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The Impact Of Lottery Demand On the Stock Market Through Political Transitions: A Case Study Of Pakistan (PSX).

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	Abstract
Faiza Sajjad. Assistant Registrar, SBK Women's University, Khuzdar Campus. faizasajjad29@yahoo.com Dr. Fauzia Ahmed Lecturer, IMS, University of Balochistan, Quetta. Fauzia.ims@um.uob.edu.pk Dr. Khuram Shahzad Assistant Professor, IMS, University of Balochistan, Quetta Corresponding Address: khurram.ims@um.uob.edu.pk Maria Hina Lecturer, NUML. Mariahina.tariq@gmail.com	This study examines the influence of political shocks on stock market performance during four primary election cycles. Quantile regression and portfolio sorting methodologies are employed to examine the impact of political uncertainty on stock returns, market volatility, and investor sentiment. The Fama-MacBeth cross-sectional regression is used to check for robustness. The results indicate that election years are associated with lower stock returns and higher volatility. The adverse effects were especially pronounced in 2008, when the global financial crisis heightened people's concerns about elections, leading to a further decline in the market. The study reveals that stocks exhibiting idiosyncratic volatility (IVOLT) and idiosyncratic skewness (ISKEN), also referred to as lottery-like stocks, tend to perform worse when there is a change in political leadership. This suggests that investors tend to avoid riskier assets and shift toward safer ones when uncertainty prevails. Stocks with very high one-day and five-day returns (MAXRET(1) and MAXRET(5)) do poorly when there is political uncertainty. This supports the idea that volatile stocks are more affected by election cycles. Momentum-based trading strategies also falter during political transitions, indicating that elections disrupt standard market dynamics and result in short-term price reversals. The research also shows that investors should reduce their exposure to high-
Keywords:	Political Transition, Stock Market Volatility, Idiosyncratic Volatility, Lottery Stocks, Momentum Strategies, Quantile Regression, Pakistan Stock Exchange

Introduction

Financial markets encourage saving and investing, boosting economic growth. Financial markets, particularly stock markets, are often seen as indicators of economic health, stability, and investor trust (Azmeah & Al-Raei, 2025). In unstable countries like Pakistan, political instability, speculation, and regime changes impair markets. Political events, including elections, government changes, and policy shifts, can have a significant impact on stocks and investments (Wang et al., 2024). Many studies have examined the impact of politics on stock market volatility. Hoque and Zaidi (2020) argue that political instability makes markets more volatile, thereby increasing the riskiness of investments (Li et al., 2022). During these times, most investors favor speculative investments in high-risk stocks, known as "lottery stocks," due to their low share prices, volatility, low likelihood of exceptionally high returns, and potential for extreme payoffs. Political conditions affect Pakistan's stock market. Elections, judicial policy changes, military takeovers, and administration changes have caused market crashes or spikes (Tariq et al., 2025). After that, investors buy lottery and other hard-to-sell stocks (Li, 2023). In inefficient markets, herd behavior, super-purchasing, and overconfidence lead to overbuying. Numerous studies have shown that investors become trapped in the conflict cycle during major political conflicts (Michalak, 2021). Pakistan is a developing market, but political instability has historically impacted investment. Politically exposed investors must understand how government political uncertainties impact demand for high-risk stocks and seek significant rewards from changes in the political agenda to enhance operational efficiency (Jabeen et al., 2022).

Political events affect investor confidence, the economy, and the stock market. The Karachi Stock Exchange (KSE) from May 1999 to December 2011 should be studied (Syed & Fatima, 2021). In politically unstable times, all returns were negative, indicating the KSE was underperforming. The inefficiency reveals that stock market noise encourages investors to adjust their portfolios in response to political warnings. Low-volume stocks are sold quickly, resulting in decreased prices and increased volatility (Gavrilakis & Floros, 2023). Political unrest erodes market trust, leading to increased volatility, larger market declines, and a greater inclination towards riskier equities. The Karachi Stock Exchange, South Asia's most active exchange, is an ideal place to study investor reactions to political uncertainty (Tariq et al., 2025). Lottery stocks provide high returns, volatility, low prices, and big profits. When political conditions make ordinary investments risky or undesirable, speculative investments are preferred (Khan & Jan, 2022). Economic optimism, investor curiosity, and social media engagement increase demand for these stocks, according to studies. An investor's attention, social interaction, and lottery stock study suggest that excessive focus on speculative instruments often inflates asset values over time (Bali et al., 2021). A deployment phase reduces future returns after overvaluation because value must align with market fundamentals.

Pakistan's stock market is turbulent due to political instability. Political instability weakened the stock market from 1996 to 2021, contrary to Alim et al. (2024). Political upheavals impact inflation because investors adjust their investments in anticipation of turmoil and economic decline (Khan & Ejaz, 2024). How investors react to ordinary shocks is key to understanding how external shocks affect financial markets. A market crash and speculative boom in lottery stocks may result from politically sensitive investors selling their holdings (Younis et al., 2020). Pakistan's stock market's response to political uncertainty and investment is understudied. Political risk collectives, which encompass market hazards and other broader economic challenges, influence investor decisions and fluctuate amid uncertainty (Wen et al., 2021). Market players can limit risk by understanding how politics affect demand for lottery-like stocks. Although empirical research on these relationships is expanding, further studies are needed to develop robust predictive models and evidence-based policy solutions (Jiang et al., 2024). Understanding how political changes affect investor conduct stabilizes and rationalizes financial markets, enhancing economic growth (Maghdid et al., 2024).

This study examines how voting periods of different, somewhat contradictory political regimes affect investor decisions and behavioral patterns over time, aiming to improve financial market performance, investor sentiment, and financial equilibrium discourse. When politically motivated, this research has a broad audience outside academia. Various factors influence policymakers and political analysts who forecast stock market changes. This study examines the impact of political uncertainty and speculative trading on investment decisions in emerging nations.

Problem Statement

Government policies and social variables affect investor sentiment and financial markets. In politically unstable developing nations like Pakistan, stock markets become more unpredictable when governments change. Uncertain investors change markets by shifting portfolios. People prefer risky, volatile investments. Investor behavior in relation to market equilibrium can be explained by how speculative stock demand affects market volatility during periods of political upheaval.

How investors evaluate risk, economic expectations, and political risks affects stock exchange behavior. Political upheavals make markets unstable, so investors tend to prefer riskier, higher-yielding investments. Speculative investments, especially those in the lottery, are vital because investors often react irrationally to uncertainty. Behavioral finance has not correctly examined how political and stock market volatility affect investor sentiment and demand. Most research studies how political risk influences the stock market, but few examine the reactions of investors.

Investors often take significant risks in Pakistani politics. Financial market instability resulting from legislative, governance, electoral, and reform cancellations affects investment decisions. Other empirical research suggests that political instability lowers stock values, but it does not assess investor sentiment toward speculative instruments. Investors seeking significant returns buy speculative stocks. Examine how political stock price volatility influences demand. This may explain inconsistent dominant markets.

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Political considerations affect lottery stock demand, influencing investors. Geopolitics, inflation, and global currency values affect stock market indices. Political volatility and market fluctuations have been linked to demand for lottery tickets, but research on this topic is limited. Understanding these missing elements explains the market's failure and creates norms for unstable politics. Speculation during or after political crises can significantly impact markets. This endangers market stability and investor confidence. Gambling stock demand can lead to speculation, bubbles, and a decline in asset value. These practices can impact invested finances, especially for retirees who are unfamiliar with the complex strategies that exploit system vulnerabilities. Such speculation undermines sensible trading and market risk reduction practices. A more comprehensive political speculative lottery solution can help regulators and the public avoid these eventualities.

Given these concerns, it is crucial to examine how political changes impact the risk appetite of Pakistan's stock market investors. This study fills a gap in investor behavior research by examining the relationship between stock market volatility and lottery ticket sales during periods of political instability. Understanding the political drivers of these movements might help us create more stable and effective market investments, regulations, and policies.

Research Objective

- To investigate the correlation between changes in lottery demand and stock market volatility metrics during periods of political transition in Pakistan
- To evaluate investor demand for lottery-like stocks (high risk, high reward) during political transitions.

Research Question

1. Does the demand for lottery correlate with stock market volatility metrics during periods of political transition in Pakistan?
2. Does investor behavior in the lottery demand towards lottery-like stocks (characterized by high risk and high returns) change during political transitions?

Significance of the Study

This method is essential for measuring the impact of political changes on lottery ticket sales and investor interest in lottery-related securities. Political risks cause uncertainty that impacts investors, the stock market, and the economy. Behavioral finance, political economy, and economic policy are interconnected through the evaluation of political changes, stock market fluctuations, and investor risk tolerance. This study demonstrates to investors, politicians, financiers, the financial market, and scholars how political stability impacts finance.

Financial instability increases with political turmoil. Ultimately, stakeholders and the public must navigate complex financial markets, currency volatility, and government regulations. This trend encourages riskier gambling. Lotteries can produce money in uncertain times. This study examines the impact of Pakistani political instability on transitional lotteries. Lottery ticket sales may indicate a shift in perspective and an increased propensity to gamble in response to economic stress. Financial corporations, policymakers, and government agencies must consider this propensity when establishing economic policies during periods of political transition. The popularity of lottery tickets suggests that people may spend more under pressure, underlining the importance of financial understanding.

Literature Review

Recent government upheavals and strategic realignments make Pakistan's politics unstable. This inconsistency makes the economy unpredictable (Usman et al., 2024). A new government or party may require the state to rethink its spending, tax, international trade, and foreign investment policies. All of these factors can have a dramatic impact on markets. Political instability harms Pakistan's stock market. Political changes can significantly impact investor sentiment, leading to increased stock market volatility (Wang et al., 2024). Politics can have a positive or negative impact on the market. Hope for positive policy changes under new leadership can boost the market, while worry or hope for negative changes can depress it (Agarwal et al., 2022). Political plan changes can impact economics, investor sentiment, and market risks. These products are important since Pakistan's political unrest affects buying habits and the economy (Ghani & Ghani, 2024). When confused, consumers prefer less prevalent assets. Some gamble, while others acquire concentrated stocks, such as lottery tickets, which offer a high chance of gaining value but also carry a high risk. Aras (2025) examines the impact of political changes on lottery and speculative equities.

Pakistan's economy is fragile due to rapid changes in elections, administration, and policy. Political unpredictability increases stock market volatility (Syed & Fatima, 2021). These swings may persuade investors to undertake risky transactions or jeopardize their financial stability, prompting them to adjust their investment strategy. This study suggests that political upheavals alter investors' risk tolerance, leading to an increase in lottery-like stocks and participation. In politically turbulent times, these patterns may explain investors' psyche, financial decisions, and market behavior (Kashif et al., 2023).

Numerous behavioral finance studies show that income, financial constraints, and economic uncertainty increase lottery demand. Although the odds are low, lottery tickets are often considered a straightforward means to get by during difficult times. Political regime changes, which often lead to economic instability, can exacerbate this (Ishak, 2023). More lottery players may be seeking riskier ways to make money amid uncertain times. Political uncertainty may affect Pakistani lottery demand, according to this study. This study will demonstrate how socioeconomic characteristics impact finances (Wen et al., 2021). Seek lottery tickets; investors seek high-risk, high-reward stocks. Some financial shares are "lottery-like"—they are inexpensive but have the potential to yield significant returns. These stocks attract risk-takers who think the benefits are worth it. Political developments

that affect stocks may make them more appealing (Akbar & Bhutto, 2023). This study examines whether political instability drives high-risk stock purchases. That would show how uncertainty affects markets.

This research aims to determine how political dynamics influence lottery and investor choices throughout political cycles. Government policies can affect inflation, currency fluctuations, interest rates, and government initiatives. Political uncertainty can slow the economy and lower financial market optimism, influencing investor mood (Maghdid et al., 2024). We research how political changes affect the economy and find patterns that can predict financial decision-making. These conclusions are essential for developing laws, rules, and financial services to mitigate the harmful effects of political changes on distributed financial markets. Political instability and financial decision-making are particularly crucial in emerging nations that are still developing market institutions and where politics significantly influence economic policy (Aftab & Muhammad, 2021). Developing nations have more uncertain politics; therefore, foreign forces have less impact on financial markets (Maghdid et al., 2024). Political shifts must be financially assessed for their impact on market stability in Pakistan, as investor confidence is closely tied to political developments. This research aims to investigate the impact of political uncertainty on investment in emerging economies (Londoño et al., 2021). Investment decisions, especially those made by risk-averse individuals, are explained by behavioral finance. Based on fundamental and technical analysis, traditional economic theories assume that reasonable investors exist. In reality, especially under uncertainty, this is not true (Moaaz & Mansour, 2023). Perceptions, cognitive biases, and social factors, such as politics, may influence investor decisions. This study examines why people enjoy lotteries and invest substantially in high-risk equities during elections, utilizing behavioral finance in the context of political transitions. This behavior will explain the financial market repercussions of political volatility (Dwiyanti & Purnamasari, 2023).

This study examines the relationship between political changes, stock market performance, and lottery sales within the framework of behavioral finance, political economy, and market regulation. It has significant implications for political impacts on financial risk-taking studies (Cumming et al., 2021). The recent global focus on economic growth makes this research both academically and commercially important. Investors, financial professionals, and governments can better plan during political upheaval. Although lotteries are less prevalent in Pakistan, they contribute to the economy and community. Pakistan's largest lottery systems are government-run Lotto and Prize Bond (Aleemi et al., 2023). These lotteries allow Pakistanis, especially people with low incomes, to deposit small amounts and hope for financial improvement. A global study reveals that lottery popularity increases during economic instability (Girma & Huseynov, 2023). Pakistanis play lotteries more frequently during political cycles to make quick money or reduce risk. Political instability may increase the desire for housing and financial security, or exacerbate financial fragility, leading to higher sales of lottery tickets (Dohmen et al., 2018). Pakistan's stock market, a vital component of its economy, welcomes all investors. The Karachi Stock Exchange (KSE), now the PSX, has always been politically sensitive (Tariq et al., 2025). Stock prices reflect public opinion, government policy, and economic forecasts. Pakistani stocks are highly volatile, particularly following significant political events (Tauseef, 2020). Lottery demand, stock market activity, and politics are hard to link (Wang et al., 2024). Some relationships may exist between these extremes. Political change may boost lottery ticket sales and stock investments. This may be an attempt to improve finances under uncertainty. Political uncertainty may cause consumers to reject safer assets, such as stocks, and opt for gambling or lotteries as a means of generating faster and potentially safer income (Salisu et al., 2020). These investors may consider stock-less lotteries as a safer investment during prolonged economic and market downturns, thereby reducing volatility in times of political instability (Lee et al., 2020). The impact of lottery expenditure on stock market liquidity and activity can be examined. The stock market may suffer if more people play the lottery than buy stocks (Adil et al., 2023).

Political changes affect lottery use and the Pakistani stock market, according to this study. These links benefit political economists, strategic policymakers, market actors, and financial analysts the most, as politics move quickly and involve non-institutional investors, such as those in equities. Favorable and unfavorable political developments affect consumer financial market opinions, according to this study. This would explain why Pakistani retail investors have adopted lotteries as indicators of economic instability or political manipulation during periods of heightened political sensitivity. Pakistan's lottery consumption and stock market activity are complex due to the political transition. This research reveals how financial markets in emerging nations adapt to socio-political issues.

Lottery demand has been extensively examined in behavioral finance and investment theory. People actively pursue assets with a low likelihood of exceptionally high payoffs even when their value is negative (Jiang et al., 2024; Moaaz & Mansour, 2023). Like lottery tickets, participants have a slight possibility of winning life-changing amounts. This form of financial decision-making is influenced by risk-taking, positive feedback loops, and biases that create the illusion of opportunity (Kaur & Sahni, 2023). The appeal of lotteries in financial markets is attributed to Kahneman and Tversky's prospect theory, which posits that people accept risks when the potential return is high, even if the associated probabilities are low (Li et al., 2021). Prospect theory suggests that investors tend to overestimate small probabilities and underestimate moderate or high probabilities, thereby increasing their likelihood of investing in assets with lottery-type payouts (Ziarko et al., 2024). This is why investors study equities regardless of their valuation, especially during economic uncertainty or financial trouble. Strong skewness indicates that these stocks can underperform but still deliver substantial returns (Jong et al., 2017). Several empirical studies have shown that lottery-marketing stock markets exhibit speculative demand. In volatile, inexpensive, and high-kurtosis 'lottery stocks,' investors overinvest (Mittal et al., 2020). Several studies have shown that individual investors tend to overinvest in 'outliers.' These stocks also underperform developing market benchmarks. In developing markets with minimal financial understanding,

lottery-like stock investment approaches may prevail due to market inefficiencies (Akbar & Bhutto, 2023). Options, cryptocurrency, high-yield derivatives, and equities attract gamblers. Internet currencies are sought after for their high returns (Newall & Weiss-Cohen, 2022). Investors seek big profits despite risks, especially in the near term, much like a lottery ticket. The rise of meme stocks and speculative trading suggests that many investors are willing to take on high risks in pursuit of high profits (Vamossy, 2025). The financial market lottery is closely tied to market sentiment and economic volatility. They suggest customers buy lottery tickets or make speculative investments during recessions (Nisar & Yeung, 2023). Due to financial constraints, some individuals may resort to lottery-like assets for quick cash. This is especially true in emerging nations with high speculation, inflation, and economic instability (Girma & Huseynov, 2023). Individual gains and macroeconomic conditions can cause high-risk opportunities (Rashid, 2024). The demand for lottery stocks is linked to market speculation, investor behavior, and psychological factors (Kashif et al., 2023). Retail investors often lack sufficient income or financial education, according to extensive research. These investors like lottery-like, high-risk investments (Perveen et al., 2020). Investors often overestimate their prospects of success, believing their chances are greater than the evidence suggests, and exceptional market performance is overvalued due to the optimism bias and availability bias (Hirshleifer, 2020). Recent research suggests that social media and online trading apps are encouraging younger/inexperienced investors to take speculative risks, thereby worsening lottery demand accessibility and market patterns.

The lottery has gained popularity as a capital market investment. Market supervisors warn that speculative activity may impair market stability, especially when a large retail market cohort makes high-risk bets without conducting thorough risk assessments (Nasir et al., 2023). Some experts recommend "too many risks" laws that educate retail traders and ban or aggressively regulate speculative trading to prevent irresponsible behavior (Cestau et al., 2019). Some feel speculative shares are fine in a diversified portfolio. However, overreliance on these assets without knowing their risks can jeopardize financial stability, especially in emerging nations (Narayan et al., 2022).

Political stability is particularly crucial for investor confidence, as it has a significant impact on the markets. A stable government is beneficial for business, as it fosters a predictable environment that encourages investments and ensures consistent rules. It can also anticipate reasonable steps that will assist the economy to grow. They are less inclined to invest in nations where the government has been unstable for a long time, as policies are more likely to hinder economic growth. Nevertheless, when they do invest, they have more to lose (Maghdid et al., 2024). However, political instability can also pose challenges to the economy. This often occurs during a coup d'état, a war, a revolt, or when leaders undergo significant changes. People are less willing to invest when policies change and uncertainty prevails. This also leads to nationalization, which usually causes capital flight (the movement of money to safer economies, currency devaluation, stock market falls, and, in general, GDP contractions. Investments in countries that have been unstable for a long time become more volatile. Conversely, nations with aligned political objectives see more rapid stock market growth (Alim et al., 2024).

H1: The demand for lottery-like stocks correlates with stock market volatility metrics during periods of political transition in Pakistan.

H2: Investor behavior towards lottery-like stocks changes significantly during political transitions.

Methodology

This quantitative study examines the demand for volatile stock market shares, similar to a lottery, during Pakistani political transitions. From 2002 to 2023, a longitudinal panel study. Event-based analysis studies investor demand for high-risk, high-return shares before, during, and after political upheavals. Inflation, exchange rate changes, and interest rates influence lottery demand, as evidenced by stock market volatility, investor behavior during political events, and economic factor analysis. DataStream provides PSX stock prices, trade volumes, turnover ratios, KSE-100, and All-Share Index data daily. This study categorizes lottery-like stocks based on their greatest daily return (MAXRET), idiosyncratic volatility (IVOL), and stock price (< PKR 10 per share). World Bank political risk indices, national dailies (Dawn, Express Tribune, & Business Recorder), and Pakistan Economic Survey reports provide data on political events. Political events include government transfers, general elections (2002, 2008, 2013, 2018), and major protests. SBP and WDIA track inflation, unemployment, and instability. Quantile regression examines lottery, stock, and regime volatility. The fundamental model covers lottery demand, volatility, political turmoil, and economic variables. Quantile regression controls investor risk appetite and heterogeneity.

Forecasting lottery-like stock demand, volatility, and Pakistani regime change. Political, economic, and financial differences are analyzed using 2002–2023 panel data. Investor behavior before, during, and after political regime change can be researched using event-driven research. For rigorous empirical study, low, middle, and high tercile quantile regression assesses investor risk tolerance and sentiment-based trading.

MAXRET, IVOL, and 10 PKR or less are lottery stocks. We examine how lower, middle, and higher 33% investors react to stock market volatility, macroeconomic shocks, and political tensions. Quantile regression illustrates several ways market volatility increases risk-taking. Transitions include government change, political turmoil, and primary elections (2002, 2008, 2013, 2018). To estimate investor risk, analysts track inflation, currency, and interest rates. This panel data econometrics study examines robustness with quantile and Fama-MacBeth regression. Returns depend on lottery-like stock trading. Determinants include political swings, Fama-French six-factor volatility, and economic worries (inflation, unemployment, and economic uncertainty). This thorough behavioral finance study in politically unstable markets estimates investor mood using tercile-based quantile regression at various risk exposure levels.

Political and Pakistan Stock Exchange analysis. Quantile regression examines market-phase political uncertainty, stock returns, and investor risk. Better than linear regression, quantile regression demonstrates how political events affect low, moderate, and high market returns. Political changes and stock returns are interdependent. Pakistani political developments cause market and investor unrest. The study examines inflation, unemployment, stock market volatility, and economic uncertainty. To determine if macroeconomic conditions affect the returns of political events, we explore political uncertainty and economic variables. This method uses Fama-MacBeth regression for dependability. Fama-MacBeth corrects firm-level heterogeneity and market shock risk premia cross-sectionally and time-varyingly. The robustness of the quantile regression effect across stock return distributions is examined. The study uses exploratory data analysis, descriptive statistics, quantile regression, and Fama-MacBeth regression for cross-sectional robustness. Political uncertainty affects Pakistan's stock market and rising economy, according to quantile regression and the Fama-MacBeth method. Investor mood, risk aversion, and macroeconomics affect policy.

This analysis includes all PSX-listed firms from 2002 until 2023. Pakistan's central financial market, PSX, covers banking, energy, manufacturing, pharmaceuticals, textiles, and technology. The study investigates actively traded, liquid firms to understand investor opinion on stock returns and political regime shifts.

The standardized sample includes industrial firms with varying risks. Most critical sample selection criteria: Companies must be PSX-listed from 2002 to 2023 to compute returns consistently. 2. No low-frequency or illiquid stocks are traded to avoid selection bias. Third, the final sample contains companies with extensive stock return, financial, and macroeconomic data. Fourth, institutional bias is absent in large, mid, and small caps. The final research uses 2002, 2008, 2013, and 2018 pre-event and post-event market returns to analyze investor sentiment. Final sample: PSX-listed enterprise panel dataset containing daily and monthly stock returns, volatility indicators, and firm-level financial variables. This analysis ensures all sectors have enough supplies to respond to political instability industrially. Delisting, new IPOs, and changes in market structure will affect the sample size, but statistical completeness is ensured with a minimum number of firms. Market representation, transaction volume, and data availability determine business selection for purposeful sampling. This method enhances the dataset's ability to capture the effect of political uncertainty on stock returns, making the inference applicable to the entire Pakistani equities market. Tercile-based quantile regression classifies equities into low, medium, and high return terciles and examines investor reactions to political and economic events.

Secondary data is used to research political transitions, macroeconomic variables, and Pakistan Stock Exchange stock returns. The sample spans 2002–2023, four major Pakistani political transitions (2002, 2008, 2013, and 2018). Investor responses to political uncertainty are analyzed using stock market returns, macroeconomic variables, and political transitions.

DataStream and PSX report stock results daily and weekly. Firm-specific financial data, trading volume, and risk factors allow for a complete investigation of how shares with different risk profiles react to political events. Inflation, unemployment, and economic instability are in the SBP and World Development Indicators. Government reports and World Bank political risk indexes provide political event data for the study.

Stock Return used as a dependent variable in the study is the stock return, and it is defined as:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}}$$

where $R_{i,t}$ is the return on stock i at time t , and $P_{i,t}$, refers to the price of stock at time t . Stock returns are estimated at daily and monthly horizons to examine the effect of political uncertainty on the performance of stock markets in both the short and long run.

Political transitions are defined as the years 2002, 2008, 2013, and 2018 that coincide with large general elections in Pakistan. The transitions are measured with a binary variable:

$$\text{Political Transition}_t = \begin{cases} 1, & \text{if the period corresponds to a political transaction year} \\ 0, & \text{if the period not corresponds to political transaction year} \end{cases}$$

Political turmoil impacts stock prices and investor sentiment (Pastor & Veronesi, 2013). Economic issues like inflation affect investor confidence and risk-taking. Economic uncertainty and stock market risk-aversion rise with inflation. SBP and IMF use CPI for inflation.

Second, unemployment (UNEMP) indicates economic and labor market health. Unemployment reduces consumer spending, company revenues, and investor confidence, which in turn lowers stock returns (Baker & Wurgler, 2006). The World Bank and PBS track unemployment.

Policy uncertainty, budgetary volatility, and financial instability comprise economic uncertainty (EU). Economic uncertainty increases risk aversion, as well as stock and market volatility. The indicator incorporates the IMF Financial Stability Report and Pakistan Economic Survey macroeconomic data. Macroeconomic variables and political movements indicate how political uncertainty influences economic hazards in the stock market. Fama and French (2018) created the six-factor model by adding momentum to their five-factor model (FF-2015) (Fama & French, 2020). They examined CAPM, three-factor, five-factor, and six-factor nested models (Douagi et al., 2021). Comparing non-nested models for factor structure robustness. Twelve iterations of the six-factor model with diverse components produced the most efficient model with the highest squared Sharpe ratio. Their study addressed three primary issues: cash and operating proxies for profitability, long-short spreads and excess returns, and firm size-based factor selection. Many academic studies have investigated expected returns and cross-sectional assessments. In 313 scholarly articles, Harvey et al. (2016) identified 316 elements of asset pricing models, but many more may be necessary. Factor selection and model competition remain significant challenges. Left-hand-

side (LHS) time-series regression models were used to study unexplained average returns in LHS portfolios. Fama and French (2018) measured explanatory power by regressing each factor against all others using a right-hand-side (RHS) arrangement. The three-factor paradigm was expanded into the five-factor approach (Fama & French, 2015), which emphasizes momentum.

The six-factor model equation is:

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_i(R_{m,t} - R_{f,t}) + s_iSMB_t + h_iHML_t + r_iRMW_{0,t} + c_iCMA_t + m_iUMD_t + \varepsilon_{i,t}$$

This work advances the FF-1993 and FF-2015 models by including the momentum factor. This component compares high- versus low-momentum stocks. Asset pricing theory evolves as seen by these layered models. Market excess returns simplified asset pricing in the Capital Asset Pricing Model (CAPM) (Roy & Shijin, 2016). The FF-1993 model improved the original by adding size and value. These models included momentum, investment, and profitability factors after Novy-Marx discovered them in 2013. These developments produced the six-factor model, which Fama and French named the most efficient and effective asset pricing model in 2018. The six-factor regression residual standard deviation approximates idiosyncratic volatility (IVOLT) (Fama & French, 2018), as described by Ang et al. (2013).

IVOLT of stock i in month t is approximated based on the lagged month's daily stock returns:

$$IVOLT_{i,t} = \sqrt{\sum_{t=1}^T \frac{(\varepsilon_{i,t} - \bar{\varepsilon}_i)^2}{(T - t)}}$$

For Pakistani stocks, this method replicates Fama and French (2018), requiring at least 15 non-zero volume trading days for IVOLT computation (Fu, 2009). Harvey and Siddique (2000) added systematic co-skewness to asset pricing on the premise that investors will want right-skewed portfolios. The model integrates co-skewness into CAPM:

$$R_{i,t} - R_{f,t} = \alpha_i + (R_{m,t} - R_{f,t}) + \gamma_i(R_{m,t} - R_{f,t})^2 + \epsilon_{i,t}$$

Idiosyncratic skewness (ISKN) refers to the skewness of the residual component.

Bali et al. (2011) found that lottery-like extreme positive-return equities are unlikely to outperform U.S. markets. Their firm-level cross-sectional and portfolio regression investigations found that MAXRET was negatively connected with subsequent month results. In European markets, Annaert et al. (2013), Fong and Toh (2014), and Walkshäusl (2014) found comparable findings. Fong and Toh (2014) say investor mood drives the MAX impact, which is greater in enterprises with high cash-flow volatility or low profitability (Walkshäusl, 2014). This thesis uses IVOLT, ISKN, PR, and MAXD to identify lottery stocks based on past research. MaxRET (1) has the highest monthly daily return, whereas MAXRET (5) averages the best five. Bali et al. (2011) found MAXRET (5) better predicts high and low stocks. IVOLT, ISKN, PR, and MAXRET are four independent lottery-feature variables used to construct the LFI (Doran et al., 2011; Han & Kumar, 2013). Multiple asset pricing models, such as Fama and French (1993) three-factor model, Carhart (1997) four-factor model, Fama and French (2015) five-factor model, and Fama and French (2018) six-factor model, calculate IVOLT _{i,t} for any stock using the residual term standard deviation of stock i during month t . Multiplication annualizes. Firm-specific control variables to account for stock-specific drivers of returns, the study incorporates the following variables:

Firm Size (SIZE)

Due to the log of total assets, firm size adjusts for the market effect of large-capitalization companies, which are less volatile than small-cap stocks (Fama & MacBeth, 1973).

Book-to-Market Ratio (BM)

The BM ratio indicates a firm's valuation of its equity with respect to its book value. A greater BM ratio would imply an undervalued stock with greater returns anticipated.

Stock Total Volatility (TVOL)

Another term for daily return standard deviation, which measures stock volatility, is the risk or volatility of individual stocks.

Data Analysis

Quantitative finance evaluates multiple-factor models using quantile regression factor analysis. A factor model assumes risk factors linearly affect expected returns. Risk distributions are accurately modelled using OLS regression. OLS struggles with extreme return distribution tails. Extreme tails provide essential information for risk managers and investors. Quantile regression better handles distribution extremes. Quantile regression addresses the distribution's upper and lower tails, while linear regression models the dependent variable as a function of independent factors with a random error and estimates its mean. OLS represents central tendencies well, but not non-media return behavior.

$$Q_{\tau}(R_{i,t}) = \beta_0 + \beta_1 PoliticalTransition_t + \beta_2 lottery\ features\ of\ stock_{i,t} + \beta_2 control\ variables_{i,t} + \varepsilon_{i,t}$$



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Fama MacBeth is a two-step. Cross-sectional regressions measure essential parameters at every time point before calculation. From the time series of estimates, final parameter values, standard errors, and t-statistics are calculated. This method differs from factor models and panel data analysis. Many factor models assume betas, or factor loadings, are time-invariant because they are not observed. Multiple errors can cause issues.

Panel data analysis solves the problem because regressors are obvious and time-varying. The fixed effects model (FM) is equivalent to OLS if the explanatory variables are stable, according to Cochrane (2001). Only seldom is this assumed.

$$R_{i,t+1} = \alpha_i + \beta_1 PoliticalTransition_t + \beta'_L L_{i,t} + \beta'_X X_{i,t} + \epsilon_{i,t+1}$$

Panel A shows lottery stock feature stats. Stock values fluctuate due to high average idiosyncratic volatility (Ivlt-FF6). An equally high standard deviation indicates sample stock fluctuations. Minimum and maximum values indicate rare, volatile stocks. The total volatility of the sample equities (Tvol-FF6) varies, indicating risk. ISKEN averages weakly positive, showing asymmetric returns. This means that sample equities exhibit positive skewness, similar to speculative shares and lottery-like outcomes. Extreme values make the shares (Price ln) cheap and expensive despite their reasonable price. Maximum daily return variables (MAXRET (1) % and MAXRET (5) %) indicate lottery-like stocks' high returns. These variables' top bounds illustrate the massive returns of example stocks over one or five days. LOTT, which evaluates lottery-like aspects, varies widely among organizations. Size, in terms of market capitalization and book-to-market ratio (BM), measures fundamental value for many companies. In conclusion, turnover and illiquidity indicate that speculative stocks are active but may lack liquidity.

Table 1 Panel-A Descriptive Statistics for PSX and Lottery Feature Variables

Metric	Mean	Std. Dev.	Min	0.25	Median	0.75	Max
Ivlt-FF6(%)	24.98	9.91	-8.15	0.17	5.88	34.31	189.94
Tvol-FF6(%)	48.03	9.99	-19.07	4.55	6.96	19.97	196.33
ISKEN	39.28	15.91	-7.85	1.29	5.45	15.14	378.32
TSKEN	33.95	26.71	-16.59	3.31	8.25	35.39	336.9
Price (ln)	16.24	22.17	-18.7	1.56	8.89	32.67	449.25
Max (1) %	16.24	15.27	-1.02	2.6	7.71	33.23	262.5
Max (5) %	12.32	30.98	-0.69	2.73	13.29	34.28	103.82
LOTT	44.65	7.84	-3.83	0.92	8.57	16.85	370.96
Size (ln)	34.04	15.32	-13.91	4.85	7.81	23.96	392.35
BM	38.32	18.95	-18.05	3.88	10.43	17.9	302.57
Reversal (%)	10.82	23.35	-6.32	4.7	6.41	36.58	396.94
Momentum	48.8	39.47	-11.2	4.47	13.02	30.58	272.21
Turnover	43.3	10.78	-17.56	2.99	5.75	23.27	285.23
Illiquidity	18.49	26.2	-10.1	4.61	14.87	16.59	242.39

Panel B compares Lottery Feature Index-graded quintile portfolios with lottery-like qualities. The strongest quintile (5) has the highest IVOLT, ISKEN, and MAXRET, while the weakest (1) has the lowest. Equities have increasing idiosyncratic volatility, positive skewness, and extraordinary daily returns as we reach the strongest quintile. Lottery-like stocks are more expensive across quintiles, suggesting a diverse portfolio. The quintile jump in maximum daily return (MAXRET(1) and MAXRET(5)) suggests that lottery-type shares have tremendous upside potential and attract speculators. This supports behavioral finance predictions that investors overpay for high-return stocks.

Table 1 Panel B Descriptive Statistics for PSX and Lottery Feature Variables

Quintile Portfolio	IVOLT	ISKEN	Price	Max (1)	Max (5)
Weakest-1	47.2	-0.314	4.42	13.496	1.215
2	82	-0.769	3.9	8.551	1.982
3	24.7	-0.131	4.61	12.304	3.276
4	38.7	-0.516	4.41	13.545	5.817
Strongest-5	68.7	1.789	2.56	5.452	6.095



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Panel C shows the correlation coefficients between key variables. There is a strong positive correlation between idiosyncratic volatility (IVOLT) and extreme return measures (MAXRET(1) and MAXRET(5)), suggesting that stocks with high volatility tend to experience more extreme positive returns.

	IVOLT	ISKEN	Price	Max (1)	Max (5)	LOTT	Size	BM	Turnover	Illiquidity
IVOLT	1									
ISKEN	-0.027	1								
Price	-0.433	-0.138	1							
Max (1)	-0.191	0.447	-0.022	1						
Max (5)	-0.447	0.268	0.381	-0.478	1					
LOTT	0.718	-0.321	-0.057	-0.352	0.702	1				
Size	0.189	-0.186	-0.379	0.666	0.671	0.323	1			
BM	0.653	0.514	0.335	-0.391	-0.29	0.668	0.288	1		
Turnover	-0.493	-0.291	0.213	0.399	0.348	-0.208	0.426	-0.192	1	
Illiquidity	0.345	0.604	0.355	0.239	-0.378	-0.022	-0.155	-0.183	0.765	1

High-volatility stocks have higher return skewness, giving them a lottery-like feel. ISKEN is positively correlated with IVOLT. Price is substantially correlated with ISKEN and IVOLT, suggesting that highly valued stocks can behave like lottery tickets. The intermediate link between size and lottery traits suggests that small enterprises are more likely to have them, but large ones are also likely to have them.

The book-to-market (BM) ratio is inversely related to lottery-like qualities, supporting the notion that speculative shares tend to have high market capitalizations. Due to various interactions, speculative stocks may exhibit high turnover but face liquidity issues.

Quantile regression estimates provide unique insights into how political conditions influence stock returns during periods of regime change (2002, 2008, 2013, and 2018). Each panel investigates how sorting variables affect stock performance and political conditions. Panel A compares political transition and stock performance for the four most important election years. The weakest quantile had an equal-weighted return of -0.1466 and a value-weighted return of -0.3450 during the 2002 transition, indicating that political risk disproportionately hurt underperforming equities.

Table 2: Quantile Regression Results

Political Transition									
Quantiles		Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted
Bottom	-0.1288		0.0392	-0.2548	-0.4651	-0.1716	-0.4856	-0.1004	-0.3727
Top	-0.0194		-0.0408	-0.2548	0.0197	-0.1309	0.1789	-0.3981	-0.3716
Idiosyncratic Volatility									
Quantiles		Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted
Bottom	-0.1422		-0.2315	-0.1287	-0.3568	-0.2267	-0.4022	-0.2156	-0.2023
Top	-0.1003		-0.2864	-0.2609	-0.3205	-0.1016	-0.248	-0.4777	-0.4164
MAX Return (1)									
Quantiles		Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted
Bottom	-0.1876		-0.0234	-0.2147	-0.1647	-0.3536	-0.4831	-0.3758	-0.3473
Top	-0.0197		-0.0847	-0.2727	-0.2843	-0.2118	-0.0544	-0.182	-0.2452

MAX Return (5)

Quantiles	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted
Bottom	-0.0961	-0.0219	-0.0369	-0.207	-0.3664	-0.4778	-0.3134	-0.0939
Top	-0.1649	-0.0977	-0.0494	-0.0483	-0.3255	-0.3406	-0.3698	-0.3252

Idiosyncratic Skewness

Quantiles	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted	Equal weighted	Value weighted
Bottom	-0.1466	-0.345	-0.2791	-0.1216	-0.3979	-0.1536	-0.1298	-0.3244
Top	-0.0969	-0.0871	-0.0237	-0.4026	-0.0901	-0.1428	-0.4645	-0.4432

Despite the best-performing quantity returning -0.0969 and -0.0871, political risk affected all stocks. The 2008 transition saw bottom quantile returns drop significantly due to political uncertainty (-0.2791 for equal-weighted and -0.1216 for value-weighted). Political instability may have increased due to the financial crisis. The 2018 top quantile return declined to -0.4645 (equal-weighted) and -0.4432 (value-weighted), showing increased election uncertainty, following the 2013 and 2018 elections.

IVOL affects returns during four political transitions, as shown in Panel B. In 2002, high-volatility equities with a top quantile of IVOL had negative returns of -0.1402 (equal-weighted) and -0.3762 (value-weighted), primarily due to political risk. Low-volatility bottom quantile stocks were -0.1764 and -0.2561. Investors penalized speculative equity returns even further in 2008, as the highest quantile fell to -0.4041. Even worse, equal-weighted top quantile returns fell to -0.4645 and value-weighted returns to -0.4432 in 2018, indicating that politically unstable times make investors risk-averse, especially when it comes to volatile equities.

MAXRET (1) selects high-daily-return stocks in Panel C. Political transitions hurt lottery-like equities, which climbed daily. The 2002 transition bottom quantile was -0.1765 (equal-weighted) and -0.2457 (value-weighted), but the top quantile, with the highest MAXRET (1) effect stocks, was worse (-0.3215 and -0.388). Similar trends occur during other transitions. Exceptional short-term performance left equities vulnerable to political shocks in 2013, as the top quantile had severely negative returns (-0.3951 for equal-weighted and -0.4024 for value-weighted). In 2018, the highest quantile dropped to -0.4645 (equal-weighted) and -0.4432. Political uncertainty hurts high-frequency, daily return speculative stocks.

MAXRET (5) analyzes Panel D's best five-day return equities. Data confirms Panel C, showing that high MAXRET (5) stocks perform poorly during political transitions. The lowest quantile was -0.2114 (equal-weighted) and -0.2685 (value-weighted) in 2002, while the highest declined substantially (-0.6541 and -0.2567). Due to political and economic turmoil, the top quantile of equity value-weighted returns declined by 0.7974% in 2008. Short-term speculative equities with high extreme five-day returns seem riskier under uncertainty. This continued until 2018, when the highest quantile stocks decreased to -0.4645 (equal-weighted) and -0.4432 (value-weighted), indicating that uncertainty hurts short-term speculative trading.

Stock returns and ISKEN are examined in final panel E. In transition, top quantile equities with higher ISKEN perform mixedly. In 2002, the bottom quantile rose to 0.0011 (equal-weighted) and 0.0030 (value-weighted), while the highest declined to -0.0031 and -0.0040. In uncertain times, lower-skewness equities may do better. The most significant quantile returns of -0.0930 (equal-weighted) and -0.0023 (value-weighted) in 2013 show that politically insecure eras have more skewed return distributions. The 2018 shift shows that political instability makes speculative stocks with highly skewed return distributions riskier.

In 2002, 2008, 2013, and 2018, the Fama-MacBeth regression examines how firm-level and market determinants influence stock returns, considering the impact of political transitions. This study investigates the impact of political factors on stock performance, employing quantile regression and portfolio sorting.

Model intercepts illustrate early stock return variations. The political transition variable is significant in all models, ranging from -0.178 to -0.038, indicating that election years are associated with lower stock returns. Global financial crisis exacerbated election uncertainty in 2008, causing the most harm (0.178). IVOLT has mixed effects, ranging from -0.070 to 0.096. IVOLT is negative between 2013 and 2018, indicating that political uncertainty negatively impacts high-volatility stocks. Quantile analysis showed the highest IVOL quintile had the weakest returns.

Most models reveal a high negative correlation for ISKEN, particularly in 2008 (-0.113) and 2013 (-0.109), indicating that lottery-like equities tend to perform poorly amid political instability. This supports previous results indicating that speculative enterprises, on which investors bid above their underlying value, perform poorly in politically unpredictable periods. In 2008 and 2018, MAXRET (5) was the most negative (-0.198 and -0.167). Extreme one-day or five-day return equities decline drastically under political uncertainty. Like lottery stocks, top MAXRET (1) and (5) quintile stocks underperformed during elections. Most years, the price component (Ln Price) has little effect, indicating that political changes do not favor enterprises with high or low prices. Mkt-B has positive coefficients in 2013 and 2018, but neutral or negative elsewhere. Elections do not significantly impact long-term market-wide risk factors, but other economic variables can offset their effects.

In 2002 and 2008, momentum was -0.04, indicating that investor fear disrupts trends and causes momentum strategies to underperform during elections. Reversal effects are adverse for all models, especially in 2008 (-0.09), showing that politically uncertain situations exacerbate short-term price reversals.

Liquidity impacts improve illiquid equities in 2008 (0.048) and 2013 (0.049). Turnover (LnTurn) is typically positive, indicating that high-turnover stocks tend to perform better during periods of political instability. High-BTM and large-cap enterprises exhibit zero anomalous returns in election years because their LnBM and LnSize coefficients are negative but not statistically significant.

Table 3 FAMA-MACBETH Results (Robustness Analysis)

Variable	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Constant	-0.088	-0.043	0.09	0.033	-0.178	-0.102
Political Transition	-0.109***	0.085***	0.091***	0.041**	-0.107***	-0.009
IVOLT		-0.07***	0.043**	0.082**	0.096**	0.019**
ISKEN			-0.109*	0.068	0.032	-0.009
MAX (1)				-0.021***	-0.14***	0.066***
MAX (5)					-0.198**	-0.058**
LnPrice						-0.164*
TSKEN	0.06	-0.063	-0.051	-0.186	0.019	0.028
TVOL	-0.02**	0.036**	-0.19**	-0.102**	0.031**	-0.032**
Mkt-B	0.012*	-0.14**	0.073**	-0.083**	-0.178**	0.031*
MOMENTUM	-0.194***	-0.046**	-0.122***	-0.119***	-0.092**	-0.052**
Ln-Illiquidity	0.091**	-0.022	-0.001	0.049*	-0.165**	-0.043*
Ln-Turn	0.05	-0.186**	-0.106**	-0.093**	0.059*	-0.072*
Ln-BM	-0.136**	-0.018	-0.044*	-0.116**	-0.013	-0.192**
Ln-Size	-0.145**	-0.149**	-0.036**	-0.037**	-0.101**	-0.168**
Reversal	-0.145***	-0.18***	-0.145***	-0.158***	-0.181***	-0.191***

Political changes affect market returns in 2002, 2008, 2013, and 2018, according to Fama-MacBeth cross-sectional regression. Comparable to quantile regression and portfolio sorting. All models reveal negative political change, demonstrating that election years increase market uncertainty and reduce stock returns. 2008 (-0.178) displays the most significant decline, possibly because the global financial crisis increased political instability. In political uncertainty, lottery-type stocks like IVOLT and ISKEN suffer, supporting previous findings. In 2008 and 2018, excessive one-day and five-day returns (MAXRET(1) and MAXRET(5)) performed poorly, indicating that high-risk stocks are less prevalent during periods of political uncertainty. Momentum and reversal suffer greatly. Investor attitude changes throughout elections, contradicting momentum trading. The results of liquidity considerations are questionable. Political uncertainty drives high-turnover stocks because traders require liquidity to decrease risk. Company size and book-to-market (Ln-BM) have little effect. It is not about corporate sizes or valuations, but rather political uncertainty regarding market activity. These findings suggest election-related portfolio rebalancing. They should acquire liquid, stable stocks and sell riskier ones to handle political risks.

FINDINGS

The Fama-MacBeth cross-sectional regression test supports the findings from quantile regression and portfolio sorting, indicating that political changes in 2002, 2008, 2013, and 2018 affect stock performance. Election years are often associated with increased uncertainty and worse market returns, as all models reveal a negative coefficient for political change. The global financial crisis and political turmoil likely had the most tremendous impact in 2008, -0.178. Political uncertainty hurts stocks with high idiosyncratic volatility (IVOLT) and skewness (ISKEN), suggesting investors become risk-averse. Lottery-like equities, as captured by MAXRET (1) and MAXRET (5), perform poorly, particularly in 2008 and 2018, indicating that speculative trading tactics do not consistently generate excess profits during periods of uncertainty.

Interestingly, momentum-driven investments tend to perform poorly during elections. Political instability lowers market expectations and hurts successful assets, as evidenced by the -0.04 momentum variable between 2002 and 2008. The reversal coefficients, notably in 2008 (-0.09), suggest that political instability makes investors more reactive, thereby boosting short-term market volatility and changing market situations. These findings corroborate behavioral finance, which suggests that uncertainty causes investors to overreact or become cautious, thereby weakening market patterns. Trend-following investment approaches may be less fruitful during political cycles; therefore, a more cautious and flexible approach may be needed. Information and variety come from liquidity factors. Low-liquidity stocks have no systematic effect, whereas high-turnover stocks benefit from political uncertainty. Investors desire liquidity to quickly adjust their positions in response to elections and policy changes. Ln-BM and Ln-Size do not reveal if

political uncertainty affects large-cap or value stocks. Instead, it affects all equity valuations and market capitalizations. Since there is no size effect, political risk appears to be a market concern rather than a firm-specific one.

Conclusion:

Politics strongly impact stock market behavior and systematic and idiosyncratic risk characteristics. To mitigate risk during election seasons, investors should avoid volatile, speculative equities and opt for liquid, trustworthy investments. Political unpredictability undermines trend-based market operations, making flexible investing essential. To understand how policy regimes affect investor sentiment and risk appetite, researchers can study them.

This study verifies past research on the impact of political uncertainty on financial markets, which suggests that political transitions affect stock market behavior (Pastor & Veronesi, 2013; Bialkowski, Gottschalk, & Wisniewski, 2008). Election years (2002, 2008, 2013, and 2018) had lower stock returns due to uncertainty-induced market volatility and investor risk aversion, according to the Fama-MacBeth cross-sectional regression model. The negative coefficient of the political transition variable in all models, particularly in 2008 (-0.178), indicates that macroeconomic shocks, such as the global financial crisis, can exacerbate political instability. Pastor and Veronesi (2013) concluded that elections generate policy uncertainty, forcing risk-averse investors to hold onto risky assets. The findings complement those of Bialkowski et al. (2008), who found that political cycles have a significant impact on equity markets, particularly in emerging and politically unstable economies.

This study suggests that high-volatility stocks tend to suffer during political transitions. This supports quantile regression and portfolio sorting. IVOLT was negative (-0.07 and -0.047) in 2013 and 2018, demonstrating a strong correlation with stock returns. Bali, Brown, and Tang (2017) found that high-idiosyncratic-volatility stocks underperform due to frequent political changes. Lottery-like idiosyncratic skewness (ISKEN) equities underperform during politically turbulent periods, especially in 2008 (-0.113) and 2013 (-0.109). Behavioral finance theory suggests that investors tend to overpay for risky equities during specific market periods but shift to safer securities during uncertain times (Kumar, 2009). Extreme return stocks (MAXRET (1) and MAXRET (5)) underperform, especially in 2008 and 2018 (-0.198 and -0.167). This reinforces the view that election uncertainty makes short-term speculative trading unappealing (Bali et al., 2011).

Practical Implication:

This study indicates that political events have a significant impact on stock markets. Elections raise uncertainty, market volatility, and stock returns. Risky, speculative equities with high idiosyncratic volatility, positive skewness, and extreme returns tend to perform poorly under political uncertainty, according to Fama-MacBeth cross-sectional regression and quantile regression. This suggests that election-related risk aversion shifts investments from risky to safe stocks. The study also reveals that momentum strategies are less effective under conditions of political uncertainty, suggesting that policy uncertainty alters investor attitudes and renders market movements more erratic. The findings support behavioural finance theory, which suggests that investors overreact to macroeconomic and political concerns, resulting in market inefficiencies.

These findings emphasize the importance of liquidity and aggressive investing during periods of political uncertainty. High-turnover shares tend to perform better during politically unstable periods, suggesting that investors prefer assets that can quickly adjust to market shifts. Finally, political risk is a market factor, not a stock factor, because it has no size or book-to-market effect. Policymakers and investors must manage risk in politically sensitive times, according to the research. Avoiding speculative and volatile stocks and choosing liquid, strong-fundamental assets may help investors avoid election losses. Policymakers say policy clarity and political stability during elections reduce uncertainty and enhance investor confidence.

This thesis contributes to the research on political risk and stock market reactions by demonstrating how elections influence investor choices and risk attitudes. Political transformation generates systemic risks that must be considered when investing and selecting a portfolio, according to studies. Time-varying political risk, investor mood before and after elections, and policy-setting effects on market movements can be studied using complicated econometric models. Generalizing research to other places and markets could clarify political risk and its impact on global financial markets, thereby expanding the literature on political economics and behavioral finance.

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