



Determinants of Bursa Malaysia Stock Market Returns amid the Fourteenth General Election

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Abstract

This study attempts to examine the effect of the Fourteenth General Election on the market returns in Malaysia. It is found that the election effect lasted for 30 days of trading window and the stock market managed to price-in the election news since then. Secondly, market volatility which represents political uncertainty continued to play significant role in determining stock market return, as were in the previous two general elections. Nonetheless, market volatility had adverse effect, and as such Bursa Malaysia might not fulfil the appetite of those investors who demand higher return for higher risks amid election year. In addition, this study for the first time reveals fairly low but significant market integration between Malaysia and US stock market around the general election year. This signifies that apart from domestic political issues and macroeconomic performances amid general election event, investors in Bursa Malaysia need to closely monitor global issues that would affect the US stock market and hence the performance of Bursa Malaysia.

Key words

Stock Market, Bursa Malaysia, General Election Effect, KLCI, S&P500

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1. Introduction

Numerous studies had documented significant general election (GE) effect on stock market behaviour in Malaysia (Ong *et al.*, 2015; Lean & Yeap, 2016; Liew & Rowland, 2016; Tay *et al.*, 2016; Ricky, 2018). Notably, based on event study methodology to analysis data over the 2004 to 2013 period, Tay *et al.* (2016) demonstrate that the Malaysia stock market had gained significant cumulative abnormal returns 15 days before and 15 days after general elections¹. In a separate attempt using more extensive data set spanning from 1995 to 2013, Liew & Rowland (2016) adopt regression analysis to show that out of the five general elections under studied, 40% of the time the stock market reacted positively before the elections, whereas 60% of the time the market reacted positively after the elections². These implied that the stock market in Malaysia meticulously follows the consequences and deliberations of general election. Nonetheless, the coverage of these studies was up to the Thirteenth General Election (GE13) held in 2013. Moreover, Liew and Rowland (2016) reveal that general election effect in Malaysia varied in degree from

¹ The study covers three general elections in Malaysia: The Eleventh (2004), Twelfth (2008) and Thirteenth (2013) General Elections.

² It covers the Ninth (1995), Tenth (1999), Eleventh (2004), Twelfth (2008) and Thirteenth (2013) General Elections in Malaysia.