The Impact of Political Events Prior to the 15th General Election on Stock Returns in Bursa Malaysia

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ABSTRACT

Political dynamics play a crucial role in shaping a nation's economic policies. Changes in the composition of ruling political parties can lead to shifts in existing economic strategies. The political instability that emerged after Malaysia's 14th General Election represents a unique phenomenon in the national context. This study aims to examine the relationship between political events and stock market returns in Malaysia using the event study methodology. The selected event is the 2021 Emergency Proclamation, which occurred on January 12, 2021. The entire study window spanned around 646 days, covering the pre-event (227 days), event day, and post-event (418 days) periods. This study adopted the market model developed by Fama (1969) to analyse the Average Abnormal Returns (AAR) and Cumulative Average Abnormal Returns (CAAR). The findings revealed that Malaysia's stock market is resilient, with volatility levels remaining within the normal range of 0.3% to -0.3%. During this period of uncertainty, investors were observed to react to political events, particularly those involving the incumbent party, in pursuit of abnormal returns. These results affirm that political information significantly influences investment decisions in Malaysia's stock market.

Keywords: Political events, stock returns, abnormal returns, stock market, instability

INTRODUCTION

Elections are a method of forming a government in countries that practice a democratic system. Political parties that win the majority of seats—either on their own or through a coalition—are granted the authority to form a government at the federal or state level. In Malaysia, General Elections (GE) are held every five years following the dissolution of Parliament (federal level) or the State Legislative Assembly (Dewan Undangan Negeri-DUN) (state level) by the Yang di-Pertuan Agong (federal) or the Sultan (state) upon the advice of the Prime Minister at the federal level or the Chief Minister/Menteri Besar at the state level.

Malaysia has held 16 general elections (GE). The first GE was conducted in 1955, before Malaysia gained independence, while 15 GEs were held after independence, from 1959 to 2022. Barisan Nasional (BN) was the ruling party that won all general elections from 1955 to 2013 and formed the federal government. However, this streak ended in the 14th General Election, where BN won only 79 parliamentary seats. This outcome marked a significant shift, as BN transitioned from being the ruling party to the opposition. The component parties of Pakatan Harapan (PH) made history by winning the election and successfully forming the federal government.

Political events are historical scenarios that have had a significant impact on Malaysia's future economic development. The effects of political events on the abnormal return (AR) of stock market indices on Bursa Malaysia have been examined by several earlier researchers, such as Tan and Saiful (2021) and Fareiny and Yazi (2021). These studies support the view that political events have a significant impact on Malaysia's stock

market. The political influence following the 14th General Election (GE14) is particularly noteworthy due to the loss of power by Barisan Nasional (BN), which had ruled the government for a prolonged period. This leadership change necessitated investors to closely monitor political developments as an important factor and source of information affecting their investments in the stock market.

This factor became even more pressing during the two years leading up to the 15th General Election (GE15). During this period, Malaysia underwent three changes in leadership. Following the resignation of the 7th Prime Minister, a new political coalition was formed involving several parties, with Muhyiddin Yassin appointed as the 8th Prime Minister. However, BN's withdrawal of support for this coalition resulted in a transition of leadership to Ismail Sabri, who became the 9th Prime Minister. The political instability that occurred while Malaysia and the world were battling the Covid-19 pandemic led to a historically significant resolution through the signing of a memorandum of understanding between the government and the opposition. This was aimed at providing the government with the space to implement crucial policies, especially those related to ensuring public health safety.

The importance of studying political variables in the financial market has been widely explored in previous research. The justification lies in the fact that the direction of future national policies is guided by the party that successfully forms the government after a general election. A change in government could lead to the cancellation, postponement, revision, or alteration of certain policies. Since these policies are often interrelated, their implications can be examined and measured. Among the areas affected are the financial markets (Nippani & Arize, 2005; Lin & Wang, 2005; Wang & Lin, 2009; Ali & Afzal, 2012; Smales, 2014; Lehkonen & Heimonen, 2015; Liew & Rowland, 2016; Khanthavit, 2020), foreign exchange rates (Lobo & Tufte, 1998; Frieden et al., 2000; Ahmad et al., 2012; Khuntia et al., 2018; Noor Aina & Wai-Yan, 2021), and economic growth (Alesina & Perotti, 1996; Feng, 1997; Guilaumont et al., 1999; Gyimah-Brempong & Traynor, 1999; Asteriou & Price, 2001). Some researchers found that political events are more significant and have a greater influence on abnormal returns in the stock market compared to other factors such as announcements of mergers and acquisitions (Mat Nor, 1992, 1993; Gersdoff & Bacon, 2009; Padmavathy & Ashok, 2012). Investor reactions to company-related announcements—such as dividend payments, stock splits, or debt issuance in the form of bonds or sukuk (Mohamed et al., 2017)—differ from their reactions to political events, which often introduce elements of uncertainty and unpredictability in stock price movements (Fareiny & Yazi, 2021).

Given the numerous political events during the 14th Malaysian Parliament, their correlation with the stock market is an interesting subject of study. The proposed transition of the Prime Minister's leadership to Anwar Ibrahim at the end of February 2020, followed by the resignation of the 7th Prime Minister, marked a significant beginning of political instability in Malaysia. Although similar scenarios occurred in 2008 and 2013, the Barisan Nasional (BN)'s strong majority at the time prevented the issue from becoming significantly problematic (Fareiny & Yazi, 2021). The withdrawal of support by the Bersatu party from the government and the formation of a new coalition with PAS and BN in early March 2020 led to the collapse of the Pakatan Harapan-led government. The appointment of Muhyiddin Yassin as the 8th Prime Minister was subsequently followed by the postponement of parliamentary sittings and the closure of national borders due to the Covid-19 crisis, which sparked dissatisfaction among some members of the Dewan Rakyat, including government MPs.

The episode of political instability involving component parties within the new government continued through a series of state elections (PRN). Beginning with the Sabah state election in September 2020, tensions among these component parties became increasingly evident during the Melaka election in October 2021 and the Johor election in March 2022. The appointment of Ismail Sabri as the 9th Prime Minister, replacing Muhyiddin Yassin, along with BN's landslide victories in the state elections, strengthened BN's position to decide to contest the 15th General Election (GE15) independently. The frequent changes in leadership created uncertainty regarding the nation's direction at a time when the public was concerned about health and economic issues brought on by Covid-19. Consequently, the signing of a memorandum of understanding (MoU) between the government and opposition blocks in September 2021 provided space and opportunity for the government to implement several key Covid-19-related policies. The termination of this MoU in July 2022

and BN's decision to contest GE15 independently were significant political events leading up to the dissolution of Parliament in October 2022 and the holding of GE15 on 19 November 2022.

In view of the many political events that occurred during the 14th parliamentary term, this study aims to assess the extent to which such events significantly influenced the Malaysian stock market. Specifically, it focuses on political events that took place between February 2020 and September 2022, a period of prolonged instability that has not been comprehensively studied. The structure of this paper is as follows: a review of related literature, research methodology, results and discussion, and finally, the conclusion.

LITERATURE REVIEW

Investment returns in the stock market are influenced by numerous factors. Stock prices of listed companies fluctuate due to two main types of factors. The first are company-specific factors, such as announcements of cash dividends, stock splits, warrants, rights issues, plans for mergers and acquisitions, and quarterly or annual reports (Healy et al., 1992; Huang & Walkling, 1987). The second type of factors originates outside the firm's control but still impacts stock prices. These include national or global micro- and macroeconomic data releases, government policies, domestic and international political events, and movements in major global stock indices (Cutler et al., 1989; Wang et al., 2003; Beaulieu et al., 2006). Both sets of factors serve as critical information for investors when making decisions about individual companies or national investment prospects.

The Efficient Market Hypothesis (EMH) introduced by Fama (1965) and further elaborated by Fama et al. (1969) asserts that stock prices immediately respond to new information, regardless of its origin. The emergence of new, uncertain information—whether positive or negative—tends to generate abnormal returns during the post-event period (Brown et al., 1988). Political events have been empirically shown in many studies to significantly affect stock price movements and investment returns. Early evidence of the relationship between political events and stock returns originated in the United States, notably from studies by Niederhoffer et al. (1970), and followed by Allvine and O'Neill (1980), Riley and Luksetich (1980), Huang (1985), Gemmill (1992), and Gwilym and Buckle (1994).

These studies found that abnormal returns tend to be higher during U.S. presidential election periods compared to non-election periods. The political situation in the United States not only impacts its domestic market but also has spillover effects on international markets due to economic and foreign policy linkages between countries (Foerster & Schmitz, 1997). Pantzalis et al. (2000) investigated the relationship between political events and stock market indices across 33 countries that held elections between 1974 and 1995. They found that in the two weeks preceding the elections, investors recorded positive abnormal returns due to growing confidence in political, economic, and media freedom, as well as optimism about the incumbent's chances of re-election.

In Pakistan, studies by Malik et al. (2009) and Khan and Ahmed (2009) confirmed that political events influenced both stock prices and trading volumes. The re-election of a political party or Prime Minister led to post-election increases in stock returns. However, uncertainty resurfaced when the Prime Minister resigned on August 18, 2009, causing heightened volatility in stock returns. Earlier, Johnson et al. (1999) examined how changes in political regimes, particularly between Republican and Democratic administrations in the U.S., affected various financial assets. Their study found that the Small Stock Index recorded four times higher investment returns under Democratic leadership, whereas bond returns (both short and long term) performed better during Republican administrations. The impact of ruling political regimes on stock price volatility has also been confirmed in studies from Greece (Siokis & Kapopoulos, 2007), Pakistan (Clark et al., 2008; Qureshi et al., 2010), and Kenya (Kabiru et al., 2015).

Similar studies in Indonesia have examined the 2014 presidential election (Pemilu Presiden) and reported mixed results. Pamungkas et al. (2015) found negative abnormal returns in stock prices and trading volumes prior to the election, but positive returns afterward. However, Sitohang and Mekel (2015) found abnormal returns only in stock prices, not in trading volume. The discrepancy in findings was attributed to differences in sample scope: Sitohang and Mekel focused on only three sectors, while Pamungkas et al. (2015) analyzed the entire market. Nonetheless, both studies concluded that political events impacted the Indonesian stock market.

In Malaysia, several researchers have explored the link between political events and abnormal stock returns. Tan and Saiful (2021) examined sectoral abnormal returns following GE14. The results were mixed: the technology, consumer products, industrial products, and plantation sectors recorded positive abnormal returns, while the financial, mining, and property sectors showed negative returns. Liew and Rowland (2016) studied the effect of five general elections (GE9 to GE13, from 1995 to 2013) on the stock market. They found varying durations of abnormal returns, 60 days before and after GE9 and GE10, 90 days for GE11, and shorter 15-day windows for GE12 and GE13. Notably, GE12 showed negative abnormal returns before the election, while GE13 exhibited positive returns.

These increasingly swift investor responses suggest a growing element of uncertainty in Malaysian politics. Fareiny and Yazi (2021) also confirmed the political impact on Malaysia's stock market following the regime change after GE14 in 2018. They observed positive abnormal returns 30 days before and 65 days after the election. The extended post-election returns were driven by investor confidence in reform initiatives such as the abolition of the Goods and Services Tax (GST), suspension and review of mega projects, and deferment of education loan repayments. As political events significantly influence investment returns, understanding these developments offers investors both profit opportunities and tools for risk mitigation.

METHODOLOGY

The event study method is a widely adopted approach in numerous previous studies to examine the impact of significant events on a particular research variable. In the stock market context, the event study method is capable of measuring the magnitude of an event's effect on abnormal returns (AR) (Binder, 1998). Abnormal return refers to the investment return that exceeds the expected rate of return over a specific period.

In general, event studies analyse two main types of data: average abnormal return (AAR) and cumulative abnormal return (CAAR). The market model proposed by Fama (1969), which estimates the expected return as shown in Equation (1), is employed in this study, consistent with its application in many prior event-related studies.

$$E(R_{j\tau}) = \propto_j + \beta_j R_{m\tau} \qquad (1)$$

In this study, twelve sectoral stock indices are used to represent the expected returns of listed companies on Bursa Malaysia. These indices include the consumer, technology, plantation, healthcare, utilities, industrial, financial, communications, construction, property, energy, and transportation sectors. The calculation of abnormal return (AR) is shown in the following equation (Equation 2):

$$AR_{j,\tau} = R_{i,\tau} - E\left[\frac{R_{j,\tau}}{\Omega_{j,\tau}}\right] \qquad (2)$$

Here, $AR_{j,\tau}$ denotes the daily abnormal return for sector index j on event day τ, $R_{i,\tau}$ is the actual return of sector indexj, and $E\left[\frac{R_{j,\tau}}{\Omega_{j,\tau}}\right]$ represents the expected return of sector index j on each event day τ. Subsequently, the abnormal returns derived from Equation (2) are calculated as the average abnormal return (AAR) using the following Equation (3):

$$AAR_{\tau} = \frac{1}{N}\sum_{j=1}^{N} AR_{j,\tau} \qquad (3)$$

where, AAR_{τ} represents the average abnormal return on event day t, and N denotes the number of companies or sectoral indices with abnormal returns on that particular day. The purpose of Equation (3) is to minimize the impact of external, unexamined events, thereby producing a more accurate measure of the effect of the event under investigation.

The cumulative average abnormal return (CAAR) is then calculated using Equation (4), which aims to represent the overall average impact of the event on all the companies or indices being analyzed.

$$CAAR_{\tau} = \sum_{i}^{N} AAR_{i} \quad (4)$$

To analyse data using the event study method, a specific event date of interest must be identified. In this study, the selected event date is the Proclamation of Emergency 2021, which occurred on 12 January 2021 (Tuesday). Although the emergency announcement was dated 11 January 2021, the information was disseminated to the public through live media broadcasts on 12 January 2021 and officially enforced at midnight on 13 January 2021.

The selection of the emergency proclamation as the event in this study is justified by two main reasons. First, several members of parliament questioned the rationale behind the government's decision to declare an emergency, alleging that it was politically motivated rather than due to the COVID-19 pandemic. This perception was fuelled by inconsistencies in the implementation of the Movement Control Order (MCO), which was enforced in three different phases: MCO, Conditional MCO (CMCO), and Recovery MCO (RMCO), alongside the postponement of parliamentary and state assembly sittings.

Second, the announcement of the emergency triggered disputes even within the ruling coalition, as some government MPs disagreed with the decision and subsequently withdrew their support or confidence in the Prime Minister. The combination of the emergency declaration and the withdrawal of support marked the onset of political instability in Malaysia, which continued until the 15th General Election (GE15). Accordingly, this study identifies 12 January 2021 as the event day ($\tau = 0$) since it was the date when investors first became aware of both the emergency proclamation and the withdrawal of support from several members of parliament.

Previous studies show that the duration of event study periods varies considerably. Peterson (1989) recommended an event study window of between 100 and 300 days. For example, Xie and Zhou (2022), in their study on abnormal returns during the Movement Control Order (MCO) in Malaysia, used a 200-day pre-event window and a 3-day post-event window. Other studies have adopted different durations, such as 100 days (Nor Suhaira et al., 2020), 60 days (How & Wong, 2019), 120 days (Yazi et al., 2015), 97 days (Fareiny & Yazi, 2021), and even up to 5 years (Hamza et al., 2015).

However, Salinger (1992) suggested the use of a longer event window, finding that an extended study period yielded a more accurate standard deviation in calculating expected investment returns. Accordingly, this study adopts a total event window of 646 days, consisting of the event day itself, a pre-event period of 227 days, and a post-event period of 418 days. All stock return data—including those from 12 sectoral indices and the FBM KLCI—were sourced from the website investing.com. To determine the statistical significance of political events on abnormal returns, a t-test was applied to both AAR and CAAR data (Boehmer et al., 1991; Nor Sadeghi, 2008; Yazi et al., 2015; Nor Suhaira et al., 2020).

The choice of the Emergency Proclamation on 12 January 2021 as the main event in this study stems from its political importance and its timing amid a wider context of uncertainty. The event marks a mix of political instability and public health crisis management. Although it was officially seen as a response to the Covid-19 pandemic, the declaration raised considerable political debate. Many members of parliament and analysts viewed it as a tactic to postpone parliamentary actions and centralize power. Crucially, the Emergency Proclamation caused market uncertainty because of its effects on governance, democratic processes, and investor trust. It also signified the start of a long period of political unrest that lasted until the parliament dissolved in late 2022. Therefore, it offers a unique perspective on market reactions during a time of intense political conflict and serves as an important event in assessing unusual returns in Malaysia's stock market.

This study uses a strong event study method with a long observation window, but some limitations need to be recognized. First, the analysis does not consider simultaneous global economic changes, like shifts in international monetary policy, oil price movements, or significant global financial crises. These outside factors might have influenced domestic political events, possibly skewing the unusual returns observed. Second, this study only looks at the Malaysian stock market and does not include cross-border capital flows or comparisons with regional markets, which could add more context to investor behavior. Lastly, while the event window of 646 days captures long-term trends, it might also bring in overlapping influences from other unrelated policy decisions or economic developments.

FINDINGS AND DISCUSSION

Malaysia experienced a prolonged period of political uncertainty following the conclusion of the 14th General Election (GE14). During the 646-day observation period, the FBM-KLCI index recorded its lowest value at 1,219.72 points amid the nationwide border closure implemented to contain the spread of Covid-19. This development contributed to heightened volatility in abnormal returns (AR), with values exceeding 1. According to Landsman et al. (2012) and Prasad et al. (2021), abnormal return volatility can be categorized into two levels: values of 0 or less than 1 indicate normal volatility, whereas values greater than 1 suggest heightened volatility. As illustrated in Figure 1, the CAAR values remained within the range of 0.3% to -0.3%, suggesting a normal level of volatility. This implies that despite political turbulence, Malaysia's stock market remained resilient and continued to attract investor interest.

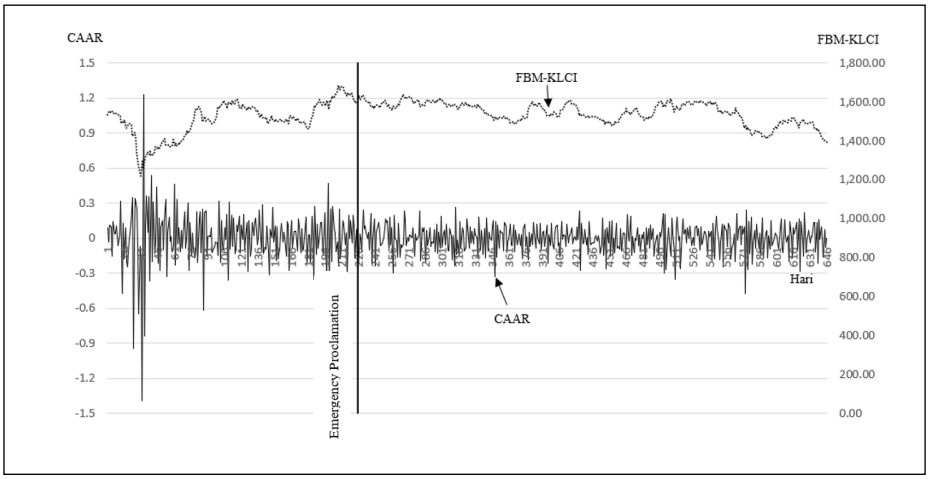

Figure 1: FBM-KLCI and CAAR Movement

The absence of significant shocks in CAAR values during the post-event period following the Emergency Proclamation (τ=0) suggests that investors absorbed the information and policy implications positively. The government's consistent dissemination of data and public health strategies during the Movement Control Order (MCO) helped mitigate uncertainty in the stock market. Furthermore, the emergency declaration, which focused on health measures while allowing key economic sectors to remain operational, contributed to steady fluctuations in CAAR.

Frequent changes in national leadership during this period of political instability served as critical information influencing both the broader economy and stock market performance. Notably, during this phase, investors reacted to both favourable and unfavourable political developments, particularly those involving the United Malays National Organisation (UMNO) and the Barisan Nasional (BN) coalition. As the long-standing ruling party since independence until GE13, BN remained a focal point for investor sentiment. Table 1 presents a summary of the abnormal returns associated with political events before and after the Emergency Proclamation.

The positive and negative values in AAR and CAAR represent the direction of investor reaction, while their magnitudes reflect the intensity of those reactions to political events (Smales, 2014). Overall, the results suggest that investors responded primarily to political developments involving BN and UMNO. These findings are consistent with Pantzalis et al. (2000), Malik et al. (2009), and Khan and Ahmed (2009), who found that investors tend to react strongly to news concerning the ruling party's chances of maintaining power.

In the pre-event phase, several political developments highlighted BN's influential role. For example, BN's involvement in the formation of a new government through the appointment of the 8th Prime Minister ($\tau_{-215,-211}$), resulted in a significantly positive CAAR of 0.319% and 0.08%, indicating renewed investor optimism for economic policies previously delayed, revised, or cancelled by the PH government. This

development temporarily eased political uncertainty and enabled the government to focus on implementing national health strategies. However, the subsequent border closure decision generated a negative abnormal return of 0.07%, aligning with Xie and Zhou (2022), who reported negative AR values (-0.003 to -0.06%) for health-sector stocks during the MCO.

As the political instability within the ruling coalition intensified, market sensitivity to such developments increased. Despite BN-GRS's victory in the Sabah State Election (τ_{-73}),, uncertainty over the appointment of the Chief Minister—particularly one from Parti Bersatu—created concern about the potential implications for the upcoming 2021 Budget vote. However, BN's eventual support for the 2021 Budget (τ_{-19}), resulted in a substantial positive abnormal return of 0.25%.

The significance of BN-related political news is further illustrated in the event of the UMNO Secretary-General's dismissal (τ_{-5}), which caused a notable negative AR of 0.17%. Market sentiment worsened following BN MPs' withdrawal of support for the 8th Prime Minister τ_{-2})., resulting in a more pronounced negative CAAR. The subsequent Emergency Proclamation on January 12, 2021, marked a turning point, with investors responding positively, as shown by near-zero AAR and CAAR values—an outcome supporting the Efficient Market Hypothesis (EMH). This suggests the emergency effectively dampened further political noise and stabilized market expectation.

Four months after the proclamation, the influence of BN as the former ruling party remained apparent. The announcement of BN's withdrawal of support (τ_{+119}) produced a positive abnormal return. However, debate over the next Prime Minister (τ_{+120}), which failed to reach a consensus—triggered a negative reaction. This pattern persisted until the formal announcement of BN's withdrawal (τ_{+136}).

The appointment of the 9th Prime Minister from BN (τ_{+147}) was met with positive market reactions, reflected in substantial AAR and CAAR values. Yet, investors perceived this appointment as temporary and insufficient to resolve ongoing internal disputes, as reflected in negative AR values on the swearing-in day $\tau_{+148}$and during the anti-party-hopping bill tabling τ_{+162}. On a positive note, the memorandum of understanding (MoU) between the government and opposition (τ_{+163})reduced political uncertainty and shifted investor focus back to Covid-19 management, resulting in a positive abnormal return.

Nevertheless, investor confidence in the government's capacity to execute long-term economic reforms remained weak. The tabling of the 12th Malaysia Plan (RMK12) at τ_{+172} was met with negative AAR and CAAR values (-0.003% and -0.03%, respectively), reflecting scepticism regarding policy feasibility. Investor attention to BN's political actions was also evident during a series of state elections. BN's decision to contest independently in Melaka, Sarawak, and Johor—without aligning with Bersatu or PAS—was interpreted positively. Each of these events ($\tau_{+189}, \tau_{+229}, \tau_{+271}$)yielded significant positive abnormal returns. However, the appointment of a new Johor Chief Minister who was not the incumbent resulted in a negative reaction, even though the t-test was not statistically significant. These developments, along with subsequent events τ_{+352}, τ_{+374} and τ_{+375}, indicate investor sensitivity to BN's internal leadership issues.

Following these events, UMNO held a special briefing (τ_{+393}). Although the event itself was not statistically significant, post-event analysis showed stronger effects. According to Brown et al. (1988, 1993), investors respond quickly to political news and often seek to profit in the aftermath. In this case, the official announcement that BN would contest GE15 independently was interpreted as a post-event cue, boosting expectations of a BN victory. This finding is consistent with Fareiny and Yazi (2021), who also observed increased stock market volatility when investors anticipated a BN victory in GE14.

Table1 Abnormal Return Analysis for the Malaysian Stock Market

Event Window (τ)		Political Event	AAR	CAAR	t-statistic	p-value
Post-	+418	UMNO Top 5 Decision	0.001	0.008	13.817	0.000

Event	+393	UMNO Special Briefing	0.013	0.162	-1.047	0.318
	+375	Party Hopping Act Voting	-0.008	-0.092	-6.423	0.000
	+374	Decision Not to Renew Government-Opposition MoU	-0.005	-0.057	-9.163	0.000
	+352	Dismissal of Tajuddin Abdul Rahman from UMNO Supreme Council	-0.004	-0.044	-10.195	0.000
	+285	BN Victory in Johor State Election	-0.002	-0.021	-1.051	0.316
	+271	Dissolution of Johor State Assembly	0.017	0.207	5.028	0.000
	+229	GPS Victory in Sarawak State Election	0.010	0.124	6.949	0.000
	+189	BN Victory in Melaka State Election	0.008	0.092	-0.536	0.602
	+177	Dissolution of Melaka State Assembly	-0.005	-0.065	1.144	0.277
	+172	Tabling of the 12th Malaysia Plan (MP12)	-0.003	-0.032	-2.622	0.024
	+163	Government-Opposition MoU Signing	0.004	0.052	7.339	0.000
	+162	Agreement to Table Anti-Party Hopping Bill	-0.008	-0.095	-11.879	0.000
	+148	Prime Minister’s Swearing-in Ceremony	-0.006	-0.073	-9.908	0.000
	+147	Meeting to Select New Prime Minister (9^{th} PM)	0.010	0.119	2.981	0.012
	+144	PM Expresses Willingness to Resign	0.003	0.031	-1.111	0.290
	+136	UMNO withdraws Support for the Prime Minister	-0.005	-0.065	-2.594	0.025
	+130	Parliament Convenes	0.009	0.105	-0.313	0.760
	+120	Proposal to Appoint Ismail Sabri (UMNO) as Deputy Prime Minister	-0.027	-0.326	-11.617	0.000
Event	+119	UMNO Withdraws Support for Perikatan Nasional (PN)	0.013	0.151	-7.351	0.000

Pre-Event	-2	Withdrawal of Support by BN MPs & PM Loses Majority	-0.022	-0.269	-3.032	0.011
	-5	Dismissal of UMNO Secretary-General	-0.014	-0.172	-3.868	0.003
	-19	2021 Budget Vote	0.021	0.246	2.959	0.013
	-73	Sabah State Election	-0.008	-0.101	-3.900	0.002
	-198	Closure of National Borders	-0.006	-0.072	9.436	0.000
	-205	Postponement of Parliament Session	0.029	0.349	21.555	0.000
	-210	Appointment of 8th Prime Minister	-0.017	-0.203	-19.416	0.000
	-211	Tan Sri Muhyiddin Announces He Has Majority Support	0.007	0.087	1.933	0.079
	-215	Resignation of Tun Dr. Mahathir Mohamad	0.027	0.319	19.437	0.000
	-216	Pakatan Harapan Meeting – Proposal to Appoint Anwar Ibrahim as PM	0.002	0.030	4.181	0.002

In conclusion, this study confirms that investors closely monitor political developments, particularly those involving the incumbent or former ruling party, as part of their decision-making process. Political uncertainty, therefore, emerges as a significant indicator in portfolio management, guiding efforts to optimize returns and minimize risks. The findings of this study are significant for institutional investors, fund managers, and policymakers. The sensitivity of abnormal returns to political events shows that political risk is an important part of portfolio strategy in emerging markets like Malaysia. Investors may gain by adding political event tracking to their risk assessment models, especially when investing in politically sensitive sectors like finance, construction, and energy. The results also emphasize how timely political information affects investor sentiment. Portfolio managers could improve returns and reduce losses by adjusting their exposure ahead of important political changes. These findings highlight the importance of real-time data analysis and planning for different scenarios, particularly in places with frequent leadership and governance changes.

CONCLUSION

Politics and economics are two interrelated components in the governance and development of a nation's economy. Given that Malaysia's economic policies are shaped by the political party that wins the general election, political developments inherently introduce uncertainty into the stock market—particularly following Barisan Nasional's (BN) failure to form the federal government. This unexpected outcome has compelled investors to anticipate and respond to each political event as it unfolds.

Political factors have been shown to be significant non-financial determinants that investors must analysed alongside other financial indicators when making investment decisions. This study finds that political uncertainty in Malaysia has a tangible impact on stock market performance, particularly in terms of abnormal returns, which exhibit varying degrees of volatility depending on the prevailing political climate.

Despite the extended period of political instability following the 14th General Election, investors continued to show steady interest in the stock market, especially in events involving BN as the incumbent party. This trend

may be attributed to BN's strong influence in shaping investor perceptions and confidence regarding government-led economic policies.

During periods of political uncertainty, the implementation of public health policies—such as the Movement Control Order (MCO) and the Emergency Proclamation—demonstrated that government measures aimed at minimizing political instability could effectively mitigate negative impacts on the stock market.

Overall, the findings indicate that both favourable and unfavourable political news have significant influence on investor behaviour during times of political instability. This underscores the importance of political developments as critical signals for investors in managing risks and formulating investment strategies. This study opens several paths for further research. Future studies could include comparisons with other Southeast Asian or emerging economies. This would offer a wider understanding of political risk in regional markets. Also, using machine learning and sentiment analysis could improve how well models predict stock market reactions to political news. These methods might be especially helpful in spotting early signs of investor behavior during times of institutional uncertainty or changes in policy.

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