Navigating the Milei Effect: Market Implications of Argentina's Electoral Shift

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Abstract

This dissertation explores the impact of the 2023 Argentina Presidential Election on stock market dynamics, focusing on sector-specific reactions in Argentina and potential spillover effects across the main Latin and North American stock markets. Using an event study methodology, the research examines abnormal returns surrounding the election date, to identify significant changes in investor sentiment following the surprising victory. Findings reveal that Utilities, Industrials, Consumer Non-cyclicals, Real Estate and Consumer Cyclicals emerged as "relative winners", while Basic Materials were "relative losers". No evidence of regional spillover effects was found, suggesting the impact of the election was contained within Argentina. Nevertheless, the results show there are sector-specific reactions, either positive or negative, due to the perception of future pro-market policies and austerity expectations.

Keywords: Argentina, sector-specific, spillover effects, Latin and North America, event study, abnormal returns, relative winners, relative losers.

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Resumo

A presente tese explora o impacto da Eleição Presidencial da Argentina em 2023 nas dinâmicas do mercado de ações, com foco nas reações setoriais e nos potenciais efeitos de repercussão na América Latina e na América do Norte. Utilizando uma metodologia de estudo de eventos, esta pesquisa analisa a existência de retornos anormais em torno da data da eleição, com o propósito de identificar alterações significativas no sentimento do investidor após a surpreendente vitória. Os resultados revelam que os setores de Utilidades, Industriais, Consumo Não-cíclico, Imobiliário e Consumo Cíclico surgiram como "vencedores relativos", enquanto os Materiais Básicos foram "perdedores relativos". Não foi encontrada evidência de efeitos de repercussão no continente, sugerindo que o impacto da eleição apenas incidiu sobre o mercado nacional. Todavia, os resultados mostram que se deram reações setoriais específicas, positivas e negativas, devido à perceção de futuras políticas de pró-mercado e expectativas de austeridade.

Palavras-chave: Argentina, setoriais, efeitos de repercussão, América Latina e América do Norte, estudo de eventos, retornos anormais, vencedores relativos, perdedores relativos.

Título: Navegando o Efeito Milei: Implicações da Mudança Eleitoral da Argentina no Mercado

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1. Introduction

Political events can cause substantial shifts in the dynamics of financial markets, particularly when unexpected election outcomes bring new policy directions. The level of regulation, restrictions, and state intervention influence the conditions in which companies can grow and prosper. Different industry characteristics might explain why different sectors benefit and suffer from a radical change in the political landscape, and therefore, how such a political shock can influence investor sentiment regarding sectoral future performance.

Political risk has been recognized as an important determinant of market behavior, especially in emerging markets where drastic shifts drive volatility and investor uncertainty. After decades of economic instability, with high inflation, currency depreciation, and debt crises complicating the path to sustainable economic growth, Argentina demands and needs a clear turning point in its economic direction, towards a more prosperous future.

The wish for such a turning point materialized on November 19th, 2023, with the election of Javier Milei - a radical libertarian - as President of Argentina. His victory marked people's frustration and hope after many decades of Peronist left-wing governments, surprising the nation and setting the stage for a new political and economic landscape. Milei's pro-market reforms aim for aggressive deregulation, foreign trade incentives, reduced public spending, dollarization, and strict inflation control, bringing a completely different environment for the economy.

Given the lack of existing literature on political shocks for emerging markets, it is crucial to acknowledge and understand the unique characteristics and uncertainty associated with these markets, which ultimately help to explain potential outsized reactions and extreme volatilities. Unlike developed markets, where drastic political changes are protected by strong governmental institutions, emerging markets tend to have fewer safeguards against sudden regulatory shifts, exponentiating the strength and power of the market's reactions. Therefore, this election constitutes an ideal event to examine the immediate general and sectoral effects on Argentina's stock market, as well as its potential to generate regional spillover effects on other Latin American and North American stock markets. This dissertation focuses on analyzing the market implications of Milei's election through an event study methodology, following MacKinlay's (1997) framework, aiming to test the existence and significance of abnormal returns surrounding the election date. Consistent with Fama, Fisher, Jensen, and Roll (1969), which discusses that stock prices reflect new information almost instantaneously in an efficient market, this study employs the methodology using different time windows, for robustness checks, aiming to test the market’s efficiency in processing information, particularly at the level of speed and persistence.

To enrich the existing body of literature, the first objective of this paper was to investigate the overall impact of Milei’s election on the Argentine stock market versus the main Latin and North America stock markets, and thus, to conclude whether investor sentiment shifted positively or negatively in response to anticipated policies. Findings revealed that S&P Merval Index, the Argentine stock market index, reacted strongly and positively to the outcome of the elections. In contrast, the remaining market indices did not show any relevant reaction.

Secondarily, this paper intends to address the different sensitivity levels to political change exhibited by the different sectors, and that might be explained by their reliance on regulatory support, exposure to global trade and dependence on public spending. Given the consequent positioning, the markets will interpret the conditions in which these industries will operate and discount the benefits and drawbacks generated by Milei’s political agenda. Therefore, this research analyzes sector-specific cumulative abnormal returns (CARs) within Argentina, to identify “relative winners" and "relative losers" as a consequence of the election, acknowledging that future policies and reforms are likely to benefit some sectors more than others. Sectors like Utilities, Consumer Non-Cyclicals, Industrials, Real Estate, and Consumer Cyclicals emerged as “relative winners”, while Basic Materials constituted the “relative losers” group.

Finally, given the interdependence between Argentina and the regional economy, it is relevant to evaluate the degree to which neighboring markets perceived this political change, affecting cross-border trade, investment flows and market confidence. Therefore, the study investigates whether Milei’s election produced regional spillover effects across major Latin and North American markets, focusing on companies with significant economic ties to Argentina, based in Brazil, Chile, Mexico, and the U.S.. Results did not show evidence of regional spillover effects, suggesting the effect was contained within Argentina’s borders.

To ensure the robustness of the results, this research tests abnormal returns for three different event windows, assessing whether the observed behavior in the main window holds in shorter and longer timeframes, and providing insights into the speed and efficiency at which the markets incorporated the information. Overall, the market appeared to be efficient in incorporating information quickly and accurately.

This dissertation contributes to expanding the current literature by highlighting the influence of unexpected political shifts in the financial markets of an emerging economy. It provides insights into sectoral sensitivities and resilience to major policy changes, offering investors and policymakers a more precise understanding of economic vulnerabilities and strengths. Furthermore, by assessing potential regional spillover effects, this study also contributes to evaluating the degree of interdependence between Latin American and North American economies in response to political changes within the continent.

The paper is organized into 6 distinct sections. Section 2 offers a comprehensive review of relevant existing literature, while Section 3 provides a clear and structured overview of Argentina's political and economic background, and the specificities involving the election. Section 4 outlines the detailed data sources and research methods applied in the study. Section 5 provides the relevant findings of the research, alongside robustness checks to ensure the reliability of the results. Finally, Section 6 presents the conclusions, summarising the paper's key takeaways, limitations and areas for further research. Sections 7 displays the references.

2. Literature Review

Nordhaus (1975) and MacRae (1977) have stated that politicians intentionally manipulate macroeconomic policies before elections, to induct more favourable economic variables and to improve their chances of re-election, showing evidence for business cycles to be artificially generated, rather than a result of randomness and structural issues. However, as the democratic instinct dictates, society detects, sooner or later, the threat to the duty and honesty that must characterize a government, learning from the experience. After two decades of left-wing Peronist governments, on November 19th, 2023, Argentina claimed a change in its political orientation, with the election of the radical libertarian Javier Milei, who aspires for more sustainable and long-term driven policies, that might effectively improve the macroeconomic scenario and the overall quality of life in the country.

This literature review aims to navigate through existing research on political shocks, namely drastic election shifts, and their impact on investor sentiment while emphasizing the different reactions across sectors.

2.1. Election Shocks

Elections, particularly in the United States, have always been a significant source of impact on the global stock market, shaping the trajectory for the future world's macroeconomic scenario. Therefore, the existing literature around elections is already dense and robust when focused on the US, but still poor when it comes to other nations, namely emerging countries.

Niederhoffer (1970) analyzed the traditional Wall Street's Republican bias, translated as the tendency for the markets to prefer Republican wins over Democratic wins, and found an average change of 1.12% the next day after a Republican win compared to -0.81% after a Democrat win, with the effect persisting in the month after. Such results are not random but a consequence of how the markets perceive the potential of policies coming from Republican governments versus Democrat governments. On the other hand, concerning the actual presidential cycle, Santa-Clara and Valkanov (2003) found higher excess returns under Democratic presidencies, although the reasons for these differences remain a puzzle. This evidence might suggest that these governments generate a better investor sentiment, in the medium-term.

To extend the literature to an international scale, Pantzalis, Stangeland, and Turtle (2000) tested the stock market behavior around elections for 33 other countries. They found empirical evidence of a stronger positive effect in less-free countries when incumbents lose, which is associated with a higher degree of uncertainty. Logically, in less-free or heavily regulated countries, markets react positively to a political change, showing hope and expectations for freedom and deregulation, with the new political cycle.

Furthermore, Bialkowski, Gottschalk, and Wisnieswski (2008) concluded that narrow margins of victory, lack of compulsory voting laws, changes in the political orientation of the government, and failure to have a parliamentary majority, help to explain the increased stock market volatility during times of national elections. These findings are undoubtedly explained by the correlation between uncertainty and volatility.

2.2. Sector-specific Trends

Belo, Gala and Li (2013) evidenced that firms in industries with high exposure to government spending outperform during Democratic presidencies and underperform under Republican presidencies. This finding suggests that Democrats' policies are usually characterized by higher public spending, compared to Republicans.

Wagner, Zeckhauser, and Ziegler (2018) explored the surprising election of Donald Trump in 2016, where expectations for significant corporate tax cuts shaped the stock market behavior. High tax-paying firms overperformed, and high-leverage firms underperformed due to the loss of tax deductibility. Moreover, this study highlighted that several low-beta industries (beer, tobacco, food products, and utilities) were among the losers, while cyclical industries appeared to be winners.

Boutchkova, Doshi, Durnev and Molchanov (2011) stated that labor-intensive industries have a higher level of volatility when left governments are in power, and labor laws are stricter. On the other hand, autocratic regimes reduce uncertainty in industries that are more dependent on trade or contract enforcement.

As a major contribution, this dissertation aims to provide insights into the impact of future libertarian policies on sectoral performance, acknowledging the shape of the future political and economic environment in explaining sectoral sensitivity.

2.3. Market efficiency

Fama et al. (1969) found that stock prices adjust very quickly to new information, providing strong evidence of a semi-strong form of market efficiency, which states that publicly available information is reflected in stock prices. The efficiency of the markets in processing information relies on speed and accuracy, meaning that stock prices should be adjusted rapidly and effectively without further adjustments in the long term.

Through the robustness checks, this research aims to evaluate market efficiency on incorporating new information related to the event, by measuring immediate and slightly longer-term reactions in two additional event windows. The reflex of information on both windows would reflect the market was efficient in incorporating information, at both the speed and accuracy level.

2.4. Regional Spillover Effects

National events often gain an international dimension, affecting other nations, that are close to or somehow related to the country's macroeconomic scenario, the so-called spillover effects. This situation is a consequence of countries' interdependence, whether unilateral or bilateral.

Foerster and Schmitz (1997) examined the international pervasiveness of US Presidential elections in worldwide stock returns, confirming a cross-border effect for national elections in the US case. Findings also reveal that U.S. election cycles may be a decisive non-diversifiable political risk factor, determining international conditional expected returns, and not just returns in the US.

Given the lack of literature on this topic for emerging markets, this research intends to evaluate whether the effects of Argentina's 2023 Elections were spilled into the main Latin and North American stock markets, and thus, understanding if the event was sufficiently strong to have an impact across borders.

3. Argentina Overview

As one of Latin America's largest economies, Argentina has been facing challenging economic conditions that block its potential for growth and prosperity. Recent years have brought back levels of hyperinflation and fiscal deficits, pushing the country into an unsustainable situation of poverty and welfare deterioration. After decades of Left-wing governments, the 2023 Presidential Elections originated a drastic political shift with the rise of Javier Milei, a radical libertarian whose premise is to implement heavy economic reforms. This section delves into Argentina's economic background, the context of the Election, the candidate's vision and perspective for the country, and the international reactions to his victory.

3.1. Economic Background

In the 1920s, Argentina was one of the wealthiest countries in the world, a status that started to be threatened by the reduced foreign trade associated with the Great Depression in the 1930s. As a response, the government wanted to make Argentina self-sufficient, firstly, in industry and agriculture, and later, in basic industries like petroleum, natural gas, steel, and petrochemicals. By the mid-1970s, the country was already largely sufficient in consumer goods, oil, steel, and automobiles (Calvert, Eidt, & Donghi, 2024).

In 1976, the strategy of import substitution ended, and the government started to open its economy by lowering import barriers, relaxing restrictions on foreign borrowing and supporting the local currency. At the same time, the country went through large increases in government spending and wage rises, while the production was inefficient, creating an unbalanced economy and originating chronic inflation, which went through the 1980s and reached an annual rate of 1,000%. To control these hyperinflation levels, successive governments decided to impose controls on wages and prices, cuts in public spending, restricted money supply, and substituted the peso, which was quickly devaluating, with a new peso (Calvert, Eidt, & Donghi, 2024).

Later, by the 90s, Argentina went through an economic austerity program that drove a series of market-friendly reforms, namely trade liberalization, deregulation, privatizations, and indexation of peso to the US Dollar. The resulting increased inflow of foreign capital and increased industrial productivity stabilized the economy. However, in 2001, a devastating economic crisis emerged, and Argentina defaulted on $95 billion worth of debt, the largest of its nine historical defaults. This situation brought back left-wing politics, materialized in price and export controls, nationalizations, and essentially, escalating the country's public debt again (Roy, 2024).

From 2015-19, under a Republican administration, Argentina improved its economic situation, through cuts in export taxes, relaxing currency controls, and renegotiating debt, to redeem access to international markets. This momentaneous recovery faced again a drawback when after being forced to sign a $44 billion loan agreement with the IMF, the country returned to Peronist policies (Roy, 2024)

To conclude, import substitution is the foundation of Argentina's economic crisis, and after 75 years, the country still carries the weight of industrial inefficiency and rising debt brought by trade protectionism (Rafi, 2023).

3.2. Election Context

History tells us Argentina has been predominately led by left-wing Peronist governments, marked by state intervention, high government spending and protectionism, addressing inequality and empowering the working class. During brief periods of liberal or centrist administrations, Argentina often experienced short-term economic recoveries, through the implementation of market-friendly reforms, deregulation and privatization of state-owned companies. However, during those times, the government faced populist opposition and constant political pushbacks, limiting their ability to make structural changes, and especially, to govern beyond the short-term, as they were often followed by a return of Peronist Governments.

By 2023, the year of the elections, Argentina's economic situation had reached a critical point. Agricultural production declined by 26%, worsening the economic imbalances, and the GDP was projected to contract by 3.5% in 2024 (World Bank Group, 2024). At the same time, Inflation was expected to reach 115% by the end of 2024, and the country was walking towards increasing poverty (Bianco, et al., 2023).

These conditions fed the public's frustration with large years of economic mismanagement and Peronist policies and led to a radical shift in Argentina's political landscape. The election of Javier Milei, who promised to tackle inflation and restore economic stability through market-driven policies, represents the belief of Argentines as the only viable solution for this deep crisis.

3.3. Election Specificities

On October 22, 2023, general elections took place in Argentina, to decide the president, vice-president, and members of the national congress (24 for the Senate and 130 for the Chamber of Deputies). Sergio Massa, president-runner for the Unión por la Patria, a central-left coalition of Peronist political parties, got a surprise win, with 36.7% of the votes, about 7% more than Javier Milei. However, democratically, this result was insufficient to proclaim Massa as the next President of Argentina, since the candidate did not have more than 45% of the votes nor more than a 10-point lead over Milei. The second round of elections was scheduled for November 19, 2023 (Jütten, 2023).

On November 19, 2023, Javier Milei won the presidential vote with 55.69% of the votes, about 11% more than Sergio Massa. This victory challenged expectations and contradicted the results of the first round of elections. Milei won in 21 out of 24 electoral districts, collecting votes from the middle and lower classes, who were tired of decades of poverty and mismanagement (Jütten, 2023).

The surprising component of this election materialized through the reversal of the results from the first to the second round, which is a key trait to sustain the use of an event study methodology. Milei's win represents a shock for the stock markets, requiring new information to be incorporated and revealing a strong efficiency form due to its component of unpredictability. Abnormal returns, which are, by definition, the difference between expected returns and actual returns, will effectively measure the impact of this surprising election on the stock market, providing insights into investors' confidence regarding Milei's pro-market policies.

3.4. Javier Milei's Vision

During the presidential campaign, Javier Milei manifested his radical vision to transform Argentina's economy and governance.

At the state intervention level, he proposed to slash bureaucracy, cut several government ministries, and privatize key state-owned companies such as YPF (energy company) and public broadcasters. To address the economic crisis, Milei intends to adopt extreme fiscal austerity, by eliminating government spending on infrastructure and subsidies. The monetary policy follows the same rationale, and he proposes to dollarize the economy and to "blow up" the Central Bank to prevent it from printing more money, which he believes is one of the drivers of Argentina's inflation crisis (Press, 2023). On social issues, Milei has controversial positions. Some of his positions are the liberalization of gun ownership, the right to sell human organs, and the abolition of abortion rights. At the same time, he does not accept the idea of human-caused climate change (Buschschlüter, 2023).

Finally, he plans to modernize labor laws, eliminate rent control regulations and proceed with overall deregulation, showing his free-market ideology that promises to modify Argentina's political landscape (DW, 2023).

3.5. International Reaction

The international reaction to Javier Milei's election as President of Argentina has been sharply divided. Many global leaders and institutions, from different political circles, have congratulated Argentina for the free and democratic elections, but there were different feelings regarding its incoming radical policies and controversial positions.

On one hand, far-right politicians and international figures have shown their support and satisfaction with Milei's election, emphasizing their trust in change for the good of the country. Former U.S. President Donald Trump used his well-known expression to manifest his support, by saying "Make Argentina Great Again!", while Former Brazil President Jair Bolsonaro even celebrated the victory in a video call, clearly expressing his enthusiasm about the progress (O'Boyle, Kelly, & Reese, 2023).

On the other hand, left-wing Latin American leaders have demonstrated their deception with the turn to the right in Argentina's political landscape. The Mexican President Andres Obrador described the victory as "It was an own goal", Bolivia's former President Evo Morales said he would never "wish success to fascism, ultra-conservatism and neoliberalism" and the leaders of Colombia and Venezuela described the situation as "sad for Latin America" (O'Boyle, Kelly, & Reese, 2023).

Outside of America, and even though Milei has demonstrated his support to Ukraine and has criticized China, Chinese and Russian spokesmen are confident that they can "keep relations on a steady course" and "judge mainly by the statements that he makes after the inauguration", respectively (O'Boyle, Kelly, & Reese, 2023). Despite Milei's criticisms about the EU/Mercosur trade agreement, involving the European Union and Argentina, Brazil, Paraguay and Uruguay, the EU foreign policy Chief is confident about closing ties between Brussels and Buenos Aires, saying "Argentina is a close partner for the European Union" (MercoPress., 2023).

Although the global leaders' reaction provides a global point of view, it is the investor's sentiment about the future policies that will dictate the behavior of the markets. Nevertheless, based on previous literature by Niederhoffer (1970) about the impact of Republican and Democrat wins on stock markets, one might expect the markets to perceive this event as positive, based on Trump's public support and good relationship with the elected President, Javier Milei.

4. Data and Methodology

4.1. Sample Selection and Descriptive Analysis

The goal of this research is to assess sector-specific reactions within Argentina and the occurrence of regional spillover effects across the main North and Latin America stock markets. Therefore, the dataset was divided into two subsamples: Subsample 1 with companies based in Argentina, and Subsample 2 with companies from North and Latin America (specifically, Brazil, Chile, Mexico, and the United States), with significant exposure to Argentina.

In total, the dataset encompasses 119 companies, across 10 industry sectors, and spans the period from October 28, 2022, to December 18, 2023, providing a robust basis to run an event study methodology. Company sectors were classified according to Investing.com, which provides a complete, straight and up-to-date categorization tailored to the relatively less-known companies composing Argentina's stock market.

For Subsample 1, the Total Return Index (RI) was collected from 78 Argentine companies listed on the Buenos Aires Stock Exchange (BYMA), using Refinitiv Workspace DataStream. The sample was then narrowed to 60 companies, by excluding those with fewer than 100 unique stock prices during that period, to ensure that low-liquidity stocks did not skew and contaminate the expected returns.

As for Subsample 2, data was similarly gathered for 60 companies with substantial exposure to Argentina, traded on the B3 Brazil Stock Exchange, Santiago Exchange, Mexican Stock Exchange, and New York Stock Exchange. To identify possible targets for this sample, industry leadership and regional market presence were used as the main criteria. To confirm substantial exposure to Argentina, the targets were assessed based on factors such as having operations located in Argentina or having a substantial portion of revenues derived from Argentina. These factors were confirmed through a review of companies' annual reports and business descriptions provided on Refinitiv Workspace. Finally, and following the same liquidity criteria, the final subsample was refined to 59 companies.

For market return purposes, and using the same source, the Total Return Index (RI) was collected for the BOVESPA, IPC, and S&P500 indices, while the Price Index (PI) was utilized instead, for MERVAL and IGPA, due to the unavailability of the Total Return Index (RI) variable for these markets.

Table 1: Dataset Composition per Country and Sector

This table displays the number of companies composing the dataset, per country and per sector, and its breakdown into the two subsamples.

	Total	**Subsample 1**	**Subsample 2**			
		Argentina	Brazil	Chile	Mexico	U.S.
Total	119	60	18	11	12	18
Basic Materials	19	8	3	2	2	4
Consumer Cyclicals	13	4	3	1	3	2
Consumer Non-cyclicals	29	13	5	4	4	3
Energy	12	3	2	1	1	5
Financials	10	8	2	-	-	-
Healthcare	2	1	-	-	1	-
Industrials	12	5	3	1	-	3
Real Estate	4	3	-	-	-	1
Technology	6	4	-	1	1	-
Utilities	12	11	-	1	-	-

4.2. Event Study Methodology

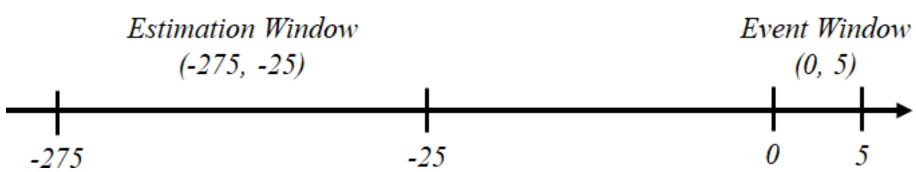
The surprising election of Javier Milei on November 19th, 2023, in the 2nd round of Argentina's Presidential Elections, constituted a drastic shift in the country's political landscape. Given the substantial political transition ahead, the event is likely to produce a significant impact on the Argentine stock market.

According to Fama, Fisher, Jensen & Roll (1969), the stock market operates with efficiency, as the prices adjust very quickly to new information, that is incorporated almost immediately after the announcement date. Based on this, MacKinlay (1997) approached the rationality of the marketplace, showing the usefulness of event studies to capture the effects of an event on securities prices, and therefore, on a firm's valuation.

This research adopts that same event study methodology to test abnormal returns around the date of the election. For the analysis of Argentina-based companies, as the election occurred on a Sunday, followed by a holiday on Monday, Tuesday, November 21st is considered "day 0" (the event date), Friday is day -1, Wednesday is day 1, and so on. As for the International sample, Monday is considered the "day 0", and Tuesday is the day 1. Expected returns were computed based on an estimation window of 250 days, ending 1 week before the 1st round of Elections that happened on October 22nd, 2023 ($t = -275$ to -25), to avoid potential contamination of the returns. The Event Window starts on the event day (day zero) and ends 5 days after, testing three sets of abnormal returns: [0,1], [0,3] and [0,5]. The use of three different event windows aims to assess the robustness of the findings and to provide insights into the speed and persistence of the results.

Figure 1: Event Study Timeline

This figure represents the length and distribution of the Estimation Window and Event Window, relative to the event day (day zero).



The first step towards computing Abnormal Returns is to get daily log returns through the following formula:

$$\mathrm{R}_{i,t} = \ln\left(\frac{P_{i,t+1}}{P_{i,t}}\right) \quad (1)$$

where $P_{i,t+1}$ and $P_{i,t}$ correspond to the stock price of a company i for periods t+1 and t.

To determine the expected returns for each company, the market model is used, alongside an Ordinary Least Squares (OLS) method to calculate the alpha and beta parameters of the stock. The choice of the market model instead of CAPM relies on Argentina's hyperinflationary economy and lack of a similar interest rate across the various countries studied, which complicates the use of a reasonable risk-free rate. Hereupon, the following regression is used:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (2)$$

where α_i and β_i are, respectively, the intercept and beta obtained by linear regression for a company i with the correspondent market; $R_{m,t}$ is the daily log market return for the country's stock market index (MERVAL, BOVESPA, IGPA, IPC, or S&P500); and $\varepsilon_{i,t}$ corresponds to the error term of the regression.

Furthermore, after computing the parameters, the expected return is given by:

$$E(R_{i,t}) = \alpha + \beta_i R_{m,t} \quad (3)$$

Finally, the Abnormal returns (ARs) are obtained through the difference between the return of stock i on day t and the expected return generated by the market model, as follows:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}) \tag{4}$$

where R_{it} is the actual daily log return of the stock i on day t; and $E(R_{it})$ corresponds to the expected return of stock i on the trading day t.

For the several event windows defined, Cumulative Abnormal Returns (CARs) are computed as MacKinlay (1997) suggests:

$$CAR[t_1, t_2] = \sum_{t_1}^{t_2} AR_t \tag{5}$$

where t_1 = -1 and t_2 = 1, 3, or 5, depending on the considered event window.

The average CARs per sector will indicate if the sector is likely to be a winner (if positive) or a loser (if negative), as a consequence of Milei's Election. However, whether these CARs are significant is assessed through parametric t-tests, where the null hypothesis states that the average CARs is equal to zero.

For sectors with $N>1$ companies, cross-sectional tests are performed as follows:

$$t = \sqrt{N}\frac{\overline{CAR}}{S_{CAR}}, \text{ with } S^2_{CAR} = \frac{1}{N-1}\sum_{i=1}^{N}(CAR_i - \overline{CAR})^2 \tag{6}$$

where t follows a t-student distribution with $N-1$ degrees of freedom.

At the same time, for sectors with N=1 companies, a t-test is performed instead, with the purpose of testing if CAR is equal to zero, in the following way:

$$t = \frac{CAR_i}{S_{CAR_i}}, with\ S^2_{CAR_i} = L_2 S^2_{AR_i} \tag{7}$$

where L_2 denominates the event window length and t follows a t-student distribution with $M_i - K$ degrees of freedom, being M_i the number of observations in the estimation window (250 days) and K the number of parameters estimated (α and β) in the market model.

Furthermore, these parametric t-tests will provide an understanding of whether some sectors are indeed "relative winners" or "relative losers" as a result of Milei's election.

4.3. Robustness Checks

For this event study, the [0,3] timeframe is selected as the main event window, with [0,1] and [0,5] used as robustness checks to validate the reliability of the results, across different timeframes. This approach provides a comprehensive assessment of the event's implications over the immediate and slightly extended horizons and helps to reduce the risk of results being overly biased by a specific event window. Although this setup aims for robustness, it also shares further insights into the market's efficiency, at the level of speed and persistence.

The [0,3] event window spans for a period of 4 trading days, providing sufficient evidence to evaluate the immediate reaction and any short-term adjustments that might arise from changes in the way market participants interpret the implications. The four-day window allows to minimize the influence of unrelated market noise, and covers the different time-responses of investors, as some act immediately, and others act later based on gradual market sentiment.

To assess the reliability of the findings, [0,1] is used as a shorter window, capturing the immediate effects on the day of the event and the following day. This timeframe shows whether the event was sufficiently strong to cause an immediate market response, providing a clear view of the direct impact. If the results achieved in the [0,1] event window are aligned with the main window, it suggests that the event generated an immediate effect on the market, and thus, investors were quickly in processing the new information and its implications.

At the same time, the [0,5] window is also used as a robustness check, to capture a slightly longer period. This window might reflect any delayed reactions from investors, such as adjustments coming from further analysis or from released secondary information. The use of this window allows for an understanding of the persistence of the impact, providing insights into the market efficiency at processing early information. If the results from the main window [0,3] are mirrored at the [0,5] window, it suggests the initial market response reflected a true assessment of the event's implications, and therefore, there were not any over or underreactions in the shorter-term.

4.4. Research Questions

The first question to address in this research is "How did the election impact Argentina's Stock Market?". Such a surprising and drastic political shift in Argentina's political landscape could substantially impact investor sentiment, triggering a strong market reaction in either a positive or negative direction. Niederhoffer (1970) provided evidence that the US markets tend to prefer Republican wins rather than Democrat wins, due to the perception of better pro-business policies. Considering the mutual support and ideological alignment between Donald Trump, the former Republican U.S. President, and Javier Milei, it is plausible to hypothesize that the Argentine stock market will react positively to the new information. Therefore, this research seeks to confirm or refute these expectations.

The second question is “Did Javier Milei’s election generate relative winners and losers across the sectors, within Argentina’s stock market?”. To address this question, this study focuses exclusively on Argentine stocks and tests whether the sectorial CARs are significantly different from zero. A statistically significant positive CAR would suggest the sector is indeed a “relative winner”, while a significant negative CAR would indicate it is a “relative loser”. Robustness tests throughout the remaining event windows are applied to confirm the consistency of the results.

H1: The election of Javier Milei generated relative winners and losers across sectors.

The third question is “Did Javier Milei’s election produce regional spillover effects across main Latin and North American stock markets (specifically, Brazil, Chile, Mexico, and the U.S.)?”. For this research question, the international sample is aggregated as a whole, and Cumulative Abnormal Returns are tested for statistical significance. If CARs are statistically different from zero, it suggests that the election impacted investor sentiment across the main Latin and North American markets, and thus there is evidence that it produced regional spillover effects. Otherwise, it cannot be inferred that regional spillover effects occurred across these markets.

H2: Javier Milei's election in Argentina produced significant regional spillover effects on the main Latin and North American stock markets.

5. Results

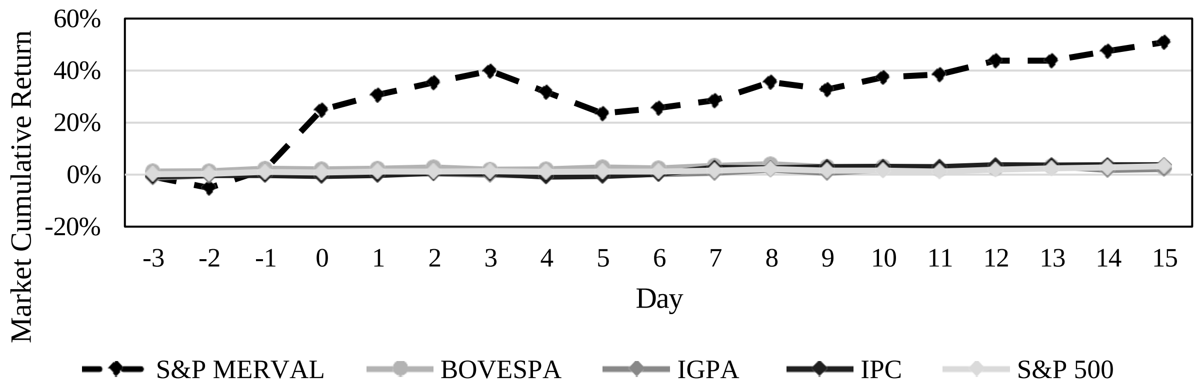
This section outlines the findings of the study, addressing each of the research questions to provide a clear and concise understanding of the impact of the 2023 Argentina Presidential Election on the stock market at a general, sectoral, and geographical level.

5.1. Stock Market Reaction

Figure 2 plots the cumulative returns for the various stock market indices considered, from 3 days prior to day zero to 15 days after. This allows for a clear comparison of the impact Milei's victory had on Argentina's stock market relative to broader regional indices.

Figure 2: Evolution of Market Returns Around 2023 Presidential Election

The figure presents the market returns for the correspondent stock market indices of Argentina, Brazil, Chile, Mexico, and the U.S., around the Presidential Election on November 19, 2023.



On the days before the election, S&P Merval, Argentina's stock market index, presented slightly negative cumulative returns, revealing investors' uncertainty and apprehensiveness about the imminent election outcome.

On the first trading day after the election (day 0), the index cumulative returns increased sharply to over 20%, reflecting the immediate impact of the election outcome on investor optimism. After a brief correction on day 4 and 5, the index maintained the upward trend finishing the period under analysis with a cumulative return of roughly 50% by day 15. During the 15 days after the election, the index cumulative returns never fell below the 20% level.

The immediate positive reaction and the sustained momentum throughout the period suggest strong and increasing investor confidence about Milei's anticipated pro-market reforms, providing an initial basis to support the expectations regarding the first research question.

At the same time, the other indexes remained stable at around a 0% cumulative return throughout the period, indicating the event wasn't sufficiently powerful to impact some of the main stock market indices in the continent.

5.2. Abnormal Returns

To better understand the stock market reaction, it is important to detail the distribution of the reactions, during the period of uncertainty anticipating the election, and the first days of post-election. An atmosphere of tension and anxiety drove market instability, as investors were weighing the potential risks and benefits of a refurbished economic landscape, under Milei's leadership, both before and after the election result.

Table 2: Abnormal Returns per Sector Around 2023 Presidential Election

This table displays the daily average abnormal returns per sector in Argentina's stock market, from day -1 to day 3.

Sector	Day -1	Day 0	Day 1	Day 2	Day 3
Basic Materials	-1,60%	-2,86%	1,54%	-1,28%	-3,88%
Consumer Cyclicals	1,76%	-0,27%	-0,03%	1,69%	3,00%
Consumer Non-cyclicals	-3,91%	1,90%	3,58%	1,74%	2,40%
Energy	-3,87%	6,78%	1,53%	-0,52%	0,26%
Financials	-1,96%	-1,54%	-5,82%	-0,06%	10,78%
Healthcare	-1,04%	0,21%	2,61%	1,28%	-0,02%
Industrials	-2,51%	8,57%	4,15%	-0,75%	3,61%
Real Estate	-2,87%	0,53%	5,32%	4,41%	2,15%
Technology	-5,11%	10,46%	3,16%	4,10%	-2,49%
Utilities	-1,14%	8,90%	-1,10%	2,83%	6,77%

Table 2 shows that Argentina's stock market was dominated by uncertainty on the day prior to the election (day -1), with most sectors experiencing negative abnormal returns, except for Consumer Cyclicals. As the purpose of this research is to analyze the impact of Milei's victory and given the strong negative reaction on the day before, day -1 is excluded from the event windows, avoiding potential contamination of the results. Therefore, the timeframes covered in further analysis will be [0,1], [0,3], and [0,5], aiming to capture the full effect of the surprising election.

On the first trading day after the election (day 0), market sentiment shifted with the latest information on Milei's victory being quickly incorporated and leading to an overall positive market reaction. Seven out of ten sectors reported positive average abnormal returns, with a strong emphasis on Technology, Utilities, Industrials, and Energy. Meanwhile, Basic Materials, Financials and Consumer Cyclicals showed negative abnormal returns, indicating less immediate investor confidence in these sectors.

5.3. Sector-specific Analysis

Moreover, the main objective of this research is to provide a deeper understanding of the different sector-specific reactions to such a surprising and drastic shift in the country's political landscape, acknowledging the circumstances that this political deviation to the right can bring to the companies' ecosystem, as well as the specific positions announced by the winning candidate.

Table 3: Descriptive Statistics on CARs – Argentina

This table reports the descriptive statistics on sector-specific Cumulative Abnormal Returns for Argentina's stock market, in the main event window [0,3]. The symbols ***, **, and * denote statistical significance at 1%, 5%, and 10% confidence levels, respectively.

	Mean	P-value	Median	% Pos	N
Panel A: Cumulative Abnormal Returns in Argentina for the event window [0,3]					
Basic Materials	-6,47%*	0,085	-11,20%	25,00%	8
Consumer Cyclicals	4,38%*	0,097	2,93%	100,00%	4
Consumer Non-cyclicals	9,61%***	0,001	10,97%	84,62%	13
Energy	8,06%	0,272	2,96%	100,00%	3
Financials	3,36%	0,525	1,48%	50,00%	8
Healthcare	0,06%*	0,090	4,08%	100,00%	1
Industrials	15,58%**	0,033	15,10%	80,00%	5
Real Estate	12,42%**	0,049	10,65%	100,00%	3
Technology	5,95%	0,630	8,75%	50,00%	4
Utilities	17,40%***	0,002	20,65%	81,82%	11

Table 3 reports the descriptive statistics on Cumulative Abnormal Returns (CARs) for each sector of Argentina's stock market, during the main event window [0,3]. The corresponding p-values indicate the statistical significance of the results, meaning whether the CARs are statistically different from zero, suggesting if the sector is likely to be a "relative winner" or a "relative loser", as a consequence of the election.

Utilities and Consumer Non-cyclicals sectors stand out as clear winners, presenting positive Cumulative Abnormal Returns, statistically significant at a 1% confidence level. Industrials and Real Estate sectors also emerge as winners, although at a 5% confidence level, as well as Consumer Cyclicals and Healthcare at a 10% confidence level.

Oppositely, the Basic Materials sector appears to be a loser, presenting negative Cumulative Abnormal Returns, and being statistically different from zero at a 10% confidence level.

Finally, the sectors of Energy, Financials, and Technology did not present any significant results, which means the null hypothesis cannot be rejected, and therefore, there is no evidence of significant abnormal returns in these sectors.

However, the statistical significance of the results for the event window [0,3] is not enough to determine whether these sectors were indeed "relative winners" or "relative losers" in Argentina's 2023 Presidential Election. To ensure the reliability of the findings, robustness tests are applied for two other event windows, [0,1] and [0,5], as follows in Table 4.

Table 4: Robustness Tests on CARs - Argentina

This table displays the robustness tests for sector-specific analysis, reporting the descriptive statistics on Cumulative Abnormal Returns for the 2-day event window [0,1] and for the 6-day event window [0,5]. The symbols ***, **, and * denote statistical significance at 1%, 5%, and 10% confidence levels, respectively.

	Mean	P-value	Median	% Pos	N
Panel A: Cumulative Abnormal Returns in Argentina for the event window [0,1]					
Basic Materials	-1,31%	0,445	-0,80%	37,50%	8
Consumer Cyclicals	-0,30%	0,750	-0,08%	50,00%	4
Consumer Non-cyclicals	5,48%*	0,053	1,68%	69,23%	13
Energy	8,31%	0,115	5,97%	100,00%	3
Financials	-7,36%**	0,048	-8,33%	25,00%	8
Healthcare	0,06%	0,240	2,82%	100,00%	1
Industrials	12,72%*	0,058	13,27%	80,00%	5
Real Estate	5,85%**	0,046	4,79%	100,00%	3
Technology	5,83%	0,567	9,22%	75,00%	4
Utilities	7,80%**	0,020	8,99%	63,64%	11
Panel B: Cumulative Abnormal Returns in Argentina for the event window [0,5]					
Basic Materials	-8,71%*	0,070	-9,72%	25,00%	8
Consumer Cyclicals	1,62%*	0,243	1,40%	75,00%	4
Consumer Non-cyclicals	8,57%***	0,004	6,79%	76,92%	13
Energy	5,80%	0,474	2,49%	66,67%	3
Financials	13,37%*	0,082	10,85%	75,00%	8
Healthcare	0,33%	0,758	-1,78%	0,00%	1
Industrials	13,46%**	0,043	8,09%	100,00%	5
Real Estate	6,69%	0,188	8,28%	100,00%	3
Technology	8,31%	0,537	13,03%	75,00%	4
Utilities	14,68%***	0,006	12,65%	81,82%	11

For the event window [0,1], immediate effects of the victory can be evaluated, given the shorter timeframe, and thus, the speed at which information was incorporated and processed by investors can be measured. Utilities and Real Estate sectors remain statistically significant winners, at a 5% confidence level, while Industrials and Consumer Non-cyclicals also repeat the tendency, at a 10% confidence level. Contrarily to the findings in the main event window, within this timeframe the Financials sector presents statistically significant results, being a loser at a 5% confidence level. Regarding market efficiency, it can be inferred that the market was quick in incorporating new information in prices. Findings from the main event window [0,3] were already reflected within the shorter event window [0,1], except for the Basic Materials and Healthcare sectors, which took more days to stand out as a significant loser and winner, respectively. However, the reciprocal cannot be stated, as the Financials' status of 'loser' dissipated from [0,1] to [0,3].

For the event window [0,5], the persistence of the results can be assessed, given that there is a longer period for the effects to neutralize. Utilities and Consumer Non-cyclicals sectors stood out again as winners, with Cumulative Abnormal Returns statistically different from zero and positive, at a 1% confidence level. Industrials also maintained the winner status, at a 5% confidence level, as well as Consumer Cyclicals at 10%. The Basic Materials sector remained a loser, presenting negative CARs at a 10% confidence level. Against the expectations, the Financials sector appeared to be a winner, at a 10% confidence level, revealing inconsistency relative to the main event window, where it was not significant, and to the first robustness test in [0,1], where it was a loser. Concerning the persistence of the effects, one might state that the market was also efficient in processing information since most of the results from the main window [0,3] remained as the timeframe increased for [0,5], except for the Real Estate and Healthcare sectors. Again, the reciprocal is not true, since the Financials' status of 'winner' only emerged when the window was enlarged.

In conclusion, the robustness tests offer a perspective on the reliability of results achieved in the main window. Given the transversality of statistical significance across the various event windows, there is evidence to infer that Utilities, Consumer Non-cyclicals, and Industrials were indeed "relative winners" as a consequence of Milei's victory. This trend differs from the findings from Wagner, Zeckhauser, and Ziegler (2018), where Utilities and Consumer Non-cyclicals were among the losers in the 2016 US election. The Real Estate sector is also part of the "relative winners" group, although the robustness tests show that the effect dissipated as the timespan increased ([0,5]). Consumer Cyclicals also comes out as a "relative winner" in 2 out of 3 windows, but oppositely to the previous, the effect was not immediately reflected in the smallest event window ([0,1]]. On the other side, Basic Materials left this election as "relative losers", even though investors took time to process the impact of the new information, and thus, the effect was not significant in the smallest timespan ([0,1]). Ultimately, the sector-specific analysis alongside robustness checks, revealed that, out of the ten considered sectors, five were "relative winners" and one was a "relative loser", presenting Cumulative Abnormal Returns statistically different from zero, which consequently implies the null hypothesis can be rejected.

The present findings are a result of the investors' perception of Javier Milei's announced policies and reforms, and the consequent implications for each sector ecosystem and business environment. The group of the sectors that were so-called "relative winners", is likely to benefit from those measures and intentions in different ways, while the "relative losers" will be punished.

Utilities are likely to benefit from Milei's pro-market agenda that targets deregulation and attracts private foreign investment, crucial for a capital-intensive sector, and from his intention to privatize a state-owned energy company, reducing state intervention, cutting subsidies, and creating a more competitive market.

Consumer Non-cyclicals, Industrials, and Consumer Cyclicals may also take advantage of trade liberalization, export incentives, and opportunities for foreign investment in supply chain and infrastructure, conditions that contribute to a business-friendly scenario.

The Real Estate sector could benefit from deregulation, which facilitates the approval and development of new projects, foreign investment opportunities, and better access to capital if Milei's policies succeed in controlling inflation and stabilizing the currency.

On the other hand, Basic Materials might suffer from environmental concerns and uncertainty given Milei's anti-climate change position, but also from cuts in subsidies and from commodities' volatility, due to high inflation and the incoming radical economic transition ahead.

5.4. Regional Spillover Effects

Following the analysis of sector-specific impacts, this research aims to evaluate whether there were regional spillover effects across the main Latin and North American stock markets, focusing on a sample of international companies with substantial exposure to Argentina.

Table 5: Descriptive Statistics on CARs – International Sample

This table reports the descriptive statistics on Cumulative Abnormal Returns in the international sample. Panel A presents CARs during a 2-day event window ([0,3]). Panel B and Panel C display the robustness tests, reporting CARs for a 2-day event window [0,2] and for a 6-day event window [0,5], respectively. The symbols ***, **, and * denote statistical significance at 1%, 5%, and 10% confidence levels, respectively.

	Mean	Median	% Pos	N
Panel A: Cumulative Abnormal Returns in International Sample				
CAR [0,3]	-0,04%	0,06%	50,85%	59
(P-value)	0,927			
Panel B: Robustness Tests for Cumulative Abnormal Returns in International Sample				
CAR [0,1]	-0,41%	-0,66%	38,98%	59
(P-value)	0,194			
CAR [0,5]	0,50%	0,35%	52,54%	59
(P-value)	0,335			

Table 5 represents the descriptive statistics on Cumulative Abnormal Returns (CARs) for the international sample, during the main event window [0,3], as well as robustness tests for two other event windows [0,1] and [0,5]. The correspondent p-values assess the statistical significance of the results, meaning whether the CARs are statistically different from zero, which would suggest regional spillover effects occurred, as a consequence of the election.

In the main event window [0,3], the cumulative abnormal returns were slightly negative, but not significant. Within the two event windows used for robustness tests, CARs remained non-significant, negative in the smallest and positive in the largest. Therefore, as cumulative abnormal returns are not statistically different from zero, the null hypothesis cannot be rejected.

Due to the absence of statistically significant results for this sample, there is no evidence to conclude that regional spillover effects occurred in the main Latin and North American stock markets (Brazil, Chile, Mexico, and the U.S.), which might suggest the impact of the election stayed within Argentina's borders.

6. Conclusion

This dissertation investigated stock market reactions to the drastic political shift brought about by the 2023 Presidential Election in Argentina, where Javier Milei's victory fed investor optimism around future reforms. By employing an event study methodology based on MacKinlay (1997), this paper assessed not only general market responses but also sector-specific and geographical impacts occurring in the immediate aftermath of the election.

Findings revealed that, while Argentina's stock market reacted strongly and positively to the pro-market reforms anticipated under Milei's leadership, the remaining stock indices analyzed did not present any substantial returns, around the 2023 Argentina Presidential Election, suggesting that probably the effect of the election was concentrated in the national market.

Argentina's sector-specific analysis further provided information on relative winners and losers in the wake of the election, with Utilities, Consumer Non-Cyclicals, Industrials, Real Estate, and Consumer Cyclicals emerging as "relative winners", most likely due to anticipated deregulation, foreign trade incentives, and reduced state intervention, which create better conditions for these sectors to perform and grow. Conversely, the Basic Materials sector forms the "relative losers" group, with environmental concerns, cuts in state subsidies, and radical economic transition shaking commodities' volatility, as major explanations for less investor confidence in this sector.

The sector-specific analysis also provided further insights into the market's efficiency in processing information, at the level of speed and persistence. Argentina's stock market was quick to incorporate new information in prices, as the significant results obtained in the main window ([0,3]) were already reflected in the shorter window ([0,1]), except for Basic Materials and Healthcare sectors. Besides the speed, the market also appeared to be accurate in processing the information, as the significant results achieved in the main window persisted in the largest window ([0,5]), except for Real Estate and Healthcare sectors.

When assessing the cross-border effects of Argentina's 2023 Presidential Election, the study did not reveal statistically significant cumulative abnormal returns, in any of the considered event windows. Therefore, there is no evidence to infer the occurrence of regional spillover effects across the main Latin and North American markets (Brazil, Chile, Mexico, and the U.S.), which ultimately might suggest the election's impact remained within Argentina's borders. This finding points to an interesting insight into the countries' regional interdependence: even though the regional markets are economically linked, Argentina’s internal changes were not perceived as impactful for neighboring countries.

Although this research provides important insights on election shocks for emerging countries, some limitations can be discussed and potentially explored in further research. When analyzing an emerging country, there is a trade-off between seeking for the novelty of the findings and suffering from a potential reduced sample size. As in Argentina’s case, the small depth of a national stock market naturally restricts the representativeness of the sample and the overall quality of the results. Moreover, the scarcity of previous literature about political events in emerging countries complicates the consideration of unique nuances and economic conditions, such as chronic inflation and currency volatility, specific to these countries. Finally, these economic conditions may also distort the precision of an event study approach when evaluating the impact of an event on stock markets.

This study contributes to extending the literature on market reactions to political events in emerging countries, providing insights into market sentiment after a drastic shift in a country’s political orientation, specifically from socialism to liberalism.

To complement the findings of this paper, future research could focus on a longer-term analysis over the sustained effects of policy implementation, as well as the achievement of important milestones. Moreover, further research could also investigate whether the pattern of the absence of regional spillover effects holds in other emerging markets with similar political shifts, testing the significance of regional-specific characteristics in explaining that effect. These insights could enrich the understanding of market dynamics in emerging countries, providing a valuable context for both investors and policymakers to navigate the complexities of political risk.

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