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Capital Market Reactions to the Indian Lok Sabha Elections – An Analysis of 2014, 2019 and 2024

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Abstract

This paper investigates the impact of the Indian Lok Sabha elections on the capital market, focusing on the three electoral cycles i.e. 2014, 2019, and 2024. The research study employed the market model and event study methodology to analyze the complete dynamics between electoral outcomes, market sentiment, and investor behavior by using Average Abnormal Returns (AAR). The analysis was based on data available from the National Stock Exchange (NSE) and with the NIFTY 50 index as the benchmark of the market. All companies listed on NSE sectoral indices are included in the analysis. The results highlight significant market reactions during election periods, characterized by heightened volatility and sectoral shifts. The study reveals positive abnormal returns during the 2014 elections, negative abnormal returns during the 2019 elections reflecting the cautious investor sentiment despite political continuity, and mixed outcomes in 2024 highlighting changing investor expectations and uncertainties. The findings underscore the dynamic nature of financial markets during elections, offering actionable insights for investors and policymakers. Future research could expand on these findings by integrating global political dynamics and advanced econometric models.

Keywords: *Election, Capital Market, Event study, stock return, sectoral index*

JEL Classification codes: G10, G14, G18, G19, G100

1. Introduction

The capital market serves as a pivotal component in a nation's economy, facilitating the circulation of capital and enabling the efficient allocation of financial resources. It provides businesses access to capital and offers investors opportunities to engage in a diverse range of securities. In the Indian context, the National Stock Exchange (NSE) is a cornerstone of the capital market. The NSE not only reflects the vibrancy of the Indian economy but also the investor sentiment and economic health during critical national or international events.

Among such events, the Lok Sabha elections—conducted every five years to determine the composition of India's lower house of Parliament—hold unique significance. These elections are not just political milestones but act as major economic events with extensive implications. Elections bring with them the prospect of policy reforms, shifts in regulatory frameworks, and changes in economic governance. This makes them a focal point for market participants, whose investment decisions often hinge on the anticipated outcomes of these elections (Kapoor, 2013).

The intersection of electoral cycles and stock market behavior has gathered extensive attention from academicians. Research indicates that elections intensify uncertainty, prompting fluctuations in market indices as investors reposition portfolios in anticipation of potential policy changes (Loomba, 2014; Sinha, 2021). The event study methodology frequently reveals heightened volatility during election periods, a pattern that underscores the semi-strong efficiency of emerging markets like India (Chavali, 2020). Moreover, the immediate post-election phase often witnesses the market's attempt to normalize new political realities, resulting in abnormal returns and sectoral shifts.

This study intend to contribute towards the existing body of literature, which analyses and observes the interaction between politics and financial market with a focus on how capital market reacts during Indian Lok Sabha elections.By analyzing historical data and employing event study methodologies, the research seeks to uncover the ways in which democratic transitions influence investor behavior

and stock market dynamics in one of the world's largest emerging economies. Focusing on the 2014, 2019, and 2024 election cycles, the study leverages the market model as its analytical framework to explore the complex relationship between electoral outcomes, stock market performance, and investor sentiment.

By integrating empirical data with existing literature, this research aims to provide a deeper understanding of how political uncertainty shapes market behavior. This study aims to contribute to the ongoing discussion about how political changes affect financial markets, offering useful insights for investors, policymakers, and academicians dealing with the challenges of emerging markets.

2. Review of Literature

The Indian capital market has experienced transformative reforms in recent years, reflecting advancements across its primary and secondary segments, derivatives markets, institutional investments, and intermediation mechanisms. Within this evolving context, the influence of general elections has emerged as a subject of considerable academic inquiry, particularly concerning their role in shaping market returns and volatility.

Nagaraju (2014) examined the implications of the 2014 Lok Sabha elections on the BSE Sensex and various industry indices, identifying heightened investor optimism driven by governance and policy reform expectations under a Modi-led government. Expanding upon this, Reddy (2018) analyzed short-term stock return patterns within a 15-day window surrounding the 2014 elections, elucidating the direct impact of electoral outcomes on market sentiment. Ashraf et al. (2020), using the market model, underscored the moderating role of political connections, demonstrating that politically connected firms exhibited greater resilience to election-induced uncertainty than their independent counterparts. Garg et al. (2020) focused on studying the impact of General Elections in India on the firm's stock market performances. By examining the relationship between the election outcomes and stock market behaviour at the firm level, this study contributes to a deeper understanding of election results on the stock market.

Chavali et al. (2020) employed event study methodology to investigate the response of general elections on the Indian stock market, highlighting significant disparities in market reactions across successive elections. Their findings emphasized on the unpredictability of market behavior, even when the same political party is re-elected. Ali et al. (2020) used the standard market model to assess the Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR) during a 21 day event window around the 2019 elections, offering insights into the semi-strong form efficiency of India's capital market. Gour (2020) provided an empirical analysis of sector-specific responses, identifying the banking sector, SENSEX, and NIFTY as key beneficiaries, while FMCG faced adverse outcomes and IT and pharmaceutical sectors exhibited neutrality. Gomez and Jomo (1999) posited that firms with political affiliations often derive disproportionate advantages during election periods, benefiting from preferential treatment and policy alignment. Siokis and Kapopoulos (2007) further reinforced this perspective, highlighting that the anticipation of reforms, coupled with uncertainty surrounding governance transitions, precipitates significant fluctuations in market sentiment. Kedia (2023), employing paired t-tests, observed significant market volatility during the 2014 elections, with the 2019 elections reflecting greater unpredictability due to a change in government.

Internationally, the impact of elections on financial markets has been extensively documented. Jensen et al. (2005) examined Brazil's political landscape, illustrating that "market-friendly" leadership transitions elicited positive market responses, with the impact more pronounced during leadership changes than re-elections. Carvalho and Guimaraes (2018) introduced a novel stock options-based methodology to assess electoral impacts, revealing disproportionately negative effects of re-elections on state-controlled firms.

The influence of U.S. presidential elections has also been scrutinized. Oehler et. al. (2012) investigated whether investors perceive any Democratic or

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Republican favoritism or biases to certain industries. The authors performed an event study covering eight industries across the eight elections and found out that a change in presidency from either a Democratic to a Republican candidate or vice versa causes stronger stock market reactions than re-election or election of a president from the same party. Behl and Sethi (2016) analyzed eight presidential elections between 1980 and 2010, concluding that election-induced market effects transcend pre-election expectations. Sturm (2009) identified fiscal policy adjustments as a key driver of higher returns during the latter half of presidential terms, while Siokis and Kapopoulos (2007) emphasized the role of anticipated reforms in shaping market behavior. Hachenberg et al. (2017) examined the 2016 U.S. presidential election, revealing a strong rally in banking stocks coupled with widening credit default swap (CDS) spreads.

In the European context, Dopke and Pierdzioch (2006) explored the relationship between the political developments and stock market performance of Germany, finding that market returns exhibited a measurable influence on governmental popularity. Similarly, Osuala et al. (2018) investigated the presidential elections of Nigeria for the election cycle of 2011 and 2015, employing the event study methodologies and demonstrated that there are significant adverse impacts of the 2011 election on market performance.

Synthesis and Research Gap

This corpus of literature underscores the profound and multifaceted influence of electoral events on capital markets, shaped by the unique political and economic contexts of each region. While global studies offer valuable insights, the Indian capital market presents a distinct case for analyzing the relationship between elections and market behavior. Building upon existing research, this study delves into the Indian general elections of 2014, 2019, and 2024, employing econometric techniques to elucidate the nuanced interplay between political uncertainty and financial market dynamics.

3. Objectives of the Study

1) To examine the impact of Lok Sabha elections on performance of the Indian stock market across three electoral cycles (2014, 2019, and 2024) by analyzing Average Abnormal Returns (AAR) for a 61-day event window.
2) To evaluate the sector-specific market reactions to election outcomes by studying the abnormal returns of companies listed under NSE sectoral indices, including Banking, Auto, FMCG, IT, and others.
3) To provide actionable insights for investors and policymakers by interpreting the financial market's behavior during elections and understanding the dynamic interplay between political events and stock market performance.

4. Research Methodology

This study employs a rigorous event study methodology to investigate the influence of Indian Lok Sabha elections on the capital market performance across three electoral cycles: 2014, 2019, and 2024. The methodology focuses on the calculation of Average Abnormal Returns (AAR) and the use of the market model to measure deviations in stock returns resulting from election outcomes, allowing for an in-depth assessment of market behavior.

Data Collection and Sample Size

The data for this research work were sourced from the National Stock Exchange (NSE) website, ensuring high data quality and credibility. The dataset comprises daily stock prices for all the companies listed on NSE sectoral indices, such as NIFTY BANK, AUTO, FMCG, IT, Media, and others. The NIFTY 50 index is utilized as the market benchmark index to calculate expected return and provide a comparative baseline.

- **Event Window**: The study analyzes a 61-day event window for each election, consisting of 30 days before and 30 days after the announcement of election results, as well as the event day itself.
- **Sample Size**: The dataset includes all companies listed on NSE sectoral indices, ensuring sectoral breadth and capturing the collective market response to electoral events. The use of this broad sample enhances the

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reliability of the findings and enables an sector-wide analysis of market behavior.

Daily returns (R_{it}) for stocks and (R_{mt}) for market are computed using the natural logarithm of price ratios to account for compounding effects and normalize the data distribution:

$$R_{it} = \text{Log}\ (P_{i,t}/P_{i,t-1})$$

Where $P_{i,t}$ and $P_{i,t-1}$ represent the closing prices of stock *i* on days *t* and *t−1*, respectively.

$$R_{m,t} = \text{Log}\ (P_{m,t}/P_{m,t-1})$$

Where $P_{m,t}$ and $P_{m,t-1}$ represent the closing prices of market index *m* on days *t* and *t−1*, respectively.

Analytical Framework: The Market Model

To estimate expected returns, the study employs the market model, which assumes a linear relationship between stock returns and market returns (MacKinlay, 1997):

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$$

Where:

R_{it}: Return of stock *i* on day *t*

R_{mt}: Return of the market index (NIFTY 50) on day *t*

αi,βi: Regression coefficients, representing stock-specific characteristics and market sensitivity

ϵ_{it}: Error term: Assumed as 'zero'.

Abnormal returns (AR_{it}) are computed as:

$$AR_{it} = R_{it} - E(R_{it})$$

The Average Abnormal Return (AAR) aggregates abnormal returns across all sampled stocks, and the Cumulative Average Abnormal Return (CAAR) measures the aggregate impact over the event window:

$$\boldsymbol{AAR_t} = \frac{\mathbf{1}}{\boldsymbol{N}} \sum_{\boldsymbol{i=1}}^{\boldsymbol{N}} \boldsymbol{AR_{it}}$$

$$\boldsymbol{CAAR} = \sum_{\boldsymbol{t=t_1}}^{\boldsymbol{t_2}} \boldsymbol{AAR_t}$$

Statistical Significance: t-Test

To evaluate the statistical significance of the observed AAR values, a t-test is conducted at a 5% significance level. The t-statistic is calculated for each day within the event window. This test determines whether the observed AAR significantly deviates from zero, providing evidence of market reactions attributable to election outcomes. The results of the statistical t-test help validate the robustness of the findings and check the reliability of the observed abnormal returns.

Sectoral Analysis

The event study methodology is extended to sectoral indices to evaluate variations in market reactions across industries. Sectoral AARs are calculated for indices such as NIFTY BANK, AUTO, FMCG, IT, Media, and others, enabling an examination of sector-specific trends. This approach highlights sectors that exhibit resilience or sensitivity to electoral events and helps identify opportunities for strategic investment during politically significant periods.

Limitations

While the methodology is robust, certain limitations must be acknowledged:

1. Daily stock prices provide useful insights, but intraday data, which could offer more granular analysis, were unavailable for all stocks in the dataset.
2. Excluding delisted stocks or companies disproportionately reflects the performance of surviving companies.
3. The market model assumes constant beta and normality of returns. However, financial returns often deviate from these assumptions, exhibiting skewness or fat tails.
4. Macroeconomic events, global market trends, or concurrent policy announcements may confound the results, making it challenging to isolate the impact of elections alone.

5. Data Analysis and Interpretations

Table 1 presents the descriptive analysis of the Average Abnormal Returns (AAR) across the three

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election windows. The data reveals that mean values fluctuate around zero, exhibiting a decline in 2019, followed by a modest recovery in 2024. Notably, the 2014 election period demonstrates both the minimum and maximum average returns, coupled with the highest variations, indicating significant variability in the data.

Table 1: Descriptive Statistics of Average Abnormal Returns (AAR) of various elections

	Minimum	Maximum	Mean	Standard Deviation	Skewness
2014	-0.017800348	0.019203572	0.00185842443	0.006542500807	-0.189
2019	-0.012573868	0.007201171	-0.00064050964	0.003950376316	-0.373
2024	-0.011439138	0.009661043	0.00008766808	0.005038602175	-0.353

From 2014 to 2019, the distribution of returns shifted toward a more pronounced negative skewness, accompanied by reduced variability. By 2024, the extent of negative skewness diminished slightly, while variability increased compared to 2019 but remained below the levels observed in 2014. This overall trend suggests a transition from a broader distribution with a slightly positive mean in 2014 to a more confined and symmetrical distribution centered closer to zero by 2024.

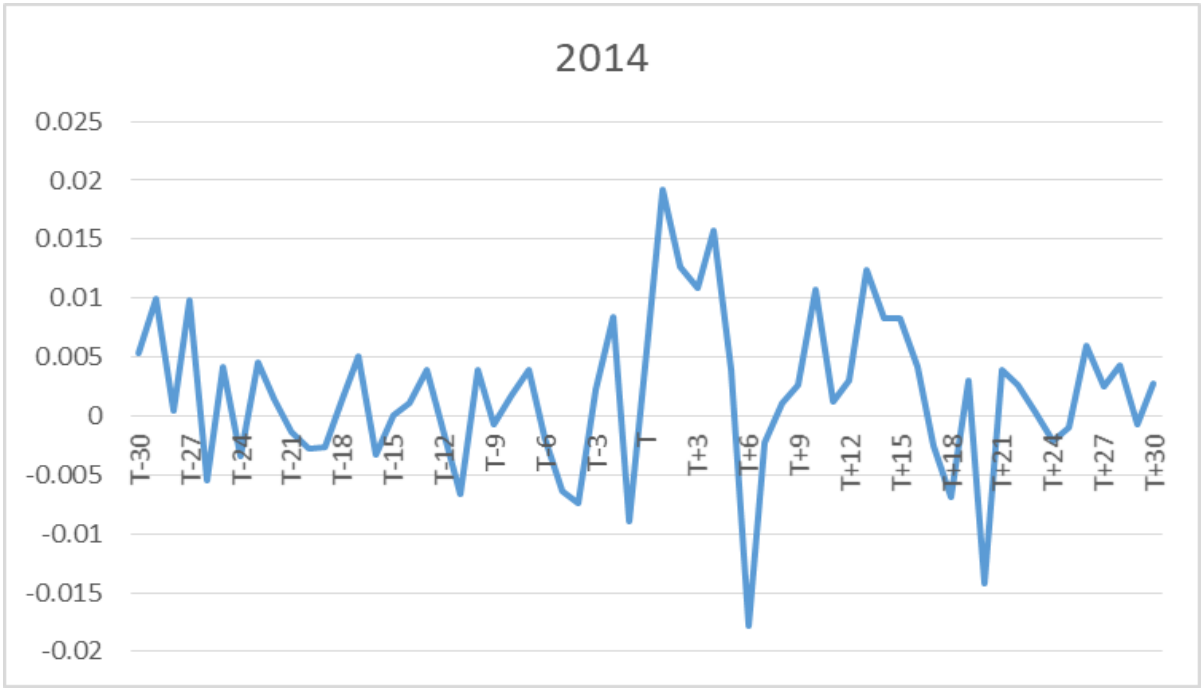

Figure 1: Daily Average Abnormal Return (AAR) of 2014 Event Window

Figure 1 illustrates the Average Abnormal Returns (AAR) for the 2014 election event window, revealing a general downward trajectory interspersed with fluctuations during the pre-event phase. Notably, a sharp spike is observed around the event date, reflecting heightened public expectations of a potential governmental change. The post-event window exhibits increased market volatility, which gradually stabilizes toward the conclusion of the observed period.

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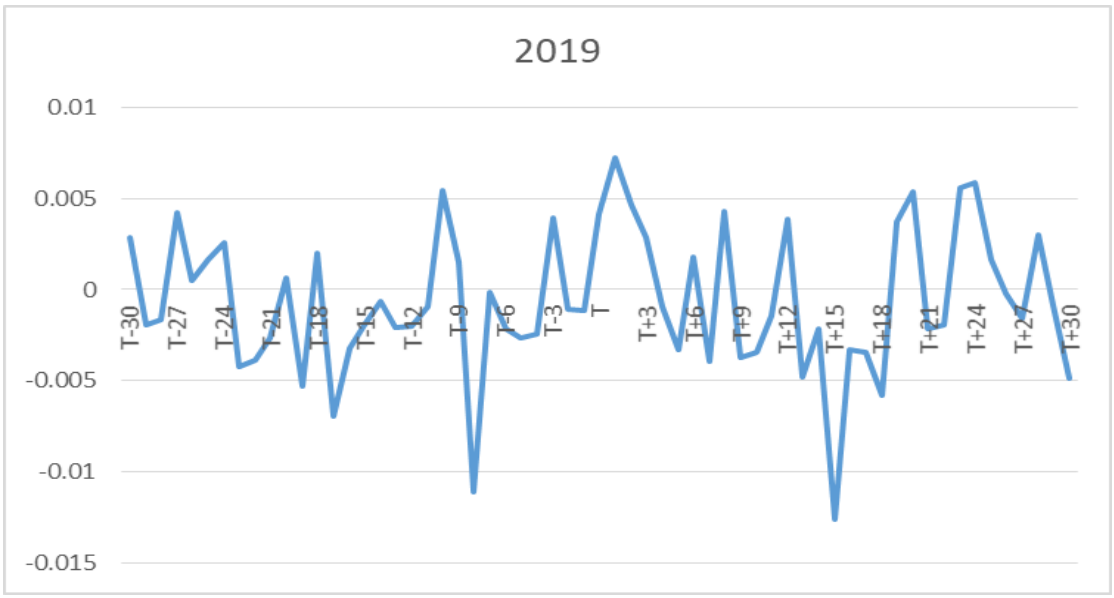

Figure 2: Daily Average Abnormal Return (AAR) of 2019 Event Window

Figure 2 depicts the Average Abnormal Returns (AAR) for the 2019 election window, characterized by a notably low mean return. The data exhibits a negative skewness of -0.373 and the lowest variation of 0.0039, indicating heightened caution among investors during this period. The post-event window reveals irregular fluctuations, with values oscillating unpredictably and lacking a discernible pattern.

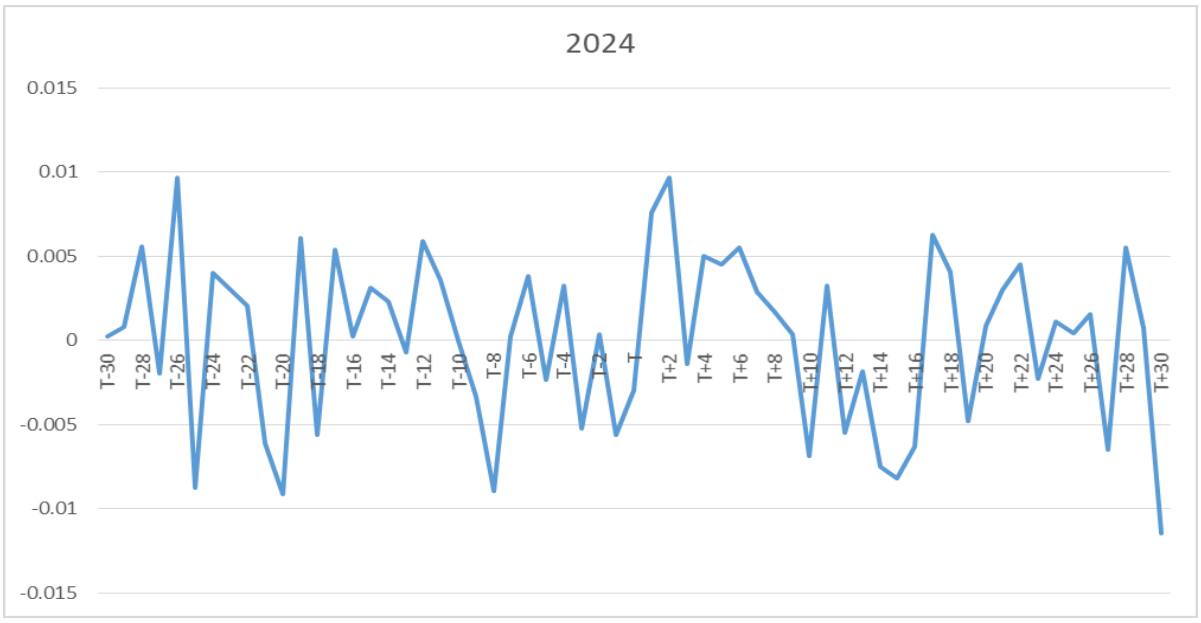

Figure 3: Daily Average Abnormal Return (AAR) of 2024 Event Window

The time series for 2024 exhibits pronounced variability across the observed period, with both pre-event and post-event phases marked by frequent and irregular fluctuations, indicative of heightened market uncertainty during this electoral cycle.

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Table 2: Daily Average Abnormal Returns (AARs) and T-statistics tested at 5% level of significance

	2014		2019		2024	
Day	**AAR**	**t-stat**	**AAR**	**t-stat**	**AAR**	**t-stat**
T-30	0.005315913	**3.364**	0.002886924	**2.433**	0.000259848	0.132
T-29	0.009910311	**5.191**	-0.001944065	-1.308	0.000784825	0.265
T-28	0.00039102	0.165	-0.001681001	-1.462	0.005579652	**3.47**
T-27	0.009772325	**5.656**	0.004237053	**3.986**	-0.001930336	-1.315
T-26	-0.005481564	**-3.144**	0.000520227	0.447	0.009661043	**6.064**
T-25	0.004217513	**2.893**	0.001668328	1.379	-0.008734891	**-5.06**
T-24	-0.003455739	**-2.382**	0.002564381	1.917	0.004040155	**3.054**
T-23	0.00457474	**2.623**	-0.004194929	**-3.925**	0.003052205	1.893
T-22	0.001448368	0.555	-0.003880838	**-3.095**	0.00204912	1.514
T-21	-0.00134676	-0.814	-0.00267924	**-2.088**	-0.006137506	**-3.224**
T-20	-0.002759763	-1.394	0.000656591	0.556	-0.009148118	**-5.467**
T-19	-0.002664567	-1.553	-0.005302234	**-4.209**	0.006111445	**3.988**
T-18	0.001517165	0.946	0.002021363	**2.124**	-0.005625171	**-3.663**
T-17	0.005015248	**2.907**	-0.006925745	**-4.765**	0.005377734	**3.57**
T-16	-0.00326376	**-2.098**	-0.003240949	-1.898	0.000242274	0.149
T-15	0.000084	0.046	-0.001945628	-1.295	0.003137948	**2.45**
T-14	0.001110533	0.691	-0.00067086	-0.558	0.002323395	1.807
T-13	0.003906449	**2.55**	-0.002057714	-1.726	-0.000695475	-0.476
T-12	-0.001097362	-0.573	-0.002013337	-1.383	0.005929857	**3.932**
T-11	-0.006670942	**-3.478**	-0.000931787	-0.681	0.003545489	**3.743**
T-10	0.003870853	1.838	0.005402716	**3.661**	-0.000004552	-0.002
T-9	-0.00069075	-0.385	0.001519515	1.128	-0.003325914	**-2.536**
T-8	0.00169137	0.934	-0.011087018	**-5.617**	-0.008952845	**-5.425**
T-7	0.003900201	**2.602**	-0.000139884	-0.088	0.000273312	0.208
T-6	-0.001911914	-1.329	-0.002158979	-1.446	0.00383182	**2.393**
T-5	-0.006354247	**-3.767**	-0.002630155	-1.756	-0.002311913	-1.774
T-4	-0.007381683	**-3.71**	-0.002417012	-1.437	0.003240898	**2.586**
T-3	0.002263037	1.072	0.00391168	1.533	-0.005251722	**-3.826**
T-2	0.008464127	**3.937**	-0.001043762	-0.698	0.00037517	0.212
T-1	-0.008930452	**-5.062**	-0.001124485	-0.882	-0.005622468	**-2.793**
T	0.005593673	**1.985**	0.004141076	**2.987**	-0.002942469	-0.805
T+1	0.019203572	**4.77**	0.007201171	**4.204**	0.00760766	**3.625**
T+2	0.012677689	**4.702**	0.004623173	**2.507**	0.009650689	**4.697**
T+3	0.010855569	**4.551**	0.002826087	**1.975**	-0.001370733	-0.878
T+4	0.0156948	**5.312**	-0.000908199	-0.681	0.005004143	**3.913**
T+5	0.003902827	1.543	-0.003288906	**-2.608**	0.004513626	**3.811**

T+6	-0.017800348	**-7.008**	0.001792654	1.431	0.005514575	**3.76**
T+7	-0.002270169	-1.172	-0.003905132	**-3.107**	0.002915297	**2.149**
T+8	0.001127048	0.523	0.004250755	**3.602**	0.001699368	1.666
T+9	0.002567941	1.202	-0.00371588	**-2.13**	0.000364567	0.248
T+10	0.010743298	**3.559**	-0.003399226	**-2.749**	-0.006877168	**-5.511**
T+11	0.001250567	0.602	-0.001423124	-1.113	0.003287733	**2.809**
T+12	0.003058529	1.624	0.003861007	**2.805**	-0.005496611	-1.077
T+13	0.012343993	**4.917**	-0.004795407	-1.008	-0.001805867	-1.458
T+14	0.00832202	**3.105**	-0.002123565	-1.907	-0.007492872	**-5.577**
T+15	0.008299219	**3.17**	-0.012573868	-1.232	-0.008159724	**-6.304**
T+16	0.004163889	1.855	-0.00327651	**-2.247**	-0.006274599	**-3.875**
T+17	-0.002569121	-1.284	-0.003415349	**-2.415**	0.006292769	**4.571**
T+18	-0.006876241	**-3.483**	-0.005799845	**-4.002**	0.004053346	**2.632**
T+19	0.003070904	1.924	0.003709605	**2.642**	-0.004774777	-1.746
T+20	-0.014260018	**-6.053**	0.005341814	**3.594**	0.000861352	0.664
T+21	0.003969933	**2.197**	-0.002117174	-1.516	0.002993348	**2.558**
T+22	0.002613377	1.579	-0.001908866	-1.421	0.004508539	**3.844**
T+23	0.000267056	0.151	0.005587827	**4.246**	-0.00227214	-1.553
T+24	-0.002096731	-1.086	0.005858897	**4.694**	0.001152406	0.87
T+25	-0.000945939	-0.401	0.001623216	1.58	0.000446996	0.3
T+26	0.006027212	**3.463**	-0.000228456	-0.153	0.001571064	1.334
T+27	0.002547385	1.521	-0.001571844	-1.104	-0.006505836	**-4.088**
T+28	0.004328854	**2.439**	0.002965559	**2.594**	0.005520018	**4.208**
T+29	-0.000671174	-0.425	-0.000834555	-0.873	0.000726912	0.627
T+30	0.002780606	1.458	-0.004887179	**-3.315**	-0.011439138	**-7.176**

Table 2 presents the findings for the 61-day event window, encompassing 30 days before and 30 days after the general elections of 2014, 2019, and 2024. The table reports the average daily AAR across the event window, along with the corresponding t-statistics for each election. Notably, the AAR was significant for 16 days in the pre-event window and 14 days in the post-event window for the 2014 elections. In contrast, the 2019 elections displayed significance for 10 days in the pre-event window and 18 days in the post-event window. Similarly, the 2024 elections showed significant results for 18 days in both the pre-event and post-event windows.

The analysis reveals that significant positive returns were predominantly observed across the election periods, with the exception of the 2019 elections, where returns were predominantly negative and statistically insignificant. Furthermore, it is noteworthy that the AAR was significantly positive on the event day for the 2014 and 2019 elections. However, this trend did not persist in the 2024 elections, where returns on the event day were both negative and statistically insignificant. This divergence underscores the evolving market dynamics and investor sentiment across the different electoral cycles.

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Table 3: CAAR across Different Event Windows

Event Window	CAAR		
	2014	2019	2024
t-30 to t-1	0.015444	-0.032681	0.002075
t-7 to t-1	-0.009951	-0.005603	-0.005465
event date	0.005594	0.004141	-0.002942
t-7 to t+7	0.037907	0.006879	0.025428
t+1 to t+7	0.042264	0.008341	0.033835
t+1 to t+30	0.092327	-0.010531	0.006215
t-30 to t+30	0.113364	-0.039071	0.005348

Table 3 provides an analysis of the Cumulative Average Abnormal Returns (CAAR) for the 2014, 2019, and 2024 election cycles, illustrating distinct market reactions across these periods. The data reveals that the 2019 elections elicited the most negative response across the event windows, in stark contrast to the 2014 elections, which demonstrated the strongest positive reaction. The 2024 elections, meanwhile, reflected a more neutral or mixed sentiment, indicating a divergence in market behavior over time. Notably, stock market reactions were more pronounced when a political party assumed power for the first time, as observed in 2014, compared to re-election scenarios, as highlighted by Chavali et al. (2020).

In 2019, the post-election window displayed comparatively more significant returns, driven by investor expectations of sustained economic reforms and the perceived political stability associated with the re-election of the incumbent government (Gour, 2020). The findings further suggest heightened market activity in 2024, underpinned by substantial investor uncertainty surrounding the election outcome. This uncertainty, coupled with anticipations of potential policy changes, appears to have significantly influenced investor sentiment during this period, as corroborated by the observations of Siokis and Kapopoulos (2007).

Table 4: Daily AAR and T-statistics of Different Sectoral Indices

Sectoral Indices	2014		2019		2024	
	t-stats		t-stats		t-stats	
	t_{-30} to t_{+30}	t_{-7} to t_{+7}	t_{-30} to t_{+30}	t_{-7} to t_{+7}	t_{-30} to t_{+30}	t_{-7} to t_{+7}
NIFTY BANK	1.706	2.105	0.906	0.309	-0.442	0.343
NIFTY AUTO	**3.562**	**3.024**	-0.31	-1.222	0.454	1.279
NIFTY FMCG	1.057	1.308	1.124	1.311	**2.614**	1.138
NIFTY IT	0.197	-0.315	0.177	-0.843	**1.696**	0.631
NIFTY MEDIA	1.579	1.506	-1.831	-1.225	-0.182	1.532
NIFTY METAL	**2.386**	**2.528**	-0.089	-0.043	-1.443	-1.611
NIFTY PHARMA	**2.146**	-1.195	**-2.004**	**-1.763**	0.268	0.414
NIFTY REALTY	**2.486**	**2.298**	-0.649	1.447	0.133	1.065
NIFTY CONSUMER DURABLES	**4.237**	**2.365**	-0.968	-0.1	**2.063**	1.66
NIFTY OIL & GAS	1.602	1.385	0.381	**2.983**	**-1.953**	-0.177
NIFTY FINANCIAL SERVICES EXBANK	**2.285**	1.777	-0.843	1.878	-0.05	1.017

Table 4 presents the t-statistics of various sectoral indices (e.g., NIFTY BANK, AUTO, FMCG) across the three election cycles of 2014, 2019, and 2024, examined over 30-day and 7-day event windows. During the 2014 elections, several sectors demonstrated robust positive momentum, with notable performance observed in Nifty Auto, Consumer Durables, Metal, Realty, and Financial Services, reflecting strong investor confidence in these areas. Conversely, the 2019 elections

witnessed declines across several key indices, including Nifty Pharma, Media, Auto, and Metal, within the 30-day event window, indicative of subdued market sentiment.

The 2024 elections exhibited a mixed performance, with sectors such as FMCG, IT, and Consumer Durables achieving positively significant returns, while others, notably Metal and Oil & Gas, registered negative trends. These results highlight significant sectoral shifts and varied performance patterns across the analyzed election years. Notably, sectors like Auto and Metal, which previously demonstrated strength, experienced declines, whereas sectors like FMCG and IT displayed improved resilience and positive momentum by 2024.

This analysis underscores the dynamic nature of sectoral performance during election periods, driven by evolving investor expectations, economic conditions, and policy outlooks. The findings emphasize the importance of sector-specific strategies for investors seeking to navigate the complexities of election-induced market fluctuations.

Practical Recommendations

1. **For Investors**: Election periods present both opportunities and risks. Strategic investments in resilient sectors (e.g., FMCG and IT in 2024) can yield favorable returns, while cautious approaches during volatile phases mitigate downside risks. Diversification remains critical to navigating sectoral shifts and managing election-induced volatility.
2. **For Policymakers**: Clarity in governance and policy frameworks fosters market confidence. Transparent communication of economic agendas during election periods can reduce uncertainty and bolster investor sentiment.

6. Conclusion

This study comprehensively evaluates the influence of Indian Lok Sabha elections on the performance of stock market, revealing a discernible positive market reaction to electoral events in terms of Average Abnormal Returns (AAR). The analysis confirms that elections, as pivotal political events, generate favorable impacts on stock market performance, particularly around election dates. These findings align with prior studies, underscoring the significant role of elections in shaping market sentiment and behavior within the Indian context.

The results suggest that elections act as catalysts for market activity by alleviating political uncertainty and enabling investors to recalibrate their focus on stock fundamentals. This is consistent with historical evidence that markets generally respond positively to election outcomes, as highlighted in Business Today. The study further demonstrates variability in market responses across different election cycles, reflecting the dynamic interplay of investor expectations, policy implications, and governance changes.

From a practical perspective, the research emphasizes on the role of strategic decision-making during the election periods. Investors are advised to exercise caution, particularly in light of the heightened volatility that often characterizes such events. Risk-averse investors may find it prudent to limit trading activities during election windows to mitigate potential market fluctuations. Conversely, informed investors can leverage insights into sectoral trends and market dynamics to optimize their portfolios during these periods of heightened activity.

The findings of this study contribute to the broader discourse on political economy and market behavior by illustrating the nuanced relationship between electoral events and financial market performance. Future research could explore comparative analyses across different political systems or examine the impact of emerging variables, such as algorithmic trading and global interconnectedness, on election-induced market behavior. This study provides valuable guidance for investors, policymakers, and academics in understanding and navigating the complexities of stock market reactions to political transitions.

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