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Do investors react negatively to democratic elections in emerging markets?

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In 2002, Brazil's bond market fell dramatically at the same time that Brazilian citizens prepared to vote for the left-leaning President Lula. This event prompted political scientists to question why investors reacted so strongly to the Brazilian democratic election. Since then, the common agreement among the discipline has reported that the Brazilian case is not an anomaly, and that investors in emerging market countries do react negatively during election cycles. However, this research suggests that there is no empirical evidence to defend that hypothesis. When comparing the bond spreads of 12 different emerging market countries from 1994 to 2004 during non-election cycles to the countries' bond spreads during a sample of 26 election cycles, there is only a slightly significant effect. Moreover, that effect becomes even less significant when various effects are controlled for. However, this research does find a significant effect in 4 out of the 26 elections. One of these elections is the 2002 Brazilian election of President Lula. Thus, although investors may react negatively to elections in some emerging market countries, there does not seem to be significant evidence to suggest that elections have an effect on bond markets.