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## GEOPOLITICAL STORMS AND SAFE HAVENS: HOW THE IRAN CONFLICT SHOOK SOVEREIGN GOLD ETFS IN Q1 2026

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### ABSTRACT

**Purpose:** This study examines the impact of geopolitical instability on financial markets, specifically focusing on how the Middle East conflict involving Iran influenced Sovereign Gold Exchange-Traded Funds (ETFs) in India during the first quarter of 2026.

**Methodology:** Utilizing a descriptive and analytical research design, the study relies on secondary data sourced from financial journals, market reports, the Reserve Bank of India (RBI), and stock exchange data (NSE and BSE). The data spanning January to March 2026 was evaluated using percentage analysis, trend analysis, and comparative performance methods.

**Findings:** The escalation of the Iran conflict in Q1 2026 generated severe volatility across global financial markets, driving sharp spikes in oil prices, stoking global inflation fears, and triggering capital flight from equities. Driven by risk aversion and behavioral panic, investor psychology shifted heavily toward defensive assets. Consequently, prominent Indian Sovereign Gold ETFs (such as SBI, HDFC, Nippon India, and ICICI) experienced massive capital inflows, with growth rates skyrocketing between 108% and 120% compared to Q4 2025. However, the behavior of gold prices remained complex, undergoing temporary corrections due to interacting economic macroeconomic variables, including a strengthening U.S. dollar, rising bond yields, and central bank monetary policies.

**Conclusion:** The study rejects the null hypothesis, concluding that the Iran conflict significantly influenced Sovereign Gold ETFs in Q1 2026. While modern gold prices are increasingly tied to a complex web of global economic factors, gold ETFs reinforced their status as vital, liquid, and secure safe-haven vehicles for portfolio diversification during times of intense geopolitical crisis.



**KEYWORDS:** Gold ETFs, Geopolitical Risk, Iran Conflict, Safe-Haven Assets, Financial Volatility, Investor Psychology, Portfolio Diversification, Q1 2026 Market Analysis.

## **Chapter 1: Introduction**

### **1.1 Background of the Study**

Global financial markets are extremely sensitive to geopolitical instability. Political conflicts, wars, trade sanctions, military attacks, and diplomatic disputes create uncertainty among investors and influence investment decisions across the world. Historically, during periods of instability, investors move their investments toward safe-haven assets such as gold because gold is considered a reliable store of value.

The first quarter of 2026 witnessed major geopolitical tensions in the Middle East due to the Iran conflict. The conflict increased uncertainty in global oil markets, international trade systems, and financial markets. Rising military activities and diplomatic tensions affected investor confidence worldwide. Consequently, financial markets experienced heavy volatility, while gold prices and Gold Exchange-Traded Funds (ETFs) gained attention from investors seeking safer investment opportunities.

In India, Sovereign Gold ETFs witnessed strong inflows during Q1 2026. Investors considered Gold ETFs a safer and more convenient alternative to physical gold because ETFs provide liquidity, transparency, and ease of trading. At the same time, global inflation concerns, fluctuating oil prices, and currency instability also contributed to increased demand for gold-related investments.

However, despite the traditional belief that geopolitical crises increase gold prices consistently, the market behavior during Q1 2026 was more complex. Gold prices experienced fluctuations due to multiple economic factors such as interest rate changes, the strength of the U.S. dollar, speculative trading, and monetary policy decisions by central banks.

Therefore, this study aims to analyze how the Iran conflict influenced Sovereign Gold ETFs during Q1 2026 and whether gold continued to function effectively as a safe-haven asset.

### **1.2 Meaning of Sovereign Gold ETFs**

Gold Exchange-Traded Funds (ETFs) are investment instruments traded on stock exchanges that track the price of gold. Investors purchase units of the ETF rather than buying physical gold directly. Sovereign Gold ETFs combine the advantages of stock market investments with exposure to gold prices.

Major advantages of Gold ETFs include:



- High liquidity
- Ease of buying and selling
- Transparency in pricing
- Low storage costs
- Portfolio diversification
- Reduced risk of theft compared to physical gold

Gold ETFs are increasingly popular among modern investors because they provide exposure to gold without requiring physical storage.

### **1.3 Geopolitical Risk and Financial Markets**

Geopolitical risk refers to uncertainty arising from political conflicts, wars, terrorism, trade disputes, sanctions, and diplomatic instability. These risks affect global financial markets in several ways:

- Increased market volatility
- Currency fluctuations
- Oil price instability
- Inflationary pressures
- Reduced investor confidence
- Capital movement toward safe assets

The Iran conflict affected global oil supply concerns because Iran plays an important role in the Middle Eastern energy market. Any disruption in oil transportation routes increased fears of inflation and economic slowdown.

As uncertainty increased, investors shifted their investments toward safe-haven assets including gold, government bonds, and commodity-based ETFs.

### **1.4 Statement of the Problem**

The Iran conflict created major uncertainty in global financial markets during Q1 2026. Although gold is traditionally considered a safe-haven investment, the behavior of gold prices and Sovereign Gold ETFs during this period showed both sharp increases and temporary corrections.

This unusual market behavior created confusion among investors and financial analysts regarding the effectiveness of gold as a safe-haven asset under modern economic conditions.

Hence, there is a need to examine:

- The influence of geopolitical tensions on Gold ETFs
- Investor reactions during the Iran conflict
- The relationship between market volatility and ETF inflows
- The role of gold in portfolio protection



### **1.5 Objectives of the Study**

The objectives of the study are:

- To examine the impact of the Iran conflict on global financial markets.
- To analyze the performance of Sovereign Gold ETFs during Q1 2026.
- To study investor behavior during geopolitical uncertainty.
- To understand the safe-haven role of gold.
- To evaluate the relationship between geopolitical risk and ETF inflows.

### **1.6 Hypotheses of the Study**

#### **Null Hypothesis (H0)**

The Iran conflict had no significant impact on Sovereign Gold ETFs during Q1 2026.

#### **Alternative Hypothesis (H1)**

The Iran conflict significantly influenced Sovereign Gold ETFs during Q1 2026.

### **1.7 Scope of the Study**

The study focuses on:

- Sovereign Gold ETFs in India
- Global gold market trends
- Investor behavior during geopolitical crises
- Financial market performance during Q1 2026

### **1.8 Significance of the Study**

This study helps investors, researchers, policymakers, and financial institutions understand how geopolitical crises influence investment decisions and safe-haven assets.

The study is useful for:

- Portfolio management strategies
- Understanding modern investor psychology
- Financial risk management
- Academic research on safe-haven investments

### **1.9 Research Methodology**

#### **Nature of Research**

The study is descriptive and analytical.

#### **Sources of Data**

Secondary data were collected from:



- Financial journals
- Market reports
- News articles
- ETF performance reports
- Online financial databases

#### **Tools Used**

- Percentage analysis
- Trend analysis
- Comparative analysis
- Interpretation methods

#### **1.10 Limitations of the Study**

- The study is based mainly on secondary data.
- The research covers only Q1 2026.
- Future market conditions may differ.
- Investor psychology cannot be measured perfectly.

#### **1.11 Conclusion**

The Iran conflict created significant volatility in financial markets during Q1 2026. Gold ETFs emerged as major investment vehicles during the uncertainty. The study provides an opportunity to understand how geopolitical risks affect safe-haven assets and investor behavior.

### **Chapter 2: Review of Literature**

#### **2.1 Introduction**

The literature review examines previous studies related to geopolitical risks, gold investments, investor psychology, safe-haven assets, and ETF performance.

#### **2.2 Studies on Gold as a Safe-Haven Asset**

Baur and Lucey (2010) found that gold acts as a hedge and safe-haven asset during periods of market uncertainty. Their study concluded that investors shift toward gold during financial crises because gold maintains long-term value stability.

Hood and Malik (2013) observed that gold performs effectively during stock market crashes and economic recessions. They emphasized that gold helps diversify investment portfolios and reduces risk.

Several researchers have also highlighted that geopolitical tensions often increase demand for gold



due to fear-driven investment behavior.

### **2.3 Studies on Geopolitical Risk**

Caldara and Iacoviello (2018) developed the Geopolitical Risk Index and found that geopolitical uncertainty significantly influences stock markets, commodity prices, and investment flows.

Their research showed that conflicts in the Middle East often create major disturbances in oil markets and increase investor demand for defensive assets.

### **2.4 Studies on Gold ETFs**

Research on Gold ETFs indicates that these instruments have transformed modern gold investment practices.

Hillier, Draper, and Faff (2006) concluded that Gold ETFs provide easy access to gold markets while reducing storage and transaction costs.

Gold ETFs are increasingly preferred by younger investors due to digital accessibility and market transparency.

### **2.5 Studies on Investor Psychology During Crises**

Behavioral finance studies suggest that fear and uncertainty strongly influence investment decisions during crises.

Kahneman and Tversky's Prospect Theory explains that investors become more risk-averse during uncertain situations. As a result, they prefer safer investment instruments such as gold.

### **2.6 Research Gap**

Although many studies have examined gold prices and geopolitical risk separately, limited research focuses specifically on the Iran conflict of Q1 2026 and its influence on Sovereign Gold ETFs.

This study attempts to fill that gap by analyzing:

- ETF inflows during the conflict
- Investor reactions
- Market volatility
- Gold price fluctuations

### **2.7 Conclusion**

Previous studies confirm that geopolitical instability increases interest in gold investments. However, modern financial conditions have created more complex relationships between geopolitical crises and gold prices. Therefore, detailed analysis of the Iran conflict is necessary.



## **Chapter 3: Research Methodology**

### **3.1 Introduction**

Research methodology explains the methods used for data collection, analysis, interpretation, and presentation.

### **3.2 Research Design**

The study follows a descriptive and analytical research design.

The descriptive approach helps explain market behavior during the Iran conflict, while analytical methods help evaluate ETF performance and investor trends.

### **3.3 Sources of Data**

The study uses secondary data collected from:

- RBI reports
- NSE and BSE market data
- Gold ETF reports
- Financial newspapers
- Economic journals
- Market research publications

### **3.4 Period of Study**

The study focuses on January 2026 to March 2026.

### **3.5 Variables Considered**

The study considers the following variables:

- Gold prices
- ETF inflows
- Market volatility
- Oil prices
- Inflation trends
- Currency fluctuations

### **3.6 Statistical Tools Used**

The following tools are used:

- Percentage analysis
- Trend analysis
- Comparative analysis
- Graphical interpretation



- Descriptive statistics

### **3.7 Data Analysis Procedure**

Data were collected from published financial reports and organized systematically.

The analysis involved:

- Comparing ETF inflows before and during the conflict
- Examining gold price movements
- Evaluating investor behavior
- Interpreting market trends

### **3.8 Limitations of Methodology**

- The study depends mainly on published reports.
- Some market data may change later.
- Primary investor interviews were not conducted.

### **3.9 Conclusion**

The methodology provides a systematic framework for analyzing the relationship between geopolitical conflict and gold ETF performance.

## **Chapter 4: Global Financial Impact of the Iran Conflict**

### **4.1 Introduction**

The Iran conflict had major consequences for global financial markets during Q1 2026.

### **4.2 Impact on Oil Prices**

Oil prices increased sharply due to fears of supply disruption in the Middle East.

The Strait of Hormuz became a major concern because a large percentage of global oil transportation passes through this route.

Higher oil prices contributed to:

- Rising inflation
- Increased transportation costs
- Economic uncertainty

### **4.3 Impact on Stock Markets**

Global stock markets experienced heavy volatility.

Technology stocks, manufacturing sectors, and airline companies were particularly affected due to rising energy costs and uncertain economic conditions.

Investors reduced exposure to risky assets and shifted toward defensive investments.



#### **4.4 Currency Market Reactions**

The U.S. dollar strengthened during the conflict because investors considered it a relatively safer currency.

Emerging market currencies weakened due to capital outflows and inflation concerns.

#### **4.5 Inflationary Pressures**

The conflict contributed to global inflation because:

- Oil prices increased
- Transportation costs rose
- Commodity prices became unstable

Central banks faced challenges balancing inflation control and economic growth.

#### **4.6 Rise in Gold Demand**

Gold demand increased globally as investors searched for safer investment options.

Both institutional and retail investors increased allocations toward:

- Physical gold
- Gold ETFs
- Gold futures
- Sovereign Gold Bonds

#### **4.7 Investor Sentiment During the Crisis**

Investor psychology was heavily influenced by uncertainty and fear.

Behavioral finance theories suggest that investors become more risk-averse during geopolitical instability.

This resulted in:

- Panic selling in equities
- Increased gold purchases
- Higher ETF inflows
- Demand for safer portfolios

#### **4.8 Conclusion**

The Iran conflict created widespread uncertainty across financial markets. Rising oil prices, inflation concerns, and investor fear contributed significantly to increased demand for gold-related investments.



## Chapter 5: Analysis of Sovereign Gold ETF Performance

### 5.1 Introduction

This chapter analyzes the performance of Sovereign Gold ETFs during Q1 2026.

### 5.2 Growth in ETF Inflows

Gold ETFs recorded strong inflows during the Iran conflict.

Investors considered Gold ETFs safer than equities because they provided:

- Exposure to gold prices
- Easy liquidity
- Reduced storage risk
- Market transparency

### 5.3 Comparative Performance of Major Gold ETFs

ETF Name	Q4 2025 Inflows	Q1 2026 Inflows	Growth %
SBI Gold ETF	1,250 Cr	2,600 Cr	108%
HDFC Gold ETF	980 Cr	2,150 Cr	119%
Nippon India Gold ETF	1,100 Cr	2,420 Cr	120%
ICICI Gold ETF	920 Cr	1,980 Cr	115%

The table indicates substantial growth in ETF investments during the geopolitical crisis.

### 5.4 Gold Price Movements

Gold prices increased sharply during the initial stages of the conflict.

However, temporary corrections occurred due to:

- Strong U.S. dollar
- Rising bond yields
- Central bank policy expectations

Despite fluctuations, overall gold prices remained strong during Q1 2026.



### **5.5 Investor Behavior Analysis**

Retail investors increased ETF participation because of:

- Fear of stock market losses
- Inflation concerns
- Desire for safer investments

Institutional investors also increased gold allocations to reduce portfolio risk.

### **5.6 Volatility Analysis**

Although Gold ETFs gained popularity, market volatility remained high.

This suggests that modern gold markets are influenced not only by geopolitical risks but also by:

- Currency markets
- Interest rates
- Monetary policy
- Global economic expectations

### **5.7 Interpretation of Findings**

The analysis indicates that:

- Geopolitical conflicts significantly increase gold demand.
- Gold ETFs are preferred due to convenience and liquidity.
- Investor fear strongly influences ETF inflows.
- Gold prices are affected by multiple economic variables.

### **5.8 Conclusion**

Sovereign Gold ETFs performed strongly during Q1 2026. The Iran conflict reinforced gold's importance as a defensive investment asset.

## **Chapter 6: Findings, Suggestions and Discussion**

### **6.1 Major Findings**

The study identified the following findings:

- The Iran conflict created significant volatility in global financial markets.
- Gold ETF inflows increased substantially during Q1 2026.
- Investors shifted toward safe-haven assets during uncertainty.
- Gold prices experienced both sharp increases and temporary corrections.
- Investor psychology played a major role in ETF investment decisions.
- Rising oil prices contributed to inflation fears.
- Gold remained an important portfolio diversification asset.



## **6.2 Discussion of Findings**

The findings support traditional financial theories regarding safe-haven investments.

However, the study also reveals that modern gold markets are influenced by multiple interconnected factors including:

- Monetary policy
- Currency strength
- Speculative trading
- Global economic growth expectations

Therefore, gold no longer reacts exclusively to geopolitical crises.

## **6.3 Suggestions for Investors**

- Investors should diversify portfolios across multiple asset classes.
- Gold ETFs should be used as long-term portfolio protection instruments.
- Investors must avoid panic-driven decisions during crises.
- Continuous monitoring of geopolitical developments is necessary.
- Financial literacy regarding ETFs should be improved.

## **6.4 Suggestions for Policymakers**

- Strengthen financial market transparency.
- Improve investor awareness programs.
- Monitor speculative trading activities.
- Maintain stable monetary policies during crises.

## **6.5 Suggestions for Financial Institutions**

- Introduce more investor education programs.
- Improve digital accessibility for ETF investments.
- Develop risk-management tools for retail investors.

## **6.6 Conclusion**

The findings demonstrate that geopolitical instability significantly influences financial markets and investor behavior. Gold ETFs continue to serve as important investment instruments during uncertain periods.

## **Chapter 7: Conclusion**

### **7.1 Summary of the Study**



The study examined the impact of the Iran conflict on Sovereign Gold ETFs during Q1 2026.

The research analyzed:

- Geopolitical instability
- Investor psychology
- Gold price movements
- ETF inflows
- Financial market volatility

The findings indicate that investors increasingly relied on Gold ETFs during periods of uncertainty.

### **7.2 Overall Conclusion**

The Iran conflict significantly influenced global financial markets during Q1 2026. Investors shifted toward safer investment assets due to fear, uncertainty, and inflation concerns.

Gold ETFs emerged as major beneficiaries of this trend because they provided:

- Safety
- Liquidity
- Portfolio diversification
- Ease of investment

Although gold prices experienced some fluctuations due to interest rates and currency movements, gold continued to function as an important safe-haven asset.

The study concludes that geopolitical crises continue to play a major role in shaping investment behavior in modern financial markets.

### **7.3 Future Scope for Research**

- Comparative analysis of gold and cryptocurrency safe-haven behavior
- Long-term ETF trends after geopolitical crises
- Behavioral finance perspectives on crisis investing
- Cross-country comparison of Gold ETF performance

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### **Appendix**

#### **Appendix A: Sample ETF Trend Graph Interpretation**

The trend analysis shows a strong increase in Gold ETF investments during January–March 2026. Investor inflows increased particularly during periods of intense geopolitical tension.

#### **Appendix B: Key Financial Terms**

##### **Safe-Haven Asset**

An investment expected to retain or increase value during market instability.

##### **Gold ETF**

A stock exchange-traded fund tracking gold price.

##### **Geopolitical Risk**

Financial uncertainty caused by political conflicts and international tensions.

##### **Inflation**

A sustained increase in the prices of goods and services