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'The war next door and the Reds are coming: The Spanish Civil War and the Portuguese stock market'

The Spanish Civil War (July 1936 to April 1939) was a key event that paved the way for World War II, unfolding with unprecedented violence and uncertainty over its outcome. In this paper, we analyse the impact of the events of the Spanish Civil War on the Portuguese stock returns. Portugal is a particularly interesting venue for analysis given its geographical exposure and historical ties to Spain, on the one hand, and political ties to the Nationalist side. We examine investors' reactions to news from the Spanish War using a panel of weekly returns for firms listed in the Lisbon Stock market, after classifying a series of important developments of the War, classified according to its nature - military or political, and which contender came out favoured - the Republicans, on the left, or the Nationalists, on the right. We run dynamic specifications with firm and month fixed effects, controlling for the reference interest rate in London, and events in Portugal. Our results reveal that Spanish Civil War events affect negatively returns, especially events that are military and favouring the Nationalists. Our findings are robust to the different specifications and suggest that both general uncertainty and partisan preferences affect Portuguese returns.

Raging between the years 1936 and 1939, the Spanish Civil War was unprecedentedly bloody and unpredictable. It pitted Spaniard against Spaniard, enthused with contending ideologies to fratricide violence and the use of new weapons, paving the way to World War II and indiscriminate warfare. The world, in particular key world powers, paid attention, got involved, and took sides. Portugal, whose only land frontier is with Spain, was particularly vulnerable to the outcome of the war. Fears of violence spreading over the border, of an increasing flow of refugees, and of a possibility that a victor - at least in the case of Nationalists - would invade Portugal, were present. The War Next Door was a close reality. On the other hand, the right-wing regime in Portugal was under consolidation, and it was no secret that it favoured a Nationalist victory in Spain, since the opposite would represent a spread of left-wing influence in the Iberian Peninsula. The fear that The Reds Are Coming was also a palpable presence.