

## POLITICAL AFFILIATION AND ABNORMAL STOCK RETURNS AROUND ELECTIONS: AN EVENT STUDY FROM BANGLADESH

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### ABSTRACT

**Purpose** - This study examines whether political affiliation influences stock market reactions to national elections in an emerging economy like Bangladesh. It investigates how firms affiliated with the Bangladesh Nationalist Party (BNP), the victorious party, respond to the most recent national election. Given the close ties between business and politics in Bangladesh, the election provides a natural setting to assess how political information is incorporated into stock prices.

**Methodology** - Using an event study methodology, the study analyzes daily stock returns of 21 BNP-affiliated firms and a matched sample of 21 non-affiliated firms listed on the Dhaka Stock Exchange. Non-affiliated firms are matched by industry and firm size to isolate the effect of political affiliation. Abnormal returns are estimated using the market model, and cumulative abnormal returns are calculated over short event windows around the election. To examine whether stock price reactions reflect changes in firm fundamentals, the study also analyzes quarterly EPS and NAV for BNP-affiliated firms in the two quarters preceding the election.

**Findings** - The findings show that BNP-affiliated firms experience positive and statistically significant abnormal returns on the first trading day following the election and earn significantly higher cumulative abnormal returns than non-affiliated firms over short post-election windows. In contrast, non-affiliated firms exhibit no significant market reaction. Importantly, no significant changes are observed in EPS or NAV prior to the election, suggesting that the stock price reaction is not driven by contemporaneous improvements in firm performance.

**Conclusion** - The results indicate that investors capitalize expected political benefits into stock prices following a decisive election outcome. The study contributes to the literature on political connections by providing firm-level evidence from Bangladesh and highlighting the role of political affiliation in shaping investor expectations in emerging capital markets.

**Keywords:** Political connections, stock market reaction, election, event study, Bangladesh

**JEL Codes:** D72, G14, G18

### 1. INTRODUCTION

Political events play a critical role in shaping economic expectations, particularly in emerging markets where governments exert substantial influence over business activity. Among such events, national elections are especially important because they signal potential changes in policy direction, regulatory enforcement, and access to state-controlled resources. Financial markets, which are inherently forward-looking, often respond rapidly to election outcomes as investors reassess firms' future prospects under a new political regime (MacKinlay, 1997; Malkiel & Fama, 1970). As a result, elections provide a natural setting for examining how political information is incorporated into stock prices.

A growing body of literature investigates stock market reactions to elections and political transitions, documenting that political outcomes can have meaningful valuation effects. However, the empirical evidence remains mixed, particularly at the aggregate market level. Some studies find positive abnormal returns following elections, consistent with reduced political uncertainty or favorable policy expectations (Changwachai & Dheera-aumpon, 2023; Chavali et al., 2020; Jaya & Kurniasari, 2026), while others report weak or insignificant reactions when election outcomes are largely anticipated or do not entail substantial policy change (Diwakar & Vaswani, 2026; Firdous & Ray, 2025; Kirana & Sembel, 2019; Repousis, 2016). One explanation for these mixed findings is that political events do not affect all firms uniformly. Instead, their economic consequences are likely to be concentrated among firms with political affiliations, whose expected benefits or risks change disproportionately following shifts in political power (Faccio, 2006; Goldman et al., 2009; Wielechowski et al., 2026).

This study examines how political affiliation shapes stock market reactions to elections by focusing on firms affiliated with the Bangladesh Nationalist Party (BNP) around the most recent national election in Bangladesh. The election resulted in a decisive victory for the BNP, significantly altering the political landscape and reducing uncertainty regarding the future direction of government policy. Trading on the Dhaka Stock Exchange (DSE) was suspended around the election period, and market activity resumed shortly after the election results were announced. This institutional feature allows for a clean identification of the immediate post-election market response, making the election a natural experiment for studying the valuation effects of political connections.

Bangladesh provides a particularly suitable context for this analysis. The country's economy is characterized by close ties between political actors and business elites, and government involvement in economic activity remains substantial through regulation, taxation, licensing, and public procurement (Sobhan et al., 2025). Prior research suggests that in such environments, political connections can materially affect firm value by shaping access to state resources and regulatory outcomes (Faccio, 2006; Fisman, 2001). Despite this institutional reality, relatively little is known about how political affiliation influences stock market behavior in Bangladesh. Existing studies on the country primarily focus on corporate governance, ownership structure, or financial reporting issues, with limited attention to the capital market implications of political connections (Ahmed et al., 2022; Sobhan, 2022; Uddin et al., 2023). This gap is notable given the prominence of politically connected firms in the Bangladeshi economy.

This study is further motivated by the need to distinguish between expectation-driven valuation effects and realized changes in firm performance. While stock prices reflect investors' expectations about future cash flows, accounting measures such as earnings per share and net asset value capture realized performance and typically adjust more slowly. Several studies show that stock price reactions to political events are often not accompanied by immediate changes in accounting fundamentals, suggesting that markets capitalize anticipated political benefits before they materialize in firm performance (Ashraf et al., 2020; Repousis, 2016). Examining both market-based and accounting-based outcomes is therefore critical for understanding the mechanisms through which political affiliation affects firm value.

Against this backdrop, the study addresses three interrelated research questions. First, do firms affiliated with the winning political party experience abnormal stock returns around the national election? Second, do politically affiliated firms outperform non-affiliated firms operating in similar industries and of comparable size? Third, are observed stock price reactions accompanied by short-term changes in firm fundamentals? To answer these questions, the study employs an event study methodology using a matched sample of 21 BNP-affiliated firms and 21 non-affiliated firms listed on the Dhaka Stock Exchange, with non-affiliated firms selected from the same industries and of similar size to their affiliated counterparts. This matched-sample design follows prior research emphasizing the importance of cross-sectional comparisons for isolating political effects from broader market movements (Ashraf et al., 2020; Oehler et al., 2013).

This study makes several important contributions. First, it contributes to the literature on political connections by providing firm-level evidence from Bangladesh, an emerging market that remains underrepresented in international capital market research. Second, the matched-sample design strengthens causal inference by reducing concerns that observed differences in stock performance are driven by industry- or size-related factors rather than political affiliation. Third, by jointly examining stock market reactions and accounting fundamentals, the study sheds light on whether election-related valuation effects are driven by changes in expectations or realized firm performance. Finally, the findings have practical relevance for investors, regulators, and policymakers by highlighting the economic importance of political affiliation in capital markets and raising broader questions about market efficiency, transparency, and corporate governance in emerging economies.

The remainder of the paper is organized as follows. The next section develops the theoretical framework and hypotheses. The subsequent section describes the sample, data, and research methodology. The empirical findings and discussion are then presented, followed by a concluding section that outlines policy implications, limitations, and directions for future research.

## **2. LITERATURE REVIEW**

### **2.1. Political Events, Market Efficiency, and Stock Price Reactions**

According to the semi-strong form of the Efficient Market Hypothesis (EMH), stock prices adjust rapidly to publicly available information (Malkiel & Fama, 1970). Political events, particularly national elections, constitute major information shocks because they signal potential changes in economic policy, regulatory enforcement, fiscal priorities, and the allocation of state resources. Event study methodology has therefore been widely used to examine how stock markets respond to election outcomes in both developed and emerging economies. Empirical evidence on election-related market reactions, however, is mixed. Some studies document significantly positive abnormal returns following elections, consistent with markets responding to reduced uncertainty or favorable policy expectations (Changwathai & Dheera-aumpon, 2023; Chavali et al., 2020; Jaya & Kurniasari, 2026). Other studies find weak or insignificant market reactions, particularly when election outcomes are anticipated in advance or when political change does not materially alter policy direction (Diwakar & Vaswani, 2026);

Kirana & Sembel, 2019; Repousis, 2016; Wielechowski et al., 2026). These mixed findings suggest that aggregate market reactions alone may mask important cross-sectional differences across firms, particularly differences arising from political connections (Akcigit et al., 2023).

## **2.2. Corporate Political Connections and Firm Value**

Corporate political connections refer to ties between firms and political actors, such as ownership links, board memberships, or executive affiliations with political parties or politicians (Faccio, 2006). A large multidisciplinary literature shows that political connections can materially affect firm value through access to state-controlled resources, preferential regulation, government contracts, tax advantages, and protection from adverse enforcement actions (Wei et al., 2023). From a resource dependence perspective, political connections strengthen firms' external linkages and reduce exposure to political uncertainty, thereby enhancing expected future cash flows (Pfeffer & Salancik, 1978). Empirical studies across emerging markets document that politically connected firms often enjoy valuation premiums and superior stock market performance, particularly around politically salient events such as elections (Changwatchai & Dheera-aumpon, 2023; Fisman, 2001; Goldman et al., 2009).

At the same time, political connections may also impose costs, including rent extraction, agency problems, and political obligations that can erode firm performance in the long run (Islam et al., 2023; Shleifer & Vishny, 1989). This dual nature of political connections explains why long-horizon accounting performance results are often mixed across studies, while short-horizon stock market reactions tend to be more consistently positive around political events (Islam et al., 2023).

## **2.3. Elections as Information Events for Politically Connected Firms**

National elections are particularly informative events for politically connected firms because they directly affect the probability that such connections will translate into economic benefits. When a political party achieves a decisive electoral victory, uncertainty regarding policy direction and political access is substantially reduced. Investors may therefore revise upward their expectations regarding the future profitability of firms affiliated with the winning party (Maaloul et al., 2018).

Event studies from Pakistan, Thailand, and other emerging markets show that politically connected firms experience stronger abnormal returns around elections than non-connected firms, indicating that investors price expected political advantages immediately following election outcomes (Ashraf et al., 2020; Changwatchai & Dheera-aumpon, 2023; Jaya & Kurniasari, 2026). In contrast, firms without political connections are less likely to benefit from the new political environment and therefore exhibit weaker or insignificant market reactions.

In the context of Bangladesh, where political-business linkages are pervasive and government influence over economic activity is substantial, the informational content of election outcomes is likely to be particularly strong. A landslide electoral victory further amplifies this effect by signaling political stability and continuity of power. Based on this reasoning, the first hypothesis is formulated as follows:

H1: Firms affiliated with the winning political party experience positive abnormal stock returns around the national election.

## **2.4. Cross-Sectional Differences Between Affiliated and Non-Affiliated Firms**

While elections may affect overall market sentiment, a stronger reaction among politically affiliated firms relative to non-affiliated firms would indicate that political connections drive the observed market response. Prior research emphasizes that such cross-sectional comparisons are essential for isolating political effects from broader market movements (Ashraf et al., 2020; Li & Born, 2006; Oehler et al., 2013). Studies using matched samples or industry-based comparisons consistently show that politically connected firms outperform non-connected firms around elections, particularly when political power shifts decisively or when political uncertainty is resolved (Aldhamari et al., 2020; Ashraf et al., 2020; Changwatchai & Dheera-aumpon, 2023). Accordingly, the second hypothesis is stated as:

H2: Firms affiliated with the winning political party earn higher abnormal stock returns than non-affiliated firms around the national election.

## **2.5. Stock Price Reactions and Firm Fundamentals**

An important distinction in the political connections' literature is between market expectations and realized firm performance. While stock prices reflect forward-looking expectations, accounting measures such as earnings per share (EPS) and net asset value (NAV) capture realized performance and adjust more slowly over time. Several studies find that stock price reactions to political events are not immediately accompanied by changes in accounting performance, suggesting that markets capitalize expected political benefits before they materialize in firm fundamentals (Ashraf et al., 2020; Repousis, 2016). This divergence is particularly pronounced in short event windows surrounding elections. In line with this reasoning, the final hypothesis is proposed:

H3: The positive stock price reaction of politically affiliated firms around the national election is not accompanied by significant short-term changes in firm fundamentals.

### 3. DATA AND METHODOLOGY

#### 3.1. Sample and Data

In this study, all sample firms are listed on the Dhaka Stock Exchange (DSE). The treatment group consists of 21 BNP-affiliated firms, identified based on political connections through ownership or board membership, where at least one director, major shareholder, or senior executive is publicly associated with the BNP. Political affiliation data are hand-collected from company disclosures, public records, and media sources. To construct an appropriate control group, the study selects 21 non-affiliated firms with no identifiable political connections. Each non-affiliated firm is matched with a BNP-affiliated firm based on industry classification and firm size, ensuring comparability in economic characteristics and risk exposure. This matched-pair design mitigates concerns that observed differences in stock performance are driven by industry-specific or size-related factors rather than political affiliation.

Daily stock price data and market index data (DSEX) are obtained from the DSE for the period 1 November 2025 to 17 February 2026. This window provides sufficient pre-election observations to estimate normal return behavior and captures the immediate post-election market response. Daily stock returns are computed using closing prices. To assess whether the market reaction reflects changes in firm fundamentals, the study also collects quarterly earnings per share (EPS) and net asset value (NAV) for BNP-affiliated firms for Q2 and Q3 of 2025, the two quarters preceding the election. These accounting data are extracted from quarterly financial statements and DSE disclosures.

#### 3.2. Research Method

##### 3.2.1. Event Study Framework

This study adopts a standard event study methodology to examine stock market reactions to the national election in Bangladesh. Event studies are widely used to assess how quickly and accurately capital markets incorporate new information into stock prices (Brown & Warner, 1985; MacKinlay, 1997). Political elections represent salient information events that can alter investors' expectations regarding firms' future cash flows, particularly for firms with political affiliations.

Due to the suspension of trading on the DSE around the election, event time is defined in trading days rather than calendar days. The first trading day following the election (15 February 2026) is designated as event day 0. The last trading day prior to the election (10 February 2026) is treated as event day -1, and the subsequent trading day (16 February 2026) as event day +1. This approach is consistent with prior event-study research in markets where trading interruptions occur around major events.

##### 3.2.2. Market Model for Expected Returns

Expected (normal) stock returns are estimated using the market model, which relates a firm's return to the contemporaneous market return. For firm  $i$  on day  $t$ , the market model is specified as:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \epsilon_{i,t} \quad (1)$$

Where,  $R_{i,t}$  is the daily return of firm  $i$  on day  $t$ ,  $R_{m,t}$  is the daily market return measured by the DSEX index,  $\alpha_i$  and  $\beta_i$  are firm-specific parameters, and  $\epsilon_{i,t}$  is the error term. The parameters  $\alpha_i$  and  $\beta_i$  are estimated over a pre-election estimation window ending before the market closure, ensuring that expected returns are not influenced by the election outcome. The market model is commonly used in event studies due to its parsimony and strong empirical performance in short-horizon analyses (Brown & Warner, 1985).

##### 3.2.3. Abnormal Returns

Abnormal returns (ARs) are computed as the difference between actual returns and expected returns derived from the market model:

$$AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}) \quad (2)$$

Abnormal returns capture the portion of stock price movements that cannot be explained by general market movements and are therefore attributed to firm-specific information related to the election outcome.

##### 3.2.4. Cumulative Abnormal Returns

To assess the total market reaction over short periods surrounding the election, cumulative abnormal returns (CARs) are calculated by aggregating abnormal returns over alternative event windows:

$$CAR_i(\tau_1, \tau_2) = \sum_{t=\tau_1}^{\tau_2} AR_{i,t} \quad (3)$$

where  $\tau_1$  and  $\tau_2$  denote the beginning and end of the event window, respectively.

Consistent with prior event-study literature and the sharp nature of political information arrival (MacKinlay, 1997), the analysis focuses on short event windows, including event day (0), (-1, +1), and (0, +1).

### 3.2.5. Statistical Inference

Statistical significance is evaluated using t-tests. One-sample t-tests examine whether abnormal returns and cumulative abnormal returns are significantly different from zero for BNP-affiliated and non-affiliated firms separately. Two-sample t-tests are used to compare CARs between BNP-affiliated and non-affiliated firms, allowing for a direct assessment of whether political affiliation explains cross-sectional differences in stock market reactions.

### 3.2.6. Fundamentals Analysis

To examine whether the observed stock price reaction reflects changes in firm performance, the study conducts paired t-tests comparing quarterly earnings per share (EPS) and net asset value (NAV) of BNP-affiliated firms across the two quarters preceding the election (Q2 and Q3 of 2025). The absence of significant changes in these accounting measures would suggest that the stock market reaction is driven by changes in expectations rather than realized improvements in firm fundamentals.

## 4. FINDINGS AND DISCUSSIONS

### 4.1. Descriptive Statistics

Table 1 reports descriptive statistics for the sample firms. The final sample consists of 42 firms, evenly divided between 21 BNP-affiliated firms and 21 non-affiliated firms, drawn exclusively from the DSE. Non-affiliated firms are matched to affiliated firms based on industry and firm size, ensuring comparability across key economic characteristics. The mean daily return of BNP-affiliated firms is higher than that of non-affiliated firms, while return volatility is broadly similar across the two groups. These statistics suggest that the two samples are comparable in terms of risk characteristics prior to the election, supporting the validity of the matched-sample design. Overall, the descriptive evidence indicates that any post-election divergence in stock performance is unlikely to be driven by systematic differences in firm size or industry composition.

**Table 1: Summary Statistics**

Variable	BNP-connected	Not-connected
Number of firms	21	21
Number of firm-days	1113	1113
Mean daily return (%)	0.2055	0.0339
Return volatility	0.0274	0.0255

### 4.2. Market Reaction to the Election: Daily Abnormal Returns

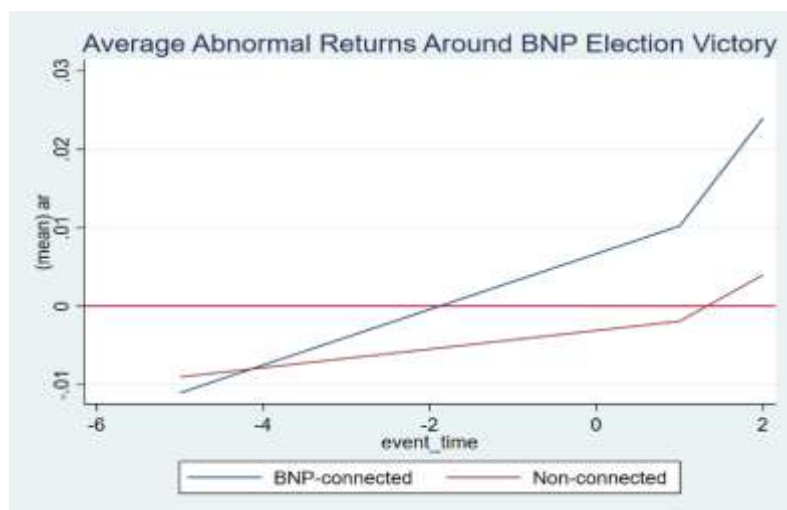
Table 2 presents average abnormal returns (AARs) around the election, while Figure 1 plots the time-series pattern of abnormal returns for BNP-affiliated and non-affiliated firms. Consistent with H1, BNP-affiliated firms experience a large and statistically significant positive abnormal return on event day 0, corresponding to the first trading day following the election. A smaller but still positive abnormal return is observed on the subsequent trading day.

**Table 2: Daily Abnormal Returns Around The Event**

Event Day	BNP AAR (%)	t-stat	Non-BNP AAR (%)	t-stat
-1	0.52	0.88	-0.43	0.41
0	0.86***	3.12	-0.35	0.62
+1	1.01**	2.01	0.21	0.33

\*p < 0.10; \*\*p < 0.05; \*\*\*p < 0.01

In contrast, non-affiliated firms do not exhibit statistically significant abnormal returns on any of the event days. Figure 1 reinforces this finding by showing a sharp spike in abnormal returns for BNP-affiliated firms immediately following the election, while the return series for non-affiliated firms remains relatively flat.

**Figure 1: Abnormal Returns Around the Event**

These findings are consistent with prior studies documenting that elections function as information events, particularly for politically connected firms (Ashraf et al., 2020; Changwatchai & Dheera-aumpon, 2023). The results suggest that investors rapidly incorporated the election outcome into stock prices, selectively revising expectations for firms affiliated with the winning political party. The absence of a comparable reaction among non-affiliated firms indicates that the market response is not driven by general election-related optimism, but rather by firm-specific political considerations.

#### 4.3. Cumulative Abnormal Returns and Cross-Sectional Differences

Table 3 reports cumulative abnormal returns (CARs) over alternative short event windows. BNP-affiliated firms earn positive and statistically significant CARs on event day 0 and over the (0,+1) window. In contrast, CARs for non-affiliated firms are negative or statistically insignificant across all event windows. While CARs over the (-1,+1) window are positive but statistically insignificant, the results consistently show strong and significant abnormal performance on event day 0 and over the (0,+1) window, where market reaction is most concentrated.

**Table 3: Cumulative Abnormal Returns (CARs) Around the Election**

Event window	BNP-affiliated firms CAR (%)	t-stat	Non-affiliated firms CAR (%)	t-stat
(0)	0.86***	2.83	-0.35	(-1.11)
(-1, +1)	2.39	1.42	-0.57	(-1.47)
(0, +1)	1.87***	3.01	-9.14	(-1.21)

\*p < 0.10; \*\*p < 0.05; \*\*\*p < 0.01

Table 4 directly compares CARs between BNP-affiliated and non-affiliated firms. The differences in CARs are positive across all event windows and statistically significant for event day 0 and the (0,+1) window, indicating that BNP-affiliated firms outperform non-affiliated firms by a substantial margin in the immediate post-election period.

**Table 4: Cross-Sectional Differences in CARs Between BNP-Affiliated and Non-Affiliated Firms**

Event window	CAR difference (BNP – Non-BNP) (%)	t-stat
(0)	1.21***	(2.68)
(-1,+1)	2.96	(1.34)
(0,+1)	2.01***	(3.16)

\*p < 0.10; \*\*p < 0.05; \*\*\*p < 0.01

This cross-sectional evidence provides strong support for H2 and aligns closely with the political connections literature. Prior studies emphasize that political affiliation enhances firm value primarily when political power shifts decisively or uncertainty is resolved (Changwatchai & Dheera-aumpon, 2023; Faccio, 2006; Firdous & Ray, 2025; Goldman et al., 2009; Maaloul et al., 2018). The landslide electoral victory in Bangladesh appears to have served precisely this role, reducing uncertainty regarding future political access and policy direction. Moreover, the matched-pair design strengthens the interpretation that these differences are attributable to political affiliation rather than industry-specific shocks or size effects. Similar cross-sectional patterns are documented in emerging markets where business–politics linkages are pervasive (Ashraf et al., 2020; Oehler et al., 2013).

#### 4.4. Stock Price Reaction versus Firm Fundamentals

Table 5 examines whether the observed stock price reaction is accompanied by changes in firm fundamentals. The results show that neither earnings per share (EPS) nor net asset value (NAV) of BNP-affiliated firms change significantly between the two quarters preceding the election.

**Table 5: Quarterly Fundamentals of BNP-Affiliated Firms**

Variable	Q2 2025 Mean	Q3 2025 Mean	Mean Difference	t-stat
EPS	-3.10	-2.87	+0.24	(1.50)
NAV	37.91	34.15	-3.76	(-1.45)

This finding supports H3 and suggests that the positive abnormal returns documented in Tables 2–4 are not driven by contemporaneous improvements in accounting performance. Instead, the stock price reaction appears to reflect investors' expectations regarding future political benefits rather than realized changes in firm profitability or asset values. This divergence between market-based and accounting-based measures is consistent with prior research showing that stock prices capitalize expected political advantages well before such benefits materialize in financial statements (Ashraf et al., 2020; Jaya & Kurniasari, 2026; Repousis, 2016). In politically connected settings, investors may anticipate preferential access to government contracts, regulatory forbearance, or policy support, even though these advantages may only be reflected in accounting numbers over a longer horizon.

#### 4.5. Discussion and Implications

The findings provide consistent evidence that political affiliation shapes investor behavior in Bangladesh's capital market. The market reacts swiftly and selectively to political change, rewarding firms connected to the winning party while leaving non-affiliated firms largely unaffected. The absence of short-term changes in firm fundamentals reinforces the interpretation that the market reaction is driven by changes in expectations, rather than by improvements in operational performance. This pattern highlights the forward-looking nature of stock prices and underscores the economic importance of political connections in emerging markets. More broadly, the results contribute to the literature on political connections by showing that the valuation effects of political affiliation are particularly pronounced following decisive electoral outcomes. In settings characterized by close ties between business and politics, elections serve not merely as political events, but as economically meaningful signals that are rapidly incorporated into firm valuations.

### 5. CONCLUSION

This study examines how political affiliation influences stock market reactions in Bangladesh by analyzing the performance of firms affiliated with the BNP around the most recent national election. Using a matched-sample event study design and data from the DSE, the study provides clear evidence that political connections play a meaningful role in shaping investor expectations.

The findings show that BNP-affiliated firms experience positive and statistically significant abnormal returns immediately following the election, while non-affiliated firms exhibit no comparable reaction. Cumulative abnormal return analysis further demonstrates that BNP-affiliated firms significantly outperform non-affiliated firms over short post-election windows. Importantly, these stock price reactions are not accompanied by significant changes in firm fundamentals, as measured by earnings per share and net asset value in the pre-election quarters.

The results suggest that investors capitalize expected future political benefits into stock prices following a decisive electoral outcome, rather than responding to contemporaneous improvements in firm performance. The evidence highlights the forward-looking nature of stock prices and underscores the economic value investors attach to political affiliation in emerging markets where business–politics linkages are pervasive.

By focusing on Bangladesh, this study contributes to the growing literature on political connections by providing evidence from a context that remains underexplored in international research. The findings reinforce the view that political events can have differential valuation effects across firms depending on their political ties.

The findings of this study carry several important policy implications. First, the results raise concerns about market fairness and resource allocation. When stock prices respond strongly to political affiliation rather than firm fundamentals, capital allocation may become distorted, favoring politically connected firms over potentially more efficient but politically neutral competitors. This has implications for long-term economic efficiency and market development in Bangladesh. Second, the evidence underscores the importance of corporate governance and transparency. Regulators and policymakers should consider strengthening disclosure requirements related to political connections, including ownership links and board-level political affiliations. Enhanced transparency would allow investors to better assess political risks and reduce information asymmetry in the capital market. Third, the findings highlight the need for institutional safeguards that limit the scope for preferential treatment of politically connected firms. Strengthening regulatory independence, improving enforcement

consistency, and reducing discretionary decision-making in areas such as licensing, taxation, and public procurement could help mitigate the economic advantages associated with political connections. Finally, from an investor-protection perspective, the results suggest that market participants are highly sensitive to political developments. Regulators and exchanges may therefore benefit from improving market communication and stability mechanisms around major political events to ensure orderly trading and reduce excessive speculation driven by political expectations.

This study is subject to certain limitations that also provide avenues for future research. First, the analysis focuses on short-term stock market reactions and does not examine the long-term performance implications of political affiliation. Future studies could investigate whether the short-term valuation gains of politically affiliated firms persist over longer horizons or reverse as political expectations are realized. Second, political affiliation is identified based on observable ownership and board-level connections. Future research could explore alternative dimensions of political ties, such as informal networks or lobbying activities, which are more difficult to observe but may also influence firm value. Third, while this study focuses on Bangladesh, extending the analysis to other emerging markets would allow for cross-country comparisons and a deeper understanding of how institutional environments shape the economic consequences of political connections.

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