Election Jitters and Indian Stock Market Performance-A conceptual study

Dr. Umamaheswari[1], Dr. Renu Rathi[2]

[1,2]School of Commerce, Jain (Deemed-to-be University), Bengaluru, India

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ABSTRACT

The stock market is highly sensitive to political developments, particularly elections, which create uncertainty regarding future economic policies and governance. In emerging economies like India, elections significantly influence investor sentiment, market volatility, and sectoral performance. This paper examines the impact of election jitters on Indian stock market performance with special reference to the 2014, 2019, and 2024 general elections. The study highlights how political uncertainty, investor psychology, and expectations regarding policy continuity shape stock market trends. The paper also reviews previous literature on election-induced volatility and identifies research gaps in understanding the long-term effects of political events on financial markets. The findings suggest that stable and reform-oriented governments generally improve investor confidence and market performance, whereas uncertain mandates increase volatility and risk aversion. The study provides insights for investors, policymakers, and researchers regarding the relationship between political events and stock market behavior.

Keywords: Election Jitters, Stock Market Volatility, Political Uncertainty, Investor Sentiment, Nifty 50, Sensex, Indian Elections.

INTRODUCTION

The stock market serves as a major indicator of economic growth and investor confidence. It reflects the collective expectations of investors regarding corporate profitability, government policies, and macroeconomic conditions. Political events, especially elections, play a crucial role in influencing stock market performance because they create uncertainty about future governance and policy directions. In India, elections are considered one of the most influential political events affecting the stock market. Investors closely monitor election campaigns, polling results, and policy announcements to predict future economic reforms and government stability. Election periods often witness increased volatility in stock indices such as the Sensex and Nifty 50 due to speculative trading and changes in investor sentiment (Mukherjee & Roy, 2015).The Indian stock market experienced major fluctuations during the 2004, 2014, 2019, and 2024 elections. The 2014 elections generated strong bullish sentiments due to expectations of economic reforms and political stability under a majority government. Similarly, the 2019 elections resulted in positive market reactions because investors expected continuity in economic policies (Sharma, 2020). In 2024, market reactions were mixed because of uncertainty regarding coalition dynamics and policy implementation.

Behavioral finance theory explains that investor emotions such as fear, optimism, and uncertainty strongly influence stock market movements during election periods. Investors often exhibit herd behavior, speculative trading, and risk aversion in response to political news and election outcomes (Baker & Wurgler, 2007).Therefore, understanding the relationship between election jitters and stock market performance is important for investors, policymakers, and researchers. This study attempts to analyze the impact of Indian general elections on stock market behavior and investor sentiment.

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REVIEW OF LITERATURE

General Elections

2014

Singh and Yadav (2015) studied the impact of the 2014 Indian general elections on stock market performance and found that investor confidence increased significantly due to the formation of a stable majority government. The Nifty 50 and Sensex recorded substantial growth during the pre-election and post-election periods. The study concluded that expectations of economic reforms and infrastructure development positively influenced market sentiment.

Rajkumar and Anand (2020) observed that the 2014 elections reduced political uncertainty and attracted large foreign institutional investments into Indian equity markets. The authors highlighted that sectors such as banking, infrastructure, and energy experienced strong growth because investors anticipated pro-business policies.

2019

Sharma (2020) analyzed the impact of the 2019 elections on sectoral stock indices and found that investor optimism increased after the re-election of the incumbent government. The Sensex surged by more than 1,000 points on the result day, reflecting market confidence in policy continuity and economic reforms.

Patra and Sinha (2022) explained that political stability during the 2019 elections reduced market uncertainty and strengthened foreign investor participation. The study emphasized that stable governments improve market confidence and reduce volatility in emerging markets like India.

2024

Recent observations regarding the 2024 Indian general elections indicate that the stock market initially reacted negatively due to uncertainty about coalition politics and government stability. However, markets later stabilized as investors gained confidence regarding policy continuity and economic governance.

Economic analysts reported that banking, infrastructure, and renewable energy sectors experienced fluctuations during the election period because investors were uncertain about future fiscal and regulatory policies. The 2024 elections demonstrated that even partial uncertainty in political outcomes can significantly affect investor sentiment and market performance.

Research Gap

Existing studies primarily focus on short-term stock market reactions to election results, particularly during the 2014 and 2019 elections. However, limited research has been conducted on:

- Comparative analysis of the 2014, 2019, and 2024 elections.
- Long-term effects of election uncertainty on investor behavior.
- Behavioral finance aspects such as herd behavior and speculative trading during elections.
- Sector-specific responses to political uncertainty in India.

Therefore, this study attempts to fill these gaps by examining election jitters and investor sentiment across multiple election periods.

Objectives of the Study

1. To analyze the impact of election jitters on Indian stock market performance during the 2014, 2019, and 2024 elections.

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2. To examine the influence of political uncertainty and investor sentiment on market volatility during election periods.

DISCUSSION

The review of literature and historical market evidence clearly indicate that the Indian stock market is highly sensitive to election outcomes and political uncertainty. Elections play a crucial role in shaping investor expectations because they determine future government policies, economic reforms, taxation systems, infrastructure spending, and foreign investment regulations. In emerging economies like India, where political decisions directly influence economic development, election periods often create uncertainty and volatility in stock markets (Mukherjee & Roy, 2015). Investors closely monitor election campaigns, opinion polls, party manifestos, and political alliances to assess the stability and reform orientation of the upcoming government. Consequently, stock market indices such as the Sensex and Nifty 50 experience significant fluctuations before and after election results.

Historical evidence from the 2014 and 2019 Indian general elections demonstrates that stable political mandates generally improve investor confidence and generate positive market sentiment. Singh and Yadav (2015) observed that the 2014 elections marked a turning point for Indian financial markets because the formation of a stable majority government reduced political uncertainty and created expectations of economic reforms. As a result, the Nifty 50 and Sensex witnessed strong rallies, while sectors such as banking, infrastructure, and energy recorded substantial growth. Similarly, Rajkumar and Anand (2020) reported that foreign institutional investors increased investments in Indian equity markets after the 2014 election results due to expectations of policy continuity and business-friendly governance. These findings suggest that investors associate political stability with economic growth and market expansion.

The 2019 general elections further reinforced this relationship between political stability and market performance. Sharma (2020) explained that the re-election of the incumbent government strengthened investor optimism because markets expected continuity in economic reforms, infrastructure projects, and fiscal policies. On the day of the election results, the Sensex surged significantly, reflecting strong investor confidence in stable governance. Patra and Sinha (2022) also highlighted that political stability during the 2019 elections reduced market uncertainty and encouraged foreign institutional investor participation in Indian stock markets. Therefore, clear electoral mandates are often interpreted by investors as indicators of economic consistency and reduced policy risks.

In contrast, uncertain election outcomes and coalition politics generally create fear, speculation, and volatility in financial markets. The 2024 Indian general elections demonstrated how even temporary uncertainty regarding coalition dynamics and government formation can negatively influence investor sentiment. According to Business Insider Markets (2024), Indian stock markets initially reacted negatively because investors feared policy delays and instability associated with coalition governance. Likewise, Fortune India (2024) reported that sectors such as infrastructure, banking, and renewable energy experienced considerable fluctuations due to uncertainty regarding future fiscal and regulatory policies. Reuters India (2024) further noted that foreign institutional investors adopted a cautious approach during the election period, leading to temporary capital outflows and increased market volatility.

Behavioral finance theories also provide important insights into election-induced market movements. During politically uncertain periods, investors often exhibit herd behavior, speculative trading, panic selling, and overreaction to political news (Baker & Wurgler, 2007). Media coverage, social media discussions, and opinion polls significantly influence investor psychology and trading decisions. Consequently, stock prices may react more to investor perception and emotional responses than to actual economic fundamentals.

Overall, the findings suggest that investor perception regarding political stability plays a more important role than the actual election outcome itself in determining stock market performance. Stable governments and reform-oriented leadership generally create confidence among domestic and foreign investors, while political uncertainty increases risk aversion and volatility in Indian financial markets.

Suggestions

Investors should avoid emotional and speculative trading during election periods, as political uncertainty often leads to temporary market volatility and irrational investment decisions. Instead, adopting diversified investment portfolios can help minimize election-related financial risks and protect investors from sudden market fluctuations. Policymakers should ensure transparency and consistency in economic and fiscal policies to maintain investor confidence and reduce uncertainty in financial markets. In addition, regulatory authorities such as SEBI should closely monitor excessive speculation, abnormal trading activities, and market volatility during election periods to ensure market stability. Investors are also advised to focus on long-term investment strategies rather than reacting to short-term political developments, as fundamentally strong markets tend to recover and grow over time despite temporary election-related fluctuations.

CONCLUSION

Election jitters significantly influence Indian stock market performance by affecting investor sentiment, market volatility, and sectoral movements. Historical evidence from the 2014, 2019, and 2024 elections indicates that stable governments and policy continuity generally create positive market reactions, while uncertain political outcomes increase volatility and investor anxiety. The study concludes that political uncertainty is a major determinant of stock market behavior in emerging economies like India. Understanding election-induced market trends is essential for investors, policymakers, and financial analysts to make informed decisions and maintain financial stability.

Further Research

Future research may focus on conducting a comparative analysis between the impact of Indian elections and global elections on stock market performance to understand similarities and differences in investor behavior across economies. Researchers can also examine the role of social media platforms, digital news channels, and online political campaigns in influencing investor sentiment and trading decisions during election periods. Further studies may explore sector-wise stock market volatility to identify which industries are more sensitive to political uncertainty and policy changes. In addition, the impact of regional and state elections on Indian stock market movements can be analyzed in greater detail, as regional political developments increasingly influence economic expectations and investment patterns. Moreover, future researchers may apply artificial intelligence, big data analytics, and machine learning techniques to predict election-related market trends and investor behavior, thereby improving forecasting accuracy and investment decision-making.

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