European Elections
and Their Effects on Local Equity Markets

Giuseppe Ricotta, CFA, Senior Vice President, Portfolio Analyst

Elections are often perceived to influence the performance of capital markets across the globe. In 2015, political risk came back to prominence in the euro zone, after early elections in Greece prompted a change in government which, according to some, derailed the economic recovery in the country. While views on political risk may differ on a case-by-case basis, the objective of this paper is to provide a data-driven historical analysis on the topic for a more objective assessment. More specifically, we address the following question: on which factors should investors focus during electoral cycles in Europe?

Although the political uncertainty that may characterize electoral periods could impact the performance of several asset classes, we focused on the equity markets of a set of European countries, which we broadly categorized as Core (Germany, France, and the United Kingdom) and Periphery (Italy, Spain, Portugal, and Greece).

Should investors—whether stock-pickers or asset allocators—spend a significant amount of time focusing on electoral cycles in Europe? Based on our analysis it would appear that the answer is no, as we found that elections have some effect on markets, but this effect is usually overwhelmed by other factors. In practice, because of the agitation often created by media headlines or market commentators, it seems that European elections are generally given greater weight for decisions than warranted by our objective analysis.

Introduction

When making investment decisions, it is important to assess political risk, both on the downside and on the upside. Political cycles have been widely studied by political economists. Alesina and Roubini (1997) found "a complex pattern of relationships between macroeconomic policies, timing of elections, ideological orientations of different governments, party structure, electoral laws, and the degrees of central banks' political independence." As per Santa-Clara and Valkanov (2000), we can expect legislative decisions—such as changes in taxes on capital gains, health insurance coverage, environmental laws, and welfare benefits, among others—to be correlated to stock returns. Then the analysis can be focused on identifying the political variables that are able to capture those changes. The variable we focus on in this paper is general elections. Keep in mind that there are several forces at work for enacting meaningful policy changes in practice—elections are just one of these.

In line with popular notion, our baseline hypothesis is that elections have an impact on equity market returns and that this impact may be bigger for politically-less-stable peripheral countries in Europe. Before elections, it is common to see market participants and commentators focusing on polls and political analysis, in an attempt to assess how the election outcome may impact markets. This task is complicated by the fact that in several European countries forecasting election outcomes may be very difficult, as electoral systems can be complex and polls are often unreliable. For example, at the regional elections in Spain and France in March 2015, radical parties both on the left and on the right performed much worse than the most recent polls had suggested.[1] Similarly, at the 2013 general elections in Italy, most polls had indicated the center-left as a clear winner. In fact, the center-left did not receive enough votes to have a majority in the Senate, and a grand coalition government was formed after several weeks of negotiations. In addition to this, media headlines may create market noise around electoral periods. Because of these challenges, we decided to perform a pure data-driven analysis to help answer this question: on which factors should investors focus during electoral cycles in Europe?

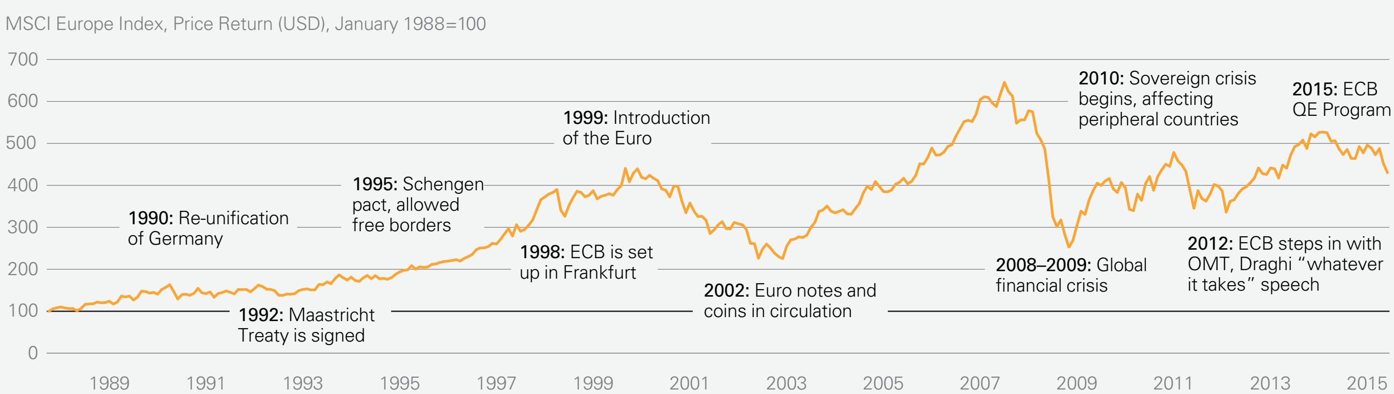
We focused on the equity markets of a set of European countries, which we broadly categorized as Core (Germany, France, and the United Kingdom) and Periphery (Italy, Spain, Portugal, and Greece). For each country, the market variable we analyzed is the relative price return of the respective MSCI Index versus the MSCI Europe Index from 1 January 1988 to 30 September 2015,[2] measured on a daily basis (throughout the paper, we will use the term "return" to refer to each country's relative return data series). Using relative returns normalizes for the systematic effect from the broader European equity market—including the broader regional economic cycle, monetary policy choices since 1999 by the European Central Bank (ECB), global and regional financial crises, etc.—thus helping isolate country-specific, idiosyncratic factors.

Next, we evaluated these relative returns over 260 trading-day periods (equivalent to approximately 12 months) centered on each country's general (presidential, parliamentary, or legislative) election date, from 130 days before to 130 days after. We decided to use these 12-month time periods in order to assess the impact of elections on the overall trend of each market's relative performance, as we seek to identify the conditions under which the trend may have been changed by the elections. Returns over shorter time periods are more likely to be exposed to pre- and post-election noise created by media headlines, excessive emphasis from market commentators, and other short-term factors. We recognize there is a lag between the election date and the actual start of the new (or incumbent) government term, and the actual implementation of policies is a multi-year cycle. However, the election date stands as the meaningful time for market action.

Given the differences in political systems, the sample size of the number of general elections from 1988 to 2015 varies from country to country, from a minimum of five in France to a maximum of 13 in Greece. We looked at a total of 48 elections in our analysis (details can be found in the call-out box titled "Political Background and Election Results by Country").

Elections may coincide with periods of relevant market action driven by other factors. In many cases, systematic events may overwhelm the effect from the electoral cycle. To put elections in context, in Exhibit 1,

Exhibit 1
More than a Quarter Century of Meaningful Events in Europe's Markets



As of 30 September 2015

All data in USD and based on price returns of MSCI indices. The performance quoted represents past performance. Past performance does not guarantee future results. This is not intended to represent any product or strategy managed by Lazard. One cannot invest directly in an index.

Source: Berenberg, Haver Analytics, HSBC, MSCI we show the historical trajectory of European equities for the period under review and we note some major political and economic events. We believe this will help frame some of the discussions in the section that follows. As mentioned earlier, using relative returns in our analysis normalizes for most of these systematic factors, thus allowing us to focus on country-specific events.

Methodology and Results

Using a methodology similar to Santa-Clara and Valkanov (2000) and to Mier (2011), a Lazard Asset Management employee, we defined a set of dummy variables, for use in regressions, to identify the conditions under which the market trend may have been changed by elections.

Dummy Variables D1 to D5:

- D1=1 in the month before an election, 0 in all other periods.
- D2=1 in the month after an election, 0 in all other periods.
- D3=1 in the month before and after an election, 0 in all other periods.
- D4=1 in the month after an election only when the incumbent party or coalition lost, 0 in all other periods.
- D5=1 during recessions (using the European definition of two quarters of negative year-on-year GDP progression), 0 otherwise.

We ran a total of 40 regressions of individual country relative return data versus the five dummy variables described above, focusing exclusively on the one-year periods centered on election dates. We found the results to be statistically and economically significant in three instances, as reported in Exhibit 2.

The first general consideration we can make based on the results is that the factors or conditions to focus on during electoral periods vary from country to country, as we did not find any variable that produced consistent outcomes across countries.

Second, we found a positive impact on the Italian equity market relative performance when the incumbent party or coalition lost the elections (i.e., when there was a change in government), which is statistically significant at the 10% level. This condition was met in 1994, 2001, 2006, and 2008 (we excluded those instances when a technocratic government was in place before the elections, i.e., in 1996 and 2013. Even including those, the statistical significance of the test persists). The monthly coefficient is pretty high at +4.47%, indicating that the impact is also economically significant.

Further investigating those four elections, Exhibit 3 reveals that a positive—and very significantly so—change in the trend of the equity market relative performance occurred only in 1994. The 1994 general elections were somewhat unique because they were the first ones in the so-called "Second Republic" period in Italy (more details in the callout box titled "Political Background and Election Results by Country" on the country's political systems). We could speculate that in 1994 the hope of a new, simplified, and more effective political system with only two main players (a center-right coalition and a center-left coalition) drove the outperformance of the Italian market.[3] Because of the overwhelming effect that the 1994 elections appear to have had on the results, we would discard the hypothesis that a loss by the incumbent party or coalition—and the subsequent change in government—is a factor relevant to the relative performance of the Italian equity market around elections. This is further confirmed by the fact that, after removing 1994 from the sample and repeating the test, the result is no longer statistically significant.

Next, we found two statistically significant results for the United Kingdom. These indicate that periods around elections coincided with positive relative performance of the United Kingdom's equity market, with economically significant monthly coefficients of +2.01% for

Regressions with Dummy Variables

In regression analysis, dummy variables are qualitative indicators and are also known as categorical, binary, or qualitative variables. Dummy variables are incorporated in regressions by usually taking the values 0 or 1 to indicate the absence or presence of a categorical factor. This technique is often used for testing the effects of, for example, seasonality in some economic variable; or gender/region for income.

In our case, we use these variables to indicate the occurrence of election-related factors as described by the list of variables D1 to D5. When interpreting dummy variables we are after the value of the regression coefficient (or slope) and its statistical significance. In Exhibit 3 we display an example of where on the timeline dummy would variables be equal to 1 for our analysis.

Exhibit 2
Statistically Significant Results

Country	Condition	Variable	Coefficient (Monthly Return; %)	t-stat	Statistically Significant	Economically Significant
Italy	Incumbent loses election	D4	4.47	1.8311	Yes, at 10% Level	Yes
United Kingdom	Election (after)	D2	2.01	2.1707	Yes, at 5% Level	Yes
	Election (before and after)	D3	1.81	2.6316	Yes, at 1% Level	Yes

For the period January 1988 to September 2015
All data in USD and based on price returns of MSCI indices.
Source: Haver Analytics, Lazard, MSCI

Exhibit 3
Italian Equity Market Relative Performance in the Period around the General Elections in 1994, 2001, 2006, and 2008

Index, Election Date = 100

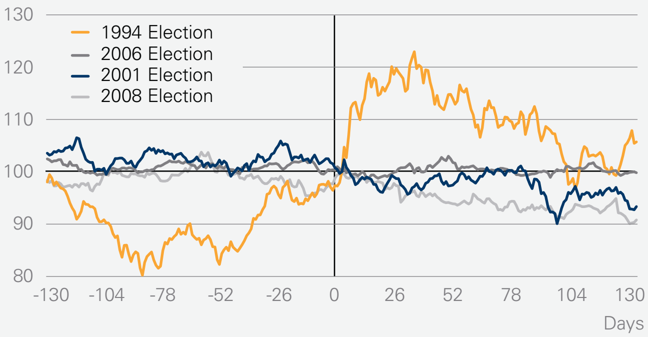
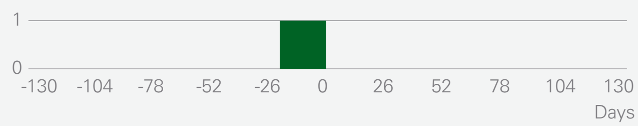
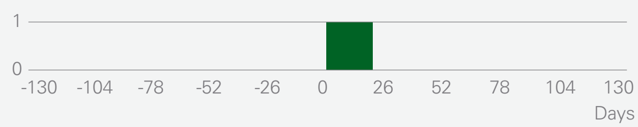


Illustration of Dummy Variables—bars indicate period when variable is equal to 1.

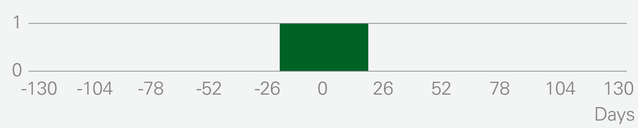
D1



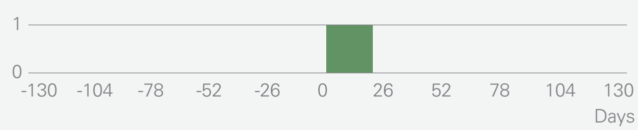
D2



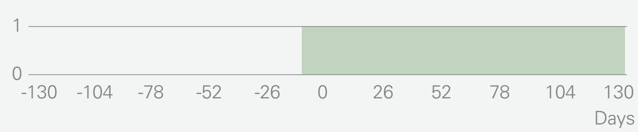
D3



D4 (Italy, Change in Government Only: 1994, 2001, 2006, and 2008)



D5 (Italy, Recession Only: 2008)



The top chart displays the relative returns of the Italian equity market versus the European equity market, represented by the MSCI Italy and the MSCI Europe indices, over the 260 trading-day period centered on the elections dates: 27 March 1994, 13 May 2001, 9 April 2006, and 13 April 2008. Data rebased at 100 on the election date, for comparability. The bottom charts show how the return data were aligned with dummy variables. All data in USD and based on price returns of MSCI indices. The performance quoted represents past performance. Past performance does not guarantee future results. This is not intended to represent any product or strategy managed by Lazard. One cannot invest directly in an index.

Source: Haver Analytics, MSCI

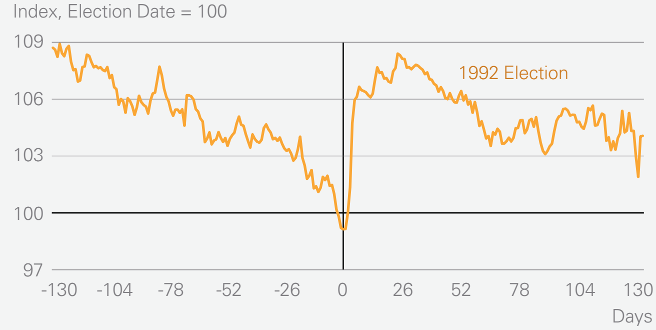
the period post the election (statistically significant at the 5% level) and +1.81% for the period before and after the election (statistically significant at the 1% level). After charting the relative performance of the UK market in all periods around elections, we realize that in 1992 there was an abrupt change in trend after the election day, as shown in Exhibit 4 (the Tories were the incumbent in 1992 and won). Therefore, we suspect that the statistical significance of our results may just be due to this "anomaly." In order to confirm or reject this possibility, we repeated the test versus the same variables (D2 for the post-election period and D3 for the pre- and post-election periods) after removing the 1992 election from our sample. We found that the test with the D2 variable is no longer statistically significant, while the test with the D3 variable is still significant at the 5% level, with a monthly coefficient of +1.49%. Hence, we are comfortable confirming the observation that electoral periods have coincided with positive relative performance of the UK equity market versus the MSCI Europe Index.

Finally, we also found a small statistical signal for Spain—too small to be considered significant—indicating a negative impact on the equity market relative performance when recessions coincided with elections. This happened in 1993 and 2011, and in both cases Spain was in recession for the entire 260 trading-day period centered on the election date. In 1993, the incumbent party was the PSOE and it won the elections; in 2011, the incumbent party was also the PSOE but it lost the elections. As such, a change in government was not a common factor. Exhibit 5 shows a clear change in trend after the election date in both instances; however, in 1993 the underperformance reached a trough on trading-day +46 and then reversed, while in 2011 it continued almost to the end of the +130-day period.

In the fall of 2011, the euro zone sovereign debt crisis was in full mode and the MSCI Europe Index reached a local trough on 24 November, four days after the Spanish election. In addition to Spain, Greece,

Exhibit 4
UK Equity Market Relative Performance in the Period around the General Elections in 1992

Index, Election Date = 100



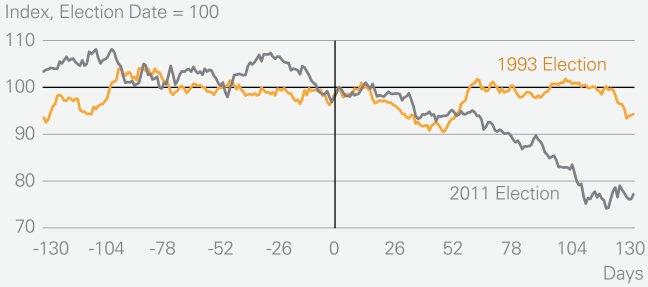
The chart displays the relative returns of the UK equity market versus the European equity market, represented by the MSCI United Kingdom and MSCI Europe indices, over the 260 trading-day period centered on the election date: 9 April 1992. Data rebased at 100 on the election date, for comparability.

All data in USD and based on price returns of MSCI indices. The performance quoted represents past performance. Past performance does not guarantee future results. One cannot invest directly in an index.

Source: Haver Analytics, MSCI

Exhibit 5

Spanish Equity Market Relative Performance in the Period around the General Elections in 1993 and 2011



The chart displays the relative returns of the Spanish equity market versus the European equity market, represented by the MSCI Spain and MSCI Europe indices, over the 260 trading-day period centered on the election dates: 6 June 1993 and 20 November 2011. Data rebased at 100 on the election date, for comparability.

All data in USD and based on price returns of MSCI indices. The performance quoted represents past performance. Past performance does not guarantee future results. One cannot invest directly in an index.

Source: Haver Analytics, MSCI

Exhibit 6

European Equity Market Relative Performance in the 130-Day Period after the Spanish General Elections in 2011

	Relative Return (%)	Relative Annualized Volatility (%)
Germany	3.08	8.13
United Kingdom	2.14	7.22
France	-0.97	8.27
Italy	-14.72	15.58
Portugal	-17.10	15.06
Spain	-22.84	16.47
Greece	-26.33	45.81

The table displays the relative returns of the noted equity market versus the European equity market, represented by the respective MSCI country indices and the MSCI Europe Index, over the 130 trading-day period after the 20 November 2011 Spanish election.

All data in USD and based on price returns of MSCI indices.The performance quoted represents past performance. Past performance does not guarantee future results. One cannot invest directly in an index.

Source: Haver Analytics, MSCI

Italy, and Portugal had recessions in the same period, and Portugal had elections as well (on 5 June 2011). As we can see in Exhibit 6, Spain underperformed all other countries over the 130 days after its election, except for Greece.

Recessions are important macroeconomic events to monitor in all countries; however, we did not find any empirical evidence that, when occurring at the same time of an election, they have been a factor impacting the trend of the relative performance of the European equity markets included in our study. Yet, as shown in the case of Spain in 2011, recessionary periods may be worth a closer examination when they coincide with elections.

Overall, we have only found a few statistically significant relationships between elections and markets. But even if we had found more of them, we have to keep in mind that 1) correlation does not imply causation and 2) it is impossible to disentangle the interaction of the domestic economy in a country from the electoral results and from markets. In fact, there could always be other underlying factors leading to an electoral change that also leads to market movements, for example a loss of confidence due to a terrorist attack or war or an exogenous crisis.

In summary, there are two main results from our analysis:

- We found no single factor that has impacted the relative performance of all the equity markets we studied during electoral periods
- Elections have coincided with positive relative performance of the UK equity market

Conclusion

Based on our analysis, the influence of elections cannot easily be generalized from country to country.

Generally speaking, we believe that investment decisions—whether top-down or bottom-up—ought to take into consideration political risk, and that elections are a key component of political risk assessment. However, our data-driven analysis suggests the influence of the electoral calendar on markets can be noisy, thus not allowing for clear-cut assessments. In other terms, the degree to which elections have a positive or negative impact on equity market returns varies from country to country and over different time periods and in some instances can be explained by other factors. We could then extrapolate that globalized markets cause systematic factors to be widespread and overtake narrower events such as elections. As an example, the sovereign debt crisis had a much larger effect on European markets even as elections were taking place in those years (Greece, for example). We believe our investigation indicates that political risk is best evaluated in a country-specific or even a company/industry-specific context.

Our results seem to be in line with the findings of Santa-Clara and Valkanov (2000), who focus on the United States and find that there is "no significant evidence of abnormal returns before/after Republican or Democratic elections" and that "if there is any evidence of abnormal returns around elections, it is at best limited." The analogous research on emerging markets by Mier (2011) found there was no decisive generalization on the effects of elections on equity returns and foreign exchange (albeit with some significance of electoral periods on volatility).

Our findings appear consistent in this light as well—elections are not as decisive as popularly perceived. In conclusion, we have found that elections are not a definitive negative or positive factor for the equity market returns in European countries, and idiosyncratic factors can play an overwhelming role—with some evidence from Spain. In particular, some of the peripheral nations that are perceived to be politically "less stable", such as Italy and Greece, have not revealed a clear, generalized impact on equity markets relative performance from electoral cycles.

Should investors—whether stock-pickers or asset allocators—spend a significant amount of time focusing on electoral cycles in Europe? Based on our analysis, it appears that the answer is no, as we found that elections have some effect on markets, but this effect is usually overwhelmed by other factors. In practice, because of the agitation often created by media headlines or market commentators, it seems that European elections are generally given greater weight for decisions than warranted by our objective analysis.

Political Background and Election Results by Country

Greece

When democracy was restored in Greece in 1974, the country became a presidential parliamentary republic with a multi-party system. Two main players have dominated the recent political history in the country: the liberal-conservative New Democracy (ND, *"Nea Dimokratia"*) and the social-democratic Panhellenic Socialist Movement (PASOK, *"Panellinio Sosialistiko Kinima"*). However, things changed with the Greek sovereign debt crisis that started developing in late 2009, as the Coalition of the Radical Left (*Syriza*) gained increased consensus, culminating in Syriza's ascendency to power in January of 2015. The Hellenic Parliament has a term of four years. However, because of the technicalities of the political system and the electoral law, there have been 13 different legislative elections in the country over the period of our analysis (more elections than in any other country we studied), sometimes two in the same year.[4]

Election Date	Winner	Incumbent
18 Jun 1989	ND	PASOK
5 Nov 1989	ND	ND
8 Apr 1990	ND	ND
10 Oct 1993	PASOK	ND
22 Sep 1996	PASOK	PASOK
9 Apr 2000	PASOK	PASOK
7 Mar 2004	ND	PASOK
16 Sep 2007	ND	ND
4 Oct 2009	PASOK	ND
6 May 2012*	ND	PASOK
17 Jun 2012	ND	ND
25 Jan 2015	SYRIZA	ND
20 Sep 2015*	SYRIZA	SYRIZA

* Not included in the analysis.

Italy

Since Italy became a parliamentary republic in the aftermath of War World II, its political system has been fragmented and unstable, with multiple parties ranging from the far left to the far right. In the so-called "First Republic" period—from 1948 to 1994—the major players were the centrist Christian Democrats (DC, *"Democrazia Cristiana"*), the center-left Socialist Party (PSI, *"Partito Socialista Italiano"*), and the leftist Communist Party (PCI, *"Partito Comunista Italiano"*). Governing coalitions with smaller parties were the norm (some even including five parties), as well as political crisis and snap elections (there were 50 different governments over a period of 46 years). After the *"Tangentopoli"* (Bribesville) corruption scandals in 1992/1993 decimated the existing mainstream parties—in particular the DC and the PSI—the elections in March 1994 marked the beginning of the so-called "Second Republic" period, which continues to this day. The Second Republic has been characterized by two main coalitions, a center-left and a center-right. The political system has continued to be fragmented, usually with one big party and several smaller ones in each coalition, but is marginally more stable (13 different governments—including the first full five-year term in Italian history—over 21 years).

Election Date	Winner	Incumbent
5 Apr 1992	Christian Democrats	Center-left coalition (Christian Democrats with Social Democrats and Socialists)
27 Mar 1994	Center-right coalition	Center-left coalition (Christian Democrats with Social Democrats and Socialists)
21 Apr 1996	Center-left coalition	Technocratic (since the end of 1994)
13 May 2001	Center-right coalition	Center-left coalition
9 Apr 2006	Center-left coalition	Center-right coalition
13 Apr 2008	Center-right coalition	Center-left coalition
24 Feb 2013	Center-left coalition (but grand coalition government formed with the center right)	Technocratic (since the end of 2011)

Portugal

Portugal became a semi-presidential democratic republic in 1976, following the provisional military government that overthrew the authoritarian regime in 1974. The country has a multi-party political system with two main players: the social-democratic Socialist Party (PS, *"Partido Socialista"*) and the liberal conservative Social Democratic Party (PSD, *"Partido Social Democrata"*). Legislative elections are held every four years. The two main parties have alternated power over the period of our analysis, although the PS governed for two terms each time before the PSD took over. In the most recent elections, held on 4 October 2015[5], a center-right coalition between the PSD and the People's Party (CDS, *"Partido Popular"*) won the most seats but not enough to have a majority in Parliament.

Election Date	Winner	Incumbent
6 Oct 1991	PSD	PSD
1 Oct 1995	PS	PSD
10 Oct 1999	PS	PS
17 Mar 2002	PSD	PS
20 Feb 2005	PS	PSD
27 Sep 2009	PS	PS
5 Jun 2011	PSD	PS

Political Background and Election Results by Country (continued)

Spain

With the Constitution of 1978, a parliamentary monarchy was established in Spain after almost four decades of military dictatorship. Since then, the political system in the country has been a multi-party system. However, over the period of our analysis the political landscape has been dominated by the center-left Spanish Socialist Workers' Party (PSOE, *"Partido Socialista Obrero Español"*) and the center-right People's Party (PP, *"Partido Popular"*). Legislative elections are held every four years. Since the transition to democracy, there have never been coalition governments in Spain (at the time of writing). More recently, two new political parties have gained consensus at the national level: the populist, anti-establishment and anti-euro *Podemos* on the left, and the liberal, pro-EU *Ciudadanos* (C's) more to the center. In practical terms, this may make coalition governments more likely in the future.

Election Date	Winner	Incumbent
29 Oct 1989	PSOE	PSOE
6 Jun 1993	PSOE	PSOE
3 Mar 1996	PP	PSOE
12 Mar 2000	PP	PP
14 Mar 2004	PSOE	PP
9 Mar 2008	PSOE	PSOE
20 Nov 2011	PP	PSOE

France[6]

The political system in France is semi-presidential where the executive—the President of the Republic and the Government (Prime Minister and ministers)—has relatively extensive powers as compared to other western democracies. The president is elected by universal suffrage for a five-year term (prior to 2002, for a seven-year term). A president and a prime minister from different sides of the political spectrum may coexist (*"la cohabitation"*). It is also a multi-party system with two main coalitions, one on the center-right led by The Republicans (LR, *"Les Républicains"*, previously known as the Union for a Popular Movement—*Union pour un mouvement populaire*—or UMP), and one on the center left, led by the Socialist Party (PS, *"Parti socialiste"*).

Election Date	Winner	Incumbent
8 May 1988	PS	PS
7 May 1995	RPR	PS
5 May 2002	RPR	RPR
6 May 2007	UMP	RPR
6 May 2012	PS	UMP

Germany

Germany is a federal parliamentary republic, where the power is divided between the federal and state governments as mandated by the 1949 Constitution—which was marginally amended after the reunification in 1990. The center-left Social Democratic Party (SPD, *"Sozialdemokratische Partei Deutschlands"*) and the center-right CDU/CSU union between the Christian Democratic Union (CDU, *"Christlich Demokratische Union Deutschlands"*) and the Christian Social Union in Bavaria (CSU, *"Christlich-Soziale Union in Bayern"*) are the main players in a multi-party system.

Election Date	Winner	Incumbent
2 Dec 1990	CDU/CSU	CDU/CSU
16 Oct 1994	CDU/CSU	CDU/CSU
27 Sep 1998	SPD	CDU/CSU
22 Sep 2002	SPD	SPD
18 Sep 2005	CDU/CSU	SPD
27 Sep 2009	CDU/CSU	CDU/CSU
22 Sep 2013	CDU/CSU	CDU/CSU

United Kingdom

Although the United Kingdom—a constitutional monarchy—has a multi-party political system, the center-right Conservative Party (also known as the Tories) and the center-left Labour Party have been the main players in the political arena since the 1920s. Occasionally, there have been government coalitions with smaller parties, such as the Liberal Democrat[7]. The Fixed-term Parliaments Act of 2011 mandated general elections to be held every five years starting from 2015. Prior to that, there was no fixed term and elections had to be called within five years of the opening of parliament.

Election Date	Winner	Incumbent
9 Apr 1992	Conservative	Conservative
1 May 1997	Labour	Conservative
7 Jun 2001	Labour	Labour
5 May 2005	Labour	Labour
6 May 2010	Conservative	Labour
7 May 2015	Conservative	Conservative

This content represents the views of the author(s), and its conclusions may vary from those held elsewhere within Lazard Asset Management. Lazard is committed to giving our investment professionals the autonomy to develop their own investment views, which are informed by a robust exchange of ideas throughout the firm.

References

Santa-Clara, Pedro and Rossen I. Valkanov, Political Cycles and the Stock Market (October 2000). Anderson School of Management, UCLA, Working Paper. Available at SSRN: http://ssrn.com/abstract=244728

Mier, Juan, Election Cycles in Emerging Markets: Effects on Equity and Foreign Exchange Markets (May 2011), University of California, San Diego, Rady School of Management. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1948775

Alesina, Alberto and Nouriel Roubini. Political Cycles and the Macroeconomy. Cambridge Massachusetts. The MIT Press. 1997. Print

Notes

1 In Spain, far left party Podemos got approximately 15% of the votes, while it had been polling at around 25%. In France, far right party Front National got 25% of the vote despite polling at 35%. Source: Various polling institutions.

2 Portugal was a member of the MSCI Emerging Markets Index from 1988 to 1996; Greece was in that index from 1988 to 2000, and returned to the index in 2013. We assume that markets and politics in Portugal and Greece are more linked to European countries than they are to emerging markets. This seems reasonable, as over the period of our analysis the correlation of the MSCI Portugal Index with the MSCI Europe Index has been 68%, while its correlation with the MSCI EM Index has been only 46%. On the other hand, the correlation of the MSCI Greece Index with the MSCI Europe Index has been low at 44%, but its correlation with the MSCI EM Index has been even lower (39%).

3 We would note that a similar change in trend also occurred after the 1996 elections, which we have excluded from the D4 variable because a technocratic government was in place prior to the elections.

4 This happened in 1989 and in 2012. The two elections in 1989 were far enough apart from each other to be considered two separate data points in our sample. However the elections in May and June 2012 were too close to each other, so we only included those in June 2012 in our sample. Also, the elections on 20 September 2015 are too close to the time of writing to be included in our analysis. Hence, our sample size for Greece is of 11 elections.

5 These elections are outside our period of analysis and too close to the time of writing to be included.

6 For the elections held on 8 May 1988, the data is available only for 91 trading days prior to the elections.

7 More recently, the Liberal Democrats governed with the Tories from 2010 to 2015.

Important Information

LR25887