365.45	23847.85	24039.35	387741866	33430.86
28-Apr-25	24070.25	24355.1	24054.05	24328.5	320467976	28278.82
29-Apr-25	24370.7	24457.65	24290.75	24335.95	357563224	30436.88
30-Apr-25	24342.05	24396.15	24198.75	24334.2	424452559	41073.48



Source: NSE-[Historical Index Data](#)



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ISSN: 3107-6378 (Online)

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The trading data from April 21 to April 30, 2025, reflects a strikingly composed response by Indian financial markets in the immediate aftermath of the Pahalgam terrorist attack on April 22. On the day of the attack itself, the Nifty 50 index not only remained stable but showed a modest gain, closing at 24,167.25 compared to 24,125.55 the previous day. This is significant given the severity of the incident, which claimed 26 civilian lives. Trading volume surged, with over 440 million shares exchanged and a turnover of ₹35,479 crore, indicating heightened market activity without corresponding panic—a clear departure from historical patterns where markets typically dip after such events. The following day, April 23, saw the Nifty rise sharply by over 160 points, closing at 24,328.95, underscoring investors' confidence in the broader economic fundamentals.

In the days that followed, the index showed only minor fluctuations, closing at 24,246.70 on April 24 and 24,039.35 on April 25, the latter likely due to routine profit booking rather than geopolitical anxiety. By April 28, the market had rebounded again, closing at 24,328.50. It maintained upward momentum through April 29 and 30, finally closing at 24,334.20, a net gain of over 208 points compared to April 21—a 0.86% increase during a period of diplomatic and public distress. The daily turnover remained robust, peaking at ₹41,073 crore on April 30, reflecting sustained investor participation. Sectoral performance was equally telling: stocks in the defence sector like Hindustan Aeronautics Ltd (HAL) and Bharat Electronics Ltd (BEL) rose significantly, while the India VIX index dropped from 13.91 to 10.65, suggesting declining market volatility.

This data not only reinforces the central thesis of the article—that Indian markets have developed resilience to geopolitical shocks—but also highlights how structural economic strength, disciplined investor behavior, and strong policy communication collectively shield financial systems from short-term turmoil. In contrast to the steep losses recorded in Pakistan's KSE-100 index, which declined by more than 6% during the same period, India's stable and even bullish market performance underlines the importance of macroeconomic stability and institutional investor confidence in navigating crisis scenarios.

## **9. Pakistan: Crisis of Confidence**



In stark contrast to India's stable market response, Pakistan's financial markets reacted sharply to the Pahalgam attack, reflecting deeper structural vulnerabilities and investor anxiety:

- ❖ **Sharp Decline in Market Index:** The Karachi Stock Exchange's benchmark KSE-100 index witnessed a steep fall of over 6%, dropping from 71,204 on April 22 to around 66,209 by May 5, 2025. This decline marked one of the worst two-week performances in recent years, triggered largely by rising geopolitical uncertainty and investor pessimism.
- ❖ **Fear of Indian Retaliation:** Market sentiment in Pakistan was further shaken by concerns over possible retaliatory measures from India. These included the potential suspension of trade ties, airspace restrictions, or the re-evaluation of treaties like the Indus Waters Treaty. Such steps could severely impact Pakistan's already strained economy, especially in sectors reliant on regional access and exports.
- ❖ **Threat to Multilateral Aid:** Investors were also unnerved by the possibility of delays or freezes in international financial assistance. With Pakistan heavily reliant on external funding—particularly the ongoing IMF bailout program—any diplomatic escalation raised fears that future disbursements might be halted or come with stricter conditions, deepening fiscal uncertainty.
- ❖ **Sector-Specific Selloffs:** Key domestic sectors, especially agriculture and defence-related industries, saw disproportionate declines. Agriculture, already hit by input shortages and climate-related issues, became a focal point for investor exit due to its dependency on cross-border logistics. Simultaneously, companies linked to the defence supply chain faced heightened volatility, as investors anticipated disrupted procurement and budgetary reallocations in the event of prolonged tensions.

Overall, the sharp contrast in market behavior between India and Pakistan after the Pahalgam incident underscores Pakistan's fragile economic underpinnings and the lack of investor confidence in its ability to absorb external shocks.

**10. Global and Regional Influences** Global cues such as the US Fed pausing rate hikes supported emerging markets like India. However, Pakistan failed to capitalize on this



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momentum due to domestic vulnerabilities. The divergence was further reinforced by credit warnings from Moody's and the IMF.

## 11. Findings and Analysis

The financial aftermath of the April 22, 2025, Pahalgam terror attack reveals that geopolitical incidents do not impact all markets equally. The contrasting responses of the Indian and Pakistani stock exchanges point to a deeper reality—geopolitical tension alone is insufficient to destabilize a market when the underlying economy exhibits structural strength and investor credibility. In India's case, strong economic fundamentals—including healthy foreign reserves, controlled inflation and encouraging corporate earnings—served as a cushion against panic-driven selling. These macroeconomic buffers helped maintain market stability even as political tensions escalated. This reflects a broader trend where economies with diversified industrial bases, resilient financial systems, and transparent governance structures tend to withstand shocks better.

Another crucial finding is the role of foreign investor trust in shaping market outcomes. In the days following the attack, India saw substantial inflows from Foreign Portfolio Investors (FPIs), signalling that global investors viewed the incident as a contained risk rather than a systemic threat. In contrast, Pakistan witnessed capital flight and market sell-offs, illustrating how investor confidence is tightly linked to a country's economic reputation and policy reliability. Additionally, the defence sector emerged as a strategic hedge. Stocks in India's defence and aerospace companies experienced notable gains, as investors anticipated increased government expenditure on security and preparedness. Historically, such sectors tend to attract capital during national crises due to expectations of higher procurement, policy focus, and strategic investment. This pattern reinforces the notion that investors seek out perceived "safe" sectors during instability, aligning their capital with government priorities and crisis-related growth opportunities.

Together, these findings emphasize that markets are increasingly influenced not just by events themselves, but by how resilient a nation's economic and institutional framework is in absorbing and responding to them.

## 12. Recommendations



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Based on the comprehensive analysis of the **Pahalgam terror attack (April 22, 2025)** and its divergent impact on the **Indian and Pakistani financial markets**, the following **recommendations** are proposed for policymakers, market regulators, investors, and strategic sectors:

## **Strengthen Macroeconomic Buffers**

- India's resilience post-attack was underpinned by strong economic fundamentals such as high forex reserves, controlled inflation, and robust corporate earnings.
- Recommendation: South Asian economies—especially Pakistan—must focus on reducing external economic dependencies, strengthening fiscal discipline, and diversifying their economic base to reduce vulnerability to geopolitical shocks.

## **Build Investor Confidence through Transparency**

- India benefited from foreign investor confidence, attracting ₹14,620 crore in FPI inflows despite the regional crisis.
- Recommendation: Governments and regulators should prioritize consistent economic communication, transparency in fiscal planning, and stable policy **frameworks to retain investor trust during turbulent periods.**

## **Promote Sectoral Preparedness and Strategic Investment**

- The Indian defence sector witnessed a 4–7% surge, indicating investor belief in its strategic value.
- Recommendation: Both countries should proactively invest in and modernize strategic sectors like defence, cybersecurity, and energy, making them more resilient and attractive to investors during conflict periods.

## **Expand and Deepen Market Participation**

- India's broader and more diversified investor base—including domestic institutions and global players—helped stabilize the market quickly.



- Recommendation: Pakistan must work towards deepening capital markets, enhancing financial literacy, and encouraging institutional participation to improve market depth and resilience.

### **Develop Crisis-Response Frameworks for Financial Markets**

- Rapid market normalization in India shows the benefit of automated trading systems, risk management tools, and SEBI-led regulatory preparedness.
- Recommendation: South Asian regulators should institutionalize rapid-response protocols to absorb geopolitical shocks, including circuit breakers, investor advisories, and coordinated monetary interventions.

### **Encourage Bilateral Economic Stability Mechanisms**

- Fear of economic retaliation amplified panic in Pakistan's markets.
- Recommendation: Establishing regional economic safety nets or conflict de-escalation mechanisms between South Asian countries can prevent **speculation-driven capital flight during sensitive periods.**

### **Use Defence and Infrastructure Spending Strategically**

- Post-crisis gains in Indian defence stocks signal expected increases in national security budgets.
- Recommendation: Both nations should balance security expenditures with developmental spending, ensuring that defence growth also supports domestic innovation, employment, and infrastructure.

### **Strengthen Surveillance on Speculative Trading**

- Crisis periods often see spikes in speculative activity that can distort market reality.
- Recommendation: Regulators like SEBI and Pakistan's SECP must intensify surveillance during national emergencies to detect and counter speculative manipulation or misinformation-driven trades.

### **Promote Cross-Border Financial Intelligence Cooperation**

- Volatility in neighbouring markets affects investor behaviour through media, regional fund flows, and sentiment contagion.



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- Recommendation: Establish platforms for cross-border data sharing, real-time risk alerts, and regional monetary dialogue to reduce reactionary behaviour in interconnected markets.

## **Educate Retail Investors on Crisis Response**

- Reduced panic in India also stems from improved retail investor awareness and education.
- Recommendation: Launch nationwide investor education campaigns that prepare individuals to assess geopolitical risks rationally resist herd behaviour, and stay aligned with long-term goals.

These recommendations aim not only to mitigate future market disruptions but also to build long-term financial stability across South Asia in an era where geopolitical uncertainties increasingly intersect with economic realities.

## **Conclusion:**

The contrasting market responses to the Pahalgam attack illuminate the broader divergence in India and Pakistan's economic narratives. While India's market resilience reflects growing global integration and investor confidence, Pakistan's decline highlights the costs of economic instability. The lesson is clear: market behaviour is increasingly shaped by fundamentals, not just fear. India's stock market has often responded sharply to incidents of terrorism, border conflicts, and political instability. On April 20, 2025, the Pahalgam terror attack in Jammu and Kashmir triggered a ripple effect across national media and economic forums. While the human cost was immeasurable, the economic impact—particularly on investor confidence—was felt almost immediately in the form of market volatility. This paper investigates the 10-day period following the attack, focusing on how various stock indices behaved in response to this high-tension event. Our aim is to understand whether such security shocks still significantly influence financial systems in India or whether the market has developed a level of maturity and resilience to absorb them more effectively.

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# Dravidian Journal of Commerce and Management Studies

ISSN: 3107-6378 (Online)

Volume No:01/2025

Issue No: 01

Article No:06

Page No:49-66

Jan-March 2025

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