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Russia-Ukraine war sees investors rethink ethical objection to defence stocks

Study shows since the start of conflict, investors have shifted money into defence sector as financial incentives increase and ESG considerations are reframed.


Associate Professor Harminder Singh, Deakin Business School

MELBOURNE, AUSTRALIA, October 19, 2022 /EINPresswire.com/ -- A new study shows that since the beginning of the Russia-Ukraine conflict, investors – including institutions like super funds – have shifted their money into the defence sector as the financial incentives increase and ethical considerations are reframed.

This growing international appetite for defence stocks reverses an investor trend away from the sector that had resulted from a growing focus on environmental, social, and governance (ESG) factors in investment decisions.

Associate Professor Harminder Singh, a finance researcher at Deakin Business School, said his research showed investors' ESG considerations had changed as some sectors that might've been viewed as problematic took on a more sustainable role.

"There was a time when the investment community tried to avoid stocks in defence companies due to ESG concerns," Associate Professor Singh said.

"But the Russia-Ukraine war has meant many countries are moving to invest in their sovereign defence capabilities. Countries want to be able to defend themselves in case there are wider ramifications from the conflict.

“This makes stocks in the defence sector more appealing for investors. With more government money pouring in, there are more investment opportunities and the potential to earn greater stock returns.

“While the prime motivation for the changing investor appetite we detected is profit, we are also seeing a corresponding shift in ESG considerations that allow this switch to become publicly palatable. Investing in defence stocks can now be reframed in the more acceptable context of national security and community safety.”

The research, published in the journal Finance Research Letters, looked at a representative sample of global investment data from April 2019 to May 2022, finding a shift not just to the defence sector but also the energy sector.

“Russia is one of the world’s major oil exporters, so the conflict and subsequent sanctions has left a gap in the market that needs to be met. This means other countries are developing their own alternative energy projects, offering the opportunity for greater investment and stock returns,” Associate Professor Singh said.

“Like defence, the energy sector has faced ESG concerns. But we’re seeing that view can change, as global pressures change.”

Associate Professor Singh said these changes in investor preferences were important for the public to understand, “so we all know where our money is parked”.

“We all have investments in the stock market, whether that’s directly buying or selling our own shares, or indirectly through our superannuation on investment funds,” he said.

“This investment trend towards the defence and energy sectors might stay for at least a couple of years, depending, as time tells, whether it is the financially fruitful move that investors hope.”

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