

Editorial

# Rising Tides: Election Cycles, Economic Uncertainty, Equity and Commodity Markets Fluctuations

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Election cycles have been called for in many countries for 2024, including [1] the U.S. Presidential Election in November, elections at the Indian Parliament in April–June, general elections in the U.K. in July, European parliamentary elections in early June, and “surprise” French parliamentary elections late June–early July.

The consequences for asset markets of such a concentration of political events are uncertain, to say the least. In this editorial, we try to uncover some markings for future directions, looking at recent data.

First, let us observe in panel (a) of Figure 1 the Global Economic Policy Uncertainty (GEPU) indices collected monthly from [2] since the beginning of the year for the U.S. (downward sloping triangles), India (downward sloping diamonds), the U.K. (upward sloping rectangles), and France (upward sloping circles).

The political situation mirrors the behaviour of the GEPU Index. On the one hand, with a more paced evolution, we have (i) Indian elections that have already taken place, with the re-appointment of Prime Minister Mr. Narendra Modi, whilst on the other hand, (ii) the U.S. election cycle has just begun with the first national debate between President Joe Biden and former President Donald Trump held on 27 June 2024.

On the other hand, the U.K. and France are boiling nations. On May 22, the U.K. Prime Minister, Mr. Rishi Sunak, announced that he had requested permission from the King to dissolve Parliament and called a general election for July 4. On June 9, the French President, Mr. Emmanuel Macron, caught all political observers off-guard by dissolving the Parliament and calling for general elections [3], the month before the opening of the Paris 2024 Olympics. Such a conjunction of events has logically fostered spikes in the respective GEPU index of the U.K. and France.

This leads us to the following question: What is the connection with asset markets? This question is hard to tackle with the limited word count of an editorial, necessitating several full-length research papers. In panel (b) of Figure 1, we depict the S&P500 (stars), the NIFTY50 (triangles), the FTSE100 (rectangles), and the CAC40 (crosses) in monthly frequency since the start of the year [4]. While the U.S. and Indian stock markets seem to evolve in bull territories, the U.K. and French stock markets have now turned bearish, reflecting the worried expectations of equity market investors regarding these two countries until the election cycle is terminated and the result is known.

As for commodity markets, which are the central avenues of interest for this Journal, we display the IMF Global Commodity Price Index (triangles) and the Dow Jones Commodity Index (diamonds) in monthly frequency in panel (c) of Figure 1 [5,6]. The reader can see that both commodity price indices have increased globally since January, against a broader context of worldwide inflation and high levels of central banks’ refinancing rates.

This bares another question: How do we connect the election cycles happening worldwide, the resulting frenzy on equities, and the trend of increasing prices of commodities? In this editorial, we attempt to quantify these inter-relationships through a schematic VAR model of order one [7] in monthly frequency over a minimum horizon of two years to generate enough data to populate scenarios of future evolution.

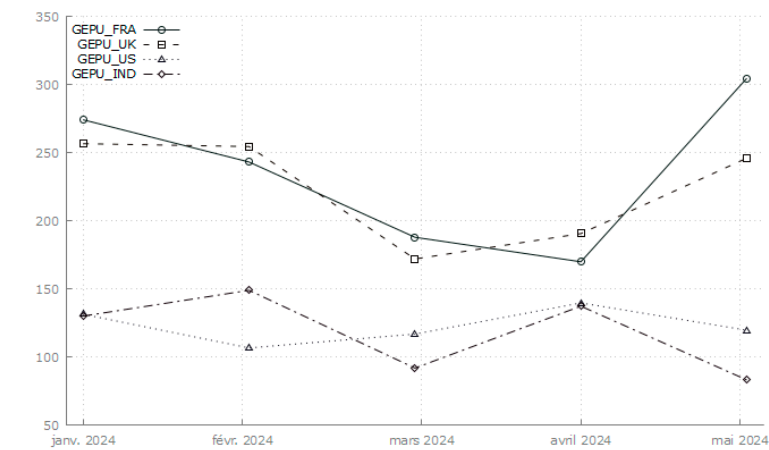


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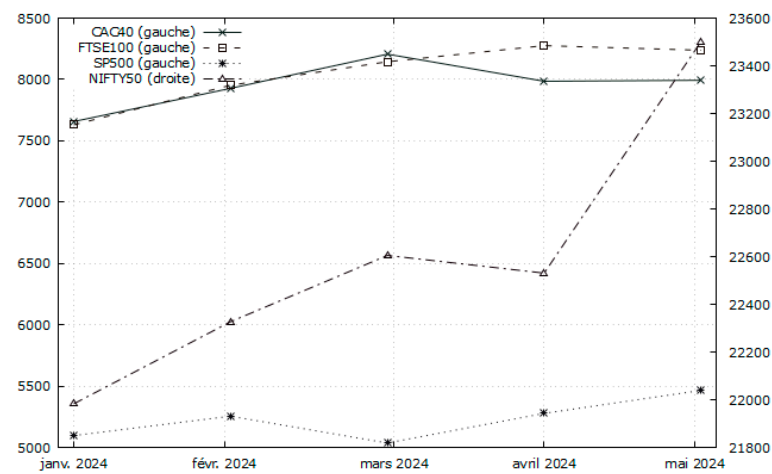
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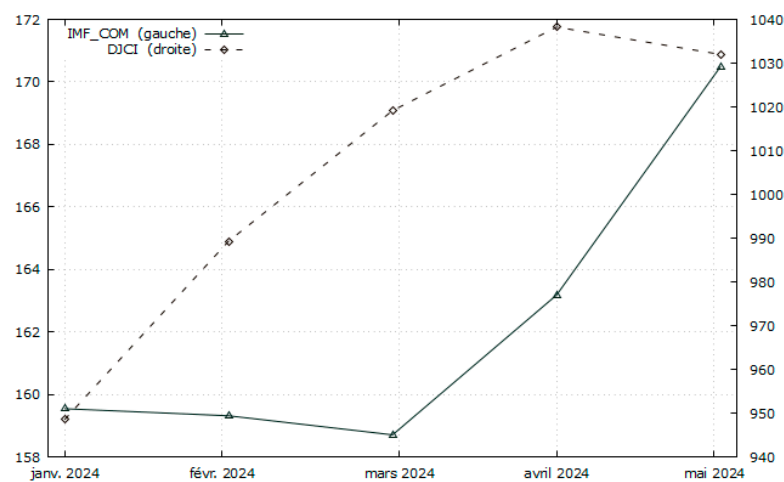
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(a)



(b)



(c)

**Figure 1.** Raw data for preliminary analysis: (a) Global Economic Policy Uncertainty Indices for the U.S., India, the U.K., and France. (b) SP500, NIFTY50, FTSE 100, CAC40 stock markets. (c) IMF and Dow Jones Commodity Price Indices.

We “shock” the system by means of one standard deviation, taking the Cholesky decomposition, the GEPU indices, the commodity indices, and the equities as the least exogenous variables.

The results of this artificial shock, graded over six months, are shown in Figure 2. In panel (a), we visualize the Impulse Response Function (IRF) on the log-differenced S&P500 from a shock originating in the U.S. GEPU index. The motivation is to echo the political situation in the U.S., with the current U.S. election cycle ending in November, and to devise what could be the price path of the U.S. stock market next semester. A one-standard-deviation shock yields an increase in the equity market by 1.5% during the next month, and then the effects of the shock seem to dampen over the subsequent periods. This pattern would imply that the U.S. stock market is not on high alert right now, given that we are only mid-way through the year and the election is in November.

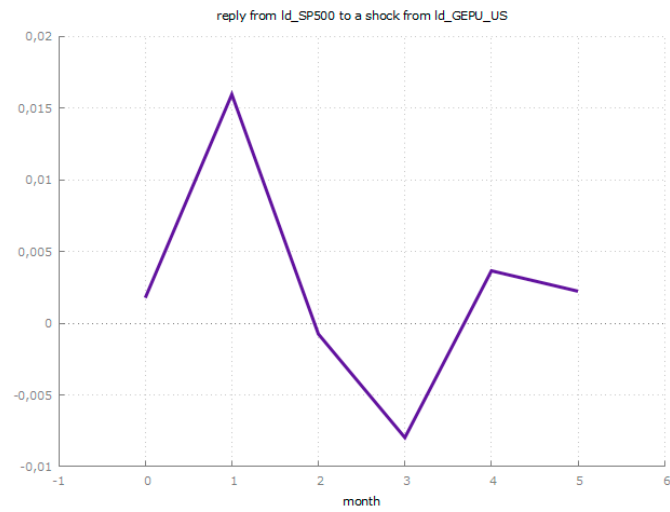
In panel (b), we visualize the effects of a one-standard-deviation shock stemming from the Indian GEPU index on the NIFTY50. The stock market also seems to be in a tranquil state in India, as the Prime Minister has already been re-conducted. Therefore, the shock effect is virtually non-existent (0%) for the next month, although statistically speaking, some movement (e.g., 0.3%) could occur three months from now on the NIFTY50.

From the data in panel (c), we now become interested in the reaction of the FTSE100 to the economic policy uncertainty in the U.K., as proxied by the monthly U.K. GEPU index. Without surprise, we notice that given the sharp uncertainty surrounding the forthcoming elections, with 4515 candidates having been nominated to stand on July 4, the FTSE100 oscillates in negative territory by  $-0.5\%$  in contemporary form in reaction to our fictitious statistical shock. Notice that the size of the shock on the stocks is not too large either, given that polls predict a Labour Party winner over the Tories for this U.K. general election [8].

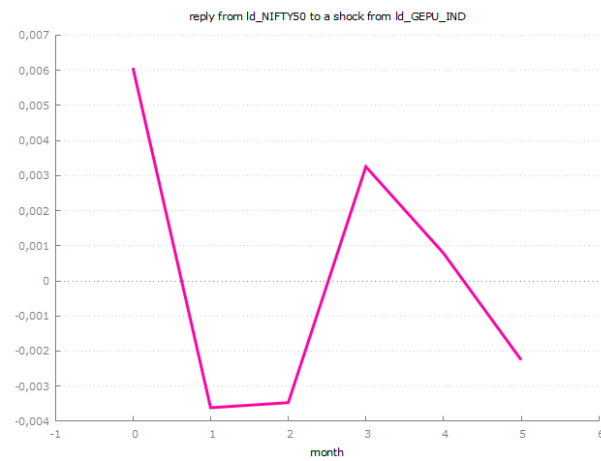
In panel (d), we witness the reaction of the CAC40 to economic policy uncertainty in France, as reflected by the French GEPU index. The situation is very disordered on the CAC40, capturing possibly hikes and drawdowns by  $-1\%$  over the next two to three months, as equity market investors have all been taken aback by the latest decision of the French President to dissolve Parliament (which could yield to a new majority ruling or a tripartite composition without clear margin to govern). It should be noted that we are dealing with monthly data in this editorial, as it suits the parameterization of the VAR(1) model with GEPU data, hence the relatively small aggregated 30-day changes compared to an observer looking at daily closing prices. At the time of writing this editorial, the CAC40 is comparatively closing at  $-2.22\%$  over the last five trading days.

In panel (e), we extend our investigation beyond the realm of equities to that of commodities instead. The panel depicts the response of the IMF Commodity Price index to a shock originating from the U.S. GEPU (as a proxy of the “world”). Our conclusion cautiously gears towards increasing commodity prices by 0.5% over the next one- and three-month periods.

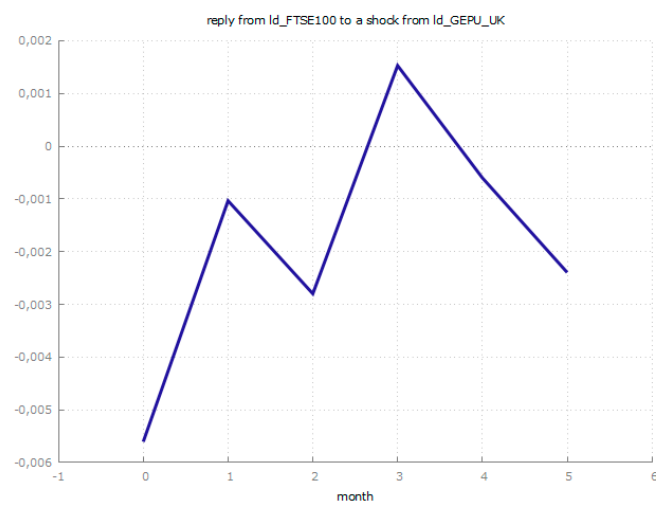
In panel (f), we turn our focus to an alternative index of commodity prices proposed by Dow Jones. In the last panel, an expectation can be formed to observe a stabilization of commodity prices, with an increase of around 0.1% over the next semester. To fully integrate the effects of inter-connected markets, future research should be devoted to analyzing the effects between stocks, bonds, and commodities in the [9] framework, accounting for the latest updates in the data regarding the election cycles. To properly analyse how the current levels of the Consumer Price Index, the Interest Rates, and the economic policy uncertainty affect asset markets, this editorial calls upon expanding research in the structural VAR domain [10].



(a)

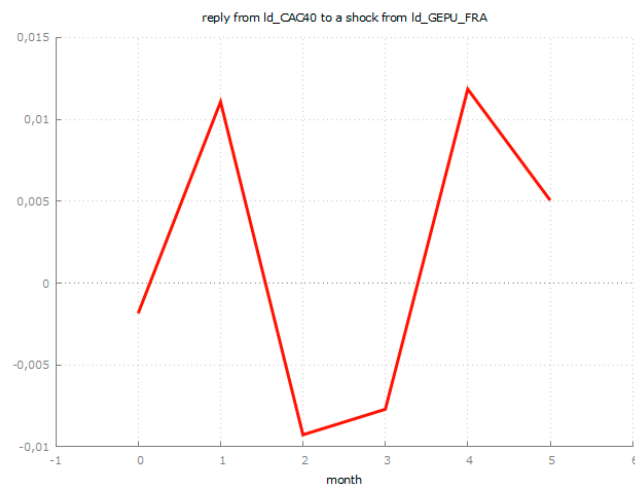


(b)

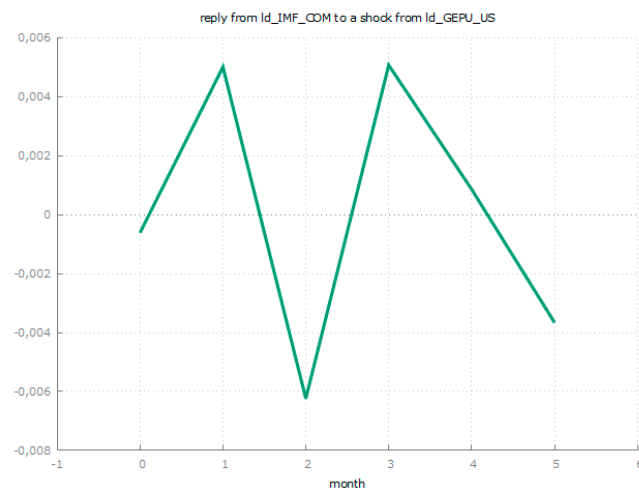


(c)

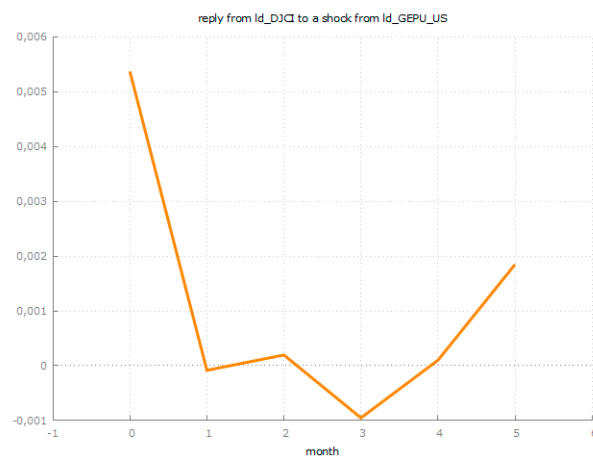
Figure 2. Cont.



(d)



(e)



(f)

**Figure 2.** VAR 6-month ahead decomposition of a shock: (a) S&P500 reaction to U.S. GEPU; (b) NIFTY50 reaction to Indian GEPU; (c) FTSE100 reaction to U.K. GEPU; (d) CAC40 reaction to French GEPU; (e) IMF Commodity Price index reaction to U.S. GEPU; (f) Dow Jones Commodity Price index reaction to U.S. GEPU.

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**Data Availability Statement:** The data used in the editorial can be downloaded from [https://www.policyuncertainty.com/all\\_country\\_data.html](https://www.policyuncertainty.com/all_country_data.html) (accessed on 27 June 2024) for GEPU Indices, from <https://www.imf.org/en/Research/commodity-prices> (accessed on 27 June 2024) for the IMF Commodity Index, from <https://www.investing.com/indices/dj-commodity-historical-data> (accessed on 27 June 2024) for the Dow Jones Commodity Index, from <https://www.investing.com/indices/us-spx-500-historical-data> (accessed on 27 June 2024) for the S&P500 for the S&P500, from <https://www.investing.com/indices/uk-100-historical-data> (accessed on 27 June 2024) for the FTSE 100, from <https://www.investing.com/indices/france-40-historical-data> (accessed on 27 June 2024) for the CAC40, and from <https://www.investing.com/indices/s-p-cnx-nifty-historical-data> (accessed on 27 June 2024) for the NIFTY50.

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