

IMPLICATIONS OF THE ISRAEL - IRAN CONFLICT ON COMMODITY-BASED INVESTMENT AND PORTFOLIO DIVERSIFICATION

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ABSTRACT

This study examines the effects of the Israel-Iran conflict on commodity-based investments and portfolio diversification on a global scale. The primary aim of this research is to assess how the conflict influences commodity investments and portfolio diversification strategies. The study adopts a mixed-methods approach, integrating both quantitative and qualitative analyses. The quantitative analysis utilized secondary data, including geopolitical ratios and crude oil prices, sourced from the geopolitical risk index and Investing.com. On the other hand, the qualitative analysis involved distributing questionnaires via Google Forms to selected participants, with the primary criterion being their status as investors. The results of hypothesis testing showed that none of the proposed hypotheses were supported. These findings suggest no significant relationships between the variables analyzed: the Israel-Iran conflict does not significantly impact portfolio diversification, portfolio diversification does not significantly influence commodity-based investments, and the Israel-Iran conflict does not have a meaningful effect on commodity-based investments. The study concludes that, within the context of this research, the examined variables do not demonstrate a statistically significant relationship.

Keywords: *Israel-Iran War, Commodity-Based Investment, Portfolio Diversification*

INTRODUCTION

The conflict between Israel and Iran, which continues to be the centerpiece of Middle Eastern geopolitical tensions, has far-reaching implications for various sectors of the global economy, particularly in the context of commodity-based investments and international portfolio diversification strategies. The conflict creates significant uncertainty, given that both countries are located in a region that is critical to the production and distribution of natural resources, particularly oil and gas. Disruptions to energy production in the region are likely to trigger commodity price volatility globally, which in turn impacts financial markets and investment allocations across a range of sectors. Investors around the world should adjust their strategies to address geopolitical risks that affect not only commodity availability but also global supply chains.

Not only does the Israel-Iran conflict have a direct impact on commodity prices, it also affects risk perception in global financial markets. As uncertainty increases, investors tend to seek safer assets, such as gold or financial instruments in countries that are considered more stable. This situation creates a major shift in the structure of global portfolios, where higher-risk assets in conflict regions are potentially abandoned, while safehaven assets become increasingly desirable.

Not only that, the impact of this war could also extend volatility to other sectors such as stocks and bonds, especially in emerging markets that are more vulnerable to changes in energy commodity prices.

In the context of portfolio diversification, these conflicts demand a more cautious and measured approach from global investors. They should consider how geopolitical risks could affect their portfolios in the short and long term, especially amid growing uncertainty. While diversification strategies usually aim to spread risk, the dynamic geopolitical situation is forcing investors to be more careful in choosing asset allocation, including considering the risks that may arise from disruptions in key commodity-producing regions such as the Middle East. As such, the war between Israel and Iran is not only impacting international political and security relations, but also carries major consequences for market participants and global investment strategies.

In the context of this commodity-based investment, the researcher focuses on the movement of crude oil prices, which is a type of commodity that is widely the result of natural resources that the country of Iran has managed to produce on a large scale and is a major commodity that is currently experiencing uncertain movements due to the geopolitical consequences that occur between the country of Iran itself and the country of Israel.

Problem Formulation

How does the Israel - Iran conflict impact commodity-based investments and portfolio diversification?

Research Objective

To determine the impact of the Israel-Iran conflict on commodity-based investment and portfolio diversification.

LITERATURE REVIEW

The Israel-Iran Conflict

The origins of tensions between Israel and Iran are rooted in political, ideological, and economic changes. regional power struggles that have become increasingly complex over the past few decades. Although while the two countries have never directly engaged in open warfare, the conflict between them has developed through proxy wars, limited military operations, and support for resistance groups in the Middle East region.

In the early period after the establishment of Israel in 1948, Iran, still led by Shah Mohammad Reza Pahlavi, had good relations with Israel, even unofficially recognizing the

country. Both countries had common interests in dealing with antagonistic Arab states. However, this relationship changed drastically in 1979 when the Islamic Revolution in Iran overthrew the Shah and installed Ayatollah Imam Sayyid Ruhollah Musavi Khomeini as supreme leader. Iran transformed into an Islamic republic under a theocracy that adopted an anti-Israel stance. Ayatollah Imam Sayyid Ruhollah Musavi Khomeini declared Israel an “enemy of Islam” and rejected Israel's existence, describing it as an “illegitimate regime.”

After the 1979 Revolution, Iran began supporting groups that opposed Israel's existence. In Lebanon, Iran helped form and strengthen Hezbollah, a Shia militia group with the stated goal of destroying Israel. Hezbollah gets funding, training and weapons from Iran, which makes it a direct threat to Israel's security, especially on its northern border. In Gaza, Iran also supports Hamas, a Palestinian organization that openly opposes Israel. In the early 2000s, Iran began developing its controversial nuclear program. Israel sees Iran's potential nuclear weapons as an existential threat. Although Iran claimed the program was for peaceful purposes, Israel and Western countries suspected that Iran wanted to develop nuclear weapons. Israel then launched various covert operations to undermine Iran's nuclear program, including the sabotage of nuclear facilities and the assassination of Iranian scientists associated with the program. This dispute is one of the main reasons for tensions between the two countries. Tensions between Iran and Israel intensified during the Syrian civil war that began in 2011.

Iran supported President Bashar Al-Assad by sending militias and logistics to keep him in power. Israel sees Iran's military presence in Syria as a direct threat, especially due to its proximity to Israel's borders. Israel routinely launches airstrikes against Iranian military facilities in Syria to prevent the buildup of Iranian forces in the region. Currently, Israel and Iran are engaged in a kind of regional “cold war”, where they compete through support for third parties to expand their respective influence and interests. Iran continues to support militant groups around Israel, while Israel strengthens alliances with Sunni Arab states, such as Saudi Arabia and the United Arab Emirates, which also consider Iran a threat. These tensions are creating a power struggle in the Middle East that is destabilizing the region. Clashes between the two sides continue to occur, especially in Syria and the Lebanese border, making this conflict one of the most persistent and dangerous tensions in the region. (Suhayatmi, Alia Rahmatulummah, 2024)

Commodity-Based Investment

Investment activity is an effort made by individuals with the aim of getting benefits in the future. (Asterina et al., 2018). In macroeconomic studies, investment activity, also known as capital formation, is the second important element in determining the amount of aggregate expenditure. (Sadono, 2015)

Based on the definition in the Big Indonesian Dictionary, commodities are the main commercial products that have economic properties and can be classified based on quality in accordance with global standard rules. Thus, it can be understood that commodities are the main objects in trade activities as well as various commercial goods that can be traded, both through import and export activities, with the aim of obtaining economic benefits. (Putri, 2023)

Investment in commodities is the activity of investing in various types of trade goods, such as coffee, palm oil, and other similar products. Investment activities in this field are known in the trading world as futures transactions. In practice, commodity investment involves buying and holding physical commodities or entering into futures agreements, with the aim of benefiting from movements in the value of commodity prices in the market. More specifically, this form of investment can be interpreted as an effort to allocate resources to raw materials or basic materials traded in the market, including various types such as gold, petroleum, agricultural products, and precious metals.

Portfolio Diversification

In the realm of financial management, the strategic deployment of capital across different investment instruments is known as portfolio diversification. This approach is seen as a method that provides benefits at no additional cost to investors, given that an appropriately dispersed pool of investments can minimize the overall level of risk, without reducing the expected return to be achieved. (Flint et al., 2021). However, achieving the ideal investment spread remains a challenge, as there is no universal agreement on quantitative benchmarks that can be used to determine the level of diversification of an investment portfolio. Portfolio diversification can improve investment efficiency and reduce the total risk faced by investors. (Liestyowati et al., 2023)

RESEARCH METHODS

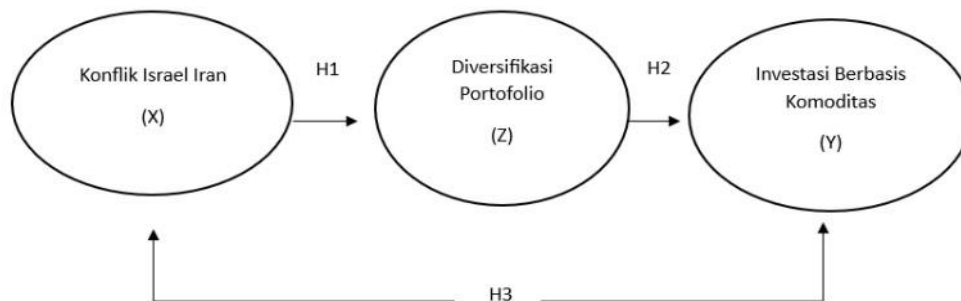
This type of analysis is to apply a mixed methods approach, which integrates quantitative and qualitative techniques in one set of studies. Specifically, the focus of this study is on the crude oil commodity as an indicator of commodity-based investment. The GPR (Geopolitical Risk) index is used as an indicator of the Israeli-Iranian conflict, while data obtained through the distribution of questionnaires to respondents is the source of information for the portfolio diversification variable. In collecting data, researchers utilized two types of data sources. First, primary data obtained directly through the distribution of questionnaires to participants because the required information was not available beforehand. Second, documented secondary data accessed through the Investing.com and Geopolitic Risk Index platforms.

H1 : Israel Iran conflict has a significant impact on Global Portfolio Diversification

H2 : Portfolio Diversification has a significant impact on Commodity-based Investment

H3 : Israel - Iran Conflict has a significant impact on Commodity-based Investment

Conceptual framework :



RESULTS OF RESEARCH AND DISCUSSION

Table 1. Sample Data

The Israel-Iran Conflict	Portfolio Diversification	Commodity-Based Investment
3.81	2,10	57,27
5,06	1,40	37,04
4,84	1,80	53,72
4,53	1,60	60,42
4,30	2,50	45,41
3,90	1,70	61,06
3,95	1,10	48,52
4,35	1,00	75,31
5,03	2,10	80,26
4,95	1,70	71,65

Source: secondary and primary data by 2024 (Investing.com, n.d.)

Table 2. Statistical Descriptive Test

	N	Minimum	Maximum	Mean	Std. Deviation
Konflik Israel Iran	10	3.81	5.06	4.4730	.48397
Investasi Berbasis Komoditas	10	37.04	80.26	58.6660	13.82867
Diversifikasi Portofolio Global	10	1.70	1.90	1.8000	.09428
Valid N (listwise)	10				

Source: data processed by SPSS 26

Based on the descriptive statistics presented, the Israel-Iran conflict has a minimum value of 3.81, a maximum value of 5.06, and an average of 4.4730 with a standard deviation of 0.48397. This indicates that the level of the Israel-Iran conflict in the analyzed time span is quite stable and does not fluctuate significantly. For commodity-based investment variables, the minimum value is 37.04, the maximum value is 80.26, and the average is 58.6660 with a standard deviation of 13.82867. These results indicate that commodity-based investment has a fairly wide range, with high volatility during the observation period. Meanwhile, the global portfolio diversification variable has a minimum value of 1.70, a maximum value of 1.90, and an average of 1.8000 with a

standard deviation of 0.09428. These values indicate that global portfolio diversification tends to be stable and does not experience significant changes throughout the analyzed period.

Table 3. Normality Test

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Konflik Israel-Iran	.178	10	.200 [*]	.900	10	.217
Investasi Berbasis Komoditas	.140	10	.200 [*]	.968	10	.873
Diversifikasi Portofolio Global	.114	10	.200 [*]	.988	10	.883

Source: data processed by SPSS 26

Based on the results of the normality test analysis, it can be concluded that the data for the three research variables, namely the Israel-Iran conflict, commodity-based investment, and global portfolio diversification, fulfill the assumption of normality. This is indicated by the Kolmogorov-Smirnov test results which show a significance value of 0.200 for all variables, > 0.05. This finding is also supported by the results of the Shapiro-Wilk test, which yields a significance value of 0.217 for the Israel-Iran conflict, 0.873 for commodity-based investment, and 0.883 for global portfolio diversification, all > 0.05. It can be concluded that the data used for research is normally distributed.

Table 4. Validity Test

Indikator	Koefisien Korelasi Pearson	Sig	Keterangan
Z1.A	0,769	0,001	Diterima
Z1.B	0,754	0,001	Diterima
Z2.A	0,864	0,000	Diterima
Z2.B	0,718	0,003	Diterima
Z3.A	0,008	0,000	Diterima
Z3.B	0,718	0,001	Diterima
Z4.A	0,836	0,000	Diterima
Z4.B	0,787	0,001	Diterima
Z5.A	0,855	0,000	Diterima
Z5.B	0,681	0,005	Diterima

Source: data processed by SPSS 26

The validity analysis was conducted using the Pearson correlation method, resulting in significant findings regarding the quality of the research instrument. All indicators showed positive correlation coefficients with statistical significance levels at the 0.001 or 0.000 level. The range of correlation coefficients ranged from 0.681 to 0.855, which definitively exceeds the r-table

value of 0.632 as a criterion of convergent validity. Additional significance tests confirm that each indicator has a significance value <0.05 , indicating the instrument's representative in measuring the research construct.

Table 5. Reliability Test

Cronbach's Alpha	N of Items
,905	10

Source: data processed by SPSS 26

The reliability test was conducted using the Cronbach's Alpha calculation method to evaluate the internal consistency of the research instrument. The method is used to measure the level of trust and reliability of the instrument through analyzing the coefficient of constancy between items. The statistical analysis results yielded a Cronbach's Alpha coefficient of 0.905, which is methodologically significant beyond the minimum reliability threshold of 0.7. This value indicates the excellent quality of the research instrument, with a high level of internal consistency and reliable data reproduction ability.

1. Israel Iran War on Portfolio Diversification

Table 6. Simple linear regression test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	34.079	44.571		.765	.466
	x	5.497	9.912	.192	.555	.594

a. Dependent Variable: z

Source: data processed by SPSS 26

Based on the results of the statistical analysis conducted, the results revealed that there was no significant effect of the Israel Iran conflict on investment portfolio diversification. This is evidenced by the t value of 0.555 and the significance value of $0.594 > 0.05$. This finding states that conflict variables in the Middle East region have no statistically provable impact on the portfolio diversification process. This implies that the regional geopolitical factor does not provide a strong enough influence to change the investment portfolio management strategy in the context of the research conducted.

2. Portfolio Diversification towards Commodity-Based Investments

Table 7. Simple linear regression test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.832	.708		2.586	.032
	z	-.002	.012	-.067	-.191	.853

a. Dependent Variable: y

Source: data processed by SPSS 26

Based on the statistical analysis conducted, the results revealed no significant implication of portfolio diversification on commodity-based investment. This is evidenced through a negative t value of 0.191 and a significance of 0.853 definitively > from 0.05. So the second hypothesis in this study is rejected.

3. Israel Iran's War on Commodity-Based Investments

Table 8. Simple linear regression test

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.545	1.516		1.019	.338
	x	.035	.337	.036	.103	.921

a. Dependent Variable: y

Source: data processed by SPSS 26

Based on the statistical analysis conducted, the results revealed no significant implications of the Middle East conflict on commodity-based investment. This is evidenced by the t-value of 0.103 and the significance value of 0.921 > 0.05, so the third hypothesis in this study is rejected. This finding indicates that conflict variables in the Middle East region have no statistical influence on commodity investment patterns.

Table 8. Sobel test

Input:		Test statistic:	Std. Error:	p-value:
a	5.497	Sobel test: -0.15961452	0.06887845	0.87318474
b	-0.002	Aroian test: -0.07998669	0.13744786	0.93624784
s _a	9.912	Goodman test: NaN	NaN	NaN
s _b	0.012	Reset all	Calculate	

Source: data processed using danielsoper.com web

Based on the mediation test analysis conducted, this study reveals that the portfolio diversification variable is not able to mediate the relationship between the Middle East conflict and commodity-based investment significantly. This is evidenced by the results of the sobel test with a value of -0.159 and a 2-tailed significance value of 0.873 which is statistically greater than the 0.05 significance level.

CONCLUSIONS AND ADVICE

Based on the results of our research, it is concluded that the Israeli-Iranian conflict has no significant effect on portfolio diversification, portfolio diversification has no significant effect on commodity-based investment and the Israeli-Iranian conflict has no significant effect on commodity-based investment. Linear regression analysis shows that the t value and significance level of each variable relationship tested is > from 0.05 significance. This proves that all hypotheses proposed in this study cannot be accepted. In addition, the mediation test results show that portfolio diversification is not able to be a significant mediator in the relationship between the Israel-Iran conflict and commodity-based investment. This finding is reinforced by the results of the Sobel test, where the significance value obtained is > 0.05.

Based on the research, it is recommended that future studies consider other relevant elements that could potentially influence the relationship between geopolitical conflict, portfolio diversification and commodity-based investments, such as global economic dynamics or market sentiment. Future research is also advised to expand the scope of analysis by utilizing more diverse data and longer observation periods to gain a more comprehensive understanding. In addition, it is important to explore other mediating variables that may be more relevant in explaining the relationship between these variables.

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