Impact of Political Events on Stock Market Return: Empirical Evidence from Sri Lanka

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The purpose of this study was to investigate the impact of uncertain political events on the daily index return on the Colombo Stock Exchange (CSE) from 1st May 2009 to 29th March 2018 and to address the paucity of knowledge related to the political events in emerging stock markets. Fifteen major political events were selected from the study period and compared its impact for 2, 7, 15, and 30 days, pre and post-event period using the mean-adjusted return model. The findings of this study answered two problems. First, the impact of the events on the All Share Price Index (ASPI) return. Second, the way that ASPI fluctuates in response to the political events. Calculated average abnormal return and t-test results confirmed that political events have an impact on the market index, either significantly or insignificantly. Further, findings revealed that investors overreact to good political news while under-react to bad political news. But directions of the impact on the study subject depends on the constitution of the event and its market friendliness. CSE is inefficient in capturing the impact of an event in the short run but comes to its original state within 30 days of the post event period. This study will help investors to predict the market and scholars, listed companies, government bodies and other interested parties to reinforce the knowledge.

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