

# Do Elections Influence Abnormal Stock Returns? Comparative Evidence Across General Elections in Malaysia

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## Abstract

The study examines the impact of election on market index in the context of Malaysia by analyzing the magnitude of market reaction in different election years towards political transition to see whether it is more intensify as compared to one-party administration. This study employs market model event study over a sample period covering seven general elections (GE9 – GE15), from 1995 to 2022. The findings indicate that election has significant impact on the abnormal return (AR) and cumulative abnormal return (CAR) of FBMKLCI, albeit mixed results in certain windows during GE12 to GE14. This implies Malaysia equity market exhibits semi-strong form of market efficiency as electoral outcomes are rapidly incorporated into stock prices within a short time frame especially during windows [-5,5], despite the occurrence of electoral shocks during those periods.

**Keywords:** General Elections, Event Study, Efficient Market Hypothesis, Malaysia Equity Market, Market Sentiment

## Introduction

General election is one of the most significant and closely observed political events worldwide. It is a core mechanism that shape a better country particularly in economic perspective. A credible election can boost investors' confidence and economic stability. This stability is reflected through a sound financial market, especially equity market which indicate the overall health of the economy. Nevertheless, its impact is far beyond the ballot box as it has the tendency to influence the financial markets through investor sentiment. This is because investor confidence is strongly associated with stability, transparency and predictability resulting from a sound political landscape. According to Białkowski et al. (2008), election introduce a degree of uncertainty which often translate heightened volatility, unusual trading volumes and sharp fluctuation in asset pricing in both emerging and developed market. For instance, Fuss and Bechtel (2008) argue investors anticipation for potential policy changes often increases the risk premium which leads to heightened volatility. Because of this, many companies have reportedly reduce their corporate investment during the election year as highlighted in the study of Julio and Yook (2012).

Another study reveals significant increase in stock market volatility around election dates often observed in emerging markets with weak institutional framework (Białkowski et al., 2008). While Pantzalis et al. (2000) find abnormal returns are significant prior to election, Santa-Clara and Valkanov (2003) illustrate heterogeneous impact of US election on stock market under Democratic and Republican administrations, reinforcing the partisan impact on markets. In the context of developing economies, Chen et al. (2005) suggests political events has substantial influence on Asian markets, where governance transitions are closely monitored. Further evidence proposes electoral uncertainty is priced into option market according to Goodell and Vähämaa (2013). There is also a study suggests the capital flows influenced by election outcomes, reinforcing the global dimension of political shocks (Leblang & Mukherjee, 2005).

In Malaysia, the country was previously known for one-party rule for nearly six decades, couple with several unprecedented political events such as the marginal win by Barisan Nasional (*BN*) by securing 47.4% popular votes against Pakatan Rakyat (*PR*), the opposition with 50.9% (GE13), the first-ever government transition (GE14), hung parliament and formation of unity government (GE15), all these political events have caused chaotic in local market. According to Figure 1, the FBMKLCI index has gained 190 points when it plummeted to approximately 1,610 points in late April before surging sharply post-election to nearly 1,800 points during GE13. However, trading volume indicates otherwise as the index displayed almost 53% dropped in volume traded from 1.4 billion decrease to 0.65 billion two weeks after election. In GE14, the main index was traded relatively stable around the range of 1800 to 1900 points four months prior election but plummeted by 10% from 1,854 to 1,664 points following two months of post-election. Like GE13, another 53% dropped from 1.23 billion to 0.57 billion in trading volume is witnessed during the two months of GE14 post-election. The trading volume has surged on and just after election day, hitting about 1.6 billion shares compared to the pre-election norm of roughly 1.0 billion before hitting a downward trend. On the contrary, the index was traded approximately between 1,500 points to 1,370 points at downward trend one month pre-election of GE15. The price, however, is marginally recovered to near 1,460 points around election day before continuing to decline. Trading volume in GE15 indicates a major sell-off phase with roughly 69% in six months period of elevated selling volume as compared to previous elections, signalling persistent investor pessimism and continued capital outflows. All these figures suggest that the notable movement in FBMKLCI is driven by elections due to uncertainty and investor sentiment.

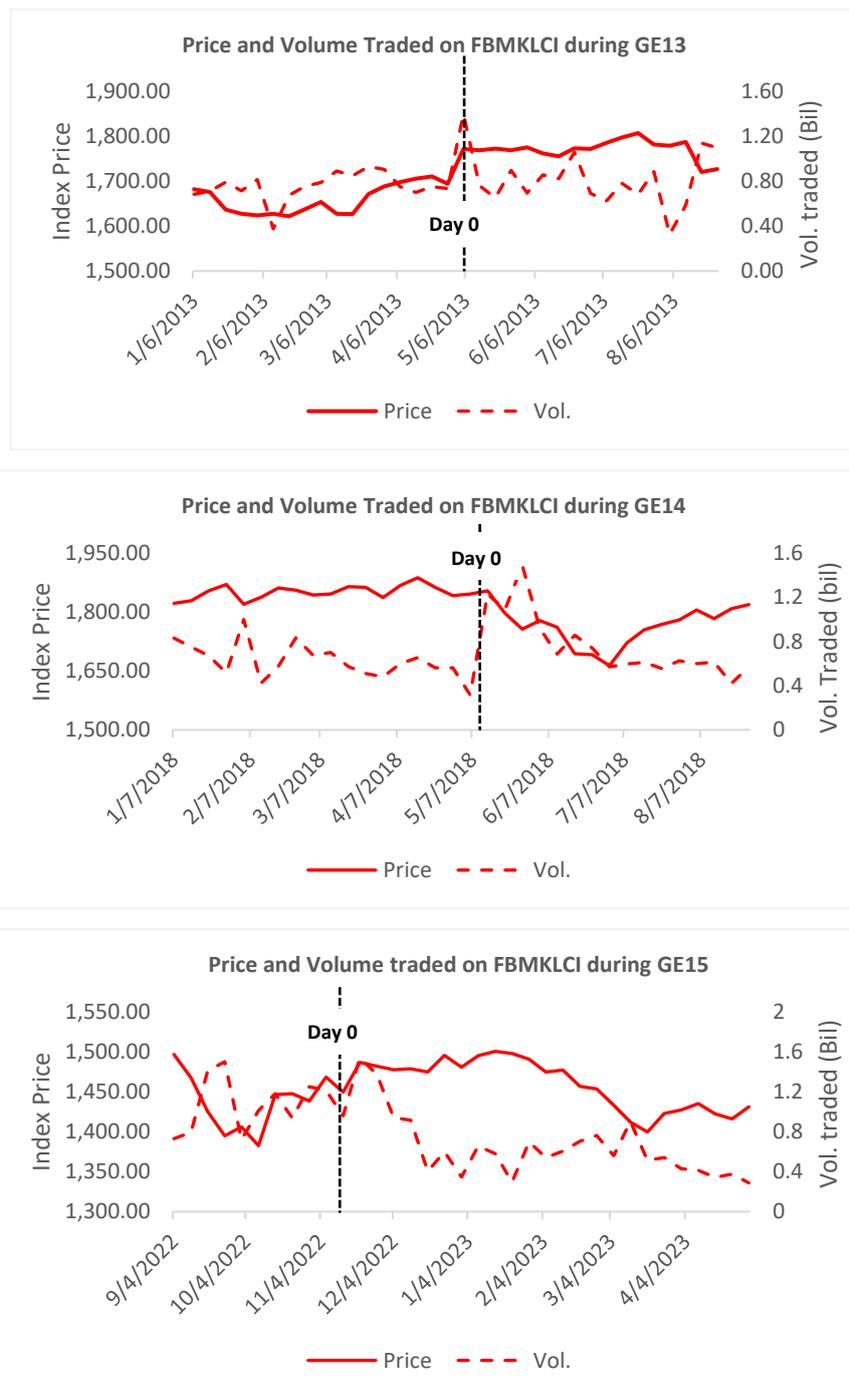


Figure 1: Price and volume traded on FBMKLCI during GE13, GE14 & GE15

It is important to note that election outcomes often interpreted as signals of future government policy on taxation, spending, regulation, and foreign investment by investors as suggested by Julio and Yook (2012). Given these patterns in Figure 1, the study of election impact on stock market becomes more evident in the case of Malaysia as massive capital outflow from FBMKLCI index was recorded as a consequence of unstable politics for the recent unprecedented political events. All these create an environment of ambiguity, leaving the investors uncertain about policy direction as well as indecisive mandate from the government which eventually increase in volatility (Pastor & Veronesi, 2012). This circumstances not only clouded investor decision-making but also amplified perceptions of

risk, ultimately driving persistent volatility and sustained capital flight from the Malaysian equity market. As a result, these electoral cycles can have long-term effect on investment strategies beyond just immediate reaction, as market participants adjust portfolios in anticipation of policy changes. Therefore, examining the election impact on Malaysia's stock market at different stages provides valuable insights into how electoral dynamics influence investor sentiment, both in the short and long term, which can be systematically captured through the application of an event study. There are two reasons as to why seven general elections of Malaysia are chosen to be part of study setting. First, it allows to compare the intensify of the election effect on stock market from the recent elections (GE13, GE14 & GE15) with the previous elections which was predominantly governed by one-party. Second, this study is able to disentangle the immediate shock of electoral outcomes from the sustained adjustments in market expectations through short- and long event windows. By utilizing these findings, policymakers, financial analysts and investors can better anticipate market responses to electoral outcomes by refining their risk assessment models and portfolio strategies for upcoming election years. The remaining paper is organized as follows. Section 2 reviews underpinning theory and empirical finding related to election effect on stock market for developed and emerging countries. Section 3 describes data and presents methodology. Section 4 presents and discusses results of statistical test for return and abnormal return of FBMKLCI followed by measurement of event study including abnormal return (AR), average abnormal return (AAR), cumulative abnormal return (CAR) and cumulative average abnormal return (CAAR) for windows [-90,90]. Section 5 concludes the study.

### Literature Review

The election impact on stock market has been widely studied by many researchers around the world such as Białkowski et al. (2008), Abidin et al. (2010), Sturm (2011), Yusoff et al. (2015), Ahmed (2017), Shaikh (2019), Musah et al. (2023) and Upadhyaya et al. (2024). Booth and Booth (2003) and Santa-Clara and Valkanov (2003) are the pioneers behind the study of election impact and stock market. It is believed that the expectation of changes in government policies from the elected government has the potential to affect the company directly, for instance, changes in tax rate on corporate performance. Therefore, it is important to note that different political party has different ideology, especially if they are pro-business often priorities business friendly policies, and whichever party comes to power will shape the market sentiment.

According to Fama (1970) and Fama (1991), all the available information including political outcomes such as elections must incorporate into stock immediately based on Efficient Market Hypothesis (EMH) theory. It is assumed that markets respond quickly to new public information like election results or policy announcements, hence, the semi-strong form of EMH is relevant in this context as it leaves no room for the market participant to consistently earn abnormal returns. Event study methodology has been widely employed to test this form of efficiency by measuring abnormal returns around election periods (Brown & Warner, 1985; Fama, 1991; MacKinlay, 1997). Elections are scheduled political events and this makes them perfect for assessing the efficiency of market incorporating the political information like government policies which passed by the winning party. If the markets are efficient, one would expect significant reactions to occur immediately around the announcement, followed by a rapid return to equilibrium. On the contrary, market

inefficiency suggests prolonged abnormal returns as stock prices did not fully reflect political information in a timely manner.

Empirical findings report divergent impact on market performance in relation to election. In response to the policy changes from the elections outcome, strong pre-election stock market detected in 33 countries in a study of Pantzalis et al. (2000). Another study reveals the association of heightened volatility with elections reflecting market uncertainty (Białkowski et al., 2008). Consistent with EMH theory, Goodell and Vähämaa (2013) further showed that option-implied volatility tends to spike before elections but stabilizes quickly afterward, suggesting rapid adjustment after the resolution of uncertainty. Pastor and Veronesi (2012) also explain the increase in risk premium prior elections and dissipate once results are known based on political uncertainty theory. In the U.S. context, while Knight (2006) found that market valuations respond significantly to candidate platforms, a persistent partisan returns difference are observed in a study of Santa-Clara and Valkanov (2003). Evidence from emerging economies such as Reposis (2014) and Musah et al. (2023) reveals weak market efficiency in Greece and Ghana, as the markets generate prolonged abnormal returns with slower price adjustment following the elections. In the case of Malaysia, the political parties have vast differences in ideologies which has the potential to affect stock market, hence, the magnitude for the most recent elections are expected to be different from the previous years with single-party-rule. This study thus attempts to fill the gap by using event study methodology as an approach to quantify the election impact on stock market through abnormal return (AR), average abnormal return (AAR), cumulative abnormal return (CAR) and cumulative average abnormal return (CAR) analysis.

### Research Methodology

This study employs secondary data including daily index price of the *SP500* serving as benchmark index for estimating abnormal return of FBMKLCI and six sectoral indices namely Industrial Product and Service index (*IND*), Consumer Product and Service index (*CON*), Construction index (*CONSTR*), Finance index (*FIN*), Plantation index (*PL*), and Property index (*PR*). The period of study is 1995 – 2022 which covers seven general elections from 9<sup>th</sup> General Election (GE9) to 15<sup>th</sup> General Election (GE15). The election dates and event day are as follows:

General Election (GE)	Election Date	Event Day, $D_0$
9	25/4/1995	26/4/1995
10	29/11/1999	30/11/1999
11	21/3/2004	22/3/2004
12	8/3/2008	10/3/2008
13	5/5/2013	6/5/2013
14	9/5/2018	14/5/2018
15	19/11/2022	21/11/2022

Here, the event day is determined following the election day as most election dates in Malaysia announced as public holiday. In this case, the first trading day following election should be accounted as day zero because investors incorporate election outcome into stock price according to Białkowski et al. (2008). The study employs 200 trading days of estimation windows prior to the chosen event window which is 181 trading days, including event day (Day 0) with 90 days before and after election. To measure the election impact on the index

price, market model event study is used. Following the study of Fama et al. (1969), the authors assume a linear relationship between the return of the security to the return of the market portfolio. Furthermore, this method has better statistical power as compared to other asset pricing models (Brown & Warner, 1985). To start with, regression coefficients for the FBMKLCI for each election is calculated over the 200 trading days of estimation period before proceeding to measure expected return of the market index. Following that, abnormal returns (AR) is estimated through subtraction of expected return from actual return of FBMKLCI in event windows [-90,90]. Next step is estimating average abnormal return (AAR) where the abnormal returns of FBMKLCI at  $n^{th}$  day over seven elections is averaged, followed by cumulative abnormal returns over specific intervals. Finally, the overall market-wide election effect is captured using cumulative average abnormal return (CAAR) analysis by cumulating the average abnormal return using the same intervals. These specific intervals are divided into asymmetric and symmetric windows. The asymmetric windows include [-90,0], [-60,0], [-30,0], [-10,0], [-5,0], [0,0], [0,5], [0,10], [-0,0], [-5,0], [-10,0], [-30,0], [-60,0], and [-90,0], while symmetric windows include [0,0], [-5,5], [-10,10], [-30,30], [-60,0] and [-90,0]. The intervals are selected to capture the short to long-term election effect on the market index. T-statistics are estimated for AR, AAR, CAR and CAAR to capture the significant of election on the index. Following are the hypotheses to be tested for analysis:

$H_1$ : Abnormal Return (AR) is not significantly different from zero during election periods.

$H_2$ : Average Abnormal Return (AAR) is not significantly different from zero during election periods.

$H_3$ : Cumulative Abnormal Return (CAR) is not significantly different from zero during election periods.

$H_4$ : Cumulative Average Abnormal Return (CAAR) is not significantly different from zero during election periods.

## Results

Table 1 presents descriptive statistics for return of FBMKLCI for GE9 to GE15. There is a notable difference in terms of performance across different windows. For instance, GE10 registers the highest maximum return with 6.74% and the lowest minimum return with -5.85% in the estimation period. The mean returns are ranging from -0.04% to 0.37% across elections. Standard deviation, which proxied for volatility shows GE10 and GE9 are among the most volatile elections with 1.72% and 1.31%, respectively. Whereas the index exhibits less volatile during GE11 (0.67%), GE13 (0.46%) and GE14 (0.32%). Statistical test indicates significant non-zero mean returns in GE10 and GE11 at least at 10% level, implying deviation from mean returns in these periods. In the 90 days pre-election window, GE11 records the highest positive mean returns with 0.15%, while GE10 registers the largest negative mean with -0.12%. Statistical test implies that event window's variance of return in GE11, GE13 and GE14 are significantly higher as compared to the estimation window at least at 10% level, despite elevated volatility experienced by index during GE9 (1.49%) and GE10 (1.73%). As for 90 days post-election window, the mean return of the index records 0.30% with standard deviation of 1.31% during GE10. The rejection of t-statistics implied significance non-zero mean returns in that election year. On the contrary, the index records negative mean returns with -0.09% and -0.04%, respectively. There is a decline in post-election volatility in most elections except GE13 and GE14, with standard deviation registers at 0.62% and 0.76%, respectively. This further confirmed when the rejection of F- statistics implies event window's

variance of return during GE13 and GE14 are significantly higher (at 1% level) as compared to estimation window.

Table 1

*Descriptive statistic and statistical test of Return of FBMKLCI from GE9 to GE15.*

	Estimation Window							90 Days Before General Election							90 Days After General Election						
	GE9	GE10	GE11	GE12	GE13	GE14	GE15	GE9	GE10	GE11	GE12	GE13	GE14	GE15	GE9	GE10	GE11	GE12	GE13	GE14	GE15
<b>Maximum</b>	5.29%	6.74%	2.65%	4.35%	0.91%	1.23%	1.75%	4.98%	6.03%	2.35%	2.18%	1.07%	1.34%	1.92%	5.17%	4.23%	1.61%	2.84%	1.41%	1.55%	4.04%
<b>Mean</b>	-0.04%	0.37%	0.09%	0.09%	0.03%	0.01%	0.05%	0.03%	0.12%	0.15%	0.08%	0.01%	0.04%	0.03%	0.05%	0.30%	0.09%	0.02%	0.00%	0.03%	-0.04%
<b>Mode</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Minimum</b>	-5.25%	-5.85%	-1.71%	-4.64%	-1.60%	-0.84%	-2.01%	-3.96%	-4.96%	-2.07%	-3.84%	-2.43%	-2.19%	-2.15%	-2.10%	-2.90%	-2.63%	-2.53%	-1.85%	-3.18%	-1.97%
<b>Standard Deviation</b>	1.31%	1.72%	0.67%	1.08%	0.42%	0.32%	0.71%	1.49%	1.73%	0.80%	1.12%	0.49%	0.59%	0.74%	1.00%	1.31%	0.78%	0.97%	0.62%	0.76%	0.71%
<b>t-statistics</b>	-0.39	3.06	1.97	1.24	1.02	0.38	0.93	0.30	0.96	2.65	0.97	0.29	0.97	0.51	0.76	3.19	1.58	0.34	-0.03	0.64	-0.76
<b>Significance</b>		***	*							**	*					***					
<b>F statistics</b>								1.29	1.02	1.46	1.08	1.39	3.48	1.08	0.59	0.58	1.39	0.81	2.20	5.74	0.99
<b>Significance</b>										**		*	*				*		***	***	

Notes that Notes: \*\*\*, \*\* and \* denotes rejection of null hypothesis at 1, 5 and 10% significance level respectively. Rejection of t-statistics implied significance non-zero mean return.

Table 2 presents descriptive statistics for abnormal return of FBMKLCI for GE9 to GE15. In the estimation window, the index records the highest maximum abnormal return with 6.27% as well as the largest minimum abnormal return with -6.02% during GE10. From the volatility viewpoint, both GE9 and GE10 record a volatile index with 1.26% and 1.70%, respectively, as opposed to the later election with 0.30% (GE14). In the 90 days pre-election period, GE10 posts the largest negative mean abnormal return at -0.46%, while GE11 records the highest positive at 0.07%. From the volatility standpoint, the index experiences the most volatile year during GE9 and GE10 with standard deviation registers at 1.43% and 1.70%. Rejection of F-statistic reveals significant event window's variance of abnormal return is higher during GE11, GE12, GE13 and GE14 as compared to estimation window at least at 5% level. As for 90 days post-election, GE12 reports extreme volatility with the highest maximum abnormal return of 6.27% and the lowest minimum abnormal return of -8.98%. The standard deviation also records the second most volatile election year after GE10 with 1.26%. The mean abnormal returns are mostly hovering around 0% across all elections. Volatility increases in certain election year, for instance, GE12 and GE14 which record 1.22% and 0.74%, respectively. This further confirmed through the rejection of F-statistic when the event window's variance of abnormal return is significantly higher as compared to estimation window at 1% level.

Table 2

*Descriptive statistic and statistical test of Abnormal Return of FBMKLCI from GE9 to GE15*

	Estimation Window							90 Days Before General Election							90 Days After General Election						
	GE 9	GE 10	GE 11	GE 12	GE 13	GE 14	GE 15	GE 9	GE 10	GE 11	GE 12	GE1 3	GE 14	GE 15	GE9	GE1 0	GE1 1	GE12	GE1 3	GE14	GE15
<b>Maximum</b>	4.9 8%	6.2 7%	2.6 4%	2.7 4%	0.8 5%	1.2 5%	1.7 9%	4.7 3%	5.7 5%	2.2 5%	2.1 1%	1.08 %	1.2 1%	1.9 2%	5.12 %	3.60 %	1.55 %	6.27 %	1.35 %	1.41 %	4.01 %
<b>Mean</b>	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.4 6%	0.0 7%	0.0 3%	0.04 %	0.0 5%	0.0 6%	0.03 %	0.06 %	0.15 %	0.04 %	0.03 %	0.05 %	0.00 %
<b>Mode</b>	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.0 0%	0.00 %	0.0 0%	0.0 0%	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
<b>Minimum</b>	- 5.2 4%	- 6.0 2%	- 1.9 4%	- 3.9 1%	- 1.5 5%	- 0.9 6%	- 2.1 2%	- 3.6 7%	- 5.0 6%	- 1.9 7%	- 3.9 1%	- 2.51 %	- 2.1 7%	- 1.7 9%	- 2.06 %	- 3.46 %	- 2.43 %	- 8.98 %	- 1.80 %	- 2.91 %	- 1.91 %
<b>Standard Deviation</b>	1.2 6%	1.7 0%	0.6 3%	0.8 5%	0.4 0%	0.3 0%	0.6 9%	1.4 3%	1.7 0%	0.7 8%	1.0 9%	0.49 %	0.5 2%	0.6 5%	0.98 %	1.26 %	0.75 %	1.22 %	0.58 %	0.74 %	0.68 %
<b>t-statistics</b>	0.0 0	0.0 0	0.0 0	0.0 0	0.0 0	0.0 0	0.0 0	0.0 1	3.8 5	1.2 4	0.4 0	- 1.10	1.2 5	1.2 3	0.48	0.68	2.93	-0.46	0.82	-0.91	-0.02
<b>Significance</b>																					
<b>F statistics</b>								1.2 8	1.0 0	1.5 3	1.6 4	1.49	2.9 9	0.9 1	0.60	0.55	1.39	2.04	2.14	5.97	0.97
<b>Significance</b>										**	*	**	**	*			*	***	***	***	***

Notes: \*\*\*, \*\* and \* denotes rejection of null hypothesis at 1, 5 and 10% significance level respectively. Rejection of t-statistics implied significance non-zero mean abnormal return.

Table 3 presents event study analysis for abnormal return (AR) and average abnormal return (AAR) of FBMKLCI across seven elections for window [-90,90]. Several significant large negative abnormal returns can be observed particularly GE10 (-4.25%) and GE11 (-1.22%) prior to 90 days before election, suggesting uncertainty in the market due to unclear policy outlook as the political party at the stage campaigning throughout that period. As the election days approached, the abnormal returns are performing with gains of 0.91% in GE13 (Day -30), 1.03% in GE14 (Day -5) and 2.40% in GE12 (Day -3). All are statistically significant at least at 10% level. The abnormal returns of the index continued to outperform around Day -1 to 1, especially for GE12 (8.98%) and GE13 (1.35%). The massive gains are driven by positive investors sentiment due to predictable election outcome in the case of Malaysia. In addition to this, some elections such as GE14 and GE15 also encounter strong rallies during the post-election period with significant abnormal return of 1.13% and 4.01% on Day 3, respectively. A longer post-election effect can also be observed in GE13 and GE14 when positive abnormal returns are significant in certain days for window [0,90] at least at 10% level. For instance, during GE13, a return of 0.79% was recorded on Day 5, while during GE14, significant returns are noted at 1.13% on Day 3, 1.07% on Day 4, 0.71% on Day 5, 2.13% on Day 10, and 0.85% on Day 90. Despite insignificant election effect, the index witnesses persistent declines in abnormal returns during GE9, GE10 and GE12 of post-election period. On the contrary, average abnormal return analysis reports otherwise. The index does not exhibit election effect as it has averaged out over the long term, despite the presence of significant election

effect on individual election. The index also demonstrates the highest positive (negative) AAR records on Day 3 (4) with 0.35% (-0.60%), but statistically insignificant.

Table 3: Abnormal return (AR) and Average abnormal return (AAR) of FBMKLCI from GE9 to GE15 for window [-90,90].

Day	AR							AAR
	GE9	GE10	GE11	GE12	GE13	GE14	GE15	Overall
-90	1.07% [0.01]	-4.25%** [-2.50]	-1.22%* [-1.92]	-1.04% [-1.22]	0.58% [1.47]	0.38% [1.26]	0.57% [0.83]	-0.56% [-0.01]
-60	0.25% [0.00]	-0.03% [-0.02]	0.90% [1.41]	0.05% [0.06]	-0.11% [-0.28]	0.05% [0.17]	0.56% [0.82]	0.24% [0.00]
-30	-0.27% [0.00]	-0.49% [-0.29]	-0.02% [-0.03]	-0.73% [-0.85]	0.91%** [2.29]	0.16% [0.53]	0.40% [0.59]	0.00% [0.00]
-10	-0.01% [0.00]	0.49% [0.29]	-0.70% [-1.11]	-0.53% [-0.62]	-0.13% [-0.33]	-0.40% [-1.32]	0.13% [0.19]	-0.16% [0.00]
-5	0.54% [0.01]	0.73% [0.43]	0.34% [0.53]	-0.14% [-0.17]	-0.20% [-0.49]	-1.03%*** [-3.41]	-0.37% [-0.54]	-0.02% [0.00]
-4	0.07% [0.00]	-0.40% [-0.24]	-0.31% [-0.48]	-1.36% [-1.59]	0.43% [1.09]	0.16% [0.53]	-0.77% [-1.12]	-0.31% [0.00]
-3	-0.04% [0.00]	0.03% [0.02]	0.32% [0.51]	-2.40%*** [-2.82]	-0.06% [-0.16]	-0.48% [-1.58]	-0.22% [-0.33]	-0.41% [-0.01]
-2	1.57% [0.02]	-0.85% [-0.50]	0.98% [1.54]	1.08% [1.27]	-0.14% [-0.35]	-1.03%*** [-3.40]	0.21% [0.31]	0.26% [0.00]
-1	-0.60% [-0.01]	0.65% [0.38]	0.29% [0.45]	1.21% [1.43]	-1.25%*** [-3.15]	0.93%*** [3.06]	0.08% [0.11]	0.19% [0.00]
0	-0.44% [0.00]	-0.33% [-0.20]	0.65% [1.02]	-8.98%*** [-10.55]	3.20%*** [8.02]	0.01% [0.04]	-0.12% [-0.17]	-0.86% [-0.01]
1	-1.57% [-0.02]	-1.70% [-1.00]	-1.04% [-1.64]	3.85%*** [4.53]	1.35%*** [3.40]	-0.22% [-0.72]	-0.37% [-0.54]	0.04% [0.00]
2	-1.72% [-0.02]	-0.27% [-0.16]	-0.33% [-0.52]	-0.52% [-0.61]	-0.26% [-0.65]	-0.21% [-0.69]	0.01% [0.02]	-0.47% [-0.01]
3	0.93% [0.01]	-0.49% [-0.29]	-0.60% [-0.95]	-1.97%** [-2.32]	-0.54% [-1.34]	1.13%*** [3.73]	4.01%*** [5.85]	0.35% [0.01]
4	-0.09% [0.00]	-1.65% [-0.97]	0.17% [0.27]	-0.97% [-1.14]	0.38% [0.96]	-1.07%*** [-3.54]	-0.98% [-1.44]	-0.60% [-0.01]
5	-0.68% [-0.01]	-0.50% [-0.30]	0.45% [0.71]	-0.06% [-0.07]	0.79%* [1.97]	0.71%** [2.34]	0.04% [0.06]	0.11% [0.00]
10	-1.05% [-0.01]	2.89%* [1.70]	0.02% [0.03]	0.93% [1.10]	0.27% [0.69]	-2.13%*** [-7.03]	-0.64% [-0.93]	0.04% [0.00]
30	-0.70% [-0.01]	-0.98% [-0.58]	0.05% [0.07]	-0.37% [-0.43]	0.62% [1.56]	-0.23% [-0.75]	0.07% [0.10]	-0.22% [0.00]
60	-0.42% [0.00]	-0.22% [-0.13]	-0.88% [-1.39]	-1.24% [-1.46]	-0.53% [-1.33]	0.12% [0.40]	0.05% [0.07]	-0.45% [-0.01]
90	-0.65% [-0.01]	-1.43% [-0.84]	0.15% [0.24]	0.15% [0.18]	1.32%*** [3.31]	-0.85%*** [-2.82]	-0.26% [-0.38]	-0.22% [0.00]

Notes: \*\*\*, \*\* and \* denotes significance abnormal return (AR) and average abnormal return (AAR) at 1, 5 and 10% level respectively.

Table 4 presents event study analysis for cumulative abnormal return (CAR) and cumulative average abnormal return (CAAR) of FBMKLCI over symmetric and asymmetric event windows [-90,90] across GE9 to GE15. The CAR analysis demonstrates heterogenous impact on FBMKLCI following the elections. According to Table 4, GE12 has the most negative significant CAR value in certain windows as compared to the rest of election years. For instance, the index shows CAR value of -17.02% and -8.70% in asymmetric windows such as

[-30,0] and [0,5], respectively. Notably, symmetric windows around event date such as [-10,10] and [-5,5] report negative and significant CAR values of -13.33% and -11.36% at 1% level, respectively. On the contrary, GE13 displays the most positive and significant CAR values with 6.44% and 4.29% in windows [-60,0] and [0,10]. Additionally, the CAR values remain consistently positive in symmetric windows such as [-5,5] with 4.02%. All are significant at least at 10% level. Whereas, GE9, GE10 and GE15 show little to insignificant election effect on the index in the CAR analysis.

In relation to asymmetric windows, the index records a significant decline at -38.51% of CAR value in windows [-90,0], suggesting pre-poll pessimism during GE10. Cumulatively, the index records strong gains in GE11 (10.21%) and GE13 (6.44%), as compared to a sharp decline in CAR value with -14.03% during windows [-60,0] in GE12. All are statistically significant at least at 10% level. Shorter pre-election period such as [-5,0] exhibit smaller magnitude in terms of CAR but still significant in certain election years such as GE12 (-11.66%) and GE13 (2.16%). Meanwhile, post-election periods also display mixed but significant result in windows [0,5], [0,10] and [0,30]. For example, GE13 and GE14 generates CAR values of 4.29% and -2.87%, respectively, in windows [0,10] at 5% level. As for symmetric windows, the index managed to generate significant CAR value of -9.12% (GE12) and 3.27% (GE13) in window [0,0], suggesting the sharp disparities are driven by political stability of a country which leads to unsettling market. In medium-term symmetric windows such as [30,30], substantial post-event rallies are observed for GE13 with 7.70%, while major declines persist in GE12 (-13.67%) and GE14 (-10.15%). All are statistically significant at least at 5% level. Longer horizons such as [-60,60] and [-90,90] show little significant certain election year with CAR value registers at 21.12% (GE9) and -44.01% (GE10). Finally, the cumulative average abnormal return (CAAR) analysis exhibits insignificant election effect on the index as it appears muted in response in overall.

Table 4

*Cumulative abnormal return (CAR) and Cumulative average abnormal return (CAAR) of FBMKLCI over asymmetric and symmetric event windows [-90,90] across GE9 to GE15.*

Asymmetric Window	CAR							CAAR
	GE9	GE10	GE11	GE12	GE13	GE14	GE15	Overall
[-90,0]	-0.36% (-0.030)	38.56%** (-2.383)	6.81% (1.127)	-12.71% (-1.565)	-0.20% (-0.053)	4.19% (1.450)	5.01% (0.766)	-5.12% (-0.008)
[-60,0]	11.20% (1.263)	-13.61% (-0.964)	10.21%** (2.021)	-14.03%** (-2.315)	6.44%* (1.861)	0.42% (0.170)	-2.72% (-0.503)	-0.30% (-0.001)
[-30,0]	1.79% (0.052)	-3.85% (-0.396)	7.95%** (2.119)	17.02%** *	6.83%*** (2.947)	-1.33% (-0.688)	2.71% (0.716)	-0.33% (-0.005)
[-10,0]	2.66% (0.608)	1.13% (0.195)	2.19% (0.924)	13.73%** *	2.06% (1.452)	-1.25% (-0.929)	-0.25% (-0.109)	-1.03% (-0.004)
[-5,0]	-0.62% (-0.495)	1.19% (0.291)	1.95% (1.111)	11.66%**	2.16%** (2.057)	-1.61% (-1.618)	-1.30% (-0.759)	-1.17% (-0.007)

				*				
				(-5.488)				
[0,5]	-0.64%	-3.77%	-3.77%	-8.70%***	5.14%***	0.23%	2.46%	-1.33%
	(-0.512)	(-0.924)	(-0.924)	(-3.976)	(4.831)	(0.223)	(1.450)	(-0.008)
[0,10]	-1.19%	1.66%	1.66%	-8.56%***	4.29%***	-2.87%**	1.40%	-1.67%
	(-0.954)	(0.300)	(0.300)	(-2.892)	(2.978)	(-2.034)	(0.612)	(-0.007)
[0,30]	-0.81%	4.84%	4.84%	-5.22%	3.96%	-8.73%***	4.76%	-0.49%
	(-0.651)	(0.522)	(0.522)	(-1.050)	(1.638)	(-3.684)	(1.236)	(-0.001)
[0,60]	-0.51%	24.10%*	24.10%*	-8.15%	4.69%	-5.04%	3.25%	0.86%
	(-0.411)	(1.852)	(1.852)	(-1.169)	(1.382)	(-1.516)	(0.601)	(0.002)
[0,90]	-0.59%	12.77%	12.77%	-13.08%	1.59%	-6.17%	-0.65%	-3.06%
	(-0.471)	(0.803)	(0.803)	(-1.536)	(0.384)	(-1.520)	(0.098)	(-0.005)
<b>Symmetric Window</b>								
[0,0]	-0.62%	-0.12%	-0.12%	-9.12%***	3.27%***	-0.01%	-0.15%	-0.87%
	(-0.494)	(-0.072)	(-0.072)	(-10.213)	(7.536)	(-0.018)	(0.213)	(-0.012)
[-5,5]				-				
	-0.64%	-2.40%	0.35%	11.36%**	4.02%***	-1.43%	1.23%	-1.66%
	(-0.507)	(-0.435)	(0.147)	*	(2.828)	(-1.056)	(0.531)	(-0.007)
[-10,10]				-				
	0.82%	2.96%	-1.79%	13.33%**	3.01%	-4.19%**	1.19%	-1.62%
	(0.136)	(0.371)	(-0.549)	*	(1.535)	(-2.256)	(0.369)	(-0.005)
[-30,30]								
	13.69%	1.54%	-3.33%	-13.67%**	7.70%**	*	7.34%	0.04%
	(0.088)	(0.113)	(-0.634)	(-2.049)	(2.367)	(-3.742)	(1.383)	(0.001)
[-60,60]								
	21.12%*	5.66%	-5.60%	-15.03%*	8.18%*	-4.44%	-1.38%	1.22%
	(1.690)	(0.285)	(-0.787)	(-1.761)	(1.679)	(-1.265)	(0.181)	(0.002)
[-90,90]								
	2.61%	-44.01%*	-6.81%	-18.78%	-3.26%	-0.11%	4.93%	-9.35%
	(0.154)	(-1.928)	(-0.800)	(-1.640)	(-0.607)	(-0.028)	(0.535)	(-0.010)

Notes: \*\*\*, \*\* and \* denotes significance cumulative abnormal return (CAR) and cumulative average abnormal return (CAAR) at 1, 5 and 10% level respectively.

## Conclusions

Malaysia general election is known for its single-party rule for over six decades and its general election is one of the most anticipated political events in Southeast Asia as the re-election of previous government guarantee in the continuity of policy. However, the most recent elections have shift Malaysia political landscape with new administration under uncertainty. Hence, this study conducts the extent of the election impact on the market index through market sentiments in order to determine whether the reaction is more pronounced for the recent episode of elections particularly GE14 and GE15 as compared to previous elections which governed under same political party. The finding reveals that there is a significant market reaction to elections according to AR and CAR analysis. The abnormal returns around election date especially 5 days before and after election is more pronounced for GE12, GE13 and GE14. Furthermore, GE12 demonstrates negative and significant CAR in most windows,

suggesting major sell-off and uncertainty in the market due to losing two-third majority in parliament seats. On the contrary, GE13 shows positive and significant CAR trend despite closest fight between two political parties by *Barisan Nasional* and *Pakatan Harapan*. The implication from this study is that the investors who are risk averse are advised to avoid making investment in the election year with high political uncertainty when there is no clear election outcomes and suggest to diversify their portfolio in other financial asset instead. The risk taker investors may consider short-term hedging strategies especially for windows [-5,5] where abnormal returns seem to be more pronounced and greatly affected by the election in that period.

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