Abstract
Using a database of 440 international political crises over the period 1918-2002, we find that international crises reduce world market stock returns by approximately four percent per annum. Crises cause large negative stock market reactions in their first month, lower than average returns during the remaining months, and a partial recovery when they end.

International crises not only have a strong impact on mean returns but also on volatility. The start of an average crisis increases monthly world market volatility by more than a third and the end of a crisis decreases volatility by slightly less than a third. Daily US stock market returns confirm our results. We also find that stock market reactions and volatility changes are significantly stronger when an international crisis starts with violence, involves more severe value threats, or when a major power is involved on both sides of a conflict. Financial consequences for investors in crisis actor countries are even more devastating.