Liew and Rowland *SpringerPlus (2016)5:1975*
DOI 10.1186/s40064-016-3648-5

SpringerPlus

RESEARCH Open Access

The effect of Malaysia general election on stock market returns

Venus Khim-Sen Liew* and Racquel Rowland

*Correspondence: ksliew@unimas.my
Centre of Excellence for Business, Economics and Finance Forecasting, Faculty of Economics and Business, Universiti Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia

Abstract

During the latest episode of general election held in Malaysia, it is observed that the FBMKLCI index was lifted 62.52 points in a day soon after the announcement of election outcome. Moreover, the index registered a highest gain of 96.29 points in the middle of the intra-day trade. This suggests that investors who had got the right direction could make profitable intra-day trading the next trading day of the general election date. Results from statistical analysis uncover significant before-election-effect and after-election-effect from the most recent general elections held in Malaysia. Different subsets of macroeconomic variables are found to have significant role on stock market return depending on the market situation. Remarkably, when there was close fight between the two major political parties during the 2008 and 2013 election years, political uncertainty showed up its negative and significant role in influencing the stock market return. The major implication of these findings is that while investors may seek abnormal returns before and after the next general election, which is around the corner, they will have to pay attention on the influence of macroeconomic variables and political uncertainty on stock market return during the election year.

Keywords: Stock market, Malaysia, General election effect

JEL Classification: G14

Background

Academics from the financial economics stream and researchers of investment institutions are dedicated to uncover market anomaly, if any, in stock markets. Among other market anomalies, political election effect has attracted their continuous attention. Several researchers have put forward their arguments to postulate that political election could have significant impact on stock market performance. For instance, it is argued that incumbents tend to stimulate the economy condition to re-election and to pursue deflationary policies afterwards (Nordhaus 1975). In similar point of view, Ragoff (1990) suggests the equilibrium political budget cycle which asserts that incumbent government tends to bias pre-election fiscal policy.

From another perspective, Hibbs (1977) proposes the partisan theory which presents a reveal preference of political parties toward various economic policies. According to Hibbs (1977), labor-oriented parties tend to focus on employment rather than inflation, while business-oriented parties focus on price stability rather than to unemployment.