Labuan Bulletin of International Business &Finance
Volume 21 Issue 1 eISSN 2600- 7894

UMS
UNIVERSITI MALAYSIA SABAH

SYSTEMATIC LITERATURE REVIEW ON ELECTION AND STOCK PERFORMANCE

Choo Qin Jing[a], Ricky Chee Jiun Chia[a*]

[a]*Labuan Faculty of International Finance, Universiti Malaysia Sabah, F.T. Labuan, Malaysia.*
**Corresponding author's email: ricky_82@ums.edu.my*

ABSTRACT
Political factor is one of the main factors that influence investors' decision-making. Considering that, this study presents a systematic review of the research work, published on the topic of election effects and stock market behaviour. Through Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA), this study critically assessed and examined sixteen research studies, published between 1995 and 2021, in different regions across the globe. Based on the outcomes, most of these past studies highlighted that the election effects rely entirely on the political climate. If the election outcome benefits the economy, stock markets react positively. Moreover, stock market volatility was noted to be significantly impacted by elections. Higher volatility induced by election whenever there is unforeseen outcome and volatility adjusted back to normal when uncertainty resolve. The findings of this review are expected to reveal the knowledge of theoretical and literature significance on stock market behaviour around elections to researches and investor community. Finally, this paper reveals some significant research gap to advance the research agenda for future research.

JEL classification: *G14, G41.*
Keywords: *Political effect, election, stock market performance.*

Received: December 12, 2022
Revised: August 6, 2023
Accepted: August 31, 2023

1. INTRODUCTION
In the stock market, political factor is one of the indispensable factors that investors need to consider. One of the most impactful political factors affecting stock market is a political reform in a country. Political change in turn affects the course of economy development and changing of government policies are inevitable. Since 1970s, early study has argued that incumbents tend to bias pre-election fiscal policy in order to stimulate the economy condition and increase their election win probabilities (Nordhaus, 1975). Recently, Blanchard *et al*. (2018) found supportive evidence that the eventual passage of the corporate tax bill played a role in the increase in the aggregate US stock prices from the 2016 presidential election to the end of 2017. Since government fiscal policy, which includes regulations and law enforcement, taxes, subsidies, and government spending, as

well as monetary policy and trade policy, is proven to have influence on the stock market, election or any political changes has become one of the main concerns of investors in the stock market. Different studies proofed the fact that political factors did influence the stock return, among them are Gartner and Wellershoff (1995), Nippani and Arize (2005), Wong and McAleer (2009), Savita and Ramesh (2015), and Buigut and Masinde (2021).

Besides, there is another strand of research focused on political elections and stock market volatility (Białkowski *et al*., 2008; Ahmed, 2017; Shaikh, 2017; Chia, 2019; Mnasri & Esaddam, 2020). Stock markets can become very unsettled during the periods of important political changes and pose a serious challenge to financial economists. For example, Mnasri and Esaddam (2020) confirmed that the U.S. election process between 1992 and 2016 is associated with significant abnormal volatility and further showed that the relation between implied volatility and the opposing party candidate's probability of winning is positive and statistically significant. The result also proved the claim of Białkowski et al. (2008) that uncertainty arise whenever picking the probable winner is difficult. Moreover, market volatility is possible to continue after the release of election results whenever uncertainty exist such as narrow margin of victory or failure to form a government with parliamentary majority. Khanthavit (2020) found significant abnormal volatility after election when there was a delay in forming the new Thailand government. Finally, the Thailand market was back to normal after the official announcement for the members of the House of Representatives.

Therefore, knowledge of theoretical and literature significance on stock return and volatility around elections has important implications for market practitioner to minimize investment risk. Many research papers look at whether stock return and volatility are impacted by politics, however, they yielded mixed results. For example, majority of the literature on U.S. president election clearly indicate that the U.S. market follows a four-year U.S. presidential cycle (Allvine & O'Neill, 1980; Gartner & Wellershoff, 1995; Wong & McAleer, 2009). However, uncertainty during election time could break the norm and bring a different impact to the same market, for example, the 2016 U.S. presidential election (Shaikh, 2017; Blanchard *et al*., 2018). Hence, before commencing a research work, a literature review act as a significant part, if well guided, it is able to create ideas and directions for a new study. For investor, at the timing of elections, a literature review serves as a foundation for knowledge progress and guide investor for a better plan and practice. Moreover, a systematic literature review has clear advantages over the conventional literature review.

Nonetheless, the purpose of this review study is to conduct a content analysis of political risk on stock return and volatility over a period of two decades. The literature search for this review study was guided by the research questions: 1) How does the occurrence of general elections influence stock market returns and volatility across different countries? 2) Do studies in the literature exhibit similar trends and findings on the relationship between elections and stock market behaviour? 3) Have there been changes in the relationship between election outcomes and stock market performance over the course of decades? In this context, studies of general election were examined, including the presidential election and parliamentary election studies in the local and foreign literature. Overall, this systematic literature review discussed the findings of prior studies on how an election can affect stock market returns and volatility.

Subsequently, this review study is structured as follows. The next section presents the research method of the systematic literature review (SLR). This is followed by a discussion of the results. Finally, the review concludes and provide future research suggestions.

2. METHODOLOGY

A systematic literature review involves a systematic process of summarising the findings of prior studies that are relevant to the research topic. A systematic literature review is a new plan that strengthens and simulates evidence-informed decision making with a strong documentation base (Mallett *et al*., 2012). With the goals of producing clear results and increase reproducibility, the systematic literature review in this study focused on stock market return and volatility during general elections. For that, Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) method is adopted in the selection of relevant articles and it ensures better reporting in this review.

Table 1 states the eligibility and exclusion criteria used in selecting articles for this review study. To ensure the quality, this review only included published research articles. Book series, books, book chapters, conference papers, and dissertations were excluded. Besides that, this review selected research articles written in English language since it is the common global language.

Table 1: The eligibility and exclusion criteria

No.	Criteria	Eligibility	Exclusion
1	Types of literature	Journals (Research articles)	Book series, books, book chapters, and conference papers
2	Language	English	Other languages (Non-English)

This review selected three largest online databases, namely ScienceDirect, Scopus, and Emerald Insight. ScienceDirect was introduced in 1997 by the Dutch publisher, Elsevier. It has a large database that consists of over 18 million pieces of content from more than 4,000 academic journals and 30,000 e-books. Scopus is a database launched in 2004 and it delivers the broadest coverage of comprehensive, expertly curated abstract and citation. It linked about 34,346 peer-reviewed journals across a wide variety of disciplines. All journals covered in the database are reviewed each year to ensure its sufficiently high quality. Emerald Insight provides abstracts and full text articles from impactful journals, books and case studies from Emerald Publishing. It was founded in United Kingdom back in 1967 and currently it has more than 300 journals and over 2,500 eBook titles.

Overall, this review study covered a total of four stages for the systematic literature review. Firstly, the study identified specific keywords for the searching process. Table 2 presents the specific keywords used to search for relevant articles in different databases. The keywords used included “stock market return” and “political uncertainty”. Seven duplicate articles were removed during this process.

Table 2: Keywords for the selection of articles

No.	Database	Keywords
1	ScienceDirect	((stock AND market AND return) AND (political AND uncertainty))
2	Scopus	TITLE-ABS-KEY ((*stock* AND *market* AND *return*) AND (*political* AND *uncertainty*))
3	Emerald Insight	((stock AND market AND return) AND (political AND uncertainty))

From the second step, which is the screening process, 235 articles were found eligible for review. As this review study only focused on full-text articles, a total of 192 book series, books, book chapters, conference papers, dissertations, and non-English articles were excluded. The third step involved 43 eligible articles where the full articles were accessed. In the last step, after an in-depth review, a total of 27 articles were omitted, and only 16 articles were included for further review. Figure 1 summarises the outcomes of the screening process.

3. RESULTS AND DISCUSSION

Table 3 presents the list of the journals considered for this systematic literature review. The largest proportion of relevant articles came from Journal of Banking and Finance, with a total of six articles (13.95%) from this journal were retained for review. International Journal of Financial Research, International Review of Financial Analysis, Journal of Engineering Applied Science, Journal of Financial Markets, Jurnal Ekonomi Malaysia, and North American Journal of Economics and Finance had two relevant articles (4.65%), respectively. The remaining 25 journals had only one relevant article (2.33%) each.

Further, this review systematically analysed the literature, relating to political factors and stock market behaviour based on the following categories: (1) type of elections; (2) selection of stock indices; (3) risk and return of stock market; and (4) selection of control variables. Then, we come to the discussion of the results found in the selected journal articles.

Table 4 outlines the 16 selected literature studies and shows that 9 out of 16 studies focused on the presidential election. The study by Białkowski et al. (2008) covered a broad international sample of 27 OECD countries with presidential system and parliamentary system. On the other hands, Chrétien and Coggins (2009) investigates the relationship between Canadian equity market and Canada federal election outcomes and also the integration of Canadian markets and American presidential election outcomes. The remaining five articles focused only on the parliamentary election. This review observed that most of the previous studies that mapping the election effect in stock markets are mainly focused on presidential election. Prominently, the four year cycle, or better known as Presidential Election Cycle, is the most popular cycle in the annals of cyclical analysis. Furthermore, the Presidential Election Cycle was found to have a strong presence in the US stock market as early as 1868 (Wong & McAleer, 2009). Hence, numerous earlier studies re-examined the existence of the Presidential Election Cycle in the US. Then, Bilson *et al*. (2002) found that emerging markets are more vulnerable to political risk than developed markets. Meanwhile, political election effect on emerging stock markets has attracted researchers continuous attention, among them are Sajid Nazir *et al*. (2014), Ahmed (2017), Chia (2019), Khanthavit (2020), and Misman (2020)

Figure 1: Outcomes of Searching Process

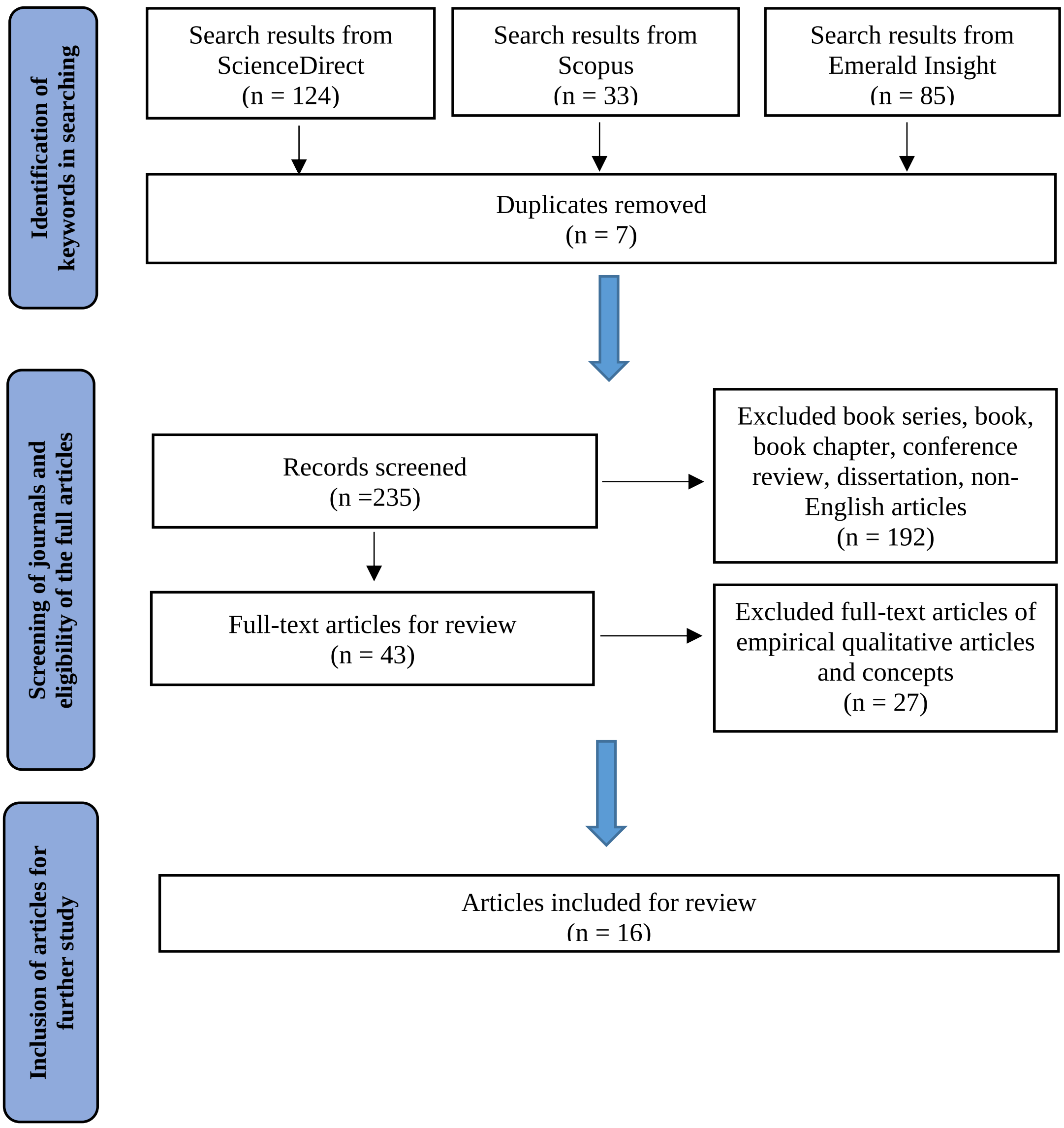

Table 3: List of journals examined

No.	Name of Journal	No. of Articles	% of Articles
1	Journal of Banking and Finance	6	13.95
2	International Review of Financial Analysis	2	4.65
3	International Journal of Financial Research	2	4.65
4	Journal of Engineering Applied Sciences	2	4.65
5	Journal of Financial Markets	2	4.65
6	Jurnal Ekonomi Malaysia	2	4.65
7	North American Journal of Economics and Finance	2	4.65
8	Economic Modelling	1	2.33
9	Emerging Markets Review	1	2.33
10	European Journal of Political Economy	1	2.33
11	Finance Research Letters	1	2.33
12	International Journal of Emerging Markets	1	2.33
13	International Journal of Engineering and Technology	1	2.33
14	International Review of Economics & Finance	1	2.33
15	Journal of African Business	1	2.33
16	Journal of Applied Business Research	1	2.33
17	Journal of Asian Economics	1	2.33
18	Journal of Development Economics	1	2.33
19	Journal of Economic and Administrative Sciences	1	2.33
20	Journal of Economics and Finance	1	2.33
21	Journal of Empirical Finance	1	2.33
22	Journal of Financial Economics	1	2.33
23	Journal of International Financial Markets, Institutions and Money	1	2.33
24	Journal of Policy Modelling	1	2.33
25	Journal of Public Economics	1	2.33
26	Managerial Finance	1	2.33
27	Mathematics and Computers in Simulation	1	2.33
28	Pacific Basin Finance Journal	1	2.33
29	Procedia-Social and Behavioural Sciences	1	2.33
30	Quarterly Journal of Political Science	1	2.33
31	Review of Accounting and Finance	1	2.33
32	Review of Financial Economics	1	2.33
	Total	43	100

Table 4: Literature studies: Presidential election and/or parliamentary election

No.	Author(s) / Year	Presidential Election	Parliamentary Election
1	Gartner and Wellershoff (1995)	✓	
2	Nippani & Arize, (2005)	✓	
3	Białkowski *et al*. (2008)	✓	✓
4	Chrétien and Coggins (2009)	✓	✓
5	Wong and McAleer (2009)	✓	
6	Sajid Nazir *et al*. (2014)		✓
7	Savita and Ramesh (2015)		✓
8	Ahmed (2017)	✓	
9	Shaikh (2017)	✓	
10	Blanchard *et al*. (2018)	✓	
11	Girardi and Bowles (2018)	✓	
12	Chia (2019)		✓
13	Khanthavit (2020)		✓
14	Misman *et al*. (2020)		✓
15	Mnasri and Esaddam (2020)	✓	
16	Buigut and Masinde (2021)	✓	

Referring to Table 5, five out of 16 articles focused on sectorial indices, while other articles focused on main stock indices. In this review, the main stock index also refer to a broad-base index that represents the performance of a whole stock market. The main stock index comprised of the stocks of large companies listed on a nation's largest stock exchanges, hence, the movement of the main stock index also reflects investors' confidence about the economy. Among the leading main stock indices used in the literature are the American Dow Jones Industrial Average (Gartner & Wellershoff, 1995), Standard & Poor's (S&P) 500 Composite Price Index (Gartner & Wellershoff, 1995; Wong & McAleer, 2009; Blanchard et al., 2018; Mnasri & Esaddam, 2020), S&P Capped Composite Index and the IPC All-Share index (Nippani & Arize, 2005), Karachi Stock Exchange (KSE) 100 index (Sajid Nazir et al., 2014), Egyptian Exchange (EGX) 100 index (Ahmed, 2017), and FBM KLCI (Chia, 2019; Misman, 2020).

On the other hand, election effect may evolve differently in sectoral indices, depending on the contribution of the sector to the whole economy. For example, in Kenya, the total contribution of travel and tourism to the economy was about 8.8% of GDP in 2018 and Buigut and Masinde (2021) found that election-related violence had bring a significant negative impact to tourism, and a smaller extend to the financial sector. Hence, analysis of stock market performance based on sectorial indices are meaningful for researchers as well as policy makers. In this review, Ahmed (2017), Chia (2019) and Buigut and Masinde (2021) are those studies that conducted analysis to determine the impact of election outcomes on sectorial stock performance.

Table 5: Literature studies: Main composite indices and/or sectorial indices

No.	Author(s) / Year	Main Composite Indices	Sectorial Indices
1	Gartner and Wellershoff (1995)	✓	
2	Nippani & Arize, (2005)	✓	
3	Białkowski *et al*. (2008)	✓	
4	Chrétien and Coggins (2009)	✓	
5	Wong and McAleer (2009)	✓	
6	Sajid Nazir *et al*. (2014)	✓	
7	Savita and Ramesh (2015)	✓	
8	Ahmed (2017)	✓	✓
9	Shaikh (2017)	✓	
10	Blanchard *et al*. (2018)	✓	
11	Girardi and Bowles (2018)	✓	
12	Chia (2019)	✓	✓
13	Khanthavit (2020)	✓	
14	Misman *et al*. (2020)	✓	
15	Mnasri & Esaddam (2020)	✓	
16	Buigut and Masinde (2021)		✓

Moreover, this review also outlines the studies that focused on stock return or stock volatility. As shown in Table 6, nine out of 16 studies concentrated on the impact on stock return, and two studies only analysed on stock volatility. While the remaining five studies examined the effect of election outcomes on stock return and also its volatility. Basically, stock return on the immediate day after election could indicate the changes of a stock's value due to the election. While volatility shows the fluctuation rate of a stock price over the period, of which the election period as the concern of this review. A higher volatility during election period means that the price of the stock changed dramatically over a short time period in either direction. A lower volatility means that a stock's value tends to be steadier and not impacted by the political factor.

Further, the literature studies are categorized with control variables or no control variable included in their models. As shown in Table 7, seven out of the 16 studies included control variables in examining the elections effect on stock market. In general, economy variables and global benchmark stock indices are chosen to control the behaviour of the stock markets. For instances, Nippani & Arize, (2005) included short term rate change to control the changes in local interest rates that could affect the stock markets. Chrétien and Coggins (2009) estimated the election effect with economy control variables and also without control variables. Notably, they found that election outcome effects are robust to the inclusion of control variables.

Table 6: Literature studies: Return and/or volatility of the stock market

No.	Author(s) / Year	Return	Volatility
1	Gartner and Wellershoff (1995)	✓	
2	Nippani & Arize, (2005)	✓	
3	Białkowski *et al*. (2008)		✓
4	Chrétien and Coggins (2009)	✓	✓
5	Wong and McAleer (2009)	✓	
6	Sajid Nazir *et al*. (2014)	✓	
7	Savita and Ramesh (2015)	✓	
8	Ahmed (2017)	✓	✓
9	Shaikh (2017)	✓	✓
10	Blanchard *et al*. (2018)	✓	
11	Girardi and Bowles (2018)	✓	
12	Chia (2019)	✓	✓
13	Khanthavit (2020)	✓	✓
14	Misman *et al*. (2020)	✓	
15	Mnasri and Esaddam (2020)		✓
16	Buigut and Masinde (2021)	✓	

Besides, a few studies also pointed that global market shock is also a factor that need to be controlled for. To control the global effect, Shaikh (2017) considered the stock index of Global Dow which is made of 150 blue-chip companies traded across the globe. Similarly, Girardi and Bowles (2018) used the S&P 500 as a proxy for global dynamic and Chia (2019) included the Morgan Stanley Capital International (MSCI) world index as the control variable in the model. Blanchard et al. (2018) concerned about the U.S. stock market performance in the aftermath of the 2016 presidential election. Also, they included MSCI world index excluding the United States in the regression model to capture the global effect. On the other hand, focusing on the impact of U.S. presidential elections on stock markets volatility, Mnasri and Esaddam (2020) included the daily percentage change in the economic policy uncertainty (EPU) index as a control variable.

Table 8 briefly reports the findings of the 16 selected journal articles included in this review. As the objective of this review is to see the impact of election outcomes on national stock return and volatility, the summarized results as shown in Table 8 only report the post-election results. Therefore, by reading this review, researchers are able to have a better preview on the stock market performance in the aftermath of the elections in respective country.

From this review, we observed that there are five studies examined the impact of U.S. presidential elections on the stock market performance, among them are Gartner and Wellershoff (1995), Wong and McAleer (2009), Shaikh (2017), Blanchard *et al*. (2018) and Mnasri and Esaddam (2020). Undeniable, U.S. owns the world’s largest economy and any incident happens in U.S., such as political uncertainty, indirectly affects the world’s economy. Hence, the U.S. presidential elections and its stock market also become the core of literature in this area of study.

Table 7: Literature studies: Control variables or no control variables included

No.	Author(s)/Year	Control variables	No control variables
1	Gartner and Wellershoff (1995)		✓
2	Nippani & Arize, (2005)	✓	
3	Białkowski *et al*. (2008)		✓
4	Chrétien and Coggins (2009)	✓	✓
5	Wong and McAleer (2009)		✓
6	Sajid Nazir *et al*. (2014)		✓
7	Savita and Ramesh (2015)		✓
8	Ahmed (2017)		✓
9	Shaikh (2017)	✓	
10	Blanchard *et al*. (2018)	✓	
11	Girardi and Bowles (2018)	✓	
12	Chia (2019)	✓	
13	Khanthavit (2020)		✓
14	Misman *et al*. (2020)		✓
15	Mnasri and Esaddam (2020)	✓	
16	Buigut and Masinde (2021)		✓

Since 1980, Allvine and O'Neill (1980) have presented strong evidence in stock market prices related to the 4-year Presidential term, where the returns in the first half and those in the second half of the Presidential term are significantly different. Then, Gartner and Wellershoff (1995) and Wong and McAleer (2009) revisited the issue and they revealed that the U.S. stock price have followed a four-year cycle for decades. Wong and McAleer (2009) examined stock prices during the four-year presidential election pattern for almost 40 years from December 1965 to January 2003. Briefly, they found that stock prices generally fell during the first half of a President's tenure, peaked the following year, then rose during the second half, and peaked in the third or fourth year. Notably, this pattern can be seen in most of the 10 past administrations, from President Lyndon to President George Bush, especially when Republican was elected. In comparison to its Democratic counterparts, the Republican Party appeared to have higher motivation to participate in dynamic approach management in order to gain re-appointment.

Similarly, Shaikh (2017) and Blanchard *et al*. (2018) focused on U.S. stock market but they aimed to look at the stock markets throughout the 2016 U.S. presidential election. The presidential election of U.S. 2016 started with dominant uncertainty and it held special importance for the domestic and global investor community. Surprisingly, the 'Republican president elect' has shown positive effects on U.S. stock market (Shaikh, 2017; Blanchard *et al*., 2018). Shaikh (2017) empirically concluded that the U.S. markets are inefficient in the election year and extraordinary gains can be obtained. However, Shaikh (2017) revealed that certain global stocks suffered as the result of the election of the “Republican president-elect”, as such the Nifty50 (India), S&PASX200 (Australia), and IPC (Mexico).

In addition, Shaikh (2017) also explored the level of volatility during the presidential election 2016. Before election, the VIX level kept on rising and this implied that the future event has an impact on investors’ financial decisions. Once U.S. president elected, uncertainty resolved and market efficiently processed the news. The VIX index adjusted to normal level for the next few trading days. Mnasri and Esaddam (2020) also looked at the impact of U.S. presidential elections on stock market volatility during the election periods between 1992 and 2016. The findings on stock volatility are consistent where Mnasri and Esaddam (2020) also found that significant abnormal volatility started several weeks before the Election Day but no significant volatility is found after the event, which might indicate a certain resolution of the uncertainty following the election. Hence, this clearly shown that the implied volatility on stock market and political uncertainty are closely associated in the U.S. market.

Apart from the U.S., Canada is also known as one of the countries in North America with major advanced economies. Chrétien and Coggins (2009) examined the relationship between government election results and anticipated returns and volatility in the Canadian financial markets from 1951 to 2006. Similar to the U.S., election cycle is found in the Canadian stock market where equities appeared to have better performance in the last two years of the government mandate than it did in the initial two years. Moreover, the standard deviations of returns are not significantly different in the two parts of the election cycle. Hence, no evidence is found on return volatility and increasing risk during election period is negligible.

Besides, there is also evidence indicating that the effects of the U. S. presidential election spilled over into other economies. Both the studies by Nippani & Arize, (2005) and Chrétien and Coggins (2009) showed influence of the U.S. election outcomes on the Canadian markets. Particularly, Chrétien and Coggins (2009) documents that the presidential cycle impacts Canadian investment opportunities where the equity market closely followed the 4-years president cycle with significantly higher mean returns during the last two years of the presidential term than during its first two years. On the other hand, Nippani & Arize, (2005) focused on the impact of the delay in the 2000 presidential election results on the performance of the Canadian and Mexican stock markets. Evidence is found by Nippani & Arize, (2005), indicating that both the Canadian and the Mexican stock markets were affected negatively during the period. These studies further contribute to the literature by providing strong evidence that the stock markets of the U. S., Canada, and Mexico are highly integrated.

Focusing on stock volatility around national elections, Białkowski *et al*. (2008) investigated a sample of 27 OECD countries and showed that the election outcomes increase the risk of investment. Among the 27 countries, there are three countries with presidential systems, of which the U.S., Korea and Mexico. The remaining are those industrialized countries operate under parliamentary system. By using a volatility event-study approach, Białkowski *et al*. (2008) found that the country-specific return volatility certainly reaches a high level during the week around election. Even after the election’s day, the country-specific component of variance remained higher than normal trading days. This also indicates that the election outcome caused chaos in the investor community. Further, Białkowski *et al*. (2008) tracked down the main determinants of election induced volatility and found that a little edge of victory, lack of compulsory voting laws, a change in the political orientation of the executive, or the failure to set up a government with parliamentary majority added to the level of election shock. Briefly, whenever picking the probable winner is difficult, uncertainty arise and investors also tend to react in more fluctuate manner in the stock markets.

Table 8: Impact of election outcomes on national stock return and volatility

No.	Author(s) / Year	Country	Return	Volatility
1	Gartner and Wellershoff (1995)	U.S.	Lower	
2	Nippani & Arize, (2005)	Canada, Mexico	Lower	
3	Białkowski *et al*. (2008)	OECD countries		Higher
4	Chrétien and Coggins (2009)	Canada	Lower	Insignificant
5	Wong and McAleer (2009)	U.S.	Lower	
6	Sajid Nazir *et al*. (2014)	Pakistan	Insignificant	
7	Savita and Ramesh (2015)	India	Higher	
8	Ahmed (2017)[1]	Egypt	Higher	Higher
9	Shaikh (2017)	U.S.	Higher	Lower
10	Blanchard *et al*. (2018)	U.S.	Higher	
11	Girardi and Bowles (2018)	Chile	Lower	
12	Chia (2019)[2]	Malaysia	Insignificant (Full Sample) Insignificant (Sub Sample 1994-2005) Insignificant (Sub Sample 2006-2015)	Insignificant (Full Sample) Higher (Sub Sample 1994-2005) Insignificant (Sub Sample 2006-2015)
13	Khanthavit (2020)	Thailand	Lower	Lower
14	Misman *et al*. (2020)	Malaysia	Lower	
15	Mnasri and Esaddam (2020)	U.S.		Insignificant
16	Buigut and Masinde (2021)[3]	Kenya	Lower (2007 election) Higher (2013 & 2017 elections)	

Notes:

1. We summarised the results from the event study analysis on the EGX100 benchmark index during the presidential elections of 2012 and 2014. At the sector level, there is no uniformity in the sample sectors' behaviours towards the elections.
2. Review is based on the main index FTSE KLCI analysed by Chia (2019). The sectorial results illustrated the impact of general elections more precisely by showing that those cyclical sectors were more sensitive to the market condition while defensive sector showed insignificant results.
3. Summarised results showed the impact of elections outcomes on Kenya's tourism sector stock return as the elections effect to tourism sector is shown to have bigger extend than the financial and media sectors.

After discussing previous studies that focusing on developed stock market, this review also selects a few studies on emerging markets that experienced political climate in respective country. As claimed by Pantzalis *et al*. (2000), the reaction of stock market on the election may vary in different political climate. A few studies had found supportive evidence of different election effect with different level of political uncertainty during election period, among them are Chia (2019), Misman *et al*. (2020) and Buigut and Masinde (2021). For Malaysian stock market, Chia (2019) examined the election effects for a period covered the 9^{th} to 13^{th} General Election while Misman *et al*. (2020) included 10^{th} to 14^{th} General Election in their study.

After closely examine the stock market performance and the political issues aroused from the 12^{th} and 13^{th} Malaysian General Elections, Chia (2019) decided to employ two sub-samples to avoid potentially misleading outcomes. Chia (2019) examined the stock market volatility under different political circumstances involving Barisan Nasional (BN): (1) when BN won with two-thirds majority during the 9^{th}, 10^{th} and 11^{th} General Election (1994–2005) and (2) when BN lost two-third majority during the 12^{th} and 13^{th} (2006–2015). For the first sub-sample from 1994 to 2005, most of the sectorial indices showed lower volatility before the general election but higher volatility after the general election. For the second sub-sample from 2006 to 2015, sectorial indices showed higher volatility before the general election (except for mining sectoral index) and insignificant volatility after the general election. The political uncertainty continued from the 12^{th} and 13^{th} General Election and the 2018 General Election has marked a political climate for Malaysia. The opposition party has defeated the ruling party in the 14^{th} General Election and the election outcome had caused a shock not only to political arena but also to the Malaysian financial market. Further, Misman *et al*. (2020) investigated the impact of the latest 14^{th} Malaysian General Election in 2018 to find evidence of significant election effect on the stock market. As expected, Misman *et al*. (2020) revealed that the stock market performance was negatively impacted by the 14^{th} General Election.

Another recent study by Buigut and Masinde (2021) also revealed that reaction of stock market on the election vary in different political climate. Buigut and Masinde (2021) examined the impact of Kenyan elections and election related events on tourism, financial and media sector stock returns. Kenya is known for its beach and wildlife tourist destinations in Africa and it receives massive international arrivals every year. Hence, the tourism sector is likely to exhibit more response than other sectors to election events, as found by Buigut and Masinde (2021). Indicative evidences were found and it is proven that election conflict negatively affected the stock index of Kenya tourism sector, while peaceful elections have a positive effect. The 2007 Kenya election was rife with ethnic tension, electoral issues, and post-election violence. It had significantly affected tourism sector firms adversely before election, and the negative impact last through the 30 days event window. On the other hand, the 2013 and 2017 elections were relatively free and fair. Even though the responses by the three sectors are different in magnitude, their results were generally pointing in the positive direction. Therefore, it is clear for Buigut and Masinde (2021) to conclude that a more credible election benefits the economy.

Another study by Savita and Ramesh (2015) also found that election benefit the market by examining the stock market performance during India’s general election in 2014. The India's 16th parliamentary elections in 2014 marked a break from the past 30 years of India's electoral history with a single party, the Hindu nationalist Bharatiya Janata Party (BJP), achieving a parliamentary majority on its own, without depending on coalition partners. For the BJP's success, Savita and Ramesh (2015) found that the market reacted positively to the news of changes in the government. Abnormal returns is found on the date of announcement of election results and the stock returns continued to rise for another 15 days after the event.

Beside election effects, Sajid Nazir *et al*. (2014) and Khanthavit (2020) also analysed the impact of multiple political-related sub-events in Pakistan and Thailand, respectively. Sajid Nazir *et al*. (2014) examined the effects of uncertain political events, including elections in year 2002 and 2008, on Pakistani Stock Markets from May 1999 to December 2011. While Khanthavit (2020) extended the study period to include sub-events related to Thailand's 2019 general election to further analyse the effects of the general election on stock market performance. Surprisingly, both the studies reported that the markets did not significantly respond to general elections. Somehow, events that had a greater impact on political and security issues showed a statistically high negative response, for instance, the fourth military coup in Pakistan (Sajid Nazir *et al*., 2014) and delay in forming the new government in Thailand (Khanthavit, 2020). In explaining the insignificant election effect, Sajid Nazir *et al*. (2014) has suggested that the political instability and uncertainty has become a common phenomenon for people of Pakistan. Even though significant effect was found on other political event, people tended to absorb quickly and the shock only hold for a very short period of time.

Nevertheless, Khanthavit (2020) pointed that inclusion of election sub-events is important to ensure that the significant election effects are not averaged out. Even though abnormal return on the Election Day was insignificant, the release of the results for representatives brought a negative and significant effect to Thailand stock market. Hence, Khanthavit (2020) concluded that the election effects were significant by taking the sub-event effects into consideration. Undeniable, selection of event window is crucial in examining election effects to reduce biasedness problems in parameter estimates. In another study, Chia (2019) also selected a longer period of event window to ensure all the important events are covered under the election period. For instances, the pre-general election period started from the day of dissolution of the parliament until the day before voting, while the post-general election period started from the day after voting until the day of the first parliament assembly (Chia, 2019).

The remaining two articles to be discussed in this review are focusing on elections and military coups in Egypt (Ahmed, 2017) and Chile (Girardi and Bowles, 2018). Ahmed (2017) analysed the Egyptian stock market behaviour in terms of stock market return and volatility. Egypt has experienced tectonic political shifts over a short period from 2012 to 2014, surprisingly, Ahmed (2017) revealed that the Egyptian presidential elections of 2012 and 2014 have a significant positive price impact on the EGX100 benchmark index. In addition, Ahmed (2017) also included the military coup in the study and found that EGX100 index had a statistically significant negative 11-day abnormal return after the coup day. In other words, the election-induced uncertainty is less intense than the occurrence of the military coup. In term of volatility, the results showed that presidential changes have a significant influence on market volatility and the 2012 election had a more pronounced volatility effect than that of the 2014 election. Moreover, the EGX100 index also experienced substantial increases in stock volatility due to the military coup. Even though the uncertainty is likely to continue in Egypt, higher stock volatility offers investor the opportunity to generate strong returns in the market during elections period. Besides, Ahmed (2017) also explored several sectors like chemicals, food and beverages, construction, and financial services. The obtained results revealed that the effects of stock price and volatility in the bank sector were the most obvious. The food and beverages and construction and materials sectors seem to be less vulnerable to the aftermath of political events and these two sectors may provide a safe haven for investors seeking diversification benefits.

Lastly, this review presents a remarkable study by Girardi and Bowles (2018) who put much effort to retrieve previously unused daily data and exploit two tumultuous political events, Allende's election and military coup, which caused largely unexpected shocks to the Santiago exchange of Chile in the early 1970s. Girardi and Bowles (2018) carefully selected the event window from 1 day up to 20 days after the political events. They noticed that the market was partly frozen due to many stocks were not traded at all in the immediate aftermath of the election, therefore, delayed adjustment in stock price occurred. By taking into consideration of the global effects as well, Girardi and Bowles (2018) found that the abnormal returns after the Allende's election shock and the military coup are both highly significant in the opposite direction. The election decreased share values with cumulative abnormal returns remain statistically significant low after 15 trading days. While the military coup that deposed socialist government in September 1973 boosted the market with cumulative abnormal returns remaining consistently positive and large over 20 days after the coup.

4. CONCLUSION

Through PRISMA, this study review has conducted a systematic literature review on the election impact on stock market, in term of stock return and volatility during the elections period. This review observed that existing studies have provided well-identified evidence on the aggregate stock market effect across political shocks in developed countries as well as emerging countries that experienced political uncertainty. Based on this review, studies that focused on U.S. election mostly found support of the presidential cycle (Gartner & Wellershoff, 1995; Wong & McAleer, 2009), and even studies that analysed the Canadian and Mexico stock market also found that these markets are highly integrated with the U.S. market (Nippani & Arize, 2005; Chrétien & Coggins, 2009). Surprisingly, the 2016 U.S. presidential election had differently impacted the stock market with a positive return after the Republican president was elected (Shaikh, 2017; Blanchard *et al*., 2018).

Another significant point that we can conclude from this review is, the election effects or military coup effects rely entirely on the political condition. If the election outcome benefits the economy, stock markets react positively or vice versa. For instances, the majority win of a single party in 2014 India's general election brought positive impact to the Indian stock market (Savita & Ramesh, 2015) while the 2007 Kenya election that packed with ethnic tension, electoral issues, and post-election violence had negatively affected the stock market performance (Buigut & Masinde, 2021). Insignificant election effects on the return of national benchmark stock index also found by a few studies, for example Sajid Nazir et al. (2014) for Pakistan study and Chia (2019) for Malaysia study. In other words, the markets remained efficient during the election period and information or shock was absorbed in the market within a very short period of time.

Despite that, stock market volatility was noted to be significantly impacted by elections. Higher volatility induced by national election indicates that investors are surprised by the election outcome and volatility will adjust back to normal when uncertainty resolve. The study of Ahmed (2017) provided strong evidence that the volatility effects are pronounced over the period 2011-2014, where Egypt has seen a string of presidential changes with two presidential election and a military coup. Nevertheless, Chia (2019) also suggested that higher volatility after election is possibly due to active trading activities right after a free and fair election. Mnasri and Esaddam (2020) also found significant abnormal volatility several weeks before the U.S. elections. Even though higher stock volatility often means higher risk, it can sometimes provide entry points to investors to generate strong, long-term returns.

Moreover, this review also observes that minimal existing studies focused on sectorial stock performance around elections, as such the study of Ahmed (2017), Chia (2019) and Buigut and Masinde (2021). Empirical analysis on sectorial data is as important as the market data. Sectorial analysis is able to provide a deeper insight into the response of various sector to the political event. Both the studies of Ahmed (2017) and Chia (2019) have shown that certain sectors are responsive to elections effect but some sectors are less vulnerable. The results are useful to investor as the less sensitive sector may serve as a safe haven for investors seeking diversification benefits. Hence, a comprehensive analysis of sectorial indices could contribute to the literature, particularly in determining whether the impact of election shock differ across sectors. This research direction could help investors to identify profitable sector precisely and also help policy makers to exercise recovery plan targeted to certain industries that were negatively impacted by political uncertainty.

Lastly, this review notices that global market factor is consistently controlled in most of the model employed to study the impact of political changes. It is recommended for future research to consider other control variables that may drive the behaviour of market prices and volatility, such as market anomalies and trading patterns of investor groups. Accounting for such influences in future study is able to obtain more comprehensive understanding on the variance of the stock market during national election.

REFERENCES

Ahmed, W. M. A. (2017). The Impact of Political Regime changes on Stock Prices: The Case of Egypt. *International Journal of Emerging Markets*, 12(3), 508-531. https://doi.org/10.1108/IJoEM-12-2015-0258

Allvine, F. C., & O'Neill, D. E. (1980). Stock Market Returns and the Presidential Election Cycle: Implications for Market Efficiency. *Financial Analysts Journal*, 36(5), 49-56.

Białkowski, J., Gottschalk, K., & Wisniewski, T. P. (2008). Stock Market Volatility around National Elections. *Journal of Banking & Finance*, 32(9), 1941-1953.

Bilson, C. M., Brailsford, T. J. & Hooper, V. C. (2002). The Explanatory Power of Political Risk in Emerging Markets. *International Review of Financial Analysis*, 11 (1), 1-27.

Blanchard, O., Collins, C. G., Jahan-Parvar, M. R., Pellet, T., & Wilson, B. A. (2018). A Year of Rising Dangerously? The US Stock Market Performance in the Aftermath of the Presidential Election. *Journal of Policy Modelling*, 40(3), 489-502.

Buigut, S. & Masinde, B. (2021). The Impact of General Elections on Kenya’s Tourism, Financial and Media Sector Stock Returns: An Event Study Approach, *Journal of African Business*, 23 (2), 497-515.

Chia, R. C. J. (2019). Stock Market Volatility in Malaysia Sectoral Indices during the General Election. *Jurnal Ekonomi Malaysia*, 53 (3), 1-14.

Chrétien, S., & Coggins, F. (2009). Election Outcomes and Financial Market Returns in Canada. *North American Journal of Economics and Finance*, 20(1), 1-23.

Gartner, M. & Wellershoff, K.W. (1995). Is there an Election Cycle in American Stock Returns? *International Review of Economics & Finance*, 4(4), 387–410.

Girardi, D. & Bowles, S. (2018). Institution Shocks and Economic Outcomes: Allende's Election, Pinochet's Coup and the Santiago Stock Market. *Journal of Development Economics*, 134, 16-27.

Khanthavit, A. (2020). An Event Study Analysis of Thailand's 2019 General Election: A Long Window of Multiple Sub-events. *International Journal of Financial Research*, 11 (4), 502-514.

Mallett, R., Hagen-Zanker, J., Slater, R. and Duvendack, M. (2012). The Benefits and Challenges of using Systematic Reviews in International Development Research. *Journal of Development Effectiveness*, 4(3), 445-455.

Misman, F. N., Roslan, S. & Aladin, M. I. M. (2020). General Election and Stock Market Performance: A Malaysian Case. *International Journal of Financial Research*, 11 (3), 139-145.

Mnasri, A., & Essaddam, N. (2020). Impact of U.S. Presidential Elections on Stock Markets' Volatility: Does Incumbent President's Party Matter? *Finance Research Letters*, 39(9), 101622.

Nippani, S., & Arize, A. (2005). US Presidential Election Impact on Canadian and Mexican Stock Markets. *Journal of Economics and Finance*, 29(2), 271–279.

Nordhaus, W. D. (1975). The Political Business Cycle. *The Review of Economic Studies*, 42(2), 169-190.

Pantzalis, C., Stangeland, D. A., & Turtle, H. J. (2000). Political Elections and the Resolution of Uncertainty: The International Evidence. *Journal of Banking & Finance*, 24(10), 1575-1604.

Sajid Nazir, M., Younus, H., Kaleem, A. & Anwar, Z. (2014). Impact of Political Events on Stock Market Returns: Empirical Evidence from Pakistan. *Journal of Economic and Administrative Sciences*. 30(1), 60-78.

Savita & Ramesh, A. (2015). Return Volatility around National Elections: Evidence from India. *Procedia - Social and Behavioral Sciences*, 189, 163-168.

Shaikh, I. (2017). The 2016 U.S. Presidential Election and the Stock, FX and VIX Markets. *North American Journal of Economics and Finance*, 42 (2017), 546-563.

Wong, W. K., & McAleer, M. J. (2009). Mapping the Presidential Election Cycle in US stock markets. *Mathematics and Computers in Simulation*, 79(11), 3267-3277.