

## **Did the US Presidential Election in 2016 have a Short-Term Effect on the Financial Returns of American Depository Receipts from Russia?**

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### **ABSTRACT**

Prior research that investigated the impact of political events on stock performance in various global markets (e.g., Greece, Malaysia, and Pakistan) reported mixed results. This paper builds on this line of research and investigates the impact of the 2016 US Presidential elections on American Depository Receipts (ADRs) from Russia. Similar to prior studies, this paper uses an event-study approach and measures the cumulative average abnormal returns (CARR) of stocks. The results indicate that 2016 US Presidential election did not impact Russian ADRs within the five days before and five days after the election time window. However, their average abnormal returns were impacted on one day before and one day after the election. These findings have implications for portfolio managers and wider meanings of national election and stock market returns.

Keywords: Russia, US Presidential Election, ADRs, CARR.

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### **1. INTRODUCTION**

It was widely believed that the election of U.S. President, Donald Trump on November 8, 2016, was welcomed in Russia because Russian citizens had hoped that Trump win would somehow reverse the adverse relation that had developed between the U.S. and Russia in recent years (Trenin, 2017). Meanwhile, the media in the U.S. has reported the persistent allegations of Russian involvement in the US Presidential election in 2016 (Trenin, 2017). Given such controversial discussions of Russian influence on U.S. election, it is interesting to investigate the sensitivities of Russian companies' stock performance before and after the 2016 U.S. Presidential election. Since national election results directly impact a country's general economic condition and national policies, it is understandable that firms' stock prices are sensitive to political elections in terms of how election results may influence firms' daily operations and profitability (Oehler, Walker, and Wendt, 2013). As the 2016 U.S. Presidential election resulted in the surprise win (at least from the perception of the U.S.) of Donald Trump, it is possible that Russian stocks listed in the U.S. will somehow response to such a political event before and after the election.

Prior research investigating the impact of national elections on stock performance reported mixed results. For Greece, researchers reported that the Greek elections in 2000,

2004, and 2007 had no impact on stock prices of Greek banks (Repousis, 2016). However, for Malaysia, the elections of 2008 and 2013 impacted stock market prices (Liew and Rowland, 2016; Ying, Rasiah, and Ming, 2016) and so did in Pakistan for the period between 1998 and 2013 (Mahmood, Irfan, Iqbal, and Kamran, 2014). Within these reports of mixed results, there seems to be a time range factor suggesting that the impact of political event on stock market differs whether it's being investigated under long- or short-term time window. It is generally suggested that longer-term may have larger impact than shorter-term measurement (Oehler et al., 2013).

Given these mixed results from prior work, this paper proposes to study the impact of the 2016 U.S. Presidential election on stock performance (in the form of American Depository Receipts (ADRs)) of Russian companies that are listed in various stock exchanges in the U.S. Three scenarios may arise: Russian ADRs have no change pre- and post-election, Russian ADRs performed better prior to election than when compared to post-election, and Russian ADRs performed worse prior to election than when compared to post-election. In the first scenario, either Russian companies that issued ADRs have already expected a Trump win and no difference of asymmetry of information happened pre- and post-election, or the stock prices adjust within a day to event announcement in an efficient market in the U.S. resulting in no change (Fama, 1991) in pre- and post-election time window. In the second scenario, Russian ADRs performed better pre- than post-election could be due to a surprise win resulting in positive sentiment increasing ADRs prices. In the third scenario, the reverse is true in that the election result is a disappointment leading to a sell-off of Russian ADRs.

The remaining of the paper begins with a brief background of U.S. - Russia recent relationship, followed by literature review on the impact of political events on stock performances. All (twelve) Russian ADRs listed in NYSE and NASDAQ are then used to calculate their Cumulative Average Abnormal Returns (CARR) pre- and post- 2016 U.S. Presidential election. The paper concludes with results and managerial implications.

## 2. LITERATURE REVIEW

### *ADRs and Russian ADRs*

U.S. financial markets are used by companies outside of the U.S. to raise capital because U.S. bourses are large to raise new capital and have high liquidity for trading (Diamond and Verrecchia, 1991). U.S. stock markets also enjoy a relatively transparent governance for the process of listings (Chemmanur and Fulghieri, 2006). Issuing American Depository Receipts (ADRs) in the U.S. is one of the popular routes for foreign companies to access funds for debt financing (Haar, Haar, & Dandapani, 1990). In 2018, U.S. market capitalization is worth \$30 trillion (Barron's, 2018) while Russia domestic stock market has a \$630 billion capitalization (. Contrasting the market sizes between the two countries, it is quite obvious that Russian companies can benefit from accessing the U.S. financial market for listing purposes. At the same time, U.S. investors can benefit from portfolio diversity by investing in ADRs (Arnold, Nail, and Nixon, 2004).

### *Political events and stock performance*

The impact of political events and stock market performance is often mentioned in terminologies such as shock, information asymmetry, market efficiency, and others. As national elections are the focus of this paper, previous research reported mixed results of the

impact of national elections and stock market performance. In the U.S. between the period from 1980 and 2008, researchers found that the victory of a Democratic presidential candidate resulted in negatively stock returns while a Republican presidential win had mixed effect on stock market performance (Oehler, Walker, and Wendt, 2013). These impacts were attributed to economic policies and general economic conditions that are related from a particular political party win.

For Greece, Repousis (2016) reported that the national elections in 2000, 2004, and 2007 had no impact on bank stocks. Using an event study analysis, Repousis (2016) reported that in 2000 and 2004, CAARs in stocks of Greek banks were slightly positive in the pre-election period but were slightly negative in the event post-period, but CAARs were not statistically significant. In the same study, both the CAARs before and after elections were negative and were not statistically significant. Repousis (2016) concluded that national elections were not able to influence bank stocks.

However, the research on Malaysia did not report similar results. Ying, Rasiah & Ming (2016) reported statistically significant CAARs in Malaysian stocks 15 days before and 15 days after national elections between 2004 and 2013. The authors attributed such results from a less than efficient market as Malaysia being a developing country. Similarly, an investigation of Pakistan's political events between 1998 and 2013 reported negative CAARs of Karachi stock Exchange (KSE) 100 Index 30 days before and 60 days after each significant political event (Mahmood, Irfan, Iqbal, and Kamran, 2014).

Consistent with efficient market hypothesis (Fama, Fisher, Jensen, and Roll, 1969), researchers suggests that in an efficient market, stock prices adjust within a day to the shock of an event (Fama, 1991), suggesting that stock prices do not adjust within a day to the shock of an event in an inefficient market such as Malaysia (Liew and Rowland, 2016; Ying et al., 2016) or Pakistan (Mahmood et al., 2014).

### 3. METHOD

To capture the impact of U.S. election on stock market performance, this paper uses an event study approach to measure CAARs ADRs of Russian companies traded in US stock exchanges of NYSE and NASDAQ, both immediately before and after the US Presidential elections on November 8, 2016. Twelve Russian ADRs are:

1. Public Stock Joint Company (PJSC) Mobil Tele Systems (ticker symbol: MBT; market capitalization: \$10.24 billion)
2. Mechel PAO (ticker symbol: MTL; market capitalization: \$1.08 billion);
3. Qiwi plc (ticker symbol: QIWI; market capitalization: \$1.11 billion)
4. PJSC Federal Hydro-Generating Company - RusHydro (ticker symbol: RSHYY; market capitalization: \$5.53 billion),
5. PJSC Polyus (ticker symbol: ticker symbol: OPYGY; market capitalization: \$9.5 billion);
6. PJSC Gazpro (ticker symbol: OGZPY; market capitalization: \$44.8 billion),
7. PJSC Tatneft (ticker symbol: OAOFY; market capitalization: \$13.9 billion);

8. PJSC Mining and Metallurgical Company Norilsk Nickel (ticker symbol: NILSY; market capitalization:\$26.2 billion);
9. PJSC LUKOIL (ticker symbol: LUKOY, market capitalization: \$34.9 billion)
10. PJSC Gazprom Neft (ticker symbol: GZPFY,; market capitalization:\$16.9 billion);
11. PAO TMK (ticker symbol: TMKXY ; market capitalization:\$1.1 billion)
12. PJSC Long-Distance and International Telecommunications Rostelecom (ticker symbol: ROSYY; market capitalization: \$2.4 billion).

Follow prior research (Corrado, 2011; Repousis, 2016), the market return of an ADR is calculated as follows:

$$R_{it} = (M_t - M_{t-1}) / M_{t-1}$$

where,  $R_{it}$  = Market return on day  $t$  for ADR  $i$ , and  $i = 1, 2, \dots, 12$

$M_t$  = Market price of ADR  $i$  on day  $t$

$M_{t-1}$  = Market price of ADR  $i$  on day  $t-1$

Abnormal return (or residual returns) of ADR  $i$  for day  $t$  is calculated as the difference between actual and average daily return, which is given by

$$AR_{it} = R_{it} - (1/n) \sum R_{it}$$

where the second term indicates the average daily return for ADR  $i$  for the entire year ( $n = 252$  trading days in US stock exchanges in 2016).

The average abnormal return of all twelve ADRs for day  $t$  is calculated as:

$$AAR_t = (1/N) \sum AR_{it}$$

where,

$AAR_t$  = average of abnormal returns of all twelve ADRs for day  $t$

$N = 12$  (Total number of ADRs)

and  $\sum AR_{it}$  = sum of abnormal returns of all twelve ADRs for day  $t$ .

Cumulative average abnormal returns from the starting point  $T1$  of a time window to the end-point  $T2$  is calculated as:

$$CAAR(T_1, T_2) = \sum AAR$$

In the above expression, the summation is obtained for the twelve ADRs from  $T1$  to  $T2$ .

Brown & Warner (1985) and Berry, Gallinger & Henderson (1990) documented that in conducting event studies - parametric hypothesis tests can be used because the abnormal daily stock returns are normally distributed.

Based on prior research findings, we have reason to believe that the Average Abnormal Returns (AARs) and Cumulative Average Abnormal Returns (CAARs) of equities will differ from zero. More formally, we hypothesize:

*H1. Ceteris Paribus, the CAARs will differ from zero*

The  $t$ -statistics are calculated as follows (Corrado (2011), Repousis, (2016)):

$$t_{AAR} = AAR/S_{AAR}, \text{ and}$$

$$t_{CAAR} = CAAR/[(T^{0.5})(S_{AAR})]$$

where the standard deviation is given as:

$$S_{AAR} = \{[\sum AAR^2/(T_0-1)]\}^{0.5}$$

Here the summation is carried out for the squares of the average abnormal returns for all twelve ADRs for the time-period  $T_0$ , and

$T$ =Number of days in the time window used in calculation of CAAR.

#### 4. RESULTS

Table 1: Average Abnormal Returns - Trading days before the election

	t -1	t-2	t -3	t -4	t -5
Mean	0.02	0.00	-0.01	-0.01	-0.01
$t$	1.72	0.34	-1.40	-1.32	-0.75
$p$ -value	<b>0.10*</b>	0.70	0.18	0.20	0.46

Table 1 reports AARs of the ADRs being slightly positive on day one prior to the day of election. The AARs were negative on third, fourth, and fifth days before the election day. The low  $p$ -value (marked with an asterisk) on one day before the day of election leads us to conclude that the AAR is positive. From the high  $p$ -values on two, three, four and five days before the election – it can be concluded that AARs did not differ from the day of election.

Table 2: Average Abnormal Returns - Trading days after the election

	t +1	t +2	t +3	t+4	t +5
Mean	0.00	0.00	-0.01	0.01	0.02
$t$	0.42	0.12	-0.91	0.98	1.92
$p$ -value	0.68	0.90	0.37	0.34	<b>0.07*</b>

Results from Table 2 show that the AARs of the ADRs were positive on first, second, fourth and fifth days after the day of election. However, AAR was negative on third day after the day of election. The low  $p$ -value (marked with an asterisk) on fifth day after the election leads us to conclude that AAR is significantly different and better than the day of election. From the high  $p$ -values on one, two, three, and four days after the election – it can be concluded that the AARs did not differ from the day of election.

Table 3: Average Abnormal Returns - Windows before and after the election

	W(+1,+3)	W(-1,+1)	W(-2,+2)	W(-3,+3)	W(-4,+4)
Mean	0.00	0.02	0.01	0.00	0.00
<i>t</i>	0.34	1.73	0.45	0.15	0.05
<i>p</i> -value	0.74	<b>0.10*</b>	0.66	0.44	0.96

Table 3 indicates that the mean values of AARs of the ADRs were positive on time windows consisting of two days, four days, six days and eight-days – which included the election day. The low *p*-value for the two-day window indicates that the AAR is statistically significantly higher than that of the day of election.

Table 4: Cumulative Average Abnormal Returns - Before the election

	t-1	t-2	t-3	t-4	t-5
CAAR	0.01	0.02	-0.02	-0.02	0.05
<i>t</i>	0.95	0.97	-0.89	-0.76	-0.73
<i>p</i> -value	0.35	0.34	0.38	0.46	0.47

Table 4 shows that the magnitudes of CAARs of the ADRs were positive on first, second and fifth day prior to the election day. CAAR values were negative on days three and four before the election. The high *p*-values indicate that the null hypothesis of CAAR equal to zero *cannot* be rejected for the ADRs on any day before the day of election.

Table 5: Cumulative Average Abnormal Returns - After the election

	t+1	t+2	t+3	t+4	t+5
CAAR	0.00	0.00	-0.01	0.00	0.02
<i>t</i>	0.08	0.09	-0.37	0.10	0.88
<i>p</i> -value	0.98	0.93	0.71	0.92	0.39

Results from table 5 point out that that the magnitudes of CAARs of the ADRs were positive on first, second, fourth and fifth day after the day of election. The CAAR value was negative on third day after the election day. The high *p*-values lead to the conclusion that the null hypothesis of CAAR equal to zero *cannot* be rejected for the ADRs,

Table 6: Cumulative Average Abnormal Returns - Different Windows

	W(+1,+3)	W(-1,+1)	W(-2,+2)	W(-3,+3)	W(-4,+4)
CAAR	0.01	0.02	0.02	-0.02	-0.00
<i>t</i>	0.70	1.23	0.99	-0.87	-0.15
<i>p</i> -value	0.43	0.23	0.33	0.39	0.88

Table 6 reports the magnitudes of CAARs of the ADRs being positive in time windows consisting of two and four days around the election day. However, the CAARs are negative in time windows consisting of six and eight days. The high  $p$ -values indicate that the null hypothesis of CAARs equal to zero *cannot* be rejected for the ADRs in all the time windows considered in this study,

Results from this study show that the CAARs of ADRs were low in magnitudes. Further, the null hypotheses of CAARs equal to zero cannot be rejected on days before and after the US Presidential election day. These results are similar to those obtained by Reposusis (2016) which showed that the CAARs of Greek Bank stocks were not statistically significant at all periods before and after the Greek elections.

## 5. CONCLUSION

The results of this study seem to demonstrate the efficiency of the US equity markets and show that the news from the US Presidential election did not impact the CAARs of Russian ADRs. Alternative interpretation of the results could be that Russian companies that listed their ADRs on U.S. stock markets had already anticipated Trump win in the 2016 Presidential election and thus did not respond to the shock of the election results. In either explanation, future research should consider widening the window beyond the ten-day analysis conducted in this current study.

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