

A Note on the Impact of the Canada-India Diplomatic Standoff on the Performance of Canadian Mutual Funds Investments in India

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On June 18, 2023, Mr. Hardeep Singh Nijjar, a Canadian citizen of Indian origin, was killed in Canada. On September 18, 2023, the Canadian Prime Minister, Mr. Justin Trudeau, accused the Indian Government of involvement in killing Mr. Nijjar in the Canadian Parliament. This accusation preceded and succeeded by other events, led to a significant diplomatic standoff that is still ongoing. We examine the impact of this event chain on the performance of daily returns of mutual funds based in Canada that are predominantly invested in Indian securities. Our results, controlled for general stock market returns, fund size, expense ratio, and interest rates, indicate that the events negatively impacted fund performance. Our study adds to the existing literature on the benefits of international diversification of mutual funds in disconnected markets. The findings of this paper suggest that political discord between two distinct and unrelated economies may impact profits and negate the advantages of international diversification. Our study is significant to professionals, particularly mutual fund managers, as it demonstrates the role of two countries' political ties in affecting mutual fund returns.

Keywords: information and market efficiency, event studies, international financial markets

INTRODUCTION

In modern history, democracies seldom accuse each other of killing their citizens. Most diplomatic disputes are settled with closed-door negotiations. On June 18, 2023, a Canadian citizen, Mr. Hardeep Singh Nijjar, was killed in Canada. Following this event, Canada paused its ongoing trade talks with India on September 1, then suspended them on September 15. Unprecedentedly, the Canadian Prime Minister, Mr. Justin Trudeau, accused the Indian Government of involvement in killing Mr. Nijjar in Canada's House of Commons. Canada's foreign minister, Mélanie Joly, expelled a senior Indian diplomat. India denied Mr. Trudeau's accusation and retaliated by expelling a senior Canadian diplomat and later asking Canada to reduce its diplomatic staff in India significantly. India also stopped issuing visas to Canadian citizens. The situation was partially resolved on October 25, 2023, when the Indian Government started reissuing visas to Canadian citizens. While the situation is not fully resolved and the diplomatic standoff continues, the

accusation in open Parliament by a Prime Minister of one democratic nation about another democracy is unprecedented in recent history. This paper aims to examine the impact of this event chain on Canadian-domiciled mutual fund investments in India. We examine the daily returns of this specific event chain on the daily returns of mutual funds that are Canada-based and invested significantly in India. Our results indicate that the market reacted to this diplomatic standoff negatively.

Diplomatic disputes are not uncommon in modern society. Historically, nations have accused each other of meddling in their internal affairs. However, there is no example in modern world history of two democratically elected governments engaging in a recent diplomatic standoff that Canada and India were involved in. According to the Government of Canada¹ website, “*Canada and India have longstanding bilateral relations built upon shared traditions of democracy, pluralism, and strong interpersonal connections. Canada is home to one of the largest communities of Indian origin, with approximately 4% of Canadians being of Indian heritage (1.3 million people).*” The trade relations between the countries are improving, with the website mentioning² that “*A priority market for Canada, in 2022, India was Canada’s 10th largest trading partner.*” While Canada and India are geographically located on different continents and, therefore, have no common border, their shared attributes, as mentioned by the Canadian Government’s website, ensured that they saw each other favorably. There have also been severe differences³, generally resolved over the years. However, this latest dispute in 2023 appears to be one where both governments openly blame each other for acting against their interests. This paper aims to record the impact these escalating tensions have had on Canada-based mutual fund daily returns that are partially or fully invested in India.

In the next section, we examine the related literature and present the motivation to study. We follow this up with data and methodology in next section, followed by conclusions and implications in the final section.

LITERATURE REVIEW AND MOTIVATION

Some earlier studies have examined the impact of diplomatic standoffs between nations on the stock market. For example, Saudi Arabia and several of its neighbors imposed heavy economic sanctions on Qatar in 2017. Baigut and Kapar (2020) examined the Qatar blockade’s impact on the stock markets of seven GCC countries. They reported that Qatar’s economy showed resilience in the long run after not doing well in the short run. Dubai’s real estate, Saudi Arabia’s banking, and Abu Dhabi’s energy industries registered positive abnormal returns, indicating no serious impact on the blockading countries. This very political tension and its implications for stock market dependence and volatility spillover were investigated by Charfeddine and Al Refai (2019). The authors conclude, “*Using data of stock markets returns covering the period from January 2011 to September 2018, the empirical results show that only the recent GCC crisis of June 2017 significantly affected the level of stock market dependence and volatility spillovers between Qatar and the other GCC countries, except for Bahrain. In particular, the results suggest that the economic blockade on Qatar since June 2017 only lowered the level of dependence and did not totally sever the financial links between the countries.*”

The impact of political tension on stock markets is also studied in the case of the Taiwanese Stock markets. He, Nielsson, and Wang (2017) report that non-violent events harming the relationship with mainland China have led to an average daily drop of 200 basis points in Taiwanese stock returns. Another study by Chau, Deesomsak, and Wang (2014) examined the extent of political uncertainty stemming from the Arab Spring in the Middle East and North African (MENA) countries’ stock markets. Differentiating between conventional and Islamic stock market indices, the authors report heterogeneous reactions to the political turmoil, with the political turbulence contributing to the volatility, especially for the Islamic indices. They also report little or no significant impact on their interaction and integration with the world market.

The conclusions that can be drawn from the studies mentioned above are that political and diplomatic tensions between nations impact stock markets. What makes the diplomatic standoff between India and Canada different are several factors. The first is that these countries are not contagious like the other

countries, which are the focus of the studies above. Second, both countries have a long-established record of being plural democracies. Finally, while accusations between nations are not uncommon, one seldom sees a democratically elected Prime Minister accuse another democracy of playing a role in the murder of one of his country's citizens. These three factors serve as our motivation for the paper. We examine the event chain of the unfolding crisis to see how the daily returns of Canadian-domiciled mutual funds predominantly invested in India are impacted.

DATA AND METHODOLOGY

We obtain daily data on the mutual fund return index, monthly net assets, monthly fund size, and expense ratio from Morningstar for all the mutual funds that are domiciled in Canada and invested in India. The daily return index and net assets are at the mutual fund share class level. Fund size is the aggregate of all share classes for each fund family. We collect the data for 5-year and 10-year benchmark bond yields from the Bank of Canada website and the S&P/TSX Composite Index from Yahoo Finance. Our sample period starts on April 13, 2022, and ends on November 10, 2023. The Bank of Canada started to increase the interest rates from April onwards; that's why we began our sample in April. We ended the sample period in November because by the month of November, the impact of the event had started fading away, and no substantial event was reported. The final sample has 1,612,318 share-day observations with valid data on returns and other standard controls. Our sample includes 1,160 unique mutual funds with 6,262 share classes.

TABLE 1
CHRONOLOGY OF EVENTS

Event Date	Description of Event
June 18, 2023	Canadian Sikh leader, Hardeep Singh Nijjar's Killing.
September 1, 2023	Pause in Talks by Canada.
September 10, 2023	Indian Prime minister Narendra Modi raises concerns about protests in Canada.
September 15, 2023	Canada postpones trade talks.
September 18, 2023	Canadian Prime minister Justin Trudeau accuses Indian government's potential involvement in killing of Canadian Sikh leader.
September 19, 2023	India dismisses Trudeau's assertion and Both Canada and India expel the diplomats.
September 20, 2023	India expresses caution for its citizens in Canada.
September 22, 2023	India suspends visas to Canadians and asks Canada to decrease its diplomatic representation in India.
October 3, 2023	India tells Canada it must repatriate 41 diplomats by October 10 allegedly.
October 19, 2023	Canada announces the repatriation of its diplomats from India

Table 1 presents the chronology of events related to the killing of Canadian Sikh leader Hardeep Singh Nijjar and the Canada-India diplomatic standoff. We identify all the major events following the timeline in various web articles published by Al Jazeera (2023). We further confirm the timeline of events using web articles from major news agencies like Reuters and BBC.

We use the multiple regression approach to examine the impact of a series of events between Canada and India on the mutual funds that have exposure to Indian stock market. We use the following regression model:

$$Return_{i,d} = \alpha + \beta_0 Event + \beta_1 TSX Index_d + \beta_2 Canada Bond Yield_d + \beta_3 India Bond Yield_d + \gamma Controls_{i,t-1} + \epsilon_{i,d} \quad (1)$$

where $Return_{i,d}$ is the return of a share class i on day d . $Event$ is a categorical variable that can take the values from 0 through 7 representing different event windows where $Event0$ represents the benchmark comparison period without the impact of any of the events with respect to Canada-India diplomatic standoff. $TSX Index_d$ is the return of S&P/TSX Composite Index, the benchmark index for Toronto Stock Exchange on day d . $Canada Bond Yield_d$ is the bond yield on 10-year benchmark bonds issued by government of Canada on day d . We also use 5-year benchmark bond yields and find qualitatively similar unreported results. $India Bond Yield_d$ is the bond yield on 10-year benchmark bonds issued by the government of India on day d . $Controls_{i,t-1}$ include monthly net assets and gross returns for each share class and expense ratio and aggregate fund size for fund family in the month $t-1$.

If the events have significant impact on mutual fund returns because of tensions between India and Canada, the impact should be more pronounced for the mutual funds that have greater exposure to Indian stock market compared to the mutual funds with less exposure to Indian stock market. We use the following regression model to compare the returns of mutual funds with different levels of exposures to Indian stock market.

$$Return_{i,d} = \alpha + \beta_0 Event + \beta_1 Tercile + \beta_2 Event * Tercile + \beta_3 TSX Index_d + \beta_4 Canada Bond Yield_d + \beta_5 India Bond Yield_d + \gamma Controls_{i,t-1} + \epsilon_{i,d} \quad (2)$$

In our model, $Tercile$ is a categorical variable that takes the values from 1 through 3. $Tercile 1$ is the group with the lowest exposure to the Indian stock market, and $Tercile 3$ represents the highest exposure to the Indian stock market.

EMPIRICAL RESULTS

Table 2 reports the summary statistics for mutual fund returns and different control variables at the fund level and country level.

TABLE 2
DESCRIPTIVE STATISTICS

<i>Variables</i>	<i>N</i>	<i>Mean</i>	<i>Std Dev</i>	<i>Median</i>	<i>Minimum</i>	<i>Maximum</i>
<i>Return</i>	3,143,213	0.00	0.01	0.00	-0.92	11.32
<i>Fund Size</i>	4,510,129	634.42	1,017.66	223.64	1.04	6,077.66
<i>Net Assets</i>	2,899,659	65.44	213.34	2.90	0.00	1,524.66
<i>Expense Ratio</i>	1,622,679	1.49	0.78	1.42	0.01	2.77
<i>TSX Index</i>	3,151,559	-0.03	0.91	0.05	-3.10	3.34
<i>Canada Bond Yield</i>	3,132,954	3.16	0.33	3.13	2.44	4.26
<i>India Bond Yield</i>	3,066,247	7.26	0.15	7.28	6.90	7.62

This table reports descriptive statistics of the *Return*, *Fund Size*, *Net Assets*, *Expense Ratio*, *TSX Index*, *Canada Bond Yield*, *India Bond Yield* and *Investment in India*. The descriptive statistics include the number of observations, mean, standard deviation, median, minimum, and maximum values of all the variables. These are based on the time-series averages over the sample period.

During our sample period, the return goes from -0.92 to 11.32. Fund Size and Net Assets are in millions of dollars. The value of fund size is the aggregate of all share classes under a fund, and net assets are at the share class level. The average fund size is \$634.42 million, with a minimum of \$1.04 million and a maximum of \$ 6,077.66 million. The mean expense ratio is 1.49% of fund assets and the highest expense ratio of 2.77% and the lowest expense ratio of 0.01%. The mean of -0.03 for the TSX index shows that during the sample period, on average, the Canadian market was performing poorly. 10-year benchmark bond yields on the bonds issued by the government of Canada range from a minimum of 2.44 to a maximum

of 4.26 as this period witnessed an increase in the interest rates in Canada. During the sample period, interest rates in Canada, as represented by the 10-year benchmark bond yield, increased by 75% approximately. The 10-year benchmark bond yield on Indian government bonds ranges from 6.90 to 7.62.

Table 3 reports Pearson's coefficients of correlation among different variables. TSX Index is positively correlated to mutual fund returns. We expect a positive association of Canadian mutual fund returns with market returns. *Fund Size* and *Net Assets* have a positive correlation of 0.383. As expected, the *Canada Bond Yield* has a negative coefficient of correlation with Canadian market returns as represented by the *TSX Index*. None of the variables are highly correlated to pose a threat of multicollinearity issues in the model.

TABLE 3
CORRELATION MATRIX

<i>Variables</i>	<i>Return</i>	<i>Fund Size</i>	<i>Net Assets</i>	<i>Expense Ratio</i>	<i>TSX Index</i>	<i>Canada Bond Yield</i>	<i>India Bond Yield</i>
<i>Return</i>	1.000						
<i>Fund Size</i>	0.001	1.000					
<i>Net Assets</i>	0.000	0.383	1.000				
<i>Expense Ratio</i>	-0.001	-0.002	-0.003	1.000			
<i>TSX Index</i>	0.441	0.000	0.000	0.000	1.000		
<i>Canada Bond Yield</i>	-0.034	-0.004	0.005	0.001	-0.070	1.000	
<i>India Bond Yield</i>	-0.006	-0.004	-0.004	0.000	-0.018	0.017	1.000

This table reports Pearson's correlation coefficients of *Return*, *Fund Size*, *Net Assets*, *Expense Ratio*, *TSX Index*, *Canada Bond Yield*, and *India Bond Yield*. Appendix Table A provides the definitions of the variables.

Table 4 examines the impact of the Canada-India diplomatic standoff on the performance of Canadian mutual funds that invest in India using Model (1). The coefficients of *Event 1* through *Event 7* show the performance of mutual funds during different event windows compared to the comparison period. We use daily mutual fund returns as the dependent variable. Columns (1) and (2) report the results without controlling for benchmark bond yields in India, whereas in columns (3) and (4), we control for benchmark bond yields in India. See Table 1 and Appendix Table A for the chronology of events and description of each event window respectively. Using daily mutual fund returns, the results show that *Event 1*, *Event 2*, *Event 4*, and *Event 6* have significantly lower returns on Canadian mutual funds that invest in India than our sample's benchmark comparison period. The coefficients of *Event 5* in all the models are positive and significant, whereas the coefficients for *Event 3* are weakly significant and insignificant for *Event 7*. The results suggest that the killing of Canadian Sikh leader Hardeep Singh Nijjar, Canada's reaction to the killing pausing in talks initially, then later postponing the trade talks with India, and accusing the Indian government of potential involvement in the murder, are considered as important events by the market and the market reacts negatively to all these events. The *Event 5* window, which represents the reaction of the Indian government followed by Canadian Prime Minister Justin Trudeau's accusation and announcement to suspend visas to Canadians, has statistically significant positive coefficients. It suggests that during the *Event 5* window, on average, the mutual fund returns are higher than comparison period returns. It might be attributed to the fact that the market probably considers these moves as a reflection of the economic and democratic strength that India has gained over the years, or in general, the returns during this period might be higher than the comparison period returns. If the market considers the moves of the government of India as a signal for the economic and democratic strength of India, then the impact should be more pronounced for the mutual funds with greater exposure to the Indian stock market. *Event 7*, which represents the time window after the repatriation of Canadian diplomats from India, is not significant in all the models, suggesting that the impact started subsiding after it.

TABLE 4
IMPACT OF DIFFERENT EVENTS ON MUTUAL FUND RETURNS

<i>Variables</i>	<i>(1)</i> <i>Return</i>	<i>(2)</i> <i>Return</i>	<i>(3)</i> <i>Return</i>	<i>(4)</i> <i>Return</i>
<i>Event1</i>	-0.002*** (-10.121)	-0.002*** (-10.341)	-0.002*** (-9.759)	-0.002*** (-9.996)
<i>Event2</i>	-0.007*** (-31.827)	-0.007*** (-31.629)	-0.007*** (-31.065)	-0.007*** (-30.887)
<i>Event3</i>	0.000* (1.819)	0.000** (1.998)	0.000* (1.866)	0.000** (2.021)
<i>Event4</i>	-0.001*** (-5.104)	-0.001*** (-4.865)	-0.001*** (-4.625)	-0.001*** (-4.423)
<i>Event5</i>	0.003*** (25.776)	0.003*** (26.127)	0.001*** (4.229)	0.001*** (4.567)
<i>Event6</i>	-0.001*** (-6.432)	-0.001*** (-5.810)	-0.001*** (-5.483)	-0.001*** (-4.815)
<i>Event7</i>	0.000 (0.617)	0.000 (0.975)	-0.000** (-2.202)	-0.000* (-1.785)
<i>Canada Bond Yield</i>	-0.000*** (-6.162)	-0.000*** (-12.054)	-0.000*** (-9.278)	-0.000*** (-14.063)
<i>TSX Index</i>	0.783*** (715.310)	0.781*** (710.761)	0.788*** (684.698)	0.786*** (680.396)
<i>Net Assets</i>	-0.000 (-1.448)	-0.000*** (-3.772)	-0.000 (-1.229)	-0.000*** (-3.197)
<i>Fund Size</i>	0.000 (0.349)	-0.002*** (-21.229)	0.000 (0.151)	-0.002*** (-18.021)
<i>Expense Ratio</i>	-0.000 (-1.580)	-0.002*** (-5.843)	-0.000 (-1.508)	-0.002*** (-5.181)
<i>India Bond Yield</i>			-0.000*** (-2.596)	-0.000*** (-2.826)
<i>Constant</i>	0.001*** (3.737)	0.038*** (23.663)	0.002*** (3.949)	0.037*** (19.943)
<i>Fixed Effects</i>	No	Yes	No	Yes
<i>Observations</i>	1,691,845	1,691,845	1,583,378	1,583,378
<i>Adj. R-squared</i>	0.234	0.234	0.230	0.230
<i>Number of shares</i>	5,676	5,676	5,670	5,670

This table presents the empirical results for the following model: $Return_{i,d} = \alpha + \beta_0 Event + \beta_1 TSX Index_d + \beta_2 Canada Bond Yield_d + \beta_3 India Bond Yield_d + \gamma Controls_{i,t-1} + \epsilon_{i,d}$. We use daily mutual fund returns as the dependent variable. Columns (1) and (2) show the results without controlling Indian benchmark bond yields. Columns (3) and (4) show the results controlling Indian benchmark bond yields. Appendix Table A provides definitions of variables. t-stat in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

TABLE 5
IMPACT OF EVENTS ON MUTUAL FUND RETURNS BY EXPOSURE TO
INDIAN STOCK MARKET

<i>Variables</i>	<i>(1)</i> <i>Return</i>	<i>(2)</i> <i>Return</i>	<i>(3)</i> <i>Return</i>	<i>(4)</i> <i>Return</i>
<i>Event1</i>	-0.001*** (-4.540)	-0.001*** (-4.712)	-0.001*** (-4.367)	-0.001*** (-4.537)
<i>Event2</i>	-0.009*** (-16.980)	-0.009*** (-16.821)	-0.009*** (-16.516)	-0.009*** (-16.352)
<i>Event3</i>	-0.000 (-0.843)	-0.000 (-0.718)	-0.000 (-0.748)	-0.000 (-0.621)
<i>Event4</i>	0.000 (0.207)	0.000 (0.367)	0.000 (0.363)	0.000 (0.524)
<i>Event5</i>	0.004*** (13.525)	0.004*** (13.680)	0.001*** (4.251)	0.001*** (4.471)
<i>Event6</i>	-0.001 (-1.200)	-0.001 (-1.146)	-0.000 (-0.903)	-0.000 (-0.777)
<i>Event7</i>	-0.000 (-0.433)	-0.000 (-0.438)	-0.001 (-0.963)	-0.001 (-0.892)
<i>Tercile 2</i>	0.000 (1.116)	0.000 (0.456)	0.000 (1.271)	0.000 (0.591)
<i>Tercile 3</i>	0.000*** (5.526)	0.000*** (3.590)	0.000*** (5.640)	0.000*** (3.378)
<i>Event 1#Tercile 2</i>	-0.000 (-0.673)	-0.000 (-0.618)	-0.000 (-0.667)	-0.000 (-0.622)
<i>Event 1#Tercile 3</i>	-0.001*** (-2.673)	-0.001*** (-2.626)	-0.001*** (-2.623)	-0.001*** (-2.591)
<i>Event 2#Tercile 2</i>	0.001* (1.713)	0.001* (1.750)	0.001* (1.657)	0.001* (1.678)
<i>Event 2#Tercile 3</i>	0.004*** (5.179)	0.004*** (5.267)	0.004*** (5.016)	0.004*** (5.120)
<i>Event 3#Tercile 2</i>	0.001 (0.731)	0.001 (0.770)	0.001 (0.703)	0.001 (0.727)
<i>Event 3#Tercile 3</i>	0.001* (1.706)	0.001* (1.803)	0.001 (1.640)	0.001* (1.754)
<i>Event 4#Tercile 2</i>	-0.001 (-1.520)	-0.001 (-1.456)	-0.001 (-1.487)	-0.001 (-1.445)
<i>Event 4#Tercile 3</i>	-0.001*** (-2.638)	-0.001** (-2.483)	-0.001*** (-2.588)	-0.001** (-2.408)
<i>Event 5#Tercile 2</i>	-0.001 (-1.552)	-0.001 (-1.466)	-0.001 (-1.433)	-0.001 (-1.386)
<i>Event 5#Tercile 3</i>	-0.001** (-2.200)	-0.001** (-1.982)	-0.001** (-2.196)	-0.001** (-1.979)
<i>Event 6#Tercile 2</i>	-0.000 (-0.464)	-0.000 (-0.215)	-0.000 (-0.461)	-0.000 (-0.325)
<i>Event 6#Tercile 3</i>	-0.001 (-1.371)	-0.001 (-1.323)	-0.001 (-1.357)	-0.001 (-1.324)
<i>Event 7#Tercile 2</i>	0.000 (0.650)	0.001 (0.851)	0.000 (0.395)	0.000 (0.494)

Variables	(1) Return	(2) Return	(3) Return	(4) Return
<i>Event 7#Tercile 3</i>	0.000 (0.333)	0.000 (0.345)	-0.000 (-0.026)	-0.000 (-0.023)
<i>Constant</i>	0.000* (1.646)	0.037*** (21.707)	0.002*** (3.681)	0.035*** (18.393)
<i>Controls</i>	Yes	Yes	Yes	Yes
<i>Fixed Effects</i>	No	Yes	No	Yes
<i>Observations</i>	1,612,318	1,612,318	1,508,891	1,508,891
<i>Adj. R-squared</i>	0.230	0.230	0.226	0.226
<i>Number of shares</i>	5,435	5,435	5,429	5,429

This table presents the empirical results for the following model: $Return_{i,d} = \alpha + \beta_0 Event + \beta_1 Tercile + \beta_2 Event * Tercile + \beta_3 TSX Index_d + \beta_4 Canada Bond Yield_d + \beta_5 India Bond Yield_d + \gamma Controls_{i,t-1} + \epsilon_{i,d}$. We use daily mutual fund returns as the dependent variable. Columns (1) and (2) show the results without controlling Indian benchmark bond yields. Columns (3) and (4) show the results controlling Indian benchmark bond yields. Appendix Table A provides definitions of variables. t-stat in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

With the initial insight from Table 4, we further conjecture that if the returns of Canadian mutual funds with exposure to the Indian market are affected by the Canada-India diplomatic standoff, the impact should be more pronounced for the funds with higher exposure.

Table 5 investigates the impact of different events on mutual funds with different levels of exposure. The coefficients of the interaction terms of events with terciles capture this impact. We use Model (2) to analyze the results. Using daily mutual fund returns as the dependent variable, Columns (1) and (2) report the results without controlling for benchmark bond yields in India. Columns (3) and (4) present the results after controlling for benchmark bond yields in India. A perusal of Table 5 shows that, on average, mutual fund returns are statistically and economically significantly lower during event windows 1 and 2 compared to the benchmark comparison period. Statistically significant positive coefficients on *Tercile3* show that controlling for different events, the Canadian mutual funds that invest heavily in India offer higher returns compared to the mutual funds with lower exposure to the Indian stock market. This result is consistent with the literature advocating international diversification for mutual funds (Cumby and Glen, 1990; Redman, Gullett, and Manakyan, 2000). The coefficient of *Event 1#Tercile 3* is negative and statistically significant in all four columns. It suggests that the detrimental impact of the killing of Canadian Sikh leader Hardeep Singh Nijjar on mutual fund performance is more pronounced for the funds with higher exposure to the Indian stock market. We observe similar results for *Event 4#Tercile 3* and *Event 5#Tercile 3*. The economically and statistically significantly negative coefficients on these interaction terms suggest that during event windows 4 and 5, the mutual funds with higher exposure to the Indian stock market have significantly lower returns compared to the mutual funds with less exposure to the Indian stock market. Event window 4 represents a pause in trade talks by Canada on September 15, followed by Canadian Prime Minister Justin Trudeau's accusation of the Indian government's potential involvement in the killing of a Canadian Sikh leader. Event window 5 includes India's reaction in the form of suspension of visas. Our results indicate that the market took all these events seriously and considered these disrupted relations as a potential threat to the Indian market. Hence, during these event windows, the stocks with greater exposure to the Indian stock market are penalized. Also, we find similar results even after controlling for interest rate changes in the Indian stock market. The literature suggests that international investment allocation is more advantageous in disconnected markets. Our findings add to the existing literature and demonstrate political disagreement between two diverse and disconnected economies can affect the returns and take away the benefits of international diversification. The general conclusions from the paper are given in the next section.

CONCLUSIONS

The purpose of this study was to examine the impact of a chain of events that led to a major diplomatic standoff between Canada and India, two plural, non-contagious, democracies. Overall, the results suggest that the series of events pertaining to the Canada-India diplomatic standoff negatively affected mutual fund performance with exposure to the Indian stock market. Our findings, after accounting for Canadian stock market returns, fund size, expense ratio, interest rates in Canada and India, suggest that the events had a detrimental effect on fund performance. The impact is more pronounced for the funds that heavily invest in Indian stock market.

This work contributes to existing literature in several ways. It is the first study to analyze the impact of two democracies in complete disagreement about the killing of one's citizen of the other's origin. It is also important to note that it is uncommon that the Prime Minister of a nation accuse another democracy openly in his parliament of murder. Thus, the study is of major academic interest. This work also shows how the impact of political events occurring in one country can impact its performance in another country's mutual funds. The work is also of interest to practitioners, especially mutual fund managers in that it shows how significant political disagreements between plural, non-contagious democracies can still impact their returns, if the investment is in the accused nation.

ENDNOTES

1. See <https://www.international.gc.ca/country-pays/india-inde/rerelations.aspx?lang=eng>
2. See <https://www.international.gc.ca/country-pays/india-inde/rerelations.aspx?lang=eng#a2>
3. See Smiling Buddha (https://en.wikipedia.org/wiki/Smiling_Buddha) and Canada's Air India Probe: <https://www.bbc.com/news/10344125>

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APPENDIX: VARIABLE DEFINITIONS

Variable Name	Description
<i>Return</i>	Daily return for each share class of a mutual fund
<i>Event</i>	Categorical variable that can take values from 0 through 7 for different event windows
<i>Tercile</i>	Categorical variable from 1 through 3 that divides the sample in three groups based on proportion of fund's investment in India. Tercile 1 through 3 goes from lowest to highest proportion of equity invested in India.
<i>Net Assets</i>	Previous month's net assets for each share class of a mutual fund
<i>Fund Size</i>	Previous month's fund size aggregated for each share class of a mutual fund
<i>Bond Yields Canada</i>	10 - year benchmark bond yields on Canadian government bonds
<i>Bond Yields India</i>	10 - year benchmark bond yields on Indian government bonds
<i>TSX Index</i>	Daily return on S&P/TSX Composite Index
<i>Expense Ratio</i>	The percentage of fund assets used to pay for operating expenses and management fees, including 12b-1 fees, administrative fees, and all other asset-based costs incurred by the fund, except brokerage costs.
<i>Event 0</i>	All the days in the sample period except for the days included in Events 1 through 7
<i>Event 1</i>	June 18, 2023, and June 19, 2023
<i>Event 2</i>	September 01, 2023, and September 02, 2023
<i>Event 3</i>	September 10, 2023, and September 11, 2023
<i>Event 4</i>	September 15, 2023, to September 18, 2023
<i>Event 5</i>	September 19, 2023, to September 23, 2023
<i>Event 6</i>	October 03, 2023, to October 20, 2023
<i>Event 7</i>	October 21, 2023, to November 10, 2023