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THE IMPACT OF US PRESIDENTIAL ELECTIONS ON GLOBAL MARKET DYNAMICS: AN ANALYSIS OF THE 2020–2024 ELECTIONS

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Abstract: By examining both short-term price reactions and long-term dynamic interactions, this study investigates how the U.S. presidential elections affect international financial markets. Using the MSCI Developed Markets (DM) and MSCI Emerging Markets (EM) indexes, the research focuses on the elections won by Joe Biden in 2020 and Donald Trump in 2024. The TVP-VAR framework is used to examine long-term dynamics, whereas an event study technique is used to investigate short-term consequences. The results of the event study show that short-term market reactions mostly stay within their confidence bands and that average abnormal returns around the election announcement and inauguration dates do not show a clear directional change. On the other hand, cumulative abnormal returns show that while DM markets performed better during the 2024 election era, EM markets outperformed DM markets during the 2020 election period. While there is no significant divergence in average abnormal returns between EM and DM markets, the divergence in cumulative abnormal returns suggests, contrary to a paradox, that markets have priced in election uncertainty and policy expectations cumulatively over time, rather than reacting on election day. According to the TVP-VAR results, the two markets are strongly interconnected and shock transmission primarily moves from DM to EM, with brief fluctuations noted during election seasons. Overall, the findings show that the effect of U.S. presidential elections on international financial markets differs depending on the political stance of the elected leader; the Trump administration tends to favor developed markets, while the Biden administration offers a more favorable pricing environment for emerging markets.

Keywords: Developed and emerging markets (DM and EM), Market integration, Event study, TVP-VAR, U.S. presidential elections

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1. Introduction

Pandemics, wars, economic crises, political unpredictability, and natural disasters are just a few of the many variables that influence investor perception and risk expectations in financial markets. Financial markets fluctuate as a result of political instability, which includes events like elections, changes in government, and changes in political stance (Bouoiyour and Selmi, 2016; Sharma and Bangur, 2024). Elections and government processes are political events with uncertain consequences, according to Dahl and Stinebrickner (1963), who claimed that the primary cause of political uncertainty is the unpredictability of the policies that will be implemented after an election. Political uncertainty is defined by Pasquariello and Zafeiridou (2014) as both the risks associated with the election outcome and the uncertainty regarding the policies that may result from this outcome. They also define political uncertainty as uncertainty regarding government policies, the economic implications of these policies, and their effects on financial systems.

Financial market volatility is also caused by increased uncertainty resulting from political activities. According to Sharma and Bangur (2024), market volatility rises during times of political unpredictability, and as a result, investors demand a larger risk premium. Dangol (2008) employed the event study approach to determine how political developments affected abnormal stock returns. However, Ferrara and Sattler (2018) discovered that political risks are reflected in pricing more quickly in economies with poor institutional structures and that financial market are influenced by the strength and predictability of political institutions. Political risk has been shown to have more powerful and long-lasting effects on emerging markets (Diamonte et al., 1996; Bilson et al., 2002; Sonenshine and Aboulhosn, 2025; Ortiz et al., 2025). As a result, industrialized and developing nations may react to political shocks in various ways since the extent of their effects vary based on variables including the depth of the financial market, institutional stability, and investor structure.

US financial markets, as well as developed and emerging markets, are significantly impacted by US presidential

elections. Such political events have different effects on developed and emerging economies, according to recent research (Ma et al., 2024; Sonenshine and Aboulhosn, 2025; Ortiz et al., 2025). In this sense, shifts in political regimes, like the elections of Biden in 2020 and Trump in 2024, affect nations differently through global risk appetite, expectations, and capital flows. Biden and Trump, who ran for president in 2020 and 2024, have quite different economic philosophies. The Biden administration has implemented measures like enhanced international collaboration, investments in climate change, expansionary monetary and fiscal policy, and environmental laws. The Biden administration's expansionary fiscal and monetary policies facilitate higher portfolio flows, especially to developing nations, and sustain global liquidity. According to empirical research, capital inflows into emerging financial markets have resulted from greater global liquidity (Fratzscher, 2012; Cerutti et al., 2017). Trump's economic strategy, on the other hand, is centered on trade disputes, tax cuts, and protectionist customs laws. According to Caldara et al. (2020), trade wars and protectionist customs policies, in particular, are anticipated to impact financial markets through the channel of higher risk in financial markets, and this effect is anticipated to be particularly pronounced for emerging markets. As a result, whereas the expansionary fiscal attitude and policy coherence of the Biden administration foster a stable international policy environment, Trump's tense policies—like trade conflicts and customs tariffs—cause expectations to decline. Therefore, various market responses for the two presidents can be anticipated in the MSCI Developed Markets (MSCI_DM) and MSCI Emerging Markets (MSCI_EM) indices since different policy approaches will have different consequences on global investors.

Both developed and emerging markets were studied in order to accurately evaluate the effects of the eco-political positions taken during the Biden and Trump administrations on financial markets. This is due to the fact that these two markets have different investor profiles, institutional stability, and depth. According to the literature currently in publication, political shocks have significant, long-lasting repercussions on emerging markets, whereas established markets are able to absorb the associated risk's implications (Diamonte et al., 1996; Bilson et al., 2002; Ma et al., 2024; Sonenshine and Aboulhosn, 2025). Therefore, investors can create position strategies based on political regime shifts by analyzing how abrupt events, like US elections, are priced in EM and DM markets.

In order to ascertain the returns in the EM and DM markets on the days of the announcement of the election results and the president's inauguration ceremony, as well as to identify short-term variations in these markets' returns, the study used an event study approach. The TVP-VAR approach was also utilized to ascertain the direction of shock transmission between markets and how the influence of election outcomes changed over time, in addition to short-term effects. By offering a chance to thoroughly evaluate both the instantaneous pricing during election periods and the market dynamics that evolve over time in the longer term, the combination of these two approaches enhances the methodological breadth of the study.

Analyzing the impact of US presidential elections on international financial markets in both developed and emerging nations is the goal of this study. The study attempts to show how financial markets responded to the release of the election results in the media and the inauguration ceremony, with a special focus on the 2020 Biden and 2024 Trump election results. Three sub-dimensions can be used to characterize the study's goal. Finding abnormal returns in the MSCI Developed Markets (MSCI_DM) and MSCI Emerging Markets (MSCI_EM) indexes during the election results announcement and inauguration periods is the study's primary goal. The event study analysis approach was utilized in this instance, and the benchmark index was the MSCI ACWI index. As a result, the MSCI_DM and MSCI_EM markets' instantaneous reactions were calculated for both event periods (the day of the inauguration ceremony and the announcement of the election results). Second, the dollar index (DXY), US 10-year bond yield (UST10), oil price (Brent), and VIX index were incorporated into the event research model to isolate the actual impact of the political shock by adjusting for the influences of global financial elements. Lastly, long-term dynamic relationships after short-term effects were identified using the TVP-VAR approach. As a result, both the immediate and long-term consequences of election shocks were investigated.

By analyzing the effects of US presidential elections on financial markets in terms of both short-term abnormal returns and dynamic relationships that vary over time, this study is anticipated to add to the body of literature. This study offers an international viewpoint by employing indices that represent global markets, such as MSCI_EM and MSCI_DM, whereas previous research has primarily concentrated on local financial markets. Together with the event research, the TVP-VAR analysis thoroughly displays the trajectory of market interactions over time in addition to short-term effects. The benchmark model's control variables, which include global financial factors, have clarified the impacts of political shocks. When the analyzed indices are taken into consideration, the results yield more forecasts for investors, and the combination of various analysis techniques offers a different analytical framework for both short- and long-term consequences to investors and academic literature.

1.1. Literature Review

There is a wealth of research on the relationship between political unpredictability and financial markets (Bialkowski et al., 2008; He et al., 2009; Wang and Boatwright, 2019; Irmak, 2025; Flynn and Tarkom, 2025). Risk levels and financial asset returns are also

impacted by political considerations. As elections get closer and there is more doubt about the outcome, market uncertainty tends to rise. Changes in international and domestic policies after changes in government lead to political uncertainty (Dahl and Stinebrickner, 1963). As a result, there is uncertainty regarding fiscal and economic policies and how they affect financial markets (Pasquariello, 2014). As a result, political uncertainty includes all potential political risks as well as the uncertainty surrounding election results (Pasquariello and Zafeiridou, 2014).

The dynamics of returns and volatility are the main topics of research on the US election example. According to Goodell and Vähämaa (2013), volatility rises prior to the US presidential election, indicating that investors' perception of risk is heightened by political unpredictability. According to Mnasri and Essaddam (2021), the impact of US presidential elections on volatility is transient. According to Li and Born's (2006) research, daily stock returns rise in the near term during uncertain US elections; if the result is known, returns resemble typical pre-election market circumstances.

The literature on how political uncertainty affects volatility generally agrees that rising uncertainty erodes investor confidence and that uncertainty-induced risk raises volatility by lowering stock prices (Antonakakis et al., 2013; Goodell and Vähämaa, 2013; Chau et al., 2014; Brogaard and Detzel, 2015; Kelly et al., 2016). In both developed and emerging markets, pricing behavior declines, risk premiums increase, and market volatility rises during times of political unpredictability. In their volatility analysis of the Biden-Trump election, Albori et al. (2024) found that while US stock volatility decreased and stock values increased, the likelihood of Trump's presidency increased US bond volatility.

The political and economic environments in the United States are clearly related. Election results produce aberrant returns in financial markets, according to a number of scholarly research. Niederhoffer et al. (1970) showed that elections produce abnormal returns in financial markets and that markets quickly price in the political preferences of the victorious candidate's party. In a similar vein, Brown et al. (1988) created the uncertain information hypothesis, which contends that as uncertainty is resolved, prices rise. In a large-sample analysis, Pantzalis et al. (2000) discovered that positive abnormal returns accompany election uncertainty. They discovered that uncertainty in the US raises the EPU index with a lag, and that this effect is stronger in emerging markets. According to Antonakakis et al. (2013), policy uncertainty causes co-movements in stock returns and volatility dynamics, and uncertainties pertaining to the US have a substantial impact on markets in Europe and Asia.

Financial markets are significantly impacted by the policy choices of Republicans and Democrats running in US elections. Huang (1985) discovered that Democratic administrations produce better average returns, defying the popular notion that stock markets favor the Republican Party. Similar findings were found by Santa-Clara and Valkanov (2003), who looked at elections from 1927 to 1998 and discovered that Democratic regimes produce greater returns when they win. Today's differences in candidates' policy preferences, however, indicate that market responses are more reliant on the candidate's economic platform than they are on conventional party distinctions. In actuality, the Trump administration's protectionist and nationalist economic policies—particularly tariffs and trade wars—increased uncertainty and volatility (Cervantes and Rambaud, 2020; Ortiz, 2023). While Trump's tariffs, corporate tax cuts, and deregulation policies are anticipated to produce favorable returns in the short term, they are also anticipated to raise risk premiums in the medium run, according to policy studies done by Stanford SIEPR (URL1). Biden's economic strategy, on the other hand, emphasizes issues like public investments, predictable diplomacy, international cooperation, and green transformation. By boosting predictability, these policy expectations are thought to bolster market confidence. In fact, Fitzgerald et al. (2020) observed that the prospect of Biden's election caused financial markets to react with less volatility. Additionally, Bidenomics investigations demonstrate that investments in infrastructure and renewable energy boost investment appetite and lower risk perception (Turner et al., 2025). Consequently, there is a recurring pattern in the literature: Biden's globalist policies lower uncertainty, while Trump's protectionist policies raise volatility.

It is anticipated that the DM and EM markets will be affected differently by the policy differences between Biden and Trump. Research indicates that while economic expectations like tax cuts and deregulation boost upward movement in US markets, Trump's protectionist and closed-off economic language puts downward pressure on emerging markets (Caldara et al., 2020). Positive pricing in EM markets is anticipated as a result of Biden's political stance, which favors multilateralism, international collaboration, and the end of trade disputes. On the other hand, Biden's corporate tax pressure, in contrast to Trump's, implies that it might limit returns in US markets to some extent. Political forecasts indicate that Biden's market outlook is more moderate and that Trump's uncertainty and risk premiums are higher. As a result, it is anticipated that developed markets would grow through the US markets during the Trump administration, while emerging markets will decline. It is anticipated that DM markets will perform more reasonably while EM markets will strengthen during the Biden administration.

Research typically shows that during times of political unpredictability, financial market volatility and risk premiums grow. Election outcomes affect both short-term returns and volatility dynamics, according to studies that particularly concentrate on US elections. Additionally, there is proof that uncertainty originating in

the US affect international markets and that both wealthy and developing nations are vulnerable to these shocks. Additionally, regardless of party affiliation, contrasting policy proposals from Trump and Biden seem to have uneven consequences. Through returns and volatility in both industrialized and developing nations, this study seeks to assess the effects of the Biden and Trump elections on financial markets.

2. Materials and Methods

To ascertain the effect of the 2020 and 2024 presidential elections on international stock markets, this study used a number of techniques that combined short-term and long-term assessments. Initially, an event research methodology was used to identify the immediate impacts on the markets of abrupt and unforeseen information flows relating to the election. The second step used a Time-Varying Parameter VAR (TVP-VAR) model to determine the dynamic and time-varying interactions brought on by the market's elections after finding short-term correlations. As a result, the study found both long-term correlation patterns and short-term abnormal return responses.

2.1. Data Set

The studies carried out for this study employed the daily closing values of the MSCI Developed Markets (MSCI DM) and MSCI Emerging Markets (MSCI EM) indexes from January 2, 2018, to October 31, 2025. The event study's predicted returns were estimated using the MSCI ACWI index, a benchmark indicator for international markets. Additionally, the US dollar index (DXY), the US 10-year Treasury yield (UST10), the price of Brent crude oil, and the global volatility index (VIX) were utilized to account for the possible influence of macrofinancial indicators during election times. The investing.com website provided all of the study's data. Table 1 lists the variables utilized in the study along with their kinds, descriptions, and transformation details.

After converting all of the study's price series into logarithmic price series so they could be analyzed, logarithmic returns were computed. This transformation is essential for improving the stationarity features of the series utilized in the TVP-VAR analysis as well as for precisely computing abnormal returns in the event investigation. Since the UST10 interest rate variable was not suitable for log transformation, stationarity was attained by taking its first difference.

Table 2's descriptive data demonstrate that while the volatility levels of MSCI DM and MSCI EM returns are comparable, the DM index has a greater range of extreme values. The VIX index and Brent oil prices exhibit the highest volatility among macrofinancial indicators, suggesting that oil markets are extremely vulnerable to shifts in global risk perception and geopolitical shocks. The findings of the Jarque-Bera test, skewness, and kurtosis show that every series deviates considerably from a normal distribution.

The market index time course graphs are displayed in Figure 1, while the control variables are displayed in Figure 2. During the COVID-19 period, both indices exhibit a notable fall that is followed by a recovery. Additionally, the graph shows that following the epidemic, expansionary monetary policies were primarily focused on emerging markets. After Biden won the 2020 election, EM markets increased more sharply. After Trump won the 2024 election, EM markets saw a sharp drop, but DM markets did not.

Table 1. Variables table

Variables	Explanation	Type	Transformation
MSCI DM	Developed countries stock index	Indeks	Log return
MSCI EM	Emerging market stock index	Indeks	Log return
MSCI ACWI	Benchmark index	Indeks	Log return
DXY	US dollar index	Indeks	Log return
UST10	US 10-year bond yield	Interest rate	The first difference
Brent	Brent crude oil price (USD)	Price	Log return
VIX	Global volatility index	Indeks	Log return

Table 2. Descriptive statistics table

Variable	Average	Std. Dev.	Min	Max	Skewness	Kurtosis	P-value	N
MSCI EM	0.00009	0.01034	-0.08248	0.05574	-0.68280	6.51352	0.00000	2043
MSCI DM	0.00036	0.01031	-0.10441	0.08406	-1.00201	16.26480	0.00000	2043
MSCI ACWI	0.00039	0.00979	-0.09985	0.08071	-1.08655	16.39236	0.00000	2043
DXY	0.00004	0.00415	-0.02139	0.01639	-0.17527	1.85655	0.00000	2043
Brent	-0.00003	0.09286	-0.68949	0.86412	-0.06043	16.69902	0.00000	2043
VIX	0.00028	0.08030	-0.44245	0.76825	1.43372	9.20647	0.00000	2043
UST10	0.00080	0.05650	-0.28800	0.32900	-0.11573	2.19355	0.00000	2043

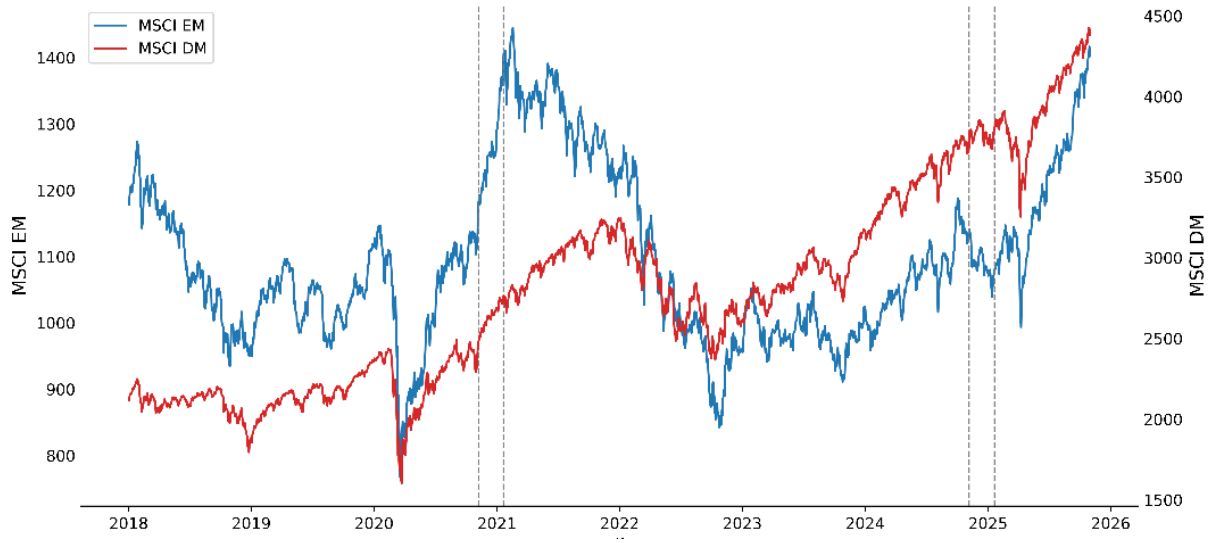

Figure 1. DM and EM time course graph.

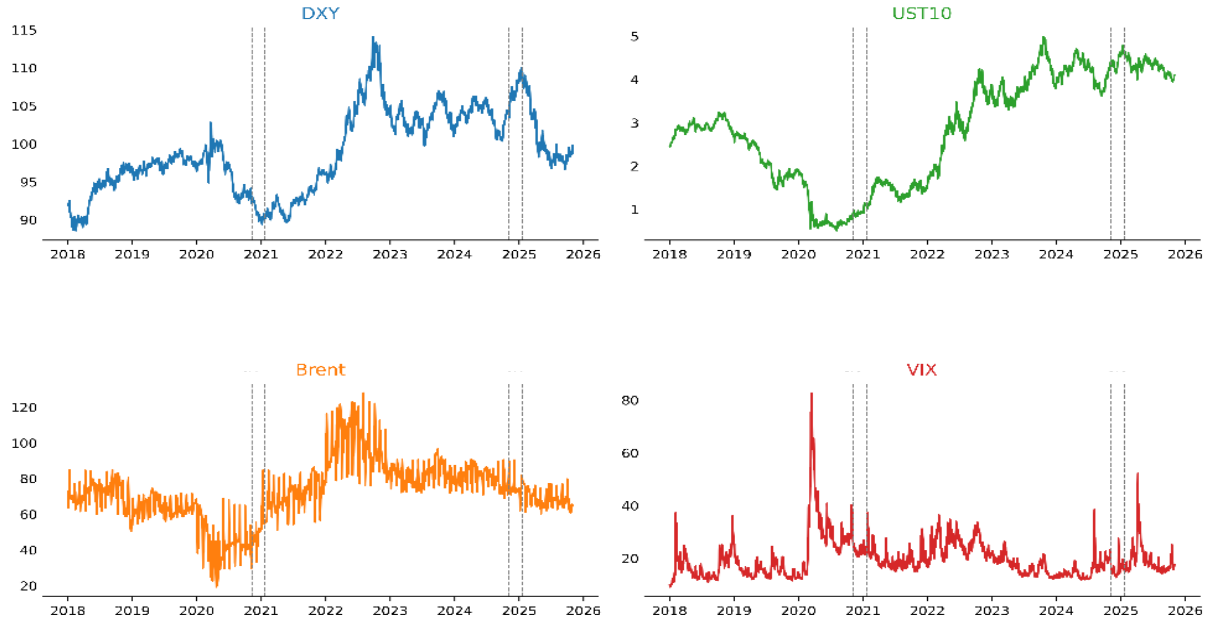

Figure 2. Control variables time path graphs.

The time histories of the control variables are displayed in Figure 2. It seems that the value of the dollar increased under the Trump administration and decreased during the Biden campaign. This may be a clear sign of the two political adversaries' economic strategies. The exchange rate is lower under market-friendly globalist Biden and higher under nationalist Trump. The VIX index softens following the election, interest rates are upwardly mobile, and oil prices fall during both election cycles. Macro indicators are obviously impacted by political instability as well. But under the Trump administration, the VIX index shows higher spikes, whereas under Biden's market-friendly, global system-supporting administration, the uncertainty indicator shows more restricted.

To ensure the econometric validity of the analyses and to avoid spurious regression problems, the stationarity properties of all variables were examined prior to conducting the event study and TVP-VAR analyses. Since unit root issues are commonly observed in financial time series and may lead to misleading inferences in multivariate dynamic models, stationarity testing is considered a fundamental prerequisite of the empirical framework. Accordingly, Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) unit root tests were employed to examine whether the series contain unit roots. The tests were conducted under both trend and trend with intercept specifications.

Table 3. Unit root test

Variables	ADF				PP			
	Level		1st Difference		Level		1st Difference	
	T	T+I	T	T+I	T	T+I	T	T+I
MSCI-DM	-0.45224	-3.02959	-13.7716*	-13.795*	-0.3936	-2.72930	-45.522*	-45.523*
MSCI-EM	-1.77432	-1.82887	-41.013*	-41.032*	-1.79755	-1.83784	-41.091*	-41.097*
MSCI-ACWI	-0.30642	-2.89591	-13.753*	-13.779*	-0.25138	-2.59705	-43.899*	-43.899*
Control Variables								
DXY	-1.98630	-2.09454	-44.065*	-44.061*	-1.91668	-1.99375	-44.120*	-44.121*
UST10	-0.78697	-1.46573	-15.908*	-15.929*	-0.83629	-1.46955	-49.606*	-49.625*
VIX	-5.7035*	-5.7079*			-5.5298*	-5.53285*		
Brent	-1.67250	-1.70449	-19.4171*	-19.4141*	-54.947*	-54.914*		
Critic Value								
%1	-3.433388	-3.962591	-3.433388	-3.962591	-3.433352	-3.962540	-3.433388	-3.962540
%5	-2.862768	-3.412034	-2.862768	-3.412034	-2.862752	-3.412009	-2.862768	-3.412009
%10	-2.567470	-3.127927	-2.567470	-3.127927	-2.567462	-3.127912	-2.567470	-3.127912

Table 3 shows the unit root test results, revealing heterogeneous stationarity among the variables. According to the findings, the VIX index is found to be stationary at levels under both ADF and PP tests. The Brent crude oil price series is stationary at levels according to the Phillips–Perron (PP) test, while the Augmented Dickey–Fuller (ADF) test indicates stationarity after first differencing. All remaining variables (MSCI DM, MSCI EM, MSCI World, DXY, and UST10) are found to contain unit roots at levels but become stationary after first differencing. Based on these results, all variables used in the study were transformed appropriately to ensure stationarity, and the transformed series were employed in subsequent analyses.

2.2. Methodology

The event study analytic method was initially used in this study to examine the short-term effects of the US election outcomes on developed and emerging economies. The purpose of the event study analysis approach is to look into how an event affects a particular dependent variable (stock price). It is carried out to look at changes in stock prices over a given time period (event window) that go above expectations (abnormal returns) (Woon, 2004).

Figure 3. Event study time period.

The timeline of the estimation and event windows used in the event study is displayed in Figure 3. The event time (the announcement of the election results and the oath-taking ceremony) is represented by t0, the estimation window for predicted returns is represented by the t-240 to t-21 interval, and the event window is represented by the t-21 to t+21 interval. Both the benchmark model and the benchmark+control variables model can use this structure. The event study method's steps are listed below (Tuominen, 2005; Sakarya and Sezgin, 2015; Irmak et al., 2025) (equation 1):

$$AR_{it} = R_{it} - E(R_{it}) \quad (1)$$

The abnormal return is denoted by AR_{it}, the actual return by R_{it}, and the expected return by $E(R_{it})$. The equation's R_{it} is computed as follows:

$$R_{it} = L_n(P_{it}/P_{it-1}) \quad (2)$$

The stock's return in period t is represented by P_{it} in equation 2, while the stock's return in period *"t-1"* is represented by P_{it-1}. The market model states that $E(R_{it})$ is computed as follows:

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + e_i \quad (3)$$

The constant and slope coefficients of the least squares model computed during the estimation phase are denoted by α_i and β_i in equation 3, while the term is represented by e_i hata. The market return R_{mt} is computed as follows:

$$R_{it} = L_n(I_{it}/I_{it-1}) \quad (4)$$

The market return in period *"t"* is represented by I_{it} in equation 4, while the market return in period *"t-1"* is represented by I_{it-1}. The average abnormal return (AAR), which is the average of the abnormal returns of all stocks included in the analysis at time *"t"* is computed as follows following the computation of the abnormal returns for each stock in equation 5:

$$AAR_t = (\frac{1}{2}) \sum_{t=1}^{n} AR_{it} \quad (5)$$

Lastly, the cumulative average abnormal return (CAAR), which is defined as follows, is computed to see if the total periodic return before and after the event day deviates from the predicted return (equation 6):

$$CAAR_{T_0}^{T_1} = \sum_{t=T_0}^{T_1} AAR_t \quad (6)$$

A time-varying vector autoregressive model (TVP-VAR) was used to examine the time-varying effects of the US election results on developed and emerging markets.

Primiceri (2005) introduced the TVP-VAR model, which permits both the shock variance and the coefficients to change over time (He, 2020). In contrast to VAR models, this model's structure allows it to more robustly and flexibly capture the non-linear and time-varying features between variables (He, 2023). Only two sets of variables can have impulse responses created using the typical VAR model with fixed parameters, which assumes that the parameters remain constant during the impulse response horizon. In contrast, the TVP-VAR model incorporates a time-corresponding dimension that enables the regulation of reactions at various time points (Jebabli et al., 2014). The study employed the TVP-VAR model created by Antonakakis and Gabauer (2017). This model's technique states that: (1) the sliding window size does not need to be arbitrarily adjusted; (2) no observations are lost; and (3) it is not sensitive to outliers. As a result, the technique can also be applied to limited time series data and dynamic connectivity at lower frequencies. Antonakakis and Gabauer (2017) built the TVP-VAR model using the following methodology (equations 7 and 8):

$$Y_t = \beta_t Y_{t-1} + \epsilon_t \qquad \epsilon_t | F_{t-1} \sim N(0, S_t) \tag{7}$$

$$\beta_t = \beta_{t-1} + v_t \qquad v_t | F_{t-1} \sim N(0, R_t) \tag{8}$$

In this case, β_t is the $N \times N_p$ time-varying coefficient matrix, Y_t is the $N \times 1$ conditional volatility vector, Y_{t-1} is the $Np \times 1$ lag conditional vector, and ϵ_t is the $N \times 1$ error distortion vector, which is the $N \times N$ time-varying variance-covariance matrix S_t. The $N \times N_p$ error matrix, which is the $Np \times Np$ variance-covariance matrix, and their β_{t-1} values determine the β_t parameters.

The generalized connectivity approach based on generalized forecast error variance decompositions (GFEVDs) and generalized impulse response functions (GIRFs) is estimated using the time-varying coefficients and error covariances. GIRFs show how every variable reacts to a shock to variable *i*. We compute the differences between a *J*-step-ahead forecast in which variable *i* is shocked and a *J*-step-ahead forecast in which variable i is not shocked since we lack a structural model. This discrepancy, which is computed as follows, can be linked to the shock in variable *I* (equations 9-11).

$$GIR_t(J, \delta_{j,t}, F_{t-1}) = E(Y_{t+J} | \epsilon_{j,t} = \delta_{j,t} F_{t-1}) - E(Y_{t+J} | F_{t-1}) \tag{9}$$

$$\Psi^g_{j,t}(J) = \frac{A_{J,t} S_t \epsilon_{j,t}}{\sqrt{S_{jj,t}}} \frac{\delta_{j,t}}{\sqrt{S_{jj,t}}} \qquad \delta_{j,t} = \sqrt{S_{jj,t}} \tag{10}$$

$$\Psi^g_{j,t}(J) = S_{jj,t}^{-\frac{1}{2}} A_{J,t} S_t \epsilon_{j,t} \tag{11}$$

Here, J stands for the prediction horizon, $\delta j,t$ j is the choice vector that is one at the jth position and zero otherwise, and F_{t-1} represents the information set up to $t-1$. GFEVD, which may be seen as the variance share of one variable over the others, is then computed. After normalizing these variance shares, each row is rounded to one, meaning that all variables collectively account for 100% of the variance of the variable's forecast error. This is computed as follows (equation 12):

$$\tilde{\varphi}^g_{ij,t}(J) = \frac{\sum_{t=1}^{J-1} \Psi^{2,g}_{ij,t}}{\sum_{j=1}^{N} \sum_{t=1}^{J-1} \Psi^{2,g}_{ij,t}} \tag{12}$$

The total connectedness index is created using GFEVD in the manner described below (equations 13 and 14):

$$C^g_t(J) = \frac{\sum_{i,j=1, i \neq j}^{N} \tilde{\varphi}^g_{ij,t}(J)}{\sum_{i,j=1, i \neq j}^{N} \tilde{\varphi}^g_{ij,t}(J)} * 100 \tag{13}$$

$$= \frac{\sum_{i,j=1, i \neq j}^{N} \tilde{\varphi}^g_{ij,t}(J)}{N} * 100 \tag{14}$$

A shock to one variable is reflected in other variables, as demonstrated by this connection approach. We start by examining the scenario in which variable *i* transfers its shock to every other variable *j*. Total directional connection is the term for this circumstance, which is described as (equation 15):

$$C^g_{i \to j,t}(J) = \frac{\sum_{j=1, i \neq j}^{N} \tilde{\varphi}^g_{ij,t}(J)}{\sum_{j=1}^{N} \tilde{\varphi}^g_{ij,t}(J)} * 100 \tag{15}$$

The directional connectivity that variable *i* receives from variables *j* is then determined. This is computed as follows and is known as total directional connectedness with regard to the others (equation 16):

$$C^g_{i \leftarrow j,t}(J) = \frac{\sum_{j=1, i \neq j}^{N} \tilde{\varphi}^g_{ij,t}(J)}{\sum_{j=1}^{N} \tilde{\varphi}^g_{ij,t}(J)} * 100 \tag{16}$$

Subtracting the total directional connection relative to the others from the total directional connectedness of the others yields the net total directional connectivity. This might be understood as variable *i*'s "strength" or its impact on the network of variables as a whole (equation 17).

$$C^g_{i,t} = C^g_{t \to j,t}(J) - C^g_{t \leftarrow j,t}(J) \tag{17}$$

When variable *i* has a positive net total directional dependency, it indicates that it influences the network instead of being influenced by it. On the other hand, if the net total directional dependency is negative, then indicates that the network is driving variable *i*.

3. Results and Discussion

The event study results showing the short-term impacts of the US presidential election on the MSCI DM and MSCI EM indices are first presented in this part. The results of the TVP-VAR analysis evaluating the long-term dynamic interaction in the markets are then presented.

Based on Biden's victory in the 2020 US presidential election, Figure 4 displays the average abnormal return (AAR) results for the MSCI Emerging Markets (MSCI EM) and MSCI Developed Markets (MSCI DM) indices in the -21 and +21 event windows for both the election results announcement and the inauguration ceremony.

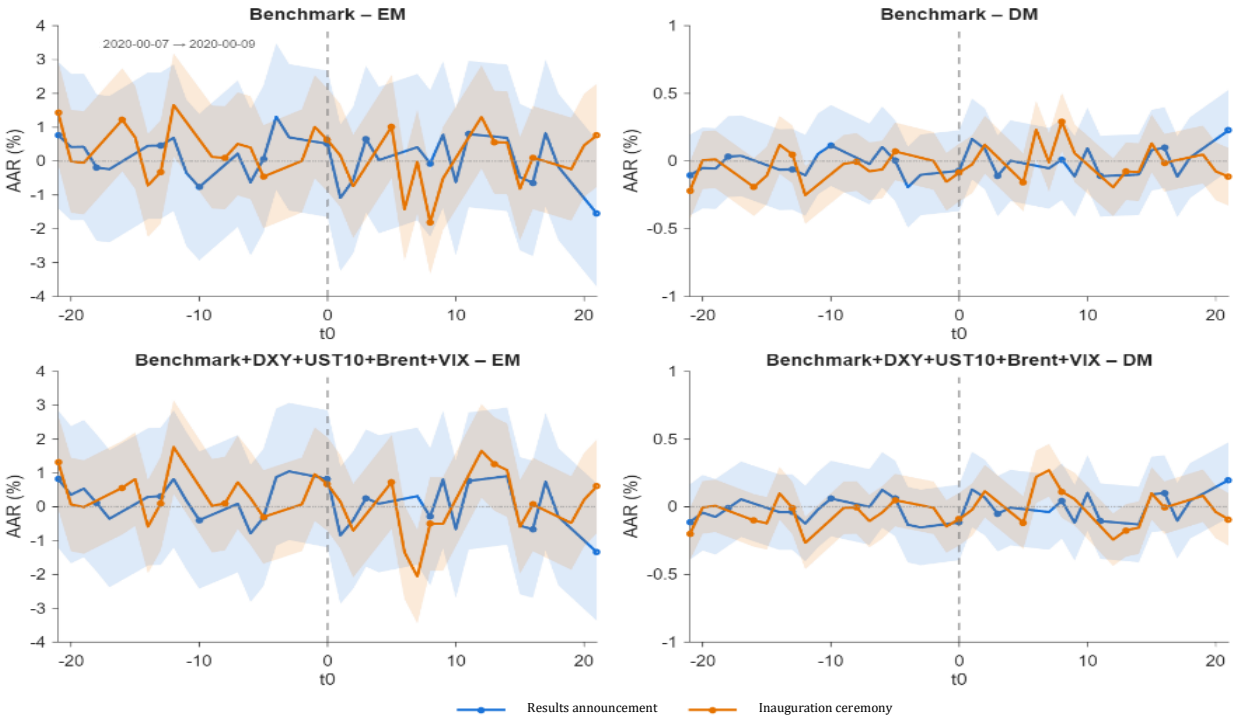

Figure 4. Average abnormal return (AAR) graphs for Developed (DM) and Emerging Markets (EM) election results in 2020.

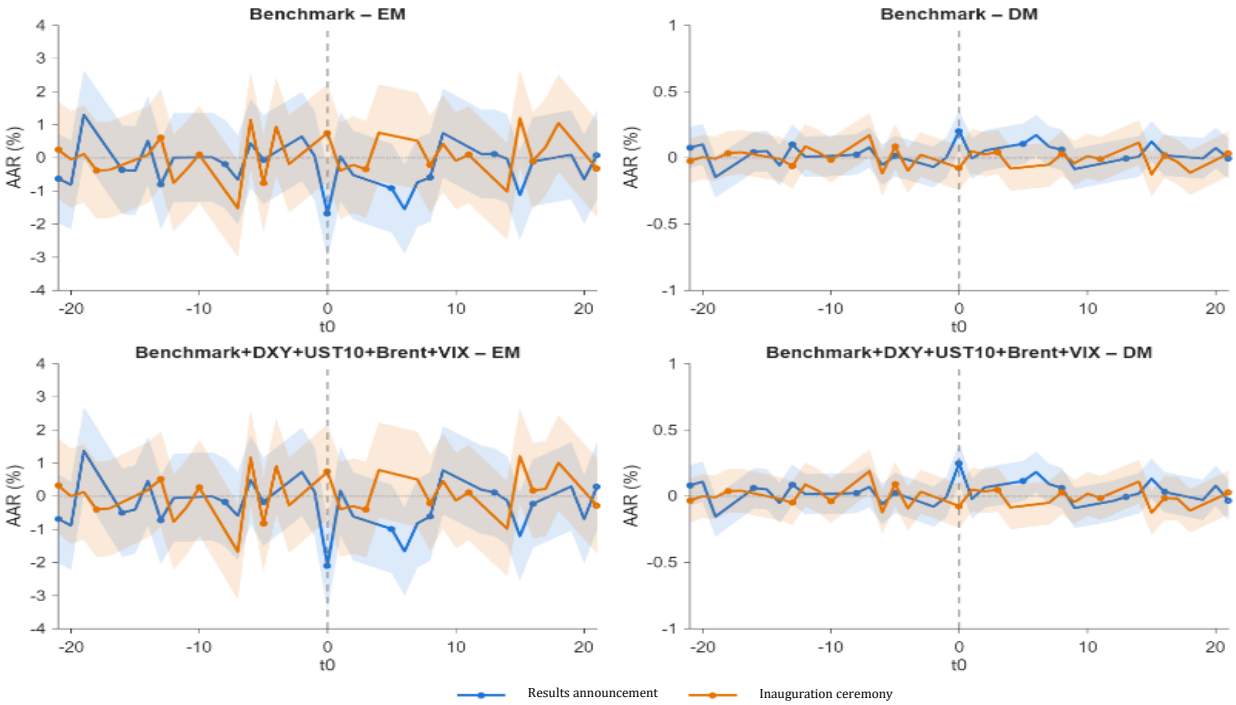

Figure 5. Average abnormal return (AAR) graphs of the MSCI EM and MSCI DM indices in the 2024 election results event window.

In order to ascertain the influence of global economic factors on the event announcement on developed and emerging markets, the dollar index (DXY), the US 10-year Treasury yield (UST10), the oil price (Brent), and the fear index (VIX) are also added to the model. The results of the figure show that there was no discernible average abnormal return in the MSCI EM index during the announcement of the election results or the inauguration ceremony. Thus, the results of the 2020 US presidential election were not seen as a significant shock by emerging markets. Nonetheless, a comparatively favorable pricing of the Biden administration is seen in the days preceding the election announcement. Prior to the inauguration ceremony, positive AAR values are also noted. Wide confidence intervals, however, suggest that there is a lot of uncertainty in EM markets on the Biden election.

The average abnormal return movements followed a smaller range than the MSCI EM index, according to the MSCI DM index findings. During the announcement of the election and the swearing-in ceremony, average abnormal returns varied around zero. In contrast to EM markets, DM markets showed negative average abnormal returns prior to the announcement of the election and the swearing-in ceremony. In this way, it can be claimed that prior to the election, EM markets were positively valued. The MSCI DM index is more robust and less volatile than the MSCI EM index, according to the tight confidence intervals. Both during the election announcement and the swearing-in ceremony, the AAR lines in the MSCI EM index become less acute and the deviations become somewhat weaker when control factors are included in the model. This implies that the prior model's movements were impacted by both the election outcomes and global economic indices. Nevertheless, there was no discernible change in the MSCI DM chart once the control variables were added.

Overall, the results show that neither the MSCI EM nor MSCI DM indices experienced a significant response to the 2020 US presidential election. Wide confidence intervals suggest substantial uncertainty, even though EM markets had a bullish trend before the election announcement and inauguration, in contrast to DM markets. Conversely, DM markets showed less volatility within a smaller range. The very sharp returns in EM markets' abnormal returns diminished when control variables were introduced, suggesting that the macrofinance variables—the control variables—also had an impact on EM market returns. Therefore, rather than causing a significant shock to the markets, one could argue that Biden's victory produced limited and transient pricing behavior under macrofinance settings.

Based on Trump's victory in the 2024 US presidential election, Figure 5 displays the average abnormal return (AAR) results for the MSCI Emerging Markets (MSCI EM) and MSCI Developed Markets (MSCI DM) indices in the -21 and +21 event windows, both during the election results announcement and the inauguration ceremony. Additionally, by including control variables in the model, the influence of global economic forces was investigated.

The benchmark model indicates that on the day of the election results announcement, EM markets experienced a negative average abnormal return. The fact that the series falls within the confidence intervals suggests that the average abnormal returns are not statistically significant, and it is noted that the weak negative AAR continued for a few days following the announcement of the election results. Negative abnormal returns rose in EM markets before to the publication of the election results, and returns rose following the announcement, albeit only in the negative region. Returns continued to be unfavorable following the announcement of the election results, especially during the first ten days. This outcome runs counter to the findings of Niederhoffer et al. (1970), who highlighted that elections produce abnormal returns in markets, and Pantzalis et al. (2000), who highlighted that the market experiences positive abnormal returns after election uncertainty. Additionally, the series' high confidence intervals and fluctuations during this time point to heightened volatility in emerging markets.

The announcement of the election results caused a negative reaction in EM markets and a favorable reaction in DM markets. Additionally, this result runs counter to the findings of Pantzalis et al. (2000) and Niederhoffer et al. (1970). The series' narrow confidence intervals and variations in DM markets show that pricing behavior is more steady and volatility is relatively low. The inclusion of control variables in the model did not significantly alter the AAR values of emerging markets. This implies that control variables have very little effect on the average abnormal returns on election outcomes in emerging markets. Similarly, the AAR values of developed markets were not significantly altered by the addition of control variables.

Together, Figures 4 and 5 show that developed markets showed more stable pricing behavior during the Trump era, as evidenced by the smaller fluctuations and narrower confidence intervals in developed markets during the Trump era compared to the Biden era. There appears to have been downward pressure on developing markets during the Trump administration, as evidenced by the larger negative average abnormal returns during the Trump administration and the higher positive average abnormal returns during the Biden administration. Additionally, higher volatility in emerging markets during the Biden era is suggested by the larger variations and confidence intervals in these markets when compared to the Trump era.

This can be explained by the uncertainty surrounding Biden's victory in the election and the Trump supporters' subsequent storming of Congress. Because polls predicted a Trump victory prior to the 2024 elections, there was less uncertainty about the outcome, which explains the decreased volatility in both EM and DM markets during the Trump era compared to the Biden era. This outcome is consistent with the findings of Antonakakis et al. (2013), who discovered that co-movements in volatility dynamics are caused by political uncertainty.

The cumulative abnormal returns of the MSCI EM and MSCI DM indexes for the 2020 Biden and 2024 Trump election results are shown in Figure 6 during a period of -21 to +21 days around the announcement of the election results and the inauguration ceremony. In order to examine how global economic forces affect the markets, control variables were also included in the model. The graphs show that EM markets outperformed DM markets when the value is negative, while DM markets beat EM markets when the value is positive.

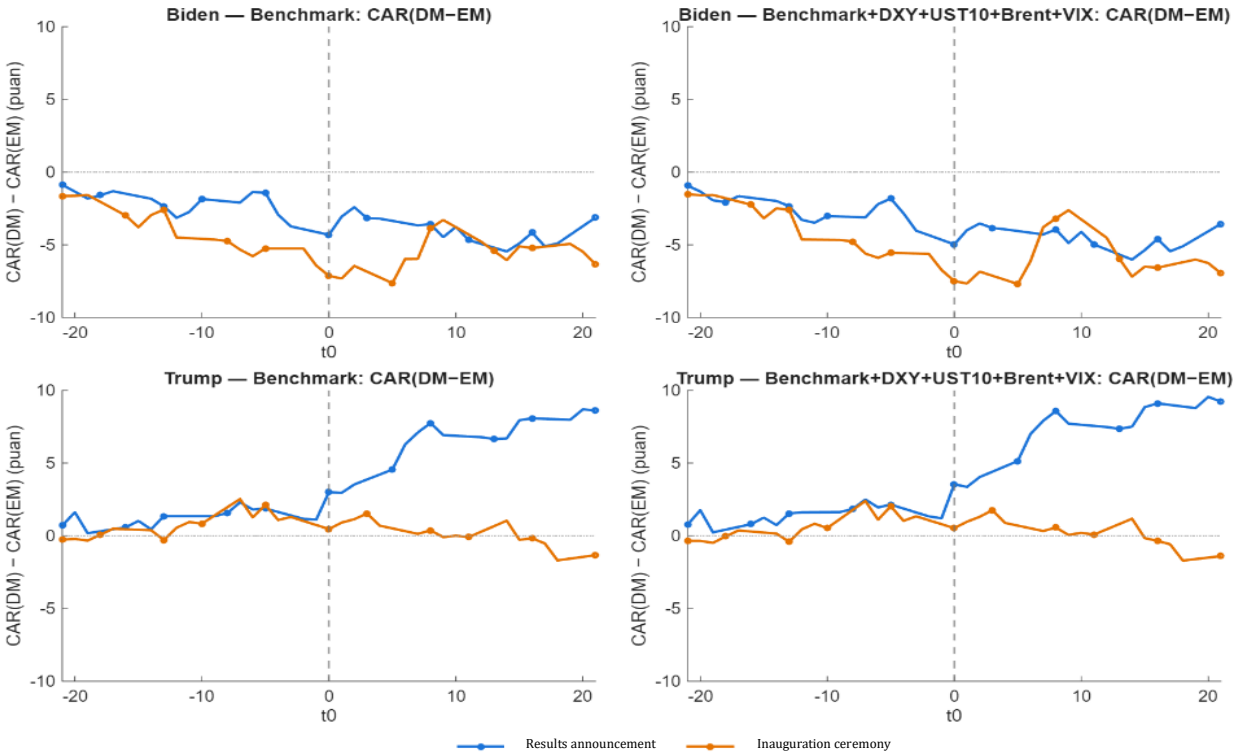

Figure 6. Cumulative abnormal returns of developed and emerging markets: 2020 Biden and 2024 Trump elections.

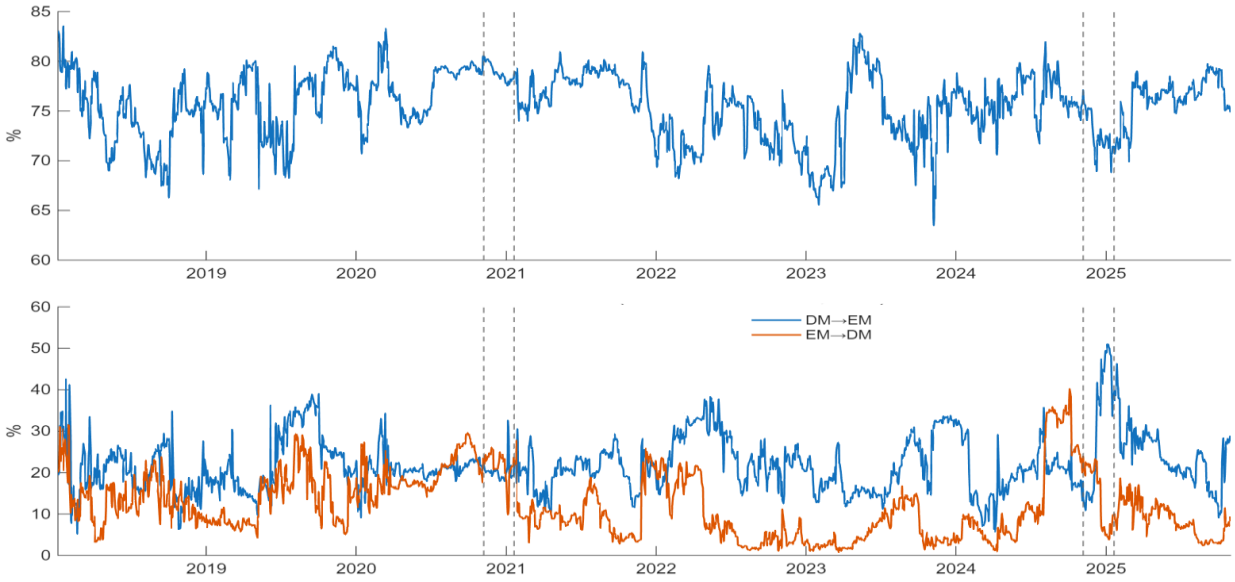

Figure 7. Total connectedness index for developed and emerging markets.

Both the 2020 Biden election announcement and the inauguration event showed the negative disparity. This finding implies that emerging markets performed better than developed markets. The outcome, which showed emerging markets outperforming developed markets, did not alter when the control factors were added. This circumstance highlights the favorable expectations that emerging markets have for the Biden administration, even in the absence of global economic concerns.

The cumulative abnormal return difference in the 2024 Trump election outcomes is noticeably positive, particularly after the results are announced. This implies that established markets responded to Trump's win more forcefully than emerging markets. The dominance of established markets persisted even after the model was expanded to include global financial factors. This finding implies that emerging markets will be negatively impacted by any protectionist policies that Trump, given his more nationalist views, may enact in the future.

The overall and directional connection of developed and developing nations throughout both election periods is depicted in Figure 7. Over the course of the investigation, a relatively high degree of connectedness (in the 70–80% range) is seen between the MSCI EM and MSCI DM indices. This implies that developed and emerging markets have a significant structural interaction. The

connectedness between the EM and DM markets significantly declined when Biden won the 2020 presidential election, but during the next year it became more stable and fluctuated. This result implies that the electoral shock had a very small effect and that the epidemic period before the election was substantially connected. The connectivity between the two markets dropped by about 10% after the results of the 2024 presidential election, but it quickly increased after that. These findings indicate that the influence of the 2024 elections will be marginally greater than that of the 2020 elections, although there hasn't been a noticeable long-term effect.

Shock transmission is typically higher from developed to emerging economies when the directional connectivity data in Figure 7 are analyzed. Shock transmission was more prevalent in EM markets prior to the 2020 elections, but it sharply declined following, increasing DM markets' dominance in shock transmission. Before the 2024 election season, EM markets—which had very little shock transmission throughout the previous two election periods—grew considerably and overtook DM markets. But following the election, it declined once more and went back to its prior levels. An analysis of DM markets shows that shock transmission followed a variable and stable path during the 2020 election, with no notable disruptions. However, the 2024 election marked the peak of shock transmission over the analysis period.

The findings of the event research show that, prior to the election announcement, EM markets under the Biden administration and DM markets during the Trump administration showed comparatively higher positive short-term return movements. This conclusion is further supported by the directional correlation results from the TVP-VAR analysis: DM markets were more dominating in shock transmission during the 2024 elections, whereas EM markets showed comparatively high shock propagation prior to the 2020 elections. When these two findings are taken together, it becomes clear that the variation in short-term price reactions is consistent with a structural dynamic that shows which market transmits more information and shocks to the global system during the pertinent periods, rather than just being a transient sensitivity.

Nevertheless, DM markets seem to be general shock propagators when the whole analysis period is taken into account. This result implies that information and shocks are strongly transmitted to emerging markets from developed markets. The findings are comparable to those of research conducted by Wang et al. (2005) and Beirne et al. (2013).

The conditional correlation between developed and emerging markets is depicted in Figure 8. Larger co-movement, shock transmission, and market integration are indicated by a larger conditional correlation, whereas lower integration and contagion and more independent movement are indicated by a lower conditional correlation. The conditional correlation is often high, as can be shown by looking at Figure 8. This suggests that the two markets are highly integrated. The start of the Covid-19 pandemic and the days leading up to the 2024 elections are when the conditional correlation is at its peak. Market co-movement sharply declined following the 2020 elections, showing a lower and erratic pattern between the two elections. Prior to the 2024 elections, the conditional correlation seems to have climbed considerably, then swiftly decreased and continued to diminish following the elections. It continued its erratic trajectory and surged once more right before the inaugural ceremony. One may argue that moments of increasing global, economic, and geopolitical uncertainty are typically associated with periodic variations and interruptions in the conditional correlation level.

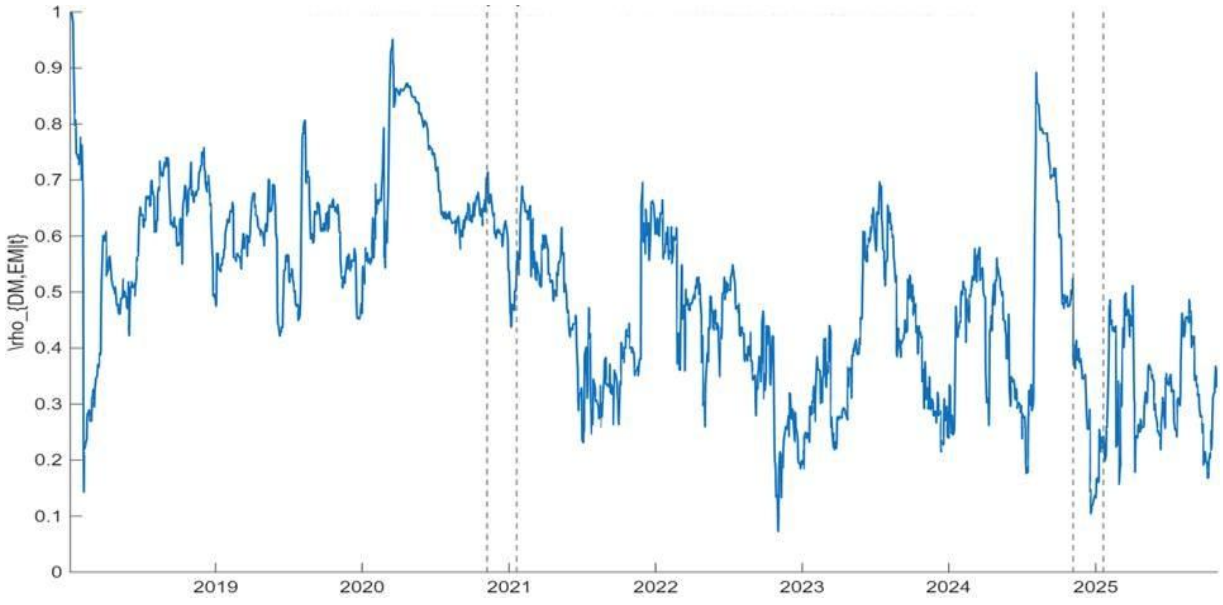

Figure 8. Conditional correlation relationship between developed and emerging markets.

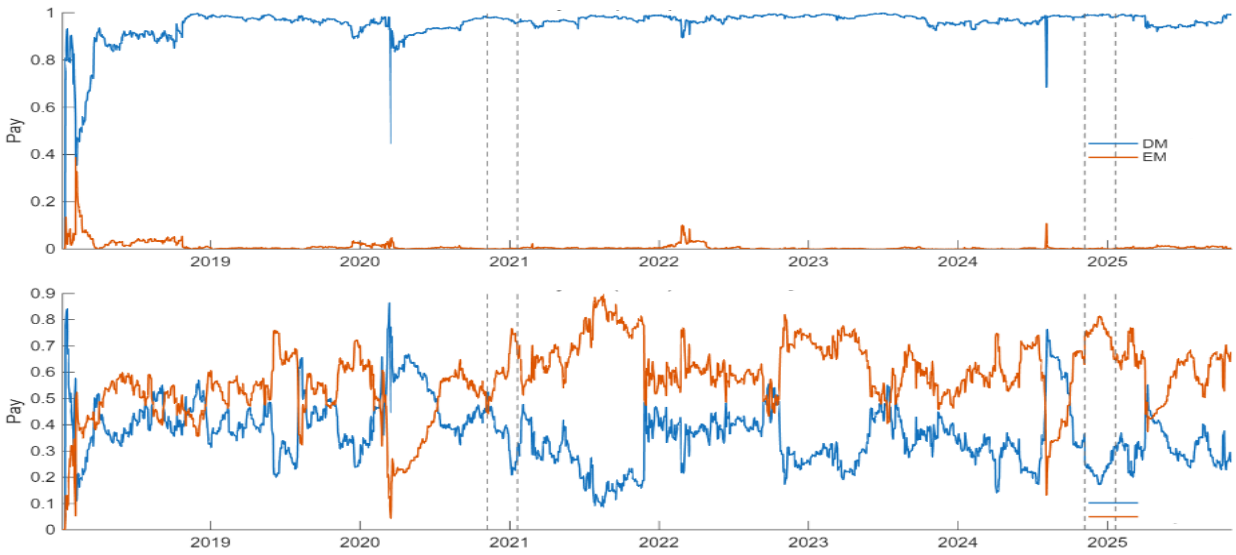

Figure 9. Error variance decomposition graph for developed and emerging markets.

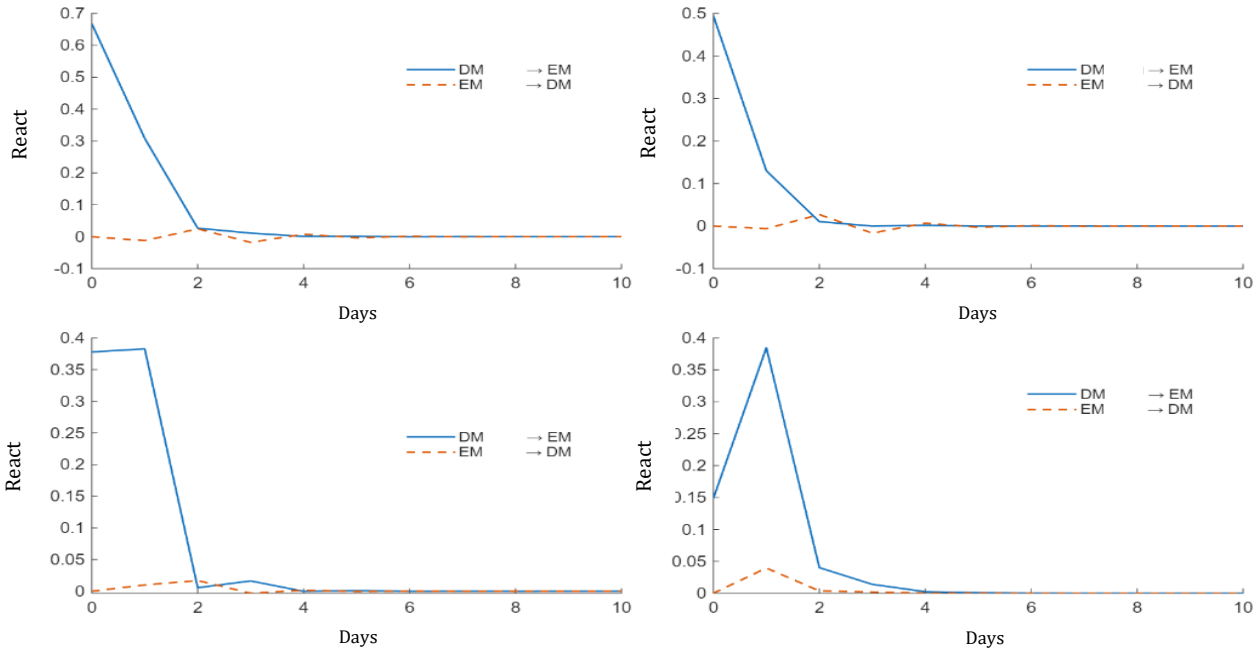

Figure 10. Event-based impulse-response functions.

Figure 9 illustrates how much of each market's error variation can be attributed to internal shocks and how much to shocks from the other market. The top panel illustrates how much of the error variance in developed markets may be attributed to shocks from emerging markets, whereas domestic shocks account for almost 90% of the volatility in DM markets. Shocks from EM markets have virtually little effect on them. Here, there are three notable breaks: the COVID-19 epidemic, the start of 2018, and the period leading up to the 2024 presidential election. But outside of 2018, EM markets had very little effect on these shocks.

The graph below illustrates how much of the error variation in EM markets is caused by internal shocks and how much is caused by shocks in DM markets. The graph shows that both internal shocks and shocks in DM markets are responsible for the volatility seen in EM markets. Internal shocks account for 40–60% of the volatility in EM markets, whilst shocks from DM markets account for 30–40%. It has been noted that shocks in DM markets, rather than internal dynamics, were the primary cause of volatility in EM markets at the start of 2018, during the early stages of the Covid-19 outbreak, and prior to the 2024 elections.

The findings from the event study and connection analysis are corroborated by the conditional correlation relationship results. Emerging markets were more resilient in terms of price and shock transmission during this time, as seen by the positive AAR prior to the 2020 election announcement and the directional shock transmission from EM to DM throughout the same period. Developed markets have a bigger impact on

global market dynamics during the 2024 elections, as evidenced by the positive AAR values of DM markets both before and after the election announcement, the shock transmission from DM to EM, and the noted rise in the connectivity index.

For the 2020 and 2024 elections, Figure 10 depicts the shock pass-through between DM and EM markets over a 10-day period after both the election announcement and the inauguration ceremony. EM markets respond quickly and forcefully to shocks from DM markets in election results when both Biden and Trump win, and the impact of the shock fades in two days. EM markets responded to the DM shock in Biden's election results somewhat more forcefully than they did to Trump's. The results show that shocks in developed markets have an immediate and significant effect on emerging markets.

4. Conclusion

This study uses a TVP-VAR model to assess long-term, time-varying interactions using an event study method to find short-term effects of the US presidential election on global financial markets. The 2020 presidential election, which Biden won, and the 2024 presidential election, which Trump won, is examined in this analysis. Global financial markets were represented by the MSCI developed and MSCI developing market indices. In order to separate the impact of the election from global conditions, the event analysis employed a -21 and +21-day timeframe and included macrofinancial variables including DXY, UST10, Brent, and VIX in the model. The TVP-VAR analysis was carried out between January 2, 2018, and October 31, 2025.

The results of the event analysis show that throughout either election period, there were no average abnormal returns around the announcement of the election or the inauguration ceremony. The political shock was found to be unaffected by the addition of global economic considerations to the model. However, compared to the Trump era, there was more volatility in the EM and DM markets during the Biden administration. During the Biden administration, developing markets performed better than developed markets in terms of cumulative abnormal returns. On the other hand, during the Trump administration, developed markets performed better than emerging markets. According to this research, Biden's globalist policies were positively valued by emerging markets, whereas Trump's nationalist and protectionist political views were poorly valued.

The two markets have a robust structural link, according to TVP-VAR results. Over the course of the investigation, market integration was robust and overall connectedness remained high. During the 2020 presidential election, market connectivity was essentially stable; however, it declined prior to the 2024 presidential election and then increased during the inauguration ceremony. The directional connection results show that developed markets are better at transmitting shocks to emerging markets. Notably, in terms of shock transmission prior to and during the 2020 and 2024 elections, developing markets outperformed developed markets. The shock transmission of developed markets increased dramatically immediately following the revelation of the 2024 election results, reaching the maximum transmission level during the analysis period. These conclusions are also supported by conditional correlation data.

Error variance data show that internal shocks account for a very high percentage of volatility in established markets, but internal shocks account for an average of 60% of volatility in developing markets, with developed market shocks accounting for the remaining fraction. Additionally, the percentage of volatility in emerging markets that may be attributed to domestic shocks rose dramatically following the release of the 2020 election results, hitting the highest level of the entire time. Following the announcement of the 2024 election results, the percentage of volatility in emerging markets that could be attributed to domestic shocks fell to 40% from over 70%.

The study's most significant finding is that the influence of US presidential elections on financial markets changes according to the political inclination of the leader. Biden's support for international commerce, openness to international collaboration, and expansionist policies that promote capital flows to emerging nations are all responsible for the improved performance of EM markets during the Biden administration. On the other hand, Trump's nationalist, protectionist, and trade system-challenging policies have increased risk premiums in developing markets and accelerated capital outflows, which is consistent with the better performance of DM markets during the Trump administration. The findings thus imply that the impact of US presidential elections on international financial markets is asymmetric, cyclically variable, and dependent on the sort of political leader.

These results have significant theoretical and practical ramifications. The study theoretically adds to the body of knowledge about how political leadership structure and political instability affect global risk spillovers and international portfolio flows. In particular, the TVP-VAR results show that global financial integration is dynamic, changing over time and sensitive to important events like elections. Practically speaking, there are significant ramifications for legislators and investors. For investors, the results show that market sentiment is not uniform during election seasons; rather, market responses are influenced by the political stance of the leader. While nationalist political leaders like Trump generate possibilities in developed markets, globalist leaders like Biden create opportunities for portfolio managers investing in emerging economies. Therefore, during election seasons, hedging techniques and portfolio diversification should be taken into account in addition to political discourse.

In conclusion, the study demonstrates that US presidential elections impact global financial markets

through shock transmission, connectivity, and cumulative returns, rather than direct price reactions.

Author Contributions

The percentages of the author' contributions are presented below. The author reviewed and approved the final version of the manuscript.

	E.Ş.
C	100
D	100
S	100
DCP	100
DAI	100
L	100
W	100
CR	100
SR	100
PM	100
FA	100

C=Concept, D= design, S= supervision, DCP= data collection and/or processing, DAI= data analysis and/or interpretation, L= literature search, W= writing, CR= critical review, SR= submission and revision, PM= project management, FA= funding acquisition.

Conflict of Interest

The author declares that there is no conflict of interest.

Ethical Consideration

Ethics committee approval was not required for this study because of there was no study on animals or humans.

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