

ELECTORAL INFLUENCE ON FINANCIAL MARKETS: ANALYSING THE IMPACT OF THE 2024 INDIAN GENERAL ELECTIONS ON NIFTY BANK CONSTITUENTS

Samrat Banerjee*, Diptisha Dasgupta**

Abstract *This study aims to explore the impact of the 2024 Lok Sabha elections on the share price movement with a focus on the Nifty Bank PSU and integrated an event study methodology to examine the impact of the results of the election on share price movements of 13 banks (Nifty Bank PSU). Findings suggest that the investors reacted in an adverse way as the NDA government ruling party failed to secure majority seats. Exit polls had boosted expectations of a strong NDA majority, initially lifting market mood. However, when the actual results showed the ruling alliance falling short, the market reacted negatively, especially in the days immediately following the announcement. This shift in sentiment was not only visible in price movements but also statistically significant, indicating a genuine reaction rather than market noise. This paper highlights that political developments can strongly influence sector-specific investor behaviour in the short to mid term. The current study offers valuable insights to academicians, policymakers, investors, and stakeholders. This study clearly underscores the importance of political stability and governance for the performance of public sector financial institutions.*

Keywords: *Lok Sabha Elections, Event Study Methodology, Average Excess Returns, Cumulative Average Excess Returns, Nifty Bank, Political Stability*

INTRODUCTION

The history of elections in India is a witness to changes of its democratic framework with reflection of nation's political maturation and socio-economic transformations since independence (Chakrabarty, 2008). The first inauguration of general elections held in 1951–52 began India's journey as a democratic republic through a dynamic and complex electoral process (Singh, 2018). The Election Commission of India (ECI) over the decades made a major contribution in ensuring free and fair elections (Ahuja & Ostermann, 2021). It has implemented various reforms to preserve the electoral process, which includes Electoral Voting Machines (EVMs), voter education programmes, and rigorous monitoring of election expenditures (Kumar, 2025). In India, elections are an important tool to test the functioning and rightfulness of the political system as it ensures all the citizens choose parties whether to control bars of power and thereby take the

responsibility of decision making (Mahammad, 2025). In the absence of this, political conflicts and civil wars may arise due to transitions in leadership (Ruggie, 1993). Furthermore, the elections reflect the societal change by capturing the shifts in public opinion and changes in demographics (Adams, 2004).

Elections remarkably impact the global business prospect as the change in leadership occurs and their implications become a prime point of interest (Jones, 1989). This precariousness extends to the business sector where corporations across the globe closely monitor possible changes in policies, regulations, and economic strategies that could impact their business strategies (Patwa et al., 2021).

Likewise, the 2024 Lok Sabha elections in India had significant implications on share price movements in stock market through various factors in firms and businesses (Jain & Gupta, 2025).

* Assistant Professor in Commerce, Faculty of Commerce & Management, St. Xavier's University, Kolkata, West Bengal, India. Email: samrat.ban92@gmail.com

** Independent Research Scholar, Faculty of Commerce & Management, St. Xavier's University, Kolkata, West Bengal, India. Email: diptisha2004@gmail.com

Although variations in monetary policy may not affect the stock market (Kumar et al., 2025), it is very sensitive to financial events (Banerjee et al., 2025). During election season, stock markets that are extremely responsive to political announcements frequently undergo fluctuations and volatility due to election-related news, exit polls, and conjecture regarding the actions of the government (Kakar & Batra, 2024). The perceived stability and efficacy of the elected government frequently cause shifts in market sentiment (Khan, 2017). Share prices may increase in response to favourable election outcomes but investor confidence may be damaged by ambiguity or political unrest (Satpathy, 2023). Investors invest in stock market in anticipation of higher returns (Rao, 2025). Depending on how exposed they are to governmental policies and regulations, various stock market segments have varying reactions to Lok Sabha elections (Sinha, 2019). The stock market can be supported and foreign institutional investment (FII) if drawn in by the favourable environment produced by the election results and political clarity; on the other hand, market corrections and FII withdrawals may result from unfavourable sentiment brought on by political ambiguity or uncertainty (Chadha et al., 2024). Market expectations and investor confidence will be impacted by the political agenda of the elected government, which includes plans for infrastructural development, regulatory reforms, and fiscal measures (Mosley & Singer, 2008). During Lok Sabha elections, macroeconomic variables such as GDP growth, inflation, and interest rates have an impact on stock market performance in addition to political ones (Singh et al., 2024). Political stability and positive macroeconomic trends foster an atmosphere that is conducive to investment and the variation in expansion of the share price movements (Chadha et al., 2024). However, even in the event of successful elections, market expansion may be slowed by unfavourable political or economic circumstances (Chadha et al., 2024). This paper intends to analyse how the 2024 Lok Sabha elections affected the Nifty 50, the benchmark index by measurement of the top 12 Nifty Banks PSU stocks on the NSE.

LITERATURE REVIEW

Elections and Their Impact on the Economy

Elections help define the structure of market dynamics and financial stability by influencing investor sentiment and policy predictability (Powell, 2000). Proportional representation (PR) systems, which often result in coalition

governments, contribute to increased fragmentation and prolonged uncertainty in the political landscape (Persson & Tabellini, 2003). In contrast, majoritarian electoral systems generate larger cumulative abnormal returns (CARs) due to clearer electoral outcomes and reduced uncertainty (Lausegger, 2020). The strength of party systems also determines market stability, as strong party structures provide consistent policy signals that stabilise market responses, whereas weak party systems amplify market volatility due to policy uncertainty (Keefer, 2007; Myers, 1996).

The relationship between electoral and party systems states that PR systems with strong party institutions create smaller, more stable market reactions, whereas majoritarian systems with limited party institutionalisation generated larger CARs (Jones, 2005). Empirical evidence supporting these claims stems from event studies of 87 elections across 21 countries between 1999 and 2016, showcasing the significant impact of political institutions on electoral uncertainty and market behaviour (Lausegger, 2020).

A notable example of this dynamic is Bolivia's December 2005 election, where Evo Morales' victory resulted in a sharp decline in foreign direct investment (FDI) inflows due to concerns over potential populist economic policies (McCormick & Callum, 2016). This case illustrates how elections can induce financial vulnerabilities and disrupt capital flows (McCormick & Callum, 2016). Moreover, the interaction between elections and capital flows remains an underexplored area in academic literature as it suggests that financial flows not only respond to electoral outcomes but may also influence them, introducing a novel perspective in political-economic discourse (Chang, 2010). Building upon previous research linking financial and political crises, the study emphasises the pivotal role of elections in shaping capital flow behaviour (Deeg & O'Sullivan, 2009). Understanding the interplay between political and economic factors is essential for analysing financial market trends and investor responses, reinforcing the critical influence of electoral processes on economic stability (Bernhard & Leblang, 2006).

Elections and Their Impact in Corporate Arena

Elections create uncertainty and political uncertainty as well, leading firms to reduce investments that negatively impact corporate investment, particularly in countries with non-plurality electoral systems (Amore & Corina, 2021). Firms in plurality systems experience less reduction in

investment during elections, while multinationals' foreign investments also decline during host country elections, albeit less severely (Amore & Corina, 2021). Corporate governance is greatly impacted by electoral systems, which also have an impact on employment and investor protection; this study highlights the economic influence of electoral choices on company conduct and results by showing that firm performance is stronger under plurality-majoritarian laws than proportional rules (Camyar & Ulupinar, 2019). The financial performance and strategic orientation of state-controlled companies in Brazil are often influenced by changes in political leadership (Trobat, 1983). When a new administration takes office, the leadership of state-owned companies is frequently reorganised, with political loyalists being appointed to key executive positions (Musacchio et al., 2014). The susceptibility of state-owned businesses to political shifts highlight show political cycles have a wider impact on corporate governance frameworks (Inoue, 2020).

Elections and Their Impact on Investment Decisions

Due to uncertainty about possible changes in fiscal and monetary policy, firms tend to restrict investment during election seasons. Investment levels typically decline by 4.8% during election years, particularly in emerging countries (Julio & Yook, 2012). In a similar vein, American businesses postpone strategic choices and capital expenditures until after elections, especially in highly regulated sectors, indicating the greater benefit of holding off until policy outcomes are known (Bhattacharya & Dugar, 2012). While businesses with strong political ties are less impacted by political unpredictability, sectors such as healthcare, energy, and finance are more susceptible because of their reliance on governmental regulations (Sheng et al., 2011).

It has often been observed that during the period of election, multinational companies often shift their investment to areas with higher political stability, which leads to decline in foreign direct investment of politically stable markets (Kim & Zhang, 2014). These impacts are also influenced by corporate governance. It is often found that establishments with strong corporate governance maintain harmony with their investment design and are durable with political uncertainty (Gulen & Ion, 2016). Within two quarters following the election results, investments usually rebound. This is due to businesses adapting to the recently developed political environment and policy modifications. Overall, this points towards the fact that the change of business environment is short-lived mainly due to political vagueness during the period of election but clears once political transparency is re-established (Baker et al., 2016).

Elections and Their Impact on Stock Market

The uncertainty created by political battles is reflected in investor behaviour and market movements during election seasons (Guo, 2004). Stock market volatility typically rises prior to elections as investors become more cautious (Bialkowski et al., 2008). Due to market players delaying investment choices until political outcomes are known, trading volumes frequently decrease in the months preceding elections (Guo, 2004). As ambiguity is eliminated and investors modify their holdings to conform to the new political and economic landscape, market stability usually returns after the election results are announced; research shows elections have a huge effect on corporate behaviour in several ways such as diminished corporate investment, harnessing certified public accountants skills, modifications in structures of governance, and changes in market motions (Goodell & Vähämaa, 2013). The magnitude of these effects is framed from factors like political and regulatory ambiance, the sort of election system and positioning of the firms with their corresponding industries (Meckling, 2015).

After surveying the above-mentioned literature, it can be asserted that very few studies have emphasised on the effect of the 2024 Lok Sabha elections on the banking sector. This becomes more relevant as the exit polls were not in conformity with the actual results. Therefore, it is necessary to address this unexplored area. Thus, the objectives of this study are to evaluate whether results of the 2024 Lok Sabha elections have any impact on average abnormal return of the shareholders of the Nifty Bank PSU. Further, this study seeks to examine the effect of results of the 2024 Lok Sabha elections on cumulative average anomalous returns of the shareholder of the Nifty Bank PSU.

RESEARCH METHODOLOGY

Period of Study

A quantitative methodology is adopted in this study, integrating event study methodology and statistical analysis to examine the impact of the results of Lok Sabha elections on shareholders of Nifty Bank PSU. In accordance with the standard event study methodology structure, the timeframe for monitoring the study has been divided into two salient periods – the estimation window and the event window. The timeframe is taken for observing how Lok Sabha elections impact investors' decisions. The estimation window was used to enumerate the normal returns offered by the sample stocks, whereas the observation window includes the actual

day when the event took place; the expectancy period, i.e., the period prior to the event day, as well as the adjustment period, i.e., the period following the event day. The event study framework measures abnormal returns surrounding the announcement date of election in 2024, using a [-10, +10] event window with an estimation period of 110 days. 5 June is considered as the event day as on this day the election results were announced.

Sample of Data

The sample includes all 13 public sector banks listed as a constituent of Nifty Bank. The stocks of Nifty Bank were affected the most owing to the election results. This is why we have chosen such a sample. The data for the aforementioned period have been gathered from the Prowess CMIE Database.

Research Tools for Analysis

Average abnormal or excess returns (AAR) and cumulative average excess returns (CAAR) are computed using the market model to assess investor reactions. A cross-sectional t-test is conducted to assess the statistical significance of excess returns owing to the announcement of election results. By combining event study analysis with statistical testing, this research design offers a structured, data-driven approach to evaluating the 2024 Lok Sabha election performance, providing insights for financial practitioners, investors, and policymakers.

Starting with FFJR (Fama, Fisher, Jensen & Roll) in the concluding statement of the 1960s, the event study methodology, as it has come to be known, was first utilised solely in the arena of accounting to identify the effect of any new information on share price movement. Since being recognised, it has been broadly utilised in corporate finance and the different subfields of financial matters also, particularly administrative financial matters. The methodology has likewise been thoroughly examined in various articles. One finding of these investigations is that the market model operates effectively as a fraction of the benchmark pace of return (Binder, 1998). This technique is a useful instrument that can aid researchers with surveying the monetary alterations in corporate strategy on stock returns. Utilising this strategy, an academician can construe the significance of the event. Market model for event history methodology has been put in an application.

To assess the returns on stocks and the overall market performance, daily returns were computed using daily closing prices of individual stocks

$$R_{i,t} = \ln(P_{i,t}) / \ln(P_{i,t-1}),$$

where P = stock price, i.e., closing price of Nifty PSU Banks, during the observation period ($R_{m,t} = \ln(P_{n,t}) / \ln(P_{n,t-1})$), where P_n stands for market price. Normal return was then calculated using the market model.

To calculate normal return, the alpha and beta of stock and market returns in the estimation window were calculated. For estimating α and β , we have regressed $R_{i,t}$ and $R_{m,t}$ with the data prior to the event period.

The formula used for computing normal return is shown below:

$$\text{Normal Return} = \text{Alpha} + \text{Beta} * \text{Market Return} \quad (E(R_{i,t}) = \alpha_i + \beta_i R_{m,t})$$

Once the normal returns were calculated, excess returns, average excess returns, and cumulative average excess returns were calculated for all the banks. The formulas for the same are shown below:

- Abnormal Return (AR) or Excess Returns = Stock Return – Normal Return.
- Cumulative Abnormal or Excess Return (CAR) = summation of excess returns in the stipulated window or observation period.
- Average Abnormal or Excess Return (AAR) = summation of all abnormal returns of all stocks during a particular period divided by number of observations or stocks during the period.
- Cumulative Average Abnormal or Excess Return (CAAR) = summation of average excess returns during a particular window or observation period.

The statistical significance of the anomalous return and cumulative average anomalous return has been tested using cross-sectional t-test where t-statistic is calculated as follows:

$$\text{In case of abnormal or anomalous return, } t = \text{AAR} / \text{S E}$$

In case of cumulative average anomalous return,

$$T = \text{CAAR} / \text{S E}, \text{ where S E denotes Standard Error}$$

Development of Hypothesis

Lok Sabha Elections and AAR

The analysis revealed that general elections in the selected countries – Indonesia, Malaysia, Thailand, and Pakistan – did not lead to statistically significant changes in AAR before and after the events (Lesmana & Sumani, 2022). This finding suggests that stock markets in these countries

remained relatively stable around election periods, indicating a lack of substantial short-term investor reaction (Wagner et al., 2018). It is possible that political events such as general elections were already anticipated and priced into the market, perhaps due to widespread availability of relevant information or pre-existing investor expectations (Nguthi, 2013). Moreover, the behaviour observed aligns with the principles of the Efficient Market Hypothesis (EMH), particularly its semi-strong form, where stock prices quickly and accurately reflect all publicly available information (Vlček, 2016). The rapid dissemination and absorption of data likely contributed to the muted reaction in abnormal returns during the election window (Irungu, 2012).

H_1 : There is a statistically noticeable distinction between the AARs following election results and during the pre-election results period of sample public sector banks.

Lok Sabha Elections and CAAR

The study analyses how CAAR responds to electoral events, revealing varying market behaviour across countries and election cycles (Lesmana & Sumani, 2022). In the context of India, distinct market reactions were observed during the 2014, 2019, and 2024 Lok Sabha elections (Jain & Gupta,

2025). The 2014 elections demonstrated strong positive CAARs, attributed to the optimism surrounding a new government, conversely the 2019 elections showed the most negative CAARs across all event windows, despite the election of the incumbent government, reflecting cautious investor sentiment and possibly unmet expectations (Kumar et al., 2025). The 2024 elections displayed a more neutral to mixed sentiment, indicating growing uncertainty and divergence in investor outlook (Burgess, 2024). Notably, stronger market reactions were recorded when a political party assumed power for the first time, as seen in 2014, whereas re-election scenarios such as in 2019 elicited more muted or skeptical responses (Chavali et al., 2020).

Together, these findings emphasise the diverse nature of investor behaviour and market sensitivity to political events across different countries and timeframes (Taylor & Zachary, 2024). Some markets display traits of efficiency by promptly incorporating new information, others remain reactive, unpredictable, and influenced by investor sentiment, policy expectations, and local market dynamics (Putri & Tanno, 2024).

H_2 : There is a statistically noticeable distinction between the CAARs following election results and pertaining to the pre-election results period of sample public sector banks.

RESULTS & DISCUSSIONS

Analysis of Average Anomalous Returns (AAR) and Cumulative Average Anomalous Returns (CAAR)

Table 1: Average Anomalous Returns Analysis

| Window | AAR | Std E | t-Statistic | p-Value |
|--------|-----------------|----------------|---------------|---------|
| -10 | 0.00165873291 | 0.0128009521 | 0.1295788702 | 0.8972 |
| -9 | -0.006246165634 | 0.001306355181 | -4.781368592 | 0.0000 |
| -8 | -0.001183492148 | 0.001546586935 | -0.7652283364 | 0.4460 |
| -7 | -0.007932407274 | 0.003250672495 | -2.440235762 | 0.0165 |
| -6 | -0.009195240715 | 0.002205500518 | -4.169230812 | 0.0001 |
| -5 | 0.001610078415 | 0.002114757034 | 0.7613538526 | 0.4483 |
| -4 | -0.007262079678 | 0.001753628859 | -4.141172541 | 0.0001 |
| -3 | 0.0005448166452 | 0.002802829414 | 0.1943809503 | 0.8463 |
| -2 | 0.01929018829 | 0.006321857647 | 3.051348095 | 0.0029 |
| -1 | 0.02215359842 | 0.00844818496 | 2.622290886 | 0.0001 |
| 0 | -0.002479053699 | 0.004645781255 | -0.5336139527 | 0.5948 |
| 1 | -0.004330872741 | 0.002007227844 | -2.157638833 | 0.0334 |
| 2 | -0.003912686458 | 0.00173000278 | -2.261664838 | 0.0259 |
| 3 | -0.0031096581 | 0.002098297046 | -1.481991363 | 0.1416 |

| Window | AAR | Std E | t-Statistic | p-Value |
|--------|------------------|-----------------|---------------|--------------|
| 4 | -0.001475475193 | 0.0009705894071 | -1.520184728 | 0.1317 |
| 5 | -0.000552426162 | 0.001813201798 | -0.3046688805 | 0.9421042853 |
| 6 | -0.0005543647722 | 0.001615310382 | -0.3431939636 | 0.7322 |
| 7 | -0.005596603885 | 0.001586119652 | -3.528487828 | 0.1116 |
| 8 | -0.009056545018 | 0.002122834759 | -4.266250577 | 0.1113 |
| 9 | 0.04397116084 | 0.02795848104 | 1.572730678 | 0.1190 |
| 10 | 0.05367479164 | 0.0863246263 | 0.6217784419 | 0.5355 |

Source: Authors' own tabulation.

Table 1 displays the AAR of the sample PSU Bank Nifty companies over a 21-day event window surrounding the official announcement of general election results in 2024. The AARs are observed to be negative for most of the days prior to the announcement (-9 day to -1 day), indicating a negative sentiment among investors leading up to the event. The lowest AAR is recorded on day -9, suggesting a strong anticipatory reaction by investors. Two days before the event (day -2), exit polls were released projecting that the ruling NDA government would return to power with a clear majority. This created a sense of political continuity and stability, which is typically viewed positively by the markets. As a result, a positive average abnormal return was observed around this period, reflecting temporary investor optimism. This reaction is statistically detectable at the 1% level on day -1, indicating a strong and immediate market response to the expected election outcome. However, despite these expectations, the actual announcement (day 0) was met with a sharply negative response. From day 0 to day +8, the AARs remain consistently negative, suggesting that investors had an adverse reaction due to the results or broader economic and political implications. The continued

negativity implies that the initial optimism faded quickly, and concerns may have arisen regarding post-election policy execution or stability. Consequently, investors began withdrawing funds from the stock market, leading to further pressure on PSU banking stocks. This fund outflow contributed to the sustained negative trend observed in the post-event window. It is significant to note that on two consecutive days following the election results, the investors reacted significantly and negatively considering the stocks of Nifty banks. A brief recovery is seen on +9 day and +10 day, possibly due to short-term bargain buying or technical corrections, but the overall sentiment remained cautious and unstable throughout the event window.

A cross-sectional t-test further supports these findings, with significant t-statistics at the 1% level on both day -9 and day -1, emphasising intensity of market reactions both in anticipation of and just before the election results. The test further displays average excess returns to be statistically detectable at 5% for day +1 and +2, which substantiates the adverse reaction of investors for two consecutive days following the election results. Thus, H_1 is accepted.

Table 2: Cumulative Average Anomalous Returns Analysis

| Window | CAAR | CStd E | t-Statistic | p-Value |
|--------|-----------------|----------------|--------------|---------|
| -10 | 0.00165873291 | 0.002216709932 | 0.7482859557 | 0.4561 |
| -9 | -0.00434392351 | 0.002476205523 | -1.754266142 | 0.0825 |
| -8 | -0.004550532392 | 0.002986441776 | -1.52373049 | 0.1308 |
| -7 | 0.004276988287 | 0.004106462226 | 1.041526271 | 0.3002 |
| -6 | -0.008868502241 | 0.003814204841 | -2.325124793 | 0.0221 |
| -5 | -0.005437965611 | 0.003802009758 | -1.430287126 | 0.1558 |
| -4 | -0.01148801867 | 0.004337710027 | -2.648406325 | 0.7802 |
| -3 | -0.01009366117 | 0.004205271369 | -2.400240148 | 0.0183 |
| -2 | 0.0289197934 | 0.00626715128 | 4.614503801 | 0.0000 |
| -1 | 0.005887616697 | 0.008141353794 | 0.7231741607 | 0.4713 |
| 0 | -0.01326647119 | 0.005360106996 | -2.475038502 | 0.0150 |
| 1 | -0.01505533988 | 0.005141511905 | -2.928193139 | 0.0042 |
| 2 | -0.01909312381 | 0.005792979729 | -3.295907236 | 0.0014 |

| Window | CAAR | CStd E | t-Statistic | p-Value |
|--------|----------------|----------------|--------------|---------|
| 3 | -0.02233941368 | 0.006814602975 | -3.27816804 | 0.0014 |
| 4 | -0.02186956503 | 0.006536734003 | -3.34564096 | 0.0012 |
| 5 | -0.02099921799 | 0.007645051071 | -2.746772755 | 0.0072 |
| 6 | -0.02031710498 | 0.007403337006 | -2.744317186 | 0.0072 |
| 7 | -0.02595068505 | 0.007972368512 | -3.255078464 | 0.0016 |
| 8 | -0.03331616118 | 0.008636083704 | -3.857785811 | 0.0002 |
| 9 | 0.01138387756 | 0.0268428949 | 0.4240927666 | 0.6724 |
| 10 | 0.06443810826 | 0.06563259961 | 0.9818003347 | 0.3286 |

Source: Authors' own tabulation.

Table 2 presents the CAAR of the sample PSU Bank Nifty companies over various intervals during the 21-day event window. The CAAR values are largely negative, highlighting the sustained bearish sentiment in the market following the election results. The cumulative returns show a consistent downwards trend, indicating sustained investor pessimism. By day +8, the CAAR reaches a value of 3.33% in the negative, highlighting the persistent negative reaction after the election results. This prolonged decline till +8 day suggests that the market did not interpret the election outcome as favourable for the banking sector, despite the initial expectations created by the exit polls. Although exit polls released on day -2 suggested an NDA majority – initially boosting investor confidence – the actual results brought a reversal in sentiment. With the ruling alliance falling short of expectations, markets reacted with disappointment, resulting in a steady decline in cumulative

returns. The significance level of the CAARs is tested using a cross-sectional t-test. The results reveal that the impact of the Lok Sabha election results on cumulative returns is noticeable at the 5% significance level on the election results day, which indicates a strong adverse reaction from the investors. This reaction became stronger till day +8 following the election results as all the negative cumulative average excess returns are negative and statistically detectable at 1% level from +1 to +8 day.

Therefore, it can be asserted that across the full 21-day event window, the aggregate returns remained negative for most days, reflecting a cautious and risk-averse market stance (Naveen & Sekhar, 2024). The sustained negative CAAR indicates that even beyond the immediate reaction, market participants continued to reassess their positions, possibly due to concerns over policy continuity, fiscal implications, or sector-specific expectations post-election.

Table 3: CAAR for Various Sub-Windows Pertaining to Nifty PSU Banks

| Window | CAAR | CStd E | t-Statistic | p-Value |
|----------|-----------------|----------------|---------------|---------|
| (-10,-1) | -0.009277532795 | 0.00683927131 | -1.356508957 | 0.1781 |
| (1,10) | -0.05655308153 | 0.05879104199 | -0.9619336486 | 0.3385 |
| (-5,-1) | -0.003426002869 | 0.005921947531 | -0.5785263802 | 0.5642 |
| (1,5) | -0.008801886839 | 0.003383021906 | -2.601782395 | 0.0107 |
| (-5,5) | -0.01837388362 | 0.008013643464 | -2.292825192 | 0.0240 |
| (-2,2) | -0.012648071 | 0.005928036995 | -2.133601901 | 0.0354 |
| (-10,10) | 0.04465358236 | 0.06091122303 | 0.7330928544 | 0.4653 |

Source: Authors' own tabulation.

The interval-based CAAR values across different event windows provide deeper insights into how the market digested the 2024 Lok Sabha election results over time. Six out of seven sub-windows display negative cumulative average excess returns. Notably, the window (-5, 5) exhibits the highest negative cumulative return of 1.84%, indicating that the strongest adverse market reaction did not occur immediately on the day of the event or in the days leading up to it, but rather in the days following the announcement. This

suggests that investors processed the gap between exit poll expectations and the actual outcome, which saw the ruling NDA fail to secure a clear majority. Sub-windows (+1,+5), (-2,+2), and (-5,+5) generate negative and statistically detectable cumulative average excess returns at 5% level of significance, confirming that the negative reaction observed during these windows was not due to random chance, but rather a measurable response to political uncertainty and its implications for the PSU banking sector. Thus,

H₂ is accepted. Overall, the data suggest that while initial expectations were optimistic due to exit polls, the strongest negative shift in market sentiment occurred after the actual results, with statistically significant declines in cumulative returns concentrated in the short to mid-term post-event period.

CONCLUSION

This research aimed to evaluate the market reaction of PSU Bank Nifty companies to the announcement of the 2024 Indian Lok Sabha election results using an event study methodology. The event window covered 21 trading days (from -10 to +10), focusing on changes in AAR and CAAR to capture investor sentiment and behaviour before and after the election outcome. During the days leading up to the announcement, the market exhibited consistent negative AARs, indicating a cautious and risk-averse investor sentiment (Naveen & Sekhar, 2024). However, optimism briefly surged around day -2, coinciding with the release of exit polls predicting a strong majority for the ruling NDA alliance. This led to statistically significant positive returns on day -1, confirming that markets responded swiftly to expectations of political stability.

Contrary to expectations built from the exit polls, the actual results – where the ruling alliance secured power but not with a strong mandate – triggered a sharp and sustained negative response. From day 0 onwards, the returns remained largely negative, with the sharpest declines observed between days +1 to +8. This suggests investor disappointment and concern about the new government's ability to implement economic reforms or maintain policy continuity, both crucial to the banking sector's performance. The broader trend remained bearish, underscoring lingering market uncertainty.

Policy Implications

This research holds practical value for multiple stakeholders – investors, corporates, and the government – by offering empirical insights into how political events, specifically the 2024 Lok Sabha elections, influence market behaviour, particularly in the PSU banking sector.

For investors, the study highlights the significance of monitoring political developments as part of investment decision making. The observed fluctuations in AAR and CAAR before and after the election indicate that investor sentiment is closely tied to political stability and policy expectations. The findings confirm the semi-strong form of market efficiency, where markets quickly incorporate publicly available information such as exit polls and election

results. Investors can therefore use political indicators to adjust their portfolio strategies and manage short-term risks more effectively.

For corporates, particularly those in the banking and public sector, the study underscores the sensitivity of stock prices to electoral outcomes. Understanding how markets react to shifts in political power can help management teams anticipate volatility and align their communication and strategic planning accordingly. This is especially relevant for state-owned enterprises, which may experience direct or indirect impacts from changes in government policies, appointments, or regulatory directions. Insights from the study can support risk assessment, investor relations strategies, and better alignment with evolving governance expectations. For the government and policymakers, the study serves as a feedback mechanism indicating how electoral outcomes and governance narratives are interpreted by the financial markets. The negative post-election sentiment, despite the ruling coalition's return to power, suggests that markets value not just continuity but also the strength of mandate and clarity on economic reforms. This can guide policymakers to enhance transparency, consistency in communication, and timely articulation of economic policies post-election to restore investor confidence. It also highlights the need for regulatory bodies such as SEBI to ensure robust information dissemination and investor protection during politically sensitive periods.

Overall, this paper helps stakeholders understand the interplay between politics and finance, enabling more informed decisions, better-prepared corporate strategies, and more responsive governance frameworks in the context of electoral outcomes.

Limitations

The brevity of the research period limited the length of the event window, which could be extended to know a long-term impact. This paper was particularly limited to Nifty bank PSUs; the study could have been broadened and more sectors could be considered such as pharmaceuticals, information technology (IT), fast-moving consumer goods (FMCG), and so on. Furthermore, the volatility of stock returns can be assessed owing to the results of the Lok Sabha elections.

Scope for Further Research

This study provides valuable information about how Lok Sabha elections of 2024 affect the stock market, focusing on public sector units in the Bank Nifty. However, there are still many areas for further exploration; future studies can be done

upon an extended event window. This research examines a short timeframe. Future studies could look at longer periods, such as 120 days before and 20 days after elections. This can help capture reactions and thoughts that occur both before and after elections. Future studies can also be done with wider market coverage. This study focused on the banking sector through the Bank Nifty index. Future research can expand to include all NSE-listed stocks, considering other sectors such as Nifty IT, Nifty FMCG, and Nifty Pharma. This broader view can show how political events affect the entire market.

A cross-country comparative analysis comparing developed and developing countries can provide more insights. This can help us understand how political stability, economic maturity, and market efficiency influence unusual returns during election times.

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