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Price-earnings changes during US presidential election cycles: voter uncertainty and other determinants

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Abstract

Using electronic-markets data, this paper investigates partial determinants of change in Graham's price-earnings ratios (P/E) during US presidential election cycles. We document evidence over six elections, that as the probable winner of the election becomes clearer, markets surprisingly respond with decreases in P/E ratios. We consider that our results are consistent with rational markets reacting to presidential campaigns focused on influencing biased, sociotropic voters. These results should be of great interest to researchers concerned with market reaction to election cycles, public policy, and the overall role of election uncertainty in financial markets.

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