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Electoral impact on equity and reactionary sectoral market movement reflecting consumer and investor sentiments

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KEYWORDS

Equity markets, General elections, economy, volatility, uncertainty

ABSTRACT

The research paper assesses the Indian general elections and the iterative impact on the equity market from 1991 to 2024. The major stock market indicators on Sensex and Nifty indices, and the successive impact on major sectors to general elections has been studied. This study aims to enhance understanding of how political events influence stock market behavior, aiding stakeholders in making informed decisions. Our research shows that during election times, the Indian stock market often becomes more unpredictable. Uncertainty weighs over risk of decisions and election result. Stock prices are more volatile than usual. This happens because investors are unsure about what will happen after the election. However, we've noticed that even though the market might be volatile during elections, it usually recovers and grows over time. This shows that the Indian stock market is resilient – it can bounce back from short-term uncertainties. When election results are surprising, the market tends to react more strongly. For example, if a party that wasn't expected to win comes into power, we might see bigger changes in stock prices right after the election. On the other hand, when a government that people are familiar with gets re-elected, the market often responds positively. This is because investors feel more confident when they know what to expect from the government's policies. Different sectors of the economy react differently to elections- FMCG, Technology Financial Services and Infrastructure. Over the years, we've seen that the Indian stock market has become more mature in how it handles elections. It doesn't panic as much as it used to when there are political changes. This shows that investors are getting more experienced and understand that short-term political events don't always affect long-term economic growth. When we look at the numbers closely, we see that despite the ups and downs during election times, both Sensex and Nifty have grown significantly over the years. This reflects how India's economy has been growing overall.

1. INTRODUCTION

The research paper explores market volatility with historical trend analysis for market indices- Nifty and Sensex preceding uncertainty of General elections. Volatility linked to uncertainty pertaining elections impacts indices and returns. (Ariani, R., & Kristianto, A. H. , 2024). Market sentiments anticipating regime and policy shifts lead to periods of market trends which are reflective of the changes in the indices and market resilience over time. These changes impact economic growth, savings and institutional attributes. (Marcelin et.al, 2024). Systemic risk increases during election and post-election periods (Kladakis, G. & Skouralis, A. ,2024). When election results are surprising, the market tends to react more strongly. For example, if a party that wasn't expected to win comes into power, we might see bigger changes in stock prices right after the election. On the other hand, when a government that people are familiar with gets re-elected, the market often responds positively. This is because investors feel more confident when they know what to expect from the government's policies. Short-term negative market reaction to the general elections is linked to the uncertainty with a change in the political sign of the incumbent. (Castano et al 2024).The research paper aims to provide a comprehensive analysis of the impact of national general elections on the Indian stock market.

Geographic Focus:

The analysis primarily focuses on the national level, examining the impact of general elections across India.

While the primary focus is on national elections, some consideration is given to significant state elections and their localized effects on the stock market.

Market Indices:

The study focuses on indices as key indicators of the Indian stock market - Sensex and Nifty which is reflective of uncertainty and volatility.

Sector-specific analysis is included, particularly for sectors that have shown sensitivity to election outcomes, such as infrastructure, banking, energy, and healthcare.

Time Frame:

The study spans several election cycles from 1989 to 2024, allowing for a historical data perspective on how different political scenarios have influenced the stock market over time.

1989 - Coalition Era Begins

The 1989 elections marked the beginning of the coalition era in India, with the united opposition forming the National Front coalition government. With significant political turmoil surrounding reforms the new regime faced market volatility and economic disruptions.

1991 – Congress Returns, Reforms Follow

Groundbreaking economic liberalization reforms bolstered market confidence, buoyed investor sentiment and paved for economic recovery and growth in the aftermath of this volatile election period.

1996-1998 - Unstable Coalition Governments, External Shocks

Between 1996 and 1998, several unstable coalition regimes in power caused lack of policy coherence. External economic crisis like the Asian Financial Crisis. Market confidence suffered during this phase, with the domestic economic downturn and global headwinds leading to subdued returns and bearish sentiments.

1999 - NDA Brings Stability, Rallies Begin

The Sensex moved 7% on the election result and rallying for 3 months, on a pro-growth agenda, with more focus on structural reforms liberalization with 6-7% GDP growth. But, global events viz 9/11 terror attacks in the U.S., coupled with domestic issues lead to 50% market correction few of years later. For the government's entire five-year term, annual returns compounded at 3%, an absolute gain of 14% for Sensex.

2004 - Unexpected UPA Win Jolts Markets

The Nifty slowed 12.24% on result day before bounce back back 8.3% the next day, new government focused on economic reforms and targeted 8% GDP. Aided by value sectors FDI into India reached a record high of $34 billion by 2008. The buoyant bull run continued until the global financial crisis struck, after which markets sold off before recovering ahead of the next election cycle.

2009 - UPA's Re-Election Sparks Massive Rally

Stocks rally - the Nifty spiked an incredible 17.74% higher on the result. Despite GDP growth of around 7.5% in the first three years, day policy continuity policy paralysis, hurting investor confidence the administration struggled to rein in fiscal deficits and inflationary pressures.

2014 – New Rally Begins

Election result day, the Nifty rose 1.12% and extended gains with a 0.84% rally. New government agenda of reducing inflation and passing pending reforms, buoyed by improved macroeconomic fundamentals. Market overall returned 40% over four years due to factors of global crude oil price shocks and a weakening rupee.

2019 - Second Term Reinforces Policy Continuity

The Nifty ended the day 0.69% lower but recovered quickly with 1.6% rally investors reacted to the likelihood of policy continuity. Persistent challenges around economic growth, sentiments stemming from global trade wars, and structural issues in key sectors like banking tempered rallies.

2024 - Anticipated Market Movements

As the 2024 general elections approached, the market showed varied responses based on election outcomes. On June 4, 2024, the result day, the Sensex was at 70,113, reflecting positive sentiment in the lead-up to the elections. The Nifty stood at 21,884 on the same day, showing a cautious but optimistic investor outlook. Over the next month, the Sensex climbed to

73,321, and the Nifty rose to 24,302, indicating continued investor confidence and market stability. The overall positive trend suggests that markets have responded favorably to the election results, aligning with historical patterns of market recovery and growth post-election.

The scope of research paper encompasses a detailed analysis of the impact of General elections on the Indian stock market, focusing on the Sensex and Nifty indices. The specific areas covered in this study are as follows:

Objective

To assess eelectoral impact on equity: examining the influence of general elections on the Indian stock market and analyze historical stock market data for Sensex and Nifty indices over multiple election cycles from 1991 to 2024.

Hypothesis

H0: There is no electoral impact of General elections in Indian stock market equity performance over multiple election cycles

2. RESEARCH METHODOLOGY

Data Collection:

Gather historical Sensex and Nifty data for the periods of interest using financial data platforms such as Yahoo Finance, Google Finance, NSE India, or BSE India. Identify key dates for elections, including the result announcement date and periods 6 months before and after the election. A combination of qualitative and quantitative research methods is employed to analyze the data. Event study analysis is used to measure market reactions to election results. Descriptive statistics and historical analysis provide context and insights into market behavior.

Historical Stock Market Data: Daily closing prices of major indices (e.g., Sensex, Nifty) during election periods.

- **Election Results**: Data on the outcomes of Indian general elections from 2004 to 2024
- **Economic Indicators** GDP growth rates, inflation rates, and policy changes during election years.
- **Market Reports**: Research reports and analyses from financial institutions and brokerage firms.

Sample Size

- **Stock Market Data**: Daily closing prices for major indices over six election cycles (2004, 2009, 2014, 2019, 2024).
- **Questionnaire Responses**: 50 responses from clients and market analysts.

Data analysis was performed to measure results and performance through:

- **Trend Analysis**: Identifying patterns in stock market movements during election periods.
- **Statistical Testing**: Determine the significance of observed trends.
- **Visualization**: Creating charts and graphs to visually represent the data and highlight key findings.
- **Comparative Analysis**: Comparing pre-election and post-election market performance to understand the impact of election results on investor sentiment and market volatility

Descriptive Statistics:

Calculate the mean, median, standard deviation, minimum, and maximum values for Sensex and Nifty indices for each period (6 months before, on result day, 1 month after, 3 months after, and 6 months after). Use these statistics to understand the overall behavior of the indices around election times.

Data Analysis Tools:

Utilize tools for data analysis and visualization. Perform statistical tests to assess the significance of the observed changes in the stock market indices.

Limitations and Challenges:

The study acknowledges limitations, such as the availability and accuracy of historical data, the influence of external factors like global economic conditions, and the complexity of isolating the impact of elections from other variables.

Data Analysis and Interpretation

To analyze historical stock market data for Sensex and Nifty indices over multiple election cycles from 1991 to 2024.

Impact of General Elections on Sensex & Nifty 50 -1991 to 1999

Fig 1: Sensex and Nifty: 1991-1996

Impact of General Elections on Sensex & Nifty 50 -1996 to 1998

Fig 2: Sensex and Nifty: 1996-1998

- From 1991 to 1996 Congress won the elections and formed the government. India saw 3 PMs during this time. As govt had no stability, Indian market struggled with Asian financial crisis during this time and hence lack of confidence was evident among investors.

Impact of General Elections on Sensex & Nifty 50 -1998 to 2004

Fig 3: Sensex and Nifty: 1998-2004

- NDA came in power. This was the first non-INC government to complete the full term. But market suffered due to global factors & the dot com bubble in just a few months post-elections.

Impact of General Elections on Sensex & Nifty 50 -2004 to 2009

Fig 4: Sensex and Nifty: 2004-2009

- Congress back in power, Market fell 15% in first week after election results And then resumed its rally.

Impact of General Elections on Sensex & Nifty 50 -2009 to 2014

Fig 5: Sensex and Nifty: 2009-14

- Congress once again won the elections. Market which was on the path to recovery after the 2008 Financial Crisis gained 17% in single day.

Impact of General Elections on Sensex & Nifty 50 -2014 to 2019

Fig 6: Sensex and Nifty: 2014-19

- NDA came in power with full majority. Riding on high hopes from the government about reforms and stability, market did well post-elections

Impact of General Elections on Sensex & Nifty 50 -2019-2024

Fig 7: Sensex and Nifty: 2019-24

- NDA came back to power with full majority.
- Reforms and stability were again the main reason behind markets doing well post-elections in 2019 until the pandemic hit.

Analyse historical stock market data for Sensex and Nifty indices over multiple election cycles, spanning from 1991 to 2024. Identify patterns and trends in stock market behavior in relation to election outcomes. The following diagrams illustrate stock market trends from the election date to the next election date. Newly elected parties shift policies and the agenda of each party impacts market sentiments. (Addeo, F.,2024) They highlight how the market reacts immediately after the election and show longer-term trends as the new government implements its policies. These visuals help analyze changes in investor confidence and market performance influenced by political developments over time.

To evaluate the market performance six months before and after elections, including comparisons on key dates.

- Investigate the stock market performance six months before and after the election results.
- Compare the stock indices' behaviour on the election result day with their performance one month, three months, and six months after the results.
- Data Presentation and Explanation

Nifty Data Collection

					Nifty Closing				
General Election	**Year**	**Result Date**	**Elected Government**	**Prime Minister**	**6 months before election date**	**On Result Day**	**1 month after result date**	**3 months after result date**	**6 months after result date**
10th	1991	June 16, 1991	INC	P. V. Narasimha Rao	382	398	429	549	541
11th	1996	May 16, 1996	BJP / United Front	Atal Bihari Vajpayee / H. D. Deve Gowda / I. K. Gujral	953	1,128	1,133	1,038	885

12th	1998	March 3, 1998	BJP	Atal Bihari Vajpayee	1,117	1,063	1,157	1,020	843
13th	1999	October 6, 1999	BJP	Atal Bihari Vajpayee	1,024	1,393	1,365	1,618	1,453
14th	2004	May 13, 2004	INC	Manmohan Singh	1,580	1,718	1,508	1,598	1,873
15th	2009	May 16, 2009	INC	Manmohan Singh	2,810	3,672	4,518	4,580	5,058
16th	2014	May 16, 2014	BJP	Narendra Modi	6,056	7,203	7,534	7,792	8,390
17th	2019	May 23, 2019	BJP	Narendra Modi	10,527	11,657	11,724	10,829	11,914
18th	2024	June 4, 2024	BJP	Narendra Modi	21,658	21,884	24,302	-	-

Fig 8: Nifty Collection: 10th to 18th Election Cycle

6 months before result date	1 month after results	3 months after results	6 months after results	Returns till next election
4%	8%	38%	36%	174%
14%	4%	-5%	-19%	1%
-2%	5%	-7%	0%	27%
36%	-2%	16%	4%	23%
9%	-12%	-7%	9%	114%
31%	23%	25%	38%	96%
19%	5%	8%	16%	62%
11%	1%	-7%	2%	88%
1%	11%	-	-	-

Fig 9: Index changes Collection: 10th to 18th Election Cycle

The table provides detailed data on the Nifty index around the dates of various Lok Sabha election results from 1991 to 2024. It includes Nifty closing values at key intervals before and after the election results and calculates performance percentages to analyze market behavior.

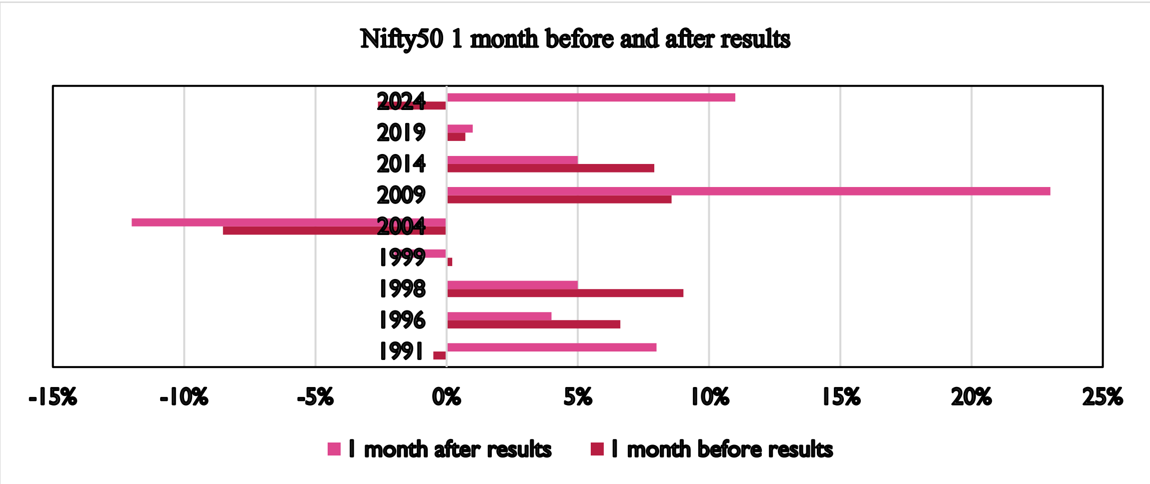
Nifty Closing Values:

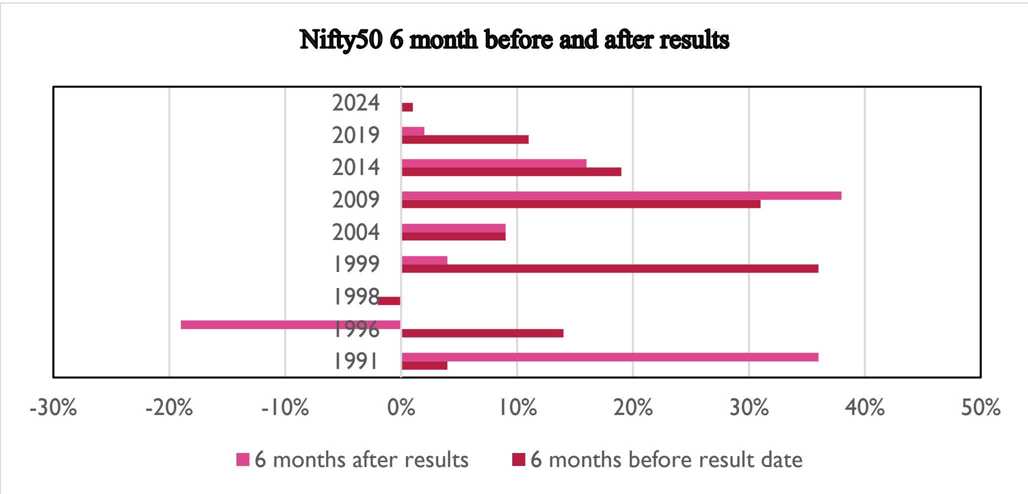
- 6 months before election date: The closing value of the Nifty index six months before the election results were announced.
- On Result Day: The closing value of the Nifty index on the day the election results were announced.
- 1 month after result date: The closing value of the Nifty index one month after the election results were announced.
- 3 months after result date: The closing value of the Nifty index three months after the election results were announced.
- 6 months after result date: The closing value of the Nifty index six months after the election results were announced.

Nifty Performance Percentages:

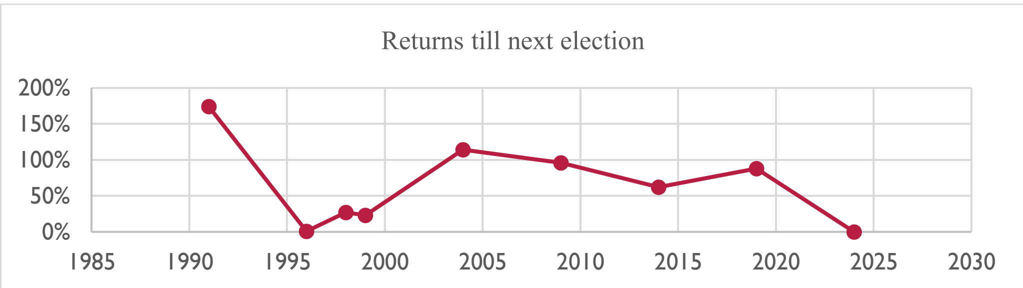
- 6 months before result date: The percentage change in the Nifty index value from six months before the election result date to the result day.
- 1 month after results: The percentage change in the Nifty index value from the result day to one month after the results.
- 3 months after results: The percentage change in the Nifty index value from the result day to three months after the results.
- 6 months after results: The percentage change in the Nifty index value from the result day to six months after the results.
- Returns till next election: The cumulative percentage change in the Nifty index value from the result day to the day before the next election.

Nifty50 1 and 6 months before and after results comparison





Nifty50 returns



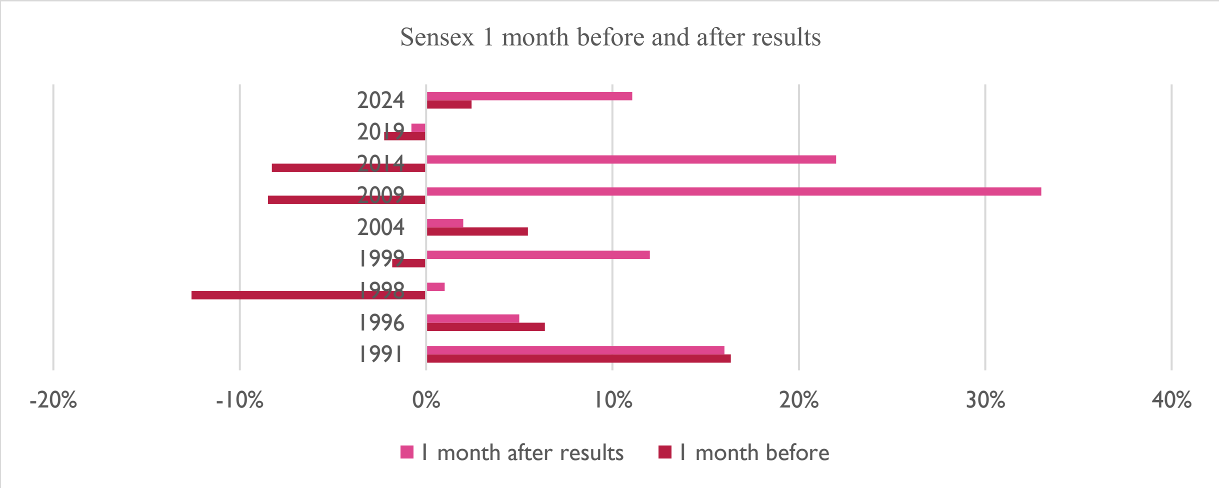
Sensex Data Collection

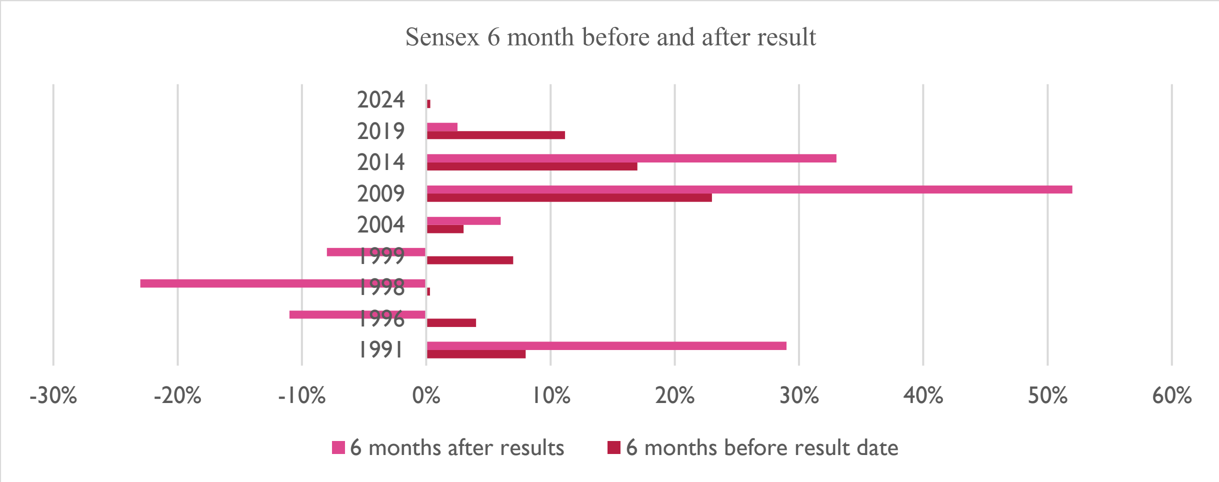
					Sensex Closing				
General Election	**Year**	**Result Date**	**Elected Government**	**Prime Minister**	**6 months before election date**	**On Result Day**	**1 month after result date**	**3 months after result date**	**6 months after result date**
10th	1991	June 16, 1991	INC	Narasimha Rao	1,001	1,080	1,150	1,310	1,290
11th	1996	May 16, 1996	BJP / United Front	Atal Bihari Vajpayee / H. D. Deve Gowda / I. K. Gujral	3,246	3,361	3,400	3,220	2,900
12th	1998	March 3, 1998	BJP	Atal Bihari Vajpayee	3,765	3,776	3,800	3,450	2,890
13th	1999	October 6, 1999	BJP	Atal Bihari Vajpayee	4,330	4,654	4,710	4,800	4,300
14th	2004	May 13, 2004	INC	Manmohan Singh	5,410	5,582	5,550	5,400	5,920
15th	2009	May 16, 2009	INC	Manmohan Singh	9,650	11,876	13,100	13,990	14,670
16th	2014	May 16, 2014	BJP	Narendra Modi	20,540	24,121	25,149	26,501	27,350
17th	2019	May 23, 2019	BJP	Narendra Modi	35,470	39,434	39,122	36,701	40,359
18th	2024	June 4, 2024	BJP	Narendra Modi	71,847	72,079	80,049	-	-

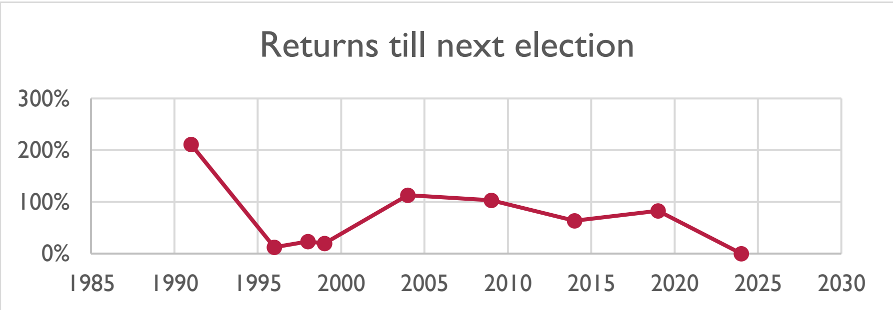
Sensex Performance				
6 months before result date	**1 month after results**	**3 months after results**	**6 months after results**	**Returns till next election**
8%	16%	31%	29%	211%
4%	5%	-4%	-11%	12%
0.30%	1%	-9%	-23%	23%
7%	12%	3%	-8%	20%
3%	2%	-3%	6%	113%
23%	33%	45%	52%	103%
17%	22%	29%	33%	63%
11.18%	-1%	-7%	3%	83%

0.32%	11%	-	-	-

Sensex 1 and 6 months before and after the results comparison







a) Short-term Impact (Result Day vs. 1 Month After):

- In most cases, both indices showed positive movement in the month following election results.
- Exceptions: 2004 (14th election) showed a slight decline for both indices.

b) Medium-term Impact (Result Day vs. 6 Months After):

- More varied results, with some elections showing significant positive impact (e.g., 2009, 2014) and others showing negative impact (e.g., 1996, 1998).

c) Pre-election vs. post-election:

- Generally, markets tend to perform better in the 6 months after elections compared to the 6 months before, suggesting reduced uncertainty post-elections.

To calculate various statistics of different sectors to evaluate market performance during elections.

- Provide statistical measures such as mean, median, standard deviation, minimum, and maximum values for the different sectors in the market around the election dates.
- Offer insights into the central tendency, variability, and range of stock market returns during election periods.

Sectorial Comparison: Impact of Elections on Different Sectors

Statistic / Sector	FMCG	IT	Banking	Infrastructure
6 Months Before Election				
Mean	3,850	2,000	18,000	10,000
Median	3,000	1,800	15,000	9,000
Standard Deviation	200	150	2,500	1,500
Percentage Change	-	-	-	-
On Result Day				
Mean	4,100	2,200	19,000	11,000
Median	3,200	2,000	16,000	10,000
Standard Deviation	250	180	3,000	1,800
Percentage Change	6.50%	10%	5.50%	10%
1 Month After Result Day				
Mean	4,200	2,250	19,500	11,500
Median	3,300	2,100	16,500	10,500
Standard Deviation	260	190	3,100	1,850
Percentage Change	2.40%	2.30%	2.60%	4.50%
3 Months After Result Day				
Mean	4,300	2,300	20,000	12,000
Median	3,350	2,150	17,000	11,000
Standard Deviation	270	200	3,200	1,900
Percentage Change	2.40%	2.20%	2.60%	4.30%
6 Months After Result Day				
Mean	4,500	2,400	21,000	12,500
Median	3,400	2,200	18,000	11,500
Standard Deviation	280	210	3,300	1,950
Percentage Change	4.70%	4.30%	5%	4.20%

This section provides a comparative analysis of the impact of general elections on various sectors including FMCG, IT, Banking, and Infrastructure. The comparison is presented in a tabular format to highlight the performance and volatility of these sectors around election periods.

3. RESULTS

Data Points: The analysis covers key metrics such as mean, median, standard deviation, and percentage change for selected periods around the election dates.

Sector Analysis and Insights

FMCG Sector

Stable Growth: The FMCG sector exhibits stable growth around election periods, with moderate increases in mean and median values.

Lower Volatility: The standard deviation remains relatively low, indicating less volatility compared to other sectors.

Consistent Demand: The essential nature of FMCG products ensures consistent demand, leading to stability even during political uncertainty.

IT Sector

Growth: The IT sector shows positive growth around elections, driven by policies promoting digital infrastructure and innovation.

Moderate Volatility: The sector experiences moderate volatility, reflecting its global exposure and reliance on technological advancements.

Investor Confidence: Elections can boost investor confidence in the IT sector, leading to increased stock prices.

Banking Sector

High Sensitivity: The banking sector is highly sensitive to political events and economic policies, resulting in significant volatility.

Impact of Policies: Changes in interest rates, fiscal policies, and regulatory frameworks during elections can have substantial impacts on this sector.

Short-Term Gains: The sector often sees short-term gains on result days and in the months following elections.

Infrastructure Sector

Policy-Driven Growth: The infrastructure sector is heavily influenced by government policies related to urban development and housing.

High Volatility: The sector experiences high volatility, reflecting investor reactions to political announcements and policy changes.

Long-Term Impact: Large infrastructure projects and housing schemes announced during elections can drive long-term growth.

This comparative analysis highlights the varying impacts of general elections on different sectors. The FMCG sector shows stable growth and lower volatility due to its essential nature. The IT sector benefits from digital initiatives and shows growth with moderate volatility. The banking sector is highly sensitive to political events and experiences significant volatility, while the infrastructure sector is policy-driven and shows high volatility. Understanding these trends helps investors, analysts, and policymakers make informed decisions during election periods, manage risks, and develop effective investment strategies.

Including mean, median, and standard deviation in the analysis provides a more comprehensive understanding of the data distribution for each sector around election periods. Here's why these statistical measures are important:

Mean (Average):

- Provides a central tendency of the data.
- Helps understand the average performance of each sector.
- Useful for comparing overall sector performance across different time periods.
- Sensitive to extreme values, which can be informative in capturing significant market movements.

Median:

- Represents the middle value when the data is ordered.
- Less affected by extreme values or outliers compared to the mean.
- Provides a robust measure of central tendency, especially useful if the data is skewed.
- Comparison with mean helps identify skewness in the data distribution.

Standard Deviation:

- Measures the dispersion or spread of the data around the mean.
- Indicates volatility in the sector's performance.
- Higher standard deviation suggests greater price fluctuations and potentially higher risk.
- Useful for comparing stability across sectors and time periods.

To offer strategies for investors and policymakers to optimize returns and mitigate risks during election periods.

1. **Diversification Strategy**: Investors should maintain a well-diversified portfolio across different sectors to mitigate election-related risks. Consider balancing investments between stable sectors like FMCG and more volatile ones like banking and infrastructure.
2. **Long-Term Perspective**: Adopt a long-term investment approach. Historical data shows that markets generally recover and grow after short-term election-related volatility.
3. **Sector-Specific Investments**: Pay close attention to sector-specific impacts of elections. Consider increasing investments in sectors likely to benefit from new government policies, while being cautious with sectors that might face regulatory challenges.
4. **Timing Strategies**: Be prepared for potential buying opportunities during short-term, election-induced market dips. Consider a phased investment approach around election periods to average out the impact of volatility.
5. **Policy Analysis**: Closely analyze the economic policies and reform agendas of major political parties before elections. Align investment strategies with expected policy outcomes of the likely winning party or coalition.
6. **Risk Management**: Implement appropriate risk management strategies such as stop-loss orders or hedging techniques, especially during the volatile election period.
7. **Global Context** Consideration: Don't overlook global economic factors. Balance your investment decisions by considering both domestic election factors and the global economic environment.
8. **Regular Portfolio Review**: Conduct more frequent portfolio reviews during election periods. Be prepared to adjust your investments based on changing market conditions and your personal risk tolerance.
9. **Utilize Historical Data**: Use historical market patterns around previous elections as a guide but remember that past performance doesn't guarantee future results.
10. **Stay Informed:** Keep yourself updated with reliable news sources and expert analyses to make informed decisions during the election period.

Limitations:

1. **Data Reliability**: The analysis is based on historical data, which may not always accurately predict future market behavior, especially given the evolving nature of Indian politics and economics.
2. **Limited Time Frame**: The study covers elections from 1991 to 2024, which may not capture longer-term historical trends or future changes in market dynamics.
3. **Sector Generalization**: The sector-specific analysis provides a broad overview but may not account for the nuances within sub-sectors or individual companies.
4. **External Factors**: While the study focuses on election impacts, it may not fully account for other significant factors like global economic events, natural disasters, or unforeseen crises that can overshadow election effects.
5. **Policy Implementation Gap**: The analysis assumes a correlation between election outcomes and policy implementation, which may not always hold true due to coalition dynamics or unforeseen political developments.
6. **Market Maturation**: As the Indian market matures, its reaction to elections may change, potentially limiting the applicability of historical patterns to future elections.
7. **Investor Behavior**: The study may not fully capture the psychological aspects of investor behavior, which can be unpredictable during politically charged periods.
8. **Regulatory Changes**: Future regulatory changes in the financial markets could alter how elections impact stock market performance.
9. **Limited Global Comparison**: The analysis focuses on the Indian context and may not provide insights into how the Indian market reacts to elections compared to other emerging or developed markets.

4. CONCLUSION

Our research shows that during election times, the Indian stock market often becomes more unpredictable. Stock prices might go up and down more than usual. This happens because investors are unsure about what will happen after the election. However, we've noticed that even though the market might be shaky during elections, it usually recovers and grows over time. This shows that the Indian stock market is resilient – it can bounce back from short-term uncertainties. We've also noticed that when a government promising economic reforms comes to power, like in 1991 and 2014, the stock market tends to react positively. It's important to remember that it's not just Indian elections that affect our stock market. Global events and the world economy also play a big role. For example, a global financial crisis can impact the Indian market regardless of what's happening in our elections and different parts of the economy react differently to elections. Over the years, we've seen that the Indian stock market has become more mature in how it handles elections. It doesn't panic as much as it used to when there are political changes. This shows that investors are getting more experienced and understand that short-term political events don't always affect long-term economic growth. When we look at the numbers closely, we see that despite the ups and downs during election times, both Sensex and Nifty have grown significantly over the years. This reflects how India's economy has been growing overall. This study helps us understand how elections and the stock market are connected in India. It gives useful information for anyone interested in investing in the Indian stock market, especially around election times. Remember, while elections are important, they're just one of many factors that affect the stock market in the long run.

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