The impact of geopolitical risk on firm value: Evidence from the aerospace and defense industry

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Abstract

We examine the impact of geopolitical risk (GPR) on the value of aerospace and defense firms. We employ a global panel of 4,014 firm-year observations from 299 publicly traded firms across 31 countries during 1987–2024. We find that heightened GPR is positively associated with firm value and is channeled through higher military expenditure and firm-level revenues. We further show that this positive association is stronger during geopolitical acts than geopolitical threats. Our results remain robust to alternative model specifications, different sample periods, and endogeneity tests. We offer important implications for investors, policymakers and lenders.

Keywords: Geopolitical risk; Uncertainty; Aerospace & Defense industry; Firm performance

1 Introduction

Why does geopolitical risk matter? A growing body of research approaches this question from macroeconomic and financial perspectives. At the macro level, studies document that geopolitical tensions, such as wars, trade restrictions, and political instability, disrupt national economic activity, weaken fiscal positions, and affect people's welfare (Caldara et al., 2026; Caldara & Iacoviello, 2022; Shang et al., 2024). At the financial level, research shows that geopolitical risk affects firms' investment decisions, governance structures, and risk premia, among others, by increasing uncertainty and altering expectations about future cash flows (Chowdhury, Koussis, et al., 2025; Siddiki & Singh, 2025; Wang et al., 2024; Yadav et al., 2025). Taken together, geopolitical risk generates significant ripple effects across markets and firms, with important implications for global financial stability since it extends beyond countries directly involved in conflicts (Chowdhury, Koussis, et al., 2025)

However, limited attention has been devoted to examining how such risks affect firm-level market valuation within strategically sensitive industries. This gap is particularly relevant for the aerospace and defense (A&D) sector[1], which is directly linked to geopolitical tensions, military expenditure, state demand, and national security priorities. While geopolitical risk generally depresses investment, risk-taking, profitability, stock returns, and firm valuation, its effect on A&D firms is theoretically ambiguous (Li & Cheng, 2024; Pringpong et al., 2023; Salisu et al., 2021; Yadav et al., 2025). Heightened geopolitical tensions may increase defense demand and redirect capital resources toward defense-related firms through a "flight-to-arms" phenomenon (Zhang et al., 2022). However, A&D firms, similar to most, may confront operating uncertainty, supply-chain disruptions and political constraints, as geopolitical tensions disrupt production networks, alter government strategic priorities, and increase policy uncertainty (Callado-Muñoz et al., 2024; Capelle-Blancard & Couderc, 2008; Hellberg, 2023; Hellberg et al., 2025; Zhang et al., 2022). Further, A&D firms, contrary to most, confront social dislike due to operations which might be stronger during periods of tension (Grougiou et al., 2016). Thus, whether and how geopolitical risk affects A&D firm valuation is not clear yet.

[1] The Aerospace & Defense industry is defined according to the Global Industry Classification Standard (GICS) sub-industry code 20101010 and includes manufacturers of civil or military aerospace and defense equipment, parts or products, including defense electronics and space equipment https://www.msci.com/indexes/documents/methodology/1_MSCI_Global_Industry_Classification_Standard_GICS_Methodology_20240801.pdf

Motivated by this ambiguity, we address three interrelated research questions: (a) Does geopolitical risk (GPR) affect the value of A&D firms? (b) Is this effect more pronounced during periods of geopolitical acts or geopolitical threats? and (c) If so, through which channel GPR affects the value of A&D firms? We select the A&D sector as a natural laboratory because it is structurally linked to geopolitical transformations through government military spending, defense procurement, and national security policies. Unlike most industries that typically experience adverse valuation effects during periods of heightened geopolitical uncertainty, the A&D sector may exhibit asymmetric or countercyclical responses due to increased resources from defense demand, long-term government contracts and fiscal reallocations (Balestra & Caruso, 2025; Bove et al., 2017; Griffin et al., 1982; Rogoff, 1987; Russett, 1969). This distinctive exposure should allow us to examine how geopolitical shocks affect firm valuation.

Our study is important and timely for many reasons. First, GPR might be more intense now to economies, business and people because countries, economies, and technologies are more connected than ever. Indeed, the IMF, among others, has been warning about the escalating tensions that are at the highest level since the end of World War II and that cause around 7% decline in economic output (Shalal, 2026). Importantly, the Institute for Economics & Peace, estimated that the global economic impact of violence reached about $19.1 trillion in 2024, roughly equivalent to about 13% of global GDP (Noufeld, 2025). Second, geopolitical tensions substantially increased global defense expenditures (Hartung & Semler, 2025; Seiglie & Xiang, 2022). For instance, the United States (US) defense spending has risen from about $143.7 billion in 1980 to nearly $1 trillion in 2024, reflecting the growing strategic importance of the defense sector (Hartung & Semler, 2025). Third, financial markets have become increasingly sensitive to geopolitical shocks, as asset valuations increasingly depend on expectations about future cash flows, government spending priorities, and risk premia (Baker et al., 2016; Caldara & Iacoviello, 2022; Pastor & Veronesi, 2012). This sensitivity is particularly relevant for the defense industry, given the high concentration of the global arms market, implying that changes in defense spending and geopolitical conditions can disproportionately affect the valuation of a relatively small number of firms (SIPRI, 2026). Finally, we respond to recent calls to examine how geopolitical risk is reflected in the market valuation of A&D firms (Chowdhury, Aram, et al., 2025; Khan et al., 2025).

Against this background, we develop a conceptual framework grounded in demand, resource dependence and social norms theories to elucidate how GPR influences the valuation of A&D firms. Our baseline findings demonstrate a significant positive association between GPR and Tobin's Q. In addition, we show that both geopolitical acts (GPA) and threats (GPT) increase firm value with GPA providing more pronounced effects. We finally demonstrate that the positive effect is channeled through higher military expenditure and firm-level revenues.

Our results remain consistent after incorporating a set of commonly used control variables and firm and year fixed effects. We address potential endogeneity concerns through five alternative approaches. First, to capture possible dynamic interactions between GPR and market value, we estimate a dynamic generalized method of moments (GMM) model. Second, we introduce an exogenous source of variation in GPR by conducting a two-step least squares instrumental variable (2SLS IV) analysis. Third, we implement the model proposed by (Lewbel, 2012) as an alternative test for endogeneity. Fourth, to reduce selection bias, we implement a propensity score matching (PSM) (Anastasiou et al., 2025). Finally, we employ the Impact Threshold for a Confounding Variable (ITCV) method, to test whether omitted variables influence the observed relationship in our main specifications (Busenbark et al., 2021). The outcomes from all these methods support our main results. Further, our findings remain robust across a range of specifications, including alternative sub-samples, different standard error specifications, alternative measures of firm performance, and heterogeneity analyses.

We contribute to two strands of literature. First, we contribute to the growing body of research on GPR in financial markets (e.g. Chen et al., 2026; Liu & Zhang, 2024; Zaremba et al., 2022; Zhou & Liang, 2025) by examining its impact on firm-level market valuation. To the best of our knowledge, Pringpong et al. (2023) is the only study that examines the relationship between GPR and firm value, documenting a negative effect. We extend this literature by documenting contradictory evidence. We argue that the negative commonly anticipated effect of geopolitical risk on firm value is not unanimous. There are sectors, like the A&D, that gain tangible benefits. Second, we contribute to the literature that examines sectors that deviate from the norm, including the A&D literature. We show that A&D stocks provide investment opportunities during periods of heightened GPR, highlighting their unique role in portfolio

allocation under geopolitical uncertainty (e.g. Adnan et al., 2026; Han et al., 2022; Zhang et al., 2022).

2 Theoretical background and hypotheses development

In periods of heightened GPR, the demand for the products and services of A&D firms increases. This effect operates through security incentives, heightened expectations of conflict, and strategic competition among states, which lead governments to expand military expenditures and budgets (Collier & Hoeffler, 2007; Dunne & Perlo-Freeman, 2003; Goyal et al., 2002; Pamp & Thurner, 2017; R. P. Smith, 1980). This leads governments to expand military budgets, thereby increasing demand for defense equipment and technologies and highlighting the positive effects of military expenditure on arms imports (R. P. Smith & Tasiran, 2005). Positive impacts on A&D firms also emerge with higher defense spending by other countries, according to the Richardson 'Arms Race Model' (Anderton, 1989; Richardson, 1935), which assumes continuous adjustments in defense spending aimed at achieving military superiority. A&D firms respond by increasing supply, allowing them to capture greater revenues and market opportunities, which may positively affect firm valuation (Adnan et al., 2026; Apergis et al., 2018; Papathanasiou & Koutsokostas, 2026; Song et al., 2025).

However, like firms in most industries, A&D companies may face operational uncertainty, supply chain disruptions, and political constraints, as geopolitical tensions interrupt production networks, shift government strategic priorities, and heighten policy uncertainty (Callado-Muñoz et al., 2024; Capelle-Blancard & Couderc, 2008; Hellberg, 2023; Hellberg et al., 2025; Zhang et al., 2022). Further, and contrary to firms in most industries, A&D is a typical example of a stigmatized sector due to adverse social norms, for exploiting human conflict (Leventis et al. 2013). Social scientists, since Smith ([1759], p. 110-116), have long argued that social norms govern a wide range of core economic matters, including investment decisions (Leventis et al., 2013). Prior literature has demonstrated an attitude that is hardly explainable by modern portfolio theory: namely, that "sin" stocks, including A&D, tend to be neglected by a considerable part of the investment community for reasons of non-compliance with societal norms, despite offering excellent investment opportunities (Chong et al., 2006; Hong & Kacperczyk, 2009). In turn, this results in "sin" companies bearing a higher cost of equity capital (El Ghoul et al., 2011; Hong & Kacperczyk, 2009). A&D firms, sharing this stigma, might be

particularly in the microscope of value judgements during intense geopolitical shifts. This is because countries and political parties, regulators and activists, ethical funds, journalists and investigative media, organizations such as Amnesty International, Greenpeace and Médecins Sans Frontières, among others, are likely to accuse them for "profiting from blood". These might impact adversely on their financial performance.

The above may imply the (co)existence of positive economic demand-driven and negative social norms-based outcomes. In this setting, A&D firms may be prepared to protect resources and manage adversity through political, investor and media support and lobbying (Hillman et al., 2009). In many countries, A&D firms operate in close relationship with governments through procurement contracts, budgetary commitments, and policy support (Song et al., 2025). Such relationships may influence policy decisions and corporate outcomes. For instance, the merger between Lockheed and Martin Marietta imposed substantial costs on the US Department of Defense, while materially benefiting the firms involved (Luechinger & Moser, 2014). A&D firms are supported by many investment funds. While vice funds actively support them, many mainstream funds, including BlackRock and State Street, propose them in their proposed portfolio structures. Further, media, and a significant number of their followers, support actively defense and national security institutions and enhanced military budgets. Indicatively, these include the Fox News (US), Sputnik (Russia), Israel Hayom (Israel) and Global Times (China). Finally, lobbying is particularly intense and influential in the A&D sector. Firms lobby through their national industry associations, chambers of commerce, independent lobby groups and large companies maintain direct lobbying teams. Open Secrets (OpenSecrets) often informs about excessive amounts employed by these lobbies. The above might allow A&D firms to mitigate social dislike and convince investors about their strategic positioning, resilience and attractiveness (Song et al., 2025), so they earn abnormal returns, particularly during periods of heightened GPR.

Against this institutional background, geopolitical shifts may have important implications for firms operating in the A&D industry globally. Heightened GPR might impose governments to become more willing to allocate fiscal resources to security, procurement, and military capability. Because A&D firms depend heavily on government contracts and national-security priorities, GPR can increase expected cash flows, rather than merely increase uncertainty. This might allow

A&D firms to expand supply and capture revenues and market opportunities (Adnan et al., 2026; Apergis et al., 2018; Caballero & Farhi, 2018; Papathanasiou & Koutsokostas, 2026; Song et al., 2025). However, this effect might be diminished or alleviated in the presence of negative social norms (Durand et al., 2013; Hong & Kacperczyk, 2009; Salaber, 2009).

Based on the above arguments, mixed theoretical predictions and empirical findings, we anticipate that GPR affects the value of A&D firms. Thus, we hypothesize that:

H1. Global geopolitical risk is associated with firm value of A&D firms.

President Dwight Eisenhower, the supreme allied commander in World War II, in his farewell speech in 1961, warned about the implications of the so-called, military-industrial complex, since defense firms have vested interests in public military spending. Since then, some scholars claim that A&D firms earn from and so encourage conflicts, while others contend that the sector primarily exists as a shield for threats against national security and state sovereignty (Byrne, 2007, 2017). While we do not examine these mechanisms directly, we test whether, and through which channels, A&D firms benefit from geopolitical acts and threats, which may reflect underlying strategic incentives. Acts refer to realized adverse events, such as wars, military invasions, and terrorist attacks, whereas threats capture expectations and fears about the potential occurrence of such events (Salisu et al., 2023). Existing evidence of their importance on corporate outcomes remains mixed. Caldara & Iacoviello (2022) show that both geopolitical acts and threats reduce investment and employment, however act effects are more persistent. Similarly, Zhou & Liang (2025) find that geopolitical acts exert a stronger influence on gold price than threats. In contrast, Salisu et al. (2023) and Fiorillo et al. (2024) find that geopolitical threats have stronger adverse effects on global financial conditions and stock price crash risk.

Thus, considering mixed theoretical anticipations and empirical evidence, we formulate the following hypothesis:

H2. Geopolitical acts and threats are associated with firm value of A&D firms.

3 Research methods

3.1 Sample

We considered all listed firms in the A&D industry, accounting for 328 firms and 5,448 firm-year observations. Our sample represents all major global equity markets and so it provides a high degree of heterogeneity. We obtain firm-level data from LSEG Data & Analytics (formerly Refinitiv Eikon DataStream) and macroeconomic variables such as *Inflation* and *GDP* from the World Bank database. We employ the global GPR index, developed by Caldara & Iacoviello (2022) for reasons related to transparency, public availability and empirical power. We apply this to A&D firms which operate in a globally exposed industry whose valuations are closely tied to geopolitical tensions and security concerns. We filter data by constructing one-year lags for all the independent variables and drop firm-year observations with missing data, excluding 29 firms (1,434 observations). To remove significant outliers, we winsorize all variables at 1% and 99% level. The final dataset consists of an unbalanced panel of 299 unique firms, incorporating 31 countries, 4,014 firm-year observations, over 1987-2024. We start 1987 because data for GPR index are available from 1985 and we use lag values of the independent variables. Panel A of Table 1 presents the sample selection process; Panel B presents the distribution of the firm-year observations per country. In our sample of 31 countries, US dominates with a proportion of 33.21%, while China is the second country accounting for the 17.16% of our sample observations.

Insert Table 1 about here

3.2 Dependent variable

In line with previous literature, we use Tobin's Q which reflects the firm's ability to generate value and is considered as one of the most suitable measures of market-based financial performance (Jia & Li, 2020; Ozdemir et al., 2023). Tobin's Q is widely used in corporate finance as a forward-looking measure of firm value that captures investors' expectations about future growth opportunities and cash flows (Bebchuk & Cohen, 2005; Chowdhury, Koussis, et al., 2025; Fütterer et al., 2026; Gompers et al., 2003; Jia & Li, 2020; Lang & Stulz, 1994). We measure Tobin's Q as the market value of equity plus the book value of total assets, minus the book value of equity to the book value of total assets. We use the natural logarithm of Tobin's Q

(lnQ) to mitigate concerns over normality (Fütterer et al., 2026; Ozdemir et al., 2023). We further sensitivity test it.

3.3 Geopolitical risk

We use the GPR index introduced by Caldara & Iacoviello (2022) as our main explanatory variable. This index offers several advantages. First, is widely used in the literature because it captures information about geopolitical events and tensions that is not fully reflected in broader uncertainty measures (Chowdhury, Aram, et al., 2025; Engle & Campos-Martins, 2023; Ji et al., 2026; Wang et al., 2024; Zhu et al., 2024). Second, it is not driven by recessions or financial crises and provides a continuous measure of geopolitical risk, rather than relying solely on realized geopolitical events, which are rare and discontinuous (Chowdhury, Koussis, et al., 2025; Wang et al., 2024). Finally, relative to the perception-based index of Bondarenko et al. (2024), it offers broader coverage and greater comparability across countries and studies.

The GPR index is constructed using textual searches across 10 newspapers[2], counting the frequency of the words associated with adverse geopolitical events. It is calculated as the ratio of the total number of articles referring to 5, to the total articles published in each newspaper per month. Caldara & Iacoviello (2022) define geopolitical risk as the uncertainty associated with adverse geopolitical events, including wars, terrorism, and tensions between states that disrupt peaceful international relations. They further argue that geopolitical events are typically exogenous and unanticipated negative shocks that increase geopolitical uncertainty and differ from broader forms of uncertainty, such as economic or political uncertainty, which are more likely to be influenced by prevailing economic or political conditions.

3.4 Control variables and model specifications

We account firm-specific characteristics by including control variables consistent with prior literature (Jain & Banerjee, 2025; Jia & Li, 2020; Ozdemir et al., 2023; Pringpong et al., 2023; Reyad et al., 2024; Rjiba et al., 2020). We include the following: the natural logarithm of firms' total assets as an indicator for firm size (Size), the ratio of total debt to total assets as a proxy for

[2] These are: the Chicago Tribune, the Daily Telegraph, the Financial Times, the Globe and Mail, the Guardian, the Los Angeles Times, the New York Times, USA Today, the Wall Street Journal, and the Washington Post.

financial leverage (Leverage), the ratio of current assets to current liabilities to account for liquidity (Liquidity), the ratio of cash and cash equivalents to total assets as a proxy for cash holdings (Cash), the year-on-year change in total assets (Growth) and the ratio of property, plant, and equipment to total assets to account for tangibility (Tangible). In addition to the firm-level controls we include two country-specific variables to account for macroeconomic characteristics. Thus, we incorporate the inflation rate per country (Inflation) and the natural logarithm of GDP per country (GDP). The description of all variables employed is presented in the Appendix Table A. 1.

To examine the impact of GPR on firm value, we use the following regression model:

$$lnQ_{it} = \beta_0 + \beta_1 GPR_{t-1} + \beta_2 X_{t-1} + \varepsilon_{it} \quad (1)$$

where lnQ_{it} is our dependent variable of firm *i* at year *t*. GPR_{t-1}, is the natural logarithm of the average monthly values of GPR in the year *t*-1 and X_{t-1} denotes a vector of control variables in year *t*-1. We measure lnQ_{it} in year *t* and our main controls in year *t*-1 to avoid any possibility of look-ahead bias in our estimations (Adarkwah et al., 2024; Jia & Li, 2020; Ozdemir et al., 2023). In our specifications we use firm and year fixed effects (Fiorillo et al., 2024; Fütterer et al., 2026; Ji et al., 2026; Jia & Li, 2020).[3] Furthermore, standard errors are clustered at the firm level, and all variables are winsorized at the 1% and 99% levels.

4 Results

4.1 Descriptive statistics

Table 2 reports the descriptive statistics for our sample. The average lnQ is 0.598 with a standard deviation of 0.719. GPR has an average value of 4.596 and a standard deviation of 0.259. The descriptive statistics are similar with those reported in previous studies (Yadav et al., 2025). Table 3 presents the Pearson correlation matrix and variance inflation factors (VIFs) for the control variables used in the regression analysis. We do not observe high correlations between

[3] In unreported analysis, we also re-estimate all regression models by replacing firm fixed effects with country fixed effects and the results remain qualitatively similar. We further run regressions using the GPR in year *t* and results remain unchanged.

the independent variables and the mean VIF value is 1.161, hence there should be no significant concerns of multicollinearity.

Insert Tables 2 and 3 about here

4.2 Fixed effects results

Table 4 reports the fixed effects results for the baseline model (Equation 1). Column 1 shows the results of the bivariate model, whereas columns (2) and (3) present the multivariate models, including firm-specific controls and macroeconomic variables respectively. In all regression models (columns (1)-(3)) we observe a positive effect of GPR index on the firm value, after controlling accounting and macroeconomic measures, as well as firm and year fixed effects.[4] The coefficient β is strongly statistically significant. This indicates that A&D firms efficiently manage the challenges and take advantage of the geopolitical risk, so they experience higher valuation (Zhang et al., 2022). Accordingly, the market-based performance of these firms increases under periods of elevated geopolitical uncertainty.

We demonstrate the economic significance of this relationship. Based on Column (3) of Table 4, a one standard deviation increase in GPR is associated with an increase of approximately 1.112 in lnQ, indicating that geopolitical risk has a sizeable positive effect on market valuation of A&D firms. Importantly, we observe that in 2022 after the invasion of Russia in Ukraine, the GPR increases to an average value of 5.059 far above of our sample mean (4.596). In the next year (2023) lnQ has a mean value of 0.816, demonstrating an increase of 36.45%, regarding the overall sample average.

Insert Table 4 about here

4.3 Geopolitical acts and threats

We further examine geopolitical risk by using the subindices of GPR, namely GPT and GPA, as alternative proxies for GPR (Anastasiou et al., 2025). In line with our baseline results, Table 5 reveals that both indices confirm the positive sign for the coefficients of GPR and remain statistically significant. Importantly, the effect of GPR on firms' value is more pronounced during geopolitical acts than threats. This might be because realized geopolitical events are

[4] As a robustness check, we further test the validity of our findings when we incorporate (i) country and year fixed effects, (ii) two-way clustering (firm-year) fixed effects, (iii) random effects, (iv) Bootstrap standard errors and (v) Jackknife standard errors approaches.

especially relevant in the A&D industry since they are likely to trigger immediate policy responses, defense budget increases, procurement decisions, and new military contracts. Thus, geopolitical acts provide stronger signals of materialized security needs and have more pronounced effect on A&D firm value.

Insert Table 5 about here

4.4 Addressing endogeneity

In this section, we address endogeneity concerns that could threaten the validity of our main results. We have no reason to believe that our findings are driven by reverse causality, since we have used one-year lags in the independent variables. In addition, it is unlikely that the firm value of firms incorporated in A&D industry affects the global geopolitical risk. However, endogeneity concerns related to omitted variables, measurement errors and selection bias may persist. To address all concerns, we implement (1) a generalized method of moments (GMM) model, (2) a 2SLS instrumental variable (IV) regression (3) the Lewbel (2012) technique, (4) a propensity score matching (PSM) procedure and (5) the Impact Threshold for a Confounding Variable (ITCV) methodology.

4.4.1 GMM estimations

To address potential endogeneity concerns arising from the panel structure of our dataset, we re-estimate the main regression models using the GMM approach. The main benefit of this procedure is that it captures the dynamic relationship between lnQ and GPR. One could argue that lagged values of the dependent variable are related to current values of the independent variables, leading to estimation bias in our baseline model. GMM helps mitigate this potential dynamic issue by using past values of the dependent and independent variables as a set of endogenous instruments. Table 6 shows the results of the dynamic GMM model. GPR, as well as its subindices GPA and GPT, are positive and statistically significant at the 1% level. Furthermore, we observe that p-values for both Sargan and Hansen J tests are higher than the 0.10 threshold, indicating the validity of our GMM estimations.

Insert Table 6 about here

4.4.2 IV 2SLS, Lewbel, ITCV and PSM

Our main specifications assume that geopolitical risk is exogenously determined. Nonetheless, certain economic factors may simultaneously influence firm's financial performance and GPR, which may raise endogeneity concerns. Trying to address this issue, we employ a 2SLS IV approach. The main challenge is to use an efficient instrument which is correlated with the independent variable and is uncorrelated with the error term. In line with Fiorillo et al. (2024) we use the *Political Stability* index from the World Bank's Governance Indicators (WGI), as an instrumental variable. This index captures country-level perceptions of political instability, regarding the degree to which political authority and governance structures are protected from destabilization, and ranges from -2.5 to 2.5, with lower values indicating greater instability. Prior research identifies this measure as a relevant determinant of geopolitical tensions. At the same time, it is unlikely to directly influence unobserved determinants of firm-level market value. Table 7 reports the results for the 2SLS IV regressions. Column (1) of Table 7 presents the first-stage regression where the dependent variable is GPR, indicating a negative and statistically significant relationship with the *Political Stability* index. Column (2) shows the second-stage regression analysis. Overall, our main results hold, as the instrumented GPR is positive and statistically significant in the regression with lnQ.

To further validate our baseline results we implement the model proposed by Lewbel (2012) as an alternative test for endogeneity. This approach enables more consistent estimations in regression models with endogenous or mismeasured regressors. The methodology is particularly useful in data settings where valid external instrumental variables are difficult to obtain or justify. Column (3) of Table 7 presents the results supporting the robustness of our main findings.

One concern with the baseline results could be that firms under high geopolitical risk may present different characteristics from those under low geopolitical risk (Anastasiou et al., 2025). Thus, insufficient overlap in the distribution of characteristics across these groups may bias the estimated coefficients (Heckman et al., 1998). To address potential bias, we employ the PSM procedure. The rationale for using PSM is to create a framework in which firms exposed to low geopolitical risk (control group) are matched with firms facing high geopolitical risk (treatment group), based on a set of relevant variables. The treatment dummy is defined as a dummy

variable that takes value 1 if the GPR is above the sample median and zero otherwise (Anastasiou et al., 2025). We employ the matching procedure, estimating a logistic regression where the dependent variable equals 1 for the treated group and 0 otherwise. We use all control variables to estimate propensity scores for each firm, employing nearest-neighbor matching with replacement. Table A. 2 highlights the results after the matching procedure. The p-values indicated that there are not statistically significant differences between the treated and control groups, indicating the validity of our procedure. Column (4) of Table 7 reports that GPR is positive and statistically significant.

As an additional check, we employ the ITCV method, which provides a test of whether omitted variables could influence the observed relationship in our main specifications (Busenbark et al., 2021). The ITCV identifies the minimum product of partial correlations that an omitted confounder must have with both the independent and dependent variables, to fully attenuate the estimated effect. The results reported in Table 8 indicate that the ITCV exceeds the magnitude of the impact, implying that any omitted variables would need to exhibit stronger associations than those observed among the included controls to invalidate our findings. This evidence suggests that our results should not be driven by omitted variable bias.

Insert Tables 7 and 8 about here

4.5 Robustness test

We perform a series of robustness checks to ascertain the validity of our main results. Specifically, we re-examine our basic findings across alternative sub-samples and different standard error specifications.

During the 2007-2009 financial crisis and the COVID-19 pandemic periods, firm performance was heavily driven by systematic financial distress that could bias the estimated relationship between GPR and lnQ. Therefore, as a robustness test, we exclude the above periods of crisis (years 2007-2009 and 2020-2021). Additionally, we account for the sub-period after the financial crisis. Furthermore, as a different subperiod we choose the last decade (2015-2024), due to its association with significant geopolitical and macroeconomic events. This period encompasses events such as the US-North Korea tensions in 2017, the Russia invasion in

Ukraine in 2022, the Hamas terrorist attack on Israel in 2023 and the Israel's attack on Gaza in 2024.

Furthermore, US represents the 33.21% of our sample observations. As a further robustness test, we exclude the US from our dataset and re-run our baseline model. This exclusion allows us to test whether the relationship between lnQ and GPR is only a US effect or a broader pattern. Table 9 (columns (1)-(4)) documents the results. The findings across all specifications are in line with our main findings, indicating a positive and statistically significant relationship between GPR and lnQ.[5]

To further ensure the reliability of the baseline results, we re-estimate our main regression model across different error specifications. Table 9 column (5) presents the results of regression with country and year fixed effects. In column (6) we re-examine the baseline findings using a two-way clustering (firm-year fixed effects) method. In column (7) we show the results when replacing fixed effects with random effects. Finally, in columns (8) and (9) we present the results with Bootstrap and Jackknife standard errors, respectively. Although these specifications provide different assumptions for the standard errors, compared to our main regression model, the coefficient of GPR remains positive and statistically significant.

Insert Table 9 about here

4.6 Channel analysis

In this section, we explore the mechanisms through which geopolitical risk affects market-based performance. Higher GPR encourages larger government expenditure (Bilgin et al., 2020) despite its adverse effects on firm value (Hsieh et al., 2026). Governments tend to increase military expenditure to strengthen national security (Zhang et al., 2022). This rising military expenditure stimulates high demand for the A&D products, increasing corporate revenues and growth prospects. These effects might be reflected in higher market valuations (Anastasiou et al., 2025; Zhang et al., 2022). To evaluate the above potential mechanisms, we employ a two-step regression procedure (Anastasiou et al., 2025; Makrychoriti & Pyrgiotakis, 2024). We use the military expenditure (per country and global, scaled by GDP) and firm total revenues (in billions) as potential channels underlying the observed positive relationship between lnQ and

[5] In unreported analysis, for brevity, we further exclude countries with less than 10, 20, 50 and 100 observations and our results remain identical to our main findings. Results are available upon request.

GPR. In the first step, we regress each channel variable (military expenditure or revenues) on GPR, including the baseline controls. In the second step, we use the fitted values of the first step as the main explanatory variable in regressions of lnQ.

Table 10 reports the results. Columns (1) and (3) present the first-stage regressions where the dependent variable is country-level or global military expenditure, respectively and our variable of interest is GPR, whereas column (5) reports the corresponding results for the revenue channel. Columns (2), (4) and (6) show the results from the second-stage regressions, where the dependent variable is lnQ and the independent variables are the fitted values from the first-stage regressions. Our results indicate a positive and statistically significant relationship between GPR and the channel variables in the first-stage regressions. The second-stage regression reveals a positive and statistically significant relationship between the fitted values from the first-stage and lnQ. Our findings support the notion that geopolitical risk increases military expenditure and A&D firms' revenues, and that the observed positive relationship between lnQ and GPR is channeled through higher government military expenditure and increased firm revenues.

Insert Table 10 about here

4.7 Additional analysis

4.7.1 Alternative firm performance measures

The measurement of market value has been under debate in previous literature (Fütterer et al., 2026). Regarding concerns about lnQ, we use stock returns (*Returns*) and market to book (*MtB)* as alternative market-based measures. Table 11 shows that GPR is positively and statistically significant related to corporate financial performance, regardless of the different measures we implement, thereby corroborating the findings related to H1.

Insert Table 11 about here

4.7.2 Heterogeneity tests

We further investigate whether the effect of geopolitical risk varies across different segments of the A&D industry. Thus, we conduct a heterogeneity analysis by dividing the sample into three subgroups, namely aerospace, defense and both A&D. First, we obtain the Standard Industrial

Classification (SIC) codes for every company in our sample, from LSEG Data & Analytics.[6] Second, we classify all firms according to their SIC codes in aerospace or defense.[7] Third, we manually search official websites and business descriptions for companies without a clear classification between the aerospace or defense sectors. In cases where a firm's primary activity cannot be clearly attributed to either aerospace or defense, we conservatively assign it to the "both A&D" category.

Table 12 reports the results. Across all subsamples, we find that GPR maintains a positive and statistically significant effect on lnQ. Further, our findings hold when we use GPA and GPT. The strongest relationship is identified in the defense subsample, where the estimated coefficients are considerably larger than those reported for the aerospace separately or the combined A&D. This finding is consistent with the notion that defense-oriented firms take advantage of geopolitical tensions which typically translate into higher government defense spending and military procurements. Taken together, these findings indicate that the intensity of the effect varies among subsamples. However, the A&D sector as a whole benefits from periods of elevated GPR.

Insert Table 12 about here

We further divide the sample according to the MSCI country classification, [8] in developed and developing markets. This approach is motivated by the idea that firms' exposure to GPR could differ across these groups. We present the results in Table 13. We find a positive and statistically significant relationship between GPR and lnQ in developed markets (columns (1)-(3)), while results are not statistically significant in the developing market sub-sample (columns (4)-(6)). The above results suggest that in developed economies, GPR may create investment opportunities for firms operating in the A&D industry, which are capitalized into higher valuation. Thus, the level of development which indicates national economic power and political influence provides significant leverage for the A&D sector, particularly in times of enhanced geopolitical risk.

[6] As discussed earlier, in this study we have used all firms according to GICS sub-industry code 20101010, namely A&D industry.
[7] We use SIC codes 3720–3728 (Aircraft & parts) for aerospace and 3480 (Ordnance & accessories) and 3760 (Guided missiles & space vehicles) for defense subgroups.
[8] https://www.msci.com/indexes/index-resources/market-classification

Insert Table 13 about here

5 Conclusions

We investigate how geopolitical risk affects the valuation of A&D firms, an increasingly salient yet relatively underexplored issue in literature. While extant literature documented the adverse effects of geopolitical risk on investment, risk-taking, and firm valuation during periods of heightened uncertainty, we document the opposite. We empirically demonstrate that heightened GPR is positively associated with firm value in the A&D sector aligned with demand and resource dependence theories. This relation persists across different model specifications, alternative subperiods and various endogeneity tests. Further evidence shows that this effect is significantly stronger during geopolitical acts than during geopolitical threats. We further show that this positive relation between GPR and firm value is channeled through increased military expenditure and firm-level revenues and holds for both A&D firms. A message we offer is that "one size fits all" is hardly the case when geopolitics and corporate outcomes are concerned. While we resolve a highly debated topic on whether the A&D sector tangibly earns from geopolitical tension, this might be the case for others. This is because most lose from global conflicts and several lose a lot. However, we show that some, like A&D firms, are getting better off. Thus, we argue that state-demand benefits dominate stigma and uncertainty costs. This might be because A&D firms implement successful strategies over political-, investor-, media-support and lobbying to protect resources. We further demonstrate that A&D firms gain predominantly from geopolitical acts which implicitly indicate incentive priorities.

These findings carry important implications for policymakers, investors, and lenders. From a policy perspective, if governments and international institutions have programs designed to help firms manage geopolitical tensions and political-risk exposure, our findings suggest that these should be targeted at sectors that might suffer most, since crises often provide positive demand shocks to some sectors. We further suggest that portfolio decisions should consider A&D firms during periods of tension. They appear to be sound investment options but also provide potential hedging and diversification benefits. Lenders, which in some instances use firms' equity as collateral against lending, should pay close attention to sectorial firms during geopolitical tension. They should source additional information to evaluate the risk they are undertaking, since the impact can be significant.

Although the study offers comprehensive empirical analysis, it has potential limitations, which provide opportunities for further research. First, we examine only the A&D sector. We cannot rule out that similar effects might be shared for energy, shipping, agriculture and insurance firms or other, similar to A&D “sin” firms (e.g. tobacco, alcohol, casinos). Future studies should answer this. Second, we measure firm value using lnQ. Although this measure is widely used in the corporate finance literature and we sensitivity test it, alternative market-based measures could provide additional insights. For example, future studies could analyze the market reactions through cumulative abnormal returns around periods characterized by elevated GPR or specific events. Finally, our dataset stops in 2024. Future research should examine the impact of current tensions, with particular emphasis on the Iran war in 2026.

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Table 1. Sample selection process and distribution by country of incorporation

Panel A		
Sample selection	No. firms	No. firm-years
Global publicly listed Aerospace and Defense firms within Refinitiv between the period 1987-2024.	328	5,448
Exclude: Firm-year observation with missing financial data.	(29)	(1,434)
Final sample	299	4,014

Panel B			
Country of Incorporation	Freq.	Percent	Cum.
Australia	82	2.04	2.04
Austria	14	0.35	2.39
Brazil	54	1.35	3.74
Canada	117	2.91	6.65
China (Mainland)	689	17.16	23.82
Cyprus	3	0.07	23.89
Czech Republic	7	0.17	24.07
Denmark	24	0.60	24.66
France	216	5.38	30.04
Germany	81	2.02	32.06
India	129	3.21	35.28
Indonesia	8	0.20	35.48
Israel	212	5.28	40.76
Italy	54	1.35	42.10
Japan	6	0.15	42.25
Malaysia	10	0.25	42.50
Netherlands	29	0.72	43.22
Norway	26	0.65	43.87
Poland	28	0.70	44.57
Romania	68	1.69	46.26
Russia	83	2.07	48.33
Singapore	44	1.10	49.43
South Korea	184	4.58	54.01
Sweden	103	2.57	56.58
Switzerland	2	0.05	56.63
Taiwan	83	2.07	58.69
Turkey	31	0.77	59.47
Ukraine	13	0.32	59.79
United Arab Emirates	22	0.55	60.34
United Kingdom	259	6.45	66.79
United States	1,333	33.21	100.00
Total	4,014	100.00	

Table 2. Summary statistics

	N	Mean	p25	Median	p75	Std. Dev.
lnQ	4,014	0.598	0.143	0.431	0.869	0.719
GPR	4,014	4.596	4.408	4.591	4.676	0.259
Size	4,014	20.928	18.847	21.001	22.895	2.975
Leverage	4,014	0.233	0.084	0.184	0.298	0.250
Liquidity	4,014	2.335	1.219	1.682	2.646	2.124
Cash	4,014	0.126	0.033	0.084	0.169	0.136
Growth	4,014	0.184	-0.020	0.064	0.193	0.550
Tangible	4,014	0.211	0.101	0.174	0.292	0.149
Inflation	4,014	2.917	1.420	2.180	3.610	2.679
GDP	4,014	28.890	27.950	28.850	30.300	1.466

Notes: All variables are winsorized at 1% and 99% level. Variable definitions are presented in Table A1.

Table 3. Correlation matrix and variance inflation factor (VIF)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	VIF
(1) GPR	1.000									1.438
(2) Size	0.010	1.000								1.402
(3) Leverage	0.012	-0.159	1.000							1.182
(4) Liquidity	0.018	-0.147	-0.285	1.000						1.090
(5) Cash	0.042	-0.157	-0.156	0.477	1.000					1.088
(6) Growth	-0.015	-0.044	-0.079	0.132	0.224	1.000				1.086
(7) Tangible	0.015	0.037	0.125	-0.159	-0.242	-0.116	1.000			1.069
(8) Inflation	0.142	0.059	-0.005	-0.029	-0.036	0.075	0.039	1.000		1.069
(9) GDP	0.017	-0.008	0.097	0.142	0.073	-0.002	-0.096	-0.177	1.000	1.027

Notes: Variable definitions are presented in Table A. 1.

Table 4. Fixed-effects estimations

	Dependent variable lnQ		
	(1)	(2)	(3)
GPR	4.059***	6.810***	4.292**
	(0.681)	(1.349)	(1.670)
Size		-0.130***	-0.141***
		(0.046)	(0.046)
Leverage		0.155*	0.154*
		(0.084)	(0.081)
Liquidity		-0.013*	-0.011*
		(0.007)	(0.007)
Cash		0.403***	0.438***
		(0.143)	(0.140)
Growth		0.021	0.016
		(0.021)	(0.020)
Tangible		-0.088	-0.056
		(0.172)	(0.163)
Inflation			0.035
			(0.021)
GDP			0.150*
			(0.080)
Constant	-18.794***	-29.202***	-21.399***
	(3.246)	(5.712)	(6.387)
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Number of firms	299	299	299
Observations	4,014	4,014	4,014
R-squared	0.079	0.134	0.153

Notes: Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 5. Effects of geopolitical Acts and Threats on financial performance

	Dependent variable lnQ			
	(1)	(2)	(3)	(4)
GPT	2.312***		2.445**	
	(0.388)		(0.951)	
GPA		9.676***		10.231**
		(1.622)		(3.981)
Size			-0.141***	-0.141***
			(0.046)	(0.046)
Leverage			0.154*	0.154*
			(0.081)	(0.081)
Liquidity			-0.011*	-0.011*
			(0.007)	(0.007)
Cash			0.438***	0.438***
			(0.140)	(0.140)
Growth			0.016	0.016
			(0.020)	(0.020)
Tangible			-0.056	-0.056
			(0.163)	(0.163)
Inflation			0.035	0.035
			(0.021)	(0.021)
GDP			0.150*	0.150*
			(0.080)	(0.080)
Constant	-10.626***	-45.319***	-12.764***	-49.446***
	(1.877)	(7.693)	(3.159)	(17.222)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Number of firms	299	299	299	299
Observations	4,014	4,014	4,014	4,014
R-squared	0.079	0.079	0.153	0.153

Notes: Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 6. Generalized Method of Moments (GMM) results

	Dependent variable lnQ		
	(1)	(2)	(3)
L.TobinsQ	0.714***	0.673***	0.785***
	(0.135)	(0.150)	(0.101)
GPR	0.103***		
	(0.024)		
GPA		0.042***	
		(0.013)	
GPT			0.122***
			(0.026)
Size	-0.009	-0.010	-0.007
	(0.006)	(0.007)	(0.005)
Leverage	0.147*	0.164*	0.120*
	(0.078)	(0.086)	(0.063)
Liquidity	-0.008	-0.008	-0.008*
	(0.005)	(0.005)	(0.005)
Cash	0.258	0.311	0.168
	(0.205)	(0.221)	(0.166)
Growth	-0.028	-0.025	-0.034*
	(0.020)	(0.021)	(0.020)
Tangible	-0.082	-0.089	-0.071
	(0.065)	(0.071)	(0.057)
Inflation	-0.002	-0.001	-0.003
	(0.003)	(0.004)	(0.003)
GDP	0.019*	0.023**	0.011
	(0.010)	(0.011)	(0.008)
Constant	-0.676***	-0.477*	-0.610***
	(0.251)	(0.254)	(0.204)
Observations	3,611	3,611	3,611
AR (1) test (p-value)	0.000	0.001	0.000
AR (2) test (p-value)	0.858	0.801	0.847
Sargan test (p-value)	0.675	0.528	0.787
Hansen test (p-value)	0.752	0.625	0.844

Notes: Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 7. Instrumental variable (IV -2SLS), Lewbel (2012) and PSM

	First stage	Second stage	Lewbel	PSM
	GPR	lnQ	lnQ	lnQ
	(1)	(2)	(3)	(4)
Political Stability	-0.263***			
	(0.018)			
GPR (Instrumented)		1.093***		
		(0.223)		
GPR			0.529**	3.760**
			(0.252)	(1.819)
Firm FE	Yes	Yes	No	Yes
Year FE	No	No	No	Yes
Observations	3,636	3,636	4,014	2,980
R-squared	0.118	0.074	0.162	0.146
Hansen test (p-value)			0.3244	
Cragg-Donald Wald F-statistic	209.830			
Stock–Yogo size of nominal 10%	16.38			

Notes: This table presents the results for the estimations of IV-2SLS in Columns (1)-(2), Lewbel (2012) in Column (3) and PSM in Column (4). Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 8. ITVC methodology

	ITCV	ITCV implied correlations	p(x,GPR)	p(x, lnQ)	Impact_raw	p(x,GPR_Z)	P (x, lnQ_Z)	Impact_partial
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
GPR	0.031	0.177						
Cash			0.0416	0.2720	0.0113	0.0520	0.2334	0.0121
Leverage			0.0123	0.1987	0.0024	0.0145	0.2026	0.0029
GDP			0.0166	0.1469	0.0024	0.0383	0.1084	0.0042
Liquidity			0.0180	0.0964	0.0017	0.0019	-0.0208	0
Growth			-0.0153	0.0936	-0.0014	-0.0356	0.0456	-0.0016
Tangible			0.0155	-0.1048	-0.0016	0.0212	-0.0524	-0.0011
Size			0.0103	-0.2499	-0.0026	0.0111	-0.1818	-0.0020
Inflation			0.1421	-0.050	-0.0071	0.1496	-0.0141	-0.0021
Max value			0.1421	0.2720	0.0113	0.1496	0.2334	0.0121

Notes: This table presents the potential influence of correlated omitted variables on the relationship between GPR (main independent variable) and lnQ (dependent variable). Column (1) reports the impact threshold for a confounding variable (ITCV). Column (2) shows the minimum correlation a variable must have with the dependent variable and GPR, in order to make the coefficient of GPR statistically insignificant. Columns (3) and (4) provide the raw correlations between GPR and lnQ and each control variable, respectively. Columns (5) shows the raw impact, calculated as the product of these correlations. Columns (6) and (7) present the corresponding partial correlations, while Column (8) reports the partial impact, defined as the product of the partial correlations. All variables are defined in the Appendix table A1.

Table 9. Robustness tests: Alternative standard errors specifications

	Exclude financial crisis and COVID-19	Subperiod after crisis	Subperiod last decade	Exclude U.S.	Country-Year FE	Two-Way Clustering	RANDOM	BOOTSTRAP	JACKKNIFE
	Dependent variable lnQ								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
GPR	4.231**	0.937***	0.909***	2.340**	3.311**	4.292**	5.030***	4.292**	4.292**
	(1.953)	(0.209)	(0.348)	(1.011)	(1.591)	(1.781)	(1.130)	(1.696)	(1.807)
Baseline Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Country FE	No	No	No	No	Yes	No	No	No	No
Firm RE	No	No	No	No	No	No	Yes	No	No
Year RE	No	No	No	No	No	No	Yes	No	No
Observations	3,242	2,639	1,987	2,681	4,014	3,990	4,014	4,014	4,014
R-squared	0.143	0.180	0.189	0.132	0.386	0.153	0.173	0.153	0.153

Notes: This table presents the robustness results of our baseline estimations using different sample and standard errors specifications. In Columns (1), (2), (3) and (4) we re-examine our baseline findings excluding the crisis periods (financial crisis and COVID-19), we account for the subperiods 2010-2024 and 2015-2024 and exclude U.S., respectively. The country and year fixed-effects regressions are presented in Column (5), the two-way clustering standard errors (firm-year) are in Column (6), the random effects regressions are in Column (7), and the Bootstrap and Jackknife standard errors are reported in Columns (8) and (9) respectively. Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 10. Channel analysis

	First Stage	Second stage	First Stage	Second Stage	First Stage	Second Stage
	Military expenditure	lnQ	Global military expenditure	lnQ	Total Revenues	lnQ
	(1)	(2)	(3)	(4)	(5)	(6)
GPR	0.088***		0.074***		4.764**	
	(0.030)		(0.012)		(2.009)	
Fitted Military expenditure		48.611**				
		(18.914)				
Fitted Global military expenditure				57.691**		
				(22.445)		
Fitted Total Revenues						0.901**
						(0.351)
Baseline Controls	Yes	Yes	Yes	Yes	Yes	Yes
Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,659	3,659	3,742	3,742	3,981	3,981
R-squared	0.155	0.153	0.239	0.153	0.039	0.153

Notes: This table presents estimates for the channel analysis. In the first stage (Column 1), we regress the GPR on the Military expenditure. In the second stage (Column 2), we regress the fitted values from the first stage on our dependent variable, lnQ. In columns (3) and (4) we run the same procedure using Global military expenditure as a channel. In columns (5) and (6) we estimate the same procedure using Total Revenues (in billions) as a channel. Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 11. Alternative measures for market performance

	Dependent variable Returns			Dependent variable MtB		
	(1)	(2)	(3)	(4)	(5)	(6)
GPR	4.364***			9.288***		
	(0.957)			(3.192)		
GPA		10.404***			22.141***	
		(2.280)			(7.609)	
GPT			2.486***			5.291***
			(0.545)			(1.818)
Baseline Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Number of firms	277	277	277	290	290	290
Observations	3,743	3,743	3,743	3,774	3,774	3,774
R-squared	0.184	0.184	0.184	0.152	0.152	0.152

Notes: This table reports the baseline results using alternative measures for firm performance. The dependent variables are *Returns* and Market to Book (MtB) and our main independent variables of interest are the GPR and its subindexes GPA and GPT. Standard errors in parentheses with firm clustering. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 12. Heterogeneity tests

	Dependent variable lnQ								
	Aerospace			Defense			Both A&D		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
GPR	3.139*			7.969**			4.885**		
	(1.830)			(3.783)			(2.051)		
GPA		7.483*			18.996**			11.643**	
		(4.362)			(9.017)			(4.888)	
GPT			1.788*			4.539**			2.782**
			(1.042)			(2.155)			(1.168)
Baseline Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of firms	135	135	135	87	87	87	77	77	77
Observations	2,013	2,013	2,013	1,083	1,083	1,083	918	918	918
R-squared	0.148	0.148	0.148	0.251	0.251	0.251	0.312	0.312	0.312

Notes: We divide the sample into Aerospace (Columns (1)-(3)), Defense (Columns (4)-(6)) and Both A&D (Columns (7)-(9)) according to the SIC codes. For firms without a clear classification, we reviewed their official websites and business descriptions. Firms that could not be clearly assigned to either sector were classified as both A&D. Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table 13. Heterogeneity tests based on level of development

	Dependent variable lnQ					
	Developed Countries			Developing Countries		
	(1)	(2)	(3)	(4)	(5)	(6)
GPR	9.805***			-0.446		
	(2.460)			(0.623)		
GPA		23.373***			-0.488	
		(5.864)			(0.682)	
GPT			5.586***			-0.361
			(1.401)			(0.505)
Baseline Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Number of firms	160	160	160	139	139	139
Observations	2,602	2,602	2,602	1,412	1,412	1,412
R-squared	0.231	0.231	0.231	0.164	0.164	0.164

Notes: This table reports the results for the heterogeneity analysis. We divide the sample into developed (Columns (1)-(3)) and developing countries (Columns (3)-(6)), according to the MSCI classification. Standard errors in parenthesis. ***, **, and * denote statistical significance at 1%, 5%, and 10% level, respectively. Variable definitions are presented in Table A1.

Table A. 1. Variable definitions

Abbreviation	*Explanation*
Dependent variables	
lnQ	Natural logarithm of Tobin's Q, measured as the market value of equity plus the book value of total assets, minus the book value of equity to the book value of total assets.
Returns	Annual stock return.
MtB	Natural logarithm of the market value to book value of equity.
Independent variables	
GPR	Natural logarithm of global geopolitical risk index, developed by Caldara and Iacoviello (2022), measured as the average of monthly data points.
GPA	Natural logarithm of the subindex global geopolitical Acts, measured as the average of monthly data points.
GPT	Natural logarithm of the subindex global geopolitical Threats, measured as the average of monthly data points.
Size	Firm size measures as the natural logarithm of total assets.
Leverage	Total debt to total assets.
Liquidity	Total current assets to total current liabilities.
Cash	Cash holdings measured as cash and cash equivalents to total assets.
Growth	Year-on-year change in total assets.
Tangible	The ratio of property, plant, and equipment to total assets.
Inflation	Inflation rate per country.
GDP	Natural logarithm of country's annual GDP

Table A. 2. PSM results

	Mean			t-test	
Variable	Treated	Control	%bias	t	p>t
Size	20.942	21.005	-2.100	-0.660	0.508
Leverage	0.236	0.233	1.000	0.290	0.771
Liquidity	2.348	2.306	2.000	0.620	0.537
Cash	0.127	0.125	1.500	0.460	0.648
Growth	0.170	0.181	-2.000	-0.630	0.527
Tangible	0.215	0.216	-0.700	-0.230	0.821
Inflation	2.992	3.069	-2.800	-0.830	0.409
GDP	28.904	28.873	2.1	0.660	0.512