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Stock Market Reactions to External Military Attacks: Evidence from Latin America in 2026

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Abstract

This paper studies how the Latin American stock market of Venezuela responded to an external military shock during late 2025 and early 2026. Using daily stock-index data for eight markets from 1 October 2025 to mid-March 2026, the paper combines dynamic event-study regressions with country and date fixed effects and a synthetic-control design. The primary outcome is the natural logarithm of the Venezuelan stock market level, while daily log returns are treated as a complementary but conceptually different outcome. Two event dates are evaluated in terms of military attacks: 27 December 2025 and 3 January 2026. The evidence indicates a large and persistent Venezuela-specific repricing in log levels after the shock window. For the 27 December specification, the event-study coefficients in log price are statistically indistinguishable from zero before the event, then rise sharply after the event day and peak around trading day +7 at about 1.293 log points. By contrast, the 3 January specification exhibits sizeable negative pre-trends in log price, suggesting

that markets had already begun increasing prices before that date. Synthetic control estimates reinforce the same interpretation with average post-event gaps above 1.22 log points in both cases.

Keywords: stock markets; geopolitical risk; event study; synthetic control; Latin America; Venezuela

1 Introduction

This paper examines whether an external military shock associated with Venezuela generated an abnormal repricing (or increase) compared to the Latin American equity markets during late 2025 and early 2026. The empirical motivation is straightforward; Geopolitical confrontations can alter expected cash flows, sovereign risk, capital flows, exchange-rate expectations, and commodity-market conditions, all of which may be reflected rapidly in stock prices. A long literature studies how financial markets react to violent events, terrorism, military invasions, and broader geopolitical shocks, often finding sharp but heterogeneous responses across countries and sectors (Chen and Siems, 2004; Arin et al., 2008; Kollias et al., 2011; Caldara and Iacoviello, 2022; Zhang et al., 2023; Yilmazkuday, 2024).

The contribution of this paper is narrow and empirical but relevant to the context where military attacks are becoming common again in the world executed by the economic powers. We assemble a daily panel of major Latin American stock indices of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, and Venezuela from 1 October 2025 to mid-March 2026, and evaluate if Venezuela displays an exceptional post-shock trajectory relative to the other regional Latin-American peers, as Venezuela was the country that directly suffered the military interventions from the United States of America.

The design combines two complementary strategies. First, we estimate dynamic event-study models with country and date fixed effects. Second, we proceed to construct a synthetic control for Venezuela using the remaining markets as donors to potentially infer the counterfactual trajectory of Venezuela without any military US attack. The combined logic is useful because event-study regressions trace the timing of the abnormal response given the military attack (or expectations to it), while the synthetic-control design offers an explicit counterfactual path for the treated market (MacKinlay, 1997; Miller, 2023; Abadie and Gardeazabal, 2003; Abadie et al., 2010; Abadie, 2021).

A central modeling choice in this paper is to treat log price as the primary outcome and daily log returns (dlog price) as a different and complementary outcome. This distinction is important because log levels are well suited to tracking persistent repricing relative to a control group, whereas daily log returns are much noisier and mostly capture the instantaneous adjustment at the event horizon. In a setting where the market may incorporate news over several days, or even before the formal event date, a level specification can be more informative about the cumulative valuation effect. This point becomes decisive in the present research. Hence, the paper studies two possible event dates: 27 December 2025 and 3 January 2026, the explanation of these two dates goes as follows; according to Madhani & Toropin (2025) and Turse (2025), the President of the United States Donald Trump said publicly that close to the 27 of December of 2025 a potential military strike took place in Venezuelan soil eliminating a building used for drug-trafficking, then the 3 of January of 2026 Reuters confirmed the military raid to capture President Nicolas Maduro of Venezuela (Reuters, 2026).

The empirical evidence, according to our estimations, strongly favors the earlier date as the baseline specification. In the level-based event study, the 27 December model shows no statistically significant pre-trends, followed by a large positive post-event divergence for Venezuela. By contrast, the 3 January model displays substantial negative pre-event coefficients, consistent with the idea that repricing had already begun before that date. The synthetic-control results point in the same direction: both dates generate large post-event gaps, but the pre-trend diagnostics make 27 December the more credible baseline.

The policy implications for this are relevant to the geopolitical strategist which finds that military attacks can contain significant speculation effects on the stock market of attacked countries, this phenomena can also be used to increase or inflate the price of stock market options which are a new form that financial markets can use to increase their benefits.

The remainder of the paper proceeds as follows. Section 2 reviews the relevant literature. Section 3 describes the data and the empirical strategy. Section 4 presents the main results. Section 5 reports robustness checks. Section 6 concludes the research.

2 Literature Review

This section contains the relevant literature review in three strands. The first part is that it relates to methodological literature on event studies, main use of the estimation approaches, where classic contributions show that daily returns can be used effectively to identify abnormal market reactions around discrete events, provided that the studies are explicit about the event window, the analysis of the counterfactual process as well, and the interpretation of pre-event dynamics (Brown and Warner, 1985; MacKinlay, 1997). More recent work emphasizes that modern event-study designs in panel settings should be read as dynamic treatment-effect estimators, with particular attention to pre-trends and timing assumptions (Miller, 2023; Freyaldenhoven et al., 2019); these concerns are central to the current research because the empirical question is not only whether the Venezuelan stock market moved, but also when the abnormal movement began given the U.S. military intervention.

Recent developments in difference-in-differences research also clarify the limitations of conventional event-study regressions. For example, Sun and Abraham (2021) show that, when treatment timing varies and treatment effects are heterogeneous, standard two-way fixed-effects specifications may produce lead and lag coefficients that combine effects from different periods. Borusyak et al. (2024) similarly develop an imputation-based framework that defines the relevant counterfactual outcomes more explicitly and avoids some of the contamination present in conventional estimators. Although these problems are most acute in staggered-adoption settings, their broader lesson remains relevant to a single-country geopolitical event: researchers must define the estimand, comparison group, and treatment timing before interpreting event-time coefficients as causal effects. Moreover, the absence of statistically significant pre-event coefficients should not be treated as definitive evidence of parallel trends. Roth (2022) demonstrates that conventional pre-trend tests can have low statistical power and that selecting specifications according to whether they pass such tests can distort both estimation and inference. Consequently, this study evaluates the magnitude and pattern of pre-event coefficients and analyses anticipation effects.

Event dating is also fundamentally an information-identification problem which the literature reviews. The date on which a military operation occurs may differ from the date on which investors first assign a substantial probability to that operation. Chadefaux (2017), using historical bond-market data, finds that conflict onsets often surprise market participants, although financial prices can still contain information about changing perceptions of conflict risk before the formal onset. Research in the financial media further demonstrates that the speed and intensity with which information enters prices depends on how news is disseminated and interpreted. Engelberg and Parsons (2011) provide causal evidence that local media coverage affects investor trading, while Griffin et al. (2011) document substantial cross-country differences in the information content of news and in the relationship between public announcements and market volatility. Tetlock (2011) additionally shows that investors may react even to information that substantially repeats earlier news, generating temporary price movements. These findings justify distinguishing between the date of the realized intervention and earlier dates associated with threats, military escalation, media reports, or public confirmation of preceding operations.

The second part related to the review is the literature on financial-market responses to violent or geopolitical events. Studies on terrorism, invasions, and conflict-related shocks generally find that markets react quickly or event with some window of anticipation, although the magnitude and persistence vary across countries and depending on market depth, exposure, and institutional resilience (Chen and Siems, 2004; Arin et al., 2008; Kollias et al., 2011). The broader geopolitical-risk literature similarly shows that geopolitical tensions can affect stock prices and volatility through uncertainty, energy markets, and risk premia (Caldara and Iacoviello, 2022; Zhang et al., 2023; Yilmazkuday, 2024). These channels motivate the inclusion of exchange rate and oil controls in the event-study specifications.

Evidence from conflict-specific research also suggests that the direction of the market response is not uniformly negative towards shocks. Guidolin and La Ferrara (2010) examine 101 internal and interstate

conflicts and find significant reactions across stock indices, exchange rates, oil prices, and other commodities. Their results also indicate that domestic equity markets sometimes react positively to the onset of conflict, particularly when the event changes expectations about political control, future policy, or the duration of uncertainty. Rigobon and Sack (2005) similarly find that changes in the perceived probability of the Iraq War affected several U.S. financial variables before and during the conflict. These findings imply that a positive Venezuelan stock-market response should not automatically be interpreted as evidence that military violence increased economic value. Instead, investors may have been pricing a perceived reduction in regime uncertainty, expectations of policy change, possible sanctions relief, renewed access to international capital, or changes in the expected distribution of oil revenues. The interpretation must therefore distinguish the direct economic costs of military action from the valuation effects of an anticipated political transition.

The third part is the literature that uses and contributes to the synthetic-control tradition. Synthetic-control methods are particularly useful when one unit is exposed to a salient shock and a transparent weighted combination of untreated units can approximate its pre-treatment path (Abadie and Gardeazabal, 2003; Abadie et al., 2010; Abadie, 2021). In the present application, the synthetic control design is used as a robustness device rather than as the only identification strategy. This is important because the donor pool is limited in the Latin American context and as shown below, the optimal weights are highly concentrated on Brazil. That concentration does not invalidate the exercise, but it does encourage careful interpretation. The literature therefore suggests two practical lessons that guide the empirical analysis.

The first practical lesson from the literature is that event timing matters critically. If the market began reacting before the nominal event date, then a later event date will mechanically generate pre-trends. The second practical lesson is that level and return specifications need not tell the same story. A one-day abnormal return can be economically meaningful even when levels adjust over a longer horizon, and conversely a persistent level divergence can coexist with noisy return dynamics. This paper uses both outcomes, but treats the level specification as the primary lens through which the main repricing is identified.

The credibility of a synthetic-control estimate depends not only on the availability of untreated countries but also on the quality and stability of the pre-intervention fit. Ferman and Pinto (2021) show that synthetic-control estimators may remain biased when pretreatment fit is imperfect and treatment assignment is related to unobserved factors. This concern is particularly relevant when the treated market follows a trajectory that lies outside the range generated by the donor pool. In addition, Ferman et al. (2020) demonstrate that flexibility in selecting predictors, pretreatment periods, and outcome lags can create opportunities for specification searching. Accordingly, the synthetic-control analysis should report pretreatment prediction error, donor weights, alternative predictor sets, leave-one-donor-out results, and placebo interventions. In the present study, the concentration of weight on Brazil should therefore be interpreted as evidence that Brazil provides most of the available counterfactual information, while also motivating sensitivity tests that examine whether the estimated post-intervention gap survives the removal of Brazil or changes in the pretreatment period.

Finally, a related asset-pricing literature interprets geopolitical shocks as changes in the probability of rare but economically severe outcomes. Berkman et al. (2011) show that time-varying international crisis risk is associated with lower equity returns, consistent with investors demanding compensation for exposure to low-probability disasters. This perspective helps explain why geopolitical information may influence markets before any observable destruction occurs: prices respond to revisions in expected future states, not solely to realized economic losses. In the Venezuelan case, the relevant repricing may therefore combine several competing expectations, including disruption to oil production, changes in sovereign and regulatory risk, capital-market reopening, and shifts in the probability of broader regional conflict. Because these channels may operate with different signs, the aggregate index response represents the net valuation effect of several expectations rather than a direct measure of the material damage caused by the intervention.

Taken together, these strands reveal a gap that the present study addresses. Much of the existing evidence examines international conflict across broad samples, developed financial markets, or global geopolitical-risk indices. Less is known about how a relatively small and institutionally distinctive Latin American equity market reacts to a direct external military intervention, particularly when information may have entered prices before the formal intervention date. This study contributes by separating anticipatory signals from the realized military event, comparing Venezuela with other Latin American markets, and examining both short-run log returns and persistent movements in log-price levels. The combination of a panel event study, alternative event dates, short-window return analysis, and synthetic-control evidence provides complementary perspectives on whether the observed repricing was temporary, anticipated, or sustained. The empirical strategy therefore does not rely on a single estimator but instead evaluates whether the principal findings remain coherent across methods with different identifying assumptions.

3 Methodology

This section presents the data used for the research, it presents the event study design, and the synthetic control approach to study the effects of the U. S. military attacks on Venezuela on the Venezuelan stock market.

3.1 Data

The dataset is a daily panel of stock-index series constructed from individual CSV files. After harmonizing variable formats and converting prices to numeric form, the final panel begins on 1 October 2025. The country coverage includes eight markets: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, and Venezuela. Each country contributes between 107 and 115 daily observations, and the estimation windows used in the main models contain 325 observations after applying the event-study window restriction. The dependent variables are:

1. Log price: the natural logarithm of the index level;
2. dlog price: the first difference of log price, interpreted as the daily log return.

The paper explicitly prioritizes log price as the primary outcome. The return specification is informative about immediate turbulence, but not always about the cumulative and persistent repricing that follows a geopolitical shock.

The dataset also incorporates two sets of controls. First, it merges daily exchange rates from Yahoo Finance to construct country-specific USD/local-currency movements. Second, it merges daily WTI and Brent prices with FRED and translates oil prices into local-currency terms using the corresponding exchange rate. In practice, the oil control used in the baseline event-study regressions is the local-currency WTI measure. Table 1 summarizes the sample coverage.

Table 1: Sample coverage by country

Country	First date	Last date	Observations
Argentina	2025-10-01	2026-03-16	113
Brazil	2025-10-01	2026-03-16	114
Chile	2025-10-01	2026-03-16	114

Country	First date	Last date	Observations
Colombia	2025-10-01	2026-03-16	111
Costa Rica	2025-10-01	2026-03-13	115
Mexico	2025-10-01	2026-03-13	113
Peru	2025-10-01	2026-03-16	114
Venezuela	2025-10-01	2026-03-13	107

Notes: Each row reports the available daily observations for the corresponding stock-index series after harmonization and sample trimming from 1 October 2025 onward.

3.2 Event-study design

The baseline event-study specification is:

$$Y_{ct} = \sum_{k \neq -1} \beta_k \, 1\,[EventTime_{ct} = k] \times Treated_c + X'_{ct}\gamma + \alpha_c + \delta_t + e_{ct} \qquad (1)$$

Where Y_{ct} is either log price or dlog price for country c on date t, $Treated_c$ equals one for Venezuela, α_c are country fixed effects, and δ_t are common date fixed effects. The omitted eventtime category is k = −1, so all coefficients are interpreted relative to the trading day immediately preceding the event. The $1\,[EventTime_{ct} = k]$ is an indicator function which gets activated when the date of the event starts. The models are estimated over a symmetric event window from −20 to +20 trading days. The term X'_{ct} denotes the vector of controls variables. Three nested specifications are considered: 1. Main: no additional control variables beyond country and date fixed effects; 2. FX: Inclusion of country-specific exchange-rate controls; 3. FX+WTI: Inclusion of the exchange-rate controls plus local-currency oil-price controls.

Two event dates are analyzed:

- 27 December 2025: The date where Donald Trump announced to the media the military attack in Venezuelan soil (Madhani & Toropin, 2025; Turse, 2025)
- 3 January 2026: The effective date where the military operation took place to kidnap the president of Venezuela Nicolas Maduro (Reuters, 2025)

This dual-date strategy is crucial because uncertainty about timing is itself part of the identification problem. If the market begins to price the shock before the nominal date, the later specification should reveal anticipatory coefficients. In that sense, the comparison across dates is informative, not a nuisance.

3.3 Synthetic control

The synthetic-control exercise follows the standard logic of Abadie and Gardeazabal (2003) and Abadie et al. (2010). For each candidate event date, We use pre-event log price to estimate nonnegative donor weights that sum to one and minimize the pre-treatment distance between Venezuela and a weighted average of untreated markets. The post-treatment gap is:

$$Gap_t = \log(P_t^{VEN}) - \sum_j w_j \log\left(P_t^j\right) \qquad (2)$$

Where t is a specific trading day. P_t^{Ven} is the observed Venezuelan stock market index level on day t. We also got j as each untreated donor country where we are including the mentioned Latin American countries, hence P_t^j is the stock market index of donor country j on day t. w_j is the weight assigned to the donor country j, which are non-negative and should normally satisfy the condition that $\sum_j w_j = 1$. It is important to note that $\sum_j w_j \log(P_t^j)$ term is the estimated path of the "synthetic Venezuela" which derives from the construction of the weighted combination of the donor countries.

We report three diagnostics; 1. The pre-treatment RMSPE; 2. the post-treatment RMSPE; 3. the ratio of post-treatment to pre-treatment RMSPE. We also plot placebo envelopes generated by iteratively reassigning treatment to donor countries. Because the estimated donor weights are extremely concentrated on Brazil, these placebo results are interpreted cautiously and as corroborative evidence rather than as a stand-alone identification device.

4 Results

4.1 Descriptive evidence

Figures 1 and 2 provide the first indication that Venezuela behaves differently from the regional donor pool. The log-level series for Venezuela rises sharply around the late-December/early-January window and remains far above its pre-event trajectory. By contrast, the remaining markets move within comparatively narrow bands. The returns plot conveys the same message in a different metric: Venezuela exhibits several exceptionally large daily movements clustered around the event window, while most other markets remain somewhat stable.

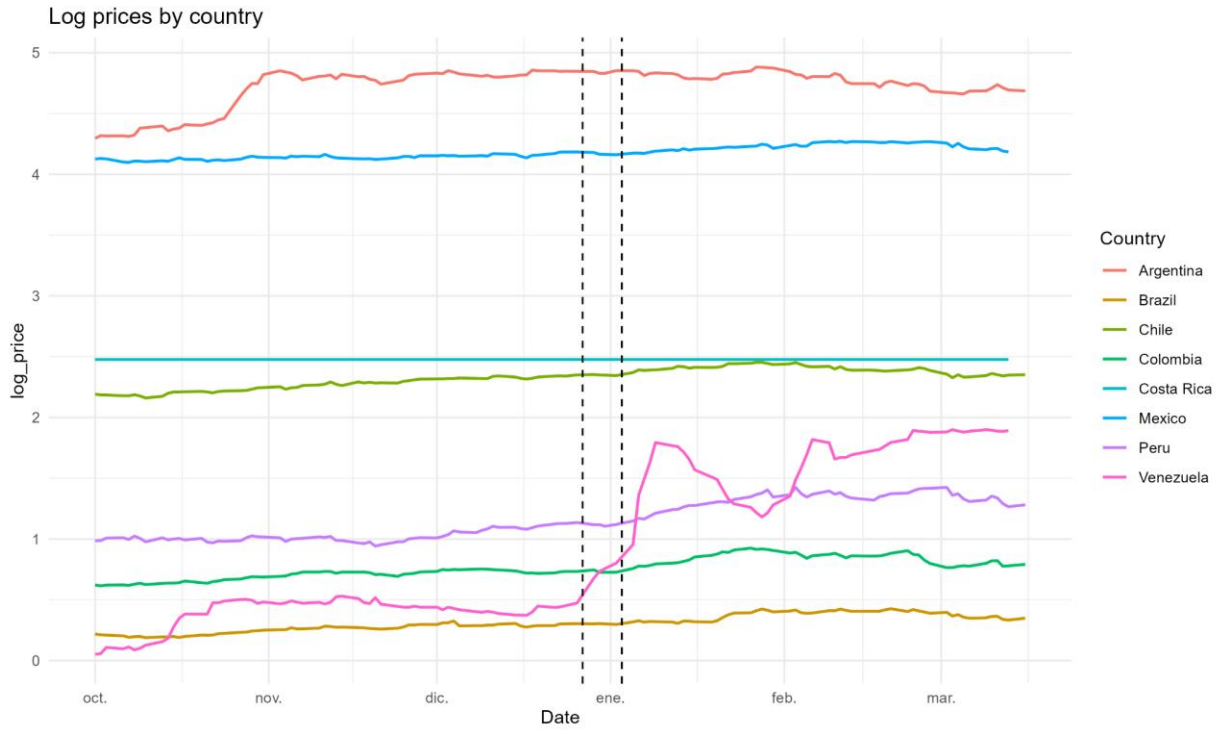


Figure 1: Log stock-index levels by country

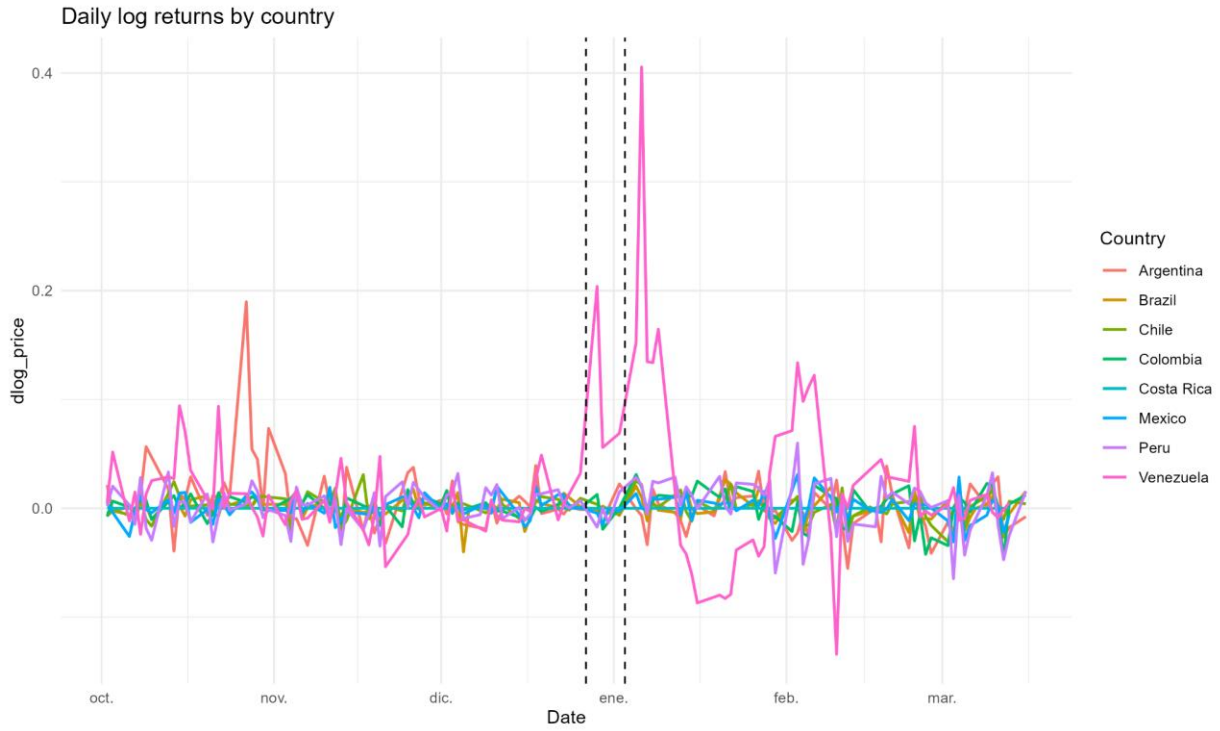


Figure 2: Daily log returns by country

These descriptive patterns already suggest that the Venezuelan market did not merely experience a transitory return shock. Rather, it underwent a discrete and persistent upward repricing relative to other Latin American indices. That is the main reason why log price is the appropriate primary outcome.

4.2 Baseline event-study results:

Log levels in Figures 3 and 4 report the dynamic treatment effects for the main log-level specification under the two alternative event dates. We start first by the 27 of December of 2025 in Figure 3 and the second date of the 3 of January of 2026 in Figure 4.

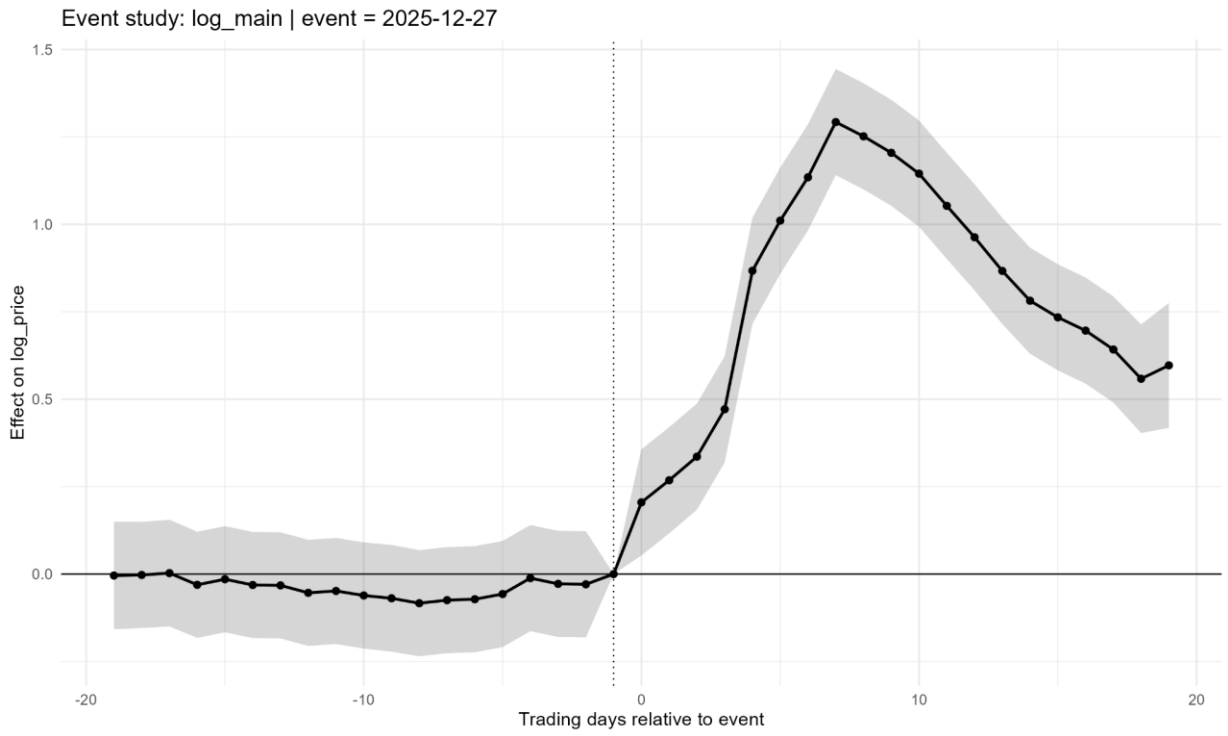


Figure 3: Event study in log price with event date 27 December 2025

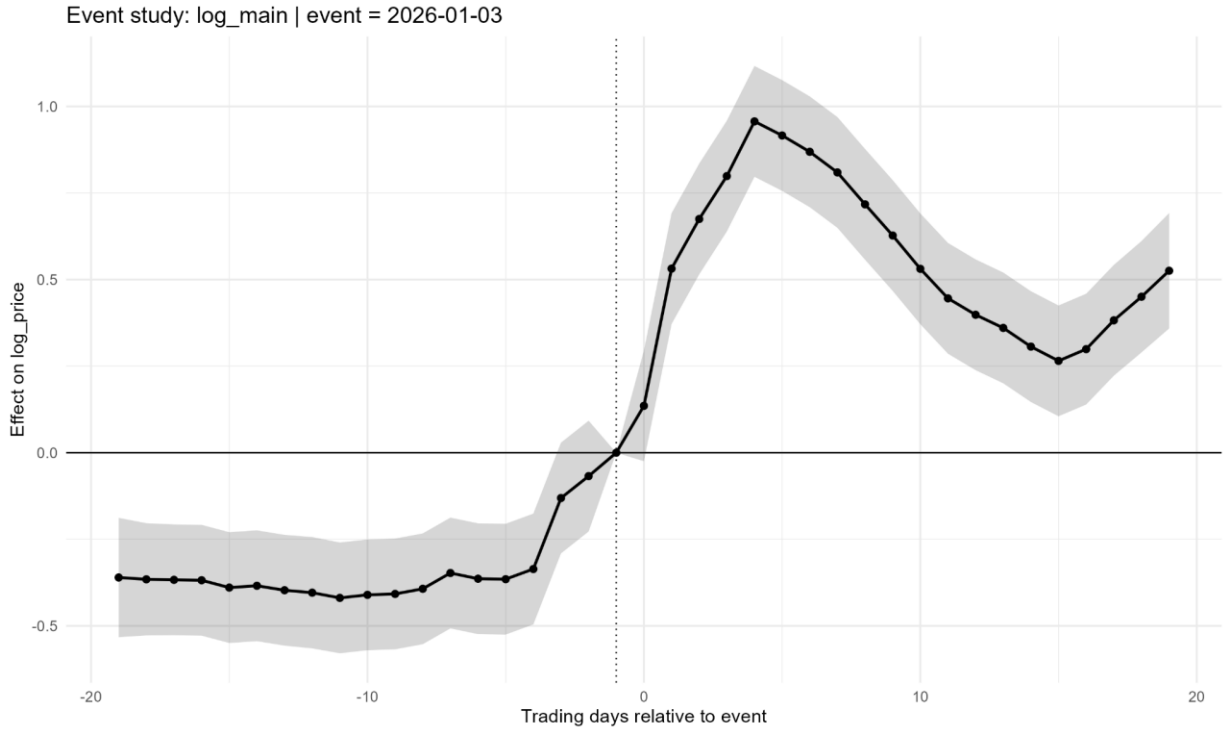


Figure 4: Event study in log price with event date 3 January 2026

The 27 December specification is the preferred baseline. Its pre-treatment coefficients are small, jointly quiet in visual terms, and individually insignificant throughout the pre-event window. Immediately after the event day, the estimated effect becomes positive and grows rapidly in terms of the log price. The coefficient is 0.205 log points on impact, 0.868 by trading day +4, and 1.293 by trading day +7. Even by trading day +19, the effect remains 0.597 log points. In percentage terms, these correspond approximately to 22.8 percent on

impact, 138.1 percent by day t+4, 264.2 percent by day t+7, and 81.6 percent by day t+19 relative to the omitted pre-event day and net of common regional factors.

The 3 January specification also shows a positive post-event path, but it is much less convincing as a baseline design because the pre-treatment coefficients are already strongly negative, indicating the existence of differential parallel trends. Out of the 18 pre-event coefficients in log price, 17 are individually significant at conventional levels. The average pre-event coefficient is about −0.349 log points. This is precisely the pattern one would expect if the market had begun to reprice before 3 January. In other words, the January specification is informative because it reveals mistimed treatment assignment. Table 2 reports selected coefficients from the main log-level model.

Table 2: Selected event-study coefficients for the primary outcome: log_price

	Event = 2025-12-27		Event = 2026-01-03	
Event time	Estimate	95% CI	Estimate	95% CI
0	0.205***	[0.090, 0.320]	0.135**	[0.014, 0.257]
1	0.268***	[0.153, 0.383]	0.532***	[0.410, 0.653]
4	0.867***	[0.752, 0.983]	0.957***	[0.835, 1.078]
7	1.293***	[1.177, 1.408]	0.809***	[0.688, 0.931]
10	1.145***	[1.030, 1.260]	0.531***	[0.410, 0.652]
15	0.734***	[0.619, 0.849]	0.265***	[0.144, 0.387]
19	0.597***	[0.461, 0.732]	0.525***	[0.399, 0.652]

Notes: Coefficients are relative to event time −1. The preferred baseline is 27 December 2025 because the log_price coefficients exhibit no meaningful pre-trend under that date, whereas the 3 January specification shows substantial anticipatory movement. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Model fit is very high in the log specifications. The within-R2 is 0.956 for the baseline log main model with event date 27 December, compared with 0.951 for the corresponding 3 January model. These values are expected in a panel with country and date fixed effects and a sharply differentiated treated path, but they also confirm that the dynamic treatment profile is not driven by a poor overall fit.

4.3 Interpretation

Taken together, the level estimates point to a large and persistent Venezuelan repricing relative to the regional panel. The substantive interpretation is not that all of the movement occurred in one trading session. Rather, the evidence suggests a multi-day assimilation of the military shock, with the bulk of the divergence occurring shortly after 27 December and continuing into early January. That is precisely the empirical situation in which a level-based design is more informative than a return-only design because it is possible to inspect potential persisting effects after military intervention.

5 Robustness tests

The previous event study results are contrasted with a set of robustness tests where the specification changes according to log daily return and the inclusion of macroeconomic control variables.

5.1 Alternative outcome:

The daily log returns (dlog price) are shown as event study results are in Figures 5 and 6 considering also the alternative of the two event dates.

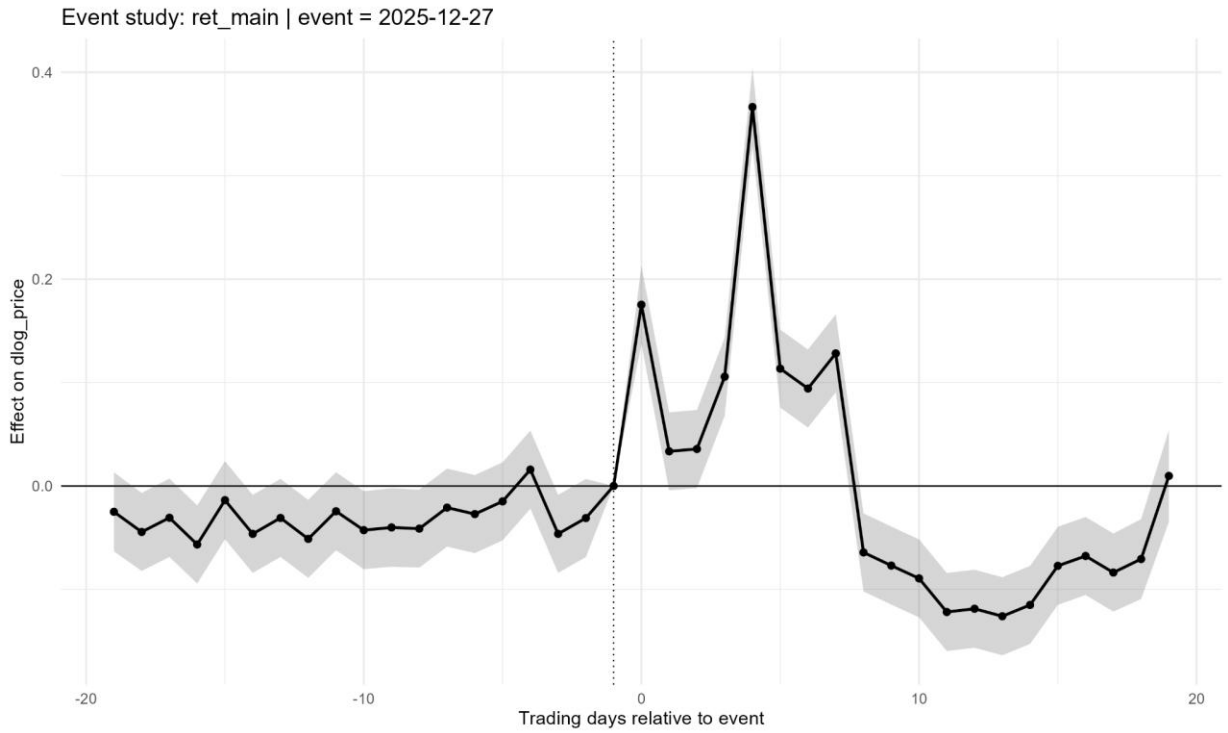


Figure 5: Event study in dlog price with event date 27 December 2025

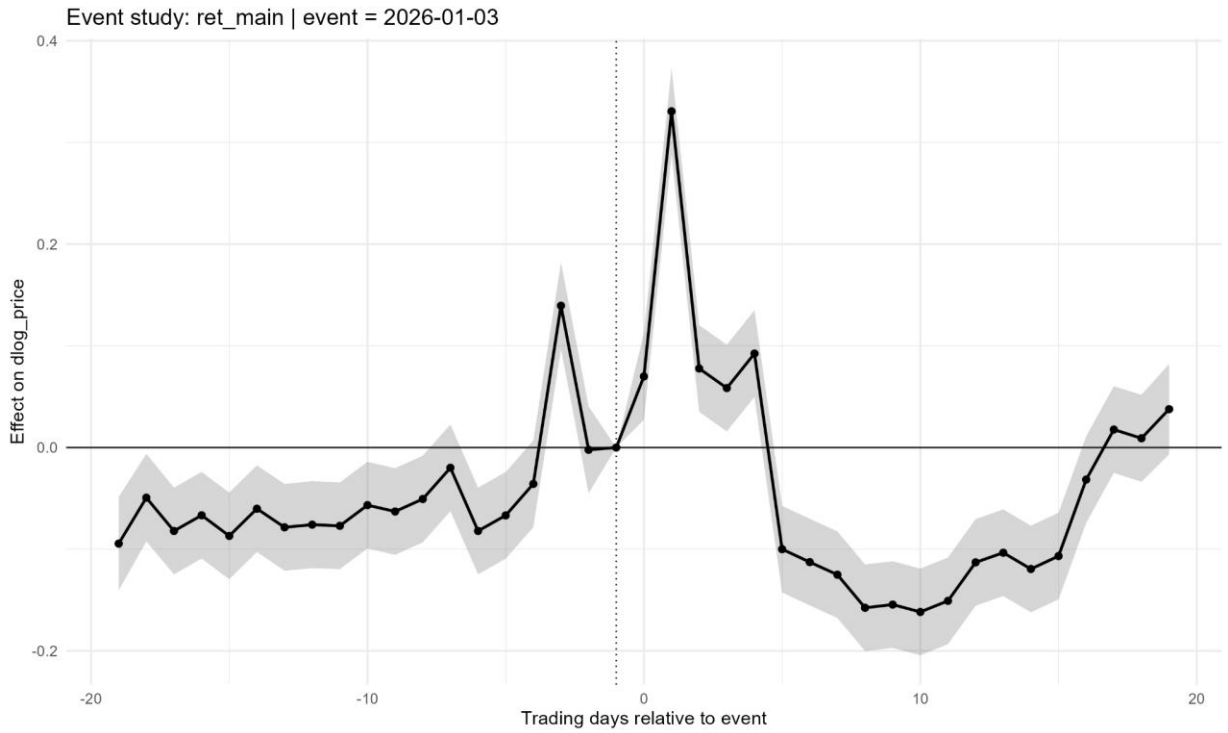


Figure 6: Event study in dlog price with event date 3 January 2026

These models confirm that Venezuela experienced unusually large, short-run return movements, but they also illustrate why returns are not the preferred outcome for the main question as potential violations of parallel trends exists under this volatile specification. In fact, under the 27 December specification, the return effect is positive and significant at impact (0.175), which remains positive through day +5, then turns negative later in the window as the initial price jump is partially absorbed by subsequent daily adjustments. Under the 3 January specification, the largest return effect appears at day +1 (0.331), but the pre-event coefficients are again noisy and sometimes significant. In short, returns detect turbulence, whereas levels trace the cumulative repricing. Table 3 reports selected coefficients from the return-based models.

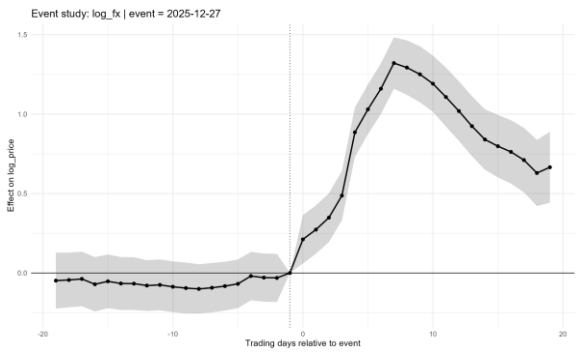
Table 3: Selected event-study coefficients for the complementary outcome: dlog_price

	Event = 2025-12-27		Event = 2026-01-03	
Event time	Estimate	95% CI	Estimate	95% CI
0	0.175***	[0.147, 0.204]	0.070***	[0.038, 0.102]
1	0.033**	[0.005, 0.062]	0.331***	[0.298, 0.363]
3	0.106***	[0.077, 0.134]	0.058***	[0.026, 0.091]
4	0.366***	[0.338, 0.395]	0.092***	[0.060, 0.125]
5	0.113***	[0.085, 0.142]	-0.100***	[-0.132, -0.068]
10	-0.089***	[-0.118, -0.061]	-0.162***	[-0.194, -0.129]
19	0.010	[-0.024, 0.043]	0.038**	[0.004, 0.071]

Notes: Coefficients are relative to event time −1. Return-based models are useful for identifying the timing of the immediate jump, but they are not equivalent to the level-based effect and should not be interpreted as a substitute for the cumulative repricing shown in log_price. $^{*}p < 0.10$, $^{**}p < 0.05$, $^{***}p < 0.01$.

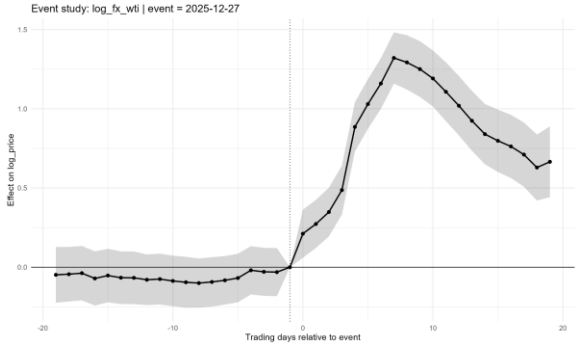
5.2 Adding exchange-rate and oil controls to the baseline

Given that the daily returns does not fulfill the parallel trend test, the baseline specification with log prices is preferred for the date of 27 of December, here we change the baseline specification such that specifications that add FX controls and FX plus local-currency WTI controls produce dynamic paths that are visually almost identical to the main log-level results. The within-R2 values increase only marginally relative to the main specification. This stability indicates that the abnormal Venezuelan path is not simply an artifact of contemporaneous exchange-rate or oil-price movements. Instead, the differential movement survives these controls. For the sake of completeness, we also show the estimations with the log price under the 3 of January specifications in panels (c) and (d).



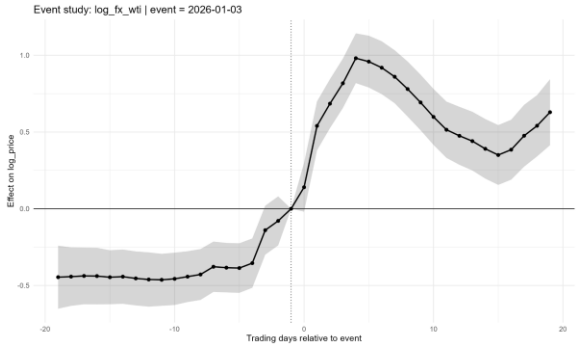
(a) FX controls, event = 2025-12-27

Figure 7a: Log-level event study with additional controls



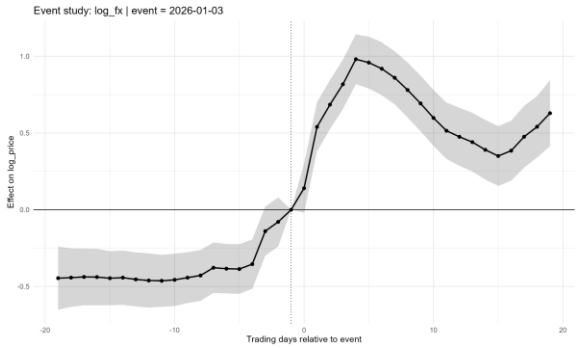
(b) FX and WTI controls, event = 2025-12-27

Figure 7b: Log-level event study with additional controls



(c) FX controls, event = 2026-01-03

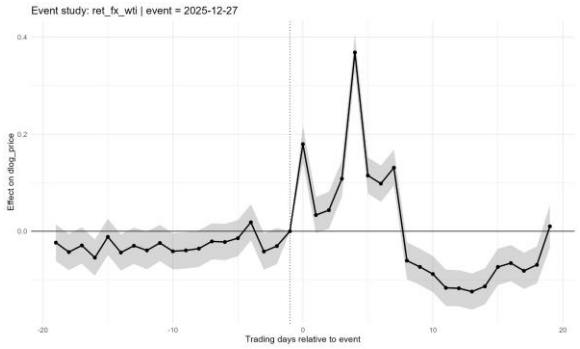
Figure 7c: Log-level event study with additional controls



(d) FX and WTI controls, event = 2026-01-03

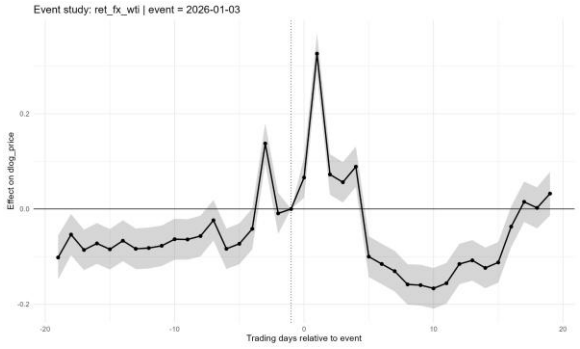
Figure 7d: Log-level event study with additional controls

A similar conclusion holds for the return-based specifications with FX and oil controls as shown in the next Figures 8 panel (a) and (b).



(a) Event = 2025-12-27

Figure 8a: Return-based event study with FX and WTI controls



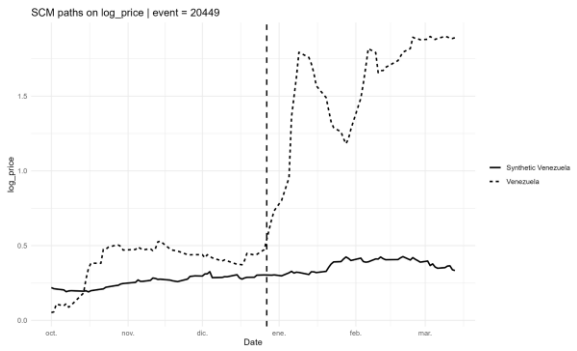
(b) Event = 2026-01-03

Figure 8b: Return-based event study with FX and WTI controls

The main conclusion of these robustness exercise is that in fact, 27 of December works as a potential date that suits the first military attack announced by President Donald Trump over Venezuelan soil in which the parallel trend assumption seems to fulfill, this for the baseline model without covariates, the specification with FX macroeconomic controls, and the general model with WTI prices control. On the contrast, January 3 of 2026 shows differential pretends which invalids the potential causal effects even when the estimated effects are positive too over the log price of the stock market.

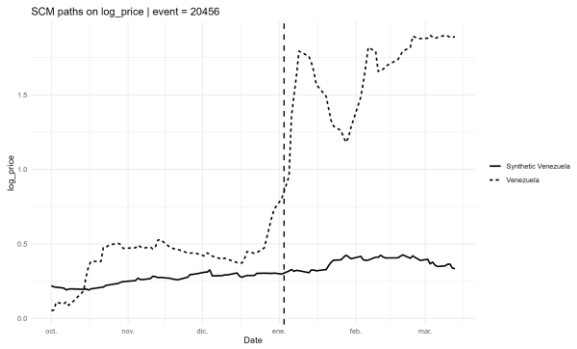
5.3 Synthetic-control evidence

The synthetic-control results strongly reinforce the main finding. Figures 9 and 11 show that Venezuela diverges sharply from its synthetic counterpart after the event window under both candidate dates.



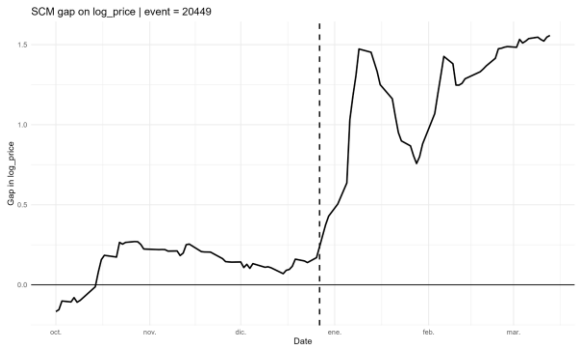
(a) Event = 2025-12-27

Figure 9a: Venezuela and its synthetic control in log price



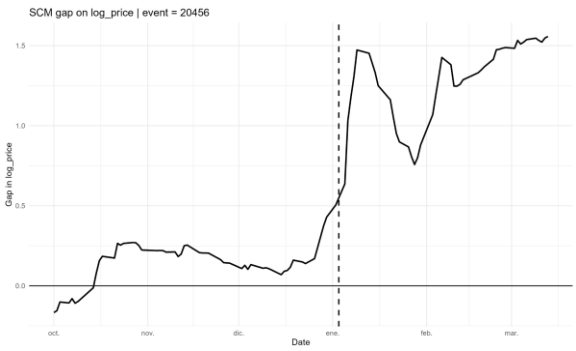
(b) Event = 2026-01-03

Figure 9b: Venezuela and its synthetic control in log price



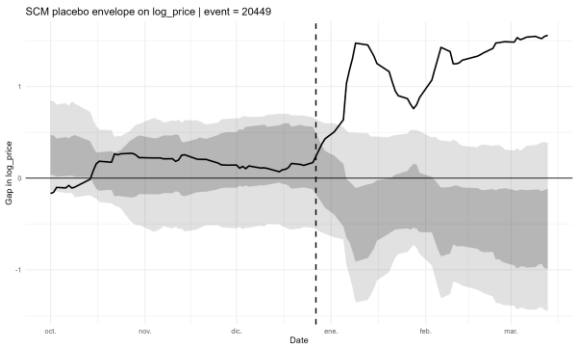
(a) Gap series, event = 2025-12-27

Figure 10a: Synthetic-control gap in log price



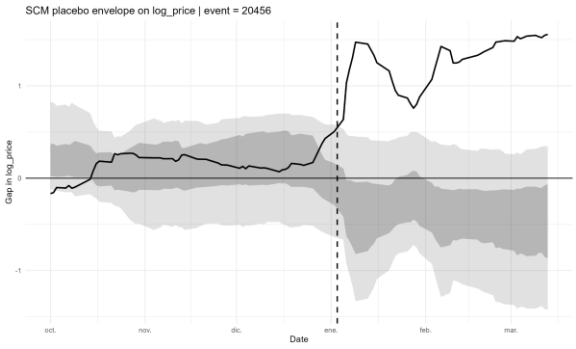
(b) Gap series, event = 2026-01-03

Figure 10b: Synthetic-control gap in log price



(a) Placebo envelope, event = 2025-12-27

Figure 11a: Synthetic-control placebo envelope



(b) Placebo envelope, event = 2026-01-03

Figure 11b: Synthetic-control placebo envelope

Table 4 reports the main synthetic-control diagnostics involving pre-treatment and post-treatment RMSPE, along with average post event gaps.

Table 4: Synthetic-control diagnostics for Venezuela

Statistic	**Event = 2025-12-27**	**Event = 2026-01-03**
Pre-treatment RMSPE	0.175	0.201

Post-treatment RMSPE	1.262	1.298
Post/pre RMSPE ratio	7.202	6.470
Average post-event gap (log points)	1.221	1.274
Average post-event gap (%)	254.8	268.1

Notes: The average post-event percentage gap is computed from the log gap as 100 × (e^gap - 1) and then averaged over the post-treatment period.

The synthetic-control design also reveals an important limitation: the donor weights are highly concentrated in Brazil, with Colombia and Peru receiving only negligible residual mass as tables 5 remark.

Table 5A: Synthetic-control donor weights (event = 2025-12-27)

Donor	Weight
Brazil	0.999998
Colombia	0.000002
Peru	0.000000
Chile	0.000000
Mexico	0.000000
Argentina	0.000000

Table 5B: Synthetic-control donor weights (event = 2026-01-03)

Donor	Weight
Brazil	0.999993
Colombia	0.000007
Peru	0.000000
Chile	0.000000
Costa Rica	0.000000
Mexico	0.000000
Argentina	0.000000

This donor concentration has two implications. First, the synthetic control is transparent: in practice, it is almost a Brazil benchmark with minute adjustments. Second, placebo inference must be interpreted carefully, because one donor dominates the fit. Even with that caveat, the synthetic-control gap remains extremely large after the event and fully consistent with the event study evidence.

5.4 What survives the robustness exercises?

Three conclusions survive every robustness check. Venezuela exhibits a post-shock divergence in log price that is far larger than the movements observed in other Latin American markets. Also, the empirical timing matters; the 27 December specification is cleaner because the level-based event study does not show anticipatory movement before that date and there are parallel trends before the event relative of the treated unit (Venezuela) and the control group (the rest of the Latin American countries). However, the 3 January specification, by contrast, shows strong negative pre-trends, which are more consistent with delayed coding of the event than with delayed pricing by the market, potentially explained by anticipation effects remarked.

Finally, adding FX and oil controls, switching to returns, and using a synthetic-control benchmark do not overturn the core finding because they only refine the interpretation: the level specifications identify a persistent repricing, whereas return specifications isolate the high-frequency jump and subsequent volatility.

6 Policy recommendations

We would like to recommend a set of two policy recommendations based on the empirical findings encountered during this research. This research documented potential stock market increases given the effect of an external military attack of the United States on Venezuela, such shock increases the log prices of the stock market. Hence, our policy recommendations are more oriented towards monitoring and surveillance and the possibility to create restricted trading rules when this kind of military intervention might generate rent-seeking patterns.

The first policy recommendation is creation of a geopolitical event market-surveillance international protocol, considering that regulators of securities and stock markets should create protocols for periods of credible military escalations. The suggested protocol can be activated whenever an observable development related to military attacks might confront a territory or a set of territories, and the activation might depend on official threats, statements of governments, troop deployment, announcements of sanctions, confirmed military operations or any form of credible report that might establish the materialization of a military intervention. Since the findings of our study suggests that economically significant repricing might exists given the news available information (e.g. the announcement of Donald Trump), making pre-event trading becomes highly important just like the post event trading records and movements. The protocol might be suitable to reduce speculation and to track down potential extreme benefactors of military interventions.

Once activated the protocol should keep track and examine abnormal changes in prices, trading volumes, order cancellations, abnormal purchases, derivatives positions, and transactions related to severing debt, exchange rates, oil, and exchanged traded instruments. A recommended 21 day is suggested for pre and post event windows which when extended to public escalation can begin earlier. The protocol can track down exchanges and financial intermediaries with the sole idea of preservation the account-level order and records, in order to identify the ultimate beneficial owners of accounts responsible for unusually profitable significant situations given military attacks (or the information about them). Flagged transactions should be presumed illegal, rather they should be flagged as risk-based for further review related to comparing trading behaviors and nonpublic information.

Since geopolitical events can affect securities traded through several jurisdictions, national regulators shall create with the protocol a set of rapid cross-border investigations mechanisms to share records, beneficial ownership information and suspicious transactions from the flagged records. In particular, this policy recommendation is consistent with the IOSCO (2008) principles that in general state the rules of protection of investors towards insider trading and manipulation practices as well as the IOSCO (n.d.) multilateral framework for cooperation against cross-border misconducts.

The second policy recommendation is the possibility that international authorities might implement restricted trading and conflict-of-interest rules for actors with privileged geopolitical information. National governments should adopt regimes that can restrict trading for individuals that can receive confidential information concerning military operations related to economic decisions. This has some important implications because the covered population should include senior defense, intelligence, foreign-affairs, military and intelligence contractors along with political-intelligence and advisers and/or consultants, this might involve their spouses, dependent family members, and close associates. Restrictions should apply not only to shares issued in the affected countries but also to financial investments such as derivatives, exchange

trade funds, severing debt, foreign exchange instruments, energy-related securities and products which might be related to the misconduct use of confidential information. The good practices to avoid restrictions can imply the disclose beneficial ownership and financial interests, also compliance should be monitored jointly by an independent public-ethics authority and the relevant securities regulators. If suspicious profits are identified then investigators should be able to compare financial transactions with access logs, briefing attendance, communication with financial intermediaries and transaction records. This policy recommendation goes in line with the OECD (2004) principles such that private financial interests must not improperly influence public duties, consistent with the FATF (2013) guidance requiring enhanced scrutiny of politically exposed people, their family members, and close associates. The U.S. Securities and Exchange Commission (n.d.) explanation of insider trading is especially relevant because it expressly identifies government employees and political intelligence consultants as potential users of transmitters of material nonpublic information.

7 Conclusions

This paper analyzed the response of Latin American stock markets to an external military shock associated with Venezuela in late 2025 and early 2026. Using daily data, dynamic event studies, and synthetic controls, the paper found strong evidence of a large Venezuela-specific repricing relative to regional peers. The most important substantive conclusion is that log price should be treated as the main outcome. In this setting, the key question is whether the Venezuelan market moved onto a new level relative to comparable markets, not merely whether one or two daily returns were unusual. The level-based event study shows exactly that. Under the 27 December 2025 specification, the pre-treatment path is stable and the post-treatment coefficients rise sharply and persistently. Under the 3 January 2026 specification, the positive post-treatment effects remain, but the strong negative pre-trends indicate that the market had already started to price the shock before that date. The synthetic-control results corroborate this interpretation. Venezuela diverges dramatically from its synthetic counterpart after the event window, and the post/pre RMSPE ratios are large under both candidate dates. At the same time, the donor weights reveal that the synthetic control is dominated by Brazil, so the SCM evidence should be read as supportive rather than dispositive on its own. The paper therefore favors 27 December 2025 as the empirically more plausible baseline event date. The 3 January specification is still useful, but mainly as evidence that a later date of the shock induces clear anticipatory coefficients in the form of pre-trends. More broadly, the findings illustrate a general lesson for research on geopolitical shocks and financial markets: when information arrives gradually or leaks before the official event date, level-based event studies can be more informative than return-only models, and event timing becomes an empirical object of analysis rather than a fixed assumption. Future work could expand the donor pool, incorporate intraday or sectoral data, and test alternative counterfactual estimators. Even so, the evidence reported here already indicates that the Venezuelan stock market experienced a substantial and persistent abnormal repricing during the late-December 2025 to early-January 2026 shock window.

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