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## A Systematic Review on Impact of Political Crisis and Election on Capital Market Returns

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### ABSTRACT

The capital markets worldwide are vastly impacted by market sentiments and investors tend to react and rebalance their portfolios time to time due to such changes in market sentiments from political events. This systematic review examines the impact of political crisis and election on the capital market returns worldwide. It employs a systematic review research method and has gone through 4573 articles, out of which 62 articles published in reputed journals between 1970 and 2023 were considered for review. Of the methodology of the studies reviewed, 43.5% is quantitative, 27.4% is mixed, 17.7% is qualitative, and the rest is conceptual. Researches published in the context of Asian countries contributed 40% of this reviewed study, followed by Europe, Africa, and North America, each with 10%, South America with 3%, Australia with 1%, and allied countries within unions or agreements with 26%. The results show that political crises significantly impact capital market returns in Asia. Studies in North American context indicate that before elections and during political crises, the capital market volatility significantly rises with decreased capital market returns. In Australia, political events cause financial market fluctuation. In Africa, political instability hinders long-term capital accumulation. Additionally, informal political instability in South America directly affects economic growth, while formal instability indirectly affects economic vulnerability. The outcomes of such research hold practical implications for policymakers in formulating portfolio strategies and, therefore, delineate avenues for research exploring the integrated effects of political events on capital market returns by amalgamating trading information from stock exchanges worldwide.

### INTRODUCTION

There are various indicators of economic growth in any country. A well-functioning capital market is one of them that can play a significant role in boosting economic growth with the mobilization of savings, efficient allocation of limited resources, and promotion of the corporate sector efficiently. The stock market acts as a transparent mirror of a country's economy (Jensen *et al.*, 1996). But several factors affect capital market returns and volatility. As like, political instability has a greater impact on the capital market returns as well as economic changes of any country. Financial activities and economic decisions are heavily influenced by the political movement and structural plans of the ruling government in Bangladesh (Roy & Khan, 2021). The study also described the growth of a stock market as the major evidence of the economic progress of a country which determines capital formation for the country. Additionally, it shows that several economic, non-economic, and political forces movements affect in the fluctuation of the capital market which is a concerning issue for the country, government, and investors. Political instability has a greater impact on the economic changes of any country. Moreover, political instability, political violence and appointments, and institutional vagueness shake the stock market returns from time to time.

General election, terrorism, wars, civil protests, and

revolutionary movements are some of the key political events that have critical repercussions on the capital market returns and economic growth paths in any country. These political events bring a huge economic transition to the country. Boubekeur (2015) reveals that political instability, political violence and appointments, and institutional vagueness shake the stock market returns from time to time. According to Souffargi and Boubaker (2024), political events like the revolution have a major impact on the capital market due to its socio-economic implications. However, this type of revolution sometimes provides an opportunity to initiate efficient and transparent governance along with economic potentiality. But the majority of the time, political uncertainty shakes the investors' confidence and thus brings huge stock market volatility. Souffargi and Boubaker (2024) also discuss that destructive capital market returns occur due to partisan conflict. The outcome of exploration on this issue can be the prioritized interest for the policymakers and financial authorities to assess the grand role of the political crisis in triggering or exacerbating the stock prices and contribute to the clear understanding of the investors' behaviors formulating several effective strategies. Therefore, the researchers have identified a need to review the prior studies on this domain to understand the impact of political crisis and election on the capital market returns and global capital market.

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The objective of this study is to examine the impact of political crisis and election on the capital market returns worldwide. This study reviews studies on this domain aiming to provide practical implications for policymakers. The study uses a systematic method to investigate the influence of political crises and elections on capital market returns, analyzing prior research, region-wise outcomes, and identifying future research avenues. The findings can help policymakers initiate portfolio strategies that benefit investors, as political uncertainty and election can have significant impacts on capital market returns. The novelty of the research is that it amalgamates the relevant prior research findings, implications, suggestions, applied methodologies, and overall, the entire patterns of the domain. From this review study, the stakeholders can get proper insightful information which can significantly be applied for making precise decisions in investment.

### LITERATURE REVIEW

Capital market, the best indicator of the economy of any country, plays a pivotal role in pushing up economic growth, savings, capital accumulation, and wealth maximization. The capital market has connectivity with different macroeconomic factors like exchange rate, inflation (Silva, 2023) and (Utonga & Ndoweka, 2023). This implies that the capital market is susceptible to different events, macroeconomic factors and market sentiments. That's why the government, central bank, industries, investors, and many others keep tight concentration on the capital market of the country. To make and continue well-performing industries and the corporate sector for better economic growth, the capital market ensures easy and effective access to capital. Greenwood and Smith (1997) describe the stock market as the prominent indicator of well well-performing economy that curtails the cost of savings and supports investors to make proper and profitable investment decisions.

The capital market is affected by several factors. Kim and Mei (2001) indicate that political issues are one of the most significant factors to impact capital market volatility and returns. Moreover, Alesina *et al.* (1996) define political instability as the propensity of government collapse and government change. The study indicates that when the definition is 'the propensity of government collapse', economic growth goes lower than otherwise while when it is 'government change', the impact remains strong. Additionally, Aisen and Veiga (2013) find that high inflation causes inefficiencies that diminish the socio-economic growth of a country. The study shows that there is a uniform direction between higher political uncertainty and higher inflation that ultimately affects the economic growth of the country. A study by Roy and Khan (2021) described the growth of a stock market as the major

evidence of the economic progress of a country which determines capital formation for the country. The study also shows that several economic, non-economic, and political forces movements affect in the fluctuation of the capital market which is a concerning issue for the country, government, and investors.

The role of political issues in the economic performance of the country has garnered significant attention in the existing literature due to its severe impacts (Fosu, 2001). Roe and Siegel (2011) examine that there is an inverse effect of political instability on the economic development of the country instigating risk, increased uncertainty, stock market volatility, deterioration of law, and reduction of productivity and investment. It finds that economic inequality causes political instability that inversely affects financial improvement and the overall economic growth of the country. The perspective of any government after coming into power with victory is to design government policies for addressing the policies of their electoral support to understand the capital market volatility in response to the government change base (Hibbs, 1977). Investors also expect some desired policies to support their portfolio decisions from the prospective and new government. Bittlingmayer (1998) has examined higher stock market volatility during political uncertainties. It mentions some of the affecting political events including war race, revolution, government change, violence against authority, and strikes that cause higher capital market volatility. Additionally, it finds inverse effects of political instability on industrial production.

According to Souffargi and Boubaker (2024), political events like the revolution have a major impact on the capital market due to its socio-economic implications. However, this type of revolution sometimes provides an opportunity to initiate efficient and transparent governance along with economic potentiality. Additionally, Mai *et al.* (2023) indicate that political instability decreases the investor's confidence in financial markets and thus reduces foreign investment which becomes a risk for the country. Moreover, Kapoor (2013) finds the chance of making abnormal returns in the stock market due to the impact of political decisions taken time to time. Zhao (2023) indicates that election brings changes in the price level, tax policies, unemployment, technological advancement, and financial regulation. Additionally, Kumari (2018) examines that political instability negatively affects both the public and private sectors while political stability is a good indicator for good economic growth. This paper shows the impacts of the general election on the stock market in India from the period 2004-2019. Election causes more uncertain returns. In this case, the investors need to be more cautious regarding investment to readjust their investment strategy (Kedia & Satpathy, 2023). The study by Kaplan and Akçoraoğlu (2017)

finds a negative relationship between economic growth and political instability. It adds observation for the period of 1984-2012. A study by Moricz and Sjöholm (2014) shows no general impacts of local elections on broader economic growth and also some small effects of elections on governance. Audi *et al.* (2022) indicate the impacts of political occurrences on the stock market of Pakistan. Political unrest hinders the way of economic growth. The finding of the study conducted by Suleman (2012) is that terrorist attack news has negative impacts on stock market returns and increases volatility in the financial market. Apart from this, the study by Chen *et al.* (2005) shows that the Taiwan stock market significantly reacts to political events with abnormal price volatility when market-adjusted techniques are followed. On the other hand, in the case of the MVRM framework, the stock market reaction to political events becomes insignificant. Kabiru *et al.* (2015) have observed data from the election period of 1997, 2002, 2007, and 2013 in Kenya. It finds that investors and other stakeholders have to understand the environmental situation for investment in the financial market.

According to a study conducted by Jensen and Schmith (2005) reveal that the stock market's response towards politics depends on the procedures of political impacts. The study has shown impact event-wise. Such as, the election of politicians that enact market-friendly policies tends to increase stock market performance. It has added data from the presidential election of Brazil in 2002. Chan and John Wei (1996) have shown two types of shares including blue-chip and red-chip shares. It finds that the stock volatility of both mentioned shares has increased due to political news. Any kind of favorable (unfavorable) political news causes positive (negative) stock returns of blue-chip shares in the stock market. On the other hand, returns from red-chip shares are not affected by any political news. It concluded with a word that red chip shares can be a haven for investors in case of any political instability. Manning, (1989) examines the effects of political uncertainty on the stock market in the UK. It considers the observation of the share price of British Telecom for 3 years and finds that share prices strongly response to voter's polls.

The capital market functions as a primary driver of a country's economic growth, subject to the influence of diverse economic, non-economic, and political forces. Previous research has consistently demonstrated a significant relationship between political instability, election cycles, and capital market returns, thereby affecting the overall economic performance of the nation. Consequently, there has been a notable emphasis on investigating the impacts of political crises on the

capital market, attracting substantial attention from researchers. These research outcomes hold practical implications for policymakers in shaping effective portfolio strategies. Despite the scholarly interest, a significant gap persists in comprehensive analysis within this domain, necessitating a synthesis of existing information. This review study holds the potential to amalgamate knowledge from prior relevant studies and provide valuable implications for stakeholders. Therefore, this endeavor could substantially contribute to the existing body of knowledge in this field.

### Relevant Theories

The meticulous examination of the influence of political crises and elections on capital market returns constitutes a pivotal area of study, drawing from a comprehensive array of established theories and empirical evidence. These theoretical frameworks furnish an intricate foundation for comprehending and scrutinizing the repercussions of political crises and elections on capital market returns. A methodical investigation amalgamates antecedent research findings by employing these theories to discern insights into their impact. The Political Economy Theory encompasses two subsections (Stilwell *et al.*, 2022). The Institutional theory elucidates the impact of political instability and institutional robustness on capital market returns, thereby shaping the perceptions of market participants. Additionally, the Regime theory posits that alterations in regimes can engender shifts in investor behavior. Behavioral Finance Theories encompass two sub-theories (Kobiyh *et al.*, 2023). The Noise trader theory delineates the reactions of market participants to political crises and elections, whereas the Herding theory explicates investor conduct during times of political instability. The Event Study Theory is interwoven with empirical inquiries aimed at analyzing the influence of specific political events on capital market returns (Widoretno & Fitriyah, 2024). This theory identifies abnormal returns during periods of political instability. The Global Integration and Contagion Effect Theory alludes to the notion that political unrest in one sovereign state may lead to cascading impacts on the global capital market, given the current global interconnectedness (Paskaleva & Stoykova, 2020). Alterations in the capital market returns of any nation can exert influence on the global financial market.

### Theoretical Background and Summary

Figure 1 shows the summary of the major events, methodologies used, findings, implications, and suggestions provided in earlier studies in this avenue.

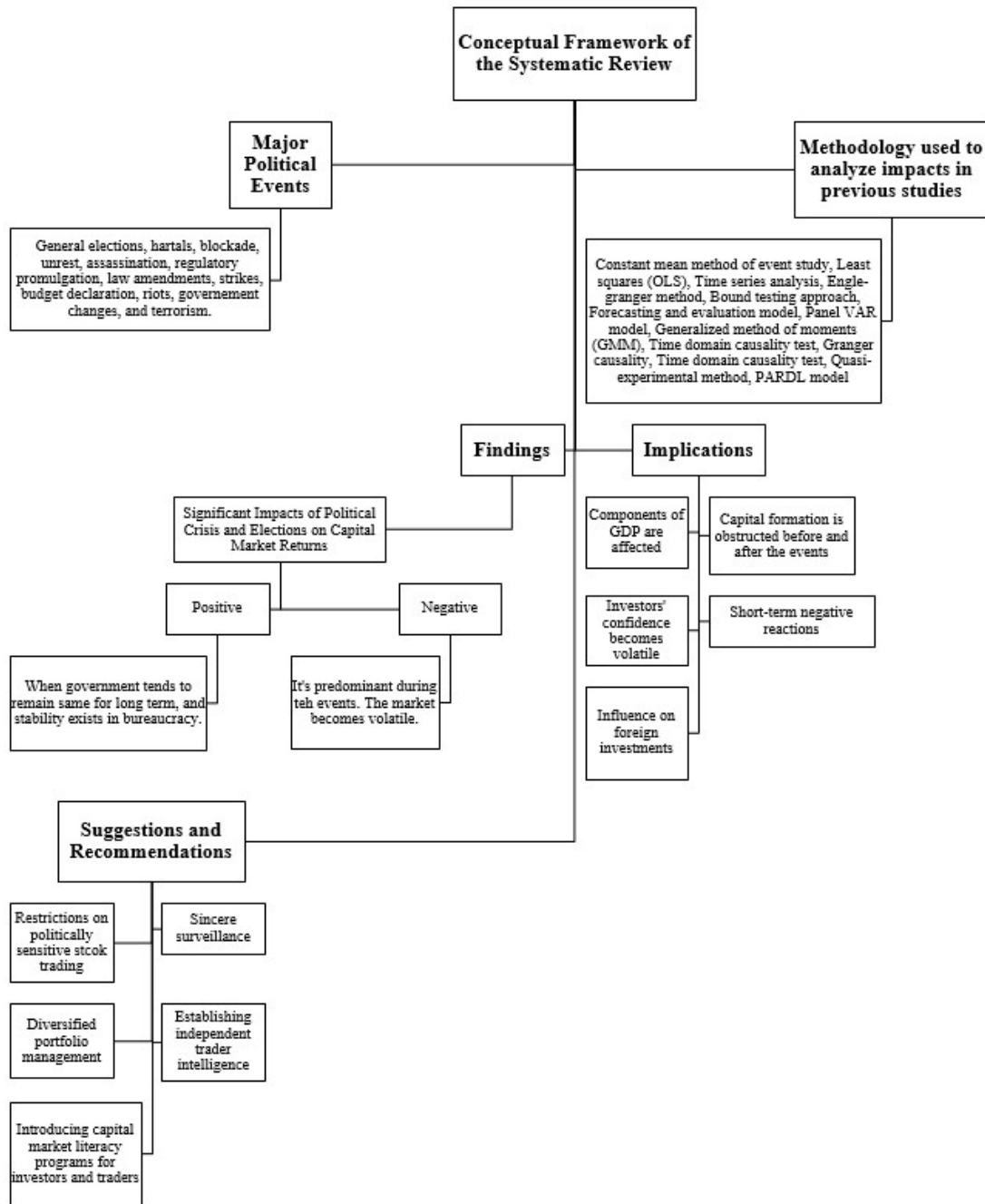


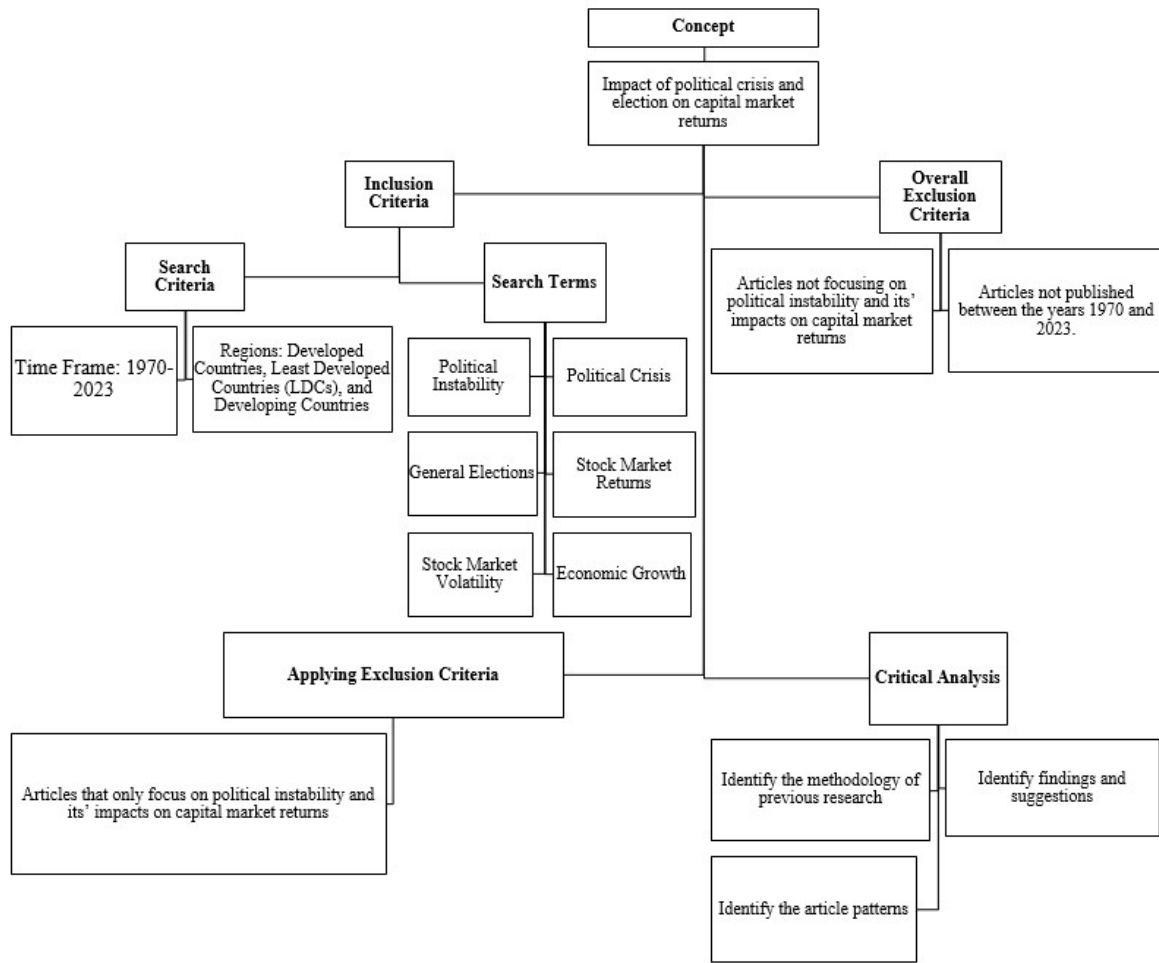
Figure 1: Theoretical Background and Summary

### MATERIALS AND METHODS

This comprehensive research examines the influence of political crisis and elections on capital market returns. It systematically appraises literature pertaining to the capital market and the broader economy, sourced from reputable business, economics, and finance journals. Following the establishment of search parameters, the researchers conducted thorough reviews of seminal works authored by Audi *et al.* (2022), Coelho (2018), Evelyn and Basana (2018), Irshad (2017), Kapoor (2013), and Roy *et al.* (2023), among others. Notably, the study confines its review to works published between 1970 and 2023.

The progression of this review is visually depicted in

Figure 2. Moreover, the study identified key search terms, including “election”, “political instability”, “stock market returns”, and “stock market volatility”. The initial search process identified 4573 studies related to the intersection of political crisis, stock market performance, and economic growth. Upon refining the search by setting specific time parameters, the number of studies was reduced to 1423. Focusing on the primary theme of “political crisis and its impact on capital market returns,” researchers further narrowed the search using keywords such as “election”, “political instability”, “stock market returns”, “stock market volatility”, “economy”, “economic growth”, and “political stability”, resulting in 652 documents.



**Figure 2:** Study Selection Process

Subsequently, the researchers applied additional filters to exclude papers that did not directly address “the impact of the election and political instability on capital market returns,” resulting in a total of 207 relevant documents. Following a manual review, 62 studies were deemed pertinent for further examination.

Table 1 provides details of the journals publishing relevant studies from 1970 to 2023. The table shows the most popular journal used in this review study is “Journal of International Business Studies” that covers total 7 prior studies in this domain.

**Table 1:** Most Relevant Studies Published in Reputed Journals between the Years 1970 and 2023

| Journal   | Number of Studies |
|---|-------------------|
| Journal of International Business Studies               | 7                 |
| International Journal of Economics and Financial Issues | 6                 |
| The Journal of Finance                                  | 4                 |
| Asian Finance and Banking Review                        | 3                 |
| Journal of Financial Economics                          | 3                 |
| Business and Economics Research Journal                 | 3                 |
| European Journal of Political Economy                   | 3                 |
| Journal of Economic Cooperation and Development         | 3                 |
| Studies in Business and Economics                       | 3                 |
| International Journal of Research in Management         | 3                 |
| Journal of International Money and Finance              | 2                 |
| Journal of Financial Markets and Governance             | 2                 |
| Risk Management in Engineering and Construction         | 2                 |

|  |           |
|--|-----------|
| Asian Journal of Business and Accounting                           | 2         |
| Pacific-Basin Finance Journal                                      | 1         |
| Scottish Journal of Political Economy                              | 1         |
| Journal of African Economics                                       | 1         |
| Journal of Development Economics                                   | 1         |
| Pacific-Basin Finance Journal                                      | 1         |
| European Financial Management                                      | 1         |
| Research Institute of Industrial Economics                         | 1         |
| Public Policy and Administration Research                          | 1         |
| Applied Economics and Finance                                      | 1         |
| Innovative Issues and Approaches in Social Sciences                | 1         |
| The Quarterly Review of Economics and Finance                      | 1         |
| Journal of International Financial Markets, Institutions and Money | 1         |
| Financial Analysts Journal   | 1         |
| Journal of Economic Growth   | 1         |
| Managerial Finance   | 1         |
| Applied Financial Economics Letters                                | 1         |
| <b>Total</b>   | <b>62</b> |

Table 2 outlines the preferred research methodologies, with quantitative methods being highly favored at 43.5%, followed by mixed methods at 27.4%, and qualitative methods at 17.7% and the rest is conceptual.

Table 3 presents the top 10 keywords mentioned by previous researchers including “election”, “political

instability”, “stock market”, “economy”, “stock return”, “economic growth”, “stock exchange”, “volatility”, “stock market performance”, and “political stability”. Table 3 mentions that doing research in this domain mostly discusses the political instability’s impact on the capital market returns and economic growth of a country.

**Table 2:** Research Methodologies

| Number of Studies | Qualitative | Quantitative | Conceptual | Mixed |
|-------------------|-------------|--------------|------------|-------|
| 62                | 17.7%       | 43.5%        | 11.3%      | 27.4% |

**Table 3:** Top 10 Keywords

| SL No. | Keywords                 | Number of Studies |
|--------|--------------------------|-------------------|
| 1      | Election                 | 21                |
| 2      | Political instability    | 18                |
| 3      | Stock market             | 18                |
| 4      | Economy                  | 17                |
| 5      | Stock return             | 14                |
| 6      | Economic growth          | 10                |
| 7      | Stock exchange           | 6                 |
| 8      | Volatility               | 5                 |
| 9      | Stock market performance | 4                 |
| 10     | Political Stability      | 3                 |

Figure 3 illustrates the research exploration landscape. Notably, the number of relevant studies has shown an increasing trend, with 24 explorations conducted from 2011 to 2020 and 10 relevant studies accomplished within the first three years of the current decade, indicating a growing recognition of this subject.

Table 4 features the top 10 most cited topics based on the mentioned keywords. Political instability is the most popular topic in this domain which ultimately results in affecting the capital market returns and overall economic growth.

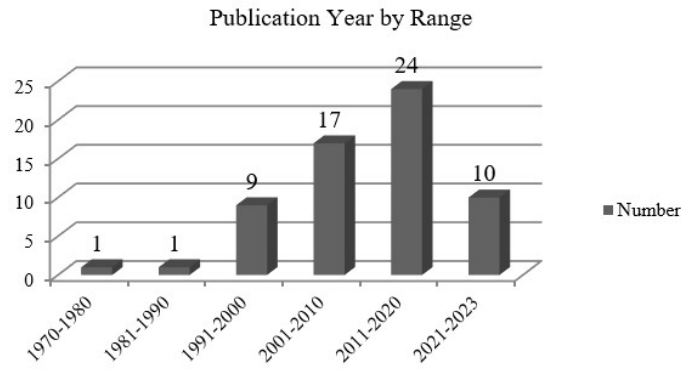


Figure 3: Reviewed Publications by Year

Table 4: The 10 Most Popular Topics

| Sl. No | Subject Areas                                     |
|--------|---|
| 1      | Political instability                             |
| 2      | Stock market returns                              |
| 3      | Economy, economic growth and economic performance |
| 4      | Economic stability and recession                  |
| 5      | Political economy                                 |
| 6      | Stock market volatility                           |
| 7      | Financial markets                                 |
| 8      | Political-economic system                         |
| 9      | Inflation, GDP per capita growth and unemployment |
| 10     | Capital market development                        |

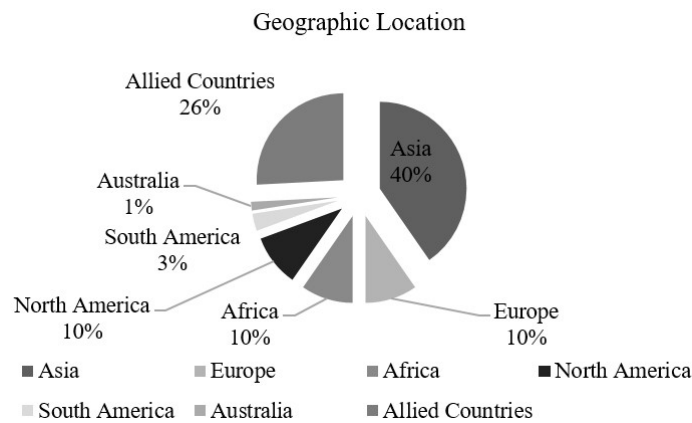


Figure 4: Geographic Locations of Published Studies' Study Area Covered in this Review Study

Figure 4 illustrates the geographical distribution of the reviewed studies. It is evident that a significant proportion of the reviewed studies originated from Asian countries, constituting 40% of the total. This was followed by contributions from Europe, Africa, and North America, each accounting for 10% of the reviewed studies.

Additionally, a subset of the reviewed studies focused on multiple countries, such as Dirks and Schmidt (2023), Wong and Hooy (2016), Kaplan and Akçoraoglu (2017), Foerster and Schmitz (1997), Pantzalis *et al.* (2000), Bialkowski *et al.* (2007), Lehander and Lönnqvist

(2011), Chuang and Wang (2009), Alesina *et al.* (1992), Jong-A-Pin (2009), Mei and Guo (2004), and Brempong and Traynor (1999), collectively representing 26% of the reviewed studies. Research in Asian countries shows a significant relationship between political instability and capital market returns, with higher sensitivity in the long run and lower sensitivity in the short run. North American research shows an inverse relationship, with increased market volatility. Political events in Australia, Africa, and South America affect investors' behavior, economic progression and economic vulnerability significantly.

## RESULTS AND DISCUSSIONS

### Impacts of Political Crisis and Election on the Capital Market Returns

Political instability and elections have a substantial impact on the economies of developed, less developed, and developing countries. This domain in Bangladesh significantly impacts the country's economy, prompting extensive research on the subject. Roy *et al.* (2023) noted a lower sensitivity between political instability and capital market returns over a short span of 5 days, and a higher sensitivity over a longer span of 15 days. Ahmed and Pulok (2013) highlighted the negative long-term effects of political stability on economic performance, despite a short-term positive impact. Furthermore, Rahman and Rashid (2018) identified the wide-reaching effects of political instability on exports, imports, the tourism sector, price levels, and human rights, leading to productivity loss and hindrance to small industries. Roy and Khan (2021) observed a negative shift in stock prices just before elections, followed by an opposite shift after elections. Jamil and Mahmud (2019) found lower stock market volatility before elections and higher volatility after, with exceptions in the 2001, 2008, and 2018 elections in Bangladesh. Conversely, Saha (2019) emphasized the garment industry's reliance on political movement for risk management, highlighting potential productivity loss due to instability.

Irshad (2017) identified a negative correlation between political instability and stock prices in Malaysia. Wong and Hooy (2016) examined the effects of elections on the stock markets of Indonesia, Malaysia, and Thailand. Researchers from Indonesia have placed particular emphasis on this subject. Evelyn and Basana (2018) offered insights into the responsiveness of participants to the American presidential election, which can inform policymakers in their decision-making. Furthermore, Moricz and Sjöholm (2014) demonstrated the causal effects of local elections on economic growth in Indonesia. Beaulieu *et al.* (2005) found that the volatility of stock returns increases with a firm's exposure to political risk in Canada.

Numerous studies have examined the impact of political events on stock market performance in Pakistan. Arzoo (2011) found that events such as the Ashura attack and the assassination of a major leader have a detrimental effect on stock market performance, particularly in terms of trading volume and daily stock transactions from 2009-2011. Suleman (2012) added observations of various political events, including the 9/11 attacks in the USA, continuous blasts and attacks in Pakistan, and the Bali bombings in 2002. According to Audi *et al.* (2022), political events influence the stock market, but their impact depends on other economic and political implications. Murtaza *et al.* (2015) identified events that lead to changes in government policy, affecting the stock returns of the Karachi Stock Exchange, and vice versa. Mai *et al.* (2023) demonstrated a positive relationship between stock market performance and political stability, as well as a negative relationship between political

instability and stock market performance. Kapoor (2013) found that political decisions made from time to time can lead to abnormal returns in the stock market. On the other hand, Kumari (2018) discovered that political instability disrupts the flow of foreign direct investment (FDI). A case study of the NSE India by Kedia and Satpathy (2023) revealed high variation in stock market returns during elections, with both positive and negative returns following the election results. This calls for investors to be cautious and readjust their investment strategies. Zhao (2023) emphasized the significance of the relationship between US and China in shaping economic development of the entire world.

Niederhoffer *et al.* (1970) established a substantial correlation between the performance of the US stock market and political events, prompting extensive interest and inquiries. Santa-Clara and Valkanov (2003) observed that large-capitalization shares tend to exhibit superior performance during political events in the USA. Specifically, under the Democratic Party, large-cap stocks demonstrate a 7% higher performance, while under the Republican Party, small-cap stocks exhibit a 22% higher performance compared to normal periods. Additionally, Hensel and Ziemba (1995) indicated that small-cap stock returns are more favorable during a Democratic government than a Republican government. Conversely, large-cap stock returns exhibit uniform performance across both government periods. Furthermore, Mnasri and Essaddam (2021) noted that heightened stock market volatility is prevalent during American presidential elections.

Jensen and Schmith (2005) present the impacts of events on stock market performance. Specifically, the election of politicians who enact market-friendly policies tends to result in an increase in stock market performance. A study by Floros (2008) revealed negative but insignificant impacts of elections on ASE. Osuala *et al.* (2018) identified a significant negative relationship between the presidential election and stock market performance during the 2011 election period, while a positive but insignificant relationship was observed during the 2015 election. Furthermore, Manning (1989) observed a strong response of share prices to voters' polls. Asteriou and Price (2001) incorporated data from 1961 to 1997 in the UK, indicating a robust link between political instability and economic growth.

In 1996, Chan and John Wei observed an increase in stock volatility for the specific shares in response to political news. Furthermore, Kim and Mei (2001) determined that political stability significantly influences market return and volatility, posing implications for risk management in politics and option pricing. Campos *et al.* (2008) asserted that informal political instability, such as assassinations and general strikes, exerts a direct negative impact on economic growth, while formal political instability, such as legislative elections and constitutional changes, has an indirect effect on economic vulnerability. Shen and Lin (2015) found that investors exhibit greater confidence

in holding shares of firms associated with the winning party in an election. Conversely, Hung (2011) noted that political elections have long-term impacts on market preferences but do not yield a short-term influence on the market. Additionally, Chen *et al.* (2005) illustrated that the impact of political events on Taiwan's stock market varies in techniques and strategies.

Ayessa and Hakizimana (2021) assert that the formulation of policies aimed at promoting political stability is currently the most critical concern. Vuchelen (2003) demonstrates that electoral processes, the establishment of a newly elected government, and shifts in government policies are among the political events that can significantly influence economic policies and the stock market. Irungu (2012) illustrates a declining trend prior to elections, followed by a gradual post-election increase. Menge *et al.* (2014) indicate that actual returns tend to increase before elections but decrease or remain stagnant thereafter. Kabiru *et al.* (2015) observe that the financial market's reaction to elections can be positive or negative, contingent upon the volatility of the election period. Coelho (2018) presents findings indicating that the stock market experiences a positive impact following the announcement of election results. Zach (2003) suggests that stock returns on the Tel Aviv Stock Exchange due to political events surpass those of days without such events. Füss and Bechtel (2007) demonstrate that stock return of small firms is positively or negatively affected based on the probability of a right or left coalition winning the election. Smales (2014) finds that higher or lower levels of election-related instability correspond to higher or lower levels of fluctuation or instability in the financial markets.

Dirks and Schmidt (2023) conducted a study on this matter encompassing 34 selected advanced economies, including G7 and EU countries. The study suggests that a political crisis leads to a 4% to 7% reduction in GDP nearly 5 years after the event due to decreased investment and consumption. Conversely, Kaplan and Akçoraoglu (2017) focused on OECD Countries and identified political instability factors such as government instability, corruption, and internal and external conflicts, which have an impact on economic growth. Foerster and Schmitz (1997) established a definitive relationship between political events, particularly the USA parliamentary election, and stock market returns. Furthermore, Pantzalis *et al.* (2000) examined stock market reactions in 33 countries during political elections from 1974 to 1995, finding positive abnormal stock market returns during the two-week pre-election period. Anderson *et al.* (2008) demonstrated the correlation between political parties and stock, bond, and other property returns in Australasian countries. Bialkowski *et al.* (2007) conducted a study on 27 OECD countries, revealing that financial and institutional market participants are significantly affected by voters' decisions, leading to noteworthy stock price reactions. Lehander and Lönnqvist (2011) observed a negative impact of elections on small-cap stock market

returns, with no significant outcome observed under a right-wing government.

Chuang and Wang (2009) have demonstrated an inverse relationship between political changes and stock market returns in the United States, Japan, Britain, and France. A study by Alesina *et al.* (1992) revealed that economic growth is lower during periods with a high propensity for government collapse. Jong-A-Pin (2009) systematically examined 25 political instability indicators and categorized them into four dimensions based on data collected from 1974-2003, which include instability of political regime, politically motivated violence, instability within political parties, and mass civil protest. Brempong and Traynor (1999) discovered an inverse relation between economic growth and political instability. Mei and Guo (2004) identified a strong relationship between political elections and financial crises in any country's economy.

### **Changes of Economic Indicators due to Political Instability and Election**

The study conducted by Irshad (2017) reveals that stock prices exhibit a decline during periods of political unrest. Additionally, the research highlights a positive correlation between industrial production, exports, and stock prices, while revealing a negative correlation of stock price with inflation. Political uncertainty is identified as the root cause of various socioeconomic problems, including poverty, foreign debt, unemployment, and trade deficits (Audi *et al.*, 2022).

Furthermore, Anderson *et al.* (2008) found that left-leaning governments are associated with higher inflation and lower property returns, whereas right-leaning governments are linked to lower inflation and improved stock performance. Moreover, Bussière and Mulder (2000) concluded that nations with heightened economic vulnerability, characterized by low reserves and weak economic fundamentals, are significantly impacted by political instability.

### **Periodical Impacts of Political Instability on Capital Market**

In Nairobi, the performance of the stock market is influenced by political instability and general elections. Analysis of the period from 1997-2007 indicates a downward trend in the stock market's performance during the pre-election period, followed by an upward or slower mid-level performance in the post-election period (Irungu, 2012). Conversely, the period from 2002-2013 shows improved outcomes in the pre-election period, with stagnant outcomes in the post-election period (Menge *et al.*, 2014). Hung (2011) asserts a long-term impact of political instability on stock market returns, while no short-term impact of political unrest on stock market returns is evident.

Research by Campos and Nugent (2002) reveals a negative relation between political instability and economic growth in the short term, but no evidence of such a relationship in the long run, disregarding institutional factors.

Additionally, Campos *et al.* (2008) examine the impacts of formal and informal political instability on the economy, finding that formal political instability (legislative and constitutional changes) has stronger long-term effects, while informal political instability (assassinations and general strikes) has stronger short-term impacts. A study by Floros (2008) found that index performance goes upward on average and daily fluctuation goes downward during 02 months before the election while before 01 month of election index performance goes downward on average and daily fluctuation goes upward. A significant increase in performance is noted 3 months after the election, while performance decreases between 3- and 6-months post-election, followed by positive performance in the collective 6 months after the election.

### Investors Behavior During Political Instability and Election Periods

A study conducted by Audi *et al.* (2022) reveals that foreign investors exhibit reluctance in making investment decisions in Pakistan's stock market during periods of political instability, as it undermines investor confidence. Irshad (2017) indicates that political unrest leads to indecisiveness among investors, driven by concerns about potential financial losses and the formulation of effective strategies amidst anticipated government changes. Moreover, research by Mai *et al.* (2023) indicates a discernible decline in investor confidence in the financial market during periods of political crisis, resulting in reduced investment. It is recommended that investors and stakeholders acknowledge the significance of election-related events and implement portfolio regulations to mitigate political risk, thereby fostering increased investor confidence in their portfolios (Kabiru *et al.*, 2015). Additionally, Jensen *et al.* (1996) assert that investors' behaviors and strategies are influenced by the prevailing political and economic climate of a country, subsequently impacting stock market returns. Furthermore, a study by Lehander and Lönnqvist (2011) suggests that during political instability, investors tend to favor large-cap stocks over small-cap stocks due to perceived safety and liquidity concerns. The study posits that political instability can induce market volatility, influencing investors' risk aversion and resulting in negative short-term returns for small-cap stocks. Lastly, Shen and Lin (2015) have demonstrated that political affiliations significantly influence the investment decisions of both foreign and domestic investors, with a tendency to favor firms associated with the victorious party in an election.

### Findings of Reviews

1. The existing studies have confirmed the significant impact of general elections and other political events on the capital markets of different countries.

2. Both before and after such events, there is a notable increase in capital market volatility, establishing a clear relationship between capital market movement and general elections.

3. Capital market returns tend to offer variations of movements in different countries and continents in different ways based on ruling parties and opposition parties.

4. The study confirms that if ruling party remains the same after election, the volatility is lower than the cases otherwise.

5. Impact of political crisis and the election seem to be higher in the Indian subcontinent and economically stressed countries.

### CONCLUSION

A well-functioning capital market plays a crucial role in driving economic growth by facilitating the mobilization of savings, optimizing the allocation of limited resources, and fostering the efficient operation of the corporate sector, and thus can stabilize the capital market returns. Nevertheless, the capital market encounters challenges stemming from various factors, among which political crises feature prominently. This systematic review study has been undertaken to discern the influence of political crises and general elections on capital market returns. The novelty of the research is that it reviews the most relevant prior research to amalgamate applied methodologies, research findings, implications, suggestions, and overall, the entire patterns of 62 previously published research work on this domain to show the impact of political crisis and election on the capital market returns; and to identify implications for the stakeholders. Political crises significantly impact capital market returns in Asian countries, North America, Australia, Africa, and South America. The impacts of political crises change considering the periods of elections and political events. To establish a robust economy, policymakers must implement portfolio strategies to mitigate potential instability for investors and inspire them to invest consciously. This review study can be effective for initiating and implementing portfolio strategies for reducing the uncertainty of the investors to make investment decisions in the capital market. Enhancing investor confidence and leveraging big data can support reducing the capital market volatility and thus can encourage economic growth of both developed and developing countries. Developed countries are better at maintaining economic equilibrium while developing and least developed countries face increased vulnerability. Emulating developed strategies during political crises is crucial for safeguarding investors by reducing capital market volatility. The findings emphasize the necessity for investors, policymakers, and analysts to adopt a nuanced comprehension of political dynamics and their potential implications on capital markets. This systematic review study has found that most research on capital markets has been focused on individual countries, with diverse methodologies and a lack of comprehensive big data. The authors suggest a uniform methodology to analyze adjusted prices of the global capital markets, combining trade data from all stock exchanges, to explore the impact of political crises on global market returns.

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