

Economic effects of the 2024 US presidential election: sector-wise insights from India

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459

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Abstract

Purpose – This study delves into the short-term Indian stock market responses to the 2024 US presidential election results. Additionally, it examines how these impacts are scattered across different economic sectors.

Design/methodology/approach – This study adopts the event study method with the market model to estimate normal returns. It uses a 252-day estimation window (–254, –3) and a five-day event window (–2, +2). This study uses both parametric and non-parametric test statistics for hypothesis testing. The sample includes 1,877 stocks listed on India's National Stock Exchange (NSE). For robustness check, we use the (1) Fama–French three-factor model, generalized autoregressive conditional heteroskedasticity (GARCH) and exponential GARCH for estimating normal returns and (2) Boehmer, Musumeci and Poulsen test, Patell test and the Corrado test for testing the significance.

Findings – The findings suggest that (1) the NSE-listed stocks are positively affected by the election outcome, (2) none of the economic sectors are adversely affected (3) the academic and education services sector is insignificant, (4) the energy, utilities and the financial sectors are the least affected, (5) the basic materials, consumer non-cyclicals and technology sectors experience most positive effects, followed by consumer cyclicals, healthcare, industrials and real estate sectors, (6) the positive market responses do not continue for long, as the market adjusts with the other con-current events. Results are robust to various estimation models and significance tests.

Research limitations/implications – The findings imply that external political events distinctly impact sectors and suggest opportunities for sector-focused investment strategies around elections. Future research could examine policy drivers behind sectoral sensitivity and guide policies that strengthen their responsiveness to political changes and market stability.

Originality/value – This study contributes to the existing literature on the economic effects of global political events. This study is the first to comprehensively examine the effects of the US presidential election on 1,877 stocks from 11 economic sectors in India.

Keywords Election, Event study, Financial markets, Sectoral impacts, Political events

Paper type Research paper

1. Introduction

Anticipations around significant election events lead to economic uncertainties (Goodell and Bodey, 2012; Pandey *et al.*, 2024). The United States (US) presidential election is an event that influences international financial markets (Shaikh, 2017). As the world's largest economy, US political leadership leads to significant shifts in international trade policies [1], foreign relations, and economic strategies. The US economic policies are expected to impact emerging economies (Luo and Van Assche, 2023), and India, one of its largest trade partners, is not an exception. Given the interconnectedness of global financial systems, the US presidential election has often caused volatility in international stock markets, with varying effects depending on the outcome and the policies anticipated by the changes in leadership (Mnasri and Essaddam, 2021).

Recently, the Indian stock market has been quite volatile around the Indian General Elections 2024; Pandey *et al.*, (2024). However, the economic uncertainties surrounding the elections were resolved after stable government formation. This study examines the impact of the US presidential election on the Indian stock market. The motivation for the study arises from India's



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growing economic significance and increasing integration with global financial markets. As a leading emerging market, India has been sensitive to international financial fluctuations, and insights into these dynamics can help investors, policymakers, and analysts anticipate and navigate market movements during political events in influential economies. With India becoming a more attractive investment destination for global investors, fluctuations in the US market can create a ripple effect in Indian markets. Given this backdrop, it is essential to investigate how the Indian stock market reacts to political transitions in the US.

Several theories highlight the significance of political events in influencing stock market volatility. The efficient market hypothesis (EMH), posited by [Fama \(1970\)](#), suggests that stock prices reflect all available information, including those of political events. However, some events, including elections and geo-political events, may cause deviations from this theory as investors anticipate potential policy changes, thus creating volatility and price adjustments. Additionally, one of the behavioral finance theories, the prospect theory, highlights that investor sentiment often leads to irrational behavior in response to uncertainty ([Kahneman and Tversky, 1979](#)). Further, economic policy uncertainty (EPU) elucidates how political events and policy shifts contribute to fluctuations in investment decisions and market movements ([Baker et al., 2016](#)), especially in markets like India, where foreign investor sentiment is critical.

Existing literature has examined the influence of the US presidential election on global stock markets. For instance, [Goodell and Vähämaa \(2013\)](#) report that financial markets worldwide exhibit increased volatility leading up to and following the US presidential elections. Studies on how US political events affect Indian markets are rare. A study on BRICS markets reveals that the Indian stock market shows heightened sensitivity to US political events ([Bouoiyour and Selmi, 2018](#)), possibly due to the high presence of Foreign Institutional Investors and the dependency on US-India trade relations. Similarly, [Beaulieu et al. \(2006\)](#) find that markets exhibit greater volatility in response to major political events due to perceived risks and investor uncertainty. While these studies affirm that US elections impact global financial markets, the 2024 US presidential election holds significance for the Indian economy due to policy shifts that directly affect trade, immigration, energy, defense, and healthcare sectors.

Despite the existing research on the effects of US elections on global markets, there is limited analysis specific to India, or other emerging markets, regarding how external uncertainty and resolution of election results impact the Indian stock market. While prior studies acknowledge the heightened volatility around domestic election periods ([Ali and Saha, 2021](#); [Gour, 2020](#); [Iyengar et al., 2017](#); [Pandey et al., 2024](#); [Savita and Ramesh, 2015](#); [Wadhwa and Goodell, 2024](#)), they lack a focused examination of the Indian stock market around elections outside India. This gap demands an investigation into the pattern of uncertainty leading up to and following US presidential election results and its resolution and subsequent impacts on Indian stock market. Examining the market responses to political uncertainty fills a critical gap in understanding the nuanced impact of US political transitions on emerging markets like India. This study contributes to the literature by providing novel findings as to the impact of the US presidential election on the Indian stock market. Focusing on pre- and post-election periods, this study provides insights into how investor sentiments effects on market behavior. Furthermore, this study quantifies the market's reaction to political shifts, providing valuable information to investors and policymakers on managing risk in an interconnected financial landscape.

The rest of the paper provides a brief literature review ([Section 2](#)), explains the data and methodology used ([Section 3](#)), discusses the findings ([Section 4](#)) and concludes the study ([Section 5](#)).

2. Literature review

This section synthesizes previous studies on the influence of political events on stock markets, organized by themes, such as methodology and market responses in different contexts, including the effects on various sectors and implications for stakeholders.

2.1 Event studies and methodological frameworks

Most studies apply the event study method to capture market reactions to political and other significant events. [Obradović and Tomić \(2017\)](#) examine the abnormal returns on the New York Stock Exchange post-2012 U.S. presidential election, revealing a significant negative impact on financial institutions' stocks. Similarly, [Škrinjaric and Orlovic \(2019\)](#) examine the impact of economic and political events on Zagreb Stock Exchange listed stocks around Agrokor in Croatia. The results of these studies were similar across parametric and non-parametric tests. The selection of indices and metrics for event studies is crucial. [Basdas and Oran \(2014\)](#) highlighted a prevalent use of Turkey's BIST-100 index in event studies and suggested that model selection without rigorous discussion could lead to clustering and potentially skewed results. [Shaikh \(2019\)](#) examines the US market volatility using an implied volatility index to track investor sentiment surrounding presidential elections, and the findings reveal pre-election anxiety, countered by a post-election "calm before the storm" effect. Further, researchers have also preferred network-based methods to reveal market structural shifts. For instance, [Memon et al. \(2020\)](#) examine Pakistan's KSE-100 index using a minimum spanning tree network approach and discover a star-like structure post-2018 election, suggesting that election periods lead to reorganization within market networks.

2.2 Market responses to political events

Political transitions, election outcomes, and governance changes substantially affect stock markets globally. [Obradović and Tomić \(2017\)](#) observe that US election events negatively influence stock returns. [Shaikh \(2022\)](#) finds that sustainable investment indices like the Dow Jones Sustainability Index correlate negatively with policy uncertainty during US election years. These findings reflect investor caution amidst uncertainty. [Afego et al. \(2023\)](#) analyze Nigerian elections, revealing a positive market response to the 2015 change in the presidency but a subdued reaction to the re-election in 2019. Their findings reveal heightened sensitivity in banking stocks. Conversely, [Mukanjari and Sterner \(2024\)](#) observe that US elections also affect energy stocks, with renewable energy stocks benefiting under pro-environment administrations like Biden's, while Trump's presidency favored fossil fuel industries despite an unexpected decline in US coal production. In emerging market context, [Ying et al. \(2016\)](#) and [Pandey et al. \(2024\)](#) also observe abnormal stock returns during Malaysian general elections and Indian general elections, respectively. [Chavali et al. \(2020\)](#) also observe a positive market response to the Karnataka general elections. The 2024 US presidential election has significant implications for the Indian economy, with Donald Trump making a comeback. While the NIFTY 50 index yielded 1.11% (on the event date) and -1.17% (on the next day) log returns, the overall impact is expected to be negative. Accordingly, this study hypothesizes that-

- H1. The 2024 US Presidential election will significantly negatively impact the NSE-listed stocks.

2.3 Sectoral reactions and investor implications

Several studies discuss how specific industries react differently to political and economic events. [Memon et al. \(2020\)](#) identify clusters in Pakistan's market where sectors like fertilizers played pivotal intermediary roles post-election. US-based studies by [Oehler et al. \(2013\)](#) examine industry-specific responses to elections from 1980–2008 and find that Democratic victories negatively impact overall stock returns, whereas Republican victories yield mixed results, depending on the industry's exposure to government policies. [Herold et al. \(2021\)](#) observe that poll data during the 2016 presidential election influenced sectors comprising about 30% of market capitalization. [Huber and Kirchler \(2013\)](#) extend the analysis of political impact on sectoral returns by focusing on campaign contributions in US elections. [Behl and Sethi \(2016\)](#) provide support for the heterogeneous sector-wise impact of US elections in India. The findings

of these studies suggest that political uncertainty shapes industry returns, advocating policy implications for sectoral stability. The 2024 US Presidential election is anticipated to affect existing policies. Opportunities for trade diversification, relaxed immigration, and energy regulations could benefit sectors like manufacturing, pharmaceuticals, and logistics. Conversely, stricter immigration and trade regulations increase risks. Overall, US policy shifts are expected to directly influence Indian stock market performance and investor confidence across key sectors. Accordingly, this study hypothesizes that –

H2. The 2024 US Presidential election will have a heterogeneous effect across different economic sectors.

2.4 Implications for investors and policymakers

Existing studies collectively underscore the importance of political awareness for investors, especially in unstable governance contexts. [Shaikh \(2022\)](#) highlights how EPU during election periods shapes sustainable investment strategies. Similarly, [Afego et al. \(2023\)](#) argue that understanding election dynamics in governance-challenged regions like Nigeria aids in predicting market behavior, thus benefiting policymakers and investors. Moreover, the structural insights provided by network-based studies ([Memon et al., 2020](#)) advocate monitoring sectoral nodes to anticipate market shifts around elections. Across diverse global markets, political and economic events exert varying influences on stock returns, with context-specific findings revealing that election outcomes, policy uncertainty, and governance challenges affect market stability and investor behavior. The focus of existing literature has been global, leaving behind the scope for examining the US presidential election effect in an Indian context. Additionally, the sector-specific study will empower policymakers and investors to manage risks in a politically sensitive market like India.

3. Data and methodology

Following [Pandey et al. \(2024\)](#), this study uses the data of firms listed on the National Stock Exchange (NSE). A total of 2,612 firms were available on the ProwessIQ database under the category NSE-listed and permitted companies. However, owing to data limitations for infrequently traded stocks, the final sample was restricted to 1877 firms distributed across eleven sectors classified by The Refinitiv Business Classifications (TRBC) (see [Table 1](#)). The daily closing prices for these firms and those of the benchmark index (NIFTY50) are downloaded from the Prowess IQ database from 30 October 2023 to 08 November 2024.

Table 1. Sample description

TRBC economic sectors	Abbreviations	N
Academic and Educational Services	AES	7
Basic Materials	BM	374
Consumer Cyclicals	CC	372
Consumer Non-Cyclicals	CnC	137
Energy	ENER	45
Financials	FIN	176
Healthcare	HC	127
Industrials	IND	331
Real Estate	RE	67
Technology	TECH	168
Utilities	UTI	37
Note(s): Economic sectors for 36 firms could not be derived		
Source(s): Authors' own work		

The world has experienced non-stop economic turbulence owing to several uncertain and geo-political events during the last five years, including the COVID-19 pandemic (Al-Qudah and Houcine, 2022; Pandey and Kumari, 2021), the Russia-Ukraine war (Bhattacharjee *et al.*, 2024a; Boubaker *et al.*, 2022; Martins *et al.*, 2024), the Silicon Valley Bank crash (Goyal and Soni, 2024a; Pandey *et al.*, 2023; Yadav *et al.*, 2023), the Israel-Hamas war (Bhattacharjee *et al.*, 2024b; Goyal and Soni, 2024b; Pandey, 2024) and others. The prior literature portrays confidence in the event study methodology when assessing short-term market responses to significant events (Kothari and Warner, 2007; Mackinlay, 1997). Hence, this study adopts the Brown and Warner (1985) standard event study in this study. The US Presidential election was held on 05 November 2024. Hence, the event date for Indian markets is considered as 06 November 2024. Further, this study adopts the market model (Mahato, 2022; Pandey, 2024; Rai *et al.*, 2022) to calculate normal returns. This study defines a 252-day estimation window (argued to be free from seasonal biases (Kumari *et al.*, 2024)). This study keeps a shorter (5-day) event window to avoid confounding disturbances. Figure 1 presents the event timeline. The market model abnormal returns (MMAR) are calculated in Equation (1).

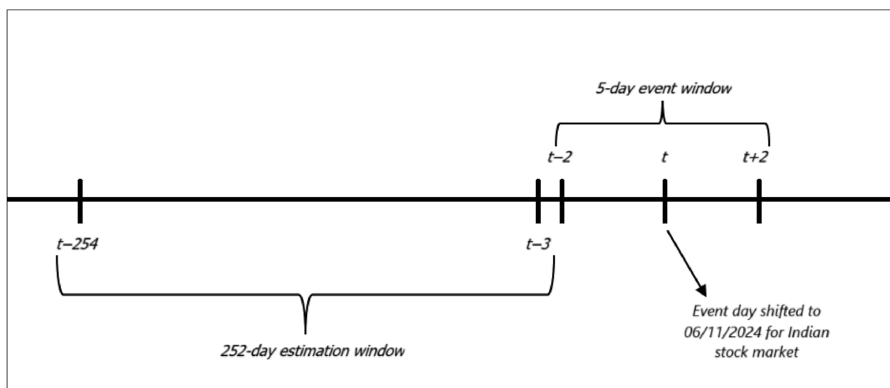
$$MMAR_{i,t} = R_{i,t} - ER_{i,t} \quad (1)$$

where, $MMAR_{i,t}$ and $R_{i,t}$ are the market model abnormal return and the actual log-return of company i on day t , respectively; $ER_{i,t} = \widehat{\alpha} + \widehat{\beta} \cdot R_{N50,t} + \varepsilon_{i,t}$, with $R_{i,t}$ as the normal return of company i on day t ; $\widehat{\alpha}$ and $\widehat{\beta}$ are the market model estimators using the Ordinary Least Squares (OLS) regression; $R_{N50,t}$ is the NIFTY50 log-return on day t ; and $\varepsilon_{i,t}$ is the error term (residuals). The ARs are aggregated across the sample companies and then averaged to calculate the average abnormal return (AAR) of the overall sample. These daily AARs are then aggregated across time to calculate the cumulative AAR (CAAR).

This study calculates the company-wise cumulative abnormal returns (CAR) in Equation (2).

$$CAR_{i,x-y} = \sum_{t=x}^y AR_{i,t} \quad (2)$$

$CAR_{i,x-y}$ is the abnormal return of the company i aggregated over the period (x-y).



Source(s): Authors' own work

Figure 1. Event timeline

4. Findings and discussion

4.1 Descriptive statistics

Table 2 summarizes the CARs of 1,877 companies across five event windows. The mean CAR on the event day (0,0) is 0.73%, suggesting a positive market reaction, while the pre-event window (−2,−1) evidences a mean CAR of −0.48%. The post-event window (+1,+2) exhibits an overall decline with a mean CAR of −0.20%, though the broader windows (−2,+2 and −1,+1) show modestly positive averages. The high standard deviations indicate variability in CARs across companies, highlighting a wide range of market responses to the event.

4.2 Abnormal returns around the US presidential election

Table 3 presents the abnormal returns around the US presidential election. The average impact of the election on the NSE-listed firms is significantly positive, indicated by an AAR of 0.73% and 0.79% on the event day (t) and t+1, respectively. Thus, H1 is rejected. The positive impact is evident from the negative pre-election day AAR of −0.34% (significant) and −0.10% (insignificant) on t−2 and t−1, respectively. These findings align with existing research on market reactions to major political events (Afego et al., 2023; Chavali et al., 2020; Pandey et al., 2024). Białkowski et al. (2008) find positive post-event returns examining 134 election events across 27 OECD countries. Additionally, the positive market responses align with the semi-strong form of EMH, which suggests that markets quickly incorporate all publicly available information, including political events. The negative pre-election AARs reflect investor sentiment and uncertainty in the lead-up to the US election. Consistent with findings by Bernhard and Leblang (2002) and Pandey et al. (2024), pre-election periods are often characterized by uncertainty, leading to cautious investor behavior and sometimes negative returns. Expecting potential policy shifts affecting trade relations often induces caution among foreign investors. However, once election results are known, especially if the outcome is perceived as stable and growth-oriented, markets generally respond positively as uncertainty is resolved (Pandey et al., 2024). The US remains India’s critical trade and investment partner, and investor optimism is often buoyed by US election outcomes favoring pro-business policies. Election effects are not always positive for emerging markets (Bouoiyour and Selmi, 2018; Diaconășu et al., 2023),

Table 2. Summary statistics

CAR	−2,−1	0,0	+1,+2	−2,+2	−1,+1
Mean	−0.48	0.73	−0.20	0.05	1.40
Standard error	0.08	0.05	0.09	0.13	0.10
Median	−0.77	0.55	−0.56	−0.54	1.05
Std. deviation	3.27	2.30	3.92	5.63	4.15
Minimum	−21.26	−12.21	−15.31	−39.31	−26.78
Maximum	27.42	17.43	38.53	44.55	26.52
Count	1,877	1,877	1,877	1,877	1,877

Source(s): Authors’ own work

Table 3. Abnormal returns around the US presidential election day

Days	AAR	AARt	CAAR	CAARt
t−2	−0.36***	−5.06	−0.36***	−2.92
t−1	−0.12*	−1.69	−0.48***	−4.77
t	0.73***	10.30	0.25***	3.54
t+1	0.79***	11.06	1.04***	10.33
t+2	−0.99***	−13.86	0.05	0.43

Note(s): ***, **, and * indicate values significant at 1%, 5%, and 10% level, respectively

Source(s): Authors’ own work

which tend to react favorably to US elections when the winning party or candidate signals policies supportive of trade relations and economic collaboration (Shaikh, 2017). The positive post-election returns indicate that Indian investors interpreted the election results as conducive to enhancing trade and investment relations between the US and India, thus reducing pre-event uncertainty and leading to a favorable market response. Emerging markets like India are susceptible to US election outcomes due to capital flow volatility associated with global economic policies. Julio and Yook (2016) argue that elections influence capital flows, impacting equity prices, as investors reallocate resources based on perceived economic stability and foreign policy stance. However, following the positive market response, we notice a significant negative AAR of -0.99% on $t+2$ (08 November 2024, Friday), which could be attributed to several reasons, including the profit booking and other market dynamics owing to other con-current events. Future studies need to explore the driving factors behind the Friday sentiments.

4.3 Abnormal returns across economic sectors

Some economic sectors are more sensitive to political events (Boutchkova et al., 2012). Table 4 illustrates the AARs of eleven economic sectors, indicating that most sectors experienced a positive impact on the event day, with only a few exceptions. Before the event day, sectors such as BM ($t-2$), CC ($t-2$), FIN ($t-2$) and IND ($t-2$ and $t-1$) show negative AARs, while the remaining seven sectors are unaffected. All sectors except AES, ENER and FIN experienced significant returns on the event day. During the post-event day $t+1$, AARs for AES, ENER, UTI, HC and CnC were insignificant, and the rest of the sectors were positively affected by the political event. However, on $t+2$, the AAR for all sectors except AES was significantly negative. Given the heterogeneous impacts across economic sectors, H2 is accepted. These differential sectoral impacts align with the theory of EPU, as sectors sensitive to policy changes react significantly.

The CAARs (see Table 5) for the HC, CnC, BM, and TECH sectors have been significantly positive from the day of the event onwards. The impact of US presidential elections on sectoral stock returns is a well-recognized phenomenon, with extant literature consistently observing

Table 4. Sector-wise average abnormal returns around the US presidential election day

	$t-2$	$t-1$	t	$t+1$	$t+2$
AES	-0.14 (-0.11)	-0.61 (-0.51)	1.65 (1.38)	-0.04 (-0.03)	-1.36 (-1.14)
ENER	-0.60 (-0.95)	-0.15 (-0.24)	0.76 (1.20)	0.33 (0.52)	-1.81*** (-2.85)
FIN	-0.47** (-2.04)	-0.10 (-0.42)	-0.01 (-0.04)	0.99*** (4.31)	-0.55** (-2.37)
UTI	-0.59 (-1.24)	-0.43 (-0.90)	0.93** (1.97)	0.63 (1.34)	-2.25*** (-4.76)
CC	-0.36** (-2.04)	-0.22 (-1.26)	0.53*** (2.97)	0.78*** (4.38)	-0.87*** (-4.88)
HC	-0.18 (-0.80)	0.04 (0.17)	0.55** (2.40)	0.36 (1.58)	-0.66*** (-2.84)
IND	-0.45*** (-2.61)	-0.43** (-2.54)	0.89*** (5.21)	0.97*** (5.63)	-1.09*** (-6.35)
CnC	-0.40 (-1.51)	0.22 (0.83)	0.70*** (2.63)	0.41 (1.56)	-0.78*** (-2.93)
BM	-0.31** (-2.14)	0.05 (0.36)	0.84*** (5.91)	0.87*** (6.09)	-1.31*** (-9.20)
RE	-0.54 (-1.52)	-0.24 (-0.68)	0.65* (1.82)	1.21*** (3.38)	-1.38*** (-3.86)
TECH	-0.09 (-0.40)	0.07 (0.30)	1.48*** (6.46)	0.87*** (3.81)	-0.50*** (-2.20)

Note(s): ***, **, and * indicate values significant at 1%, 5%, and 10% level, respectively

Source(s): Authors' own work

Table 5. Sector-wise cumulative average abnormal returns around the US presidential election day

	<i>t</i> −2	<i>t</i> −1	<i>t</i>	<i>t</i> +1	<i>t</i> +2
AES	−0.14 (−0.07)	−0.75 (−0.44)	0.90 (0.76)	0.86 (0.51)	−0.50 (−0.24)
ENER	−0.60 (−0.55)	−0.76 (−0.84)	0.01 (0.01)	0.34 (0.38)	−1.47 (−1.33)
FIN	−0.47 (−1.18)	−0.57* (−1.74)	−0.58** (−2.50)	0.42 (1.28)	−0.13 (−0.32)
UTI	−0.59 (−0.72)	−1.01 (−1.52)	−0.08 (−0.18)	0.55 (0.82)	−1.70 (−2.08)
CC	−0.36 (−1.18)	−0.59** (−2.33)	−0.06 (−0.33)	0.72*** (2.87)	−0.15 (−0.48)
HC	−0.18 (−0.46)	−0.14 (−0.44)	0.41* (1.77)	0.77** (2.37)	0.12 (0.30)
IND	−0.45 (−1.51)	−0.88*** (−3.64)	0.01 (0.07)	0.98*** (4.03)	−0.11 (−0.38)
CnC	−0.40 (−0.87)	−0.18 (−0.48)	0.52** (1.95)	0.93*** (2.48)	0.15 (0.33)
BM	−0.31 (−1.24)	−0.25 (−1.26)	0.59*** (4.13)	1.46*** (7.23)	0.15 (0.59)
RE	−0.54 (−0.88)	−0.79 (−1.56)	−0.13 (−0.38)	1.07** (2.12)	−0.31 (−0.50)
TECH	−0.09 (−0.23)	−0.02 (−0.08)	1.46*** (6.35)	2.33*** (7.19)	1.82*** (4.60)

Note(s): ***, **, and * indicate values significant at 1%, 5%, and 10% level, respectively

Source(s): Authors’ own work

that a few sectors benefit more from election outcomes than others due to their expected alignment with anticipated policy changes. The findings of this study, which show positive AARs across most sectors on and after the event day, resonate with prior studies (Li and Born, 2006). Prior studies highlight that markets often rally after election results, especially when a pro-business candidate wins, as investors anticipate favorable regulatory and economic policies (Afege *et al.*, 2023; Chavali *et al.*, 2020). This study, too, highlights the optimism surrounding anticipated supportive trade policies.

The CC, FIN, IND and BM sectors experienced mixed returns before and after the event day, demonstrating a pattern seen in other election cycle studies. These sectors often react variably to election results due to their sensitivity to EPU (Baker *et al.*, 2016) and interest rate expectations, which impact consumer confidence and investment. For financial institutions, changes in administration can mean shifts in regulatory focus, thus resulting in cautious market responses as investors adjust their expectations based on public policy consequences (Goodell and Vähämaa, 2013). Conversely, sectors such as UTI and AES exhibited minimal or statistically insignificant reactions, indicating that these sectors are generally insulated from election-related fluctuations. Most sectors experienced significant positive returns, likely due to investor expectations of pro-business policies, thus aligning with Hensel and Ziemba (1995), who mention that “*Corporate, long-term government, and intermediate government bonds and cash had significantly higher returns during Republican administrations.*” Furthermore, the relatively muted response in the ENER sector is consistent with its global exposure, where external factors such as oil prices (Bouoiyour and Selmi, 2018), geo-political stability, and international climate agreements play a more substantial role than political events alone. This sector’s dependence on global markets might have subdued its response to the US political events.

4.4 Robustness checks

We check for robustness in two ways. First, we use different estimation models (corrected for Generalized Auto-regressive Conditional Heteroskedasticity (GARCH) (Bollerslev, 1986),

Exponential GARCH (EGARCH) (Nelson, 1991) and the Fama-French Three-Factor model (Fama and French, 1993)) for estimating the normal returns. Second, we use different test parameters to test the significance of the abnormal returns. Following prior literature (Corhay and Rad, 1996; Elsas and Schoch, 2023; Farooq *et al.*, 2021), to account for time-varying volatility, we estimate a GARCH (1,1) model for the error term $\varepsilon_{i,t}$. The assumption is $\varepsilon_{i,t} = \sigma_{i,t} z_{i,t}$, $z_{i,t} \sim N(0, 1)$, where $\sigma_{i,t}^2$ represents the conditional variance, which follows the process defined in Equation (3).

$$\sigma_{i,t}^2 = \omega + \alpha \cdot \varepsilon_{i,t-1}^2 + \beta \cdot \sigma_{i,t-1}^2 \quad (3)$$

where, ω is a constant, α measures the impact of past squared residuals (ARCH effect), and β captures the persistence of volatility (GARCH effect).

Further, since volatility may react differently to positive and negative shocks, following Cam and Ramiah (2014) and Park and Newaz (2018), we estimate an EGARCH (1,1) model, which specifies as in Equation (4).

$$\log(\sigma_{i,t}^2) = \omega + \alpha z_{i,t-1} + \gamma(|z_{i,t-1}| - E|z_{i,t-1}|) + \beta \log(\sigma_{i,t-1}^2) \quad (4)$$

where, $z_{i,t-1}$ defined as $\frac{\varepsilon_{i,t-1}}{\sigma_{i,t-1}}$ is the standardized residual (shock); $E|z_{i,t-1}|$ is ω is the constant term, α captures the leverage effect allowing for asymmetric responses to shocks, γ measures the impact of standardized residuals on volatility, β controls the persistence of volatility.

The expected return for company i at time t is estimated using the Fama-French three-factor model in Equation (5).

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{N50,t} - R_{f,t}) + s_i SMB_t + h_i HML_t + \epsilon_{i,t} \quad (5)$$

where, $R_{i,t}$ = Return of company i on day t ; $R_{f,t}$ = Risk-free rate on day t ; SMB_t = Size factor (Small Minus Big) on day t ; HML_t = Value factor (High Minus Low) on day t ; α_i = Intercept term for company i ; β_i = Market beta (systematic risk) of company i ; s_i = Sensitivity of company i to the SMB factor; h_i = Sensitivity of company i to the HML factor; $\epsilon_{i,t}$ = Error term.

The coefficients (α_i , β_i , s_i , h_i) are estimated using OLS regression over the estimation window. The estimated coefficients are then used to compute the expected return ($ER_{i,t}$) (see Equation (6)).

$$ER_{i,t} = \hat{\alpha}_i + \hat{\beta}_i(R_{N50,t} - R_{f,t}) + \hat{s}_i SMB_t + \hat{h}_i HML_t \quad (6)$$

Table 6 presents the AAR arrived at using the market model, the Fama-French Three-Factor model and those corrected for GARCH and EGARCH. The results do not vary indicating robust findings.

We initially used the Brown and Warner (1985) parametric test t -statistics to test the significance of the abnormal returns. To check for the robustness of the findings, we apply a set of parametric (the BMP test (Boehmer *et al.*, 1991) and Patell test (Patell, 1976)) and non-parametric test (the Corrado test (Corrado, 1989) as modified by (Ataullah *et al.*, 2011)). While Marks and Musumeci (2017) suggest that the BMP test is well-specified compared to the Patell test, we use both and find supporting results. Further, Corrado (1989) suggests that a rank-based non-parametric test is more powerful than the parametric t -test and does not require symmetry in cross-sectional excess returns distributions for correct specification. We find that the significance as tested by the Corrado test aligns with those of the t -test, BMP test and the Patell test (see Table 7).

Table 6. Abnormal returns across different estimation models

Days	AAR _{MM}	AAR _{GARCH}	AAR _{EGARCH}	AAR _{FFTFM}	CAAR _{MM}	CAAR _{GARCH}	CAAR _{EGARCH}	CAAR _{FFTFM}
$t-2$	-0.361***	-0.358***	-0.258***	-0.418***	-0.361***	-0.358***	-0.258***	-0.418***
$t-1$	-0.120*	-0.123*	-0.133*	-0.574***	-0.481***	-0.480***	-0.391***	-0.992***
t	0.734***	0.731***	0.711***	0.526***	0.253***	0.251***	0.321***	-0.466***
$t+1$	0.789***	0.792***	0.886***	0.537***	1.041***	1.043***	1.206***	0.071
$t+2$	-0.988***	-0.988***	-0.942***	-1.143***	0.053	0.055	0.265**	-1.072***

Note(s): ***, **, and * indicate values significant at 1%, 5%, and 10% level, respectively. For calculating the SMB and HML factors, the market capitalization and book-to-market values are needed. However, these values could not be retrieved for 120 firms. Hence, the Fama-French three-factor model was applied to a sample of 1,757 firms

Source(s): Authors' own work

Table 7. Parametric and non-parametric significance test values

Days	t-value	Patell value	BMP value	Corrado value
$t-2$	-5.06***	-2.13**	-1.66*	-6.56***
$t-1$	-1.69*	-2.10**	-0.59	-1.71*
t	10.30***	13.12***	3.45***	16.06***
$t+1$	11.06***	9.29***	3.40***	17.02***
$t+2$	-13.86***	-14.27***	-4.09***	-19.79***

Note(s): ***, **, and * indicate values significant at 1%, 5%, and 10% level, respectively
Source(s): Authors' own work

5. Conclusion

This study examines the impact of the US presidential election on stock returns of Indian firms listed on the NSE and provides insights into sector-specific reactions to such major political events. The results indicate a significantly positive reaction in the Indian stock market post-election. These findings align with prior research indicating that foreign markets often respond favorably to US elections when results suggest pro-business policies that support global trade and economic stability (Afego *et al.*, 2023; Chavali *et al.*, 2020; Białkowski *et al.*, 2008). This response is particularly relevant for emerging markets like India, where shifts can significantly influence economic policies and capital flows in US foreign policy and trade relations. The negative AARs observed in the pre-event period highlight the uncertainty associated with political events amid expectations of potential policy changes. Once the election results are confirmed and perceived as conducive to stable US-India trade relations, the NSE-listed firms respond positively, indicating the importance of investor sentiment in emerging markets (Bernhard and Leblang, 2002; Pandey *et al.*, 2024). The sectoral analysis highlights the differential impact of the election on specific economic sectors. Sectors such as BM and TECH experienced the highest positive returns, likely driven by expectations of supportive economic policies (Li and Born, 2006; Hensel and Ziemba, 1995). Conversely, sectors such as UTI and AES exhibited minimal responses. The variability in returns observed within CC and FIN is attributed to expected fluctuations in EPU and interest rate expectations during political shifts.

The findings have important implications. The US presidential elections substantially impact Indian markets, with positive effects following pro-business outcomes, reflecting investor confidence in stable trade and investment policies. Sectoral differences indicate that policy-sensitive industries gain more while regulated sectors remain stable. These insights can guide investors on market and sectoral positioning during political events. Although the findings of this study are robust, it suffers from a limitation that does not affect the reported results. This study does not consider the underlying variables that may explain the varying reactions across the economic sectors. For instance, political party affiliations can explain these variations (Swensen and Patel, 2004). Hence, future studies should examine the relationship between the firms' political affiliations and the abnormal returns during elections. Further, considering a longer time domain, the driving forces behind the sudden fall on $t+2$ need to be examined in the future.

Notes

1. <https://economictimes.indiatimes.com/news/economy/policy/with-trump-win-india-open-to-freeing-up-market-access-for-u-s-firms-sources/articleshow/115054538.cms>

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