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General Elections And Stock Markets: Did August 2017 General Election In Kenya Influence The Stock Market?

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Abstract: *General elections require substantial amount of funds to support the electioneering process. Such funds would have been applied in investments. Equally too, time and energy of the public is utilized, denying the public the opportunity to engage in investment decisions. Outwardly, optimism and pessimism occur. Market bulls represent optimism while market bears pessimism. Market optimism results in higher stock returns while market pessimism in lower stock returns. Kenya had its general elections on 8th August 2017 according to the Kenya Constitution (2010). This paper investigates whether the general elections in Kenya had statistically significant effect on the Nairobi Securities Exchange Index. The design of this paper was descriptive based on event studies. The Nairobi Securities Exchange (20) index data was obtained 30 days before and 30 days after the general election. The mean indices were computed and tested for statistical significance. The independent variable was the Election event while the indices before and after the election were the dependent variables. The results were tested at 0.05 level of significance. The study found that the mean indices were higher after than before the general election. Further tests on the statistical significance reveal that the differences were statistically significant as presented by the P-values. The paper concludes that the general election in Kenya had a statistically significant effect on the stock market.*

Key Words: *Nairobi Securities Exchange Index, general elections, event window, market optimism, market pessimism.*

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I. Introduction

General elections, worldwide, present euphoric and acrimonious moments. These are moments of optimism on part of a society while the rest will be pessimistic. The contrast created by the forces of optimism and pessimism cause acrimony. Therefore the part of society that is optimistic over election results have merry and fun while the rest have ill feelings. This describes the atmosphere experienced in Kenya in the months of July and August and September 2017. The month of July 2017 was a period of anticipation while after August, the eight, was a period of happiness for winners and grief for the losers in equal measure.

The key question being addressed in this paper: “To what extent didAugust, 2017 general election influence the stock market in Kenya?” Society’s decision-making is influenced by their predispositions.(Smales, 2014) reviewed Australian general elections and its impact on the stock market. The study concludes increasing (decreasing) level of election uncertainty induce higher (lower) levels of market uncertainty. In Malaysia, Lean (2010) investigated Malaysian general elections and their impact on the stock exchange. The results show that stock prices fluctuate prior to and after general election.Khan, Rehman, and Hussain, (2016) investigated the impact of general elections on the share prices of listed firms in Pakistan and found inverse relationship. These studies reveal that general elections influence the stock markets, particularly the stock prices.

In New Zealand, Sainal, Clare, and Thomas (2010) analyzed New Zealand general elections with respect to the stock returns and ascertained that the performance depended on the either the National Party or Labour Party winning the elections. The winning of National Party results in higher stock returns while the Labor Party results in lower stock returns. However, in USA, Oehler, Walker and Wendt, (2013) analyzed the effects of general elections in USA and found positive and negative cumulative abnormal stock price returns.

After the promulgation of new constitution in Kenya in 2010, investors are curious to know the extent to which general elections influence their stock investment performance. Therefore, it is pertinent that investors in the Kenyan equity market know the impact of general elections on their investment performance. The rest of the paper is structured to include literature review, methodology, results, findings, and conclusions.

II. Literature Review

Extant literature abounds on the impact of general elections and stock performance. kabiru, Ochieng, and Kinyua, (2015)investigated the cumulative abnormal returns and found that the results were not significant in 2002 and 2013 elections, but found the results significant during the elections of 1997 and 2007 at 0.05 level of significant. (menye, mwangi, & Kimani, 2014), unlike Kabiru et al., (2015), analyzed the effects of general elections in 1997, 2002, 2007 and 2013. They found that abnormal share returns, actual share returns and expected share returns were higher before elections than after elections. Kuria, (2012) studied the impact of political process and gross Domestic product (GDP) for Kenya in the years 1992, 1997, 2002 and 2007. He found that election have a strong impact on the performance and sustainability of an economy.

Floros, (2008) studied the effects of political election on the performance of Athens Stock Exchange (ASE). The study found two months prior to an election, there was a positive impact on share returns while one month prior to an election there was an inverse relationship. On the over all, political election had a negative effect on the performance of ASE. In Pakistan, Khan, Rehman, and Hussain, (2016) find negative relationship between the general election and performance of stocks.

Sagita(2017) has shown that political events in USA have negative effect on the equity market in Indonesia.Therefore, announcement effect could result from events away from home. In Malaysia, Shen and Celis, (2015) found that political business cycles and stock market volatilities existed and were statistically significant. In Kenya, Menge, Mwangi, and Kimani(2014)analyzed the effects of elections on the abnormal,actual and expected returns and found the stock returns before elections were higher than after elections.

In USA, (Brock & Gregory, 2001) assessed the impact of the political business cycle on the economy and conclude that under democratic presidents the economy expand while under Republican president the economy contract due to ideological differences. They further allud3ed that presidents whose parties retain the presidency perform better than average performance.

III. Methodology

Kabiru et al., (2015) adopted event study methodology in establishing cumulative abnormal return (CAR). But, Menge et al., (2014) applied event study methodology in computing actual return, expected return and abnormal returns without computing cumulative abnormal return.Floros (2008) usedthe ordinary least squares (OLS) in both pre-election and post-election. Unlike these researchers, this study test for differences in the indices before and after elections to determine whether the differences were significant at 0.05 level of significance. This researcher used indices derived from Nairobi Securities Exchange (20) index. Nairobi Securities Exchange indices were obtained 30days before the general elections and 30 days after the election. The data was analyzed to provide trend and magnitude. Two-sample test of means was applied. Z score was computed and subjected to the standard Z score. The means of the indices and the standard deviation were calculated, thus the desire to apply the two sample test of means.

Indices were obtained from 1st July, 2017 to 8th August and 10th August to 30th September. Therefore the study focused on the days of capital market trading.

IV. Results And Findings

Table 1 shows the mean and standard deviation of the indices before 8th August and after.
The means of the indices were 3695.9 before the election while they stood at 3968.7. Therefore the mean indices were higher after the general election.

Table 1: Descriptive statistics of the NSE index 30 days before and after election

	Election	N	Mean	Std. Deviation	Std. Error Mean
NSE	Before election	24	3695.9	75.6	15.4
Index20	After election	24	3968.7	112.1	22.9

Table 2: Independent sample t-test of the NSE Index 30 days before and after 2017 General Election

		t-test for Equality of Means						
		t	df	Sig. (2-tailed)	Mean Diff.	Std. Error Diff.	95% Confidence Interval of the Difference	
							Lower	Upper
NSE Index20	Equal variances assumed	9.88	46	.000	272.7	27.6	217.2	328.4
	Equal variances not assumed	9.88	40	.000	272.7	27.6	217.0	328.6

Table 2 shows the mean difference of 272.7 which was statistically significant based on the resultant P-value = 0.00

V. Conclusions

The study concludes that the general election in Kenya had a significant effect on the NSE indices. Indeed the mean difference of 272.7 was attributed to the general election.

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Appendix 1

Date	Day of the week	NSE index (20)
6-Jul	Thursday	3568.8
7-Jul	Friday	3580.52
8-Jul	Saturday	3604.06
11-Jul	Tuesday	3594.41
12-Jul	Wednesday	3600.6
13-Jul	Thursday	3632.82
14-Jul	Friday	3659.28
15-Jul	Saturday	3642.9
18-Jul	Tuesday	3658.65
19-Jul	Wednesday	3679.43
20-Jul	Thursday	3674.96
21-Jul	Friday	3683.24
22-Jul	Saturday	3700.44
25-Jul	Tuesday	3712.13
26-Jul	Wednesday	3729.81
27-Jul	Thursday	3768.38
28-Jul	Friday	3764.74
29-Jul	Saturday	3798.63
1-Aug	Tuesday	3797.53
2-Aug	Wednesday	3742.5
3-Aug	Thursday	3741.46
4-Aug	Friday	3773.52
5-Aug	Saturday	3775.89
8-Aug	Tuesday	3818.27

Appendix 2

Date	Day of the week	NSE index (20)
10-Aug	Thursday	3850.13
11-Aug	Friday	3903.29
12-Aug	Saturday	3976.98
15-Aug	Tuesday	4076.94
16-Aug	Wednesday	4114.01
17-Aug	Thursday	4069.34
18-Aug	Friday	4045.89
19-Aug	Saturday	3992.76
22-Aug	Tuesday	4007.55
23-Aug	Wednesday	4013.71
24-Aug	Thursday	4028.56
25-Aug	Friday	4052.54
26-Aug	Saturday	4069.2
29-Aug	Tuesday	4089
30-Aug	Wednesday	4042.08
31-Aug	Thursday	4038.86
1-Sep	Friday	4027.12
2-Sep	Saturday	4027.12
5-Sep	Tuesday	3806.8
6-Sep	Wednesday	3770.03
7-Sep	Thursday	3786.92
8-Sep	Friday	3805.22
9-Sep	Saturday	3839.99
12-Sep	Tuesday	3815.71

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