

Impact of March Handshake on the Capital Market in Kenya

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Abstract: This paper investigates the impact of March 2018 handshake between President Uhuru Kenyatta and the leader of National Super Alliance (NASA) Mr. Raila Odinga. A handshake is a cultural gesture that communicates friendship and agreement. When political leaders shake hands, the act has announcement effect on their followers. A handshake is news potent and the public interpret the news applying the herodotus heuristics to anticipate gains or pleasure. Such behavior apply for all social, political, economic activities, including capital markets.

To determine whether March 2018 handshake had an effect on the Kenyan capital market, event study methodology was applied. Nairobi Securities Exchange (NSE 20) Indices were obtained from Nairobi Securities Exchange Website. Indices were collected 30 days before the handshake and 30 days after the handshake. Thus, 9 March 2018 was the event window. The average indices were computed and Levene's Test for Equality of Variances applied and assessed at 0.05 level of significance. The results showed $P\text{-values} = 0.00 < 0.05$ level of significance. Therefore, March 2018 handshake was statistically significant in influencing the capital markets in Kenya. The paper concludes that a handshake is an important gesture that influence the capital markets.

Keyword: Handshake, Capital Markets, NSE 20 Indices, Hedonist Heuristics, Levene's Test, Equality of Variances

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I. Introduction

Delcos(2012) posits that handshaking promotes deal making by signaling cooperative intent. A handshake is a cultural ritual that has information content. Indeed a handshake gesture speak volumes about the parties involved. Thus, a handshake is an event that can affect a capital market. Chan and Wei (1996) investigated the impact of political news on the stock market volatility and conclude that political news increase the stock volatility of both blue chip and red –chip shares in Hong Kong.

Handshake is a symbol of peace. It is a welcome gesture in arbitrations and peacemaking, peace building and peacekeeping. The handshake sign has found its way in political peacemaking, peace building and peacekeeping. Countries have embraced handshake to create, build and keep peace. Such countries were Bosnia, Eritrea, Ethiopia, South Africa, Zimbabwe and Kenya colony. During transition of power, outgoing and incoming persons normally extend handshake gestures as they hand over instruments of power. The resulting peace is fodder for capital markets. The handshake results in calmness and enhanced economic activities.

Cohen (2007) states that critical events symbolized in a handshake have announcement effect. Immediately after the handshake, the state embark on nationhood. Nationhood activities include social activities, building schools, hospitals and provision of water and electricity, besides road building and maintenance. Part of the resources saved from minimized negative political activities is channeled to the capital markets. In Kenya, after the presidential general election of 2017, Mr. Uhuru Kenyatta, the leader of JUBILEE party and the leader of the opposition (NASA) National Super Alliance Mr. Raila Odinga shook hands as a symbol of unity. Extant literature does not reveal the impact of handshake. Thus the need for this study. This study, therefore, investigates the impact of the handshake on the Kenyan capital market.

II. Literature review

In USA, Obradovic and Tomic(2017) examined the effects of presidential elections on the stock return flow and conclude that parametric tests reveal a statistically significant negative impact on the stock return. In New Zealand, Adidin, Old and Martin (2010) reviewed the effects on general elections on stock market returns and ascertained that when National Party wins, a positive relationship was observed. However, when the Labour party wins, an inverse relationship is observed, resulting in stock price rise. In Pakistan, Khan, Rehman and Hussain (2016) studied the impact of 2013 general elections on the share prices of public listed firms. They found a negative relationship between the political event and the stock price.

In Kenya, Kuria (2012) examined the effects of political process on the economic performance and concludes that election trends have a strong positive effect on the performance and sustainability of an economy. Furthermore, Kabiru, Ochieng and Kinyua (2015) investigated the effects of 2002 and 2013 general elections on stock returns and conclude that during 2002 and 2013, differences in the cumulative abnormal returns were insignificant. In contrast, they found that cumulative abnormal returns for 1997 and 2007 general elections were significant at 0.05 level of significance. Handshake event was a political gesture whose effect on the economy and the capital market has not been addressed. This paper therefore investigates that gap.

III. Methodology

Abidin et al. (2010) applied regression to determine the relationship between the political party and the performance of the stock market. But, Kuria (2012) used the correlation coefficients to explain the outcome of their study. Furthermore, Kabiru, Ochieng and Kinyua (2015) applied the event study methodology. In this study, a modified event methodology was applied. The indices for 30 days before the handshake and 30 days after the handshake were obtained from NSE Website. The mean indices were obtained and the differences observed. The differences were assessed at 0.05 level of significance. T-test for equality of means, as per Levine's T- two-sample test was applied.

Findings

Table 1. Descriptive Statistics

	Time Period	N	Mean	Std. Deviation	Std. Error Mean
NSE 20 share index	Prior	21	3728.4614	18.69760	4.08015
	After	21	3812.5748	42.95026	9.37251

Table 2. Independent Samples T-Test

	Levene's Test for Equality of Variances	F	Sig.	t-test for Equality of Means		t	df	Sig. (2-tailed)	(2-Mean Difference)	Std. Error Difference	95% Confidence Interval of the Difference	
				Lower	Upper							
NSE 20 share index Equal variances assumed	1.798		.218	-8.229	40	.000			-84.113	10.222	-104.77	-63.453
NSE 20 share index Equal variances not assumed				-8.229	27.32	.000			-84.113	10.222	-105.08	-63.150

IV. Conclusion

The results showed that the handshake between Uhuru Kenyatta, the President of the Republic of Kenya and the leader of National Super Alliance (NASA) resulted in higher NSE 20 indices, as demonstrated by p-values = 0.000 < 0.05 level of significance. Thus the handshake had a statistically significance effect on NSE 20 Indices in Kenya.

V. Recommendations

Since the handshake had a positive effect on the capital market, it is worthwhile for leaders to express their unity through handshake gestures. Political good will handshakes could be conducted elsewhere to ascertain whether they influence the capital markets.

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Exhibit 1: Raw Data

Date	Day of the week	NSE index 20
8-Feb	Thursday	3729.34
9-Feb	Friday	3746.18
10-Feb	Saturday	3741.02
13-Feb	Tuesday	3729.32
14-Feb	Wednesday	3727.65
15-Feb	Thursday	3707.29
16-Feb	Friday	3703.28
17-Feb	Saturday	3713.25
20-Feb	Tuesday	3719.47
21-Feb	Wednesday	3727.33
22-Feb	Thursday	3730.24
23-Feb	Friday	3719.91
24-Feb	Saturday	3710.97
27-Feb	Tuesday	3704.02
28-Feb	Wednesday	3704.02
1-Mar	Thursday	3750.75
2-Mar	Friday	3774.04
3-Mar	Saturday	3755.95
6-Mar	Tuesday	3726.74
7-Mar	Wednesday	3735.95
8-Mar	Thursday	3740.97
Handshake event		
10-Mar	Saturday	3720.21
13-Mar	Tuesday	3725.44
14-Mar	Wednesday	3745.16
15-Mar	Thursday	3760.87
16-Mar	Friday	3767.23
17-Mar	Saturday	3801.79
20-Mar	Tuesday	3840.08
21-Mar	Wednesday	3850.56
22-Mar	Thursday	3862.27
23-Mar	Friday	3851.37
24-Mar	Saturday	3847.18
27-Mar	Tuesday	3831.16
28-Mar	Wednesday	3822.12
29-Mar	Thursday	3816.56
30-Mar	Friday	3845.34
31-Mar	Saturday	3845.3
3-Apr	Wednesday	3832.12
4-Apr	Thursday	3832.12
5-Apr	Friday	3820.84
6-Apr	Saturday	3836.49
10-Apr	Tuesday	3809.86

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